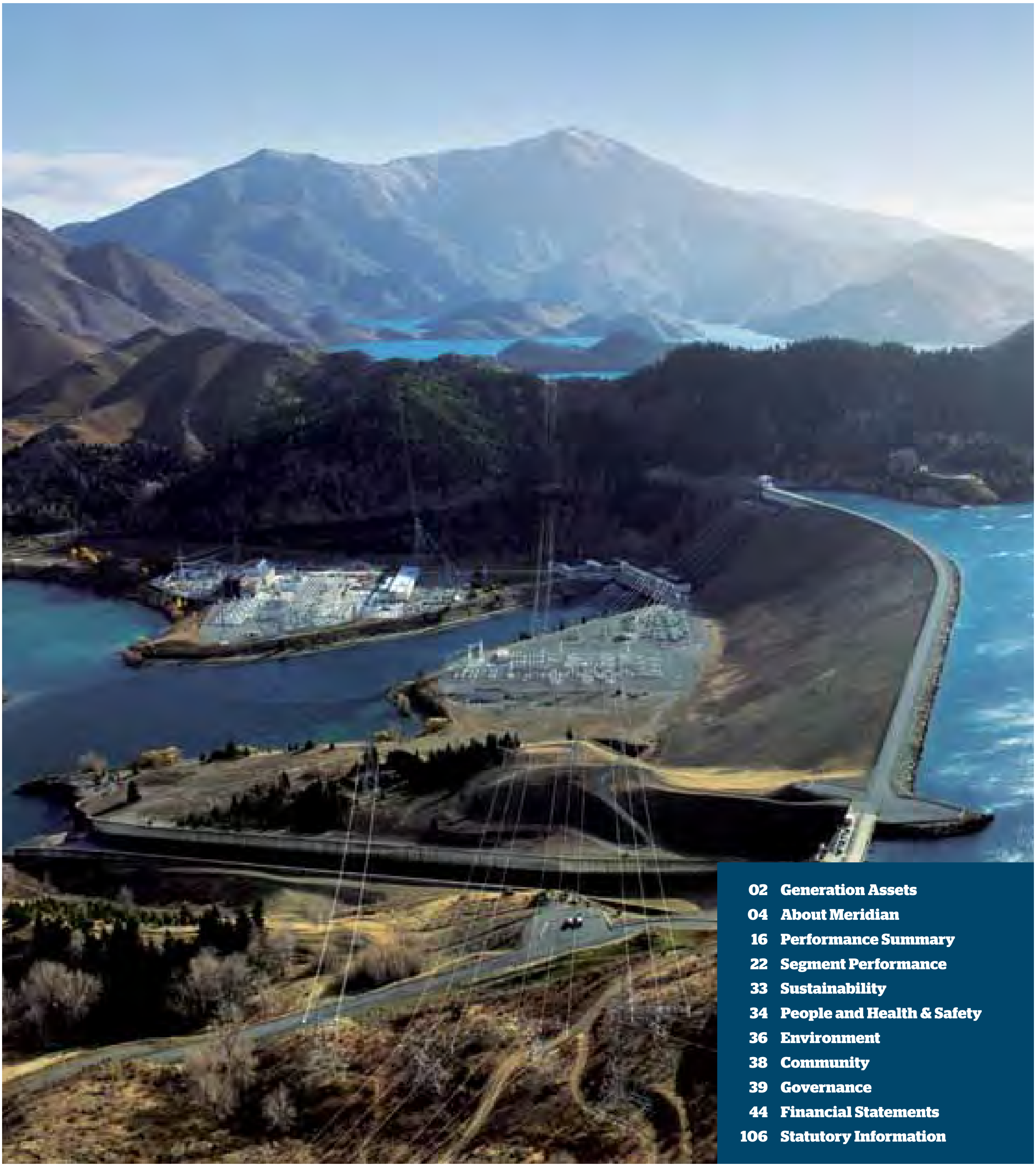
MERIDIAN ENERGY LIMITED

ANNUAL REPORT

meridian



REPORT FOR YEAR ENDED 30 JUNE 2012

OUR PERFORMANCE

FINANCIAL

28%

Reduction in EBITDAF[1] from last year

IMPACTED BY LOWEST LEVEL OF INFLOWS IN 79 YEARS OF RECORDS AND THE SALE OF THE TEKAPO HYDRO POWER STATIONS[2]

FINANCIAL

13%

Reduction in net cash flow from operating activities

SINCE 30 JUNE 2011

GENERATION

19%

Reduction in generation production

OWING TO THE SALE OF THE TEKAPO HYDRO POWER STATIONS[2] AND CHALLENGING HYDROLOGY CONDITIONS

HEALTH & SAFETY

50%

Improvement in lost-time injury frequency rate

SINCE 30 JUNE 2011

RETAIL

$5.90

Per contracted MWh

IMPROVEMENT IN UNDERLYING[3] PROFITABILITY OF OUR RETAIL SEGMENT SINCE 30 JUNE 2011

CUSTOMERS

5%

Growth in retail customer connections (installation control points – ICPs)

SINCE 30 JUNE 2011

EMPLOYEES

3.4%

Improvement in employee engagement

SINCE 30 JUNE 2011

PLANT

0.14%

Hydro forced outage factor

LOWEST IN 20 YEARS OF RECORDS

DEVELOPMENT

420MW

Macarthur wind farm

CONSTRUCTION IN VICTORIA, AUSTRALIA, IS PROGRESSING TO PLAN

DEVELOPMENT

60MW

Mill Creek wind farm

BEGAN CONSTRUCTION IN JULY 2012

1 Earnings before interest, tax, depreciation, amortisation, change in fair value of financial instruments, impairments, gain/(loss) on sale of assets and joint venture equity accounted earnings.

2 Sold to Genesis Energy on 1 June 2011.

3 Removing the variability of electricity purchase prices and replacing with a fixed input price of $85/MWh.

Front cover and page 2: Views of Benmore Hydro Power Station.

$74.6M

NET PROFIT AFTER TAX

$106.1M

UNDERLYING NET PROFIT AFTER TAX – REMOVING THE EFFECTS OF NON-CASH FAIR VALUE MOVEMENTS, IMPAIRMENTS AND OTHER ONE-OFF ITEMS

$322.2M

NET CASH FLOW FROM OPERATING ACTIVITIES

$476.6M

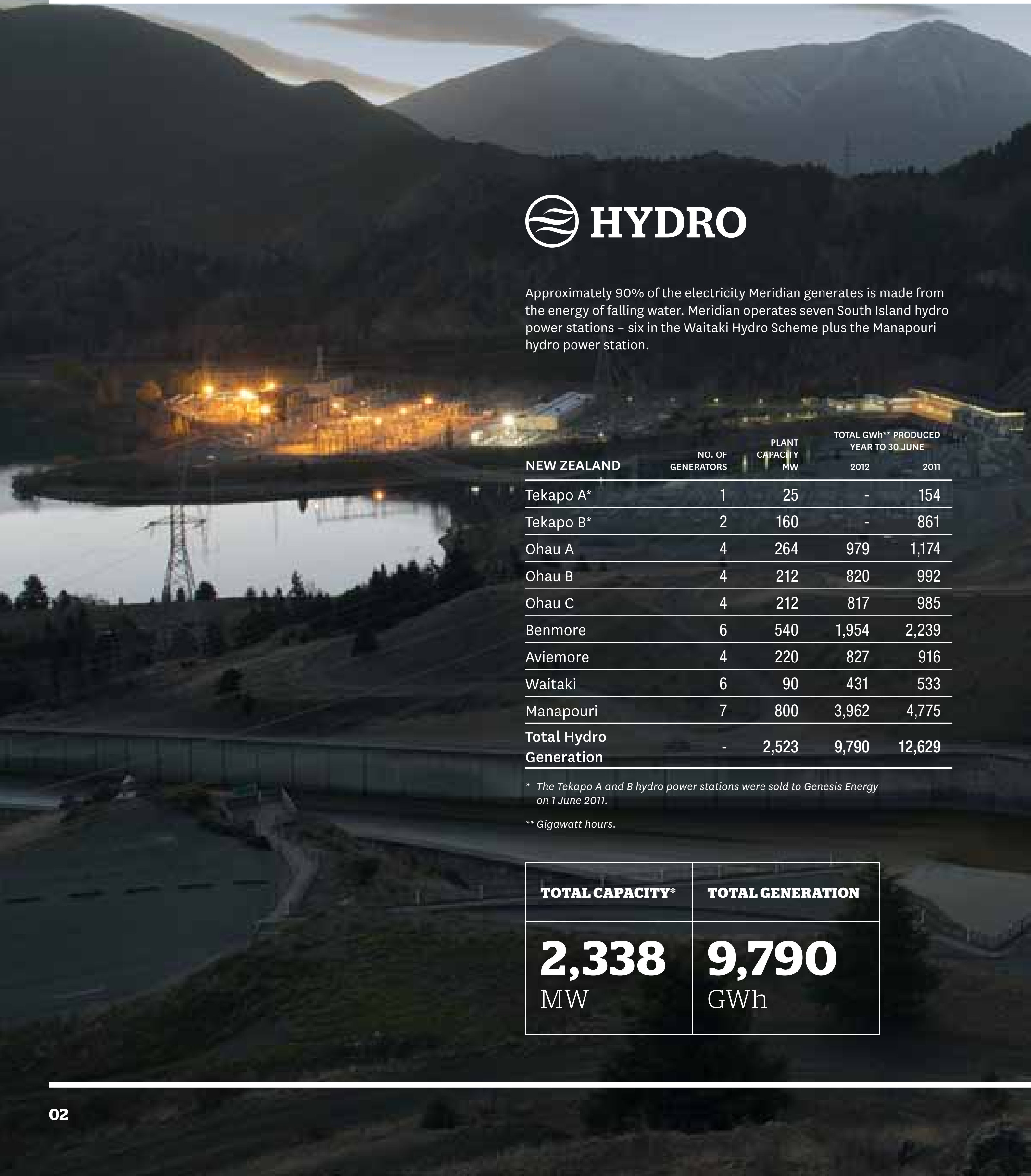
EBITDAF (EARNINGS BEFORE INTEREST, TAX, DEPRECIATION, AMORTISATION, CHANGE IN FAIR VALUE OF FINANCIAL INSTRUMENTS, IMPAIRMENTS, GAIN/(LOSS) ON SALE OF ASSETS AND JOINT VENTURE EQUITY ACCOUNTED EARNINGS)

$42.62

EBITDAF PER MWh* GENERATED

* *Megawatt hour.*

GENERATION ASSETS



HYDRO

Approximately 90% of the electricity Meridian generates 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 hydro power station.

NEW ZEALAND	NO. OF GENERATORS	PLANT CAPACITY MW	TOTAL GWh** PRODUCED YEAR TO 30 JUNE 2012	2011
Tekapo A*	1	25	-	154
Tekapo B*	2	160	-	861
Ohau A	4	264	979	1,174
Ohau B	4	212	820	992
Ohau C	4	212	817	985
Benmore	6	540	1,954	2,239
Aviemore	4	220	827	916
Waitaki	6	90	431	533
Manapouri	7	800	3,962	4,775
Total Hydro Generation	-	**2,523**	**9,790**	**12,629**

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

** *Gigawatt hours.*

TOTAL CAPACITY*	TOTAL GENERATION
2,338 MW	**9,790** GWh

Generation production was down 2,640GWh from last year, reflecting the sale of the Tekapo hydro power stations and conservative generation.

WIND

New Zealand is uniquely positioned to take advantage of wind as an energy resource. 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, and has been involved in the construction of further wind farms, including one on Ross Island, Antarctica.

NEW ZEALAND	NO. OF TURBINES	PLANT CAPACITY MW	TOTAL GWh** PRODUCED YEAR TO 30 JUNE 2012	2011
Te Āpiti	55	90	295	267
White Hill	29	58	189	161
West Wind	62	143	496	503
Te Uku*	28	64	226	92
Total Wind Generation	-	355	1,206	1,023

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

AUSTRALIA	NO. OF TURBINES	PLANT CAPACITY MW	TOTAL GWh** PRODUCED YEAR TO 30 JUNE 2012	2011
Mt Millar	35	70	177	162

TOTAL CAPACITY	TOTAL GENERATION
425 MW	**1,383** GWh

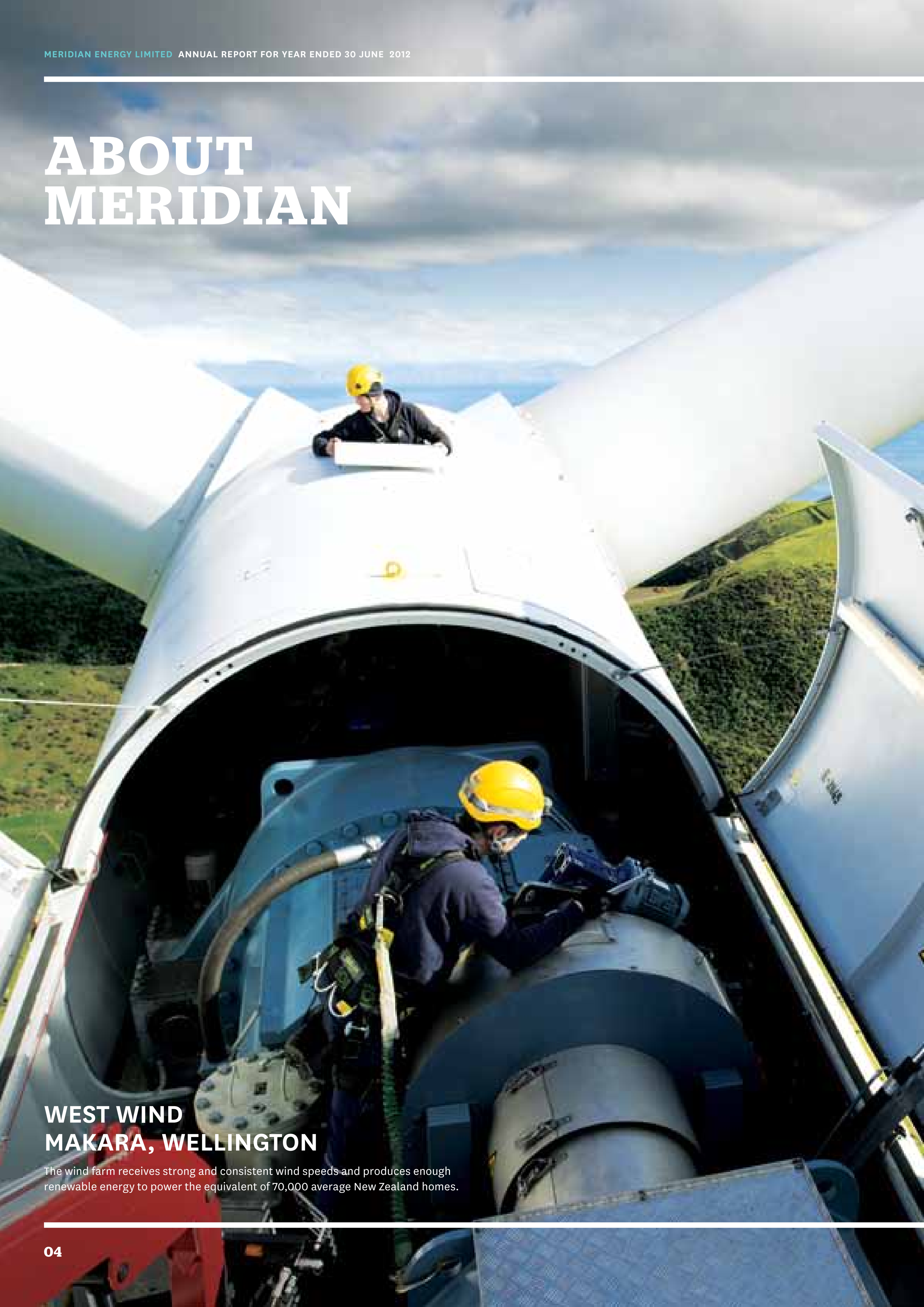
SOLAR

Solar energy can be a viable renewable option in sunny climates. Meridian built the first grid-connected solar farm in California and the first utility-scale solar farm in Tonga, and is exploring opportunities in Australasia.

USA	NO. OF PV PANELS	PLANT CAPACITY MW	TOTAL GWh** PRODUCED YEAR TO 30 JUNE 2012	2011
CalRENEW-1	50,000	5	11	10

TOTAL CAPACITY	TOTAL GENERATION
5 MW	**11** GWh

ABOUT MERIDIAN



WEST WIND MAKARA, WELLINGTON

The wind farm receives strong and consistent wind speeds and produces enough renewable energy to power the equivalent of 70,000 average New Zealand homes.

THE MERIDIAN GROUP

RETAIL SEGMENT	WHOLESALE SEGMENT	INTERNATIONAL SEGMENT	OTHER SUBSIDIARIES SEGMENT*	CORPORATE SERVICES
Meridian Retail	Markets & Production	Australia	Damwatch	External Relations
Powershop	Renewable Development	USA	Energy for Industry	Information & Communications Technology
Arc Innovation			Whisper Tech Group	Strategy, Finance & Legal
			Captive Insurance Company	Human Resources
				Insurance & Property

* *This segment included Right House, which was sold on 1 July 2011.*

Meridian Energy is an integrated renewable energy company; the largest generator in New Zealand, with a strong pipeline of development options in Australasia; and an electricity retailer throughout New Zealand.

The Meridian Energy Group employs approximately 800 permanent employees and has offices in Wellington, Christchurch and Twizel, and, internationally, in Melbourne, Australia, and San Francisco, California.

Meridian, including its online subsidiary Powershop, retails electricity to approximately 287,000 customer connections – homes, farms and businesses throughout New Zealand.

Meridian generates electricity from renewable sources – wind and water in New Zealand; wind in Australia; and solar in the United States. The company supplies approximately 30% of New Zealand's total electricity needs. Meridian owns and operates seven hydro power stations, six within the Waitaki Hydro Scheme, the Manapouri hydro power station and four wind farms throughout New Zealand.

In Australia, Meridian owns and operates the Mt Millar wind farm and is partnering with AGL Energy to build the Macarthur wind farm, in Victoria, which, at 420 megawatts (MW), will be the largest wind farm in the Southern Hemisphere. Meridian's solar facility, CalRENEW-1, was the first grid-connected solar facility to be built in California, and the company has used its expertise to build the first solar facility in Tonga, Maama Mai.

Meridian's pipeline of renewable development projects in New Zealand provides options to help meet New Zealand's future energy needs.

Meridian's commitment to renewable energy, environmental stewardship and support for local communities underpins the company's sustainable business model. Meridian continually looks for ways to provide positive energy solutions to customers to help them manage their energy use.

OUR STRATEGY

CONTINUALLY IMPROVE BUSINESS PERFORMANCE

A strong record of shareholder returns

13.0% average total shareholder return in the past five years.

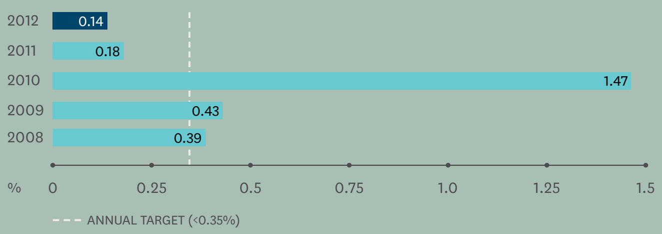
Active focus on cost management.

Improve hydro asset management capability

Lowest recorded hydro forced outage results in 20 years.

HYDRO FORCED OUTAGE FACTOR[1]

Financial Year Ended 30 June



1 Percentage of time that hydro assets are unavailable in a period owing to forced, unplanned outages.

Top quartile in Generation Knowledge Service hydro asset management cost and performance international benchmark.

Asset Management Council Australia Silver Award.

Increase focus on core capabilities

Refocus on core Australasian development.

Continued programme of rationalising non-core investments with Right House and Whisper Tech sales.

Marketing of Meridian's USA interests.

People and health & safety performance

Employee engagement results improved 3.4%.

Improved health & safety metrics, which outperform industry benchmarks.

CONTINUE TO STRENGTHEN OUR RETAIL PERFORMANCE

Improving retail contribution

RETAIL SEGMENT	FINANCIAL YEAR ENDED 30 JUNE 2012	ANNUAL CHANGE
Energy Sales ($m)	$1,156.6	+12%
Average Contracted Sales Price	$163.9/MWh	+7%
Average Spot Sales Price	$95.7/MWh	+68%
Contracted Sales Volume	5,947GWh	(2%)
Spot Sales Volume	1,898GWh	+6%
EBITDAF (@ $85) per Contract MWh	$1.80	+$5.90
Total Customer Connections	287,304	+5%

12% increase in energy sales revenue.

$5.90 per contracted MWh retail earnings improvement (at a purchase price of $85 per MWh).

Powershop placed first in the 2011 Deloitte Fast 50 index.

Service quality

Industry leading results in 2012 Consumer NZ satisfaction survey: Powershop at 95%, overall first; Meridian at 81%, joint first out of the major national retailers.

Powershop won Energy Retailer of the Year in the Deloitte Energy Excellence Awards, August 2012.

Product and service innovation

Expanding daily energy reporting into online services.

Launch of solar hot water heating offer.

New Powershop product offerings.

UNDERPINNED BY OUR CORE COMPETENCIES

ORGANISATIONAL CAPABILITY
ATTRACTING AND DEVELOPING THE BEST PEOPLE

HEALTH & SAFETY
UNRELENTING FOCUS TO ACHIEVE A ZERO HARM CULTURE

CUSTOMER FOCUS
DELIVERING HIGH-QUALITY CUSTOMER SERVICE

Meridian is committed to renewable energy. We are an integrated developer, generator and retailer of electricity in New Zealand, an offshore developer of renewable energy and an innovator in energy services.

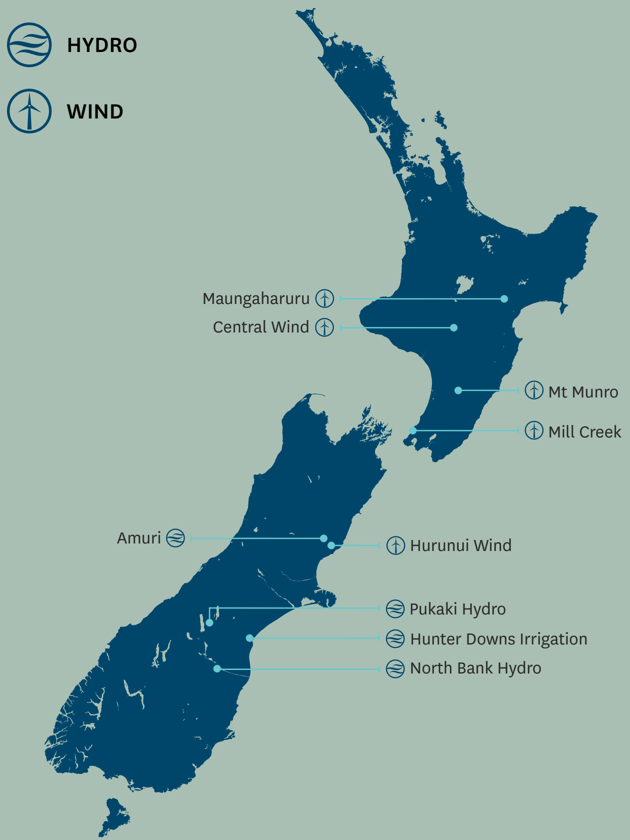
GROW VALUE THROUGH RENEWABLE GENERATION

Generation investment to suit market conditions

Reprioritisation of the development pipeline – Hayes and Mokihinui exits, due to economic and consenting uncertainties, and Mill Creek construction.

Viable future generation portfolio options

A diversified New Zealand development pipeline.



DEVELOP MERIDIAN'S AUSTRALIAN BUSINESS

Opportunities to utilise wind development strengths

Developing offshore renewable generation in Australia.

Macarthur to deliver A$58 million of annualised profit before interest and tax from January 2013.

Mt Mercer construction to commence December 2012.

Test innovative retail opportunities

Trialling the Powershop offering in Australia.

Invest in solar capacity

Investigating Australian solar opportunities.

BRAND
A LEADER IN RENEWABLE ENERGY

ASSET MANAGEMENT
PRACTICES THAT OPTIMISE YIELD AND RISK

SUSTAINABILITY
SUSTAINABLE BUSINESS PROCESSES

COMMERCIAL FOCUS
TRADING, RISK AND PERFORMANCE MANAGEMENT PROCESSES

CHAIRMAN'S REPORT

UNPRECEDENTED HYDROLOGY

It has been a record-breaking dry year for Meridian. Combined inflows into the Waitaki and Waiau catchments were the lowest in 79 years of historical records. As the largest generator in New Zealand, and the one with the most hydro storage in the South Island, Meridian had to pull on its collective expertise to manage the situation and minimise the financial impacts. This year's financial result is a reflection of these testing times and the effectiveness of Meridian's management strategies, as well as the benefits of improved liquidity in the wholesale market. The fact that the result was significantly improved relative to the financial result of 2008, despite it being far drier this year, is testament to Meridian's continuously improving capabilities to cope with such challenges.

COMMITMENT TO RENEWABLES

The Board is committed to Meridian's 100% renewable growth strategy. We recognise that this is where the company's core competencies lie. Meridian's diversified renewables approach and integrated portfolio of generation and retail activities have proven effective during recent dry conditions and are key to the way we will manage potential hydrology risks in the future.

Our unique renewable proposition sets us apart from other gentailers, and creates a distinct competitive retail advantage with customers looking to make sustainable choices. We are proud that, as the largest generator in New Zealand, Meridian is the most significant contributor to the Government's target of 90% renewable generation by the year 2025.

CUSTOMER GROWTH

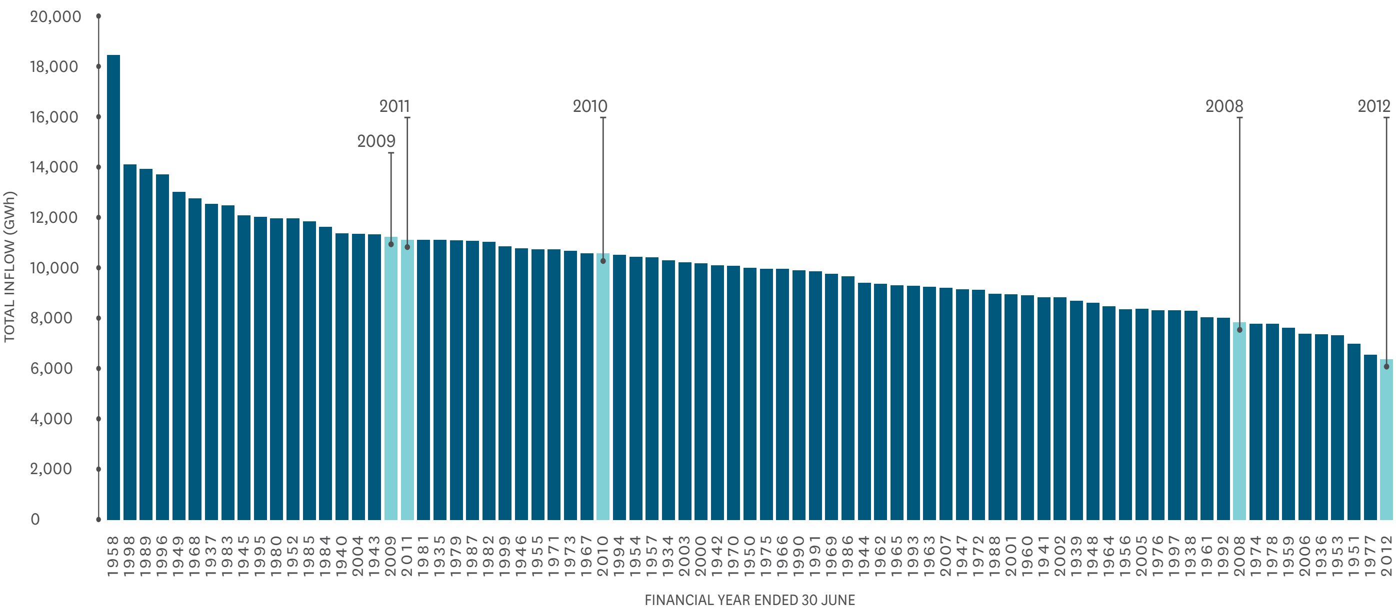
We know that the company's renewable point of difference alone will not win customers – Meridian is committed to focusing continued effort on improving our customers' experience.

There has been strong price competition in the retail market, stimulated by the Electricity Authority's 'What's My Number?' campaign. Despite the more measured retail activity that Meridian adopted to help manage the dry conditions, customer connections (as measured by installation control points or ICPs) continued to rise this year. Our online subsidiary Powershop, in particular, continued to grow. Its success was recognised by a number of different awards this year, including being awarded Energy Retailer of the Year in the 2012 Deloitte Energy Excellence Awards, and being ranked first in Deloitte's Fast 50 Index for New Zealand.

DEMAND OUTLOOK

Electricity demand in New Zealand has been relatively flat in the past few years, partly owing to the tough economic climate. However, according to data from the Ministry of Business, Innovation and Employment, demand is expected to increase by approximately 1.2% annually in the medium to long term, which equates to approximately 560 gigawatt hours (GWh) per annum. This will likely be driven by economic recovery and residential demand increases. However, New Zealand's performance is tied to the fortunes of our major trading partners and unfortunately there are still a number of international economic scenarios that could conspire to limit the rate of New Zealand's recovery.

TOTAL INFLOWS INTO MERIDIAN'S WAITAKI AND WAIAU CATCHMENTS *79 years of measured inflow (highest to lowest)*



This year Meridian's Waitaki and Waiau catchments received the lowest combined inflows in 79 years of historical records, however the financial result is considerably improved relative to the result of 2008, the last significant dry year.

NEW GENERATION

This medium-term outlook and the current positive external factors, such as the strong New Zealand dollar, an easing of steel prices and the highly competitive turbine technology and construction industries, were the basis for the Board's decision to approve the construction of the Mill Creek wind farm near Wellington. The project is a sound commercial proposition. With predicted generation costs under $85 per megawatt hour (MWh), it raises the bar in terms of what is considered economic generation for wind farms.

The commitment to build the Mt Mercer wind farm will increase Meridian's presence in Australia and leverages our proven experience in building and managing wind farms.

PROJECT RATIONALISATION

During the year we announced our exit from the Project Hayes wind farm and the Mokihinui Hydro Project. The decisions to exit these projects were commercial calls, assessing their rank in the merit order of Meridian's development pipeline and the costs required to bring them to fruition. Both projects were facing long and expensive consent processes, placing significant doubt on whether they could be delivered at an acceptable cost. While the withdrawal of these two projects was disappointing for Meridian and those who supported the projects, these decisions bring an end to uncertainty around the projects for all stakeholders.

WATER REFORMS

The Government's water reforms are one of the most important strategic issues facing the business. As the largest user of freshwater in New Zealand, Meridian takes a significant interest in central and local government water reform programmes. As such, Meridian is an active participant in the Land and Water Forum at a national level and the Canterbury Water Management Strategy at regional and catchment levels.

TRANSMISSION COSTS

The methodology for allocating transmission costs, in particular for the High Voltage Direct Current (HVDC) link, is another important regulatory issue of strategic importance to Meridian. We look forward to the outcome of the Electricity Authority's review and, we hope, a future where HVDC costs are more fairly and rationally allocated rather than being paid solely by South Island generators.

NEW ZEALAND ALUMINIUM SMELTERS

The New Zealand Aluminium Smelters (NZAS) has been New Zealand's largest consumer for 40 years. The smelter takes approximately 40% of our annual New Zealand generation.

On 9 August 2012 we disclosed that we had been approached by Pacific Aluminium, a business unit of Rio Tinto Limited, the majority shareholder of NZAS, to discuss potential changes to the electricity contract with the smelter.

In 2007 Meridian renegotiated the contract conditions with NZAS and signed a new electricity supply agreement, which takes effect in January 2013. Discussions are ongoing and remain confidential.

INITIAL PUBLIC OFFERING (IPO)

The Government has announced its intention to initiate IPO processes for two of the four state-owned enterprises in its mixed ownership programme in 2013. The Board believes that Meridian is well prepared to be the second candidate for public listing next year.

CHIEF EXECUTIVE

This year saw a change in Chief Executive. Tim Lusk stepped down in December 2011 after three years of leading Meridian as Chief Executive, and prior to that serving as a member of Meridian's Board. The Board thanks Tim for his contribution to the company.

Mark Binns commenced as Chief Executive in January 2012, coming from a strong commercial background and working at a senior level within Fletcher Building. The Board has no doubt that Mark is the right man to lead the company through the Government's share offer programme. Mark has made a range of recommendations to the Board on how to improve the company's performance, and has made a number of changes in recent months.

BOARD CHANGES

Finally, on behalf of the Board, I would like to thank Catherine Drayton and Anne Urlwin, who stepped down from their positions as directors during this financial year, for their contributions during their six- and seven-year terms respectively. We are pleased to welcome two new directors to the Board: Mark Cairns, who is Chief Executive of the NZX-listed Port of Tauranga and prior to that was Chief Executive of Toll Owens Limited; and Sally Farrier, who is a University of Canterbury-educated, Australia-based electricity, gas and water industry expert. Sally has worked in New Zealand and Australia and held a number of directorship roles in the past, including as a board member of Hydro Tasmania.

CHRIS MOLLER CHAIRMAN

CHIEF EXECUTIVE'S REPORT

FINANCIAL PERFORMANCE

Meridian Group's EBITDAF was $476.6 million for the year ended 30 June 2012, $183.3 million less than in the previous financial year. This reduction was largely due to challenging hydrology conditions and the inclusion of one-off positive events in last year's result.

Net profit after tax (NPAT) was $74.6 million compared with $303.1 million in 2011. However, last year's result included the sale of the Tekapo A and B hydro power stations ($157.4 million), 11 months of Tekapo generation revenue and the receipt of funds from a dispute settlement with NZAS. In light of the fact that we had the lowest level of combined inflows into our South Island catchments in 79 years of hydrology records, this can be considered a reasonable result.

Financial results were further affected by impairments resulting largely from the sale of subsidiaries and the decision to discontinue Project Hayes and the Mokihinui Hydro Project.

Meridian was swift to act when it identified that low inflows would have an impact on operations and set an internal target mid-way through the year to 'significantly beat' operating earnings from the last dry year (2008). It was very pleasing, and a credit to the team, to see EBITDAF for the year come in $102.7 million better than the 2008 result. This improvement was achieved by adopting a conservative approach to generation, as soon as the low inflows trend emerged, as well as pulling back on our customer acquisition strategy and actively hedging our contract exposure.

One of the most pleasing features of the year from a financial perspective was the growth in the underlying profitability of our retail segment. Using a fixed input purchase price of $85 per MWh, retail improved its performance against last year by $5.90 per MWh. Significant work is being undertaken to ensure that this improvement continues. Areas of focus include better analysis of underlying profitability, reduction in cost-to-serve metrics and growing customer satisfaction.

HEALTH AND SAFETY

If you measure improvement in health and safety by numbers, this year was exemplary, with an employee lost-time injury frequency rate of 0.88, against a New Zealand industry peer group rate of 6.30. However, true performance can only really be measured in improved attitudes and behaviours, so it is pleasing to note the degree to which Meridian employees are engaged in health and safety issues.

A number of new initiatives were introduced during the year but we recognise that we can never rest on our laurels. For the coming financial year, we have set ourselves a number of goals, including the task of improving our processes around contractors working on our sites.

In July 2012 an employee of our subsidiary Arc Innovations died in a car accident while driving home from work. The loss of this staff member has been felt deeply by the Arc Innovations team. Our sympathies remain with his family, friends and colleagues.

IMPROVING OUR SUSTAINABILITY CREDENTIALS

As a renewable energy generator, Meridian's core business is inherently sustainable. It was especially gratifying to see Meridian deliver a second solar project in the year. The Maama Mai solar farm in Tonga reduces the country's reliance on diesel fuel and increases our knowledge of how to develop and deliver power projects using this technology. On current analysis solar is expected to compete with wind on a utility-scale by the end of the decade in Australia.

However, in promoting a better energy future we believe we must do more than just promote renewable energy.

Meridian is New Zealand's largest user of freshwater – it is our main 'fuel'. We must manage our catchments effectively and assist in maintaining and enhancing the catchments within which we work. In this regard, it was gratifying to see the Waiau Trust, supported by Meridian, recognised for its work in the Waiau Valley, near Lake Manapouri, with a Green Ribbon Award.

Similarly, as a neighbour to the communities in which we operate, we strive to develop and maintain positive relationships with all groups, even if at times there are different views. Good-quality relationships can only be sustained by open communication and developing trust. We are proud of the relationships we have built, and the contribution we make with our community funds. This year our community fund in the Waitaki Valley was recognised in the Sustainable 60 Award for Community.

We are committed to supporting our customers to lower their costs and environmental impacts, through offering a range of sustainable products and services, such as energy-efficiency and usage information, electronic billing and access to great deals on energy-efficient products. Our aim is to help customers enjoy the most value from being with Meridian, and make the renewable energy we generate for New Zealand go further.

Like most large businesses, we are looking at the impacts of how we work on the environment and are actively trying to reduce the factors of modern corporate life that have negative environmental impacts. This year we set a target of reducing our air travel by 10% and achieved 14%. In the coming year we are looking for further improvements.

These areas of effort – the things that matter most to us and our stakeholders – are encapsulated in our sustainability framework. The framework and our goals are outlined in the sustainability section of this report and you will find many more examples of our achievements throughout this report.

FOCUSSING ON OUR CORE COMPETENCIES

When I joined Meridian I was requested by the Board to review Meridian's business strategy. This has resulted in some subtle but important changes that will help the company to focus on leveraging its core competencies as an integrated renewable developer, generator and retailer.

In the third quarter we made the decision to divest some of our non-core subsidiary investments. We had already sold Right House to UK-based Mark Group in July 2011 and, in June this year, Meridian's interests in the Whisper Tech subsidiary were also sold.

We've made gains in retail performance and are committed to improving this further. Overseas, our development focus is clearly on Australia.

Furthermore, we announced our intention to sell the USA solar business. It should be noted that the sale of the solar business in the USA does not signal a retreat from solar energy, but a recognition that the technology will be applied by Meridian in Australasia, and potentially the Pacific.

Given the scaling back of Meridian subsidiary investments and the decision to limit the company's operations to the Australasian region, the decision was taken to disestablish Meridian's Business Development Team. This Team was successful in leading the establishment of the Australian business and the development of solar expertise in the USA.

TIGHTENING THE SCOPE OF OUR OVERSEAS INVESTMENTS

This year we sharpened our overseas development focus and looked to the Australian market. The Australian Government's target to build new renewable generation assets, with a total capacity of approximately 80% of New Zealand's entire generation base by 2020, presents a significant growth opportunity for Meridian.

The company already owns the Mt Millar wind farm in South Australia and first power on its joint venture, the Macarthur wind farm, will be delivered by September this year. At 420MW the Macarthur wind farm project in Victoria, a partnership with AGL Energy, will be the largest wind farm in the Southern Hemisphere when it is fully commissioned in mid-2013. With firm political support for Australia's renewable energy target, we have taken the decision to commence development of the highly economically attractive Mt Mercer wind farm (131MW) in Victoria.

In conjunction with generation options, we are considering the viability of establishing our Powershop brand in the Australian retail market.

NEW ZEALAND GENERATION EFFICIENCY AND FUTURE DEVELOPMENT

Meridian is continually looking to ensure that it is getting the greatest efficiencies from its assets and it is pleasing to note that the average availability of both our wind and hydro assets continues to track ahead of target. This is a reflection of our rigorous long-term asset maintenance strategy. In May 2012 Meridian's capabilities in hydro asset maintenance were recognised by a Silver Award for Asset Management by the Australian Asset Management Council, a programme that recognises excellence in asset management across a range of industries within Australasia.

Given the likely levels of demand in the next few years, it is believed that focussing on smaller, more easily deployable projects is a more rational strategy. As a result, we have a portfolio of new generation options that we believe are high in the relative merit order compared with the known options of our competitors.

DEVELOPMENTS IN RETAILING AND CUSTOMER SATISFACTION

We know that consumers have a choice, are cost-conscious and value high-quality customer service. Meridian aims to offer the best service, energy packages and sustainable partner offerings to attract and retain customers and improve our customer satisfaction rating year on year.

We have made gains in retail performance, as shown by an increase in underlying customer numbers (measured by ICPs) and high satisfaction scores according to two independent surveys published by Fair Go and Consumer NZ in October 2011 and August 2012 respectively. In the Fair Go survey Powershop and Meridian were rated first and second and in the Consumer NZ survey Powershop was rated first overall and Meridian joint first out of the major national electricity retailers.

Powershop, in particular, continues to grow and its success was recognised by a number of awards during the year, including being ranked first in Deloitte's Fast 50 Index for New Zealand.

DEVELOPING OUR PEOPLE

This year we initiated a leadership development programme aimed at developing highly constructive and effective leaders, as well as a range of other initiatives and improvements to strengthen and grow our workforce capability.

MARK BINNS CHIEF EXECUTIVE

Like many businesses, Meridian is challenged with attracting and retaining the best talent. We have been running successful graduate and apprenticeship programmes for several years as a way to introduce new talent and drive innovation.

It has not been the easiest of years for Meridian as a result of continuing demanding economic conditions and the record low inflows to our South Island catchments. So it was pleasing to note that the staff engagement score, as surveyed in July 2012, rose by 3.4% against last year.

In the coming year we will be looking to improve our workforce diversity, with respect to gender, age and ethnicity.

OUTLOOK

Given the continuing economic issues our major trading partners face, the coming year has commenced with an equally uncertain macro-economic outlook for New Zealand. It would appear likely that for most of the year we can expect demand in our key New Zealand market to remain around current levels, which means we will remain focussed on our costs, core operating efficiencies and creating value for our customers. I am looking forward to leading Meridian through what promises to be another year of challenge and opportunity.

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BOARD OF DIRECTORS

1. CHRIS MOLLER

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 levels.

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 GOVERNANCE POSITIONS

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

2. PETER WILSON

DIRECTOR AND DEPUTY CHAIRMAN SINCE MAY 2011,
CHAIR OF AUDIT AND RISK COMMITTEE

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 has been involved in companies undertaking capital-raising activities and has wide-ranging governance experience in the public market, private sector and Crown-owned entities.

CURRENT GOVERNANCE POSITIONS

CHAIRMAN, AUGUSTA CAPITAL LIMITED
CHAIRMAN, WESTPAC NEW ZEALAND LIMITED
DIRECTOR, FARMLANDS TRADING SOCIETY LIMITED
DIRECTOR, NZ FARMING SYSTEMS URUGUAY
DIRECTOR, PF OLSEN LIMITED
DIRECTOR, WESTPAC BANKING CORPORATION

3. STEVE REINDLER

DIRECTOR SINCE SEPTEMBER 2008,
MEMBER OF THE AUDIT AND RISK COMMITTEE

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 GOVERNANCE POSITIONS

DIRECTOR (ADVISORY), GLIDEPATH LIMITED
DIRECTOR, PORT OF NAPIER LIMITED
DIRECTOR, STEVENSON GROUP LIMITED
IMMEDIATE PAST PRESIDENT, INSTITUTION OF PROFESSIONAL ENGINEERS NEW ZEALAND
MEMBER, ADVISORY COMMITTEE FOR TRANSFIELD SERVICES LIMITED

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4. MARY DEVINE

DIRECTOR SINCE MAY 2010,CHAIR OF REMUNERATION AND HUMAN RESOURCES COMMITTEE

Mary Devine has had a 20-year career in managing director and executive roles in private New Zealand companies. A former chief executive of online women's clothing store EziBuy and women's clothing retailer Max Fashions, she is currently Managing Director of Ballantynes.

Mary has extensive experience in corporate strategy, brand marketing and multi-channel retailing.

CURRENT GOVERNANCE POSITIONS

DIRECTOR, IAG (NZ) HOLDINGS LIMITED; IAG NEW ZEALAND LIMITED; AMI INSURANCE LIMITED

DIRECTOR, MCKENZIE & WILLIS LIMITED

TRUSTEE, NEW ZEALAND HOCKEY FOUNDATION

5. ANAKE GOODALL

DIRECTOR SINCE MAY 2011, DIRECTOR, MEMBER OF THE REMUNERATION AND HUMAN RESOURCES COMMITTEE

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 GOVERNANCE POSITIONS

ADJUNCT PROFESSOR, UNIVERSITY OF CANTERBURY

CHAIRMAN, KAUPAPA UKA LIMITED

CHAIRMAN, MANAWAPOPORE TRUST

DIRECTOR, AQUAFLOW BIONOMIC CORPORATION LIMITED

MEMBER, ENVIRONMENTAL PROTECTION AUTHORITY

MEMBER, REVIEW PANEL CANTERBURY EARTHQUAKE RECOVERY AUTHORITY

TRUSTEE, HILLARY INSTITUTE OF INTERNATIONAL LEADERSHIP

6. JOHN BONGARD

DIRECTOR SINCE MAY 2011, MEMBER OF THE AUDIT AND RISK COMMITTEE

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 GOVERNANCE POSITIONS

CHAIRMAN, SOUTH AUCKLAND PARTNERS – BNZ

CHAIRMAN, THE RISING FOUNDATION

DIRECTOR, HJ ASMUSS & CO LIMITED

DIRECTOR, NARTA AUSTRALIA PTY LIMITED

DIRECTOR, NETBALL NEW ZEALAND

DIRECTOR, TOURISM HOLDINGS LIMITED

TRUSTEE, COUNTIES MANUKAU PACIFIC TRUST BOARD

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MANAGEMENT TEAM

1. MARK BINNS

CHIEF EXECUTIVE

Mark Binns has been Chief Executive of Meridian since January 2012. Prior to this Mark was Chief Executive of the Infrastructure Division of Fletcher Building Limited, the company's largest division incorporating its Construction and Concrete operations. During his 22 years at Fletcher Building Mark was responsible for operations in Australia, Asia, South America, India, the USA and the South Pacific, as well as New Zealand. He has been closely involved in some of New Zealand's largest infrastructure projects, including SKYCITY, Te Papa, Manapouri second tailrace tunnel, Eden Park Rugby World Cup upgrade and the successful Public Private Partnership bid for the Wiri Prison.

Mark is a qualified lawyer and was a partner at Simpson Grierson in Auckland prior to joining Fletcher Challenge Limited in 1989.

2. NEAL BARCLAY

GENERAL MANAGER MARKETS AND PRODUCTION

Neal Barclay trained as a chartered accountant (New Zealand Institute of Chartered Accountants (NZICA)) and has been with Meridian since July 2008, at that time as Chief Financial Officer. He has led 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 generation and wholesale operations. His team focuses on maximising revenues, optimising the risk position and sustaining world-class performance from the hydro and wind asset portfolio.

3. PAUL CHAMBERS

CHIEF FINANCIAL OFFICER

Paul Chambers has been Chief Financial Officer at Meridian since 2009. Paul is a chartered accountant (NZICA) and a member of the Institute of Chartered Accountants in England and Wales. Paul 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.

4. 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 energy and telecommunications industries, including in engineering and project management development, as well as at senior management and director levels.

The primary objective for Bill and his team is to deliver on our customer promise, ensuring that profit, market share and customer satisfaction metrics remain strong.

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5. 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 that Meridian has the ICT infrastructure, data, processes and applications to enable the company to deliver against its objectives.

6. 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.

Kate's team focuses on developing leaders and executing strategies to help Meridian's people to utilise and grow their capabilities, competencies and skills. This ensures the company is well supported to deliver on its business objectives and aspirations.

7. KEN SMALES

GENERAL MANAGER RENEWABLE DEVELOPMENT

Ken Smales has 40 years of 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 in 1999 as a member of the Management Team in the role of Generation Director, then established the Renewable Development Team and became its General Manager.

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

8. JASON STEIN

GENERAL COUNSEL AND COMPANY SECRETARY

Jason Stein is a lawyer and has held a number of in-house roles at financial institutions and within the energy sector, including at vice president and senior counsel levels. Jason 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.

9. GUY WAIPARA

GENERAL MANAGER EXTERNAL RELATIONS

Guy Waipara was appointed General Manager External Relations in August 2010. Guy previously held positions at Meridian in offshore business development and company strategy settings. He has more than 20 years' experience in the electricity sector.

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

PERFORMANCE SUMMARY

TRADERS
QUEENS WHARF, WELLINGTON

Meridian's traders work to optimise the company's performance in the wholesale market every hour of every day.

$74.6M

NET PROFIT AFTER TAX

$106.1M

UNDERLYING NET PROFIT AFTER TAX

$322.2M

OPERATING CASH FLOW

$476.6M

EBITDAF

$8,692.8M

TOTAL ASSETS

GROUP

MERIDIAN GROUP SUMMARY INCOME STATEMENT ($ MILLIONS)	FINANCIAL YEAR ENDED 30 JUNE 2012	2011	2010	2009	2008
Group Energy Margin	**763.2**	**950.3**	**941.7**	**785.3**	**645.4**
Dividend and Other Revenue	27.3	42.5	38.7	27.1	25.2
Energy Related Expenses (Non-core)	-	(10.6)	(9.2)	(3.3)	-
Energy Transmission Expenses	(86.7)	(84.2)	(78.9)	(78.2)	(75.3)
Gross Margin	703.8	898.0	892.3	730.9	595.3
Employee and Other Operating Expenses	(227.2)	(238.1)	(250.6)	(218.5)	(221.4)
EBITDAF	**476.6**	**659.9**	**641.7**	**512.4**	**373.9**
Net Change in Fair Value of Electricity, Aluminium and Foreign Exchange Derivatives	121.3	(89.3)	(48.0)	(114.1)	45.5
Depreciation, Amortisation and Impairments	(285.2)	(235.2)	(206.4)	(172.3)	(152.6)
Gain/(Loss) on Sale of Property, Plant and Equipment and Investments	(1.5)	174.1	0.3	4.8	0.5
Equity Accounted Earnings of Joint Ventures	(2.7)	(3.4)	(2.0)	(1.9)	(0.1)
Group Operating Profit	**308.5**	**506.1**	**385.6**	**228.9**	**267.2**
Net Finance Expenses	(82.5)	(107.6)	(85.1)	(68.4)	(55.2)
Net Change in Fair Value of Financial Instruments	(68.0)	(14.2)	(23.3)	(32.5)	(14.3)
Group Profit Before Tax	**158.0**	**384.3**	**277.2**	**128.0**	**197.7**
Income Tax	(83.4)	(81.2)	(93.2)	(38.7)	(69.1)
Group Net Profit After Tax (NPAT)	**74.6**	**303.1**	**184.0**	**89.3**	**128.6**

MERIDIAN GROUP UNDERLYING PROFIT AFTER TAX ($ MILLIONS)	FINANCIAL YEAR ENDED 30 JUNE 2012	2011	2010	2009	2008
Group Net Profit After Tax (NPAT)	**74.6**	**303.1**	**184.0**	**89.3**	**128.6**
Net Change in Fair Value of Financial Instruments	68.0	14.2	23.3	32.5	14.3
Net Change in Fair Value of Electricity, Aluminium and Foreign Exchange Derivatives	(121.3)	89.3	48.0	114.1	(45.5)
Premiums Paid on Electricity Options (less Interest)	(15.2)	(13.9)	-	-	-
Impairment of Property, Plant and Equipment, Investments and Intangibles	60.1	11.0	18.3	9.2	-
Net Gain on Sale of Property, Plant and Equipment	1.1	(174.1)	(0.3)	(4.8)	(0.5)
Adjustments Before Tax	**(7.3)**	**(73.5)**	**89.3**	**151.0**	**(31.7)**
Income Tax on Adjustments (Excluding the Adjustment for the Gain on Sale of the Tekapo Hydro Power Stations)	14.6	(30.4)	(26.8)	(45.3)	10.5
Effect of Gain on Sale of the Tekapo Hydro Power Stations	-	17.4	-	-	-
Effect of Corporate Tax Rate Reduction on Deferred Tax Liability	0.6	2.4	(9.4)	-	(2.9)
Effect of Change in Building Tax Depreciation on Deferred Tax	23.6	-	14.8	-	-
Adjustments After Tax	**31.5**	**(84.1)**	**67.9**	**105.7**	**(24.1)**
Group Underlying Net Profit After Tax	**106.1**	**219.0**	**251.9**	**195.0**	**104.5**

Improved financial performance compared with 2008 (the last significant but less severe dry year) highlights the effectiveness of our integrated business model.

INCOME STATEMENT

Meridian's Group net profit after tax (NPAT) was $74.6 million for the year ended 30 June 2012, $228.5 million lower (75%) than the previous year.

Last year's result included the gain from the sale of the Tekapo hydro power stations to Genesis Energy Limited on 1 June 2011 (a net gain of $157.4 million), 11 months of generation revenue from the Tekapo stations ($32.4 million net of costs before tax) and proceeds received following the settlement with NZAS ($28.1 million net of legal costs before tax).

Underlying NPAT, which removes the effects of non-cash fair value movements and other one-off items (reconciliation on page 18), was $106.1 million – a reduction of $112.9 million (52%) on last year. This reduction is the direct impact of below average inflows into Meridian's storage lakes.

EBITDAF

Earnings before interest, tax, depreciation, amortisation, change in fair value of financial instruments, impairments, gain/(loss) on sale of assets and joint venture equity accounted earnings (EBITDAF) reduced by $183.3 million from last year. Adjusting for the impacts of the sale of the Tekapo hydro power stations (lost generation revenue) and the settlement received from the New Zealand Aluminium Smelter (NZAS) last year, EBITDAF fell by $122.8 million (20%).

Challenging hydrology conditions during the financial year saw the lowest combined inflows into Meridian's Waitaki and Waiau catchments in recorded history (79 years). This led to a 20% reduction in energy margin from last year.

However, when compared with the 2008 financial year, the last significant dry year, which was less severe and also benefited from generation from the Tekapo hydro power stations, EBITDAF was $102.7 million higher. This improvement highlights the effectiveness of Meridian's highly integrated business model together with improved liquidity in the derivative markets and the sophistication of instruments traded, which have enabled the company to manage hydrology risk while optimising earnings.

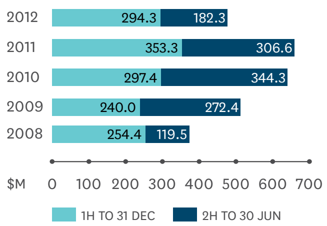
It was also satisfying to see improvements in the underlying profitability of the retail business, when removing the price variability of the spot wholesale market, and in the profitability of both the international and other subsidiaries segments.

Group Energy Margin

The energy margin, comprising revenue received from generation, sales to retail and wholesale customers less the cost of energy and distribution costs to supply customers, reduced by $187.1 million (20%) compared with

GROUP EBITDAF[1]

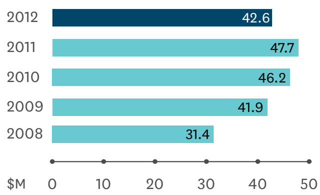
Financial Year Ended 30 June



1 Earnings before interest, tax, depreciation, amortisation change in fair value of financial instruments, impairments, gain/(loss) on sale of assets and joint venture equity accounted earnings.

GROUP EBITDAF PER MWh[2]

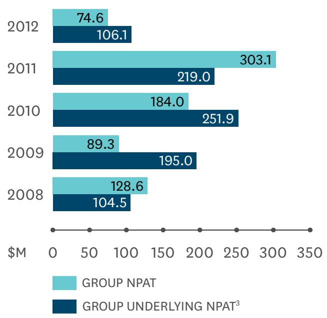
Financial Year Ended 30 June



2 EBITDAF per MWh generated by our generation assets (including international assets).

GROUP PROFIT

Financial Year Ended 30 June



3 Removing the effects of non-cash fair value movements, impairments and other one-off items.

28%

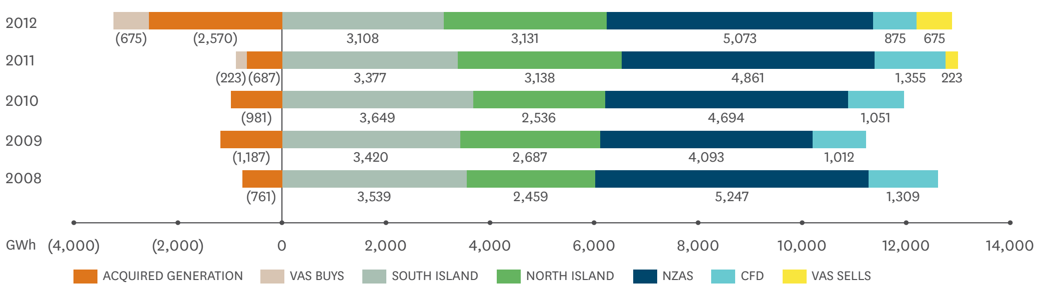
Reduction in EBITDAF from last year, reflecting one-off positive impacts last year and the challenging hydrology faced in 2012.

27%

Improvement in EBITDAF when compared with the last significant dry year in 2008.

CONTRACT POSITION *(Volume of contracted sales and derivative contracts acquired)*

Financial Year Ended 30 June



last year. After excluding lost revenue from the Tekapo hydro power stations and last year's NZAS settlement, the decline was reduced to $114.9 million (13%).

The record low inflow sequence required conservative management within the company's hydro catchments, which led to a 13% reduction in total generation production (after adjusting for Tekapo generation last year). This production gap was closed by the acquisition of energy through derivative contracts, resulting in higher energy costs.

Average wholesale prices were $57.2 per MWh higher than last year, and while this benefited generation revenue, albeit on reduced generation volumes, it also resulted in a significant increase in energy costs to supply retail and wholesale customers.

Our net contract position (the difference between volume purchased to support contracted sales and volume generated and acquired) for the year increased by 1.4% from last year to 90.5%.

Contracted revenue improved (excluding last year's settlement with NZAS), reflecting increased retail contracted revenue driven by a higher average sales price. This was partially offset by a reduction in NZAS contract revenue. This contract includes a mechanism to adjust the base price to reflect historical average wholesale electricity prices.

Cost Impacts

Employee and other operating costs reduced by $10.9 million (5%) from last year. Employee costs were a significant contributing factor. Group financial performance targets were not achieved this year, consequently no general short-term at-risk performance incentive payments will be paid.

Other operating costs were in line with last year's despite continued cost pressures from the highly competitive retail market and the tightening insurance market.

IMPACTS BELOW EBITDAF

In addition to the reduction in EBITDAF, Meridian's financial result was influenced by unfavourable impacts below EBITDAF.

Fair Value Movements

Movements in fair values during the financial year resulted in an unrealised gain of $53.3 million during the year. This included fair value movements relating to the NZAS contract that commences on 1 January 2013, while being partially offset by negative fair value movements following a softening of the New Zealand interest rate swap forward curve.

Impairments

The rationalisation of the development portfolio and exits from non-core investments drove impairments of $60.1 million.

During the year decisions were made to stop pursuing the consents for the Project Hayes wind farm, a 634MW wind farm proposed for the Lammermoor Range in Central Otago, and the Mokihinui Hydro Project on the Mokihinui River. The withdrawal of these two projects reflected both the risks and uncertainties that these projects faced, and the fact that other development projects were deemed to be more economical and ranked higher in the merit order.

In June 2012 Meridian sold its interest in Whisper Tech's European joint venture and intellectual property and other rights for WhisperGen to Spanish venture partner Mondragon. This resulted in a write-down in the Meridian Group's investment in Whisper Tech.

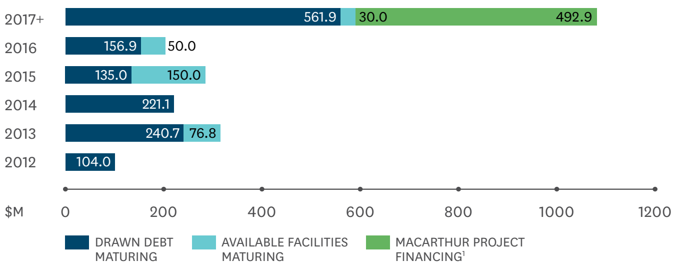
Other impairments relate to the preparation for sale of both the Meridian Energy USA business and the investment in Nth Power Technologies

$60.1M

Impairments, reflecting the exit of non-core investments and rationalisation of development pipeline.

DEBT MATURITY PROFILE

Financial Year Ended 30 June



1 Macarthur Project Financing converts from a construction facility to amortising term facility in 2013.

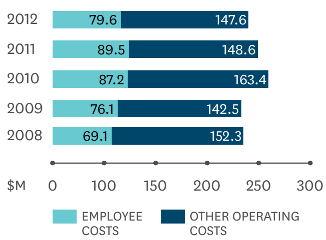
$140.7M

Dividends paid during the 2012 financial year.

MERIDIAN GROUP SUMMARY FINANCIAL POSITION ($ MILLIONS)	FINANCIAL YEAR ENDED 30 JUNE 2012	2011	2010	2009	2008
Current Assets	570.8	627.2	271.6	266.9	604.7
Non-Current Assets	8,122.0	7,832.8	8,444.0	6,910.4	6,593.0
Total Assets	**8,692.8**	**8,460.0**	**8,715.6**	**7,177.3**	**7,197.7**
Current Liabilities	593.4	569.7	557.0	356.8	745.6
Non-Current Liabilities	3,273.7	2,959.0	3,087.9	2,536.4	2,247.5
Equity	4,825.7	4,931.3	5,070.7	4,284.1	4,204.6
Total Equity and Liabilities	**8,692.8**	**8,460.0**	**8,715.6**	**7,177.3**	**7,197.7**

EMPLOYEE AND OTHER OPERATING COSTS

Financial Year Ended 30 June



Fund and changes in growth projections of the subsidiary Arc Innovations Limited.

Finance Costs

Net finance costs declined by $25.1 million from last year. Average debt levels were consistent with last year with repayment of debt during the period, from proceeds received from the sale of the Tekapo hydro power stations, offset by debt raised for funding the Macarthur wind farm development. In line with accounting rules, interest costs relating to the construction phase of the Macarthur development were capitalised.

Depreciation

Depreciation costs reduced by $6.4 million owing largely to the impacts of the sale of the Tekapo hydro power stations, which was partially offset by increased depreciation following the revaluation of company assets at 30 June 2011 (a gross uplift of $129.7 million).

Taxation

The discontinuation of tax depreciation on buildings with a useful life of greater than 50 years became effective for the Group on 1 July 2011. At the time this change was announced in the 2010 Government budget, Meridian's judgement in regard to the tax definition of buildings is that the above-floor line structure of powerhouses are buildings while the significant concrete structures below the floorline are defined as plant as they are linked to the generation plant. Meridian maintains this view but took a further provision this year, due to the Inland Revenue Department's current interpretation of the definition of buildings in relation to generation assets, to include the below floorline structures. The effect of this adjustment was an additional tax expense of $23.6 million for the financial year.

BALANCE SHEET

Meridian maintained a strong balance sheet, with total assets of $8,693 million. Generation assets were not revalued this year as after an independent review it was deemed that values had not materially changed from last year.

Total borrowings at year end were $1,826 million, an increase of $252 million from last year, as additional funds were borrowed to construct the Macarthur wind farm. Meridian had committed bank facilities of $1,444.5 million, of which $397.1 million was undrawn at 30 June, putting Meridian in a strong position to fund future investment opportunities.

CASH FLOW

The cash-flow position reflected the challenging trading conditions experienced during the year, with a reduction in operating cash inflows against last year and investment in the development of the Macarthur wind farm in Australia. Despite the record low hydro inflows Meridian's net operating cash-flows only fell 13%.

Last year's cash flow from investing activities included the proceeds received from the sale of the Tekapo hydro power stations, of which some were utilised to repay a portion of debt in the 2012 year.

Dividends paid during the year were $140.7 million, which included a final dividend of $69.4 million for the 2011 financial year and an interim dividend this financial year of $71.3 million. No final dividend for the year has been declared.

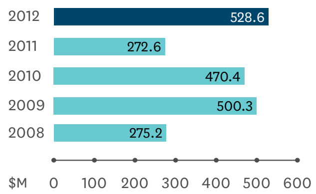
	FINANCIAL YEAR ENDED 30 JUNE				
MERIDIAN GROUP SUMMARY CASH FLOW ($ MILLIONS)	**2012**	**2011**	**2010**	**2009**	**2008**
Net Cash Flow from Operating Activities	322.2	368.7	451.8	313.5	342.6
Net Cash Flow from Investing Activities	(524.8)	557.7	(458.4)	(476.8)	(271.5)
Net Cash Flow from Financing Activities	48.8	(612.0)	13.1	139.4	(47.9)
Net (Decrease)/Increase in Cash Held	**(153.8)**	**314.4**	**6.5**	**(23.9)**	**23.2**

		FINANCIAL YEAR ENDED 30 JUNE				
MERIDIAN GROUP STATEMENT OF CORPORATE INTENT (SCI) FINANCIAL MEASURES	**SCI ANNUAL TARGET**	**2012**	**2011**	**2010**	**2009**	**2008**
Equity to Total Assets	58.5%	55.5%	58.3%	58.2%	59.7%	58.4%
Return on Average Equity	3.9%	1.5%	6.1%	3.9%	2.1%	3.0%
Underlying Return on Average Equity (excl. Revaluations)	16.0%	10.8%	18.5%	19.8%	15.6%	9.5%
Underlying Return on Average Capital Employed (excl Revals)	9.5%	5.1%	13.8%	9.9%	9.1%	6.6%
EBITDAF per MWh Generated ($ per MWh)	$46.56	$42.62	$47.74	$46.25	$41.87	$31.40
Net Debt/(Net Debt plus Equity) Gearing*	25.6%	25.0%	19.3%	22.4%	20.9%	18.3%
Funds from Operations Interest Cover (# of Times)	4.9	4.3	4.9	5.7	5.4	5.0
EBITDAF Interest Cover (# of Times)*	5.6	4.6	5.9	6.7	5.9	6.0
Solvency	62.6%	91.2%	109.8%	48.7%	71.8%	80.0%

* *These ratios may differ from those presented in note 24 of the notes to the financial statements as those ratios meet the specific definitions in the trust deed covering the Guaranteeing Group's externally imposed capital requirements.*

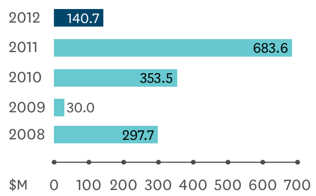
MERIDIAN GROUP INVESTMENT EXPENDITURE

Financial Year Ended 30 June



MERIDIAN GROUP CASH DIVIDENDS PAID

Financial Year Ended 30 June



SEGMENT PERFORMANCE

POWERSHOP
The Smarter Way to Buy Power

Powershop's Dino, star of its new advertising campaign. Meridian's subsidiary Powershop is the world's first online energy store, with the highest customer satisfaction ratings of all electricity retailers.

The EBITDAF performance of our reportable segments was:

$596.4M
WHOLESALE

$(73.0)M
RETAIL

$12.3M
INTERNATIONAL

$4.0M
OTHER SUBSIDIARIES SEGMENT

WHOLESALE

NEW ZEALAND WHOLESALE SEGMENT SUMMARY ($ MILLIONS)	FINANCIAL YEAR ENDED 30 JUNE 2012	2011
Energy Sales Revenue	1,329.8	954.6
Energy Related Expenses	(567.4)	(247.0)
Energy Distribution Expense	(23.4)	(20.1)
Wholesale Energy Margin	**739.0**	**687.5**
Dividend and Other Revenue	6.1	7.9
Energy Transmission Expenses	(84.7)	(82.2)
Gross Margin	**660.4**	**613.2**
Employee Expenses	(20.5)	(24.2)
Other Operating Expenses	(43.5)	(43.0)
Total Employee and Other Operating Expenses	**(64.0)**	**(67.2)**
Wholesale EBITDAF	**596.4**	**546.0**
National Energy Transfer to Retail at $85 per MWh	(84.0)	199.9
Underlying EBITDAF	**512.4**	**745.9**

KEY STATISTICS	FINANCIAL YEAR ENDED 30 JUNE 2012	2011
NZAS Contracted Electricity Sales (GWh)	5,073	4,861
Wholesale Electricity CfD Sales (GWh)	(1,695)	668
Total Electricity Sales (GWh)	**3,378**	**5,529**
Hydro Generation (GWh)	9,790	12,629
Wind Generation (GWh)	1,206	1,023
Total Generation (GWh)	**10,996**	**13,652**
Average Price per MWh Generated ($)	**98.79**	**41.57**

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

Wholesale EBITDAF was $596.4 million – an increase of $50.4 million (9%) compared with last year. When excluding the benefit to last year's financial result of the generation from the Tekapo hydro power stations and the proceeds from the NZAS settlement, EBITDAF improved by $110.9 million (23%).

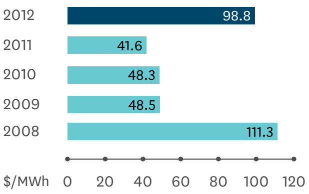
The responsible management of storage from record low inflows drove a 13% reduction in generation production (excluding generation from the Tekapo hydro power stations). However, energy sales revenue increased by $375.2 million on the back of high average electricity spot prices (a 138% increase from last year).

Reduced generation production was supplemented by the acquisition of energy through derivative markets, and increasingly sophisticated derivative products helped to manage portfolio risks. The cost of derivative contracts combined with the increased costs for Meridian to supply energy to NZAS, owing to high spot prices, partially offset increased energy sales.

Contracted wholesale revenue fell primarily as a result of a reduction in the average price received from contracted sales to NZAS.

AVERAGE WHOLESALE PRICE[1]

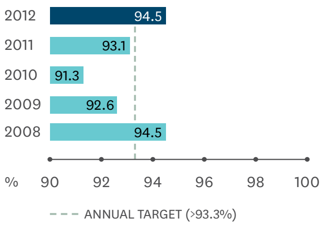
Financial Year Ended 30 June



1 *Annual average wholesale electricity price received from generation production.*

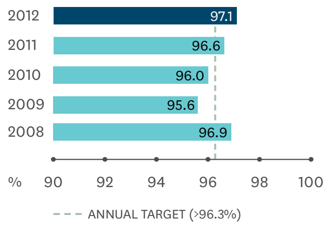
PLANT AVAILABILITY – HYDRO

Financial Year Ended 30 June



PLANT AVAILABILITY – WIND[2]

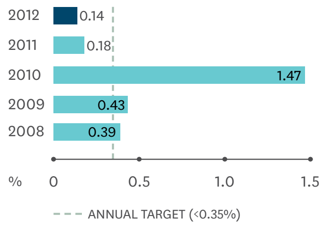
Financial Year Ended 30 June



2 *New Zealand only.*

HYDRO FORCED OUTAGE FACTOR[3]

Financial Year Ended 30 June



3 *Percentage of time that hydro assets are unavailable in a period owing to forced, unplanned outages.*

Meridian focuses its activities on the real-time and future demand for electricity. A rigorous long-term asset maintenance strategy ensures optimal performance of our existing generation assets. New generation options are positioned to meet the increase in electricity demand.

The current NZAS contract price is adjusted annually, with adjustments incorporating historical spot prices that had been low in the preceding two years.

Transmission costs were largely consistent with last year's, with expected rate increases during the year not eventuating as a result of delays in Transpower's upgrade of the HVDC link between the North and South Island. However, it is expected that transmission charges will increase in future years when work on the HVDC link is completed.

HYDRO STORAGE LEVELS

Overall, it was a record-breaking year for the South Island hydro lakes, which saw the Waitaki and Waiau catchments receiving the lowest combined annual inflows in the past 79 years of records.

While the financial year began with above-average storage in the Waitaki catchment, inflows fell away during much of the year, with the year ending with storage 402GWh below average (75% of the historical average) in Meridian's Waitaki catchment.

In the first quarter inflows into Meridian's catchments were 88% of the average compared with 110% for the same quarter in the previous year; this saw Waitaki storage fall to 82% of the historical average. While inflows improved for much of the second quarter, returning storage to normal levels by the end of November, this was followed by an extremely dry December in the Waiau catchments, which received just 36% of historical average inflows in that month.

The dry conditions continued to affect Meridian's catchments in the second half of the year, with inflows at 65% of the average for this period. Overall, total inflows were 2,980GWh below the historical average for the financial year and 3,796GWh below last year's.

GENERATION VOLUMES AND WHOLESALE PRICES

Total New Zealand generation volumes declined by 2,656GWh (19%) compared with last year. The reduction in hydro generation was a reflection of lost generation owing to the sale of the Tekapo hydro power stations (1,015GWh) and conservative generation as a result of the sustained low inflows.

Wind generation of 1,206GWh was in line with expectations and represented an increase of 183GWh from last year owing to the first full-year contribution from the Te Uku wind farm (an uplift of 134GWh from last year).

The conservative generation by South Island hydro generation companies during the year impacted average wholesale prices. Meridian's average annual wholesale price received for this financial year was $98.79 per MWh compared with $41.57 per MWh received last year.

MARKET TRADING

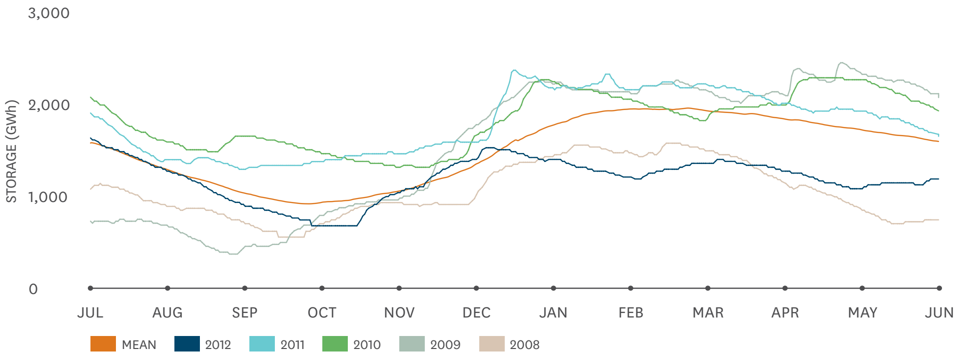
This year the electricity wholesale derivative market operated with greater liquidity, as evidenced by 8,719GWh (last year 2,102GWh) being exchanged on the New Zealand Electricity platform of the ASX during the financial year. This increased liquidity, along with the greater sophistication of products being traded, allowed Meridian to sign bilateral hedge contracts with a number of other generators and manage its financial position during the dry period far more effectively than in 2008.

In December 2010 Meridian signed virtual asset swap (VAS) agreements (long-term financial contracts to buy and sell electricity) with Mighty River Power and Genesis Energy as part of a package of Government reforms. The agreements mean that Meridian sells South Island energy to Mighty River Power (700GWh per year) and Genesis Energy (450GWh per year) and purchases the equivalent amount of North Island energy from each company respectively. The swaps were effective from 1 January 2011 with a ramp-up period and cover a term of 15 years.

Following the sale of the Tekapo hydro power stations to Genesis Energy, which was a further part of the package of Government reforms, a 'lead-in hedge' with Genesis Energy was signed through to 2014 to help manage changes to the retail customer portfolio of both parties.

WAITAKI STORAGE CATCHMENT

(Meridian storage only)



60MW

Mill Creek wind farm construction commenced in July 2012

25%

Reduction in inflows (against the historic average) into Meridian's catchments

Undesirable trading situation

The Electricity Authority ruled that the exceptionally high interim wholesale electricity prices on 26 March 2011 amounted to an undesirable trading situation (UTS). In June 2011 the Authority decided that the final prices for the trading period should be reset by applying a $3,000 per MWh price cap. In February 2012 the High Court rejected the appeals by Genesis Energy and others and upheld the Authority's decision. Although appealed further by Genesis Energy to the Court of Appeal, the High Court published final prices for the trading period at the original cap of $3,000 per MWh. This means that the UTS has no financial impact on Meridian's result this year. The hearing date in the Court of Appeal has been set for April 2013. Meridian continues to support the Electricity Authority and will work with it on any proposed reforms to the Electricity Industry Participation Code.

NEW ZEALAND ALUMINIUM SMELTERS

Meridian supplies approximately 40% of its total New Zealand generation to NZAS at Tiwai Point, near Bluff. A new long-term contract was signed with NZAS in 2007 and is due to replace existing contracts effective from 1 January 2013. In October 2011 the Smelter's owners, Rio Tinto, announced that its interests in the Tiwai Point smelter would transfer to a new business unit called Pacific Aluminium. Most recently, in July 2012, Pacific Aluminium approached Meridian seeking changes to the mutually agreed and signed supply contract. Confidential negotiations have commenced.

ASSET MANAGEMENT AND PERFORMANCE

Meridian has asset management practices, engineering strategies and capital works underpinned by a focus on delivering improved performance across a range of parameters: cost of maintenance, functionality and efficiency. This strategic approach to asset management has driven steady improvements in asset performance. The quality operations and maintenance practices at Meridian continue to achieve high levels of plant availability and reliability. This year's average availability for wind assets was 97.1% compared with 96.6% last year, while the hydro forced outage factor also improved to 0.14% from 0.18% last year.

Wind maintenance services were progressively moved in-house this year to reduce Meridian's reliance on external contractors. The move has the benefits of reducing wind farm maintenance costs and enabling us to manage the scheduling of outages around times of operation, thereby reducing the financial impacts of maintenance outages.

In May 2012, Meridian's capabilities in hydro asset maintenance were recognised by a Silver Award for Asset Management in the Australian Asset Management Council Asset Management Awards, a programme that recognises excellence in asset management across a range of industries within Australasia.

WATER REFORM

As the largest user of freshwater in New Zealand, Meridian takes a significant interest in central and local government water reform programmes and as such is an active participant in the Land and Water Forum at a national level and the Canterbury Water Management Strategy at catchment and regional levels.

Meridian is supportive of the water management framework developed by the Land and Water Forum and maintains the company's contribution of renewable generation from two of New Zealand's largest hydro schemes.

TRANSMISSION UPGRADES

As Transpower works through essential upgrades to the national grid, including the commissioning of the HVDC Pole 3, there will continue to be a number of outages that Meridian will need to actively manage. The upgrade programme, and the construction of Pole 3 in particular, is critical to alleviating transmission constraints across the grid. Improved availability of the HVDC link is important to ensuring security of supply and maintaining a national wholesale market and minimising price separation between the North and South Island. Meridian looks forward to the completion of the project in early 2013 as greater transmission capacity will improve Meridian's portfolio flexibility and risk position.

TRANSMISSION PRICING

The transmission pricing methodology is one of the most important strategic issues facing Meridian. HVDC charges are currently solely paid by South Island generators, which the company views as inequitable and as a disincentive to investment in South Island generation that ultimately increases the national cost of electricity. Meridian is supportive of the Electricity Authority's transmission pricing methodology review and is hoping for an outcome where the HVDC costs are shared across all connected parties, similar to the charging regime used for the rest of the transmission network.

The timeframe for the Authority's review has been extended by three months to allow for further analysis and economic modelling of options for transmission pricing. The Electricity Authority's consultation paper is expected to be published in September 2012. This shift in timeline means that the earliest date that any new transmission pricing methodology could be effective is April 2015.

NEW ZEALAND DEVELOPMENT PROJECTS	LOCATION	PROJECT TYPE	PLANT CAPACITY MW	STATUS AS AT 30 JUNE 2012
Mill Creek	Ohariu Valley, north of Wellington	Wind	60	Under construction
Central Wind	Waiouru	Wind	120	Investment ready
Maungaharuru	Hawke's Bay	Wind	94	Consents held
Mt Munro	Wairarapa	Wind	60	Consenting
Hurunui Wind	North Canterbury	Wind	76	Consenting
Pukaki Hydro	Upper Waitaki, South Canterbury	Hydro	35	Consents held
North Bank	Lower Waitaki, South Canterbury	Hydro	260	Water consents held. Land use access under investigation
Amuri	Waiau River	Hydro	38	Consenting
Hunter Downs Irrigation	Lower Waitaki, South Canterbury	Irrigation	N/A	Water consents held. Awarded investigation funds from Ministry for Primary Industries

RENEWABLE DEVELOPMENT PIPELINE

Meridian's priority development projects include some highly attractive wind farm options, including Mill Creek and Central Wind.

Mill Creek, near Wellington, was granted resource consent in August 2011 for 26 turbines of the 31 turbines applied for. Mill Creek has very strong economics, being predicted to generate electricity very competitively compared with existing wind farms, and at a cost comparable with brownfield geothermal sites. The favourable external factors of the strong New Zealand dollar, an easing of steel prices and the competitive turbine technology and construction industries led the Board to approve the $169 million development in June 2012. Preparatory civil works started in July 2012, with full power expected mid-2014.

Central Wind, a project for a 120–130MW wind farm located across five privately owned rural properties between Waiouru and Taihape, was granted resource consent in January 2010. Meridian continues to work with the community in the area to ensure that this project remains a viable option for the future in an investment-ready state.

The Hurunui wind farm project, proposed for the area between Omihi and Greta Valley in North Canterbury, was granted direct referral to the Environment Court in June 2011. In December 2011 Meridian filed evidence for the Environment Court hearing, which commenced in late August 2012.

In January 2012 Meridian lodged a consent application for the Mt Munro wind farm, which would involve 20 turbines being constructed on three privately owned farms about five kilometres south of Eketahuna.

Meridian also holds consents for some hydro generation and irrigation projects that were progressed during the year. Consent was granted in June 2011 for the Pukaki Hydro Project, a proposed 35MW hydro power station utilising the head between Lake Pukaki and the Pukaki-Ohau canal. Meridian received proposals from contractors and designers in March this year and is currently evaluating the economics of the project.

In November 2011 the Hunter Downs Irrigation Scheme, a community irrigation proposal developed with the South Canterbury Irrigation Trust, was granted resource consent. Work in conjunction with South Canterbury Irrigation Trust is progressing on the commercial and engineering aspects of the project.

The consent application for the Amuri Integrated Water Project in North Canterbury was lodged in October 2011. The project is a partnership with Ngāi Tahu Property Limited and involves gaining consents to take and use water from the Waiau River for hydro generation and to discharge water for the irrigation of nearby land. The application will be determined by Environment Canterbury Regional Council under the Hurunui-Waiau Regional Plan, which it is currently developing with input from the local community. While the Hurunui-Waiau Plan is being completed the application is on hold.

During the year Meridian rationalised its development pipeline, cancelling two projects, the Project Hayes wind farm and the Mokihinui Hydro Project. The decisions not to proceed with these projects arose from reassessment of the cost and viability of achieving buildable consents and commercial attractiveness relative to other projects in the company's development portfolio.

RETAIL

RETAIL SEGMENT SUMMARY ($ MILLIONS)	FINANCIAL YEAR ENDED 30 JUNE 2012	2011
Energy Sales Revenue	1,156.6	1,029.0
Energy Related Expenses	(785.4)	(448.9)
Energy Distribution Expense	(380.7)	(347.5)
Retail Energy Margin	**(9.5)**	**232.6**
Dividend and Other Revenue	11.6	9.4
Retail Revenue	**2.1**	**242.0**
Employee Expenses	(25.5)	(25.0)
Other Operating Expenses	(49.6)	(41.9)
Total Employee and Other Operating Expenses	**(75.1)**	**(66.9)**
Retail EBITDAF	**(73.0)**	**175.1**
National Energy Transfer from Wholesale at $85 per MWh	84.0	(199.9)
Underlying EBITDAF	**11.0**	**(24.8)**

RETAIL CONTRACTED SALES	FINANCIAL YEAR ENDED 30 JUNE 2012	2011
Meridian Retail Non-half-hourly Sales (GWh)	2,897	2,925
Meridian Retail Half-hourly Sales (GWh)	2,360	2,448
Meridian Retail Financial Contract Sales (GWh)	246	434
Powershop Contracted Electricity Sales (GWh)	444	267
Total Contracted Sales (GWh)	**5,947**	**6,074**
Average Contracted Sales Price ($ per MWh)	163.9	152.6

RETAIL SPOT SALES		
Meridian Retail Spot Electricity Sales (GWh)	**1,898**	**1,796**
Average Spot Sales Price ($ per MWh)	95.7	56.8

KEY STATISTICS		
Average Retail Electricity Purchase Price ($ per MWh)	97.4	51.7
Meridian Retail Index of Customer Experience[1]	6.3	N/A
Powershop Customer Satisfaction[2]	96%	92%

1 A representative sample of each customer segment is surveyed independently by Nielson on a monthly basis using a combination of telephone interviews and online surveys. In the 2012 financial year, a total of 2,146 customers were surveyed. Customer answers to the four customer segment questions are rated 1-10 then averaged. Margin for error is +/- 0.12. The four customer segment scores are then averaged to calculate the overall score, which is reported as a six-month rolling average.

2 Based on score as to how likely customers are to recommend Powershop to friends or colleagues (internal measure).

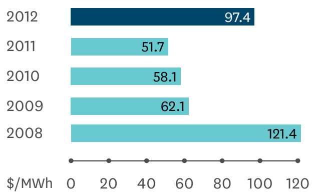
The retail segment includes Meridian's two retail electricity brands, Meridian and Powershop, and also includes Arc Innovations, an electricity meter services business.

Retail EBITDAF was ($73.0) million – a reduction of $248.1 million from last year. Retail's performance is significantly influenced by the average wholesale purchase price of electricity. This year the average purchase price at $97.36 per MWh was $45.7 per MWh higher than in the previous financial year.

When removing the purchase price variability of the spot wholesale market and substituting this with a fixed input price of $85 per MWh, EBITDAF per contracted MWh (excluding spot sales) improved by $5.90 per MWh from last year to $1.80 per MWh. This improvement reflected the continued growth of the Powershop brand, more targeted retention and acquisition strategies and changes in customer mix and price increases improving average sales prices. The improvement in underlying profitability was achieved despite flat demand and customer support and distribution cost pressures.

Energy sales grew by $127.6 million from last year, predominantly owing to a 7% increase in Meridian's average contracted price during the year and the impact of high wholesale prices on spot sales. Despite an increase in customer connections (ICPs) during the year, contracted sales volumes reduced by 127GWh with the conservative management of re-signing expired

AVERAGE ANNUAL ELECTRICITY PURCHASE PRICE



+$5.90

Improvement in retail's underlying profitability per MWh (at an $85 purchase price)

Meridian aims to offer the best customer service, energy packages and environmentally friendly products and services to attract and retain customers and deliver leading service and satisfaction.

contracts with half hourly customers during the period of record low inflows.

Distribution expenses increased by $33.2 million (10%) from last year, which was primarily due to increased distribution charges from network companies, but also the growth of the Powershop brand and the changing mix of customers.

Additionally, employee and other operating expenses increased by $8.2 million (12%) from last year, owing to increased customer support costs from both portfolio growth and increased acquisition and retention costs driven by a highly competitive retail market.

CUSTOMER GROWTH

Competition in the retail market was intense during the year as the Electricity Authority's 'What's My Number?' campaign continued to encourage consumers to compare retailers based solely on price. Both the Meridian and Powershop brands benefited from the competition, with Powershop acquiring more customers than any retailer in the year to June 2012, and Meridian increasing its customer numbers overall. This was achieved despite the more measured retail activity that both brands had to take during the dry hydrology conditions in the second half of the year.

Meridian's and Powershop's combined customer connections grew by 14,528 (5%) compared with connections at 30 June 2011, to a total of 287,304.

The overall growth in the customer base can be mainly attributed to the growth of Powershop, and Meridian customers in the North Island. In the year to 30 June 2012, Powershop increased its total base by 43%, to 47,890. According to Electricity Authority data (which includes inactive connections), Powershop increased its market share from 1.67% to 2.47%, exceeding expectations. Powershop, of all electricity retailers, has been reported as being the biggest gainer during the Government's switching campaign, which started in June 2011.

On 30 June 2012 Meridian's market share (combined brands) was 14.7%, an increase of 0.5% compared with the previous year.

Customer acquisition in the North Island has shifted Meridian's customer portfolio to better fit its changed generation profile resulting from the sale of the Tekapo hydro power stations in the South Island, virtual asset swap agreements, the commissioning of the Te Uku wind farm near Raglan and plans for future generation in the lower and central North Island.

Meridian recognised that it was not commercially viable to invest in its own prepay system. The transfer of 6,800 Christchurch-based prepay customers to the Mighty River Power GLO-BUG prepay system is underway and expected to take several months to complete.

Powershop continued to collect awards for its performance during the year. Powershop took first place in the 2011 Deloitte Fast 50 index for New Zealand and sixth in the Asia-Pacific Deloitte Fast 500 – the first time a New Zealand company has ever featured in the top 10 on the list. It also won the Deloitte Energy Excellence Awards Energy Retailer of the Year, awarded August 2012; Innovation in Marketing at the New Zealand Marketing Awards; the TUANZ Innovation of the Year Award; and the Canstar Blue Most Satisfied Customer Award.

Meridian is now trialling the Powershop offering in the Australian retail market.

PRICING

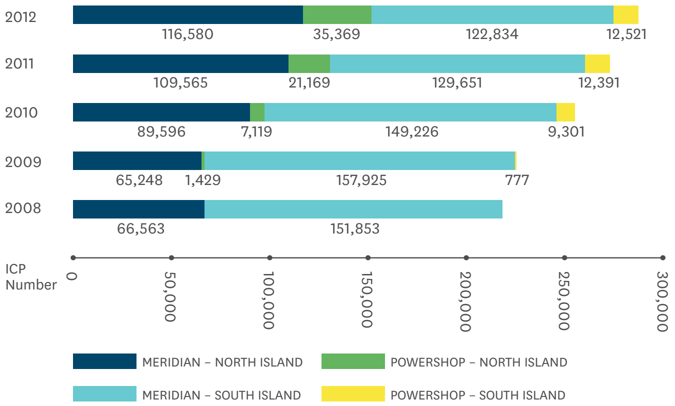
Meridian's electricity charges are continually reviewed and changed to reflect the cost of generating and supplying electricity to customers, with the aim of remaining competitive within the market. In November 2011 Christchurch customers were subject to an average 4.8% price increase in Meridian's charges. Before that there had been a two-and-a-half-year price freeze in the region.

The price changes that Meridian implemented across the majority of networks in April 2012 were a result of increases in transmission and distribution charges from Transpower and lines companies. Unlike many other retailers, Meridian chose not to increase its energy charges at that time.

Powershop was also subject to these increased supply costs and implemented a price increase

MERIDIAN CUSTOMER CONNECTIONS

Financial Year Ended 30 June



10%

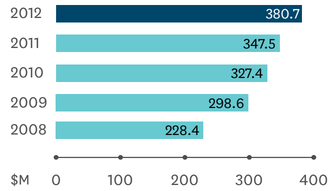
Increase in distribution costs from last year.

0.5%

Increase in market share (combined brands) during the financial year

RETAIL SEGMENT DISTRIBUTION COSTS

Financial Year Ended 30 June



43%

Annual growth in Powershop customer connections in April 2012. At the same time it introduced a discount Simple Saver product to reduce the impacts of the price increase and build customer loyalty. Simple Saver was a great success, being taken up by 62% of customers in its first month.

To improve residential customer understanding of electricity bills Meridian changed its bill structure by separating the network-related costs and energy-related costs.

CUSTOMER EXPERIENCE

Both Meridian and Powershop's customer satisfaction results are industry leading, according to two independent surveys published by Fair Go and Consumer NZ in October 2011 and August 2012 respectively. In the Fair Go survey Powershop and Meridian were rated first and second for customer satisfaction. In the Consumer NZ survey, Powershop received a 95% rating, and its fourth straight win, while Meridian was ranked joint first out of all the major national retailers.

Meridian changed its own customer satisfaction metric to a customer experience index at the beginning of the financial year. The index measures: overall performance; intent to remain a customer; likelihood to recommend; and pride in being a customer.

The average customer experience score across all customer segments (residential, business, agri-business) was 6.3 at the end of the year (six-month rolling average), an improvement from 6.2 at December 2011, largely reflecting the positive experience of most residential customers. The overall improvement can be attributed to improvements in customer communications, proactive call programmes, customer contact centre performance and active account management.

IMPROVEMENTS AND INNOVATIONS

The new Velocity billing system implemented last financial year is now stable and achieving the expected higher levels of billing accuracy for residential, agriculture and small business customers. All large commercial and industrial customers will be transferred to the new system in the near future.

Meridian has also been improving its online channels to support a self-service model for those customers who prefer to take control of their accounts online. There are further plans to upgrade the 'My Meridian' online portal to improve its availability and functionality. The promotion and uptake of e-billing have led to a significant reduction in Meridian's printing and paper requirements.

To date, approximately 58,600 residential, 6,200 business and 1,400 agriculture customers have opted to receive bills electronically. A similar plan is being rolled out to provide Meridian's newsletters and other customer communications electronically.

Meridian continued to run other energy-efficiency initiatives. During February 2012, a specific energy-saving campaign, Operation Powersave, ran as part of responding to the low inflow situation. Through partnerships with other sustainable organisations, Meridian offers its customers sustainable solutions such as audits, energy-efficient lighting advice, solar hot water systems and online sustainability tools. In total, approximately 66,000 customers have taken up at least one of these sustainable customer offerings.

The daily energy report service, allowing customers to see their electricity consumption online at any time, was extended in June 2012 after the successful completion of a trial involving 3,900 residential customers with smart meters in Christchurch. Meridian is continuing to develop the service so it can be offered more widely, as smart meters continue to be rolled out to further regions.

As at 30 June 2012, Meridian's subsidiary Arc Innovations had installed approximately 126,000 smart meters in homes and businesses throughout New Zealand. Arc Innovations won the Smart Metering Technology and Smart Metering Service Provider of the Year Award at the Smart Metering Australia and New Zealand Summit in Sydney in February. Arc Innovations is now providing all of Meridian's and Powershop's metering services, delivering improved operational efficiency.

Powershop continued to innovate with the introduction of the two-click option for customers to purchase their monthly Simple Saver packs without having to log into the online shop. This service has been a great success, generating few calls to the call centre and, therefore, demonstrating its intuitive design and functionality.

Powershop also introduced some flexible payment options, allowing customers to align payments with when they receive their salaries or wages and add funds to their accounts when it suits them.

INTERNATIONAL

Meridian is taking a measured approach to overseas opportunities to secure a return from its competitive advantages. This year, Meridian sharpened its overseas development focus on the Australian market.

INTERNATIONAL SEGMENT SUMMARY ($ MILLIONS)	FINANCIAL YEAR ENDED 30 JUNE 2012	2011
Energy Sales Revenue	23.3	21.8
Energy Related Expenses	(0.5)	(0.5)
International Energy Margin	**22.8**	**21.3**
Dividend and Other Revenue	2.6	0.0
Energy Transmission Expenses	(2.0)	(1.9)
Gross Margin	**23.4**	**19.4**
Employee Expenses	(6.2)	(4.6)
Other Operating Expenses	(4.9)	(6.8)
Total Employee and Other Operating Expenses	**(11.1)**	**(11.4)**
International EBITDAF	**12.3**	**8.0**

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

EBITDAF for the period was $12.3 million, which represents an improvement of $4.3 million (54%) against last year. This improvement reflects a 9% improvement in generation volumes for the year and a continued focus on cost management, including savings from moving operations and the maintenance of the Mt Millar wind farm in-house.

Australia is the major offshore focus for Meridian. The Australian Government's mandated renewable energy target of approximately 20% by 2020 will support significant new renewable generation capacity. This additional capacity could exceed the current size of the installed generation base in New Zealand. Wind is well positioned in Australia as the most viable renewable generation technology. Meridian Australia continues to progress the most commercial wind development projects in its pipeline to build its generation presence.

The construction of the Macarthur wind farm, a joint venture between Meridian and AGL Energy, is progressing well and it is on track to be generating first power by September 2012 and to be fully commissioned by July 2013.

Once completed, the 420MW Macarthur project in Victoria will be the largest wind farm in the Southern Hemisphere. The project finance deal for Meridian's A$386 million debt portion of the A$1 billion project was awarded Project Finance International's Renewable Deal of the Year in Asia Pacific, along with receiving recognition from several other international awards.

In August 2012, Meridian's Board approved the business case to develop the Mt Mercer wind farm in Victoria. Construction is due to commence in December 2012.

Meridian has developed expertise in solar in the USA, where it has built a 5MW grid-connected photovoltaic solar facility in California. Meridian's mandate for this investment was to learn about the technology and its application. With this achieved, Meridian has started to market Meridian USA for sale with the aim of investigating solar opportunities in Australasia.

In Tonga, in an alliance project with the Government of Tonga and Tonga Power, and with funding provided by the New Zealand Aid Programme, Meridian took its expertise to the Pacific. Construction started on the 1MW photovoltaic solar facility in Tongatapu in November 2011 and was completed in August 2012, generating first power in the same month. The project brings much-needed renewable energy capability to Tonga to reduce the country's dependence on expensive, imported diesel fuel.

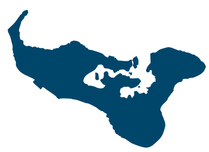
INTERNATIONAL DEVELOPMENT PROJECTS

AUSTRALIA/WIND
Victoria

	PLANT CAPACITY MW	STATUS *as at 30 June 2012*
Macarthur*	420	Construction
Mt Mercer	131	Committed to construction

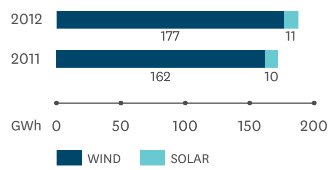
** 50/50 unincorporated joint venture with AGL Energy.*

TONGA/SOLAR
Tongatapu



	PLANT CAPACITY MW	STATUS *as at 30 June 2012*
Maama Mai	1	Construction

INTERNATIONAL GENERATION PRODUCTION
Financial Year Ended 30 June



OTHER SUBSIDARIES SEGMENT

During the year Meridian continued to rationalise its non-core investments.

	FINANCIAL YEAR ENDED 30 JUNE	
OTHER SEGMENT SUMMARY ($ MILLIONS)	2012	2011
Energy Sales Revenue	20.9	15.3
Energy Related Expenses	(10.0)	(6.7)
Energy Distribution Expenses	–	0.2
Other Segment Energy Margin	**10.9**	**8.8**
Dividend and Other Revenue	7.5	23.2
Energy Related Expenses (Non-core)	–	(10.6)
Gross Margin	**18.4**	**21.4**
Employee Expenses	(7.7)	(13.0)
Other Operating Expenses	(6.7)	(10.5)
Total Employee and Other Operating Expenses	**(14.4)**	**(23.5)**
Other Segment EBITDAF	**4.0**	**(2.1)**

This segment includes Meridian's portfolio of energy-related subsidiaries Damwatch, Energy for Industry (EFI) and Whisper Tech, along with Meridian's Captive Insurance Company (a subsidiary that sources insurance for the Group).

EBITDAF improved by $6.1 million from last year, reflecting a reduction in the cost base of this segment following the sale of Right House and the winding up of the Whisper Tech New Zealand business.

DAMWATCH

In this financial year Damwatch expanded its international focus with the objective of ensuring that its dam safety and engineering expertise is maintained at international levels.

In one major initiative, Damwatch developed dam safety plans for the construction and operation of a World Bank-funded major irrigation storage dam under construction in the headwaters of the Nile River. In a second major initiative, Damwatch, in partnership with GNS Science, secured funding from the New Zealand Aid Programme to pilot programmes in Vietnam aimed at improving dam operation and safety during extreme weather events.

In 2011 Damwatch won two prestigious innovation awards from the Association of Consulting Engineers New Zealand, with a Silver Award of Excellence in recognition of repairs to the Tekapo Canal without taking the facility out of service, and an Award of Merit for repairs to the Pukaki Canal Inlet structure.

ENERGY FOR INDUSTRY (EFI)

EFI continues to provide energy services to industrial customers that utilise processed waste fuels and reduce overall environmental impacts and carbon emissions. Lower-than-forecast carbon prices have created further challenges that are being addressed by introducing dual fuel and transitioning options for customers, with the first new dual site development secured with food processors Barker's of Geraldine.

During the year, EFI successfully converted its Dunedin Energy Centre to dual fuel coal and biomass capability, further reducing overall carbon emissions from the facility by up to 20%. It also established a wood energy fuel hub in Dunedin servicing EFI and other local customers with renewable wood fuels and completed the first stage of the Washdyke Energy Cluster in Timaru.

EFI was rewarded in June 2012 by being selected as a finalist for the Green Ribbon Award for Reduction in Carbon Emissions. The subsidiary was also a finalist in the Environmental Excellence category of the 2012 Deloitte Energy Industry Excellence Awards, and won the South Canterbury Chambers of Commerce Award for Technology and Innovation in August 2012.

WHISPER TECH

In September 2011 Meridian announced that it was transferring Whisper Tech's Christchurch-based operations to Spain, the home of its manufacturing and distribution activity. Since it was established in 1999, Whisper Tech has driven the development and commercialisation of WhisperGen, a product specifically designed for the home boiler replacement market in Europe.

Subsequently in June 2012 Meridian sold its interest in Whisper Tech's European joint venture and intellectual property and rights for WhisperGen to Spanish joint venture partner Mondragon.

RIGHT HOUSE

Right House was sold to Mark Group, a UK-based business on 1 July 2011. Right House was sold recognising that the company's growth could be better driven by an international company with the same objectives.

The financial implication of the sale was taken into account in Meridian's financial statements for the year ended 30 June 2011.

SUSTAINABILITY

Renewable energy is at the heart of Meridian being a sustainable business. Sustainability is also integral to Meridian's workplace culture, interactions with communities and the environment, and products and services offered to customers.

New Zealand is under a number of environmental pressures. These pressures include the impact of increased economic activity on water quality, particularly in rivers; pollution in cities; and the effects of climate change. The company's business strategy is influenced by a range of external factors. These include increased community interest in water rights, an expanding market for energy-efficient products, and mounting public awareness of the impacts of climate change.

Meridian's business activities create an opportunity for the company to make a positive difference. Having strong sustainability credentials is fundamental to Meridian's success, for example in resource consenting, customer acquisition and retention, brand activities and new business development.

THE SUSTAINABILITY FRAMEWORK

Meridian has a sustainability framework that identifies five key areas of focus where core business activities have an impact on the external world, and where there is an opportunity for Meridian to positively influence outcomes. The five key areas are listed below.

Water stewardship – Meridian's intent is to manage water catchments effectively. This involves collaborating with key stakeholders in the water catchments, in terms of agreeing both on issues around water access and rights, and water quality and the overall environmental health of these water catchments.

Renewable energy – Meridian's goal is ensure current and future energy needs can be met with renewable energy projects. This involves refurbishing and improving our existing plant to ensure its longevity and increase its efficiency, having ready a pipeline of renewable energy projects that are commercially viable, and ensuring our current and future assets are built and operated sustainably using best practice community engagement and environmental management.

Energy solutions – customers are increasingly interested in energy efficiency, both as a reaction to rising energy prices and with increasing awareness of the impacts of climate change. Meridian supports customers to manage their energy use by offering a range of sustainable products and services.

Engaged communities – Meridian has relationships with stakeholder groups at all levels; local communities and iwi are of particular importance. Meridian's focus is on good quality relationships built on the principles of open communication and trust. Meridian has implemented the award-winning Community Fund Programme around key generation assets, and holds a small selection of national-level sponsorships.

Working sustainably – all of Meridian's operations are underpinned by the principles of efficient use of resources, care for the well-being and safety of employees, growth of workforce capability and diversity, and sustainable procurement practices.

During this financial year, work was undertaken to embed the sustainability framework into the company's decision-making processes and culture. Each area of the framework has an overall goal, and progress towards these is measured by the achievement of specific sustainability performance indicators.

SUSTAINABILITY GOVERNANCE

In July 2012 a sub-committee of the Board was established with responsibility for safety and sustainability. This committee oversees the company's sustainability performance and compliance with the Health and Safety in Employment Act 1992. The company's management is responsible for having procedures in place to ensure performance is maintained and improves in these areas.

SUSTAINABILITY FRAMEWORK

KEY AREA	OVERALL GOAL	LINK TO STRATEGY	KEY INDICATOR	2012 PERFORMANCE	MORE INFORMATION
WATER STEWARDSHIP	To collaborate with stakeholders to manage water catchments effectively	Grow value through renewable generation	Collaboration with stakeholders around water use	Participation in LAWF[1] groups and five CWMS[2] related committees	Wholesale Performance
RENEWABLE ENERGY	To ensure current and future energy needs can be met with renewable energy sustainably	Grow value through renewable generation Develop Meridian's Australian business	Renewable generation Habitat enhancement and restoration	10,996GWh Project River Recovery, Waiau River Restoration, Te Uku wetlands	Wholesale Performance Environment
ENERGY SOLUTIONS	To provide people with positive energy solutions that lower their environmental impacts	Continue to strengthen our retail performance	Sustainable offering uptake	66,000 customers taking up at least one sustainable offering	Retail Performance
ENGAGED COMMUNITIES	To support and connect with the communities the company serves and does business with	Grow value through renewable generation	Community funding and sponsorships	$1.96 million granted to community organisations and sponsorship partners	Community
WORKING SUSTAINABLY	To engage our people on sustainability issues, supporting them to make safe and sustainable business decisions with a long-term view	Continually improve business performance	Lost-time injuries Employee engagement Corporate greenhouse gas emissions	2 76% 7,913 tCO_2e	People and Health & Safety People and Health & Safety Environment

Performance against the key framework indicators is reported throughout the relevant sections of this report. How these indicators align with the Global Reporting Initiative (GRI) Index G3.0 is shown on pages 118-119. This report meets the requirements of GRI G3.0 Level C+.

1 LAWF = Land and Water Forum.

2 CWMS = Canterbury Water Management Strategy.

PEOPLE AND HEALTH & SAFETY

HEALTH AND SAFETY

Health and safety is an important issue for the industry and is Meridian's number one priority. Many programmes and initiatives focusing on behavioural safety have led to significant improvements in recent years. In 2009 Meridian had a lost-time injury frequency rate of 5.5 compared with 1.8 in June 2011 and 0.9 this year, well below the industry average of 6.3 calculated by the Electricity Engineers' Association. This year saw improvements in every one of Meridian's key safety metrics (shown in the table below), including in positive safety observations. Meridian also retained tertiary status under ACC's Workplace Safety Management Practices.

Each Parent company site has a committee dedicated to and accountable for improving health and safety, representing almost all staff, in-house and contracted. These committees are overseen by the Corporate Health and Safety Manager, the Health & Safety Steering Committee and senior management, who are involved in carrying out site audits throughout the year.

CAPABILITY AND ENGAGEMENT

Meridian recognises and values the competitive advantage of its highly capable, skilled and engaged workforce. To enhance that capability, all permanent employees have individual development plans that are reviewed annually, and these form the foundation for the company's Learning and Development Programme.

Given the complex and challenging business environment in which it operates, Meridian invests significant effort in training in practical, professional and technical skills. Meridian continues to invest in the ongoing evolution of the apprentice and graduate programmes and, this year, also invested in a new leadership development programme for 146 of the key influencers throughout the Group.

These capability-building initiatives, have contributed to a 3.4% improvement in overall employee engagement results for the Parent company – now 76%.

The Meridian Parent company formally surveys employees on an annual basis to measure the levels of engagement of teams, business units and the company, using a survey developed by Kenexa. The engagement survey results are used to identify areas for development where initiatives need to be targeted in future.

DIVERSITY

Meridian is committed to launching a diversity and inclusion policy in the new financial year, with the aim of building a workforce that is more representative of the countries and communities in which the company operates and serves, with respect to gender, age and ethnicity.

As at 30 June 2012, the Group's male-to-female ratio was 1:067; 18- to 25-year-olds were 11.4% of the workforce and 56- to 65-year-olds represented 8.3%.

Meridian recognises the value that a diverse workforce provides and the opportunity that workforce diversity gives to select the very best talent available. While these statistics indicate the presence of workforce diversity, targeted recruitment and the selection of the best available people will always remain a primary consideration.

REMUNERATION

Meridian's remuneration framework is designed to provide market-relative, benchmarked, competitive remuneration in exchange for the achievement of agreed performance objectives. All permanent employees receive a formal performance review annually (99.8% compliance achieved this year).

Remuneration comprises fixed remuneration (base salary and employer KiwiSaver contributions) and variable remuneration (an at-risk performance incentive). Both types of remuneration reflect and require the business to deliver on the measurable objectives directly linked to the Business Plan. At-risk incentives require a minimum level of company financial performance to be achieved, in order for any award to be made.

HEALTH AND SAFETY STATISTICS (PARENT COMPANY)	FINANCIAL YEAR ENDED 30 JUNE 2012	2011
Number of Lost-Time Injuries	2	3
Lost-Time Injury Frequency Rate*	0.9	1.8
Lost Days from Lost-Time Injuries**	4	11
Fatal	0	0
Serious Harm/Lost-Time Incidents	2	3
Medical Treatments	7	24
First Aid Treatments	30	49
Near Miss Incidents	193	207
Positive Safety Observations	489	328

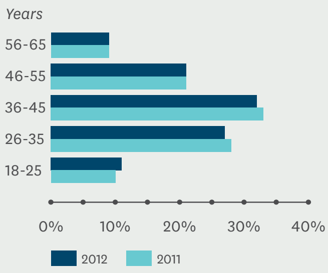
All the above figures relate to Meridian employees of the Parent company only, apart from the lost time injuries, which includes on-site contractors.

** Incidents per million hours worked – the industry average is 6.3.*

***Lost day count begins on the next rostered working day.*

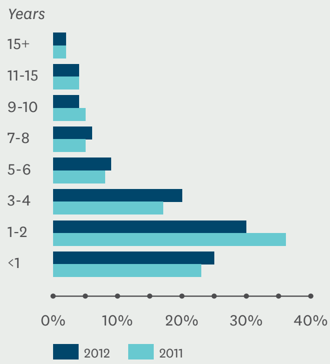
MERIDIAN GROUP EMPLOYEES – AGE

Financial Year Ended 30 June



MERIDIAN GROUP EMPLOYEES – LENGTH OF SERVICE

Financial Year Ended 30 June



Our culture is one where safety, our people, our environment and our communities are valued immensely. We strive to be constructive, achievement oriented and commercially focused.

CHIEF EXECUTIVE REMUNERATION

The remuneration paid to Meridian's Chief Executives during this financial year was $1,838,191 compared with $1,220,620 in the previous financial year. This year's remuneration was split between outgoing (December 2011) Chief Executive Tim Lusk ($1,366,586) and incoming (January 2012) Chief Executive Mark Binns ($471,605).

Fixed Remuneration

Fixed remuneration totalled $1,026,014 in the 2012 financial year ($907,947 in 2011), allocated between Tim Lusk ($554,409) and Mark Binns ($471,605).

At-Risk Performance Incentive

The former Chief Executive's at-risk performance incentive was a combination of the achievement of short-term and long-term Board-set performance targets. During this financial year, $812,177 of the at-risk performance incentive payments were made ($312,673 in the previous year).

Tim Lusk received short-term performance incentive payments of $629,911, related to performance against agreed targets in the financial year ended 30 June 2011 and the interim six-month period ending 31 December 2011. Tim Lusk also received payments for performance against long-term targets totalling $182,266.

Mark Binns did not receive any at-risk performance incentive payments in the financial year ended 30 June 2012.

GROUP EMPLOYEE REMUNERATION

The total number of employees of Meridian Energy Limited and its subsidiaries (not including directors and the Group Chief Executives) who during the year ended 30 June 2012 received cash remuneration and other benefits (including at-risk performance incentives and KiwiSaver contributions) exceeding $100,000 is outlined in the table on the right. Annual at-risk performance incentive payments received in the year ending 30 June 2012 relate to employee performance in the previous financial year. No at-risk performance incentives have been accrued for payment in the financial year ending 30 June 2013.

3.4%

Improvement in staff engagement

MERIDIAN GROUP EMPLOYEES GENDER SPLIT

Financial Year Ended 30 June

40% FEMALE 2011: 41%

60% MALE 2011: 59%

MERIDIAN GROUP EMPLOYEES (HEADCOUNT)	FINANCIAL YEAR ENDED 30 JUNE 2012 GROUP	2012 PARENT	2011 GROUP	2011 PARENT
Permanent	747	535	730	497
Fixed Term	59	49	70	53
Total Employees	**806**	**584**	**800**	**550**

GROUP EMPLOYEE REMUNERATION YEAR TO 30 JUNE 2012

SALARY BAND ($)	NUMBER OF STAFF
100,000 - 109,999	51
110,000 - 119,999	45
120,000 - 129,999	40
130,000 - 139,999	25
140,000 - 149,999	19
150,000 - 159,999	22
160,000 - 169,999	11
170,000 - 179,999	20
180,000 - 189,999	16
190,000 - 199,999	13
200,000 - 209,999	2
210,000 - 219,999	5
220,000 - 229,999	7
230,000 - 239,999	7
240,000 - 249,999	6
250,000 - 259,999	5
260,000 - 269,999	4
270,000 - 279,999	5
280,000 - 289,999	3
290,000 - 299,999	4
300,000 - 309,999	1
310,000 - 319,999	1
320,000 - 329,999	1
330,000 - 339,999	3
340,000 - 349,999	1
350,000 - 359,999	1
360,000 - 369,999	3
370,000 - 379,999	1
390,000 - 399,999	2
420,000 - 429,999	1
500,000 - 509,999	1
530,000 - 539,999	2
560,000 - 569,999	2
600,000 - 609,999	1
700,000 - 709,999	1
710,000 - 719,999	1
770,000 - 779,999	1
1,010,000 - 1,019,999	1

ENVIRONMENT

BALANCING ENERGY NEEDS AND THE ENVIRONMENT

The positive benefits from renewable electricity generation for the environment are significant. Although the environmental impacts of non-renewable generation are much greater, Meridian recognises there are still some consequences to developing renewable generation. It is always the company's aim to minimise or offset its environmental impacts.

Despite Meridian's strong track record in environmental management, some groups still oppose Meridian's proposals for new renewable energy projects.

Renewable generation projects can be sensitive to ecological, landscape, and societal values – the Manapouri hydro power station, sited in a world heritage park, is a great example. Meridian believes it is important for industry and stakeholders to work together collaboratively to gain consent for new energy projects, as New Zealand's energy needs grow.

ENVIRONMENTAL COMPLIANCE

All Meridian's generation assets are operated in accordance with the relevant regulatory frameworks, including related resource consents under the Resource Management Act 1991 (RMA) and statutory plans. The RMA takes a precautionary approach to sustainable management. By complying with the RMA, Meridian's operations and environmental management also take a precautionary approach.

Across the Parent company's hydro and wind electricity generation and development sites there were 19 non-compliance events under related environmental acts and regulations this financial year. Most of these were with respect to the RMA. This is a very low number given the complex and wide-ranging number of compliance actions that were monitored and undertaken during the year. A detailed audit of Meridian's farm holdings in the Lower Waitaki area identified a further 13 non-compliance events under the RMA. All non-compliant events identified were minor in nature and did not result in fines or sanctions. Further, all non-compliance events were addressed thoroughly to ensure full compliance.

HABITAT ENHANCEMENT AND RESTORATION

Meridian is committed to protecting and restoring the habitats surrounding its generation assets. Initiatives include wetland planting, weed and animal pest control and the creation of breeding areas for native species. Three significant habitat enhancement and restoration projects progressed during the year – Project River Recovery, Waiau River Restoration and Te Uku wetlands.

Project River Recovery

This project, run in partnership with the Department of Conservation, was recently recognised for its environmental contribution with a Ministry for the Environment Green Ribbon Award. In the past 20 years, the Project has protected and restored 33,000 hectares of near-pristine river and wetland habitat in the South Island's Upper Waitaki Basin. The Project includes an extensive weed control programme and world-class research into braided river ecosystems. A 100-hectare wetland has been constructed, and this year more than 400 predator traps were installed to protect unique species in this area.

Waiau River Restoration

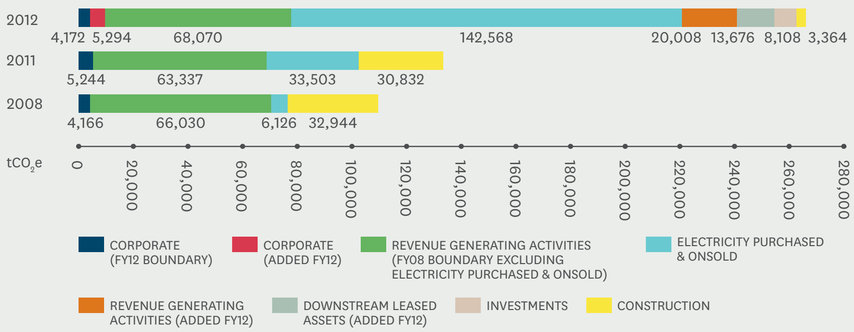
Meridian has a long-standing community partnership in the Waiau River catchment. With Meridian's financial support, the Waiau Fisheries and Wildlife Habitat Enhancement Trust has restored and protected 1,979 hectares of wetlands, gullies, streams and native bush, created 25 hectares of whitebait (inanga) rearing habitat, and protected 74 kilometres of streams through a riparian fencing project with local farmers. This has resulted in resurgence in a local bird and aquatic life, including rarer species such as marsh crake (koitareke) and fernbird (mata). This year the project's success was recognised with a Green Ribbon Award.

Te Uku wetlands

As part of a broader approach to environmental protection at the Te Uku wind farm, more than 4.5 hectares of native wetland have been established, protected by fencing and an ongoing programme of weed and animal pest control. During construction, there was a focus on reducing environmental impacts and working closely with the community, and

TOTAL GROUP EMISSIONS

Financial Year Ended 30 June



CARBON CREDITS RECEIVED

SOURCE	2008–2011 CREDITS RECEIVED	2012 CREDITS TO BE RECEIVED
Te Āpiti and White Hill wind farms	866,746	135,000 – 150,000
EFI's Nelson Landfill Gas Project	14,290	4,000

Meridian manages its operations with a strong commitment to environmental stewardship. This extends to delivering award-winning conservation initiatives in the wider community.

this work was recognised for environmental excellence at the 2011 Deloitte Energy Excellence Awards.

CARBON TRADING

As a renewable energy generator, Meridian has no direct obligations under the Emissions Trading Scheme for fossil fuel generation.

Meridian's Te Āpiti and White Hill wind farms continue to be allocated Kyoto-compliant carbon credits under the Government's Projects to Reduce Emissions Scheme (PRE). EFI's Nelson Landfill Gas Project has also received Kyoto-compliant credits under the same scheme.

ICT SUSTAINABILITY

Meridian prides itself in being a leader in sustainable business practices. When it comes to information and communication technology (ICT) sustainability Meridian has invested in video conferencing to reduce the carbon emissions from inter-office travel, purchases low energy-use equipment and recycles and redistributes computer equipment. In a recent worldwide ranking of ICT sustainability undertaken by Fujitsu (a world leader in Green IT) these initiatives have resulted in Meridian achieving a global ranking of 166 out of 1000 companies audited.

GREENHOUSE GAS EMISSIONS

Meridian is committed to reducing its greenhouse gas emissions, and its reduction efforts are certified annually by Landcare Research's Certified Emissions Management And Reduction Scheme (CEMARS®) for the Parent company and Energy for Industry Ltd.

This year the Meridian Group re-assessed its GHG emissions measurement boundary and brought reporting in line with the new 2011 GHG Protocol's Corporate Value Chain Standard. This led to the addition of several new emissions sources to the inventory. As the data for these sources is not available for past years, preventing restatement of previous inventories, the baseline year for emission measurement has been reset from 2008 to the 2012 financial year. The inclusion of the new emissions sources has resulted in a 29% increase (38,978 tCO_2e) in reported emissions compared with last year.

In the Corporate segment, new emissions sources include employee commuting and the purchase of IT services. Excluding these new sources, corporate emissions decreased by 20% compared with last year due to a decrease in travel activity.

New emissions sources for the Revenue Generating Activities segment included the purchase of professional services, the production and distribution of fuel, the purchase of plant maintenance services and emissions from reading electricity meters. This segment is affected by external market conditions and is less directly under Meridian's control. For example, emissions from fuel consumed by Energy for Industry have fluctuated over the years depending on the number of sites and the operational decisions of their clients.

Similarly, Electricity Purchased & Onsold emissions varies depending on hydrological conditions. As a renewable energy generator, Meridian (the Parent company) has no emissions from fuel consumption, as only wind and water resources are used to generate electricity. In a year with significant rainfall, Meridian meets its contracted retail position with its own generation and the emissions from Electricity Purchased & Onsold are zero. In a 'dry' year, retail sales exceed generation volumes and the difference is purchased on the wholesale market, leading to emissions from this source. This financial year was dry, resulting in emissions of over 140,000 tonnes of carbon dioxide (tCO_2e). To put this into context, if Meridian's approximately 11,000GWh of generation was from gas fired turbines instead of renewable energy, Meridian would add at least 5 million tCO_2e to New Zealand's emissions from electricity generation.

A new category this year is Downstream Leased Assets, and primarily includes emissions from farm land owned and leased to others by Meridian. The Investments category includes dairy farm interests and the Macarthur wind farm joint venture.

Construction emissions in the 2012 financial year were limited as no major projects were undertaken. The Meridian Group GHG inventory report can be found on page 109.

FINANCIAL IMPLICATIONS OF CLIMATE CHANGE

Meridian has reviewed the implications of physical risks to the business posed by climate change and is satisfied that there is none of any significance at present.

Regulatory risks are limited owing to the company's focus on renewable generation. The Emissions Trading Scheme has created an opportunity for Meridian, as the electricity market is affected by the price of carbon. For example an additional carbon cost of $25 per tonne of carbon dioxide can add $7–30 per MWh to the long-run cost of thermal generation, depending on the type of thermal plant. This improves the overall cost competitiveness of renewable energy generation, which benefits the company owing to its focus on this generation type. Subsequently any increase in New Zealand's carbon price increases Meridian's competitive advantage over companies generating electricity from fossil fuels.

Meridian's Board has reviewed these carbon costs and their impacts on various electricity generation options, and is also aware of the impacts that recent extreme international storm events along with other events have had on local insurance costs.

Publicity around climate change has led to greater customer awareness of environmental issues. This presents an opportunity for Meridian to promote its sustainable products and services, enabling customers to reduce their environmental impacts.

COMMUNITY

Meridian aims to be a valued member of the community at every level – from local communities living close to our assets, to iwi and local and national government in our role as the country's largest generator.

STAKEHOLDERS

Meridian makes every effort to identify and engage with key stakeholders who take an interest in, or who may have concerns about, Meridian's business. Stakeholder identification is based on years of experience in the industry, involves a thorough analysis at the start of any new project, and includes meeting existing legal requirements and obligations.

The method and timing of engagement are tailored for each stakeholder group and particular effort is given to meeting the needs of special interest and vulnerable groups.

A full list of the groups that Meridian defines as being key stakeholders is included in a table on page 116, along with their key issues and concerns and Meridian's methods of engagement.

IWI

As a key stakeholder group, Meridian's goal is to develop relationships with iwi that prove to be valued and valuable to both parties. Meridian recognises the strong relationships that iwi have with the rivers and water bodies within their takiwa and as a South Island hydro generator the ongoing relationship with Ngāi Tahu is very important. Te Rūnanga o Ngāi Tahu and Meridian have worked together on developing a framework that focuses on key areas where the two organisations can work together for long-term mutual benefit.

LOCAL GENERATION COMMUNITIES

Having strong community relationships is critical to Meridian being able to develop and operate its renewable generation assets. Meridian aims to be recognised as a company that operates with integrity and respects the communities in which it operates.

From early on in a new generation development project, Meridian uses a variety of engagement methods to inform, consult and engage with communities. For example, open days were held this financial year in Eketahuna for the Mt Munro project, and in North Canterbury for the Amuri project.

Meridian has dedicated community liaison roles that ensure it continues to be a good neighbour during the life of its assets.

Meridian aims to involve local communities in events held at its assets. In December 2011 Meridian held an open day attended by members of the local community at the newly opened West Wind recreational area, with its mountain-biking and walking tracks. Giving the public access to West Wind had always been part of the plan for this site.

COMMUNITY FUNDS

Meridian's community funds are available for a broad range of projects proposed by residents living near the Waitaki hydro power stations, the Manapouri hydro power station and the West Wind, White Hill and Te Āpiti wind farms. Supported projects include environmental conservation, volunteer emergency services, schools and heritage restoration. Funding allocations are managed by a panel of community representatives and Meridian staff. A total of $560,763 was granted through the funds this year.

In November 2011 the Waitaki Community Fund was awarded a Sustainable 60 Award for its approach to community engagement.

The Te Uku Community Fund was established in June 2012 and will make $120,000 available to local community projects in the next three years.

NATIONAL SPONSORSHIPS

Meridian has a national sponsorship programme currently providing funding to arts, sports and conservation organisations doing great things for New Zealand. This year Meridian's key sponsor partners were the Royal New Zealand Ballet, South Island Rowing and Project Crimson's Living Legends community tree-planting programme. The funding made available through these partnerships and a number of smaller sponsorships totalled approximately $1.4 million. Meridian works closely with its sponsorship partners; for example, on the Living Legends programme this year, Meridian employee volunteers joined community volunteers to plant approximately 85,000 native trees.

COMMUNITY FUNDS

SOURCE	NO. OF YEARS SINCE THE ESTABLISHMENT OF THE FUND	TOTAL INVESTMENT TO DATE ($)	INVESTMENT IN 2011/12 ($)
Waitaki Community Fund	6	1,845,290	322,068
Manapouri Te Anau Community Fund	6	897,403	142,141
White Hill Community Fund	4	86,693	11,693
Te Āpiti Community Fund	6	193,133	46,729
West Wind Community Fund	3	119,825	38,132
Total investment		**3,142,344**	**560,763**

GOVERNANCE

Our 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.

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

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.

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 shareholding Ministers' expectations of the Board, including the reporting and accountability expectations and financial governance expectations.

COMPANY ACTIVITIES

Meridian Energy's nature and scope of activities are the generation of electricity (including the ownership and operation of related assets), the management of water-related infrastructure, and the marketing, trading and retailing of energy and wider complementary and adjacent products, solutions and services.

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 its activities and the key financial and non-financial performance targets and measures for the company.

BOARD APPOINTMENTS, ATTENDANCE AND REMUNERATION

				ATTENDANCE			
MEMBER	APPOINTMENT	CURRENT TERM EXPIRES	RESIGNED OR TERM EXPIRED	10 BOARD MEETINGS	8 AUDIT AND RISK MEETINGS	7 REMUNERATION AND HR MEETINGS	2012 DIRECTOR'S FEE ($)
Chris Moller	May-09	Oct-13		(Chair) 10	3	1	98,000
Peter Wilson	May-11	Apr-14		(Deputy Chair) 10	(Chair from 30/04/12) 7		61,250
John Bongard	May-11	Apr-14		9	8		49,000
Mary Devine	May-10	Apr-13		10		(Chair from 30/04/12) 6	49,000
Catherine Drayton	May-06	Apr-12	Apr-12	8		(Chair to 30/04/12) 7	40,833
Anake Goodall	May-11	Apr-13		10		7	49,000
Steve Reindler	Sep-08	Aug-14		10	8		49,000
Anne Urlwin	Jan-05	Oct-13	Apr-12	7	(Chair to 30/04/12) 7		40,833
						Total	**436,916**

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, at a later date as determined by shareholding Ministers.

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 non-financial performance measures including 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 by its shareholders to govern Meridian in accordance with the Companies Act 1993 and its constitution. The Board's primary role is to provide strategic guidance and have effective oversight of Management in order to protect and enhance the value of Meridian's assets In carrying out its role. The Board has a responsibility to work in the interests of its shareholders and is the overall and final body responsible for all decision-making within Meridian.

The Board has delegated a number of its responsibilities to Board Committees. The role of each committee is described on pages 41-42.

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 within set limits.

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 2012, there were six 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 page 39 for details of the total remuneration paid to Meridian directors for the financial year ended 30 June 2012.

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

The Board has a broad range of experience and skills required to meet its objectives.

In the year ended 30 June 2012, there were changes in the composition of the Board. Catherine Drayton's term of appointment ended on 30 April 2012 and Anne Urlwin resigned from 30 April 2012.

Biographical 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 2012 the Board met 10 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 a minimum of three business days in advance.

Meridian management, including the Chief Financial Officer and General Counsel, regularly attend Board meetings and are also available to be contacted by 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 issues, Board performance evaluation issues and discussions with the external auditor to promote a robust, independent audit process.

Directors' Conflicts of Interest

The Board is conscious of its obligation to ensure that directors avoid conflicts of interest (both real and apparent) between their duties to Meridian and their own interests.

Directors are required to ensure that they immediately advise the Board of any new or changed relationships. These are then recorded in the Board's interests register, which is a standing item at each scheduled meeting of the Board.

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 a 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.

DIRECTORS' REMUNERATION – SUBSIDIARIES

DIRECTORS REMUNERATION – SUBSIDIARIES	SUBSIDIARIES 2012 DIRECTOR'S REMUNERATION
Steve Barrett (Meridian Energy USA) – Resigned	US$50,000
Mark Bowman (Arc Innovations) – Resigned	$54,000
Stanley Brogan (Damwatch Pty Limited)	A$3,000
Carole Durbin (Damwatch Services Limited) – Resigned	$40,000
Steve Fuller (Arc Innovations) – Resigned	$20,000
John Journee (Powershop New Zealand Limited)	$40,000
Peter Lowe (Meridian Energy Australia Pty Limited and Meridian Wind Macarthur Pty Limited)	A$89,745
Warren McNabb (Energy for Industry Limited) – Resigned	$50,000
John Punter (Whisper Tech Limited) – Resigned	$8,334
Paul Smart (Whisper Tech Limited) – Resigned	$25,000

Director Induction and Education

All Board members undertake a comprehensive induction process to enhance their understanding of the industry and Meridian's business and people, including familiarisation tours of Meridian's assets and operations, usually with the Chief Executive and Chairman or their designates.

Board Access to Information and Advice

There is an ongoing programme of presentations to the Board by all business areas and subsidiaries to ensure that the Board is kept appraised of the company's activities. At each meeting, the Board receives information on activities throughout the company through various operational reports.

All directors are regularly updated on relevant industry and company issues and undertake visits to company operations.

The Board expects all directors to undertake continual 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 risks and

INTERESTS REGISTER

Disclosure of Director Interests

Directors disclosed, pursuant to section 140 of the Companies Act 1993, new interests or cessations of interest in the following entities during the year ended 30 June 2012.

DIRECTOR	ENTITY	RELATIONSHIP
Mary Devine	AMI Insurance Limited	Director
	Hockey New Zealand	Ceased to be a director
	IAG (NZ) Holdings Limited	Director
	IAG New Zealand Limited	Director
	New Zealand Hockey Foundation	Trustee
Catherine Drayton	Industrial Research Limited	Ceased to be a director
	New Zealand Institute of Chartered Accountants	Director
Anake Goodall	Aquaflow Bionomic Corporation Limited	Director
	University of Canterbury	Adjunct Professor
Steve Reindler	Transfield Services Limited	Member of Advisory Committee
Anne Urlwin	Southern Response Earthquake Services Ltd	Director
	Chorus Limited	Director
	New Zealand Blood Service	Ceased to be a director
	New Zealand Cricket	Ceased to be a director
Peter Wilson	NZ Farming Systems Uruguay	Director
	PF Olsen Limited	Director

compliance with the relevant legal, market and Group policy requirements.

The Audit and Risk Committee as at 30 June 2012 comprised:

- Peter Wilson (Chair)
- Steven Reindler
- 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 reviews company-wide remuneration policy, the remuneration of senior executives as well as reviewing the succession strategy and conditions of employment.

In the past year this committee 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 as at 30 June 2012 comprised:

- Mary Devine (Chair)
- 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 its terms of engagement. Under section 29 of the Public Finance Act 1989, the Auditor-General has appointed Michael Wilkes 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 appropriately identifies, considers and manages 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 2012, 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 2012, 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 that the outsourced provider of internal audit remains, and is seen to remain, independent of Meridian management, and that Meridian continues to receive innovative and best practice internal audit services.

Meridian's internal audit function is independent 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 payroll, treasury, energy trading, revenue assurance 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 that 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 that all its business activities are carried out in a way that is both ethical and compliant. The Whistleblowing 'Speaking Up' Policy sets out the process for reporting serious wrongdoing in the organisation.

Disclosures can be made to the 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 2012

BENMORE

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

MERIDIAN ENERGY LIMITED

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

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

Statement of Comprehensive Income FOR YEAR ENDED 30 JUNE 2012

MERIDIAN ENERGY LIMITED

	NOTE	GROUP 2012 $'000	GROUP 2011 $'000	PARENT 2012 $'000	PARENT 2011 $'000
Profit After Tax for the Year		**74,640**	303,111	**70,750**	295,404
Other Comprehensive Income					
Effect of Amalgamation of Subsidiaries	16	**-**	-	**-**	(39,195)
Net Loss on Available for Sale Investments	18	**(289)**	(311)	**(289)**	(311)
Revaluation Gain on Property, Plant and Equipment	20	**-**	129,673	**-**	129,673
Net (Loss)/Gain on Cash Flow Hedges		**(59,520)**	(1,217)	**3,754**	(1,217)
Buy out of Whisper Tech Limited Minority Shareholders		**(1,016)**	-	**-**	-
Exchange Differences Arising from Translation of Foreign Operations		**(1,062)**	2,065	**-**	-
Tax items:					
Deferred Tax on Revaluation Reserve	22	**4,338**	-	**4,338**	-
Deferred Tax on Sale of Tekapo A and B	22	**-**	147,153	**-**	147,153
Effect of Corporate Tax Rate Reduction on Deferred tax	22	**-**	2,580	**-**	2,580
Income Tax Relating to Other Comprehensive Income	22	**18,013**	(38,691)	**(969)**	(38,691)
Other Comprehensive Income for the Year Net of Tax		**(39,536)**	241,252	**6,834**	199,992
Total Comprehensive Income for the Year Net of Tax		**35,104**	544,363	**77,584**	495,396
Total Comprehensive Income for the Year Attributable to:					
Shareholders of the Parent Company		**35,377**	545,069	**77,584**	495,396
Non Controlling Interest		**(273)**	(706)	**-**	-
		35,104	544,363	**77,584**	495,396

MERIDIAN ENERGY LIMITED

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

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

Chris Moller
Chairman, 12 August 2012

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

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

MERIDIAN ENERGY LIMITED

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

MERIDIAN ENERGY LIMITED

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

MERIDIAN ENERGY LIMITED

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

MERIDIAN ENERGY LIMITED

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

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

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

MERIDIAN ENERGY LIMITED

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

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

Contents

1. Summary of Accounting Policies

REPORTING ENTITY AND STATEMENT OF COMPLIANCE

Meridian Energy Limited is a profit-oriented entity domiciled in New Zealand, registered under the Companies Act 1993 and an issuer for the purposes of the Financial Reporting Act 1993. The registered office of the Company is 33 Customhouse Quay, Wellington. The shares in Meridian Energy Limited are held in equal numbers by the Minister for State-Owned Enterprises and the Minister of Finance, on behalf of Her Majesty the Queen in Right of New Zealand ('the Crown') under the State-Owned Enterprises Act 1986. The liabilities of Meridian Energy Limited are not guaranteed in any way by the Crown.

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

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

These financial statements have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand. They comply with the New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) as well as other applicable Financial Reporting Standards, as appropriate for a profit-oriented entity and are prepared in accordance with the requirements of the Financial Reporting Act 1993.

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

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

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

BASIS OF PREPARATION

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

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

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

The same accounting policies, presentation and methods of computation have been applied consistently to all periods presented in these consolidated financial statements except for the additional new Standards as listed below. The additional new Standards and IFRIC (International Financial Reporting Interpretations Committee) interpretations are as follows:

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

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

ADOPTION STATUS OF RELEVANT FINANCIAL REPORTING STANDARDS

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

STANDARD/INTERPRETATION	EFFECTIVE FOR ANNUAL REPORTING PERIODS BEGINNING ON OR AFTER	EXPECTED TO BE INITIALLY APPLIED IN THE FINANCIAL YEAR ENDING
NZ IFRS 9 *Financial Instruments*	1 January 2015	30 June 2016
Revised NZ IFRS 9 *Financial Instruments (2010)*	1 January 2015	30 June 2016
Amendments to NZ IAS 12 *Income Taxes* – Deferred Tax: Recovery of Underlying Assets	1 January 2012	30 June 2013
NZ IFRS 10 *Consolidated Financial Statements*	1 January 2013	30 June 2014
NZ IFRS 11 *Joint Arrangements*	1 January 2013	30 June 2014
NZ IFRS 12 *Disclosure of Interests in Other Entities*	1 January 2013	30 June 2014
NZ IFRS 13 *Fair Value Measurement*	1 January 2013	30 June 2014
NZ IAS 27 *Consolidated and Separate Financial Statements* (revised 2011)	1 January 2013	30 June 2014
NZ IAS 28 *Investments in Associates* (revised 2011)	1 January 2013	30 June 2014
Amendments to NZ IAS 1 *Presentation of Financial Statements* – Presentation of Items of Other Comprehensive Income	1 July 2012	30 June 2013
Amendments to NZ IAS 19 *Employee Benefits*	1 January 2013	30 June 2014
Amendments to NZ IFRS 7 *Financial Instruments: Disclosures* – Offsetting Financial Assets and Financial Liabilities	1 January 2013	30 June 2014
Amendments to NZ IAS 32 *Financial Instruments: Presentation* – Offsetting Financial Assets and Financial Liabilities	1 January 2014	30 June 2015
Improvements to IFRS: 2009 – 2011 cycle	1 January 2013	30 June 2014
Amendments to NZ IFRS 9 and NZ IFRS 7 Mandatory Effective Date and Transition Disclosures	1 January 2015	30 June 2016

NZ IFRS 9 requires all financial assets to be measured at fair value, unless the entity's business model is to hold the assets to collect contractual cash flows and contractual terms give rise to cash flows that are solely payments of interest and principal, in which case they are measured at amortised cost. This may impact the measurement of certain available for sale investments in the financial statements. The financial statement impact of adoption of these other standards has not yet been analysed but Meridian may early-adopt if it results in a more faithful representation of the parent/group.

SIGNIFICANT ACCOUNTING POLICIES

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

Judgements and Estimations

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

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

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

Fair Value Estimation

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

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

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

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

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

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

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

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

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

Property, Plant and Equipment

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

- generation Structures and Plant – Up to 80 years
- freehold Buildings – Up to 67 years
- other Plant and Equipment – Up to 20 years
- resource Consents – Up to 50 years.

The residual value and the useful lives of assets are reviewed, and if appropriate adjusted, at each balance date. See Note 20 for further detail of the valuation assumptions used.

Intangible Assets

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

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

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

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

Provisions

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

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

Revenue Recognition

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

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

Taxation

The New Zealand corporate tax rate was reduced from 30% to 28%, effective 1 July 2011 for the New Zealand tax based entities. Meridian has used judgement with regard to determining temporary differences expected to reverse before this date and as at 30 June 2010 estimated that temporary differences would not change. The effect of any change since 30 June 2010 is recognised in the income statement and statement of comprehensive income.

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

Basis of Consolidation

Subsidiaries

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

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

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

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

Common Control Amalgamation Transactions

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

Joint Ventures

Jointly Controlled Entities

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

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

Jointly Controlled Assets

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

Operating Segments

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

Foreign Currency

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

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

Property, Plant and Equipment

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

As disclosed in Note 20, the fair value of generation assets was determined using an income approach. In using the income approach, consideration was given to application of either net present value of expected future cash flows or capitalisation of earnings approach, whichever was more appropriate.

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

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

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

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

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

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

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

Assets Classified as Held for Sale

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

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

Finance Lease

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

Intangible Assets

Customer Acquisition Costs

Customer acquisition costs are finite life intangibles and represent the capitalisation of costs incurred to acquire retail customers. Amortisation is calculated using the straight-line method to allocate the cost over its useful life.

Computer Software

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

Costs associated with developing or maintaining computer software programmes are recognised as an expense as incurred. Costs directly associated with the production of identifiable and unique software products that will generate economic benefits beyond one year are recognised as intangible assets and amortised over their estimated useful lives on a straight- line basis.

Patents and Trademarks

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

Licence Agreement

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

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

Research and Development Costs

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

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

If the recognition criteria are not met or the expenditure is on research activities (undertaken with the prospect of gaining new scientific or technical knowledge and understanding), expenditure is recognised as an expense as incurred.

Impairment of Non-Financial Assets other than Goodwill

At each balance date or when events/circumstance indicate, Meridian reviews the recoverability of the carrying amounts of its tangible and intangible assets to determine whether they have suffered an impairment loss. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. Value in use is the present value of the future cash flows expected to be derived from the asset. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units). An impairment loss is recognised immediately in the income statement for the amount by which the asset's carrying amount exceeds its recoverable amount, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

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

Goodwill

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

Non Derivative Financial Instruments

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

Non Derivative Financial Assets

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

Available for Sale Investments

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

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

Investments in Subsidiaries and Joint Ventures

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

Trade Receivables

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

Construction Work in Progress

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

Cash and Cash Equivalents

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

Non Derivative Financial Liabilities

Meridian classifies its financial liabilities as either borrowings and payables, or liabilities held for sale. Financial liabilities are classified as held for sale if the sale of the asset or disposal group to which they relate is highly probable and is available for immediate sale in its present condition subject only to normal sale terms. The classification of other financial liabilities depends on the purpose for which the financial liabilities were acquired. Meridian determines the classification of its financial liabilities at initial recognition.

Borrowings

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

Payables and Accruals

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

Deferred Income on Emission Rights

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

Derivative Financial Instruments and Hedge Accounting

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

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

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

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

Some derivatives (within risk management policy) are not in a designated hedging relationship.

Fair Value Hedge

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

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

Cash Flow Hedge

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

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

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

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

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

Derivatives not Designated as Hedges

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

Day 1 Adjustment

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

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

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

Reserves

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

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

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

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

Taxation

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

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

Deferred Tax

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

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

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

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

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

Employee Benefits

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

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

Goods and Services Tax (GST)

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

Inventories

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

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

Provisions

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

Warranties

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

Restructuring

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

Operating Leases

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

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

Government Grants

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

Revenue Recognition

Sale of Energy and Other Related Services

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

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

Dividend Income

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

Interest Income

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

Construction Contracts

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

Energy Related Costs

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

Statement of Cash Flows

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

2. Segment Reporting

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

The Chief Executive assesses the performance of the operating segments on a measure of EBITDAF. Segment EBITDAF represents profit earned by each segment without the allocation of central administration costs, Directors' fees, equity accounted earnings of joint ventures, change in fair value of financial instruments, finance costs, gain/loss on sale of property, plant and equipment and investments, depreciation, amortisation, impairments and income tax expense.

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

Revenues are derived from external customers within New Zealand, Australia and the United States of America. Meridian sells approximately 43% (2011: 35%) of its generation output to a single customer. The revenues received from this customer are attributable to the Wholesale segment.

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

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

WHOLESALE SEGMENT

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

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

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

RETAIL SEGMENT

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

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

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

INTERNATIONAL SEGMENT

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

OTHER SEGMENTS

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

UNALLOCATED

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

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

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

2. Segment Reporting (CONTINUED)

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

	WHOLESALE $'000	RETAIL $'000	INTERNATIONAL $'000	OTHER SEGMENTS $'000	UNALLOCATED CORPORATE $'000	INTER-SEGMENT ITEMS $'000	TOTAL $'000
Operating Revenue							
Energy Sales Revenue	954,557	1,029,024	21,795	15,249	10	(10,203)	2,010,432
Energy Related Expenses	(246,864)	(448,881)	(479)	(6,688)	(6)	10,203	(692,715)
Energy Distribution Expense	(20,149)	(347,500)	-	200	-	-	(367,449)
Energy Margin	**687,544**	**232,643**	**21,316**	**8,761**	**4**	**-**	**950,268**
Dividend and Other Revenue	7,973	9,431	2	23,232	7,974	(6,057)	42,555
Energy Related Expenses (Non-core)	-	-	-	(10,587)	-	-	(10,587)
Energy Transmission Expense	(82,251)	-	(1,937)	-	-	-	(84,188)
Gross Margin	**613,266**	**242,074**	**19,381**	**21,406**	**7,978**	**(6,057)**	**898,048**
Employee Expenses	(24,212)	(24,977)	(4,592)	(12,960)	(22,752)	-	(89,493)
Other Operating Expenses	(43,032)	(41,910)	(6,802)	(10,517)	(48,316)	1,949	(148,628)
EBITDAF	**546,022**	**175,187**	**7,987**	**(2,071)**	**(63,090)**	**(4,108)**	**659,927**
Reconciliation of Operating Revenue							
Energy Sales Revenue	954,557	1,029,024	21,795	15,249	10	(10,203)	2,010,432
Dividend and Other Revenue	7,973	9,431	2	23,232	7,974	(6,057)	42,555
Inter-Segment Revenue	(10,203)	-	-	(1,949)	(4,108)	16,260	-
Revenue from External Customers	**952,327**	**1,038,455**	**21,797**	**36,532**	**3,876**	**-**	**2,052,987**
Equity Accounted Earnings of Joint Ventures	-	-	-	(3,382)	-	-	(3,382)
Additions to Non-Current Assets	171,067	7,979	65,350	10,180	11,797	-	266,373
Total Assets	7,231,901	211,097	575,985	80,247	360,743	-	8,459,973

Information Relating to Geographical Area Operations

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

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

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

2. Segment Reporting (CONTINUED)

Reconciliation of EBITDAF to Profit before tax provided as follows:

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

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

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

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

3. Operating Expenses

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

1 *Includes Office of the Auditor General overhead contribution of $29.6 thousand (2011: $28.5 thousand)*
2 *In addition to the audit of the Financial Statements, Deloitte performed Other Services as follows:*
- *Review of interim financial statements*
- *Audit of carbon emissions*
- *Audit of securities registers and in connection with the prospectus*

4. Impairment of Assets

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

IMPAIRMENT OF INVENTORIES

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

IMPAIRMENT OF INTANGIBLE ASSETS

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

Whisper Tech Limited

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

Meridian Energy USA Incorporated

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

IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT

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

Development Projects

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

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

4. Impairment of Assets (CONTINUED)

Metering Assets

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

Work in Progress

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

Christchurch Earthquakes

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

IMPAIRMENT OF HELD FOR SALE ASSETS

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

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

IMPAIRMENT OF INVESTMENTS AND ADVANCES TO SUBSIDIARIES

Where there are indications of impairment of investments and advances to subsidiaries, an impairment test has been performed. The Parent has recognised an impairment totalling $66.7 million (2011: $90.7 million) in respect of its investment and advances to its subsidiaries, Whisper Tech Limited, MEL Solar Holdings Limited, Arc Innovations Limited and Right House Limited.

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

Whisper Tech Limited

Meridian has an investment interest in Whisper Tech Limited held directly by the Parent and its indirect subsidiary, WhisperGen Limited. The carrying value of this investment has been tested for impairment using a value in use calculation.

In 2011 this reflected Meridian's most recent cash flow projections of Whisper Tech Limited and a discounted rate of 25% (post-tax) which is the Group's WACC adjusted upwards to reflect risks specific to Whisper Tech Limited. The primary driver of cash flows were the expected returns from its investment in the Efficient Home Energy S.L. joint venture and the ongoing costs to support the business. As the investment in the joint venture has been sold in 2012, the Parent has recorded an impairment of $31.5 million (2011: $32.6 million), relating to its investment $4.4 million (2011: $18.3 million) in and its loan $14.9 million (2011: $14.3 million) to Whisper Tech Limited, and a further $12.2 million (2011: $29.5 million) impairment on its loan to WhisperGen Limited.

MEL Solar Holdings Limited

Meridian has an investment in MEL Solar Holdings Limited, which operates as the investment entity for its interest in Meridian Energy USA Inc. Meridian has tested for impairment assessing the recoverable amount of the investment, based on the fair value of Meridian Energy USA Inc business assets, which include CalRENEW-1 – an operational solar power station in California. As a result of this assessment the Parent has recorded an impairment of $27.4 million (2011: $7.1 million) on its loan to MEL Solar Holdings Limited.

Arc Innovations Limited

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

Right House Limited

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

5. Finance Costs

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

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

6. Interest Income

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

7. Income Tax Expense

	NOTE	GROUP 2012 $'000	GROUP 2011 $'000	PARENT 2012 $'000	PARENT 2011 $'000
Income Tax Expense					
Current Tax Expense					
Current Income Tax Charge		28,540	102,957	33,260	141,809
Adjustments Regarding Current Income Tax of Prior Years		(2,213)	(3,995)	(861)	(2,193)
Total Current Tax Expense		26,327	98,962	32,399	139,616
Deferred Tax Expense					
Relating to Origination and Reversal of Temporary Differences		25,215	(37,604)	31,077	(52,910)
Deferred Tax Asset written off in relation to Carried Forward Losses		7,648	-	-	-
Tax Effect of Gain on Sale of Tekapo A and B		-	17,410	-	17,410
Effect of Corporate Tax Rate Reduction on Deferred Tax Liability		554	2,410	586	2,110
Effect of Change in Building Tax Depreciation on Deferred tax		23,640	-	23,640	-
Total Deferred Tax Expense	22	57,057	(17,784)	55,303	(33,390)
Total Income Tax Expense		83,384	81,178	87,702	106,226
Income Tax Expense can be reconciled to Accounting Profit as follows:					
Profit Before Tax		158,024	384,289	158,452	401,630
Income Tax at Applicable Tax Rates		43,883	115,287	44,367	120,489
Tax Effect of Expenditure Not Deductible for Tax		16,474	6,941	27,104	30,399
Tax Effect of Income Not Subject to Tax		(6,947)	(8,192)	(5,033)	(5,402)
Income Tax (Over)/Under Provided in Prior Year		5,678	(3,995)	(861)	(2,193)
Tax Credits Transferred from Subsidiary		-	-	(1,549)	(2,207)
Inter-Company Dividend Received Not Subject to Tax		-	-	(543)	(1,232)
Inter-Company Dividend Subject to Tax		-	3,731	-	-
Tax Effect of Gain on Sale of Tekapo A and B Not Subject to Tax		-	(52,452)	-	(52,452)
Tax Effect of Gain on Sale of Tekapo A and B		-	17,410	-	17,410
Effect of Corporate Tax Rate Reduction on Deferred Tax Liability	22	554	2,410	586	2,110
Effect of Change in Building Tax Depreciation on Deferred tax	22	23,640	-	23,640	-
Other		102	38	(9)	(696)
Income Tax Expense		83,384	81,178	87,702	106,226

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

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

7. Income Tax Expense (CONTINUED)

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

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

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

8. Earnings per Share

Basic and Diluted Earnings Per Share

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

9. Equity

SHARE CAPITAL

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

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

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

Whisper Tech Limited share options convertible to ordinary shares

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

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

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

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

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

Number of Exercisable Options

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

Number of Unvested Options

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

10. Dividends

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

11. Cash and Cash Equivalents

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

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

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

12. Accounts Receivable and Prepayments

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

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

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

Trade receivables that are less than 90 days past due are generally not considered impaired. As of 30 June 2012 trade receivables of $14.6 million (2011: $39.0 million) were past due but not impaired. These relate to energy sales to a number of independent customers for whom there is no recent history of default.

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

Meridian maintains a doubtful debt provision that reflects the limited likelihood of payment defaults. Meridian considers that the carrying amount of accounts receivable approximates their fair values. Trade receivables written off during the year were $7.6 million for the Group (2011: $4.3 million) and $7.1 million for the Parent (2011: $4.1 million).

13. Inventories

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

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

Certain inventory items are subject to retention of title clauses.

14. Finance Lease Receivable

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

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

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

15. Assets and Liabilities Classified as Held for Sale

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

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

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

16. Investments in Subsidiaries

INVESTMENTS IN SUBSIDIARIES COMPRISE SHARES AT COST LESS IMPAIRMENTS

			INTEREST HELD BY PARENT			
NAME OF ENTITY	INCORPORATED	PRINCIPAL ACTIVITY	2012 %	2012 $000	2011 %	2011 $000
DamWatch Services Limited		Professional Services	100%	25	100%	25
Energy for Industry Limited		Energy Solutions	100%	46,527	100%	46,527
Three River Holdings (No.1) Limited[2]		Non-Trading Entity	100%	69,145	100%	52,404
Meridian Limited		Non-Trading Entity	100%	12	100%	12
ARC Innovations Limited	1/9/2011	Metering Services	100%	29,494	-	-
Meridian Energy Captive Insurance Limited		Insurance Company	100%	500	100%	500
Meridian Energy International Limited		Non-Trading Entity	100%	50,000	100%	50,000
Meridian (Whisper Tech) Limited		Non-Trading Entity	100%	-	100%	-
Meridian (Whisper Tech No.2) Limited		Non-Trading Entity	100%	-	100%	-
Powershop New Zealand Limited		Electricity Retailer	100%	11,877	100%	11,877
Right House Limited		Professional Services	-	-	100%	-
MEL Solar Holdings Limited		Holding Company	100%	-	100%	-
Whisper Tech Limited[1]		Technology Company	30%	-	23%	4,371
				207,580		165,716

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

16. Investments in Subsidiaries (CONTINUED)

CONTROLLED ENTITIES (OTHER SUBSIDIARIES)

		INTEREST HELD BY GROUP	
NAME OF ENTITY	PRINCIPAL ACTIVITY	2012	2011
Incorporated in New Zealand			
Three River Holdings (No.2) Limited[3]	Non-Trading Entity	100%	100%
WhisperGen Limited[1]	Non-Trading Entity	100%	100%
Whisper Tech Limited[1]	Technology Company	100%	93.23%
Damwatch Projects Limited	Professional Sources	100%	-
Incorporated in Australia			
DamWatch Pty Limited	Professional Services	100%	100%
Meridian Wind Macarthur Holdings Pty Limited[2]	Development	100%	100%
Meridian Wind Macarthur Pty Limited	Development	100%	100%
Meridian Australia Holdings Pty Limited[3]	Non-Trading Entity	100%	100%
Meridian Wind Australia Holdings Pty Limited[3]	Non-Trading Entity	100%	100%
Meridian Energy Markets Pty Limited[3,4]	Non-Trading Entity	100%	100%
Meridian Wind Monaro Range Holdings Pty Limited[3]	Non-Trading Entity	100%	100%
Meridian Wind Monaro Range Pty Limited[3]	Non-Trading Entity	100%	100%
Mt Mercer Wind Farm Pty Limited[3]	Electricity Generation	100%	100%
Meridian Energy Australia Pty Limited[2,3]	Management Services	100%	100%
MEL Meridian Australia Partnership[3]	Financing Entity	100%	100%
Meridian Finco Pty Limited[3]	Financing Company	100%	100%
Mt Millar Windfarm Limited[3]	Electricity Generation	100%	100%
Powershop Australia Pty Limited	Electricity Retailer	100%	-
Incorporated in United Kingdom			
WhisperGen (UK) Limited	Technology Company	100%	100%
Incorporated in United States of America			
Meridian Energy USA Incorporated	Development	100%	100%
Cal Renew – 1 LLC	Electricity Generation	100%	100%
Jacob Canal Solar Farm LLC	Non-Trading Entity	100%	100%
Laurel West Solar Farm LLC	Non-Trading Entity	100%	100%
Laurel East Solar Farm LLC	Non-Trading Entity	100%	100%
Hatteson Solar Farm LLC	Non-Trading Entity	100%	100%
San Luis Valley Solar Farm LLC	Non-Trading Entity	100%	100%

1 *The Group holds 100% (2011: 93.23%) of Whisper Tech Limited. During the 2012 year the Parent purchased all remaining non-controlling interests of Whisper Tech Limited.*

2 *During the 2011 year Meridian Wind Macarthur Holdings Pty Limited changed its name from Meridian Energy Australia Pty Limited and Meridian Energy Australia Pty Limited changed its name from Meridian Renewables Pty Limited.*

3 *Members of Guaranteeing Group.*

4 *During the 2012 year Meridian Wind Australia Pty Limited had its name changed to Meridian Energy Markets Pty Limited, and was sold by Meridian Wind Australia Holdings Pty Limited to Meridian Energy Australia Pty Limited.*

16. Investments in Subsidiaries (CONTINUED)

Balance Dates

All subsidiaries have a balance date of 30 June except for Meridian Energy USA Incorporated, Cal Renew – 1 LLC, Jacob Canal Solar Farm LLC, Laurel West Solar Farm LLC, Laurel East Solar Farm LLC, Hatteson Solar Farm LLC and San Luis Valley Solar Farm LLC that have balance dates of 31 December. These results have been incorporated to 30 June 2012.

Arc Innovations Limited

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

The transaction details are outlined in the table below:

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

Amalgamations

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

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

Summary of the effect of amalgamation companies:

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

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

Right House Limited

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

17. Joint Ventures

EQUITY ACCOUNTED JOINT VENTURES

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

				INTEREST HELD BY GROUP	
NAME OF ENTITY	COUNTRY OF INCORPORATION	DATE	PRINCIPAL ACTIVITY	2012	2011
Efficient Home Energy, S. L.	Spain	11/01/08	Manufacturing	-	40%
Elemental Energy Limited[1]	New Zealand	19/11/07	Electricity Generation Systems	-	50%
Silverstream LFG Utilisation	New Zealand	30/06/11	Electricity Generation	93%	93%
EDDI Project JV	New Zealand	01/05/12	Dam Management Systems	50%	-

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

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

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

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

On 30 June 2011, the Group company Energy For Industry Limited acquired the business assets of EDC Power, which included a 93% share in the Silverstream LFG Utilisation Joint Venture (with a view to growing their wco-generation business).

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

The total consideration paid is as follows:

	2011 $'000
Cash	4,000
	4,000

The provisional allocation of purchase price is as follows:

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

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

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

17. Joint Ventures (CONTINUED)

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

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

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

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

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

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

JOINTLY CONTROLLED ASSETS

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

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

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

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

18. Available for Sale Investments

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

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

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

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

19. Intangible Assets

	GROUP					
	SOFTWARE $'000	GOODWILL $'000	LICENCE AGREEMENT $'000	PATENTS AND TRADEMARKS $'000	CUSTOMER ACQUISITION COSTS $'000	TOTAL $'000
Cost or Fair Value						
Balance at 1 July 2010	60,425	18,101	22,380	1,466	65,174	167,546
Acquisitions	12,686	-	-	135	1,765	14,586
Transfer to Assets Classified as Held for Sale	(1,112)	-	-	-	-	(1,112)
Foreign Currency Exchange Rate Movements	-	141	-	-	-	141
Other movements	-	(2,301)	-	-	-	(2,301)
Disposals	(531)	-	-	(105)	-	(636)
Balance at 30 June 2011	**71,468**	**15,941**	**22,380**	**1,496**	**66,939**	**178,224**
Balance at 1 July 2011	71,468	15,941	22,380	1,496	66,939	178,224
Acquisitions	8,680	-	-	135	-	8,815
Reinstatement of Patents		-	-	27	-	27
Transfer to Assets Classified as Held for Sale	(94)	-	-	-	-	(94)
Foreign Currency Exchange Rate Movements	-	(39)	-	-	-	(39)
Transfer from Property, Plant and Equipment	17,728	-	-	-	-	17,728
Disposals	(10,822)	-	-	-	-	(10,822)
Balance at 30 June 2012	**86,960**	**15,902**	**22,380**	**1,658**	**66,939**	**193,839**
Accumulated Amortisation and Impairment						
Balance at 1 July 2010	(45,420)	(149)	(8,952)	(570)	(62,402)	(117,493)
Amortisation during Year	(9,831)	-	(2,238)	(200)	(2,772)	(15,041)
Transfer to Assets Classified as Held for Sale	571	-	-	-	-	571
Disposals	531	-	-	138	-	669
Balance at 30 June 2011	**(54,149)**	**(149)**	**(11,190)**	**(632)**	**(65,174)**	**(131,294)**
Balance at 1 July 2011	(54,149)	(149)	(11,190)	(632)	(65,174)	(131,294)
Amortisation during Year	(19,166)	-	(1,865)	(928)	(221)	(22,180)
Impairment	-	(13,038)	(9,325)	(20)	-	(22,383)
Transfer to Assets Classified as Held for Sale	12	-	-	-	-	12
Transfer from Property, Plant and Equipment	(1,636)	-	-	-	-	(1,636)
Disposals	10,414	-	-	-	-	10,414
Balance at 30 June 2012	**(64,525)**	**(13,187)**	**(22,380)**	**(1,580)**	**(65,395)**	**(167,067)**
Net Book Value						
Net Book Value 30 June 2010	15,005	17,952	13,428	896	2,772	50,053
Net Book Value 30 June 2011	17,319	15,792	11,190	864	1,765	46,930
Net Book Value 30 June 2012	**22,435**	**2,715**	**-**	**78**	**1,544**	**26,772**

19. Intangible Assets (CONTINUED)

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

GOODWILL

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

Whisper Tech Limited

In 2011 for the purpose of impairment testing, all goodwill was allocated to the cash generating unit of Whisper Tech Ltd that included its interest in Efficient Home Energy S. L., the European based manufacturing and distribution joint venture for the AC WhisperGen micro-CHP device.

The impairment test was based on a value in use discounted cash flow valuation. Cash flow projections were based on Whisper Tech's 5 year financial forecast. Key assumptions in the value in use calculation for the Whisper Tech cash generating unit are shown in the table below:

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

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

19. Intangible Assets (CONTINUED)

Meridian Energy USA Inc.

As at 30 June 2011 Meridian had allocated $6.2 million to goodwill, which represented the excess of the purchase price of Meridian Energy USA Inc. over the fair value of the net tangible assets acquired and relates to the development pipeline, including contracts under negotiation.

For the purpose of impairment testing, the goodwill was allocated to the Meridian Energy USA Inc. Group. The goodwill has been fully impaired (refer to Note 4).

Mt Millar Windfarm Pty Ltd

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

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

For the purpose of impairment testing, the goodwill is allocated to the Mt Millar wind farm. The impairment test is based on comparing the carrying amount of Goodwill to the recoverable amount, which is the value in use.

20. Property, Plant and Equipment

	GROUP						
	GENERATION STRUCTURES AND PLANT AT FAIR VALUE $'000	FREEHOLD LAND AT COST $'000	FREEHOLD BUILDINGS AT COST $'000	RESOURCE CONSENTS AT COST $'000	OTHER PLANT AND EQUIPMENT AT COST $'000	CAPITAL WORK IN PROGRESS AT COST $'000	TOTAL $'000
Cost or Fair Value							
Balance at 1 July 2010	7,749,818	40,445	12,815	8,586	206,144	283,522	8,301,330
Additions	-	22	-	-	487	251,267	251,776
Foreign Currency Exchange Rate Movements	6,689	-	-	-	(782)	-	5,907
Transfers from Capital Work in Progress	236,684	-	437	6,139	15,149	(258,409)	-
Transfers to Assets Held For Sale	-	-	-	-	(4,659)	(117)	(4,776)
Disposals	(651,618)	-	(944)	(50)	(13,963)	-	(666,575)
Government Grant	(8,398)	-	-	-	-	-	(8,398)
Revaluation Increase	(36,116)	-	-	-	-	-	(36,116)
Balance at 30 June 2011	**7,297,059**	**40,467**	**12,308**	**14,675**	**202,376**	**276,263**	**7,843,148**
Balance at 1 July 2011	7,297,059	40,467	12,308	14,675	202,376	276,263	7,843,148
Additions	138	-	213	-	494	532,944	533,789
Foreign Currency Exchange Rate Movements	(2,785)	-	-	-	136	(3,462)	(6,111)
Transfers from Capital Work in Progress	35,816	533	890	10,224	15,819	(63,282)	-
Transfers to Assets Held For Sale	(22,981)	(937)	-	-	(5,783)	-	(29,701)
Transfers to Liabilities Held for Sale	-	12	-	-	-	-	12
Transfer to Intangible Assets	-	-	-	-	(2,118)	(15,610)	(17,728)
Disposals	(2,189)	-	(241)	-	(34,056)	-	(36,486)
Reclassification	(15)	-	(211)	-	226	-	-
Balance at 30 June 2012	**7,305,043**	**40,075**	**12,959**	**24,899**	**177,094**	**726,853**	**8,286,923**

20. Property, Plant and Equipment (CONTINUED)

	GROUP						
	GENERATION STRUCTURES AND PLANT AT FAIR VALUE $'000	FREEHOLD LAND AT COST $'000	FREEHOLD BUILDINGS AT COST $'000	RESOURCE CONSENTS AT COST $'000	OTHER PLANT AND EQUIPMENT AT COST $'000	CAPITAL WORK IN PROGRESS AT COST $'000	TOTAL $'000
Accumulated Depreciation and Impairment							
Balance at 1 July 2010	(1,102)	-	(2,321)	(1,855)	(87,525)	(1,200)	(94,003)
Depreciation Expense	(184,515)	-	(399)	(329)	(24,040)	-	(209,283)
Exchange rate movements	147	-	-	-	2	-	149
Disposals	6,723	-	321	50	12,748	-	19,842
Transfer to Assets Classified as Held For Sale	-	-	-	-	1,233	-	1,233
Offset of Accumulated Depreciation on Revalued Assets	165,789	-	-	-	-	-	165,789
Impairment of Property, Plant and Equipment	-	-	-	-	(4,939)	(1,129)	(6,068)
Balance at 30 June 2011	**(12,958)**	**-**	**(2,399)**	**(2,134)**	**(102,521)**	**(2,329)**	**(122,341)**
Balance at 1 July 2011	(12,958)	-	(2,399)	(2,134)	(102,521)	(2,329)	(122,341)
Depreciation Expense	(182,083)	-	(388)	(555)	(19,877)	-	(202,903)
Exchange rate movements	175	-	-	-	-	-	175
Disposals	311	-	-	-	33,548	-	33,859
Transfer to Assets Held For Sale	1,609	-	-	-	71	-	1,680
Transfer to Intangible Assets	-	-	-	-	1,636	-	1,636
Reclassification	1	-	11	-	(12)	-	-
Impairment of Property, Plant and Equipment	-	-	-	-	(6,268)	(29,109)	(35,377)
Balance at 30 June 2012	**(192,945)**	**-**	**(2,776)**	**(2,689)**	**(93,423)**	**(31,438)**	**(323,271)**
Net Book Value							
Net Book Value 30 June 2010	7,748,716	40,445	10,494	6,731	118,619	282,322	8,207,327
Net Book Value 30 June 2011	7,284,101	40,467	9,909	12,541	99,855	273,934	7,720,807
Net Book Value 30 June 2012	**7,112,098**	**40,075**	**10,183**	**22,210**	**83,671**	**695,415**	**7,963,652**

20. Property, Plant and Equipment (CONTINUED)

	PARENT						
	GENERATION STRUCTURES AND PLANT AT FAIR VALUE $'000	FREEHOLD LAND AT COST $'000	FREEHOLD BUILDINGS AT COST $'000	RESOURCE CONSENTS AT COST $'000	OTHER PLANT AND EQUIPMENT AT COST $'000	CAPITAL WORK IN PROGRESS AT COST $'000	TOTAL $'000
Cost or Fair Value							
Balance at 1 July 2010	6,707,769	40,444	12,814	8,586	192,112	133,542	7,095,267
Amalgamation of Subsidiary Companies	968,954	-	-	-	175	19,824	988,953
Additions	-	22	-	-	-	66,706	66,728
Transfers from Capital Work in Progress	35,920	-	177	6,139	7,082	(49,379)	(61)
Disposals	(651,526)	-	(1,441)	(50)	(36,077)	(6,899)	(695,993)
Revaluation Increase	(36,116)	-	-	-	-	-	(36,116)
Balance at 30 June 2011	**7,025,001**	**40,466**	**11,550**	**14,675**	**163,292**	**163,794**	**7,418,778**
Balance at 1 July 2011	7,025,001	40,466	11,550	14,675	163,292	163,794	7,418,778
Additions	-	-	213	-	-	59,119	59,332
Transfers from Capital Work in Progress	35,818	-	556	10,219	5,579	(52,172)	-
Transfers to Assets Held for Sale		(937)	-	-	(21)	-	(958)
Transfers to Liabilities Held for sale	-	12	-	-	-	-	12
Transfers to Intangible Assets	-	-	-	-	-	(15,186)	(15,186)
Effect of Business Unit Becoming a Subsidiary	-	-	-	-	(65,650)	(1,062)	(66,712)
Disposals	(1,177)	-	(241)	-	(2,710)	-	(4,128)
Balance at 30 June 2012	**7,059,642**	**39,541**	**12,078**	**24,894**	**100,490**	**154,493**	**7,391,138**

	PARENT						
	GENERATION STRUCTURES AND PLANT AT FAIR VALUE $'000	FREEHOLD LAND AT COST $'000	FREEHOLD BUILDINGS AT COST $'000	RESOURCE CONSENTS AT COST $'000	OTHER PLANT AND EQUIPMENT AT COST $'000	CAPITAL WORK IN PROGRESS AT COST $'000	TOTAL $'000
Accumulated Depreciation and Impairment							
Balance at 1 July 2010	-	-	(2,321)	(1,855)	(82,983)	(1,200)	(88,359)
Amalgamation of Subsidiary Companies	(41,576)	-	-	-	(70)	-	(41,646)
Depreciation Expense	(130,936)	-	(352)	(329)	(20,064)	-	(151,681)
Disposals	6,723	-	321	50	11,139	-	18,233
Offset of Accumulated Depreciation on Revalued Assets	165,789	-	-	-	-	-	165,789
Impairment of Property, Plant and Equipment	-	-	-	-	(4,659)	(1,129)	(5,788)
Balance at 30 June 2011	**-**	**-**	**(2,352)**	**(2,134)**	**(96,637)**	**(2,329)**	**(103,452)**
Balance at 1 July 2011	-	-	(2,352)	(2,134)	(96,637)	(2,329)	(103,452)
Depreciation Expense	(170,484)	-	(346)	(555)	(10,670)	-	(182,055)
Disposals	250	-	-	-	2,441		2,691
Transfer to Assets Classified as Held For Sale	-	-	-	-	9	-	9
Effect of Business Unit Becoming a Subsidiary	-	-	-	-	30,251	-	30,251
Impairment of Property, Plant and Equipment	-	-	-	-	(468)	(25,345)	(25,813)
Balance at 30 June 2012	**(170,234)**	**-**	**(2,698)**	**(2,689)**	**(75,074)**	**(27,674)**	**(278,369)**
Net Book Value							
Net Book Value 30 June 2010	6,707,769	40,444	10,493	6,731	109,129	132,342	7,006,908
Net Book Value 30 June 2011	7,025,001	40,466	9,198	12,541	66,655	161,465	7,315,326
Net Book Value 30 June 2012	**6,889,408**	**39,541**	**9,380**	**22,205**	**25,416**	**126,819**	**7,112,769**

20. Property, Plant and Equipment (CONTINUED)

GENERATION STRUCTURES AND PLANT VALUATION

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

Values were calculated for Meridian's business operations as at 30 June 2012 using both the capitalisation of earnings and the discounted cash flow ('DCF') methodology.

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

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

In preparing the capitalisation of earnings valuation, a range of companies with broadly comparable operations to Meridian were analysed to determine an EBITDAF multiple range at which to capitalise Meridian's historical and forecast earnings.

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

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

At 30 June 2012 had the generation structures and plant been carried at historical cost less accumulated depreciation and accumulated impairment losses their carrying amount would have been approximately $2.7 billion (2011: $2.9 billion).

Valuation sensitivities:

The following table outlines the key assumptions used in preparing the valuation of generation structures and plant assets. In all cases there is an element of judgement required. The table shows the movement in fair value as a result of the change in assumption and keeping all other valuation inputs constant.

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

**The future NZ electricity prices reflect an approximation of the future prices implicit in the EBITDAF capitalisation of earnings valuation.*

SALE OF TEKAPO A AND B

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

INTEREST

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

GOVERNMENT GRANTS

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

LAND

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

IMPAIRMENTS

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

21. Payables and Accruals

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

22. Deferred Tax

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

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

22. Deferred Tax (CONTINUED)

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

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

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

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

Some Group carried forward tax losses have not been recognised as deferred tax assets as Management have assessed that it is not probable that future taxable profits will be available against which the benefit of the losses can be utilised. These total $20.9 million (2011: $11.5 million). For tax purposes these losses begin to expire in 2029.

23. Borrowings

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

23. Borrowings (CONTINUED)

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

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

Meridian has entered into hedge contracts to manage its exposure to interest rates and borrowings sourced in foreign currencies. The foreign currency denominated term borrowings reported in the financial statements at fair value for the hedge risk are hedged by Cross Currency Interest Rate Swaps (CCIRS's). The NZD equivalent of these borrowings after the effect of foreign exchange hedging of the borrowings is $479.9 million (30 June 2011: $704.6 million).

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

Meridian's (net) cost of funds for the year ended 30 June 2012 was 6.75% (2011: 6.77%).

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

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

24. Financial Risk Management

CAPITAL RISK MANAGEMENT OBJECTIVES

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

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

Meridian monitors capital on the basis of the gearing ratio (calculated as net debt divided by total capital) and interest cover (calculated as EBITDAF divided by interest cost).

Net debt is calculated as total borrowings net of foreign exchange hedging less cash and cash equivalents.

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

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

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

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

Meridian debt facilities have externally imposed capital requirements that relate to the Guaranteeing Group. Refer to Note 16 for members of the Guaranteeing Group.

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

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

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

24. Financial Risk Management (CONTINUED)

FINANCIAL RISK MANAGEMENT

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

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

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

Liquidity Risk

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

Funding Facilities

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

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

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

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

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

Contractual Maturities

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

The amounts disclosed in the table are the contractual undiscounted cash flows, except for IRS's, CCIRS's, forward exchange contracts and CfD's which are the undiscounted settlements expected under the contracts.

24. Financial Risk Management (CONTINUED)

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

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

24. Financial Risk Management (CONTINUED)

	GROUP 2011							
	DUE WITHIN 1 YEAR $'000	DUE BETWEEN 1 AND 2 YEARS $'000	DUE BETWEEN 3 AND 5 YEARS $'000	DUE AFTER 5 YEARS $'000	TOTAL UNDISCOUNTED CASHFLOWS $'000	IMPACT OF OTHER NON-CASH ITEMS $'000	IMPACT OF INTEREST/FX DISCOUNTING $'000	30 JUNE 2011 CARRYING VALUE $'000
Non-derivative Financial Liabilities								
– Payables and Accruals	217,004	-	-	-	217,004	-	-	217,004
– Provisions	94	-	-	-	94	-	-	94
– Borrowings (note 23)	987,624	38,290	391,259	343,558	1,760,731	(7,036)	(180,149)	1,573,546
– Term Payables	-	16,700	23,857	-	40,557	-	(4,993)	35,564
	1,204,722	54,990	415,116	343,558	2,018,386	(7,036)	(185,142)	1,826,208
Derivative Financial Liabilities – Net Settled								
– Interest Rate Swaps/Options	29,980	20,724	21,663	(1,365)	71,002	-	(5,785)	65,217
– Electricity Derivatives	2,019	2,450	105,663	(428,995)	(318,863)	157,430	303,883	142,450
	31,999	23,174	127,326	(430,360)	(247,861)	157,430	298,098	207,667
Derivative Financial Liabilities – Gross Settled								
– Cross Currency Interest Rate Swaps								
Inflows	244,691	21,292	231,397	262,895	760,275			
Outflows	248,795	21,301	284,942	327,208	882,246			
Net Outflows	4,104	9	53,545	64,313	121,971	-	(77,376)	44,595
– Foreign Exchange Contracts								
Inflows	5,383	322	16	-	5,721			
Outflows	6,598	404	21	-	7,023			
Net Outflows	1,215	82	5	-	1,302	-	(39)	1,263
Total Financial Liabilities	**1,242,040**	**78,255**	**595,992**	**(22,489)**	**1,893,798**	**150,394**	**35,541**	**2,079,733**

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

24. Financial Risk Management (CONTINUED)

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

The amounts disclosed in the table are the contractual undiscounted cash flows, except for IRS's, CCIRS's, forward exchange contracts and CfD's which are the undiscounted settlements expected under the contracts.

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

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

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

24. Financial Risk Management (CONTINUED)

	GROUP 2011							
	DUE WITHIN 1 YEAR $'000	DUE BETWEEN 1 AND 2 YEARS $'000	DUE BETWEEN 3 AND 5 YEARS $'000	DUE AFTER 5 YEARS $'000	TOTAL UNDISCOUNTED CASHFLOWS $'000	IMPACT OF OTHER NON-CASH ITEMS $'000	IMPACT OF INTEREST/FX DISCOUNTING $'000	30 JUNE 2011 CARRYING VALUE $'000
Non-derivative Financial Assets								
– Cash and Cash Equivalents	368,191	-	-	-	368,191	-	-	368,191
– Trade and Other Receivables	240,885	-	-	-	240,885	-	-	240,885
– Finance Lease Receivables	632	632	1,898	8,853	12,015	-	(6,488)	5,527
– Available for Sale Investments	-	-	-	6,065	6,065	-	-	6,065
	609,708	632	1,898	14,918	627,156	-	(6,488)	620,668
Derivative Financial Assets – Net Settled								
– Interest Rate Swaps/Options	3,052	3,619	4,307	1,168	12,146	-	(2,493)	9,653
– Electricity Derivatives	7,489	12,022	3,598	(46,810)	(23,701)	18,980	46,778	42,057
	10,541	15,641	7,905	(45,642)	(11,555)	18,980	44,285	51,710
Derivative Financial Assets – Gross Settled								
– Cross Currency Interest Rate Swaps								
– Foreign Exchange Contracts								
Inflows	85,129	1,155	-	-	86,284			
Outflows	82,653	1,166	-	-	83,819			
Net Inflows	2,476	(11)	-	-	2,465	-	(177)	2,288
Total Financial Assets	622,725	16,262	9,803	(30,724)	618,066	18,980	37,620	674,666

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

In both the asset and liability tables the Parent amounts are materially the same as the Group reported amounts except for AUD bank funding of $537.4 million (2011: $188.5 million), AUD interest rate swaps of ($69.2) million (2011: $0.3 million) and cash and cash equivalents of $143.5 million (2011: $111.6 million).

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

Market Risk

Foreign Exchange Risk

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

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

Meridian establishes a combination of both cash flow and fair value hedges for the CCIRS's and the foreign denominated borrowings (refer to Note 25 – Financial Instruments). The aggregate notional principal amounts of the outstanding CCIRS's at 30 June 2012 was $479.9 million (30 June 2011: $704.6 million).

In respect of foreign exchange exposures on capital and operating expenditures denominated in foreign currencies, Meridian hedges the foreign exchange risk through a combination of foreign exchange forward contracts (FEC's) and options . Capital projects which are approved by the Board are hedged 100% whilst capital projects which are anticipated but not approved are hedged up to 50% based on treasury limits. All committed foreign currency exposures of greater than $100 thousand NZD equivalent are hedged. The aggregate notional principal amounts of the outstanding FEC's at 30 June 2012 was $84.5 million (30 June 2011: $88.9 million).

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

The Group has monetary assets and liabilities denominated in Australian and U.S. dollars as at 30 June 2012. These monetary assets and liabilities have been converted to New Zealand dollars at closing exchange rates of AUD 0.7831 and USD 0.8015 (30 June 2011: AUD 0. 77201, USD 0. 82825).

24. Financial Risk Management (CONTINUED)

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

As previously noted, Meridian's CCIRS's and foreign denominated borrowings are in a combination of a fair value hedge and cash flow hedge relationship. A 20% increase/ decrease in movement in currency does not materially impact NPAT or Equity.

Sensitivity Analysis – Foreign Currency

	IMPACT ON AFTER TAX PROFIT				IMPACT ON EQUITY			
	2012 %	2012 $'000	2011 %	2011 $'000	2012 %	2012 $'000	2011 %	2011 $'000
NZ Dollar / US Dollar	-20%	725	-20%	-	-20%	3,240	-20%	783
	+20%	(483)	+20%	-	+20%	(2,160)	+20%	(522)
NZ Dollar / Australian Dollar	-20%	122	-20%	-	-20%	-	-20%	12,028
	+20%	(122)	+20%	-	+20%	-	+20%	(12,028)
NZ Dollar / Euro	-20%	35	-20%	-	-20%	(12,204)	-20%	(84)
	+20%	(35)	+20%	-	+20%	12,204	+20%	84

Cash Flow and Interest Rate Risk

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

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

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

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

In the case of Macarthur Wind Farm Project Financing, Meridian has established cash flow hedges for the IRS's and related debt (see Note 25 for further detail). The aggregate notional principal amounts of the outstanding IRS's at 30 June 2012 was $2,460.8 million (30 June 2011: $1,503 million).

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

Sensitivity Analysis – Interest rates

		GROUP AND PARENT			
		IMPACT ON AFTER TAX PROFIT		IMPACT ON EQUITY	
		2012 $'000	2011 $'000	2012 $'000	2011 $'000
New Zealand BKBM	-100 bps	**(66,463)**	(35,296)	**(66,463)**	(35,296)
	+100 bps	**61,949**	33,010	**61,949**	33,010
Australian BBSY	-100 bps	**(4,051)**	(2,081)	**(7,488)**	(2,081)
	+100 bps	**3,805**	1,989	**6,966**	1,989

24. Financial Risk Management (CONTINUED)

Price Risk

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

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

Upon cessation of hedge accounting the balance held in the cash flow hedge reserve is amortised as contract volumes expire over the remaining life of the respective contracts.

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

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

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

The table below summarises the impact of increases / decreases in changes to certain assumptions as at 30 June on Meridian's profit and equity, on the assumption that all other variables are held constant and Meridian's current accounting policies are followed as stated. Post tax profit and equity would increase / (decrease) as shown in the table below due to unrealised gains/losses on CfD's and ACS's held for trading.

Sensitivity Analysis – Electricity and Aluminium price risk

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

Credit Risk

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

Retail credit management continually monitors the size and nature of the exposure and acts to mitigate the risk deemed to be over acceptable levels.

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

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

25. Financial Instruments

FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

- forward price curve; and
- discount rates.

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

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

25. Financial Instruments (CONTINUED)

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

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

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

25. Financial Instruments (CONTINUED)

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

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

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

25. Financial Instruments (CONTINUED)

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

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

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

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

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

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

25. Financial Instruments (CONTINUED)

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

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

NZAS AGREEMENT

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

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

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

The agreed base price is subject to escalation with reference to a multi-year average market price for electricity in New Zealand, the world price for aluminium (as determined by an independent benchmark), and a component as a proxy for price inflation.

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

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

Accounting Treatment of NZAS Contract

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

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

At 30 June 2012, the carrying value of the CfD is as follows:

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

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

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

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

25. Financial Instruments (CONTINUED)

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

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

This contract comes into effect on 1 January 2013.

CASH FLOW HEDGING

Cash Flow Hedges – CfD's

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

Cash Flow Hedges – FEC's

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

Cash Flow Hedges – CCIRS's

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

Cash Flow Hedges – IRS's

Meridian hedges its interest rate exposure on debt using IRS's. Cash flow hedges have been established in relation to the Macarthur Wind Farm Project Financing, construction and term facilities and related IRS. Cash flows relating to the debt and the IRS's are settled monthly. Income is affected by these settlements on an accrual basis.

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

	GROUP AND PARENT				
	FEC'S $'000	DEBT – CFH OF MARGIN $'000	CFD'S $'000	TAX $'000	TOTAL $'000
Opening Balance at 1 July 2010	(482)	2,595	(1,198)	(256)	659
Amount Recognised in Equity	6,419	(4,558)	-	(521)	1,340
Amount Removed from Equity:					
– **Amortised to Income Statement**[1]	-	-	1,518	(425)	1,093
– **Included in Initial Cost of Assets**	(4,596)	-	-	1,287	(3,309)
Closing Balance at 30 June 2011	**1,341**	**(1,963)**	**320**	**85**	**(217)**
Ineffectiveness Recognised in the Income Statement from Cash Flow Hedges	-	-	-	-	-

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

25. Financial Instruments (CONTINUED)

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

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

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

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

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

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

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

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

26. Commitments

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

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

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

Guarantees

Meridian Wind Macarthur Pty Limited has various obligations arising from the joint venture with AGL Energy Limited (disclosed above). These include performance and funding obligations under the joint venture deed, obligations to contractors in relation to the construction of the wind farm, and obligations under various landowner agreements. Meridian Energy Limited has provided various guarantees and letters of comfort to the relevant parties that effectively guarantee the obligations of Meridian Wind Macarthur Pty Limited.

27. Related Party Transactions

TRANSACTIONS WITH RELATED PARTIES

Meridian transacts with other Government owned or related entities independently and on an arm's length basis. Transactions cover a variety of services including trading energy, postal, travel, tax and last year also included the sale of Tekapo A and B power stations to Genesis Power Ltd on 1 June 2011 for $820.1 million.

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

OTHER TRANSACTIONS INVOLVING A RELATED PARTY

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

ENTITY	TRANSACTION	$'000	DETAILS OF TRANSACTION
Damwatch Services Limited	Consultancy Services	$2,183	Damwatch Services Limited provided consultancy services to Meridian Energy Limited during the year totalling $2.2 million (2011: $1.9 million).
Meridian Energy Captive Insurance Limited	Insurance Services	$5,032	Meridian Energy Captive Insurance Limited (MECIL) received payment for insurance premiums from Meridian Energy Limited. MECIL has this policy underwritten by third parties (2011: $3.2 million).
Arc Innovations Limited	Meter management Services	$7,844	Arc Innovations Limited provided advanced meter management services to Meridian Energy Limited during the 9 months totalling $7.8 million (2011: $Nil)
Powershop New Zealand Limited	Online Electricity Retailer	$1,515	Powershop New Zealand Limited entered into energy contracts with Meridian Energy Limited during the year totalling $1.5 million (2011: $4.4 million)

SUBSIDIARIES LOAN FACILITIES AND ADVANCES

Advances to Subsidiaries are repayable on demand and are unsecured. Interest is charged at an annually set base rate plus a margin and is payable on demand. Advances from Subsidiaries are repayable on demand, are unsecured and attract a market rate of return. Interest is paid on demand.

	PARENT	
	2012 $'000	2011 $'000
Loan Facilities and Advances to Subsidiaries		
Loan to Three Rivers No 1 Limited	351,471	237,604
Loan to Three Rivers No 2 Limited	730	-
Loan to WhisperGen Limited	-	12,211
Loan to Meridian Energy Captive Insurance Limited	-	50
Loan to Whisper Tech Limited	-	3,418
Loan to MEL Solar Holdings Limited	29,111	56,473
Other Advances to Subsidiaries	11,577	16,952
Total Advances to Subsidiaries	392,889	326,708
Advances from Subsidiaries		
Meridian Energy International Limited	219,163	219,163
Meridian Energy Captive Insurance Limited	2,950	-
Arc Innovations Limited	2,616	-
Whisper Tech Limited	150	-
Powershop New Zealand Limited	2,500	-
Energy for Industry Limited	499	9,305
Other Advances from Subsidiaries	597	99
Total Advances from Subsidiaries	228,475	228,567

27. Related Party Transactions (CONTINUED)

IMPAIRMENT

Loan Facilities and Advances to Subsidiaries have been impaired by a total of $54.5 million in 2012 (2011: $50.9 million), with respect to WhisperGen Limited $12.2 million (2011: $29.5 million), Whisper Tech Limited $14.9 million (2011: $14.3 million) and MEL Solar Holdings Limited $27.4 million (2011: $7.1 million). Refer to Note 4 for further details of these impairments.

COMPENSATION OF KEY MANAGEMENT PERSONNEL

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

	GROUP		PARENT	
	2012 $'000	2011 $'000	2012 $'000	2011 $'000
Directors Fees	**824**	812	**437**	428
Chief Executive Officer, Senior Management Team and Subsidiary Chief Executives:				
Salaries and Short Term Benefits	**7,869**	7,378	**5,429**	5,408
Post Employment Benefits	**-**	-	**-**	-
Redundancy Benefits	**365**	-	**175**	-
Other Long Term Benefits	**182**	-	**182**	-
	8,416	7,378	**5,786**	5,408

28. Subsequent Events

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

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

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

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

29. Contingent Assets and Liabilities

CONTINGENT ASSETS

There were no contingent assets at 30 June 2012.

CONTINGENT LIABILITIES

During a scheduled Transpower transmission outage on 26 March 2011, prices in excess of $19,000 MWh were bid into the wholesale electricity market. The Electricity Authority (EA) ruled this constituted an undesirable trading situation (UTS) and reset the clearing prices in the upper North Island for periods 22 to 35. These prices have been used by the Group to record energy purchases. A group of market participants appealed this ruling to the High Court which ruled in favour of the EA's decision. A further appeal was made and a court date has been set for April 2013. It is estimated that the liability, should the appeal be successful, is $14 million, but it is not practicable to state the time of any payment. The Group believes that no provision for any liability need be recognised in these financial statements (2011: Nil).

Independent Auditor's Report

Deloitte.

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

The Auditor-General is the auditor of Meridian Energy Limited (the 'Company') and Group. The Auditor-General has appointed me, Michael Wilkes, using the staff and resources of Deloitte, to carry out the audit of the financial statements of the Company and Group, on her behalf.

We have audited the financial statements of the Company and Group on pages 46 to 104, that comprise the statement of financial position as at 30 June 2012, the income statement, the statement of comprehensive income, the statement of changes in equity and statement of cash flows for the year ended on that date and the notes to the financial statements that include accounting policies and other explanatory information.

OPINION

Financial Statements

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

- comply with generally accepted accounting practice in New Zealand;
- comply with International Financial Reporting Standards; and
- give a true and fair view of the Company and Group's:
  - financial position as at 30 June 2012; and
  - financial performance and cash flows for the year ended on that date.

Other legal requirements

In accordance with the Financial Reporting Act 1993 we report that, in our opinion, proper accounting records have been kept by the Company and Group as far as appears from the examination of those records.

Our audit was completed on 12 August 2012. This is the date at which our opinion is expressed.

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

Basis of Opinion

We carried out our audit in accordance with the Auditor-General's Auditing Standards, and the International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and carry out our audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

An audit involves carrying out procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including our assessment of risks of material misstatement of the financial statements whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the preparation of the Company and Group's financial statements that give a true and fair view of the matters to which they relate. We consider internal control in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Company and Group's internal control.

An audit also involves evaluating:

- the appropriateness of accounting policies used and whether they have been consistently applied;
- the reasonableness of the significant accounting estimates and judgements made by the Board of Directors;
- the adequacy of all disclosures in the financial statements; and
- the overall presentation of the financial statements.

We did not examine every transaction, nor do we guarantee complete accuracy of the financial statements. In accordance with the Financial Reporting Act 1993, we report that we have obtained all the information and explanations we have required. We believe we have obtained sufficient and appropriate audit evidence to provide a basis for our audit opinion.

Responsibilities of the Board of Directors

The Board of Directors is responsible for preparing financial statements that:

- comply with generally accepted accounting practice in New Zealand; and
- give a true and fair view of the Company and Group's financial position, financial performance and cash flows.

The Board of Directors is also responsible for such internal control as it determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Board of Directors' responsibilities arise from the State-Owned Enterprises Act 1986 and the Financial Reporting Act 1993.

Responsibilities of the Auditors

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

Independence

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

In addition to the audit, we have carried out other assurance assignments for the Company and Group in the areas of carbon emissions audit, review of the interim financial statements, audit of the securities registers in connection with the prospectus which are compatible with those independence requirements. In addition to this, principals and employees of our firm deal with the Company and Group on normal terms within the ordinary course of trading activities of the business of the Company and Group.

Other than the audit and these assignments the firm has no other relationship with, or interest in the Company or Group.

Michael Wilkes
On behalf of the Auditor-General
CHRISTCHURCH, New Zealand

Matters relating to the electronic presentation of the audited financial statements

This audit report relates to the financial statements of Meridian Energy Limited (the 'Company') and Group for the year ended 30 June 2012 included on the Company's website. The Board of Directors is responsible for the maintenance and integrity of the Company's website. We have not been engaged to report on the integrity of the Company's website. We accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website. The audit report refers only to the financial statements named above. It does not provide an opinion on any other information which may have been hyperlinked to or from the financial statements. If readers of this report are concerned with the inherent risks arising from electronic data communication they should refer to the published hard copy of the audited financial statements and related audit report dated 12 August 2012 to confirm the information included in the audited financial statements presented on this website. Legislation in New Zealand governing the preparation and dissemination of financial information may differ from legislation in other jurisdictions.

STATUTORY INFORMATION

GROUP DIRECTORS

Chris Moller
Chairman (from 01/01/11)
Appointed 01/05/09

Peter Wilson
Deputy Chair (from 17/05/11)
Appointed 17/05/11

John Bongard
Director
Appointed 17/05/11

Mary Devine
Director
Appointed 01/05/10

Catherine Drayton
Director
Appointed 01/05/06
Expiry of term 30/04/12

Anake Goodall
Director
Appointed 17/05/11

Steve Reindler
Director
Appointed 01/09/08

Anne Urlwin
Director
Appointed 01/01/05
Resigned 30/04/12

SUBSIDIARY COMPANY DIRECTORS

New Zealand Subsidiaries

Arc Innovations (incorporation date 1 September 2011)
Mark Binns (Appointed 12/06/12)
Paul Chambers (Appointed 12/06/12)
Steve Fuller (Appointed 01/12/11, Resigned 15/12/12)
Mark Bowman (Appointed 01/09/11, Resigned 12/06/12)
Jason McDonald (Appointed 01/09/11, Resigned 12/06/12)
Andrew Robertson (Appointed 01/09/11, Resigned 10/05/12)
Timothy Lusk (Appointed 01/09/11, Resigned 29/02/12)

Damwatch Services Limited
Peter Amos
Neal Barclay
Michael Campbell (Resigned 01/06/12)
Carole Durbin (Resigned 31/05/12)
Brian Vass (Resigned 01/06/12)

Energy for Industry Limited
Mark Binns (Appointed 30/06/12)
Paul Chambers (Appointed 30/06/12)
Warren McNabb (Resigned 30/06/12)
Linda Robertson (Resigned 30/06/12)
Brian Vass (Resigned 30/06/12)
Gillian Blythe (Appointed 02/08/11, Resigned 30/06/12)

MEL Solar Holdings Limited
Mark Binns (Appointed 10/05/12)
Paul Chambers (Appointed 23/12/11)
Tim Lusk (Resigned 23/12/11)
Andrew Robertson (Resigned 10/05/12)

Meridian Energy Captive Insurance Limited
Paul Chambers
Mark Binns (Appointed 10/05/12)
Andrew Robertson (Resigned 10/05/12)

Meridian Limited
Paul Chambers
Mark Binns (Appointed 10/05/12)
Andrew Robertson (Resigned 10/05/12)

Meridian Energy International Limited
Paul Chambers
Mark Binns (Appointed 10/05/12)
Andrew Robertson (Resigned 10/05/12)

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
Paul Chambers (Appointed 12/06/12)
Brian Vass (Resigned 12/06/12)

Three River Holdings (No. 1) Limited
Paul Chambers
Mark Binns (Appointed 12/06/2012)
Ken Smales (Resigned 20/06/12)

Three River Holdings (No. 2) Limited
Paul Chambers
Mark Binns (Appointed 12/06/12)
Ken Smales (Resigned 20/06/12)

WhisperGen Limited
Jason McDonald
Brian Vass

Whisper Tech Limited
Brian Vass
Thomas Hannah (Appointed 05/06/12)
Jason McDonald (Resigned 06/06/12)
David Moriarty (Resigned 30/08/11)
John Punter (Resigned 30/08/11)
Paul Smart (Resigned 30/06/12)

Australian Subsidiaries

Damwatch Pty Limited
Peter Amos
Stanley Brogan

Meridian Australia Holdings Pty Limited
Paul Chambers
Peter Lowe
Mark Binns (Appointed 19/06/12)
Andrew Robertson (Resigned 19/06/12)

Meridian Wind Macarthur Holdings Pty Limited
Paul Chambers
Peter Lowe
Mark Binns (Appointed 19/06/12)
Andrew Robertson (Resigned 19/06/12)
Ken Smales (Resigned 19/06/12)

Meridian Energy Australia Pty Limited
Paul Chambers
Peter Lowe
Mark Binns (Appointed 19/06/12)
Jason Stein (Resigned 19/06/12)

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 Finco Pty Limited
Paul Chambers
Peter Lowe
Mark Binns (Appointed 19/06/12)
Jason Stein (Resigned 19/06/12)

Meridian Wind Australia Holdings Pty Limited
Paul Chambers
Peter Lowe
Mark Binns (Appointed 19/06/12)
Andrew Robertson (Resigned 19/06/12)

Meridian Energy Markets Pty Limited (name change from 25/01/12, previously Meridian Wind Australia Pty Limited)
Pty Limited
Paul Chambers
Peter Lowe
Mark Binns (Appointed 19/06/12)
Andrew Robertson (Resigned 19/06/12)

Meridian Wind Macarthur Pty Limited
Paul Chambers
Peter Lowe
Mark Binns (Appointed 19/06/12)
Andrew Robertson (Resigned 19/06/12)

Meridian Wind Monaro Range Holdings Pty Limited
Paul Chambers
Peter Lowe
Mark Binns (Appointed 19/06/12)
Andrew Robertson (Resigned 19/06/12)

Meridian Wind Monaro Range Pty Limited
Paul Chambers
Peter Lowe
Mark Binns (Appointed 19/06/12)
Andrew Robertson (Resigned 19/06/12)

Mt Mercer Windfarm Pty Limited
Paul Chambers
Peter Lowe
Mark Binns (Appointed 19/06/12)
Andrew Robertson (Resigned 19/06/12)

Mt Millar Wind Farm Pty Limited
Paul Chambers
Peter Lowe
Mark Binns (Appointed 19/06/12)
Andrew Robertson (Resigned 19/06/12)
Jason Stein (Resigned 19/06/12)

Powershop Australia Pty Limited (created 22/12/2011)
Paul Chambers (Appointed 22/12/2011)
Peter Lowe (Appointed 22/12/2011)
Mark Binns (Appointed 19/06/12)
Andrew Robertson (Appointed 22/12/2011, Resigned 19/06/2012)

USA Subsidiaries

CalRENEW-1 LLC
William Overholt (Appointed 31/01/12)
Andrew Robertson (Resigned 31/01/12)
Guy Waipara (Resigned 31/01/12)

Hatterson Solar Farm LLC
Member: William Overholt (Appointed 31/01/12)
Andrew Robertson (Resigned 31/01/12)
Guy Waipara (Resigned 31/01/12)

Jacob Canal Solar Farm LLC
Member: William Overholt (Appointed 31/01/12)
Andrew Robertson (Resigned 31/01/12)
Guy Waipara (Resigned 31/01/12)

Laural East Solar Farm LLC
Member: William Overholt (Appointed 31/01/12)
Andrew Robertson (Resigned 31/01/12)
Guy Waipara (Resigned 31/01/12)

Laurel West Solar Farm LLC
Member: William Overholt (Appointed 31/01/12)
Andrew Robertson (Resigned 31/01/12)
Guy Waipara (Resigned 31/01/12)

Meridian Energy USA
Guy Waipara
Steve Barrett (Resigned 03/05/12)
Andrew Robertson (Resigned 31/01/12)

San Luis Valley Solar Farm LLC
Guy Waipara (Resigned 31/01/12)
Member: William Overholt (Appointed 31/01/12)

Desert Butte, LLC
Member: William Overholt

UK Subsidiaries

WhisperGen (UK) Limited
Jason McDonald
David Moriarty

GRI ASSURANCE STATEMENT

Deloitte.

INDEPENDENT ASSURANCE REPORT TO THE DIRECTORS OF MERIDIAN ENERGY LIMITED

We have been engaged by the Directors to conduct a limited assurance engagement over selected aspects of the Meridian Energy Limited's Annual Report for the financial year ending 30 June 2012 as described below (together the 'GRI Content').

- Global Reporting Initiative Sustainability Reporting Guidelines (GRI G3.0) Reporting Principles – providing limited assurance whether management's assertion that the GRI G3.0 Reporting Principles have been applied in defining the report content is fairly stated;
- GRI G3.0 Application Level – providing limited assurance as to whether management's assertion that the GRI Content meets the GRI G3.0 application level C+ requirements is fairly stated;
- GRI G3.0 Profile Disclosures and Selected Indicators - providing limited assurance as to whether information reported under the requirements of GRI Profile Disclosures and Selected Indicator Protocols is fairly stated.

This report is limited solely to the GRI content as described above and is provided solely to the Directors of Meridian Energy Limited (the 'Directors') in accordance with our letter of engagement dated 8 June 2012. Our work has been undertaken so that we might state to the Directors those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume duty, responsibility or liability to anyone other than the Directors for our work, for this independent assurance report, or for the conclusions we have formed including, without limitation, liability for negligence.

Directors' Responsibility

The Directors are responsible for:

- The preparation and compilation of the GRI Content, including adherence to the GRI G3.0 principles for defining report content and compliance with the disclosure requirements of the GRI G3.0;
- The identification of stakeholders and material issues and for determining the objectives in respect of sustainability performance;
- Establishing and maintaining appropriate performance management and internal control systems from which the reported information is derived; and
- The fair presentation of the information and statements contained within the GRI Content.

Auditor's Responsibility

It is our responsibility to independently express an opinion on the reliability of management's assertions on selected subject matters as outlined above.

We conducted our limited assurance engagement in accordance with International Standard on Assurance Engagements (New Zealand) 3000: Assurance Engagements Other than Audits or Reviews of Historical Financial Information ('ISAE (NZ) 3000'). To achieve limited assurance the ISAE (NZ) 3000 requires that we review the processes, systems and competencies used to compile the information on which we provide limited assurance. It does not include detailed testing of source data or the operating effectiveness of processes and internal controls. A limited assurance engagement is substantially less in scope than a reasonable assurance engagement conducted in accordance with ISAE(NZ) 3000 and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in a reasonable assurance engagement. Accordingly, we will not express an opinion providing reasonable assurance.

Considering the risk of material error, we planned and performed the work to obtain all the information and explanations considered necessary to provide sufficient evidence to support our assurance conclusions.

The evaluation criteria used for our assurance are based on:

- The GRI G3.0 Sustainability Reporting Guidelines for Level C+ application
- Relevant reporting guidelines and methodologies for selected GRI G3.0 Indicator Protocols as set out in the GRI Content.

Our procedures included:

- Understanding and analysing the process for preparing the GRI Content;
- Assessing the GRI Content against the requirements GRI G3.0 'C+' application level;
- Interviewing the senior executives and group level business sustainability and public affairs teams responsible for preparing the GRI Content ;
- Analysing the process of compiling and validating information received from data owners for inclusion in the GRI Content; and
- Reviewing the GRI Content against the findings of our work and, as necessary, providing recommendations for improvement.

Other than in our capacity as auditors of the statutory financial statements on behalf of the Auditor-General, we have no relationship with or interests in the Company or any of its subsidiaries. Furthermore, principals and employees of our firm deal with the Company on arm's-length terms within the ordinary course of the Company's trading activities. Other than this limited assurance engagement, the financial statutory audit and arm's-length transactions, we have no relationship with or interests in the Company, or any of its subsidiaries.

Opinion

Based on the procedures performed, in all material respects, in relation to the GRI Content on pages 1 to 11, 24-43 and 109-121:

- GRI G3.0 Reporting Principles – nothing has come to our attention to suggest that Meridian Energy Limited's self declaration of the application of the GRI G3.0 Reporting Principles for defining report content is not fairly stated;
- GRI G3.0 Application Level– nothing has come to our attention to suggest that Meridian Energy Limited's self declaration of GRI application level C+ is not fairly stated;
- GRI G3.0 Profile Disclosures and Selected Indicators - nothing has come to our attention to suggest that the information provided in the GRI Content to meet the requirements of the GRI Profile Disclosures and the GRI Indicator Protocols identified on pages 118- 119 is not fairly stated.

Deloitte

CHARTERED ACCOUNTANTS
10 SEPTEMBER 2012
WELLINGTON, NEW ZEALAND

GREENHOUSE GAS INVENTORY

Meridian has calculated its 'carbon footprint' since 2001, and Meridian is certified by Landcare Research's Certified Emissions Management And Reduction Scheme (CEMARS) for two of its entities – Meridian Energy Ltd and Energy for Industry Ltd.

This section of the annual report is the annual greenhouse gas (GHG) emissions[1] inventory report for the Meridian Group of companies for the period 1 July 2011 to 30 June 2012. Meridian's reporting processes and emissions classifications are consistent with international protocols and standards. This report has been written in accordance with Parts 7.3.1 of the requirements of International Standards Organisation ISO 14064-1[2], the *Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard* (2004), and the *Corporate Value Chain (Scope 3) Accounting and Reporting Standard* (2011)[3]. In addition, the inventories of Meridian Energy Ltd and Energy for Industry Ltd have been prepared consistent with the inventory requirements of the CEMARS programme.

Change in Organisational Boundary

The organisational boundary encompasses companies and sites under the operational control of Meridian, its subsidiaries, associate companies and joint ventures in the Meridian group. Previous inventories have used the equity share consolidation approach. This has changed this year as applying an operational control approach allows us to better focus on those emissions sources over which we have control and can therefore implement management actions, consistent with Meridian's corporate responsibility objectives. This change has resulted in the removal of some operations from our organisational boundary (dairy farms, Whisper Tech, Macarthur wind farm) as they are not under operational control, although their Scope 1 & 2 emissions are still captured under Scope 3 Category 15 Investments.

Change in Operational Boundary

This year Meridian is reporting for the first time in conformance with the new Corporate Value Chain Standard. An analysis of our value chain identified several new emissions sources not previously reported, leading to an additional 22% emissions being included in the operational boundary.

Facilities

This inventory is split into seven 'facilities' that represent different areas of business activity (see below for a description of each facility).

Meridian Electricity – Includes emissions arising from Meridian's core activities associated with renewable energy electricity generation and the retail of electricity.

Arc Innovations – Develops, deploys and manages Advanced Meter Management (AMM) 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.

Powershop – Conducts energy retailing activities within Powershop New Zealand Limited under the Powershop brand.

Meridian Australia – Owns and develops renewable energy generation facilities in Australia.

Meridian USA – Owns and develops renewable energy generation facilities in the USA.

Change in Base Year

The change in consolidation approach from equity share to operational control, and the expansion of the Scope 3 operational boundary, makes comparisons with past years very difficult and has changed the inventory to such an extent as warrants the setting of a new base year, to the current year (1 July 2011 to 30 June 2012). Should there be changes in future to these organisational or operational boundaries, or significant changes to the emissions factors used, Meridian may choose to recalculate base year emissions in order to retain comparability to future inventories.

Methodologies and uncertainties

Meridian uses the software tool SoFi v5.0 from PE International to calculate GHG emissions. Emissions for Scope 1 and 2, and each Scope 3 category, have been quantified using the calculation method based on activity data multiplied by GHG emissions factors. Emissions factors have been supplied by or approved by Landcare Research as part of Meridian's participation in the CEMARS programme. To minimise uncertainties in the accuracy of this inventory, data has been sourced wherever possible from a verifiable source as detailed in the inclusions table.

Purchased goods and services (Scope 3 Category 1) emission factors have been taken from DEFRA and in some cases adjusted for New Zealand's lower emissions factor for electricity. These emissions factors are per dollar spent and therefore the uncertainty associated with these emissions sources is higher.

Verification of GHG Inventory

Meridian's Chief Financial Officer is responsible for the contents of this inventory. A more detailed version of this GHG Inventory report 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 more detailed GHG inventory report.

Deloitte is also the financial auditor of Meridian Energy Limited on behalf of the Office of the Auditor General.

1 *Throughout this section 'emissions' means 'GHG emissions'.*

2 *International Standards Organisation Specification with guidance at the organization level for quantification and reporting of greenhouse gas emissions and removals, Reference number ISO 14064-1:2006 (E).*

3 *Throughout this document 'GHG Protocol' means the Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard (2004) and 'Corporate Value Chain Standard' means the Corporate Value Chain (Scope 3) Accounting and Reporting Standard (2011).*

SCOPE		CATEGORY	MERIDIAN ELECTRICITY	ARC INNOVATIONS	DAMWATCH	ENERGY FOR INDUSTRY	MERIDIAN AUSTRALIA	MERIDIAN USA	POWERSHOP	2011/12 tCO_2e
Direct Emissions (Scope 1) from										
	S1 SC	Stationary combustion	-	-	-	61,957.3	-	-	-	61,957
	S1 MC	Mobile combustion	961.7	64.6	7.0	205.0	8.6	4.3	3.0	1,254
	S1 FE	Fugitive emissions*	140.3	-	-	96.4	191.2	-	-	428
		Subtotal	**1,102.0**	**64.6**	**7.0**	**62,258.7**	**199.8**	**4.3**	**3.0**	**63,639**
Indirect Emissions (Scope 2) from										
		Electricity consumption	3,640.7	67.7	13.9	1,169.9	6.4	35.8	17.5	4,952
		Subtotal	**3,640.7**	**67.7**	**13.9**	**1,169.9**	**6.4**	**35.8**	**17.5**	**4,952**
Indirect Emissions (Scope 3) from										
	S3 C1	Purchased goods & services	11,422.8	360.9	156.5	632.5	900.4	33.5	240.8	13,747
	S3 C2	Capital goods	3,300.2	-	-	-	-	-	-	3,300
	S3 C3	Fuel & energy related activities	35,199.0	5.7	1.2	17,551.9	0.5	2.6	100,214.4	152,975
	S3 C4	Upstream transportation & distribution	584.5	-	-	1,021.5	5.6	20.2	-	1,632
	S3 C5	Waste generated in operations**	13.1	-	-	3.4	-	-	-	16
	S3 C6	Business travel	1,653.1	90.2	184.3	79.8	158.1	41.4	79.5	2,287
	S3 C7	Employee commuting	765.8	73.6	19.1	9.6	11.2	6.0	41.7	927
	S3 C13	Downstream leased assets	12,489.6	1,186.4	-	-	-	-	-	13,676
	S3 C15	Investments	3,342.1	-	-	-	4,766.3	-	-	8,108
		Subtotal	**68,770.2**	**1,716.9**	**361.2**	**19,298.6**	**5,842.2**	**103.7**	**100,576.4**	**196,669**
Total Emissions (S1, 2 & 3)			**73,512.9**	**1,849.2**	**382.1**	**82,727.2**	**6,048.4**	**143.8**	**100,596.9**	**265,261**
Biomass (tCO_2)	Landfill gas consumed					17,996.3				**17,996**
	Woodwaste consumed					63,397.9				**63,398**
	Woodchips consumed					4,613.0				**4,613**
	Sludge consumed					1,932.7				**1,933**

**Air-conditioning records unavailable at Arc, Damwatch, Meridian USA and Powershop*
***MEL office waste & EFI production waste only*

SCOPE	GHG GAS (tCO_2e)	MERIDIAN ELECTRICITY	ARC INNOVATIONS	DAMWATCH	ENERGY FOR INDUSTRY	MERIDIAN AUSTRALIA	MERIDIAN USA	POWERSHOP	2011/12 tCO_2e
Scope 1									
	CO_2	945.5	63.7	7.0	60,827.6	8.5	4.2	2.9	61,859
	CH_4	1.6	0.3	0.0	219.7	0.0	0.0	0.0	222
	N_2O	14.7	0.6	0.1	1,115.1	0.1	0.0	0.0	1,131
	HFCs	17.2	-	-	96.4	-	-	-	114
	SF_6	123.1	-	-	-	191.2	-	-	314
	Subtotal	1,102.0	64.6	7.0	62,258.7	199.8	4.3	3.0	63,639
Scope 2									
	CO_2	3,640.7	67.7	13.9	1,169.9	6.4	35.8	17.5	4,952
	Subtotal	3,640.7	67.7	13.9	1,169.9	6.4	35.8	17.5	4,952
Scope 3									
	tCO_2e	68,770.2	1,716.9	361.2	19,298.6	5,842.2	103.7	100,576.4	196,669
	Subtotal	68,770.2	1,716.9	361.2	19,298.6	5,842.2	103.7	100,576.4	196,669
Total Emissions (S1, 2 &3)		**73,512.9**	**1,849.2**	**382.1**	**82,727.2**	**6,048.4**	**143.8**	**100,596.9**	**265,261**
Biomass (tCO_2)	Landfill gas consumed				17,996.3				**17,996**
	Woodwaste consumed				63,397.9				**63,398**
	Woodchips consumed				4,613.0				**4,613**
	Sludge consumed				1,932.7				**1,933**

INCLUSIONS

SCOPE	CATEGORY	GHG EMISSIONS SOURCE	DATA SOURCE	PERCENTAGE PRIMARY DATA (FROM SUPPLIER)	METHODOLOGY, ASSUMPTIONS, DATA QUALITY (QUALITATIVE)
Biomass	Combustion of biofuel (EFI only).	Landfill gas. Woodchip. Woodwaste. Sludge.	Supplier invoices. Records of heat and electricity outputs.		Accurate records of fuel used (where such records exist), estimated from output data at some sites multiplied by efficiency of equipment.
Scope 1	Stationary combustion (EFI only).	Fuel used for generation of electricity and heat.	Supplier invoices. Records of heat and electricity outputs.		Accurate records of fuel used (where such records exist), estimated from output data at some sites multiplied by efficiency of equipment. For Meridian Electricity facility there were no emissions from the 10,996 GWh of electricity generated in the reporting period, as the fuel used to generate this electricity was water and wind.
	Mobile combustion.	Boat travel (transport to Manapouri hydro power station).	Fuel storage readings.		Accurate records of litres used.
		Car travel (owned, leased, rented).	Odometer readings, rental records.		Estimated from accurate records of distance travelled x average fuel efficiency of vehicle class (small, medium or large). Driver behaviour and individual engine performance are not taken into account.
	Fugitive emissions.	Fugitive emissions from SF6 and air-conditioning systems.	Maintenance records.		Accurate records of storage cylinder weights[4]. Accurate records of 'top-ups'.
Scope 2	Electricity.	Electricity consumed in offices.	Records from Meridian’s billing system, supplier invoices. USA office - records of size of offices.		Accurate records from the billing system and supplier invoices, start and end of year are partially estimated. USA office - estimated using average energy consumption per ft^2 office space x office area[5].
		Electricity consumed at generation sites.	The electricity market reconciled consumption files, supplier invoices. Some EFI sites are calculated using operational data – information about generator running times and efficiency (not metered).		Accurate records of electricity consumed. Some EFI sites estimated based on expert knowledge and generator running hours.
Scope 3 Category 1	Purchased goods & services.	Professional services, IT services, maintenance services, production of smart meters (manufactured goods).	Purchase records (vendor invoice records).	0%	Records of expenditure, emissions factors from DEFRA based on $ spent. Professional and IT services factors adjusted for NZ conditions (approved by Landcare Research). Manufactured goods factor used for production of smart meters.
Scope 3 Category 2	Capital goods.	Major construction and plant upgrade materials[6].	Project records from manufacturer or design specifications.	0%	Records of weights or volumes of major materials used in construction projects.

4 The emission factor has been sourced from the IPPC Second Assessment Report.

5 www.eia.doe.gov

6 This year there were only projects within Meridian Electricity, consisting of maintenance and investigation projects.

INCLUSIONS (CONTINUED)

SCOPE	CATEGORY	GHG EMISSIONS SOURCE	DATA SOURCE	PERCENTAGE PRIMARY DATA (FROM SUPPLIER)	METHODOLOGY, ASSUMPTIONS, DATA QUALITY (QUALITATIVE)
Scope 3 Category 3	Fuel related emissions (not Scope 1 or 2).	Electricity purchased and on-sold to end users.	The electricity market reconciled consumption files. Internal records from site.	0%	Meridian and Powershop – Accurate records of wholesale market sales and purchase information using an Annual Netting Off methodology[7]. In this reporting period, Meridian generated less electricity than was required to meet its customers' demand (including lines losses). The surplus electricity was multiplied by an emission factor higher than the NZ average to reflect Meridian's contribution of renewable energy to the electricity network. EFI – calculated from accurate records of retail electricity sales multiplied by the NZ average emissions factor for electricity.
		Production & distribution of fuel.	Fuel invoices		Calculated from amount of fuel consumed using emissions factors derived from LCA studies.
Scope 3 Category 4	Upstream transportation and distribution.	Freight of major materials, fuel to site, and waste to landfill.	Project records. Fuel invoices. Freight invoices. Waste disposal invoices. Operational data.	37%	Calculated from estimates of weight of materials x distance travelled.
		Contractor fuel (operational maintenance, construction, retail meter reading and meter maintenance).	Contractor records. Supplier estimates of distances. Samples of vehicle types used.		Estimates of the amount of fuel used, or Calculated using a formula of estimated distance x estimated emissions factor based on contractor information of the types of vehicles used. The emissions factor is a weighted average of the vehicle types.
Scope 3 Category 5	Waste.	Office waste to landfill (Meridian Electricity only).	Waste audit.	79%	Estimate of total volume of biodegradable waste to landfill (one week's waste in June 2012 extrapolated out to a year).
		Production waste to landfill[8] (EFI only).	Operational records.		Estimated from waste bin supplier invoices.
Scope 3 Category 6	Business Travel.	Air travel (domestic & international).	Purchase records (supplier data, internal purchasing systems).	94%	Supplier records of flights taken, which are then checked for accuracy by finance teams and the Procurement Team. Calculated using the distances travelled by sector. Distances are calculated using Great Circle Mapper[9].
		Car travel (taxis).	Purchase records (internal purchasing systems).		Records of expenditure.
		Car travel (private vehicles).	Odometer readings.		Estimated from accurate records of distance travelled x average fuel efficiency of vehicle class (small, medium or large).

7 *In dry years, Meridian may need to purchase electricity from the grid to supply to its retail customers in excess of the renewable electricity supplied by Meridian to the grid. This difference is calculated on an annual basis (Annual Netting Off) at financial year end only. The annual netting off approach has been approved by carboNZero Holdings and conforms to green energy programme precedents in the US (Green-e), Australia (Greenpower), and Europe (Euguene). 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.*

8 *From Silver Fern Farms only.*

9 *www.gcmap.com*

INCLUSIONS (CONTINUED)

SCOPE	CATEGORY	GHG EMISSIONS SOURCE	DATA SOURCE	PERCENTAGE PRIMARY DATA (FROM SUPPLIER)	METHODOLOGY, ASSUMPTIONS, DATA QUALITY (QUALITATIVE)
Scope 3 Category 7	Employee commuting.	Employee commuting.	Employee survey.	100%	Estimated from survey results[10], distance travelled x type of transport used.
Scope 3 Category 13	Downstream leased assets.	Electricity consumed in smart meters.	Design parameters of smart meter product.	0%	Estimate of number of meters installed multiplied by the typical annual electricity consumption per meter.
		Leased land - farms.	Land register.		Land areas from lease documents
Scope 3 Category 15	Investments.	Dairy farms – (Scope 1 & 2).	Farm report. Supplier invoices.	100%	Livestock and fertiliser emissions calculated using the Lincoln University Carbon Calculator for New Zealand. Agriculture and Horticulture[11] based on livestock numbers and estimates of the amount of fertiliser applied. Fuel use estimated by farm manager. Electricity consumption from supplier invoices.
		Efficient Home Energy (Whisper Tech's Spanish manufacturing venture) – (Scope 1 & 2)	Revenue records Activity data from factory records		Estimate based on proportion of increased production/sales compared to 2011 and extrapolated from last year's gas and electricity consumption usage.
		Macarthur wind farm	Activity data from construction contractors		Accurate records of electricity and fuel use on site

10 *Survey of ~800 staff, 568 responses received, survey asked for a typical week, extrapolated to a year and all staff.*

11 *(http://www.lincoln.ac.nz/carboncalculator/ This is a free web-based carbon footprint calculator, built by AgriLINK NZ and Lincoln University's Agribusiness and Economics Research Unit (AERU). It was made specifically for NZ's primary industry and uses life cycle assessment methodologies.*

EXCLUSIONS

The following exclusions are estimated to be less than 1% of the Meridian Group's total GHG emissions.

SCOPE	CATEGORY	GHG EMISSIONS SOURCE	FACILITIES	REASON FOR EXCLUSION
Scope 1	Stationary combustion.	Back-up generators.	All facilities with relevant activity in reporting period.	Estimated to be de *minimus*.
	Fugitive emissions.	Fugitive emissions from SF6.	Meridian USA.	Sealed equipment (doesn't need topping up).
		Fugitive emissions from air-conditioning systems.	All facilities other than Meridian Electricity and Energy for Industry.	Difficult to get data on leakage from office landlords.
		Fugitive emissions from fridges and vehicle AC systems.	All facilities.	Difficult to obtain the data, estimated to be de *minimus*.
Scope 2	Electricity.	Electricity consumed at Manapouri power station.	Meridian Electricity.	Not metered, estimated to be de *minimus*.
		Electricity consumed in offices.	Energy for Industry.	Included in the Meridian Electricity facility.
Scope 3 Category 1	Purchased goods & services.	Water.	All facilities.	Difficult to obtain the data, estimated to be de *minimus*.
		Stationary and print.	All facilities.	Difficult to obtain the data, estimated to be de *minimus*.
		Furniture.	All facilities.	Difficult to obtain the data, estimated to be de *minimus*.
		IT hardware.	All facilities.	Difficult to obtain the data, estimated to be de *minimus*.
Scope 3 Category 3	Fuel related emissions (not Scope 1 or 2).	Production & distribution of sludge.	All facilities.	Sludge produced on site as a waste product, estimated to be de *minimus*.
Scope 3 Category 4	Upstream transportation and distribution.	Freight - courier packages and minor materials.	All facilities.	Difficult to obtain the data, estimated to be de *minimus*.
Scope 3 Category 5	Waste.	Office waste to landfill.	All facilities other than Meridian Electricity.	Difficult to obtain the data, estimated to be de *minimus*.
		All other sources of waste.	All facilities.	Difficult to obtain the data, estimated to be de *minimus*.
Scope 3 Category 6	Business travel.	Hotel accommodation.	All facilities.	Difficult to obtain the data, estimated to be de *minimus*.
Scope 3 Category 8	Upstream leased assets.	N/A		Consolidation approach is operational control, so all upstream leased assets are included in Scope 1 and 2.
Scope 3 Category 9	Transportation and distribution of sold products.	N/A		Distribution of electricity accounted for in Scope 3 Category 3.
Scope 3 Category 10	Processing of sold products.	N/A		Not applicable.

12 Ceramic Fuel Cells Limited, Nth Power LLC, Comverge Com, Fonterra Co-operative Group Ltd.

EXCLUSIONS (CONTINUED)

SCOPE	CATEGORY	GHG EMISSIONS SOURCE	FACILITIES	REASON FOR EXCLUSION
Scope 3 Category 11	Use of sold products.	N/A		N/A
Scope 3 Category 12	End of life treatment of sold products.	Disposal of bills and newsletters.	All facilities.	Difficult to obtain the data, estimated to be de *minimis*.
Scope 3 Category 13	Franchises.	N/A		No franchises.
Scope 3 Category 15	Investments.	Whisper Tech Christchurch operations.	Meridian Electricity.	Difficult to obtain the data, estimated to be de *minimis*.
		Dairy farms milk vat refrigeration.	Meridian Electricity.	Difficult to obtain the data, estimated to be de *minimis*.
		Four small investments.	Meridian Electricity.	Difficult to obtain the data, estimated to be de *minimis*.

STAKEHOLDER ANALYSIS

STAKEHOLDER	KEY INTERESTS AND CONCERNS	MERIDIAN'S RESPONSE	ENGAGEMENT METHOD
Generation Communities	• Honest and open communication and engagement. • Consequences of our role as a generator – environmental, commercial, social and cultural.	• Ongoing participation in the community where appropriate. • Early engagement and consultation. • Compliance with resource consent conditions. • Community funds.	• Newsletters. • Community meetings. • Open days and drop-in hubs. • Community liaison. • Participation in community events, i.e. project milestone celebrations • Community surveys.
Iwi	• Tangata whenua – guardians of the natural resources within their rohe. • Consequences of the company's role as a generator – environmental, commercial, social and cultural. • Honest and open communication.	• Full consultation on management of natural resources. • Memoranda of understanding. • Mitigation responses. • Partnership approaches that recognise iwi aspirations. • Sponsorship opportunities.	• Appropriate iwi engagement. • Participation in iwi events.
Customers	• Affordable power. • Customer service. • Accurate billing. • Access to data to help understand energy use. • Security of supply. • Energy efficiency and sustainability.	• Assistance to customers during state of emergency. • Unbundling of network and energy costs in billing. • Improved disconnection process. • Smart meters and regular meter reads. • Energy efficiency advice and sustainability offerings.	• Customer contact centre and account managers. • Newsletters. • Website and customer portal. • Customer satisfaction surveys. • Direct mail and email.
Employees	• An employment experience that meets expectations. • An employer who genuinely cares for the wellbeing of staff. • An employer who is well respected in the community.	• Focus on leadership, capability development, and performance. • Management development programme. • Graduate and apprenticeship programme. • Health and safety at work focus, including wellness program. • Recognition of staff requirements during uncertain times – e.g. Canterbury earthquakes. • Credible approach to sustainability.	• Employee engagement surveys. • Intranet. • Senior management updates to staff. • Staff events. • Competency based learning modules. • Leadership and capability development programmes. • Individual development plans for employees. • 1:1 performance reviews and feedback.
Shareholder	• Commercial performance. • Efficient delivery of services, transparency around drivers of performance/profit. • Responsible employer.	• Sound business planning based on long-term financial objectives. • Improved reporting including quarterly operational reports and material disclosures. • Commitment to health and safety and corporate social responsibility.	• Annual and half year report. • Statement of Corporate Intent. • Annual Public meeting. • Regular meetings and briefing with Government officials.

(CONTINUED)

STAKEHOLDER	KEY INTERESTS AND CONCERNS	MERIDIAN'S RESPONSE	ENGAGEMENT METHOD
Government & Electricity Sector	• Contribution to economic growth through development. • Efficient use of resources. • Environmental responsibility. • Competitive market outcomes.	• Engagement with the Government, electricity regulator and electricity sector on key energy policy issues. • Development of cost-competitive renewable energy generation. • Commitment to sustainability and environmental stewardship. • Submissions supporting competitive and rational market outcomes.	• 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. • Fair and open procurement.	• Promote early notification of significant work programmes. • Active application of supplier relationship management practices. • Ensure adherence to fair, open, transparent and reasonable market engagement processes. • Develop clear and well defined requirements. • Encourage local business participation wherever possible.	• Market engagement documentation. • Contract negotiations. • Supplier meetings to discuss ongoing relationship. • Supplier briefings.
General community	• Security of supply. • Leader in sustainability and renewable generation. • Contributor to communities from social, economic and environmental perspectives.	• Management of water resources. • Development of cost-competitive renewable energy generation. • Commitment to renewable energy generation, sustainability and corporate social responsibility. • Sustainable procurement policy.	• Brand advertising campaigns. • Website. • Sponsorship. • Annual Report. • Media releases. • Educational material. • Public meetings.
Local Government	• Responsible developer of infrastructure. • Security of supply. • Contribution to the local economy. • Sustainably manage resources.	• Participation in processes to support best practice. • Commitment to sustainability and environmental stewardship.	• Meetings. • Submissions. • Hearing presentations. • Working group and committee participation.
Non Governmental Organisations	• Impact on natural resources and local community initiatives. • Open and honest communication.	• Engagement and consultation as appropriate. • Support for projects as appropriate. • Sustainability framework to reduce impact of operations.	• Meetings. • Correspondence. • Joint memberships of forums. • Presentations. • Membership of organisations. • Respond to information requests.
Investors (Lenders)	• Profitable, good employer. • Socially and fiscally responsible. • Return on investment. • Ability to meet interest and principle obligations on debt. • Open and honest communication	• Sound business planning based on long-term financial objectives. • Clear and regular operation reports and material disclosures.	• Regular meetings and open engagement. • Asset tours. • Prospectus. • Investment statement. • Rating reports. • Investor briefings. • Clear and regular operation reports and material disclosures.

GLOBAL REPORTING INITIATIVE INDEX

This report meets the requirements of GRI G3.0 Level C+.

DISCLOSURE OR INDICATOR		STATUS	PAGE	COMMENT
Profile Disclosures				
1	**Strategy and Analysis**			
1.1	Statement from the Chief Executive	Full	10-11	
1.2	Description of key impacts, risks and opportunities	Partial	6-11, 33	
2	**Organisational Profile**			
2.1	Name of reporting organisation	Full	4	
2.2	Primary brands, products and / or services	Full	5, 30-32, 39	
2.3	Operational structure	Full	5, 14-15	
2.4	Location of headquarters	Full	121	
2.5	Countries of operation	Full	5, 31, 39	
2.6	Nature of ownership and legal form	Full	39	
2.7	Nature of markets served	Full	5, 30-32	
2.8	Scale of the reporting organisation	Full	35, 18-21, 24, 28-29, 31	
2.9	Significant changes in size, structure or ownership	Full	32, 11	
2.10	Awards received in the reporting period	Full	10-11, 26, 29-30, 32, 36-38	
EU1	Installed capacity	Full	2-3	
EU2	Net energy output	Full	2-3	
EU3	Number of customer accounts	Full	28-29	
EU4	Transmission and distribution lines	N/A		Length not significant
EU5	Allocation of CO_2e emissions allowances	Full	36	
3	**Report Parameters**			
3.1	Reporting period	Full	120	
3.2	Date of most recent previous report	Full	120	
3.3	Reporting cycle	Full	120	
3.4	Contact point for questions	Full	121	
3.5	Process for defining report content	Full	120	
3.6	Boundary of the report	Full	120	
3.7	Specific limitations on the scope or boundary of the report	Full	120	
3.8	Basis for reporting on joint venture, subsidiaries, leased facilities, outsourced operations and other entities	Full	120	
3.9	Data measurement techniques and the basis of calculations	Full	120	
3.10	Explanation of the effect of any restatements	Full	109	
3.11	Significant scope, boundary or measurement changes	Full	109	
3.12	GRI index table	Full	118	
3.13	External assurance policy and practice	Full	108, 120	
4	**Governance, commitments and engagement**			
4.1	Governance structure	Full	39-42	
4.2	Indicate whether the Chair of the highest governance body is also an executive officer	Full	40	
4.3	Independence of the Board	Full	40	
4.4	Mechanisms to provide recommendations to the Board	Full	41	There are no direct mechanisms for employees to provide recommendations to the Board
4.6	Processes for avoiding conflict of interest	Full	40	

(CONTINUED)

DISCLOSURE OR INDICATOR		STATUS	PAGE	COMMENT
4.7	Processes for determining qualifications and expertise of Board members	N/A		Board appointed by the Govt
4.11	How the precautionary principle is addressed	Full	36	
4.14	List of stakeholder groups engaged	Full	116-117	
4.15	Identification and selection of stakeholders	Full	38	
4.16	Approaches to stakeholder engagement	Full	116-117	
4.17	Key topics and concerns from stakeholder engagement	Full	116-117	
Economic Performance Indicators				
Main economic impacts of the organisation throughout society, flow of capital amongst stakeholders				
EC1	Direct economic value generated and distributed	Partial	18	
EC2	Financial implications of climate change	Full	37	
EU10	Planned capacity against demand	Full	8, 26-27	
Environmental Performance Indicators				
Impacts on living and non-living natural systems				
EN13	Habitat enhancement and restoration	Partial	36	
EN16	Direct and indirect greenhouse gas emissions (Scope 1 & 2)	Full	110	
EN17	Indirect greenhouse gas emissions (Scope 3)	Full	110	
EN18	Initiatives to reduce greenhouse gas emissions	Partial	10, 37	
EN28	Compliance with environmental laws and regulations	Full	36	
Labour Practices and Decent Work Performance Indicators				
Adherence to internationally recognised universal standards				
LA1	Total workforce by employment type, employment contract and region	Partial	35	
LA6	Percentage of total workforce represented in formal H&S committees	Full	34	
LA7	H&S data (injuries, lost time, etc)	Full	34	
LA12	Percentage of total workforce receiving regular performance and career reviews	Full	34	
LA13	Workforce diversity	Partial	12-13, 34-35	
Society Performance Indicators				
Impacts on communities in which we operate and risks of unethical behaviour				
SO1	Programmes and practices that assess and manage the impacts of operations on communities	Partial	38	
SO5	Public policy positions and participation in public policy development and lobbying	Partial	26	
SO6	Financial contributions to political parties	Full	43	
Product Responsibility Performance Indicators				
Effect of or products/services upon customers				
PR5	Customer satisfaction practices and measures	Full	28, 30	
EU30	Average plant availability factor	Full	24, 26	

Deloitte's limited assurance report on page 108 covers the disclosure and indicators that are identified above as fully reported.

ABOUT THIS REPORT

This report is an integrated review of the Meridian Group's financial and sustainability performance in the financial year 1 July 2011 to 30 June 2012. The Group's last Annual Report relates to the previous financial year. Meridian reports its performance in full each year, and issues reports on aspects of performance throughout the year.

For this reporting year, the Meridian Group included the parent company Meridian Energy and subsidiaries Damwatch, EFI, Powershop, Meridian Australia, Meridian USA, Arc Innovations and Whisper Tech. Unless otherwise stated in this report, statements of non-financial information refer to the Parent company only. 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.

Included in this report is the full GHG inventory for the Meridian Group (a more detailed version of which has been audited by Deloitte) and a Global Reporting Initiative (GRI) index of reporting components covered. Deloitte has assured this report as meeting the requirements of GRI G3.0 Level C+.

The principles of the GRI G3.0 Reporting Guidelines and AA1000 have been followed in determining the contents of this report. Material issues have been identified through the company's regular stakeholder consultation channels, and internally through the use of our sustainability framework. These issues have then been prioritised for their influence on Meridian's current and future performance and their importance to key stakeholders. More information on key stakeholders, their key interests and Meridian's response can be found in the stakeholder analysis table on pages 116-117.

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If you would like to comment on Meridian's Annual Report, or if you have questions you'd like answered, please email annual.report@meridianenergy.co.nz

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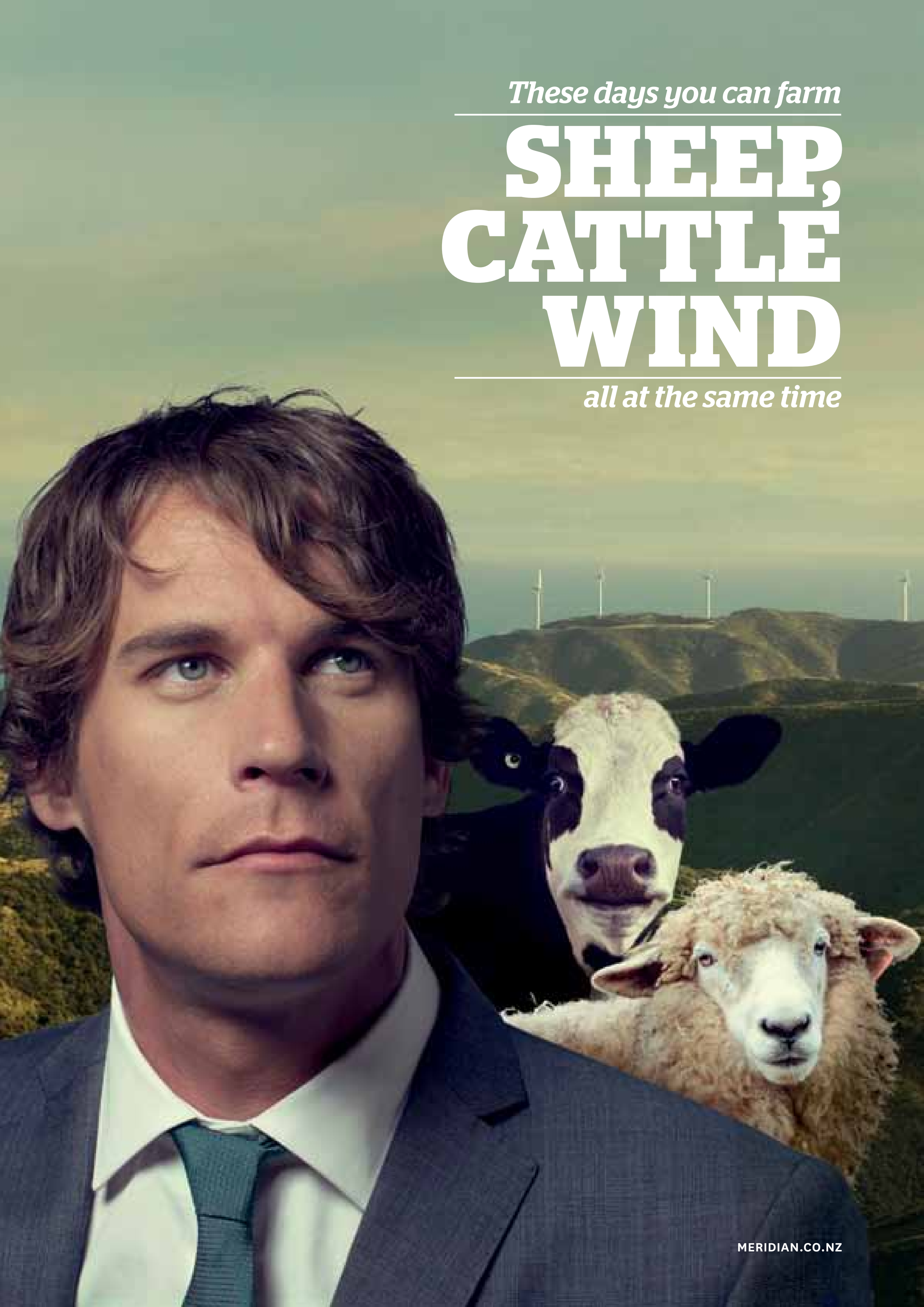

These days you can farm
SHEEP,
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