meridian

Renew

Meridian Energy's Report for the six months ended 31 December 2007

"We have a vision for the kind of service that the New Zealand electricity consumer deserves to have and it is so much better than what they have been getting up to now. Actions, not just words."

Keith Turner, Chief Executive

Cover:
Meridian customers from top left, clockwise: Jim, Kiri, Ruby and Mia Griffiths;
David Pearce, Meridian customer and chief winemaker, Grove Mill;
Jill Rudings, Meridian Business Customers Manager;
Stephen Lapslie, Christchurch Consumers Advisory Panel.

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Meridian Energy's Report for the six months ended 31 December 2007

Meridian – Global Reference Company

Meridian generates using only renewable resources and is the first energy company to provide certified carbon neutral electricity. We are taking a leadership role in renewable energy in New Zealand and are committed to becoming a global reference company in renewable energy.

Our customers are central to our business. Providing them with sustainable energy, innovative services and information are key objectives across Meridian.

This is our half yearly report on performance from 1 July 2007 to 31 December 2007. During the half year we made significant progress on a number of key projects, and continued sound financial and operating performance through a time of change.

Chairman and Chief Executive's Review

Financial performance

This half yearly report represents the first reporting period under New Zealand Equivalents to International Financial Reporting Standards – NZ IFRS. As a result of the transition to NZ IFRS Meridian is required to restate its opening balance sheet as at 1 July 2006 and report comparative amounts under NZ IFRS. Details of the impact of adopting NZ IFRS are provided in note 16.

Our trading Earnings Before Interest, Tax, Depreciation, Amortisation and Financial Instruments (EBITDAF) is $253.7 million compared to last year's for this period of $245.7 million.

Meridian achieved a net profit after tax of $93.7 million for the half year ended 31 December 2007.

Our generation plant and equipment were revalued upwards by $1.456 billion at the end of the 2007 financial year. As a result, depreciation for the period is higher than in previous years.

Operating conditions

National hydro generation inflows were near average during this period. As inflows had been slightly below average for the first six months of the year, we started the period with storage somewhat below average. It remained so from July to December. Aggregate national growth in demand for electricity for the six months was up approximately 1.5% on the corresponding period for the year before.

Meridian's generation for the half year was 6,078 GWh. This compares with 6,048 GWh for the period July to December 2006. For both years this was 30% of total New Zealand generation.

While Meridian generated less than planned for the period, revenues were maintained in part by the influence of lower inflows pushing up spot market electricity prices.

The sudden and unexpected closure of the HVDC Pole 1 link across the Cook Strait has had a material impact on the peak capacity of its operation, substantially reducing North Island peak system capacity margins – an issue that will have a major impact during the coming winter. We have accelerated the Benmore transformer upgrade project by six months to help mitigate output constraints at Benmore created by the Pole 1 closure.

HVDC constraints generally have serious implications for the whole electricity industry. Peak capacity constraints northwards will push up North Island prices over time. Energy transfer constraints southwards will reduce dry year reserve cover for the South Island, pushing up South Island prices.

Overall, plant performance is exceeding expectations. Hydro plant availability and reliability were 92.9% and 98.81% respectively. This has tracked above target for the six-month period. Wind availability was at 96%. Both hydro and wind operating unit costs were favourable compared to target for the period and the forced outage factor of 0.16% remained well below expected levels, showing that we are achieving and beating international plant performance.

Electricity market

In October Meridian signed an 18 year price agreement with New Zealand Aluminium Smelters Limited (NZAS) for electricity supply to the Rio Tinto aluminium plant at Bluff. The new agreement has added substantial value to Meridian and is the basis of a secure and reliable power supply to meet the smelter's operational needs. It also confirms for Meridian, and the wider electricity industry, our relationship with Rio Tinto for the term of the contract. This challenging negotiation took two years but resulted in a successful outcome for both parties.

More detail in relation to the NZAS contract is provided in note 9 of the financial statements

Customer initiatives

We have continued work on transforming our customer services. The appointment of a new retail director has added momentum to our plans to further develop the customer focus of our business. There has been an overhaul of our retail structure to support these initiatives.

Customers are already enjoying new choices, services and control over their electricity use. We strongly promote sustainable energy use to our customers through a multitude of initiatives.

Our carbon neutral brand position has attracted a great deal of interest, especially with business customers. We have seen some very large accounts move to Meridian as part of their own sustainable supply chain initiatives.

Our price adjustment for the residential market averaged 3.5% per annum. This average increase was below the market average increase for the period November 2006 to November 2007, which was 5.5% for incumbent retailers according to the Ministry of Economic Development. Meridian was the lowest priced major retailer in 20 of the 44 networks.

Meridian subsidiary Arc Innovations rolled out over 25,000 smart meters to Meridian customers in Christchurch. Our Right House subsidiary launched two stores in Auckland and one in Christchurch with a campaign to customers there. The response was encouraging for both Meridian and Right House and indicated a high level of interest in energy efficiency.

Keith Turner, Chief Executive (L)
Wayne Boyd, Chairman (R)

Generation

The first sod was turned for Project West Wind. With the reliability of Wellington wind, West Wind is likely to be one of the most productive wind farms in the world, capable of generating electricity 90% of the time and with a load factor approaching 48%. By contrast, European wind farms average only 23%.

The Manapouri hydro station upgrade was completed, taking consented capacity from 585MW to 730MW, although the plant is able to technically operate at above 900MW. The five-year refurbishment project has returned the generating units to an as-new condition as well as significantly improving efficiency and reliability.

White Hill wind farm began generating into the local network in May and was fully commissioned in October. Consent was gained for Project Hayes, a 176 turbine and up to 630MW wind farm planned for the Lammermoor Range in Central Otago. Appeals have been lodged against this decision.

The North Bank Tunnel Concept and Hunter Downs Irrigation Project water consent hearings were completed. The North Bank Tunnel Concept would take water from the existing Waitaki Dam and pass it through an underground station before returning the water to the Waitaki River some 33 km downstream. The project would add between 230MW and 260MW of capacity to the Waitaki chain. The Hunter Downs Irrigation Project would irrigate 40,000 ha of farmland between the Waitaki River and Timaru.

We have also lodged a consent application for a hydro station on the Mokihinui River in Buller.

Sustainability

In October, Meridian's head office moved to the country's most energy and water efficient, purpose-built building as a reference for what can be achieved with current technology. The building is a model for environmentally sustainable design. As the leader in the field of sustainable, clean, carbon neutral electricity generation, it is important that we also make the best use of all our resources, including our accommodation. The New Zealand Green Building Council has awarded the Queens Wharf building a five-star rating under their new rating tool – a first for a purpose-built building in New Zealand.

In September we posted, in partnership with Trade Me, The Marketplace Company (M-co) and the carboNZero Programme run by Landcare Research, three parcels of Gold Standard Verified Emission Reduction Units (VERs), or voluntary carbon credits, for sale on the Trade Me auction site. The auction generated huge public awareness of carbon trading, Meridian and our renewable position. It clearly showed that the climate change impact of carbon emissions is a concern held by a wide cross section of New Zealanders. Proceeds from the sale were gifted to Project Crimson. We will continue to look for ways to engage with and help New Zealanders participate in carbon markets.

In late 2006 Antarctic New Zealand was instructed by Cabinet to "explore the potential development by New Zealand of wind-generated electricity to supply Scott and McMurdo stations". Meridian has been working closely with Antarctic New Zealand and is now beginning construction of a pilot phase of three turbines connected into both Scott and McMurdo bases.

International

During the half year Meridian and its subsidiaries attracted international commercial attention, supporting our goal to be a global reference company in renewable energy.

Arc Innovations has proved its competitiveness by winning an international tender run by Canadian utility company ENMAX.

WhisperGen progressed a joint venture with the manufacturing arm of Mondragon. The Spanish international cooperative was motivated into this milestone deal by the strong market interest and potential of the product to substantially improve household energy efficiency. This domestic CHP unit is over 95% fuel efficient.

Damwatch completed its role on the Arapuni Foundation Rehabilitation Project. This has been a high profile project that has enhanced awareness of Damwatch internationally. Our specialist dam safety subsidiary has attracted interest from overseas consultancies for joint work on major projects.

We signed a Heads of Agreement with Australian energy company AGL for the joint development of Australia's largest consented wind farm at Macarthur in south west Victoria. With a permitted generating capacity of up to 450MW this development would employ Meridian's skills and experience across the Tasman and further leverage the competitive advantage we have gained on turbine procurement. Our international reputation as a leading developer of wind farms, as well as other offshore developments, positions us well for the future.

Wayne Boyd	**Keith Turner**
Chairman	**Chief Executive**

Half year Highlights

Performance

Good business is good for New Zealand

- Trading performance is ahead of the comparative period last year with EBITDAF of $253.7 million for the half year.
- Plant performance exceeded expectations. Hydro plant availability (92.9%) and reliability (98.81%) have tracked above target for the six-month period. Both hydro and wind operating unit costs were favourable.
- Significant progress was made on new generation developments.
- We achieved increased efficiency with completion of the Manapouri hydro refurbishment and advanced a programme to increase efficiency at Benmore.
- The price agreement with New Zealand Aluminium Smelters Limited for electricity supply to the Rio Tinto aluminium plant was signed.

Reputation

The Meridian brand commands respect

- Our market reputation continued to climb above market average, largely attributable to our carboNZero certification announcement and market positioning.
- We made significant progress on defining the Meridian brand and what this stands for in the market.
- Our leadership position in the energy industry was acknowledged through our participation in industry issues during this period – particularly consultation on the New Zealand Energy Strategy and our contribution to the debate over HVDC charges.
- Southland Mayor Frana Cardno publicly complimented us on the quality of our consultation for the White Hill wind farm and the way we had carried the community with us.
- The *National Business Review* named Keith Turner New Zealander of the Year for his contribution to renewable energy.

Customers

Our customers drive our business

- Arc Innovations continued to roll out smart meters to our Christchurch customers.
- We started implementing a coordinated programme of customer service initiatives.
- We celebrated our mid-year customer satisfaction results ahead of target for all customer segments. 58% of corporate customers rated Meridian's performance as Excellent or Very Good against a market average of 55% and a target of 50%. Amongst our larger SME customers we achieved satisfaction of 47% against a target of 46% and well ahead of a market average of 36%. For residential and smaller business customers satisfaction was 55% against a target of 46% and ahead of the total market on 52%.[1]

People

Our people are our strength

- The roll-out of new communication and collaboration technology across the company began with the move to the new Wellington office building.
- Six apprentices are engaged on our apprenticeship programme in Twizel and we are considering placing more at Manapouri.
- There were four new graduates on our graduate programme this half year.
- The Te Ao Māori Programme was launched to strengthen staff understanding of Māori interests and concerns.
- Employer contribution of 4% to KiwiSaver helped in achieving a 61% uptake.
- Overall, staff satisfaction in the interim survey in September came in at 93%, for staff positive about the company.
- Our ACC Health and Safety audit confirmed our tertiary status.

[1] Meridian Brand Monitor – December 2007, Colmar Brunton

Environment and sustainability

Sustainability is our culture

- We updated our Sustainability Statement, which explains Meridian's company-wide commitment to operating in a way that is environmentally, socially and economically responsible.
- The Prime Minister opened our new, energy-efficient Wellington building in October. The building is a showcase for how a commercial building can not only be efficient but enhance staff interaction and performance.
- Right House pioneered a new holistic approach to energy efficiency with its Auckland Home Show launch in September.
- Right House secured a $1.5 million project to reduce power consumption and increase the use of small scale renewable generation on Stewart Island to reduce reliance on diesel generation.

Innovation

Performance and opportunity

- The North Bank Tunnel Concept water consent hearings showcased the innovation that converted an above-ground hydro idea into an underground concept with minimal environmental effects.
- In Canada, Arc Innovations achieved international recognition for its smart metering products.
- WhisperGen's life testing trial proved a 30,000 hour continuous, un-serviced running life for its patented wobble yoke transmission, with 90% confidence.
- The Manapouri upgrade was completed, taking the consented output of the station to 730MW on a maximum discharge of 510 cumecs and the technical maximum to over 900MW.
- We started a major upgrade of Benmore hydro station to improve output and address constraints.
- New office technology broke new ground with energy-efficient information technology, Voice Over Internet Protocol telephony and advanced video conferencing to connect our staff.
- We announced our intention to conduct an electric car trial to find out how they will perform in New Zealand conditions.
- Energy for Industry began construction of an 8.5MW bubbling fluidised bed boiler at PPCS's Finegand meat processing plant near Balclutha. The boiler offers major environmental advantages.

Community

We are a vital part of our communities

- We signed a memorandum of understanding with the Wellington Tenths Trust to support Project West Wind and develop our relationship.
- Ngati Waewae gifted Meridian a large piece of pounamu for the new Wellington office foyer as a gesture of the commitment that both parties have to strengthening Iwi relationships.
- In consultation with local communities we dispersed $227,670 to local projects through community funds – Manapouri, Waitaki and Te Āpiti.
- We are now Project Crimson's major sponsor. In December we helped launch their Canterbury Crimson Trail, which showcases and protects the native rata trees of the region.
- The Meridian season of the Royal New Zealand Ballet's Swan Lake in July was a huge success.

Financial Statements

Meridian Energy Limited – Income Statement for the six months ended 31 December 2007

	NOTE	GROUP **UNAUDITED 6 MONTHS ENDED 31 DEC 2007 $'000**	UNAUDITED 6 MONTHS ENDED 31 DEC 2006 $'000	UNAUDITED 12 MONTHS ENDED 30 JUNE 2007 $'000
Operating Revenue				
Energy Sales		**897,874**	862,661	1,744,079
Energy Related Services Revenue		**2,395**	2,513	5,393
Other Revenue		**8,117**	8,370	15,241
		908,386	873,544	1,764,713
Operating Expenses				
Energy Related Costs		**(339,938)**	(345,378)	(707,224)
Energy Transmission and Distribution		**(204,905)**	(185,918)	(362,372)
Employee Costs		**(34,892)**	(26,277)	(55,284)
Other Operating Expenses		**(74,982)**	(70,235)	(162,371)
		(654,717)	(627,808)	(1,287,251)
Earnings Before Interest, Tax, Depreciation, Amortisation and Financial Instruments (EBITDAF)		**253,669**	245,736	477,462
Finance Costs	2	**(29,630)**	(27,924)	(56,323)
Interest Income		**2,561**	7,927	10,364
Net Finance Costs		**(27,069)**	(19,997)	(45,959)
Depreciation		**(71,177)**	(53,577)	(109,364)
Amortisation of Intangible Assets		**(3,898)**	(4,122)	(8,000)
Profit Before Tax and Fair Value Movements of Financial Instruments		**151,525**	168,040	314,139
Fair Value (Loss)/Gain on Financial Instruments		**(8,851)**	7,893	24,546
Profit Before Tax		**142,674**	175,933	338,685
Income Tax Expense	3	**(49,000)**	(59,367)	(97,455)
Profit After Tax		**93,674**	116,566	241,230
Profit After Tax Attributable to:				
Shareholders of the Parent Company		**92,913**	116,112	240,444
Minority Interest		**761**	454	786
		93,674	116,566	241,230

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

Meridian Energy Limited – Statement of Movements in Equity
for the six months ended 31 December 2007

		GROUP		
	NOTE	**UNAUDITED 6 MONTHS ENDED 31 DEC 2007 $'000**	UNAUDITED 6 MONTHS ENDED 31 DEC 2006 $'000	UNAUDITED 12 MONTHS ENDED 30 JUNE 2007 $'000
Equity at Beginning of Period		**4,401,790**	3,438,064	3,438,064
Recognition of Minority Interest on Acquisition of Controlled Entities		**-**	10,824	10,824
Post Acquisition Assessed Retained Earnings of Controlled Entities		**-**	(2,133)	(2,133)
Restated Equity at Beginning of Period		**4,401,790**	3,446,755	3,446,755
Profit After Tax Attributable to:				
- Shareholders of the Parent		**92,913**	116,112	240,444
- Minority Interest		**761**	454	786
Movement in Revaluation Reserve		**-**	7,006	1,093,796
Movement in Foreign Currency Translation Reserve		**1**	(2)	(2)
Movement in Cash Flow Hedge Reserve		**7,984**	5,014	(12,575)
Movement in Other Reserves		**(198)**	-	479
Total Recognised Income and Expenses		**101,461**	128,584	1,322,928
Dividends Paid	10	**(62,009)**	(300,000)	(367,893)
Equity at End of Period		**4,441,242**	3,275,339	4,401,790

Meridian Energy Limited – Balance Sheet as at 31 December 2007

		GROUP		
	NOTE	**UNAUDITED 31 DEC 2007 $'000**	UNAUDITED 31 DEC 2006 $'000	UNAUDITED 30 JUNE 2007 $'000
Shareholders' Equity				
Share Capital		**1,600,000**	1,600,000	1,600,000
Revaluation Reserve		**2,746,509**	1,659,719	2,746,509
Foreign Currency Translation Reserve		**5**	4	4
Cash Flow Hedge Reserve		**10,300**	19,905	2,316
Other Reserves		**1,346**	1,065	1,544
Retained Earnings		**70,711**	(16,632)	39,807
Equity Attributable to Shareholders of the Parent		**4,428,871**	3,264,061	4,390,180
Minority Interest		**12,371**	11,278	11,610
Total Equity		**4,441,242**	3,275,339	4,401,790
Represented by:				
Current Assets				
Cash and Cash Equivalents		**38,179**	41,429	44,755
Accounts Receivable and Prepayments		**207,954**	159,724	221,702
Inventories		**9,125**	9,587	10,965
Current Tax Receivable		**-**	-	8,548
Derivative Financial Instruments	8	**1,609**	1,832	1,055
Total Current Assets		**256,867**	212,572	287,025
Non-Current Assets				
Prepayments		**1,381**	1,753	609
Investments		**15,371**	16,202	16,567
Derivative Financial Instruments	8	**50,011**	42,683	39,888
Intangible Assets		**34,317**	27,678	33,448
Customer Acquisition Costs		**12,855**	19,458	16,144
Deferred Tax Assets	4	**49**	132	37
Property, Plant and Equipment		**6,358,059**	4,827,753	6,315,073
Total Non-Current Assets		**6,472,043**	4,935,659	6,421,766
Total Assets		**6,728,910**	5,148,231	6,708,791
Current Liabilities				
Payables and Accruals		**169,033**	115,864	201,868
Provisions		**9,394**	8,089	15,952
Current Tax Payable		**8,962**	21,494	-
Derivative Financial Instruments	8	**16,543**	2,148	3,583
Total Current Liabilities		**203,932**	147,595	221,403
Liabilities				
Non-Current Liabilities				
Term Borrowings		**676,487**	693,188	629,707
Derivative Financial Instruments	8	**73,343**	55,191	124,119
Deferred Tax Liability	4	**1,333,906**	976,918	1,331,772
Total Non-Current Liabilities		**2,083,736**	1,725,297	2,085,598
Total Liabilities		**2,287,668**	1,872,892	2,307,001
Net Assets		**4,441,242**	3,275,339	4,401,790

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

Meridian Energy Limited – Cash Flow Statement for the six months ended 31 December 2007

	NOTE	GROUP **UNAUDITED 6 MONTHS ENDED 31 DEC 2007 $'000**	UNAUDITED 6 MONTHS ENDED 31 DEC 2006 $'000	UNAUDITED 12 MONTHS ENDED 30 JUNE 2007 $'000
Operating Activities				
Cash was Provided from:				
Receipts from Customers		**918,684**	945,809	1,778,906
Net GST Received		**2,043**	2,569	-
Interest Received		**2,561**	8,053	10,296
		923,288	956,431	1,789,202
Cash was Applied to:				
Payments to Suppliers and Employees		**689,713**	704,845	1,283,295
Net GST Paid		**-**	-	45
Interest Paid		**30,209**	27,885	44,113
Income Tax Paid		**32,560**	34,535	111,570
		752,482	767,265	1,439,023
Net Cash Inflows from Operating Activities	5	**170,806**	189,166	350,179
Investment Activities				
Cash was Provided from:				
Sale of Property, Plant and Equipment		**285**	1,368	9,664
Sale of Investments		**978**	203	192
		1,263	1,571	9,856
Cash was Applied to:				
Purchase of Property, Plant and Equipment		**115,948**	86,841	184,016
Capitalised Interest		**572**	739	1,258
Acquisition of Controlled Entities		**-**	13,138	13,138
Purchase of Intangible Assets		**50**	147	211
Purchase of Investments		**66**	267	588
		116,636	101,132	199,211
Net Cash Outflows from Investing Activities		**(115,373)**	(99,561)	(189,355)
Financing Activities				
Cash was Applied to:				
Dividends Paid		**62,009**	300,000	367,893
		62,009	300,000	367,893
Net Cash Outflows from Financing Activities		**(62,009)**	(300,000)	(367,893)
Net (Decrease)/Increase in Cash and Cash Equivalents		**(6,576)**	(210,395)	(207,069)
Cash and Cash Equivalents at Beginning of Period		**44,755**	251,824	251,824
Cash and Cash Equivalents at End of Period		**38,179**	41,429	44,755

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

1. Summary of Accounting Policies

Reporting Entity and Statement of Compliance

Meridian Energy Ltd (the Company) is domiciled in New Zealand and registered under the Companies Act 1993. The shares in Meridian Energy Ltd are held in equal numbers by the Minister for State-Owned Enterprises and the Minister of Finance, on behalf of Her Majesty the Queen in Right of New Zealand ("the Crown") under the State-Owned Enterprises Act 1986.

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

The condensed interim financial statements comprise those of Meridian Energy Ltd (the "Parent") and its subsidiaries (together referred to as "Meridian" or "Group").

These unaudited condensed interim financial statements have been prepared in accordance with the New Zealand Equivalents to IAS 34: *Interim Financial Reporting* and IAS 34: *Interim Financial Reporting*. For the purposes of financial reporting Meridian is a profit-oriented entity.

The reporting period for these financial statements is the six months ended 31 December 2007.

The financial statements were authorised for issue by the directors on 27 February 2008.

Basis of Preparation

These are Meridian's first consolidated financial statements complying with the measurement and recognition requirements of the New Zealand Equivalents to International Financial Reporting Standards "NZ IFRS" and NZ IFRS 1: *First Time Adoption of New Zealand Equivalents to International Financial Reporting Standards* has been applied. An explanation of how the transition to NZ IFRS has affected the reported financial position, financial performance, and cash flows of Meridian is provided in note 16.

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

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

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

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

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.[1] 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.

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

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

Judgements that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are in relation to price path estimates which have been used to fair value the generation structures and plant assets and energy derivatives.

Significant Accounting Policies

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

Basis of Consolidation

Subsidiaries

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

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

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

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

Foreign Currency

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

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

Property, Plant and Equipment

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

Meridian Energy Limited – Notes to the Condensed Interim Financial Statements
for the six months ended 31 December 2007 (continued)

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

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

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

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

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

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

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

The following depreciation and amortisation rates have been applied:

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

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

Intangible Assets

Customer Acquisition Costs

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

Computer Software

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

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

Research and Development Costs

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

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

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

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

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

Impairment of Non-financial Assets other than Goodwill

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

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.

Financial Instruments

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

Financial Assets

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

Available for Sale Investments

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

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

Investments in Subsidiaries

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

Trade Receivables

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

Cash and Cash Equivalents

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

Borrowings

Borrowings are recognised initially at fair value, net of transaction costs. Borrowings not designated as hedged items are subsequently stated at amortised cost; 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.

Discounts, premiums and prepaid interest and borrowing costs such as origination, commitment and transaction fees are amortised to interest expense on a yield-to-maturity basis over the period of the borrowing. Any difference between the cost and redemption value is recognised in the income statement over the period of the borrowings on an effective interest basis.

Trade Payables

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

Derivative Financial Instruments and Hedge Accounting

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

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured on a periodic basis at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. Meridian designates certain derivatives as either: (1) hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedge); or (2) hedges of a particular risk associated with a recognised asset or liability or a highly probable forecast transaction (cash flow hedge), whilst some derivatives are not in a designated hedging relationship.

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

(a) Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

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

(b) Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement.

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

However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability.

Meridian Energy Limited – Notes to the Condensed Interim Financial Statements
for the six months ended 31 December 2007 (continued)

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

(c) Other derivatives
Changes in the fair value of any derivative instruments that do not qualify for hedge accounting or for which hedge accounting is not actively sought are recognised immediately in the income statement.

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

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

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

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

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

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

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

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

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

Taxation

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

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

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

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

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

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

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

Employee Benefits

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

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

Goods and Services Tax

The Income and Cash Flow Statements are prepared on a GST exclusive basis. All items in the Balance Sheet are stated net of GST, except for receivables and payables, which include GST.

Inventories

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

Provisions

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

Operating Leases

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

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

Revenue Recognition

Sale of Energy and Other Related Services

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

Revenue from a contract to provide services is recognised by reference to the stage of completion of the contract.

Dividend Income

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

Interest Income

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

Energy Related Costs

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

Cash Flow Statement

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

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

Cash comprises cash on hand and demand deposits.

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value.

Cash flows are inflows and outflows of cash and cash equivalents.

Operating activities are the principal revenue-producing activities of the entity and other activities that are not investing or financing activities.

Investing activities are the acquisition and disposal of long-term assets and other investments not included in cash equivalents.

Financing activities are activities that result in changes in the size and composition of the contributed equity and borrowings of the entity.

Comparatives

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

Meridian Energy Limited – Notes to the Condensed Interim Financial Statements
for the six months ended 31 December 2007 (continued)

2. Finance Costs

	GROUP		
	UNAUDITED 6 MONTHS ENDED 31 DEC 2007 $'000	UNAUDITED 6 MONTHS ENDED 31 DEC 2006 $'000	UNAUDITED 12 MONTHS ENDED 30 JUNE 2007 $'000
Interest on Term Borrowings	**30,202**	28,663	57,581
Less Capitalised Interest	**(572)**	(739)	(1,258)
	29,630	27,924	56,323

3. Income Tax Expense

	GROUP		
	UNAUDITED 6 MONTHS ENDED 31 DEC 2007 $'000	UNAUDITED 6 MONTHS ENDED 31 DEC 2006 $'000	UNAUDITED 12 MONTHS ENDED 30 JUNE 2007 $'000
Current Tax	**50,085**	55,878	102,871
Deferred Tax	**(1,085)**	3,489	(5,416)
Income Tax Expense	**49,000**	59,367	97,455
Income Tax Expense can be reconciled to accounting profit as follows:			
Profit Before Tax	**142,674**	175,933	338,685
Income Tax at 33%	**47,082**	58,058	111,766
Tax Effect of Expenditure Not Deductible for Tax	**1,129**	99	1,534
Tax Effect of Income Not Subject to Tax	**(73)**	-	(41)
Income Tax Under/(Over) Provided in Prior Period	**-**	-	(1,579)
Effect of Corporate Tax Rate Reduction on Deferred Tax Liability	**280**	-	(16,744)
Other	**582**	1,210	2,519
Income Tax Expense	**49,000**	59,367	97,455

4. Deferred Tax Liability

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

	GROUP		
	UNAUDITED 31 DEC 2007 $'000	UNAUDITED 31 DEC 2006 $'000	UNAUDITED 30 JUNE 2007 $'000
Balance at Beginning of Period	**1,331,735**	970,827	970,827
Movement in Temporary Differences Recognised in:			
- Income Statement	**(1,365)**	3,489	11,328
- Equity	**3,628**	2,470	480,497
Effect of Corporate Tax Rate Reduction on:			
- Income Tax Expense	**280**	-	(16,744)
- Revaluation Reserve	**-**	-	(113,928)
- Cash Flow Hedge Reserve	**(429)**	-	(126)
- Other Reserves	**8**	-	(119)
	1,333,857	976,786	1,331,735
Consisting of Temporary Differences on the following:			
Property, Plant and Equipment	**1,322,425**	965,679	1,322,231
Financial Instruments	**10,033**	13,658	9,503
Other	**1,399**	(2,551)	1
	1,333,857	976,786	1,331,735

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

	GROUP		
	UNAUDITED 31 DEC 2007 $'000	UNAUDITED 31 DEC 2006 $'000	UNAUDITED 30 JUNE 2007 $'000
Deferred Tax Liability	**1,333,906**	976,918	1,331,772
Deferred Tax Asset	**(49)**	(132)	(37)
	1,333,857	976,786	1,331,735

Meridian Energy Limited – Notes to the Condensed Interim Financial Statements
for the six months ended 31 December 2007 (continued)

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

	GROUP		
	UNAUDITED 6 MONTHS ENDED 31 DEC 2007 $'000	UNAUDITED 6 MONTHS ENDED 31 DEC 2006 $'000	UNAUDITED 12 MONTHS ENDED 30 JUNE 2007 $'000
Profit after Tax for the Period	**93,674**	116,566	241,230
Adjustments for Non-Cash Items:			
Depreciation	**71,177**	53,577	109,364
Amortisation of Intangible Assets	**3,898**	4,122	8,000
Fair Value Loss/(Gain) on Financial Instruments	**8,851**	(7,893)	(24,546)
Movement in Deferred Tax	**(1,085)**	3,489	(5,416)
Impairment of Investments	**-**	-	487
Amortisation of Prepaid Debt Facility Fees	**712**	781	1,421
	83,553	54,076	89,310
Items Classified as Investing Activities:			
Net Loss/(Gain) on Sale of Property, Plant and Equipment	**646**	(524)	(1,040)
Gain on Sale of Investments	**-**	(18)	-
Gain Recognised on Investment in Whisper Tech Joint Venture	**-**	(239)	(239)
	646	(781)	(1,279)
Changes in Working Capital Items:			
Decrease in Accounts Receivable and Prepayments	**12,976**	72,945	12,111
Decrease/(Increase) in Inventory	**1,840**	(6,481)	(7,859)
(Decrease)/Increase in Payables and Accruals	**(32,835)**	(77,273)	8,731
(Decrease)/Increase in Provisions	**(6,558)**	8,089	15,952
Increase/(Decrease) in Current Tax Payable	**17,510**	19,409	(10,633)
Net Working Capital of Subsidiary Acquired	**-**	2,616	2,616
	(7,067)	19,305	20,918
Net Cash Flow from Operating Activities	**170,806**	189,166	350,179

6. Borrowings

There were no changes to borrowings during the period.

7. Financial Risk Management

Meridian's activities expose it to a variety of financial risks: market risk (including electricity price risk, currency risk, interest rate risk), credit risk and liquidity risk. Meridian's overall risk management programme focuses on the unpredictability of financial markets and the electricity spot price and seeks to minimise potential adverse effects on the financial performance and economic value of the group. Meridian uses derivative financial instruments including foreign exchange contracts, cross currency interest rate swaps (CCIRS), currency options, interest rate swaps (IRS) and contracts for difference (CfD's) to hedge certain risk exposures.

Risk management is carried out under policies approved by the board.

Foreign Exchange Risk

Meridian borrows in foreign currencies and is exposed to foreign exchange risks, primarily in respect of the US and Australian dollar. Meridian's policy is to hedge 100% of the foreign currency exposure of both interest and principal repayments. This is achieved through CCIRS which swap all foreign currency denominated interest and principal repayments with New Zealand denominated floating exposure over the life of the borrowings.

Meridian establishes a combination of both cash flow and fair value hedges for the CCIRS and the foreign denominated borrowings.

In addition, Meridian incurs capital expenditure denominated in foreign currencies which exposes Meridian to foreign exchange risk primarily in respect of US dollars, Japanese yen and the Euro.

Meridian hedges the foreign exchange risk through a combination of foreign exchange forward contracts and options and where appropriate has designated these as cash flow hedges.

Interest Rate Risk

Meridian's main interest rate risk arises from long term borrowings which are issued at both fixed interest rates and floating interest rates. In addition, as described in the section above, the combination of foreign denominated borrowings and the CCIRS result in an exposure to floating New Zealand interest rates.

Meridian manages its interest rate exposure on a net grouped basis by first entering into a number of "fixed to floating" IRS's to reflect a floating interest rate exposure for all borrowings and then by fixing interest rates on portions of the borrowings (in relation to both face amounts and tenor) by entering into a number of "floating to fixed" IRS.

Meridian has elected not to hedge account the IRS.

Electricity 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.

Although Meridian considers itself economically hedged in relation to electricity price risk, it has decided to meet the requirements to enable it to adopt hedge accounting for only a portion of its CfD's.

Credit Risk

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

Meridian Energy Limited – Notes to the Condensed Interim Financial Statements
for the six months ended 31 December 2007 (continued)

8. Derivative Financial Instruments

	GROUP		
	UNAUDITED 31 DEC 2007 $'000	UNAUDITED 31 DEC 2006 $'000	UNAUDITED 30 JUNE 2007 $'000
Current Assets			
Interest Rate Swaps/Options	**746**	495	291
Foreign Exchange Contracts	**183**	887	21
Electricity Derivatives	**680**	450	743
	1,609	1,832	1,055
Non Current Assets			
Interest Rate Swaps/Options	**27,694**	10,829	26,637
Foreign Exchange Contracts	**12,129**	-	-
Electricity Derivatives	**10,188**	31,854	13,251
	50,011	42,683	39,888
Current Liabilities			
Interest Rate Swaps/Options	**-**	-	-
Foreign Exchange Contracts	**439**	711	2,554
Electricity Derivatives	**16,104**	1,437	1,029
	16,543	2,148	3,583
Non Current Liabilities			
Interest Rate Swaps/Options	**-**	1,383	-
Cross Currency Interest Rate Swaps	**69,894**	51,470	117,899
Foreign Exchange Contracts	**1,159**	2,285	4,216
Electricity Derivatives	**2,290**	53	2,004
	73,343	55,191	124,119

9. NZAS Agreement

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

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

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

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

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

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

Accounting Treatment of NZAS Contract

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

The application of NZ IAS 39 only considers the CfD part of the agreement and does not consider the value of the agreement to Meridian as a whole. For financial reporting purposes, the carrying value of the CfD at Day 1 is Nil as outlined in the table below.

At 31 December 2007, the carrying value of the CfD is as follows:

$MILLIONS	31 DECEMBER 2007	1 OCTOBER 2007
Present value of estimated cash flows	**-526**	-515
Less: Day 1 adjustment[1]	**515**	515
Carrying value	**-11**	0

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

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

10. Dividends Paid

	GROUP		
	UNAUDITED 6 MONTHS ENDED 31 DEC 2007 $'000	UNAUDITED 6 MONTHS ENDED 31 DEC 2006 $'000	UNAUDITED 12 MONTHS ENDED 30 JUNE 2007 $'000
2007 Final Dividend Paid	**62,009**	-	-
2007 Interim Dividend Paid	**-**	-	67,893
2006 Final Dividend Paid	**-**	300,000	300,000
	62,009	300,000	367,893

11. Property, Plant and Equipment

During the period, Meridian spent $116.5m on Property Plant and Equipment. Assets with a carrying value of $0.9m were disposed for proceeds of $0.3m.

12. Investments in Subsidiaries and Controlled Entities

Powershop New Zealand Limited, a wholly owned subsidiary of the Parent, was incorporated in New Zealand on 3 September 2007.

The following controlled entities were incorporated in New Zealand during the period:

- Meridian International No 1 Limited (20 November 2007)
- Meridian International No 2 Limited (20 November 2007)

The following controlled entities were incorporated in Australia during the period:

- Meridian Australia Holdings Pty Limited (20 November 2007)
- Meridian Wind Australia Holdings Pty Limited (20 November 2007)
- Meridian Wind Australia Pty Limited (20 November 2007)

There was no material effect on the Group financial statements of these changes during the period.

Meridian Energy Limited – Notes to the Condensed Interim Financial Statements
for the six months ended 31 December 2007 (continued)

13. Commitments

	GROUP		
	UNAUDITED 31 DEC 2007 $'000	UNAUDITED 31 DEC 2006 $'000	UNAUDITED 30 JUNE 2007 $'000
Capital Expenditure Commitments			
Property, Plant and Equipment	**228,679**	37,921	13,101
	228,679	37,921	13,101

14. Subsequent Events

There have been no material events subsequent to 31 December 2007.

15. Contingent Assets and Liabilities

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

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

As stated in Note 1 these are Meridian's first consolidated financial statements prepared in accordance with NZ IFRS.
The accounting policies set out in Note 1 have been applied in preparing the:

- Condensed Interim Financial Statements for the six months ended 31 December 2007 and for the comparative period ended 31 December 2006
- Opening NZ IFRS Balance Sheet at 1 July 2006 (Meridian's date of transition)
- Balance Sheet and Income Statement for the year ended 30 June 2007.

In preparing the opening NZ IFRS Balance Sheet and the comparative NZ IFRS Financial Statements for the six months ended 31 December 2006 and the year ending 30 June 2007 Meridian has adjusted amounts reported under previous NZ GAAP.

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

EFFECT OF NZ IFRS AT TRANSITION DATE: 1 JULY 2006	NOTE	REPORTED UNDER PREVIOUS NZ GAAP AUDITED $'000	EFFECT OF TRANSITION TO NZ IFRS UNAUDITED $'000	NZ IFRS UNAUDITED $'000
Shareholders' Equity				
Share Capital		**1,600,000**	-	1,600,000
Revaluation Reserve	d	**2,476,890**	(824,177)	1,652,713
Foreign Currency Translation Reserve		**6**	-	6
Cash Flow Hedge Reserve	c	**-**	14,891	14,891
Other Reserves	b	**-**	1,065	1,065
Retained Earnings	a,c,d	**160,455**	8,934	169,389
Total Equity		**4,237,351**	(799,287)	3,438,064
Represented by:				
Assets				
Accounts Receivable and Prepayments	e	**242,416**	(7,994)	234,422
Derivative Financial Instruments	c	**-**	60,553	60,553
Investments	a,b	**23,395**	(6,560)	16,835
Intangible Assets	f	**172**	3,614	3,786
Deferred Tax Assets	d	**-**	132	132
Property, Plant and Equipment	f	**4,795,590**	(3,614)	4,791,976
Other Assets		**277,738**	-	277,738
Total Assets		**5,339,311**	46,131	5,385,442
Liabilities				
Derivative Financial Instruments	c	**-**	21,004	21,004
Term Borrowings	e	**754,649**	5,545	760,194
Deferred Tax Liability	d	**152,089**	818,870	970,959
Other Liabilities		**195,222**	(1)	195,221
Total Liabilities		**1,101,960**	845,418	1,947,378
Net Assets		**4,237,351**	(799,287)	3,438,064

Meridian Energy Limited – Notes to the Condensed Interim Financial Statements
for the six months ended 31 December 2007 (continued)

EFFECT OF NZ IFRS AT THE END OF THE COMPARATIVE PERIOD REPORTED UNDER PREVIOUS NZ GAAP: 31 DECEMBER 2006	NOTE	REPORTED UNDER PREVIOUS NZ GAAP UNAUDITED $'000	EFFECT OF TRANSITION TO NZ IFRS UNAUDITED $'000	NZ IFRS UNAUDITED $'000
Shareholders' Equity				
Share Capital		**1,600,000**	-	1,600,000
Revaluation Reserve	d	**2,483,895**	(824,176)	1,659,719
Foreign Currency Translation Reserve		**4**	-	4
Cash Flow Hedge Reserve	c	**-**	19,905	19,905
Other Reserves	b	**-**	1,065	1,065
Retained Earnings	a,c,d	**(45,831)**	29,199	(16,632)
Minority Interest		**11,278**	-	11,278
Total Equity		**4,049,346**	(774,007)	3,275,339
Represented by:				
Assets				
Accounts Receivable and Prepayments	e	**168,726**	(7,249)	161,477
Derivative Financial Instruments	c	**-**	44,515	44,515
Investments	a,b	**14,612**	1,590	16,202
Intangible Assets	f	**24,693**	2,985	27,678
Deferred Tax Assets	d	**-**	132	132
Property, Plant and Equipment	f	**4,830,741**	(2,988)	4,827,753
Other Assets		**70,474**	-	70,474
Total Assets		**5,109,246**	38,985	5,148,231
Liabilities				
Derivative Financial Instruments	c	**-**	57,339	57,339
Term Borrowings	e	**754,649**	(61,461)	693,188
Deferred Tax Liability	d	**159,802**	817,116	976,918
Other Liabilities		**145,449**	(2)	145,447
Total Liabilities		**1,059,900**	812,992	1,872,892
Net Assets		**4,049,346**	(774,007)	3,275,339

EFFECT OF NZ IFRS ON THE INCOME STATEMENT FOR THE COMPARATIVE PERIOD ENDED 31 DECEMBER 2006	NOTE	REPORTED UNDER PREVIOUS NZ GAAP UNAUDITED $'000	EFFECT OF TRANSITION TO NZ IFRS UNAUDITED $'000	NZ IFRS UNAUDITED $'000
Operating Revenue	g	**881,471**	(7,927)	873,544
Operating Expenses	a	**(627,810)**	2	(627,808)
Earnings Before Interest, Tax, Depreciation, Amortisation and Fair Value Movement of Financial Instruments		**253,661**	(7,925)	245,736
Net Financing Costs	g	**(27,921)**	7,924	(19,997)
Depreciation and Amortisation	f	**(57,699)**	-	(57,699)
Net Profit Before Tax and Fair Value Movement of Financial Instruments		**168,041**	(1)	168,040
Fair Value Gain on Financial Instruments	c,e	**-**	7,893	7,893
Profit Before Tax		**168,041**	7,892	175,933
Income Tax	d	**(63,591)**	4,224	(59,367)
Profit After Tax		**104,450**	12,116	116,566
Profit After Tax Attributable to:				
Shareholders of the Parent Company		**103,996**	12,116	116,112
Minority Interest		**454**	-	454
Total		**104,450**	12,116	116,566

Meridian Energy Limited – Notes to the Condensed Interim Financial Statements
for the six months ended 31 December 2007 (continued)

EFFECT OF NZ IFRS AT THE END OF THE LAST REPORTING PERIOD UNDER PREVIOUS NZ GAAP: 30 JUNE 2007	NOTE	REPORTED UNDER PREVIOUS NZ GAAP AUDITED $'000	EFFECT OF TRANSITION TO NZ IFRS UNAUDITED $'000	NZ IFRS UNAUDITED $'000
Shareholders' Equity				
Share Capital		**1,600,000**	-	1,600,000
Revaluation Reserve	d	**3,938,895**	(1,192,386)	2,746,509
Foreign Currency Translation Reserve		**4**	-	4
Cash Flow Hedge Reserve	c	**-**	2,316	2,316
Other Reserves	b	**-**	1,544	1,544
Retained Earnings	a,c,d	**(8,375)**	48,182	39,807
Minority Interest		**11,610**	-	11,610
Total Equity		**5,542,134**	(1,140,344)	4,401,790
Represented by:				
Assets				
Accounts Receivable and Prepayments	e	**228,881**	(6,570)	222,311
Derivative Financial Instruments	c	**-**	40,943	40,943
Investments	a,b	**14,439**	2,128	16,567
Intangible Assets	f	**23,948**	9,500	33,448
Deferred Tax Assets	d	**-**	37	37
Property, Plant and Equipment	f	**6,319,903**	(4,830)	6,315,073
Other Assets		**80,412**	-	80,412
Total Assets		**6,667,583**	41,208	6,708,791
Liabilities				
Derivative Financial Instruments	c	**-**	127,702	127,702
Term Borrowings	e	**754,649**	(124,942)	629,707
Deferred Tax Liability	d	**152,979**	1,178,793	1,331,772
Other Liabilities		**217,821**	(1)	217,820
Total Liabilities		**1,125,449**	1,181,552	2,307,001
Net Assets		**5,542,134**	(1,140,344)	4,401,790

EFFECT OF NZ IFRS ON THE INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE 2007	NOTE	REPORTED UNDER PREVIOUS NZ GAAP AUDITED $'000	EFFECT OF TRANSITION TO NZ IFRS UNAUDITED $'000	NZ IFRS UNAUDITED $'000
Operating Revenue	g	**1,775,077**	(10,364)	1,764,713
Operating Expenses	a	**(1,297,534)**	10,283	(1,287,251)
Earnings Before Interest, Tax, Depreciation, Amortisation and Fair Value Movement of Financial Instruments		**477,543**	(81)	477,462
Net Financing Costs	g	**(56,323)**	10,364	(45,959)
Depreciation and Amortisation	f	**(117,610)**	246	(117,364)
Net Profit Before Tax and Fair Value Movement of Financial Instruments		**303,610**	10,529	314,139
Fair Value Gain on Financial Instruments	c,e	**-**	24,546	24,546
Profit Before Tax		**303,610**	35,075	338,685
Income Tax	d	**(103,761)**	6,306	(97,455)
Profit after Tax		**199,849**	41,381	241,230
Profit after Tax Attributable to:				
Shareholders of the Parent Company		**199,063**	41,381	240,444
Minority Interest		**786**	-	786
Total		**199,849**	41,381	241,230

There are no material differences between the cash flow statements presented under NZ IFRS and the cash flow statements presented under previous NZ GAAP for the comparative period ended 31 December 2006 and the financial year ended 30 June 2007.

Changes in Key Accounting Policies on Transition to NZ IFRS

a. Joint Ventures

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

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

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

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

b. Investments

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

Meridian Energy Limited – Notes to the Condensed Interim Financial Statements
for the six months ended 31 December 2007 (continued)

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

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

c. Financial Instruments

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

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

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

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

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

d. Deferred Tax

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

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

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

e. Borrowings

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

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

f. Intangibles

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

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

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

It is important to note that the impact of adopting NZ IFRS will only be finalised when the first complete set of NZ IFRS Financial Statements is prepared for the year ending 30 June 2008. Until this time, the NZ IFRS standards and the application of those standards may be subject to change.

g. Interest Income

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

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