

Meridian Group – Financial Highlights

Profitability (year-on-year decrease of \$657.0m, \$43.3m year-on-year decrease from continuing operations)

- The previous year's financial results included the net gain on sale from the divestment of Southern Hydro (\$625.6m).
- Net Surplus from continuing operations of \$199.8m compared to last year of \$243.1m.
- The Group operating result (EBITDA from continuing activities) of \$479.4m compares favourably with last year's result (\$483.4m). Major factors were:
 - Improved hydrology conditions.
 - The previous year included interest income and foreign exchange gains related to the Southern Hydro divestment (\$67m).
 - WhisperTech companies fully consolidated for the first time and incorporation of Post-Acquisition Assessed Retained Earnings and 2007 operating expenses of those companies contributed to an increase of \$24m year-on-year in net operating expenses.
- Depreciation increased this year by \$29m primarily as a result of last year's \$1,800m revaluation of Generation Structures and Plant.
- Financing costs include one-off costs of \$12m for foreign exchange options to protect project economics.
- Income tax benefited by \$15.9m after reflecting the effect of the reduction in the corporate tax rate on the Group's deferred tax liability.

Operating Revenue (year-on-year decrease of \$448m)

- Generation volumes increased from the previous year as hydrology conditions improved, however generation and wholesale revenues decreased by \$411m, primarily as a consequence of a lower average generation price of \$51/MWh (\$97/MWh last year) received for sales to the market.
- Overall, retail energy revenues decreased by \$40m. Much of this decrease resulted from reduced revenues from large corporate customers where physical supply prices are referenced to the spot market.

Operating Expenses (year-on-year decrease of \$405m)

- With lower average wholesale prices, the cost of supplying customers decreased by \$459m from last year.
- The energy cost decrease has been offset by increased depreciation and the inclusion of the WhisperTech companies' costs in the Group consolidation (see above).

Financial Position

- Revaluation of Generation Structures and Plant in the 2006/07 year of \$1,455m contributed to an increase in the value of the company's total assets to \$6,668m.
- Our cash position at the end of last year and strong cash flows from operating activities allowed a further \$300m dividend payment to be made to the shareholder.

Cash Flows

- Operating cash flows increased on the previous year by \$60m, mainly due to the improved trading performance.
- Increased wind farm construction activity (Project White Hill) contributed towards higher outflows for investment activities. Payment of \$367m in cash dividends was the only outflow of cash for financing activities.
- Cash balance at year end of \$44.8m.

Overview

Meridian Energy Limited's core business is the generation of electricity (including the management of related assets) and the marketing, trading and retailing of energy and wider complementary products and solutions within New Zealand and Australia.

TREND STATEMENT for year ended 30 June		2007	2006	2005
		\$MILLION	\$MILLION	\$MILLION
Financial Performance				
Gross Revenue		1,775.1	2,222.8	1,656.1
Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA)		479.4	1,134.7	553.7
Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) from Continuing Activities		479.4	483.4	489.2
Earnings Before Interest and Tax (EBIT)		359.9	1,027.1	424.2
Earnings Before Interest and Tax (EBIT) from Continuing Activities ¹		359.9	397.2	400.1
Net Surplus After Tax		199.8	856.8	218.2
Net Surplus After Tax from Continuing Activities ¹		199.8	243.1	239.2
Funds Employed				
Shareholders' Equity ²		5,542.1	4,237.4	2,469.1
Term Borrowings, Deferred Tax and Lease Liability		907.6	906.7	1,208.2
Current Portion of Term Borrowings		-	-	370.1
		6,449.7	5,144.1	4,047.4
Utilisation of Funds				
Non-Current Assets		6,381.6	4,850.3	4,014.7
Net Working Capital ³		68.1	293.8	32.7
		6,449.7	5,144.1	4,047.4
RATIOS				
		%	%	%
Return on Average Equity ⁴		4.8	25.6	9.0
Net Surplus After Tax from Continuing Activities to Average Equity ⁴		4.8	7.3	9.8
EBIT to Average Total Assets ⁵		6.8	21.2	10.0
Weighted Average Cost of Interest		7.9	7.6	7.0
STATEMENT OF CORPORATE INTENT ⁶				
		2007	2007	2006
		ACTUAL	TARGET	ACTUAL
EBITDA Interest Cover	Times	7.7	9.5	31.5
Return on Average Equity Including Revaluation	%	4.1	12.8	25.6
Net Debt to Net Debt Plus Equity Ratio	%	11.4	13.4	10.6
EBITDA per MWh Produced (NZ)	\$	38.0	41.8	37.5

1 The 2007 amount represents the results for the year of the continuing operating entities of the Group existing at 30 June 2007.

The 2006 and 2005 comparatives reflect the results for those years for the same continuing operating entities. Continuing operating entities exclude Southern Hydro operating results, gains on disposal of Southern Hydro and costs relating to this disposal.

2 Shareholders' Equity includes a revaluation uplift of \$1,455 million effective 30 June 2007, and \$1,800 million uplift effective 30 June 2006.

3 Net Working Capital excludes the current portion of term borrowings.

4 Average Equity excludes a revaluation uplift of \$1,455 million effective 30 June 2007. The Average Equity for the comparative years include the effect of previous revaluations. Previous years revaluations comprise \$1,800 million on 30 June 2006 and \$600 million on 30 June 2003.

5 Average Total Assets excludes a revaluation uplift of \$1,455 million effective 30 June 2007. The Average Total Assets for the comparative years include the effect of previous revaluations.

6 Targets for the 2007 Statement of Corporate Intent do not include the effects of the \$1,455 million revaluation on 30 June 2007, the \$1,800 million revaluation on 30 June 2006, Board-approved investments in Arc Innovations and WhisperGen, and investments relating to the restructuring of Meridian's Retail and Wholesale operating groups.

Directors' Responsibility Statement

The Directors are responsible for ensuring that the financial statements give a true and fair view of the financial position of the Company and the Group as at 30 June 2007 and their financial performance and cash flows for the year ended on that date.

The Directors consider that the financial statements of the Company and the Group have been prepared using appropriate accounting policies, consistently applied and supported by reasonable judgements and estimates, and that all relevant financial reporting and accounting standards have been followed.

The Directors confirm that proper accounting records have been kept which enable the determination of the financial position of the Company and the Group as at 30 June 2007 and their financial performance and cash flows for the year ended on that date to ensure compliance of the financial statements with the Financial Reporting Act 1993.

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

The Directors have pleasure in presenting the financial statements of Meridian Energy Limited and the Group for the year ended 30 June 2007, as set out on pages 29 to 56.

The annual financial statements were authorised for issue by the Board on 3 September 2007.

For and on behalf of the Board.



Wayne Boyd
Chairman

3 September 2007



Anne Urlwin
Chair of Audit and Risk Committee

3 September 2007

Meridian Energy Limited – Statement of Financial Performance for the year ended 30 June 2007

NOTE	GROUP		PARENT		
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000	
Operating Revenue	2	1,775,077	2,222,795	1,766,768	2,578,010
Operating Expenses	3	(1,415,144)	(1,819,881)	(1,369,330)	(1,776,227)
Financing Costs	4	(56,323)	(69,424)	(56,323)	(39,719)
Equity Accounting of Associate		-	(1,430)	-	-
Operating Surplus Before Non Recurring Items		303,610	332,060	341,115	762,064
Gain on Disposal of Subsidiary		-	652,516	-	-
Costs Relating to Disposal of Subsidiary		-	(26,879)	-	(22,717)
Net Surplus Before Tax After Non Recurring Items		303,610	957,697	341,115	739,347
Income Tax	5	(103,761)	(100,861)	(112,339)	(118,727)
Net Surplus After Tax		199,849	856,836	228,776	620,620
Net Surplus After Tax comprises:					
Net Surplus from Continuing Activities		199,849	243,110	228,776	244,760
Net Surplus from Discontinued Activities		-	613,726	-	375,860
Total		199,849	856,836	228,776	620,620
Net Surplus after Tax attributable to:					
Shareholders of the Company		199,063	856,836	228,776	620,620
Minority Interest	10	786	-	-	-
Net Surplus after Tax		199,849	856,836	228,776	620,620

Meridian Energy Limited – Statement of Movements in Equity for the year ended 30 June 2007

NOTE	GROUP		PARENT		
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000	
Equity at Beginning of Year		4,237,351	2,469,080	4,094,396	2,553,182
Recognition of Minority Interest on Acquisition of Controlled Entities	17(b)	10,824	-	-	-
Effect of Acquisition of Controlled Entities		-	-	716	-
Restated Equity at Beginning of Year		4,248,175	2,469,080	4,095,112	2,553,182
Net Surplus After Tax attributable to:					
– Shareholders of the Company		199,063	856,836	228,776	620,620
– Minority Interest		786	-	-	-
Movement in Revaluation Reserve	15	1,455,000	1,800,000	1,455,000	1,800,000
Post-Acquisition Assessed Revaluation Reserve of Subsidiary	17(b)	7,005	-	-	-
Movement in Foreign Currency Translation Reserve	9	(2)	(9,159)	-	-
Total Recognised Revenues and Expenses		1,661,852	2,647,677	1,683,776	2,420,620
Dividends to Shareholders	8	(367,893)	(879,406)	(367,893)	(879,406)
Equity at End of Year		5,542,134	4,237,351	5,410,995	4,094,396

Meridian Energy Limited – Statement of Financial Position as at 30 June 2007

	NOTE	GROUP		PARENT	
		2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Equity					
Shareholders of the Company	7	5,530,524	4,237,351	5,410,995	4,094,396
Minority Interest	10	11,610	-	-	-
Total Equity		5,542,134	4,237,351	5,410,995	4,094,396
Liabilities					
Non-Current Liabilities					
Term Borrowings	11	754,649	754,649	754,649	754,649
Deferred Tax	12	152,979	152,089	152,787	152,224
Total Non-Current Liabilities		907,628	906,738	907,436	906,873
Current Liabilities					
Payables and Accruals	13	214,381	193,137	199,494	185,633
Provisions	14	3,440	-	1,290	-
Current Tax Payable		-	2,085	-	1,961
Advances from Subsidiaries		-	-	220,867	221,021
Total Current Liabilities		217,821	195,222	421,651	408,615
Total Liabilities		1,125,449	1,101,960	1,329,087	1,315,488
Total Equity and Liabilities		6,667,583	5,339,311	6,740,082	5,409,884
Assets					
Non-Current Assets					
Investments	17	14,439	23,395	102,873	65,067
Advances to Subsidiaries		-	-	171,342	15,390
Prepayments		7,179	8,288	7,179	8,288
Intangible Assets	18	23,948	172	96	172
Customer Acquisition Costs	19	16,144	22,808	16,144	22,808
Property, Plant and Equipment	15	6,319,903	4,795,590	6,150,171	4,795,297
Total Non-Current Assets		6,381,613	4,850,253	6,447,805	4,907,022
Current Assets					
Cash and Bank Balances	20	44,755	251,824	39,366	245,916
Accounts Receivable and Prepayments	21	221,702	234,128	214,304	230,432
Current Tax Receivable		8,548	-	8,678	-
Advances to Subsidiaries		-	-	26,660	23,408
Inventories	22	10,965	3,106	3,269	3,106
Total Current Assets		285,970	489,058	292,277	502,862
Total Assets		6,667,583	5,339,311	6,740,082	5,409,884

Meridian Energy Limited – Statement of Cash Flows for the year ended 30 June 2007

NOTE	GROUP		PARENT	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Operating Activities				
Cash was Provided from:				
Receipts from Customers	1,778,906	2,177,015	1,770,534	2,147,149
Net GST Received	-	1,145	925	937
Interest Received	10,296	39,488	10,341	38,804
Dividends Received	-	-	585	396,668
	1,789,202	2,217,648	1,782,385	2,583,558
Cash was Applied to:				
Payments to Suppliers and Employees	1,283,295	1,755,320	1,251,966	1,721,625
Net GST Paid	45	-	-	-
Interest Paid	44,113	68,969	44,267	38,550
Income Tax Paid	111,570	103,170	111,367	102,923
	1,439,023	1,927,459	1,407,600	1,863,098
Net Cash Inflows from Operating Activities	350,179	290,189	374,785	720,460
Investing Activities				
Cash was Provided from:				
Net Cash Proceeds on Disposal of Subsidiary	-	1,492,766	-	-
Sale of Property, Plant and Equipment	9,664	5,314	153,661	5,314
Sale of Investments	192	2,181	192	2,181
Advances from Subsidiaries	-	-	-	466,784
	9,856	1,500,261	153,853	474,279
Cash was Applied to:				
Purchase of Property, Plant and Equipment	184,016	75,980	167,807	71,581
Capitalised Interest	1,258	2,003	1,258	2,003
Acquisition of Controlled Entities	13,138	-	-	-
Advances to Subsidiaries	-	-	168,290	-
Purchase of Intangible Assets	211	-	-	-
Purchase of Investments	588	6,700	29,940	460
	199,211	84,683	367,295	74,044
Net Cash (Outflows)/Inflows from Investing Activities	(189,355)	1,415,578	(213,442)	400,235
Financing Activities				
Cash was Applied to:				
Term Borrowings	-	615,364	-	7,000
Dividends Paid	367,893	879,406	367,893	879,406
	367,893	1,494,770	367,893	886,406
Net Cash (Outflows) from Financing Activities	(367,893)	(1,494,770)	(367,893)	(886,406)
Net (Decrease)/Increase in Cash Held				
Cash at Beginning of Year	251,824	40,827	245,916	11,627
Cash at End of Year	44,755	251,824	39,366	245,916
Composition of Cash				
Cash and Bank Balances	44,755	251,824	39,366	245,916
	44,755	251,824	39,366	245,916

Meridian Energy Limited – Notes to the Financial Statements for the year ended 30 June 2007

1. Statement of Accounting Policies
2. Operating Revenue
3. Operating Expenses
4. Financing Costs
5. Income Tax
6. Share Capital
7. Shareholders' Equity
8. Dividends
9. Foreign Currency Translation Reserve
10. Minority Shareholders' Interest
11. Term Borrowings
12. Deferred Tax
13. Payables and Accruals
14. Provisions
15. Property, Plant and Equipment
16. Commitments
17. Investments
18. Intangible Assets
19. Customer Acquisition Costs
20. Cash And Bank Balances
21. Accounts Receivable and Prepayments
22. Inventories
23. Borrowings and the Use of Financial Instruments
24. Land
25. Related Party Transactions
26. Net Cash Flow from Operating Activities
27. Segment Information
28. Events Occurring after Balance Date
29. Contingent Assets and Liabilities
30. Impact of Adopting New Zealand Equivalents to International Financial Reporting Standards ("NZ IFRS")

1. Statement of Accounting Policies

Meridian Energy Limited is registered under the Companies Act 1993. 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 consolidated financial statements comprise those of Meridian Energy Limited (the "Parent") and its subsidiaries (together the "Group") and the Group's interest in Associates.

The financial statements comply with the Financial Reporting Act 1993 and comprise statements of the following: Accounting Policies, Financial Performance, Movements in Equity, Financial Position, Cash Flows, as well as the notes to these statements.

The financial statements for the Group, including the consolidation of subsidiaries domiciled outside of New Zealand, have been prepared in accordance with generally accepted accounting practice in New Zealand. Where no financial reporting standard or statement of standard accounting practice exists in New Zealand in relation to a particular issue, the accounting policies and disclosures adopted have been determined having regard to authoritative support.

The financial statements are prepared on the basis of historical cost modified to include the revaluation of Generation Structures and Plant, with the exception of certain items for which specific accounting policies are identified.

The Statement of Financial Performance 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 invoiced.

Basis of Preparing Group Financial Statements

Changes in Accounting Policies

There have been no changes in accounting policies during the year.

Subsidiaries

Subsidiaries are those entities controlled directly or indirectly by the Group. Subsidiaries are consolidated under the purchase method on a line-by-line basis. All material intercompany transactions are eliminated on consolidation.

Associates

Associates are entities in which the Group has significant influence, but not control, over the operating and financial policies. Associates are accounted for using the equity method of accounting. The Group recognises its share of the Associates' net surplus or deficit for the year as part of operating surplus before tax in the Statement of Financial Performance. The Group's share of the Associates' surplus or deficit is adjusted for the amortisation of goodwill arising on acquisition and differences between the accounting policies of the Group and Associates. The Group recognises its share of other post acquisition movements in reserves in its Statement of Movements in Equity. Dividends received from Associates are recognised directly against the carrying value of the investment. In the Statement of Financial Position the investment and the reserves are increased by the Group's share of the post-acquisition retained surplus and other post acquisition reserves of the Associates. In assessing the Group's share of earnings of Associates, the Group's share of any unrealised profits between Group companies and Associates is eliminated.

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

Acquisition or Disposal During the Year

Where an entity becomes or ceases to be a Group entity during the year, the results of that entity are included in the net surplus of the Group from the date that control or significant influence commenced or until the date that control or significant influence ceased. Where a Group entity is disposed of, the profit or loss recognised in the Statement of Financial Performance is calculated as the difference between the sale price and the carrying value of the Group entity at the date the entity was sold. Any related balance in the Foreign Currency Translation Reserve is transferred to Retained Earnings at the date of disposal.

Discontinued Activities

A discontinued activity is a component of the Group's business that represents a separate major line of business or geographical area of operations that has been disposed of or is held for sale. Classification as a discontinued activity occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. When an operation is classified as a discontinued activity, the net surplus after tax and operating revenue are disclosed separately.

Statement of Cash Flows

The Statement of Cash Flows is prepared exclusive of GST, which is consistent with the method used in the Statement of Financial Performance.

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

- Cash includes coins and notes, demand deposits and other highly liquid investments readily convertible into cash and includes at call borrowings such as bank overdrafts, used by the company and the group as part of their day-to-day cash management.
- Operating activities include all transactions and other events that are not investing or financing activities.
- Investing activities are those activities relating to the acquisition and disposal of current and non-current investments and any other non-current assets.
- Financing activities are those activities relating to changes in the equity and debt capital structure of the company and group and those activities relating to the cost of servicing the company's and the group's equity capital.

Goodwill Arising on Acquisition

Goodwill, representing the excess of purchase consideration over the fair value of the net assets acquired at the date of acquisition, is shown as an intangible asset. Goodwill is amortised on a straight-line basis over the period of expected benefit, which does not exceed ten years. The carrying amount of goodwill is reviewed annually by the Directors and adjusted for impairment where it is considered necessary.

Foreign Currency

Transactions denominated in a foreign currency are converted at the exchange rate at the date of the transaction. Differences are accounted for through the Statement of Financial Performance.

The assets and liabilities of overseas operations, being independent foreign operations, are translated at the closing rate at balance date. The revenues and expenses of these operations 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 independent foreign operations are recognised directly in the foreign currency translation reserve.

Financial Instruments

The Group uses financial instruments with off-balance sheet risk for the primary purpose of reducing its exposure to fluctuations in interest rates, foreign exchange rates and energy prices.

Financial instruments entered into as hedges of an underlying exposure are accounted for on the same basis as the underlying exposure.

Operating Revenue

Operating revenue reported in the Statement of Financial Performance includes amounts received and receivable for electricity sold into the wholesale and retail markets together with energy related goods and services.

Taxation

Income tax expense is recognised on the operating surplus before taxation, adjusted for permanent differences between taxable and accounting income. Deferred tax is calculated using the comprehensive basis under the liability method. This method involves recognising the tax effect of all timing differences between accounting and taxable income as a deferred tax asset or liability in the Statement of Financial Position.

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

Future tax benefits are not recognised unless realisation of the asset is virtually certain.

Non-Current Assets

Property, Plant and Equipment

Generation Structures and Plant assets (including land and buildings) and Other Freehold Land are stated in the Statement of Financial Position at their revalued amounts, being the fair value at the date of revaluation, less any subsequent accumulated depreciation and subsequent impairment losses. All other classes of Property, Plant and Equipment are stated in the Statement of Financial Position at cost, less any subsequent accumulated depreciation and subsequent impairment losses.

The underlying valuation will be reviewed by independent third party valuation experts at a minimum of five yearly intervals with the underlying assumptions being reviewed for reasonableness on an annual basis. Any increase in valuation is accounted for as an increase in the revaluation reserve and any decrease in valuation is accounted for as a reduction in the revaluation reserve. Where any reduction is in excess of the carrying value of the revaluation reserve then it is expensed to the Statement of Financial Performance.

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

Additions to Property, Plant and Equipment assets are recorded at cost 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 these meet certain time and materiality limits. Financing costs for major projects are capitalised at the average cost of borrowing. Costs cease to be capitalised as soon as the asset is ready for use.

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 useful life. Straight line depreciation reflects the base load usage of the underlying assets.

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

Formal reviews of the carrying value of Property, Plant and Equipment are carried out annually, and when deemed appropriate the Directors will ensure the amendment of the carrying value of the relevant assets is reflected in the Statement of Financial Position.

Investments

Investments are stated at cost, except where there is an impairment in value, in which case the lower of cost or fair value is adopted. Changes in the value of investments are recognised in the Statement of Financial Performance.

Intangibles

Customer Acquisition Costs

Customer acquisitions and the costs of organic marketing campaigns directly attributable to acquiring customers are capitalised. These costs are amortised over a period between 5 and 10 years from the date of acquisition. The carrying value is reviewed annually by the Directors and adjusted for impairment when it is considered necessary.

Patents and Trademarks

Patents and Trademarks are stated at cost and amortised to the Statement of Financial Performance on a straight line basis over their estimated useful lives. The estimated useful lives are between 7 and 20 years.

Licence Agreement

The value of a Licence Agreement has been recognised on acquisition of controlled entities. It is stated at cost and amortised to the Statement of Financial Performance on a straight line basis over a period of 20 years.

Impairment of Assets

Where the estimated recoverable amount of an asset is less than the carrying value, the asset is immediately written down to its estimated recoverable amount.

Current Assets

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.

Receivables

Receivables are carried at anticipated net realisable value. An estimate is made for doubtful receivables based on a review of all outstanding amounts at year-end. Bad debts are written off during the year in which they are identified.

Cash and Cash Equivalents

For the purpose of the Statement of Cash Flows, cash comprises cash balances (net of bank overdrafts where right of set off exists) and demand deposits.

Liabilities

Provisions

All provisions are recorded at the best estimate of the expenditure required to settle the obligation at balance date. Where the effect is material, the expected expenditures are discounted to their present value using pre-tax discount rates.

Warranties

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

Restructuring

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

Debt

Debt incurred is stated at face value less unamortised discounts, premiums and prepaid interest. Discounts, premiums and prepaid interest and borrowing costs such as origination, commitment and transaction fees are amortised to interest expense over the period of the borrowing.

Operating Leases

Operating lease payments, where the lessors effectively retain substantially all the risks and benefits of ownership of the leased items, are included in the determination of the operating surplus in equal instalments over the lease term.

Comparatives

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

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

2. Operating Revenue

	GROUP		PARENT	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Trading Revenue				
Energy Related Revenue	1,757,111	2,176,848	1,748,308	2,136,189
Other Revenue				
Interest Income	10,296	39,488	10,341	38,804
Gain on Sale of Property, Plant and Equipment	1,086	-	1,086	-
Dividend Income	-	-	585	396,668
Other	6,584	6,459	6,448	6,349
Operating Revenue	1,775,077	2,222,795	1,766,768	2,578,010
Operating Revenue comprises:				
Revenue from Continuing Activities	1,775,077	2,184,067	1,766,768	2,181,342
Revenue from Discontinued Activities	-	38,728	-	396,668
	1,775,077	2,222,795	1,766,768	2,578,010

3. Operating Expenses

NOTE	GROUP		PARENT	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Operating Expenses include the following:				
Continuing Activities:				
Amortisation				
- Customer Acquisition Costs	6,664	7,227	6,664	7,227
- Goodwill	246	-	-	-
- Licence Agreement	1,119	-	-	-
- Licences	77	77	77	77
- Patents/Trademarks	140	-	-	-
Auditor's Fees				
- Audit Fees	275	229	224	208
- Fees Paid for Other Assurance Services	181	94	70	31
Bad and Doubtful Debts				
- Bad Debts Written Off	3,296	2,378	3,296	2,378
- (Decrease)/Increase in Provision for Doubtful Debts	(612)	276	(612)	276
Depreciation				
- Freehold Buildings	261	250	261	250
- Generation Structures and Plant	97,993	68,771	97,993	68,771
- Other Plant and Equipment	10,930	8,245	8,603	8,139
- Resource Consents	180	170	180	170
Directors' Fees	341	261	305	249
Foreign Exchange Loss/(Gain)	19	(33,695)	12	(33,948)
Impairment of Investments	487	7,191	487	2,021
Loss on Sale of Property, Plant and Equipment	46	149	11	149
Operating Lease Expenses	1,965	2,252	1,677	2,252
Post-Acquisition Assessed Retained Earnings of Controlled Entities	17(b) 10,282	-	-	-

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

3. Operating Expenses (continued)

	GROUP	
	2007 \$'000	2006 \$'000
Discontinued Activities:		
Amortisation of Fair Value at Acquisition		
- Derivatives	-	10,367
- Land Leases	-	1,717
- Licences	-	108
Depreciation		
- Freehold Buildings	-	11
- Generation Structures and Plant	-	5,760
- Other Plant and Equipment	-	279
Directors' Fees	-	60
Foreign Exchange Loss	-	2,603
Operating Lease Expenses	-	2,091

4. Financing Costs

	GROUP		PARENT	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Foreign Exchange Option Premiums	12,006	-	12,006	-
Interest on Term Borrowings	45,575	71,427	45,575	41,722
Less Capitalised Interest	1,258	2,003	1,258	2,003
Total Financing Costs	56,323	69,424	56,323	39,719
Financing Costs comprise:				
Financing Costs from Continuing Activities	56,323	37,395	56,323	39,719
Financing Costs from Discontinued Activities	-	32,029	-	-
	56,323	69,424	56,323	39,719

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

5. Income Tax

NOTE	GROUP		PARENT	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
(A) Income Tax Expense				
Net Surplus Before Tax After Non Recurring Items	303,610	957,697	341,115	739,347
Permanent Differences				
Expenditure Not Deductible for Tax	4,713	19,255	4,713	17,472
Depreciation/Amortisation of Revaluation	41,207	13,629	41,196	11,750
Inter-company Dividend Received	-	-	(585)	(396,668)
Gain on Disposal of Subsidiary	-	(652,516)	-	-
Adjustment to Previous Periods	-	(16,326)	-	-
Post-Acquisition Assessed Retained Earnings of Controlled Entities	17(b) 10,282	-	-	-
Other	2,895	(16,101)	2,166	(12,123)
Surplus Subject to Tax	362,707	305,638	388,605	359,778
Tax at 33%	119,693	100,861	128,240	118,727
Effect of Corporate Tax Rate Reduction on Deferred Tax Liability	(15,932)	-	(15,901)	-
Total Income Tax Expense	103,761	100,861	112,339	118,727
Attributable to Continuing Activities	103,761	116,693	112,339	118,727
Attributable to Discontinuing Activities	-	(15,832)	-	-
Total Income Tax Expense	103,761	100,861	112,339	118,727
Comprising				
Current Period Tax	102,871	104,359	111,776	97,563
Deferred Tax	12 890	(3,498)	563	21,164
	103,761	100,861	112,339	118,727

	GROUP		PARENT	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
(B) Imputation Credits				
Balance at Beginning of Year	85,671	64,404	84,877	63,736
Net Income Tax	111,532	103,148	111,331	102,900
Credits Attached to Dividends Received	-	-	193	122
Credits Attached to Dividends Paid	(96,585)	(81,881)	(96,585)	(81,881)
Balance at End of Year	100,618	85,671	99,816	84,877

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

	GROUP	
	2007 \$'000	2006 \$'000
Through		
Shareholding in Parent Company	99,816	84,877
Indirect Interests in Subsidiaries	802	794
	100,618	85,671

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

6. 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.

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.

7. Shareholders' Equity

NOTE	GROUP		PARENT	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Share Capital	1,600,000	1,600,000	1,600,000	1,600,000
Retained Earnings	(9,287)	159,543	(121,621)	16,780
Revaluation Reserve	3,939,807	2,477,802	3,932,616	2,477,616
Foreign Currency Translation Reserve	4	6	-	-
Shareholders' Equity at End of Year	5,530,524	4,237,351	5,410,995	4,094,396

8. Dividends

	GROUP		PARENT	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
2007 Interim Dividend Paid	67,893	-	67,893	-
2006 Final Dividend Paid	300,000	-	300,000	-
2006 Interim Dividend Paid	-	800,000	-	800,000
2005 Final Dividend Paid	-	79,406	-	79,406
Total Dividends	367,893	879,406	367,893	879,406

9. Foreign Currency Translation Reserve

	GROUP	
	2007 \$'000	2006 \$'000
Balance at Beginning of Year	6	(17,724)
Movement in Translation of Foreign Operations	(2)	(9,159)
Transfers to Retained Earnings on Disposal of Subsidiary	-	26,889
Balance at End of Year	4	6

The foreign currency translation reserve results from the translation of the financial statements of independent foreign operations denominated in Australian dollars at the closing rate at balance date. The closing rate at 30 June 2007 was 0.91 (30 June 2006 0.82).

Transfers from the Foreign Currency Translation Reserve to Retained Earnings resulting from the disposal of foreign operations are in line with treatment prescribed by FRS 21: *Accounting for the Effects of Foreign Currency Exchange Rates*. These transfers have no effect on the total Equity of the Group.

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

10. Minority Shareholders' Interest

	GROUP	
	2007 \$'000	2006 \$'000
Balance at Beginning of Year	-	-
Increase due to Acquisition of Controlled Entities	10,824	-
Share of Net Surplus after Tax	786	-
Balance at End of Year	11,610	-

11. Term Borrowings

	GROUP		PARENT	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Borrowings Due within 1 Year	-	-	-	-
Borrowings Due between 1-2 Years	50,000	-	50,000	-
Borrowings Due between 2-7 Years	285,862	274,789	285,862	274,789
Borrowings Due after 7 Years	418,787	479,860	418,787	479,860
Total Borrowings	754,649	754,649	754,649	754,649

	GROUP		PARENT	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Non-Current Portion of Borrowings	754,649	754,649	754,649	754,649
Total Borrowings	754,649	754,649	754,649	754,649

Security

The borrowings are unsecured but subject to a negative pledge arrangement. Under this arrangement each of the lenders rank equally for security purposes.

12. Deferred Tax

	GROUP		PARENT	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Balance at Beginning of Year	152,089	179,168	152,224	131,060
Deferred Tax On Surplus for Year	890	(3,498)	563	21,164
Foreign Translation of Deferred Tax Balance	-	(716)	-	-
Disposal of Subsidiary	-	(22,865)	-	-
Balance at End of Year	152,979	152,089	152,787	152,224

The income tax effect of timing differences originating from the fair value review of assets and liabilities that has not been recognised in the deferred tax account is a liability of \$45 million at 30 June 2007 (2006 \$173 million asset). The effect of the \$1,455 million revaluation uplift of the Generation Structures and Plant on deferred tax has not been quantified and could increase the unrecognised deferred tax liability.

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

13. Payables and Accruals

	GROUP		PARENT	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Current				
Trade Creditors	18,508	9,347	7,593	5,882
Employee Entitlements	8,592	6,510	6,790	6,130
Unearned Income	5,603	5,596	5,214	2,524
Accrued Expenses	175,200	165,161	172,933	165,058
GST	6,478	6,523	6,964	6,039
Total Payables and Accruals	214,381	193,137	199,494	185,633

14. Provisions

	GROUP		PARENT	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Provisions				
Warranties	2,150	-	-	-
Restructuring	1,290	-	1,290	-
	3,440	-	1,290	-
Provision for Warranties				
Balance at Beginning of Year	-	-	-	-
Warranty Provision Recognised on Acquisition of Controlled Entities	1,096	-	-	-
Amount Utilised	(868)	-	-	-
Additional Provision Recognised	1,922	-	-	-
Balance at End of Year	2,150	-	-	-
Comprising				
Current	2,150	-	-	-
	2,150	-	-	-

The provision relates to goods sold and is estimated using historical warranty data, management estimation of return rate, and industry information where available. The amount and timing of cash flows relating to this provision is uncertain, however it is expected this warranty provision will be utilised during the next financial year.

	GROUP		PARENT	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Provision for Restructuring				
Balance at Beginning of Year	-	-	-	-
Restructuring Provision Recognised	1,742	-	1,742	-
Amount Utilised	(452)	-	(452)	-
Balance at End of Year	1,290	-	1,290	-
Comprising				
Current	1,290	-	1,290	-
	1,290	-	1,290	-

The Parent is in the process of restructuring, impacting the Retail and Wholesale operating groups and several enabling functions which support these groups. It is expected the restructuring will be completed during the next financial year.

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

15. Property, Plant and Equipment

	GROUP		PARENT	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Generation Structures and Plant				
Fair Value	6,129,388	4,609,257	5,985,385	4,609,257
Less: Accumulated Depreciation	-	-	-	-
Closing Balance	6,129,388	4,609,257	5,985,385	4,609,257
Other Freehold Land				
Fair Value	36,354	35,013	36,354	35,013
Other Freehold Buildings				
Cost	10,496	9,806	10,496	9,806
Less: Accumulated Depreciation	1,484	1,229	1,484	1,229
Closing Balance	9,012	8,577	9,012	8,577
Other Plant and Equipment				
Cost	108,188	87,212	88,057	86,353
Less: Accumulated Depreciation	56,313	46,038	49,850	45,472
Closing Balance	51,875	41,174	38,207	40,881
Resource Consents				
Cost	8,596	7,851	8,596	7,851
Less: Accumulated Depreciation	1,331	1,151	1,331	1,151
Closing Balance	7,265	6,700	7,265	6,700
Total Property, Plant and Equipment				
Fair Value or Cost	6,293,022	4,749,139	6,128,888	4,748,280
Less: Accumulated Depreciation and Amortisation	59,128	48,418	52,665	47,852
Capital Work In Progress	86,009	94,869	73,948	94,869
Total Closing Balance	6,319,903	4,795,590	6,150,171	4,795,297

Generation Structures and Plant assets (including land and buildings) were revalued at 30 June 2007 resulting in an uplift of \$1,455 million (2006 \$1,800 million) to the asset revaluation reserve.

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

As a consequence of the revaluation, accumulated depreciation on these assets has been reset to nil at 30 June 2007 in line with treatment prescribed under FRS 3: *Accounting For Property, Plant and Equipment*. There is no depreciation impact of this revaluation in the Statement of Financial Performance.

Finance costs totalling \$1.26 million (2006: \$2.00 million) have been capitalised in relation to refurbishment of certain Generation Structures and Plant assets.

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

16. Commitments

	GROUP		PARENT	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Capital Expenditure				
Commitments – Contracts for Capital Expenditure	13,101	74,414	4,389	74,414
Operating Lease Commitments				
The Group leases premises, motor vehicles, plant and equipment. Non Cancellable operating lease rentals are payable as follows:				
Due within 1 Year	2,503	1,677	1,837	1,677
Due between 1-2 Years	1,932	1,288	1,329	1,288
Due between 2-5 Years	1,868	1,144	1,414	1,144
Later than 5 Years	320	-	320	-
Total Operating Lease Commitments	6,623	4,109	4,900	4,109

The operating leases are of a rental nature and are on normal commercial terms and conditions. There are varying renewal options ranging from 13 December 2009 to 19 December 2018.

17. Investments

	GROUP		PARENT	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Investment in Subsidiaries	-	-	88,434	50,537
Investment in Associates	-	716	-	-
Other Investments	14,439	22,679	14,439	14,530
Total Investments	14,439	23,395	102,873	65,067

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

17(a). Investments in Subsidiaries and Controlled Entities

Subsidiaries

Investments in subsidiaries comprise shares at cost.

Name of Entity	Date ¹	Principal Activity	Interest Held by Parent	
			2007	2006
Arc Innovations Limited		Technology Company	100%	100%
DamWatch Services Limited		Professional Services	100%	100%
Energy for Industry Limited		Non-Trading Entity	100%	100%
MEL Holdings Limited	03/08/06	Non-Trading Entity	100%	-
Meridian Limited		Non-Trading Entity	100%	100%
Meridian Energy Captive Insurance Limited		Insurance Company	100%	100%
Meridian Energy International Limited		Non-Trading Entity	100%	100%
Meridian (Whisper Tech) Limited		Non-Trading Entity	100%	100%
Orion (Whisper Tech) Limited	03/07/06	Non-Trading Entity	100%	-
Right House Limited	26/06/07	Non-Trading Entity	100%	-
WhisperTech Limited	03/07/06	Non-Trading Entity	75.3%	31.3%
Woodville Windfarm Limited		Non-Trading Entity	100%	100%

Controlled Entities

Name of Entity	Date ¹	Principal Activity	Interest Held by Group	
			2007	2006
DamWatch Pty Limited ²		Professional Services	100%	100%
MEL (Te Āpiti) Limited	16/03/07	Non-Trading Entity	100%	-
MEL (West Wind) Limited	16/03/07	Non-Trading Entity	100%	-
MEL (White Hill) Limited	16/03/07	Non-Trading Entity	100%	-
Three River Holdings (No.1) Limited	16/03/07	Non-Trading Entity	100%	-
Three River Holdings (No.2) Limited	16/03/07	Non-Trading Entity	100%	-
Three River Holdings Pty Limited ²	16/03/07	Non-Trading Entity	100%	-
Three River Australia Pty Limited ²	16/03/07	Non-Trading Entity	100%	-
WhisperGen Limited	03/07/06	Technology Company	100%	40%
WhisperGen (UK) Limited ³	03/07/06	Technology Company	100%	-

¹ The date the controlled entity was registered or became part of the Group during the reporting period.

² Incorporated in Australia.

³ Incorporated in United Kingdom.

WhisperTech Limited, WhisperGen Limited and WhisperGen (UK) Limited all changed their reporting date from 31 March to 30 June to align with the Parent.

In the prior year MEA Limited Partnership was dissolved on 29 October 2005 and ceased to be part of the Group.

The Group disposed of its entire interest in Meridian Energy Australian Holdings Limited on 30 November 2005. This included the following controlled entities:

Meridian Energy Australia Investments Pty Limited	Southern Hydro Maintenance Services Pty Limited
SHP 1 Pty Limited	Southern Hydro Operations Pty Limited
SHP 2 Pty Limited	Wattle Point Wind Farm Pty Limited
SHP 3 Pty Limited	Dollar Wind Farm Pty Limited
SHP 3 Holdings Pty Limited	Macarthur Wind Farm Pty Limited
Southern Hydro Pty Limited	

MEA General Partner Pty Limited and MEA Finance Pty Limited were deregistered on 20 February 2006 and ceased to be part of the Group.

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

17(b). Acquisition of Controlled Entities – Whisper Tech Group

At 30 June 2006 the Company held a 31.3% investment in Whisper Tech Limited which was equity accounted as an associate and a 40% investment in the Whisper Tech joint venture held at fair value.

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

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

Summary of the Effect on Investment in Associates

	GROUP	
	2007 \$'000	2006 \$'000
Carrying Amount at Beginning of Year	716	2,146
Share of Total Recognised Revenues and Expenses	-	(1,430)
Effect of Acquisition of Controlled Entities	(716)	-
Carrying Amount at End of Year	-	716

Summary of the Effect of Acquisition of Controlled Entities

	GROUP
	2007 \$'000
Assets and Liabilities acquired at fair value:	
Cash and Bank Balances	224
Accounts Receivable and Prepayments	1,985
Property, Plant and Equipment	2,027
Intangibles	
- Licence Agreement	22,380
- Patents and Trademarks	307
Inventories	6,101
Current Tax Receivable	1,934
Payables and Accruals	(7,404)
Net Assets Acquired	27,554
Acquisition of Control Adjustments	
Investment in Whisper Tech Joint Venture	(8,149)
Gain Recognised on Investment in Whisper Tech Joint Venture	(239)
Investment in Associate – Whisper Tech Limited	(716)
Post Acquisition Assessed Revaluation Reserve of Subsidiary	(7,005)
Post Acquisition Assessed Retained Earnings of Subsidiary	10,282
Recognition of Minority Interest	(10,824)
Total Acquisition of Control Adjustments	(16,651)
Goodwill Arising on Acquisition	2,459
Total Cash Paid	13,362
Cash Included in Net Assets Acquired	(224)
Net Cash Paid on Acquisition	13,138

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

17(c). Investment in Controlled Entities – Arc Innovations Limited

On 1 July 2006 the net assets of Arc Innovations, previously a business unit of the Parent, were transferred to Arc Innovations Limited a newly formed subsidiary. The effect on the Parent's financial statements is summarised below:

	PARENT
	2007 \$'000
Consideration	
Ordinary Shares Acquired by Parent	9,876
	9,876
Assets and Liabilities transferred at fair value:	
Current Assets	
Accounts Receivable	224
Non-Current Assets	
Property, Plant & Equipment	9,567
Internally Generated Intellectual Property	1,331
Current Liabilities	
Accounts Payable	(1,246)
Net Assets Transferred	9,876

Internally-generated Intellectual Property is eliminated from the Group Statement of Financial Position.

17(d). Other Investments

	GROUP		PARENT	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Nth Power Technologies	4,216	3,920	4,216	3,920
Fonterra Co-Operative Group Limited	6,845	6,552	6,845	6,552
Whisper Tech Joint Venture	-	8,149	-	-
North Otago Irrigation Company Limited	3,378	3,571	3,378	3,571
Canterbury TX	-	487	-	487
Total Other Investments	14,439	22,679	14,439	14,530

The above investments do not give rise to consolidated or equity accounting treatment.

The ownership interest in Whisper Tech Joint Venture was 40% at 30 June 2006. On 3 July 2006 the Parent purchased the remaining 60% of the Whisper Tech joint venture from Orion NZ Limited resulting in the joint venture becoming a controlled entity. As a consequence this is now consolidated as part of the Meridian Energy Limited Group financial statements.

The investment in Fonterra Co-Operative Group Limited arises from ownership of land. The market value of this investment at 30 June 2007 was \$9.9 million (2006 \$9.13 million).

The Group also has interests in Ceramic Fuel Cells Limited and in Superlink Developments Limited. These interests were assigned to the Group from ECNZ at no cost and, as such, the carrying value of the interests is nil. Ceramic Fuel Cells Limited is listed on the Australian Stock Exchange. The market value of this investment at 30 June 2007 was \$0.71 million (2006 \$0.51 million).

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

18. Intangible Assets

NOTE	GROUP		PARENT	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Goodwill	2,213	-	-	-
Licence Agreement	21,261	-	-	-
Patents & Trademarks	378	-	-	-
Licences	96	172	96	172
Total Intangible Assets	23,948	172	96	172
Goodwill				
Cost				
Cost at Beginning of Year	-	-	-	-
Goodwill Recognised on Acquisition of Controlled Entities	17(b) 2,459	-	-	-
Balance at End of Year	2,459	-	-	-
Accumulated Amortisation				
Balance at Beginning of Year	-	-	-	-
Amortisation During the Year	246	-	-	-
Balance at End of Year	246	-	-	-
Goodwill is amortised over a period of 10 years				
Licence Agreement				
Cost				
Cost at Beginning of Year	-	-	-	-
Licence Agreement Recognised on Acquisition of Controlled Entities	17(b) 22,380	-	-	-
Balance at End of Year	22,380	-	-	-
Accumulated Amortisation				
Balance at Beginning of Year	-	-	-	-
Amortisation During the Year	1,119	-	-	-
Balance at End of Year	1,119	-	-	-
The Licence Agreement is amortised over a period of 20 years				
Patents & Trademarks				
Cost				
Cost at Beginning of Year	-	-	-	-
Patents & Trademarks Recognised on Acquisition of Controlled Entities	855	-	-	-
Additions During the Year	211	-	-	-
Balance at End of Year	1,066	-	-	-
Accumulated Amortisation				
Balance at Beginning of Year	-	-	-	-
Accumulated Amortisation Recognised on Acquisition of Controlled Entities	548	-	-	-
Amortisation During the Year	140	-	-	-
Balance at End of Year	688	-	-	-

Patents are amortised over the life of the registration ranging from 7 to 20 years

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

19. Customer Acquisition Costs

	GROUP		PARENT	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Customer Acquisition Costs (at cost)	67,375	67,375	65,174	65,174
Accumulated Amortisation	(51,231)	(44,567)	(49,030)	(42,366)
Total Carrying Value	16,144	22,808	16,144	22,808
Reconciliation				
Balance at Beginning of Year	22,808	30,035	22,808	30,035
Amortisation During Year	(6,664)	(7,227)	(6,664)	(7,227)
Balance at End of Year	16,144	22,808	16,144	22,808

20. Cash and Bank Balances

	GROUP		PARENT	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Current Account	6,300	11,192	2,761	6,642
Money Market Account	37,944	111,405	36,605	110,558
Short Term Deposits	-	128,716	-	128,716
Government Stock	511	511	-	-
Total Cash and Bank Balances	44,755	251,824	39,366	245,916

21. Accounts Receivable and Prepayments

	GROUP		PARENT	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Current				
Billed and Accrued Receivables	219,208	230,433	212,595	226,772
Less: Provision for Doubtful Debts	3,057	3,730	3,118	3,730
Net Trade Receivables	216,151	226,703	209,477	223,042
Prepayments	5,551	7,425	4,827	7,390
Total Accounts Receivable and Prepayments	221,702	234,128	214,304	230,432

22. Inventories

	GROUP		PARENT	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Consumable Spares and Stores	3,412	3,106	3,269	3,106
Work In Progress and Components	6,416	-	-	-
Finished Goods	1,137	-	-	-
Total Inventories	10,965	3,106	3,269	3,106

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

23. Borrowings and the Use of Financial Instruments

Exposure to currency, revenue, interest rate and credit risk arises in the normal course of the Group's business. Within approved policy guidelines and authorisations set by the Board of Directors, derivative financial instruments are used as a means of reducing exposure to fluctuations in foreign exchange rates and interest rates. While these financial instruments are subject to the risk of market rates changing subsequent to acquisition, such changes would generally be offset by opposite effects on the items being hedged.

The principal or contract amounts of derivative financial instruments outstanding at balance date were:

	GROUP		PARENT	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Cross Currency Interest Rate Swaps	704,649	704,649	704,649	704,649
Forward Exchange Contracts	241,275	81,274	241,275	81,274
Interest Rate Swaps	630,500	735,500	630,500	735,500
Interest Rate Options	65,500	20,000	65,500	20,000
Foreign Exchange Options	337,972	-	337,972	-

(a) Foreign Currency Risk

The Group incurs foreign currency risk as a result of purchases that are denominated in a currency other than the respective Group entity's functional currency. The currencies giving rise to currency risk in which the Group primarily deals are the Australian Dollar, Euro, US Dollar and Japanese Yen.

The Group also incurs foreign currency risk from the revaluation of the net assets of overseas subsidiaries (denominated in Australian dollars) for external financial reporting purposes. Current Group policy is not to hedge foreign currency denominated assets on the consolidated Statement of Financial Position.

The Group has accessed foreign capital markets to secure long dated financing and uses cross currency interest rate swaps to manage foreign exchange risk in relation to these borrowings.

(b) Interest Rate Risk

It is Group policy to manage exposure to interest rate risk via the use of interest rate swaps, forward rate agreements and interest rate options/collars and to maintain a fixed/floating profile within parameters prescribed by the Group Treasury Policy.

(c) Repricing Analysis

The following tables identify the repricing period for financial instruments that are interest rate risk sensitive. The interest rate applicable to derivative financial instruments is incorporated into the effective interest rate of the underlying hedged items.

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

23. Borrowings and the Use of Financial Instruments (continued)

Repricing 2007 Group

	EFFECTIVE INT RATE	TOTAL \$'000	6 MONTHS OR LESS \$'000	6-12 MONTHS \$'000	1-2 YEARS \$'000	2 OR MORE YEARS \$'000	NON-INTEREST BEARING \$'000
Financial Assets							
Cash Balances	7.47%	44,755	44,755	-	-	-	-
Net Trade Receivables		216,151	-	-	-	-	216,151
Current Tax Receivable		8,548	-	-	-	-	8,548
Investments		14,439	-	-	-	-	14,439
Total Financial Assets		283,893	44,755	-	-	-	239,138
Financial Liabilities							
Term Borrowings*	7.85%	754,649	-	-	50,000	704,649	-
Trade Creditors and Accrued Expenses		193,708	-	-	-	-	193,708
Total Financial Liabilities		948,357	-	-	50,000	704,649	193,708
Off Balance Sheet							
Cross Currency Interest Rate Swaps		704,649	-	-	-	704,649	-
Interest Rate Swaps		630,500	48,000	-	100,000	482,500	-
Interest Rate Options		65,500	23,000	-	20,000	22,500	-
Total Off Balance Sheet		1,400,649	71,000	-	120,000	1,209,649	-

* The debt is either floating debt or swapped back to floating debt in the first instance, consequently the repricing is shown in line with the debt maturity dates.

Repricing 2006 Group

	EFFECTIVE INT RATE	TOTAL \$'000	6 MONTHS OR LESS \$'000	6-12 MONTHS \$'000	1-2 YEARS \$'000	2 OR MORE YEARS \$'000	NON-INTEREST BEARING \$'000
Financial Assets							
Cash Balances	6.77%	251,824	251,824	-	-	-	-
Net Trade Receivables		226,703	-	-	-	-	226,703
Investments		23,395	-	-	-	-	23,395
Total Financial Assets		501,922	251,824	-	-	-	250,098
Financial Liabilities							
Term Borrowings*	7.63%	754,649	-	-	-	754,649	-
Trade Creditors and Accrued Expenses		174,508	-	-	-	-	174,508
Current Tax Payable		2,085	-	-	-	-	2,085
Total Financial Liabilities		931,242	-	-	-	754,649	176,593
Off Balance Sheet							
Cross Currency Interest Rate Swaps		704,649	-	-	-	704,649	-
Interest Rate Swaps		735,500	125,000	25,000	23,000	562,500	-
Interest Rate Options		20,000	-	-	-	20,000	-
Total Off Balance Sheet		1,460,149	125,000	25,000	23,000	1,287,149	-

* The debt is either floating debt or swapped back to floating debt in the first instance, consequently the repricing is shown in line with the debt maturity dates.

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

23. Borrowings and the Use of Financial Instruments (continued)

Repricing 2007 Parent

	EFFECTIVE INT RATE	TOTAL \$'000	6 MONTHS OR LESS \$'000	6-12 MONTHS \$'000	1-2 YEARS \$'000	2 OR MORE YEARS \$'000	NON-INTEREST BEARING \$'000
Financial Assets							
Cash Balances	7.47%	39,366	39,366	-	-	-	-
Net Trade Receivables		209,477	-	-	-	-	209,477
Current Tax Receivable		8,678	-	-	-	-	8,678
Advances to Subsidiary		198,002	-	-	-	-	198,002
Investments		102,873	-	-	-	-	102,873
Total Financial Assets		558,396	39,366	-	-	-	519,030
Financial Liabilities							
Term Borrowings*	7.85%	754,649	-	-	50,000	704,649	-
Trade Creditors and Accrued Expenses		180,526	-	-	-	-	180,526
Advances from Subsidiary		220,867	-	-	-	-	220,867
Total Financial Liabilities		1,156,042	-	-	50,000	704,649	401,393
Off Balance Sheet							
Cross Currency Interest Rate Swaps		704,649	-	-	-	704,649	-
Interest Rate Swaps		630,500	48,000	-	100,000	482,500	-
Interest Rate Options		65,500	23,000	-	20,000	22,500	-
Total Off Balance Sheet		1,400,649	71,000	-	120,000	1,209,649	-

* The debt is either floating debt or swapped back to floating debt in the first instance, consequently the repricing is shown in line with the debt maturity dates.

Repricing 2006 Parent

	EFFECTIVE INT RATE	TOTAL \$'000	6 MONTHS OR LESS \$'000	6-12 MONTHS \$'000	1-2 YEARS \$'000	2 OR MORE YEARS \$'000	NON-INTEREST BEARING \$'000
Financial Assets							
Cash Balances	6.73%	245,916	245,916	-	-	-	-
Net Trade Receivables		223,042	-	-	-	-	223,042
Advances to Subsidiary		38,798	-	-	-	-	38,798
Investments		65,067	-	-	-	-	65,067
Total Financial Assets		572,823	245,916	-	-	-	326,907
Financial Liabilities							
Term Borrowings*	7.84%	754,649	-	-	-	754,649	-
Trade Creditors and Accrued Expenses		170,940	-	-	-	-	170,940
Current Tax Payable		1,961	-	-	-	-	1,961
Advances from Subsidiary		221,021	-	-	-	-	221,021
Total Financial Liabilities		1,148,571	-	-	-	754,649	393,922
Off Balance Sheet							
Cross Currency Interest Rate Swaps		704,649	-	-	-	704,649	-
Interest Rate Swaps		735,500	125,000	25,000	23,000	562,500	-
Interest Rate Options		20,000	-	-	-	20,000	-
Total Off Balance Sheet		1,460,149	125,000	25,000	23,000	1,287,149	-

* The debt is either floating debt or swapped back to floating debt in the first instance, consequently the repricing is shown in line with the debt maturity dates.

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

23. Borrowings and the Use of Financial Instruments (continued)

(d) Credit Risk

The Group incurs credit risk from transactions with financial institutions and in relation to its trade receivables.

The Group does not have any significant concentrations of credit risk. Amounts owed by trade receivables are unsecured but evaluations are performed for significant levels of credit. In limited cases securities are held where credit risks are perceived to be above normal.

There is no requirement to hold collateral or security to support financial instruments, owing to the high credit rating of the financial institutions dealt with. The Group further limits its credit exposure by limiting the amount of funds placed with any one financial institution at any one time. The Group does not anticipate the non-performance of any obligations that existed at balance date.

The maximum exposure to credit risk is represented by the carrying value of each financial asset in the Statement of Financial Position and the fair value of financial instruments as shown in the table at part (f).

(e) Revenue Risk

The Group utilises electricity derivatives to manage exposure to electricity price risk. Under these contracts, the Group sells and buys electricity forward at a fixed price (hedge price). Differences between the hedge price and the spot price are settled between the parties, irrespective of the supply of electricity. The contracts are for various periods out to 2013.

The fair value of outstanding electricity hedge contracts at 30 June 2007 is \$110 million (30 June 2006 \$8.4 million). The face value of outstanding electricity hedge contracts at 30 June 2007 is \$265.7 million (30 June 2006 \$153.8 million). As the New Zealand secondary market for electricity derivatives is not sufficiently active to enable a mark to market valuation a discounted cash flow valuation technique has been used to calculate the fair values.

(f) Fair Values

Fair values are estimated using the mark to market value methodology except for short-term and other investments where the carrying value of these items is equivalent to their fair value. The valuations were provided by the Group's bankers and/or other independent advisors. For cash at bank, receivables, weather derivatives and trade creditors the fair values are equivalent to their carrying values and therefore have been excluded from the table below. The fair values for the Group and Parent are consistent except for advances to and from subsidiaries where it is impracticable to calculate the fair value.

	GROUP AND PARENT			
	2007 \$'000		2006 \$'000	
	FAIR VALUE	CARRYING VALUE	FAIR VALUE	CARRYING VALUE
Assets				
Investments in unlisted shares*	14,439	14,439	25,973	23,395
Liabilities				
Term Borrowings**	754,649	754,649	754,649	754,649
Off Balance Sheet Financial Instruments				
Forward Exchange Contracts	6,770	-	7,514	-
Interest Rate Swaps	26,248	-	4,834	-
Interest Rate Options	679	-	64	-
Foreign Exchange Contracts	21	-	-	-

* It is not practical to estimate the fair value of the investments in unlisted shares, with the exception of Fonterra Co-Operative Group Limited where the fair value has been disclosed at Note 17(d).

**For term borrowings, including bonds with associated cross currency interest rate swaps, the fair values are equivalent to their carrying values and have been included in the above table.

(g) Facilities

The Group has cash advance facilities of \$700 million which were undrawn at 30 June 2007. The expiry of these facilities ranges from 21 December 2007 to 21 December 2011.

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

24. Land

The Group is not yet formally registered as proprietor under the Land Transfer Act of significant portions of its land assets. However the Group has full beneficial ownership rights and the benefit of an obligation from the Crown to create titles under the Land Transfer Act and transfer them to the Group. This is also the basis on which ECNZ owned these assets prior to transfer to the Group. Titles will be issued once land title processes have been completed. Transfer and issue of freehold titles from the Crown to the Group has been proceeding steadily since the first title was issued in May 2006.

25. Related Party Transactions

The beneficial shareholder of the Group is the Crown. The Group undertakes many transactions with the Crown, state-owned companies and other Government entities, all of which are carried out on a commercial and arm's length basis. It is not practical to disclose all related party transactions with the Crown.

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

Entity	Transaction	\$'000	Relationship
Royal New Zealand Ballet	Sponsorship grant	\$250	Anne Blackburn, a Director of Meridian Energy Limited, is a trustee of the Royal New Zealand Ballet in her own personal capacity.
Airways Corporation of New Zealand Limited	Sales of Electricity to Airways Corporation of New Zealand Limited	\$199	Anne Urlwin, a Director of Meridian Energy Limited, is also a director of Airways Corporation of New Zealand Limited.
New Zealand Blood Service	Sales of electricity to New Zealand Blood Service	\$264	Anne Urlwin, a Director of Meridian Energy Limited, is also a director of New Zealand Blood Service.
Landcare Research New Zealand Limited	carboNZero certification Consulting advice	\$203 \$76	Anne Urlwin, a Director of Meridian Energy Limited, is also a director of Landcare Research New Zealand Limited.

Other Transactions involving a Related Party

During the financial year the following transactions occurred between the Parent entity, Meridian Energy Limited and its subsidiaries. All transactions are carried out on a commercial and arm's length basis.

Entity	Transaction	\$'000	Relationship
Meridian Energy Captive Insurance Limited	Insurance premium	\$4,139	Meridian Energy Captive Insurance Limited (MECIL) received payment for insurance premiums from Meridian Energy Limited. MECIL has this policy underwritten by third parties.
MEL (White Hill) Limited	Sale of assets	\$144,000	On 16 May 2007 Meridian Energy Limited sold assets (primarily consisting of property, plant and equipment relating to the White Hill wind farm) to MEL (White Hill) Limited.
DamWatch Services Limited	Consultancy Services	\$2,400	DamWatch Services Limited provided consultancy services to Meridian Energy Limited during the year totalling \$2.4 million (2006 \$1.2 million). Such transactions were all carried out independently on an arm's length basis.
Arc Innovations Limited	Meter Leasing Services	\$8,200	Arc Innovations Limited provided meter leasing services to Meridian Energy Limited during the year totalling \$8.2 million. Such transactions were all carried out independently on an arm's length basis.

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

26. Net Cash Flow from Operating Activities

	GROUP		PARENT	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Reconciliation with Net Surplus After Tax				
Net Surplus After Tax	199,849	856,836	228,776	620,620
Items Not Involving Operating Cash Flows				
Depreciation Expense	109,364	83,486	107,037	77,330
Amortisation	8,246	19,496	6,741	7,304
Deferred Tax	890	(2,167)	563	21,164
Transfer of Tax Losses to (from) Parent	-	-	11,048	(6,516)
Net (Gain)/Loss on Sale of Property, Plant and Equipment	(1,040)	149	(1,074)	149
Gain on Disposal of Subsidiary	-	(652,516)	-	-
Impairment of Investments	487	7,191	487	2,021
Equity Accounting of Associate	-	1,430	-	-
Post-Acquisition Assessed Retained Earnings of Controlled Entities	10,282	-	-	-
Other Non-Cash items	(241)	-	(379)	-
	127,988	(542,931)	124,423	101,452
Changes in Working Capital Items				
Accounts Receivable and Prepayments	13,535	57,549	17,237	5,547
Inventory	(7,859)	272	(163)	91
Payables and Accruals	21,244	(113,017)	13,861	(8,406)
Provisions	3,440	-	1,290	-
Current Tax Payable	(10,633)	(172)	(10,639)	1,156
Net Working Capital of Subsidiary Disposed	-	31,652	-	-
Net Working Capital of Subsidiary Acquired	2,615	-	-	-
	22,342	(23,716)	21,586	(1,612)
Net Cash Flow from Operating Activities	350,179	290,189	374,785	720,460

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

27. Segment Information

Industry Segments

The Group operates predominantly in one industry, the generation, wholesale marketing and retailing of electricity and complementary products and services. Its operations are carried out in New Zealand and Australia.

Geographical Segments

As at and for the year ended 30 June 2007

	NEW ZEALAND	AUSTRALIA	ELIMINATIONS	CONSOLIDATION
	2007 \$'000	2007 \$'000	2007 \$'000	2007 \$'000
Operating Revenue Derived from Outside Group	1,774,977	100	-	1,775,077
Operating Revenue	1,774,977	100	-	1,775,077
Segment Net Surplus Before Tax and Finance Costs	359,951	(18)	-	359,933
Segment Total Assets	6,667,512	71	-	6,667,583

In 2007, there were no items of an unusual nature included in Net Surplus before Tax and Finance Costs.

As at and for the year ended 30 June 2006

	NEW ZEALAND	AUSTRALIA	ELIMINATIONS	CONSOLIDATION
	2006 \$'000	2006 \$'000	2006 \$'000	2006 \$'000
Operating Revenue Derived from Outside Group	2,183,948	38,847	-	2,222,795
Operating Revenue	2,183,948	38,847	-	2,222,795
Segment Net Surplus Before Tax and Finance Costs	1,024,158	2,373	590	1,027,121
Segment Total Assets	5,338,543	88	680	5,339,311

Except for the Gain on Disposal of Subsidiary in 2006 of \$652,516,000 and the Costs Relating to the Disposal of the Subsidiary in 2006 of \$26,879,000, there were no items of an unusual nature included in the Net Surplus Before Tax and Finance Costs.

28. Events Occurring After Balance Date

On 1 July 2007 Meridian Energy Limited sold net assets of \$258 million to its wholly owned subsidiaries MEL (Te Āpiti) Limited and MEL (West Wind) Limited. The assets primarily consisted of property, plant and equipment relating to the Te Āpiti wind farm, and capital costs associated with resource consents and land relating to the proposed West Wind wind farm.

The transfer of assets resulted in a gain to the Parent of \$11.7 million and has no impact on the results of the Group.

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

29. Contingent Assets and Liabilities

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

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

The Group will adopt NZ IFRS for the year ending 30 June 2008. Transition from existing NZ GAAP to NZ IFRS will be made in accordance with NZ IFRS 1 *First-time Adoption of New Zealand Equivalents to International Financial Reporting Standards*. Upon adoption of NZ IFRS, comparative information will be restated to conform to the requirements of NZ IFRS and the impact that adoption of NZ IFRS has had on the Group's financial statements will be disclosed.

The Group is well advanced in evaluating the impact of NZ IFRS on its financial statements. The key areas identified that have a significant impact on the opening NZ IFRS balance sheet (1 July 2006) and the comparative period of the Group (30 June 2007) are outlined in the tables below.

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.

While every effort has been made to quantify and disclose the potential impacts of adopting NZ IFRS, the actual impact of adopting NZ IFRS may vary from the information presented below, and the variation may be material.

The following table outlines the estimated impact on the Group's Equity, Total Liabilities and Total Assets on transition to NZ IFRS at 1 July 2006.

	NOTE	SHARE CAPITAL \$m	RESERVES \$m	RETAINED EARNINGS \$m	TOTAL EQUITY \$m	TOTAL LIABILITIES \$m	TOTAL ASSETS \$m
Total Reported under NZ GAAP		1,600	2,478	160	4,238	1,101	5,339
NZ IFRS Adjustments							
Joint Ventures	a	-	-	(8)	(8)	-	(8)
Investments	b	-	2	-	2	-	2
Financial Instruments	c	-	21	3	24	28	52
Deferred Tax	d	-	(828)	14	(814)	814	-
Total NZ IFRS Adjustments		-	(805)	9	(796)	842	46
Restated Totals under NZ IFRS		1,600	1,673	169	3,442	1,943	5,385

The following table outlines the estimated impact on the Group's Equity, Total Liabilities and Total Assets and Net Income of transition to NZ IFRS at 30 June 2007.

	NOTE	SHARE CAPITAL \$m	RESERVES \$m	RETAINED EARNINGS \$m	MINORITY INTEREST \$m	TOTAL EQUITY \$m	TOTAL LIABILITIES \$m	TOTAL ASSETS \$m	NET INCOME \$m
Total Reported under NZ GAAP		1,600	3,940	(9)	12	5,543	1,125	6,668	200
NZ IFRS Adjustments									
Joint Ventures	a	-	-	-	-	-	-	-	10
Investments	b	-	2	-	-	2	-	2	-
Financial Instruments	c	-	3	28	-	31	3	34	25
Deferred Tax	d	-	(1,194)	19	-	(1,175)	1,179	4	6
Total NZ IFRS Adjustments		-	(1,189)	47	-	(1,142)	1,182	40	41
Restated Totals under NZ IFRS		1,600	2,751	38	12	4,401	2,307	6,708	241

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

30. Impact of adopting New Zealand Equivalents to International Financial Reporting Standards (“NZ IFRS”) (continued)

Changes in key accounting policies on Transition to NZ IFRS

a. Joint Ventures

Under current NZ GAAP the Group has carried its interest in Whisper Tech Joint Venture at fair value. NZ IAS 31: *Interests in Joint Ventures*, requires the Group 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 the Group’s share of post acquisition deficit up to its investment in the joint venture.

Note: On 3 July 2006 the Group purchased all of the remaining interest in the joint venture. As a result of change in ownership to a controlling interest the Group 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 current NZ GAAP the Group has carried its equity investments at cost less impairment.

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

The classification of the investment determines the subsequent accounting treatment. The Group 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 the Group’s equity investments at fair value, where fair value can be reliably measured.

Financial Instruments

The Group enters into derivatives primarily to manage exposure to interest rate, foreign exchange and electricity price risk. Under current NZ GAAP the Group accounts 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 the Group 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. The Group 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.

Deferred Tax

Under current NZ GAAP income tax expense is 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, are 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.