Meridian Energy Limited

Condensed Interim Financial Statements

For the six months ended 31 December 2013

Contents

Income Statement

		GROUP		
	NOTES	UNAUDITED 6 MONTHS ENDED 31 DEC 2013 $M	UNAUDITED 6 MONTHS ENDED 31 DEC 2012 $M	AUDITED 12 MONTHS ENDED 30 JUNE 2013 $M
Operating Revenue				
Energy Sales Revenue		**1,085.2**	1,180.0	2,681.5
Energy Related Services Revenue		**6.8**	7.1	13.3
Dividends Received		**-**	-	0.1
Other Revenue		**5.9**	6.1	16.3
Total Operating Revenue		**1,097.9**	1,193.2	2,711.2
Operating Expenses				
Energy Related Expenses		**(426.2)**	(534.2)	(1,361.5)
Energy Distribution Expenses		**(212.4)**	(210.8)	(404.2)
Energy Transmission Expenses		**(66.7)**	(54.8)	(115.3)
Employee Expenses		**(47.3)**	(46.5)	(88.6)
Other Operating Expenses	3	**(77.1)**	(69.8)	(156.8)
		(829.7)	(916.1)	(2,126.4)
Earnings Before Interest, Tax, Depreciation, Amortisation, Change in Fair Value of Financial Instruments and Other Significant Items (EBITDAF)		**268.2**	277.1	584.8
Impairment of Assets	4	**-**	-	(24.8)
(Loss)/Gain on Sale of Assets		**(2.4)**	6.0	106.6
Equity Accounted Earnings of Joint Ventures		**(0.2)**	0.1	0.1
Amortisation of Intangible Assets		**(11.1)**	(7.4)	(18.5)
Depreciation		**(94.2)**	(100.9)	(201.2)
Net Change in Fair Value of Financial Instruments Gain (Operational)	14	**1.7**	102.6	51.1
Operating Profit		**162.0**	277.5	498.1
Finance Costs and Other Finance Related Income/(Expenses)				
Finance Costs	5	**(41.7)**	(45.5)	(115.1)
Interest Income		**4.2**	1.7	1.6
Net Change in Fair Value of Financial Instruments Gain/(Loss) (Financing)	14	**39.5**	(0.5)	42.7
Profit Before Tax		**164.0**	233.2	427.3
Income Tax Expense	6	**(47.1)**	(59.9)	(132.2)
Profit After Tax		**116.9**	173.3	295.1
Profit After Tax Attributable to:				
Shareholders of the Parent Company		**116.9**	173.3	295.1
Earnings Per Share from Operations Attributable to Equity Holders of the Company During the Period:				
Basic Earnings per Share ($)		**0.05**	0.07	0.12
Diluted Earnings per Share ($)		**0.05**	0.07	0.12

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

Statement of Comprehensive Income

		GROUP		
	NOTES	UNAUDITED 6 MONTHS ENDED 31 DEC 2013 $M	UNAUDITED 6 MONTHS ENDED 31 DEC 2012 $M	AUDITED 12 MONTHS ENDED 30 JUNE 2013 $M
Profit After Tax for the Period		**116.9**	173.3	295.1
Other Comprehensive Income:				
Items that will not be Reclassified to Profit or Loss:				
Reversal of Asset Revaluation		**-**	-	(476.2)
Tax Relating to Items that will not be Reclassified:				
Deferred Tax on Asset Revaluation Reserve	11	**-**	-	133.3
		-	-	(342.9)
Items that may be Reclassified Subsequently to Profit or Loss:				
Net (Loss)/Gain on Available for Sale Investments		**(1.2)**	2.0	2.3
Net (Loss)/Gain on Cash Flow Hedges		**(2.8)**	(7.3)	28.3
Exchange Differences Arising from Translation of Foreign Operations		**(12.9)**	(6.8)	(11.5)
Income Tax Relating to Items that may be Reclassified	11	**1.1**	1.5	(9.2)
		(15.8)	(10.6)	9.9
Total Other Comprehensive Income for the Period, Net of Tax		**(15.8)**	(10.6)	(333.0)
Total Comprehensive Income for the Period, Net of Tax		**101.1**	162.7	(37.9)
Total Comprehensive Income for the Period, Net of Tax, Attributable to:				
Shareholders of the Parent Company		**101.1**	162.7	(37.9)

Statement of Financial Position

	NOTES	GROUP UNAUDITED 31 DEC 2013 $M	UNAUDITED 31 DEC 2012 $M	AUDITED 30 JUNE 2013 $M
Shareholders' Equity				
Share Capital	7	**1,598.6**	1,600.0	1,600.0
Reserves		**3,036.5**	3,388.4	3,088.0
Total Equity		**4,635.1**	4,988.4	4,688.0
Represented by:				
Current Assets				
Cash and Cash Equivalents		**252.4**	72.6	382.8
Accounts Receivable and Prepayments		**187.0**	211.3	261.9
Inventories		**5.0**	3.8	4.3
Other Assets		**2.9**	-	0.6
Finance Lease Receivable		**0.2**	5.1	0.2
Assets Classified as Held for Sale	9	**47.2**	27.8	64.8
Derivative Financial Instruments	14	**33.6**	31.3	51.5
Total Current Assets		**528.3**	351.9	766.1
Non-Current Assets				
Finance Lease Receivable		**0.5**	-	0.6
Available for Sale Investments		**-**	5.7	-
Intangible Assets		**55.5**	50.1	54.8
Property, Plant and Equipment	10	**6,809.3**	7,970.3	6,769.0
Deferred Tax Asset	11	**11.6**	8.3	12.7
Derivative Financial Instruments	14	**68.0**	184.8	134.2
Total Non-Current Assets		**6,944.9**	8,219.2	6,971.3
Total Assets		**7,473.2**	8,571.1	7,737.4
Current Liabilities				
Liabilities Classified as Held for Sale	9	**1.0**	0.7	2.7
Payables and Accruals		**176.8**	179.6	274.7
Provisions		**-**	0.1	0.1
Current Tax Payable		**47.5**	4.9	51.3
Current Portion of Term Borrowings	12	**62.2**	113.7	146.7
Derivative Financial Instruments	14	**43.9**	52.1	45.0
Total Current Liabilities		**331.4**	351.1	520.5
Non-Current Liabilities				
Deferred Tax Liability	11	**1,354.6**	1,468.9	1,364.2
Term Borrowings	12	**1,063.9**	1,512.0	1,033.5
Term Payables		**-**	15.3	6.7
Derivative Financial Instruments	14	**88.2**	235.4	124.5
Total Non-Current Liabilities		**2,506.7**	3,231.6	2,528.9
Total Liabilities		**2,838.1**	3,582.7	3,049.4
Net Assets		**4,635.1**	4,988.4	4,688.0

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

Chris Moller
Chairman, 18 February 2014

Jan Dawson
Chair of Audit and Risk Committee, 18 February 2014

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

Statement of Changes in Equity

		UNAUDITED							
	NOTES	SHARE CAPITAL $M	SHARE OPTION RESERVE[1] $M	REVALUATION RESERVE $M	FOREIGN CURRENCY TRANSLATION RESERVE $M	CASH FLOW HEDGE RESERVE $M	AVAILABLE FOR SALE RESERVE $M	RETAINED EARNINGS $M	TOTAL EQUITY $M
Balance at 1 July 2013		**1,600.0**	**-**	**3,073.9**	**(13.2)**	**8.9**	**1.6**	**16.8**	**4,688.0**
Comprehensive Income									
Profit for the Period		-	-	-	-	-	-	116.9	116.9
Cash Flow Hedges:									
Net Loss Taken to Equity		-	-	-	-	(2.8)	-	-	(2.8)
Available for Sale Reserve:									
Net Loss Taken to Equity		-	-	-	-	-	(1.2)	-	(1.2)
Exchange Differences Arising from Translation of Foreign Operations		-		-	(12.9)	-	-	-	(12.9)
Asset Revaluation Reserve Transferred to Retained Earnings		-	-	(0.1)	-	-	-	0.1	-
Income Tax Relating to Other Comprehensive Income		-	-	-	-	0.8	0.3	-	1.1
Total Comprehensive Income for the Period		**-**	**-**	**(0.1)**	**(12.9)**	**(2.0)**	**(0.9)**	**117.0**	**101.1**
Shares Issued	7	-	-	-	-	-	-	-	-
Acquisition of Treasury Shares[1]	7	(1.4)	-	-	-	-	-	-	(1.4)
Dividends Paid	8	-		-	-	-	-	(152.6)	(152.6)
Balance at 31 December 2013		**1,598.6**	**-**	**3,073.8**	**(26.1)**	**6.9**	**0.7**	**(18.8)**	**4,635.1**

1 The share option reserve and treasury shares are required to meet the current and future obligations under long term incentive plans refer to note 7.

		UNAUDITED						
	NOTE	SHARE CAPITAL $M	REVALUATION RESERVE $M	FOREIGN CURRENCY TRANSLATION RESERVE $M	CASH FLOW HEDGE RESERVE $M	AVAILABLE FOR SALE RESERVE $M	RETAINED EARNINGS $M	TOTAL EQUITY $M
Balance at 1 July 2012		**1,600.0**	**3,418.0**	**(1.7)**	**(41.8)**	**-**	**(148.8)**	**4,825.7**
Profit for the Period		-	-	-	-	-	173.3	173.3
Cash Flow Hedges:								
Net Loss Taken to Equity		-	-	-	(7.3)	-	-	(7.3)
Available for Sale Reserve:								
Net Gain Taken to Equity		-	-	-	-	2.0	-	2.0
Exchange Differences Arising from Translation of Foreign Operations		-	-	(6.8)	-	-	-	(6.8)
Income Tax Relating to Other Comprehensive Income		-	-	-	2.1	(0.6)	-	1.5
Total Comprehensive Income for the Period		**-**	**-**	**(6.8)**	**(5.2)**	**1.4**	**173.3**	**162.7**
Dividends Paid	8	-	-	-	-	-	-	-
Balance at 31 December 2012		**1,600.0**	**3,418.0**	**(8.5)**	**(47.0)**	**1.4**	**24.5**	**4,988.4**

Statement of Changes in Equity

		AUDITED						
	NOTES	SHARE CAPITAL $M	REVALUATION RESERVE $M	FOREIGN CURRENCY TRANSLATION RESERVE $M	CASH FLOW HEDGE RESERVE $M	AVAILABLE FOR SALE RESERVE $M	RETAINED EARNINGS $M	TOTAL EQUITY $M
Balance at 1 July 2012		**1,600.0**	**3,418.0**	**(1.7)**	**(41.8)**	-	**(148.8)**	**4,825.7**
Profit for the Period		-	-	-	-	-	295.1	295.1
Reversal of Asset Revaluation		-	(476.2)	-	-	-	-	(476.2)
Cash Flow Hedges:								
Net Gain Taken to Equity		-	-	-	28.3	-	-	28.3
Available for Sale Reserve:								
Net Gain Taken to Equity		-	-	-	-	2.3	-	2.3
Transfer Cash Flow Hedge Reserve to Retained Earnings on Sale of Subsidiary		-	-	-	44.2	-	(44.2)	-
Exchange Differences Arising from Translation of Foreign Operations		-	-	(11.5)	-	-	-	(11.5)
Asset Revaluation Reserve Transferred to Retained Earnings		-	(1.6)	-	-	-	1.6	-
Deferred Tax on Asset Revaluation Reserve	11	-	133.7	-	-	-	(0.4)	133.3
Income Tax Relating to Other Comprehensive Income		-	-	-	(21.8)	(0.7)	13.3	(9.2)
Total Comprehensive Income for the Period		**-**	**(344.1)**	**(11.5)**	**50.7**	**1.6**	**265.4**	**(37.9)**
Dividends Paid	8	-	-	-	-	-	(99.8)	(99.8)
Balance at 30 June 2013		**1,600.0**	**3,073.9**	**(13.2)**	**8.9**	**1.6**	**16.8**	**4,688.0**

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

Statement of Cash Flows

	NOTES	GROUP UNAUDITED 6 MONTHS ENDED 31 DEC 2013 $M	GROUP UNAUDITED 6 MONTHS ENDED 31 DEC 2012 $M	GROUP AUDITED 12 MONTHS ENDED 30 JUNE 2013 $M
Operating Activities				
Cash was Provided from:				
Receipts from Customers		**963.5**	1,277.9	2,390.0
Interest Received		**4.2**	1.4	2.0
Dividends Received		**-**	-	0.1
		967.7	1,279.3	2,392.1
Cash was Applied to:				
Payments to Suppliers and Employees		**(677.9)**	(1,029.4)	(1,811.8)
Interest Paid		**(39.9)**	(44.0)	(106.5)
Income Tax Paid		**(58.4)**	(33.0)	(57.1)
		(776.2)	(1,106.4)	(1,975.4)
Net Cash Inflows from Operating Activities		**191.5**	172.9	416.7
Investment Activities				
Cash was Provided from:				
Sale of Property, Plant and Equipment	10	**4.7**	0.4	0.6
Finance Lease Receivable		**0.2**	0.6	-
Sale of Subsidiaries		**2.1**	56.3	151.2
Sale of Investments		**-**	0.8	0.8
		7.0	58.1	152.6
Cash was Applied to:				
Purchase of Property, Plant and Equipment		**(151.7)**	(166.6)	(244.8)
Capitalised Interest		**(3.6)**	(3.6)	(5.7)
Purchase of Intangible Assets		**(13.4)**	(13.1)	(25.9)
Purchase of Investments		**(0.2)**	-	(0.3)
		(168.9)	(183.3)	(276.7)
Net Cash Outflows from Investing Activities		**(161.9)**	(125.2)	(124.1)
Financing Activities				
Cash was Provided from:				
Proceeds From Borrowings		**80.4**	341.1	1,115.9
		80.4	341.1	1,115.9
Cash was Applied to:				
Dividends Paid	8	**(152.6)**	-	(99.8)
Treasury Shares Purchased	7	**(1.0)**	-	-
Term Borrowings Paid		**(85.3)**	(523.7)	(1,117.4)
		(238.9)	(523.7)	(1,217.2)
Net Cash Outflows from Financing Activities		**(158.5)**	(182.6)	(101.3)
Net (Decrease)/Increase in Cash and Cash Equivalents		**(128.9)**	(134.9)	191.3
Cash and Cash Equivalents at Beginning of Period		**382.8**	214.4	214.4
Cash Removed on Sale of Subsidiaries		**-**	(4.9)	(14.1)
Effect of Exchange Rate Changes on Net Cash		**(1.5)**	(2.0)	(8.8)
Cash and Cash Equivalents at End of Period		**252.4**	72.6	382.8

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Statement of Cash Flows

RECONCILIATION OF PROFIT AFTER TAX FOR THE PERIOD TO CASH FLOWS FROM OPERATING ACTIVITIES	NOTES	GROUP UNAUDITED 6 MONTHS ENDED 31 DEC 2013 $M	GROUP UNAUDITED 6 MONTHS ENDED 31 DEC 2012 $M	GROUP AUDITED 12 MONTHS ENDED 30 JUNE 2013 $M
Profit after Tax for the Period		**116.9**	173.3	295.1
Adjustments:				
Amortisation of Intangible Assets		**11.1**	7.4	18.5
Depreciation		**94.2**	100.9	201.2
Movement in Deferred Tax		**(7.6)**	27.8	40.3
Net Change in Fair Value of Financial Instruments (Gain)/Loss	14	**(41.2)**	(102.1)	(93.8)
Cash Receipt on Closeout of Aluminium Commodity Swap		**54.6**	-	-
Cash Payments of Option Premiums		**(8.9)**	(8.8)	(20.4)
Equity Accounted Earnings of Joint Venture		**0.2**	(0.1)	(0.1)
Finance Costs		**-**	(1.0)	10.5
		102.4	24.1	156.2
Items Classified as Investing Activities:				
Impairment of Assets	4	**-**	-	24.8
Finance Lease Interest		**0.1**	(0.3)	-
Loss on Sale of Property, Plant and Equipment		**2.4**	-	0.2
Gain on Sale of Subsidiaries		**-**	(5.9)	(107.3)
		2.5	(6.2)	(82.3)
Items Classified as Financing Activities:				
Amortisation of Prepaid Debt Facility Fees		**1.6**	0.7	(2.3)
		1.6	0.7	(2.3)
Changes in Working Capital Items				
Decrease in Accounts Receivable and Prepayments		**74.9**	86.8	36.2
(Increase)/Decrease in Inventory		**(0.7)**	0.8	0.2
Increase in Other Assets		**(2.3)**	-	(0.4)
Decrease in Payables and Accruals		**(99.9)**	(104.6)	(29.0)
(Decrease)/Increase in Provisions		**(0.1)**	-	0.1
(Decrease)/Increase in Current Tax Payable		**(3.8)**	(1.1)	45.3
Working Capital Items Transferred to Available for Sale		**-**	(0.2)	(0.2)
Working Capital Items on Sale of Subsidiaries		**-**	(0.7)	(2.2)
		(31.9)	(19.0)	50.0
Net Cash Flow from Operating Activities		**191.5**	172.9	416.7

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

Contents

1. Summary of Accounting Policies

Reporting Entity and Statement of Compliance

Meridian Energy Limited (the "Company" or the "Parent") is a profit-oriented entity domiciled in New Zealand, registered under the Companies Act 1993, and an issuer for the purposes of the Financial Reporting Act 1993. Meridian Energy Limited is a mixed ownership model Company, that is majority owned by Her Majesty the Queen in Right of New Zealand (the "Crown") and is dual listed on the New Zealand Stock Exchange (NZX) and the Australian Securities Exchange (ASX). The Company is bound by the requirements of the Public Finance Act 1989 but is no longer bound by The State-Owned Enterprises Act 1986.

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

The condensed interim financial statements comprise those of the Parent and its subsidiaries (together referred to as "Meridian" or "Group"). The reporting period for these financial statements is the six months ended 31 December 2013.

The financial statements were authorised for issue by the Directors on 18 February 2014.

Basis of Preparation

These unaudited condensed interim financial statements have been prepared using accounting policies consistent with International Financial Reporting Standards (IFRS) and New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and in accordance with IAS 34: *Interim Financial Reporting* and NZ IAS 34: *Interim Financial Reporting* as appropriate for a profit-oriented entity.

The financial statements have been prepared on the basis of historical cost modified by the revaluation of certain assets and liabilities. The accrual basis of accounting has been used unless otherwise stated.

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

The following new standards and amendments below became effective during the period:

STANDARD/INTERPRETATION	EFFECTIVE FOR ANNUAL REPORTING PERIODS BEGINNING ON OR AFTER
NZ IFRS 10 Consolidated Financial Statements	1 January 2013
NZ IFRS 11 Joint Arrangements	1 January 2013
NZ IFRS 12 Disclosure of Interests in Other Entities	1 January 2013
NZ IFRS 13 Fair Value Measurement	1 January 2013
NZ IAS 19 Employee Benefits (revised 2011)	1 January 2013
NZ IAS 27 Separate Financial Statements (revised 2011)	1 January 2013
NZ IAS 28 Investments in Associates and Joint Ventures	1 January 2013
Amendments to NZ IFRS 7 Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities	1 January 2013
Improvements to IFRS:2009-2011 cycle	1 January 2013

Apart from NZ IFRS 13 the adoption of these standards does not have a material impact on the reported results or financial position of Meridian.

The introduction of NZ IFRS 13 establishes a single source of guidance for fair value measurement and disclosure requirements. Specific transitional provisions were given to entities such that they need not apply the disclosure requirements set out in the Standard in comparative information provided for periods before the initial application of the Standard. In accordance with these transitional provisions the Group, in these Condensed Interim Financial Statements, has not made any disclosures for the comparative period ending 31 December 2012 (notes 13 and 14). Other than additional disclosures, the application of NZ IFRS 13 has not had any material impact on the amounts recognised in the financial statements.

Judgements and Estimations

The preparation of financial statements requires judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The application of these are consistent with those used in the preparation of the Group's financial statements for the year ended 30 June 2013. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

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

Judgements that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are in relation to the valuation of generation structures, plant assets and energy derivatives. In addition, accounting judgements are made in respect of the hedge designation and valuation of certain financial instruments, assessment of hedge effectiveness and the determination of useful lives of Property, Plant and Equipment.

Accounting Policies

Except as described below, the same accounting policies, presentation and methods of computation are applied in these condensed financial statements as were applied in the preparation of the Group's financial statements for the year ended 30 June 2013. The following new policies were introduced:

SHARE BASED PAYMENTS

Employees (including Senior Management) of the Company may receive remuneration in the form of share-based payments, whereby employees render services as consideration for shares (equity settled) or cash (cash settled). The cost of equity settled transactions with employees is measured at the fair value of the shares at the date at which they are granted. The cost of cash settled transactions with employees is measured at the fair value of the liability at each reporting date.

The fair value of equity settled options at the grant date is recognised as an expense, together with a corresponding increase to the share option reserve within equity, over the vesting period in which the performance and/or service conditions are fulfilled. The total amount to be expensed is based on the fair value of each option along with the best estimate of the number of equity instruments that will ultimately vest which includes an assessment of the likelihood that service conditions will be met.

The fair value of the liability associated with cash settled transactions is recognised as an expense, together with a corresponding increase in a share based payment liability, over the period in which the performance and/or service conditions are fulfilled. The total amount to be expensed is based on the fair value of the liability along with the best estimate of the number of notional shares that will ultimately vest which includes an assessment of the likelihood that service conditions will be met.

The expense or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

FAIR VALUE HIERARCHY TRANSFERS

All assets and liabilities measured or disclosed at fair value are categorised into the following three-level hierarchy based on the inputs to the valuation:

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

Should market liquidity/products alter significantly or the observability of inputs change, consideration will be given to transfers from one level of the hierarchy to another.

2. Segment Reporting

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

The Chief Executive assesses the performance of the operating segments on a measure of EBITDAF. Segment EBITDAF represents profit earned by each segment before the allocation of central administration costs, Directors' fees, equity accounted earnings of joint ventures, change in fair value of financial instruments, finance costs, gain/loss on sale of assets, depreciation, amortisation, impairments and income tax expense.

The following balance sheet items are not allocated to operating segments as they are not reported to the Chief Executive at a segmental level:

- Assets
- Liabilities
- Capital Expenditure

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

Revenues are derived from external customers within New Zealand, Australia and the United States of America. Meridian sells the equivalent of approximately 40% (December 2012: 40%, June 2013: 40%) of its generation output to a single customer. The revenues received from this customer are attributable to the Wholesale segment.

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

Except as described in the Summary of Accounting Policies, the accounting policies of the reportable segments are the same as those applied in the preparation of the Group financial statements for the year ended 30 June 2013.

In the year ended 30 June 2013, Meridian commenced allocating directly attributable ICT, Insurance, Property and Brand costs to segments in order to better assess performance. As the allocation methodology is based on current costs, it was not considered appropriate to restate prior periods to reflect this change since the data is unavailable and the cost to develop it would be excessive.

Wholesale Segment

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

Costs to develop New Zealand renewable generation opportunities and dam consultancy services offered by Damwatch Engineering Limited (previously Damwatch Services Limited) are reported as part of the Wholesale operating segment as it is determined that they have similar long term economic characteristics.

2. Segment Reporting *(continued)*

Retail Segment

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

The Retail segment purchases electricity from the Wholesale segment at an average fixed price of $80-$85 per MWh for electricity which is sold to customers on fixed price, variable volume agreements and electricity purchased for customers on spot agreements at the prevailing wholesale spot market rates.

International Segment

The international segment comprises Meridian's Australian and United States of America operations which generate electricity, sell and retail electricity into the relevant markets.

On 28 June 2013, Meridian Wind Macarthur Holdings Pty Ltd, a controlled entity involved in the construction of the Macarthur Windfarm, was sold as a going concern.

Other Segments

Other operations, which are not considered reportable segments, include Meridian's portfolio of subsidiaries that provide insurance services and energy solutions to industry. The results of these segments are included in 'Other Segments'.

On 20 December 2012 Energy for Industry Limited, a subsidiary that provided energy solutions to industry, was sold as a going concern.

Unallocated

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

Inter-segment items

Inter-segment revenue and expenses are sales and purchases between the Wholesale, Retail and International segments.

The Unaudited Segment Information Provided to the Chief Executive for the Reportable Segments for the Six Months Ended 31 December 2013 is as follows:

	WHOLESALE $M	RETAIL $M	INTERNATIONAL $M	OTHER SEGMENTS $M	UNALLOCATED CORPORATE $M	INTER-SEGMENT ITEMS $M	TOTAL $M
Energy Sales Revenue	768.4	568.0	12.5	-	-	(263.7)	1,085.2
Energy Related Expenses	(396.4)	(292.9)	(0.6)	-	-	263.7	(426.2)
Energy Distribution Expenses	-	(212.2)	(0.2)	-	-	-	(212.4)
Energy Margin	**372.0**	**62.9**	**11.7**	**-**	**-**	**-**	**446.6**
Dividend and Other Revenue	4.3	9.1	-	0.1	5.2	(6.0)	12.7
Energy Transmission Expenses	(64.8)	-	(1.9)	-	-	-	(66.7)
Gross Margin	**311.5**	**72.0**	**9.8**	**0.1**	**5.2**	**(6.0)**	**392.6**
Employee Expenses	(14.8)	(16.3)	(4.6)	-	(12.1)	0.5	(47.3)
Other Operating Expenses	(25.0)	(28.0)	(4.1)	-	(20.5)	0.5	(77.1)
EBITDAF	**271.7**	**27.7**	**1.1**	**0.1**	**(27.4)**	**(5.0)**	**268.2**
Reconciliation of Operating Revenue							
Energy Sales Revenue	768.4	568.0	12.5	-	-	(263.7)	1,085.2
Dividend and Other Revenue	4.3	9.1	-	0.1	5.2	(6.0)	12.7
Inter-Segment Revenue	(263.7)	(1.0)	-	-	(5.0)	269.7	-
Revenue from External Customers	**509.0**	**576.1**	**12.5**	**0.1**	**0.2**	**-**	**1,097.9**

2. Segment Reporting *(continued)*

The Unaudited Segment Information Provided to the Chief Executive for the Reportable Segments for the Six Months Ended 31 December 2012 is as follows:

	WHOLESALE $M	RETAIL $M	INTERNATIONAL $M	OTHER SEGMENTS $M	UNALLOCATED CORPORATE $M	INTER-SEGMENT ITEMS $M	TOTAL $M
Energy Sales Revenue	858.1	580.4	11.6	9.7	-	(279.8)	1,180.0
Energy Related Expenses	(497.2)	(311.9)	(0.3)	(4.6)	-	279.8	(534.2)
Energy Distribution Expenses	(8.6)	(202.2)	-	-	-	-	(210.8)
Energy Margin	**352.3**	**66.3**	**11.3**	**5.1**	**-**	**-**	**435.0**
Dividend and Other Revenue	4.7	7.6	-	0.3	0.6	-	13.2
Energy Transmission Expenses	(53.8)	-	(1.0)	-	-	-	(54.8)
Gross Margin	**303.2**	**73.9**	**10.3**	**5.4**	**0.6**	**-**	**393.4**
Employee Expenses	(15.3)	(14.2)	(3.3)	(1.5)	(12.2)	-	(46.5)
Other Operating Expenses	(20.0)	(22.9)	(2.2)	(2.1)	(22.6)	-	(69.8)
EBITDAF	**267.9**	**36.8**	**4.8**	**1.8**	**(34.2)**	**-**	**277.1**
Reconciliation of Operating Revenue							
Energy Sales Revenue	858.1	580.4	11.6	9.7	-	(279.8)	1,180.0
Dividend and Other Revenue	4.7	7.6	-	0.3	0.6	-	13.2
Inter-Segment Revenue	(279.8)	-	-	-	-	279.8	-
Revenue from External Customers	**583.0**	**588.0**	**11.6**	**10.0**	**0.6**	**-**	**1,193.2**

The Audited Segment Information Provided to the Chief Executive for the Reportable Segments for the Year Ended 30 June 2013 is as follows:

	WHOLESALE $M	RETAIL $M	INTERNATIONAL $M	OTHER SEGMENTS $M	UNALLOCATED CORPORATE $M	INTER-SEGMENT ITEMS $M	TOTAL $M
Energy Sales Revenue	2,061.2	1,166.5	51.4	9.7	-	(607.3)	2,681.5
Energy Related Expenses	(1,289.3)	(674.8)	(0.6)	(4.6)	0.5	607.3	(1,361.5)
Energy Distribution Expenses	(1.1)	(403.0)	(0.1)	-	-	-	(404.2)
Energy Margin	**770.8**	**88.7**	**50.7**	**5.1**	**0.5**	**-**	**915.8**
Dividend and Other Revenue	12.3	15.1	-	0.4	2.6	(0.7)	29.7
Energy Transmission Expenses	(113.2)	-	(2.1)	-	-	-	(115.3)
Gross Margin	**669.9**	**103.8**	**48.6**	**5.5**	**3.1**	**(0.7)**	**830.2**
Employee Expenses	(29.3)	(28.2)	(7.1)	(1.5)	(22.5)	-	(88.6)
Other Operating Expenses	(64.2)	(58.0)	(6.9)	(2.2)	(26.0)	0.5	(156.8)
EBITDAF	**576.4**	**17.6**	**34.6**	**1.8**	**(45.4)**	**(0.2)**	**584.8**
Reconciliation of Operating Revenue							
Energy Sales Revenue	2,061.2	1,166.5	51.4	9.7	-	(607.3)	2,681.5
Dividend and Other Revenue	12.3	15.1	-	0.4	2.6	(0.7)	29.7
Inter-Segment Revenue	(607.5)	-	-	(0.3)	(0.2)	608.0	-
Revenue from External Customers	**1,466.0**	**1,181.6**	**51.4**	**9.8**	**2.4**	**-**	**2,711.2**

2. Segment Reporting *(continued)*

Information Relating to Geographical Area Operations

	GROUP		
	UNAUDITED 6 MONTHS ENDED 31 DEC 2013 $M	UNAUDITED 6 MONTHS ENDED 31 DEC 2012 $M	AUDITED 12 MONTHS ENDED 30 JUNE 2013 $M
Total Revenue in:			
New Zealand	**1,085.4**	1,181.6	2,659.8
Australia	**10.8**	10.0	48.3
United States of America	**1.7**	1.6	3.1
	1,097.9	1,193.2	2,711.2

Reconciliation of EBITDAF to Profit Before Tax provided as follows:

	GROUP		
	UNAUDITED 6 MONTHS ENDED 31 DEC 2013 $M	UNAUDITED 6 MONTHS ENDED 31 DEC 2012 $M	AUDITED 12 MONTHS ENDED 30 JUNE 2013 $M
EBITDAF for Reportable Segments	**300.5**	309.5	628.6
Other Segments EBITDAF	**0.1**	1.8	1.8
Unallocated EBITDAF	**(32.4)**	(34.2)	(45.6)
Total Group EBITDAF	**268.2**	277.1	584.8
Impairment of Assets	**-**	-	(24.8)
(Loss)/Gain on Sale of Assets	**(2.4)**	6.0	106.6
Equity Accounted Earnings of Joint Ventures	**(0.2)**	0.1	0.1
Amortisation	**(11.1)**	(7.4)	(18.5)
Depreciation	**(94.2)**	(100.9)	(201.2)
Net Change in Fair Value of Financial Instruments	**41.2**	102.1	93.8
Net Finance Costs and Other Finance Related Expenses	**(37.5)**	(43.8)	(113.5)
Profit Before Tax	**164.0**	233.2	427.3

3. Operating Expenses

	GROUP		
	UNAUDITED 6 MONTHS ENDED 31 DEC 2013 $M	UNAUDITED 6 MONTHS ENDED 31 DEC 2012 $M	AUDITED 12 MONTHS ENDED 30 JUNE 2013 $M
Other Operating Expenses include:			
Initial Public Offer costs	**8.3**	0.2	2.9

4. Impairment of Assets

	GROUP		
	UNAUDITED 6 MONTHS ENDED 31 DEC 2013 $M	UNAUDITED 6 MONTHS ENDED 31 DEC 2012 $M	AUDITED 12 MONTHS ENDED 30 JUNE 2013 $M
Impairment of Property, Plant and Equipment	**-**	-	19.1
Impairment of Held for Sale Assets	**-**	-	5.7
	-	-	24.8

In the period ended 30 June 2013, Property, Plant and Equipment impairments included North Bank Tunnel Development project ($17.9 million) as well as other early stage development projects ($1.2m). Held for Sale Assets impairments included the Jacobs Creek and San Luis Valley proposed solar developments through Meridian Energy USA Incorporated ($5.7m).

5. Finance Costs

	GROUP		
	UNAUDITED 6 MONTHS ENDED 31 DEC 2013 $M	UNAUDITED 6 MONTHS ENDED 31 DEC 2012 $M	AUDITED 12 MONTHS ENDED 30 JUNE 2013 $M
Interest on Borrowings	**45.4**	61.2	123.0
Less Capitalised Interest	**(3.7)**	(15.7)	(7.9)
	41.7	45.5	115.1

Interest is capitalised during construction of assets that take a substantial period of time and where borrowing costs are directly attributable to the construction of those assets.

6. Income Tax

		GROUP		
	NOTE	UNAUDITED 6 MONTHS ENDED 31 DEC 2013 $M	UNAUDITED 6 MONTHS ENDED 31 DEC 2012 $M	AUDITED 12 MONTHS ENDED 30 JUNE 2013 $M
Income Tax Expense				
Current Income Tax Charge		**57.1**	32.1	100.3
Adjustments Regarding Current Income Tax of Prior Years		**(2.4)**	-	(5.7)
Total Current Tax Expense		**54.7**	32.1	94.6
Deferred Tax Expense				
Relating to Origination and Reversal of Timing Differences		**(7.6)**	27.8	37.6
Total Deferred Tax Expense	11	**(7.6)**	27.8	37.6
Total Income Tax Expense		**47.1**	59.9	132.2
Income Tax Expense can be reconciled to accounting profit as follows:				
Profit Before Tax		**164.0**	233.2	427.3
Income Tax at Applicable Tax Rates		**45.8**	65.2	120.2
Tax Effect of Expenditure Not Deductible for Tax		**3.7**	0.5	9.8
Tax Effect of Income Not Subject to Tax		**-**	(5.8)	(0.9)
Income Tax (Over)/Under Provided in Prior Period		**(2.4)**	-	3.1
Income Tax Expense		**47.1**	59.9	132.2

Applicable tax rates for the Group are 28% for New Zealand and 30% for Australia.

7. Share Capital

	GROUP					
	UNAUDITED 31 DEC 2013 SHARES	UNAUDITED 31 DEC 2013 $M	UNAUDITED 31 DEC 2012 SHARES	UNAUDITED 31 DEC 2012 $M	AUDITED 30 JUNE 2013 SHARES	AUDITED 30 JUNE 2013 $M
Opening Balance of Ordinary Shares Issued	1,600,000,002	1,600.0	1,600,000,002	1,600.0	1,600,000,002	1,600.0
Bonus Shares Issued	962,999,998	-	-	-	-	-
Treasury Shares Acquired[1]	(965,016)	(1.4)	-	-	-	-
	2,562,034,984	**1,598.6**	**1,600,000,002**	**1,600.0**	**1,600,000,002**	**1,600.0**

1 Includes provision for payment of final instalment

7. Share Capital *(continued)*

On 19 September 2013 Meridian issued 962,999,998 bonus shares for total consideration of $1.

LONG-TERM INCENTIVE

During the period the Group established a long-term equity settled incentive plan for New Zealand based senior executives. The movement in treasury shares during the period relates to the purchase of shares by an external trustee as part of this plan. It is designed to enhance the alignment between Shareholders and those executives most able to influence the performance of the company.

Under the plan senior executives have the option to purchase shares at market value funded by an interest free loan from the Company, with the shares held on trust by the Trustee of the long term incentive (LTI) plan until the end of the vesting period. Vesting of shares is dependent on continued employment through the vesting period. It is also dependent on the Company achieving a positive total shareholder return over the period and the Company's performance relative to the benchmark peer group. If the Company's total shareholder return performance over the vesting period exceeds the 50th percentile total shareholder return of the benchmark peer group, 50% of the shares will vest. 100% of an executive's shares will vest upon meeting the performance of the 75th percentile of the benchmark peer group, with vesting on a straight line basis between these two points. In the event that total shareholder return is negative over the period or less than 50th percentile of the benchmark peer group, no shares will vest. The benchmark peer group comprises a selected number of NZX and ASX listed electricity generators and energy retailers.

Should the relevant total shareholder return performance hurdle not be met, or if the executive ceases to be employed by the Company other than for a qualifying reason, or the executive does not execute the option, the shares or notional shares will be forfeited to the trustee without compensation and the relevant executive will receive no benefits (subject to the Board exercising a discretion to allow some or all of the shares or notional shares to vest).

If the shares vest, executives are entitled to a bonus amount which, after deduction of tax, is equal to the loan balance at grant date for the shares which have vested. That amount must be applied towards repayment of their loan balance and the corresponding shares are released by the trustee to the individual. The initial vesting period for the plan is from January 2014 to June 2016.

The plan represents the grant of in-substance nil-price options to executives. The fair value of the options granted under the plan are estimated as at the date of grant using an option pricing model that takes into account the terms and conditions upon which the options were granted. In accordance with the rules of the plans, the model simulates the Company's total shareholder return and compares it against the peer group over the vesting period. The model takes into account the historic dividends, share price volatilities and co-variances of the Company and peer group to produce a predicted distribution of relative share performance. This is applied to the relevant grant to give an expected value of the total shareholder return element for the plan.

8. Dividends

	GROUP		
	UNAUDITED 6 MONTHS ENDED 31 DEC 2013 $M	UNAUDITED 6 MONTHS ENDED 31 DEC 2012 $M	AUDITED 12 MONTHS ENDED 30 JUNE 2013 $M
2013 Final Dividend Paid	**152.6**	-	-
2013 Interim Dividend Paid	**-**	-	99.8
	152.6	-	99.8

On the 18th of February 2014 the Board declared a partially imputed dividend of $107.4 million payable on the 15th of April 2014.

9. Assets and Liabilities Classified as Held For Sale

Assets classified as held for sale as at 31 December 2013, 31 December 2012 and 30 June 2013 comprised Meridian Energy USA Inc net assets and land no longer required for development projects.

10. Property, Plant and Equipment

	GROUP		
	UNAUDITED 6 MONTHS ENDED 31 DEC 2013 $M	UNAUDITED 6 MONTHS ENDED 31 DEC 2012 $M	AUDITED 12 MONTHS ENDED 30 JUNE 2013 $M
Additions at cost	**146.0**	171.5	276.7
Carrying value of disposals (including those classified as Held for Sale, excluding disposal of Subsidiaries)	**7.1**	0.4	40.2
Proceeds of disposals (including those classified as Held for Sale, excluding disposal of Subsidiaries)	**4.7**	0.4	0.6

11. Deferred Tax Liability

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

	NOTE	GROUP UNAUDITED 31 DEC 2013 $M	GROUP UNAUDITED 31 DEC 2012 $M	GROUP AUDITED 30 JUNE 2013 $M
Balance at Beginning of Period		**1,351.5**	1,435.8	1,435.8
Recognised in the Income Statement:				
Movement in Temporary Differences		**(7.6)**	27.8	37.6
	6	**(7.6)**	27.8	37.6
Recognised in Other Comprehensive Income:				
Deferred Tax on Asset Revaluation Reserve Movements		**-**	-	(133.3)
Movement in Temporary Differences (Equity)		**(1.1)**	(1.5)	9.2
		(1.1)	(1.5)	(124.1)
Effect of Retranslating Foreign Opening Balances		**0.2**	-	(0.1)
Adjustments Regarding Deferred Tax of Prior Years		**-**	-	2.7
Effect of Sale of Subsidiaries		**-**	(1.5)	(0.4)
		1,343.0	1,460.6	1,351.5
The movement in temporary differences recognised in the income statement consist of the following:				
Property, Plant and Equipment		**(3.7)**	-	4.6
Term Payables		**2.9**	-	14.4
Financial Instruments		**(3.7)**	28.6	26.5
Carried Forward Losses to be Utilised Against Future Taxable Income		**-**	-	(6.4)
Other		**(3.1)**	(0.8)	(1.5)
		(7.6)	27.8	37.6

Certain deferred tax assets and liabilities have been offset in accordance with the Group's accounting policy.

The following is the analysis of the deferred tax balances (after offset) for Statement of Financial Position purposes:

	GROUP UNAUDITED 31 DEC 2013 $M	GROUP UNAUDITED 31 DEC 2012 $M	GROUP AUDITED 30 JUNE 2013 $M
Property, Plant and Equipment	**941.9**	1,076.5	942.0
Accelerated Depreciation	**422.8**	437.8	428.9
Term Payables	**2.2**	(18.9)	(8.6)
Financial Instruments	**(8.4)**	(30.5)	0.9
Other	**(3.9)**	4.0	1.0
Deferred Tax Liability	**1,354.6**	1,468.9	1,364.2
Carried Forward Losses to be Utilised Against Future Taxable Income	**(11.5)**	(8.1)	(12.5)
Other	**(0.1)**	(0.2)	(0.2)
Deferred Tax Asset	**(11.6)**	(8.3)	(12.7)
	1,343.0	1,460.6	1,351.5

12. Borrowings

		GROUP		
	ORIGINAL CURRENCY	UNAUDITED 31 DEC 2013 $M	UNAUDITED 31 DEC 2012 $M	AUDITED 30 JUNE 2013 $M
Borrowings – Current				
Unsecured Borrowings	NZD	**11.3**	113.7	90.9
Unsecured Borrowings	USD	**50.9**	-	55.8
Total Current Borrowings		**62.2**	113.7	146.7
Borrowings – Non Current				
Unsecured Borrowings	NZD	**412.8**	422.5	416.3
Unsecured Borrowings	AUD	**254.3**	619.8	189.7
Unsecured Borrowings	USD	**396.8**	469.7	427.5
Total Non Current Borrowings		**1,063.9**	1,512.0	1,033.5
Total Borrowings		**1,126.1**	1,625.7	1,180.2

Meridian has committed bank facilities of $858.8 million of which $379.8 million were undrawn at 31 December 2013. The expiry of these facilities range from November 2015 to November 2017.

13. Financial Risk Management

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

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

Specific details of certain risks and sensitivities to movements in underlying assumptions are shown below. Sensitivities are calculated by moving one input assumption while holding all other inputs constant.

Liquidity Risk

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

Market Risk

FOREIGN EXCHANGE RISK

Where Meridian raises debt funding denominated in a foreign currency, its policy is to hedge all foreign currency and interest rate exposures back into the currency of the funds ultimate utilisation. The resulting local currency floating interest rate risk is managed as part of the interest rate risk management as described in the following section.

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

Meridian incurs capital and operating expenditure denominated in foreign currencies which creates an exposure to foreign exchange risk primarily in respect of US dollars, Australian dollars and the Euro. Meridian does not enter into FECs for speculative purposes.

Foreign currency expenditure, once approved is hedged 100% whilst anticipated foreign currency expenditure but not yet approved may be hedged up to 50% based on criteria set out in the Group Treasury Policy.

All committed foreign currency exposures below $1 million NZD equivalent may be hedged at the discretion of the Group Treasurer. Foreign currency exposures of $1 million NZD equivalent or greater are hedged.

For any FECs that are individually or part of a series of exposures that is in excess of $5 million NZD equivalent, Meridian establishes cash flow hedges for accounting purposes.

13. *Financial Risk Management* *(continued)*

Sensitivity Analysis – Foreign Currency[1]

		GROUP			
		IMPACT ON AFTER TAX PROFIT		IMPACT ON EQUITY	
		UNAUDITED 31 DEC 2013 $M	AUDITED 30 JUNE 2013 $M	UNAUDITED 31 DEC 2013 $M	AUDITED 30 JUNE 2013 $M
NZ Dollar / US Dollar	-20%	**2.3**	0.7	**2.3**	3.1
	+20%	**(1.5)**	(0.5)	**(1.6)**	(2.1)
NZ Dollar / Euro	-20%	**4.1**	0.1	**7.7**	10.8
	+20%	**(2.1)**	(0.1)	**(5.1)**	(7.2)
AUD / Euro	-20%	**-**	-	**12.3**	19.0
	+20%	**-**	-	**(8.2)**	(12.6)

1 Sensitivities that relate to translating the financial statements of subsidiaries denominated in foreign currency into NZ dollars are not included in the analysis.

CASH FLOW AND INTEREST RATE RISK

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

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

In accordance with the Board policy, Meridian manages its exposure to interest rate risk by identifying a core level of debt and using IRSs that apply minimum and maximum bands of interest rate (hedge) cover to fix interest rates.

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

Sensitivity Analysis – Interest Rates

		GROUP			
		IMPACT ON AFTER TAX PROFIT		IMPACT ON EQUITY	
		UNAUDITED 31 DEC 2013 $M	AUDITED 30 JUNE 2013 $M	UNAUDITED 31 DEC 2013 $M	AUDITED 30 JUNE 2013 $M
New Zealand BKBM	-100 bps	**(25.1)**	(34.7)	**(25.1)**	(34.7)
	+100 bps	**23.4**	32.3	**23.4**	32.3
Australian BBSY	-100 bps	**(8.9)**	(6.6)	**(8.9)**	(6.6)
	+100 bps	**8.4**	6.2	**8.4**	6.2

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 electricity derivative contracts to manage the net risk. Meridian does not enter into derivative contracts for speculative purposes.

13. Financial Risk Management *(continued)*

Sensitivity Analysis – Electricity Price Risk

		GROUP			
		IMPACT ON AFTER TAX PROFIT		IMPACT ON EQUITY	
		UNAUDITED 31 DEC 2013 $M	AUDITED 30 JUNE 2013 $M	UNAUDITED 31 DEC 2013 $M	AUDITED 30 JUNE 2013 $M
CfDs held for trading					
Electricity Prices	-10%	**129.9**	16.9	**129.9**	16.9
	+10%	**(129.7)**	(13.7)	**(129.7)**	(13.7)
Interest Rates (discount rate)	-100 bps	**(0.7)**	0.1	**(0.7)**	0.1
	+100 bps	**(1.9)**	(0.1)	**(1.9)**	(0.1)
Level 3 CfDs only					
Electricity Prices	-10%	**129.2**	18.3	**129.2**	18.3
	+10%	**(128.3)**	(15.2)	**(128.3)**	(15.2)
Interest Rates (discount rate)	-100 bps	**0.6**	(1.0)	**0.6**	(1.0)
	+100 bps	**(0.6)**	1.0	**(0.6)**	1.0

Credit Risk

Credit risk is managed based on net exposures at Group level. 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 and where wholesale customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, the Credit Management Unit assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the Board.

The utilisation of credit limits and provision of prudential security by wholesale customers is regularly monitored by line management. Credit risk surrounding the sales to retail customers is predominantly mitigated by the accounts being settled on a monthly basis. Retail credit management continually monitors the size and nature of the exposure and acts to mitigate the risk deemed to be over acceptable levels.

14. Financial Instruments

NZ IFRS 13 provides for a three-level fair value hierarchy of valuation data inputs that requires financial instruments inputs to be categorised as follows:

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

The fair value of a derivative financial instrument is calculated as the present value of the estimated future cash flows of the instrument. Two key types of variables used by the valuation technique are:

- Forward price curve; and
- Discount rates

The following table gives information about how the fair values of financial assets and financial liabilities are determined (in particular, the valuation technique(s) and input(s) used).

14. Financial Instruments *(continued)*

FINANCIAL ASSETS/ FINANCIAL LIABILITIES	FAIR VALUE HIERARCHY	VALUATION TECHNIQUE(S) AND KEY INPUT(S)	SIGNIFICANT UNOBSERVABLE INPUTS	RELATIONSHIP OF UNOBSERVABLE INPUTS TO FAIR VALUE
Electricity related CfDs	Level 3	Valuation technique: Discounted cash flows. Future cash flows have been calculated with reference to: **Price** Quoted market data (Australian Securities Exchange (ASX)) where available and relevant. Where quoted prices are not available or not relevant (ie. for long dated and large volume contracts such as the NZAS CfD) Meridian's best estimate of long-term forward wholesale electricity price is used. Meridian's best estimate is based on a fundamental analysis of expected demand and cost of new supply **Discount Rate** Rates based on the forward interest rate swap curve adjusted for additional risks including counterparty credit risk **Term and volumes** All contracts are assumed to run for the full duration of the contract and are adjusted for any potential early termination or discontinuation of the contracts and for the volume stated in the contracts **Other factors** London Metal Exchange (LME) quoted prices of primary aluminium **Calibration factor** Factor applied to forward price curve as a consequence of initial recognition differences	Estimate of forward wholesale electricity price ranging from $55 per MwH to $98 per MwH (in real terms)	For a buy contract the higher the forward wholesale electricity price the lower the fair value loss or the higher the gain and for a sell contract the higher the fair value loss or lower the fair value gain
Electricity related CfD's	Level 2	Valuation technique: Discounted cash flows. Quoted market data for similar assets and liabilities in an active market (ASX) and discount rates based on the forward interest rate swap curve adjusted for counterparty credit risk	N/A	N/A
Electricity related CfD's	Level 1	Quoted market data (Australian Securities Exchange (ASX))	N/A	N/A
Interest rate Swaps and Cross Currency Interest Rate Swaps	Level 2	Valuation technique: Discounted cash flows. Published market interest rates as applicable to the remaining life of the instrument and discount rates based on the forward interest rate swap curve adjusted for counterparty credit risk	N/A	N/A
Foreign Exchange Contracts	Level 2	Valuation technique: Discounted cash flows. Published forward exchange market rates and discount rates based on the forward interest rate swap curve adjusted for counterparty credit risk	N/A	N/A
Held for Sale Financial Assets – Listed securities	Level 1	Quoted bid prices in an active market	N/A	N/A

In estimating the fair value of an asset or liability, the Group uses market-observable data to the extent it is available. Where observable inputs are not available, the Group engages third party experts to support the establishment of appropriate valuation techniques and inputs to valuation models.

The Audit and Risk Committee of the Company determines the overall appropriateness of key valuation techniques and inputs for fair value measurement.

The Chief Financial Officer, in his report to the Board, includes explanation of fair value movements.

14. Financial Instruments *(continued)*

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

	GROUP							
DERIVATIVE FINANCIAL INSTRUMENTS	UNAUDITED LEVEL 1 $M	UNAUDITED LEVEL 2 $M	UNAUDITED LEVEL 3 $M	UNAUDITED 31 DEC 2013 $M	AUDITED LEVEL 1 $M	AUDITED LEVEL 2 $M	AUDITED LEVEL 3 $M	AUDITED 30 JUNE 2013 $M
Assets:								
Held for Trading								
NZAS CfD	-	-	-	**-**	-	-	18.4	**18.4**
Electricity Related CfDs	5.0	(0.1)	72.9	**77.8**	3.7	62.6	64.6	**130.9**
Interest Rate Swaps	-	10.0	-	**10.0**	-	9.9	-	**9.9**
Foreign Exchange Contracts	-	-	-	**-**	-	0.1	-	**0.1**
Cash Flow Hedges								
Foreign Exchange Contracts	-	12.0	-	**12.0**	-	12.1	-	**12.1**
Fair Value Hedges								
Cross Currency Interest Rate Swaps	-	1.8	-	**1.8**	-	14.3	-	**14.3**
Total	5.0	23.7	72.9	**101.6**	3.7	99.0	83.0	**185.7**
Liabilities:								
Held for Trading								
NZAS CfD	-	-	-	**-**	-	-	7.1	**7.1**
Electricity Related CfDs	8.6	0.1	38.4	**47.1**	7.3	0.3	55.8	**63.4**
Interest Rate Swaps	-	49.5	-	**49.5**	-	89.6	-	**89.6**
Cash Flow Hedges								
Foreign Exchange Contracts	-	2.9	-	**2.9**	-	0.7	-	**0.7**
Cross Currency Interest Rate Swaps	-	0.9	-	**0.9**	-	1.4	-	**1.4**
Fair Value Hedges								
Cross Currency Interest Rate Swaps	-	31.7	-	**31.7**	-	7.3	-	**7.3**
Total	8.6	85.1	38.4	**132.1**	7.3	99.3	62.9	**169.5**
HELD FOR SALE FINANCIAL ASSETS								
Listed Securities	5.9	-	-	**5.9**	-	-	-	**-**
Total	5.9	-	-	**5.9**	-	-	-	**-**

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

There have been no transfers between levels during the period. The carrying value of other financial assets and liabilities equals the fair value.

14. Financial Instruments *(continued)*

The table below shows the changes in the fair value of financial instruments recognised in the Income Statement. This represents where management has not sought hedge accounting or where ineffectiveness is recognised for accounting purposes in the Income Statement.

	GROUP		
	UNAUDITED 6 MONTHS ENDED 31 DEC 2013 $M	UNAUDITED 6 MONTHS ENDED 31 DEC 2012 $M	AUDITED 12 MONTHS ENDED 30 JUNE 2013 $M
Fair Value Hedge			
Cross Currency Interest Rate Swaps	**(26.3)**	(10.1)	57.5
Borrowings – Fair Value of Hedged Risk	**25.7**	10.1	(57.4)
	(0.6)	-	0.1
Held for trading			
Interest Rate Swaps	**40.1**	(0.5)	42.6
Net Change in Fair Value of Financial Instruments Gain/(Loss) (Financing)	**39.5**	(0.5)	42.7
Foreign Exchange Contracts	**(0.2)**	-	0.3
Other	**0.1**	-	(0.8)
CfDs – NZAS Contract	**(11.3)**	136.2	56.2
CfDs – Aluminium	**(7.7)**	(11.5)	27.6
CfDs – Electricity Related	**20.8**	(22.1)	(32.2)
Net Change in Fair Value of Financial Instruments Gain (Operational)	**1.7**	102.6	51.1
Total Net Change in Fair Value of Financial Instruments Gain	**41.2**	102.1	93.8

Included in the above is $10.6 million (30 Jun 13: $22.7 million) related to Level 3 financial instruments held at half year.

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

	GROUP	
	UNAUDITED 31 DEC 2013 $M	AUDITED 30 JUNE 2013 $M
Energy Derivatives (CfDs)		
Opening Balance	**20.1**	(1.9)
Total gains/(losses) recognised in the Income Statement		
Realised in Energy Sales Revenue	**33.3**	(56.7)
Net Change in Unrealised Fair Value of CfDs	**10.5**	22.9
Total unrealised losses recognised in the Cash Flow Hedge Reserve	**-**	(1.1)
Total unrealised losses recognised in the FX Translation Reserve	**(0.1)**	-
CfDs settled during the year	**(33.3)**	56.7
CfDs entered into during the year	**4.0**	0.2
Closing Balance	**34.5**	20.1

Refer to previous Electricity price risk sensitivity analysis (in Note 13 – Financial Risk Management) for sensitivity to changes in valuation assumptions of Level 3 financial instruments (CfDs).

Cash Flow Hedge Reserve

The effective portion of changes in the fair values of derivatives that are designated and qualify as cash flow hedges are recognised in the cash flow hedge reserve. The movement in the cash flow hedge reserve for the six months ended 31 December 2013 of $(2.0) million is net of tax (December 2012 $(5.2) million, June 2013 $50.7 million).

This movement comprises the realised and unrealised changes in the fair value of electricity derivatives of $Nil (December 2012 $(0.1) million, June 2013 $(0.8) million), and the realised and unrealised changes in fair value of treasury derivatives (FECs, IRSs and CCIRSs) of ($2.0) million (December 2012 $(5.1) million, June 2013 $51.5 million).

14. Financial Instruments *(continued)*

Material CfD Agreements

On 7 August 2013, Meridian and New Zealand Aluminium Smelters (NZAS) entered into an electricity price agreement (2013 Agreement). This replaced the previous agreement negotiated in 2007 which took effect on 1 January 2013 (2007 Agreement).

The 2013 Agreement is for a period of up to eighteen years and is based on 400 to 572MW of continuous consumption at the Tiwai smelter, thereby providing NZAS price certainty for this consumption volume which NZAS is responsible for purchasing from the New Zealand wholesale market. The agreed energy price is subject to escalation with reference to the Consumers Price Index (All Groups) and world aluminium prices.

Meridian considers that the 2013 Agreement will best ensure that the electricity price NZAS pays will remain competitive for the scale of electricity consumption at the Tiwai 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 2007 and 2013 agreements have been accounted for at fair value as required by NZ IAS 39 *Financial Instruments: Recognition and Measurement*. Fair value changes subsequent to initial recognition are recognised in the Income Statement. The 2013 Agreement has been measured using the fair value guidelines under NZ IFRS 13.

Initial Recognition Difference

An initial recognition difference (also referred to as Day 1 adjustment) arises when an electricity derivative is entered into at a fair value determined to be different to the transaction price. This difference is accounted for by recalibrating the valuation model by a fixed percentage to result in a value at inception equal to the transaction price (fair value). This recalibration adjustment is then applied to future valuations over the life of the contract.

The table below shows the aggregate Day 1 adjustment yet to be recognised in the Income Statement under the recalibration method:

	GROUP	
	UNAUDITED 31 DEC 2013 $M	AUDITED 30 JUNE 2013 $M
Opening Difference	**69.9**	119.4
Initial Difference on New Hedges		
NZAS 2013 Agreement	**853.2**	-
Electricity Related CfDs	**3.0**	0.1
Volumes Expired during the Period		
NZAS 2013 Agreement	**(18.0)**	-
Electricity Related CfDs	**(2.0)**	(26.3)
Recalibration of Model for Future Price Estimates and Time		
NZAS 2013 Agreement	**(28.7)**	-
Electricity Related CfDs	**(3.1)**	(23.3)
Closing Difference	**874.3**	69.9

The table below shows the aggregate Day 1 adjustment yet to be recognised in the Income Statement under the amortisation method (NZAS 2007 Agreement):

	GROUP	
	UNAUDITED 31 DEC 2013 $M	AUDITED 30 JUNE 2013 $M
Opening Difference	**116.1**	515.0
Additions during the year	**-**	-
Amortised during the year	**(116.1)**	(398.9)
Closing Difference	**-**	116.1

15. Commitments

	GROUP		
	UNAUDITED 31 DEC 2013 $M	UNAUDITED 31 DEC 2012 $M	AUDITED 30 JUNE 2013 $M
Capital Expenditure Commitments			
Property, Plant and Equipment	**201.0**	316.9	230.1
Software	**1.5**	2.8	3.9
	202.5	319.7	234.0

Guarantees

Meridian Energy Limited has provided parent guarantees for various construction and grid connection obligations of Mt Mercer Wind Farm Pty Limited. The maximum liability under these guarantees is $211.6 million (31 December 2012 $Nil, 30 June 2013 $221.9 million).

Three River Holdings No 2 Limited has provided a bank guarantee (A$37.9 million, 31 December 2012 A$Nil, 30 June 2013 A$37.9 million) to the financiers of the Macarthur Wind Farm, guaranteeing that it will comply with its various obligations under the Refinancing Coordination Deed (with that guarantee expected to be released in quarter 4 of the 2014 calendar year).

16. Subsequent Events

On the 18 February 2014 the Board declared a partially imputed dividend of $107.4 million payable on the 15th of April 2014. The dividend has not been included as a liability in these financial statements. The payment of the dividend will not have tax consequences for the Group other than reducing the imputation credit balance.

There have been no other material events subsequent to 31 December 2013.

17. Contingent Assets and Liabilities

There were no contingent assets (31 December 2012 $Nil, 30 June 2013 $Nil) or contingent liabilities at 31 December 2013 (31 December 2012 $Nil, 30 June 2013 $Nil).

Review Report of the Auditor-General

Deloitte.

TO THE SHAREHOLDERS OF MERIDIAN ENERGY LIMITED

We have reviewed the condensed consolidated interim financial statements on pages 2 to 24. The condensed consolidated interim financial statements provide information about the past financial performance of Meridian Energy Limited ("the Company") and its subsidiaries ("the Group") and its financial position as at 31 December 2013. This information is stated in accordance with the accounting policies referred to on page 9.

BOARD OF DIRECTORS' RESPONSIBILITIES

The Board of Directors is responsible for the preparation, in accordance with New Zealand law and generally accepted accounting practice, of condensed consolidated interim financial statements which give a true and fair view of the financial position of the Group as at 31 December 2013 and the results of its operations and cash flows for the six months ended on that date.

REVIEWER'S RESPONSIBILITIES

The Auditor-General is the auditor of the Group pursuant to section 5(1)(f) of the Public Audit Act 2001. Pursuant to section 32 of the Public Audit Act 2001, the Auditor-General has appointed me, Michael Wilkes, using the staff and resources of Deloitte to undertake the annual audit of the Group.

We are responsible for reviewing the condensed consolidated interim financial statements presented by the Board of Directors in order to report to you whether, in our opinion and on the basis of the procedures performed by us, anything has come to our attention that would indicate that the condensed consolidated interim financial statements do not give a true and fair view of the matters to which they relate.

BASIS OF OPINION

A review is limited primarily to enquiries of Company personnel and analytical review procedures applied to financial data and thus provides less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

We have reviewed the condensed consolidated interim financial statements of the Group for the six months ended 31 December 2013 in accordance with the Review Engagement Standards issued by the External Reporting Board. These standards require that we plan and perform the review to obtain moderate assurance as to whether the condensed consolidated interim financial statements of the Group are free from material misstatement.

In addition to this review and the audit of the Company and Group annual financial statements, we have carried out other assignments for the Company and Group consisting of a carbon emissions audit, audit of the securities registers and were appointed as the investigating accountant in respect of the public offer which are compatible with the independence requirements of the Auditor-General, which incorporate the independence requirements of the External Reporting Board.In addition, principals and employees of our firm deal with the Company and Group on normal terms within the ordinary course of trading activities of the business of the Company and Group. Other than these assignments and transactions within the ordinary course of trading activities of the Company and Group, and in our capacity as auditor acting on behalf of the Auditor-General, we have no other relationships with, or interests in, the Company or Group.

OPINION

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the condensed consolidated interim financial statements on pages 2 to 24 do not give a true and fair view of the financial position of the Group as at 31 December 2013 and the results of its operations and cash flows for the six months ended on that date in accordance with NZ IAS 34: Interim Financial Reporting and IAS 34: Interim Financial Reporting.

Our review was completed on 18 February 2014 and our review opinion is expressed as at that date.

Michael Wilkes
Deloitte
On behalf of the Auditor–General
Christchurch, New Zealand

This review report relates to the unaudited condensed consolidated interim financial statements of Meridian Energy Limited and its subsidiaries ('the Group') for the six months ended 31 December 2013 included on Meridian Energy Limited's website. The Board of Directors is responsible for the maintenance and integrity of Meridian Energy Limited's website. We have not been engaged to report on the integrity of Meridian Energy Limited's website. We accept no responsibility for any changes that may have occurred to the unaudited condensed consolidated interim financial statements since they were initially presented on the website. The review report refers only to the unaudited condensed consolidated interim financial statements named above. It does not provide an opinion on any other information which may have been hyperlinked to/from these unaudited condensed consolidated interim financial statements. If readers of this report are concerned with the inherent risks arising from electronic data communication they should refer to the published hard copy of the unaudited condensed consolidated interim financial statements and related review report dated 18 February 2014 to confirm the information included in the unaudited condensed consolidated interim financial statements presented on this website. Legislation in New Zealand governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.