

Better energy

**MERIDIAN
ENERGY LIMITED**
INTERIM REPORT

for the six months ended 31 December 2014



meridian

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The numbers

4.8 CENTS
PER SHARE
Interim ordinary dividend



Company overview and highlights

1.4 CENTS
PER SHARE
Additional special dividend

Meridian Energy is New Zealand's largest electricity generator and is committed to generating electricity from 100% renewable resources – wind and water.

Meridian generates approximately 30% of New Zealand's electricity from its integrated chain of dams and power stations on the Waitaki River and Manapōuri power station in Southland, the largest hydro power station in New Zealand, and from five wind farms around the country.

Through the Meridian and Powershop brands, Meridian retails electricity to more than 273,000 customer connections, including homes, farms and businesses throughout New Zealand. Powershop has 30,800 residential and commercial customer connections in Victoria, Australia. Our focus is on continuing to achieve high levels of service and delivering value to our customers.

Meridian owns and operates Mt Millar wind farm in South Australia and Mt Mercer wind farm in Victoria.

Meridian supports a number of environmental programmes, operates Community Funds associated with each of its assets and runs a national sponsorship programme that supports organisations that make a big difference to Kiwis, such as KidsCan, Living Legends and South Island Rowing.

The Meridian Group employs approximately 770 full-time-equivalent employees and has offices across New Zealand, including the company's head office in Wellington and an office in Melbourne.

 **Hydro**

Total installed capacity

2,338 MW¹

 **Wind**

Total installed capacity

617 MW¹

¹ Megawatts. One MW is enough to light 10,000 x 100-watt light bulbs.

13.2%

Growth in operating cash flows

38.3%

Growth in underlying net profit after tax

3.7%

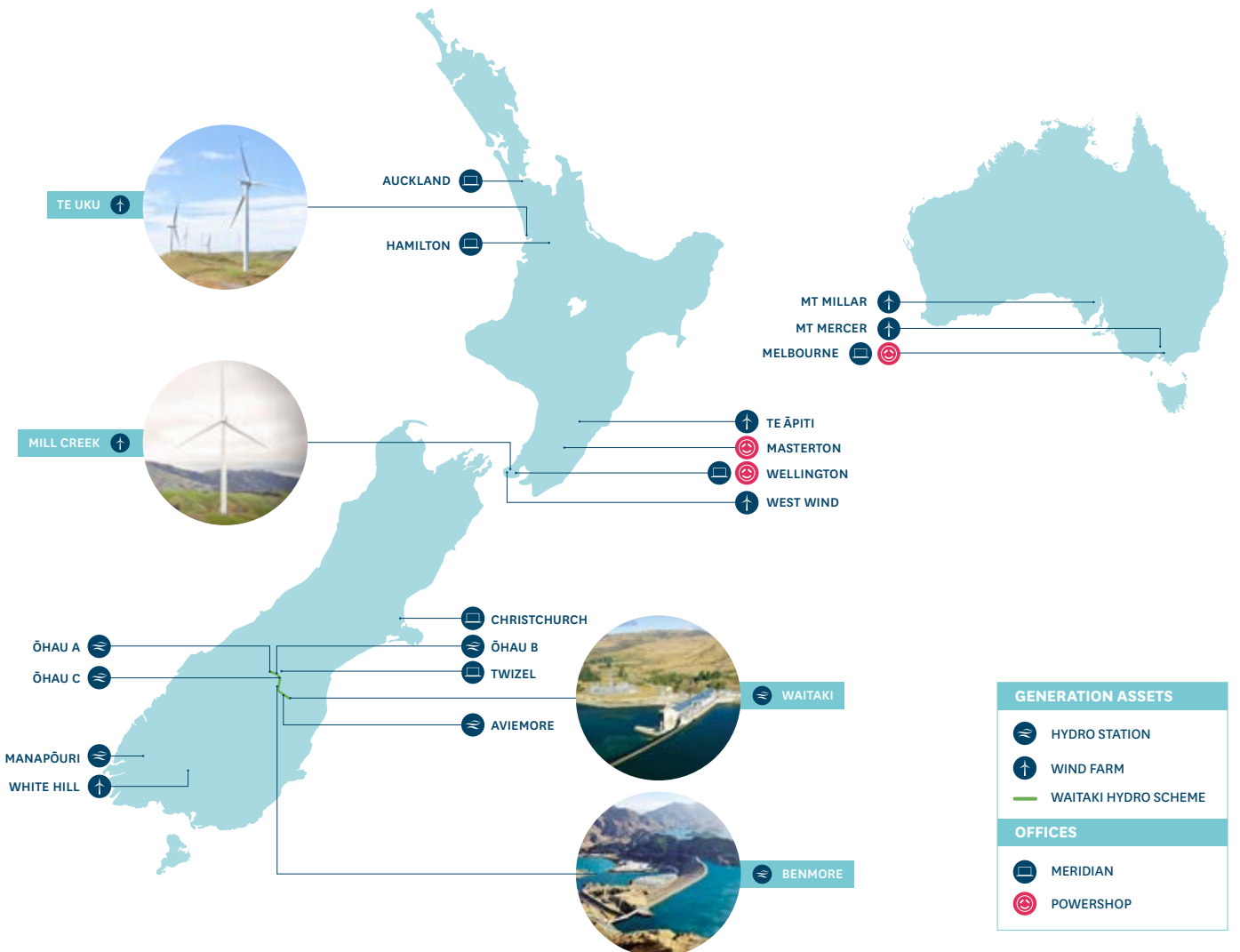
Higher retail sales volumes

3.8%

Higher NZ generation

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- 4 Summary of Group performance
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Report

From our Chair and Chief Executive

Meridian continued to perform well, with the New Zealand market showing some small signs of overall growth. All key measures of financial performance were ahead of the same period last year: EBITDAF was ahead by 20.9% and Underlying NPAT by 38.3%.



Total generation for the six months was up by over 6% on the previous corresponding period, reflecting strong first quarter hydro generation in New Zealand and the contribution made by the completed Mt Mercer (Victoria) and Mill Creek (Wellington) wind farms. This, together with strong irrigation demand and favourable business sales compared with last year, saw Meridian's total Energy Margin increase by 7.5%.

A tight rein was kept on operating costs and these were down 10.1% on the same period last year and with the backing out of listing costs from last year, this period's expenses were 3.7% lower.

This all flowed through to strong operating cash flows that were 13.2% ahead of last year.

Dividend

We are pleased to announce a dividend of 4.8 cents per share, which is imputed to 100%. This is in excess of the forecast provided in the prospectus.

In addition, the Board has taken the opportunity to declare a special dividend of 1.4 cents per share. The reason for this is

that the remaining imputation credits held by the company would otherwise be lost in May this year, when the final payment under the instalment receipt structure is made and the Crown transfers the underlying shares to shareholders. This special dividend, which will also be 100% imputed, will ensure that all of the remaining imputation credits are used before the change in ownership triggers the loss of those credits.

As part of the Board's consideration of capital management, it has changed the company's dividend policy to a higher percentage of free cash flow, which is discussed in the following section relating to capital management.

Instalment receipts

We are pleased that the instalment receipts have continued to perform well, with an increase of 76% from listing through to 31 December 2014. In the 2014 calendar year the company was second on the NZX 50 in terms of share price appreciation but first on the basis of total shareholder return (which includes dividends). While the company's performance has played a part in this increase, there is no doubt that

regulatory stability following the election and the continued low international interest rate environment and resultant pursuit of yield have been significant contributors.

Instalment receipt holders will be aware that the second instalment (50 cents) is due for payment on or before 15 May this year. This is a payment to the Crown, not Meridian. However, Meridian is working with the Crown to implement a seamless process to manage these changes. Holders should expect to receive initial communications in early April 2015.

Capital management

In August last year we announced that the Board would review the capital structure of the company, given its conservative gearing ratios. Over the period Meridian has continued to perform well financially, the risk of wholesale change to the electricity market structure in the immediate future has receded and there are limited attractive growth opportunities that would require significant capital in the foreseeable future. In these circumstances, the Board believes it is appropriate to signal an intention to

return capital to shareholders, provided the Tiwai Point smelter owners do not terminate their electricity agreement. The first step the Board has taken is to amend the company's dividend policy by increasing the percentage of free cash flow paid out (as defined in the policy) on average from 70%-80% to 75%-90%. All other elements of the dividend policy remain unchanged. Furthermore, the Board intends to return an additional \$625m to shareholders over the next five years.

The Board will remain flexible as to how capital is returned but at this point it is envisaged that this will be by either an annual on-market share buyback programme, special dividends, or a combination of both.

The Board intends to advise shareholders of the programme for the 2016 financial year at the full year results announcement in August. At that point the decision of New Zealand Aluminium Smelters (NZAS) regarding the Tiwai Point electricity agreement will be known, and clearly, if the decision is to terminate, or there has been a material adverse change to the company's financial position or any other relevant issue has arisen, the Board will revisit its decision to proceed with all or part of the planned capital distribution.

Delivering on our strategy

The Mill Creek and Mt Mercer wind farm projects were completed during the last six months. In aggregate they were delivered with exemplary health and safety performance and 4% under their original budgets.

In line with our stated aim of improving the core business, Meridian's metering business was sold in December 2014 to a subsidiary of Vector Limited and commitments were entered into to replace all our New Zealand customers' legacy meters. This programme involves the replacement of over 125,000 meters and is scheduled for completion in the first half of 2017. This will provide cost savings to Meridian as well as enable us to offer far more sophisticated pricing plans to our customers.

While Australia provides challenges in the generation space (see comments below) we continued the push into the Victorian retail market with the Powershop brand. Customer numbers are now over 30,000 and we will start operations in New South Wales in the first quarter of this calendar year.

Retail market remains highly competitive

While sales volumes were up, as previously noted, the number of customer connections reduced during the half year. Total installation control points (ICPs) were 273,572, down 3,136 on the beginning of the financial year. This movement was largely in the residential space where there has been a lot of aggressive sales activity. Meridian is already very well

positioned price wise in most networks, with our prices being at, or close to, the bottom of the range.

The launch of our new website in December 2014 reflects our strategy to move customer engagement online to improve service, reduce overall cost and continue our position as a leader in sustainability.

In the interim report last year we noted that it was unlikely there would be any network-wide increases in the energy component of our New Zealand customers' bills before at least June this year. This will prove correct. We continue to review our pricing.

Operations

Hydro generation produced 89.3% of Meridian's New Zealand generation in the period, with the contribution from wind up 12% on the previous corresponding period. November was in fact a record month for wind generation - up more than 3% on the previous record, even after allowing for the new generation from Mill Creek.

In December we marked the 10th anniversary of the first wind farm we built - Te Āpiti wind farm in Manawatū. This highlighted the level of involvement that we have had and continue to have with communities living near our assets. In the nine years that the Te Āpiti community fund has been running, we have funded dozens of community projects and initiatives.

In Australia, generation volumes at 273GWh reflected the contribution of the Mt Mercer wind farm, which has had all turbines operational since June last year.

One issue that arose during the period was a problem with the coolers on some of the Manapōuri power station transformers, which led to the decision to replace two transformers and procure a third as a spare. The replacement programme is well under way. The first transformer, which was delivered immediately before Christmas, was made operational on 12 January. This was a major exercise involving complex engineering, design and project management with strict overriding requirements in terms of environmental protection and adherence to health and safety policies. It is a tribute to the people involved, including our suppliers and subcontractors, that the project was delivered seamlessly. The second transformer is expected to be installed in early March 2015, which will restore the station to full capacity.

Regulation

The Electricity Authority's (EA's) transmission pricing review is on track and we look forward to the publication of the EA's final issues paper on this topic in mid-2015.

The other regulatory issue we are closely monitoring is the Australian Government's review of the Renewable Energy Target (RET). The RET is mired in politics and the political parties involved have been unable to reach any compromise that might deliver some degree of certainty for participants in the Australian renewable energy industry. As has been previously noted, it is difficult to quantify what, if any, impact this review might have on the value of our Australian assets until there is some resolution of this matter.

Tiwai Point

As previously advised, the Tiwai Point smelter owners have the option to give Meridian notice of their intention to terminate the electricity agreement on 1 July this year, in which case the current supply arrangements would cease on 31 December 2016. At this point, we have no clarity on where NZAS stands on this decision. While it is pleasing to see the New Zealand dollar depreciate against the US dollar, which is positive for the smelter, international aluminium prices have been volatile. However, on our assessment, the plant is in a significantly better financial position than it was at the time the contract was renegotiated in August 2013. On balance, we remain hopeful that the smelter will continue in operation but the decision is not ours. The reality is that uncertainty around the future of the smelter is something the industry just has to live with as NZAS has ongoing termination rights under the contract.

Hydro conditions

As we write, the farming communities in both the North and South Islands are going through a difficult period as a result of drought conditions but our storage lakes are still getting reasonably regular inflows from small weather systems. So while we are always very watchful, at this point we do not see anything in our current hydro position that is of significant concern.

Community involvement

During the past six months we have shared some important milestones with KidsCan as its principal partner. In July for instance, we participated in an event that celebrated handing out the 100,000th raincoat to children in lower decile schools, which is part of the overall programme to meet the physical and nutritional needs of less fortunate Kiwi kids. More recently, the founder and chief executive of KidsCan, Julie Chapman, was named as a finalist for the New Zealander of the Year Award. This is fantastic recognition of all of the good work that Julie and her team have done over many years.

Summary of Group performance



Higher energy margin and lower costs drove a lift in profits and operating cash flow to underpin enhanced dividends to investors.

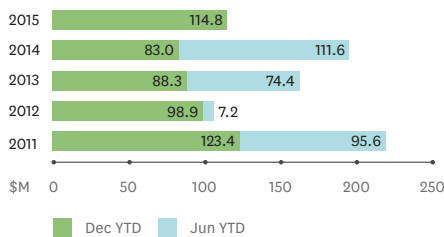
Net Profit after Taxation (NPAT)

Meridian's NPAT for the six months to 31 December 2014 (HY2015) was \$0.2m higher than the same period last year. This included negative fair value movements on financial instruments of \$25.5m. If this non-cash

accounting adjustment is excluded, along with one-off items such as the \$8.1m gain on the sale of Arc Innovations, Underlying NPAT improved by \$31.8m (38.3%) on the six months to 31 December 2013 (HY2014).

GROUP UNDERLYING NPAT*

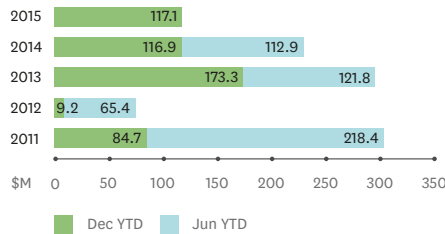
Financial Year Ended 30 June



* NPAT minus the effects of one-off and/or infrequently occurring events, impairments and changes in fair value of financial instruments.

GROUP NPAT**

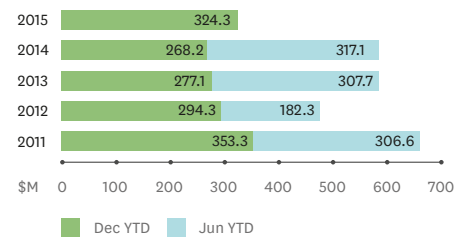
Financial Year Ended 30 June



** NPAT includes unrealised gains/(losses) on financial instruments.

GROUP EBITDAF***

Financial Year Ended 30 June



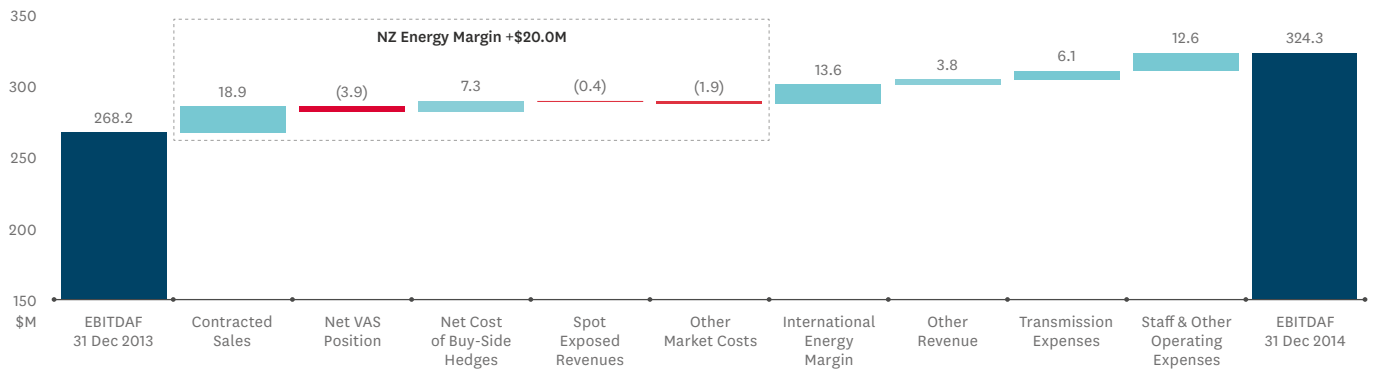
*** Earnings before interest, tax, depreciation, amortisation, change in fair value of financial instruments, impairments, gain/(loss) on sale of assets and joint venture equity accounted earnings.

MERIDIAN GROUP INCOME STATEMENT

| (\$ MILLIONS) | 6 MONTHS ENDED 31 DEC 2014 | 6 MONTHS ENDED 31 DEC 2013 | 12 MONTHS ENDED 30 JUN 2014 |
|--|-------------------------------|-------------------------------|--------------------------------|
| New Zealand Energy Margin | 454.9 | 434.9 | 891.5 |
| International Energy Margin | 25.3 | 11.7 | 31.9 |
| Total Energy Margin | 480.2 | 446.6 | 923.4 |
| Other Revenue | 16.5 | 12.7 | 27.3 |
| Energy Transmission Expense | (60.6) | (66.7) | (129.3) |
| Gross Margin | 436.1 | 392.6 | 821.4 |
| Employee and Other Operating Expenses | (111.8) | (124.4) | (236.1) |
| EBITDAF | 324.3 | 268.2 | 585.3 |
| Depreciation and Amortisation of Intangible Assets | (116.5) | (105.3) | (220.0) |
| Impairment of Assets | (0.5) | - | - |
| Net Gain/(Loss) on Sale of Assets | 15.2 | (2.4) | 6.6 |
| Net Change in Fair Value of Financial Instruments | 0.3 | 1.7 | (8.4) |
| Equity Accounted Joint Ventures | (0.6) | (0.2) | (0.4) |
| Operating Profit | 222.2 | 162.0 | 363.1 |
| Net Finance Costs | (40.8) | (37.5) | (73.7) |
| Net Change in Fair Value of Financing Instruments | (25.8) | 39.5 | 27.0 |
| Net Profit Before Tax | 155.6 | 164.0 | 316.4 |
| Tax | (38.5) | (47.1) | (86.6) |
| Net Profit After Tax (NPAT) | 117.1 | 116.9 | 229.8 |
| Net Changes in Fair Value of Hedging Instruments | 25.5 | (41.2) | (18.6) |
| Premiums Paid on Electricity Options (less Interest) | (8.3) | (8.3) | (20.1) |
| Impairment of Assets | 0.5 | - | - |
| Gain/(Loss) on Sale of Assets | (15.2) | 2.4 | (6.6) |
| Adjustments Before Taxation | 2.5 | (47.1) | (45.3) |
| Income Tax Adjustments | (4.8) | 13.2 | 10.1 |
| Underlying Net Profit After Tax | 114.8 | 83.0 | 194.6 |



MOVEMENT IN EBITDAF



EBITDAF

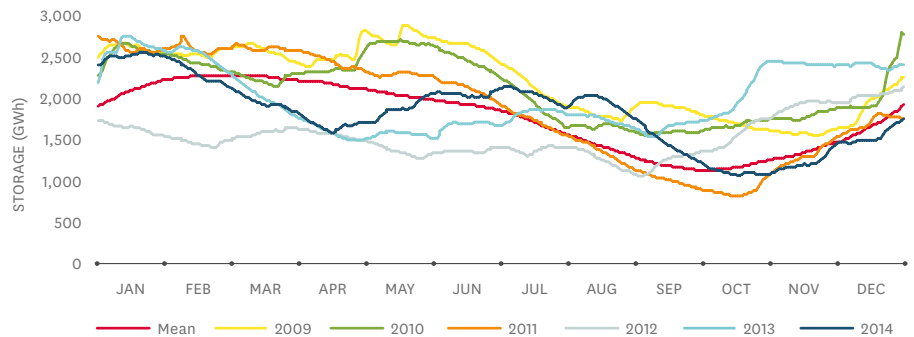
EBITDAF in HY2015 was \$324.3m, \$56.1m (20.9%) higher than in HY2014. The HY2015 result included \$5.2m of insurance proceeds relating to the Christchurch earthquake of February 2011 and benefited from no repeat of \$8.3m of IPO costs that were incurred in HY2014. On a like-for-like basis, removing these items, EBITDAF improved by 15.4% on HY2014. This improvement was driven by both an uplift in Meridian's energy margin and a reduction in operating costs.

Energy Margin

In New Zealand the completion of the Mill Creek wind farm increased wind generation by 92GWh. Hydro generation was also up slightly on strong first quarter inflows. Higher generation enabled Meridian to sell higher volumes of hedge contracts. In addition, the volume of acquired generation through buy-side hedges in HY2015 was down on HY2014, which had included hedge contracts entered into to cover risks associated with the large number of HVDC outages in that period.

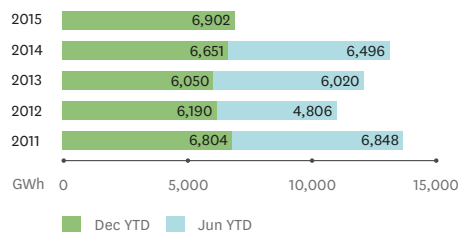
Meridian's New Zealand retail sales volumes were up 107.7GWh on HY2014, mainly reflecting growth in the SME and agribusiness customer base. Stiff competition meant that average price per MWh fell by 1%, with most of the fall relating to commercial and industrial customers rolling off fixed-term contracts. Meridian's residential customers saw no network-wide energy price increases in the period.

MERIDIAN'S WAITAKI STORAGE



NEW ZEALAND GENERATION VOLUMES (GWh)

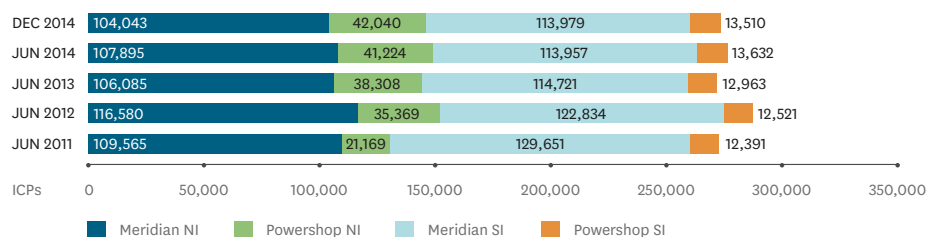
Financial Year Ended 30 June



NEW ZEALAND RETAIL ELECTRICITY SALES VOLUMES (GWh)

| | 6 MONTHS ENDED 31 DEC 2014 | 6 MONTHS ENDED 31 DEC 2013 | YEAR ENDED 30 JUN 2014 |
|--|----------------------------|----------------------------|------------------------|
| Powershop | 310 | 286 | 546 |
| Meridian Residential, SME, Agri | 1,570 | 1,484 | 2,864 |
| Meridian Corporate | 1,113 | 1,116 | 2,344 |
| Total Contracted Sales Volumes | 2,993 | 2,886 | 5,754 |

MERIDIAN AND POWERSHOP NEW ZEALAND CUSTOMER CONNECTIONS



Increased demand in New Zealand along with full HVDC availability and reduced output from thermal generators meant that Meridian's average wholesale price in HY2015 was \$64.2MWh compared with \$39.7MWh in HY2014. This increased both Meridian's generation revenue and the cost of supplying its retail customers.

The net effect of higher retail, sell-side hedge and generation volumes along with lower acquired generation and higher wholesale prices was an increase of \$20.0m (4.6%) in New Zealand energy margin.

International energy margin increased by \$13.6m, more than doubling on the prior comparative period. This included 179GWh of increased generation on the completion of the Mt Mercer wind farm. The gain on generation volumes was partially offset by weaker wholesale prices net of hedges, reflecting continuing uncertainty in the Australian regulatory environment. The full launch of Powershop in Victoria also contributed to overall International energy margin with over 30,000 customers signed up by 31 December 2014.

Costs

Energy transmission expenses fell by \$6.1m in HY2015 compared with HY2014. This reflected lower than anticipated final costs on the HVDC upgrade. Next year's Transpower charges are anticipated to rise.

Employee and other operating costs reduced by \$12.6m compared with the same period last year. Adjusting for last year's IPO expenses still saw a reduction of \$4.3m (3.7%) in costs. This was achieved despite additional maintenance costs in respect of the two new wind farms and operational costs associated with Powershop Australia.

Below EBITDAF, net finance costs increased by \$3.3m (8.8%), reflecting finance lease interest on transmission connection assets and the end of capitalisation of interest on build projects. The completed wind farms along with the new generation control system also added \$11.2m (10.6%) to depreciation and amortisation charges.

Non-cash fair value movements on derivatives were largely driven by changes in the value of interest rate hedges. The drop in the forward interest rate curve since June 2014 caused a \$25.5m fall in the market value of these hedges. This has no cash impact on Meridian.

| AVERAGE NEW ZEALAND WHOLESALE PRICE RECEIVED FOR GENERATION (\$/MWh) | FINANCIAL YEAR | | | | |
|--|----------------|--------|--------|---------|--------|
| | 2015 | 2014 | 2013 | 2012 | 2011 |
| Q1 | \$58.3 | \$48.6 | \$62.4 | \$83.6 | \$47.5 |
| Q2 | \$70.6 | \$31.5 | \$34.8 | \$71.2 | \$54.8 |
| Half Year | \$64.2 | \$39.7 | \$47.7 | \$77.6 | \$51.2 |
| Q3 | | \$94.7 | \$83.4 | \$109.9 | \$35.4 |
| Q4 | | \$65.6 | \$80.8 | \$153.3 | \$35.6 |
| Full Year | | \$60.1 | \$64.9 | \$100.7 | \$43.3 |

MERIDIAN GENERATION

HYDRO

| NEW ZEALAND ³ | PLANT CAPACITY MW | 6 MONTHS ENDED 31 DEC 2014 GWh ² | 6 MONTHS ENDED 31 DEC 2013 GWh | YEAR ENDED 30 JUN 2014 GWh |
|-------------------------------|-------------------|---|--------------------------------|----------------------------|
| Ōhau A | 264 | 630 | 520 | 1,168 |
| Ōhau B | 212 | 522 | 439 | 981 |
| Ōhau C | 212 | 519 | 434 | 973 |
| Benmore | 540 | 1,260 | 1,014 | 2,314 |
| Aviemore | 220 | 521 | 431 | 960 |
| Waitaki | 90 | 267 | 243 | 526 |
| Manapōuri | 800 | 2,444 | 2,910 | 4,981 |
| Total Hydro Generation | 2,338 | 6,163 | 5,991 | 11,903 |

WIND

| NEW ZEALAND | PLANT CAPACITY MW | 6 MONTHS ENDED 31 DEC 2014 GWh | 6 MONTHS ENDED 31 DEC 2013 GWh | YEAR ENDED 30 JUN 2014 GWh |
|-------------------------------|-------------------|--------------------------------|--------------------------------|----------------------------|
| Te Uku | 64 | 121 | 116 | 211 |
| Te Āpiti | 91 | 163 | 174 | 325 |
| Mill Creek | 60 | 92 | - | 1 |
| West Wind | 143 | 272 | 273 | 534 |
| White Hill | 58 | 91 | 97 | 173 |
| Total New Zealand Wind | 416 | 739 | 660 | 1,244 |
| AUSTRALIA ⁴ | | | | |
| Mt Millar | 70 | 89 | 101 | 185 |
| Mt Mercer | 131 | 184 | 5 | 100 |
| Total Australia Wind | 201 | 273 | 106 | 285 |
| Total Wind Generation | 617 | 1,012 | 766 | 1,529 |

2 Gigawatt hours. One GWh is equivalent to enough electricity for 125 average New Zealand homes for one year.

3 Includes Meridian's own use generation volumes.

4 After the application of the marginal loss factor prescribed by the Australian Energy Market Operator.

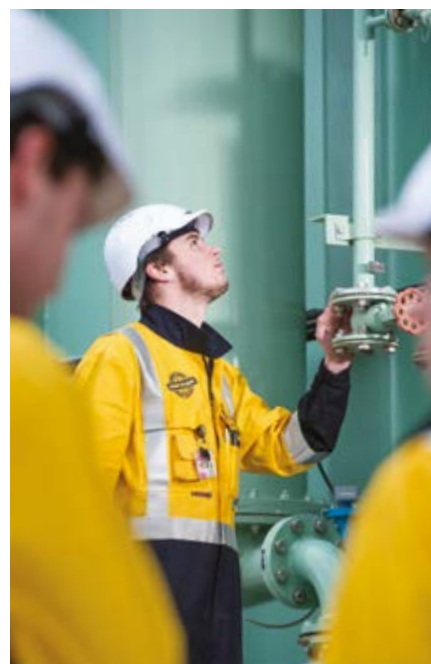
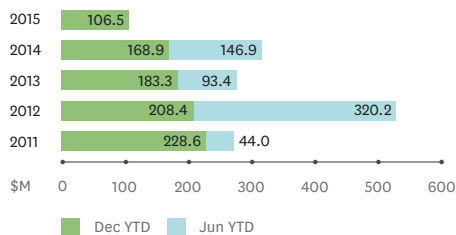
Operating cash flow and investment expenditure

Net cash flow from operating activities was \$25.3m (13.2%) higher than in HY2014. This reflects the improvement in EBITDAF, partially offset by higher income tax payments.

With the completion of Mill Creek and Mt Mercer early in the half year, investment expenditure at \$106.5m was \$62.4m lower than in HY2014. Both projects were completed under budget. Excluding the costs of these projects, Meridian's remaining capital expenditure was \$23.9m in the half year.

GROUP INVESTMENT EXPENDITURE

Financial Year Ended 30 June



MERIDIAN GROUP SUMMARY CASH FLOW (\$ MILLIONS)

| | 6 MONTHS ENDED 31 DEC 2014 | 6 MONTHS ENDED 31 DEC 2013 | YEAR ENDED 30 JUN 2014 |
|---|----------------------------|----------------------------|------------------------|
| Net Cash Flow from Operating Activities | 216.8 | 191.5 | 432.8 |
| Net Cash Flow from Investing Activities | (67.1) | (161.9) | (253.4) |
| Net Cash Flow from Financing Activities | (194.8) | (158.5) | (282.2) |
| Net Decrease in Cash and Cash Equivalents | (45.1) | (128.9) | (102.8) |

Dividends

An ordinary interim dividend of 4.8 cents per share and a special dividend of 1.4 cents per share has been declared for the six months ending 31 December 2014. Both dividends are to be fully imputed.

NET TANGIBLE ASSETS PER SECURITY

Net Tangible Assets per Security

| | 31 DEC 2014 (NZ CENTS) | 31 DEC 2013 (NZ CENTS) |
|----------------------------------|------------------------|------------------------|
| Net Tangible Assets per Security | 168 | 175 |

CONTROL OF ENTITIES GAINED OR LOST DURING THE PERIOD

| NAME OF ENTITY | SOLD/DISSOLVED | PRINCIPAL ACTIVITY | INTEREST HELD BY GROUP |
|----------------------------------|----------------|--------------------|------------------------|
| Whisper Tech (UK) Limited | 11/09/14 | Non-trading | - |
| Meridian Energy USA Incorporated | 8/10/14 | Development | - |
| ARC Innovations Limited | 1/12/14 | Metering | - |

ASSOCIATES AND JOINT VENTURE ENTITIES

| NAME OF ENTITY | COUNTRY OF INCORPORATION | DATE | PRINCIPAL ACTIVITY | INTEREST HELD BY GROUP |
|----------------------------------|--------------------------|----------|------------------------|------------------------|
| EDDI Project JV | New Zealand | 01/05/12 | Dam Management Systems | 50% |
| Hunter Downs Development Company | New Zealand | 01/07/13 | Irrigation Development | 68% |





The numbers

Condensed Interim Financial Statements

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Income Statement

| | NOTE | GROUP | | |
|---|------|---|---|--|
| | | UNAUDITED 6 MONTHS ENDED 31 DEC 2014 \$M | UNAUDITED 6 MONTHS ENDED 31 DEC 2013 \$M | AUDITED 12 MONTHS ENDED 30 JUN 2014 \$M |
| Operating Revenue | | | | |
| Energy Sales Revenue | | 1,317.0 | 1,085.2 | 2,481.5 |
| Energy Related Services Revenue | | 7.9 | 6.8 | 15.8 |
| Other Revenue | | 8.6 | 5.9 | 11.5 |
| Total Operating Revenue | | 1,333.5 | 1,097.9 | 2,508.8 |
| Operating Expenses | | | | |
| Energy Related Expenses | | (595.9) | (426.2) | (1,130.5) |
| Energy Distribution Expenses | | (240.9) | (212.4) | (427.6) |
| Energy Transmission Expenses | | (60.6) | (66.7) | (129.3) |
| Employee Expenses | | (43.8) | (47.3) | (90.5) |
| Other Operating Expenses | | (68.0) | (77.1) | (145.6) |
| | | (1,009.2) | (829.7) | (1,923.5) |
| Earnings Before Interest, Tax, Depreciation, Amortisation, Change in Fair Value of Financial Instruments and Other Significant Items (EBITDAF) | | | | |
| | | 324.3 | 268.2 | 585.3 |
| Gain/(Loss) on Sale of Assets | 3 | 15.2 | (2.4) | 6.6 |
| Equity Accounted Earnings of Joint Ventures | | (0.6) | (0.2) | (0.4) |
| Amortisation of Intangible Assets | | (11.8) | (11.1) | (21.4) |
| Depreciation | | (104.7) | (94.2) | (198.6) |
| Impairment of Assets | | (0.5) | - | - |
| Net Change in Fair Value of Financial Instruments Gain/(Loss) (Operational) | 13 | 0.3 | 1.7 | (8.4) |
| Operating Profit | | 222.2 | 162.0 | 363.1 |
| Finance Costs and Other Finance Related Income/(Expenses) | | | | |
| Finance Costs | 4 | (45.4) | (41.7) | (82.2) |
| Interest Income | | 4.6 | 4.2 | 8.5 |
| Net Change in Fair Value of Financial Instruments (Loss)/Gain (Financing) | 13 | (25.8) | 39.5 | 27.0 |
| Profit Before Tax | | 155.6 | 164.0 | 316.4 |
| Income Tax Expense | 5 | (38.5) | (47.1) | (86.6) |
| Profit After Tax | | 117.1 | 116.9 | 229.8 |
| Profit After Tax Attributable to: | | | | |
| Shareholders of the Parent Company | | 117.1 | 116.9 | 229.8 |
| Earnings per Share from Operations Attributable to Equity Holders of the Company During the Year: | | | | |
| Basic Earnings per Share (\$) | | 0.05 | 0.05 | 0.09 |
| Diluted Earnings per Share (\$) | | 0.05 | 0.05 | 0.09 |

Statement of Comprehensive Income

| | NOTE | GROUP | | |
|---|------|---|---|--|
| | | UNAUDITED 6 MONTHS ENDED 31 DEC 2014 \$M | UNAUDITED 6 MONTHS ENDED 31 DEC 2013 \$M | AUDITED 12 MONTHS ENDED 30 JUN 2014 \$M |
| Profit After Tax for the Period | | 117.1 | 116.9 | 229.8 |
| Other Comprehensive Income | | | | |
| Items that may be reclassified subsequently to Profit or Loss: | | | | |
| Net Loss on Available for Sale Investments | | (0.8) | (1.2) | (1.4) |
| Net Loss on Cash Flow Hedges | | (0.2) | (2.8) | (14.6) |
| Reclassify Foreign Currency Translation Reserve to Profit or Loss | | (1.5) | - | 4.9 |
| Exchange Differences Arising from Translation of Foreign Operations | | (1.3) | (12.9) | (15.1) |
| Income Tax relating to items that may be reclassified | 10 | 0.3 | 1.1 | 4.7 |
| Other Comprehensive Income for the Period Net of Tax | | (3.5) | (15.8) | (21.5) |
| Total Comprehensive Income for the Period Net of Tax | | 113.6 | 101.1 | 208.3 |
| Total Comprehensive Income for the Period Attributable to: | | | | |
| Shareholders of the Parent Company | | 113.6 | 101.1 | 208.3 |

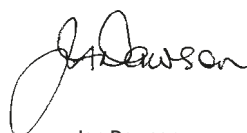
Statement of Financial Position

| | NOTE | GROUP | | |
|---|------|---------------------------------|---------------------------------|-------------------------------|
| | | UNAUDITED 31 DEC 2014 \$M | UNAUDITED 31 DEC 2013 \$M | AUDITED 30 JUN 2014 \$M |
| Shareholders' Equity | | | | |
| Share Capital | 6 | 1,597.2 | 1,598.6 | 1,598.6 |
| Reserves | | 2,920.3 | 3,036.5 | 3,035.1 |
| Total Equity | | 4,517.5 | 4,635.1 | 4,633.7 |
| Represented by: | | | | |
| Current Assets | | | | |
| Cash and Cash Equivalents | | 231.0 | 252.4 | 276.4 |
| Accounts Receivable | | 217.1 | 180.7 | 182.7 |
| Assets Classified as Held for Sale | 8 | 7.0 | 47.2 | 26.5 |
| Other Assets | | 25.1 | 14.4 | 17.5 |
| Derivative Financial Instruments | 13 | 26.6 | 33.6 | 19.5 |
| Total Current Assets | | 506.8 | 528.3 | 522.6 |
| Non-Current Assets | | | | |
| Other Assets | | 0.4 | 0.5 | 0.4 |
| Equity Accounted Joint Ventures | | 0.1 | - | 0.2 |
| Intangible Assets | | 45.7 | 55.5 | 54.0 |
| Property, Plant and Equipment | 9 | 6,852.9 | 6,809.3 | 6,929.0 |
| Deferred Tax Asset | 10 | 19.9 | 11.6 | 20.4 |
| Derivative Financial Instruments | 13 | 123.2 | 68.0 | 63.2 |
| Total Non-Current Assets | | 7,042.2 | 6,944.9 | 7,067.2 |
| Total Assets | | 7,549.0 | 7,473.2 | 7,589.8 |
| Current Liabilities | | | | |
| Liabilities Classified as Held for Sale | 8 | 0.1 | 1.0 | 1.3 |
| Payables and Accruals | | 232.7 | 176.8 | 235.6 |
| Current Tax Payable | | 41.6 | 47.5 | 57.1 |
| Current Portion of Term Borrowings | 11 | 133.7 | 62.2 | 133.4 |
| Finance Lease Payable | | 0.6 | - | 0.6 |
| Derivative Financial Instruments | 13 | 24.7 | 43.9 | 37.9 |
| Total Current Liabilities | | 433.4 | 331.4 | 465.9 |
| Non-Current Liabilities | | | | |
| Deferred Tax Liability | 10 | 1,343.3 | 1,354.6 | 1,349.7 |
| Term Borrowings | 11 | 1,053.2 | 1,063.9 | 959.1 |
| Term Payables | | 14.1 | - | 0.6 |
| Provisions | | 7.2 | - | 7.0 |
| Finance Lease Payable | | 47.2 | - | 48.6 |
| Derivative Financial Instruments | 13 | 133.1 | 88.2 | 125.2 |
| Total Non-Current Liabilities | | 2,598.1 | 2,506.7 | 2,490.2 |
| Total Liabilities | | 3,031.5 | 2,838.1 | 2,956.1 |
| Net Assets | | 4,517.5 | 4,635.1 | 4,633.7 |

For and on behalf of the Board of Directors who authorised the issue of the Financial Statements on 17 February 2015.



Chris Moller
Chairman, 17 February 2015



Jan Dawson
Chair of Audit and Risk Committee, 17 February 2015

Statement of Changes in Equity

| GROUP UNAUDITED \$M | | | | | | | | |
|---|----------------|----------------------|---------------------|--------------------------------------|-------------------------|----------------------------|-------------------|----------------|
| NOTE | SHARE CAPITAL | SHARE OPTION RESERVE | REVALUATION RESERVE | FOREIGN CURRENCY TRANSLATION RESERVE | CASH FLOW HEDGE RESERVE | AVAILABLE FOR SALE RESERVE | RETAINED EARNINGS | TOTAL EQUITY |
| Balance at 1 July 2014 | 1,598.6 | 0.2 | 3,073.8 | (23.4) | (1.4) | 0.6 | (14.7) | 4,633.7 |
| Profit for the Period | - | - | - | - | - | - | 117.1 | 117.1 |
| Cash Flow Hedges: | | | | | | | | |
| Net Loss Taken to Equity | - | - | - | - | (0.2) | - | - | (0.2) |
| Available for Sale Reserve: | | | | | | | | |
| Net Loss Taken to Equity | - | - | - | - | - | (0.8) | - | (0.8) |
| Reclassify Foreign Currency Translation Reserve to Profit or Loss | - | - | - | (1.5) | - | - | - | (1.5) |
| Exchange Differences Arising from Translation of Foreign Operations | - | - | - | (1.3) | - | - | - | (1.3) |
| Income Tax Relating to Other Comprehensive Income | - | - | - | - | 0.1 | 0.2 | - | 0.3 |
| Total Comprehensive Income for the Period | - | - | - | (2.8) | (0.1) | (0.6) | 117.1 | 113.6 |
| Movement in Share Options | - | 0.2 | - | - | - | - | - | 0.2 |
| Acquisition of Treasury Shares | 6 | (1.4) | - | - | - | - | - | (1.4) |
| Dividends Paid | 7 | - | - | - | - | - | (228.6) | (228.6) |
| Balance at 31 December 2014 | 1,597.2 | 0.4 | 3,073.8 | (26.2) | (1.5) | - | (126.2) | 4,517.5 |

| GROUP UNAUDITED \$M | | | | | | | | |
|---|----------------|---------------------|--------------------------------------|-------------------------|----------------------------|-------------------|----------------|--|
| NOTE | SHARE CAPITAL | REVALUATION RESERVE | FOREIGN CURRENCY TRANSLATION RESERVE | CASH FLOW HEDGE RESERVE | AVAILABLE FOR SALE RESERVE | RETAINED EARNINGS | TOTAL EQUITY | |
| Balance at 1 July 2013 | 1,600.0 | 3,073.9 | (13.2) | 8.9 | 1.6 | 16.8 | 4,688.0 | |
| 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 | |
| Acquisition of Treasury Shares | 6 | (1.4) | - | - | - | - | (1.4) | |
| Dividends Paid | 7 | - | - | - | - | (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 | |

Statement of Changes in Equity (continued)

| | NOTE | GROUP AUDITED \$M | | | | | | | TOTAL EQUITY |
|---|------|-------------------|----------------------|---------------------|--------------------------------------|-------------------------|----------------------------|-------------------|----------------|
| | | SHARE CAPITAL | SHARE OPTION RESERVE | REVALUATION RESERVE | FOREIGN CURRENCY TRANSLATION RESERVE | CASH FLOW HEDGE RESERVE | AVAILABLE FOR SALE RESERVE | RETAINED EARNINGS | |
| Balance at 1 July 2013 | | 1,600.0 | - | 3,073.9 | (13.2) | 8.9 | 1.6 | 16.8 | 4,688.0 |
| Profit for the Period | | - | - | - | - | - | - | 229.8 | 229.8 |
| Cash Flow Hedges: | | | | | | | | | |
| Net Loss Taken to Equity | | - | - | - | - | (14.6) | - | - | (14.6) |
| Available for Sale Reserve: | | | | | | | | | |
| Net Loss Taken to Equity | | - | - | - | - | - | (1.4) | - | (1.4) |
| Reclassify Foreign Currency Translation Reserve to Profit or Loss | | - | - | - | 4.9 | - | - | - | 4.9 |
| Exchange Differences Arising from Translation of Foreign Operations | | - | - | - | (15.1) | - | - | - | (15.1) |
| Asset Revaluation Reserve Transferred to Retained Earnings | | - | - | (0.1) | - | - | - | 0.1 | - |
| Income Tax Relating to Other Comprehensive Income | | - | - | - | - | 4.3 | 0.4 | - | 4.7 |
| Total Comprehensive Income for the Period | | - | - | (0.1) | (10.2) | (10.3) | (1.0) | 229.9 | 208.3 |
| Movement in Share Options | | - | 0.2 | - | - | - | - | - | 0.2 |
| Acquisition of Treasury Shares | 6 | (1.4) | - | - | - | - | - | - | (1.4) |
| Dividends Paid | 7 | - | - | - | - | - | - | (261.4) | (261.4) |
| Balance at 30 June 2014 | | 1,598.6 | 0.2 | 3,073.8 | (23.4) | (1.4) | 0.6 | (14.7) | 4,633.7 |

Statement of Cash Flows

| | NOTE | GROUP | | |
|--|------|---|---|--|
| | | UNAUDITED 6 MONTHS ENDED 31 DEC 2014 \$M | UNAUDITED 6 MONTHS ENDED 31 DEC 2013 \$M | AUDITED 12 MONTHS ENDED 30 JUN 2014 \$M |
| Operating Activities | | | | |
| Cash was Provided from: | | | | |
| Receipts from Customers | | 1,002.4 | 963.5 | 2,083.4 |
| Interest Received | | 4.6 | 4.2 | 8.5 |
| | | 1,007.0 | 967.7 | 2,091.9 |
| Cash was Applied to: | | | | |
| Payments to Suppliers and Employees | | (685.9) | (677.9) | (1,480.5) |
| Interest Paid | | (40.7) | (39.9) | (80.0) |
| Income Tax Paid | | (63.6) | (58.4) | (98.6) |
| | | (790.2) | (776.2) | (1,659.1) |
| Net Cash Inflows from Operating Activities | | 216.8 | 191.5 | 432.8 |
| Investment Activities | | | | |
| Cash was Provided from: | | | | |
| Sale of Property, Plant and Equipment | 9 | 15.4 | 4.7 | 41.1 |
| Finance Lease Receivable | | - | 0.2 | 0.2 |
| Sale of Subsidiaries | | 20.1 | 2.1 | 20.1 |
| Sale of Investments | | 3.9 | - | 1.0 |
| | | 39.4 | 7.0 | 62.4 |
| Cash was Applied to: | | | | |
| Purchase of Property, Plant and Equipment | | (101.2) | (151.7) | (283.7) |
| Capitalised Interest | | (0.4) | (3.6) | (9.3) |
| Purchase of Intangible Assets | | (4.0) | (13.4) | (21.7) |
| Purchase of Investments | | (0.5) | (0.2) | (0.6) |
| Finance Lease Payable | | (0.4) | - | (0.5) |
| | | (106.5) | (168.9) | (315.8) |
| Net Cash Outflows from Investing Activities | | (67.1) | (161.9) | (253.4) |
| Financing Activities | | | | |
| Cash was Provided from: | | | | |
| Proceeds from Borrowings | | 203.7 | 80.4 | 133.7 |
| | | 203.7 | 80.4 | 133.7 |
| Cash was Applied to: | | | | |
| Shares Purchased for Long Term Incentive | | (1.0) | (1.0) | (1.0) |
| Dividends Paid | 7 | (228.6) | (152.6) | (261.4) |
| Term Borrowings Paid | | (168.9) | (85.3) | (153.5) |
| | | (398.5) | (238.9) | (415.9) |
| Net Cash Outflows from Financing Activities | | (194.8) | (158.5) | (282.2) |
| Net Decrease in Cash and Cash Equivalents | | (45.1) | (128.9) | (102.8) |
| Cash and Cash Equivalents at Beginning of Period | | 276.4 | 382.8 | 382.8 |
| Cash Removed on Sale of Subsidiaries | | - | - | (1.8) |
| Effect of Exchange Rate Changes on Net Cash | | (0.3) | (1.5) | (1.8) |
| Cash and Cash Equivalents at End of Period | | 231.0 | 252.4 | 276.4 |

Statement of Cash Flows (continued)

| RECONCILIATION OF PROFIT AFTER TAX FOR THE PERIOD TO CASH FLOWS FROM OPERATING ACTIVITIES | NOTE | GROUP | | |
|--|------|---|---|--|
| | | UNAUDITED 6 MONTHS ENDED 31 DEC 2014 \$M | UNAUDITED 6 MONTHS ENDED 31 DEC 2013 \$M | AUDITED 12 MONTHS ENDED 30 JUN 2014 \$M |
| Profit after Tax for the Period | | 117.1 | 116.9 | 229.8 |
| Adjustments for Operating Activities Non-Cash Items: | | | | |
| Amortisation of Intangible Assets | | 11.8 | 11.1 | 21.4 |
| Depreciation | | 104.7 | 94.2 | 198.6 |
| Movement in Deferred Tax | | (9.6) | (7.6) | (17.8) |
| Total Net Change in Fair Value of Financial Instruments Loss/(Gain) | 13 | 25.5 | (41.2) | (18.6) |
| Cash Receipt on Closeout of Aluminium Commodity Swap | | - | 54.6 | 54.6 |
| Cash Payments of Option Premiums | | (8.6) | (8.9) | (21.2) |
| Share Based Payments | | 0.2 | - | 0.2 |
| Equity Accounted Earnings of Joint Ventures | | 0.6 | 0.2 | 0.4 |
| | | 124.6 | 102.4 | 217.6 |
| Items Classified as Investing Activities: | | | | |
| (Gain)/Loss on Sale of Assets | 3 | (15.2) | 2.4 | (6.6) |
| Finance Lease Interest | | - | 0.1 | - |
| Impairment of Assets | | 0.5 | - | - |
| | | (14.7) | 2.5 | (6.6) |
| Items Classified as Financing Activities: | | | | |
| Amortisation of Prepaid Debt Facility Fees | | 0.4 | 1.6 | 1.9 |
| | | 0.4 | 1.6 | 1.9 |
| Changes in Working Capital Items | | | | |
| (Increase)/Decrease in Accounts Receivable | | (34.4) | 74.9 | 71.8 |
| (Increase) in Other Assets | | (7.6) | (3.1) | (5.0) |
| (Decrease) in Payables and Accruals | | (2.9) | (99.9) | (39.2) |
| (Decrease)/Increase in Current Tax Payable | | (15.5) | (3.8) | 5.8 |
| Working Capital Items included in Investing Activities | | 55.3 | - | (53.2) |
| Working Capital Items included in Financing Activities and Other Non-cash items | | (5.5) | - | 9.9 |
| | | (10.6) | (31.9) | (9.9) |
| Net Cash Flow from Operating Activities | | 216.8 | 191.5 | 432.8 |

Contents

| | | | | | |
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1. Summary of Accounting Policies

Reporting Entity and Statement of Compliance

Meridian Energy Limited is a profit-oriented entity domiciled in New Zealand, registered under the Companies Act 1993 and is a Financial Markets Conduct reporting entity for the purposes of the Financial Reporting Act 2013 and the Financial Markets Conduct Act 2013. Meridian Energy Limited 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.

Meridian Energy Limited's core business is the generation, trading and retailing of electricity and wider complementary products and services.

The condensed interim financial statements (the Group financial statements) are presented for Meridian Energy Limited and its subsidiaries (together referred to as "Meridian" or the "Group") at, and for the six months ended 31 December 2014.

The financial statements were authorised for issue by the Directors on 17 February 2015.

Basis of Preparation

These unaudited condensed interim financial statements have been prepared using New Zealand Generally Accepted Accounting Practice (NZ GAAP), accounting policies consistent with International Financial Reporting Standards (IFRS) and New Zealand equivalents to IFRS (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 (\$m).

The accounting policies and methods of computation set out in the Group financial statements for the year ended 30 June 2014 have been applied consistently to all periods presented in the financial statements. The application of new or amended standards has had no material impact on the amounts recognised in the financial statements.

Judgements and Estimations

The preparation of financial statements in conformity with NZ IFRS requires judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The application of these is consistent with that used in the preparation of the Group's financial statements for the year ended 30 June 2014. 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 derivatives. In addition, accounting judgements are made in respect of the hedge designation and valuation of certain financial instruments, assessments of hedge effectiveness and the determination of useful lives of property, plant and equipment.

2. Segment Reporting

Meridian has determined the operating segments based on the reports reviewed by the Chief Executive to assess performance, allocate resources and make strategic decisions. He considers the business from the perspective of three reportable segments, being Wholesale, Retail and International.

Performance of the operating segments is measured on an EBITDAF basis.

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

The revenue from external parties is measured in a manner consistent with that in the Income Statement. Meridian transacted the equivalent of approximately 37% (December 2013: 40%, June 2014: 38%) of its generation output to a single counterparty through a Contract for Difference (CfD). The revenues received from this customer are attributable to the Wholesale segment.

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 2014.

Wholesale Segment

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

Retail Segment

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

The Retail segment purchases electricity from the Wholesale segment at an average annual 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.

On 1 December 2014, Arc Innovations Limited, a wholly owned subsidiary of the Parent, was sold as a going concern.

International Segment

The International segment comprises Meridian's Australian operations, which generate, sell and retail electricity into the relevant markets.

On 15 May 2014, CalRENEW-1 LLC, a controlled entity involved in the solar generation of electricity, was sold as a going concern.

Unallocated

Unallocated encompasses the activities and centrally based costs that support the Wholesale, Retail and International segments, and includes non-operating subsidiaries.

The segment information provided to the Chief Executive for the reportable segments for the six months ended 31 December 2014 is as follows:

| | WHOLESALE \$M | RETAIL \$M | INTERNATIONAL \$M | UNALLOCATED \$M | INTER-SEGMENT ITEMS \$M | TOTAL \$M |
|--|------------------|---------------|----------------------|--------------------|-------------------------------|----------------|
| Operating Revenue | | | | | | |
| Energy Sales Revenue | 948.6 | 567.2 | 36.6 | - | (235.4) | 1,317.0 |
| Energy Related Expenses | (554.3) | (271.8) | (5.2) | - | 235.4 | (595.9) |
| Energy Distribution Expense | - | (234.8) | (6.1) | - | - | (240.9) |
| Energy Margin | 394.3 | 60.6 | 25.3 | - | - | 480.2 |
| Other Revenue | 3.4 | 8.8 | - | 26.6 | (22.3) | 16.5 |
| Energy Transmission Expense | (58.9) | - | (1.7) | - | - | (60.6) |
| Gross Margin | 338.8 | 69.4 | 23.6 | 26.6 | (22.3) | 436.1 |
| Employee Expenses | (13.3) | (15.8) | (3.4) | (11.6) | 0.3 | (43.8) |
| Other Operating Expenses | (23.7) | (27.6) | (8.3) | (9.6) | 1.2 | (68.0) |
| EBITDAF | 301.8 | 26.0 | 11.9 | 5.4 | (20.8) | 324.3 |
| Reconciliation of Operating Revenue | | | | | | |
| Energy Sales Revenue | 948.6 | 567.2 | 36.6 | - | (235.4) | 1,317.0 |
| Other Revenue | 3.4 | 8.8 | - | 26.6 | (22.3) | 16.5 |
| Inter-Segment Revenue | (235.4) | - | - | (22.3) | 257.7 | - |
| Revenue from External Customers | 716.6 | 576.0 | 36.6 | 4.3 | - | 1,333.5 |

2. Segment Reporting (continued)

The 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 | UNALLOCATED \$M | INTER-SEGMENT ITEMS \$M | TOTAL \$M |
|--|------------------|---------------|----------------------|--------------------|-------------------------------|----------------|
| Operating Revenue | | | | | | |
| 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 Expense | - | (212.2) | (0.2) | - | - | (212.4) |
| Energy Margin | 372.0 | 62.9 | 11.7 | - | - | 446.6 |
| Other Revenue | 4.3 | 9.1 | - | 5.3 | (6.0) | 12.7 |
| Energy Transmission Expense | (64.8) | - | (1.9) | - | - | (66.7) |
| Gross Margin | 311.5 | 72.0 | 9.8 | 5.3 | (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 | (27.3) | (5.0) | 268.2 |
| Reconciliation of Operating Revenue | | | | | | |
| Energy Sales Revenue | 768.4 | 568.0 | 12.5 | - | (263.7) | 1,085.2 |
| Other Revenue | 4.3 | 9.1 | - | 5.3 | (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 | 0.3 | - | 1,097.9 |

The segment information provided to the Chief Executive for the reportable segments for the year ended 30 June 2014 is as follows:

| | WHOLESALE \$M | RETAIL \$M | INTERNATIONAL \$M | UNALLOCATED \$M | INTER-SEGMENT ITEMS \$M | TOTAL \$M |
|--|------------------|----------------|----------------------|--------------------|-------------------------------|----------------|
| Operating Revenue | | | | | | |
| Energy Sales Revenue | 1,862.9 | 1,120.6 | 37.4 | - | (539.4) | 2,481.5 |
| Energy Related Expenses | (1,063.7) | (603.0) | (3.2) | - | 539.4 | (1,130.5) |
| Energy Distribution Expense | - | (425.3) | (2.3) | - | - | (427.6) |
| Energy Margin | 799.2 | 92.3 | 31.9 | - | - | 923.4 |
| Dividend and Other Revenue | 9.8 | 19.7 | - | 12.2 | (14.4) | 27.3 |
| Energy Transmission Expense | (126.6) | - | (2.7) | - | - | (129.3) |
| Gross Margin | 682.4 | 112.0 | 29.2 | 12.2 | (14.4) | 821.4 |
| Employee Expenses | (28.3) | (32.1) | (8.0) | (23.0) | 0.9 | (90.5) |
| Other Operating Expenses | (51.0) | (55.5) | (10.2) | (30.8) | 1.9 | (145.6) |
| EBITDAF | 603.1 | 24.4 | 11.0 | (41.6) | (11.6) | 585.3 |
| Reconciliation of Operating Revenue | | | | | | |
| Energy Sales Revenue | 1,862.9 | 1,120.6 | 37.4 | - | (539.4) | 2,481.5 |
| Dividend and Other Revenue | 9.8 | 19.7 | - | 12.2 | (14.4) | 27.3 |
| Inter-Segment Revenue | (539.4) | - | - | (14.4) | 553.8 | - |
| Revenue from External Customers | 1,333.3 | 1,140.3 | 37.4 | (2.2) | - | 2,508.8 |

2. Segment Reporting (continued)

Information Relating to Geographical Area Operations

| | UNAUDITED 6 MONTHS ENDED 31 DEC 2014 \$M | UNAUDITED 6 MONTHS ENDED 31 DEC 2013 \$M | AUDITED 12 MONTHS ENDED 30 JUN 2014 \$M |
|--------------------------|---|---|--|
| Total Revenue in: | | | |
| New Zealand | 1,296.9 | 1,085.4 | 2,471.4 |
| Australia | 36.6 | 10.8 | 34.8 |
| United States of America | - | 1.7 | 2.6 |
| | 1,333.5 | 1,097.9 | 2,508.8 |

Reconciliation of EBITDAF to Profit before Tax provided as follows:

| | UNAUDITED 6 MONTHS ENDED 31 DEC 2014 \$M | UNAUDITED 6 MONTHS ENDED 31 DEC 2013 \$M | AUDITED 12 MONTHS ENDED 30 JUN 2014 \$M |
|---|---|---|--|
| EBITDAF for Reportable Segments | 339.7 | 300.5 | 638.5 |
| Unallocated and Inter Segment EBITDAF | (15.4) | (32.3) | (53.2) |
| Total Group EBITDAF | 324.3 | 268.2 | 585.3 |
| Impairment of Assets | (0.5) | - | - |
| Gain/(Loss) on Sale of Assets | 15.2 | (2.4) | 6.6 |
| Equity Accounted Earnings of Joint Ventures | (0.6) | (0.2) | (0.4) |
| Amortisation of Intangible Assets | (11.8) | (11.1) | (21.4) |
| Depreciation | (104.7) | (94.2) | (198.6) |
| Net Change in Fair Value of Financial Instruments (Loss)/Gain | (25.5) | 41.2 | 18.6 |
| Finance Costs and Other Finance Related Expenses | (40.8) | (37.5) | (73.7) |
| Group Profit before Tax | 155.6 | 164.0 | 316.4 |

3. Gain/(Loss) on Sale of Assets

| | UNAUDITED 6 MONTHS ENDED 31 DEC 2014 \$M | UNAUDITED 6 MONTHS ENDED 31 DEC 2013 \$M | AUDITED 12 MONTHS ENDED 30 JUN 2014 \$M |
|--|---|---|--|
| Gain/(Loss) on Sale of Property, Plant and Equipment | 4.6 | (2.4) | 11.3 |
| Gain on Sale of Investments Available for Sale | 1.0 | - | 0.2 |
| Gain/(Loss) on Sale of Subsidiaries | 9.6 | - | (4.9) |
| Total Gain/(Loss) on Sale of Assets | 15.2 | (2.4) | 6.6 |

Gain/(Loss) on Sale of Subsidiaries

On 1 December 2014 the Group disposed of its entire interest in Arc Innovations Limited, a wholly owned subsidiary of the Parent, based on final completion financial statements. This resulted in a gain of \$8.1m to the Group.

On 8 October 2014 the Group dissolved Meridian Energy USA, Inc., a controlled entity of the Parent, resulting in a gain of \$1.5m to the Group.

During the year ending 30 June 2014, the Group disposed of its entire interest in CalRENEW-1 LLC, a controlled entity of the Parent, resulting in a loss of \$4.9m to the Group.

4. Finance Costs

| | UNAUDITED 6 MONTHS ENDED 31 DEC 2014 \$M | UNAUDITED 6 MONTHS ENDED 31 DEC 2013 \$M | AUDITED 12 MONTHS ENDED 30 JUN 2014 \$M |
|-----------------------------------|---|---|--|
| Interest on Borrowings | 42.6 | 45.4 | 87.9 |
| Interest on Finance Lease Payable | 3.2 | - | 3.7 |
| Less Capitalised Interest | (0.4) | (3.7) | (9.4) |
| | 45.4 | 41.7 | 82.2 |

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.

Total interest expense for financial liabilities at amortised cost is \$17.0m (31 December 2013: \$16.7m, 30 June 2014: \$33.4m).

5. Income Tax Expense

| | NOTE | UNAUDITED 6 MONTHS ENDED 31 DEC 2014 \$M | UNAUDITED 6 MONTHS ENDED 31 DEC 2013 \$M | AUDITED 12 MONTHS ENDED 30 JUN 2014 \$M |
|---|------|---|---|--|
| Income Tax Expense | | | | |
| Current Tax Expense | | | | |
| Current Income Tax Charge | | 48.1 | 57.1 | 110.6 |
| Adjustments Regarding Current Income Tax of Prior Years | | - | (2.4) | (6.2) |
| Total Current Tax Expense | | 48.1 | 54.7 | 104.4 |
| Deferred Tax Expense | | | | |
| Relating to Origination and Reversal of Temporary Differences | | (9.6) | (7.6) | (17.8) |
| Total Deferred Tax Expense | 10 | (9.6) | (7.6) | (17.8) |
| Total Income Tax Expense | | 38.5 | 47.1 | 86.6 |
| Income Tax Expense can be reconciled to accounting profit as follows: | | | | |
| Profit Before Tax | | 155.6 | 164.0 | 316.4 |
| Income Tax at Applicable Tax Rates | | 43.2 | 45.8 | 88.0 |
| Tax Effect of Expenditure Not Deductible for Tax | | 0.2 | 3.7 | 5.5 |
| Tax Effect of Income Not Subject to Tax | | (4.3) | - | (4.3) |
| Income Tax (Over)/Under Provided in Prior Year | | (0.6) | (2.4) | (2.6) |
| Income Tax Expense | | 38.5 | 47.1 | 86.6 |

Applicable Group tax rates for the current and prior financial years are 28% for New Zealand and 30% for Australia.

6. Equity

Share Capital

| | UNAUDITED 31 DEC 2014 SHARES | UNAUDITED 31 DEC 2014 \$M | UNAUDITED 31 DEC 2013 SHARES | UNAUDITED 31 DEC 2013 \$M | AUDITED 30 JUN 2014 SHARES | AUDITED 30 JUN 2014 \$M |
|--|------------------------------------|---------------------------------|------------------------------------|---------------------------------|----------------------------------|-------------------------------|
| Opening Balance of Ordinary Shares issued | 2,562,034,984 | 1,598.6 | 1,600,000,002 | 1,600.0 | 1,600,000,002 | 1,600.0 |
| Bonus Shares Issued | - | - | 962,999,998 | - | 962,999,998 | - |
| Treasury Shares Acquired ¹ | (743,254) | (1.4) | (965,016) | (1.4) | (965,016) | (1.4) |
| Closing Balance of Ordinary Shares issued | 2,561,291,730 | 1,597.2 | 2,562,034,984 | 1,598.6 | 2,562,034,984 | 1,598.6 |

¹ Related to shares held on trust for participants in the Executive Long Term Incentive plan. It includes provision for payment of the final instalment of \$0.50 per share.

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

7. Dividends

| | UNAUDITED 6 MONTHS ENDED 31 DEC 2014 \$M | UNAUDITED 6 MONTHS ENDED 31 DEC 2013 \$M | AUDITED 12 MONTHS ENDED 30 JUN 2014 \$M |
|----------------------------|---|---|--|
| 2014 Final Dividend Paid | 228.6 | - | - |
| 2014 Interim Dividend Paid | - | - | 108.8 |
| 2013 Final Dividend Paid | - | 152.6 | 152.6 |
| | 228.6 | 152.6 | 261.4 |

On 17 February 2015 the Board declared a fully imputed interim dividend of \$123.0m (4.8 cents per share) and a fully imputed special dividend of \$35.9m (1.4 cents per share) payable on 15 April 2015.

8. Assets and Liabilities Classified as Held for Sale

| | UNAUDITED 31 DEC 2014 \$M | UNAUDITED 31 DEC 2013 \$M | AUDITED 30 JUN 2014 \$M |
|---|---------------------------------|---------------------------------|-------------------------------|
| Arc Innovations Limited | - | - | 12.8 |
| Meridian Energy USA Incorporated | - | 17.3 | - |
| Farm Related Assets | 7.0 | 29.9 | 13.7 |
| Total Assets Held for Sale | 7.0 | 47.2 | 26.5 |
| Arc Innovations Limited | - | - | 1.1 |
| Meridian Energy USA Incorporated | - | 0.8 | - |
| Farm Related Liabilities | 0.1 | 0.2 | 0.2 |
| Total Liabilities Held for Sale | 0.1 | 1.0 | 1.3 |
| Net Assets Classified as Held for Sale | 6.9 | 46.2 | 25.2 |

9. Property, Plant and Equipment

| | UNAUDITED 6 MONTHS ENDED 31 DEC 2014 \$M | UNAUDITED 6 MONTHS ENDED 31 DEC 2013 \$M | AUDITED 12 MONTHS ENDED 30 JUN 2014 \$M |
|--|---|---|--|
| Additions at Cost | 44.5 | 146.0 | 346.3 |
| Carrying Value of Disposals (including those classified as Held for Sale, excluding disposal of Subsidiaries) | 10.8 | 7.1 | 29.8 |
| Proceeds of Disposals (including those classified as Held for Sale, excluding disposal of Subsidiaries) | 15.4 | 4.7 | 41.1 |

10. Deferred Tax

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

| | NOTE | UNAUDITED 6 MONTHS ENDED 31 DEC 2014 \$M | UNAUDITED 6 MONTHS ENDED 31 DEC 2013 \$M | AUDITED 12 MONTHS ENDED 30 JUN 2014 \$M |
|---|------|---|---|--|
| Balance at Beginning of Period | | 1,329.3 | 1,351.5 | 1,351.5 |
| Recognised in the Income Statement: | | | | |
| Movement in Temporary Differences | 5 | (9.6) | (7.6) | (17.8) |
| | | (9.6) | (7.6) | (17.8) |
| Recognised in Other Comprehensive Income: | | | | |
| Movement in Temporary Differences (Equity) | | (0.3) | (1.1) | (4.7) |
| | | (0.3) | (1.1) | (4.7) |
| Effect of Retranslating Foreign Currency Opening Balances | | 0.2 | 0.2 | 0.3 |
| Effect of Sale of Subsidiaries | | 3.8 | - | - |
| Balance at End of Period | | 1,323.4 | 1,343.0 | 1,329.3 |
| The movement in temporary differences recognised in the income statement consists of the following: | | | | |
| Property, Plant and Equipment | | (6.9) | (3.7) | (4.8) |
| Term and Finance Lease Payables | | 2.5 | 2.9 | 5.7 |
| Financial Instruments | | (7.2) | (3.7) | (10.0) |
| Carried Forward Losses to be Utilised against Future Taxable Income | | - | - | (8.9) |
| Other | | 2.0 | (3.1) | 0.2 |
| | | (9.6) | (7.6) | (17.8) |

10. Deferred Tax (continued)

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:

| | UNAUDITED 31 DEC 2014 \$M | UNAUDITED 31 DEC 2013 \$M | AUDITED 30 JUN 2014 \$M |
|---|---------------------------------|---------------------------------|-------------------------------|
| Property, Plant and Equipment – Revaluation | 941.9 | 941.9 | 941.9 |
| Property, Plant and Equipment – Accelerated Depreciation | 430.1 | 422.8 | 434.1 |
| Term Payables | (1.8) | 2.2 | (0.4) |
| Financial Instruments | (20.2) | (8.4) | (19.6) |
| Other | (6.7) | (3.9) | (6.3) |
| Deferred Tax Liability | 1,343.3 | 1,354.6 | 1,349.7 |
| Carried Forward Losses to be Utilised Against Future Taxable Income | (19.8) | (11.5) | (20.3) |
| Other | (0.1) | (0.1) | (0.1) |
| Deferred Tax Asset | (19.9) | (11.6) | (20.4) |
| | 1,323.4 | 1,343.0 | 1,329.3 |

Carried forward losses relate to Australian operations and will be utilised against future taxable income from retail and generation activities.

11. Borrowings

| | ORIGINAL CURRENCY | UNAUDITED 31 DEC 2014 \$M | UNAUDITED 31 DEC 2013 \$M | AUDITED 30 JUN 2014 \$M |
|-------------------------------------|----------------------|---------------------------------|---------------------------------|-------------------------------|
| Borrowings – Current | | | | |
| Unsecured Borrowings | NZD | 133.7 | 11.3 | 133.4 |
| Unsecured Borrowings | USD | - | 50.9 | - |
| Total Current Borrowings | | 133.7 | 62.2 | 133.4 |
| Borrowings – Non Current | | | | |
| Unsecured Borrowings | NZD | 278.6 | 412.8 | 283.2 |
| Unsecured Borrowings | AUD | 178.3 | 254.3 | 306.1 |
| Unsecured Borrowings | USD | 596.3 | 396.8 | 369.8 |
| Total Non Current Borrowings | | 1,053.2 | 1,063.9 | 959.1 |
| Total Borrowings | | 1,186.9 | 1,126.1 | 1,092.5 |

Meridian has committed bank facilities of \$650.7m of which \$357.1m were undrawn at 31 December 2014. The expiry of these facilities range from January 2017 to April 2026.

Borrowings are carried at amortised cost with the exception of USD borrowings, which are in a designated hedge relationship (and are classified as Level 2 in the Fair Value Hierarchy). The total carrying value of all borrowings is considered to approximate fair value.

12. 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 wholesale electricity market 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 (CCIRs); 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.

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

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

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 surplus credit lines available of at least \$200m to ensure it has sufficient headroom under normal and abnormal conditions.

Market Risk

Foreign Exchange Risk

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

In respect of overseas borrowings, the Group's policy is to hedge the foreign currency exposure of both interest and principal repayments through CCIRs which swap all foreign currency denominated interest and principal repayments to payments in the base currency of the borrowing entity. The combination of the foreign denominated debt and the CCIRs results in a Group exposure to base currency floating interest rates and principal repayments. The floating interest rate risk is managed as part of the interest rate risk as described in the following section.

Meridian's CCIRs and foreign denominated borrowings are in a combination of a fair value hedge and cash flow hedge relationships. Foreign exchange movements on the borrowings and CCIRs offset each other, therefore there is no income statement or equity impact.

In respect of foreign exchange exposures on capital and operating expenditures denominated in foreign currencies, Meridian hedges the foreign exchange risk through a combination of FECs and options. Capital projects which are approved by the Board are hedged. All committed foreign currency exposures of greater than \$0.1m NZD equivalent are hedged.

The values of foreign currency derivatives are sensitive to changes in the forward prices for currencies. A 20% increase/decrease in the Australian dollar against the forward price of the Euro on the Group's profit and equity on the

assumption that all other variables are held constant, does not impact NPAT or Equity by more than \$1.0m. A 20% increase / decrease in the New Zealand dollar against the forward price of the Australian dollar and the Euro on the Group's profit and equity on the assumption that all other variables are held constant, does not impact NPAT or Equity by more than \$0.5m.

Cash Flow and Interest Rate Risk

Meridian's primary interest rate risk arises from long term borrowings which are sourced at both fixed interest rates and floating interest rates. In addition, as described in the section above, the combination of foreign denominated borrowings and the CCIRs 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 swaps 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.

The table below summarises the impact of increases/decreases in the forward price of interest, using the benchmark bank bill rate (BKBM), as at 31 December, on Meridian's profit and equity on the assumption that all other variables are held constant.

Sensitivity Analysis - Interest rates

| | | IMPACT ON AFTER TAX PROFIT | | | IMPACT ON EQUITY | | |
|------------------|----------|---------------------------------|---------------------------------|-------------------------------|---------------------------------|---------------------------------|-------------------------------|
| | | UNAUDITED 31 DEC 2014 \$M | UNAUDITED 31 DEC 2013 \$M | AUDITED 30 JUN 2014 \$M | UNAUDITED 31 DEC 2014 \$M | UNAUDITED 31 DEC 2013 \$M | AUDITED 30 JUN 2014 \$M |
| New Zealand BKBM | -100 bps | (26.6) | (25.1) | (24.0) | (26.6) | (25.1) | (24.0) |
| | +100 bps | 24.6 | 23.4 | 22.4 | 24.6 | 23.4 | 22.4 |
| Australian BBSY | -100 bps | (8.1) | (8.9) | (9.0) | (8.1) | (8.9) | (9.0) |
| | +100 bps | 7.7 | 8.4 | 8.5 | 7.7 | 8.4 | 8.5 |

12. Financial Risk Management (continued)

Price Risk

Meridian is exposed to movements in the spot price of electricity arising through the sale and purchase of electricity to and from the market. Meridian manages the net exposure to this risk by estimating both expected generation and electricity purchases required to support sales. Based on this net position, Meridian enters into derivative contracts to protect against price volatility within trading parameters set and monitored by the Board. The derivative contracts include forward electricity CfDs traded on the

ASX (Australian Securities Exchange), FTRs under the NZX auction process and bi-lateral derivative contracts (including options) with other electricity generators and major customers. Meridian does not enter into derivative contracts for speculative purposes.

In addition, as Meridian's Australian wind farms earn Renewable Energy Certificates (RECs) – in the form of Large-Scale Generation Certificates (LGCs), LGC options are used to hedge this associated price risk.

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

Sensitivity Analysis - Electricity Price Risk

| | | IMPACT ON AFTER TAX PROFIT | | | IMPACT ON EQUITY | | |
|-----------------------------------|----------|---------------------------------|---------------------------------|-------------------------------|---------------------------------|---------------------------------|-------------------------------|
| | | UNAUDITED 31 DEC 2014 \$M | UNAUDITED 31 DEC 2013 \$M | AUDITED 30 JUN 2014 \$M | UNAUDITED 31 DEC 2014 \$M | UNAUDITED 31 DEC 2013 \$M | AUDITED 30 JUN 2014 \$M |
| CfDs held for trading | | | | | | | |
| Electricity Prices | -10% | 134.0 | 129.9 | 138.2 | 134.0 | 129.9 | 138.2 |
| | 10% | (129.1) | (129.7) | (133.9) | (129.1) | (129.7) | (133.9) |
| Interest Rates (discount rate) | -100 bps | 1.0 | (0.7) | 0.7 | 1.0 | (0.7) | 0.7 |
| | +100 bps | (1.0) | (1.9) | (0.7) | (1.0) | (1.9) | (0.7) |

Level 3 CfDs represent all material movements.

Credit Risk

Credit risk is managed 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 guarantees. 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.

The carrying amounts of financial assets recognised in the Statement of Financial Position best represents Meridian's maximum likely exposure to credit risk at the date of this report. Meridian does not have any significant concentrations of credit risk with any one financial institution.

13. Financial Instruments

Fair Value of Financial Instruments

NZ IFRS 13 provides for a three-level fair value hierarchy that requires inputs to valuation techniques used to measure fair value 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. Australian Securities Exchange (ASX) level 1 inputs are utilised to measure Electricity related CfD's
- Level 2 Inputs - Either directly (i.e. as prices) or indirectly (i.e. derived from prices) observable

inputs other than quoted prices included in Level 1. Interest Rate Swaps, Cross Currency Interest Rate Swaps and Foreign Exchange Contracts have level 2 inputs and are measured using discounted cash flow valuation technique

- Level 3 Inputs - Inputs for the asset or liability that are not based on observable market data (unobservable inputs). See table below for further details

Where the fair value of a financial instrument is calculated as the present value of the estimated future cash flows of the instrument (discounted

cash flows), three key types of inputs are used by the valuation technique. These are:

- forward price curves referenced to the ASX for electricity, published market interest rates and published forward foreign exchange rates; and
- discount rates based on forward interest swap curve adjusted for counterparty risk
- all contracts are assumed to run for the full duration of the contract and for the term stated

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).

| 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 | <p>Valuation technique: Discounted cash flows. Future cash flows have been calculated with reference to:</p> <p>Price Where quoted prices are not available or not relevant (i.e. 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 the cost of new supply</p> <p>Forecast CPI An internal forecast of expected inflation rates</p> <p>Other factors London Metal Exchange (LME) quoted prices of primary aluminium</p> <p>Calibration factor Factor applied to forward price curve as a consequence of initial recognition differences</p> | <p>Estimate of forward wholesale electricity price ranging from \$55 per MWh to \$98 per MWh (in real terms) – excludes observable ASX pricing</p> <p>2.25%</p> | <p>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</p> <p>The higher the forecast rate, the lower the gain/loss on a contract</p> |

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.

There have been no transfers between levels in respect of these assets and liabilities.

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.

13. Financial Instruments (continued)

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

| DERIVATIVE FINANCIAL INSTRUMENTS | UNAUDITED 31 DEC 2014 \$M | | | | UNAUDITED 31 DEC 2013 \$M | | | | AUDITED 30 JUN 2014 \$M | | | |
|--|---------------------------------|-------------|--------------|--------------|---------------------------------|-------------|-------------|--------------|-------------------------------|--------------|-------------|--------------|
| | LEVEL 1 | LEVEL 2 | LEVEL 3 | TOTAL | LEVEL 1 | LEVEL 2 | LEVEL 3 | TOTAL | LEVEL 1 | LEVEL 2 | LEVEL 3 | TOTAL |
| Assets: | | | | | | | | | | | | |
| Held for Trading | | | | | | | | | | | | |
| Electricity Related CfDs | 4.4 | (0.2) | 110.1 | 114.3 | 5.0 | (0.1) | 72.9 | 77.8 | 6.5 | (0.1) | 66.7 | 73.1 |
| Interest Rate Swaps | - | 6.3 | - | 6.3 | - | 10.0 | - | 10.0 | - | 5.3 | - | 5.3 |
| Cash Flow Hedges | | | | | | | | | | | | |
| Foreign Exchange Contracts | - | 0.6 | - | 0.6 | - | 12.0 | - | 12.0 | - | 2.9 | - | 2.9 |
| Cross Currency Interest Rate Swaps | - | 2.6 | - | 2.6 | - | - | - | - | - | 1.4 | - | 1.4 |
| Fair Value Hedges | | | | | | | | | | | | |
| Cross Currency Interest Rate Swaps | - | 26.0 | - | 26.0 | - | 1.8 | - | 1.8 | - | - | - | - |
| Total | 4.4 | 35.3 | 110.1 | 149.8 | 5.0 | 23.7 | 72.9 | 101.6 | 6.5 | 9.5 | 66.7 | 82.7 |
| Current | | | | 26.6 | | | | 33.6 | | | | 19.5 |
| Non Current | | | | 123.2 | | | | 68.0 | | | | 63.2 |
| Liabilities: | | | | | | | | | | | | |
| Held for Trading | | | | | | | | | | | | |
| Electricity Related CfDs | 7.4 | - | 53.5 | 60.9 | 8.6 | 0.1 | 38.4 | 47.1 | 10.2 | 0.1 | 39.9 | 50.2 |
| Interest Rate Swaps | - | 83.8 | - | 83.8 | - | 49.5 | - | 49.5 | - | 57.4 | - | 57.4 |
| Foreign Exchange Contracts | - | 0.3 | - | 0.3 | - | - | - | - | - | - | - | - |
| Cash Flow Hedges | | | | | | | | | | | | |
| Foreign Exchange Contracts | - | 0.1 | - | 0.1 | - | 2.9 | - | 2.9 | - | 3.2 | - | 3.2 |
| Cross Currency Interest Rate Swaps | - | 0.2 | - | 0.2 | - | 0.9 | - | 0.9 | - | 3.0 | - | 3.0 |
| Fair Value Hedges | | | | | | | | | | | | |
| Cross Currency Interest Rate Swaps | - | 12.5 | - | 12.5 | - | 31.7 | - | 31.7 | - | 49.3 | - | 49.3 |
| Total | 7.4 | 96.9 | 53.5 | 157.8 | 8.6 | 85.1 | 38.4 | 132.1 | 10.2 | 113.0 | 39.9 | 163.1 |
| Current | | | | 24.7 | | | | 43.9 | | | | 37.9 |
| Non Current | | | | 133.1 | | | | 88.2 | | | | 125.2 |
| Held for Sale Financial Assets: | | | | | | | | | | | | |
| Listed Securities | - | - | - | - | 5.9 | - | - | 5.9 | 3.7 | - | - | 3.7 |
| Total | - | - | - | - | 5.9 | - | - | 5.9 | 3.7 | - | - | 3.7 |

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

13. Financial Instruments (continued)

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

| | UNAUDITED 6 MONTHS ENDED 31 DEC 2014 \$M | UNAUDITED 6 MONTHS ENDED 31 DEC 2013 \$M | AUDITED 12 MONTHS ENDED 30 JUN 2014 \$M |
|--|---|---|--|
| Fair Value Hedge | | | |
| Cross Currency Interest Rate Swaps | (68.8) | (26.3) | (8.5) |
| Borrowings – Fair Value of Hedged Risk | 68.8 | 25.7 | 8.0 |
| | - | (0.6) | (0.5) |
| Held for Trading | | | |
| Interest Rate Swaps | (25.8) | 40.1 | 27.5 |
| Net Change in Fair Value of Financial Instruments Gain/(Loss) – Financing | (25.8) | 39.5 | 27.0 |
| Held for Trading | | | |
| Foreign Exchange Contracts | (0.2) | (0.2) | (0.1) |
| CfDs | 0.6 | 1.8 | (8.2) |
| Other | (0.1) | 0.1 | (0.1) |
| Net Change in Fair Value of Financial Instruments Gain/(Loss) - Operational | 0.3 | 1.7 | (8.4) |
| Total Net Change in Fair Value Gain/(Loss) on Financial Instruments | (25.5) | 41.2 | 18.6 |

Included in the above is \$(4.3)m (31 December 2013: \$10.6m, 30 June 2014: \$5.8m) related to Level 3 financial instruments held at the end of the reporting period.

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

| | UNAUDITED 6 MONTHS ENDED 31 DEC 2014 \$M | UNAUDITED 6 MONTHS ENDED 31 DEC 2013 \$M | AUDITED 12 MONTHS ENDED 30 JUN 2014 \$M |
|--|---|---|--|
| Energy Derivatives (CfDs) | | | |
| Opening Balance | 26.8 | 20.1 | 20.1 |
| Total gains/(losses) recognised in the Income Statement | | | |
| Included in Energy Sales Revenue | (44.4) | 33.3 | (44.3) |
| Net Change in Fair Value of CfDs | 0.5 | 10.5 | 2.8 |
| Total gains/(losses) recognised in the FX Translation Reserve | | | |
| | - | (0.1) | (0.2) |
| CfDs settled during the year | 44.4 | (33.3) | 44.3 |
| CfDs entered into during the year | 29.3 | 4.0 | 4.1 |
| Closing Balance | 56.6 | 34.5 | 26.8 |

Refer to previous Electricity price risk sensitivity analysis (in Note 12 - 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 treasury derivatives (FECs, IRSs and CCIRSs) 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 net of tax for the six months ended 31 December 2014 is (\$0.1m), (31 December 2013: (\$2.0m), 30 June 2014: (\$10.3m)).

New Zealand Aluminium Smelters CFD Agreement

On 7 August 2013, Meridian and New Zealand Aluminium Smelters (NZAS) entered into an electricity price agreement.

This agreement is for a period of up to 18 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 purchases 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 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 agreement has 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 and have been measured using the fair value guidelines under NZ IFRS 13 *Fair Value Measurement*.

13. Financial Instruments (continued)

Initial Recognition Difference

An initial recognition difference arises when the modelled value of an electricity derivative differs from the transaction price (which is the best

evidence of fair value). This difference can be accounted for by recalibrating the valuation model by a fixed percentage to result in a value at inception equal to the transaction price. This recalibration adjustment is then applied

to future valuations over the life of the contract. Alternatively, as was done previously with the difference on the 2007 NZAS contract, it can be amortised over the life of the contract.

The table below shows the aggregate initial recognition difference yet to be recognised in the Income Statement over the term of the contract:

| | UNAUDITED 6 MONTHS ENDED 31 DEC 2014 \$M | UNAUDITED 6 MONTHS ENDED 31 DEC 2013 \$M | AUDITED 12 MONTHS ENDED 30 JUN 2014 \$M |
|--|---|---|--|
| Opening Difference | 911.5 | 186.0 | 186.0 |
| Initial Difference on New Hedges | | | |
| NZAS Agreement | - | 853.2 | 853.2 |
| Electricity Related CfDs | 14.5 | 3.0 | (0.2) |
| Volumes Expired and differences amortised during the Period | | | |
| NZAS Agreement | (28.2) | (134.1) | (151.8) |
| Electricity Related CfDs | (1.9) | (2.0) | (6.8) |
| Recalibration of Model for Future Price Estimates and Time | | | |
| NZAS Agreement | 77.9 | (28.7) | 31.3 |
| Electricity Related CfDs | (2.3) | (3.1) | (0.2) |
| Closing Difference | 971.5 | 874.3 | 911.5 |

14. Commitments

| | UNAUDITED 31 DEC 2014 \$M | UNAUDITED 31 DEC 2013 \$M | AUDITED 30 JUN 2014 \$M |
|--|---------------------------------|---------------------------------|-------------------------------|
| Capital Expenditure Commitments | | | |
| Property, Plant and Equipment | 14.6 | 201.0 | 29.9 |
| Software | 0.8 | 1.5 | 3.6 |
| | 15.4 | 202.5 | 33.5 |

Guarantees

Meridian Energy Limited has provided a bank guarantee (A\$37.9m) 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 within the 2015 financial year).

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 \$186.9m (31 December 2013: \$211.6m, 30 June 2014: \$192.6m).

Meridian Energy Limited signed a Parent Company Guarantee (PCG) on 30 April 2014

for the benefit of CalRENEW-1 Holdings LLC (holding company of SunEdison Inc). The PCG related to Meridian Energy USA Inc's (MEUSA) sale of CalRENEW-1 LLC pursuant to a Unit Purchase Agreement (UPA). Under the PCG, the Parent guarantees MEUSA's obligations in the UPA, which include historic payment obligations and some representations and warranties. The PCG stands for three years.

15. Subsequent Events

Dividends

Other than the dividend declared on 17 February 2015 (refer to Note 7), there have been no other material events subsequent to 31 December 2014.

16. Contingent Assets and Liabilities

Contingent Assets

Meridian has been disputing the Inland Revenue Department's (IRD) tax treatment relating to the depreciation of powerhouse structures. The IRD has issued a draft provisional determination for hydro electric powerhouses allowing depreciation deductions. Should this draft be finalised in its current state, it will reverse a deferred tax liability and will result in an income statement change of \$34.4m. There were no other contingent assets at 31 December 2014 (31 December 2013: nil, 30 June 2014: nil).

Contingent Liabilities

There were no contingent liabilities at 31 December 2014 (31 December 2013: nil, 30 June 2014: nil).

Review Report

To the Shareholders of Meridian Energy Limited

Deloitte.

We have reviewed the condensed consolidated interim financial statements of Meridian Energy Limited and its subsidiaries ("the Group") which comprise the statement of financial position as at 31 December 2014, and the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the six months ended on that date, and a summary of significant accounting policies and other explanatory information on pages 10 to 31.

This report is made solely to the company's shareholders, as a body. Our review has been undertaken so that we might state to the company's shareholders those matters we are required to state to them in a review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company's shareholders as a body, for our engagement, for this report, or for the opinions we have formed.

Board of Directors' Responsibilities

The Board of Directors are responsible for the preparation and fair presentation of the condensed consolidated interim financial statements, in accordance with NZ IAS 34 *Interim Financial Reporting* and IAS 34 *Interim Financial Reporting* and for such internal control as the Board of Directors determine is necessary to enable the preparation and fair presentation of the condensed consolidated interim financial statements that are free from material misstatement, whether due to fraud or error.

The Board of Directors is also responsible for the publication of the condensed consolidated interim financial statements, whether in printed or electronic form.

Independent 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 Michael Wilkes of Deloitte to carry out the annual audit of the Group.

Our responsibility is to express a conclusion on the condensed consolidated interim financial statements based on our review. We conducted our review in accordance with NZ SRE 2410 *Review of Financial Statements Performed by the Independent Auditor of the Entity* (NZ SRE 2410). NZ SRE 2410 requires us to conclude whether anything has come to our attention that causes us to believe that the condensed consolidated interim financial statements, taken as a whole, are not prepared, in all material respects, in accordance with NZ IAS 34 *Interim Financial Reporting* and IAS 34 *Interim Financial Reporting*. As the auditor of Meridian Energy Limited, NZ SRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial statements.

A review of the condensed consolidated interim financial statements in accordance with NZ SRE 2410 is a limited assurance engagement. The auditor performs procedures, primarily consisting of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with International Standards on Auditing (New Zealand). Accordingly we do not express an audit opinion on the condensed consolidated interim financial statements.

We did not evaluate the security and controls over the electronic publication of the condensed consolidated interim financial statements.

In addition to this review and the audit of the Group annual financial statements, we have carried out other engagements consisting of a carbon emissions audit, audit of the securities registers and reporting in our capacity as auditors to the supervisor for the debt securities 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 Group on arm's length terms within the ordinary course of trading activities of the Group. These services have not impaired our independence as auditor of the Company or Group. Other than these engagements and arm's length transactions, and in our capacity as auditor acting on behalf of the Auditor-General, we have no relationship with, or interests in, the Company or Group.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated interim financial statements do not present fairly, in all material respects, the financial position of the Group as at 31 December 2014 and its financial performance 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*.



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

17 February 2015

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If you would like to comment on Meridian's Interim Report, or if you have questions you would like answered, please email investors@meridianenergy.co.nz.



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