meridian

Better energy future

MERIDIAN ENERGY LIMITED

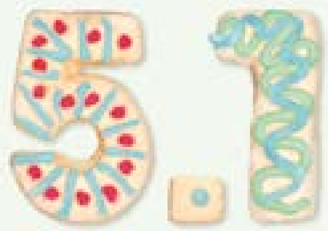
Interim Report for the six months ended 31 December 2015

Highlights

EBITDAF[1]

GROWTH

INTERIM ORDINARY DIVIDEND



CENTS PER SHARE

SPECIAL DIVIDENDS

CENTS PER SHARE

Company overview

MERIDIAN ENERGY IS NEW ZEALAND'S LARGEST ELECTRICITY GENERATOR AND IS COMMITTED TO GENERATING ELECTRICITY FROM 100% RENEWABLE RESOURCES – WIND AND WATER. MERIDIAN SUPPLIES ELECTRICITY TO POWER HOMES, BUSINESSES AND FARMS.

Meridian generates approximately 30% of New Zealand's electricity from its integrated chain of dams and power stations on the Waitaki River, from the 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 274,000 customer connections, including homes, farms and businesses throughout New Zealand. Powershop has more than 63,000 residential and commercial customer connections in Victoria and New South Wales, 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, Australia.

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, Sustainable Coastlines and South Island Rowing.

The Meridian Group employs approximately 859 full-time-equivalent employees and has offices across New Zealand, including the company's head office in Wellington and an office in Melbourne, Australia.

Hydro

TOTAL INSTALLED CAPACITY

2,338MW[2]

Wind

TOTAL INSTALLED CAPACITY

617MW

1 Earnings before interest, tax, depreciation, amortisation, changes in fair value of hedges and other significant items (EBITDAF).

2 Megawatts. One MW is enough to light 10,000 x 100-watt lightbulbs.

In this report

NEW ZEALAND RETAIL SALES VOLUMES

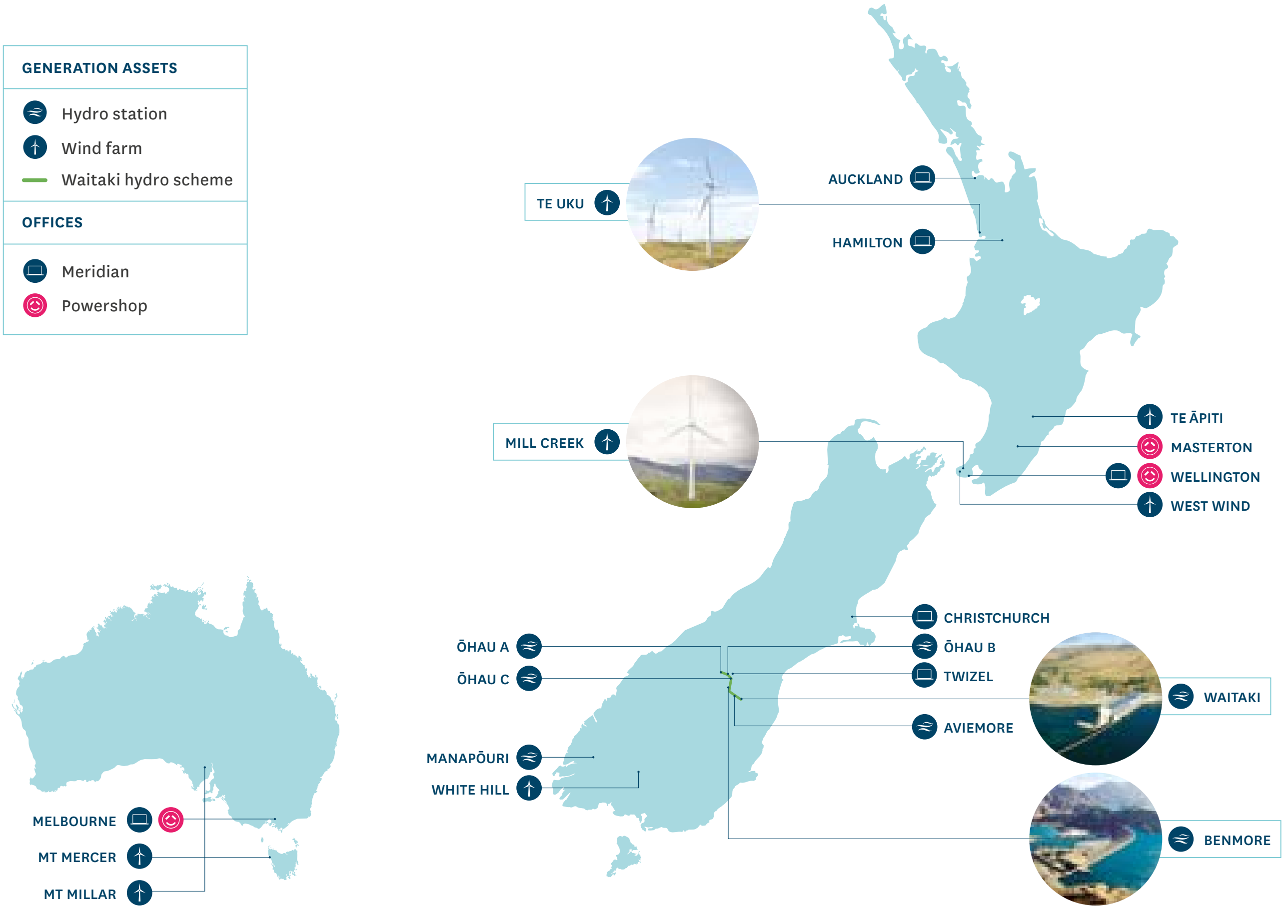
INCREASE

POWERSHOP AUSTRALIA CUSTOMERS

GROWTH

POWERSHOP AGREEMENT WITH NPOWER

NOVEMBER



Report from our Chair and Chief Executive

IT IS PLEASING TO REPORT AN INCREASE IN THE FIRST HALF OF THE FINANCIAL YEAR'S EBITDAF OF 2% TO $332 MILLION, WITH BOTH THE NEW ZEALAND AND AUSTRALIAN OPERATIONS REPORTING HIGHER OPERATING EARNINGS THAN IN THE PREVIOUS CORRESPONDING PERIOD.

Driving the improved performance is a satisfying increase in New Zealand retail sales, with higher corporate and industrial volumes (+4%), higher residential and small business volumes (+6%) and a lift in the overall average retail sales price (+3%). In Australia we saw a meaningful increase in sales volumes. Higher costs were incurred to supply these increased sales volumes and operating expenses increased, with a significant part of these associated with the Powershop growth in Australia and costs associated with the npower initiative in the United Kingdom.

Dividend

We are pleased to announce an ordinary dividend of 5.1 cents per share, up 6% on last year. This is imputed to 85% and will be payable on 15 April 2016.

Capital management

At the 2015 full year announcement we announced that we would initially pay a special dividend of $62.5 million (or 2.4 cents per share) as part of our five-year capital management programme. As with any capital management plan, there are diverse views as to the best manner of implementation. We have listened to the views of a wide range of shareholders and remain of the view that the circumstances at the time of any decision will determine the path taken. Given the continued strong trading of the company and there being no known material issue that would clearly affect performance, the Directors have announced a further special dividend of $62.5 million (2.4 cents per share). There will be no imputation credits attached to this payment.

This brings the amount distributed under the Capital Management Plan since commencement to $125 million (4.9 cents per share).

Customers

Total retail sales volumes in New Zealand were up during the six months by 6%, with gains in both residential and small and medium business (SMB) as well as the corporate and industrial segments. This was pleasing given that overall aggregate demand in New Zealand was only up 0.2% in the same period. Actual customer numbers, measured through Installation Control Points (ICPs), were down by 1% to 274,101. However in the past year we have made a concerted push into the small business segment and it has been rewarding to the team to see customer numbers in this segment improve by 7% since the commencement of the new financial year. In September Meridian finalised an agreement with Xero to allow *MyMeridian*, our online energy management tool, to interface with Xero Business Connect, allowing small and medium-sized businesses to seamlessly download billing data directly to their accounts. This is a real advantage for these customers in terms of both saving time and improving data integrity. Shareholders will see Meridian promote this collaboration with Xero in the next couple of months.

The improvement of customer service remains a core part of our retail strategy, and results of customer experience surveys have continued their upward trend in the past six months. Meridian retail recently won the CRM Contact Centre Award for commercial and business support services, which validates our ongoing investment in customer service.

During the six months ended 31 December 2015, our largest customer, New Zealand Aluminium Smelters (NZAS), saw aluminium prices fall by 8% in New Zealand dollar terms, as markets continue to reflect global economic uncertainty. Notwithstanding cyclically low prices, the smelter continued to consume at full contract volumes.

In Australia, Powershop customer numbers are now in excess of 63,000 and are now higher than those of Powershop in New Zealand. For the second year in a row Powershop Australia was ranked by Greenpeace as Australia's foremost green energy supplier.

CHRIS MOLLER *Chair* **MARK BINNS** *Chief Executive*

Operations

Total generation in New Zealand was down marginally for the period at 6,858GWh[3]. Hydro generation was down 1% but wind had a 4% increase, with October being the highest production month on record.

Stay-in-business capital expenditure remained within budgeted levels and in line with our view that this would average, in the medium term, around $65 million per annum.

In Australia, generation volumes were down nearly 5% as a result of some poor wind months and a number of turbines being non-operational at our Mt Mercer wind farm while a safety issue with transformers was worked through to management's satisfaction. Wholesale prices improved during the period in terms of the raw energy price and the market for Large-scale Generation Certificates (LGCs) has also improved significantly. The finalisation of the long-running review of the Renewable Energy Target in June was the catalyst for the improvement in the LGC price.

Industry issues

Between March and August last year, over 1,100MW of thermal generation was slated for retirement in New Zealand, with 600MW of these closures implemented by end of December. This moves New Zealand further forward in terms of the percentage of the country's electricity needs that are provided by renewables. We currently estimate that at approximately 82% renewable generation, the country is in the top three in the OECD in terms of renewables as a percentage of total generation. However, if all of these retirements take place, new generation will need to be built in the medium term to ensure that the country can meet demand requirements during times of peak electricity consumption as well as when hydro flows are low. This raises interesting issues as to potential solutions in the short and longer term, which we are sure the market will resolve.

While New Zealand is undoubtedly moving to in excess of 90% renewable electricity generation in the medium term, some form of thermal generation will be required for the foreseeable future to cover the country's risk of being exposed to extended droughts. On the positive side, this generation is, and will be, needed less frequently than in the past.

Meridian is playing its part in working to a greater reliance on renewables and has recently completed the reconsenting of both its Maungaharuru and Central Wind development opportunities. We will also look at the available courses we can take to ensure that Meridian has sufficient cover and is prudently positioned should we experience low lake inflows in the future.

Tiwai Point

It was flagged that NZAS had a termination right exercisable on 1 July last year. Suffice to say this matter had a lot of media coverage but the termination right was not exercised and a variation of the agreement was signed. The net effect was that Meridian remained contracted for the full 572MW currently used at the plant, and from 1 July 2017 will achieve a modest increase in the price we receive. NZAS retains the right to terminate the agreement on 12 months' notice at any time from 1 January 2017. Contemporaneously with the NZAS negotiations we negotiated financial arrangements with other generators, providing Meridian with some back-to-back cover that made the amended position with NZAS viable.

Given the aluminium industry's difficult trading environment, and the likelihood that the direction forward on the Electricity Authority's Transmission Pricing Methodology Review will be known this year – having a potentially significant impact on NZAS's cost position – it is shaping up to be a seminal year for our largest customer.

npower

In November Powershop signed an agreement with npower – one of the six largest electricity retailers in the UK – to franchise its operating system and brand material. This is an exciting opportunity for the Powershop team as it seeks to find new markets for its unique retail offering. Work is well underway to complete the software modifications to meet UK regulatory and npower's market requirements. Powershop already has personnel on the ground in the UK and it has been actively hiring new software developers for some time, in anticipation of the deal being concluded.

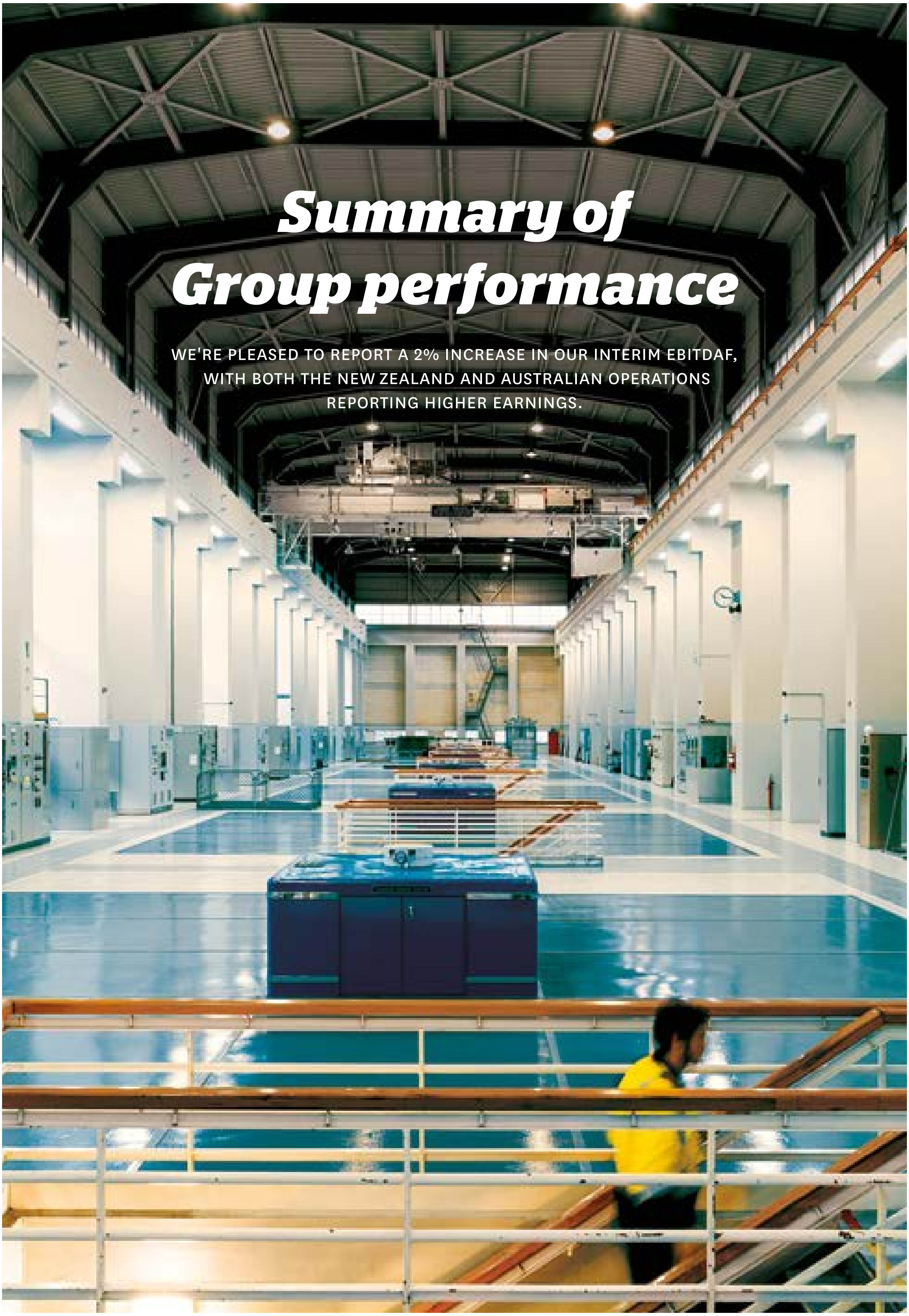
Hydro conditions

Decent inflows in late January 2016 lifted our catchment storage to near average levels, following a two-month period of lower inflows. Storage in our key Waitaki catchment was 93% of average at the end of January 2016, 12% higher than at the same time last year.

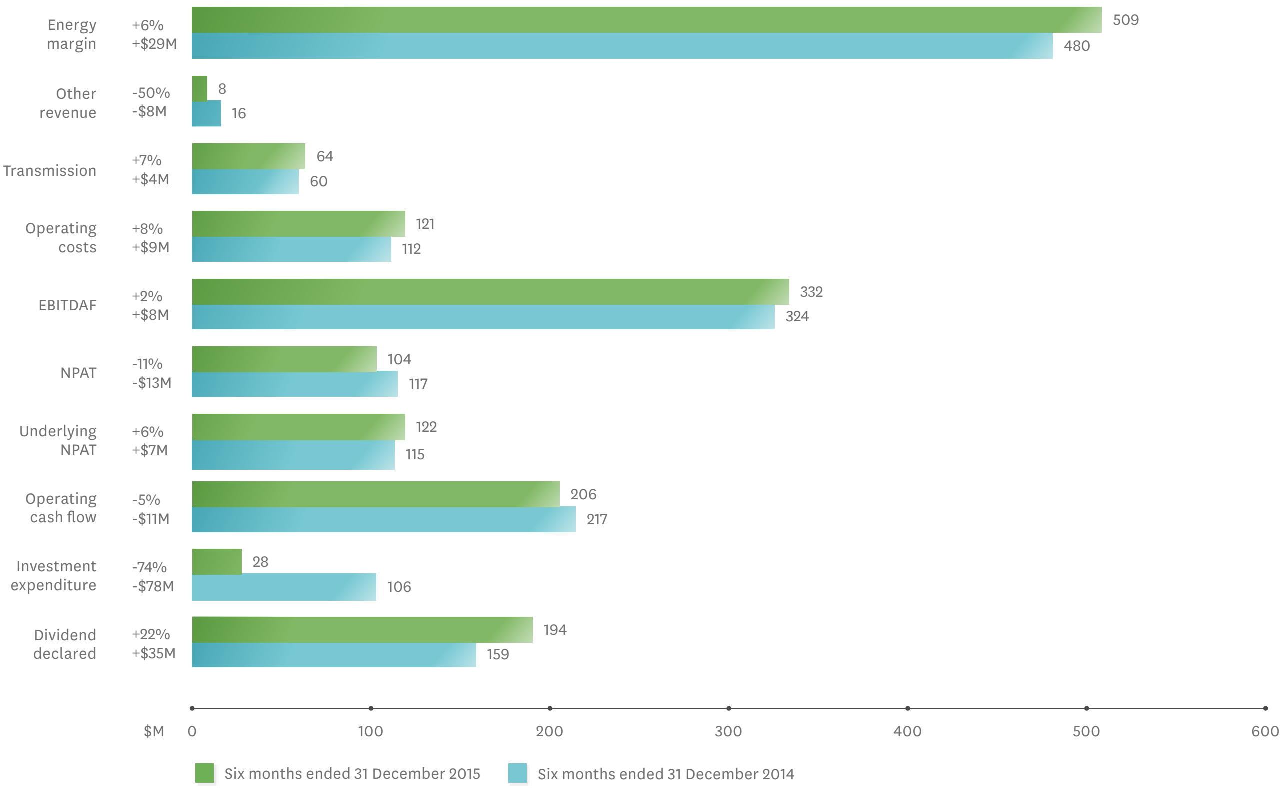
3 Gigawatt hours. One GWh is equivalent to enough electricity for 125 average New Zealand homes for one year.

Summary of Group performance

WE'RE PLEASED TO REPORT A 2% INCREASE IN OUR INTERIM EBITDAF, WITH BOTH THE NEW ZEALAND AND AUSTRALIAN OPERATIONS REPORTING HIGHER EARNINGS.



FINANCIAL PERFORMANCE AGAINST PRIOR YEAR



SUMMARY GROUP INCOME STATEMENT

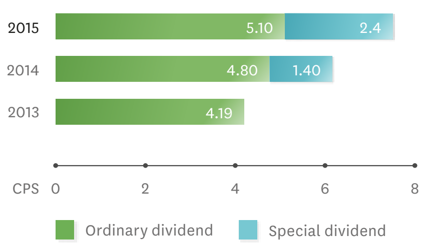
($ MILLIONS)	6 MONTHS ENDED 31 DEC 2015	6 MONTHS ENDED 31 DEC 2014	12 MONTHS ENDED 30 JUN 2015
New Zealand energy margin	474	455	900
International energy margin	35	25	54
Other revenue	8	16	25
Energy transmission expense	(64)	(60)	(123)
Employee and other operating expenses	(121)	(112)	(238)
EBITDAF	**332**	**324**	**618**
Depreciation and amortisation	(117)	(117)	(239)
Impairment of assets	-	-	(38)
Gain on sale of assets	-	15	19
Net change in fair value of electricity and other hedges	(32)	-	(1)
Net finance costs	(39)	(40)	(78)
Net change in fair value of treasury instruments	-	(26)	(32)
Net profit before tax	**144**	**156**	**249**
Income tax expense	(40)	(39)	(2)
Net profit after tax	**104**	**117**	**247**

UNDERLYING NPAT RECONCILIATION

($ MILLIONS)	6 MONTHS ENDED 31 DEC 2015	6 MONTHS ENDED 31 DEC 2014	12 MONTHS ENDED 30 JUN 2015
Net profit after tax	**104**	**117**	**247**
Underlying adjustments			
Hedging instruments			
Net change in fair value of electricity and other hedges	32	-	1
Net change in fair value of treasury instruments	-	26	32
Premiums paid on electricity options	(7)	(8)	(15)
Assets			
Gain on sale of assets	-	(15)	(19)
Impairment of assets	-	-	38
Total adjustments before tax	**25**	**3**	**37**
Taxation			
Tax effect of above adjustments	(7)	(5)	(13)
Release of capital gains tax provision	-	-	(28)
Tax depreciation on powerhouse structures	-	-	(34)
Underlying net profit after tax	**122**	**115**	**209**

INTERIM DIVIDENDS DECLARED

Six months ended 31 December



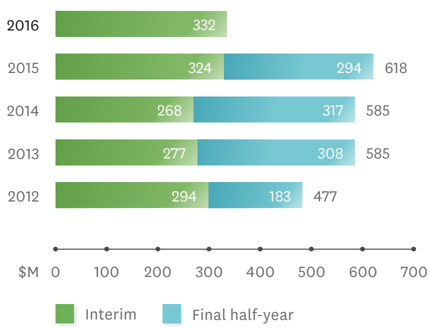
Dividend

Meridian has declared an interim ordinary dividend of 5.1 cents per share (CPS) for the six months ended 31 December 2015[4], 6% higher than for the same period last year[5]. This interim ordinary dividend will be imputed to 85% of the corporate tax rate.

Meridian has also declared an interim special dividend of 2.4 cents per share ($62.5 million) under the company's five-year capital management programme to return $625 million to shareholders. This interim special dividend will not be imputed. This brings the amount distributed since the capital management programme commenced to 4.9 cents per share ($125 million).

EBITDAF

Financial year ended 30 June



EBITDAF

EBITDAF was $332 million for the six months ended 31 December 2015, $8 million (+2%) higher than for the same period last year. New Zealand energy margin was $19 million (+4%) higher than in the same period last year and this is explained in more detail below.

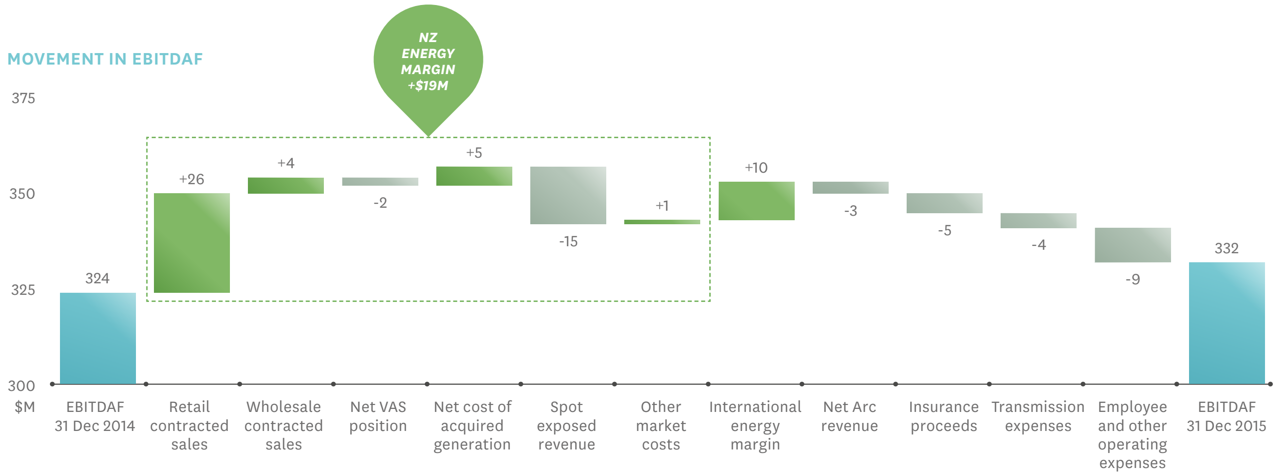
International energy margin was $10 million (+40%) higher than in the same period last year, with Powershop Australia's retail sales volumes (163GWh in total) 100GWh (+159%) higher than in the same period last year. By 31 December 2015 Powershop Australia's customer numbers exceeded 63,000, growing more than 15,000 in the previous six months. Australian wholesale and LGC prices firmed during the six months ended 31 December 2015, while wind generation (260GWh in total) was down 5% as a result of some modest wind months and a number of turbines at Mt Mercer being non-operational while a safety issue with transformers was worked through.

Transmission costs were $64 million for the six months ended 31 December 2015, $4 million (+7%) higher than for the same period last year, from higher Transpower charges on the New Zealand inter-island electricity transmission link.

Employee and other operating costs were $121 million for the six months ended 31 December 2015, $9 million (+8%) higher than for the same period last year. This included growth investment supporting the expansion of the Powershop Australia and UK businesses and continued customer acquisition pressure from the highly competitive New Zealand market. With the sale of the Arc metering business in late 2014, some costs were moved into operating costs in the current financial year, having previously been recorded in New Zealand energy margin. In addition, some reoccurring costs incurred in the first half of the current financial year were incurred in the second half of the previous financial year.

4 1H FY2016, the six months ended 31 December 2015.
5 1H FY2015, the six months ended 31 December 2014.

MOVEMENT IN EBITDAF



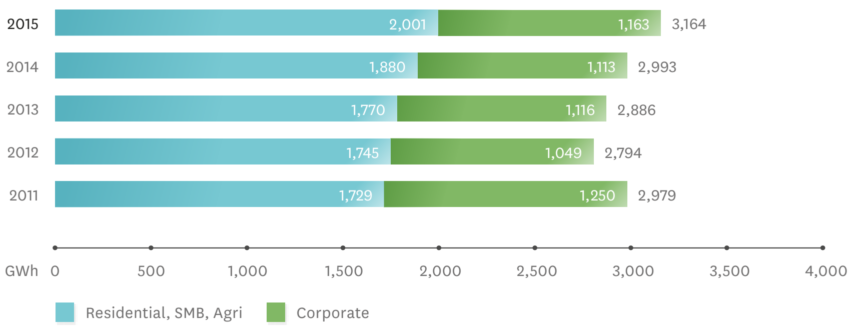
New Zealand energy margin

New Zealand energy margin consists of:

- revenue received from sales to retail customers net of distribution costs (fees to distribution network companies that cover the costs of distribution of electricity to customers), sales to large industrial customers and fixed price revenue from derivatives sold (contracted sales revenue: $494 million in 1H FY2016[4], $464 million in 1H FY2015[5]);
- revenue from the volume of electricity that Meridian generates that is in excess of the volume required to cover contracted customer sales (spot exposed revenues: -$7 million in 1H FY2016, +$8 million in 1H FY2015);
- the cost of derivatives acquired to supplement generation and manage spot price risks, net of spot revenue received for generation acquired from those derivatives (net cost of acquired generation: $13 million in 1H FY2016, $18 million in 1H FY2015);
- the net revenue position of virtual asset swaps (VAS) with Genesis Energy and Mighty River Power (net VAS revenue: $4 million in 1H FY2016, $6 million in 1H FY2015); and
- other associated market revenue and costs including Electricity Authority levies and ancillary generation revenue such as frequency keeping (costs of $4 million in 1H FY2016, $5 million in 1H FY2015).

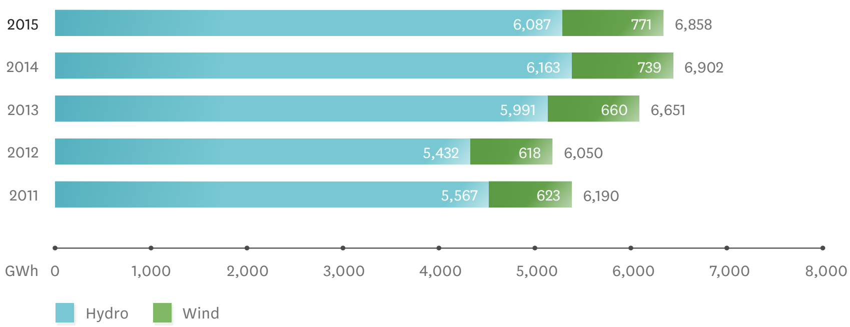
RETAIL SALES VOLUMES

Six months ended 31 December



NEW ZEALAND GENERATION

Six months ended 31 December



New Zealand energy margin for the six months ended 31 December 2015 was $474 million, $19 million (+4%) higher than for the same period last year, with retail contracted sales revenue $26 million (+8%) higher. Meridian's New Zealand customer numbers reduced slightly (-1%) during the six months ended 31 December 2015, as aggressive competition in the New Zealand residential market continued.

Corporate and industrial sales volumes increased +4% in the six months ended 31 December 2015 as Meridian won new business, while the average sales price increased +4%, in line with movements in the forward market.

Residential and small business sales volumes increased +6% in the six months ended 31 December 2015, which included further movement into the small and medium business segment and higher irrigation load. Typically irrigation is lower-priced summer load; however, despite this, average residential and small business prices increased +2%.

Wholesale contracted sales revenue was $4 million (+2%) higher in the six months ended 31 December 2015. Wholesale derivative sales volumes were higher (+11%) at higher average prices. Sales volumes to the NZAS were at the same level as in the same period last year.

The net cost of acquired generation was $5 million (-26%) lower in the six months ended 31 December 2015 from a lower average net price, partly offset by higher acquired generation volumes (+26%) compared with the same period last year.

Spot exposed revenue was $15 million (-200%) lower in the six months ended 31 December 2015. Generation volumes (-1%) and average generation prices (-11%) were both lower than in the same period last year. Higher purchase volumes (+4%) to meet higher contracted sales reduced spot exposed revenue which was partly offset by lower average purchase costs (-12%) compared with the same period last year.

MERIDIAN GENERATION

HYDRO

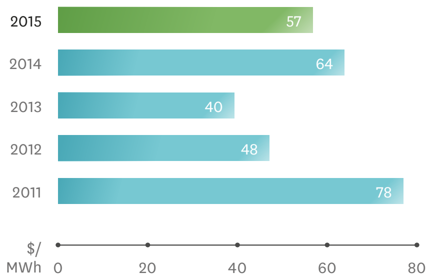
NEW ZEALAND[6]	PLANT CAPACITY MW	SIX MONTHS ENDED 31 DEC 2015 GWh	SIX MONTHS ENDED 31 DEC 2014 GWh	YEAR ENDED 30 JUN 2015 GWh
Ōhau A	264	542	630	1,277
Ōhau B	212	451	522	1,023
Ōhau C	212	449	519	1,015
Benmore	540	1,079	1,260	2,390
Aviemore	220	448	521	985
Waitaki	90	234	267	507
Manapōuri	800	2,884	2,444	4,764
Total hydro generation	**2,338**	**6,087**	**6,163**	**11,911**

WIND

NEW ZEALAND[7]	PLANT CAPACITY MW	SIX MONTHS ENDED 31 DEC 2015 GWh	SIX MONTHS ENDED 31 DEC 2014 GWh	YEAR ENDED 30 JUN 2015 GWh
Te Uku	64	121	121	218
Te Āpiti	91	153	163	293
Mill Creek	60	132	92	205
West Wind	143	268	272	529
White Hill	58	97	91	176
Total New Zealand wind	**416**	**771**	**739**	**1,421**
AUSTRALIA[8]				
Mt Millar	70	83	89	167
Mt Mercer	131	177	184	352
Total Australia wind	**201**	**260**	**273**	**519**
Total wind generation	**617**	**1,031**	**1,012**	**1,940**

MERIDIAN'S AVERAGE GENERATION PRICE

Six months ended 31 December



6 Includes Meridian's own-use generation volumes.
7 Includes Meridian's own-use generation volumes.
8 After the application of the marginal loss factor prescribed by the Australian Energy Market Operator.

Net profit after taxation

NPAT was $104 million for the six months ended 31 December 2015, $13 million (-11%) lower than for the same period last year. Higher EBITDAF was offset by changes in fair value movements in electricity hedges and treasury instruments and gains recognised last year from the sale of Meridian's metering business and farm assets.

Fair value movements in electricity hedges and treasury instruments reduced net profit before tax by $32 million in the six months ended 31 December 2015, compared with a $26 million reduction in the same period last year. Typically these movements relate to non-cash changes in the carrying value of derivative instruments and are influenced by changes in forward prices and rates on these derivative instruments.

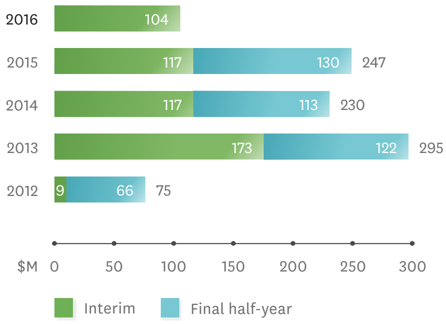
During the six months ended 31 December 2015, Meridian made changes to the treatment of Australian LGCs and associated forward sales used to cover some of the company's future LGC production. Rising LGC prices following the renegotiation of the Renewable Energy Target, and then the changes in political leadership in 2015, gave rise to unrealised fair value losses on some forward contracts.

Net financing costs were $1 million (-3%) lower than in the same period last year, reflecting lower interest on borrowings during the six months ended 31 December 2015. Meridian maintained its BBB+ (stable outlook) credit rating from Standard & Poor's.

After removing the impact of fair value movements and other one-off or infrequently occurring events, Meridian's underlying NPAT (reconciliation on page 6) was $122 million for the six months ended 31 December 2015. This was $7 million (+6%) higher than for the same period last year, reflecting higher EBITDAF, lower premiums paid on electricity options and lower net financing costs, partly offset by higher income tax expense.

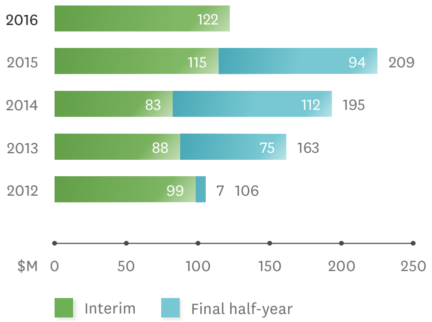
NET PROFIT AFTER TAX

Financial year ended 30 June



UNDERLYING NPAT

Financial year ended 30 June



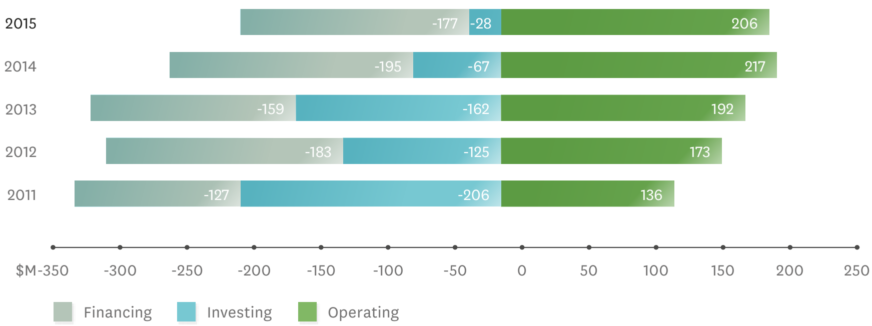
Cash flows

Operating cash flows were $206 million for the six months ended 31 December 2015, $11 million (-5%) lower than for the same period last year through the combined impacts of EBITDAF and working capital movements. The latter reflects growth in Powershop Australia and inventory impacts of changes to the treatment of Australian LGCs.

With the final completion of the Mill Creek and Mt Mercer wind farms in the first half of the previous financial year, investment spend in the six months ended 31 December 2015 reflected only stay-in-business capital expenditure.

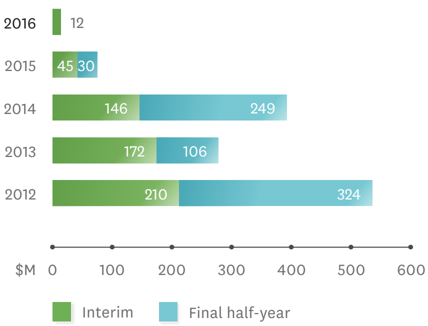
GROUP CASH FLOWS

Six months ended 31 December



PROPERTY, PLANT & EQUIPMENT ADDITIONS

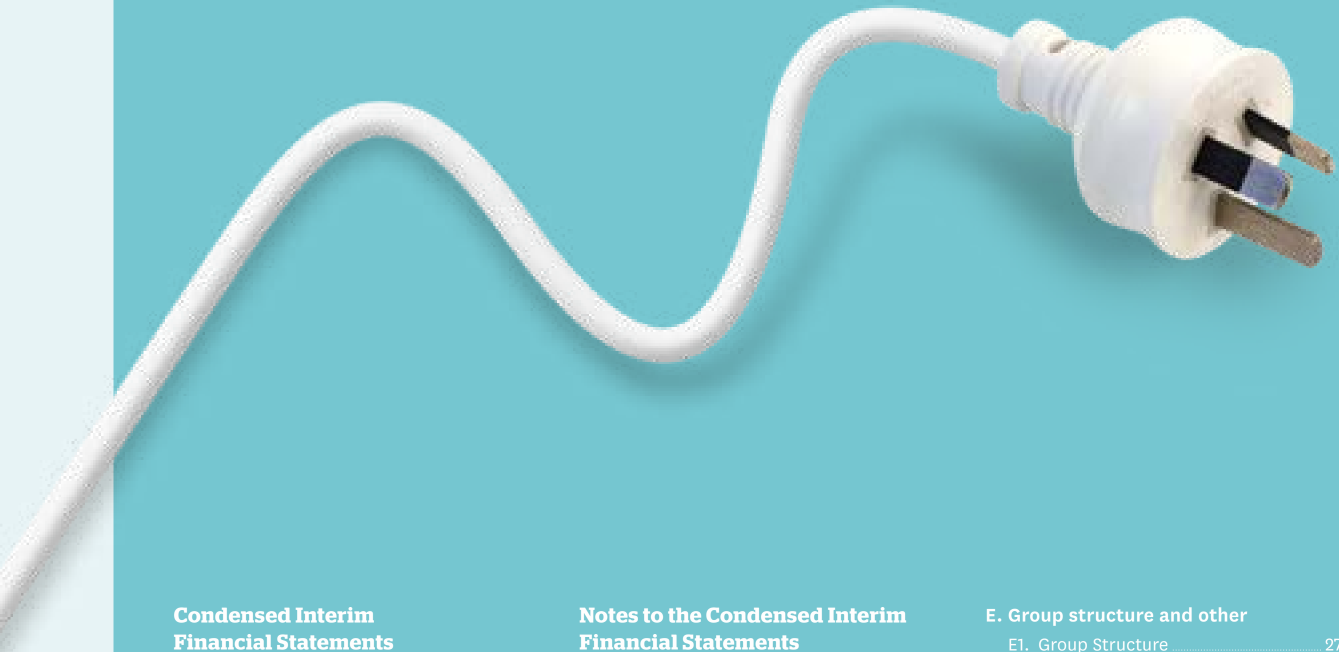
Financial year ended 30 June



NET TANGIBLE ASSETS PER SECURITY	31 DEC 2015 (NZ CENTS)	31 DEC 2014 (NZ CENTS)
Net tangible asset per security	**167**	**168**

The numbers

CONDENSED INTERIM FINANCIAL STATEMENTS
AS AT AND FOR THE SIX MONTHS ENDED 31 DECEMBER 2015



Condensed Interim Financial Statements

Notes to the Condensed Interim Financial Statements

Auditor's Review Report

KEY

KEY JUDGEMENTS AND ESTIMATES

SUBSEQUENT EVENT

Income Statement *For the six months ended 31 December 2015*

	NOTE	UNAUDITED 2015 $M	UNAUDITED 2014 $M
Operating revenue	A2	**1,441**	1,333
Operating expenses	A3	**(1,109)**	(1,009)
Earnings before interest, tax, depreciation, amortisation, changes in fair value of hedges and other significant items (EBITDAF)		**332**	324
Depreciation and amortisation	B1, B2	**(117)**	(117)
Gain on sale of assets	A2	**-**	15
Net change in fair value of electricity and other hedges		**(32)**	-
Operating profit		**183**	222
Finance costs	A3	**(40)**	(45)
Interest income		**1**	5
Net change in fair value of treasury instruments		**-**	(26)
Net profit before tax		**144**	156
Income tax expense	A4	**(40)**	(39)
Net profit after tax attributed to the shareholders of the parent company		**104**	**117**

Earnings per share (EPS) attributed to ordinary equity holders of the parent company		**Cents**	Cents
Basic and diluted EPS	C2	**4.1**	4.6

Comprehensive Income Statement *For the six months ended 31 December 2015*

	UNAUDITED 2015 $M	UNAUDITED 2014 $M
Net profit after tax	**104**	117
Other comprehensive income		
Items that may be reclassified to profit or loss:		
Net loss on cash flow hedges	**(3)**	(1)
Reclassify foreign currency translation reserve	**-**	(1)
Exchange differences arising from translation of foreign operations	**(18)**	(1)
Income tax on the above items	**1**	-
Other comprehensive income for the year, net of tax	**(20)**	(3)
Total comprehensive income for the year, net of tax, attributed to the shareholders of the parent company	**84**	**114**

The accompanying notes on pages 16 to 27 form part of these condensed interim financial statements

Balance Sheet *As at 31 December 2015*

		UNAUDITED		AUDITED
	NOTE	31 DEC 2015 $M	31 DEC 2014 $M	30 JUN 2015 $M
Current assets				
Cash and cash equivalents		**69**	231	69
Trade receivables		**220**	217	191
Financial instruments	D1	**79**	27	48
Assets classified as held for sale		**7**	7	7
Other assets		**18**	25	19
Total current assets		**393**	507	334
Non-current assets				
Property, plant and equipment	B1	**6,970**	6,853	7,097
Intangible assets	B2	**43**	46	47
Deferred tax		**34**	20	36
Financial instruments	D1	**188**	123	147
Total non-current assets		**7,235**	7,042	7,327
Total assets		**7,628**	7,549	7,661
Current liabilities				
Payables and accruals		**219**	226	192
Employee entitlements		**11**	7	16
Current portion of term borrowings	C4	**211**	134	213
Finance lease payable		**1**	1	1
Financial instruments	D1	**42**	25	34
Current tax payable		**11**	41	22
Total current liabilities		**495**	434	478
Non-current liabilities				
Term borrowings	C4	**989**	1,053	863
Deferred tax		**1,384**	1,344	1,400
Provisions		**8**	7	8
Finance lease payables		**48**	47	51
Financial instruments	D1	**146**	133	101
Term payables		**34**	14	12
Total non-current liabilities		**2,609**	2,598	2,435
Total liabilities		**3,104**	3,032	2,913
Net assets		**4,524**	**4,517**	**4,748**
Shareholders' equity				
Share capital		**1,596**	1,597	1,597
Reserves		**2,928**	2,920	3,151
Total shareholders' equity		**4,524**	**4,517**	**4,748**

For and on behalf of the Board of Directors who authorised the issue of the condensed interim financial statements on 23 February 2016.

CHRIS MOLLER, *Board Chair*

JAN DAWSON, *Chair Audit & Risk Committee*

The accompanying notes on pages 16 to 27 form part of these condensed interim financial statements

Changes in Equity *For the six months ended 31 December 2015*

AUDITED	NOTE	SHARE CAPITAL	SHARE OPTION RESERVE	REVALUATION RESERVE	FOREIGN CURRENCY TRANSLATION RESERVE	CASH FLOW HEDGE RESERVE	RETAINED EARNINGS	SHARE-HOLDERS' EQUITY
Balance at 1 July 2014		**1,599**	**-**	**3,074**	**(23)**	**(1)**	**(15)**	**4,634**
Net profit for the period		-	-	-	-	-	247	247
Other comprehensive income								
Asset revaluation		-	-	329	-	-	-	329
Net loss on cash flow hedges		-	-	-	-	(2)	-	(2)
Reclassify foreign currency translation reserve		-	-	-	(2)	-	-	(2)
Exchange differences from translation of foreign operations		-	-	-	20	-	-	20
Income tax relating to other comprehensive income		-	-	(92)	-	-	-	(92)
Total other comprehensive income, net of tax		**-**	**-**	**237**	**18**	**(2)**	**-**	**253**
Total comprehensive income for the year, net of tax		**-**	**-**	**237**	**18**	**(2)**	**247**	**500**
Share-based payment transactions		-	1	-	-	-	-	1
Own shares acquired		(2)	-	-	-	-	-	(2)
Dividends paid		-	-	-	-	-	(385)	(385)
Balance at 30 June 2015 and 1 July 2015		**1,597**	**1**	**3,311**	**(5)**	**(3)**	**(153)**	**4,748**

UNAUDITED	NOTE	SHARE CAPITAL	SHARE OPTION RESERVE	REVALUATION RESERVE	FOREIGN CURRENCY TRANSLATION RESERVE	CASH FLOW HEDGE RESERVE	RETAINED EARNINGS	SHARE-HOLDERS' EQUITY
Net profit for the period		-	-	-	-	-	104	104
Other comprehensive income								
Net loss on cash flow hedges		-	-	-	-	(3)	-	(3)
Exchange differences from translation of foreign operations		-	-	-	(18)	-	-	(18)
Income tax relating to other comprehensive income		-	-	-	-	1	-	1
Total other comprehensive income, net of tax		**-**	**-**	**-**	**(18)**	**(2)**	**-**	**(20)**
Total comprehensive income for the year, net of tax		**-**	**-**	**-**	**(18)**	**(2)**	**104**	**84**
Own shares acquired		(1)	-	-	-	-	-	(1)
Dividends paid	C3	-	-	-	-	-	(307)	(307)
Balance at 31 December 2015		**1,596**	**1**	**3,311**	**(23)**	**(5)**	**(356)**	**4,524**

The accompanying notes on pages 16 to 27 form part of these condensed interim financial statements

Changes in Equity continues *For the six months ended 31 December 2015*

UNAUDITED	NOTE	SHARE CAPITAL	SHARE OPTION RESERVE	REVALUATION RESERVE	FOREIGN CURRENCY TRANSLATION RESERVE	CASH FLOW HEDGE RESERVE	RETAINED EARNINGS	SHARE-HOLDERS' EQUITY
Balance at 1 July 2014		**1,599**	**-**	**3,074**	**(23)**	**(1)**	**(15)**	**4,634**
Net profit for the period		-	-	-	-	-	117	117
Other comprehensive income								
Net loss on cash flow hedges		-	-	-	-	(1)	-	(1)
Reclassify foreign currency translation reserve		-	-	-	(1)	-	-	(1)
Exchange differences from translation of foreign operations		-	-	-	(1)	-	-	(1)
Total other comprehensive income, net of tax		**-**	**-**	**-**	**(2)**	**(1)**	**-**	**(3)**
Total comprehensive income for the year, net of tax		**-**	**-**	**-**	**(2)**	**(1)**	**117**	**114**
Own shares acquired		(2)	-	-	-	-	-	(2)
Dividends paid	C3	-	-	-	-	-	(229)	(229)
Balance at 31 December 2014		**1,597**	**-**	**3,074**	**(25)**	**(2)**	**(127)**	**4,517**

The accompanying notes on pages 16 to 27 form part of these condensed interim financial statements

Cash Flows *For the six months ended 31 December 2015*

	UNAUDITED 2015 $M	2014 $M
Operating activities		
Receipts from customers	**1,409**	1,002
Interest received	**1**	5
	1,410	1,007
Payments to suppliers and employees	**(1,105)**	(686)
Interest paid	**(34)**	(40)
Income tax paid	**(65)**	(64)
	(1,204)	(790)
Operating cash flows	**206**	217
Investment activities		
Sale of property, plant and equipment	**-**	15
Sale of other assets	**-**	24
	-	39
Purchase of property, plant and equipment	**(20)**	(101)
Purchase of intangible assets	**(8)**	(4)
Purchase of investments	**-**	(1)
	(28)	(106)
Investing cash flows	**(28)**	(67)
Financing activities		
Proceeds from borrowings	**270**	204
	270	204
Shares purchased for long-term incentive	**(1)**	(1)
Dividends	**(307)**	(229)
Term borrowings repaid	**(139)**	(169)
	(447)	(399)
Financing cash flows	**(177)**	(195)
Net increase/(decrease) in cash and cash equivalents	**1**	**(45)**
Cash and cash equivalents at beginning of the six months	**69**	276
Effect of exchange rate changes on net cash	**(1)**	-
Cash and cash equivalents at end of the six months	**69**	**231**

The accompanying notes on pages 16 to 27 form part of these condensed interim financial statements

About this report

IN THIS SECTION

The summary condensed notes to the interim financial statements include information that is considered significant and relevant to assist the reader in understanding changes in Meridian's financial position or performance. Information is considered relevant if:

- **the amount is significant because of its size and nature;**
- **it is important for understanding the results of Meridian;**
- **it helps to explain changes in Meridian's business; or**
- **it relates to an aspect of Meridian's operations that is important to future performance.**

Meridian Energy Limited is a for profit entity domiciled and registered under the Companies Act 1993 in New Zealand. It is an FMC reporting entity for the purposes of the Financial Markets Conduct Act 2013. Meridian's core business activities are the generation, trading and retailing of electricity and the sale of complementary products and services. The registered office of Meridian is 33 Customhouse Quay, Wellington. Meridian Energy Limited is dual listed on the New Zealand Stock Exchange (NZX) and the Australian Securities Exchange (ASX). As a Mixed Ownership Company, majority owned by Her Majesty the Queen in Right of New Zealand, it is bound by the requirements of the Public Finance Act 1989.

These unaudited condensed interim financial statements for the six months ended 31 December 2015 have been prepared:

- using Generally Accepted Accounting Practice (NZ GAAP) in New Zealand, accounting policies consistent with International Financial Reporting Standards (IFRS) and the New Zealand equivalents (NZ IFRS), and in accordance with IAS 34: *Interim Financial Reporting* and NZ IAS 34: *Interim Financial Reporting*, as appropriate for a for profit entity;
- in accordance with the requirements of the Financial Markets Conduct Act 2013;
- on the basis of historical cost, modified by revaluation of certain assets and liabilities; and
- in New Zealand dollars. The principal functional currency of international subsidiaries is Australian dollars, and the closing rate at 31 December 2015 being 0.9382 (31 December 2014: 0.9547, 30 June 2015: 0.8775).

All values are rounded to millions ($M) unless otherwise stated.

Accounting policies

The accounting policies and methods of computation set out in the financial statements for the year ended 30 June 2015 have been applied consistently to all periods presented in the condensed interim financial statements. The application of new or amended standards has no material impact on the amounts recognised in the condensed interim financial statements.

Judgements and estimates

Key judgements and estimates have not changed from those used in preparing the financial statements for the year ended 30 June 2015, except as set out under significant matters in the six months on page 17.

Basis of consolidation

The condensed interim Group financial statements comprise the financial statements of Meridian Energy Limited and its subsidiaries and controlled entities.

In preparing the condensed interim consolidated financial statements, all material intra-group transactions, balances, income and expenses have been eliminated.

Significant matters in the six months

IN THIS SECTION

This section outlines significant matters which have impacted Meridian's financial performance and an explanation of non-GAAP measures used within the notes to the condensed interim financial statements.

Electricity supply agreement with NZAS

On 31 July 2015, Meridian and its largest customer, New Zealand Aluminium Smelters (NZAS), agreed new terms for the supply of 572MW of electricity. The agreement is for the period up to 31 December 2030, with termination rights (requiring 12 months' notice) from 1 January 2017. The contract price per MWh increases for the full 572MW to a blend of the price agreed in 2013 for 400MW and a more market-related price for the additional 172MW. The revised terms are significantly different from the 2013 agreement, therefore for accounting purposes that agreement is extinguished and the 2015 agreement is recognised as a new agreement.

The 2015 agreement has been recognised in these financial statements in a manner consistent with fixed price supply agreements with other industrial customers. Revenue is recognised as electricity sales revenue in the income statement and the estimated future cash flows are included in the fair value of generation structures and plant assets on the balance sheet. This recognition reflects the fact that a number of variables within the agreement are consistent with a supply agreement and are not features of an electricity financial contract or other forms of financial contract, such as interest rate swaps and foreign exchange contracts. The agreement includes: requirements for Meridian to generate electricity from the Manapōuri power station and NZAS to consume electricity within a specified profile; termination rights; and Meridian's obligation to provide wholesale market security for the 572MW sold to NZAS.

The recognition of this new agreement has no impact on the reported financial performance and position in the period.

Non-GAAP measures

Meridian refers to non-GAAP financial measures within these condensed interim financial statements and accompanying notes. The limited use of non-GAAP measures is intended to supplement GAAP measures to provide readers with further information to broaden their understanding of Meridian's financial performance and position. They are not a substitute for GAAP measures. As these measures are not defined by NZ GAAP, IFRS or any other body of accounting standards, Meridian's calculations may differ from similarly titled measures presented by other companies. The measures are described below, including page references for reconciliations to the condensed interim financial statements.

EBITDAF

Earnings before interest, tax, depreciation, amortisation, changes in fair value of financial instruments, impairments, gains and losses on sale of assets and joint venture equity accounted earnings.

EBITDAF is reported in the income statement, allowing the evaluation of Meridian's operating performance without the non-cash impacts of depreciation, amortisation, fair value movements of hedging instruments and other one-off and/or infrequently occurring events and the effects of Meridian's capital structure and tax position. This allows a better comparison of operating performance with that of other electricity industry companies than GAAP measures that include these items.

Energy margin

Energy margin provides a measure of financial performance that, unlike total revenue, accounts for the variability of the wholesale electricity market and the broadly offsetting impact of the wholesale prices on the cost of Meridian's retail electricity purchases and revenue from generation. Meridian uses the measure of energy margin within Meridian's segmental financial performance in note A1 Segment Performance on page 18.

A. Financial performance

IN THIS SECTION

This section explains the financial performance of Meridian, providing additional information about individual items in the income statement and an analysis of Meridian's performance for the six months by reference to key areas including: performance by operating segment, revenue, expenses and taxation.

A1 Segment Performance

Meridian's operating segments have been determined according to the nature of the products and services and the locations where they are sold. The Chief Executive (the chief operating decision-maker) monitors the operating performance of each segment for the purpose of making decisions on resource allocation and strategic direction. The Chief Executive considers the business from the perspective of three operating segments: Wholesale, Retail and Australia.

The financial performance of the operating segments is assessed using energy margin and EBITDAF (see page 17 for a definition of these measures) before unallocated central corporate expenses.

Balance sheet items are not reported to the Chief Executive at an operating segment level.

The accounting policies of the Group have been consistently applied to the operating segments.

A description of the operating segments follows:

Wholesale segment

Includes activity associated with Meridian's New Zealand:

- generation of electricity and its sale into the wholesale electricity market;
- purchase of electricity from the wholesale electricity market and its sale to the Retail segment and to large industrial customers, including NZAS which represents the equivalent of 37% (31 December 2014: 40%) of Meridian's New Zealand generation production; and
- development of renewable energy generation opportunities.

Retail segment

Includes activity associated with the retailing of electricity and complementary products through its two brands, Meridian and Powershop in New Zealand. Electricity sold to residential, business and industrial customers on fixed price, variable volume contracts is purchased from the Wholesale segment at an average annual fixed price of $80-$85 per MWh and electricity sold to business and industrial customers on spot (variable price) agreements is purchased from the Wholesale segment at prevailing wholesale spot market prices. The transfer price is set in a similar manner to transactions with third parties.

Australian segment

Includes activity associated with the generation and retailing of electricity in Australia.

Unallocated

Includes activities and centrally based costs that are not directly allocated to other segments.

A1 Segment Performance *continued*

	UNAUDITED											
	WHOLESALE		RETAIL		AUSTRALIA		UNALLOCATED		INTER-SEGMENT		TOTAL	
6 MONTHS ENDED 31 DEC	2015 $M	2014 $M	2015 $M	2014 $M	2015 $M	2014 $M	2015 $M	2014 $M	2015 $M	2014 $M	2015 $M	2014 $M
Contracted sales, net of distribution costs	163	159	331	305	18	7	-	-	-	-	**512**	471
Virtual asset swap margins	4	6	-	-	-	-	-	-	-	-	**4**	6
Net cost of acquired generation	(13)	(18)	-	-	-	-	-	-	-	-	**(13)**	(18)
Meridian generation spot revenue	391	443	-	-	28	21	-	-	-	-	**419**	464
Inter-segment electricity sales	263	235	-	-	-	-	-	-	(263)	(235)	**-**	-
Cost to supply contracted sales	(403)	(427)	(258)	(243)	(11)	(3)	-	-	263	235	**(409)**	(438)
Other market costs	(4)	(4)	-	(1)	-	-	-	-	-	-	**(4)**	(5)
Energy margin	**401**	**394**	**73**	**61**	**35**	**25**	**-**	**-**	**-**	**-**	**509**	**480**
Other revenue	3	3	6	9	-	-	1	26	(2)	(22)	**8**	16
Energy transmission expense	(62)	(58)	-	-	(2)	(2)	-	-	-	-	**(64)**	(60)
Gross margin	**342**	**339**	**79**	**70**	**33**	**23**	**1**	**26**	**(2)**	**(22)**	**453**	**436**
Employee expenses	(14)	(13)	(17)	(16)	(4)	(3)	(11)	(12)	-	-	**(46)**	(44)
Other operating expenses	(24)	(24)	(31)	(28)	(12)	(8)	(10)	(9)	2	1	**(75)**	(68)
EBITDAF	**304**	**302**	**31**	**26**	**17**	**12**	**(20)**	**5**	**-**	**(21)**	**332**	**324**
Depreciation and amortisation											**(117)**	(117)
Gain on sale of assets											**-**	15
Net change in fair value of electricity and other hedges											**(32)**	-
Operating profit											**183**	**222**
Finance costs											**(40)**	(45)
Interest income											**1**	5
Net change in fair value of treasury instruments											**-**	(26)
Net profit before tax											**144**	**156**
Income tax expense											**(40)**	(39)
Net profit after tax											**104**	**117**
Reconciliation of energy margin												
Electricity sales revenue	1,019	948	607	567	70	37	-	-	(263)	(235)	**1,433**	1,317
Electricity expenses	(618)	(554)	(293)	(272)	(16)	(5)	-	-	263	235	**(664)**	(596)
Electricity distribution expenses	-	-	(241)	(234)	(19)	(7)	-	-	-	-	**(260)**	(241)
Energy margin	**401**	**394**	**73**	**61**	**35**	**25**	**-**	**-**	**-**	**-**	**509**	**480**

A2 Income

6 MONTHS ENDED 31 DEC OPERATING REVENUE	UNAUDITED 2015 $M	2014 $M
Electricity sales revenue	**1,433**	1,317
Electricity related service revenue	**6**	8
Other revenue	**2**	8
	1,441	**1,333**

TOTAL REVENUE BY GEOGRAPHIC AREA		
New Zealand	**1,371**	1,296
Australia	**70**	37
Total operating revenue	**1,441**	**1,333**

OTHER INCOME		
Gain on sale of assets		
Gain on sale of property, plant and equipment	**-**	4
Gain/(loss) on sale of subsidiaries	**-**	10
Gain on sale of investments	**-**	1
	-	**15**

Electricity sales revenue

Revenue received or receivable from:

- electricity generated and sold into wholesale electricity markets;
- electricity sold to retail customers;
- the fixed price leg of electricity hedges sold; and
- the floating price leg of electricity hedges purchased.

Electricity sales revenue is influenced by the quantity of electricity generated, the wholesale spot price and the volume and price of electricity sold to residential, business, industrial and wholesale customers. Revenue is recognised at the time of supply.

Electricity-related service revenue

Revenue received or receivable from the sale of complementary products and services to retail customers and the provision of dam maintenance services.

Other revenue

Includes revenue from non-core activities such as finance leases, land leases and farming revenue.

A3 Expenses

6 MONTHS ENDED 31 DEC OPERATING EXPENSES	UNAUDITED 2015 $M	2014 $M
Electricity expenses	**664**	596
Electricity distribution expenses	**260**	241
Electricity transmission expenses	**64**	60
Employee expenses	**46**	44
Other expenses	**75**	68
	1,109	**1,009**

FINANCE COSTS		
Interest on borrowings	**37**	42
Interest on finance lease payable	**3**	3
	40	**45**

Electricity expenses

The cost of electricity and related services from:

- purchases from wholesale markets to supply customers;
- the fixed cost of electricity hedges purchased to supplement Meridian's electricity generation; and
- the variable cost of electricity hedges sold.

Electricity distribution expenses

The cost of distribution companies transporting electricity between the national grid and customers' properties.

Electricity transmission expenses

Meridian's share of the cost of the high voltage direct current (HVDC) link between the North and South Islands of New Zealand and the cost of connecting Meridian's generation sites to the national grid by grid providers.

Employee expenses

Provision is made for benefits owing to employees in respect of wages and salaries, annual leave, long service leave and employee incentives for services rendered. Provisions are recognised when it is probable they will be settled and can be measured reliably. They are carried at the remuneration rate expected to apply at the time of settlement.

A4 Taxation

6 MONTHS ENDED 31 DEC INCOME TAX EXPENSE	UNAUDITED 2015 $M	 2014 $M
Total current tax expense	56	48
Deferred tax	(16)	(9)
Total income tax	**40**	**39**
Reconciliation to profit before tax		
Profit before tax	144	156
Income tax at applicable rates	40	43
Expenditure not deductible for tax	-	(4)
Income tax expense	**40**	**39**

Income tax expense

Income tax expense is the income tax assessed on taxable profit for the period. Taxable profit differs from profit before tax reported in the income statement as it excludes items of income and expense that are taxable or deductible in other periods and also excludes items that will never be taxable or deductible. Meridian's liability for current tax is calculated using tax rates that have been enacted or substantively enacted at balance date, being 28% for New Zealand and 30% for Australia.

Income tax expense components are current income tax and deferred tax.

B. Assets used to generate and sell electricity

IN THIS SECTION

This section shows the assets Meridian uses in the production and sale of electricity to generate operating revenue. In this section of the summary notes there is information about:

- **property, plant and equipment; and**
- **intangible assets.**

B1 Property, Plant and Equipment

POSITION AS AT	UNAUDITED 31 DEC 2015 $M	UNAUDITED 31 DEC 2014 $M	AUDITED 30 JUN 2015 $M
Opening net book value	7,097	6,929	6,929
Additions	12	45	75
Transfers - intangible assets	-	-	(6)
Transfers - held for sale assets	-	(2)	(3)
Disposals	(2)	(1)	(6)
Foreign currency exchange rate movements	(30)	(13)	30
Generation structures and plant revaluation	-	-	296
Depreciation expense	(107)	(105)	(218)
Closing net book value	**6,970**	**6,853**	**7,097**

Recognition and measurement

Generation structures and plant assets (including land and buildings) are held on the balance sheet at their fair value at the date of revaluation, less any subsequent depreciation and impairment losses. All other property, plant and equipment are stated at historical cost less accumulated depreciation and any accumulated impairment losses.

Fair value and revaluation of generation structures and plant

Meridian revalued its generation structure and plant assets at 30 June 2015 using an independent valuer, resulting in a net increase of $296 million in the carrying value of this asset class. A review and assessment of key valuation inputs included in that valuation has been undertaken, indicating that the carrying value represents fair value.

B2 Intangible Assets

POSITION AS AT	UNAUDITED 31 DEC 2015 $M	UNAUDITED 31 DEC 2014 $M	AUDITED 30 JUN 2015 $M
Opening net book value	47	54	54
Additions	6	4	10
Transfers - property, plant and equipment	-	-	6
Impairment	-	-	(2)
Amortisation expense	(10)	(12)	(21)
Closing net book value	**43**	**46**	**47**

C. Managing funding

IN THIS SECTION

This section explains how Meridian manages its capital structure and working capital, the various funding sources and how dividends are returned to shareholders. In this section of the summary notes there is information about:

- **equity and dividends; and**
- **net debt.**

C1 Capital Management

Capital risk management objectives

Meridian's objectives when managing capital are to provide appropriate returns to shareholders whilst maintaining a capital structure that safeguards its ability to remain a going concern and optimises the cost of capital.

Capital is defined as the combination of shareholders' equity, reserves and net debt.

Meridian manages its capital through various means including:

- adjusting the amount of dividends paid to shareholders;
- raising or returning capital; and
- raising or repaying debt.

Meridian regularly monitors its capital requirements using various measures that consider debt facility financial covenants and credit ratings. The key measures being net debt to EBITDAF and interest cover. The principal external measure is Meridian's credit rating from Standard and Poor's, which is unchanged at BBB+.

Meridian is in full compliance with debt facility financial covenants.

	UNAUDITED		AUDITED
POSITION AS AT	31 DEC 2015 $M	31 DEC 2014 $M	30 JUN 2015 $M
Share capital	**1,596**	1,597	1,597
Retained earnings	**(356)**	(127)	(153)
Other reserves	**3,284**	3,047	3,304
	4,524	**4,517**	**4,748**
Drawn borrowings	**1,112**	1,173	991
Finance lease payable	**49**	48	52
Less: cash and cash equivalents	**(69)**	(231)	(69)
	1,092	**990**	**974**
Net capital	**5,616**	**5,507**	**5,722**

C2 Earnings per Share

6 MONTHS ENDED 31 DEC BASIC AND DILUTED EPS	UNAUDITED 2015	2014
Profit after tax attributable to shareholders of the parent company ($M)	**104**	117
Weighted average number of shares used in the calculation of EPS	**2,563,000,000**	2,563,000,000
Basic and diluted EPS (cents per share [CPS])	**4.1**	4.6

C3 Dividends

6 MONTHS ENDED 31 DEC DIVIDENDS DECLARED & PAID	UNAUDITED 2015 $M	 2014 $M
Final ordinary and special dividend 2015: 12.0cps (2014: 8.8cps)	307	229
Total dividends paid	**307**	**229**

DIVIDENDS DECLARED AND NOT RECOGNISED AS A LIABILITY		
Interim ordinary dividend 2015: 5.1cps (2014: 4.8cps)	131	123
Interim special dividend 2015: 2.4cps (2014: 1.4cps)	63	36

Dividend policy

Meridian's dividend policy considers free cash flow, working capital requirements, the medium-term investment programme, maintaining a BBB+ credit rating and risks from short-term and medium-term economic, market and hydrology conditions.

Subsequent event – dividend declared

On 23 February 2016 the Board declared a partially imputed interim ordinary dividend of 5.1 cents per share. Additionally the Board declared an un-imputed special dividend of 2.4 cents per share.

C4 Borrowings

POSITION AS AT		UNAUDITED						AUDITED		
		31 DEC 2015			31 DEC 2014			30 JUN 2015		
GROUP (NZ$M)	CURRENCY BORROWED IN	DRAWN FACILITY AMOUNT	TRANSACTION COSTS & FAIR VALUE ADJUSTMENT	CARRYING AMOUNT	DRAWN FACILITY AMOUNT	TRANSACTION COSTS & FAIR VALUE ADJUSTMENT	CARRYING AMOUNT	DRAWN FACILITY AMOUNT	TRANSACTION COSTS & FAIR VALUE ADJUSTMENT	CARRYING AMOUNT
Current borrowings										
Unsecured borrowings	NZD	62	-	62	135	(1)	134	60	(1)	59
Unsecured borrowings	USD	146	3	149	-	-	-	146	8	154
Total current borrowings		**208**	**3**	**211**	**135**	**(1)**	**134**	**206**	**7**	**213**
Non-current borrowings										
Unsecured borrowings	NZD	470	(1)	469	280	(1)	279	339	(1)	338
Unsecured borrowings	AUD	-	-	-	179	(1)	178	-	-	-
Unsecured borrowings	USD	434	86	520	579	17	596	446	79	525
Total non-current borrowings		**904**	**85**	**989**	**1,038**	**15**	**1,053**	**785**	**78**	**863**
Total borrowings		**1,112**	**88**	**1,200**	**1,173**	**14**	**1,187**	**991**	**85**	**1,076**

Meridian has committed bank facilities of $630 million, of which $325 million was undrawn at 31 December 2015. The expiry dates of these facilities range from January 2017 to April 2026.

Borrowings, measurement and recognition

Borrowings are recognised initially at the fair value of the drawn facility amounts, net of transaction costs paid. Borrowings that have not been designated as hedged items (all borrowings with the exception of USD borrowings) are subsequently stated at amortised cost using the effective interest method. Borrowings that have been designated as hedged items (USD borrowings) are carried at amortised cost plus a fair value adjustment under hedge accounting requirements. The total carrying value of all borrowings is considered to approximate fair value. This is classified as a level 2 fair value (a definition of the levels is included in note D1 Financial instruments).

D. Financial instruments

IN THIS SECTION

In this section of the summary notes there is information:

- **analysing the financial (hedging) instruments used to manage risk; and**
- **outlining Meridian's fair value techniques and key inputs.**

D1 Financial Instruments

Fair value of hedging financial instruments

The recognition and measurement of hedging financial instruments requires management estimation and judgement. The table below shows the fair value of financial instrument assets and liabilities, grouped within a three-level fair value hierarchy (see below for detail) based on the observability of valuation inputs. There have been no transfers between levels in respect of these assets and liabilities.

POSITION AS AT	UNAUDITED 31 DEC 2015				UNAUDITED 31 DEC 2014				AUDITED 30 JUN 2015			
$M	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Financial instruments – assets												
Electricity hedges	44	-	127	**171**	4	-	110	114	14	-	89	103
Interest rate swaps	-	12	-	**12**	-	6	-	6	-	8	-	8
Foreign exchange contracts	-	-	-	**-**	-	1	-	1	-	-	-	-
Cross-currency interest rate swaps	-	84	-	**84**	-	29	-	29	-	84	-	84
Total	**44**	**96**	**127**	**267**	**4**	**36**	**110**	**150**	**14**	**92**	**89**	**195**
Current				**79**				27				48
Non-current				**188**				123				147
Financial instruments – liabilities												
Electricity hedges	9	-	83	**92**	7	-	54	61	13	-	29	42
Interest rate swaps	-	96	-	**96**	-	84	-	84	-	93	-	93
Foreign exchange contracts	-	-	-	**-**	-	1	-	1	-	-	-	-
Cross-currency interest rate swaps	-	-	-	**-**	-	12	-	12	-	-	-	-
Total	**9**	**96**	**83**	**188**	**7**	**97**	**54**	**158**	**13**	**93**	**29**	**135**
Current				**42**				25				34
Non-current				**146**				133				101

- ***Level 1 inputs*** – Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date. Electricity hedges traded on the ASX are classified as level 1.
- ***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 valued using a discounted cash flow valuation technique.
- ***Level 3 inputs*** – Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The table below provides a summary of the movements in the fair value of level 3 financial instruments:

RECONCILIATION OF LEVEL 3 FAIR VALUE MOVEMENTS	UNAUDITED 31 DEC 2015 $M	UNAUDITED 31 DEC 2014 $M	AUDITED 30 JUN 2015 $M
Opening balance	**60**	27	27
Hedges acquired	**29**	28	29
Hedges sold	**(1)**	-	-
Remeasurement and settlements	**(44)**	1	4
Closing balance	**44**	**56**	**60**

D1 Financial Instruments *continued*

Fair value technique and key inputs

In estimating the fair value of an asset or a liability, Meridian uses market-observable data to the extent it is available. Where observable inputs are not available, Meridian engages third party experts to support the establishment of appropriate valuation techniques and inputs to valuation models. The Audit and Risk Committee of Meridian determines the overall appropriateness of key valuation techniques and inputs for fair value measurement. The Chief Financial Officer explains fair value movements in his report to the Board.

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 and assumptions 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;
- discount rates based on the forward interest rate swap curve adjusted for counterparty risk; and
- contracts run their full term.

The table below describes the additional key inputs and techniques used in the valuation of level 3 financial instruments:

FINANCIAL ASSET OR LIABILITY	DESCRIPTION OF INPUT	RANGE OF SIGNIFICANT UNOBSERVABLE INPUTS	RELATIONSHIP OF INPUT TO FAIR VALUE
Electricity hedges, valued using discounted cash flows	***Price.*** Where quoted prices are not available or not relevant (i.e. for long-dated contracts), Meridian's best estimate of long-term forward wholesale electricity prices is used. This is based on a fundamental analysis of expected demand and the cost of new supply.	$82MWh to $105MWh (in real terms), excludes observable ASX prices.	An increase in forward wholesale electricity price increases the fair value of buy hedges and decreases the fair value of sell hedges. A decrease in forward wholesale electricity price has the opposite effect.
	Other factors, which include: • the calibration factor applied to forward price curves as a consequence of initial recognition differences.		

Initial recognition difference

An initial recognition difference arises when the modelled value of an electricity hedge differs from the transaction price (which is the best evidence of fair value). This difference is accounted for by recalibrating the valuation model by a fixed percentage to result in a value at inception equal to the transaction price. This recalibration is then applied to future valuations over the life of the contract.

The resulting difference shown in the table reflects potential future gains or losses yet to be recognised in the income statement over the remaining life of the contract.

	UNAUDITED		AUDITED
POSITION AS AT MOVEMENTS IN RECALIBRATION DIFFERENCES ARISING FROM ELECTRICITY HEDGING	31 DEC 2015 $M	31 DEC 2014 $M	30 JUN 2015 $M
Opening difference	**964**	912	912
Initial differences on new hedges	**(114)**	15	15
Volumes expired and amortised	**(896)**	(30)	(65)
Recalibration for future price estimates and time	**1**	75	102
Closing difference	**(45)**	**972**	**964**

Level 3 analysis

The following is a summary of how financial instruments that have been classified as level 3 (certain electricity hedges) have been recognised in the income statement:

- Fair value movements recognised in the net change in fair value of electricity-related hedges in 1H FY2016 are $(46) million (HY2015: $1 million).
- Of the above, $(45) million (HY2015: $(4) million) relates to electricity-related hedges held on the balance sheet at 31 December.
- Electricity-related hedges settled in HY2016 and recognised in operating revenue and operating expenses are $1 million (HY2015: $(44) million).

E. Group structure and other

E1 Group Structure

On 13 October 2015 Powershop UK Limited was incorporated as a subsidiary of the Group. This company is the franchise licence holder for the Powershop brand and technology platform in the UK.

E2 Joint Ventures

			VOTING RIGHTS			INTEREST HELD			CARRYING VALUE		
			UNAUDITED		AUDITED	UNAUDITED		AUDITED	UNAUDITED		AUDITED
NAME OF ENTITY	COUNTRY AND DATE OF INCORPORATION	PRINCIPAL ACTIVITY	31 DEC 2015	31 DEC 2014	30 JUN 2015	31 DEC 2015	31 DEC 2014	30 JUN 2015	31 DEC 2015	31 DEC 2014	30 JUN 2015
EDDI Project JV	New Zealand, 01/05/12	Dam management systems	**50%**	50%	50%	**50%**	50%	50%	**-**	-	-
Hunter Downs Development Company	New Zealand, 01/07/13	Irrigation development	**50%**	50%	50%	**63%**	68%	65%	**-**	-	-

E3 Contingent Assets and Liabilities

There were no contingent assets or liabilities at 31 December 2015 (31 December 2014: nil, 30 June 2015: nil).

E4 Subsequent Events

There are no subsequent events other than dividends declared on 23 February 2016. Refer to note C3 Dividends for further details.

E5 Changes in Financial Reporting Standards

In the current period Meridian has adopted all mandatory new and amended Standards. The application of these new and amended Standards has had no material impact on the amounts recognised or disclosed in the financial statements.

Meridian is not aware of any Standards in issue but not yet effective (other than those listed below) that would materially affect the amounts recognised or disclosed in the financial statements. Meridian intends to adopt when they become mandatory.

NZ IFRS 15 *Revenue from Contracts with Customers* (effective 1 January 2018) – NZ IFRS 15 will be effective in Meridian's 2019 financial year. The full impact of this Standard has not yet been determined.

NZ IFRS 9 *Financial Instruments* (effective 1 January 2018) – NZ IFRS 9 will be effective in Meridian's 2019 financial year. This Standard requires all financial assets to be measured at fair value, unless the entity's business model is to hold the assets to collect contractual cash flows and contractual terms give rise to cash flows that are solely payments of interest and principal, in which case they are measured at amortised cost. The Standard also broadens the eligibility for hedge accounting as it introduces an objectives-based test that focuses on the economic relationship between hedged items and hedging instruments. The full impact of this Standard has not yet been determined.

Deloitte.

Review Report to the Shareholders of Meridian Energy Limited

We have reviewed the condensed interim financial statements of Meridian Energy Limited and its subsidiaries ("the Group") which comprise the balance sheet as at 31 December 2015, the income statement and the comprehensive income statement, statement of changes in equity and statement of cash flows for the six month period ended on that date, and a summary of significant accounting policies and other explanatory information on pages 11 to 27.

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 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 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 interim financial statements whether in printed or electronic form.

Our 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 Trevor Deed of Deloitte to carry out an annual audit of the Group.

Our responsibility is to express a conclusion on the condensed 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 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 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 those financial statements.

We did not evaluate the security and controls over the electronic publication of the condensed 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. These services have not impaired our independence as auditor of the Group. 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. 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 Group.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed interim financial statements of the Group do not present fairly, in all material respects, the financial position of the Group as at 31 December 2015 and its financial performance and cash flows for the six month period ended on that date in accordance with NZ IAS 34 Interim Financial Reporting and IAS 34 Interim Financial Reporting.

TREVOR DEED
Deloitte
On behalf of the Auditor-General
23 February 2016
Wellington, New Zealand

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

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Front cover image *– Peter from Makara Model School visiting West Wind farm.* ***Back cover image*** *– A cyclist at West Wind farm*

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