meridian

Powering today, protecting tomorrow

MERIDIAN ENERGY LIMITED

INTERIM REPORT FOR THE SIX MONTHS ENDED 31 DECEMBER 2016

Highlights

10 YEARS

OF COMMUNITY PROJECT FUNDING

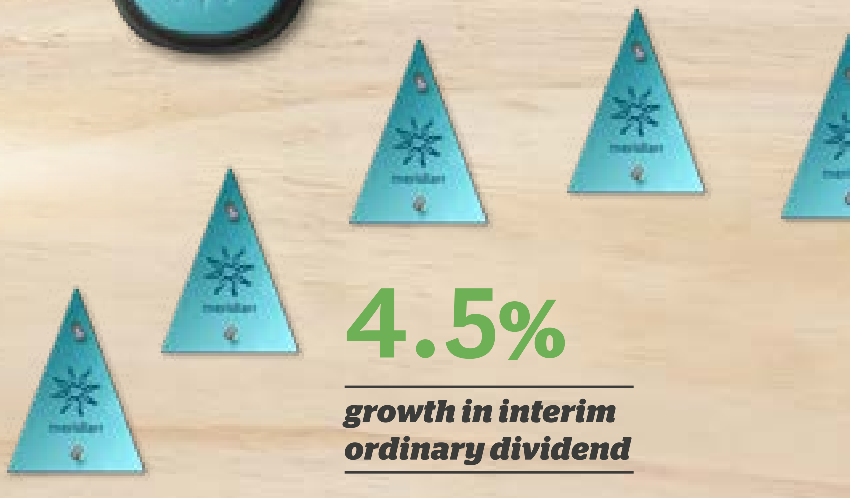
with over $6 million invested

Powershop ranked as Australia's greenest electricity retailer

22%

growth in New Zealand small and medium business sales

Most New Zealand generation in a six-month period



4.5%

growth in interim ordinary dividend

1 Net profit after tax adjusted for the effects of non-cash fair value movements and one-off items.

Company overview

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

Meridian generates more than 30% of New Zealand's electricity from its integrated chain of dams and power stations on the Waitaki River and from 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 over 275,000 customer connections in New Zealand, including homes, farms and businesses nationally. Powershop has over 90,000 residential and commercial customer connections in 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, the Kākāpō Recovery Programme and South Island Rowing.

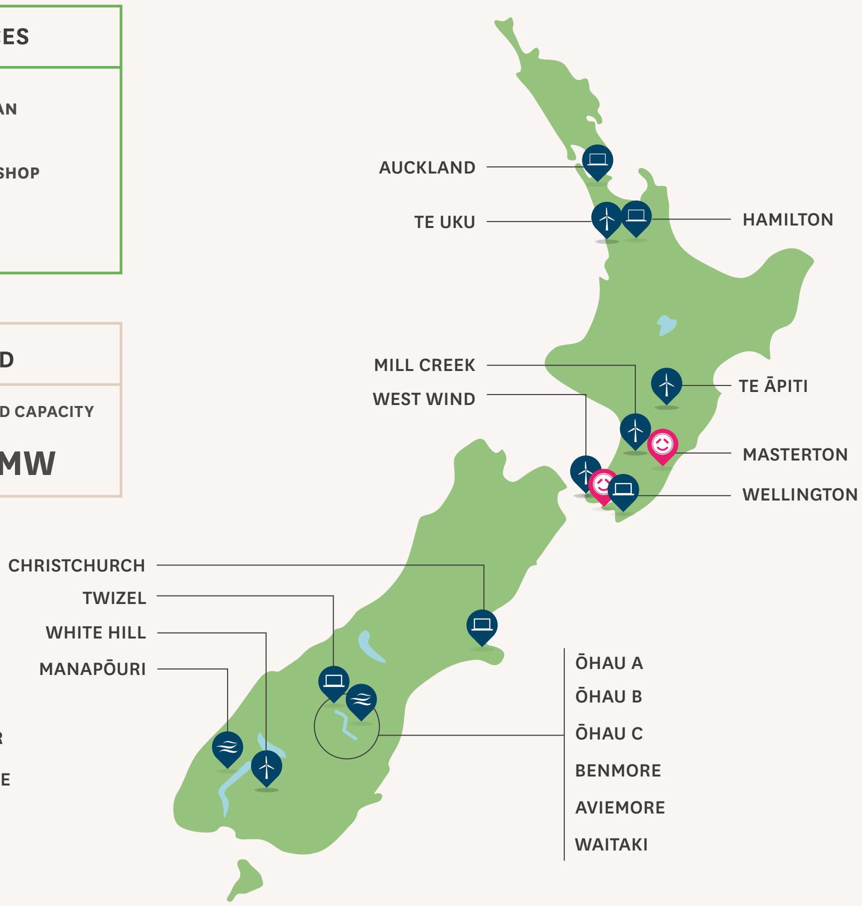
The Meridian Group employs 838 permanent employees and has offices across New Zealand, including the company's head office in Wellington and an office in Melbourne, Australia.

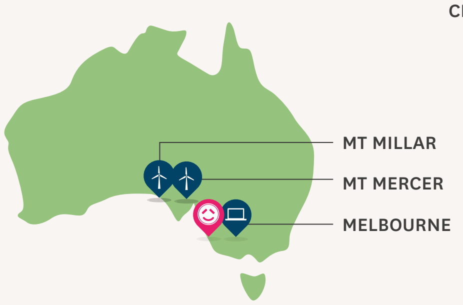
OVER **275,000**
CUSTOMER CONNECTIONS[2] IN NEW ZEALAND

OVER **90,000**
CUSTOMER CONNECTIONS[3] IN AUSTRALIA

GENERATION ASSETS	OFFICES
HYDRO STATION	MERIDIAN
WIND FARM	POWERSHOP
WAITAKI HYDRO SCHEME	

HYDRO	WIND
TOTAL INSTALLED CAPACITY	TOTAL INSTALLED CAPACITY
2,338MW[4]	**617MW**





2 Installation control points (ICPs).
3 Financially responsible market participants.
4 Megawatts. One MW is enough to light 10,000 x 100-watt light bulbs.

Report from our Chair and Chief Executive

CHRIS MOLLER
Chair

MARK BINNS
Chief Executive

MERIDIAN DELIVERED EBITDAF[5] OF $352 MILLION IN THE SIX MONTHS TO 31 DECEMBER 2016. THIS WAS A 6% INCREASE ON THE PRIOR CORRESPONDING PERIOD AND REFLECTED INCREASED EARNINGS IN NEW ZEALAND, BUT MORE PARTICULARLY IN AUSTRALIA, OFF THE BACK OF BOTH STRONG WHOLESALE PRICES AND RETAIL GROWTH.

Generation volumes in both New Zealand and Australia were ahead of the same period last year, with generation in New Zealand (7,029GWh[6]) at a record level for a six-month period. This saw Meridian with 34% of the generation market in New Zealand. In Australia, wholesale prices were strong but in New Zealand good inflows into most competitors' hydro storage lakes and suppressed irrigation demand saw average wholesale prices around $13 per MWh less than in the same period last year.

The mild winter and wet spring saw a softening in New Zealand electricity demand, with total national demand down by 2% in the six months to 31 December 2016 compared with last year. These factors, together with churn in larger corporate customers, resulted in Meridian's retail contracted sales being down 12% for the period. A 22% increase in small and medium business sales volumes helped to offset the reduced sales in other segments.

Despite the sales volume reduction, Meridian's customer numbers, measured by ICPs, increased during the six months by 794, but a highly competitive market saw switching levels remain high.

With lower contracted sales reducing both purchase costs and requirements for dry period insurance hedges, Meridian's New Zealand energy margin increased by $9 million (2%). Australian energy margin increased by $15 million (43%); this includes $8 million of first-half margin due to be reversed on the settlement of forward Large-scale Generation Certificate (LGC) sales in January 2017. Partly offsetting this was a modest increase in operating expenses of $2 million (2%).

Dividend

We are pleased to announce an ordinary dividend of 5.33 cents per share (CPS), up 4.5% on last year. This is imputed to 88% and will be payable on 13 April 2017.

Capital management

Meridian is now 18 months into its $625 million Capital Management Programme, having paid out $187.5 million to this point in special dividends. The Board has made the decision to continue the Programme and to distribute a further $62.5 million to shareholders by way of a special dividend of 2.44 CPS. There will be no imputation credits attached to this payment. This will bring the amount distributed so far under the Programme to $250 million (9.8 CPS).

Customers

Meridian's largest customer, the Tiwai Point aluminium smelter, continues to operate in a difficult but improving international aluminium market. In the past six months the aluminium spot price has increased by approximately 4% and the New Zealand dollar has shown some signs of weakness relative to the United States (US) dollar, falling 3% from where it was last July. Our modelling suggests the smelter remains cash positive at current prices and exchange rates. On 1 January 2017 a price increase came into force and the smelter owner now has the ability to exercise a right of termination of the electricity agreement at any time during the remaining contract period, upon giving 12 months' notice. It will be interesting to see if the new US President, with both a pro-growth agenda and a stated intention of addressing perceived unfair trade practices, has an impact, on both the supply and demand sides of the world aluminium market. Initial indications have been positive, with the aluminium price on the London Metal Exchange having improved by 7% from the date of the US presidential election through to the end of January.

In the competitive New Zealand retail market, Meridian is continuing its strategy of providing customers with fair pricing while enhancing the customer experience. We are two years into a three-year, $24 million redevelopment of our customer support systems. Wherever we interface with customers, whether it is by providing complex billing information to businesses or ensuring that customers can stay with us when they move home, we are working hard to make the process easy and efficient. Our focus remains on acquiring small and medium-size business customers and it is pleasing to see the growth in this segment.

In Australia, Powershop was named the greenest electricity supplier by Greenpeace for the second year in a row. Customer numbers grew by 16% to more than 90,000 in the six months to 31 December 2016 and the Powershop brand was launched in Queensland. Powershop also partnered with Hepburn Wind, a community-owned wind farm in Victoria, to manage the maintenance and market services of the wind farm.

5 Earnings before interest, tax, depreciation, amortisation, changes in fair value of hedges and other significant items.

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

Operations

Meridian's New Zealand generation volumes were 3% higher than last year, despite wind generation being down slightly compared with last year. This is a record level of generation for any six-month period since the commencement of the company, even in the pre-2011 period when it also owned the Tekapo A and B stations.

In Australia, total generation volumes increased by 19% in the period but with a high level of volatility from month to month. In September, South Australia saw the electricity grid go down as a result of a severe storm blowing over 24 transmission towers. The Mt Millar wind farm met its performance obligations; however, it was taken out of operation for a total of three days and production was limited for an extended period after this. Regrettably, this event has been politicised in Australia and has led to a polarisation of views around the fit of renewable energy in the generation mix, as Australia continues to grapple with how it will transition to a lower-carbon economy. This inability to provide political certainty for investors is seeing the build rate to meet Australia's 2020 Renewable Energy Target rise to a point where most commentators do not deem it realistically achievable. The flip side to this has been a strong price for LGCs, which has been a contributor to improved generation prices.

In October 2016 the decision was made to undertake a unit refurbishment programme on the Ōhau A, B and C stations, commencing in the current year and finishing in 2023 at a total cost of $41 million. The investment in this project should peak in 2020. Stay-in-business capex for the half-year remains in line within expectations.

Regulation

The Electricity Authority (EA) continues to progress the transmission pricing review and, while progress is slow, we remain encouraged that it is maintaining a principled approach to resolving this long-standing issue. Despite being hopeful that a way forward could be resolved this year, we note that some parties are advocating a review of the process by the courts that could further affect progress.

As previously noted, the South Australia blackout in September was the catalyst for the re-emergence of political debate as to the efficacy of the Renewable Energy Target. It now seems unclear if the bipartisan support afforded to the Target remains intact as conservative elements of the ruling coalition agitate for change. Our long-term confidence in the Australian market remains, but these factors require us to be cautious when we consider any new investment in the short term.

Communities

October 2016 marked a decade of Meridian's Community Funds programme. In this time over $6 million has been channelled into regional community projects. The funding, allocated in partnership with nominated community representatives, has seen some significant projects deliver real benefits for the long term.

Among many worthy projects, highlights include being a major funder of the new Twizel Medical Centre and supporting the restoration of Lake Manapōuri's Rona Island to a pest-free sanctuary for endangered bird species.

In June 2016 Meridian also became the new National Partner of the Kākāpō Recovery Programme in partnership with the Department of Conservation. Meridian also continued its partnership with KidsCan and sponsorship of South Island Rowing.

In addition to supporting communities with funding, where possible, Meridian supports regional communities with jobs. In December Meridian's Retail arm decided to establish a satellite to its main Christchurch call centre, bringing four new jobs to Twizel, while Powershop's Masterton office has increased by five staff since June 2016.

In October 2016 Meridian also reaffirmed its commitment to Christchurch by moving its 330 permanent employees back into the central business district. This move fulfilled a promise made to the city following the 2010/11 earthquakes that displaced Meridian staff for a period to temporary accommodation.

Powershop in the UK

Just prior to Christmas, Powershop completed the first milestone in its franchise agreement with npower, one of the Big Six retailers in the United Kingdom (UK). This provides npower with the core IT platform to launch the Powershop brand in the UK. Work is now continuing to accommodate dual fuel sales and a white label product.

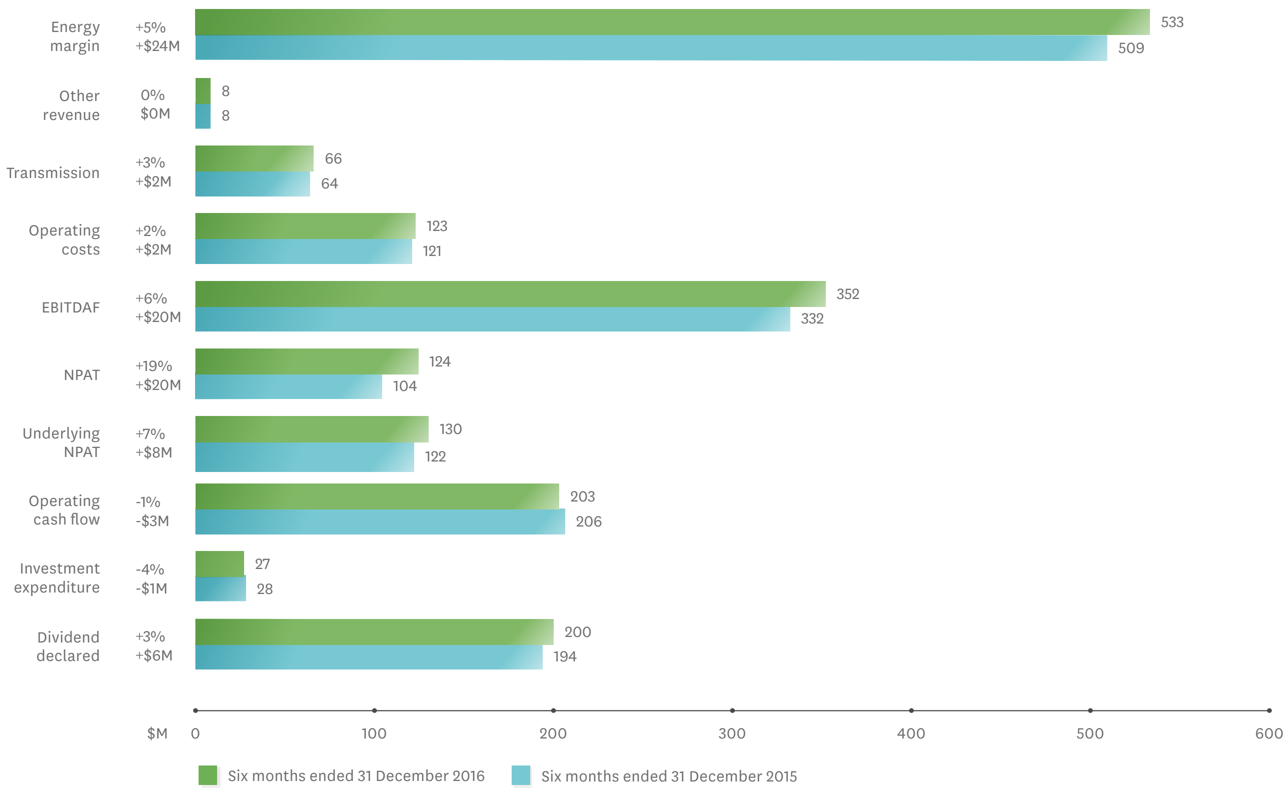
Hydrology conditions

As at 31 January 2017, Meridian's storage lakes were at good levels with the Waitaki catchment at 118% of average at that point in the year and higher than in any of the previous nine years.

Summary of Group performance

WE ARE PLEASED TO REPORT A THIRD CONSECUTIVE YEAR OF GROWTH IN OUR INTERIM EBITDAF AND THE HIGHEST LEVEL OF INTERIM UNDERLYING NPAT THE COMPANY HAS GENERATED.

FINANCIAL PERFORMANCE AGAINST PRIOR YEAR



SUMMARY GROUP INCOME STATEMENT

($ MILLIONS)	6 MONTHS ENDED 31 DEC 2016	6 MONTHS ENDED 31 DEC 2015	12 MONTHS ENDED 30 JUN 2016
New Zealand energy margin	483	474	939
International energy margin	50	35	70
Other revenue	8	8	17
Energy transmission expense	(66)	(64)	(128)
Employee and other operating expenses	(123)	(121)	(248)
EBITDAF	**352**	**332**	**650**
Depreciation and amortisation	(132)	(117)	(236)
Impairment of assets	-	-	4
Gain/(loss) on sale of assets	(2)	-	(1)
Net change in fair value of electricity and other hedges	(75)	(32)	(15)
Net finance costs	(38)	(39)	(78)
Net change in fair value of treasury instruments	63	-	(68)
Net profit before tax	**168**	**144**	**256**
Income tax expense	(44)	(40)	(71)
Net profit after tax	**124**	**104**	**185**

UNDERLYING NPAT RECONCILIATION

($ MILLIONS)	6 MONTHS ENDED 31 DEC 2016	6 MONTHS ENDED 31 DEC 2015	12 MONTHS ENDED 30 JUN 2016
Net profit after tax	**124**	**104**	**185**
Underlying adjustments			
Hedging instruments			
Net change in fair value of electricity and other hedges	75	32	15
Net change in fair value of treasury instruments	(63)	-	68
Net premiums (paid)/received on electricity options	(6)	(7)	(12)
Assets			
(Gain)/loss on sale of assets	2	-	1
Impairment of assets	-	-	(4)
Total adjustments before tax	**8**	**25**	**68**
Taxation			
Tax effect of above adjustments	(2)	(7)	(20)
Underlying net profit after tax	**130**	**122**	**233**

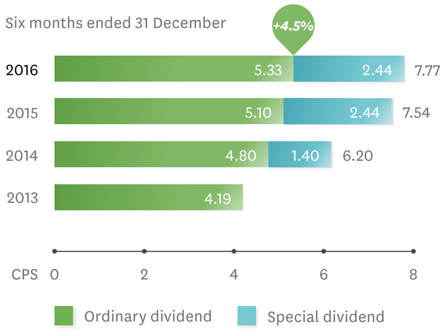
Dividend

Meridian has declared an interim ordinary dividend of 5.33 CPS for 1H FY2017[7], 4.5% higher than in 1H FY2016[8]. This interim ordinary dividend will be imputed to 88% of the corporate tax rate.

Meridian has also declared an interim special dividend of 2.44 CPS ($62.5 million) under the company's five-year capital management programme to return $625 million to shareholders. This brings the amount distributed since the capital management programme commenced in August 2015 to $250 million. To date this has all been paid as unimputed special dividends; however, a buyback remains a consideration.

INTERIM DIVIDENDS DECLARED	AMOUNT CPS	IMPUTATION %
FY2017		
Ordinary dividends	5.33	88%
Capital management special dividends	2.44	0%
Total	**7.77**	**60%**
FY2016		
Ordinary dividends	5.10	85%
Capital management special dividends	2.44	0%
Total	**7.54**	58%

INTERIM DIVIDENDS DECLARED



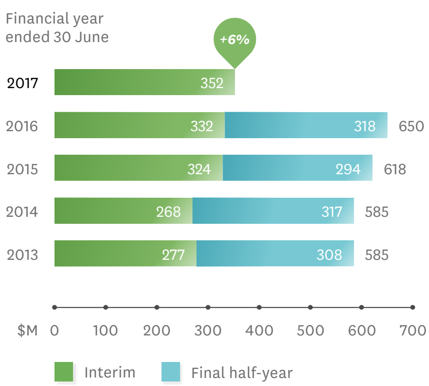
EBITDAF

EBITDAF was $352 million in 1H FY2017, $20 million (6%) higher than in the same period last year. This represents the company's second highest level of interim earnings, slightly below the six-month earnings to 31 December 2010 of $353 million, which included the contribution of the Tekapo power stations, sold to Genesis Energy in June 2011.

New Zealand energy margin was $9 million (2%) higher than in the same period last year and this is explained in more detail later.

International energy margin was $15 million (43%) higher than in the same period last year, with Powershop Australia's retail sales volumes (241GWh in total) 78GWh (48%) higher than in the same period last year.

REPORTED EBITDAF



7 1H FY2017, the six months ended 31 December 2016.
8 1H FY2016, the six months ended 31 December 2015.

By 31 December 2016, Powershop Australia's customer numbers were over 90,000, growing over 12,000 (16%) since June 2016. Australian wholesale and LGC prices firmed during 1H FY2017, while wind generation (309GWh in total) was 19% higher than in the same period last year.

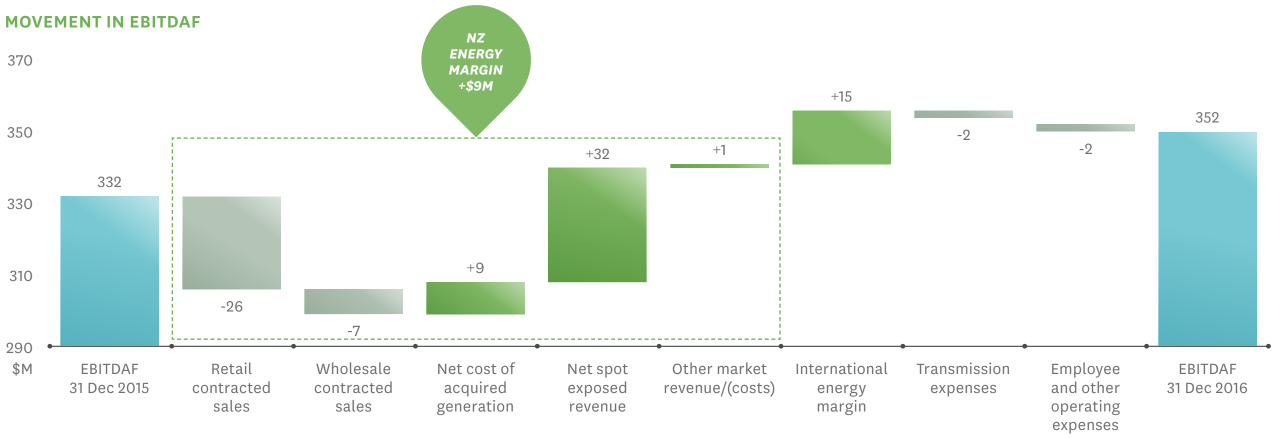
As described in the significant matters note to the financial statements (page 18), LGCs are recognised on production at market prices, and all forward sales of LGCs are separately marked to market. The bulk of forward LGC sales settle each January, at which point mark to market gains or losses on settled sales are transferred from fair value movements to EBITDAF.

1H FY2017 includes LGC production that has associated forward sales due to settle in January 2017, with a mark to market loss of $8 million at 31 December 2016 from rising LGC prices. As a consequence of the treatment described above, this loss is expected to be transferred to EBITDAF in January 2017.

Transmission costs were $66 million in 1H FY2017, $2 million (3%) higher than in the same period last year, from higher Transpower charges on the New Zealand inter-island electricity transmission link.

Employee and other operating costs were $123 million in 1H FY2017, $2 million (2%) higher than in the same period last year. This included growth investment supporting expansion of the Powershop Australia and UK businesses. Despite continued customer acquisition pressure from the highly competitive New Zealand market, Retail segment operating costs fell slightly.

MOVEMENT IN EBITDAF



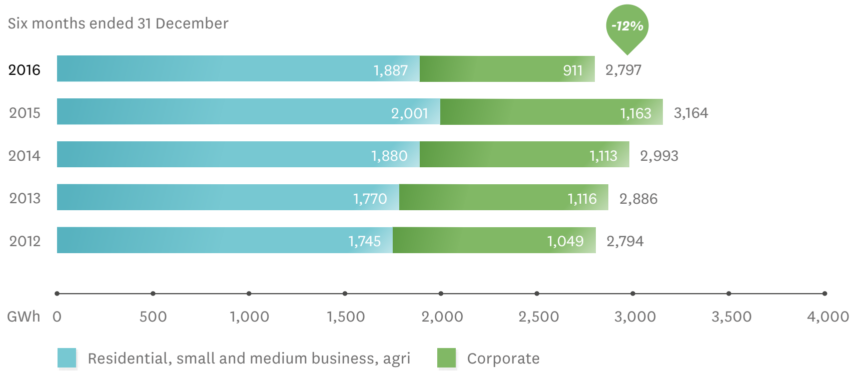
New Zealand energy margin

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: $461 million in 1H FY2017, $494 million in 1H FY2016)
- 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: costs of $4 million in 1H FY2017, $13 million in 1H FY2016)
- revenue from the volume of electricity that Meridian generates that is in excess of the volume required to cover contracted customer sales (net spot exposed revenue: $25 million in 1H FY2017, -$7 million in 1H FY2016)
- the net revenue position of virtual asset swaps (VAS) with Genesis Energy and Mercury (net VAS revenue: $4 million in 1H FY2017, $4 million in 1H FY2016)
- other associated market revenue and costs including EA levies and ancillary generation revenue such as frequency keeping (costs of $3 million in 1H FY2017, $4 million in 1H FY2016).

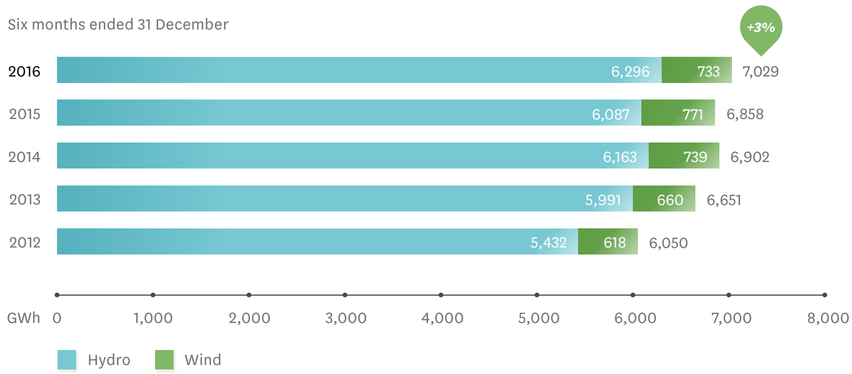
RETAIL SALES VOLUMES

Six months ended 31 December



NEW ZEALAND GENERATION

Six months ended 31 December



New Zealand energy margin was $483 million in 1H FY2017, $9 million (2%) higher than in the same period last year, with retail contracted sales revenue $26 million (8%) lower. Meridian's New Zealand customer numbers increased slightly during 1H FY2017.

The mild winter and wet spring together with churn in larger corporate customers decreased Meridian's retail contracted sales by 12% in 1H FY2017.

Corporate and industrial sales volumes decreased by 22% in 1H FY2017 as Meridian experienced churn in time-of-use customers, while the average sales price decreased by 1%, broadly in line with movements in the forward market.

Aggressive competition and the warm winter saw a decline in residential sales volumes (7% compared with the same period last year), while wet spring and summer conditions in irrigation regions saw a curtailment in agricultural load (22% compared with the same period last year). A 22% increase in small and medium business sales volumes helped to offset the reduced sales in other segments. With less sales of lower-priced summer irrigation load, overall average residential, small and medium business and agri prices increased by 4%.

Wholesale contracted sales revenue was $7 million (4%) lower in 1H FY2017. Wholesale derivative sales volumes were 15% lower at lower average prices than in the same period last year. Sales volumes to the New Zealand Aluminium Smelter matched the same period last year.

Lower contracted sales reduced Meridian's requirements for dry-period insurance hedges. As a result, the net cost of acquired generation was $9 million (69%) lower in 1H FY2017 with these acquired generation volumes 32% lower than in the same period last year and with a lower average net price.

Spot exposed revenue was $32 million (457%) higher in 1H FY2017, more than offsetting the impact of lower retail volumes. Generation volumes were at a record level for a six-month period[9] and 3% higher than in the same period last year. Average generation prices were 22% lower in 1H FY2017 than in the same period last year, reflecting above-average national hydro storage and lower national demand through the six months to 31 December 2016.

The lower wholesale market prices in 1H FY2017 meant Meridian paid lower average prices to supply contracted sales, 22% lower than in the same period last year. Purchase volumes were 8% lower than in the same period last year, reflecting the lower contracted sales, and the lower overall cost to supply contracted sales in 1H FY2017 more than offset lower generation revenue.

MERIDIAN GENERATION

HYDRO

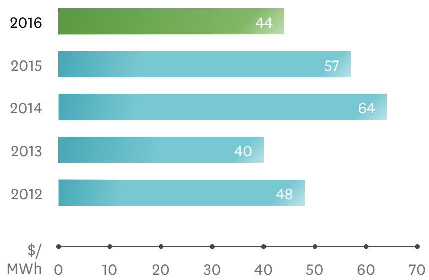
NEW ZEALAND	PLANT CAPACITY MW	6 MONTHS ENDED 31 DEC 2016 GWH	6 MONTHS ENDED 31 DEC 2015 GWH	YEAR ENDED 30 JUN 2016 GWH
Ōhau A	264	567	542	1,117
Ōhau B	212	474	451	933
Ōhau C	212	473	449	926
Benmore	540	1,145	1,079	2,105
Aviemore	220	485	448	866
Waitaki	90	252	234	460
Manapōuri	800	2,901	2,884	5,844
Total hydro generation	**2,338**	**6,296**	**6,087**	**12,251**

WIND

NEW ZEALAND	PLANT CAPACITY MW	6 MONTHS ENDED 31 DEC 2016 GWH	6 MONTHS ENDED 31 DEC 2015 GWH	YEAR ENDED 30 JUN 2016 GWH
Te Uku	64	126	121	219
Te Āpiti	91	119	153	289
Mill Creek	60	124	132	254
West Wind	143	274	268	504
White Hill	58	90	97	190
Total New Zealand wind	**416**	**733**	**771**	**1,456**
AUSTRALIA[10]				
Mt Millar	70	85	83	165
Mt Mercer	131	224	177	354
Total Australia wind	**201**	**309**	**260**	**519**
Total wind generation	**617**	**1,042**	**1,031**	**1,975**

MERIDIAN'S AVERAGE GENERATION PRICE

Six months ended 31 December



9 Including generation from the Tekapo power stations for the year ended 30 June 2011 and earlier.

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

Net profit after taxation

NPAT was $124 million in 1H FY2017, $20 million (19%) higher than in the same period last year. Higher EBITDAF and changes in the fair value of electricity and other hedges and treasury instruments were partly offset by higher income tax expenses.

Fair value movements in electricity hedges and treasury instruments reduced net profit before tax by $12 million in 1H FY2017, compared with a $32 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.

Lower forward price curves in New Zealand lead to downward electricity derivative contract valuations, while higher LGC prices in Australia continue to give rise to unrealised fair value losses on some forward contracts.

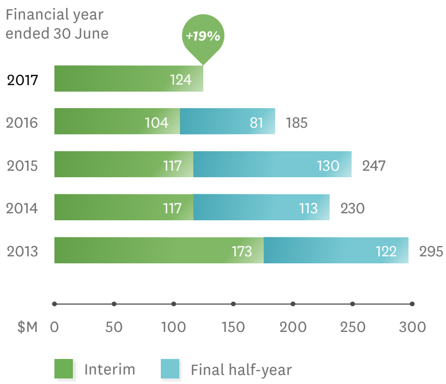
Forward interest rate curves rose during 1H FY2017 as the US Federal Reserve lifted rates, affecting the fair value of treasury instruments and having a positive impact on NPAT. Despite a higher interest rate environment, Meridian's net financing costs in 1H FY2017 were $1 million (3%) lower than in the same period last year.

A $2 million loss on the sale of assets was recognised in 1H FY2017 mainly from land sales. During the period the company completed the sale of the consultancy part of Damwatch, Meridian's dam safety and engineering subsidiary, resulting in a small gain.

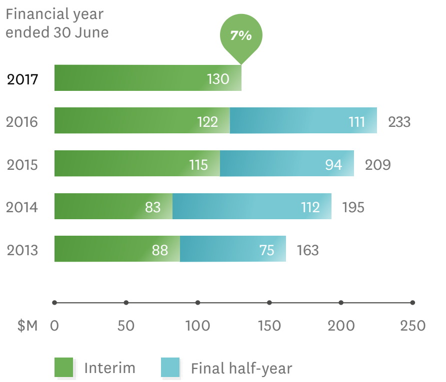
After removing the impact of fair value movements and other one-off or infrequently occurring events, Meridian's underlying NPAT (reconciliation on page 8) was $130 million in 1H FY2017. This was $8 million (7%) higher than in the same period last year, reflecting higher EBITDAF and lower premiums paid on electricity options, partly offset by higher depreciation and amortisation expenses (as a result of generation structure and plant assets being revalued upwards in June 2016) and higher income tax expenses (from higher pre-tax earnings).

1H FY2017 was the company's fourth successive year of interim underlying NPAT growth. It was also the highest level of interim underlying NPAT that Meridian has generated, including in years that incorporated the contribution of the Tekapo power stations.

NPAT



UNDERLYING NPAT

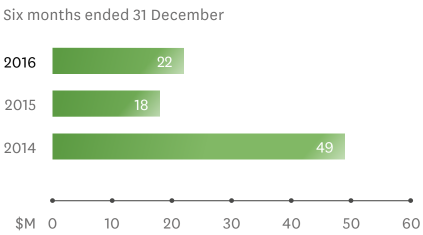


Cash flows

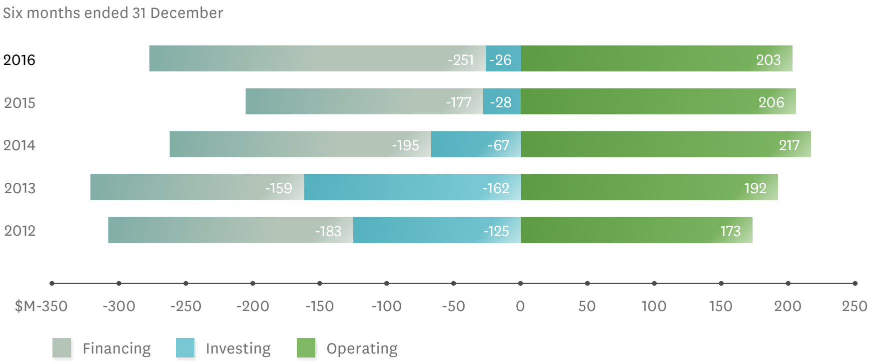
Operating cash flows were $203 million in 1H FY2017, $3 million (-1%) lower than in the same period last year, mainly through higher EBITDAF in 1H FY2017 offset by increased tax paid during the period on high profits generated in the previous financial year.

Total capital expenditure in 1H FY2017 was $22 million, of which $19 million was stay-in-business capital expenditure.

CAPITAL ASSET ADDITIONS



GROUP CASH FLOWS



The numbers

CONDENSED INTERIM FINANCIAL STATEMENTS
AS AT AND FOR THE SIX MONTHS TO 31 DECEMBER 2016

Condensed interim financial statements

Notes to the condensed interim financial statements

Signed report

KEY

KEY JUDGEMENTS AND ESTIMATES

SUBSEQUENT EVENT

Income Statement *For the six months to 31 December 2016*

	NOTE	UNAUDITED 2016 $M	2015 $M
Operating revenue	A2	**1,130**	1,214
Operating expenses	A3	**(778)**	(882)
Earnings before interest, tax, depreciation, amortisation, changes in fair value of hedges and other significant items (EBITDAF)		**352**	332
Depreciation and amortisation	B1, B2	**(132)**	(117)
Loss on sale of assets		**(2)**	-
Net change in fair value of electricity and other hedges		**(75)**	(32)
Operating profit		**143**	183
Finance costs	A3	**(39)**	(40)
Interest income		**1**	1
Net change in fair value of treasury instruments		**63**	-
Net profit before tax		**168**	144
Income tax expense	A4	**(44)**	(40)
Net profit after tax attributed to the shareholders of the parent company		**124**	**104**

Earnings per share (EPS) attributed to ordinary equity holders of the parent		**Cents**	Cents
Basic and diluted CPS	C2	**4.8**	4.1

Comprehensive Income Statement *For the six months to 31 December 2016*

	UNAUDITED 2016 $M	2015 $M
Net profit after tax	**124**	104
Items that may be reclassified to profit or loss:		
Net gain/(loss) on cash flow hedges	**2**	(3)
Exchange differences arising from translation of foreign operations	**(1)**	(18)
Income tax on the above items	**-**	1
Total comprehensive income for the period, net of tax attributed to shareholders of the parent company	**125**	**84**

The accompanying notes on pages 17 to 30 form part of these condensed interim financial statements

Balance Sheet *As at 31 December 2016*

	NOTE	UNAUDITED 31 DEC 2016 $M	UNAUDITED 31 DEC 2015 $M	AUDITED 30 JUN 2016 $M
Current assets				
Cash and cash equivalents		**44**	69	118
Trade receivables		**184**	220	194
Financial instruments	D1	**95**	79	71
Other assets		**26**	25	23
Total current assets		**349**	393	406
Non-current assets				
Property, plant and equipment	B1	**7,648**	6,970	7,771
Intangible assets	B2	**57**	43	47
Deferred tax		**39**	34	40
Financial instruments	D1	**186**	188	274
Total non-current assets		**7,930**	7,235	8,132
Total assets		**8,279**	7,628	8,538
Current liabilities				
Payables and accruals		**200**	219	205
Employee entitlements		**11**	11	15
Current portion of term borrowings	C4	**187**	211	214
Finance lease payable		**1**	1	1
Financial instruments	D1	**55**	42	48
Current tax payable		**16**	11	30
Total current liabilities		**470**	495	513
Non-current liabilities				
Term borrowings	C4	**1,042**	989	1,000
Deferred tax		**1,598**	1,384	1,617
Provisions		**8**	8	8
Finance lease payables		**46**	48	47
Financial instruments	D1	**121**	146	203
Term payables		**97**	34	100
Total non-current liabilities		**2,912**	2,609	2,975
Total liabilities		**3,382**	3,104	3,488
Net assets		**4,897**	**4,524**	**5,050**
Shareholders' equity				
Share capital		**1,597**	1,596	1,597
Reserves		**3,300**	2,928	3,453
Total shareholders' equity		**4,897**	**4,524**	**5,050**

For and on behalf of the Board of Directors who authorised the issue of the condensed interim financial statements on 21 February 2017.

CHRIS MOLLER, *Board Chair*

JAN DAWSON, *Chair Audit & Risk Committee*

The accompanying notes on pages 17 to 30 form part of these condensed interim financial statements

Changes in Equity *For the six months to 31 December 2016*

AUDITED	NOTE	SHARE CAPITAL $M	SHARE OPTION RESERVE $M	REVALUATION RESERVE $M	FOREIGN CURRENCY TRANSLATION RESERVE $M	CASH FLOW HEDGE RESERVE $M	RETAINED EARNINGS $M	SHARE-HOLDERS' EQUITY $M
Balance at 1 July 2015		**1,597**	**1**	**3,311**	**(5)**	**(3)**	**(153)**	**4,748**
Net profit for the year		-	-	-	-	-	185	185
Other comprehensive income								
Asset revaluation		-	-	889	-	-	-	889
Transferred to retained earnings on disposal		-	-	(11)	-	-	11	-
Exchange differences from translation of foreign operations		-	-	-	(23)	-	-	(23)
Income tax relating to other comprehensive income		-	-	(248)	-	-	-	(248)
Total comprehensive income for the year, net of tax		**-**	**-**	**630**	**(23)**	**-**	**196**	**803**
Dividends paid		-	-	-	-	-	(501)	(501)
Balance at 30 June 2016 and 1 July 2016		**1,597**	**1**	**3,941**	**(28)**	**(3)**	**(458)**	**5,050**

UNAUDITED	NOTE	SHARE CAPITAL $M	SHARE OPTION RESERVE $M	REVALUATION RESERVE $M	FOREIGN CURRENCY TRANSLATION RESERVE $M	CASH FLOW HEDGE RESERVE $M	RETAINED EARNINGS $M	SHARE-HOLDERS' EQUITY $M
Net profit for the period		-	-	-	-	-	124	124
Other comprehensive income								
Net gain on cash flow hedges		-	-	-	-	2	-	2
Exchange differences from translation of foreign operations		-	-	-	(1)	-	-	(1)
Income tax relating to other comprehensive income		-	-	-	-	-	-	-
Total comprehensive income for the period, net of tax		**-**	**-**	**-**	**(1)**	**2**	**124**	**125**
Dividends paid	C3	-	-	-	-	-	(278)	(278)
Balance at 31 December 2016		**1,597**	**1**	**3,941**	**(29)**	**(1)**	**(612)**	**4,897**

UNAUDITED	NOTE	SHARE CAPITAL $M	SHARE OPTION RESERVE $M	REVALUATION RESERVE $M	FOREIGN CURRENCY TRANSLATION RESERVE $M	CASH FLOW HEDGE RESERVE $M	RETAINED EARNINGS $M	SHARE-HOLDERS' EQUITY $M
Balance at 1 July 2015		**1,597**	**1**	**3,311**	**(5)**	**(3)**	**(153)**	**4,748**
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 comprehensive income for the period, 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 17 to 30 form part of these condensed interim financial statements

Cash Flows *For the six months to 31 December 2016*

		UNAUDITED	
	NOTE	2016 $M	2015 $M
Operating activities			
Receipts from customers		**1,110**	1,166
Interest received		**1**	1
Payments to suppliers and employees		**(794)**	(862)
Interest paid		**(36)**	(34)
Income tax paid		**(78)**	(65)
Operating cash flows		**203**	206
Investment activities			
Sale of subsidiary	E1	**1**	-
Purchase of property, plant and equipment		**(18)**	(20)
Purchase of intangible assets		**(9)**	(8)
Investing cash flows		**(26)**	(28)
Financing activities			
Term borrowings		**447**	270
Term borrowings repaid		**(420)**	(139)
Shares purchased for long-term incentive		**-**	(1)
Dividends	C3	**(278)**	(307)
Financing cash flows		**(251)**	(177)
Net (decrease)/increase in cash and cash equivalents		**(74)**	**1**
Cash and cash equivalents at beginning of the six months		**118**	69
Effect of exchange rate changes on net cash		**-**	(1)
Cash and cash equivalents at end of the six months		**44**	**69**

The accompanying notes on pages 17 to 30 form part of these condensed interim financial statements

About this report

IN THIS SECTION

The summary notes to the condensed interim financial statements include information that is considered relevant and material to assist the reader in understanding changes in Meridian's financial position or performance. Information is considered relevant and material 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 2016 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. The closing rate at 31 December 2016 was 0.9628 (December 2015: 0.9382, 30 June 2016: 0.9577).

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

Accounting policies

The accounting policies and methods of computation and classification set out in the Group financial statements for the year ended 30 June 2016 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

The basis of key judgements and estimates have not changed from those used in preparing the financial statements for the year ended 30 June 2016.

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 provides an explanation of non-GAAP measures used within the notes to the condensed interim financial statements.

Generation structures and plant revaluation

At 30 June 2016 Meridian revalued its generation structures and plant assets. The valuation resulted in a net increase of $696 million from 30 June 2015 after adjusting for depreciation recognised in the year. Key factors that influenced the valuation were:

- a higher market multiple for Meridian and its sector peers; and
- the current low interest rate environment in New Zealand and Australia.

This change in valuation resulted in an increase in depreciation expenses when compared with the corresponding period last year. For more information refer to Note B1 Property, plant and equipment on page 23.

Interest rate curves

Forward interest rates in New Zealand and Australia increased during the six months to 31 December 2016 after a period of decline. Meridian manages its funding cost risks through interest rate hedging, consequently upward movements in the forward curves resulted in unrealised fair value movements of $63 million. For more information refer to section D Financial instruments on page 27.

Large-scale Generation Certificates (LGCs)

In Australia, Meridian earns LGCs from electricity generated at its Mt Millar and Mt Mercer wind farms. LGCs are sold to retailers to settle their surrender obligations in January of each year. Meridian uses forward contracts and options to firm the prices it receives for LGCs and consequently the profitability of each wind farm.

At the time of generation, LGCs are recognised as income in energy margin at the prevailing spot price. The accumulation of LGC holdings, forward contracts and options are all recognised as financial instruments on the balance sheet at their fair value. Any change in this fair value is recognised in net change in fair value of electricity and other hedges in the income statement. Upon settling forward contract obligations in January, fair value changes previously recognised in net change in fair value of electricity and other hedges are reversed and recognised as realised settlements in energy margin.

In the six months ended 31 December 2016, the market price for LGCs continued to strengthen and resulted in unrealised fair value losses of $6 million being recognised in the income statement. For more information refer to section D Financial instruments on page 27.

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 hedges and other significant items.

EBITDAF is reported in the income statement on page 13, 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 as well as 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 its segmental financial performance in note A1 Segment performance on page 19.

Net debt

Net debt is a metric commonly used by investors as a measure of Meridian's indebtedness that takes account of liquid financial assets. Meridian uses this measure within its capital management and this is outlined in note C1 Capital management on page 24.

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 International.

The financial performance of the operating segments is assessed using energy margin and EBITDAF (see page 18 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 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 the New Zealand Aluminium Smelter (NZAS) which represents the equivalent of 36% (31 December 2015: 37%) of Meridian's New Zealand generation production; and
- development of renewable electricity generation opportunities.

Retail segment

Includes activity associated with 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 $67-$73 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.

International segment

Includes activity associated with Meridian's:

- generation of electricity and sale into the wholesale electricity market in Australia;
- retailing of electricity through the Powershop brand in Australia;
- development of renewable electricity generation options in Australia; and
- licensing of the Powershop platform in the United Kingdom.

Unallocated

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

A1 Segment performance *continued*

	UNAUDITED											
	WHOLESALE		RETAIL		INTERNATIONAL		UNALLOCATED		INTER-SEGMENT		GROUP	
6 MONTHS ENDED 31 DEC	2016 $M	2015 $M	2016 $M	2015 $M	2016 $M	2015 $M	2016 $M	2015 $M	2016 $M	2015 $M	2016 $M	2015 $M
Contracted sales, net of distribution costs	**156**	163	**305**	331	**32**	18	**-**	-	**-**	-	**493**	512
Virtual asset swap margins	**4**	4	**-**	-	**-**	-	**-**	-	**-**	-	**4**	4
Net cost of acquired generation	**(4)**	(13)	**-**	-	**-**	-	**-**	-	**-**	-	**(4)**	(13)
Generation spot revenue	**312**	391	**-**	-	**39**	28	**-**	-	**-**	-	**351**	419
Inter-segment electricity sales	**238**	269	**-**	-	**-**	-	**-**	-	**(238)**	(269)	**-**	-
Cost to supply contracted sales	**(311)**	(424)	**(214)**	(243)	**(20)**	(11)	**-**	-	**238**	269	**(307)**	(409)
Other market revenue/(costs)	**(3)**	(4)	**-**	-	**(1)**	-	**-**	-	**-**	-	**(4)**	(4)
Energy margin	**392**	**386**	**91**	**88**	**50**	**35**	**-**	**-**	**-**	**-**	**533**	**509**
Other revenue	**3**	3	**3**	6	**1**	-	**2**	1	**(1)**	(2)	**8**	8
Energy transmission expense	**(64)**	(62)	**-**	-	**(2)**	(2)	**-**	-	**-**	-	**(66)**	(64)
Gross margin	**331**	**327**	**94**	**94**	**49**	**33**	**2**	**1**	**(1)**	**(2)**	**475**	**453**
Employee expenses	**(16)**	(14)	**(16)**	(17)	**(4)**	(4)	**(11)**	(11)	**-**	-	**(47)**	(46)
Electricity metering expenses	**-**	-	**(15)**	(15)	**-**	-	**-**	-	**-**	-	**(15)**	(15)
Other operating expenses	**(24)**	(24)	**(16)**	(16)	**(13)**	(12)	**(8)**	(10)	**-**	2	**(61)**	(60)
EBITDAF	**291**	**289**	**47**	**46**	**32**	**17**	**(17)**	**(20)**	**(1)**	**-**	**352**	**332**
Depreciation and amortisation											**(132)**	(117)
Loss on sale of assets											**(2)**	-
Net change in fair value of electricity and other hedges											**(75)**	(32)
Operating profit											**143**	**183**
Finance costs											**(39)**	(40)
Interest income											**1**	1
Net change in fair value of treasury instruments											**63**	-
Net profit before tax											**168**	**144**
Income tax expense											**(44)**	(40)
Net profit after tax											**124**	**104**
Reconciliation of energy margin												
Electricity sales revenue	**697**	797	**561**	607	**102**	71	**-**	-	**(238)**	(269)	**1,122**	1,206
Electricity expenses, net of hedging	**(305)**	(411)	**(242)**	(278)	**(26)**	(17)	**-**	-	**238**	269	**(335)**	(437)
Electricity distribution expenses	**-**	-	**(228)**	(241)	**(26)**	(19)	**-**	-	**-**	-	**(254)**	(260)
Energy margin	**392**	**386**	**91**	**88**	**50**	**35**	**-**	**-**	**-**	**-**	**533**	**509**

A2 Income

6 MONTHS ENDED 31 DEC OPERATING REVENUE	UNAUDITED 2016 $M	 2015 $M
Electricity sales to customers	**749**	773
Electricity generation, net of hedging	**373**	433
Electricity-related services revenue	**5**	6
Other revenue	**3**	2
	1,130	**1,214**

TOTAL REVENUE BY GEOGRAPHIC AREA	2016	2015
New Zealand	**1,026**	1,144
Australia	**102**	70
United Kingdom	**2**	-
Total operating revenue	**1,130**	**1,214**

Operating revenue

Electricity sales to customers

Revenue received or receivable from residential, business and industrial customers. This revenue is influenced by customer contract sales prices and their demand for electricity and is recognised at the time of supply.

Electricity generation, net of hedging

Revenue received from:

- electricity generated and sold into the wholesale markets; and
- the net settlement of electricity hedges sold on electricity futures markets, and to generators, retailers and industrial customers.

This revenue is influenced by the quantity of generation and the wholesale spot price and is recognised at the time of generation or hedge settlement.

Electricity-related services revenue

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

Other revenue

Includes revenue from non-core activities such as licensing of the Powershop platform, finance leases, land leases and farming.

A3 Expenses

6 MONTHS ENDED 31 DEC OPERATING EXPENSES	UNAUDITED 2016 $M	 2015 $M
Electricity expenses, net of hedging	**335**	437
Electricity distribution expenses	**254**	260
Electricity transmission expenses	**66**	64
Employee expenses	**47**	46
Electricity metering expense	**15**	15
Other expenses	**61**	60
	778	**882**

FINANCE COSTS	2016	2015
Interest on borrowings	**36**	37
Interest on finance lease payable	**3**	3
	39	**40**

Electricity expenses, net of hedging

The cost of:

- electricity purchased from wholesale markets to supply customers;
- the net settlement of buy-side electricity hedges; and
- related charges and services.

Electricity expenses are influenced by the quantity and timing of customer consumption and the wholesale spot price.

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

	UNAUDITED	
6 MONTHS ENDED 31 DEC INCOME TAX EXPENSE	2016 $M	2015 $M
Current income tax charge	**62**	56
Deferred tax	**(18)**	(16)
Total income tax	**44**	**40**
Reconciliation to profit before tax		
Profit before tax	**168**	144
Income tax at applicable rates	**47**	40
Expenditure not deductible for tax	**(3)**	-
Income tax expense	**44**	**40**

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 2016 $M	UNAUDITED 31 DEC 2015 $M	AUDITED 30 JUN 2016 $M
Opening net book value	**7,771**	7,097	7,097
Additions	**12**	12	42
Transfers – intangible assets	**(9)**	-	(2)
Impairment	**-**	-	(6)
Disposals	**(2)**	(2)	(2)
Foreign currency exchange rate movements	**(1)**	(30)	(40)
Generation structures and plant revaluation	**-**	-	899
Depreciation expense	**(123)**	(107)	(217)
Closing net book value	**7,648**	**6,970**	**7,771**

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 is 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 2016 using an independent valuer, resulting in a net increase of $899 million in the carrying value of this asset class. A review and assessment of key valuation inputs included in that valuation have been undertaken, indicating that there has been no material change in fair value.

B2 Intangible assets

POSITION AS AT	UNAUDITED 31 DEC 2016 $M	UNAUDITED 31 DEC 2015 $M	AUDITED 30 JUN 2016 $M
Opening net book value	**47**	47	47
Additions	**10**	6	17
Transfers – property, plant and equipment	**9**	-	2
Amortisation expense	**(9)**	(10)	(19)
Closing net book value	**57**	**43**	**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 & Poor's, which is unchanged at BBB+.

Meridian is in full compliance with debt facility financial covenants.

		UNAUDITED		AUDITED
POSITION AS AT	NOTE	31 DEC 2016 $M	31 DEC 2015 $M	30 JUN 2016 $M
Share capital		**1,597**	1,596	1,597
Retained earnings		**(612)**	(356)	(458)
Other reserves		**3,912**	3,284	3,911
		4,897	**4,524**	**5,050**
Drawn borrowings	C4	**1,163**	1,112	1,136
Finance lease payable		**47**	49	48
Less: cash and cash equivalents		**(44)**	(69)	(118)
		1,166	**1,092**	**1,066**
Capital		**6,063**	**5,616**	**6,116**

C2 Earnings per share

	UNAUDITED	
BASIC AND DILUTED EPS	31 DEC 2016	31 DEC 2015
Profit after tax attributable to shareholders of the parent company ($M)	**124**	104
Weighted average number of shares used in the calculation of EPS	**2,563,000,000**	2,563,000,000
Basic and diluted EPS (CPS)	**4.8**	4.1

C3 Dividends

6 MONTHS ENDED 31 DEC DIVIDENDS DECLARED & PAID	UNAUDITED 2016 $M	 2015 $M
Final ordinary and special dividend 2016: 10.8cps (2015: 12.0cps)	**278**	307
Total dividends paid	**278**	**307**

DIVIDENDS DECLARED AND NOT RECOGNISED AS A LIABILITY		
Interim ordinary dividend 2016: 5.3cps (2015: 5.1cps)	**137**	131
Interim special dividend 2016: 2.4cps (2015: 2.4cps)	**63**	63

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 21 February 2017 the Board declared a partially imputed interim ordinary dividend of 5.33 CPS. Additionally the Board declared an unimputed special dividend of 2.44 CPS.

C4 Borrowings

		UNAUDITED						AUDITED		
POSITION AS AT		31 DEC 2016			31 DEC 2015			30 JUN 2016		
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	**180**	**(1)**	**179**	62	-	62	215	(1)	214
Unsecured borrowings	AUD	**8**	**-**	**8**	-	-	-	-	-	-
Unsecured borrowings	USD	**-**	**-**	**-**	146	3	149	-	-	-
Total current borrowings		**188**	**(1)**	**187**	**208**	**3**	**211**	**215**	**(1)**	**214**
Non-current borrowings										
Unsecured borrowings	NZD	**545**	**(2)**	**543**	470	(1)	469	490	(1)	489
Unsecured borrowings	USD	**430**	**69**	**499**	434	86	520	431	80	511
Total non-current borrowings		**975**	**67**	**1,042**	**904**	**85**	**989**	**921**	**79**	**1,000**
Total borrowings		**1,163**	**66**	**1,229**	**1,112**	**88**	**1,200**	**1,136**	**78**	**1,214**

Meridian has committed bank facilities of $620 million of which $307 million was undrawn at 31 December 2016. The expiry dates of these facilities range from July 2018 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 are subsequently stated at amortised cost using the effective interest method. Any borrowings that have been designated as hedged items (USD borrowings) are carried at amortised cost plus a fair value adjustment under hedge accounting requirements. Any borrowings denominated in a foreign currency are retranslated to the functional currency at each reporting date. Any retranslation effect is included in the 'Transaction costs & fair value adjustment' column in the above movement table.

Meridian uses cross-currency interest rate swap (CCIRS) hedge contracts to manage its exposure to interest rates and borrowings sourced in currencies different from that of the borrowing entity's reporting currency.

C4 Borrowings *continued*

Fair value of items held at amortised cost

POSITION AS AT	UNAUDITED 31 DEC 2016 $M	UNAUDITED 31 DEC 2015 $M	AUDITED 30 JUN 2016 $M	UNAUDITED 31 DEC 2016 $M	UNAUDITED 31 DEC 2015 $M	AUDITED 30 JUN 2016 $M
GROUP	CARRYING VALUE			FAIR VALUE		
Renewable energy bonds	**75**	75	75	**77**	80	79
Retail bonds	**150**	-	150	**152**	-	159
EKF facility	**95**	105	100	**103**	115	110

Cash and cash equivalents, trade receivables, payables and accruals and finance lease payables are carried at amortised cost on the balance sheet and their carrying value approximates fair value.

Term borrowings are also held at amortised cost. Within term borrowings there are longer-dated, fixed-interest-rate instruments that are not in hedge accounting relationships. The carrying values and estimated fair values of these instruments are noted in the table above.

The fair value of Meridian's renewable energy bonds and retail bonds is calculated by reference to quoted prices on the NZX. The fair value of Meridian's EKF facility (provided by the official export credit agency of Denmark) is calculated using a discounted cash flow calculation. In terms of the fair value hierarchy, these are classified as Level 2 instruments (a lack of liquidity on the NZX precludes them from being classified as Level 1). A definition of levels is included in D1 Financial instruments on page 27.

Carrying value approximates fair value for all other instruments within term borrowings.

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 the next page 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 2016				UNAUDITED 31 DEC 2015				AUDITED 30 JUN 2016			
	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Financial instruments – assets												
Held for trading:												
Electricity hedges	**26**	**-**	**17**	**43**	14	-	77	91	16	-	98	114
LGC forward contracts, options and holdings	**43**	**-**	**1**	**44**	30	-	7	37	16	-	1	17
Electricity options	**-**	**-**	**117**	**117**	-	-	43	43	-	-	121	121
Interest rate swaps	**-**	**8**	**-**	**8**	-	12	-	12	-	15	-	15
Foreign exchange contracts	**-**	**1**	**-**	**1**	-	-	-	-	-	1	-	1
Cash flow hedge:												
Cross-currency interest rate swaps	**-**	**(2)**	**-**	**(2)**	-	(6)	-	(6)	-	(4)	-	(4)
Fair value hedge:												
Cross-currency interest rate swaps	**-**	**70**	**-**	**70**	-	90	-	90	-	81	-	81
Total	**69**	**77**	**135**	**281**	**44**	**96**	**127**	**267**	**32**	**93**	**220**	**345**
Current				**95**				79				71
Non-current				**186**				188				274
Financial instruments – liabilities												
Held for trading:												
Electricity hedges	**13**	**-**	**20**	**33**	5	-	37	42	10	-	35	45
LGC forward contracts, options and holdings	**-**	**-**	**45**	**45**	4	-	45	49	-	-	39	39
Electricity options	**-**	**-**	**-**	**-**	-	-	1	1	-	-	1	1
Interest rate swaps	**-**	**98**	**-**	**98**	-	96	-	96	-	166	-	166
Total	**13**	**98**	**65**	**176**	**9**	**96**	**83**	**188**	**10**	**166**	**75**	**251**
Current				**55**				42				48
Non-current				**121**				146				203

D1 Financial instruments *continued*

- ***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, as well as LGCs traded on the open LGC market, 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:

	UNAUDITED				UNAUDITED				AUDITED			
	31 DEC 2016				31 DEC 2015				30 JUN 2016			
	ELECTRICITY HEDGES	LGC FORWARD CONTRACTS, OPTIONS & HOLDINGS	ELECTRICITY OPTIONS	TOTAL	ELECTRICITY HEDGES	LGC FORWARD CONTRACTS, OPTIONS & HOLDINGS	ELECTRICITY OPTIONS	TOTAL	ELECTRICITY HEDGES	LGC FORWARD CONTRACTS, OPTIONS & HOLDINGS	ELECTRICITY	TOTAL
Opening balance	**63**	**(38)**	**120**	**145**	33	-	27	60	33	-	27	60
Hedges acquired	**-**	**-**	**-**	**-**	-	1	28	29	-	1	103	104
Hedges sold	**-**	**-**	**-**	**-**	-	-	(1)	(1)	-	-	(2)	(2)
Re-measurement	**(64)**	**(6)**	**(3)**	**(73)**	6	(39)	(12)	(45)	25	(39)	(8)	(22)
Settlements	**(2)**	**-**	**-**	**(2)**	1	-	-	1	5	-	-	5
Closing balance	**(3)**	**(44)**	**117**	**70**	**40**	**(38)**	**42**	**44**	**63**	**(38)**	**120**	**145**

Fair value technique and key inputs

In estimating the fair value of an asset or liability, Meridian uses market-observable data to the extent it is available.

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 reports 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 (DCFs), key 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 and options, valued using DCFs	***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.	$89MWh to $111MWh (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.
LGC forward contracts and options, valued using DCFs/Black-Scholes	***Price.*** Based on a forward LGC price curve from a third-party broker and benchmarked against market spot prices.	$87 – $90.	An increase in the forward LGC price decreases the fair value of sell hedges and increases the fair value of buy hedges. A decrease in forward LGC prices has the opposite effect.
	Other factors. Include a calibration factor applied to forward price curves as a consequence of initial recognition differences.		

D1 Financial instruments *continued*

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 2016 $M	31 DEC 2015 $M	30 JUN 2016 $M
Opening difference	**284**	(964)	(964)
Initial differences on new hedges	**-**	114	359
Volumes expired and amortised	**1**	896	905
Recalibration for future price estimates and time[1]	**42**	(1)	(16)
Closing difference	**327**	**45**	**284**

1 Includes the release of deferred differences arising from changes in factors that market participants would take into account when pricing the hedges.

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 net change in fair value of electricity and other hedges in 1H FY2017 are $(75) million (1H FY2016: $(46) million).
- Of the above, $(67) million (HY2015: $(45) million) relates to electricity and other hedges held on the balance sheet at 31 December.
- Electricity and other hedges settled in HY2016 and recognised in operating revenue and operating expenses are $2 million (HY 2015:$(1) million).

E. Group structure and other

E1 Group structure

The following changes occurred in the six months:

- On 1 December 2016 Meridian sold its entire interest in Damwatch Engineering Limited.
- On 4 November 2016 Dam Safety Intelligence Limited was incorporated as a subsidiary of the Group, to provide dam safety consultancy services.

E2 Joint ventures

			VOTING RIGHTS			INTEREST HELD			CARRYING VALUE		
			UNAUDITED		AUDITED	UNAUDITED		AUDITED	UNAUDITED		AUDITED
NAME OF ENTITY	COUNTRY & DATE OF INCORPORATION	PRINCIPAL ACTIVITY	31 DEC 2016	31 DEC 2015	30 JUN 2016	31 DEC 2016	31 DEC 2015	30 JUN 2016	31 DEC 2016	31 DEC 2015	30 JUN 2016
EDDI Project JV	New Zealand, 01/05/12	Dam management systems	-	50%	50%	-	50%	50%	-	-	-
Hunter Downs Development Company	New Zealand, 01/07/13	Irrigation development	-	50%	-	-	63%	-	-	-	-

Meridian sold its shares in Hunter Downs Development Company on 17 April 2016. When Damwatch Engineering Limited was sold on 1 December 2016 the Group's investment in EDDI Project JV ended.

E3 Contingent assets and liabilities

Other than the guarantees disclosed in the 30 June 2016 financial statements, there were no contingent assets or liabilities at 31 December 2016 (31 December 2015: nil, 30 June 2016: nil).

E4 Subsequent events

There are no subsequent events other than dividends declared on 21 February 2017. 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 issued 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.

NZ IFRS 16 *Leases* (effective 1 January 2019) – NZ IFRS 16 will be effective in Meridian's 2020 financial year. The full impact of this standard has not yet been determined.

Deloitte.

Independent 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 2016, and the income statement, comprehensive income statement, statement of changes in equity and statement of cash flows for the six-month period ended on that date, and other explanatory information on pages 17 to 30.

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 is responsible on behalf of the Group 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 determines is necessary to enable the preparation and fair presentation of 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) and section 14 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 Limited 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, have not been 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, assurance engagements in relation to the vesting of the executive long-term incentive plan and the solvency return of Meridian's captive insurance company and trustee reporting, 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 the 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 2016 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
for Deloitte Limited
On behalf of the Auditor-General
21 February 2017
WELLINGTON, NEW ZEALAND

Directory

Registered office

Meridian Energy Limited
33 Customhouse Quay
Wellington Central
Wellington 6011
New Zealand

PO Box 10840
The Terrace
Wellington 6143
New Zealand

T +64 4 381 1200
F +64 4 381 1201

Offices

Quad 5, Level 3
4 Leonard Isitt Drive
Auckland Airport
Auckland 2022
New Zealand

PO Box 107174
Auckland Airport
Auckland 2150
New Zealand

T +64 9 477 7800

287-293 Durham Street North
Christchurch Central
Christchurch 8013
New Zealand

PO Box 2146
Christchurch 8140
New Zealand

T +64 3 357 9700

Corner of Market Place and
Mackenzie Drive
Twizel 7901

Private Bag 950
Twizel 7944
New Zealand

T +64 3 435 9393

Australian registered office

Meridian Energy
Australia Pty Limited
Level 15
357 Collins Street
Melbourne VIC 3000
Australia

T +61 3 8370 2100
F +61 3 9620 5235

Share Registrar New Zealand

Computershare
Investor Services Limited
Level 2, 159 Hurstmere Road
Takapuna, Auckland 0622

Private Bag 92119
Victoria Street West
Auckland 1142

T +64 9 488 8777
F +64 9 488 8787

enquiry@computershare.co.nz

www.investorcentre.com/nz

Share Registrar Australia

Computershare
Investor Services Pty Limited
Yarra Falls
452 Johnston Street
Abbotsford, VIC 3037

GPO Box 3329
Melbourne, VIC 3001
Australia

T 1800 501 366 *(within Australia)*
T +61 3 9415 4083 *(outside Australia)*
F +61 3 9473 2500

enquiry@computershare.co.nz

Auditor

Trevor Deed
On behalf of the Office
of the Auditor-General

Deloitte
PO Box 1990
Wellington 6140
New Zealand

Banker

Westpac Wellington
New Zealand

Directors

Chris Moller, *Chair*
Peter Wilson, *Deputy Chair*
Mark Cairns
Jan Dawson
Mary Devine
Anake Goodall
Stephen Reindler

Management team

Mark Binns, *Chief Executive*
Paul Chambers
Neal Barclay
Jacqui Cleland
Ed McManus
Sandra Pickering
Jason Stein
Guy Waipara

If you have any questions
or would like to comment
on this report, please email
investors@meridianenergy.co.nz

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Front cover image *– Stella the kākāpō on Whenua Hou (Codfish Island).*
Back cover image *– Department of Conservation workers weighing Stella the kākāpō on Whenua Hou (Codfish Island). Images courtesy of Sabine Bernert.*

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