WE'RE WORKING TO BUILD A BETTER FUTURE.

As a 100% renewable energy generator, and as a retailer, our business has always walked hand in hand with the environment.

But building a sustainable future is much more than that...

Our success depends on building a better tomorrow, for our team, our customers, communities, New Zealand and beyond.

meridian

MERIDIAN ENERGY LIMITED

INTERIM REPORT FOR THE SIX MONTHS ENDED 31 DECEMBER 2017

About Meridian

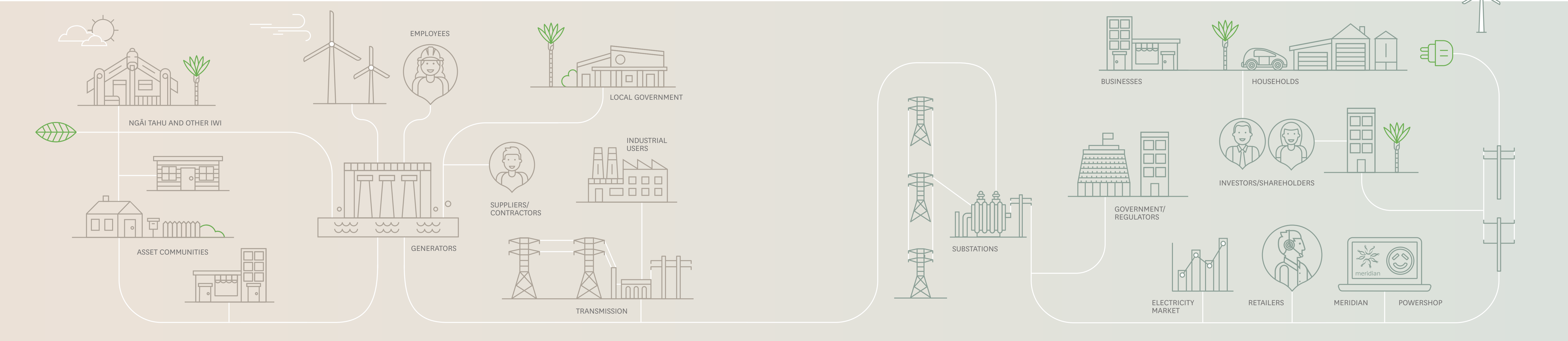
Meridian's core business activities are the generation, trading and retailing of electricity and the sale of complementary products and services, in New Zealand and Australia.

The Meridian Energy Group is one of New Zealand's largest organisations, with $2,319 million in revenue and $653 million of EBITDAF[1] in FY17. The company currently has a market capitalisation of $7.2 billion and net assets of $4.9 billion. We have a small workforce relative to our size, with more than 970 people directly employed by or contracted to us, and third parties providing us with ICT, facilities management and meter reading services.

Meridian is a public company, listed on both the NZX and the ASX (Australian Securities Exchange). The company is majority owned by the New Zealand Government and is precluded by legislation from having any other significant (more than 10%) shareholders.

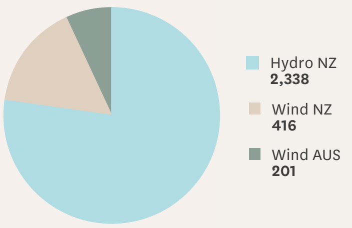
Our supply chain for generating electricity principally relates to the parts and components used to build and maintain our generation assets. Our supply chain risk is limited to a small number of components supplied by local and global suppliers, with the balance supported by a mix of general engineering consumable and specialist parts suppliers and service providers.

Meridian's energy retailing business—in New Zealand and Australia—has a negligible supply chain as the physical assets used to distribute electricity and meter its use are managed by national and local lines and metering companies. Our retail operations' requirements are typical of corporate offices, and include the physical facilities and ICT, sales and marketing, billing and governance functions.

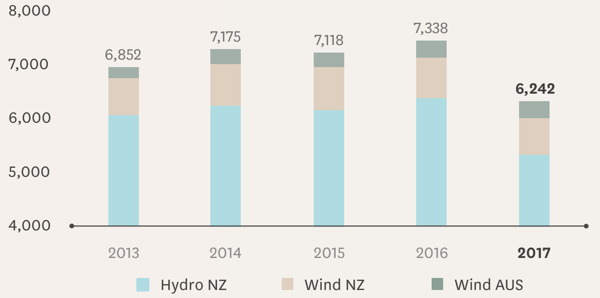


Generation[2]

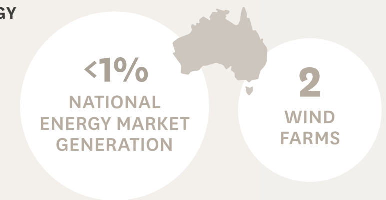
CAPACITY (MW[3])



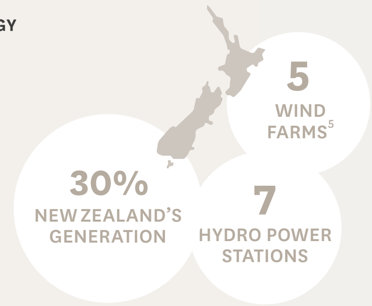
GENERATION (GWh[4])
Six months ended 31 December



MERIDIAN ENERGY AUSTRALIA



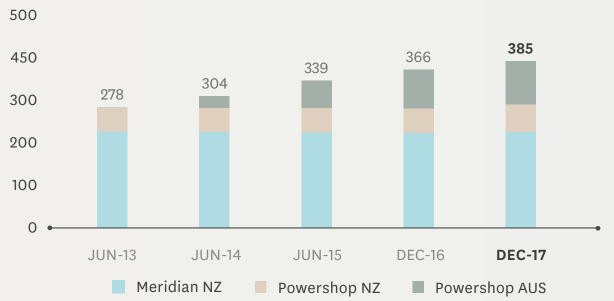
MERIDIAN ENERGY NEW ZEALAND



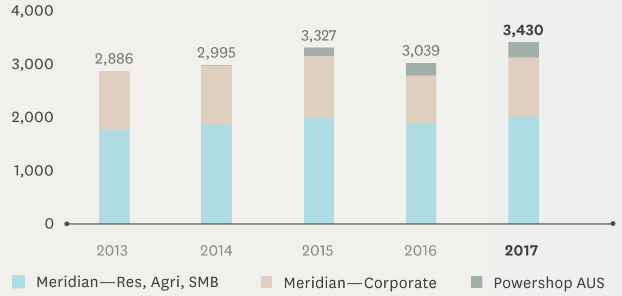
1 Earnings before interest, tax, depreciation, amortisation, changes in fair value of hedges and other significant items.
2 Map of Meridian assets: meridianenergy.co.nz/assetmap
3 Megawatts: measure of generating capacity (power).
4 Gigawatt hours: measure of generating output (energy).
5 Excludes the Brooklyn wind turbine.

Retail

CUSTOMER CONNECTIONS* (ICPs[6])



RETAIL SALES VOLUME (GWh)
Six months ended 31 December

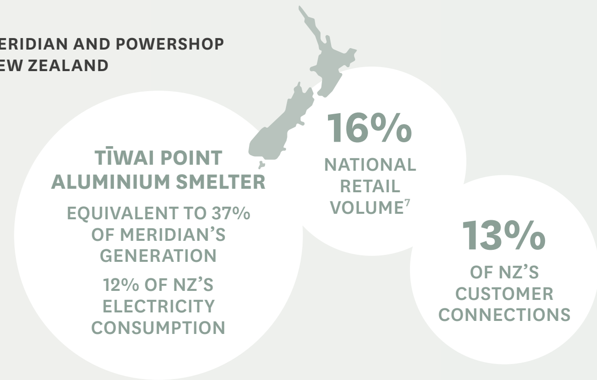


* Excludes the Tīwai Point Aluminium Smelter; <10 of the above ICPs are connected to the transmission network; around 4,000 customer connections have distributed generation metering.

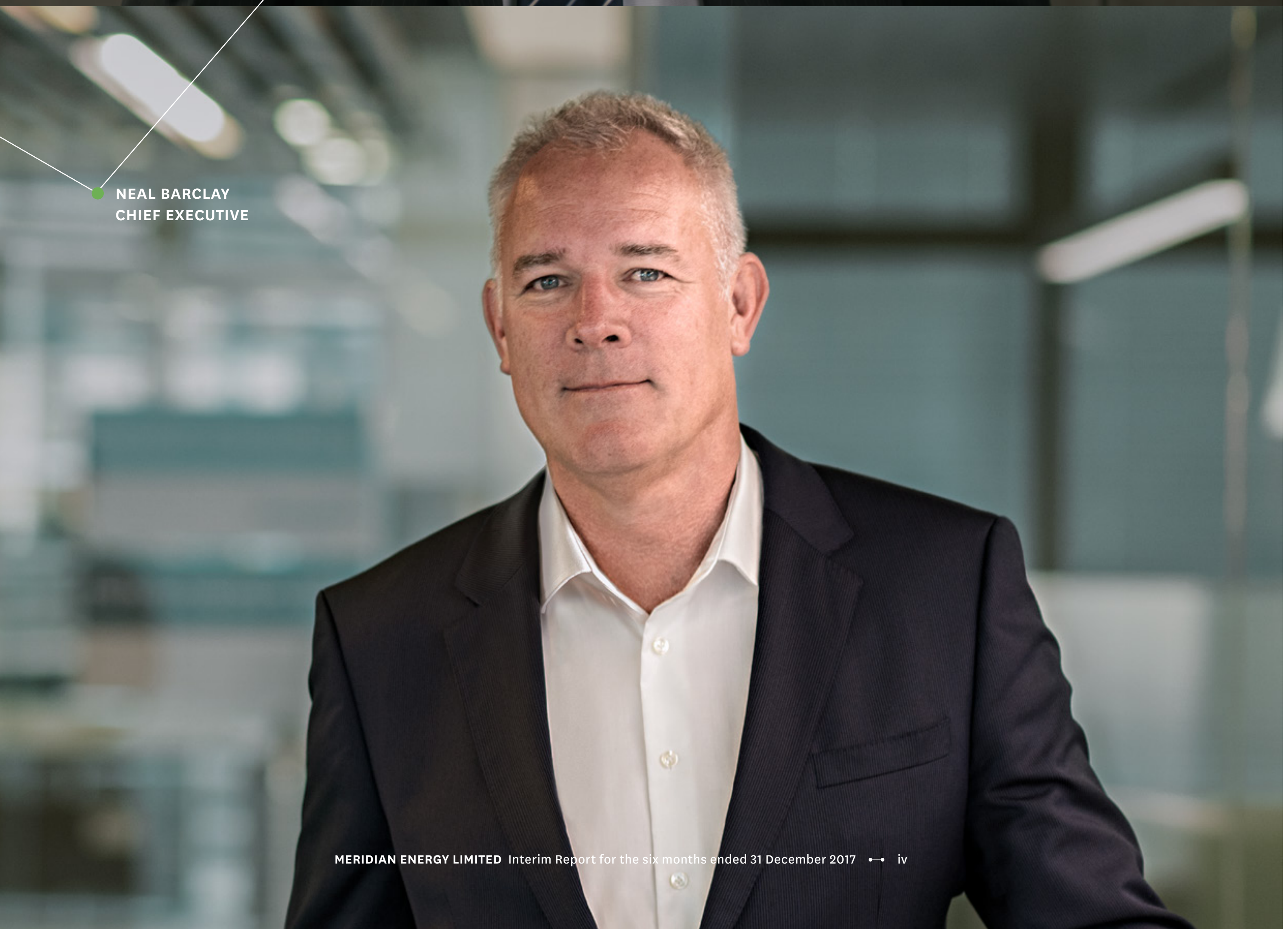
POWERSHOP AUSTRALIA

POWERSHOP UNITED KINGDOM

MERIDIAN AND POWERSHOP NEW ZEALAND



6 Installation control points (ICPs).
7 Excluding Tīwai Point Aluminium Smelter.



A view from our Chair and Chief Executive.

Meridian delivered an EBITDAF of $329 million in the six months to 31 December 2017, a 7% decrease on the prior year. While the company achieved solid, customer-led growth across our multiple segments and geographies, low inflows in Meridian's hydro catchments had a negative impact on the company's financial result as the amount of electricity that was able to be generated reduced by 16% compared with the previous year.

Dividends

Meridian has declared an interim ordinary dividend of 5.38 cents per share (cps). Despite some earnings decline in the period, it is pleasing to declare a resilient dividend, up 1% on last year. This is imputed to 88% and will be payable on 17 April 2018.

Meridian is now three years into its five year, $625 million capital management programme. Included in the interim dividend is the Board's 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, in addition to the interim ordinary dividend described above. There will be no imputation credits attached to this payment. This will bring the amount distributed so far under the programme to $375 million (14.6 cps).

Hydrology conditions

Persistently low South Island hydro inflows characterised the New Zealand market over the past six months. Despite the dry weather, the market continues to function well, with Meridian using a variety of options that enable us to manage low inflow conditions effectively. Prudent use of water storage saw Meridian reduce its physical generation volumes by 16% compared with the same period last year.

The hot, dry weather conditions were responsible for a marked lift in national electricity demand (+1.1% on 2017), with heightened irrigation-based load, particularly in the east of the South Island.

Customer growth

Customer sales volumes were up by reasonable levels in both New Zealand (12%) and Australia (20%). In New Zealand, Meridian delivered further sales growth in small and large business segments (9% and 2% respectively). Growth was higher again in the agricultural and corporate segments (26% and 22% respectively); however the mixed effect of this growth and continued strong competition in the whole market saw the overall average sales price across all New Zealand segments fall 4%.

In the UK, Flux delivered dual fuel functionality to nPower, with white label offerings now in the market. Our New Zealand-developed platform now supports 19,500 nPower UK customers.

Enablers of future Powershop retail growth in Australia have been put in place in recent months with the acquisition of an additional 749GWh of renewable energy through the purchase of three hydro stations in New South Wales and by securing three 10-year Power Purchase Agreements supporting the build of new solar and wind generation in Australia.

People

With the departure of Mark Binns, Neal Barclay took over as Meridian's Chief Executive on 1 January 2018.

The company has appointed Julian Smith to Neal's previous role of General Manager of Retail. Julian will bring strong digital marketing and leadership experience from a variety of sectors, including retail, banking and technology. In addition Mike Roan, who previously held the role of Wholesale Markets Manager, was appointed to the role of General Manager of Wholesale to drive Meridian's wholesale strategy, a role that now sits on the Executive Team. We know Julian and Mike will add valuable experience and expertise to the Meridian executive team.

Sustainability

With the change in government in New Zealand, last year, we have noted a shift in political priorities that resonates strongly with the direction and commitments we have made as a business. We endorse the Government's commitment to climate action, the pursuit of 100% renewable generation and the focus on improving the overall wellbeing of New Zealanders.

Our commitment to sustainability is genuine and enduring and permeates our culture and our approach to all we do. Sustainability, which goes well beyond our commitment to the generation of renewable energy, has seen our impact as a business recognised by the *Colmar Brunton Better Futures Report*, in which we're named one of New Zealand's most sustainable brands for 2017; and for the past two years we have been one of only three New Zealand companies listed on the Dow Jones Sustainability Index.

A view from our Chair and Chief Executive

Leadership

Meridian believes we have a part to play as a business leader in helping shape a sustainable future for our customers, for the country and on the global stage. It is one of the reasons we fully support the Government's plans to set up an independent Climate Change Commission, which will be focused on reducing our country's emissions and transitioning to a low-emissions economy.

Part of showing leadership is being engaged on key sector issues and, like others, Meridian will actively participate in the Government's Electricity Pricing Review. New Zealand is fortunate to have a well-functioning electricity market but there is always room for improvement. At a time when rapidly evolving technology is providing retailers with many opportunities to better support our customers, it is important that the regulatory framework continues to keep pace with technological change. We believe the review could best add value by focusing on ensuring the regulatory framework is future proofed.

New technologies

Meridian is working with segments of its commercial customer base where it makes sense to create a solar solution for their energy needs. One such company is Kiwi Property who has signed a Memorandum of Understanding with Meridian for a large scale solar installation. Meridian's solar programme will help businesses further benefit from renewable energy, encourage direct business investment and directly contribute to the growth of renewables in New Zealand.

We've also been supporting our residential customers to take advantage of renewable energy at home with sharp electric vehicle (EV) tariffs. This is why we've just launched a nationwide electric car plan which gives our customers 20% off their electricity bill if they have an electric car. We're committed to supporting our customers to embrace new sustainable technology so we're also going to cover the cost of charging their electric car for a year.

Meridian believes in the benefits of driving electric, and we are on target to convert 50% of our passenger fleet to fully electric vehicles by June 2018. We recognise the importance of converting the nation's fleet to electric in order to reduce our country's emissions and reliance on fossil fuels; this is one of the main actions we can take to help combat climate change.

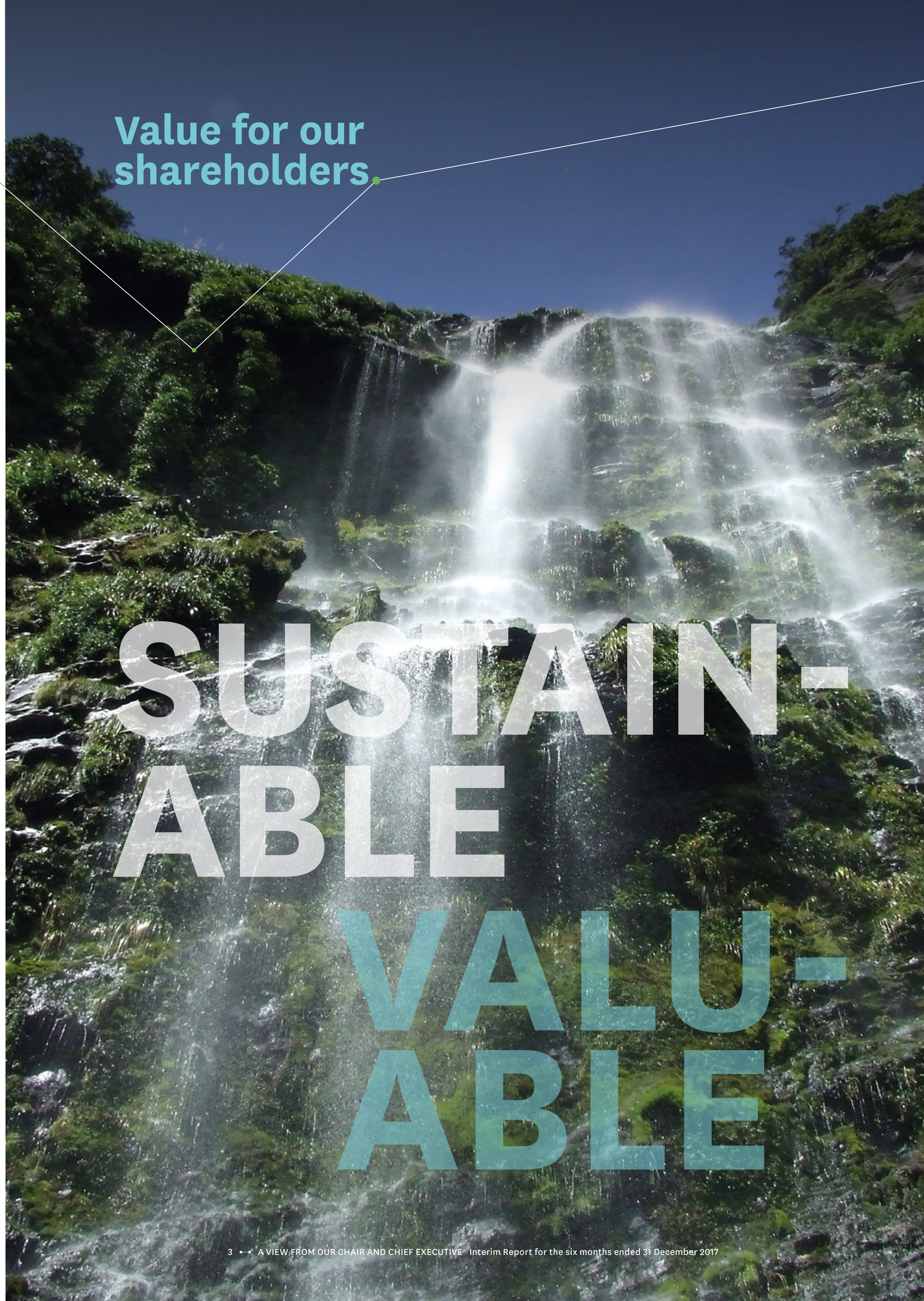
Maintaining our world-class assets

At Meridian, we're privileged to be responsible for operating world-class assets in beautiful locations. Part of this privilege has also meant that we need to ensure that these assets continue to remain world-class for generations to come which is why we have a rolling maintenance programme to ensure that they remain top-notch. This maintenance is part of our ongoing refurbishment programme.

In the past six months, we completed much of the transformers upgrade at the Manapōuri Power Station. The underground power station, which was commissioned in 1967, has seven main transformers. Three were replaced in 2015 and in late November the remaining four units were delivered to the station. We plan to have these units installed and operating by April this year.

Work has also been taking place at Te Āpiti, New Zealand's first wind farm, to refurbish a number of the turbines and extend their operating life time through until the middle of the next decade. These works include a full hub refurbishment and some foundation repairs. The programme of work will take close to two years to complete and is tracking well.

Value for our shareholders



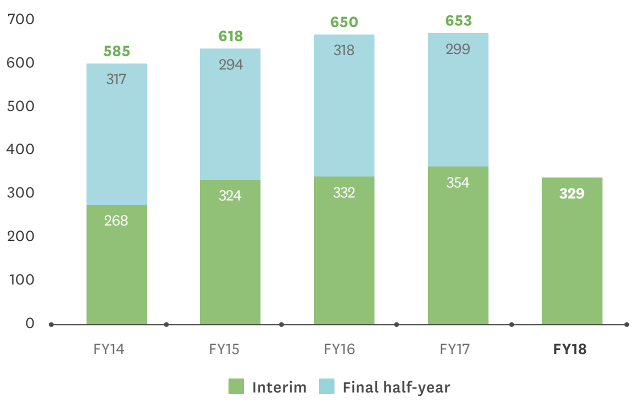
Value for our shareholders

Despite dry conditions causing a 7% decrease in earnings, Meridian declared an interim dividend 1% higher than last year, reflecting the underlying strength of the company's balance sheet.

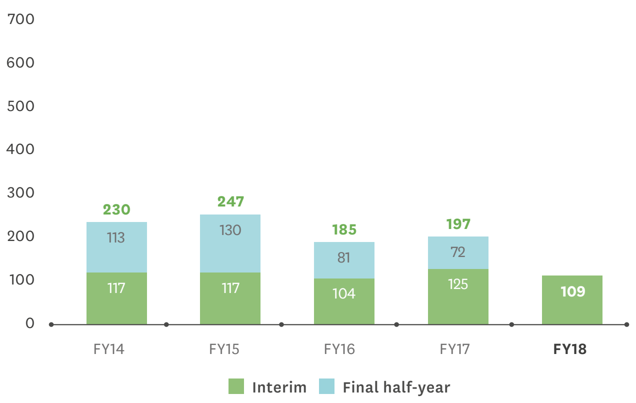
Five-year performance

for the financial year ended 30 June

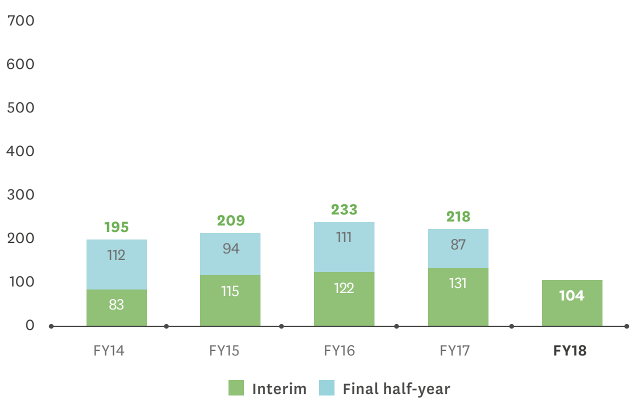
EBITDAF ($M)



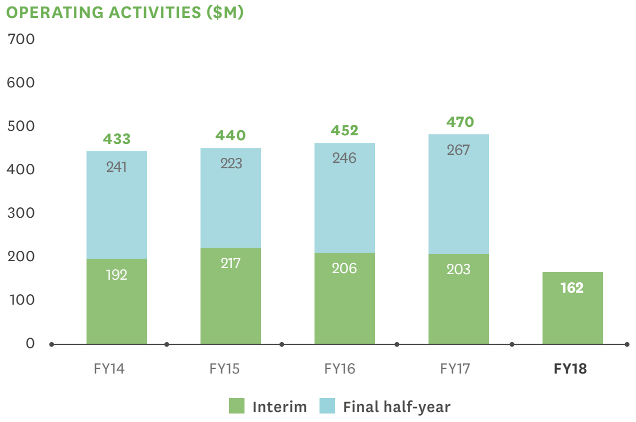
NPAT[8] ($M)



UNDERLYING NPAT[9] ($M)

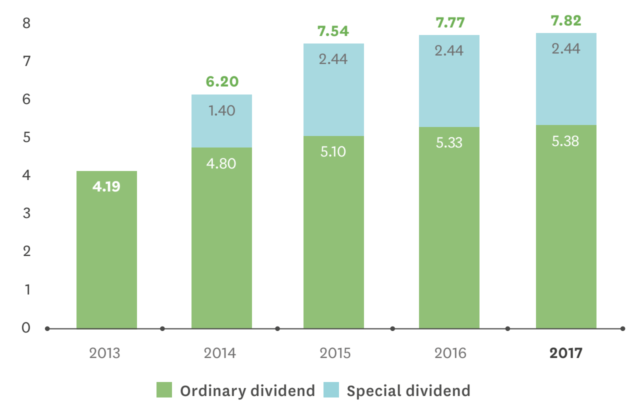


CASH FLOW FROM OPERATING ACTIVITIES ($M)



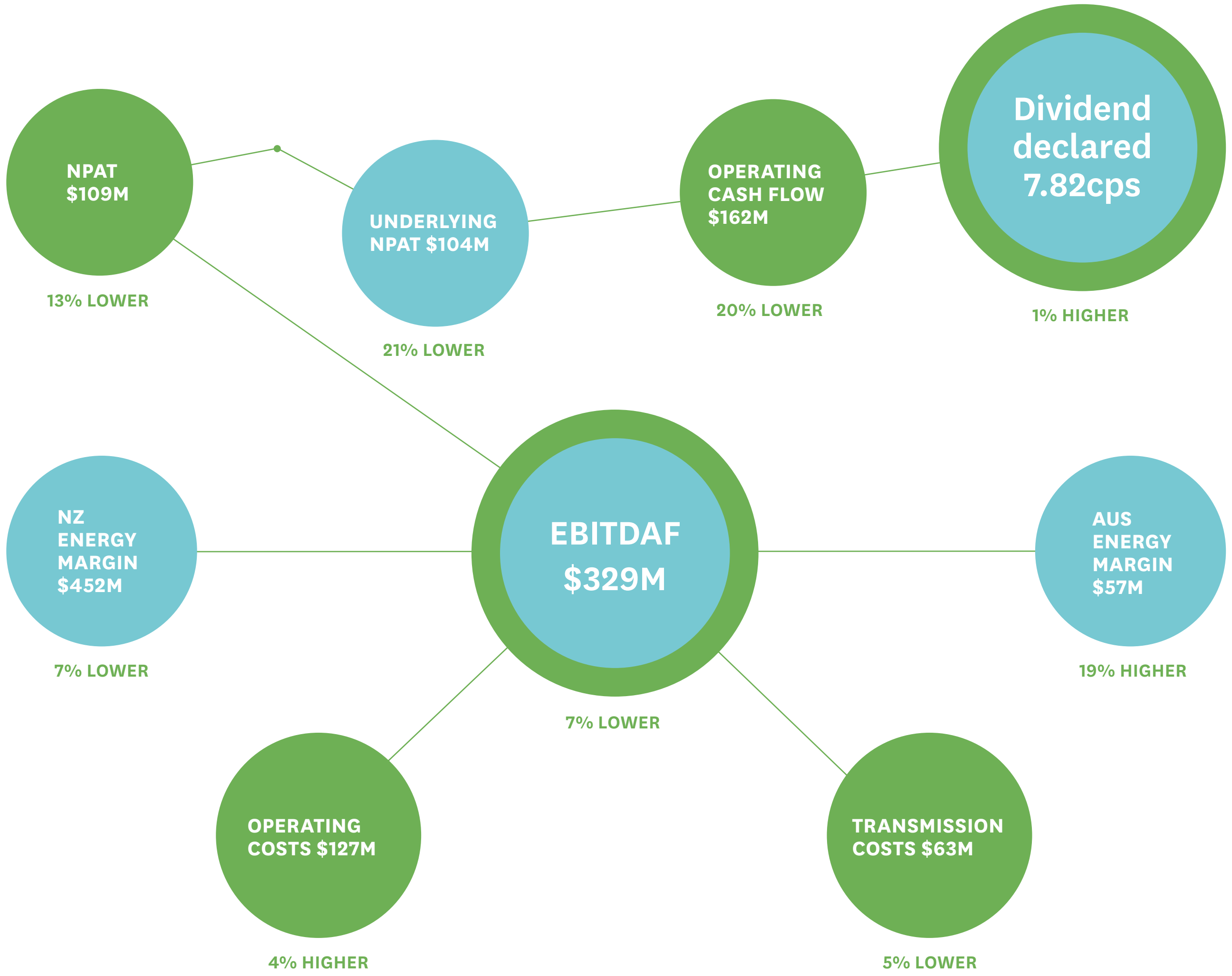
INTERIM DIVIDENDS DECLARED (CPS)

six months ended 31 December



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

Financial snapshot.



Meridian saw its earnings (EBITDAF) for the six months ended 31 December 2017 decrease 7% compared with the prior corresponding period.

Meridian concluded the 2017 financial year with a four-month period of below average inflows, with the company reducing its own generation and utilising dry year insurance and financial instruments to reduce exposure to high spot market prices. This dry weather extended into July 2017, when improved inflows brought lake levels back to about average levels.

Further dry conditions prevailed from October 2017 through to the end of December 2017 (and extended into January 2018), with the ongoing cost of acquiring higher levels of generation and the reduction in Meridian's own discretionary generation impacting earnings.

Despite this, Meridian has declared a resilient interim ordinary dividend, 1% higher than last year.

Meridian has also declared an interim special dividend of 2.44 cents per share ($62.5 million) under the company's five-year capital management programme to return $625 million to shareholders. This reflects the underlying strength of Meridian's balance sheet, allowing dividends to be maintained despite short-term, hydrology driven fluctuations in earnings. $375 million has now been distributed since the capital management programme commenced in August 2015. To date, this has been paid as unimputed special dividends; however a buyback remains a consideration.

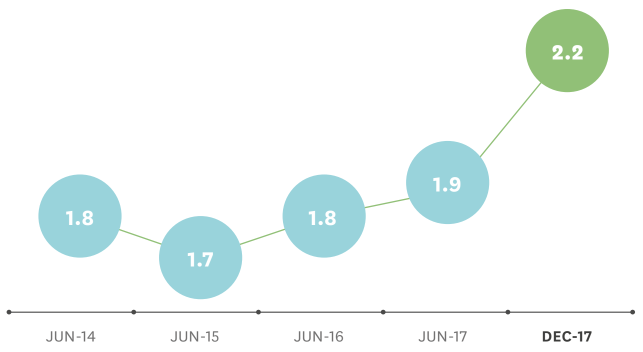
INTERIM DIVIDENDS DECLARED

	AMOUNT CPS	IMPUTATION %
FY18		
Ordinary dividends	5.38	88%
Capital management special dividend	2.44	0%
Total	**7.82**	
FY17		
Ordinary dividends	5.33	88%
Capital management special dividend	2.44	0%
Total	**7.77**	

Value created for our shareholders

Meridian's credit metrics remain within the bounds used by rating agency Standard & Poor's for BBB rating.

NET DEBT/EBITDAF



Cash flows

Operating cash flows were $162 million for the six months ended 31 December 2017, $41 million (20%) lower than the same period last year, reflecting the impact of lower EBITDAF, both in the interim period and in the final months of FY17, impacting cash collected in July and August 2017.

Total capital expenditure for the six months to 31 December 2017 was $21 million, of which $17 million was stay in business capital expenditure.

Earnings

MOVEMENT IN EBITDAF

New Zealand energy margin

		1H FY18 $M	1H FY17 $M
Retail contracted sales revenue	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)	328	306
Wholesale contracted sales revenue	Sales to large industrial customers and fixed-price revenue from derivatives sold	191	156
Net VAS revenue	The net revenue position of virtual asset swaps (VAS) with Genesis Energy and Mercury New Zealand	(4)	5
Net cost of acquired generation	The cost of derivatives acquired to supplement generation and manage spot price risks, net of spot revenue received for generation acquired from those derivatives	31	(4)
Net spot exposed revenues	Revenue from the volume of electricity that Meridian generates that is in excess of the volume required to cover contracted customer sales	(92)	24
Other	Other associated market revenue and costs including EA levies and ancillary generation revenues such as frequency keeping	(2)	(2)
Total		452	485

The New Zealand energy margin was $452 million for the six months ended 31 December 2017, $33 million (7%) lower than the same period last year. Customer sales volumes were up by reasonable levels in both New Zealand (12%) and Australia (20%). In New Zealand, while residential sales volumes were down slightly (-1%), Meridian delivered further sales growth in small and large business segments (10% and 2% respectively). Growth was higher again in the agricultural and corporate segments (24% and 22% respectively); however the mix effect of this growth and continued strong competition in the whole market saw the overall average sales price across all New Zealand segments fall 4%.

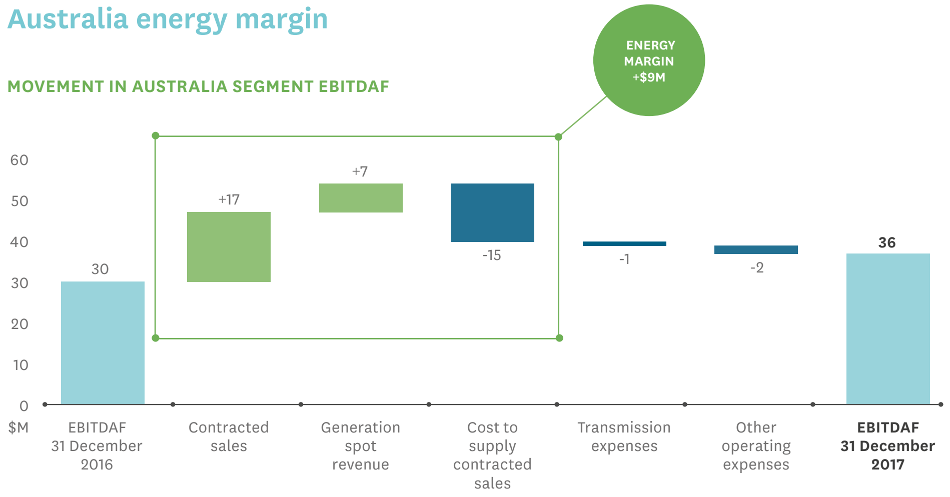
Wholesale contracted sales revenue was $35 million (23%) higher for the six months ended 31 December 2017. Wholesale derivative sales volumes were 33% higher at higher average prices than the same period last year.

The net cost of acquired generation was $35 million lower for the six months ended 31 December 2017. While acquired generation volumes were 162% higher at a higher average cost, average spot prices received on acquired generation sales were higher again.

Spot exposed revenue was $116 million lower for the six months ended 31 December 2017. Generation volumes were 16% lower than the same period last year and were impacted by ongoing low hydro inflows. The dry South Island conditions saw average generation prices 110% higher than the same period last year. While overall generation revenue was 77% higher than last year, the higher wholesale market prices during the six months ended 31 December 2017 meant Meridian paid higher average prices to supply contracted sales. These purchase volumes were 9% higher than the same period last year and the higher overall cost to supply contracted sales for the six months ended 31 December 2017 (125% higher than the same period last year) was $116 million higher than the increased generation revenue.

Australia energy margin

MOVEMENT IN AUSTRALIA SEGMENT EBITDAF



The Australian energy margin was $9 million (16%) higher than the same period last year, with Powershop Australia's retail sales volumes (289GWh in total) 48GWh (20%) higher than the same period last year. The average generation price was 18% higher than the same period last year, while wind generation (305GWh in total) was 1% lower.

Transmission and operating costs

Transmission costs were $63 million for the six months ended 31 December 2017, $3 million (2%) lower than the same period last year, from lower Transpower charges on the New Zealand inter-island electricity transmission link.

Employee and other operating costs were $127 million for the six months ended 31 December 2017, $5 million (4%) higher than the same period last year. Growth investment supported continued customer expansion in New Zealand (where customer connection numbers were 2% higher than a year ago) and in Australia (where customer connection numbers were 12% higher than a year ago). The multi-year Ōhau and Te Āpiti refurbishment programmes are also adding to overall operating costs.

Value created for our shareholders

Net profit after tax

NPAT was $109 million for the six months ended 31 December 2017, $16 million (13%) lower than the same period last year. Contributing to lower NPAT were lower EBITDAF, higher depreciation and amortisation (30 June 2017 asset revaluations) and higher financing costs on higher net debt.

Meridian recognised a $6 million gain on the sale of surplus land assets for the six months ended 31 December 2017, compared with a $2 million loss in the prior period.

The period also saw positive net movements compared with last year in the fair value movements in electricity hedges and treasury instruments, which 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.

Fair value movements in electricity hedges reduced net profit before tax by $2 million for the six months ended 31 December 2017, reflecting relatively stable forward electricity prices in both New Zealand and Australia. This compares with a $75 million reduction in net profit before tax in the same period last year.

Fair value movements in treasury instruments decreased net profit before tax by $2 million for the six months ended 31 December 2017, from relatively stable forward interest rates during the period. This compares with a $63 million increase in net profit before tax in the same period last year.

After removing the impact of fair value movements and other one-off or infrequently occurring events, Meridian's underlying NPAT (reconciliation on page 9) was $104 million for the six months ended 31 December 2017. This was $27 million (21%) lower than the same period last year.

MERIDIAN GENERATION

	PLANT CAPACITY MW	SIX MONTHS ENDED 31 DEC 2017 GWH	SIX MONTHS ENDED 31 DEC 2016 GWH	YEAR ENDED 30 JUN 2017 GWH
Ōhau A	264	475	567	1,221
Ōhau B	212	399	474	1,022
Ōhau C	212	398	473	1,019
Benmore	540	1,043	1,145	2,447
Aviemore	220	443	485	982
Waitaki	90	229	252	527
Manapōuri	800	2,302	2,901	4,756
Total New Zealand hydro	**2,338**	**5,289**	**6,296**	**11,974**
Te Uku	64	107	126	228
Te Āpiti	91	85	119	195
Mill Creek	60	121	124	235
West Wind	143	260	274	515
White Hill	58	75	90	168
Total New Zealand wind	**416**	**648**	**733**	**1,341**
Mt Millar	70	95	85	146
Mt Mercer	131	210	224	364
Total Australia wind	**201**	**305**	**309**	**510**

INCOME STATEMENT

	SIX MONTHS ENDED 31 DEC 2017 $M	SIX MONTHS ENDED 31 DEC 2016[10] $M
New Zealand energy margin	**452**	485
Australia energy margin	**57**	48
Other revenue	**10**	9
Energy transmission expense	**(63)**	(66)
Employee and other operating expenses	**(127)**	(122)
EBITDAF	**329**	354
Depreciation and amortisation	**(134)**	(132)
Impairment of assets	**(2)**	–
Gain/(loss) on sale of assets	**6**	(2)
Net change in fair value of electricity and other hedges	**(2)**	(75)
Net finance costs	**(41)**	(38)
Net change in fair value of treasury instruments	**(2)**	63
Net profit before tax	**154**	170
Income tax expense	**(45)**	(45)
Net profit after tax	**109**	**125**

UNDERLYING NPAT RECONCILIATION

	SIX MONTHS ENDED 31 DEC 2017 $M	SIX MONTHS ENDED 31 DEC 2016[10] $M
Net profit after tax	**109**	125
Underlying adjustments		
Hedging instruments		
Net change in fair value of electricity and other hedges	**2**	75
Net change in fair value of treasury instruments	**2**	(63)
Premiums paid on electricity options net of interest	**(6)**	(6)
Assets		
(Gain)/loss on sale of assets	**(6)**	2
Impairment of assets	**2**	-
Total adjustments before tax	**(6)**	8
Taxation		
Tax effect of above adjustments	**1**	(2)
Underlying net profit after tax	**104**	**131**

10 Restated for the adoption of NZ IFRS 15 (see page 16).

The numbers

CONDENSED INTERIM FINANCIAL STATEMENTS
AS AT AND FOR THE SIX MONTHS TO 31 DECEMBER 2017

Condensed interim financial statements

Notes to the condensed interim financial statements

Signed report

KEY

SUBSEQUENT EVENT

KEY JUDGEMENTS AND ESTIMATES

RISKS

Income Statement *For the six months to 31 December 2017*

	NOTE	UNAUDITED 2017 $M	RESTATED 2016 $M
Operating revenue	A2	**1,441**	1,131
Operating expenses	A3	**(1,112)**	(777)
Earnings before interest, tax, depreciation, amortisation, changes in fair value of hedges and other significant items (EBITDAF)		**329**	354
Depreciation and amortisation	B1, B2	**(134)**	(132)
Impairment of assets	A3	**(2)**	–
Gain/(loss) on sale of assets	A1	**6**	(2)
Net change in fair value of electricity and other hedges	D1	**(2)**	(75)
Operating profit		**197**	145
Finance costs	A3	**(41)**	(39)
Interest income		**–**	1
Net change in fair value of treasury instruments	D1	**(2)**	63
Net profit before tax		**154**	170
Income tax expense	A4	**(45)**	(45)
Net profit after tax attributed to the shareholders of the parent company		**109**	**125**
Profit attributed to the shareholders of the parent company		**109**	**125**
Earnings per share (EPS) attributed to ordinary equity holders of the parent		**Cents**	Cents
Basic and diluted earnings per share	C2	**4.3**	4.9

Comprehensive Income Statement *For the six months to 31 December 2017*

	UNAUDITED 2017 $M	RESTATED 2016 $M
Net profit after tax	**109**	125
Other comprehensive income		
Items that may be reclassified to profit or loss:		
Net gain on cash flow hedges	**1**	2
Exchange differences arising from translation of foreign operations	**15**	(1)
Other comprehensive income for the period, net of tax	**16**	1
Total comprehensive income for the period, net of tax attributed to shareholders of the parent company	**125**	**126**

Balance Sheet *As at 31 December 2017*

	NOTE	UNAUDITED 31 DEC 2017 $M	UNAUDITED RESTATED 31 DEC 2016 $M	AUDITED RESTATED 30 JUN 2017 $M
Current assets				
Cash and cash equivalents		**108**	44	80
Trade receivables		**304**	184	260
Customer contract assets	A2	**19**	17	18
Financial instruments	D1	**92**	95	59
Assets classified as held for sale		**–**	–	8
Other assets		**30**	26	24
Total current assets		**553**	366	449
Non-current assets				
Property, plant and equipment	B1	**7,871**	7,648	7,961
Intangible assets	B2	**58**	57	58
Deferred tax		**46**	39	43
Financial instruments	D1	**166**	186	172
Total non-current assets		**8,141**	7,930	8,234
Total assets		**8,694**	8,296	8,683
Current liabilities				
Payables and accruals		**328**	200	296
Employee entitlements		**11**	11	15
Current portion of term borrowings	C4	**190**	187	170
Finance lease payable		**1**	1	1
Financial instruments	D1	**75**	55	67
Current tax payable		**19**	16	30
Total current liabilities		**624**	470	579
Non-current liabilities				
Term borrowings	C4	**1,176**	1,042	1,022
Deferred tax		**1,700**	1,604	1,715
Provisions		**9**	8	9
Finance lease payables		**47**	46	46
Financial instruments	D1	**121**	121	124
Term payables		**84**	97	93
Total non-current liabilities		**3,137**	2,918	3,009
Total liabilities		**3,761**	3,388	3,588
Net assets		**4,933**	**4,908**	**5,095**
Shareholders' equity				
Share capital		**1,597**	1,597	1,598
Reserves		**3,336**	3,311	3,497
Total shareholders' equity		**4,933**	**4,908**	**5,095**

For and on behalf of the Board of Directors, who authorised the issue of the condensed interim financial statements on 20 February 2018.

CHRIS MOLLER, *Board Chair*

JAN DAWSON, *Chair Audit & Risk Committee*

Changes in Equity *For the six months to 31 December 2017*

$M								
AUDITED (RESTATED)	NOTE	SHARE CAPITAL	SHARE OPTION RESERVE	REVALUATION RESERVE	FOREIGN CURRENCY TRANSLATION RESERVE	CASH FLOW HEDGE RESERVE	RETAINED EARNINGS	SHAREHOLDERS' EQUITY
Balance at 1 July 2016		**1,597**	**1**	**3,941**	**(28)**	**(3)**	**(448)**	**5,060**
Net profit for the year		–	–	–	–	–	200	200
Other comprehensive income								
Asset revaluation		–	–	428	–	–	–	428
Net gain on cash flow hedges		–	–	–	–	2	–	2
Exchange differences from translation of foreign operations		–	–	–	1	–	–	1
Income tax relating to other comprehensive income		–	–	(120)	–	–	–	(120)
Total comprehensive income for the year, net of tax		–	–	**308**	**1**	**2**	**200**	**511**
Share-based transactions		1	–	–	–	–	–	1
Dividends paid		–	–	–	–	–	(477)	(477)
Balance at 30 June 2017 and 1 July 2017		**1,598**	**1**	**4,249**	**(27)**	**(1)**	**(725)**	**5,095**
UNAUDITED								
Net profit for the period		–	–	–	–	–	109	109
Other comprehensive income								
Net gain on cash flow hedges		–	–	–	–	1	–	1
Exchange differences from translation of foreign operations		–	–	–	15	–	–	15
Total comprehensive income for the period, net of tax		–	–	–	**15**	**1**	**109**	**125**
Share-based transactions		(1)	–	–	–	–	–	(1)
Dividends paid	C3	–	–	–	–	–	(286)	(286)
Balance at 31 December 2017		**1,597**	**1**	**4,249**	**(12)**	**–**	**(902)**	**4,933**

UNAUDITED (RESTATED)	NOTE	SHARE CAPITAL	SHARE OPTION RESERVE	REVALUATION RESERVE	FOREIGN CURRENCY TRANSLATION RESERVE	CASH FLOW HEDGE RESERVE	RETAINED EARNINGS	SHAREHOLDERS' EQUITY
Balance at 1 July 2016		**1,597**	**1**	**3,941**	**(28)**	**(3)**	**(448)**	**5,060**
Net profit for the period		–	–	–	–	–	125	125
Other comprehensive income								
Net gain on cash flow hedges		–	–	–	–	2	–	2
Exchange differences from translation of foreign operations		–	–	–	(1)	–	–	(1)
Total comprehensive income for the period, net of tax		–	–	–	**(1)**	**2**	**125**	**126**
Dividends paid	C3	–	–	–	–	–	(278)	(278)
Balance at 31 December 2016		**1,597**	**1**	**3,941**	**(29)**	**(1)**	**(601)**	**4,908**

Cash Flows *For the six months to 31 December 2017*

		UNAUDITED	
	NOTE	2017 $M	2016 $M
Operating activities			
Receipts from customers		**1,374**	1,110
Interest received		**–**	1
Payments to suppliers and employees		**(1,101)**	(794)
Interest paid		**(38)**	(36)
Income tax paid		**(73)**	(78)
Operating cash flows		**162**	203
Investment activities			
Sale of property, plant and equipment		**12**	–
Sale of subsidiary		**–**	1
Purchase of property, plant and equipment		**(18)**	(18)
Purchase of intangible assets		**(10)**	(9)
Investing cash flows		**(16)**	(26)
Financing activities			
Term borrowings		**170**	32
Term borrowings repaid		**(5)**	(5)
Dividends	C3	**(286)**	(278)
Financing cash flows		**(121)**	(251)
Net increase/(decrease) in cash and cash equivalents		**25**	**(74)**
Cash and cash equivalents at beginning of the six months		**80**	118
Effect of exchange rate changes on net cash		**3**	–
Cash and cash equivalents at end of the six months		**108**	**44**

About this report

IN THIS SECTION

The summary notes to the condensed interim financial statements include information which 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 2017 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 (NZD). The principal functional currency of international subsidiaries is Australian dollars. The closing rate at 31 December 2017 was 0.9084 (December 2016: 0.9628, 30 June 2017: 0.9536).

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

Accounting policies

The accounting policies, methods of computation and classification set out in the Group financial statements for the year ended 30 June 2017 have been applied consistently to all periods presented in the condensed interim financial statements, with the exception that NZ IFRS 15 Revenue from Contracts with Customers has been adopted during the period. This is discussed on page 16 under significant matters. The application of further 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 has not changed from those used in preparing the financial statements for the year ended 30 June 2017.

Basis of consolidation

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

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.

Early adoption of NZ IFRS 15 Revenue from Contracts with Customers

The adoption of the new revenue standard has resulted in a change to Meridian's accounting policy relating to the treatment of incentives given to customers (such as credits applied to a customer's account) and any incremental costs directly incurred in acquiring new customers and retaining existing customers (such as sales commissions).

Meridian's previous policy was to recognise customer credits (upfront discounts) as a discount to electricity sales to customers at the time the credit was applied to the customer's account, and to recognise incremental costs of acquiring and retaining at the time they were incurred. The change of policy will result in customer incentives and incremental costs being deferred to the balance sheet as Customer contract assets and amortised on a straight-line basis over the expected average customer contract tenure.

The standard has been applied retrospectively. The effect of this change in accounting policy is shown below:

6 MONTHS ENDED 31 DECEMBER INCOME STATEMENT EFFECT	ORIGINAL 2016 $M	ADJUSTMENT $M	RESTATED 2016 $M
Operating revenue	1,130	1	1,131
Operating expenses	(778)	1	(777)
EBITDAF	352	2	354
Income tax expense	(44)	(1)	(45)
Net profit after tax	124	1	125
Earnings per share (cents per share)	4.8	0.1	4.9

AS AT 30 JUNE BALANCE SHEET EFFECT	ORIGINAL 2017 $M	ADJUSTMENT $M	RESTATED 2017 $M
Customer contract assets	–	18	18
Deferred tax liability	(1,710)	(5)	(1,715)
Retained earnings	(738)	13	(725)

AS AT 31 DECEMBER BALANCE SHEET EFFECT	ORIGINAL 2016 $M	ADJUSTMENT $M	RESTATED 2016 $M
Customer contract assets	–	17	17
Deferred tax liability	(1,598)	(6)	(1,604)
Retained earnings	(612)	11	(601)

Hydro inflows

The dry conditions experienced in the second half of the financial year ended 30 June 2017 continued through the first quarter of this financial year. The arrival of Spring inflows saw storage return to average levels. However a hot and dry December has resulted in below average inflows and Meridian's hydro storage dropping below average for this time of year.

This has resulted in rising wholesale prices, Meridian reducing its hydro generation production and the calling of electricity swaptions. Higher wholesale electricity prices positively impacted revenues received from New Zealand generation production, albeit at lower production levels. However, this negatively impacts the cost to supply contracted physical and financial electricity sales.

Acquisition of GSP Energy Pty Ltd

Meridian has entered into an agreement for the purchase of 100% of the shares in GSP Energy Pty Ltd (GSP) for A$168 million (before stamp duty and any purchase price adjustments). This will settle on 29 March 2018. GSP operates three hydro power stations: the Hume, Burrinjuck and Keepit power stations, located in New South Wales, Australia. The generation produced from these stations will support sales to Powershop Australia customers.

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, change in fair value of hedges and other significant items.

EBITDAF is reported in the income statement allowing the evaluation of Meridian's operating performance without the non-cash impact 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 18.

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 23.

A. Financial performance

IN THIS SECTION

This section explains the financial performance of Meridian, providing additional information about individual items in the income statement, including:

a) accounting policies, judgements and estimates that are relevant for understanding items recognised in the income statement; and

b) 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

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.

He considers the business according to the nature of the products and services and the location of operations, as set out below:

SEGMENT	ACTIVITIES
NZ wholesale	Generation of electricity and its sale into the New Zealand wholesale electricity market. Purchase of electricity from the wholesale electricity market and its sale to the NZ Retail segment and to large industrial customers, including New Zealand Aluminium Smelter (NZAS) representing the equivalent of 43% (31 December 2016: 36%) of Meridian's New Zealand generation production. Development of renewable electricity generation opportunities in New Zealand.
NZ retail	Retailing of electricity and complementary products through 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 $73–$78 per megawatt hour (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. Agency margin from spot sales is included within 'Contracted sales, net of distribution costs'. The transfer price is set in a similar manner to transactions with third parties. Powershop New Zealand provides front line customer and back office services for Powershop Australia. Revenue of $2 million has been recorded in 'other revenue' and is eliminated on Group consolidation.
Australia	Generation of electricity from Meridian's two wind farms and sale into the Australian wholesale electricity market. Retailing of electricity through the Powershop brand in Australia. Development of renewable electricity generation options in Australia.
Other and unallocated	Other operations that are not considered reportable segments, including licensing of the Powershop platform. Activities and centrally based costs that are not directly allocated to other segments.

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.

A1 Segment performance (continued)

	NZ WHOLESALE		NZ RETAIL		AUSTRALIA		OTHER AND UNALLOCATED		INTER-SEGMENT		GROUP	
FOR THE SIX MONTHS TO 31 DECEMBER	2017 $M	2016 $M	2017 $M	2016 $M	2017 $M	2016 $M	2017 $M	2016 $M	2017 $M	2016 $M	2017 $M	2016 $M
Contracted sales, net of distribution costs	**191**	156	**328**	306	**49**	32	–	–	–	–	**568**	494
Virtual asset swap margins	**(4)**	5	–	–	–	–	–	–	–	–	**(4)**	5
Net cost of acquired generation	**31**	(4)	–	–	–	–	–	–	–	–	**31**	(4)
Generation spot revenue	**553**	312	–	–	**45**	38	–	–	–	–	**598**	350
Inter-segment electricity sales	**274**	238	–	–	–	–	–	–	**(274)**	(238)	–	–
Cost to supply contracted sales	**(682)**	(312)	**(237)**	(214)	**(37)**	(22)	–	–	**274**	238	**(682)**	(310)
Other market revenue/(costs)	**(3)**	(3)	**1**	1	–	–	–	–	–	–	**(2)**	(2)
Energy margin	**360**	**392**	**92**	**93**	**57**	**48**	**–**	**–**	**–**	**–**	**509**	**533**
Other revenue	**2**	3	**5**	6	–	–	**8**	4	**(5)**	(4)	**10**	9
Dividend revenue	–	–	–	–	–	–	–	1	–	(1)	–	–
Energy transmission expense	**(60)**	(64)	–	–	**(3)**	(2)	–	–	–	–	**(63)**	(66)
Gross margin	**302**	**331**	**97**	**99**	**54**	**46**	**8**	**5**	**(5)**	**(5)**	**456**	**476**
Employee expenses	**(14)**	(15)	**(15)**	(14)	**(4)**	(4)	**(14)**	(14)	–	–	**(47)**	(47)
Electricity metering expenses	–	–	**(15)**	(15)	–	–	–	–	–	–	**(15)**	(15)
Other operating expenses	**(26)**	(24)	**(18)**	(15)	**(14)**	(12)	**(11)**	(12)	**4**	3	**(65)**	(60)
EBITDAF	**262**	**292**	**49**	**55**	**36**	**30**	**(17)**	**(21)**	**(1)**	**(2)**	**329**	**354**
Depreciation and amortisation											**(134)**	(132)
Impairment of assets											**(2)**	–
Gain/(Loss) on sale of assets											**6**	(2)
Net change in fair value of electricity and other hedges											**(2)**	(75)
Operating profit											**197**	145
Finance costs											**(41)**	(39)
Interest income											–	1
Net change in fair value of treasury instruments											**(2)**	63
Net profit before tax											**154**	170
Income tax expense											**(45)**	(45)
Net profit after tax											**109**	**125**
Reconciliation of energy margin												
Electricity sales revenue	**942**	675	**626**	584	**137**	102	–	–	**(274)**	(238)	**1,431**	1,123
Electricity expenses, net of hedging	**(582)**	(283)	**(285)**	(263)	**(47)**	(28)	–	–	**274**	238	**(640)**	(336)
Electricity distribution expenses	–	–	**(249)**	(228)	**(33)**	(26)	–	–	–	–	**(282)**	(254)
Energy margin	**360**	**392**	**92**	**93**	**57**	**48**	–	–	–	–	**509**	**533**

The 2016 comparative performance has been restated to reflect the adoption of NZ IFRS 15 Revenue from Contracts with Customers.

A2 Income

6 MONTHS ENDED 31 DECEMBER OPERATING REVENUE	UNAUDITED 2017 $M	RESTATED 2016 $M
Electricity sales to customers	**852**	750
Electricity generation, net of hedging	**579**	373
Electricity-related services revenue	**4**	5
Other revenue	**6**	3
	1,441	**1,131**

POSITION AS AT CUSTOMER CONTRACT ASSETS	UNAUDITED 31 DEC 2017 $M	RESTATED 31 DEC 2016 $M
Opening balance	**18**	15
Deferred during the period		
Discounts and up front credits to customers	**5**	5
Sales costs	**2**	2
	7	7
Released to the income statement during the period		
Electricity sales to customers	**(4)**	(3)
Other expenses	**(2)**	(2)
	(6)	(5)
Closing balance	**19**	**17**

6 MONTHS ENDED 31 DECEMBER TOTAL REVENUE BY GEOGRAPHIC AREA	UNAUDITED 2017 $M	RESTATED 2016 $M
New Zealand	**1,300**	1,028
Australia	**137**	101
United Kingdom	**4**	2
Total operating revenue	**1,441**	**1,131**

6 MONTHS ENDED 31 DECEMBER GAIN/(LOSS) ON SALE OF ASSETS	UNAUDITED 2017 $M	2016 $M
Gain/(loss) on sale of property, plant and equipment	**6**	(2)

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.

Key judgements and estimates – customer contracts

Electricity consumption

Meridian exercises judgement in estimating retail electricity sales where customer electricity meters are unread at balance date. These estimates of customer electricity usage in the unread period are based on the customers' historical consumption patterns.

Revenue is recognised at the time of supply and customer consumption. Variable elements of the sale price such as discounts and credits given to customers and any incremental costs incurred in obtaining or retaining a customer contract are deferred to customer contract assets on the balance sheet and released to the income statement over the contract tenure.

Customer contract tenure

Meridian exercises judgement in estimating customer contract tenures where contracts do not have a fixed term. These estimations are based on the average rate of customer churn for groups of customers with similar attributes. The following estimates of customer contract tenure have been used to spread variable components of the sale price and incremental costs of acquiring a customer:

- New Zealand—residential and business between 2 and 3 years.
- Australian—residential and business between 2 and 3 years.

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

Revenues 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 revenues from non-core activities such as Powershop platform licensing, finance leases, land leases and farming.

A3 Expenses

6 MONTHS ENDED 31 DECEMBER OPERATING EXPENSES	UNAUDITED 2017 $M	RESTATED 2016 $M
Electricity expenses, net of hedging	**640**	336
Electricity distribution expenses	**282**	253
Electricity transmission expenses	**63**	66
Employee expenses	**47**	47
Electricity metering expense	**15**	15
Other expenses	**65**	60
	1,112	**777**

FINANCE COSTS	UNAUDITED 2017 $M	2016 $M
Interest on borrowings	**37**	34
Interest on option premiums	**1**	2
Interest on finance lease payable	**3**	3
	41	**39**

IMPAIRMENT OF ASSETS	UNAUDITED 2017 $M	2016 $M
Impairment of assets	**(2)**	–

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 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.

Impairment of assets

During the period, the book value of Central Wind consent has been impaired as we no longer intend to pursue development of this location.

A4 Taxation

6 MONTHS ENDED 31 DECEMBER INCOME TAX EXPENSE	UNAUDITED 2017 $M	RESTATED 2016 $M
Current income tax charge	**63**	62
Deferred tax	**(18)**	(17)
Income tax expense	**45**	**45**
Reconciliation to profit before tax		
Profit before tax	**154**	170
Income tax at applicable rates	**44**	48
Expenditure not deductible for tax	**1**	(3)
Income tax expense	**45**	**45**

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 revenues. In this section of the summary notes there is information about:

a) property, plant and equipment; and

b) intangible assets.

B1 Property, plant and equipment

POSITION AS AT	UNAUDITED 31 DEC 2017 $M	UNAUDITED 31 DEC 2016 $M	AUDITED 30 JUN 2017 $M
Opening net book value	**7,961**	7,771	7,771
Additions	**12**	12	34
Transfers—intangible assets	**–**	(9)	(9)
Transfers—other assets	**–**	–	(8)
Impairment	**–**	–	(12)
Disposals	**–**	(2)	(2)
Foreign currency exchange rate movements	**22**	(1)	2
Generation structures and plant revaluation:			
– revaluation reserve	**–**	–	428
– income statement	**–**	–	2
Depreciation expense	**(124)**	(123)	(245)
Closing net book value	**7,871**	**7,648**	**7,961**

B2 Intangible assets

POSITION AS AT	UNAUDITED 31 DEC 2017 $M	UNAUDITED 31 DEC 2016 $M	AUDITED 30 JUN 2017 $M
Opening net book value	**58**	47	47
Additions	**10**	10	21
Transfers—property, plant and equipment	**–**	9	9
Amortisation expense	**(10)**	(9)	(19)
Closing net book value	**58**	**57**	**58**

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 2017 using an independent valuer, resulting in a net increase of $199 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 there has been no material change in fair value.

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:

a) equity and dividends; and

b) net debt.

C1 Capital management

Capital risk management objectives

Meridian's objective when managing capital is to provide appropriate returns to shareholders while 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.

POSITION AS AT	NOTE	UNAUDITED 31 DEC 2017 $M	UNAUDITED RESTATED 31 DEC 2016 $M	AUDITED RESTATED 30 JUN 2017 $M
Share capital		**1,597**	1,597	1,598
Retained earnings		**(902)**	(601)	(725)
Other reserves		**4,238**	3,912	4,222
		4,933	**4,908**	**5,095**
Drawn borrowings	C4	**1,331**	1,163	1,158
Finance lease payable		**48**	47	47
Less: cash and cash equivalents		**(108)**	(44)	(80)
		1,271	**1,166**	**1,125**
Net capital		**6,204**	**6,074**	**6,220**

C2 Earnings per share

BASIC AND DILUTED EARNINGS PER SHARE (EPS)	UNAUDITED 31 DEC 2017	UNAUDITED RESTATED 31 DEC 2016
Profit after tax attributable to shareholders of the parent company ($M)	**109**	125
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)	**4.3**	4.9

C3 Dividends

6 MONTHS ENDED 31 DECEMBER DIVIDENDS DECLARED AND PAID	UNAUDITED 2017 $M	UNAUDITED 2016 $M
Final ordinary and special dividend 2017: 11.14cps (2016: 10.84cps)	**286**	278
Total dividends paid	**286**	**278**
DIVIDENDS DECLARED AND NOT RECOGNISED AS A LIABILITY		
Interim ordinary dividend 2018: 5.38cps (2017: 5.33cps)	**138**	137
Interim special dividend 2018: 2.44cps (2017: 2.44cps)	**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 and medium-term economic, market and hydrology conditions.

Subsequent event—dividend declared

On 20 February 2018, the Board declared a partially imputed interim ordinary dividend of 5.38 cents per share. Additionally the Board declared an unimputed special dividend of 2.44 cents per share.

C4 Borrowings

POSITION AS AT		UNAUDITED								AUDITED			
		31 DEC 2017				31 DEC 2016				30 JUN 2017			
GROUP (NZ$M)	CURRENCY BORROWED IN	DRAWN FACILITY AMOUNT	TRANS-ACTION COSTS	FAIR VALUE ADJUST-MENT	CARRYING AMOUNT	DRAWN FACILITY AMOUNT	TRANS-ACTION COSTS	FAIR VALUE ADJUST-MENT	CARRYING AMOUNT	DRAWN FACILITY AMOUNT	TRANS-ACTION COSTS	FAIR VALUE ADJUST-MENT	CARRYING AMOUNT
Current borrowings													
Unsecured borrowings	NZD	**191**	**(1)**	**–**	**190**	180	(1)	–	179	171	(1)	–	170
Unsecured borrowings	AUD	**–**	**–**	**–**	**–**	8	–	–	8	–	–	–	–
Total current borrowings		**191**	**(1)**	**–**	**190**	**188**	**(1)**	**–**	**187**	**171**	**(1)**	**–**	**170**
Non-current borrowings													
Unsecured borrowings	NZD	**700**	**(2)**	**–**	**698**	545	(1)	–	544	555	(1)	–	554
Unsecured borrowings	USD	**440**	**(1)**	**39**	**478**	430	(2)	70	498	432	(2)	38	468
Total non-current borrowings		**1,140**	**(3)**	**39**	**1,176**	**975**	**(3)**	**70**	**1,042**	**987**	**(3)**	**38**	**1,022**
Total borrowings		**1,331**	**(4)**	**39**	**1,366**	**1,163**	**(4)**	**70**	**1,229**	**1,158**	**(4)**	**38**	**1,192**

Meridian has committed bank facilities of $685 million, of which $375 million were undrawn at 31 December 2017. 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 amount, net of transaction costs paid. Borrowings are subsequently stated at amortised cost using the effective interest method. Any borrowings which 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 foreign currencies are retranslated to the functional currency at each reporting date. Any retranslation effect is included in the '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.

Fair value of items held at amortised cost

POSITION AS AT	UNAUDITED		AUDITED	UNAUDITED		AUDITED
	31 DEC 2017	31 DEC 2016	30 JUN 2017	31 DEC 2017	31 DEC 2016	30 JUN 2017
GROUP (NZ$M)	CARRYING VALUE			FAIR VALUE		
Retail bonds	**300**	150	300	**316**	152	311
Renewable energy bonds	**–**	75	–	**–**	77	–
Unsecured term loan (EKF facility)	**85**	95	90	**92**	103	98

Within term borrowings there are longer-dated, fixed-interest-rate instruments which 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 retail bonds and renewable energy 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. These are classified as level 2 instruments within the fair value hierarchy. 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 25).

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:

a) analysing financial (hedging) instruments used to manage risk; and

b) 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 require management estimation and judgement (this is discussed in further detail later in this note). These estimates can have a significant risk of material adjustment in future periods. Fair value measurements are grouped within a three-level fair value hierarchy based on the observability of valuation inputs (described below).

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

		FAIR VALUE ON THE BALANCE SHEET						FAIR VALUE MOVEMENTS IN THE INCOME STATEMENT	
		UNAUDITED				AUDITED		UNAUDITED	
		31 DEC 2017		31 DEC 2016		30 JUN 2017		31 DEC 2017	31 DEC 2016
	LEVEL	ASSETS $M	LIABILITIES $M	ASSETS $M	LIABILITIES $M	ASSETS $M	LIABILITIES $M	$M	$M
Cross-currency interest rate swap (CCIRS)—fair value hedge	2	**43**	**(4)**	70	–	46	(8)	**–**	1
CCIRS—cash flow hedge	2	**(2)**	**–**	(2)	–	(3)	–	**–**	–
Interest rate swap (IRS)	2	**12**	**(112)**	8	(98)	9	(106)	**(2)**	62
Treasury hedges		**53**	**(116)**	**76**	**(98)**	**52**	**(114)**	**(2)**	**63**
Foreign exchange hedges	2	**–**	**–**	1	–	1	–	**–**	(1)
Market traded electricity hedges	1	**22**	**(27)**	26	(13)	21	(29)	**3**	1
Other electricity hedges	3	**42**	**(26)**	17	(20)	41	(29)	**3**	(67)
Electricity options	3	**95**	**–**	117	–	98	–	**(3)**	(3)
Large-scale generation certificates (LGC)—Holdings created from wind farm generation	1	**44**	**–**	43	–	16	–	**2**	–
LGC—forward and option contracts	2	**2**	**(27)**	1	(45)	2	(19)	**(7)**	(5)
Electricity and other hedges		**205**	**(80)**	**205**	**(78)**	**179**	**(77)**	**(2)**	**(75)**
Total hedges		**258**	**(196)**	**281**	**(176)**	**231**	**(191)**	**(4)**	**(12)**

Settlements

The following provides a summary of the settlements through EBITDAF for financial instruments:

	UNAUDITED 2017				UNAUDITED 2016			
$M	ELECTRICITY HEDGES	LGCS	ELECTRICITY OPTIONS	TOTAL	ELECTRICITY HEDGES	LGCS	ELECTRICITY OPTIONS	TOTAL
Operating revenue	**(34)**	**28**	**–**	**(6)**	18	28	–	46
Operating expenses	**30**	**(5)**	**3**	**28**	(16)	(5)	–	(21)
Total settlements in EBITDAF	**(4)**	**23**	**3**	**22**	**2**	**23**	**–**	**25**

Level 3 financial instrument analysis

The following provides a summary of the movements through EBITDAF and movements in the fair value of level 3 financial instruments:

$M	UNAUDITED 2017 ELECTRICITY HEDGES	UNAUDITED 2017 LGCS	UNAUDITED 2017 ELECTRICITY OPTIONS	UNAUDITED 2017 TOTAL	UNAUDITED 2016 ELECTRICITY HEDGES	UNAUDITED 2016 LGCS	UNAUDITED 2016 ELECTRICITY OPTIONS	UNAUDITED 2016 TOTAL
Electricity and other hedges settled in EBITDAF:								
Operating revenue	**(13)**	**–**	**–**	**(13)**	17	–	–	17
Operating expenses	**37**	**–**	**3**	**40**	(15)	–	–	(15)
Total settlements in EBITDAF	**24**	**–**	**3**	**27**	**2**	**–**	**–**	**2**
Net change in fair value of electricity and other hedges:								
Remeasurement	**27**	**–**	**–**	**27**	(64)	(6)	(3)	(73)
Hedges settled	**(24)**	**–**	**(3)**	**(27)**	(2)	–	–	(2)
Total net change in fair value of electricity and other hedges	**3**	**–**	**(3)**	**–**	**(66)**	**(6)**	**(3)**	**(75)**
Balance at the beginning of the period	**12**	**–**	**98**	**110**	**63**	**(38)**	**120**	**145**
Fair value movements	**3**	**–**	**(3)**	**–**	(66)	(6)	(3)	(75)
Electricity hedges acquired	**1**	**–**	**–**	**1**	–	–	–	–
Balance at the end of the year	**16**	**–**	**95**	**111**	**(3)**	**(44)**	**117**	**70**

LGC options and forwards have been transferred to level 2 as inputs derived from observable market prices are now available to value them.

Fair value technique and key inputs

In estimating the fair value of an asset or liability, Meridian uses market-observable data to the extent that 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 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 (DCFs), a number 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;
- Meridian's best estimate of electricity volumes called over the life of electricity options;
- discount rates based on the forward IRS curve adjusted for counterparty risk;
- calibration factor applied to forward price curves as a consequence of initial recognition differences;
- NZAS continues to operate; and
- contracts run their full term.

The table below describes the additional key inputs and techniques used in the valuation of level 2 and 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 price is used. This is based on a fundamental analysis of expected demand and the cost of new supply and any other relevant wholesale market factors.	$75/MWh to $107/MWh (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.	A$59–A$88	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.

Movements in recalibration differences arising from electricity hedging

POSITION AS AT	UNAUDITED 31 DEC 2017 $M	UNAUDITED 31 DEC 2016 $M	AUDITED 30 JUN 2017 $M
Opening difference	**6**	(55)	(55)
Initial differences on new hedges	**(1)**	–	–
Volumes expired and amortised	**(1)**	4	8
Recalibration for future price estimates and time	**–**	55	53
Closing difference	**4**	**4**	**6**

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.

E. Group structure and other

E1 Group structure

The following changes occurred in the six months:

On 25 May 2017, Meridian established Flux Federation Limited. This entity is responsible for developing and licensing the Powershop platform. On 1 July 2017, Powershop New Zealand Limited sold the Powershop platform and supporting business assets as well as its full shareholding in Powershop UK Limited to Flux Federation Limited (a wholly owned subsidiary of Meridian).

E2 Commitments

Meridian has entered into an agreement for the purchase of 100% of the shares in GSP Energy Pty Ltd (GSP) for A$168 million (before stamp duty and any purchase price adjustments). This will settle on 29 March 2018.

E3 Contingent assets and liabilities

Other than the guarantees disclosed in the 30 June 2017 financial statements, there were no contingent assets or liabilities at 31 December 2017 (31 Dec 2016: nil, 30 Jun 2017: nil).

E4 Subsequent events

There are no subsequent events other than dividends declared on 20 February 2018. 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 (except in the case of NZ IFRS 15 Revenue from Contracts with Customers—the details of which are disclosed in significant matters on page 16).

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

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. Meridian has not yet completed its assessment as to whether currently fair valued financial instruments could be hedge accounted; therefore the full extent of this standard cannot yet be determined. However, there is no balance sheet change, merely a potential shift from the income statement to other comprehensive income.

NZ IFRS 16 Leases (effective 1 January 2019)—NZ IFRS 16 will be effective in Meridian's 2020 financial year. It will fundamentally change the way leases are accounted for by lessees. Currently, leases are accounted for as either on-balance-sheet finance leases or off-balance-sheet operating leases (by lessees). Under the new accounting standard, this will be replaced by a single, on-balance-sheet model for all leases, which is similar to the current finance lease approach. The full impact of this standard has not yet been fully assessed.

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 2017, and the comprehensive income statement, changes in equity and cash flows for the six month period ended on that date, and other explanatory information on pages 10 to 28.

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 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 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 are 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, 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, global reporting initiative analysis, audit of the securities registers, assurance engagements in relation to the vesting of the executive long term incentive plan, the solvency return of Meridian Energy Limited'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 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 2017 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*.

for Deloitte Limited
On behalf of the Auditor-General
20 February 2018

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meridian

INTERIM REPORT
FOR THE SIX
MONTHS ENDED
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