MERIDIAN ENERGY LIMITED

CONDENSED INTERIM FINANCIAL STATEMENTS

FOR THE SIX MONTHS TO 31 DECEMBER 2018

meridian

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AS AT AND FOR THE SIX MONTHS TO 31 DECEMBER 2018

CONDENSED INTERIM FINANCIAL STATEMENTS

KEY

KEY JUDGEMENTS AND ESTIMATES

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

SIGNED REPORT

INCOME STATEMENT FOR THE SIX MONTHS TO 31 DECEMBER 2018

	NOTE	UNAUDITED 2018 $M	UNAUDITED 2017 $M
Operating revenue	A2	**1,691**	1,441
Operating expenses	A3	**(1,302)**	(1,112)
Earnings before interest, tax, depreciation, amortisation, changes in fair value of hedges and other significant items (EBITDAF)		**389**	329
Depreciation and amortisation	B1, B2	**(137)**	(134)
Impairment of assets	A3	**–**	(2)
Gain on sale of assets	A2	**–**	6
Net change in fair value of electricity and other hedges	D1	**20**	(2)
Operating profit		**272**	197
Finance costs	A3	**(43)**	(41)
Net change in fair value of treasury instruments	D1	**(15)**	(2)
Net profit before tax		**214**	154
Income tax expense	A4	**(62)**	(45)
Net profit after tax attributed to the shareholders of the parent company		**152**	**109**
Profit attributed to the shareholders of the parent company		**152**	**109**

Earnings per share (EPS) attributed to ordinary equity holders of the parent		**Cents**	Cents
Basic and diluted earnings per share	C2	**5.9**	4.3

COMPREHENSIVE INCOME STATEMENT FOR THE SIX MONTHS TO 31 DECEMBER 2018

	UNAUDITED 2018 $M	UNAUDITED 2017 $M
Net profit after tax	**152**	109
Items that will not be reclassified to profit or loss:		
Net gain on cash flow hedges	**–**	1
Exchange differences arising from translation of foreign operations	**(19)**	15
Other comprehensive income for the period, net of tax	**(19)**	16
Total comprehensive income for the period, net of tax attributed to shareholders of the parent company	**133**	**125**

The notes to the condensed interim financial statements form an integral part of these financials statements.

BALANCE SHEET AS AT 31 DECEMBER 2018

	NOTE	UNAUDITED 31 DEC 2018 $M	UNAUDITED 31 DEC 2017 $M	AUDITED 30 JUN 2018 $M
Current assets				
Cash and cash equivalents		**78**	108	60
Trade receivables		**259**	304	261
Customer contract assets	B3	**20**	19	19
Financial instruments	D1	**106**	92	77
Other assets		**35**	30	32
Total current assets		**498**	553	449
Non-current assets				
Property, plant and equipment	B1	**7,809**	7,871	7,941
Intangible assets	B2	**59**	58	60
Deferred tax		**38**	46	46
Financial instruments	D1	**162**	166	136
Total non-current assets		**8,068**	8,141	8,183
Total assets		**8,566**	8,694	8,632
Current liabilities				
Payables and accruals		**293**	317	267
Employee entitlements		**11**	11	16
Customer contract liabilities		**15**	11	14
Current portion of term borrowings	C4	**512**	190	450
Finance lease payable		**1**	1	1
Financial instruments	D1	**52**	75	52
Current tax payable		**30**	19	43
Total current liabilities		**914**	624	843
Non-current liabilities				
Term borrowings	C4	**1,049**	1,176	1,023
Deferred tax		**1,668**	1,700	1,683
Provisions		**9**	9	9
Finance lease payables		**45**	47	47
Financial instruments	D1	**151**	121	129
Term payables		**66**	84	75
Total non-current liabilities		**2,988**	3,137	2,966
Total liabilities		**3,902**	3,761	3,809
Net assets		**4,664**	**4,933**	**4,823**
Shareholders' equity				
Share capital		**1,598**	1,597	1,598
Reserves		**3,066**	3,336	3,225
Total shareholders' equity		**4,664**	**4,933**	**4,823**

For and on behalf of the Board of Directors who authorised the issue of the condensed interim financial statements on 19 February 2019.

CHRIS MOLLER, *Board Chair*

JAN DAWSON, *Chair, Audit and Risk Committee*

The notes to the condensed interim financial statements form an integral part of these financials statements.

CHANGES IN EQUITY FOR THE SIX MONTHS TO 31 DECEMBER 2018

AUDITED $M	NOTE	SHARE CAPITAL	SHARE OPTION RESERVE	REVALUATION RESERVE	FOREIGN CURRENCY TRANSLATION RESERVE	CASH FLOW HEDGE RESERVE	RETAINED EARNINGS	SHAREHOLDER EQUITY
Balance at 1 July 2017		**1,598**	**1**	**4,249**	**(27)**	**(1)**	**(725)**	**5,095**
Net profit for the year		–	–	–	–	–	201	201
Other comprehensive income								
Net gain on cash flow hedges		–	–	–	–	2	–	2
Exchange differences from translation of foreign operations		–	–	–	11	–	–	11
Total comprehensive income for the year, net of tax		**–**	**–**	**–**	**11**	**2**	**201**	**214**
Dividends paid		–	–	–	–	–	(486)	(486)
Balance at 30 June 2018 and 1 July 2018		**1,598**	**1**	**4,249**	**(16)**	**1**	**(1,010)**	**4,823**

UNAUDITED	NOTE	SHARE CAPITAL	SHARE OPTION RESERVE	REVALUATION RESERVE	FOREIGN CURRENCY TRANSLATION RESERVE	CASH FLOW HEDGE RESERVE	RETAINED EARNINGS	SHAREHOLDER EQUITY
Net profit for the period		–	–	–	–	–	152	152
Other comprehensive income								
Exchange differences from translation of foreign operations		–	–	–	(19)	–	–	(19)
Total comprehensive income for the period, net of tax		**–**	**–**	**–**	**(19)**	**–**	**152**	**133**
Dividends paid	C3	–	–	–	–	–	(292)	(292)
Balance at 31 December 2018		**1,598**	**1**	**4,249**	**(35)**	**1**	**(1,150)**	**4,664**

UNAUDITED $M	NOTE	SHARE CAPITAL	SHARE OPTION RESERVE	REVALUATION RESERVE	FOREIGN CURRENCY TRANSLATION RESERVE	CASH FLOW HEDGE RESERVE	RETAINED EARNINGS	SHAREHOLDER EQUITY
Balance at 1 July 2017		**1,598**	**1**	**4,249**	**(27)**	**(1)**	**(725)**	**5,095**
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 year, 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**

The notes to the condensed interim financial statements form an integral part of these financials statements.

CASH FLOWS FOR THE SIX MONTHS TO 31 DECEMBER 2018

	NOTE	UNAUDITED 2018 $M	UNAUDITED 2017 $M
Operating activities			
Receipts from customers		**1,695**	1,374
Payments to suppliers and employees		**(1,310)**	(1,101)
Interest paid		**(41)**	(38)
Income tax paid		**(82)**	(73)
Operating cash flows		**262**	162
Investment activities			
Sale of property, plant and equipment		–	12
Purchase of property, plant and equipment		**(23)**	(18)
Purchase of intangible assets		**(12)**	(10)
Investing cash flows		**(35)**	(16)
Financing activities			
Term borrowings drawn		**89**	170
Term borrowings repaid		**(5)**	(5)
Dividends	C3	**(292)**	(286)
Financing cash flows		**(208)**	(121)
Net increase in cash and cash equivalents		**19**	**25**
Cash and cash equivalents at beginning of the six months		**60**	80
Effect of exchange rate changes on net cash		**(1)**	3
Cash and cash equivalents at end of the six months		**78**	**108**

The notes to the condensed interim financial statements form an integral part of these financials statements.

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 (FMC) 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 2018 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 2018 was 0.9529 (December 2017: 0.9084, 30 June 2018: 0.9138).

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 2018 have been applied consistently to all periods presented in the condensed interim financial statements with the exception that NZ IFRS 9 Financial Instruments has been adopted during the Period.

Under NZ IFRS 9, the measurement of our provision for doubtful debts has changed from an incurred loss model to an expected credit loss model.

This approach has not changed the overall level of the doubtful debt provision.

No other adjustments or restatements were required as a result of adopting NZ IFRS 9 and there was no impact to the primary statements on pages 2 to 5.

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 have not changed from those used in preparing the financial statements for the year ended 30 June 2018.

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.

HYDRO INFLOWS. The first half of the financial year began with above average hydro storage, but a combination of drier conditions and strong winter demand meant these levels deteriorated. In October the combination of continued low storage levels, gas restrictions and the highest October demand ever saw wholesale prices rise to extraordinary levels and resulted in calling of the electricity swaption.

Hydro inflows picked up in November and December and coincided with significantly lower irrigation demand, however prices remained high as a result of restricted gas supply. This has a positive impact on revenues received from New Zealand generation production but negatively impacts the cost to supply contracted physical and financial electricity sales.

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 8.

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 13.

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 6 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.

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

New Zealand 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 New Zealand Retail segment and to large industrial customers, including New Zealand Aluminium Smelter (NZAS) representing the equivalent of 40% (31 December 2017: 43%) of Meridian's New Zealand generation production.
- Development of renewable electricity generation opportunities in New Zealand.

New Zealand 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 $74–$79 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 provide 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 three hydro power stations for 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 Flux Federation developed electricity and gas retailing 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 7 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	2018 $M	2017 $M	2018 $M	2017 $M	2018 $M	2017 $M	2018 $M	2017 $M	2018 $M	2017 $M	2018 $M	2017 $M
Contracted sales, net of distribution costs	249	191	312	328	70	61	–	–	–	–	631	580
Costs to supply customers	(1,005)	(682)	(233)	(237)	(60)	(47)	–	–	296	274	(1,002)	(692)
Net cost of acquired generation	76	31	–	–	(4)	(14)	–	–	–	–	72	17
Generation spot revenue	812	553	–	–	60	57	–	–	–	–	872	610
Inter-segment electricity sales	296	274	–	–	–	–	–	–	(296)	(274)	–	–
Virtual asset swap margins	6	(4)	–	–	–	–	–	–	–	–	6	(4)
Other market revenue/(costs)	(4)	(3)	1	1	–	–	–	–	–	–	(3)	(2)
Energy Margin	**430**	**360**	**80**	**92**	**66**	**57**	**–**	**–**	**–**	**–**	**576**	**509**
Other Revenue	2	2	6	5	1	–	13	8	(9)	(5)	13	10
Energy transmission expense	(63)	(60)	–	–	(2)	(3)	–	–	–	–	(65)	(63)
Gross Margin	**369**	**302**	**86**	**97**	**65**	**54**	**13**	**8**	**(9)**	**(5)**	**524**	**456**
Employee expenses	(14)	(14)	(16)	(15)	(6)	(4)	(13)	(14)	–	–	(49)	(47)
Electricity metering expenses	–	–	(16)	(15)	–	–	–	–	–	–	(16)	(15)
Other operating expenses	(30)	(26)	(17)	(18)	(18)	(14)	(10)	(11)	5	4	(70)	(65)
EBITDAF	**325**	**262**	**37**	**49**	**41**	**36**	**(10)**	**(17)**	**(4)**	**(1)**	**389**	**329**
Depreciation and amortisation											(137)	(134)
Impairment of assets											–	(2)
Gain on sale of assets											–	6
Net change in fair value of electricity and other hedges											20	(2)
Operating profit											**272**	**197**
Finance costs											(43)	(41)
Interest income											–	–
Net change in fair value of treasury instruments											(15)	(2)
Net profit before tax											**214**	**154**
Income tax expense											(62)	(45)
Net profit after tax											**152**	**109**
Reconciliation of energy margin												
Electricity sales revenue	1,187	942	639	626	148	137	–	–	(296)	(274)	1,678	1,431
Electricity expenses, net of hedging	(757)	(582)	(306)	(285)	(49)	(47)	–	–	296	274	(816)	(640)
Electricity distribution expenses	–	–	(253)	(249)	(33)	(33)	–	–	–	–	(286)	(282)
Energy margin	**430**	**360**	**80**	**92**	**66**	**57**	**–**	**–**	**–**	**–**	**576**	**509**

A2 INCOME

6 MONTHS ENDED 31 DECEMBER OPERATING REVENUE	UNAUDITED 2018 $M	UNAUDITED 2017 $M
Electricity sales to customers	**875**	852
Electricity generation, net of hedging	**803**	579
Electricity-related services revenue	**4**	4
Other revenue	**9**	6
	1,691	**1,441**

6 MONTHS ENDED 31 DECEMBER TOTAL REVENUE BY GEOGRAPHIC AREA	UNAUDITED 2018 $M	UNAUDITED 2017 $M
New Zealand	**1,535**	1,300
Australia	**150**	137
United Kingdom	**6**	4
Total operating revenue	**1,691**	**1,441**

6 MONTHS ENDED 31 DECEMBER GAIN ON SALE OF ASSETS	UNAUDITED 2018 $M	UNAUDITED 2017 $M
Gain on sale of property, plant & equipment	–	6

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.

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.

A3 EXPENSES

6 MONTHS ENDED 31 DECEMBER OPERATING EXPENSES	UNAUDITED 2018 $M	UNAUDITED 2017 $M
Electricity expenses, net of hedging	**816**	640
Electricity distribution expenses	**286**	282
Electricity transmission expenses	**65**	63
Employee expenses	**49**	47
Electricity metering expenses	**16**	15
Other expenses	**70**	65
	1,302	**1,112**

FINANCE COSTS	UNAUDITED 2018 $M	UNAUDITED 2017 $M
Interest on borrowings	**39**	37
Interest on electricity option premium	**1**	1
Interest on finance lease payable	**3**	3
	43	**41**

IMPAIRMENT OF ASSETS	UNAUDITED 2018 $M	UNAUDITED 2017 $M
Impairment of assets	–	2

OPERATING EXPENSES

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 non-financial assets

During the June 2018 financial year the book value of Central Wind consent was impaired as development at this location is unlikely to occur prior to the expiry of the exisiting resource consent.

A4 TAXATION

6 MONTHS ENDED 31 DECEMBER INCOME TAX EXPENSE	UNAUDITED 2018 $M	UNAUDITED 2017 $M
Current income tax charge	**76**	63
Deferred tax	**(14)**	(18)
Income tax expense	**62**	**45**
Reconciliation to profit before tax		
Profit before tax	**214**	154
Income tax at applicable rates	**60**	44
Expenditure not deductible for tax	**2**	1
Income tax expense	**62**	**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, and

c) customer contract assets

B1 PROPERTY, PLANT AND EQUIPMENT

POSITION AS AT	UNAUDITED 31 DEC 2018 $M	UNAUDITED 31 DEC 2017 $M	AUDITED 30 JUN 2018 $M
Opening net book value	**7,941**	7,961	7,961
Additions	**19**	12	36
Transfers – intangible assets	**–**	–	(2)
Disposals	**–**	–	(10)
Purchase of Subsidiary	**–**	–	184
Foreign currency exchange rate movements	**(26)**	22	19
Depreciation expense	**(125)**	(124)	(247)
Closing net book value	**7,809**	**7,871**	**7,941**

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

Fair value and revaluation of generation structures and plant

Meridian engaged an independent valuer to assess its generation structures and plant assets at 30 June 2018 using capitalisation of earnings and discounted cashflows (DCFs) when determining a valuation range. The review indicated that the carrying value was a fair representation of fair value, and for this reason Meridian has not completed a full revaluation of this asset class.

A review and assessment of key valuation inputs included in that valuation has been undertaken as at 31 December 2018, indicating that there has been no material change in fair value.

B2 INTANGIBLE ASSETS

POSITION AS AT	UNAUDITED 31 DEC 2018 $M	UNAUDITED 31 DEC 2017 $M	AUDITED 30 JUN 2018 $M
Opening Net Book value	**60**	58	58
Additions	**11**	10	21
Transfers – property, plant and equipment	**–**	–	2
Amortisation expense	**(12)**	(10)	(21)
Closing net book value	**59**	**58**	**60**

B3 CUSTOMER CONTRACT ASSETS

POSITION AS AT CUSTOMER CONTRACT ASSETS	UNAUDITED 31 DEC 2018 $M	UNAUDITED 31 DEC 2017 $M	AUDITED 30 JUN 2018 $M
Opening balance	**19**	18	18
Deferred during the period			
Discounts and up-front credits to customers	**6**	5	11
Sales costs	**2**	2	3
	8	7	14
Released to the income statement during the period			
Electricity sales to customers	**(5)**	(4)	(9)
Employee expenses	**–**	–	(1)
Other expenses	**(2)**	(2)	(3)
	(7)	(6)	(13)
Closing balance	**20**	**19**	**19**

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 whilst maintaining a capital structure that safeguards its ability to remain a going concern and optimises the cost of capital.

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

Meridian manages its capital through various means, including:

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

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

Meridian is in full compliance with debt facility financial covenants.

POSITION AS AT	NOTE	UNAUDITED 31 DEC 2018 $M	UNAUDITED 31 DEC 2017 $M	AUDITED 30 JUN 2018 $M
Share capital		**1,598**	1,597	1,598
Retained earnings		**(1,150)**	(902)	(1,010)
Other reserves		**4,216**	4,238	4,235
		4,664	**4,933**	**4,823**
Drawn borrowings	C4	**1,505**	1,331	1,428
Finance lease payable		**46**	48	48
Less: cash and cash equivalents		**(78)**	(108)	(60)
		1,473	**1,271**	**1,416**
Net capital		**6,137**	**6,204**	**6,239**

C2 EARNINGS PER SHARE

BASIC AND DILUTED EARNINGS PER SHARE (EPS)	UNAUDITED 31 DEC 2018	UNAUDITED 31 DEC 2017
Profit after tax attributable to shareholders of the parent company ($M)	**152**	109
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)	**5.9**	4.3

C3 DIVIDENDS

6 MONTHS ENDED 31 DECEMBER DIVIDENDS DECLARED AND PAID	UNAUDITED 2018 $M	UNAUDITED 2017 $M
Final ordinary and special dividend 2018: 11.38cps (2017: 11.14cps)	**292**	286
Total dividends paid	**292**	**286**

DIVIDENDS DECLARED AND NOT RECOGNISED AS A LIABILITY		
Interim ordinary dividend 2019: 5.70cps (2018: 5.38cps)	**146**	138
Interim special dividend 2019: 2.44cps (2018: 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 19 February 2019 the Board declared a partially imputed interim ordinary dividend of 5.70 cents per share. Additionally the Board declared an un-imputed special dividend of 2.44 cents per share.

C4 BORROWINGS

POSITION AS AT		UNAUDITED 31 DEC 2018				UNAUDITED 31 DEC 2017				AUDITED 30 JUN 2018			
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	**233**	**(1)**	**–**	**232**	191	(1)	–	190	169	(1)	–	168
Unsecured borrowings	USD	**272**	**–**	**8**	**280**	–	–	–	–	272	–	10	282
Total current borrowings		**505**	**(1)**	**8**	**512**	**191**	**(1)**	**–**	**190**	**441**	**(1)**	**10**	**450**
Non-current borrowings													
Unsecured borrowings	NZD	**840**	**(2)**	**–**	**838**	700	(2)	–	698	821	(3)	–	818
Unsecured borrowings	USD	**160**	**–**	**51**	**211**	440	(1)	39	478	166	–	39	205
Total non-current borrowings		**1,000**	**(2)**	**51**	**1,049**	**1,140**	**(3)**	**39**	**1,176**	**987**	**(3)**	**39**	**1,023**
Total borrowings		**1,505**	**(3)**	**59**	**1,561**	**1,331**	**(4)**	**39**	**1,366**	**1,428**	**(4)**	**49**	**1,473**

Meridian has committed bank facilities of $725 million of which $300 million were undrawn at 31 December 2018. The expiry of these facilities range from January 2019 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 to that of the borrowing entity's reporting currency.

Fair value of items held at amortised cost

POSITION AS AT	UNAUDITED 31 DEC 2018 $M	UNAUDITED 31 DEC 2017 $M	AUDITED 30 JUN 2018 $M	UNAUDITED 31 DEC 2018 $M	UNAUDITED 31 DEC 2017 $M	AUDITED 30 JUN 2018 $M
NZ$M		CARRYING VALUE			FAIR VALUE	
Retail bonds	**500**	300	500	**523**	312	514
Floating rate notes	**100**	100	100	**101**	102	102
Unsecured term loan (EKF facility)	**75**	85	80	**80**	92	86

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 16).

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

C4 BORROWINGS *continued*

Reconciliation of liabilities arising from financing activities

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes.

	UNAUDITED 31 DEC 2018							
GROUP NZ$M	BALANCE AT 1 JULY 2018	TERM BORROWINGS DRAWN	TERM BORROWINGS REPAID	FAIR VALUE ADJUSTMENTS	FOREIGN EXCHANGE	TRANSACTION COSTS PAID & ACCRUED	FINANCE LEASE PAID	BALANCE AT 31 DEC 2018
Unsecured borrowings – NZD	986	89	(5)	–	–	–	–	1,070
Unsecured borrowings – USD	487	–	–	(10)	14	–	–	491
Finance lease	48	–	–	–	(2)	–		46
Total	**1,521**	**89**	**(5)**	**(10)**	**12**	**–**	**–**	**1,607**

	AUDITED 30 JUN 2018							
GROUP NZ$M	BALANCE AT 1 JULY 2017	TERM BORROWINGS DRAWN	TERM BORROWINGS REPAID	FAIR VALUE ADJUSTMENTS	FOREIGN EXCHANGE	TRANSACTION COSTS PAID & ACCRUED	FINANCE LEASE PAID	BALANCE AT 30 JUN 2018
Unsecured borrowings – NZD	725	462	(200)	–	–	(1)	–	986
Unsecured borrowings – USD	467	–	–	12	7	1	–	487
Finance lease	47	–	–	–	2	–	(1)	48
Total	**1,239**	**462**	**(200)**	**12**	**9**	**–**	**(1)**	**1,521**

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 requires 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 opposite).

- 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 31 DEC 2018		UNAUDITED 31 DEC 2017		AUDITED 30 JUN 2018		UNAUDITED 31 DEC 2018	UNAUDITED 31 DEC 2017
	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**	**5**	**–**	21	(4)	4	–	**–**	–
CCIRS – cash flow hedge	**2**	**(1)**	**–**	(2)	–	(1)	–	**–**	–
CCIRS – foreign exchange retranslation	**2**	**55**	**–**	22	–	44	–	**–**	–
Interest rate swap (IRS)	**2**	**16**	**(130)**	12	(112)	14	(114)	**(15)**	(2)
Treasury hedges		**75**	**(130)**	**53**	**(116)**	**61**	**(114)**	**(15)**	**(2)**
Foreign exchange hedges	**2**	**–**	**–**	–	–	–	–	**–**	–
Market traded electricity hedges	**1**	**31**	**(8)**	22	(27)	30	(9)	**4**	3
Other electricity hedges	**3**	**27**	**(59)**	42	(26)	13	(52)	**6**	3
Electricity options	**3**	**82**	**–**	95	–	87	–	**(4)**	(3)
Large scale generation certificates (LGC) – Holdings created from wind farm generation	**1**	**23**	**–**	44	–	17	–	**(13)**	2
LGC – forward and option contracts	**2**	**30**	**(6)**	2	(27)	5	(6)	**27**	(7)
Electricity and other hedges		**193**	**(73)**	**205**	**(80)**	**152**	**(67)**	**20**	**(2)**
Total hedges		**268**	**(203)**	**258**	**(196)**	**213**	**(181)**	**5**	**(4)**

D1 FINANCIAL INSTRUMENTS *continued*

Settlements

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

$M	UNAUDITED 2018				UNAUDITED 2017			
	ELECTRICITY HEDGES	LGCS	ELECTRICITY OPTIONS	TOTAL	ELECTRICITY HEDGES	LGCS	ELECTRICITY OPTIONS	TOTAL
Operating revenue	(64)	22	–	**(42)**	(34)	28	–	(6)
Operating expenses	96	(6)	9	**99**	30	(5)	3	28
Total settlements in EBITDAF	**32**	**16**	**9**	**57**	**(4)**	**23**	**3**	**22**

Level 3 financial instrument analysis

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

$M	UNAUDITED 2018			UNAUDITED 2017		
	ELECTRICITY HEDGES	ELECTRICITY OPTIONS	TOTAL	ELECTRICITY HEDGES	ELECTRICITY OPTIONS	TOTAL
Electricity and other hedges settled in EBITDAF:						
Operating revenue	**(64)**	**–**	**(64)**	(13)	–	(13)
Operating expenses	**96**	**9**	**105**	37	3	40
Total settlements in EBITDAF	**32**	**9**	**41**	**24**	**3**	**27**
Net change in fair value of electricity and other hedges:						
Remeasurement	**39**	**4**	**43**	27	–	27
Hedges settled	**(32)**	**(9)**	**(41)**	(24)	(3)	(27)
Total net change in fair value of electricity and other hedges	**7**	**(5)**	**2**	**3**	**(3)**	**–**
Balance at the beginning of the period	**(39)**	**87**	**48**	12	98	110
Fair value movements	**7**	**(5)**	**2**	3	(3)	–
Electricity hedges acquired				1	–	1
Balance at the end of the year	**(32)**	**82**	**50**	**16**	**95**	**111**

D1 FINANCIAL INSTRUMENTS *continued*

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.	\$40/MWh to \$105/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\$16–A\$80	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 hedges and options

POSITION AS AT	UNAUDITED 31 DEC 2018 \$M	UNAUDITED 31 DEC 2017 \$M	AUDITED 30 JUN 2018 \$M
Opening difference	**5**	6	6
Initial differences on new hedges	**(6)**	(1)	-
Volumes expired and amortised	**(1)**	(1)	(1)
Closing difference	**(2)**	**4**	**5**

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. No changes occurred to Meridian's Group structure in the six months to 31 December 2018.

E2 COMMITMENTS. At 30 June 2018 Meridian Energy Limited had provided a bank guarantee of A$38 million (30 June 2017: A$38 million) to the financiers of the purchaser of the Macarthur Wind Farm, guaranteeing that it will comply with its various obligations under the Refinancing Coordination Deed. This guarantee was cancelled on 1 October 2018 and Meridian has no further obligations.

E3 CONTINGENT ASSETS AND LIABILITIES. The Ministry of Business, Innovation and Employment's (MBIE) review of Meridian's approach to the application of amounts under the Holidays Act (2003) remains on going. The review has identified a potential issue with a specific point of law. Meridian and MBIE are intending to jointly seek legal clarification and depending on the outcome, there is a potential underpayment ranging between $3m and $4m.

Other than the remaining guarantee disclosed in the 30 June 2018 financial statements, there were no other contingent assets or liabilities at 31 December 2018 (31 Dec 2017: nil, 30 Jun 2018: nil).

E4 SUBSEQUENT EVENTS. On 16 January 2019 Meridian Energy Limited entered into a new short term bank facility agreement with a committed limit of NZD400m. The new facility is related to the re-finance of the USD term borrowings that are due to mature in April 2019. The new facility may be used for general corporate purposes.

On 14 February 2019, Meridian priced a United States Private Placement ("USPP") transaction, raising USD300m in long term funding across 10, 12 and 15 year maturities. Meridian has entered into cross currency interest rate swaps to swap the fixed USD debt and interest payments to NZD.

Settlement will occur in April 2019 when Meridian will receive circa NZD439m, with funds to be used to refinance an existing USPP maturity and for general corporate purposes.

There were no other subsequent events other than dividends declared on 19 February 2019. 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. This is the first reporting period Meridian has reported under NZ IFRS 9 Financial Instruments.

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 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, these will be replaced by a single, on-balance-sheet model for all leases, which is similar to the current finance lease approach. Meridian is currently assessing the potential impact of certain lease obligations which will be capitalised as assets post implementation. It is not practical to provide a reasonable estimate of the financial effect until this assessment has been completed.

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 2018, and the income statement, statement of comprehensive income, 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 2 to 19.

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.

In addition to this review and the audit of the Group annual financial statements, we have carried out other assurance assignments for the Group in the areas of greenhouse gas inventory and sustainability reporting assurance, audit of the securities registers, vesting of the executive long-term incentive plan, the solvency return of Meridian Captive Insurance Limited and supervisor 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 2018 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
19 February 2019

WELLINGTON, NEW ZEALAND

This review report relates to the unaudited condensed consolidated interim financial statements of Meridian Energy for the six months ended 31 December 2018 included on Meridian Energy's website. The Board of Directors are responsible for the maintenance and integrity of Meridian Energy's website. We have not been engaged to report on the integrity of Meridian Energy's website. We accept no responsibility for any changes that may have occurred to the unaudited condensed consolidated interim financial statements since they were initially presented on the website. The review report refers only to the unaudited condensed consolidated interim financial statements named above. It does not provide an opinion on any other information which may have been hyperlinked to/from these unaudited condensed consolidated interim financial statements. If readers of this report are concerned with the inherent risks arising from electronic data communication they should refer to the published hard copy of the unaudited condensed consolidated interim financial statements and related review report dated 19 February 2019 to confirm the information included in the unaudited condensed consolidated interim financial statements presented on this website. Legislation in New Zealand governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.