Condensed Interim Financial Statements.

As at and for the six months to 31 December 2019.

Meridian.

Condensed Interim Financial Statements

Notes to the Condensed Interim Financial Statements

Income Statement

For the six months to 31 December 2019

	Note	Unaudited 2019 $M	Unaudited 2018 $M
Operating revenue	A2	**1,780**	1,691
Operating expenses	A3	**(1,315)**	(1,302)
Earnings before interest, tax, depreciation, amortisation, changes in fair value of hedges and other significant items (EBITDAF)		**465**	389
Depreciation and amortisation	B1, B2	**(157)**	(137)
Net change in fair value of electricity and other hedges	D1	**(6)**	20
Operating profit		**302**	272
Finance costs	A3	**(43)**	(43)
Net change in fair value of treasury instruments	D1	**6**	(15)
Net profit before tax		**265**	214
Income tax expense	A4	**(74)**	(62)
Net profit after tax attributed to the shareholders of the parent company		**191**	**152**
Profit attributed to the shareholders of the parent company		**191**	**152**
Earnings per share (EPS) attributed to ordinary equity holders of the parent company		Cents	Cents
Basic and diluted earnings per share	C2	**7.5**	5.9

Comprehensive Income Statement

For the six months to 31 December 2019

	Unaudited 2019 $M	Unaudited 2018 $M
Net profit after tax	**191**	152
Items that may be reclassified to profit or loss:		
Net gain on cash flow hedges	**3**	-
Exchange differences arising from translation of foreign operations	**-**	(19)
Income tax on the above items	(2)	-
Other comprehensive income for the period, net of tax	**1**	(19)
Total comprehensive income for the period, net of tax attributed to shareholders of the parent company	**192**	**133**

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

Balance Sheet

As at 31 December 2019

	Note	Unaudited 31 Dec 2019 $M	Unaudited 31 Dec 2018 $M	Audited 30 Jun 2019 $M
Current assets				
Cash and cash equivalents		**55**	78	78
Trade receivables		**265**	259	292
Customer contract assets		**23**	20	20
Financial instruments	D1	**157**	106	118
Other assets		**39**	35	34
Total current assets		**539**	**498**	**542**
Non-current assets				
Property, plant and equipment	B1	**8,776**	7,809	8,825
Intangible assets	B2	**58**	59	59
Deferred tax		**36**	38	40
Financial instruments	D1	**181**	162	191
Total non-current assets		**9,051**	**8,068**	**9,115**
Total assets		**9,590**	**8,566**	**9,657**

	Note	Unaudited 31 Dec 2019 $M	Unaudited 31 Dec 2018 $M	Audited 30 Jun 2019 $M
Current liabilities				
Payables and accruals		**280**	293	303
Employee entitlements		**11**	11	17
Customer contract liabilities		**18**	15	16
Current portion of term borrowings	C4	**183**	512	167
Current portion of lease liabilities		**7**	**1**	1
Financial instruments	D1	**34**	52	36
Current tax payable		**50**	30	80
Total current liabilities		**583**	**914**	**620**
Non-current liabilities				
Term borrowings	C4	**1,374**	1,049	1,303
Deferred tax		**1,944**	1,668	1,968
Provisions		**12**	9	9
Lease Liabilities		**99**	45	31
Financial instruments	D1	**212**	151	209
Term payables		**54**	66	60
Total non-current liabilities		**3,695**	**2,988**	**3,580**
Total liabilities		**4,278**	**3,902**	**4,200**
Net assets		**5,312**	**4,664**	**5,457**
Shareholders' equity				
Share capital		**1,599**	1,598	1,599
Reserves		**3,713**	3,066	3,858
Total shareholders' equity		**5,312**	**4,664**	**5,457**

For and on behalf of the Board of Directors who authorised the issue of the condensed interim financial statements on 25 February 2020.

Mark Verbiest
Board Chair

Julia Hoare
Chair Audit & Risk Committee

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

Changes in Equity

For the six months to 31 December 2019

		$M						
Audited	**Note**	**Share capital**	**Share option reserve**	**Revaluation reserve**	**Foreign currency translation reserve**	**Cash flow hedge reserve**	**Retained earnings**	**Shareholders equity**
Balance at 1 July 2018		**1,598**	**1**	**4,249**	**(16)**	**1**	**(1,010)**	**4,823**
Net profit for the year		-	-	-	-	-	339	**339**
Other comprehensive income								
Asset revaluation		-	-	**1,139**	-	-	-	1,139
Net gain on cash flow hedges		-	-	-	-	(5)	-	(5)
Exchange differences from translation of foreign operations		-	-	-	(21)	-	-	(21)
Income tax relating to other comprehensive income		-	-	(320)	-	1	-	(319)
Total other comprehensive income, net of tax		**-**	**-**	**819**	**(21)**	**(4)**	**-**	**794**
Total comprehensive income for the year, net of tax		**-**	**-**	**819**	**(21)**	**(4)**	**339**	**1,133**
Share-based transactions		1	-	-	-	-	-	1
Dividends paid		-	-	-	-	-	(500)	(500)
Balance at 30 June 2019 and 1 July 2019		**1,599**	**1**	**5,068**	**(37)**	**(3)**	**(1,171)**	**5,457**
Unaudited								
Net profit for the period		-	-	-	-	-	191	191
Other comprehensive income								
Net gain on cash flow hedges		-	-	-	-	3	-	3
Income tax relating to other comprehensive income		-	-	-	-	(2)	-	(2)
Total other comprehensive income, net of tax		**-**	**-**	**-**	**-**	**1**	**-**	**1**
Total comprehensive income for the year, net of tax		**-**	**-**	**-**	**-**	**1**	**191**	**192**
Dividends paid	C3	-	-	-	-	-	(337)	(337)
Balance at 31 December 2019		**1,599**	**1**	**5,068**	**(37)**	**(2)**	**(1,317)**	**5,312**
Unaudited								
Balance at 1 July 2018		**1,598**	**1**	**4,249**	**(16)**	**1**	**(1,010)**	**4,823**
Net profit for the period		-	-	-	-	-	152	152
Other comprehensive income								
Exchange differences from translation of foreign operations		-	-	-	(19)	-	-	(19)
Total other comprehensive income, net of tax		**-**	**-**	**-**	**(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**

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

Cash Flows

For the six months to 31 December 2019

	Note	Unaudited 2019 $M	Unaudited 2018 $M
Operating activities			
Receipts from customers		**1,803**	1,690
Payments to suppliers and employees		**(1,372)**	(1,305)
Interest paid		**(41)**	(41)
Income tax paid		**(124)**	(82)
Operating cash flows		**266**	262
Investing activities			
Purchase of property, plant and equipment		**(23)**	(23)
Purchase of intangible assets		**(11)**	(12)
Investing cash flows		**(34)**	(35)
Financing activities			
Term borrowings drawn		**141**	89
Term borrowings repaid		**(55)**	(5)
Lease Liabilities paid		**(4)**	-
Dividends	C3	**(337)**	(292)
Financing cash flows		**(255)**	(208)
Net increase in cash and cash equivalents		**(23)**	**19**
Cash and cash equivalents at beginning of the six months		**78**	60
Effect of exchange rate changes on net cash		**-**	(1)
Cash and cash equivalents at end of the six months		**55**	**78**

The notes to the condensed interim financial statements form an integral part of these financial 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 55 Lady Elizabeth Lane, 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 2019 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 2019 was 0.9596 (December 2018: 0.9529, 30 June 2019: 0.9571).

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 2019 have been applied consistently to all periods presented in the condensed interim financial statements, with the exception that NZ IFRS 16 Leases has been adopted during the current period.

NZ IFRS 16 was adopted using the modified retrospective approach and therefore no adjustment or restatment of comparative figures have been made.

The adoption of NZ IFRS 16 results in those leases previously classified as operating leases being recorded on the balance sheet. All other arrangements will be considered under NZ IFRS 16 when the contract is amended/renewed.

As a result of applying NZ IFRS 16, the Group recognised $75m of new right-of-use lease assets, which form part of the Property Plant & Equipment category on the balance sheet. Lease assets are depreciated over the expected lease term. The expected lease term may including the taking-up of optional lease extensions, if the Group is reasonably certain of exercising such options.

New liabilities of $75m were also recognised. These are classified as Lease Liabilities on the balance sheet and split into current and non-current portions. Expected lease payments are discounted back to present value using incremental borrowing costs. Discount rates are set on a lease-by-lease basis, with key inputs being the expected term of the lease and the currency of the lease (the country in which it is domiciled).

In the income statement, application of NZ IFRS 16 in HY20 has decreased Group operating expenses by $3m, increased finance costs by $1m and increased depreciation expense by $2m. These changes meant a net increase in EBITDAF of $3m, but a net nil impact to net profit before tax.

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 2019.

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 lake storage levels. Large weather events in November and December combined to drive storage levels to above the maximum control level at both Lake Tekapo and Lake Pukaki and well into the high range in the Waiau, with high generation volumes and significant reservoir and river spill occurring as a result. Positive demand growth across New Zealand has been supported by strong growth in agricultural pumping load. The robust NZ demand growth and continuing concerns about gas restrictions combined with contracting behaviours in the gas market saw high wholesale prices persist.

Beneficial hydrology, strong generation volumes, and high market prices combined to deliver strong energy margins with revenues from generation production outweighing the negative impacts seen in the cost to supply contracted physical and financial electricity sales.

NZAS

In October 2019, New Zealand Aluminium Smelters (NZAS) notified Meridian of its intent to commence a strategic review of its business at Tiwai Point. NZAS noted that it expects to release details of the result of this review in Q1 2020. NZAS continues to be a major customer of Meridian's and all contractual obligations continue unaffected during the strategic review.

Due to the lack of certainty surrounding the outcome of the NZAS review, Meridian has not adjusted any balance sheet items or valuations which may be impacted by the NZAS final decision.

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 10.

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 14.

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 NZAS representing the equivalent of 38% (31 December 2018: 40%) 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 $77 - $82 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, three hydro power stations and acquired under power purchase agreements, for sale into the Australian wholesale electricity market.
- Retailing of energy, mainly 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 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 8 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.

A

A1 Segment performance continued

For the six months to 31 December	NZ Wholesale 2019 $M	NZ Wholesale 2018 $M	NZ Retail 2019 $M	NZ Retail 2018 $M	Australia 2019 $M	Australia 2018 $M	Other and Unallocated 2019 $M	Other and Unallocated 2018 $M	Inter-segment 2019 $M	Inter-segment 2018 $M	Group 2019 $M	Group 2018 $M
Contracted sales, net of distribution costs	246	249	391	312	97	70	-	-	-	-	734	631
Cost to supply customers	(842)	(1,005)	(298)	(233)	(79)	(60)	-	-	343	296	(876)	(1,002)
Net cost of acquired generation	32	76	-	-	(2)	(4)	-	-	-	-	30	72
Generation spot revenue	727	812	-	-	49	60	-	-	-	-	776	872
Inter-segment electricity sales	343	296	-	-	-	-	-	-	(343)	(296)	-	-
Virtual asset swap margins	3	6	-	-	-	-	-	-	-	-	3	6
Other market revenue/(costs)	(4)	(4)	-	1	-	-	-	-	-	-	(4)	(3)
Energy margin	**505**	**430**	**93**	**80**	**65**	**66**	-	-	-	-	**663**	**576**
Other revenue	1	2	6	6	2	1	15	13	(11)	(9)	13	13
Dividend revenue	-	-	-	-	-	-	27	-	(27)	-	-	-
Energy transmission expense	(65)	(63)	-	-	(3)	(2)	-	-	-	-	(68)	(65)
Gross margin	**441**	**369**	**99**	**86**	**64**	**65**	**42**	**13**	**(38)**	**(9)**	**608**	**524**
Employee expenses	(16)	(14)	(16)	(16)	(6)	(6)	(15)	(13)	-	-	(53)	(49)
Electricity metering expenses	-	-	(17)	(16)	-	-	-	-	-	-	(17)	(16)
Other operating expenses	(32)	(30)	(17)	(17)	(19)	(18)	(11)	(10)	6	5	(73)	(70)
EBITDAF	**393**	**325**	**49**	**37**	**39**	**41**	**16**	**(10)**	**(32)**	**(4)**	**465**	**389**
Depreciation and amortisation	-	-	-	-	-	-	-	-	-	-	(157)	(137)
Net change in fair value of electricity and other hedges	-	-	-	-	-	-	-	-	-	-	(6)	20
Operating profit	-	-	-	-	-	-	-	-	-	-	**302**	**272**
Finance costs	-	-	-	-	-	-	-	-	-	-	(43)	(43)
Net change in fair value of treasury instruments	-	-	-	-	-	-	-	-	-	-	6	(15)
Net profit before tax	-	-	-	-	-	-	-	-	-	-	**265**	**214**
Income tax expense	-	-	-	-	-	-	-	-	-	-	(74)	(62)
Net profit after tax	-	-	-	-	-	-	-	-	-	-	**191**	**152**
Reconciliation of energy margin												
Electricity sales revenue	1,211	1,187	729	639	170	148	-	-	(343)	(296)	1,767	1,678
Electricity expenses, net of hedging	(706)	(757)	(349)	(306)	(65)	(49)	-	-	343	296	(777)	(816)
Electricity distribution expenses	-	-	(287)	(253)	(40)	(33)	-	-	-	-	(327)	(286)
Energy margin	**505**	**430**	**93**	**80**	**65**	**66**	-	-	-	-	**663**	**576**

A

A2 Income

Six months ended 31 December	Unaudited	Unaudited
Operating revenue	2019 $M	2018 $M
Electricity sales to customers	**997**	875
Electricity generation, net of hedging	**770**	803
Electricity related services revenue	**4**	4
Other revenue	**9**	9
	1,780	**1,691**

Total revenue by geographic area		
New Zealand	**1,603**	**1,535**
Australia	**172**	**150**
United Kingdom	**5**	**6**
Total operating revenue	**1,780**	**1,691**

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.

A

A3 Expenses

Six months ended 31 December	Unaudited	Unaudited
Operating expenses	**2019 $M**	**2018 $M**
Electricity expenses, net of hedging	**777**	**816**
Electricity distribution expenses	**327**	**286**
Electricity transmission expenses	**68**	**65**
Employee expenses	**53**	**49**
Electricity metering expense	**17**	**16**
Other expenses	**73**	**70**
	1,315	**1,302**

Finance costs		
Interest on borrowings	39	39
Interest on option premium	1	1
Interest on lease liabilities	3	3
	43	**43**

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.

A4 Taxation

Income tax expense	Unaudited	Unaudited
Income tax expense	**2019 $M**	**2018 $M**
Current income tax charge	98	76
Deferred tax	(24)	(14)
Income tax expense	**74**	**62**
Reconciliation to profit before tax		
Profit before tax	**265**	**214**
Income tax at applicable rates	74	60
Expenditure not deductible for tax	-	2
Income tax expense	**74**	**62**

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 2019 $M	Unaudited 31 Dec 2018 $M	Audited 30 Jun 2019 $M
Opening net book value	8,825	7,941	7,941
Additions	22	19	39
Derecognition of Mt Mercer leases	-	-	(11)
Lease assets recognised under NZ IFRS 16	75	-	-
Foreign currency exchange rate movements	(1)	(26)	(28)
Generation structures and plant revaluation:			
- revaluation reserve	-	-	1,139
- income statement	-	-	(5)
Depreciation expense	(145)	(125)	(250)
Closing net book value	**8,776**	**7,809**	**8,825**

B2 Intangible assets

Position as at	Unaudited 31 Dec 2019 $M	Unaudited 31 Dec 2018 $M	Audited 30 Jun 2019 $M
Opening net book value	59	60	60
Additions	11	11	25
Amortisation expense	(12)	(12)	(25)
Closing net book value	**58**	**59**	**60**

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 2019 using capitalisation of earnings and discounted cashflows (DCFs) when determining a valuation range. The review resulted in a net revaluation increase of $657m (after the reversal of depreciation) in the carrying value of generation structures and plant assets. The impact of the revaluation was recognised as an increase of $819m (net of deferred tax) in the revaluation reserve and as a $5m impairment of Australian generation assets recognised in the Income Statement.

A review and assessment of key valuation inputs included in that valuation has been undertaken as at 31 December 2019, indicating that there has been no material change in fair value.

Right-of-Use Assets

As part of the implementation of NZ IFRS 16, the Group has recognised $75m of new right-of-use assets in the current period. Right-of-use assets relate to office space and land access.

As at 31 December 2019, total cost of right-of-use assets is $110m (this includes finance lease assets previously recognised under NZ IAS 17). Accumulated depreciation on these assets totals $11m (which includes depreciation previously accumulated under NZ IAS 17). Net book value is therefore $99m. Depreciation expense on right-of-use assets for the current period is $3m.

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 & Poor's.

Meridian is in full compliance with debt facility financial covenants.

		Unaudited	Unaudited	Audited
Position as at	**Note**	**31 Dec 2019 $M**	**31 Dec 2018 $M**	**30 Jun 2019 $M**
Share capital		**1,599**	1,598	1,599
Retained earnings		**(1,317)**	(1,150)	(1,171)
Other reserves		**5,030**	4,216	5,029
		5,312	**4,664**	**5,457**
Drawn borrowings	C4	**1,461**	1,505	1,376
add Lease liabilities		**106**	46	32
less: Cash and cash equivalents		**(55)**	(78)	(78)
		1,512	1,473	**1,330**
Net capital		**6,824**	**6,137**	**6,787**

C2 Earnings per share

Basic and diluted earnings per share (EPS)	Unaudited 31 Dec 2019	Unaudited 31 Dec 2018
Profit after tax attributable to shareholders of the parent company ($M)	**191**	152
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)	**7.5**	5.9

C3 Dividends

Six months ended 31 December Dividends declared and paid	Unaudited 2019 $M	Unaudited 2018 $M
Final ordinary and special dividend 2019: 13.16cps (2018: 11.38cps)	**337**	**292**
Total dividends paid	**337**	**292**
Dividends declared and not recognised as a liability		
Interim ordinary dividend 2020: 5.7cps (2019: 5.7cps)	**146**	146
Interim special dividend 2020: 2.44cps (2019: 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 25 February 2020 the Board declared a partially imputed interim ordinary dividend of 5.7 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 2019				Unaudited 31 Dec 2018				Audited 30 Jun 2019			
Group (NZ$M)	Currency borrowed in	Drawn facility amount	Transaction costs	Fair value adjustment	Carrying amount	Drawn facility amount	Transaction costs	Fair value adjustment	Carrying amount	Drawn facility amount	Transaction costs	Fair value adjustment	Carrying amount
Current borrowings													
Unsecured borrowings	NZD	**184**	(1)	**-**	**183**	233	(1)	-	232	168	(1)	-	167
Unsecured borrowings	USD	**-**	-	**-**	**-**	272	-	8	280	-	-	-	-
Total current borrowings		**184**	**(1)**	**-**	**183**	**505**	**(1)**	**8**	**512**	**168**	**(1)**	**-**	**167**
Non-current borrowings													
Unsecured borrowings	NZD	**679**	(2)	**-**	**677**	840	(2)	-	838	610	(2)	-	608
Unsecured borrowings	USD	**598**	**(1)**	**100**	**697**	160	-	51	211	598	(1)	98	695
Total non-current borrowings		**1,277**	**(3)**	**100**	**1,374**	**1,000**	**(2)**	**51**	**1,049**	**1,208**	**(3)**	**98**	**1,303**
Total borrowings		**1,461**	**(4)**	**100**	**1,557**	**1,505**	**(3)**	**59**	**1,561**	**1,376**	**(4)**	**98**	**1,470**

Meridian has committed bank facilities of $665 million of which $525 million were undrawn at 31 December 2019 (31 December 2018: faciliities of $725m of which $300m were undrawn). The expiry of these facilities range from June 2020 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) and 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 borrowings held at amortised cost

Position as at	Unaudited 31 Dec 2019 $M	Unaudited 31 Dec 2018 $M	Audited 30 Jun 2019 $M	Unaudited 31 Dec 2019 $M	Unaudited 31 Dec 2018 $M	Audited 30 Jun 2019 $M
Group (NZ$M)	Carrying value			Fair value		
Retail bonds	**500**	500	500	**541**	523	542
Floating rate notes	**50**	100	100	**51**	101	101
Unsecured term loan (EKF facility)	**65**	75	70	**69**	80	75

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.

Fair value is calculated using a discounted cash flow calculation and the resultant values are classified as Level 2 within the fair value hierarchy. The Retail Bonds are listed instruments; however, 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 18.

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

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.

$75m in new lease liabilities were recognised following implementation of NZ IFRS 16 and are noted in the column "Lease liabilities recognised".

	Unaudited										
	31 Dec 2019										
Group (NZ$M)	Balance at 30 June 2019	Term borrowings drawn	Term borrowings repaid	Fair value adjustments	Foreign Exchange	Transaction costs paid & accrued	Lease liabilities recognised	Lease liabilities paid	Lease derecognition	Unwind of discounting	Balance at 31 Dec 2019
Unsecured borrowings - NZD	775	141	(55)	-	-	-	-	-	-	-	861
Unsecured borrowings - USD	695	-	-	3	(2)	-	-	-	-	-	696
Lease Liabilities	32	-	-	-	-	-	75	(4)	-	3	106
Total	**1,502**	**141**	**(55)**	**3**	**(2)**	**-**	**75**	**(4)**	**-**	**3**	**1,663**

	Unaudited										
	31 Dec 2018										
Group (NZ$M)	Balance at 30 June 2018	Term borrowings drawn	Term borrowings repaid	Fair value adjustments	Foreign Exchange	Transaction costs paid & accrued	Lease liabilities recognised	Lease liabilities paid	Lease derecognition	Unwind of discounting	Balance at 30 June 2018
Unsecured borrowings - NZD	986	89	(5)	-	-	-	-	-	-	-	1,070
Unsecured borrowings - USD	487	-	-	(10)	14	-	-	-	-	-	491
Lease Liabilities	48	-	-	-	(3)	-	-	-	-	1	46
Total	**1,521**	**89**	**(5)**	**(10)**	**11**	**-**	**-**	**-**	**-**	**1**	**1,607**

	Audited										
	30 June 2019										
Group (NZ$M)	Balance at 30 June 2018	Term borrowings drawn	Term borrowings repaid	Fair value adjustments	Foreign Exchange	Transaction costs paid & accrued	Lease liabilities recognised	Lease liabilities paid	Lease derecognition	Unwind of discounting	Balance at 30 June 2019
Unsecured borrowings - NZD	986	-	(212)	-	-	1	-	-	-	-	775
Unsecured borrowings - USD	487	439	(272)	37	5	(1)	-	-	-	-	695
Lease Liabilities	48	-	-	-	(3)	-	-	(1)	(16)	4	32
Total	**1,521**	**439**	**(484)**	**37**	**2**	**-**	**-**	**(1)**	**(16)**	**4**	**1,502**

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 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 2019		31 Dec 2018		30 Jun 2019		31 Dec 2019	31 Dec 2018
	Level	Assets $M	Liabilities $M	Assets $M	Liabilities $M	Assets $M	Liabilities $M	$M	$M
Treasury Hedges									
Cross currency interest rate swap (CCIRS) - interest rate risk	2	**43**	-	5	-	40	-	-	-
CCIRS - basis and margin risk	2	**(3)**	-	(1)	-	(6)	-	-	-
CCIRS - foreign exchange risk	2	**55**	-	55	-	58	-	-	-
Total CCIRS		**95**	**-**	**59**	-	**92**	-	-	-
Interest rate swaps (IRS)	2	**20**	**(176)**	16	**(130)**	22	**(184)**	6	(15)
Total Treasury Hedges		**115**	**(176)**	**75**	**(130)**	**114**	**(184)**	6	(15)
Electricity and other hedges									
Market traded electricity hedges	1	**76**	**(3)**	31	(8)	52	(3)	14	4
Other electricity hedges	3	**52**	**(64)**	27	(59)	51	(58)	(8)	6
Electricity options	3	**63**	**-**	82	-	70	-	(7)	(4)
Large scale generation certificates (LGC) - Holdings created from wind farm generation	1	**16**	**-**	23	-	6	-	(2)	(13)
LGC - forward and option contracts	2	**16**	**(3)**	**30**	(6)	16	-	**(3)**	27
Electricity and other hedges		**223**	**(70)**	**193**	**(73)**	**195**	**(61)**	**(6)**	**20**
Total hedges		**338**	**(246)**	**268**	**(203)**	**309**	**(245)**	**-**	**5**

Settlements

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

$M	Unaudited 2019 Electricity Hedges	LGCs	Electricity Options	Total	Unaudited 2018 Electricity Hedges	LGCs	Electricity Options	Total
Operating revenue	(13)	14	-	1	(64)	22	-	(42)
Operating expenses	48	(7)	-	41	96	(6)	9	99
Total settlements in EBITDAF	**35**	**7**	**-**	**42**	**32**	**16**	**9**	**57**

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 2019 Electricity Hedges	Electricity Options	Total	Unaudited 2018 Electricity Hedges	Electricity Options	Total
Electricity and other hedges settled in EBITDAF:						
Operating revenue	(17)	-	(17)	(39)	-	(39)
Operating expenses	53	-	53	103	9	112
Total settlements in EBITDAF	36	-	36	64	9	73
Net change in fair value of electricity and other hedges:						
Remeasurement	28	(7)	21	71	4	75
Hedges settled	(36)	-	(36)	(64)	(9)	(73)
Total net change in fair value of electricity and other hedges	(8)	(7)	(15)	7	(5)	2
Balance at the beginning of the period	(4)	70	66	(39)	87	48
Fair value movements	(8)	(7)	(15)	7	(5)	2
Balance at the end of the year	(12)	63	51	(32)	82	50

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. Calibration factors, which are applied to forward curves as a consequence of initial recognition differences (see table on page 21).	$47/MWh to $112/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$15 - A$39	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.

D1 Financial instruments continued

Movements in recalibration differences arising from electricity hedging

	Unaudited 31 Dec 2019 $M	Unaudited 31 Dec 2018 $M	Audited 30 Jun 2019 $M
Opening difference	**(3)**	5	5
Initial differences on new hedges	**(1)**	(6)	(7)
Volumes expired and amortised	**1**	(1)	(1)
Closing difference	**(3)**	**(2)**	**(3)**

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 2019.

E2 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.

The Electricity Authority is currently reviewing an Undesirable Trading Situation (UTS) claim made in respect of market conditions over November and December. While Meridian's view is the claim is without merit, if the Authority disagrees and decides to reset prices for the relevant period there is a potential reduction in Meridian's 1H FY2020 revenue. The scale of reduction would be for the Authority to decide and we have made no provision for this outcome.

There were no other contingent assets or liabilities at 31 December 2019 (31 Dec 2018: nil, 30 Jun 2019: nil).

E3 Subsequent events

There were no other subsequent events other than dividends declared on 25 February 2020. Refer to Note C3 Dividends for further details.

E4 Changes in financial reporting standards

This is the first reporting period Meridian has reported under NZ IFRS 16 Leases.

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.

Deloitte.

Independent Review Report to the
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 2019, and the income statement, comprehensive income statement, statement of changes in equity and statement of cash flows for the six month period ended on that date, and other explanatory information on pages 2 to 22.

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 Mike Hoshek 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 these 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 2019 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.

Mike Hoshek
for Deloitte Limited
On behalf of the Auditor-General
25 February 2020
CHRISTCHURCH, NEW ZEALAND

This review report relates to the unaudited condensed interim financial statements of Meridian Energy for the six months ended 31 December 2019 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 interim financial statements since they were initially presented on the website.

The review report refers only to the unaudited condensed 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 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 interim financial statements and related review report dated 25 February 2020 to confirm the information included in the unaudited condensed 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.

Meridian.