



OUR 2017 ANNUAL REPORT

Freedom to choose.



Spoilt for choice.

Mercury's mission is energy freedom. This means freedom for our customers, our communities, our people and our country to make choices that lead to greater enjoyment of energy now and better use of energy to support a sustainable future.

Energy freedom is based on Mercury being curious and original; we commit to things, own them and deliver what we say we will; and we share and connect with everyone who interacts with our company.

It is through this approach that Mercury creates and delivers value.

This report outlines the value we create for our customers and for New Zealand; for our people and our communities; and for our nearly 90,000 owners.

This year our customers used Free Power Days to clean up their houses, wash their dogs, dry their clothes, charge their electric vehicles (EVs) and to have fun socialising with friends and family. 119,000 customers also enjoyed Airpoints Dollars™ to travel to wonderful places.

These are just a few examples of how we offer our customers more choices every day. We give them choices around how they use power, how they pay, how they get around town, or what to do with the savings and rewards they earn from making the most of their energy.

It's these choices that we hope make our customers' lives that little bit better and exactly why we believe energy is so wonderful.



- 04 >> OUR MISSION, PURPOSE & STRATEGY
- 06 >> OUR BUSINESS MODEL
- 08 >> AT A GLANCE
- 10 >> CHAIR & CHIEF EXECUTIVE UPDATES
- 20 >> WHAT MATTERS MOST
 - 24 >> GROWING CUSTOMER LOYALTY
 - 30 >> HIGH PERFORMANCE TEAMS
 - 40 >> ENHANCED NATURAL RESOURCES
 - 50 >> STRONGER TOGETHER
 - 58 >> LEADING ECONOMIC PERFORMANCE
- 64 >> OUR TEAM
- 66 >> REPORTING ON WHAT MATTERS MOST
- 67 >> OUR STAKEHOLDERS
- 70 >> GLOBAL REPORTING INITIATIVE INDEX



CUSTOMERS CHOOSE TO ENJOY THEIR REWARDS.

Turning a light on to read a good book, powering up a smartphone, researching a recipe online, doing some DIY in your garage, warming your child's room – these are examples of things many people enjoy every day. Most hardly notice what powers many of the things they do. And that's okay. We are here to make that easy. We want to help bring that to life too.

We want to reward customers for the choices they make, and one expression of that is partnering with Air New Zealand. This year more than 119,000 of our customers enjoyed Airpoints Dollars™ from Mercury to do some wonderful things.

I would love some Airpoints
so I can go back to Hawaii

My son and two grandkids
live in Spain ... Can't see how
we could ever manage to get
there unless we had some help
- like - AIRPOINTS!

A trip to Queenstown to see
our Grandees. So far away missing
them growing up so fast.

Next holiday we are going
to see our two besties over on the GC

I would love to take my
boys on holiday

Great being able to earn
Airpoints on your power bill



What did you do with your Airpoints™?



VISIT OUR WEBSITE FOR MORE DETAILS
ON AIRPOINTS™ AND TO SIGN-UP



We have family scattered around the world and New Zealand so Airpoints would be of a great help

Just had our first trip ever overseas (Gold Coast) as a family kids loved it was 22 years in the making

My daughter is heading down to Dunedin early next year to go to Otago Uni and I would so love to head down with her as it's going to be hard saying goodbye to my first born...

I will be travelling to Melbourne then to New York next year so the Airpoints would be very helpful

I am off to Sydney to spend Xmas with my two daughters and my grandchildren ... sooooo excited !!!!

Plus I would really like to see what her housemates are like and what area she's living in and do all the important checks annoying mums do to make sure their babies are safe

I would love to go to my Granddaughter's graduation ceremony in America next year

Love a chance to take my new wee girl to visit family down in the South Island

I'll be travelling with my usual travel buddies and will either be Australia...or down south to do the Queenstown half marathon followed by xmas shopping in Christchurch next yr... and before that will be our usual girls xmas shopping trip...undecided to where at this stage...lol

I am TOTALLY excited to be able to earn Airpoints! I need a holiday 😁

Going to the UK with my husband and some of our family for my mother's 90th birthday can't wait

We have a daughter who has recently moved to Aussie. Missing her.

I'll be traveling with my trusty backpack, sunglasses and walking shoes off to the most amazing place on earth... India...

Super excited for next trip to Queenstown with a little help from Mercury

Our Mission: Energy Freedom.

The world we all live in is made better by having the freedom to choose. Mercury seeks to be chosen by our customers, our people, our owners, our partners and our communities for offering them energy freedom: where interactions with us deliver value not constraints, and opportunities not issues.

REALISING OUR PURPOSE >>

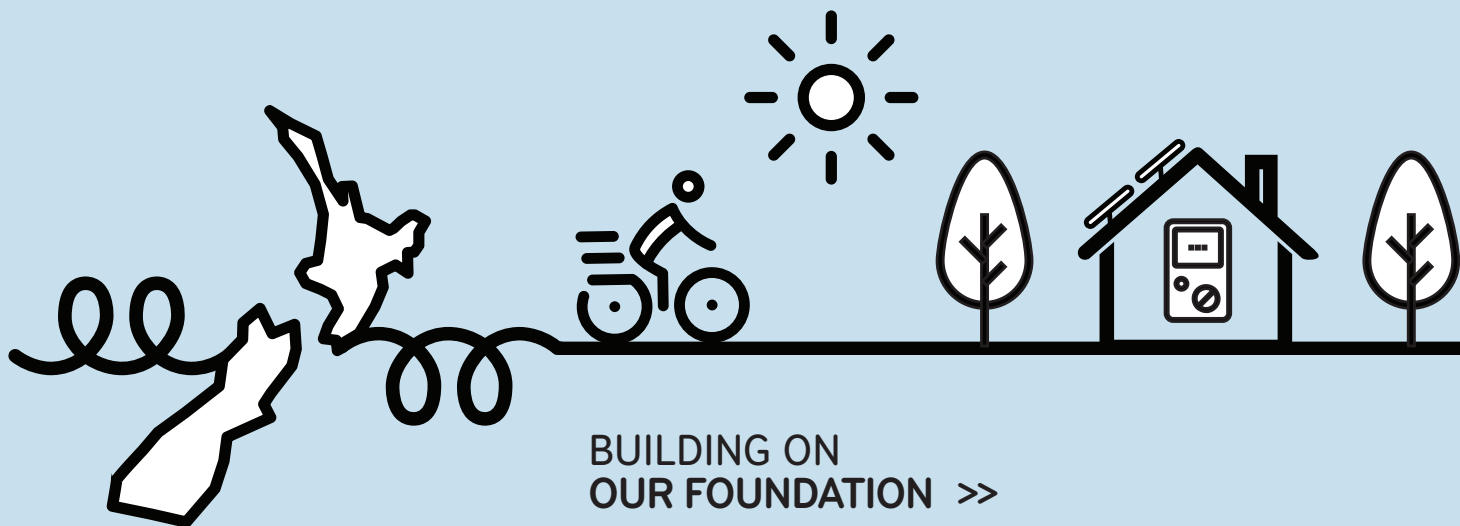
TO INSPIRE NEW ZEALANDERS
TO ENJOY ENERGY IN MORE
WONDERFUL WAYS

EXECUTING OUR STRATEGY >>

DELIVERING CUSTOMER
ADVOCACY

LEVERAGING CORE STRENGTHS

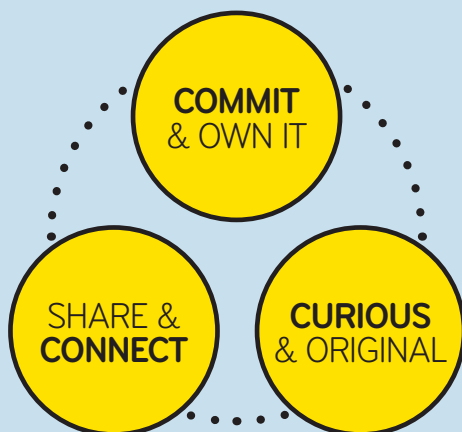
DELIVERING SUSTAINABLE
GROWTH



BUILDING ON OUR FOUNDATION >>

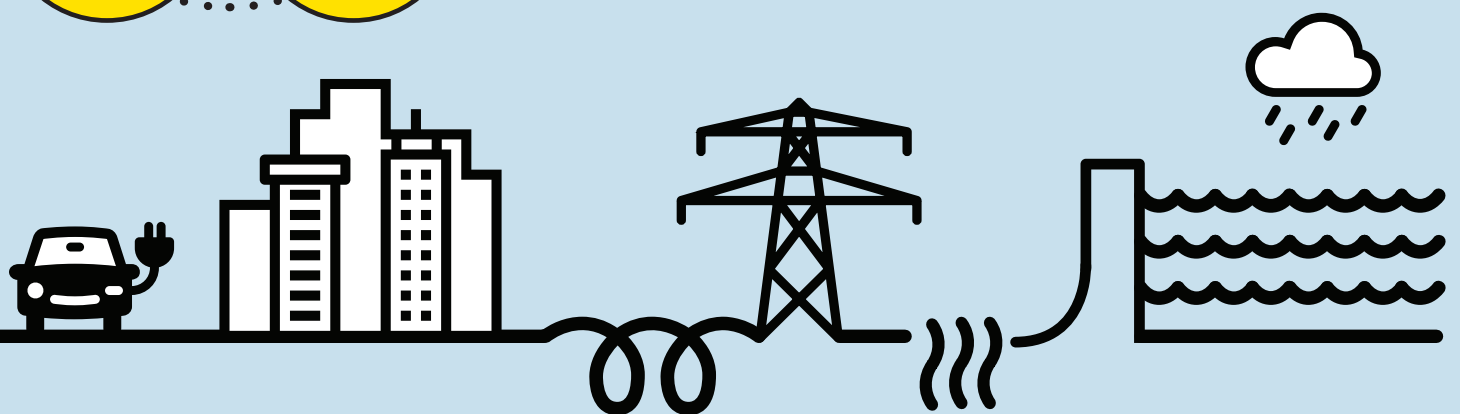
WELLBEING
OF OUR PEOPLE AND
CUSTOMERS

LIVING
OUR ATTITUDE >>



ACHIEVING
OUR GOAL >>

TO BE NEW ZEALAND'S
LEADING ENERGY BRAND



KAITIAKITANGA
THE CUSTODIANSHIP OF
NATURAL RESOURCES

COMMERCIAL
COMMERCIALLY ASTUTE
DECISIONS

Our business model.

How Mercury sustains and grows value

Mercury has a very long-term focus to deliver value for all of our customers, people, owners, partners and communities. The foundations of our business are the wellbeing of our people and customers; deep respect for kaitiakitanga, the custodianship of natural resources; and making commercially-astute decisions.

This business model sets out the system of key inputs, business activities, outputs and outcomes that contribute to Mercury creating value.

We have categorised our inputs, outputs and outcomes across the things that matter most to our stakeholders and our business:

-  GROWING CUSTOMER LOYALTY
-  HIGH PERFORMANCE TEAMS
-  ENHANCED NATURAL RESOURCES
-  STRONGER TOGETHER
-  LEADING ECONOMIC PERFORMANCE

More detail on our What Matters Most can be found in pages 20-63 of this report.



We focus on the most important things...

INPUTS

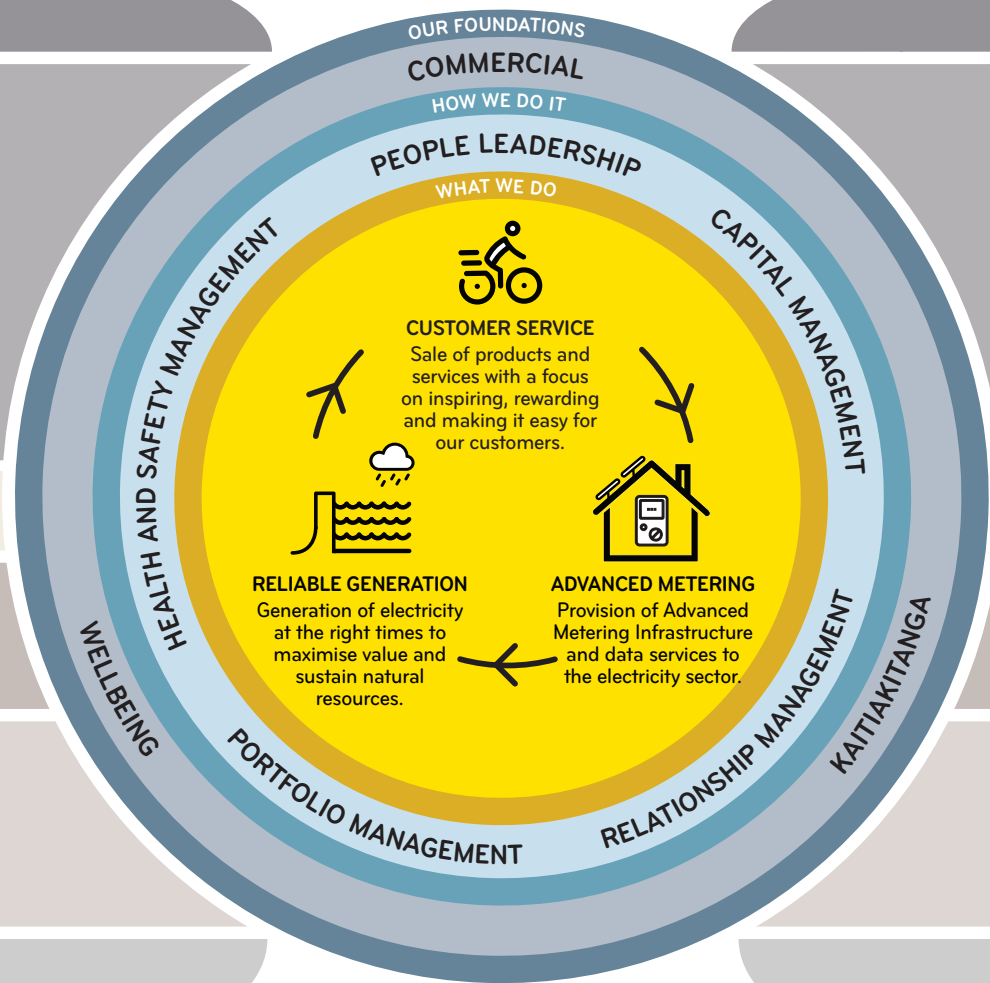
-  DEBT & EQUITY INVESTMENT/
FREE CASH FLOWS
-  DYNAMIC MARKET AND INDUSTRY
-  VALUE ADDING LOCAL AND
GLOBAL SUPPLIERS
-  FIT-FOR-PURPOSE POLICY
AND REGULATIONS
-  LONG-STANDING COMMUNITY
AND IWI PARTNERSHIPS
-  ALIGNED COMMERCIAL PARTNERS
-  CUSTOMERS
-  CLEAR BRAND PROMISES
-  EFFECTIVE MANAGEMENT
AND LEADERSHIP
-  SKILLED PEOPLE WITH
DIVERSE THINKING
-  TECHNOLOGY
-  METERS
-  POWER STATIONS
-  GEOTHERMAL RESERVOIRS
-  HYDRO INFLOWS

...and execute our strategy to...

...deliver our mission and purpose.

VALUE CREATION

OUTPUTS & OUTCOMES



\$ SUSTAINABLE AND GROWING RETURNS TO OUR OWNERS

👍 INNOVATION TO GROW SERVICE FOR CUSTOMERS AND VALUE FROM ASSETS

👍 LOYAL CUSTOMERS

🔄 COMMERCIAL PARTNERSHIPS PRODUCING ECONOMIC AND SOCIAL COMMUNITY CONTRIBUTIONS

🔄 SUPPORTED BY KEY STAKEHOLDERS FOR OPERATING IN A VALUE-ENHANCING WAY

👥 A PLACE TO WORK THAT KEEPS OUR PEOPLE ENGAGED, SAFE AND WELL AND THAT RETAINS, DEVELOPS AND ATTRACTS TALENT

🌱 ASSET GUARDIANSHIP AND INVESTMENT TO SUPPORT NEW ZEALAND'S CURRENT AND FUTURE ENERGY NEEDS

🌱 GROWING NEW ZEALAND'S RENEWABLE ENERGY ADVANTAGE

🌱 NATURAL RESOURCES MANAGED WITH EXPERTISE AND CARE FOR THE LONG TERM BENEFIT OF NEW ZEALANDERS

At a glance.

Mercury is an electricity retailer and generator that provides energy services to homes, businesses and industrial customers throughout New Zealand.

We have a long heritage in renewable energy in New Zealand serving homes and businesses under the Mercury brand and other specialty brands, including the leading prepay service GLOBUG. We also have proven capability and technical expertise in smart metering services, solar and off-grid solutions.

Our electricity generation is from renewable sources. Hydro and geothermal power stations operated by Mercury generate renewable electricity sufficient for 850,000 New Zealand homes. To achieve energy freedom for New Zealand through the electrification of transport, we encourage the adoption of electric vehicles (EVs) and electric bikes (e.bikes) and partnering on non-home charging infrastructure and data.

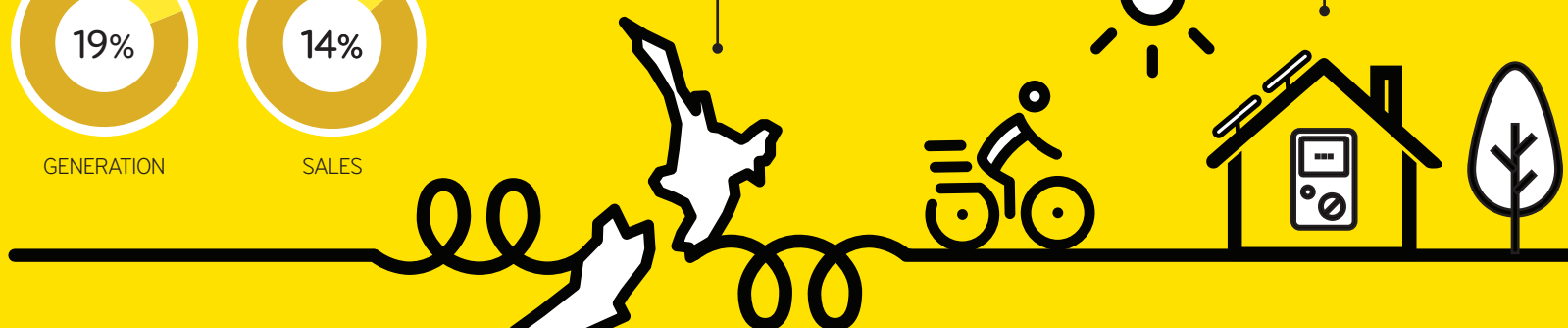
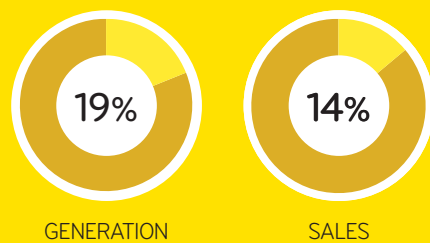
Our goal is to be the leading energy brand in New Zealand, by delivering value, innovation and wonderful experiences.

> MERCURY

	FY2017	YOY CHANGE
GENERATION VOLUME (GWh)	7,533	10.1%
PHYSICAL SALES VOLUME ¹ (GWh)	5,764	3.1%
MARKET CAPITALISATION (\$bn) (AS AT 30 JUNE 2017)	4.57	
NET DEBT (\$bn) (AS AT 30 JUNE 2017)	1.04	

> INDUSTRY

FY2017 MARKET SHARE



- > 2 geothermal joint ventures
- > 4 formal iwi partnerships
- > 10 community & commercial partnerships

CUSTOMERS

345,653	residential
41,167	commercial
2,073	industrial
2,819	spot

¹ Based on NZEM purchases.

54%
OF OUR FLEET
ARE EVs



- R&D Centre
- Hydro stations
- Geothermal stations

* Not 100% owned by Mercury.

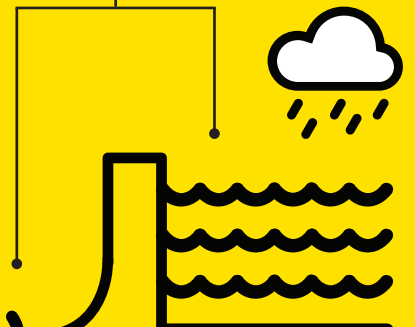
870
EMPLOYEES

361
FEMALE

509
MALE

403K
SMART METERS

14
POWER STATIONS



2,181 solar customers
243 customers on EV package

601 in Auckland
92 in Hamilton
18 in Taupo
59 in Rotorua
100 in rest of New Zealand

Services include:

- > Providing electricity consumption data
- > Maintaining & servicing assets
- > Installing infrastructure

4,724 GWh of hydro generation
2,809 GWh of geothermal generation

Chair and Chief Executive updates.

'OUR AIM IS FOR
MERCURY TO EARN,
IN EVERYTHING WE
DO, THE LONG-TERM
TRUST AND SUPPORT
OF OUR CUSTOMERS,
OUR PEOPLE, OUR
OWNERS AND OUR
COMMUNITIES.'

>> JOAN WITHERS
CHAIR



**'THIS YEAR WE PAID
CLOSE ATTENTION
TO THE THINGS
THAT OUR EXISTING,
LOYAL CUSTOMERS
SAID THEY WANTED:
REWARDING THEM,
INSPIRING THEM
AND MAKING THEIR
INTERACTIONS
WITH US EASIER.'**

>> FRASER WHINERAY
CHIEF EXECUTIVE



CHAIR'S UPDATE

Focused delivery.

This has been a milestone year for Mercury, with the business strongly establishing itself under one brand with clarity of focus on our strategic drivers: delivering customer advocacy, leveraging our core strengths and delivering sustainable growth. Our aim is for Mercury to earn, in everything we do, the long-term trust and support of our customers, our people, our owners and our communities.

Your Board is pleased to report encouraging momentum in a number of key areas, with record customer satisfaction, record employee engagement and record financial performance, all of which are detailed in this report.

OUR PERFORMANCE

Mercury achieved a 6.1% lift in operating earnings (EBITDAF) to \$523 million for FY2017 (\$493 million in FY2016), largely reflecting strong inflows across the Waikato catchment in the second half of the financial year. Hydro generation of 4,724 GWh for the financial year was 858 GWh up on FY2016.

Mercury's result was supported also by strong portfolio and plant management, growth in our retail business through our focus on customer loyalty and a solid contribution from our Metrix smart metering business.

Underscoring the year's performance, Total Shareholder Returns, or returns via dividends paid and share price appreciation, within FY2017 was 16.4%. The Board is also pleased to be returning a total of \$270 million to our nearly 90,000 owners, including the Crown, from cash flows generated through the year. Details of our final ordinary dividend and a special dividend are outlined later in this update.

PEOPLE, LEADERSHIP AND GOVERNANCE

Our people are at the heart of what we do, and our commitment to their wellbeing is fundamental to the sustainability of our business.

While not related to our reporting requirements, on behalf of the Board I wish to acknowledge the death of Rachael De Jong from a tragic incident in the Aratiatia Rapids in February this year. My heartfelt condolences to Rachael's family for their loss.

Incidents involving injury to Mercury employees this year were mostly of low severity, but we are still dissatisfied with this outcome. There was one serious injury that related to a stair fall in one of our offices. Fortunately the IT contractor involved in that incident has made a full recovery. Our goal continues to be Zero Harm.

We have seen a steady increase (39%) in the reporting of meaningful near-miss events from across all parts of Mercury. This is a very positive sign as it signals both collective ownership and collective awareness of what constitutes a hazard.

The Board is delighted with the performance of the Executive Team during the financial year in review. Under Fraser's leadership as Chief Executive, we have assembled a talented, high-performing executive group which operates in a collegial manner and whose conduct, demeanour and integrity reflect the standards and provide the example we strive for as an organisation. The recent Employee Engagement Survey reinforced the fact that our Executive Team is highly engaged, has a common purpose and strongly believes in and is committed to the Company's direction.



Our people are at the heart of what we do, and our commitment to their wellbeing is fundamental to the sustainability of our business.

We will continue to focus on earning your support through our strategy of delivering customer advocacy, leveraging our core strengths and delivering sustainable growth.

Fraser's influence on issues that matter to New Zealand has extended well beyond our own organisation. Over the past two years, he has driven much of the momentum on raising awareness of the benefits EVs can provide to the country, both in economic and environmental terms.

He recently headed a mission to Switzerland with many leading New Zealand business-people and as a board we have received tremendous feedback about his role and participation.

The relationship between the Chair and Chief Executive is critical. I enjoy working with Fraser immensely; he is always receptive to the feedback the Board provides and I am energised by the passion and commitment he demonstrates in the role.

Mercury's Board and Executive have been stable throughout the year, with the only change being the departure of director Mike Allen in November 2016 after seven years' service.

Dr Allen's expertise in geothermal development contributed strongly towards the Company's geothermal investment programme. Your Board is working carefully towards appointing a replacement director. I am strongly focused on ensuring that your Board continues to be well balanced with the skills, experience and diversity to guide Mercury over the long term in a dynamic and highly competitive environment.

We continue to scrutinise the need for relevant skills in our regular assessment of our skills matrix and we secure independent facilitation of our Board performance reviews.

A recent investor survey showed that the performance and composition of your Board is highly regarded.

Mercury continues to support the development of governance capability in New Zealand through the Institute of Directors' Future Directors Programme. We welcomed Nicky Ashton, a brand and marketing expert, as a Future Director on an 18-month term which will conclude on 31 December 2017.

Your Board is committed to maintaining the highest standards of business behaviour and accountability. Along with Mercury's Executive Team, we are also committed to developing our reporting so that it provides clarity on how Mercury creates value, our ultra long-term sustainability and prosperity.

Our approach to embedding sustainability in everything we do is reflected in the foundations of our business: wellbeing (of our people and customers), kaitiakitanga (custodianship of our environment), and commercial (making commercially-astute decisions).

This has also guided the development of this report so that it brings forward material sustainability topics – What Matters Most. From discussions with owners both here and around the world we appreciate the drive towards understanding how organisations sustainably grow value over the long term.

In this report we have incorporated principles from the Integrated Reporting <IR> Framework and have reported against Global Reporting Initiative (GRI) standards. Mercury will look to build on our integrated thinking and reporting.

This includes reporting on how we incorporate sustainability into our strategy, governance and operations, and how we manage sustainability risks and opportunities.

Building on this approach, Mercury is an early adopter in aligning our reporting against the NZX Corporate Governance Best Practice Code 2017. We also support the initiatives driven by individual and collective investors and shareholder representative groups, such as the New Zealand Shareholders Association, to improve transparency in remuneration disclosures and on opportunities such as diversity. We believe that having high standards of corporate governance is critical for New Zealand's prosperity.

RETURNING VALUE

As mentioned, your Board is pleased to be returning a total of \$270 million to our nearly 90,000 owners, including the Crown, for the full year.

The final ordinary dividend is 8.8 cents per share, fully-imputed. This brings the full-year fully-imputed ordinary dividend to 14.6 cents per share, up from 14.3 cents per share in FY2016. This is consistent with Mercury's policy to make ordinary distributions with a pay-out ratio of 70% to 85% of Free Cash Flow on average through time. This return to shareholders is also on guidance and represents the ninth consecutive year of ordinary dividend growth.

As well as the fully-imputed ordinary dividend, Mercury has announced a special dividend, also fully-imputed, of 5.0 cents per share as a means of returning cash to shareholders that is surplus to the Company's requirements.



Your Board is pleased to be returning \$270 million in total to our approximately 90,000 owners, including the Crown, for the full year.

As we have previously stated, Mercury seeks to utilise its balance sheet and Free Cash Flow to fund value enhancing initiatives, however no such opportunities requiring additional capital were executed in FY2017. This special dividend distributes excess Free Cash Flow plus proceeds from carbon credit sales within FY2017.

Mercury's final and special dividends will be paid to shareholders on 29 September 2017.

Our capital management initiatives support Mercury's investment-grade credit rating (BBB+), which was reaffirmed by S&P Global Ratings in December 2016.

We have issued guidance for the FY2018 year based on a return to average hydro inflows into the Waikato catchment, though elevated by 150 GWh based on performance during the first month of the financial year.

With a moderate level of earnings variability from year to year due to hydrological conditions, Mercury adopted a single 'point-estimate' for EBITDAF guidance from FY2017. EBITDAF guidance updates are provided at least twice-yearly: at Mercury's Annual Shareholders' Meeting (ASM) and as part of our Interim Results. Quarterly Operational Updates include mid-point estimates for forecast full-year hydro generation.

EBITDAF guidance for FY2018 is \$500 million, subject to any material events, significant one-off expenses or other unforeseeable circumstances including hydrological conditions. Ordinary dividend guidance has been issued at 15.0 cents per share, an increase of more than 2% on FY2017.

Stay-in-business capital expenditure guidance is \$115 million, above our normalised level of \$80 million due to planned hydro, geothermal and technology investments in FY2018.

CONNECTING

To assist with Mercury's customer focus, your Board all spent time at the Company's contact centre and even made customer calls during the year. These were wonderful experiences. I was assisted by Customer Service Representative Jahmeel Nowell, and was very impressed by the dedication he, and other members of the team around him, showed towards the customer experience. It was encouraging to the Board to observe the care shown by all our people for the customers they interact with each day.

To assist with delivering close connections also with our owners, we maintain our commitment to providing an update on our business performance and strategic priorities, as well as to sharing with you more of our customer-led innovations, at our ASM in Auckland. This year's meeting will be held on 7 November. I look forward to welcoming you there. If you are not able to attend, you can follow proceedings on a live webcast, and you can also cast a proxy vote on any resolutions by post or online.

LOOKING FORWARD

Given the momentum developed by Mercury this year, strong execution across the business, and the customer-led innovation that we outline in this report, the Company is well positioned to continue generating consistent and growing returns for our owners, along with value for our partners, our customers, our people and our communities.

We will continue to focus on earning your support through our strategy of delivering customer advocacy, leveraging our core strengths and delivering sustainable growth.

I would like to thank all of our people, the Executive Team and my fellow directors. Your professional efforts and advocacy for Mercury throughout the year have helped to bring to life our new Mercury brand and to inspire New Zealanders to enjoy energy in more wonderful ways.

>> JOAN WITHERS, CHAIR

CHIEF EXECUTIVE'S UPDATE

Earning the opportunity to be chosen.

At Mercury, we respect that freedom to choose sits with our customers, people, owners and communities. We have worked hard throughout the year to distinguish ourselves by the choices that we offer.

I am proud of what the dedicated people at Mercury have achieved this financial year, and what this momentum means for the years that will follow. The customer focus within our business has delivered real change and this report outlines several of our successful innovations. These include data-driven digital solutions, our leadership and partnership approach to EV uptake, and our provision of solar and battery options fit for New Zealand conditions.

We have also executed well across the business, and that is critical to earn the trust of our owners.

Our geothermal drilling campaign resulted in four new wells and one well repair at the Kawerau and Rotokawa fields in a programme that involved 170,000 working hours and spanned 30 separate organisations. The campaign was completed safely, ahead of time, and \$7.5 million under target.

We delivered important IT and digital enhancements designed to improve our capacity to meet customer needs efficiently and effectively. Our IT team completed a migration of the majority of our business applications to the cloud. System upgrades of our core asset management system (Maximo) and our SAP customer service and billing system, and their transfer to the cloud, are expected to be completed in the first half of FY2018.

Customer satisfaction, influenced strongly by our focus on loyalty, reached its highest-ever level during the year. Our employee engagement score, which reflects many aspects of our business though includes our considerable focus on wellbeing and management training, is at the highest level in Mercury's history.

Our FY2017 financial outcomes are also the strongest in Mercury's history.

These customer, employee and financial measures confirm the success of our rebrand, undertaken to align our approach externally and internally, and our focus on rewarding customer loyalty.

FINANCIAL PERFORMANCE

Mercury's net profit after tax increased \$24 million to \$184 million. Underlying earnings after tax increased by \$24 million, or 16%, to \$176 million, reflecting improved operating earnings and flat operating costs.

Operating costs of \$214 million were flat in FY2017 when compared with FY2016. This reflects Mercury's continued focus on controlling costs, improved procurement strategies, our exit from international geothermal development and the mothballing of Mercury's thermal generation site at Southdown. Operating expenditure has progressively been focused towards customer innovation over the past two years.

Stay-in-business capital expenditure, which represents the capital expenditure incurred by the Company to maintain our assets in good working order, was \$114 million. This was above our normalised level of \$80 million per annum, reflecting phasing of ongoing hydro refurbishment projects at Aratiatia and Whakamaru, and Mercury's geothermal drilling programme. Capital expenditure was \$10 million below original FY2017 guidance of \$125 million, due to the performance of the geothermal drilling campaign.



Strategic use of data is an important enabler for Mercury. We have commercialised more initiatives based on smart meter data than any other energy retailer in New Zealand.

OUR CUSTOMERS

To be New Zealand's leading energy brand, we need to earn the opportunity to be chosen by New Zealanders to meet their energy needs.

This year we paid close attention to the things that our existing, loyal customers said they wanted: rewarding them, inspiring them and making their interactions with us easier.

Mercury's Free Power Days, which allowed customers to boost their enjoyment of electricity at no cost on certain days, resonated strongly. One customer reported using a Free Power Day to wash, dry and pamper their dog, hence our cover image. Another customer dried out his model plane that had crashed into a lake. Mercury's Free Power Day platform is entirely digital, and all up more than 157,000 Free Power Days were enjoyed throughout the year, the equivalent of up to 430 years of free power.

Mercury's innovation approach is to be alongside our customers as technology moves from what is possible to what is commercially probable in New Zealand's small market, with a unique and world-leading structure.

Customers enjoyed wonderful experiences on e.bikes, whether saving on commuting times or parking costs or simply having fun cycling through beautiful parts of our country like the Waikato River Trails.



We paid close attention to the things that our existing, loyal customers said they wanted: rewarding them, inspiring them and making their interactions with us easier.

Innovations led by the needs and expectations of our customers also saw customers receive new monthly statements with clearer, easier-to-understand and more useful information.

Mercury delivered a mobile phone app solution to GLOBUG customers having to transition from their previous in-home displays. Our team's broad thinking resulted in a programme to re-purpose redundant stock in collaboration with NIWA and community groups in order to minimise waste to landfill.

Overall, in FY2017 Mercury, excluding Bosco and GLOBUG, gained 19,000 residential customers through our focus on loyalty and retention.

Recognising customers' desire for choice, we increased our solar energy options, along with battery storage capability, via Mercury Solar, launched in November 2016. Auckland's demand for solar installations, however, was lower than anticipated in FY2017. Reflecting that, Mercury's installations were below our expectations.

As we have said previously, solar will likely remain a niche in New Zealand due to a highly competitive renewable electricity market, factors such as our climate and geography, and winter peaking electricity demand.

We will continue to develop our research and development facility, based in Penrose, Auckland, to understand how advances in global technology in areas such as solar energy and battery storage can deliver better customer outcomes tailored for New Zealand conditions.

Strategic use of data is an important enabler for Mercury. We have commercialised more initiatives based on smart meter data than any other energy retailer in New Zealand. Smart meter use contributes strongly to customer-led product development as well as helping customers towards more efficient use of energy in their homes.

Our metering division, Metrix, is the second-largest smart meter data and services provider in the country. For FY2017 Metrix contributed \$49 million in revenue with over 400,000 meters owned at 30 June 2017 and more under management. Metrix is expected to complete a systems upgrade in FY2018 that will offer certified half-hour data for an expanded number of energy retail customers.

OUR PEOPLE

As well as being chosen by customers, Mercury must be chosen as a great place to work.

This year our people achieved excellent outcomes by bringing our new brand to life and promoting our attitudes of commitment, sharing and connecting, and being curious and original. Our success in this area is reflected in our 2017 Employee Engagement Survey, where 81% of employees identified themselves as engaged (up from 79%). Another humbling insight from the survey was that those who identified themselves as Maori showed the highest levels of engagement at 91%. Mercury benefits from the diverse views and experiences of all our people as they reflect the communities in which we operate.

Having a great place to work also contributes to high-performing teams. Excitement is growing in relation to consolidating Mercury's four Auckland office locations into one new location in Newmarket, scheduled for FY2019. Planning is progressing well to ensure the new premises offer workspace choices and an environment that complements and enhances our customer-led brand.

We broadened our diversity objectives in 2016 from gender to also cover age, ethnicity, inclusion and flexibility. Progress is encouraging. The proportion of women across our total workforce increased to 41% from 38% in 2016, and across our leadership group to 30% from 25% in 2016. We will continue to focus on building diverse and inclusive teams to deliver business success.



This year our people achieved excellent outcomes by bringing our new brand to life.

Keeping our people well is another commitment we make. From the range of benefits they can choose from, one in six of our people had an annual health check subsidised by Mercury; 275 took up the opportunity for a free influenza vaccination; and 17 employees used some or all of the two weeks' paid leave available to partners supporting a primary caregiver with the arrival of a new child. Pleasingly, our Employee Engagement Survey identified that 95% of our people agree or strongly agree that Mercury is committed to the health and safety of our people.

Our people also faced some unique challenges this year.

On 6 February 2017, there was a tragic incident at the Aratiatia Rapids, the natural spillway on the Waikato River below Mercury's Aratiatia Dam. A young woman, Rachael De Jong, who was at the rapids with her friends, lost her life. An extensive internal review tested safety measures at the rapids and they were confirmed as functional and fit for purpose before tourism observation spills from the dam were reinstated. To further raise awareness of the importance of safety at the rapids, a joint statement with safety guidelines was distributed in conjunction with other stakeholders including the Department of Conservation, Waikato Regional Council, Water Safety New Zealand, and the Taupo District Council. Our deepest sympathies are with the De Jong family.

On behalf of Mercury, I would also like to acknowledge the passing during the year of three employees who, in different but very important ways, contributed greatly towards who we are as a company: Cathy Tarrant, John Foote and Peter Hutchen. Our thoughts are with their families and they are fondly remembered.

OUR RENEWABLE NORTH ISLAND GENERATION

It is a significant commercial advantage to Mercury that our generation of electricity from our renewable hydro and geothermal stations is based relatively close to large areas of energy consumption in the North Island.

Our nine Waikato River hydro stations meet around 10% of New Zealand's current electricity needs and benefit from inflows (rain) that typically correlate with consumers' winter peak demand. When temperatures drop in New Zealand homes, Mercury's hydro inflows typically help provide renewable warmth.

Low South Island lake levels this winter impacted on electricity output from competitors managing South Island hydro stations, with consequential impacts on spot prices for electricity. New Zealand's security of supply was assisted by 96th percentile annual inflows into our North Island system. Mercury's maintenance and enhancement programme meant we were able to play our part to help consumers by generating strongly through this period. On 4 July 2017, we achieved a key milestone: running all of our 39 turbines in the Waikato Hydro System to achieve a record peak generation of 1,063 MW.

Our people who manage the hydro stations also play a key role in water management throughout the Taupo and Waikato River catchments.

We take great pride in how our people assisted the flood manager, Waikato Regional Council, to mitigate flooding in low-lying areas from the heavy rains from consecutive cyclones Debbie, Cook and Donna in the second half of FY2017.

This year we continued our programme to improve the operational efficiency and long-term reliability of our hydro stations. The rehabilitation of the first of four units at our Whakamaru station was successfully completed and is performing better than planned. The full upgrade, scheduled for completion in 2020, will increase capacity by 24 MW to 124 MW, the energy equivalent of approximately 16,000 EVs.

Solid progress has also been made in preparing Aratiatia hydro station for its upgrade which is scheduled to commence on site in October 2017, with completion expected mid-2020.

Mercury's geothermal stations provide steady baseload electricity, equivalent to 7% of national demand. To ensure the sustained performance of our geothermal production, this year we successfully completed a substantial geothermal drilling programme, mentioned earlier.

In addition and as mentioned in previous reports, Mercury is primed for domestic growth when commercial conditions are right, with consented high-quality wind farm sites at Turitea and Puketoi available to add to our renewable electricity fleet.

OUR PARTNERSHIPS

Collaboration based on mutual understanding and delivering shared value guides Mercury's approach to partnerships. We seek to learn from and respect the past, and believe that this provides a hard-to-replicate model that distinguishes us from our competitors.



Mercury is primed for domestic growth when commercial conditions are right, with consented high-quality wind farm sites at Turitea and Puketoi available to add to our renewable electricity fleet.

Kaitiakitanga (guardianship) and kotahitanga (working together for today and tomorrow) are constructs we embrace in our commercial partnerships. They influence the decisions we make as we manage and grow our renewable electricity generation resources for the benefit of all New Zealanders, including our nearly 90,000 New Zealand owners.

Our partnerships with the Tauhara North No.2 Trust and the Tuaropaki Trust have not only added to New Zealand's geothermal electricity generation but have also created opportunities for Maori to grow economic wealth from their whenua (land). We are inspired by their mahi (work).

Our relationships with iwi in the Waikato River catchments are hugely valued by us, and have been built over many years based on respect and trust. We support programmes that are mutually mana-enhancing and of benefit over the ultra long term. As an example, Mercury worked with Ngāti Koroki Kahukura to install a solar energy system at Pohara Marae in the Waikato.

OUR PROGRAMME OF WORK

Major activities planned through the 2018 financial year that support our mission of energy freedom include:

- growing our customer-led digital offerings and capability by completing an upgrade of our customer systems to a fully-supported cloud-based environment
- extending our high-performance team framework
- evolving our health and safety approach beyond occupational health and safety to include wellness and process safety
- refurbishing and the returning to service of two new hydro units at Aratiatia and Whakamaru, and the drilling of a new geothermal well at Ngatamariki
- completing and embedding Metrix's new operating platform
- delivering our Maximo asset management system upgrade.

OUR SUSTAINABILITY AND OUTLOOK

Acting with ultra-long-term sustainability in mind is the way we do things at Mercury. This is embedded into the way we manage the natural resources we rely on for electricity generation and how we maintain our assets and the relationships we form with our key stakeholders. In all our decisions, we consider the way we impact on, and are impacted by, key sustainability opportunities, along with the valuable role we can play towards safeguarding New Zealand's sustainability.

Climate change and its impacts are a significant global and national challenge and we actively seek to influence better outcomes for all New Zealanders. We do this by focusing on making a positive contribution ourselves, and also by seeking to influence others to move New Zealand towards a low-carbon economy.

There is an important role for us to play given Mercury's renewable electricity generation and a great opportunity for New Zealand to take in seeking to electrify our transport sector.

Mercury operates in an unsubsidised electricity market in New Zealand that is more than 80% renewable and the opportunity exists here to extend this natural advantage.

The Government's target of 90% renewable electricity generation by 2025 is unnecessary, given the pipeline of competitive renewable electricity projects. The real issue is the use of non-renewable sources for our wider energy requirements. Almost 60% of our overall energy usage still involves fossil fuel, much of which is imported.

This dependence on fossil fuel impacts negatively on New Zealanders through our balance of trade, it keeps consumers vulnerable to overseas oil supply and oil price shocks, and it is a constraint to New Zealand's efforts to reduce carbon emissions. To break free from this dependence, rather than a renewable electricity target, New Zealand needs a renewable energy target focused on reducing fossil fuel use.



The customer-led focus on execution and innovation has supported a strong financial performance that underpins Mercury's wider contribution to customers and the country.

Electrification of transport and the utilisation of renewable sources of energy, such as geothermal, for heat in industrial processes, are two of the biggest areas of opportunity if we are to reduce New Zealand's dependence on non-renewable sources of energy significantly. This drives Mercury's own efforts to support the uptake of EVs in New Zealand. Continuing to influence positive change, we are confident we will have met our target of 70% EVs in our total fleet within the first half of FY2018. This will be well within the timeframe of the commitment stated at our ASM in November 2014, and represents the conversion of every car possible.

We are entering an exciting period for consumers with more choice than ever about how they want to engage with their energy services. Enabling competitive markets has been the cornerstone of Mercury's policy approach and this has delivered for consumers. We want to see the benefits that the market has delivered continue which is why we see an opportunity now to get the regulatory settings right around emerging technology and the pricing of distribution.

Pricing reform of distribution networks is needed to ensure pricing structures are simplified and made more equitable. Prices must also send the right signals to retailers to support their customers' investment decisions for new technologies like solar, batteries and EVs.

Mercury welcomes the Government's recently announced review of the regulated low fixed-charge tariff (LFCT) as we believe the LFCT is an ineffective approach that does not benefit the majority of those households originally targeted by the tariff.

Getting the settings right in these areas is important to ensure a fair outcome for all consumers, particularly the most vulnerable, over the long term.

Access to water as well as the quality of it, is a very important opportunity for our country to get right. Mercury is committed to being an active participant in helping to secure the sustainability and improvement of New Zealand's freshwater resources. We seek to do this by understanding, managing and minimising any impacts our operations have on water, together with looking at the ways we can continue to innovate and improve the efficiencies of our water utilisation. We believe there is a very clear distinction between non-consumptive use of water, such as our use of gravity for hydro generation and consumptive uses which remove water from the environmental system.

Overall, we continue to be encouraged by the constructive approach to policy development across the political spectrum.

FINAL WORDS

On behalf of Mercury's Executive Team, I am very pleased with what has been achieved throughout this financial year and excited by the opportunities which lie ahead. The customer-led focus on execution and innovation has supported a strong financial performance that underpins Mercury's wider contribution to customers and the country.

We acknowledge the choices that our customers, our owners, our people and our partners have all made and thank you for being part of our story.

**Together we are Mercury.
Energy Made Wonderful.**

Nga mihi nui ki a koutou katoa.

>> FRASER WHINERAY, CHIEF EXECUTIVE

What matters most.

In 2016 Mercury established five key pillars representing the things that matter most to our stakeholders and our company. These are the material considerations relevant to how Mercury sustains and grows long-term value.




In this report, we have further developed the information provided on each of these pillars. We have incorporated more stakeholder feedback, provided clarity on why these areas matter most, and have outlined what Mercury has done or plans to do to create long-term value in these areas.

You can read more about how these material considerations relate to our stakeholders and how we engaged our stakeholders in the creation of this report on pages 66-69.

We will continue to evolve our reporting to include further goals and targets in these key areas.

How it all fits together.

The United Nations Sustainable Development Goals (SDGs), establish a global vision to end poverty, hunger, inequality and protect natural resources. The SDGs act as a target for businesses, governments and society to make the right choices now to improve life for future generations. At Mercury, the work we've done contributes to a number of key SDGs. In this table we have aligned our What Matters Most pillars with the three SDGs we contribute to the most:

KEY SDGS	7 AFFORDABLE AND CLEAN ENERGY 	8 DECENT WORK AND ECONOMIC GROWTH 	11 SUSTAINABLE CITIES AND COMMUNITIES 
OUR WHAT MATTERS MOST	ENHANCED NATURAL RESOURCES	HIGH PERFORMANCE TEAMS	GROWING CUSTOMER LOYALTY
	STRONGER TOGETHER	LEADING ECONOMIC PERFORMANCE	ENHANCED NATURAL RESOURCES
		STRONGER TOGETHER	HIGH PERFORMANCE TEAMS
			STRONGER TOGETHER



GROWING CUSTOMER LOYALTY

Mercury's purpose is to inspire New Zealanders to enjoy energy in more wonderful ways. We do this through an approach that rewards loyalty, uses customer-led technology and makes our services seamless and easy for people. We are grateful to our customers for choosing us and in response we focus on what they tell us matters most to them – fairness and helping to maintain security of their supply. Customer satisfaction is a core benchmark for our business: it is a component measure for the Company KPIs (and therefore executive remuneration) to enhance customer centricity.

HIGH PERFORMANCE TEAMS

The best way to create value in our business and deliver the best experience possible to our customers is to ensure we have high performing teams. We aim to make Mercury a great and safe place to work, where our employees feel engaged and motivated to live up to their full potential, and also that of the teams they are part of. We value diversity, particularly in contributing to innovative thinking, and have a culture where people feel they can contribute and succeed. The safety and wellbeing of our people and everyone we work with is a component measure of executive remuneration. We have a complementary focus on employee development, great people management and a high performance culture, which supports recognition of and reward for excellence.

ENHANCED NATURAL RESOURCES

Mercury harnesses energy from natural resources. We have a long-term focus that recognises the interests of other stakeholders, including future generations of New Zealanders. Our renewable generation contributes towards New Zealand's renewable energy advantage that delivers value to customers and contributes to meeting New Zealand's climate change goals. In order to protect the natural environment, on which Mercury relies to deliver energy to our customers, resource consent compliance is a key focus. We place a high priority on collaboration with local government and the local communities in which we operate. This is to ensure ongoing natural resource availability and protection and enhancement of environmental outcomes, including the health and wellbeing of the Waikato River and its catchment.

STRONGER TOGETHER

Deep and enduring partnerships are a vital foundation for our business and broader economic outcomes. Kaitiakitanga (guardianship) is embedded in our operations and in the relationships we have with our commercial, iwi and community partners. Our long-standing partnerships with Maori landowners have been essential to our geothermal development programme and operations that rely on ongoing access to natural resources. Our commercial partnerships have focused on green growth opportunities for New Zealand such as EV uptake. We are proud to have long-standing commitments which support local communities. These allow us to bring our purpose to life and ensure that our value creation extends beyond the Company's direct economic performance.

LEADING ECONOMIC PERFORMANCE

The financial results reflected in this report are the product of a focused ultra long-term business approach, centred on delivering value to our owners. We apply strong financial disciplines and robust risk management in operating our business and pursuing future growth. We take pride in the Company's strong and resilient economic performance. Mercury aims to deliver sustainable and growing cash flows that support progressive dividends to our owners, and grow in value over time. Through our partnerships and by working with communities we also provide broader economic, societal and environmental benefits.

CUSTOMERS CHOOSE FREE POWER.

To remind customers of the fun they can have with their energy, to thank them for choosing Mercury, and to help them wash their dogs or host a dinner party, we offer the opportunity to choose a Free Power Day. It's a day where a customer can really make the most of wonderful energy.

» 157,000 Free Power Days.

Super Sandra makes the most of her Free Power Day.

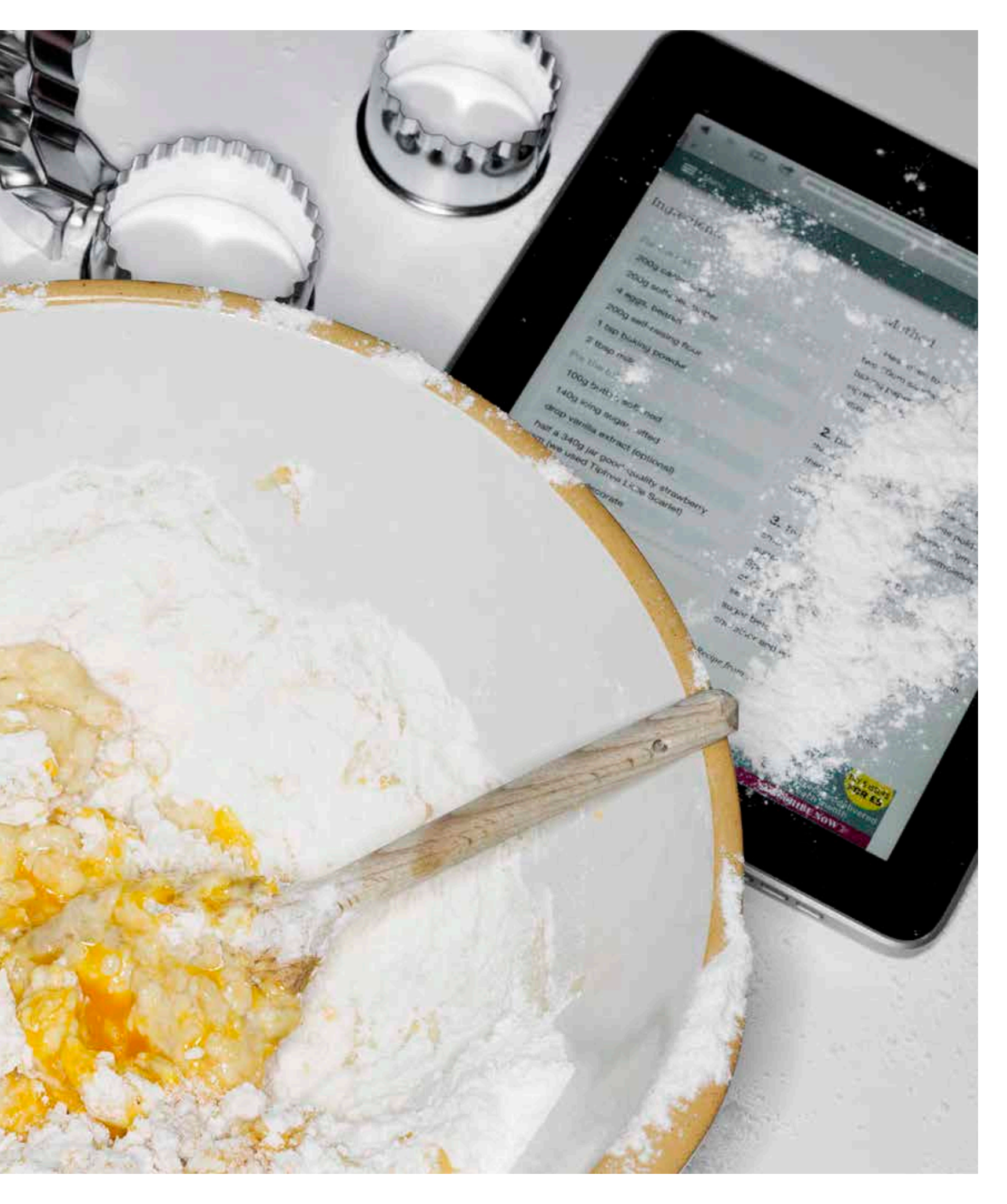
» WE'RE CONSTANTLY AMAZED BY THE INCREDIBLE THINGS PEOPLE DO WITH THEIR FREE POWER DAYS.

Sandra from New Plymouth is no exception. She caught up on washing, whipped up a yummy-sounding leek and potato soup, and even got a pork roast going. Sandra then went on to bake an impressive 10 recipes to treat her family of four. There was even time to spend "watching a little TV".

"I think it's a great thing to do... thanks for my Free Power Day." Sandra, it's our pleasure!



VISIT OUR FACEBOOK PAGE TO READ MORE STORIES OR SHARE YOUR OWN.



Indulgences

- 200g softened butter
- 200g soft light brown sugar
- 4 eggs, beat
- 200g self-raising flour
- 1 tsp baking powder
- 2 tsp milk
- 100g butter, soft, and
- 140g icing sugar, sifted
- drop vanilla extract (optional)
- half a 340g jar 'good' quality strawberry jam (we used Tipton's Scarlet)

2. Beat

3. Add

Let's Eat! FOR £5

Subscribe Now



GROWING CUSTOMER LOYALTY


Inspiring New Zealanders to enjoy energy in more wonderful ways.

Mercury's purpose is to inspire New Zealanders to enjoy energy in more wonderful ways. That's why we launched our new single brand in July 2016 with wonderful examples of what energy can do for our customers.

Our customers were at the heart of this change. They even helped choose our bee logo. They told us they want choices which reward them and that we should be easy to work with so we designed our customer strategy around this. We focus on giving our customers the right choices and that's led to our highest-ever levels of customer satisfaction and the lowest customer switching rate amongst similar-sized retailers.

Mercury will keep asking and listening to our customers so we can offer choices that make energy wonderful.





Delivering Customer Advocacy

Focusing on inspiring, rewarding and making it easy for our customers helps everyone at Mercury to become a customer champion.

Inspiring.

3,000

E.BIKE RIDES
FACILITATED BY
MERCURY

We aim to inspire our customers to use Mercury's renewable energy in wonderful new ways. That could be e.biking to work, driving an EV along New Zealand's Electric Highway™, or harnessing and storing the energy of the sun.

E.bikes

E.bikes are the perfect example of 'energy made wonderful'. They give our customers the choice to beat traffic congestion and parking costs without breaking a sweat. E.bikes have even helped customers recovering from health challenges to get back into cycling.

We took our big yellow trailer of e.bikes around the country and gave more than 3,000 New Zealanders the chance to go for a ride. Many customers were inspired to buy their own e.bike. To help, we offered customers a discount of up to \$500 with certain cycle retailers.

Over the past year, e.bike sales in New Zealand have doubled; this proves that Kiwis are definitely ready to electrify their transport.

Mercury Solar

Inspiring our customers includes offering them the freedom to choose to generate and store their own wonderful, renewable energy.

Mercury Solar is this country's only solar 'one-stop shop': installer, electricity retailer, and renewable energy generator.

We've invested in the Mercury Research and Development Centre to trial a range of solar and electricity storage solutions specifically for New Zealand conditions. We've partnered with global technology leaders Trina Solar for solar panels, and SolaX for a leading German-designed solar battery storage system. Mercury Solar customers are given an online tool that tracks the performance of their solar system, and we offer a great 'buy-back' rate of 12 cents per kWh for any surplus energy fed back into the grid.

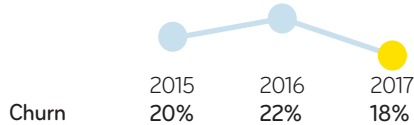
Demand for solar has been slower than anticipated across the whole market. For customers who do choose to move to solar, we're ready with the scale, technology and experience to deliver the best on- or off-grid solar experience.

Rewarding.

We reward our customers for choosing Mercury. To thank them for their loyalty, we help them fly with Airpoints Dollars™; we offer them certainty with fixed-price contracts, and we periodically offer Free Power Days.

In FY2017 we gained 16,000 customers (the number of customers who joined us, less the number of customers who left). Most of this gain is because customers choose to stay with us. Our focus on rewarding customer loyalty has resulted in the lowest rate of 'trader switching' (where a customer changes retailer without changing house) being lower than the rest of the NZ market combined.

HOW WE'RE TRACKING:



16,000

NET GAIN IN CUSTOMERS
IN FY2017

5.7%

'TRADER SWITCH' RATE, MATERIALLY
LOWER THAN THE REST OF THE NZ
MARKET COMBINED

Airpoints Dollars™

Our energy helps our customers fly. We partnered with iconic Kiwi brand Air New Zealand to offer Mercury customers Airpoints Dollars™ – one of the country's largest and most popular loyalty programmes. More than 119,000 Mercury customers have already signed up to earn Airpoints Dollars™ just for paying for their power. Many thousands have chosen one of our offers to earn points even faster by signing up to a fixed-price contract with an increased multiple of points earned.

A

119,000

MERCURY CUSTOMERS
JOINED AIRPOINTS™

x3

13,000

MERCURY CUSTOMERS
EARNING TRIPLE
AIRPOINTS DOLLARS™

157,000

FREE POWER
DAYS CLAIMED.

Free Power Days

Our customers have enjoyed more than 157,000 Free Power Days this year. All together, this adds up to more than 430 years of free power!

Our customers love Free Power Days, and they give us great feedback, whether they chose to use the day for a laundry blitz, a party, or to bake for the whole school. On 25 May 2017 we partnered with TVNZ to help celebrate the 25th birthday of a Kiwi TV icon, Shortland Street. With competitions, special content, a virtual reality and e.bike roadshow and a Free Power Day for customers who opted in.

Fixed-price contracts

Our fixed-price contracts are the most successful retail innovation in terms of uptake in the New Zealand electricity market. More than 117,000 (34%) of our residential customers and 26,000 (63%) of our commercial customers have chosen to move to fixed-term, fixed-price contracts. A fixed-price contract gives our customers long-term certainty and stability around their electricity costs. It protects them from cost increases for the power they use as well as from transmission and local lines company charges outside our control.

117,000

RESIDENTIAL CUSTOMERS
ON FIXED-PRICE CONTRACTS

26,000

COMMERCIAL CUSTOMERS
ON FIXED-PRICE CONTRACTS



Making it easy.

We make it easy for our customers to be with Mercury.

We provide clear information by post, email and online. Customers can quickly read their statement, access account information, monitor their usage, and get support from our website or through our contact centre.

Our focus on making it easy means our customers are more satisfied than ever. Our surveying shows 64% of our customers rated us 8, 9, or 10 out of 10 and we know that highly satisfied customers are more likely to choose to stay with Mercury.

There is always room to improve and we continue to work on new customer experiences that will make being a Mercury customer better.

CUSTOMER SATISFACTION SCORE

64% RESIDENTIAL

Rating as 'highly satisfied'

89% COMMERCIAL AND INDUSTRIAL

80% METRIX

HOW WE'RE TRACKING:

Residential and small commercial satisfaction	2015 57%	2016 60%	2017 64%
---	-------------	-------------	-------------

Making it easy to talk to us

Our award-winning contact centre team responded to more than 610,000 calls and emails in FY2017. Our team is ready to support customers by phone, email or online chat. The choice is theirs.



610,000

INBOUND CALLS AND EMAILS HANDLED BY OUR CONTACT CENTRE

Our Sales teams won several prestigious awards this year, including the top customer relationship management award for outbound business, and awards for inbound sales and favourite outbound representative. Judges looked for a sales team focused on adding value to the customer and creating a positive customer experience.

Making it easy to understand

To make our statements easier to understand and more useful for our customers, we asked customers what they really wanted via in-depth research and focus groups. Guided by them, we simplified the layout and put the information that customers want to know upfront.

We also made it easier for new customers to find the information and services they need by sending emails that include tips to control energy usage, information about our rewards, and support to help them understand their first statement after they have joined us.

GEM, our energy usage monitor, gives our customers choice around how they manage their electricity usage and improve their energy efficiency. They can track their consumption, set goals, receive alerts and compare their usage to similar households.

Every year, we check on the energy usage of those residential customers who are not on fixed-term plans. If our customer could be better off switching from a low-user to standard-user plan (or vice versa) we let them know and automatically change them over. This has saved our customers a lot of money.

180,000+

CUSTOMERS RECEIVE GEM EMAILS EACH MONTH

Keeping our customers safe and connected.

Energy can help our customers do wonderful new things and electricity is also a service that they rely on every day. Customers look to Mercury to keep them connected and trust us to keep the information we hold safe and secure.

We take a balanced approach to pricing

The price at which we sell electricity is important to our long-term sustainable success. We weigh up a range of factors, including competitive forces, business costs and inflation, industry trends, and the potential impact on our customers of any pricing changes. Overall we seek to price in a way that helps us provide customers with value, freedom and choice.

We advocate for sensible pricing

We advocate in a number of industry forums for pricing and decisions that won't have a negative impact on our customers, their ability to access energy or on our commercial interests. This includes supporting approaches that enable customers to sustainably adopt new technology, such as solar panels, without causing price increases or complexity for other customers.

GLOBUG

Mercury offers a prepay electricity service called GLOBUG that provides customers the choice to pay for electricity as they go, just like a prepay mobile phone account.

GLOBUG enables customers to match electricity payments to their income cycle. There are also no penalties or late-payment fees with GLOBUG, which helps GLOBUG customers avoid debt. More information is available via our website www.globug.co.nz

This year the GLOBUG in-home displays (IHD) were removed from service because of the retirement of Spark's pager network. Mercury invested in enhancing online tools for customers who were still using the devices. We also offered a mobile phone package to make sure GLOBUG services continued to be accessible to all existing customers.



28,000
GLOBUG customers

Disconnections

Disconnection is a poor outcome for everyone.

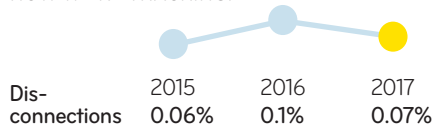
If a customer is unable to pay their bill, we empower our credit team to explore different payment options with them (like GLOBUG), talk to Work and Income on their behalf or recommend a budget advisor.

As a result our quarterly disconnection rate of 0.07% is lower than most of our competitors.

0.07%

LOWER DISCONNECTION RATE THAN MOST COMPETITORS

HOW WE'RE TRACKING:



Reliable supply

Our customers expect reliable access to electricity. We carry out a continuous programme of maintenance and upgrades at all our generation sites to ensure long-term reliable and consistent electricity supply to the national grid.

Most outages are issues with electricity distribution (lines) which is outside our control. However, we work closely with our registered vulnerable and/or medically-dependent customers to make sure they know what to do if there is an outage.

During outages caused by the Kaikoura earthquakes in November 2016 and the Edgecumbe flooding in April 2017 we contacted all of our affected vulnerable and/or medically-dependent customers to check on their safety and to see that their contingency plans were working effectively.

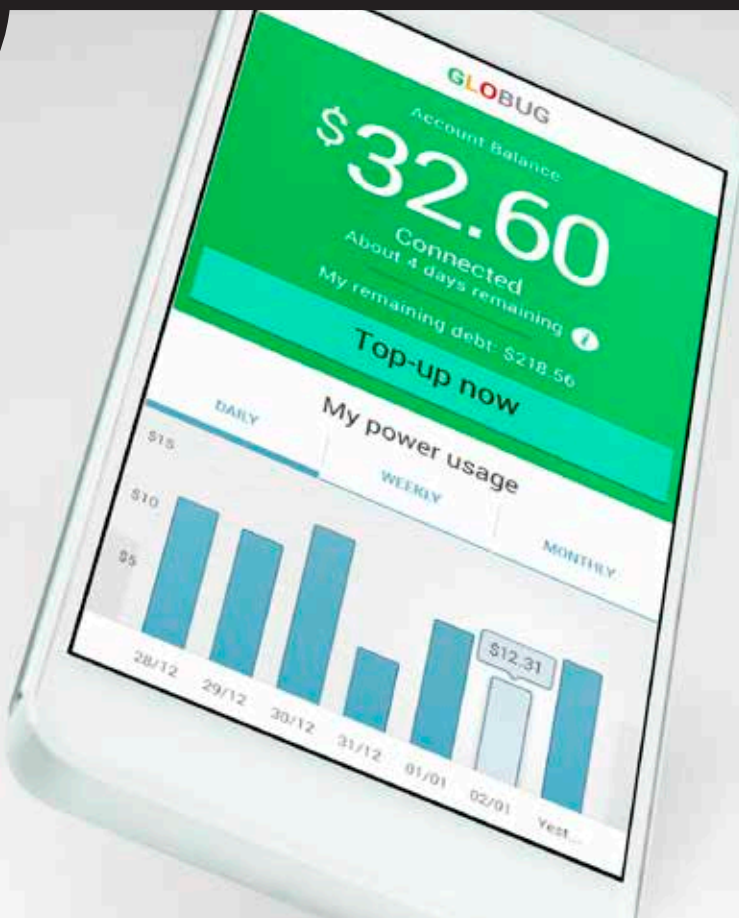
Customer privacy

The security and privacy of customer information is extremely important to Mercury.

During FY2017 we strengthened ID checking for new customers together with credit checks.

All Mercury employees took part in online customer data policy training during FY2017, and our frontline staff received extra training on customer account security.

We regularly assess our resilience to cyber threats, and test that our frontline security measures are working as they should. A programme of continuous improvement and investment helps to address this constantly evolving threat.



“Loving GLOBUG so far, it's an easy cost effective way to keep control of our power usage. The new app is fabulous, we check it out as a family each week to see how well we are doing at conserving our power.”



HIGH PERFORMANCE TEAMS

Trusted, valued, safe.

At Mercury, we value and support the endeavour of all our people. Beyond those directly employed by our company, we also value the contributions and support of contractors, suppliers and partners.

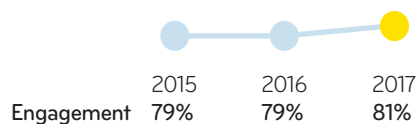
We acknowledge that everyone who works in our business has chosen Mercury for a combination of reasons. Understanding and growing our employment proposition is essential for the sustainable performance of Mercury. We are motivated to make our work environment wonderful for all of our people.

We're also committed to ensuring our people have opportunities to grow and develop in their roles, and we strive for a safe, healthy and inclusive environment in which to apply their capabilities and experience in predominantly team situations.

With this focus, we're pleased to be growing our culture of positive employee engagement.



HOW WE'RE TRACKING:



Living our attitude...

Our purpose is to inspire New Zealanders to enjoy energy in more wonderful ways. To achieve this, we need empowered people working very well together: Mercury people who can anticipate change, adapt to it and execute flawlessly. That's why we make substantial investments for people and, more importantly, teams to grow and thrive.

It was only one year ago that we reshaped ourselves under the single Mercury brand. We've come a long way organisationally in that brief time. For our people, we have brought to life our Mercury 'attitude': our ways of working designed to underpin how we do things here.

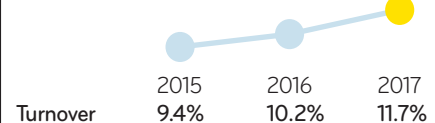
We support our people to **'Commit and Own it'** – this is about executing well and doing what we say.

We support our people to **'Share and Connect'** – to build strong relationships across our company, with our customers and also more widely, so that we understand and can influence positive outcomes.

And we support our people to be **'Curious and Original'** – so we see all of the possibilities that are open to us.

Building on our attitude, we introduced the Mercury Code this year, replacing our previous code of ethics and code of conduct. This is another step to ensure that our people know what 'doing the right thing' means at Mercury.

HOW WE'RE TRACKING:



By knowing ourselves better, we can work with others better. We are looking at how we can further extend these approaches into our supply chain. At Mercury, we believe we can enhance our positive influence in New Zealand by ensuring the businesses we work with share our values.



80%

OF EMPLOYEES CONFIRM THAT MERCURY ENSURES THEY ARE ADEQUATELY TRAINED FOR THE WORK THEY DO, COMPARED WITH 2016 NZ ALL ORGANISATIONS BENCHMARK OF 72%.

(2017 Employee Engagement Survey)

89%

OF EMPLOYEES CONFIRM THAT MERCURY HAS A CLEAR VISION OF WHERE IT'S GOING AND HOW IT'S GOING TO GET THERE, COMPARED WITH 2016 NZ ALL ORGANISATIONS BENCHMARK OF 75%.

(2017 Employee Engagement Survey)

... with a customer focus

Understanding customers and better anticipating their needs helps drive customer loyalty. As part of 'sharing and connecting', we helped our people to connect with our customers through 'Employee Customer Calls'. With this initiative, 85% of our people have each called a customer to thank them for choosing Mercury, to hear about their experiences with us, and to remind our customers about their opportunity for a Free Power Day.

We continue to build our customer connection with employees. Our Board members have also made customer calls. And we think that's great, just as our customers did.

... and ready for anything

With change being part of our world, we've invested in our people's leadership capability through a new training programme and change toolkit. As a result, our leaders are helping their teams adapt quickly in ways that find value with change. We've also benefited from improvements in the way our teams work together. This was reflected in our 2017 Employee Engagement Survey with 81% of our people agreeing that co-operation is encouraged between teams, up from 77% in 2016.



2016
61%



2017
70%

70% OF EMPLOYEES CONFIRM THAT CUSTOMER FEEDBACK IS USED TO IMPROVE PROCESSES, UP FROM 61% IN 2016.

(2017 Employee Engagement Survey)

2016
77%



2017
81%

81% OF EMPLOYEES RECOMMEND MERCURY'S PRODUCTS AND SERVICES, UP FROM 77% IN 2016.

(2017 Employee Engagement Survey)

Employee development.



6.2 YEARS

THE AVERAGE LENGTH OF TENURE OF MERCURY EMPLOYEES IS 6.2 YEARS, COMPARED WITH THE MEDIAN JOB TENURE ACROSS ALL INDUSTRIES OF 4.0 YEARS.

(June 2016 quarter, Statistics NZ)

203

NEW HIRES SINCE JUNE 2016

11.7% TURNOVER

96%

OF OUR PEOPLE LEADERS, INCLUDING THE EXECUTIVE TEAM, COMPLETED STEPUP IN FY2017.

425

MERCURY PEOPLE COMPLETED AT LEAST ONE OF OUR 43 EMPLOYEE DEVELOPMENT TRAINING EVENTS IN FY2017.

646

MERCURY PEOPLE COMPLETED COMPLIANCE E-LEARNING MODULES IN FY2017.

Growing leaders

Capable, respectful and high performing leaders align, focus and drive teams and therefore the business, helping our people do their best work together.

We have developed a leadership model that equips our leaders with the tools they need to oversee high performing teams. Our success in this area is reflected in our 2017 Employee Engagement Survey, where 91% of employees agreed or strongly agreed that the person they reported to treats people with respect.

We established the StepUP Management Fundamentals Training Programme in 2016 to help every people leader use a common language with management basics, thereby lifting performance. It has also supported our people leaders' career development and helped them identify any work challenges their employees may have.

Our Velocity development programme aims to create a longer-dated senior leadership pipeline. Established in 2015, the programme's emphasis has changed each year, and the results are apparent in our engagement results.

Coaching and mentoring for success

In the highly competitive environment within which we operate, an engaged and committed workforce is critical to our ongoing success.

We support our people in a variety of ways to help them build the right capability and access the necessary tools to do their jobs well.

Building customer-minded, digital-savvy technical specialists is a key focus for Mercury. In 2017 we implemented a rotation programme for IT graduates through the contact centre for up to six months. During their rotation, graduates undertake personality profiling, mentoring and access to learning resources and coaching. As a result, a path for our people is created to strengthen technical capability in this area.

To contribute to our strategy of delivering customer advocacy, we also support talent towards targeted professional qualifications. This year, 39 Mercury contact centre representatives graduated with a New Zealand Certificate in Contact Centres (69 credits at Level 3). This nationally recognised qualification is run in-house. Mercury is one of only three New Zealand contact centres to have its in-house training certified.



In 2015, while completing my Mechanical Engineering degree, I started a summer internship with Mercury's Hydro/Wholesale team in Hamilton. The team helped me learn more about hydro operations from an engineering perspective and I gained a real appreciation of how complex power stations can be. At the completion of my degree, Tuaropaki Trust, who together with Mercury own the Mokai Geothermal Power Station, awarded me a scholarship to study at University of California, Berkeley, USA. The further I went in my studies, the more fascinated I became with energy markets and I realised that this was where I wanted to take my career. I set my sights on becoming a Spot Trader, and with awesome support, guidance, development and hard work over the past couple of years, I've achieved that goal.

The choice to progress my career with Mercury was an easy one. What was important to me was working for a company with a strong focus on generating energy from renewable sources and an equally strong commitment to the people who make that happen. A big highlight for me as a Spot Trader has been continuing to learn from such a diverse range of people, with backgrounds in Geology, Mathematics, Physics and Mechanical Engineering.

The choice to progress my career with Mercury was an easy one.

>> NUKU JONES



Diversity and inclusion.

Strength in diversity

Having a team of individuals with different backgrounds, views, experience and capability working together leads to better decision-making and therefore better business performance. We are committed to retaining and attracting people with a broad range of skills and experiences, who are passionate about our customers and respectful and representative of the communities within which we operate.

Our approach to inclusion focuses on removing any barriers to succeeding in our business.

Measurable objectives to achieve gender diversity were established in 2014 and updated in 2016 to include focus on age, ethnicity, inclusion and flexibility. Progress is encouraging and diversity will continue to be an area of focus for Mercury, now and in the future.

Our talent development programme, Velocity, has seen an increase in the number of female participants each year and we achieved 40% female participation in the 2017 cohort. This year we provided unconscious bias training for all leaders to increase their understanding of their own biases and how that affects decision-making.

Periodically we look across all Mercury pay bands to ensure we are paying fairly for similar-sized roles, regardless of gender. If any issue is identified from these reviews, we address it.

Mercury embraces flexibility in the work environment to boost employee wellbeing. 'MyDays', for example - a programme unique to Mercury - gives each of our permanent employees five non-consecutive days of leave every year for personal or family reasons on top of their normal leave allocation.

We are continuing to build on initiatives that assist in balancing individual and organisational needs.



Human rights

We meet, and endeavour to exceed all of our compliance requirements, including those relating to human rights such as freedom of association, collective bargaining, and child labour. We consider this on an ongoing basis, including building our understanding of how our suppliers meet these standards too.

All our employees are paid above the Living Wage (this excludes six apprentices).

Our commitment to diversity and inclusion starts with our Diversity and Inclusion Policy. Our policy is available in the corporate governance section of our website.

41% 

AS AT 30 JUNE 2017, THE PROPORTION OF WOMEN ACROSS OUR TOTAL WORKFORCE HAS INCREASED FROM 38% IN 2016 TO 41% AND ALSO ACROSS OUR LEADERSHIP GROUP, FROM 25% IN 2016 TO 30%.

THE FULL TABLE OF MEASURABLE OBJECTIVES IS AVAILABLE IN THE CORPORATE GOVERNANCE SECTION ON P.40 OF OUR 2017 FINANCIAL REPORT.

80%

OF EMPLOYEES CONFIRM THAT THEY ARE TREATED FAIRLY, REGARDLESS OF AGE, ETHNICITY, GENDER OR PHYSICAL CAPABILITIES, COMPARED WITH 2016 NZ ALL ORGANISATIONS BENCHMARK OF 77%.

(2017 Employee Engagement Survey)

41

OUR AVERAGE AGE ACROSS OUR WORKFORCE IS 41, WHICH IS CONSISTENT WITH THE NATIONAL MEDIAN AGE OF THE LABOUR FORCE IN THE NZ NATIONAL LABOUR FORCE PROJECTIONS.

77%

OF EMPLOYEES CONFIRM THAT MERCURY ENCOURAGES IDEAS AND SUGGESTIONS ON HOW TO IMPROVE THE WAY THINGS ARE DONE AS COMPARED WITH 2016 NZ ALL ORGANISATIONS BENCHMARK 71%.

(2017 Employee Engagement Survey)

87%

OF EMPLOYEES CONFIRM THAT THEY HAVE THE FREEDOM AND FLEXIBILITY TO DO THEIR JOB EFFECTIVELY, COMPARED WITH 2016 NZ ALL ORGANISATIONS BENCHMARK OF 84%.

(2017 Employee Engagement Survey)



Wellbeing.

Safe and well

At Mercury, we take a holistic but also sound approach to safety and wellbeing. This ranges from supporting our employees and contractors' day-to-day wellbeing, to the measures we put in place to minimise risk and protect our people and the communities within which we operate. A safe work environment is the starting point of our commitment to our people. We ask everyone, at all levels, to commit to it and own it.

Our Board provides strong safety governance, conducting ongoing due diligence and monitoring our performance and behaviours to help deliver on our commitment of getting everyone home safe every day. Our business units are supported by dedicated health and safety experts and we have well established safety committees across the business. Each committee is associated with one or more worksites and contains a member of the health and safety team, management representation and a selection of employees from the worksites relevant to that committee.

Management, including the executive team, undertake regular site visits, lead safety conversations with employees and contractors, and monitor the Company's safety performance.

In March 2017 we surveyed our generation employees and key contractors to assess the effectiveness of our health and safety culture. Pleasingly the survey revealed that we were exceeding industry benchmarks. That's a credit to the work being done, but we know we can always do better.

We have established an enterprise-wide Process Safety programme to enhance our ability to address low-probability but high-consequence risks proactively. The programme integrates critical equipment, systems and processes such that they all



SERIOUS INJURY INCIDENTS

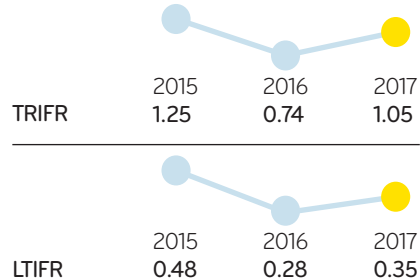


operate effectively and that preventative maintenance is carried out in line with requirements.

We constantly monitor our health and safety performance across the business through assessments, training, auditing and incidents/near-miss reporting.

Our key lag safety measures are the Total Recordable Injury Frequency Rate (TRIFR) and the Lost Time Injury Frequency Rate (LTIFR). Our results for this financial year were 1.05 TRIFR and 0.35 LTIFR. The incidents that we have experienced this year have mostly been low severity injuries, with one serious injury that related to a stair fall in one of our offices by a contractor. Fortunately the person has now recovered. Our goal continues to be Zero Harm and we remain committed to achieving this.

HOW WE'RE TRACKING:



Safety: it's everything.

We believe that no safety risk is too small to report and we're proud of the high level of reporting we see from all our employees and contractors. We have seen a steady increase in reporting of meaningful near-miss events from across all parts of Mercury. This is in part due to the SynergiLife app that enables our people to report incidents easily, in real-time.

Our people undergo extensive health and safety training. This is delivered, co-ordinated and managed with the support of our learning management system, ChargeUP. This system provides our people with health and safety training, information and automated reminders to help them keep on top of training and competency requirements for their respective roles.

We drive safety with our contractors

We acknowledge our duty of care to contractors and other people on our worksites as well. To manage this, we have a set of detailed minimum requirements that we expect all of our contractors to meet. In practice, when we engage a contractor for a project, we work closely with them to create site-specific safety plans and then we monitor their work against those plans.

We offer a number of initiatives that support our people's wellbeing. Details of these can be found in the careers section of our website.



87%

OF EMPLOYEES CONFIRM THAT MERCURY CARES ABOUT THE WELLBEING OF ITS PEOPLE, COMPARED WITH 2016 NZ ALL ORGANISATIONS BENCHMARK OF 78%.

(2017 Employee Engagement Survey)



95%

CONFIRM THAT MERCURY IS COMMITTED TO THE HEALTH AND SAFETY OF ITS PEOPLE, COMPARED WITH 2016 NZ ALL ORGANISATIONS BENCHMARK OF 84%.

(2017 Employee Engagement Survey)



99%

OF EMPLOYEES AGREE OR STRONGLY AGREE THAT THE SUPPORT THEY RECEIVE FROM THEIR MANAGER HELPS AND ENCOURAGES THEM TO DO A GREAT JOB IN A SAFE MANNER.

(H&S Climate Survey 2017)

2205

EMPLOYEES AND CONTRACTORS COMPLETED AT LEAST ONE OF OUR 930 HEALTH & SAFETY TRAINING EVENTS RUN IN FY2017.

3.91

AVERAGE NUMBER OF DAYS FOR ABSENTEEISM FOR FY2017, UP FROM 3.21 IN FY2016.

INFORMATION ON OUR WORK WITH STAYLIVE AND THE BUSINESS LEADERS HEALTH AND SAFETY FORUM CAN BE FOUND ON PAGE 55 OF THIS REPORT

CUSTOMERS CHOOSE A SUSTAINABLE FUTURE.

New Zealand's natural resources are precious.

Mercury understands that the decisions we make today can impact tomorrow. That's why we take action with a view to long-term sustainability of our business, and help customers with choices based on sustainable solutions.

Mercury champions the electrification of transport through our celebration of e.bikes and EVs because it presents a wonderful opportunity for New Zealand. It leverages the fact that our electricity generation is dominated by renewable sources: hydro and geothermal, with growth opportunities for solar and wind generation.

We encourage customers to make this choice with beneficial EV charging rates, and by committing to the electrification of our own vehicle fleet. This brings more EVs into the country. We pioneered the concept of an Electric Highway™ of charging stations so EV drivers aren't constrained by range. This was part of bringing to New Zealanders the internationally recognised PlugShare app so that EV owners can know they are never far from a charging station irrespective of who owns it.

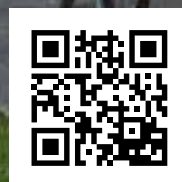
» EVs and e.bikes.



UP TO \$500 OFF AN E-BIKE.
VISIT OUR WEBSITE



VISIT WWW.ELECTRICHIGHWAY.CO.NZ
FOR NZ'S BEST SOURCE OF CHARGING
STATION INFORMATION





ENHANCED NATURAL RESOURCES

Respected and protected.

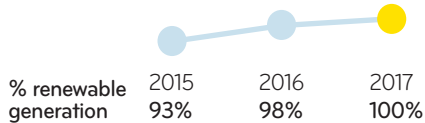
The source of a customer's energy is an important choice.

Mercury generates about 17% of New Zealand's electricity, all of it from renewable sources. It's this clean and sustainable, home-grown electricity that reduces New Zealand's carbon footprint, giving Kiwis the choice to be part of a better tomorrow.

Through nine hydro and five geothermal stations, we generate enough renewable electricity for 850,000 homes, helping to make better environments for families to live, learn and grow in.

The raw energy of New Zealand's natural resources is at the heart of our renewable generation. Custodianship of these raw energy sources is a part of who we are.

HOW WE'RE TRACKING:



Care with natural resources.

Kaitiakitanga (guardianship) – a driving force

New Zealand's natural resources are precious.

At Mercury we understand that sustaining these natural resources for the future isn't a choice – it's an obligation we take very seriously. The continued availability of natural resources is vital to our operations, our renewable generation, the sustainability of our company, the choices for our customers and the good of our country.

The concept of kaitiakitanga is one of Mercury's foundations and drives our approach to working with local iwi, regulators and other responsible users of natural resources in New Zealand.

Custodians of the Waikato Hydro System

We think water is wonderful. On average, 60% of the electricity we produce is generated by the force of water passing through our 39 hydro turbines, delivering approximately 10% of New Zealand's overall electricity.

Mercury's Waikato Hydro System along the Waikato River is vital for the hydrological stability of the catchment and is integral to the country's electricity supply.

Water applied to hydro generation is available to the natural ecosystem and other users including municipal water supplies, commercial use, farming, irrigation, ecological requirements, cooling for downstream thermal generation and recreational activities.

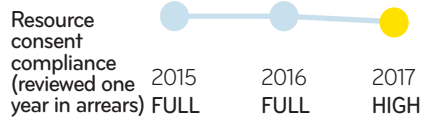
Beyond meeting the 121 conditions of our hydro consents, we undertake a wide range of activities, which go well beyond environmental and stakeholder expectations. This includes hydrological analyses, geomorphological studies and ecological monitoring. In FY2017 (reporting for the year previous), Mercury again achieved a high level of compliance with the Waikato Regional Council hydro consents that we hold.



10%

OUR HYDRO GENERATION MEETS
10% OF NEW ZEALAND'S OVERALL
ELECTRICITY NEEDS

HOW WE'RE TRACKING:



We're committed to understanding, managing and minimising any impacts our operations have on water, along with looking at the ways we can continue to innovate and improve the efficiency of hydro generation.

Each year, we engage with independent experts to fully understand the impacts of our operations and review the effectiveness of our monitoring programmes. This year we extended our review of ecological impacts to include parts of the river downstream from the Karapiro Dam with a view to increasing our knowledge beyond the boundaries of the Waikato Hydro System.

Water management – essential to the Waikato community

As a long-term operator in the Waikato catchment, our operations play a role in protecting local communities during seasonal and extreme weather events.

During high flow or flood events, Mercury works closely with the flood management team at Waikato Regional Council to influence the flow of water through the system, and help minimise the impacts of flooding.

During dry spells or drought events, we manage the release of water from Lake Taupo to meet the minimum flow requirements downstream from the Karapiro Dam. This provides a reliable flow of water to Hamilton City and downstream users. Our stewardship of this vital resource also supports fisheries, wetlands and numerous recreational activities such as fishing, boating and international rowing.

>> **35 years** is the term of our Waikato River resource consents granted in 2006

>> **18** environmental audits carried out at our operating sites in the past year

>> **5-yearly** bed degradation surveys to understand the potential impacts of sediment retention in the dams on the bed of the Waikato River from Karapiro to Ngaruawahia

>> **5-yearly** bank erosion surveys to understand the potential impacts of our hydro operations on bank stability from Taupo to Ngaruawahia

>> **Annual Taupo foreshore survey** to help understand lake processes affecting the Lake Taupo foreshore

>> Development of an **ecological monitoring programme** downstream from Karapiro to understand the potential impacts of our operations beyond the bounds of the hydro system

Surveys and programmes continue to indicate that there are **no environmental impacts** beyond those anticipated at the time of consenting.

Water management when it matters.

With the wettest April on record for the Waikato catchment resulting from three subtropical cyclones in a month, Mercury worked alongside the Waikato Regional Council to minimise the impact. We played a key role managing the record inflows by making room for the additional water in the Waikato River before each event.

A collaborative work effort mobilised key resources throughout our organisation. Hydro controllers influenced river flows and levels in real-time, regional teams inspected and maintained spillways and diversion tunnels, and community relations teams supported stakeholders impacted by the increasing flows and river levels. Our customer team also contacted medically-dependent customers throughout New Zealand to support their wellbeing during disruptions to supply caused by localised network outages.

Throughout these three consecutive weather events, Mercury managed the Waikato Hydro System within our consented operating limits.

>> FY2017 is the Waikato catchment's **5th wettest year** in 100 years

>> **6 billion cubic metres** of water released from Lake Taupo throughout FY2017



Water quality.

Our rivers and lakes hold a special place in the hearts of all New Zealanders, especially mana whenua. They are precious natural resources that need to be protected.

Freshwater is vital to our natural ecosystems, the economy, our country's drinking water, and a wide range of recreational activities including fishing, swimming and boating.

Mercury's primary commercial interest is to harness the energy in the flow of the Waikato River for hydro generation. However, our interest extends into strong involvement in the growing discussion concerning the future of freshwater quality and allocation, and contributing our long-term view to benefit the health and wellbeing of the catchment.

We recognise the challenges of water management, water allocation and water quality. These issues have short-term and long-term impacts for everyone in the Waikato catchment and the wider New Zealand economy.

Mercury actively contributes to water policy and reforms at both a regional and national level, and regularly participates in discussions with Government and local authorities on freshwater management. This includes:

- Restoration and rehabilitation projects in partnership with the Waikato River Authority
- Waikato River Authority's Waikato River Restoration Strategy
- Waikato Regional Council's Healthy Rivers/Wai Ora: Plan Change
- Waikato Regional Council's 'Let's Talk Water' initiative
- Ministry for the Environment's consultations on water policy reform (including the National Policy Statement for Freshwater Management and the Resource Management Act)
- The Land and Water Forum



Mercury actively contributes to water policy and reforms.



Waikato Catchment Ecological Enhancement Trust (WCEET)

Mercury is a founding member of WCEET, which was established in 2003 to support the sustainable management of the Waikato catchment.

WCEET works to protect wetland values, encourage the growth of native plants and animals, expand the sports fishery and game bird population, and to mitigate any effects on the environment arising from the operation of the Waikato Hydro System.

With grants of approximately \$4.5 million on 226 projects to date, Mercury contributes around \$400,000 per year to the funding and management of ecological enhancement projects throughout the area.

In the past year alone, the Trust funded about 500 hectares of pest control, over 200 hectares of wetland protection, restoration, and enhancement, and more than 120 hectares of additional biodiversity enhancement through fencing and planting of natives.

We are currently having a fresh look at ways to best measure and report on project deliveries and their effectiveness in achieving WCEET's objectives.

Learn more about WCEET at www.wceet.org.nz



One of the clear lessons from our Trust's activities is that the success of projects to enhance the biodiversity of our catchment's ecosystems is highly dependent on active community participation.

The resilience of our human and ecosystems communities are tightly linked, and WCEET has been pleased to support many projects that have promoted participation and development in our human communities.

>> GWYNETH VERKERK, CHAIR, WCEET

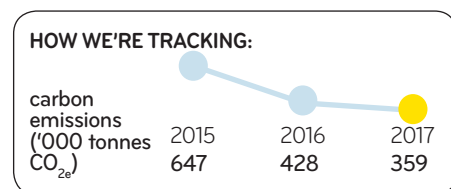
226

ECOLOGICAL ENHANCEMENT PROJECTS FUNDED THROUGH WCEET

\$4.5M

WCEET FUNDS GRANTED OVER LIFE OF THE TRUST

New Zealand produces more than 80% of its electricity from renewable sources, and Mercury is proud to play a role in the country's renewable energy advantage.



Effects of climate change

Climate change could be a risk for Mercury due to the impacts that extreme weather conditions can have on our assets, our hydro generation capability and on the electricity market conditions. However, we are highly experienced and well equipped in water management within the Waikato catchment. We use the latest predictions to look at potential impacts on the catchment and have robust risk management plans in place to deal with the impacts of extreme weather events. However, managing risks is based on probability because not all scenarios can be predicted or managed when engaging with natural resources.

In most countries the response to climate change centres around the transition to low-carbon, renewable electricity. New Zealand already produces more than 80% of its electricity from renewable sources, and Mercury is proud to play a leading role in the country's renewable energy advantage. All of the electricity we generate comes from renewable natural resources.

We actively participate in national discussions on climate change including amendments to the New Zealand Emissions Trading Scheme. While geothermal generation is a renewable energy source, it is not emissions free. During the generation process a certain amount of greenhouse gas is released from the geothermal fluid. To manage this, we closely monitor and report on the amount of greenhouse gas released from our geothermal power stations as required by the Emissions Trading Scheme. We also have long-term forestry contracts to provide carbon credits to offset these emissions. Most of these carbon contracts were established through New Zealand's first carbon contract tender, led by Mercury.

The adoption of plug-in EVs in New Zealand is the single-largest green growth opportunity for our country, helping to secure our nation's energy freedom.

The Mercury and Air New Zealand-led initiative seeing 30 of New Zealand's leading businesses committing to a minimum of 30% EVs in their fleets by 2019 is one of the largest voluntary sustainability initiatives in this country's business history. This has the potential to take around three million kilograms of carbon emissions out of the environment every year.

Security of supply.

Mercury's ability to generate electricity reliably is vital to our business and is directly connected to our economic performance. Active management of our assets over the long term is fundamental to this.

Across our organisation we apply an integrated approach to asset management involving tailored risk management frameworks to optimise reinvestment. This results in a dynamic plan that responds to asset and market conditions to maintain reliable and efficient generation from our renewable assets.

We routinely commission independent expert reviews focusing on how we manage our assets. This year our reviews considered safety-critical equipment and critical major spare equipment. Our commitment to industry-leading practice and innovation sees our infrastructure teams regularly participate in local and global industry forums.

Reliable hydro generation

A programme of major maintenance and reinvestment projects across our vital hydro assets is well underway with a number of upgrades commenced or completed this year.

The successful rehabilitation of the first of four units at the 60-year-old Whakamaru Hydro Station has now been completed. The station upgrade, scheduled for completion in 2020, involves an intensive programme of work where all of the turbines, generators and governors will be replaced. This will increase the station's capacity by 24 MW to 124 MW.

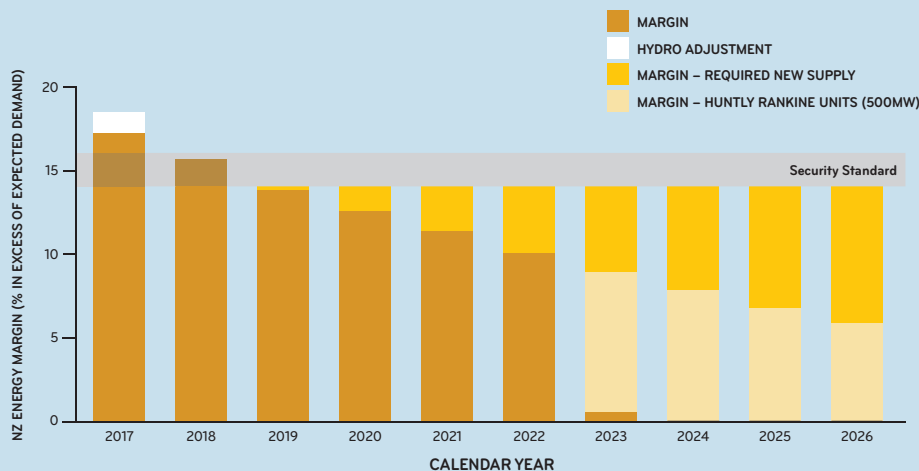
Similar preparations are well advanced for an upgrade of the Aratiatia Station, with on-site activity scheduled to start in October 2017. The rehabilitation programme includes the replacement of all three generators, governors and one turbine, along with an extensive refurbishment of the station. Completion is expected mid-2020.



FY2017 AVAILABILITY (%)

ARATIATIA	95
ARAPUNI	93
ATIAMURI	95
KARAPIRO	86
MARAETAI I&II	73
OHAKURI	97
WHAKAMARU	82
WAIPAPA	94

>> NZ WINTER ENERGY MARGIN



The NZ Winter Energy Margin is an assessment produced by Transpower that estimates the level of new generation required to reliably meet expected winter demand. It does this through combining the expected winter energy contribution of existing and committed generation plant across the entire electricity industry and comparing it to projected winter demand (with an allowance for security). Mercury recognises that we have a part to play in keeping New Zealand's electricity supply secure and stable and we contribute through our efforts to maintain reliable and efficient generation assets.

Geothermal innovation.

At our geothermal station in Kawerau, we are investigating the potential to create a marketable specialty silica product from the used geothermal fluid reinjected back into the reservoir.

With the help of Geo40 Limited, a New Zealand-based industrial technology company, Mercury has undertaken pilot scale trials as we consider the development of a commercial-scale silica extraction plant to remove excess silica from the geothermal fluid after it has generated power and before it is injected back into the reservoir.

This is an exciting example of how we can continue to optimise our existing skills and resources to investigate new products. The potential benefits of this partnership are two-fold: the production of a valuable specialty silica product for the global manufacturing industry and improved long-term reservoir management.

Managing our geothermal assets for long-term sustainability

Our geothermal wells can be up to 3,000 metres deep. Proactive well maintenance throughout their lifecycle is important to optimise long term geothermal cash flows.

This year we completed a major geothermal drilling programme, resulting in four new wells and one repair at Kawerau and Rotokawa.

Innovative repair work at Rotokawa involved the insertion of an alloy sleeve into a damaged zone in one of the wells. This extended the operating life of the geothermal well.

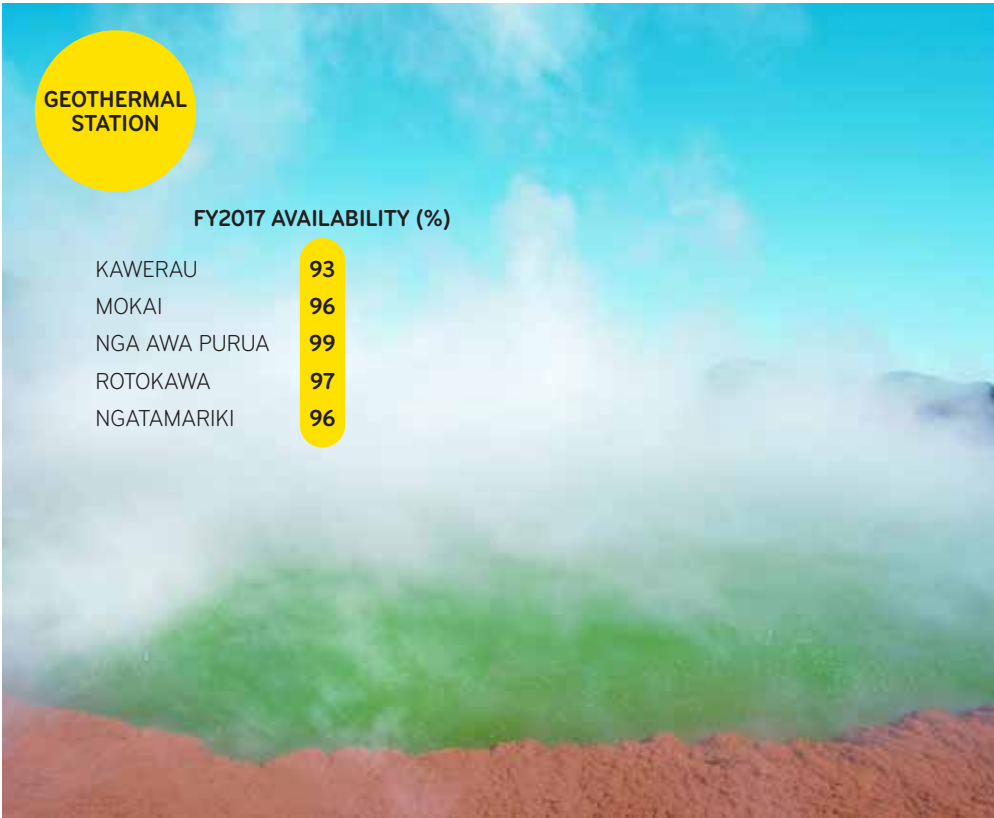
The successful drilling campaign spanning 170,000 working hours involved 30 separate organisations including Joint Venture partners, operational field teams and WorkSafe safety regulators, along with landowner and farmer representatives and councils.

Geothermal: Excellence built on sustainability

Mercury owns or operates five geothermal power stations that deliver approximately 7% of New Zealand's overall electricity needs, representing about 40% of our total production.

Building and operating geothermal power stations involves years of investigation and monitoring, together with a significant investment of capital and expertise. Mercury is proud of the state-of-the-art geothermal stations we have built in New Zealand and we're committed to sustaining and enhancing them, with our commercial partners, over the long term.

We take a conservative and dynamic approach to sustainable reservoir management. Most geothermal fluids used in Mercury's geothermal power stations are re-injected to maintain pressures and support the sustainability of the reservoirs. We extensively monitor the geothermal systems including assessing natural geothermal features, such as springs, hot pools and the unique geothermal vegetation that these environments support.



7
CONTINUOUS PRESSURE MONITORING WELLS USED TO TRACK RESERVOIR PRESSURE

34
PRODUCTION WELLS AND 22 INJECTION WELLS SUPPORTED OUR GEOTHERMAL GENERATION IN THE PAST YEAR

LARGEST
SINGLE-SHAFT GEOTHERMAL TURBINE IN THE WORLD AT NGA AWA PURUA

1100
CONDITIONS OF CONSENT MANAGED ACROSS THE GEOTHERMAL FIELDS WE OWN OR OPERATE

CUSTOMERS CHOOSE TO GIVE.

We are humbled by the many choices made by our customers every day. This includes their choices to give. Mercury customers support our partnership with the Starship Foundation. We've stood side by side with Starship for 18 years and this year \$1m was collected to help children and their families.

» Raising \$10m for Starship.

Great outcomes.

Customer crowd funding this year has gone towards:

- » **THE OUTPATIENTS DEPARTMENT COMPLETE REFURBISHMENT**
for the 73,000 young patients who visit the department each year.
- » **AN ADVANCED NURSE CALL SYSTEM**
for the Outpatients Department which will allow for better communication and responsiveness.
- » **BRAND NEW CEILING LIGHTS**
for the Orthopaedics, Surgery and Urology and General Paediatric wards.
- » **AN EXCITING REVAMP OF THE PLAYROOM**
on the General Paediatrics ward.



CLICK HERE TO DONATE
TO STARSHIP NOW





ARTWORK FROM THE KARI
CENTRE UPGRADE; FUNDED
BY MERCURY CUSTOMERS

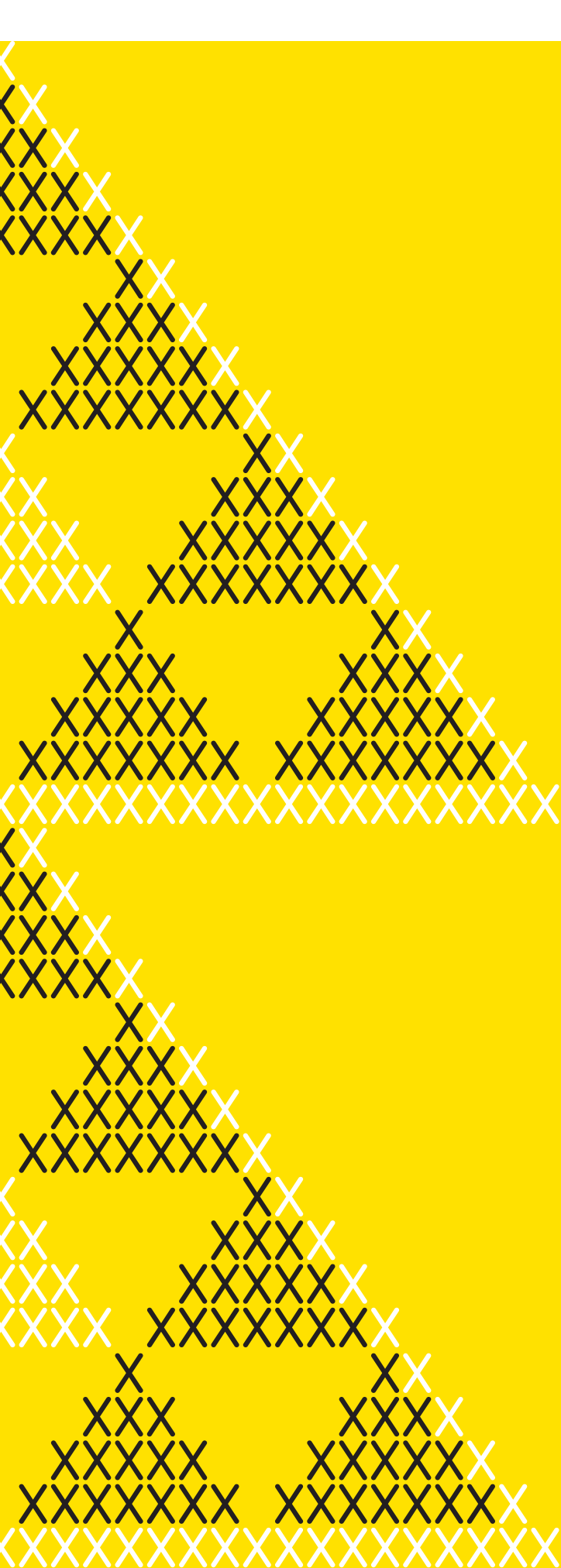


STRONGER TOGETHER

Choosing long-term relationships.

Mercury is a great team, with over 800 of us choosing to work together for our customers. But what further sets us apart are the people and organisations with whom we work. We share goals and values with a range of communities and groups. By making the choice to work collaboratively we achieve better outcomes for everyone involved. These relationships help us to grow and are core to our long-term sustainability and success.





Maori partnerships.

Mercury has formed close and constructive relationships with specific iwi in the Waikato and Bay of Plenty. We maintain a deep respect for the close links that iwi have with natural resources. Partnerships we have developed give us a unique perspective with the focus on long-term, sustainable solutions that consider the needs of everyone involved.

We work closely with iwi and recognise the connections that they have with water, including the tupuna awa relationship held by many Waikato River iwi. We acknowledge and respect Te Ture Whaimana o Te Awa o Waikato – the vision and strategy for the River.

A large part of our growth in geothermal generation over the past 10 years has been in partnership with Maori landowners; the Tauhara North No. 2 Trust at Rotokawa and the Tuaropaki Trust at Mokai. Our approach to these partnerships is strongly guided by the principles of kaitiakitanga (guardianship) and kotahitanga (working together). Rather than simply seeking to secure land access and purchase fuel from landowners, we have worked to align and share the benefits of our combined expertise through equity arrangements.

Mercury has mutually beneficial partnership agreements with Waikato Tainui, Raukawa, Ngati Tahu-Ngati Whaoa and Ngati Tuwharetoa. Each of these relationships is particular to the iwi involved and is based on shared visions of what the organisations can achieve together. As part of our involvement, we support environmental enhancement projects, leadership training, cultural development, educational initiatives and social enterprises.

Projects this year included support for Kia Haere Tuu, a Waikato Tainui initiative to encourage its rangitahi to secure driving licences – a key enabler to future employment opportunities. Mercury has also supported cultural and environmental initiatives with Ngati Tahu-Ngati Whaoa; delivery of wananga and kapa haka with Tuwharetoa; and the ongoing delivery of excellence in the Te Reo programmes with Raukawa.

Lessons learned from the years of collaboration and partnership with iwi are embedded in Mercury's business culture, making us more innovative, inclusive and customer-centric.

Ironman New Zealand.

Mercury has sponsored the iconic Kiwi multi-sport event that is the Kellogg's Nutri-Grain Ironman New Zealand since 2005.

Each year, more than 2,000 people from the Taupo community and beyond join the Mercury Volunteer Crew to support athletes as they compete in one of sport's most gruelling endurance challenges.



Sponsorships.

Our choice of sponsorships reflects our support for growing strong communities. Mercury takes a long-term approach to such sponsorships, with our key relationships each more than a decade old. We choose partners that reflect Mercury's commitment to our country, the areas where we generate electricity, and the communities where our customers and our people live.

Rowing New Zealand

Our 20-year relationship with Rowing New Zealand makes sure that New Zealand's top rowers have the world's best training ground: Lake Karapiro. During our partnership New Zealand's elite rowing athletes have brought home an awe-inspiring 44 World Championship and Olympic gold medals, including two at the 2016 Rio Olympics to Mahé Drysdale and the Men's Pair, Eric Murray and Hamish Bond.

Coastguard Lake Taupo

The Waikato Hydro System begins at New Zealand's largest lake, Lake Taupo. We are the major sponsor of Coastguard Lake Taupo. This 24/7 rescue service uses two specially-equipped boats to attend emergencies on Lake Taupo and the upper reaches of the Waikato River. In 2016, Coastguard Lake Taupo volunteers logged more than 62,000 hours.

Waikato River Trails

The Waikato River Trails is a free walking and cycling track that opens up 105 km of beautiful native bush, historic landmarks, and wetlands along the Waikato River. We have worked with the Waikato River Trails Trust since 2004 to build the trails, and teams from our local offices help with volunteer work, including planting, along the trails.

In 2016, 42,000 walkers and cyclists enjoyed the Trails, providing much-needed support for local accommodation, bike hire businesses, and cafés.

To share the Trails with our customers, we offer a half-price deal on e.bike hire – a wonderful way to experience the Trails.

WE GIVE AWAY \$100,000 EACH YEAR THROUGH THE EMPLOYEE COMMUNITY FUND, WITH EMPLOYEES ENCOURAGED TO APPLY FOR UP TO \$1,200 TO GO TOWARDS A GROUP OR PROJECT THEY FEEL CONNECTED TO.

Employee Community Fund

Our employees are all part of their own unique communities. To help these communities to thrive, Mercury contributes \$100,000 each year through our Employee Community Fund. Through this fund, our people can apply for up to \$1,200 to go towards a group or project they feel connected to. The 90 donations during the year have added some Mercury 'wonderful' to dozens of schools, sports clubs, and other groups important to our people.

\$10 million to Starship.

Mercury and Mercury customers have helped the Starship Foundation provide better hospital care for young New Zealanders for 18 years.

Each month, over 25,000 customers choose to donate to Starship through their monthly electricity account. This is one of the longest-running 'crowd funding' initiatives in the country and gives our customers a wonderful way to help others.

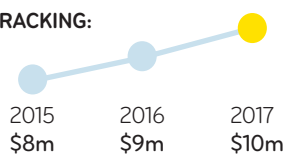
In addition, Mercury contributes a direct donation and pays for administration costs, so every dollar donated by our customers goes straight to Starship. Together we donated \$1 million this year, bringing the total amount donated to \$10 million since 1999.

Our combined contributions helped with the refurbishment of the Outpatients Department (completed earlier this year), and provision of over 180 dedicated fold-down beds for parents and caregivers. We have also funded the refurbishment of Starship's Kari Centre, a community-based mental health clinic for young people and their families.

For further information on Starship and the great things our customers are contributing to visit our website www.mercury.co.nz/starship

HOW WE'RE TRACKING:

\$ donated by customers and Mercury to Starship (cumulative total)



Over 25,000 customers choose to donate to Starship through their monthly electricity account.



KNITTED BY THE WONDERFUL MEMBERS OF THE MERCURY KNITTING CLUB

COMMUNITY RELATIONS

Direct community engagement helps Mercury to better understand our customers' needs and to provide solutions and assistance where we can.

Mercury's Community Relations teams work with a range of community groups, particularly in lower socio-economic areas, to help our customers struggling with high living costs. Our managers regularly attend community meetings to better understand the concerns of these communities, and offer support and advice where needed.

This year we provided direct funding for many community events and projects including Christmas grocery boxes delivered to households in need.

When the Manurewa Marae opened its doors to Auckland's homeless last winter, Mercury covered the Marae's electricity charges. We are exploring opportunities to work with schools and other community groups on projects that deliver energy efficiency and solar capability too.

66

When Manurewa Marae opened its doors to Auckland's homeless last winter, we covered the Marae's electricity costs for 13 weeks.

I WOULD LOVE SOME AIRPOINTS...

COMMERCIAL PARTNERSHIPS

Airpoints Dollars™

Our participation in the Airpoints™ rewards programme means over 119,000 Mercury customers now earn Airpoints Dollars™ through the energy they enjoy each day. The Airpoints™ partnership brings our customers into a community that includes iconic Kiwi brands Air New Zealand, New World and Mitre 10.

When our customers earn Airpoints Dollars™ it strengthens the partnership between us. It is one of the ways that we reward their loyalty, thank them for being with Mercury and help them make energy wonderful.

Counties Power

Our Advanced Metering Infrastructure (AMI) division, Metrix, entered into a 15-year arrangement with Counties Power with mutual commercial and economic benefits.

Metrix benefits by leveraging existing infrastructure and customer arrangements to provide data services to our customers trading on the Counties Power network.

This year Metrix provided additional smart services to Counties Power that means it can receive alert notifications within seconds and quickly help customers during periods of intermittent supply or outages.

Electric vehicles

Mercury wants to encourage our customers, and other New Zealanders, to choose EVs because we view it as New Zealand's largest green growth opportunity.

The reasons to choose electric are clear: you can fill up with home-grown fuel for the equivalent of 30 cents per litre and charge from home simply using a standard 3-pin plug. Concerned around supply? There's enough consented renewable energy in New Zealand to transition every car, and more. Also it's good for the country, as it reduces our dependence on imported fossil fuels.

To do our bit, we introduced EVs into our own fleet six years ago and now 54% are EVs. We'll have 70% of our vehicles electric by 2018, which will meet the commitment stated at our Annual Shareholders' Meeting in November 2014.

We know that 'range anxiety' (worry that your EV might run out of charge mid-journey) is a key perceived barrier to EV uptake. To address this, Mercury partnered with global technology leader PlugShare, EECA and Contact Energy to support the Electric Highway™, a national network of EV charging points that drivers can easily identify through the PlugShare mobile phone app.

In conjunction with Air New Zealand, we also engaged with business leaders from more than 30 companies to together pledge the conversion of at least 30% of their company vehicle fleets to be plug-in EVs by 2019.

119,000

**CUSTOMERS NOW
EARN AIRPOINTS
DOLLARS™**

**...SO I CAN GO
TO HAWAII!**

Cityhop car-sharing platform

Our partnership with car-sharing platform Cityhop means that Aucklanders can experience driving an EV without having to buy one. Mercury has added a Nissan Leaf EV to Cityhop's Auckland fleet, which makes it available to more than 2,000 customers using the cars-by-the-hour service.

INDUSTRY COLLABORATION

At Mercury, health and safety is an important priority. We join with our competitors in the electricity sector through StayLive, an industry safety group that promotes and shares safety initiatives. We're also active members of the Business Leaders' Health and Safety Forum, which contributes to better understanding the safety risks facing businesses.

Mercury was a founding member of the Electricity Retailers Association of New Zealand (ERANZ). Through ERANZ, we collaborate with other energy retailers to explore issues that are important to our customers. One of the main focus areas over the past year has been looking at ways to support the use of energy technologies for the benefit of customers.

Creating a sustainable energy future for New Zealand by leveraging our significant advantage in renewable electricity production is at the forefront of Mercury's collaboration with other like-minded energy leaders such as the Business New Zealand Energy Council and the World Energy Council.

EDUCATION INITIATIVES

Mercury is proud to support advances in learning and technology that can lead to economic benefits for our country.

We contribute to geothermal research in New Zealand through our partnerships with research organisations, specific research programmes and by direct support of students. In 2016, three Mercury-supported students completed their PhDs in geothermal research, while four PhD students and one MSc student are currently receiving support from Mercury to undertake and complete their research. We also fund the University of Auckland Chair of Geothermal Reservoir Engineering.



OUR CUSTOMERS CHOOSE AOTEAROA NEW ZEALAND.

Mercury's passion for customers, our communities and our country is embedded in our strategy. This passion influences the decisions we make, such as our focus on long-term value creation.

Mercury's generation comes from renewable sources – hydro and geothermal. This helps New Zealand to be in the unique position where over 80% of its energy comes from renewables. But we believe our country can be doing even better.

Solar is an emerging source of energy, being chosen by customers wanting to reduce their reliance on grid electricity supply. Mercury Solar helps customers with that choice.



GO SOLAR. GET A QUOTE ONLINE
OR PHONE 0800 676 527.





LEADING ECONOMIC PERFORMANCE

Generating value now and in the long term.

Mercury is here for the ultra long term. We choose to take a future-focused view when we invest in communities, relationships, our assets, our people and natural resources. By taking this approach, we create long-term value for our owners, including sustainable dividend growth.

Economic Performance.

Providing sustainable returns

Every owner makes a choice about where to place their capital. Therefore, maximising long-term value for our owners' investments is fundamentally important to our business. This requires clear direction and an efficient allocation of our resources.

Building value is dependent on us understanding our customers and rewarding loyalty; recruiting and developing great people; and partnering well, both commercially and in our communities.

Mercury aims to provide a progressive lift in dividends through a combination of growth in our core business and specific investment in relevant opportunities.

9 YEARS

OF ORDINARY DIVIDEND GROWTH

Building our business from within

Mercury is ready for growth in New Zealand's retail and commercial electricity demand to continue to earn appropriate returns for our owners over the long term.

A material plank of Mercury's growth is the ability to develop new geothermal and wind powered generation. This expansion relies on an increase in wholesale electricity prices, which is driven by a number of factors, including an increase in national demand for electricity. For the last three years demand has remained largely unchanged. Strong population growth has lifted electricity demand across many sectors but this has been largely offset by a medium term trend of industrial demand reduction and better energy efficiency.

FY2017 wholesale electricity prices remained benign due to higher than average national storage and inflows. Retail competition remains intense, tempering retail energy price growth.



Our economic performance is material to our stakeholders.

In 2017 we invested \$94m in staff salaries, benefits and training and \$2m in community support



Due to an ongoing focus on loyalty, Mercury grew its customer base, with lower than average customer churn figures (17.8%) and 64% of Mercury customers rating themselves as 'highly satisfied'. These measures confirm the success of our continual focus on rewarding customer loyalty and inspiring our customers to enjoy energy in more wonderful ways.

Immigration and economic growth point to demand increasing in future years. Mercury is well positioned to build new generation. We have several options, including what we believe is the best wind farm opportunity in New Zealand. Our ability to build further power stations will ultimately secure the Company's ability to capture increased share in the retail and commercial sectors.

The eventual closure of the Tiwai Point Aluminium Smelter, although in our view unlikely in the short term, remains a risk to the industry. When this happens, Mercury believes it is relatively best placed out of all the large electricity generators in New Zealand, due to our station locations and fuel mix. While wholesale electricity prices would be expected to drop for a period of time, we believe our 39% share in the Auckland retail market, proximate North Island generation locations and balanced approach to risk management will differentiate us from our peers.

Relevant opportunities

Mercury continually looks to grow value through investment in related or adjacent sectors.

We are developing the solar energy market in New Zealand through our partnership with Trina Solar, regarded as a global leader in photovoltaic solar technology. The Mercury R&D Centre tests the installation and performance of world-leading solar, battery storage, and other energy technologies for New Zealand customers.

Our advanced metering infrastructure business, Metrix, has installed more than 400,000 meters nationwide (about 24% of the currently installed advanced metering market) and is New Zealand's second largest smart metering company, providing automated reads to all electricity retailers.

Financial commentary.

Energy margin¹

Mercury's energy margin of \$698 million was \$38 million higher than last year, supported by record hydro generation of 4,724 GWh (up 22% on FY2016 levels) since Mercury was formed in 1999. Strong inflows into the Waikato catchment reverses the trend of recent years of wet conditions in South Island and dry in North Island.

The ratio of electricity purchase costs to average generation prices (LWAP/GWAP, where a lower ratio is favourable), remained similar to the same period last year at 1.05. This reflects a trend of lower and less volatile wholesale prices. The average energy price to customers was down marginally (-1.1%) to \$113.51/MWh relative to the same period last year. This reflects additional commercial and industrial sales contracted throughout the year at lower prices, and the timing and impact of customer loyalty product offerings such as Free Power Days and Airpoints Dollars™.

Our continued focus on growing customer loyalty has resulted in materially lower churn relative to our major peers, increased customer satisfaction (64% rating as highly satisfied), and an increase in market share and fixed price sales to customers (including contracts for difference) of 500GWh.

\$698M

ENERGY MARGIN
(UP \$38 MILLION FROM 2016)

¹ Energy Margin is a non-GAAP measure and is defined as sales less lines charges, energy costs and other direct costs of sales, including metering (see Note 4 of the Audited Financial Statements). Energy Margin provides a measure that, unlike total revenue, accounts for the variability of the wholesale spot market on our generation revenue and the broadly offsetting impact of wholesale prices on the purchase cost of our customers' electricity.

Other income

Other income includes revenue earned by our metering business, Metrix, the sale of surplus carbon units, operation and maintenance services provided to third parties and revenue from our solar business.

The company's revenue from Metrix increased during the year as smart meter deployment and services continued to grow.

The 2015 mothballing of our gas-fired Southdown power station substantially reduced our future carbon obligations under the NZ Emissions Trading Scheme. This provided Mercury with the opportunity to divest some surplus carbon credits. This sale generated cash proceeds of \$26 million due to significantly higher carbon pricing, and a gain on sale of \$5 million recognised in other income.

Mercury is fully able to meet our carbon emission obligations for the foreseeable future from existing carbon credit inventories and existing long term agreements with NZ forestry owners.

\$5M

GAIN FROM SALE OF SURPLUS
CARBON CREDITS
(PROCEEDS OF \$26M)

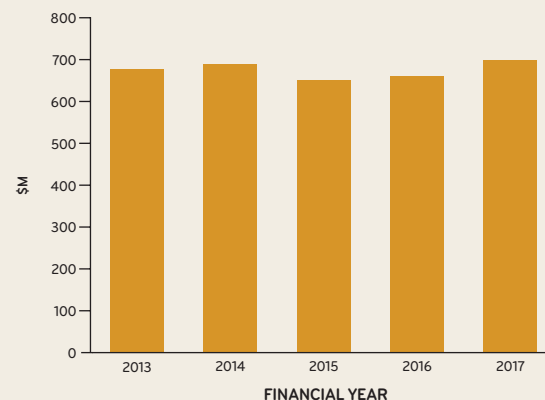
Operating costs

Operating costs represent the company's indirect costs of sales, including salaries and wages, maintenance costs, and all other corporate overheads. Operating costs were flat in FY2017 versus FY2016 at \$214 million. This reflects our ongoing focus on controlling costs and improved procurement. The combined savings have enabled us to absorb within our operating costs the circa \$4 million cost of repairing a well on the Rotokawa geothermal field along with the additional costs of new business activities like solar.

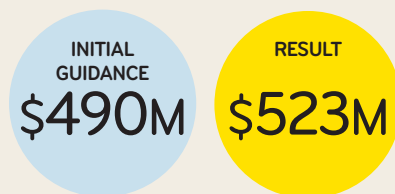
\$214M

OPERATING COSTS

>> FIGURE 1: ENERGY MARGIN



OPERATING EARNINGS (EBITDAF)



Operating earnings (EBITDAF²)

EBITDAF for the year was up \$30 million or 6% versus FY2016, primarily due to the movements in Energy Margin from higher hydro generation output. Despite benign wholesale market prices, slightly lower customer yields, and lower usage per household due to a warm winter in 2016, we have continued to execute our core business plan. This discipline, plus a range of non-price attributes such as our successful re-branding, focus on growing customer loyalty and our strong regional partnerships, is reflected in this strong result.

² EBITDAF is reported in the income statement of the Audited Financial Statements and is a measure that allows comparison across the sector. EBITDAF is defined as earnings before net interest expense, income tax, depreciation, amortisation, change in fair value of financial instruments, impairments, and equity accounted earnings.

Profit for the year

Profit for the year represents the profit for the company after taking into account EBITDAF, depreciation and amortisation, the change in the fair value of financial instruments, impairments, earnings of associates and joint ventures, net interest costs, and the company's tax expense. Profit for the year increased by \$24 million to \$184 million due to the company's improved operating earnings performance, partially offset by higher depreciation and taxation expenses.

\$184M

PROFIT FOR THE YEAR

\$520M

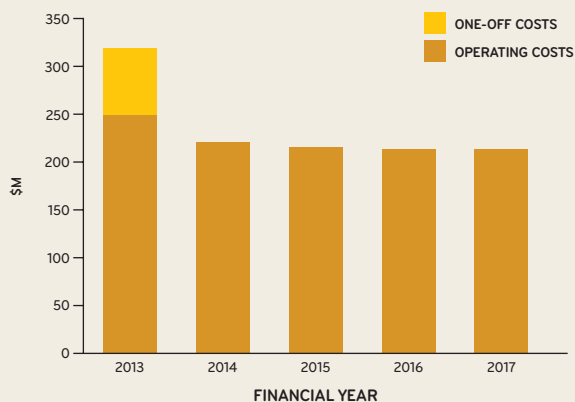
FINAL GUIDANCE

\$523M

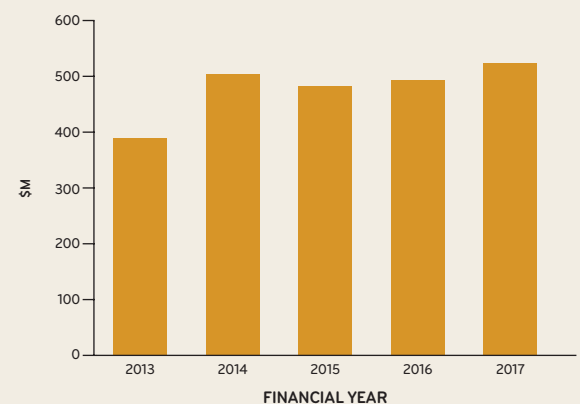
RESULT

OPERATING EARNINGS (EBITDAF)

>> FIGURE 2: OPERATING COSTS



>> FIGURE 3: OPERATING EARNINGS (EBITDAF)



Underlying earnings after tax³

Underlying Earnings after tax increased by \$24 million or 16% to \$176 million, reflecting the company's increase in EBITDAF performance. Impairments for the year primarily related to the final cost of exiting geothermal development in Chile and is discussed further in Note 4 of the Audited Financial Statements.

³ Underlying earnings after tax is reported in Note 3 of the Audited Financial Statements and is a non-GAAP measure representing net profit for the year adjusted for one-off and/or infrequently occurring events exceeding \$10 million of net profit before tax, impairments, and any changes in the fair value of derivative financial instruments. In contrast to net profit, the exclusion of these items enables a comparison of the company's underlying performance between financial years. The company has reported Underlying Earnings on this basis for the last six years.

\$176M

UNDERLYING EARNINGS AFTER TAX

Net cash flows from operating activities

Net cash provided by operating activities represents the cash flows from the sale of electricity and metering services, along with the direct and indirect costs associated with their sale and the cash costs of interest and taxes. This increased by \$92 million to \$372 million, up 33% on FY2016, as a result of increased hydro electricity generation and a \$37 million decrease in cash taxes. The decrease in cash taxes was a result of the company electing to prepay tax in the prior year to maintain a positive imputation credit account, reducing FY2017 provisional tax obligations. In addition, the company received a refund in FY2017 for overpaid tax from prior years.

\$372M

NET CASH FLOW FROM
OPERATING ACTIVITIES

Balance sheet

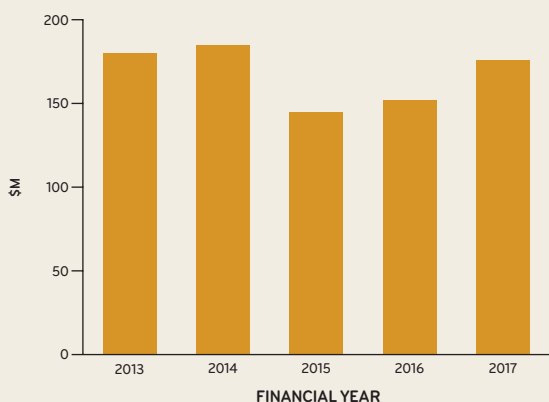
Total assets of the company decreased by \$88 million, due mainly to a fall in the market to market value of the company's financial derivative asset values and the write down of the company's investment in joint ventures. The company also revalued its geothermal generation assets up by \$52 million and invested \$116m in capital expenditure, offset by depreciation and amortisation of \$189m. Stay-in-business capital expenditure (SIB capex) represents the capital expenditure incurred by the company to maintain its assets in good working order and was elevated relative to the company's normalised SIB capex level of \$80 million per annum. SIB capex in FY2017 was \$114 million, reflecting phasing in the ongoing major hydro refurbishment projects at Aratiatia and Whakamaru. The first refurbished turbine at Whakamaru hydro station returned to service in late 2017, increasing the unit capacity from 25MW to 31MW and conversion efficiency by 5% (7GWh p.a.). Our geothermal drilling programme, comprising four new wells across Rotokawa and Kawerau was also completed during the year, significantly under budget, with the new wells having considerably more productivity than expected on average.

Mercury continues to invest in its technology systems across the business, including the ability to deliver certified half hourly data at Metrix, improvements to core customer, financial and project management systems and the movement to cloud based data centres, all of these projects will be completed in FY2018.

\$114M

STAY IN BUSINESS CAPEX

>> FIGURE 4: UNDERLYING EARNINGS AFTER TAX



Capital structure and dividends

Mercury's dividend policy gives due consideration to the company's working capital requirements, medium term investment programme, a sustainable capital structure and recognises a targeted long-term credit rating of BBB+ assigned by S&P. The company's balance sheet remains strong at current gearing levels and is cognisant of the Government's legislated minimum shareholding in the company. Management continue to explore value enhancing opportunities which may require additional borrowings to fund growth.

The company's relatively high average interest rate of 8.7% on net debt of \$1,038 million reflects interest rate hedges put in place in 2008, prior to the global financial crisis and the subsequent decreases in interest rates, ahead of the company's significant geothermal development programme. These hedges mainly mature at the end of the 2018 financial year. From that time the estimated net cash flow benefit, at current rates, is approximately \$20 million per annum.

In line with Mercury's dividend policy, targeting a pay-out ratio of 70% to 85% of Free Cash Flow on average over time, a fully imputed 8.8 cents per share final dividend has been declared. This took the full year ordinary dividend to 14.6 cents per share, also fully imputed, in line with guidance and representing a 2.1% increase on the 2016 level. The company has also announced a 5.0 cents per share fully imputed special dividend. Dividends will be paid on 29 September 2017.

BBB+

OUR S&P CREDIT RATING

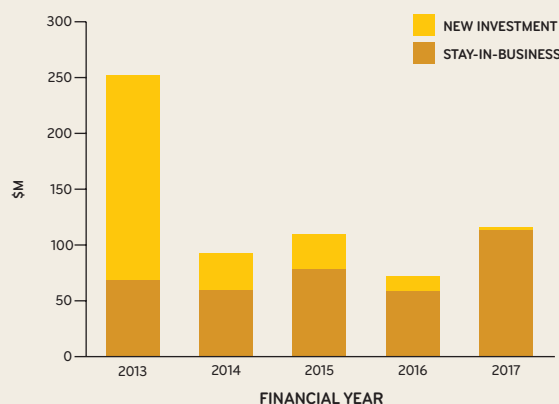
14.6 CENTS

FULL YEAR ORDINARY DIVIDEND

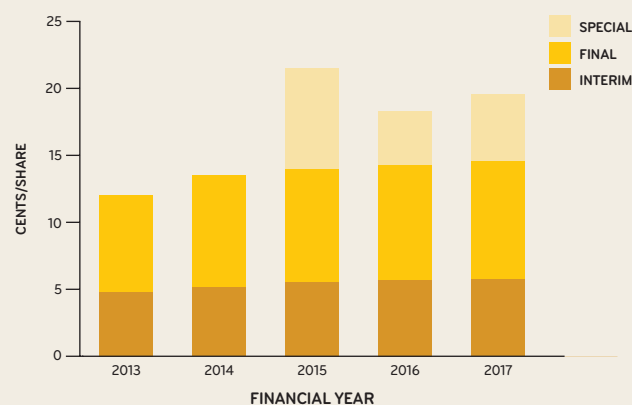
5.0 CENTS

SPECIAL DIVIDEND

>> FIGURE 5: CAPITAL EXPENDITURE



>> FIGURE 6: DIVIDENDS



Your Directors.

PLEASE SEE
OUR WEBSITE
FOR FULL
BIOGRAPHIES.



Our Executive Team.

PLEASE SEE
OUR WEBSITE
FOR FULL
BIOGRAPHIES.



>> FRASER WHINERAY
CHIEF EXECUTIVE



>> MATTHEW OLDE
METRIX CHIEF EXECUTIVE



>> TONY NAGEL
GENERAL MANAGER CORPORATE AFFAIRS



>> JULIA JACK
CHIEF MARKETING OFFICER



>> WILLIAM MEEK
CHIEF FINANCIAL OFFICER



>> KEVIN ANGLAND
GENERAL MANAGER DIGITAL SERVICES



>> PHIL GIBSON
GENERAL MANAGER HYDRO & WHOLESALE



>> MARLENE STRAWSON
GENERAL MANAGER PEOPLE & SAFETY



>> NICK CLARKE
GENERAL MANAGER GEOTHERMAL

Reporting on what matters most.

The foundations of our business are wellbeing (our people), kaitiakitanga (respect for and guardianship of our assets and natural resources to ensure a sustainable future) and commercial (delivering value).

In this report, we have chosen to cover aspects that are material to our business across each of these foundations. We have sought to provide a balanced and transparent view of how we have performed this year and our plans for the future. To inform our view of the matters material to how Mercury creates value – our What Matters Most, as set out on page 20 of this report – we have considered a broad sustainability context incorporating:

- mega trends impacting our customers, company and the country, such as: the Sustainable Development Goals; the Paris Climate Agreement; digitisation; new technology; increasing data use; and ageing population
- our business plan and strategy for the short, medium and long term
- key risks, risk trends and opportunities
- stakeholder input and feedback gathered throughout the year.

This report has been prepared in accordance with the Global Reporting Initiative (GRI) Standards: Core option, including having reference to the GRI Standard reporting principles. We have also incorporated elements of the International Integrated Reporting <IR> Framework consistent with how we are developing integrated thinking.

As part of our process for determining matters material to how Mercury creates value, we produced this materiality matrix. All of the matters in this matrix are important to Mercury and our stakeholders. The matters in the top right hand corner are those that

were highest ranked and are the material topics we have reported against for GRI Standards. Other matters in this matrix are also included in this report or on our website.

Reporting boundaries were determined based on how aspects material to the business impacted upon, and were impacted by stakeholders, within the company, outside the company, and both inside and outside the company.

Stakeholder engagement

One of the elements of our success at Mercury is our ability to build and maintain relationships with key stakeholders across the business. Past and future plans have been developed with input from these stakeholders,

and we aim to meet their expectations and needs proactively as they intersect with our own mission, purpose, strategy and goal. We have introduced more stakeholder input into our report this year in order to reflect this approach.

The first step we took was to identify our key stakeholders. We then looked at our interactions across those groups and designed an approach for input into this report that was appropriate for each of our groups. We will take what we have learnt through engagement this year and continue to evolve our engagement. The following pages outline our key stakeholders, their role in relation to Mercury, how we engage with them, and what’s most important to them.



Our stakeholders.



CUSTOMERS

Role

Sustain our business, provide the foundation for continued growth, and future product development.

How do we engage with them?

Understanding customers needs, expectations and what they care about helps us to have in place the products and services that earn their business. Our customer relationships are valued, and often longstanding. We strive for effective and responsive customer engagement, proactively seeking feedback and input through a number of avenues including: our contact centre (via calls, email, letters, direct mail); our website and My Account portal; social media; customer surveys and market research; and our community partnerships, sponsorships and events.

What is important to them about Mercury?

- > Fairness
- > Customer experience
- > Brand
- > Security of supply



EMPLOYEES

Role

Our 870 people drive our company. Through their skills, knowledge, diversity and efforts Mercury thrives and prospers.

How do we engage with them?

Employee engagement, and ensuring different perspectives and viewpoints are heard, is crucial to our success. Our employees are from various different cultural and ethnic backgrounds, reflecting New Zealand's own diversity and providing our company with wonderful perspectives on how to drive our strategy. In 2017, we focused on sharing and connecting through annual and check-in surveys, specific events such as Company Days, our PowerUp induction programme, leadership forums and a change supporters' network. For this report we sought specific feedback through a survey completed by our change supporters' network.

What is important to them about Mercury?

- > Employee Development
- > Safety
- > Inclusive and fair workplace
- > Economic performance



PARTNERSHIPS

Role

Seek and deliver opportunities through which we can develop mutually beneficial ventures aligned with our mission, purpose, strategy and goal.

How do we engage with them?

Mercury builds positive, mutually beneficial, longstanding relationships with the communities in which we operate. Some of the ways we engage with our partners is through commercial joint ventures, customer reward partnerships, and by dedicating time and effort into understanding each other's business.

What is important to them about Mercury?

- > Economic performance
- > Employee development
- > Natural resource availability

Our stakeholders (cont.)



SHAREHOLDERS & INVESTORS

Role

Approximately 90,000 investors and shareholders provide the stability and financial capital for our company to grow and to continue to create value.

How do we engage with them?

Our shareholders and investors are the backbone of our company. We engage through material market updates, annual and half-year reports, earnings and dividends announcements and quarterly operating reports, adhering to the principles of continuous disclosure. Our executive team and Board also deliver an Annual Shareholders Meeting (ASM), provide briefings and hold institutional investor meetings.

What is important to them about Mercury?

- > Economic performance
- > Natural resource availability
- > Customer experience
- > Brand
- > Climate change



IWI

Role

Provide us with the platform through which to establish long-term, mutually beneficial partnerships and plans.

How do we engage with them?

Lake Taupo and the Waikato River, and areas where our geothermal operations are located are of cultural and historical significance for iwi. To ensure that we respect, value, protect and sustain these areas, proactive engagement occurs with iwi through business review meetings, contract negotiations, engagement for proposed new work and completing live work, industry conferences and supplier briefings.

What is important to them about Mercury?

- > Natural resource availability
- > Community relations
- > Water quality and allocation
- > Biodiversity



GOVERNMENT & REGULATORS

Role

Set the regulatory frameworks that determine our operating environment and provide the framework within which we can develop our business.

How do we engage with them?

We work collaboratively at different levels of government and other governing entities to develop solutions, identify opportunities and overcome challenges. Engagement takes place through formal scheduled meetings, responses to submissions, ministerial briefings, and participation in energy industry events and regulatory/political forums. We host site visits and also engage through the development of external reports that we commission or contribute to. For this report we also sought specific, informal feedback from representatives of key regulators.

What is important to them about Mercury?

- > Security of supply
- > Fairness
- > Climate change
- > Energy efficiency



COMMUNITY

Role

Provide us with support to operate and the context in which to better understand the social and environmental issues we face within our communities.

How do we engage with them?

Key team members actively participate in a variety of community forums. We also sponsor events within the communities in which we operate, and respond to community river flow and lake level requests. Through our role in the Waikato Catchment Ecological Enhancement Trust (WCEET), we engage on improvements to the natural and social environments which the business depends upon.

What is important to them about Mercury?

- > Fairness
- > Water quality and allocation
- > Environmental compliance and mitigation
- > Climate change



SUPPLIERS

Role

Deliver products and services that allow us to enhance our business and operations.

How do we engage with them?

Suppliers are continuously engaged in completing various projects or fulfilling ongoing customer and other business commitments. We also use business review meetings, contract negotiations, supplier briefings and proactive engagement with industry conferences to work collaboratively with, gain insight into, and develop new standards with suppliers. For this report we also sought feedback through discussions with a range of key suppliers.

What is important to them about Mercury?

- > Economic performance
- > Supply chain
- > Safety



INDUSTRY PARTICIPANTS

Role

Provide an opportunity to share, exchange and grow the industry to its highest potential.

How do we engage with them?

Mercury works collaboratively with the energy industry to provide and support new opportunities for growth as well as to overcome challenges. We work with various industry participants through one-on-one meetings and active participation in industry groups such as StayLive, the Business Leaders Health and Safety forum, ERANZ Policy Committee, Business Energy Council Working Group, Sustainable Business Council, and Business NZ. We also regularly attend and contribute to industry events and conferences (e.g. Downstream), as well as attending stakeholder events organised by sector participants. We do this in order to keep up to date with industry issues, assist with solutions, and to contribute to future progress and innovation.

What is important to them about Mercury?

- > Economic performance
- > Security of supply
- > Fairness
- > Climate change
- > Innovation and R&D

GRI INDEX STANDARDS CORE REPORTING

GRI standard	Description	Report section and Page number(s)	Comments
GENERAL DISCLOSURES			
GRI 102 General disclosures 2017			
Organisational profile			
102-1	Name of the organisation	Our Business model, page 6	
102-2	Activities, brands, products, and services	At a glance, pages 8-9	
102-3	Location of Headquarters	Newmarket, Auckland	Newmarket, Auckland
102-4	Location of operations	At a glance, pages 8-9	
102-5	Ownership and legal form	Company disclosures, pages 49-51	
102-6	Markets served	At a glance, pages 8-9	
102-7	Scale of organisation	At a glance, pages 8-9	
102-8	Information on employees	At a glance, pages 8-9	
102-9	Supply chain	At a glance, pages 8-9, High performance teams, page 30	
102-10	Significant changes to the organisation and its supply chain	Chair and Chief Executive Updates, pages 12-19	
102-11	Precautionary principle	Corporate Governance Statement 2017 web version, page 10	
102-12	External initiatives	Enhanced natural resources, pages 40-47 Stronger together, pages 50-55	
102-13	Membership of associations	Stronger together, pages 50-55	
Strategy			
102-14	Statement from senior decision maker	Chair and Chief Executive Updates, pages 12-19	
Ethics and Integrity			
102-16	Values, principles, standards, and norms of behaviour	Corporate Governance Statement, Financial report, pages 35-41	
Governance			
102-18	Governance structure	Corporate Governance Statement, Financial report, pages 35-41	
Stakeholder engagement			
102-40	List of stakeholder groups	Reporting on what matters most, pages 66-69	
102-41	Collective bargaining agreements	1.49% of employees covered under collective bargaining	
102-42	Identifying and selecting stakeholders	Reporting on what matters most, pages 66-69	
102-43	Approach to stakeholder engagement	Reporting on what matters most, pages 66-69	
102-44	Key topics and concerns raised	Reporting on what matters most, pages 66-69	
Reporting practice			
102-45	Entities included in the consolidated financial statement	Leading economic performance, pages 58-65	
102-46	Defining report content and topic boundaries	Reporting on what matters most, pages 66-69	
102-47	List of material topics	What matters most, pages 20-21 Reporting on what matters most, pages 66-69	
102-48	Restatements of information	No restatements	

GRI standard	Description	Report section and Page number(s)	Comments
102-49	Changes in reporting	Chair and Chief Executive Updates, pages 12-19 Reporting on what matters most, pages 66-69	
102-50	Reporting period	Cover	
102-51	Date of most recent report	Cover	
102-52	Reporting cycle	Cover	
102-53	Contact point for questioning regarding the report	Tim Thompson, Head of Treasury and Investor Relations	
102-54	Claims of reporting in accordance with the GRI standards	Reporting on what matters most, pages 66-69	
102-55	GRI Content Index	GRI Index, pages 70-71	
102-56	External assurance	No external assurance for this report	

SPECIFIC STANDARD DISCLOSURES

Material Topics	Description	Report section and Page number(s)	Boundaries
GRI 200 Economic standard series			
GRI 103	Management approach 2017	Leading economic performance, pages 58-65	
GRI 201 Economic Performance			
GRI 201	Economic performance 2017	Leading economic performance, pages 58-65	Within the organisation
201-1	Direct economic value generated and distributed	Leading economic performance, pages 58-65	Within and outside the organisation
GRI 300 Environmental standard series			
GRI 103	Management approach 2017	Enhanced natural resources, pages 40-47	
GRI 303 Water			
303-1	Water withdrawal by source	Enhanced natural resources, pages 40-47	Outside the organisation
303-2	Water sources significantly affected by withdrawal of water	Enhanced natural resources, pages 40-47	Outside the organisation
GRI 305 Emissions			
305-1	Direct (Scope 1) GHG emissions	Enhanced natural resources, page 45	Within and outside the organisation
GRI 307 Environmental compliance			
307-1	Non-compliance with environmental laws and regulations	Enhanced natural resources, page 41	Outside the organisation
GRI 400 Social standards series			
GRI 103	Management approach 2017	High performance teams, pages 30-37	

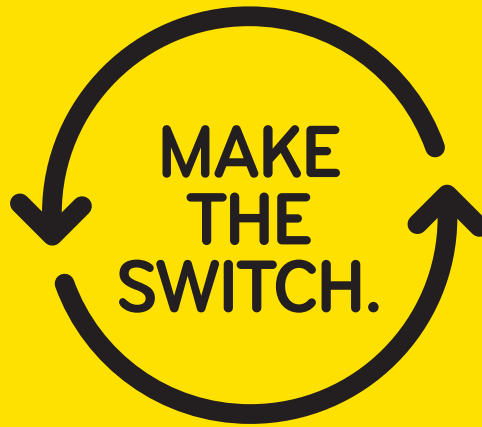
Material Topics	Description	Report section and Page number(s)	Boundaries
GRI 401 Employment			
401-1	New employee hires and employee turnover	High performance teams page 32	Within the organisation
401-2	Benefits provided to full-time employees that are not provided to temporary or part-time employees	High performance teams, page 34 / CE Update page 17	Within the organisation
401-3	Parental leave	CE Update, page 17	Within the organisation
GRI 403 Occupational health and safety			
GRI 403-1	Workers representation in formal joint management-worker health and safety committees	High performance teams, page 36	Within the organisation
GRI 403-2	Types of injury or rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities	High performance teams page 37	Within the organisation
GRI 404 Training and education			
404-2	Programs for upgrading employee skills and transition assistance programs	High performance teams, page 32	Within the organisation
GRI 405 Diversity and equal opportunity			
405-1	Diversity of governance bodies and employees	High performance teams, page 34 / Corporate Governance Statement Financial and Report page 40	Within the organisation
Sector Specific: Utilities			
GRI 103	Management approach 2017	Enhanced natural resources, pages 40-47	
EU 10	Planned capacity against projected electricity demand over the long term	Enhanced natural resources, page 46	Within the organisation
GRI 103	Management approach 2017	High performance teams, pages 30-37	
EU 18	Percentage of contractor and subcontractor employees that have undergone relevant health and safety training	High performance teams, page 37	Within and outside the organisation
GRI 103	Management approach 2017	Growing customer loyalty, pages 24-29	
EU27	Number of residential disconnections for non-payment	Growing customer loyalty, page 29	Outside of the organisation
GRI 103	Management approach 2017	Enhanced natural resources, pages 40-47	
EU 30	Average plant availability by energy source and by regulation regime	Enhanced natural resources, page 46 & 47	Within the organisation

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WE'RE ALL ABOUT OFFERING WONDERFUL CHOICES.

For this report, you have the choice of enjoying Mercury stories from the past year and getting an understanding of the things that matter most to us. This is our 'freedom to choose' section that will give you a sense of who we are and how we bring to life our mission of energy freedom.

Or you have the choice of reviewing our numbers. This is our 'wonderful choice' section that quantifies Mercury's performance against what we've achieved in the past.

We invite you to have a look at both: front to back, or back to front.

The freedom is in your hands.

Speaking of switching, have you thought about getting yourself moving with electricity? More than 4,000 New Zealanders are now driving EVs. They're enjoying a cheaper, cleaner way to get around and benefiting the country while they're at it. We think that's a wonderful choice.

To charge away from home, access New Zealand's Electric Highway™ using the Plugshare app.





OUR 2017 FINANCIAL REPORT

Wonderful choice.



Mercury NZ Limited

ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017

- 01 >> REPORT CARD
- 02 >> FINANCIAL TRACK RECORD
- 03 >> INDEPENDENT AUDITOR'S REPORT
- 06 >> FINANCIAL STATEMENTS
- 35 >> GOVERNANCE AT MERCURY
- 41 >> REMUNERATION REPORT
- 47 >> DISCLOSURES
- 55 >> GLOSSARY
- 56 >> DIRECTORY

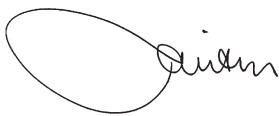
STATEMENT FROM THE DIRECTORS

The Directors are pleased to present Mercury NZ Limited's annual report and financial statements for the year ended 30 June 2017.

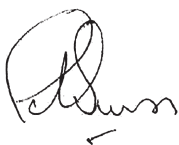
The Auditor-General is required to be the company's auditor, and has appointed Simon O'Connor of Ernst & Young to undertake the audit on his behalf.

The Directors are not aware of any circumstances since the end of the year that have significantly or may significantly affect the operations of the Group.

This annual report is dated 22 August 2017 and is signed on behalf of the Board by:



Joan Withers, Chair



Keith Smith, Director

REPORT CARD.

>> FINANCIALS

\$523M[^]

EBITDAF UP \$30M, REFLECTING RECORD GENERATION FROM STRONG NORTH ISLAND INFLOWS THROUGH THE YEAR.

\$184M[^]

NET PROFIT \$24M HIGHER DUE TO IMPROVED EBITDAF, WITH HIGHER FAIR VALUE GAINS AND LOWER IMPAIRMENTS OFFSET BY HIGHER DEPRECIATION AND TAX COSTS.

\$258M[^]

FREE CASH-FLOW UP 17% FROM HIGHER CASH RECEIPTS AND PREPAYMENT OF TAX IN FY2016 OFFSET BY HIGHER STAY-IN-BUSINESS CAPEX.

14.6CPS[^]

ORDINARY DIVIDEND UP 2% PLUS AN ADDITIONAL 5CPS IMPUTED SPECIAL DIVIDEND.

>> GROWING CUSTOMER LOYALTY

64%

OF MERCURY CUSTOMERS RATING AS 'HIGHLY SATISFIED'.

5.7%

TRADER SWITCH CHURN. LOWER THAN THE REST OF NEW ZEALAND MARKET COMBINED.

>> HIGH PERFORMANCE TEAMS

ONE

HIGH SEVERITY INCIDENT.

90%

OF MERCURY EMPLOYEES AGREE WITH THE STATEMENT, "I KNOW HOW MY WORK CONTRIBUTES TO THE SUCCESS OF THIS ORGANISATION".

>> ENHANCED NATURAL RESOURCES

226

WCEET PROJECTS.

HIGH COMPLIANCE

WAIKATO REGIONAL COUNCIL COMPLIANCE ASSESSMENT OF WAIKATO HYDRO SYSTEM ACROSS 121 CONSENT CONDITIONS*.

>> STRONGER TOGETHER

42k

WALKERS AND BIKERS ENJOYED THE WAIKATO RIVER TRAILS.

\$10M

DONATED TO STARSHIP HOSPITAL BY OUR CUSTOMERS AND US SINCE 1999.

*Assessed in FY2017 for the FY2016 year

FINANCIAL TRACK RECORD

Financial Performance Trends

For the year ended 30 June (\$ million)	2017	2016	2015	2014	2013
Income statement					
Energy margin	698	660	650	690	677
EBITDAF	523	493	482	504	390
Net profit for the year	184	160	47	212	115
Balance sheet					
Total shareholders' equity	3,308	3,315	3,337	3,219	3,183
Total assets	5,997	6,085	6,058	5,689	5,802
Total liabilities	2,689	2,770	2,721	2,470	2,619
Cash flow					
Operating cash flow	372	280	309	317	286
Investing cash flow	(90)	(37)	(103)	(99)	(84)
Financing cash flow	(298)	(228)	(195)	(213)	(230)
Capital expenditure					
Total capital expenditure	116	72	110	93	252
Growth capital expenditure	2	13	31	33	183
Stay-in-business capital expenditure	114	59	79	60	69
Other financial measures					
Underlying earnings after tax	176	152	145	185	180
Free cash flow	258	221	230	257	217
Ordinary and special declared dividends	270	252	296	186	168
Ordinary dividends per share (cents)	14.6	14.3	14.0	13.5	12.0
Special dividends per share (cents)	5.0	4.0	7.5	-	-
Basic and diluted earnings per share (cents)	13.37	11.6	3.4	15.3	8.2
Net debt	1,038	1,068	1,082	1,031	1,028
Gearing (net debt/net debt+equity, %)	23.9	24.4	24.5	24.3	24.4
Debt/EBITDAF (x) ¹	1.8	2.0	2.0	2.1	2.7
Operational measures					
Total recordable injury frequency rate (TRIFR) ²	1.05	0.74	1.25	0.84	1.52
Sales to customers (FPVW, GWh)	4,606	4,397	4,486	4,844	5,252
Electricity customers ('000)	392	376	382	382	388
Electricity generation (GWh)	7,533	6,842	6,563	6,295	6,462

¹ Adjusted for S&P treatment of subordinated debt issued in FY2015.

² Per 200,000 hours; includes onsite employees and contractors.

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF MERCURY NZ LIMITED

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

The Auditor-General is the auditor of Mercury NZ Limited ('the entity') and its subsidiaries and other controlled entities (collectively referred to as 'the Group'). The Auditor-General has appointed me, Simon O'Connor, using the staff and resources of Ernst & Young, to carry out the audit of the financial statements of the Group on his behalf.

Opinion

We have audited the financial statements of the Group on pages 6 to 34 of the Financial Report, that comprise the consolidated balance sheet as at 30 June 2017, the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended on that date, and notes to the financial statements that include accounting policies and other explanatory information.

In our opinion, the financial statements of the Group comply with generally accepted accounting practice in New Zealand and present fairly, in all material respects, its financial position as at 30 June 2017, and its financial performance and cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

The basis of our opinion is explained below. In addition, we outline the responsibilities of the Board of Directors and our responsibilities, and explain our independence.

Basis for Opinion

We carried out our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the International Standards on Auditing (New Zealand). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We are independent of the Group in accordance with the Auditor-General's Standards, which incorporates Professional and Ethical Standard 1 (Revised) *Code of Ethics for Assurance Practitioners* issued by the New Zealand Auditing and Assurance Standards Board, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

In addition to the audit we have carried out assignments including a review of the Group's financial statements for the six months ended 31 December 2016, remuneration benchmarking services and tax compliance services in the United States, which are compatible with our independence requirements. These services have not impaired our independence as auditor of the Group.

Partners and staff may deal with the Group on normal terms within the ordinary course of trading activities of the Group. Other than the audit and these assignments and trading activities, we have no relationship with, or interests in, the Group.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

How our audit addressed key audit matters

Key audit matter	How we addressed the key audit matter
<p>Valuation of Generation Assets</p> <p>Generation assets were revalued at 30 June 2017 as set out in note 8 of the financial statements to \$5,241 million.</p> <p>The Group engage an independent external party to estimate the fair value of generation assets using a discounted cash flow model. The significant inputs used to calculate the fair value of the generation assets are the wholesale electricity price path, generation volumes, and the discount rate. The wholesale electricity price path is estimated by the Group's valuation specialist as described in note 8 of the financial statements and also considers Mercury NZ Limited's own internal five year forecast electricity price path. The model used to estimate the wholesale electricity price path is complex and includes a number of significant assumptions. The estimate of the wholesale electricity price path is the most significant input in estimating the fair values determined for the generation assets.</p>	<p>Our audit procedures included assessing the key inputs to the model used to estimate the fair value of the generation assets. Our procedures which included the use of our valuation specialists were primarily focused on evaluating the process undertaken by the Group's valuation specialist and Mercury NZ Limited in forecasting the wholesale electricity price path and assessing whether the forecast was consistent with internal and external data.</p> <p>We assessed the professional competence, independence and objectivity of the Group's valuation specialist in the modelling of the electricity price path and valuation of the generation assets. We also compared budgeted performance information from prior periods to historical data to assess the accuracy of the forecasting process.</p>
<p>Valuation of Electricity Derivative, Currency and Interest Rate Derivative Financial Instruments</p> <p>The Group's activities expose it to electricity market price, currency and interest rate risk which are managed using derivative financial instruments. At 30 June 2017 derivative assets total \$129 million and derivative liabilities were \$186 million as set out in note 15 of the financial statements.</p> <p>The valuations of the interest rate derivatives, foreign exchange derivatives, and certain electricity price derivatives which are prepared by Mercury NZ Limited are based primarily on observable inputs and are measured using standard valuation techniques. Certain other electricity price derivatives are also valued using inputs for which inputs are not readily available in active primary or secondary markets and require more complex valuation models involving the wholesale electricity price path forecast by Mercury NZ Limited. The wholesale electricity price path forecast requires significant judgement.</p>	<p>Our audit procedures included agreeing underlying data to the contract terms on a sample basis, evaluating the appropriateness of the valuation methodologies and assessing key assumptions and inputs and recalculating the fair value of a sample of electricity derivatives. We also performed procedures on the wholesale electricity price path as explained above under the section entitled 'Valuation of Generation Assets'.</p>

Information other than in the Financial Statements and Auditor's report

The Board of Directors are responsible on behalf of the entity for the Annual Report and the Financial Report, which includes information other than the financial statements and auditor's report.

Our opinion on the financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Directors' Responsibilities for the Financial Statements

The Board of Directors are responsible on behalf of the entity for the preparation and fair presentation of the financial statements for the Group that comply with generally accepted accounting practice in New Zealand and New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

The Board of Directors' responsibilities arise from the Financial Markets Conduct Act 2013.

The Board of Directors is also responsible for such internal control as it determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is also responsible for the publication of the financial statements, whether in printed or electronic form. In preparing the financial statements, the Board of Directors are responsible on behalf of the entity for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Our responsibility arises from section 15 of the Public Audit Act 2001. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Auditor-General's Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with the Auditor-General's Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the use of the going concern basis of accounting by the Directors and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.
- We did not examine every transaction, nor do we guarantee complete accuracy of the financial statements. Also, we did not evaluate the security and controls over the electronic publication of the financial statements.
- We communicate with the Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- We also provide the Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.
- From the matters communicated with the Directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

• 

>> **SIMON O'CONNOR**
ERNST & YOUNG
ON BEHALF OF THE AUDITOR-GENERAL
AUCKLAND, NEW ZEALAND

22 AUGUST 2017

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 30 JUNE 2017

	Note	2017 \$M	2016 \$M
Total revenue	4	1,597	1,564
Total expenses	4	(1,074)	(1,071)
EBITDAF¹		523	493
Depreciation and amortisation	8, 9	(189)	(182)
Change in the fair value of financial instruments	15	31	20
Impairments	4	(18)	(19)
Earnings of associates and joint ventures	10	6	3
Net interest expense	4	(95)	(97)
Profit before tax		258	218
Tax expense	6	(74)	(58)
Profit for the year attributable to owners of the parent		184	160
Basic and diluted earnings per share (cents)		13.37	11.63

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2017

	Note	2017 \$M	2016 \$M
Profit for the year		184	160
Other comprehensive income			
Items that will not be reclassified subsequently to profit or loss			
Movement in asset revaluation reserve		55	106
Share of movements in associates' and joint ventures' reserves	10	(14)	6
Tax effect		(15)	(30)
Items that may be reclassified subsequently to profit or loss			
Movement in cash flow hedge reserve	15	36	(54)
Movement in other reserves		11	2
Tax effect		(11)	16
Other comprehensive income for the year, net of taxation		62	46
Total comprehensive income for the year attributable to owners of the parent		246	206

¹ EBITDAF: Earnings before net interest expense, income tax, depreciation and amortisation, change in the fair value of financial instruments, impairments and equity accounted earnings of associates and joint ventures

CONSOLIDATED BALANCE SHEET

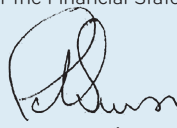
AS AT 30 JUNE 2017

	Note	2017 \$M	2016 \$M
SHAREHOLDERS' EQUITY			
Issued capital		378	378
Treasury shares	5	(51)	(52)
Reserves		2,981	2,989
Total shareholders' equity		3,308	3,315
ASSETS			
Current assets			
Cash and cash equivalents		30	46
Receivables	11	240	198
Inventories	7	39	45
Derivative financial instruments	15	18	21
Taxation receivable	6	-	3
Total current assets		327	313
Non-current assets			
Property, plant and equipment	8	5,422	5,440
Intangible assets	9	53	68
Investment and advances to associates	10	76	77
Investment in joint ventures	10	-	15
Advances	10	8	10
Derivative financial instruments	15	111	162
Total non-current assets		5,670	5,772
Total assets		5,997	6,085
LIABILITIES			
Current liabilities			
Payables and accruals	11	202	156
Provisions	12	1	3
Borrowings	13	83	130
Derivative financial instruments	15	49	21
Taxation payable	6	23	-
Total current liabilities		358	310
Non-current liabilities			
Payables and accruals	11	4	2
Provisions	12	53	51
Derivative financial instruments	15	139	267
Borrowings	13	1,024	1,047
Deferred tax	6	1,111	1,093
Total non-current liabilities		2,331	2,460
Total liabilities		2,689	2,770
Net assets		3,308	3,315

For and on behalf of the Board of Directors who authorised the issue of the Financial Statements on 22 August 2017.



Joan Withers, Chair
22 August 2017



Keith Smith, Director
22 August 2017

The accompanying notes form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2017

	Issued capital \$M	Retained earnings \$M	Asset revaluation reserve \$M	Cash flow hedge reserve \$M	Other reserves \$M	Total equity \$M
Balance as at 1 July 2015	378	321	2,738	(37)	(63)	3,337
Movement in asset revaluation reserve, net of taxation	-	-	79	-	-	79
Movement in cash flow hedge reserve, net of taxation	-	-	-	(38)	-	(38)
Movements in other reserves	-	-	-	-	2	2
Share of movements in associates' and joint ventures' reserves	-	-	7	(1)	-	6
Release of asset revaluation reserve, net of taxation	-	-	(3)	-	-	(3)
Other comprehensive income	-	-	83	(39)	2	46
Net profit for the year	-	160	-	-	-	160
Total comprehensive income for the year	-	160	83	(39)	2	206
Dividend	-	(228)	-	-	-	(228)
Balance as at 30 June 2016	378	253	2,821	(76)	(61)	3,315
Balance as at 1 July 2016	378	253	2,821	(76)	(61)	3,315
Movement in asset revaluation reserve, net of taxation	-	-	38	-	-	38
Movement in cash flow hedge reserve, net of taxation	-	-	-	25	-	25
Movements in other reserves	-	-	-	-	11	11
Share of movements in associates' and joint ventures' reserves	-	-	(12)	(2)	-	(14)
Release of asset revaluation reserve, net of taxation	-	-	2	-	-	2
Other comprehensive income	-	-	28	23	11	62
Net profit for the year	-	184	-	-	-	184
Total comprehensive income for the year	-	184	28	23	11	246
Dividend	-	(253)	-	-	-	(253)
Balance as at 30 June 2017	378	184	2,849	(53)	(50)	3,308

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 30 JUNE 2017

	2017 \$M	2016 \$M
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	1,539	1,515
Payments to suppliers and employees	(1,022)	(1,051)
Interest received	2	3
Interest paid	(95)	(98)
Taxes paid	(52)	(89)
Net cash provided by operating activities	372	280
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of property, plant and equipment	(103)	(78)
Acquisition of intangibles	(20)	(12)
Disposal of property, plant and equipment	-	11
Disposal of intangibles	26	-
Disposal of land and associated real property	-	36
Distributions received from and advances repaid to associates and joint ventures	7	6
Net cash used in investing activities	(90)	(37)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from loans	75	-
Repayment of loans	(120)	-
Dividends paid	(253)	(228)
Net cash used in financing activities	(298)	(228)
Net (decrease)/increase in cash and cash equivalents held	(16)	15
Net foreign exchange movements	-	(1)
Cash and cash equivalents at the beginning of the year	46	32
Cash and cash equivalents at the end of the year	30	46
<i>Cash balance comprises:</i>		
Cash balance at the end of the year	30	46

The accompanying notes form an integral part of these financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

NOTE 1. ACCOUNTING POLICIES

(1) Reporting entity

On 29 July 2016, Mighty River Power Limited changed its name to Mercury NZ Limited ("Company"). The Company is incorporated in New Zealand, registered under the Companies Act 1993, an FMC reporting entity under the Financial Markets Conduct Act 2013, and is listed on the NZSX and ASX.

The consolidated financial statements ("Group financial statements") are for Mercury NZ Limited Group ("the Group"). The Group financial statements comprise the Company and its subsidiaries, including its investments in associates and interests in joint arrangements.

The majority shareholder of Mercury NZ Limited is Her Majesty the Queen in Right of New Zealand ("the Government"), providing it with significant potential influence over the Group. The liabilities of the Group are not guaranteed in any way by the Government or by any other shareholder.

(2) Basis of preparation

The Group financial statements have been prepared in accordance with the Financial Reporting Act 2013, the Companies Act 1993 and in accordance with New Zealand Generally Accepted Accounting Practice ("NZ GAAP"). They comply with New Zealand equivalents to International Financial Reporting Standards ("NZ IFRS") as appropriate for profit-oriented entities. These financial statements also comply with International Financial Reporting Standards ("IFRS").

The Group financial statements are prepared on the basis of historical cost, with the exception of financial instruments and generation assets which are measured at fair value.

The Group financial statements have been prepared so that all components are stated exclusive of GST, with the exception of receivables and payables that include GST invoiced.

Functional and presentation currency

These financial statements are presented in New Zealand Dollars (\$) which is the Group's functional currency, apart from Mighty Geothermal Power Limited and its direct subsidiaries as their functional currency is the United States Dollar. Unless otherwise stated, financial information has been rounded to the nearest million dollars (\$M).

The assets and liabilities of entities whose functional currency is not the New Zealand Dollar, are translated at the exchange rates ruling at balance date. Revenue and expense items are translated at the spot rate at the transaction date or a rate approximating that rate. Exchange differences are taken to the foreign currency translation reserve.

Estimates and judgements

The preparation of financial statements requires judgements and estimates that impact the application of policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

The areas of significant estimates and judgements are as follows:

- Impairment of non-financial assets (refer note 4)
- Generation plant and equipment (refer note 8)
- Retail revenue accruals (refer note 11)
- Restoration and environmental rehabilitation (refer note 12)
- Valuation of financial instruments (refer note 14 and note 15).

Accounting policies and standards

No changes to accounting policies have been made during the year and policies have been consistently applied to all years presented. Certain comparatives have been restated where needed to conform to current year classification and presentation.

Implementation of new accounting standards

The International Accounting Standards Board (IASB) has issued four new International Financial Reporting Standards ("IFRS", collectively, the "new standards"). The new standards relate to Financial Instruments (NZ IFRS 9), Revenue from Contracts with Customers (NZ IFRS 15), Leases (NZ IFRS 16) and Insurance Contracts (NZ IFRS 17). Mercury intends to elect to first time adopt NZ IFRS 9, 15 and 16 for the reporting period ending 30 June 2019. NZ IFRS 17, if applicable, will be adopted for the reporting period ended 30 June 2022. A summary of the new standards and their future impacts on Mercury are given below.

NZ IFRS 9 Financial instruments

NZ IFRS 9 Financial instruments supersedes NZ IAS 39 – Financial Instruments: Recognition and Measurement and is effective for periods beginning on or after 1 January 2018.

NZ IFRS 9 addresses the classification, measurement and recognition of financial assets and liabilities through a simplified mixed measurement model and establishes three primary measurement categories for financial assets, being (i) amortised cost (ii) fair value through other comprehensive income and (iii) fair value through profit or loss. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. A new expected credit losses model replaces the incurred loss impairment model used in NZ IAS 39. NZ IFRS 9 also expands the eligibility for hedge accounting by focusing on the economic relationship between hedged items and hedging instruments.

This treatment may result in the increased ability for Mercury to hedge account for financial arrangements. Adopting this approach will result in greater fair value movements recognised through the cash flow hedge reserve as opposed to the income statement. To a lesser extent, more foreign exchange contract movements will be also recognised through other comprehensive income.

Mercury intends to adopt NZ IFRS 9 for the year ended 30 June 2019 (the effective date) and it is not expected to have a material impact on the financial statements.

NZ IFRS 15 Revenue from Contracts with Customers

NZ IFRS 15 Revenue from Contracts with Customers supersedes the existing revenue standards.

The core principle of NZ IFRS 15 is that an entity must recognise revenue at an amount that reflects the consideration it expects to be entitled for transferring goods or services to a customer. This is achieved through the core principles of the standard, including identification of performance obligations in a contract, and allocation of a contract's transaction price to each of those performance obligations as they are satisfied. NZ IFRS 15 also specifies the accounting treatment for costs incurred to obtain and fulfil contracts with customers. Specific presentation and disclosure requirements are also provided, which are more detailed than under current standards.

Mercury intends to adopt NZ IFRS 15 for the year ended 30 June 2019 (the effective date). While the impact on the financial statements is not expected to be material, the treatment of a number of items will be affected. Generally, revenue received by Mercury will continue to be recognised over time, as consideration due equates to contract performance completed to date. As a practical expedient, Mercury will apply NZ IFRS 15 to portfolios of customer contracts (e.g. end-user sales), as these contracts have similar characteristics, and the effects on financial statements do not differ materially from applying current standards to individual contracts.

Certain items will require differential treatment from that which is applicable under current standards. The main items impacted are:

- Acquisition and retention credits allocated to customers will be recognised against revenue. This is a departure from current treatment of recognising through expenses.
- Incremental costs of acquiring contracts with customers (e.g. commissions) will be capitalised and amortised over an appropriate period.
- Disclosure requirements will increase. Revenue items will be disaggregated, contract balances disclosed and contract performance obligations described via the notes to the financial statements.

While the timing of revenue recognition is similar to current standards, the Group will generally recognise a greater amount of contract costs within revenue as opposed to its current practice of recognising within expenses.

NZ IFRS 16 Leases

NZ IFRS 16 Leases supersedes NZ IAS 17 Leases and prescribes how Mercury will recognise, measure, present and disclose leases.

NZ IFRS 16 will bring most leases on-balance sheet with the aim of providing more transparency around the impact of leases on the Group. The standard provides a single lease accounting model, requiring the recognition of assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value.

The presentation of Mercury's financial statement will be significantly impacted by NZ IFRS 16. Operating leases with a term of greater than one year (as shown in note 18) will be recognised on the balance sheet as right-of-use assets and lease liabilities. An additional interest expense relating to the lease liability will be recognised over the lease term, and the right-of-use asset will be depreciated via the income statement.

At the date of adoption, the Group will have leases relating mainly to building accommodation, with terms of up to 13 years. The Group is also party to long term arrangements that NZ IFRS 16 deems to contain a lease. Such agreements include the long term rights to access natural resources for electricity generation.

Mercury intends to adopt NZ IFRS 16 for the year ended 30 June 2019 (early adoption), and the impact on the financial statements is expected to be material.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

NOTE 2. SEGMENT REPORTING

Identification of reportable segments

The operating segments are identified by management based on the nature of the products and services provided. Discrete financial information about each of these operating businesses is reported to the Chief Executive, being the chief operating decision-maker, on at least a monthly basis, who assesses the performance of the operating segments on a measure of EBITDAF. Segment EBITDAF represents profit earned by each segment exclusive of any allocation of central administration costs, share of earnings of associates, change in fair value of financial instruments, depreciation, amortisation, impairments, finance costs and tax expense. Operating segments are aggregated into reportable segments only if they share similar economic characteristics.

Types of products and services

Energy Markets

The energy markets segment encompasses activity associated with the electricity production, electricity trading, and sale of energy and related services and products to customers, and generation development activities.

Other Segments

Other operating segments that are not considered to be reporting segments are grouped together as "Other Segments". Activities include metering, sales of solar equipment, and international geothermal development and operations.

Unallocated

Represents corporate support services and related elimination adjustments.

Inter-segment

Transactions between segments are carried out on normal commercial terms and represent charges by Other Segments to Energy Markets.

Segment results

	Energy Markets \$M	Other Segments \$M	Unallocated \$M	Inter-segment \$M	Total \$M
June 2017					
Total segment revenue	1,571	52	1	(27)	1,597
Direct costs	(881)	(6)	-	27	(860)
Other operating expenses	(133)	(19)	(62)	-	(214)
Segment EBITDAF	557	27	(61)	-	523
June 2016					
Total segment revenue	1,541	51	2	(30)	1,564
Direct costs	(881)	(6)	-	30	(857)
Other operating expenses	(144)	(22)	(48)	-	(214)
Segment EBITDAF	516	23	(46)	-	493

During the reporting period, the group centralised a number of shared operating activities, resulting in a transfer of other operating expenses from Energy Markets and Other Segments to Unallocated. Other activities historically undertaken by Other Segments and recharged to Energy Markets are now conducted directly by Energy Markets. This is reflected by the movement in Inter-segment financials.

The Group has also adjusted historic other operating expenses of Other Segments to be reflected in direct costs.

NOTE 3. NON STATUTORY MEASURE – UNDERLYING EARNINGS

Underlying earnings is presented to enable stakeholders to make an assessment and comparison of earnings after removing one-off and/or infrequently occurring events (exceeding \$10 million of net profit before tax), impairments and any changes in the fair value of derivative financial instruments or any equity accounted share of changes in the fair value of derivative financial instruments.

	2017 \$M	2016 \$M
Profit for the year	184	160
Change in the fair value of financial instruments	(31)	(20)
Equity accounted share of the change in the fair value of financial instruments of associate entities	(4)	-
Income attributable to land and associated real property sold or held-for-sale	-	(13)
Impairments	18	19
Adjustments before tax expense	(17)	(14)
Tax expense	9	6
Adjustments after tax expense	(8)	(8)
Underlying earnings after tax	176	152

Tax has been applied on all taxable adjustments at 28%.

NOTE 4. OTHER INCOME STATEMENT DISCLOSURES

	2017 \$M	2016 \$M
Sales	1,552	1,511
Other revenue	45	53
Total revenue	1,597	1,564
Energy costs	(358)	(384)
Line charges	(440)	(419)
Other direct cost of sales, excluding third party metering	(32)	(25)
Direct costs of other revenue	(6)	(6)
Third party metering	(24)	(23)
Employee compensation and benefits	(83)	(83)
Maintenance expenses	(48)	(45)
Other expenses	(83)	(86)
Total expenses	(1,074)	(1,071)
Interest expense	(97)	(100)
Interest income	2	3
Net interest expense	(95)	(97)

Audit fees

Fees payable to EY for the audit and review of the financial statements were \$580,000 (2016: \$596,000). Non audit services in relation to NZ remuneration benchmarking services were \$26,000 (2016: \$11,000). EY (US) also provided US tax compliance services in the amount of \$198,000 (2016: \$305,000).

Impairments

Impairments of \$18 million for the year ended 30 June 2017 included additional charges from the Group's exit from its geothermal development interests in Chile. Having completed all site restoration works the Group sold all its in-country entities at the end of FY2017, recognising an additional \$10m impairment in relation to its final in-country obligations, including the release of the group's foreign exchange losses previously recorded in the foreign currency translation reserve.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

NOTE 5. SHARE CAPITAL AND DISTRIBUTION

The share capital of the Company is represented by 1,400,012,517 ordinary shares (2016: 1,400,012,517) issued and fully paid. The weighted average number of shares on issue during the year, on both a basic and diluted basis, was 1,376,302,303 (2016: 1,376,076,400). These shares do not have a par value, have equal voting rights and share equally in dividends and any surplus on winding up.

	2017 Number of shares (M)	2017 \$M	2016 Number of shares (M)	2016 \$M
Treasury shares				
Balance at the beginning of the year	24	52	24	52
Balance at the end of the year	24	51	24	52
Dividends declared and paid				
		Cents per share	2017 \$M	2016 \$M
Final dividend for 2015		8.40	–	116
Special dividend paid September 2015		2.50	–	34
Interim dividend for 2016		5.70	–	78
Final dividend for 2016		8.60	118	–
Special dividend paid September 2016		4.00	55	–
Interim dividend for 2017		5.80	80	–
			253	228

No imputation credits are available at 30 June 2017 (2016: \$2.1 million) as the imputation credit account has a deficit of \$24 million. The imputation credit account is required to have a surplus balance at 31 March each year.

NOTE 6. TAXATION

	2017 \$M	2016 \$M
Income Tax		
(i) Tax expense		
Profit before tax	258	218
Prima facie tax expense at 28% on the profit before tax	(72)	(61)
Increase/(decrease) in tax expense due to:		
• share of associates' and joint ventures' tax paid earnings	2	1
• capital gain	1	4
• non-deductible impairments	(4)	(5)
• other differences	(1)	1
• recognition of deferred tax on powerhouse assets	–	2
Tax expense attributable to profit from ordinary activities	(74)	(58)
Represented by:		
Current tax expense	(80)	(67)
Deferred tax recognised in the income statement	6	9

The tax expense charged to the income statement includes both the current year's provision and the income tax effect of:

- taxable temporary differences, except those arising from initial recognition of goodwill; and
- deductible temporary differences to the extent that it is probable that they will be utilised.

Deferred Tax

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax and accounting bases of the Group's assets and liabilities. A deferred tax asset is only recognised to the extent that there will be future taxable profit to utilise the temporary difference.

Property, plant and equipment is held on capital account for income tax purposes. Where assets are revalued, with no similar adjustment to the tax base, a taxable temporary difference is created that is recognised in deferred tax. The deferred tax liability on these revaluations is unlikely to crystallise in the foreseeable future under existing income tax legislation.

	Assets 2017 \$M	Assets 2016 \$M	Liabilities 2017 \$M	Liabilities 2016 \$M	Net 2017 \$M	Net 2016 \$M
(i) Recognised deferred tax assets and liabilities						
Property, plant and equipment	–	–	(1,156)	(1,158)	(1,156)	(1,158)
Financial instruments	29	51	–	–	29	51
Employee benefits and provisions	2	2	–	–	2	2
Other	14	12	–	–	14	12
	45	65	(1,156)	(1,158)	(1,111)	(1,093)

	Property, plant and equipment \$M	Financial instruments \$M	Employee entitlements \$M	Other \$M	Total \$M
(ii) Movement in deferred tax					
Balance as at 1 July 2015	(1,136)	42	2	–	(1,092)
Charged/(credited) to the income statement	13	(5)	–	1	9
Charged/(credited) to other comprehensive income	(38)	16	–	8	(14)
Other movements	3	(2)	–	3	4
Balance as at 30 June 2016	(1,158)	51	2	12	(1,093)
Balance as at 1 July 2016	(1,158)	51	2	12	(1,093)
Charged/(credited) to the income statement	17	(10)	–	(1)	6
Charged/(credited) to other comprehensive income	(15)	(11)	–	–	(26)
Other movements	–	(1)	–	3	2
Balance as at 30 June 2017	(1,156)	29	2	14	(1,111)

Tax deductions for building depreciation were disallowed by the Inland Revenue from 1 July 2011. Since then, the Group has maintained the view that both hydro-electric and geothermal powerhouse assets are plant and not buildings and therefore should not be captured by this change. Inland Revenue has accepted the Group's view in respect of hydro-electric powerhouse assets, but not in respect of geothermal powerhouse assets.

During the year, the Group filed proceedings with the High Court to challenge the Inland Revenue's position in relation to geothermal powerhouse assets. In the event the Group is unsuccessful, this could result in an additional deferred tax liability (and tax expense) of up to \$6 million at that time.

NOTE 7. INVENTORIES

Cost is determined on a weighted average basis and includes expenditure incurred in acquiring inventories and bringing them to their final condition and location. Consumable stores of \$28 million (2016: \$31 million) are held to service and repair operating plant. Meter stock of \$11 million (2016: \$14 million) is held in inventory until it is deployed into the field at which time it is transferred into property, plant and equipment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

NOTE 8. PROPERTY, PLANT AND EQUIPMENT

	Generation assets at fair value \$M	Meters at cost \$M	Other assets at cost \$M	Capital work in progress at cost \$M	Total \$M
Year ended 30 June 2016					
Opening net book value	5,244	65	53	54	5,416
Additions, including transfers from capital work in progress	30	7	21	13	71
Disposals	-	-	-	(1)	(1)
Transfer from held-for-sale	3	-	-	-	3
Net revaluation movement	137	-	-	-	137
Impairments	(1)	-	(18)	-	(19)
Depreciation charge for the year	(144)	(12)	(11)	-	(167)
Closing net book value	5,269	60	45	66	5,440
Balance at 30 June 2016					
Cost or valuation	5,269	167	132	66	5,634
Accumulated depreciation	-	(107)	(87)	-	(194)
Net book value	5,269	60	45	66	5,440
Year ended 30 June 2017					
Opening net book value	5,269	60	45	66	5,440
Additions, including transfers from capital work in progress	78	5	4	23	110
Net revaluation movement	52	-	-	-	52
Impairments	(4)	-	-	-	(4)
Depreciation charge for the year	(154)	(12)	(10)	-	(176)
Closing net book value	5,241	53	39	89	5,422
Balance at 30 June 2017					
Cost or valuation	5,241	172	131	89	5,633
Accumulated depreciation	-	(119)	(92)	-	(211)
Net book value	5,241	53	39	89	5,422

Assets carrying values

The cost of property, plant and equipment purchased comprises the consideration given to acquire the assets plus other directly attributable costs incurred in bringing the assets to the location and condition necessary for their intended use.

The cost of property, plant and equipment constructed by the Group, including capital work in progress, includes the cost of all materials used in construction, associated direct labour and an appropriate proportion of variable and fixed overheads. Financing costs attributable to a project are capitalised at the Group's specific project finance interest rate, where these meet certain time and monetary materiality limits. Costs of testing whether the assets are functioning properly, after deducting the net proceeds from power generation, are also capitalised. Costs cease to be capitalised as soon as an asset is ready for productive use.

Costs incurred in obtaining resource consents are capitalised and recognised as a non-current asset where it is probable they will give rise to future economic benefits. These costs are depreciated over the life of the consent on a straight-line basis.

Generation plant and equipment is measured at fair value less accumulated depreciation. Any surplus on revaluation of an individual item of property, plant and equipment is transferred directly to the asset revaluation reserve unless it offsets a previous decrease in value recognised in the income statement, in which case it is recognised in the income statement. A deficit on revaluation of an individual item of property, plant and equipment is recognised in the income statement in the period it arises where it exceeds any surplus previously transferred to the asset revaluation reserve. Any accumulated depreciation at the date of the revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Additions to property, plant and equipment stated at valuation subsequent to the most recent valuation are recorded at cost. All other items of property, plant and equipment are recorded at cost less depreciation and impairments.

Assets carried at fair value

All generation assets shown at valuation (except Resource Management Act consents) were revalued using a net present value methodology by PricewaterhouseCoopers, an independent valuer, as at 30 June 2017. This resulted in an increase to the carrying value of the Group's geothermal generation assets of \$52 million in the current year. This is in addition to the \$139 million revaluation increase recognised across the Group's hydro and geothermal generation assets in 2016. As a consequence of the revaluation, accumulated depreciation on these geothermal assets has been reset to nil.

The key assumptions that are used in the valuation include the forecast of the future wholesale electricity price path, volumes, projected operational and capital expenditure, capacity and life assumptions and discount rate. In all cases there is an element of judgement required as they make use of unobservable inputs including wholesale electricity prices of between \$70/MWh and \$104/MWh (2016: \$66/MWh and \$102/MWh), average operational expenditure of \$158 million p.a. (2016: \$149 million p.a.), net average production volumes of 6,567/GWh p.a. (2016: 6,560/GWh p.a.) and a post-tax discount rate of between 7.5% and 7.9% (2016: 7.4% and 7.9%). The valuation also assumed the on-going operation of New Zealand Aluminium Smelters Limited at Tiwai Point and that the current regulatory environment (including the cost of fuel) is maintained. The discounted cash flow valuation approach assumes 100% control and consequently a control premium should be applied if using an equity valuation technique to derive comparative asset values.

The following table outlines the valuation impact of changes to assumptions, keeping all other valuation inputs constant, that the valuation is most sensitive to.

	Sensitivity	Valuation impact	
		2017 \$M	2016 \$M
Future wholesale electricity price path	+/- 10%	\$781 / (\$790)	\$786 / (\$790)
Discount rate	+/- 0.5%	(\$502) / \$599	(\$521) / \$624
Operational expenditure	+/- 10%	(\$231) / \$231	(\$237) / \$238

The carrying amount of revalued generation assets, had they been recognised at cost, would have been \$1,978 million (2016: \$1,974 million).

Depreciation

Depreciation is provided on a straight-line basis on all property, plant and equipment other than freehold land, capital work in progress and exploration and evaluation assets, so as to write down the assets to their estimated residual value over their expected useful lives.

The annual depreciation rates are as follows:

	2017	2016
Office fixture and fittings, including fitout	2-50%	2-50%
Generation assets:		
• Hydro and thermal generation	1-33%	1-33%
• Other generation	2-33%	2-33%
Meters	3-33%	3-33%
Computer hardware and tangible software	5-50%	5-50%
Other plant and equipment	2-50%	2-50%
Vehicles	5-33%	5-33%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

NOTE 9. INTANGIBLE ASSETS

	Intangible software \$M	Rights \$M	Emissions units \$M	Total \$M
Year ended 30 June 2016				
Opening net book value	25	23	22	70
Additions	5	1	6	12
Amortisation for the year	(13)	(1)	-	(14)
Closing net book amount	17	23	28	68
Balance at 30 June 2016				
Cost	128	34	28	190
Accumulated amortisation	(111)	(11)	-	(122)
Net book value	17	23	28	68
Year ended 30 June 2017				
Opening net book value	17	23	28	68
Additions	12	1	7	20
Disposals	-	-	(21)	(21)
Impaired assets	-	(1)	-	(1)
Amortisation for the year	(12)	(1)	-	(13)
Closing net book amount	17	22	14	53
Balance at 30 June 2017				
Cost	140	34	14	188
Accumulated amortisation	(123)	(12)	-	(135)
Net book value	17	22	14	53

Software

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use. These costs are amortised over their remaining estimated useful lives of between 2 to 15 years (2016: between 2 to 15 years). As these assets are deemed to have a finite life, impairment testing will only be performed when there is an indication that the intangible asset may be impaired.

Rights

Rights, of which land access rights are the most significant, acquired to further the Group's generation development programme are stated at cost less accumulated amortisation and any accumulated impairment losses. Rights, which have a finite life, are amortised over the life of the rights, which range from 3 to 25 years (2016: 3 to 25 years). Testing for impairment will only arise when there is an indication that the asset may be impaired.

Emissions units and emissions obligations

Emissions units that have been allocated by the Government under the Projects to Reduce Emissions scheme are recorded at nominal value (nil value). Purchased emissions units are recorded at cost (purchase price). Emissions units, whether allocated or purchased, are recorded as intangible assets. Emissions units are not revalued subsequent to initial recognition.

Emissions units that are surrendered to creditors in compensation for their emissions obligations are recognised as an expense in the income statement and a reduction to intangible assets in the balance sheet, based on the weighted average cost of the units surrendered.

Emissions obligations are recognised as a current liability as the obligation is incurred. Up to the level of units held, the liability is recorded at the carrying value of those units intended to settle the liability. Forward contracts for the purchase of emissions units are recognised when the contracts are settled.

During the period the Group sold down 1.4 million carbon emission units, recognising a gain on disposal of \$5 million and cash proceeds of \$26 million, reflected through cash flows from investing activities. The sale reflected the Group's substantially-reduced carbon emission obligations following the retirement of the Southdown station.

NOTE 10. INVESTMENT AND ADVANCES TO ASSOCIATES AND JOINT ARRANGEMENTS (JOINT VENTURES AND JOINT OPERATIONS)

The Group financial statements include the following:

Name of entity	Principal activity	Type	Interest held		Country
			2017	2016	
TPC Holdings Limited	Investment holding	Associate	25.00%	25.00%	New Zealand
Rotokawa	Steamfield operation	Joint operation	64.80%	64.80%	New Zealand
Nga Awa Purua	Electricity generation	Joint operation	65.00%	65.00%	New Zealand
Energy Source LLC	Investment holding	Joint venture	20.86%	20.86%	United States
Hudson Ranch I Holdings LLC	Electricity generation	Joint venture	75.00%	75.00%	United States

	Associates		Joint ventures	
	2017 \$M	2016 \$M	2017 \$M	2016 \$M
Balance at the beginning of the year	77	73	15	15
Share of earnings	6	3	-	-
Share of movement in other comprehensive income	(2)	6	(12)	-
Distributions received during the year	(5)	(5)	(2)	-
Impaired advance to joint venture	-	-	(1)	-
Balance at the end of the year	76	77	-	15

At the end of the year the Group had an outstanding advance to its Rotokawa joint venture partner in the amount of \$8 million (2016: \$10 million). For terms and conditions of this related party receivable refer to note 17.

Due to the nature of the contractual arrangements that surround the joint venture entities, which allows for a reduction in the Group's economic interest once prescribed preferred returns have been achieved, the share of movements in earnings and reserves has been calculated based on the Hypothetical Liquidation at Book Value method. This method more closely aligns the recognition of earnings through time with the expected contractually agreed economic outcomes compared to the recognition of earnings based on a strict percentage of ownership.

In compliance with the equity method under NZ IAS 28 – Investments in Associates and Joint Ventures, the Group has yet to recognise its share of losses relating to Energy Source LLC amounting to US\$3 million (2016: US\$3 million).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

NOTE 11. RECEIVABLES, PAYABLES AND ACCRUALS

Receivables	2017 \$M	2016 \$M
Trade receivables and accruals	233	190
Allowance for impairment loss	(2)	(2)
Net trade receivables and accruals	231	188
Prepayments	9	10
	240	198

Revenue accruals for unread gas and electricity meters at balance date involves an estimate of consumption for each unread meter, based on the customer's past consumption history.

Trade receivables are non-interest bearing and are generally on 30 day terms. For terms and conditions of related party receivables refer to note 17.

The Group recognises an allowance for impairment loss when there is objective evidence that the Group will not be able to collect amounts due according to the original terms of the receivable. An allowance charge of \$3 million (2016: \$5 million) was recognised during the year. Receivables of \$3 million (2016: \$5 million) which were deemed uncollectable were written off.

Receivables past due but not considered impaired:	2017 \$M	2016 \$M
Less than one month past due	7	5
Greater than one month past due	2	2
	9	7

Payables and accruals	2017 \$M	2016 \$M
Trade payables and accruals	194	149
Employee entitlements	7	6
Sundry creditors	5	3
	206	158

Trade payables are non-interest bearing and are normally settled on 30 to 60 day terms.

NOTE 12. PROVISIONS

	2017 \$M	2016 \$M
Balance at the beginning of the year	54	14
Provisions made during the year	1	54
Provisions used during the year	(4)	(19)
Discounting movement	3	2
Provisions transferred from held-for-sale liabilities	-	3
Balance at the end of the year	54	54
Current	1	3
Non-current	53	51
	54	54

Provisions have been recognised for the abandonment and subsequent restoration of areas from which geothermal resources have been utilised. The provision is calculated based on the present value of Management's best estimate of the expenditure required, and the likely timing of settlement. Changes in these estimates made during the year are reported as an increase in provisions and a reduction in revaluation reserves. The increase in provision resulting from the passage of time (the discount effect) is recognised as an interest expense.

NOTE 13. BORROWINGS

	Borrowing currency denomination	Maturity	Coupon	2017 \$M	2016 \$M
Commercial paper programme	NZD	< 3 months	Floating	75	-
Wholesale bonds	NZD	Oct-2016	7.55%	-	71
Wholesale bonds	NZD	Oct-2016	Floating	-	51
Wholesale bonds	NZD	Mar-2019	5.03%	76	76
Wholesale bonds	NZD	Feb-2020	8.21%	31	31
USPP – US\$125m	USD	Dec-2020	4.25%	164	164
Wholesale / credit wrapper	NZD	Sep-2021	Floating	301	301
USPP – US\$30m	USD	Dec-2022	4.35%	39	39
Wholesale bonds	NZD	Mar-2023	5.79%	25	25
USPP – US\$45m	USD	Dec-2025	4.60%	58	58
Capital bonds	NZD	Jul-2044	6.90%	305	305
Deferred financing costs				(6)	(7)
Fair value adjustments				39	63
Carrying value of loans				1,107	1,177
Current				83	130
Non-current				1,024	1,047
				1,107	1,177

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

NOTE 13. BORROWINGS (CONTINUED)

The Group has entered into a Master Trust Deed and Supplementary Trust Deeds for all its NZD denominated Senior Fixed and Floating Rate Bonds with the New Zealand Guardian Trust Group Limited, acting as trustee for the holders. The Group has agreed, subject to certain exceptions, not to create or permit to exist a security interest over or affecting its assets to secure indebtedness, and to maintain certain financial covenants. There has been no breach of the terms of these deeds.

The Group has entered into a negative pledge deed in favour of its bank financiers in which the Group has agreed, subject to certain exceptions, not to create or permit to exist a security interest over or affecting its assets to secure its indebtedness, and to maintain certain financial ratios in relation to the Group. These undertakings and covenants also apply to the US Private Placement terms and conditions. There has been no breach of the terms of this deed or the terms and conditions of the US Private Placement.

The Group has \$350 million of committed and unsecured bank loan facilities, of which \$200 million expires in August 2018, \$50 million expires in September 2019 and a rolling bank loan of \$100 million currently expiring in December 2018.

The Group has a \$200 million Commercial Paper programme which is fully backed by committed and undrawn bank facilities. Notes issued under the programme are short-term money market instruments, unsecured and unsubordinated and targeted at professional investors. The programme is rated A2 by Standard & Poor's.

NOTE 14. FINANCIAL RISK MANAGEMENT

The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to proactively manage these risks with the aim of protecting shareholder wealth. Exposure to price, credit, foreign exchange, liquidity and interest rate risks arise in the normal course of the Group's business. The Group's principal financial instruments comprise cash and cash equivalents, trade receivables and accruals (not prepayments), advances, payables and accruals, borrowings and derivative financial instruments.

(A) MARKET RISK

Price risk – energy contracts

The Group enters into energy contracts that establish a fixed price at which future specified quantities of electricity are purchased and sold. The energy contracts are periodically settled with any difference between the contract price and the spot market price settled between the parties. At balance date, the principal value of energy contracts, including both buy and sell contracts, with remaining terms of up to 14 years (2016: 15 years), were \$1,674 million (2016: \$1,975 million).

Foreign exchange risk

The Group is exposed to foreign exchange risk as a result of transactions denominated in a currency other than the Group's functional currency. The currencies giving rise to this risk are primarily US Dollar, Japanese Yen and Euro.

Foreign exchange risk arises from future commercial transactions (including the purchase of capital equipment and maintenance services), recognised assets and liabilities (including borrowings) and net investments in foreign operations. It is the Group's policy to enter into forward exchange contracts to hedge its committed expenditure programme. At balance date the principal or contract amounts of foreign currency forward exchange contracts were \$42 million (2016: \$53 million).

Interest rate risk

The Group has exposure to interest rate risk to the extent that it borrows for fixed terms at floating interest rates. The Group manages its cost of borrowing by limiting the ratio of fixed to floating rate cover held. The Group uses interest rate swaps and interest rate options to manage this exposure. At balance date, the contract principal amount of interest rate swaps outstanding (including forward starts) was \$2,976 million (2016: \$3,051 million).

Sensitivity analysis

The following summarises the potential impact of increases or decreases in the relevant market risk exposures of the Group on post tax profit and on other components of equity. The analysis does not take into account dynamic market response over time, which could be material.

Price risk

Sensitivity analysis is based on an assessment of the reasonably possible movements in forward price.

	Impact on post tax profit		Impact on equity	
	2017 \$M	2016 \$M	2017 \$M	2016 \$M
Group				
Electricity forward price increased by 10%	(6)	(4)	(34)	(36)
Electricity forward price decreased by 10%	6	4	33	36

Foreign exchange risk

Sensitivity analysis is based on the impact of the New Zealand Dollar weakening or strengthening against the most significant currencies for which the Group has foreign exchange exposure, allowing for reasonably possible movements in foreign exchange rates over a one year period based on the average actual movements experienced over the prior 10 years.

	Impact on post tax profit		Impact on equity	
	2017 \$M	2016 \$M	2017 \$M	2016 \$M
New Zealand Dollar – United States Dollar				
Currency strengthens by 10%	–	–	–	(1)
Currency weakens by 10%	–	–	–	1
New Zealand Dollar – Euro				
Currency strengthens by 10%	–	–	(2)	(2)
Currency weakens by 10%	–	–	2	3

Interest rate risk

Sensitivity analysis is based on an assessment of the reasonably possible movement in the 10 year swap rate over a one year period based on actual movements over the last 10 years. The movement in post tax profits are due to higher/lower interest costs from variable rate debt and cash balances combined with the result of fair value changes in interest rate swaps and options that are valid economic hedges but which do not qualify for hedge accounting under NZ IAS 39. The movements in other components of equity result from fair value changes in interest rate swaps and options that have qualified for hedge accounting.

	Impact on post tax profit		Impact on equity	
	2017 \$M	2016 \$M	2017 \$M	2016 \$M
Interest rates higher by 100 bps	(2)	2	19	19
Interest rates lower by 100 bps	2	(2)	(20)	(21)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

NOTE 14. FINANCIAL RISK MANAGEMENT (CONTINUED)

(B) CREDIT RISK

The Group manages its exposure to credit risk under policies approved by the Board of Directors. The Group performs credit assessments on all electricity customers and normally requires a bond from commercial customers who have yet to establish a suitable credit history. Customer bonds are held in a separate bank account.

It is the Group's policy to only enter into derivative transactions with banks that it has signed an ISDA master agreement with, and which have a minimum long-term Standard & Poor's (or Moody's equivalent) credit rating of A- or higher.

With respect to energy contracts, the Group has potential credit risk exposure to the counterparty dependent on the current market price relative to contracted price until maturity.

In the event of a failure by a retailer to settle its obligations to the Energy Clearing House, following the exhaustion of its prudential security, a proportionate share of the shortfall will be assumed by all generator class market participants. The Group consequently will be impacted in the event that this occurs.

The carrying amounts of financial assets recognised in the balance sheet best represent the Group's maximum exposure to credit risk at the reporting date without taking account of any collateral held by way of customer bonds.

(C) LIQUIDITY RISK

The Group manages its exposure to liquidity risk under policies approved by the Board of Directors. Policies require that prescribed headroom is available in undrawn and committed facilities to cover unanticipated needs and that a limited amount of facilities mature over the immediate 12 month forward-looking period. The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of various funding sources.

Non-derivative financial liabilities

The following liquidity risk disclosures reflect all contractually fixed payoffs, repayments and interest from recognised non-derivative financial liabilities. The timing of cash flows for non-derivative financial liabilities is based on the contractual terms of the underlying contract. It should be noted that the amounts presented are contractual undiscounted cash flows, consequently the totals will not reconcile with the amounts recognised in the balance sheet.

While the tables below give the impression of a liquidity shortfall, the analysis does not take into account expected future operating cash flows or committed and undrawn debt facilities that will provide additional liquidity support.

	Less than 6 months \$M	6 to 12 months \$M	1 to 5 years \$M	Later than 5 years \$M	Total \$M
June 2017					
Liquid financial assets					
Cash and cash equivalents	30	-	-	-	30
Receivables	240	-	-	-	240
	270	-	-	-	270
Financial liabilities					
Payables and accruals	(202)	-	(4)	-	(206)
Loans	(99)	(24)	(976)	(134)	(1,233)
	(301)	(24)	(980)	(134)	(1,439)
Net inflow/(outflow)	(31)	(24)	(980)	(134)	(1,169)

	Less than 6 months \$M	6 to 12 months \$M	1 to 5 years \$M	Later than 5 years \$M	Total \$M
June 2016					
Liquid financial assets					
Cash and cash equivalents	46	–	–	–	46
Receivables	198	–	–	–	198
	244	–	–	–	244
Financial liabilities					
Payables and accruals	(156)	–	(2)	–	(158)
Loans	(148)	(24)	(710)	(442)	(1,324)
	(304)	(24)	(712)	(442)	(1,482)
Net inflow/(outflow)	(60)	(24)	(712)	(442)	(1,238)

Derivative financial liabilities

The table below details the liquidity risk arising from derivative liabilities held by the Group at balance date. Net settled derivatives include interest rate derivatives and electricity price derivatives. Gross settled derivatives relate to foreign exchange derivatives that are used to hedge future purchase commitments. Foreign exchange derivatives may be rolled on an instalment basis until the underlying transaction occurs. While the maturity of these derivatives are short-term the underlying expenditure is forecast to occur over different time periods. The table also summarises the payments that are expected to be made in relation to derivative liabilities. The Group also expects to receive funds relating to derivative asset settlements. The expectation of cash receipts in relation to derivative assets should also be considered when assessing the ability of the Group to meet its obligations.

	Less than 6 months \$M	6 to 12 months \$M	1 to 5 years \$M	Later than 5 years \$M	Total \$M
June 2017					
Derivative liabilities – net settled	(54)	(31)	(62)	(25)	(172)
Derivative liabilities – gross settled					
Inflows	41	–	–	–	41
Outflows	(42)	–	–	–	(42)
Net maturity	(55)	(31)	(62)	(25)	(173)

	Less than 6 months \$M	6 to 12 months \$M	1 to 5 years \$M	Later than 5 years \$M	Total \$M
June 2016					
Derivative liabilities – net settled	(37)	(29)	(130)	(127)	(323)
Derivative liabilities – gross settled					
Inflows	49	–	–	–	49
Outflows	(53)	–	–	–	(53)
Net maturity	(41)	(29)	(130)	(127)	(327)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

NOTE 14. FINANCIAL RISK MANAGEMENT (CONTINUED)

(D) FAIR VALUE ESTIMATION

Fair values

The carrying amount of financial assets and liabilities recorded in the financial statements approximates their fair values except for: (i) the Fixed Rate Bonds, the Floating Rate Bonds and the US Private Placement, the fair values for which have been calculated at \$140 million (2016: \$216 million), \$287 million (2016: \$339 million) and \$289 million (2016: \$306 million) respectively; and (ii) the Capital Bonds, the fair value for which has been calculated at \$317 million (2016: \$321 million). Fair values are based on quoted market prices and inputs for each bond issue.

Valuation techniques

The Group uses various methods in estimating the fair value of a financial instrument. The methods comprise:

- Level 1 – the fair value is calculated using quoted prices in active markets;
- Level 2 – the fair value is estimated using inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices); and
- Level 3 – the fair value is estimated using inputs that are not based on observable market data.

As at 30 June 2017 all of the Group's financial instruments carried at fair value were categorised as level 2, except for electricity price derivatives. Electricity price derivative assets of \$8 million were categorised as level 1 (2016: \$8 million) and \$63 million were categorised as level 3 (2016: \$77 million). Electricity price derivative liabilities of \$6 million were categorised as level 1 (2016: \$2 million) and \$55 million were categorised as level 3 (2016: \$89 million).

Financial instruments that are measured using a valuation technique with only observable market inputs, or unobservable inputs that are not significant to the overall valuation, include interest rate derivatives and foreign exchange derivatives not traded on a recognised exchange.

Financial instruments that use a valuation technique which includes non-market observable data include non-exchange traded electricity contracts which are valued using a discounted cash flow methodology using a combination of ASX market prices for the first three years, combined with Management's internal view of forward prices for the remainder of the contract's term. Management's internal view of forward prices incorporates a minimum price of \$70/MWh and a maximum price of \$104/MWh (2016: minimum price of \$66/MWh and a maximum price of \$102/MWh) over the period in question (in real terms) and is determined by a demand supply based fundamental model which takes account of current hydrological conditions, future inflows, an assessment of thermal fuel costs, anticipated demand and supply conditions and future committed generation capacity.

Where the fair value of a derivative is calculated as the present value of the estimated future cash flows of the instrument there are two key inputs being used: the forward price curve and the discount rate. Where the derivative is an option, then the volatility of the forward price is another key input. The selection of inputs requires significant judgement, and therefore there is a range of reasonably possible assumptions in respect of these inputs that could be used in estimating the fair values of these derivatives. Maximum use is made of observable market data when selecting inputs and developing assumptions for the valuation technique.

Level 3 sensitivity analysis

The following summarises the potential impact of increases or decreases in price risk exposures of the Group on post tax profit. Sensitivity analysis is based on an assessment of the reasonably possible movements in forward price.

	Impact on post tax profit	
	2017 \$M	2016 \$M
Group		
Electricity forward price increased by 10%	1	(2)
Electricity forward price decreased by 10%	(1)	2

	2017 \$M	2016 \$M
Reconciliation of level 3 fair value movements		
Opening balance	(12)	–
New contracts	–	2
Matured contracts	(1)	(1)
Gains and losses		
Through the income statement	(4)	(3)
Through other comprehensive income	24	(10)
Closing balance	7	(12)

Level 3 fair value movements recognised within the income statement of the Group are recognised within 'change in the fair value of financial instruments'.

Deferred 'inception' gains/(losses)

There is a presumption that when derivative contracts are entered into on an arm's length basis, fair value at inception would be zero. The contract price of non exchange traded electricity derivative contracts are agreed on a bilateral basis, the pricing for which may differ from the prevailing derived market price curve for a variety of reasons. In these circumstances an inception adjustment is made to bring the initial fair value of the contract to zero at inception. This inception adjustment is amortised over the life of the contract by adjusting the future price path used to determine the fair value of the derivatives by a constant amount to return the initial fair value to zero.

The table below details the movements in inception value gains/(losses) included in the fair value of derivative financial assets and liabilities as at 30 June.

	2017 \$M	2016 \$M
Electricity price derivatives		
Opening deferred inception gains	(14)	15
Deferred inception gains on new hedges	3	(21)
Deferred inception (losses)/gains realised during the year	(5)	(8)
Closing inception gains	(16)	(14)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

NOTE 14. FINANCIAL RISK MANAGEMENT (CONTINUED)

(E) CAPITAL RISK MANAGEMENT

Management seeks to maintain a sustainable financial structure for the Group having regard to the risks from predicted short and medium-term economic, market and hydrological conditions along with estimated financial performance. Capital is managed to provide sufficient funds to undertake required asset reinvestment as well as to finance new generation development projects and other growth opportunities to increase shareholder value at a rate similar to comparable private sector companies.

In order to maintain or adjust the capital structure, changes may be made to the amount paid as dividends to shareholders, capital may be returned or injected or assets sold to reduce borrowings.

Consistent with other companies in the industry, the Group monitors capital on the basis of its gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (both current and non-current) less cash and cash equivalents. Total capital is calculated as shareholders' equity plus net debt. The gearing ratio is calculated below:

	2017 \$M	2016 \$M
Borrowings at carrying value	1,107	1,177
Fair value adjustments US Private Placement	(39)	(63)
Less cash and cash equivalents	(30)	(46)
Net debt	1,038	1,068
Total equity	3,308	3,315
Total capital	4,346	4,383
Gearing ratio	23.9%	24.4%

Under the negative pledge deed in favour of its bank financiers the Group must, in addition to not exceeding its maximum gearing ratio, exceed minimum interest cover ratios and a minimum shareholder equity threshold.

The Group seeks to maintain a debt to EBITDAF ratio of less than 3.0 times to maintain credit metrics sufficient to support its credit rating on an on-going basis. For the purpose of calculating this ratio and consistent with the rating agency treatment, the calculation of debt is deemed to be all senior debt and 50% of subordinated debt. For the year ended 30 June 2017, the Group had a debt to EBITDAF ratio of 1.8 times (2016: 2.0 times).

NOTE 15. DERIVATIVE FINANCIAL INSTRUMENTS

The fair values of derivative financial instruments together with the designation of their hedging relationship are summarised below, based on maturity date:

	2017 \$M	2016 \$M
CURRENT ASSETS		
Interest rate derivative	8	9
Electricity price derivative	10	12
	18	21
CURRENT LIABILITIES		
Interest rate derivative	29	9
Electricity price derivative	18	8
Foreign exchange derivative	1	4
Cross currency interest rate derivative	1	-
	49	21
NON-CURRENT ASSETS		
Interest rate derivative	27	43
Electricity price derivative	61	74
Cross currency interest rate derivative	23	45
	111	162
NON-CURRENT LIABILITIES		
Interest rate derivative	90	179
Cross currency interest rate derivative – margin	5	5
Electricity price derivative	44	83
	139	267

The majority of interest rate derivatives, short-term low value foreign exchange derivatives, and short-term low value exchange traded energy contracts, while economic hedges, are not designated as hedges under NZ IAS 39 but are treated as at fair value through profit and loss. All other interest rate derivatives (predominantly forward starting derivatives), foreign exchange and electricity prices derivatives (except those described below) are designated as cash flow hedges under NZ IAS 39.

Cross currency interest rate swaps, which are used to manage the combined interest and foreign currency risk on borrowings issued in foreign currency, have been split into two components for the purpose of hedge designation. The hedge of the benchmark interest rate is designated as a fair value hedge and the hedge of the issuance margin is designated as a cash flow hedge.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

NOTE 15. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

Electricity contracts not designated as hedges for accounting purposes

The Group has an electricity hedge contract with the Tuaropaki Power Company. The contract settles against a moving hedge index rather than wholesale electricity prices.

Basis swaps: The Group has entered into a number of contracts to hedge wholesale electricity price risk between North and South Island generically called basis swaps. The most significant is a contract with Meridian Energy which has a remaining life of 8 years.

The Group has entered into a contract-for-difference with Meridian Energy that is contingent on the continued operation of New Zealand Aluminium Smelters Limited at Tiwai Point. The contract matures in 2030.

The changes in fair values of derivative financial instruments recognised in the income statement and other comprehensive income are summarised below:

	Income statement		Other comprehensive income	
	2017 \$M	2016 \$M	2017 \$M	2016 \$M
Cross currency interest rate derivatives	(23)	–	–	–
Borrowings – fair value change	24	–	–	–
	1	–	–	–
Interest rate derivatives	38	24	13	(39)
Cross currency interest rate derivatives – margin	–	–	1	(1)
Electricity price derivatives	(9)	(4)	23	(10)
Foreign exchange rate derivatives	–	–	(1)	(4)
Ineffectiveness of cash flow hedges recognised in the income statement	1	–	–	–
Total change in fair value of financial instruments	31	20	36	(54)

	2017 \$M	2016 \$M
Movement in cash flow hedge reserve		
Opening balance	(76)	(37)
The effective portion of cash flow hedges recognised in the reserve	36	(54)
Amortisation of fair values ¹	(1)	(1)
The amount transferred to balance sheet	1	1
Equity accounted share of associates' movement in other comprehensive income	(2)	(1)
Tax effect of movements	(11)	16
Closing balance	(53)	(76)

¹ Amounts reclassified to the income statement recognised in amortisation

NOTE 16. RECONCILIATION OF PROFIT FOR THE YEAR TO NET CASH FLOWS FROM OPERATING ACTIVITIES

	2017 \$M	2016 \$M
Profit for the year	184	160
Items classified as investing or financing activities		
• Net interest accrual	1	-
Adjustments for:		
Depreciation and amortisation	189	182
Net loss on sale of property, plant and equipment	2	2
Net gain on disposal of emission units	(5)	-
Change in the fair value of financial instruments	(31)	(20)
Impaired assets	18	19
Income attributable to land and associated real property held-for-sale	-	(13)
Movement in effect of discounting on long-term provisions	2	2
Share of earnings of associate and joint venture companies	(6)	(3)
Other non-cash items	(1)	1
Net cash provided by operating activities before change in assets and liabilities	353	330
Change in assets and liabilities during the year:		
• Increase in trade receivables and prepayments	(42)	(9)
• Decrease/(increase) in consumable inventories	3	(9)
• Increase/(decrease) in trade payables and accruals	40	(3)
• Increase/(decrease) in provision for tax	26	(18)
• Decrease in deferred tax	(8)	(11)
Net cash inflow from operating activities	372	280

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

NOTE 17. RELATED PARTY TRANSACTIONS

Majority shareholder

The majority shareholder of Mercury NZ Limited is the Government. All transactions with the Government and other entities wholly or partly owned by the Government are on normal commercial terms. Transactions cover a variety of services including trading energy, postal, travel and tax.

Transactions with related parties

Mercury NZ Limited has investments in subsidiaries, associates and joint arrangements, all of which are considered related parties.

As these are consolidated financial statements, transactions between related parties within the Group have been eliminated. Consequently, only those transactions between entities which have some owners external to the Group have been reported below:

	Transaction value	
	2017 \$M	2016 \$M
Associates		
Management fees and service agreements received	12	12
Energy contract settlements (paid) received	(1)	2
Joint operations		
Management fees and service agreements received	15	17
Energy contract settlements paid	(9)	(7)
Interest income	1	1
Payments for inventory	(1)	-

Energy contracts, management and other services are made on normal commercial terms.

An advance to TPC Holdings Limited of \$4 million (2016: \$4 million) is interest free and repayable on demand subject to certain conditions being met.

The long-term advance to our Rotokawa Joint Venture partner carries a floating interest rate. Repayments under the advance are linked to the level of receipts under the geothermal energy supply agreement. There is no fixed repayment date, the agreement will terminate on full payment of the outstanding balance.

The advance to Energy Source LLC of \$1 million (2016: \$1 million) has been fully impaired as at 30 June 2017.

No other related party debts have been written off, forgiven, or any impairment charge booked.

	Transaction value	
	2017 \$000	2016 \$000
Key management personnel compensation (paid and payable) comprised:		
Directors' fees	885	871
Benefits for the Chief Executive and Senior Management:		
Salary and other short-term benefits	6,175	5,302
Termination benefits	-	259
Share-based payments	430	324
	7,490	6,756

Other transactions with key management personnel

Key management personnel are those people with responsibility and authority for planning, directing and controlling the activities of the entity. Key management personnel for the Group are considered to be the Directors and Senior Management.

Directors and employees of the Group deal with Mercury NZ Limited as electricity consumers on normal terms and conditions, with staff discounts for employees, within the ordinary course of trading activities. A number of key management personnel also provide directorship services to other third party entities. A number of these entities transacted with the Group, in all circumstances on normal commercial terms during the reporting period.

A number of key management personnel provide directorship services to direct subsidiaries and other third party entities as part of their employment without receiving any additional remuneration. Again, a number of these entities transacted with the Group, in all circumstances on normal commercial terms in the reporting period.

The Group purchases directors and officers insurance for the benefit of key management personnel in relation to the services they provide to the Group.

NOTE 18. COMMITMENTS AND CONTINGENCIES

Commitments	Capital		Operating lease		Other operating commitments	
	2017 \$M	2016 \$M	2017 \$M	2016 \$M	2017 \$M	2016 \$M
Within one year	46	39	6	6	7	6
One to five years	54	72	31	27	9	12
Later than five years	28	36	73	80	64	74
	128	147	110	113	80	92

Capital commitments include both commitments to purchase property, plant and equipment as well as intangible commitments. Intangible commitments include commitments to purchase emissions units. In the event the New Zealand emissions trading scheme (NZ ETS) is terminated, the forward purchase agreements for the acquisition of emissions units which cover a 12 year period, will also terminate.

Operating leases are of a rental nature and are on normal commercial terms and conditions. The majority of the lease commitments are for building accommodation, the leases for which have remaining terms of between 1 and 14 years and include an allowance for either annual, biennial or triennial reviews. The remainder of the operating leases relate to vehicles, plant and equipment.

Contingencies

The Group holds land and has interests in fresh water and geothermal resources that are subject to claims that have been brought against the Government. On 29 August 2014, the Supreme Court gave its decision in *Paki v Attorney-General* and dismissed the claimants' action seeking a declaration that the Government holds those parts of the bed of the Waikato River which adjoin former Pouakani land on trust for the Pouakani people on the basis it was incorrectly advanced. The Supreme Court decision has left open the possibility of further litigation in respect of ownership of that land currently held by the Group. The Group has received advice that it may proceed with a high degree of confidence that future decisions on the matter will not impair the Group's ability to operate its hydro assets. A separate claim by the New Zealand Maori Council relating to fresh water and geothermal resources was lodged in 2012 with the Waitangi Tribunal. The Tribunal concluded that Maori have residual (but as yet undefined) proprietary rights in fresh water and geothermal resources and it will be for the Government to determine how any such rights and interests may best be addressed. The impact of this claim on the Group's operations is unknown at this time.

From time to time the Group will issue letters of credit and guarantees to various suppliers in the normal course of business. However, there is no expectation that any outflow of resource relating to these letters of credit or guarantees will be required as a consequence.

The Group has no other material contingent assets or liabilities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

NOTE 19. SHARE-BASED PAYMENTS

Long-term incentive plan

The Group operates an equity-settled share based long-term incentive (LTI) plan for senior executives. The plan is designed to enhance the alignment between shareholders and those executives most able to influence the performance of the Group. Under the plan the senior executives purchase shares at market value funded by an interest free loan from the Group, with the shares held on trust by the Trustee of the LTI plan until the end of the vesting period. Vesting of shares is dependent on continued employment through the vesting period and the Group's relative total shareholder return. If the shares vest, executives are entitled to a cash amount which, after deduction for tax, is equal to the initial loan balance for the shares which have vested. That cash amount must be applied towards repayment of their loan balance and the corresponding shares are released by the trustee to the individual. The vesting periods for the plan are June 2017, June 2018 and June 2019. Under the plan, a relative total shareholder return measure is used. Performance is measured against a combination of: i) other electricity generators who were listed on the NZSX; and (ii) all NZX50 companies, both as at the start of the vesting period.

The LTI plan represents the grant of in-substance nil-price options to executives. During the year the Group expensed \$430,375 in relation to equity-settled share based payment transactions (2016: \$324,251).

Movements in the number of share options are as follows:

	2017	2016
Balance at the beginning of the year	493,912	567,363
Options granted	286,118	243,980
Options expired	(24,468)	(76,074)
Options exercised	(86,752)	(241,357)
Balance at the end of the year	668,810	493,912

182,957 options were exercisable at the end of the year (2016: 111,220) with the remaining options under the plan having a weighted average life of 1.6 years (2016: 1.5 years).

NOTE 20. SUBSEQUENT EVENTS

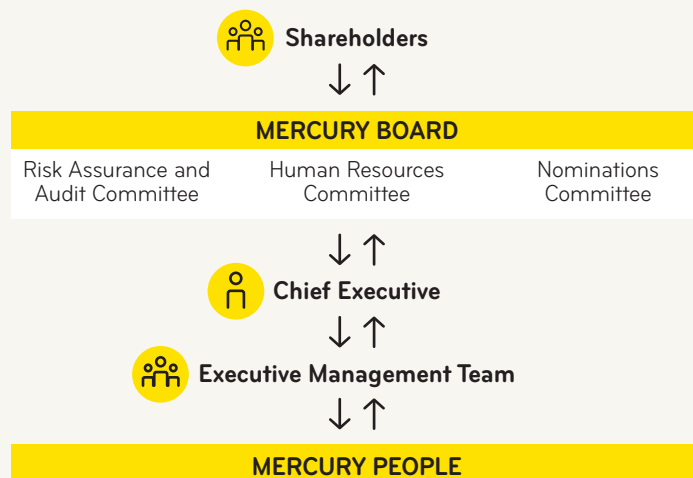
The Board of Directors has approved a fully imputed final dividend of 8.8 cents per share to be paid on 29 September 2017. The Board of Directors has also approved a fully imputed special dividend of 5.0 cents per share to be paid on 29 September 2017.

There are no other material events subsequent to balance date that would affect the fair presentation of these financial statements.

GOVERNANCE AT MERCURY

At Mercury we are focused on the long term. This drives the way we do business, our investment decisions, services to customers, development of people and our partnerships with stakeholders.

The objective of our Corporate Governance framework is to give our owners the confidence to choose Mercury. It sets out how our Board is accountable to our owners for Mercury's actions and performance, along with the delegation of responsibilities to the Chief Executive and the Executive Management Team ("EMT"). Through this framework we create the objectives and direction for the business, identify and manage our risks, strengthen our business culture and assess and continuously improve our performance.



We are committed to maintaining the highest standards of corporate governance, business behaviour and accountability and we regularly review Mercury's governance framework against national and international guidelines. Accordingly, the Board adopts corporate governance policies and practices reflecting contemporary standards in New Zealand and Australia, incorporating corporate governance recommendations issued by NZX Limited ("NZX") and ASX Limited ("ASX").

Mercury's corporate governance practices comply with the NZX Corporate Governance Best Practice Code, the ASX Corporate Governance Principles and Recommendations (third edition) ("ASX Principles") and the Financial Markets Authority Corporate Governance Principles and Guidelines. As at 30 June 2017, we also largely comply with the recently published NZX Corporate Governance Best Practice Code 2017 (the only two exceptions relate to Recommendations 3.3 (Remuneration Committee) and 3.6 (Takeover Offer Protocol) and are explained in this section and in our Corporate Governance Statement). We have also reviewed guidelines from the New Zealand Corporate Governance Forum, the IFC Global Corporate Governance Forum, and the OECD and consider that our practices and procedures substantially reflect these guidelines.

In this section, we give an overview of our engagement with investors, our Board, how we manage risks, our commitment to act ethically and responsibly and our approach to diversity and inclusion. Our full Corporate Governance Statement is available in the corporate governance section of our website at www.mercury.co.nz.

Engaging with Investors

To ensure our owners and stakeholders have the right information to make good choices based on informed assessments of Mercury's value, we are committed to communicating effectively and providing comprehensive relevant information.

Mercury runs a programme to build understanding and appropriate measurement of Mercury's performance among investors and research analysts. The programme is founded on:

- being responsive;
- providing clear, accurate and timely disclosures;
- providing appropriate access to management and directors; and
- providing meaningful insight into the Company and industry.

Mercury believes effective engagement with investors will benefit both Mercury and investors. As a result of investor feedback, Mercury's continued aim is to provide clearer communication of our strategic direction, including articulating Mercury's strategic priorities and how these leverage Mercury's competitive advantages.

In FY2017 Mercury has continued a number of initiatives to improve communication with investors and other stakeholders:

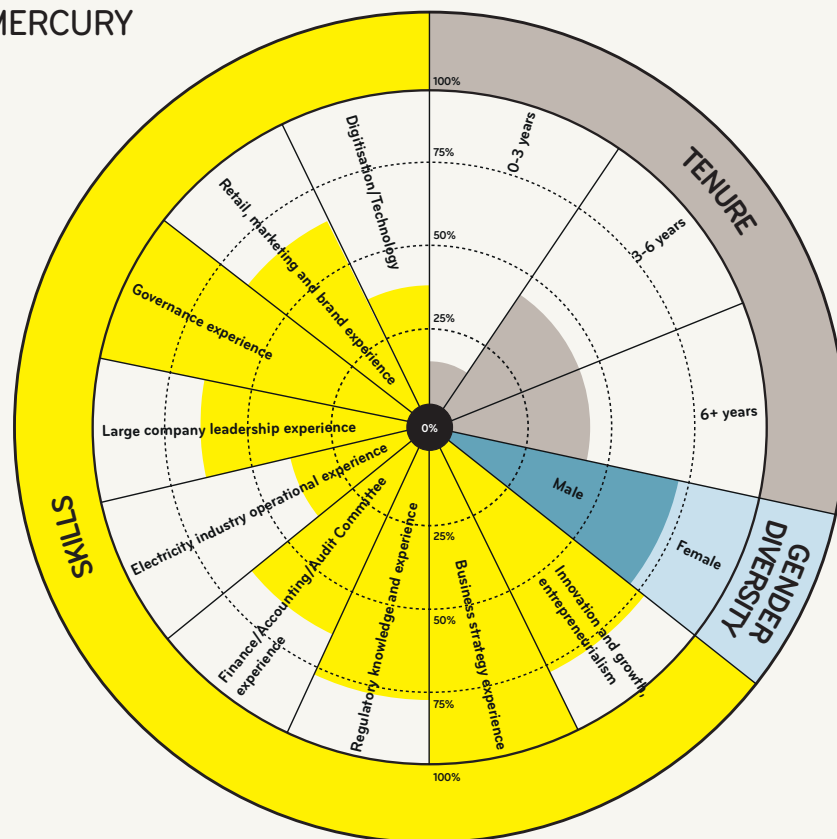
- **Website:** The Investors section of our website contains a comprehensive set of investor-related information and data. Shareholders can direct questions and comments through the website or contact the Head of Treasury and Investor Relations.
- **Annual Shareholders' Meeting:** All shareholders are invited to attend our ASM which is held at a time and location which aim to maximise in person participation. We also webcast the meeting to allow participation by those unable to attend the meeting in person.
- **Annual and interim reports:** Our periodic reporting provides an excellent opportunity to communicate to our investors.
- **Regular information disclosures:** We continue to disclose important information fully and transparently on the NZX and ASX announcement platforms.
- **Analyst and investor briefings and road shows:** We held a number of these in FY2017, including international road shows in December 2016 and May 2017. These roadshows are an effective way of communicating with institutional investors. We also hold a capital markets day every two years. The next one is scheduled for FY2018.
- **Electronic communications:** We encourage shareholders to provide email addresses to enable them to receive shareholder materials electronically. Communicating electronically is faster and more cost-effective. Almost 75% of our shareholders have told us they prefer to communicate in this way. We understand that this does not suit everybody and so hard copy reports are provided on request to shareholders who have not opted to receive documents electronically.

We engaged with investors at a number of levels in FY2017. Highlights included introducing investors to our new brand at the ASM and via our new look annual report, and we undertook an expanded series of international and domestic investor meetings which included a governance road show by directors.

GOVERNANCE AT MERCURY

(CONTINUED)

Board Characteristics



We are committed to the highest standards of corporate governance, business behaviour and accountability.

Mercury's Board

Composition

The Board currently comprises seven directors: Joan Withers (the Chair), Prue Flacks, Andy Lark, James Miller, Keith Smith, Patrick Strange and Mike Taitoko. Each of the directors is non-executive and independent. Details of each director are available on the *Leadership* section of Mercury's website.

The Board supports the Institute of Directors' Future Directors Programme which offers candidates valuable experience sitting at the board table of a New Zealand company for 12 or more months. The programme is designed to increase the pipeline of board-ready younger directors through giving them exposure to real-life governance in action along with valuable mentorship. Our second and current future director, Nicky Ashton, was selected in June 2016 and her tenure will come to an end on 31 December 2017. Nicky participates in discussions in all Board meetings but does not participate in decision making.

The Board is structured to ensure that, as a collective group, it has the skills, experience, knowledge, diversity and perspective to fulfil its purpose and responsibilities. The responsibilities of the Board are set out in Mercury's Board Charter, which is reviewed by the Board as required and at least every two years, and is available in the corporate governance section of our website.

The Board has three standing Committees: the Risk Assurance and Audit Committee ("RAAC"), the Human Resources Committee and the Nominations Committee. Each Committee focuses on specific areas of governance and together they strengthen the Board's oversight of Mercury. The Board does not have a separate Remuneration Committee. The functions that would ordinarily be allocated to the Remuneration

Committee are shared between the Human Resources Committee in respect of the Chief Executive and the EMT, and the Nominations Committee in respect of the directors. The current members of the Committees are as follows:

Committee	Members
Risk Assurance and Audit Committee	Keith Smith (Chair), James Miller and Patrick Strange. Joan Withers is also a member by virtue of her position as Board Chair
Human Resources Committee	Prue Flacks (Chair), Andy Lark and Mike Taitoko. Joan Withers is also a member by virtue of her position as Board Chair.
Nominations Committee	Joan Withers (Chair), Prue Flacks and James Miller.

Each Committee operates in accordance with a written Charter approved by the Board and reviewed as required and at least every two years. The Committee Charters are available in the corporate governance section of our website. Mercury assesses on a regular basis whether additional committees are required. As at the date of this statement, Mercury considers that no other committees are required.

Skills and Reviewing Performance

The Nominations Committee has developed a Board skills matrix setting out the mix of skills and diversity of the Board. The skills matrix is used to evaluate whether the collective skills and experience of the directors meet Mercury's requirements both currently and into the future. If the Board determines that new or additional skills are required, training is completed or a formal recruitment process is undertaken.

The table below highlights those core skills highly correlated to executing the Company's strategy.

Skill Attribute	Joan Withers	Andy Lark	James Miller	Mike Taitoko	Patrick Strange	Prue Flacks	Keith Smith
Delivering Customer Advocacy							
Digitisation/Technology A detailed understanding of ICT and disruptive technologies and their potential impact to provide our customers with choice and freedom		●	◐	◐	◐		
Retail, marketing and brand experience Senior experience in retail, marketing and brand development as we seek to positively differentiate our offering	●	●	◐	◐	◐	◐	◐
Leveraging Core Strengths							
Governance experience Commitment to the highest standards of governance and an ability to assess the effectiveness of senior management	●	●	●	●	●	●	●
Large company leadership experience Sustainable success in business at a senior executive level	●	●	◐		●	◐	◐
Electricity industry operational experience Senior executive experience within the electricity industry together with a deep understanding of operational excellence			●	◐	●		
Finance/Accounting/Audit Committee experience Senior executive or board experience in financial accounting and reporting, corporate finance and internal financial controls	◐	◐	●	◐	◐	◐	●
Regulatory knowledge and experience An understanding of the evolving regulatory environment in which we operate and the role that plays in ensuring sustainable custodianship of our assets and providing benefit to our customers	◐	◐	●	◐	●	●	●
Delivering Sustainable Growth							
Business strategy experience A track record of developing and implementing a successful and sustainable strategy	●	●	●	●	●	●	●
Innovation and growth, entrepreneurialism A track record of demonstrated entrepreneurialism and/or demonstrated understanding and commitment to innovation and a clear record of achieving organisational growth	◐	●	●	●	◐	◐	●

● Primary Skills ◐ Secondary Skills

GOVERNANCE AT MERCURY (CONTINUED)

The Board, through the Nominations Committee, strives to ensure that Mercury has the right mix of skills and experience it requires for Mercury to achieve its strategic aims in a prudent and responsible manner. The Board recognises that while it is important to have the right mix of skills, the Board is also focused on ensuring that it continues to have the right culture that takes advantage of, and benefits from, the diversity of skills, backgrounds and experiences represented on the Board. The Board fosters a culture of collaborative and open discussion where each director as a high-performing individual is expected to make a valuable contribution and to provide an alternative perspective, even where the topic is outside that director's attributed skills and experience. By applying this philosophy, the Board as a collective unit exceeds the individual contributions of its members.

Evaluations are regularly conducted to review the performance of the Board and each director, and the effectiveness of Board processes and committees. This is undertaken using a variety of techniques including external consultants, questionnaires and Board discussion. The last full Board performance review, with the assistance of an external facilitator, was completed in November 2016. The Board also completed a comprehensive analysis of the skills and tenure of the Board around mid-2017.

Takeover Offer Protocols

Mercury has not established protocols that set out the procedure to be followed if there is a takeover offer for Mercury and has not adopted any alternative governance practices in lieu of those protocols. Mercury has made this decision because, due to the restrictions on Mercury's ownership under the Public Finance Act 1989, no person other than the Crown may have a relevant interest in more than 10% of Mercury's shares. As such, it is not practically possible for a takeover offer to be made in respect of Mercury for so long as the Public Finance Act 1989 includes these restrictions.

Managing Risk and Assurance

Risk management is an integral part of Mercury's business. Mercury has in place an overarching Risk Management Policy (available in the corporate governance section of Mercury's website) supported by a suite of risk management policies appropriate for its business which together form our Risk Management framework.

The purpose of the Risk Management Policy is to embed a comprehensive, holistic, Group-wide capability in risk management which provides a consistent method of identifying, assessing, controlling, monitoring and reporting existing and potential risks to Mercury's business and to the achievement of its plans. The Policy sets out the risk management objectives and requirements of Mercury within which management is expected to operate. The Policy is reviewed annually by the RAAC and approved by the Board.

The Risk Management framework supports a comprehensive approach to risk, encompassing financial, strategic, environmental, operational, regulatory, reputational, social and governance risks. The framework involves actively identifying and managing risk and taking measures to reduce the likelihood of risk, contain potential hazards and take mitigating action to reduce impacts in line with risk tolerances. This approach is consistent with the precautionary principle.

Mercury has a Risk Assurance Officer who has the independence to determine the effectiveness of risk management, assurance and internal audit. The Risk Assurance Officer has a dual reporting line to the Chief Financial Officer and the RAAC Chair. The RAAC tasks the Risk Assurance Officer to ensure healthy and robust debate and interaction between management, risk assurance and audit providers.

Mercury operates a Risk Management Committee, comprised of representatives from the EMT and chaired by the Chief Executive. Its mandate is to promote risk awareness and appropriate risk management to all employees, and to monitor and review risk activities as circumstances and our strategic and operational objectives change. The Committee meets at least four times each year.

Mercury must accept some risks in order to achieve its strategic objectives and to deliver shareholder value. These are embodied in Mercury's Risk Appetite Statements which are set and regularly reviewed by the Board and are set out in more detail in Mercury's Corporate Governance Statement, available in the corporate governance section of our website.

The RAAC is responsible for overseeing, reviewing and providing advice to the Board on Mercury's risk management policies and processes. The Risk Assurance Officer reports regularly to the RAAC on the effectiveness of Mercury's management of material business risks. In addition, the RAAC annually reviews the Risk Management framework. The last review of the Risk Management framework took place in FY2017.

The Auditor-General is the external auditor of Mercury and each of its subsidiaries (together, the "Group"), under the Public Audit Act 2001. The Auditor-General has appointed Simon O'Connor of Ernst & Young to carry out the FY2017 audit on his behalf. The NZX Main Board Listing Rules require rotation of the lead audit partner at least every five years. The next rotation is for the FY2019 audit. The provision of external audit services is guided by the Audit Independence Policy which is available on our website. The external auditor attends all RAAC meetings and consistent with the Stakeholder Communications Policy, attends the Annual Shareholders' Meeting and is available to shareholders to answer questions relevant to the audit.

Acting Ethically and Responsibly

At Mercury, doing what's right is something all our people strive to achieve. So our people know what the 'right thing to do' is, we have put in place the Mercury Code which, along with our Mercury Attitudes, Corporate Responsibility Policy and governance framework, set out the standards of business culture and behaviour required to deliver our strategy and achieve our Purpose of inspiring New Zealanders to enjoy energy in more wonderful ways.

Attitudes

A Mercury employee is expected to apply three simple and powerful attitudes. These shape our decisions, our actions and our interactions with each other. Our Mercury attitudes align with our direction to achieve our Purpose:

- Commit and Own it;
- Share and Connect; and
- Be Curious and Original.

The Mercury Code and our Policy Framework

In April 2017, the Board adopted the Mercury Code (replacing our Code of Ethics) which underpins everything we do. It requires all Mercury people, including directors and employees, to act honestly and in accordance with the highest standards of integrity and fairness at all times, and to strive to foster those standards within Mercury. The Mercury Code is available in the corporate governance section of our website. The Mercury Code and associated policy framework underpin our ethical and behavioural standards. They support our promises to each other and define our commitment to our customers, our people and communities and our investors.

Many of the key areas addressed in our policy framework are covered in detail elsewhere in this report. This signals the importance of these behaviours to our business. The following table shows where to find a discussion on our initiatives relating to our customers and our people and communities in this annual report and how these areas are dealt with in our policy framework.

Customer		People and communities	
Area of focus	Where to find out more	Area of focus	Where to find out more
Energy Freedom	Page 4	Stronger Together	Pages 50-55
Keeping our customers safe and connected	Pages 28-29	Diversity and Inclusion	Pages 34-35, The Mercury Code, our Diversity and Inclusion Policy, and our Corporate Responsibility Policy
Enhanced Natural Resources	Pages 40-47	Wellbeing, including Health and Safety	Pages 36-37

In addition, the following areas are of fundamental importance to Mercury to ensure good governance and responsible business practices are followed:

Our Governance and Responsible Business Practices

- **Conflicts:** Conflicts of interest must be avoided. Mercury people are encouraged to discuss possible conflicts with their manager. Mercury takes practical, preventative action wherever possible, for example by substituting project managers in circumstances of possible conflict with contractors and suppliers. All potential conflicts of interest are declared prior to appointment and at each Board meeting, including in relation to specific agenda items if applicable.
- **Bribery:** The acceptance of bribes, including gifts or personal benefits of material value which could reasonably be perceived as influencing decisions, is prohibited under the Mercury Code. Under Mercury's Delegations Policy, donations to political parties are prohibited.
- **Use of Mercury Assets:** The Mercury Code places restrictions on the use of corporate information, assets and property. All persons covered by the Code are encouraged to report any breach or suspected breach of the Code.
- **Whistleblowing:** We provide a framework for the protection of employees wishing to disclose serious wrongdoing. This is described in Mercury's *Employee Rights under the Protected Disclosures Act 2000* statement, which was recently reinforced to employees in August 2017. The framework is overseen by the RAAC.
- **Trading In Company Securities:** Mercury's *Trading in Company Securities Policy* sets out the rules and restrictions relating to trading in Mercury securities, including the prohibition on insider trading.
- **Market Disclosures:** Our *Market Disclosure Policy* ensures we maintain a fully informed market through communication with the markets, investors and stakeholders and by giving them equal and timely access to material information.
- **Corporate Responsibility:** Our *Corporate Responsibility Policy* sets out the core principles and values that promote ethical and responsible decision making.

Diversity and Inclusion

Having a team of individuals with different backgrounds, views, experience and capability working together leads to better business performance. The value we place on diversity and inclusion is explained in detail at page 34 of this report. Our commitment to diversity and inclusion starts with our Diversity and Inclusion Policy and framework. Our Policy is available in the corporate governance section of our website.

Mercury's progressive approach to diversity focuses on gender, age, ethnicity, inclusion and flexibility. Activity is aligned to the following principles:

- increasing the diversity of our workforce at senior levels
- creating a flexible and inclusive work environment that values difference and enhances business outcomes
- harnessing diversity of thought and capitalising on individual differences
- leadership behaviours that reflect our belief in the value of diversity and inclusion
- retaining and attracting a talented workforce through increasing the diversity of the candidate pool and maintaining a recruitment strategy that is attractive to all candidates.

As noted on page 34, our progress against diversity and inclusion goals is measured against measurable objectives set by the Board. These measurable objectives are made up of a mixture of targets and benchmarks. Generally, targets exist where we believe that achieving diversity in that area is aided by us working towards a specific measure. In other areas we use benchmarks where comparison against those identified data points will help inform our view of how our work towards diversity in that area is progressing.

GOVERNANCE AT MERCURY (CONTINUED)

Our performance against measurable objectives set by the Board for FY2017 is set out below:

Area of focus	Objective	Target			Actual		
			2017	2020		2017	
Gender	Improve representation of women at senior leadership levels		2017	2020		2017	
		Employees	37%	38%	Employees	41%	
		Leaders	28%	33%	Leaders	30%	
		EMT	28%	33%	EMT	22%	
		Board	33%	33%	Board	29%	
Age	Work towards an age profile for our team that is suitable for our business taking into account the population that we work in	Benchmark against the national median age of the labour force in the New Zealand National Labour Force Projections.			Our average age across the workforce is 41, which is consistent with the national median age of the labour force in the New Zealand National Labour Force Projections		
Ethnicity	Work towards aligning the ethnicity of our team with the population and communities that we work in	Benchmark against National Statistics (Census data) that show the ethnicity of the population and communities that we work in			Ethnicity	Mercury 2017 Ethnicity*	NZ Population 2013 Census
					NZ European (352)	44%	69%
					Maori (34)	4%	13%
					Pacific (64)	8%	7%
					Asian (122)	16%	9%
					Other European (57)	7%	n/a
					Other (69)	9%	2%
	Not selected	12%	n/a				
	Ensure that our leadership reflects the diversity of our teams	Targeting ethnicity distribution of our Leader population equal to the ethnicity distribution of the total company			Ethnicity	Mercury 2017 Ethnicity*	Mercury People Leaders by Ethnicity
					NZ European (352)	44%	62%
					Maori (34)	4%	3%
					Pacific (64)	8%	3%
					Asian (122)	16%	8%
					Other European (57)	7%	11%
Other (69)					9%	6%	
Not selected	12%	7%					
Inclusion	Ensure that our team are supported to do their best work and they engage fully as part of our team	Targeting better performance than the Average Large Organisation score for this question of 72%			In response to our 2017 Employee Engagement Survey, 80% of employees confirm that they are treated fairly, regardless of age, ethnicity, gender or physical capabilities, compared to 2016 All NZ Organisations Benchmark of 77% and NZ Average Large Organisation Benchmark of 72%		
Flexibility	Facilitate flexible workplace arrangements to enable employees to balance responsibilities appropriately	Targeting better performance than the Average Large Organisation score for this question of 80%			In response to our 2017 Employee Engagement Survey, 87% of employees confirm that they have the freedom and flexibility to do their job effectively, compared to 2016 All NZ Organisations Benchmark of 84% and NZ Average Large Organisation Benchmark of 80%		

* Mercury 2017 Ethnicity data based on responses to Mercury's 2017 Employee Engagement Survey.

At the balance date, the proportion of women on the EMT (including the Chief Executive) was 22%, or two out of nine (as at 30 June 2016 this was 22% or two out of nine). The proportion of women on the Board at balance date was 29% or two out of seven, including the Chair (as at 30 June 2016 this was 25% or two out of eight).

Based on the above, the Board believes that for this reporting period Mercury has made good progress towards achieving its diversity and inclusiveness objectives and against its Diversity Policy generally.

DIRECTOR AND EXECUTIVE EMPLOYEE REMUNERATION

Mercury's Board is committed to a remuneration framework that promotes a high performance culture and aligns executive reward to the achievement of strategies and objectives to create sustainable value for shareholders.

The Board is assisted by the Human Resources Committee (HRC). The role and membership of the HRC is set out in the Corporate Governance section.

The HRC ensures rewards for executives are strongly aligned to the performance of the company. The Board is committed to demonstrating transparency in its remuneration policy and practice.

Overall remuneration philosophy

Mercury's remuneration approach aims to attract, retain and motivate high calibre employees at all levels of the organisation. It is based on a practical set of guiding principles that provide for consistency, fairness and transparency. This strategy promotes behaviours and values that drive performance, a strong customer focus and growth in sustainable shareholder value.

Executive remuneration

Mercury's remuneration policy for the Executive Management Team (EMT) provides the opportunity for them to receive, where performance merits, a total remuneration package in the upper quartile for equivalent market-matched roles.

The HRC reviews the annual performance appraisal outcomes for all members of the EMT and approves the outcomes for all EMT members other than the Chief Executive. The Chief Executive's remuneration is approved by the Board on the recommendation of the HRC. The review takes into account external benchmarking to ensure competitiveness with comparable market peers, along with consideration of an individual's performance, skills, expertise and experience. External benchmarking is commissioned by the HRC from an expert independent party and the provider is required to declare independence of any management influence in the collation of the information provided.

Total remuneration is made up of three components: fixed remuneration, short-term performance incentives and long-term performance incentives. Short and long-term performance incentives are deemed 'at-risk' because the outcome is determined by performance against a combination of pre-determined financial and non-financial objectives.

Fixed remuneration

Fixed remuneration consists of base salary and benefits. Mercury's policy is to pay fixed remuneration with reference to the fixed pay market median.

Short term performance incentives

Short term incentives (STIs) are at-risk payments designed to motivate and reward for performance typically in that financial year.

The target value of an STI payment is set annually, usually as a percentage of the executive's base salary. For FY2017 the relevant target percentage for the Chief Executive was 50% and for all the other executives it was 25% to 35%.

A proportion (80% for the Chief Executive, 50% for other EMT members) of the STI is related to a shared set of KPIs based on business priorities for the next 12 months, with the objective of aligning the EMT's focus to the company's priorities.

The shared KPIs in FY2017 covered the areas of finance, customer, health and safety and people with respective weightings applied across areas as outlined below. The financial KPI is normalised for positive and negative annual variations in hydrology as these are beyond managements' control. The criteria are selected to closely align with Mercury's strategic objectives, purpose and goal and in FY2018 the weightings are being adjusted as shown, to capture the importance of community 'licence to operate' in the long term performance of Mercury.

Target area	FY2017 Weighting %	FY2018 Weighting %
Financial: EBITDAF ¹	30	30
People	20	20
Customer	30	20
Wellbeing	20	20
Long-term Platform	N/A	10

Note 1: EBITDAF is normalised for positive and negative annual variations in Waikato hydro generation.

There are three performance levels within each target area, 'threshold', 'on-plan' and 'stretch', with 100% of the amount allocated to that target area being payable when the on-plan level is achieved. The stretch performance levels allow employees to be rewarded for exceptional performance. The maximum amount of a STI payment for an EMT member is 178% of the STI on-plan amount for that EMT member.

The balance of the STI is related to individual (in the case of the Chief Executive) or business unit and individual (in the case of other EMT members) performance measures.

In the event all five performance thresholds are not met, no STI payment will be made.

Long term performance incentives

Long term incentives (LTIs) are at-risk payments designed to align the reward of certain executives with the enhancement of shareholder value over a multi-year period.

An LTI plan commenced on 1 July 2014 under which grants are made annually with performance measured over a three year period. The value of each grant is set at the date of the grant. The plan's performance is measured based on Mercury's total shareholder return (TSR) relative to the performance of the NZX 50. This plan has now closed with final vesting occurring in July 2017.

DIRECTOR AND EXECUTIVE EMPLOYEE REMUNERATION (CONTINUED)

An updated LTI plan commenced on 1 July 2015 with an additional performance hurdle introduced to ensure a more appropriate long term performance comparison.

Each grant under the updated LTI plan is divided into two tranches having different performance hurdles:

- 50% of the grant is based on Mercury's TSR relative to the NZX 50 and is subject to a gate that Mercury's TSR over that period must be at least positive;
- 50% of the grant is based on Mercury's TSR relative to the performance of an industry peer group (comprising Meridian Energy, Genesis Energy, Contact Energy and Trustpower). There is no positive TSR performance gate on this tranche but Mercury's TSR must be at the 50th percentile of the comparator group for any award to be made on this component of the LTI plan.

For the FY2017 grant commencing 1 July 2016 the value represents between 25% – 35% of an executive's base salary.

LTI payments are made in shares rather than cash. The maximum number of shares which an executive may receive for each grant is determined by dividing the value of the grant less tax by the market value of one Mercury share as at the date of the grant.

The Board retains discretion over the final outcome, to allow appropriate adjustments where unanticipated circumstances may impact performance, positively or negatively, over a three year period.

Chief Executive remuneration

Chief Executive remuneration (FY2017)

FY2017	Salary \$	Benefits ¹ \$	Subtotal \$	Pay for performance \$			Total remuneration \$
				STI	LTI	Subtotal	
Chief Executive	*1,058,779	50,455	1,109,234	575,960	195,998	771,958	1,881,192

*Actual salary paid includes holiday pay paid as per NZ legislation. The base salary was \$1,028,500.

Chief Executive remuneration (FY2016)

FY2016	Salary \$	Benefits ¹ \$	Subtotal \$	Pay for performance \$			Total remuneration \$
				STI	LTI	Subtotal	
Chief Executive	*999,445	60,302	1,059,747	332,486	109,201	441,687	1,501,434

*Actual salary paid includes holiday pay paid as per NZ legislation. The base salary was \$935,000.

Five year summary – Chief Executive remuneration

		Total remuneration paid ² \$	Percentage STI against maximum % ⁵	Percentage vested LTI against maximum %	Span of LTI performance period
Chief Executive – Fraser Whineray	FY2017	1,881,192	63	98	2014 - 2017
	FY2016	1,501,434	57	78	2013 - 2016
	FY2015	1,427,932	47	100	2013 - 2015
Chief Executive – Doug Heffernan	FY2015	1,985,791	87	100	2011 - 2014 ³
	FY2014	1,302,754 ³	N/A ³	N/A ³	2011 - 2014 ³
	FY2013	1,439,243 ⁴	75	N/A	N/A

Explanation of above items

Note 1: Benefits include KiwiSaver, insurance and carpark.

Note 2: Total remuneration paid including Salary, Benefits, STI and LTI payments.

Note 3: LTI and STI payments for FY2014 are included in the FY2015 year as schemes ended 31 August 2014.

Note 4: No LTI was payable for FY2013.

Note 5: Maximum STI is 178% of 'on-plan' performance pay.

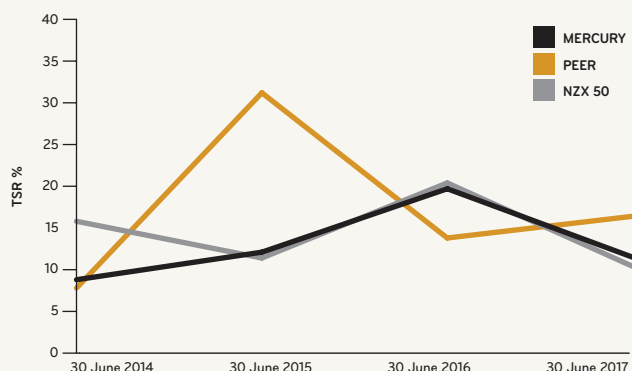
Breakdown of Chief Executive pay for performance (FY2017)

	Description	Performance measures	Percentage achieved %
STI ¹	Set at 50% of base salary. Based on a combination of key financial and non-financial performance measures.	80% based on the four Company Shared KPIs (see table earlier for weightings).	110
		20% based on individual measures.	120
LTI ¹	Conditional awards of shares under the historical long-term incentive scheme.	100% weighting relative TSR performance against NZX 50 (fixed at date of grant) with 50% vesting at 50th percentile and 100% at 75th percentile; pro rata vesting in between.	98

Note 1: The above STI and LTI payments for FY2017 were paid in FY2018.

DIRECTOR AND EXECUTIVE EMPLOYEE REMUNERATION (CONTINUED)

Four year summary – TSR Performance (company vs peer)



KiwiSaver

The Chief Executive is a member of KiwiSaver. As a member of this scheme, the Chief Executive is eligible to contribute and receive a matching company contribution of 3% of gross taxable earnings (including short and long-term incentives). For FY2017 the Company's contribution was \$45,014.

FY2018 Chief Executive remuneration structure

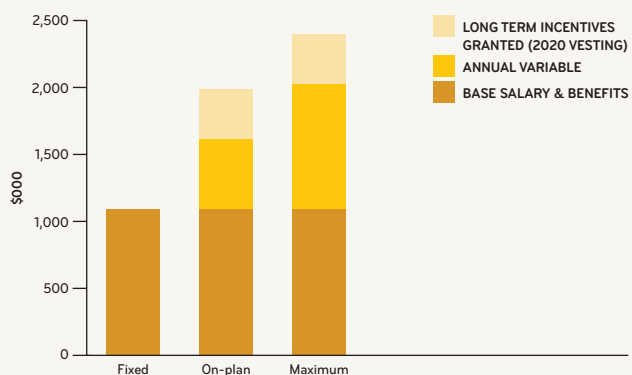
The Board has elected, in the interests of transparency, to disclose in advance the structure and package that will apply for FY2018.

FY2018	Base Salary \$	Benefits ¹ \$	Subtotal \$	Pay for performance "on-plan" \$			Total remuneration \$
				STI	LTI granted ²	Subtotal	
Chief Executive	1,054,212	37,068	1,091,280	527,106	368,974	896,080	1,987,360

Note 1: Benefits include KiwiSaver, insurance and carpark.

Note 2: This LTI is granted in FY2018 and if hurdles are met, paid in shares in 2020. The LTI tranche which has the potential to vest in FY2018 is \$200,000 and dates from FY2016-FY2018.

Chief Executive remuneration performance pay for FY2018



Chief Financial Officer remuneration

In the interests of providing greater transparency of executive remuneration, the Board has elected to provide details regarding total remuneration paid to the Chief Financial Officer.

In FY2017, the Chief Financial Officer received remuneration totalling \$829,959. This amount included \$186,708 STI payment and \$109,201 LTI payment for FY2016 paid in FY2017, with the remaining \$534,050 being a combination of fixed remuneration and benefits (including a 3% superannuation allowance paid in lieu of KiwiSaver).

Employee remuneration

The Group paid remuneration in excess of \$100,000 including benefits to 353 employees (not including directors) during the FY2017 year in the following bands:

Remuneration Band	Currently employed	No longer employed	Total
\$100,001 - \$110,000	60	3	63
\$110,001 - \$120,000	50	4	54
\$120,001 - \$130,000	44	3	47
\$130,001 - \$140,000	45	1	46
\$140,001 - \$150,000	36	2	38
\$150,001 - \$160,000	17		17
\$160,001 - \$170,000	13	2	15
\$170,001 - \$180,000	9	2	11
\$180,001 - \$190,000	11		11
\$190,001 - \$200,000	6	1	7
\$200,001 - \$210,000	6	1	7
\$210,001 - \$220,000	5		5
\$230,001 - \$240,000	3		3
\$240,001 - \$250,000	3	1	4
\$250,001 - \$260,000	3		3
\$260,001 - \$270,000	4	2	6
\$270,001 - \$280,000	1	1	2
\$280,001 - \$290,000	1		1
\$300,001 - \$310,000	2		2
\$310,001 - \$320,000	2		2
\$340,001 - \$350,000	1		1
\$420,001 - \$430,000	1		1
\$470,001 - \$480,000	1		1
\$490,001 - \$500,000	1		1
\$540,001 - \$550,000	2		2
\$630,001 - \$640,000	1		1
\$820,001 - \$830,000	1		1
\$1,550,001 - \$1,560,000	1		1
	330	23	353

Note: The remuneration bands above include 11 employees who received redundancy payments in FY2017.

The total remuneration ratio for FY2017 between Employee (median) and Chief Executive was 1:22. The ratio of Employee (median) remuneration and Chief Executive base salary was 1:15. Note: These ratios are based on actual remuneration paid in FY2017.

DIRECTOR AND EXECUTIVE EMPLOYEE REMUNERATION (CONTINUED)

Directors' remuneration

The directors' remuneration is paid in the form of directors' fees. Additional fees are paid to the Chair and in respect of work carried out by directors on various Board committees to reflect the additional time involved and responsibilities of these positions.

The total pool of fees able to be paid to directors is subject to shareholder approval and currently stands at \$991,000. At the 2015 Annual Shareholders' Meeting, shareholders approved an increase of \$139,750 to the pool (from \$851,250) to be implemented over 2 years. The second increase was effective from 5 November 2016, which has taken the total pool to \$991,000. Mercury meets directors' reasonable travel and other costs associated with Mercury business. The following people held office as directors during the year to 30 June 2017 and received the following remuneration during the period. The number of meetings and attendance rate by director during the year to 30 June 2017 was as follows:

Director	Board		Risk Assurance & Audit Committee		Human Resources Committee		Nominations Committee		Total ¹	
No. of meetings	10		4		4		3		21	
	Fees \$	Attendance Rate %	Fees \$	Attendance Rate %	Fees \$	Attendance Rate %	Fees \$	Attendance Rate %	Fees \$	Attendance Rate %
Joan Withers (Chair)	176,667 ² (Chair)	100		100		100	(Chair)	100	176,667	100
Michael Allen ³	38,833	100			3,334	0			42,167	80
Prue Flacks	96,000	100			20,000 (Chair)	100	4,000	100	120,000	100
Andy Lark	96,000	90			8,000	75			104,000	86
James Miller	96,000	100	10,000	100			4,000	100	110,000	100
Keith Smith	96,000	100	26,000 (Chair)	100					122,000	100
Patrick Strange	96,000	100	10,000	100					106,000	100
Mike Taitoko	96,000	100			8,000	100			104,000	100
Total	\$791,500	99	\$46,000	100	\$39,334	88	\$8,000	100	\$884,834	97

Note 1: Disclosure Committee is not reported on as these occur as adhoc and on an as required basis.

Note 2: Joan Withers' fees cover attendance at all Committee meetings.

Note 3: Michael Allen retired 3 November 2016. Michael's attendance rates are based on attendance at meetings during his directorship only.

Note 4: Future Director Nicky Ashton was paid \$20,000 in FY2017.

DIRECTORS' DISCLOSURES

Interests Register

Disclosure of Directors' Interests

Section 140(1) of the New Zealand Companies Act 1993 requires a director of a company to disclose certain interests. Under subsection (2) a director can make disclosure by giving a general notice in writing to the Company of a position held by a director in another named company or entity. The following are particulars included in the Company's Interests Register as at 30 June 2017:

Joan Withers			
The Warehouse Group Limited ¹	Chair	Electronic Navigation Limited and subsidiaries	Director
Television New Zealand Limited ²	Chair	K One W One Limited and subsidiaries	Director
The Treasury Advisory Board ²	Director	Westland Dairy Cooperative Limited	Director
ANZ Bank New Zealand Limited	Director	Harpers Gold Limited and subsidiaries	Director/Shareholder
The Louise Perkins Foundation (Sweet Louise)	Trustee	James Raymond Holdings Limited (private family investment company)	Director/Shareholder
The Tindall Foundation ²	Trustee	Gwendoline Holdings Limited (private family investment company)	Director/Shareholder
Pure Advantage	Trustee	Cornwall Park Trust Board	Trustee
Economic Development Challenge Group	Member	Sir John Logan Campbell Residuary Estate	Trustee
On Being Bold Limited (formerly Biz4Girls Limited) ¹	Director	The Selwyn Trust	Trustee
Prue Flacks		Advisory board of The New Zealand Tax Trading Company	Member
Bank of New Zealand Limited	Director	Anderson & O'Leary Limited	Chair
BBull Family Trust Limited ²	Director	The Warehouse Financial Services Limited	Director
Planboe Limited	Director	Tree Scape Limited ¹	Director
Chorus Limited	Director	Patrick Strange	
Holds Capital Bonds worth \$40,000 issued by the Company		Chorus Limited	Chair
James Miller		Ausgrid ²	Director
NZX Limited	Chair/Shareholder	Endeavour Energy ²	Director
ACC	Director	Essential Energy, NSW	Director
Auckland International Airport Limited	Director/Shareholder	NZX Limited	Director
St Cuthbert's College Trust Board	Trustee	New Zealand Clearing and Depository Corporation Limited ³	Director
Mike Taitoko		Auckland International Airport Limited	Director
Waiora Consulting Limited	Director/Shareholder	Waitahoata Farms Limited	Director
Takiwa Health Limited	Director	Holds 8,600 seven year Fixed Rate Bonds issued by the Company	
Waiora Pacific Limited	Director/Shareholder	Andy Lark	
Cognition Education Limited	Director	No 8 Ventures Management Limited ²	Director
Committee for Auckland Limited	Director	SLI Systems Limited	Director
Bioresource Processing Alliance	Director	Fronde ²	Director
Auckland Tourism Events and Economic Development Limited (ATEED) ¹	Director	Group Lark	Chair
Maratini Holdings Limited ¹	Director/Shareholder	Xero Limited ²	Chief Business Officer
Canvasland Holdings Limited ¹	Director	Simple	Director and Interim Chair
Keith Smith		1 Entries added by notices given by the directors during the year ended 30 June 2017	
Healthcare Holdings Ltd and subsidiaries and associates	Chair	2 Entries removed by notices given by the directors during the year ended 30 June 2017	
Enterprise Motor Group Ltd and subsidiaries	Chair	3 Though outside the period, Patrick Strange resigned as a director of New Zealand Clearing and Depository Corporation Limited on 7 August 2017	
Mobile Surgical Services Limited and subsidiaries	Chair		
Goodman (NZ) Limited and subsidiaries	Chair		
The Warehouse Group Limited and subsidiaries	Deputy Chair		
H J Asmuss & Co Limited	Chair		
Community Financial Services Limited	Director		

DIRECTORS' DISCLOSURES (CONTINUED)**Directors' and Officers' Indemnities**

Indemnities have been given to and insurance has been effected for, directors and senior managers of the Group to cover acts or omissions of those persons in carrying out their duties and responsibilities as directors and senior managers.

Disclosure of Directors' Interests in Share Transactions

Directors disclosed, pursuant to section 148 of the New Zealand Companies Act 1993, the following acquisitions and disposals of relevant interests in Shares during the period to 30 June 2017:

Name of director	Date of acquisition/ disposal of relevant interest	Nature of relevant interest	Consideration	Shares in which a relevant interest was acquired/(disposed)
Andy Lark	27 April 2017	On market purchase of shares	AUD 9,735	3,300
Mike Taitoko	11 May 2017	On market purchase of shares	NZD 7,084	2,200

Disclosure of Directors' Interests in Shares

Directors disclosed the following relevant interests in the Shares as at 30 June 2017:

Director	Number of Shares in which a relevant interest is held
Joan Withers	39,900
Prue Flacks	23,474
James Miller	40,320
Mike Taitoko	2,200
Keith Smith	27,868
Patrick Strange	14,160
Andy Lark	3,300

SHAREHOLDER INFORMATION

Twenty largest registered shareholders as at 30 June 2017

Name	Number of shares	% of shares ¹
Her Majesty The Queen In Right Of New Zealand	716,140,528	51.15
New Zealand Central Securities Depository Limited	312,747,785	22.33
Mercury NZ Limited	22,656,390	1.61
HSBC Custody Nominees (Australia) Limited	17,521,722	1.25
Custodial Services Limited	8,745,940	0.62
FNZ Custodians Limited	7,440,527	0.53
JBWere (NZ) Nominees Limited	7,146,768	0.51
Forsyth Barr Custodians Limited	4,260,751	0.30
Citicorp Nominees Pty Limited	3,863,287	0.27
New Zealand Depository Nominee Limited	3,803,272	0.27
Custodial Services Limited	3,770,508	0.26
JP Morgan Nominees Australia Limited	3,547,710	0.25
Custodial Services Limited	3,296,241	0.23
Investment Custodial Services Limited	2,988,849	0.21
Custodial Services Limited	2,652,895	0.18
Richard Wallace Shapero and Sandy Shapero	2,015,000	0.14
National Nominees Limited	1,763,852	0.12
Custodial Services Limited	1,129,666	0.08
Custodial Services Limited	894,774	0.06
Guangsen Wu	796,000	0.05
Total	1,127,182,465	80.51

1. Percentage calculated on the basis of Mercury having 1,400,012,517 ordinary shares on issue as at 30 June 2017, which included 22,656,390 ordinary shares held as treasury shares.

New Zealand Central Securities Depository Limited (NZCSD) provides a custodian depository service that allows electronic trading of securities to its members and does not have a beneficial interest in these shares. As at 30 June 2017, the 10 largest shareholdings in the Company held through NZCSD were:

Shareholder	Number of shares	% of NZCSD holding	% of total Mercury shares ¹
HSBC Nominees (New Zealand) Limited	110,629,504	35.37	7.90
HSBC Nominees (New Zealand) Limited A/C State Street	55,961,683	17.89	4.00
Citibank Nominees (New Zealand) Limited	43,340,710	13.86	3.10
JPMorgan Chase Bank NA NZ Branch-Segregated Clients Acct	31,476,538	10.06	2.25
Accident Compensation Corporation	21,045,510	6.73	1.50
HSBC Nominees - New Zealand Superannuation Fund Nominees Limited	14,708,958	4.70	1.05
National Nominees New Zealand Limited	7,648,639	2.45	0.55
BNP Paribas Nominees (NZ) Limited	5,216,750	1.67	0.37
BNP Paribas Nominees (NZ) Limited	4,265,368	1.36	0.30
Guardian Nominees No 2 A/C Westpac W/S Enhanced Cash Trust	3,385,143	1.08	0.24

1. Percentage calculated on the basis of Mercury having 1,400,012,517 ordinary shares on issue as at 30 June 2017, which included 22,656,390 ordinary shares held as treasury shares.

Substantial product holders of the Company as at 30 June 2017

	Class of securities	Number of Securities in Substantial Holding	Total Number of Securities in Class
Her Majesty The Queen In Right Of New Zealand	Ordinary shares	730,427,676 ¹	1,400,012,517 ²
Mondrian Investment Partners Limited	Ordinary shares	69,638,989	1,400,012,517 ²

1 This comprises (a) 716,140,528 shares held by the Crown on its own account; (b) 14,219,148 shares forming part of the New Zealand Superannuation Fund in which the Crown has a beneficial interest; and (c) 68,000 shares held by Public Trust on trust for the Crown and certain iwi.

2 As at 30 June 2017, Mercury had 1,377,356,127 ordinary shares on issue, plus 22,656,390 ordinary shares held as treasury shares.

SHAREHOLDER INFORMATION (CONTINUED)

Distribution of shareholders and holdings as at 30 June 2017

Size of holding	Number of shareholders	%	Number of shares	Holding quantity %
1 to 1,000	31,789	36.43	22,306,008	1.59
1,001 to 5,000	44,230	50.69	103,121,437	7.37
5,001 to 10,000	7,375	8.45	54,088,764	3.86
10,001 to 100,000	3,765	4.31	75,707,623	5.41
100,001 and over	98	0.11	1,144,788,685	81.77
Total	87,257	100.00	1,400,012,517	100.00

Distribution of bondholders and holdings as at 30 June 2017

Size of holding	Number of capital bondholders	%	Number of capital bonds	Holding quantity %
1 to 1,000	0	0.00	0	0.00
1,001 to 5,000	373	9.78	1,859,000	0.62
5,001 to 10,000	823	21.59	7,869,000	2.62
10,001 to 100,000	2,439	63.98	87,058,000	29.02
100,001 and above	177	4.64	203,214,000	67.74
Total	3,812	100.00	300,000,000	100.00

COMPANY DISCLOSURES

Stock Exchange Listings

Mercury NZ Limited is listed on both the New Zealand and Australian stock exchanges.

In New Zealand, the Company is listed with a "non-standard" (NS) designation. This is due to particular provisions of the Constitution, including the requirements regulating ownership and transfer of Ordinary Shares.

ASX approved a change in the Mercury NZ Limited's ASX admission category from an ASX Listing to an ASX Foreign Exempt Listing, effective from the commencement of trading on 19 February 2016.

The Company continues to have a full listing on the NZX Main Board, and the Company's shares are still listed on the ASX. The Company is primarily regulated by the NZX, complies with the NZX Listing Rules, and is exempt from complying with most of the ASX Listing Rules (based on the principle of substituted compliance).

Mercury NZ Limited

The following persons held office as directors of Mercury NZ Limited as at the end of the 2016/2017 financial year, being 30 June 2017: Joan Withers, Prue Flacks, James Miller, Mike Taitoko, Keith Smith, Patrick Strange and Andy Lark. Mike Allen resigned as a director on 3 November 2016.

Subsidiary Companies

The following persons held office as directors of subsidiaries of Mercury NZ Limited during FY2017:

Company name	Directors
Bosco Connect Limited	Fraser Whineray William Meek Tony Nagel
Glo-Bug Limited	Fraser Whineray William Meek Tony Nagel
Kawerau Geothermal Limited	Fraser Whineray William Meek Tony Nagel
Mercury Energy Limited	Fraser Whineray William Meek Tony Nagel
Metrix Limited	Fraser Whineray William Meek Tony Nagel
Mighty Geothermal Power International Limited	Fraser Whineray William Meek Tony Nagel
Mighty Geothermal Power Limited	Fraser Whineray William Meek Tony Nagel
Mercury ESPP Limited (formerly Mighty River Power ESPP Limited)	William Meek Tony Nagel Marlene Strawson
Mercury Geothermal Limited (formerly Mighty River Power Geothermal Limited)	Fraser Whineray William Meek Tony Nagel

Mercury LTI Limited (formerly Mighty River Power LTI Limited)	Mike Allen ⁴ Karen Clayton ⁴ Prue Flacks Mike Taitoko ³ Howard Thomas ³
Mighty River Power Limited (formerly Ngatamariki MRP Limited)	Fraser Whineray William Meek Tony Nagel
Blockchain Energy Limited (formerly Rotokawa MRP Limited)	Fraser Whineray William Meek Tony Nagel
MRP FinCo-Chile Limited ¹	Samuel Moore Carol Brougham
MRP FinCo-Peru Limited ¹	Samuel Moore Carol Brougham
MRP Holdings-Chile Limited ¹	Samuel Moore John Carbone Nikolai de Giorgio
MRP Holdings-Peru Limited ¹	Samuel Moore Carol Brougham
MRP NRI-Chile Holdings Limited ²	Samuel Moore John Carbone Nikolai de Giorgio
MRP NRI-Peru Holdings Limited ²	Samuel Moore John Carbone Nikolai de Giorgio
MRP NRI-Germany Holdings Limited ²	Samuel Moore John Carbone Nikolai de Giorgio
MRP Holdings-Germany Limited ¹	Samuel Moore Carol Brougham
MRP FinCo-Germany Limited ¹	Samuel Moore Carol Brougham
Mercury Solar Limited	Fraser Whineray William Meek Tony Nagel
What Power Crisis (2016) Limited	Fraser Whineray William Meek Tony Nagel
Ngatamariki Geothermal Limited	Fraser Whineray William Meek Tony Nagel
Rotokawa Generation Limited	William Meek Nicholas Clarke Michael Stevens ³
Rotokawa Geothermal Limited	Fraser Whineray William Meek Tony Nagel Michael Stevens ³
Rotokawa Joint Venture Limited (50%)	Aroha Campbell Kevin Mcloughlin William Meek Nicholas Clarke Mark Thompson Michael Stevens ³
Special General Partner Limited	Fraser Whineray William Meek Tony Nagel

1 Company dissolved during FY17

2 Company in voluntary liquidation at 30 June 2017

3 Directors who have been appointed during FY17

4 Directors who have resigned during FY17

OTHER DISCLOSURES

Waivers from the New Zealand and Australian Stock Exchanges

ASX

ASX has granted waivers in respect of the ASX Listing Rules to allow the Constitution to contain provisions reflecting the ownership restrictions imposed by the Public Finance Act and to allow the Crown to cancel the sale of shares to applicants who acquire shares under the General Offer and are not New Zealand Applicants.

The majority of the waivers that ASX previously granted to the Company are no longer relevant following the change to the Company's admission category to an ASX Foreign Exempt Listing. The waivers from ASX Listing Rules 8.10 and 8.11 continue to apply. These waivers permit the Constitution to contain provisions:

- allowing the Crown and the Company to enforce the 10% limit; and
- enabling the Company to prevent shareholders who acquired shares under the General Offer and are not New Zealand applicants from transferring those shares and to enable the Company to sell those shares.

Information about Mercury NZ Limited Ordinary Shares

This statement sets out information about the rights, privileges, conditions and limitations, including restrictions on transfer, that attach to shares in the Company.

Rights and privileges

Under the Constitution and the Companies Act 1993 ("Companies Act"), each share gives the holder a right to:

- attend and vote at a meeting of shareholders, including the right to cast one vote per share on a poll on any resolution, such as a resolution to:
 - appoint or remove a director;
 - adopt, revoke or alter the Constitution;
 - approve a major transaction (as that term is defined in the Companies Act);
 - approve the amalgamation of the Company under section 221 of the Companies Act; or
 - place the Company in liquidation;
- receive an equal share in any distribution, including dividends, if any, authorised by the Board and declared and paid by the Company in respect of that share;
- receive an equal share with other shareholders in the distribution of surplus assets in any liquidation of the Company;
- be sent certain information, including notices of meeting and Company reports sent to shareholders generally; and
- exercise the other rights conferred upon a shareholder by the Companies Act and the Constitution.

Restrictions on ownership and transfer

The Public Finance Act 1989 ("Public Finance Act") includes restrictions on the ownership of certain types of securities issued by the Company and consequences for breaching those restrictions. The Constitution

incorporates these restrictions and mechanisms for monitoring and enforcing them.

A summary of the restrictions on the ownership of shares under the Public Finance Act and the Constitution is set out below. If the Company issues any other class of shares, or other securities which confer voting rights, in the future, the restrictions summarised below would also apply to those other classes of shares or voting securities.

51% Holding

The Crown must hold at least 51% of the shares on issue.

The Company must not issue, acquire or redeem any shares if such issue, acquisition or redemption would result in the Crown falling below this 51% holding.

10% Limit

No person (other than the Crown) may have a 'relevant interest' in more than 10% of the shares on issue ("10% Limit").

The Company must not issue, acquire or redeem any shares if it has actual knowledge that such issue, acquisition or redemption will result in any person other than the Crown exceeding the 10% Limit.

Ascertaining whether a breach has occurred

If a holder of shares breaches the 10% Limit or knows or believes that a person who has a relevant interest in shares held by that holder may have a relevant interest in shares in breach of the 10% Limit, the holder must notify the Company of the breach or potential breach.

The Company may require a holder of shares to provide it with a statutory declaration if the Board knows or believes that a person is, or is likely to be, in breach of the 10% Limit. That statutory declaration is required to include, where applicable, details of all persons who have a relevant interest in any shares held by that holder.

Determining whether a breach has occurred

The Company has the power to determine whether a breach of the 10% Limit has occurred and, if so, to enforce the 10% Limit. In broad terms, if:

- the Company considers that a person may be in breach of the 10% Limit; or
- a holder of shares fails to lodge a statutory declaration when required to do so or lodges a declaration that has not been completed to the reasonable satisfaction of the Company,

then the Company is required to determine whether or not the 10% Limit has been breached and, if so, whether or not that breach was inadvertent. The Company must give the affected shareholder the opportunity to make representations to the Company before it makes a determination on these matters.

Effect of exceeding the 10% Limit

A person who is in breach of the 10% Limit must:

- comply with any notice received from the Company requiring them to dispose of shares or their relevant interest in shares, or take any other steps that are specified in the notice, for the purpose of remedying the breach; and

- ensure that they are no longer in breach within 60 days after the date on which they became aware, or ought to have been aware, of the breach. If the breach is not remedied within that timeframe, the Company may arrange for the sale of the relevant number of shares on behalf of the relevant holder. In those circumstances, the Company will pay the net proceeds of sale, after the deduction of any other costs incurred by the Company in connection with the sale (including brokerage and the costs of investigating the breach of the 10% Limit), to the relevant holder as soon as practicable after the sale has been completed.

If a relevant interest is held in any shares in breach of the 10% Limit then, for so long as that breach continues:

- no votes may be cast in respect of any of the shares in which a relevant interest is held in excess of the 10% Limit; and
- the registered holder(s) of shares in which a relevant interest is held in breach of the 10% Limit will not be entitled to receive, in respect of the shares in which a relevant interest is held in excess of the 10% Limit, any dividend or other distribution authorised by the Board in respect of the shares.

However, if the Board determines that a breach of the 10% Limit was not inadvertent, or that it does not have sufficient information to determine that the breach was not inadvertent, the registered holder may not exercise the votes attached to, and will not be entitled to receive any dividends or other distributions in respect of, any of its shares.

An exercise of a voting right attached to a share held in breach of the 10% Limit must be disregarded in counting the votes concerned. However, a resolution passed at a meeting is not invalid where votes exercised in breach of the voting restriction were counted by the Company in good faith and without knowledge of the breach.

The Board may refuse to register a transfer of shares if it knows or believes that the transfer will result in a breach of the 10% Limit or where the transferee has failed to lodge a statutory declaration requested from it by the Board within the prescribed timeframe.

Crown directions

The Crown has the power to direct the Board to exercise certain of the powers conferred on it under the Constitution (for example, where the Crown suspects that the 10% Limit has been breached but the Board has not taken steps to investigate the suspected breach).

Trustee corporations and nominee companies

Trustee corporations and nominee companies (that hold securities on behalf of a large number of separate underlying beneficial holders) are exempt from the 10% Limit provided that certain conditions are satisfied.

Share Cancellation

In certain circumstances, shares could be cancelled by the Company through a reduction of capital, share buy back or other form of capital reconstruction approved by the Board and, where applicable, the shareholders.

Sale of less than a Minimum Holding

The Company may at any time give notice to a shareholder holding less than a Minimum Holding of shares (as that term is defined in the NZX

Main Board Listing Rules) that if, at the end of 3 months after the date the notice is given, shares then registered in the name of the holder are less than a Minimum Holding the Company may sell those shares through the NZX Main Board or in some other manner approved by NZX Limited, and the holder is deemed to have authorised the Company to act on behalf of the holder and to sign all necessary documents relating to the sale.

For the purposes of the sale and of Rule 5.12 of the ASX Settlement Operating Rules, where the Company has given a notice that complies with Rule 5.12.2 of the ASX Settlement Operating Rules, the Company may, after the end of the time specified in the notice, initiate a Holding Adjustment to move the relevant shares from that CHESS Holding to an Issuer Sponsored Holding (as those terms are defined in the ASX Settlement Operating Rules) or to take any other action the Company considers necessary or desirable to effect the sale.

The proceeds of the sale of any shares sold for being less than a Minimum Holding will be applied as follows:

- first, in payment of any reasonable sale expenses.
- second, in satisfaction of any unpaid calls or any other amounts owing to the Company in respect of the shares.
- the residue, if any, must be paid to the person who was the holder immediately before the sale or his or her executors, administrators or assigns.

Cancellation of sale of shares

The Crown may cancel the sale of shares to an applicant under the offer of shares by the Crown (the Offer) in the Mighty River Power Share Offer Investment Statement and Prospectus if the applicant misrepresented its entitlement to be allocated shares under the Offer as a 'New Zealand Applicant' (as that term is defined in the Share Offer Investment Statement and Prospectus). If the Crown cancels a sale of shares on those grounds:

- the Company must sell shares held by that applicant, up to the number of shares sold to it under the Offer, irrespective of whether or not those shares were acquired by the applicant under the Offer (unless the applicant had previously sold, transferred or disposed of all of its shares to a person who was not an associated person of the applicant); and
- the applicant will receive from the sale the lesser of:
 - the sale price for the shares less the costs incurred by the Crown and the Company; and
 - the aggregate price paid for the shares less those costs, with any excess amount being payable to the Crown.

If an applicant who misrepresented their entitlement to shares has sold, transferred or otherwise disposed of shares to an associated person, then the power of sale will extend to shares held by that associated person, up to the number of shares transferred, sold or otherwise disposed of to the associated person by the relevant applicant.

Donations

Donations of \$126,090 were made by the Group during the year ended 30 June 2017 (\$100,637 during the year ended 30 June 2016).

OTHER DISCLOSURES (CONTINUED)

Other Disclosures

Mercury NZ Limited is incorporated in New Zealand and is not subject to Chapters 6, 6A, 6B and 6C of the Corporations Act 2001 (Australia).

Mercury will not acquire any classified assets in circumstances in which the ASX Listing Rules would require the issue of restricted securities, without the written consent of ASX.

On 22 August 2017 the Board declared a fully imputed final dividend of 8.8 cents per share and a fully imputed special dividend of 5 cents per share to be paid on 29 September 2017 to all shareholders who are on the Company's share register at 5.00pm on the record date of 14 September 2017. The dividends will be imputed at a corporate tax rate of 28% which amounts to an imputation credit of 3.42 cents per share for the final dividend and 1.94 cents per share for the special dividend. The Company will also pay a supplementary dividend of 1.55 cents per share relating to the final dividend and 0.88 cents per share relating to the special dividend to non-resident shareholders. The Company will receive from the New Zealand Inland Revenue Department a tax credit equivalent to supplementary dividends.

These dividends together with the interim dividend of \$79.8 million (5.8 cents per share) paid to shareholders on 3 April 2017 brings total declared dividends to \$269.8 million (or 19.6 cents per share).

As at the date of this annual report, the Company has a Standard & Poor's BBB+ rating with a stable outlook. The Company benefits from a one notch uplift due to the Crown's majority ownership.

The Company's Net Tangible Assets per Share (excluding treasury stock) as at 30 June 2017 was \$2.37, compared with \$2.36 at 30 June 2016.

SHAREHOLDER INFORMATION

Shareholder enquiries

Changes in address, dividend payment details and investment portfolios can be viewed and updated online: www.investorcentre.com/nz. You will need your CSN and FIN numbers to access this service.

Enquiries may be addressed to the Share Registrar (see Directory for contact details).

Investor information

Our website at www.mercury.co.nz is an excellent source of information about what's happening within the company.

Our Investor Centre allows you to view all regular investor communications, information on our latest operating and financial results, dividend payments, news and share price history.

Electronic shareholder communication

It is quick and easy to make the change to receiving your reports electronically. This can be done either:

- Online at www.investorcentre.com/nz by using your CSN and FIN numbers (when you log in for the first time). Select 'View Portfolio' and log in. Then select 'Update My Details' and select 'Communication Options'; or
- By contacting Computershare Investor Services Limited by email, fax or post.

GLOSSARY

Free Cash Flow	Is net cash flow from operating activities less normalised stay-inbusiness capital expenditure
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Generation-weighted Average Price (GWAP)	Generation Weighted Average Price of electricity generated and sold to the wholesale electricity market
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GWh	Gigawatt hour. One gigawatt hour is equal to one million kilowatt hours
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Load-weighted Average Price (LWAP)	Load Weighted Average Price of electricity purchased from the wholesale electricity market
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Lost-time Injury Frequency Rate (LTIFR)	A measure of the number of injuries resulting in lost time per 200,000 hours worked, including employees and on-site contractors
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MWh	Megawatt hour. One megawatt hour is equal to 1,000 kilowatt hours. A megawatt hour is the metering standard unit for the wholesale market
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Smart meters	Advanced electricity meters that are a replacement for analogue meters, and send electronic meter readings to your energy retailer automatically
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Spot market/ wholesale market	The buying and selling of wholesale electricity is done via a 'pool', where electricity generators offer electricity to the market and retailers bid to buy the electricity. This market is called the spot or physical wholesale market
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Total Recordable Injury Frequency Rate (TRIFR)	A record of the number of reported medical treatment, restricted work, lost time and serious harm injuries per 200,000 hours, including employees and on-site contractors
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DIRECTORY

Board of Directors

Joan Withers, Chair
 Prue Flacks
 Andy Lark
 James Miller
 Keith Smith
 Patrick Strange
 Mike Taitoko

Executive Team

Fraser Whineray,
 Chief Executive

Kevin Angland,
 General Manager Digital Services

Nick Clarke,
 General Manager Geothermal

Phil Gibson,
 General Manager Hydro & Wholesale

Julia Jack,
 Chief Marketing Officer

William Meek,
 Chief Financial Officer

Tony Nagel,
 General Manager Corporate Affairs

Matt Olde,
 Metrix Chief Executive

Marlene Strawson,
 General Manager People & Safety

Company Secretary

Howard Thomas

Investor Relations & Sustainability Enquiries

Tim Thompson
 Head of Treasury & Investor Relations

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Registered Office in Australia

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 Phone: +61 2 8988 5800

Legal Advisors

Chapman Tripp
 Level 35, ANZ Centre
 23-29 Albert Street, Auckland 1010
 PO Box 2206, Auckland
 Phone: +64 9 357 9000

Bankers

ANZ Bank
 ASB Bank
 Bank of Tokyo-Mitsubishi UFJ
 Bank of New Zealand
 Westpac

Credit Rating (reaffirmed December 2016)

Long term: BBB+
 Outlook: Stable

Share Register – New Zealand

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 Private Bag 92 119
 Auckland 1142
 New Zealand

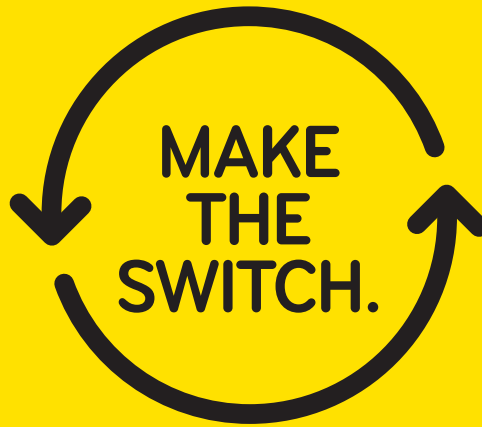
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 Fax: +64 9 488 8787
 Email: enquiry@computershare.co.nz

Web: www.investorcentre.com/nz

Share Register – Australia

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 GPO Box 3329
 Melbourne, VIC 3001
 Australia

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 Fax: +61 3 9473 2500
 Email: enquiry@computershare.co.nz



WE'RE ALL ABOUT OFFERING WONDERFUL CHOICES.

For this report, you have the choice of enjoying Mercury stories from the past year and getting an understanding of the things that matter most to us. This is our 'freedom to choose' section that will give you a sense of who we are and how we bring to life our mission of energy freedom.

Or you have the choice of reviewing our numbers. This is our 'wonderful choice' section that quantifies Mercury's performance against what we've achieved in the past.

We invite you to have a look at both: front to back, or back to front.

The freedom is in your hands.

Speaking of switching, have you thought about getting yourself moving with electricity? More than 4,000 New Zealanders are now driving EVs. They're enjoying a cheaper, cleaner way to get around and benefiting the country while they're at it. We think that's a wonderful choice.

This is how most EVs are charged at home.

