OUR 2018 ANNUAL REPORT


Skyliner

OUR MISSION: ENERGY FREEDOM.

Energy Freedom is an outcome sought for all New Zealanders. It is about New Zealand being less vulnerable economically and better off environmentally through better use of homegrown renewable energy.

REALISING **OUR PURPOSE**

TO INSPIRE NEW ZEALANDERS TO ENJOY ENERGY IN MORE WONDERFUL WAYS

EXECUTING **OUR STRATEGY**

DELIVERING CUSTOMER ADVOCACY

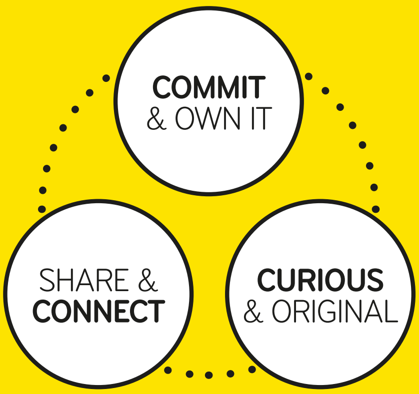
LEVERAGING CORE STRENGTHS

DELIVERING SUSTAINABLE GROWTH

BUILDING ON **OUR FOUNDATION >**

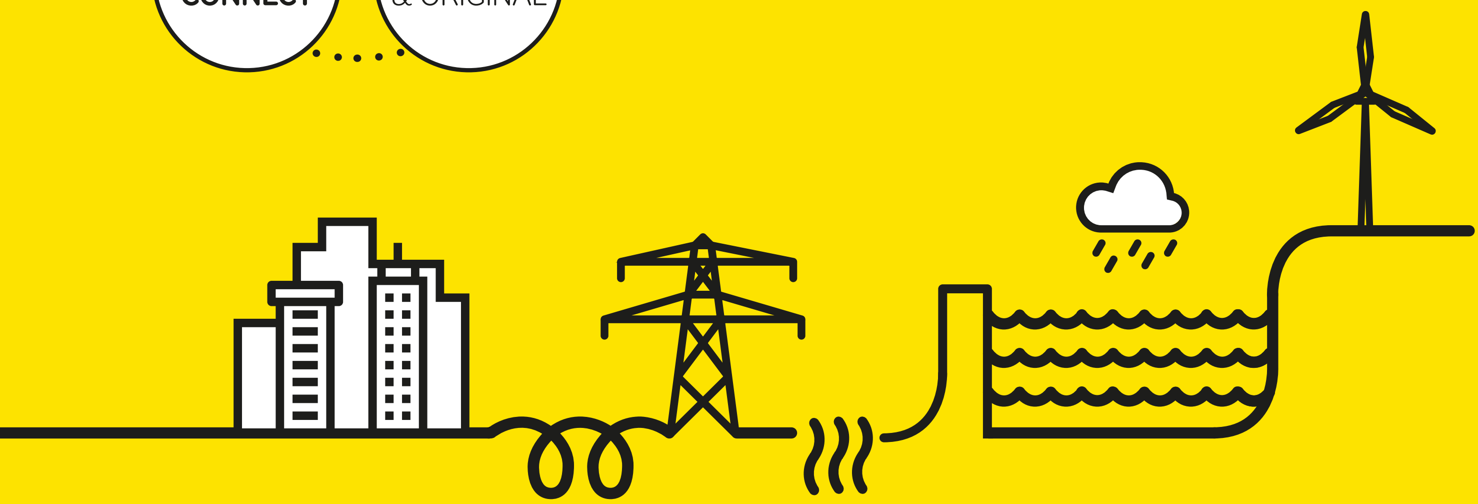
WELLBEING OF OUR PEOPLE AND CUSTOMERS

LIVING
OUR ATTITUDE



ACHIEVING
OUR GOAL

TO BE NEW ZEALAND'S LEADING ENERGY BRAND



KAITIAKITANGA
THE CUSTODIANSHIP OF NATURAL RESOURCES

COMMERCIAL
COMMERCIALLY ASTUTE DECISIONS

AT A GLANCE.

Mercury is an electricity generator, retailer and metering provider whose purpose is to inspire New Zealanders to enjoy energy in more wonderful ways.

We have a long heritage in renewable electricity generation. Hydro and geothermal power stations operated by Mercury generate renewable energy sufficient for 850,000 New Zealand homes. This year we expanded our renewable reach through the acquisition of a 19.99% stake in Tilt Renewables (Tilt) which has a growing portfolio of wind and solar projects in Australasia. We also have our own consented windfarm development options in the lower North Island of New Zealand.

Mercury serves customers through the Mercury brand and other specialty brands, including the leading prepay service GLOBUG.

Mercury's smart metering business, Metrix, enables better energy choices through data. We have a growing solar business, Mercury Solar, with expertise in battery and off-grid solutions. Research and development is also something we do: Mercury is pioneering a scalable, national grid-connected Tesla battery.

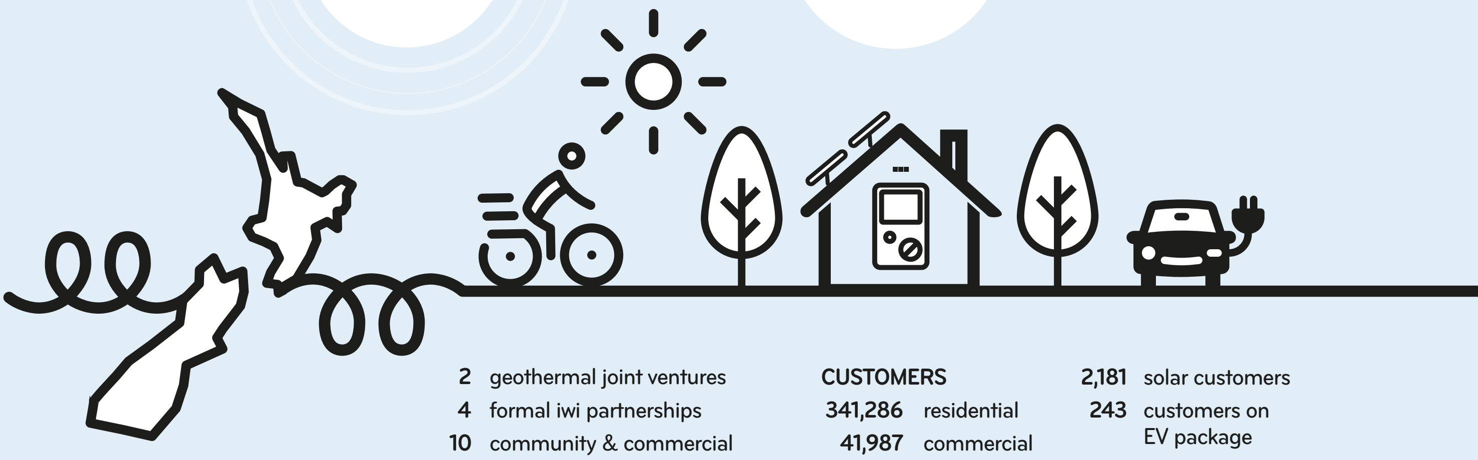
We support our people to be high performers through a commitment to wellbeing, inclusion and development.

Our mission of Energy Freedom is pursued in many ways, including through the electrification of transport. Four years ago, Mercury identified the electrification of transport as New Zealand's greatest opportunity for reducing carbon emissions. 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 New Zealand's leading energy brand: inspiring, rewarding and making things easy for our customers.

91
EVs IN OUR FLEET

16
PARTNERSHIPS

388K
CUSTOMERS



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

CUSTOMERS

341,286	residential
41,987	commercial
1,857	industrial
2,770	spot

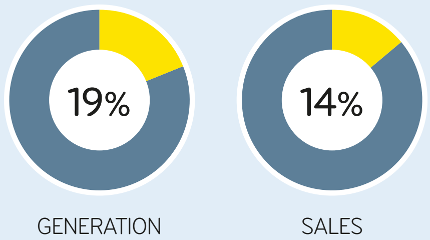
2,181	solar customers
243	customers on EV package

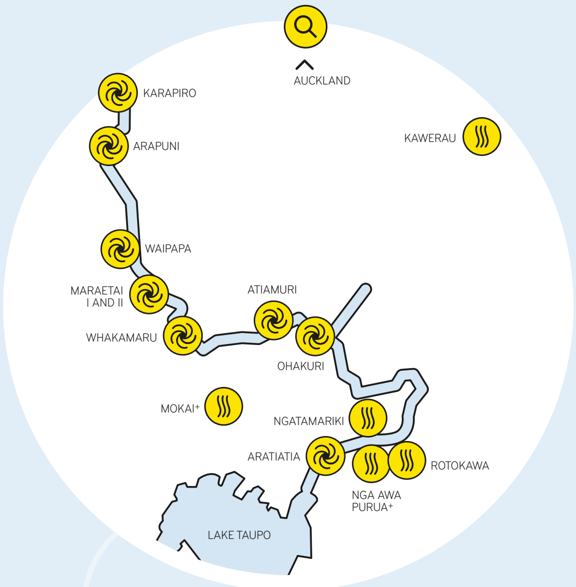
> MERCURY

	FY2018	FY2017	YOY CHANGE
GENERATION VOLUME (GWh)	7704	7533	2.3%
MARKET CAP ($bn as at 30 June)	4.59	4.57	
NET DEBT ($bn as at 30 June)	1.25	1.04	

> INDUSTRY

FY2018 MARKET SHARE



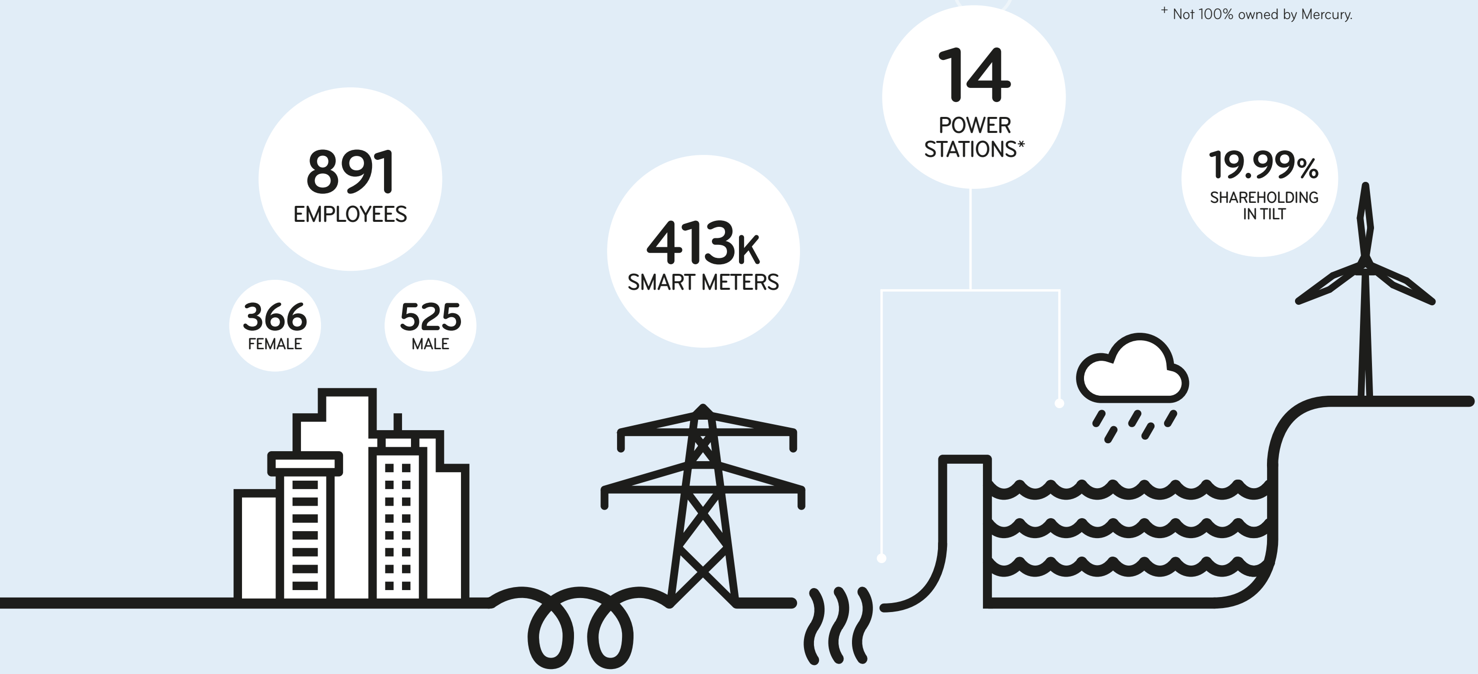


R&D Centre

Hydro stations

Geothermal stations

+ Not 100% owned by Mercury.



606 in Auckland
105 in Hamilton
18 in Taupo
57 in Rotorua
105 in rest of New Zealand

Services include:

> Providing electricity consumption data

> Maintaining & servicing assets

> Installing infrastructure

4,947 GWh of hydro generation

2,757 GWh of geothermal generation

* Two are partnerships with Maori land trusts

“

HIGH QUALITY AND ALIGNED EXECUTION ACROSS A BROAD AND COMPLEX RANGE OF ACTIVITIES HAS BEEN A HALLMARK OF THIS YEAR.

JOAN WITHERS
CHAIR

“

ACROSS KEY FINANCIAL, BRAND AND PEOPLE METRICS, WE HAVE **SET NEW RECORDS** IN FY2018.

FRASER WHINERAY
CHIEF EXECUTIVE

CHAIR'S UPDATE

ALIGNED EXECUTION.

On behalf of your Board it is my pleasure to report to you, our owners, on Mercury's results for FY2018.

Last year I highlighted the momentum evident across the business under Mercury's new brand. That momentum delivered record customer satisfaction results, record employee engagement and record financial results. This year it is extremely heartening for me to see a continuation of this performance, with strong results set in these same areas.

Employee engagement was 81.5% (FY2017 81%). Customer satisfaction was 63% (FY2017 64%). And Mercury has once again achieved record earnings (EBITDAF) of $561 million, up 7% on FY2017, following a second year of record generation.

We made progress with our sustainable growth strategy through the purchase of a 19.99% stake in NZX and ASX-listed Tilt (NZX:TLT) for nearly $144 million, or $2.30 per share.

Mercury also completed an on-market share buyback programme acquiring nearly 15.6 million ordinary Mercury shares (1.1%) for total consideration of NZ$50 million, or NZ$3.21 per share. Consistent with the 2014 buyback, the shares are being held as treasury stock to provide greater balance sheet flexibility.

The buyback and Tilt investment have lifted the company's gearing. We target a standalone rating of BBB (upgraded to BBB+ because of the Crown's 51% shareholding) and at 2.0 we remain at the conservative end of S&P's indicative range of 2.0x to 3.0x debt to EBITDAF ratio. I make further comment on our capital management initiatives later in this report.

Concurrent with this extensive activity, Mercury received significant external recognition, with 22 awards won across the organisation through the financial year. These included awards for our contact centre (teams and individuals); for our marketing (two major awards for our brand work); for our innovation (our Auckland R&D Centre); for our legal team; and two awards for our people: Workplace Engagement Programme of the Year and Best Workplace.

OUR RETURNS

Due to levels of rainfall higher than average across almost the entire year, Mercury's hydro generation of 4,947GWh was 223GWh up on FY2017, a new record.

Total Shareholder Return (TSR), or the return from dividends paid and share price changes, within FY2018 was 7.5%. TSR was negatively impacted by our removal from the MSCI global standard index, as the significant share price escalation of A2 Milk (NZX:ATM) triggered its inclusion in our place. Given the number of funds mandated to follow the MSCI index, this event resulted in record levels of shares transacting over a very short period of time.

The Board is pleased to be returning $207 million in total ordinary dividends to our nearly 85,000 owners, including the Crown, from cash flows generated through the year. Details of our final ordinary dividend are outlined later in this update.

While delivering strong financial results, Mercury continues to play a broader role in support of its customers, communities and the country that distinguishes the business in a highly competitive market.

During the year Mercury continued to influence the national narrative on energy and transport innovation, promoting the electrification of transport and initiating a scalable national grid connected 1MW/2MWh battery trial to be commissioned in August 2018.
As a board, we are delighted with the role Chief Executive Fraser Whineray has played in being a very early protagonist of the benefits to be gained by the country moving to a renewable energy target, rather than just a renewable electricity target, and the importance of the electrification of vehicles as part of that goal. We also influenced the regional narrative on water, working collaboratively with iwi and other stakeholders who desire long-term sustainable outcomes across the Waikato River catchment. Mercury co-led a multi-stakeholder visit across three Australian states to the complex and diverse Murray Darling basin in August 2017.

Mercury also influenced the sector's narrative on safety. This year the sector's StayLive workplace safety programme, strongly supported by Mercury, won the Electricity Engineers' Association's workplace safety award, while Mercury advanced its detailed process safety programme across its Mokai, Ngatamariki and Rotokawa geothermal sites in collaboration with other geothermal operators.

PEOPLE, LEADERSHIP AND GOVERNANCE

High quality and aligned execution across a broad and complex range of activity has been a hallmark of this year, which Fraser will outline in his update.

As a board, we are absolutely committed to delivering the best possible governance to the company. Again, this year, we have conducted an externally facilitated board performance review. Our board has been acknowledged in the highly regarded Corporate Confidence Index which measures institutional confidence in 50 major listed companies across Australia and New Zealand as being in the top six in critical areas such as effective board, high standard of corporate governance and appropriate board composition.

The composition of our board is always under review and this year we were delighted to have Scott St John join us. Scott's investment banking and wider commercial background is a valued addition to our mix of skills and experience. You can see the graphical description of those skills on page 34 of our 2018 Financial Report.

I announced at the 2016 Annual Shareholders' Meeting that I would not be seeking re-election beyond my current term which will end at the 2019 ASM. Succession planning for my replacement as Chair is underway and we are blessed in that we have a number of high calibre contenders currently sitting as directors. Under our constitution the Minister of Finance must approve the appointment of the Chair and I have great confidence your board will provide an excellent successor for ratification.

Mercury has been and continues to be a strong supporter of the Future Directors programme which aims to improve the pipeline of younger talent coming into governance. We said farewell to Nicky Ashton in December and we have just appointed Anna Lissaman, Director of People and Talent at TVNZ, to the Future Director position for an 18-month period from 1 July 2018.

Within the business, there has been considerable focus on making human capital a competitive advantage for Mercury through the development and implementation of a High Performance Team framework. This has focused very much on how formal and informal teams interact, self-diagnose and improve team performance.

Our commitment to the wellbeing of people at Mercury is fundamental to the sustainability of our business. Our goal continues to be Zero Harm. We were unsuccessful in that goal, though we are very pleased to report that there were no serious injuries this year.

"MERCURY CONTINUES TO PLAY A BROADER ROLE IN SUPPORT OF ITS CUSTOMERS, COMMUNITIES AND THE COUNTRY THAT DISTINGUISHES THE BUSINESS IN A HIGHLY COMPETITIVE MARKET.

$561M
RECORD EARNINGS

7.5%
TOTAL SHAREHOLDER RETURN

4,947GWh
A NEW RECORD HYDRO GENERATION

“ ORDINARY DIVIDEND GUIDANCE HAS BEEN ISSUED AT 15.5 **CENTS PER SHARE**, AN INCREASE OF 2.6% ON FY2018.

Our measure, Mercury's total recordable injury frequency rate (TRIFR), was 0.87 (down from 1.05 FY2017). Eighty-nine percent of employees confirm that Mercury cares about the wellbeing of its people, compared with the 2017 benchmark across all New Zealand organisations of 79%.

RETURNING VALUE

As noted earlier, your Board is pleased to be returning a total of $207 million to our owners, including the Crown, for the full year.

The final ordinary dividend is 9.1 cents per share, fully imputed. This brings the full year fully imputed ordinary dividend to 15.1 cents per share, up from 14.6 cents per share in FY2017. This represents an increase of 0.1 cents per share on guidance as a result of fewer shares on issue following our share buyback.

Mercury's dividend is consistent with our 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 represents the tenth consecutive year of ordinary dividend growth.

Mercury's final dividend will be paid to shareholders on 28 September 2018.

Our capital management initiatives support Mercury's investment-grade credit rating (BBB+), which was reaffirmed by S&P Global Ratings in December 2017.

We have issued guidance for the FY2019 year based on forecast hydro generation of 4,200GWh, 200GWh above average based on catchment inflows and generation year-to-date.

EBITDAF guidance for FY2019 is $515 million, subject to any material events, significant one-off expenses or other unforeseeable circumstances including hydrological conditions.

Ordinary dividend guidance has been issued at 15.5 cents per share, an increase of 2.6% on FY2018, again reflecting fewer shares being on issue following our share buyback.

Stay-in-business capital expenditure guidance is $95 million due to planned hydro, geothermal and technology investments in FY2019, as well as investment in people and culture through Mercury's Auckland office consolidation to Newmarket.

CONNECTING

I look forward to providing an update on Mercury's business performance and strategic priorities at our ASM in Auckland. This year's meeting will be held earlier than in the past, on 28 September. This has been arranged following feedback, expressing a desire for us to discuss our results with you, our owners, in closer proximity to them having been finalised. Owners not able to attend can follow proceedings on a live webcast and you can cast a proxy vote on any resolutions by post or online.

We will also talk about our business at a retail investor roadshow at a number of locations around the country late in the first half of the new financial year.

CONCLUSION

What has heartened me most through the year has been the strong alignment evident across Mercury as we build on our heritage through quality execution of our strategic plan.

I extend my sincere thanks to my colleagues on the board and I especially want to pay tribute to our Chief Executive Fraser Whineray, his executive group and all our team members across the country for their dedication, commitment and contribution to Mercury's achievements. I gratefully acknowledge our customers, partners, other stakeholders and you, our owners, for your continued trust and support.

JOAN WITHERS, CHAIR

CHIEF EXECUTIVE'S UPDATE

CUSTOMER, COMMUNITY, COUNTRY.

Since rebranding two years ago, Mercury has continued to accelerate the execution of its strategy to deliver customer advocacy, leverage core strengths and achieve sustainable growth.

Across key financial, brand and people metrics, we have set new records in FY2018 above the previous records achieved in FY2017. We are pleased to have advanced these in strong alignment with our mission of Energy Freedom; for customers and the country.

A fundamental driver of performance has been a clear customer-led approach backed by a comprehensive lift in leadership capability throughout Mercury. The team is in very good shape, has a clear direction and is showing strong momentum early in FY2019. The year ahead will see our growth strategy take a stronger prominence, building on our underlying core business execution.

FINANCIAL PERFORMANCE

It rained. The resulting record Waikato Hydro scheme generation was the primary driver in lifting EBITDAF to record levels. However, capturing value from those inflows would not have been possible without the expertise and efforts of our people. In flood or drought, teams throughout the company dynamically manage planned and unplanned plant maintenance, our portfolio and wholesale markets positions and hundreds of resource consent conditions as part of environmental stewardship.

It continues to be clear that the value of the Waikato Hydro scheme as a buffer to nature's volatility is as fundamental to the Waikato community as it is for its contribution to New Zealand's renewable electricity generation. Absent the Waikato Hydro scheme, the rainfall over the last few years, particularly with the ex-cyclones of 2017, would have likely resulted in extensive environmental and public and private asset damage around Taupo and throughout the lower Waikato. We continue to enjoy a very strong relationship with the Waikato Regional Council who is the flood and drought manager for the catchment and is the critical co-ordinator in balancing matters across the catchment in such events.

Stay-in-business capital expenditure (SIB CAPEX) of $112 million reflected high quality execution across hydro, geothermal and technology platforms. The reinvestment programme is critical to our sustainability and delivery of renewable energy over the long-term for New Zealanders. The story of our Aratiatia refurbishment is told later in this report.

We have continued a very strong run on cost management with operational expenditure (OPEX) remaining flat at $214 million for five years. We are forecasting to maintain the same levels in FY2019.

TEAMWORK

We have invested in ourselves and our teamwork this year, and the results are strong. On the back of our FY2017 employee survey results we were assessed as the best workplace in New Zealand (IBM enterprise category, IBM Best Workplace Awards). The internal aspects of our rebranding to Mercury also resulted in Mercury receiving recognition at the New Zealand HR Awards 2018 for the Workplace Engagement Programme of the Year.

In FY2018 our people lifted their engagement to even higher levels. Latterly, this has been through the roll out of a High Performance Team framework to support inclusion, performance and alignment. Our annual employee survey saw our engagement index strengthen further to 81.5% from last year's 81%. The survey also identified that 94% of our people agree or strongly agree that Mercury is committed to the health and safety of our people. The highest employee survey result was in response to the statement that Mercury takes its environmental responsibilities seriously (95.6%).

SAFETY, WELLBEING AND INCLUSION

I am especially pleased that there were no serious injuries for employees and on-site contractors throughout the year, particularly given the very high levels of plant reinvestment activity. StayLive, a large generator and transmission safety information sharing group, received its first external award. This co-operative approach to safety, established by Neal Barclay (now Chief Executive of Meridian), Bob Weir (then Genesis Energy) and myself eight years ago, continues to provide real and growing value to participants.

A very large safety investment was made during the year resulting in the submission of three geothermal safety cases to WorkSafe for review, reflecting a process safety approach at those sites. We are also investing in process safety cases in specific areas elsewhere in the business for key customer and hydro risks.

“

WE HAVE CONTINUED A **VERY STRONG** RUN ON COST MANAGEMENT WITH OPERATIONAL EXPENDITURE REMAINING FLAT AT $214M FOR FIVE YEARS.

891
EMPLOYEES

91%
EMPLOYEES WHO CONFIRM THAT MERCURY HAS A CLEAR VISION OF WHERE IT IS GOING, COMPARED TO 2017 ALL NZ ORGANISATIONS BENCHMARK OF 76%[1]

94%
EMPLOYEES CONFIRM MERCURY IS COMMITTED TO HEALTH AND SAFETY, COMPARED TO ALL ORGANISATIONS BENCHMARK OF 85%

Wellbeing and inclusion continue to be focus areas that underpin effective delivery of our strategy. They are reported on further in the governance section of this report.

On behalf of everyone at Mercury, I acknowledge the passing during the year of two employees who made a wonderful contribution to Mercury, Dave Keppel and Eucharist (Naisa) Ng Shiu. Dave and Eucharist are fondly remembered, and our thoughts are with their families.

ENJOYING THE ENERGY

Our brand continues to strengthen, with awareness and satisfaction measures reaching record levels during FY2018. This is in part driven by our campaign to take the message about New Zealand's renewable energy advantage – and Energy Freedom – from the head to the heart. We have brought this to life through the story of customers enjoying life through a classic '57 Ford Fairlane converted to the wonderful energy of electricity thanks to: a specialist Dunedin workshop, Control Focus; a Hamilton power electronics company, Scott Drive; a bus-strength electric motor from Siemens, Germany; and a lot of creativity from our marketing team and our agency FCB.

More than 80% of New Zealanders love our EV ad campaign which has translated to record high positivity toward Mercury.

There is a very important New Zealand narrative behind Mercury's extensive and four-year strong campaign on electric vehicles, namely the country's Energy Freedom. At our 2014 ASM we committed to 70% of our vehicle fleet being electric in 2018. We achieved that one year early, with one of New Zealand's largest business sector EV fleets of 91 vehicles. We also predicted at the time that the number of EV's sold would exceed the number of solar installations if the facts of the environmental and economics benefits became well known. This milestone was reached for New Zealand in October 2017.

Mercury continues to focus on the things our loyal customers tell us they want; inspiring, rewarding and making things easy for them.

1 IBM Workplace Engagement Survey Benchmark

“MORE THAN 93,000 **CUSTOMERS ENJOY** DETAILED ENERGY USAGE DATA THROUGH OUR **GEM SYSTEM**.

Customers have continued to enjoy wonderful experiences on e.bikes. More than 1,200 people are estimated to have ridden e.bikes at Mercury ride days, and e.bike ownership continues to grow strongly. A partnership with Big Street Bikers in downtown Auckland introduced a solar powered e.bike "rechargery", a bike-by-the-hour scheme, as well as rent-to-buy options with discounts for Mercury customers.

Mercury's Free Power Day concept is always well subscribed. Around 90,000 customers enjoyed a June Free Power Day. One long-term customer and owner, Mr Warren Johns, later in this report wonderfully tells his story of how this day inspired him to clean, bake and connect with friends in his home of over 50 years.

INNOVATION

Our approach to innovation is to be alongside our customers as opportunities are tested and proven to be viable, feasible and desirable – not just one or other of these measures. More than 93,000 customers enjoy detailed energy usage data weekly through our GEM system. Through GEM our customers have, for more than five years now, been able to understand their energy consumption down to the half-hour, receive estimates of their consumption by usage in the home, receive emails predicting their month end bill and also weekly updates to help them manage consumption in near real time. We have launched a loyalty focused customer app for smart devices, the current release of which incorporates access to these on-line GEM features.

Our digital experience (DX) team has been working on smart device voice activated services with Amazon's Alexa, the first energy company in New Zealand to do so.

Many of our customers experienced power outages during April's storms. Using our Incident Management Plan, we implemented a widespread and coordinated effort across our metering and retail teams to minimise the consequences to our customers. This included placing a team from our award-winning contact centre into a network company to reduce its call queues and creatively meshing smart meter data to more accurately identify affected homes to help network companies with power restoration.

MEETING CUSTOMER NEEDS

GLOBUG continues to be New Zealand's largest pre-pay electricity provider. We work closely with various social services around the provision of this pre-pay product which, by design, helps avoid the potential for customers to build up unmanageable debt.

GLOBUG gets considerable media attention at times, partly because of some of the vulnerable customers that it helps. We remain committed to this product for the role it plays in giving consumers choice. GLOBUG customer numbers, despite high churn, are relatively flat year on year,

“GLOBUG CONTINUES TO BE NEW ZEALAND'S LARGEST PRE-PAY ELECTRICITY PROVIDER

90K
CUSTOMERS ENJOYED A JUNE FREE POWER DAY

1,200
CUSTOMERS HAVE ENJOYED RIDING MERCURY E.BIKES

showing that this is a very important part of the market. The data clearly shows that GLOBUG's net impact is to keep the lights on.

OUR VOICE

Consistent with my report last year, we continue to work towards a reset of distribution pricing settings and are engaged in a number of trials with network companies. We remain highly focused on seeing New Zealand adopt a low carbon energy target, and ideally removing the renewable electricity target. We will continue to promote the electrification of transport, in its many forms including heavy transport, as this country's greatest achievable opportunity for reducing carbon emissions. We will continue to engage with decision makers to convey the importance of deep energy storage for New Zealand's security of supply (and Energy Freedom).

We intend to ramp up our activity in FY2019 to influence Government, NGOs and the business sector to focus on meaningful, scalable and connected solutions to climate change which fit a New Zealand context. I am concerned at the tendency towards 'window-dressing' that masks big carbon emissions by reporting small advances in reporting or offsetting. "Every little bit" does not always help when it results in countries and their citizens misallocating their time, effort and capital to tackle a global issue which commands only our best collective performance.

GUARDIANSHIP

Our ultra long-term approach has seen us continue to focus on kaitiakitanga, or guardianship, of the resources and environment that support our contribution to New Zealand.

During the year Mercury, working alongside iwi partners and other stakeholders, arranged a study tour of Australia's Murray/Darling catchment to korero, grow relationships, and consider how collaboratively we can support the best long-term outcomes for the health and wellbeing of New Zealand's most essential water catchment.

We also continue to invest in maintaining our hydro and geothermal assets. This important work builds on the legacy of those who created them over the course of nearly a century so that they contribute the future of local communities and to New Zealand for many decades to come.

As but one example, at our Kawerau geothermal station we replaced the turbine after 10 years of service in the largest planned shut undertaken at the site. Ongoing curiosity, a common goal and strong teamwork saw the plant achieve daily records and make sustainable production gains across the year. On a recent visit I was delighted to hear from Dean Cowell, who has been a plant operator and technician of the complex facility since opening in 2008, express that the teamwork was the best he had ever known it. There are many similar stories of quality teamwork and execution throughout Mercury.

19.99%

STAKE PURCHASED IN TILT RENEWABLES

GROWTH

In previous annual reports we have outlined our strategy for growth. An opportunity taken this year was the purchase of a 19.99% stake in Tilt. Tilt is well established in Australasia, both in terms of its expertise and its own growth through solar and wind developments. This purchase allows Mercury to benefit from Australia's necessary transition towards levels of renewable electricity that New Zealand has largely achieved. It fits within a broader context of wind growth and development, a journey we have been on now for more than a decade.

Mercury also participated in AGL's divestment process to purchase their smart metering business in Australia, though we were unsuccessful.

MARKET CONDITIONS

Wholesale market conditions have become more volatile with the supply/demand mix rebalancing in combination with periods of average to below average national hydrology. Such volatility plays into the strengths of the Waikato Hydro scheme, the North Island's largest peaking plant.

In FY2019 we look forward to New Zealand's Aluminium Smelter (NZAS) increasing national electricity demand by more than 1% with the restart of its fourth potline at Tiwai Point. This is a positive development for New Zealand-sourced aluminium relative to carbon intensive Australian production.

CAPITAL STRUCTURE

We have strengthened our capital structure by buying back $50 million of Mercury shares for an average price of $3.21 per share. In combination with a buyback in 2014, we now have 2.7% of Mercury's shares as treasury stock, meaning that existing shareholders receive a larger proportion of the company's profits (reflected in a full year dividend higher than guidance for FY2018). It also enables Mercury to re-issue those shares to more easily raise equity capital to support both opportunity and risk management.

Extensive hedging of interest rates was taken out in 2008 prior to the $1.4 billion domestic geothermal development program. These are in the process of rolling off, and we expect a $20 million per annum benefit to post-tax cashflow as interest costs revert to current market levels.

Per our notification to all of our owners in May, I apologise for the error which saw owners' email addresses and Common Shareholder Numbers listed on the Companies Office website for a time. Once this error was identified we made every effort to communicate this transparently, quickly and clearly and have changed the process for lodging information to the Companies Office to prevent a recurrence.

PARTNERSHIPS

Mercury's partnership approach has also created opportunities. This year we announced a plan to trial New Zealand's first large scale, national grid connected, battery electricity trading initiative. Tesla successfully tendered for provision of the battery, and our teams have been working with the Electricity Authority, Transpower and others to enable trading back to the grid from the battery-stored power. We look forward to sharing what we learn over the next year following commissioning in August 2018.

We have the largest partnerships with commercial Maori entities of any NZX company. The investment in geothermal from those entities, ourselves and Contact Energy of more than $3 billion between 1996 and 2014 was responsible for the displacement of large quantities of base load thermal generation from the New Zealand electricity system. This drove the largest reduction in New Zealand's total greenhouse gas emissions over that decade and made geothermal, the only commercial weather independent renewable fuel system, the number two source of electricity in New Zealand,

> “WE HAVE THE LARGEST PARTNERSHIPS WITH COMMERCIAL MAORI ENTITIES OF ANY NZX COMPANY.

$112M
STAY-IN-BUSINESS CAPITAL EXPENDITURE INCLUDED DELIVERY OF KEY TECHNOLOGY PROJECTS AND PLANT REFURBISHMENT

“

THIS YEAR WE ANNOUNCED A PLAN TO TRIAL **NEW ZEALAND'S FIRST** LARGE SCALE, NATIONAL GRID CONNECTED, **BATTERY ELECTRICITY** TRADING INITIATIVE.

behind hydro. In combination with New Zealand's first and largest carbon off-take tender in 2010 of circa $100 million over 15 years covering some 10,000 hectares linked to specific new growth forests, Mercury is carbon positive (our carbon offsets exceed our carbon creation). Our approach is to address those things that make a difference with substantive action, and we will continue to challenge "window dressing" by those who should be doing more.

We acknowledge and recently celebrated the recent 20-year anniversary of the Rotokawa geothermal facility which was opened on 27 June 1998 by the late Kurupai Whata of Ngati Tahu, a mana whenua of the area.

OUR PROGRAMME OF WORK

Last year's annual report (p18) highlighted the key initiatives across our brand, digital assets, generation assets and people we expected to complete in FY2018. All have been achieved.

For FY2019 we highlight the following key activities:

- Continuing to promote New Zealand's competitive advantage in low-cost renewable energy to key Government and regulatory decision makers,
- Actively investing in material growth strategies,
- Embedding our High Performance Team framework,
- Ongoing development of our brand, customer loyalty and digital offerings,
- Ongoing major hydro refurbishment at Aratiatia, Whakamaru and Karapiro,
- Research and development projects including the grid scale battery, solar product development, silica extraction from geothermal fluids and e-mobility extensions,
- Further leverage of our metering data services platforms,
- Resolving long-standing distribution pricing signals for retailers that are compatible with new technology,
- Enhancing the long-term water quality of the Waikato Catchment.

OUTLOOK

We have started FY2019 strongly. With quality execution against our clear mission and strategy from an engaged Mercury team we expect to grow value for our consumers, communities, people, country and owners this year.

Over the past four years we have taken very deliberate steps to simplify and reinvest in the business. The core business is performing strongly, though delivering only incremental growth in a very challenging retail environment. We expect to take more meaningful steps towards growth in the next couple of years. However, as we have demonstrated in the last few years, a commercially disciplined approach is essential.

We continue to listen carefully to all of our stakeholders, in particular the new Government, with its focus on value, fairness and choice for customers; renewable energy; and the regional economy. We have been delivering in these areas and will ensure that they continue to be emphasised.

On behalf of everyone at Mercury I thank you again for being part of our story. There is much more to be done to achieve our mission of Energy Freedom, and progress is very encouraging.

Together we are Mercury.
Energy made wonderful.

Nga mihi nui ki a koutou katoa.

FRASER WHINERAY, CHIEF EXECUTIVE

OUR SUSTAINABILITY STATEMENT.

"SUSTAINABILITY AT MERCURY IS ABOUT ENERGY FREEDOM, BUILT ON OUR FIVE PILLARS OF CUSTOMER, PEOPLE, COMMERCIAL, PARTNERSHIPS AND KAITIAKITANGA. OUR HISTORY GOES BACK ALMOST ONE HUNDRED YEARS AND WE INTEND TO BE HERE FOR AT LEAST A HUNDRED MORE."

During FY2018 Mercury reviewed its approach to integrating sustainability. The starting point was a discussion around the need for a specific statement: something that conveyed simply and concisely our view of sustainability as an essential element of the way we operate, Our Direction.

The resulting statement (above) speaks of Energy Freedom, our mission, and also our vision of sustainability, not just for Mercury, but for New Zealand. Internally it is supported by five pillars: customer, people, commercial, partnerships and kaitiakitanga; and associated focus areas. Our statement signals clearly that we fully intend to build on our proud history for the next century and beyond.

PILLAR:
CUSTOMER
Inspire, reward, make it easy

FOCUS AREAS:
Brand
Loyalty
Experience

PILLAR:
PEOPLE

FOCUS AREAS:
High Performance Teams
Safety and Wellbeing
Capability and Development

PILLAR:
COMMERCIAL

FOCUS AREAS:
Operational Excellence
Generation Development
Sustainable Growth

PILLAR:
PARTNERSHIPS

FOCUS AREAS:
Industry/Research
Iwi
Government

PILLAR:
KAITIAKITANGA

FOCUS AREAS:
Natural Resources
Climate Change
Assets

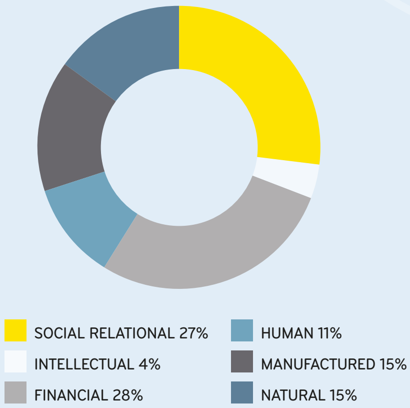
INTEGRATED THINKING

Mercury understands that integrating sustainability means taking an ultra long-term view which guides our thinking, our business planning and the way we operate on a day to day basis.

In FY2018 we took a step back, conducting a detailed review of past disclosures, included revisiting our stakeholders, their expectations of us and the things that they consider important. The result is a simplification of the language used to describe our five pillars and the refinement of associated focus areas. The focus areas are a consolidation and rationalisation of the twenty-two elements of a materiality matrix included in our FY2017 annual report.

The executive then challenged themselves to consider the future and created statements, for each of the focus areas, to succinctly describe what success will look like in 2028 if we have met stakeholder expectations. Theses ten-year forward statements continue to be worked on and through FY2019 will be shared and discussed more widely with our people and our stakeholders.

<IR> capitals weighted to Mercury's Focus Areas



INTEGRATED REPORTING <IR>

Mercury continues to integrate sustainable business practice, refining our approach and the language used, to enable transparent and easily understood disclosures. We think it important to clearly convey our views and intentions.

To ensure our future disclosures meet the expectations of shareholders and investors we mapped our pillars and focus areas against the International Integrated Reporting Framework <IR>. The <IR> requires organisations to reflect on six capitals that are essential for value creation. The capitals: natural, social and relational, manufactured, intellectual, human and financial, also need to be considered from the perspective of minimising future risks to the business or "value destruction".

The process resulted in Mercury being able to map a close correlation between our focus areas and the six capitals. It also confirms we can continue to report and communicate our performance in a language that is already very familiar to our internal and external stakeholders.

As a first step the scorecard is being used to review all FY2019 to FY2023 business unit plans and create a rolled-up group plan.

NEXT STEPS

The first step was to take our pillars and focus areas and create a sustainability scorecard. The scorecard: informs and guides the internal business planning process; provides a consistent approach to shorter term, one and three-year planning cycles and enables Mercury to continue to embrace, and further integrate, sustainability.

We have already started to engage our people on integrating sustainability with specific workshops and presentations to enterprise and business leaders, supported by internal communications. They are therefore directly involved in looking at existing and potentially new key performance indicators (KPIs), measures of success and targets that Mercury can use to measure its performance.

This annual report is another example of a channel to communicate our intentions and inform and educate our stakeholders, including our owners, and we welcome any feedback you may have.

We have included the symbols that represent our five pillars throughout this report to reflect the integrated thinking now underway.

We will continue to develop our use of the integrated reporting framework and other frameworks such as GRI and the United Nations Sustainable Development Goals (SDGs) to ensure our disclosures reflect global standards.

Taking this comprehensive approach to integrating sustainability reduces business risks, identifies potential opportunities and guides engagement with all our stakeholders. We will continue to review and report openly and honestly on our performance on a regular basis to ensure the utmost transparency and we look forward to sharing our progress with you.

CUSTOMER

24 HOURS OF WONDERFUL ENERGY.

Friday 6 June, 0005 hours. It might be the small hours of the morning, but one home in Auckland is glowing with light. A washing machine starts its first cycle of woolly jumpers, bedding and tea towels.

Friday 6 June, 0010 hours. A stove switches on, and a pot of pea and ham soup is underway.

Friday 6 June, 0025 hours. On goes a heater. It stays on for another 19 hours. The oven starts, ready for three fruit cakes and a loaf, all waiting to be baked.

And so begins Warren Johns' day. He had his Free Power Day booked for 6 June and was up at 12 o'clock that morning to make the most of it.

Seven loads of washing completed. Four cakes baked to share with friends. Two hot baths while the rain pattered outside. One batch of slow cooked lamb shanks simmering in the oven. All of this inside a warm toasty house with National Radio playing in the background.

Each of these activities by themselves might not seem like much but together they become something quite special – showing how electricity really delivers a whole host of wonderful options.

Mr Johns, who lives in his family home, has continued the relationship his parents had with us as the original owners of his home. All up, they've been loyal Mercury customers for nearly 20 years – right back to day one of our company's history. He is also one of our investors.

Our relationship with him has grown over time thanks to a series of inspiring, customer-focused initiatives. Our newest advocate for electric vehicles – a 1957 Ford Fairlane converted to plug-in electric and christened Evie – is another great example of "energy made wonderful".

A self-confessed vintage and classic car enthusiast, Mr Johns saw Evie at the 'Galaxy of Cars' show earlier this year. It reminded him of his father's 1937 Ford V8 Coupe. So he talked to our Mercury team, who were on site, about Evie's vitals:

| 2.2 m wide | 5.5m long | 2.2 tonnes | 218 battery cells | 50 kWh capacity | 2 hour charging |

He has had a number of conversations with us during his time with Mercury, but never about a car.

It is a powerful illustration of how our customer promise – to inspire, reward and make things easy – has value across the business. Through partnerships and connecting it helps us learn about what customers expect and value, and that guides innovation. It also allows us to show people the real value of New Zealand's renewable energy.

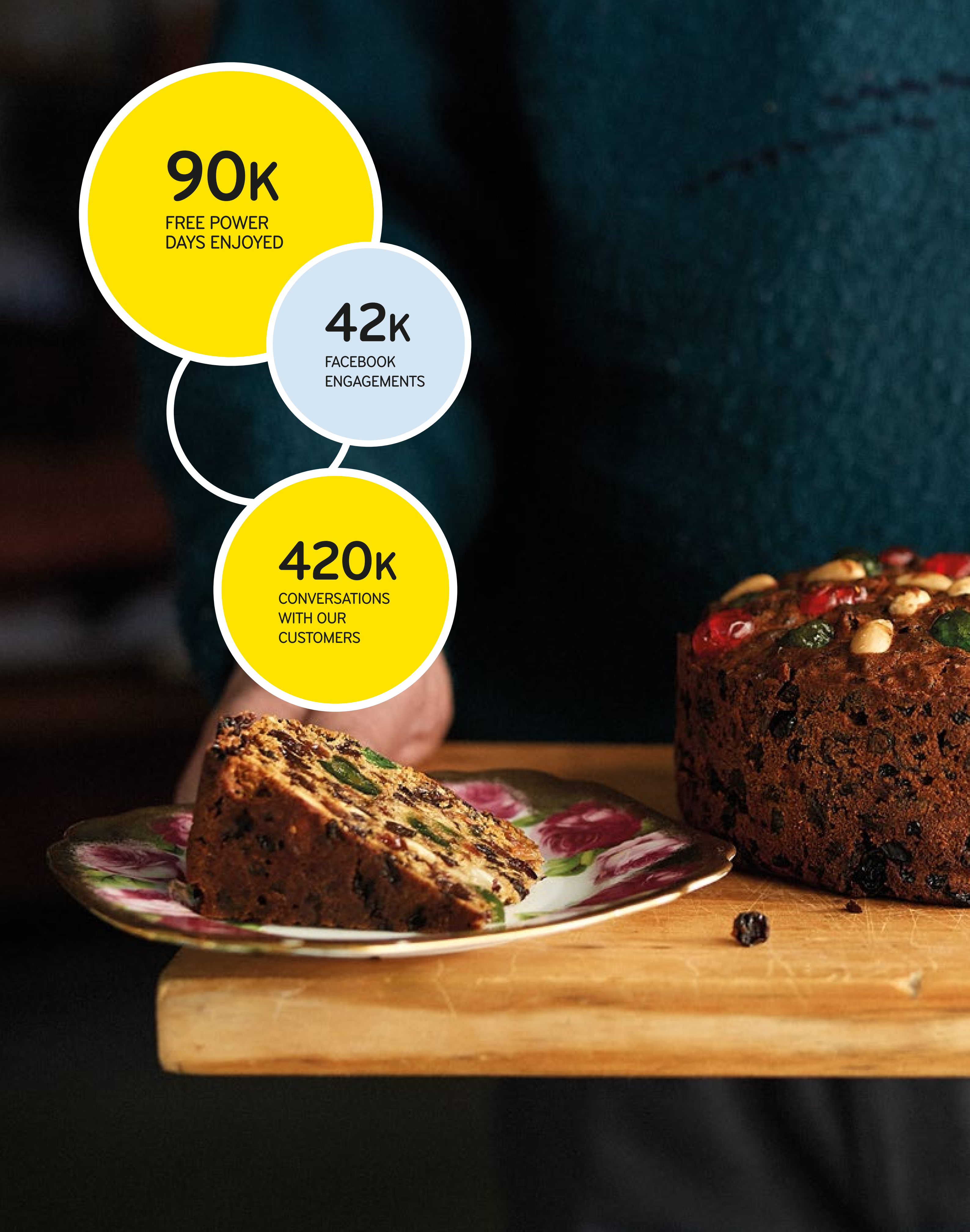
VISIT OUR FACEBOOK PAGE FOR MORE STORIES OF WHAT OUR CUSTOMERS DID WITH THEIR FREE POWER DAYS.

Please visit **facebook.com/mercurynz**

90K
FREE POWER DAYS ENJOYED

42K
FACEBOOK ENGAGEMENTS

420K
CONVERSATIONS WITH OUR CUSTOMERS



WARREN'S STORY

Mr Johns' story came to our attention after he wrote to Fraser, Mercury's Chief Executive, to outline how he used his Free Power Day, his appreciation of Evie and the wonderful ways he has interacted with our people.

Upon receiving the letter, Fraser called Mr Johns to thank him for sharing the story of his wonderful day. As part of Mr Johns' letter he also told us how much he would love to go for a drive in Evie one day. It was an opportunity we couldn't resist, so on 7 August we took him for a ride around his neighbourhood.

See what happened when we picked him up at: http://bit.ly/evieandwarren

EVIE'S STORY

Evie is our beautiful 1957 Ford Fairlane, converted from a gas guzzler to plug-in electric.

She is the poster-child for electric vehicles, and really brings Mercury's mission, Energy Freedom, to life. We think she is the perfect symbol of our escape from the cost (environmental and financial) and reliance on fossil fuels.

We have long promoted the rational benefits of electric vehicles to New Zealanders. At an equivalent of 30c per litre compared with petrol and delivering 2,000kgs in annual reductions in carbon emissions, they've always been an easy decision for the head.

Converting this classic was a way for us to start capturing people's hearts as well. Evie helps people see how wonderful electric vehicles can be.

We plan to use Evie to continue to showcase the outstanding opportunity New Zealand has to achieve energy freedom through renewable electricity powering our transport. If we raise our sights beyond renewable electricity targets to our overall renewable energy use, particularly across the transport and industrial sectors, our country could take major steps towards reducing our overall greenhouse gas emissions and dramatically reduce the cost that imported fuel has on households and the New Zealand economy.

FIND OUT MORE ABOUT EVIE'S STORY.
Please visit **mercury.co.nz/evie**

PEOPLE

NEW THINKING AND HIGH PERFORMANCE TEAMS.

Three graduates (from AUT and MIT) joined Mercury during the year as part of a programme to attract new skills and thinking to our business while introducing our sector to potential future leaders. The graduates spent their first few months engaging directly with customers in Mercury's award-winning Contact Centre.

The graduates brought up-to-the-minute IT skills, fresh thinking and energy. They gained and then have been able to share with Mercury a fresh perspective and their valuable understanding of our customers.

Our Contact Centre teams also benefitted from having the IT graduates onboard. They contributed to process improvements and a new system for working with customers.

The Digital Experience (DX) team are early adopters of Mercury's High Performance Team framework and have utilised this in integrating the graduates into their team.

Siobhan Flynn, a Mercury Information Communication and Technology (ICT) graduate, and Maurice van Leeuwen, Senior Business Analyst, ICT - Digital Delivery, tell their stories.

Mercury's Attitude (our values):

COMMIT AND OWN IT
SHARE AND CONNECT
CURIOUS AND ORIGINAL

SIOBHAN FLYNN
ICT GRADUATE

I started as a graduate in the ICT team last August.

I'm definitely a 'people person'. When I was at school and studying I worked for eight years part time in retail. I loved the customers, and now I work for Mercury it's still all about the connections with the people I work with, as well as knowing that the work makes a positive difference for our customers.

One of the things that attracted me to Mercury was our commitment to renewable energy. It's great that Mercury cares about what's happening in the world, and it's something that people of my generation particularly relate to. It's rewarding to see from the inside the different ways that Mercury tries to connect with its customers and to think about power in different ways such as through Evie, the classic car converted to run on electricity.

Mercury seems ready to change as the world changes.

I started off with three months in Mercury's customer Contact Centre. This is the first time Mercury started ICT graduates there, and it's an amazing way of getting to understand the business, and actually meeting (on the phones) a lot of Mercury customers.

New Contact Centre team members have a full four-week induction, with lots of support for learning and there's a really uplifting spirit evident. In all the teams I've been in there's a feeling of being able to express yourself and be who you really are at work, and I really like the encouragement of individuality.

Right from the beginning in the Contact Centre, we were asked to keep a list of anything that raised a question for us in terms of process, systems, or how they were working. At the end of our time there we had a meeting with the manager and the team leads and ran through the list. We really felt that they listened.

Starting off in the Contact Centre now helps my ICT roles. I'm able to connect what I learned about the business and our customers with how our IT systems and processes impact our customers. An example is knowing the experience our customers have when they join us. It's been great to have that fresh knowledge that I can share with the rest of the ICT team.

My managers also really encourage Mercury's 'Curious and Original' Attitude. If there's something I don't understand, or something I think isn't quite right, I ask. My managers have told me: "you're here to shake up the status quo and challenge us". I've felt very empowered that I can speak up.

5,100
OUR ATTITUDE E-CARDS SENT BY EMPLOYEES TO THEIR PEERS

79%
OF EMPLOYEES AGREE THAT THIS ORGANISATION ENCOURAGES IDEAS AND SUGGESTIONS ON HOW TO IMPROVE THE WAY THINGS ARE DONE, COMPARED TO 2017 NZ ALL ORGS BENCHMARK 71%

84%
OF EMPLOYEES AGREE THAT COOPERATION BETWEEN TEAMS IS ENCOURAGED IN THIS ORGANISATION, COMPARED TO 2017 NZ ALL ORGS BENCHMARK OF 71%

A high performance team is a diverse group of individuals who all have opinions and different thinking styles, and who are supported to give their best to achieve great results.

We use the collective brain power of the team to make things easy for our customers – faster.

527

MERCURY PEOPLE COMPLETED AT LEAST ONE OF OUR 69 DEVELOPMENT TRAINING EVENTS IN FY2018

87%

OF LEADERS COMPLETED TRAINING ON BUILDING HIGH PERFORMANCE TEAMS

MAURICE VAN LEEUWEN
SENIOR BUSINESS ANALYST
ICT – DIGITAL DELIVERY

More and more of our customers are choosing to engage with Mercury through our digital channels. I am a member of the Digital Experience (DX) team. We work mainly on the Mercury website and the online customer portal My Account, to make these experiences easier and more streamlined for our customers. That's how we connect to Mercury's mission of Energy Freedom. This makes business sense too, as it differentiates us from our competitors.

There are seven of us in the team, representing different areas of ICT. But it's actually much bigger than that. The work we do is informed by our colleagues from Marketing, Customer Insights and the Contact Centre. They get feedback and ideas from our customers and that filters through to us, to make the technical changes.

I really enjoy working with the different Mercury teams, and that the work we do has a positive impact on our customers. It makes it easier for them to engage with Mercury.

The other thing I enjoy is the different way of working in the DX team. In the digital world we know we need to move very fast. With advances in technology, a year-long project might not end up being the best solution for our customers. Our new way of working delivers small bites of new features and continually assesses whether we're doing the best thing for our customers.

Every two weeks we make a plan for what we're going to do, with the goal to build, test and roll out something useful.

For this approach to work, the DX team members have to have both the ability and the willingness to communicate. This means actively contributing to discussions and also listening respectfully to other points of view.

We also need to be able to deal with uncertainty. Sometimes you've got to give something a go without being sure of success. The two week pace of what we deliver forces us to do that because you haven't always got time to explore things into the real nitty gritty detail.

The other thing is resilience. Sometimes things don't work out. But you learn from that and then you go forward.

I enjoy working with graduates like Siobhan. They are smart and enthusiastic and they pick things up quickly. They're keen to give things a go, and they own the job and carry it through to the end.

Sometimes they'll see things from a different perspective. Because they've had experience in a different part of the business such as the Mercury Contact Centre, they bring direct customer focus to our team through that experience and their conversations with customers.

The graduates ask us questions that make us question ourselves and the way we work. It's a real opportunity for us as a team to talk about what we do and to learn. Sometimes you get into a routine and it's only when someone new comes in that you really look at how you're doing something. You're delivering stuff together, and also learning as well.

89%
OF EMPLOYEES CONFIRM THAT MERCURY CARES ABOUT THE WELLBEING OF ITS PEOPLE, COMPARED WITH 2017 NZ ALL ORGS BENCHMARK OF 79%

79%
OF EMPLOYEES AGREE THAT THE FEEDBACK AND COACHING THEY GET HELPS THEM TO IMPROVE THEIR PERFORMANCE, COMPARED TO 2017 NZ ALL ORGS BENCHMARK OF 67%

JOIN THE TEAM AT MERCURY. SEE OUR CAREERS PAGES.
Please visit **mercury.co.nz/careers**

$ **COMMERCIAL**

KEEPING THE **POWER** COMING.

A lot happens between when a raindrop falls on New Zealand's Central Plateau and when, 425 kilometres later after flowing down the Waikato River, it enters the Tasman Sea. Along that journey the water contributes to diverse ecosystems, it is enjoyed for recreation, and some is diverted for drinking water not only for people in towns along the way, and the city of Hamilton that it flows through, but for New Zealand's largest city, Auckland.

From Lake Taupo the water also drops just over 350m to sea level: slightly more than the height of Auckland's Sky Tower. That's where Mercury comes in: harnessing the energy as gravity exerts its force on that water.

Mercury's hydro generation on the Waikato River can be traced back to the commissioning of the Arapuni Dam (1929), with the ninth and final station commissioned in 1970 (Maraetai II). The Waikato Hydro system feeds electricity to the national grid to meet around 10% of the New Zealand's electricity needs. The hydro stations, along with our geothermal stations, are also the commercial backbone of our business. Over the past five financial years, hydro has contributed 58% of our total generation. With a view to our overall ultra-long term sustainability we understand our duty of care to this critical infrastructure.

This year our multi-year, multi-million dollar reinvestment in the Waikato Hydro scheme passed several milestones, including completing the successful upgrade of the first of three units at the Aratiatia hydro power station.

The 78MW Aratiatia station, 13 kilometres downstream from Taupo township, was commissioned in 1964. The Aratiatia Rapids above the station, which have functioned as the dam's spillway since commissioning, are rated as one of Taupo's top tourist sights, showcasing a fraction of the power harnessed by the station's three generating units. From the beginning, extra work and innovation has been needed to optimise the station's output.

Paul Betschart, Lead Engineer to the project, has been with Mercury for 10 years, and joined the Aratiatia upgrade project in 2015.

"We're at the point now where a lot of the original equipment has given all that we could have expected in terms of service life," says Paul. "Replacement of parts was identified as the best way forward for reliability, risk avoidance and efficiency."

Improving the station's long-term performance and sustainability motivated the way the project was implemented. The overhaul focused on the huge machinery that harnesses the energy from the water, turning it into

“

PAUL BETSCHART
LEAD ENGINEER

I selected my degree at university knowing that I was interested in science and engineering. I joined Mercury as a graduate, and now I'm a Senior Engineer on our hydro power stations. I've been here 10 years and I can't think of anything else that I'd rather be doing.

The Aratiatia upgrade project is supported by Mercury teams from our Taupo, Hamilton, Rotorua and Auckland offices. An extra 40 engineers and other specialists will call the Taupo District home while they partner with us on this project, and around 20 businesses in and around the Taupo area supply painting, transport, welding, engineering, machining and catering services. There have been no notifiable injuries.

1008
TECHNICAL DOCUMENTS SUBMITTED BY ANDRITZ
Including 444 drawings, and 5243 email communications between Andritz and the Mercury team

OVER
150TONNES
OF ROTATING EQUIPMENT IN EACH OF THE THREE GENERATING UNITS

G2 HAS 31.5MW GENERATOR CAPABILITY
and discharges over 100 tonnes of water per second at full load

FULL PROJECT
COMPLETION:
2020
TOTAL EXPENDITURE:
$49M

THE MERCURY PROJECT TEAM OWN THE LONGER-TERM VIEW. **WE UNDERSTAND** WHAT WE WANT AS A WHOLE PLANT, OVER A 50-YEAR LIFE.

mechanical power and then electrical power. After over 50 years of innovation, tweaks and fixes, the project's aim is to safely restore and reconfigure the station to deliver maximum value from current and expected future operating conditions. This has involved some very creative approaches.

Paul explains: "The generators were getting more prone to faults. That can cost us generation time. The governors that control the speed and output of the turbine (like setting cruise control on a modern car) could be updated with new technology. And the turbines themselves, the spinning water wheels and all the equipment around them, were also in need of attention."

Long term, commercial thinking led to the decision to replace one of the station's three turbines with a unit specially configured to run at a lower rate of water flow than that sustainable with the old turbine design. This means water use can be optimised when low station flows are required, while still retaining over 90% of the maximum power capability of the old turbines and also delivering a significant increase in energy conversion efficiency. It was decided to defer investment on replacing the other two turbines until 2036, with this long date giving Mercury additional flexibility in its long-term planning.

Effective modernisation and enhancement projects take time.

The contract was awarded to partner Andritz in October 2015, two years of assessment, planning, design, testing and manufacture before the installation of components. Paul and other team members worked with Andritz in Austria to discuss the preliminary design. Manufacturing took place in foundries and factories across the globe: Austria, Germany, China, Czech Republic, Hungary, Italy and India. And once manufacture started the quality assurance process started too.

"This is mechanically and electrically stressed equipment. Safety and performance depends on the design, the materials and the execution. We had reviewed the design, and then we reviewed the materials and execution," says Paul.

Raw performance in terms of megawatt (MW) output is guaranteed in the contract. A lot of the work throughout the design, manufacture and installation of the machinery goes beyond output, however, Paul says. It's about long-term performance, making sure this plant will run as long as possible, be easy to maintain, be safe and be as reliable as possible.

Paul explains: "Our project partners are on the same page and focused on delivering a quality product. But we, as the Mercury project team, own the longer-term view. We understand what we want as a whole plant, over a 50-year life. Sometimes our experience and our preferences lead to a different approach. But it was all about teams working together to get the best outcome."

Installation of the first unit, G2, began in October 2017, with return to service completed in June 2018. Turning the unit back on was itself a month-long project. "Commissioning is pretty full on. It's both very well planned and managed, and at the same time there's quite a lot of initiative required when you deal with issues in real time."

The three-year installation project means there's not a lot of time to pause and contemplate the progress so far. Each of the three units to be overhauled takes around six months. Balancing complex commercial, consumer and country imperatives mean these stages are timed to avoid having machines out of action during New Zealand's winter energy demand peak, while working with scheduled maintenance of other stations on the river. Parts for Aratiatia's next unit to be overhauled arrived in July for assembly. The G1 generator with its new optimised low-flow turbine is scheduled to return to service May 2019, and the final unit, G3, will start its overhaul in spring that year.

"Commissioning G2 was a huge milestone," says Paul. "Most of us were looking forward to some downtime to recharge. But everyone's keen to take what we learned and apply it to the next two units."

The outcome is a well-planned, safely delivered project that returns the generating units to operational service with optimised capability incorporating appropriate technology, resulting in long-term reliability and sustainable operations at Aratiatia for many years to come.

PARTNERSHIPS

CONNECTING WITH **COMMUNITIES.**

Brian Pegler works for the Christchurch City Council's Mayor's Welfare Fund, which plays an integral role in supporting vulnerable people in Christchurch.

For many of these individuals, our pre-pay brand GLOBUG is sought as a tool to manage electricity – it breaks down the barriers to reconnection, helps people avoid the spiral of debt and can be paid for in small, manageable amounts.

While initially a sceptic of GLOBUG (and the sector in general), continuous engagement with Brian has allowed our relationship to evolve into one of collaboration. Together, we find better solutions for our mutual customers, with dignity always at the heart.

Brian is fundamental to our understanding of how we can best support these individuals. In short, he is our eyes and ears, and a voice for those who sometimes struggle to be heard.

Most recently Brian drew our attention to an increase in people seeking support from the Fund, coinciding with the onslaught of some bracingly cold winter weather. These insights allowed us to work with the Mayor's Welfare Fund on a solution for GLOBUG customers. We ensured no disconnections occurred while working with the Mayor's fund at this critical time.

It is not the first time we've done this with Brian's intel, and we do not expect it to be the last.

Well-informed decisions like these enable us to maintain the integrity of one of our core foundations – the wellbeing of our customers. It is a value entirely aligned with Brian's own imperatives.

It is also a commercially astute decision, helping our customers see the value of continuing to choose GLOBUG as their electricity provider.

"I have worked with vulnerable people for years. Without GLOBUG many of the at-risk households I support would be without electricity and further disadvantaged. Electricity is a basic human need – it is absolutely vital to our health, wellbeing and income."

BRIAN PEGLER
CHRISTCHURCH CITY COUNCIL
MAYOR'S WELFARE FUND

ELECTRICITY IS A BASIC HUMAN NEED – IT IS ABSOLUTELY VITAL TO OUR HEALTH, WELLBEING AND INCOME.

DONATE TO STARSHIP
Please visit
starship.org.nz/mercury

HELEN TUA
MERCURY
COMMUNITY RELATIONS MANAGER

Helen joined Mercury twenty years ago as an analyst, helping the business transition onto a new data platform. However, the trajectory of her career changed dramatically when she realised her passion was in supporting individuals and families who needed help.

Now, Helen leads Mercury's community relations team and is tasked with helping improve the wellbeing of our most vulnerable customers by partnering with other groups like Christchurch's Mayor's Welfare Fund.

Her role is unique, in that it covers customer support at an individual level, grassroots community involvement, and also engagement with key government agencies and stakeholders. Helen believes having flexibility to navigate these multiple touchpoints with fluidity sets Mercury apart in its community engagement practices.

With a nationwide focus, Helen sees first-hand how diverse communities across the country are. Each has its own unique set of challenges and opportunities. A common thread is the unconditional love, care and support for the families in these close-knit groups. These insights highlight that a one-size-fits-all approach doesn't serve these families and individuals as well as targeted and focused support.

Essential to achieving better outcomes is a fulsome view of the different pressure points a family may be facing, along with the acceptance that electricity accessibility is often one of the many balls these families are struggling to keep in the air.

"Partnerships are a path we follow. Along that path there are gates we go through and each gate is another organisation with information to help us get to our destination – helping a family get back on track. These voices are important to us finding collective solutions that ease pressure in a more holistic and sustainable way."

$100K
DONATED THROUGH OUR EMPLOYEE COMMUNITY FUND

$900K
DONATED TO STARSHIP

94%
OF OUR PEOPLE SAY WE MAKE A POSITIVE CONTRIBUTION TO OUR COMMUNITIES

In a world where environmental, social and economic systems are inextricably linked, no organisation can operate successfully in isolation. This interconnectivity means the actions we take create far-reaching ripples, and seemingly small decisions are easily magnified. That is why 'partnerships' is one of our five pillars.

Mercury's approach to partnerships is extensively applied across our business. Whether it is operating our hydro and geothermal assets, serving our customers or looking after our people, working with others contributes to better, more sustainable outcomes.

FIND OUT MORE ABOUT HOW WE WORK IN PARTNERSHIP WITH IWI, STARSHIP, WAIKATO RIVER TRAILS AND MANY OTHERS.
Please visit **mercury.co.nz/partnerships**

KAITIAKITANGA

GROWING SOLUTIONS TO CLIMATE CHANGE

Plump kererū (wood pigeon), rare kārearea (New Zealand falcon), kōtare (kingfisher), ruru (morepork) and pīwakawaka (fantail) call through the thick regenerating scrubby bush, secondary beech and broadleaf forest, manuka and remnant stands of beech and northern rata trees of Pigeon Bush Reserve.

Remote and isolated, the 1,157-hectare reserve lies between the Remutaka and Tararua Conservation Parks west of Featherston in the South Wairarapa. This steep, rugged land had been almost completely cleared and intensively farmed since the 1860s, but is returning to dense forest after being bought, protected and managed by the Native Forest Restoration Trust since 1995.

The Trust is a leading organisation in the protection and restoration of New Zealand's native forest. It is committed to promoting the regeneration of forests, protecting native species and restoring their habitats, and to improving the quality of New Zealand's waterways. Through a ground-breaking commercial agreement in 2012, Mercury has supported the Trust's work in this and some of the other 7,000 hectares of native forests and wetlands throughout New Zealand it has purchased and protected.

The carbon credits that Mercury purchases from the Trust come from the regenerating native forest in Pigeon Bush Reserve. The trees in the Reserve are regularly measured and the extra growth is calculated and converted into carbon units, based on the age, size, and type of tree.

Mercury has ten agreements that support different New Zealand forestry projects to offset carbon produced by Mercury. The contract with the Native Forest Restoration Trust was not only commercially attractive, it stood out for its strong alignment to Mercury's ultra-long-term view of kaitiakitanga (guardianship) through the Trust's objective of restoring native forests so that New Zealanders can enjoy them forever.

The Trust was born in 1980 out of direct action taken by people protesting the felling of giant totara in Pureora Forest. Since that time, the Trust has continued to protect New Zealand forests and has rallied, purchased and protected well over 7,000 hectares for the ongoing benefit of all New Zealanders.

Sandy Crichton, Trust Manager, is clear about the wider impact of the Trust. "Protecting and restoring nature is an important part of our climate change response here in New Zealand."

Through partnering with the Trust, Mercury is supporting the Trust's stewardship of regenerating New Zealand forest, and contributing to a positive impact on climate change.

Sandy explains "From small beginnings, founded on genuine passion to protect and restore New Zealand's native forest, the Trust has gone on to become one of the leading organisations involved in native forest restoration. The Trust is still relatively small, but we put the rallying call out and huge numbers of passionate people who really care a lot come together. Our recent fundraising in Northland and Taranaki is testament to this, along with everyone who gives their time on a volunteer basis."

The Trust uses the extra income from its contract with Mercury for reserve management, including pest predator control, weed control, track cutting, signage and planting.

"Our relationship with Mercury is one of our oldest and most important business relationships," says Sandy. "This was our first contracted relationship around carbon so it really paved the way in terms of other relationships that we've since put in place."

It was forward thinking at the time, it is important now, and its value will be experienced by all New Zealanders into the future.

"The Trust recognises the efforts of companies who have measured their carbon footprint and then taken action to try and reduce emissions, as well as supporting native forest restoration to reduce the impact of unavoidable emissions," says Sandy.

"The Trust's work is only possible through our incredible supporters and more recently through ongoing carbon income from organisations such as Mercury."

FIND OUT MORE ABOUT THE NATIVE FOREST RESTORATION TRUST
Please visit **nfrt.org.nz**

A GLOBAL ISSUE

The impacts of climate change are a significant global challenge that is arguably starting to play out locally in many parts of New Zealand.

The Kyoto Protocol is an international treaty aimed at reducing greenhouse gas emissions, whereby countries can reduce emissions and/or purchase carbon credits to cover any excess emissions. In 2020 New Zealand's obligations under Kyoto are replaced for the following decade by Paris Accord targets.

The New Zealand Emissions Trading Scheme (ETS) was launched in 2008, and Mercury and other electricity generators were entered into the Scheme in 2010. The ETS puts a price on emissions to provide an incentive to reduce emissions.

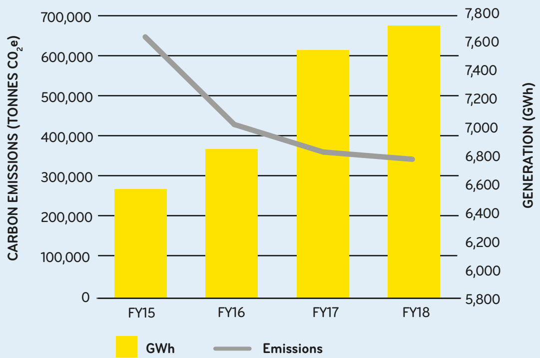
Mercury has contracts with foresters that enable us to buy carbon units at a given price in order to offset our carbon liability under the ETS.

FIND OUT MORE ABOUT OUR COMMITMENT TO RENEWABLE GENERATION.
Please visit **mercury.co.nz/renewables**

CARBON IN OUR BUSINESS

Mercury carefully measures and manages its greenhouse gas emissions and has maintained a robust forestry investment programme for the past eight years. An outcome of the programme is that Mercury has become 'carbon positive' in the past three years, where the forestry we invest in absorbs more carbon than Mercury contributes to the environment.

- While geothermal generation is a renewable energy source, it is not emissions free. During the generation process, greenhouse gas is released from the geothermal fluid extracted from our geothermal reservoirs. We closely monitor and report on the amount of greenhouse gas released from our geothermal power stations as required by the Emissions Trading Scheme.
- Mercury takes responsibility for the carbon produced by all the energy we provide, including the gas consumed by our dual-fuel customers. We calculate the carbon emissions associated with this fuel each year and offset that along with what we directly emit.
- Mercury is actively reducing carbon emissions from our business. We mothballed our thermal (gas-fired) power station in 2015. This reduced our carbon emissions, and associated financial liabilities, by 47% over the past three years.
- We believe that electric transport offers the best solution for cutting national greenhouse gas emissions, as well as curbing transport related air and noise pollution. We have already replaced every possible vehicle in our fleet (91 out of 129) with Electric Vehicles (EVs) and plug-in hybrid EVs (PHEVs).



Total reported carbon emissions include proportionate emissions from our Tuaropaki Trust and Nga Awa Purua partnerships.

Moving away from thermal generation has seen our total emissions from generation decrease by 47% over the past three years.

The emissions intensity of the electricity we put into the NZ grid has decreased by 55% over the same period.

MANAGING CLIMATE CHANGE RISKS

Mercury is aware climate change has the potential to create physical risks, as well as regulatory and financial, for our operations well into the future. These could include more intense rainfall events in the Waikato catchment and increasing average temperatures where we generate electricity.

We have undertaken preliminary modelling of various future climate change scenarios to 2050 and beyond. Initial findings indicate increasing rainfall will provide the opportunity for increased generation. However, if the intensity of rainfall events increases then more water may need to be spilled rather than used for generation. Geothermal generation could also be reduced as increasing average temperatures will reduce the efficiency of our cooling towers and the generation process. We will continue to monitor and manage climate change risks and invest in a wide range of the most appropriate solutions.

FINANCIAL COMMENTARY.

Mercury's financial performance for the 12 months to 30 June 2018 set another record, with EBITDAF of $561 million, an increase of $38 million on the previous financial year. This record result was underpinned by the highest North Island hydro inflows and total generation in the company's history, the disciplined management of costs and strong execution of work programmes across the business.

In May FY2018, Mercury completed a $50 million share buyback (15.6 million shares) at an average price of $3.21 per share, bringing total shares held as treasury stock to 39.1 million (2.7 %).

Mercury also completed the purchase of a 19.99% stake in NZX and ASX listed generator, Tilt Renewables Limited, for $144 million or $2.30 per share. Post year end, Mercury announced with Infratil a joint takeover offer for all the shares in Tilt. If the takeover is successful, Mercury's equity interest in Tilt will remain at 19.99%.

Energy margin

Our energy margin of $734 million was $36 million higher than the prior year. Wet weather in the North Island, resulted in record hydro generation of 4,947GWh an increase of 223GWh, or 4.7%, on FY2017. Record generation production also coincided and benefited from higher average wholesale prices (FY2018: $82/MWh versus FY2017: $55/MWh at Whakamaru) due to drier than normal South Island hydrology and peakier demand for electricity.

Despite increasing competition, the Mercury brand continues to experience below market average customer churn, reflecting our focus on growing customer promises. Growing our customer-led digital offerings and capability and upgrading key customer systems to a fully-supported cloud-based environment also contributed to this year's strong result.

Other income

Other income increased by $7 million to $47 million, once the impacts of carbon sales from the prior year are considered,. This includes a $3 million increase in revenue generated by our metering business Metrix, land sales, proceeds from insurance and dividends received from our investment in Tilt.

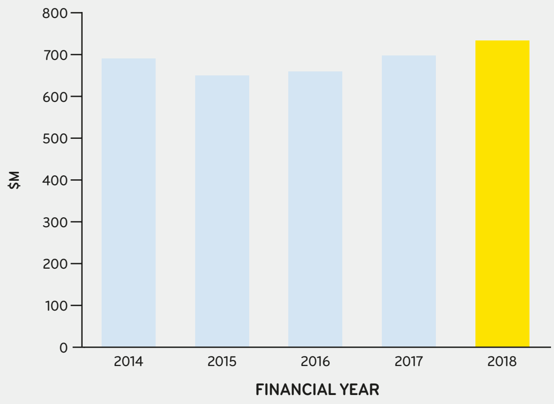
Operating costs

Operating costs remained flat for the fifth year in a row at $214 million due to our ongoing focus on managing costs and improved procurement practices. This included major planned outages at most of our geothermal sites, including a 22-day shut at our Kawerau station to change out the steam turbine rotor and refurbish the cooling towers (the biggest shut in the plant's history). Operating costs represent the company's indirect costs of sales, including salaries and wages, maintenance costs, and all other corporate overheads.

$734M

ENERGY MARGIN (UP $36 MILLION FROM FY2017)

> FIGURE 1: ENERGY MARGIN



OPERATING EARNINGS (EBITDAF)

$561M

PROFIT FOR THE YEAR (UP $50 MILLION)

$234M

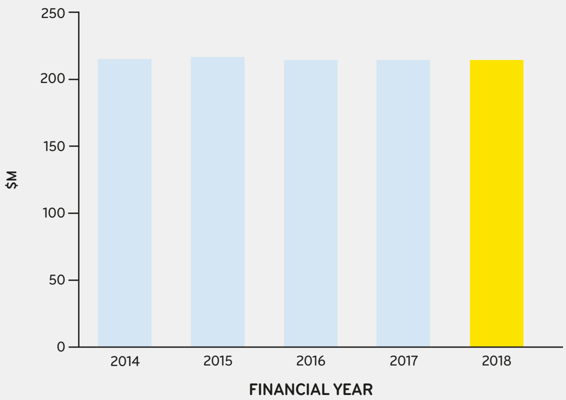
Operating earnings (EBITDAF)

As previously noted, EBITDAF for the year was $561 million up $61 million on initial guidance for the year and up $38 million on FY2017, primarily due to the higher hydro generation output and a focus on capturing the value from higher and more volatile wholesale electricity prices. We have continued to execute well in our core business by focusing on growing customer loyalty, managing costs and maintaining our strong regional partnerships – all of which are reflected in this record financial performance.

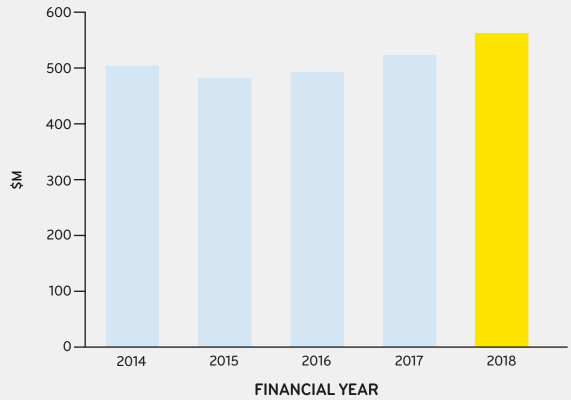
Profit for the year

Profit for the year was $234 million up $50 million versus FY2017. Profit increased due to higher operating earnings, favourable fair value movements in financial instruments due largely to higher valuations of non-hedge accounted electricity derivative contracts, a roll down of the group's historic out of the money interest rate swaps, and lower interest expense, partially offset by higher depreciation charges, mostly due to current year asset additions and geothermal generation asset revaluations in the prior year, coupled with higher tax expense because of higher operating earnings. There were no impairments recognised in FY2018.

> **FIGURE 2:** OPERATING COSTS



> **FIGURE 3:** OPERATING EARNINGS (EBITDAF)



Capital structure and dividends

As noted, Mercury completed an on-market share buyback programme acquiring nearly 15.6 million ordinary Mercury shares (1.1%) for total consideration of NZ$50 million. Consistent with the 2014 buyback, the shares are being held as treasury stock providing future balance sheet flexibility.

The share buyback and Tilt investment lifted the company's gearing level to 2.0 at the top (good) end of Mercury's target range of 2.0x to 3.0x debt/EBITDAF ratio for our S&P credit rating of BBB+, which was reaffirmed in December 2017.

BBB+
OUR S&P CREDIT RATING

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 9.1 cents per share final dividend has been declared. This brings the full-year ordinary dividend to 15.1 cents per share, up from 14.6 cents per share in FY2017, and marks our 10th consecutive year of ordinary dividend growth. The final dividend will be paid on the 28th September 2018.

15.1 CENTS
FULL YEAR ORDINARY DIVIDEND

9.1 CENTS
FINAL DIVIDEND

Underlying earnings after tax

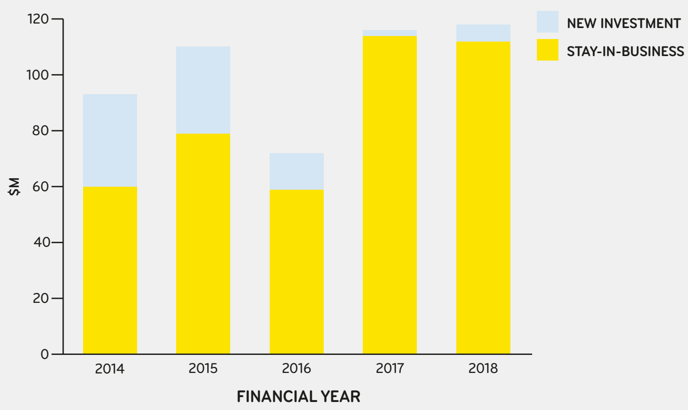
Underlying earnings is presented to enable stakeholders to make an assessment and comparison of earnings after removing one-off and/or infrequently occurring events (exceeding $10 million of profit before tax), impairments and any changes in the fair value of derivative financial instruments. Underlying Earnings after tax increased by $22 million to $198 million reflecting the company's stronger EBITDAF performance partially offset by higher depreciation costs on the previous year.

Net cash flows from operating activities

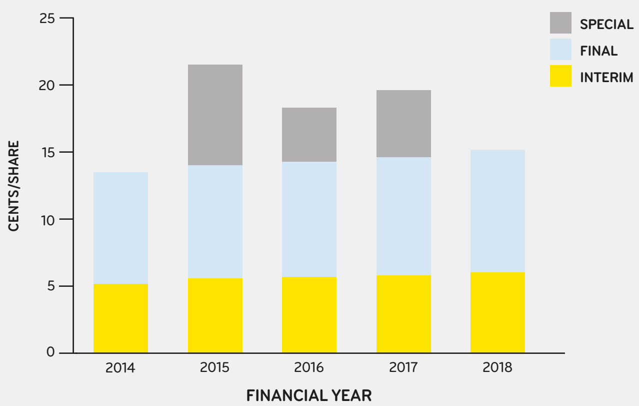
Net cash provided by operating activities represents the cash flows from the sale of electricity and metering services, along with the costs associated with their sale and the cash costs of interest and taxes. This decreased by $1 million in FY2018 to $371 million. Significantly higher cash taxes in FY2018 of $102 million versus $52 million in FY2017 were due to tax prepayments made in FY2016 and FY2018 for dividend imputation reasons.

$198M
UNDERLYING EARNINGS AFTER TAX

> **FIGURE 4:** CAPITAL EXPENDITURE



> **FIGURE 5:** DIVIDENDS



Balance Sheet

Total assets of the company increased by $94 million in the financial year largely due to the investment in Tilt. Net debt at the end of the year rose to $1,249 million compared to $1,038 million in FY2017.

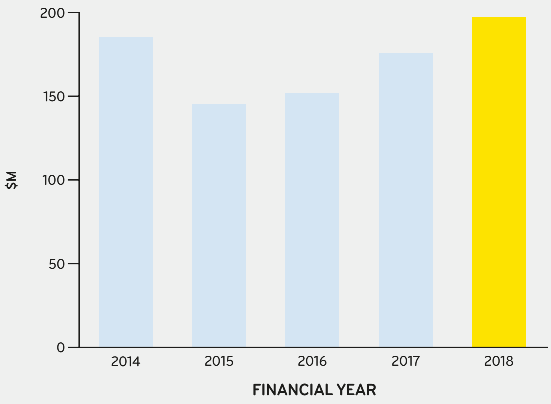
The company invested $118 million in capital expenditure (CAPEX), comprising SIB CAPEX of $112 million and $6 million of growth capex spent mostly on new smart meter deployment.

The company invested $112 million of SIB CAPEX in major hydro refurbishment projects at our Aratiatia and Whakamaru hydro stations. The second refurbished generator and turbine at Whakamaru lifted its capacity by 23% to 31MW. At Ngatamariki the drilling of a replacement well ensured the facility has continued access to "fuel" to maintain its full generation capacity.

Mercury continues to invest in its technology systems and completed projects across the business including a new system to deliver certified half-hourly data to Metrix's customers, improvements to our core SAP customer and financial system, implementation of SAP Hybris Service Cloud a new cloud-based customer relationship management system , the movement to cloud-based data centres and the upgrade of the generation asset management system Maximo.

$112M
STAY-IN-BUSINESS CAPEX

> FIGURE 6: UNDERLYING EARNINGS AFTER TAX



YOUR DIRECTORS.

> JOAN WITHERS
CHAIR

> JAMES MILLER
DIRECTOR

> MIKE TAITOKO
DIRECTOR

> PRUE FLACKS
DIRECTOR

> PATRICK STRANGE
DIRECTOR

> ANDY LARK
DIRECTOR

> KEITH SMITH
DIRECTOR

> SCOTT ST JOHN
DIRECTOR

> ANNA LISSAMAN
FUTURE DIRECTOR

PLEASE SEE OUR WEBSITE FOR FULL BIOGRAPHIES
mercury.co.nz/leadership

OUR EXECUTIVE TEAM.

> 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 & PERFORMANCE

> NICK CLARKE
GENERAL MANAGER GEOTHERMAL & SAFETY

SEE OUR GREAT ELECTRIC VEHICLE
INITIATIVES AND FUEL PACKAGES AT
mercury.co.nz/evs

OUR 2018 FINANCIAL REPORT

Mercury NZ Limited

ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018

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 2018.

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 21 August 2018 and is signed on behalf of the Board by:

Joan Withers, Chair

Keith Smith, Director

REPORT CARD.

>FINANCIALS

$561M^

EBITDAF UP $38M, REFLECTING ANOTHER YEAR OF RECORD GENERATION FROM STRONG HYDRO INFLOWS.

$234M^

NET PROFIT AFTER TAX $50M HIGHER, ACHIEVED THROUGH STRONG EXECUTION ACROSS THE BUSINESS.

$259M

FREE CASH FLOW FLAT YEAR ON YEAR FROM HIGHER CASH RECEIPTS OFFSET BY PREPAYMENT OF TAX.

15.1CPS^

ORDINARY DIVIDEND UP 3.4%.

>DELIVERING CUSTOMER ADVOCACY

63%

OF MERCURY CUSTOMERS RATING AS 'HIGHLY SATISFIED'.

6.4%

MERCURY BRAND TRADER SWITCH CHURN, LOWER THAN MARKET AVERAGE.

>LEVERAGING CORE STRENGTHS

ZERO

HIGH SEVERITY INCIDENTS.

7,704GWh

RECORD GENERATION FROM FAVOURABLE HYDROLOGICAL CONDITIONS AND STRONG EXECUTION OF KEY PROJECTS.

>DELIVERING SUSTAINABLE GROWTH

$214M

OPERATING EXPENDITURE FLAT FOR THE FIFTH STRAIGHT YEAR.

19.99%

STAKE IN TILT RENEWABLES, CREATING PLATFORM FOR EXPOSURE TO AUSTRALIA'S TRANSITION TO RENEWABLE ELECTRICITY GENERATION.

FINANCIAL TRACK RECORD

Financial Performance Trends

For the year ended 30 June ($ million)	2018	2017	2016	2015	2014
Income statement					
Energy margin	734	698	660	650	690
EBITDAF	561	523	493	482	504
Net profit for the year	234	184	160	47	212
Balance sheet					
Total shareholders' equity	3,286	3,308	3,315	3,337	3,219
Total assets	6,091	5,997	6,085	6,058	5,689
Total liabilities	2,805	2,689	2,770	2,721	2,470
Cash flow					
Operating cash flow	371	372	280	309	317
Investing cash flow	(260)	(90)	(37)	(103)	(99)
Financing cash flow	(136)	(298)	(228)	(195)	(213)
Capital expenditure					
Total capital expenditure	118	116	72	110	93
Growth capital expenditure	6	2	13	31	33
Stay-in-business capital expenditure	112	114	59	79	60
Other financial measures					
Underlying earnings after tax	198	176	152	145	185
Free cash flow	259	258	221	230	257
Ordinary and special declared dividends	207	270	252	296	186
Ordinary dividends per share (cents)	15.1	14.6	14.3	14.0	13.5
Special dividends per share (cents)	–	5.0	4.0	7.5	–
Basic and diluted earnings per share (cents)	17.02	13.37	11.6	3.4	15.3
Net debt	1,249	1,038	1,068	1,082	1,031
Gearing (net debt/net debt+equity, %)	27.5	23.9	24.4	24.5	24.3
Debt/EBITDAF (x)[1]	2.0	1.8	2.0	2.0	2.1
Operational measures					
Total recordable injury frequency rate (TRIFR)[2]	0.87	1.05	0.74	1.25	0.84
Sales to customers (FPVV, GWh)	4,477	4,606	4,397	4,486	4,844
Electricity customers ('000)	388	392	376	382	382
Electricity generation (GWh)	7,704	7,533	6,842	6,563	6,295

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 2018

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 consolidated financial statements of the Group on his behalf.

Opinion

We have audited the financial statements of the Group on pages 6 to 32 of the Financial Report, that comprise the consolidated balance sheet as at 30 June 2018, 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 consolidated financial statements that include accounting policies and other explanatory information.

In our opinion, the consolidated financial statements of the Group present fairly, in all material respects, the consolidated financial position of the Group as at 30 June 2018, and its consolidated 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 Professional and Ethical Standards and the International Standards on Auditing (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board. 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 Auditing Standards, which incorporate 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 consolidated financial statements for the six months ended 31 December 2017, payroll advisory services, along with tax compliance services in the United States, which are compatible with those independence requirements. These services have not impaired our independence as auditor of the Group.

Partners and employees of our firm may deal with the Group on normal terms within the ordinary course of trading activities of the business 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 consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the financial statements section* of the audit report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

How our audit addressed key audit matters

Key audit matter	How we addressed the key audit matter
Valuation of Generation Assets	
Generation assets were revalued at 30 June 2018 as set out in note 8 of the consolidated financial statements to $5,215 million. The Group engages 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 include 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 consolidated 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.	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 the Group in forecasting the wholesale electricity price path and assessing whether the forecast was consistent with internal and external data. 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. We further assessed the adequacy of the related financial statement disclosures as described in note 8.
Valuation of Electricity Derivative, Currency and Interest Rate Derivative Financial Instruments	
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 2018 derivative assets total $141 million and derivative liabilities were $97 million as set out in note 15 of the consolidated financial statements. The valuations of the interest rate derivatives, foreign exchange derivatives, and certain electricity price derivatives which are prepared by The Group are based primarily on observable inputs and are measured using standard valuation techniques. Certain other electricity price derivatives are 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 the Group. The wholesale electricity price path forecast requires significant judgement.	Our audit procedures included agreeing underlying data to the contract terms on a sample basis, evaluating the appropriateness of the valuation methodologies, 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'. We further assessed the adequacy of the related financial statement disclosures as described in note 15.

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 consolidated financial statements and auditor's report.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated 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 directors are responsible on behalf of the entity for the preparation and fair presentation of the consolidated financial statements for the Group that comply with, New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

The directors responsibilities arise from the Financial Markets Conduct Act 2013.

The directors are 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 and for the publication of the financial statements, whether in printed or electronic form.

In preparing the consolidated financial statements, the 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 responsibilities arise from 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 consolidated 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 consolidated financial statements, including the disclosures, and whether the consolidated 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 consolidated 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

21 AUGUST 2018

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 30 JUNE 2018

	Note	2018 $M	2017 $M
Total revenue	4	1,803	1,597
Total expenses	4	(1,242)	(1,074)
EBITDAF[1]		561	523
Depreciation and amortisation	8, 9	(197)	(189)
Change in the fair value of financial instruments	15	49	31
Impairments		–	(18)
Earnings of associates and joint ventures	10	2	6
Net interest expense	4	(90)	(95)
Profit before tax		325	258
Tax expense	6	(91)	(74)
Profit for the year attributable to owners of the parent		234	184
Basic and diluted earnings per share (cents)		17.02	13.37

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2018

	Note	2018 $M	2017 $M
Profit for the year		234	184
Other comprehensive income			
Items that will not be reclassified subsequently to profit or loss			
Movement in asset revaluation reserve		55	55
Movement in cash flow hedge reserve transferred to balance sheet	15	5	–
Share of movements in associates' and joint ventures' reserves	10	14	(14)
Tax effect		(17)	(15)
Items that may be reclassified subsequently to profit or loss			
Movement in cash flow hedge reserve	15	33	36
Movement in other reserves		(64)	11
Tax effect		(9)	(11)
Other comprehensive income for the year, net of taxation		17	62
Total comprehensive income for the year attributable to owners of the parent		251	246

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

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

CONSOLIDATED BALANCE SHEET

AS AT 30 JUNE 2018

	Note	2018 $M	2017 $M
SHAREHOLDERS' EQUITY			
Issued capital		378	378
Treasury shares	5	(101)	(51)
Reserves		3,009	2,981
Total shareholders' equity		3,286	3,308
ASSETS			
Current assets			
Cash and cash equivalents		5	30
Receivables	11	226	240
Inventories	7	35	39
Derivative financial instruments	15	31	18
Total current assets		297	327
Non-current assets			
Property, plant and equipment	8	5,358	5,388
Intangible assets	9	101	87
Investments	10	130	–
Investment and advances to associates	10	88	76
Advances to joint operations	10	7	8
Derivative financial instruments	15	110	111
Total non-current assets		5,794	5,670
Total assets		6,091	5,997
LIABILITIES			
Current liabilities			
Payables and accruals	11	198	202
Provisions	12	–	1
Borrowings	13	345	83
Derivative financial instruments	15	24	49
Taxation payable	6	17	23
Total current liabilities		584	358
Non-current liabilities			
Payables and accruals	11	6	4
Provisions	12	51	53
Derivative financial instruments	15	73	139
Borrowings	13	960	1,024
Deferred tax	6	1,131	1,111
Total non-current liabilities		2,221	2,331
Total liabilities		2,805	2,689
Net assets		3,286	3,308

For and on behalf of the Board of Directors who authorised the issue of the Financial Statements on 21 August 2018.

Joan Withers
Chair
21 August 2018

Keith Smith
Director
21 August 2018

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2018

	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 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
Balance as at 1 July 2017	378	184	2,849	(53)	(50)	3,308
Movement in asset revaluation reserve, net of taxation	–	–	40	–	–	40
Movement in cash flow hedge reserve, net of taxation	–	–	–	27	–	27
Movements in other reserves	–	–	–	–	(14)	(14)
Share of movements in associates' and joint ventures' reserves	–	–	12	2	–	14
Acquisition of treasury shares	–	–	–	–	(50)	(50)
Other comprehensive income	–	–	52	29	(64)	17
Net profit for the year	–	234	–	–	–	234
Total comprehensive income for the year	–	234	52	29	(64)	251
Dividend	–	(273)	–	–	–	(273)
Balance as at 30 June 2018	378	145	2,901	(24)	(114)	3,286

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

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 30 JUNE 2018

	2018 $M	2017 $M
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	1,800	1,539
Payments to suppliers and employees	(1,237)	(1,022)
Interest received	2	2
Interest paid	(92)	(95)
Taxes paid	(102)	(52)
Net cash provided by operating activities	371	372
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of property, plant and equipment	(94)	(103)
Acquisition of intangibles	(33)	(20)
Acquisition of investment	(144)	–
Disposal of intangibles	–	26
Disposal of land and associated real property	5	–
Distributions received from and advances repaid to associates and joint ventures	6	7
Net cash used in investing activities	(260)	(90)
CASH FLOWS FROM FINANCING ACTIVITIES		
Acquisition of treasury shares	(50)	–
Proceeds from loans	262	75
Repayment of loans	(75)	(120)
Dividends paid	(273)	(253)
Net cash used in financing activities	(136)	(298)
Net decrease in cash and cash equivalents held	(25)	(16)
Cash and cash equivalents at the beginning of the year	30	46
Cash and cash equivalents at the end of the year	5	30
Cash balance comprises:		
Cash balance at the end of the year	5	30

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

NOTE 1. ACCOUNTING POLICIES

(1) Reporting entity

Mercury NZ Limited ("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:

- 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

New international financial reporting standards relating to Financial Instruments (NZ IFRS 9), Revenue from Contracts with Customers (NZ IFRS 15), and Leases (NZ IFRS 16) will be adopted by the Group for the reporting period ending 30 June 2019. The Group has reviewed its existing and future contracts and arrangements, and undertaken an assessment of the impact of the new standards.

NZ IFRS 9 Financial instruments

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. The 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. On adoption, there are no additional financial derivatives that will be hedge accounted under the new standard.

NZ IFRS 15 Revenue from Contracts with Customers

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.

Generally, revenue received by Mercury will continue to be recognised over time, as consideration due equates to contract performance completed to date. For expedience, 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:

- Customer credits in the form of discounts 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 to the balance sheet and amortised over a period of two years.
- 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 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 statements 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 17 years.

The approximate impact on the 30 June 2018 financial statements of the three new standards is an immaterial impact on net profit before tax (being increase in EBITDAF of $5 million and an increase in depreciation and interest costs of $5 million), an increase in assets of $15 million, an increase in liabilities of $20 million, with a corresponding decrease in reserves of $5 million.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

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 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

June 2018	Energy Markets $M	Other Segments $M	Unallocated $M	Inter–segment $M	Total $M
Total segment revenue	1,773	53	2	(25)	1,803
Direct costs	(1,047)	(6)	–	25	(1,028)
Other operating expenses	(134)	(18)	(62)	–	(214)
Segment EBITDAF	592	29	(60)	–	561

June 2017	Energy Markets $M	Other Segments $M	Unallocated $M	Inter–segment $M	Total $M
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

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.

	2018 $M	2017 $M
Profit for the year	234	184
Change in the fair value of financial instruments	(49)	(31)
Equity accounted share of the change in the fair value of financial instruments of associate entities	(1)	(4)
Impairments	–	18
Adjustments before tax expense	(50)	(17)
Tax expense	14	9
Adjustments after tax expense	(36)	(8)
Underlying earnings after tax	198	176

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

NOTE 4. OTHER INCOME STATEMENT DISCLOSURES

	2018 $M	2017 $M
Sales	1,756	1,552
Other revenue	47	45
Total revenue	1,803	1,597
Energy costs	(527)	(358)
Line charges	(437)	(440)
Other direct cost of sales, excluding third party metering	(33)	(32)
Direct costs of other revenue	(6)	(6)
Third party metering	(25)	(24)
Employee compensation and benefits	(87)	(83)
Maintenance expenses	(51)	(48)
Other expenses	(76)	(83)
Total expenses	(1,242)	(1,074)
Interest expense	(92)	(97)
Interest income	2	2
Net interest expense	(90)	(95)

Audit fees

Fees payable to Ernst & Young, who are appointed by the Auditor General, for the audit and review of the financial statements were $590,000 (2017: $580,000). Non audit services in relation to payroll advisory services were $71,000 (2017: $26,000). EY (US) also provided US tax compliance services in the amount of $247,000 (2017: $198,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

NOTE 5. SHARE CAPITAL AND DISTRIBUTION

The share capital of the Company is represented by 1,400,012,517 ordinary shares (2017: 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 1,374,982,137 (2017: 1,376,302,303). These shares do not have a par value, have equal voting rights and share equally in dividends and any surplus on winding up.

	2018 Number of shares (M)	2018 $M	2017 Number of shares (M)	2017 $M
Treasury shares				
Balance at the beginning of the year	24	51	24	52
Acquisition of treasury shares	15	50	–	–
Balance at the end of the year	39	101	24	51

	Cents per share	2018 $M	2017 $M
Dividends declared and paid			
Final dividend for 2016	8.6	–	118
Special dividend paid September 2016	4.0	–	55
Interim dividend for 2017	5.8	–	80
Final dividend for 2017	8.8	121	–
Special dividend paid September 2017	5.0	69	–
Interim dividend for 2018	6.0	83	–
		273	253

No imputation credits are available at 30 June 2018 (2017: $nil) 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

	2018 $M	2017 $M
Income Tax		
(i) Tax expense		
Profit before tax	325	258
Prima facie tax expense at 28% on the profit before tax	(91)	(72)
Increase/(decrease) in tax expense due to:		
• share of associates' and joint ventures' tax paid earnings	1	2
• capital gain	–	1
• non-deductible impairments	–	(4)
• other differences	(1)	(1)
Tax expense attributable to profit from ordinary activities	(91)	(74)
Represented by:		
Current tax expense	(97)	(80)
Deferred tax recognised in the income statement	6	6

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 2018 $M	Assets 2017 $M	Liabilities 2018 $M	Liabilities 2017 $M	Net 2018 $M	Net 2017 $M
(i) Recognised deferred tax assets and liabilities						
Property, plant and equipment	–	–	(1,151)	(1,156)	(1,151)	(1,156)
Financial instruments	5	29	–	–	5	29
Employee benefits and provisions	2	2	–	–	2	2
Other	13	14	–	–	13	14
	20	45	(1,151)	(1,156)	(1,131)	(1,111)

	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 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)
Balance as at 1 July 2017	(1,156)	29	2	14	(1,111)
Charged/(credited) to the income statement	21	(14)	–	(1)	6
Charged/(credited) to other comprehensive income	(17)	(9)	–	–	(26)
Balance as at 30 June 2018	(1,152)	6	2	13	(1,131)

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 period ended 30 June 2017, the Group filed proceedings with the High Court to challenge the Inland Revenue's position in relation to geothermal powerhouse assets. The case is expected to be heard in the period ending 30 June 2019. 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 $26 million (2017: $28 million) are held to service and repair operating plant. Meter stock of $9 million (2017: $11 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 2018

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 2017					
Opening net book value	5,269	60	45	45	5,419
Additions	60	5	1	32	98
Transfers	18	–	3	(21)	–
Charged to the Income Statement	–	–	–	(1)	(1)
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	55	5,388
Balance at 30 June 2017					
Cost or valuation	5,241	172	131	55	5,599
Accumulated depreciation	–	(119)	(92)	–	(211)
Net book value	5,241	53	39	55	5,388
Year ended 30 June 2018					
Opening net book value	5,241	53	39	55	5,388
Additions	52	6	5	31	94
Transfers	25	–	3	(28)	–
Net revaluation movement	55	–	–	–	55
Depreciation charge for the year	(158)	(11)	(10)	–	(179)
Closing net book value	5,215	48	37	58	5,358
Balance at 30 June 2018					
Cost or valuation	5,215	178	137	58	5,588
Accumulated depreciation	–	(130)	(100)	–	(230)
Net book value	5,215	48	37	58	5,358

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.

Capital work in progress at cost relating to intangible assets is now shown within note 9. Historic comparatives have been restated as a result of this change.

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 2018. This resulted in an increase to the carrying value of the Group's geothermal generation assets of $55 million in the current year. This is in addition to the $52 million revaluation increase recognised across the Group's geothermal generation assets in 2017. 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 $63/MWh and $105/MWh (2017: $70/MWh and $104/MWh), average operational expenditure of $160 million p.a. (2017: $158 million p.a.), net average production volumes of 6,620/GWh p.a. (2017: 6,567/GWh p.a.) and a post-tax discount rate of between 7.5% and 7.9% (2017: 7.5% 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 any changes to 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	
		2018 $M	2017 $M
Future wholesale electricity price path	+/- 10%	$783 / ($790)	$781 / ($790)
Discount rate	+/- 0.5%	($496) / $592	($502) / $599
Operational expenditure	+/- 10%	($231) / $230	($231) / $231

The carrying amount of revalued generation assets, had they been recognised at cost, would have been $1,977 million (2017: $1,978 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:

	2018	2017
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 2018

NOTE 9. INTANGIBLE ASSETS

	Intangible software $M	Rights $M	Emissions units $M	Work In Progress $M	Total $M
Year ended 30 June 2017					
Opening net book value	17	23	28	22	90
Additions	7	–	7	20	34
Transfers	5	1	–	(6)	–
Charged to the Income Statement	–	–	–	(2)	(2)
Disposals	–	–	(21)	–	(21)
Impaired assets	–	(1)	–	–	(1)
Amortisation for the year	(12)	(1)	–	–	(13)
Closing net book amount	17	22	14	34	87
Balance at 30 June 2017					
Cost	140	34	14	34	222
Accumulated amortisation	(123)	(12)	–	–	(135)
Net book value	17	22	14	34	87
Year ended 30 June 2018					
Opening net book value	17	22	14	34	87
Additions	20	–	7	10	37
Transfers	34	–	–	(34)	–
Surrendered units	–	–	(5)	–	(5)
Amortisation for the year	(16)	(2)	–	–	(18)
Closing net book amount	55	20	16	10	101
Balance at 30 June 2018					
Cost	194	34	16	10	254
Accumulated amortisation	(139)	(14)	–	–	(153)
Net book value	55	20	16	10	101

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 (2017: 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 (2017: 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.

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 2018	Interest held 2017	Country
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
EnergySource LLC	Investment holding	Joint venture	20.86%	20.86%	United States
EnergySource Minerals LLC	Mineral extraction	Joint venture	20.84%	–	United States
Hudson Ranch I Holdings LLC	Electricity generation	Joint venture	75.00%	75.00%	United States

	Associates		Joint ventures	
	2018 $M	2017 $M	2018 $M	2017 $M
Balance at the beginning of the year	76	77	–	15
Share of earnings	2	6	–	–
Share of movement in other comprehensive income	14	(2)	–	(12)
Distributions received during the year	(4)	(5)	–	(2)
Impaired advance to joint venture	–	–	–	(1)
Balance at the end of the year	88	76	–	–

At the end of the year the Group had outstanding advances to its Rotokawa joint venture partner in the amount of $7 million (2017: $8 million) and its associate TPC Holdings Limited of $4 million (2017: $4 million). For terms and conditions of these related party receivables refer to note 17.

Due to the nature of the contractual arrangements that surround the joint venture entities, which allow 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 (2017: US$3 million).

During the period, the Group acquired a 19.99% shareholding in Tilt Renewables Limited for $144 million or $2.30 per share. Tilt is a listed company on the NZSX and ASX. The shareholding is recognised as an available for sale investment, and had a market value of $2.07 per share or $130 million at 30 June 2018 (refer to note 20 for further information).

NOTE 11. RECEIVABLES, PAYABLES AND ACCRUALS

	2018 $M	2017 $M
Receivables		
Trade receivables and accruals	219	233
Allowance for impairment loss	(2)	(2)
Net trade receivables and accruals	217	231
Prepayments	9	9
	226	240

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

NOTE 11. RECEIVABLES, PAYABLES AND ACCRUALS (CONTINUED)

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 (2017: $3 million) was recognised during the year. Receivables of $3 million (2017: $3 million) which were deemed uncollectable were written off.

	2018 $M	2017 $M
Receivables past due but not considered impaired:		
Less than one month past due	6	7
Greater than one month past due	2	2
	8	9

	2018 $M	2017 $M
Payables and accruals		
Trade payables and accruals	179	194
Employee entitlements	8	7
Sundry creditors	17	5
	204	206

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

NOTE 12. PROVISIONS

	2018 $M	2017 $M
Balance at the beginning of the year	54	54
Provisions made during the year	1	1
Provisions used during the year	(2)	(4)
Provisions reversed during the year	(3)	–
Discounting movement	1	3
Balance at the end of the year	51	54
Current	–	1
Non-current	51	53
	51	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	2018 $M	2017 $M
Bank facilities	NZD	Various	Floating	91	–
Commercial paper programme	NZD	< 3 months	Floating	170	75
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%	163	164
Wholesale / credit wrapper	NZD	Sep–2021	Floating	300	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%	59	58
Capital bonds	NZD	Jul–2044	6.90%	305	305
Deferred financing costs				(5)	(6)
Fair value adjustments				51	39
Carrying value of loans				1,305	1,107
Current				345	83
Non-current				960	1,024
				1,305	1,107

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 $650 million of committed and unsecured bank loan facilities as at 30 June 2018 (30 June 2017: $350 million) of which $100 million was not available for drawdown until August 2018. Subsequent to the reporting period, the Company has cancelled $100 million of facilities and had $100 million of facilities mature. Of the loan facilities of $450 million available in August 2018, $50 million expires in September 2019, $100 million expires in June 2021, $100 million expires in August 2022 and a rolling bank loan of $200 million currently expires in December 2019.

The Group has a $200m 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 S&P.

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 13 years (2017: 14 years), were $1,520 million (2017: $1,674 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 $21 million (2017: $42 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 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 $2,466 million (2017: $2,976 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	
	2018 $M	2017 $M	2018 $M	2017 $M
Group				
Electricity forward price increased by 10%	(8)	(6)	(26)	(34)
Electricity forward price decreased by 10%	8	6	21	33

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	
	2018 $M	2017 $M	2018 $M	2017 $M
New Zealand Dollar – Euro				
Currency strengthens by 10%	–	–	(1)	(2)
Currency weakens by 10%	–	–	1	2

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	
	2018 $M	2017 $M	2018 $M	2017 $M
Interest rates higher by 100 bps	(13)	(2)	20	19
Interest rates lower by 100 bps	14	2	(21)	(20)

(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 S&P (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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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NOTE 14. FINANCIAL RISK MANAGEMENT (CONTINUED)

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 2018					
Liquid financial assets					
Cash and cash equivalents	5	–	–	–	5
Receivables	226	–	–	–	226
	231	–	–	–	231
Financial liabilities					
Payables and accruals	(198)	–	(6)	–	(204)
Loans	(285)	(98)	(668)	(770)	(1,821)
	(483)	(98)	(674)	(770)	(2,025)
Net inflow/(outflow)	(252)	(98)	(674)	(770)	(1,794)

	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)	(724)	(905)	(1,752)
	(301)	(24)	(728)	(905)	(1,958)
Net inflow/(outflow)	(31)	(24)	(728)	(905)	(1,688)

The comparative liquidity risk disclosures for 1 to 5 years and later than 5 years have been amended to reflect the contracted maturity date of the capital bonds, and an estimate of associated interest on the capital bonds to maturity. The future interest cost is based on the forecast floating rate plus the contracted margin. The company has the option to redeem all or some of the bonds on the reset date, July 2019.

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 summarise 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 2018					
Derivative liabilities – net settled	(27)	(12)	(52)	(15)	(106)
Derivative liabilities – gross settled					
Inflows	19	1	–	–	20
Outflows	(19)	(1)	–	–	(20)
Net maturity	(27)	(12)	(52)	(15)	(106)

	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)

(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 $138 million (2017: $140 million), $293 million (2017: $287 million) and $301 million (2017: $289 million) respectively; and (ii) the Capital Bonds, the fair value for which has been calculated at $313 million (2017: $317 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 2018 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 $21 million were categorised as level 1 (2017: $8 million) and $63 million were categorised as level 3 (2017: $63 million). Electricity price derivative liabilities of $1 million were categorised as level 1 (2017: $6 million) and $9 million were categorised as level 3 (2017: $55 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 $63/MWh and a maximum price of $105/MWh (2017: minimum price of $70/MWh and a maximum price of $104/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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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NOTE 14. FINANCIAL RISK MANAGEMENT (CONTINUED)

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	
	2018 $M	2017 $M
Group		
Electricity forward price increased by 10%	(1)	1
Electricity forward price decreased by 10%	1	(1)

	2018 $M	2017 $M
Reconciliation of level 3 fair value movements		
Opening balance	7	(12)
New contracts	2	(4)
Matured contracts	8	–
Gains and losses		
Through the income statement	(7)	(1)
Through other comprehensive income	44	24
Closing balance	54	7

Level 3 fair value movements recognised within the income statement of the Group are recognised within 'change in the fair value of financial instruments'. Comparative movements have been reclassified to reflect new and matured contracts that do not qualify for hedge accounting.

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.

	2018 $M	2017 $M
Electricity price derivatives		
Opening deferred inception gains/(losses)	(6)	(4)
Deferred inception gains (losses) on new hedges	(6)	3
Deferred inception losses realised during the year	(16)	(5)
Closing inception gains/(losses)	(28)	(6)

(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:

	2018 $M	2017 $M
Borrowings at carrying value	1,305	1,107
Fair value adjustments US Private Placement	(51)	(39)
Less cash and cash equivalents	(5)	(30)
Net debt	1,249	1,038
Total equity	3,286	3,308
Total capital	4,535	4,346
Gearing ratio	27.5%	23.9%

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, on average through time, 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 2018, the Group had a debt to EBITDAF ratio of 2.0 times (2017: 1.8 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:

	2018 $M	2017 $M
CURRENT ASSETS		
Interest rate derivative	11	8
Electricity price derivative	19	10
Cross currency interest rate derivative	1	–
	31	18
CURRENT LIABILITIES		
Interest rate derivative	18	29
Electricity price derivative	5	18
Foreign exchange derivative	–	1
Cross currency interest rate derivative	1	1
	24	49
NON-CURRENT ASSETS		
Interest rate derivative	11	27
Electricity price derivative	64	61
Cross currency interest rate derivative	35	23
	110	111
NON-CURRENT LIABILITIES		
Interest rate derivative	65	90
Cross currency interest rate derivative – margin	3	5
Electricity price derivative	5	44
	73	139

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

NOTE 15. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

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.

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 7 years.

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	
	2018 $M	2017 $M	2018 $M	2017 $M
Cross currency interest rate derivatives	12	(23)	–	–
Borrowings – fair value change	(12)	24	–	–
	–	1	–	–
Interest rate derivatives	40	38	(18)	13
Cross currency interest rate derivatives – margin	–	–	2	1
Electricity price derivatives	12	(9)	49	23
Foreign exchange rate derivatives	–	–	–	(1)
Ineffectiveness of cash flow hedges recognised in the income statement	(3)	1	–	–
Total change in fair value of financial instruments	49	31	33	36

Movement in cash flow hedge reserve	2018 $M	2017 $M
Opening balance	(53)	(76)
The effective portion of cash flow hedges recognised in the reserve	33	36
Amortisation of fair values[1]	(1)	(1)
The amount transferred to balance sheet	5	1
Equity accounted share of associates' movement in other comprehensive income	2	(2)
Tax effect of movements	(10)	(11)
Closing balance	(24)	(53)

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

	2018 $M	2017 $M
Profit for the year	234	184
Items classified as investing or financing activities		
• Foreign exchange movements	–	–
• Net interest accrual	1	1
Adjustments for:		
Depreciation and amortisation	197	189
Carbon costs	4	–
Dividend income received from the investment in Tilt Renewables	(1)	–
Net (gain)/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	(49)	(31)
Impaired assets	–	18
Movement in effect of discounting on long-term provisions	(3)	2
Share of earnings of associates and joint ventures	(2)	(6)
Other non-cash items	(1)	(1)
Net cash provided by operating activities before change in assets and liabilities	378	353
Change in assets and liabilities during the year:		
• Decrease/(increase) in trade receivables and prepayments	12	(42)
• (Increase)/decrease in consumable inventories	(1)	3
• (Decrease)/increase in trade payables and accruals	(6)	40
• (Decrease)/increase in provision for tax	(6)	26
• Decrease in deferred tax	(6)	(8)
Net cash inflow from operating activities	371	372

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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	
	2018 $M	2017 $M
Associates		
Management fees and service agreements received	14	12
Energy contract settlements received/(paid)	6	(1)
Joint operations		
Management fees and service agreements received	11	15
Energy contract settlements received/(paid)	2	(9)
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 (2017: $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.

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

	Transaction value	
	2018 $000	2017 $000
Key management personnel compensation (paid and payable) comprised:		
Directors' fees	960	885
Benefits for the Chief Executive and Senior Management:		
Salary and other short-term benefits	6,275	6,175
Share-based payments	553	430
	7,788	7,490

The year-on-year increase in directors' fees is due to the appointment of an additional director to bring the Board to its full complement.

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 2018 $M	Capital 2017 $M	Operating lease 2018 $M	Operating lease 2017 $M	Other operating commitments 2018 $M	Other operating commitments 2017 $M
Within one year	40	46	7	6	7	7
One to five years	42	54	33	31	17	9
Later than five years	24	28	63	73	63	64
	106	128	103	110	87	80

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 existing forward purchase agreements for the acquisition of emissions units which cover the 9 year period from the end of the reporting 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 17 years and include an allowance for either annual, biennial or triennial reviews. The remainder of the operating leases relate to vehicles and 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.

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 2018, June 2019 and June 2020. Under the plan, a relative total shareholder return measure is used. Performance is measured against a combination of: i) other electricity generators who are 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 $552,990 in relation to equity-settled share based payment transactions (2017: $430,375).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

NOTE 19. SHARE-BASED PAYMENTS (CONTINUED)

Movements in the number of share options are as follows:

	2018	2017
Balance at the beginning of the year	668,810	493,912
Options granted	260,118	286,118
Options expired	(3,660)	(24,468)
Options exercised	(179,297)	(86,752)
Balance at the end of the year	745,971	668,810

199,735 options were exercisable at the end of the year (2017: 182,957) with the remaining options under the plan having a weighted average life of 1.5 years (2017: 1.6 years).

NOTE 20. SUBSEQUENT EVENTS

On 15 August 2018, the Company announced it would be partnering with majority shareholder Infratil in a takeover offer for all shares in Tilt Renewables. If successful, Mercury would retain its 19.99% share in Tilt, and secure the right to appoint a director to the Board of Tilt. This would result in the investment being reclassified from available for sale to being equity accounted.

The Board of Directors has approved a fully imputed final dividend of 9.1 cents per share to be paid on 28 September 2018.

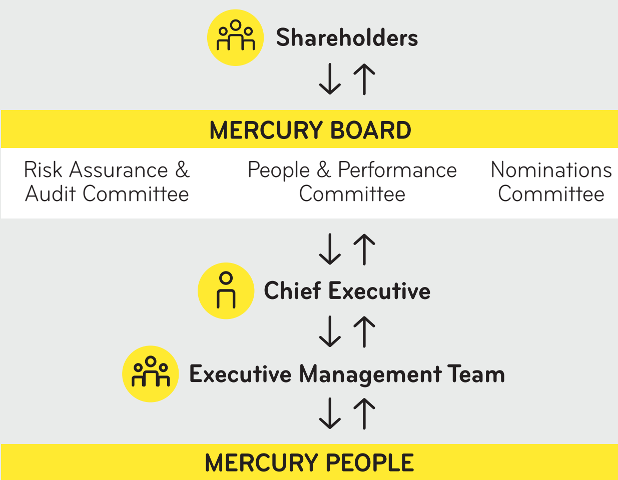
There are no other material events subsequent to balance date that would affect the fair presentation of these financial statements.

GOVERNANCE AT MERCURY

At Mercury, we are focussed on safeguarding our assets and securing long term value for our shareholders. We are committed to maintaining the highest standards of corporate governance and accountability. Mercury's Board adopts corporate governance policies and practices that reflect contemporary standards in New Zealand and Australia, incorporating the corporate governance recommendations of the NZX and the ASX.

Our corporate governance practices comply with the ASX Corporate Governance Principles (third edition) (ASX Principles) and are in substantial compliance with the NZX Corporate Governance Code 2017: the only two exceptions relate to Recommendation 3.3 (Remuneration Committee) and Recommendation 3.6 (Takeover Protocol). These exceptions are explained in our full Corporate Governance Statement, available in the Corporate Governance section of our website at www.mercury.co.nz.

In this section we give an overview of our Board composition and experience, how we manage risks, our commitment to acting ethically and responsibly and our approach to inclusion and diversity.



Mercury's Board

Composition and characteristics

The Board currently comprises eight directors: Joan Withers (Chair), Prue Flacks, Andy Lark, James Miller, Keith Smith, Scott St John, Patrick Strange and Mike Taitoko. Each of the Directors is non-executive and independent. Details of our Directors are available in the Leadership section of our 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 third and current future director, Anna Lissaman, commenced on 1 July 2018 and her tenure will conclude on 31 December 2019. Anna 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. The Board Charter is available in the Corporate Governance section of our website.

Our Board characteristics are set out in the diagram on page 34.

Committees

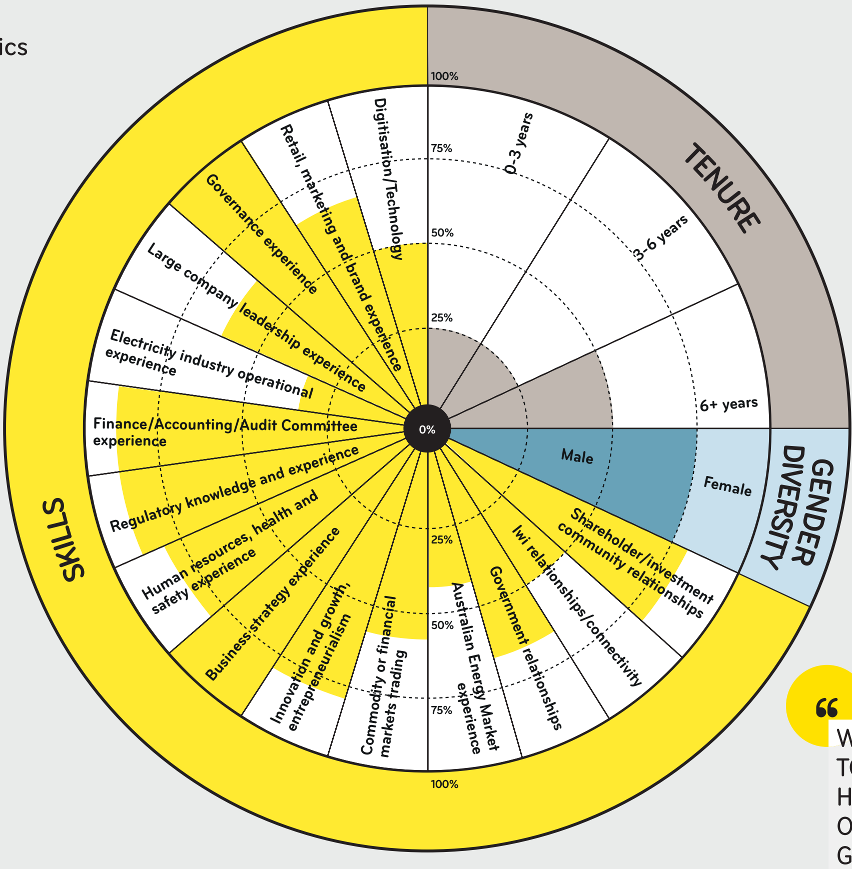
The Board has three standing Committees: the Risk Assurance & Audit Committee (RAAC), the People & Performance Committee (formerly the Human Resources Committee) (PPC), and the Nominations Committee. Each Committee focusses on specific areas of governance. Together they strengthen the Board's oversight of Mercury. As an exception to Recommendation 3.3 of the NZX Corporate Governance Code 2017, the Board does not have a separate Remuneration Committee; rather the functions which would ordinarily be allocated to that committee are shared between the PPC in respect of the Chief Executive and the Executive Management Team (EMT), and the Nominations Committee in respect of the Directors. The current members of the Committees are as follows:

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

* Scott St John joined the People & Performance Committee during the reporting period. His first meeting on this Committee was on 25 June 2018.

GOVERNANCE AT MERCURY
(CONTINUED)

Board Characteristics



> WE ARE COMMITTED TO MAINTAINING THE HIGHEST STANDARDS OF CORPORATE GOVERNANCE AND ACCOUNTABILITY.

Each standing Committee operates in accordance with a written Charter approved by the Board. The Committee Charters are available in the Corporate Governance section of our website. Mercury assesses whether additional committees are required on a regular basis. During the past financial year, the Board established two temporary committees for discrete projects.

Skills and reviewing performance

The Nominations Committee has developed a matrix setting out the ideal mix of skills and diversity of the Board. The matrix is used to evaluate whether the collective skills and experience of the Directors meets Mercury's current and future requirements. If the Board determines that new or additional skills are required, training is completed or a formal recruitment process is undertaken. In addition to having the right mix of skills, the Board is focused on ensuring that it has the right culture that takes advantage of, and benefits from, the diversity of skills, background and experiences of 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 group 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 review, with the assistance of an external facilitator, was completed in June 2018. The review found that Mercury's Board remains in the top tier and continues to hold many strong attributes identified in 2014 and 2016 reviews, including holding highly relevant board capability and governance processes. Some opportunities were identified for Board focus to maintain and extend that performance.
The Board also completed a comprehensive analysis of the skills and tenure of the Board in mid-2018.

The table below highlights those skills which the Board considers to be connected with the governance of Mercury's strategy.

Skill Attribute	Joan Withers	Andy Lark	James Miller	Mike Taitoko	Patrick Strange	Prue Flacks	Keith Smith	Scott St John
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/risk management experience Senior executive or board experience in financial accounting and reporting, corporate finance and internal controls, and developing and overseeing an appropriate risk framework and culture	●	◖	●	◖	●	●	●	●
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	●	◖	●	◖	●	●	●	●
Human resources, health and safety experience Familiarity with people and performance issues to provide an environment for personal and business growth and an appropriate understanding of health and safety and wellness concerns	●	◖	●	◖	●	●	◖	●

● Primary Skills ◖ Secondary Skills

Table continued on next page.

GOVERNANCE AT MERCURY
(CONTINUED)

Skill Attribute	Joan Withers	Andy Lark	James Miller	Mike Taitoko	Patrick Strange	Prue Flacks	Keith Smith	Scott St John
Delivering Sustainable Growth								
Business strategy experience A track record of developing and implementing a successful and sustainable strategy	●	●	●	●	●	●	●	●
Innovation and growth, entrepreneurism A track record of demonstrated entrepreneurialism and/or demonstrated understanding and commitment to innovation and a clear record of achieving organisational growth	◖	●	●	●	◖	◖	●	●
Commodity or financial markets trading Experience and understanding of commodity and financial markets		◖	●	◖	◖			●
Australian Energy Market experience Familiarity with the Australian energy market and the opportunities and challenges of doing business in that market	◖	◖	●		●			◖
Building and maintaining relationships								
Government relationships An understanding of the functioning of Government and experience developing and maintaining constructive relationships and interactions with Government and regulators	●	◖	◖	●	●	◖	◖	◖
Iwi relationships/connectivity An understanding and appreciation of Maori culture, the ability to build and foster deep trusting relationships with iwi and a deep connection with iwi concerns and aspirations	●	◖	◖	●		◖	◖	
Shareholder/investment community relationships Experience in and understanding of shareholder and investment community concerns and developing constructive relationships	●	◖	●	◖	●	◖	●	●

● Primary Skills ◖ Secondary Skills

Acting Ethically and Responsibly

At Mercury, doing what's right is something all our people strive to achieve. We strive to ensure that our people know what the 'right thing to do' is. We have put in place the Mercury Code which establishes our culture and the behaviours we consider are required for the successful delivery of our strategy and the achievement of our Purpose of inspiring New Zealanders to enjoy energy in more wonderful ways. The Mercury Code requires all Mercury people, including Directors and employees, to act honestly and with integrity and fairness at all times. 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. The Mercury Code is available in the Corporate Governance section of our website.

We also want to ensure that we work with suppliers who share our commitment to acting ethically and doing the right thing. We have therefore introduced our Supplier Guiding Principles which describe the way we will work with our suppliers and what we expect in return. Our Supplier Guiding Principles set out our commitments to treating people fairly, wellbeing, protecting our business and our reputation, protection of personal information and sustainability. Our Supplier Guiding Principles are available in the Corporate Governance section of our website.

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 our 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.

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 FY2018. 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 FY2018 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 Auditor–General has appointed Lloyd Bunyan of Ernst & Young as Mercury's next lead audit partner. 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.

GOVERNANCE AT MERCURY

(CONTINUED)

Inclusion and Diversity

Mercury embraces and celebrates diversity in all its forms. A key pillar of the Mercury Attitude is that we encourage our people to share and connect. We believe that the best way to create value in our business and deliver the best customer experience is through high performance 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 the full potential of their teams. Being part of a team that celebrates different backgrounds, views, experience and capability helps create an inclusive workplace where our people grow and thrive, leading to better business performance.

Our commitment to inclusion and diversity starts with our Inclusion and Diversity Policy and framework. Our Policy is available in the Corporate Governance section of our website.

Mercury's approach to inclusion and diversity focuses on gender, age, ethnicity 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
- promoting leadership behaviours that reflect our belief in the value of inclusion and diversity
- 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.

Our progress against inclusion and diversity goals is measured against objectives set by the Board. These 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.

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

Area of focus	Objective	Target		Actual		
Gender	Improve representation of women at senior leadership levels		2020		2017	2018
		Employees	38%	Employees	41%	41%
		Leaders	33%	Leaders	30%	30%
		EMT	33%	EMT	22%	22%
		Board	33%	Board	29%	25%
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 2018 Ethnicity***	**NZ Population 2013 Census**
				NZ European (364)	45%	69%
				Maori (32)	4%	13%
				Pacific (55)	7%	7%
				Asian (137)	17%	9%
				Other European (53)	7%	n/a
				Other (77)	10%	2%
				Not selected	10%	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 2018 Ethnicity***	**Mercury People Leaders by Ethnicity**
				NZ European (364)	45%	62%
				Maori (32)	4%	3%
				Pacific (55)	7%	3%
				Asian (137)	17%	3%
				Other European (53)	7%	5%
				Other (77)	10%	8%
				Not selected	10%	5%
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 2018 Employee Engagement Survey, 80% of employees confirmed that they are treated fairly, regardless of age, ethnicity, gender or physical capabilities, compared to 2017 All NZ Organisations Benchmark of 78%		
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 2018 Employee Engagement Survey, 85% of employees confirm that they have the freedom and flexibility to do their job effectively, compared to 2017 All NZ Organisations Benchmark of 84%		

* Mercury 2018 Ethnicity data based on responses to Mercury's 2018 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 2017 this was 22% or two out of nine). The proportion of women on the Board at balance date was 25% or two out of eight, including the Chair (as at 30 June 2017 this was 29% or two out of seven).

The Board believes that for this reporting period Mercury has made progress towards achieving its inclusiveness and diversity objectives and against its Inclusion and Diversity Policy generally. However, the Board notes that continued focus is required over the next two financial years in order for Mercury to achieve its 2020 gender diversity targets.

DIRECTOR AND EXECUTIVE EMPLOYEE REMUNERATION

Dear Shareholder

As Chair of the People & Performance Committee (PPC) of the Board, it is my pleasure to present our Remuneration Report for the year ending 30 June 2018 (FY2018).

This report outlines Mercury's approach and strategy to remuneration and in particular for its executives. It sets out remuneration information for the Chief Executive, direct reports to the Chief Executive and Directors.

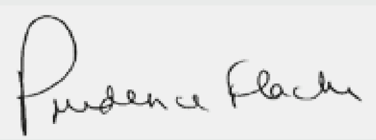
Mercury's Board is committed to a remuneration framework that promotes a high performance culture and aligns executive reward to the achievement of strategies and objectives to create sustainable value for shareholders. The Board is committed to demonstrating transparency in its remuneration policy and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

The Board is supported by the PPC for these activities. The role and membership of the PPC is set out in the Corporate Governance section.

Mercury's remuneration approach aims to retain, attract, develop 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 aligns with Mercury's strong focus on high performance teams and growing a human capital advantage, as well as promoting behaviours and values to support customer centricity and sustainable growth in shareholder value.

Mercury's long term incentive (LTI) scheme is currently under review to determine its continuing effectiveness to motivate, retain and align the effort of executives, in line with the company's priorities. The review of the long term incentive scheme will also consider the Government's new taxation rules for employee share schemes and how this will impact on any future LTI grants. Any key long term incentive plan changes will be summarised in next year's Annual Report.

Finally, I would like to recognise Mercury's achievement of winning the Best Enterprise Workplace (750+ employees) in the 2017 IBM Best Workplaces Awards and also winning the Workplace Engagement Programme of the Year at the NZ HR awards. Both awards recognise Mercury's commitment to its people and aligning them under one brand purpose: to inspire New Zealanders to enjoy energy in more wonderful ways.



PRUE FLACKS
CHAIR, PEOPLE & PERFORMANCE COMMITTEE

Executive remuneration

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

The PPC 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 PPC. The review takes into account external benchmarking from PwC 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 PPC from an expert independent party, PwC, and PwC is required to declare independence of any management influence in the collation of the information provided. External benchmarking for non-Executive remuneration is requested by Mercury management and provided by Ernst and Young.

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 FY2018 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 in FY2018, 70% from FY2019; 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 FY2018 covered the areas of finance, customer, wellbeing, people and long-term platform 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 management's control. The criteria are selected to closely align with Mercury's strategic objectives, purpose and goal and Mercury's five key pillars. For FY2019 the weightings have been adjusted as shown.

Target Area	FY2018 Weighting %	FY2019 Weighting %	Key Pillar
Financial: EBITDAF[1]	30	30	Leading Economic Performance
People	20	30[2]	High Performance Teams
Wellbeing	20		
Customer	20	20	Growing Customer Loyalty
Long term platform	10	N/A	N/A
Partnerships	N/A	10	Stronger Together
Kaitiakitanga	N/A	10	Enhanced Natural Resources

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

Note 2: People and Wellbeing have been combined in FY2019 to be People.

For FY2018 there are three performance levels within each target area, 'threshold', 'on-plan' and 'stretch', except for long term platform, 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

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

The current LTI plan commenced on 1 July 2015 under which grants are made annually with performance measured over a three year period. The face value less tax is used to determine the number of shares held in trust for each grant and is set at the date of the grant. The plan's performance is measured based on Mercury's total shareholder return (TSR) relative to two performance hurdles designed to ensure an appropriate long term performance comparison.

Each grant under the current 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 FY2018 grant commencing 1 July 2017 the value represents between 27% - 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.

DIRECTOR AND EXECUTIVE EMPLOYEE REMUNERATION (CONTINUED)

Chief Executive remuneration

Chief Executive remuneration (FY2018 and FY2017)

	Salary $	Benefits[1] $	Subtotal $	Pay for performance $			Total remuneration $
				STI	LTI	Subtotal	
FY2018	1,108,655*	62,100	1,170,755	632,528	0	632,528	1,803,283
FY2017	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 for FY2018 was $1,054,212.50 and for FY2017 $1,028,500.

Five year summary – Chief Executive remuneration

		Total remuneration paid[2] $	Percentage STI against maximum [4] %	Percentage vested LTI against maximum %	Span of LTI performance period
Chief Executive – Fraser Whineray	FY2018	1,803,283	67	0	2015 – 2018
	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]

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.

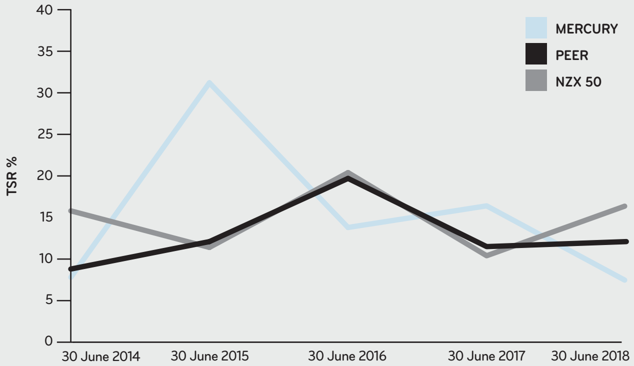
Note 4: Maximum STI is 178% of 'on-plan' performance pay.

Breakdown of Chief Executive pay for performance (FY2018)

	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 five Company Shared KPIs (see table above for weightings).	117.5
		20% based on individual measures.	130
LTI[1]	Shares issued and rewarded under the long term incentive scheme. Shares issued 1 July 2015 at $200,000 gross.	50% 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.	0
		50% weighting relative TSR performance against industry peer group (comprising Meridian Energy, Genesis Energy, Contact Energy and Trustpower) with 50% vesting at 50th percentile and 100% at 75th percentile; pro rata vesting in between.	

Note 1: The above STI and LTI payments for FY2018 were paid in FY2019.

Five 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 FY2018 the Company's contribution was $56,418.

FY2019 Chief Executive remuneration structure

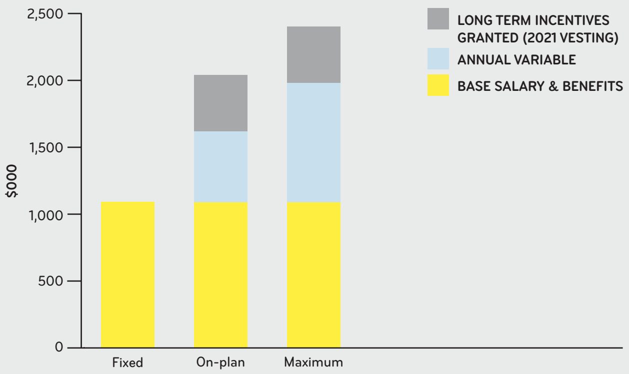
The Board has elected, in the interests of transparency, to disclose in advance the structure and package that will apply for FY2019.

FY2019	Base Salary $	Benefits[1] $	Subtotal $	Pay for performance "on-plan" $			Total remuneration $
				STI	LTI granted[2]	Subtotal	
Chief Executive	1,054,212	37,308	1,091,521	527,106	421,685	948,791	2,040,312

Note 1: Benefits include KiwiSaver, insurance and carpark.

Note 2: This LTI is granted in FY2019 and if hurdles are met, paid in shares in 2021. The LTI tranche which has the potential to vest in FY2019 is $359,975 and dates from FY2017-FY2019.

Chief Executive remuneration performance pay for FY2019



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 FY2018, the Chief Financial Officer received remuneration totalling $823,978. This amount included a $170,165 STI payment and $137,196 LTI payment for FY2017 paid in FY2018, with the remaining $516,617 being a combination of fixed remuneration and benefits.

DIRECTOR AND EXECUTIVE EMPLOYEE REMUNERATION (CONTINUED)

Share ownership

The Chief Executive and Chief Financial Officer's ownership of shares as at 30 June 2018 are:

Executive	Number of shares owned (excludes shares held in Trust for the LTI scheme)	Change in shares owned from 30 June 2017
Chief Executive	233,351[1]	54,085
Chief Financial Officer	245,475	37,859
Balance of EMT[2]	152,305	87,353

Note1: The Chief Executive's shares are held in family trust.

Note2: Balance of shares owned by other EMT members and excludes shares owned by Chief Executive and Chief Financial Officer.

Employee remuneration

The Group paid remuneration in excess of $100,000 including benefits to 363 employees (not including directors) during the FY2018 year in the following bands:

Remuneration Band	Currently employed	No longer employed	Total
$100,001-$110,000	58	3	61
$110,001-$120,000	63	8	71
$120,001-$130,000	42	2	44
$130,001-$140,000	41	1	42
$140,001-$150,000	39		39
$150,001-$160,000	23		23
$160,001-$170,000	17		17
$170,001-$180,000	10		10
$180,001-$190,000	9		9
$190,001-$200,000	11		11
$200,001-$210,000	7		7
$210,001-$220,000	8		8
$220,001-$230,000	1	1	2
$230,001-$240,000	2		2
$240,001-$250,000	3		3
$250,001-$260,000	1		1
$260,001-$270,000	5		5
$270,001-$280,000	6		6
$280,001-$290,000	1		1
$290,001-$300,000	2		2
$310,001-$320,000	3		3
$320,001-$330,000	2		2
$490,001-$500,000	1		1
$500,001-$510,000	1		1
$550,001-$560,000	2		2
$590,001-$600,000	1		1
$660,001-$670,000	1		1
$670,001-$680,000	1		1
$820,001-$830,000	1		1
$1,940,001-$1,950,000	1		1
Total	**363**	**15**	**378**

Note: The remuneration bands above include 3 employees who received redundancy payments in FY2018.

The total remuneration ratio for FY2018 between Employee (median) and Chief Executive was 1:28. The ratio of Employee (median) remuneration and Chief Executive base salary was 1:15. Note: These ratios are based on actual remuneration paid in FY2018.

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. 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 2018 and received the following remuneration during the period. The number of meetings and attendance rate by director during the year to 30 June 2018 was as follows:

Director	Board		Risk Assurance & Audit Committee		People & Performance Committee		Nominations Committee		Other[1]	Total[2]
No. of meetings	12		4		4		3			23
	Fees $	Meetings Attended	Fees $	Meetings Attended	Fees $	Meetings Attended	Fees $	Meetings Attended	Fees	Fees $
Joan Withers (Chair)	180,000 (Chair)[3]	12		4		4	(Chair)	3		180,000
Prue Flacks	98,000	12			20,000 (Chair)	4	4,000	3	2,750	124,750
Andrew Lark	98,000	12			8,000	4				106,000
James Miller	98,000	12	10,000	4			4,000	3	5,500	117,500
Keith Smith	98,000	11	26,000 (Chair)	4						124,000
Patrick Strange	98,000	12	10,000	4					2,750	110,750
Mike Taitoko	98,000	12			8,000	4				106,000
Scott St John[4]	81,667	10			–	1			2,750	84,417
Total	849,667		46,000		36,000		8,000		13,750	953,417

Note 1: Two temporary committees were established during the reporting period. The fees listed in this column are aggregate fees. James Miller participated in both committees.

Note 2: Disclosure Committee is not reported on as these occur as adhoc and on an as required basis.

Note 3: Joan Withers' fees cover attendance at all Committee meetings.

Note 4: Scott St John was appointed director effective from 1 September 2017 and his first meeting on the People & Performance Committee was on 25 June 2018. Scott's attendance rates are based on attendance at meetings during his directorship and appointment to the Committee only. Scott's fee of $667 for June attendance at the People & Performance Committee was paid after the end of the reporting period.

Note 5: Future Director Nicky Ashton was paid $10,000 in FY2018.

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 2018:

Joan Withers	
The Warehouse Group Limited	Chair
ANZ Bank New Zealand Limited	Director
The Louise Perkins Foundation (Sweet Louise)	Trustee
Pure Advantage[2]	Trustee
Economic Development Challenge Group	Member
On Being Bold Limited	Director
Auckland Mayoral Advisory Group[1]	Member
Prue Flacks	
Bank of New Zealand Limited	Director
Planboe Limited	Director
Chorus Limited	Director
Queenstown Airport Corporation Limited[1]	Chair
Andy Lark	
SLI Systems Limited	Director
Group Lark	Chair
Simple[2]	Director and Interim Chair
Foxtel Limited[1]	Chief Marketing and Digital Officer
James Miller	
NZX Limited	Chair/Shareholder
ACC	Director
Auckland International Airport Limited	Director/Shareholder
St Cuthbert's College Trust Board	Trustee
Keith Smith	
Healthcare Holdings Ltd and subsidiaries and associates	Chair
Enterprise Motor Group Ltd and subsidiaries	Chair
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
Electronic Navigation Limited and subsidiaries	Director
K One W One Limited and subsidiaries[2]	Director
Westland Dairy Cooperative Limited	Director
Harpers Gold Limited and subsidiaries	Director/Shareholder
James Raymond Holdings Limited (private family investment company)	Director/Shareholder
Gwendoline Holdings Limited (private family investment company)	Director/Shareholder
Tilt Renewables Limited	Shareholder
Cornwall Park Trust Board	Trustee
Sir John Logan Campbell Residuary Estate	Trustee
The Selwyn Trust	Trustee
Advisory board of Tax Traders Limited (formerly The New Zealand Tax Trading Company)	Member
Anderson & O'Leary Limited	Chair
The Warehouse Financial Services Limited[2]	Director
Tree Scape Limited	Director
Scott St John	
Fisher & Paykel Healthcare Corporation Limited[1]	Director
Fonterra Cooperative Group Limited (and Fonterra Shareholders Fund)[1]	Director
Next Foundation (and associated entities)[1]	Director
Te Awanga Terraces Limited[1]	Director
First NZ Capital Holdings Limited[1]	Director
University of Auckland[1]	Chancellor
Butland Medical Foundation[1]	Trustee
Patrick Strange	
Chorus Limited	Chair
Essential Energy, NSW	Director
NZX Limited	Director
New Zealand Clearing and Depository Corporation Limited[2]	Director
Auckland International Airport Limited	Director
Waitahoata Farms Limited	Director
Mike Taitoko	
Waiora Consulting Limited	Director/Shareholder
Takiwa Health Limited[2]	Director
Takiwa Limited (formerly Waiora Pacific Limited)	Director/Shareholder
Cognition Education Limited[2]	Director
Committee for Auckland Limited[2]	Director
Bioresource Processing Alliance	Director
Auckland Tourism Events and Economic Development Limited (ATEED)	Director
Maratini Holdings Limited	Director/Shareholder
Canvasland Holdings Limited	Director/Shareholder
Digital Economy and Digital Inclusion Ministerial Advisory Group[1]	Member

1 Entries added by notices given by the directors during the year ended 30 June 2018

2 Entries removed by notices given by the directors during the year ended 30 June 2018

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 2018:

Name of director	Date of acquisition/disposal of relevant interest	Nature of relevant interest	Consideration NZD	Shares in which a relevant interest was acquired/(disposed)
Scott St John	4 September 2017	On market purchase of shares	17,199.00	5,000
Scott St John	28 February 2018	On market purchase of shares	5,383.84	1,672
Scott St John	28 February 2018	Off market purchase of shares	10,716.16	3,328
Scott St John	28 May 2018	On market acquisition of shares	9,600.00	3,000

Disclosure of Directors' Interests in Mercury's Securities

Directors disclosed the following relevant interests in Mercury's securities as at 30 June 2018:

Director	Number of Shares	Number of Bonds
Joan Withers	39,900	–
Prue Flacks	23,474	40,000
Andy Lark	3,300	–
James Miller	40,320	–
Keith Smith	27,868	–
Scott St John	13,000	–
Patrick Strange	14,160	8,600
Mike Taitoko	2,200	–

SHAREHOLDER INFORMATION

Twenty largest registered shareholders as at 30 June 2018

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	287,402,525	20.52
Mercury NZ Limited	37,988,585	2.71
HSBC Custody Nominees (Australia) Limited	17,384,838	1.24
Forsyth Barr Custodians Limited	12,001,801	0.85
Custodial Services Limited	8,198,715	0.58
FNZ Custodians Limited	7,132,167	0.50
JBWere (NZ) Nominees Limited	6,759,578	0.48
New Zealand Depository Nominee Limited	6,128,420	0.43
Citicorp Nominees Pty Limited	4,867,589	0.34
Custodial Services Limited	4,237,455	0.30
Custodial Services Limited	3,769,944	0.26
Investment Custodial Services Limited	3,418,179	0.24
JP Morgan Nominees Australia Limited	3,085,677	0.22
Custodial Services Limited	2,565,782	0.18
Richard Wallace Shapero	2,015,000	0.14
National Nominees Limited	1,520,229	0.10
Deutsche Securities Australia Limited	1,442,730	0.10
Custodial Services Limited	1,205,669	0.08
Forsyth Barr Custodians Limited	910,928	0.06
Total	**1,128,176,339**	**80.48**

1. Percentage calculated on the basis of Mercury having 1,400,012,517 ordinary shares on issue as at 30 June 2018, which included 37,988,585 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 2018, the 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	97,030,982	33.76	6.93
Citibank Nominees (New Zealand) Limited	39,770,855	13.84	2.84
HSBC Nominees (New Zealand) Limited A/C State Street	33,517,868	11.66	2.39
JPMorgan Chase Bank NA NZ Branch-Segregated Clients Acct	25,291,100	8.80	1.81
Accident Compensation Corporation	24,879,419	8.66	1.78
HSBC Nominees A/C NZ Superannuation Fund Nominees Limited	15,642,062	5.44	1.12
National Nominees New Zealand Limited	12,516,803	4.36	0.89
BNP Paribas Nominees (NZ) Limited	8,576,432	2.98	0.61
BNP Paribas Nominees (NZ) Limited	6,939,367	2.41	0.50
ANZ Wholesale Australasian Share Fund	4,040,953	1.41	0.29

1. Percentage calculated on the basis of Mercury having 1,400,012,517 ordinary shares on issue as at 30 June 2018, which included 37,988,585 ordinary shares held as treasury shares.

Substantial product holders of the Company as at 30 June 2018

	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	731,850,590[1]	1,400,012,517[2]

1. This comprises (a) 716,140, 528 shares held by the Crown on its own account; (b) 15,642,062 shares forming part of the New Zealand Superannuation Fund which are the property of the Crown; and (c) $68,000 shares held by Public Trust on trust for the Crown and certain iwi.
2. As at 30 June 2018, Mercury had 1,400,012,517 ordinary shares on issue, which included 37,988,585 ordinary shares held as treasury shares.

Distribution of shareholders and holdings as at 30 June 2018

Size of holding	Number of shareholders	%	Number of shares	Holding quantity %
1 to 1,000	30,826	36.61	21,530,853	1.54
1,001 to 5,000	42,302	50.24	98,601,799	7.04
5,001 to 10,000	7,126	8.46	52,381,385	3.74
10,001 to 100,000	3,845	4.57	78,564,752	5.61
100,001 and above	106	0.13	1,148,933,728	82.07
Total	**84,205**	**100**	**1,400,012,517**	**100**

Distribution of bondholders and holdings as at 30 June 2018

Size of holding	Number of bondholders	%	Number of capital bonds	Holding quantity %
1,001 to 5,000	365	9.92	1,819,000	0.61
5,001 to 10,000	789	21.45	7,538,000	2.51
10,001 to 100,000	2,354	64	84,066,000	28.02
100,001 and above	170	4.62	206,577,000	68.86
Total	**3,678**	**100**	**300,000,000**	**100**

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 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 2017/2018 financial year, being 30 June 2018: Joan Withers, Prue Flacks, James Miller, Mike Taitoko, Keith Smith, Patrick Strange, Andy Lark and Scott St John. Scott St John was appointed as a Director on 1 September 2017 and was elected as a Director by shareholders on 7 November 2017.

Subsidiary Companies

The following persons held office as directors of subsidiaries of Mercury NZ Limited during FY2018:

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

Company name	Directors
Mercury ESPP Limited	William Meek Tony Nagel Marlene Strawson
Mercury Geothermal Limited	Fraser Whineray William Meek Tony Nagel
Mercury LTI Limited	Prue Flacks Mike Taitoko Howard Thomas
Ngatamariki Geothermal Limited	Fraser Whineray William Meek Tony Nagel
Rotokawa Generation Limited	William Meek Nicholas Clarke Michael Stevens
Rotokawa Geothermal Limited	Fraser Whineray William Meek Tony Nagel Michael Stevens
Rotokawa Joint Venture Limited (50%)	Aroha Campbell Kevin McLoughlin[3] William Meek[3] Nicholas Clarke Mana Newton[2] Mark Thompson Michael Stevens Natasha Strong[2]
Special General Partner Limited	Fraser Whineray William Meek Tony Nagel
Mighty River Power Limited	Fraser Whineray William Meek Tony Nagel
Blockchain Energy Limited	Fraser Whineray William Meek Tony Nagel
MRP NRI-Chile Holdings Limited[1]	Samuel Moore John Carbone Nikolai de Giorgio
MRP NRI-Peru Holdings Limited[1]	Samuel Moore John Carbone Nikolai de Giorgio
MRP NRI-Germany Holdings Limited[1]	Samuel Moore John Carbone Nikolai de Giorgio
Mercury Solar Limited	Fraser Whineray William Meek Tony Nagel
What Power Crisis (2016) Limited	Fraser Whineray William Meek Tony Nagel

1 Company dissolved during FY2018
2 Directors who have been appointed during FY2018
3 Directors who have resigned during FY2018

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.

OTHER DISCLOSURES

(CONTINUED)

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 $203,069 were made by the Group during the year ended 30 June 2018 ($126,090 during the year ended 30 June 2017). Under Mercury's Delegation Policy, donations to political parties are prohibited.

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 21 August 2018 the Board declared a fully imputed final dividend of 9.1 cents per share to all shareholders who are on the Company's share register at 5.00pm on the record date of 13 September 2018. The dividends will be imputed at a corporate tax rate of 28% which amounts to an imputation credit of $3.54 cents per share for the final dividend. The Company will also pay a supplementary dividend of 1.61 cents per share relating to the final 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 $82.6 million (6.0 cents per share) paid to shareholders on 3 April 2018 brings total declared dividends to $206.6 million (or 15.1 cents per share).

As at the date of this annual report, the Company has a S&P'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 2018 was $2.34, compared with $2.34 at 30 June 2017.

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 stay-in-business capital expenditure
Generation-weighted Average Price (GWAP)	Generation Weighted Average Price of electricity generated and sold to the wholesale electricity market
GWh	Gigawatt hour. One gigawatt hour is equal to one million kilowatt hours
Load-weighted Average Price (LWAP)	Load Weighted Average Price of electricity purchased from the wholesale electricity market
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
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
Smart meters	Advanced electricity meters that are a replacement for analogue meters, and send electronic meter readings to your energy retailer automatically
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
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

DIRECTORY

Board of Directors

Joan Withers, Chair
Prue Flacks
Andy Lark
James Miller
Keith Smith
Scott St John
Patrick Strange
Mike Taitoko

Executive Team

Fraser Whineray,
Chief Executive

Kevin Angland,
General Manager Digital Services

Nick Clarke,
General Manager Geothermal & Safety

Phil Gibson,
General Manager Hydro & Wholesale

Julia Jack,
Chief Marketing Officer

William Meek,
Chief Financial Officer

Tony Nagel,
General Manager Corporate Affairs

Matthew Olde,
Metrix Chief Executive

Marlene Strawson,
General Manager People & Performance

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 New Zealand
MUFG Bank
Mizuho Bank
Westpac

Credit Rating (reaffirmed December 2017)

Long term: BBB+
Outlook: Stable

Share Register – New Zealand

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Private Bag 92119
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Phone: +64 9 488 8777
Email: enquiry@computershare.co.nz
Web: www.investorcentre.com/nz

Share Register – Australia

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Phone: +61 3 9415 4083 (outside Australia)
Email: enquiry@computershare.co.nz


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