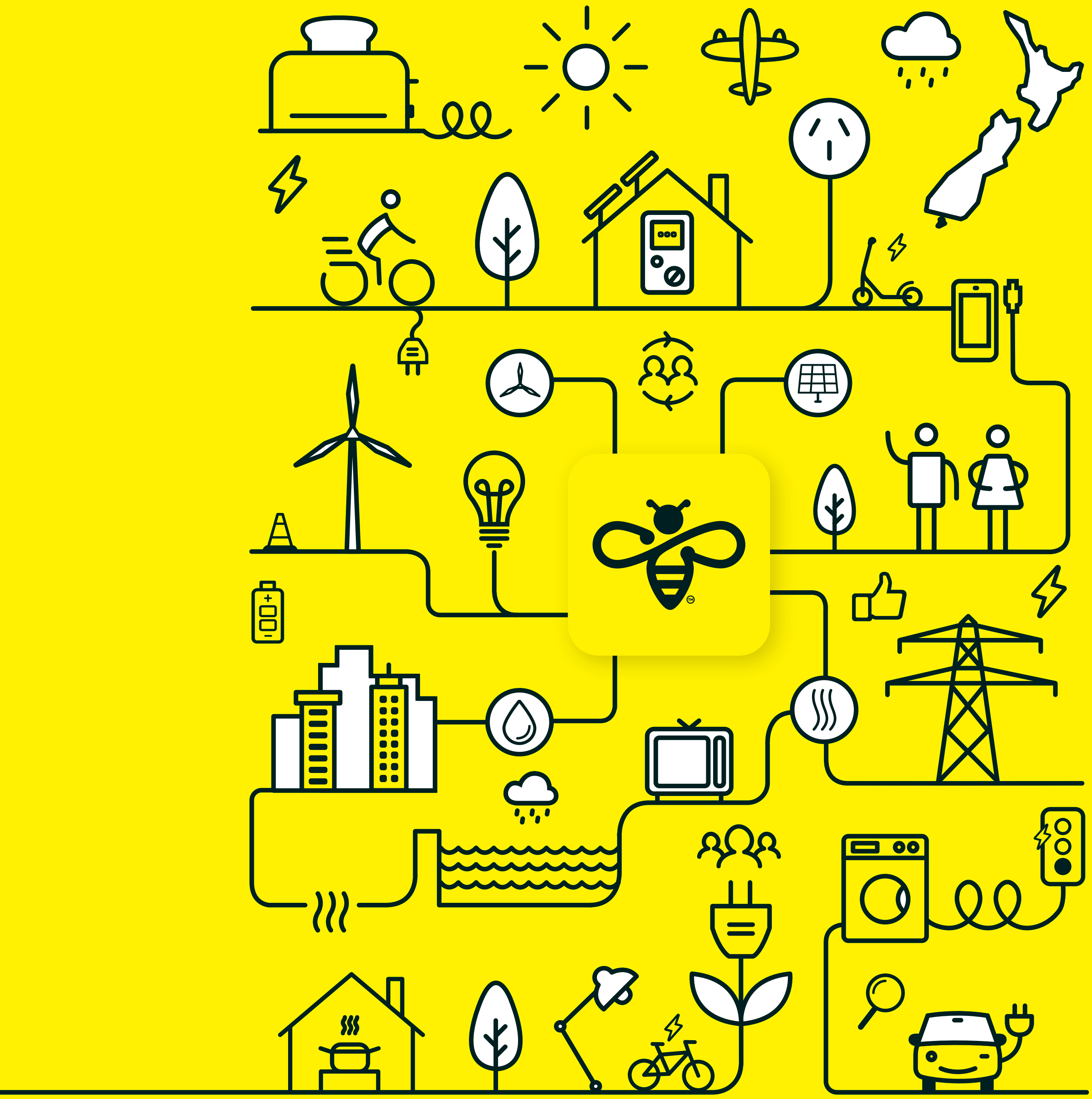
ENERGY FREEDOM.



2019 ANNUAL REPORT // MERCURY NZ LIMITED

OUR MISSION: ENERGY FREEDOM.

Energy Freedom for all New Zealanders is our mission. It's about New Zealand being stronger economically and more sustainable through better use of homegrown, renewable energy.

Tilt Renewables' Tararua Wind Farm

Mercury

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 2019. The Auditor-General is required to be the company's auditor, and has appointed Lloyd Bunyan 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 affected or may significantly affect the operations of the company. This Annual Report is dated 20 August 2019 and is signed on behalf of the Board by:

JOAN WITHERS // CHAIR

KEITH SMITH // DIRECTOR

HOW WE DID THIS YEAR.

$505M↓

OPERATING EARNINGS (EBITDAF)

REFLECTING LOWER HYDRO GENERATION AND LOWER METRIX EARNINGS DUE TO SALE
FY2018 $566M

$357M↑

RECORD PROFIT (NPAT)

REFLECTING GAIN ON SALE OF METRIX AND LOWER INTEREST COSTS
FY2018 $234M

$199M

OPERATING EXPENDITURE

FLAT FOR THE 6TH STRAIGHT YEAR ON A LIKE-FOR-LIKE BASIS

15.5CPS↑

TOTAL FULLY-IMPUTED ORDINARY DIVIDEND

FY2018 15.1 CPS

64%

MERCURY CUSTOMERS RATING AS 'HIGHLY SATISFIED': 12 MONTH ROLLING AVERAGE

FY2018 62%

7.4%

MERCURY BRAND CUSTOMERS SWITCHING RETAILER WITHOUT MOVING HOUSE

FY2018 6.4%

ZERO

HIGH SEVERITY HEALTH AND SAFETY INCIDENTS

$272M

PROCEEDS FROM THE SALE OF METRIX

6,902GWh

TOTAL GENERATION

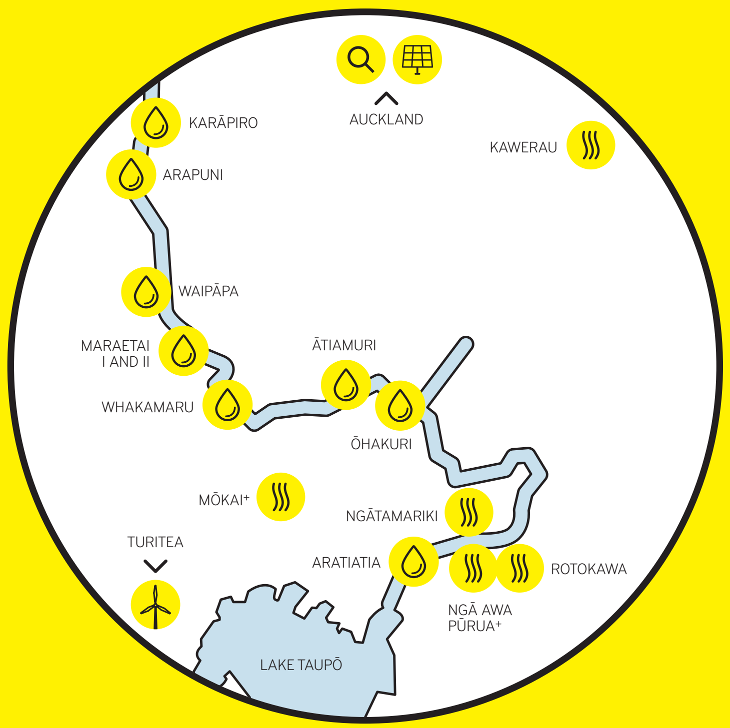
FY2018 7,704GWh

$256M

TURITEA WIND FARM INVESTMENT COMMITMENT

WHO WE ARE.

"OUR PURPOSE IS TO INSPIRE NEW ZEALANDERS TO ENJOY ENERGY IN MORE WONDERFUL WAYS.



HYDRO STATIONS · GEOTHERMAL STATIONS · SOLAR · WIND FARM (under construction) · R&D CENTRE

+ Not 100% owned by Mercury.

373K CUSTOMERS

325,565 residential
44,527 commercial
2,182 industrial
561 spot

16 PARTNERSHIPS

2 geothermal joint ventures
4 formal iwi partnerships*
10 community and commercial partnerships

88 EVs IN OUR FLEET

74% of our fleet is electric
3,615 solar customers
825 customers on EV package

775 PERMANENT EMPLOYEES

315 females
460 males

482 in Auckland
107 in Hamilton
25 in Taupō
60 in Rotorua
101 in rest of New Zealand

44% DECREASE

in the carbon intensity of our electricity generated since FY2015

14 POWER STATIONS*

4,006GWh of hydro generation
2,896GWh of geothermal generation

2019 MARKET SHARE

14% physical sales
17% generation

* Two are partnerships with Māori land trusts

HOW WE CREATE VALUE.

INPUTS

CUSTOMER
Those who choose us.

PARTNERSHIPS
Relationships with individuals, groups, institutions and businesses important to us.

KAITIAKITANGA
The natural resources and assets we need to run our business.

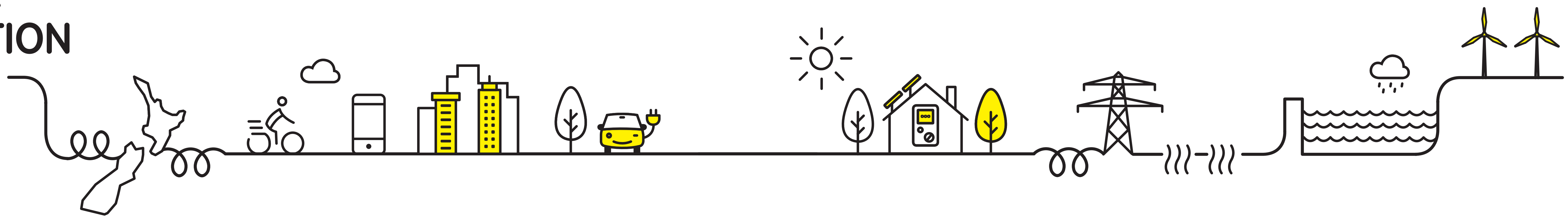
PEOPLE
A motivated, capable and inclusive workforce.

COMMERCIAL
The capital we have, the investments made in our business and the dynamic market we operate in.

ENERGY FREEDOM

VALUE CREATION

- PORTFOLIO MANAGEMENT
- HIGH PERFORMANCE TEAMS
- INNOVATION AND THOUGHT LEADERSHIP FOR NEW ZEALAND
- RELATIONSHIP MANAGEMENT
- HEALTH AND SAFETY MANAGEMENT
- CAPITAL MANAGEMENT



OUTCOMES

CUSTOMER
Highly satisfied and loyal customers.

PARTNERSHIPS
Key relationships built on mutual understanding and support, leading to both social and economic benefits.

KAITIAKITANGA
Natural resources available through sustainable management.

Assets fit for now and the future to support New Zealand's energy needs.

PEOPLE
A place to work where our people are engaged, safe and well and have the capability to meet our current and future needs.

COMMERCIAL
Sustainable and growing returns to our owners.

Chair's Update.

STRONG MOMENTUM.

JOAN WITHERS // CHAIR

It is my pleasure to report to you, our owners, on Mercury's results for the financial year ended 30 June 2019 (FY2019).

This is my final Annual Report as Chair. As signalled at our 2016 Annual Shareholders' Meeting, and again last year, I have chosen to step down from the Board after a decade in this role. It has been an honour to serve you, and to represent Mercury's interests over this time.

As this report outlines, and as reflected in our returns to shareholders, Mercury is in a strong position. Our underlying performance, our achievements in managing unfavourable hydrology during the financial year and the bold and carefully considered moves we have executed are all indicators that the company is in good heart and positioned well for growth in a dynamic market.

“THIS IS MY FINAL ANNUAL REPORT AS CHAIR... IT HAS BEEN AN HONOUR TO SERVE YOU, AND TO REPRESENT MERCURY'S INTERESTS.

“OUR FY2019 DIVIDEND OF 15.5 CENTS PER SHARE MAKES THIS THE 11TH YEAR OF ORDINARY DIVIDEND GROWTH.

Total shareholder returns (TSR) of 42.5% included significant share price appreciation, which valued the company at $6.3 billion at financial year end, compared with $4.6 billion at the same time last year.

Our FY2019 dividend of 15.5 cents per share (cps), fully imputed, makes this the 11th year of ordinary dividend growth.

The momentum we are enjoying, assisted by the market's bias to sustainable yield, is supported by the clarity of our strategy and Mercury's track record of executing well on what we say we will do. That position informs guidance for a continuation of the trend through FY2020, and beyond.

What Mercury commits to and what we execute on is guided by what we agree, as a Board and executive leadership, is most important to the balanced interests of all our stakeholders.

This integrated perspective is outlined within this report.

Fundamental to the Board's assessment of priorities is understanding risk and opportunity and determining how best we can add value across the pillars of our business: customer, partnerships, kaitiakitanga, people and commercial.

Management and your Board have agreed three-year targets across the pillars of our business. These are linked to key performance indicators to measure our success and progress. They connect to our overarching mission and purpose and they will guide Mercury towards our 10-year goals.

This structure is outlined on pages 26-27 of this report.

Your Board regularly considers whether our composition is fit for purpose and as Chair, my responsibility has been to ensure that the skills and experience that sit around the table are brought to bear in exercising our responsibilities. Our ongoing focus has been to ensure we have true diversity of thought around the Board table. We include our Board skill matrix and state our goals in that area in this report's Governance section on pages 104-106.

In relation to individual director remuneration, again there will be no recommendation for any increases taken to our Annual Shareholders' Meeting this year, as we have been informed by the Government, as 51% shareholder, that Shareholding Ministers would not support any increases during this term of Parliament.

Succession planning has been an ongoing focus during my tenure so I am delighted with the confirmation that Prue Flacks will replace me as Chair at this year's Annual Shareholders' Meeting. Prue has been on the Mercury Board since 2010 and has been an outstanding contributor. She chaired the Due Diligence Committee at the time of our Initial Public Offering (IPO) in 2013 and has in recent years chaired the People and Performance Committee. Her previous professional experience as a leading commercial lawyer has been invaluable to the company. With the support of existing Board members, who all have significant governance experience, I am confident that the future of Mercury is in good hands.

We have our regular independently-facilitated Board performance review underway currently and will receive the results of that early in the new financial year.

OUR RETURNS:

FINAL ORDINARY DIVIDEND 9.3 CENTS PER SHARE, FULLY IMPUTED

FULL YEAR ORDINARY DIVIDEND 15.5 CENTS PER SHARE (FY2018 15.1 CPS)

FINAL DIVIDEND TO BE PAID 30 SEPTEMBER 2019

42.5%
TOTAL SHAREHOLDER RETURN (TSR) ACROSS FY2019

$211M
TOTAL ORDINARY DIVIDENDS DECLARED TO SHAREHOLDERS

“...I AM CONFIDENT THE FUTURE OF MERCURY IS IN GOOD HANDS.

"MERCURY'S STRATEGY OF PURSUING GROWTH OPPORTUNITIES IS IMPORTANT FOR SECURING OUR ULTRA-LONG-TERM SUCCESS AND ALSO FOR NEW ZEALAND.

My leaving the Board also provides an opportunity to introduce new skills and ideas, which I believe is imperative for a company's sustainability and success. We expect to announce the appointment of a new director early in FY2020.

In terms of capital management, we concluded a successful placement for $300 million of subordinated capital bonds, allocated to New Zealand retail and institutional investors. The interest rate was struck at 3.60% per annum, with bonds issued on 11 July 2019. This has enabled Mercury to redeem our existing subordinated capital bonds.

The Board considers carefully the capital structure of the company and works hard to balance appropriately our requirements for 'stay-in-business' and maintenance capital, investing in value-enhancing growth opportunities and ensuring surplus capital is returned to shareholders effectively.

Our capital management initiatives support Mercury's investment-grade credit rating (BBB+), which was reaffirmed by Standard & Poor's (S&P) Global Ratings in December 2018. Mercury's strategy of pursuing growth opportunities is important for securing our ultra-long-term success and also for New Zealand.

GUIDANCE:

FORECAST FY2020 GENERATION 6,620GWh

FY2020 ORDINARY DIVIDEND 15.8 CENTS PER SHARE (INCREASE OF 2%)

FY2020 STAY-IN-BUSINESS CAPITAL EXPENDITURE $105 MILLION

^ Based on catchment inflows and generation at 20 August 2019

As a board, we understand there is an alternative option to focus predominantly on yield but we believe, on behalf of our owners, that the appropriate strategy for Mercury at this time is to be an active part of New Zealand's need for increased renewable energy output and continue to reinvest in plant and systems across our entire business. This will support a growing economy overall, while helping to meet the imperative of reducing carbon emissions and supporting New Zealand's energy security.

A considered approach to growth through renewable energy generation will also strengthen Mercury's ability to enhance the value of your capital into the future.

With that focus, it has been a big year again for Mercury.

Through the period, we advanced our relationship with Tilt Renewables Ltd (NZX:TLT), and Fraser Whineray has been appointed a director of Tilt Renewables' board. That followed our purchase of a 19.99% shareholding in Tilt Renewables announced in May 2018.

During FY2019, Mercury partnered with Tilt Renewables' majority owner, Infratil Ltd (NZX:IFT) for an offer to take over the remaining shares in Tilt Renewables. While acceptances fell short of allowing a full takeover, we have benefited from strength in Tilt Renewables' share price and our share of its own renewable energy growth path. The value of our stake at 30 June 2019 was 18% above our total investment.

Mercury concluded the sale of the Metrix smart-metering business at the beginning of March 2019 for a cash consideration of $272 million. After previously exploring smart-metering opportunities in Australia, the decision to sell Metrix released capital and resources for other growth opportunities and helped simplify the company's business.

Mercury confirmed a $75 million investment in securing and enhancing the operating future of the Karāpiro hydro station. This is part of our multi-year programme of work demonstrating guardianship of New Zealand's Waikato hydro system.

CURIOUS ABOUT WIND ENERGY?

Please visit **www.mercury.co.nz/wind**

Your Board also approved the decision to construct our first wind farm, at Turitea near Palmerston North, with a cost estimate of $256 million. The decision to proceed at Turitea was more than a decade in the making.

The resource consents for Turitea were granted in 2011 and we have involved landowners and other stakeholders in regular meetings since then. Our objective is to build strong and enduring relationships as we deploy resources to create a new renewable generation asset to add to our existing portfolio of geothermal, solar and hydro.

We tell some of the Turitea story through the partnership lens later in this report (pp 34-37).

Reflecting once more that this is my last Annual Report Update as Chair, I acknowledge the wonderful support and contribution of all my Board colleagues throughout my tenure.

To you, our owners, I have appreciated your support as well. I look forward to connecting with those who can make it in person to our Annual Shareholders' Meeting which will be held on 27 September. This year it will be held at Eden Park, in Auckland.

I sincerely thank Mercury's Chief Executive Fraser Whineray. The relationship between a Chair and Chief Executive is a critical one and I am personally delighted that I am leaving the company in great hands at both executive and governance level. It has been a privilege to work with Fraser and his executive and leadership group, and I thank all of Mercury's dedicated people for executing so well on our strategy.

Finally, I gratefully acknowledge the customers, partners and other stakeholders who continue as strong advocates for Mercury, as I will be, into the future.

JOAN WITHERS // CHAIR

"YOUR BOARD ALSO APPROVED THE DECISION TO CONSTRUCT OUR FIRST WIND FARM, AT TURITEA NEAR PALMERSTON NORTH, WITH A COST ESTIMATE OF $256 MILLION. THE DECISION TO PROCEED AT TURITEA WAS MORE THAN A DECADE IN THE MAKING.

“PERFORMANCE ACROSS OUR CORE BUSINESS PROVIDES THE FOUNDATION FOR US TO PURSUE GROWTH.

Chief Executive's Update.

WORKING FOR GROWTH.

FRASER WHINERAY // CHIEF EXECUTIVE

In last year's Annual Report I noted "It rained – a lot." In contrast, this year the Waikato catchment received extremely low (second percentile) inflows from September 2018 to late May 2019. This sustained dry sequence coincided with a serious strain on the country's thermal generation, record annual spot prices, and very poor liquidity in New Zealand's over-the-counter and electricity futures markets.

Despite these challenging conditions, Mercury delivered a strong performance. In these circumstances, this year was even more satisfying than our record result for FY2018.

Performance across our core business provides the foundation for us to pursue growth. Long-term sustainable growth is essential to support our now 11-year track record of increasing ordinary dividends to our owners, and to provide enduring opportunities for our people, customers and partners.

POWER FOR CHANGE

Consumers have power in their hands. The choice, technology and service available to meet their stationary and mobile energy needs continues to expand. That the consumer will benefit from this competition is a given, and we welcome the challenge to continuously improve our performance against our goal of becoming New Zealand's leading energy brand.

Mercury anticipates long-term demand growth as renewable electricity's value is increasingly unlocked through technology in applications such as transport, and as consumers embrace cheaper, locally produced and low-carbon products.

We will continue to explore inspiring ways to encourage the transition to electrified transport for the long-term benefit of the country as well as our owners.

Our Mercury Drive 'EV-by-subscription' initiative and our e.bike and e.scooter promotions are examples of contributing to this momentum.

Our customers continue to have a strong affinity with our brand. Sixty-four percent reflect high levels of satisfaction (62% FY2018). For FY2020, our attention will continue to be on inspiring, rewarding and making things easy for our customers: growing deeper customer relationships that deliver long-term value, rather than chasing growth in customer numbers at any cost, particularly given wholesale market dynamics.

A major investment in IT infrastructure, SAP Commerce Cloud, was implemented this year to make it easier for our customers to interact with us digitally. The roll-out of this platform across our customer base will continue through FY2020. This has already improved the experience of customers' online engagement through My Account.

Our IT infrastructure will allow new product configurations and price options to be chosen online by customers, giving them an easier, more streamlined experience and reducing the time to serve and set up new business.

WORKING BETTER TOGETHER

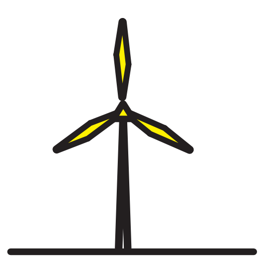
Building High Performance Teams continues to be a focus. This financial year, our people in Auckland moved from three separate premises into one office location in Newmarket. This investment means that Mercury remains competitive for retaining, developing and attracting people, and having them work together in High Performance Teams. We have also reworked our office space at the Maraetai hydro power station, to facilitate greater teamwork, with very pleasing results.

A new and detailed employee survey this year has provided a new employee engagement baseline of 66%. We will report against this measure in future years.

MERCURY'S INTERACTIVE BRAND SHOWCASE AT OUR OFFICES IN NEWMARKET, AUCKLAND, HIGHLIGHTS 'ENERGY MADE WONDERFUL'. OPEN TO THE PUBLIC, YOU'RE WELCOME TO COME CHECK IT OUT IF YOU'RE IN AUCKLAND.

210,000

ELECTRIC CARS CAN BE POWERED BY THE ENERGY PRODUCED AT OUR TURITEA WIND FARM.



250,324KM

DRIVEN BY MERCURY DRIVE CUSTOMERS

5,000 RIDES

ON MERCURY E.BIKES

"...MERCURY IS THE ONLY NEW ZEALAND ENERGY COMPANY WITH THE 'AWESOME FOURSOME' OF RENEWABLE ENERGY..."

GENERATION

Making the most of the challenging hand dealt by Waikato catchment inflows and elevated spot pricing required a very strong performance from our generation and wholesale markets teams in FY2019. Mercury's people optimised for the weather and market conditions, and our teams in geothermal (the only renewable energy source that is not weather dependent) worked well to maintain high geothermal availability of 98% under these dynamic conditions.

In the decade to 2015, renewable geothermal generation growth from New Zealand's electricity sector, including Mercury, underpinned what is perhaps the country's greatest green-economic transition of the century to date. Renewable geothermal electricity generation is now the second largest contributor to New Zealand's total electricity generation.

For Mercury directly, and through our valued long-term partnerships with Māori land trusts, our renewable geothermal output continues to be a source of wonderful energy. Our geothermal output was 2,896GWh in FY2019 compared with 2,757GWh in FY2018.

Mercury's ongoing maintenance and efficiency programme across geothermal stations (more than $200 million over the next five years), alongside the huge, long-run reinvestment programme for the Waikato hydro system, is a direct illustration of how we apply our understanding of kaitiakitanga over assets that are essential for New Zealand and New Zealanders.

FANS OF WIND

This year we committed to the construction of a new wind farm at Turitea, east of Palmerston North. This significant investment, together with our shareholding in Tilt Renewables, means Mercury is the only New Zealand energy company with the 'awesome foursome' of renewable energy in our portfolio (wind, geothermal, solar and hydro).

The Turitea investment has been very patiently pursued since Mercury won the rights from Palmerston North City Council in 2005, followed by consenting in 2011. Again, long timeframes and substantial investment of capital and highly skilled people are required to develop, maintain and ultimately execute wind development.

The potential for new wind generation to be the major contributor to growth of New Zealand's renewable energy assets has been highlighted by the International Energy Agency, the Productivity Commission and the Interim Climate Change Committee.

We are well positioned to grow our wind portfolio through the multiple wind consents we hold in the Manawatu, as well as through our shareholding in Tilt Renewables, which has signalled its own wind energy development and re-powering activity in New Zealand.

The New Zealand Productivity Commission's report, 'Low Emissions Economy'[1], reviewed scenarios that forecast New Zealand's electricity demand increasing from the current 40TWh to 60TWh per annum by 2050. That's an expansion equivalent to over 40 Turitea (northern zone) wind farms over 30 years. Furthermore, thermal plant that does not provide specific capacity peaking or energy firming capability will struggle to find a business case for refurbishment and likely retire within this timeframe, requiring additional renewable development in its place.[2]

OUR RENEWABLE ADVANTAGE AS A NATION

The way New Zealanders talk about our renewable advantage has changed. There is much wider understanding that our country's electricity system is world-leading on the three essential measures of reliability, sustainability and affordability.

This is important because if we are to continue to make investments like Turitea, estimated at $256 million, with payback periods spanning more than eight election cycles, our investors, which include all New Zealanders, need to have confidence that the rules supporting that investment will have a high degree of predictability. As long as politics continues to be strongly influenced by polling, which cannot fully capture long-term infrastructure considerations, this represents a risk.

To offset this risk, a strong retail performance is essential. It is why the benefits of electric vehicles (EVs), such as fuel at the equivalent of 30 cents per litre, must be promoted at every opportunity. It is why national energy freedom from high-carbon, high-price fuel imports must be advanced. And it is why governments need to avoid the political temptation to respond to narrow agendas that have dangerously weakened functioning and progressive electricity markets in Australia and the United Kingdom.

This industry has plenty to do to improve, including avoiding narrow and/or short-term agendas itself. Shared areas for focus are: efficiency and productivity; safety and sustainability; and understanding and meeting customer needs. It needs to get on with these things and constantly demonstrate and communicate that progression.

1. New Zealand Productivity Commission (2018). Low-emissions economy: Final report. Available from www.productivity.govt.nz/low-emissions
2. *Accelerated Electrification* p.51, Interim Climate Change Committee (2019) www.iccc.mfe.govt.nz

FY2020 ACTIVITIES:

- **ADVANCE CONSTRUCTION OF THE TURITEA WIND FARM**
- **CUSTOMER FOCUS ON VALUE AS WE MANAGE OUR POSITIONS IN ELEVATED AND VOLATILE WHOLESALE MARKETS**
- **COMPLETE THE HYDRO REFURBISHMENTS AT WHAKAMARU AND ARATIATIA AND ADVANCE THE KARĀPIRO REFURBISHMENT**
- **COMPLETE DETAILED WORKFORCE PLANNING AS WE MOVE FURTHER INTO THE DIGITAL AGE**

ACKNOWLEDGING OUR CHAIR

As has been announced, this Annual Report is the last with Joan Withers as Chair of our Board after a decade in the role. On behalf of our people and our partners, I acknowledge Joan's very significant contribution to all that Mercury is today.

With Joan as Chair, Mercury has advanced our growth in renewable energy. Joan presided over the listing of Mighty River Power on the New Zealand and Australian Stock Exchanges in 2013 and was a great support through the consolidation of the Mighty River Power and Mercury Energy brands under the refreshed Mercury banner in 2016.

The establishment of our strong platform and clear strategy for growth is part of the legacy Joan will leave us.

Joan will hand over the Chair's responsibilities to Prue Flacks at the conclusion of our Annual Shareholders' Meeting on 27 September. I look forward to working with Prue to further advance Mercury on our mission.

LAST SHOUT-OUT

On behalf of Mercury's executive, I acknowledge the mahi nui (strong work) of our people, the pono (loyalty) of our customers, and the mana of our owners and our partners. We will continue to work in your collective interests to deliver long-term sustainable value. I thank you again for being part of our story.

Together we are Mercury.

Energy made Wonderful.

Ngā mihi nui ki a koutou katoa.

FRASER WHINERAY // CHIEF EXECUTIVE

QUARTER-BY-QUARTER ACTIVITIES.

Q1

- Mercury Drive (EV subscription service) pilot launched – and heavily over-subscribed
- New Zealand's first grid-scale battery storage facility launched at our R&D Centre
- 5 gold stars from Canstar Blue, plus top spot in their natural gas customer satisfaction rating

Q2

- Sale of Metrix smart-metering business for $272m announced
- Kawerau station celebrated 10 years of generating renewable geothermal energy – and smashed their records for production in October
- Gifted solar panels and an energy storage battery to Ngāi Tahu Tourism's National Kiwi Hatchery Aotearoa

Q3

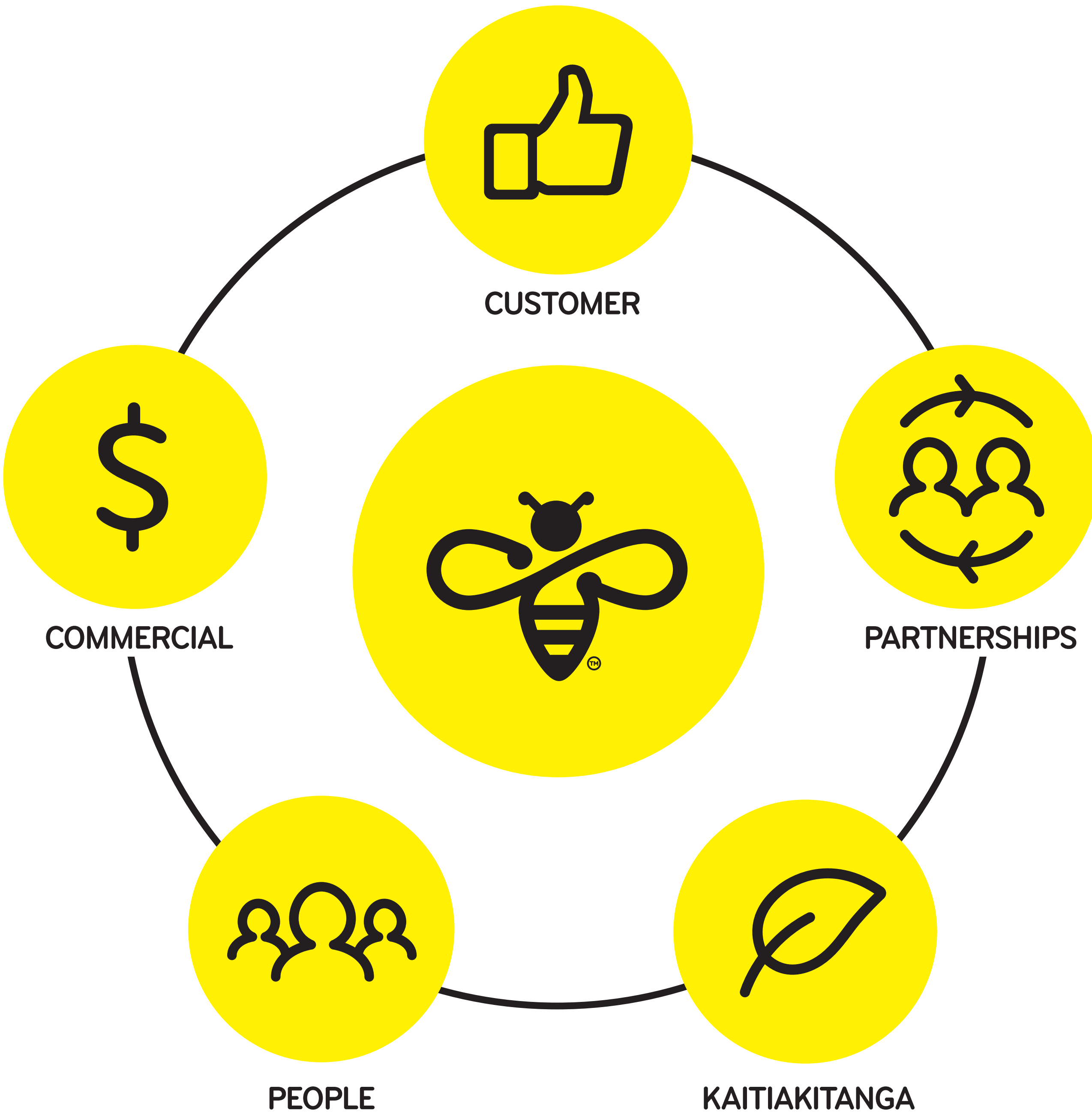
- $75m reinvestment in Karāpiro power station announced (completion FY2024)
- Construction of $256m Turitea wind farm announced (completion FY2021)
- Auckland teams move into a single location at 33 Broadway, Newmarket
- Rated by the Carbon Disclosure Project among NZ's top 10 companies for reducing our environmental impact
- Partnered with the University of Auckland's Faculty of Engineering to support them in increasing first-year female undergraduate enrolments to at least 33% by 2020

Q4

- Awarded Employer of the Year, Newmarket Business Awards 2019
- Innovations to our online platform to make it easier for customers to join us and stay with us on moving house
- Congratulated 11 more Mercury graduates of the NZQA-accredited New Zealand Certificate in Contact Centres
- Partnered with the Electricity Retailers' Association of New Zealand on the EnergyMate initiative, a free in-home energy coaching service to help families at highest risk of energy hardship
- Offer of $300m subordinated capital bonds

WHAT MATTERS MOST.

OUR FIVE PILLARS.



Since 2015 we've been building the understanding across Mercury of how we create long-term value. Integrated thinking enables better decision-making throughout our business and aligns effort to improve our performance.

OVER THE PAST FOUR YEARS, WE HAVE...

2016
Identified the key drivers of material value creation (our pillars).

2017
Incorporated more input from our stakeholders into our view of what matters most.

2018
Aligned how we measure the success of Mercury and company-wide planning with our pillars.

2019
Taken the next step in our integrated thinking by creating a plan that aligns our operational activity with our strategic intent.

KEY FEATURES OF OUR PLAN ARE:

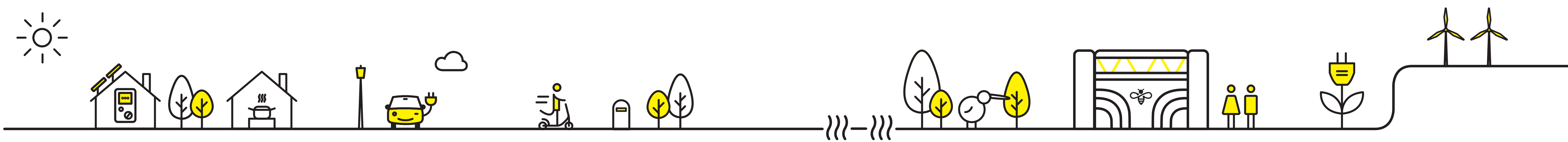
Our plan maps the creation of value over the short, medium and long term across each of our pillars.

- Long-term success – we have set out what our view of success is for each of our pillars in 2030, reflecting and communicating our strategic intent.
- Mid-term goals – we have created three-year goals to the end of FY2022. These are the way-points that will help us assess how we are tracking towards achieving our long-term success.

These strategic goals enable a co-ordinated and integrated programme of activity that acknowledges and is influenced by the expectations of our key stakeholders. It provides a common framework for planning across the business.

OUR STRATEGIC GOALS.

	CUSTOMER	PARTNERSHIPS	KAITIAKITANGA	PEOPLE	COMMERCIAL
LONG-TERM SUCCESS **BY 2030 WE WILL BE:**	New Zealand's leading energy brand.	Recognised as a leader within our industry, with our industry recognised as a positive contributor to New Zealand, and with Mercury's access to fuel enduring and enhanced.	Recognised as a leader in the ultra-long-term management of both physical and natural assets.	A Zero Harm organisation that has enabled our people to adapt to the changing nature of work to deliver the highest levels of performance and productivity.	Leading our sector in terms of financial performance and shareholder returns, earning at least our cost of capital.
MID-TERM GOALS **WE'RE ON TRACK BY FY2022 IF:**	We are inspiring, rewarding and making it easy for customers in our target segments.	There is bipartisan national, regional and community support for positive contributions from the renewable electricity industry. Existing relationships are maintained and strengthened, and new relationships are created, consistent with our purpose and strategy.	We understand and are managing the long-term sustainability of the natural resources and assets that we rely on.	We have enabled our people to understand and respond to the changing nature of work in order to deliver the highest levels of productivity and performance and are viewed as an attractive place to work. We are a Zero Harm organisation that continues to focus on the physical and mental wellbeing of all the people who are important to our business.	We deliver EBITDAF growth and maintain an appropriate average for stay-in-business CAPEX investment, while operating within agreed risk parameters.
OUR FOCUS AREAS:	Brand Loyalty Experience	Industry & Research Iwi Government	Natural Resources Climate Change Assets	High Performance Teams Safety & Wellbeing Capability & Development	Operational Excellence Generation Development Sustainable Growth



OUR STORIES.

Tilt Renewables' Tararua Wind Farm

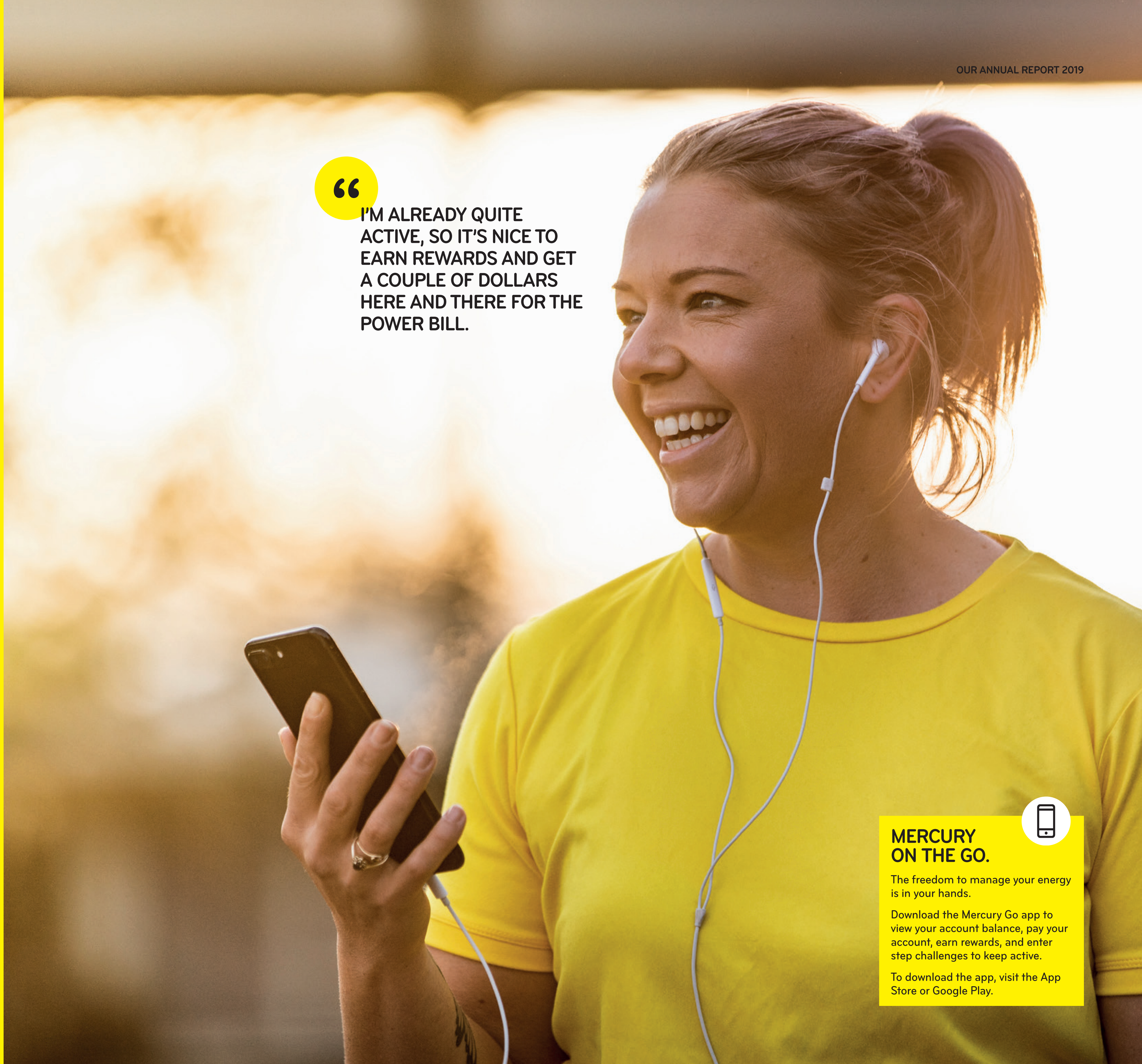
01. CUSTOMER

CONVERTING HUMAN ENERGY INTO WONDERFUL ENERGY.

Bex Rose knows wonderful. In 2017, the Deputy Principal of Brookby School was awarded the title of *Auckland's favourite teacher*. Bex was nominated by her pupil Miles Wilson, who doesn't like skipping school anymore because he'd miss her too much.

The love is reciprocated with Bex saying: "The kids, first and foremost, inspire me. They just bring light to your life and keep you young and on your feet."

As well as being a teacher, Bex has been a Mercury customer for 15 years. During this time, she's gone from being a student, to young professional, to a home-owner, wife and mother.



"I'M ALREADY QUITE ACTIVE, SO IT'S NICE TO EARN REWARDS AND GET A COUPLE OF DOLLARS HERE AND THERE FOR THE POWER BILL.

MERCURY ON THE GO.

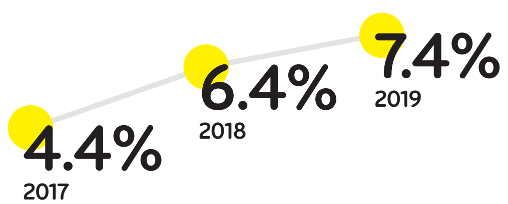
The freedom to manage your energy is in your hands.

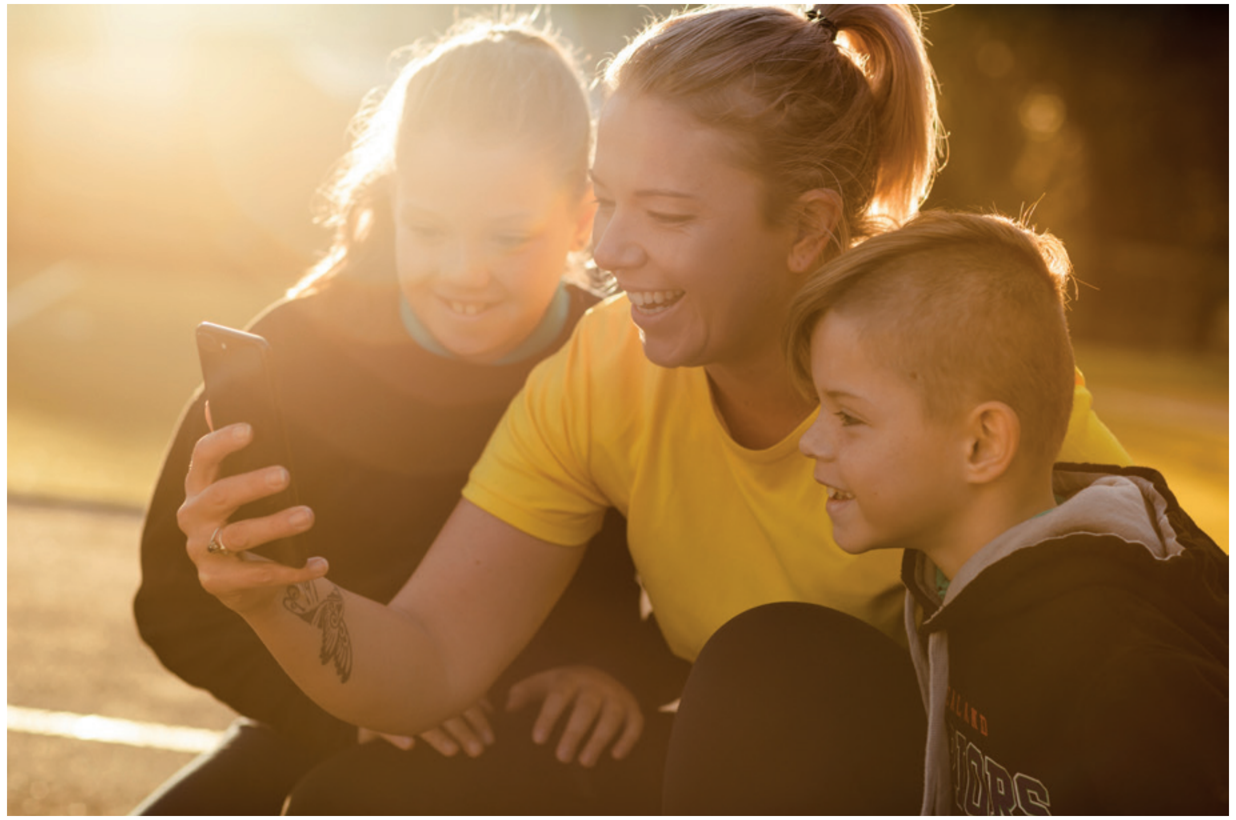
Download the Mercury Go app to view your account balance, pay your account, earn rewards, and enter step challenges to keep active.

To download the app, visit the App Store or Google Play.

64%
CUSTOMERS 'HIGHLY SATISFIED'

MERCURY BRAND CUSTOMERS SWITCHING RETAILER WITHOUT MOVING HOUSE





Bex has always been active and she's always been open to trying new things. It's not surprising then that Bex was one of the first to download and use our new mobile app, Mercury Go.

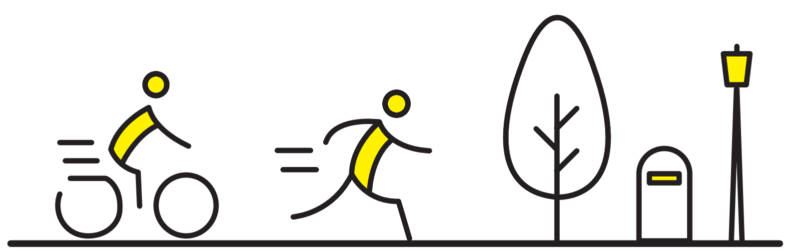
Through the app, customers can track their daily usage and pay their account. They can also earn rewards (including Mercury Dollars) by completing fun challenges. Customers can then use their Mercury Dollars to get money off their bill or redeem them for Airpoints Dollars™.

There are currently three ways customers can earn Mercury Dollars or win prizes through the app: by loading a profile pic, completing step challenges, and getting friends to join Mercury. And there'll be more ways to earn coming soon.

"The app is great for seeing how much your next bill will be, and for viewing your balance," Bex said.

"And having the rewards is definitely an incentive to keep active. I like the short, sharp bursts: a two-day challenge is manageable for a lot of people to get that done and then getting the incentive at the end makes it cool.

"I LOVE THE FREE POWER DAYS; THEY'RE AWESOME.



"I'm already quite active, so it's nice to earn rewards and get a couple of dollars here and there for the power bill. I run a boot camp for mums after school and I've been encouraging them to download the app. It's been great for them because the challenges and rewards have motivated them to move more, which is neat."

Bex's favourite rewards are the Free Power Days customers can earn.

"I love the Free Power Days; they're awesome. I use the dryer on those days, which I don't normally use. We do all the sheets and all the things I've been putting off."

The app has been downloaded by 57,000 customers since its launch in August last year.

Almost 160,000 challenges have been accepted and over 85,000 have been completed. We have given away $157,000 in prizes, including Free Power Days, e.bikes, e.scooters, a trip for two to Europe, and over $117,000 Mercury Dollars.

86,533
FREE POWER DAYS ENJOYED BY CUSTOMERS

1.2M
NUMBER OF APP LAUNCHES

15,226
NUMBER OF MERCURY DOLLARS REDEEMED FOR AIRPOINTS DOLLARS™

Head of Brand and Marketing Ben Harvey-Lovell says the app was another way to bring Energy Freedom, and Energy made Wonderful, to life for our customers.

"We wanted to make it easy for customers to manage their account through the app, but we also wanted to inspire them to interact with us more often through the challenges.

"Our goal is to be the leading energy brand in New Zealand, and to achieve that goal we need to design experiences that customers love.

"The app is a way for us to get customers thinking about Mercury when they're doing fun things like exercise.

"Hearing about the joy the Rose family get from the app and their Free Power Days is Energy Freedom in action, and it's why we do what we do," says Ben.

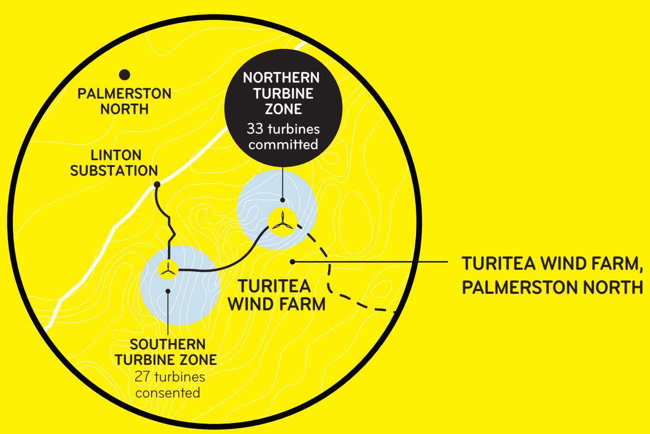
02. PARTNERSHIPS

A WONDERFUL ALLIANCE.

Andrew Day's grandfather started farming sheep and beef in the Tararua Ranges above Palmerston North in 1929. Today, Andrew farms this hill country and the rolling farmland further to the east, in partnership with his parents.

"It's quite exposed country," Andrew says. "It's renowned for its wind but also for a reasonably awful, wet climate."

The Day family met Mercury more than 10 years ago. After extensive initial negotiations to agree access to his farm for wind turbines at Turitea, as well as part of the transmission line for the proposed Puketoi wind project, communication between the family and Mercury was mostly maintained through a regular annual function.



FIND OUT MORE ABOUT OUR WIND FARM BUILD.

Please visit **mercury.co.nz/windupdates**

“WE'RE A COMPANY, BUT WE TRY TO PRESENT A CONSISTENT, HUMAN FACE.

Andrew's contact with Mercury has mostly been through Property Manager Duncan Annandale. Duncan has been responsible for building Mercury's relationships with the landowners for eight years. Over time, since the original agreements were secured, it became clear that patience would be necessary.

"Because of flat demand in the electricity market we had to wait until the economics were right to build. There were years of communicating with the landowners and updating them on the status of the market so that they understood why no activity was taking place," says Duncan.

"The annual catch-ups with this group, and now continuing with people associated with the future project at Puketoi, are also times for us to find out about their lives and families and what's going on with them.

"As the years pass, it's interesting to see the intergenerational theme coming through as people retire or younger family members take a more active role in their farms and businesses. Family is important for these long-term relationships.

"Now that we've made the decision to start building the Turitea wind farm, my role extends to managing the next stages of the contracts with the landowners, as well as ensuring that their voices are heard as part of the design, development and building phases."

Duncan's work with the landowners on the wind farm and transmission sites has built trusted relationships over time. "We're a company, but we try to present a consistent, human face," he says.

Tilt Renewables' Tararua Wind Farm

125M

HIGH FROM BASE TO ROTOR TIP

470GWh

GENERATION PER YEAR

Andrew confirms this: "I've had a reasonably long relationship with Duncan, and what I value is that he's also had farming experience himself so he's reasonably conscious of how we operate and has an understanding of our farming operation that I wouldn't have typically expected to find in an energy company."

“OF COURSE THERE'S PERSONAL BENEFIT TO OUR BUSINESS. BUT MORE BROADLY, AS A COUNTRY WE'VE GOT TO GET OUT OF CARBON INTENSIVE ENERGY SOURCES.

For Duncan, what he likes best about the job is providing an opportunity to add value to rural properties.

"A rural property that happens to have hills or ranges which catch wind at the top becomes a site where you can put turbines, and the landowner can profit from that on top of their ongoing farming operation. It diversifies the farm income and that's what I enjoy seeing happen."

New Zealand's electricity supply is already more than 80% renewable. The initial phase of the Turitea wind farm is just one of the consented projects being built as the demand for renewable electricity grows (including through the accelerated electrification of transport and retirement of thermal generation) and the country moves towards a lower-carbon economy.

Andrew sees clear benefits from the wind farm beyond his family farm. "Of course there's personal benefit to our business. But more broadly, as a country we've got to get out of carbon intensive energy sources. Wind power, being virtually carbon free, is something that we've got to push on with around New Zealand."

Mercury is intent on advancing renewable energy generation through wind power as part of our strategy for growth and our mission of Energy Freedom.

BUILDING RELATIONSHIPS IN THE COMMUNITY.

We've been talking with people in communities around Turitea and Puketoi in the Manawatu for a long time. Mercury's wind strategy goes back over 15 years (since 2004).

During this time, we have worked with Councils in the region, contributing to their public planning processes to ensure that consent pathways are supportive of renewable energy policies.

Consents to build the Turitea wind farm were granted in 2011. One consent condition is to have a Community Liaison Group, to share information around the construction and operation of the wind farm and receive feedback.

“PROVIDING RELEVANT INFORMATION IN A PROFESSIONAL WAY, SETTING OUT WHAT IS ABOUT TO HAPPEN AND INVITING FEEDBACK AND DISCUSSION BUILDS RELATIONSHIPS OF RESPECT AND ACCOUNTABILITY.

Margaret Kouvelis, former Mayor of Manawatu District Council, is the Independent Chair of the Community Liaison Group. She says:

"So far, I have been impressed with the quality of the information and the people presenting it, the willingness of the company to be hospitable, available and open to residents and the efforts at communicating the content and timing of these meetings in order to minimise the impact on the communities most affected."

Through this group, Mercury connects with a range of people in the community. We'll be engaging further with local iwi, looking for opportunities to work in partnership there too. We've already been exploring how we can build their capacity to support project outcomes. And Mercury will continue to work closely with Councils to encourage renewable electricity generation growth that is good for New Zealand's energy freedom and that also contributes significantly to regional development.

03. KAITIAKITANGA

SOLAR GIVES KIWI A BRIGHTER FUTURE.

In June, a farmer found an injured kiwi, dazed and confused on the side of a rural road near Whakatāne. The kiwi had been hit by a car.

His first bit of luck was being taken by the farmer to a local vet. Once the extent of his injuries was identified, his second bit of good fortune was being transferred to Ngāi Tahu Tourism's National Kiwi Hatchery Aotearoa in Rotorua where a dedicated kiwi hospital had just opened. He was its first patient.

Kiwi are a unique part of New Zealand's biodiversity and an important taonga (treasure). Once abundant, there are now only around 68,000 of our beloved national birds left. Today their status is often used as a barometer of how our environment is coping with the challenges being thrown at it.

> "WE WANT TO INSPIRE NEW ZEALANDERS TO ENJOY ENERGY IN MORE WONDERFUL WAYS – AND WHAT'S MORE WONDERFUL THAN ENSURING THE SURVIVAL OF OUR BELOVED NATIONAL ICON?

WATCH AND LEARN ABOUT HOW MERCURY HELPS NGĀI TAHU TOURISM'S NATIONAL KIWI HATCHERY.

Please visit **www.mercury.co.nz/kiwihatchery**

“ THE NEW HOSPITAL IS A 'FANTASTIC ADDITION' AND WILL HAVE A DIRECT IMPACT ON KIWI POPULATIONS.

Ninety-five percent of kiwi chicks born in the wild die before they reach breeding age (three years old), according to the Department of Conservation. This is due to non-native predators such as stoats and the impact of humans.

Our five kiwi species range from recovering to critically endangered and they need our help to survive. That's why individuals, community groups, iwi and conservation agencies are working hard to ensure the birds are given a chance to survive and thrive in their natural habitat.

The National Kiwi Hatchery is a leader in this work, which includes kiwi husbandry, egg incubation systems, hatching techniques and chick rearing. As the hatchery is a Mercury customer, our Head of Mass Market Segments, Mohammed (Mo) Abbas, visited the facilities. While there, he noticed there wasn't a back-up electricity supply to incubators. Mo knew it was important to keep the precious eggs warm in the event of any power outage, and that there was expertise we could share.

Working with the hatchery, Mercury developed a solar electricity supply package coupled with a Tesla battery. The solution reduces running costs for the hatchery while ensuring security of electricity supply. This proved its value this year when power had to be disconnected for maintenance and the incubators ran off battery power for 15 hours.

"We want to inspire New Zealanders to enjoy energy in more wonderful ways – and what's more wonderful than ensuring the survival of our beloved national icon?" Mo says.

"It's everyone's responsibility to fight for kiwi. Caring for them, breeding them and raising them is an incredibly specialised job and one we're in awe of. By supporting the hatchery, Mercury can help reverse some alarming statistics facing kiwi."

Every week, 20 kiwi die from factors such as cars, stoats and dogs. By collecting eggs from the wild and hatching them at the hatchery, the chicks have a 65% chance of reaching the 1kg milestone, the weight kiwi need to be to defend themselves against most predators.

This year, Mercury donated a stand-alone building to the hatchery for a new kiwi hospital. It is fitted with nine heated areas to treat sick and injured kiwi, as well as to house health chicks brought in from the wild.

Kiwi Husbandry Manager Emma Bean said the new hospital was a "fantastic addition" and would have a direct impact on kiwi populations.

That's where our injured kiwi from Whakatāne ended up.

He was brought to the hatchery bruised, grazed and with patches of feather loss. Luckily, an x-ray showed no bones had been broken.

He was treated with anti-inflammatory medication and precautionary antibiotics for five days, and hand-fed twice a day "because he didn't think much of the cooking," Emma says. He was released back into the forest after two weeks; slightly heavier and with a new name, Komanawa, a reference to a natural spring near where he was found.

The 2018/19 breeding season was successful for the hatchery and our partnership, with 145 chicks being released into the wild, up eight chicks on the previous year.

"That might not seem like a big difference, but literally every bird we can reintroduce to the wild counts," Emma says.

"They say it takes a village to raise a child – well it's the same for kiwi. There's an awful lot of hard work and love that goes into saving kiwi. It's a huge project but amazing to be part of."

Mercury feels the same.

1923
CHICKS HATCHED SINCE THE OPENING OF THE NATIONAL KIWI HATCHERY

145
CHICKS WERE RELEASED INTO THE WILD IN FY2019

15HRS
OF BACK-UP POWER FROM SOLAR/BATTERY INSTALLATION

KOMANAWA THE KIWI

Komanawa was the first kiwi to be treated in the National Kiwi Hatchery's new kiwi hospital. After two weeks of treatment, Komanawa was released back into the wild.

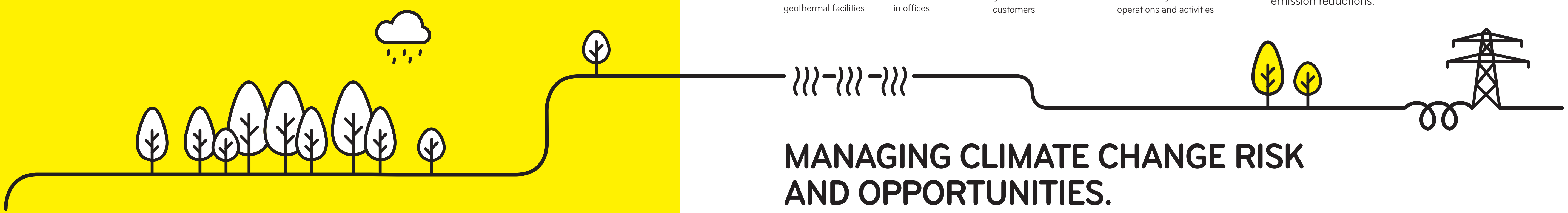
WEIGHT ON ARRIVAL: 1392G

WEIGHT AT RELEASE: 1457G

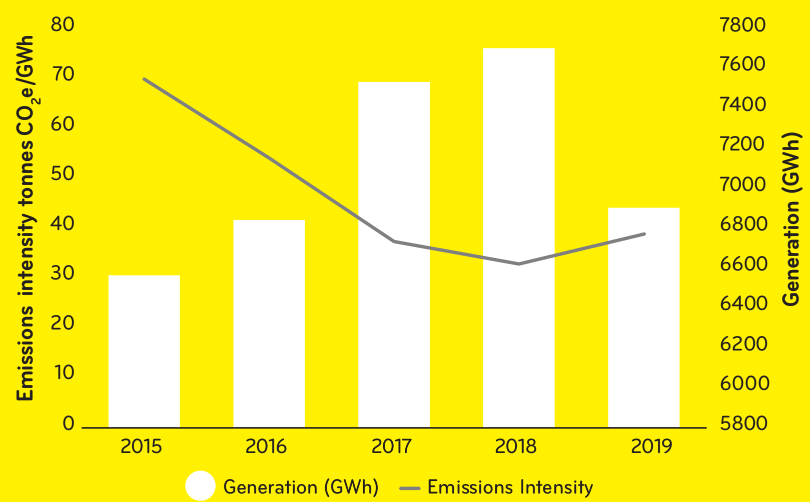
"THE 2018/19 BREEDING SEASON HAS BEEN SUCCESSFUL FOR THE HATCHERY AND OUR PARTNERSHIP, WITH 145 CHICKS BEING RELEASED INTO THE WILD, UP EIGHT CHICKS ON THE PREVIOUS YEAR.

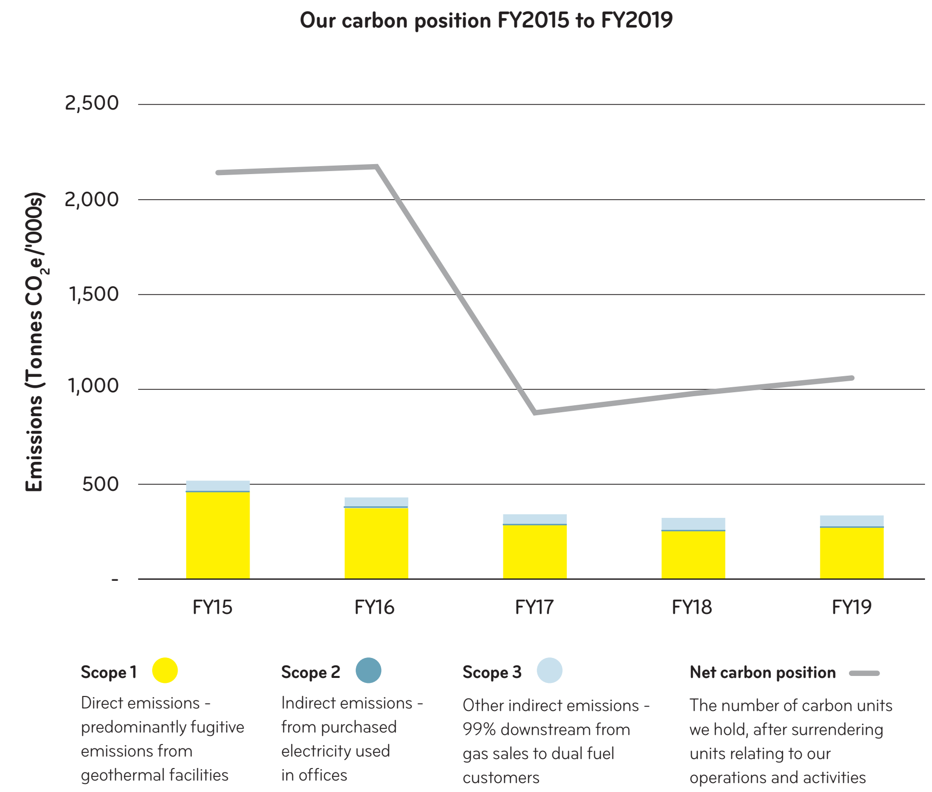
OUR CARBON PROFILE.

An important kaitiakitanga role that we acknowledge is our need to help the country reduce its greenhouse gas (GHG) emissions and for us to take responsibility for our own. Mercury is carbon positive, with our carbon units exceeding the level of our emissions (including those of our residential gas customers). This was achieved through active participation in the New Zealand Emissions Trading Scheme, the careful measurement of our GHG emissions and long-term partnerships with forest owners.



- This year, an increase in our geothermal generation resulted in a 6% increase in fugitive GHG emissions. These occur naturally in the geothermal fluid and must be removed prior to generating electricity.
- The gross emissions intensity of the electricity we generate is 39kg CO_2e/MWh. This is 60% lower than the New Zealand grid average and a 44% decrease since FY2015.
- As we build more wind generation the intensity of emissions for our overall generated electricity may further reduce.





CARBON POSITIVE

The forestry units we hold represent absorbtion of more carbon than we contribute to the environment.

Mercury has maintained a robust programme investing in forestry units for the past nine years. This results in us holding more carbon units than we require to offset emissions we produce through our operations and activities.

Our total GHG footprint has decreased by 36% between FY2015 and FY2019, influenced by the mothballing of Mercury's Auckland thermal (gas) generation facility at Southdown.

Emissions from our vehicle fleet have reduced since 2016 as a result of converting over 70% of our fleet to electric vehicles (EVs) or plug-in hybrid vehicles (PHEVs).

Emissions associated with the electricity we purchase for offices and other buildings account for less than 1% of our total GHG footprint.

Mercury surrenders emissions units for all the energy we provide, including the gas consumed by our dual-fuel customers. We will continue to explore emissions associated with our supply chain, using our supplier guiding principles to engage in partnerships that can realise further emission reductions.

MANAGING CLIMATE CHANGE RISK AND OPPORTUNITIES.

Assessment of potential impacts of climate change on our business is an ongoing focus.

Physical risks:

Using various climate change scenarios (from <1.5°C to >3.0°C) across different time scales, we consider the potential impacts on generation operations and generation assets. This includes the impacts of changing rainfall patterns and intensities as well as increasing average temperatures. The results of ongoing modelling facilitate the development of our climate change management plan which will highlight requirements and further options for mitigation and/or adaptation.

Regulatory risks:

There are potential financial and operational implications and opportunities of New Zealand's transition to a low-carbon economy. Regulation such as the Zero Carbon Bill, renewable energy targets, and a revised Emissions Trading Scheme all have implications for Mercury. We remain actively involved in assessing carbon prices, emissions trading mechanisms and the implications of revised regulations around carbon units.

Further information on our management of climate-related risks can be found in the Corporate Governance Statement on Mercury's website.

For an energy generator and retailer, with a mission of Energy Freedom, climate change presents opportunities to achieve additional commercial outcomes and promote sustainable, low-emission lifestyles. Opportunities relevant to Mercury include increased renewable energy generation and the promotion, development and expansion of low-emission goods and services.

04. PEOPLE

BUILDING BLOCKS FOR SUCCESS.

2019 saw the long-anticipated move of 560 Mercury team members from three offices across Auckland to one.

While the shift to 33 Broadway in Newmarket looked like a building project on the surface, the focus was not bricks and mortar; it was our people and our customers.

83%

OF OUR PEOPLE SAY THAT OUR PHYSICAL WORKSPACE IS ENJOYABLE TO WORK IN

84%

OF OUR PEOPLE SAY THEIR TEAM DELIVERS HIGH QUALITY RESULTS

"BEING TOGETHER IN THE ONE LOCATION ENABLES US TO CREATE A BETTER CUSTOMER EXPERIENCE, BECAUSE WE CAN COLLABORATE MORE EFFECTIVELY AS HIGH PERFORMANCE TEAMS DELIVERING THE LEVEL OF SERVICE OUR CUSTOMERS DESERVE.

MEET HUIA

Huia is one of Mercury's wonderful telesales representatives.
Huia returned to Mercury from parental leave in late 2017. You could say it was a different world for her back then.

“THE NEW TECHNOLOGY AND MORE SOURCES OF KNOWLEDGE AVAILABLE GIVE US THE CAPABILITY TO SOLVE QUERIES MORE QUICKLY...

86% OF OUR PEOPLE SAY THAT WE ASK FOR HELP WHEN WE NEED IT AND LEARN FROM EACH OTHER

80% OF OUR PEOPLE AGREE THAT PEOPLE FROM ALL BACKGROUNDS HAVE EQUAL OPPORTUNITIES TO SUCCEED AT MERCURY

MEET HUIA COCKER

Telesales Representative Huia Cocker returned to Mercury from parental leave in late 2017 – it was a different world for her back then.

"When I returned to full-time work at Mercury, I was in a small office near Mercury's Greenlane site in Auckland," says Huia. "While it was exciting to hear of the upcoming move to Newmarket, as a working mum living out in Pukekohe my mind went to the complexities of managing the change of location, while still adjusting to life as a working parent."

Fortunately for Huia, our people and our customers were at the core of the decision-making. The vision of the four-year project was to give our Auckland teams the freedom to do their best work together.

Newmarket was chosen because of its place as both a transport hub (well served by rail and bus) and a social hub.

This vision also meant rolling out new streamlined technology and introducing the High Performance Teams way of working prior to the move – enabling people to collaborate and work more effectively together. And it guided the interior design decisions made with architects Warren and Mahoney, with our customer teams at the centre of the building and an openness that promoted flexibility, wellbeing, safety and collaboration.

"I have loved the change," says Huia. "We were well prepared for the move, which made such a difference to me for my first time working in 'the big smoke'. I haven't looked back. Being together in the one location enables us to create a better customer experience, because we can collaborate more effectively as High Performance Teams delivering the level of service our customers deserve. The new technology and more sources of knowledge available give us the capability to solve queries more quickly, and from there, better customer outcomes flow.

"In addition, Mercury's inclusive culture has meant I haven't felt like a 'fish out of water'; in fact, the people I now have the opportunity to interact with every day are the number one reason I love working at 33 Broadway so much. I feel more engaged in the business and I can sense the opportunities," says Huia.

Mercury's Workforce Strategy Manager Sarah Holt was involved in the project from the start and is extremely happy with the final product. "The building's connectivity gives us a competitive advantage," says Sarah. "It has wonderful visual connectivity, with the atrium and bridges at its heart, which enable chance meetings and collaboration. The design also offers different spaces for working. It's an equitable setting that supports the freedom to choose a work space suitable for the task people need to complete that day. Seamlessly integrated software tools also enhance our ability to collaborate with each other and deliver to our customers."

WELLBEING

Wellbeing is at the heart of our focus on creating inclusive work environments where our people can be themselves and do their best work together.

78% OF OUR PEOPLE CONFIRM THAT MERCURY IS VISIBLY AND ACTIVELY INVOLVED IN THE WELLBEING OF ITS PEOPLE

81% OF OUR PEOPLE SAY THEY FEEL SAFE AND SUPPORTED IN THEIR TEAM

EMPLOYEE SAFETY TOTAL RECORDABLE INJURY FREQUENCY RATE

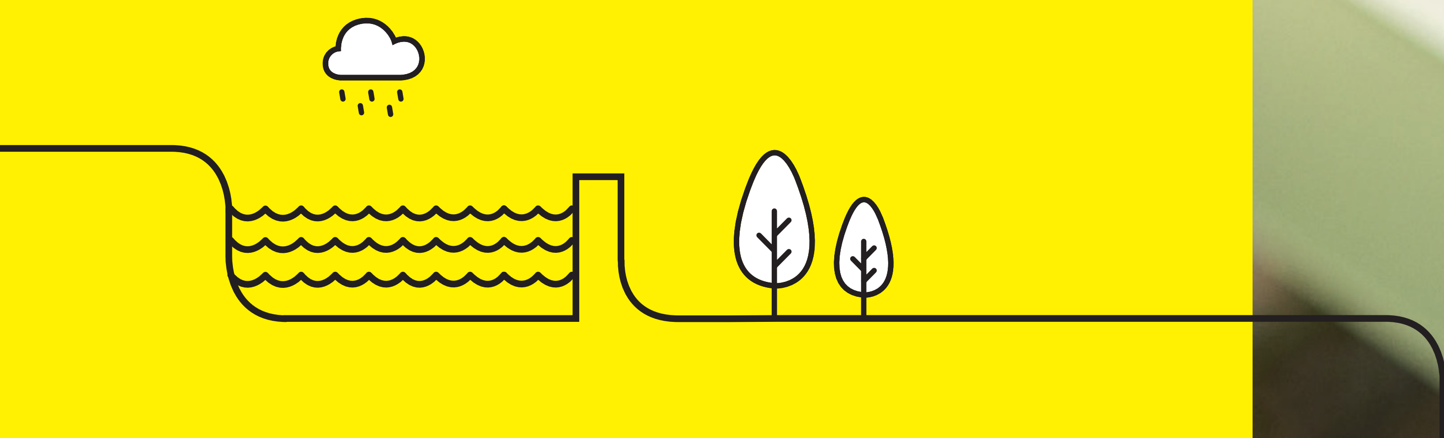
2017	1.05
2018	0.87
2019	0.72

05. COMMERCIAL

‘WONDERFUL’ FLOWING WELL INTO THE FUTURE.

KARĀPIRO REINVESTMENT

On the Waikato River just south of Cambridge it’s a frosty morning that will turn into another sparkling blue day. In the powerhouse below the Karāpiro dam David Derecourt (Regional Manager Hydro North) has been working with the huge machines that harness energy and create electricity for all of his working life.



“THIS HYDRO STATION HAS BEEN RUNNING SINCE 1948, AND THIS NEW INVESTMENT IS GIVING HER ANOTHER 80 YEARS OF CONTINUED SERVICE.

WATCH LAKE KARĀPIRO'S DAILY WATER LEVEL AND OUTFLOW ONLINE.

Please visit **www.mercury.co.nz/lakelevels**

“I WILL BE PROUD TO SAY THAT THE PROJECT WAS A SUCCESS, WE HAD A FANTASTIC TEAM WORKING ON IT, IT WAS DELIVERED WELL, NOBODY WAS HURT AND WE SHOULD BE GOOD TO GO FOR THE NEXT 80 YEARS.

The next six years are going to see $75 million reinvested in this infrastructure, to build on its 71-year legacy and secure its future. The refurbishment of the power station machinery will make it more efficient and allow up to 17% more generation from the river's flow. This will help Mercury respond to market demand, providing power to the lightbulbs and EVs of New Zealand homes and businesses.

And David is proud to be part of the project. "I would like to think that everyone involved will be more than happy to stand up with a sense of pride, and tell their family and their mates at the sports club that 'I was involved with that'," he says.

"I will be proud to say that this project was a success, we had a fantastic team working on it, it was delivered well, nobody was hurt and we should be good to go for the next 80 years."

Long-term, multi-generation thinking goes with the territory. "This hydro station has been running since 1948, and this new investment is giving her another 80 years of continued service," David explains. "These machines had a mid-life refurb in the 1980s but indications are they are in their twilight years now."

At the time of this previous investment in the 1980s, the teenage David was approximately 50km downstream, attending Ngāruawāhia High School. "I was born in Ngāruawāhia and the awa (river) was a big part of my life," he says. "In 1991, I fronted up as a fresh-faced electrical apprentice in the Arapuni Area (Karāpiro, Arapuni and Waipāpa hydro power stations)."

$75M
INVESTMENT IN CORE IMPROVEMENTS AND MAINTENANCE OF THIS KEY GENERATION INFRASTRUCTURE

71 YEARS
SINCE THE POWER STATION WAS COMMISSIONED

Fast-forward nearly 30 years and David's team looks after the day-to-day running of the plant, with a huge number of others behind them who "keep these generators running and keep more of the 'wonderful' flowing".

The Waikato River is New Zealand's most important and diverse water catchment. Mercury delivers around 10% of New Zealand's electricity from the fall of the water in this river (an average of ~4,020GWh each year). And out of that, Karāpiro station generates about 12% (511GWh annually* – equivalent to the power used by 73,000 homes or 230,000 EVs*). Hydro electricity doesn't really use water – water passes through our power stations but remains in the river, unaltered for other users and environmental benefits. Only the gravity is used.

David's favourite part of the job? "Knowing that I've been entrusted to look after 70 to 80-year-old bits of kit, enabling the people in the teams to support and maintain that, and being involved in refreshing the future of those assets to give them another 80 years. I'm giving back to the 'old girl' that gave me my first job. If it wasn't for these power stations I wouldn't be where I am today."

The project will overhaul and in some cases replace the turbines, generators and governor systems. In concurrent work to future-proof the station, other items are also being addressed due to either age-related issues (by-pass valves and associated works) or legacy performance challenges (hydro intake gates and operating mechanisms, stoplogs).

"We're lifting the lid on every part of the station, with some significant parts being replaced," says David. "It's going to make life at the station interesting for the next six years. Apart from some big trucks delivering some huge kit, this project shouldn't impact on local people at all, and the additional people on site will create new opportunities for value creation in the communities nearby."

David is motivated by a view well beyond his time so far on the river.

"I want to hand back these assets – the power station and the awa – to those who walk in my footsteps, to receive it in a better condition than I received it. These fantastic assets have a long history and will forever have a long history. They'll be around long after I've gone – in 200 years plus, they'll still be around."

8 YEARS' WORK
2 YEARS' PLANNING AND 5 YEARS' ON-TOOLS WORK

2024
SCHEDULED FINISHING DATE OF PROJECT

WHAT'S THE OUTCOME OF THIS PROJECT?

- 15% increase in peak capacity at the station from this project – generating more electricity from the water flow.
- Future-proofing the station with plant replacement and upgrades.

OTHER CURRENT MAJOR INFRASTRUCTURE INVESTMENT IN THE WAIKATO HYDRO SYSTEM

- Whakamaru: 4 to 5-year on-site project finishing mid 2020. Outcome: capacity gain from 25MW to 31MW for each of the 4 units; increase in efficiency and in asset reliability. Total cost ~$76m.
- Aratiatia: 3 to 4-year on-site project finishing mid 2020. Outcome: optimising station performance for the available river flow and increase in asset reliability. Total cost ~$49m.

AND THE FULL PROGRAMME OF WORK?

- 39 units and ancillary equipment being refurbished across the Waikato Hydro System's nine hydro power stations during this decades-long programme of work, which started in 2011.

* Output based on average since 2000. Average home = 7000kWh per year; average EV = 2200kWh per year.

OUR FINANCIALS

LET'S GET INTO THE NUMBERS.

$505M

OPERATING EARNINGS (EBITDAF)

$357M

RECORD PROFIT (UP $123 MILLION)

15.5CPS↑

PER SHARE FULL YEAR ORDINARY DIVIDEND

FINANCIAL COMMENTARY.

Mercury produced a strong financial result during FY2019 under unusual weather and market conditions.

The financial year started with wet weather across the Waikato catchment, but turned acutely dry from September 2018. Annual hydro generation was 4,006GWh, in line with the company's long-term average, albeit with around 200GWh reduction in Lake Taupō's level over the year.

Annual geothermal generation set a record at 2,896GWh, coinciding with record-high annual spot prices caused by gas supply and thermal generation constraints from October 2018. These generation constraints pushed the generation-weighted average price earned above $138/MWh for the year.

Mercury's focus on customer value and loyalty resulted in reduced acquisition activity, as elevated spot prices meant retail margins were negative for all customer segments over the year. The average price received for sales to residential and small commercial customers was up two percent year-on-year.

Mercury sold our smart-metering business, Metrix, in February 2019 for $272 million, which has resulted in a gain on sale of $177 million. The company committed $256 million in March 2019 to build our first wind farm at Turitea near Palmerston North, with commissioning from Q2 FY2021.

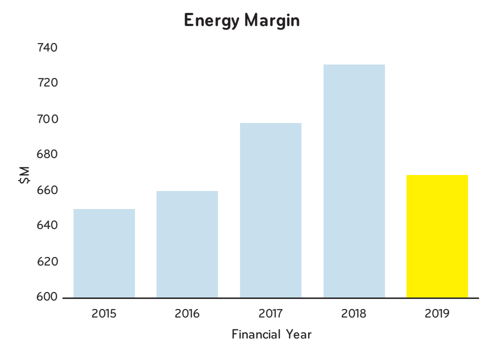
6TH YEAR

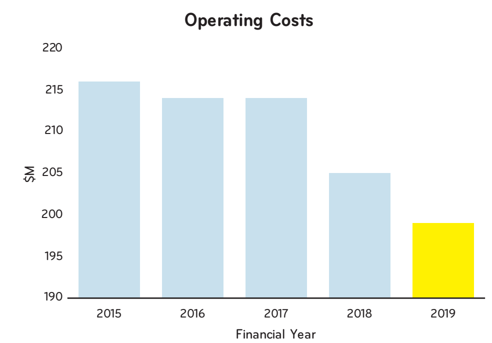
IN A ROW OPERATING COSTS HELD FLAT

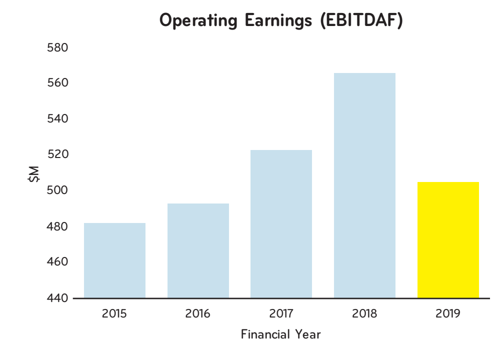
OPERATING COSTS

The company continued our disciplined approach to efficient and focussed activity. Costs, normalised for the adoption of IFRS 15 and 16 and the sale of Metrix, remained flat for the sixth year in a row.

Operating costs represent the company's indirect costs of sales, including salaries and wages, maintenance costs and all other overheads.







ENERGY MARGIN

Mercury's energy margin of $667 million versus $730 million in the prior year was achieved with 800GWh, or 10%, less generation. Hydro generation, while in line with the company's long-run average, was highest in the first quarter of the year, prior to the sustained increase in spot prices from October.

The company's continued focus on customer value and rewarding loyalty resulted in reduced acquisition activity as retail margins contracted with spot and futures energy costs lifting. This continues to be reflected in our focus on meeting our customer promises and providing better customer-led digital experiences.

OTHER INCOME

Other net income of $37 million was down for the year due to the sale of the company's smart-metering business, Metrix, on 28 February, with only eight months of revenues reported. Other income also includes proceeds from property sales, insurance and dividends received from our investment in Tilt Renewables.

OPERATING EARNINGS (EBITDAF)

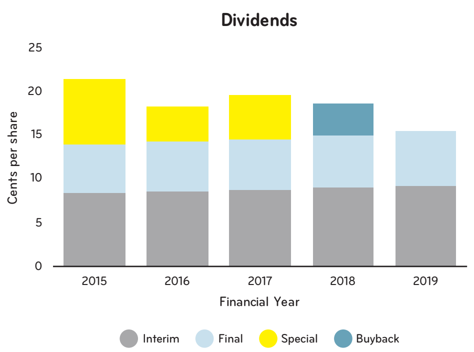
The company's $505 million of EBITDAF fell on the prior year's record of $566 million, which benefited from over 800GWh more generation and a full year of Metrix ownership.

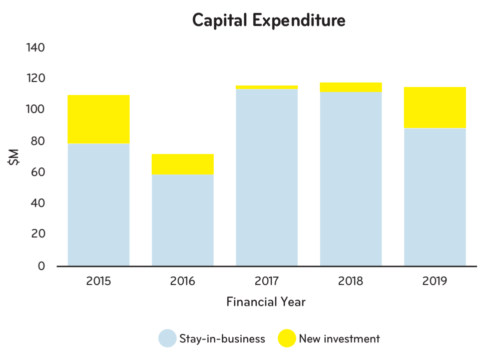
Note: Financial results for the periods ended 30 June 2017 and earlier have not been restated for new IFRS standards.

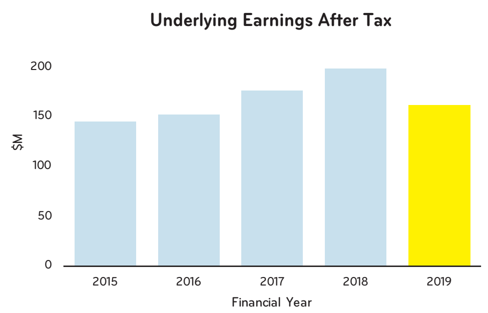
PROFIT FOR THE YEAR

The company's record net profit after tax of $357 million was up $123 million on the prior year's record. Mercury benefited from lower interest costs as our historical out-of-the-money hedges matured, and from the gain on sale of our smart-metering business, Metrix. As with the prior year, there were no impairments recorded.

11TH CONSECUTIVE YEAR OF ORDINARY DIVIDEND GROWTH







$161M UNDERLYING EARNINGS AFTER TAX

CAPITAL STRUCTURE AND DIVIDENDS

The company's gearing level of 1.9x remains in line with the strong 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 2018.

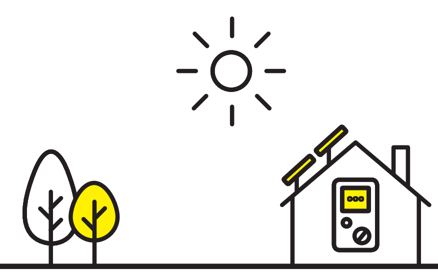
Mercury currently holds 39 million shares as treasury stock and has available debt headroom within our current facilities of $300 million and cash and cash equivalents of $94 million. This continues to provide balance sheet flexibility for growth.

In line with our dividend policy, targeting a pay-out ratio of 70% to 85% of Free Cash Flow on average over time, a fully imputed 9.3 cents per share final dividend has been declared. This brings the full-year ordinary dividend to 15.5 cents per share, up from 15.1 cents per share in FY2018, and marks our 11th consecutive year of ordinary dividend growth. The final dividend will be paid on 30 September 2019.

UNDERLYING EARNINGS AFTER TAX

Underlying earnings is provided to enable our 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 decreased by $37 million to $161 million, reflecting the company's stronger EBITDAF performance in FY2018 which was underpinned by the highest North Island hydro inflows and total generation in the company's history.



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.

BALANCE SHEET

Total assets of the company increased by $378 million in the financial year, largely due to a $250 million upwards revaluation of Mercury's generation assets due to a lower cost of capital. It is emphasised that this asset valuation is completely unrelated to decisions on customer pricing. Net debt at the end of the year fell to $1,096 million compared to $1,264 million in FY2018, primarily due to the sale of Metrix for $272 million.

The market's view of thermal generation availability looking forward has reduced, with electricity futures prices in FY2020 and FY2021 lifting accordingly to over $105/MWh. Mercury is well positioned to take advantage of higher forward prices and committed to build its first wind farm at Turitea. This represents an investment of $256 million in 33 V-112 Vestas turbines at the wind farm, with $23 million advanced by the end of FY2019.

The company invested $115 million in capital expenditure (CAPEX), comprising stay-in-business (SIB) CAPEX of $89 million and $26 million of growth capex spent mostly on initial payments in relation to Turitea.

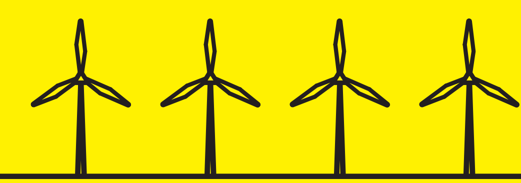
The company continued to invest in major hydro refurbishment projects at our Aratiatia and Whakamaru hydro stations and commenced the refurbishment works at our Karāpiro station.

Mercury continues to invest in our core SAP customer and financial system. The year featured the implementation of the SAP Commerce cloud-based customer relationship management system and significant upgrades to the web experience for customers joining Mercury or moving house.

$89M OF STAY-IN-BUSINESS CAPEX

$256M COMMITTED TO BUILDING THE COMPANY'S FIRST WIND FARM

$272M PROCEEDS FROM THE SALE OF THE COMPANY'S SMART-METERING BUSINESS, METRIX



FINANCIAL TRACK RECORD.

FINANCIAL PERFORMANCE TRENDS

For the year ended 30 June[1] ($ million)	2019	2018	2017	2016	2015
Income statement					
Energy Margin	667	730	698	660	650
EBITDAF	505	566	523	493	482
Net profit for the year	357	234	184	160	47
Balance sheet					
Total shareholders' equity	3,537	3,305	3,308	3,315	3,337
Total assets	6,484	6,106	5,997	6,085	6,058
Total liabilities	2,947	2,801	2,689	2,770	2,721
Cash flow					
Operating cash flow	326	376	372	280	309
Investing cash flow	98	(260)	(90)	(37)	(103)
Financing cash flow	(335)	(141)	(298)	(228)	(195)
Capital expenditure					
Total capital expenditure	115	118	116	72	110
Growth capital expenditure	26	6	2	13	31
Stay-in-business capital expenditure	89	112	114	59	79
Other financial measures					
Underlying earnings after tax	161	198	176	152	145
Free Cash Flow	237	264	258	221	230
Ordinary and special declared dividends	211	207	270	252	296
Ordinary dividends per share (cents)	15.5	15.1	14.6	14.3	14.0
Special dividends per share (cents)	–	–	5.0	4.0	7.5
Basic and diluted earnings per share (cents)	26.23	17.00	13.37	11.6	3.4
Net debt	1,096	1,264	1,038	1,068	1,082
Gearing (net debt/net debt + equity, %)	23.7	27.7	23.9	24.4	24.5
Debt/EBITDAF (x)[2]	1.9	1.9	1.8	2.0	2.0
Operational measures					
Total recordable injury frequency rate (TRIFR)[3]	0.72	0.87	1.05	0.74	1.25
Sales to customers (FPVV, GWh)	4,500	4,477	4,606	4,397	4,486
Electricity customers ('000)	373	388	392	376	382
Electricity generation (GWh)	6,902	7,704	7,533	6,842	6,563

1. Financial results for the periods ended 30 June 2017 and earlier have not been restated for new IFRS standards.
2. Adjusted for S&P treatment of subordinated debt issued in FY2015.
3. Per 200,000 hours; includes on-site 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 2019

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, Lloyd Bunyan, 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 64 to 93 of the Financial Report, that comprise the consolidated balance sheet as at 30 June 2019, the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and the 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 2019, 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 and assurance services, we have carried out assignments including a review of the Group's consolidated financial statements for the six months ended 31 December 2018, remuneration advisory services and tax advisory and compliance services in the United States, which are compatible with 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.

VALUATION OF GENERATION ASSETS

Why significant

Generation assets were revalued to $5,347 million at 30 June 2019 as set out in note 8 of the consolidated financial statements. This is significant because the generation assets represent approximately 82% of the Group's total assets.

The Group engages an independent external party to estimate the fair value of generation assets using a discounted cash flow model. The most 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 independent valuation specialist as described in note 8 of the consolidated financial statements. The model used to estimate the wholesale electricity price path is complex and includes a number of significant assumptions (comprising internal and external data).

How our audit addressed the key audit matter

In obtaining sufficient appropriate audit evidence we:

- met with the independent valuation specialist to understand the valuation methods adopted and assessed the significant inputs to the model used to estimate the fair value of the generation assets.
- compared forecast generation volumes to historical generation volumes.
- involved our own valuation specialists to:
    - consider the process over the determination of the wholesale electricity price path by the Group's independent valuation specialist and the extent to which they considered internal and external data relevant to the wholesale electricity price path forecast; and
    - assess the appropriateness of the discount rate.
- assessed the professional competence, independence and objectivity of the Group's independent valuation specialist.
- assessed the adequacy of the related financial statement disclosures as described in note 8.

VALUATION OF NON- STANDARD ELECTRICITY PRICE DERIVATIVE FINANCIAL INSTRUMENTS

Why significant

The Group's activities expose it to certain risks which are managed using derivative financial instruments. At 30 June 2019, the fair value of derivative assets total $179 million and derivative liabilities total $253 million as set out in note 15 of the consolidated financial statements.

These balances include certain electricity price derivatives for which the valuation inputs are not readily observable in active primary or secondary markets and require the use of more complex valuation assumptions including the Group's internal wholesale electricity price path forecast. We refer to these derivatives as Non-Standard Derivatives which are included within the amounts disclosed in note 15 of the consolidated financial statements.

How our audit addressed the key audit matter

In obtaining sufficient appropriate audit evidence we:

- involved our valuation specialists and challenged the significant inputs to the model used to estimate the fair value of the Non-Standard derivatives. Our valuation specialists:
    - evaluated the appropriateness of the valuation methodologies; and
    - compared the Group's internal wholesale electricity price path to other price path estimates obtained in performing our Generation Asset procedures detailed above.
- agreed underlying data to the contract terms on a sample basis.
- assessed key assumptions and inputs.
- 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 is 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 director responsibilities arise from the Financial Markets Conduct Act 2013.

The directors are also responsible for such internal control as they determine 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.

LLOYD BUNYAN // ERNST & YOUNG

ON BEHALF OF THE AUDITOR-GENERAL
AUCKLAND, NEW ZEALAND

20 AUGUST 2019

FINANCIAL STATEMENTS.

CONSOLIDATED INCOME STATEMENT

For the year ended 30 June 2019

	Note	2019 $M	2018 $M
Total revenue	4	2,000	1,798
Total expenses	4	(1,495)	(1,232)
EBITDAF[1]		505	566
Depreciation and amortisation	8, 9	(204)	(201)
Change in the fair value of financial instruments	15	26	49
Gain on sale	4	177	–
Earnings of associates and joint arrangements	10	1	2
Net interest expense	4	(75)	(91)
Profit before tax		430	325
Tax expense	6	(73)	(91)
Profit for the year attributable to owners of the parent		357	234
Basic and diluted earnings per share (cents)		26.23	17.00

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 June 2019

		2019 $M	2018 $M
Profit for the year		357	234
Other comprehensive income			
Items that will not be reclassified subsequently to profit or loss			
Movement in asset revaluation reserve		244	55
Movement in cash flow hedge reserve transferred to balance sheet	15	(1)	5
Share of movements in associates and joint ventures' reserves	10	(9)	14
Tax effect		(66)	(17)
Items that may be reclassified subsequently to profit or loss			
Movement in cash flow hedge reserve	15	(118)	33
Movement in other reserves		1	(64)
Tax effect		32	(9)
Other comprehensive income for the year, net of taxation		83	17
Total comprehensive income for the year attributable to owners of the parent		440	251

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

For the year ended 30 June 2019

	Note	2019 $M	2018 $M
SHAREHOLDERS' EQUITY			
Issued capital		378	378
Treasury shares	5	(101)	(101)
Reserves		3,260	3,028
Total shareholders' equity		3,537	3,305
ASSETS			
Current assets			
Cash and cash equivalents		94	5
Receivables	11	256	226
Contract assets		3	3
Inventories	7	23	35
Derivative financial instruments	15	50	31
Total current assets		426	300
Non-current assets			
Property, plant and equipment	8	5,528	5,370
Intangible assets	9	85	101
Investments	10	234	130
Investment and advances to associates	10	76	88
Advances to joint operations	10	6	7
Derivative financial instruments	15	129	110
Total non-current assets		6,058	5,806
Total assets		6,484	6,106
LIABILITIES			
Current liabilities			
Payables and accruals	11	216	198
Borrowings	13	541	350
Derivative financial instruments	15	45	24
Taxation payable	6	19	17
Total current liabilities		821	589
Non-current liabilities			
Payables and accruals	11	9	6
Provisions	12	59	51
Derivative financial instruments	15	208	73
Borrowings	13	692	951
Deferred tax	6	1,158	1,131
Total non-current liabilities		2,126	2,212
Total liabilities		2,947	2,801
Net assets		3,537	3,305

For and on behalf of the Board of Directors, who authorised the issue of the Financial Statements on 20 August 2019.

JOAN WITHERS // CHAIR
20 August 2019

KEITH SMITH // DIRECTOR
20 August 2019

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2019

	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 2017	378	203	2,849	(53)	(50)	3,327
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 in 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	164	2,901	(24)	(114)	3,305
BALANCE AS AT 1 JULY 2018	378	164	2,901	(24)	(114)	3,305
Movement in asset revaluation reserve, net of taxation	–	–	176	–	–	176
Movement in cash flow hedge reserve, net of taxation	–	–	–	(85)	–	(85)
Movements in other reserves	–	2	–	–	(1)	1
Recycling of fair value losses in available for sale reserves	–	(15)	–	–	15	–
Share of movements in associates and joint ventures' reserves	–	–	–	(9)	–	(9)
Other comprehensive income	–	(13)	176	(94)	14	83
Net profit for the year	–	357	–	–	–	357
Total comprehensive income for the year	–	344	176	(94)	14	440
Dividend	–	(208)	–	–	–	(208)
Balance as at 30 June 2019	378	300	3,077	(118)	(100)	3,537

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

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 30 June 2019

	2019 $M	2018 $M
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	1,952	1,800
Payments to suppliers and employees	(1,478)	(1,232)
Interest received	1	2
Interest paid	(70)	(92)
Taxes paid	(79)	(102)
Net cash provided by operating activities	326	376
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of property, plant and equipment	(93)	(94)
Acquisition of intangibles	(29)	(33)
Acquisition of investment	(55)	(144)
Disposal of land and associated real property	–	5
Distributions received from and advances repaid to associates and joint ventures	5	6
Proceeds from the sale of metering business	270	–
Net cash received/(used) in investing activities	98	(260)
CASH FLOWS FROM FINANCING ACTIVITIES		
Acquisition of treasury shares	–	(50)
Proceeds from loans	30	262
Repayment of loans	(166)	(75)
Receipt/(payment) of lease incentives/(liabilities)	9	(5)
Dividends paid	(208)	(273)
Net cash used in financing activities	(335)	(141)
Net change in cash and cash equivalents held	89	(25)
Cash and cash equivalents at the beginning of the year	5	30
Cash and cash equivalents at the end of the year	94	5
Cash balance comprises:		
Cash balance at the end of the year	94	5

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2019

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 NZX Main Board and with foreign exempt listed status on the 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 Markets Conduct Act 2013 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

The Group has adopted 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) for the reporting period ended 30 June 2019.

The adoption of IFRS 9 has not resulted in a material change to the Group's derivative financial instruments. For the impairment of financial assets, a lifetime expected credit loss has been recognised in the income statement on trade receivables, with a corresponding adjustment to provisions on the balance sheet.

The adoption of IFRS 15 results in a change to the Group's policy relating to the treatment of credits given to customers and incremental costs (like commissions) of acquiring or retaining customers. The Group previously recognised both customer credits and incremental costs of acquisition or retention as expenses when incurred. The change of policy results in customer incentives being recognised directly against revenue when incurred. Incremental costs are recognised on the balance sheet as customer contract assets, and amortised on a straight-line basis over the period, which is consistent with the transfer of the benefit to the customer, assumed to be two years.

The adoption of IFRS 16 results in all leases being recognised on the balance sheet. Lease payments are now recorded as a repayment of the lease obligation and interest expense instead of as an operating expense in the income statement. Lease assets are depreciated on a straight-line basis over the current lease term. The Group has recognised lease assets and lease liabilities at the present value of future lease payments for existing lease terms and all lease renewal options that are reasonably certain to be exercised. The weighted average incremental borrowing rate applied to lease liabilities recognised in the statement of financial position on transition at 1 July 2018 was 6.6%.

IFRS 15 and IFRS 16 have been applied retrospectively. The effect of these changes in accounting policies are shown in the following table.

During the period a $19 million overstatement of a fair value adjustment in relation to the US Private Placement borrowings was identified. This overstatement occurred in 2011 when it was originally booked to the income statement and has therefore necessitated a prior period change in 2018, through an increase in opening retained earnings and a reduction to non-current borrowings as included in the following table.

	Audited year ended 30 June 2018 $M	Adjustments $M	Restated audited year ended 30 June 2018 $M
CONSOLIDATED INCOME STATEMENT			
Total revenue	1,803	(5)	1,798
Total expenses	(1,242)	10	(1,232)
EBITDAF	**561**	**5**	**566**
Depreciation and amortisation	(197)	(4)	(201)
Change in the fair value of financial instruments	49	–	49
Earnings of associates and joint arrangements	2	–	2
Net interest expense	(90)	(1)	(91)
Profit before tax	325		325
Tax expense	(91)	–	(91)
Profit for the year attributable to owners of the parent	234	–	234
CONSOLIDATED BALANCE SHEET			
Contract assets	–	3	3
Lease assets (Property, plant and equipment)	–	12	12
Lease liabilities (Borrowings)	–	(15)	(15)
Fair value adjustments (Borrowings)	(51)	19	(32)
Non-current financial instruments	(73)	–	(73)
Deferred tax liability	(1,131)	–	(1,131)
Retained earnings	(145)	(19)	(164)
Cash flow hedge reserve	24	–	24

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2019

NOTE 2. SEGMENT REPORTING (CONTINUED)

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 2019	Energy Markets $M	Other Segments $M	Unallocated $M	Inter–segment $M	Total $M
Total segment revenue	1,975	37	4	(16)	2,000
Direct costs	(1,306)	(6)	–	16	(1,296)
Other operating expenses	(127)	(13)	(59)	–	(199)
Segment EBITDAF	542	18	(55)	–	505

June 2018	Energy Markets $M	Other Segments $M	Unallocated $M	Inter–segment $M	Total $M
Total segment revenue	1,768	53	2	(25)	1,798
Direct costs	(1,046)	(6)	–	25	(1,027)
Other operating expenses	(130)	(17)	(58)	–	(205)
Segment EBITDAF	592	30	(56)	–	566

The operating results for Metrix for the period up to 1 March 2019 is shown in "Other Segments" above.

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.

	2019 $M	2018 $M
PROFIT FOR THE YEAR	357	234
Change in the fair value of financial instruments	(26)	(49)
Equity accounted share of the change in the fair value of financial instruments of associate entities	–	(1)
Impairments/Gain on sale in metering business	(177)	–
Adjustments before tax expense	(203)	(50)
Tax expense	7	14
Adjustments after tax expense	(196)	(36)
Underlying earnings after tax	161	198

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

NOTE 4. OTHER INCOME STATEMENT DISCLOSURES

	2019 $M	2018 $M
Sales – electricity generation	944	655
Sales to customers and derivatives	1,013	1,096
Other revenue	43	47
Total revenue	2,000	1,798
Energy costs	(802)	(527)
Line charges	(422)	(437)
Other direct cost of sales, excluding third-party metering	(33)	(32)
Direct costs of other revenue	(6)	(6)
Third-party metering	(33)	(25)
Employee compensation and benefits	(86)	(87)
Maintenance expenses	(42)	(51)
Other expenses	(71)	(67)
Total expenses	(1,495)	(1,232)
Interest expense	(74)	(93)
Lease interest expense	(2)	–
Interest income	1	2
Net interest expense	(75)	(91)

RECONCILIATION OF INCOME TO SEGMENT REPORTING

June 2019	Sales - Electricity generation $M	Sales to customers and derivatives $M	Other revenue $M	Total segment revenue $M
Energy Markets	944	1,013	18	1,975
Other Segments	-	-	37	37
Unallocated	-	-	4	4
Inter-segment	-	-	(16)	(16)
Total revenue	944	1,013	43	2,000

June 2018	Sales - Electricity generation $M	Sales to customers and derivatives $M	Other revenue $M	Total segment revenue $M
Energy Markets	655	1,096	17	1,768
Other Segments	-	-	53	53
Unallocated	-	-	2	2
Inter-segment	-	-	(25)	(25)
Total revenue	655	1,096	47	1,798

On 1 March 2019, the Company sold its smart-metering business, Metrix, to intelliHUB Group for a cash consideration of $272 million, resulting in a gain on sale of $177 million. The Metrix contribution to 2019 EBITDAF was $20 million, and the annualised reduction to EBITDAF from the sale is $28 million.

Audit fees

Fees payable to EY, who are appointed by the Auditor-General, for the audit and review of the financial statements were $605,000 (2018: $590,000). Non-audit services in relation to payroll advisory services were $33,000 (2018: $71,000). EY (US) also provided US tax compliance services in the amount of $264,000 (2018: $247,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2019

NOTE 5. SHARE CAPITAL AND DISTRIBUTION

The share capital of the Company is represented by 1,400,012,517 ordinary shares (2018: 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 1,360,894,041 (2018: 1,374,982,137). These shares do not have a par value, have equal voting rights, and share equally in dividends and any surplus on winding up.

	2019 Number of shares (M)	2019 $M	2018 Number of shares (M)	2018 $M
Treasury shares				
Balance at the beginning of the year	39	101	24	51
Acquisition of treasury shares	–	–	15	50
Balance at the end of the year	39	101	39	101

	Cents per share	2019 $M	2018 $M
Dividends declared and paid			
Final dividend for 2017	8.8	–	121
Special dividend paid September 2017	5.0	–	69
Interim dividend for 2018	6.0	–	83
Final dividend for 2018	9.1	124	–
Interim dividend for 2019	6.2	84	–
		208	273

No imputation credits are available at 30 June 2019 (2018: $nil) as the imputation credit account has a deficit of $25 million (2018: deficit of $24 million). The imputation credit account is required to have a surplus balance at 31 March each year.

NOTE 6. TAXATION

	2019 $M	2018 $M
Income Tax		
(i) Tax expense		
Profit before tax	430	325
Prima facie tax expense at 28% on the profit before tax	(120)	(91)
Increase/(decrease) in tax expense due to:		
• share of associates and joint ventures' tax paid earnings	–	1
• capital gain	51	–
• other differences	(4)	(1)
Tax expense attributable to profit from ordinary activities	(73)	(91)
Represented by:		
Current tax expense	(81)	(97)
Deferred tax recognised in the income statement	8	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 2019 $M	Assets 2018 $M	Liabilities 2019 $M	Liabilities 2018 $M	Net 2019 $M	Net 2018 $M
(i) Recognised deferred tax assets and liabilities						
Property, plant and equipment	–	–	(1,185)	(1,155)	(1,185)	(1,155)
Financial instruments	23	5	–	–	23	5
Employee benefits and provisions	2	2	–	–	2	2
Other	2	17	–	–	2	17
	27	24	(1,185)	(1,155)	(1,158)	(1,131)

	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 2017	(1,155)	29	2	13	(1,111)
Charged/(credited) to the income statement	17	(15)	–	4	6
Charged/(credited) to other comprehensive income	(17)	(9)	–	–	(26)
Balance as at 30 June 2018	(1,155)	5	2	17	(1,131)
Balance as at 1 July 2018	(1,155)	5	2	17	(1,131)
Charged/(credited) to the income statement	26	(14)	–	(5)	7
Charged/(credited) to other comprehensive income	(56)	32	–	(10)	(34)
Balance as at 30 June 2019	(1,185)	23	2	2	(1,158)

Tax deductions for building depreciation were disallowed by the Inland Revenue from 1 July 2011. 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 accepted the Group's view in respect of hydro-electric powerhouse assets, but not in respect of geothermal powerhouse assets.

In July 2019, the High Court issued its decision, in favour of Inland Revenue, that geothermal powerhouse assets were buildings for tax purposes. The Group has decided not to appeal this decision. This has resulted in a one-off increase to tax expense of $6 million, an additional deferred tax liability of $3 million, and an increase in provision for income tax of $3 million.

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 $23 million (2018: $26 million) are held to service and repair operating plant. Meter stock of $nil (2018: $9 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 2019

NOTE 8. PROPERTY, PLANT AND EQUIPMENT

	Generation assets at fair value $M	Meters at cost $M	Other assets at cost $M	Right-of-use assets	Capital work in progress at cost $M	Total $M
YEAR ENDED 30 JUNE 2018						
Opening net book value	5,241	53	39	16	55	5,404
Additions	52	6	5	–	31	94
Transfers	25	–	3	–	(28)	–
Net revaluation movement	55	–	–	–	–	55
Depreciation charge for the year	(158)	(11)	(10)	(4)	–	(183)
Closing net book value	5,215	48	37	12	58	5,370
Balance at 30 June 2018						
Cost or valuation	5,352	178	137	30	58	5,755
Accumulated depreciation	(137)	(130)	(100)	(18)	–	(385)
Net book value	5,215	48	37	12	58	5,370
YEAR ENDED 30 JUNE 2019						
Opening net book value	5,215	48	37	12	58	5,370
Additions	16	3	25	42	53	139
Transfers	30	–	–	–	(30)	–
Disposals	(1)	(45)	(2)	(1)	(1)	(50)
Net revaluation movement	250	–	–	–	–	250
Depreciation charge for the year	(163)	(6)	(8)	(4)	–	(181)
Closing net book value	5,347	–	52	49	80	5,528
Balance at 30 June 2019						
Cost or valuation	5,347	23	125	59	80	5,634
Accumulated depreciation	–	(23)	(73)	(10)	–	(106)
Net book value	5,347	–	52	49	80	5,528

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.

Right-of-use assets comprise property and motor vehicles and represents the Group's right to use those underlying assets as a lessee under lease agreements.

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 2019. This resulted in an increase to the carrying value of the Group's hydro and geothermal generation assets of $151 million and $99 million respectively in the current year. This is in addition to the $55 million revaluation increase recognised across the Group's geothermal generation assets in 2018. As a consequence of the revaluation, accumulated depreciation on these hydro and 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 $75/MWh and $106/MWh (2018: $63/MWh and $105/MWh), average operational expenditure of $158 million p.a. (2018: $160 million p.a.), net average production volumes of 6,703GWh p.a. (2018: 6,620GWh p.a.) and a post-tax discount rate of between 7.2% and 7.6% (2018: 7.5% and 7.9%). The valuation also assumed the ongoing operation of New Zealand Aluminium Smelters Limited at Tiwai Point, no material changes to the wholesale market regulatory regime, hydro and geothermal fuel supply being sustained over the modelled horizon and no material changes to generation consent conditions. 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 2019 $M	2018 $M
Future wholesale electricity price path	+/- 10%	$833 / ($837)	$783 / ($790)
Discount rate	+/- 0.5%	($531) / $641	($496) / $592
Operational expenditure	+/- 10%	($235) / $235	($231) / $230

The carrying amount of revalued generation assets, had they been recognised at cost, would have been $1,937 million (2018: $1,977 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:

	2019	2018
Office fixture and fittings, including fit-out	2-50%	2-50%
Generation assets:		
• Hydro and thermal generation	1-33%	1-33%
• Other generation	2-33%	2-33%
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 2019

NOTE 9. INTANGIBLE ASSETS

	Intangible software $M	Rights $M	Emissions units $M	Work in progress $M	Total $M
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
YEAR ENDED 30 JUNE 2019					
Opening net book value	55	20	16	10	101
Additions	13	1	7	8	29
Transfers	10	–	–	(10)	–
Disposals	(20)	–	–	(2)	(22)
Amortisation for the year	(22)	(1)	–	–	(23)
Closing net book amount	36	20	23	6	85
BALANCE AT 30 JUNE 2019					
Cost	149	34	23	6	212
Accumulated amortisation	(113)	(14)	–	–	(127)
Net book value	36	20	23	6	85

Software

Acquired computer software licences 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 and 15 years (2018: between 2 and 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 (2018: 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:

			Interest held		
Name of entity	**Principal activity**	**Type**	**2019**	**2018**	**Country**
TPC Holdings Limited	Investment holding	Associate	25.00%	25.00%	New Zealand
Rotokawa	Steamfield operation	Joint operation	64.80%	64.80%	New Zealand
Ngā Awa Purūa	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%	20.84%	United States
Hudson Ranch I Holdings LLC	Electricity generation	Joint venture	75.00%	75.00%	United States

	Associates		Joint ventures	
	2019 $M	**2018 $M**	**2019 $M**	**2018 $M**
Balance at the beginning of the year	88	76	–	–
Share of earnings	1	2	–	–
Share of movement in other comprehensive income	(9)	14	–	–
Distributions received during the year	(4)	(4)	–	–
Balance at the end of the year	76	88	–	–

At the end of the year the Group had outstanding advances to its Rotokawa joint venture partner in the amount of $6 million (2018: $7 million) and its associate TPC Holdings Limited of $4 million (2018: $4 million). For terms and conditions of these related party receivables refer to note 17.

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 EnergySource LLC amounting to US$3 million (2018: US$3 million).

At the end of the year the Group had 19.97% (2018: 19.99%) shareholding in Tilt Renewables Limited, a listed company on the NZSX and ASX, and this is recognised as an investment at fair value through the income statement, with a market value of $2.49 per share or $234 million as at 30 June 2019 (2018: $2.07 per share or $130 million). During the year, the Group contributed $55 million of equity funding to participate in a capital raise by Tilt Renewables Limited to fund the Dundonnell windfarm project in Victoria, Australia.

NOTE 11. RECEIVABLES, PAYABLES AND ACCRUALS

	2019 $M	2018 $M
RECEIVABLES		
Trade receivables and accruals	248	219
Allowance for impairment loss	(1)	(2)
Net trade receivables and accruals	247	217
Prepayments	9	9
	256	226

Customers are typically invoiced on a monthly basis. Revenue from large commercial and industrial customers is billed on a calendar month basis, while for mass market customers billing occurs on a rolling cycle each month and over the year. 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. Generation revenue is derived mostly from generation sales to the New Zealand wholesale market at the prevailing spot price at the grid injection point. Revenue is invoiced by the Wholesale Market Clearing Manager on a calendar month basis reflecting actual metered generation at the stations.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2019

NOTE 11. RECEIVABLES, PAYABLES AND ACCRUALS (CONTINUED)

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

The Group recognises an allowance for impairment loss when there is objective evidence that the Group will not be able to collect amounts due according to the original terms of the receivable. An allowance charge of $2 million (2018: $3 million) was recognised during the year. Receivables of $3 million (2018: $3 million) which were deemed uncollectable were written off.

Expected credit loss

The Company applies the NZ IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables.

To measure the expected credit losses, trade receivables have been grouped based on days past due. The expected loss rates are based on the payment profiles of sales over a 12-month period before 30 June 2019 and the corresponding historical credit losses during the period, adjusted for any significant known amounts that are not receivable.

On that basis the following table details the loss allowance at 30 June 2019:

		More than 30 days past due	More than 60 days past due	More than 90 days past due	Total
Expected loss rate	%	4	27	59	
Gross carrying amount – trade receivable	$M	6	1	1	8
Loss allowance	$M	–	–	1	1

	2019 $M	2018 $M
Movements in the allowance for impairment loss were as follows:		
Balance at the beginning of the year	2	2
Charge for the year	2	3
Amounts written off	(3)	(3)
Balance at the end of the year	1	2

	2019 $M	2018 $M
Payables and accruals		
Trade payables and accruals	187	179
Employee entitlements	7	8
Sundry creditors	31	17
	225	204

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

CONTRACT ASSETS	2019 $M	2018 $M
Contract assets		
Opening balance	3	4
Additions	3	3
Amortised to revenue	–	(1)
Amortised to operating expenses	(3)	(3)
Closing balance	3	3

Of the total contract assets balance, $2 million is expected to be amortised within one year of the reporting period and the remainder between one and three years of the reporting period end.

NOTE 12. PROVISIONS

	2019 $M	2018 $M
Balance at the beginning of the year	51	54
Provisions made during the year	6	1
Provisions used during the year	–	(2)
Provisions reversed during the year	–	(3)
Discounting movement	2	1
Balance at the end of the year	59	51
Current	–	–
Non-current	59	51
	59	51

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2019

NOTE 13. BORROWINGS

	Borrowing currency denomination	Maturity	Coupon	2019 $M	2018 $M
Bank facilities	NZD	Various	Floating	–	91
Commercial paper programme	NZD	< 3 months	Floating	199	170
Wholesale bonds	NZD	Mar-2019	5.03%	–	76
Capital bonds	NZD	Jul-2019	6.90%	305	305
Wholesale bonds	NZD	Feb-2020	8.21%	31	31
USPP – US$125m	USD	Dec-2020	4.25%	163	163
Wholesale/credit wrapper	NZD	Sep-2021	Floating	300	300
USPP – US$30m	USD	Dec-2022	4.35%	39	39
Wholesale bonds	NZD	Mar-2023	5.79%	26	25
USPP – US$45m	USD	Dec-2025	4.60%	59	59
Lease liabilities				69	15
Deferred financing costs				(1)	(5)
Fair value adjustments				43	32
Carrying value of loans				1,233	1,301
Current				541	350
Non-current				692	951
				1,233	1,301

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 (USPP) terms and conditions. There has been no breach of the terms of this deed or the terms and conditions of the USPP.

The Group has $500 million of committed and unsecured bank loan facilities as at 30 June 2019 (30 June 2018: $650 million). The Company executed $100 million of new facilities, cancelled $150 million of facilities, and $100 million of facilities matured during the reporting period. Of the loan facilities of $500 million, $100 million expires in June 2021, $100 million expires in August 2022, $100 million expires in October 2022, and a rolling bank loan of $200 million currently expires in December 2020.

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

On 11 July 2019 the Company fully redeemed its $300 million of subordinated capital bonds, and reissued a further $300 million of subordinated capital bonds at a rate of 3.6%. Refer to note 20 for further details.

The Group has entered into various lease contracts for the right to use land and buildings, motor vehicles and office equipment and is also deemed to be a lessee of transmission equipment. During the year, the Group commenced a 12-year lease for its new Auckland office.

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 12 years (2018: 13 years), were $1,506 million (2018: $1,520 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, Euro and Yuan.

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 $102 million (2018: $21 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 $2,095 million (2018: $2,466 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	
	2019 $M	2018 $M	2019 $M	2018 $M
Group				
Electricity forward price increased by 10%	(12)	(8)	(33)	(26)
Electricity forward price decreased by 10%	12	8	33	21

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NOTE 14. FINANCIAL RISK MANAGEMENT (CONTINUED)

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	
	2019 $M	2018 $M	2019 $M	2018 $M
New Zealand Dollar – Euro				
Currency strengthens by 10%	–	–	(3)	(1)
Currency weakens by 10%	–	–	3	1
New Zealand Dollar – USD				
Currency strengthens by 10%	–	–	(2)	–
Currency weakens by 10%	–	–	2	–
New Zealand Dollar – Yuan				
Currency strengthens by 10%	–	–	(2)	–
Currency weakens by 10%	–	–	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 past 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 IFRS 9. 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	
	2019 $M	2018 $M	2019 $M	2018 $M
Interest rates higher by 100 bps	(4)	(6)	13	20
Interest rates lower by 100 bps	4	6	(16)	(21)

(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 with which it has entered into an ISDA master agreement, 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 pay-offs, repayments and interest from recognised non-derivative financial liabilities. The timing of cash flows for non-derivative financial liabilities is based on the contractual terms of the underlying contract. It should be noted that the amounts presented are contractual, undiscounted cash flows; consequently, the totals will not reconcile with the amounts recognised in the balance sheet.

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

	Less than 6 months $M	6 to 12 months $M	1 to 5 years $M	Later than 5 years $M	Total $M
JUNE 2019					
Liquid financial assets					
Cash and cash equivalents	94	–	–	–	94
Receivables	256	–	–	–	256
	350	–	–	–	350
Financial liabilities					
Payables and accruals	(216)	–	(9)	–	(225)
Loans	(219)	(46)	(601)	(743)	(1,609)
Lease liabilities	(4)	(4)	(31)	(52)	(91)
	(439)	(50)	(641)	(795)	(1,925)
Net inflow/(outflow)	(89)	(50)	(641)	(795)	(1,575)

	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)
Lease liabilities	(4)	(4)	(29)	(60)	(97)
	(487)	(102)	(703)	(830)	(2,122)
Net inflow/(outflow)	(256)	(102)	(703)	(830)	(1,891)

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For the year ended 30 June 2019

NOTE 14. FINANCIAL RISK MANAGEMENT (CONTINUED)

Derivative financial liabilities

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

	Less than 6 months $M	6 to 12 months $M	1 to 5 years $M	Later than 5 years $M	Total $M
JUNE 2019					
Derivative liabilities – net settled	(64)	(51)	(119)	(16)	(250)
Derivative liabilities – gross settled					
• Inflows	104	–	–	–	104
• Outflows	(102)	–	–	–	(102)
Net maturity	(62)	(51)	(119)	(16)	(248)

	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)

(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 $60 million (2018: $138 million), $296 million (2018: $293 million) and $312 million (2018: $301 million) respectively; and (ii) the Capital Bonds, the fair value for which has been calculated at $305 million (2018: $313 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 2019 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 $44 million were categorised as level 1 (2018: $21 million) and $79 million were categorised as level 3 (2018: $63 million). Electricity price derivative liabilities of $17 million were categorised as level 1 (2018: $1 million) and $138 million were categorised as level 3 (2018: $9 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 $69/MWh and a maximum price of $114/MWh (2018: minimum price of $63/MWh and a maximum price of $105/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

For the year ended 30 June 2019

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	
	2019 $M	2018 $M
Group		
Electricity forward price increased by 10%	(6)	(1)
Electricity forward price decreased by 10%	6	1

	2019 $M	2018 $M
Reconciliation of level 3 fair value movements		
Opening balance	54	7
New contracts	(28)	2
Matured contracts	1	8
Gains and losses		
• Through the income statement	(8)	(7)
• Through other comprehensive income	(78)	44
Closing balance	(59)	54

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

Deferred 'inception' gains/(losses)

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

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

	2019 $M	2018 $M
Electricity price derivatives		
Opening deferred inception gains / (losses)	(15)	(8)
Deferred inception gains (losses) on new hedges	3	(5)
Deferred inception losses realised during the year	–	(2)
Closing balance	(12)	(15)

(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:

	2019 $M	2018 $M
Borrowings at carrying value	1,233	1,301
Fair value adjustments US Private Placement	(43)	(32)
Less cash and cash equivalents	(94)	(5)
Net debt	1,096	1,264
Total equity	3,537	3,305
Total capital	4,633	4,569
Gearing ratio	23.7%	27.7%

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 ongoing 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 less cash and cash equivalents. For the year ended 30 June 2019, the Group had a debt to EBITDAF ratio of 1.9 times (2018: 1.9 times).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2019

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:

	2019 $M	2018 $M
CURRENT ASSETS		
Interest rate derivative	6	11
Electricity price derivative	41	19
Foreign exchange derivative	2	–
Cross-currency interest rate derivative	1	1
	50	31
CURRENT LIABILITIES		
Interest rate derivative	4	18
Electricity price derivative	40	5
Cross-currency interest rate derivative	1	1
	45	24
NON-CURRENT ASSETS		
Interest rate derivative	2	11
Electricity price derivative	82	64
Cross-currency interest rate derivative	45	35
	129	110
NON-CURRENT LIABILITIES		
Interest rate derivative	91	65
Cross-currency interest rate derivative – margin	2	7
Electricity price derivative	115	5
	208	77

The majority of 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 IFRS 9 but are treated as at fair value through profit and loss. All other interest rate derivatives (predominantly forward-starting derivatives), interest rate derivatives and electricity prices derivatives (except those described below) are designated as cash flow hedges under NZ IFRS 9.

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 Island and South Island generically called basis swaps. The most significant is a contract with Meridian Energy which has a remaining life of six 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	
	2019 $M	2018 $M	2019 $M	2018 $M
Cross-currency interest rate derivatives	10	12	–	–
Borrowings – fair value change	(11)	(12)	–	–
	(1)	–	–	–
Interest rate derivatives	3	40	(30)	(18)
Cross-currency interest rate derivatives – margin	(1)	–	1	2
Electricity price derivatives	(26)	12	(92)	49
Foreign exchange rate derivatives	–	–	3	–
Ineffectiveness of cash flow hedges recognised in the income statement	–	(3)	–	–
Total change in fair value of financial instruments	(25)	49	(118)	33

In addition to the fair value loss on derivative financial instruments, the Group also recognised a fair value gain on its investment in Tilt Renewables Limited of $51 million.

MOVEMENT IN CASH FLOW HEDGE RESERVE

	2019 $M	2018 $M
Opening balance	(24)	(53)
The effective portion of cash flow hedges recognised in the reserve	(118)	33
Amortisation of fair values[1]	1	(1)
The amount transferred to balance sheet	(1)	5
Equity-accounted share of associates' movement in other comprehensive income	(9)	2
Tax effect of movements	33	(10)
Closing balance	(118)	(24)

1. Amounts reclassified to the income statement recognised in amortisation

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2019

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

	2019 $M	2018 $M
Profit for the year	357	234
Items classified as investing or financing activities		
• Net interest accrual	5	1
Adjustments for:		
Depreciation and amortisation	204	197
Carbon costs	–	4
Dividend income received from the investment in Tilt Renewables	(1)	(1)
Net (gain)/loss on sale of property, plant and equipment	1	(2)
Change in the fair value of financial instruments	(26)	(49)
Gain on sale	(177)	–
Movement in effect of discounting on long-term provisions	4	(3)
Share of earnings of associates and joint ventures	1	(2)
Other non-cash items	(1)	(1)
Net cash provided by operating activities before change in assets and liabilities	367	378
Change in assets and liabilities during the year:		
• Decrease/(increase) in trade receivables and prepayments	(26)	12
• (Increase)/decrease in consumable inventories	4	(1)
• (Decrease)/increase in trade payables and accruals	(9)	(1)
• (Decrease)/increase in provision for tax	(2)	(6)
• Decrease in deferred tax	(8)	(6)
Net cash inflow from operating activities	326	376

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	
	2019 $M	2018 $M
Associates		
• Management fees and service agreements received	16	14
• Energy contract settlements received/(paid)	14	6
Joint operations		
• Management fees and service agreements received	12	11
• Energy contract settlements received/(paid)	32	2
• Interest income	1	1

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

An advance to TPC Holdings Limited of $4 million (2018: $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	
	2019 $000	2018 $000
Key management personnel compensation (paid and payable) comprised:		
• Directors' fees	990	960
• Benefits for the Chief Executive and Senior Management:		
Salary and other short-term benefits	6,519	6,275
Share-based payments	532	553
	8,041	7,788

The year-on-year increase in directors' fees is due to the appointment of an additional director in September 2017 to bring the Board to its full complement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2019

NOTE 17. RELATED PARTY TRANSACTIONS (CONTINUED)

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

	Capital		Other operating commitments	
Commitments	**2019 $M**	**2018 $M**	**2019 $M**	**2018 $M**
Within one year	198	40	7	7
One to five years	129	42	31	17
Later than five years	14	24	173	63
	341	106	211	87

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 nine-year period from the end of the reporting period, will also terminate

Operating lease commitments disclosed at the end of the previous reporting period are substantially the same as the lease liabilities disclosed as at 30 June 2018 after adjusting for the effect of discounting.

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 Pouākani land on trust for the Pouākani 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.

The Group holds land at Maraetai, Waikato, that is subject to a remedies hearing brought against the Government in the Waitangi Tribunal pursuant to the Treaty of Waitangi Act 1975. The remedies hearing relates to an application seeking binding recommendations for the resumption of land at Pouākani, including the Group's land at Maraetai. The Group has received advice that the Tribunal's decision on the matter is unlikely to 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 2019, June 2020 and June 2021. 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 $531,516 in relation to equity-settled, share-based payment transactions (2018: $552,990).

Movements in the number of share options are as follows:

	2019	**2018**
Balance at the beginning of the year	745,971	668,810
Options granted	277,001	260,118
Options expired	(199,735)	(3,660)
Options exercised	-	(179,297)
Balance at the end of the year	823,237	745,971

A total of 286,118 options were exercisable at the end of the year (2018: 199,735) with the remaining options under the plan having a weighted average life of 1.5 years (2018: 1.5 years).

NOTE 20. SUBSEQUENT EVENTS

On 11 July 2019 the Company redeemed the existing $300 million MCY010 bonds and issued $300 million of new unsecured, subordinated bonds (MCY020). The MCY020 bonds are due to mature in July 2049, unless redeemed earlier, and have a fixed interest rate of 3.6% through to the first reset date, 11 July 2024.

On 17 July 2019 the Board of Tilt Renewables Limited resolved to appoint Mercury's Chief Executive Fraser Whineray to its Board as a non-independent director, effective from 19 July 2019. The Group is therefore deemed to have significant influence, but not control, over Tilt Renewables Limited from 19 July 2019 and as such it will be deemed an associate of the Group and qualify for equity accounting from that date.

The Board of Directors has approved a fully imputed final dividend of 9.3 cents per share to be paid on 30 September 2019.

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

YOUR DIRECTORS.

PLEASE SEE OUR WEBSITE FOR FULL BIOGRAPHIES.

Please visit **mercury.co.nz/leadership**

JOAN WITHERS // CHAIR

PRUE FLACKS // DIRECTOR

ANDY LARK // DIRECTOR

SCOTT ST JOHN // DIRECTOR

KEITH SMITH // DIRECTOR

JAMES MILLER // DIRECTOR

PATRICK STRANGE // DIRECTOR

MIKE TAITOKO // DIRECTOR

ANNA LISSAMAN // FUTURE DIRECTOR

YOUR EXECUTIVE TEAM.

FRASER WHINERAY //
CHIEF EXECUTIVE

KEVIN ANGLAND //
GENERAL MANAGER DIGITAL SERVICES

NICK CLARKE // GENERAL MANAGER
GEOTHERMAL & SAFETY

WILLIAM MEEK //
CHIEF FINANCIAL OFFICER

JULIA JACK //
CHIEF MARKETING OFFICER

PHIL GIBSON // GENERAL MANAGER
HYDRO & WHOLESALE

TONY NAGEL // GENERAL MANAGER
CORPORATE AFFAIRS

MATTHEW OLDE //
GENERAL MANAGER

MARLENE STRAWSON // GENERAL MANAGER
PEOPLE & PERFORMANCE

INTEGRATED REPORTING.

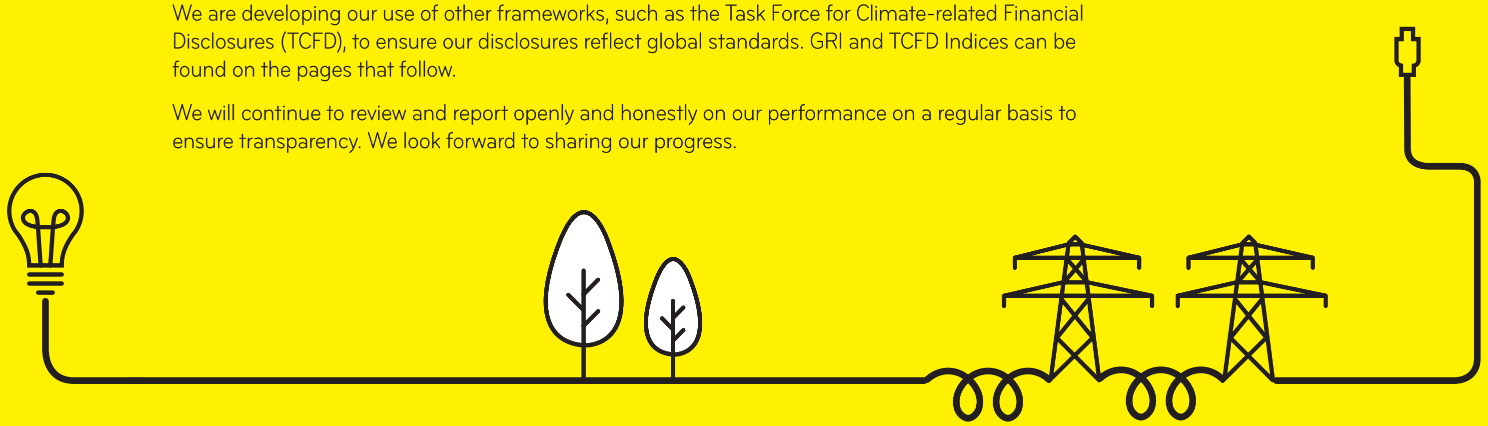
In this report and across our disclosures, we continue to refine our approach to provide transparent and easily understood information.

To ensure our disclosures meet the expectations of stakeholders, we use the principles of the International Integrated Reporting Framework <IR>. This requires organisations to reflect on six capitals that are essential for value creation. Within Mercury the language familiar to us and our stakeholders is "our pillars". To assist with reconciling, this is how our pillars align with the <IR> capitals:

MERCURY'S PILLARS	<IR> CAPITALS
CUSTOMER	SOCIAL & RELATIONSHIP
PARTNERSHIPS	SOCIAL & RELATIONSHIP
KAITIAKITANGA	NATURAL MANUFACTURED
PEOPLE	HUMAN INTELLECTUAL
COMMERCIAL	FINANCIAL

This report has been prepared in accordance with the Global Reporting Initiative (GRI) Standards. We are developing our use of other frameworks, such as the Task Force for Climate-related Financial Disclosures (TCFD), to ensure our disclosures reflect global standards. GRI and TCFD Indices can be found on the pages that follow.

We will continue to review and report openly and honestly on our performance on a regular basis to ensure transparency. We look forward to sharing our progress.



REPORTING ON WHAT MATTERS MOST.

In 2017 we published a materiality matrix with 22 elements. In 2018 we refined this into 15 focus areas, relating three to each of our pillars. We provide information on these material matters, both in this report and on our website. Our view of the matters material to how Mercury creates value is informed by a broad context, including stakeholder input.

HOW WE ENGAGE OUR STAKEHOLDERS

CUSTOMERS

- Our customer engagement teams (via calls, email, letters, direct mail)
- Our website, My Account portal and Mercury Go App
- Social media
- Customer surveys and market research
- Our community partnerships, sponsorships and events

GOVERNMENT & REGULATORS

- Formal scheduled meetings
- Responses to submissions
- Ministerial briefings
- Participation in energy industry events and regulatory/political forums
- Hosting of site visits
- Engagement through the development of external reports that we commission or contribute to
- Board stakeholder forums

EMPLOYEES

- Monthly one-to-one manager and employee discussions
- Annual and check-in engagement surveys
- Specific events such as Company Days; Grandstand meetings
- Our PowerUp induction programme
- Leadership forums
- A change supporters' network
- Collaborative working tools such as Yammer

COMMUNITY

- Participation in community forums
- Sponsorship of and participation in events within the communities in which we operate
- Responding to community river flow and lake level requests
- Through the Waikato Catchment Ecological Enhancement Trust (WCEET), we engage on improvements to the natural and social environments which the company depends upon in the Waikato region
- Turitea wind farm Community Liaison Group

PARTNERSHIPS

- Commercial joint ventures
- Customer reward partnerships
- Relationship managers dedicating time and effort into understanding each other's business
- Educational institutions and training
- Research and Development

SUPPLIERS

- Business review meetings
- Contract negotiations
- Supplier briefings
- Proactive engagement with industry conferences

SHAREHOLDERS & INVESTORS

- Material market updates
- Annual and half-year reports
- Earnings and dividends announcements
- Quarterly operating reports, adhering to the principles of continuous disclosure
- Annual Shareholders' Meeting (ASM)
- Briefings and institutional investor meetings

INDUSTRY PARTICIPANTS

- Participation in industry groups and initiatives such as StayLive, Girls with Hi-Vis®, the Business Leaders Health and Safety Forum, the Energy Retailers' Association of New Zealand's (ERANZ) Policy Committee, Business Energy Council Working Group, Sustainable Business Council, and BusinessNZ
- Regularly attend and contribute to industry events and conferences (e.g. Downstream)
- Attending stakeholder events organised by sector participants

IWI

- Business review meetings
- Contract negotiations
- Engagement for proposed new work and completing live work
- Conferences
- Participation in events
- Engagement on energy-related initiatives contributing to energy freedom, such as solar installations

SUSTAINABILITY INDICES.

GRI INDEX STANDARDS CORE REPORTING

GRI standard	Disclosure title	Location	Comments
GENERAL DISCLOSURES			
ORGANISATIONAL PROFILE			
GRI 102 General disclosures 2019			
102-1	Name of the organisation	Front cover	
102-2	Activities, brands, products and services	Who we are pp6-7, How we create value pp8-9	
102-3	Location of headquarters	Directory p125	
102-4	Location of operations	Who we are pp6-7	
102-5	Ownership and legal form	Disclosures - Shareholder information pp118-119, Company disclosures pp120-121	
102-6	Markets served	Who we are pp6-7	
102-7	Scale of the organization	Who we are pp6-7	
102-8	Information on employees and other workers	Who we are pp6-7	
102-9	Supply chain	Company website "Corporate Governance" supplier guiding principles: issuu.com/mercurynz/docs/supplier_guiding_principles__final_?e=25554184/55871954	Mercury has supplier guiding principles
102-10	Significant changes to the organisation and its supply chain	Chief Executive update pp16-21	Mercury divested itself of Metrix, a metering business, during the reporting period
102-11	Precautionary principle or approach	Governance at Mercury - Managing risk and assurance p107	
102-12	External initiatives	Who we are pp6-7, Company website - Making a Difference in Communities: www.mercury.co.nz/about/careers/employee-community-fund.aspx, Company website - Partnerships is in our DNA: www.mercury.co.nz/about/partnerships	
102-13	Membership of associations	Reporting on what matters most p97	
STRATEGY			
102-14	Statement from senior decision-maker	Chief Executive update pp16-21	
102-15	Key impacts, risks and opportunities	Chief Executive update pp16-21, Our strategic goals pp26-27	
ETHICS AND INTEGRITY			
102-16	Values, principles, standards and norms of behaviour	Governance at Mercury - Acting ethically and responsibly pp107-109	
GOVERNANCE			
102-18	Governance structure	Governance at Mercury pp102-103	
STAKEHOLDER ENGAGEMENT			
102-40	List of stakeholder groups	Reporting on what matters most p97	
102-42	Identifying and selecting stakeholders	Reporting on what matters most p97	
102-43	Approach to stakeholder engagement	Reporting on what matters most p97	
102-44	Key topics and concerns raised	Reporting on what matters most p97, Our strategic goals pp26-27	
REPORTING PRACTICE			
102-45	Entities included in the consolidated financial statements	Notes to the consolidated financial statements p68	
102-46	Defining report content and topic boundaries	What matters most pp22-25, Our strategic goals pp26-27	
102-47	List of material topics	What matters most pp22-25, Our strategic goals pp26-27	

GRI standard	Disclosure title	Location	Comments
102-48	Restatements of information		There are no restatements of information in the 2019 reporting period
102-49	Changes in reporting		Mercury continues to use both GRI and <IR> frameworks
102-50	Reporting period	Front cover	
102-51	Date of most recent report	Front cover	
102-52	Reporting cycle	Front cover	
102-53	Contact point for questions regarding the report	Directory p125	
102-54	Claims of reporting in accordance with the GRI Standards	Integrated reporting p96	
102-55	GRI content index	Sustainability indices pp98-101	
102-56	External assurance		This report has not been externally assured
MANAGEMENT APPROACH			
GRI 103 General disclosures 2019			
103-1	Explanation of the material topic and its Boundary	What matters most pp22-25, Our strategic goals pp26-27	

SPECIFIC STANDARD DISCLOSURES

Material topics	Description	Location	Boundaries
GRI 200 Economic standard series			
GRI 103	Management approach	Our strategic goals pp26-27, Financial commentary pp56-59	Within the organisation
GRI 201 Economic performance			
GRI 201	Management approach	Our strategic goals pp26-27, Financial commentary pp56-59	Within the organisation
201-1	Direct economic value generated and distributed	Financial commentary pp56-59	Within and outside the organisation
201-1	Consolidated financial implications and other risks and opportunities due to climate change	Our carbon profile pp44-45, Governance at Mercury - Managing risk and assurance p107, Notes to the consolidated financial statements p90.	Within and outside the organisation
GRI 300 Environmental standard series			
GRI 103	Management approach	Our strategic goals pp26-27	Within the organisation
GRI 303 Water			
303-2	Water sources significantly affected by withdrawal of water	Company website - Water Management: www.mercury.co.nz/about/sustainability/renewable-energy/water-management	Within and outside the organisation
GRI 305 Emissions			
305-1	Direct (Scope 1) GHG emissions	Our carbon profile pp44-45	Within and outside the organisation
305-2	Energy indirect (Scope 2) GHG emissions	Our carbon profile pp44-45	Within and outside the organisation
305-3	Other indirect (Scope 3) GHG emissions	Our carbon profile pp44-45	Within and outside the organisation
305-4	Emissions intensity	Our carbon profile pp44-45	Within and outside the organisation
GRI 307 Environmental compliance			
307-1	Non-compliance with environmental laws and regulations	Mercury experienced no non-compliances with environmental laws and regulations during the reporting period	Within and outside the organisation.
GRI 400 Social standards series			
GRI 103	Management approach	Our strategic goals pp26-27	Within the organisation

SUSTAINABILITY INDICES (CONTINUED)

SPECIFIC STANDARD DISCLOSURES (CONTINUED)

Material topics	Description	Location	Boundaries
GRI401 Employment			
401-1	New employee hires and employee turnover	Mercury hired 120 new employees in the reporting period, employee turn-over was 14.27%	Within the organisation
401-2	Benefits provided to full-time employees that are not provided to temporary or part-time employees	Company website: www.mercury.co.nz/about/careers/life-at-mercury	Within the organisation
401-3	Parental Leave	Company website: www.mercury.co.nz/about/careers/life-at-mercury	Within the organisation
GRI403 Occupational health and safety			
403-1	Workers representation in formal joint management-worker health and safety committees	Management, including the executive team, undertake regular site visits, lead safety conversations with employees and contractors and monitor the Company's safety performance. Workers representatives hold a range of positions on health and safety committees, including joint chair of the geothermal committee	Within the organisation.
403-2	Types of injury or rate of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities	How we did this year pp4-5, Building blocks for success p49	Within the organisation
GRI404 Training and education			
404-2	Programmes for upgrading employee skills and transition assistance programmes	405 Mercury people completed at least one of our 57 development training events & 878 Mercury people completed compliance e-learning modules in FY19	Within the organisation
GRI405 Diversity and equal opportunities			
405-1	Diversity of governance bodies and employees	Who we are pp6-7, Governance at Mercury - Inclusion and diversity pp108-109	Within the organisation
GRI413 Local communities			
413-1	Operations with local community engagement, impact assessments and development programmes	A wonderful alliance pp34-37, Solar gives kiwi brighter future pp38-43, Employee Community Fund - www.mercury.co.nz/about/careers/employee-community-fund.aspx	Within and outside the organisation
413-2	Operations with significant actual and potential negative impacts on local communities	Company website - www.mercury.co.nz/about/partnerships/iwi	Within and outside the organisation

SECTOR SPECIFIC: UTILITIES

Material Topics	Description	Location	Boundaries
GRI103	Management approach	Our strategic goals pp26-27	Within the organisation
EU1	Installed capacity	1397MW	Within the organisation
EU2	Net energy output	Who we are pp6-7	Within the organisation
EU3	Number of customer connections	Who we are pp6-7	Within the organisation
EU5	Allocation of CO2e allowances	Our carbon profile p44-45, Company wesbite - Climate positive energy: www.mercury.co.nz/about/sustainability/climate-positive	Within and outside the organisation
EU10	Planned capacity against projected electricity demand over the long term	A wonderful alliance, pp34-37, Wonderful flowing well into the future pp50-53, Mercury FY2019 results presentation: www.mercury.co.nz/investors/results-reports/presentations	Within and outside the organisation
GRI103	Management approach	Our strategic goals pp26-27	Within the organisation

SECTOR SPECIFIC: UTILITIES (CONTINUED)

Material Topics	Description	Location	Boundaries
EU18	Percentage of contractor and subcontractor employees that have undergone relevant health and safety training	2596 employees and contractors completed at least one of 1101 health & safety training events during the reporting period	Within and outside the organisation -
GRI103	Management approach	Our strategic goals pp26-27	Within the organisation
	Number of disconnections for non-payment	Mercury 0.1%, Industry average 0.4%. Source: Electricity Authority Information Paper, 30 June 2019. emidatasets.blob.core.windows.net/publicdata/Datasets/Retail/Disconnections/Disconnection%20data%20-%20Q1%20March%202019.pdf	Outside the organisation
GRI103	Management approach	Our strategic goals pp26-27	Within the organisation
EU30	Average plant availability by energy source and by regulation regime	During the reporting period hydro generation plant availability was 87% and geothermal 98%	Within the organisation.

TASK FORCE FOR CLIMATE-RELATED FINANCIAL DISCLOSURES (TCFD) INDEX

Issue	TCFD Recommendation	Location	Page No./url
Governance	Board oversight of climate-related risks and opportunities	Annual Report 2019 Governance at Mercury - Mercury's Board, Company website 2019 Corporate Governance Statement.	p107, www.mercury.co.nz/about/leadership-governance/corporate-governance
	Managements role in assessing and managing climate-related risks and opportunities	Annual Report 2019 Governance at Mercury - Managing risk and assurance, Company website - 2019 Corporate Governance Statement.	p107, www.mercury.co.nz/about/leadership-governance/corporate-governance
Strategy	Climate-related risks and opportunities identified over the short, medium and long term	Annual Report 2019 - Our carbon profile	pp42-43
	The impact of climate-related risks and opportunities on business strategy and financial planning	Annual Report 2019 - Our carbon profile	pp44-45
	Strategy resilience taking into consideration climate-related scenarios, including a 2°C or lower scenario.	Annual Report 2019 - Our carbon profile	pp44-45
Risk Management	Processes for identifying and assessing climate-related risks	Annual Report 2019 - Our carbon profile, Company website - 2019 Corporate Governance Statement, Kaitiakitanga - Managing climate change,	pp44-45, www.mercury.co.nz/about/leadership-governance/corporate-governance, www.mercury.co.nz/about/sustainability/climate-positive
	Process for managing climate-related risks	Annual Report 2019 - Our carbon profile, Company website - 2019 Corporate Governance Statement, Kaitiakitanga - Managing climate change,	pp44-45, www.mercury.co.nz/about/leadership-governance/corporate-governance, www.mercury.co.nz/about/sustainability/climate-positive
	Integration of the processes for identifying and assessing climate-related risks into overall risk management	Annual Report 2019 - Our carbon profile, Company website - 2019 Corporate Governance Statement, Kaitiakitanga - Managing climate change,	pp42-43, www.mercury.co.nz/about/leadership-governance/corporate-governance, www.mercury.co.nz/about/sustainability/climate-positive
Performance indicators and targets	Metrics and targets used to assess climate-related risks and opportunities in line with strategy and risk management process	Annual Report 2019 - Our carbon profile	pp44-45
	Scope 1, 2 and 3 GHG emissions and any related risk	Annual Report 2019 - Our carbon profile	pp44-45
	Targets used to manage climate-related risks and opportunities and performance against targets	Annual Report 2019 - Our carbon profile	pp44-45

GOVERNANCE AT MERCURY.

Contribution to Governance - John Hawkins

Mercury wishes to take this opportunity to acknowledge the contribution of John Hawkins to New Zealand's corporate governance fabric. John retired as Chair of the New Zealand Shareholders' Association Inc. in April 2019 after 14 years with the organisation. John leaves a fine legacy for the more than 1,500 members of the association and for corporate governance generally, most notably for establishing under his guidance the Framework for Reporting of CEO Remuneration and, most recently, standing proxies.

We believe high standards of corporate governance with robust frameworks, policies and processes are fundamental to Mercury's foundational pillars and our purpose of inspiring New Zealanders to enjoy energy in more wonderful ways. Our commitment to the highest standards of corporate governance underpins our maintaining strong relationships with our stakeholders, the long-term sustainability of our business and assets, and our ability to create long-term value. The Board regularly reviews Mercury's corporate governance policies and practices to ensure compliance with NZX and ASX standards (Mercury is an ASX foreign exempt listed company) as well as reflecting contemporary corporate governance trends in New Zealand and Australia.

CORPORATE GOVERNANCE HIGHLIGHTS FOR FY2019

Over the reporting period, we focused on the following key corporate governance activities:

Board composition:

Joan Withers signalled at Mercury's 2016 Annual Shareholders' Meeting that this current term on Mercury's Board would be her last. In July 2019, the Board appointed Prue Flacks to succeed Joan as Mercury's Chair. This was the culmination of a comprehensive Board skills assessment and succession planning process. Prue will be Chair of Mercury with effect from the close of the Annual Shareholders' Meeting on 27 September 2019.

Key transactions:

During FY2019, Mercury considered several key transactions including our commitment to build the Turitea wind farm, the sale of our metering division, Metrix, the launch of our new capital bond and our attempted joint takeover with Infratil of Tilt Renewables. The application of our corporate governance framework to ensure sound decision making was an important part of the process for those transactions.

NZX/ASX compliance:

On 17 April 2019 we transitioned to the NZX Listing Rules dated 1 January 2019 following a review of and update to our corporate governance framework. As part of our commitment to the highest standards of corporate governance, we opted for early adoption of the most recent Corporate Governance Principles and Recommendations (fourth edition) published by ASX in February 2019.

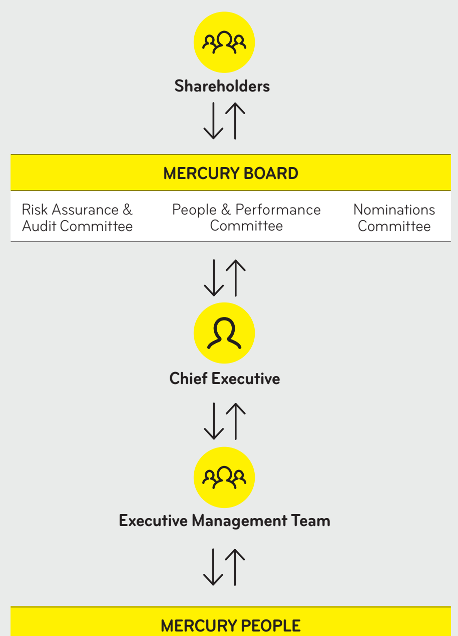
Transparency and accountability:

We reviewed and updated our Market Disclosure Policy to ensure we continue to meet our commitment to maintaining open and effective communication with our stakeholders and the market as well as meeting our disclosure obligations in both New Zealand and Australia.

Mercury's corporate governance practices comply with the ASX Corporate Governance Principles and Recommendations (fourth edition) and are in substantial compliance with the NZX Corporate Governance Code. The only exceptions relate to: Recommendation 3.3 (Remuneration Committee), where the governance of remuneration at Mercury is split between the PPC for executive and general remuneration, and the Nominations Committee for director remuneration; Recommendation 3.6 (Takeover Protocol), which is a result of our Crown majority ownership; and Recommendation 8.5 (Notice of Meeting), where our 2018 Notice of Meeting was sent to shareholders later than anticipated in order to allow time to consult with stakeholders on the subject matter of the Notice of Meeting. These exceptions are explained in our full Corporate Governance Statement, available in the Corporate Governance section of our website at **www.mercury.co.nz.**

We have also reviewed the guidelines and principles from the International Corporate Governance Network (ICGN) Global Governance Principles, the International Finance Corporation (IFC) Global Corporate Governance Forum and the OECD and we consider our practices and procedures substantially reflect these guidelines. BlackRock, as a fiduciary to its clients, undertakes investment stewardship activities which are focused on protecting and enhancing the economic value of the companies in which it invests on behalf of those clients. As part of those activities, BlackRock has established the BlackRock Corporate Governance Guidelines and Engagement Principles, which sets out its view of best-practice corporate governance. We have considered our corporate governance framework and performance against the BlackRock Corporate Governance Guidelines and Engagement Principles published early in 2019 and consider that we are generally consistent with those guidelines.

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



MERCURY'S BOARD

Composition and characteristics

The Board currently comprises eight directors: Joan Withers, Prue Flacks, Andy Lark, James Miller, Keith Smith, Scott St John, Patrick Strange and Mike Taitoko. As at 30 June 2019, the Chair was Joan Withers. From the close of our Annual Shareholders' Meeting on 27 September 2019, Joan will be succeeded as Chair by Prue Flacks. Each of the directors is non-executive and independent. Details of our directors are available in the Leadership section of our website.

The Board has been a long-standing supporter of the Institute of Directors' Future Directors Programme and has to-date offered three appointees valuable experience sitting at the board table for 12 or more months. This programme provides future directors with exposure to real-life governance in action and also valuable mentorship with the aim of increasing the pool of board-ready new directors in New Zealand. Our third and current future director, Anna Lissaman, will conclude her 18-month tenure on 31 December 2019. Anna participates in discussions in all Board meetings and is invited to all Committee meetings, although 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.

Independence and conflicts

All Mercury directors are considered by the Board to be "independent" directors in that they are non-executive directors who are not substantial shareholders and who are free of any interest, business or other relationship that would materially interfere with, or could reasonably be seen to materially interfere with, the independent exercise of their judgement. No director has been employed or retained, within the last three years, to provide material professional services to Mercury. Within the last 12 months, no director was a partner, director, senior executive or material shareholder of a firm that provided material professional services to Mercury or any of its subsidiaries. No director has been, within the last three years, a material supplier to Mercury or has any other material contractual relationship with Mercury or another group member other than as a director of Mercury. No director receives performance-based remuneration from, or participates in, an employee share scheme of Mercury. No director controls, or is an executive or other representative of an entity which controls, 5% or more of Mercury's voting securities. The Chief Executive is not a director of Mercury.

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

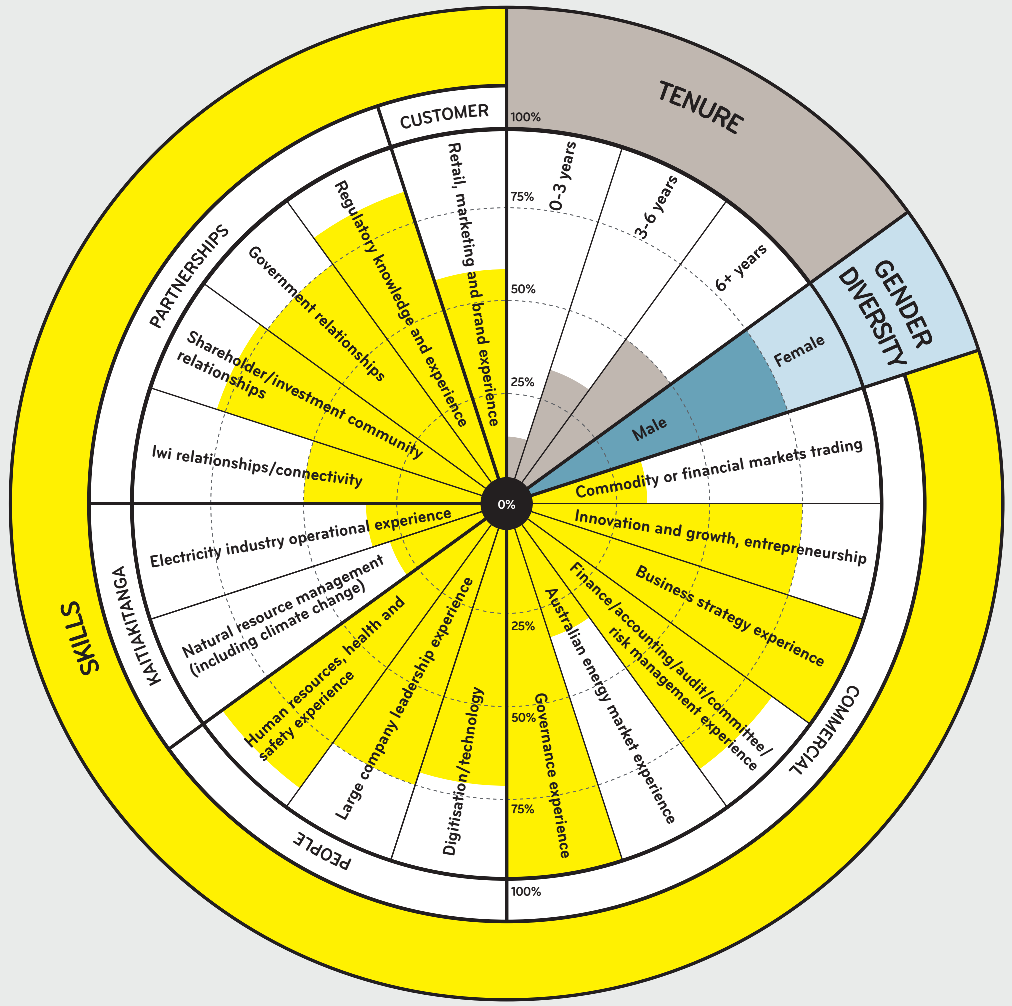
Committees

The Board has three standing committees: the Risk Assurance & Audit Committee (RAAC), the People & Performance Committee (PPC) and the Nominations Committee. Each Committee focuses 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, the Board does not have a separate Remuneration Committee. Instead, 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. During the reporting period, the members of the Committees were as follows:

Committee	Members	Roles and Responsibilities
Risk Assurance & Audit Committee	Keith Smith (Chair), James Miller and Patrick Strange. Joan Withers was also a member by virtue of her position as Board Chair	Overseeing, reviewing and advising the Board on Mercury's: • risk management policies and processes (which includes oversight of health and safety assurance and climate-related risks and opportunities); • internal control mechanisms and internal and external audit functions; • compliance policies and processes; and • financial information prepared by management for publication.
People & Performance Committee	Prue Flacks (Chair), Andy Lark, Mike Taitoko and Scott St John. Joan Withers was also a member by virtue of her position as Board Chair	Assisting the Board to fulfil its People and Performance responsibilities relating to: • Mercury's people and performance strategy and plan; • the remuneration and performance of the Chief Executive and EMT; and • People and Performance policies and practices.
Nominations Committee	Joan Withers (Chair), Prue Flacks and James Miller	Identifying people with the necessary expertise, experience, diversity and perspectives for selection as potential directors to be nominated for election at the next Annual Shareholders' Meeting or to fill a casual vacancy on the Board. The Nominations Committee also makes recommendations to the Board on any proposal relating to director remuneration to be put to shareholders.

GOVERNANCE AT MERCURY (CONTINUED)

BOARD CHARACTERISTICS



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 on a regular basis whether additional standing or ad hoc committees are required. During the year ended 30 June 2019, the Board established three temporary committees for discrete projects.

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 Mercury's Board to be in the top tier, holding many strong attributes including highly relevant board capability and governance processes. Some opportunities were identified for Board focus to maintain and extend that performance. As at 30 June 2019, a Board performance review was underway with the assistance of an external facilitator, and the results will be reported to the Board in September 2019. The Board also completed a comprehensive analysis of the skills of the Board during the reporting period.

The table below highlights those skills that the Board considers are required for governance. This aligns with Mercury's commitments to our foundational pillars and strategy for creating long-term value for our shareholders.

SKILL ATTRIBUTE	Joan Withers	Andy Lark	James Miller	Mike Taitoko	Patrick Strange	Prue Flacks	Keith Smith	Scott St John
Customer								
Retail, marketing and brand experience Senior experience in retail, marketing and brand development as we seek to positively differentiate our offering	●	●	◖	◖		◖	◖	●
Partnerships								
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	●	◖	●	◖	●	●	●	●
Government relationships An understanding of the functioning of government and experience developing and maintaining constructive relationships and interactions with government and regulators	●	◖	●	●	●	◖	◖	◖
Shareholder/investment community relationships Experience in and understanding of shareholder and investment community concerns and developing constructive relationships	●	◖	●	◖	●	◖	●	●
Iwi relationships/connectivity An understanding and appreciation of Māori culture, the ability to build and foster deep trusting relationships with iwi and a deep connection with iwi concerns and aspirations	●	◖	◖	●		◖	◖	
Kaitiakitanga								
Electricity industry operational experience Senior executive experience within the electricity industry, together with a deep understanding of operational excellence		◖	●	◖	●			
Natural resource management (including climate change) Familiarity with issues associated with natural resources including climate change and living our value of kaitiakitanga	◖	◖	◖	◖				◖

● 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
People								
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	●	●	●	●	●	●	◖	●
Large company leadership experience Sustainable success in business at a senior executive level	●	●	●		●	◖	◖	●
Digitisation/technology A detailed understanding of ICT and disruptive technologies and their potential impact to provide our customers with choice and freedom	◖	●	●	●	◖	◖	◖	◖
Commercial								
Governance experience Commitment to the highest standards of governance and an ability to assess the effectiveness of senior management	●	●	●	●	●	●	●	●
Australian energy market experience Familiarity with the Australian energy market and the opportunities and challenges of doing business in that market	◖	◖	◖		●			◖
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	●	◖	●	◖	●	●	●	●
Business strategy experience A track record of developing and implementing a successful and sustainable strategy	●	●	●	●	●	●	●	●
Innovation and growth, entrepreneurship A track record of demonstrated entrepreneurship 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		◖	●	◖				●

● Primary skills ◖ Secondary skills

ACTING ETHICALLY AND RESPONSIBLY

At Mercury, all our people strive to do what's right. Our Mercury Code ensures that our people know what the 'right thing to do' is. The Mercury Code documents the behaviours we require to embed and sustain our culture to successfully deliver our strategy and achieve 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. Our Supplier Guiding Principles set out the way we work with our suppliers and what we expect from our suppliers in return. Our Supplier Guiding Principles set out our commitments to treating people fairly, promoting 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 our 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 our 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. This includes assessing and managing climate-related risks. The framework involves actively identifying and managing risk and taking measures to reduce the likelihood of risk, contain potential hazards and take mitigating action to reduce impacts in line with risk tolerances. This approach is consistent with the precautionary principle.

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

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

Mercury must accept some risks to achieve our 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 independent auditor of Mercury and each of its subsidiaries (together, the "Group"), under the Public Audit Act 2001. The Auditor-General has appointed Lloyd Bunyan of Ernst & Young to carry out the FY2019 audit on his behalf. The NZX Listing Rules require rotation of the key audit partner at least every five years. The provision of external audit services is guided by our 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 our shareholders to answer questions relevant to the audit.

"AT MERCURY, ALL OUR PEOPLE STRIVE TO DO WHAT'S RIGHT. OUR MERCURY CODE ENSURES THAT OUR PEOPLE KNOW WHAT THE 'RIGHT THING TO DO' IS.

GOVERNANCE AT MERCURY (CONTINUED)

PRIVACY

Mercury has a comprehensive Privacy Policy and robust privacy framework. Our objective is to ensure that personal information in our care is managed carefully and respectfully. Privacy risk is managed within our risk management framework. Our General Counsel is also Mercury's Privacy Officer and is responsible for implementing our Privacy Policy, promoting awareness of privacy matters, monitoring matters on a day-to-day basis, and escalating matters as required to our Chief Executive, with notification to the Risk Management Committee. Privacy issues are reported to the Risk Management Committee on a quarterly basis.

We consider the establishment and maintenance of a culture of privacy to be an important part of our privacy framework. Employees and fixed-term contractors are required to complete Privacy Act training within a certain period of joining Mercury and to update that training annually. Business units that process personal information have Business Privacy Leads who champion privacy within their business unit. Recognising that mistakes are sometimes made, our processes for dealing with privacy breaches include escalation and assessment procedures and require the development of plans to prevent similar breaches occurring in the future. Our Privacy Policy is reviewed as required and at least every two years.

INCLUSION AND DIVERSITY

Mercury embraces and celebrates diversity in all its forms. A key element 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. A copy of this policy is available in the Corporate Governance section of our website.

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

- increasing the diversity of our workforce at senior levels;
- creating a flexible and inclusive work environment that values difference and enhances business outcomes;
- harnessing diversity of thought and capitalising on individual differences;
- promoting leadership behaviours that reflect our belief in the value of inclusion and diversity; and
- attracting and retaining 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	2021	2022		2018	2019
		Employees	41%	43%	45%	Employees	41%	41%
		Leaders	33%	34%	35%	Leaders	30%	33%
		EMT	33%	33%	33%	EMT	22%	22%
		Board	33%	33%	33%	Board	25%	25%
	Ensure that everyone is rewarded fairly for their work, regardless of gender.	Targeting between 97% and 103% ratio on average over time.				Actual as at 30 June 2019 across all bands, excluding EMT = 93% – 101%.		
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 42, 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. Ensure that our leadership reflects the diversity of our teams.	Ethnicity	2020	2021	2022	Ethnicity	Mercury 2019 Ethnicity*	NZ Population 2013 Census
		Māori Employees People Leader	 6% 4%	 6% 5%	 7% 6%	**Māori** Employees People Leader	 5.0% (39) 3.3% (5)	13%
		Pacific Employees People Leader	 9% 4%	 9% 4%	 10% 5%	**Pacific** Employees People Leader	 7.7% (60) 2.0% (3)	7%
		Asian Employees People Leader	 22% 11%	 22% 11%	 23% 13%	**Asian** Employees People Leader	 21.4% (166) 10.0% (15)	9%
		Increase representation of team member and people leader across targeted ethnic groups – Māori, Pacific and Asian. Benchmark against National Statistics (Census data) that show the ethnicity of the population and communities that we work in. Targets will be reviewed year-on-year, taking into consideration workforce impacts associated with digitalisation and automation and the available tertiary-qualified talent pool.				* Employee data, as at 1 July 2019, from Mercury's payroll system provides the baseline benchmark of self-identified ethnicity.		
Inclusion	Ensure that our team are supported to do their best work and they engage fully as part of our team.	** Setting a new baseline in 2019 with improvements monitored year-on-year. Targeting better performance than the external benchmark.				In response to our 2019 Employee Engagement Survey, 80% of employees confirmed that people from all backgrounds have equal opportunities to succeed at Mercury, compared with 2019 Global Inclusion Benchmark of 76%.		
Flexibility	Facilitate flexible workplace arrangements to enable employees to balance responsibilities appropriately.	** Setting a new baseline in 2019 with improvements monitored year-on-year. Targeting better performance than the external benchmark.				In response to our 2019 Employee Engagement Survey, 74% of employees confirm that they are genuinely supported if they choose to make use of flexible working arrangements, compared with 2019 Oceania Large Organisations Benchmark of 70%.		

* Mercury 2019 ethnicity data based on self-identified ethnicity responses captured in Mercury's payroll system.

** In FY2019, Mercury changed to a different employee engagement survey provider from that used in FY2018.

As at 30 June 2019, the proportion of women on the EMT (including the Chief Executive) was 22%, or two out of nine (as at 30 June 2018 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 2018 this was 25%, or two out of eight). Our Future Director is a woman.

The Board believes that for this reporting period Mercury has made progress towards achieving our inclusiveness and diversity objectives and against our Inclusion and Diversity Policy generally. However, the Board notes that continued focus is required in order for us to achieve our 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 2019 (FY2019).

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 of this annual report.

In FY2019 the Board undertook a comprehensive review of the remuneration framework for Mercury's executives. The review concluded a mix of fixed remuneration, short-term incentive and long-term incentive continues to be appropriate to achieve the company's aims of attracting and motivating high-calibre employees, and promoting values and behaviours to support customer centricity and sustainable growth in shareholder value. The Board has also introduced minimum executive shareholding guidelines, acknowledging the importance of aligning executive interest with the long-term interests of shareholders.

As legislative changes impacted the effectiveness of the current LTI scheme, a new LTI scheme has commenced with effect from FY2020. The Board believes the new scheme is consistent with Mercury's objectives for executive remuneration and is simpler and easier to administer. Details of the scheme are outlined further in this report.

Prudence Flacks

PRUE FLACKS
CHAIR, PEOPLE & PERFORMANCE COMMITTEE

EXECUTIVE REMUNERATION

Mercury's remuneration policy for the Executive Management Team (EMT) is founded on three guiding principles:

- remuneration is aligned to long-term sustainable shareholder value;
- remuneration for individuals will reflect the level of performance and delivery of successful outcomes; and
- simplicity over complexity will be reflected in the design.

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 predetermined financial and non-financial objectives.

Mercury's remuneration philosophy is to pay for performance and there is an opportunity for executives 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 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 party, PwC. 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's management and provided by Ernst and Young.

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 FY2019 the relevant target percentage for the Chief Executive was 50% and for all the other executives it was 30% to 35%.

A proportion (70% for the Chief Executive and 50% for other EMT members) of the STI is related to a shared set of Key Performance Indicators (KPIs) based on business priorities for the next 12 months, with the objective of aligning the EMT's focus with the company's priorities.

The shared KPIs in FY2019 covered the areas of Commercial, People, Customer, Partnerships and Kaitiakitanga with respective weightings applied across areas as outlined below. The Commercial 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 FY2020 the weightings have been adjusted as shown.

Pillar	FY2019 Weighting %	FY2020 Weighting %
Customer	20	20
Partnerships	10	15
Kaitiakitanga	10	10
People	30	25
Commercial: EBITDAF[1]	30	30

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

For FY2019 there are three performance levels within each pillar area: 'threshold', 'on-target' and 'stretch'. The stretch performance levels allow employees to be rewarded for exceptional performance. The maximum amount of an STI payment for an EMT member was 178% of the STI on-target amount.

The balance of the STI for the Chief Executive is related to individual performance measures set by the Board. In the case of other EMT members, the balance is related to business unit and individual performance measures.

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

The Board retains discretion to ensure the final outcome of STI payments fairly reflects performance over the relevant financial year.

LONG-TERM PERFORMANCE INCENTIVES TO FY2021 VESTING

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

Under the current LTI plan, 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. 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 total shareholder return (TSR) relative to the NZX 50 and is subject to a gate that Mercury's TSR over that period must be at least positive; and
- 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 FY2019 grant period commencing 1 July 2018, the value represented between 27% to 40% of an executive's base salary as at that date.

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.

NEW LONG-TERM INCENTIVE PLAN FROM FY2022 VESTING

The new LTI plan commencing 1 July 2019 is a dividend-protected share rights plan. It has been designed to better deliver on the purpose of the LTI scheme to motivate, retain and align the efforts of the executives as well as being simpler and more administratively efficient than the previous LTI plan. Under the new LTI plan, executives are granted a number of share rights determined by dividing the face value of the grant by the value of one Mercury share at the date of the grant. At vesting, subject to meeting the performance hurdles, each share right is converted to one ordinary share. The executive may also receive additional shares representing the value of dividends paid over the vesting period. The executive is liable for tax on the shares received at this point. Under the new plan, grants will continue to be made annually with performance measured over a three-year period.

Each grant under the new LTI plan also has two tranches with different performance hurdles:

- 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; and
- 50% of the grant is based on Mercury's absolute TSR against the company's cost of equity over the vesting period, plus 1%.

The Board retains discretion over the final outcome for both LTI plans, 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'S REMUNERATION

Chief Executive's remuneration (FY2019 and FY2018)

	Salary $	Benefits[3] $	Subtotal $	Pay for performance $			Total remuneration $
				STI	LTI	Subtotal	
FY2019	1,124,214[2]	57,433	1,181,647	614,079	179,989	794,068	1,975,715
FY2018	1,108,655[2]	62,100	1,170,755	632,528	0	632,528	1,803,283

Note 2: Actual salary paid includes holiday pay paid as per NZ legislation. The base salary for both FY2018 and FY2019 was $1,054,212.50.

Note 3: Benefits include KiwiSaver and insurance.

Five-year summary – Chief Executive's remuneration

		Total remuneration paid[4] $	Percentage STI against maximum[6] %	Percentage vested LTI against maximum %	Span of LTI performance period
Chief Executive – Fraser Whineray	FY2019	1,975,715	65	50	2016 – 2019
	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[5]

Note 4: Total remuneration paid including Salary, Benefits, STI and LTI payments.

Note 5: LTI and STI payments for FY2014 are included in the FY2015 year as schemes ended 31 August 2014.

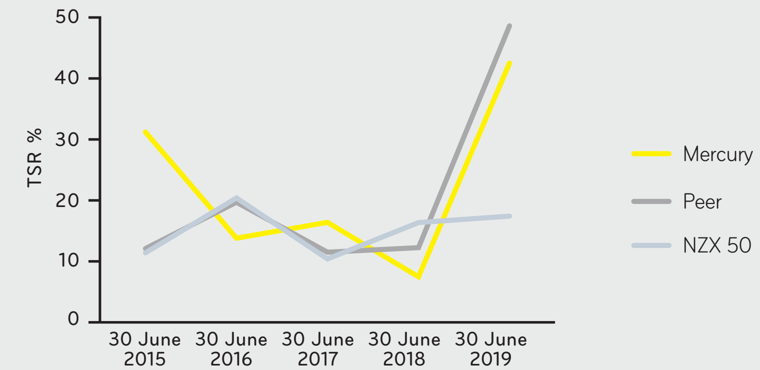
Note 6: Maximum STI was 178% of 'on-target' performance pay.

Breakdown of Chief Executive's pay for performance (FY2019)

	Description	Performance measures	Percentage achieved %
STI[7]	Set at 50% of base salary. Based on a combination of key financial and non-financial performance measures	70% based on the five Company Shared KPIs (see table above for weightings)	115
		20% based on individual measures	120
		10% based on business KPIs (for Chief Executive only)	120
LTI[7]	Shares issued and rewarded under the long term incentive scheme. Shares issued 1 July 2016 at $359,975 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	100
		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	0

Note 7: The above STI and LTI payments for FY2019 will be paid in FY2020.

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 FY2019, the company's contribution was $52,702.

FY2020 CHIEF EXECUTIVE'S REMUNERATION STRUCTURE

The Board has elected, in the interests of transparency, to disclose in advance the structure and package that will apply for FY2020.

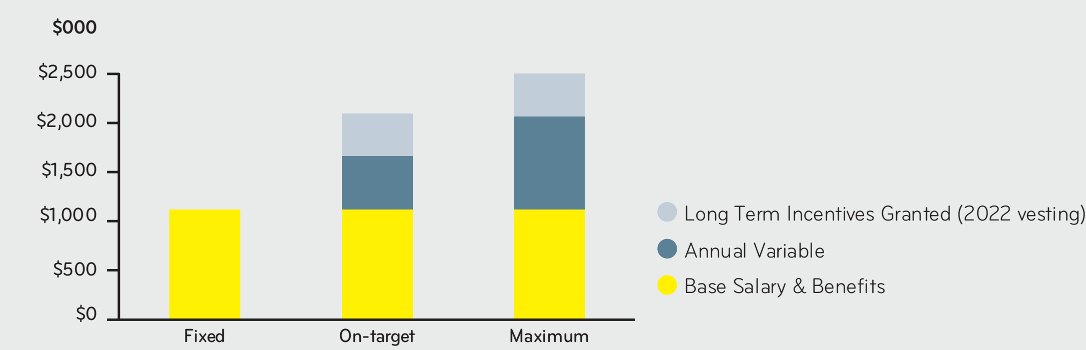
FY2020	Base Salary $	Benefits[8] $	Subtotal $	Pay for performance 'on-target' $			Total remuneration $
				STI	LTI granted[9]	Subtotal	
Chief Executive	1,085,839	35,637	1,121,476	542,919	434,336	977,255	2,098,731

Note 8: Benefits include KiwiSaver and insurance.

Note 9: This LTI is granted in FY2020 and if hurdles are met, paid in shares in 2022. The LTI tranche which has the potential to vest in FY2020 was worth at grant $368,974 and dates from FY2018 to FY2020.

For reference:
On 19 July Fraser Whineray was appointed to the Board of Tilt Renewables Ltd as a Director. For details of remuneration refer to Tilt Renewables annual report.

Chief Executive's remuneration performance pay for FY2020



CHIEF FINANCIAL OFFICER'S 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 FY2019, the Chief Financial Officer received remuneration totalling $721,968. This amount included a $189,025 STI payment for FY2018 paid in FY2019, with the remaining $532,943 being a combination of fixed remuneration and benefits. No LTI payment was received for FY2018, which would have been paid in FY2019.

DIRECTOR AND EXECUTIVE EMPLOYEE REMUNERATION (CONTINUED)

SHARE OWNERSHIP

The Chief Executive and Chief Financial Officer's ownership of shares as at 30 June 2019 are:

Executive	Number of shares owned (excludes shares held in trust for the LTI scheme)	Change in shares owned from 30 June 2018
Chief Executive	233,351[10]	0
Chief Financial Officer	245,475	0
Balance of EMT[11]	152,305	0

Note 10: The Chief Executive's shares are held in family trust.

Note 11: Balance of shares owned by other EMT members, and excludes shares owned by the Chief Executive and Chief Financial Officer.

EMPLOYEE REMUNERATION

The Group paid remuneration in excess of $100,000 including benefits to 400 employees (not including directors) during the FY2019 year in the following bands:

Remuneration band[12]	Currently employed	No longer employed	Total
$100,001-$110,000	54	12	66
$110,001-$120,000	62	6	68
$120,001-$130,000	49	4	53
$130,001-$140,000	39	3	42
$140,001-$150,000	35	2	37
$150,001-$160,000	21	1	22
$160,001-$170,000	9	2	11
$170,001-$180,000	17		17
$180,001-$190,000	10		10
$190,001-$200,000	8		8
$200,001-$210,000	12	1	13
$210,001-$220,000	7		7
$220,001-$230,000	6		6
$230,001-$240,000	7		7
$240,001-$250,000	1	1	2
$250,001-$260,000	3		3
$270,001-$280,000	3		3
$280,001-$290,000	2		2
$290,001-$300,000	3		3
$310,001-$320,000	2	1	3
$320,001-$330,000	3	1	4
$330,001-$340,000	1		1
$340,001-$350,000	2		2
$360,001-$370,000		1	1
$440,001-$450,000	1		1
$500,001-$510,000	2		2
$560,001-$570,000	1		1
$570,001-$580,000	1		1
$600,001-$610,000	1		1
$610,001-$620,000	1		1
$720,001-$730,000	1		1
$1,810,001-$1,820,000	1		1
Total	**365**	**35**	**400**

Note 12: The remuneration bands above include all Metrix employees who transferred on the sale of the Metrix business and include two employees who received redundancy payments in FY2019.

The total remuneration ratio for FY2019 between employee (median) and Chief Executive was 1:24. The ratio of employee (median) remuneration and Chief Executive base salary was 1:14. Note: For the ease of data collection, these ratios are based on actual remuneration paid in FY2019 for employees and the Chief Executive. Therefore, the Chief Executive's remuneration for these ratios differs from the remuneration reported earlier.

DIRECTOR 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. These fees are set taking into account independent remuneration benchmarking advice and after consultation with key stakeholders. 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 2019 and received the following remuneration during the period. The number of meetings and attendance rate by director during the year to 30 June 2019 was as follows:

Director	Board		Risk Assurance & Audit Committee		People & Performance Committee		Nominations Committee		Other[13]	Total[14]
No. of meetings	10		4		4		2			20
	Fees $	Meetings Attended	Fees $	Meetings Attended	Fees $	Meetings Attended	Fees $	Meetings Attended	Fees	Fees $
Joan Withers (Chair)	180,000 (Chair)[15]	10		4		3	(Chair)	2		180,000
Prue Flacks	98,000	10			20,000 (Chair)	4	4,000	2		122,000
Andrew Lark	98,000	10			8,000	4				106,000
James Miller	98,000	10	10,000	4			4,000	2	5,500[13]	117,500
Keith Smith	98,000	10	26,000 (Chair)	4						124,000
Patrick Strange	98,000	10	10,000	4						108,000
Mike Taitoko	98,000	9			8,000	3				106,000
Scott St John	98,000	10		2[16]	8,667[17]	4				106,667
Total	866,000		46,000		44,667		8,000		5,500	970,167

Note 13: James Miller received a one-off payment for due diligence committee attendances in connection with the recent capital bond issue. There were two other temporary Board committees established during the reporting period. There were no fees paid for attendances in relation to those committees.

Note 14: Disclosure Committee is not reported on as these occur as adhoc and on an as required basis.

Note 15: Joan Withers' fees cover attendance at all Committee meetings.

Note 16: Scott St John attended as an observer of annual accounts review.

Note 17: Scott St John's PPC fees include a PPC meeting attendance during FY2018, which was paid during FY2019.

For reference:
Future Director Anna Lissaman was paid $20,000 in FY2019.

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 2019; these do not include payments by the Company to Directors (which are included in the Director and Executive Employee Remuneration section of this report):

Joan Withers	
The Warehouse Group Limited	Chair
ANZ Bank New Zealand Limited	Director
The Louise Perkins Foundation (Sweet Louise)	Trustee
Economic Development Challenge Group	Member
On Being Bold Limited	Director
Auckland Mayoral Advisory Group	Member
Prue Flacks	
Bank of New Zealand Limited	Director
Planboe Limited[2]	Director
Chorus Limited	Director
Queenstown Airport Corporation Limited	Chair
Andy Lark	
SLI Systems Limited	Director
Group Lark	Chair
Foxtel Limited[2]	Chief Marketing and Digital Officer
James Miller	
NZX Limited	Chair/Shareholder
ACC[3]	Deputy Chair
Auckland International Airport Limited	Director/Shareholder
St Cuthbert's College Trust Board	Trustee
The New Zealand Refining Company Limited[1]	Director
ACC Board Investment Committee[1]	Chair
Keith Smith	
Healthcare Holdings Limited and subsidiaries and associates	Chair
Enterprise Motor Group Limited 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[2]	Director
Westland Dairy Cooperative Limited	Director
Harpers Gold Limited and subsidiaries	Director/Shareholder
Cornwall Park Trust Board	Trustee
Sir John Logan Campbell Residuary Estate	Trustee
Advisory board of Tax Traders Limited (formerly The New Zealand Tax Trading Company)	Member
Anderson & O'Leary Limited	Chair
Tree Scape Limited	Director
Tilt Renewables Limited	Shareholder
Scott St John	
Fisher & Paykel Healthcare Corporation Limited	Director/Shareholder
Fonterra Cooperative Group Limited	Director
Fonterra Shareholders Fund[2]	Director
Next Foundation (and associated entities)	Director
Te Awanga Terraces Limited	Director
First NZ Capital Holdings Limited[2]	Director
University of Auckland (and trustee Butland Medical Foundation)	Chancellor
St John Family Trust[1]	Trustee
Macleod Trust[1]	Trustee
Patrick Strange	
Chorus Limited	Chair
Essential Energy, NSW	Director
NZX Limited[2]	Director
Auckland International Airport Limited[4]	Chair
Waitahoata Farms Limited[2]	Director
Mike Taitoko	
Waiora Consulting Limited	Director/Shareholder
Takiwa Limited (formerly Waiora Pacific Limited)	Director/Shareholder
Bioresource Processing Alliance[2]	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	Member
Data Commons Platform Limited[1]	Director

1. Entries added by notices given by the directors during the year ended 30 June 2019.
2. Entries removed by notices given by the directors during the year ended 30 June 2019.
3. Previous entry of director amended to Deputy Chair during the year ended 30 June 2019.
4. Previous entry of director amended to Chair during the year ended 30 June 2019.

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

Pursuant to section 148 of the New Zealand Companies Act 1993, there have been no acquisitions and disposals of relevant interests in shares during the period to 30 June 2019.

Disclosure of Directors' Interests in Mercury's Securities

Directors disclosed the following relevant interests in Mercury's securities as at 30 June 2019:

Director	Number of shares in which a relevant interest is held	Change since 30 June 2018	Number of bonds
Joan Withers	39,900	–	–
Prue Flacks	23,474	–	40,000[1]
Andy Lark	3,300	–	–
James Miller	40,320	–	–
Keith Smith	27,868	–	–
Scott St John	13,000	–	–
Patrick Strange	14,160	–	–
Mike Taitoko	2,200	–	–

1. MCY010 capital bonds were redeemed in full by the company on 11 July 2019.

SECURITY HOLDER INFORMATION.

SHAREHOLDER INFORMATION

Twenty largest registered shareholders as at 30 June 2019[1]

Name	Number of shares	% of shares[2]
Her Majesty The Queen in Right of New Zealand	716,140,528	51.15
HSBC Nominees (New Zealand) Limited	76,416,626	5.45
Mercury NZ Limited	37,711,584[3]	2.69
Citibank Nominees (New Zealand) Limited	35,077,698	2.50
HSBC Nominees (New Zealand) Limited A/C State Street	32,802,851	2.34
JP Morgan Chase Bank NA NZ Branch-Segregated Clients ACCT	27,108,729	1.93
Accident Compensation Corporation	21,535,891	1.53
HSBC Custody Nominees (Australia) Limited	17,501,616	1.25
Forsyth Barr Custodians Limited	17,212,082	1.22
HSBC Nominees A/C NZ Superannuation Fund Nominees Limited	16,580,790	1.18
National Nominees New Zealand Limited	15,430,974	1.10
Generate Kiwisaver Public Trust Nominees Limited	13,187,491	0.94
JBWere (NZ) Nominees Limited	9,924,487	0.70
BNP Paribas Nominees (NZ) Limited	8,581,110	0.61
BNP Paribas Nominees (NZ) Limited	7,752,365	0.55
FNZ Custodians Limited	7,617,741	0.54
Custodial Services Limited	7,208,455	0.51
Citicorp Nominees Pty Limited	7,174,434	0.51
New Zealand Depository Nominee Limited	7,086,538	0.50
JP Morgan Nominees Australia Limited	6,547,573	0.46
Total	**1,088,599,563**	**77.66**

1. As required by the NZX Listing Rules, NZCSD holdings are now included above and not detailed separately.
2. Percentage calculated on the basis of Mercury having 1,400,012,517 ordinary shares on issue as at 30 June 2019, which included 37,711,584 ordinary shares held as treasury shares.
3. Held as treasury shares.

Distribution of shareholders and holdings as at 30 June 2019

Size of holding	Number of shareholders	% of shareholders	Number of shares	Holding quantity %
1 to 1,000	29,926	36.96	20,809,804	1.49
1,001 to 5,000	40,313	49.79	93,814,652	6.70
5,001 to 10,000	6,846	8.46	50,367,287	3.60
10,001 to 100,000	3,766	4.65	77,506,936	5.54
100,001 and above	116	0.14	1,157,513,838	82.68
Total	**80,967**	**100**	**1,400,012,517**	**100**

Substantial product holders as at 30 June 2019

	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	732,789,318[1]	1,400,012,517[2]

1. This comprises (a) 716,140,528 shares held by the Crown on its own account; (b) 16,580,790 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 2019, Mercury had 1,400,012,517 ordinary shares on issue, which included 37,711,584 ordinary shares held as treasury shares.

BONDHOLDER INFORMATION

Twenty largest registered bondholders as at 11 July 2019[1]

The table below sets out the twenty largest registered bondholders of Mercury's 300,000,000 capital bonds that were issued on 11 July 2019 following Mercury's full redemption on the same date of 300,000,000 capital bonds that had previously been quoted on the NZX under the ticker code "MCY010." These 300,000,000 capital bonds are quoted on the NZX (NZX ticker code "MCY020").

Name	Number of capital bonds	% of capital bonds[2]
Forsyth Barr Custodians Limited	82,438,000	27.48
JBWere (NZ) Nominees Limited	35,514,000	11.84
FNZ Custodians Limited	14,165,000	4.72
Custodial Services Limited	13,569,000	4.52
Custodial Services Limited	13,271,000	4.42
Custodial Services Limited	10,046,000	3.35
National Nominees New Zealand Limited	7,500,000	2.50
Investment Custodial Services Limited	6,618,000	2.21
Forsyth Barr Custodians Limited	5,801,000	1.93
Custodial Services Limited	5,104,000	1.70
Generate Kiwisaver Public Trust Nominees Limited	5,000,000	1.67
Custodial Services Limited	4,595,000	1.53
Sterling Holdings Limited	3,804,000	1.27
New Zealand Methodist Trust Association	3,155,000	1.05
Best Farm Limited	2,900,000	0.97
Custodial Services Limited	2,853,000	0.95
Private Core Income Portfolio	2,750,000	0.92
John Culyer Wigglesworth & Dennis James Munn & Sondra Wigglesworth <J C Wigglesworth Family A/C>	2,100,000	0.70
The Tindall Foundation Inc	1,800,000	0.60
JBWere (NZ) Nominees Limited	1,750,000	0.58
Total	**224,733,000**	**74.91**

1. As required by the NZX Listing Rules, NZCSD holdings are now included above and not detailed separately. These capital bonds were issued on 11 July 2019 and quoted on 12 July 2019.
2. Percentage calculated on the basis of Mercury having 300,000,000 capital bonds on issue as at 11 July 2019.

Distribution of bondholders and holdings as at 11 July 2019[1]

Size of holding	Number of capital bondholders	% of capital bondholders	Number of capital bonds	Holding quantity %
1 to 5,000	91	5.28	455,000	0.15
5,001 to 10,000	280	16.26	2,724,000	0.91
10,001 to 100,000	1,223	71.02	42,860,000	14.29
100,001 and above	128	7.43	253,961,000	84.65
Total	**1,722**	**100**	**300,000,000**	**100**

1. These capital bonds were issued on 11 July 2019 and quoted on 12 July 2019.

COMPANY DISCLOSURES.

STOCK EXCHANGE LISTINGS

Mercury NZ Limited (referred to in this section as "Mercury" or "the Company") is listed on the New Zealand stock exchange and as an ASX Foreign Exempt Listing on the Australian stock exchange.

In New Zealand, Mercury 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'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 Mercury'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 2019 financial year, being 30 June 2019: Joan Withers, Prue Flacks, James Miller, Mike Taitoko, Keith Smith, Patrick Strange, Andy Lark and Scott St John.

SUBSIDIARY COMPANIES

The following persons held office as directors of subsidiaries of Mercury NZ Limited during FY2019[1]:

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
Mercury SPV Limited (formerly Metrix Limited)	Fraser Whineray William Meek Tony Nagel
Mighty Geothermal Power International Limited	Fraser Whineray William Meek Tony Nagel
Mighty Geothermal Power Limited	Fraser Whineray William Meek Tony Nagel
Mercury ESPP Limited	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 Nicholas Clarke Mana Newton Natasha Strong Mark Thompson Michael Stevens
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
Mercury Solar Limited	Fraser Whineray William Meek Tony Nagel
What Power Crisis (2016) Limited	Fraser Whineray William Meek Tony Nagel
Metrix Limited[2]	Fraser Whineray[3] William Meek[3] Tony Nagel[3]

1. Mercury Drive Limited was incorporated on 1 July 2019, which was outside of this reporting period. The directors of Mercury Drive Limited are Fraser Whineray, William Meek and Tony Nagel.
2. Metrix Limited was incorporated on 13 December 2018 and was transferred pursuant to Mercury's sale of the Metrix business, which completed on 1 March 2019. Metrix Limited is, therefore, no longer a subsidiary of Mercury.
3. Directors who have resigned during FY2019.

OTHER DISCLOSURES.

WAIVERS FROM THE NEW ZEALAND AND AUSTRALIAN STOCK EXCHANGES

ASX

ASX has granted Mercury NZ Limited (referred to in this section as "Mercury" or "the Company") waivers in respect of the ASX Listing Rules to allow Mercury's Constitution to contain provisions reflecting the ownership restrictions imposed by the New Zealand Public Finance Act 1989 ("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 Mercury are no longer relevant following the change to the Company's admission category to an ASX Foreign Exempt Listing in February 2016. 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 Mercury to enforce the 10% limit; and
- enabling Mercury to prevent shareholders who acquired shares under the General Offer and are not New Zealand applicants from transferring those shares and to enable Mercury to sell those shares.

NZX

The Company transitioned to the new NZX Listing Rules dated 1 January 2019 on 17 April 2019, and has relied on the class waivers and rulings granted by NZX Regulation on 19 November 2018 in relation to the transition.

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 Mercury.

Rights and privileges

Under the Constitution and the New Zealand 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 the 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 includes restrictions on the ownership of certain types of securities issued by Mercury 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 Mercury 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 Mercury of the breach or potential breach.

Mercury 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

Mercury 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:

- Mercury 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 Mercury is required to determine whether or not the 10% Limit has been breached and, if so, whether or not that breach was inadvertent. Mercury 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 Mercury 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, Mercury 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

Mercury 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 Listing Rules) that if, at the end of three months after the date the notice is given, shares then registered in the name of the holder are less than a Minimum Holding, Mercury 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 Mercury 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:

- Mercury 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 $101,294 were made by the Group during the year ended 30 June 2019 ($203,069 during the year ended 30 June 2018). Under Mercury's Delegations 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 20 August 2019 the Board declared a fully imputed final dividend of 9.3 cents per share to all shareholders who are on the Company's share register at 5.00pm on the record date of 13 September 2019. The dividends will be imputed at a corporate tax rate of 28%, which amounts to an imputation credit of 3.62 cents per share for the final dividend. Mercury will also pay a supplementary dividend of 1.64 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 $84.4 million (6.2 cents per share) paid to shareholders on 1 April 2019, brings the total declared dividends to $211.1 million (or 15.5 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.

Mercury's Net Tangible Assets per Share (excluding treasury stock) as at 30 June 2019 was $2.54, compared with $2.35 at 30 June 2018.

INFORMATION FOR SHAREHOLDERS.

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.

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,
General Manager

Marlene Strawson,
General Manager People & Performance

Company Secretary

Howard Thomas,
General Counsel

Investor Relations & Sustainability Enquiries

Tim Thompson,
Head of Treasury & Investor Relations

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Auckland 1142
New Zealand

Phone: +64 27 517 3470
Email: investor@mercury.co.nz

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33 Broadway, Newmarket, Auckland 1023

Registered Office in Australia

c/– TMF Corporate Services (Australia) Pty Limited
Level 16, 201 Elizabeth Street
Sydney, NSW 2000

Phone: +61 2 8988 5800

Legal Advisors

Chapman Tripp
Level 35, ANZ Centre
23-29 Albert Street,
Auckland 1010
PO Box 2206, Auckland 1140

Phone: +64 9 357 9000

Bankers

ANZ Bank
ASB Bank
Bank of New Zealand
China Construction Bank
Mitsubishi UFJ Financial Group
Mizuho Bank
Westpac

Credit Rating (reaffirmed December 2018)

Long term: BBB+
Outlook: Stable

Share Register – New Zealand

Computershare Investor Services Limited
Level 2, 159 Hurstmere Road, Takapuna,
Auckland 0622
Private Bag 92 119
Auckland 1142, New Zealand

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

Share Register – Australia

Computershare Investor Services Pty Limited
Yarra Falls, 452 Johnston Street, Abbotsford, VIC 3067
GPO Box 3329, Melbourne, VIC 3001, Australia

Phone: 1 800 501 366 (within Australia)
Phone: +61 3 9415 4083 (outside Australia)
Email: enquiry@computershare.co.nz

Tilt Renewables' Tararua Wind Farm

ENERGY MADE WONDERFUL.