



ROAD MAP:

- 02 >> REPORT CARD
- 04 >> CHAIR AND CHIEF EXECUTIVE UPDATES
- 12 >> FINANCIAL COMMENTARY
- 15 >> INDEPENDENT REVIEW REPORT
- 18 >> FINANCIAL STATEMENTS
- 32 >> OTHER DISCLOSURES
- 32 >> SHAREHOLDER INFORMATION
- 33 >> DIRECTORY





REPORT CARD.

>> FINANCIALS

\$301M[^]

EBITDAF up \$31m, achieved through favourable hydrology and strong company-wide execution.

\$132M[^]

Net Profit up \$19m due to improved EBITDAF partially offset by higher depreciation and taxation expense.

6.0CPS[^]

Fully-imputed interim dividend, up 3.4%, to be paid on 3 April 2018.



>> GROWING CUSTOMER LOYALTY

62%

Of Mercury brand customers are 'highly satisfied'.¹

5.5%

Mercury brand trader churn, materially below the market average.²

>> HIGH PERFORMANCE TEAMS

0.86

TRIFR³ down from 1.05 in FY2017 with no high-severity incidents.

1st

Recognised as Best Enterprise Workplace in New Zealand, reflecting high employee engagement.⁴

>> ENHANCED NATURAL RESOURCES

2,694 GWh

Record hydro generation enabled by strong inflows into the Waikato Hydro catchment.

95%

Geothermal availability maintained while executing major maintenance plans.

>> STRONGER TOGETHER

\$60k

Savings for Panama Road School over the lifetime of our solar install programme.

\$100k

In total donated to ten charities nominated by our people.

1 Monthly survey of residential customers for the six months to 31 December.

2 12 monthly rolling trader churn as at 31 December.

3 Total Recordable Injury Frequency Rate per 200,000 hours; includes onsite employees and contractors.

4 IBM Best Workplace Awards 2017.

CHAIR AND CHIEF EXECUTIVE UPDATES.

'WHAT PLEASES ME MOST IS MERCURY'S UNDERLYING PERFORMANCE AND THE CONTRIBUTION OF MERCURY EMPLOYEES AND MANAGEMENT ABOVE AND BEYOND NATURE'S INFLUENCE.'

>> JOAN WITHERS
CHAIR



'DURING THE HALF
YEAR WE HAVE
TAKEN MEASURES
TO REMOVE
COMPLEXITY FROM
THE BUSINESS IN
ORDER TO IMPROVE
EFFICIENCY AND
EFFECTIVENESS
FOR THE BENEFIT
OF CUSTOMERS
AND YOU, OUR
OWNERS.' _____

>> FRASER WHINERAY
CHIEF EXECUTIVE



CHAIR'S UPDATE.

It is my pleasure to report to our owners on Mercury's performance for the half year ended 31 December 2017, featuring record earnings (EBITDAF) driven by favourable North Island rainfall supporting record hydro generation.

This result is strong, however weather is fickle. What pleases me most is Mercury's underlying performance and the contribution of Mercury employees and management above and beyond nature's influence.

Mercury has recently received a number of accolades including two major marketing awards and was named Best Enterprise Workplace (750+ employees) in the IBM Best Workplaces Awards. These things don't happen by accident. Instead it reflects the great work of Mercury's people, which I acknowledge on behalf of the Board.

The level of engagement evident in our people was demonstrated at Mercury's 2017 Annual Shareholders' Meeting. There I saw employees from all parts of our business interacting with many of you, and your Board, in such a confident way. It was a telling example to me of the spirit and positive culture within the company, and the alignment our people have with Mercury's mission and purpose.

During the period in review, New Zealand had a change of government. Mercury is 51% owned by the Crown, meaning it is both a respected owner and also a key stakeholder due to Mercury's contribution to the wider energy sector. As a Board, we acknowledge the change in government and the new leadership for the country.

We look forward to Mercury's ongoing collaboration with all political parties. The opportunity we have is to build on the current contribution to the country from this globally unique sector in order to secure New Zealand's energy freedom.

FINANCIAL RESULTS

Mercury's earnings uplift to \$301 million from \$270 million in the prior corresponding period was driven by North Island inflows leading to record hydro generation of 2,694GWh, up 14%. Our hydro inflows typically have a low correlation with South Island inflows. South Island inflows were below average which supported above average wholesale prices.

Stay-in-business capital expenditure increased to \$59 million in HY2018 from \$54 million in HY2017 due to the completion of technology upgrade projects and geothermal maintenance plans that Fraser summarises in his update.

Through the period, high geothermal availability was maintained at 95%.

Operating expenditure was up \$4 million due to phasing of activity in the prior year. Full year operating expenditure is expected to be in line with FY2017, consistent with the prior four years. Other income of \$21 million compared with \$24 million in the same period last year largely due to carbon sales in HY2017.

GUIDANCE

Mercury's FY2018 EBITDAF guidance is \$530 million subject to any material events, significant one-off expenses or other unforeseeable circumstances including hydrological conditions.

FY2018 stay-in-business capital expenditure guidance remains at \$115 million.

The full year ordinary dividend guidance remains at 15.0 cents per share (cps), a 2.7% increase on FY2017.

INTERIM DIVIDEND

Your Board remains focused on appropriate capital management. I am pleased to announce a fully-imputed interim dividend of 6.0 cps to our 85,000 owners including the Crown. The dividend will be paid on 3 April 2018. This represents an increase of 3.4% on the FY2017 interim dividend.

BOARD COMPOSITION

Scott St John joined the Board in September, with his appointment approved at our Annual Shareholders' Meeting. Scott's capital markets background, and his broad commercial experience, adds to the Board's collective skills.

We continue to pay close attention to ensuring we have the right mix of skills,



I look forward to a solid second half of the year that builds on the platform that has been established.

appropriate diversity, director rotation and succession planning. The Board will undertake a formal externally facilitated performance review before the end of the financial year.

Nicky Ashton completed her 18-month term as a Future Director as part of the Institute of Directors' programme to develop the next generation of New Zealand's governance capability. I greatly enjoyed working with Nicky. The Board valued her contribution and wishes her well in her governance career. We look forward to continuing our association with this programme and aim to announce another Future Director appointment before the end of the financial year.

SKILLS DEVELOPMENT/ GOVERNANCE TRENDS

Your Board continues to develop its skillset and knowledge in order to stay across emerging opportunities and to enable it to work with management in developing value enhancing strategies. In the half year your Board and management combined for a valuable session with the Cambridge Institute for Sustainability Leadership, discussing global sustainability opportunities and also the significant impacts of climate change on businesses and society.

Corporate social responsibility is an increasing area of focus for many investors. Mercury has always been keenly aware of the importance of having a licence to operate by making a positive contribution to society. We achieve this through our stewardship of our assets and our guardianship of the environment we operate in.

Larry Fink, CEO of BlackRock Inc (a \$US6 trillion fund), writes annually to CEOs of companies BlackRock invests in. In his just-received 2018 letter he says, *"Companies must ask themselves: What role do we play in the community? How are we managing our impact on the environment? Are we working to create a diverse workforce? Are we adapting to technological change? Are we providing the retraining and opportunities that our employees and our business will need to adjust to an increasingly automated world? Are we using behavioural finance and other tools to prepare workers for retirement, so that they invest in a way that will help them achieve their goals?"*

These questions are being asked by many investors, and companies like Mercury are responding to the challenge to create long term value for our owners whilst working to serve our diverse stakeholders.

REPORTING

Mercury's 2017 Annual Report reflected significant progress in telling our story through the framework of the Global Reporting Initiative and Integrated Reporting standards. I have received excellent feedback on this and we will continue to follow this path in our 2018 Annual Report.

CONCLUSION

The first half of the financial year has been one of continued momentum for Mercury. I congratulate the management team, led strongly by our Chief Executive Fraser Whineray, for its focus on executing its strategy passionately and well. I am pleased to see work progressing on developing high performance teams.

On behalf of the Board, I look forward to a solid second half of the year that builds on the platform that has been established, and reporting to you again in August 2018.

>> JOAN WITHERS, CHAIR

CHIEF EXECUTIVE'S UPDATE.

Operational momentum has been strong for Mercury in the first half of the 2018 financial year. Your company has made good progress towards delivering the programme of work outlined in our 2017 Annual Report. I acknowledge the diligence and dedication of everyone at Mercury for their contribution to the company's progress.

Our focus on customer loyalty and the wellbeing of our people continues, and this has been reflected in external acknowledgement touched on by Joan in the Chair's report.

At the same time favourable hydro conditions and astute management of the portfolio have boosted earnings, leading to a record half year financial outcome.

This result, in a very dynamic and competitive sector, puts Mercury in a solid position for the full year.

PROGRAMME OF WORK

During the half year we have taken measures to remove complexity from the business in order to improve efficiency and effectiveness for the benefit of customers and you, our owners.

As signalled, our core SAP IT platform, which supports many of our customer interactions as well as behind-the-scenes processing, was completely upgraded in November, with disruption kept to an absolute minimum.

The upgrade provides Mercury with the latest database technology, in the 'cloud'. As a result, some processes which took days to complete now take hours, and some processes that took hours now take minutes. More than 200 people worked on the project and I would like

to acknowledge their smooth completion of this upgrade.

Mercury has also upgraded our primary asset management system, Maximo, that our generation and maintenance teams use every day. Our teams are already seeing benefits from the transition.

OUR CUSTOMERS

In our 2017 Annual Report, and again at our Annual Shareholders' Meeting in November, Mercury outlined its customer promises to inspire, reward and make things easy.

Mercury's relative customer churn continues to be materially below market levels through our focus on loyalty. Around 150,000 of our customers now enjoy rewards through membership of the Airpoints™ programme, for example, up from nearly 100,000 at HY2017. There is more to be executed against our customer promises over the coming year.

We are pleased to have been chosen for a number of awards in the first half of the financial year. These included two major marketing awards for the effectiveness of our brand change and international recognition for our online annual reporting. We were also recognised for our focus on customers, with eight honours for Mercury people

and teams at New Zealand's premier event for contact centres.

Privacy, particularly related to the potential misuse of information, is a concern for our customers, and protecting our customers' privacy is an ongoing priority for us.

I commend the great work done by the Electricity Retailers Association (ERANZ) to develop guidelines for data use and sharing that should help allay consumer fears of misuse. Much can be determined about household patterns of behaviour through detailed energy consumption data. This is why it is appropriate that there are robust data privacy measures in place. ERANZ has delivered a strong framework to ensure that consumption data from smart meters can be maximised for the benefit of consumers while consumer privacy interests are not compromised.

Mercury launched a refreshed e-bike marketing campaign as we work to inspire New Zealanders to enjoy energy in more wonderful ways. Ownership of e-bikes is growing strongly in New Zealand and our research tracked a significant change in consumer e-bike purchase intentions coinciding with our promotions. It is an exciting community to be a part of.



ELECTRIC VEHICLES

Mercury will continue to promote the benefits of powering vehicles of all sizes with electricity.

Mercury has worked with other businesses and the government since 2014 to create an environment ready for wider electric vehicle (EV) uptake.

We committed to our own fleet transition and were able to announce at our 2017 Annual Shareholders' Meeting that we had reached our goal – representing 77 vehicles in total – one year ahead of target.

In November Mercury became one of the first New Zealand businesses to sign up to the global EV100 initiative to transition business fleets to EVs.

It is now time to creatively promote EVs to a wider audience through the Mercury brand. I look forward to reporting more on this in our 2018 Annual Report.

We are pleased to see the success of the government's co-funding model for electric transport innovations. It is particularly exciting to see the number of initiatives supported that relate to the electrification of heavy transport. For New Zealand, where so much of our fossil fuel use is in the heavy transport sector, this could be game-changing and take us more quickly towards energy freedom.

In November we released data showing how consumers were actively adjusting their EV charging behaviour to off-peak times in response to incentives. Though early days, it demonstrates that network control of EV charging is not necessary.

OUR PEOPLE AND THEIR WELLBEING

'Zero harm' will always be a goal we pursue relentlessly. We implemented a new safety awareness campaign across our various sites and in the half year there were no serious harm incidents.

Personal ownership of health, safety and wellbeing is increasingly evident. Our utilisation of the Synergylife app to quickly report risks, and take action to remove and manage them, has been

strong. Around 600 events were logged through this system in the six months to 31 December.

Mercury continues to invest in the development of its people, with 'PowerUP' and 'StepUP' induction and management skills programmes well attended through the first half of the year.

Announced in January, but reflecting the strength of the spirit of our people through 2017, Mercury was recognised as the Best Enterprise Workplace (750+ employees) in the 2017 IBM Best Workplace Awards. This acknowledgement benchmarks us against over 140 New Zealand businesses and is determined by our employees' responses to rigorous survey questions related to engagement. This is a real credit to the way our people have chosen to come together so strongly under our brand.

GENERATION

While rainfall patterns were favourable for North Island hydro generation through the first half of the financial year, efficiency is no accident.

We had record hydro generation on 4 July 2017 with each of our 39 turbines across our nine Waikato River stations producing to their full potential. This coincided with a cold spell across the country so the generation was critical to both supporting the needs of consumers, and also for maximising value to our shareholders.

Significant investment in hydro equipment upgrades, carefully planned maintenance and a committed team are acknowledged for this ongoing achievement. We are well advanced with the major refurbishment of a second generation unit at Whakamaru and the first at Aratiatia.

Geothermal generation availability was maintained at 95%. Contributing to that, we had record generation at our Kawerau geothermal station when we generated 2.58GWh on one day. This was achieved through the work of our people continuing to innovate in ways to optimise the output of that station.

2.58^{GWh}GENERATED IN ONE
DAY AT KAWERAU,
A NEW RECORD

150k

CUSTOMERS
EARNING AIRPOINTS
DOLLARS™

\$10k

EACH TO 10 EMPLOYEE-
NOMINATED
CHARITIES

We also successfully completed the drilling of a new geothermal well at Ngatamariki, which will be brought online in the second half of the year

OUR COMMUNITIES

Our people's contribution also extends meaningfully into the communities which Mercury is a part of.

To share some of the benefits of Mercury's favourable FY2017 hydro inflows, \$100,000 was shared with 10 charities nominated by our people.

Mercury also partnered with community groups to install a solar system at Auckland's Panama Road School. Mercury volunteers worked with teachers as well as parents of pupils to ready the school, while our Mercury Solar team ran an exercise on health and safety in conjunction with the install.

WATER

We welcome the conversation that is underway in New Zealand on the nation's water: its quality and the uses to which it is put. Mercury's hydro stations do not consume water, but we generate from it through the force of gravity. Ten percent of New Zealand's electricity is generated from our hydro stations along the Waikato River and we are committed, through partnerships, to be ultra long-term guardians of this resource.



By international benchmarks New Zealand may be the only electricity market in the world that is achieving to such a high standard across measures of smart meter uptake, renewability, reliability and pricing.

In August, we co-led a fact-finding tour to Australia's Murray-Darling catchment along with a diverse group of stakeholders. The initiative was called *Tukitahi* (coming together as one).

I acknowledge the *mahi* (work) of everyone who came on *Tukitahi*, including respected iwi leaders from the Waikato catchment along with commercial enterprises, the Waikato Regional Council, the Waikato River Authority, Watercare, Fonterra, Genesis, Ministry for the Environment, Federated Farmers and the Sustainable Business Council.

We are very optimistic that the spiritual, environmental and commercial health of the *awa*, New Zealand's most important river, can best, and only, be solved by a collaborative group focused on long-term common goals.

REGULATORY AND GOVERNMENT

Mercury welcomes the opportunity to contribute to the government's review into retail electricity pricing. By international benchmarks New Zealand may be the only electricity market in the world that is achieving to such a high standard across measures of smart meter uptake, renewability, reliability and pricing.

New Zealand's electricity sector has delivered these outcomes through a very subtly designed, interconnected but robust and strongly performing system.

It is very important that any review takes fully into account this interwoven fabric before pulling on any particular threads.

The bigger opportunity is in recognising our country's strength in unsubsidised renewable electricity. In that regard, relative to other parts of the world, New Zealand is in an extremely strong position. However, we risk being distracted. Mercury suggests the bold approach is to focus on influencing a fundamental transformation of the economy through the establishment of a renewable *energy* target, rather than constraining New Zealand's future by focusing on renewable *electricity* targets.

I look forward to constructive discussions with the government about this opportunity.

SMART METERS

New Zealand's electricity sector has low barriers to entry assisted by open participation in a liquid ASX futures market. This supports price discovery and independent generator and retailer hedging. Along with our world-leading smart meter rollout this underpins much of the competition in New Zealand today.

What has been established in New Zealand through the rollout of smart meters is quite incredible. Mercury accepts, however, that this capability has

also grown expectations. Mercury's smart meter business, Metrix, is working hard to fulfil those expectations.

To achieve growth and deliver leading solutions Metrix has been implementing a complex overhaul of its IT systems. We appreciate that delays to this upgrade have caused some challenges for several of Metrix's customers who are retailers. Metrix is doing everything it can to accelerate the rollout of the systems enhancements so that it can deliver great outcomes for its electricity retailer customers and, in turn, their consumers.

GROWTH

Mercury continues to pursue growth. During the half year we investigated the prospect of expanding our metering capabilities through an acquisition opportunity in Australia. While ultimately unsuccessful with our bid, the process itself helped refine our view of relevant businesses that could support our growth. We will continue to explore other opportunities with a strong commercial lens.

There are many more stories of our achievements through the first half of the year, including the announcement of a trial of New Zealand's first scalable grid-connected Tesla battery at our Research and Development Centre.

I encourage you to follow the news items on our website www.mercury.co.nz; and our [LinkedIn](#), [Facebook](#), [Twitter](#) and [Instagram](#) pages to stay across the great community work and other areas of collaboration, leadership and innovation we are involved in.

CLOSING REMARKS

In summary, it's an exciting time for the global energy sector and for Mercury. The momentum established through our rebrand in FY2017, and the leadership and high performance work we are doing with our people, continued in the first half of the year.

We acknowledge the choice that our customers, our people, our partners and our owners all make in engaging with us, and thank you all for being part of our story.

**Together we are Mercury.
Energy made wonderful.**

Nga mihi nui ki a koutou katoa.



>> FRASER WHINERAY, CHIEF EXECUTIVE

FINANCIAL COMMENTARY.

Mercury's financial performance for the six months to 31 December 2017 is a record interim result, with EBITDAF of \$301 million up \$31 million on last year's previous record. Performance was strong across the entire business, underpinned by the combination of record generation and elevated wholesale market prices, supported by a lift in customer yields, a disciplined focus on managing costs and strong execution of the planned work programme.

ENERGY MARGIN¹

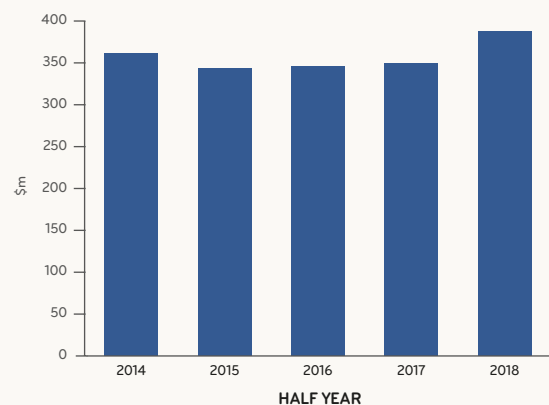
Our energy margin of \$387 million was \$38 million higher than HY2017 largely due to higher wholesale prices, caused by low inflows into the South Island catchments, contrasting starkly with wet conditions in the Waikato, resulting in record Mercury hydro generation for the period (2,694 GWh, up 14% on HY2017 and 22% above average).

The ratio of average electricity purchase prices to average generation prices (LWAP/GWAP, where a lower ratio is favourable), increased relative to the same period last year from 1.04 to 1.07. This reflects the reduced generation flexibility arising from higher volumes and larger wholesale price locational differences across the country.

Our average energy price to customers was up (+1.1%) to \$113.58/MWh relative to the same period last year. This reflects an increase in mass market yields, including the costs associated with loyalty activity. These factors more than offset the impact of commercial and industrial sales contracted throughout the period, at lower prices than achieved historically.

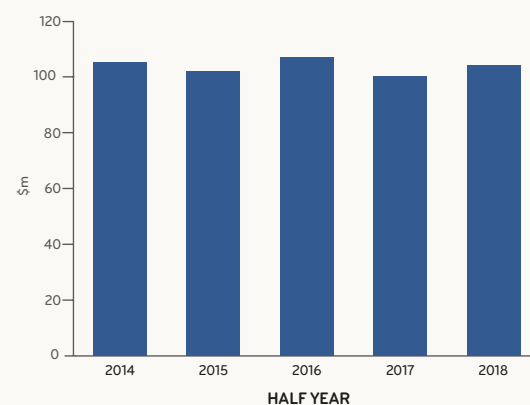
Mercury's continued focus on growing customer loyalty by rewarding, inspiring and making it easy for customers saw annualised churn of 19.8% across all brands being better than the market churn of 21.2%. The company's focus on loyalty contributed over the period to customer numbers increasing by 1,000 to 393,000.

>> FIGURE 1: ENERGY MARGIN



¹ Energy Margin is a non-GAAP measure and is defined as sales less lines charges, energy costs and other direct costs of sales, including metering (see Note 4 of the Interim Financial Statements). Energy Margin provides

>> FIGURE 2: OPERATING COSTS



a measure that, unlike total revenue, accounts for the variability of the wholesale spot price on our generation revenue and the broadly offsetting impact of wholesale prices on the purchase cost of our customers' electricity.

OTHER INCOME

Other income includes revenue earned by our metering business, Metrix, operation and maintenance services provided to third parties and revenue from our solar business, along with other one-off or irregular occurring items. Our third party revenue from Metrix continued to increase during the period as smart meter deployment and services continued to grow. The prior period also benefited from our decision last year to sell down surplus carbon emission units for a gain of \$5 million, which was not repeated during the current period.

OPERATING COSTS

Operating costs represent our indirect costs of sales, including salaries and wages, maintenance costs, and all other company overheads. Operating costs were \$4 million higher than HY2017, reflecting a return to a more normalised split of spend across the financial year. Full year operating costs are expected to remain in line with the levels of the past four years.

OPERATING EARNINGS (EBITDAF²)

EBITDAF for the period was up \$31 million or 11% versus HY2017, primarily due to the movements in energy margin and mostly due to higher hydro generation output combined with elevated wholesale prices. While the company was able to capitalise on elevated wholesale prices, our continued focus on executing our core business plan, including our focus on growing customer loyalty and strong regional partnerships, also contributed to this strong result.

PROFIT FOR THE YEAR

Profit for the period represents the profit for the company after taking into account EBITDAF, depreciation and amortisation, the change in the fair value of financial instruments, impairments, earnings of associates and joint ventures, net interest costs, and the company's tax expense. Profit for the period increased by \$19 million to \$132 million due to improved operating earnings, partially offset by higher depreciation and taxation expenses versus the previous year.

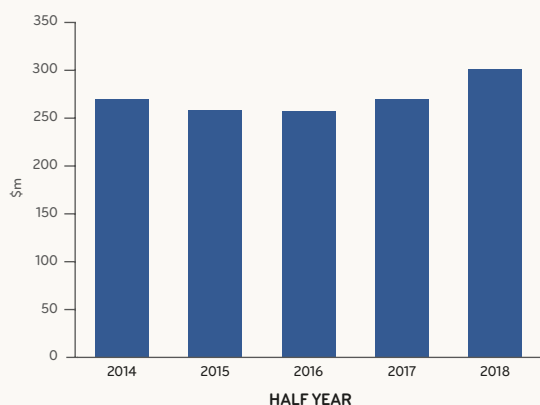
UNDERLYING EARNINGS AFTER TAX³

Underlying Earnings after tax increased by \$20 million or 21% to \$114 million also reflecting our increase in EBITDAF performance.

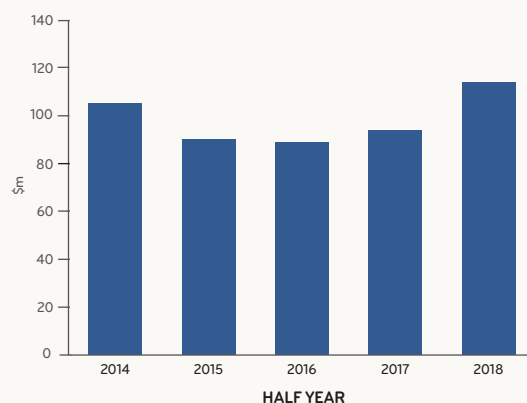
NET CASH FLOWS FROM OPERATING ACTIVITIES

Net cash provided by operating activities is made up of the cash flows from the sale of electricity and metering services, along with the direct and indirect costs associated with their sale and the cash costs of interest and taxes. Net cash flows from operating activities increased by \$21 million to \$214 million, up 11% on HY2017, as a result of increased hydro electricity generation, which was partially offset by a \$25 million increase in cash taxes. The increase in cash taxes was a result of lower cash tax payments in HY2017 as a consequence of our decision to prepay tax in FY2016 to maintain a positive imputation credit account, thereby reducing HY2017 provisional tax obligations. In addition, the company received a refund in HY2017 for overpaid tax from prior years.

>> FIGURE 3: EBITDAF



>> FIGURE 4: UNDERLYING EARNINGS AFTER TAX



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

3 Underlying earnings after tax is reported in Note 3 of the Interim Financial Statements and is a non-GAAP measure representing net profit for the year

adjusted for one-off and/or infrequently occurring events exceeding \$10 million of net profit before tax, impairments, and any changes in the fair value of derivative financial instruments. In contrast to net profit, the exclusion of these items enables a comparison of the company's underlying performance between financial periods. The company has reported Underlying Earnings on this basis for the last seven years.

BALANCE SHEET

Stay-in-business capital expenditure (SIB capex) represents the capital expenditure we incur to maintain our assets in good working order. SIB capex in HY2018 was \$59 million. During the period we successfully completed the implementation of our SAP upgrade and transferred this platform into the cloud, and our Maximo asset management system upgrade. We also successfully completed the drilling of a new geothermal well at Ngatamariki, which will be brought online in the second half of the year and we are well advanced in the major refurbishment of the second unit at Whakamaru and the first at Aratiatia. The completion and embedding of Metrix's new operating platform remains challenging but we expect that it will be providing improved service to our customers this financial year. We expect full year SIB capex to be \$115 million.

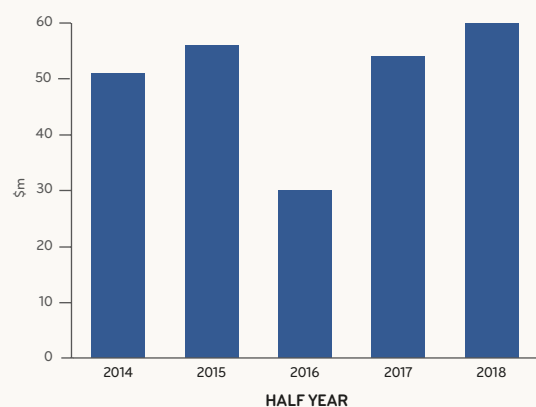
CAPITAL STRUCTURE AND DIVIDENDS

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

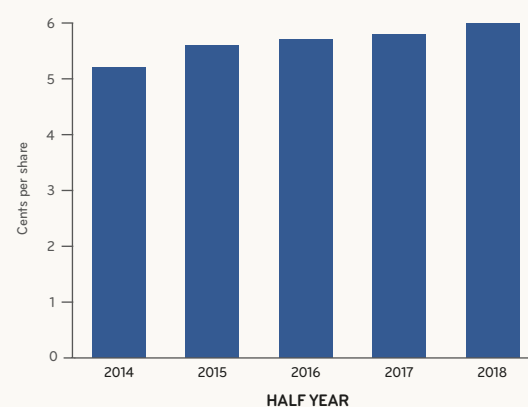
Our relatively high average interest rate of 8.6% on net debt of \$1,068 million reflects interest rate hedges put in place in 2008, prior to the global financial crisis and the subsequent decreases in interest rates, ahead of our significant geothermal development programme. Most of these hedges mature at the end of the 2018 financial year. From that time the estimated post-tax cash flow benefit, at current rates, will be approximately \$20 million per annum. We are also in the process of refinancing \$200 million of bank facilities which expire in August this year.

In line with our dividend policy to target a pay-out ratio of 70% to 85% of Free Cash Flow on average over time, a fully-imputed 6.0 cents per share interim dividend has been declared, payable on 3 April 2018. Full year ordinary dividend guidance of 15.0 cents per share remains unchanged, representing a 2.7% increase on FY2017.

>> FIGURE 5: CAPITAL EXPENDITURE



>> FIGURE 6: INTERIM DECLARED DIVIDENDS



INDEPENDENT REVIEW REPORT.



Chartered Accountants

REVIEW REPORT TO THE SHAREHOLDERS OF MERCURY NZ LIMITED

We have reviewed the consolidated interim financial statements of Mercury NZ Limited ("the Company") and its subsidiaries ("the Group") on pages 18 to 31, which comprise the consolidated balance sheet of the Group as at 31 December 2017, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement of the Group for the six months ended on that date, and a summary of significant accounting policies and other explanatory information.

This report is made solely to the Company's shareholders, as a body. Our review has been undertaken so that we might state to the Company's shareholders those matters we are required to state to them in a review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's shareholders as a body, for our review work, for this report, or for our findings.

DIRECTORS' RESPONSIBILITIES

The directors are responsible for the preparation and fair presentation of consolidated interim financial statements which comply with New Zealand Equivalent to International Accounting Standard 34 *Interim Financial Reporting* and for such internal control as the directors determine is necessary to enable the preparation and fair presentation of the consolidated interim financial statements that are free from material misstatement, whether due to fraud or error.

The directors are also responsible for the publication of the consolidated interim financial statements, whether in printed or electronic form.

REVIEWER'S RESPONSIBILITIES

The Auditor-General is the auditor of the Group pursuant to section 5(1)(f) of the Public Audit Act 2001. Pursuant to section 32 of the Public Audit Act 2001, the Auditor-General has appointed Simon O'Connor of Ernst & Young to carry out the annual audit of the Group.

Our responsibility is to express a conclusion on the consolidated interim financial statements based on our review. We conducted our review in accordance with New Zealand Standard on Review Engagements 2410 *Review of Financial Statements Performed by the Independent Auditor of the Entity* (NZ SRE 2410). NZ SRE 2410 requires us to conclude whether anything has come to our attention that causes us to believe that the consolidated interim financial statements, taken as a whole, are not prepared in all material respects, in accordance with New Zealand Equivalents to International Accounting Standard 34 *Interim Financial Reporting*. As the auditor of Mercury NZ Limited, NZ SRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial statements.

BASIS OF STATEMENT

A review of consolidated interim financial statements in accordance with NZ SRE 2410 is a limited assurance engagement. The auditor performs procedures, primarily consisting of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with International Standards on Auditing (New Zealand). Accordingly we do not express an audit opinion on the consolidated interim financial statements.

We did not evaluate the security and controls over the electronic presentation of the consolidated interim financial statements.

In addition to this review and the audit of the annual financial statements of the Group, we are engaged to perform other engagements in the area of payroll advisory services and tax compliance which are compatible with the independence requirements of the Auditor-General, which incorporate the independence requirements of the External Reporting Board. In addition, partners and staff of Ernst & Young may deal with the Group on arm's length terms within the ordinary course of trading activities of the Group. These services have not impaired our independence as auditor of the Company or Group. Other than these engagements and arm's length transactions, and in our capacity as auditor acting on behalf of the Auditor-General, we have no relationship with, or interests in, the Company or Group.

CONCLUSION

Based on our review nothing has come to our attention that causes us to believe that the accompanying financial statements, set out on pages 18 to 31, do not present fairly, in all material respects, the financial position of the Group as at 31 December 2017 and its financial performance and cash flows for the six months ended on that date in accordance with New Zealand Equivalent to International Accounting Standard 34 *Interim Financial Reporting*.

Our review was completed on 27 February 2018 and our findings are expressed as at that date.



>> **SIMON O'CONNOR**
ERNST & YOUNG
AUCKLAND, NEW ZEALAND



FINANCIAL STATEMENTS.

CONSOLIDATED INCOME STATEMENT

FOR THE SIX MONTHS ENDED 31 DECEMBER 2017

	Note	Unaudited 6 Months 31 Dec 2017 \$M	Unaudited 6 Months 31 Dec 2016 \$M	Audited 12 Months 30 Jun 2017 \$M
Total revenue	4	958	796	1,597
Total expenses	4	(657)	(526)	(1,074)
EBITDAF¹		301	270	523
Depreciation and amortisation		(96)	(93)	(189)
Change in the fair value of financial instruments		24	26	31
Impairments		-	-	(18)
Earnings of associates and joint ventures		1	2	6
Net interest expense	4	(46)	(49)	(95)
Profit before tax		184	156	258
Tax expense		(52)	(43)	(74)
Profit for the period attributable to owners of the parent		132	113	184
Basic and diluted earnings per share (cents)		9.6	8.2	13.4

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 31 DECEMBER 2017

	Unaudited 6 Months 31 Dec 2017 \$M	Unaudited 6 Months 31 Dec 2016 \$M	Audited 12 Months 30 Jun 2017 \$M
Profit for the period	132	113	184
Other comprehensive income			
Items that will not be reclassified subsequently to profit or loss			
Movement in asset revaluation reserve	-	-	55
Share of movements in associates' and joint ventures' reserves	1	1	(14)
Tax effect	-	-	(15)
Items that may be reclassified subsequently to profit or loss			
Movement in cash flow hedge reserve	11	42	36
Movement in other reserves	-	1	11
Tax effect	(3)	(12)	(11)
Other comprehensive income/(loss) for the period, net of taxation	9	32	62
Total comprehensive income/(loss) for the period attributable to owners of the parent	141	145	246

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

CONSOLIDATED BALANCE SHEET

AS AT 31 DECEMBER 2017

	Note	Unaudited 31 Dec 2017 \$M	Unaudited 31 Dec 2016 \$M	Audited 30 Jun 2017 \$M
SHAREHOLDERS' EQUITY				
Issued capital		378	378	378
Treasury shares		(51)	(52)	(51)
Reserves		2,932	2,961	2,981
Total shareholders' equity		3,259	3,287	3,308
ASSETS				
Current assets				
Cash and cash equivalents		47	27	30
Receivables		202	159	240
Inventories		37	45	39
Derivative financial instruments	6	24	24	18
Total current assets		310	255	327
Non-current assets				
Property, plant and equipment	7	5,378	5,407	5,422
Intangible assets		67	50	53
Investment and advances to associates	8	76	77	76
Investment in joint ventures	8	–	14	–
Advances		7	9	8
Receivables		1	1	–
Derivative financial instruments	6	106	139	111
Total non-current assets		5,635	5,697	5,670
Total assets		5,945	5,952	5,997
LIABILITIES				
Current liabilities				
Payables and accruals		187	130	202
Provisions		4	1	1
Borrowings	9	130	9	83
Derivative financial instruments	6	47	21	49
Taxation payable		22	7	23
Total current liabilities		390	168	358
Non-current liabilities				
Payables and accruals		3	–	4
Provisions		52	53	53
Derivative financial instruments	6	102	186	139
Borrowings	9	1,030	1,153	1,024
Deferred tax		1,109	1,105	1,111
Total non-current liabilities		2,296	2,497	2,331
Total liabilities		2,686	2,665	2,689
Net assets		3,259	3,287	3,308

For and on behalf of the Board of Directors who authorised the issue of the Financial Statements on 27 February 2018.



Joan Withers
Chair
27 February 2018



Keith Smith
Director
27 February 2018

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 31 DECEMBER 2017

	Issued capital \$M	Retained earnings \$M	Asset revaluation reserve \$M	Cash flow hedge reserve \$M	Other reserves \$M	Total equity \$M
Balance as at 1 July 2016	378	253	2,821	(76)	(61)	3,315
Movement in cash flow hedge reserve, net of taxation	–	–	–	30	–	30
Movements in other reserves	–	–	–	–	1	1
Share of movements in associates' and joint ventures' reserves	–	–	–	1	–	1
Other comprehensive income	–	–	–	31	1	32
Net profit for the period	–	113	–	–	–	113
Total comprehensive loss for the period	–	113	–	31	1	145
Dividend	–	(173)	–	–	–	(173)
Balance as at 31 December 2016	378	193	2,821	(45)	(60)	3,287
Balance as at 1 January 2017	378	193	2,821	(45)	(60)	3,287
Movement in asset revaluation reserve, net of taxation	–	–	38	–	–	38
Movement in cash flow hedge reserve, net of taxation	–	–	–	(5)	–	(5)
Movements in other reserves	–	–	–	–	10	10
Share of movements in associates' and joint ventures' reserves	–	–	(12)	(3)	–	(15)
Release of asset revaluation reserve, net of taxation	–	–	2	–	–	2
Other comprehensive income	–	–	28	(8)	10	30
Net profit for the period	–	71	–	–	–	71
Total comprehensive income for the period	–	71	28	(8)	10	101
Dividend	–	(80)	–	–	–	(80)
Balance as at 30 June 2017	378	184	2,849	(53)	(50)	3,308
Balance as at 1 July 2017	378	184	2,849	(53)	(50)	3,308
Movement in cash flow hedge reserve, net of taxation	–	–	–	8	–	8
Share of movements in associates' and joint ventures' reserves	–	–	–	1	–	1
Other comprehensive income	–	–	–	9	–	9
Net profit for the period	–	132	–	–	–	132
Total comprehensive income for the period	–	132	–	9	–	141
Dividend	–	(190)	–	–	–	(190)
Balance as at 31 December 2017	378	126	2,849	(44)	(50)	3,259

CONSOLIDATED CASH FLOW STATEMENT

FOR THE SIX MONTHS ENDED 31 DECEMBER 2017

	Unaudited 6 Months 31 Dec 2017 \$M	Unaudited 6 Months 31 Dec 2016 \$M	Audited 12 Months 30 Jun 2017 \$M
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	993	826	1,538
Payments to suppliers and employees	(677)	(554)	(1,022)
Interest received	1	1	2
Interest paid	(46)	(48)	(95)
Taxes paid	(57)	(32)	(52)
Net cash provided by operating activities	214	193	371
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of property, plant and equipment	(34)	(53)	(103)
Acquisition of intangibles	(23)	(4)	(20)
Disposal of property, plant and equipment, including land	1	–	–
Disposal of intangibles	–	19	26
Distributions received from associates and joint ventures and advances to joint venture partner repaid	3	5	8
Net cash used in investing activities	(53)	(33)	(89)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from loans	46	114	75
Repayment of loans	–	(120)	(120)
Dividends paid	(190)	(173)	(253)
Net cash used in financing activities	(144)	(179)	(298)
Net increase (decrease) in cash and cash equivalents held	17	(19)	(16)
Cash and cash equivalents at the beginning of the period	30	46	46
Cash and cash equivalents at the end of the period	47	27	30
<i>Cash balance comprises:</i>			
Cash balance at the end of the period	47	27	30

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 31 DECEMBER 2017

NOTE 1. ACCOUNTING POLICIES

(1) Reporting entity

Mercury NZ Limited (the "Company") is incorporated in New Zealand, registered under the Companies Act 1993, an FMC reporting entity under the Financial Markets Conduct Act 2013, and is listed on the NZSX and ASX.

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

The liabilities of the Group are not guaranteed in any way by the Government or by any other shareholder.

(2) Basis of preparation

The Group financial statements have been prepared in accordance with the Financial Reporting Act 2013, the Companies Act 1993 and in accordance with New Zealand equivalent to International Accounting Standard 34 - Interim Financial Reporting ("NZ IAS 34"). In complying with NZ IAS 34, these statements comply with International Accounting Standard 34 - Interim Financial Reporting.

These Group financial statements, including the accounting policies adopted, do not include all the information and disclosures required in the annual financial statements. Consequently, these Group financial statements should be read in conjunction with the Group's annual financial statements for the year ended 30 June 2017.

The energy business operates in an environment that is dependent on weather as one of the key drivers of supply and demand. Fluctuations in seasonal weather patterns, particularly over the short-term, can have a positive or negative effect on financial performance. It is not possible to consistently predict this seasonality and some variability is common.

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.

Certain comparatives have been restated where needed to conform to current year classification and presentation.

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

Types of products and services

Energy Markets

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

Other Segments

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

Unallocated

Represents corporate support services and related elimination adjustments.

Inter-segment

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

NOTE 2. SEGMENT REPORTING (CONTINUED)

Segment results

	Energy Markets \$M	Other Segments \$M	Unallocated \$M	Inter- segment \$M	Total \$M
Six months ended 31 December 2017 (unaudited)					
Total segment revenue	944	27	–	(13)	958
Direct costs	(563)	(3)	–	13	(553)
Other operating expenses	(65)	(9)	(30)	–	(104)
Segment EBITDAF	316	15	(30)	–	301

	Energy Markets \$M	Other Segments \$M	Unallocated \$M	Inter- segment \$M	Total \$M
Six months ended 31 December 2016 (unaudited)					
Total segment revenue	783	26	1	(14)	796
Direct costs	(437)	(3)	–	14	(426)
Other operating expenses	(62)	(8)	(30)	–	(100)
Segment EBITDAF	284	15	(29)	–	270

	Energy Markets \$M	Other Segments \$M	Unallocated \$M	Inter- segment \$M	Total \$M
Twelve months to 30 June 2017 (audited)					
Total segment revenue	1,571	52	1	(27)	1,597
Direct costs	(881)	(6)	–	27	(860)
Other operating expenses	(133)	(19)	(62)	–	(214)
Segment EBITDAF	557	27	(61)	–	523

At 30 June 2017, the Group adjusted historic other operating expenses of Other Segments to be reflected in direct costs.

NOTE 3. NON STATUTORY MEASURE – UNDERLYING EARNINGS

	Unaudited 6 Months 31 Dec 2017 \$M	Unaudited 6 Months 31 Dec 2016 \$M	Audited 12 Months 30 Jun 2017 \$M
Profit for the period	132	113	184
Change in the fair value of financial instruments	(24)	(26)	(31)
Equity accounted share of the change in the fair value of financial instruments of associate entities	(1)	–	(4)
Impairments	–	–	18
Adjustments before tax expense	(25)	(26)	(17)
Tax expense	7	7	9
Adjustments after tax expense	(18)	(19)	(8)
Underlying earnings after tax	114	94	176

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 31 DECEMBER 2017

NOTE 4. OTHER INCOME STATEMENT DISCLOSURES

	Unaudited 6 Months 31 Dec 2017 \$M	Unaudited 6 Months 31 Dec 2016 \$M	Audited 12 Months 30 Jun 2017 \$M
Sales	937	772	1,552
Other revenue	21	24	45
Total revenue	958	796	1,597
Energy costs	(290)	(167)	(358)
Line charges	(231)	(227)	(440)
Other direct cost of sales, excluding third party metering	(16)	(17)	(32)
Direct costs of other revenue	(3)	(3)	(6)
Third party metering	(13)	(12)	(24)
Employee compensation and benefits	(43)	(41)	(83)
Maintenance expenses	(20)	(18)	(48)
Other expenses	(41)	(41)	(83)
Total expenses	(657)	(526)	(1,074)
Interest expense	(47)	(50)	(97)
Interest income	1	1	2
Net interest expense	(46)	(49)	(95)

NOTE 5. SHARE CAPITAL AND DISTRIBUTION

The share capital of the Company is represented by 1,400,012,517 ordinary shares (30 June 2017: 1,400,012,517) issued and fully paid. These shares do not have a par value, have equal voting rights and share equally in dividends and any surplus on winding up.

	Unaudited 31 Dec 2017 Number of shares (M)	Unaudited 31 Dec 2017 \$M	Unaudited 31 Dec 2016 Number of shares (M)	Unaudited 31 Dec 2016 \$M	Audited 30 Jun 2017 Number of shares (M)	Audited 30 Jun 2017 \$M
Treasury shares						
Balance at the beginning of the period	24	51	24	52	24	52
Disposal of treasury shares	–	–	–	–	–	(1)
Balance at the end of the period	24	51	24	52	24	51

NOTE 5. SHARE CAPITAL AND DISTRIBUTION (CONTINUED)

Dividends declared and paid

	Cents per share	Unaudited 6 Months 31 Dec 2017 \$M	Unaudited 6 Months 31 Dec 2016 \$M	Audited 12 Months 30 Jun 2017 \$M
Final dividend for 2016	8.6	–	118	118
Special dividend – paid September 2016	4.0	–	55	55
Interim dividend for 2017	5.8	–	–	80
Final dividend for 2017	8.8	121	–	–
Special dividend – paid September 2017	5.0	69	–	–
		190	173	253

NOTE 6. FINANCIAL INSTRUMENTS

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. Further information on the identified risks can be found within note 14 of the Group's annual financial statements for the year ended 30 June 2017.

Fair Values

The carrying amount of financial assets and liabilities recorded in the financial statements approximates their fair values except for: (i) the Fixed Rate Bonds, the Floating Rate Bonds and the US Private Placement, the fair values for which have been calculated at \$140 million (30 June 2017: \$140 million), \$292 million (30 June 2017: \$287 million) and \$294 million (30 June 2017: \$289 million) respectively; and (ii) the Capital Bonds, the fair value for which has been calculated at \$318 million (30 June 2017: \$317 million). Fair values are based on quoted market prices and inputs for each bond issue. Refer to note 9 which outlines the values of each of these instruments.

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 31 December 2017 all of the Group's financial instruments carried at fair value were categorised as level 2, except for electricity price derivatives. Electricity price derivatives assets of \$14 million were categorised as level 1 (30 June 2017: \$8 million) and \$57 million were categorised as level 3 (30 June 2017: \$63 million). Further information on the identified risks can be found within note 14 of the Group's annual financial statements for the year ended 30 June 2017. Electricity price derivative liabilities of \$6 million were categorised as level 1 (30 June 2017: \$6 million) and \$34 million were categorised as level 3 (30 June 2017: \$55 million).

Financial instruments that use 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 rate derivatives not traded on a recognised exchange.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 31 DECEMBER 2017

NOTE 6. FINANCIAL INSTRUMENTS (CONTINUED)

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 four 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 \$66/MWh and a maximum price of \$103/MWh (30 June 2017: a minimum price of \$70/MWh and a maximum price of \$104/MWh) over the period in question (in real terms) and is determined by a demand supply based fundamental model which takes account of current hydrological conditions, future inflows, an assessment of thermal fuel costs, anticipated demand and supply conditions and future committed generation capacity.

Where the fair value of a derivative is calculated as the present value of the estimated future cash flows of the instrument there are two key inputs being used; the forward price curve and the discount rate. Where the derivative is an option, then the volatility of the forward price is another key variable. The selection of the 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.

Reconciliation of Level 3 fair value movements

	Unaudited 6 Months 31 Dec 2017 \$M	Unaudited 6 Months 31 Dec 2016 \$M	Audited 12 Months 30 Jun 2017 \$M
Opening balance	7	(12)	(12)
New contracts	–	3	–
Matured contracts	–	(1)	(1)
Gains and losses			
Through the income statement	1	5	(4)
Through other comprehensive income	15	12	24
Closing balance	23	7	7

Deferred 'inception' gains/(losses)

There is an assumption 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 value 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:

	Unaudited 6 Months 31 Dec 2017 \$M	Unaudited 6 Months 31 Dec 2016 \$M	Audited 12 Months 30 Jun 2017 \$M
Opening deferred inception (losses)/gains	(16)	(14)	(14)
Deferred inception (losses)/gains on new hedges	(2)	4	3
Deferred inception (losses)/gains realised during the period	(3)	(1)	(5)
Closing inception (losses)/gains	(21)	(11)	(16)

NOTE 7. PROPERTY, PLANT AND EQUIPMENT

	Unaudited 6 Months 31 Dec 2017 \$M	Unaudited 6 Months 31 Dec 2016 \$M	Audited 12 Months 30 Jun 2017 \$M
Opening net book value	5,422	5,440	5,440
Additions, including transfers from capital work in progress	42	53	110
Net revaluation movement	–	–	52
Impairments	–	–	(4)
Depreciation charge for the period	(86)	(86)	(176)
Closing net book value	5,378	5,407	5,422

NOTE 8. INVESTMENT AND ADVANCES TO ASSOCIATES AND JOINT ARRANGEMENTS (JOINT VENTURES AND JOINT OPERATIONS)

Investments include:

Name of entity	Principal activity	Type	Interest Held		Audited 30 June 2017	Country
			Unaudited 31 Dec 2017	Unaudited 31 Dec 2016		
TPC Holdings Limited	Investment holding	Associate	25.00%	25.00%	25.00%	New Zealand
Rotokawa	Steamfield operation	Joint Operation	64.80%	64.80%	64.80%	New Zealand
Nga Awa Purua	Electricity generation	Joint Operation	65.00%	65.00%	65.00%	New Zealand
Energy Source LLC	Investment holding	Joint Venture	20.86%	20.86%	20.86%	United States
Hudson Ranch I Holdings LLC	Electricity generation	Joint Venture	75.00%	75.00%	75.00%	United States

	Associates:			Joint Ventures:		
	Unaudited 6 Months 31 Dec 2017 \$M	Unaudited 6 Months 31 Dec 2016 \$M	Audited 12 Months 30 Jun 2017 \$M	Unaudited 6 Months 31 Dec 2017 \$M	Unaudited 6 Months 31 Dec 2016 \$M	Audited 12 Months 30 Jun 2017 \$M
Balance at the beginning of the period	76	77	77	–	15	15
Share of earnings	1	2	6	–	–	–
Share of movement in other comprehensive income	1	1	(2)	–	–	(12)
Distributions received during the period	(2)	(3)	(5)	–	(1)	(2)
Impaired advance to joint venture	–	–	–	–	–	(1)
Balance at the end of the period	76	77	76	–	14	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 31 DECEMBER 2017

NOTE 9. BORROWINGS

	Borrowing Currency Denomination	Maturity	Coupon	Unaudited 6 Months 31 Dec 2017 \$M	Unaudited 6 Months 31 Dec 2016 \$M	Audited 12 Months 30 Jun 2017 \$M
Bank facilities	NZD	Various	Floating	21	114	–
Commercial paper programme	NZD	< 3 months	Floating	100	–	75
Wholesale bonds	NZD	Mar-2019	5.03%	76	76	76
Wholesale bonds	NZD	Feb-2020	8.21%	31	31	31
USPP – US\$125m	USD	Dec-2020	4.25%	164	164	164
Wholesale / Credit wrapper	NZD	Sep-2021	Floating	301	301	301
USPP – US\$30m	USD	Dec-2022	4.35%	39	39	39
Wholesale bonds	NZD	Mar-2023	5.79%	25	25	25
USPP – US\$45m	USD	Dec-2025	4.60%	58	58	58
Capital Bonds	NZD	Jul-2044	6.90%	305	305	305
Deferred financing costs				(5)	(6)	(6)
Fair value adjustments				45	55	39
Carrying value of loans				1,160	1,162	1,107
Current				130	9	83
Non-current				1,030	1,153	1,024
				1,160	1,162	1,107

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

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 Standard & Poor's.

Ultimate shareholder

Transactions with 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:

Further information on the terms and conditions of these related party transactions can be found in note 17 of the Group's annual financial statements for the year ended 30 June 2017.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 31 DECEMBER 2017

NOTE 10. 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 Group. 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 11. COMMITMENTS AND CONTINGENCIES

Commitments

	Unaudited 6 Months 31 Dec 2017 \$M	Unaudited 6 Months 31 Dec 2016 \$M	Audited 12 Months 30 Jun 2017 \$M
Capital	115	154	128
Operating leases	108	110	110
Other operating commitments	82	84	80

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

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

NOTE 11. COMMITMENTS AND CONTINGENCIES (CONTINUED)

Contingencies

The Group has interests in land, fresh water and geothermal resources that are subject to claims against the Government. In 2014 the Supreme Court dismissed claimants' action for a declaration that the Government holds those parts of the Waikato River bed which adjoin former Pouakani land on trust for the Pouakani people. The Supreme Court left open the possibility of further litigation in respect of ownership of land currently held or used by the Group. The Group is advised that it may proceed with a high degree of confidence that future decisions on the matter will not impair the Group's ability to operate its hydro assets. A separate claim over fresh water and geothermal resources was lodged by the New Zealand Maori Council with the Waitangi Tribunal in 2012. 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 12. SUBSEQUENT EVENTS

The Board of Directors has approved an interim dividend of 6 cents per share to be paid on 3 April 2018.

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

OTHER DISCLOSURES

The company's net tangible assets per share (excluding treasury stock) as at 31 December 2017 was \$2.32, compared with \$2.35 at 31 December 2016.

Control of entities that was gained or lost during the period was as follows:

Company name	Date control lost
MRP NRI-Peru Holdings Limited	Dissolved 5 October 2017
MRP NRI-Germany Holdings Limited	Dissolved 5 October 2017
MRP NRI-Chile Holdings Limited	Dissolved 5 October 2017
MRP Geotermia Chile Limitada	Sold 24 July 2017

SHAREHOLDER INFORMATION

Shareholder enquiries

Changes in address, dividend payment details and investment portfolios can be viewed and updated online: www.investorcentre.com/nz. You will need your CSN and FIN numbers to access this service.

Enquiries may be addressed to the Share Registrar (see Directory for contact details).

Investor information

Our website at www.mercury.co.nz is an excellent source of information about what's happening within the company.

Our Investor Centre allows you to view all regular investor communications, information on our latest operating and financial results, dividend payments, news and share price history.

Electronic shareholder communication

It is quick and easy to make the change to receiving your reports electronically. This can be done either:

- Online at www.investorcentre.com/nz by using your CSN and FIN numbers (when you log in for the first time). Select 'View Portfolio' and log in. Then select 'Update My Details' and select 'Communication Options'; or
- By contacting Computershare Investor Services Limited by email, fax or post.

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

Matt Olde,
Metrix Chief Executive

Marlene Strawson,
General Manager People & Performance

Company Secretary

Howard Thomas

Investor Relations & Sustainability Enquiries

Tim Thompson
Head of Treasury & Investor Relations

Mercury NZ Limited
P O Box 90399
Auckland 1142
New Zealand

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

Registered Office in New Zealand

Level 3, 109 Carlton Gore Road, 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
Phone: +64 9 357 9000

Bankers

ANZ Bank
ASB Bank
Bank of New Zealand
Mitsubishi UFJ Financial Group
Westpac

Credit Rating (reaffirmed December 2017)

Long term: BBB+
Outlook: Stable

Share Register – New Zealand

Computershare Investor Services Ltd
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 Ltd
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



ENERGY MADE
WONDERFUL

Mercury 