

# ENERGY made WONDERFUL





02 // 03

# **REPORT** CARD.



**EBITDAF NEAR HY2018** RECORD DESPITE LESS FAVOURABLE HYDROLOGY.

\$104<sub>M</sub>~

NPAT NEGATIVELY IMPACTED BY CHANGE IN FAIR VALUE OF FINANCIAL INSTRUMENTS (REFLECTING HIGHER FUTURES PRICE).

6.2<sub>CPS</sub>^

FULLY-IMPUTED INTERIM DIVIDEND, UP 3.3%, TO BE PAID ON 1 APRIL 2019.

>DELIVERING CUSTOMER ADVOCACY

63%

OF MERCURY BRAND CUSTOMERS ARE 'HIGHLY SATISFIED'. 7.4%

MERCURY BRAND TRADER CHURN REMAINS BELOW MARKET AVERAGE (8.0%).

>LEVERAGING CORE STRENGTHS

97%

GEOTHERMAL AVAILABILITY MAINTAINED, SUPPORTED BY FOCUSED STATION EFFICIENCY PROGRAMMES. 2,448<sub>GWh</sub>

HYDRO GENERATION IMPACTED BY UNFAVOURABLE Q2 INFLOWS INTO THE WAIKATO CATCHMENT.

>ENHANCED LONG-TERM VALUE

\$270<sub>M</sub>

GROSS PROCEEDS FROM ANNOUNCED SALE OF METRIX SMART METERING BUSINESS.
TRANSACTION TO COMPLETE ON 1 MARCH 2019.

\$99<sub>M</sub>

FLAT OPERATING EXPENDITURE VS HY2018 REFLECTING OPERATIONAL DISCIPLINE.

04 // 05

66

RETAIL MARKET CONDITIONS IN NEW ZEALAND CONTINUE TO BE EXTREMELY COMPETITIVE. WE MAINTAIN OUR FOCUS ON OUR THREE CUSTOMER PROMISES – MAKE IT EASY, REWARD LOYALTY AND INSPIRE. JOAN WITHERS CHAIR

WE WILL CONTINUE TO
REINVEST DILIGENTLY IN OUR
CORE BUSINESS AND PURSUE
LONG-TERM GROWTH. FRASER WHINERAY
CHIEF EXECUTIVE



# CHAIR'S UPDATE.

It is my pleasure to report to you on our performance for the half year ended 31 December 2018.

The period once again saw strong, focused execution of the company's strategy. Mercury's people have also excelled in many areas core to our business. As an example, our customer service teams and individuals won seven honours, including Energy Retailer of the Year - Inbound Sales, at the annual CRM Contact Centre Awards in September.

In December, we announced the sale of Mercury's Metrix smart metering business for \$270 million, which is expected to complete in March 2019. This divestment represents a significant simplification to our business model and the consideration paid is testament to the work done over the last three years in improving Metrix's capability, market position and value.

Mercury also partnered with Infratil with an offer to take-over the remaining shares in Tilt Renewables. The offer was ultimately unsuccessful; however, Mercury has advanced its relationship with both Infratil and Tilt as a 19.99% shareholder. Following the capital raise for the very significant Dundonnell wind farm being built in Victoria, Australia, we expect a director nominated by Mercury to be appointed to the Tilt Renewables board.

Retail market conditions in New Zealand continue to be extremely competitive. We maintain our focus on our three customer promises – make it easy, reward loyalty and inspire. Chief Executive Fraser Whineray, in his update, will detail progress on core and new business initiatives, a number of which were signalled in Mercury's 2018 Annual Report.

#### FINANCIAL RESULTS

Mercury achieved strong and stable first half earnings (EBITDAF¹) of \$302 million, close to the record \$304 million² in the prior corresponding period. Significantly, this was achieved with 246GWh less hydro generation.

Hydro generation of 2,448GWh compared with the record 2,694GWh in the prior comparable period. Careful portfolio management contributed to the strong EBITDAF as Mercury adapted to significantly above average spot prices in the second quarter. This was a consequence of unplanned disruptions to the supply of natural gas coinciding with a period of low South Island hydro inflows.

Mercury's retail customers were not impacted by the elevated spot prices.

Our focus on customer value rather than simply customer numbers contributed to reduced customer numbers in HY2019

(down 7,000), but we achieved a 4% uplift in volume weighted average price received across the mass market segment.

Operating expenditure at \$99 million was in line with HY2018. Full year operating expenditure is expected to be in line with FY2018 on a like-for-like basis.

Stay-in-business capital expenditure (SIB CAPEX) of \$45 million in HY2019 (\$59 million HY2018) was directed to activities including asset management, IT enhancements and consolidating our Auckland locations into one primary, integrated space as signalled in our 2018 Annual Report. These investments combined with the contribution of our people to support improvement of the company's infrastructure and intangible assets.

Through the period, high geothermal reliability was maintained at 97% (95% HY2018).

#### WELLBEING

Health, safety and wellbeing will always be a focus for Mercury. Pleasingly, no serious harm injuries were sustained during the period. Our total recordable injury frequency rate (TRIFR<sup>3</sup>) for the half year was 0.86, steady with the prior corresponding period.

A baseline audit of our safety management systems, the basis of our

WE CONTINUE TO PAY CLOSE ATTENTION TO ENSURING WE HAVE THE RIGHT MIX OF SKILLS, APPROPRIATE DIVERSITY, BOARD ROTATION AND SUCCESSION PLANNING.

safety cases, was completed during this period by independent experts and all recommended improvements due in the period have been actioned.

Mercury continues to offer subsidised annual health (including mental health and wellbeing) checks for its people.

#### INTERIM DIVIDEND

Your Board remains focused on a transparent approach to capital management in the context of our balance sheet, ownership structure, earnings outlook and growth orientation. The Board has declared an interim fully imputed dividend of 6.2 cents per share to our 85,000 owners including the Crown. This represents an increase of 3.3% on the FY2018 interim dividend. The dividend will be paid on 1 April 2019.

#### **GUIDANCE**

Mercury's FY2019 EBITDAF guidance is reaffirmed at \$515 million subject to any material events, significant one-off expenses or other unforeseeable circumstances including hydrological conditions. FY2019 EBITDAF guidance at the time of this report assumes 4,150GWh of hydro production, 150GWh above average, though 50GWh down on initial guidance due to dry weather in the Waikato catchment in Q2-FY2019. The guidance includes the forecast reduction to EBITDAF of \$10 million from the sale

of Metrix (settlement assumed 1 March 2019; annualised impact \$28 million).

FY2019 stay-in-business capital expenditure guidance remains at \$95 million.

Ordinary FY2019 dividend guidance remains at 15.5 cents per share, fully imputed, representing a 2.6% increase on FY2018 and the 11th year of progressive ordinary dividend growth.

#### **BOARD COMPOSITION**

Mercury's Board is unchanged from last year. Prue Flacks, Mike Taitoko and Keith Smith, who retired by rotation, were re-elected as directors by owners at our 2018 ASM. At that meeting, I reaffirmed that this will be my last year as Chair of Mercury and the process to determine my successor is well underway.

- EBITDAF = earnings, before interest expenses, taxes, depreciation, amortisation and the change in fair value of financial instruments.
- Adjusted from HY2018 reported EBITDAF of \$301 million to align with International Financial Reporting Standards (IFRS) change.
- 3 TRIFR is the rate of recordable injuries that occur per 200,000 hours worked. Recordable injuries include fatalities, lost time injuries, substitute work, and other injuries requiring treatment by a medical professional.

We continue to pay close attention to ensuring we have the right mix of skills, appropriate diversity, board rotation and succession planning. The governance section in our 2018 Annual Report provides a comprehensive breakdown of the skills and experience of our eight directors.

#### SKILLS DEVELOPMENT/ GOVERNANCE TRENDS

We are fortunate that we have been able to attract top governance talent to our Board over the past nine years.

The experience of our Board in all areas of governance means we have significant insight into key issues and challenges facing boards of directors, which include emerging trends in executive remuneration, monitoring and managing health, safety and wellbeing, mitigation of risk and regulatory imperatives.

Continuing your Board's development, we are visiting Australia in May as part of our ongoing engagement with that market given our investment in Tilt Renewables.

#### REPORTING

Mercury's 2018 Annual Report, supported by our online sharing of information, continued our progress in telling Mercury's story through the framework of the Global Reporting Initiative (GRI) and Integrated Reporting <IR> standards.

We will be transitioning to the new NZX Listing Rules (NZXLR) before the end of this financial year.

During the period, Mercury completed its return as part of the Carbon Disclosure Project. Mercury was the only generator/retailer to receive a score. Our rating signals awareness of climate change impacts and that progress is being made on assessing the long-term climate change risks facing our business. We look forward to continuing our active participation in those things that make a meaningful difference to New Zealand's climate change commitments.

#### **LEADERSHIP**

Led by Fraser, Mercury continues to play a valuable role in guiding New Zealand towards a future where greater energy freedom benefits customers, communities and our country.

In October, Fraser was invited to join the Prime Minister's Business Advisory Council, which seeks to include the voice of businesses in plans to build a productive, sustainable and inclusive economy that improves the wellbeing of New Zealanders.

Fraser has also helped establish
The Aotearoa Circle along with
Vicky Robertson (Secretary for the
Environment), Sir Rob Fenwick and
Sir Jonathon Porritt. The purpose of this
charitable trust is to bring together
senior leaders from across the public
and private sectors to establish a
collaboratively and rigorously derived set
of priorities across six essential pillars of
natural capital, and to see those more
widely adopted through policy settings
and public and private funding.

I was personally delighted that Fraser, with his broad strategic and systems thinking and visionary leadership capabilities, was a finalist in the CEO of the Year category at the 2018 Deloitte Top 200 awards in November.

#### CONCLUSION

On behalf of the Board, I congratulate Fraser and his management team for continuing to execute Mercury's demanding strategy so well, and role modelling the high-performance team framework that is being embedded throughout the business.

I also acknowledge the contribution of Mercury's Board and everyone at Mercury for their efforts which underpin these results and the ongoing improvements to the company's long-term performance.

I look forward to a second half of the year that builds on the significant momentum evident in the business.



## CHIEF EXECUTIVE'S UPDATE.

Tēnā koutou.

The last calendar year, of which this report covers the six months to December 2018, saw tremendous advances in executing Mercury's strategy. Like the preceding years, the long-term value of Mercury continues to be enhanced. We achieve this through lifting the positive recognition of New Zealand's renewable energy advantage, high quality reinvestment throughout all aspects of our core business, disciplined investment in new activities and a very holistic and citizen-centric view of innovation.

Highlights from the 2018 calendar year included the purchase of a 19.99% stake in Tilt Renewables Limited; a \$50 million share buy-back; the commissioning of a grid-tied 1MW/2MWh Tesla battery for testing at our Solar R&D centre in Penrose; and the announcement of the sale of the Metrix smart metering business for \$270 million.

We will continue to reinvest diligently in our core business and pursue long-term growth.

#### Adjusted from HY2018 reported EBITDAF of \$301 million to align with International Financial Reporting Standards (IFRS) change.

# EARNINGS AND WHOLESALE MARKET CONDITIONS

Our half year earnings of \$302 million EBITDAF, were just short of the record HY2018 earnings (\$304<sup>1</sup> million), despite 246GWh less hydro generation.

The sector experienced significant spot market volatility driven by an unusual alignment of factors, including multiple unplanned disruptions in New Zealand's natural gas sector and low hydro inflows across the country, including in the Taupo catchment.

For context, however, the spot market still did not reach the Electricity Authority's (EA) stress test scenario of \$250/MWh for a quarter. The quarterly stress test is something that every electricity market participant's board of directors is across, by design.

Importantly, as our Chair noted, none of Mercury's mass market customers were impacted by those spot market conditions.

There are opportunities for improvement, of course. We believe the electricity market would benefit from a much stronger disclosure regime from thermal generators concerning their fuel position and upstream gas and coal supplies, which would make it equivalent to the ability to monitor hydro positions (lake

levels) which are already available in real time. We were pleased to see improvements in this area raised in the recent Electricity Price Review (EPR) options paper.

Notwithstanding this, and other opportunities for ongoing improvement which are known and part of active work programs, the sector was flexible and adapted dynamically to real stresses to deliver reliable electricity.

We were disappointed with the withdrawal from voluntary ASX market-making by other market participants and look forward to the EA promptly working through equitable improvements to this very important market construct. This is in part related to the gas disclosure issues, mentioned above, which need to be resolved more promptly than is being indicated by the Gas Industry Council.

Market-making by four of the generator/ retailers is voluntary and can be very expensive to our owners. Market-making is an important market construct that has grown in its impact over the last five years. It has increased liquidity, narrowed margins, enabled competition in both generation and retailing and provides a price signal for huge numbers of sales contracts and derivatives. As such, it should either be a cost borne by the entire market or every market participant should be required to provide proportionate market-making, either

30,000

CUSTOMER DOWNLOADS
OF MERCURY GO APP

2,500

PEOPLE ENJOYED EVIE VIRTUAL REALITY EXPERIENCE

79.97<sub>GWh</sub>

RECORD MONTHLY

GENERATION AT KAWERAU

GEOTHERMAL STATION

directly or through an agent. While the EPR panel considers that market-making should be made mandatory for large generator/retailers the regulator has to date not favoured this approach, seeking instead to consider more sustainable arrangements.

Lastly, it is important to understand that the owners of the four voluntary market-makers should not bear the cost of this activity disproportionately, or be expected to provide liquidity to offshore or domestic hedge funds.

#### DEMAND

National electricity consumption was marginally weaker for the half year by 0.5%. We anticipate full year demand holding steady or increasing, supported by a seasonal uplift in irrigation led by a hot dry January, as well as a full sixmonth period of operation of New Zealand Aluminium Smelter's Tiwai Point fourth aluminium potline. The potline was reactivated in December and it adds more than 1% to national demand.

## ELECTRICITY PRICE REVIEW

We have welcomed engaging in the Government's Electricity Price Review and are continuing to reflect on the EPR options paper, released last week. The subsequent final report is due later this financial year. This review provides an opportunity for all political parties to acknowledge that New Zealand's electricity system is an international competitive advantage, as confirmed by the International Energy Agency and numerous other independent publications. This must be the starting point, before considering ways for continuous improvement in policy settings. Electricity is an easy political target, largely because it is unconsciously consumed and typically paid for after consumption on a monthly basis. Yet the daily cost as a proportion of household expenditure has declined to less than 3%, at approximately \$6.

Governments must tread carefully on electricity matters, particularly policies affecting the complexities of generation development, generation operation and re-investment and the wholesale market, to avoid the tremendous unintended consequences now plaguing Australia, the United Kingdom and Germany.

We welcome the recognition in the EPR options paper that there are many factors outside of the electricity sector's control that contribute to vulnerability and that there are already many initiatives underway to address this. Many Mercury customers, and agencies working with financially vulnerable households, are strong advocates for the support offered through pre-pay platforms, such as Mercury's GLOBUG, that help avoid the accumulation of debt. Mercury continues to actively promote these benefits.

We are pleased that the EPR panel recommends the phasing out of the low fixed-charge tariff (LFCT) regime, itself a classic example of poor policy coming from good intent. All political parties supported the removal of the LFCT prior to the 2017 election, the vast majority of the sector supports its removal and many reports say it needs to go given its regressive nature.

We will continue to encourage the EPR panel to recommend a much stronger voice to the EA to force network companies into promptly setting price signals reflective of costs. The current situation is one of excessively high variable (as opposed to fixed) charges to retailers. This causes a much larger summer/winter variation in electricity costs to consumers than is desirable or necessary.

The long-standing ring-fencing arrangements for network companies also need updating to cover new technologies. As a real example, it is indefensible that many network companies think all consumers in their monopoly area should pay for public electric car chargers as part of a regulated asset base. We support proposals in the EPR options paper to give greater powers to the EA to regulate in this area if required.

Prompt-payment discounts (PPDs) for homeowners have been signalled by the EPR options paper as a construct to be disallowed, in favour of late payment fees. We retain our view that consumers value choice and we believe most would prefer a carrot rather than a stick in relation to payment timing. Removal of PPDs may result in consumers accumulating more post-pay debt. We outlined that view in our submission, and will discuss this further with the EPR panel as the review moves into its final stages.

\$75M

ANNOUNCED

MODERNISATION PROJECT
FOR KARAPIRO HYDRO
STATION

0.86
TRIFR STEADY WITH NO HIGH-SEVERITY INCIDENTS

550+

PEOPLE MOVING INTO CONSOLIDATED AUCKLAND PREMISES

To ensure there are no unintended consequences from restricting ways that electricity retailers look to incentivise payments, and ensure that all consumers, not just some, have the benefit of competition, all retailers should be required to offer products to suit the full range of credit and payment arrangements or pay another retailer to provide that service for them. That would be fair to avoid some retailers excluding more vulnerable households by design.

#### ICCC AND EXPECTATIONS

Another policy report due out this year is from the Interim Climate Change Committee. This Committee has been extremely well constituted and has engaged broadly. Though they were initially asked the wrong question, "how to reach 100% renewable electricity by 2035", they are taking a much more integrated view on renewability, nonelectricity energy (e.g. heating and liquid transport fuels) and pricing (through directly engaging with the EPR panel). In short, the ICCC recognises that renewable electricity in New Zealand is no longer the issue. Electricity is the solution to displace liquid and solid fossil fuels. Electricity can reduce costs to the economy and consumers, increase energy sovereignty (how much energy we make ourselves) and reduce carbon emissions.

All political parties should abandon renewable electricity targets in New Zealand and instead focus on New Zealand's low-carbon energy policy if they are genuinely interested in achieving those outcomes.

With commentary on climate change and emission reduction policies reaching unprecedented levels globally, there is a dynamic which drives governments, NGOs and businesses to be "seen to be doing something". This leads to activities which sound logical but could well be irrelevant at best and in many instances likely drive a perverse outcome. This is greenwashing. And it is the fastest way to a hot planet.

Saying that "every bit helps" can be an excuse for mis-allocating resources. Leadership should be about helping the population understand what will make a real difference beyond the endless soundbites and silver bullets, so that New Zealanders can, indeed, be a meaningful part of the solution.

An example is the attention currently being given to hydrogen as a fuel source. We think hydrogen could be a great export but will have only limited and highly niche applications domestically.

Mercury could selfishly say it would love a domestic hydrogen economy, because it takes a lot of electricity to produce hydrogen in fuel-ready form (more than three times as much as simply using the electricity directly). But why would you direct New Zealand's electricity, which is already generated from predominantly renewable sources, into a less efficient fuel source? For export, maybe, if you could transport and price the fuel appropriately to take advantage of New Zealand's renewable electricity advantage over countries such as Japan.

To advance the hydrogen argument, interest groups position electricity sector complexities as 'problems' rather than the opportunities that they are. For example, hydrogen cannot beat building new wind or geothermal renewable generation on pricing. They are worlds apart in terms of cost. The grid network is already in place for electricity and it is efficient, versus manufacturing, storing and transporting hydrogen as a supposed solution for a regional energy problem that doesn't exist here.

In terms of future growth, New Zealand has enough commercially feasible renewable electricity generation for every car, truck, ferry, train, domestic plane, bike and scooter to be electric. And then some.

Mercury continues to promote New Zealand's competitive advantage in low-cost renewable energy to Government and regulatory decision makers, as well as to consumers. The electricity opportunity in an absolute sense, and also relative to the competing 66

NEW ZEALAND HAS ENOUGH COMMERCIALLY FEASIBLE RENEWABLE ELECTRICITY GENERATION FOR EVERY CAR, TRUCK, FERRY, TRAIN, DOMESTIC PLANE, BIKE AND SCOOTER TO BE ELECTRIC. AND THEN SOME.

opportunities, is blindingly obvious. The open door is right in front of the country and available to walk through. What, apart from courage, is preventing clear multi-partisan long-term policies being established which are in New Zealand's, and her citizens', interests?

#### **OUR RETAIL CUSTOMERS**

The retail electricity sector is intensely competitive and Mercury's strategy is unchanged since refocusing our activity at the time of our rebrand in July 2016. We have three customer promises: make it easy, reward loyalty and inspire.

Advancing the ease with which customers can interact with us, more than 30,000 customers have downloaded the new Mercury Go app for smart devices since its full launch in October. The app is designed to be both functional and compelling, distinguishing it from other energy company offerings.

Our e-mobility programme has grown, with the disruptive innovation "Mercury Drive" (evdrive.co.nz) testing a way to inspire motorists with an EV experience without the capital outlay. While still in a test phase, Mercury Drive customers have driven the equivalent of the length of New Zealand 68 times (more than 100,000km) since the service was

launched last August. This has displaced approximately 20 tonnes of carbon emissions. The demand for an expansion of this pilot continues to be high.

Mercury Drive builds on the profile gained for Mercury through e.bike ride days, e.bike and e.scooter discounts and new versions of the 'Evie' electric vehicle campaign which continues to sustain strong engagement with the Mercury brand.

Evie, our electrified classic car resplendent in 'Mercury yellow', has been so popular we have developed a virtual reality (VR) experience that allows the public to enjoy a virtual journey. So far more than 2500 people have enjoyed the VR experience at special events and in shopping malls around the country.

The trader churn rate for the Mercury brand – the percentage of customers moving between retailers while at the same home (rather than when shifting house) – continues to be lower than the market average, but was up (to 7.4% from 5.5%). Contributing to this was the shift of Tiny Mighty Power brand customers, traditionally a higher churning group, into the Mercury brand to deliver more consistent experience and access to rewards such as Airpoints<sup>TM</sup>.

## SECURING VALUE OVER THE LONG TERM

Mercury progressed refurbishment work at both Whakamaru and Aratiatia hydro stations during the period. We also recently announced further capital expenditure of \$75 million to modernise our Karapiro power station. The Karapiro project is a milestone signalling that we have passed the half-way investment decision point (five of nine stations) in our programme across the Waikato hydro system. This reflects our commitment to judicious asset management that secures the legacy and enhanced long-term contribution of infrastructure that is as important to the country as it is to Mercury.

Concurrently, our geothermal teams have been actively managing our geothermal assets to operate at a creditable 97% of capacity. We celebrated the 10th anniversary of the Kawerau geothermal station during the half year, and, as an outcome of focused work from the team there, the station recorded its highest ever monthly generation of 79.97GWh in October.

#### **OUR PEOPLE**

None of the activity noted within this update would be possible without the mahi (work) and dedication of our people, aligned to our kaupapa (purpose and mission). To support that, and to fully live the vision developed as part of our rebrand, we have been progressing towards the consolidation of our various Auckland office locations, representing more than 60% of our employees, into one new building in Newmarket. This has been a significant project spanning four years, with the objective of bringing people together in an environment that reflects, and contributes to us achieving, our aspiration to be New Zealand's leading energy brand and to deliver the country's Energy Freedom.

The extensive investment in technology and training behind our high performance team framework has resulted in 98% of respondents to a recent employee survey saying they had participated in high performance team (HPT) activities.

I am particularly pleased to receive feedback from HPT activities, where our people note outcomes such as "a greater willingness to constructively challenge for the greater good of the customers, the team and the business".

#### **CLOSING REMARKS**

With our people focused and enjoying their contribution; with our brand now well established and resonating with customer and stakeholders; and with our mission and strategy clear, we are in a strong position heading into the second half of the financial year.

I look forward to the opportunities ahead to advance our growth, and to reporting back to you on our progress at the time of our full year results in August 2019.

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 2018 is in line with last year's record interim result, with EBITDAF of \$302 million down just \$2 million on last year's result. Performance remains strong across the entire business, underpinned by the combination of record spot prices, rising customer yields, an ongoing and disciplined focus on managing operating costs and strong execution of the company's planned work programme.

#### ENERGY MARGIN<sup>1</sup>

Our energy margin of \$380 million was \$5 million lower than HY2018 largely due to lower hydro generation, which while above average for the period was 246GWh lower than last year. This was partially offset by a 40GWh increase in geothermal generation and was supported by the company capturing value during a period of high and volatile spot prices due to its flexible generation portfolio. Average spot prices in the central North Island lifted by almost \$50/MWh to \$138/MWh for HY2019 compared to last year.

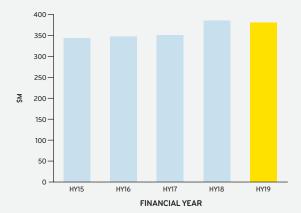
The ratio of average electricity purchase prices to average generation prices for the interim period (LWAP/GWAP, where a lower ratio is favourable) improved relative to last year from 1.07 to 1.06. This reflects the value of generation flexibility arising

from higher spot prices and locational spot price differences across the country.

Our average energy price to all our customers was up 2.8% to almost \$107/MWh relative to the same time last year. This reflects an increase in mass market yields, including the costs associated with loyalty activity. Sales volumes to commercial and industrial customers during the period dropped 3% to 1,202GWh with pricing flat at \$78/MWh on average.

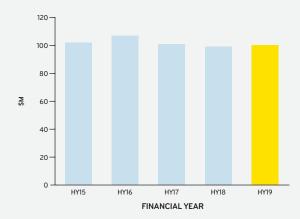
Mercury's continued focus on growing customer loyalty by rewarding, inspiring and making it easy for our customers saw 12-month churn rise to 20.4% across all brands, around 1% better than average market churn. The company's focus on higher quality customers rather than market share contributed to customer numbers decreasing by 7,000 to 381,000 during the period.

#### > FIGURE 1: ENERGY MARGIN<sup>2</sup>



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 Financial Statements). Energy Margin provides 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.

#### > FIGURE 2: OPERATING COSTS<sup>2</sup>



2 HY18 figures have been restated to reflect transition to new international financial reporting standards (see note 1 of the financial statements). HY15 to HY17 comparatives have not been restated.

#### OTHER INCOME

Other income includes revenue earned by our smart metering business, 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.

#### **OPERATING COSTS**

Operating costs represent our indirect costs of sales, including salaries and wages, maintenance costs, and all other company overheads and were in line with HY2018 at \$99 million for the period.

#### OPERATING EARNINGS (EBITDAF3)

EBITDAF for the period was down \$2 million versus HY2018, primarily due to the movements in energy margin, where revenues earned across the portfolio from elevated spot price levels and volatility during the reporting period could not compensate for lower overall electricity generation relative to HY2018.

#### PROFIT FOR THE PERIOD

Profit for the period decreased by \$27 million to \$104 million due to an increase in depreciation and amortisation charges from IT investments in the prior year and a large negative fair value movement in the company's non-hedge accounted electricity derivative portfolio as forward wholesale market prices have risen. These impacts were partially offset by lower tax expense and lower interest costs (\$39 million versus \$47 million) as expensive interest rate swaps matured.

#### UNDERLYING EARNINGS AFTER TAX4

Underlying Earnings after tax of \$114 million was the same as last year's result, reflecting the similar EBITDAF performance between periods.

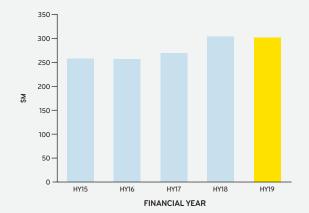
#### NET CASH FLOWS PROVIDED BY OPERATING ACTIVITIES

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 decreased by \$46 million on HY2018 to \$171 million. A key contributor to this reduction is a \$40 million increase in receivables (due to higher ASX margin balances), more than offsetting the reduction in cash interest and tax payments.

#### **BALANCE SHEET**

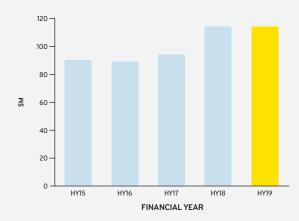
Stay-in-business capital expenditure (SIB capex) represents the capital expenditure we incur to maintain our assets in good working order. SIB capex in HY2019 was \$45 million, down \$14 million compared to the prior period. SIB capex was focused on the continuation of major refurbishment works at the Whakamaru and Aratiatia hydro stations and the fit-out of the new Auckland office. We expect full year SIB capex to be \$95 million.

#### > FIGURE 3: EBITDAF<sup>2</sup>



3 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.

#### > FIGURE 4: UNDERLYING EARNINGS AFTER TAX<sup>2</sup>



4 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 eight years.

#### CAPITAL STRUCTURE AND DIVIDENDS

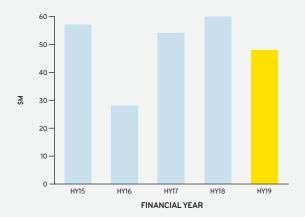
Our dividend policy gives due consideration to our working capital requirements, medium term investment programme, a sustainable capital structure and recognises a targeted long-term Standard & Poor's credit rating of BBB+. Mercury continues to explore value enhancing opportunities which will require additional borrowings to fund this growth.

Net debt increased to \$1,268 million at 31 December 2018 from \$1,085 million at 31 December 2017. This increase reflects the company's acquisition of 19.99% of Tilt Renewables and the \$50 million buyback completed in H2 FY2018. The average cost of debt of 5.8% dropped from 8.6% in the previous period. The

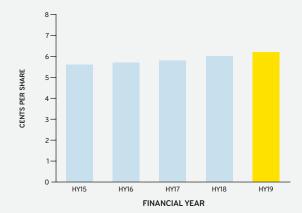
reduction in interest rate is the result of the maturity of expensive interest rate hedges put in place in 2008.

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 6.2 cents per share interim dividend has been declared, payable on 1 April 2019. Full year ordinary dividend guidance of 15.5 cents per share remains unchanged, representing a 2.6% increase on FY2018.

#### > FIGURE 5: CAPITAL EXPENDITURE



#### > FIGURE 6: INTERIM DECLARED DIVIDENDS



# FINANCIAL STATEMENTS.

#### 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 and joint ventures ("the Group") on pages 19 to 32, which comprise the consolidated balance sheet of the Group as at 31 December 2018, 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.

#### Reviewer's Responsibilities

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.

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 Group. Other than these engagements and arm's length transactions, and in our capacity as auditor acting on behalf of the Auditor-General, we have no relationship with, or interests in, the Group.

#### Conclusion

Based on our review nothing has come to our attention that causes us to believe that the accompanying financial statements, set out on pages 19 to 32, do not present fairly, in all material respects, the financial position of the Group as at 31 December 2018 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 26 February 2019 and our findings are expressed as at that date.

Ernst & Young
Ernst & Young
Auckland, New Zealand

#### CONSOLIDATED INCOME STATEMENT

FOR THE SIX MONTHS ENDED 31 DECEMBER 2018

Note	Unaudited 6 Months 31 Dec 2018 \$M	Restated Unaudited 6 Months 31 Dec 2017 \$M	Restated Audited 12 Months 30 Jun 2018 \$M
Total revenue 4	1,079	955	1,798
Total expenses 4	(777)	(651)	(1,232)
EBITDAF <sup>1</sup>	302	304	566
Depreciation and amortisation	(104)	(98)	(201)
Change in the fair value of financial instruments	(14)	23	48
Earnings of associates and joint ventures	-	1	2
Net interest expense 4	(39)	(47)	(91)
Profit before tax	145	183	324
Tax expense	(41)	(52)	(91)
Profit for the period attributable to owners of the parent	104	131	233
Basic and diluted earnings per share (cents)	7.6	9.6	17.0

#### CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 31 DECEMBER 2018

	Unaudited 6 Months 31 Dec 2018 \$M	Restated Unaudited 6 Months 31 Dec 2017 \$M	Restated Audited 12 Months 30 Jun 2018 \$M
Profit for the period	104	131	233
Other comprehensive income			
Items that will not be reclassified subsequently to profit or loss			
Movement in asset revaluation reserve	-	-	55
Movement in cash flow hedge reserve transferred to balance sheet	-	-	5
Share of movements in associates' and joint ventures' reserves	-	1	14
Tax effect	-	-	(17)
Items that may be reclassified subsequently to profit or loss			
Movement in cash flow hedge reserve	(64)	11	33
Movement in other reserves	-	-	(64)
Tax effect	18	(3)	(9)
Other comprehensive (loss)/income for the period, net of taxation	(46)	9	17
Total comprehensive income for the period attributable to owners of the parent	58	140	250

<sup>1</sup> 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 2018

Note	Unaudited 31 Dec 2018 \$M	Restated Unaudited 31 Dec 2017 \$M	Restated Audited 30 Jun 2018 \$M
SHAREHOLDERS' EQUITY			
Issued capital	378	378	378
Treasury shares	(101)	(51)	(101)
Reserves	2,939	2,929	3,005
Total shareholders' equity	3,216	3,256	3,282
ASSETS			
Current assets			
Cash and cash equivalents	78	47	5
Receivables	243	202	226
Contract assets	3	4	3
Inventories	27	37	35
Derivative financial instruments 6	81	24	31
Total current assets	432	314	300
Non-current assets			
Property, plant and equipment 7	5,267	5,358	5,370
Intangible assets	81	101	101
Investments	142	-	130
Investment and advances to associates 8	86	76	88
Advances to joint operations	7	7	7
Receivables	3	1	-
Derivative financial instruments 6	127	106	110
Total non-current assets	5,713	5,649	5,806
Held-for-sale assets 12	81	-	-
Total assets	6,226	5,963	6,106
LIABILITIES			
Current liabilities			
Payables and accruals	184	187	198
Provisions	_	4	_
Borrowings 9	288	135	350
Derivative financial instruments 6	90	47	24
Taxation payable	19	22	17
Total current liabilities	581	395	589
Non-current liabilities			
Payables and accruals	10	3	6
Provisions Provisions	52	52	51
Derivative financial instruments 6	150	106	77
Borrowings 9	1,118	1,042	970
Deferred tax	1,097	1,109	1,131
Total non-current liabilities	2,427	2,312	2,235
Held-for-sale liabilities 12	2		
Held-for-sale liabilities 12 Total liabilities	3,010	2,707	2,824
Net assets	3,216	3,256	3,282

For and on behalf of the Board of Directors who authorised the issue of the Financial Statements on 26 February 2019.

Joan Withers Chair 26 February 2019 Keith Smith Director 26 February 2019

### CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 31 DECEMBER 2018

	Issued capital \$M	Retained earnings \$M	Asset revaluation reserve \$M	Cash flow hedge reserve \$M	Other reserves \$M	Total equity \$M
Balance as at 1 July 2017	378	184	2,849	(53)	(50)	3,308
Adjustment on adoption of new IFRS	_	1	_	(3)	_	(2)
Restated balance as at 1 July 2017	378	185	2,849	(56)	(50)	3,306
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	_	131	_	_	_	131
Total comprehensive income for the period	_	131	_	9	_	140
Dividend	_	(190)	_	_	_	(190)
Restated balance as at 31 December 2017	378	126	2,849	(47)	(50)	3,256
Restated balance as at 1 January 2018	378	126	2,849	(47)	(50)	3,256
Adjustment on adoption of new IFRS	-	(1)	-	-	-	(1)
Restated balance as at 1 January 2018	378	125	2,849	(47)	(50)	3,255
Movement in asset revaluation reserve, net of taxation	_	_	40	_	-	40
Movement in cash flow hedge reserve, net of taxation	_	_	-	19	-	19
Movements in other reserves	-	-	-	-	(14)	(14)
Share of movements in associates' and joint ventures' reserves	_	_	12	1	-	13
Acquisition of treasury shares	-	-	-	-	(50)	(50)
Other comprehensive income/(loss)	_	_	52	20	(64)	8
Net profit for the period	_	102	-	_	-	102
Total comprehensive income/(loss) for the period	_	102	52	20	(64)	110
Dividend	_	(83)	_	_	-	(83)
Restated balance as at 30 June 2018	378	144	2,901	(27)	(114)	3,282
Balance as at 1 July 2018	378	144	2,901	(27)	(114)	3,282
Movement in cash flow hedge reserve, net of taxation	_	_	_	(46)	_	(46)
Share of movements in associates' and joint ventures' reserves	_	_	8	(8)	-	-
Recycling of fair value losses in available for sale reserves	-	(15)	-	-	15	-
Other comprehensive income/(loss)	_	(15)	8	(54)	15	(46)
Net profit for the period	_	104	_	_	_	104
Total comprehensive income/(loss) for the period	-	89	8	(54)	15	58
Dividend	-	(124)	_	_	_	(124)
Balance as at 31 December 2018	378	109	2,909	(81)	(99)	3,216

#### CONSOLIDATED CASH FLOW STATEMENT

FOR THE SIX MONTHS ENDED 31 DECEMBER 2018

	Unaudited 6 Months 31 Dec 2018 \$M	Restated Unaudited 6 Months 31 Dec 2017 \$M	Restated Audited 12 Months 30 Jun 2018 \$M
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	1,057	993	1,800
Payments to suppliers and employees	(796)	(674)	(1,232)
Interest received	1	1	2
Interest paid	(36)	(46)	(92)
Taxes paid	(55)	(57)	(102)
Net cash provided by operating activities	171	217	376
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of property, plant and equipment	(39)	(34)	(94)
Acquisition of intangibles	(14)	(23)	(33)
Acquisition of investment	-	-	(144)
Disposal of land and associated real property	-	1	5
Distributions received from and advances repaid to associates and joint ventures	3	3	6
Net cash used in investing activities	(50)	(53)	(260)
CASH FLOWS FROM FINANCING ACTIVITIES			
Acquisition of treasury shares	-	-	(50)
Proceeds from loans	69	46	262
Repayment of loans	-	-	(75)
Receipt/(payment) of lease incentives/(liabilities)	7	(3)	(5)
Dividends paid	(124)	(190)	(273)
Net cash used in financing activities	(48)	(147)	(141)
Net increase (decrease) in cash and cash equivalents held	73	17	(25)
Cash and cash equivalents at the beginning of the period	5	30	30
Cash and cash equivalents at the end of the period	78	47	5
Cash balance comprises:			
Cash balance at the end of the period	78	47	5

#### **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 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 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. Except as described below in (3) adoption of new accounting policies, the Group financial statements have been prepared using the same accounting policies as, and should be read in conjunction with, the Group's annual financial statements for the year ended 30 June 2018.

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.

#### 3) Adoption of new accounting policies

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 ending 31 December 2018.

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 (e.g. 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.

#### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 31 DECEMBER 2018

These standards have been applied retrospectively. The effect of these changes in accounting policies are shown below:

	Unaudited 6 months ended 31 Dec 2017 \$M	Adjustments \$M	Restated unaudited 6 months ended 31 Dec 2017 \$M	Audited year ended 30 Jun 2018 \$M	Adjustments \$M	Restated audited year ended 30 Jun 2018 \$M
Consolidated Income Statement	الااک	الاال	ÇIVI	γivi	الااب	۱۸۱
Total revenue	958	(3)	955	1,803	(5)	1,798
Total expenses	(657)	6	(651)	•	10	(1,232)
EBITDAF	301	3	304	561	5	566
Depreciation and amortisation	(96)	(2)	(98)		(4)	(201)
Change in the fair value of financial instruments	24	(1)	23	49	(1)	48
Net interest expense	(46)	(1)	(47)	(90)	(1)	(91)
Tax expense	(52)	-	(52)	(91)	-	(91)
Net profit after tax	132	(1)	131	234	(1)	233
Consolidated Balance Sheet						
Contract assets	_	4	4	_	3	3
Lease assets (Property, plant and equipment)	-	14	14	_	12	12
Lease liabilities (Borrowings)	-	(17)	(17)	-	(15)	(15)
Non-current financial instruments	(102)	(4)	(106)	(73)	(4)	(77)
Deferred tax liability	(1,109)	-	(1,109)	(1,131)	-	(1,131)
Retained Earnings	(126)	-	(126)	(145)	1	(144)
Cash flow hedge reserve	44	3	47	24	3	27

#### **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.

#### Segment results

Six months ended 31 December 2018 (unaudited)	Energy Markets \$M	Other Segments \$M	Unallocated \$M	Inter- segment \$M	Total \$M
Total segment revenue	1,063	27	1	(12)	1,079
Direct costs	(686)	(4)	-	12	(678)
Other operating expenses	(62)	(9)	(28)	-	(99)
Segment EBITDAF	315	14	(27)	_	302

Six months ended 31 December 2017 (restated unaudited)	Energy Markets \$M	Other Segments \$M	Unallocated \$M	Inter– segment \$M	Total \$M
Total segment revenue	941	27	-	(13)	955
Direct costs	(562)	(3)	_	13	(552)
Other operating expenses	(62)	(9)	(28)	-	(99)
Segment EBITDAF	317	15	(28)	-	304

Twelve months to 30 June 2018 (restated audited)	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

At 30 June 2018, the Group adjusted historic other operating expenses of Other Segments to be reflected in direct costs.

#### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 31 DECEMBER 2018

#### NOTE 3. NON STATUTORY MEASURE - UNDERLYING EARNINGS

	Unaudited 6 Months 31 Dec 2018 \$M	Restated Unaudited 6 Months 31 Dec 2017 \$M	Restated Audited 12 Months 30 Jun 2018 \$M
Profit for the period	104	131	233
Change in the fair value of financial instruments	14	(23)	(48)
Equity accounted share of the change in the fair value of financial instruments of associate entities	-	(1)	(1)
Adjustments before tax expense	14	(24)	(49)
Tax expense	(4)	7	14
Adjustments after tax expense	10	(17)	(35)
Underlying earnings after tax	114	114	198

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

#### NOTE 4. OTHER INCOME STATEMENT DISCLOSURES

	Unaudited 6 Months 31 Dec 2018 \$M	Restated Unaudited 6 Months 31 Dec 2017 \$M	Restated Audited 12 Months 30 Jun 2018 \$M
Sales - Electricity generation	535	366	655
Sales to customers and derivatives	519	568	1,096
Other revenue	25	21	47
Total revenue	1,079	955	1,798
Energy costs	(423)	(290)	(527)
Line charges	(221)	(231)	(437)
Other direct cost of sales, excluding third party metering	(17)	(15)	(32)
Direct costs of other revenue	(4)	(3)	(6)
Third party metering	(13)	(13)	(25)
Employee compensation and benefits	(45)	(43)	(87)
Maintenance expenses	(21)	(20)	(51)
Other expenses	(33)	(36)	(67)
Total expenses	(777)	(651)	(1,232)
Interest expense	(40)	(48)	(93)
Interest income	1	1	2
Net interest expense	(39)	(47)	(91)

#### NOTE 5. SHARE CAPITAL AND DISTRIBUTION

The share capital of the Company is represented by 1,400,012,517 ordinary shares (30 June 2018: 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 2018 Number of shares (M)	Unaudited 31 Dec 2018 \$M	Unaudited 31 Dec 2017 Number of shares (M)	Unaudited 31 Dec 2017 \$M	Audited 30 Jun 2018 Number of shares (M)	Audited 30 Jun 2018 \$M
Treasury shares						
Balance at the beginning of the period	39	101	24	51	24	51_
Acquisition of treasury shares	-	_	-	-	15	50
Disposal of treasury shares	-	_	-	-	-	
Balance at the end of the period	39	101	24	51	39	101

	Cents per share	Unaudited 6 Months 31 Dec 2018 \$M	Unaudited 6 Months 31 Dec 2017 \$M	Audited 12 Months 30 Jun 2018 \$M
Dividends declared and paid				
Final dividend for 2017	8.8	-	121	121
Special dividend - paid September 2017	5.0	-	69	69
Interim dividend for 2018	6.0	-	-	83
Final dividend for 2018	9.1	124	-	
		124	190	273

#### **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 value. 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 2018.

#### 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 \$137 million (30 June 2018: \$138 million), \$295 million (30 June 2018: \$293 million) and \$303 million (30 June 2018: \$301 million) respectively; and (ii) the Capital Bonds, the fair value for which has been calculated at \$309 million (30 June 2018: \$313 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 2018 all of the Group's financial instruments carried at fair value were categorised as level 2, except for electricity price derivatives. Electricity price derivative assets of \$67 million were categorised as level 1 (30 June 2018: \$21 million) and \$85 million were categorised as level 3 (30 June 2018: \$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 2018. Electricity price derivative liabilities of \$59 million were categorised as level 1 (30 June 2018: \$1 million) and \$96 million were categorised as level 3 (30 June 2018: \$9 million).

#### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 31 DECEMBER 2018

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.

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 \$69/MWh and a maximum price of \$125/MWh (30 June 2018: a 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 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 2018 \$M	Restated Unaudited 6 Months 31 Dec 2017 \$M	Restated Audited 12 Months 30 Jun 2018 \$M
Opening balance	54	7	7
New contracts	(10)	-	2
Matured contracts	1	-	8
Gains and losses			
Through the income statement	(7)	1	(7)
Through other comprehensive income	(49)	15	44
Closing balance	(11)	23	54

#### 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 2018 \$M	Restated Unaudited 6 Months 31 Dec 2017 \$M	Restated Audited 12 Months 30 Jun 2018 \$M
Opening deferred inception (losses)	(28)	(6)	(6)
Deferred inception (losses) on new hedges	(11)	(2)	(6)
Deferred inception gains/(losses) realised during the period	3	(2)	(16)
Closing inception (losses)	(36)	(10)	(28)

#### NOTE 7. PROPERTY, PLANT AND EQUIPMENT

	Unaudited 6 Months 31 Dec 2018 \$M	Restated Unaudited 6 Months 31 Dec 2017 \$M	Restated Audited 12 Months 30 Jun 2018 \$M
Opening net book value	5,370	5,388	5,388
Adjustment on adoption of new IFRS	-	16	16
Restated opening net book value	5,370	5,404	5,404
Additions, including transfers from capital work in progress	35	42	94
Net revaluation movement	-	-	55
Transfer to held-for-sale	(47)	-	_
Depreciation charge for the period	(91)	(88)	(183)
Closing net book value	5,267	5,358	5,370

At 31 December 2018, included within property, plant and equipment is \$12 million of lease assets. These assets incurred a depreciation charge of \$2 million for the six months ended 31 December 2018.

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

Investments include:

		Interest Held				
Name of entity	Principal activity	Туре	Unaudited 31 Dec 2018	Unaudited 31 Dec 2017	Audited 30 June 2018	Country
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
Energy Source Minerals LLC	Mineral extraction	Joint Venture	20.84%	0.00%	20.84%	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 2018 \$M	Unaudited 6 Months 31 Dec 2017 \$M	Audited 12 Months 30 Jun 2018 \$M	Unaudited 6 Months 31 Dec 2018 \$M	Unaudited 6 Months 31 Dec 2017 \$M	Audited 12 Months 30 Jun 2018 \$M
Balance at the beginning of the period	88	76	76	-	-	
Share of earnings	-	1	2 14	-	-	-
Share of movement in other comprehensive income Distributions received during the period	(2)	(2)	(4)	_	_	-
Balance at the end of the period	86	76	88	-	-	

#### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 31 DECEMBER 2018

#### **NOTE 9. BORROWINGS**

	Borrowing Currency Denomination	Maturity	Coupon	Unaudited 6 Months 31 Dec 2018 \$M	Restated Unaudited 6 Months 31 Dec 2017 \$M	Restated Audited 12 Months 30 Jun 2018 \$M
Bank facilities	NZD	Various	Floating	130	21	91
Commercial paper programme	NZD	< 3 months	Floating	200	100	170
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%	163	164	163
Wholesale / Credit wrapper	NZD	Sep-2021	Floating	300	301	300
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%	59	58	59
Capital Bonds	NZD	Jul-2044	6.90%	305	305	305
Lease liabilities	NZD			21	17	15
Deferred financing costs				(3)	(5)	(5)
Fair value adjustments				60	45	51
Carrying value of loans				1,406	1,177	1,320
Current				288	135	350
Non-current				1,118	1,042	970
				1,406	1,177	1,320

The Group has \$550 million of committed and unsecured bank loan facilities as at 31 December 2018 (30 June 2018: \$650 million). The Company cancelled \$100 million of facilities and \$100 million of facilities matured during the reporting period. Of the loan facilities of \$550 million, \$50 million expires in September 2019, \$100 million expires in June 2021, \$100 million expires in August 2022, \$100m expires in October 2022, and a rolling bank loan of \$200 million currently expires in June 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 Standard & Poor's.

#### **NOTE 10. RELATED PARTY TRANSACTIONS**

#### Ultimate 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 sales and trading of 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		
	Unaudited 6 Months 31 Dec 2018 \$M	Unaudited 6 Months 31 Dec 2017 \$M	Audited 12 Months 30 Jun 2018 \$M
Associates			
Management fees and service agreements received	12	10	14
Energy contract settlements received	13	4	6
Joint operations			
Management fees and service agreements received	5	6	11
Energy contract settlements received	18	2	2
Interest income	_	_	1

	Transaction Value		
	Unaudited 6 Months 31 Dec 2018 \$000	Unaudited 6 Months 31 Dec 2017 \$000	Audited 12 Months 30 Jun 2018 \$000
Key management personnel compensation (paid and payable) comprised:			
Directors' fees	493	470	960
Benefits for the Chief Executive and Senior Management:			
Salary and other short-term benefits	3,239	3,191	6,275
Share-based payments	114	293	553
	3,846	3,954	7,788

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 2018.

#### 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.

#### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 31 DECEMBER 2018

#### NOTE 11. COMMITMENTS AND CONTINGENCIES

	Unaudited 6 Months 31 Dec 2018 \$M	Unaudited 6 Months 31 Dec 2017 \$M	Audited 12 Months 30 Jun 2018 \$M
Commitments			
Capital	94	115	106
Other operating commitments	99	82	87

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 9 year period will also terminate.

#### 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**

On 17 December 2018, the Company announced the sale of its smart-metering business, Metrix, to intelliHUB Group for a cash consideration of \$270m on 1 March 2019. As a result, the assets and liabilities of Metrix are now recognised as held for sale in the balance sheet. The annualised reduction to EBITDAF from the sale is \$28m.

Under Tilt Renewables Limited's pro rata entitlement offer of shares announced on 20 February 2019, the Company committed \$55 million of equity funding support to Tilt Renewables Limited for the Dundonnell windfarm project in Victoria, Australia.

The Board of Directors has approved an interim dividend of 6.2 cents per share to be paid on 1 April 2019.

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 2018 was \$2.30, compared with \$2.29 at 31 December 2017.

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

Company name	Date control gained or lost
Metrix Limited*	Entity incorporated on 13 December 2018

<sup>\*</sup> Entity will be transferred pursuant to Mercury's sale of the Metrix business which is expected to complete on 1 March 2019.

#### 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/ Holder Number and FIN numbers (when you log in for the first time). Select 'My Profile', and then select 'Update' under 'Communication Preferences'. You can then enter your email address and click 'Submit'; 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

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New Zealand

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#### 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 Albert Street, Auckland 1010 PO Box 2206, Auckland 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 (re-affirmed December 2018)

Long term: BBB+ Outlook: Stable

#### Share Register – New Zealand

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Phone: +64 9 488 8777

Email: enquiry@computershare.co.nz Web: www.investorcentre.com/nz

#### Share Register - Australia

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