

>> QUARTERLY HIGHLIGHTS

SPOT PRICES
>\$100/MWh

ELEVATED PRICES SUSTAINED
AS HYDRO STORAGE DECLINES WITH
THERMAL OUTAGES PENDING

PROACTIVE
PORTFOLIO
MANAGEMENT

INCREASED EXPOSURE TO SPOT
AND COMMERCIAL & INDUSTRIAL
SALES CHANNELS

4,070 GWh

HYDRO GENERATION FORECAST
UP 50GWh DUE TO
ABOVE-AVERAGE INFLOWS

>> COMMENTARY

OTAHUHU SPOT PRICE AT RECORD AS HYDRO STORAGE DECLINES WITH THERMAL OUTAGES ON THE HORIZON

Spot prices were elevated during the quarter, increasing post-winter as the market responded to below-average inflows and major thermal fuel and generation outages scheduled in Q2-FY2020. This resulted in average spot prices for the quarter reaching a record \$125/MWh at Otahuhu and \$112/MWh at Benmore.

National hydro storage fell from 106% to 83% of average over the quarter driven by South Island inflows being 102GWh below average¹. The uncorrelated nature of North Island inflows was demonstrated as Waikato catchment inflows were 72GWh above average¹ in the 3 months to 30 September 2019. Consequently, Mercury's FY2020 forecast hydro generation has been increased by 50GWh to 4,070GWh.

HYDRO GENERATION DECLINES VERSUS PCP BUT REMAINS ABOVE-AVERAGE

Mercury's Q1-FY2020 hydro generation of 1,214GWh decreased by 232GWh from the prior comparable period but remained 21GWh above average². Reduced hydro generation volumes enabled increased utilisation of Waikato Hydro Scheme flexibility. Mercury's LWAP/GWAP ratio decreased favourably from 1.07 in Q1-FY2019 to 1.04 in the most recent quarter.

VALUE FOCUS ENCOMPASSES RISK MANAGEMENT, REWARDING LOYALTY AND BIAS TOWARDS C&I SALES

Mercury is proactively managing its electricity sales portfolio in response to wholesale market conditions, which are expected to persist with FY2021 and FY2022 Otahuhu futures prices increasing to \$112/MWh and \$103/MWh respectively as at 30 September 2019. This has seen the company bias sales towards higher-yielding spot and Commercial & Industrial channels.

Consistent with this strategy, Mercury has reduced discounted mass market acquisition activity while maintaining its focus on rewarding existing customers. The proportion of customers acquired on discounted rates decreased to 28% in Q1-FY2020 compared to 57% during the same period in FY2019. Additionally, the company did not renew an arrangement it had with Farm Source. The exit of this arrangement resulted in 3,000 customers (representing 8,000 connections) switching to other retailers in the 3 months to 30 September 2019. This predominantly dairy load imposed additional cost to Mercury as peak consumption coincides with seasonally low summer inflows into Mercury's Taupo catchment. Mercury's group churn increased from 19.9%³ in Q1-FY2019 to 22.0%³ in the current period in large part due to the exit of this Farm Source arrangement (underlying Mercury group churn was 19.8%³ after normalising for Farm Source).

Consequently, Mass Market sales volumes decreased by 63GWh and average yield for Mass Market sales increased by 1.4% to \$129/MWh versus \$127/MWh in the same quarter last year. Also, Commercial & Industrial sales increased by 83GWh from 588GWh to 671GWh with yield increasing by 6.7% from \$83/MWh in Q1-FY2019 to \$88/MWh in Q1-FY2020.

URBAN SECTOR LEADS DEMAND HIGHER; INDUSTRIAL DEMAND FLAT DESPITE MODERATE TIWAI INCREASE

Demand increased by 0.2% on a temperature-adjusted basis (+0.5% on an unadjusted basis) in Q1-FY2020 primarily due to increased (+0.3%) urban sector demand. Industrial sector demand (+0.1%) was flat as increased Tiwai demand (up 4%) was offset by decreases from other industrial users. Rural sector demand (-0.1%) decreased while dairy (+0.0%), irrigation (-0.0%) and other (-0.1%) sector demand was stable.

¹ For quarters ended 30 September since 1927

² For quarters ended 30 September since 1999

³ 12-month rolling average

>> OPERATING STATISTICS

OPERATING INFORMATION	Three months ended 30 September 2019		Three months ended 30 September 2018	
	VWAP ¹ (\$/MWh)	Volume (GWh)	VWAP ¹ (\$/MWh)	Volume (GWh)
ELECTRICITY SALES				
Mass Market ²	128.80	892	127.04	955
Commercial & Industrial	88.32		82.76	
FPVW ³		348		297
End User CfD		323		291
FPVW purchases from market		1,301		1,316
Spot customer purchases		198		225
Total NZEM Purchases	128.09	1,499	91.53	1,541
ELECTRICITY CUSTOMERS ('000)				
		361		386
North Island Customers		319		343
South Island Customers		42		43
Dual Fuel Customers		47		48
CONTRACTS FOR DIFFERENCE		Volume (GWh)		Volume (GWh)
Net Sell CfD ⁴		570		664
ELECTRICITY GENERATION	VWAP (\$/MWh)	Volume (GWh)	VWAP (\$/MWh)	Volume (GWh)
Hydro	127.00	1,214	89.07	1,446
Geothermal (consolidated) ⁵	116.35	690	79.59	678
Geothermal (equity accounted) ⁶	118.42	46	80.51	55
Total	123.03	1,950	85.90	2,179
LWAP/GWAP		1.04		1.07
CARBON EMISSIONS ('000 TONNES CO2) ⁷		89		93

¹ VWAP is volume weighted average energy-only price sold to customers after lines, metering and fees

² Mass market includes residential segments and non time-of-use commercial customers

³ Fixed-price, variable-volume (FPVW) sales to time-of-use commercial customers

⁴ Includes End User CfD volumes. Includes Virtual Asset Swap volumes in both Buy and Sell CfD volumes of 151 GWh for the 3 months ended 30 September 2019 and 151 GWh for the 3 months ended 30 September 2018

⁵ Includes Mercury's 65% share of Nga Awa Purua generation

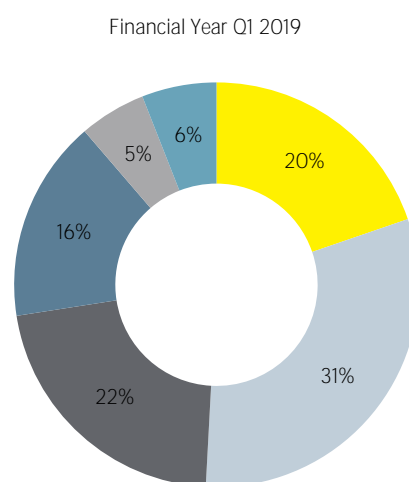
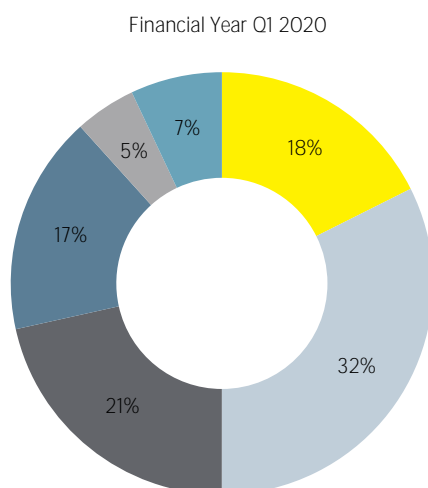
⁶ Tuaropaki Power Company (Mokai) equity share

⁷ Includes carbon emissions from Mercury gas sales, wholly owned geothermals and proportionate emissions from the Mokai and Nga Awa Purua stations

>> MARKET DATA

> ELECTRICITY GENERATION BY COMPANY FOR THE THREE MONTHS ENDED 30 SEPTEMBER

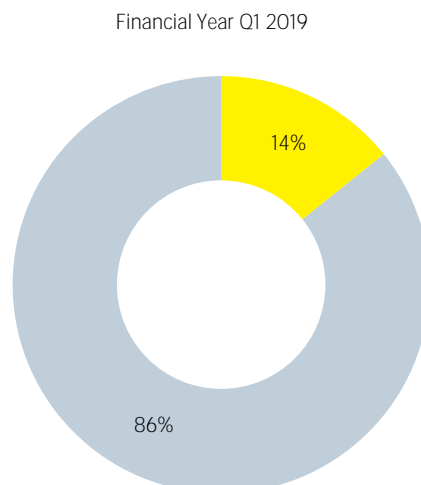
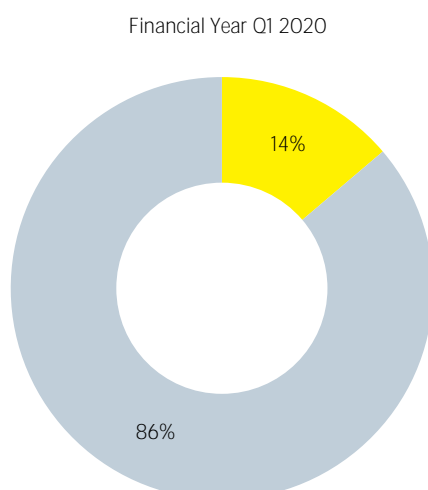
■ MERCURY
 ■ MERIDIAN ENERGY
 ■ CONTACT ENERGY
 ■ GENESIS ENERGY
 ■ TRUSTPOWER / TILT
 ■ OTHER



Source: Electricity Authority

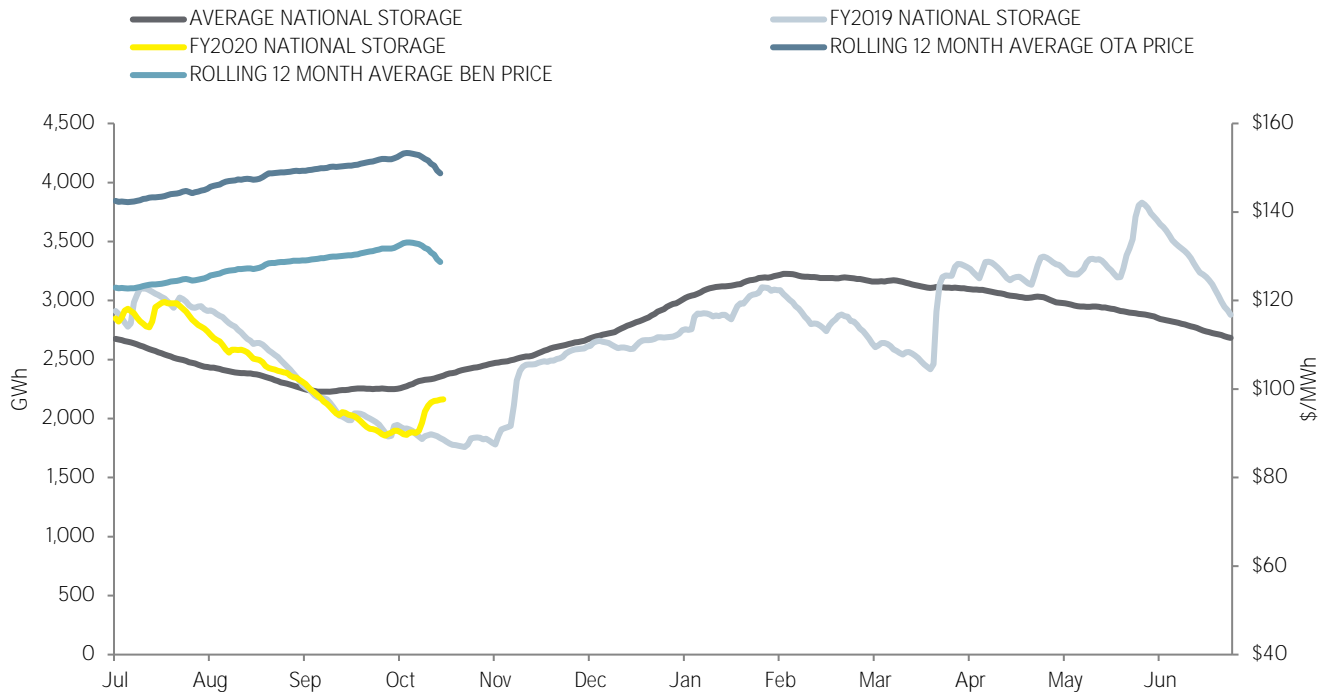
> SHARE OF ELECTRICITY SALES (GWh) FOR THE THREE MONTHS ENDED 30 SEPTEMBER (EXCLUDING CFDs)

■ MERCURY
 ■ OTHER



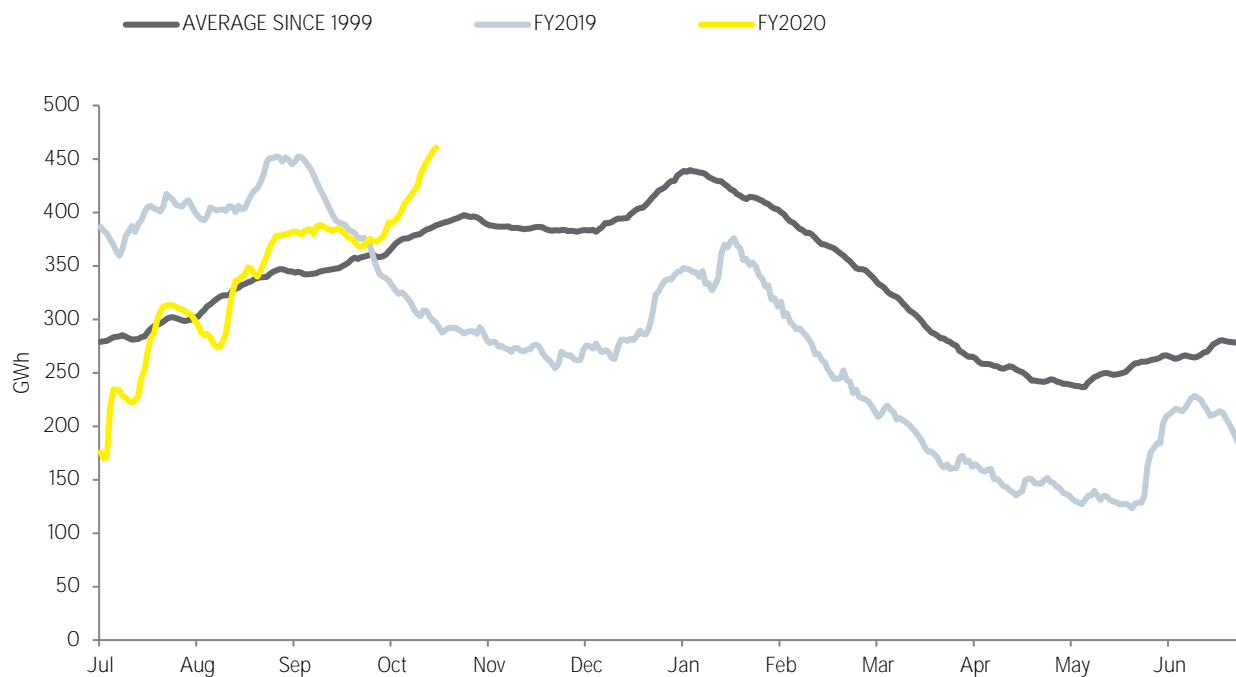
Source: Mercury Purchases and Transpower SCADA

> OTAHUHU WHOLESALE PRICE AND NATIONAL HYDRO STORAGE LEVELS



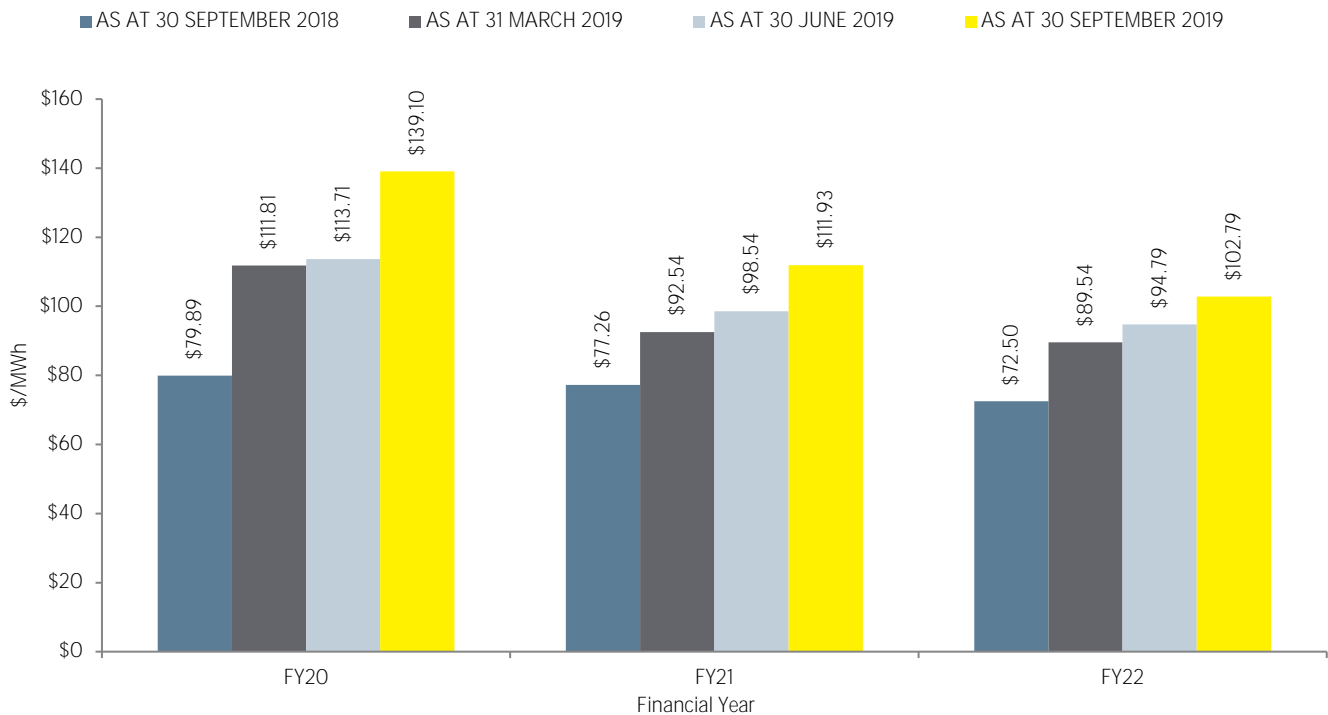
Source: NZX Hydro and NZEM Pricing Manager (NZX)

> TAUPO STORAGE



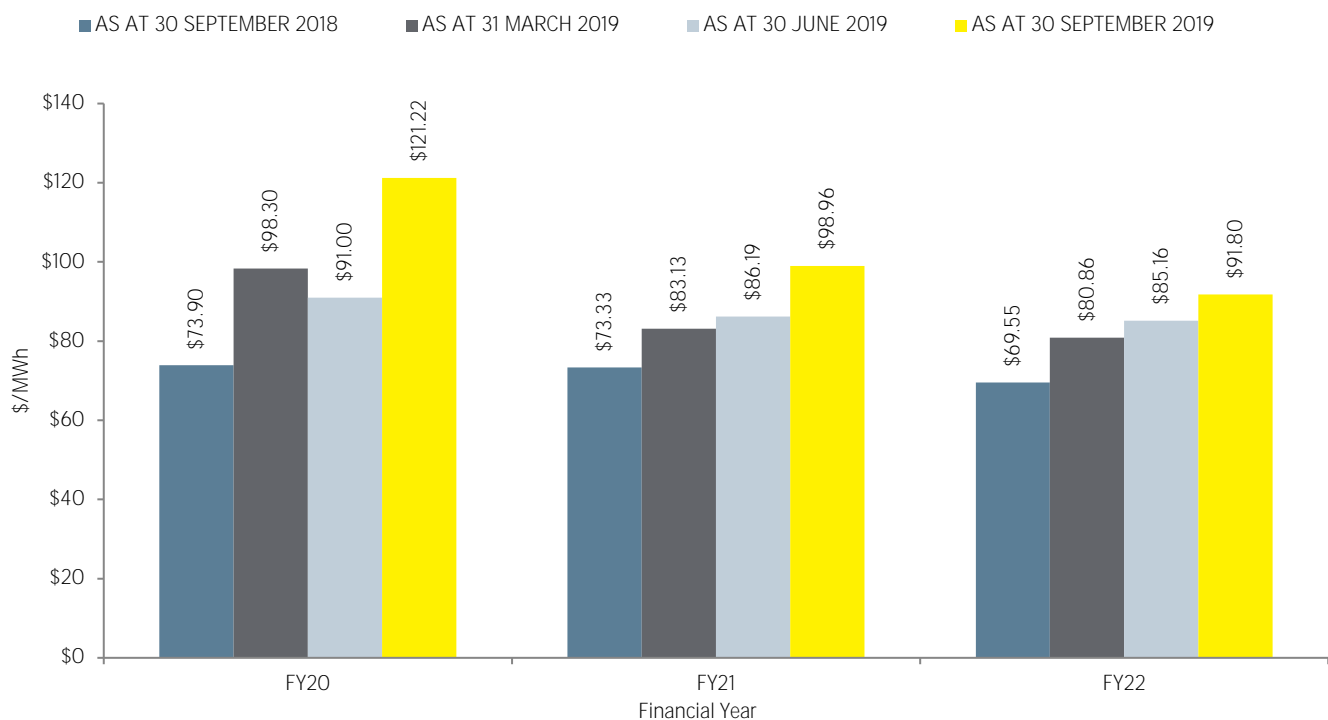
Source: NZX Hydro

> OTAHUHU ASX FUTURES SETTLEMENT PRICE



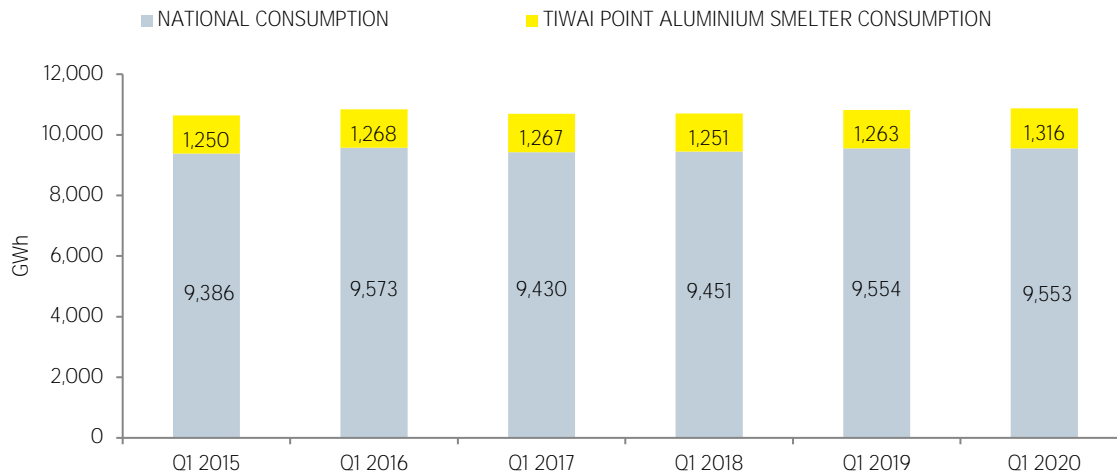
Source: ASX

> BENMORE ASX FUTURES SETTLEMENT PRICE



Source: ASX

> NATIONAL CONSUMPTION (NON-TEMPERATURE ADJUSTED)



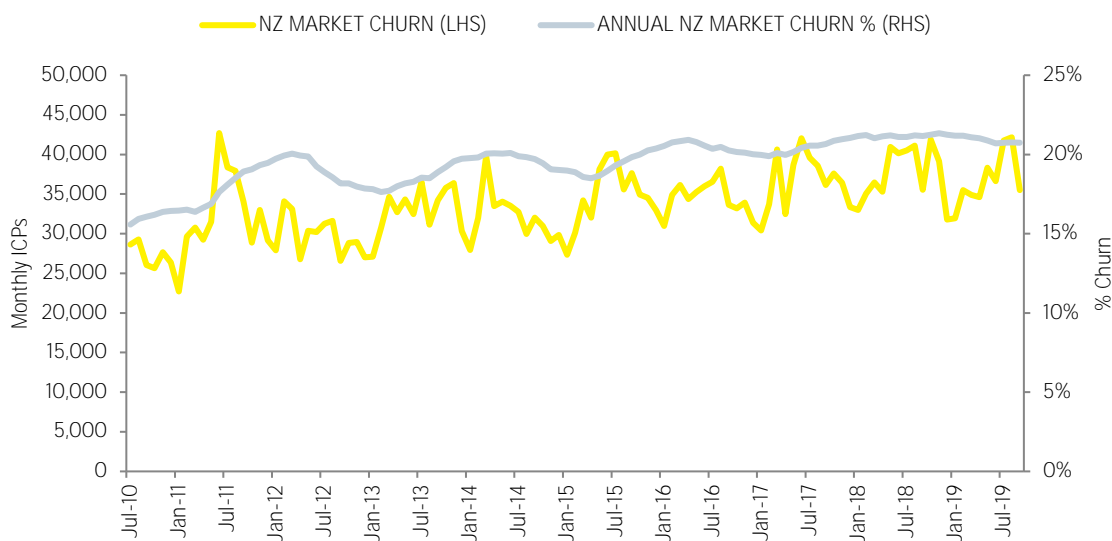
Source: Transpower Information Exchange

> AUCKLAND CLIMATE SUMMARY (°C)

FINANCIAL YEAR	Q1	Q2	Q3	Q4
2020	12.3	-	-	-
2019	12.1	16.3	20.2	14.1
2018	12.3	17.2	20.7	14.3
2017	12.1	16.1	19.3	14.3
2016	11.4	16.0	20.6	15.3
Historical Average (since 1999)	11.9	16.1	19.4	14.2

Source: Met Service

> MONTHLY TOTAL CONSUMER RETAIL SWITCHING (ICPs)



Source: Electricity Authority