



STOCK EXCHANGE LISTINGS: NZX (MCY) / ASX (MCY)

NEWS RELEASE

Quarterly Operational Update

23 January 2020 – Attached is Mercury's Quarterly Operational Update for the 3 months ended 31 December 2019.

ENDS

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ABOUT MERCURY NZ LIMITED

Mercury's mission is energy freedom. Our purpose is to inspire New Zealanders to enjoy energy in more wonderful ways and our goal is to be New Zealand's leading energy brand. We focus on our customers, our people, our partners and our country; maintain a long term view of sustainability; and promote wonderful choices. Mercury is energy made wonderful. Visit us at: www.mercury.co.nz



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>> QUARTERLY HIGHLIGHTS

PORTFOLIO MANAGEMENT

PRUDENT PORTFOLIO MANAGEMENT
IN LEAD-UP TO Q3

COMMERCIAL YIELDS INCREASE

FOCUS ON CUSTOMER VALUE
AND LOYALTY LIFTS YIELDS

GEOHERMAL OUTAGES COMPLETED

GEOHERMAL GENERATION DOWN DUE TO
TWO-YEARLY MAINTENANCE OUTAGES

Statistics on page 2 have been modified to provide more information on financial derivatives. The 2-year operating statistics history in the new format is available on the Mercury website. (www.mercury.co.nz/investors/results-reports/operating-information)

>> COMMENTARY

PORTFOLIO POSITION STRONG AS APPROACHING LOW INFLOW QUARTER COINCIDES WITH TRANSMISSION, THERMAL FUEL OUTAGES

Mercury maintained a prudent approach to risk management in Q2-FY2020, decreasing hydro generation by 74GWh compared to the same quarter last year resulting in a strong hydro storage position in the approach to the third quarter; historically the lowest inflow quarter for the Waikato catchment. Forecast low inflows in Q3-FY2020 were also expected to coincide with an increased likelihood of high spot prices, indicated by a \$158/MWh Otahuhu futures price for Q3-FY2020 as at 1 October 2019, impacted by planned transmission and thermal fuel supply outages.

Lower hydro generation during the quarter lifted hydro storage in Lake Taupo to 85GWh above average¹ by the end of the quarter. Low spill and high efficiency offset below-average inflows leading to Mercury's full-year hydro generation forecast being materially unchanged at 4,070GWh.

Mercury's geothermal generation also decreased by 84GWh compared to Q2-FY2019 due to two-yearly maintenance outages at Nga Awa Purua, Kawerau and Ngatamariki stations.

WHOLESALE MARKET PRICES DAMPENED BY HIGH SOUTH ISLAND HYDRO INFLOWS BUT REMAIN HISTORICALLY HIGH

Spot prices in the most recent quarter started strongly but declined following very high South Island hydro inflows (at the 99th percentile² or 3,308GWh above average²). The average spot price for the quarter decreased from \$206/MWh at Otahuhu and \$175/MWh at Benmore in the prior comparable period, when dry hydrological conditions and thermal fuel supply outages led to record prices, to \$102/MWh and \$87/MWh respectively but remained elevated at the 95th percentile¹.

High South Island inflows also coincided with the low demand holiday period leading to national hydro storage increasing across the quarter from 354GWh below average to 1,060GWh above average². This surfeit of hydro storage has lowered spot price expectations for FY2020 with futures prices easing from \$139/MWh to \$123/MWh at Otahuhu and from \$121/MWh to \$96/MWh at Benmore across the quarter.

COMMERCIAL YIELDS LIFT THROUGH FOCUS ON CUSTOMER VALUE AND RE-ALIGNMENT WITH WHOLESALE MARKET PRICES

The Commercial & Industrial average sales yield (from both physical and financial sales) increased by 6.7% from \$74/MWh to \$79/MWh due to the impact of contract renewals at current wholesale market levels. Mercury's focus on loyalty and higher-value customers resulted in the average yield received for Mass Market sales increasing by 2.3% from \$127/MWh in Q2-FY2019 to \$129/MWh in the current quarter.

Customer numbers were 356,000 at the end of Q2-FY2020, a net decrease of 5,000 over the quarter and of 25,000 from the end of Q2-FY2019. This includes a reduction of around 8,000 connections from Mercury's exit of lower-yielding Farm Source contracts as part of its portfolio management strategy.

IRRIGATION LOAD UP AS AGRICULTURAL REGIONS REMAIN DRY; INDUSTRIAL LOAD DECLINE CONTINUES

Temperature adjusted demand increased by 1.7% (2.1% on an unadjusted basis) primarily due to increased irrigation demand (+1.2%) as heavy South Island rainfall was limited to hydro catchment regions. The urban (+0.5%), rural (+0.1%) and dairy (+0.2%) sectors also made positive contributions to total demand. Industrial demand remains subdued, contributing -0.3% of the change in total demand as large consumers responded to high spot prices; demonstrated by Tiwai holding their consumption below peak load at an average 593MW across the quarter.

¹ For quarters ended 31 December since 1999

² For quarters ended 31 December since 1927

>> OPERATING STATISTICS

Statistics have been modified to separate physical and financial sales and generation and disclose Buy and Sell CfD prices and volumes.

OPERATING INFORMATION	Three months ended 31 December 2019		Three months ended 31 December 2018		Six months ended 31 December 2019		Six months ended 31 December 2018	
ELECTRICITY CUSTOMERS (’000s ICPs)	356		381					
North Island Customers	314		338					
South Island Customers	42		43					
Dual Fuel Customers	47		48					
	VWAP ¹ (\$/MWh)	Volume (GWh)	VWAP ¹ (\$/MWh)	Volume (GWh)	VWAP ¹ (\$/MWh)	Volume (GWh)	VWAP ¹ (\$/MWh)	Volume (GWh)
ELECTRICITY SALES								
Physical	112.65	1,002	111.06	1,067	116.64	2,241	115.11	2,319
Mass Market ²	129.41	663	126.54	748	129.08	1,555	126.82	1,703
Commercial & Industrial ³	79.86	339	74.74	319	88.48	686	82.75	616
Network Losses		49		55		110		119
Physical Purchases ⁴	109.48	1,050	213.04	1,122	120.39	2,351	148.14	2,438
Financial ⁵	79.23	833	83.97	769	80.72	1,703	79.84	1,716
End User CfDs	78.55	313	73.71	295	78.71	636	73.86	586
Other Sell CfDs ⁶	79.64	520	90.36	474	81.91	1,067	82.94	1,130
Spot Settlement of CfDs	97.96		201.41		109.06		136.77	
Spot Customer Purchases	99.30	181	202.22	187	110.53	379	137.85	412
ELECTRICITY GENERATION								
Physical	103.50	1,524	205.32	1,682	114.41	3,428	138.76	3,805
Hydro	109.96	928	215.27	1,002	119.62	2,142	140.73	2,448
Geothermal (consolidated) ⁷	93.46	596	190.67	680	105.74	1,286	135.20	1,357
Financial ⁵	84.31	391	101.95	381	83.06	690	90.55	665
Buy CfDs ⁶	84.31	391	101.95	381	83.06	690	90.55	665
Spot Settlement of CfDs	93.97		189.42		103.67		142.50	
PORTFOLIO LWAP/GWAP ⁸	1.03		1.03		1.03		1.03	

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 (FPVV) sales to time-of-use commercial customers

⁴ Excludes spot customer purchases

⁵ Excludes FTR and trading ASX positions (including positions held to maturity which were previously disclosed in CfD volumes)

⁶ Includes Virtual Asset Swap volumes of 151 GWh for the 3 months ended 31 December 2019 and 151 GWh for the 3 months ended 31 December 2018 and of 302 GWh for the 6 months ended 31 December 2019 and 302 GWh for the 6 months ended 31 December 2018

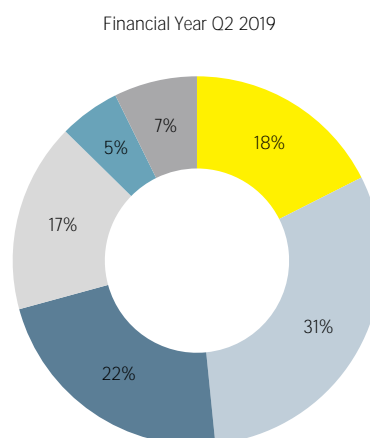
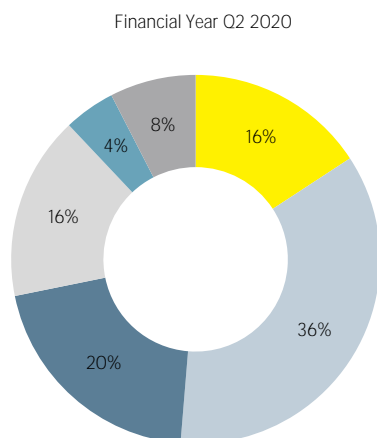
⁷ Includes Mercury's 65% share of Nga Awa Purua generation

⁸ Includes all physical and financial buys and sells except spot customer purchases. To illustrate, for the three months ended 31 December 2019 LWAP is calculated as $\{(\$109.48 \times 1,050\text{GWh} + \$97.96 \times 833\text{GWh}) / (1,050\text{GWh} + 833\text{GWh})\}$ and GWAP is calculated as $\{(\$103.50 \times 1,524\text{GWh} + \$93.97 \times 391\text{GWh}) / (1,524\text{GWh} + 391\text{GWh})\}$

>> MARKET DATA

> ELECTRICITY GENERATION BY COMPANY FOR THE THREE MONTHS ENDED 31 DECEMBER

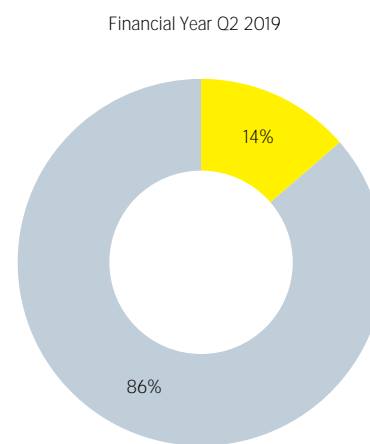
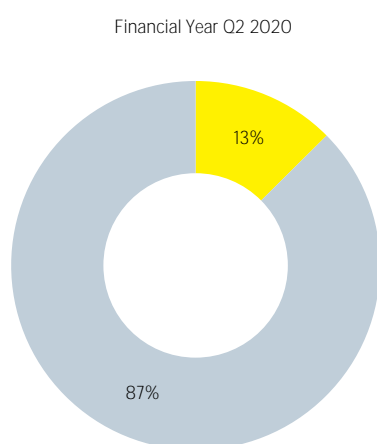
■ MERCURY
 ■ MERIDIAN ENERGY
 ■ CONTACT ENERGY
 ■ GENESIS ENERGY
 ■ TRUSTPOWER / TILT
 ■ OTHER



Source: Electricity Authority

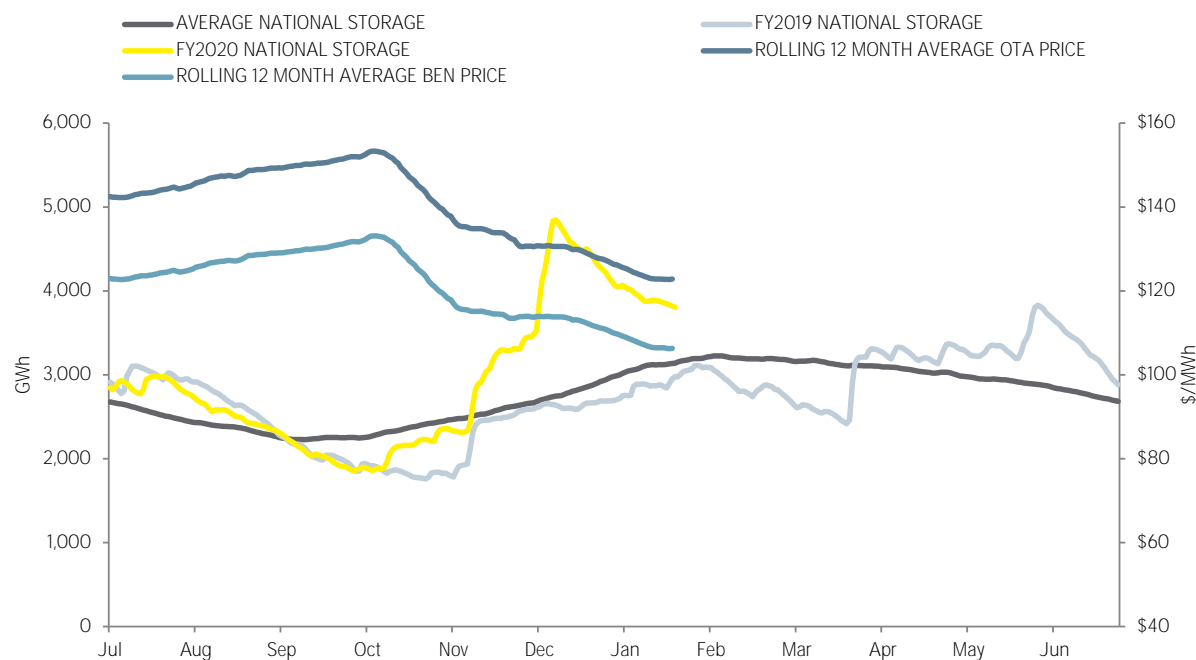
> SHARE OF ELECTRICITY SALES (GWh) FOR THE THREE MONTHS ENDED 31 DECEMBER (EXCLUDING CFDs)

■ MERCURY
 ■ OTHER



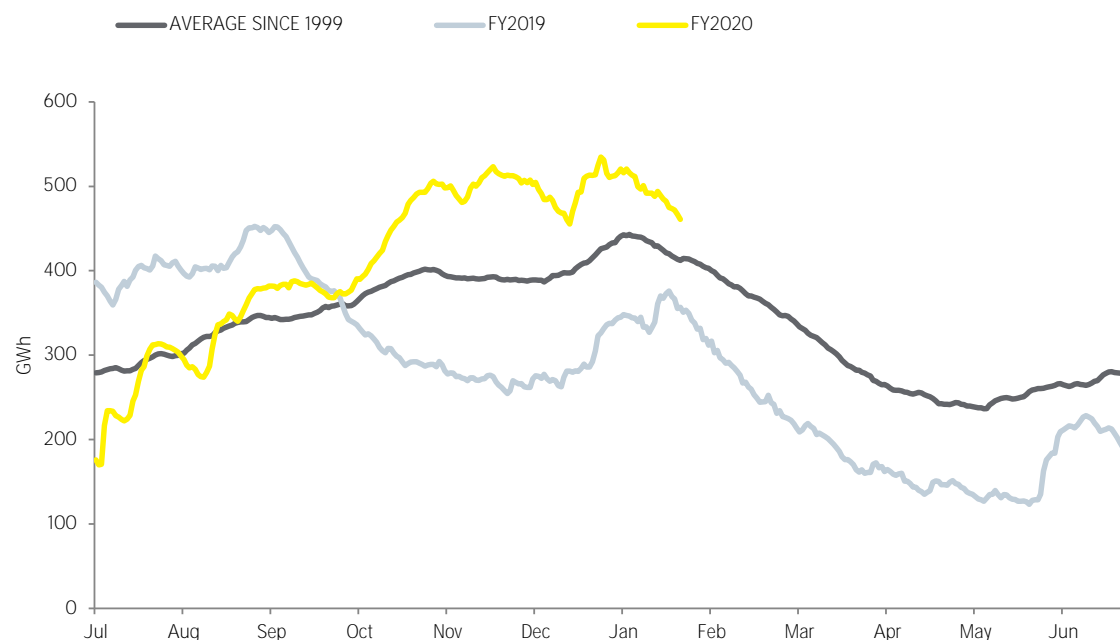
Source: Mercury Purchases and Transpower SCADA

> OTAHUHU WHOLESALE PRICE AND NATIONAL HYDRO STORAGE LEVELS



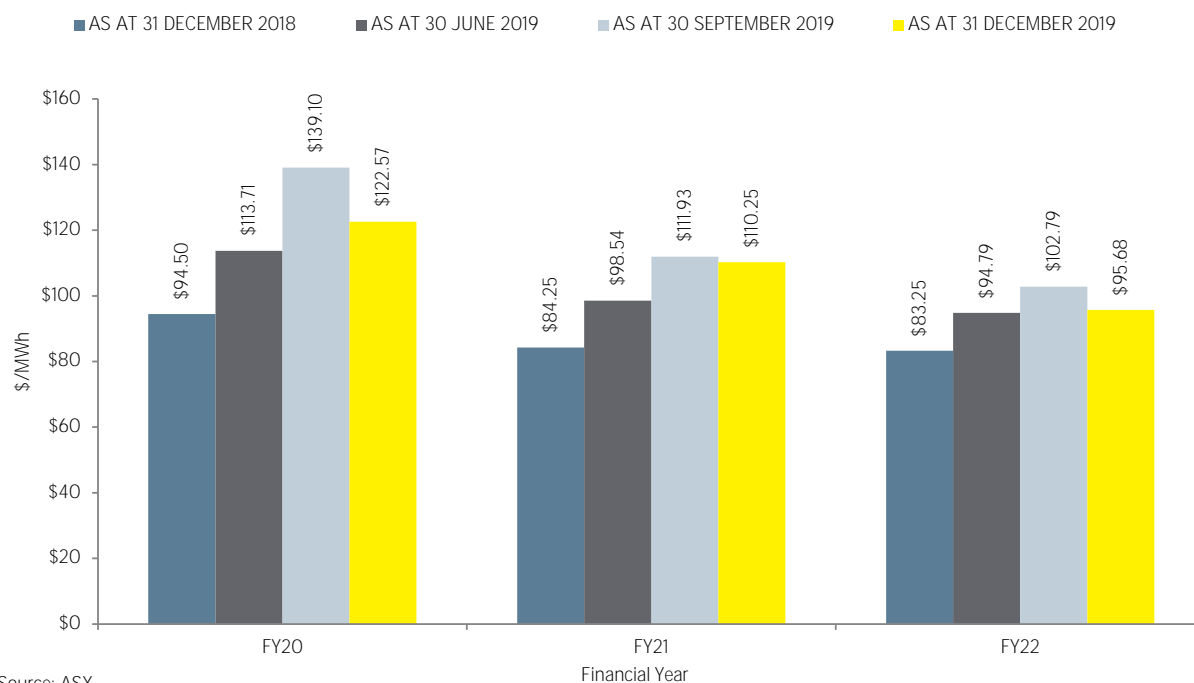
Source: NZX Hydro and NZEM Pricing Manager (NZX)

> TAUPO STORAGE

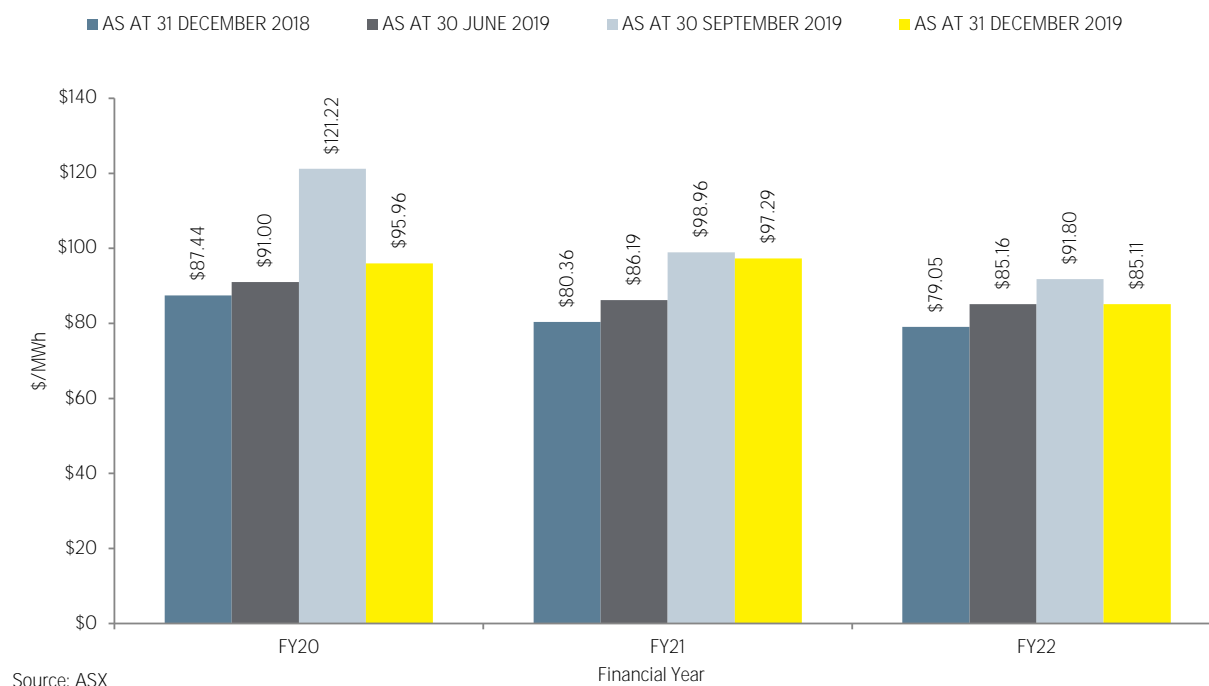


Source: NZX Hydro

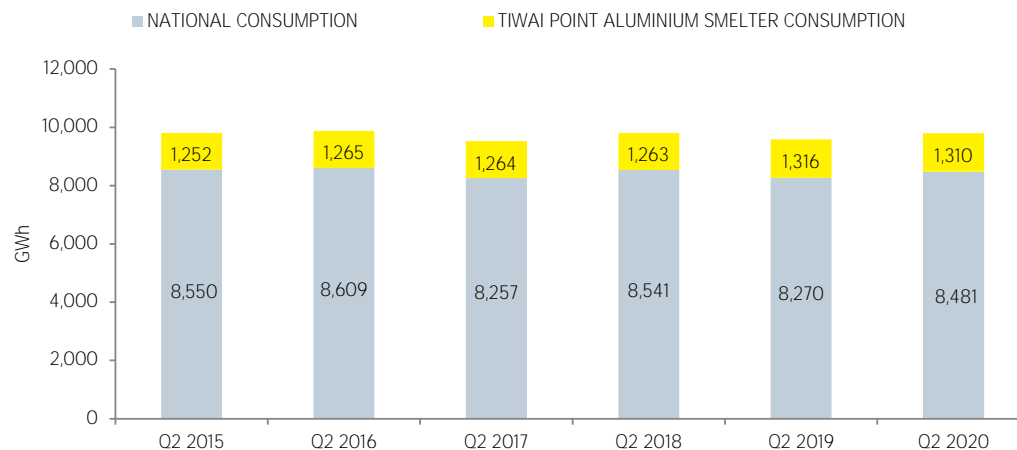
> OTAHUHU ASX FUTURES SETTLEMENT PRICE



> BENMORE ASX FUTURES SETTLEMENT PRICE



> NATIONAL CONSUMPTION (NON-TEMPERATURE ADJUSTED)



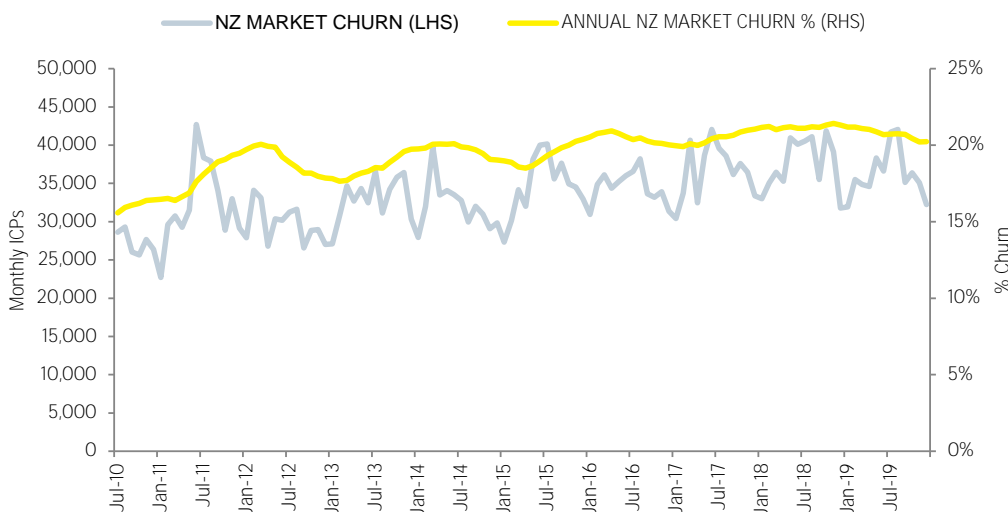
Source: Transpower Information Exchange

> AUCKLAND CLIMATE SUMMARY (°C)

FINANCIAL YEAR	Q1	Q2	Q3	Q4
2020	12.3	16.7	-	-
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