



JOIN THE ELECTRIC REVOLUTION.

That's the theme of Mercury's new brand campaign which features Kiwis 'breaking up' with their old cars in favour of the world of fun and function offered by e.transport options.

We're saying it's time to "Kiss Oil Goodbye". Why? Because it's clear to us that faster change is needed for a more sustainable future.

Of the things we could do differently, vehicle emissions have some of the biggest negative impacts on the environment and our economy.

Your electricity... our electricity... is part of the solution. Renewable electricity can be used for lower-emission and lower-cost transport in an increasing number of ways.

We're encouraging Kiwis to lead their own electric revolution. And letting them know that we'll be with them all the way, helping to inspire them, make things easy, and reward them for making the change.

To learn more, visit:
mercury.co.nz

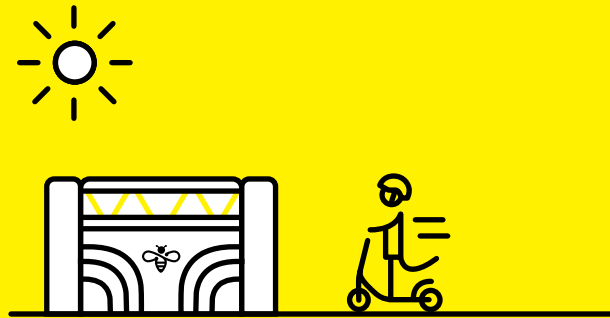
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CHAIR'S UPDATE.



PRUE FLACKS // CHAIR

To our owners, employees, customers, partners and all others with an interest in or relationship with Mercury, it is my pleasure to present to you Mercury's 2020 Interim Report, my first external report as Chair.

This report covers the six-month period to 31 December 2019. It was again a period of strong progress across our key areas of focus; of further clear decisions aligned with our strategy; and of change.

One particular highlight during the period was the announcement of our commitment to complete the construction of the remaining 27 consented turbines at Turitea, adding to the 33-turbine project announced earlier in 2019. This will create New Zealand's largest wind farm at 222MW, producing 840GWh of electricity generation annually, enough to power 375,000 EVs. Mercury's Chief Executive, Fraser Whineray, will reflect on this, and other operational and energy sector matters, in his update which follows.

COMMERCIAL

Mercury's operating earnings (EBITDAF) of \$258 million (\$302 million HY2019) and net profit after tax (NPAT) of \$83 million (\$104 million HY2019) reflected lower generation compared with the prior corresponding period.

Hydro generation was 2,142GWh compared with 2,448GWh in the prior corresponding period and the record 2,694GWh in 2018.

Geothermal output across our five owned or co-owned geothermal power stations was at 1,286GWh (1,357GWh in HY2019)

while work was carried out as part of our long-term asset management plan.

Other than a year-end drop related to the late rainfall in the lower South Island, spot prices remained elevated, driven largely by gas supply constraints to thermal generators.

While hydro generation was below the mid-point forecast we had at the start of the financial year, our portfolio strategy has captured opportunities in this dynamic environment. As mentioned later, Mercury reduced mass market volume through reduced acquisition, and replaced that volume with higher yielding wholesale sales.

Operating expenditure was \$94 million (\$99 million HY2019). Our stay-in-business capital expenditure (SIB capex) was \$53 million, up \$8 million on the prior corresponding period due to scheduled geothermal well drilling costs.

Free cash flow at \$127 million (\$126 million HY2019) was slightly up due to lower interest costs, tax paid and elevated working capital requirements in the prior corresponding period.

Total shareholder return (TSR) across the 12 month period from 1 January 2019 was 43%.

In December, ratings agency S&P Global confirmed Mercury's corporate credit rating as BBB+/Stable. This rating includes a one-

notch uplift from the company's stand-alone rating of 'BBB', reflecting the legislated majority ownership by the New Zealand government.

CUSTOMER

We continued our focus on customer value rather than growing customer numbers at all costs. Mass market customer numbers were down 16,000 as part of this strategy, however we achieved a 1.8% uplift in yield across our mass market segment through disciplined channel management.

PEOPLE

Health, safety and wellbeing are fundamentally important for Mercury as we focus on retaining capability and ensuring Mercury remains an attractive, safe and enjoyable place to work. Pleasingly, once again no high severity health and safety incidents occurred during the period. Our total recordable injury frequency rate (TRIFR) for the half year was 0.67, lower than the prior corresponding period.

INTERIM DIVIDEND

The Board has declared an interim fully imputed dividend of 6.4 cents per share to our 80,000 owners including the Crown. This represents an increase of 3.2% on the HY2019 dividend. The dividend will be paid on 1 April 2020.

GUIDANCE

Mercury's FY2020 EBITDAF guidance has been revised to \$500 million, subject to any material events, significant one-off expenses or other unforeseeable circumstances including hydrological conditions. Guidance at the time of this report assumes 3,900GWh of hydro production. FY2020 SIB capex guidance is \$120 million, up \$15 million

\$258M↓

OPERATING EARNINGS
(EBITDAF)

6.4CPS↑

INTERIM DIVIDEND
DECLARED

43%↑

TOTAL SHAREHOLDER
RETURN





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IT WAS AGAIN A PERIOD OF STRONG PROGRESS ACROSS OUR KEY AREAS OF FOCUS; OF FURTHER CLEAR DECISIONS ALIGNED WITH OUR STRATEGY; AND OF CHANGE.

from initial guidance due to costs related to bringing forward the drilling of a further geothermal well at Rotokawa.

FY2020 ordinary dividend guidance remains at 15.8 cents per share, fully imputed, representing a 2% increase on FY2019 and the 12th year of ordinary dividend growth.

BOARD COMPOSITION

It is an honour to succeed Joan Withers as Mercury Chair. Joan retired at our 2019 Annual Shareholders' Meeting after a distinguished 10-year period at the Board's helm and her legacy at Mercury is deeply entrenched and significant.

The vacancy arising from Joan's retirement has been filled with the appointment of Hannah Hamling to the Board from February 2020.

Hannah has a strong environmental science and water management background. These areas are particularly relevant to Mercury as we continue to advance our contribution to New Zealand's sustainability in the face of climate-related challenges and opportunities. As directed by Mercury's constitution, Hannah will retire at our Annual Shareholders' Meeting in September 2020 and stand for election by shareholders.

As well as welcoming Hannah, I take this opportunity to thank Anna Lissaman, who sat with the Board for 18 months as part of the Institute of Directors' Future Directors Programme. We enjoyed and benefitted from Anna's contribution during her time with us and wish her well on her governance journey.

We continue our support of the Future Directors Programme and will look to invite another business leader to join us as part of the programme later this calendar year.

PARTNERSHIPS & KAITIAKITANGA

A very constructive and informative Board meeting and stakeholder event was held in Hamilton in November. Sessions that involved korero (talking and engaging) with our iwi partners were valuable to us all in maintaining and enhancing our understanding of what is important to key stakeholders in the Waikato catchment.

EXECUTIVE MANAGEMENT

During the period our Chief Executive Fraser Whineray announced he would leave Mercury in March for a role at Fonterra. Fraser joined Mercury in 2008 and has made a significant contribution, firstly leading the hydro/wholesale (and gas at the time) parts of our operations before being appointed Chief Executive in 2014. Fraser has been an inspiring leader for Mercury, and a pleasure to work with. His achievements on behalf of Mercury, his championing of renewable electricity as a meaningful way to reduce carbon emissions across our economy, and his passionate advocacy for New Zealand, were recognised when he was named Chief Executive of the Year at the 2019 Deloitte Top 200 Awards in December.

Following a rigorous recruitment process, the Board was pleased to announce the appointment of former Trustpower Chief Executive Vince Hawksworth to succeed Fraser as Mercury's Chief Executive. It is extremely gratifying to have attracted someone of Vince's calibre and industry experience. We look forward to welcoming Vince to Mercury in late April.

CONCLUSION

On behalf of the Board I congratulate the people of Mercury and its management team for a strong half-year, in particular for

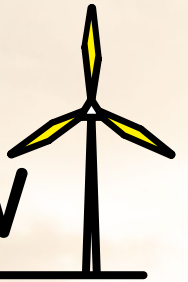
their contributions to those decisions which help set up the company for long-term success. I acknowledge also the support and work of our partners, and the loyalty of our customers.

I look forward to the second half of the financial year continuing Mercury's track record of efficient execution of our strategy and delivering what we say we will do for the balanced benefit of our stakeholders.

PRUE FLACKS // CHAIR

OUR TURITEA WIND FARM

222MW



NEW ZEALAND'S
LARGEST WIND FARM

840GWh

ESTIMATED GENERATION
PER YEAR



CHIEF EXECUTIVE'S UPDATE.

FRASER WHINERAY // CHIEF EXECUTIVE

Mercury has achieved further key milestones and a strong performance over the half year.

A deliberate portfolio strategy to maintain a longer net-generation position, particularly from October, has been positive for earnings and risk management. Adjusting for changes in hydro generation, HY2020 represents a stronger result than the prior corresponding period.

Part of achieving a longer net generation position was a reduction in customer numbers, particularly through choosing not to aggressively pursue the Farm Source (farming sector) contract. Dairy farmers have a refrigeration load correlated through spring and summer linked to grass growth, which is when Mercury was seeking to reduce the risk of the portfolio impacts of drought in the Taupo catchment. We have also taken a very disciplined approach to channel optimisation, recognising that extensively discounted and non-digital mass market acquisition channels were sub-optimal relative to wholesale yields. We maintain a dynamic forward view of energy costs and channel optimisation.

As our Chair noted, we have committed to build the remaining 27 turbines at the Turitea wind farm, which will make this New Zealand's largest, representing two percent of national demand.

Other key activity has included:

- Investment in data science and analytics capability to better inform our customer strategy;
- Reconfiguration of our Rotorua and Maraetai workspaces to support a more collaborative and high-performance team environment;

- Development of our virtual customer assistant 'Hiko', launched in January;
- Development of our new brand campaign to further promote e.transport options for New Zealand, launched in February;
- Completion of an upgrade to our Maximo asset management system;
- The start of work to replace the top of the cooling towers at Nga Awa Purua geothermal power station (a maintenance task that will involve the unscrewing and screwing back up of 19,000 bolts).

FULL YEAR OUTLOOK

Looking to the second half of the financial year, we expect to see ongoing challenging wholesale market conditions due to national thermal fuel and transmission constraints. There will likely be a decision from Rio Tinto concerning the Tiwai aluminium smelter's immediate future. Intense competition in retail and strained retail margins will continue to be a feature. Consequently, it is likely further sub-scale, under-capitalised, under-hedged and insufficiently differentiated retailers will exit the market. We also anticipate further competitor decisions on new generation development and retirement.

From a government and regulatory perspective, we look forward to a satisfactory conclusion of the Government's National Policy Statement for Indigenous Biodiversity which does not prejudice geothermal generation. We also look forward to further clarity being provided by the Government in acknowledging the importance of protecting water storage capacity for hydro generation.

The latter is important to ensure the ongoing reinvestment in hydro infrastructure that underpins New Zealand's renewable energy advantage over other countries.

For Mercury we have a strong programme of work to execute in the balance of the year. We expect to complete the Whakamaru hydro refurbishment started in 2016 and the Aratiatia hydro refurbishment started in 2017. We will advance geothermal drilling at the Kawerau and Rotokawa fields and make extensive progress with the construction of the Turitea wind farm. We are engaging in ongoing activity related to the WAI85 (Waitangi Tribunal) claim process where we are seeking to ensure key information related to the Waikato Hydro System is well understood. In the unlikely event Mercury is affected, the Crown is required to compensate Mercury.

For our customers, we will advance engagement through digital channels and complete our response to Electricity Pricing Review recommendations. We have launched the third phase of the Mercury rebrand, begun in 2016, with our deliberately positive and provocative "Kiss Oil Goodbye" campaign. We will roll out a new digital platform, Mercury Cosy, to assist customers with understanding the best next steps to improve their homes' energy efficiency.

Another initiative that Mercury looks forward to advancing is our application of geothermal science to the challenge of silica deposition. There is very promising in-house research underway with the potential to reduce geothermal generation maintenance costs, while at the same time reducing geothermal greenhouse gas emissions.

ZERO

HIGH SEVERITY
HEALTH & SAFETY
INCIDENTS

\$53M↑

REINVESTMENT
CAPITAL EXPENDITURE
(SIB-CAPEX)

64%

CUSTOMER
SATISFACTION*

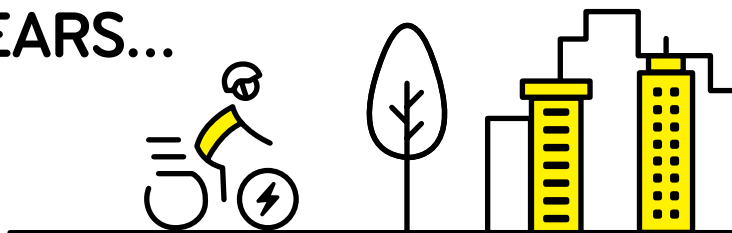
*six month average





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“THIS YEAR, MERCURY IS ON TRACK TO DELIVER ITS 12TH PROGRESSIVE ORDINARY DIVIDEND...AND EXPECTS TO HAVE STRONG GROWTH OVER THE NEXT THREE YEARS...”



Our commitment to custodianship of natural resources is being progressed through detailed strategic planning and the development of a partnership model to support our vision for the Waikato catchment to be acknowledged as among the world's best.

We are also focused on a seamless Chief Executive transition as I move to a new role outside the energy sector, and Mercury welcomes Vince Hawksworth to lead the company.

In summary, Mercury is well positioned for the full year as a result of our portfolio and channel management, reinvestment activities in generation, digital systems and our people, and new investment decisions.

A LONGER TERM VIEW

With more than 11 years as an executive in the electricity sector, across four elections, two different primary regulators, and five Energy Ministers, I provide below a few reflections that are pertinent to its future.

A strong energy system, of which electricity is a vital component, requires the careful and dynamic balancing of the 'trilemma' of considerations, being reliability, cost and renewability. These three matters must be considered simultaneously as it is very rare to find interventions affecting one leg of the trilemma that don't adversely impact the others.

New Zealand's electricity sector is world-leading on dynamically balancing the trilemma. The outlook is for this to continue to happen with investment and re-investment subject to high-quality and predictable regulatory development.

The country manages to achieve this position for several reasons:

- The quality of geothermal and wind resources is so high that it is superior to fossil fuel electricity generation even without subsidies.
- The system has a significant proportion of baseload renewable generation in the form of geothermal generation. Geothermal is a unique renewable in that output does not depend on terrestrial weather systems. As the country's number two electricity source behind hydro, huge geothermal investment has effectively displaced base-load thermal generation over the last two decades and almost halved the emissions of the entire electricity sector, equivalent to removing all aviation emissions.
- The hydro systems accommodate vast amounts of variable customer demand and increasingly variable renewable generation from wind and solar because they were built with high peaking capability.
- The market structure was carefully designed in the early 1990s, following recognition in the 1980s that central ownership and control was ineffective for the trilemma. This has evolved and delivered in an ever-complex technology and customer dynamic. It is important that, as people who understand those fundamentals from both the sector and regulatory/policy positions retire, apparently simple and narrow ideas are not implemented without consideration of the complex dynamics that underpin a system which is globally superior.

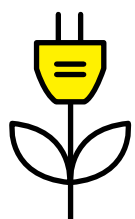
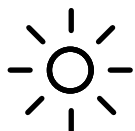
- A diverse and innovative range of customer, smart metering and generation solutions was possible as a result of the decentralisation in the 1990s. New thinking and approaches continue to thrive in this environment. That is the only way to keep up with the pace of change.

One of the key reasons for the renewable energy renaissance in New Zealand over the last two decades is because the increasing price and lower deliverability of gas brought new renewable projects into financial viability.

New Zealand's gas system is again facing challenges, which is flowing through to electricity. However the competition to develop new generation, predominantly renewable, is again rising to this challenge with several developers having patiently invested in 'shovel-ready' projects, consents and agreements over many years.

New Zealand's competitive advantage in renewable energy is well known. The Productivity Commission and the Interim Climate Change Committee have both recently produced well-researched reports articulating the electricity sector's performance and strategic national benefits for a decarbonising future. This competitive advantage is frequently highlighted internationally, particularly by successive governments and public officials considering trade arrangements and our national identity. For some reason many of those same voices find it very difficult to talk positively about the sector when at home.

New Zealand's trilemma performance isn't just good for New Zealand today, but incredibly important for New Zealand tomorrow. Good policy requires



simultaneously entertaining all three legs of the trilemma. No matter how well intentioned, responding to narrow interests without very careful and deep analysis can destroy the trilemma very quickly. It would be a tremendous affront to all New Zealanders and their wellbeing if political dynamics ended up destroying this competitive advantage. Australian politicians have created huge social and environmental damage through ill-considered energy policy over little more than a decade.

There is a lot the electricity sector can and should do to continue to improve. Much of this is covered in recommendations and directions from the recent Electricity Pricing Review, and is underway. A vast amount more occurs across the sector for its improvement without fanfare.

Turning to Mercury itself, I am grateful to have had the opportunity to contribute to the company and this exciting and dynamic sector, and to have led Mercury since 2014.

I have seen first-hand what happens when a purpose that genuinely extends to customers and the country creates alignment for our people, our partners and the environment. In combination with a high-performance team framework, that alignment combines to produce some remarkable outcomes that include innovation, quality execution and a very enjoyable place to work. With this purpose and momentum, Mercury's attractiveness as an employer has increased considerably, most recently exemplified in attracting someone as experienced and qualified as Vince Hawksworth to be Mercury's third Chief Executive.

It is said people become a product of the company they keep. The same is true for companies. It has been tremendously valuable to see the exchange of "organisational DNA" with many of our partners and the positive impact this has had on Mercury. From the near century-long geothermal joint venture with the Tauhara North No.2 Trust to our relationships with the Tuaropaki Trust, FCB, Andritz, Starship Foundation, Waikato Tainui, Raukawa, Ngāti Tahu-Ngāti Whaoa, Tūwharetoa and other iwi, Waikato Regional Council, Waikato River Trails, the Waikato Catchment Ecological Enhancement Trust, Vestas, SAP and many others. These partnerships very positively influence the company and allow us to do far more than we could contemplate alone.

Mercury is on track to deliver its 12th progressive ordinary dividend, complete major hydro refurbishments as part of a multi-decade programme started in 2010, enjoy the benefits of an exceptionally strong balance sheet to support investment and expects to have strong growth over the next three years thanks to decisions already undertaken. The company has much more to achieve.

FINAL WORD

I am thankful for the commitment and creativity of Mercury's people, partners and suppliers, and the support of our Board, customers and owners for what has been a very rewarding and challenging journey since 2008.

I thank my predecessor Doug Heffernan for his contribution to the competitive advantage of New Zealand's electricity system and

establishing and growing Mighty River Power. I wish Vince Hawksworth the very best for his leadership of the company, with the guidance of Prue Flacks and her fellow directors, and the support of all of Mercury.

Ake ake kia kaha.

Together we are Mercury.

Energy made Wonderful.

Ngā mihi nui ki a koutou katoa.

FRASER WHINERAY // CHIEF EXECUTIVE

SECOND HALF, FY2020 ACTIVITIES:

**COMPLETION OF
WHAKAMARU AND
ARATIATIA HYDRO
REFURBISHMENTS**

**DRILLING PROGRAMME
AT KAWERAU AND
ROKAWA GEOTHERMAL
FIELDS**

**PROGRESS TURITEA WIND
FARM CONSTRUCTION**

**EXPAND MERCURY DRIVE
EV-BY-SUBSCRIPTION
SERVICE**

**BUILD "WORLD'S BEST
CATCHMENT" PLAN
FOR WAIKATO RIVER
SUSTAINABILITY**

**ENHANCE DIGITAL
ENGAGEMENT WITH
CUSTOMERS, INCLUDING
LEVERAGE OF NEW BRAND
CAMPAIGN**

OUR FINANCIALS

**LET'S GET
INTO THE
NUMBERS.**

INDEPENDENT REVIEW REPORT.

REVIEW REPORT TO THE SHAREHOLDERS OF MERCURY NZ LIMITED

We have reviewed the consolidated interim financial statements of Mercury NZ Limited ("the Company") and its subsidiaries ("the Group") on pages 14 to 27, which comprise the consolidated balance sheet of the Group as at 31 December 2019, 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 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.

REVIEWERS' 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 Equivalent to International Accounting Standard 34 *Interim Financial Reporting*.

The Auditor-General is the auditor of Mercury NZ Limited and its subsidiaries. Lloyd Bunyan, appointed by the Auditor-General, performs the annual audit of the Group using the staff and resources of Ernst & Young. As a result, and in compliance with NZ SRE 2410, Ernst & Young is required to comply with the independence requirements of the Auditor-General, which incorporate the independence requirements of the External Reporting Board.

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.

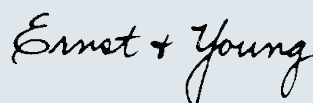
The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with International Standards on Auditing (New Zealand). Accordingly we do not express an audit opinion on the consolidated interim financial statements.

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 international tax compliance and advice which are compatible with these independence requirements. 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 or in the performance of this review. These services have not impaired our independence as auditor of the Group or in the performance of this review. Other than these engagements and arm's length transactions 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 consolidated interim financial statements, set out on pages 14 to 27, do not present fairly, in all material respects, the financial position of the Group as at 31 December 2019 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 25 February 2020 and our findings are expressed as at that date.



ERNST & YOUNG
AUCKLAND, NEW ZEALAND

FINANCIAL STATEMENTS.

CONSOLIDATED INCOME STATEMENT

For the six months ended 31 December 2019

	Note	Unaudited 6 Months 31 Dec 2019 \$M	Restated Unaudited 6 Months 31 Dec 2018 \$M	Restated Audited 12 Months 30 Jun 2019 \$M
Total revenue	4	928	1,079	2,001
Total expenses	4	(670)	(777)	(1,495)
EBITDAF¹		258	302	506
Depreciation and amortisation		(105)	(104)	(204)
Change in the fair value of financial instruments		(22)	(14)	26
Gain on sale		–	–	177
Net interest expense	4	(30)	(39)	(75)
Profit before tax		101	145	430
Tax expense		(18)	(41)	(73)
Profit for the period attributable to owners of the parent		83	104	357
Basic and diluted earnings per share (cents)		6.1	7.6	26.2

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 31 December 2019

	Unaudited 6 Months 31 Dec 2019 \$M	Unaudited 6 Months 31 Dec 2018 \$M	Audited 12 Months 30 Jun 2019 \$M
Profit for the period	83	104	357
Other comprehensive income			
Items that will not be reclassified subsequently to profit or loss			
Movement in asset revaluation reserve	–	–	244
Movement in cash flow hedge reserve transferred to balance sheet	–	–	(1)
Share of movements in associates' and joint ventures' reserves	8	–	(9)
Tax effect	–	–	(66)
Items that may be reclassified subsequently to profit or loss			
Movement in cash flow hedge reserve	1	(64)	(118)
Movement in other reserves	–	–	1
Share of movements in associates' and joint ventures' reserves	(14)	–	–
Tax effect	–	18	32
Other comprehensive (loss)/income for the period, net of taxation	(5)	(46)	83
Total comprehensive income for the period attributable to owners of the parent	78	58	440

1. EBITDAF: Earnings before depreciation and amortisation, change in the fair value of financial instruments, gain on sale, impairments, net interest expense and tax expense.

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

CONSOLIDATED BALANCE SHEET

As at 31 December 2019

	Note	Unaudited 31 Dec 2019 \$M	Restated Unaudited 31 Dec 2018 \$M	Audited 30 Jun 2019 \$M
SHAREHOLDERS' EQUITY				
Issued capital		378	378	378
Treasury shares		(101)	(101)	(101)
Reserves		3,211	2,962	3,260
Total shareholders' equity		3,488	3,239	3,537
ASSETS				
Current assets				
Cash and cash equivalents		85	78	94
Receivables		183	243	256
Contract assets		2	3	3
Inventories		25	27	23
Derivative financial instruments	6	67	81	50
Total current assets		362	432	426
Non-current assets				
Property, plant and equipment	7	5,517	5,267	5,528
Intangible assets		83	81	85
Investments		–	142	234
Investment and advances to associates	8	302	86	76
Advances to joint operations		6	7	6
Receivables		6	3	–
Derivative financial instruments	6	109	127	129
Total non-current assets		6,023	5,713	6,058
Held-for-sale assets		–	81	–
Total assets		6,385	6,226	6,484
LIABILITIES				
Current liabilities				
Payables and accruals		153	184	216
Provisions		1	–	–
Borrowings	9	401	288	541
Derivative financial instruments	6	56	90	45
Taxation payable		22	19	19
Total current liabilities		633	581	821
Non-current liabilities				
Payables and accruals		10	10	9
Provisions		59	52	59
Derivative financial instruments	6	219	150	208
Borrowings	9	851	1,095	692
Deferred tax		1,125	1,097	1,158
Total non-current liabilities		2,264	2,404	2,126
Held-for-sale liabilities		–	2	–
Total liabilities		2,897	2,987	2,947
Net assets		3,488	3,239	3,537

For and on behalf of the Board of Directors, who authorised the issue of the Financial Statements on 25 February 2020.



PRUE FLACKS // CHAIR
25 February 2020



KEITH SMITH // DIRECTOR
25 February 2020

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 31 December 2019

	Issued capital \$M	Retained earnings \$M	Asset revaluation reserve \$M	Cash flow hedge reserve \$M	Other reserves \$M	Total equity \$M
Restated balance as at 1 July 2018	378	164	2,901	(24)	(114)	3,305
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 values 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)
Restated balance as at 31 December 2018	378	129	2,909	(78)	(99)	3,239
Restated balance as at 1 January 2019	378	129	2,909	(78)	(99)	3,239
Movement in asset revaluation reserve, net of taxation	–	–	176	–	–	176
Movement in cash flow hedge reserve, net of taxation	–	–	–	(39)	–	(39)
Movements in other reserves	–	2	–	–	(1)	1
Share of movements in associates' and joint ventures' reserves	–	–	(8)	(1)	–	(9)
Other comprehensive income/(loss)	–	2	168	(40)	(1)	129
Net profit for the period	–	253	–	–	–	253
Total comprehensive income/(loss) for the period	–	255	168	(40)	(1)	382
Dividend	–	(84)	–	–	–	(84)
Balance as at 30 June 2019	378	300	3,077	(118)	(100)	3,537
Balance as at 1 July 2019	378	300	3,077	(118)	(100)	3,537
Movement in cash flow hedge reserve, net of taxation	–	–	–	1	–	1
Share of movements in associates' and joint ventures' reserves	–	–	9	(13)	(2)	(6)
Other comprehensive income/(loss)	–	–	9	(12)	(2)	(5)
Net profit for the period	–	83	–	–	–	83
Total comprehensive income/(loss) for the period	–	83	9	(12)	(2)	78
Dividend	–	(127)	–	–	–	(127)
Balance as at 31 December 2019	378	256	3,086	(130)	(102)	3,488

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

CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 31 December 2019

	Unaudited 6 Months 31 Dec 2019 \$M	Unaudited 6 Months 31 Dec 2018 \$M	Audited 12 Months 30 Jun 2019 \$M
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	981	1,057	1,952
Payments to suppliers and employees	(721)	(796)	(1,478)
Interest received	–	1	1
Interest paid	(30)	(36)	(70)
Taxes paid	(50)	(55)	(79)
Net cash provided by operating activities	180	171	326
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of property, plant and equipment	(68)	(39)	(93)
Acquisition of intangibles	(19)	(14)	(29)
Acquisition of investment	–	–	(55)
Distributions received and advances repaid from associates and joint ventures	2	3	5
Proceeds from the sale of metering business	–	–	270
Net cash (used)/received in investing activities	(85)	(50)	98
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from loans	325	69	30
Repayment of loans	(300)	–	(166)
(Payment)/receipt of lease (liabilities)/incentives	(2)	7	9
Dividends paid	(127)	(124)	(208)
Net cash used in financing activities	(104)	(48)	(335)
Net (decrease)/increase in cash and cash equivalents held	(9)	73	89
Cash and cash equivalents at the beginning of the period	94	5	5
Cash and cash equivalents at the end of the period	85	78	94
<i>Cash balance comprises:</i>			
Cash balance at the end of the period	85	78	94

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 31 December 2019

NOTE 1. ACCOUNTING POLICIES

(1) REPORTING ENTITY

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

The consolidated 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 majority shareholder of Mercury NZ Limited is Her Majesty the Queen in Right of New Zealand ("the Government"), providing it with significant potential influence over the Group. The liabilities of the Group are not guaranteed in any way by the Government or by any other shareholder.

(2) BASIS OF PREPARATION

The Group financial statements have been prepared in accordance with the 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. 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 2019.

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.

During the 2019 financial year, an historic overstatement of a fair value adjustment was identified and corrected. Since this overstatement occurred in 2011, our half year comparatives within this interim report have also been restated. Please refer to the 2019 annual report for further information. The change had no impact on the consolidated statement of comprehensive income for any of the periods presented. It resulted in a reduction of \$19m to non-current borrowings and opening reserves in the consolidated balance sheet presented as at 31 December 2018.

The Group has also decided to recognise earnings of associates and joint ventures within total revenue as it anticipates these to become more significant going forward. Prior periods have been restated to reflect this change.

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 earnings by each segment exclusive of any allocation of central administration costs, depreciation and amortisation, change in the fair value of financial instruments, gain on sale, impairments, interest expense 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

	Energy Markets \$M	Other Segments \$M	Unallocated \$M	Inter- segment \$M	Total \$M
Six months ended 31 December 2019 (unaudited)					
Total segment revenue	923	5	–	–	928
Direct costs	(575)	(1)	–	–	(576)
Other operating expenses	(63)	(1)	(30)	–	(94)
Segment EBITDAF	285	3	(30)	–	258

	Energy Markets \$M	Other Segments \$M	Unallocated \$M	Inter- segment \$M	Total \$M
Six months ended 31 December 2018 (restated unaudited)					
Total segment revenue	1,064	27	–	(12)	1,079
Direct costs	(686)	(4)	–	12	(678)
Other operating expenses	(62)	(9)	(28)	–	(99)
Segment EBITDAF	316	14	(28)	–	302

	Energy Markets \$M	Other Segments \$M	Unallocated \$M	Inter- segment \$M	Total \$M
Twelve months to 30 June 2019 (restated audited)					
Total segment revenue	1,978	37	2	(16)	2,001
Direct costs	(1,306)	(6)	–	16	(1,296)
Other operating expenses	(127)	(13)	(59)	–	(199)
Segment EBITDAF	545	18	(57)	–	506

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 31 December 2019

NOTE 3. NON-STATUTORY MEASURE – UNDERLYING EARNINGS

Underlying earnings after tax is presented to enable stakeholders to make an assessment and comparison of earnings after removing one-off and/or infrequently occurring events (exceeding \$10 million of profit before tax, which represents material items), impairments, gain on sale and any change in the fair value of derivative financial instruments, all net of tax expense.

	Unaudited 6 Months 31 Dec 2019 \$M	Unaudited 6 Months 31 Dec 2018 \$M	Audited 12 Months 30 Jun 2019 \$M
PROFIT FOR THE PERIOD	83	104	357
Change in the fair value of financial instruments	22	14	(26)
Impairments/(Gain on sale)	–	–	(177)
Adjustments before tax expense	22	14	(203)
Tax expense	(15)	(4)	7
Adjustments after tax expense	7	10	(196)
Underlying earnings after tax	90	114	161

Tax has been applied on all taxable adjustments at 28%. A \$10m deferred tax expense was recognised in prior periods in relation to unrealised fair value movements of the Group's investment in Tilt Renewables Limited. This tax expense was reversed during the period and is detailed further in Note 8.

The group has previously backed out its equity accounted share of the change in fair value of financial instruments of associate entities. The group no longer feels that it is relevant to include this within underlying earnings and has amended its calculation accordingly. This change had no impact on the prior period comparatives for Underlying Earnings.

NOTE 4. OTHER INCOME STATEMENT DISCLOSURES

	Unaudited 6 Months 31 Dec 2019 \$M	Restated Unaudited 6 Months 31 Dec 2018 \$M	Restated Audited 12 Months 30 Jun 2019 \$M
Sales from electricity generation	398	535	944
Sales to customers and derivatives	519	519	1,013
Earnings of associates and joint ventures	3	–	1
Other revenue	8	25	43
Total revenue	928	1,079	2,001
Energy costs	(329)	(423)	(802)
Line charges	(205)	(221)	(422)
Other direct cost of sales, excluding third-party metering	(18)	(17)	(33)
Direct costs of other revenue	(1)	(4)	(6)
Third-party metering	(23)	(13)	(33)
Employee compensation and benefits	(41)	(45)	(86)
Maintenance expenses	(22)	(21)	(42)
Other expenses	(31)	(33)	(71)
Total expenses	(670)	(777)	(1,495)
Interest expense	(30)	(40)	(76)
Interest income	–	1	1
Net interest expense	(30)	(39)	(75)

NOTE 5. SHARE CAPITAL AND DISTRIBUTION

The share capital of the Company is represented by 1,400,012,517 ordinary shares (30 June 2019: 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 2019 Number of shares (M)	Unaudited 31 Dec 2019 \$M	Unaudited 31 Dec 2018 Number of shares (M)	Unaudited 31 Dec 2018 \$M	Audited 30 Jun 2019 Number of shares (M)	Audited 30 Jun 2019 \$M
Treasury shares						
Balance at the beginning and end of the period	39	101	39	101	39	101
Dividends declared and paid						
			Cents per share	Unaudited 6 Months 31 Dec 2019 \$M	Unaudited 6 Months 31 Dec 2018 \$M	Audited 12 Months 30 Jun 2019 \$M
Final dividend for 2018			9.1	–	124	124
Interim dividend for 2019			6.2	–	–	84
Final dividend for 2019			9.3	127	–	–
				127	124	208

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 31 December 2019

NOTE 6. FINANCIAL INSTRUMENTS

The Group's overall risk management programme seeks to proactively hedge risks arising from the unpredictability of financial markets 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 2019.

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 \$59 million (30 June 2019: \$60 million), \$297 million (30 June 2019: \$296 million) and \$310 million (30 June 2019: \$312 million) respectively; and (ii) the Capital Bonds, the fair value for which has been calculated at \$311 million (30 June 2019: \$305 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 2019 all of the Group's financial instruments carried at fair value were categorised as level 2, except for electricity price derivatives. Electricity price derivatives assets of \$45 million were categorised as level 1 (30 June 2019: \$44 million) and \$85 million were categorised as level 3 (30 June 2019: \$79 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 2019. Electricity price derivative liabilities of \$19 million were categorised as level 1 (30 June 2019: \$17 million) and \$163 million were categorised as level 3 (30 June 2019: \$138 million).

Financial instruments that use a valuation technique with only observable market inputs, or unobservable inputs that are not significant to the overall valuation, include interest rate derivatives and foreign exchange rate derivatives not traded on a recognised exchange.

Financial instruments that use a valuation technique which includes non-market observable data include non-exchange traded electricity contracts which are valued using a discounted cash flow methodology using a combination of ASX market prices for the first three years, combined with management's internal view of forward prices for the remainder of the contract's term. Management's internal view of forward prices incorporates a minimum price of \$71/MWh and a maximum price of \$134/MWh (30 June 2019: a minimum price of \$69/MWh and a maximum price of \$114/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.

	Unaudited 6 Months 31 Dec 2019 \$M	Unaudited 6 Months 31 Dec 2018 \$M	Audited 12 Months 30 Jun 2019 \$M
RECONCILIATION OF LEVEL 3 FAIR VALUE MOVEMENTS			
Opening balance	(59)	54	54
New contracts	(4)	(10)	(28)
Matured contracts	9	1	1
Gains and losses			
Through the income statement	(13)	(7)	(8)
Through other comprehensive income	10	(49)	(78)
Closing balance	(57)	(11)	(59)

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 adjustment is amortised over the life of the contract by adjusting the future price path used to determine the fair value of the derivatives by a constant amount to return the initial fair value to zero.

The table below details the movements in inception value gains/(losses) included in the fair value of derivative financial assets and liabilities:

	Unaudited 6 Months 31 Dec 2019 \$M	Restated Unaudited 6 Months 31 Dec 2018 \$M	Audited 12 Months 30 Jun 2019 \$M
Opening deferred inception (losses)	(12)	(15)	(15)
Deferred inception gains on new hedges	7	4	3
Deferred inception (losses) realised during the period	(1)	–	–
Closing inception (losses)	(6)	(11)	(12)

NOTE 7. PROPERTY, PLANT AND EQUIPMENT

	Unaudited 6 Months 31 Dec 2019 \$M	Unaudited 6 Months 31 Dec 2018 \$M	Audited 12 Months 30 Jun 2019 \$M
Opening net book value	5,528	5,370	5,370
Additions, including transfers from capital work in progress	81	35	139
Disposals	–	–	(50)
Net revaluation movement	–	–	250
Transfer to held-for-sale	–	(47)	–
Depreciation charge for the period	(92)	(91)	(181)
Closing net book value	5,517	5,267	5,528

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 31 December 2019

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

Investments include:

Name of entity	Principal activity	Type	Interest held			Country
			Unaudited 31 Dec 2019	Unaudited 31 Dec 2018	Audited 30 Jun 2019	
TPC Holdings Limited	Investment holding	Associate	25.00%	25.00%	25.00%	New Zealand
Tilt Renewables Limited	Electricity generation and development	Associate	19.97%	19.99%	19.97%	New Zealand
Rotokawa	Steamfield operation	Joint Operation	64.80%	64.80%	64.80%	New Zealand
Ngā Awa Purūa	Electricity generation	Joint Operation	65.00%	65.00%	65.00%	New Zealand
EnergySource LLC	Investment holding	Joint Venture	20.86%	20.86%	20.86%	United States
EnergySource Minerals LLC	Mineral extraction	Joint Venture	20.84%	20.84%	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 2019 \$M	Unaudited 6 Months 31 Dec 2018 \$M	Audited 12 Months 30 Jun 2019 \$M	Unaudited 6 Months 31 Dec 2019 \$M	Unaudited 6 Months 31 Dec 2018 \$M	Audited 12 Months 30 Jun 2019 \$M
Balance at the beginning of the year	76	88	88	–	–	–
Additions during the period	230	–	–	–	–	–
Share of earnings	3	–	1	–	–	–
Share of movement in other comprehensive income	(6)	–	(9)	–	–	–
Distributions received during the period	(1)	(2)	(4)	–	–	–
Balance at the end of the period	302	86	76	–	–	–

The group purchased an initial 19.99% stake in Tilt Renewables Limited ("Tilt") in 2018. At that time the group did not have representation on its board of directors and this investment was accounted for as an investment at fair value through the income statement. On 19 July 2019 the group's Chief Executive was appointed as a non-independent director to the board of Tilt. Consequently, the group considers that it gained significant influence in the context of IAS 28 – *Investments in associates and joint ventures* and has accounted for its investment as an investment in an associate from that date. This has resulted in an unrealised fair value loss of \$4m being recognised for the period, bringing the investment to its market value on 19 July 2019.

In applying NZ IAS 28, the group is required to compare the cost of its investment on 19 July 2019, to the fair value of its share of identifiable net assets of Tilt, and account for any resulting differences this creates when equity accounting its share of earnings and reserves. In doing so, the group has taken into account the information arising from the sale of Tilt's Snowtown 2 subsidiary in December 2019. The effect of this adjustment is to largely bring Tilt's identifiable net assets into line with its market value as of 19 July 2019 and no gain or loss has been recorded by Mercury in respect of the sale of Snowtown 2 in the period to 31 December 2019. The group will revisit this approach when it prepares its full year financial statements.

Additionally, following an announcement from Tilt that it will be looking to reinvest earnings into capital development and due to the additional influence gained from having a director appointee, the group considers it unlikely that Tilt will pay dividends in the foreseeable future and has therefore reversed its \$10m deferred tax liability recognised at 30 June 2019 in relation to unrealised fair value gains.

NOTE 9. BORROWINGS

	Borrowing Currency Denomination	Maturity	Coupon	Unaudited 6 Months 31 Dec 2019 \$M	Restated Unaudited 6 Months 31 Dec 2018 \$M	Audited 12 Months 30 Jun 2019 \$M
Bank facilities	NZD	Various	Floating	25	130	–
Commercial paper programme	NZD	< 3 months	Floating	199	200	199
Wholesale bonds	NZD	Mar-2019	5.03%	–	76	–
Capital bonds	NZD	Jul-2019	6.90%	–	305	305
Wholesale bonds	NZD	Feb-2020	8.21%	31	31	31
USPP – US\$125m	USD	Dec-2020	4.25%	163	163	163
Wholesale/credit wrapper	NZD	Sep-2021	Floating	300	300	300
USPP – US\$30m	USD	Dec-2022	4.35%	39	39	39
Wholesale bonds	NZD	Mar-2023	5.79%	26	25	26
USPP – US\$45m	USD	Dec-2025	4.60%	59	59	59
Capital bonds	NZD	Jul-2049	3.60%	302	–	–
Lease liabilities				69	21	69
Deferred financing costs				(4)	(3)	(1)
Fair value adjustments				43	37	43
Carrying value of loans				1,252	1,383	1,233
Current				401	288	541
Non-current				851	1,095	692
				1,252	1,383	1,233

The Group has \$500 million of committed and unsecured bank loan facilities of which \$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 2021.

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.

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

The Group has entered into a Master Trust Deed and Supplementary Trust Deeds for all its NZD denominated Senior Fixed and Floating Rate Bonds with the New Zealand Guardian Trust Group Limited, acting as trustee for the holders. The Group has agreed, subject to certain exceptions, not to create or permit to exist a security interest over or affecting its assets to secure indebtedness, and to maintain certain financial covenants. There has been no breach of the terms of these deeds.

The Group has entered into a negative pledge deed in favour of its bank financiers in which the Group has agreed, subject to certain exceptions, not to create or permit to exist a security interest over or affecting its assets to secure its indebtedness, and to maintain certain financial ratios in relation to the Group. These undertakings and covenants also apply to the US Private Placement (USPP) terms and conditions. There has been no breach of the terms of this deed or the terms and conditions of the USPP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 31 December 2019

NOTE 10. RELATED PARTY TRANSACTIONS

Majority shareholder

The majority shareholder of Mercury NZ Limited is the Government. All transactions with the Government and other entities wholly or partly owned by the Government are on normal commercial terms. Transactions cover a variety of services including trading energy, postal, travel and tax.

Transactions with related parties

Mercury NZ Limited has investments in subsidiaries, associates and joint arrangements, all of which are considered related parties.

As these are consolidated financial statements, transactions between related parties within the Group have been eliminated.

Consequently, only those transactions between entities which have some owners external to the Group have been reported below:

	Transaction value		
	Unaudited 6 Months 31 Dec 2019 \$M	Unaudited 6 Months 31 Dec 2018 \$M	Audited 12 Months 30 Jun 2019 \$M
Associates			
• Management fees and service agreements received	10	12	16
• Energy contract settlements received	8	13	14
Joint operations			
• Management fees and service agreements received	6	5	12
• Energy contract settlements received	4	18	32
• Interest income	–	–	1

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

An advance to TPC Holdings Limited of \$4 million (2019: \$4 million) is interest free and repayable on demand subject to certain conditions being met.

The long-term advance to our Rotokawa Joint Venture partner carries a floating interest rate. Repayments under the advance are linked to the level of receipts under the geothermal energy supply agreement. There is no fixed repayment date; the agreement will terminate on receipt of any outstanding balances.

No related party debts have been written off, forgiven, or any impairment charge booked.

	Transaction value		
	Unaudited 6 Months 31 Dec 2019 \$000	Unaudited 6 Months 31 Dec 2018 \$000	Audited 12 Months 30 Jun 2019 \$000
Key management personnel compensation (paid and payable) comprised:			
• Directors' fees	466	493	990
• Benefits for the Chief Executive and Senior Management:			
Salary and other short-term benefits	3,683	3,239	6,519
Share-based payments	228	114	532
	4,377	3,846	8,041

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 2019.

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 Directors also provide directorship services to other third party entities. A number of these entities transacted with the Group on normal commercial terms during the reporting period.

A number of key management personnel provide directorship services to subsidiaries and other third party entities as part of their employment without receiving any additional remuneration, with exception to the Group's Chief Executive who was elected to the Board of Directors of Tilt Renewables Limited during the period and directly receives remuneration for his directorship services. Again, a number of these entities transacted with the Group, in all circumstances on normal commercial terms in the reporting period.

The Group purchases directors and officers insurance for the benefit of key management personnel in relation to the services they provide to the Group.

NOTE 11. COMMITMENTS AND CONTINGENCIES

	Unaudited 6 Months 31 Dec 2019 \$M	Unaudited 6 Months 31 Dec 2018 \$M	Audited 12 Months 30 Jun 2019 \$M
Commitments			
Capital	489	94	341
Other operating commitments	312	99	211

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) terminates, the existing forward purchase agreements for the acquisition of emissions units, which cover the eight-year period from the end of the reporting period, will also terminate.

Contingencies

The Group holds land and has interests in fresh water and geothermal resources that are subject to claims that have been brought against the Government.

On 29 August 2014, the Supreme Court gave its decision in *Paki v Attorney-General* and dismissed the claimants' action seeking a declaration that the Government holds those parts of the bed of the Waikato River which adjoin former Pouakani land on trust for the Pouākani people on the basis it was incorrectly advanced. The Supreme Court decision has left open the possibility of further litigation in respect of ownership of that land currently held by the Group. The Group has received advice that it may proceed with a high degree of confidence that future decisions on the matter will not impair the Group's ability to operate its hydro assets.

The Group holds land at Maraetai, Waikato, that is subject to a remedies hearing brought against the Government in the Waitangi Tribunal pursuant to the Treaty of Waitangi Act 1975. The remedies hearing relates to an application seeking binding recommendations for the resumption of land at Pouākani, including the Group's land at Maraetai. The Group has received advice that the Tribunal's decision on the matter is unlikely to impair the Group's ability to operate its hydro assets.

A separate claim by the New Zealand Māori Council relating to fresh water and geothermal resources was lodged in 2012 with the Waitangi Tribunal. The Tribunal concluded that Māori have residual (but as yet undefined) proprietary rights in fresh water and geothermal resources and it will be for the Government to determine how any such rights and interests may best be addressed. The impact of this claim on the Group's operations is unknown at this time.

From time to time the Group will issue letters of credit and guarantees to various suppliers in the normal course of business. However, there is no expectation that any outflow of resource relating to these letters of credit or guarantees will be required as a consequence.

The Group has no other material contingent assets or liabilities.

NOTE 12. SUBSEQUENT EVENTS

The Board of Directors has approved an interim dividend of 6.4 cents per share to be paid on 1 April 2020.

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

INFORMATION FOR SHAREHOLDERS.

Shareholder enquiries

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

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

Investor information

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

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

Electronic shareholder communication

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

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



DIRECTORY.

Board of Directors

Prue Flacks, Chair
 Hannah Hamling¹
 Andy Lark
 James Miller
 Keith Smith
 Scott St John
 Patrick Strange
 Mike Taitoko

Executive Team

Fraser Whineray²,
 Chief Executive

 Kevin Angland,
 General Manager Retail & Digital

 Nick Clarke,
 General Manager Geothermal & Safety

 Lucie Drummond,
 Risk Assurance Officer

 Phil Gibson,
 General Manager Hydro & Wholesale

 Julia Jack,
 Chief Marketing Officer

 William Meek,
 Chief Financial Officer

 Tony Nagel,
 General Manager Corporate Affairs

 Matt Olde³,
 General Manager

 Marlene Strawson,
 General Manager People & Performance

Company Secretary

Howard Thomas,
 General Counsel

Investor Relations & Sustainability Enquiries

Tim Thompson,
 Head of Treasury & Investor Relations

 Mercury NZ Limited
 PO Box 90399
 Auckland 1142
 New Zealand

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

Registered Office in New Zealand

33 Broadway, Newmarket, Auckland 1023

Registered Office in Australia

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

Phone: +61 2 8988 5800

Legal Advisors

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

Phone: +64 9 357 9000

Bankers

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

Credit Rating (re-affirmed December 2019)

Long term: BBB+
 Outlook: Stable

Share Registrar – New Zealand

Computershare Investor Services Limited
 Level 2, 159 Hurstmere Road, Takapuna,
 Auckland 0622
 Private Bag 92119
 Auckland 1142, New Zealand

Phone: +64 9 488 8777

Email: enquiry@computershare.co.nz

Web: www.investorcentre.com/nz

Share Registrar – Australia

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

Phone: 1 800 501 366 (within Australia)

Phone: +61 3 9415 4083 (outside Australia)

Email: enquiry@computershare.co.nz

¹ Effective 1 February 2020.

² Fraser Whineray will leave the company in March 2020.
www.mercury.co.nz/whineray

³ Matt Olde will leave the company on 6 March 2020.
www.mercury.co.nz/executive

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