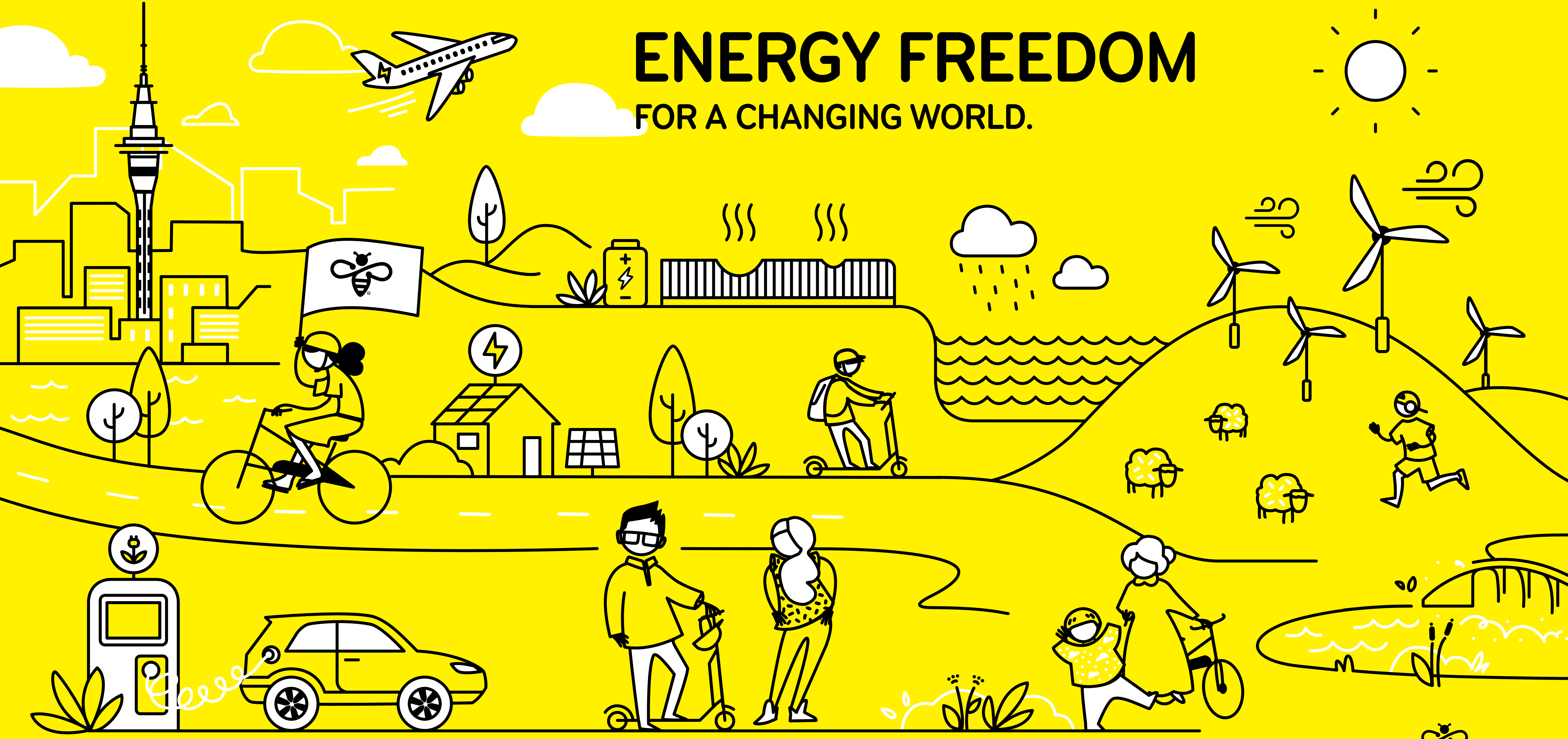
ENERGY FREEDOM

FOR A CHANGING WORLD.



2020 ANNUAL REPORT // MERCURY NZ LIMITED

Mercury

MENU.

ABOUT THIS REPORT.

Mercury is committed to providing transparent disclosures in easily understood, comparable and engaging ways so that we meet the expectations of our many stakeholders.

This report follows the Integrated Reporting <IR> framework. We describe Our Business Model, including inputs, outputs and the outcomes of our strategic approach across five pillars, taking a long-term view of value creation. We also include a specific Global Reporting Initiative (GRI) Standards index and our climate change section follows the Task Force on Climate-related Financial Disclosures (TCFD).

We have grouped our reporting into five sections to help you find areas of particular interest, but note that they are all part of who we are, what we do and why.

Across all this, we seek to report openly and honestly on our performance in a way that shows the integrated approach we take.

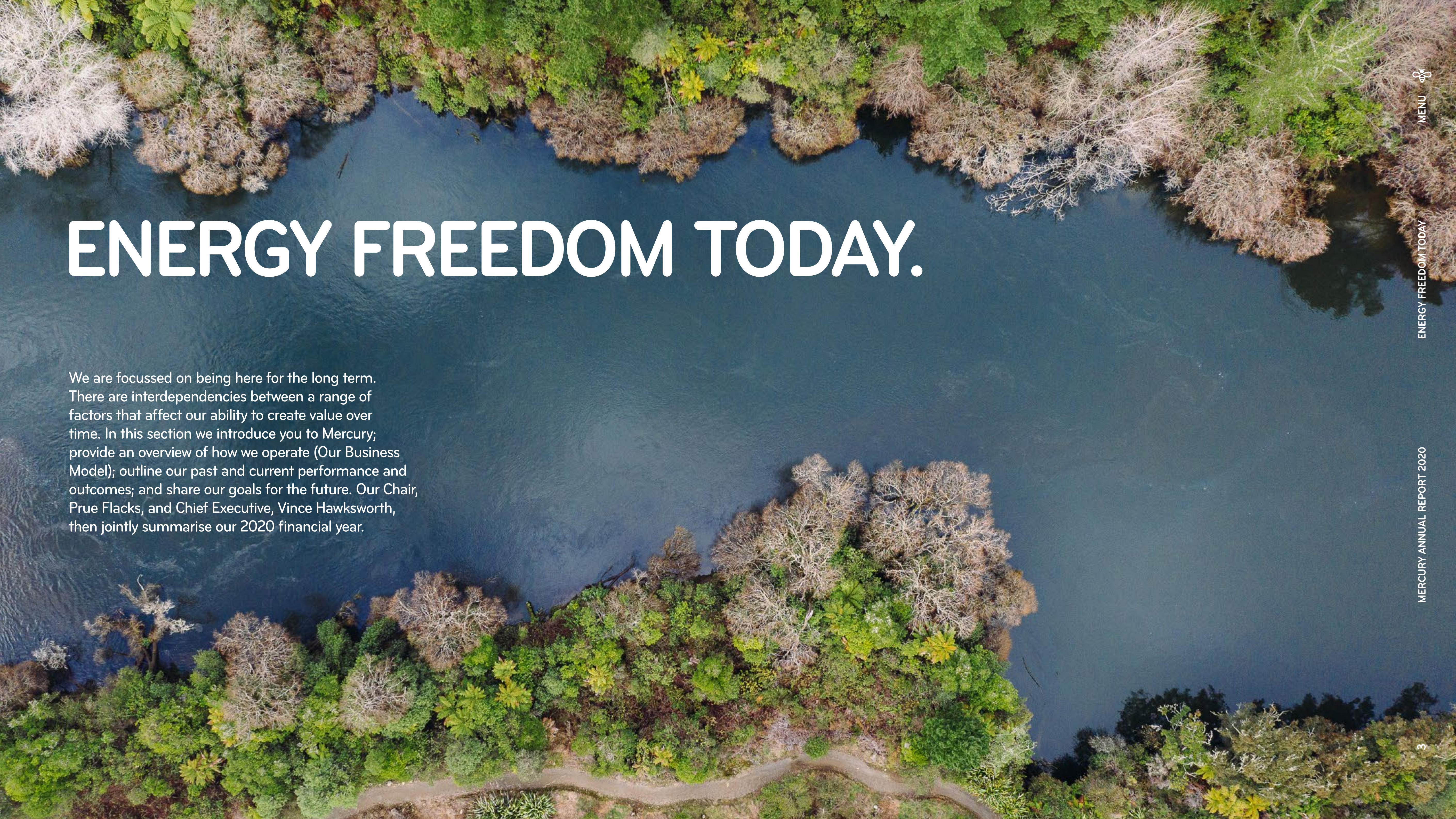
If you have any comments about this report, including things we could do better, please email annualreport@mercury.co.nz

STATEMENT FROM THE DIRECTORS

The directors are pleased to present Mercury NZ Limited's integrated Annual Report and Financial Statements for the year ended 30 June 2020. The Auditor-General is required to be Mercury's auditor, and has appointed Lloyd Bunyan of Ernst & Young to undertake the audit on his behalf. The directors are not aware of any circumstances since the end of the year that have significantly affected or may significantly affect the operations of Mercury. This Annual Report is dated 18 August 2020 and is signed on behalf of the Board by:

PRUE FLACKS // CHAIR

KEITH SMITH // DIRECTOR

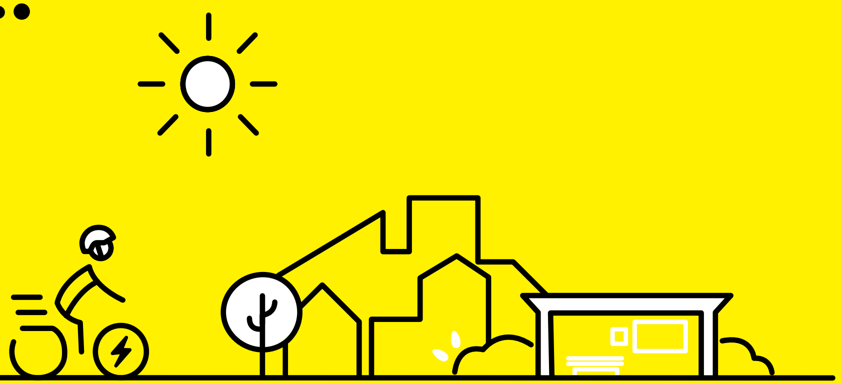


ENERGY FREEDOM TODAY.

We are focussed on being here for the long term. There are interdependencies between a range of factors that affect our ability to create value over time. In this section we introduce you to Mercury; provide an overview of how we operate (Our Business Model); outline our past and current performance and outcomes; and share our goals for the future. Our Chair, Prue Flacks, and Chief Executive, Vince Hawksworth, then jointly summarise our 2020 financial year.

WHO WE ARE.

OUR MISSION: **ENERGY FREEDOM.**



We are primarily a generator and retailer of electricity, focussed on meeting the energy needs of New Zealanders.

Our mission, which guides us in what we do and why, is Energy Freedom for all New Zealanders. This is about Aotearoa New Zealand being stronger economically and more sustainable through better use of homegrown, renewable energy.

Our purpose is to inspire New Zealanders to enjoy energy in more wonderful ways. We do this by championing e.transport, providing offers to our loyal customers and innovating with digital solutions to make interactions with us easy and rewarding.

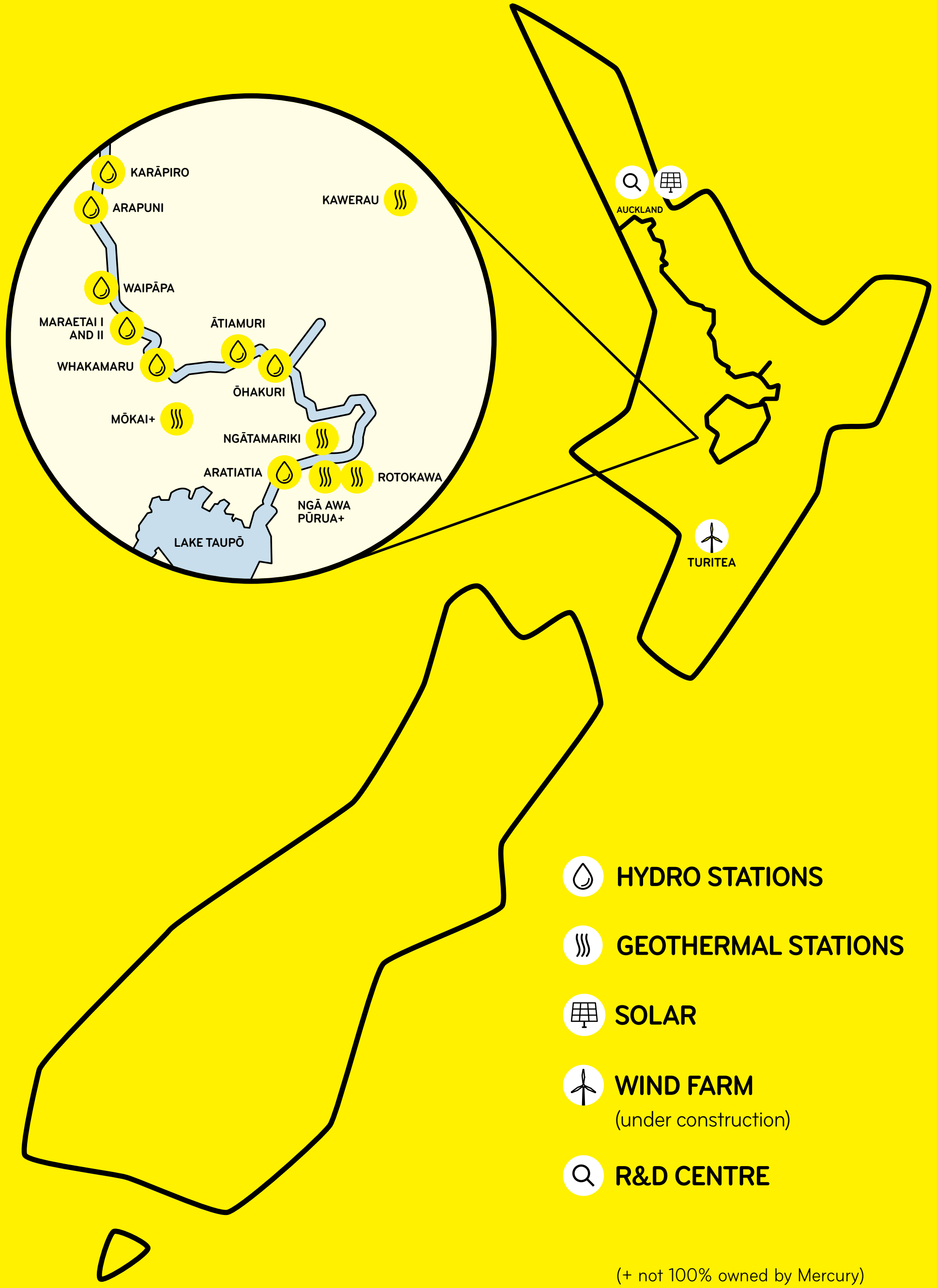
Thinking in an integrated way about how we create long-term value is part of who we are. Since 2015, we've been building the understanding across Mercury of how we collectively contribute to the delivery of our strategy by following Our Business Model and focussing on things that matter most. We generate electricity from 100% renewable sources: hydro, geothermal and soon, wind. We also have just under 20% ownership of Tilt Renewables (NZX:TLT) which has wind and solar generation developments in New Zealand and Australia.

Our current electricity generation sites are situated in the central North Island of New Zealand, along the Waikato River (hydro) and nearby steamfields of the northern part of the Central Plateau (geothermal). Our Turitea wind farm is being developed in an area renowned for wind generation – part of the Tararua Range in the Manawatū region.

Our retail operations serve residential, commercial (small and medium sized businesses), industrial and spot market customers. Sub-brands include GLOBUG, our pre-pay electricity product.

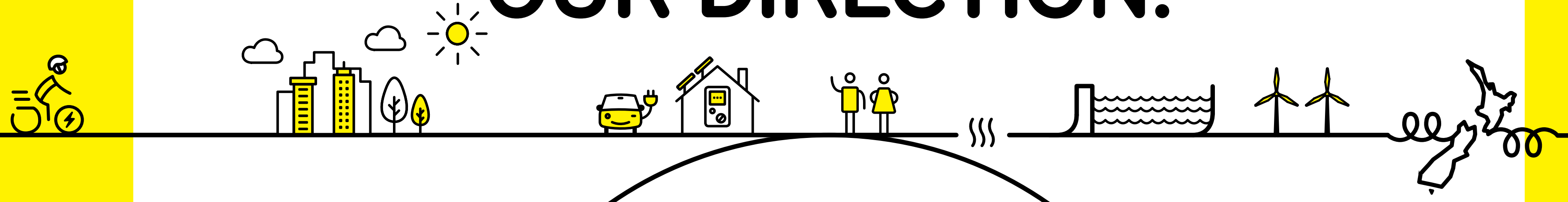
We manage a small number of subsidiary enterprises, such as Mercury Solar (solar installations) and Mercury Drive (an exploratory electric vehicle by subscription service). We also have a solar and battery research and development (R&D) facility.

We have a corporate office in Auckland, other offices in Hamilton, Rotorua, Taupō, Palmerston North and Wellington, as well as operational sites at our power stations and at our R&D centre in Penrose, Auckland.



(+ not 100% owned by Mercury)

OUR DIRECTION.



OUR PURPOSE

TO INSPIRE NEW ZEALANDERS TO ENJOY ENERGY IN MORE WONDERFUL WAYS.

OUR MISSION

ENERGY FREEDOM.

COMMERCIAL
ACHIEVING OUR COMMERCIAL GOALS THROUGH SUSTAINABLE GROWTH.

CUSTOMER
INSPIRING, REWARDING AND MAKING IT EASIER FOR OUR CUSTOMERS.

PEOPLE
ENABLING OUR PEOPLE TO PERFORM TOGETHER IN A CHANGING ENVIRONMENT AND KEEP EACH OTHER SAFE.

PARTNERSHIPS
PROVIDING GREATER OPPORTUNITIES FOR NEW ZEALAND, OUR INDUSTRY, OUR PARTNERS AND OUR BUSINESS THROUGH LONG-TERM COLLABORATION.

KAITIAKITANGA
LONG-TERM SUSTAINABILITY OF NATURAL RESOURCES AND ASSETS.

OUR BUSINESS MODEL.

INPUTS | OUR BUSINESS ACTIVITIES | OUTPUTS

INPUTS

348K CUSTOMERS
- **314k** residential
- **32k** commercial
- **2k** industrial
- **300** spot

24 PARTNERSHIPS
- **2** geothermal joint ventures
- **4** formal iwi partnerships
- **18** community and commercial partnerships

14 POWER STATIONS
- **9** hydro
- **5** geothermal

786 PERMANENT EMPLOYEES
- **309** women
- **477** men
- **496** in Auckland
- **100** in Hamilton
- **28** in Taupō
- **61** in Rotorua
- **101** in rest of NZ

78K SHAREHOLDERS

2K BONDHOLDERS

OUR BUSINESS ACTIVITIES

SHARE & CONNECT • COMMIT & OWN IT • CURIOUS & ORIGINAL

COMMERCIAL
ACHIEVING OUR COMMERCIAL GOALS THROUGH SUSTAINABLE GROWTH.

CUSTOMER
INSPIRING, REWARDING AND MAKING IT EASIER FOR OUR CUSTOMERS.

PEOPLE
ENABLING OUR PEOPLE TO PERFORM TOGETHER IN A CHANGING ENVIRONMENT AND KEEP EACH OTHER SAFE.

PARTNERSHIPS
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OUTPUTS

3,712 GWh HYDRO GENERATION

4,361 GWh PHYSICAL SALES

2,615 GWh GEO GENERATION

15% GENERATION MARKET SHARE

13% CONSUMPTION MARKET SHARE

OUR BUSINESS MODEL EXPLAINED.

Our Business Model shows our key inputs interacting with our business activities (which has Our Direction at its core) to create outputs of sustainable, commercial value. The outcomes of our activity are measured and take us towards mid-term and long-term goals that reflect our enduring mission.

OUR BUSINESS MODEL IS CONTINUED OVER THE NEXT PAGES

OUR BUSINESS MODEL. (CONTINUED)

OUR PILLARS	FY20 OUTCOMES			MID-TERM STRATEGIC GOALS	HOW WE MEASURE THIS	LONG-TERM STRATEGIC GOALS
CUSTOMER	**5.9%** MERCURY BRAND TRADER CHURN	**13.7** NET PROMOTER SCORE (NPS)	**60%** BRAND STRENGTH	We are inspiring, rewarding and making it easy for customers in our target segments.	• Brand strength • Churn • Net Promoter Score	New Zealand's leading energy brand.
PARTNERSHIPS	**EPR** ELECTRICITY PRICE REVIEW RECOMMENDATIONS BEING ACTIONED	**16** COMMUNITY RELATIONSHIPS	**COVID-19** WORKED WITH SUPPLIERS TO MITIGATE LOCKDOWN IMPACTS	There is bipartisan national, regional and community support for positive contributions from the renewable electricity industry. Existing relationships are maintained and strengthened, and new relationships are created, consistent with our purpose and strategy.	Electricity is viewed as an enabler of the transition to a low carbon economy. Key stakeholder relationship plans are in place and are in effect.	Recognised as a leader within our industry, with our industry recognised as a positive contributor to New Zealand, and with Mercury's access to fuel enduring and enhanced.
KAITIAKITANGA	**1.02** PORTFOLIO LWAP/GWAP	**HYDRO** WHAKAMARU REFURBISHMENT COMPLETE; KARĀPIRO APPROVED	**36KG** CO_2E/MWh GROSS GENERATION EMISSIONS INTENSITY	We understand and are managing the long-term sustainability of the natural resources and assets that we rely on.	Integrated Management Plans are in place facilitating our long-term approach.	Recognised as a leader in the ultra-long-term management of both physical and natural assets.

For a definition of these measures please see our Glossary.

OUR BUSINESS MODEL. (CONTINUED)

OUR PILLARS	FY20 OUTCOMES	MID-TERM STRATEGIC GOALS	HOW WE MEASURE THIS	LONG-TERM STRATEGIC GOALS
PEOPLE	**ONE** HIGH SEVERITY HEALTH & SAFETY INCIDENT **67%** EMPLOYEE ENGAGEMENT **85%** OF EMPLOYEES FELT PRODUCTIVITY WAS THE SAME OR BETTER WHILE WORKING REMOTELY DURING LOCKDOWN	We have enabled our people to understand and respond to the changing nature of work in order to deliver the highest levels of productivity and performance and are viewed as an attractive place to work. We are a Zero Harm organisation that continues to focus on the physical and mental wellbeing of all the people who are important to our business.	• Employee engagement • No serious injuries	A Zero Harm organisation that has enabled our people to adapt to the changing nature of work to deliver the highest levels of performance and productivity.
COMMERCIAL	**4.5%** ANNUAL TOTAL SHAREHOLDER RETURN **$114M** STAY-IN-BUSINESS CAPEX **WIND** COMMITMENT TO FULL TURITEA WIND FARM	We deliver EBITDAF growth and maintain an appropriate average for stay-in-business CAPEX investment, while operating within agreed risk parameters.	Progressive ordinary dividends enabled by sustainable earnings growth.	Leading our sector in terms of financial performance and shareholder returns, earning at least our cost of capital.

For a definition of these measures please see our Glossary.

CHAIR & CHIEF EXECUTIVE UPDATE.

PRUE FLACKS // CHAIR

VINCE HAWKSWORTH // CHIEF EXECUTIVE

Mercury's overall performance was strong in a testing 2020 financial year affected by drought across the Waikato catchment, which impacted hydro generation from September, and the disruption caused by the COVID-19 pandemic.

Minimal rainfall in the final quarter continued a sequence of record low hydrological conditions. Lake Taupō hydro storage ended the year almost 100GWh below its long-term mean at the end of June.

Hydro generation for the year of 3,712GWh (4,006GWh FY19) was approximately 300GWh down against our long-term average. Careful management of Lake Taupō's storage levels, and prudent hedging, helped lessen the financial impact of the extremely low inflows.

Geothermal production of 2,615GWh was only modestly down on last year's record generation (2,697GWh FY19), despite scheduled maintenance activity completed through the year.

Operating earnings, (EBITDAF) of $494 million were down $12 million on the prior year – a strong result given FY20 was the first full year without earnings from the Metrix smart metering business, which was sold in FY2019.

Capital expenditure (CAPEX) of $279 million ($115 million FY19) represented a high level of activity across our generation assets and information communication technology (ICT) investment – all part of ensuring our platforms for sustaining output are strong. We completed multi-year refurbishments at our Whakamaru and Aratiatia hydro stations as well as a three-well geothermal drilling programme at Kawerau and Rotokawa steamfields.

We also advanced construction of the Turitea wind farm, having committed $184 million in total to the end of June. Contractor delivery delays across design and construction, as well as some impacts from the COVID-19 related lockdown from late March, have set back the construction timetable. Completion of the 33 northern turbines is expected in the final quarter of FY21, and the 27 southern turbines in the second quarter of FY22. Project times remain subject to contractor performance and further COVID-19 restrictions.

Our investment in Tilt Renewables has enabled us, as intended, to participate in renewable energy growth opportunities in Australia as well as Tilt's growth in New Zealand.

PRUE'S KEY OBSERVATIONS.

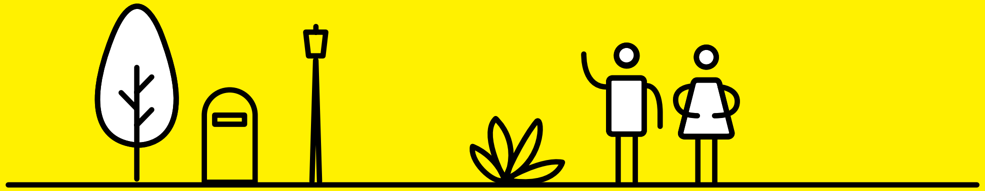
It is a pleasure to present to you Mercury's 2020 Annual Report, my first as Chair after succeeding Joan Withers who retired at our September Annual Shareholders' Meeting (ASM).

One of my early tasks was to manage the appointment of a new Chief Executive to replace Fraser Whineray who left in the third quarter for a role in another sector.

I would like to acknowledge the significant contributions of Joan Withers and Fraser Whineray to Mercury over a long period, including part of the 2020 financial year.

The Board was extremely pleased to appoint Vince Hawksworth as our new Chief Executive. Vince joined us in the midst of the COVID-19 lockdown at the end of March. Although this was a challenging time to step into the role, Vince's skills and deep experience in the industry have ensured a smooth transition and strong leadership through this period.

We are all very conscious of the current environment and the potential impacts on our customers, communities, suppliers and partners over the longer term. My focus is ensuring the Board supports Vince and his executive team to keep our people safe, support our customers, and continue to deliver on our strategy for the benefit of our owners and wider stakeholders.



Operating costs, on a normalised basis, remained broadly flat for a seventh year in a row, reflecting our disciplined and focussed approach to its core activities.

Net profit after tax of $207 million was down from the previous year's record ($357 million FY19), which benefitted by $177 million from the sale of Metrix.

Total shareholder returns (TSR) through the year were 4.5%, reflecting underlying strength and solid execution in a challenging environment. Mercury's market capitalisation was $6.4 billion at financial year end ($6.3 billion FY19).

Further details can be read in our Financial Commentary and Financial Statements.

CAPITAL MANAGEMENT

Mercury continues to be well positioned from a liquidity and capital perspective.

We undertook $600 million of refinancing through the year, split evenly between new bank facilities and a capital bond.

Our gearing ratio is 2.0, in line with the strong end of our target range of 2.0x to 3.0x debt/EBITDAF ratio. We continue to look for opportunities to further strengthen our capital position.

Our capital management initiatives support Mercury's investment-grade credit rating (BBB+), which was reaffirmed by Standard & Poor's (S&P) Global Ratings in December 2019. A review conducted by S&P, following the announced decision by Rio Tinto to shut Tiwai Point aluminium smelter, saw no change in this rating.

We are pleased to declare a fully imputed final dividend of 9.4 cents per share (CPS). This brings the full-year ordinary dividend to 15.8 CPS, up 2% (15.5 CPS FY19), marking our 12th consecutive year of ordinary dividend growth.

Guiding our approach to maintaining incremental dividend increases, we recognise that we have a large register of retail shareholders who appreciate our efforts to sustain this in a low interest rate environment that we anticipate is likely to continue.

YOUR BOARD

Joan Withers' retirement in September created a Board vacancy that we were very pleased to fill later in the financial year with the appointment of Hannah Hamling. Hannah has a broad range of applicable governance skills and specific expertise in water management which will be of ongoing value to Mercury. She will seek election at our 2020 Annual Shareholders' Meeting along with those directors retiring by rotation.

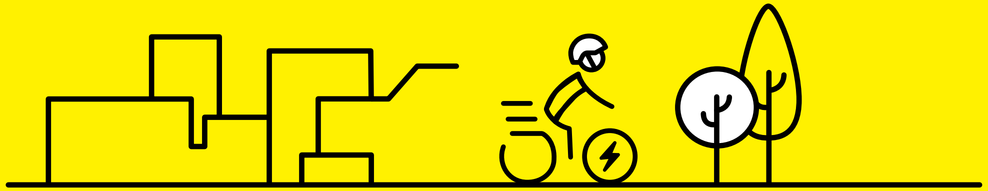
We continue to support the Future Directors programme which aims to improve the pipeline of talent coming into governance. We appreciated the contribution of Anna Lissaman, who finished her term as Future Director during the year, and we have commenced the process of making another appointment.

COVID-19 PANDEMIC

The COVID-19 pandemic tested our incident response processes, support structures for our people and our resilience as an organisation. How people responded to support each other, our customers, suppliers and communities through such an unprecedented and sustained disruption was a major highlight that is outlined in more detail in The World Around Us.

HIGHLIGHTS

In our 2019 Annual Report, we signalled a number of activities that would be important to us in the year ahead. We are pleased to confirm that, not only have we advanced construction of stage one of the Turitea wind farm, in November we were able to announce our commitment to complete the wind farm to the full extent of the consented 60 turbines at a total cost budgeted at $464 million. This will ultimately make Turitea New Zealand's largest wind farm. Electrons will



start to flow in 2021, and on completion it will provide enough renewable electricity annually to power more than 375,000 electric vehicles.

We continued our focus on customer value to successfully manage our positions in elevated and volatile wholesale markets, which continued to be a feature through the year.

We completed refurbishments at Whakamaru and Aratiatia hydro stations, part of a multi-year programme across our stations to ensure efficient performance well into the future. In the case of the Whakamaru refurbishment, an additional 20% capacity has been achieved, equivalent to adding an extra turbine. We advanced planning for our Karāpiro rehabilitation, however replacement of the first main generating unit is now scheduled for August FY22, as a result of delays related to COVID-19.

Detailed workforce planning continues, with a pilot completed through the year aimed at testing ways to build a workforce that is agile and digitally enabled.

SECTOR DYNAMICS

The electricity sector has again performed well in managing, for New Zealanders, the energy 'trilemma' of energy security, energy equity, and environmental sustainability of energy systems.

Supply was secure and stable despite an unprecedented dry weather sequence in the North Island. At the same time the Electricity Retailers Association (ERANZ) reported in May that the average annual power bill has continued to fall, reaching a new 11-year low in real terms. This is a reflection of a range of measures over this period that encouraged increased competition, and also measures towards efficient use of electricity, which Mercury fully supports.

There has been material progress made on advancing the safe and secure sharing of customer data to enable better network planning with distributors. This has been enabled by the Electricity Authority's (EA) move to implement a data sharing agreement, which we fully support. The data sharing, which will be advanced in FY21, will support greater innovation and reliability outcomes for consumers.

We supported the intent of the Government's Electricity Price Review (EPR), and actively put in place changes based on the EPR's outcomes.

Our assessment of the EA's transmission pricing methodology (TPM) guidelines, as well as its draft ruling against Meridian Energy on a claim of creating an undesirable trading situation (UTS) is outlined in The World Around Us.

CUSTOMERS

Understanding the impacts of the COVID-19 pandemic on our customers, and responding quickly and empathetically in a fast-changing environment, was not without its challenges. There was some great work undertaken to put in place new payment solutions for those whose incomes were disrupted. Specific initiatives are outlined in the section The World Around Us.

Our focus on loyalty continued with initiatives such as our Mercury App engaging customers with activity-based incentives during the COVID-19 lockdown.

Our focus on yield, rebalancing our portfolio towards commercial and industrial customers, saw residential customer numbers down 3.7% to around 314,000. After two years of no mass market headline price changes, we communicated retail price changes in February.

We launched a new brand campaign, 'Kiss Oil Goodbye' in February, aimed at more boldly driving a transition to e.transport, but quickly made the decision to pause the campaign when the pandemic hit. It was restarted in July. We believe that it is important to support demand for renewable energy by reinvigorating the movement for a transition away from fossil fuels.

VINCE'S KEY OBSERVATIONS.

Starting my role as Chief Executive of Mercury in the first week of the country's Level 4 COVID-19 lockdown was both challenging and exciting.

My first impression was of an organisation that had smoothly and capably transitioned to ensure our employees could safely operate the business to generate electricity and support our customers.

Subsequently, I have been delighted to visit and get to know our assets and to meet many of our people face to face. The passion for "Energy Freedom" is demonstrated in their actions every day.

However, it is the combination of great assets, passionate people and clear mission that provides a strong platform for performance even in the face of an increased level of uncertainty as Mercury navigates the closure of the Tiwai Point aluminium smelter and the economic and social impacts of COVID-19.

I look forward to leading the Mercury team in this period of change to achieve outstanding results.

PEOPLE

Our people showed tremendous resilience in the face of New Zealand's pandemic response. Individuals and teams adapted well to changed work circumstances, and our previous investments in digital ways of working helped support the transition away from, and back to, our physical places of work.

We surveyed our people about their experiences and are looking at ways to embed lessons on effective flexible working arrangements so we are ready to adapt quickly again to changing circumstances if required.

… THEIR WELLBEING, HEALTH & SAFETY

The wellbeing, health and safety of our people continues to be a fundamental focus of attention.

All senior leaders undertook a mental wellbeing awareness course, initially delivered face-to-face but adapted for online learning as most of our people worked from their homes through the period of the COVID-19 lockdown.

Support was offered, to our people impacted by the COVID-19 lockdown, with particular care given to employees over 70 or immuno-compromised.

It was disappointing to us that there was one serious harm incident during the year (zero in FY19). Our thoughts were with the individual, who suffered a broken leg while working at one of our hydro sites. He has subsequently made a return to work. We continue to work hard on safety controls, with a focus on reducing the likelihood of serious harm or other significant events.

LOOKING FORWARD

We operate in an uncertain environment and there is no room for complacency. The impacts of the COVID-19 pandemic on the economy will continue. The announced closure of the Tiwai Point aluminium smelter, and decisions around timing of the closure, will lead to increased volatility in wholesale electricity markets. Transmission pricing implications, and consideration of investments in pumped storage signalled by the Government, will also have market and investment implications for us and others.

In this environment we must look at the things we can control. We have instigated a programme to enhance our own operational excellence, ensuring we have the right people in the right places, doing the right things effectively and efficiently.

We will be investing carefully in our people, in our assets, and in digital solutions for our customers.

Underpinning these activities, we are confident that we have a strong and resilient platform, powered by committed people, to continue to deliver incremental growth and opportunities in accordance with our strategy.

FY21 ACTIVITIES

- Completion of Turitea wind farm, and further preparation work for Karāpiro hydro station refurbishment.
- Advance our digital choices for customers, including investigating ways to improve our customers' experience assisted by voice biometrics.
- Programmes rolled out to build a workforce fit for a quickly changing environment.
- Operational excellence initiatives.

GUIDANCE

Mercury's FY21 EBITDAF guidance has been set at $515 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 generation. FY21 stay-in-business CAPEX guidance is $80 million.

FY21 ordinary dividend guidance is 17.0 CPS, fully imputed, representing a 7.6% increase on FY20 and the 13th consecutive year of ordinary dividend increases.

On behalf of your Board and Executive Management Team (EMT) we gratefully acknowledge the contribution of our people, the loyalty of our customers and the support of our partners and owners to our business.

Together we are Mercury,

Energy made Wonderful.

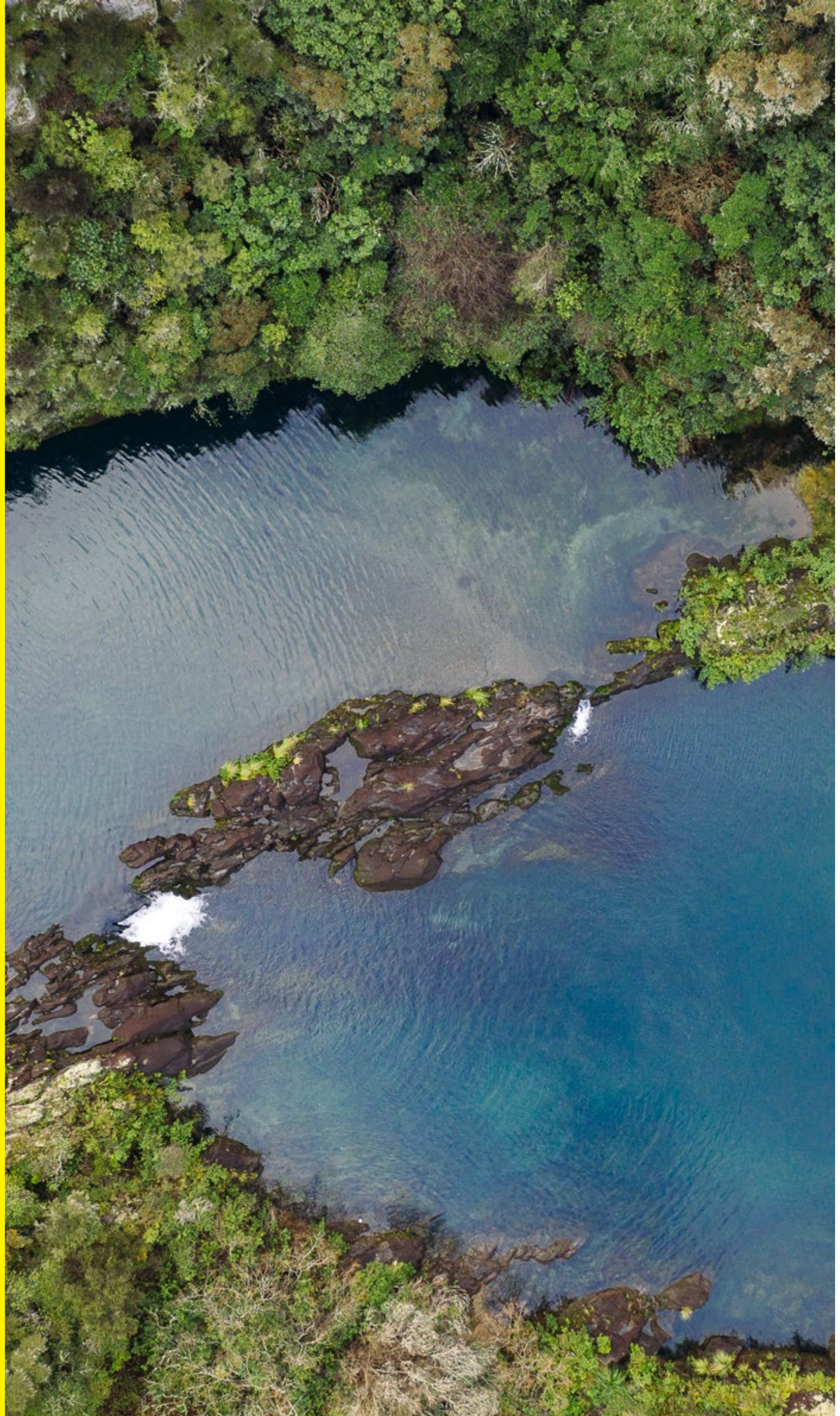
Ngā mihi nui ki a koutou katoa.

Prudence Flacks

PRUE FLACKS // CHAIR

V. P. Hawksworth

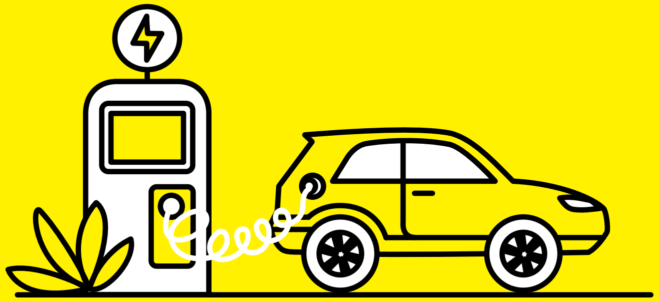
VINCE HAWKSWORTH // CHIEF EXECUTIVE



OUR WORLD OF ENERGY FREEDOM.

In this section we cover how we take into account and respond to key changes in our external environment; how we consider our stakeholders' identified needs, interests and opportunities; the risks we face; and how we balance trade-offs through the lens of what matters most. We outline how this all shapes our focus on how we create value.

THE WORLD AROUND US.



Mercury operates within a wider world. While what we do has impacts on other parties (for example, customers, partners and the environment), factors outside of our business impact us. These can present risks, challenges and opportunities so we put effort into understanding external factors most material to our business and use this understanding to guide our decisions.

COVID-19 PANDEMIC

The most disruptive unanticipated external factor to impact us has been the COVID-19 pandemic. In addition to day-to-day execution of our strategy and delivery of our scorecard targets, we had to turn our attention in the second half of the financial year to limiting the impact of the pandemic on our business.

Our Incident Management Plan was activated on 31 January 2020 to ensure effective coordination of our response across people, customers, suppliers and stakeholders. Outlined here are responses across key areas.

People

We put our focus on people's safety and wellbeing while maintaining business continuity. On 19 March, we successfully tested technology systems to ensure all people in non-essential roles could work from home. On 23 March, the Government announced a move to Alert Level 3 for 48 hours to prepare for a move to Alert Level 4, which would require most people to work from home and only leave their homes for essential travel.

Work was completed to identify and have processes in place for essential workers. These workers included spot traders/electricity dispatchers, station operators, payroll and staff or contractors providing essential maintenance services (e.g. for our Aratiatia refurbishment and Ngātamariki generator maintenance). Essential workers over 70 years old or immunocompromised were contacted to ensure safety and wellbeing needs were met.

Communications to our people were frequent and focussed on providing reassurance and helping to keep people connected. We set up a dedicated email inbox so our people were able to get direct answers to queries and so we could identify any employees or family members at higher risk of contracting COVID-19.

Surveys were undertaken to understand the impact of lockdown on wellbeing, productivity and comfort levels and this resulted in some direct contact with individuals who were struggling and needed help.

The national response moved from Alert Level 4 to Alert Level 3 on 27 April. On 18 May at Alert Level 2 we initiated a phased return to work.

Transitioning across the alert levels included logistics associated with equipment, reconfiguring workspaces and the way activity on sites was completed, and a redesign of all training for it to be conducted virtually.

On 8 June, we made a full return to the office.

In June, we surveyed employees on their experiences of working during lockdown. 54% of employees responded, answering questions about productivity, decision making and staying connected. Most found these factors either improved or stayed the same during lockdown.

Customers

Our primary focus was on providing support and help to those customers who needed it most. The programme of work during this time was significant and included:

- creating a new web page for customers looking for reassurance and support as a result of COVID-19
- establishing a dedicated COVID-19 phone number
- pausing debt collection processes and disconnections
- making GLOBUG calls from mobiles toll-free
- contacting over-the-counter payers to offer alternatives
- initiating a programme to mitigate risks with resuming energy management processes for GLOBUG customers
- designing and implementing phone-based collection reminder processes for GLOBUG customers
- launching a free power hour offer to customers while in lockdown
- aligning the Mercury App challenges to being active at home
- rolling out a 'boredom buster' campaign to engage with customers
- developing a small commercial segmentation approach that allowed for differentiated payment support for small businesses
- sponsorship of the SOS Business initiative to help small businesses with cashflow

Stakeholders

We provided weekly situation reports to the National Emergency Management Agency (NEMA) and proactively communicated with key Wellington stakeholders including Ministers, Government officials and regulators. These were welcomed by the recipients.

We undertook engagement with regulatory and government stakeholders on the measures we implemented to support customers. Particular focus was given to GLOBUG customers facing growth in debt when energy management processes were paused. We received positive feedback from stakeholders around our proactive, pragmatic, and transparent approach.

Transpower effectively coordinated with generators around security of supply. While some maintenance was deferred, essential works continued, conscious of winter approaching. We answered a number of information requests from Transpower, Ministry of Business, Innovation and Employment (MBIE) and Treasury around our COVID-19 preparedness and response.

Suppliers

We engaged early during lockdown with a range of key suppliers. After effecting the changes necessary for lockdown, our conversations focussed on opportunities to enable contractors to maintain staff where possible, and for staff to maintain income levels. We were able to provide support through a range of initiatives including:

- providing work to core generation contractors that they could complete from home to complement the limited on-site work they were undertaking
- our procurement team working closely with suppliers who employ a number of low-paid vulnerable workers. We made a number of concessions to help to keep those workers in employment
- the Rotokawa Joint Venture team working closely with MB Century to keep its drilling crew together through the lockdown period so they were able to return to complete well drilling when that was allowed

We worked with our iwi partners to support them as they responded to the needs of their people while working remotely. Our support included:

- sharing our call centre and ICT expertise to assist Raukawa management to coordinate its transition to working from home and manage community support cases remotely
- supporting Waikato-Tainui's initiative to buy and distribute heaters for its kaumātua
- working with Tūwharetoa to consider increasing distribution of partnership fund reserves to support its people most affected by COVID-19

Key lessons

Through our transition from incident management and response to recovery mode, we held formal debrief sessions for our incident management teams. Items identified in these sessions will be used by business units to update their Business Continuity Plans and Incident Management Processes.

Key lessons include:

- technology worked well to enable working from home – transitioning from Skype to Microsoft Teams will further enhance virtual work practices
- incident management teams enabled collaborative and fast decisions informed by data – business units are considering how to incorporate these practices into lead team management
- working from home required new ways of working for remaining paper-based processes – transition to digital processes has been accelerated
- most of our people enjoyed working from home – we advanced Executive Management Team (EMT) discussions on what increased flexibility could look like for us

ELECTRICITY PRICE REVIEW

We welcomed the findings from the Government's Electricity Price Review (EPR). Areas for priority attention were: reforms to the vulnerable consumer and medically dependent consumer guidelines; prompt-payment discounts; and saves and win-backs. Resources were allocated to ensure implementation of changes consistent with the policy intent while considering the best interests of our customers. We continue to engage with the Government and regulators on outstanding areas of EPR reform, including market making and the phase-out of the Low Fixed Charge Tariff Regulations.

TRANSMISSION PRICING METHODOLOGY

The Electricity Authority (EA) announced its new transmission pricing approach in June 2020. The principle applied is that the shared costs of maintaining and upgrading the national electricity grid will be allocated according to benefits gained, as opposed to being evenly spread across the country. Transpower, which maintains the national grid, is expected to come up with a pricing structure in line with the EA's new guidelines by 30 June 2021 with new pricing to be in place by April 2023. The final impact to us will not be known until Transpower completes its review. Following the announcement there have been a number of factors that may result in further delays to implementation or potential changes in approach including a judicial review of the EA's process and the impacts of the closure of the Tiwai Point aluminium smelter.

WATER

The Government released its freshwater management plan in May 2020. Engagement through the consultation process has helped lessen regulatory environmental risks to electricity generation (operation and flexibility). Implementation of the Government's proposals will be through regional plan reviews carried out over the next six to seven years. We are one of many with an interest in freshwater reform and will continue to participate in central and local government initiatives to improve freshwater quality and management. Our planning for a Waikato World's Best Catchment strategy features as our Partnership pillar story.

TIWAI POINT ALUMINIUM SMELTER

The announcement by the owners of the Tiwai Point aluminium smelter that the smelter would end its contract with Meridian Energy for electricity supply in August 2021 came after the end of our financial year. We note that Transpower is progressing with its plan for transmission upgrades. Until completion, we expect significant spot price separation between the North and South Island. The cost of transmission upgrades will also have upward impacts on prices for consumers that will offset softer demand immediately following the smelter's closure. Our view remains that we are relatively well positioned, with our North Island generation sources close to high demand areas.

LOOKING FORWARD

We had previously viewed market supply and demand as having achieved balance, allowing a clear pathway for generation development, supported by our ongoing leadership in e.transport. Following the announcement on the pending closure of the Tiwai Point aluminium smelter, there is an increased risk of volatility in the market, as supply and demand will have to rebalance yet again. There remains the opportunity for renewable electricity growth as decarbonisation of the economy continues to be an enduring theme. MBIE scenario modelling* suggests that demand for renewable electricity may as much as double in the period to 2050.

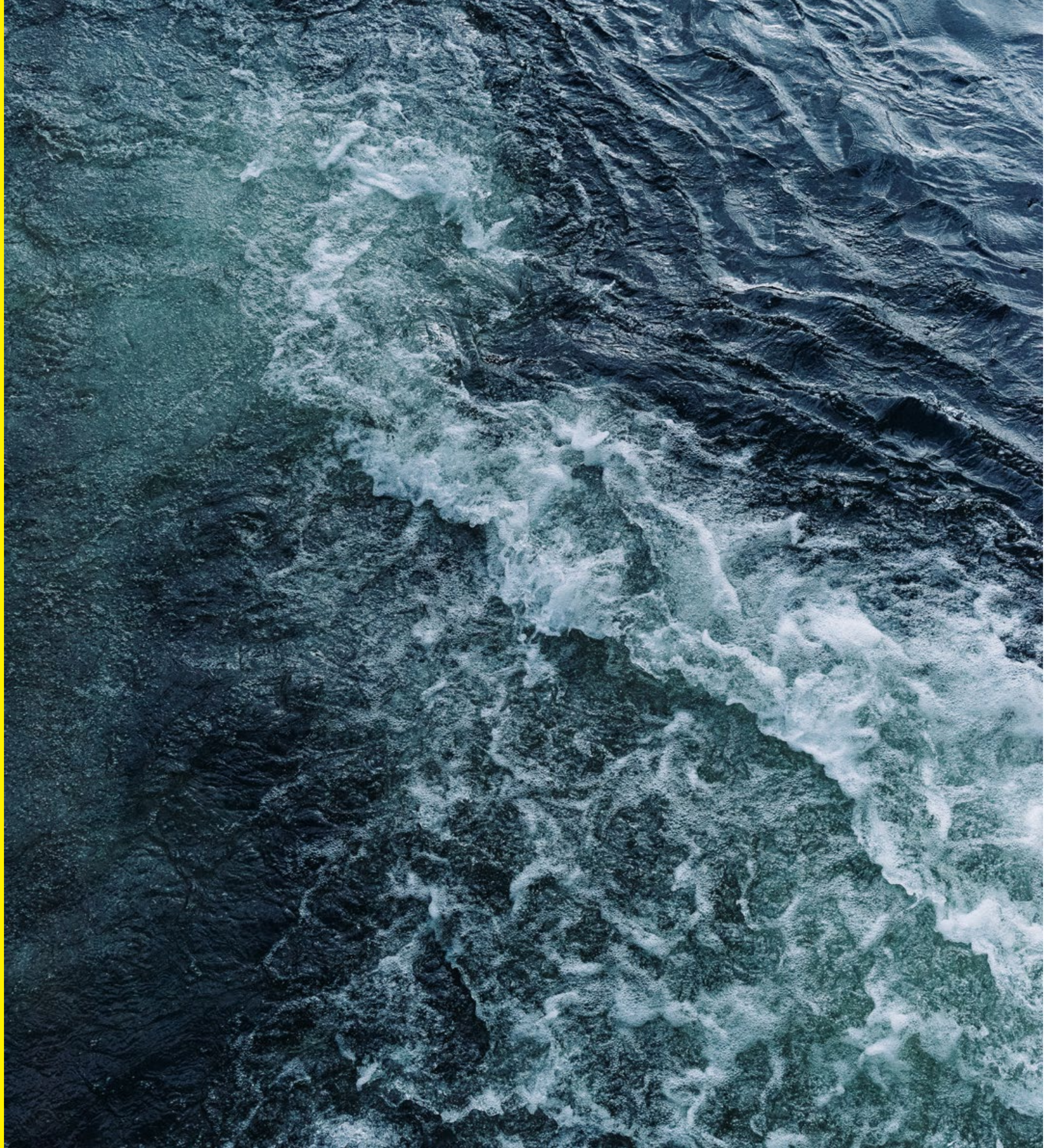
There are heightened financial risks due to the economic impact of the COVID-19 pandemic, including pricing pressures, which point to the clear need to focus on efficiency. In addition, there needs to be greater clarity from the Government on essential services designation for critical infrastructure like Turitea.

There are also opportunities for greater flexibility of work arrangements due to the proven ability of many of our people to work from home, as well as the opportunity to accelerate digitisation to support our people and our customers.

There is potential for various interventions related to the sector to be suggested as part of the election cycle. These could come in the form of renewable energy incentives and/or new energy initiatives. The EA will be making a final ruling on its consideration of an undesirable trading situation complaint against Meridian Energy. A consequence could be a review of market trading provisions. An incident of poor behaviour by one market participant should not be seen as an indication of systemic failure.

We will continue to advocate for recognition of New Zealand's electricity sector as being well functioning and balanced in terms of the energy trilemma, being energy security, energy equity, and environmental sustainability of energy systems. Policy should focus on the most material opportunities to transition to a low-emissions future for New Zealand's economy, such as the electrification of transport and process heat, while not disrupting the trilemma.

* Electricity demand and generation scenarios (EDGS), July 2019



ENGAGING WITH OUR STAKEHOLDERS.

Building and maintaining relationships with stakeholders across our business is crucial to our success. Our strategy and business plans are developed with consideration given to the relevant needs and wants identified by these stakeholders as most important to them.

This year, we wanted to engage with our nine stakeholder groups and were all set to go when the country went into lockdown. We consulted those closest to our stakeholders, our internal relationship owners, and the consensus was it would be more appropriate if they completed the survey on behalf of their stakeholder groups. We will undertake the detailed stakeholder engagement, we had planned, later in 2020, when the time is right.

Stakeholders, their specific role, how we engage with them and what's important to them are described here.

PARTNERSHIPS	SHAREHOLDERS & INVESTORS	IWI	GOVERNMENT & REGULATORS
Via our partnerships, we seek and deliver opportunities through which we can develop mutually beneficial ventures aligned with our mission, purpose, vision and goal.	Approximately 80,000 investors and shareholders provide the stability and financial capital for our business to grow and continue to create value.	Our close relationships with iwi provide us with the platform through which to establish long-term, mutually beneficial partnerships and plans.	Government and regulators set the regulatory frameworks that determine our operating environment and provide the construct within which we can develop our business.
WHAT IS IMPORTANT TO THEM ABOUT MERCURY THIS YEAR?			
• Natural resources • Brand • Loyalty	• Operational excellence • Generation development • Safety & wellbeing	• Natural resources • Generation development • Climate change	• Safety & wellbeing • Climate change • Customer experience
HOW DO WE ENGAGE WITH THEM?			
We build positive, mutually beneficial, longstanding relationships with the communities in which we operate. Some of the ways we engage with our partners are through commercial joint ventures, customer reward partnerships, and by dedicating time and effort into understanding each other's business.	Our shareholders and investors are the backbone of our business. We engage through material market updates, annual and half year reports, earnings and dividends announcements and quarterly operating reports, adhering to the principles of continuous disclosure. Our management and Board also deliver an annual shareholder meeting (ASM), provide analyst briefings and hold institutional investor meetings.	Many of the areas where our generation facilities (hydro, geothermal and wind) are located are of cultural and historical significance for iwi. In order to ensure that we respect, value, protect and sustain these areas, proactive engagement occurs with iwi. This includes partnership meetings, contract discussions, engagement on proposed new work and completing live work, industry conferences and supplier briefings.	We work collaboratively at different levels of government and with other governing entities to develop solutions, identify opportunities, and overcome challenges. Engagement takes place through formal scheduled meetings, responses to submissions, ministerial briefings, and participation in energy industry events and regulatory/political forums. We host site visits and engage through the development of external reports that we commission or contribute to.

ENGAGING WITH OUR STAKEHOLDERS. (CONTINUED)

COMMUNITY	SUPPLIERS	INDUSTRY PARTICIPANTS	CUSTOMERS	EMPLOYEES
Our community relationships provide us with support to operate and the context to better understand the social and environmental issues we face in our communities.	Our suppliers deliver products and services that allow us to enhance our business and operations.	Industry participants provide an opportunity to share, exchange knowledge and grow the industry to its highest potential.	Customers sustain our business, provide the foundation for continued growth and future product development.	Our 786 employees drive our business. Through their skills, knowledge, diversity and efforts we thrive and prosper.
WHAT IS IMPORTANT TO THEM ABOUT MERCURY THIS YEAR?				
• Natural resources • Generation development • Safety & wellbeing	• Sustainable growth • Operational excellence • Safety & wellbeing	• Natural resources • Safety & wellbeing • Climate change	• Customer experience • Customer loyalty • Safety & wellbeing	• Capability & development • Safety & wellbeing • High Performance Teams
HOW DO WE ENGAGE WITH THEM?				
Key team members actively participate in a variety of community forums. We also sponsor events in the communities in which we operate and respond to community river flow and lake level requests. Through our role in the Waikato Catchment Ecological Enhancement Trust (WCEET), we engage on improvements to the natural and social environments which the business depends upon. We work with budgeting groups and government agencies to understand and better support the needs of vulnerable customers.	Suppliers are continuously engaged in completing various projects or fulfilling on-going customer and other business commitments. We also use business review meetings, contract negotiations, supplier briefings and proactive engagement with industry conferences to work collaboratively with, gain insight into, and develop new standards with suppliers.	We work collaboratively with the energy industry to provide and support new opportunities for growth as well as to overcome challenges. We work with various industry participants through one-on-one meetings and active participation in industry groups such as ERANZ, Business Energy Council, Sustainable Business Council and Business New Zealand. We also regularly attend and contribute to industry events and conferences, as well as stakeholder events organised by sector participants. We do this in order to stay across industry issues, assist with solutions, and to contribute to future progress and innovation.	Our customers are at the core of everything we do. Understanding their needs, expectations and what they care about helps us to have in place the products and services that earn their business. Our customer relationships are valued, and often longstanding. We strive for effective and responsive customer engagement, proactively seeking feedback and input through several avenues including: through our Customer Engagement Centre (via calls, email, letters, direct mail); our website and My Account portal; via social media; customer surveys and market research; and through our community partnerships, sponsorships and events.	Ensuring different perspectives and viewpoints are heard is crucial to our success. We do this through engagement and pulse surveys, as well as our internal digital communication channels and our network of change supporters. Our employees also stay connected to what's important through our development and onboarding programmes.

THE RISKS WE FACE.

A comprehensive summary of Mercury's key risks and how we manage them is included in the Corporate Governance Statement that is published alongside this report. We review and update these risks every year to take into account changes in the external environment and our internal operations.

In this section we provide a summary of the trends we have seen this year in our key risk areas. We take these into account in our view of what matters most and to shape our focus for how we create value over time.

KEY RISK AREA	SAFETY	COMPLIANCE	REPUTATION	OPERATIONAL	FINANCIAL	PEOPLE
FACTORS IMPACTING CURRENT TRENDS	Safety is an essential objective for us and continues to be one of the major risks that could affect the wellbeing of employees, contractors, customers, and the public. We continue to make progress on key aspects such as: • our Process Safety programme, with WorkSafe's conditional acceptance of our safety cases • continued improvements in reporting of incidents or near misses, allowing more informed decisions to be made regarding areas for improvement This year we were mindful of managing any increase in safety risk due to the significant number of large projects over the course of the year, including our Turitea wind farm, a drilling campaign, hydro refurbishments and geothermal maintenance shuts.	Compliance is important for our ability to operate to our desired capacity through key elements such as resource consents and within the Electricity Industry Participation Code. Compliance with internal policies is an important tool to assess risks and deter fraud. We also consider regulatory change in this area, which presents significant risks to Mercury. In FY19, several regulatory processes that had the potential for significant impact to us were concluded. The outcomes of the Tax Working Group, Interim Climate Change Committee and EPR were all either supportive or largely neutral in their impact to us. During this year, while there have been fewer key regulatory review processes, we were aware of increased risks in this area resulting from broader impacts of COVID-19.	The importance of stakeholder relationships and input has continued to grow across each of our key stakeholder groups – our customers, communities, partners and owners. The amount of data that we hold and rely on also continues to increase. The level of activity and sophistication of cyber-attacks continues to increase globally. This year, we continued to build our security enhancement programme and strengthen our stakeholder management.	Operational risks have a potentially significant impact on our ability to generate electricity and create revenue. The key operational risks include: asset management and availability; fuel availability; market exposure; and business interruption (events such as natural disasters or global pandemics). In managing these risks in FY20, we were focussed on: • the programme of drilling, hydro refurbishments and geothermal maintenance shuts • the ongoing situation in relation to Tiwai • the impacts of COVID-19	Finance and related activities have key process controls that are subject to regular review and continuous improvement. This year we have focussed on managing the construction of the Turitea wind farm. We have also been mindful of managing any shifts in financial risks resulting from broader impacts of COVID-19.	Ongoing investment in leadership and management programmes, and a focus on High Performance Teams, have contributed to staff engagement levels continuing to lift. We look at a range of key people information to increase the transparency of people risk, enabling monitoring and response.
OUR PILLARS						

PULLING IT ALL TOGETHER.

Focussing on what matters most.

Our five pillars, established in 2016, represent the key drivers of material value creation for our business. Together with our fifteen focus areas they enable us to integrate what matters most to Mercury and our stakeholders. They form the framework for our long-term business strategy, mid-term goals and short-term business planning and reflect the six capitals of the Integrated Reporting <IR> framework (see below).

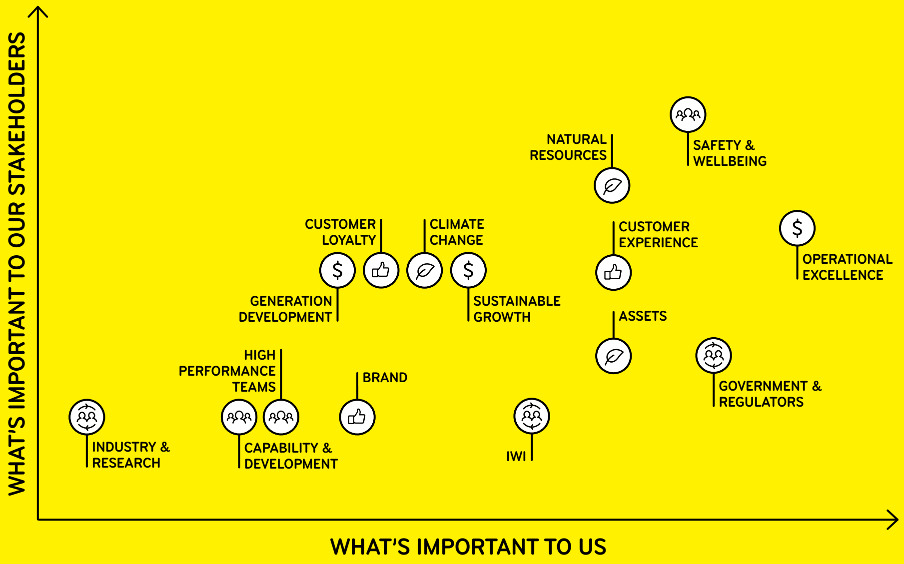
Each year our view of what is material for us is informed by reviewing our strategy against a broad context, including the items covered in the preceding pages: the external environment, what's important to our stakeholders, risks to manage and opportunities to explore. We keep up to date with changes in these areas to consider how our approach needs to evolve to ensure we continue to create value.

Undertaking a materiality assessment, like the one plotted on this page, helps to visualise these aspects by combining what matters most to our stakeholders and what matters most to us. For our materiality assessment this year, we used our fifteen focus areas, related to our five pillars.

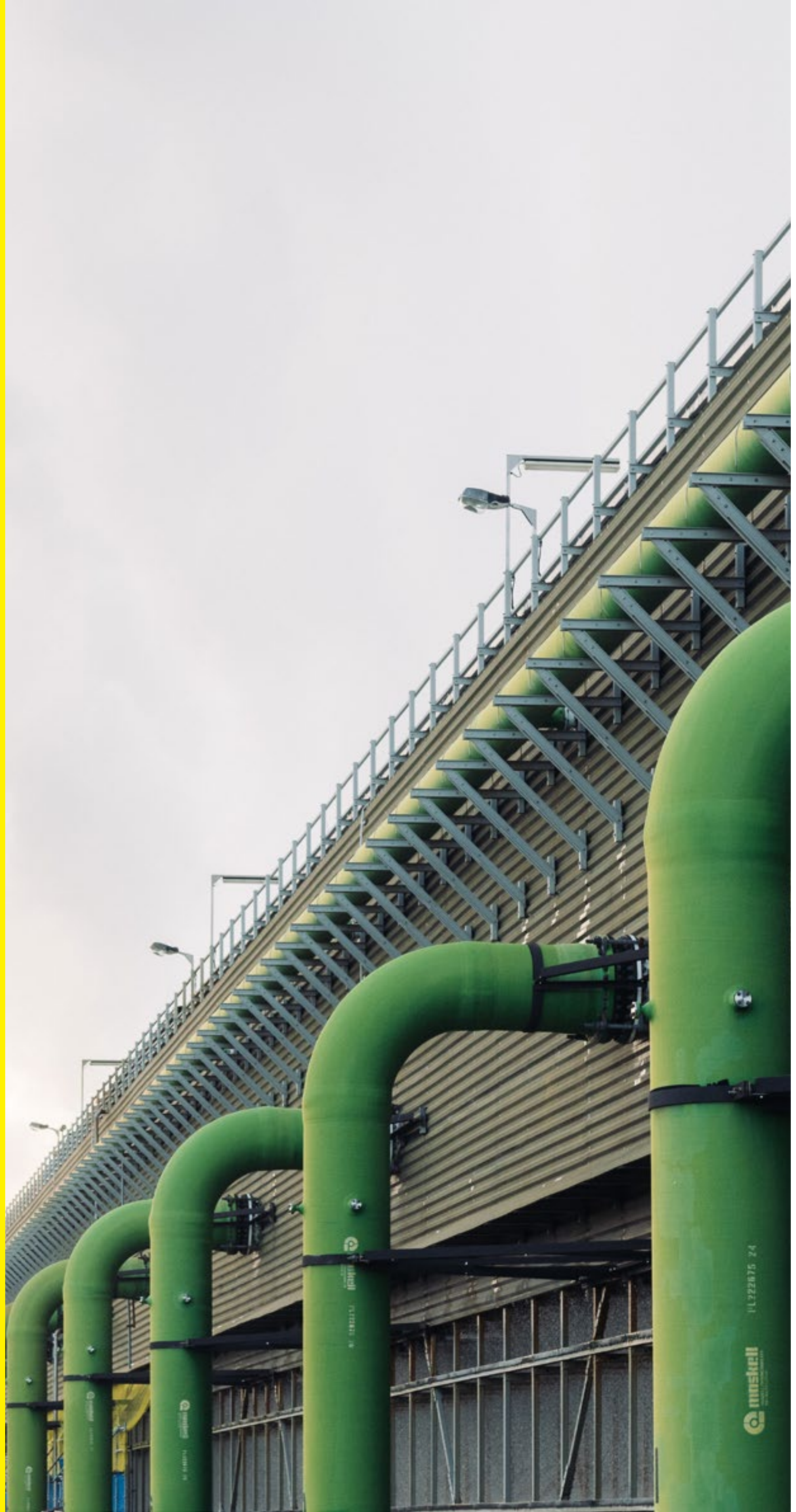
All of the focus areas in the materiality assessment are important and, although they are each linked to one of our five pillars, they also relate to, and are supported by, each other. The assessment serves as a cross-check to ensure our priorities remain aligned to what matters most.

OUR PILLARS	<IR> CAPITALS
CUSTOMER	SOCIAL & RELATIONSHIP
PARTNERSHIPS	
KAITIAKITANGA	NATURAL MANUFACTURED
PEOPLE	HUMAN INTELLECTUAL
COMMERCIAL	FINANCIAL

FY20 MATERIALITY ASSESSMENT

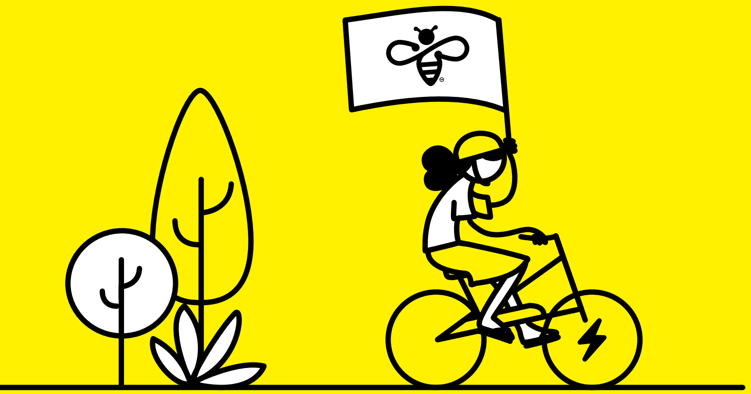


The focus areas in the top right-hand corner are those that rank the highest. As the most material topics we have covered them in this Annual Report and used them to define the reporting boundaries.



CREATING VALUE IN FY20.

Here we define our value creation in FY20, across our five pillars, that has been achieved through the adoption and continued development of our integrated approach.



PARTNERSHIPS

Deep and enduring partnerships are a vital foundation for our business and broader economic outcomes. Kaitiakitanga (guardianship and protection) is embedded in our operations and the relationships we have with our commercial, community and iwi partners. Our long-standing partnerships with Māori and other landowners have been essential to new wind developments and existing geothermal operations that rely on the ongoing access to natural resources. Our commercial partnerships have focussed on green growth opportunities such as electric vehicle uptake in New Zealand. We are proud to have long-standing commitments to support local communities. These help to allow us to bring our purpose to life and ensure value creation extends past the direct economic performance of the company.

COMMERCIAL

Our financial results reflected in this Annual Report, and the trends they reflect, are a product of our focussed ultra-long-term business strategy, centred on delivering value to our owners. We apply strong financial disciplines and robust risk management in operating our business and pursuing future growth. We take pride in our leading economic performance. We aim to deliver stable and sustainable cash flows that support dividends to our owners and grow in value over time. Through our partnerships and working with communities we also provide broader economic development, societal and environmental benefits.

CUSTOMERS

Our purpose is to inspire New Zealanders to enjoy energy in more wonderful ways. We are doing this through an approach that rewards loyalty, leverages customer-led technology, and makes our service seamless and easy for people. We are grateful to our customers for choosing us and in response we focus on what they tell us matters most to them – giving them a great experience, keeping them connected and helping to maintain security of their supply and rewarding their loyalty. Customer satisfaction is a core benchmark for our business and to ensure that everyone at Mercury is accountable for delivering customer focus, it is a component measure of executive remuneration.

KAITIAKITANGA

We harness energy from natural resources. We have a long-term focus that recognises the interests of other stakeholders, including future generations of New Zealanders. Our renewable generation contributes towards New Zealand's renewable energy advantage that delivers value to customers and contributes to meeting New Zealand's climate change goals. In order to protect the natural environment on which we rely to deliver energy to our customers, resource consent compliance is a key focus. We place a high priority on collaboration with government and local communities in which we operate to ensure ongoing natural resource availability, protection and enhancement of environmental outcomes, including the health and wellbeing of the Waikato River and its catchment.

PEOPLE

We believe that the best way to create value in our business, and deliver the best experience possible to our customers, is by ensuring we have High Performance Teams on our side. We aim to make Mercury a great and safe place to work, where employees feel engaged and motivated to live out their full potential. We value diversity, particularly in contributing to innovative thinking, and have a culture of inclusion where people feel they can contribute and succeed in our business. The safety and wellbeing of our people and everyone we work with is a component measure of executive remuneration. We have a complementary focus on employee development, great people management and a high-performance culture, which ensures staff are recognised and rewarded for excellence.

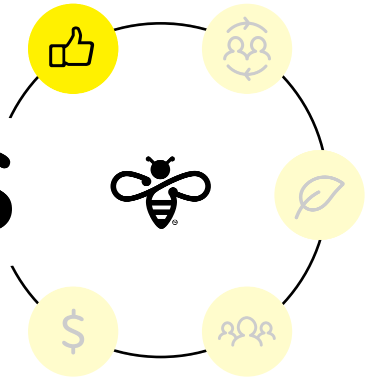
LIVING ENERGY FREEDOM.

In this section we seek to bring to life our pillars, and what they mean to us, through a story that is an example of material activity undertaken through the year. We reflect on our responses to challenges and opportunities, share our successes, progress and also lessons from things that didn't go as planned. We also feature, as part of our Kaitiakitanga pillar, our approach to preparing for climate change so you can understand more about our contribution in this area towards a more sustainable future.

1. CUSTOMER.

OUR FOCUS

Mercury's Customer pillar focus areas are Brand, Loyalty and Experience. To bring this to life, here we tell the story of Helen Tua's contribution to the experiences that some of our more vulnerable customers have with us.



CLOSE CONNECTIONS HELP VULNERABLE CUSTOMERS.

Imagine moving into a home without electricity and not being able to get electricity connected due to your credit history.

Then imagine moving in on a windy Wellington evening, the week the country went into a lockdown as a result of the nationwide response to the COVID-19 pandemic.

That was the reality a customer faced after being released from prison and remanded to a specific address due to parole requirements.

Unfortunately, not having electricity was not reason enough to move the customer to different accommodation, Porirua Whānau CEO Liz Kelly said.

"I had this customer who had just been released from prison during Level 4 (the country's highest lockdown response level) and was facing the weekend without power. He was released on a Friday around 6pm, and I really didn't think there were any options. The customer had to stay at that address and there was nothing I could do to change that," Liz said.

"I called Helen Tua at Mercury, pretty desperate. I thought it was terrible, this customer was supposed to be starting out fresh, having a second chance, but had to move into a dark house during lockdown. That's a lonely welcome back to the world," Liz added.

Helen Tua is Mercury's Community Liaison Manager, a role she has had for ten years.

She was able to connect with others at Mercury, and through collective efforts of members of the customer team, had power to the house up and running within the hour through Mercury's prepay product GLOBUG.

GLOBUG is New Zealand's largest residential prepay electricity provider. Social agencies, budgeting services and other community

PILLAR SUMMARY.

+ PILLAR STORY FOCUS AREA

- Experience

+ OTHER FOCUS AREAS

- Brand
- Loyalty

+ STRATEGIC GOALS: MID-TERM

We are inspiring, rewarding and making it easy for customers in our target segments.

STRATEGIC GOALS: LONG-TERM

New Zealand's leading energy brand.

+ KEY RISKS

- Errors in customer connections, billing or general customer communications, impacting on customer service.
- Loss of data or a systems failure impacting on our ability to operate core systems.

"SOCIAL AGENCIES, BUDGETING SERVICES AND OTHER COMMUNITY SUPPORT GROUPS RELY ON GLOBUG BECAUSE IT CAN HELP STRUGGLING HOUSEHOLDS AVOID BUILDING UP DEBT THROUGH UNMANAGED ENERGY CONSUMPTION.

support groups rely on GLOBUG because it can help struggling households avoid building up debt through unmanaged energy consumption.

Customers pay for electricity ahead of using it, in a way that can be coordinated with their budgets, rather than being sent a bill at the end of the month, which can make budgeting more difficult.

Liz said she was delighted, and grateful Helen got electricity connected so quickly, but wasn't surprised as Helen is well-known for "getting things done".

Helen has dedicated herself to building strong relationships with community groups, budgeting and government agencies such as Porirua Whānau. Her drive aligns with Mercury's belief in long-term fair and affordable access to electricity as a step to helping all financially challenged households.

She sees a strong connection between this work and our mission of Energy Freedom.

Maintaining relationships with the community leaders and social agencies working hard on behalf of vulnerable customers helps bridge the gap between just supplying electricity and understanding our customers.

Helen says that when we understand our customers, we can support them better and ensure low income families, or individuals in difficult circumstances, get a fair deal.

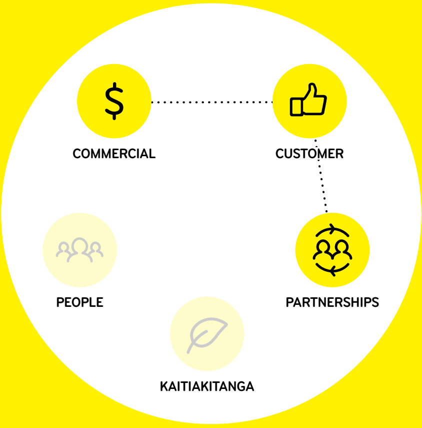
It requires ongoing work because some customers are marginalised by society and can distrust the intentions of businesses and government authorities.

The situation of the person just released from prison was an example of that.

"It's very difficult for people who have served prison time to rebuild their lives," Helen said.

"They've generally come from vulnerable backgrounds and then they're further stigmatised by having a criminal record." Having poor credit records can make it difficult to get a post-pay account.

CREATING VALUE THROUGH OUR CUSTOMERS.



Helen's contribution to the support we offer to vulnerable customers integrates thinking and delivers shared value across other Mercury pillars. For example:

- **PARTNERSHIPS** – working with budgeting agencies and other groups in communities helps our knowledge of customer needs while building trust in our brand and for our sector **(Industry & research and Government)**.
- **COMMERCIAL** – Insights from Helen's work contributed to improvements in the way we managed the risk of growing debt levels **(Sustainable growth)**.

"GLOBUG OFFERS THEM, AND MANY OTHERS, A VIABLE OPTION THAT ENABLES THEM TO WORK WITHIN THEIR MEANS AND GIVES THEM FAIR ACCESS TO ELECTRICITY.

"GLOBUG offers them, and many others, a viable option that enables them to work within their means and gives them fair access to electricity."

For many of GLOBUG's 22,000 customers, keeping up with bills is a daily struggle. We work closely with those social and community agencies actively helping struggling households to ensure GLOBUG customers are treated with empathy and dignity, Helen said.

The economic impact of the COVID-19 pandemic created additional challenges for many customers. There were answers we needed from community organisations and social services on how we could best support these customers.

"The biggest challenge within the GLOBUG world was: how do we support access to the essential service of electricity, but not grow the debt of customers who are largely with this product because it helps them avoid debt?"

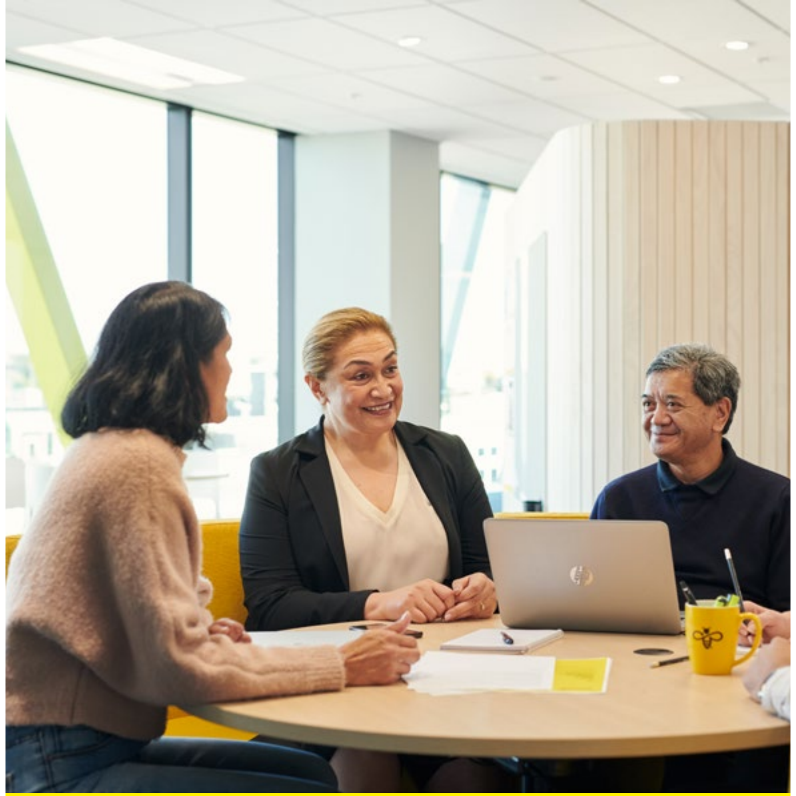
In early April, escalating debt was at risk of getting out of hand.

Through Helen's established contacts, we sought guidance and feedback on its approach, and that helped develop a new energy management solution that was sustainable commercially for us and worked for our vulnerable customers by supporting their budgeting needs.

Options for payment deferrals were established, repayment rates were reviewed, training focussed on empathy and communications were enhanced with an emphasis on care and clarity.

Committed work from all those involved with GLOBUG enabled changes to be made quickly, and embedded for some longer term positive outcomes.

This approach was subsequently mirrored across post-pay customer relationships as well as partner and supplier engagements.



LOOKING FORWARD

Mercury expects the impacts of COVID-19 on the economy to impact a growing number of our customers through FY21 and possibly beyond. The cost of electricity will be top of mind and therefore the efforts to support customers will continue to be important and also expected of us by stakeholders. We expect vigorous competition to continue to be a feature of the market, with activity ramping up as competitors reposition portfolios ahead of the impacts of a South Island demand drop that will result from the signalled closure of the Tiwai Point aluminium smelter. We intend to fight to earn our customers' business, using data to target digital offers that inspire, reward and make things easy.

2. PARTNERSHIPS.

OUR FOCUS

Mercury's Partnerships pillar focus areas are Industry and Research, Iwi and Government (central and local) relationships. To bring this to life, we tell the story here of our evolving work to develop a partnership strategy with the aspirational goal of making the Waikato the World's Best Catchment.

THE WORLD'S BEST CATCHMENT.

"The mighty Waikato River is under pressure. Water quality is declining and there is growing competition for its resources. But if we make the right decisions now and work together, we can make the Waikato the World's Best Catchment," says Gavin Williamson, Mercury's Catchment Sustainability Manager.

For Gavin this is a personal mission. He remembers 40 years ago when things were different: "When I was a schoolboy swimming in Lake Karāpiro I could see clearly to the bottom of the river. Now I couldn't see six inches in front of my face."

Mercury's 'best catchment' aspiration is a bold idea that comes from our long history in the catchment and our unique perspective of the river.

"With nearly 100 years' experience operating power stations on the river, Mercury is a long-term caretaker. We are well experienced in knowing how much water there is, where it is in the catchment, and when," Gavin explains.

"We see the long landscape from Taupō to below Karāpiro and we are confident in our knowledge and expertise, but the huge positive outcome we are imagining needs everyone to be on board."

OUR CHANGING APPROACH

Our vision is an evolution of our relationship with the river, and those we share it with. The Waikato awa (river) flows from Taupō to Te Puaha o Waikato (the river mouth). The catchment extends even further, from the upper reaches of the Whanganui (via the water diversions around the mountains and into Lake Taupō) to Auckland, where water is piped from the Waikato River by Watercare. In addition, Hamilton, Taupō and other communities along the river rely on drinking water from the Waikato catchment. The waters of the awa are also the lifeblood of industry, tourism, recreational activity and

PILLAR SUMMARY.

+ PILLAR STORY FOCUS AREA

- Iwi

+ OTHER FOCUS AREAS

- Government
- Industry

+ STRATEGIC GOALS: MID-TERM

There is bipartisan national, regional and community support for positive contributions from the renewable electricity industry.

Existing relationships are maintained and strengthened, and new relationships are created, consistent with our purpose and strategy.

STRATEGIC GOALS: LONG-TERM

Recognised as a leader within our industry, with our industry recognised as a positive contributor to New Zealand, and with Mercury's access to fuel enduring and enhanced.

+ KEY RISKS

- Short and long-term changes in supply and demand impacting on the wholesale electricity market.
- Regulatory changes that could affect how we manage our integrated business model.

"WE HAVE LEARNT THAT THE AWA IS A SACRED TUPUNA AND LIVING TAONGA. WE HAVE A DUTY TO NURTURE ITS HEALTH AND WELLBEING.

irrigation for dairy and horticulture. All have needs, and all will be able to offer insight into how to make the catchment better.

During our consenting process 20 years ago, we listened carefully to what people had to say and took the opportunity to talk with them about how we might carry out our responsibilities as a hydro generator with appropriate care and respect for the river.

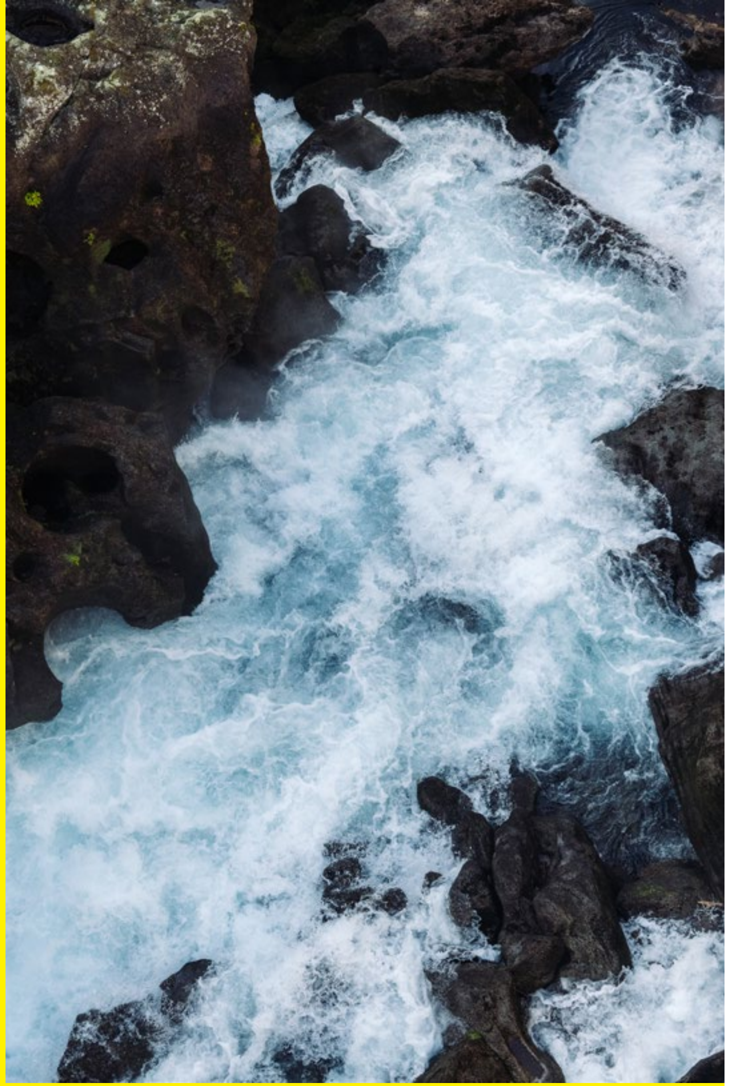
As we matured as an organisation our conversations in the catchment became both more focussed and also more diverse. We saw that we were all on similar pathways.

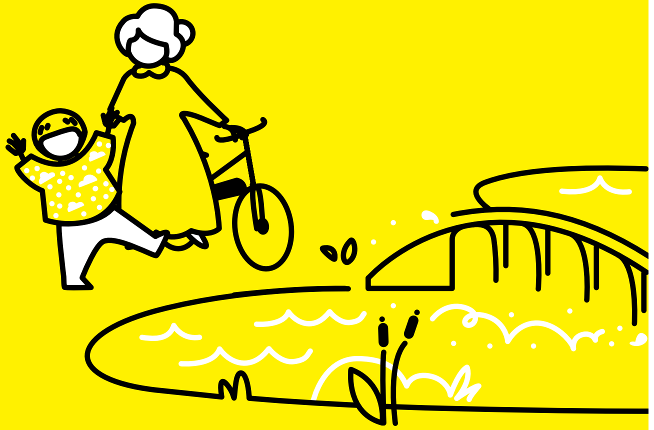
We've learned from others who also love this place and have been here the longest. We believe that the way in which the region's water resources are managed has to involve the strongest possible participation and endorsement by river iwi, whose rohe (territories) stretch from the Whanganui diversions through the Waikato and to the Tasman sea. Strong relationships have been formed and tested, and trust and understanding have grown. We have learnt that the awa is a sacred tūpuna (ancestor) and living taonga (treasure). We have a duty to nurture its health and wellbeing.

GOING FORWARD TOGETHER

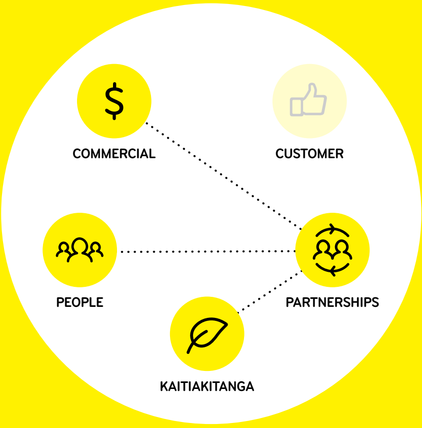
While we imagine what the 'best' catchment might look like, we've also seen what 'bad' looks like.

In 2017, a haerenga (tour) visited the Murray-Darling Basin in Australia, a catchment with a complex and severely challenged water management system that is dealing with systemic issues around water quality and allocation. The tour, called Tukitahi (representing 'going forward together') brought together people from the mountains to the sea: iwi from along the Waikato River and Ngāti Rangi from the Whanganui awa headwaters, Mercury, Genesis Energy, NIWA, Watercare, Fonterra and other organisations, and local and regional councils and central government.



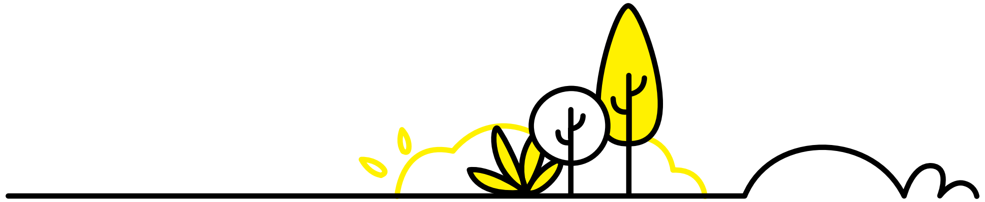


CREATING VALUE THROUGH OUR PARTNERSHIPS.



Our vision for Waikato to be the World's Best Catchment involves integrated thinking and delivers shared value across other Mercury pillars. For example:

- **COMMERCIAL** – the collaborative approach to catchment management supports our necessary hydro refurbishment programme that secures **Sustainable growth**.
- **KAITIAKITANGA** – our partnerships take us towards being recognised as a leader in the ultra-long-term management of both physical and natural **Assets**.
- **PEOPLE** – **Capability & development** of our people is enhanced through work involving complex interconnections as well as cultural and historical considerations.



"We saw that the Waikato River catchment isn't that broken. We started to imagine what could be done together to start to repair years of human impact and improve the catchment in terms of allocation and use, creating headroom for positive land use change and improved storage opportunities," says Gavin.

This thinking led to the idea of the World's Best Catchment vision. To put this vision into action, Mercury's leadership endorsed a new role, Catchment Sustainability Manager, and Gavin was appointed. "This is a truly long-term, future-focussed role working with iwi, regulators, scientists, the region's hugely important farming communities and others," says Gavin.

"Our first step will be to take our World's Best Catchment vision to our key partners in the community and get their views on whether this fits with what they are thinking.

"We plan to work closely with the Waikato Regional Council, aligning with its freshwater strategy. Also with river iwi, to understand and align with their strategic plans and aspirations for water. We will talk to our corporate partners in the catchment to see how we can pool our resources and work collaboratively on projects that benefit the catchment."

Getting started has already been challenging. It's not just the catchment that's under pressure – people and organisations are stretched and working hard on immediate priorities.

"Amidst the increasing urgency of the national conversation around water, freshwater reforms, regional policy processes and pressure on the catchment from Auckland's 2019/20 drought, we somehow have to find time to see the catchment through each other's eyes and work together for sustainably better outcomes.

"Success will look different for everyone but for true success everyone needs to find alignment. The bottom line is that the river comes first, with water quality and water allocation including iwi allocation front and centre."

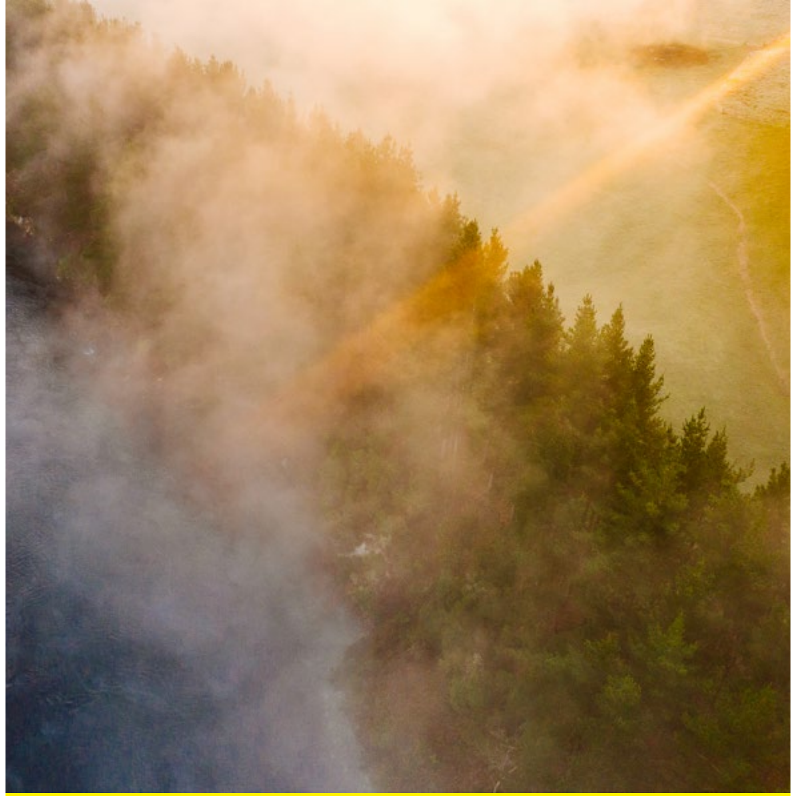
FROM IDEA TO REALITY

The waters of the awa keep flowing, and as it passes downstream, Mercury uses its gravity to generate renewable electricity.

"It's our privilege to be here," says Gavin. "We've been here for a long time, we're going to be here for a long time too. The values we hold run deep in the organisation.

"Our plan is to work with our partners to explore their connections to the river and learn what could make this the world's best catchment from their point of view.

"This is a huge ambition, bigger than me and bigger than Mercury. We need everyone to be on board to make this the best it can be, and that means the best in the world."



LOOKING FORWARD

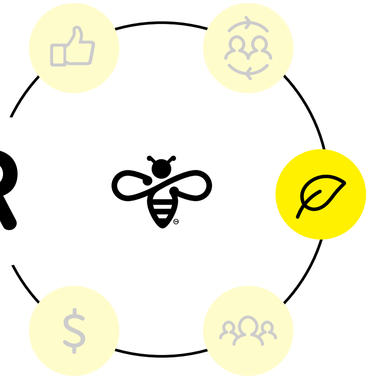
We are aiming to reconnect in FY21 with those who were part of the Tukitahi tour to reconsider the insights we all had. The Government has released its Three Waters reform programme and it will be important to listen and learn about the implications of that on each other, and to plan for appropriate actions that benefit the collective needs of those who are part of the Waikato catchment. We will be considering new partnerships that can support our business strategy, and reviewing established partnerships so that areas of shared value are understood.

3. KAITIAKITANGA.

OUR FOCUS

Mercury's Kaitiakitanga pillar focus areas are Natural Resources, Climate Change and Assets. To bring this to life, here we tell the story of the refurbishment of our Whakamaru hydro station. The refurbishment reflects how we balance our care for the legacy of our assets with recognition of their place in the wider environment.

POWERING UP WHAKAMARU FOR THE FUTURE.



Mercury's Waikato Hydro System comprises nine power stations housing 39 huge turbines turned by gravity from the powerful water of the Waikato River. Keeping this interconnected system of water and machinery running efficiently is a science, but it's also an art – and a huge responsibility.

A commitment to the te ao Māori concept of kaitiakitanga (guardianship and protection) influences our long-term purpose as an organisation. It guides the ways in which we work with both natural resources and the power stations that were built by earlier generations of New Zealanders.

Our Waikato Hydro System generates around 10% of New Zealand's electricity, and it contributes 60% of Mercury's input of renewable energy to the national grid.

It is not surprising then that our reinvestment programme for the nine hydro stations on the Waikato River is a significant investment item. So far around a quarter of a billion dollars has gone back into these mighty machines over the past decade.

Applying the concept of kaitiakitanga means our infrastructure teams look not for more of the same, but better: sustainable improvements to efficiency, risk management, resource management and environmental outcomes. The commercial benefits of our approach to custodianship of the assets derive from securing long-term access to water (the fuel supply) and from being able to generate the most electricity, most efficiently, from that water.

This business commitment is planned by our Asset Management teams. Graeme Hill, Infrastructure Asset Manager, leads these teams and it's a job he is passionate about.

PILLAR SUMMARY.

+ PILLAR STORY FOCUS AREA

- Assets

+ OTHER FOCUS AREAS

- Natural resources
- Climate change

+ STRATEGIC GOALS: MID-TERM

We understand and are managing the long-term sustainability of the natural resources and assets that we rely on.

STRATEGIC GOALS: LONG-TERM

Recognised as a leader in the ultra-long-term management of both physical and natural assets.

+ KEY RISKS

- An event that impacts on the viability, efficiency or operability of our power stations.
- Availability of water for hydro generation and geothermal fluid for geothermal generation.

> "IN TERMS OF SCALE AND COMPLEXITY WHAKAMARU IS THE FIRST STATION WHERE WE EITHER OVERHAULED OR REPLACED, IN TOTAL, EVERY MAJOR PART OF THE MAIN GENERATING UNITS.

"The whole concept of doing our part while we're looking after the hydro station assets then passing it over to future generations is something that my team really subscribes to," he says.

That means taking an ultra-long term view – fitting, when you consider that our connection to the awa (river) already dates back almost a century.

"When we plan refurbishment* of these machines, working closely with operation and maintenance teams, we are looking at a 50-year horizon (operational life) for the generating plant.

"We look at the age of the stations and when the equipment was last refurbished or replaced. What is their actual performance like right now? What is their condition and corresponding risk? Where do they sit in the inter-connected hydro system so that the timing of the outage required to refurbish them has minimal impact on the system's ability to generate electricity, our resource consents, and our obligations to New Zealand's electricity market?"

Whakamaru hydro station is located 40km north of Taupō. It was commissioned in 1956.

"In terms of scale and complexity Whakamaru is the first station where we either overhauled or replaced, in total, every major part of the main generating units," says Graeme. It required several years of planning and more than four years of work to complete.

The teams saw opportunities to achieve greater efficiency in the use of the water through careful consideration of the turbine components and working closely with the manufacturers, Andritz Hydro and GE Renewable Energy.

The outcome was an increase in unit capacity on each of the four units of 5-6MW, meaning an overall increase of over 20% (from 100MW to around 124MW) – enough to power an additional 12,700 electric vehicles annually.

The station's design and position within the inter-linked hydro system meant flow could 'bottle neck' as the station lacked flexibility, so increasing the ability to pass water flow through the station efficiently was another important outcome.

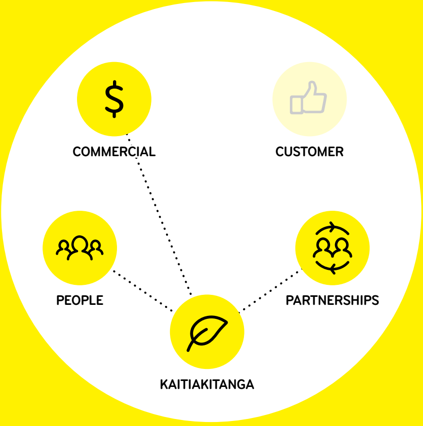
"The project involved the rehabilitation of four units – that's four years of work including around six months outage time per unit each year. It's a huge level of sustained concentration for everyone on site, contractors, designers and manufacturers offshore."

During the six-month installation of each unit there were up to 40 people on site, six days a week, with international specialists, and work crews from the local region.

Aligned with our focus on our people, robust health and safety plans and procedures were embedded, and regularly reviewed. Minor incidents and near misses were reported and analysed. Pleasingly, reflecting the attention

* The term "refurbishment" is used where equipment has been overhauled close to original condition but not actually replaced. As the machines move closer to their end of life, full rehabilitation/replacement is needed. This has been a major undertaking at Mercury over the last decade.

CREATING VALUE THROUGH KAITIAKITANGA.



Our Whakamaru hydro station refurbishment integrates thinking and delivers shared value across other Mercury pillars. For example:

- **PEOPLE** – this large project embedded high standards of **Safety & wellbeing**, and benefitted from **Capability & development** embraced by team members.
- **PARTNERSHIPS** – design, manufacture and equipment installation works with **Industry** partners for the benefit of New Zealand's electricity market.
- **COMMERCIAL** – delivering output gains through **Operational excellence** contributes to **Sustainable growth.**

20%
OVERALL INCREASE IN CAPACITY

$67M
WHAKAMARU REHABILITATION PROGRAMME

given to health and safety across complex tasks involving huge machinery, the project was injury-free.

Unit outages were scheduled over summer months to lessen the impact on the market of reduced generation at the station.

With major parts being manufactured and transported from around the world, the first time they are assembled is on site, and that has informed the approach for future projects.

"You can't underestimate the importance of technical quality assurance because we're getting equipment manufactured in many countries. This requires the main manufacturer to apply rigorous attention to detail, and that they closely manage their subcontractors."

Time needs to be allowed for quality assurance to avoid problems later that can cause delays and performance problems. Often we may need a Mercury team member or independent specialist to be present at the factory to inspect manufacturing processes and witness testing.

Fast forward and the project is complete. A sunny March afternoon, a gathering in Taupō for many of the Mercury team and representatives from our supporting partners MB Century, Andritz Hydro, and GE Renewable Energy who contributed to the Whakamaru rehabilitation. Speeches were made, and when Graeme stood up to address the assembled group, in front of him were around 40 people, some of whom had been part of the project since early thinking started over 14 years ago. Graeme is passionate about the legacy of the assets, but it's the people who work on them, and in the background to support them, that make him proud.

"Completion of this project is a massive milestone in Mercury's multi-million dollar, multi-decade journey of reinvestment on the Waikato River. We could not have done this without the support, dedication, know-how and commitment to a quality result from everyone involved."

The Whakamaru programme came in on budget at $67 million. Extensive works at our power stations at Ōhakuri, Arapuni, Aratiatia and now Whakamaru are part of significant re-investment – a total of a quarter of a billion dollars so far – to secure the operational efficiency and effectiveness of the hydro system for future generations.

CLICK HERE to watch eight months work in 30 seconds of the Whakamaru station upgrade.

LOOKING FORWARD

Enabling works and equipment manufacture will continue for the significant rehabilitation work planned for Karāpiro power station. Other works planned include completion of the Rotokawa geothermal plant upgrade and making progress on our multi-year transformer replacement programme on our hydro power stations.

Ongoing work associated with our Dam Safety programme recognises the role we play in protecting our communities.

We will continue to review our environmental monitoring programmes to ensure we are investing in good science that not only helps us understand the impacts of our operations, but also contributes to a wider community understanding of changes occurring in our areas of operation.

We will undertake climate change scenario modelling and consider the appropriateness of emissions targets.

PREPARING FOR CLIMATE CHANGE.

Reporting against the Task Force on Climate-related Financial Disclosures (TCFD).

Climate change has been identified as a material issue for Mercury and our many stakeholders. It is a focus area under our Kaitiakitanga pillar, and we acknowledge we have a kaitiakitanga, or guardianship, role to play in helping New Zealand reduce its greenhouse gas (GHG) emissions and to take responsibility for our own climate change impacts.

There is growing awareness of the financial risks associated with climate change. Corporate entities are expected to effectively manage risks and capitalise on emerging opportunities and a recognised reporting framework has been produced by the TCFD. The Financial Stability Board (FSB) created the TCFD in 2015 to develop a consistent disclosure framework for use by companies in providing information to their shareholders.

We have used the TCFD framework over the past two annual reporting periods and we will continue to do so, gradually developing the completeness and transparency of our climate change disclosures (our current compliance is represented in the table below). We have structured this section using the recommended TCFD elements of governance, strategy, risk management, metrics and targets.

TCFD ELEMENT	FY20	FY21	FY22	FY23
Governance	●	●	●	●
Strategy	◔	1.5° and 2.0°C scenario modelling to be undertaken in FY21		
Risk Management	●	●	●	●
Performance indicators and targets	◔	Mercury to investigate the appropriateness of targets in FY21		

● Aligned with TCFD requirements ◔ In progress

GOVERNANCE & RISK MANAGEMENT FOR CLIMATE CHANGE.

Our Board has responsibility for Mercury's strategic direction and operation. Responsibilities are set out in the Board Charter, and in relation to climate change include:

- establishing clear strategic goals with appropriate supporting business plans and resources
- monitoring strategy implementation, financial performance and the integrity of reporting
- ensuring that effective audit, risk management and compliance systems are in place and monitored

Climate Change risks and opportunities are currently managed, at a governance level, through the Risk Assurance and Audit Committee (RAAC) of the Board. The RAAC has responsibility for overseeing, reviewing and advising the Board on our risk management policy and processes including climate related risks and opportunities. In FY20, we updated our Board skills matrix to specifically include climate change, reviewed its risk management framework and made disclosure of climate-related risks more explicit. Annual review of climate related risks is included as part of internal risk management processes.

MANAGEMENT'S ROLE

One of the responsibilities of the Chief Executive and Executive Management Team (EMT) is developing and making recommendations to the Board on our strategies and associated initiatives including climate change. In FY20 the EMT was involved in several workshops and discussions reviewing our climate change risks and opportunities and approving a Climate Change Management Plan (CCMP).

OPERATIONAL MANAGEMENT

The day-to-day management of climate change related risks and opportunities occurs across Corporate Affairs/Communications, Finance/Risk Assurance and Sustainability, Hydro Wholesale, Geothermal and Customer. Our CCMP documents our strategy, climate related risks and opportunities, management response, roles and responsibilities and includes a three-year action plan.

STRATEGY.

EMT workshops undertaken in FY20, on climate-related risks and opportunities, produced a list of 13 covering all the TCFD risk types. A summary of the top five, their potential impacts, timelines, risk rating and how we intend to manage them is provided in the table below. Again, we have aligned these to the relevant TCFD categories for consistent reporting.

H TRANSITIONAL: POLICY & LEGAL RISK

S M L

Any increase in regulation and/or actions that do not consider management of New Zealand's energy trilemma as a whole, (energy security, energy equity, and environmental sustainability of energy systems) could lead to negative impacts for New Zealand, our sector and our customers.

Regulatory constraints may be placed on carbon or electricity pricing, impacting on both markets and posing both reputational and financial risks for Mercury. To manage this, we remain engaged with the regulatory processes around the emissions trading scheme and forestry rules.

We will continue to maintain engagement with government, regulators and media commentators and will maintain/lead the narrative on the positive contribution renewable energy makes to New Zealand's climate change ambitions.

We will continue to make submissions on legislation, regulation and planning instruments relevant to climate change, renewable energy, carbon forestry and the energy trilemma to ensure the best outcomes for New Zealand's low carbon future.

H TRANSITIONAL: MARKET & TECHNOLOGY RISK

S M L

A decrease in demand due to de-industrialisation, increased use of batteries and an increase in de-centralised energy generation will impact on the electricity market and Mercury. Technologies already exist in many of these areas and additional new technologies will be developed to aid the transition to a low carbon future. It is important that we closely monitor future technology developments, their costs and returns, as they are crucial considerations should we consider investing in them. We have experience in grid-scale and domestic batteries and associated solar technologies. As we develop large-scale wind generation we will broaden our knowledge and understanding of this technology which may have applications at a smaller scale in the future.

M TRANSITIONAL: MARKET & TECHNOLOGY OPPORTUNITY

M L

An increase in electricity demand from significant electrification of transport (light vehicles, trucking and air), industrial process heat conversions to electricity, data centres, export hydrogen production and New Zealand population growth provides the potential for increased revenues. Mercury has positioned itself to grow market share of generation in New Zealand through the development of the Turitea wind farm and has additional prospects in both wind and geothermal. We actively promote the electrification of transport, and will continue to work with industry to explore fossil fuel substitution, business models for green hydrogen and renewable electricity supply to data centres.

M TRANSITIONAL: MARKET RISK & OPPORTUNITY

S M L

The physical impacts of climate change will have a direct impact on electricity demand. Warmer winters may reduce demand for heating, whilst hotter summers may well increase demand for cooling in the warmer months.

Drier summers with extended periods of drought could increase demand for water e.g. for irrigation. This has the potential to impact water availability in the catchment and our ability to generate. Scenario analysis will enable us to to understand these potential impacts on both energy and water requirements. There are both risks and opportunities around continued access to fuel (water) through increasing demand for water use and/or storage decreasing. Changes in demand due to physical changes will inevitably influence electricity market prices. We will closely monitor policy controls, statutory change and legal precedents that could impact our access to water. We will continue to engage in the relevant Resource Management Act (RMA) processes, monitor policy statements and continue to develop our water strategy, working with the many catchment stakeholders.

M PHYSICAL RISK

L

Physical climate impacts will arise over the long term due to extreme or acute weather events e.g. storms, droughts, increasing frequency of days with high temperatures. Longer-term or more chronic risks include increasing temperatures with impacts on inflows into the hydro catchment. There are financial risks and opportunities associated with these changes which may be both direct (on our assets and operations) and indirect (on markets and supply chains).

Increasing extremes of catchment inflows and high temperature days presents the risk of damage to our generation assets or impacts on our ability to generate.

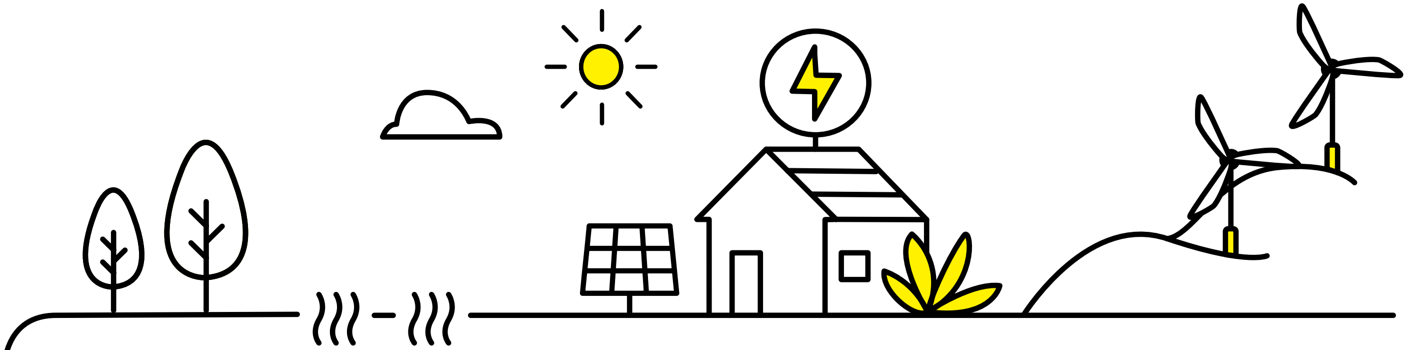
Our assets are capable of managing high inflow events and high temperature days. However, there remains a risk that some damage or interruption to operation may occur if extreme events increase in frequency.

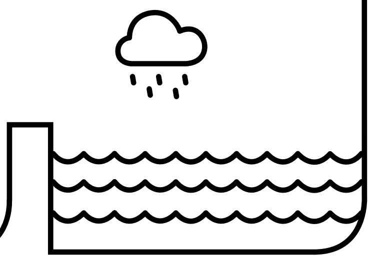
This would have a negative impact on revenues and/or increase operating costs. Scenario modelling to be undertaken in FY21 will form the basis for the management of climate-related risks and inform generation operating plans, potential changes required to resource consent conditions and high flow management plans.

TIMELINE: S Short M Medium L Long term **RISK RATING:** H High M Medium

METRICS & TARGETS.

The TCFD promotes the disclosure of corporate greenhouse gas emission footprints using a standard approach. Mercury publicly discloses a comprehensive annual emissions inventory report, covering all direct and indirect greenhouse gas emissions.





In FY20 we explored, in more detail, the emissions associated with our value chain, which includes emissions from: sold products (gas to dual fuel customers) and various categories of supplier e.g. IT services, general maintenance, staff travel and accommodation, waste to landfill. Developing our understanding of our broader emissions footprint, together with outcomes of scenario modelling, is an important step when considering the appropriateness and type of any future emissions reduction target(s).

OUR NET CARBON POSITION

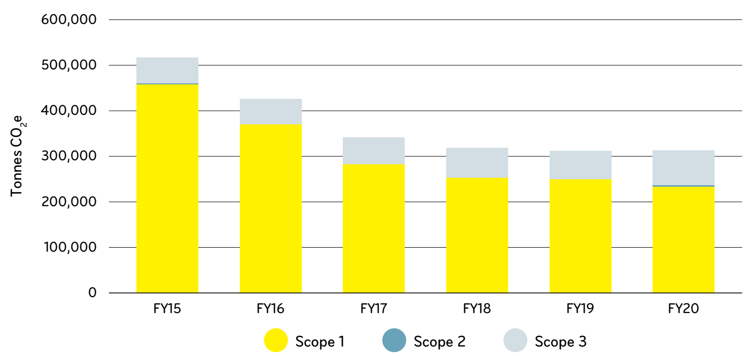
As an active participant in New Zealand's Emissions Trading Scheme (ETS) Mercury has invested in carbon forests since 2010. We have ten contracts in place that support different New Zealand forestry projects and enable us to meet our obligations under the ETS. At the end of FY20, after meeting our ETS compliance obligations, we had a surplus of just over one million tonnes.

GHG EMISSIONS BY SCOPE FY15 TO FY20

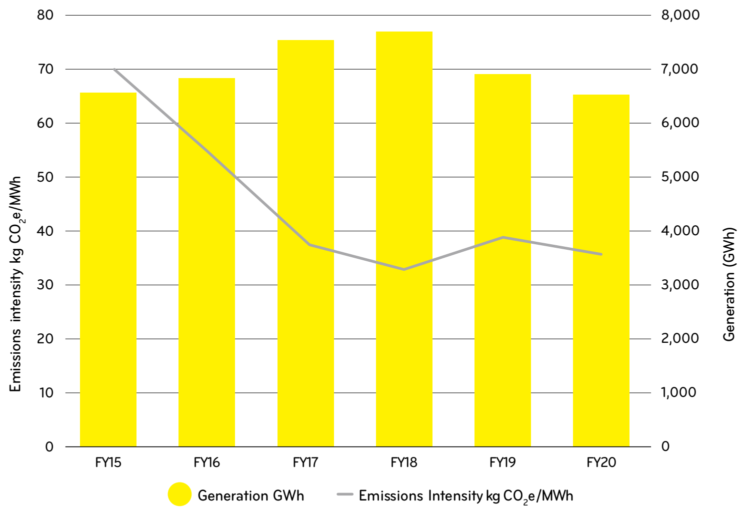
Scope 1
Direct emissions – predominantly fugitive emissions from geothermal facilities.

Scope 2
Indirect emissions - from electricity used at generation sites and in offices.

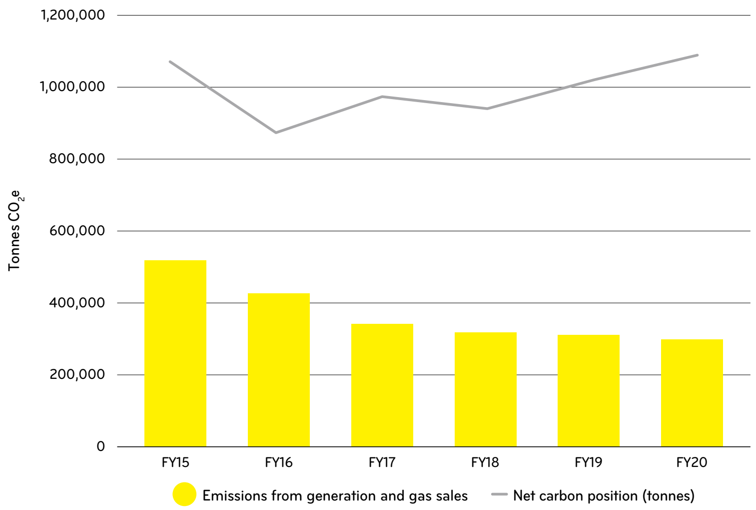
Scope 3
Other indirect emissions – 83% downstream from gas sales to dual fuel customers.



EMISSIONS INTENSITY OF GENERATION FY15 TO FY20



NET CARBON POSITION FY15 TO FY20

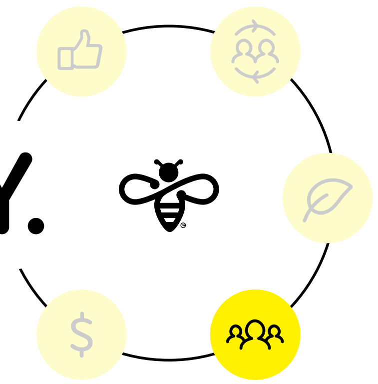


4. PEOPLE.

OUR FOCUS

Mercury's People pillar focus areas are High Performance Teams, Safety and Wellbeing, and Capability and Development. To bring this to life, as an example that touches on all focus areas, here we tell the story of Andrew Marsh and his growth while contributing to our geothermal well drilling programme.

LIVING THE LEADERSHIP JOURNEY.



Taking ownership, developing capability and leading his team to safely deliver important business outcomes: Well Services Manager Andrew Marsh lives and breathes Mercury's people goals as he builds his career.

"I joined what was then Mighty River Power as an engineer in 2010, during an exciting time of growth for geothermal generation," says Andrew. "Kawerau and Ngā Awa Pūrua geothermal stations had recently been completed and Ngātamariki was under development. It was an ideal time to cut my teeth in the renewable energy space, and an exciting time to start my Mercury career."

Andrew took on his first formal management role in 2012, recruiting two engineers to lead a Process Engineering team. "I jumped at the chance, because it started me on my leadership path at Mercury and in particular taught me what a team needs from its leader in order to be successful," says Andrew.

"During this stretch of my career I also keyed in to the importance of understanding people's needs and providing a sense of purpose and direction."

In 2018 Andrew was appointed Well Services Manager. Geothermal Technical Resources Manager, Wu Khoo, says: "Andrew's appointment to Well Services Manager was a deliberate move by us to help develop his commercial knowledge and his approach to risk-taking and decision making."

These were growth areas identified at regular development meetings and the feedback resonated with Andrew. "Decision making in the geothermal sphere is complex and compressed, because you can be spending at the rate of $200,000-$300,000 a day," Andrew says. "It's imperative that you are able to make crucial decisions both quickly, and as a team."

PILLAR SUMMARY.

+ PILLAR STORY FOCUS AREAS

- Capability & development
- Safety & wellbeing
- High Performance Teams

+ STRATEGIC GOALS: MID-TERM

We have enabled our people to understand and respond to the changing nature of work in order to deliver the highest levels of productivity and performance and are viewed as an attractive place to work.

We are a Zero Harm organisation that continues to focus on the physical and mental wellbeing of all the people who are important to our business.

STRATEGIC GOALS: LONG-TERM

A Zero Harm organisation that has enabled our people to adapt to the changing nature of work to deliver the highest levels of performance and productivity.

+ KEY RISKS

- An incident occurring that causes a fatality or serious injury to our staff, a contractor, a customer or the public.
- Failing to develop and retain our growing talent.

91%

OF PEOPLE AGREE THAT MERCURY IS COMMITTED TO THE HEALTH & SAFETY OF ITS PEOPLE.

70%

OF PEOPLE SAY THAT THEIR MANAGER, OR SOMEONE IN MANAGEMENT, HAS SHOWN A GENUINE INTEREST IN THEIR CAREER ASPIRATIONS.

87%

OF PEOPLE SAY THAT WITHIN THEIR TEAM, THEY ASK FOR HELP WHEN THEY NEED IT AND LEARN FROM EACH OTHER.

Andrew hadn't been in the Well Services Manager role long before his development areas were tested. "I was assigned with leading a drilling project," Andrew says. "This turned out to be an intense period of growth for me, because as well as having more responsibility, I had to accelerate the establishment of bench-strengths by building the team up from two to eight."

As well as a team reporting directly to him, he had a team of specialists to work with in other areas of the business, along with a contracting team on the field. Fortunately for Andrew, he was able to draw on our 'High Performance Teams' (HPT) framework.

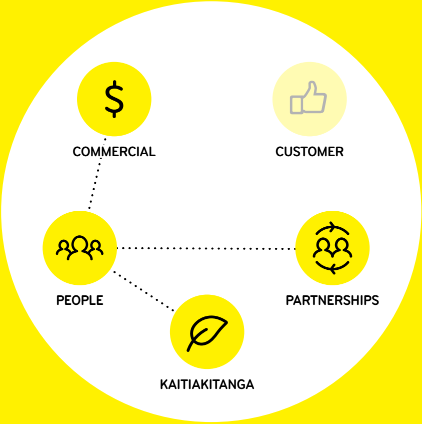
Introduced to Mercury in 2018, the HPT framework helps to build more effective teams by addressing team composition, dynamics and environment. By helping teams to build trust, embrace conflict and be aligned on their purpose and priorities, HPT tools support teams to work better together to deliver on team goals and our mission and purpose.

"The pressure on the project to deliver while managing large budgets and short timeframes was where the HPT framework really showed its strengths," says Andrew. "With a drilling project on the horizon, it was clear that we needed to adjust to be more multi-disciplinary, utilising the input of geology, reservoir and drilling engineering experts as well as drawing on the diversity of thought and experience in the wider team."

Andrew drew on the guidance of one of our HPT coaches, Communications Manager Katy Scoullar. HPT coaches are trained internally as both a development opportunity for those involved and as a way to help teams use the HPT framework to achieve better results.

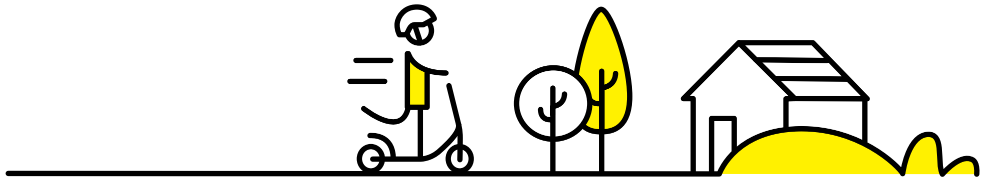
"We settled on three HPT sessions to draw out existing team strengths and qualities and set basic ground rules," says Katy. "The first session explored communication styles and delved into what each team member could bring to the table. The second let team members get to know each other better and set basic meeting ground rules to ensure the team stayed on track.

CREATING VALUE THROUGH OUR PEOPLE.



Andrew's professional journey with Mercury integrates thinking and delivers shared value across other Mercury pillars. For example:

- **PARTNERSHIPS** – working closely and collaboratively with contractors and Iwi partners supports our growing understanding of managing geothermal resources **(Industry & research)**.
- **KAITIAKITANGA** – being aware of our responsibilities to the environment and to others helps secure the long-term sustainability **(Natural resources)** and viability of our geothermal assets **(Assets)**.
- **COMMERCIAL** – success through the project team's operational excellence focus contributes to our overall geothermal generation of 2,600GWh per annum **(Generation development)**.



"At the third, Andrew presented to the team, outlining his expectations and preparing them for potential high-pressure situations involving sometimes multi-million-dollar decisions. We workshopped scenarios which served to clarify expectations of the team and their various roles."

"Adopting HPT principles led us to discover that while individually we might not have had the ability to fulfil a drilling project, collectively we did," says Andrew.

"HPT allows everyone to state their sometimes divergent positions, free of constraint or of fear of others' opinions, leading to open and frank discussions and a united commitment to the best outcome.

"This was hugely beneficial for both internal and external relationships, the strength of which tends to play out in key areas like health, safety and wellbeing, which is an ongoing area of focus for Mercury," says Andrew.

"Early on in the project, we experienced a small number of safety issues in quick succession – an ankle roll, then a finger break. It was evident we had to tackle these incidents proactively and the excellent relationship with our contractor, supported by HPT principles, meant we could work more effectively to find a solution and turn this safety blip around," Andrew said.

Importantly, there was clarity around roles: the contractor focussed on how to run the site, Mercury looked after the safety framework, compliance and safety-in-design.

The drilling project saw the completion of two wells at Kawerau and a third well at Rotokawa.

Even with all the planning, there were challenges. Andrew and his team had to respond to a nearly two-week delay at Kawerau when a failed drill string became stuck two kilometres down the well. Operations ultimately had to cease short of the final depth target.

Overall the drilling project had highly successful outcomes, with the completion of the wells exceeding capacity expectations. And while one well went over budget due to the drill string issue, it helped delineate the southern area of the Kawerau steamfield, providing critical information for future planning.

"I feel fortunate to be having my leadership journey at Mercury, supported by those around me and by frameworks like HPT. I don't feel I would have had such useful tools at my disposal or had my development areas identified and addressed so head-on by any other employer," Andrew says.

CLICK HERE to find out how geothermal energy is made.

OUR SKILLS PLEDGE

In 2019, the Prime Minister's Business Advisory Council set a challenge to organisations to sign up for the Aotearoa New Zealand Skills Pledge. We have committed to the pledge and we aim to offer our people the opportunity to be trained and to learn new skills needed to make their contribution to the future of work.

We pledge to:

- publicly disclose our investment in on-the-job training and reskilling hours annually
- double the number of on-the-job training and reskilling hours we provide by 2025

Our focus during FY20 has been on increasing training hours in development programmes and e.learning, particularly targeting capabilities required to build a future-ready sustainable workforce.

TRAINING AREA	TRAINING HOURS IN FY19	TRAINING HOURS IN FY20
Capability development	4,205	4,318
Health & safety	5,920	6,919
Business compliance	861	1,196

LOOKING FORWARD

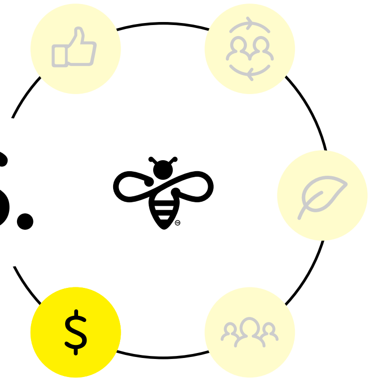
We recognise that we are in an environment of change and uncertainty that will affect many of our people directly or indirectly. Lessons from the COVID-19 lockdown will guide the evolution of our approach to flexible working arrangements and accelerate our digital capability. Wellbeing and safety is an area we will continue to focus on, with face-to-face and online training for all our people offered on an ongoing basis. We will continue to leverage our High Performance Teams framework and Our Attitudes (Share & connect, Commit & own it, Curious & original), to further improve cross-functional collaboration and continue to lift engagement.

$ 5. COMMERCIAL.

OUR FOCUS

Mercury's Commercial Pillar focus areas are Operational Excellence, Generation Development and Sustainable Growth. To bring this to life, we tell the story here of the work underway to build New Zealand's largest wind farm, Turitea.

DEALING WITH SHIFTING WINDS.



Our wind farm at Turitea passed some key milestones this year. Highlights we celebrated included the ground-breaking and start of construction in October, and November's announcement of the decision to extend the initial 33 turbines to the full 60-turbine build to create what will be New Zealand's largest wind farm.

For a long-term investment, the possibility for change is baked into the business case, but it's fair to say that the second half of the financial year saw unprecedented and unforeseen impacts related to the COVID-19 pandemic. Responding to the impact of this pandemic has tested this construction project and shown strengths within the team and across Mercury.

Dennis Radich, Generation Development Manager and Project Director of the Turitea development, is well-equipped to work with ambiguity.

When Dennis joined Mercury in 2009, the company was building geothermal power stations and his remit was to advance the next layer of growth for the company. At that time the site at Turitea was undergoing a complex and protracted Board of Inquiry consenting process, and it was anticipated that, once this was resolved, we would build a wind farm there.

But by the time the consents for the Turitea wind farm were granted, the Global Financial Crisis had flattened market demand. "All growth expectations had tapered off," remembers Dennis. The company hit pause on building new generation and waited for the economics to improve.

Years passed. In mid-2017 the team identified improving economics in wind generation, revisited the analysis around building a wind farm and ran a tender process before taking a business case to our Board in November 2018.

The Board's decision to approve the project, says Dennis, "made a huge difference in the outlook for the company and for me.

"We had identified a real opportunity to make a meaningful difference to Mercury's growth path. At a personal level my role had come full circle back to Turitea as my number one

PILLAR SUMMARY.

PILLAR STORY FOCUS AREA

- Generation development

OTHER FOCUS AREAS

- Operational excellence
- Sustainable growth

STRATEGIC GOALS: MID-TERM

We deliver EBITDAF growth and maintain an appropriate average for stay-in-business CAPEX investment, while operating within agreed risk parameters.

STRATEGIC GOALS: LONG-TERM

Leading our sector in terms of financial performance and shareholder returns, earning at least our cost of capital.

KEY RISKS

- An incident occurring that causes a fatality or serious injury to our staff, a contractor, a customer or the public.
- Supply chain disruptions that delay deliveries and impact construction timelines.

priority, although my original remit, which focussed on the commercial side, had now expanded significantly to include leading the physical infrastructure build."

The first 33 turbines were announced in March 2019, followed quickly with a further announcement of the remaining 27 turbines in November that year.

"First-mover advantage is important, and we ensured we were in a position to move quickly enough to announce that we were going ahead with the full 60 turbines.

"The outlook for the wholesale market had lifted dramatically and that supported more investment."

The decision to proceed with the full 60-turbine wind farm was based on comprehensive analysis of the market, the cost to build, and other variables.

"The most measurable part is cost – being able to model capital cost and operating cost of the wind farm," Dennis explains. "For a renewable asset, with very close to free fuel, the lion's share of the outgoing is in the capital cost at the start. You need to be confident that your 25-year forecasts are appropriate to justify that upfront commitment."

Unknown risks, such as market demand and future electricity prices, were modelled. Uncertainty around the future of the aluminium smelter at Tiwai Point, that uses around 13% of all electricity produced in this country, was also considered as part of the business case but ultimately, "in the context of a 25-year investment decision, Tiwai is a relatively short-term factor," says Dennis.

"Renewable energy projects are about the very long term, and we believe the business case is sound for the completion of the Turitea wind farm to support New Zealand demand well into the future."

As construction takes place, some flexibility is necessary.

"Being prepared to change plans is a key part of managing real life in a large, complex project. Limitations on port capacity at Napier at the time, and a couple of pinch points on the transport route for the 55m turbine blades, meant we went to the other side of the North Island to Port Taranaki for blade import."

This required a new route up the range at Turitea that wasn't previously contemplated.

What nobody could anticipate was COVID-19 and its profound impact on individuals, communities and businesses. Major construction projects like the Turitea wind farm did not escape its impact.

"From January to February there was an evolving situation internationally," says Dennis.

"We were aware that the coronavirus might at least disrupt the supply chain with key components coming from China, Italy and Indonesia. Then we saw the global spread of the threat, something that none of us had seen before or could reasonably have expected."

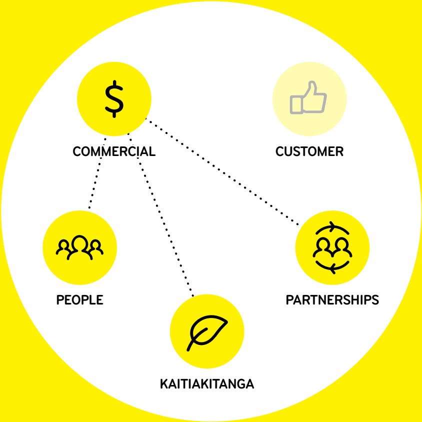
During the Alert Level 4 lockdown, Mercury and its contractors suspended construction work as required by the Government's COVID-19 directions. When the country returned to Alert Level 3, the site reopened.

60
TURBINE WIND FARM

$465M*
INFRASTRUCTURE PROJECT

* excludes capitalised interest

CREATING VALUE THROUGH COMMERCIAL.



Our Turitea wind farm project integrates thinking and delivers shared value across other Mercury pillars. For example:

- **PEOPLE** – this large project embedded high standards of **Safety & wellbeing**, and benefitted from **Capability & development** embraced by team members.
- **PARTNERSHIPS** – relationships with Vestas, the world's largest supplier of wind turbines, to deliver and maintain the wind farm; and Palmerston North City Council to ensure the safe delivery of the project within the council-owned Turitea Reserve.
- **KAITIAKITANGA** – close engagement with tangata whenua to ensure the development activities are undertaken in accordance with local tikanga.

"WHEN THE WINDS OF CHANGE BLOW, SOME PEOPLE BUILD WALLS, OTHERS BUILD WIND MILLS.

"Getting the opportunity to remobilise was extremely welcome but demobilisation and remobilisation is not costless and in a very simple sense it extends the timeline of the project.

"This is a strong reminder that despite the best laid plans, there are plenty of things outside your control.

"COVID-19 remains an ongoing situation we're adapting to, but what we do know is that Turitea will be built. It will be a great asset for Mercury and for New Zealand's renewable generation," says Dennis.

And the team have their sights set beyond the Turitea wind farm.

"We never intended to stop with just the Turitea wind farm," says Dennis. "This wind farm is the first important step in building Mercury's wind generation portfolio. The infrastructure that we're putting in place around transmission and grid connection for this wind farm is sized to also facilitate the Puketoi wind farm, further to the east.

"We have laid the groundwork to build another wind farm at Puketoi at the appropriate commercially motivated time and it has an even better quality wind resource than Turitea."

There is an ancient Chinese proverb: "When the winds of change blow, some people build walls, others build wind mills".

CLICK HERE to watch how we plan to build the largest wind farm in New Zealand.

LOOKING FORWARD

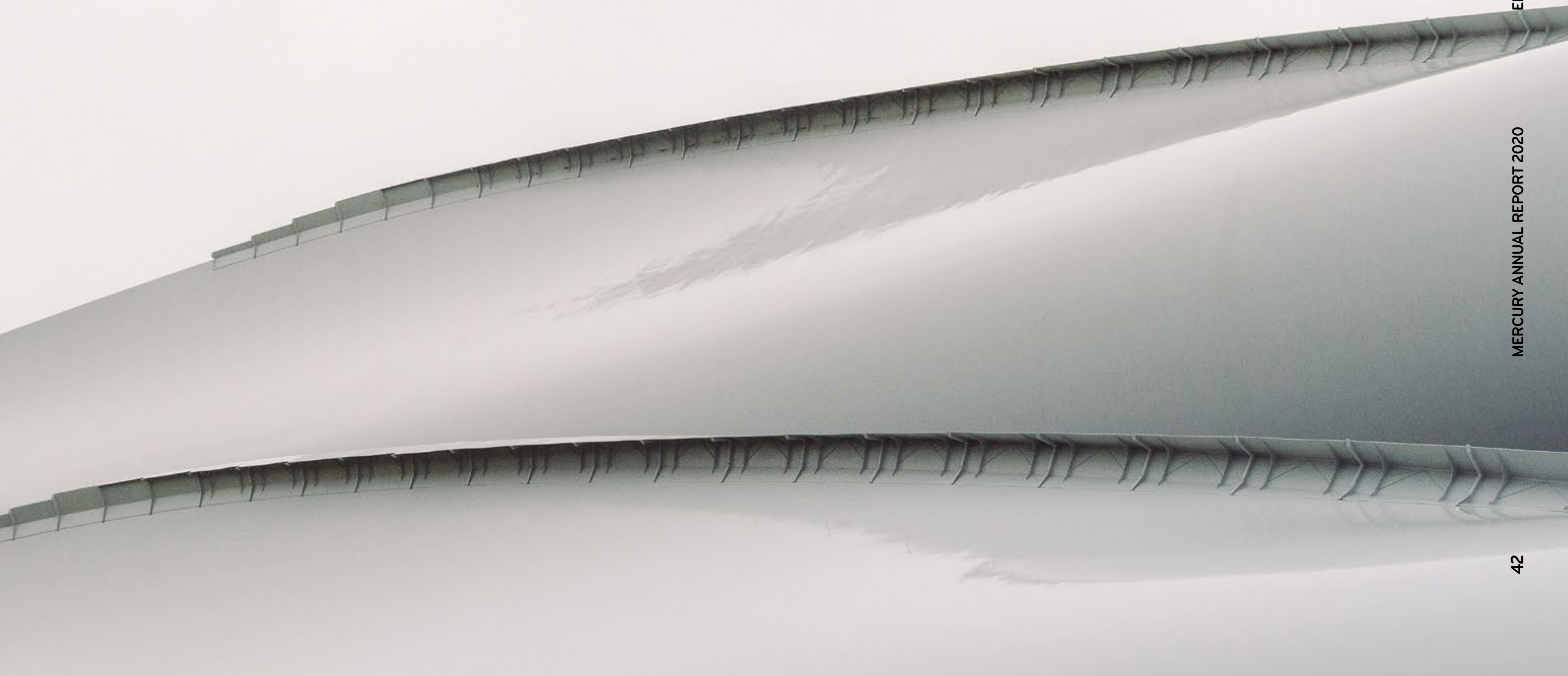
Operational efficiency and effectiveness will be a key focus, recognising a challenging economic environment, likely volatility in wholesale markets and competitor repositioning ahead of the signalled closure of the Tiwai Point aluminium smelter. An internal team has been established to consider efficiency initiatives.

Growth will be delivered by bringing generation to the grid from our Turitea wind farm. Completion of the 33 northern turbines is expected in the final quarter of FY21, and the 27 southern turbines in the second quarter of FY22.

Our capital management approach ensures we retain the flexibility to be able to take advantage of opportunities that may present themselves.

ENERGY FREEDOM IN NUMBERS.

This section explains how our integrated thinking, our decisions and our actions play out in financial results. Here we provide commentary on our financial performance for the year to the end of June 2020 compared with prior years, as well as our auditor's report and our financial statements. This year, we have amended our segment reporting so that you can more clearly see the financial dynamics of our generation operations as distinct from our retail energy sales operations.



FINANCIAL COMMENTARY.

Mercury produced a solid performance in FY20 in the face of prolonged drought conditions and a national lockdown due to COVID-19. While EBITDAF for FY20 is down $12 million, when normalised for the sale of the company's metering business in February 2019, it is $8 million favourable.

The impacts of COVID-19 on Mercury so far were modest compared to many businesses, as we continued operating as an essential service with all generation activity continuing during the nationwide lockdown through March and April. While office-based staff were required to work from home during lockdown, the company's investment in its digital platform meant this could be undertaken with minimal impact to customers and staff. Construction at our Turitea wind farm was temporarily halted, however this had resumed by early May.

Similar to the prior year, weather across the Waikato catchment was acutely dry from September, with hydro generation down approximately 300GWh against our long-term average. Prudent portfolio management during the period saw Lake Taupō levels rise to nearly full at the start of summer ahead of the normally drier summer/autumn months and saw Lake Taupō close the year almost 100GWh below its long-term average for the time of year.

Geothermal generation was slightly down at 2,615GWh for the year, off the back of two-yearly maintenance outages at both Kawerau and Ngā Awa Pūrua. A three-well drilling campaign was also completed during the year.

Our focus on customer value and loyalty, as opposed to customer numbers, saw both customer acquisitions and losses fall. Average mass market yields increased $4/MWh or 3.2% over the prior period. However, elevated spot prices during FY20 pressured margins, which remained challenged across all segments. Repricing of the commercial and industrial segment saw average yields increase by $7/MWh or 8.8% during the year.

We have continued our disciplined and focussed approach to costs. Operating costs in FY20 at $190m were in line with FY19 normalised levels as signalled. We also committed to building the southern section of our Turitea wind farm, taking total committed spend for the project to $465 million. The northern section of the wind farm is expected to be completed in autumn FY21, with the southern section following suit in spring FY22.

ENERGY MARGIN

Energy Margin of $652 million was down $15m from the previous year affected by the drought, resulting in 300GWh less hydro production.

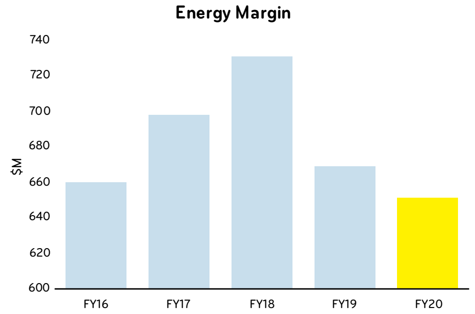
Lower inflows into the Waikato catchment meant that good lake and portfolio management has been key. A strong portfolio performance was a consequence of good management of Lake Taupō levels, decisions in the customer portfolio to increase commercial and industrial contracting, not renewing the Farmsource contract and targeted customer acquisitions. Average energy yields increased across both mass market and commercial and industrial sales, up 3.2% and 8.8% respectively.

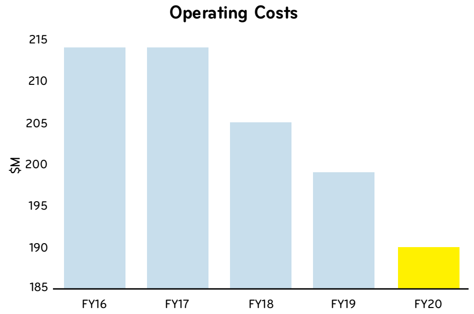
OPERATING COSTS

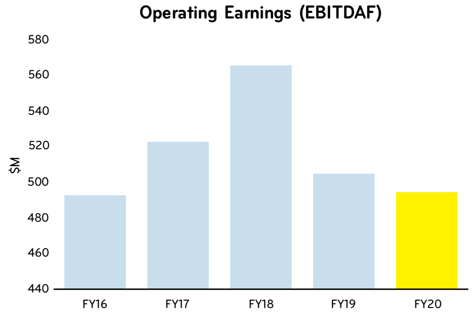
The Group held its operating costs broadly flat for a seventh year in a row, after normalising for International Financial Reporting Standards (IFRS) changes and the sale of Metrix. This continues to evidence the Group's disciplined and focussed approach to its core activities.

$494M

OPERATING EARNINGS (EBITDAF)







12TH

CONSECUTIVE YEAR OF ORDINARY DIVIDEND GROWTH

15.8CPS

FULL YEAR ORDINARY DIVIDEND

OTHER INCOME

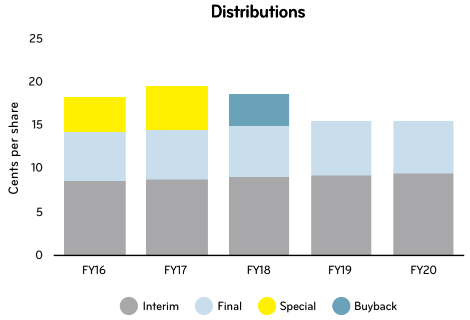
Other net income for the year of $32 million was down $6 million on the previous year as the group had its first full year without Metrix, its metering business that was sold in February 2019, which contributed $15 million in FY19. Other income now includes equity accounted income from the group's investments in associates (Tilt Renewables and Mokai, via Tuaropaki Power Company), which contributed $18 million in FY20, an increase of $17 million over FY19. These have been included because earnings from associates is forecast to become more material through time.

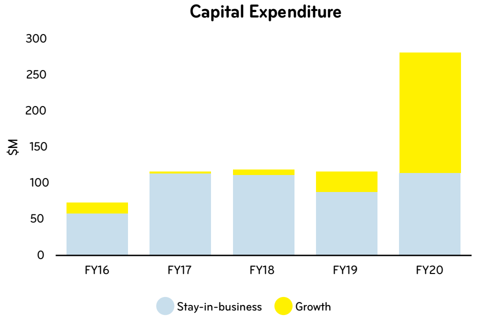
OPERATING EARNINGS (EBITDAF)

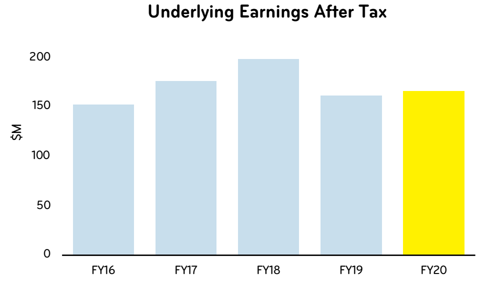
FY20 operating earnings were solid given drier hydro conditions and the sale of Metrix. The company's EBITDAF of $494 million fell $12 million from the previous year, off the back of approximately 300GWh of lower hydrology and the sale of Metrix in February 2019.

PROFIT FOR THE YEAR

Mercury's profit for the year of $207 million was lower than the previous year's record of $357 million, which benefitted by $177 million from the sale of the company's smart-metering business, Metrix. Normalising for this gain on sale, the group's net profit after tax was up $27 million, primarily due to lower interest and tax charges more than offsetting the impacts of lower hydrology.







$207M
PROFIT

$164M
UNDERLYING EARNINGS AFTER TAX

$114M
OF STAY-IN-BUSINESS CAPEX

CAPITAL STRUCTURE AND DIVIDENDS

Mercury's gearing level of 2.0 times debt/EBITDAF is up marginally on the previous year due to the capital expenditure in relation to construction of the Turitea wind farm, with $184 million advanced to date. The gearing ratio however remains at the strong end of Mercury's target credit range of 2.0x to 3.0x debt/EBITDAF to support our S&P Global credit rating of BBB+.

Mercury holds 39 million shares as treasury stock and has available debt headroom of $525 million and cash and cash equivalents of $79 million. This provides balance sheet flexibility for liquidity and growth in relation to the development of the Turitea wind farm and other potential opportunities.

In line with our dividend policy, targeting a pay-out ratio of 70% to 85% of Free Cash Flow on average over time, a fully imputed ordinary dividend of 9.4 cents per share (CPS) final dividend has been declared. This brings the full-year ordinary dividend to 15.8 CPS, up from 15.5 CPS, or 2%, in 2019, marking our 12th consecutive year of ordinary dividend growth.

UNDERLYING EARNINGS

Underlying earnings is provided to enable our 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), impairments and any changes in the fair value of derivative financial instruments.

Underlying earnings after tax increased by $3 million for the year, reflecting the company's continued focus on careful portfolio management, customer value and a disciplined approach to cost.

CASH FLOWS FROM OPERATING ACTIVITIES

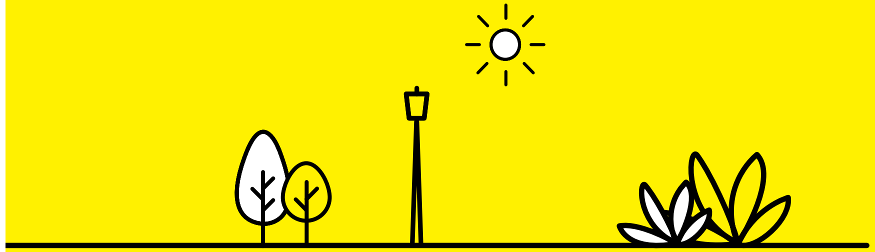
Net cash provided by operating activities represents cash flows from the sale of electricity and gas, along with the costs associated with its sale and the cash costs of interest and taxes.

BALANCE SHEET

Total assets of the company increased by $401 million, primarily due to a $296 million upward revaluation of Mercury's generation assets, due to the assessed cost of capital falling, and $184 million invested to date in the company's Turitea wind farm. Turitea construction also contributed to an increase in net debt, which was $53 million higher compared to last year.

The company invested $279 million in capital expenditure (CAPEX) during the year, comprising $114m stay-in-business (SIB) CAPEX and $165 million of growth CAPEX, the majority of which was in relation to Turitea.

The major hydro refurbishments were completed at Whakamaru in March 2020 and Aratiatia in July 2020 and preliminary refurbishment works at our Karāpiro station continued. The company also completed a three-well drilling campaign this year.



FINANCIAL TRACK RECORD.

FINANCIAL PERFORMANCE TRENDS

For the year ended 30 June[1] ($ million)	2020	2019	2018	2017	2016
Income statement					
Energy margin	652	667	730	698	660
EBITDAF	494	506	566	523	493
Net profit for the year	207	357	234	184	160
Balance sheet					
Total shareholders' equity	3,739	3,537	3,305	3,308	3,315
Total assets	6,885	6,484	6,106	5,997	6,085
Total liabilities	3,146	2,947	2,801	2,689	2,770
Cash flow					
Operating cash flow	356	361	370	380	283
Investing cash flow	(198)	63	(254)	(98)	(40)
Financing cash flow	(173)	(335)	(141)	(298)	(228)
Capital expenditure					
Total capital expenditure	279	115	118	116	72
Growth capital expenditure	165	26	6	2	13
Stay-in-business capital expenditure	114	89	112	114	59
Other financial measures					
Underlying earnings after tax	164	161	198	176	152
Free Cash Flow	242	272	258	266	224
Ordinary and special declared dividends	215	211	207	270	252
Ordinary dividends per share (cents)	15.8	15.5	15.1	14.6	14.3
Special dividends per share (cents)	–	–	–	5.0	4.0
Basic and diluted earnings per share (cents)	15.21	26.23	17.00	13.37	11.6
Net debt	1,149	1,096	1,264	1,038	1,068
Gearing (net debt/net debt + equity, %)	23.5	23.7	27.7	23.9	24.4
Debt/EBITDAF (x)[2]	2.0	1.9	1.9	1.8	2.0

For the year ended 30 June[1] ($ million)	2020	2019	2018	2017	2016
Operational measures					
Total recordable injury frequency rate (TRIFR)[3]	1.26	0.72	0.87	1.05	0.74
Sales to customers (FPVV, GWh)	4,361	4,500	4,477	4,606	4,397
Electricity customers ('000)	348	373	388	392	376
Electricity generation (GWh)	6,327	6,703	7,511	7,310	6,462

1. Financial results for the periods ended 30 June 2017 and earlier have not been restated for new IFRS standards.
2. Adjusted for S&P treatment of subordinated debt issued in FY2015.
3. Per 200,000 hours; includes on-site employees and contractors.

INDEPENDENT AUDITOR'S REPORT.

TO THE SHAREHOLDERS OF MERCURY NZ LIMITED

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

The Auditor-General is the auditor of Mercury NZ Limited ('the entity') and its subsidiaries and other controlled entities (collectively referred to as 'the Group'). The Auditor-General has appointed me, Lloyd Bunyan, using the staff and resources of Ernst & Young, to carry out the audit of the consolidated financial statements of the Group on his behalf.

OPINION

We have audited the consolidated financial statements of the Group on pages 49 to 69 of the Annual Report, that comprise the consolidated balance sheet as at 30 June 2020, the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended on that date, and notes to the consolidated financial statements that include accounting policies and other explanatory information.

In our opinion, the consolidated financial statements of the Group present fairly, in all material respects, the consolidated financial position of the Group as at 30 June 2020, and its consolidated financial performance and cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

BASIS FOR OPINION

We carried out our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the Professional and Ethical Standards and the International Standards on Auditing (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We are independent of the Group in accordance with the Auditor-General's Auditing Standards, which incorporate Professional and Ethical Standard 1 *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)* issued by the New Zealand Auditing and Assurance Standards Board, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

In addition to the audit, we have carried out assignments including a review of the Group's consolidated financial statements for the six months ended 31 December 2019, agreed upon procedure engagements, a limited assurance engagement, provision of remuneration market survey data and tax related services in the United States of America, all of which are compatible with independence requirements. These services have not impaired our independence as auditor of the Group.

Partners and employees of our firm may deal with the Group on normal terms within the ordinary course of trading activities of the business of the Group. Other than the audit and the other assignments described above, we have no relationship with, or interests in, the Group.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the financial statements* section of the audit report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

VALUATION OF GENERATION ASSETS

Why significant	How our audit addressed the key audit matter

Generation assets were revalued to $5,575 million at 30 June 2020 as set out in note 7 of the consolidated financial statements. These are significant because the generation assets represent approximately 81% of the Group's total assets.
 	
The Group engages an external party to estimate the fair value of generation assets using a discounted cash flow model. The most significant inputs used to calculate the fair value of the generation assets include the wholesale electricity price path, generation volumes, and the discount rate as described in note 7 of the consolidated financial statements.
 	
The New Zealand economy as a whole has been, and is likely to continue to be, significantly impacted by the restrictions and economic uncertainty resulting from the COVID-19 pandemic. Note 1 explains the impact of the COVID 19 pandemic on the Group. Significant assumptions used in the valuation of generation assets are inherently subjective and in times of economic uncertainty the degree of subjectivity is higher than it might otherwise be. The Group's valuation specialist considered the impacts of COVID-19 within their valuation, particularly as it related to the electricity price path and discount rate assumptions.
 	
In addition, note 7 states that the fair value of generation assets has been calculated assuming the ongoing operation of New Zealand Aluminium Smelters Limited Tiwai Point aluminium smelter ("Tiwai"), which was the expectation at 30 June 2020. On 9 July 2020 the owners of Tiwai announced its intention to close Tiwai which is expected to be completed in August 2021. As described in note 19 the Group treated this announcement as a post balance date event and did not make any adjustment to the fair value of the generation assets calculated as at 30 June 2020.
	In obtaining sufficient appropriate audit evidence we:
	• met with the Group's external valuation specialist to understand the valuation methods adopted and assessed the significant inputs to the model used to estimate the fair value of the generation assets.
	• compared forecast generation volumes to historical generation volumes.
	• involved our own valuation specialists to:
	    • consider the process used to determination of the wholesale electricity price path by the Group's external valuation specialist;
	    • assess the appropriateness of the discount rate; and
	    • consider the Group's external valuation specialist's assessment of the impact of COVID-19 on key assumptions including the electricity price path and discount rate applied.
	• assessed management's treatment of the announced Tiwai closure as a non-adjusting post balance date event;
	• assessed the professional competence and objectivity of the Group's external valuation specialist;
	• assessed the valuation adjustments were made in accordance with the Group's accounting policy; and
	• assessed the adequacy of the related financial statement disclosures in notes 7 and 19.

VALUATION OF NON-STANDARD ELECTRICITY PRICE DERIVATIVE FINANCIAL INSTRUMENTS

Why significant	How our audit addressed the key audit matter

The Group's activities expose it to certain risks which are managed using derivative financial instruments. At 30 June 2020, the fair value of derivative assets total $222 million and derivative liabilities total $254 million as set out in note 14 of the consolidated financial statements.
 	
These balances include certain electricity price derivatives for which the valuation inputs are not readily observable in active primary or secondary markets and require the use of more complex valuation assumptions including the Group's internal wholesale electricity price path forecast. We refer to these derivatives as Non-Standard Derivatives which are included within the amounts disclosed in note 14 of the consolidated financial statements.
 	
Significant assumptions used in the valuation of Non-Standard Derivatives are inherently subjective and in times of economic uncertainty the degree of subjectivity is higher than it might otherwise be, including relating to the anticipated electricity price path.
	In obtaining sufficient appropriate audit evidence we:
	• involved our valuation specialists to assess the models used to estimate the fair value of the Non-Standard derivatives. Our valuation specialists:
	    • evaluated the appropriateness of the valuation methodologies; and
	    • compared the Group's anticipated wholesale electricity price path to other price path estimates obtained in performing the Generation Asset procedures detailed above.
	• together with our internal valuation specialists, challenged key assumptions and inputs. This included assessing the impact of the COVID-19 pandemic on the electricity price path applied.
	• agreed underlying data to the contract terms on a sample basis.
	• assessed the adequacy of the related financial statement disclosures as described in note 14.

INFORMATION OTHER THAN IN THE FINANCIAL STATEMENTS AND AUDITOR'S REPORT

The Board of Directors is responsible on behalf of the entity for the Annual Report, which includes information other than the consolidated financial statements and auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

DIRECTORS' RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

The directors are responsible on behalf of the entity for the preparation and fair presentation of the consolidated financial statements for the Group that comply with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

The directors' responsibilities arise from the Financial Markets Conduct Act 2013.

The directors are also responsible for such internal control as they determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error and for the publication of the consolidated financial statements, whether in printed or electronic form.

In preparing the consolidated financial statements, the directors are responsible, on behalf of the entity, for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Our responsibilities arise from the Public Audit Act 2001. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Auditor-General's Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with the Auditor-General's Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the use of the going concern basis of accounting by the directors and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.
- We did not examine every transaction, nor do we guarantee complete accuracy of the consolidated financial statements. Also, we did not evaluate the security and controls over the electronic publication of the consolidated financial statements.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

LLOYD BUNYAN // ERNST & YOUNG

ON BEHALF OF THE AUDITOR-GENERAL
AUCKLAND, NEW ZEALAND

18 AUGUST 2020

FINANCIAL STATEMENTS.

CONSOLIDATED INCOME STATEMENT.

For the year ended 30 June 2020

	Note	2020 $M	2019 $M
Total revenue	2	1,768	2,001
Total expenses	2	(1,274)	(1,495)
EBITDAF[1]		494	506
Depreciation and amortisation	7, 8	(214)	(204)
Change in the fair value of financial instruments	14	22	26
Gain on sale/impairments		–	177
Net interest expense	2	(54)	(75)
Profit before tax		248	430
Tax expense	5	(41)	(73)
Profit for the year attributable to owners of the parent		207	357
Basic and diluted earnings per share (cents)		15.21	26.23

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME.

For the year ended 30 June 2020

	Note	2020 $M	2019 $M
Profit for the year		207	357
Other comprehensive income			
Items that will not be reclassified subsequently to profit or loss			
Movement in asset revaluation reserve		285	244
Movement in cash flow hedge reserve transferred to balance sheet	14	6	(1)
Share of movements in associates' and joint ventures' reserves	9	8	(9)
Tax effect		(91)	(66)
Items that may be reclassified subsequently to profit or loss			
Movement in cash flow hedge reserve	14	1	(118)
Movement in other reserves		–	1
Tax effect		–	32
Other comprehensive income for the year, net of taxation		209	83
Total comprehensive income for the year attributable to owners of the parent		416	440

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

CONSOLIDATED BALANCE SHEET.

As at 30 June 2020

	Note	2020 $M	2019 $M
SHAREHOLDERS' EQUITY			
Issued capital		378	378
Treasury shares	4	(101)	(101)
Reserves		3,462	3,260
Total shareholders' equity		3,739	3,537
ASSETS			
Current assets			
Cash and cash equivalents		79	94
Receivables	10	244	256
Contract assets	10	2	3
Inventories	6	22	23
Derivative financial instruments	14	126	50
Total current assets		473	426
Non-current assets			
Property, plant and equipment	7	5,898	5,528
Intangible assets	8	78	85
Investments	9	–	234
Investment in and advances to associates	9	328	76
Advances to joint operations	9	6	6
Receivables	10	6	–
Derivative financial instruments	14	96	129
Total non-current assets		6,412	6,058
Total assets		6,885	6,484

	Note	2020 $M	2019 $M
LIABILITIES			
Current liabilities			
Payables and accruals	10	280	216
Borrowings	12	446	541
Derivative financial instruments	14	116	45
Taxation payable	5	33	19
Total current liabilities		875	821
Non-current liabilities			
Payables and accruals	10	12	9
Provisions	11	74	59
Derivative financial instruments	14	138	208
Borrowings	12	845	692
Deferred tax	5	1,202	1,158
Total non-current liabilities		2,271	2,126
Total liabilities		3,146	2,947
Net assets		3,739	3,537

For and on behalf of the Board of Directors, who authorised the issue of the Financial Statements on 18 August 2020.

PRUE FLACKS // CHAIR
18 August 2020

KEITH SMITH // DIRECTOR
18 August 2020

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY.

For the year ended 30 June 2020

	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 2018	378	164	2,901	(24)	(114)	3,305
Movement in asset revaluation reserve, net of taxation	–	–	176	–	–	176
Movement in cash flow hedge reserve, net of taxation	–	–	–	(85)	–	(85)
Movements in other reserves	–	2	–	–	(1)	1
Recycling of fair value losses in available for sale reserves	–	(15)	–	–	15	–
Share of movements in associates' and joint ventures' reserves	–	–	–	(9)	–	(9)
Other comprehensive income	–	(13)	176	(94)	14	83
Net profit for the year	–	357	–	–	–	357
Total comprehensive income for the year	–	344	176	(94)	14	440
Dividend	–	(208)	–	–	–	(208)
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 asset revaluation reserve, net of taxation	–	–	205	–	–	205
Movement in cash flow hedge reserve, net of taxation	–	–	–	(4)	–	(4)
Share of movements in associates' and joint ventures' reserves	–	(1)	(1)	–	10	8
Other comprehensive income	–	(1)	204	(4)	10	209
Net profit for the year	–	207	–	–	–	207
Total comprehensive income for the year	–	206	204	(4)	10	416
Dividend	–	(214)	–	–	–	(214)
Balance as at 30 June 2020	378	292	3,281	(122)	(90)	3,739

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

CONSOLIDATED CASH FLOW STATEMENT.

For the year ended 30 June 2020

	2020 $M	2019 $M
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	1,697	1,987
Payments to suppliers and employees	(1,205)	(1,478)
Interest received	1	1
Interest paid	(60)	(70)
Taxes paid	(77)	(79)
Net cash provided by operating activities	356	361
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of property, plant and equipment	(195)	(93)
Acquisition of intangibles	(28)	(29)
Acquisition of investment	–	(55)
Distributions received from and advances repaid to associates and joint ventures	4	5
Proceeds from the sale of metering business	–	270
Return/(lodgements) of prudential deposits	21	(35)
Net cash (used)/received in investing activities	(198)	63
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from loans	375	30
Repayment of loans	(330)	(166)
(Payment)/receipt of lease (liabilities)/incentives	(4)	9
Dividends paid	(214)	(208)
Net cash used in financing activities	(173)	(335)
Net (decrease)/increase in cash and cash equivalents held	(15)	89
Cash and cash equivalents at the beginning of the year	94	5
Cash and cash equivalents at the end of the year	79	94
Cash balance comprises:		
Cash balance at the end of the year	79	94

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS.

For the year ended 30 June 2020

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 financial statements ("Group financial statements") are for Mercury NZ Limited Group ("the 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 Financial Markets Conduct Act 2013 and in accordance with New Zealand Generally Accepted Accounting Practice ("NZ GAAP"). They comply with New Zealand equivalents to International Financial Reporting Standards ("NZ IFRS") as appropriate for profit-oriented entities. These financial statements also comply with International Financial Reporting Standards ("IFRS").

The Group financial statements are prepared on the basis of historical cost, with the exception of financial instruments, the US Private Placement and generation assets which are measured at fair value.

The Group financial statements have been prepared so that all components are stated exclusive of GST, with the exception of receivables and payables that include GST invoiced.

Functional and presentation currency

These financial statements are presented in New Zealand Dollars ($) which is the Group's functional currency, apart from Mercury's equity accounted share in Tilt Renewables Limited as its functional currency is the Australian dollar and Mighty Geothermal Power Limited and its direct subsidiaries as their functional currency is the United States dollar. Unless otherwise stated, financial information has been rounded to the nearest million dollars ($M).

The assets and liabilities of entities whose functional currency is not the New Zealand Dollar, are translated at the exchange rates ruling at balance date. Revenue and expense items are translated at the spot rate at the transaction date or a rate approximating that rate. Exchange differences are taken to the foreign currency translation reserve.

Estimates and judgements

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.

The areas of significant estimates and judgements are as follows:

- Fair value of generation plant and equipment (refer note 7)
- Retail revenue accruals (refer note 10)
- Provision for restoration and environmental rehabilitation costs (refer note 11)
- Valuation of financial instruments (refer note 13 and note 14)
- Incremental borrowing rates for the purpose of establishing lease liabilities (refer note 7)

Accounting policies and standards

No changes to accounting polices have been made during the year and policies have been consistently applied to all years presented. Certain comparatives have been restated where needed to conform to current year classifications and presentation.

The Group has 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS.

For the year ended 30 June 2020

NOTE 1. ACCOUNTING POLICIES (CONTINUED)

COVID-19 Pandemic

On 11 March 2020 the World Health Organisation declared a global pandemic as a result of the outbreak and spread of COVID-19. Following this, on Wednesday 25 March 2020 the New Zealand Government raised its alert level to 4 (full lockdown) for an initial four-week period. The alert level was moved back down to level 3 on 27 April 2020 and then level 2 on 13 May 2020, with specific restrictions removed at each level. On 8 June 2020, level 1 was achieved and all remaining restrictions were lifted except for border controls.

The generation and retailing of electricity was deemed an essential service. Therefore Mercury was able to continue trading throughout all alert levels. As a result, this has limited the impact of COVID-19 during the reporting period on Mercury. It is acknowledged that there is significant uncertainty in how COVID-19 will impact the New Zealand economy and Mercury in the future.

An assessment of the impact of COVID-19 on Mercury's 30 June 2020 balance sheet is set out below. This assessment is effective as at 18th August 2020 and has made use of all available information at that time.

Balance Sheet Item	COVID-19 Assessment	Note
Cash	No impact to the carrying value of cash on hand.	N/A
Receivables	Mercury has increased its allowance for impairment loss by $1 million to account for the effect of COVID-19 on the macroeconomic conditions which rendered the historical trend of receipts from customers less reliable.	Note 10
Contract Assets	Capitalised customer acquisition costs are amortised over the expected life of the customer relationship. There was no impact from COVID-19 on contract assets.	Note 10
Derivative Financial Instruments	COVID-19 has affected interest rates, foreign exchange rates and forward electricity prices. Derivatives are recorded at fair value. Valuation techniques used for Level 2 and 3 derivatives incorporate COVID-19 impacts.	Note 13
Property, Plant and Equipment	Generation assets are held at fair value. They have been revalued as at 30 June 2020 following an independent valuation by PricewaterhouseCoopers. The fair value assessment of generation assets was carried out at 30 June 2020 and has incorporated impacts arising from COVID-19.	Note 7
Right-of-use assets	Mercury received rent relief from landlords on three properties. The relief is immaterial and has not impacted how these leases have been previously recognised.	Note 7
Investments and associates	All of Mercury's investments and associates are recognised via the equity method under NZ IAS 28. Since all investments are in the same industry and were able to continue trading throughout all alert levels, no indicators of impairment exist.	Note 9
Provisions	The Group's material provision is for the abandonment and subsequent restoration of geothermal wells. COVID-19 does not affect this provision.	Note 11
Borrowings	Borrowings are held at amortised cost and the Group's USPP is exchanged to NZD using the exchange rate at balance date. Any impact of COVID-19 on the NZD v USD exchange rate is reflected in the USPP carrying value.	Note 12
Income Tax	The COVID-19 Response (Taxation and Social Assistance Urgent Measures) Act reintroduced tax depreciation on non-residential buildings. The $8million impact of this legislation has been reflected in the deferred tax balance and tax expense. No other tax relief measures had a material impact on Mercury's tax balances.	Note 5

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS.

For the year ended 30 June 2020

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 before net interest expense, tax expense, depreciation and amortisation, change in the fair value of financial instruments, gain on sale and impairments by each segment inclusive of an allocation of central operating revenue and costs. Operating segments are aggregated into reportable segments only if they share similar economic characteristics.

During the year, the company's operating segments were changed to better reflect how the business is managed and operating decisions are made. Accordingly, the newly reported segments are (i) Generation/Wholesale, (ii) Retail and (iii) Other segments. Under this newly reported methodology, the company's previously owned metering business Metrix – which was sold in March 2019 – has also been separated for comparative purposes. All comparative information has been restated accordingly.

TYPES OF PRODUCTS AND SERVICES

Generation/Wholesale

The generation/wholesale market segment encompasses activity associated with the electricity production, electricity trading, generation development activities and the Group's share of associates earnings. It also includes revenue from the sale of electricity to both commercial & industrial customers and the retail segment.

Retail

The retail market segment encompasses activity associated with sale of energy, related services and products, including solar equipment, to mass market customers in New Zealand.

Metrix

Represents the metering services of Metrix – which was sold in March 2019 – for comparative purposes only.

Other Segments

Represents corporate support services which are not directly attributable to the generation/wholesale or retail segments.

Inter-segment

Transactions between segments represent transfer charges by generation/wholesale to retail for the purchase of electricity.

SEGMENT RESULTS

YEAR ENDED 30 JUNE 2020	Generation/ Wholesale $M	Retail $M	Metrix $M	Other Segments $M	Inter–segment $M	Total $M
Sales – electricity generation	706	–	–	–	–	706
Sales to customers and derivatives	584	746	–	–	(302)	1,028
Earnings of associates	18	–	–	–	–	18
Other revenue	10	6	–	–	–	16
Total revenue	1,318	752	–	–	(302)	1,768
Energy costs	(604)	(308)	–	–	302	(610)
Line charges	(77)	(308)	–	–	–	(385)
Other direct cost of sales, excluding third party metering	(32)	(9)	–	–	–	(41)
Direct costs of other revenue	–	(2)	–	–	–	(2)
Third party metering	(3)	(43)	–	–	–	(46)
Employee compensation and benefits	(35)	(32)	–	(15)	–	(82)
Maintenance expenses	(34)	(6)	–	–	–	(40)
Other expenses	(36)	(25)	–	(7)	–	(68)
Allocation or corporate overheads	(11)	(11)	–	22	–	–
Total expenses	(832)	(744)	–	–	302	(1,274)
Segment EBITDAF	486	8	–	–	–	494
Interest expense	(8)	–	–	(48)	–	(56)
Lease interest expense	–	–	–	(3)	–	(3)
Interest income	–	–	–	1	–	1
Interest capitalised to capital work in progress	4	–	–	–	–	4
Net interest expense	(4)	–	–	(50)	–	(54)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS.

For the year ended 30 June 2020

SEGMENT RESULTS (CONTINUED)

YEAR ENDED 30 JUNE 2019	Generation/ Wholesale $M	Retail $M	Metrix $M	Other Segments $M	Inter–segment $M	Total $M
Sales – electricity generation	944	–	–	–	–	944
Sales to customers and derivatives	497	807	–	–	(291)	1,013
Earnings of associates	1	–	–	–	–	1
Other revenue	16	10	33	–	(16)	43
Total revenue	1,458	817	33	–	(307)	2,001
Energy costs	(795)	(298)	–	–	291	(802)
Line charges	(77)	(345)	–	–	–	(422)
Other direct cost of sales, excluding third party metering	(25)	(8)	–	–	–	(33)
Direct costs of other revenue	–	(3)	(3)	–	–	(6)
Third party metering	(3)	(46)	–	–	16	(33)
Employee compensation and benefits	(35)	(32)	(5)	(14)	–	(86)
Maintenance expenses	(34)	(5)	(3)	–	–	(42)
Other expenses	(34)	(27)	(2)	(8)	–	(71)
Allocation or corporate overheads	(11)	(11)	–	22	–	–
Total expenses	(1,014)	(775)	(13)	–	307	(1,495)
Segment EBITDAF	444	42	20	–	–	506
Interest expense	(3)	–	–	(71)	–	(74)
Lease interest expense	–	–	–	(2)	–	(2)
Interest income	–	–	–	1	–	1
Interest capitalised to capital work in progress	–	–	–	–	–	–
Net interest expense	(3)	–	–	(72)	–	(75)

Prior year comparative figures have been amended to reflect the share of earnings of associates now recognised in total revenue.

Audit fees

Fees payable to EY, who are appointed by the Auditor-General, for the audit and review of the financial statements and other assurance and agreed upon procedure engagements were $606,000 (2019: $605,000). Non-audit services in relation to provision of remuneration market survey data were $13,000 (2019: $33,000). EY (US) also provided US tax compliance services in the amount of $192,000 (2019: $264,000).

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, any change in the fair value of derivative financial instruments and gain on sale, all net of tax expense. Changes in the fair value of financial instruments are excluded from underlying earnings in order to align their impact when they mature with the underlying hedged items.

	2020 $M	2019 $M
PROFIT FOR THE YEAR	207	357
Change in the fair value of financial instruments	(22)	(26)
Impairments/Gain on sale in metering business	–	(177)
Tilt bargain purchase gain	(18)	–
Adjustments before tax expense	(40)	(203)
Tax (credit)/expense	(3)	7
Adjustments after tax expense	(43)	(196)
Underlying earnings after tax	164	161

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

During the year the Group began accounting for its investment in Tilt Renewables Limited ("Tilt") as an investment in an associate. This required a comparison between the cost of the Group's investment and the fair value of it's share of identifiable assets, with the difference of $18 million being recognised as a bargain purchase gain on transition. Prior to moving to equity accounting, a $10 million deferred tax expense was recognised in prior periods in relation to unrealised fair value movements of the Group's investment in Tilt. This tax expense was reversed during the period. For further details see Note 9.

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. SHARE CAPITAL AND DISTRIBUTION

The share capital of the Company is represented by 1,400,012,517 ordinary shares (2019: 1,400,012,517) issued and fully paid. The weighted average number of shares on issue during the year, on both a basic and diluted basis, was 1,361,032,535 (2019: 1,360,894,041). These shares do not have a par value, have equal voting rights and share equally in dividends and any surplus on winding up.

	2020 Number of shares (M)	2020 $M	2019 Number of shares (M)	2019 $M
Treasury shares				
Balance at the beginning of the year	39	101	39	101
Acquisition of treasury shares	–	–	–	–
Balance at the end of the year	39	101	39	101

	Cents per share	2020 $M	2019 $M
Dividends declared and paid			
Final dividend for 2018	9.1	–	124
Interim dividend for 2019	6.2	–	84
Final dividend for 2019	9.3	127	–
Interim dividend for 2020	6.4	87	–
		214	208

No imputation credits are available at 30 June 2020 (2019: $nil) as the imputation credit account has a deficit of $30 million (2019: deficit of $25 million). The imputation credit account is required to have a surplus balance at 31 March each year.

NOTE 5. TAXATION

	2020 $M	2019 $M
Income Tax		
(i) Tax expense		
Profit before tax	248	430
Prima facie tax expense at 28% on the profit before tax	(69)	(120)
Increase/(decrease) in tax expense due to:		
• share of associates' and joint ventures' tax paid earnings	5	–
• reversal of deferred tax recognised on investment in Tilt Renewables	10	–
• capital gain	–	51
• change in tax treatment of commercial buildings	8	–
• other differences	5	(4)
Tax expense attributable to profit from ordinary activities	(41)	(73)
Represented by:		
Current tax expense	(90)	(81)
Deferred tax recognised in the income statement	49	8

The tax expense charged to the income statement includes both the current year's provision and the income tax effect of:

- taxable temporary differences, except those arising from initial recognition of goodwill; and
- deductible temporary differences to the extent that it is probable that they will be utilised.

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.

Deferred Tax

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax and accounting bases of the Group's assets and liabilities. A deferred tax asset is only recognised to the extent that there will be future taxable profit to utilise the temporary difference.

Property, plant and equipment is held on capital account for income tax purposes. Where assets are revalued, with no similar adjustment to the tax base, a taxable temporary difference is created that is recognised in deferred tax. The deferred tax liability on these revaluations is unlikely to crystallise in the foreseeable future under existing income tax legislation.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS.

For the year ended 30 June 2020

NOTE 5. TAXATION (CONTINUED)

	Assets 2020 $M	Assets 2019 $M	Liabilities 2020 $M	Liabilities 2019 $M	Net 2020 $M	Net 2019 $M
(i) Recognised deferred tax assets and liabilities						
Property, plant and equipment	–	–	(1,263)	(1,213)	(1,263)	(1,213)
Financial instruments	27	23	–	–	27	23
Employee benefits and provisions	3	2	–	–	3	2
Other	31	30	–	–	31	30
	61	55	(1,263)	(1,213)	(1,202)	(1,158)

	Property, plant and equipment $M	Financial instruments $M	Employee entitlements $M	Other $M	Total $M
(ii) Movement in deferred tax					
Balance as at 1 July 2018	(1,155)	5	2	17	(1,131)
Charged/(credited) to the income statement	26	(14)	–	(5)	7
Charged/(credited) to other comprehensive income	(85)	32	–	19	(34)
Balance as at 30 June 2019	(1,214)	23	2	31	(1,158)
Balance as at 1 July 2019	(1,214)	23	2	31	(1,158)
Charged/(credited) to the income statement	34	15	1	(1)	49
Charged/(credited) to other comprehensive income	(83)	(11)	–	3	(91)
Other movements	–	–	–	(2)	(2)
Balance as at 30 June 2020	(1,263)	27	3	31	(1,202)

The COVID-19 Response (Taxation and Social Assistance Urgent Measures) Act reintroduced tax depreciation on non-residential buildings. The $8 million impact of this legislation has been reflected in the deferred tax balance. No other tax relief measures had a material impact on Mercury's tax balances.

NOTE 6. INVENTORIES

Cost is determined on a weighted average basis and includes expenditure incurred in acquiring inventories and bringing them to their final condition and location. Consumable stores of $22 million (2019: $23 million) are held to service and repair operating plant.

NOTE 7. PROPERTY, PLANT AND EQUIPMENT

	Generation assets at fair value $M	Meters at cost $M	Other assets at cost $M	Right-of-use assets	Capital work in progress at cost $M	Total $M
YEAR ENDED 30 JUNE 2019						
Opening net book value	5,215	48	37	12	58	5,370
Additions	16	3	25	42	53	139
Transfers	30	–	–	–	(30)	–
Disposals	(1)	(45)	(2)	(1)	(1)	(50)
Net revaluation movement	250	–	–	–	–	250
Depreciation charge for the year	(163)	(6)	(8)	(4)	–	(181)
Closing net book value	5,347	–	52	49	80	5,528
Balance at 30 June 2019						
Cost or valuation	5,347	23	125	59	80	5,634
Accumulated depreciation	–	(23)	(73)	(10)	–	(106)
Net book value	5,347	–	52	49	80	5,528
YEAR ENDED 30 JUNE 2020						
Opening net book value	5,347	–	52	49	80	5,528
Additions	1	–	–	–	259	260
Transfers	101	–	7	–	(108)	–
Disposals	–	–	–	–	–	–
Net revaluation movement	296	–	–	–	–	296
Depreciation charge for the year	(170)	–	(11)	(5)	–	(186)
Closing net book value	5,575	–	48	44	231	5,898
Balance at 30 June 2020						
Cost or valuation	5,575	–	115	56	231	5,977
Accumulated depreciation	–	–	(67)	(12)	–	(79)
Net book value	5,575	–	48	44	231	5,898

NOTE 7. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

ASSETS CARRYING VALUES

The cost of property, plant and equipment purchased comprises the consideration given to acquire the assets plus other directly attributable costs incurred in bringing the assets to the location and condition necessary for their intended use.

The cost of property, plant and equipment constructed by the Group, including capital work in progress, includes the cost of all materials used in construction, associated direct labour and an appropriate proportion of variable and fixed overheads. Financing costs attributable to a project are capitalised at the Group's specific project finance interest rate, where these meet certain time and monetary materiality limits. Costs of testing whether the assets are functioning properly, after deducting the net proceeds from power generation, are also capitalised. Costs cease to be capitalised as soon as an asset is ready for productive use.

Costs incurred in obtaining resource consents are capitalised and recognised as a non-current asset where it is probable they will give rise to future economic benefits. These costs are depreciated over the life of the consent on a straight-line basis.

Generation plant and equipment is measured at fair value less accumulated depreciation. Any surplus on revaluation of an individual item of property, plant and equipment is transferred directly to the asset revaluation reserve unless it offsets a previous decrease in value recognised in the income statement, in which case it is recognised in the income statement. A deficit on revaluation of an individual item of property, plant and equipment is recognised in the income statement in the period it arises where it exceeds any surplus previously transferred to the asset revaluation reserve. Any accumulated depreciation at the date of the revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Additions to property, plant and equipment stated at valuation subsequent to the most recent valuation are recorded at cost. All other items of property, plant and equipment are recorded at cost less depreciation and impairments.

Right-of-use assets constitute property and motor vehicles and represents the Group's right to use those underlying assets as a lessee under lease agreements. In line with IFRS 16, all leases are recognised on the balance sheet. Lease payments are recorded as a repayment of the lease obligation and interest expense. 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. The weighted average incremental borrowing rate applied to lease liabilities recognised in the statement of financial position was 5.36% (2019: 5.26%). The Group's lease interest and lease liability is disclosed in note 2 and note 12 respectively.

As at 30 June 2020, the capital work in progress balance is elevated due to the Group's ongoing construction of its Turitea wind farm. Its phased commissioning is anticipated to commence in the second half of next year.

ASSETS CARRIED AT FAIR VALUE

All generation assets shown at valuation (except Resource Management Act consents) were revalued using a net present value methodology by PricewaterhouseCoopers, an independent valuer, as at 30 June 2020. This resulted in an increase to the carrying value of the Group's hydro and geothermal generation assets of $253m and $43m respectively in the current year. This is in addition to the $250m revaluation increase recognised across the Group's hydro and geothermal generation assets in 2019. As a consequence of the revaluation, accumulated depreciation on these hydro and geothermal assets has been reset to nil.

The key assumptions that are used in the valuation include the forecast of the future wholesale electricity price path, volumes, projected operational and capital expenditure, capacity and life assumptions and discount rate. In all cases there is an element of judgement required as they make use of unobservable inputs including wholesale electricity prices of between $75/MWh and $93/MWh (2019: $75/MWh and $106/MWh), average operational expenditure of $161 million p.a. (2019: $158 million p.a.), net average production volumes of 6,708 GWh p.a. (2019: 6,703 GWh p.a.) and a post-tax discount rate of between 6.5% and 6.9% (2019: 7.2% to 7.6%). The valuation also assumed the on-going operation of New Zealand Aluminium Smelters Limited at Tiwai Point (see note 19 – subsequent events), no material changes to the wholesale market regulatory regime, hydro and geothermal fuel supply being sustained over the modelled horizon and no material changes to generation consent conditions. The discounted cash flow valuation approach assumes 100% control and consequently a control premium should be applied if using an equity valuation technique to derive comparative asset values.

The following table outlines the valuation impact of changes to assumptions, keeping all other valuation inputs constant, that the valuation is most sensitive to.

	Sensitivity	Valuation impact	
		2020 $M	2019 $M
Future wholesale electricity price path	+/- 10%	$891 / ($898)	$833 / ($837)
Discount rate	+/- 0.5%	($604) / $747	($531) / $641
Operational expenditure	+/- 10%	($267) / $267	($235) / $235

The carrying amount of revalued generation assets, had they been recognised at cost, would have been $1,959 million (2019: $1,937 million).

Depreciation

Depreciation is provided on a straight-line basis on all property, plant and equipment other than freehold land, capital work in progress and exploration and evaluation assets, so as to write down the assets to their estimated residual value over their expected useful lives.

The annual depreciation rates are as follows:

	2020	2019
Office fixture and fittings, including fit-out	2-50%	2-50%
Generation assets:		
• Hydro and thermal generation	1-33%	1-33%
• Other generation	2-33%	2-33%
Computer hardware and tangible software	5-50%	5-50%
Other plant and equipment	2-50%	2-50%
Vehicles	5-33%	5-33%
Right of use assets	4-33%	4-33%

NOTE 8. INTANGIBLE ASSETS

	Intangible software $M	Rights $M	Emissions units $M	Work in progress $M	Total $M
YEAR ENDED 30 JUNE 2019					
Opening net book value	55	20	16	10	101
Additions	13	1	7	8	29
Transfers	10	–	–	(10)	–
Disposals	(20)	–	–	(2)	(22)
Amortisation for the year	(22)	(1)	–	–	(23)
Closing net book amount	36	20	23	6	85
BALANCE AT 30 JUNE 2019					
Cost	149	34	23	6	212
Accumulated amortisation	(113)	(14)	–	–	(127)
Net book value	36	20	23	6	85
YEAR ENDED 30 JUNE 2020					
Opening net book value	36	20	23	6	85
Additions	–	–	7	21	28
Transfers	22	–	–	(22)	–
Surrendered Units	–	–	(7)	–	(7)
Amortisation for the year	(26)	(2)	–	–	(28)
Closing net book amount	32	18	23	5	78
BALANCE AT 30 JUNE 2020					
Cost	138	34	23	5	200
Accumulated amortisation	(106)	(16)	–	–	(122)
Net book value	32	18	23	5	78

Software

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use. These costs are amortised over their estimated useful lives of between 2 to 15 years (2019: between 2 to 15 years). As these assets are deemed to have a finite life, impairment testing will only be performed when there is an indication that the intangible asset may be impaired.

Rights

Rights, of which land access rights are the most significant, acquired to further the Group's generation development programme are stated at cost less accumulated amortisation and any accumulated impairment losses. Rights, which have a finite life, are amortised over the life of the rights, which range from 3 to 60 years (2019: 3 to 25 years). Testing for impairment will only arise when there is an indication that the asset may be impaired.

Emissions units and emissions obligations

Emissions units that have been allocated by the Government under the Projects to Reduce Emissions scheme are recorded at nominal value (nil value). Purchased emissions units are recorded at cost (purchase price). Emissions units, whether allocated or purchased, are recorded as intangible assets. Emissions units are not revalued subsequent to initial recognition.

Emissions units that are surrendered to creditors in compensation for their emissions obligations are recognised as an expense in the income statement and a reduction to intangible assets in the balance sheet, based on the weighted average cost of the units surrendered.

Emissions obligations are recognised as a current liability as the obligation is incurred. Up to the level of units held, the liability is recorded at the carrying value of those units intended to settle the liability. Forward contracts for the purchase of emissions units are recognised when the contracts are settled.

NOTE 9. INVESTMENT AND ADVANCES TO ASSOCIATES AND JOINT ARRANGEMENTS (JOINT VENTURES AND JOINT OPERATIONS)

The Group financial statements include the following:

			Interest held		
Name of entity	**Principal activity**	**Type**	**2020**	**2019**	**Country**
TPC Holdings Limited	Investment holding	Associate	25.00%	25.00%	New Zealand
Tilt Renewables Limited	Electricity generation and development	Associate	19.96%	19.97%	New Zealand
Rotokawa	Steamfield operation	Joint operation	64.80%	64.80%	New Zealand
Ngā Awa Pūrua	Electricity generation	Joint operation	65.00%	65.00%	New Zealand
EnergySource LLC	Investment holding	Joint venture	20.86%	20.86%	United States
EnergySource Minerals LLC	Mineral extraction	Joint venture	20.84%	20.84%	United States
Hudson Ranch I Holdings LLC	Electricity generation	Joint venture	75.00%	75.00%	United States

	Associates		Joint ventures	
	2020 $M	**2019 $M**	**2020 $M**	**2019 $M**
Balance at the beginning of the year	76	88	–	–
Additions during the year	230	–	–	–
Share of earnings	18	1	–	–
Share of movement in other comprehensive income and reserves	8	(9)	–	–
Distributions received during the year	(4)	(4)	–	–
Balance at the end of the year	328	76	–	–

NOTE 9. INVESTMENT AND ADVANCES TO ASSOCIATES AND JOINT ARRANGEMENTS (JOINT VENTURES AND JOINT OPERATIONS) (CONTINUED)

At the end of the year the Group had outstanding advances to its Rotokawa joint venture partner in the amount of $6 million (2019: $6 million) and its associate TPC Holdings Limited of $4 million (2019: $4 million). For terms and conditions of these related party receivables refer to note 16.

Mercury's share of losses in Energy Source LLC exceeds its interest in the joint venture. In compliance with the equity method under NZ IAS 28 – Investments in Associates and Joint Ventures, the Group has yet to recognise its share of losses relating to EnergySource LLC amounting to US$3 million.

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 NZ IAS 28 – Investments in associated 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 in line with its market value as of 19 July 2019 and recognise a bargain purchase gain of $18m.

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 10. RECEIVABLES, PAYABLES AND ACCRUALS

	2020 $M	2019 $M
RECEIVABLES		
Trade receivables and accruals	241	248
Allowance for impairment loss	(2)	(1)
Net trade receivables and accruals	239	247
Prepayments	11	9
	250	256

Sales to customers and derivatives are typically invoiced on a monthly basis. Revenue from sales to and derivatives with large commercial and industrial customers is billed on a calendar month basis, while billing of sales to mass market customers occurs on a rolling cycle each month and over the year. Sales of energy to customers, both physical and financial (i.e. derivatives) are on contract terms that have similar characteristics and are therefore treated as a portfolio of contracts. Revenue accruals for unread gas and electricity meters at balance date involves an estimate of consumption for each unread meter, based on the customer's past consumption history. Generation revenue is derived mostly from generation sales to the New Zealand wholesale market at the prevailing spot price at the grid injection point. Revenue is invoiced by the Wholesale Market Clearing Manager on a calendar month basis reflecting actual metered generation at the stations.

Trade receivables are non-interest bearing and are generally on 30 day terms. For terms and conditions of related party receivables refer to note 16.

The Group recognises an allowance for impairment loss when there is objective evidence that the Group will not be able to collect amounts due according to the original terms of the receivable. An allowance charge of $3 million (2019: $2 million) was recognised during the year. Receivables of $2 million (2019: $3 million) were deemed uncollectable were written off.

Expected Credit Loss

The Company applies the NZ IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables.

To measure the expected credit losses, trade receivables have been grouped based on days past due. The expected loss rates are based on the payment profiles of sales over a 12 month period before 30 June 2020 and the corresponding historical credit losses during the period, adjusted for any significant known amounts that are not receivable.

On that basis the following table details the loss allowance at 30 June 2020:

		More than 30 days past due	More than 60 days past due	More than 90 days past due	Total
Expected loss rate	%	4%	27%	59%	
Gross carrying amount – trade receivable	$M	5	1	2	8
Loss allowance	$M	–	–	1	1

	2020 $M	2019 $M
Movements in the allowance for impairment loss were as follows:		
Balance at the beginning of the year	1	2
Charge for the year	3	2
Amounts written off	(2)	(3)
Balance at the end of the year	2	1

	2020 $M	2019 $M
Payables and accruals		
Trade payables and accruals	249	187
Employee entitlements	7	7
Sundry creditors	36	31
	292	225

Trade payables are non-interest bearing and are normally settled on 30 to 60 day terms.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS.

For the year ended 30 June 2020

NOTE 10. RECEIVABLES, PAYABLES AND ACCRUALS (CONTINUED)

Customer contract assets

Incremental costs (like commissions) of acquiring or retaining customers, are recognised on the balance sheet as customer contract assets, and are 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 treatment of credits given to customers are recognised directly against revenue when incurred.

CONTRACT ASSETS Contract assets	2020 $M	2019 $M
Opening Balance	3	3
Additions	1	3
Amortised to operating expenses	(2)	(3)
Closing balance	2	3

Of the total contract assets balance, $1 million is expected to be amortised within one year of the reporting period and the remainder between one and three years of the reporting period end.

NOTE 11. PROVISIONS

	2020 $M	2019 $M
Balance at the beginning of the year	59	51
Provisions made during the year	14	6
Provisions used during the year	(1)	–
Discounting movement	2	2
Balance at the end of the year	74	59
Current	–	–
Non-current	74	59
	74	59

Provisions have been recognised for the abandonment and subsequent restoration of areas from which geothermal resources have been utilised. The provision is calculated based on the present value of management's best estimate of the expenditure required, and the likely timing of settlement. Changes in these estimates made during the year are reported as an increase in provisions and a reduction in revaluation reserves. The increase in provision resulting from the passage of time (the discount effect) is recognised as an interest expense.

NOTE 12. BORROWINGS

	Borrowing currency denomination	Maturity	Coupon	2020 $M	2019 $M
Bank facilities	NZD	Various	Floating	75	–
Commercial paper programme	NZD	< 3 months	Floating	200	199
Capital bonds	NZD	Jul–2019	6.90%	-	305
Wholesale bonds	NZD	Feb–2020	8.21%	-	31
USPP – US$125m	USD	Dec–2020	4.25%	163	163
Wholesale/credit wrapper	NZD	Sep–2021	Floating	300	300
USPP – US$30m	USD	Dec–2022	4.35%	39	39
Wholesale bonds	NZD	Mar–2023	5.79%	26	26
USPP – US$45m	USD	Dec–2025	4.60%	59	59
Capital bonds	NZD	Jul–2049	3.60%	302	–
Lease liabilities				68	69
Deferred financing costs				(4)	(1)
Fair value adjustments				63	43
Carrying value of loans				1,291	1,233
Current				446	541
Non-current				845	692
				1,291	1,233

The Group has $800 million of committed and unsecured bank loan facilities as at 30 June 2020 (30 June 2019: $500 million). The Company executed $300m of new facilities during the reporting period. Of the $800 million loan facilities, $100 million matures in June 2021, $200 million matures in September 2021, $100 million matures in August 2022, $100m matures in October 2022, $50m matures in March 2024 and rolling bank facilities of $250 million currently matures in December 2021.

The Group 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.

NOTE 12. BORROWINGS (CONTINUED)

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 terms and conditions. There has been no breach of the terms of this deed or the terms and conditions of the US Private Placement.

The Group has entered into various lease contracts for the right to use land & buildings, motor vehicles and office equipment and is also deemed to be a lessee of transmission equipment.

NOTE 13. FINANCIAL RISK MANAGEMENT

The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to proactively manage these risks with the aim of protecting shareholder wealth. Exposure to price, credit, foreign exchange, liquidity and interest rate risks arise in the normal course of the Group's business. The Group's principal financial instruments comprise cash and cash equivalents, trade receivables and accruals (not prepayments), advances, payables and accruals, borrowings and derivative financial instruments.

(A) MARKET RISK

Price risk – energy contracts

The Group enters into energy contracts that establish a fixed price at which future specified quantities of electricity are purchased and sold. The energy contracts are periodically settled with any difference between the contract price and the spot market price settled between the parties. At balance date, the principal value of energy contracts, including both buy and sell contracts, with remaining terms of up to 11 years (2019: 12 years), were $1,495 million (2019: $1,506 million).

Foreign exchange risk

The Group is exposed to foreign exchange risk as a result of transactions denominated in a currency other than the Group's functional currency. The currencies giving rise to this risk are primarily US Dollar, Japanese Yen, Euro, Yuan and Australian Dollar.

Foreign exchange risk arises from future commercial transactions (including the purchase of capital equipment and maintenance services), recognised assets and liabilities (including borrowings) and net investments in foreign operations. It is the Group's policy to enter into forward exchange contracts to hedge its committed expenditure programme. At balance date the principal or contract amounts of foreign currency forward exchange contracts were $146 million (2019: $102 million).

Interest rate risk

The Group has exposure to interest rate risk to the extent that it borrows for fixed terms at floating interest rates. The Group uses interest rate swaps and interest rate options to manage this exposure. At balance date, the contract principal amount of interest rate swaps outstanding (including forward starts) was $1,440 million (2019: $2,095 million).

Sensitivity analysis

The following summarises the potential impact of increases or decreases in the relevant market risk exposures of the Group on post tax profit and on other components of equity. The analysis does not take into account dynamic market response over time, which could be material.

Price risk

Sensitivity analysis is based on an assessment of the reasonably possible movements in forward price.

	Impact on post tax profit		Impact on equity	
	2020 $M	2019 $M	2020 $M	2019 $M
Group				
Electricity forward price increased by 10%	(1)	(12)	(34)	(33)
Electricity forward price decreased by 10%	1	12	33	33

Foreign exchange risk

Sensitivity analysis is based on the impact of the New Zealand Dollar weakening or strengthening against the most significant currencies for which the Group has foreign exchange exposure, allowing for reasonably possible movements in foreign exchange rates over a one year period based on the average actual movements experienced over the prior 10 years.

	Impact on post tax profit		Impact on equity	
	2020 $M	2019 $M	2020 $M	2019 $M
New Zealand Dollar – Euro				
Currency strengthens by 10%	–	–	(3)	(3)
Currency weakens by 10%	–	–	4	3
New Zealand Dollar – USD				
Currency strengthens by 10%	–	–	(2)	(2)
Currency weakens by 10%	–	–	3	2
New Zealand Dollar – Yuan				
Currency strengthens by 10%	–	–	(3)	(2)
Currency weakens by 10%	–	–	4	2
New Zealand Dollar - AUD				
Currency strengthens by 10%	–	–	17	–
Currency weakens by 10%	–	–	(20)	–

NOTE 13. FINANCIAL RISK MANAGEMENT (CONTINUED)

Interest rate risk

Sensitivity analysis is based on an assessment of the reasonably possible movement in the 10 year swap rate over a one year period based on actual movements over the last 10 years. The movement in post tax profits are due to higher/lower interest costs from variable rate debt and cash balances combined with the result of fair value changes in interest rate swaps and options that are valid economic hedges but which do not qualify for hedge accounting under NZ IFRS 9. The movements in other components of equity result from fair value changes in interest rate swaps and options that have qualified for hedge accounting.

	Impact on post tax profit		Impact on equity	
	2020 $M	2019 $M	2020 $M	2019 $M
Interest rates higher by 100 bps	(13)	(4)	20	13
Interest rates lower by 100 bps	13	4	(22)	(16)

(B) CREDIT RISK

The Group manages its exposure to credit risk under policies approved by the Board of Directors. The Group performs credit assessments on all electricity customers and normally requires a bond from commercial customers who have yet to establish a suitable credit history. Customer bonds are held in a separate bank account.

It is the Group's policy to only enter into derivative transactions with banks that it has signed an ISDA master agreement with, and which have a minimum long-term Standard & Poor's (or Moody's equivalent) credit rating of A- or higher.

With respect to energy contracts, the Group has potential credit risk exposure to the counterparty dependent on the current market price relative to contracted price until maturity.

In the event of a failure by a retailer to settle its obligations to the Energy Clearing House, following the exhaustion of its prudential security, a proportionate share of the shortfall will be assumed by all generator class market participants. The Group consequently will be impacted in the event that this occurs.

The carrying amounts of financial assets recognised in the balance sheet best represent the Group's maximum exposure to credit risk at the reporting date without taking account of any collateral held by way of customer bonds.

(C) LIQUIDITY RISK

The Group manages its exposure to liquidity risk under policies approved by the Board of Directors. Policies require that prescribed headroom is available in undrawn and committed facilities to cover unanticipated needs and that a limited amount of facilities mature over the immediate 12 month forward-looking period. The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of various funding sources.

Non-derivative financial liabilities

The following liquidity risk disclosures reflect all contractually fixed payoffs, repayments and interest from recognised non-derivative financial liabilities. The timing of cash flows for non-derivative financial liabilities is based on the contractual terms of the underlying contract. It should be noted that the amounts presented are contractual undiscounted cash flows, consequently the totals will not reconcile with the amounts recognised in the balance sheet.

While the tables below give the impression of a liquidity shortfall, the analysis does not take into account expected future operating cash flows or committed and undrawn debt facilities that will provide additional liquidity support.

	Less than 6 months $M	6 to 12 months $M	1 to 5 years $M	Later than 5 years $M	Total $M
JUNE 2020					
Liquid financial assets					
Cash and cash equivalents	79	–	–	–	79
Receivables	244	–	6	–	250
	323	–	6	–	329
Financial liabilities					
Payables and accruals	(280)	–	(12)	–	(292)
Loans	(452)	(11)	(425)	(640)	(1,528)
Lease liabilities	(4)	(4)	(33)	(50)	(91)
	(736)	(15)	(470)	(690)	(1,911)
Net inflow/(outflow)	(413)	(15)	(464)	(690)	(1,582)

	Less than 6 months $M	6 to 12 months $M	1 to 5 years $M	Later than 5 years $M	Total $M
JUNE 2019					
Liquid financial assets					
Cash and cash equivalents	94	–	–	–	94
Receivables	256	–	–	–	256
	350	–	–	–	350
Financial liabilities					
Payables and accruals	(216)	–	(9)	–	(225)
Loans	(219)	(46)	(601)	(743)	(1,609)
Lease liabilities	(4)	(4)	(31)	(52)	(91)
	(439)	(50)	(641)	(795)	(1,925)
Net inflow/(outflow)	(89)	(50)	(641)	(795)	(1,575)

NOTE 13. FINANCIAL RISK MANAGEMENT (CONTINUED)

Derivative financial liabilities

The table below details the liquidity risk arising from derivative liabilities held by the Group at balance date. Net settled derivatives include interest rate derivatives and electricity price derivatives. Gross settled derivatives relate to foreign exchange derivatives that are used to hedge future purchase commitments. Foreign exchange derivatives may be rolled on an instalment basis until the underlying transaction occurs. While the maturity of these derivatives are short-term the underlying expenditure is forecast to occur over different time periods. The table also summarise the payments that are expected to be made in relation to derivative liabilities. The Group also expects to receive funds relating to derivative asset settlements. The expectation of cash receipts in relation to derivative assets should also be considered when assessing the ability of the Group to meet its obligations.

	Less than 6 months $M	6 to 12 months $M	1 to 5 years $M	Later than 5 years $M	Total $M
JUNE 2020					
Derivative liabilities – net settled	(58)	(30)	(98)	(11)	(198)
Derivative liabilities – gross settled					
• Inflows	131	–	–	–	131
• Outflows	(146)	–	–	–	(146)
Net maturity	(73)	(30)	(98)	(11)	(213)

	Less than 6 months $M	6 to 12 months $M	1 to 5 years $M	Later than 5 years $M	Total $M
JUNE 2019					
Derivative liabilities – net settled	(64)	(51)	(119)	(16)	(250)
Derivative liabilities – gross settled					
• Inflows	104	–	–	–	104
• Outflows	(102)	–	–	–	(102)
Net maturity	(62)	(51)	(119)	(16)	(248)

(D) FAIR VALUE ESTIMATION

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 $28 million (2019: $60 million), $298 million (2019: $296 million) and $326 million (2019: $312 million) respectively; and (ii) the Capital Bonds, the fair value for which has been calculated at $314 million (2019: $305 million). Fair values are based on quoted market prices and inputs for each bond issue.

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 30 June 2020 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 $54 million were categorised as level 1 (2019: $44 million) and $70 million were categorised as level 3 (2019: $79 million). Electricity price derivative liabilities of $12 million were categorised as level 1 (2019: $17 million) and $99 million were categorised as level 3 (2019: $138 million).

Financial instruments that are measured using 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 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 $70/MWh and a maximum price of $115/MWh (2019: 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 input. The selection of 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.

NOTE 13. FINANCIAL RISK MANAGEMENT (CONTINUED)

Level 3 sensitivity analysis

The following summarises the potential impact of increases or decreases in price risk exposures of the Group on post tax profit. Sensitivity analysis is based on an assessment of the reasonably possible movements in forward price.

	Impact on post tax profit	
	2020 $M	2019 $M
Group		
Electricity forward price increased by 10%	(6)	(6)
Electricity forward price decreased by 10%	6	6

	2020 $M	2019 $M
Reconciliation of level 3 fair value movements		
Opening balance	(59)	54
New contracts	6	(28)
Matured contracts	24	1
Gains and losses		
• Through the income statement	–	(8)
• Through other comprehensive income	12	(78)
Closing balance	(29)	(59)

Level 3 fair value movements recognised within the income statement of the Group are recognised within 'change in the fair value of financial instruments'.

Deferred 'inception' gains/(losses)

There is a presumption 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 as at 30 June.

	2020 $M	2019 $M
Electricity price derivatives		
Opening deferred inception gains/(losses)	(12)	(15)
Deferred inception gains (losses) on new hedges	10	3
Deferred inception losses realised during the year	(5)	–
Closing balance	(7)	(12)

(E) CAPITAL RISK MANAGEMENT

Management seeks to maintain a sustainable financial structure for the Group having regard to the risks from predicted short and medium-term economic, market and hydrological conditions along with estimated financial performance. Capital is managed to provide sufficient funds to undertake required asset reinvestment as well as to finance new generation development projects and other growth opportunities to increase shareholder value at a rate similar to comparable private sector companies.

In order to maintain or adjust the capital structure, changes can be made to the amount paid as dividends to shareholders, capital can be returned or injected or assets sold to reduce borrowings.

Consistent with other companies in the industry, the Group monitors capital on the basis of its gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (both current and non-current) less cash and cash equivalents. Total capital is calculated as shareholders' equity plus net debt. The gearing ratio is calculated below:

	2020 $M	2019 $M
Borrowings at carrying value	1,291	1,233
Fair value adjustments US Private Placement	(63)	(43)
Less cash and cash equivalents	(79)	(94)
Net debt	1,149	1,096
Total equity	3,739	3,537
Total capital	4,888	4,633
Gearing ratio	23.5%	23.7%

Under the negative pledge deed in favour of its bank financiers the Group must, in addition to not exceeding its maximum gearing ratio, exceed minimum interest cover ratios and a minimum shareholder equity threshold.

The Group seeks to maintain a debt to EBITDAF ratio of less than 3.0 times, on average through time, to maintain credit metrics sufficient to support its credit rating on an on-going basis. For the purpose of calculating this ratio and consistent with the rating agency treatment, the calculation of debt is deemed to be all senior debt and 50% of subordinated debt less cash and cash equivalents. For the year ended 30 June 2020, the Group had a debt to EBITDAF ratio of 2.0 times (2019: 1.9 times).

NOTE 14. DERIVATIVE FINANCIAL INSTRUMENTS

The fair values of derivative financial instruments together with the designation of their hedging relationship are summarised below, based on maturity date:

	2020 $M	2019 $M
CURRENT ASSETS		
Interest rate derivative	23	6
Electricity price derivative	67	41
Foreign exchange derivative	–	2
Cross currency interest rate derivative	36	1
	126	50
CURRENT LIABILITIES		
Interest rate derivative	26	4
Electricity price derivative	75	40
Foreign exchange derivative	15	–
Cross currency interest rate derivative	–	1
	116	45
NON-CURRENT ASSETS		
Interest rate derivative	11	2
Electricity price derivative	57	82
Cross currency interest rate derivative	28	45
	96	129
NON-CURRENT LIABILITIES		
Interest rate derivative	101	91
Electricity price derivative	37	115
Cross currency interest rate derivative – margin	–	2
	138	208

The majority of short-term low value foreign exchange derivatives, and short-term low value exchange traded energy contracts, while economic hedges, are not designated as hedges under NZ IFRS 9 but are treated as at fair value through profit and loss. All other interest rate derivatives (predominantly forward starting derivatives), interest rate derivatives and electricity prices derivatives (except those described below) are designated as cash flow hedges under NZ IFRS 9.

Cross currency interest rate swaps, which are used to manage the combined interest and foreign currency risk on borrowings issued in foreign currency, have been split into two components for the purpose of hedge designation. The hedge of the benchmark interest rate is designated as a fair value hedge and the hedge of the issuance margin is designated as a cash flow hedge.

Electricity contracts not designated as hedges for accounting purposes

The Group has an electricity hedge contract with the Tuaropaki Power Company. The contract settles against a moving hedge index rather than wholesale electricity prices.

Basis swaps: The Group has entered into a number of contracts to hedge wholesale electricity price risk between North and South Island generically called basis swaps. The most significant is a contract with Meridian Energy which has a remaining life of 5 years.

The changes in fair values of derivative financial instruments recognised in the income statement and other comprehensive income are summarised below:

	Income statement		Other comprehensive income	
	2020 $M	2019 $M	2020 $M	2019 $M
Cross currency interest rate derivatives	18	10	–	–
Borrowings – fair value change	(19)	(11)	–	–
	(1)	(1)	–	–
Interest rate derivatives	13	3	(16)	(30)
Cross currency interest rate derivatives – margin	(1)	(1)	2	1
Electricity price derivatives	10	(26)	31	(92)
Foreign exchange rate derivatives	5	–	(17)	3
Total change in fair value of derivative financial instruments	26	(25)	–	(118)

In addition to the fair value loss on derivative financial instruments, the Group also recognised a fair value loss on its investment in Tilt Renewables Limited of $4 million prior to moving to equity accounting for its investment on 19th July 2019 (2019: fair value gain of $51m).

MOVEMENT IN CASH FLOW HEDGE RESERVE	2020 $M	2019 $M
Opening balance	(118)	(24)
The effective portion of cash flow hedges recognised in the reserve	–	(118)
Amortisation of fair values[1]	1	1
The amount transferred to balance sheet	6	(1)
Equity-accounted share of associates' movement in other comprehensive income	–	(9)
Tax effect of movements	(11)	33
Closing balance	(122)	(118)

1. Amounts reclassified to the income statement recognised in amortisation.

NOTE 15. RECONCILIATION OF PROFIT FOR THE YEAR TO NET CASH FLOWS FROM OPERATING ACTIVITIES

	2020 $M	2019 $M
Profit for the year	207	357
Items classified as investing or financing activities		
• Net interest accrual	(4)	5
Adjustments for:		
Depreciation and amortisation	214	204
Carbon costs	7	–
Dividend income received from the investment in Tilt Renewables	–	(1)
Net (gain)/loss on sale of property, plant and equipment	1	1
Change in the fair value of financial instruments	(22)	(26)
Gain on sale of assets	–	(177)
Movement in effect of discounting on long-term provisions	2	4
Share of earnings of associate and joint venture companies	(18)	1
Other non-cash items	–	(1)
Net cash provided by operating activities before change in assets and liabilities	387	367
Change in assets and liabilities during the year:		
• Increase in trade receivables and prepayments	(15)	(26)
• Decrease in consumable inventories	1	4
• Increase/(decrease) in trade payables and accruals	18	(9)
• Increase/(decrease) in provision for tax	14	(2)
• Decrease in deferred tax	(49)	(8)
Net cash inflow from operating activities	356	326

NOTE 16. RELATED PARTY TRANSACTIONS

Majority shareholder

The majority shareholder of Mercury NZ Limited is the Crown, providing it with significant potential influence over the Group. All transactions with the Crown and other entities wholly or partly owned by the Crown 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	
	2020 $M	2019 $M
Associates		
• Management fees and service agreements received	16	16
• Energy contract settlements received/(paid)	12	14
Joint operations		
• Management fees and service agreements received	16	12
• Energy contract settlements received/(paid)	6	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.

NOTE 16. RELATED PARTY TRANSACTIONS (CONTINUED)

	Transaction value	
	2020 $000	**2019 $000**
Key management personnel compensation (paid and payable) comprised:		
• Directors' fees	948	990
• Benefits for the Chief Executive and Senior Management:		
Salary and other short-term benefits	7,086	6,519
Termination benefits	324	–
Share-based payments	377	532
	8,735	8,041

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 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 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 17. COMMITMENTS & CONTINGENCIES

	Capital	
Commitments	**2020 $M**	**2019 $M**
Within one year	264	198
One to five years	110	129
Later than five years	17	14
	391	341

Capital commitments include purchases of both property, plant and equipment (PP&E) and intangibles. PP&E commitments include contracts for construction of wind generation assets at Turitea and refurbishment of hydro generation assets at Karapiro. Intangible commitments are contracts to purchase New Zealand emissions trading scheme (NZ ETS) units. In the event the NZ ETS is terminated the existing forward purchase agreements, 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.

The Pouākani Claims Trust No 2 and a group of kaumatua have recently filed a claim in the Māori Land Court seeking a declaration that certain parts of the Waikato riverbed are Māori customary land, including the riverbed beneath the Whakamaru, Maraetai I and II and Waipāpa dams. Mercury holds the fee simple or beneficial title to that land and has received advice that the applicants are unlikely to succeed with a claim to customary title in those parts of the Waikato riverbed beneath the Whakamaru, Maraetai I and II and Waipāpa dams.

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 18. SHARE-BASED PAYMENTS

Long-term incentive plan

The Group operates equity-settled share based long-term incentive (LTI) plans for senior executives. The plans are designed to enhance the alignment between shareholders and those executives most able to influence the performance of the Group.

Under the plans due to vest in July 2020 and July 2021 the senior executives purchase shares at market value funded by an interest free loan from the Group, with the shares held on trust by the Trustee of the LTI plan until the end of the vesting period. Vesting of shares is dependent on continued employment through the vesting period and the Group's relative total shareholder return. If the shares vest, executives are entitled to a cash amount which, after deduction for tax, is equal to the initial loan balance for the shares which have vested. That cash amount must be applied towards repayment of their loan balance and the corresponding shares are released by the trustee to the individual. Under the plan, a relative total shareholder return measure is used. Performance is measured against a combination of: i) other electricity generators who are listed on the NZSX; and (ii) all NZX50 companies, both as at the start of the vesting period.

During the year, a new performance plan was introduced where executives were awarded share rights in Mercury NZ Limited. Under the plan executives are granted the shares at nil cost if certain total shareholder return targets are met, irrespective of continued employment over the performance period. Performance is measured against a combination of: i) other electricity generators who are listed on the NZSX; and (ii) out performance against the Group's internal return on capital hurdles. The plan is due to vest in July 2022.

Each LTI plan provides the board with a level of discretion and represents the grant of in-substance nil-price options to executives. During the year the Group expensed $376,849 in relation to equity-settled share based payment transactions (2019: $531,516).

Movements in the number of share options are as follows:

	2020	**2019**
Balance at the beginning of the year	823,237	745,971
Options granted	320,897	277,001
Options expired	(338,075)	(199,735)
Options exercised	(174,625)	–
Balance at the end of the year	631,434	823,237

236,911 options were exercisable at the end of the year (2019: 286,118) with the remaining options under the plan having a weighted average life of 1.8 years (2019: 1.5 years).

NOTE 19. SUBSEQUENT EVENTS

The board of directors has approved a fully imputed final dividend of 9.4 cents per share to be paid on 30 September 2020.

Tiwai Point aluminium smelter

On 9 July 2020 New Zealand Aluminium Smelters (NZAS) announced its intention to wind down its operations at Tiwai Point, which it expects to complete in August 2021.

The smelter accounts for around 13% of New Zealand's electricity consumption. Its closure is likely to have a material impact on the country's electricity demand/supply balance and wholesale electricity prices. For example, electricity futures prices for the year ending June 2022 were trading at $96/MWh in Auckland and $80/MWh at Benmore and had reduced to $81/MWh and $55/MWh at Auckland and Benmore respectively as of 31 July 2020.

While the future impact of the smelter's closure remains uncertain, a dynamic electricity market response is likely with significant transmission upgrades planned and likely closures and/or reductions in gas and coal generation. Assuming the NZAS intention had been announced prior to 30 June 2020 and the currently observed impacts on future wholesale/futures prices at 31 July 2020 had also occurred then the resultant impact on the Group's accounts would have been:

- The revaluation of the Group's generation assets at fair value would have been smaller, with a $42m positive revaluation, as compared to the $296m recognised. As the current generation asset values fall within a range of possible post Tiwai valuations this difference is not expected to reverse in FY2021, other than through routine depreciation.
- The fair valuation of the Group's electricity derivatives would be higher by $76m, with a balance of $89m. This difference will eventually crystallise based on actual electricity spot prices in the future as the underlying contracts settle.

Tilt capital distribution

On 7 April 2020 the board of Tilt Renewables Limited (Tilt) announced its intention to undertake a share buy-back and cancellation, with one share out of every five shares held being cancelled at $2.91 per share. This resulted in the Group receiving $55 million on 10 July. As a result the Group's cash reserves increased and the value of its investment in Tilt has been reduced by a commensurate amount. The Group continues to own a 19.96% stake in Tilt.

COVID-19

On 12 August 2020 the Auckland region re-entered COVID-19 Alert Level 3, with the rest of the country moving to Alert Level 2. Whilst the future remains uncertain in relation to COVID-19, the impacts on the Group based on experiences from the previous nationwide lockdown are not expected to be material.

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

THE TEAM BEHIND ENERGY FREEDOM.

There's a big team that contributes to our mission: about 800 people; around 80,000 owners; our partners and our customers. Here we introduce you to our directors and executive team. We present our governance report and remuneration policy and report. We also share other disclosures, information for shareholders, sustainability indices, a glossary to help your understanding of industry and financial terms, and a directory to help you to stay in touch with us.

YOUR DIRECTORS.


PRUE FLACKS // CHAIR


HANNAH HAMLING // DIRECTOR


ANDY LARK // DIRECTOR


SCOTT ST JOHN // DIRECTOR


KEITH SMITH // DIRECTOR


JAMES MILLER // DIRECTOR


PATRICK STRANGE // DIRECTOR


MIKE TAITOKO // DIRECTOR

YOUR EXECUTIVE TEAM.


VINCE HAWKSWORTH //
CHIEF EXECUTIVE


KEVIN ANGLAND //
GENERAL MANAGER RETAIL & DIGITAL


NICK CLARKE // GENERAL MANAGER
GEOTHERMAL & SAFETY


JULIA JACK //
CHIEF MARKETING OFFICER


PHIL GIBSON // GENERAL
MANAGER HYDRO & WHOLESALE


LUCIE DRUMMOND //
RISK ASSURANCE OFFICER


WILLIAM MEEK //
CHIEF FINANCIAL OFFICER


TONY NAGEL // GENERAL
MANAGER CORPORATE AFFAIRS


MARLENE STRAWSON // GENERAL
MANAGER PEOPLE & PERFORMANCE

GOVERNANCE AT MERCURY.

At Mercury, we are committed to the highest standards of corporate governance. Robust frameworks, policies and processes are fundamental to our foundational pillars. This underpins our maintenance of strong relationships with our stakeholders, the long-term sustainability of our business and assets, and our ability to create long-term value. The Board regularly reviews our corporate governance policies and practices to ensure compliance with NZX and ASX standards (Mercury is an ASX Foreign Exempt Listed company) as well as reflecting contemporary corporate governance trends in New Zealand and Australia.

CORPORATE GOVERNANCE HIGHLIGHTS FOR FY20

Over the reporting period, in addition to our usual Corporate Governance Framework, we focussed on the following activities:

Board composition:

In February 2020, we welcomed new director Hannah Hamling to the Board following the vacancy created by the retirement of former Chair Joan Withers in September 2019. Hannah's strong environmental science background, governance skills and experience in water management issues adds to and complements the Board's collective skills, diversity and experience. Hannah's appointment was the result of careful consideration to ensure our Board remains well balanced.

Chief Executive:

Following an extensive and robust search process the Board announced in December 2019 the appointment of our new Chief Executive, Vince Hawksworth. Vince's experience in the energy sector in New Zealand and Australia positions him well to lead Mercury in its next phase of investment in renewable energy, as we add wind generation to our renewable energy portfolio.

COVID-19 governance:

The unprecedented events created by the COVID-19 pandemic have accelerated the transition to digital ways of working, both as a Board and with management. During and following lockdown, the governance of the business continued seamlessly, including Board Meetings and Board Committee Meetings, using digital platforms and other technology.

2020 ASM:

As at the date of this report, preparations are well underway for us to hold our first virtual Annual Shareholders' Meeting. Given public health guidance and restrictions on gatherings resulting from the COVID-19 pandemic, we believe it is prudent that for our 2020 ASM we do not hold an in-person meeting, but enable our shareholders to engage with our Board virtually through an online platform.

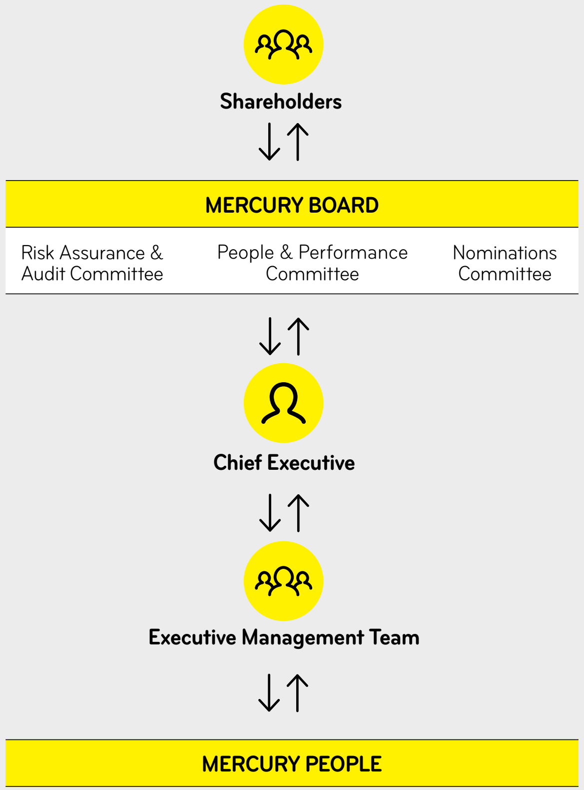
Our corporate governance practices comply with the ASX Corporate Governance Principles and Recommendations (fourth edition) and are in substantial compliance with the NZX Corporate Governance Code. The only exceptions relate to:

- Recommendation 3.3 (Remuneration Committee), where the governance of remuneration at Mercury is split between the People and Performance Committee for executive and general remuneration, and the Nominations Committee for director remuneration; and
- Recommendation 3.6 (Takeover Protocol), which was a decision based on restrictions under the Public Finance Act 1989 on ownership of Mercury's shares. However, to comply with the NZX Corporate Governance Code, Mercury adopted a Takeovers Response Policy in calendar year 2020.

These exceptions are explained in our full Corporate Governance Statement.

We have also reviewed the guidelines and principles from the International Corporate Governance Network (ICGN) Global Governance Principles, the International Finance Corporation (IFC) Global Corporate Governance Forum and the OECD, and we consider our practices and procedures substantially reflect these guidelines. We also consider that Governance at Mercury generally aligns with the BlackRock Corporate Governance and Engagement Principles published in 2020, although we are continuing to develop the completeness and transparency of our environmental and social issue disclosures, particularly in respect of climate change disclosure.

In the following section, we give an overview of our Board composition and experience, how we manage risks, our commitment to acting ethically and responsibly, our approach to privacy and our approach to inclusion and diversity.



MERCURY'S BOARD

Composition and characteristics

The Board currently comprises eight directors: Prue Flacks (Chair), Hannah Hamling, Andy Lark, James Miller, Keith Smith, Scott St John, Patrick Strange and Mike Taitoko. Each of the directors is non-executive and independent. Details of our directors are available in the Board of Directors section of our website.

The Board has been a long-standing supporter of the Institute of Directors' Future Directors Programme and has offered three appointees valuable experience sitting at the board table for 12 or more months. This programme provides future directors with exposure to real-life governance in action and valuable mentorship. It aims to increase the pool of board-ready new directors in New Zealand. Future directors are invited to attend Mercury Board meetings and Committee meetings, although do not participate in decision-making. Our third future director, Anna Lissaman, concluded her 18-month tenure on 31 December 2019. The Board is currently in the process of determining our next future director.

The Board is structured to ensure that as a collective group it has the skills, experience, knowledge, diversity and perspective to fulfil its purpose and responsibilities. The Board's responsibilities are set out in Mercury's Board Charter. The Board Charter is available in the Executive Team section of our website.

Independence and conflicts

All Mercury directors are considered by the Board to be 'independent' directors in that they are non-executive directors who are not substantial shareholders and who are free of any interest, business or other relationship that would materially interfere with, or could reasonably be seen to materially interfere with, the independent exercise of their judgement. No director has been employed or retained, within the last three years, to provide material professional services to Mercury. Within the last 12 months, no director was a partner, director, senior executive or material shareholder of a firm that provided material professional services to Mercury or any of its subsidiaries. No director has been, within the last three years, a material supplier to Mercury or has any other material contractual relationship with Mercury or another group member other than as a director of Mercury. No director receives performance-based remuneration from, or participates in, an employee share scheme of Mercury. No director controls or is an executive or other representative of an entity which controls, 5% or more of Mercury's voting securities. The Chief Executive is not a director of Mercury.

Our Board characteristics are set out in the diagram on the following page.

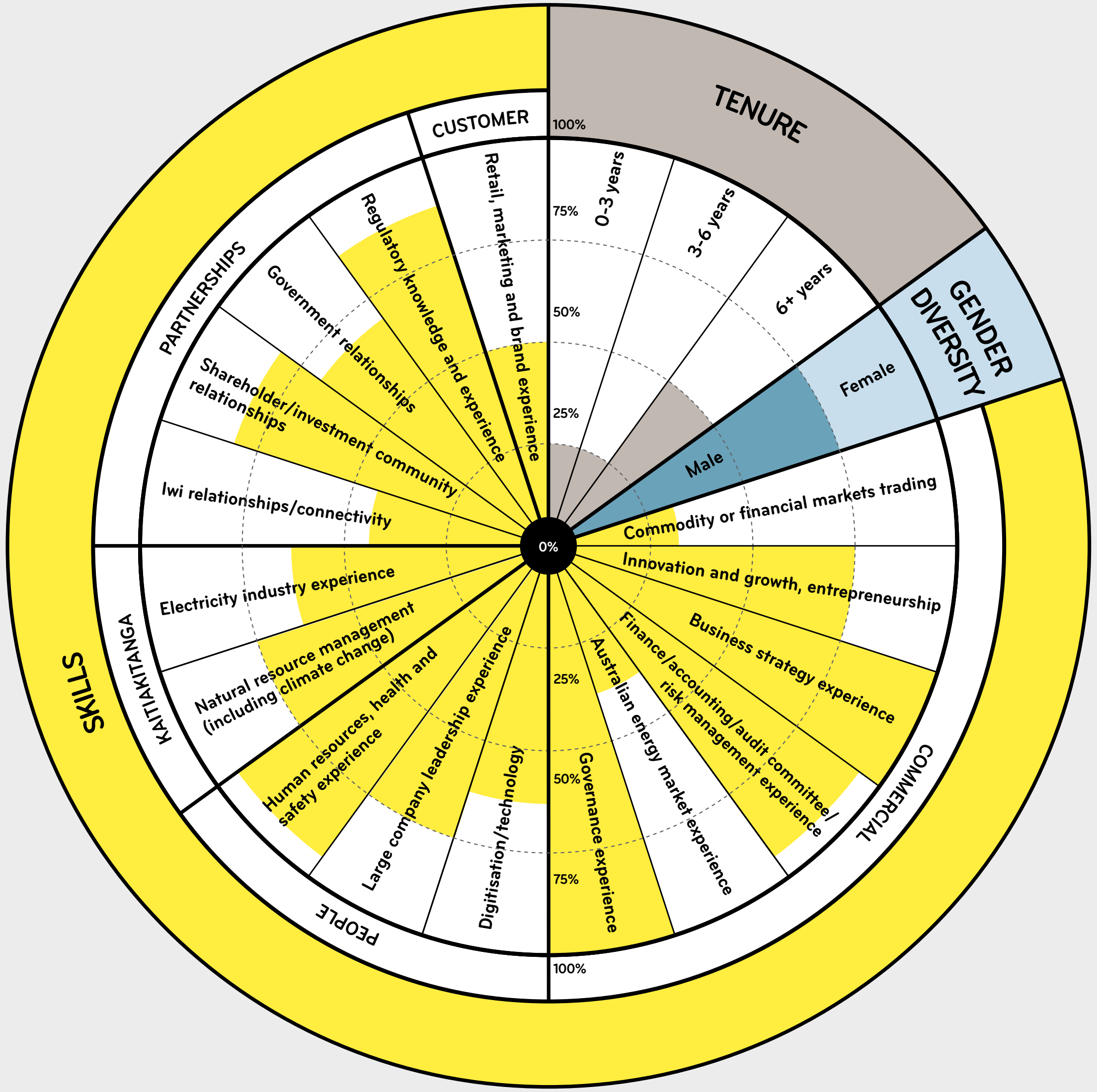
Committees

The Board has three standing committees: the Risk Assurance & Audit Committee (RAAC), the People & Performance Committee (PPC) and the Nominations Committee. Each Committee focuses on specific areas of governance. Together they strengthen the Board's oversight of Mercury. As an exception to Recommendation 3.3 of the NZX Corporate Governance Code, the Board does not have a separate remuneration committee. Instead, the functions which would ordinarily be allocated to that committee are shared between the PPC in respect of the Chief Executive and the Executive Management Team (EMT), and the Nominations Committee in respect of the directors. During the reporting period, the members of the Committees were as follows:

Committee	Members	Roles and responsibilities
Risk Assurance & Audit Committee	Keith Smith (Chair), James Miller and Patrick Strange. Prue Flacks was also a member by virtue of her position as Board Chair	Overseeing, reviewing and advising the Board on Mercury's: • risk management policies and processes (which includes oversight of health and safety assurance and climate-related risks and opportunities) • internal control mechanisms and internal and external audit functions • compliance policies and processes • financial information prepared by management for publication
People & Performance Committee	Scott St John (Chair), Andy Lark, and Mike Taitoko. Prue Flacks was also a member by virtue of her position as Board Chair	Assisting the Board to fulfil its People and Performance responsibilities relating to: • Mercury's People and Performance strategy and plan • the remuneration and performance of the Chief Executive and Executive Management Team (EMT) • People and Performance policies and practices
Nominations Committee	Prue Flacks (Chair), James Miller and Patrick Strange	Identifying people with the necessary expertise, experience, diversity and perspectives for selection as potential directors to be nominated for election at the next Annual Shareholders' Meeting or to fill a casual vacancy on the Board. Further, the Committee recommends to the Board an annual evaluation process of the Board and its committees and develops and maintains an assessment of the skills, experience, and knowledge of the directors. The Nominations Committee also makes recommendations to the Board on any proposal relating to director remuneration to be put to shareholders.

GOVERNANCE AT MERCURY. (CONTINUED)

BOARD CHARACTERISTICS



Each standing committee operates in accordance with a written Charter approved by the Board. The Committee Charters are available in the Corporate Governance section of our website.

Mercury assesses on a regular basis whether additional standing or ad hoc committees are required. During the year ended 30 June 2020, the Board established two temporary committees for discrete projects.

The Nominations Committee has developed a matrix setting out the skills relevant to the role of the Board. The matrix is used to evaluate the collective skills and experience of the directors against Mercury's current and future requirements. This is a key input for the recruitment of new directors. The Board is focussed on ensuring that it takes advantage of, and benefits from, the diversity of skills, background and experiences of individual directors and that its culture reflects Mercury's values.

The Board fosters a culture of collaborative and open discussion where each director is expected to contribute broadly.

This ensures that the Board as a collective group exceeds the individual contributions of its members.

Evaluations are regularly conducted to review the performance of the directors (individually and collectively), and the effectiveness of Board processes and committees. This is undertaken using a variety of techniques including external consultants, questionnaires and Board discussion. The last full Board review, with the assistance of an external facilitator, was completed in September 2019. The review found Mercury's Board to be in the top tier, with strong diversity of thought in which different views were used to test and build off one another. It noted that directors engage constructively through multiple levels of the business, demonstrating genuine engagement outside of boardroom duties. Opportunities for strengthening insights in some areas of the business were identified. It is intended that a Board performance review led by the Chair will be completed before the end of calendar year 2020. The Board also completed a comprehensive analysis of the skills of the Board during the reporting period.

GOVERNANCE AT MERCURY. (CONTINUED)

The table below highlights those skills that the Board considers are required for governance. This aligns with Mercury's commitments to our foundational pillars and strategy for creating long-term value for our shareholders.

SKILL ATTRIBUTE	Hannah Hamling	Andy Lark	James Miller	Mike Taitoko	Patrick Strange	Prue Flacks	Keith Smith	Scott St John
Customer								
Retail, marketing and brand experience Senior experience in retail, marketing and brand development as we seek to positively differentiate our offering.		●	◐	◐		◐	◐	●
Partnerships								
Regulatory knowledge and experience An understanding of the evolving regulatory environment in which we operate and the role that plays in ensuring sustainable custodianship of our assets and providing benefit to our customers.	◐	●	●	◐	●	●	●	●
Government relationships An understanding of the functioning of government and experience developing and maintaining constructive relationships and interactions with government and regulators.		◐	●	●	●	●	◐	◐
Shareholder/investment community relationships Experience in, and understanding of, shareholder and investment community concerns and developing constructive relationships.		●	●	◐	●	●	●	●

SKILL ATTRIBUTE	Hannah Hamling	Andy Lark	James Miller	Mike Taitoko	Patrick Strange	Prue Flacks	Keith Smith	Scott St John
Iwi relationships/connectivity An understanding and appreciation of Māori culture, the ability to build and foster deep trusting relationships with iwi and a deep connection with iwi concerns and aspirations.		◐	◐	●		●	◐	
Kaitiakitanga								
Electricity industry experience Senior executive or governance experience within the electricity industry, together with a deep understanding of operational excellence.	◐	◐	●	◐	●	◐	◐	◐
Natural resource management (including climate change) Familiarity with issues associated with natural resources including climate change and living our value of kaitiakitanga.	●	◐	●	●	●	◐	◐	◐

● Primary skills ◐ Secondary skills

GOVERNANCE AT MERCURY. (CONTINUED)

SKILL ATTRIBUTE	Hannah Hamling	Andy Lark	James Miller	Mike Taitoko	Patrick Strange	Prue Flacks	Keith Smith	Scott St John
People								
Human resources, health and safety experience Familiarity with people and performance issues to provide an environment for personal and business growth and an appropriate understanding of health and safety and wellness concerns.	●	●	●	●	●	●	◐	●
Large company leadership experience Sustainable success in business at a senior executive level.	●	●	●		●	◐	◐	●
Digitisation/technology A detailed understanding of ICT and disruptive technologies and their potential impact to provide our customers with choice and freedom.		●	●	●	◐	◐	◐	◐
Commercial								
Governance experience Commitment to the highest standards of governance and an ability to assess the effectiveness of senior management.	●	●	●	●	●	●	●	●
Australian energy market experience Familiarity with the Australian energy market and the opportunities and challenges of doing business in that market.	◐	◐	◐		●			◐

SKILL ATTRIBUTE	Hannah Hamling	Andy Lark	James Miller	Mike Taitoko	Patrick Strange	Prue Flacks	Keith Smith	Scott St John
Finance/accounting/audit committee/risk management experience Senior executive or board experience in financial accounting and reporting, corporate finance and internal controls, and developing and overseeing an appropriate risk framework and culture.	●	●	●	◐	●	●	●	●
Business strategy experience A track record of developing and implementing a successful and sustainable strategy.	●	●	●	●	●	●	●	●
Innovation and growth, entrepreneurship A track record of demonstrated entrepreneurship and/or demonstrated understanding and commitment to innovation and a clear record of achieving organisational growth.	◐	●	◐	●	◐	◐	●	●
Commodity or financial markets trading Experience and understanding of commodity and financial markets.		◐	●					●

● Primary skills ◐ Secondary skills

ACTING ETHICALLY & RESPONSIBLY

At Mercury, all our people strive to do what's right. Our Mercury Code ensures that our people know what the 'right thing to do' is. The Mercury Code documents the behaviours we require to embed and sustain our culture to successfully deliver our strategy and achieve our purpose of inspiring New Zealanders to enjoy energy in more wonderful ways. The Mercury Code requires all Mercury people, including directors and employees, to act honestly and with integrity and fairness at all times. The Mercury Code and associated policy framework underpin our ethical and behavioural standards. They support our promises to each other and define our commitment to our customers, our people and communities, and our investors. The Mercury Code is available in the Corporate Governance section of our website.

We also want to ensure that we work with suppliers who share our commitment to acting ethically and doing the right thing. Our Supplier Guiding Principles set out the way we work with our suppliers and what we expect from our suppliers in return. These principles include our commitments to treating people fairly, promoting wellbeing, protecting our business and our reputation, protection of personal information and sustainability. Our Supplier Guiding Principles are available in the Corporate Governance section of our website.

MANAGING RISK & ASSURANCE

Risk management is an integral part of Mercury's business. Mercury has in place an overarching Risk Management Policy (available in the Corporate Governance section of our website) supported by a suite of risk management policies appropriate for our business which together form our risk management framework.

The purpose of the Risk Management Policy is to embed a comprehensive, holistic, Group-wide capability in risk management which provides a consistent method of identifying, assessing, controlling, monitoring and reporting existing and potential risks to Mercury's business and to the achievement of our plans. The Policy sets out the risk management objectives and requirements of Mercury within which management is expected to operate. The Policy is reviewed annually by the RAAC and approved by the Board.

The risk management framework supports a comprehensive approach to risk, encompassing financial, strategic, environmental, operational, regulatory, reputational, social and governance risks. This includes assessing and managing climate-related risks. The framework involves actively identifying and managing risk and taking measures to reduce the likelihood of risk, contain potential hazards and take mitigating action to reduce impacts in line with risk tolerances. This approach is consistent with the precautionary principle.

Mercury has a Risk Assurance Officer who has the independence to determine the effectiveness of risk management, assurance and internal audit. The Risk Assurance Officer has a dual reporting line to the Chief Financial Officer and the RAAC Chair. The RAAC tasks the Risk Assurance Officer to ensure there is healthy and robust debate and interaction between management, risk assurance and audit providers.

Mercury operates a Risk Management Committee, comprised of representatives from the EMT and chaired by the Chief Executive. Its mandate is to promote risk awareness and appropriate risk management to all employees, and to monitor and review risk activities as circumstances and our strategic and operational objectives change. The Committee meets at least four times each year.

Mercury must accept some risks to achieve our strategic objectives and to deliver shareholder value. These are embodied in Mercury's Risk Appetite Statements which are set and regularly reviewed by the Board and are set out in more detail in Mercury's Corporate Governance Statement, available in the Corporate Governance section of our website.

The RAAC is responsible for overseeing, reviewing and providing advice to the Board on Mercury's risk management policies and processes. The Risk Assurance Officer reports regularly to the RAAC on the effectiveness of Mercury's management of material business risks. In addition, the RAAC annually reviews the risk management framework. The last review of the risk management framework took place in FY20.

The Auditor-General is the external independent auditor of Mercury and each of its subsidiaries (together, the 'Group'), under the Public Audit Act 2001. The Auditor-General has appointed Lloyd Bunyan of Ernst & Young to carry out the FY20 audit on his behalf. The NZX Listing Rules require rotation of the key audit partner at least every five years. The provision of external audit services is guided by our Audit Independence Policy, which is available on our website. The external auditor attends all RAAC meetings and, consistent with the Stakeholder Engagement Policy, attends the Annual Shareholders' Meeting and is available to our shareholders to answer questions relevant to the audit.

PRIVACY

Mercury has a comprehensive Privacy Policy and robust privacy framework. Our objective is to ensure that personal information in our care is managed carefully and respectfully. Privacy risk is managed within our risk management framework. Our General Counsel is also Mercury's Privacy Officer and is responsible for implementing our Privacy Policy, promoting awareness of privacy matters, monitoring matters on a day-to-day basis, and escalating matters as required to our Chief Executive, with notification to the Risk Management Committee. Privacy issues are reported to the Risk Management Committee on a quarterly basis.

We consider the establishment and maintenance of a culture of privacy to be an important part of our privacy framework. Employees are required to complete Privacy Act training within a certain period of joining Mercury and to update that training annually. Business units that process personal information have Business Privacy Leads who champion privacy within their business unit. Recognising that mistakes are sometimes made, our processes for dealing with privacy breaches include escalation and assessment procedures and require the development of plans to prevent similar breaches occurring in the future. Our Privacy Policy is reviewed as required and at least every two years.

INCLUSION & DIVERSITY

Mercury embraces and celebrates diversity in all its forms. A key element of the Mercury Attitude is that we encourage our people to share and connect. We aim to make Mercury a great and safe place to work, where our employees feel engaged and motivated to live up to their full potential, and also the full potential of their teams. Being part of a team that celebrates different backgrounds, views, experience and capability helps create an inclusive workplace where our people grow and thrive, leading to better business performance.

Our commitment to inclusion and diversity starts with our Inclusion and Diversity Policy and framework. A copy of this policy is available in the Corporate Governance section of our website.

Mercury's approach to inclusion and diversity focuses on gender, age, ethnicity, sexual orientation, inclusion and flexibility. Activity is aligned to the following principles:

- increasing the diversity of our workforce at senior levels;
- creating a flexible and inclusive work environment that values difference and enhances business outcomes;
- harnessing diversity of thought and capitalising on individual differences;
- promoting leadership behaviours that reflect our belief in the value of inclusion and diversity; and
- attracting and retaining a talented workforce through increasing the diversity of the candidate pool and maintaining a recruitment strategy that is attractive to all candidates.

Our progress against inclusion and diversity goals is measured against objectives set by the Board. These objectives are made up of a mixture of targets and benchmarks. Generally, targets exist where we believe that achieving diversity in that area is aided by us working towards a specific measure. In other areas, we use benchmarks where comparison against those identified data points will help inform our view of how our work towards diversity in that area is progressing.

GOVERNANCE AT MERCURY. (CONTINUED)

Our performance against measurable objectives set by the Board is set out below:

Area of focus	Objective	Target				Actual		
Gender	Improve representation of women at senior leadership levels.		2020	2021	2022		As at 30 June 2019	As at 30 June 2020
		Employees	41%	43%	45%	Employees	41%	39%
		People Leaders	33%	34%	35%	People Leaders	33%	32%
		EMT	33%	>36%	>40%	EMT	22%	33%
		Board	33%	>36%	>40%	Board	25%	25%
	Ensure that everyone is rewarded fairly for their work, regardless of gender.	Targeting between 97% and 103% ratio on average over time.				Actual as at 30 June 2020 across all bands, excluding EMT = 93% – 104%.		
Age	Work towards an age profile for our team that is suitable for our business, taking into account the population that we work in.	Benchmark against the national median age of the labour force in the New Zealand National Labour Force Projections.				Our average age across the workforce is 43, which is consistent with the national median age of the labour force in the New Zealand National Labour Force Projections.		
Ethnicity	Work towards aligning the ethnicity of our team with the population and communities that we work in. Ensure that our leadership reflects the diversity of our teams.	Ethnicity	2020	2021	2022	Ethnicity	Mercury 2020 Ethnicity*	NZ Population 2018 Census
		Māori Employees People Leader	 6% 4%	 6% 5%	 7% 6%	**Māori** Employees People Leader	 4.8% (38) 1.7% (2)	16.5%
		Pacific Employees People Leader	 9% 4%	 9% 4%	 10% 5%	**Pacific** Employees People Leader	 6.6% (52) 1.7% (2)	8.1%
		Asian Employees People Leader	 22% 11%	 22% 11%	 23% 13%	**Asian** Employees People Leader	 22.4% (176) 10.0% (12)	15.1%
		Increase representation of team members and people leaders across targeted ethnic groups – Māori, Pacific and Asian. Benchmark against national statistics (Census data) that show the ethnicity of the population and communities that we work in. Targets will be reviewed year-on-year, taking into consideration workforce impacts associated with digitalisation and automation and the available tertiary-qualified talent pool.				* Employee data, as at 30 June 2020, from Mercury's payroll system provides the baseline benchmark of self-identified ethnicity.		
Inclusion	Ensure that our team are supported to do their best work and they engage fully as part of our team.	Targeting better performance than the external benchmark.				In response to our 2020 Employee Engagement Survey, 78% of employees confirmed that people from all backgrounds have equal opportunities to succeed at Mercury, compared with 2020 Global Inclusion Benchmark of 76%. This benchmark is from Culture Amp (Mercury's employee feedback platform) based on survey responses from employees across nearly 200 organisations globally.		
Flexibility	Facilitate flexible workplace arrangements to enable employees to balance responsibilities appropriately.	Targeting better performance than the external benchmark.				In response to our 2020 Employee Engagement Survey, 72% of employees confirm that they are genuinely supported if they choose to make use of flexible working arrangements, compared with 2020 Oceania Large Organisations Benchmark of 78%.		

As at 30 June 2020, the proportion of women on the EMT (including the Chief Executive) was 33%, or three out of nine (as at 30 June 2019 this was 22% or two out of nine). The proportion of women on the Board at balance date was 25%, or two out of eight, including the Chair (as at 30 June 2019 this was 25%, or two out of eight).

The Board believes that for this reporting period Mercury has made progress towards achieving our inclusiveness and diversity objectives and against our Inclusion and Diversity Policy generally. However, the Board notes that continued focus is required in order for us to achieve our 2021 gender diversity targets.

REMUNERATION REPORT.

DIRECTOR & EXECUTIVE EMPLOYEE REMUNERATION

Dear Shareholder

As Chair of the People and Performance Committee (PPC) of the Board, it is my pleasure to present our Remuneration Report for the year ended 30 June 2020.

This report outlines Mercury's strategy and approach to remuneration and in particular for its executives. It sets out remuneration information for the Chief Executive, direct reports to the Chief Executive and directors. This year with the departure of the Chief Executive – Fraser Whineray and the arrival of the new Chief Executive – Vince Hawksworth, two sets of remuneration data for the Chief Executive for FY20 are set out in the report.

Mercury's Board is committed to a remuneration framework that promotes a high-performance culture and aligns executive reward to the achievement of strategies and objectives to create sustainable value for shareholders. The Board is committed to demonstrating transparency in its remuneration policy and practice.

The Board is supported by the PPC for these activities. The role and membership of the PPC is set out in the Corporate Governance section of this Annual Report.

I was pleased to take up the position of Chair of the PPC in October 2019. This has been an interesting and challenging year especially with the COVID-19 pandemic response putting New Zealand into lockdown. Mercury supplies an essential service and it is important our assets are operated and maintained to ensure security of electricity supply. Our people are critical to this. The Board's approach to remuneration outcomes for FY20, and to setting remuneration for FY21, has been to balance the need to be fair to, and maintain the goodwill of our people with, in the context of the overall economic and social environment. A decision was made by the Board to not review remuneration for any Mercury employee earning a base salary of $100,000 or more in 2020. Therefore, all executives' remuneration, including the Chief Executive's, has not changed for FY21. Further, it was decided that short-term incentive payments for FY20 would not exceed on-target amounts.

I am proud of the way the Executive Management Team (EMT) and all Mercury employees responded to the COVID-19 pandemic and a very challenging year overall, for the benefit of Mercury, its customers, shareholders and New Zealand.

SCOTT ST JOHN
CHAIR, PEOPLE & PERFORMANCE COMMITTEE

Executive remuneration

Mercury's remuneration policy for the EMT is founded on three guiding principles:

- remuneration is aligned to long-term sustainable shareholder value;
- remuneration for individuals will reflect the level of performance and delivery of successful outcomes; and
- simplicity over complexity will be reflected in the design.

Total remuneration is made up of three components: fixed remuneration, short-term performance incentives and long-term performance incentives. Short- and long-term performance incentives are deemed 'at-risk' because the outcome is determined by performance against a combination of predetermined financial and non-financial objectives.

Mercury's remuneration philosophy is to pay for performance and there is an opportunity for executives to receive, where performance has been exceptional, a total remuneration package in the upper quartile for equivalent market-matched roles.

The PPC reviews the annual performance appraisal outcomes for all members of the EMT and approves the outcomes for all EMT members other than the Chief Executive. The Chief Executive's remuneration is approved by the Board on the recommendation of the PPC. The review takes into account external benchmarking to ensure competitiveness with comparable market peers, along with consideration of an individual's performance, skills, expertise and experience.

Fixed remuneration

Fixed remuneration consists of base salary and benefits. Mercury's policy is to pay fixed remuneration with reference to the fixed pay market median.

Short-term performance incentives

Short-term incentives (STIs) are at-risk payments designed to motivate and reward for performance in that financial year.

The target value of an STI payment is set annually, usually as a percentage of the executive's base salary. For FY20 the relevant target percentage for both Chief Executives (Fraser Whineray and Vince Hawksworth) was 50% and for other EMT members it was up to 35%.

A proportion (70% for the Chief Executive and 50% for other EMT members) of the STI is related to a shared set of Key Performance Indicators (KPIs) based on business priorities for the next 12 months, with the objective of aligning the EMT's focus with the company's priorities.

The shared KPIs in FY20 covered the areas of Commercial, People, Customer, Partnerships and Kaitiakitanga with respective weightings applied across areas as outlined below. The Commercial KPI is normalised for positive and negative annual variations in hydrology as these are beyond management's control. The criteria are selected to closely align with Mercury's strategic objectives, purpose and goals, and Mercury's five key pillars. For FY21 the weightings have been adjusted as shown.

Pillar	FY20 Weighting %	FY21 Weighting %
Commercial: EBITDAF[1]	30	40
People	25	15
Customer	20	20
Partnerships	15	15
Kaitiakitanga	10	10

Note 1: EBITDAF is normalised for positive and negative annual variations in Waikato hydro generation.

For FY20 there were three performance levels within each pillar area: 'threshold', 'on-target' and 'stretch'. The stretch performance levels allowed employees to be rewarded for exceptional performance. The maximum amount of an STI payment for an EMT member for the shared KPIs was 178% of the STI on-target amount (subject to the cap referred to previously, subsequently imposed by the Board).

The balance of the STI for the Chief Executive is related to individual performance measures set by the Board. In the case of other EMT members, the balance is related to business unit and individual performance measures.

In the event all five performance thresholds are not met for the Group KPIs, no STI payment will be made.

The Board retains discretion to ensure the final outcome of STI payments fairly reflects performance over the relevant financial year.

Long-term performance incentives to FY21 vesting

Long-term performance incentives (LTIs) are at-risk payments designed to align the reward of certain executives with the enhancement of shareholder value over a multi-year period.

Under the LTI plan applying up to the grant date of 1 July 2018, grants were made annually with performance measured over a three-year period. The face value less tax was used to determine the number of shares held in trust for each grant and was set at the date of the grant. Each grant under that LTI plan is divided into two tranches having different performance hurdles:

- 50% of the grant is based on Mercury's total shareholder return (TSR) relative to the NZX 50 and is subject to a "gate" that Mercury's TSR over that period must be at least positive; and
- 50% of the grant is based on Mercury's TSR relative to the performance of an industry peer group (comprising Meridian Energy, Genesis Energy, Contact Energy and Trustpower). There is no positive TSR performance gate on this tranche but Mercury's TSR must be at the 50th percentile of the comparator group for any award to be made on this component of the LTI plan.

LTI payments are made in shares rather than cash. The maximum number of shares which an executive may receive for each grant is determined by dividing the value of the grant less tax by the market value of one Mercury share as at the date of the grant.

Long-term incentive plan from FY22 vesting

The new LTI plan that commenced 1 July 2019 is a dividend-protected share rights plan. Under this LTI plan, executives are granted a number of share rights determined by dividing the face value of the grant by the value of one Mercury share at the date of the grant. At vesting, subject to meeting the performance hurdles, each share right is converted to one ordinary share. The executive may also receive additional shares representing the value of dividends paid over the vesting period. The executive is liable for tax on the shares received at this point. Under this plan, grants will continue to be made annually with performance measured over a three-year period.

Each grant under this LTI plan also has two tranches with different performance hurdles:

- 50% of the grant is based on Mercury's TSR relative to the performance of an industry peer group (comprising Meridian Energy, Genesis Energy, Contact Energy and Trustpower). There is no positive TSR performance gate on this tranche but Mercury's TSR must be at the 50th percentile of the comparator group for any award to be made on this component of the LTI plan; and
- 50% of the grant is based on Mercury's absolute TSR against the company's cost of equity over the vesting period, plus 1%.

For the FY20 grant period commencing 1 July 2019, the value represented between 20% to 40% of an executive's base salary as at that date.

The Board retains discretion over the final outcome for both LTI plans, to allow appropriate adjustments where unanticipated circumstances may impact performance, positively or negatively, over a three-year period.

REMUNERATION REPORT. (CONTINUED)

CHIEF EXECUTIVE'S REMUNERATION.

Chief Executive's remuneration (FY20 and FY19)

	Salary[2] $	Benefits[3] $	Subtotal $	Pay for performance $			Total remuneration $
				STI	LTI	Subtotal	
Chief Executive – Vince Hawksworth							
FY20	309,231	65,927	375,158	138,782[4]	N/A	138,782	513,940
Chief Executive – Fraser Whineray							
FY20	805,883	65,909	871,792	460,680[4]	321,004[5]	781,684	1,653,476
FY19	1,124,214	57,433	1,181,647	614,079	179,989	794,068	1,975,715

Note 2: Actual salary paid includes holiday pay paid as per NZ legislation. The annualised base salary for Vince Hawksworth for FY20 was $1,200,000 and for Fraser Whineray FY19 was $1,054,212.50 and FY20 was $1,085,838.88.

Note 3: Benefits include KiwiSaver and insurance. Vince Hawksworth received a $55,000 one-off payment for relocation costs which is included here.

Note 4: Both CE's short-term incentive was pro-rated for the period worked in FY20.

Note 5: Holiday pay and Kiwisaver of $36,081 was paid to Fraser Whineray on this LTI amount but is not reported in FY20 figures due to being paid in FY21.

For reference: On 19 July 2019 Fraser Whineray was appointed to the Board of Tilt Renewables Ltd as a Director. For details of remuneration received in FY20 refer to Tilt Renewables' annual report.

Five-year summary – Chief Executive's remuneration

		Total remuneration paid[6] $	Percentage STI against maximum[7] %	Percentage vested LTI against maximum %	Span of LTI performance period
Chief Executive – Vince Hawksworth	FY20	513,940	51	N/A	N/A
Chief Executive – Fraser Whineray	FY20	1,653,476	69	87	2017– 2020
	FY19	1,975,715	65	50	2016 – 2019
	FY18	1,803,283	67	0	2015 – 2018
	FY17	1,881,192	63	98	2014 – 2017
	FY16	1,501,434	57	78	2013 – 2016

Note 6: Total remuneration paid including Salary, Benefits, STI and LTI payments.

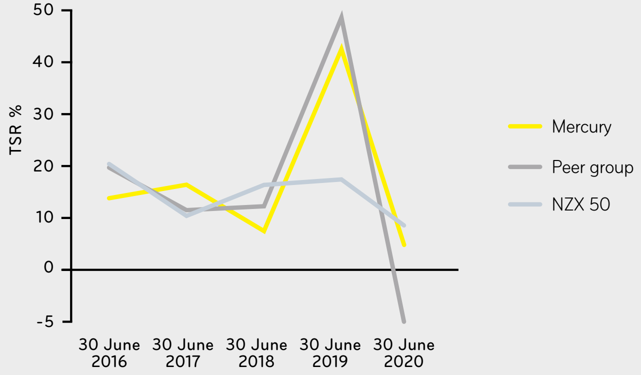
Note 7: Maximum STI was 178% of 'on-target' performance pay.

Breakdown of Chief Executive's pay for performance (FY20)

	Description	Performance measures	Percentage achieved by Vince Hawksworth	Percentage achieved by Fraser Whineray
STI[8]	Set at 50% of base salary. Based on a combination of key financial and non-financial performance measures	70% based on the five Company Shared KPIs (see table above for weightings)	88.5	119.75
		20% based on individual measures	95	130
		10% based on business KPIs (for Chief Executive only)	95	130
LTI[8]	Shares issued and rewarded under the long-term incentive scheme. Shares issued 1 July 2017 at $368,974.38 gross to Fraser Whineray	50% weighting relative TSR performance against NZX 50 (fixed at date of grant) with 50% vesting at 50th percentile and 100% at 75th percentile; pro rata vesting in between	N/A	100
		50% weighting relative TSR performance against industry peer group (comprising Meridian Energy, Genesis Energy, Contact Energy and Trustpower) with 50% vesting at 50th percentile and 100% at 75th percentile; pro rata vesting in between	N/A	74

Note 8: The above STI and LTI payments for FY20 will be paid in FY21, with the exception of Fraser Whineray's STI which was paid at time of his departure in FY20.

Five-year summary – TSR Performance (company vs peer group)



KiwiSaver

The Chief Executive is a member of KiwiSaver. As a member of this scheme, the Chief Executive is eligible to contribute and receive a company contribution of 3% of gross taxable earnings (including short- and long-term incentives). For FY20, the company's contribution for Vince Hawksworth was $10,927 and for Fraser Whineray $61,819.

FY21 CHIEF EXECUTIVE'S REMUNERATION STRUCTURE

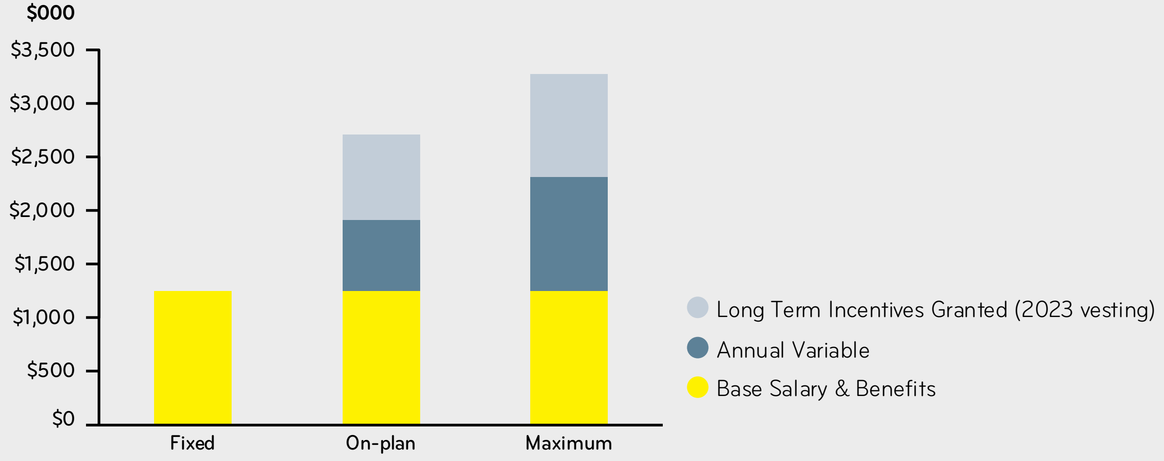
The Board has elected, in the interests of transparency, to disclose in advance the structure and package that will apply for FY21.

FY21	Base Salary $	Benefits[9] $	Subtotal $	Pay for performance 'on-target' $			Total remuneration $
				STI	LTI granted[10]	Subtotal	
Chief Executive	1,200,000	36,000	1,236,000	600,000	900,000	1,500,000	2,736,000

Note 9: Benefits include KiwiSaver. Insurance amount is not yet available and is additional.

Note 10: This LTI will be granted in FY21 and, if hurdles are met, paid in shares in 2023.

Chief Executive's remuneration performance pay for FY21



CHIEF FINANCIAL OFFICER'S REMUNERATION

In the interests of providing greater transparency of executive remuneration, the Board has elected to provide details regarding total remuneration paid to the Chief Financial Officer.

In FY20, the Chief Financial Officer received remuneration totalling $852,245. This amount included a $185,538 STI payment and a $77,500 LTI payment, both relating to FY19 but paid in FY20. The Chief Financial Officer also received a $50,000 one off discretionary payment as compensation for the additional responsibilities of acting as Chief Executive between the departure of Fraser Whineray and the commencement of Vince Hawksworth. The remaining $539,207 was a combination of fixed remuneration and benefits.

SHARE OWNERSHIP

The Chief Executive and Chief Financial Officer's ownership of Mercury shares as at 30 June 2020 are:

Executive	Number of shares owned (excludes shares held in trust for the LTI scheme)	Change in shares owned from 30 June 2019
Chief Executive – Vince Hawksworth	2,080	+2,080[11]
Chief Financial Officer	163,215	-82,260
Balance of EMT[12]	175,697	+23,392

Note 11: Vince Hawksworth joined Mercury on 30 March 2020, as such his share ownership entry was new during the reporting period. As at 30 June 2020, Mercury's former Chief Executive, Fraser Whineray owned 41,200 shares, which reflects a change of -192,151 shares owned at 30 June 2019.

Note 12: Balance of shares owned by other EMT members, excluding shares owned by the current Chief Executive, former Chief Executive and Chief Financial Officer and excluding shares owned by Matt Olde who left the company on 6 March 2020. As at 30 June 2020, Matt Olde had a relevant interest in 93,648 shares, some of which were owned by a family trust.

EMPLOYEE REMUNERATION

The Group paid remuneration in excess of $100,000 including benefits to 403 employees (not including directors) during the FY20 year in the following bands:

Remuneration band[13]	Currently employed	No longer employed	Total
$100,001-$110,000	60		60
$110,001-$120,000	49	3	52
$120,001-$130,000	61		61
$130,001-$140,000	44		44
$140,001-$150,000	37	1	38
$150,001-$160,000	35		35
$160,001-$170,000	17	2	19
$170,001-$180,000	14		14
$180,001-$190,000	9		9
$190,001-$200,000	12		12
$200,001-$210,000	6	1	7
$210,001-$220,000	3		3
$220,001-$230,000	7		7
$230,001-$240,000	4	1	5
$240,001-$250,000	3	1	4
$250,001-$260,000	2		2
$260,001-$270,000	4		4
$270,001-$280,000	2		2
$280,001-$290,000	3		3
$290,001-$300,000	2		2
$300,001-$310,000	1		1
$310,001-$320,000	1		1
$320,001-$330,000	2		2
$340,001-$350,000	3		3
$350,001-$360,000	1		1
$370,001-$380,000	1		1
$410,001-$420,000	1		1
$450,001-$460,000		1	1
$540,001-$550,000	1		1
$580,001-$590,000	1		1
$590,001-$600,000	1		1
$660,001-$670,000	1		1
$690,001-$700,000	1		1
$720,001-$730,000	1		1
$850,001-$860,000	1		1
$1,370,001-$1,380,000		1[14]	1
$2,120,001-$2,130,000		1[15]	1
Total	**391**	**12**	**403**

Note 13: The remuneration bands above include 5 employees who received redundancy payments in FY20.

Note 14: In addition to redundancy, this employee received two short-term incentive payments (in relation to FY19 and FY20) and two long-term incentive payments (in relation to FY17-FY19 and the two subsequent three-year periods) in FY20.

Note 15: This employee received two short-term incentive payments (in relation to FY19 and FY20) and one long-term incentive payment in FY20.

The total remuneration ratio for FY20 between employee (median) and Chief Executive base salary was 1:14. Note: For the ease of data collection, this ratio is based on actual remuneration paid in FY20 for employees and the Chief Executive's base salary. We have not provided a comparison against the Chief Executive's actual remuneration this year due to Vince Hawksworth being employed by Mercury for only part of the year.

REMUNERATION REPORT. (CONTINUED)

DIRECTOR REMUNERATION

The directors' remuneration is paid in the form of directors' fees. Additional fees are paid to the Chair and in respect of work carried out by directors on various Board committees to reflect the additional time involved and responsibilities of these positions.

The total pool of fees able to be paid to directors is subject to shareholder approval and currently stands at $991,000. Directors' fees were last reviewed in 2015, with the increase implemented over two years in 2015 and 2016. These fees are set following consultation with key stakeholders and having considered independent remuneration benchmarking advice. Mercury meets directors' reasonable travel and other costs associated with Mercury business. The following people held office as directors during the year to 30 June 2020 and received the following remuneration during the period. The number of meetings and attendance rate by director during the year to 30 June 2020 was as follows:

Director	Board		Risk Assurance & Audit Committee		People & Performance Committee		Nominations Committee		Other[15]	Total[16]
No. of meetings	10		4		3		1			18
	Fees $	Meetings Attended	Fees $	Meetings Attended	Fees $	Meetings Attended	Fees $	Meetings Attended	Fees	Fees $
Joan Withers (Chair)	44,286 (Chair)[17]	2		1		1				44,286
Prue Flacks (Chair)[18]	159,825 (Chair)	10		3	4,921	3	984	1		165,730
Andrew Lark	98,000	10			8,000	3				106,000
James Miller	98,000	10	10,000	4			4,000	1	5,500	117,500
Keith Smith	98,000	10	26,000 (Chair)	4						124,000
Patrick Strange	98,000	10	10,000	4			2,870	1		110,870
Mike Taitoko	98,000	10			8,000	3				106,000
Scott St John	98,000	10		4[19]	16,609 (Chair)	3				114,609
Hannah Hamling	40,833	5		2[19]		2[19]		1[19]	2,750	43,583
Total	832,944		46,000		37,530		7,854		8,250	932,578

Note 15: James Miller and Hannah Hamling received a one-off payment for attendance at a temporary committee established during the reporting period.

Note 16: Disclosure Committee attendance is not reported on as these occur as adhoc and on an as required basis.

Note 17: Joan Withers' fees cover all Committee meetings that she attended.

Note 18: Prue Flacks' fees cover $135,714 as Chair and $24,111 in the capacity of director. Prue's fee for the People & Performance Committee and the Nominations Committee reflect her participation in those committees as director between the period of 1 July 2019 to 27 September 2019. Following that period, Prue participated in committees in the capacity of Board Chair and she did not receive payment for those attendances in addition to her fees as Chair.

Note 19: Scott St John and Hannah Hamling attended some committee meetings as observers.

For reference: Future Director Anna Lissaman was paid $15,000 in FY20.

DIRECTORS' DISCLOSURES.

INTERESTS REGISTER

Disclosure of Directors' Interests

Section 140(1) of the New Zealand Companies Act 1993 requires a director of a company to disclose certain interests. Under subsection (2) a director can make disclosure by giving a general notice in writing to the Company of a position held by a director in another named company or entity. The following are particulars included in the Company's Interests Register as at 30 June 2020:

Prue Flacks	
Bank of New Zealand Limited	Director
Chorus Limited	Director
Queenstown Airport Corporation Limited	Chair[2]
Hannah Hamling	
Nil	Nil
Andy Lark	
Group Lark	Chair
James Miller	
NZX Limited	Chair
ACC	Deputy Chair
The New Zealand Refining Company Limited	Director
ACC Board Investment Committee	Chair
St Cuthbert's College Trust Board	Trustee[2]
Keith Smith	
Enterprise Motor Group Limited and subsidiaries	Chair
H J Asmuss & Co Limited	Chair
Mobile Surgical Services Limited and subsidiaries	Chair
The Warehouse Group Limited and subsidiaries	Deputy Chair
Community Financial Services Limited	Director
Goodman (NZ) Limited and subsidiaries	Chair
Harpers Gold Limited and subsidiaries	Director/ Shareholder
Cornwall Park Trust Board	Trustee
Sir John Logan Campbell Residuary Estate	Trustee
Healthcare Holdings Limited and subsidiaries and associates	Chair
Advisory board of Tax Traders Limited	Member
Anderson & O'Leary Limited	Chair
Tree Scape Limited	Director
TILT Renewables Limited	Shareholder
Sky Network Television Limited	Director[1]
Westland Dairy Company Limited	Director[2]
Scott St John	
Fisher & Paykel Healthcare Corporation Limited	Director/ Shareholder
Fonterra Co-operative Group Limited	Director
Next Foundation (and associated vehicles)	Director
University of Auckland	Chancellor
Macleod Trust	Trustee[2]
St John Family Trust	Trustee[2]
Butland Medical Foundation	Trustee[2]
Patrick Strange	
Chorus Limited	Chairman
Auckland International Airport Limited	Chair
Essential Energy	Director[2]
Mike Taitoko	
Takiwa Limited	Director/ Shareholder
Auckland Tourism Events & Economic Development	Director
Maratini Holdings Limited	Director/ Shareholder
Canvasland Holdings Limited	Director/ Shareholder
Waiora Consulting Limited	Director/ Shareholder
Toha Foundry Limited	Director/ Shareholder
Digital Economy & Digital Inclusion Ministerial Advisory Group	Member[2]

1. Entries added by notices given by the directors during the year ended 30 June 2020.
2. Entries removed by notices given by the directors during the year ended 30 June 2020.

DIRECTORS' DISCLOSURES. (CONTINUED)

Directors' and Officers' Indemnities

Indemnities have been given to, and insurance has been effected for, directors and senior managers of the Group to cover acts or omissions of those persons in carrying out their duties and responsibilities as directors and senior managers.

Disclosure of Directors' Interests in Securities Transactions

Directors disclosed, pursuant to section 148 of the New Zealand Companies Act 1993, the following acquisitions and disposals of relevant interests in Mercury securities during the period to 30 June 2020:

Name of director	Date of acquisition/ disposal of relevant interest	Nature of relevant interest	Consideration (NZD)	Securities in which a relevant interest was acquired/(disposed)
Prue Flacks	11 July 2019	Redemption of capital bonds	40,000.00	(40,000)
Prue Flacks	22 August 2019	On market purchase of capital bonds	39,798.82	38,000
Prue Flacks	22 November 2019	On market purchase of shares	14,370.00	3,000
Scott St John	21 November 2019	On market purchase of shares	14,282.70	3,000
Scott St John	2 March 2020	On market purchase of shares	22,900.00	5,000
Keith Smith	13 March 2020	On market purchase of shares by a relevant person – power to acquire or dispose of, or to control the acquisition or disposition of, or power to exercise, or to control the exercise of, a right to vote attached to shares	9,838.40	2,288
Patrick Strange	4 March 2020	On market purchase of shares	117,725.95	25,000
Scott St John	6 March 2020	On market purchase of shares	19,207.20	4,000
Scott St John	9 March 2020	On market purchase of shares	23,475.00	5,000
Scott St John	10 March 2020	On market purchase of shares	22,777.00	5,000
Scott St John	13 March 2020	On market purchase of shares	20,983.00	5,000
Scott St John	17 March 2020	On market purchase of shares	19,086.00	5,000

Disclosure of Directors' Interests in Mercury Securities

Directors disclosed the following relevant interests in Mercury securities as at 30 June 2020:

Director	Number of Shares in which a relevant interest is held	Number of Bonds in which a relevant interest is held	Change since 30 June 2019
Prue Flacks	26,474	38,000	3,000 Shares; 38,000 Bonds
Hannah Hamling	–	–	–
Andy Lark	3,300	–	–
James Miller	40,320	–	–
Keith Smith	30,156	–	2,288 Shares
Scott St John	45,000	–	32,000 Shares
Patrick Strange	39,160	–	25,000 Shares
Mike Taitoko	2,200	–	–

SECURITY HOLDER INFORMATION.

SHAREHOLDER INFORMATION

Twenty largest registered shareholders as at 30 June 2020[1]

Name	Number of shares	% of shares[2]
Her Majesty The Queen in Right of New Zealand	716,140,528	51.15
HSBC Nominees (New Zealand) Limited	65,375,914	4.67
JP Morgan Chase Bank, N.A. NZ Branch-Segregated Clients ACCT	46,610,947	3.33
HSBC Nominees (New Zealand) Limited A/C State Street	43,125,709	3.08
Citibank Nominees (New Zealand) Limited	39,456,228	2.82
Mercury NZ Limited	37,711,584[3]	2.69
Accident Compensation Corporation	26,322,539	1.88
Forsyth Barr Custodians Limited	16,761,503	1.20
HSBC Nominees A/C NZ Superannuation Fund Nominees Limited	15,179,433	1.08
National Nominees Limited	11,102,819	0.79
HSBC Custody Nominees (Australia) Limited	10,499,005	0.75
BNP Paribas Nominees (NZ) Limited	10,030,805	0.72
JBWere (NZ) Nominees Limited	9,495,620	0.68
New Zealand Depository Nominee Limited	9,028,729	0.64
BNP Paribas Nominees (NZ) Limited	8,182,226	0.58
FNZ Custodians Limited	8,069,095	0.58
Custodial Services Limited	7,047,024	0.50
Citicorp Nominees Pty Limited	6,295,444	0.45
Custodial Services Limited	6,128,744	0.44
BNP Paribas Nominees (NZ) Limited	4,610,786	0.33
Total	**1,097,174,682**	**78.37**

1. As required by the NZX Listing Rules, New Zealand Central Securities Depository (NZCSD) holdings are included above and not detailed separately.
2. Percentage calculated on the basis of Mercury having 1,400,012,517 ordinary shares on issue as at 30 June 2020, which included 37,711,584 ordinary shares held as treasury shares.
3. Held as treasury shares.

Distribution of shareholders and holdings as at 30 June 2020

Size of holding	Number of shareholders	% of shareholders	Number of shares	Holding quantity %
1 to 1,000	29,399	37.54	20,281,887	1.45
1,001 to 5,000	38,767	49.5	89,955,593	6.43
5,001 to 10,000	6,444	8.23	47,320,390	3.38
10,001 to 100,000	3,602	4.6	74,192,758	5.3
100,001 and above	111	0.14	1,168,261,889	83.45
Total	**78,323**	**100**	**1,400,012,517**	**100**

Substantial product holders as at 30 June 2020

	Class of Securities	Number of Securities in Substantial Holding	Total Number of Securities in Class
Her Majesty The Queen in Right of New Zealand	Ordinary shares	732,789,318[1]	1,400,012,517[2]

1. This comprises (a) 716,140,528 shares held by the Crown on its own account; (b) 16,580,790 shares forming part of the New Zealand Superannuation Fund which are the property of the Crown; and (c) 68,000 shares held by Public Trust on trust for the Crown and certain iwi.
2. As at 30 June 2020, Mercury had 1,400,012,517 ordinary shares on issue, which included 37,711,584 ordinary shares held as treasury shares.

SECURITY HOLDER INFORMATION. (CONTINUED)

BONDHOLDER INFORMATION

Twenty largest registered bondholders as at 30 June 2020[1]

Name	Number of capital bonds	% of capital bonds[2]
Forsyth Barr Custodians Limited	92,638,000	30.88
JBWere (NZ) Nominees Limited	35,869,000	11.96
Custodial Services Limited	15,564,000	5.19
FNZ Custodians Limited	14,913,000	4.97
Custodial Services Limited	13,297,000	4.43
Custodial Services Limited	10,583,000	3.53
Investment Custodial Services Limited	7,896,000	2.63
Forsyth Barr Custodians Limited	6,302,000	2.10
Custodial Services Limited	5,154,000	1.72
Generate Kiwisaver Public Trust Nominees Limited	5,000,000	1.67
Custodial Services Limited	4,904,000	1.63
National Nominees Limited	4,187,000	1.40
New Zealand Methodist Trust Association	3,155,000	1.05
Best Farm Limited	2,900,000	0.97
Citibank Nominees (New Zealand) Limited	2,815,000	0.94
Custodial Services Limited	2,717,000	0.91
The Tindall Foundation Inc	1,800,000	0.60
Forsyth Barr Custodians Limited	1,455,000	0.49
Masfen Securities Limited	1,200,000	0.40
Sterling Holdings Limited	1,175,000	0.39
Total	**233,524,000**	**77.84**

1. As required by the NZX Listing Rules, New Zealand Central Securities Depository (NZCSD) holdings are included above and not detailed separately.
2. Percentage calculated on the basis of Mercury having 300,000,000 capital bonds on issue as at 30 June 2020.

Distribution of bondholders and holdings as at 30 June 2020

Size of holding	Number of capital bondholders	% of capital bondholders	Number of capital bonds	Holding quantity %
1,001 to 5,000	78	4.67	390,000	0.13
5,001 to 10,000	275	16.45	2,682,000	0.89
10,001 to 100,000	1,214	72.61	42,045,000	14.02
100,001 and above	105	6.28	254,883,000	84.96
Total	**1,672**	**100**	**300,000,000**	**100**

COMPANY DISCLOSURES.

STOCK EXCHANGE LISTINGS

Mercury NZ Limited (referred to in this section as "Mercury" or "the Company") is listed on the New Zealand stock exchange and as an ASX Foreign Exempt Listing on the Australian stock exchange.

In New Zealand, Mercury is listed with a "non-standard" (NS) designation. This is due to particular provisions of Mercury's Constitution, including the requirements regulating ownership and transfer of Ordinary Shares.

ASX approved a change in Mercury NZ Limited's ASX admission category from an ASX Listing to an ASX Foreign Exempt Listing, effective from the commencement of trading on 19 February 2016.

The Company continues to have a full listing on the NZX Main Board, and the Company's shares are still listed on the ASX. The Company is primarily regulated by the NZX, complies with the NZX Listing Rules, and is exempt from complying with most of the ASX Listing Rules (based on the principle of substituted compliance).

MERCURY NZ LIMITED

The following persons held office as directors of Mercury NZ Limited as at 30 June 2020: Prue Flacks, James Miller, Mike Taitoko, Keith Smith, Patrick Strange, Andy Lark, Scott St John, and Hannah Hamling. During the reporting period, Joan Withers ceased to hold office as director.[1]

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SUBSIDIARY COMPANIES

The following persons held office as directors of subsidiaries of Mercury NZ Limited during FY20:

Company name	Directors
Bosco Connect Limited	Fraser Whineray[2] Vincent Hawksworth William Meek Tony Nagel
Glo-Bug Limited	Fraser Whineray[2] Vincent Hawksworth William Meek Tony Nagel
Kawerau Geothermal Limited	Fraser Whineray[2] Vincent Hawksworth William Meek Tony Nagel
Mercury Energy Limited	Fraser Whineray[2] Vincent Hawksworth William Meek Tony Nagel
Mercury SPV Limited	Fraser Whineray[2] Vincent Hawksworth William Meek Tony Nagel
Mighty Geothermal Power International Limited	Fraser Whineray[2] Vincent Hawksworth William Meek Tony Nagel
Mighty Geothermal Power Limited	Fraser Whineray[2] Vincent Hawksworth William Meek Tony Nagel
Mercury ESPP Limited	William Meek Tony Nagel Marlene Strawson

Company name	Directors
Mercury Geothermal Limited	Fraser Whineray[2] Vincent Hawksworth William Meek Tony Nagel
Mercury LTI Limited	Prue Flacks Mike Taitoko Howard Thomas
Ngatamariki Geothermal Limited	Fraser Whineray[2] Vincent Hawksworth William Meek Tony Nagel
Rotokawa Generation Limited	William Meek Nicholas Clarke Michael Stevens
Rotokawa Geothermal Limited	Fraser Whineray[2] Vincent Hawksworth William Meek Tony Nagel Michael Stevens
Rotokawa Joint Venture Limited (50%)	Aroha Campbell Nicholas Clarke Mana Newton Natasha Strong[2] Garth Landers Mark Thompson Michael Stevens Paul Robert Ware
Special General Partner Limited	Fraser Whineray[2] Vincent Hawksworth William Meek Tony Nagel

Company name	Directors
Mighty River Power Limited	Fraser Whineray[2] Vincent Hawksworth William Meek Tony Nagel
Blockchain Energy Limited	Fraser Whineray[2] Vincent Hawksworth William Meek Tony Nagel
Mercury Solar Limited	Fraser Whineray[2] Vincent Hawksworth William Meek Tony Nagel
What Power Crisis (2016) Limited	Fraser Whineray[2] Vincent Hawksworth William Meek Tony Nagel
Mercury Drive Limited	Julia Jack Fraser Whineray[2] William Meek[2] Tony Nagel[2]

1. Joan Withers retired as a director of Mercury NZ Limited on 27 September 2019.
2. Directors who have resigned during FY20.

OTHER DISCLOSURES.

WAIVERS FROM THE NEW ZEALAND AND AUSTRALIAN STOCK EXCHANGES

NZX

Mercury NZ Limited (referred to in this section as "Mercury" or "the Company") transitioned to the new NZX Listing Rules dated 1 January 2019 on 17 April 2019, and relied on the class waivers and rulings granted by NZX Regulation on 19 November 2018 in relation to the transition. In advance of the expiry of the transitional class waivers and rulings on 30 June 2020, on 19 May 2020 NZX Regulation granted the Company waivers in respect of NZX Listing Rules 8.1.5 and 8.1.6(b). These waivers permit Mercury's Constitution ("Constitution") to contain provisions allowing:

- the Crown and Mercury to enforce the 10% limit; and
- Mercury to suspend dividend and voting rights attached to Mercury ordinary shares where the 10% limit is breached.

ASX

ASX has granted the Company waivers in respect of the ASX Listing Rules to allow the Constitution to contain provisions reflecting the ownership restrictions imposed by the New Zealand Public Finance Act 1989 ("Public Finance Act") and to allow the Crown to cancel the sale of shares to applicants who acquire shares under the General Offer and are not New Zealand applicants.

The majority of the waivers that ASX previously granted to Mercury are no longer relevant following the change of the Company's admission category to an ASX Foreign Exempt Listing in February 2016. The waivers from ASX Listing Rules 8.10 and 8.11 continue to apply. These waivers permit the Constitution to contain provisions:

- allowing the Crown and Mercury to enforce the 10% limit; and
- enabling Mercury to prevent shareholders who acquired shares under the General Offer and are not New Zealand applicants from transferring those shares and to enable Mercury to sell those shares.

INFORMATION ABOUT MERCURY NZ LIMITED ORDINARY SHARES

This statement sets out information about the rights, privileges, conditions and limitations, including restrictions on transfer, that attach to shares in Mercury.

Rights and privileges

Under the Constitution and the New Zealand Companies Act 1993 ("Companies Act"), each share gives the holder a right to:

- attend and vote at a meeting of shareholders, including the right to cast one vote per share on a poll on any resolution, such as a resolution to:
  - appoint or remove a director;
  - adopt, revoke or alter the Constitution;
  - approve a major transaction (as that term is defined in the Companies Act);
  - approve the amalgamation of the Company under section 221 of the Companies Act; or
  - place the Company in liquidation;
- receive an equal share in any distribution, including dividends, if any, authorised by the Board and declared and paid by the Company in respect of that share;
- receive an equal share with other shareholders in the distribution of surplus assets in any liquidation of the Company;
- be sent certain information, including notices of meeting and the Company reports sent to shareholders generally; and
- exercise the other rights conferred upon a shareholder by the Companies Act and the Constitution.

Restrictions on ownership and transfer

The Public Finance Act includes restrictions on the ownership of certain types of securities issued by Mercury and consequences for breaching those restrictions. The Constitution incorporates these restrictions and mechanisms for monitoring and enforcing them.

A summary of the restrictions on the ownership of shares under the Public Finance Act and the Constitution is set out below. If Mercury issues any other class of shares, or other securities which confer voting rights, in the future, the restrictions summarised below would also apply to those other classes of shares or voting securities.

51% Holding

The Crown must hold at least 51% of the shares on issue.

The Company must not issue, acquire or redeem any shares if such issue, acquisition or redemption would result in the Crown falling below this 51% holding.

10% Limit

No person (other than the Crown) may have a 'relevant interest' in more than 10% of the shares on issue ("10% Limit").

The Company must not issue, acquire or redeem any shares if it has actual knowledge that such issue, acquisition or redemption will result in any person other than the Crown exceeding the 10% Limit.

Ascertaining whether a breach has occurred

If a holder of shares breaches the 10% Limit or knows or believes that a person who has a relevant interest in shares held by that holder may have a relevant interest in shares in breach of the 10% Limit, the holder must notify Mercury of the breach or potential breach.

Mercury may require a holder of shares to provide it with a statutory declaration if the Board knows or believes that a person is, or is likely to be, in breach of the 10% Limit. That statutory declaration is required to include, where applicable, details of all persons who have a relevant interest in any shares held by that holder.

Determining whether a breach has occurred

Mercury has the power to determine whether a breach of the 10% Limit has occurred and, if so, to enforce the 10% Limit. In broad terms, if:

- Mercury considers that a person may be in breach of the 10% Limit; or
- a holder of shares fails to lodge a statutory declaration when required to do so or lodges a declaration that has not been completed to the reasonable satisfaction of the Company,

then Mercury is required to determine whether or not the 10% Limit has been breached and, if so, whether or not that breach was inadvertent. Mercury must give the affected shareholder the opportunity to make representations to the Company before it makes a determination on these matters.

Effect of exceeding the 10% Limit

A person who is in breach of the 10% Limit must:

- comply with any notice received from Mercury requiring them to dispose of shares or their relevant interest in shares, or take any other steps that are specified in the notice, for the purpose of remedying the breach; and
- ensure that they are no longer in breach within 60 days after the date on which they became aware, or ought to have been aware, of the breach. If the breach is not remedied within that timeframe, Mercury may arrange for the sale of the relevant number of shares on behalf of the relevant holder. In those circumstances, the Company will pay the net proceeds of sale, after the deduction of any other costs incurred by the Company in connection with the sale (including brokerage and the costs of investigating the breach of the 10% Limit), to the relevant holder as soon as practicable after the sale has been completed.

If a relevant interest is held in any shares in breach of the 10% Limit then, for so long as that breach continues:

- no votes may be cast in respect of any of the shares in which a relevant interest is held in excess of the 10% Limit; and
- the registered holder(s) of shares in which a relevant interest is held in breach of the 10% Limit will not be entitled to receive, in respect of the shares in which a relevant interest is held in excess of the 10% Limit, any dividend or other distribution authorised by the Board in respect of the shares.

OTHER DISCLOSURES. (CONTINUED)

However, if the Board determines that a breach of the 10% Limit was not inadvertent, or that it does not have sufficient information to determine that the breach was not inadvertent, the registered holder may not exercise the votes attached to, and will not be entitled to receive any dividends or other distributions in respect of, any of its shares.

An exercise of a voting right attached to a share held in breach of the 10% Limit must be disregarded in counting the votes concerned. However, a resolution passed at a meeting is not invalid where votes exercised in breach of the voting restriction were counted by the Company in good faith and without knowledge of the breach.

The Board may refuse to register a transfer of shares if it knows or believes that the transfer will result in a breach of the 10% Limit or where the transferee has failed to lodge a statutory declaration requested from it by the Board within the prescribed timeframe.

Crown directions

The Crown has the power to direct the Board to exercise certain of the powers conferred on it under the Constitution (for example, where the Crown suspects that the 10% Limit has been breached but the Board has not taken steps to investigate the suspected breach).

Trustee corporations and nominee companies

Trustee corporations and nominee companies (that hold securities on behalf of a large number of separate underlying beneficial holders) are exempt from the 10% Limit provided that certain conditions are satisfied.

Share cancellation

In certain circumstances, shares could be cancelled by the Company through a reduction of capital, share buy-back or other form of capital reconstruction approved by the Board and, where applicable, the shareholders.

Sale of less than a Minimum Holding

Mercury may, at any time, give notice to a shareholder holding less than a Minimum Holding of shares (as that term is defined in the NZX Listing Rules) that if, at the end of three months after the date the notice is given, shares then registered in the name of the holder are less than a Minimum Holding, Mercury may sell those shares on market (including through a broker acting on Mercury's behalf), and the holder is deemed to have authorised Mercury to act on behalf of the holder and to sign all necessary documents relating to the sale.

For the purposes of the sale and of Rule 5.12 of the ASX Settlement Operating Rules, where the Company has given a notice that complies with Rule 5.12.2 of the ASX Settlement Operating Rules, the Company may, after the end of the time specified in the notice, initiate a Holding Adjustment to move the relevant shares from that CHESS Holding to an Issuer Sponsored Holding (as those terms are defined in the ASX Settlement Operating Rules) or to take any other action the Company considers necessary or desirable to effect the sale.

The proceeds of the sale of any shares sold for being less than a Minimum Holding will be applied as follows:

- First, in payment of any reasonable sale expenses.
- Second, in satisfaction of any unpaid calls or any other amounts owing to the Company in respect of the shares.
- The residue, if any, must be paid to the person who was the holder immediately before the sale or his or her executors, administrators or assigns.

Cancellation of sale of shares

The Crown may cancel the sale of shares to an applicant under the offer of shares by the Crown ("the Offer") in the Mighty River Power Share Offer Investment Statement and Prospectus if the applicant misrepresented its entitlement to be allocated shares under the Offer as a 'New Zealand Applicant' (as that term is defined in the Share Offer Investment Statement and Prospectus). If the Crown cancels a sale of shares on those grounds:

- Mercury must sell shares held by that applicant, up to the number of shares sold to it under the Offer, irrespective of whether or not those shares were acquired by the applicant under the Offer (unless the applicant had previously sold, transferred or disposed of all of its shares to a person who was not an associated person of the applicant); and
- the applicant will receive from the sale the lesser of:
  - the sale price for the shares less the costs incurred by the Crown and the Company; and
  - the aggregate price paid for the shares less those costs, with any excess amount being payable to the Crown.

If an applicant who misrepresented their entitlement to shares has sold, transferred or otherwise disposed of shares to an associated person, then the power of sale will extend to shares held by that associated person, up to the number of shares transferred, sold or otherwise disposed of to the associated person by the relevant applicant.

DONATIONS

Donations of $99,500 were made by the Group during the year ended 30 June 2020 ($101,294 during the year ended 30 June 2019). Under Mercury's Delegations Policy, donations to political parties are prohibited.

OTHER DISCLOSURES

Mercury NZ Limited is incorporated in New Zealand and is not subject to Chapters 6, 6A, 6B and 6C of the Corporations Act 2001 (Australia). Mercury will not acquire any classified assets in circumstances in which the ASX Listing Rules would require the issue of restricted securities, without the written consent of ASX.

On 18 August 2020 the Board declared a fully imputed final dividend of 9.4 cents per share to all shareholders who are on the Company's share register at 5.00pm on the record date of 15 September 2020. The dividends will be imputed at a corporate tax rate of 28%, which amounts to an imputation credit of 3.66 cents per share for the final dividend. Mercury will also pay a supplementary dividend of 1.66 cents per share relating to the final dividend to non-resident shareholders. The Company will receive from the New Zealand Inland Revenue Department a tax credit equivalent to supplementary dividends.

These dividends, together with the interim dividend of $87.1 million (6.4 cents per share) paid to shareholders on 1 April 2020, brings the total declared dividends to $215.1 million (or 15.8 cents per share).

As at the date of this annual report, the Company has a S&P's BBB+ rating with a stable outlook. The Company benefits from a one-notch uplift due to the Crown's majority ownership.

Mercury's Net Tangible Assets per Share (excluding treasury stock) as at 30 June 2020 was $2.69, compared with $2.54 at 30 June 2019.

SUSTAINABILITY INDICES.

GRI INDEX STANDARD CORE REPORTING

GRI standard	Disclosure title	Location	Comments
GENERAL DISCLOSURES			
ORGANISATIONAL PROFILE			
GRI 102 General disclosures 2020			
102-1	Name of the organisation	Front Cover	
102-2	Activities, brands, products and services	Who We Are pp4-8	
102-3	Location of headquarters	Directory p97	
102-4	Location of operations	Who We Are pp4-8	
102-5	Ownership and legal form	Company Disclosures p89	
102-6	Markets served	Who We Are pp4-8	
102-7	Scale of the organization	Who We Are pp4-8	
102-8	Information on employees and other workers	Who We Are pp4-8	
102-9	Supply chain	The World Around Us pp14-17	
102-10	Significant changes to the organisation and its supply chain	The World Around Us pp14-17	
102-11	Precautionary principle or approach	Company website – Corporate Governance Statement	
102-12	External initiatives	The World Around Us pp14-17, Engaging With Our Stakeholders p18, Close Connections Help Vulnerable Customers p24, The World's Best Catchment p27	
102-13	Membership of associations	Engaging With Our Stakeholders p19	
102-14	Statement from senior decision-maker	Chair & Chief Executive Update pp9-12	
102-16	Values, principles, standards, and norms of behavior	Company website – The Mercury Code	
102-18	Governance structure	Company website – Corporate Governance Statement	
102-40	List of stakeholder groups	Engaging With Our Stakeholders pp18-19	
102-42	Identifying and selecting stakeholders	Engaging With Our Stakeholders pp18-19	
102-43	Approach to stakeholder engagement	Engaging With Our Stakeholders pp18-19	
102-44	Key topics and concerns raised	Engaging With Our Stakeholders pp18-19	
102-45	Entities included in the consolidated Consolidated Financial statements	Notes To The Consolidated Financial Statements p52	
102-46	Defining report content and topic Boundaries	About This Report p2, Pulling It All Together p21	
102-47	List of material topics	Pulling It All Together p21	
102-48	Restatements of information		There are no restatements of information in the 2020 reporting period.
102-49	Changes in reporting		Mercury continues to use both GRI and <IR> reporting frameworks.
102-50	Reporting period	Front Cover	
102-51	Date of most recent report	Front Cover	
102-52	Reporting cycle	Front Cover	
102-53	Contact point for questions regarding the report	About This Report p2, Directory p97	
102-54	Claims of reporting in accordance with the GRI Standards	About This Report p2	
102-55	GRI content index	GRI Content Index p92	
102-56	External assurance		Our 2020 report has not been externally assured.
MANAGEMENT APPROACH			
GRI 103 General disclosures 2020			
103-1	Explanation of the material topic and its Boundary	Pulling It All Together p21	

SUSTAINABILITY INDICES. (CONTINUED)

SPECIFIC STANDARD DISCLOSURES

Material topics	Description	Location	Boundaries
GRI 200 Economic standard series			
GRI 103	Management approach	Our Business Model pp6-8	Within the organisation
GRI 201 Economic performance			
GRI 201	Management approach	Our Business Model pp6-8	Within the organisation
201-1	Direct economic value generated and distributed	Our Business Model pp6-8	Within and outside the organisation
202-1	Consolidated Financial implications and other risks and opportunities due to climate change	Strategy p34	Within and outside the organisation
GRI 300 Environmental standards series			
GRI 103	Management approach	Our Business Model p6, Our FY20 Outcomes & Strategic Goals pp7-8	Within the organisation
GRI 303 Water			
303-1	Water withdrawal by source	Mercury does not "withdraw" water for generation. 43,426 Mm^3 were used for hydro generation in FY20.	Within and outside the organisation
GRI 305 Emissions			
305-1	Direct (Scope 1) GHG emissions	Metrics & Targets p35	Within and outside the organisation
305-2	Energy indirect (Scope 2) GHG emissions	Metrics & Targets p35	Within and outside the organisation
305-3	Other indirect (Scope 3) GHG emissions	Metrics & Targets p35	Within and outside the organisation
305-4	Emissions intensity	Metrics & Targets p35	Within and outside the organisation
GRI 307 Environmental compliance			
307-1	Non-compliance with environmental laws and regulations	Mercury received two infringement notices for minor breaches of consent conditions at its Turitea construction site in January 2020.	Within and outside the organisation

Material topics	Description	Location	Boundaries
GRI 400 Social standards series			
GRI 103	Management approach	Our Business Model pp6-8	Within the organisation
GRI 401 Employment			
401-1	New employee hires and employee turnover	Mercury hired 123 new employees and the voluntary turnover rate was 12%	Within the organisation
401-2	Benefits provided to full-time employees that are not provided to temporary or part-time employees	Company website – Life at Mercury	Within the organisation
401-3	Parental Leave	Company website – Life at Mercury	Within the organisation
GRI 403 Occupational health and safety			
403-1	Workers representation in formal joint management-worker health and safety committees	Workers representatives hold a range of positions on health and safety committees, including joint chair of the geothermal committee	Within the organisation
403-2	Types of injury or rate of injury, occupational diseases, lost days, and absenteeism, and number of work related fatalities	Our Business Model pp6-8, Chair and Chief Executives Update p12	Within the organisation
GRI 404 Training and education			
404-2	Programmes for upgrading employee skills and transition assistance programmes	Pillar Summary p37, Our Skills Pledge p38	Within the organisation
GRI 405 Diversity and equal opportunities			
405-1	Diversity of governance bodies and employees	Inclusion & Diversity pp77-78	Within the organisation
GRI 413 Local communities			
413-1	Operations with local community engagement, impact assessments and development programs	Close Connections Help Vulnerable Customers pp24-26, The World's Best Catchment pp27-29, Living The Leadership Journey pp36-38	Within and outside the organisation
413-2	Operations with significant actual and potential negative impacts on local communities	Close Connections Help Vulnerable Customers pp24-26, The World's Best Catchment pp27-29, Living The Leadership Journey pp36-38	Within and outside the organisation

SUSTAINABILITY INDICES. (CONTINUED)

SECTOR SPECIFIC: UTILITIES

Material Topics	Description	Location	Boundaries
GRI 103	Management approach	Our Business Model pp6-8	Within the organisation
EU1	Installed capacity	Our Business Model pp6-8	Within the organisation
EU2	Net energy output	Our Business Model pp6-8	Within the organisation
EU3	Number of customer connections	Our Business Model pp6-8	Within and outside the organisation
EU5	Allocation of CO_2e allowances	Metrics & Targets p35	Within and outside the organisation
EU10	Planned capacity against projected electricity demand over the long-term	Dealing With Shifting Winds p39	Within and outside the organisation
GRI 103	Management approach	Our Business Model pp6-8	Within the organisation
EU18	Percentage of contractor and subcontractor employees that have undergone relevant health and safety training	Our Skills Pledge p38	Within and outside the organisation
GRI 103	Management approach	Our Business Model pp6-8	Within the organisation
EU27	Number of disconnections for non-payment	The World Around Us p15, Close Connections Help Vulnerable Customers pp24-26	Outside the organisation
GRI 103	Management approach	Our Business Model p6	Within the organisation
EU30	Average plant availability by energy source and by regulation regime	Hydro 88%, Geothermal 94%	Within the organisation

TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES (TCFD) INDEX

Issue	TCFD Recommendation	Location	Page No.
Governance	Board oversight of climate-related risks and opportunities	Annual Report 2020 – Preparing for Climate Change Annual Report 2020 – Governance at Mercury	pp33-34, 72-78
	Management's role in assessing and managing climate-related risks and opportunities	Annual Report 2020 – Preparing for Climate Change Annual Report 2020 – Governance at Mercury	pp33-34, 72-78
Strategy	Climate-related risks and opportunities identified over the short, medium and long-term	Annual Report 2020 – Strategy	pp34
	The impact of climate-related risks and opportunities on business strategy and financial planning	Annual Report 2020 – Strategy	pp34
	Strategy resilience taking into consideration climate-related scenarios, including a 2°C or lower scenario	Annual Report 2020 – Preparing for Climate Change	pp33
Risk Management	Processes for identifying and assessing climate-related risks	Annual Report 2020 – Strategy Annual Report 2020 – Governance at Mercury	pp33-34, 72-78
	Process for managing climate-related risks	Annual Report 2020 – Strategy Annual Report 2020 – Governance at Mercury	pp33-34, 72-78
	Integration of the processes for identifying and assessing climate-related risks into overall risk management	Annual Report 2020 – Strategy Annual Report 2020 – Governance at Mercury	pp33-34, 72-78
Metrics and Targets	Metrics and targets used to assess climate-related risks and opportunities in line with strategy and risk management process	Annual Report 2020 – Metrics & Targets, Company website 2019 Emissions Inventory Report	p35
	Scope 1, 2 and 3 GHG emissions and any related risk	Annual Report 2020 – Metrics & Targets, Company website 2019 Emissions Inventory Report	p35
	Targets used to manage climate-related risks and opportunites and performance against targets	Annual Report 2020 – Preparing for Climate Change, Metrics & Targets. Company website 2019 Emissions Inventory Report	p33, p35

INFORMATION FOR SHAREHOLDERS.

Shareholder enquiries

Changes in address, dividend payment details and investment portfolios can be viewed and updated online: **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 **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 **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 (see Directory for contact details).

GLOSSARY.

Mercury presents certain non-GAAP (Generally Accepted Accounting Practice) financial information throughout the annual report. This is provided where we believe it will provide greater clarity to users of the information. It also provides consistency across reporting periods and comparability amongst industry peers.

Brand Strength

This measures a brand's equity and perception in the market based on a monthly survey. It is a constructed score derived from 5 pillars that are weighted to reflect their impact on overall Brand Strength. It is reported on a 3-month rolling average and reflects Mercury's Brand Strength amongst customers and non-customers.

CO_2E

Carbon dioxide equivalents (a measure of total greenhouse gases).

Churn

Rolling average of Mercury Brand customers that change energy providers.

CPS

Cents per share.

EBITDAF (or Operating Earnings)

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

Energy Margin

Sales from electricity generation and sales to customers and derivatives, less energy costs, line charges, other direct costs of sales, and third-party metering.

Free Cash Flow

Net cash flow from operating activities less stay-in business capital expenditure.

Generation-weighted Average Price (GWAP)

Generation Weighted Average Price of electricity generated and sold to the wholesale electricity market.

Growth Capital Expenditure (CAPEX)

Capital expenditure incurred by the company to create new assets and revenue.

GWh

Gigawatt hour. One gigawatt hour is equal to one million kilowatt hours.

Load-weighted Average Price (LWAP)

Load Weighted Average Price of electricity purchased from the wholesale electricity market.

MWh

Megawatt hour. One megawatt hour is equal to one thousand kilowatt hours.

Net Debt

Total borrowings (both current and non-current) less cash and cash equivalents.

Net Promoter Score (NPS)

This is the difference between the percentage of Promoters (who rate their likelihood to recommend Mercury 9-10 on a scale of 0-10) and Detractors (who rate their likelihood to recommend Mercury 0-6 on a scale of 0-10). Results are reported on a 3-month rolling average. The result reported here is NPS within our target customer segments where we recorded a 2-point increase above target for FY20. In FY20 we changed our reporting to a new survey measuring NPS through a sample of approximately 2000 customers per month.

Operating Costs

Represents employee compensation and benefits, maintenance expenses and other expenses.

Other Income

Earnings of associates and other revenue, less direct costs of other revenue.

Stay-in-Business (SIB) Capital Expenditure (CAPEX)

Capital expenditure incurred by the company to maintain its assets in good working order.

Total Recordable Injury Frequency Rate (TRIFR)

A record of the number of reported medical treatment, restricted work, lost time and serious harm injuries per 200,000 hours, including employees and on-site contractors.

Total Shareholder Return (TSR)

The financial gain or loss resulting from the change in share price plus any dividends paid expressed as a percentage of the initial share price.

Underlying Earnings After Tax

Profit for the year after removing one-off and/or infrequently occurring events (exceeding $10 million of profit before tax, which represents material items), impairments, any change in the fair value of derivative financial instruments and gain on sale, all net of tax expense.

DIRECTORY.

Board of Directors

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

Executive Team

Vince Hawksworth,
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

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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Email: investor@mercury.co.nz

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Registered Office in Australia

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Level 16, 201 Elizabeth Street
Sydney, NSW 2000

Phone: +61 2 8988 5800

Legal Advisors

Chapman Tripp
Level 34
PwC Tower at Commercial Bay
15 Customs Street West
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

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