

# ENERGY FREEDOM.

2021 ANNUAL REPORT

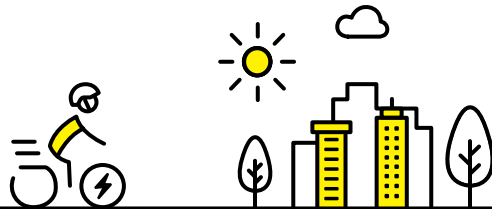


# MENU.



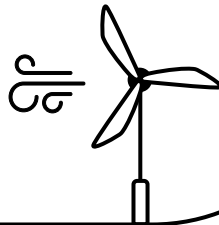
## 1. ENERGY FREEDOM TODAY.

- 04 WHO WE ARE
- 05 OUR BUSINESS MODEL
- 08 CHAIR & CHIEF EXECUTIVE UPDATE



## 2. OUR WORLD OF ENERGY FREEDOM.

- 13 ENGAGING WITH OUR STAKEHOLDERS
- 14 THE RISKS WE FACE
- 15 PULLING IT ALL TOGETHER
- 16 CREATING VALUE IN THE FUTURE



## 3. LIVING ENERGY FREEDOM.

OUR PILLAR STORIES



**CUSTOMER**  
19



**PARTNERSHIPS**  
22



**KAITIAKITANGA**  
25



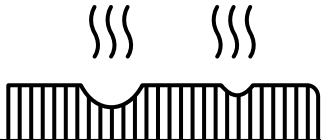
**PEOPLE**  
28



**COMMERCIAL**  
31

## 4. ENERGY FREEDOM IN NUMBERS.

- 35 FINANCIAL COMMENTARY
- 37 FINANCIAL TRACK RECORD
- 38 INDEPENDENT AUDITOR'S REPORT
- 41 FINANCIAL STATEMENTS
- 64 TCFD REPORT



## 5. THE TEAM BEHIND ENERGY FREEDOM.

- 76 YOUR EXECUTIVE TEAM
- 77 GOVERNANCE AT MERCURY
- 94 REMUNERATION REPORT
- 100 DIRECTORS' DISCLOSURES
- 102 SECURITY HOLDER INFORMATION
- 106 COMPANY DISCLOSURES
- 107 OTHER DISCLOSURES
- 109 GLOBAL REPORTING INITIATIVE (GRI) INDEX
- 112 INFORMATION FOR SHAREHOLDERS
- 113 DIRECTORY
- 114 GLOSSARY

## ABOUT THIS REPORT.

Mercury is committed to providing the full picture: 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 the five pillars that make up how we generate long-term value. We include a specific [Global Reporting Initiative \(GRI\) Index](#) and our comprehensive [TCFD Report](#), which is prepared in accordance with the recommendations of 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 they are all part of who we are, what we do and why. Across all this, our aim is 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](mailto: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 2021. 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.

Since year end, Mercury has finalised the Scheme Implementation Agreement to acquire Tilt Renewables Limited's New Zealand operations, including its future development options, for an enterprise valuation of NZ\$797 million, funded from the sale of Mercury's 19.9% Tilt shareholding, worth NZ\$608 million and net debt of NZ\$189 million. This Annual Report is dated 17 August 2021 and is signed on behalf of the Board by:

  
PRUE FLACKS // CHAIR

  
KEITH SMITH // DIRECTOR

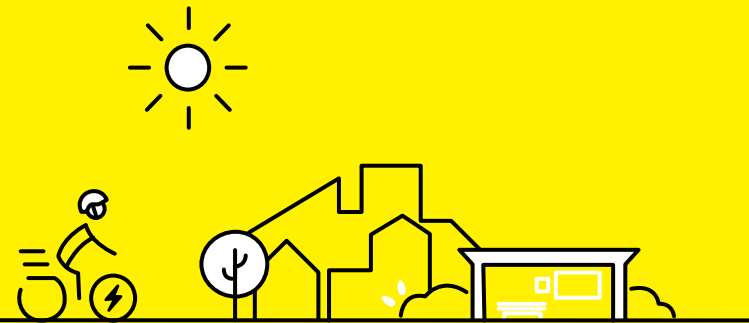
# ENERGY FREEDOM TODAY.

We are focussed on being here for the long term. In this section we introduce you to Mercury. We provide an overview of how we operate, highlight the factors that affect our ability to create value over time (Our Business Model) and outline our past and current performance and outcomes. Our Chair, Prue Flacks, and Chief Executive, Vince Hawksworth, then jointly summarise our 2021 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 Zealand homes and businesses.

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, rewarding our loyal customers and innovating with digital solutions.

Thinking in an integrated way about how we create long-term value is part of who we are. Since 2015, we've been building 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 (to us, and to our stakeholders).

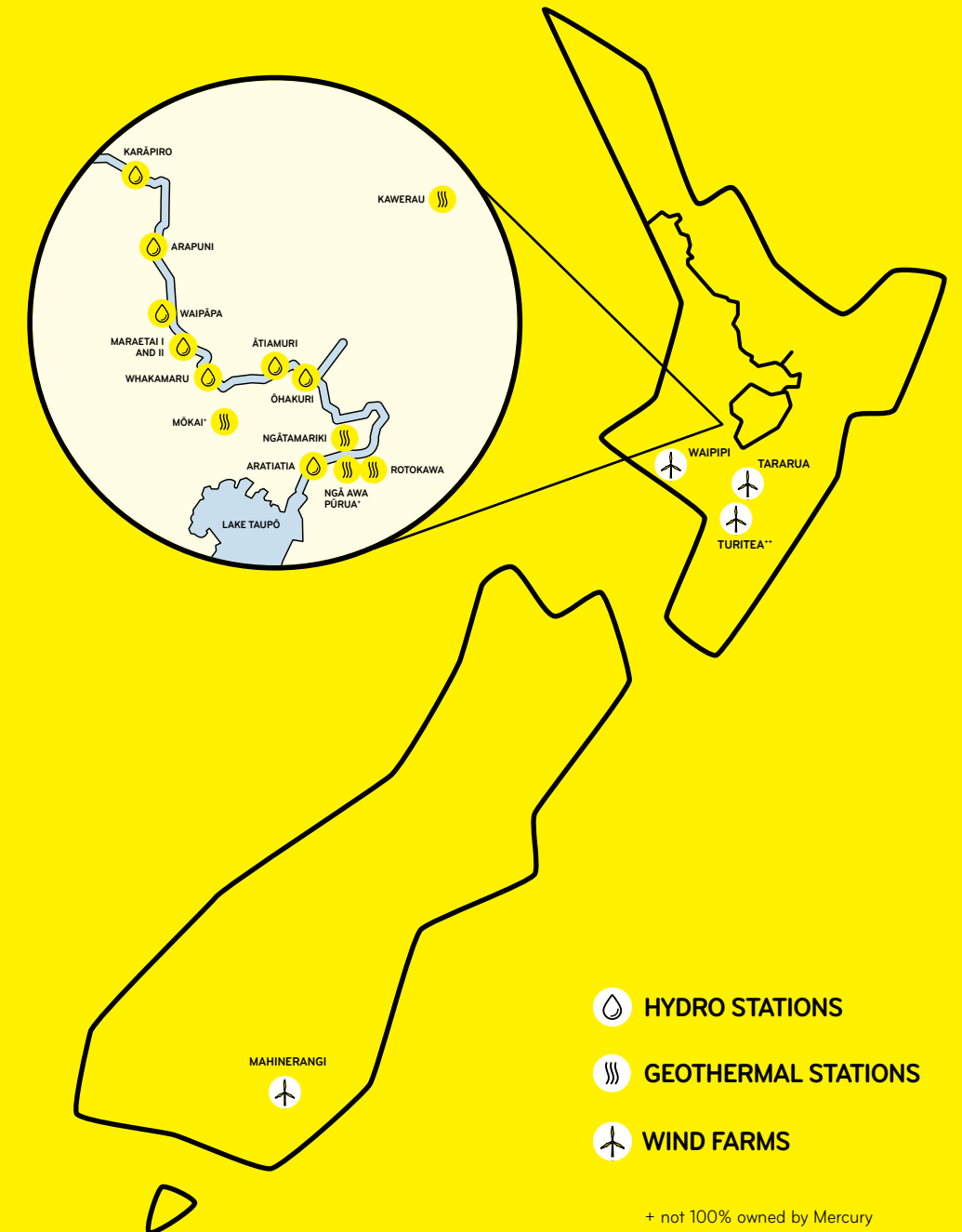
We generate electricity from 100% renewable sources: hydro, geothermal and wind. Our current electricity generation sites are situated in the central North Island of New Zealand, along the Waikato River (hydro) and nearby steamfields of the northern part of the Central Plateau (geothermal). Our Turitea wind farm is being developed in an area renowned for wind generation – part of the Tararua Ranges in the Manawātū region. This month (August 2021) we acquired Tilt Renewables Limited's five operating wind farms in Aotearoa, as well as their future development options to add to our own pipeline of future wind development sites in this country.

The retail operations serve commercial and residential (small and medium sized businesses) customers. Our Commercial

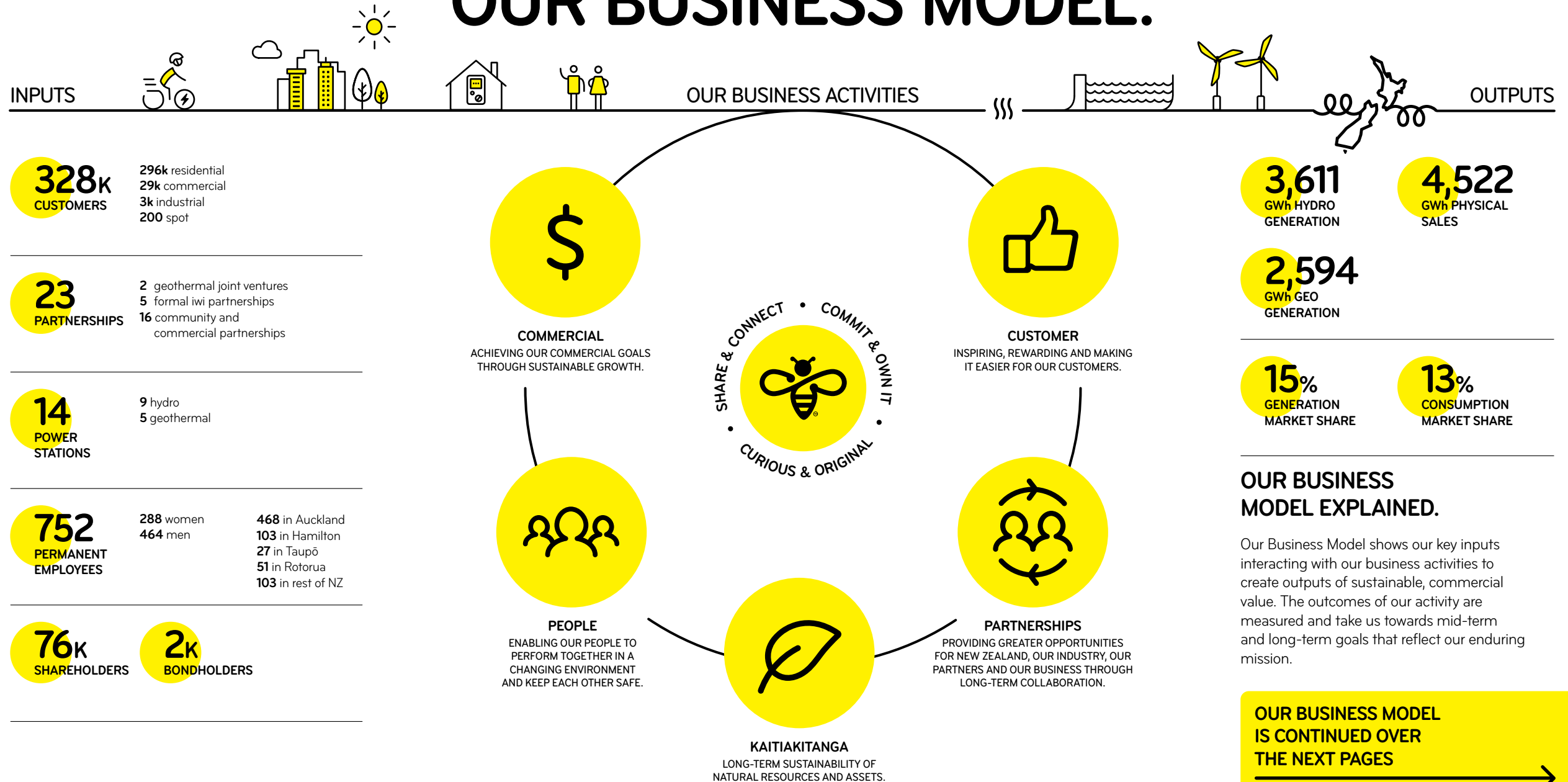
teams service industrial and wholesale market customers. Our sub-brand GLOBUG is our pre-pay electricity product. In June we entered into a conditional binding agreement to acquire Trustpower's retail business, to accelerate our ability to deliver the right product mix and value for customers.

We manage a small number of subsidiary enterprises, such as our EV Subscription Service.






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.



# OUR BUSINESS MODEL.



# OUR BUSINESS MODEL. (CONTINUED)

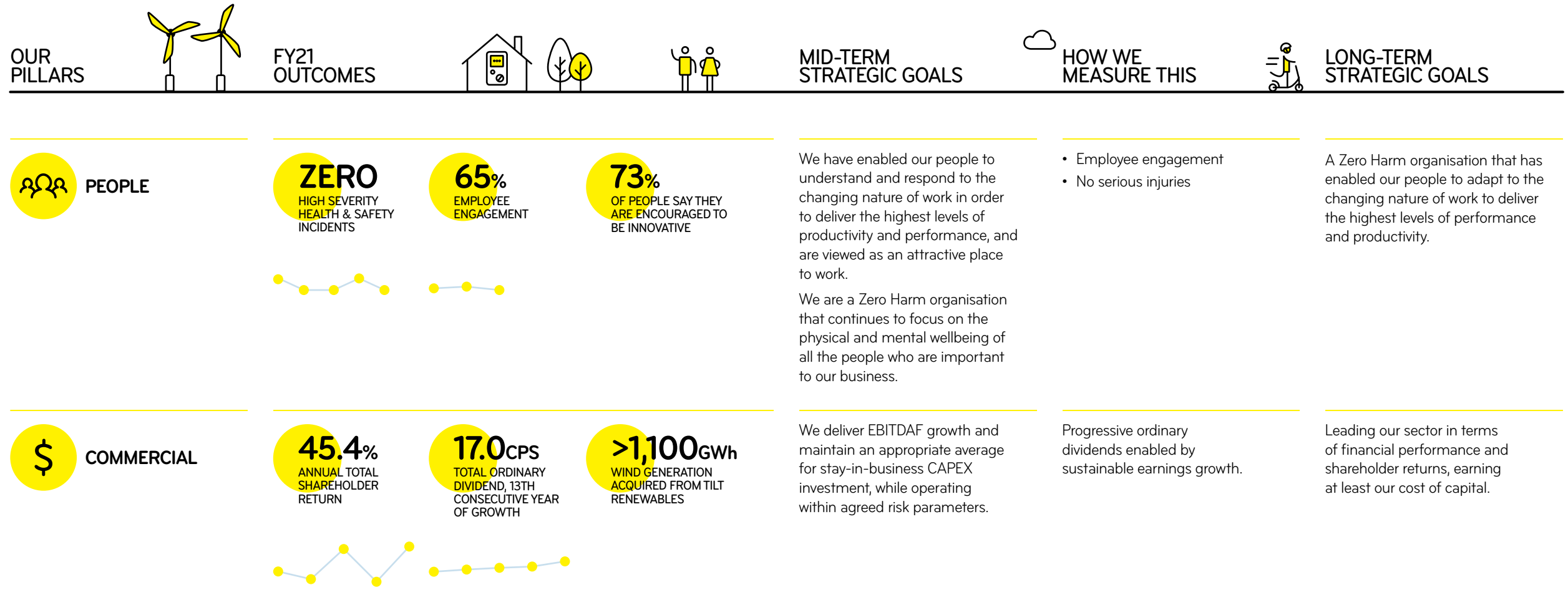
| OUR PILLARS  | FY21 OUTCOMES   | MID-TERM STRATEGIC GOALS  | HOW WE MEASURE THIS   | LONG-TERM STRATEGIC GOALS  |
|--|---|---|---|--|
|  <b>CUSTOMER</b>        | <div> <b>6.1%</b><br/>MERCURY BRAND TRADER CHURN </div> <div> <b>10.4</b><br/>NET PROMOTER SCORE (NPS) </div> <div> <b>65%</b><br/>BRAND STRENGTH* </div> <div>  </div>                                       | <p>We are inspiring, rewarding and making it easy for customers in our target segments.</p>   | <ul style="list-style-type: none"> <li>Churn</li> <li>Net Promoter Score</li> <li>Brand strength</li> </ul>   | <p>New Zealand's leading energy brand.</p>   |
|  <b>PARTNERSHIPS</b>    | <div> <b>CCC</b><br/>FINAL ADVICE CONTINUES TO HEAVILY SUPPORT ELECTRIFICATION </div> <div> <b>CONTINUED ENGAGEMENT WITH NEW ZEALAND BATTERY PROJECT</b> </div> <div> <b>SIGNED TWO RELATIONSHIP AGREEMENTS WITH IWI</b> </div>   | <p>There is bipartisan national, regional and community support for positive contributions from the renewable electricity industry.</p> <p>Existing relationships are maintained and strengthened, and new relationships are created, consistent with our purpose and strategy.</p> | <p>Electricity is viewed as an enabler of the transition to a low carbon economy.</p> <p>Key stakeholder relationship plans are in place and are in effect.</p> | <p>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.</p> |
|  <b>KAITIAKITANGA</b> | <div> <b>1.01</b><br/>PORTFOLIO LWAP/GWAP </div> <div> <b>TURITEA DELAYED COMMISSIONING UNDERWAY</b> </div> <div> <b>35KG</b><br/>GROSS GENERATION EMISSIONS INTENSITY (KG CO2E/MWH)** </div> <div>  </div> | <p>We understand and are managing the long-term sustainability of the natural resources and assets that we rely on.</p>   | <p>Integrated Management Plans are in place facilitating our long-term approach.</p>  | <p>Recognised as a leader in the ultra-long-term management of both physical and natural assets.</p>   |

\* Three month rolling to April 2021

\*\* FY17-20 & CY20

For a definition of these measures please see our Glossary.

# OUR BUSINESS MODEL. (CONTINUED)



For a definition of these measures please see our Glossary.



# CHAIR & CHIEF EXECUTIVE UPDATE.

**PRUE FLACKS // CHAIR**

**VINCE HAWKSWORTH // CHIEF EXECUTIVE**

## **COMPANY PERFORMANCE**

The year ended 30 June 2021 saw financial performance that was resilient in the face of headwinds that included challenging generation conditions and elevated spot prices.

We also announced the acquisition of Tilt Renewables' New Zealand assets and Trustpower's retail business in the period. Noting the Trustpower acquisition is still subject to approval, these acquisitions represent ambitious steps to ensure we can shape our future through a period of rapid change.

Mercury reported \$463 million EBITDAF, which was \$27 million lower than the prior year of \$490 million EBITDAF.

Capital expenditure of \$250 million comprised of \$56 million of stay-in-business CAPEX and \$194 million of growth CAPEX. Operational expenditure remained broadly flat for the eighth consecutive year on a normalised basis. Net profit after tax of \$141 million was down from the previous year's \$209 million.

We continue to be well positioned from a liquidity and capital perspective. The Board has declared a full year dividend of 10.2 cents per share (cps). This brings the full-year ordinary dividend to 17.0 cps, up 7.6% (15.8 cps FY20).

At this time of very low interest rates, we are very aware of the importance of the dividend as an income stream, particularly to our large retail shareholding base, so we were pleased to be able to increase the dividend for the thirteenth year running.

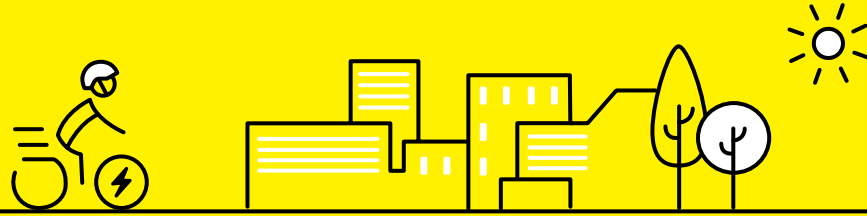
## **MARKET CONDITIONS**

A second consecutive year of low rainfall across the Waikato catchment area saw a decrease in hydro generation during the financial year to 3,611GWh, well below the long-term average of around 4,050GWh.

An unplanned outage at our Kawerau geothermal power station meant we were unable to generate from the station from early June to the end of the financial year. As a result, geothermal generation for the year decreased. The Kawerau station returned to service on 20 July and is a testament to the commitment and experience of the team involved in getting the station operational quickly and safely.

Challenging hydro generation conditions across the country have been compounded by constrained gas supply. We also saw firming in spot pricing following the extension of the New Zealand Aluminium Smelter operation until 2024.





As a result, the industry is navigating record high spot prices. For example, in Q4 we saw average prices of around \$277 per MWh in Auckland.

While most of that impact is currently reduced through contracting and hedging, a long run of high spot prices will inevitably put some upward pressure on prices paid by customers.

With electricity prices well within the lower third of the OECD, any flow on impact is unlikely to hinder the strong position New Zealand is in as we look to a balanced transition to a more renewable future.

### **BALANCING DECARBONISATION, SECURITY OF SUPPLY & AFFORDABILITY**

The energy sector globally is undergoing a period of rapid change. An enormous amount of investment in renewable generation is required to replace fossil fuel generation, in response to the threat of climate change. For more on this, see our [Kaitiakitanga Pillar Story](#).

Here in Aotearoa New Zealand, more than \$1.5 billion of investment is already committed by the industry to the construction of renewable infrastructure. This means the country is well placed to increase the proportion of generation that is renewable from around 80% today to over 90% within five years.

However, the current market conditions illustrate the challenge of ensuring the right balance is struck between investment in decarbonisation, security of supply, and ensuring energy is affordable.

We strongly support the goal of net zero carbon emissions by 2050, and we are well placed to play our part in achieving that goal. We are committed to investing in renewable generation to support decarbonisation as well as diversifying sources of generation to lower the impact of dry years.

We are engaging constructively with policy makers and sharing our expertise to support the development of policy that delivers on decarbonisation in balance with security and affordability.

A key aspect is that policy certainty is required to send the right investment signals. One wind farm a year is required to be built to achieve net zero carbon emissions. Delivering that outcome, while maintaining security and affordability should be foremost in the Government's mind.

### **RENEWABLE INVESTMENT PIPELINE**

We have a significant renewable investment pipeline in place.

In August, we took ownership of Tilt Renewables' New Zealand assets. This acquisition increases our total annual generation by over 1,100GWh and includes

several prospective development options, underlining our commitment to investing in new renewable generation.

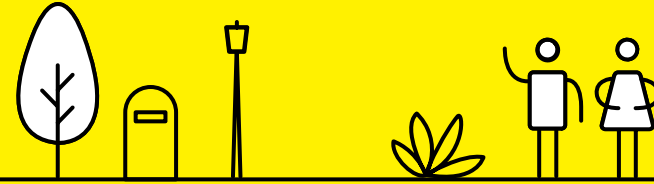
We previously held a 19.9% shareholding in Tilt Renewables, which was an owner and developer of wind farms in both New Zealand and Australia. Mercury and Powering Australian Renewables (PowAR) agreed that PowAR would acquire all the shares of Tilt, including our shares, and we would acquire all of Tilt's New Zealand operations, including development options. PowAR will retain ownership of all of Tilt's Australian assets.

This acquisition was funded through the sale of the 19.9% shareholding and additional net debt of \$189 million. For more on this, see our [Commercial Pillar Story](#).

Construction of the Turitea wind farm also continues, with the transmission line, grid connection and northern wind farm substation fully commissioned. First generation has been achieved and we anticipate the full completion of the 33-turbine northern section in the last quarter of 2021.

Civil construction for the more challenging southern end of the site and its 27 turbines is continuing, with final project completion in the south currently scheduled for mid 2023. Project times remain subject to contractor performance, and we continue to work with our contractor, Vestas, to try and find ways to bring that date forward.





Our investment pipeline also includes a premium consented wind farm site at Puketoi. We will evaluate the economics, market, and regulatory landscape as we work actively towards construction of our next development opportunities.

### A COMPETITIVE RETAIL MARKET & THE TRUSTPOWER ACQUISITION

On the retail front, competitive intensity continues to be very high.

Consumers are increasingly expecting greater control and transparency around the products they consume, and bundling of utilities including electricity, gas and telecommunications is proving attractive to many. Ensuring we have the scale and capability necessary to make the investment needed to meet our customers' needs is a key focus.

The retail market continues to be highly competitive, with a significant number of brands competing for customers. Retail margins are under pressure, and this is exacerbated by the high prices in the wholesale market experienced during the period. This reflects intensive competition from some retailers (including some independents) and bundled product offerings.

With an increasing number of customers changing supplier, our total customer numbers fell by 20,000 during the period.

In June, Mercury entered into binding agreements to acquire Trustpower's retail business for NZ\$441 million, payable in cash.

We see Mercury and Trustpower as two highly complementary organisations, and this agreement would see the best of both being brought together for our customers. Trustpower's retail business is a leading multi-product utilities retailer selling electricity, gas, fixed and wireless broadband and mobile phone services to approximately 231,000 customers nationwide. The combined business would have approximately 780,000 connections across both energy and telco services.

Bringing together the retail businesses of Mercury and Trustpower will also give us the scale to make meaningful investment in the underlying IT systems, driving greater innovation for our customers. Deeper integration of the two businesses is not planned until the underlying IT systems will enable improved customer experience.

The agreement is conditional on a number of approvals, and we now anticipate completion in the second half of FY22.

### VULNERABLE CUSTOMERS

COVID-19 lockdowns have triggered an increase in customers reaching out for advice and assistance. We responded by making a number of improvements to the ways we support customers. While the uncertainty for our customers has reduced somewhat,

the COVID-19 experience has reinforced that anyone can experience hardship, and vulnerability is not necessarily a permanent state.

Our focus is on early intervention, including communicating earlier when something goes wrong. We are also starting to use data better to help with this. We have launched a customer care hub, recalibrated our credit check process and undertaken staff education, community engagement and in-depth research into vulnerable consumers. For more on this see our [Customer Pillar Story](#).

### OTHER HIGHLIGHTS

We continue to work towards a collaborative approach to water for the Waikato catchment. Our vision is for the world's best catchment and we are continuing to work with iwi and other stakeholders to understand what that means in practice and how we achieve it.

This year began a trial of realtime water quality monitoring technology, and we are talking to parties about water accounting – more accurately measuring water storage and use. For more on this, see our [Partnerships Pillar Story](#).

In addition, during the period we rationalised several assets as we sought to focus our business further.

In November, we sold our interest in the US-based Hudson Ranch 1 geothermal power station joint venture, receiving net proceeds of NZ\$41 million.



We also moved approximately 5,000 customers served under our Bosco brand to Mercury. The consolidation enhances our ability to offer benefits of the Mercury brand to Bosco customers as well as supporting operational efficiencies.

### THE THRIVE PROGRAMME

Our company-wide focus of 'Thriving Today, Shaping Tomorrow' is the strategic foundation that underpins what we do and how we work together. It builds on our mindset of long-term thinking and considered decision making, with the impact on our customers, communities and country at its heart.

Thrive is a company-wide programme of work, established to support continuous improvement within the business. This program had its genesis in the dynamic response and swiftly executed changes within our business to meet the challenges brought by COVID-19 to our customers, team members and stakeholders.

Teams across the business have set out to be innovative, to set aspirational goals, strengthen the good things we already do, and apply a critical lens to test how we could improve and align our resources with those aspirations. Using design-thinking methodologies, our people are solving business problems or sticking points that have been identified as having significant likelihood of adding value once solved. For more on this, see our [People Pillar Story](#).

### EVOLVING OUR CULTURE

As we evolve and adapt to our changing environment, it's important that our culture does the same. We are running a programme called Whakapuāwai that will build capability within Mercury to understand our culture and ensure it supports us to deliver the performance needed to achieve our strategy.

Inclusion and diversity continues to be an important focus to ensure the pipeline of talent we have coming through properly reflects the diverse society we operate within and the customers we support. Our goal is to increase our population of leaders of ethnicity and we have developed a programme to identify and remove barriers.

Te Ao Māori at Mercury is a roopu (group) available to all Mercury kaimahi (staff) to uplift te reo me ona tikanga, and te ao māori within the organisation, and seek opportunities to learn.

The Mercury Pride Network aims to create a more safe, supportive and equitable Mercury for our rainbow people and customers.

### WELLBEING, HEALTH & SAFETY

Wellbeing, health and safety remains a priority for the business, and this was reflected in the positive results for Health and Safety Culture and Wellbeing sections of our annual engagement survey.

There were no serious harm injuries in this period and a significant drop in TRIFR (Total Recordable Incident Frequency) to 0.64 from 1.26 at the end of FY20.

Through the year we had many asset refurbishment and construction projects across our generation portfolio requiring many hours of safety planning to deliver high risk activity safely.

### SUMMARY

We remain well positioned to deliver for our owners, our customers, our people and New Zealand more broadly. We are taking ambitious steps, including significant acquisitions, to ensure we can shape our future through a period of rapid change. We are deeply conscious of the role we have to play to help lead New Zealand to a low carbon future, and your Board thanks you for your ongoing support.

Together we are Mercury,  
Energy made Wonderful.

Ngā mihi nui ki a koutou katoa.

PRUE FLACKS // CHAIR

VINCE HAWKSWORTH // CHIEF EXECUTIVE





# OUR WORLD OF ENERGY FREEDOM.

In this section we build on the key changes in our external environment covered by our Chair and Chief Executive, and consider how we have taken into account and responded to our stakeholders' identified needs, interests and opportunities in FY21. We cover the risks we face, and how we balance tradeoffs through the lens of what matters most – what's important to us and to our stakeholders. We look at how this all shapes our focus on how we create value in the coming years FY22-FY24.



# ENGAGING WITH OUR STAKEHOLDERS.

Building and maintaining relationships with stakeholders across our business is crucial to our success.

We need to know what's important to our stakeholders, so we focus on, and commit the right resource to the most relevant business activities. 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.

We also recognise we need to maintain, and potentially build, stakeholder relationships over time.

During FY21 Mercury undertook a stakeholder engagement survey targeting key representatives of our nine identified key stakeholder groups. Details of our stakeholder groups and what's important to them about Mercury can be found on our website [here](#).

We are keen to continue to gather additional insights from our stakeholders and will consider in FY22 the most appropriate and productive ways to shape our engagement processes.

**How we engaged with our stakeholders**

Our FY21 survey was, for the first time, an online survey. It was designed so that stakeholders could see the fifteen focus areas (material issues) previously identified as important to Mercury, raise any obvious gaps they saw in this list, and rank the relevance of each focus area.

The survey had a participation rate of 33%. We acknowledge the input of everyone who responded and made this engagement exercise so worthwhile.

**What we learned**

The survey showed us that our stakeholders see a close correlation between our focus areas and what matters most to them, with no significant gaps (as reported in the last annual report). This outcome confirmed we are concentrating our efforts in the right areas to meet their expectations.

The top five focus areas that matter most to our stakeholders about Mercury in FY21 were:

- sustainable growth
- natural resources
- operational excellence and (tied in fourth place) generation development
- safety and wellbeing

We also asked our stakeholders to tell us how they would like to receive information about what's important, and we learned that they prefer direct engagement via email and one-to-one meetings. This means that future engagement exercises will be more targeted.

## OUR STAKEHOLDERS



For further detail around our stakeholder groups and what's important to them about Mercury, please see the [Engaging with Our Stakeholders](#) content on our website.



Helen Tua, Janet Tautaiolefua and Jo-Anne Pawley

### BUILDING ON OUR COMMUNITY ENGAGEMENT





















A community day was hosted at our Auckland office for around 80 community, government and NGO stakeholders who support customers with continuing credit issues.

The purpose of the day was to acknowledge the work they do in their communities to make lives better for those who struggle day to day, and thank them for their trust in us. We shared what we've been up to since the start of our presence in the community in 2010 and asked for confirmation that we're on the right track. They gave valuable feedback including a need for more education and resources and greater engagement, communication in more languages, flexible payment options, meaningful rewards, and a greater customer care element. We plan to make this an annual day to connect these key stakeholders and partners together with us and with each other.

# THE RISKS WE FACE.

A comprehensive summary of our key risks and how we manage them is included in the [Governance at Mercury](#) section of the 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 | <p>Safety is an essential objective for us and is one of the major risks that could affect the wellbeing of employees, contractors, customers, and the public.</p> <p>In FY21, process safety continued as a focus for our generation business. Worksafe conducted inspections at two of our Major Hazard Facilities to audit performance against safety cases. We have also focussed on improving our works controls procedures across our generation fleet.</p> <p>We are mindful of managing safety risk, particularly with large projects, including our Turitea wind farm, hydro and geothermal refurbishments and geothermal maintenance shuts.</p> | <p>Compliance with resource consents and the Electricity Industry Participation Code is important for our ability to operate. 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 us.</p> <p>In FY21, several regulatory processes that had the potential for significant impact to us were progressed. These included: the Climate Change Commission draft and final advice to the government on actions to reduce emissions in New Zealand; the Climate Related Disclosures bill; and the start of Resource Management reform.</p> | <p>Ensuring that our fuel resources, plants and systems don't have negative impacts on others is critical. The importance of stakeholder relationships and input has continued to grow across each of our key stakeholder groups – our customers, communities, partners and owners.</p> <p>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 within New Zealand and globally.</p> <p>In FY21, we continued to implement our security uplift programme and strengthen our stakeholder management.</p> | <p>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).</p> <p>In managing these risks in FY21, we were focussed on the programme of hydro refurbishments and geothermal maintenance shuts; restoring the Kawerau station and capturing learnings following its outage; and actively balancing the challenges faced by constrained fuel supplies (water, gas).</p> | <p>Key financial risks include: climate change impacts, appropriate insurance cover and our ability to execute on projects and new growth initiatives.</p> <p>Finance and related activities have key process controls that are subject to regular review and continuous improvement.</p> <p>A core element of financial sustainability is the opportunity cost related to our ability to identify and execute growth options. This was mitigated in FY21 through transactions such as the Tilt acquisition.</p> | <p>Attracting, developing and retaining capable people who can contribute to our strategic priorities and grow with the business continues to be our focus. We also continue to focus on the physical and mental wellbeing of all people who are important to our business.</p> <p>In FY21, the Thrive programme has created significant opportunities for employee engagement and involvement. In addition, Mercury has recently embarked on a culture change programme called Whakapuāwai ('to thrive or evolve') which will seek to create a culture that embraces learning, challenges mindsets, lifts capability and celebrates curiosity.</p> |
| OUR PILLARS                      |   |   <br>   |   <br>    |   <br>    |     |    |

# PULLING IT ALL TOGETHER.

## FY21 MATERIALITY ASSESSMENT.

The results of this year's stakeholder survey confirm we have identified and continue to focus on the right areas of our business. Building this knowledge into our business planning continues to add value to Mercury and enhances the important relationships we hold with our many stakeholder groups.

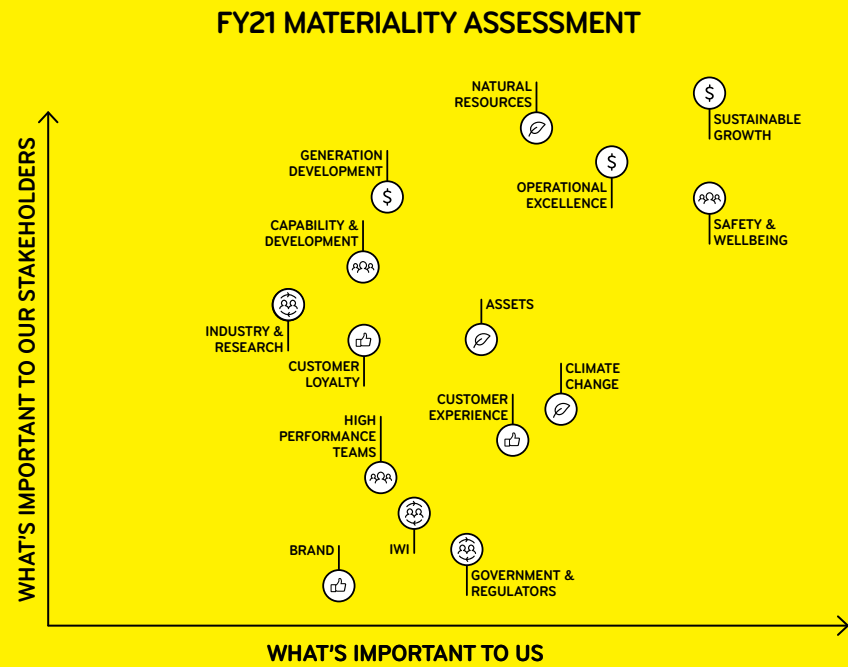
Our five pillars represent the key drivers of material value creation for our business. Together with our fifteen focus areas they enable us to integrate what matters most to Mercury and our stakeholders. They form the framework for our

long-term strategy, mid-term goals and short-term business planning and reflect the six capitals of the Integrated Reporting <IR> framework (see below).

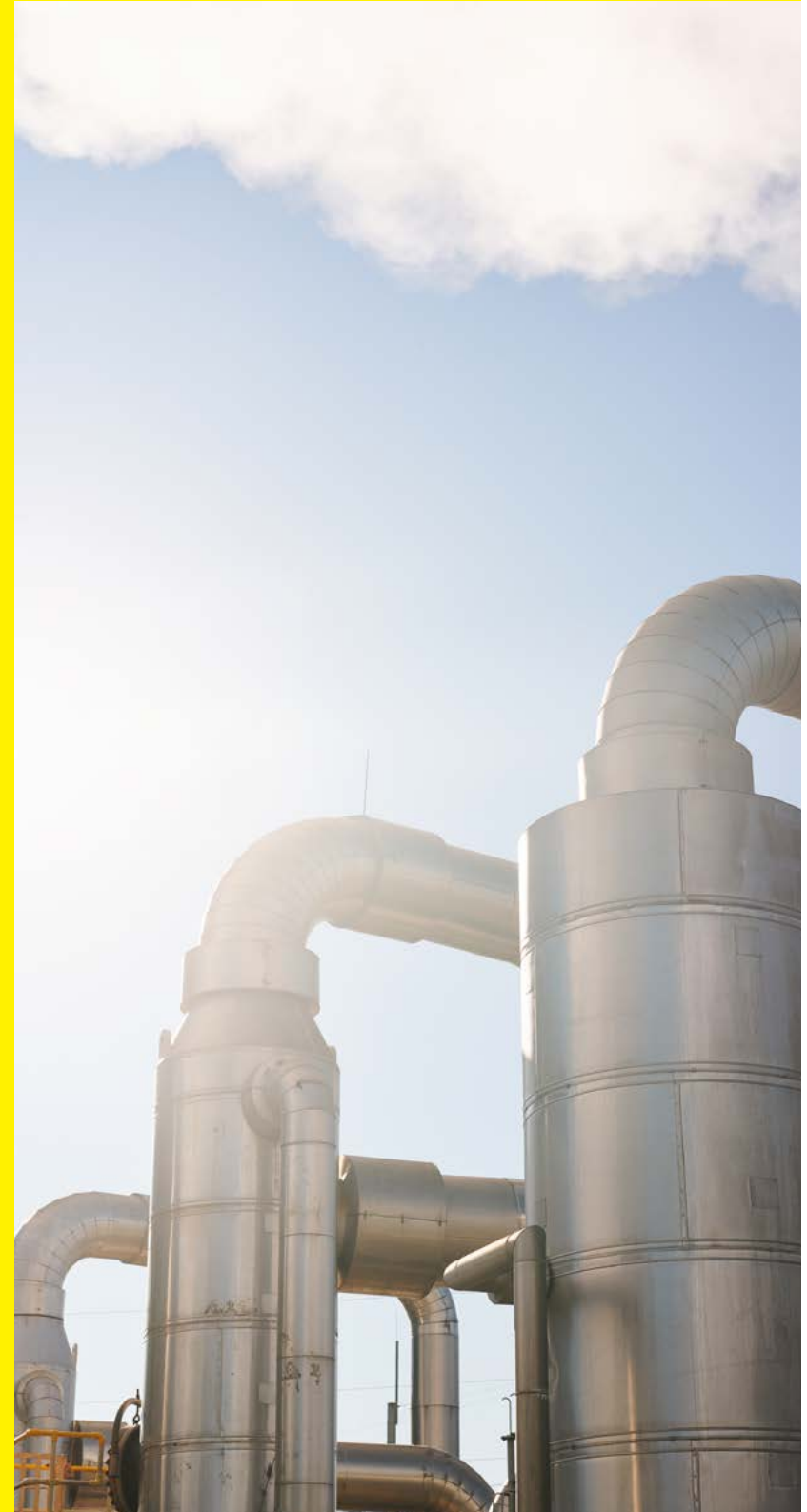
Our FY21 strategy review was undertaken against a broad context of the risks and opportunities presented by the external environment and what's happening in the world around us. Combining that wide perspective with what's important to our stakeholders enables us to consider how our approach may need to evolve to ensure we continue to create value.

A materiality assessment, like the one presented below, helps to visualise these aspects by combining what matters most to our stakeholders and what matters most to us. Our materiality assessment this year has been updated to include the results of our FY21 stakeholder survey that confirmed our stakeholders understand that our focus areas, although defined under five pillars, are in fact inter-related. This visualisation also presents a picture of all that is important and enables 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             |



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







Craig Webber, Beth Wotherspoon and Bjorn Van Dam

# CREATING VALUE IN THE FUTURE.

Updating our strategic framework so that we are 'Thriving Today' and 'Shaping Tomorrow'.

Our strategic framework maps what we will need to focus on in the near and mid-term, to continue to grow and create value over time. This year we reviewed, re-framed and re-stated this framework.

Distilling the complexities of strategy into a new framework took commitment. We began reviewing the strategic framework last year, nearing the end-date for the mid-term goals we had set three years previously. This coincided with peak COVID-19 in New Zealand. As we responded to the challenges within our business and supporting our customers, team members and other stakeholders, this became a catalyst to rethink our resilience and future success as a business.

Consideration of near-term outcomes began with a program of continuous operational improvement called 'Thrive'. This program, led and implemented by members of the Mercury team, surfaced 'problems worth solving', including the need to provide greater connection and clarity for our people around strategy and the part they play. This fed into our update of the framework.

To identify what we need to focus on across the mid and long-term we considered these factors (that have been discussed in the prior pages of this report):

- the economic, regulatory, market and other elements of our operating environment (noted in the [Chair and Chief Executive Update](#))
- internal factors to our business such as culture and safety (noted in the [Chair and Chief Executive Update](#))
- what we learn from our partners and [stakeholders](#)
- the [risks we face](#)
- [materiality](#)

We expect to respond to an ever-accelerating pace of change, and new mid-term (three-year) objectives were set after testing the factors listed above against a set of future-state scenarios. We also created the strategic themes of 'Thriving Today' and 'Shaping Tomorrow' to reflect the purposeful action today that will influence and build towards measurable success in the future. Our people should be able to ask, "is what I'm doing helping us to thrive today and/or shape tomorrow?"

One thing that is clear to us through this update is that refreshing the framework isn't about formulating a standalone 'strategy on a page'. It's about continuing to improve the overall connection each person feels to their place in delivering to strategy, and their connection to our purpose. Leaders throughout the organisation are bringing this framework to life for their teams within the context of the outcomes they need to deliver.

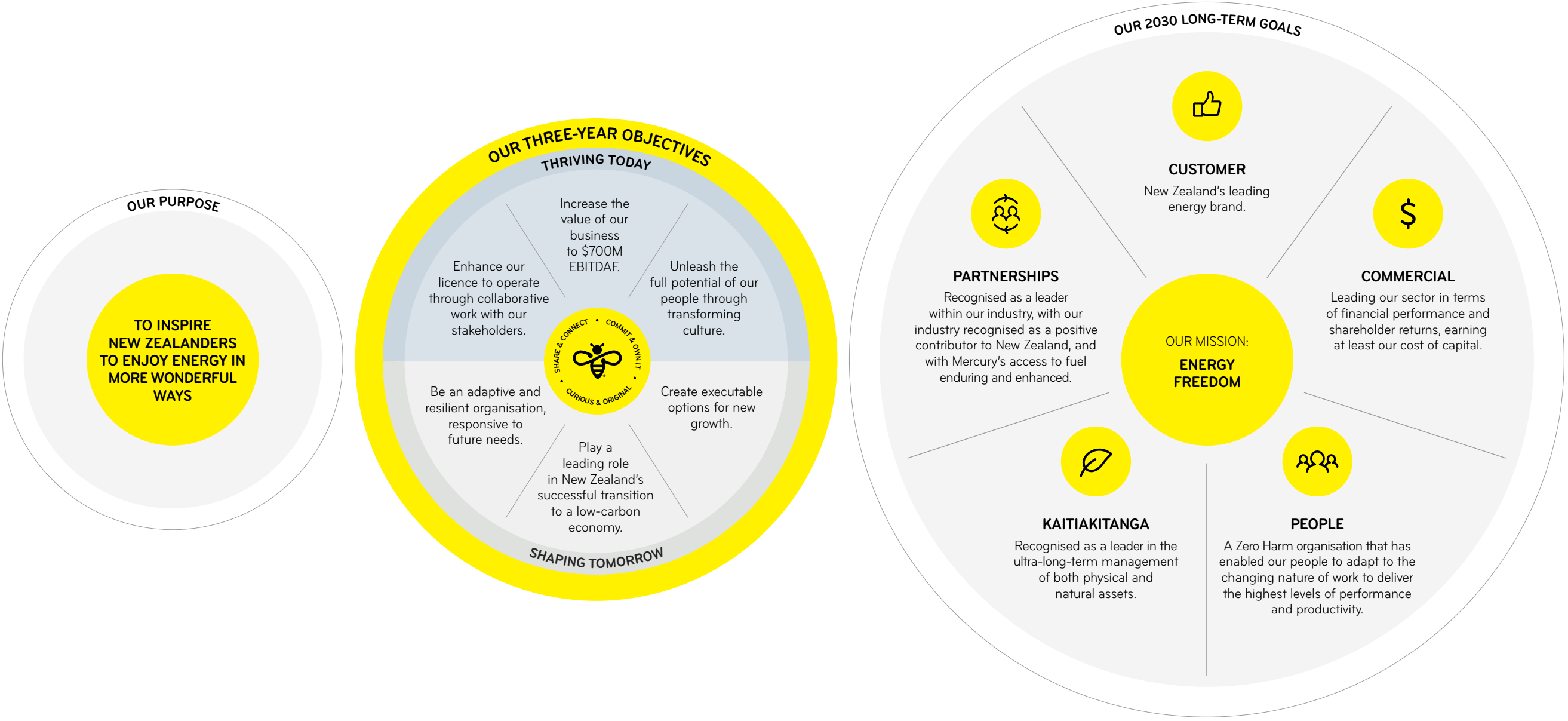
The future landscape will be shaped by ongoing changes specific to us (such as our acquisition of Tilt's New Zealand operations and, conditionally, Trustpower's retail business) and the broader environment (such as decisions around New Zealand Aluminium Smelter, and market conditions). Evolution of the strategic framework will continue to respond to opportunities and risks, at a pace that balances continued insight and improvement with clarity of direction.

**“DECARBONISING NEW ZEALAND, MERCURY THRIVING, AND ENERGY FREEDOM FOR OUR STAKEHOLDERS ARE KEY THEMES THAT HAVE SHAPED OUR STRATEGY.**

OUR FY22-24 STRATEGIC  
FRAMEWORK →



# OUR FY22-24 STRATEGIC FRAMEWORK.



# LIVING ENERGY FREEDOM.

In this section, we seek to bring to life the five pillars of our business, and what they mean to us, through stories that are examples of material activity undertaken through the past 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.



Bridgid Smith and Janet Tautaiolfua

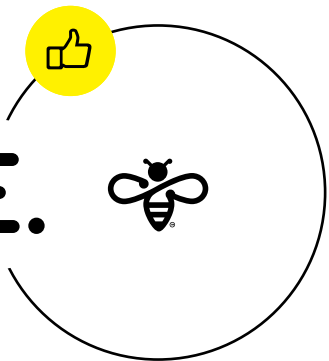


## 1. CUSTOMER.

### OUR FOCUS

Mercury's Customer pillar focus areas are Brand, Loyalty and Experience. To bring this to life, we tell the story of Bridgid Smith, Mercury's Customer Experience Lead, and her ambition to build a truly integrated customer care proposition to cater for the varied needs of our customers.

# REDEFINING CUSTOMER CARE.



The care of 'vulnerable' customers is a critical responsibility that, rightly, utility providers are measured against.

When Bridgid Smith was asked to review what was available to vulnerable customers it became clear that there was an opportunity to develop and build on the existing support Mercury provides for customers experiencing hardship.

"Speaking with our customers, our community stakeholders and our own people revealed a varied landscape in terms of all the things we're already doing well, and those things we could be doing differently. I learnt very quickly that this is an extremely complex issue."

"It also became clear that the terms we use as a sector – 'Vulnerable' and 'Medically Dependent' – are labels that aren't doing us or our customers any favours when trying to provide relevant, inclusive and effective solutions."

'Vulnerable' is a term that oversimplifies. In reality, many of us will be 'vulnerable' at some point in our lives. It might relate to physical or mental wellbeing, financial constraint, emotional distress or language difficulties, for example. And it might relate to a moment in time or be something we experience on a more permanent basis.

Despite this, customers have historically been categorised as either 'Vulnerable' or 'Medically Dependent' – broad terms that give us little to go by when building effective, targeted solutions which work for individuals and their circumstances.

"This thinking led us more towards the idea of 'customer care'. It's an acknowledgement that we need to focus on which customers need our help the most, what different types of support they need and when they need that extra support. It's not just a box ticking exercise to say we've flagged customers as 'vulnerable'."



## CUSTOMER SUMMARY.

### + PILLAR STORY FOCUS AREA

- Experience

### + OTHER FOCUS AREAS

- Loyalty
- Brand

### + 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.

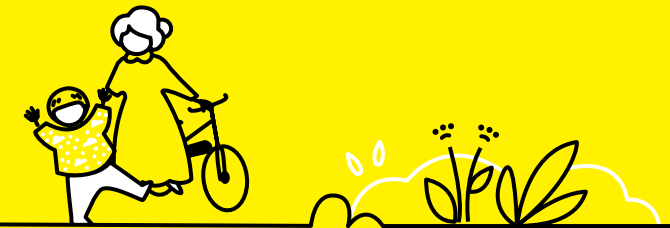
### + KEY RISKS

- Errors in customer data quality, billing or general communications, impacting on customer service and compliance.
- Loss of customer data (both physical and digital) or a systems failure impacting on our ability to operate core systems.

Bridgid Smith, Vandana Junpath  
and Janet Tautaiolfua



“WE NEED TO FOCUS ON WHICH CUSTOMERS NEED OUR HELP THE MOST, WHAT DIFFERENT TYPES OF SUPPORT THEY NEED AND WHEN THEY NEED THAT EXTRA SUPPORT.”



This year, Bridgid and the wider Mercury team delivered a number of initiatives to help better support customers experiencing hardship, including:

- establishing a survey to deepen our understanding of customers and the different types of difficulties they might face
- holding a community stakeholder event to bring together our key community partners, furthering engagement and gathering critical feedback
- launching a 'Customer Care Hub' on our website, making it easy for customers to access all the support and resources available to them in a single, easy to find location

- implementing a new process for customers who find the standard join process challenging, including lowering our credit check threshold
- enabling the Women's Refuge Shielded Site on our website for customers to anonymously reach external help if needed
- trialling new billing and payment options for customers facing financial hardship and struggling to pay on time
- improving education and training programmes for frontline staff to support better conversations with customers, focussed on embedding empathy

This is not the beginning of our journey – it's the next steps from over a decade of focussed effort by a committed group of individuals – but it's not the end either.

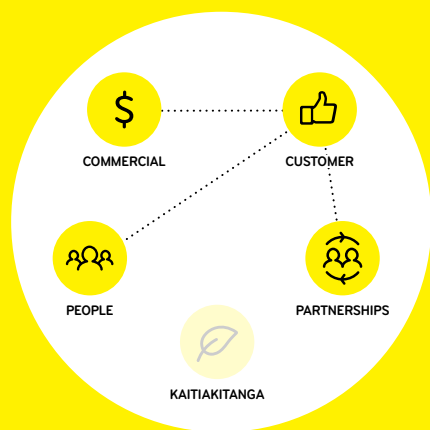
In our [FY20 Annual Report](#) we profiled our Community Liaison Manager, [Helen Tua](#), whose commitment to action continues, alongside Bridgid and others with a shared passion and dedication in this space.

"We're very lucky to be building on ten years of hard work by Helen Tua and other extremely dedicated people at Mercury. Thanks to her and others, we have strong relationships with our communities and a wealth of knowledge and experience touching so many parts of society – government, social agencies, other retailers."

"And now we have an opportunity to consolidate that hard work and establish a framework around how we look after and respond to customers experiencing hardships which we can continue to build on in a sustainable way."



## CREATING VALUE THROUGH OUR CUSTOMERS.



Bridgid's contribution into the support we offer to customers experiencing hardship integrates thinking and delivers shared value across other Mercury pillars. For example:

- **COMMERCIAL** – by focusing on **Operational excellence**, Bridgid and the team's work towards improving how we care for customers experiencing hardship reduces our customer churn and lowers our debt levels.
- **PARTNERSHIPS** – working with **Government**, social and community agencies helps build our knowledge (**Industry & research**) and strengthen our connections to our customers, while also improving trust in our brand and the sector.
- **PEOPLE** – through the **Capability & development** of our people, we are recognised as being an organisation that 'does the right thing', helping us continue to attract and retain key talent.

### LOOKING FORWARD

We hear about a growing sense of hardship from many of the communities we engage with, demonstrating that we cannot rely solely on debt metrics alone, which have improved this year. The reduction in customer debt levels is the result of a combination of factors, some of which have been within our control including the better use of data as well as the measures outlined on the previous page. However, these need to be considered in the broader societal context – which isn't necessarily reflected in this data. For this reason, close community engagement remains fundamental to our care of customers.

As an electricity retailer, we'll always play an essential role in people's lives, and we take this responsibility seriously – especially when ensuring customers are treated fairly, consistently and with sensitivity.

This is important as we estimate that up to 40% of our customers could be considered 'vulnerable' under a more inclusive definition of the word. These individuals may need extra care and support to access a consistent electricity supply.

We also know these customers are often some of our most loyal and have a right to feel valued by us. However, our current products, processes and services don't always meet the varied needs of these customers, affecting their experience and impacting our operational costs. COVID-19 exacerbated financial challenges for some customers, further highlighting the importance of developing relevant solutions that keep our customers safe in a commercially sustainable way.

For this reason, we are working towards building more robust ways of identifying customers needing different levels of care. This will include better use of data modelling so we can identify early triggers for customers who may be at risk of experiencing some form of hardship and proactively support them before they reach this stage.

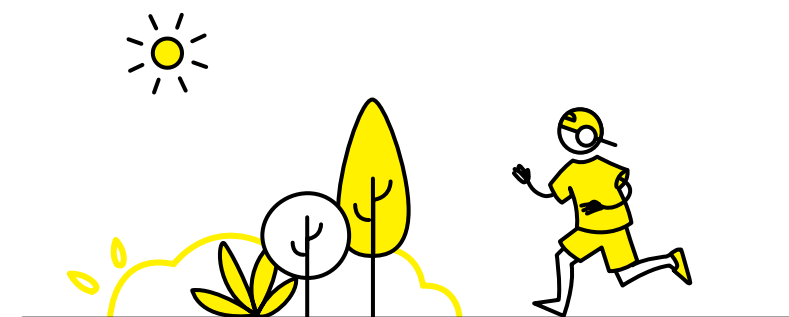
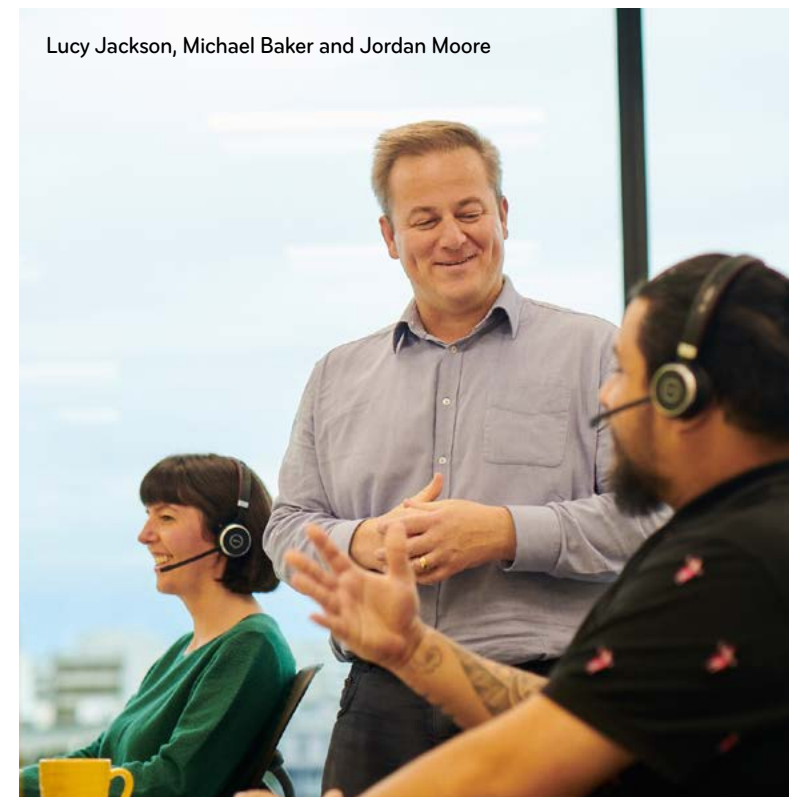
As a result of this, solutions will be more personalised to specific needs. In many cases this will be as simple as being more targeted with the great initiatives, tools and ideas already in play by repurposing, improving, prioritising and communicating these. In other cases, it may involve leveraging data, technology and our people to build new solutions. These will be carefully measured to track the effectiveness for both our customers and our company.

"This isn't just the right thing to do, it also makes good commercial sense. It improves customer loyalty, reduces our overall debt and continues to strengthen our reputation as a responsible retailer."

As we look to expand our customer offering beyond electricity and into broadband, our approach to customer care becomes more important than ever. For many, COVID-19 made home connectivity a necessity for education, income and connection to communities. The digital divide is a very real issue, and as a future broadband provider we will need to ensure we're supporting the better social outcomes that the internet can enable, rather than further contributing to social inequality.

"I want us to be in a place where Mercury is setting the standard for customer care, not just as an electricity retailer, but for other industries."

Lucy Jackson, Michael Baker and Jordan Moore





Gavin Williamson (Mercury), Guy McPherson (Adroit) and Steve Carroll (Whirinaki Working Group)

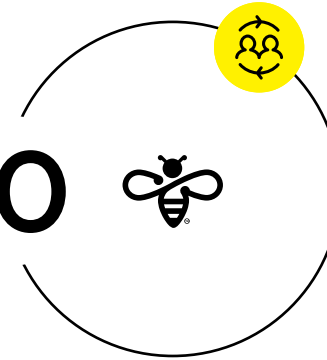


## 2. PARTNERSHIPS.

### OUR FOCUS

Mercury's Partnership pillar focus areas are Industry and Research, Iwi and Government (central and local) relationships. Our aspirational goal of making the Waikato the World's Best Catchment has continued to evolve, as we listen and learn from our partners in this area.

# A CLEARER CONNECTION TO THE WAIKATO.



The Waikato awa (river) runs from Lake Taupō to the sea. For nearly 100 years we have shared this catchment with others, some of whom have been here a lot longer than we have. We are proud of our long-term custodianship of the Waikato Hydro System and the contribution that it makes to Aotearoa New Zealand's renewable electricity. And we don't forget that communities were impacted and in some cases even displaced by these power stations.

Our thinking about water in the Waikato recognises the value that we can add here, building and maintaining partnerships within the catchment and taking current

collaborations to the next level. We have started to imagine what can be done together to remedy years of human impact, to improve the catchment in terms of its health and wellbeing, and look for more efficient water allocation and use.

We call this vision The World's Best Catchment, and we started to share our ideas with our partners. We were excited about the opportunities we saw, but this year has reminded us we need to understand how iwi and stakeholders in the catchment visualise success, in order to make a real difference for the awa and its communities.

"We need to stop thinking we have all the answers, and keep listening," says Gavin Williamson, Mercury's Catchment Sustainability Manager. "We always knew this was complicated. But we remain inspired to make the catchment the World's Best."

There's something about the Waikato that inspires. River iwi, some of whom see the awa as their tupuna (ancestor), and other groups and entities are all working hard individually to improve its health and wellbeing. By working collaboratively, we can do more and better.



# PARTNERSHIPS 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 ARE TRIALLING TECHNOLOGY THAT COULD BE A STEP-CHANGE IN WATER QUALITY MONITORING IN THE CATCHMENT.

This year, in partnership with the Whirinaki Community Group and supported by the Waikato Regional Council, we're picking up on early work by Te Arawa River Iwi Trust and Waikato River Authority. We are trialling technology that could be a step-change in water quality monitoring in the catchment. This pilot could lead to realtime monitoring at multiple sites, with the data feeding to websites and smartphones to 'daylight' what is happening with water quality in real time. These insights will enable better decision-making and targeting of restoration projects today, with the potential for hugely positive impacts in the future.

Eugene Berryman-Kamp is Tumū Whakarae (Chief Executive) of the Te Arawa River Iwi Trust, representing the interests of the three Te Arawa River Iwi: Ngāti Tahu-Ngāti Whāoa, Ngāti Kēaroa-Ngāti Tuarā, Tuhourangi-Ngāti Wāhiao.

The Trust's vision is to "support Te Arawa River Iwi collectively and individually to assert mana awa and improve the health and

wellbeing of the Waikato river, tributaries and environs".

They have been using sensor technology since 2017 to capture environmental data, and were quick to support this year's new technology trial.

One of the Trust's strategic goals is to involve and connect its people with the awa. Eugene explains: "River iwi in particular use the whakatauki (proverb) "ko au te awa, ko te awa ko au" ("I am the river, the river is me"), so if we're true to that whakatauki, we need to have that connection. For some of our people it's difficult to do this as they've moved away from the region, so remote water monitoring enables us to maintain that connection virtually. It also enables us to monitor the impact of activities on the river so that if detrimental things are happening we can find out about that quickly and in our own time. In that way we fulfil our kaitiaki role as active guardians of the awa, in our rohe (region)."



Evelyn Forrest (Chair TARIT & Trustee Ngāti Tahu-Ngāti Whāoa Runanga Trust) and Don Scarlet (Mercury)

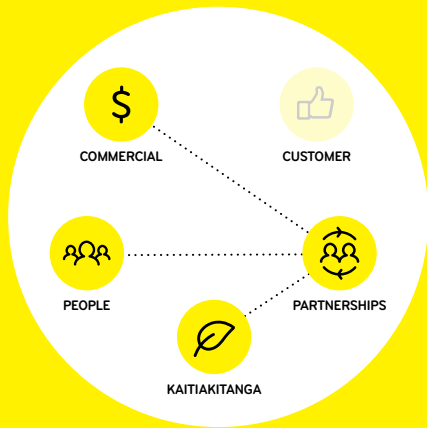
The trial site is at Ngakuru adjacent to the Whirinaki Stream, an area well known to Steve Carroll, a local farmer who is also Chair of the Whirinaki Working Group. This group of community members was set up three years ago to help make changes that will improve water quality in the Whirinaki Arm of Lake Ōhākuri.

"I've learned so much," says Steve. "I've been a dairy farmer in the area for 20 years and being involved in this group has enabled us all to learn that change can happen if we work together as a wider community. There has been approximately 30 hectares of land retired from livestock grazing in this area in the first two years."

Steve is looking forward to the information about water quality that the monitoring will provide to him and the members of the community.

"We're looking for sediment reduction," he explains. "Sediment carries most of the nutrients that end up in the lake."

## 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 **Operational Excellence**.
- **KAITIAKITANGA** – our partnerships take us towards being recognised as a leader in the ultra-long-term management of both physical **Assets and Natural Resources**.
- **PEOPLE** – **Capability & development** of our people is enhanced through work involving complex interconnections as well as cultural and historical considerations.

This monitoring will give us evidence that what we are trying to achieve is working. We need to see trends to show the rest of the community and land owners what can be achieved if we work together."

The technology, developed by Adroit, will enable the delivery of continuous data to aid timely decision making for operational management.

Ulrich Frerk, Technical Director and Founder of the New Zealand company, says "We create monitoring solutions that reduce environmental impact and improve operational efficiencies. Accurate data is a highly valuable tool that provides so many opportunities to create better environments."

"We recognise the knowledge that many people hold of the natural indicators and seasonal variations that can be used to judge the river's health," says Gavin. "Now we can add a new way to measure and manage water quality. If people can look on their phones and see how the quality of the water running past their place is changing, it's got to lead to better decision-making and more attention to what's going on in the river."

The trial will conclude later this year, and if successful, we will work with our partners to roll it out more widely. Funding is already committed from our river iwi partnerships for the next two sites.

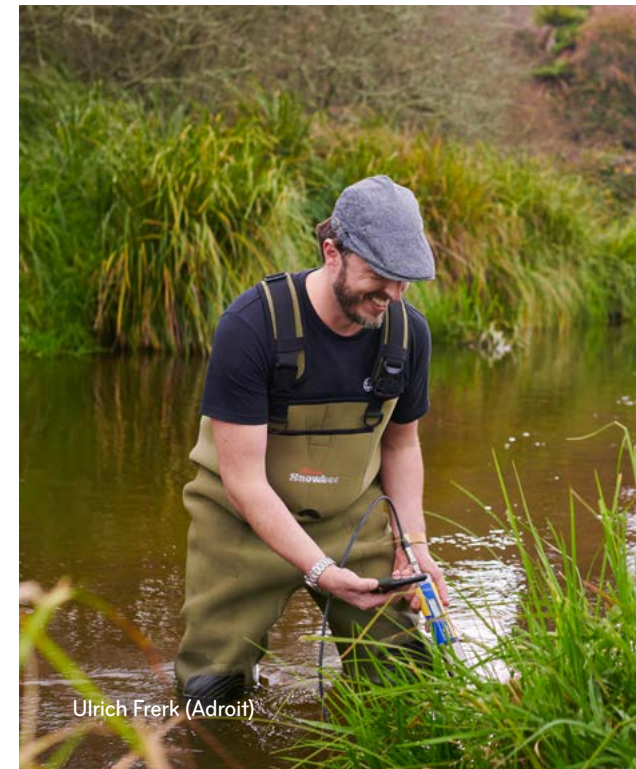
Realtime monitoring is one of the easier ideas to implement, although it's emerging technology and there are time and cost considerations. We have other ideas for the catchment that are more complicated, but we need to understand more what success looks like from others' perspectives, and whether they want to partner up to be part of further solutions.

Aotearoa New Zealand is placing a much higher value on the quality of water, evidenced by the Three Waters Reform of water supply, wastewater treatment and stormwater disposal services. The Three Waters

system will be important to our partners and stakeholders in the catchment, and is critical for the health and wellbeing of Aotearoa New Zealand. It will also benefit from realtime water quality monitoring and water accounting.

We must listen to others in the catchment to understand if our aspirations align. The past year's conversations have shown us that the real barrier to achieving success will be if we fail to work together. We must focus on what's best for the catchment, rather than each group fighting their own corner.

We believe that although this may require compromise in the short run, what's best for the catchment will ultimately be best for us all. We know that we're only at the start, and we will continue to work with our partners old and new, towards regional solutions for the water and the whole Waikato catchment.



Ulrich Frerk (Adroit)

## LOOKING FORWARD

We acknowledge the deep connections and knowledge of the catchment held by iwi and hapū, and their mana whenua status. The Government has indicated its intention to bring greater focus to iwi rights and interests, and while it is not for us to define what success looks like for our iwi partners in the Waikato, we have signalled our willingness to join and contribute to conversations in this area. Our focus remains on listening and building our understanding of what iwi want and need in this space.

We will continue to listen to our partners and work with them to refine our approach to the complex issues of water management, with a view to shared solutions.

It is a time of significant reform for water management frameworks and governance. At a national level the resource management system is being reshaped and Three Waters proposals are to create new entities to manage water supply, wastewater treatment and stormwater disposal services. Like electricity, water services are critical for the health and wellbeing of Aotearoa New Zealand.

At a regional and catchment level the Waikato River Authority is embarking on a review of Te Ture Whaimana o Te Awa o Waikato, the Vision and Strategy for the Waikato River, and Waikato Regional Council will be engaging on its freshwater plans in the following years to give effect to the National Policy Statement Freshwater Management.

We are motivated to engage with policy-makers as many key pieces of legislation and guiding documents are reviewed and changed.





Nick Wilson and Buddhika Rajapakse

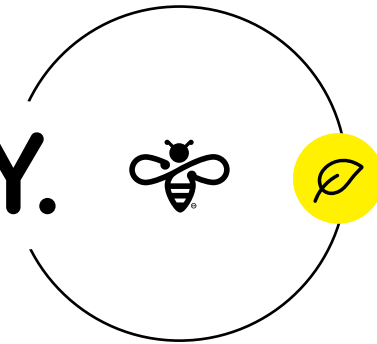


### 3. KAITIAKITANGA.

#### 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 how we are supporting a sustainable, inclusive and just transition to a low-carbon New Zealand. We're working to ensure we're thriving today by caring for our natural resources and shaping tomorrow by investing in renewable energy assets and taking collaborative action on the climate change challenges at hand.

## TAKING CARE OF TOMORROW, TODAY.



To limit global warming to 1.5°C, bold and urgent action needs to be taken across the world. Aotearoa New Zealand is one of the few countries to have committed through legislation to the goal of achieving net zero carbon emissions by 2050.

This year He Pou a Rangi the Climate Change Commission delivered its landmark advice Ināia tonu nei: a low emissions future for Aotearoa, which recognised the fundamental role renewable electricity will play in achieving New Zealand's decarbonisation ambitions.

This is reflected in Our Climate Change Strategy – which sets out our aspirations to be a leader in New Zealand's transition to a low-carbon future.

"We know we need to act with urgency, identifying and focussing on solutions that are going to take us towards our objectives as quickly as possible. This means taking not just a view on what's good for the company, but what's good for the country and our customers," says Nick Wilson, Mercury's Manager Regulatory and Government Affairs.

## KAITIAKITANGA SUMMARY.

### + PILLAR STORY FOCUS AREA

- Climate change
- Assets

### + OTHER FOCUS AREAS

- Natural resources

### + 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.

 **CLICK HERE to see Kaitiakitanga in action with the release of geckos back to their home ground at Turitea.**



### TRANSPORT ELECTRIFICATION

We have seen our long-term advocacy for e.transport gain traction this year – with the Commission identifying transport as the single biggest driver of emission reductions and the Government strengthening its policy in support of transport electrification.

Buddhika Rajapakse, Mercury's Manager Energy Futures, says looking to emerging technology and opportunities is central to Mercury's Energy Futures strategy.

"I've been developing a strategy for the different areas in which we want to play and participate – spaces that are not necessarily core to us today, but that we can grow into in the future. E.transport is a big part of it because it's key to New Zealand decarbonising," says Buddhika.

This year we encouraged more people to 'join the electric revolution' with our [Kiss Oil Goodbye](#) campaign and continued to focus on opening up access to e.transport with various initiatives like our EV subscription service, our EV fuel package and our partnership with Big Street Bikers.

"The subscription service is one of the things we're doing to lower barriers – subscribing means

very little cash down upfront. At the equivalent of 40c/l of petrol, our subscribers have also benefitted from the significant fuel cost savings that come with driving an EV," says Buddhika.

"Although the service is currently a pilot and focussed on individual users, a lot of the benefits we're trying to deliver could also be really relevant to business and government – that's an area we'll be looking to explore over the next year."

We welcome the Government's commitment to decarbonise their fleets and are actively engaging with them on opportunities to support their transition. Growing EV fleets now brings with it the benefit of more affordable second-hand EVs in the future.

"Looking forward, we're thinking about which other parts of the transport system we can support – public and heavy transport electrification, and out into the more distant future, aircraft and ships," says Buddhika.

As more of Aotearoa makes the switch to e.transport, the demand for renewable energy is set to increase. The sector is ready to meet that demand, with enough new renewable generation consented to 'fuel' the country's entire light transport fleet.

**“WE KNOW WE NEED TO ACT WITH URGENCY, IDENTIFYING AND FOCUSING ON SOLUTIONS THAT WILL TAKE US TOWARDS OUR OBJECTIVES AS QUICKLY AS POSSIBLE.”**

### RENEWABLE ENERGY INVESTMENT

We continue to invest in renewable energy assets, specifically new wind generation to complement our hydro and geothermal fleet. The first electricity was generated at what will be New Zealand's largest wind farm at Turitea in July 2021. We also have consent for a further 53 turbines at Puketoi.

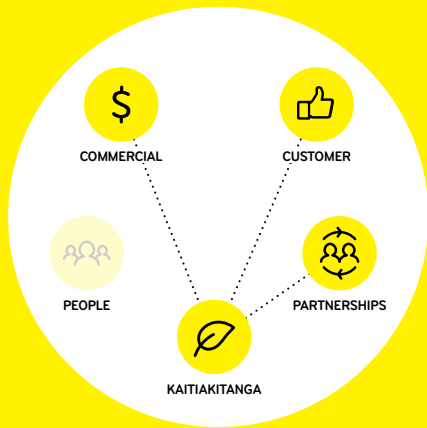
"We took the decision early on to develop Turitea. Despite flat demand, Mercury was confident to take a long-term view around generation investment due to cost reductions in wind, stable market settings and the urgent need to make progress on decarbonisation. The main way to support meaningful change is through our investments," says Nick.

"The market plays a critical role in signalling new investment and we're seeing that happening now, with more than \$1.5 billion under construction. Price signals are really important to direct the capital needed in new renewable generation over the next 30 years to meet our climate-change goals."

This year we added to our wind portfolio, with our acquisition of Tilt Renewables' New Zealand assets. The Tilt development pipeline will see us

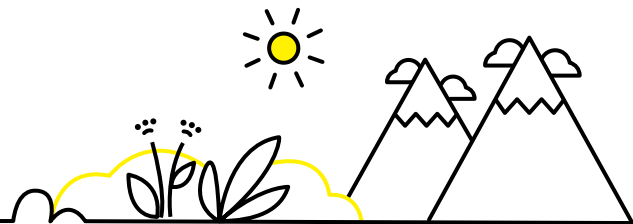


# CREATING VALUE THROUGH KAITIAKITANGA.



Our role supporting a sustainable, inclusive and just transition to a low-carbon New Zealand delivers shared value across other Mercury pillars. For example:

- **CUSTOMER** – our EV subscription service levels up our customer **Experience** and our **Brand** campaign encourages New Zealanders to ‘Kiss Oil Goodbye’.
- **PARTNERSHIPS** – we are actively collaborating with **Industry** and **Government** on policy to accelerate New Zealand’s transition to a low-carbon future.
- **COMMERCIAL** – we are leading decarbonisation through our **Sustainable Growth** and **Generation Development** investments in New Zealand’s largest windfarm and Tilt Renewables.



become one of the largest wind generators in the market and further support the country’s long-term decarbonisation goals.

## WORKING WITH INDUSTRY & GOVERNMENT

We see real opportunities for the energy sector to work collectively with the Government in the transition to a low-carbon future. In May, we worked with our peers to produce a letter outlining our collective commitment to the Commission’s advice, including the need for a national energy strategy.

“The Government committed to an energy strategy shortly after the industry letter. A key component of the strategy – given the current commitment to 100% renewable electricity – is ‘what does the pathway look like to achieve that objective?’ We need to make sure it’s green and affordable; and at the same time optimise reliability, to keep the lights on,” says Nick.

“The Government is considering how to make progress towards 100% renewable energy with the New Zealand Battery Project. Mercury is contributing to this process around options that will deliver emissions reductions and maintain balance in energy equity and security,” says Nick.

## OUR ROLE GOING FORWARD

As Aotearoa progresses towards a low-carbon future, there will be many more complex climate-related challenges and we will need to work collaboratively to affect meaningful change.

“We want to build on that. To say, ‘what is the role for the electricity sector in the decarbonisation journey?’ To think about the contribution that we can make, how the market needs to evolve to support that, and what sort of things Mercury can do as part of that journey,” says Nick.

“We also see opportunities to bring together stakeholders in the sector to help provide a collective view on the most material things to make the transition as quickly as possible – in a way that promotes an equitable, fair and inclusive transition. Those are the things that we’re most excited about looking forward.”

## UNDERSTANDING CLIMATE CHANGE RISKS

In FY21, we completed our first scenario analysis, consistent with our FY20 Climate Change Management Plan. The analysis – which looks at what may happen in the future – is a tool for understanding the implications of climate-related risks and opportunities for our business and long-term strategic thinking.

To complete the scenario analysis, a team from across Mercury compiled data and information on climate-related risks across the market, policy and legal, reputational and physical categories. The outcomes of the scenario analysis are detailed in our Task Force on Climate-related Financial Disclosures – [TCFD Report](#).

David Payne, Mercury’s Principal Hydrologist, was part of the team who looked at the physical risks to our generation assets.

Next year we will work to deepen our understanding of the implications of climate change on our hydro assets. As part of this, David and the Dam Safety Team are working to further incorporate climate change into dam safety risk modelling.

“Our dams are classified as high impact, which means they have to pass the Probable Maximum Flood (PMF), which is the theoretical biggest flood you can create from a storm. We’ve got a value for that right now and the flood rules that we have in existence are in place to deal with that,” says David.



David Payne

PMF informs our approach to dam safety – our dams are assessed, maintained and managed to remain safe even under extreme floods. Proposed dam safety guidelines set to come in later this year will require New Zealand hydro operators to incorporate climate change into their extreme event modelling – or be actively working towards it.

David is engaging with other organisations in New Zealand and across the world to find a solution. As this challenge affects the whole hydro sector, David sees value in working collaboratively to create a methodology to apply to dams across New Zealand.

Once a methodology is in place, our Dam Safety Team will incorporate climate change into our extreme event modelling to build up the picture of the risks we are facing and inform how we continue to ensure dam safety and protect our hydro assets into the future.

This is the third year we have reported on our climate-change disclosures in accordance with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). We are pleased to be providing more comprehensive information this year – please see our [TCFD Report](#) for more detail.





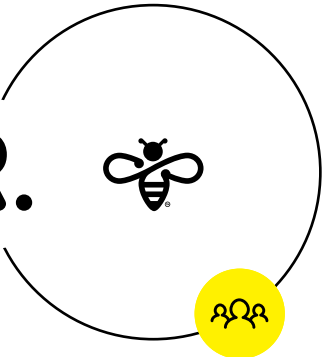
Sharon Carvalho,  
Janelle Tautaiolefua,  
James Scholz and  
Bill Chien

## 4. PEOPLE.

### OUR FOCUS

Mercury's People pillar focus areas are High Performance Teams, Capability and Development and Safety and Wellbeing. For Mercury to be successful into the future, our people need to be well-placed to adapt quickly to a very dynamic environment. Recognising this, 'Thrive' is an internal review of opportunities to enhance performance. It draws heavily on the insights and capabilities of our people, including Janelle Tautaiolefua, a switch analyst at Mercury.

# THRIVING TOGETHER.



Mercury's strengthened focus on continuous improvement through Thrive will embed and deliver on a culture of improvement. As the name suggests, Thrive aims to position us to thrive in a competitive and rapidly changing market.

We have signalled that we are looking for an improvement in EBITDAF of circa \$30 million in the FY22 year from Thrive, which we will achieve by focussing operational excellence on our performance, culture and processes.

Thrive's success so far is down to the insights shared by the more than 400 individuals across the business who gave their feedback

on building a stronger Mercury. This feedback shed a light on opportunities for more cross-team collaboration, smarter prioritisation and more efficient decision making.

To ensure diversity of participation in the Thrive programme, there was a focus on understanding and removing barriers, communicating in inclusive ways and embracing and celebrating broad capabilities, experiences and skills of individuals.

We are now in the process of transitioning from Thrive to Thriving, with about 70 initiatives across the business at various stages of delivery.

### 'XCELERATE'

One of these initiatives is 'Xcelerate', a two-day 'hack-a-thon' focussed on solving everyday process challenges. Of the 90 challenges submitted, ten were selected to be addressed through Xcelerate. Each challenge was assigned a cross-functional group tasked with ideating and testing a solution. This high-energy and collaborative approach harnessed the expertise and enthusiasm of our people and gave them the time, tools and mandate to build solutions from the ground up.

## PEOPLE SUMMARY.

### + PILLAR STORY FOCUS AREAS

- Capability & development

### + OTHER FOCUS AREAS

- High performance teams
- Safety & wellbeing

### + 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.

### STRATEGIC GOALS: LONG-TERM

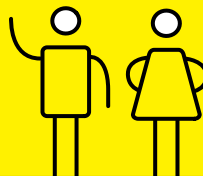
A Zero Harm organisation that has enabled our people to adapt to the changing nature of work to deliver the highest levels of performance and productivity.

### + KEY RISKS

- An incident occurring that causes a fatality or serious injury to our employees, a contractor, a customer or the public.
- Failing to develop, engage and retain our growing talent.
- Failing to recognise the importance of employee wellbeing for growing a thriving culture.



Janelle Tautaiiolefua



One of these people was Janelle Tautaiiolefua, part of Xcelerate's 'Existing Processes' team – formed to help our people access and follow existing processes more efficiently.

"We waste a lot of time trying to access the right information because there are so many possible places where something could be saved. It's time better spent elsewhere," says Janelle.

"I worked with a team of people I'd never worked with before – from generation, ICT and retail. I could connect with the process, but the rest was daunting. We all needed to learn very quickly."

This 'learning in action' is an approach to step outside the usual scope of roles, but also an important opportunity for individuals to

use their skills and experience in a different context.

"The High Performance Team framework at Mercury also played a major role. We uncovered the impact stronger personalities were having on the dynamics of the team and how this was stopping other views and ideas from surfacing. It wasn't until we all stepped back to allow space for other ideas to come through that we actually landed on our solution."

This solution was a chatbot (focussed on internal systems) called 'Piki'. This virtual personal assistant will help staff quickly find existing processes or procedures on Mercury's internal systems, leveraged from Mercury's external customer chatbot ('Hiko').

74%

OF PEOPLE AGREE THAT MERCURY HELPS THEM CONTRIBUTE TO THEIR OWN DEVELOPMENT (UP 4% FROM FY20).

89%

OF PEOPLE SAY THAT THEIR TEAM DELIVERS HIGH QUALITY RESULTS (UP 5% FROM FY20).

73%

OF PEOPLE SAY THEY ARE ENCOURAGED TO BE INNOVATIVE EVEN THOUGH SOME INITIATIVES MAY NOT SUCCEED (UP 2% FROM FY20).

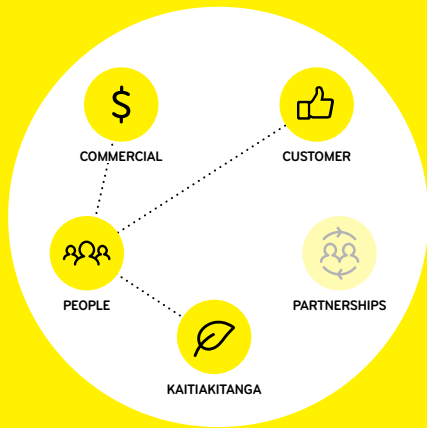
The 'Existing Process' team was one of three given the green light to progress towards implementation, building solutions at pace, with a 90-day delivery target.

"Piki will start supporting our customer-facing teams then grow into other parts of the business. Technology is moving so fast that the possibilities feel endless, and this is the first chapter of a much bigger story."

Xcelerate brought people together from across the business and is a powerful example of how Thrive will deliver enduring change at Mercury.

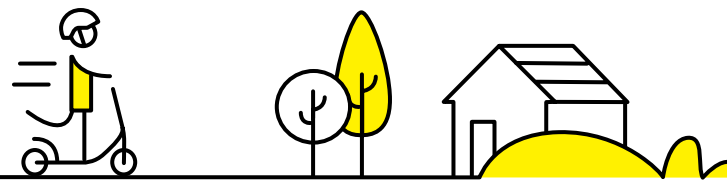
"I've had some challenges prioritising this against my current role and stepping into a tech-heavy project without a strong

# CREATING VALUE THROUGH OUR PEOPLE.



Thrive, and Janelle's experience of this programme, integrates thinking and delivers shared value across other Mercury pillars. For example:

- **COMMERCIAL** – By further embedding **Operational excellence** through Thrive, we aim to deliver circa \$30 million EBITDAF uplift in the FY22 year.
- **CUSTOMERS** – As part of Thrive we want to reimagine retail, to improve **Customer Experience** and strengthen our **Brand**.
- **KAITIAKITANGA** – As part of Thrive we want to deliver greater operational excellence across generation, to improve the viability of our hydro and geothermal **Assets**.



technological background, but I wouldn't change it for anything. I've got so much learning out of it, and I really think we've made a positive impact on the business."

## LOOKING FORWARD

FY22 will see the rubber hit the road for Thrive, as we continue to advance initiatives. It will be a significant year for delivery, and we will start to see more tangible and measurable outcomes directly attributable to us 'Thriving'.

As part of this significant shift to delivery, we will celebrate the successes and learn from the setbacks that will occur. Not everything will be delivered end-to-end within the timeframes set, the key will be how we respond to these setbacks.

We need to be resilient as an organisation. Our people need to have both the courage to stop initiatives where the outcomes do not justify the resources used; as well as the adaptability to change paths decisively in order to hit delivery.

We want our people to see 'Thriving' not as a series of initiatives but a constant mindset of 'I wonder how I can do that better'. We're not there yet – feedback from our people shows we are still in a learning phase. For now, the structure around Thrive will remain until we can get greater momentum on our journey towards a culture of continuous improvement.

Like Janelle, the productivity challenge is something we all need to learn from.

Speaking with people about Thrive surfaced the tensions between the 'day job' and Thrive initiatives. Thrive has shown that we need to re-think some of our ways of working to get the most out of our day. Our culture will need to continue to change for us to embrace continuous improvement every day.

Closely connected to this is [Our FY22-24 Strategic Framework](#), which is focussed on providing long-term direction to enable action (while also protecting our competitive advantage). Like Thrive, the new framework frames our thinking on how we review our resilience and future success. This framework will be used to help shift our mindset towards the purposeful prioritisation of work – facilitating autonomy and mastery by providing clear linkage to our purpose. The toolkit developed as part of Thrive will also continue to help us remain clear on scope, impact and priority of initiatives.

At its crux, Thrive will support our people to work smarter. By improving our effectiveness, we can achieve more sustainable growth, and thrive, in a changing future. Productivity has been identified as an ongoing challenge for New Zealand, and Mercury is not immune to this. But we are confident that Thrive will provide the support we need to shift the dial on this over the long-term.

Thrive is a critical plank for our future success, and we continue to measure and track progress of individual initiatives to maintain accountability.

“WE WANT OUR PEOPLE TO SEE 'THRIVING', NOT AS A SERIES OF INITIATIVES, BUT A CONSTANT MINDSET OF 'I WONDER HOW I CAN DO THAT BETTER'.

## OUR SKILLS PLEDGE

We remain supportive of the Aotearoa New Zealand Skills Pledge, established by the Prime Minister's Business Advisory Council in 2019. We aim to offer our people the opportunity to be trained and to learn new skills needed for the changing nature of work.

Our focus during FY21 has involved offering varied learning experiences. For example, Thrive Xcelerate two-day problem-solving event, introduction of a SkillShare platform, utilising our High Performance Team coaches, workshops, webinars and elearning. Topics include Culture, Innovation, Agile, Mental Health Awareness, Unconscious Bias, Resilience, Customer Experience, Cloud-based Platforms, Storytelling and Industry updates.

| TRAINING AREA          | TRAINING HOURS IN FY20 | TRAINING HOURS IN FY21 |
|------------------------|------------------------|------------------------|
| Capability development | 4,318                  | 7,358                  |
| Health & safety        | 6,919                  | 4,035*                 |
| Business compliance    | 1,196                  | 1,367                  |

\* the decrease in Health & safety training hours relates to natural fluctuations in training requirements year-to-year as a result of recertifications required every 2-3 years (course dependent).

Mercury embraces and celebrates the diversity of our people. Please see our information on [Inclusion & Diversity](#) for more detail.





Cate Miehe, Sam Moore, Garth Landers and Geoff Smits

\$

## 5. COMMERCIAL.

OUR FOCUS

Mercury's Commercial pillar focus areas are Operational Excellence, Generation Development and Sustainable Growth. Our continuing growth and development in wind generation was a key story this year.

# RE-SHAPING OUR GENERATION PORTFOLIO.



The purchase in August 2021 of five operating wind farms from Tilt Renewables Limited provides Mercury with fuel and plant diversity and adds over 1,100GWh to our annual generation production. The three Tararua wind farms (Manawatū) and the wind farms at Mahinerangi (Otago) and Waipipi (Taranaki) joined our Turitea wind farm (Manawatū), where first generation was achieved late July. This acquisition means that Mercury will become one of Aotearoa New Zealand's largest wind power companies. Samuel Moore, Mercury's Head of Mergers and Acquisitions (M&A) says, "We view M&A and generation development as tools to evolve our business and shape it to meet the

future needs of our company, our customers and New Zealand. What we have achieved in FY21 sets us up for a step-change in our generation production in FY22, with a material uplift in earnings and generation development potential in the future." We are advancing renewable energy generation through wind power as part of our strategy for growth and our mission of Energy Freedom. We've been looking to wind since 2004, recognising the strategic importance of adding this fuel to our renewable hydro and geothermal portfolio. Combining Tilt's operating and development assets with our own has turbo-charged that journey and positions us well to take advantage of the role

that renewable electricity must play in New Zealand's decarbonisation story. We're really excited to continue to build on what Tilt has created in Aotearoa and the staff are an important part of that. Our combined team will be second to none in this country. "We never intended that the 19.9% stake in Tilt acquired in 2018 would be the end of the story. It was our seat at the table and we knew from the start that there would be opportunities to convert that minority stake into something greater," Sam explains.

## PILLAR SUMMARY.

### + PILLAR STORY FOCUS AREA

- Generation development

### + OTHER FOCUS AREAS

- Operational excellence
- Sustainable growth

### + STRATEGIC GOALS: MID-TERM

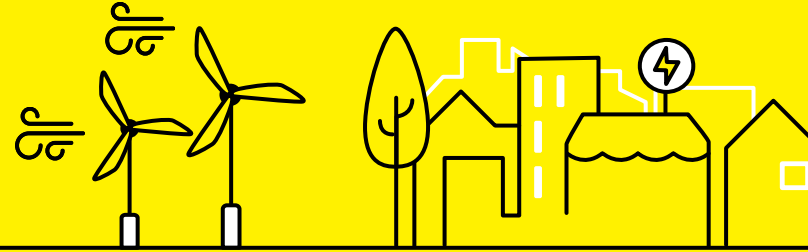
We deliver EBITDAF growth and maintain an appropriate average for stay-in-business CAPEX investment, while operating within agreed risk parameters.

#### STRATEGIC GOALS: LONG-TERM

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

### + KEY RISKS

- Failing to successfully execute on new growth opportunities or significant development projects.
- Failing to recognise and plan for the impact of Climate Change on long term financial sustainability.
- Plant failures and national fuel constraints impacting on short and medium term generation.



"Execution of this transaction does see us exit the Australian market for the time being, but we have not lost sight of the significant need for Australia to decarbonise further due to its reliance on coal generation. We are searching for future opportunities where we believe Mercury can bring something special to the table."

#### IMPACT ON OUR PORTFOLIO

Wind generation is a great complementary addition to our portfolio of geothermal and hydro generation. In our view, it is the best fit and most economic form of new generation available right now in Aotearoa. Our hydro system can respond well to compensate for fluctuations in wind output, and while wind generation may be variable hour to hour, on average it provides a reliable source of energy to support hydro storage.

"We're really excited about the addition of wind to our portfolio," says Phil Gibson, General Manager Portfolio. "Converting intermittent, renewable wind generation into supply that matches our customers' needs is hugely motivating. Balancing the energy trilemma to ensure affordable renewable electricity is delivered reliably to where it's needed is critical to successfully increasing the amount of renewables in the system."

This renewable electricity and the smarter and more efficient use of our portfolio will dial up the decarbonisation of the New Zealand

economy, displacing thermal fuel and enabling the conversion of energy used in transport and process heat to electricity.

"There are some great projects in our generation development portfolio that can be brought to market as demand for renewable electricity grows, and we're focussed on building a pipeline to support New Zealand's net carbon-zero obligations," says Phil. "We're also committed to ensuring that supply remains reliable as thermal generation is phased out, which may involve new technologies and innovation."

While the planning and work towards our Turitea and Puketoi sites date back more than a decade, our initial stake in Tilt Renewables was acquired in 2018, with the company's New Zealand assets acquired this year.

"It was a massive piece of work, being a very large and complex transaction in a relatively short space of time," says Sam.

"We were thinking about next steps for our Tilt investment when Infratil's announcement of its strategic review in December last year brought that to a head. It morphed into a process and required a quick response. Understanding we could not afford all of Tilt alone, the decision to participate in the process that followed required us to quickly (and quietly) find a partner for Tilt's Australian assets who we could work with to put together a compelling proposition.

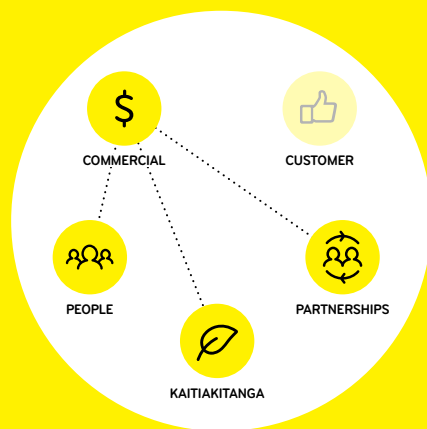


### + ACQUISITION TIMELINE

- MAY 2018** • Acquired initial stake for \$2.30 per share (\$144 million), with option to acquire a further 6.8%
- AUG 2018** • Joint takeover offer taking Infratil shareholding to >65% (inclusive of exercise of option) resulted in Infratil acquiring the remainder of the TECT shares
- FEB 2019** • Additional investment of \$55 million through Dundonnell capital raising (\$1.75 per share)
- JUL 2019** • Mercury CE appointed to Tilt Board
- JUL 2020** • Receipt of \$55 million via capital distribution due to sale of Snowtown II wind farm
- MAR 2021** • Entered into binding agreement with PowAR to acquire Tilt for NZ\$7.80 per share. Mercury to subsequently acquire NZ operations if scheme successful (\$770 million gross). Mercury's 19.9% share holding in Tilt valued at \$586.5 million
- APR 2021** • Scheme Implementation Agreement amended to NZ\$8.10 per share, and agreement strengthened
- AUG 2021** • Transaction complete, Tilt Renewables' New Zealand assets and team move to Mercury



## CREATING VALUE THROUGH COMMERCIAL.



Our wind generation strategy integrates thinking and delivers shared value across other Mercury pillars. For example:

- **PEOPLE** – this large project benefited from **Capability & Development** embraced by team members.
- **PARTNERSHIPS** – relationships with others working in our **Industry** including Tilt Renewables (and its team) and the PowAR team and advisers who worked on the transaction were key.
- **KAITIAKITANGA** – the significant addition of wind generation supports more efficient output from our hydro generation. This together with the pipeline of future wind developments will enable increased decarbonisation of New Zealand's electricity generation.

## “THIS ACQUISITION MEANS THAT MERCURY WILL BECOME ONE OF AOTEAROA NEW ZEALAND'S LARGEST WIND POWER COMPANIES.

After a quick process, we selected Powering Australian Renewables (PowAR), and the rest is history.

“Our proposal was for Tilt to be split into two (New Zealand assets and Australian assets) whereas our understanding was other bidders in the process would be bidding for the whole company – meaning there was a level of complexity attached to our transaction that others didn't face.

“Remarkably, because of COVID-19 travel restrictions, we still have not met anyone from PowAR in person. Normally on a transaction of this size we would be locked in rooms together for weeks, but all the due diligence and the transaction itself was done on the phone and by videoconference, with the people spread out and mostly working from home (and at one point, a campground in the Coromandel).”

The transaction was further complicated in April when, some weeks after we had inked the deal, a counter-bidder took advantage of the ability to lodge what is known as a superior proposal (better price or terms) for consideration by the Tilt board. That required a quick response from PowAR and Mercury – and saw us increase the overall price by 30c per share in return for amendments which provided much greater certainty that our Scheme would prevail.



Geoff Smits, Cate Mieke, Garth Landers, and Sam Moore

“Mercury has found itself on the sell side of transactions recently, including our interest in Hudson Ranch geothermal station in the US (2020), and Metrix (2018), so it's nice to be on the buy side and building for the future,” says Sam. “We were very well supported, with a large cast of financial and legal advisers. My job is coralling all the troops and that's the sort of stuff I love doing.”

We now have strong options for new wind generation development, including Puketoi east of Turitea, Kaiwaikawe north-east of Dargaville and several others. Our opportunities have grown, along with the parts of the country where we are now potentially part of the landscape and the community. We are looking forward to integrating Tilt's operating assets into Mercury, welcoming their team onboard and working to develop and execute on the right strategy given the much more extensive portfolio of development opportunities we now have available to us.





# ENERGY FREEDOM IN NUMBERS.

This section explains how our integrated thinking, our decisions and our actions play out in financial results. We provide commentary on our financial performance for the year to the end of June 2021 compared with prior years, as well as our auditor's report and our financial statements. As in 2020, our segment reporting has been set out so that you can more clearly see the financial dynamics of our generation operations as distinct from our retail energy sales operations. We also feature our approach to assessing and managing climate change risk with our Task Force on Climate-related Financial Disclosures - TCFD Report.



# FINANCIAL COMMENTARY.

Mercury's FY21 financial performance of \$463 million EBITDAF was \$27 million lower than the prior year of \$490 million EBITDAF. Results were negatively impacted by sustained dry conditions throughout the Taupō/Waikato catchment. This ultimately resulted in very low Taupō lake levels over the fourth quarter at the same time spot and wholesale prices reached record highs. An unplanned outage of our Kawerau geothermal station early in June 2021 (returned to service on 20 July 2021) also negatively impacted our financial performance.

Mercury's hydro generation was down approximately 440GWh compared to the group's long-term average of 4,050GWh. While Lake Taupō started this calendar year nearly full, a very dry second half of FY21 saw the Lake Taupō level bottom out by early June 2021 at just 9% of the full resource consent operating range, severely restricting flexibility to use storage to supplement our hydro generation. The Taupō lake level finished the financial year almost 140GWh below its long-term average which will likely adversely impact hydro generation in FY22. The unplanned outage at our Kawerau geothermal station in June resulted in the loss of 55GWh of generation for the month from the station at a time spot prices were approximately \$240/MWh. Electricity hedging undertaken in the second half of the year came at a high cost as wholesale hedge prices reflected the tight supply conditions.

Average spot prices for the year were materially higher than FY20 up \$78/MWh in Auckland to \$184/MWh. In the final quarter of FY21, spot prices averaged \$277/MWh, up \$162/MWh on the same quarter in FY20. High spot prices were the result of drier hydro conditions nationally and significantly higher thermal fuel costs driven by gas supply restrictions from New Zealand's gas fields, elevated coal usage at the Huntly power station and higher Emissions Trading Scheme costs.

In regard to our sales business, we saw lifts in customer yields in all customer segments. Yields in the commercial and industrial segment (physical and financial) increased by \$6/MWh or 7.1% over the period, with average mass market yields increasing \$9/MWh or 6.8%. Market share has continued to decline with ICP numbers falling by 20,000 as customer losses exceeded customer acquisitions driven by aggressive competition from some retailers (including some independents) and bundled product offerings. Total electricity sold to customers (physical

and financial) lifted almost 400GWh to 6,081GWh as sales to commercial/industrial customers grew strongly up 635GWh as Mercury saw longer term value in these medium-term contracts.

Mercury has continued its disciplined and focussed approach to operating costs, with its operating base held broadly flat for an eighth successive year (recognising the accounting treatment impacts for Software-as-a-Service costs). Our continuous improvement programme 'Thrive' is forecast to deliver an overall \$30 million EBITDAF uplift in FY22, of which one third will be from reduced operating expenditures.

Tilt Renewables Limited undertook a capital return in July 2020 for proceeds from its sale of the Snowtown II wind farm in the previous year, with Mercury receiving \$55 million. In August 2021, the scheme of arrangement between Mercury and Powering Australian Renewables (PowAR) to acquire Tilt Renewables Limited was concluded. Mercury has acquired all of Tilt's New Zealand operations, including development options, for an enterprise valuation of approximately NZ\$797 million. This acquisition was funded from the sale of Mercury's 19.9% Tilt shareholding, worth NZ\$608 million and net debt of NZ\$189 million. As a result, the gain on the sale and the recognition of the new assets will occur in FY22 (see [Note 19](#) in the Financial Statements).

We sold our investment in Hudson Ranch 1, a geothermal power station in California, for a gain of \$41 million recognised in FY21, while retaining our interest in the lithium from geothermal brine programme. We acquired a 48.46% interest in NOW, a Hawkes Bay based Internet Service Provider for \$11 million.

The northern section of the Turitea wind farm started generating in July 2021, with commissioning expected to be complete in the last quarter of 2021. Contractor delivery delays across design and construction continue to delay the southern section of the wind farm, with commissioning not forecast until mid 2023.

In June 2021, we announced a binding agreement to acquire Trustpower's mass market retail business for \$441 million. The transaction remains subject to several conditions including Commerce Commission approval and the Tauranga Energy Consumer Trust process.

## ENERGY MARGIN

Energy margin of \$616 million was down \$36 million from the previous year on the back of a continuation of the prolonged dry inflows.

## OTHER INCOME

Other net income of \$37 million was broadly in line with the prior year and includes equity accounted income from the group's investments in associates and joint ventures (Tilt Renewables Limited, TPC Holdings Limited and Energy Source LLC).

## OPERATING COSTS

Operating costs represent the company's indirect costs of sales, including salaries and wages, maintenance costs and all other overheads.

In line with the International Accounting Standards Board's (IASB) interpretation guidance, Mercury has changed the way it accounts for Software-as-a-Service (SaaS) (see [Note 1](#) in the Financial Statements). This resulted in \$6 million of expenditure being reclassified as OPEX in the current year and \$4 million in the prior year. After normalising for this and other IFRS changes, as well as the sale of Metirx, the Group held its operating costs broadly flat for an eighth year in a row. This continues to evidence the Group's disciplined and focussed approach to its core activities.

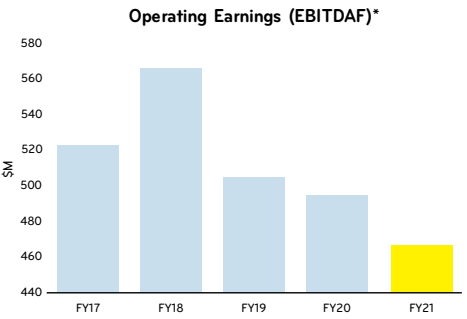
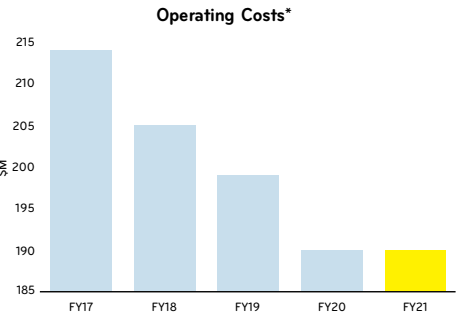
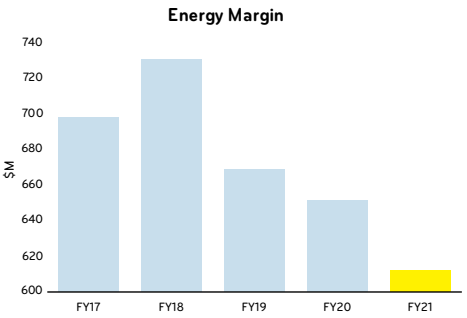
## OPERATING EARNINGS (EBITDAF)

The company's EBITDAF of \$463 million fell \$27 million from the previous year as previously explained.

**\$463M**  
OPERATING  
EARNINGS  
(EBITDAF)

**13TH**  
CONSECUTIVE  
YEAR OF ORDINARY  
DIVIDEND GROWTH

**17.0cPS**  
FULL YEAR  
ORDINARY  
DIVIDEND

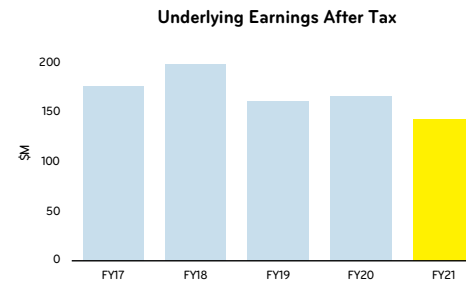
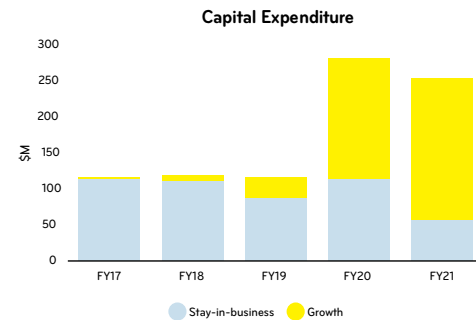
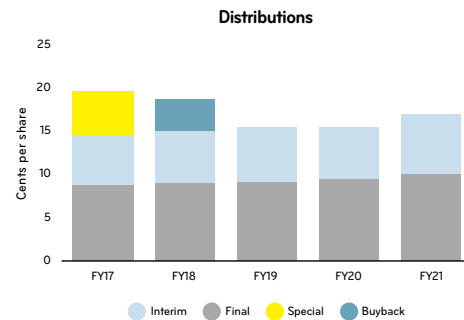


\*See Financial Track Record notes 1, 2 & 3

## PROFIT FOR THE YEAR

The company's net profit after tax of \$141 million, was down from the previous year's \$209 million due to lower EBITDAF, combined with unfavourable fair value movements in financial instruments, mostly interest related and a \$15 million loss on disposal of the damaged assets at the company's Kawerau geothermal station. These in turn were partially mitigated with the gain on sale of the company's US geothermal power station Hudson Ranch of \$41 million.

**\$141M**  
PROFIT FOR  
THE YEAR



## CAPITAL STRUCTURE & DIVIDENDS

Net debt (excluding the fair value of leases) rose to \$1,329 million as at 30 June 2021, with the ongoing capital expenditure in relation to the building of Turitea, with \$335 million spent to date on the project. Mercury issued in total \$550 million of retail and wholesale green bonds in FY21. The company's gearing level of 2.5 times debt/EBITDAF is up on the previous year due to the reduction in EBITDAF combined with higher borrowings. The gearing ratio however remains in the middle of Mercury's target range of 2.0x to 3.0x debt/EBITDAF supporting our S&P credit rating of BBB+.

At year end, Mercury held 39 million shares as treasury stock, has available debt headroom of \$500 million and held cash and cash equivalents of \$163 million. This continues to provide balance sheet flexibility for growth over and above current commitments in relation to the development of the company's Turitea wind farm, the purchase of Tilt's New Zealand assets and the purchase of Trustpower's retail business (which is fully backed by a commitment for a further bank facility).

A fully imputed ordinary dividend of 10.2 cents per share (cps) final dividend has been declared. This brings the full-year ordinary dividend to 17.0 cps, up from 15.8 cps, or 7.6%, marking our thirteenth 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 decreased by \$21 million for the year, reflecting the impact of lower hydrology and elevated spot prices.

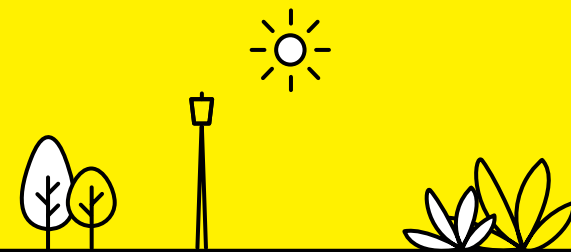
**\$145M**  
UNDERLYING EARNINGS  
AFTER TAX

## BALANCE SHEET

Total assets of the company increased by \$1,101 million, primarily due to a \$938 million upward revaluation of Mercury's generation assets, due to a lower cost of capital, and a further \$151 million invested during the year in the company's Turitea wind farm.

The company invested \$250 million in capital expenditure (CAPEX) during the year, comprising \$56 million of stay-in-business (SIB) CAPEX and \$194 million of growth CAPEX, the majority of which was in relation to Turitea. \$20 million was incurred to complete an upgrade at our Rotokawa geothermal plant, which will increase output across both stations on the Rotokawa field by 5MW from FY22. An additional \$17m was invested during the year into NOW New Zealand Limited and EnergySource Minerals LLC.

**\$56M**  
OF STAY-IN-  
BUSINESS CAPEX





# FINANCIAL TRACK RECORD.

## FINANCIAL PERFORMANCE TRENDS

| For the year ended 30 June (\$ million) | 2021  | 2020 <sup>1</sup> | 2019 <sup>2</sup> | 2018 <sup>2</sup> | 2017 <sup>2&amp;3</sup> |
|---|-------|-------------------|-------------------|-------------------|-------------------------|
| <b>Income statement</b>                 |       |                   |                   |                   |                         |
| Energy margin                           | 616   | 652               | 667               | 730               | 698                     |
| EBITDAF                                 | 463   | 490               | 506               | 566               | 523                     |
| Net profit for the year                 | 141   | 209               | 357               | 234               | 184                     |
| <b>Balance sheet</b>                    |       |                   |                   |                   |                         |
| Total shareholders' equity              | 4,186 | 3,733             | 3,537             | 3,305             | 3,308                   |
| Total assets                            | 7,978 | 6,877             | 6,484             | 6,106             | 5,997                   |
| Total liabilities                       | 3,792 | 3,144             | 2,947             | 2,801             | 2,689                   |
| <b>Cash flow</b>                        |       |                   |                   |                   |                         |
| Operating cash flow                     | 338   | 352               | 361               | 370               | 380                     |
| Investing cash flow                     | (296) | (194)             | 63                | (254)             | (98)                    |
| Financing cash flow                     | 42    | (173)             | (335)             | (141)             | (298)                   |
| <b>Capital expenditure</b>              |       |                   |                   |                   |                         |
| Total capital expenditure               | 250   | 275               | 115               | 118               | 116                     |
| Growth capital expenditure              | 194   | 165               | 26                | 6                 | 2                       |
| Stay-in-business capital expenditure    | 56    | 110               | 89                | 112               | 114                     |
| <b>Other financial measures</b>         |       |                   |                   |                   |                         |
| Underlying earnings after tax           | 145   | 166               | 161               | 198               | 176                     |
| Free cash flow                          | 282   | 242               | 272               | 258               | 266                     |
| Ordinary and special declared dividends | 231   | 215               | 211               | 207               | 270                     |
| Ordinary dividends per share (cents)    | 17.0  | 15.8              | 15.5              | 15.1              | 14.6                    |
| Basic and diluted earnings per share    | 10.36 | 15.36             | 26.23             | 17.00             | 13.37                   |
| Net debt                                | 1,329 | 1,149             | 1,096             | 1,264             | 1,038                   |
| Gearing (net debt/net debt + equity, %) | 24.1  | 23.5              | 23.7              | 27.7              | 23.9                    |
| Debt/EBITDAF (x) <sup>4</sup>           | 2.5   | 2.0               | 1.9               | 1.9               | 1.8                     |

| For the year ended 30 June (\$ million)                     | 2021  | 2020 <sup>1</sup> | 2019 <sup>2</sup> | 2018 <sup>2</sup> | 2017 <sup>2&amp;3</sup> |
|---|-------|-------------------|-------------------|-------------------|-------------------------|
| <b>Operational measures</b>                                 |       |                   |                   |                   |                         |
| Total recordable injury frequency rate (TRIFR) <sup>5</sup> | 0.64  | 1.26              | 0.72              | 0.87              | 1.05                    |
| Sales to customers (FPV, GWh)                               | 4,522 | 4,361             | 4,500             | 4,477             | 4,606                   |
| Electricity customers ('000)                                | 328   | 348               | 373               | 388               | 392                     |
| Electricity generation (GWh)                                | 6,205 | 6,331             | 6,703             | 7,511             | 7,310                   |

1. Restated for change in accounting policy in relation to configuration and customisation costs incurred in implementing SaaS arrangements.
2. Financial results for the period 30 June 2017, 2018 and 2019 include Metrix which the Group sold on 1 March 2019.
3. Financial results for the period ended 30 June 2017 have not been restated for new IFRS standards.
4. Adjusted for S&P treatment of subordinated debt issued in FY2015.
5. 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 2021

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 41 to 63 of the Annual Report, that comprise the consolidated balance sheet as at 30 June 2021, 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 2021, 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.

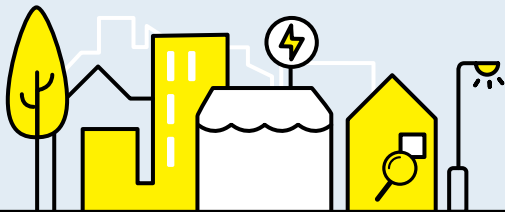
In addition to the audit, we have carried out assignments including a review of the Group's consolidated financial statements for the six months ended 31 December 2020, agreed upon procedures and limited assurance engagements, provision of remuneration market survey data and tax related services in the 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  |
|---|---|
| <p>Generation assets were revalued to \$6,362 million at 30 June 2021 as set out in note 7 of the consolidated financial statements. These are significant because the generation assets represent approximately 80% of the Group's total assets.</p> <p>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.</p> <p>The wholesale electricity price path and discount rate assumptions are estimated by the Group's independent valuation specialist. Forecast generation volumes are determined by the Group's independent valuation specialist based on the Group's own forecast average generation volumes.</p> <p>We consider the valuation of generation assets to be a Key Audit Matter given the significance of the assets to the Group and the fact that the inputs to the valuation models are inherently subjective.</p> | <p>In obtaining sufficient appropriate audit evidence we:</p> <ul style="list-style-type: none"><li>• 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;</li><li>• compared forecast generation volumes to historical generation volumes;</li><li>• involved our own valuation specialists to:<ul style="list-style-type: none"><li>• consider the process used to determine the wholesale electricity price path estimated by the Group's external valuation specialist; and</li><li>• assess the appropriateness of the discount rate.</li></ul></li><li>• assessed the professional competence and objectivity of the Group's external valuation specialist;</li><li>• assessed whether the valuation adjustments were made in accordance with the Group's accounting policy; and</li><li>• assessed the adequacy of the related financial statement disclosures in note 7.</li></ul> |

VALUATION OF LEVEL 3 DERIVATIVE FINANCIAL INSTRUMENTS

| Why significant  | How our audit addressed the key audit matter  |
|--|---|
| <p>The Group's activities expose it to certain risks which are managed using derivative financial instruments. At 30 June 2021, the fair value of derivative assets total \$194 million and derivative liabilities total \$530 million as set out in note 14 of the consolidated financial statements.</p> <p>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. Derivatives for which the valuation inputs are not readily observable are referred to as 'Level 3' derivatives as disclosed in note 13 of the consolidated financial statements.</p> <p>We consider the valuation of Level 3 derivatives to be a Key Audit Matter as the inputs to the valuation models are inherently subjective.</p> | <p>In obtaining sufficient appropriate audit evidence we:</p> <ul style="list-style-type: none"><li>• involved our valuation specialists to assess the models used to estimate the fair value of the Level 3 derivatives on a sample basis. Our valuation specialists:<ul style="list-style-type: none"><li>• evaluated the appropriateness of the valuation methodologies; and</li><li>• assessed the Group's estimated wholesale electricity price path by comparing it to other price path estimates obtained in performing the Generation Asset valuation procedures detailed above.</li></ul></li><li>• together with our internal valuation specialists, challenged key assumptions and inputs;</li><li>• agreed key contract terms, including contract start and maturity dates and electricity strike prices, to the relevant contract on a sample basis;</li><li>• assessed the adequacy of the related financial statement disclosures as described in notes 13 and 14.</li></ul> |



## INFORMATION OTHER THAN IN THE FINANCIAL STATEMENTS & 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 our 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; and
- 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  
17 AUGUST 2021



# FINANCIAL STATEMENTS.

## CONSOLIDATED INCOME STATEMENT.

For the year ended 30 June 2021

|   | Note | 2021 \$M     | Restated<br>2020 \$M |
|---|------|--------------|----------------------|
| Total revenue   | 2    | 2,045        | 1,768                |
| Total expenses  | 2    | (1,582)      | (1,278)              |
| <b>EBITDAF<sup>1</sup></b>                                      |      | <b>463</b>   | <b>490</b>           |
| Depreciation and amortisation                                   | 7, 8 | (221)        | (207)                |
| Change in the fair value of financial instruments               | 14   | (47)         | 22                   |
| Gain/(loss) on disposal   | 2    | 23           | -                    |
| Net interest expense  | 2    | (45)         | (54)                 |
| <b>Profit before tax</b>  |      | <b>173</b>   | <b>251</b>           |
| Tax expense   | 5    | (32)         | (42)                 |
| <b>Profit for the year attributable to owners of the parent</b> |      | <b>141</b>   | <b>209</b>           |
| <b>Basic and diluted earnings per share (cents)</b>             |      | <b>10.36</b> | <b>15.36</b>         |

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

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

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME.

For the year ended 30 June 2021

|   | Note | 2021 \$M   | Restated<br>2020 \$M |
|---|------|------------|----------------------|
| Profit for the year   |      | 141        | 209                  |
| <b>Other comprehensive income</b>   |      |            |                      |
| <b>Items that will not be reclassified subsequently to profit or loss</b>           |      |            |                      |
| Movement in asset revaluation reserve   |      | 924        | 285                  |
| Movement in cash flow hedge reserve transferred to balance sheet                    | 14   | (15)       | 6                    |
| Share of movements in associates' and joint ventures' reserves                      | 9    | 28         | 8                    |
| Tax effect  |      | (259)      | (91)                 |
| <b>Items that may be reclassified subsequently to profit or loss</b>                |      |            |                      |
| Movement in cash flow hedge reserve   | 14   | (208)      | 1                    |
| Tax effect  |      | 63         | -                    |
| <b>Other comprehensive income for the year, net of taxation</b>                     |      | <b>533</b> | <b>209</b>           |
| <b>Total comprehensive income for the year attributable to owners of the parent</b> |      | <b>674</b> | <b>418</b>           |

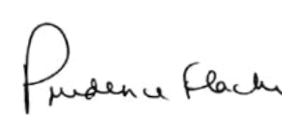
## CONSOLIDATED BALANCE SHEET.

As at 30 June 2021

|   | Note | 2021 \$M     | Restated<br>2020 \$M |
|---|------|--------------|----------------------|
| <b>SHAREHOLDERS' EQUITY</b>                                 |      |              |                      |
| Issued capital  |      | 378          | 378                  |
| Treasury shares   | 4    | (100)        | (101)                |
| Reserves  |      | 3,908        | 3,456                |
| <b>Total shareholders' equity</b>                           |      | <b>4,186</b> | <b>3,733</b>         |
| <b>ASSETS</b>   |      |              |                      |
| <b>Current assets</b>                                       |      |              |                      |
| Cash and cash equivalents                                   |      | 163          | 79                   |
| Receivables   | 10   | 318          | 244                  |
| Contract assets   | 10   | 2            | 2                    |
| Inventories   | 6    | 24           | 22                   |
| Derivative financial instruments                            | 14   | 120          | 126                  |
| Investment in associate held for sale                       | 9    | 248          | -                    |
| <b>Total current assets</b>                                 |      | <b>875</b>   | <b>473</b>           |
| <b>Non-current assets</b>                                   |      |              |                      |
| Property, plant and equipment                               | 7    | 6,828        | 5,898                |
| Intangible assets   | 8    | 107          | 70                   |
| Investment in and advances to associates and joint ventures | 9    | 86           | 328                  |
| Advances to joint operations                                | 9    | 5            | 6                    |
| Receivables   | 10   | 3            | 6                    |
| Derivative financial instruments                            | 14   | 74           | 96                   |
| <b>Total non-current assets</b>                             |      | <b>7,103</b> | <b>6,404</b>         |
| <b>Total assets</b>   |      | <b>7,978</b> | <b>6,877</b>         |

|                                      | Note | 2021 \$M     | Restated<br>2020 \$M |
|--------------------------------------|------|--------------|----------------------|
| <b>LIABILITIES</b>                   |      |              |                      |
| <b>Current liabilities</b>           |      |              |                      |
| Payables and accruals                | 10   | 318          | 280                  |
| Borrowings                           | 12   | 471          | 446                  |
| Derivative financial instruments     | 14   | 267          | 116                  |
| Taxation payable                     | 5    | 1            | 33                   |
| <b>Total current liabilities</b>     |      | <b>1,057</b> | <b>875</b>           |
| <b>Non-current liabilities</b>       |      |              |                      |
| Payables and accruals                | 10   | 3            | 12                   |
| Provisions                           | 11   | 86           | 74                   |
| Derivative financial instruments     | 14   | 263          | 138                  |
| Borrowings                           | 12   | 1,020        | 845                  |
| Deferred tax                         | 5    | 1,363        | 1,200                |
| <b>Total non-current liabilities</b> |      | <b>2,735</b> | <b>2,269</b>         |
| <b>Total liabilities</b>             |      | <b>3,792</b> | <b>3,144</b>         |
| <b>Net assets</b>                    |      | <b>4,186</b> | <b>3,733</b>         |

For and on behalf of the Board of Directors who authorised the issue of the Financial Statements on 17 August 2021.



**PRUE FLACKS // CHAIR**

17 August 2021



**KEITH SMITH // DIRECTOR**

17 August 2021

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



## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY.

For the year ended 30 June 2021

|   | Issued<br>capital<br>\$M | Retained<br>earnings<br>\$M | Asset<br>revaluation<br>reserve<br>\$M | Cash flow<br>hedge<br>reserve<br>\$M | Other<br>reserves<br>\$M | Total<br>equity<br>\$M |
|---|--------------------------|-----------------------------|--|--------------------------------------|--------------------------|------------------------|
| <b>RESTATED BALANCE AS AT 1 JULY 2019</b>                         | 378                      | 292                         | 3,077                                  | (118)                                | (100)                    | 3,529                  |
| Movement in asset revaluation reserve,<br>net of taxation         | –                        | –                           | 205                                    | –                                    | –                        | 205                    |
| Movement in cash flow hedge reserve,<br>net of taxation           | –                        | –                           | –                                      | (4)                                  | –                        | (4)                    |
| Share of movements in associates' and joint<br>ventures' reserves | –                        | (1)                         | (1)                                    | –                                    | 10                       | 8                      |
| <b>Other comprehensive income</b>                                 | –                        | (1)                         | 204                                    | (4)                                  | 10                       | 209                    |
| Net profit for the year   | –                        | 209                         | –                                      | –                                    | –                        | 209                    |
| <b>Total comprehensive income for the year</b>                    | –                        | 208                         | 204                                    | (4)                                  | 10                       | 418                    |
| Dividend  | –                        | (214)                       | –                                      | –                                    | –                        | (214)                  |
| <b>Restated balance as at 30 June 2020</b>                        | 378                      | 286                         | 3,281                                  | (122)                                | (90)                     | 3,733                  |
| <b>BALANCE AS AT 1 JULY 2020</b>                                  | 378                      | 286                         | 3,281                                  | (122)                                | (90)                     | 3,733                  |
| Movement in asset revaluation reserve,<br>net of taxation         | –                        | 8                           | 658                                    | –                                    | –                        | 666                    |
| Movement in cash flow hedge reserve,<br>net of taxation           | –                        | –                           | –                                      | (161)                                | –                        | (161)                  |
| Share of movements in associates' and joint<br>ventures' reserves | –                        | –                           | 20                                     | 15                                   | (7)                      | 28                     |
| <b>Other comprehensive income</b>                                 | –                        | 8                           | 678                                    | (146)                                | (7)                      | 533                    |
| Net profit for the year   | –                        | 141                         | –                                      | –                                    | –                        | 141                    |
| <b>Total comprehensive income for the year</b>                    | –                        | 149                         | 678                                    | (146)                                | (7)                      | 674                    |
| Dividend  | –                        | (221)                       | –                                      | –                                    | –                        | (221)                  |
| <b>Balance as at 30 June 2021</b>                                 | 378                      | 214                         | 3,959                                  | (268)                                | (97)                     | 4,186                  |

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

## CONSOLIDATED CASH FLOW STATEMENT.

For the year ended 30 June 2021

|  | 2021 \$M | Restated<br>2020 \$M |
|--|----------|----------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                                      |          |                      |
| Receipts from customers  | 1,952    | 1,697                |
| Payments to suppliers and employees  | (1,468)  | (1,209)              |
| Interest received  | 1        | 1                    |
| Interest paid  | (51)     | (60)                 |
| Taxes paid   | (96)     | (77)                 |
| <b>Net cash provided by operating activities</b>                                 | 338      | 352                  |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                                      |          |                      |
| Acquisition of property, plant and equipment                                     | (254)    | (195)                |
| Acquisition of intangibles   | (54)     | (24)                 |
| Acquisition of investment  | (20)     | –                    |
| Distributions received from and advances repaid to associates and joint ventures | 61       | 4                    |
| Proceeds from the sale of Hudson Ranch   | 41       | –                    |
| (Lodgements)/return of prudential deposits                                       | (70)     | 21                   |
| <b>Net cash used in investing activities</b>                                     | (296)    | (194)                |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                                      |          |                      |
| Proceeds from loans  | 546      | 375                  |
| Repayment of loans   | (278)    | (330)                |
| Principal repayment of lease liabilities   | (5)      | (4)                  |
| Dividends paid   | (221)    | (214)                |
| <b>Net cash received/(used) in financing activities</b>                          | 42       | (173)                |
| Net increase/(decrease) in cash and cash equivalents held                        | 84       | (15)                 |
| Cash and cash equivalents at the beginning of the period                         | 79       | 94                   |
| <b>Cash and cash equivalents at the end of the period</b>                        | 163      | 79                   |
| <i>Cash balance comprises:</i>   |          |                      |
| <b>Cash balance at the end of the period</b>                                     | 163      | 79                   |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS.

For the year ended 30 June 2021

## 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 the potential for significant 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 certain financial instruments, swap rate component of Green Bonds, 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 & 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 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 & 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 & Standards

The Group has changed its accounting policy on intangible software subsequent to an agenda decision for the configuration and customisation costs incurred relating to a Software-as-a-Service ('SaaS') arrangement published by the IFRS Interpretations Committee ('IFRIC') in April 2021. The nature and effect of the changes as a result of changing this policy is described below. No other changes to accounting policies have been made during the year and policies have been consistently applied to all years presented.

SaaS arrangements are arrangements in which the Group does not currently control the underlying software used in the arrangement. Under the new accounting policy, where costs incurred to configure or customise SaaS arrangements result in the creation of a resource which is identifiable, and where the Group has the power to obtain the future economic benefits flowing from the underlying resource and to restrict the access of others to those benefits, such costs are recognised as a separate intangible software asset and amortised over the useful life of the software on a straight-line basis. If costs do not meet the recognition criteria, they are expensed when incurred. The amortisation is reviewed each reporting period and any changes are treated as changes in accounting estimates.

The Group has applied the new accounting policy retrospectively. The effect of this change in accounting policy are shown in the following table.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS.

For the year ended 30 June 2021

### NOTE 1. ACCOUNTING POLICIES (CONTINUED)

|  | Balance as at<br>1 July 2019 | Adjustments<br>\$M | Restated<br>balance as at<br>1 July 2019 | Audited<br>year ended<br>30 June<br>2020 \$M | Adjustments<br>\$M | Restated<br>audited<br>year ended<br>30 June<br>2020 \$M |
|--|------------------------------|--------------------|--|--|--------------------|--|
| <b>CONSOLIDATED INCOME STATEMENT</b>                     |                              |                    |  |  |                    |  |
| Total revenue  |                              |                    |  | 1,768  | –                  | 1,768  |
| Total expenses   |                              |                    |  | (1,274)                                      | (4)                | (1,278)  |
| <b>EBITDAF</b>   |                              |                    |  | <b>494</b>                                   | <b>(4)</b>         | <b>490</b>   |
| Depreciation and amortisation                            |                              |                    |  | (214)  | 7                  | (207)  |
| Change in the fair value of financial instruments        |                              |                    |  | 22   | –                  | 22   |
| Gain on sale/impairments                                 |                              |                    |  | –  | –                  | –  |
| Net interest expense                                     |                              |                    |  | (54)   | –                  | (54)   |
| Profit before tax  |                              |                    |  | 248  | 3                  | 251  |
| Tax expense  |                              |                    |  | (41)   | (1)                | (42)   |
| Profit for the year attributable to owners of the parent |                              |                    |  | 207  | 2                  | 209  |
| <b>CONSOLIDATED BALANCE SHEET</b>                        |                              |                    |  |  |                    |  |
| Intangible Assets  | 85                           | (11)               | 74                                       | 78   | (8)                | 70   |
| Deferred tax liabilities                                 | (1,158)                      | 3                  | (1,155)                                  | (1,202)                                      | 2                  | (1,200)  |
| Retained earnings  | (300)                        | 8                  | (292)                                    | (292)  | 6                  | (286)  |

### 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 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, amortisation, change in the fair value of financial instruments, gain/(loss) on disposal 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.

#### TYPES OF PRODUCTS & SERVICES

##### Generation/Wholesale

The generation/wholesale market segment encompasses activity associated with the electricity production, electricity trading, generation development activities and the company's share of associates earnings (see Note 9). 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 and related services and products to mass market customers in New Zealand.

##### 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS.

For the year ended 30 June 2021

### NOTE 2. SEGMENT REPORTING (CONTINUED)

#### SEGMENT RESULTS

|  | Generation/<br>Wholesale<br>\$M | Retail<br>\$M | Other<br>Segments<br>\$M | Inter-<br>segment<br>\$M | Total<br>\$M   |
|--|---------------------------------|---------------|--------------------------|--------------------------|----------------|
| <b>YEAR ENDED 30 JUNE 2021</b>                             |                                 |               |                          |                          |                |
| Sales – Electricity generation                             | 1,133                           | –             | –                        | –                        | 1,133          |
| Sales to customers and derivatives                         | 454                             | 696           | –                        | (277)                    | 873            |
| Earnings of associates and joint ventures                  | 22                              | –             | –                        | –                        | 22             |
| Other revenue  | 12                              | 5             | –                        | –                        | 17             |
| <b>Total revenue</b>                                       | <b>1,621</b>                    | <b>701</b>    | <b>–</b>                 | <b>(277)</b>             | <b>2,045</b>   |
| Energy costs   | (946)                           | (284)         | –                        | 277                      | (953)          |
| Line charges   | (85)                            | (270)         | –                        | –                        | (355)          |
| Other direct cost of sales, excluding third party metering | (34)                            | (4)           | –                        | –                        | (38)           |
| Direct costs of other revenue                              | –                               | (2)           | –                        | –                        | (2)            |
| Metering costs   | (3)                             | (41)          | –                        | –                        | (44)           |
| Employee compensation and benefits                         | (37)                            | (31)          | (15)                     | –                        | (83)           |
| Maintenance expenses                                       | (30)                            | (6)           | –                        | –                        | (36)           |
| Other expenses   | (33)                            | (31)          | (7)                      | –                        | (71)           |
| Allocation or corporate overheads                          | (11)                            | (11)          | 22                       | –                        | –              |
| <b>Total expenses</b>                                      | <b>(1,179)</b>                  | <b>(680)</b>  | <b>–</b>                 | <b>277</b>               | <b>(1,582)</b> |
| <b>Segment EBITDAF</b>                                     | <b>442</b>                      | <b>21</b>     | <b>–</b>                 | <b>–</b>                 | <b>463</b>     |
| Interest expense   | (15)                            | –             | (38)                     | –                        | (53)           |
| Lease interest expense                                     | –                               | –             | (3)                      | –                        | (3)            |
| Interest income  | –                               | –             | –                        | –                        | –              |
| Interest capitalised to capital work in progress           | 11                              | –             | –                        | –                        | 11             |
| <b>Net interest expense</b>                                | <b>(4)</b>                      | <b>–</b>      | <b>(41)</b>              | <b>–</b>                 | <b>(45)</b>    |
| Gain on sale   | 38                              | –             | –                        | –                        | 38             |
| Loss on disposal   | (15)                            | –             | –                        | –                        | (15)           |
| <b>Gain/(loss) on disposal</b>                             | <b>23</b>                       | <b>–</b>      | <b>–</b>                 | <b>–</b>                 | <b>23</b>      |

|  | Generation/<br>Wholesale<br>\$M | Retail<br>\$M | Other<br>Segments<br>\$M | Inter-<br>segment<br>\$M | Total<br>\$M   |
|--|---------------------------------|---------------|--------------------------|--------------------------|----------------|
| <b>RESTATED YEAR ENDED 30 JUNE 2020</b>                    |                                 |               |                          |                          |                |
| Sales – Electricity generation                             | 706                             | –             | –                        | –                        | 706            |
| Sales to customers and derivatives                         | 584                             | 746           | –                        | (302)                    | 1,028          |
| Earnings of associates and joint ventures                  | 18                              | –             | –                        | –                        | 18             |
| Other revenue  | 10                              | 6             | –                        | –                        | 16             |
| <b>Total revenue</b>                                       | <b>1,318</b>                    | <b>752</b>    | <b>–</b>                 | <b>(302)</b>             | <b>1,768</b>   |
| 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)            |
| Metering costs   | (3)                             | (43)          | –                        | –                        | (46)           |
| Employee compensation and benefits                         | (35)                            | (32)          | (15)                     | –                        | (82)           |
| Maintenance expenses                                       | (34)                            | (6)           | –                        | –                        | (40)           |
| Other expenses   | (37)                            | (28)          | (7)                      | –                        | (72)           |
| Allocation or corporate overheads                          | (11)                            | (11)          | 22                       | –                        | –              |
| <b>Total expenses</b>                                      | <b>(833)</b>                    | <b>(747)</b>  | <b>–</b>                 | <b>302</b>               | <b>(1,278)</b> |
| <b>Segment EBITDAF</b>                                     | <b>485</b>                      | <b>5</b>      | <b>–</b>                 | <b>–</b>                 | <b>490</b>     |
| Interest expense   | (8)                             | –             | (48)                     | –                        | (56)           |
| Lease interest expense                                     | –                               | –             | (3)                      | –                        | (3)            |
| Interest income  | –                               | –             | 1                        | –                        | 1              |
| Interest capitalised to capital work in progress           | 4                               | –             | –                        | –                        | 4              |
| <b>Net interest expense</b>                                | <b>(4)</b>                      | <b>–</b>      | <b>(50)</b>              | <b>–</b>                 | <b>(54)</b>    |
| Gain on sale   | –                               | –             | –                        | –                        | –              |
| Loss on disposal   | –                               | –             | –                        | –                        | –              |
| <b>Gain/(loss) on disposal</b>                             | <b>–</b>                        | <b>–</b>      | <b>–</b>                 | <b>–</b>                 | <b>–</b>       |



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS.

For the year ended 30 June 2021

## NOTE 2. SEGMENT REPORTING (CONTINUED)

### Audit Fees

Mercury NZ Limited (the Company) is a public entity as defined in the Public Audit Act 2021. The Auditor-General has appointed Lloyd Bunyan of EY to carry out the audit. NZX listing rules and Mercury's Audit Independence Policy requires that the signing partner performing the audit to rotate every five years.

Fees payable for the audit and review of the financial statements were \$599,000 (2020: \$606,000). Non-audit services in relation to provision of remuneration market survey data were \$15,000 (2020: \$13,000). EY (US) also provided US tax compliance services in the amount of \$178,000 (2020: \$192,000).

## 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.

|   | 2021 \$M | Restated<br>2020 \$M |
|---|----------|----------------------|
| <b>PROFIT FOR THE YEAR</b>                        | 141      | 209                  |
| Change in the fair value of financial instruments | 47       | (22)                 |
| Fixed asset loss on disposal                      | 15       | –                    |
| Hudson Ranch Sale                                 | (41)     | –                    |
| Tilt bargain purchase gain                        | –        | (18)                 |
| <b>Adjustments before tax effect</b>              | 21       | (40)                 |
| Tax effect  | (17)     | (3)                  |
| <b>Adjustments after tax effect</b>               | 4        | (43)                 |
| <b>Underlying earnings after tax</b>              | 145      | 166                  |

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

On 7 June 2021, the Kawerau geothermal power station experienced an unplanned outage as a result of a mechanical failure. The Group recognised a loss on disposal on the assets totalling \$15 million as a result.

During the year, the Group sold its interest in its Hudson Ranch 1 Holdings LLC geothermal power station joint venture in California. The sale resulted in a gain of \$41 million.

In the prior year, the Group accounted 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 recognised in prior periods was reversed in the prior year.

## NOTE 4. SHARE CAPITAL & DISTRIBUTION

The share capital of the Company is represented by 1,400,012,517 ordinary shares (30 June 2020: 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 1,361,269,425 (2020: 1,361,032,535). These shares do not have a par value, have equal voting rights and share equally in dividends and any surplus on winding up.

|                                       | 2021 Number<br>of shares (M) | 2021 \$M | 2020 Number<br>of shares (M) | 2020 \$M |
|---------------------------------------|------------------------------|----------|------------------------------|----------|
| <b>Treasury shares</b>                |                              |          |                              |          |
| Balance at the beginning of the year  | 39                           | 101      | 39                           | 101      |
| Disposal of treasury shares           | –                            | (1)      | –                            | –        |
| <b>Balance at the end of the year</b> | 39                           | 100      | 39                           | 101      |

|                                    | Cents per share | 2021 \$M | 2020 \$M |
|------------------------------------|-----------------|----------|----------|
| <b>Dividends declared and paid</b> |                 |          |          |
| Final dividend for 2019            | 9.3             | –        | 127      |
| Interim dividend for 2020          | 6.4             | –        | 87       |
| Final dividend for 2020            | 9.4             | 128      | –        |
| Interim dividend for 2021          | 6.8             | 93       | –        |
|                                    |                 | 221      | 214      |

No imputation credits are available at 30 June 2021 (2020: \$nil) as the imputation credit account has a deficit of \$21 million (2020: deficit of \$30 million). The imputation credit account is required to have a surplus balance at 31 March each year.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS.

For the year ended 30 June 2021

## NOTE 5. TAXATION

|  | 2021 \$M    | Restated<br>2020 \$M |
|--|-------------|----------------------|
| <b>Income Tax</b>  |             |                      |
| <b>(i) Tax expense</b>   |             |                      |
| Profit before tax  | 173         | 251                  |
| Prima facie tax expense at 28% on the profit before tax                | (48)        | (70)                 |
| Increase in tax expense due to:  |             |                      |
| • share of associates' and joint ventures' tax paid earnings           | 6           | 5                    |
| • reversal of deferred tax recognised on investment in Tilt Renewables | –           | 10                   |
| • capital gain   | 11          | –                    |
| • change in tax treatment of commercial buildings                      | –           | 8                    |
| • other differences  | (1)         | 5                    |
| <b>Tax expense attributable to profit from ordinary activities</b>     | <b>(32)</b> | <b>(42)</b>          |
| <b>Represented by:</b>   |             |                      |
| Current tax expense  | (66)        | (90)                 |
| Deferred tax recognised in the income statement                        | 34          | 48                   |

The income 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.

### Deferred Tax

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax and accounting bases of the 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.

|   | Assets<br>2021 \$M | Restated<br>Assets<br>2020 \$M | Liabilities<br>2021 \$M | Restated<br>Liabilities<br>2020 \$M | Net<br>2021 \$M | Restated<br>Net<br>2020 \$M |
|---|--------------------|--------------------------------|-------------------------|-------------------------------------|-----------------|-----------------------------|
| <b>(i) Recognised deferred tax assets and liabilities</b> |                    |                                |                         |                                     |                 |                             |
| Property, plant and equipment                             | –                  | –                              | (1,498)                 | (1,261)                             | (1,498)         | (1,261)                     |
| Financial instruments                                     | 97                 | 27                             | –                       | –                                   | 97              | 27                          |
| Employee benefits and provisions                          | 3                  | 3                              | –                       | –                                   | 3               | 3                           |
| Other   | 35                 | 31                             | –                       | –                                   | 35              | 31                          |
|   | <b>135</b>         | <b>61</b>                      | <b>(1,498)</b>          | <b>(1,261)</b>                      | <b>(1,363)</b>  | <b>(1,200)</b>              |

|  | Property,<br>plant and<br>equipment<br>\$M | Financial<br>instruments<br>\$M | Employee<br>entitlements<br>\$M | Other<br>\$M | Total<br>\$M   |
|--|--|---------------------------------|---------------------------------|--------------|----------------|
| <b>(ii) Movement in deferred tax</b>             |  |                                 |                                 |              |                |
| Restated balance as at 1 July 2019               | (1,211)                                    | 23                              | 2                               | 31           | (1,155)        |
| Charged/(credited) to the income statement       | 33   | 15                              | 1                               | (1)          | 48             |
| Charged/(credited) to other comprehensive income | (83)                                       | (11)                            | –                               | 3            | (91)           |
| Other movements                                  | –  | –                               | –                               | (2)          | (2)            |
| <b>Restated balance as at 30 June 2020</b>       | <b>(1,261)</b>                             | <b>27</b>                       | <b>3</b>                        | <b>31</b>    | <b>(1,200)</b> |
| <b>Balance as at 1 July 2020</b>                 | <b>(1,261)</b>                             | <b>27</b>                       | <b>3</b>                        | <b>31</b>    | <b>(1,200)</b> |
| Charged/(credited) to the income statement       | 26   | 8                               | –                               | –            | 34             |
| Charged/(credited) to other comprehensive income | (263)                                      | 62                              | –                               | 4            | (197)          |
| Other movements                                  | –  | –                               | –                               | –            | –              |
| <b>Balance as at 30 June 2021</b>                | <b>(1,498)</b>                             | <b>97</b>                       | <b>3</b>                        | <b>35</b>    | <b>(1,363)</b> |

In FY20, 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 was reflected in the FY20 deferred tax balance.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS.

For the year ended 30 June 2021

### 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 \$24 million (2020: \$22 million) are held to service and repair operating plant.

### NOTE 7. PROPERTY, PLANT & EQUIPMENT

|                                     | Generation<br>assets at fair<br>value \$M | Other assets<br>at cost \$M | Right-of-use<br>assets \$M | Capital work in<br>progress at cost<br>\$M | Total \$M    |
|-------------------------------------|---|-----------------------------|----------------------------|--|--------------|
| <b>YEAR ENDED 30 JUNE 2020</b>      |   |                             |                            |  |              |
| 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<br>for the year | (170)                                     | (11)                        | (5)                        | –  | (186)        |
| <b>Closing net book value</b>       | <b>5,575</b>                              | <b>48</b>                   | <b>44</b>                  | <b>231</b>                                 | <b>5,898</b> |
| <b>Balance at 30 June 2020</b>      |   |                             |                            |  |              |
| Cost or valuation                   | 5,575                                     | 115                         | 56                         | 231  | 5,977        |
| Accumulated depreciation            | –   | (67)                        | (12)                       | –  | (79)         |
| <b>Net book value</b>               | <b>5,575</b>                              | <b>48</b>                   | <b>44</b>                  | <b>231</b>                                 | <b>5,898</b> |
| <b>YEAR ENDED 30 JUNE 2021</b>      |   |                             |                            |  |              |
| Opening net book value              | 5,575                                     | 48                          | 44                         | 231  | 5,898        |
| Additions                           | –   | –                           | –                          | 209  | 209          |
| Transfers                           | 50  | 3                           | –                          | (53)                                       | –            |
| Disposals                           | (15)                                      | –                           | –                          | –  | (15)         |
| Net revaluation movement            | 938                                       | –                           | –                          | –  | 938          |
| Depreciation charge<br>for the year | (186)                                     | (12)                        | (4)                        | –  | (202)        |
| <b>Closing net book value</b>       | <b>6,362</b>                              | <b>39</b>                   | <b>40</b>                  | <b>387</b>                                 | <b>6,828</b> |
| <b>Balance at 30 June 2021</b>      |   |                             |                            |  |              |
| Cost or valuation                   | 6,362                                     | 116                         | 56                         | 387  | 6,921        |
| Accumulated depreciation            | –   | (77)                        | (16)                       | –  | (93)         |
| <b>Net book value</b>               | <b>6,362</b>                              | <b>39</b>                   | <b>40</b>                  | <b>387</b>                                 | <b>6,828</b> |

### 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 and impairment 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 properties, office equipment and transmission equipment 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 5.01% (2020: 5.36%). The group's lease interest and lease liability is disclosed in note 2 and note 12, respectively.

As at 30 June 2021, the capital work in progress balance continues to be elevated due to the Group's ongoing construction of its Turitea windfarm. The north section of the windfarm commenced operations in July FY22.

### 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 2021. This resulted in an increase to the carrying value of the Group's hydro and geothermal generation assets of \$550 million and \$388 million respectively in the current year. This is in addition to the \$296 million revaluation increase recognised across the Group's hydro and geothermal generation assets in 2020. As a consequence of the revaluation, accumulated depreciation on these hydro and geothermal assets has been reset to nil.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS.

For the year ended 30 June 2021

## NOTE 7. PROPERTY, PLANT & EQUIPMENT (CONTINUED)

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 \$74/MWh and \$180/MWh (2020: \$75/MWh and \$93/MWh), average operational expenditure of \$171 million p.a. (2020: \$161 million p.a.), net average production volumes of 6,703 GWh p.a. (2020: 6,708 GWh p.a.) and a post-tax discount rate of between 6.2% and 6.6% (2020: 6.5% to 6.9%). The valuation also assumes the on-going operation of New Zealand Aluminium Smelters Limited at Tiwai Point, 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    |                 |
|---|-------------|---------------------|-----------------|
|   |             | 2021 \$M            | 2020 \$M        |
| Future wholesale electricity price path | +/- 10%     | \$1,044 / (\$1,044) | \$891 / (\$898) |
| Discount rate                           | +/- 0.5%    | (\$711) / \$892     | (\$604) / \$747 |
| Operational expenditure                 | +/- 10%     | (\$289) / \$289     | (\$267) / \$267 |

The carrying amount of revalued generation assets, had they been recognised at cost, would have been \$1,911 million (2020: \$1,959 million).

## Depreciation

Depreciation is calculated on a straight-line basis on all property, plant and equipment other than freehold land, capital work in progress and exploration and revaluation 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:

|  | 2021  | 2020  |
|--|-------|-------|
| Office fixture and fittings, including fit-out | 2-50% | 2-50% |
| Generation assets:                             |       |       |
| • Hydro and thermal generation                 | 1-33% | 1-33% |
| • Other generation                             | 1-33% | 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                            | 2-33% | 4-33% |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS.

For the year ended 30 June 2021

### NOTE 8. INTANGIBLE ASSETS

|   | Intangible<br>software<br>\$M | Rights<br>\$M | Emissions<br>units<br>\$M | Work in<br>progress<br>\$M | Total<br>\$M |
|---|-------------------------------|---------------|---------------------------|----------------------------|--------------|
| <b>RESTATED YEAR ENDED 30 JUNE 2020</b> |                               |               |                           |                            |              |
| Opening net book value                  | 26                            | 20            | 23                        | 5                          | 74           |
| Additions                               | –                             | –             | 7                         | 17                         | 24           |
| Transfers                               | 18                            | –             | –                         | (18)                       | –            |
| Disposals                               | –                             | –             | (7)                       | –                          | (7)          |
| Amortisation for the year               | (19)                          | (2)           | –                         | –                          | (21)         |
| <b>Closing net book amount</b>          | <b>25</b>                     | <b>18</b>     | <b>23</b>                 | <b>4</b>                   | <b>70</b>    |
| <b>RESTATED BALANCE AT 30 JUNE 2020</b> |                               |               |                           |                            |              |
| Cost                                    | 121                           | 34            | 23                        | 4                          | 182          |
| Accumulated amortisation                | (96)                          | (16)          | –                         | –                          | (112)        |
| <b>Net book value</b>                   | <b>25</b>                     | <b>18</b>     | <b>23</b>                 | <b>4</b>                   | <b>70</b>    |
| <b>YEAR ENDED 30 JUNE 2021</b>          |                               |               |                           |                            |              |
| Opening net book value                  | 25                            | 18            | 23                        | 4                          | 70           |
| Additions                               | –                             | –             | 37                        | 19                         | 56           |
| Transfers                               | 16                            | –             | –                         | (16)                       | –            |
| Disposals                               | –                             | –             | –                         | –                          | –            |
| Surrendered Units                       | –                             | –             | –                         | –                          | –            |
| Amortisation for the year               | (17)                          | (2)           | –                         | –                          | (19)         |
| <b>Closing net book amount</b>          | <b>24</b>                     | <b>16</b>     | <b>60</b>                 | <b>7</b>                   | <b>107</b>   |
| <b>BALANCE AT 30 JUNE 2021</b>          |                               |               |                           |                            |              |
| Cost                                    | 135                           | 34            | 60                        | 7                          | 236          |
| Accumulated amortisation                | (111)                         | (18)          | –                         | –                          | (129)        |
| <b>Net book value</b>                   | <b>24</b>                     | <b>16</b>     | <b>60</b>                 | <b>7</b>                   | <b>107</b>   |

### 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 2 - 15 years (2020: between 2 to 15 years). If costs incurred to configure or customise SaaS arrangements result in the creation of a resource which is identifiable, and where the Group has the power to obtain the future economic benefits flowing from the underlying resource and to restrict the access of others to those benefits, such costs are recognised as a separate intangible software asset and amortised over the useful life of the software on a straight-line basis. If costs do not meet the recognition criteria, they are expensed when incurred. 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 (2020: 3 to 60 years). Testing for impairment will only arise when there is an indication that the asset may be impaired.

### Emissions Units & 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). At 30 June 2021 the Group held a total of 2,048,161 units. 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.

During the period, the Group elected to take up a fixed price option in lieu of a credit surrender to satisfy its obligation under the scheme.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS.

For the year ended 30 June 2021

## NOTE 9. INVESTMENTS IN AND ADVANCES TO ASSOCIATES AND JOINT ARRANGEMENTS (JOINT VENTURES AND JOINT OPERATIONS)

The Group financial statements include the following:

| Name of entity              | Principal activity                     | Type            | Interest held |        | Country       |
|-----------------------------|--|-----------------|---------------|--------|---------------|
|                             |  |                 | 2021          | 2020   |               |
| TPC Holdings Limited        | Investment holding                     | Associate       | 25.00%        | 25.00% | New Zealand   |
| Tilt Renewables Limited     | Electricity generation and development | Associate       | 19.90%        | 19.96% | New Zealand   |
| NOW New Zealand Limited     | Broadband ISP                          | Associate       | 48.46%        | –      | 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% | United States |

|  | Associates |          | Joint ventures |          |
|--|------------|----------|----------------|----------|
|  | 2021 \$M   | 2020 \$M | 2021 \$M       | 2020 \$M |
| Balance at the beginning of the year                         | 328        | 76       | –              | –        |
| Additions during the year                                    | 11         | 230      | 6              | –        |
| Share of earnings  | 16         | 18       | 6              | –        |
| Share of movement in other comprehensive income and reserves | 28         | 8        | –              | –        |
| Distributions received during the year                       | (58)       | (4)      | (3)            | –        |
| Reclassification to held for sale                            | (248)      | –        | –              | –        |
| Balance at the end of the year                               | 77         | 328      | 9              | –        |

At the end of the year the Group had outstanding advances to its Rotokawa joint venture partner in the amount of \$5 million (2020: \$6 million) and its associate TPC Holdings Limited of \$4 million (2020: \$4 million). For terms and conditions of these related party receivables refer to note 16.

Mercury accounts for its interest in EnergySource LLC as a joint venture and applies the equity method under NZ IAS 28 – Investments in Associates and Joint Ventures. Previously, Mercury's share of losses in Energy Source LLC exceeded its interest in the joint venture and consequently the Group did not recognise its share of losses relating to EnergySource LLC. During the year EnergySource LLC reported positive earnings that necessitated the Group in recognising all of its share of losses (US\$3 million) against its share of EnergySource LLC's earnings.

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 2020, which has been recognised as a distribution received from the associate.

On 15 March 2021, Mercury announced that together with Powering Australian Renewables (PowAR), it had entered into a Scheme Implementation Agreement (SIA) whereby Mercury would dispose of its 19.9% share in Tilt and directly acquire all of Tilt's New Zealand operations. In April 2021 the offer under the SIA was updated and subsequently went through the necessary shareholder, regulatory and court approvals before the transaction finalised in August 2021. Accordingly, Mercury's ownership interest in Tilt has now been reclassified to "Held for Sale" as required under NZ IFRS 5. Prior to reclassification, Mercury recognised \$14 million as its share in Tilt's earnings for the period to 30 June 2021. Further details as to the expected impact of this transaction on the group is provided in note 19.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS.

For the year ended 30 June 2021

## NOTE 10. RECEIVABLES, PAYABLES & ACCRUALS

|   | 2021 \$M   | 2020 \$M   |
|---|------------|------------|
| <b>RECEIVABLES</b>                        |            |            |
| Trade receivables and accruals            | 312        | 241        |
| Allowance for credit loss                 | (1)        | (2)        |
| <b>Net trade receivables and accruals</b> | <b>311</b> | <b>239</b> |
| Prepayments                               | 10         | 11         |
|   | <b>321</b> | <b>250</b> |

Trade receivables are measured at amortised cost using the effective interest method. Customers are typically invoiced on a monthly basis. Large commercial and industrial customers are billed on a calendar month basis, while for most mass market customers billing occurs on a rolling cycle each month and over the year. Revenue accruals for unread gas and electricity meters at balance date involves an estimate of consumption for each unread meter, based on 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 large commercial and industrial customers and mass market customers are on 20 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 \$1 million (2020: \$3 million) was recognised during the year. Receivables of \$2 million (2020: \$2 million) which 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 historical credit losses in prior periods, adjusted for any significant known amounts that are not receivable.

The following table details the loss allowance at 30 June 2021:

|   |            | 1-30 days<br>past due | 31-60 days<br>past due | More than<br>60 days<br>past due | Total    |
|---|------------|-----------------------|------------------------|----------------------------------|----------|
| Expected loss rate                        | %          | 4%                    | 27%                    | 59%                              |          |
| Gross carrying amount – trade receivables | \$M        | 9                     | 1                      | 1                                | 11       |
| <b>Expected credit loss</b>               | <b>\$M</b> | <b>–</b>              | <b>–</b>               | <b>1</b>                         | <b>1</b> |

|  | 2021 \$M | 2020 \$M |
|--|----------|----------|
| <b>Movements in the allowance for credit loss were as follows:</b> |          |          |
| Balance at the beginning of the year                               | 2        | 1        |
| Charge for the year  | 1        | 3        |
| Amounts written off  | (2)      | (2)      |
| <b>Balance at the end of the year</b>                              | <b>1</b> | <b>2</b> |

|                              | 2021 \$M   | 2020 \$M   |
|------------------------------|------------|------------|
| <b>Payables and accruals</b> |            |            |
| Trade payables and accruals  | 293        | 249        |
| Employee entitlements        | 7          | 7          |
| Sundry creditors             | 21         | 36         |
|                              | <b>321</b> | <b>292</b> |

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

### 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. Credits given to customers are recognised directly against revenue when incurred.

| CONTRACT ASSETS                 | 2021 \$M | 2020 \$M |
|---------------------------------|----------|----------|
| Opening Balance                 | 2        | 3        |
| Additions                       | 2        | 1        |
| Amortised to operating expenses | (2)      | (2)      |
| <b>Closing balance</b>          | <b>2</b> | <b>2</b> |

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 two years of the reporting period end.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS.

For the year ended 30 June 2021

### NOTE 11. PROVISIONS

|                                       | 2021 \$M  | 2020 \$M  |
|---------------------------------------|-----------|-----------|
| Balance at the beginning of the year  | 74        | 59        |
| Provisions made during the year       | 13        | 14        |
| Provisions used during the year       | (4)       | (1)       |
| Discounting movement                  | 3         | 2         |
| <b>Balance at the end of the year</b> | <b>86</b> | <b>74</b> |
| Current                               | –         | –         |
| Non-current                           | 86        | 74        |
|                                       | 86        | 74        |

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   | 2021 \$M     | 2020 \$M     |
|--------------------------------|---------------------------------|------------|----------|--------------|--------------|
| Bank facilities                | NZD                             | Various    | Floating | –            | 75           |
| Commercial paper programme     | NZD                             | < 3 months | Floating | 160          | 200          |
| USPP – US\$125m                | USD                             | Dec-2020   | 4.25%    | –            | 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           |
| Green retail bonds             | NZD                             | Sep-2026   | 2.16%    | 201          | –            |
| Green retail bonds             | NZD                             | Sep-2027   | 1.56%    | 201          | –            |
| Green wholesale bonds          | NZD                             | Oct-2030   | 1.92%    | 146          | –            |
| Capital bonds                  | NZD                             | Jul-2049   | 3.60%    | 302          | 302          |
| Lease liabilities              |                                 |            |          | 64           | 68           |
| Deferred financing costs       |                                 |            |          | (6)          | (4)          |
| Fair value adjustments         |                                 |            |          | (1)          | 63           |
| <b>Carrying value of loans</b> |                                 |            |          | <b>1,491</b> | <b>1,291</b> |
| Current                        |                                 |            |          | 471          | 446          |
| Non-current                    |                                 |            |          | 1,020        | 845          |
|                                |                                 |            |          | 1,491        | 1,291        |

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost, with the exception of the USPP and Green bonds, a portion of which is measured at fair value through profit or loss.

Mercury established a Green Financing Framework in August 2020. On 14 September 2020 Mercury issued \$200 million of new unsecured, unsubordinated fixed rate green bonds (MCY030). The MCY030 bonds are due to mature in September 2027 and have a fixed interest rate of 1.56%. On 9 October 2020 Mercury issued \$100 million of unsecured, unsubordinated fixed rate green bonds (green wholesale bonds). On 21 April 2021 Mercury issued a further \$50 million of green wholesale bonds. The green wholesale bonds are due to mature in October 2030 and have a fixed interest rate of 1.92%. On 29 March 2021 Mercury issued \$200 million of new unsecured, unsubordinated fixed rate green bonds (MCY040). The MCY040 bonds are due to mature in September 2026 and have a fixed interest rate of 2.16%. Mercury has tracked the \$550 million of green bond proceeds in accordance with the Green Financing Framework. Mercury's USD 125 million tranche of USPP Notes matured in December 2020, with net proceeds of the MCY030 bond issue applied to refinance this USPP maturity.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS.

For the year ended 30 June 2021

## NOTE 12. BORROWINGS (CONTINUED)

The Group has \$500 million of committed and unsecured bank loan facilities as at 30 June 2021 (30 June 2020: \$800 million). \$200 million of bridge facilities were terminated on issuance of the MCY030 bonds in September 2020. The company cancelled another \$100 million of facilities during the reporting period. Of the loan facilities of \$500 million, \$100 million matures in August 2022, \$100 million matures in December 2022 (extended during the period from June 2021), \$50 million matures in March 2024 and rolling bank facilities of \$250 million currently matures in December 2022. In June 2021 Mercury entered into a Commitment Letter for the provision of a bank facility to fund the recently announced acquisition of Trustpower's retail business, resulting in Mercury executing a \$440 million bank facility agreement in July 2021.

The Company has a \$200 million Commercial Paper programme which is fully backed by committed and undrawn bank facilities. Notes issued under the programme are short-term money market instruments, unsecured and unsubordinated and targeted at professional investors. The programme is rated A2 by S&P Global.

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 was 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 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 – Electricity Contracts

The Group enters into electricity contracts that establish a fixed price at which future specified quantities of electricity are purchased and sold. The electricity contracts are periodically settled with any difference between the contract price and the electricity spot price settled between the parties. At balance date, the principal value of electricity contracts, including both buy and sell contracts, with remaining terms of up to 4 years (2020: 11 years), were \$1,561 million (2020: \$1,495 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 AU 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 foreign denominated expenditure programme. At balance date the principal or contract amounts of foreign currency forward exchange contracts were \$17 million (2020: \$146 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 \$1,865 million (2020: \$1,740 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 |          |
|--|---------------------------|----------|------------------|----------|
|  | 2021 \$M                  | 2020 \$M | 2021 \$M         | 2020 \$M |
| Group                                      |                           |          |                  |          |
| Electricity forward price increased by 10% | 3                         | (1)      | (56)             | (34)     |
| Electricity forward price decreased by 10% | (3)                       | 1        | 56               | 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. All known foreign exchange exposures are hedged in accordance with Mercury's Treasury Policy. As such, Mercury expects no material impact on post tax profit from movement in foreign exchange rates.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS.

For the year ended 30 June 2021

## NOTE 13. FINANCIAL RISK MANAGEMENT (CONTINUED)

|                                  | Impact on equity |          |
|----------------------------------|------------------|----------|
|                                  | 2021 \$M         | 2020 \$M |
| <b>New Zealand Dollar – Euro</b> |                  |          |
| Currency strengthens by 10%      | (1)              | (3)      |
| Currency weakens by 10%          | 1                | 4        |
| <b>New Zealand Dollar – USD</b>  |                  |          |
| Currency strengthens by 10%      | –                | (2)      |
| Currency weakens by 10%          | –                | 3        |
| <b>New Zealand Dollar – Yuan</b> |                  |          |
| Currency strengthens by 10%      | –                | (3)      |
| Currency weakens by 10%          | –                | 4        |
| <b>New Zealand Dollar – AUD</b>  |                  |          |
| Currency strengthens by 10%      | 17               | 17       |
| Currency weakens by 10%          | (20)             | (20)     |

### Interest Rate Risk

It is the Group's policy to apply hedge accounting to reduce profit or loss volatility. For floating rate borrowings, a portion is fixed using interest rate swaps and hedge accounted with changes in fair value of swaps going through other comprehensive income. For fixed rate borrowings, the Group enters into interest rate swaps to move a portion equivalent to the swap rate to floating. Wholesale and capital bonds are measured at amortised cost, with fair value movement of interest rate swaps recognised in the income statement. Swap rate component of the Green bonds and USPP is measured at fair value, and hedge accounted with changes in fair value of both debt and interest rate swaps recognised in the income statement.

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 |          |
|----------------------------------|---------------------------|----------|------------------|----------|
|                                  | 2021 \$M                  | 2020 \$M | 2021 \$M         | 2020 \$M |
| Interest rates higher by 100 bps | (33)                      | (13)     | 14               | 20       |
| Interest rates lower by 100 bps  | 35                        | 13       | (15)             | (22)     |

### (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 S&P Global'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 would 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 unplanned 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<br>6 months<br>\$M | 6 to 12<br>months<br>\$M | 1 to 5<br>years<br>\$M | Later than<br>5 years<br>\$M | Total<br>\$M |
|--------------------------------|------------------------------|--------------------------|------------------------|------------------------------|--------------|
| <b>30 JUNE 2021</b>            |                              |                          |                        |                              |              |
| <b>Liquid financial assets</b> |                              |                          |                        |                              |              |
| Cash and cash equivalents      | 163                          | –                        | –                      | –                            | 163          |
| Receivables                    | 318                          | –                        | 3                      | –                            | 321          |
|                                | 481                          | –                        | 3                      | –                            | 484          |
| <b>Financial liabilities</b>   |                              |                          |                        |                              |              |
| Payables and accruals          | (318)                        | –                        | (3)                    | –                            | (321)        |
| Loans                          | (475)                        | (14)                     | (223)                  | (1,251)                      | (1,963)      |
| Lease liabilities              | (4)                          | (4)                      | (33)                   | (41)                         | (82)         |
|                                | (797)                        | (18)                     | (259)                  | (1,292)                      | (2,366)      |
| <b>Net outflow</b>             | (316)                        | (18)                     | (256)                  | (1,292)                      | (1,882)      |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS.

For the year ended 30 June 2021

### NOTE 13. FINANCIAL RISK MANAGEMENT (CONTINUED)

|                                | Less than 6 months<br>\$M | 6 to 12 months<br>\$M | 1 to 5 years<br>\$M | Later than 5 years<br>\$M | Total<br>\$M |
|--------------------------------|---------------------------|-----------------------|---------------------|---------------------------|--------------|
| <b>30 JUNE 2020</b>            |                           |                       |                     |                           |              |
| <b>Liquid financial assets</b> |                           |                       |                     |                           |              |
| Cash and cash equivalents      | 79                        | –                     | –                   | –                         | 79           |
| Receivables                    | 244                       | –                     | 6                   | –                         | 250          |
|                                | 323                       | –                     | 6                   | –                         | 329          |
| <b>Financial liabilities</b>   |                           |                       |                     |                           |              |
| 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)      |
| <b>Net outflow</b>             | (413)                     | (15)                  | (464)               | (690)                     | (1,582)      |

#### 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<br>\$M | 6 to 12 months<br>\$M | 1 to 5 years<br>\$M | Later than 5 years<br>\$M | Total<br>\$M |
|--|---------------------------|-----------------------|---------------------|---------------------------|--------------|
| <b>30 JUNE 2021</b>                    |                           |                       |                     |                           |              |
| Derivative liabilities – net settled   | (172)                     | (90)                  | (232)               | (16)                      | (510)        |
| Derivative liabilities – gross settled |                           |                       |                     |                           |              |
| • Inflows                              | 18                        | –                     | –                   | –                         | 18           |
| • Outflows                             | (17)                      | –                     | –                   | –                         | (17)         |
| <b>Net maturity</b>                    | (171)                     | (90)                  | (232)               | (16)                      | (509)        |
|  |                           |                       |                     |                           |              |
|  | Less than 6 months<br>\$M | 6 to 12 months<br>\$M | 1 to 5 years<br>\$M | Later than 5 years<br>\$M | Total<br>\$M |
| <b>30 JUNE 2020</b>                    |                           |                       |                     |                           |              |
| Derivative liabilities – net settled   | (58)                      | (30)                  | (98)                | (11)                      | (198)        |
| Derivative liabilities – gross settled |                           |                       |                     |                           |              |
| • Inflows                              | 131                       | –                     | –                   | –                         | 131          |
| • Outflows                             | (146)                     | –                     | –                   | –                         | (146)        |
| <b>Net maturity</b>                    | (73)                      | (30)                  | (98)                | (11)                      | (213)        |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS.

For the year ended 30 June 2021

## NOTE 13. FINANCIAL RISK MANAGEMENT (CONTINUED)

### (D) FAIR VALUE ESTIMATION

#### Fair Values

The carrying amount of financial assets and liabilities recorded in the financial statements approximates their fair values at 30 June 2021 except for: (i) the Fixed Rate Wholesale Bond, the Fixed Rate Wholesale Green bond, the Fixed Rate Retail Green bonds, the Floating Rate Bonds and the US Private Placement, the fair values for which have been calculated at \$27 million (2020: \$28 million), \$137 million (2020: \$nil), \$393 million (2020: \$nil), \$300 million (2020: \$298 million) and \$118 million (2020: \$326 million) respectively; and (ii) the Capital Bonds, the fair value for which has been calculated at \$307 million (2020: \$314 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 2021, all of the Group's financial instruments carried at fair value were categorised as level 2, except for some electricity price derivatives. Electricity price derivative assets of \$49 million were categorised as level 1 (2020: \$54 million) and \$111 million were categorised as level 3 (2020: \$70 million). Electricity price derivative liabilities of \$54 million were categorised as level 1 (2020: \$12 million) and \$370 million were categorised as level 3 (2020: \$99 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 \$89/MWh and a maximum price of \$172/MWh (2020: minimum price of \$70/MWh and a maximum price of \$115/MWh) over the period in question (in real terms) and is determined by a demand supply based fundamental model which takes account 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.

### 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.

| Group                                      | Impact on post tax profit |          |
|--|---------------------------|----------|
|  | 2021 \$M                  | 2020 \$M |
| Electricity forward price increased by 10% | 3                         | (6)      |
| Electricity forward price decreased by 10% | (3)                       | 6        |

| Reconciliation of level 3 fair value movements | Fair value through other comprehensive income |          | Fair value through profit or loss |          |
|--|---|----------|-----------------------------------|----------|
|  | 2021 \$M                                      | 2020 \$M | 2021 \$M                          | 2020 \$M |
| Opening balance                                | (55)  | (84)     | 26                                | 25       |
| New contracts                                  | (52)  | 2        | (4)                               | (8)      |
| Matured contracts                              | 2   | 15       | 8                                 | 9        |
| Gains and losses                               |   |          |                                   |          |
| • Through the income statement                 | –   | –        | (5)                               | –        |
| • Through other comprehensive income           | (179)   | 12       | –                                 | –        |
| Closing balance                                | (284)   | (55)     | 25                                | 26       |

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.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS.

For the year ended 30 June 2021

## NOTE 13. FINANCIAL RISK MANAGEMENT (CONTINUED)

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.

|  | 2021 \$M  | 2020 \$M   |
|--|-----------|------------|
| <b>Electricity price derivatives</b>                       |           |            |
| Opening deferred inception losses                          | (7)       | (12)       |
| Deferred inception gains on new hedges                     | 22        | 10         |
| Deferred inception gains/(losses) realised during the year | 12        | (5)        |
| <b>Closing inception gains/(losses)</b>                    | <b>27</b> | <b>(7)</b> |

## (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:

|                                | 2021 \$M     | Restated<br>2020 \$M |
|--------------------------------|--------------|----------------------|
| Borrowings at carrying value   | 1,491        | 1,291                |
| Fair value adjustments         | 1            | (63)                 |
| Less cash and cash equivalents | (163)        | (79)                 |
| <b>Net debt</b>                | <b>1,329</b> | <b>1,149</b>         |
| Total equity                   | 4,186        | 3,733                |
| <b>Total capital</b>           | <b>5,515</b> | <b>4,882</b>         |
| <b>Gearing ratio</b>           | <b>24.1%</b> | <b>23.5%</b>         |

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 2021, the Group had a debt to EBITDAF ratio of 2.5 times (2020: 2.0 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:

|   | 2021 \$M   | 2020 \$M   |
|---|------------|------------|
| <b>CURRENT ASSETS</b>                   |            |            |
| Interest rate derivative                | 15         | 23         |
| Electricity price derivative            | 103        | 67         |
| Foreign exchange derivative             | -          | -          |
| Cross currency interest rate derivative | 2          | 36         |
|   | <b>120</b> | <b>126</b> |
| <b>CURRENT LIABILITIES</b>              |            |            |
| Interest rate derivative                | 24         | 26         |
| Electricity price derivative            | 243        | 75         |
| Foreign exchange derivative             | -          | 15         |
| Cross currency interest rate derivative | -          | -          |
|   | <b>267</b> | <b>116</b> |
| <b>NON-CURRENT ASSETS</b>               |            |            |
| Interest rate derivative                | 2          | 11         |
| Electricity price derivative            | 58         | 57         |
| Cross currency interest rate derivative | 14         | 28         |
|   | <b>74</b>  | <b>96</b>  |
| <b>NON-CURRENT LIABILITIES</b>          |            |            |
| Interest rate derivative                | 81         | 101        |
| Electricity price derivative            | 182        | 37         |
| Cross currency interest rate derivative | -          | -          |
|   | <b>263</b> | <b>138</b> |

The majority of derivatives (foreign exchange, interest rate, cross currency and electricity) are hedge accounted under NZ IFRS 9 as either cash flow or fair value hedges. Exceptions are Financial Transmission Rights, ASX futures used for trading and non-standard CFDs.

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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS.

For the year ended 30 June 2021

### NOTE 14. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

#### 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 |          |
|--|------------------|-----------|----------------------------|----------|
|  | 2021 \$M         | 2020 \$M  | 2021 \$M                   | 2020 \$M |
| Cross currency interest rate derivatives                               | (47)             | 18        | –                          | –        |
| USPP Borrowings – fair value change                                    | 47               | (19)      | –                          | –        |
|  | –                | (1)       | –                          | –        |
| Interest rate derivatives (including Green bond fair value change)     | (21)             | 13        | 41                         | (16)     |
| Cross currency interest rate derivatives – margin                      | (1)              | (1)       | –                          | 2        |
| Electricity price derivatives  | (17)             | 10        | (265)                      | 31       |
| Foreign exchange rate derivatives                                      | –                | 5         | 16                         | (17)     |
| Ineffectiveness of cash flow hedges recognised in the income statement | (6)              | –         | –                          | –        |
| <b>Total change in fair value of derivative financial instruments</b>  | <b>(45)</b>      | <b>26</b> | <b>(208)</b>               | <b>–</b> |

In addition to the fair value gain on derivative financial instruments, the Group also recognised a \$2 million unwinding of fair value movement of a receivable from a third party.

### MOVEMENT IN CASH FLOW HEDGE RESERVE

|  | 2021 \$M     | 2020 \$M     |
|--|--------------|--------------|
| Opening balance  | (122)        | (118)        |
| Effective portion of cash flow hedges recognised in the reserve              | (208)        | –            |
| Amortisation of fair values <sup>1</sup>                                     | –            | 1            |
| Amount transferred to balance sheet  | (15)         | 6            |
| Equity accounted share of associates' movement in other comprehensive income | 15           | –            |
| Tax effect of movements  | 62           | (11)         |
| <b>Closing balance</b>   | <b>(268)</b> | <b>(122)</b> |

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

|  | 2021 \$M   | Restated 2020 \$M |
|--|------------|-------------------|
| <b>Profit for the year</b>   | <b>141</b> | <b>209</b>        |
| <b>Items classified as investing or financing activities</b>                             |            |                   |
| • Net interest accrual   | (8)        | (4)               |
| • Prudential payment recognised within total revenue                                     | 6          | –                 |
| • Proceeds from the sale of Hudson Ranch   | (41)       | –                 |
| <b>Adjustments for:</b>  |            |                   |
| Depreciation and amortisation  | 221        | 207               |
| Carbon costs   | –          | 7                 |
| Net loss on sale of property, plant and equipment  | 15         | 1                 |
| Change in the fair value of financial instruments  | 47         | (22)              |
| Movement in effect of discounting on long-term provisions                                | 3          | 2                 |
| Share of earnings of associate and joint venture companies                               | (22)       | (18)              |
| <b>Net cash provided by operating activities before change in assets and liabilities</b> | <b>362</b> | <b>382</b>        |
| <b>Change in assets and liabilities during the year:</b>                                 |            |                   |
| • Increase in trade receivables and prepayments  | (32)       | (15)              |
| • (Increase)/decrease in consumable inventories  | (2)        | 1                 |
| • Increase in trade payables and accruals  | 76         | 18                |
| • (Decrease)/increase in provision for tax   | (32)       | 14                |
| • Decrease in deferred tax   | (34)       | (49)              |
| <b>Net cash inflow from operating activities</b>   | <b>338</b> | <b>351</b>        |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS.

For the year ended 30 June 2021

## 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 |          |
|--|-------------------|----------|
|  | 2021 \$M          | 2020 \$M |
| <strong>Associates</strong>                                |                   |          |
| • Management fees and service agreements received          | 15                | 16       |
| • Energy contract settlements received                     | 26                | 12       |
| • Service agreements paid                                  | 1                 | -        |
| <strong>Joint operations</strong>                          |                   |          |
| • Management fees and service agreements received and paid | 22                | 16       |
| • Energy contract settlements received                     | 36                | 6        |

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

An advance to TPC Holdings Limited of \$4 million (2020: \$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 of \$5 million (2020: \$6 million) 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.

### Joint Ventures

During the period, a previously impaired loan of \$2 million to EnergySource LLC was reinstated and repaid.

|  | Transaction value |            |
|--|-------------------|------------|
|  | 2021 \$000        | 2020 \$000 |
| <strong>Key management personnel compensation (paid and payable) comprised:</strong> |                   |            |
| • Directors' fees  | 991               | 948        |
| • Benefits for the Chief Executive and Senior Management:                            |                   |            |
| Salary and other short-term benefits   | 6,233             | 7,086      |
| Termination benefits   | 353               | 324        |
| Share-based payments   | 712               | 377        |
|  | 8,289             | 8,735      |

### Other Transactions with Key Management Personnel

Key management personnel are those people with responsibility and authority for planning, directing and controlling the activities of the Group. Key management personnel for the Group are considered to be the Directors and Senior Management.

Directors and employees of the Group deal with Mercury NZ Limited as electricity consumers on normal terms and conditions, with staff discounts for employees, within the ordinary course of trading activities. A number of Directors also provide directorship services to other third party entities. A number of these entities transacted with the Group on normal commercial terms during the reporting period.

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

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



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS.

For the year ended 30 June 2021

## NOTE 17. COMMITMENTS & CONTINGENCIES

| Commitments           | Capital  |          |
|-----------------------|----------|----------|
|                       | 2021 \$M | 2020 \$M |
| Within one year       | 106      | 264      |
| One to five years     | 134      | 110      |
| Later than five years | 7        | 17       |
|                       | 247      | 391      |

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 Karāpiro. 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 seven 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 Pouakani Claims Trust No 2 and a group of kaumatua have 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 Waipapa dams. The claim has been amended to include interests in the water flowing over the riverbed. Mercury holds the fee simple or beneficial title to those parts of Waikato riverbed beneath the Whakamaru, Maraetai I and II and Waipapa dams and has received advice that the applicants are unlikely to succeed with a claim to customary title in that land. Mercury is seeking orders striking out the claim in relation to the parts of the riverbed to which Mercury holds fee simple or beneficial title, and water. The applicants have also filed a related claim in the Waitangi Tribunal pursuant to the Treaty of Waitangi Act 1975, but have not yet taken any further steps in relation to that claim.

The Group holds land at Maraetai, Waikato that is subject to a remedies hearing brought against the Government in the Waitangi Tribunal. The remedies hearing relates to an application seeking binding recommendations for the resumption of land at Pouakani, including the Group's land at Maraetai. A Crown Treaty settlement has been offered to Ngāti Kahungunu ki Wairarapa Tāmaki nui-ā-Rua Settlement Trust, which the Tribunal had indicated in a preliminary finding may be an appropriate recipient for the land (although that preliminary finding was set aside following a judicial review decision in the High Court, which remains subject to further appeal). It is not yet known whether that settlement offer will result in the Trust abandoning its claim for resumption. The Group has received advice that a Tribunal decision on the matter, should the matter be remitted to the Tribunal for reconsideration, 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 Tribunal has recently indicated its intention to progress to stage three of that inquiry, albeit the scope of stage three is still being considered in light of the Government's draft Natural and Built Environments Bill. 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 an equity-settled share based long-term incentive (LTI) plan for senior executives. The plan is designed to enhance the alignment between shareholders and those executives most able to influence the performance of the Group.

Under the plan that vested in 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. For those shares that vested, executives are entitled to a cash amount which, after deduction for tax, was 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 previous 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 2023.

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 \$711,827 in relation to equity-settled share based payment transactions (2020: \$376,849).

Movements in the number of share options are as follows:

|                                      | 2021      | 2020      |
|--------------------------------------|-----------|-----------|
| Balance at the beginning of the year | 631,434   | 823,237   |
| Options granted                      | 382,997   | 320,897   |
| Options expired                      | (34,579)  | (338,075) |
| Options exercised                    | (270,249) | (174,625) |
| Balance at the end of the year       | 709,603   | 631,434   |

101,876 options were exercisable at the end of the year (2020: 236,911) with the remaining options under the plan having a weighted average life of 1.4 years (2020: 1.8 years).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS.

For the year ended 30 June 2021

## NOTE 19. SUBSEQUENT EVENTS & OTHER MATTERS

The Board of Directors has approved a fully imputed final dividend of 10.2 cents per share to be paid on 30 September 2021.

### Transactions Relating to Tilt

On 15 March 2021, the Group announced, together with PowAR, that it had entered into a SIA with Tilt where PowAR will acquire all the shares of Tilt (including shares owned by the Group) for \$7.80 per share, and the Group will acquire all of Tilt's New Zealand operations, including development options, for an enterprise valuation of approximately \$707 million. At the same time, the Group and PowAR also entered into Implementation and Separation Agreement Term Sheet ("ISA").

On 16 April 2021, the SIA was amended to increase the offer. Under the terms of the transaction, PowAR acquired all the shares of Tilt (including Mercury's shares) for \$8.10 per share for a total consideration of \$3,070 million, and the Group's enterprise valuation of the New Zealand's operations increased from \$707 million to \$797 million. The acquisition of the New Zealand operations by the Group is to be funded from the sale of the Group's 19.9% Tilt shareholding, worth \$608 million (\$603 million post dividend), an additional cash payment of \$26 million, as well as taking on net borrowings of Tilt which amounted to \$163 million. In addition to the increased offer price, the SIA was amended to remove provisions allowing Tilt to evaluate any other "competing proposal".

On 23 July 2021, the High Court granted the final approval for the SIA between Tilt, PowAR and the Group under which PowAR acquired Tilt's Australian business and the Group acquired Tilt's New Zealand business. On 3 August 2021, the scheme and ISA were implemented and the Group disposed of its Tilt shareholding and acquired Tilt's Zealand business. This transaction retains Tilt's New Zealand assets under New Zealand ownership and positions the Group to make an even more significant contribution to New Zealand's de-carbonisation goals.

### Disposal of Investment

As of 16 April 2021, when the sale of the Group's 19.9% investment in Tilt became highly probable, the Group re-classified its investment in Tilt as held for sale. The Group ceased its equity accounting upon the re-classification and measured the investment at the lower of its carrying amount and fair value less costs to sell. In the absence of significant transactions and events between 31 March 2021 (Tilt's financial year-end) and 16 April 2021, the Group applied its equity accounting using Tilt's 31 March 2021 financial statements (note 9).

On 3 August 2021, the Group realised a gain on disposal of its 19.9% investment in Tilt of \$376 million being sale receipt of \$603 million (after \$5 million dividend) from 75 million shares at \$8.035 per share less carrying value of investment of \$248 million, after adding back reclassified accumulated other comprehensive income attributable to Tilt.

### Acquisition of Tilt's New Zealand Business

On 3 August 2021, the Group acquired 100% of the New Zealand operations of Tilt, including the New Zealand subsidiaries Tararua Wind Power Limited, Waverly Wind Farm (NZ) Holding Limited, Waverly Wind Farm Limited, Tilt Renewables Insurance Ltd and all contracts and rights held in Tilt that relate to the New Zealand business. This includes Tilt's Tararua, Mahinerangi and Waipipi wind farms with average annual generation in excess of 1,000GWh, power purchase agreements, asset management agreements, wind development options in New Zealand and debt relating to the Waipipi wind farm.

In accordance with the requirements of NZ IFRS 3 *Business Combinations*, the Group had, using the information made available, conducted a purchase price allocation process to the assets and liabilities acquired from Tilt. The deemed fair value of the assets and liabilities acquired are as below:

|  | \$M  |
|--|--|
| Acquisition consideration - by way of cash                       | 634  |
|  |  |
|  | Deemed fair value as at<br>3 August 2021 \$M |
| Generation assets  | 1,004  |
| Derivative financial instruments                                 | (42)   |
| Intangible assets  | 16   |
| Right-of-use assets  | 4  |
| Lease liabilities  | (4)  |
| Deferred tax liabilities   | (181)  |
| Net borrowings (net of cash and cash equivalents and borrowings) | (163)  |
| Net identifiable assets acquired                                 | 634  |

The Group does not expect to recognise any goodwill or bargain purchase from the transaction above. However, at the time the financial statements were authorised for issue, the Group had not yet completed the accounting for the acquisition. In particular, the fair values of the assets and liabilities disclosed above have only been determined provisionally as independent valuations have not been finalised.

The Group expects to incur \$10 million of acquisition-related costs. They will be included in Gain/(loss) on disposal in the Consolidated Income Statement when incurred.

### Conditional Acquisition of Trustpower Limited's Retail Business (Trustpower)

On 21 June 2021, the Group announced that it had entered into binding agreements with Trustpower to acquire Trustpower's retail business for \$441 million. The transaction is conditional on several matters, including Commerce Commission clearance, completion of the proposed restructure of Tauranga Energy Consumer Trust (TECT) and Trustpower shareholder approval.

The Group had on 19 July 2021 executed a \$440 million term loan with MUFG Bank, Ltd to fund the acquisition. Drawdown of the term loan facility is contingent on completion of the acquisition.

### Close-out of Electricity Swap

On 10 August 2021, the Group completed a deal with a customer to close out their electricity swap that was out of the money for the Group. The deal also involved the Group novating electricity swaps held by the customer with other third parties and an immaterial purchase of land. The Group paid a total consideration of \$33 million. The net impact of the deal results in a net reduction of 43MW of electricity swaps by the Group and reduces the Group's net derivative liability by \$70 million.

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





# TCFD REPORT.

PREPARED IN ACCORDANCE WITH THE  
RECOMMENDATIONS OF THE TASK FORCE ON  
CLIMATE-RELATED FINANCIAL DISCLOSURES (TCFD).

## CONTENTS.

- 65 INTRODUCTION
- 66 GOVERNANCE
- 67 STRATEGY
- 73 RISK MANAGEMENT
- 74 METRICS & TARGETS





# INTRODUCTION.

Over the past four years at Mercury, we have deepened our understanding of how best to identify, assess and manage climate-related risks and opportunities. During this period, we have improved our governance and disclosure of those risks and opportunities.

Material climate-related risks and opportunities have been the subject of regular discussion by our Executive Management Team (EMT) and Board since 2018.

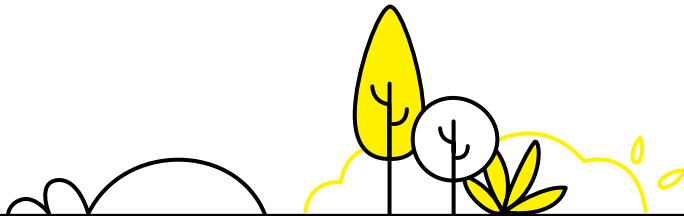
A Climate Change Management Plan (CCMP) was established in FY20. This sets out a three-year action plan that includes considering the suitability of an emissions reduction target and completing scenario analysis. Findings from the scenario analysis completed in FY21 have informed our strategy and improved the understanding of climate-related risks and opportunities.

We continue to widen and improve our climate-related disclosures, including by updating corporate governance statements, evolving our annual report content, providing annual emissions inventory reports and by an annual submission to Carbon Disclosure Project (CDP - the global platform for voluntary climate change disclosures). This year we have continued to extend our emissions inventory report. This improves the completeness and transparency of our full carbon footprint, with a particular focus on supply chain emissions.

We have prepared the information relating to the financial impacts of climate change in this section of the report with due care and attention. This information is based on current expectations and assumptions and is only an estimate. The risks and opportunities may not eventuate. If they do, the impact may differ materially from that described. No representation is made as to the accuracy, completeness or reliability of this information. This information is not earnings guidance.

| TCFD ELEMENT                       | FY21 | FY22 | FY23 | FY24 |
|------------------------------------|------|------|------|------|
| Governance                         | ●    | ●    | ●    | ●    |
| Strategy                           | ◐    | ◐    |      |      |
| Risk Management                    | ●    | ●    | ●    | ●    |
| Performance indicators and targets | ◐    | ◐    |      |      |

● Aligned with TCFD requirements    ◐ In progress



# GOVERNANCE.



**TCFD recommendation: Disclose the organisation's governance around climate-related risks and opportunities.**

**a) Describe the Board's oversight of climate-related risks and opportunities.**

At Mercury, our Board has responsibility for the strategic direction and operation of the company. 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. It is made up of five independent directors and meets at least four times per year.

Our risk management framework meets New Zealand standard AS/NZS ISO 31000 Risk Management – Principles and guidelines.

In FY20, our Board updated its skills matrix to specifically include climate change. We reviewed our risk management framework, and the importance of climate-related risks was amplified in our consolidated risk register.

In FY21, the Board held an externally facilitated deep dive into regulatory, economic and legal aspects of climate-related risks and opportunities. In May 2021, management presented its first climate change scenario analysis report and the outcome of its review of climate-related risks and opportunities to the RAAC.

**b) Describe management's role in assessing and managing climate-related risks and opportunities.**

One of the responsibilities of the Chief Executive and the Executive Management Team is to develop, and recommend to the Board, strategies to identify, assess and manage climate-related risks and opportunities and to foster improved reporting and disclosure of these risks and opportunities.

In FY21, the EMT delivered:

- the approach to, and findings from, the climate change scenario analysis, and reported to the RAAC
- the annual review of climate-related risks and opportunities
- endorsement of Mercury setting an emissions reduction target, which will be established in FY22

Our management operates a Risk Management Committee whose mandate is (1) to promote risk awareness and appropriate risk management to all Mercury people; and (2) to monitor and review risk activities as required. The day-to-day management of climate-related risks and opportunities occurs across Sustainability, Regulatory Affairs, Environmental Resources, Finance, Legal, Communications, Risk Assurance, Generation, Portfolio and Customer. During FY21, two cross-functional teams were established to:

- improve the robustness of management systems around carbon foot-printing and associated emissions reporting
- undertake a detailed scenario analysis to inform future climate change strategy



# STRATEGY.

**TCFD recommendation: Disclose the actual and potential impacts of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning where such information is material.**

**a) Describe the climate-related risks and opportunities the organisation has identified over the short, medium, and long-term.**

**b) Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning.**

To help improve our understanding of climate-related risks and opportunities in the short, medium and long-term and test the resilience of our strategy, we undertake scenario analysis. Our first scenario analysis was completed in FY21.

## METHODOLOGY & ASSUMPTIONS.

TCFD recommends considering a scenario based on an optimistic view of the future, where global greenhouse gas emissions are reduced, and temperature increases are limited to below 2°C.

The development of this view of climate-related risks and opportunities that may impact Mercury, requires an analysis of both physical risks and transitional impacts (the impacts of our transition to a lower carbon economy as a result of strong climate action policy and regulation), using the following key scenarios:

### + PHYSICAL

- physical risks based on a 2°C future
- higher temperature scenarios, where modelling was available, to provide useful comparisons e.g. changes to precipitation and impact on hydro catchment inflows

### + TRANSITIONAL

- policy and regulatory risks based on the NetZero by 2050 future regulated by the Zero Carbon Act
- policy and regulatory risks based on New Zealand's obligations under the Paris Agreement (2030)
- policy and regulatory risks based on Mercury's participation in the New Zealand emissions trading scheme (ETS)

## TIMEFRAMES

The focus of the scenario analysis was on mid-century. This aligns with New Zealand's regulatory aspirations for NetZero by 2050.

Risk and opportunities will be discussed across short 1-5 years (out to 2025), medium 5-10 years (out to 2030) and long-term 10-20 years (out to 2050). This aligns with Mercury's business planning timeframes and those required in ESG reporting and disclosures.

## DATA SETS & MODELS USED

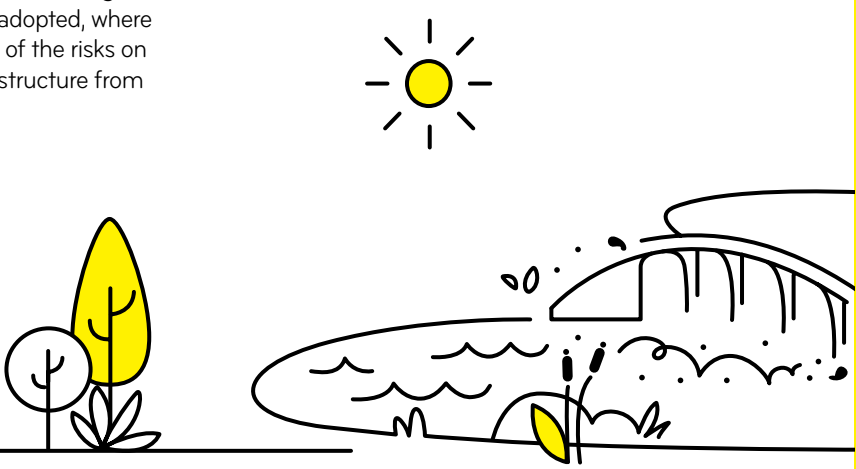
Modelling has been undertaken by the National Institute of Water and Atmospheric Research (NIWA) for many of the physical risks associated with a changing climate. This modelling, and other specific studies related to impacts on the electricity sector, have informed this report.

The Government's work on climate change adaptation planning and associated risk screening methodologies was also reviewed and adopted, where appropriate, to increase understanding of the risks on generation assets and connected infrastructure from a changing climate.

The physical impacts of a changing climate on geothermal generation have been modelled using NIWA national climate change models, observed temperature data and in-house modelling software.

We have used the Climate Change Commission's 'Tailwind' modelling of future electricity demand for predicting EBITDAF opportunities from technology uptake in the transportation and food processing sectors.

We also have access to the Energy Efficiency and Conservation Authority (EECA) TIMES Model for predicting the combined impact of various risk categories. We are considering using this to develop specific future scenarios to add additional insight into certain risks e.g. electricity market risks.





## USING THE TCFD CATEGORIES.

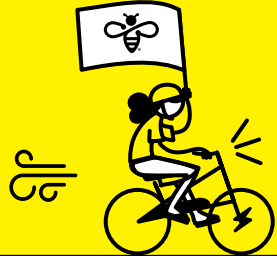
The TCFD framework suggests dividing climate change risks into the categories of: Market and Technology Shifts; Reputation; Policy and Legal; and Physical Risks.

For this analysis, additional granularity has been introduced in the market and technology shift category. This is because we operate in both the electricity and carbon markets. Technological shifts also have the potential to provide both risks and opportunities for Mercury. These risk areas have been separated out to enable a more focussed and valuable scenario analysis to be produced.

### + MARKET & TECHNOLOGY SHIFTS

Policies and investments to deliver a low carbon emissions economy.

- reduced market demand for higher-carbon products/commodities
- increased demand for energy-efficient, lower-carbon products and services
- new technologies that disrupt markets



### + POLICY & LEGAL

An evolving patchwork of requirements at international, national and regional level.

- increased input/operating costs for high carbon activities
- threats to securing licence to operate for high carbon activities
- emerging concern and liabilities

### + REPUTATION

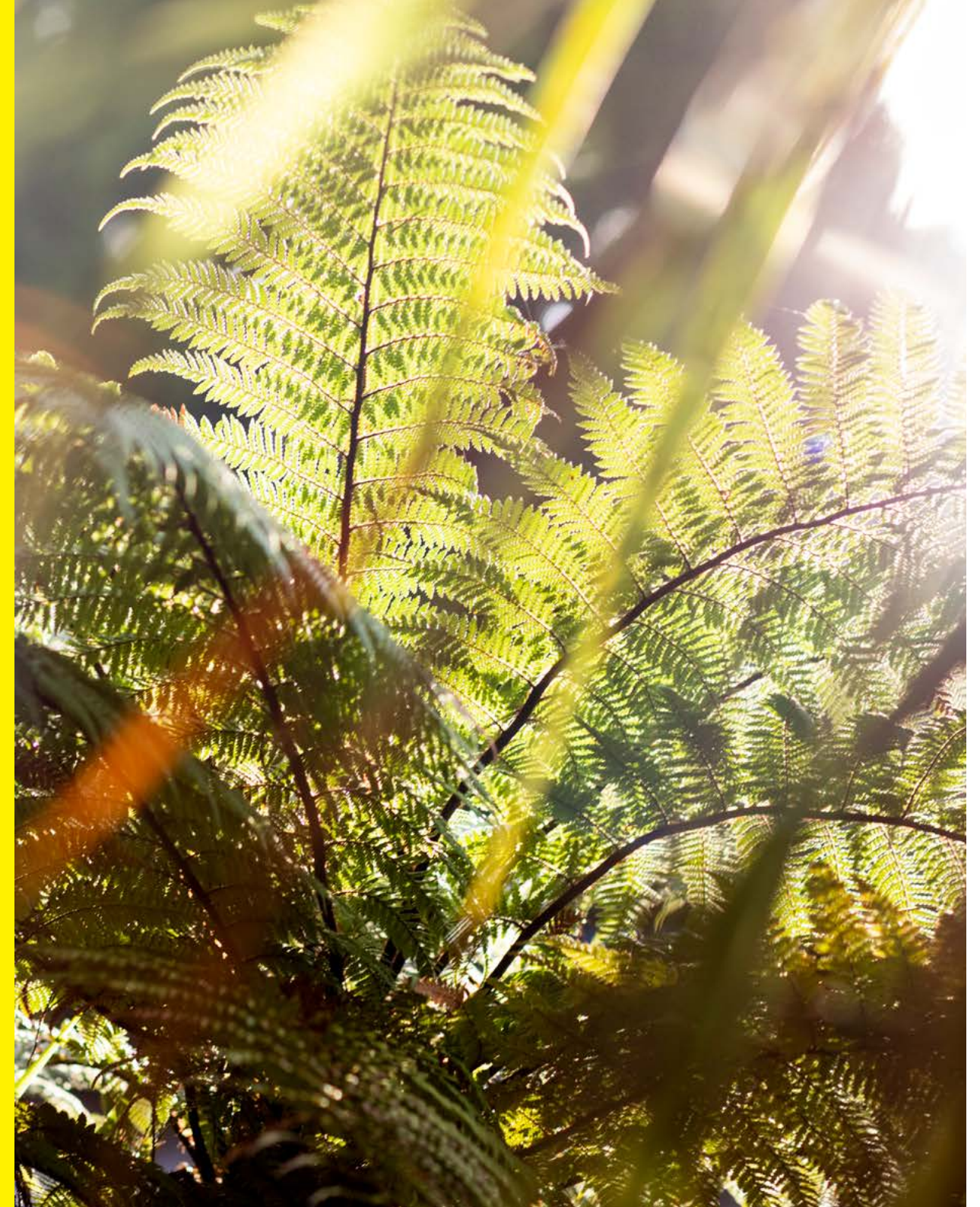
Growing expectations for responsible conduct from stakeholders, including investors, lenders and consumers.

- enhanced reputation and brand value
- loss of trust and confidence in management

### + PHYSICAL RISKS

Chronic changes and more frequent and acute extremes of climate.

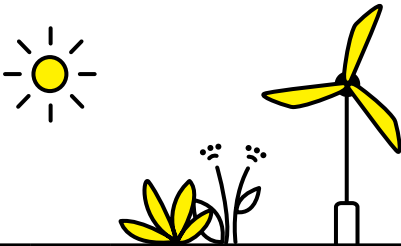
- increased business interruption and damage across operations and supply chains with consequences for input costs, revenues, asset values, and insurance claims



# RISKS & OPPORTUNITIES.

## THE TOP FIVE CLIMATE-RELATED RISKS & OPPORTUNITIES FOR MERCURY

A comprehensive list of risks and opportunities were identified through the process. In the following table, these have been broken into the top five risks and opportunities for Mercury. A second table (on the next pages) provides details of the other risks also identified against the TCFD categories.



|                        | RISKS  |   |  | OPPORTUNITIES   |  |
|------------------------|--|---|--|---|--|
|                        | <b>M</b> REGULATION THAT DOES NOT BALANCE THE ENERGY TRILEMMA  | <b>M</b> DECREASE IN ELECTRICITY DEMAND   | <b>M</b> EXTREME WEATHER EVENTS  | <b>M</b> INCREASE IN ELECTRICITY DEMAND   | <b>M</b> INCREASED INFLOWS   |
| DESCRIPTION            | Regulation could be introduced that does not consider management of New Zealand's energy trilemma, negatively impacting some elements of the trilemma (e.g. security or affordability) for others (e.g. renewability).                                       | Electricity demand could decrease due to de-industrialisation in the short to medium term as carbon prices increase. In the longer term there may be decreased winter demand due to warmer temperatures.  | Physical damage to generation assets caused by flood or other extreme weather events.  | Increase in electricity demand from significant electrification of transport (EVs, trucking and air), industrial process heat conversions to electricity, data centres, export hydrogen production and population growth. | Increases in average precipitation in the catchment provide the potential for increased generation.  |
| LIKELIHOOD             | Likely   | Possible  | Unlikely   | Likely  | Possible   |
| IMPACTS                | Increased costs and/or decreased revenue. Reduced ongoing investment. Reduced ability to attract investment.   | Decreased revenues.   | Decreased revenue and/or increased SIB capex.  | Increased revenues.   | Increased revenues.  |
| TIME PERIOD            | <b>S</b> <b>M</b> <b>L</b>   | <b>S</b> <b>M</b>   | <b>M</b> <b>L</b>  | <b>S</b> <b>M</b> <b>L</b>  | <b>M</b> <b>L</b>  |
| FINANCIAL IMPLICATIONS | Not quantified.  | Not yet quantified.   | Not quantified.  | \$6m (S), \$35m (M), \$98m (L), p.a. EBITDAF uplift.  | EBITDAF uplift of \$8.5m p.a. (M) and \$9m (L).  |
| METHODOLOGY            | Current high levels of regulatory reform present a very broad range of outcomes that are too uncertain to meaningfully quantify at this point in time.   | We continue to work through the quantification of potential EBITDAF impacts of a decrease in demand in a way that takes into account the dynamic response.  | We continue to increase the granularity of information we have on extreme weather events. This will help inform the quantification of any investment required to mitigate physical asset risk. | Using Climate Change Commission 'Tailwinds' scenario and our current 15% generation market share.   | A small (circa 2%) increase in average precipitation within the catchment (assuming 2020 prices).  |
| MANAGEMENT RESPONSE    | Maintain engagement with government, regulators and media commentators. Maintain/lead the narrative on the positive contributions of renewable electricity to New Zealand. Continue to make submissions on legislation, regulation and planning instruments. | Continue to work closely with our large commercial and industrial customers. Active promotion of electrification of transport. Continue to work with industry to explore fossil fuel substitution to electricity opportunities. Explore potential business models for green hydrogen production and data centres. | Continue to conduct scenario modelling and review outcomes to inform operating plans and any changes required to resource consent conditions and high flow management plans.                   | We are well-positioned to grow market share of generation in New Zealand with good prospects in wind and geothermal, investment in Tilt Renewables and the pipeline of wind generation development.                       | Continue to conduct scenario modelling and review outcomes to inform operating plans and any changes required to resource consent conditions and dispatch decisions. |

TIMELINE:

**S** Short

**M** Medium

**L** Long-term

RISK RATING:

**H** High

**M** Medium



# RISKS & OPPORTUNITIES.

## OTHER CLIMATE-RELATED RISKS ALSO IDENTIFIED AGAINST THE TCFD CATEGORIES

### MARKETS (ELECTRICITY & CARBON) & TECHNOLOGY

Physical and transitional climate-related risks could have significant impacts on our markets. Decarbonisation is likely to impact the relationship between supply and demand – the electrification of transport and the conversion of industrial process heat from thermal fuel sources to electricity will increase demand and present financial risks and opportunities. There are countervailing impacts on demand, including possible reduction in demand from major commercial and industrial users of electricity: the closure of the New Zealand Aluminium Smelter (NZAS) would significantly impact demand. Technological disruption may create several risks and opportunities.

### SHORT-TERM 1-5 YEARS

The increasing development and contribution to the electricity market of renewable generation has the potential to reduce electricity prices in the spot market. A further decrease could be experienced with the closure of the NZAS. Rising international aluminium and/or carbon prices could, however, improve the economics and competitiveness of the aluminium smelter making ongoing operations in New Zealand attractive.

Price volatility may increase as thermal generation reduction reduces market reserve capacity causing higher wholesale prices. Increasing carbon costs could lift thermal generation costs and wholesale prices, particularly during dry hydro periods. The increasing reliance on wind generation to firm generation may increase price volatility, as a result of the inherent variability of wind.

Our existing carbon forest credit surplus could deliver ETS compliance at below market prices, potentially reducing compliance costs by \$4 million per annum. Carbon capture and reinjection pilots could prove successful and provide an opportunity to reduce ETS compliance costs by circa \$2 million per annum.

### MID-TERM 5-10 YEARS

Increasing renewable generation could lead to higher price/supply volatility and risk, increasing the economic premium of dispatchable demand. National demand could be significantly reduced by the closure or exit of the NZAS, or the reduction in output of major industrial electricity users.

Increasing carbon costs could lift the competitiveness of renewable generation and improve the economic viability of combined intermittent generation and storage.

Technology that provides large-scale storage is likely to become more economically viable, providing solar/battery development opportunities.

### LONG-TERM 10-20 YEARS

The increase in distributed and embedded generation, particularly rooftop and large-scale solar, could reduce demand for other renewable generation development.

If gas reticulation becomes unsustainable, due to the loss of large thermal fuel users, then electricity demand could increase.

Large-scale storage could become increasingly viable providing further solar/battery development opportunities.

3-6TWh of rooftop solar distributed generation could provide both a risk (reduce demand) and an opportunity (development).

### REPUTATION

Reputational risks and opportunities arise at an organisational and sectoral level.

Recognition that renewable electricity is the key to a just transition to NetZero for New Zealand could benefit the reputation of the electricity generation sector and Mercury.

Our reputation could be enhanced through recognition as a thought leader on renewable energy and the electrification of transport as well as partnerships for action on climate change in the Waikato catchment.

Our reputation could be further enhanced as low carbon energy futures projects are developed and delivered and outcomes from geothermal emissions capture/use pilot projects prove positive.

Mercury's reputation could be enhanced through partnerships for action on climate change in the Waikato catchment and electrification of industry with key commercial and industrial customers.

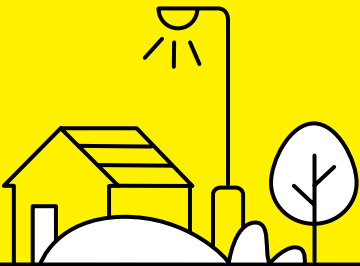
Reliability of supply could be impacted by additional network infrastructure, at the lines level, increasing the risk of asset failure impacting customer experience and our reputation.

There is a potential countervailing factor arising from an increased environmental focus on geothermal power station emissions, as higher carbon-emitting activities are reduced or retired.





# RISKS & OPPORTUNITIES.



## POLICY & LEGAL

There are several risks and opportunities that may arise either from policy responses or from the absence of policy responses. Legal risks also arise in the context of proceedings against companies and directors arising from climate-related activity or inactivity, or related representative actions, including as a result of social movements.

## SHORT-TERM 1-5 YEARS

Resource Management Act reform could negatively impact access to natural resources and/or renewable energy development.

Government policy responses may not reflect the Climate Change Commission's advice in relation to a focus on 60% renewable energy target leading to investment uncertainty for energy generation development and heavy industry in New Zealand.

Lack of clear policy direction could lead to uncertainty in investment in generation development.

Class actions against organisations and directors of organisations failing to act on climate change may become more prevalent.

The combination of sustained high prices and criticism of vertically integrated electricity generators and retailers may increase the risk of separation of generation and retail functions.

## MID-TERM 5-10 YEARS

The Government's pursuit of a 100% renewable electricity target could exacerbate dry year risk as Lake Onslow intervenes in electricity market operations resulting in impacts on the effective operation of the wholesale market and a supply surplus.

Security of supply risk could increase due to under /over investment in renewables particularly if coupled with premature retirement of thermal generation capacity.

The electricity sector regulatory regime could restrict our opportunity to ensure resilience in supply networks and could negatively impact customer experience.

Class actions against organisations and directors of organisations failing to act on climate change could increase.

## LONG-TERM 10-20 YEARS

Policy and regulation to achieve NetZero could negatively impact the energy trilemma – reliability, renewability, affordability.

Class actions against organisations and directors of organisations failing to act on climate change are very likely to increase.

## PHYSICAL

Physical risks may take the form of acute, generally shorter term events, such as fire or flood, or longer term chronic impacts, for example the less efficient operation of geothermal power stations arising from sustained increases in temperature. These may lead to financial risks and opportunities as a result of the impact on our assets, on how our business operates, or more broadly as a result of the impacts on the markets in which we operate. We continue to refine our view on physical risks, in particular how they might impact the wider electricity system.

Stressors such as storms, fire weather and lightning pose a risk to:

- major hazard facilities
- generation assets
- connected network infrastructure
- carbon forest investments
- national and international supply chains impacting generation repairs and maintenance and development

Periods of drought could reduce catchment inflows and reduce hydro generation capacity.

Stressors increase in frequency and intensity likely increasing the risk to major hazard facilities, generation assets and connected network infrastructure.

Periods of extended drought could reduce catchment inflows and reduce hydro generation capacity.

Stressors pose a risk to national and international supply chains and could impact generation and development.

Increasing average temperatures and the incidence of hot days may reduce geothermal plant output and/or the reliability of air-cooled plant and equipment increasing output variability.

Storms, fire weather and lightning could increase in frequency and intensity increasing the risk to major hazard facilities, generation assets and connected network infrastructure.

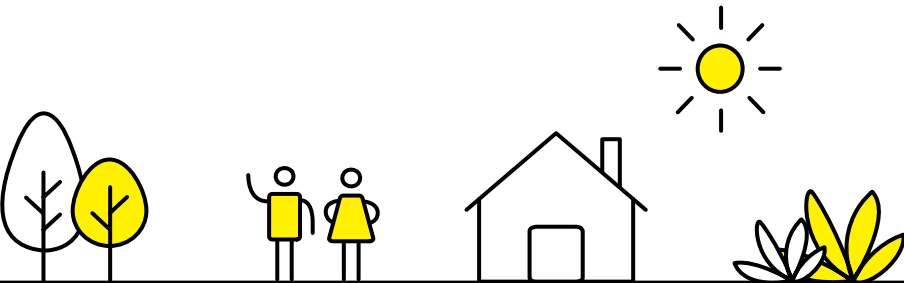
Periods of extended drought could reduce catchment inflows and reduce generation capacity.

Stressors pose a risk to national and international supply chains and could impact generation and development.

Increasing average temperatures and the incidence of hot days may reduce geothermal plant output and/or the reliability of air-cooled plant and equipment increasing output variability.

Prevailing westerly wind patterns could increase in winter providing the potential for increased wind generation which also better matches winter electricity demand.

# RESILIENCE OF STRATEGY.



**c) Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.**

We test the resilience of our strategy through the lens of these risks and opportunities. This leads to better planning for and management of these risks and opportunities. In turn, our current and future climate change disclosures become more meaningful.

**TRANSITION TO A LOW CARBON ECONOMY**

The Climate Change Commission highlighted that as Aotearoa has one of the lowest emissions electricity sectors in the world, this electricity can be used to reduce emissions through electrifying transport, process and space heating. As a fundamental element of strategy, we consider the role we can play in supporting the decarbonisation of New Zealand.

In addition to significant investments made in renewable generation development (to help reduce emissions from the electricity sector itself and other sectors), we also consider the role we can play in supporting decarbonisation of other sectors.

**DEMAND**

Electricity demand is a fundamental element of our business model. Ensuring ongoing resilience requires an approach to strategy that takes into account an increasingly uncertain future. There are multiple outlooks for the industry, with their divergence shown by way of two scenarios: (1) the transition to decarbonisation is fraught, resulting in stagnant demand and high spot prices and (2) rapid decarbonisation activities in New Zealand leads to a significant electricity demand increase over time and renewable electricity remains relatively cheap.

In relation to scenario 1 – New Zealand electricity demand has not increased since 2008, there are continued examples of de-industrialisation, the adoption of EVs has been slow mostly due to their price, and there is steadily improving energy efficiency. New Zealand Aluminium Smelter (NZAS) may or may not continue to operate beyond 2024.

In relation to scenario 2 – the Commission predicts strongly rising electricity demand (1% compounding growth to 2035).

We consider resilience to our strategy by ensuring that we are positioned for a range of different outcomes related to demand.

**SECURITY OF SUPPLY**

Maintaining security of electricity supply will continue to be an issue for New Zealand as we increase our proportion of supply from renewable sources. Thermal generation currently plays a significant role in responding to periods of reduced renewable supply such as dry periods in the hydro catchments. This is likely to continue through the transition, particularly through to 2030. During this transition period, as the share of renewable generation increases, it is likely that this will lead to higher levels of electricity spot price volatility.

There are several conversations occurring related to security of supply. The Government's New Zealand Battery Project is underway and set to advise on potential solutions to the challenge of energy security in 'dry years' (when hydro inflows are low for long periods of time). The Commission has noted that, while finding a solution to this challenge could enable a 100% renewable electricity sector, it could cost taxpayers billions of dollars. Other actions may have a larger impact on emissions reductions for the same cost as a solution to the dry year challenge.

We consider resilience to our strategy by considering implications of increasing electricity spot price volatility and participating in ongoing conversations/ processes related to security of supply.

**PHYSICAL ASSETS**

Underpinning our strategy is a long-term approach to the management of our physical assets. One element of this is that our management of dam safety risks assumes a value for Probable Maximum Flood (PMF). This is a measure of the possible volume and flow rate of the Waikato River in the event of an extreme flood. Our PMF values are prudently conservative. We are mindful that it is possible that in a changing climate PMF values may need to be increased over time. Based on currently available data and analysis, our risk management practices and mitigants are appropriate. We continue to seek out additional information to ensure resilience of our strategy.



# RISK MANAGEMENT.

**TCFD recommendation: Disclose how the organisation identifies, assesses, and manages climate-related risks.**

**a) Describe the organisation's processes for identifying and assessing climate-related risks.**

Risk management is an integral part of Mercury's business. We have an overarching Risk Management Policy supported by a suite of risk management policies appropriate for our business. The purpose of the Risk Management Policy is to embed a comprehensive capability in risk management which provides a consistent method for identification, assessment, controlling, monitoring and reporting of existing and potential risks to our business and to the achievement of its plans.

Our risk management framework meets New Zealand standard AS/NZS ISO 31000 Risk Management – Principles and guidelines.

Applying the common risk management framework, our climate change risks and opportunities are classified using a common methodology (the risk matrix) and recorded in the risk register systems. The Risk Management Committee reviews climate-related risks every year under this management framework.

**b) Describe the organisation's processes for managing climate-related risks.**

The day-to-day management of climate-related risks and opportunities occurs across Sustainability, Regulatory Affairs, Environmental Resources, Finance, Legal, Communications, Risk Assurance, Generation, Portfolio and Customer.

In relation to markets, our Portfolio and Finance teams manage risks and opportunities presented by:

- the electricity market – we continually model scenarios of resource availability, electricity market supply and demand and adjust our approach accordingly
- the carbon market – we are involved in forest carbon investments and have long-term contracts in place

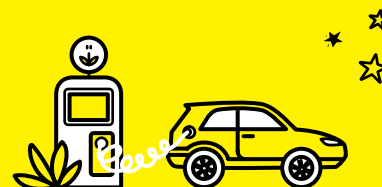
Regulatory risks and opportunities are managed by our Government and Regulatory Affairs team in conjunction with external communications. Detailed submissions have been made recently on the draft Climate Change Commission advice, changes to the New Zealand Emissions Trading Scheme, proposed regulation of climate-related disclosures and Resource Management Act reform. We interacted directly with the Climate Change Commission and support its view that a 100% renewable electricity target would negatively impact New Zealand's energy trilemma.

In relation to technology, we continue to develop our customer offering in relation to e.transport.

Physical risks and opportunities from climate change fall into acute (already impacting the business, e.g. extended periods of drought and likely to increase in the medium term) and chronic (not currently impacting the business but likely to impact over the medium to long-term). We have continued to monitor proposed methodologies for climate change risk assessment and adaptation planning, both nationally and internationally.

We have models of storm events experienced within the Waikato catchment and have worked in partnership with Waikato and Bay of Plenty Regional Councils in training exercises to educate and inform council staff on the management of storms and flood risks.

We continue to investigate scenario modelling for climate change adaptation which has revealed currently available regional level datasets are potentially too high level to provide the robust and detailed outputs required for long-term investment decisions for hydro assets. Our various submissions to the Government have highlighted the need for a review of National Institute of Water and Atmospheric Research (NIWA)'s funding model so future scenario analysis by life-line utilities and others are made from a common base of data.





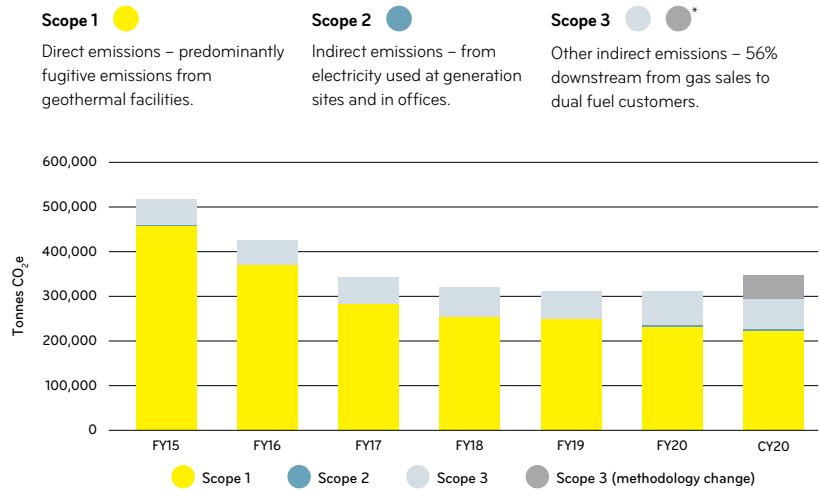
# METRICS & TARGETS.

TCFD recommendation: Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.

- a) Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process.
- b) Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks.
- c) Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets.

“OUR EMISSIONS HAVE REDUCED BY 33% SINCE 2015.

## CARBON FOOTPRINT FY15 TO CY20

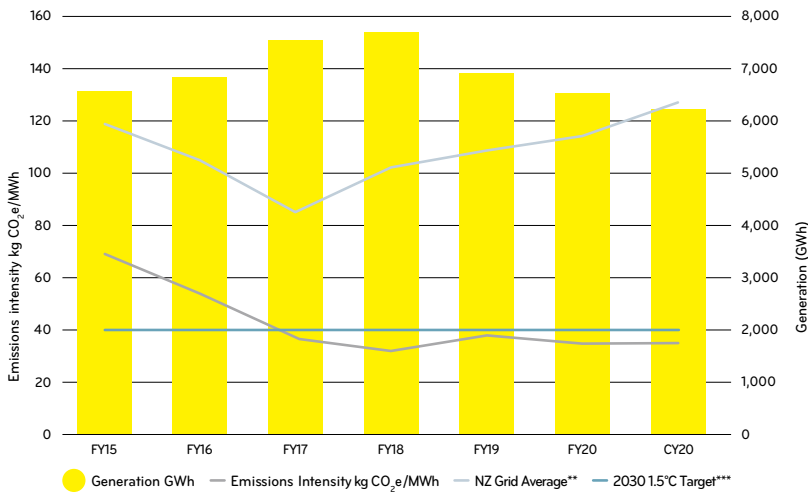


\*From CY20, we have amended our methodology for calculating Scope 3 emissions. The grey area represents Scope 3 emissions such as SIB capex and general maintenance which were not previously calculated. These emissions represent 15% of the CY20 total.

We produce an annual emission inventory report following international standards and methodologies. As can be seen from the table and graphics that follow, our emissions profile is dominated by Scope 1 emissions, namely fugitive emissions from geothermal electricity generation, which account for 64% of the entire profile. Thermal emissions from the operation of a gas-fired power station reduced to zero in FY16 as the facility was mothballed.

“OUR GENERATION EMISSIONS INTENSITY IS CONSISTENT WITH A 1.5°C FUTURE.

## EMISSIONS INTENSITY OF GENERATION FY15 TO CY20

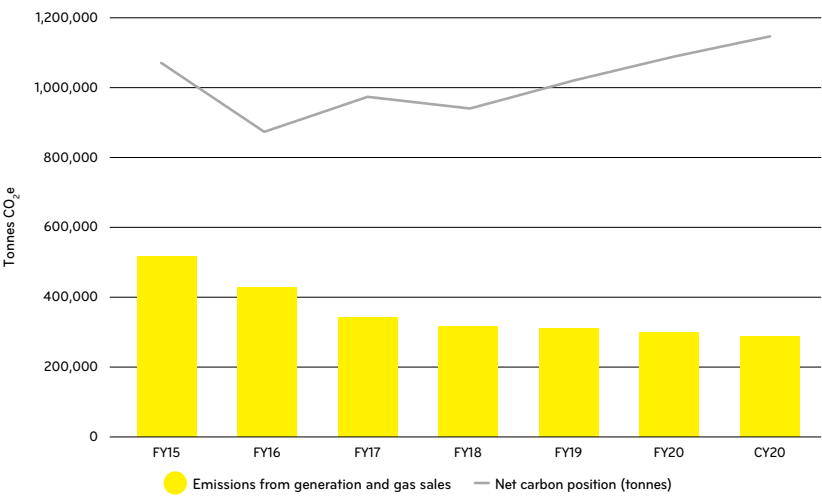


\*\* NZ Grid Average as per MBIE data.  
\*\*\* Science Based Target Initiative 2030 Sector Target for a 1.5°C future.

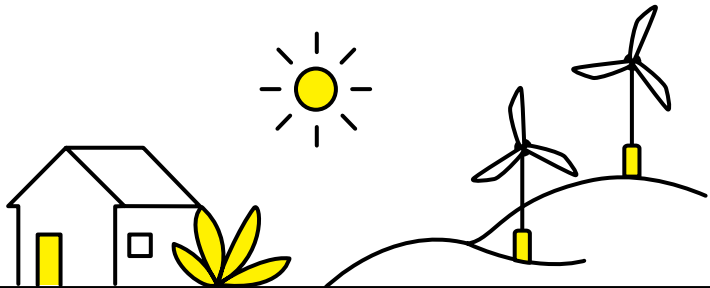
Given the predominance of fugitive Scope 1 emissions, emissions from other scopes are considered immaterial except for downstream Scope 3 emissions from the sale of gas to our domestic dual fuel customers and emissions from the purchase of capital goods measured through stay-in-business (SIB) capex spend.

Our emissions intensity for a six-year period is shown in the graph below. We've overlaid this with the New Zealand grid average intensity and the level consistent with a 1.5° future (as established by the Science Based Target Initiative). The intensity calculation uses Scope 1 emissions only, no adjustments have been made in relation to carbon credits and trading conducted under the New Zealand Emissions Trading Scheme.

## NET CARBON POSITION FY15 TO CY20



From FY21, Mercury will report these metrics on a calendar year basis to align with our global reporting obligations. CY20 covers the period 01 January 2020 to 31 December 2020 inclusive. Prior disclosures which aligned with financial year timelines have not been restated.



# THE TEAM BEHIND ENERGY FREEDOM.

A big team contributes to our Energy Freedom mission: about 750 people, around 78,000 owners, our partners and our customers. Here we introduce you to our Executive Management Team, and present our corporate governance statement including our Board of Directors. We also share our remuneration policy and report, directors' disclosures and other disclosures, information for security holders, sustainability index, a directory to help you contact us and a glossary of industry and financial terms.



# YOUR EXECUTIVE MANAGEMENT TEAM.

The Executive Management Team leads our business to ensure its continued success and to position us for future opportunities and challenges. The team all bring deep subject knowledge, and they lead their business areas focusing on working together in a changing environment.



**VINCE HAWKSWORTH //**  
CHIEF EXECUTIVE



**LUCIE DRUMMOND //**  
GENERAL MANAGER  
SUSTAINABILITY



**PHIL GIBSON //**  
GENERAL MANAGER  
PORTFOLIO



**WILLIAM MEEK //**  
CHIEF FINANCIAL OFFICER



**JULIA JACK //**  
CHIEF MARKETING OFFICER



**STEWART HAMILTON\* //**  
GENERAL MANAGER GENERATION



**CRAIG NEUSTROSKI //**  
GENERAL MANAGER CUSTOMER



**MARLENE STRAWSON //**  
GENERAL MANAGER  
PEOPLE & PERFORMANCE



\*employment started after FY21 year end.



# GOVERNANCE AT MERCURY.

## LETTER FROM OUR CHAIR.

Dear Shareholder

**It is my pleasure to present our corporate governance statement for the year ended 30 June 2021.**

This corporate governance statement outlines Mercury's Corporate Governance Framework, including information about the composition, characteristics and function of Mercury's Board, the ways in which we ensure that we act ethically and responsibly at Mercury, our approach to risk, and inclusion and diversity.

FY21 has been a year of significant activity for Mercury's Board. As has been discussed elsewhere in this report, the Board and Board Committees considered and approved key M&A transactions including Mercury's agreement to acquire Trustpower's retail business and Tilt's New Zealand operations and development options, and the divestment of Mercury's interest in the Hudson Ranch 1 geothermal power station joint venture. Mercury also adopted its Green Financing Framework and issued both retail and wholesale green bonds in accordance with that framework. The Tilt transaction and our green bond issuances demonstrate Mercury's support for the need to take bold action to achieve the Climate Change Commission's goal of net zero carbon emissions in Aotearoa New Zealand by 2050.

### BOARD CHANGES & SUCCESSION PLANNING

Keith Smith will retire at the Annual Shareholders' Meeting (ASM) this year after 12 years as a director including over 10 years serving as Chair of our Risk Assurance and Audit Committee. Keith's broad experience in a range of industries has been invaluable for Mercury. In addition, he has been instrumental in the evolution of Mercury's risk management framework. On behalf of the Board, I would like to thank Keith for his significant contribution to the Board and to Mercury.

Through the Nominations Committee we have undertaken a comprehensive review of the collective skills and experience of the directors, matched against our refreshed skills matrix and likely tenures, as it is important that our succession planning ensures we have the right mix of skills and experience over time.

While Keith's retirement means we lose some of our financial and audit capability, that skill set will be well covered by James Miller and Scott St John. Our review concluded it is timely to add a director with operational experience at a very senior level in the New Zealand energy industry. Your Board was extremely pleased to appoint Dennis Barnes as a director with effect from 1 September 2021. Dennis will retire and stand for election at the ASM in September this year.

I am also very pleased to advise that we have selected Kim Gordon, an Auckland-based technology consulting partner with law firm MinterEllison, as our fourth "future director" under the Future Directors programme established by the Institute of Directors. The Board selected Kim due to her strong technology and retail skills and her commitment to growing a governance portfolio.

### BOARD SKILLS MATRIX

This year the Nominations Committee has reviewed and updated the [Board skills matrix](#). The skills matrix is now presented in the context of key outputs required from directors, which is important in our succession planning. We have strived to balance deep commercial experience with specialist skills, so that the Board as a whole has the capability to ensure Mercury can achieve its strategic objectives and deliver long-term value for shareholders. We have identified a need for the skills of the Board to evolve to support a sustained period of generation build and development projects as we enter a phase of executing our development portfolio. Skills are assessed at the level of the Board as a collective, as opposed to each individual director, as this is a better indicator of overall

Board capability. However, the key skills which individual directors contribute to the Mercury Board are highlighted under each [director's profile](#). Again, this is important for our succession planning.

We have put a lot of thought into these changes and I hope that you will find the refreshed approach both more informative and more transparent.

### EXECUTIVE MANAGEMENT TEAM

In response to the evolution of our strategy, we have supported a restructure of our Executive Management Team (EMT). Mercury has realigned its business with seven executive roles reporting to the Chief Executive: three existing roles of Chief Financial Officer, Chief Marketing Officer, and General Manager People and Performance; and newly created roles of General Manager Generation, General Manager Portfolio, General Manager Sustainability and General Manager Customer. Three roles were dis-established. These changes will help contribute to our ongoing success and position us well for the future. Please see further detail about the EMT in [Your Executive Management Team](#).

### GREEN FINANCING FRAMEWORK & BOND ISSUANCE

This year, the Board approved the adoption of Mercury's Green Financing Framework and the issuance of our first green bonds. This demonstrates our commitment to a low carbon future for New Zealand, supports our investment in renewable energy generation assets and activities, and encourages the growth of green financial instruments and associated investments.

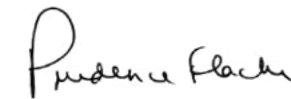
The issuance of green bonds enables investors to actively invest in financing that contributes towards sustainable development of projects and expenditure relating to renewable energy and other eligible projects, in accordance with the Green Financing Framework. Mercury has obtained programmatic certification for our green bonds from the Climate Bonds Initiative Standard.

### CORPORATE CONFIDENCE INDEX

I am pleased to note that the Board was recognised during the reporting period in the annual Corporate Confidence Index (CCI) in critical areas such as effective board, high standard of corporate governance and appropriate board composition.

### ANNUAL SHAREHOLDERS' MEETING

Finally, I look forward to engaging with our shareholders at our upcoming ASM. This year, preparations are well underway to hold our first ASM in the hybrid format, with shareholders being able to join in person or remotely using their PC or other device. We recognise and are broadly supportive of the New Zealand Shareholders' Association's Policy on Annual and Special Shareholder Meetings and the principle of maximising meaningful shareholder participation and quality engagement.



PRUE FLACKS  
CHAIR

# YOUR BOARD OF DIRECTORS.



**PRUE FLACKS // CHAIR**

First Appointed // 1 May 2010

Last Elected // 28 September 2018

Appointed Chair of the Board in September 2019

**Key Skills\*:** Governance; commercial experience; stakeholder relationships; people leadership.

Prue is an experienced director across a range of industries. She was formerly a commercial lawyer and a partner in Russell McVeagh for more than 20 years. Prue is currently a director of Chorus and was formerly a director of Bank of New Zealand, and chair of Queenstown Airport Corporation.



**HANNAH HAMLING // DIRECTOR**

First Appointed // 1 February 2020

Last Elected // 24 September 2020

**Key Skills\*:** Natural resource management (including water and climate change); health & safety; risk management.

Hannah is an environmental scientist with a particular interest in sustainable development and resilience. Hannah has an extensive background in consulting, management and board roles across various sectors including electricity, construction and water management. Until January 2020, she was President of the Asia Pacific Region and Global Sustainable Development Leader for Golder, a Canadian global ground engineering and environmental science company. Before joining Golder, Hannah was Managing Director of New Zealand environmental consultancy firm Kingett Mitchell.



**ANDY LARK // DIRECTOR**

First Appointed // 10 July 2014

Last Elected // 24 September 2020

**Key Skills\*:** Digitisation, disruption and innovation; broad experience in customer facing businesses.

Andy has a background in entrepreneurship, marketing and digital technologies. He is currently the Chair of Group Lark, an accelerant for brand and digital transformations, and Chief Marketing and Strategy Officer for Dubber, a provider of cloud-based call recording and voice AI. Prior roles include Chief Marketing & Online Officer for the Commonwealth Bank of Australia, Chief Marketing Officer for Dell's Large Enterprise & Public Group, Chief Marketing and Digital Officer for Foxtel, and Chief Business Officer for Xero.



**JAMES MILLER // DIRECTOR**

First Appointed // 2 May 2012

Last Elected // 27 September 2019

**Key Skills\*:** M&A and capital structure; investment analysis; audit and risk management; energy industry.

James has significant experience in capital markets including specialist expertise in the energy sector and in utility economics. James is Chair of NZX, Deputy Chair of Accident Compensation Corporation, and a director of The New Zealand Refining Company. He was recently appointed as a director of Vista Group International with effect from 31 August 2021. James was previously a director and Head of NZ Wholesale Equities with Craigs Investment Partners, Head of Equities and Head of Research at ABN AMRO and a director of Auckland International Airport. James is a chartered accountant and will chair Mercury's Risk Assurance and Audit Committee following Keith Smith's retirement.



**KEITH SMITH // DIRECTOR**

First Appointed // 1 May 2009

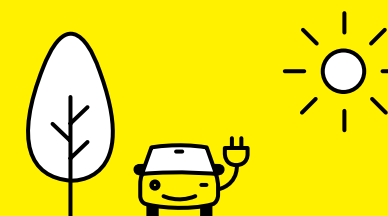
Last Elected // 28 September 2018

**Key Skills\*:** Governance; finance and audit; risk management; commercial experience.

Keith is a deeply experienced chartered accountant and director of both public and private companies across a wide range of industries. He is Chair of Goodman (NZ), a director of Sky TV and a trustee for Cornwall Park Trust Board. Prior roles include Deputy Chair of The Warehouse Group and director of Genesis Energy.

Keith steps down from the Board on 23 September 2021 after 12 years' service.

\*Key Skills are defined as the particular skills each director brings to the Mercury Board, and what we would need to consider replacing when that director retires.



# GOVERNANCE AT MERCURY.



**SCOTT ST JOHN // DIRECTOR**

First Appointed // 1 September 2017  
Last Elected // 24 September 2020  
**Key Skills\*:** M&A and capital structure; stakeholder relationships; commercial experience; people leadership.

Scott has an extensive background in investment advisory and capital markets. Scott is Chair of Fisher & Paykel Healthcare Corporation and a director of Fonterra Cooperative Group and ANZ New Zealand. He was the Chief Executive of First NZ Capital from 2002 to 2017 and was formerly Chancellor of the University of Auckland.



**PATRICK STRANGE // DIRECTOR**

First Appointed // 1 February 2014  
Last Elected // 24 September 2020  
**Key Skills\*:** Energy industry; major project investment; health and safety.

Patrick has spent more than 30 years working as a senior executive and director in both private and listed companies, including more than six years as Chief Executive of Transpower New Zealand. Patrick currently chairs Chorus and Auckland International Airport and was previously a Director of NZX Limited and Essential Energy, Australia.



**MIKE TAITOKO // DIRECTOR**

First Appointed // 28 August 2015  
Last Elected // 28 September 2018  
**Key Skills\*:** Iwi and other stakeholder relationships; natural resource management (including water and climate change); digitisation.

Mike is a leading advisor on Māori economic development and has well-established networks in Māoridom. Mike has strong commercial skills in the application of digital technologies and is the co-founder and CEO of Takiwā, a technology company commercialising cloud-based geospatial analytics services. He was formerly a Director of Auckland Tourism Events and Economic Development (ATEED).



**DENNIS BARNES\* // DIRECTOR<sup>1</sup>**

First Appointed // With effect from 1 September 2021  
**Key Skills\*:** Energy industry; people leadership; major project investment.  
Dennis was most recently Chief Executive of Contact Energy, a nine year role during which he led Contact Energy's investment in renewable energy and flexible generation (including construction of the Te Mihi geothermal power station, the development of the Tauhara field and the introduction in 2011 of the Ahuroa gas storage facility and Stratford peaking plant). Before this role, Dennis managed Origin Energy's significant portfolio of wholesale markets activities.

1. Dennis was not a director during the reporting period. Dennis joins the Board on 1 September 2021 and will stand for election at the 2021 ASM in September.



**KIM GORDON // FUTURE DIRECTOR**

First Appointed // 1 May 2021  
**Key Skills\*:** Digitisation; experience in customer businesses.  
Kim is a partner at MinterEllison, specialising in technology consulting. She has a wide range of experience with public and private organisations, across legal, energy and finance sectors, and an extensive background in technology and technology-centric transformation. As a Future Director, Kim is invited to attend Mercury Board meetings and Committee meetings, although she does not participate in decision-making.



\*Key Skills are defined as the particular skills each director brings to the Mercury Board, and what we would need to consider replacing when that director retires.



# CORPORATE GOVERNANCE FRAMEWORK.

This corporate governance statement (comprising pages 77 to 93 of this report) has been prepared in accordance with NZX Listing Rule 3.8.1(a) and was approved by the Board of Mercury NZ Limited on 17 August 2021. The information contained in this corporate governance statement is current as at that date. Some information in the corporate governance statement is expressed to be current at another date, for example the FY21 balance date of 30 June 2021.

At Mercury, we are committed to the highest standards of corporate governance. Our corporate governance framework includes robust policies and processes which are fundamental to all of Mercury's foundational pillars. At the heart of this framework is our commitment to protect and enhance the interests of our owners through the highest standards of governance, business behaviour and transparency.

Our corporate governance framework underpins the maintenance of strong relationships with our stakeholders and our ability to create long-term value. It also ensures Board accountability to our owners and provides for an appropriate delegation of responsibilities to our Chief Executive and our Executive Management Team (EMT).

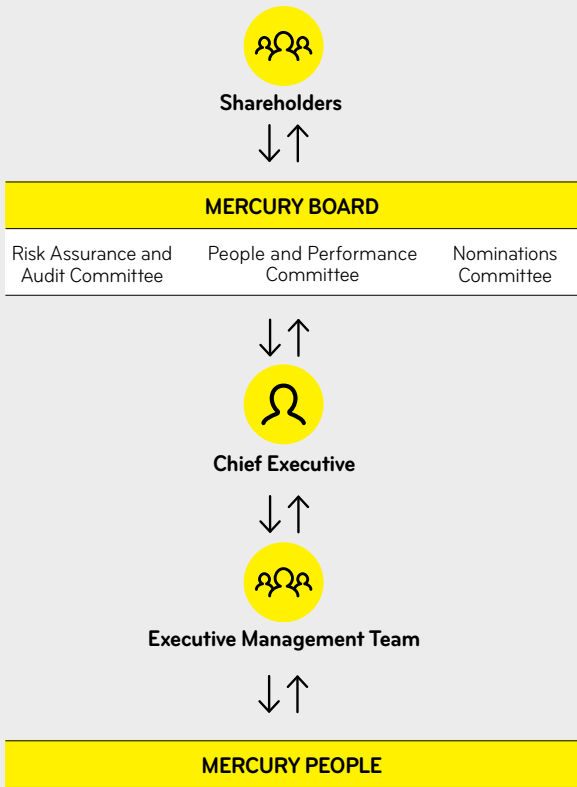
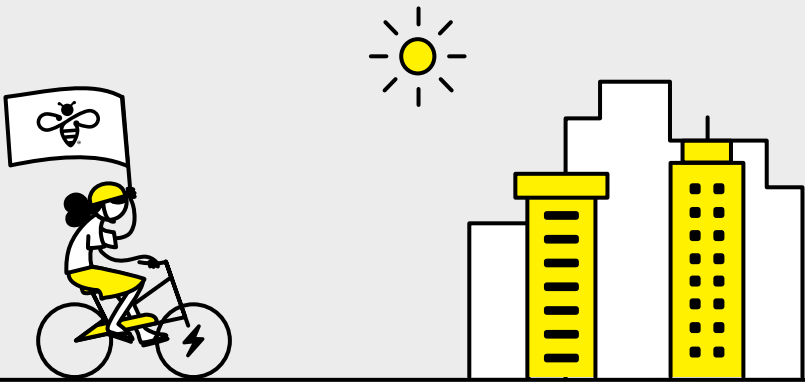
The Board regularly reviews our corporate governance policies and practices to ensure compliance with NZX and ASX standards (Mercury is an ASX Foreign Exempt Listed company) as well as reflecting contemporary corporate governance trends in New Zealand and Australia.

Over the reporting period, our corporate governance practices were in substantial compliance with the NZX Corporate Governance Code. The only exception relates 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. This exception is fully explained later in this statement.

While not required due to our ASX foreign-exempt listing status, we also comply with ASX Corporate Governance Principles and Recommendations (fourth edition).

We consider that governance at Mercury generally aligns with the BlackRock Corporate Governance and Engagement Principles published in January 2021 and we disclose against the framework set out by the Financial Stability Board Taskforce on Climate Related Financial Disclosures (see the [TCFD Report](#)).

We consider our practices and procedures substantially reflect the guidelines and principles from the International Corporate Governance Network (ICGN) Global Governance Principles and the Organisation for Economic Cooperation and Development (OECD).



# MERCURY'S BOARD.

## BOARD COMPOSITION & CHARACTERISTICS

### The Board

The Board comprises eight directors: Prue Flacks (Chair), Hannah Hamling, Andy Lark, James Miller, Keith Smith, Scott St John, Patrick Strange and Mike Taitoko. Kim Gordon is Mercury's current Future Director. Dennis Barnes will be joining the Board as a director from 1 September 2021. Keith Smith steps down from the Board on 23 September 2021 after 12 years' service. A brief profile of each director is available [here](#).

### Chair

Prue Flacks is the Chair of the Board and was first appointed as a director in 2010 and was appointed as Chair in 2019. Prue is an independent, non-executive director. The Chair's overarching responsibilities are to provide leadership to the Board and to ensure the Board is well informed and effective. More information about the role of the Chair is contained in the Board Charter (in the [Corporate Governance section](#) of our website).

### Future Director

Kim Gordon was appointed as our fourth Future Director on 1 May 2021. Her appointment runs for 18 months. The Board has been a long-standing supporter of the Institute of Directors' Future Directors Programme which provides people with governance potential and ambition with mentorship and the opportunity to participate on a board. It aims to increase the next generation of board-ready directors in New Zealand. Mercury has offered three previous appointees valuable experience sitting at the board table for 12 or more months. Future Directors are invited to

attend Mercury Board meetings and Committee meetings, although they do not participate in decision making.

### Structure

The Board is structured to ensure that as a collective group it has the skills, experience, knowledge, diversity and perspective to fulfill its purpose and responsibilities. The Board's responsibilities are set out in Mercury's Board Charter.

### INDEPENDENCE & CONFLICTS

All of Mercury's 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 incentive 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.

## RESPONSIBILITIES

The Board is responsible for Mercury's strategic direction and operation and has delegated certain responsibilities to the Chief Executive and the Executive Management Team (EMT). Our Board is committed to creating long-term value for investors and to safeguarding the highest standards of governance, corporate behaviour and accountability.

| The Board's responsibilities are set out in the Board Charter, and include: |   |
|---|---|
| Strategy and Planning   | <ul style="list-style-type: none"><li>establishing clear strategic goals with appropriate supporting business plans and resources</li><li>monitoring strategy implementation</li></ul>  |
| Environmental and Health & Safety   | <ul style="list-style-type: none"><li>ensuring Mercury's environmental and health and safety culture and practices comply with all legal requirements, reflect best practice in New Zealand and are recognised by employees and other stakeholders as key priorities</li></ul>  |
| Financial Performance and Integrity   | <ul style="list-style-type: none"><li>monitoring financial performance and the integrity of reporting</li></ul>   |
| Executive Authority   | <ul style="list-style-type: none"><li>setting delegated authority levels for the Chief Executive and EMT</li></ul>  |
| Risk and Audit  | <ul style="list-style-type: none"><li>ensuring that effective audit, risk management and compliance systems are in place and monitored to protect Mercury's assets and to minimise the possibility of Mercury operating beyond legal or regulatory requirements or beyond acceptable risk parameters as determined by the Board</li></ul> |
| Ethics and Corporate Behaviour  | <ul style="list-style-type: none"><li>ensuring Mercury adheres to high standards of corporate behaviour, responsibility and ethics</li></ul>  |

The Board reviews Mercury's Board Charter at least every two years.

| The Chief Executive and EMT are responsible for:  |
|---|
| <ul style="list-style-type: none"><li>developing and making recommendations to the Board on Mercury strategies and associated initiatives</li><li>managing and implementing strategies approved by the Board</li><li>formulating and implementing policies and reporting procedures for management</li><li>decision making compatible with Mercury's Delegations Policy</li><li>managing business risk</li><li>the day-to-day management of Mercury</li></ul> |

The Chief Executive and EMT have appropriate employment agreements setting out their roles and conditions of employment.

Chief Executive and EMT performance are reviewed regularly against objectives and measures set by the Board in annual performance scorecards. The Chief Executive's and each EMT member's performance were evaluated during the reporting period on this basis. Further details are contained in the [Remuneration Report](#).

## GOVERNANCE AT MERCURY.

### SELECTION, NOMINATION & APPOINTMENT

We undertake appropriate checks before appointing a director or putting forward any candidate for election as a director in accordance with our governance processes.

All directors are elected by Mercury's shareholders (other than directors appointed by the Board to fill casual vacancies, who must retire and stand for election at the next meeting of shareholders) with rotation and retirement determined by the NZX Listing Rules. The Board is responsible for considering and appointing directors to the Board after candidates have been identified by the Nominations Committee (see [Board Committees](#)).

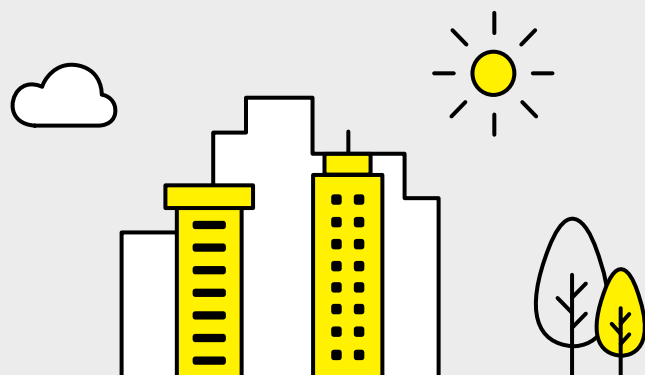
Mercury has a written agreement with each director set out in a letter of appointment containing the terms and conditions of their appointment. A copy of the standard form of this letter is available in the [Corporate Governance](#) section of our website. In addition, Mercury also enters into deeds of indemnity and insurance with each director, in terms of which Mercury indemnifies, and provides insurance to, directors in accordance with the Companies Act 1993.

### INDUCTION & DEVELOPMENT

All new directors participate in a comprehensive induction programme to familiarise them with Mercury's business and the electricity industry.

The Board receives regular briefings on Mercury's business operations from senior managers. Regular Board strategy days are held to consider matters of strategic importance to Mercury, and Board and management run scenario thinking sessions for key issues. Visits to Mercury's facilities keep the Board informed of Mercury's assets and operations and in particular with respect to health and safety and wellness matters. In this reporting period the Board introduced a programme designed to enhance the effectiveness of directors. This programme involves both deep-dives into aspects of Mercury's business and sessions focusing on the broader environment including future trends and innovation. Directors are also encouraged to continue their own professional development by attending relevant courses, conferences and briefings.

It is fundamental to the Board that directors have and are committing sufficient time to perform their duties properly and effectively. The Board has considered this issue during the reporting period and is satisfied that, taking into account all of their commitments, each director had sufficient time to perform their Mercury duties.





## GOVERNANCE AT MERCURY.

### BOARD SKILLS MATRIX

The Board strives to ensure that Mercury has the right mix of skills and experience for Mercury to achieve its strategic goals. The Board also focuses on ensuring it takes advantage of, and benefits from, the diversity of skills, backgrounds and experiences of the individual directors and that its culture reflects Mercury's values.

When the Board, through the Nominations Committee, assesses its skills and competencies, it does so in the context of key outputs required from the Board:

- setting risk parameters for both value creation and value protection
- cultural leadership to reflect our values, environmental kaitiakitanga and social licence to operate
- strategy development in an environment of disruption, requiring the courage to challenge, resilience and agility to respond

During the reporting period, the Nominations Committee has undertaken a comprehensive analysis of the skills of the Board and has reviewed and updated the Board skills matrix. The refreshed skills matrix more readily enables an assessment of skills within the context described above. Recognising that how well the Board performs is a function of the skills and experience of individual directors and how the directors work together as a whole, it is considered that addressing the level of skills and experience collectively is a better indicator of Board capability overall.

Although the Board fosters collaborative and open discussion and each director is expected to contribute broadly, the key skills which individual directors contribute to the Mercury Board are indicated in the [director profiles](#). The purpose of identifying key skills at an individual level is to signal the skills which would need to be considered when a director retires. This is important for succession planning purposes.

| Skill & Experience Category  | Combined Board | Skill & Experience Category                                 | Combined Board | Skill & Experience Category  | Combined Board |
|--|----------------|---|----------------|--|----------------|
| <b>Strategy &amp; risk settings</b>  |                | <b>Stakeholders</b>   |                | <b>Governance &amp; risk management</b>  |                |
| Significant commercial experience across different industries and economic cycles                              |                | Customer relationships, including vulnerable customers      |                | Governance experience, including listed companies                                    |                |
| Major project investment and experience  |                | Government relationships                                    |                | Finance/accounting/audit committee experience  |                |
| M&A and capital structure experience   |                | Shareholder/investment community relationships              |                | Risk management process and experience, including cyber security and climate related |                |
| Digitisation, disruption and innovation in energy and other sectors  |                | Iwi relationships/connectivity                              |                | <b>People leadership</b>   |                |
| Natural resource management (including water and environmental)  |                | <b>Energy industry</b>                                      |                | Health and safety experience   |                |
| <b>Retail</b>  |                | Electricity industry experience                             |                | Large organisation leadership experience   |                |
| Understanding key drivers of value in a customer facing business, through governance or operational experience |                | Wholesale markets trading (energy and/or other commodities) |                | <b>KEY</b>   |                |
|  |                |   |                | Substantial  |                |
|  |                |   |                | Medium   |                |
|  |                |   |                | Some   |                |

GOVERNANCE AT MERCURY.

REVIEWING PERFORMANCE

The performance of the directors (individually and collectively), and the effectiveness of Board processes and committees, are regularly evaluated using a variety of techniques including external consultants, questionnaires and Board discussion. A performance review led by the Chair was carried out during the reporting period. The next full review, with the assistance of an external facilitator, will be carried out during the calendar year 2021.

TENURE

Mercury notifies shareholders of their right to nominate a candidate for election as a director by stock exchange notice. Where any director election or re-election is to occur at a shareholder meeting, the Notice of Meeting includes all information on candidates for director election or re-election that the Board considers may be useful to provide to shareholders.

Directors must retire every three years and, if desired, seek re-election.

The Mercury Board takes director tenure into account in considering the independence of directors.



6+ YEARS



3-6 YEARS



0-3 YEARS

As signaled at Mercury's 2018 ASM, Keith Smith will retire at the September 2021 ASM and will not stand for re-election. Prue Flacks and Mike Taitoko, having served for three years since their last re-election, will retire at the September 2021 ASM and stand for re-election in accordance with the NZX Listing Rules.

| Director            | Originally Appointed | Last Reappointed/<br>Elected |
|---------------------|----------------------|------------------------------|
| Prue Flacks (Chair) | 1 May 2010           | 28 September 2018            |
| Hannah Hamling      | 1 Februray 2020      | 24 September 2020            |
| Andy Lark           | 10 July 2014         | 24 September 2020            |
| James Miller        | 2 May 2012           | 27 September 2019            |
| Keith Smith         | 1 May 2009           | 28 September 2018            |
| Scott St John       | 1 September 2017     | 24 September 2020            |
| Patrick Strange     | 4 February 2014      | 24 September 2020            |
| Mike Taitoko        | 28 August 2015       | 28 September 2018            |

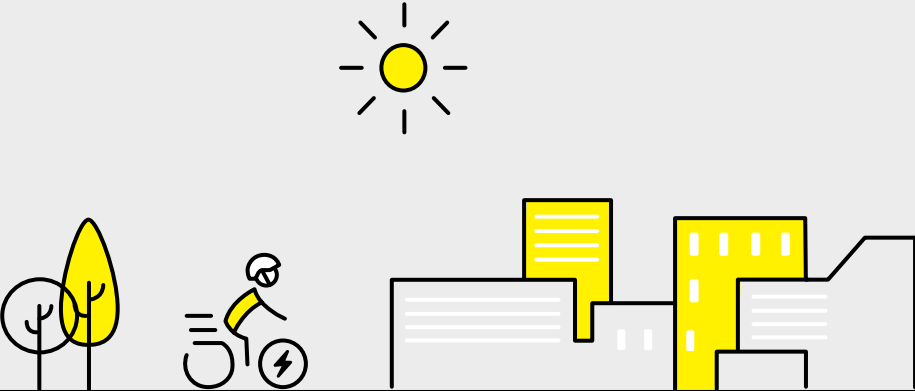
Dennis Barnes was appointed a director after the reporting period, with effect from 21 September 2021. He will stand for election at the September 2021 ASM.

BOARD COMMITTEES

The Board has three standing committees: the Risk and Assurance & Audit Committee (RAAC), the People and Performance Committee and the Nominations Committee. Each Committee focuses on specific areas of governance. Together, they strengthen the Board's oversight of Mercury. Committee meetings are scheduled to coordinate with the Board meeting cycle. Each Committee reports to the Board at the subsequent Board meeting and makes recommendations to the Board for consideration as appropriate.

As an exception to the NZX Corporate Governance Code, Mercury does not comply with Recommendation 3.3 because it does not have a separate remuneration committee. This exception has been approved by the Board. The functions that would ordinarily be allocated to a remuneration committee are shared between the People and Performance Committee in respect of the Chief Executive and the EMT, and the Nominations Committee in respect of the directors.

An overview of the role and responsibilities, membership and meetings of the Board's three standing Committees during the reporting period is provided in the table on the next page.



|                                   | People & Performance Committee   | Risk Assurance & Audit Committee  | Nominations Committee  |
|-----------------------------------|--|---|--|
| <b>Roles and responsibilities</b> | <p>Assisting the Board to fulfil its People and Performance responsibilities relating to:</p> <ul style="list-style-type: none"> <li>Mercury's People and Performance strategy and plan</li> <li>review of inclusion and diversity objectives and progress against objectives</li> <li>the remuneration and performance of the Chief Executive and EMT</li> <li>People and Performance policies and practices</li> </ul> <p>Monitoring and providing guidance to management on People and Performance related matters.</p> | <p>Overseeing, reviewing and advising the Board on Mercury's:</p> <ul style="list-style-type: none"> <li>risk management policy and processes (which include oversight of Health &amp; Safety assurance and climate-related risks and opportunities)</li> <li>internal control mechanisms and internal and external audit functions</li> <li>compliance with policies and processes</li> <li>financial information prepared by management for publication</li> </ul> <p>Management retains responsibility for the implementation and operation of adequate risk assurance, internal control and audit systems. The Board has delegated to the RAAC the authority to oversee and monitor these activities.</p> | <p>Providing assurance that the Board has the composition, expertise and diversity of thought to comply with the law, high standards of governance and Mercury's strategic objectives.</p> <p>In particular:</p> <ul style="list-style-type: none"> <li>identifying, for the Board to consider, people with the necessary expertise, experience, diversity and perspectives for selection as potential directors to be nominated for election at the next annual shareholder meeting or to fill a casual vacancy on the Board</li> <li>reviewing director nominations from shareholders</li> <li>ensuring that appropriate checks are undertaken before recommending individuals be appointed</li> <li>developing and maintaining a record and assessment of the skills, experience and knowledge of directors</li> <li>recommending to the Board an annual evaluation process of the Board and its committees</li> <li>developing, maintaining and recording an assessment of the skills, experience and knowledge of directors</li> <li>recommending to the Board any proposal relating to director remuneration to be put to shareholders</li> <li>ensuring that succession plans are in place for the continued effective composition and expertise of the Board</li> <li>recommending induction and continuing education for directors</li> </ul> |
| <b>Membership</b>                 | <p>At least three directors, the majority of whom must be independent.</p> <p>Members as at 30 June 2021:</p> <ul style="list-style-type: none"> <li>Scott St John (Chair)</li> <li>Andy Lark</li> <li>Mike Taitoko</li> </ul> <p>Prue Flacks is also a member by virtue of her position as Board Chair.</p>   | <p>At least three directors, each of whom must be independent non-executives.</p> <p>Members as at 30 June 2021:</p> <ul style="list-style-type: none"> <li>Keith Smith (Chair)</li> <li>Hannah Hamling</li> <li>James Miller</li> <li>Patrick Strange</li> </ul> <p>Prue Flacks is also a member by virtue of her position as Board Chair.</p> <p>The Board Chair is not eligible to Chair the Committee.</p> <p>At least one member must have an accounting or financial background as that term is described in the NZX Listing Rules.</p>   | <p>At least three directors, the majority of whom must be independent.</p> <p>Members as at 30 June 2020:</p> <ul style="list-style-type: none"> <li>Prue Flacks (Chair)</li> <li>James Miller</li> <li>Patrick Strange</li> </ul>   |
| <b>Meetings</b>                   | <p>At least three times annually.</p> <p>During the reporting period, the Committee met four times.</p>  | <p>At least three times annually.</p> <p>During the reporting period, the Committee met four times.</p>   | <p>At least annually.</p> <p>During the reporting period, the Committee met once.</p>  |



# GOVERNANCE AT MERCURY.

The table below outlines the number of meetings of the Board and standing Committees during FY21 and director attendance at those meetings.

|  | Board | Risk Assurance & Audit Committee | People & Performance Committee | Nominations Committee |
|--|-------|----------------------------------|--------------------------------|-----------------------|
| Number of Meetings   | 9*    | 4                                | 4                              | 1                     |
| Prue Flacks  | 9     | 4                                | 4                              | 1                     |
| Hannah Hamling   | 9     | 4 <sup>1</sup>                   | 1 <sup>2</sup>                 |                       |
| Andy Lark  | 9     |                                  | 4                              |                       |
| James Miller   | 9     | 4                                |                                | 1                     |
| Keith Smith  | 9     | 4                                |                                |                       |
| Scott St John  | 9     | 4 <sup>3</sup>                   | 4                              |                       |
| Patrick Strange  | 9     | 3                                |                                | 1                     |
| Mike Taitoko   | 9     |                                  | 4                              |                       |
| *In addition to the meetings detailed above, eight further meetings were held during FY21. These meetings were outside of, and in addition to, the usual meeting cycle and were in relation to M&A transactions, including the Tilt and Trustpower transactions. |       |                                  |                                |                       |

- Hannah Hamling attended one Risk Assurance and Audit Committee meeting as an observer.
- Hannah Hamling attended one People and Performance Committee meeting as an observer.
- Scott St John attended four Risk Assurance and Audit Committee meetings as an observer.

Information on the relevant qualifications and experience of Committee members is available in [Your Board of Directors](#).

Mercury assesses on a regular basis whether additional standing or ad hoc committees are required. Additional temporary committees are established from time to time, including as required to provide governance oversight on short-term projects. As at the date of this statement, Mercury has considered that no other standing committees are required.

During the year ended 30 June 2021, the Board established three temporary committees for discrete projects, including the Tilt transaction. The Board also approved director representation on the Due Diligence Committee established for a green bond issuance.

The table below details the directors that were members of those temporary committees and the number of meetings held.

|   | Temporary Committee                             | Meetings attended |
|---|---|-------------------|
| 1 | Prue Flacks                                     | 6                 |
|   | James Miller                                    | 6                 |
|   | Scott St John                                   | 6                 |
|   | Patrick Strange                                 | 6                 |
| 2 | Andy Lark                                       | 2                 |
|   | Hannah Hamling                                  | 2                 |
|   | Scott St John                                   | 2                 |
|   | Mike Taitoko                                    | 2                 |
| 3 | Prue Flacks                                     | 1                 |
|   | James Miller                                    | 1                 |
|   | Scott St John                                   | 1                 |
|   | Patrick Strange                                 | 1                 |
|   | Director members of the Due Diligence Committee | Meetings attended |
| 4 | Prue Flacks                                     | 4                 |
|   | Hannah Hamling                                  | 4                 |
|   | James Miller                                    | 4                 |

## COMMITTEE CHARTERS

Each standing Committee operates in accordance with a written Charter approved by the Board and reviewed as required and at least every two years. The Committee Charters are available in the [Corporate Governance section](#) of our website.

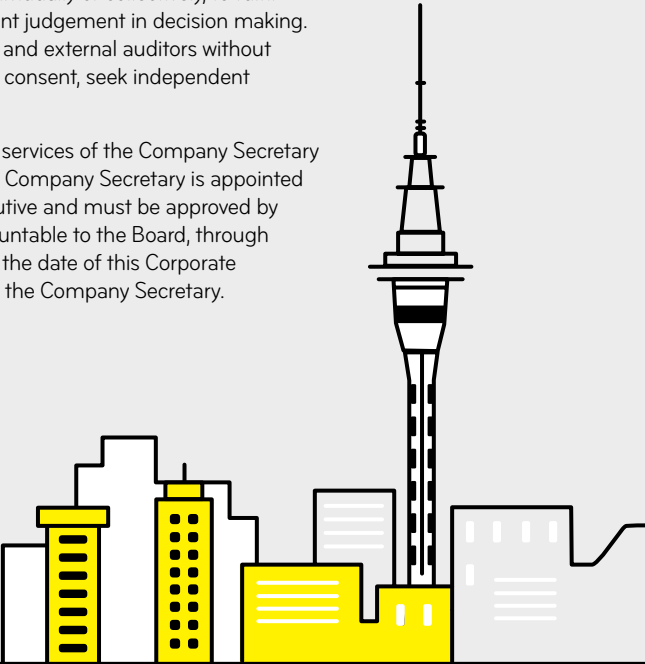
## DIRECTORS' MERCURY SHAREHOLDINGS

The Board encourages the alignment of directors' interests with those of shareholders and with Mercury's strategic aims. To improve this alignment, the Board encourages directors to accumulate meaningful shareholdings in Mercury. Further details of directors' shareholdings in Mercury are set out in [Directors' Disclosures](#).

## ACCESS TO ADVICE & COMPANY SECRETARY

Directors may access such information and seek such independent advice as they consider necessary or desirable, individually or collectively, to fulfil their responsibilities and permit independent judgement in decision making. They are entitled to have access to internal and external auditors without management present and, with the Chair's consent, seek independent professional advice at Mercury's expense.

All directors have access to the advice and services of the Company Secretary for the purposes of the Board's affairs. The Company Secretary is appointed on the recommendation of the Chief Executive and must be approved by the Board. The Company Secretary is accountable to the Board, through the Chair, on all governance matters. As at the date of this Corporate Governance Statement, Howard Thomas is the Company Secretary.



# ASSURANCE & MANAGING RISK.

## AUDIT PLAN & ROLE OF AUDITOR

As a public entity under the Public Audit Act 2001, Mercury and each of our subsidiaries (together, the 'Group') have the Auditor-General as our independent auditor. The Auditor-General appointed Lloyd Bunyan of Ernst & Young to carry out the FY21 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 the Audit Independence Policy available on the [Corporate Governance](#) section of our website. Consistent with the Stakeholder Engagement Policy, the external auditor attends the Annual Shareholders' Meeting and is available to shareholders to answer questions relevant to the audit.

## INTERNAL AUDIT & RISK ASSURANCE

Mercury has a comprehensive internal audit plan and risk assurance plan, which take a holistic view of Mercury's culture, practices and procedures and include periodic reviews of relevant areas of Mercury's operations. The internal audit plan is designed and approved by the RAAC each year in consultation with the Risk Assurance Officer and the Internal Auditor (currently made up of an internal team, Deloitte and other internal audit and process specialists appointed on an outsourced basis) who report on progress and the results of internal audit reviews at each RAAC meeting. The Internal Auditor has access to management and the right to seek information and explanations. The RAAC meets with the Internal Auditor at least once each year without management present.

During FY21, the focus of the RAAC was safety, reputation and operational risks, which were trending or elevated risks for the Group.

## TIMELY & BALANCED DISCLOSURE

### Shareholders & Markets

Mercury is committed to maintaining a fully informed market through effective communication with the NZX and ASX, our shareholders and investors, analysts, media and other interested parties. Mercury provides all stakeholders with equal and timely access to material information that is accurate, balanced, meaningful and consistent. Where Mercury provides a new and substantive investor or analyst presentation, it ensures the presentation materials are released to the NZX and ASX ahead of the presentation.

The Market Disclosure Policy is designed to ensure this occurs in compliance with Mercury's continuous disclosure obligations under the NZX Listing Rules. The Policy is available in the [Corporate Governance](#) section of our website.

The Board has appointed the Company Secretary as the Disclosure Officer who is responsible for administering the Policy. The Disclosure Committee (made up of the Board Chair, RAAC Chair, Chief Executive, Chief Financial Officer and Disclosure Officer) is responsible for ensuring that Mercury complies with its disclosure obligations.

The Chief Executive and EMT are responsible for providing the Disclosure Officer with all material information relating to their areas of responsibility. Information which, in the opinion of the Disclosure Officer, may require disclosure is provided to the Disclosure Committee for decision.

Disclosures relating to the annual and interim financial statements must be reviewed by the RAAC before being approved by the Board. Once approved for disclosure, the Disclosure Officer is responsible for releasing material information to the market.

Directors consider at each Board meeting whether there is any material information which should be disclosed to the market.

### Integrity of Reporting

The Chief Executive and the Chief Financial Officer are required each half year and full year to provide a letter of representation to the Board confirming that the financial statements have been prepared in accordance with legal requirements, comply with generally accepted accounting practice and present fairly, in all material respects, the financial position of Mercury and the results of its operations and its cash flows.

A letter of representation confirming those matters was received by the Board with respect to the Group's FY21 financial statements.

We report on non-financial information in our Annual Report. Material environmental, social and governance matters are covered in the report, corporate governance statement and the [TCFD Report](#). To provide this information in a format accessible to our stakeholders we use both the Global Reporting Initiative (GRI) standards and the International Integrated Reporting Council (IIRC) Integrated Reporting <IR> framework. We do not currently have a policy on assurance of non-financial data.

## OUR KEY RISKS

### Safety Risks

Mercury undertakes activities that potentially involve significant safety risks including electrified assets, handling of iso-pentane, steam field operations, well drilling, operating large generation equipment, dam safety, power station construction and medically dependent customer management. A key risk for Mercury is that an incident occurs causing a fatality or serious injury to our staff, a contractor, a customer or the public.

### Compliance Risks

#### Legislative & regulatory changes

Regulatory changes imposed on the current wholesale and retail market structure and pricing regimes may affect how Mercury is managing its integrated business model of generating and retailing electricity and could adversely impact on Mercury's ability to create value. Legislative or regulatory changes, including Treaty of Waitangi claims, changes to consent conditions, or levies on the use of natural resources, may result in Mercury facing direct or indirect restrictions, conditions or additional costs on Mercury's access to freshwater or geothermal resources and its hydro and geothermal generation activities.

### Operational Risks

#### Fuel security & supply

Mercury's generation depends upon the availability of water for hydro generation and geothermal fluid for geothermal generation. The principal risks include the inability to generate expected levels of electricity due to either temporarily or permanently reduced fuel supplies, loss of access to supply, or increased costs to secure the necessary fuel, all of which may adversely affect Mercury's earnings.



Electricity market exposure

In the short run, our ability to manage our electricity portfolio risk depends upon its ability to purchase and sell electricity in the wholesale electricity market which could be impacted by:

- short-term changes in supply and demand
- national fuel availability based on hydrological and thermal conditions (including extended national drought)
- competitor behaviour
- significant reduction or ceasing of electricity consumption (for example the New Zealand Aluminium Smelter or other large industrial companies)
- constrained transmission and distribution of electricity

In the long run, wholesale prices are determined by the level of national demand relative to supply from power generation and can be affected by levels of activity in the industrial sector, population size, economic conditions, competitor behaviour, generation build or retirement, technological changes or new sources of energy, and regulatory changes.

We could also be adversely affected if a large group of customers, one or more major customers, or a New Zealand market participant were to default on payment for electricity provided or for hedge settlements.

Power station availability

Our ability to generate electricity depends upon the continued efficient operation of our power stations. The viability, efficiency or operability of our power stations could be adversely affected by a range of factors including:

- material failure of turbines, transformers, or geothermal wells that results in unplanned power station outages which require replacement or repair
- events, such as a global pandemic, impacting on key people required to operate stations, provide hydro control or trading oversight
- catastrophic events such as a major earthquake, volcanic eruption, or other natural catastrophes that could cause failure of one or more of our power stations

Information security

We depend on several key systems for our continued operations. There is a risk that the security of critical systems will be compromised and/or information accessed, deleted or corrupted, impacting on our ability to operate critical systems. Such an event could result in costs to resolve or repair; potential downtime of operations; potential breaches of our customers' privacy, including unauthorised access to their personal information; and reputational impacts from any loss of service, or resulting impacts on safety, our environment or community.

Financial Risks  
Insurance

Mercury is insured through a comprehensive programme including cover for generation property, plant and equipment and business interruption with a combined limit of \$1 billion. Some catastrophic events are uninsurable, or we have chosen not to insure against them, such as acts of terrorism. In the event of a severe catastrophic event, it is possible that the insurance portfolio will not provide sufficient cover, impacting future operational performance and the financial condition of Mercury. We estimate that the maximum foreseeable loss to which the Group could potentially be exposed is approximately \$9 billion with an assessed likelihood of occurrence of 1 in 100,000 years. We review the level and nature of our insurance cover annually. From 1 November 2020, following a third-party risk tolerance analysis which considered several key financial metrics specific to Mercury, the decision was made to retain additional financial risk in the event of an insurable loss to our generation assets. Side C cover, which insures the company against liabilities arising out of securities market conduct breaches, was also removed from our directors' and officers' insurance portfolio.

Growth & Development

Growth and development projects are subject to risks that may affect expected financial returns or outcomes:

- major generation development projects during construction give rise to risks including cost over-runs, commissioning delays, environmental impacts and employee/contractor safety
- political and regulatory uncertainty and poor economic conditions may limit our development choices or adversely affect the viability or costs of future developments

Other

A deterioration of our financial condition or instability in capital markets could increase our cost of capital, affect our ability to raise debt, or reduce our cash liquidity thereby impacting our financial performance and pursuit of our strategic objectives.

The Crown's shareholding and the provisions of the Public Finance Act may limit our ability to raise equity capital.

There is a risk that foreign currency or interest rate movements may impact our earnings by increasing the cost for imported goods and services and the cost of debt.

Reputational Risks

Our reputation with investors, stakeholders and the broader community is one of our most significant assets. In addition to the risks mentioned elsewhere in this statement, the following events

could threaten that reputation and could lead to negative publicity resulting in the loss of business revenues or reduction in Mercury's value:

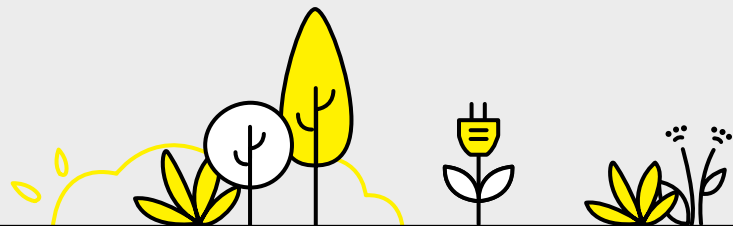
- errors in customer connections, billing or general customer communications
- errors by directors, management, contractors or related industry operators negatively reflecting on Mercury
- adverse environmental impact caused by, or perceived to be caused by, Mercury's operations
- health and safety incidents under the operational control of Mercury
- a reduction in standards of how we treat the communities that we operate in

Other Material Risks

Other material business risks that could impact on the short-, medium- or long-term financial performance of Mercury (including material exposure to economic, environmental or social sustainability risks) include: political, regulatory, foreign exchange, accounting and other international jurisdiction risks; and catastrophic events (including dam failure causing inundation and significant reinstatement time).

Climate Change Risks

For details of our key climate-related risks and how we are managing them – please see our [TCFD Report](#).





### RISK MANAGEMENT FRAMEWORK & RAAC RESPONSIBILITIES

Risk management is an integral part of our business. We have an overarching Risk Management Policy in place (available in the [Corporate Governance section](#) of our website) supported by a suite of risk management policies appropriate for our business, including Risk Appetite Statement, the Mercury Code, an Energy Markets Risk Management Policy, a Treasury Policy and a Delegations Policy.

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 our business and to the achievement of its plans. The Policy sets out the risk management objectives and requirements of Mercury within which management is expected to operate. The Policy applies to all business activities of the Group including Mercury-controlled joint ventures and 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.

We must accept some risks to achieve our strategic objectives and to deliver shareholder value. These are embodied in our Risk Appetite Statement which are set and regularly reviewed by the Board. As part of the current Risk Appetite Statement, Mercury targets a

long-term credit rating of BBB on a stand-alone basis from S&P Global (or its equivalent).

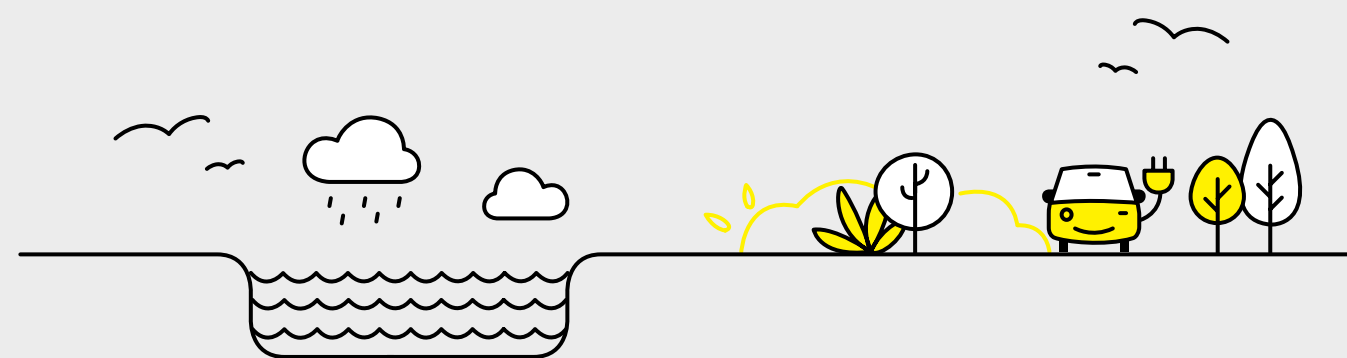
We have a Risk Assurance Officer who has the independence to determine the effectiveness of risk management, assurance and internal audit. The Risk Assurance Officer has a dual reporting line to the Chief Financial Officer and the RAAC Chair. The RAAC tasks the Risk Assurance Officer to ensure healthy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

Our management operates a Risk Management Committee whose 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. Membership of the Risk Management Committee is made up of representatives from the Executive Management Team and is chaired by the Chief Executive. The Risk Management Committee meets at least four times each year.

In addition to these risk management processes several measures are employed to manage risks, including employee awareness, incident training, due diligence, financial risk mitigation tools and active involvement in the regulatory environment.

As noted above, 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 our 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 FY21.

Mercury's Constitution, and relevant Charters and Policies are available in the [Corporate Governance section](#) of Mercury's website.



# ENGAGING WITH INVESTORS.

## OUR INVESTOR RELATIONS PROGRAMME

We are committed to open and effective communication with our stakeholders and owners by providing comprehensive relevant information. Mercury takes the steps set out in our Stakeholder Engagement Policy to achieve this.

Mercury communicates with its investors in various ways, including the Investor section of our website, annual shareholders' meetings (ASM) and webcasts, our annual and interim reports, regular information disclosures, and analyst and investor briefings and road shows. Mercury aims to provide clear communication of our strategic direction, including articulating our strategic priorities and how these leverage Mercury's competitive advantages.

A notice of meeting for our 2020 ASM was posted on Mercury's website at least 20 working days prior to the meeting in accordance with NZX Corporate Governance Code recommendation 8.5.

We also run a programme to build understanding and appropriate measurement of Mercury's performance among investors and research analysts. That programme aims to be responsive, clear, timely, consistent, even-handed and accurate, and is designed to ensure appropriate access to management and directors. Summary records of the issues discussed at meetings with investors and analysts are kept for internal use, unless a recording or transcript of the presentation is published on our website.

## WEBSITE

Mercury's website contains a comprehensive set of investor-related information and data including stock exchange and media releases, interim and annual reports, investor presentations and webcasts, and shareholder meeting materials. Mercury will continue to build environmental, social and governance (ESG) website content to meet the increasing demand for transparent disclosures of its performance across these areas and the management of long-term risks and opportunities.

Shareholders can direct questions and comments to Mercury through the website or contact the Head of Treasury and Investor Relations.

## ANNUAL SHAREHOLDERS' MEETINGS & WEBCASTS

ASMs are held in New Zealand at a time and location which aim to maximise participation by shareholders. Mercury's ninth ASM since listing on the NZX Main Board and ASX will be held in Auckland on 23 September 2021. As at the date of this statement, preparations are well underway for our first ASM that will be held in a hybrid format (in person and on line), considered in the New Zealand Shareholders' Association's recent policy developments as the most effective approach to enable meaningful shareholder engagement.

## ELECTRONIC COMMUNICATIONS

We encourage shareholders to provide email addresses to enable them to receive shareholder materials electronically. Communicating electronically is faster and more cost-effective. Most of our shareholders receive information electronically. However, we understand that this does not suit everyone and we also provide hard copy reports to shareholders who wish to receive them.

# ACTING ETHICALLY & RESPONSIBLY.

At Mercury, all our people strive to do what's right. We have put in place the Mercury Code to ensure 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.

## MERCURY ATTITUDE

A Mercury employee is expected to apply the Mercury Attitude. This attitude shapes our decisions, our actions and our interactions with each other.

- Commit and Own it
- Share and Connect
- Be Curious and Original

Our Mercury Attitude aligns our direction to achieve our Purpose.

## THE MERCURY CODE & OUR POLICY FRAMEWORK

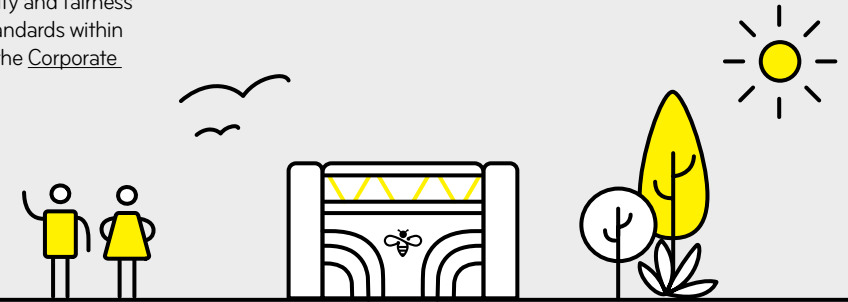
The Mercury Code, which was adopted and is regularly reviewed by our Board, is our version of a code of conduct and ethics. The Mercury Code underpins everything we do. It requires all Mercury people, including directors and employees, to act honestly and with integrity and fairness at all times, and to strive to foster those standards within Mercury. The Mercury Code is available in the [Corporate Governance section](#) of our website.

The Mercury Code and the policy framework described below support our promises to each other and define our commitment to our customers, our people and community and our investors.

Directors are required, in the performance of their duties, to give proper attention to the matters before them and to act in the best interests of Mercury at all times.

We also want to ensure that we work with suppliers who share our commitment to acting ethically and doing the right thing. During the reporting period, we reviewed our Supplier Guiding Principles. We have developed and strengthened these principles in our new Supplier Code of Conduct which replaces the Supplier Guiding Principles and describes the way we work with our suppliers and what we expect in return. The Supplier Code of Conduct includes our commitments and our expectations in relation to social responsibility, health and safety, compliance with all applicable modern slavery laws, environmental responsibility, and business integrity. The Supplier Code of Conduct is available in the [Corporate Governance section](#) of our website.

The areas set out in the table on the next page are of fundamental importance to Mercury to ensure good governance and responsible business practices are followed.



## Our Governance & Responsible Business Practices

|                                      |  |
|--------------------------------------|--|
| <b>Conflicts</b>                     | Conflicts of interest must be avoided, except with the prior consent of Mercury. Mercury people are encouraged to discuss possible conflicts with their manager. Mercury takes practical, preventative action wherever possible, for example by substituting project managers in circumstances of possible conflict with contractors and suppliers.<br><br>Our directors declare all potential conflicts of interest prior to appointment and if applicable, at each Board meeting in relation to specific agenda items.   |
| <b>Bribery</b>                       | The acceptance of bribes, including gifts or personal benefits of material value which could reasonably be perceived as influencing decisions, is prohibited under the Mercury Code. Under Mercury's Delegations Policy, donations to political parties are prohibited.  |
| <b>Use of Mercury Assets</b>         | The Mercury Code places restrictions on the use of corporate information, assets and property. All persons covered by the Mercury Code are encouraged to report any breach or suspected breach of the Code.  |
| <b>Whistleblowing</b>                | We provide a framework for the protection of employees wishing to disclose serious wrongdoing. This is described in Mercury's Whistleblowing Policy.<br><br>Employees are also encouraged to voice with their manager, the HR team, the General Counsel, other managers or directors any concern over ethical or irresponsible behaviour, even if not reaching the threshold of serious wrongdoing.  |
| <b>Trading In Company Securities</b> | Mercury's Trading in Company Securities Policy sets out the rules and restrictions relating to trading in Mercury securities by directors and employees and contractors, including the prohibition on insider trading. The Policy is closely monitored by the Company Secretary and is overseen by the RAAC.<br><br>The Chief Executive and EMT members are prohibited, by the Trading in Company Securities Policy, from entering into transactions in associated products which limit the economic risk of participating in unvested entitlements under Mercury's Long-Term Incentive Plans.   |
| <b>Market Disclosures</b>            | Our Market Disclosure Policy ensures we maintain a fully informed market through communication with the markets, investors and stakeholders and by giving them equal and timely access to material information.  |
| <b>Integrated Sustainability</b>     | Our Integrated Sustainability Policy sets out the core principles and values that promote ethical and responsible decision making.<br><br>We recognise that our success in creating long-term value for our shareholders (including our operational and financial results) depend on maintaining confidence in: how the Company acts and conducts its business; our approach to managing natural resources and meeting environmental standards; our health and safety culture and practices; the service we provide for our customers; the employment experience we offer our people; the relationships we have with our business partners and the communities within which we operate; and broader measures of economic, environmental and social performance.<br><br>Under the Policy, we commit to integrating sustainability through principles relating to our five-pillar strategy: Customer, Partnerships, Kaitiakitanga, People, Commercial. |

## Our Governance & Responsible Business Practices

|                                  |   |
|----------------------------------|---|
| <b>Privacy</b>                   | We are committed to the safeguarding and proper use of personal information. We have a comprehensive Privacy Policy, which is reviewed every two years, and a robust privacy framework. Privacy is afforded significant consideration within Mercury and is managed in accordance with our risk management framework.<br><br>Our General Counsel is 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 our Risk Management Committee. Privacy issues are reported to the Risk Management Committee on a quarterly basis. We also have an Enterprise Information Security Manager who is responsible for ensuring that appropriate systems and processes are in place for the storage and security of personal information. |
| <b>Environmental</b>             | Our Environmental Policy recognises that our generation activities rely on access to natural resources that we know are highly valued by our communities. We strive to maintain this trust by working with partners to deliver renewable electricity and make a long-term difference New Zealand's environmental health.<br><br>We work responsibly to deliver today and sustainably for future generations and will achieve this by focusing on: Kaitiakitanga, challenging our performance, promoting awareness, complying with requirements, and setting objectives and targets.   |
| <b>Modern Slavery</b>            | During the reporting period we prepared and reported our Modern Slavery Statement in line with our obligations under the Australian Modern Slavery Act 2018.<br><br>Our statement outlines the work undertaken during FY20 to assess and address the risk of modern slavery in our operations and supply chain and identified the following key focus areas for FY21: further supply chain review, updating our Supplier Guiding Principles to educate our suppliers about our modern slavery statement and encourage suppliers to work with us to reduce the risk of modern slavery, improving spend visibility, creating and implementing procurement guidelines, and updating our contracts and templates to integrate modern slavery requirements.  |
| <b>TCFD and Carbon Reporting</b> | Since 2018, Mercury has been developing transparent sustainability reporting in line with the framework set out by the Financial Stability Board Taskforce on Climate Related Financial Disclosures (TCFD). In this report, we have disclosed against this framework, including disclosure of Mercury's actual and potential impacts of climate-related risks and opportunities on Mercury's business, strategy and financial planning; and extensive reporting on Mercury's carbon position. Refer to the <a href="#">TCFD Report</a> .  |
| <b>Takeover Response Policy</b>  | We have adopted a Takeover Response Policy to guide the Board and management if the Company receives a takeover notice or the Company becomes aware that a takeover offer in respect of the Company (or an analogous scheme of arrangement) is, or is likely to be, proposed by another person.   |

The Mercury Code, Modern Slavery Statement, and all Policies referred to in the table above are available on the [Corporate Governance section](#) of our website.



# 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.

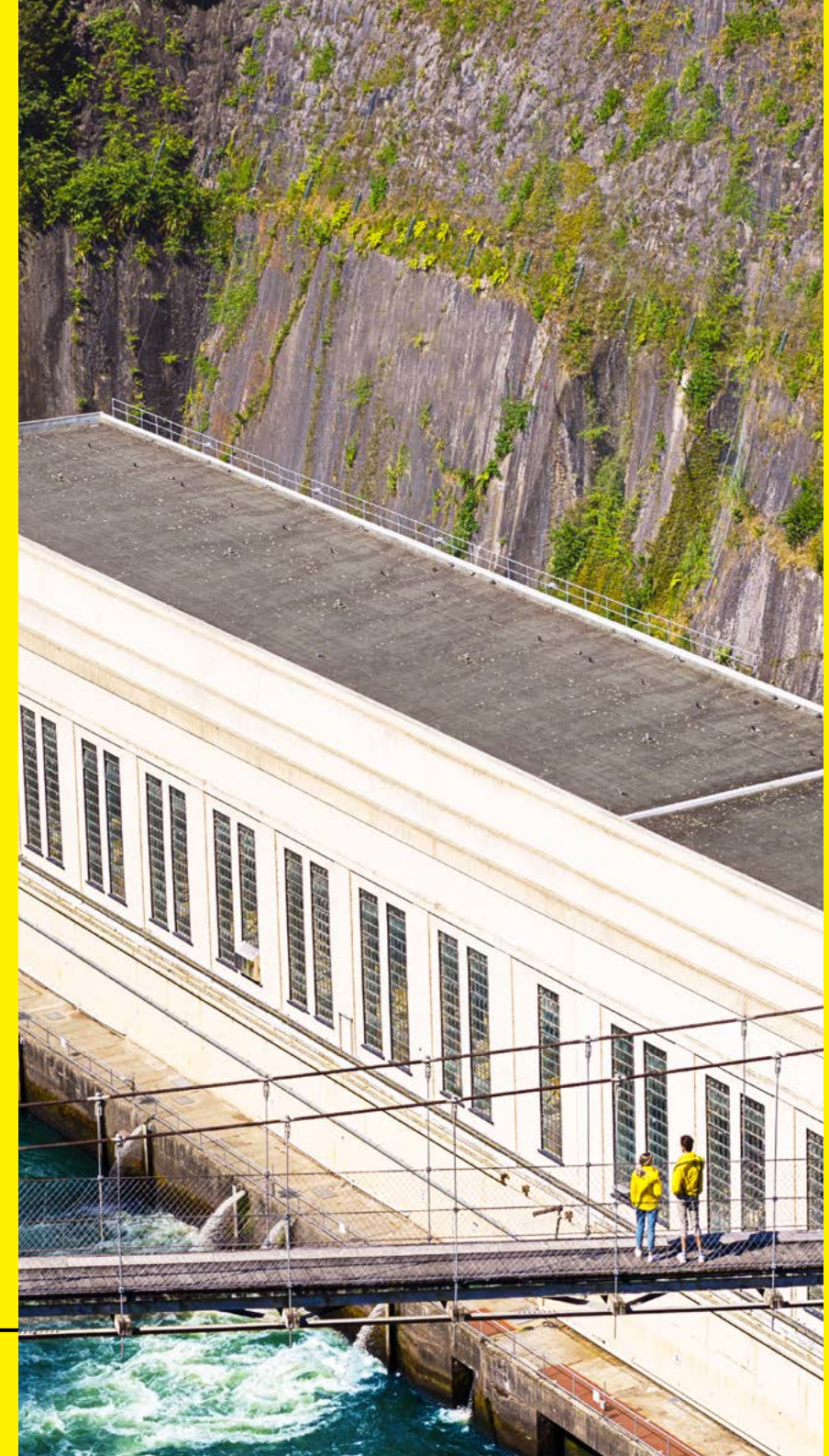
Mercury's approach to inclusion and diversity focuses on gender, age, ethnicity, sexual orientation, disability and flexibility. Activity is aligned to the following principles:

- increasing the diversity of our workforce at senior levels
- creating a flexible and inclusive work environment that values differences 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
- 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

Increasing representation of ethnicities representative of New Zealand communities (Māori, Pasifika and Asian) in positions of leadership is one of our inclusion and diversity priorities.

We have been working with a group of emerging leaders who identify as Māori, Pasifika or Asian, to understand their aspirations and development needs. The experiences and insights shared by this group have helped to shape a development programme that supports career progression and contributes to creating a more inclusive work environment.

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.

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 2020              | As at 30 June 2021               |
|               |  | Employees   | 41%  | 43%  | 45%   | Employees  | 39%                             | 38%                              |
|               |  | People Leaders*   | 33%  | 34%  | 35%   | People Leaders*  | 32%                             | 32%                              |
|               |  | EMT   | 33%  | >36% | >40%  | EMT  | 33%                             | 43%                              |
|               |  | Board   | 33%  | >36% | >40%  | Board  | 25%                             | 25%                              |
|               | Ensure that everyone is rewarded fairly for their work, regardless of gender.  | Target is 100% pay equity.  |      |      |   | Actual: Pay equity 97.2%. In 2021, adjustments were made to individual salaries to address identified pay gaps within roles. Pay equity is calculated as the average position in range (relativity to the role's band midpoint) of female fixed remuneration compared with the average position in range of male fixed remuneration.   |                                 |                                  |
| 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 44, 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.   | <b>Ethnicity</b>  | 2020 | 2021 | 2022  | <b>Ethnicity</b>   | <b>Mercury 2021 Ethnicity**</b> | <b>NZ Population 2018 Census</b> |
|               |  | <b>Māori</b>  |      |      |   | <b>Māori</b>   |                                 | 17%                              |
|               |  | Employees   | 6%   | 6%   | 7%  | Employees  | 4%                              |                                  |
|               |  | People Leaders*   | 4%   | 5%   | 6%  | People Leaders*  | 1%                              |                                  |
|               |  | <b>Pasifika</b>   |      |      |   | <b>Pasifika</b>  |                                 | 8%                               |
|               | Ensure that our leadership reflects the diversity of our teams.  | Employees   | 9%   | 9%   | 10%   | Employees  | 6%                              |                                  |
|               |  | People Leaders*   | 4%   | 4%   | 5%  | People Leaders*  | 2%                              |                                  |
|               |  | <b>Asian</b>  |      |      |   | <b>Asian</b>   |                                 | 15%                              |
|               |  | Employees   | 22%  | 22%  | 23%   | Employees  | 22%                             |                                  |
|               |  | People Leaders*   | 11%  | 11%  | 13%   | People Leaders*  | 13%                             |                                  |
|               | Increase representation of team members and people leaders across targeted ethnic groups – Māori, Pasifika and Asian.  |   |      |      | * People Leaders includes all levels of leadership.   |  |                                 |                                  |
|               | Benchmark against national statistics (Census data) that show the ethnicity of the population and communities that we work in.   |   |      |      | ** Employee data, as at 30 June 2021, from Mercury's payroll system provides the baseline benchmark of self-identified ethnicity. |  |                                 |                                  |
|               | Targets will be reviewed year-on-year, taking into consideration workforce impacts associated with digitalisation and automation and the available tertiary-qualified talent pool. |   |      |      |   |  |                                 |                                  |
|               | * People Leaders includes all levels of leadership.  |   |      |      |   |  |                                 |                                  |
| Inclusion     | Ensure that our teams 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 2021 Employee Engagement Survey, 77% 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 2021 Employee Engagement Survey, 87% 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 2021, the proportion of women on the EMT (including the Chief Executive) was 43%, or three out of seven (as at 30 June 2020 this was 33% or three 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 2020 this was 25%, or two out of eight). Our Future Director is a woman.

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 2022 gender diversity targets.

# REMUNERATION REPORT.

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 2021.

This report outlines Mercury's strategy and approach to remuneration, in particular for its executives. It sets out remuneration information for the Chief Executive, direct reports to the Chief Executive and directors.

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 [Governance at Mercury](#).

In response to the COVID-19 Pandemic and the impact on the overall economy and social environment, all executives' remuneration, including the Chief Executive's, was unchanged for FY21.

I acknowledge the way the Executive Management Team (EMT) and all Mercury employees have responded to the challenges this year.



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
- 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 fairly 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 FY21 the relevant target percentage for the Chief Executive was 50% and up to 35% for other EMT members.

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 FY21 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 were selected to closely align with Mercury's strategic objectives, purpose and goals, and Mercury's five key pillars. The FY21 weightings are shown on the following page.



| Pillar                           | FY21 Weighting % |
|----------------------------------|------------------|
| Commercial: EBITDAF <sup>1</sup> | 40               |
| People                           | 15               |
| Customer                         | 20               |
| Partnerships                     | 15               |
| Kaitiakitanga                    | 10               |

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

For FY21 there were two performance levels within each pillar area: '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.

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.

For FY22 we have reviewed the framework and aligned under six three year goals. The FY22 weighting for the commercial goal remains at 40% with the other five goals being worth 10 or 15%

## Long-term performance incentives to FY21 vesting

Long-term performance incentives (LTIs) are at-risk payments designed to align the reward of 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
- 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.

The last LTI grant (FY19-FY21) under this plan vested in FY21.

## Long-term performance incentives plan

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
- 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 FY21 grant period commencing 1 July 2020, the value represented 75% of the Chief Executive base salary and between 20% to 35% of base salary for other EMT members 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.

## CHIEF EXECUTIVE'S REMUNERATION.

Chief Executive's remuneration (FY21 & FY20)

|  | Salary <sup>2</sup> \$ | Benefits <sup>3</sup> \$ | Subtotal \$ | Pay for performance \$ |                      |          | Total remuneration \$ |
|--|------------------------|--------------------------|-------------|------------------------|----------------------|----------|-----------------------|
|  |                        |                          |             | STI                    | LTI                  | Subtotal |                       |
| <b>Chief Executive – Vince Hawsworth</b> |                        |                          |             |                        |                      |          |                       |
| FY21                                     | 1,212,644              | 48,971                   | 1,261,615   | 537,900                | N/A                  | 537,900  | 1,799,515             |
| FY20                                     | 309,231                | 65,927 <sup>4</sup>      | 375,158     | 138,782 <sup>5</sup>   | N/A                  | 138,782  | 513,940               |
| <b>Chief Executive – Fraser Whineray</b> |                        |                          |             |                        |                      |          |                       |
| FY20                                     | 805,883                | 65,909                   | 871,792     | 460,680 <sup>5</sup>   | 321,004 <sup>6</sup> | 781,684  | 1,653,476             |

- Note 2: Actual salary paid includes holiday pay paid as per NZ legislation. The base salary for Vince Hawsworth for FY21 and FY20 was \$1,200,000 and for Fraser Whineray for FY20 was \$1,085,838.88. Fraser Whineray departed Mercury March 2020.
- Note 3: Benefits include KiwiSaver and insurance.
- Note 4: Vince Hawsworth received a \$55,000 one-off payment for relocation costs in FY20 which is included in the FY20 benefits figure.
- Note 5: Both Chief Executives' short-term incentive was pro-rated for the period worked in FY20.
- Note 6: Holiday pay and KiwiSaver of \$36,081 was paid in FY21 to Fraser Whineray on the LTI amount but is not reported here.  
For reference: On 1 April 2020 Vince Hawsworth was appointed to the Board of Tilt Renewables Limited as a Director. For the period from 1 April 2020 until 30 June 2021, he was paid AUD138,500 (gross) in director fees by Tilt Renewables.

## Five-year summary – Chief Executive's remuneration

|                                   |      | Total remuneration paid <sup>7</sup> \$ | Percentage STI against maximum <sup>8</sup> % | Percentage vested LTI against maximum % | Span of LTI performance period |
|-----------------------------------|------|---|---|---|--------------------------------|
| Chief Executive – Vince Hawsworth | FY21 | 1,799,515                               | 50  | N/A                                     | N/A                            |
|                                   | 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                    |

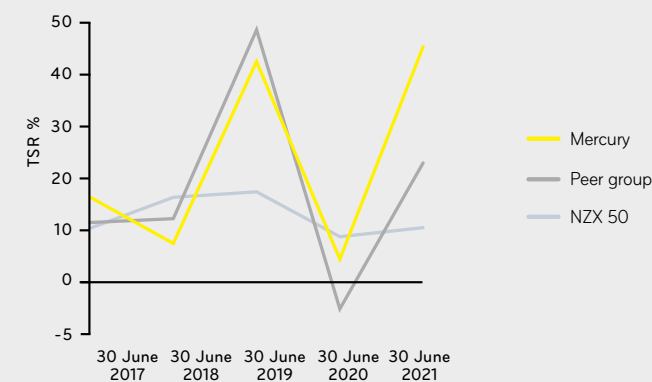
- Note 7: Total remuneration paid including Salary, Benefits, STI and LTI payments.
- Note 8: Maximum STI was 178% of 'on-target' performance pay.

## Breakdown of Chief Executive's pay for performance (FY21)<sup>9</sup>

| Description   | Performance measures   | Percentage achieved by Vince Hawsworth |
|---|--|--|
| STI <sup>10</sup> 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) | 74.5                                   |
|   | 20% based on individual measures   | 125                                    |
|   | 10% based on business KPIs (for Chief Executive only)                      | 125                                    |

- Note 9: Vince Hawsworth was not issued shares under the FY19-FY21 grant issued 1 July 2018 due to starting Mercury in 2020. Therefore no LTI was rewarded to Vince in FY21.
- Note 10: The above STI for FY21 will be paid in FY22.

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



REMUNERATION REPORT.

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 FY21, the company's contribution for Vince Hawksworth was \$40,543.

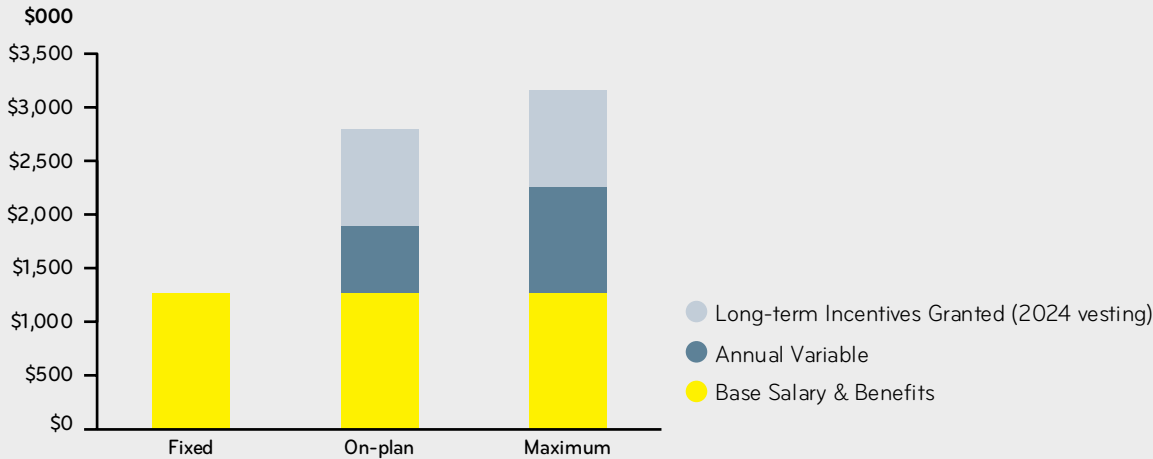
FY22 CHIEF EXECUTIVE'S REMUNERATION STRUCTURE

The Board has elected, in the interests of transparency, to disclose in advance the structure and package that will apply for FY22.

| FY22            | Base Salary \$ | Benefits <sup>11</sup> \$ | Subtotal \$ | Pay for performance 'on-target' \$ |                           |           | Total remuneration \$ |
|-----------------|----------------|---------------------------|-------------|------------------------------------|---------------------------|-----------|-----------------------|
|                 |                |                           |             | STI                                | LTI granted <sup>12</sup> | Subtotal  |                       |
| Chief Executive | 1,224,000      | 45,149                    | 1,269,149   | 612,000                            | 918,000                   | 1,530,000 | 2,799,149             |

Note 11: Benefits include KiwiSaver and insurance.  
Note 12: This LTI will be granted in FY22 and, if hurdles are met, paid in shares in 2024.

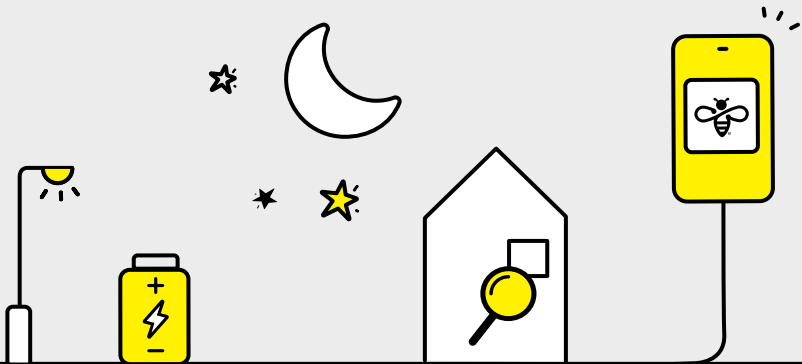
Chief Executive's remuneration performance pay for FY22



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 FY21, the Chief Financial Officer received remuneration totalling \$831,350. This amount included a \$156,895 STI payment and a \$134,851 LTI payment, both relating to FY20 but paid in FY21. The remaining \$539,604 was a combination of fixed remuneration and benefits.





# REMUNERATION REPORT.

## SHARE OWNERSHIP

The Chief Executive and Chief Financial Officer's ownership of Mercury shares as at 30 June 2021 are:

| Executive                    | Number of shares owned (excludes shares held in trust for the LTI scheme) | Change in shares owned from 30 June 2020 |
|------------------------------|---|--|
| Chief Executive              | 32,080  | 30,000                                   |
| Chief Financial Officer      | 0 <sup>13</sup>   | -163,215                                 |
| Balance of EMT <sup>14</sup> | 96,462  | -79,235                                  |

Note 13: The Chief Financial Officer disclosed in an Ongoing Disclosure Notice to the market dated 13 May 2021 a transfer of 100,001 shares to Tracey Meek, the Chief Financial Officer's wife. The Chief Financial Officer ceased to have a relevant interest in these shares upon transfer to Tracey Meek.

Note 14: Balance of shares owned by other EMT members as at 30 June 2021, excluding shares owned by the Chief Executive and Chief Financial Officer and excluding shares owned by Kevin Angland, Nick Clarke and Tony Nagel, who all left the company during the reporting period. As at 30 June 2021, Kevin Angland, Nick Clarke and Tony Nagel had a combined relevant interest in 206,649 shares, some of which were owned by family trusts.

## EMPLOYEE REMUNERATION

The Group paid remuneration in excess of \$100,000 including benefits to 430 employees (not including directors) during the FY21 year in the following bands:

| Remuneration band <sup>15</sup> | Currently employed | No longer employed | Total |
|---------------------------------|--------------------|--------------------|-------|
| \$100,001-\$110,000             | 59                 | 8                  | 67    |
| \$110,001-\$120,000             | 45                 | 5                  | 50    |
| \$120,001-\$130,000             | 67                 | 7                  | 74    |
| \$130,001-\$140,000             | 41                 | 4                  | 45    |
| \$140,001-\$150,000             | 38                 | 3                  | 41    |
| \$150,001-\$160,000             | 35                 | 1                  | 36    |
| \$160,001-\$170,000             | 16                 |                    | 16    |
| \$170,001-\$180,000             | 9                  | 3                  | 12    |
| \$180,001-\$190,000             | 15                 |                    | 15    |
| \$190,001-\$200,000             | 13                 | 1                  | 14    |
| \$200,001-\$210,000             | 11                 |                    | 11    |
| \$210,001-\$220,000             | 10                 |                    | 10    |
| \$220,001-\$230,000             | 4                  |                    | 4     |
| \$230,001-\$240,000             | 4                  |                    | 4     |
| \$240,001-\$250,000             | 1                  |                    | 1     |

| Remuneration band <sup>15</sup> | Currently employed | No longer employed | Total      |
|---------------------------------|--------------------|--------------------|------------|
| \$250,001-\$260,000             | 3                  |                    | 3          |
| \$260,001-\$270,000             | 1                  |                    | 1          |
| \$270,001-\$280,000             | 1                  |                    | 1          |
| \$280,001-\$290,000             | 4                  |                    | 4          |
| \$300,001-\$310,000             | 3                  | 1                  | 4          |
| \$310,001-\$320,000             | 1                  |                    | 1          |
| \$320,001-\$330,000             | 3                  |                    | 3          |
| \$330,001-\$340,000             | 1                  |                    | 1          |
| \$340,001-\$350,000             | 2                  |                    | 2          |
| \$390,001-\$400,000             | 1                  |                    | 1          |
| \$440,001-\$450,000             | 1                  |                    | 1          |
| \$570,001-\$580,000             | 1                  |                    | 1          |
| \$620,001-\$630,000             | 1                  |                    | 1          |
| \$710,001-\$720,000             | 1                  |                    | 1          |
| \$830,001-\$840,000             | 1                  |                    | 1          |
| \$900,001-\$910,000             |                    | 1 <sup>16</sup>    | 1          |
| \$1,020,001-\$1,030,000         |                    | 1 <sup>16</sup>    | 1          |
| \$1,150,001-\$1,160,000         |                    | 1 <sup>16</sup>    | 1          |
| \$1,400,001-\$1,410,000         | 1                  |                    | 1          |
| <b>Total</b>                    | <b>394</b>         | <b>36</b>          | <b>430</b> |

Note 15: The remuneration bands above include 7 employees who received redundancy payments in FY21.

Note 16: In addition to redundancy, these employees received two short-term incentive payments (in relation to FY20 and FY21) and two long-term incentive payments (in relation to FY18-FY20 and FY19-FY21) in FY21.

The total remuneration ratio for FY21 between employee (median) and Chief Executive was 1:15. The ratio of Employee (median) remuneration and Chief Executive base salary was 1:13. Note: For the ease of data collection, these ratios are based on actual remuneration paid in FY21 for employees and the Chief Executive. Therefore, the Chief Executive's remuneration for these ratios differs from the remuneration reported earlier.

# REMUNERATION REPORT.

## 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. Mercury does not pay any retirement benefits to non-executive directors. The following people held office as directors during the year to 30 June 2021 and the remuneration set out in the table below was approved during the period. The number of meetings and attendance rate by director during the year to 30 June 2021 was as follows:

| Director        | Board                            |                   | Risk Assurance & Audit Committee |                   | People & Performance Committee |                   | Nominations Committee |                   | Other <sup>17</sup>  |                   | Total <sup>18</sup> |
|-----------------|----------------------------------|-------------------|----------------------------------|-------------------|--------------------------------|-------------------|-----------------------|-------------------|----------------------|-------------------|---------------------|
| No. of meetings | 9                                |                   | 4                                |                   | 4                              |                   | 1                     |                   | 13                   |                   |                     |
|                 | Fees\$                           | Meetings Attended | Fees\$                           | Meetings Attended | Fees\$                         | Meetings Attended | Fees\$                | Meetings Attended | Fees\$               | Meetings Attended | Fees\$              |
| Prue Flacks     | 180,000 <sup>19</sup><br>(Chair) | 9                 |                                  | 4                 |                                | 4                 |                       | 1                 |                      | 11                | 180,000             |
| Hannah Hamling  | 98,000                           | 9                 | 8,730                            | 4 <sup>20</sup>   |                                | 1 <sup>20</sup>   |                       |                   | 6,454                | 6                 | 113,184             |
| Andy Lark       | 98,000                           | 9                 |                                  |                   | 8,000                          | 4                 |                       |                   | 954                  | 2                 | 106,954             |
| James Miller    | 98,000                           | 9                 | 10,000                           | 4                 |                                |                   | 4,000                 | 1                 | 9,317                | 11                | 121,317             |
| Keith Smith     | 98,000                           | 9                 | 26,000<br>(Chair)                | 4                 |                                |                   |                       |                   |                      |                   | 124,000             |
| Scott St John   | 98,000                           | 9                 |                                  | 4 <sup>20</sup>   | 20,000<br>(Chair)              | 4                 |                       |                   | 4,772                | 9                 | 122,772             |
| Patrick Strange | 98,000                           | 9                 | 10,000                           | 3                 |                                |                   | 4,000                 | 1                 | 3,817                | 7                 | 115,817             |
| Mike Taitoko    | 98,000                           | 9                 |                                  |                   | 8,000                          | 4                 |                       |                   | 954                  | 2                 | 106,954             |
| Total           | 866,000                          |                   | 54,730                           |                   | 36,000                         |                   | 8,000                 |                   | 26,268 <sup>21</sup> |                   | 990,998             |

Note 17: There were 3 sub-committees for FY21 and director representation on a due diligence committee established in respect of the green bond issuance. Further information about temporary sub-committees is available [here](#).

Note 18: Disclosure Committee is not reported on as these occur as ad-hoc and on an as required basis.

Note 19: Prue Flacks' fees cover attendance at all Committee meetings.

Note 20: Hannah Hamling attended one Risk Assurance and Audit Committee meeting and one People and Performance Committee meeting as an observer. Scott St John attended four Risk Assurance and Audit Committee meetings as an observer.

Note 21: \$15,270 of the "Other" fees were approved during the period and paid after the reporting period and was distributed between Hannah Hamling, Andy Lark, James Miller, Scott St John, Patrick Strange and Mike Taitoko.

For reference: Future Director Kim Gordon was paid \$3,333.34 in relation to her role as future director in FY21. This payment occurred after the period.

# 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 2021:

| Prue Flacks                              |   |
|--|---|
| Bank of New Zealand                      | Director <sup>2</sup>                             |
| Chorus Limited                           | Director  |
| Hannah Hamling                           |   |
| Nil                                      |   |
| Andy Lark                                |   |
| Group Lark Pty Limited                   | Chair   |
| Dubber Pty Limited                       | Chief Marketing and Strategy Officer <sup>1</sup> |
| James Miller                             |   |
| NZX Limited                              | Chair   |
| ACC                                      | Deputy Chair                                      |
| The New Zealand Refining Company Limited | Director  |
| ACC Board Investment Committee           | Chair   |
| ACC                                      | Governance roles <sup>1</sup>                     |
| Vista Group International Limited        | Director <sup>3</sup>                             |

| 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 <sup>2</sup>         |
| Community Financial Services Limited                        | Director <sup>2</sup>             |
| Goodman (NZ) Limited and subsidiaries                       | Chair                             |
| Harpers Gold Limited and subsidiaries                       | Director/Shareholder <sup>2</sup> |
| 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                          |

| Scott St John                                  |                                 |
|--|---------------------------------|
| ANZ Bank of New Zealand Limited                | Director <sup>4</sup>           |
| Fisher & Paykel Healthcare Corporation Limited | Chair <sup>1</sup> /Shareholder |
| Fonterra Co-operative Group Limited            | Director                        |
| Next Foundation (and associated vehicles)      | Director                        |
| University of Auckland                         | Chancellor <sup>2</sup>         |
| Patrick Strange                                |                                 |
| Chorus Limited                                 | Chair                           |
| Auckland International Airport Limited         | Chair                           |
| Mike Taitoko                                   |                                 |
| Takiwā Limited                                 | Director/Shareholder            |
| Auckland Tourism Events & Economic Development | Director <sup>2</sup>           |
| Maratini Holdings Limited                      | Director/Shareholder            |
| Canvasland Holdings Limited                    | Director/Shareholder            |
| Waiora Consulting Limited                      | Director/Shareholder            |
| Toha Foundry Limited                           | Director/Shareholder            |

1. Entries added by notices given by the directors during the year ended 30 June 2021.

2. Entries removed by notices given by the directors during the year ended 30 June 2021.

3. Entry added by notice given by James Miller during the year ended 30 June 2021. Directorship will take effect from 31 August 2021.

4. Entry added by notice given by Scott St John during the year ended 30 June 2021. Directorship took effect from 6 July 2021.



DIRECTORS' DISCLOSURES.

Directors' & 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 Share & Bond Transactions

Directors disclosed, pursuant to section 148 of the New Zealand Companies Act 1993, the following acquisitions and disposals of relevant interests in shares and bonds during the period to 30 June 2021:

| Name of director | Date of acquisition/<br>disposal of relevant<br>interest | Nature of relevant<br>interest  | Consideration<br>(NZD) | Securities in which a<br>relevant interest was<br>acquired/(disposed) |
|------------------|--|---|------------------------|---|
| Prue Flacks      | 14 September 2020  | Acquisition of green<br>bonds (MCY030) upon<br>allotment by Mercury<br>NZ Limited | 69,000                 | 69,000  |
| Hannah Hamling   | 7 October 2020   | On market acquisition<br>of ordinary shares                                       | 5,130                  | 1,000   |
| Hannah Hamling   | 16 March 2021  | On market acquisition<br>of ordinary shares                                       | 12,700                 | 2,000   |
| Hannah Hamling   | 25 March 2021  | On market acquisition<br>of ordinary shares                                       | 1,935                  | 300   |
| Prue Flacks      | 19 April 2021  | On market acquisition<br>of ordinary shares                                       | 124,304                | 18,500  |

Disclosure of Directors' Interests in Shares & Bonds

Directors disclosed the following relevant interests in shares and bonds as at 30 June 2021:

| Director        | Number of Shares in which<br>a relevant interest is held | Number of bonds in which<br>a relevant interest is held   | Change since 30 June 2020                  |
|-----------------|--|---|--|
| Prue Flacks     | 44,974   | 38,000 MCY 020 capital bonds<br>69,000 MCY030 green bonds | 18,500 shares<br>69,000 MCY030 green bonds |
| Hannah Hamling  | 3,300  | -   | 3,300                                      |
| Andy Lark       | 3,300  | -   | -  |
| James Miller    | 40,320   | -   | -  |
| Keith Smith     | 30,156   | -   | -  |
| Scott St John   | 45,000   | -   | -  |
| Patrick Strange | 39,160   | -   | -  |
| Mike Taitoko    | 2,200  | -   | -  |

Disclosure of Subsidiary Directors' Interests

The following are particulars included in the Interests Register for Mercury's subsidiary companies as at 30 June 2021:

| Director           | Interest                | Entity                     |
|--------------------|-------------------------|----------------------------|
| Nicholas Clarke    | Nil.                    |                            |
| Prue Flacks*       |                         |                            |
| Phil Gibson        | Nil.                    |                            |
| Vincent Hawksworth | Chief Executive         | Mercury NZ Limited         |
|                    | Director                | NOW New Zealand Limited    |
|                    | Director                | Tilt Renewables Limited    |
| Julia Jack         | Shareholder             | Power to the Pedal Limited |
| James Miller*      |                         |                            |
| William Meek       | Chief Financial Officer | Mercury NZ Limited         |
| Tony Nagel         | Nil.                    |                            |
| Michael Stevens    | Nil.                    |                            |
| Mike Taitoko*      |                         |                            |
| Marlene Strawson   | Nil.                    |                            |
| Howard Thomas      | Nil.                    |                            |

\*refer to [Disclosure of Directors' Interests](#).

# SECURITY HOLDER INFORMATION.

## SHAREHOLDER INFORMATION

### Twenty largest registered shareholders as at 30 June 2021<sup>1</sup>

| Name  | Number of shares     | % of shares <sup>2</sup> |
|---|----------------------|--------------------------|
| Her Majesty the Queen in Right of New Zealand               | 716,140,528          | 51.15                    |
| HSBC nominees (New Zealand) Limited                         | 56,098,131           | 4.01                     |
| HSBC nominees (New Zealand) Limited A/C State Street        | 47,920,755           | 3.42                     |
| JP Morgan Chase Bank N.A. NZ Branch-Segregated Clients ACCT | 42,235,982           | 3.02                     |
| Citibank Nominees (New Zealand) Limited                     | 40,089,969           | 2.86                     |
| Mercury NZ Limited <sup>3</sup>                             | 37,711,584           | 2.69                     |
| Accident Compensation Corporation                           | 23,189,486           | 1.66                     |
| National Nominees Limited                                   | 15,333,049           | 1.10                     |
| HSBC Nominees A/C NZ Superannuation Fund Nominees Limited   | 15,242,271           | 1.09                     |
| BNP Paribas Nominees (NZ) Limited                           | 12,404,445           | 0.89                     |
| BNP Paribas Nominees (NZ) Limited                           | 11,230,510           | 0.80                     |
| FNZ Custodians Limited                                      | 10,920,324           | 0.78                     |
| Forsyth Barr Custodians Limited                             | 10,886,182           | 0.78                     |
| New Zealand Depository Nominee Limited                      | 10,613,970           | 0.76                     |
| HSBC Custody Nominees (Australia) Limited                   | 10,477,986           | 0.75                     |
| JBWere (NZ) Nominees Limited                                | 10,387,796           | 0.74                     |
| Custodial Services Limited                                  | 10,106,004           | 0.72                     |
| BNP Paribas Nominees (NZ) Limited                           | 8,188,729            | 0.58                     |
| Custodial Services Limited                                  | 7,801,081            | 0.56                     |
| Generate Kiwisaver Public Trust Nominees Limited            | 6,287,346            | 0.45                     |
| <b>Total</b>  | <b>1,103,266,128</b> | <b>78.80</b>             |

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 2021, which included 37,711,584 ordinary shares held as treasury shares.

3. Held as treasury shares.

### Distribution of shareholders & holdings as at 30 June 2021

| Size of holding   | Number of shareholders | % of shareholders <sup>1</sup> | Number of shares     | Holding quantity % <sup>1</sup> |
|-------------------|------------------------|--------------------------------|----------------------|---------------------------------|
| 1 to 1,000        | 28,811                 | 38.11                          | 19,675,975           | 1.41                            |
| 1,001 to 5,000    | 37,168                 | 49.17                          | 86,093,936           | 6.15                            |
| 5,001 to 10,000   | 6,093                  | 8.06                           | 44,674,975           | 3.19                            |
| 10,001 to 100,000 | 3,400                  | 4.50                           | 70,100,333           | 5.01                            |
| 100,001 and above | 123                    | 0.16                           | 1,179,467,298        | 84.25                           |
| <b>Total</b>      | <b>75,595</b>          | <b>100</b>                     | <b>1,400,012,517</b> | <b>100</b>                      |

1. Rounding applied.

### Substantial product holders as at 30 June 2021

|   | 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     | 731,342,799 <sup>1</sup>                    | 1,400,012,517 <sup>2</sup>          |

1. This comprises (a) 716,140,528 shares held by the Crown on its own account; (b) 15,134,271 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 2021, Mercury had 1,400,012,517 ordinary shares on issue, which included 37,711,584 ordinary shares held as treasury shares.

## BONDHOLDER INFORMATION

Twenty largest registered holders of MCY020 capital bonds (3.60%) as at 30 June 2021<sup>1</sup>

| Name   | Number of MCY020 capital bonds | % of MCY020 capital bonds <sup>2</sup> |
|--|--------------------------------|--|
| Forsyth Barr Custodians Limited                      | 96,436,000                     | 32.15                                  |
| JBWere (NZ) Nominees Limited                         | 34,528,000                     | 11.51                                  |
| Hobson Wealth Custodian Limited                      | 17,028,000                     | 5.68                                   |
| Custodial Services Limited                           | 16,821,000                     | 5.61                                   |
| FNZ Custodians Limited                               | 14,591,000                     | 4.86                                   |
| Custodial Services Limited                           | 12,709,000                     | 4.24                                   |
| Custodial Services Limited                           | 11,178,000                     | 3.73                                   |
| Citibank Nominees (New Zealand) Limited              | 7,002,000                      | 2.33                                   |
| Generate Kiwisaver Public Trust Nominees Limited     | 6,500,000                      | 2.17                                   |
| Forsyth Barr Custodians Limited                      | 6,399,000                      | 2.13                                   |
| Custodial Services Limited                           | 5,449,000                      | 1.82                                   |
| Custodial Services Limited                           | 4,837,000                      | 1.61                                   |
| Best Farm Limited                                    | 2,900,000                      | 0.97                                   |
| Custodial Services Limited                           | 2,628,000                      | 0.88                                   |
| Forsyth Barr Custodians Limited                      | 1,845,000                      | 0.62                                   |
| The Tindall Foundation Inc                           | 1,800,000                      | 0.60                                   |
| Masfen Securities Limited                            | 1,200,000                      | 0.40                                   |
| Tea Custodians Limited Client Property Trust Account | 850,000                        | 0.28                                   |
| BNP Paribas Nominees (NZ) Limited                    | 806,000                        | 0.27                                   |
| JBWere (NZ) Nominees Limited                         | 750,000                        | 0.25                                   |
| <b>Total</b>   | <b>246,257,000</b>             | <b>82.09</b>                           |

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 MCY020 capital bonds on issue as at 30 June 2021.

Distribution of MCY020 (3.60%) capital bondholders and holdings as at 30 June 2021

| Size of holding   | Number of MCY020 capital bondholders | % of MCY020 capital bondholders <sup>1</sup> | Number of MCY020 capital bonds | Holding quantity % <sup>1</sup> |
|-------------------|--------------------------------------|--|--------------------------------|---------------------------------|
| 1,001 to 5,000    | 77                                   | 5.31   | 382,000                        | 0.13                            |
| 5,001 to 10,000   | 265                                  | 18.29  | 2,578,000                      | 0.86                            |
| 10,001 to 100,000 | 1,016                                | 70.12  | 34,033,000                     | 11.34                           |
| 100,001 and above | 91                                   | 6.28   | 263,007,000                    | 87.67                           |
| <b>Total</b>      | <b>1,449</b>                         | <b>100</b>                                   | <b>300,000,000</b>             | <b>100</b>                      |

1. Rounding applied.



## SECURITY HOLDER INFORMATION.

### Twenty largest registered holders of MCY030 green bonds (1.56%) as at 30 June 2021<sup>1</sup>

| Name   | Number of MCY030 green bonds | % of MCY030 green bonds <sup>2</sup> |
|--|------------------------------|--------------------------------------|
| Accident Compensation Corporation                    | 45,000,000                   | 22.50                                |
| Forsyth Barr Custodians Limited                      | 16,305,000                   | 8.15                                 |
| ANZ Custodial Services New Zealand Limited           | 11,830,000                   | 5.92                                 |
| BNP Paribas Nominees (NZ) Limited                    | 9,817,000                    | 4.91                                 |
| Custodial Services Limited                           | 9,667,000                    | 4.83                                 |
| HSBC Nominees (New Zealand) Limited                  | 8,500,000                    | 4.25                                 |
| Tea Custodians Limited Client Property Trust Account | 8,350,000                    | 4.18                                 |
| National Nominees Limited                            | 7,967,000                    | 3.98                                 |
| NZPT Custodians (Grosvenor) Limited                  | 6,800,000                    | 3.40                                 |
| ANZ Wholesale NZ Fixed Interest Fund                 | 6,305,000                    | 3.15                                 |
| Citibank Nominees (New Zealand) Limited              | 6,000,000                    | 3.00                                 |
| FNZ Custodians Limited                               | 5,308,000                    | 2.65                                 |
| JBWere (NZ) Nominees Limited                         | 4,957,000                    | 2.48                                 |
| Custodial Services Limited                           | 4,819,000                    | 2.41                                 |
| Custodial Services Limited                           | 4,625,000                    | 2.31                                 |
| BNP Paribas Nominees (NZ) Limited                    | 4,400,000                    | 2.20                                 |
| Custodial Services Limited                           | 3,763,000                    | 1.88                                 |
| Mint Nominees Limited                                | 3,000,000                    | 1.50                                 |
| Queen Street Nominees ACF Pie Funds                  | 3,000,000                    | 1.50                                 |
| Custodial Services Limited                           | 2,413,000                    | 1.21                                 |
| <b>Total</b>   | <b>172,826,000</b>           | <b>86.41</b>                         |

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 200,000,000 MCY030 green bonds on issue as at 30 June 2021.

### Distribution of MCY030 (1.56%) green bondholders and holdings as at 30 June 2021

| Size of holding   | Number of MCY030 green bondholders | % of MCY030 green bondholders <sup>1</sup> | Number of MCY030 green bonds | Holding quantity % <sup>1</sup> |
|-------------------|------------------------------------|--|------------------------------|---------------------------------|
| 1,001 to 5,000    | 17                                 | 5.20                                       | 83,000                       | 0.04                            |
| 5,001 to 10,000   | 60                                 | 18.35                                      | 549,000                      | 0.27                            |
| 10,001 to 100,000 | 200                                | 61.16                                      | 7,240,000                    | 3.62                            |
| 100,001 and above | 50                                 | 15.29                                      | 192,128,000                  | 96.06                           |
| <b>Total</b>      | <b>327</b>                         | <b>100</b>                                 | <b>200,000,000</b>           | <b>100</b>                      |

1. Rounding applied.

## SECURITY HOLDER INFORMATION.

### Twenty largest registered holders of MCY040 green bonds (2.16%) as at 30 June 2021<sup>1</sup>

| Name   | Number of MCY040 green bonds | % of MCY040 green bonds <sup>2</sup> |
|--|------------------------------|--------------------------------------|
| FNZ Custodians Limited                               | 28,365,000                   | 14.18                                |
| Citibank Nominees (New Zealand) Limited              | 17,850,000                   | 8.93                                 |
| Forsyth Barr Custodians Limited                      | 17,775,000                   | 8.89                                 |
| BNP Paribas Nominees (NZ) Limited                    | 16,041,000                   | 8.02                                 |
| Custodial Services Limited                           | 12,079,000                   | 6.04                                 |
| HSBC Nominees (New Zealand) Limited                  | 12,025,000                   | 6.01                                 |
| BNP Paribas Nominees (NZ) Limited                    | 9,370,000                    | 4.69                                 |
| Southland Building Society                           | 9,250,000                    | 4.63                                 |
| Custodial Services Limited                           | 6,570,000                    | 3.29                                 |
| Custodial Services Limited                           | 6,467,000                    | 3.23                                 |
| Custodial Services Limited                           | 6,002,000                    | 3.00                                 |
| Pin Twenty Limited                                   | 5,000,000                    | 2.50                                 |
| Investment Custodial Services Limited                | 4,815,000                    | 2.41                                 |
| Tea Custodians Limited Client Property Trust Account | 3,810,000                    | 1.91                                 |
| Mint Nominees Limited                                | 3,800,000                    | 1.90                                 |
| Risk Reinsurance Limited                             | 3,800,000                    | 1.90                                 |
| Dunedin City Council                                 | 3,000,000                    | 1.50                                 |
| Mt Nominees Limited                                  | 3,000,000                    | 1.50                                 |
| Custodial Services Limited                           | 2,525,000                    | 1.26                                 |
| BNP Paribas Nominees (NZ) Limited                    | 2,500,000                    | 1.25                                 |
| <b>Total</b>   | <b>174,044,000</b>           | <b>87.02</b>                         |

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 200,000,000 MCY040 green bonds on issue as at 30 June 2021.

### Distribution of MCY040 (2.16%) green bondholders and holdings as at 30 June 2021

| Size of holding   | Number of MCY040 green bondholders | % of MCY040 green bondholders <sup>1</sup> | Number of MCY040 green bonds | Holding quantity % <sup>1</sup> |
|-------------------|------------------------------------|--|------------------------------|---------------------------------|
| 1,001 to 5,000    | 21                                 | 7.12                                       | 105,000                      | 0.05                            |
| 5,001 to 10,000   | 65                                 | 22.03                                      | 624,000                      | 0.31                            |
| 10,001 to 100,000 | 160                                | 54.24                                      | 6,139,000                    | 3.07                            |
| 100,001 and above | 49                                 | 16.61                                      | 193,132,000                  | 96.57                           |
| <b>Total</b>      | <b>295</b>                         | <b>100</b>                                 | <b>200,000,000</b>           | <b>100</b>                      |

1. Rounding applied.

# 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 the 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 during the 2021 financial year and as at the end of the 2021 financial year, being 30 June 2021: Prue Flacks (chair), Hannah Hamling, Andy Lark, James Miller, Keith Smith, Scott St John, Patrick Strange, and Mike Taitoko.

## SUBSIDIARY COMPANIES

The following persons held office as directors of subsidiaries of Mercury NZ Limited during FY2021.

| Company name                                  | Directors  |
|---|--|
| Bosco Connect Limited                         | Vincent Hawksworth<br>William Meek<br>Tony Nagel <sup>1</sup><br>Howard Thomas |
| Glo-Bug Limited                               | Vincent Hawksworth<br>William Meek<br>Tony Nagel <sup>1</sup><br>Howard Thomas |
| Kawerau Geothermal Limited                    | Vincent Hawksworth<br>William Meek<br>Tony Nagel <sup>1</sup><br>Howard Thomas |
| Mercury Energy Limited                        | Vincent Hawksworth<br>William Meek<br>Tony Nagel <sup>1</sup><br>Howard Thomas |
| Mercury SPV Limited                           | Vincent Hawksworth<br>William Meek<br>Tony Nagel <sup>1</sup><br>Howard Thomas |
| Mighty Geothermal Power International Limited | Vincent Hawksworth<br>William Meek<br>Tony Nagel <sup>1</sup><br>Howard Thomas |
| Mighty Geothermal Power Limited               | Vincent Hawksworth<br>William Meek<br>Tony Nagel <sup>1</sup><br>Howard Thomas |
| Mercury ESPP Limited                          | William Meek<br>Tony Nagel <sup>1</sup><br>Howard Thomas<br>Marlene Strawson   |

| Company name                    | Directors   |
|---------------------------------|---|
| Mercury Geothermal Limited      | Vincent Hawksworth<br>William Meek<br>Tony Nagel <sup>1</sup><br>Howard Thomas                    |
| Mercury LTI Limited             | Prue Flacks<br>Mike Taitoko<br>Howard Thomas  |
| Ngātamariki Geothermal Limited  | Vincent Hawksworth<br>William Meek<br>Tony Nagel <sup>1</sup><br>Howard Thomas                    |
| Rotokawa Generation Limited     | William Meek<br>Nicholas Clarke <sup>1</sup><br>Phil Gibson<br>Michael Stevens                    |
| Rotokawa Geothermal Limited     | Vincent Hawksworth<br>William Meek<br>Tony Nagel <sup>1</sup><br>Howard Thomas<br>Michael Stevens |
| Special General Partner Limited | Vincent Hawksworth<br>William Meek<br>Tony Nagel <sup>1</sup><br>Howard Thomas                    |
| Mighty River Power Limited      | Vincent Hawksworth<br>William Meek<br>Tony Nagel <sup>1</sup><br>Howard Thomas                    |
| Blockchain Energy Limited       | Vincent Hawksworth<br>William Meek<br>Tony Nagel <sup>1</sup><br>Howard Thomas                    |

| Company name   | Directors  |
|--|--|
| Mercury Solar Limited                                    | Vincent Hawksworth<br>William Meek<br>Tony Nagel <sup>1</sup><br>Howard Thomas |
| What Power Crisis (2016) Limited                         | Vincent Hawksworth<br>William Meek<br>Tony Nagel <sup>1</sup><br>Howard Thomas |
| Mercury Drive Limited                                    | Julia Jack   |
| Mercury Wind Limited (formerly Mercury SPV 2021 Limited) | William Meek<br>Howard Thomas  |

1. Directors who have resigned during FY2021.

For reference, Vince Hawksworth was appointed as a director of Mercury Wind Limited on 4 August 2021.

After the reporting period, on 3 August 2021 Mercury NZ Limited acquired the subsidiaries set out below. As at 17 August 2021, the following persons held office as directors of those subsidiaries:

| Company name   | Directors   |
|--|---|
| Mercury Insurance Captive Limited (formerly Tilt Renewables Insurance Limited) | James Miller<br>Vincent Hawksworth<br>William Meek<br>Howard Thomas |
| Tararua Wind Power Limited   | Vincent Hawksworth<br>William Meek<br>Howard Thomas                 |
| Waverley Wind Farm (NZ) Holding Limited  | Vincent Hawksworth<br>William Meek<br>Howard Thomas                 |
| Waverley Wind Farm Limited   | Vincent Hawksworth<br>William Meek<br>Howard Thomas                 |

# 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”) has 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.

On 10 December 2018, Mercury entered into an agreement with the Crown, under which the Crown agrees to participate in any future dividend reinvestment plan or share buyback of the Company, in each case only to the extent required to maintain the Crown's proportionate shareholding following the dividend reinvestment plan or share buyback. A copy of the Crown Participation Agreement is available on the Treasury's website. Mercury does not have any current plan to launch a dividend reinvestment plan or share buyback.

### 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.



## OTHER DISCLOSURES.

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.

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.

### PUBLIC ENTITY

Mercury is a public entity under the Public Audit Act 2001, and the Group's independent auditor is the Auditor-General.

## DONATIONS

Donations of \$92,333 were made by the Group during the year ended 30 June 2021 (\$99,500 during the year ended 30 June 2020). 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 17 August 2021 the Board declared a fully imputed final dividend of 10.2 cents per share to all shareholders who are on the Company's share register at 5pm on the record date of 15 September 2021. The dividends will be imputed at a corporate tax rate of 28%, which amounts to an imputation credit of 3.97 cents per share for the final dividend. Mercury will also pay a supplementary dividend of 1.80 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 \$92.6 million (6.8 cents per share) paid to shareholders on 1 April 2021, brings the total declared dividends to \$231.4 million (or 17.0 cents per share).

As at the date of this annual report, the Company has a S&P Global 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 2021 was \$3.00, compared with \$2.69 at 30 June 2020.

# GLOBAL REPORTING INITIATIVE (GRI) INDEX.

## STANDARD CORE REPORTING

| GRI standard                     | Disclosure title   | Location  | Comments |
|----------------------------------|--|---|----------|
| GENERAL DISCLOSURES              |  |   |          |
| ORGANISATIONAL PROFILE           |  |   |          |
| GRI 102 General disclosures 2021 |  |   |          |
| 102-1                            | Name of the organisation                                     | Front Cover   |          |
| 102-2                            | Activities, brands, products and services                    | Who We Are & Our Business Model pp4-7   |          |
| 102-3                            | Location of headquarters                                     | Directory p113  |          |
| 102-4                            | Location of operations                                       | Who We Are & Our Business Model pp4-7   |          |
| 102-5                            | Ownership and legal form                                     | Company Disclosures p106  |          |
| 102-6                            | Markets served   | Who We Are & Our Business Model pp4-7   |          |
| 102-7                            | Scale of the organisation                                    | Who We Are & Our Business Model pp4-7   |          |
| 102-8                            | Information on employees and other workers                   | Who We Are & Our Business Model pp4-7   |          |
| 102-9                            | Supply chain   | Governance at Mercury: Acting Ethically & Responsibly pp90-91   |          |
| 102-10                           | Significant changes to the organisation and its supply chain | Governance at Mercury: Acting Ethically & Responsibly pp90-91   |          |
| 102-11                           | Precautionary principle or approach                          | Governance at Mercury p89   |          |
| 102-12                           | External initiatives   | Engaging With Our Stakeholders p13, Redefining Customer Care p19, A Clearer Connection to the Waikato p22 |          |
| 102-13                           | Membership of associations                                   | Engaging With Our Stakeholders p13 and Company website - Engaging with our stakeholders                   |          |
| 102-14                           | Statement from senior decision-maker                         | Chair & Chief Executive Update pp8-11   |          |
| 102-16                           | Values, principles, standards, and norms of behavior         | Company website – The Mercury Code  |          |
| 102-18 - 102-39                  | Governance   | Governance at Mercury pp77-93   |          |
| 102-40                           | List of stakeholder groups                                   | Engaging With Our Stakeholders p13 and Company website - Engaging with our stakeholders                   |          |
| 102-42                           | Identifying and selecting stakeholders                       | Engaging With Our Stakeholders p13 and Company website - Engaging with our stakeholders                   |          |

| GRI standard                     | Disclosure title  | Location  | Comments  |
|----------------------------------|---|---|---|
| 102-43                           | Approach to stakeholder engagement                                      | Engaging With Our Stakeholders p13 and Company website - Engaging with our stakeholders |   |
| 102-44                           | Key topics and concerns raised  | Engaging With Our Stakeholders p13 and Company website - Engaging with our stakeholders |   |
| 102-45                           | Entities included in the consolidated Consolidated Financial statements | Notes To The Consolidated Financial Statements p44                                      |   |
| 102-46                           | Defining report content and topic Boundaries                            | About This Report p2, Pulling It All Together p15                                       |   |
| 102-47                           | List of material topics   | Pulling It All Together p15   |   |
| 102-48                           | Restatements of information   | Financial Statements pp41-63  | There are restatements of 2020 financial statements in the 2021 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 p113  |   |
| 102-54                           | Claims of reporting in accordance with the GRI Standards                | About This Report p2  |   |
| 102-55                           | GRI content index   | GRI Content Index p109  |   |
| 102-56                           | External assurance  |   | Our 2021 report has not been externally assured.                                  |
| MANAGEMENT APPROACH              |   |   |   |
| GRI 103 General disclosures 2021 |   |   |   |
| 103-1                            | Explanation of the material topic and its Boundary                      | Pulling It All Together p15   |   |
| GRI 103                          | Management approach   | Our Business Model pp4-7  | Within the organisation   |

SPECIFIC STANDARD DISCLOSURES

| Material topics                        | Description   | Location   | Boundaries                          |
|--|---|--|-------------------------------------|
| GRI 200 Economic standard series       |   |  |                                     |
| GRI 201 Economic performance           |   |  |                                     |
| GRI 201                                | Management approach   | Our Business Model pp4-7   | Within the organisation             |
| 201-1                                  | Direct economic value generated and distributed   | Our Business Model pp4-7   | Within and outside the organisation |
| 201-2                                  | Consolidated Financial implications and other risks and opportunities due to climate change | TCFD Report p64  | Within and outside the organisation |
| GRI 204 Procurement Practice           | Supplier Code of Conduct  | Acting Ethically & Responsibly p90   |                                     |
| GRI 207 Tax                            | Tax management  | Financial Statements Note 5 p48  |                                     |
| GRI 300 Environmental standards series |   |  |                                     |
| GRI 303 Water                          |   |  |                                     |
| 303-1                                  | Water withdrawal by source  | Mercury does not "withdraw" water for generation. 43,426 Mm <sup>3</sup> were used for hydro generation in FY21. | Within and outside the organisation |
| GRI 305 Emissions                      |   |  |                                     |
| 305-1                                  | Direct (Scope 1) GHG emissions  | Metrics & Targets p74  | Within and outside the organisation |
| 305-2                                  | Energy indirect (Scope 2) GHG emissions   | Metrics & Targets p74  | Within and outside the organisation |
| 305-3                                  | Other indirect (Scope 3) GHG emissions  | Metrics & Targets p74  | Within and outside the organisation |
| 305-4                                  | Emissions intensity   | Metrics & Targets p74  | Within and outside the organisation |
| GRI 307 Environmental compliance       |   |  |                                     |
| 307-1                                  | Non-compliance with environmental laws and regulations                                      | Mercury did not receive any infringement notices for breaches of consent conditions during FY21.                 | Within and outside the organisation |
| GRI 400 Social standards series        |   |  |                                     |
| GRI 103                                | Management approach   | Our Business Model pp4-7   | Within the organisation             |

| Material topics                           | Description   | Location   | Boundaries                          |
|---|---|--|-------------------------------------|
| GRI 401 Employment                        |   |  |                                     |
| 401-1                                     | New employee hires and employee turnover  | Mercury hired 92 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 generation 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 pp4-7, Chair and Chief Executive's Update p11, People Pillar Story pp28-30, Financial Track Record p37              | Within the organisation             |
| GRI 404 Training and education            |   |  |                                     |
| 404-2                                     | Programmes for upgrading employee skills and transition assistance programmes   | Our Skills Pledge p30  | Within the organisation             |
| GRI 405 Diversity and equal opportunities |   |  |                                     |
| 405-1                                     | Diversity of governance bodies and employees  | Inclusion & Diversity pp92-93  | Within the organisation             |
| GRI 413 Local communities                 |   |  |                                     |
| 413-1                                     | Operations with local community engagement, impact assessments and development programs                                     | Redefining Customer Care pp19-21, A Clearer Connection To The Waikato pp22-24  | Within and outside the organisation |
| 413-2                                     | Operations with significant actual and potential negative impacts on local communities                                      | Redefining Customer Care pp19-21, A Clearer Connection To The Waikato pp22-24  | Within and outside the organisation |

SECTOR SPECIFIC: UTILITIES

| Material Topics | Description  | Location                                    | Boundaries                          |
|-----------------|--|---|-------------------------------------|
| GRI 103         | Management approach  | Our Business Model pp4-7                    | Within the organisation             |
| EU1             | Installed capacity   | Our Business Model pp4-7                    | Within the organisation             |
| EU2             | Net energy output  | Our Business Model pp4-7                    | Within the organisation             |
| EU3             | Number of customer connections   | Our Business Model pp4-7                    | Within and outside the organisation |
| EU5             | Allocation of CO <sub>2</sub> e allowances   | Metrics & Targets p74                       | Within and outside the organisation |
| EU10            | Planned capacity against projected electricity demand over the long-term                                     | Re-shaping Our Generation Portfolio pp31-33 | Within and outside the organisation |
| GRI 103         | Management approach  | Our Business Model pp4-7                    | Within the organisation             |
| EU18            | Percentage of contractor and subcontractor employees that have undergone relevant health and safety training | Our Skills Pledge p30                       | Within and outside the organisation |
| GRI 103         | Management approach  | Our Business Model pp4-7                    | Within the organisation             |
| EU27            | Number of disconnections for non-payment   | Redefining Customer Care pp19-21            | Outside the organisation            |
| GRI 103         | Management approach  | Our Business Model pp4-7                    | Within the organisation             |
| EU30            | Average plant availability by energy source and by regulation regime   | Hydro 84%, Geothermal 95%                   | Within the organisation             |





# INFORMATION FOR SHAREHOLDERS.

## Shareholder enquiries

You can view your investment portfolio, change your address, supply your email, update your details or payment instructions online: [www.investorcentre.com/nz](http://www.investorcentre.com/nz). You will need your CSN and FIN numbers to access this service.

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

## Investor information

Our website at [mercury.co.nz](http://mercury.co.nz) is an excellent source of information about what's happening within the company.

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

## Electronic shareholder communication

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

- Online at [www.investorcentre.com/nz](http://www.investorcentre.com/nz) by using your CSN and FIN numbers (when you log in for the first time). Select 'My Profile' and 'Communication Preferences' to update your details; or
- By contacting Computershare Investor Services Limited (see Directory for contact details).

# DIRECTORY.

## Board of Directors

Prue Flacks, Chair  
Dennis Barnes (with effect from 1 September 2021)  
Hannah Hamling  
Andy Lark  
James Miller  
Keith Smith  
Scott St John  
Patrick Strange  
Mike Taitoko

## Executive Management Team

Vince Hawksworth,  
Chief Executive  
  
Lucie Drummond,  
General Manager Sustainability  
  
Phil Gibson,  
General Manager Portfolio  
  
Stewart Hamilton,  
General Manager Generation  
  
Julia Jack,  
Chief Marketing Officer  
  
William Meek,  
Chief Financial Officer  
  
Craig Neustroski,  
General Manager Customer  
  
Marlene Strawson,  
General Manager People & Performance

## Company Secretary

Howard Thomas,  
General Counsel and Company Secretary

## Investor Relations & Sustainability Enquiries

Tim Thompson,  
Head of Treasury & Investor Relations

Mercury NZ Limited  
P O Box 90399  
Auckland 1142  
New Zealand

Phone: +64 27 517 3470  
Email: [investor@mercury.co.nz](mailto:investor@mercury.co.nz)

## Registered Office in New Zealand

33 Broadway, Newmarket, Auckland 1023

## Registered Office in Australia

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

Phone: +61 2 8988 5800

## Legal Advisors

Chapman Tripp  
Level 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  
MUFG Bank  
Mizuho Bank  
Westpac

## Credit Rating (re-affirmed November 2020)

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](mailto:enquiry@computershare.co.nz)  
Web: [www.investorcentre.com/nz](http://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](mailto:enquiry@computershare.co.nz)

# 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<sub>2</sub>E

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/(loss) on disposal 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.

# 20 YEARS AGO, A DYNAMIC DUO WAS BORN.

In 2001, we became a Five Star Partner of Starship children's hospital, making us sidekicks to the thousands of brave little superheroes who pass through their doors each year.

As Aotearoa New Zealand's only dedicated children's hospital, Starship helps save the lives of Kiwi kids from all over the country. Take the story of the Amazing Avery, who after a serious car accident spent nearly a month in Starship learning how to stand and walk unassisted again.

Thanks to the generous donations of our wonderful customers, we've managed to raise more than \$13.5 million to help the team at Starship continue to provide Kiwi kids like Avery with the best medical facilities, treatment and care possible!



Check out all the wonderful work we've accomplished together at [mercury.co.nz/starship](https://mercury.co.nz/starship) or scan the QR code to donate.  
**DONATE NOW!**



Energy<sup>made</sup>  
Wonderful

Mercury 