



Company Announcements Office  
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Sydney, NSW 2000 Australia

21 February 2017

**Mercury NZ Limited (ASX: MCY) (ARBN 162 804 668)**

**HY2017 Results and Interim Report**

Attached are the following documents in relation to Mercury's financial results for the six months ended 31 December 2016:

- > NZX Appendix 1
- > 2017 Interim Report including unaudited financial statements for the six months ended 31 December 2016 and Auditor's Review Report
- > News Release
- > Results Presentation
- > NZX Appendix 7 in relation to Mercury's interim dividend

Dividend information filed on Appendix 3A.1 will follow.

Yours faithfully



Tony Nagel  
**Company Secretary**



# Appendix 1 – Interim results

Stock Exchange listings NZX (MCY) ASX (MCY)

Results for announcement to the market		
1. Half year reporting periods		
Reporting Period	6 months to 31 December 2016	
Previous Reporting Period	6 months to 31 December 2015	
	NZD Amount (\$M)	Percentage change
Revenue from ordinary activities	796	-2.1%
Profit from ordinary activities after tax attributable to security holders	113	+52.7%
Net profit attributable to security holders	113	+52.7%
Earnings before net interest expense, income tax, depreciation, amortisation, change in fair value of financial instruments, impairments and equity accounted earnings (EBITDAF)	270	+5.1%
Underlying earnings after tax <sup>1</sup>	94	+5.6%
	NZD Amount	Percentage change
Basic and diluted earnings per share (weighted average number of shares)	\$0.0821	+52.6%
Net tangible assets per share (excluding treasury shares)	\$2.35	+1.7%
	Amount per security	Imputed amount per security
Interim Dividend	\$0.058	\$0.022556 <sup>2</sup>
Record Date	15 March 2017	
Dividend Payment Date	3 April 2017	

Comments:	1. Underlying earnings after tax excludes one-off and/or infrequently occurring events (exceeding \$10 million of net profit before tax). This is a non-GAAP measure.
	2. A supplementary dividend of \$0.010235 per share will be payable on the interim dividend to shareholders who are not resident in New Zealand.
<b>2. Control of entities gained or lost during the period</b>	
<b>Name</b>	<b>Date control lost</b>
MRP NRI-Germany Holdings Limited	In voluntary liquidation as at balance date
MRP NRI-Peru Holdings Limited	In voluntary liquidation as at balance date
MRP NRI-Chile Holdings Limited	In voluntary liquidation as at balance date
MRP Holdings-Germany Limited	In voluntary liquidation at 30 June 2016. Dissolved 15 October 2016.
MRP Holdings-Peru Limited	In voluntary liquidation at 30 June 2016. Dissolved 22 September 2016.
MRP Holdings-Chile Limited	In voluntary liquidation as at balance date. To be dissolved 24 February 2017.
<b>3. Dividends</b> See section 1 above and NZX Appendix 7 attached.	
<b>4. Dividend or distribution reinvestment plans</b> None.	
<b>5. Associates and joint venture entities</b> Refer to Consolidated Interim Financial Statements for the period ended 31 December 2016.	
<b>6. Accounting Standards</b> Refer to Consolidated Interim Financial Statements for the period ended 31 December 2016.	
<b>7. Review report</b> This report is derived from the Consolidated Interim Financial Statements. EY has provided a Review Report on the Consolidated Interim Financial Statements, copy attached.	

Attachments:


- News release
- Results presentation
- Interim Report and Consolidated Interim Financial Statements for the period ended 31 December 2016
- NZX Appendix 7 – ordinary dividend











OUR NEW MERCURY BRAND IS MAKING  
A POSITIVE IMPACT AND INSPIRING  
CUSTOMER LOYALTY.

WE HAVE CLEAR MOMENTUM, A NEW ENERGY  
IN OUR PEOPLE AND A FOCUS ON THE FUTURE.

WE ARE PROUD TO BE CONTINUING TO BUILD  
ON A RICH HERITAGE OF INNOVATION AS  
WE PROGRESS OPPORTUNITIES TO DELIVER  
LONG-TERM SUSTAINABLE VALUE FOR OUR  
CUSTOMERS AND SHAREHOLDERS.

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# REPORT CARD.

## >> FINANCIALS

\$270M<sup>^</sup>

EBITDAF up 5.1%, reflecting a lift in hydro generation and customer sales offset by a lower average yield for commercial and industrial sales.

\$113M<sup>^</sup>

Net profit was \$39 million higher than HY2016 with improved operating earnings, positive fair value movements and no impairment charges.

\$140M

Free Cash Flow steady, with higher stay-in-business capital expenditure offset by lower tax paid.

5.8CPS<sup>^</sup>

Fully-imputed interim dividend to be paid on 3 April 2017. Full-year ordinary dividend guidance of 14.6 cents per share, a 2.1% increase on FY2016.

## >>CUSTOMERS

# 100k

Customers were rewarded with Free Power Days as part of a focus on rewarding loyalty.

# 1-in-3

A third of Mercury customers are opting for the certainty of fixed-price offers.

## >>COMMUNITY

# 10k

Customers in the Kaikoura region were contacted with Free Power Days to offer our support following the November earthquakes.

# \$120k

Through our long-standing support with our customers, Mercury helped fund a new OCT eye scanner for Starship Children's Hospital.

## >>ENVIRONMENT

# 100%

## RENEWABLE GENERATION

Capital investment is focused on further improving the efficiency and long-term reliability of hydro generation and sustainable optimal production at our geothermal stations.

# 3M

## KG CO<sub>2</sub>-e/YEAR

Reduction in carbon emissions from a 30 company commitment to purchase electric vehicles, led by Mercury and Air New Zealand.



# CHAIR AND CHIEF EXECUTIVE'S MESSAGE.

We have a clear goal to be New Zealand's leading energy brand.  
That requires a strategic focus towards customer value and relevant new technologies – building on remarkable foundations laid over almost a century.

In our new Mercury brand we have a common platform to support  
our success today, our ambition and future growth.

We are pleased to be reporting enhanced customer loyalty following the brand consolidation and significant progress on value-enhancing partnerships during the half-year.

Over the six months ended 31 December 2016, we have announced commercial relationships with global technology leaders Trina Solar, SolaX Power and PlugShare, and Mercury became an exclusive Airpoints™ partner with Air New Zealand.

## FINANCIAL RESULTS

Our core performance demonstrates Mercury's current competitive strengths and resilience.

Despite subdued wholesale electricity pricing, we have been able to leverage favourable North Island hydro conditions and achieve a 5.1% lift in Mercury's operating earnings (EBITDAF) to \$270 million for HY2017.

Mercury will pay a fully-imputed interim dividend of 5.8 cents per share on 3 April 2017 to our 90,000 owners, including the Crown. This represents 40% of the full-year ordinary dividend guidance of 14.6 cents per share, a 2.1% increase on FY2016.

Mercury's financial results for the half-year include the benefit of above-average rainfall that enabled a 7% increase in hydro generation. We updated our forecast FY2017 hydro generation in October (to 4,250GWh), and at the time of these results we have increased our full-year EBITDAF guidance to \$500m.

The 2015 closure of the gas-fired Southdown station substantially reduced the Company's future carbon obligations and we took the opportunity to divest some of our surplus carbon credits in HY2017.

This generated cash proceeds of \$19 million due to significantly higher carbon pricing, and a gain on sale of \$5 million. Net profit after tax was up from \$74 million to \$113 million due to the improved EBITDAF, movements in the fair value of the company's financial instruments, and impairment charges in the prior period. Underlying earnings were up \$5 million to \$94 million.

Operating costs were down 6% on HY2016 due to lower maintenance costs. Full-year operating costs are forecast to be in line with recent years. Capital expenditure is expected to be \$115 million in FY2017 as a result of the company's current focus on hydro reinvestment and geothermal drilling, which is progressing well.

This programme, currently focused around Whakamaru and Aratiatia hydro stations, will further improve the efficiency and long-term reliability of operations on the Waikato River and sustain performance of geothermal production. Together, this supports Mercury's 100% renewable generation accounting for 15-17% of New Zealand's total annual electricity demand.

We have also completed a smooth transition to UGL as the company's maintenance contractor across all of our geothermal and hydro operations. Having a single primary maintenance partner will lead to improved efficiencies and greater consistency across safety and processes.

We have continued a very positive health and safety trend in the highest-risk areas of our business with no injuries requiring medical treatment, or resulting in lost time, occurring at any of our generation sites in HY2017. However there were a number of incidents that contributed to a poorer performance against our key lag measure, Total Recordable Injury Frequency Rate (TRIFR).

With our goal of 'zero harm', it was concerning to have a stair-fall injury involving a contractor at our Greenlane office. We are pleased to report that they have now returned to work full-time.

Our focus remains on preventing low probability high consequence events, with a significant effort currently on implementing a Process Safety programme concentrating on key risks in our business.



WE ARE PLEASED TO BE REPORTING ENHANCED CUSTOMER LOYALTY FOLLOWING THE BRAND CONSOLIDATION AND SIGNIFICANT PROGRESS ON VALUE-ENHANCING PARTNERSHIPS DURING THE HALF-YEAR.

>> JOAN WITHERS  
CHAIR



DESPITE SUBDUED WHOLESALE ELECTRICITY PRICING, WE HAVE BEEN ABLE TO LEVERAGE FAVOURABLE NORTH ISLAND HYDRO CONDITIONS AND ACHIEVE A 5.1% LIFT IN MERCURY'S OPERATING EARNINGS TO \$270 MILLION FOR HY2017.

>> FRASER WHINERAY  
CHIEF EXECUTIVE



## GROWTH OPTIONS

Alongside the robust results for HY2017, the reporting period included solid progress on several key elements of the company's strategy to create long-term value.

Highlights included the move to a new Mercury brand, successful customer loyalty initiatives, the launch of New Zealand's leading solar offering and the development of important partnerships.

We have also undertaken a broad review of domestic growth options. This review, involving external advisors, focused on opportunities with potential to deliver value for customers and help drive progressive returns to Mercury's owners over time.

We have established capability and small, but important, new revenue streams in key technologies such as solar and distributed storage to complement our strength in renewable generation.

Mercury is also investing in the Mercury Research and Development Centre to showcase world-leading solar, battery storage, electric vehicle (EV) charging and other energy technologies in New Zealand conditions. We are also looking beyond the home to opportunities in e-mobility and relevant areas of transportation.

## CUSTOMER LOYALTY

The response to the new Mercury brand (launched on 29 July 2016) has been extremely positive with our people and with our customers.

Mercury's customer satisfaction reached record levels during HY2017 and annualised switching rates were more than 3% lower than the market average reported by the Electricity Authority.

Customer numbers increased by about 11,000 over the period, largely due to better retention of existing customers, consistent with our focus on rewarding loyalty.

More than 100,000 customers were rewarded with a Free Power Day, and almost 100,000 have registered to receive Airpoints™.

Another significant contributor to loyalty is the popularity of Mercury's fixed-price contracts.

This is the single-most successful retail offering in terms of uptake in the New Zealand electricity market, with a third of Mercury customers opting for the certainty of contracts. Mercury's first Airpoints™ offer has moved more than 4,000 customers to two-year contracts and is also expected to be a powerful retention product.



**WE HAVE UNDERTAKEN  
A BROAD REVIEW OF  
DOMESTIC GROWTH  
OPTIONS, FOCUSED ON  
OPPORTUNITIES WITH  
POTENTIAL TO DELIVER  
VALUE FOR CUSTOMERS  
AND HELP DRIVE  
PROGRESSIVE RETURNS  
TO MERCURY'S OWNERS  
OVER TIME.**

Our customers have responded very favourably to our Free Power Day offer alongside the re-launch, and we offered a Free Power Day to more than 10,000 Mercury customers in the areas near Kaikoura impacted by the November earthquakes to give them a little support. We also credited GLOBUG and Tiny Mighty Power customers in this region to give them the equivalent of a Free Power Day and received great responses when we texted these customers individually to let them know.

As part of our focus on customer engagement, following the brand re-launch we encouraged all of our employees across the business to each call a customer. This was a challenge to our people, particularly those who do not usually talk directly with customers. The very high participation rate, employee engagement and customer feedback was truly uplifting.

Through the move to our new brand, activity such as the promotion of e-bikes has been a practical way of showing what our mission of 'Energy Freedom' means. E-bike sales have also jumped nationally on the back of our promotion and ride events, reflecting the heightened awareness and positive interest measured in our brand research with customers.

We have continued to invest in and seamlessly implement updates to our key technology platforms to support our service to customers and digital engagement. Another area of focus following the brand change has been to implement a simplified customer bill in HY2017. This has reduced the number of related enquiries, allowing greater capacity for conversations focusing on delivering value for customers. Ongoing investment is planned to further develop Mercury's digital experience so that we can offer new value, simplify and personalise the experience for our customers.

## PARTNERSHIPS

We have announced a range of initiatives being progressed through value-enhancing partnerships.

Mercury has been confirmed by a global leader in solar panel technology and sustainability, Trina Solar, as their preferred residential and commercial sales partner in New Zealand. We are also the exclusive New Zealand supplier of the SolaX-BOX battery, which offers an advanced and flexible home storage system that complements solar production and can provide effective back-up during a power outage.

The company has partnered with global software and services company, PlugShare, on the Electric Highway™ to increase the visibility of the full range of EV charging locations to support electric vehicle uptake in New Zealand. This free app gives EV owners the confidence and choice of where they can fill up on home-grown renewable energy, aggregating charging points from the many different infrastructure providers.

Another substantial initiative, led by the chief executives of Mercury and Air New Zealand, saw 30 of New Zealand's leading businesses commit to a minimum of 30% EVs in their fleets by 2019, representing 1,450 EVs in total. This is one of the largest voluntary sustainability initiatives in New Zealand business history, with the potential to take around 3 million kg of carbon emissions out of the environment every year. We also see this as another very meaningful milestone in the uptake of EVs and electricity becoming the transport fuel of choice.



Our ongoing support for Starship together with our customers resulted in investment in new leading-edge eye scanning technology at the national Children's Hospital that is helping with more accurate diagnoses. Previously this partnership has funded other important investments such as the installation of pull-down beds that allow parents to stay in the rooms with their children.

Mercury also celebrated the outstanding performances at the Rio Olympics with our partners Rowing New Zealand, who we have supported for nearly 20 years.

Another excellent partnership example is Metrix's commercial arrangement with Counties Power to deliver smart meter services to retailers on their network. The 15-year arrangement involves Counties Power investing in the physical infrastructure and Metrix managing the communications network, back-office systems and provision of Cloud-based services to electricity retailers that are a New Zealand first.

Counties Power selected Metrix due to our expertise in running Advanced Metering Infrastructure (AMI) radio-mesh technology and for our service delivery platform to electricity retailers. Our understanding of the benefits of AMI to electricity line distributors was also an important factor.

Together with the superior customer offering, Counties Power is effectively the first electricity lines company in this country to see the full benefit from

AMI services with the ability to substantially optimise their field resources during periods of intermittent supply or outages, receiving alert notifications within seconds that support security of supply for their business and residential customers.

## SECTOR OUTLOOK

Standing back from our business, the New Zealand electricity market remains healthy with strong underlying fundamentals and a good balance between supply and demand.

The closure of several industrial facilities within the past 18 months has extended a decade-long trend of falling electricity demand from this segment. National consumption dipped in HY2017 with the impact of wetter and warmer weather conditions. However, GDP growth and record net migration are positives that will flow through to demand.

Importantly, the conversation on electricity and its renewability in New Zealand has shifted substantially from issue to opportunity and our sector is now increasingly being considered a national competitive advantage. At a time when other countries around the world are looking to decarbonise their energy systems, New Zealand's electricity supply is our low-carbon solution.

The conversation had to change for the long-term benefit of our country, for consumers, and for you as the owners of Mercury.

An example of just how far this conversation has moved is the recent direction from the Government around public consultation on the New Zealand Energy Efficiency and Conservation Strategy, and the clear determination to ensure that this country makes the most of this renewables advantage.

Further change is required to foster continued innovation, deliver value to customers and increase the benefits for the country.

The regulatory environment must be simplified and evolve. In particular, Mercury believes distribution pricing needs to be overhauled as a priority to provide appropriate long-term signals for consumers and generators alike and to keep pace with new technologies.

As we focus on taking renewable energy beyond the home, we are advocating for a fundamental shift in energy policy from the current renewable electricity target, to focusing on total renewable energy.

An energy target would force us as a country to give much greater weight to the opportunity to use renewable heat in industrial applications and to electrify transport, which we have consistently promoted as New Zealand's largest green-growth opportunity.



IMPORTANTLY, THE CONVERSATION ON ELECTRICITY AND ITS RENEWABILITY IN NEW ZEALAND HAS SHIFTED SUBSTANTIALLY FROM ISSUE TO OPPORTUNITY AND OUR SECTOR IS NOW INCREASINGLY BEING CONSIDERED A NATIONAL COMPETITIVE ADVANTAGE.

We are encouraged by the constructive approach to policy development across the political spectrum. This is essential to provide customers, employees, investors and our communities with confidence in this essential sector with ultra-long-term planning horizons. Collectively we must also have a view to the opportunity in front of us to address climate change and to secure better outcomes for the planet through the greater application of our renewable energy.

The Electricity Authority's consultation process on transmission pricing has been extensive. However, it is vital that we do not lose sight of what is in the best interests of customers and New Zealand as a whole.

We could not be more proud of what our entire team at Mercury has achieved through this half-year with the support of the leadership team and our Board. The highlights included in this report are only a snapshot of the extensive activity, achievements and challenges in HY2017. This has been an exciting and rewarding period of evolution for Mercury. These outcomes are a product of both tremendous focus and commitment from our people.

Our thanks also go to director Mike Allen who stepped down from the Board in November, after seven years' service. His deep expertise in geothermal was extremely valuable through a time when Mercury completed two major geothermal developments in New Zealand that have contributed to geothermal growing to become New Zealand's second-largest electricity fuel source.

As we focus on future growth opportunities, we will ensure that Mercury's Board remains well-balanced and has the skills and experience necessary to guide the company in pursuit of its strategic priorities. ●

>> JOAN WITHERS, CHAIR

>> FRASER WHINERAY, CHIEF EXECUTIVE

# FINANCIAL COMMENTARY.

This overview of our Interim Financial Statements focuses on key measures relating to the performance of Mercury NZ Limited during the six months ended 31 December 2016. For an explanation as to why we focus on the following measures please refer to the Creating Shared Value section of our 2016 Annual Report.

## ENERGY MARGIN

Mercury's energy margin of \$348 million was up \$4 million on HY2016, supported by a 152GWh increase in the company's hydro generation. This increase offset the thermal volumes generated during the prior period, with a related saving in fuel costs.

The ratio of electricity purchase costs to average generation prices (LWAP/GWAP) remained similar to the same period last year at 1.04. This reflects a continuation of lower wholesale price volatility and the closure of the company's Southdown gas-fired station on 31 December 2015.

The average energy price to customers was down 2.8% to \$112.30/MWh relative to the same period last year. This reflects additional commercial and industrial sales contracted throughout the year at lower prices than achieved historically and the timing of customer loyalty product offerings.

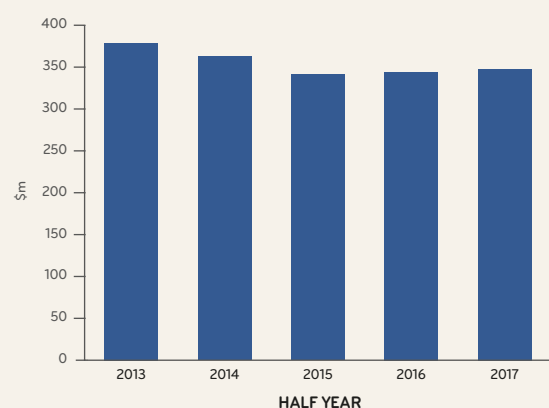
## OTHER INCOME

During the period the company sold down 1.1 million carbon emission units, recognising a gain on disposal of \$5 million and cash proceeds of \$19 million, reflected through cash inflows from investing activities. The sale reflected the company's substantially-reduced carbon emission obligations following the retirement of the Southdown station.

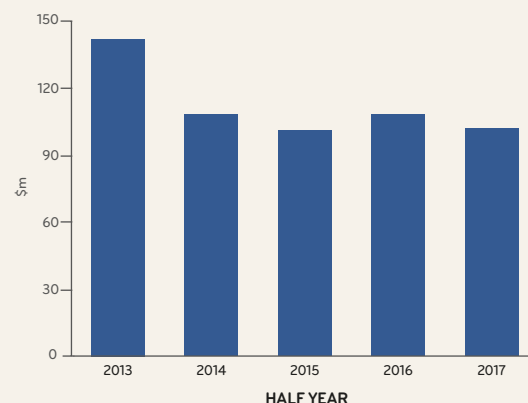
## OPERATING COSTS

Operating costs were \$6 million lower than HY2016 at \$102 million, as a result of reductions in maintenance costs as higher expenditures occurred in geothermal drilling activities and hydro refurbishment projects, both mostly capital in nature. Full-year operating costs are expected to remain in line with levels over the past three years.

>> FIGURE 1: ENERGY MARGIN



>> FIGURE 2: OPERATING COSTS



### EBITDAF

These energy margin, other income and operating cost movements were reflected in higher operating earnings (EBITDAF), which were up \$13 million on the prior comparable period to \$270 million.

### PROFIT

Profit for the period increased \$39 million to \$113 million due to the improved EBITDAF performance, increased gains in the fair value of the company's financial instruments, mostly due to an increase in the forward interest rate curve, and the impairment charges reported in the prior period.

### UNDERLYING EARNINGS

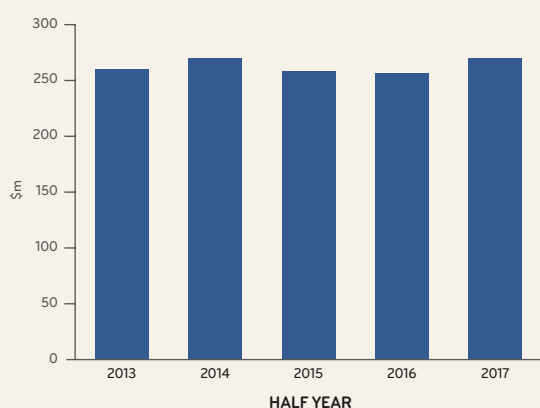
Underlying earnings after tax increased by \$5 million to \$94 million, reflecting the increase in Mercury's EBITDAF performance.

### CASH FLOW

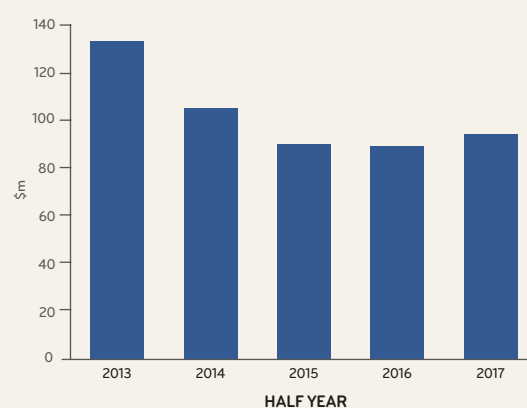
Net cash flow from operating activities increased \$34 million, due to the improved EBITDAF performance along with an \$11 million decrease in cash taxes.

The company elected to pre-pay some of its third provisional tax payment in March 2016, which would otherwise have been payable in July, to fully impute the 4 cents per share special dividend paid in September 2016.

>> FIGURE 3: EBITDAF



>> FIGURE 4: UNDERLYING EARNINGS AFTER TAX





## BALANCE SHEET

Stay-in-business capital expenditure for the period was \$54 million, reflecting the hydro refurbishment projects currently underway at Aratiatia and Whakamaru, where significant delivery payments have taken place, along with the geothermal drilling programme which will continue into the second half of FY2017. Full year stay-in-business capital expenditure is expected to be \$115 million, with average annual capital expenditure over the medium term remaining in line with guidance of \$80 million.

## CAPITAL STRUCTURE AND DIVIDENDS

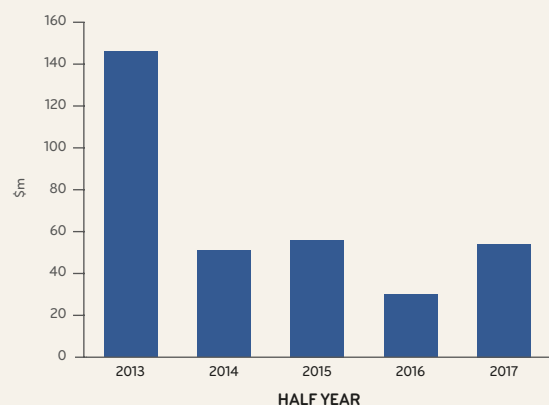
A key reference point in Mercury's ongoing commitment to an efficient and sustainable capital structure is its BBB+ credit rating, which considers the company's working capital requirements and medium-term investment programme.

During the period \$120 million of the company's wholesale bonds matured, with repayment funded out of existing committed bank facilities, which were increased by \$50 million to \$350 million. At the end of the period \$114 million of these facilities was drawn. The average maturity profile for committed facilities is 9.0 years.

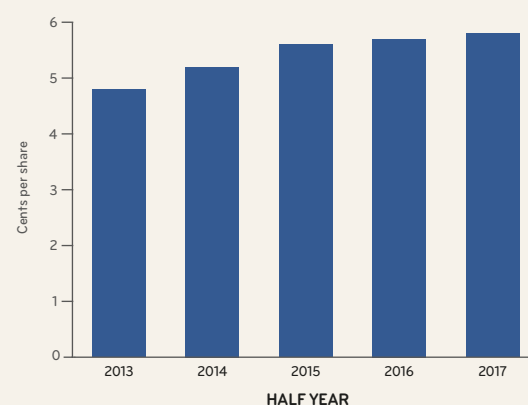
The company's average interest rate of 8.4% reflects interest rate hedges put in place in 2008 ahead of the company's significant geothermal development programme. These hedges mature by the end of the 2018 financial year. From that time the estimated cash flow benefit, at current rates, is in excess of \$20 million per annum.

In line with Mercury's dividend policy targeting a pay-out ratio of 70% to 85% of Free Cash Flow on average over time, a fully imputed 5.8 cents per share interim dividend has been declared, payable on 3 April 2017. The FY2017 ordinary dividend guidance of 14.6 cents per share remains unchanged, representing a 2.1% increase on FY2016. ●

>> FIGURE 5: CAPITAL EXPENDITURE



>> FIGURE 6: INTERIM DECLARED DIVIDENDS



# INDEPENDENT AUDITOR'S REVIEW.



Chartered Accountants

## REVIEW REPORT TO THE SHAREHOLDERS OF MERCURY NZ LIMITED

We have reviewed the consolidated interim financial statements of Mercury NZ Limited ("the Company") and its subsidiaries ("the Group") on pages 16 to 27, which comprise the consolidated balance sheet of the Group as at 31 December 2016, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement of the Group for the six months ended on that date, and a summary of significant accounting policies and other explanatory information.

This report is made solely to the Company's shareholders, as a body. Our review has been undertaken so that we might state to the Company's shareholders those matters we are required to state to them in a review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's shareholders as a body, for our review work, for this report, or for our findings.

## DIRECTORS' RESPONSIBILITIES

The directors are responsible for the preparation and fair presentation of consolidated interim financial statements which comply with New Zealand Equivalent to International Accounting Standard 34 *Interim Financial Reporting* and for such internal control as the directors determine is necessary to enable the preparation and fair presentation of the consolidated interim financial statements that are free from material misstatement, whether due to fraud or error.

The directors are also responsible for the publication of the consolidated interim financial statements, whether in printed or electronic form.

## REVIEWER'S RESPONSIBILITIES

The Auditor-General is the auditor of the Group pursuant to section 5(1)(f) of the Public Audit Act 2001. Pursuant to section 32 of the Public Audit Act 2001, the Auditor-General has appointed Simon O'Connor of Ernst & Young to carry out the annual audit of the Group.

Our responsibility is to express a conclusion on the consolidated interim financial statements based on our review. We conducted our review in accordance with New Zealand Standard on Review Engagements 2410 *Review of Financial Statements Performed by the Independent Auditor of the Entity* (NZ SRE 2410). NZ SRE 2410 requires us to conclude whether anything has come to our attention that causes us to believe that the consolidated interim financial statements, taken as a whole, are not prepared in all material respects, in accordance with New Zealand Equivalents to International Accounting Standard 34 *Interim Financial Reporting*. As the auditor of Mercury NZ Limited, NZ SRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial statements.

## BASIS OF STATEMENT

A review of consolidated interim financial statements in accordance with NZ SRE 2410 is a limited assurance engagement. The auditor performs procedures, primarily consisting of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

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

We did not evaluate the security and controls over the electronic presentation of the consolidated interim financial statements.

In addition to this review and the audit of the annual financial statements of the Group, we are engaged to perform other engagements in the area of remuneration benchmarking and tax compliance which are compatible with the independence requirements of the Auditor-General, which incorporate the independence requirements of the External Reporting Board. In addition, partners and staff of Ernst & Young may deal with the Group on arm's length terms within the ordinary course of trading activities of the Group. These services have not impaired our independence as auditor of the Company or Group. Other than these engagements and arm's length transactions, and in our capacity as auditor acting on behalf of the Auditor-General, we have no relationship with, or interests in, the Company or Group.

#### CONCLUSION

Based on our review nothing has come to our attention that causes us to believe that the accompanying financial statements, set out on pages 16 to 27, do not present fairly, in all material respects, the financial position of the Group as at 31 December 2016 and its financial performance and cash flows for the six months ended on that date in accordance with New Zealand Equivalent to International Accounting Standard 34 *Interim Financial Reporting*.

Our review was completed on 21 February 2017 and our findings are expressed as at that date.



**SIMON O'CONNOR**  
ERNST & YOUNG  
AUCKLAND, NEW ZEALAND

# FINANCIAL STATEMENTS.





## CONSOLIDATED INCOME STATEMENT

FOR THE SIX MONTHS ENDED 31 DECEMBER 2016

	Note	Unaudited 6 Months 31 Dec 2016 \$M	Unaudited 6 Months 31 Dec 2015 \$M	Audited 12 Months 30 Jun 2016 \$M
Total revenue	4	796	813	1,564
Total expenses	4	(526)	(556)	(1,071)
<b>EBITDAF<sup>1</sup></b>		270	257	493
Depreciation and amortisation		(93)	(90)	(182)
Change in the fair value of financial instruments		26	3	20
Impairments		–	(17)	(19)
Earnings of associates and joint ventures		2	2	3
Net interest expense	4	(49)	(49)	(97)
<b>Profit before tax</b>		156	106	218
Tax expense		(43)	(32)	(58)
<b>Profit for the period attributable to owners of the parent</b>		113	74	160
<b>Basic and diluted earnings per share (cents)</b>		8.21	5.38	11.63

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 31 DECEMBER 2016

	Unaudited 6 Months 31 Dec 2016 \$M	Unaudited 6 Months 31 Dec 2015 \$M	Audited 12 Months 30 Jun 2016 \$M
Profit for the period	113	74	160
<b>Other comprehensive income</b>			
<b>Items that will not be reclassified subsequently to profit or loss</b>			
Movement in asset revaluation reserve	–	–	106
Share of movements in associates' and joint ventures' reserves	1	(3)	6
Tax effect	–	–	(30)
<b>Items that may be reclassified subsequently to profit or loss</b>			
Movement in cash flow hedges reserve	42	(31)	(54)
Movement in other reserves	1	–	2
Tax effect	(12)	9	16
<b>Other comprehensive income/(loss) for the period, net of taxation</b>	32	(25)	46
<b>Total comprehensive income/(loss) for the period attributable to owners of the parent</b>	145	49	206

<sup>1</sup> EBITDAF: Earnings before net interest expense, income tax, depreciation, amortisation, change in fair value of financial instruments, impairments and equity accounted earnings of associates and joint ventures.

# CONSOLIDATED BALANCE SHEET

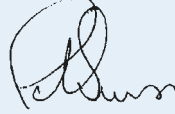
AS AT 31 DECEMBER 2016

	Note	Unaudited 31 Dec 2016 \$M	Unaudited 31 Dec 2015 \$M	Audited 30 Jun 2016 \$M
<b>SHAREHOLDERS' EQUITY</b>				
Issued capital		378	378	378
Treasury shares		(52)	(52)	(52)
Reserves		2,961	2,910	2,989
<b>Total shareholders' equity</b>		<b>3,287</b>	<b>3,236</b>	<b>3,315</b>
<b>ASSETS</b>				
<b>Current assets</b>				
Cash and cash equivalents		27	41	46
Receivables		158	187	198
Inventories		45	39	45
Derivative financial instruments	6	24	18	21
Taxation receivable		–	–	3
<b>Total current assets</b>		<b>254</b>	<b>285</b>	<b>313</b>
<b>NON-CURRENT ASSETS</b>				
Property, plant and equipment	7	5,407	5,355	5,440
Intangible assets		50	63	68
Investment and advances to associates	8	78	69	78
Investment in joint ventures	8	13	15	14
Advances		10	12	10
Receivables		1	1	–
Derivative financial instruments	6	139	147	162
<b>Total non-current assets</b>		<b>5,698</b>	<b>5,662</b>	<b>5,772</b>
<b>Held-for-sale assets</b>		<b>–</b>	<b>6</b>	<b>–</b>
<b>TOTAL ASSETS</b>		<b>5,952</b>	<b>5,953</b>	<b>6,085</b>
<b>LIABILITIES</b>				
<b>Current liabilities</b>				
Payables and accruals		130	151	156
Provisions		1	16	3
Borrowings	9	9	132	130
Derivative financial instruments	6	21	22	21
Taxation payable		7	16	–
<b>Total current liabilities</b>		<b>168</b>	<b>337</b>	<b>310</b>
<b>Non-current liabilities</b>				
Payables and accruals		–	–	2
Provisions		53	21	51
Derivative financial instruments	6	186	243	267
Borrowings	9	1,153	1,046	1,047
Deferred tax		1,105	1,070	1,093
<b>Total non-current liabilities</b>		<b>2,497</b>	<b>2,380</b>	<b>2,460</b>
<b>Total liabilities</b>		<b>2,665</b>	<b>2,717</b>	<b>2,770</b>
<b>Net assets</b>		<b>3,287</b>	<b>3,236</b>	<b>3,315</b>

For and on behalf of the Board of Directors who authorised the issue of the Financial Statements on 21 February 2017.



Joan Withers  
Chair  
21 February 2017



Keith Smith  
Director  
21 February 2017

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

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 31 DECEMBER 2016

	Issued capital \$M	Retained earnings \$M	Asset revaluation reserve \$M	Cash flow hedge reserve \$M	Other reserves \$M	Total equity \$M
Balance as at 1 July 2015	378	321	2,738	(37)	(63)	3,337
Movement in cash flow hedge reserve, net of taxation	–	–	–	(22)	–	(22)
Movements in other reserves	–	–	–	–	–	–
Share of movements in associates' and joint ventures' reserves	–	–	–	(3)	–	(3)
Release of asset revaluation reserve, net of taxation	–	–	–	–	–	–
<b>Other comprehensive income</b>	–	–	–	(25)	–	(25)
Net profit for the period	–	74	–	–	–	74
<b>Total comprehensive income/(loss) for the period</b>	–	74	–	(25)	–	49
Dividend	–	(150)	–	–	–	(150)
<b>Balance as at 31 December 2015</b>	<b>378</b>	<b>245</b>	<b>2,738</b>	<b>(62)</b>	<b>(63)</b>	<b>3,236</b>
Balance as at 1 January 2016	378	245	2,738	(62)	(63)	3,236
Movement in asset revaluation reserve, net of taxation	–	–	79	–	–	79
Movement in cash flow hedge reserve, net of taxation	–	–	–	(16)	–	(16)
Movements in other reserves	–	–	–	–	2	2
Share of movements in associates' and joint ventures' reserves	–	–	7	2	–	9
Release of asset revaluation reserve, net of taxation	–	–	(3)	–	–	(3)
<b>Other comprehensive income</b>	–	–	83	(14)	2	71
Net profit for the period	–	86	–	–	–	86
<b>Total comprehensive income/(loss) for the period</b>	–	86	83	(14)	2	157
Dividend	–	(78)	–	–	–	(78)
<b>Balance as at 30 June 2016</b>	<b>378</b>	<b>253</b>	<b>2,821</b>	<b>(76)</b>	<b>(61)</b>	<b>3,315</b>
Balance as at 1 July 2016	378	253	2,821	(76)	(61)	3,315
Movement in cash flow hedge reserve, net of taxation	–	–	–	30	–	30
Movements in other reserves	–	–	–	–	1	1
Share of movements in associates' and joint ventures' reserves	–	–	–	1	–	1
<b>Other comprehensive income</b>	–	–	–	31	1	32
Net profit for the period	–	113	–	–	–	113
<b>Total comprehensive income for the period</b>	–	113	–	31	1	145
Dividend	–	(173)	–	–	–	(173)
<b>Balance as at 31 December 2016</b>	<b>378</b>	<b>193</b>	<b>2,821</b>	<b>(45)</b>	<b>(60)</b>	<b>3,287</b>

## CONSOLIDATED CASH FLOW STATEMENT

FOR THE SIX MONTHS ENDED 31 DECEMBER 2016

	Unaudited 6 Months 31 Dec 2016 \$M	Unaudited 6 Months 31 Dec 2015 \$M	Audited 12 Months 30 Jun 2016 \$M
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Receipts from customers	826	802	1,515
Payments to suppliers and employees	(553)	(552)	(1,051)
Interest received	1	1	3
Interest paid	(48)	(48)	(98)
Taxes paid	(32)	(43)	(89)
<b>Net cash provided by operating activities</b>	<b>194</b>	<b>160</b>	<b>280</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Acquisition of property, plant and equipment	(53)	(29)	(78)
Acquisition of intangibles	(4)	(2)	(12)
Disposal of property, plant and equipment, including land	-	26	47
Disposal of intangibles	19	-	-
Distributions received from associates and joint ventures and advances to joint venture partner repaid	4	4	6
<b>Net cash used in investing activities</b>	<b>(34)</b>	<b>(1)</b>	<b>(37)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from loans	114	-	-
Repayment of loans	(120)	-	-
Dividends paid	(173)	(150)	(228)
<b>Net cash used in financing activities</b>	<b>(179)</b>	<b>(150)</b>	<b>(228)</b>
Net increase/(decrease) in cash and cash equivalents held	(19)	9	15
Net foreign exchange movements	-	-	(1)
Cash and cash equivalents at the beginning of the period	46	32	32
<b>Cash and cash equivalents at the end of the period</b>	<b>27</b>	<b>41</b>	<b>46</b>
<i>Cash balance comprises:</i>			
<b>Cash balance at the end of the period</b>	<b>27</b>	<b>41</b>	<b>46</b>

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



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE 6 MONTHS ENDED 31 DECEMBER 2016

### 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 NZSX and ASX.

The consolidated interim financial statements (the "Group financial statements") are for Mercury NZ Limited Group ("Group"). The Group financial statements comprise the Company and its subsidiaries, including its investments in associates and interests in joint arrangements.

The liabilities of the Group are not guaranteed in any way by the Crown or by any other shareholder.

#### (2) Basis of preparation

The Group financial statements have been prepared in accordance with the Financial Reporting Act 2013, the Companies Act 1993 and in accordance with New Zealand Equivalent to International Accounting Standard 34 - Interim Financial Reporting ("NZ IAS 34"). In complying with NZ IAS 34, these statements comply with International Accounting Standard 34 - Interim Financial Reporting.

These Group financial statements, including the accounting policies adopted, do not include all the information and disclosures required in the annual financial statements. Consequently, these Group financial statements should be read in conjunction with the Group's annual financial statements for the year ended 30 June 2016.

The energy business operates in an environment that is dependent on weather as one of the key drivers of supply and demand. Fluctuations in seasonal weather patterns, particularly over the short-term, can have a positive or negative effect on financial performance. It is not possible to consistently predict this seasonality and some variability is common.

The preparation of financial statements requires judgements, and estimates that affect the application of policies and the reported amounts of assets and liabilities, income and expenses. Future actual results may differ from these estimates.

### 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 regular basis, who assesses the performance of the operating segments on a measure of EBITDAF. Segment EBITDAF represents profit earned by each segment exclusive of any allocation of central administration costs, share of earnings of associates, change in fair value of financial instruments, depreciation, amortisation, impairments, finance costs and tax expense. Operating segments are aggregated into reportable segments only if they share similar economic characteristics.

#### Types of products and services

##### Energy Markets

The Energy Markets segment encompasses activity associated with the generation, sale and trading of energy and related services and products, and generation development activities.

##### Other Segments

Other operating segments that are not considered to be reporting segments are grouped together as "Other Segments". Activities include metering and international geothermal operations.

##### Unallocated

Represents corporate support services and related elimination adjustments.

##### Inter-segment

Transactions between segments are carried out on normal commercial terms and represent charges by other segments to energy markets.

## Segment results

	Energy Markets \$M	Other Segments \$M	Unallocated \$M	Inter- segment \$M	Total \$M
Six months ended 31 December 2016 (unaudited)					
Total segment revenue	784	25	1	(14)	796
Direct costs	(438)	–	–	14	(424)
Other operating expenses	(62)	(10)	(30)	–	(102)
<b>Segment EBITDAF</b>	<b>284</b>	<b>15</b>	<b>(29)</b>	<b>–</b>	<b>270</b>

	Energy Markets \$M	Other Segments \$M	Unallocated \$M	Inter- segment \$M	Total \$M
Six months ended 31 December 2015 (unaudited)					
Total segment revenue	802	25	1	(15)	813
Direct costs	(461)	(1)	(1)	15	(448)
Other operating expenses	(75)	(13)	(20)	–	(108)
<b>Segment EBITDAF</b>	<b>266</b>	<b>11</b>	<b>(20)</b>	<b>–</b>	<b>257</b>

	Energy Markets \$M	Other Segments \$M	Unallocated \$M	Inter- segment \$M	Total \$M
Twelve months to 30 June 2016 (audited)					
Total segment revenue	1,542	50	2	(30)	1,564
Direct costs	(882)	(2)	–	30	(854)
Other operating expenses	(145)	(24)	(48)	–	(217)
<b>Segment EBITDAF</b>	<b>515</b>	<b>24</b>	<b>(46)</b>	<b>–</b>	<b>493</b>

During the reporting period, the Group centralised a number of shared operating activities, resulting in a transfer of other operating expenses from Energy Markets and Other Segments to Unallocated.

## NOTE 3. NON STATUTORY MEASURE – UNDERLYING EARNINGS

	Unaudited 6 Months 31 Dec 2016 \$M	Unaudited 6 Months 31 Dec 2015 \$M	Audited 12 Months 30 Jun 2016 \$M
Profit for the period	113	74	160
Change in the fair value of financial instruments	(26)	(3)	(20)
Income attributable to land and associated real property sold or held-for-sale	–	–	(13)
Impairments	–	17	19
Adjustments before tax expense	(26)	14	(14)
Tax expense	7	1	6
Adjustments after tax expense	(19)	15	(8)
<b>Underlying earnings after tax</b>	<b>94</b>	<b>89</b>	<b>152</b>

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE 6 MONTHS ENDED 31 DECEMBER 2016

## NOTE 4. OTHER INCOME STATEMENT DISCLOSURES

	Unaudited 6 Months 31 Dec 2016 \$M	Unaudited 6 Months 31 Dec 2015 \$M	Audited 12 Months 30 Jun 2016 \$M
Sales	772	792	1,512
Other revenue	24	21	52
<b>Total revenue</b>	<b>796</b>	<b>813</b>	<b>1,564</b>
Energy costs	(167)	(201)	(384)
Line charges	(227)	(217)	(419)
Other direct cost of sales, excluding third party metering	(18)	(18)	(28)
Third party metering	(12)	(12)	(23)
Employee compensation and benefits	(41)	(42)	(83)
Maintenance expenses	(18)	(23)	(45)
Other expenses	(43)	(43)	(89)
<b>Total expenses</b>	<b>(526)</b>	<b>(556)</b>	<b>(1,071)</b>
Interest expense	(50)	(50)	(100)
Interest income	1	1	3
Net interest expense	(49)	(49)	(97)

## NOTE 5. SHARE CAPITAL AND DISTRIBUTION

The share capital of the Company is represented by 1,400,012,517 ordinary shares (30 June 2016: 1,400,012,517) issued and fully paid. These shares do not have a par value, have equal voting rights and share equally in dividends and any surplus on winding up.

	Unaudited 31 Dec 2016 Number of shares (M)	Unaudited 31 Dec 2016 \$M	Unaudited 31 Dec 2015 Number of shares (M)	Unaudited 31 Dec 2015 \$M	Audited 30 Jun 2016 Number of shares (M)	Audited 30 Jun 2016 \$M
<b>Treasury shares</b>						
Balance at the beginning of the period	24	52	24	52	24	52
Disposal of treasury shares	-	-	-	-	-	-
<b>Balance at the end of the period</b>	<b>24</b>	<b>52</b>	<b>24</b>	<b>52</b>	<b>24</b>	<b>52</b>

## Dividends declared and paid

	Cents per share	Unaudited 6 Months 31 Dec 2016 \$M	Unaudited 6 Months 31 Dec 2015 \$M	Audited 12 Months 30 Jun 2016 \$M
Final dividend for 2015	8.4	-	116	116
Special dividend – paid September 2015	2.5	-	34	34
Interim dividend for 2016	5.7	-	-	78
Final dividend for 2016	8.6	118	-	-
Special dividend – paid September 2016	4.0	55	-	-
		<b>173</b>	<b>150</b>	<b>228</b>

## NOTE 6. FINANCIAL INSTRUMENTS

The Group's overall risk management programme focuses on protecting shareholder wealth by proactively managing the risks inherent in the energy and financial markets. Exposure to electricity price, credit, foreign exchange, capital liquidity and interest rate risks arise in the normal course of the Group's business. The Group's principal financial instruments comprise cash and cash equivalents, trade receivables and accruals (not prepayments), advances, payables and accruals, borrowings and derivative financial instruments. Further information on the identified risks can be found within note 14 of the Group's annual financial statements for the year ended 30 June 2016.

### Fair Values

The carrying amount of financial assets and liabilities recorded in the financial statements approximates their fair values except for: (i) the Fixed Rate Bonds, the Floating Rate Bonds and the US Private Placement, the fair values for which have been calculated at \$140 million (30 June 2016: \$216 million), \$286 million (30 June 2016: \$339 million) and \$298 million (30 June 2016: \$306 million) respectively; and (ii) the Capital Bonds, the fair value for which has been calculated at \$316 million (30 June 2016: \$321 million). Fair values are based on quoted market prices and inputs for each bond issue. Refer to note 9 which outlines the values of each of these instruments.

### Valuation techniques

The Group uses various methods in estimating the fair value of a financial instrument. The methods comprise:

- Level 1 – the fair value is calculated using quoted prices in active markets;
- Level 2 – the fair value is estimated using inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices); and
- Level 3 – the fair value is estimated using inputs that are not based on observable market data.

As at 31 December 2016 all of the Group's financial instruments carried at fair value were categorised as level 2, except for electricity price derivatives. Electricity price derivative assets of \$10 million were categorised as level 1 (30 June 2016: \$8 million) and \$78 million were categorised as level 3 (30 June 2016: \$77 million). Further information on the identified risks can be found within note 14 of the Group's annual financial statements for the year ended 30 June 2016. Electricity price derivative liabilities of \$1 million were categorised as level 1 (30 June 2016: \$2 million) and \$71 million were categorised as level 3 (30 June 2016: \$89 million).

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

Financial instruments that use a valuation technique which includes non-market observable data include non-exchange traded electricity contracts which are valued using a discounted cash flow methodology using a combination of ASX market prices for the first four 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 \$64/MWh and a maximum price of \$117/MWh (30 June 2016: a minimum price of \$66/MWh and a maximum price of \$102/MWh) over the period in question (in real terms) and is determined by a demand supply based fundamental model which takes account of hydrological conditions, potential future inflows, an assessment of competitor thermal fuel costs, anticipated demand and supply conditions and future committed generation capacity.

Where the fair value of a derivative is calculated as the present value of the estimated future cash flows of the instrument there are two key inputs being used; the forward price curve and the discount rate. Where the derivative is an option, then the volatility of the forward price is another key variable. The selection of the inputs requires significant judgement, and therefore there is a range of reasonably possible assumptions in respect of these inputs that could be used in estimating the fair values of these derivatives. Maximum use is made of observable market data when selecting inputs and developing assumptions for the valuation technique.

### Reconciliation of Level 3 fair value movements

	Unaudited 6 Months 31 Dec 2016 \$M	Unaudited 6 Months 31 Dec 2015 \$M	Audited 12 Months 30 Jun 2016 \$M
Opening balance	(12)	–	–
New contracts	3	(1)	2
Matured contracts	(1)	(2)	(1)
Gains and losses			
Through the income statement	5	(3)	(3)
Through other comprehensive income	12	(19)	(10)
Closing balance	7	(25)	(12)

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE 6 MONTHS ENDED 31 DECEMBER 2016

### *Deferred 'inception' gains/(losses)*

There is an assumption that when derivative contracts are entered into on an arm's length basis, fair value at inception would be zero. The contract price of non exchange traded electricity derivative contracts is 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 value is amortised over the life of the contract by adjusting the future price path used to determine the fair value of the derivatives by a constant amount to return the initial fair value to zero.

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

	Unaudited 6 Months 31 Dec 2016 \$M	Unaudited 6 Months 31 Dec 2015 \$M	Audited 12 Months 30 Jun 2016 \$M
Opening deferred inception (losses)/gains	(14)	15	15
Deferred inception (losses)/gains on new hedges	4	27	(21)
Deferred inception (losses)/gains realised during the period	(1)	(4)	(8)
Closing inception (losses)/gains	(11)	38	(14)

## NOTE 7. PROPERTY, PLANT AND EQUIPMENT

	Unaudited 6 Months 31 Dec 2016 \$M	Unaudited 6 Months 31 Dec 2015 \$M	Audited 12 Months 30 Jun 2016 \$M
Opening net book value	5,440	5,416	5,416
Additions, including transfers from capital work in progress	53	41	71
Disposals	–	(1)	(1)
Transfer from held-for-sale	–	–	3
Net revaluation movement	–	–	137
Impairments	–	(17)	(19)
Depreciation charge for the period	(86)	(84)	(167)
Closing net book value	5,407	5,355	5,440

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

Investments include:

Name of entity	Principal activity	Type	Interest Held			Country
			Unaudited 31 Dec 2016	Unaudited 31 Dec 2015	Audited 30 June 2016	
TPC Holdings Limited	Investment holding	Associate	25.00%	25.00%	25.00%	New Zealand
Rotokawa	Steamfield operation	Joint Operation	64.80%	64.80%	64.80%	New Zealand
Nga Awa Purua	Electricity generation	Joint Operation	65.00%	65.00%	65.00%	New Zealand
Energy Source LLC	Investment holding	Joint Venture	20.86%	20.86%	20.86%	United States
Hudson Ranch I Holdings LLC	Electricity generation	Joint Venture	75.00%	75.00%	75.00%	United States

	Associates:			Joint Ventures:		
	Unaudited 6 Months 31 Dec 2016 \$M	Unaudited 6 Months 31 Dec 2015 \$M	Audited 12 Months 30 Jun 2016 \$M	Unaudited 6 Months 31 Dec 2016 \$M	Unaudited 6 Months 31 Dec 2015 \$M	Audited 12 Months 30 Jun 2016 \$M
Balance at the beginning of the period	78	74	74	14	14	14
Share of earnings	2	1	3	–	1	–
Share of movement in other comprehensive income	1	(3)	6	–	–	–
Distributions received during the period	(3)	(3)	(5)	(1)	–	–
Balance at the end of the period	78	69	78	13	15	14

## NOTE 9. BORROWINGS

	Borrowing Currency Denomination	Maturity	Coupon	Unaudited 6 Months 31 Dec 2016 \$M	Unaudited 6 Months 31 Dec 2015 \$M	Audited 12 Months 30 Jun 2016 \$M
Bank facilities	NZD	Various	Floating	114	–	–
Wholesale bonds	NZD	Oct–2016	7.55%	–	71	71
Wholesale bonds	NZD	Oct–2016	Floating	–	51	51
Wholesale bonds	NZD	Mar–2019	5.03%	76	76	76
Wholesale bonds	NZD	Feb–2020	8.21%	31	31	31
USPP - US\$125m	USD	Dec–2020	4.25%	164	164	164
Wholesale / Credit wrapper	NZD	Sep–2021	Floating	301	301	301
USPP - US\$30m	USD	Dec–2022	4.35%	39	39	39
Wholesale bonds	NZD	Mar–2023	5.79%	25	25	25
USPP - US\$45m	USD	Dec–2025	4.60%	58	58	58
Capital Bonds	NZD	Jul–2044	6.90%	305	305	305
Deferred financing costs				(6)	(7)	(7)
Fair value adjustments				55	64	63
Carrying value of loans				1,162	1,178	1,177
Current				9	132	130
Non-current				1,153	1,046	1,047
				1,162	1,178	1,177

The Company has \$350 million of committed and unsecured bank loan facilities, of which \$200 million expires in August 2018, \$50 million expires in September 2019 and a rolling bank loan of \$100 million currently expiring in June 2018.

The Company has a \$200 million Commercial Paper programme which is fully backed by committed and undrawn bank facilities. Notes issued under the programme are short-term money market instruments, unsecured and unsubordinated and targeted at professional investors. The programme is rated A2 by Standard & Poor's. As at 31 December 2016, no notes had been issued.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE 6 MONTHS ENDED 31 DECEMBER 2016

### NOTE 10. RELATED PARTY TRANSACTIONS

#### Ultimate 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		
	Unaudited 6 Months 31 Dec 2016 \$M	Unaudited 6 Months 31 Dec 2015 \$M	Audited 12 Months 30 Jun 2016 \$M
<b>Associates</b>			
Management fees and service agreements received	2	2	4
Energy contract settlements paid	(1)	–	2
<b>Joint operations</b>			
Management fees and service agreements received	3	3	5
Energy contract settlements paid	(5)	(4)	(7)
Interest income	1	1	1

	Transaction Value		
	Unaudited 6 Months 31 Dec 2016 \$000	Unaudited 6 Months 31 Dec 2015 \$000	Audited 12 Months 30 Jun 2016 \$000
<b>Key management personnel compensation (paid and payable) comprised:</b>			
Directors' fees	456	416	871
Benefits for the Chief Executive and Senior Management:			
Salary and other short-term benefits	3,216	2,859	5,302
Termination benefits	–	134	259
Share-based payments	200	164	324
	3,872	3,573	6,756

Further information on the terms and conditions of these related party transactions can be found in note 17 of the Group's annual financial statements for the year ended 30 June 2016.

#### 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 and the key management personnel also provide directorship services to other third party entities. A number of these entities transacted with the Group, in all circumstances on normal commercial terms during the reporting period.

A number of key management personnel provide directorship services to direct subsidiaries and other third party entities as part of their employment without receiving any additional remuneration. Again, a number of these entities transacted with the Group, 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.

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## NOTE 11. COMMITMENTS AND CONTINGENCIES

	Unaudited 6 Months 31 Dec 2016 \$M	Unaudited 6 Months 31 Dec 2015 \$M	Audited 12 Months 30 Jun 2016 \$M
<b>Commitments</b>			
Capital	154	161	147
Operating leases	110	35	113
Other operating commitments	84	89	92

Capital commitments include both commitments to purchase property, plant and equipment as well as intangible commitments. Intangible commitments includes commitments to purchase emissions units. In the event the New Zealand emissions trading scheme is terminated the forward purchase agreements for the acquisition of emissions units that cover a 12 year period will also terminate.

Operating leases are of a rental nature and are on normal commercial terms and conditions. The majority of the lease commitments are for building accommodation, the leases for which have remaining terms of between 1 and 13 years and include an allowance for either annual, biennial or triennial reviews. The remainder of the operating leases relate to vehicles, plant and equipment.

### Contingencies

The Company holds land and has interests in fresh water and geothermal resources that are subject to claims that have been brought against the Crown. On 29 August 2014, the Supreme Court gave its decision in *Paki v Attorney-General* and dismissed the claimants' action seeking a declaration that the Crown holds those parts of the bed of the Waikato River which adjoin former Pouakani land on trust for the Pouakani people on the basis it was incorrectly advanced. The Supreme Court decision has left open the possibility of further litigation in respect of ownership of that land currently held by the Company. The Company has received advice that it may proceed with a high degree of confidence that future decisions on the matter will not impair the Company's ability to operate its hydro assets. A separate claim by the New Zealand Maori Council relating to fresh water and geothermal resources was lodged in 2012 with the Waitangi Tribunal. The Tribunal concluded that Maori have residual (but as yet undefined) proprietary rights in fresh water and geothermal resources and it will be for the Crown to determine how any such rights and interests may best be addressed. The impact of this claim on the Company's operations is unknown at this time.

From time to time the Company 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.

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## NOTE 12. SUBSEQUENT EVENTS

The Board of Directors has approved an interim dividend of 5.8 cents per share to be paid on 3 April 2017.

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

## OTHER DISCLOSURES

The company's net tangible assets per share (excluding treasury stock) as at 31 December 2016 was \$2.35, compared with \$2.31 at 31 December 2015.

Control of entities that was gained or lost during the period was as follows:

Company name	Date control lost
MRP NRI-Germany Holdings Limited	In voluntary liquidation as at balance date
MRP NRI-Peru Holdings Limited	In voluntary liquidation as at balance date
MRP NRI-Chile Holdings Limited	In voluntary liquidation as at balance date
MRP Holdings-Germany Limited	In voluntary liquidation as at balance date. Dissolved 15 October 2016.
MRP Holdings-Peru Limited	In voluntary liquidation as at balance date. Dissolved 22 September 2016.
MRP Holdings-Chile Limited	In voluntary liquidation as at balance date. To be dissolved 24 February 2017.

## SHAREHOLDER INFORMATION

### Shareholder enquiries

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

### Investor information

Our website at [www.mercury.co.nz](http://www.mercury.co.nz) is an excellent source of information about what's happening within the company.

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

### Electronic shareholder communication

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

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

## DIRECTORY

### Board of Directors

Joan Withers, Chair  
Prue Flacks  
Andy Lark  
James Miller  
Keith Smith  
Patrick Strange  
Mike Taitoko

### Executive Management Team

Fraser Whineray,  
Chief Executive

Kevin Angland,  
General Manager Digital Services

Nick Clarke,  
General Manager Geothermal

Phil Gibson,  
General Manager Hydro & Wholesale

Julia Jack,  
Chief Marketing Officer

William Meek,  
Chief Financial Officer

Tony Nagel,  
General Manager Corporate Affairs

Matt Olde,  
Metrix Chief Executive

Marlene Strawson,  
General Manager People & Safety

### Company Secretary

Tony Nagel

### Investor Relations

Mercury NZ Limited  
P O Box 90399  
Auckland 1142  
New Zealand

Phone: +64 9 308 8200

Fax: +64 9 308 8209

Email: [investor@mercury.co.nz](mailto:investor@mercury.co.nz)

### Registered Office in New Zealand

Level 3, 109 Carlton Gore Road, Auckland 1023

### Registered Office in Australia

c/- TMF Corporate Services  
(Aust) Pty Limited  
Level 16, 201 Elizabeth Street  
Sydney NSW 2000  
Phone: +61 2 8988 5800

### Legal Advisors

Chapman Tripp  
Level 35, ANZ Centre  
23-29 Albert Street, Auckland 1010  
PO Box 2206, Auckland  
Phone: +64 9 357 9000

### Bankers

ANZ Bank  
ASB Bank  
Bank of Tokyo-Mitsubishi UFJ  
Bank of New Zealand  
Westpac

### Credit Rating (reaffirmed December 2016)

Long term: BBB+

Outlook: Stable

### Share Register – New Zealand

Computershare Investor Services Ltd  
Level 2, 159 Hurstmere Road, Takapuna,  
Auckland 0622  
Private Bag 92 119  
Auckland 1142  
New Zealand

Phone: +64 9 488 8777

Fax: +64 9 488 8787

Email: [enquiry@computershare.co.nz](mailto:enquiry@computershare.co.nz)

Web: [www.investorcentre.com/nz](http://www.investorcentre.com/nz)

### Share Register – Australia

Computershare Investor Services Pty Ltd  
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)

Fax: +61 3 9473 2500

Email: [enquiry@computershare.co.nz](mailto:enquiry@computershare.co.nz)



ENERGY MADE WONDERFUL.



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

## NEWS RELEASE

### **HY2017 demonstrates clear momentum and customer loyalty**

**>> Solid progress on key strategic initiatives**

**>> Operating earnings (EBITDAF) up 5.1%**

**>> Interim dividend of 5.8 cents per share to be paid on 3 April**

**21 February 2017** – Favourable North Island hydro conditions have contributed to a 5.1% lift in Mercury's operating earnings (EBITDAF) to \$270 million for HY2017.

The company's results for the six months ended 31 December 2016 show strong customer loyalty around the new Mercury brand and significant progress on value-enhancing partnerships. These include commercial relationships with global technology leaders Trina Solar, SolaX Power and PlugShare, and Mercury became an exclusive Airpoints<sup>TM</sup> partner with Air New Zealand.

Chair, Joan Withers, says Mercury will pay a fully-imputed interim dividend of 5.8 cents per share on 3 April 2017 to 90,000 owners, including the Crown. This represents 40% of the full-year ordinary dividend guidance of 14.6 cents per share, a 2.1% increase on FY2016.

"Mercury's owners can have confidence that their business is performing well, and they can see evidence of our customer-led strategy. We have real momentum in the business and a clear focus on value-based opportunities."

### **FINANCIAL RESULTS**

	<b>HY2017</b>	<b>HY2016</b>
EBITDAF (\$M)	<b>270</b>	257
NET PROFIT AFTER TAX (\$M)	<b>113</b>	74
UNDERLYING EARNINGS AFTER TAX (\$M)	<b>94</b>	89
INTERIM DIVIDEND (CENTS PER SHARE)	<b>5.8</b>	5.7

Mercury's financial results reflect a strong operating performance, together with above-average rainfall that enabled a 7% increase in hydro generation. Mercury updated forecast FY2017 hydro generation in October (to 4,250GWh).

Chief Executive, Fraser Whineray, says the 2015 closure of the gas-fired Southdown station substantially reduced future carbon obligations and the company took the opportunity to divest some of its carbon credits in HY2017. This generated cash proceeds of \$19 million and a gain on sale of \$5 million. Net profit after tax was up from \$74 million to \$113 million due to the improved EBITDAF, movements in the fair value of the company's financial instruments, and impairments in the prior period. Underlying earnings were up \$5 million to \$94 million.

Operating costs were down 6% on HY2016 due to lower maintenance costs in the period. Full-year operating costs are forecast to be in line with recent years. Capital expenditure is expected to be \$115 million in FY2017 as a result of the company's current focus on hydro reinvestment and geothermal drilling, which is progressing well.

### **GROWTH OPTIONS**

Alongside the robust results for HY2017, Mrs Withers says the reporting period included solid progress on several key elements of the company's strategy to create long-term sustainable value.





Highlights included the move to a new Mercury brand, successful customer loyalty initiatives, the launch of New Zealand's leading solar offering and the development of important partnerships.

The company has also undertaken a broad review of domestic growth options. Mr Whineray says this review, involving external advisors, focused on opportunities with potential to deliver value for customers and help drive progressive returns to Mercury's owners over time.

"We have established capability and small, but important, new revenue streams in key technologies such as solar and distributed storage to complement our core strength in renewable generation.

"We are investing in the Mercury Research and Development Centre to showcase world-leading solar, battery storage, electric vehicle (EV) charging and other energy technologies in New Zealand conditions. We are also looking beyond the home to opportunities in e-mobility and relevant areas of transportation."

## **PARTNERSHIPS**

In the six months to 31 December 2016, Mercury announced a range of initiatives being progressed through value-enhancing partnerships.

Mercury has been confirmed by a global leader in solar panel technology and sustainability, Trina Solar, as their preferred residential and commercial sales partner in New Zealand. We are also the exclusive New Zealand supplier of the SolaX-BOX battery, which offers an advanced and flexible home storage system that complements solar production and can provide effective back-up during a power outage.

The company has partnered with global software and services company, PlugShare, on the Electric Highway™ to increase the visibility of the full range of EV charging locations to support electric vehicle growth in New Zealand.

Another substantial initiative, led by the chief executives of Mercury and Air New Zealand, saw 30 of New Zealand's leading businesses commit to a minimum of 30% EVs in their fleets by 2019, representing 1,450 EVs in total.

Mr Whineray says: "This is one of the largest voluntary sustainability initiatives in New Zealand business history, with the potential to take around 3 million kg of carbon emissions out of the environment every year. We also see this as another very meaningful milestone in the uptake of EVs and electricity becoming the transport fuel of choice."

## **CUSTOMER LOYALTY**

Mr Whineray says the response to the new Mercury brand (launched on 29 July 2016) has been "extremely positive with our people and with our customers".

Mercury's customer satisfaction reached record levels during HY2017 and switching rates were more than 3% lower than the market average reported by the Electricity Authority. Customer numbers increased by about 11,000 over the period, largely due to better retention of existing customers, consistent with our focus on rewarding loyalty.

More than 100,000 customers were rewarded with a Free Power Day, and almost 100,000 have registered for Airpoints™. Mr Whineray says another significant contributor to loyalty is the popularity of Mercury's fixed-price contracts.

"This is the single-most successful retail offering in terms of uptake in the New Zealand electricity market, with 1-in-3 Mercury customers opting for the certainty of contracts."

Mercury's first Airpoints™ offer has moved more than 4,000 customers to two-year contracts and is also expected to be a powerful retention product. He says Mercury has continued to invest in and seamlessly implement updates to key technology platforms to support service to customers and digital engagement.

## **FY2017 GUIDANCE**

The company has revised EBITDAF guidance for the current financial year (FY2017) to \$500 million, subject to any material adverse events, significant one-off expenses or other unforeseeable circumstances including hydrological conditions.



**For further information:**

Media – David Glendining 0272 105 337

Investors – Tim Thompson 0275 173 470

**ABOUT MERCURY NZ LIMITED**

At Mercury we're thinking boldly about the possibilities with energy and inspiring New Zealanders with our renewable electricity and ideas to make energy more wonderful. Energy from Mercury's hydro and geothermal stations will power a brighter future for our country.

Visit us at: [www.mercury.co.nz](http://www.mercury.co.nz)



# Financial Results

Six months ended 31 December 2016

**FRASER WHINERAY**

Chief Executive

**WILLIAM MEEK**

Chief Financial Officer

21 February 2017



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The information in this presentation has been prepared by Mercury NZ Limited (formerly known as Mighty River Power Limited) with due care and attention. However, neither the company nor any of its directors, employees, shareholders nor any other person shall have any liability whatsoever to any person for any loss (including, without limitation, arising from any fault or negligence) arising from this presentation or any information supplied in connection with it.

This presentation may contain projections or forward-looking statements regarding a variety of items. Such projections or forward-looking statements are based on current expectations, estimates and assumptions and are subject to a number of risks, uncertainties and assumptions. There is no assurance that results contemplated in any projections and forward-looking statements in this presentation will be realised. Actual results may differ materially from those projected in this presentation. No person is under any obligation to update this presentation at any time after its release to you or to provide you with further information about Mercury NZ Limited.

A number of non-GAAP financial measures are used in this presentation, which are outlined in the appendix of the presentation. You should not consider any of these in isolation from, or as a substitute for, the information provided in the unaudited consolidated financial statements for the six months ended 31 December 2016, which are available at [www.mercury.co.nz](http://www.mercury.co.nz).

Forward-looking statements are subject to any material adverse events, significant one-off expenses or other unforeseeable circumstances including hydrological conditions.

The information in this presentation is of a general nature and does not constitute financial product advice, investment advice or any recommendation. Nothing in this presentation constitutes legal, financial, tax or other advice.

## 2 FINANCIAL RESULTS





### 3 HIGHLIGHTS





## OUR PURPOSE

**To inspire New Zealanders to enjoy energy in more wonderful ways**

### **To inspire New Zealanders**

We want to inspire New Zealanders by delivering value, innovation and outstanding experiences

### **To enjoy energy**

We want our customers to enjoy what energy does for them and choose Mercury because we make a positive difference in their lives

### **In more wonderful ways**

We will bring new technology and ideas to create wonderful experiences for our customers in a uniquely New Zealand context



## OUR GOAL

**To be New Zealand's leading energy brand**



## OUR STRATEGY

**Mercury will create long term value for our owners by:**

①

### **Delivering customer advocacy**

Outstanding customer experience

Leading digital offerings

Culture-driven innovation

②

### **Leveraging core strengths**

Operational efficiency

Astute portfolio management

Efficient capital allocation

③

### **Delivering sustainable growth**

Executing relevant strategic opportunities

Being ready for domestic growth

Embracing emerging technologies

## 4 HIGHLIGHTS





# STRATEGY EXECUTION

## ACTIVITY

### DELIVERING CUSTOMER ADVOCACY

- > Rewarding customer loyalty through Airpoints and Free Power Days
- > Demonstrating 'Energy made wonderful' through our E-Bike campaigns
- > Making it easier for customers with a new customer bill



### LEVERAGING CORE STRENGTHS

- > Focus on low probability, high consequence H&S risks via Process Safety programme
- > Considered portfolio management through a period of high inflows into the Waikato hydro catchment
- > Re-investment in generation assets to increase performance e.g. Whakamaru



### DELIVERING SUSTAINABLE GROWTH

- > Strategic review of future growth options facilitated by external consultant
- > Embracing new technology and enabling customer choice with the launch of Mercury Solar and New Zealand's 'Electric Highway'



## OUTCOMES IN HY2017

	Mercury	Benchmarks			Mercury	Benchmarks		<div>&gt; Looking beyond the home to opportunities in e-mobility and relevant areas of transport</div> <div>&gt; Small beginnings for Mercury Solar with industry PV uptake slowing, EV take-up continues to build momentum</div>
Churn <sup>1</sup>	16.9%	M: 20.0%	P: 22.3%	LWAP/GWAP	1.04	P: 1.04		
Customer Satisfaction	63% <sup>2</sup>	M: 50% <sup>3</sup>	P: 61% <sup>2</sup>	Geothermal Capacity Factor	95%	M: ~85% <sup>4</sup>	P: 95%	
FPVV Sales VWAP	\$112.30	P: \$115.56		> 1 high severity H&S incident from office based stair fall				

'M' = market comparison

'P' = prior comparable period

## 5 HIGHLIGHTS

<sup>1</sup> Annualised churn rate

<sup>2</sup> Mercury brand (which excludes Bosco and GLOBUG)

<sup>3</sup> Largest 4 retail brands (excluding Mercury)

<sup>4</sup> Derived from Transpower's New Zealand geothermal generation data (excluding Mercury operated plant)

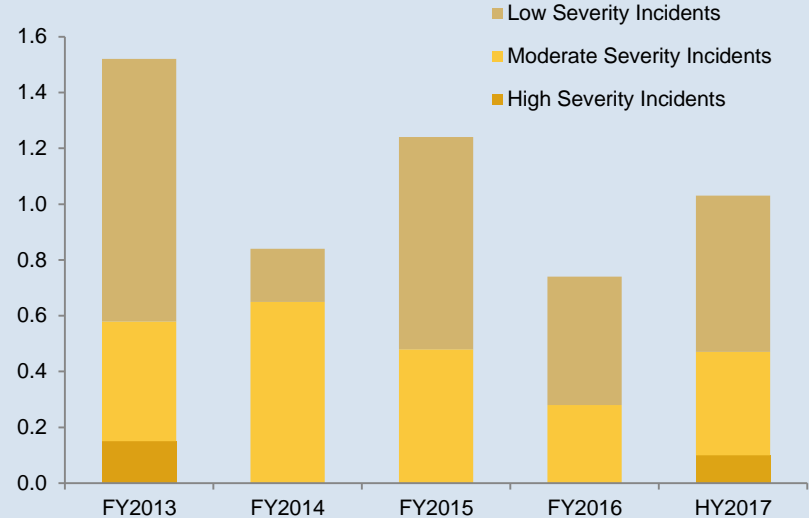


# HEALTH & SAFETY

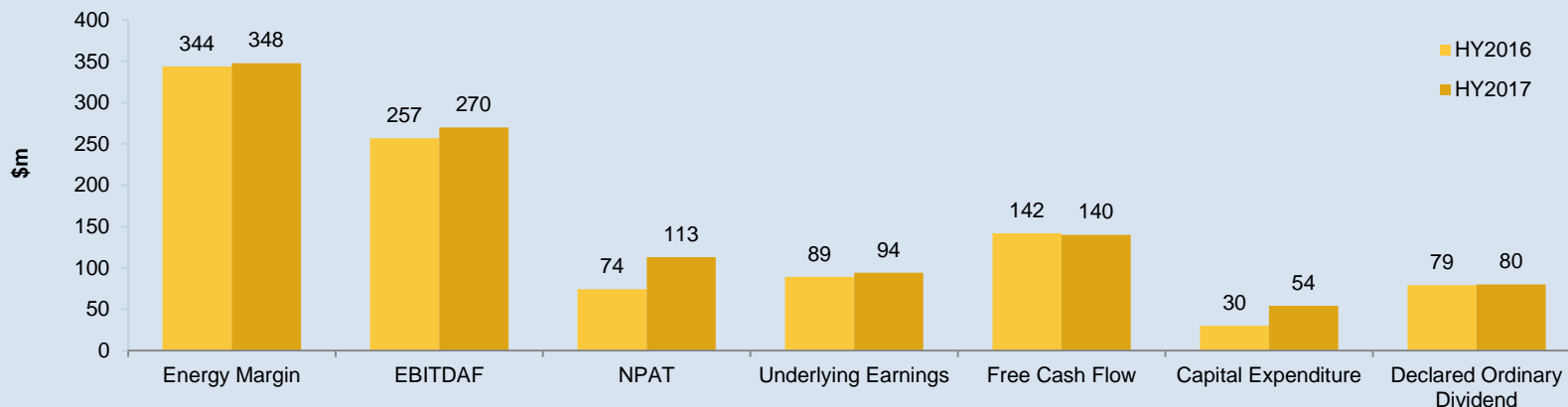
- > Zero harm is our well-being goal
- > One serious injury of an on-site contractor in HY2017 due to an office stair fall
- > No high or moderate severity incidents at any generation site in FY2017 to date
- > Focus on continuous improvement
  - > Commenced enterprise wide Process Safety programme, focussing on low probability high consequence events across all parts of the business
  - > Developed a new worksite risk assessment process to ensure any work that has a residual risk that is moderate or greater is signed off by an appropriate manager for transparency

## TOTAL RECORDABLE INJURY FREQUENCY RATE (TRIFR)

(per 200,000 hours; includes onsite employees and contractors)



# FINANCIAL HIGHLIGHTS



- > Energy Margin, EBITDAF and Underlying Earnings up reflecting higher generation and customer sales offset by the price of commercial and industrial sales being less than the level historically achieved
- > Net Profit up reflecting a positive movement in the value of financial instruments (mostly interest rate hedges) over the period and no asset impairments recognised in the period
- > Free Cash Flow steady reflecting lower cash taxes offset by a step-up in stay-in-business capital expenditure
- > Total Declared Ordinary Dividend up 1.8% to 5.8c per share



## FY2017 GUIDANCE

- > FY2017 EBITDAF guidance is \$500m subject to any material events, significant one-off expenses or other unforeseeable circumstances including hydrological conditions
- > The FY2017 EBITDAF guidance assumes:
  - > 4,250GWh of hydro production;
  - > Operating expenditure flat versus FY2016;
  - > Inclusion of \$5m from the divestment of carbon credits; and
  - > No crystallisation of the Group's non-cash FX translation reserve loss, which will occur on Chile exit completion
- > FY2017 stay-in-business capital expenditure guidance is \$115m
- > FY2017 ordinary dividend guidance remains 14.6cps





## 9 MARKET DYNAMICS



# INTERPRETING MARKET DYNAMICS

**DYNAMIC: THERMAL RATIONALISATION AND POSITIVE DRIVERS OF DEMAND GROWTH**

**FUNDAMENTALS: SUPPLY AND DEMAND BETTER BALANCED**



## **EXPECTED MARKET RESPONSE**

---

- > Increased wholesale price volatility
- > Futures price increase
- > Commercial and Industrial (C&I) pricing increase
- > Retail margin reduction in the absence of energy price increases



## **OBSERVED MARKET RESPONSE**

---

- > Benign wholesale prices
- > Futures pricing falling
- > Customer churn at high levels, but Mercury out-performing
- > New entrant retail market share increasing

## **MITIGATING FACTORS**

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- > Warmer and wetter conditions impacting demand
- > Continued above average inflows into national hydro catchments
- > NZAS closure uncertainty, although no notice of termination



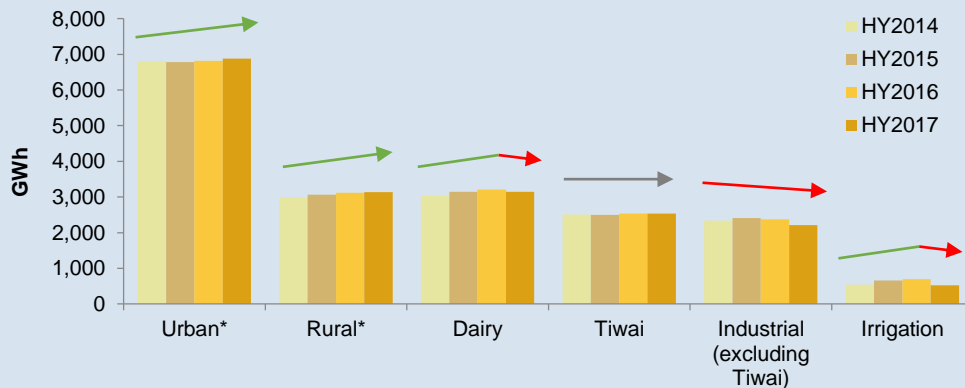
# DEMAND

- > Demand lower led by a fall in the irrigation, industrial and dairy processing sectors
  - > down 2.4% in HY2017, 1.6% after normalising for temperature
  - > decrease in agricultural sectors attributable to the wet conditions, with lower irrigation requirements and reduced national milk collection
- > The fundamentals underpinning demand growth remain positive
  - > High net migration and growth in GDP per capita
  - > Auckland urban sector demand up 1.3% in HY2017 after normalising for temperature

## HY2017 NORMALISED DEMAND GROWTH BY SECTOR

Sector	GWh	Sector %Δ	Total %Δ
Urban*	+71	1.0%	0.3%
Rural*	+16	0.5%	0.1%
Dairy processing	-62	(1.9%)	(0.3%)
Irrigation	-163	(23.7%)	(0.8%)
Industrial	-160	(3.3%)	(0.8%)

## DEMAND



\* Normalised for temperature

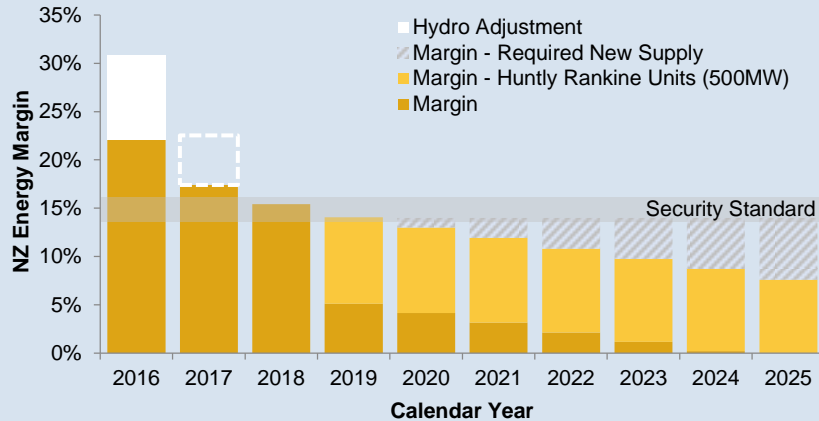




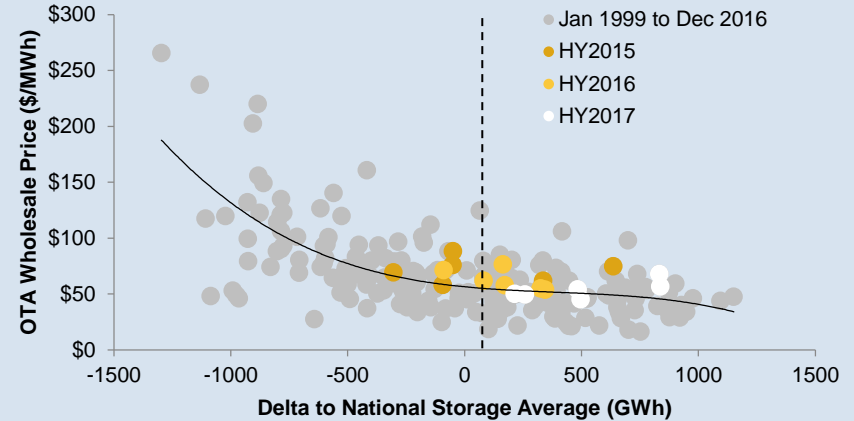
# SUPPLY

- > Rationalisation of thermal capacity during FY2016 has resulted in supply and demand being better balanced
- > Short term supply drivers have limited how this has affected wholesale prices
  - > National inflows for HY2017 were 209GWh above average
  - > National storage ended HY2017 429GWh above average

## NZ ENERGY MARGIN<sup>1</sup>



## MONTHLY HYDRO STORAGE AND PRICE



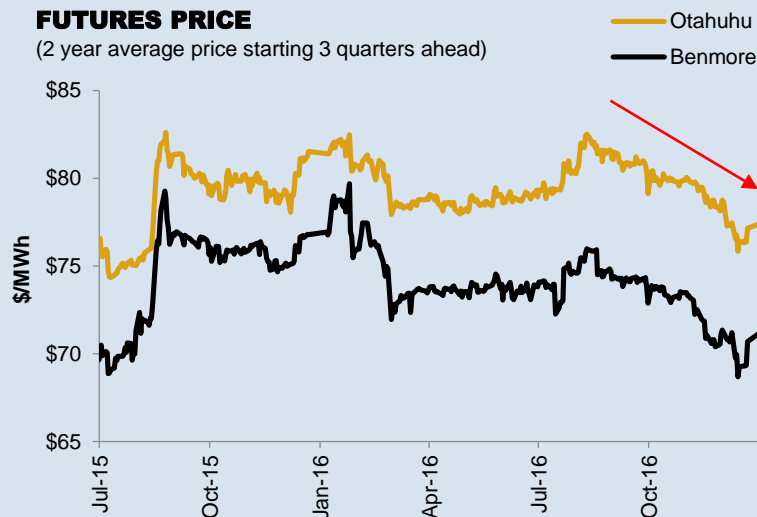
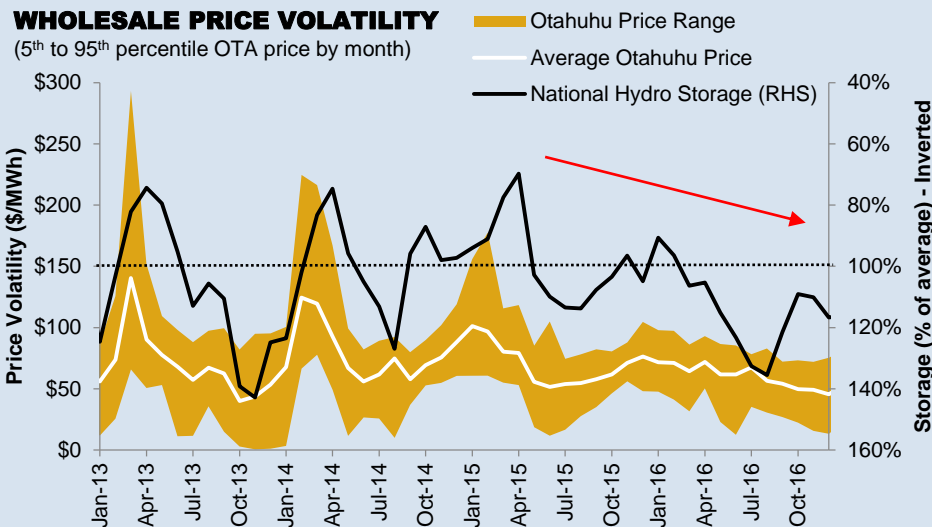
<sup>1</sup>Based on Transpower's Security of Supply Annual Assessment 2016

Assumes: (1) Huntly Rankine units and NZAS remain and (2) forecast demand growth of ~1% per annum



# WHOLESALE ELECTRICITY PRICE

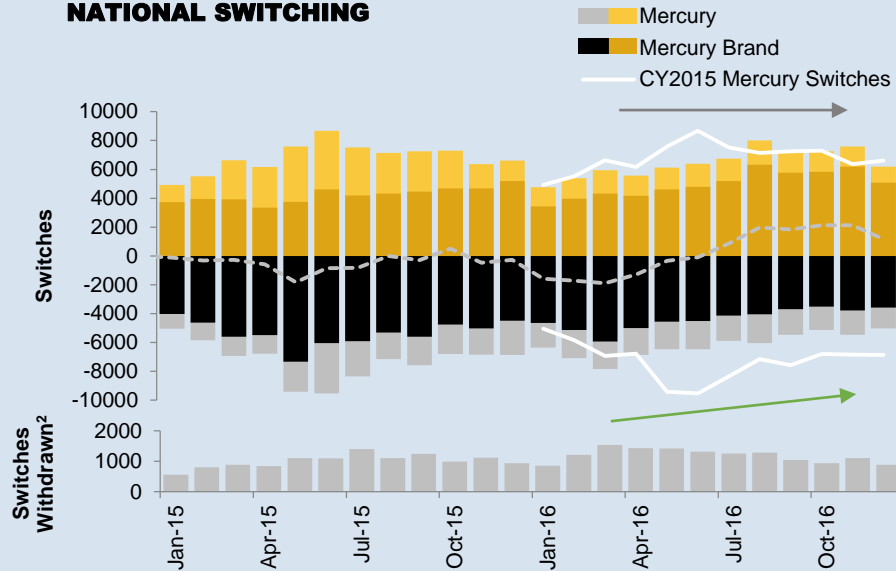
- > Benign wholesale prices due to continued above average inflows into national hydro catchments
- > Wholesale price environment contributing to lower futures prices
  - > Unlikely that ASX prices fully reflect changes in supply and demand during FY2016



# CUSTOMER

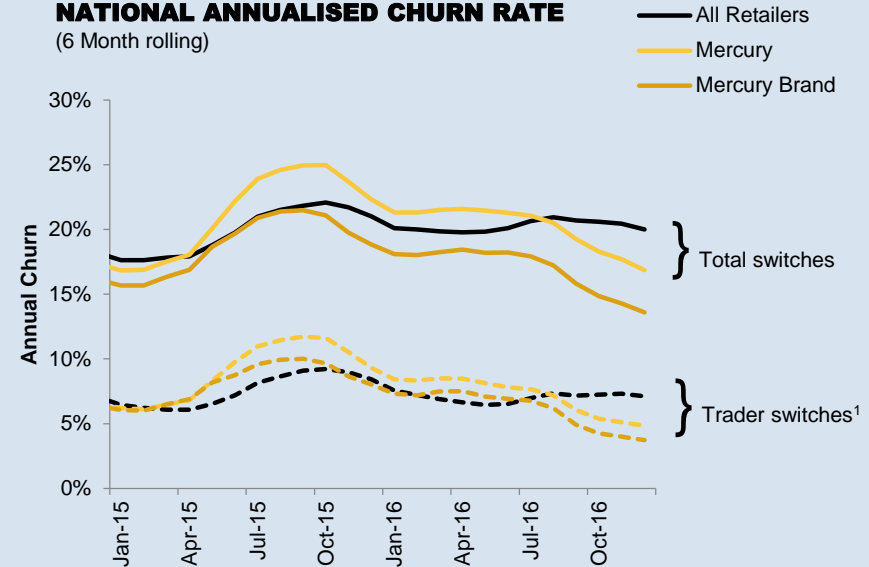
- > Market churn remains high but Mercury out-performing in HY2017
- > Increase in customer numbers due to reduced churn as Mercury focuses on rewarding loyalty

## NATIONAL SWITCHING



## NATIONAL ANNUALISED CHURN RATE

(6 Month rolling)

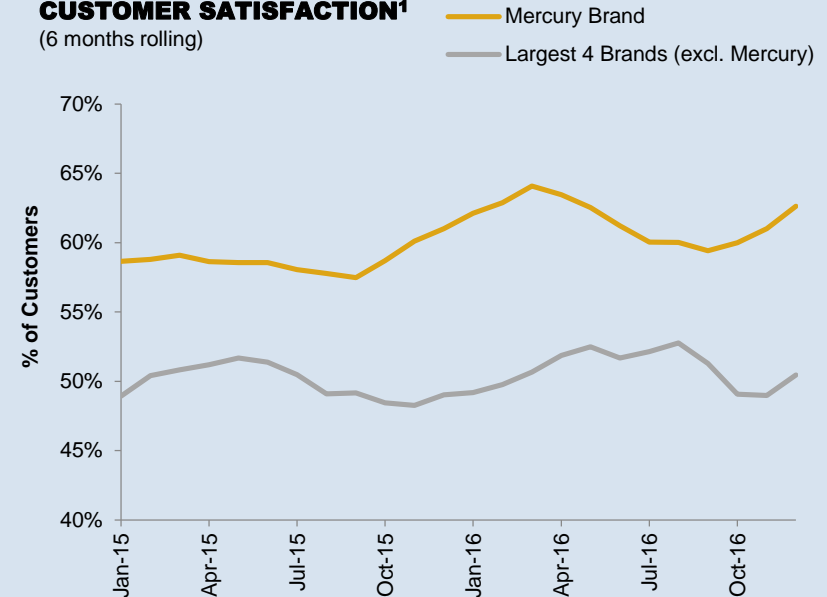


# CUSTOMER

- > Differential improvement in customer satisfaction in HY2017
- > Proactive retention initiatives and increasing ease of service
  - > Launch of partnership with Airpoints with nearly 100,000 customers registered
  - > More than 100,000 customers enjoyed the latest Free Power Day campaign
  - > 117,000 residential customers (41% of Mercury brand) and 26,000 small commercial customers (63%) are on fixed-price contracts
  - > New simplified and transparent customer billing implemented
- > Innovating and enabling customer choice
  - > In-house solar and battery capability with Mercury Solar
  - > Enabling customers to utilise electricity as a transport fuel:
    - > Mercury's EV fuel package;
    - > Customer discounts for e-bikes with major bike retailers; and
    - > Establishment of New Zealand's 'Electric Highway' in partnership with Plugshare (Oregon, USA)

## CUSTOMER SATISFACTION<sup>1</sup>

(6 months rolling)

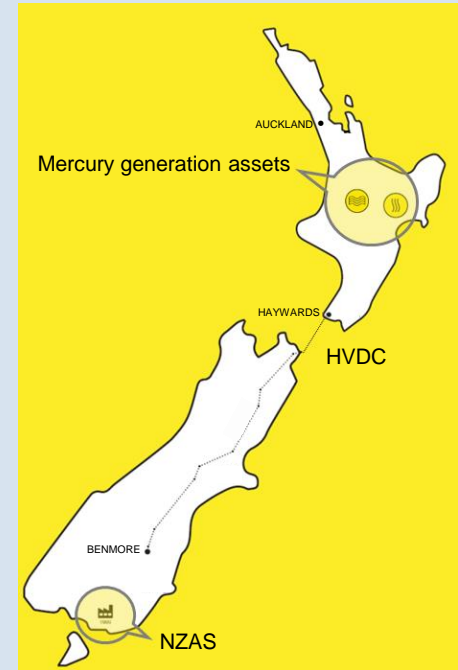


<sup>1</sup> Percentage of customers who rate their satisfaction with their current provider an 8-10 on a 0-10 scale in Mercury's own survey



## NEW ZEALAND ALUMINIUM SMELTER (NZAS)

- > Financial contract between NZAS and Meridian for 572MW through to 31 December 2030
  - > Price increase effective 1 January 2017
  - > Right to terminate contract with 12 months notice from 1 January 2017 (not triggered)
- > Indications are that NZAS unlikely to be closed in the near term
  - > Desire to terminate Meridian contract has not been signalled by NZAS
  - > *"In Aluminium, all of our assets were free cash flow positive, despite lower realised prices in the first half."* Rio Tinto – Annual Results 2016 – 8 February 2017
- > Further thermal rationalisation in the North Island highly likely in response to NZAS closure
  - > Industry has demonstrated ability to quickly respond to changes in supply and demand
- > Mercury relatively best placed to deal with resultant wholesale market uncertainty following the closure of NZAS
  - > 100% renewable North Island generation close to major North Island load centres
  - > Wholesale price separation due to increased losses, transmission constraints and North Island reserve requirements



# REGULATION

## Industry

- > Government and opposition parties constructively engaged in policy development
  - > Mercury proactively engaging with the new Energy Minister, Hon Judith Collins, following appointment in December 2016
- > Mercury surprised by Electricity Authority (EA) stress test results which show the risk exposure of some participants despite well-functioning hedge market

## Transmission Pricing Methodology (TPM)

- > EA has released a supplementary consultation on the second issues paper on TPM with proposal to remain with a two part charge (Area-of-Benefit and Residual) capped at consumer impact of 3.5% raising at 2% per annum with implementation April 2020
  - > Additional Mercury charges indicatively assessed by EA remain at ~\$5m/annum (broadly in line with 2015 and secondary proposal)
  - > Opposition to reform remains and there exists a high likelihood of legal challenge following a decision in April 2017 which will affect the implementation date

## Electric Vehicle (EV) policy

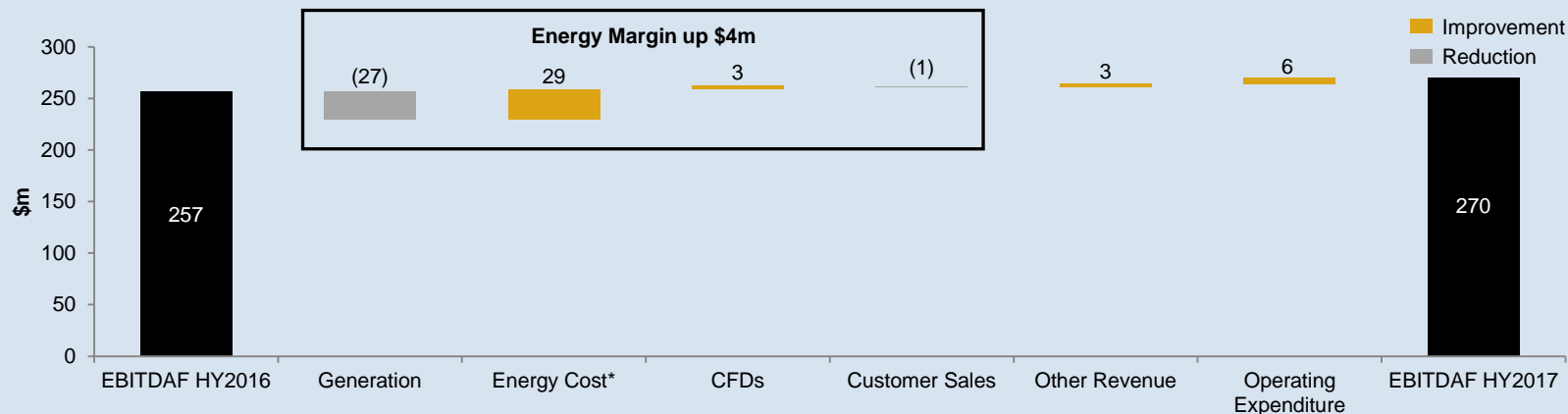
- > Government target of 64,000 electric vehicles (2% of light vehicle fleet) by 2025
  - > Over 80 applications with \$3.5m allocated and further \$6m anticipated in 2017 for Low Emission Vehicles Contestable Fund
- > EV uptake boosted by business sustainability commitment led by Air New Zealand and Mercury
  - > 30 leading NZ companies will shift 30% of their fleets to electric vehicles by 2019 (circa \$60m commitment)





## EBITDAF (HY2017 vs. HY2016)

- > Energy margin up \$4m
  - > 152GWh more hydro generation replacing thermal generation in the prior period
  - > Additional commercial and industrial sales contracted throughout the year at lower prices than achieved historically
- > Operating expenditure down \$6m due to lower maintenance costs
  - > Full year operating expenditure expected to be in line with FY2016
- > Other revenue up \$3m reflecting gain on sale of carbon credits (partially offset by land sales in prior period)



\* Energy cost excludes gas generation purchases and volume impacts of end user sales, which are included within generation and customer sales respectively





# CARBON CREDITS & CHILE

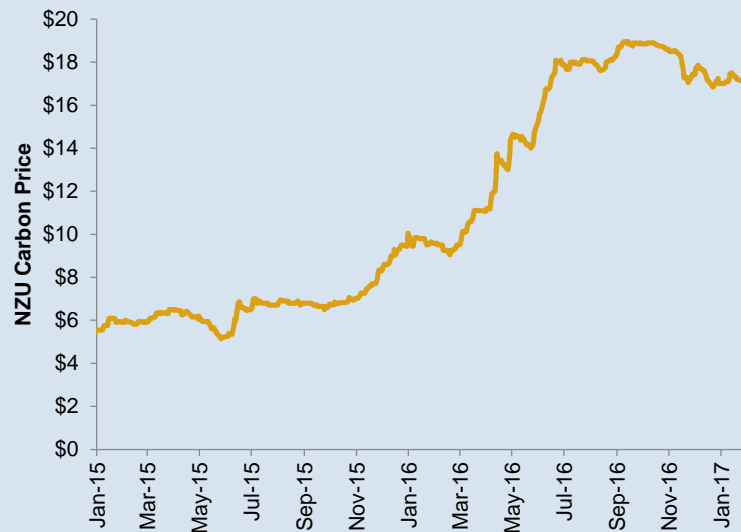
## Carbon credits

- > Future carbon obligations substantially reduced following the 2015 closure of the Southdown gas-fired station
- > Opportunity taken in HY2017 to divest some carbon credits at elevated prices
- > Sale of 1.1m credits with cash proceeds of \$19m and gain on sale of \$5m
- > Remaining inventory and supply contracts sufficient to meet future obligations for 10+ years
  - > Including zero cost units (PREs) to meet obligations through to end of FY2018

## Chile

- > Crystallisation of Group's non-cash FX translation reserve loss (~\$10m) and any other related obligations will be recognised on Chile exit completion

## NZU CARBON PRICE

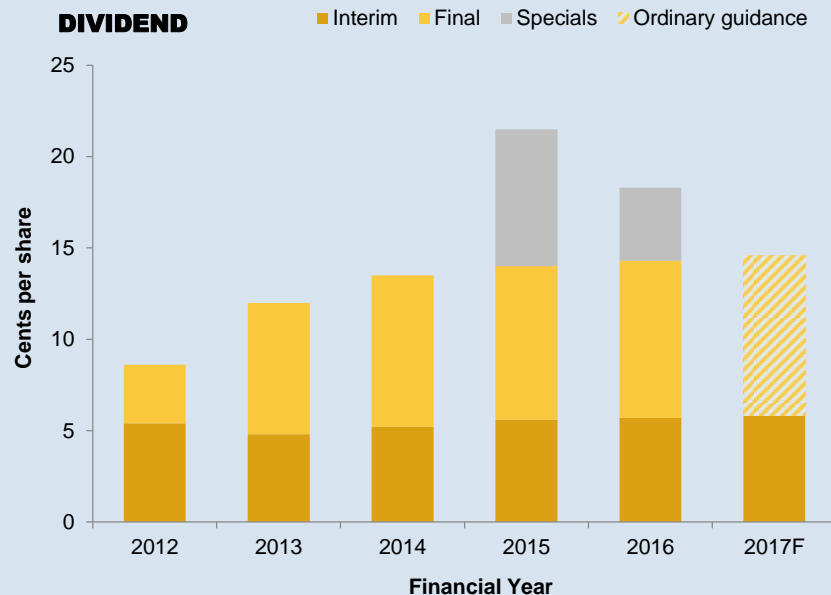


Source: Westpac



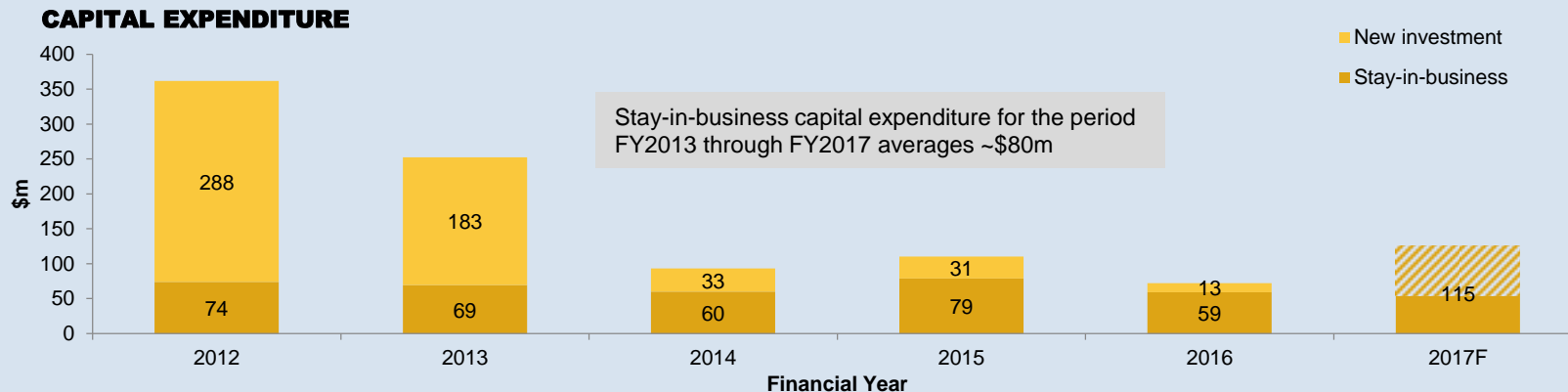
# DIVIDENDS

- > Focus remains on appropriate capital management
- > HY2017 fully-imputed dividend up 1.8% to 5.8 cents per share
  - > Dividend to be paid on 3 April 2017
- > FY2017 dividend guidance of 14.6 cents per share maintained
- > Minor change to dividend policy for interim payment date
  - > 'Dividend payments are expected to be split into an interim dividend paid in April, targeting 40% of the total expected dividend for the financial year, and a final dividend paid in September.'



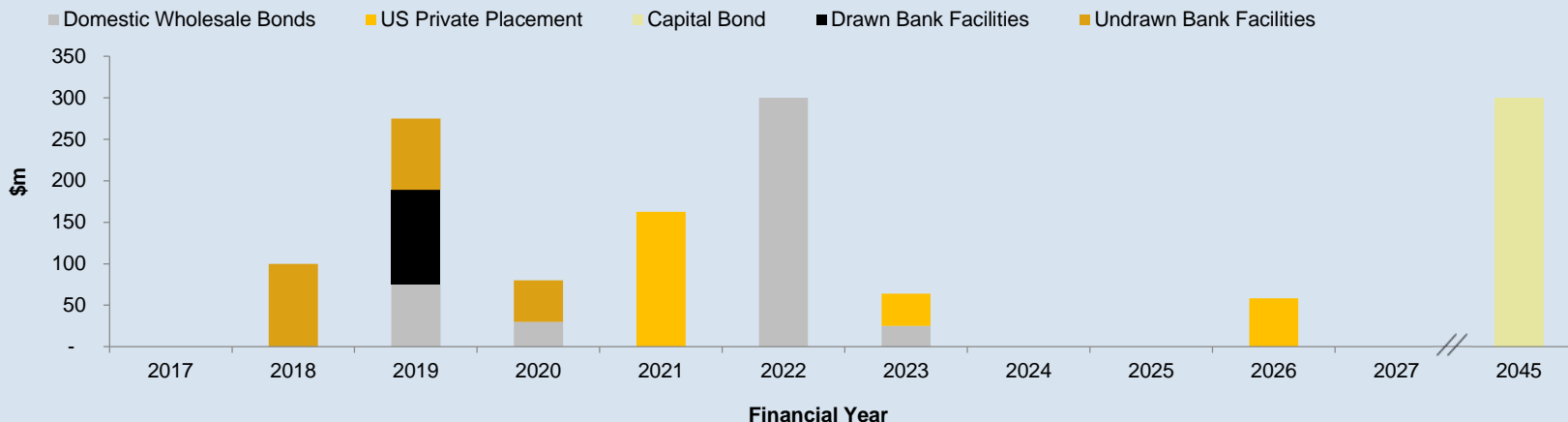
# CAPITAL EXPENDITURE

- > Capital expenditure of \$54m (HY2016: \$30m)
  - > Stay-in-business of \$54m (HY2015: \$18m) reflects the successful completion of 2 wells on the Kawerau geothermal field and the on-going hydro life-cycle refurbishment at the Whakamaru and Aratiatia power stations
- > FY2017 guidance of \$115m for stay-in-business and for minimal growth capital expenditure
  - > Stay-in-business includes the drilling of 2 further wells as part of a co-ordinated campaign across multiple geothermal fields
- > On-going investment is planned to further develop Mercury's digital experience to continue to offer new value, simplified, and personalised experiences for our customers



# FUNDING PROFILE

## DEBT MATURITIES AS AT 31 DECEMBER 2016



- > \$120m of wholesale bonds matured in October 2016 and were partially re-financed with a new \$50m bank facility
- > The average debt maturity profile for committed facilities was 9.0 years at 31 December 2016
- > Interest costs elevated due to interest rate hedges put in place in 2008 during the company's domestic geothermal investment programme. These hedges roll off progressively from the end of FY2018 with an estimated \$20m annual cash flow benefit in FY2019



# CAPITAL STRUCTURE

- > BBB+ rating is key reference point for dividend policy and an efficient and sustainable capital structure
  - > S&P re-affirmed Mercury's credit rating of BBB+/stable on 4 December 2016
  - > One-notch upgrade given majority Crown ownership
  - > Key ratio for stand alone S&P credit rating bbb requires Debt / EBITDAF between 2.0x and 3.0x
- > Capital management continues to be reviewed
  - > Debt/EBITDAF 2.0x at 30 June 2016
  - > Gearing level will be maintained reflecting majority Government ownership

	31 December 2016	30 June 2016	30 June 2015	30 June 2014	30 June 2013
Net debt (\$m)	1,080	1,068	1,082	1,031	1,028
Gearing ratio (%)	24.7%	24.4	24.5	24.3	24.4
Debt/EBITDAF (x)	N/A	2.0 <sup>1</sup>	2.0 <sup>1</sup>	2.1	2.7

<sup>1</sup> Adjusted for S&P treatment of subordinated debt







## OPERATING INFORMATION

	Six months ended 31 December 2016		Six months ended 31 December 2015		Year ended 30 June 2016	
	VWAP <sup>1</sup> (\$/MWh)	Volume (GWh)	VWAP <sup>1</sup> (\$/MWh)	Volume (GWh)	VWAP <sup>1</sup> (\$/MWh)	Volume (GWh)
<b>Electricity Sales</b>						
FPVV sales to customers	112.30	2,395	115.56	2,253	114.83	4,397
Residential customers		1302		1,340		2,438
Commercial customers		1093		913		1,959
FPVV purchases from market		2529		2,380		4,643
Spot customer purchases		454		520		950
Total NZEM purchases	54.83	2983	63.27	2,900	65.41	5,593
<b>Electricity Customers (000)<sup>2</sup></b>		387		380		376
North Island customers		346		344		339
South Island customers		41		36		37
Dual Fuel customers		43		41		41
<b>Metrix AMI Meters (000)</b>		399		389		396

<sup>1</sup> VWAP is volume weighted average energy-only price sold to FPVV customers after lines, metering and fees

<sup>2</sup> Excludes vacant premises



## OPERATING INFORMATION

	Six months ended 31 December 2016		Six months ended 31 December 2015		Year ended 30 June 2016	
Electricity Generation	VWAP (\$/MWh)	Volume (GWh)	VWAP (\$/MWh)	Volume (GWh)	VWAP (\$/MWh)	Volume (GWh)
Hydro	55.14	2,367	61.41	2,215	64.84	3,866
Gas (all 1HY2016)	-	-	68.62	146	68.64	146
Geothermal (consolidated) <sup>1</sup>	48.71	1,290	58.93	1,299	60.84	2,596
Geothermal (equity accounted) <sup>2</sup>	49.77	113	59.40	118	61.44	234
<b>Total</b>	<b>52.78</b>	<b>3,770</b>	<b>60.78</b>	<b>3,778</b>	<b>63.29</b>	<b>6,842</b>
<b>LWAP/GWAP</b>		<b>1.04</b>		<b>1.04</b>		<b>1.03</b>
<b>Carbon Emissions ('000 tonnes)</b>		<b>186</b>		<b>249</b>		<b>428</b>

<sup>1</sup> Includes Mercury's 65% share of Nga Awa Purua generation

<sup>2</sup> Tuaropaki Power Company (Mokai) equity share





# CONTRACTS FOR DIFFERENCE

	Six months ended 31 December 2016	Six months ended 31 December 2015	Year ended 30 June 2016
<b>Net Contracts for Difference (Sell)/Buy GWh</b>			
Sell - End User	(673)	(746)	(1,448)
Sell - VAS <sup>1</sup>	(352)	(352)	(701)
Sell - Inter-generator & ASX	(775)	(821)	(1,259)
Sell CFD	(1801)	(1,919)	(3,408)
Buy CFD	904	929	1,741
<b>Net CFD</b>	<b>(897)</b>	<b>(990)</b>	<b>(1,667)</b>
<b>Energy Margin contribution (\$m)</b>	<b>20</b>	<b>14</b>	<b>27</b>

<sup>1</sup> VAS included on both buy and sell side CFDs



# BALANCE SHEET

\$m	As at 31 December 2016	As at 31 December 2015	As at 30 June 2016
<b>SHAREHOLDERS' EQUITY</b>			
<b>Total shareholders' equity</b>	<b>3,287</b>	<b>3,236</b>	<b>3,315</b>
<b>ASSETS</b>			
Current assets	254	285	313
Non-current assets	5,698	5,662	5,772
Held for sale	0	6	0
<b>Total assets</b>	<b>5,952</b>	<b>5,953</b>	<b>6,085</b>
<b>LIABILITIES</b>			
Current liabilities	168	337	310
Non-current liabilities	2,497	2,380	2,460
<b>Total liabilities</b>	<b>2,665</b>	<b>2,717</b>	<b>2,770</b>
<b>TOTAL NET ASSETS</b>	<b>3,287</b>	<b>3,236</b>	<b>3,315</b>



## NON-GAAP MEASURE: ENERGY MARGIN

- > Energy Margin provides a measure that, unlike sales or total revenue, accounts for the variability of the wholesale spot market and the broadly offsetting impact of wholesale prices on the cost of retail electricity purchases

\$m	Six months ended 31 December 2016	Six months ended 31 December 2015	Year ended 30 June 2016
Sales	772	792	1,512
Less: lines charges	(227)	(217)	(419)
Less: energy costs	(167)	(201)	(384)
Less: other direct cost of sales, excluding third-party metering	(18)	(18)	(28)
Less: third party metering	(12)	(12)	(23)
<b>Energy Margin</b>	<b>348</b>	<b>344</b>	<b>658</b>



## NON-GAAP MEASURE: FREE CASH FLOW

- > Free Cash Flow is a measure that the Company uses to evaluate the levels of cash available for debt repayments, growth capital expenditure and dividends

\$m	Six months ended 31 December 2016	Six months ended 31 December 2015	Year ended 30 June 2016
Net cash provided by operating activities	194	160	280
Less: Stay-in-business capital expenditure (including accrued costs)	(54)	(18)	(59)
<b>Free Cash Flow</b>	<b>140</b>	<b>142</b>	<b>221</b>



## **NON-GAAP MEASURE: EBITDAF, UNDERLYING EARNINGS AND NET DEBT**

- > EBITDAF is reported in the financial statements and is a measure that allows comparison across the electricity industry
- > Underlying Earnings is reported in the financial statements and in contrast to net profit, the exclusion of certain items enables a comparison of the underlying performance across time periods
- > Net Debt is reported in the full year financial statements and is a measure commonly used by investors





FOR FURTHER INFORMATION >> **TIM THOMPSON | HEAD OF TREASURY & INVESTOR RELATIONS** T. 0275 173 470 E. [INVESTOR@MERCURY.CO.NZ](mailto:INVESTOR@MERCURY.CO.NZ)

**Notice of event affecting securities**

NZSX Listing Rule 7.12.2. For rights, NZSX Listing Rules 7.10.9 and 7.10.10.  
For change to allotment, NZSX Listing Rule 7.12.1, a separate advice is required.

Number of pages including this one  
(Please provide any other relevant  
details on additional pages)

1

Full name of Issuer		Mercury NZ Limited	
Name of officer authorised to make this notice		Tony Nagel, GM Corporate Affairs	Authority for event, e.g. Directors' resolution
Contact phone number		+64 9 308 8200	Contact fax number
		+64 9 308 8209	Date
		21 / 02 / 2017	
Nature of event Tick as appropriate	Bonus Issue <input type="checkbox"/>	If ticked, state whether: Capital <input type="checkbox"/> Call <input type="checkbox"/> Dividend <input checked="" type="checkbox"/>	Taxable <input type="checkbox"/> / Non Taxable <input type="checkbox"/> Conversion <input type="checkbox"/> Interest <input type="checkbox"/> Rights Issue Renounceable <input type="checkbox"/>
	Rights Issue non-renounceable <input type="checkbox"/>	Dividend <input checked="" type="checkbox"/> If ticked, state whether: Interim <input checked="" type="checkbox"/> Full Year <input type="checkbox"/> Special <input type="checkbox"/> DRP Applies <input type="checkbox"/>	

**EXISTING securities affected by this**

If more than one security is affected by the event, use a separate form.

Description of the class of securities	Mercury NZ Limited ordinary shares	ISIN	NZMRPE0001S2
		If unknown, contact NZX	

**Details of securities issued pursuant to this event**

If more than one class of security is to be issued, use a separate form for each class.

Description of the class of securities		ISIN	
		If unknown, contact NZX	
Number of Securities to be issued following event		Minimum Entitlement	
Conversion, Maturity, Call Payable or Exercise Date		Treatment of Fractions	
Strike price per security for any issue in lieu or date Strike Price available.		Enter N/A if not applicable	
		Tick if <i>pari passu</i> <input type="checkbox"/> OR provide an explanation of the ranking	

**Monies Associated with Event**

Dividend payable, Call payable, Exercise price, Conversion price, Redemption price, Application money.

In dollars and cents		Source of Payment	Income available for distribution
Amount per security (does not include any excluded income)	\$0.05800		
Excluded income per security (only applicable to listed PIEs)	not applicable		
Currency	New Zealand Dollars	Supplementary dividend details - NZSX Listing Rule 7.12.7	Amount per security in dollars and cents
Total monies	\$79,825,809		\$0.010235
			Date Payable
			3 April 2017

**Taxation**

Amount per Security in Dollars and cents to six decimal places

In the case of a taxable bonus issue state strike price	\$	Resident Withholding Tax	\$0.004028	Imputation Credits (Give details)	\$0.022556
		Foreign Withholding Tax	\$	FWP Credits (Give details)	

**Timing**

(Refer Appendix 8 in the NZSX Listing Rules)

**Record Date 5pm**

For calculation of entitlements -

15 March 2017

**Application Date**

Also, Call Payable, Dividend / Interest Payable, Exercise Date, Conversion Date. In the case of applications this must be the last business day of the week.

3 April 2017

**Notice Date**

Entitlement letters, call notices, conversion notices mailed

**Allotment Date**

For the issue of new securities. Must be within 5 business days of application closing date.

**OFFICE USE ONLY**

Ex Date:  
Commence Quoting Rights:  
Cease Quoting Rights 5pm:  
Commence Quoting New Securities:  
Cease Quoting Old Security 5pm:

Security Code:  
Security Code:

