


20 INTERIM REPORT 24

Mercury 



CONTENTS.

- 03 CHAIR & CHIEF EXECUTIVE UPDATE
- 08 OUR FINANCIALS
- 09 INDEPENDENT AUDITOR'S REVIEW REPORT
- 10 FINANCIAL STATEMENTS
- 26 SHAREHOLDER INFORMATION
- 26 DIRECTORY

CHAIR & CHIEF EXECUTIVE UPDATE.

SCOTT ST JOHN // CHAIR
VINCE HAWKSWORTH // CHIEF EXECUTIVE



Scott St John, Chair and Vince Hawksworth, Chief Executive

KIA ORA AND WELCOME TO MERCURY'S SIX-MONTH UPDATE TO 31 DECEMBER 2023.

New Zealand's renewable energy sector is on a significant growth trajectory as it looks to meet the electrification opportunity ahead, and Mercury is committed to supporting that shift. The scale of the opportunity is material – renewable electricity is expected to account for nearly 60% of New Zealand's energy consumption by 2050, up from about 20% today¹.

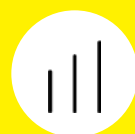
As a result, the first half of the 2024 financial year has been one of action as we pursue our growth ambitions. We made substantial headway on our renewable energy and retail goals, delivering on our purpose: Taking care of tomorrow: Connecting people and place today; Tiakina te anamata, mā te tūhono i ngā tāngata me ngā wāhi o te inamata.

This required collaboration with others seeking to create a future where communities and Aotearoa are thriving – an outcome which positions Mercury for similar success.

This update is the first with our new Chair, Scott St John. We extend our thanks to Prue Flacks for her substantial contribution over the last 13 years, and particularly during her four-year tenure as Mercury's Chair. Her exemplary leadership has helped set us up for our next stage of growth.

¹ Boston Consulting Group, 'Future is Electric', 2021.

SNAPSHOT.



FINANCIAL PERFORMANCE REFLECTS BUSINESS GROWTH

- EBITDAF reflects increased investment in new renewables, strong yields.
- FY24 guidance increased to \$880 million mostly due to better pricing outcomes in generation and wholesale segment.



WORKING TOGETHER

- Contributed to the proposed Sector and Government energy transition framework.
- Advocated for supportive policy including clarity on the role of gas; clear consenting regime; demand-side policies and network & transmission investment.



ENABLING A PATHWAY TO GREATER ELECTRIFICATION

- Completed Kaiwera Downs 1 wind farm (43MW) on time and under budget.
- Building a fifth generating unit at our Ngā Tamariki geothermal station (46MW).
- Seeking Expressions of Interest for a new solar development (100MW) commencing 2026.



BUILDING CAPABILITY AND PRODUCTIVITY

- Further embedded adaptive ways of working into our organisation.
- Made changes to our organisational structure to support better performance.
- Focussed on growing talent, with adaptive leadership and diverse emerging leaders programmes performing strongly.



EMPOWERING CUSTOMERS THROUGH INNOVATION

- Mercury & Trustpower transition nearing completion, providing a solid platform on which we can deliver greater value for customers.
- Supporting customers in hardship a key focus; completed joint research into hidden hardship with Genesis and began progressing several solutions.

FINANCIAL OVERVIEW

Mercury's net profit after tax was \$174 million for the half year, down \$65 million on the prior comparable period due to higher depreciation, interest charges and net changes in fair value. Mercury reported EBITDAF² of \$434 million, \$17 million down on the prior comparable period. This is a strong performance given the much higher hydro generation during HY23. Earnings for the current period were positively influenced by our ongoing investment in renewables together with higher prices. Wind generation increased to 1,109 GWh as we continued to deliver on our renewable ambitions, with the full contribution generation from Turitea South and commissioning of Kaiwera Downs 1 wind farms.

Operational expenditure of \$191 million was up \$31 million reflecting increases in employee related expenses and maintenance expenses mostly from wind contracts.

Stay-in-business capital expenditure for the period was \$60 million (up \$29 million). Growth capital expenditure was \$70 million (up \$26 million) and largely related to construction costs incurred for the addition of a fifth unit at our Ngā Tamariki geothermal station and completion of the Kaiwera Downs 1 wind farm near Gore.

Net debt was \$1,983 million, up \$76 million primarily due to higher interest and tax paid combined with a lift in capital expenditure on new generation projects and geothermal drilling.

FY24 EBITDAF guidance has increased to \$880 million from \$835m, mostly due to better pricing outcomes in our generation and wholesale segment. This assumes mean hydro generation (4,067GWh) and is subject to future hydrological volatility, wholesale market conditions and any material adverse events, significant one-off expenses or other unforeseeable circumstances.

“

EARNINGS FOR THE CURRENT PERIOD WERE POSITIVELY INFLUENCED BY OUR ONGOING INVESTMENT IN RENEWABLES TOGETHER WITH HIGHER PRICES.

\$174M↓

NET PROFIT

\$434M↓

EBITDAF

\$191M↑

OPERATING EXPENDITURE

1,109GWH↑

WIND GENERATION

INTERIM DIVIDEND

The Board has declared a fully imputed interim dividend of 9.3 cents per share, up almost 7% on the HY23 dividend. Full year dividend guidance is unchanged at 23.3 cents per share expected to be the 16th consecutive year of ordinary dividend growth.

Our Dividend Reinvestment Plan continues, with shareholders able to reinvest their dividends into Mercury shares with a 2% discount.

9.3CPS

INTERIM DIVIDEND DECLARED

2%

DISCOUNT ON DIVIDEND REINVESTMENT PLAN

² EBITDAF: Earnings before net interest expense, tax expense, depreciation and amortisation, and unrealised change in fair value of financial instruments and carbon.

ENABLING

A PATHWAY TO GREATER

During the period we focused on executing against our signalled commitment of up to \$1 billion investment over the financial year to generation development over the next three years.

We are pleased to have progressed two of the three major projects expected in this timeframe.

The first wave of this investment commitment was announced in September with the decision to build a fifth generating unit at our Ngā Tamariki geothermal station, which will boost our generation output by net 46MW (390 GWh p.a.). Our key supplier on this project, Ormat Technologies, has been impacted by the situation in Gaza and we are monitoring this carefully. We are not currently expecting delivery timeframes to be materially impacted.

Regarding the second wave of this investment commitment,

we are at the advanced stages of approving the development of Kaiwera Downs 2 wind farm (155MW). The project is expected to reach Final Investment Decision this financial year.

The third signalled project, Kaiwaikawe wind farm, is experiencing delays related to procurement and construction logistics which will likely delay construction commencement into FY25.

In November we celebrated the opening of the Kaiwera Downs 1 wind farm (43MW), with the project completing under budget and on schedule. This is testament to the capability of our team and contractors together with consistent, transparent engagement with the surrounding community. We are mindful of the ongoing role we will play in this community and continue to focus on engagements that foster shared value over the long term.

Our geothermal drilling campaign has experienced delays and we have terminated our contract with the drilling rig

contractor. We are currently in the process of negotiating an alternative contractor to complete our drilling campaign and expect to engage a new provider in the near future.

Following the period end, we were pleased to issue a request for Expressions of Interest for an offtake agreement for 100MW of solar energy, commencing in 2026. We see this as an important step towards further diversification of our renewable energy portfolio, and a meaningful way to support the role that independent generators play in New Zealand's energy market.

4,486GWH
HY24
GENERATION

331GWH ↓
DECREASE ON
PRIOR PERIOD

ELECTRIFICATION.

EMPOWERING CUSTOMERS THROUGH INNOVATION.



THIS GIVES US A SOLID PLATFORM ON WHICH WE CAN DELIVER GREATER VALUE FOR CUSTOMERS IN TERMS OF CHOICE, ENHANCED EXPERIENCE, AND THE DELIVERY OF NEW AND INNOVATIVE SOLUTIONS.

In December we achieved our goal to bring Mercury and Trustpower (people, processes, systems) together following our acquisition of the Trustpower retail business in May 2022.

This included migrating all Mercury brand mass market customers onto a single technology stack, a key step towards unlocking benefits from the acquisition.

This gives us a solid platform on which we can deliver greater value for customers in terms of choice, enhanced experience, and the delivery of new and innovative solutions. We now have a range of energy, broadband and mobile bundled offers available to all customers, and we have begun developing 'smart' solutions for EV owners and customers who want greater control over their energy use.

The business remains on track to realise the integration synergies previously forecast, with the majority expected in FY25.

Managing affordability will be a key challenge as the energy transition progresses and we continue to work with the sector, community, Government and others on this, including with our partners and suppliers to manage costs. We also continue to have an open conversation about the impact of cumulative

changes on affordability, including distribution and transmission investment, growth in intermittent renewables, New Zealand's Emissions Trading Scheme and near-term inflation, skilled worker shortages and supply chain issues.

In addition to participating in these conversations, we continue to strengthen the support we provide for customers in hardship recognising the persistent nature of this challenge, including developing solutions that address the broader challenges related to affordability. During the period we completed our joint research into hidden hardship with Genesis and began progressing solutions which were co-designed with community groups. We also completed phase one of a Winter Energy Study in partnership with Kāinga Ora – Homes and Communities trialling how capped bills could benefit customers over winter.

We will lift electricity prices for most customers this financial year. The business will continue to offer targeted measures to support those most in need.



WORKING TOGETHER.

Collective action and whole-of-system thinking will be critical to unlocking the infrastructure investment needed for prosperity through the energy transition.

Over the period we contributed to the proposed Sector and Government energy transition framework. The group is now actively seeking to partner with the Government on the framework to enable the system-wide approach this mechanism supports.

We also continued to participate in other cross-sector forums to help us address shared obstacles to the delivery of renewables at pace, including supply chain and workforce issues.

We remain mindful of the role that supportive policy will play in accelerating the electrification of New Zealand's economy in an inclusive way. We welcome the clarity provided on Onslow and continue to advocate for: clarity on the role of gas to ensure security of supply; a clear consenting regime to enable renewable development at pace while maintaining social licence; demand-side policies that support electrification for households, businesses and large-scale initiatives; and network and transmission investment that supports a smart electricity system.



As the scale of the opportunity that electrification presents continues to grow, our people and the ways we work become increasingly important to our ability to drive value.

During the period we further embedded adaptive ways of working into our organisation, fostering more dynamic decision making in the face of change. We have taken lessons from our retail integration programme and are applying these to other parts of the business.

We also made changes to our organisational structure to support better performance. This includes converging around three core business units, supported by three enabling units.

Our focus on growing talent also continued, with our adaptive leadership and diverse emerging leaders programmes both performing strongly.

Finally, we are well progressed in rolling out our enhanced health, safety and wellbeing programme across the business, building a stronger culture of safety. There have been no recordable injuries for the half year (excluding offsite lost time injuries), while the 12-month rolling TRIFR (Total Recordable Injury Frequency Rate) was 0.21, significantly down on TRIFR for the prior two years.

However, we are not complacent and acknowledge that it is important that we continue to reflect on previous incidents. In December, after careful consideration Mercury made the decision to plead not guilty to two WorkSafe charges related to the Rotokawa steam hammer incident from July 2021 and we continue to work through this process.

CLOSING REMARKS

We thank our people and our partners for what they have helped Mercury achieve in the first half of the 2024 financial year.

We are focussed on supporting New Zealand's electrified, digitalised future and believe that by enabling electrification, innovating for customers and collaborating with others we can help unlock a thriving future for our business and New Zealand.

We thank you for your continued support and look forward to updating you on further progress at the financial year end.

Ngā mihi nui ki a koutou katoa.

SCOTT ST JOHN
CHAIR

VINCE HAWKSWORTH
CHIEF EXECUTIVE

OUR FINANCIALS.

Kaiwera Downs 1 Wind Farm

CONTENTS.

GROUP FINANCIAL STATEMENTS

- 10 CONSOLIDATED INCOME STATEMENT
- 10 CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
- 11 CONSOLIDATED BALANCE SHEET
- 12 CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
- 12 CONSOLIDATED CASH FLOW STATEMENT

NOTES TO THE FINANCIAL STATEMENTS

- 13 GENERAL INFORMATION & SIGNIFICANT MATTERS
- A. FINANCIAL PERFORMANCE
 - 14 A1. REVENUE
 - 15 A2. SEGMENT REPORTING
- B. OPERATING ASSETS
 - 17 B1. PROPERTY, PLANT & EQUIPMENT
 - 17 B2. INTANGIBLE ASSETS
- C. FUNDING
 - 18 C1. SHARE CAPITAL & DISTRIBUTIONS
 - 18 C2. BORROWINGS
 - 18 C3. NET INTEREST EXPENSE
 - 19 C4. COMMITMENTS AND CONTINGENCIES
- D. GROUP STRUCTURE
 - 20 D1. ASSOCIATES & JOINT ARRANGEMENTS
 - 20 D2. RELATED PARTY TRANSACTIONS
- E. RISK
 - 22 E1. DERIVATIVE FINANCIAL INSTRUMENTS
- F. OTHER
 - 25 F1. SUBSEQUENT EVENTS & OTHER MATTERS

Independent auditor's review report

To the shareholders of Mercury NZ Limited

The Auditor-General is the auditor of Mercury NZ Limited ('the Company'). The Auditor-General has appointed me, Emma Winsloe, using the staff and resources of Ernst & Young, to carry out the review of the consolidated interim financial statements of the Group (comprising the Company, its subsidiaries, and other controlled entities) on his behalf.

Conclusion

We have reviewed the consolidated interim financial statements of the Group on pages 10 to 25, which comprise the consolidated balance sheet as at 31 December 2023, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement for the six months ended on that date, and the notes, including a summary of significant accounting policies and other explanatory information.

Based on our review, nothing has come to our attention that causes us to believe that the consolidated interim financial statements of the Group do not present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2023, and its consolidated 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* ('NZ IAS 34') and International Accounting Standard 34: *Interim Financial Reporting* ('IAS 34').

Basis for Conclusion

We conducted our review in accordance with NZ SRE 2410 (Revised) *Review of Financial Statements Performed by the Independent Auditor of the Entity* ('NZ SRE 2410 (Revised)'). Our responsibilities are further described in the *Auditor's Responsibilities for the Review of the Interim Financial Statements* section of our report.

We are independent of the Group in accordance with the independence requirements of the Auditor-General's Auditing Standards, which incorporate the independence requirements of Professional and Ethical Standard 1 *International Code of Ethics for Assurance Practitioners* issued by the New Zealand Auditing and Assurance Standards Board.

In addition to the audit, we have carried out engagements in the areas of agreed upon procedures and other limited assurance engagements, which are compatible with those independence requirements. Other than the audit and these engagements, we have no relationship with or interests in the Group.

Directors' responsibilities for the consolidated interim financial statements

The Directors are responsible, on behalf of the Group, for the preparation and fair presentation of these consolidated interim financial statements in accordance with NZ IAS 34 and IAS 34 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.

Auditors' responsibilities for the review of the consolidated interim financial statements

Our responsibility is to express a conclusion on the consolidated interim financial statements based on our review. NZ SRE 2410 (Revised) 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 NZ IAS 34 and IAS 34.

A review of the consolidated interim financial statements in accordance with NZ SRE 2410 (Revised) is a limited assurance engagement. We perform 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) and consequently do not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on these consolidated interim financial statements.



Emma Winsloe
Ernst & Young
On behalf of the Auditor-General

Auckland, New Zealand
20 February 2024

FINANCIAL STATEMENTS.

CONSOLIDATED INCOME STATEMENT.

For the six months ended 31 December 2023

	Note	Unaudited 6 Months 31 Dec 2023 \$M	Restated Unaudited 6 Months 31 Dec 2022 \$M	Restated Audited 12 Months 30 Jun 2023 \$M
Revenue	A2	1,605	1,300	2,730
Expenses	A2	(1,214)	(848)	(1,900)
Depreciation and amortisation	B1, B2	(178)	(161)	(344)
Impairment	B2	-	-	(12)
Revaluation loss of generation assets	B1	-	-	(41)
Change in the fair value of financial instruments	E1	65	68	(159)
Change in the fair value of carbon units held for trading		32	(3)	(36)
Share of profit/(loss) from associates and joint ventures	D1	(2)	(1)	5
Gain/(loss) on acquisitions and disposal		-	11	12
Interest income	A2, C3	3	2	3
Interest expense	A2, C3	(66)	(49)	(103)
Profit before tax		245	319	155
Tax expense		(71)	(80)	(43)
Profit for the year attributable to owners of the parent		174	239	112
Basic and diluted earnings per share (cents)		12.53	17.30	8.11

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME.

For the six months ended 31 December 2023

	Note	Unaudited 6 Months 31 Dec 2023 \$M	Restated Unaudited 6 Months 31 Dec 2022 \$M	Restated Audited 12 Months 30 Jun 2023 \$M
Profit for the year attributable to owners of the parent		174	239	112
Other comprehensive income				
Items that will not be reclassified subsequently to profit or loss				
Change in asset revaluation reserve		-	-	113
Change in cash flow hedge reserve transferred to balance sheet		1	-	2
Share of movements in associates' and joint ventures' reserves	D1	(2)	(1)	11
Tax effect		-	-	(31)
Items that may be reclassified subsequently to profit or loss				
Change in cash flow hedge reserve		(108)	(52)	212
Share of movements in associates' and joint ventures' reserves	D1	-	5	-
Tax effect		29	15	(60)
Other comprehensive income/(loss) for the period, net of taxation		(81)	(33)	247
Total comprehensive income for the period attributable to owners of the parent		93	207	359

CONSOLIDATED BALANCE SHEET.

As at 31 December 2023

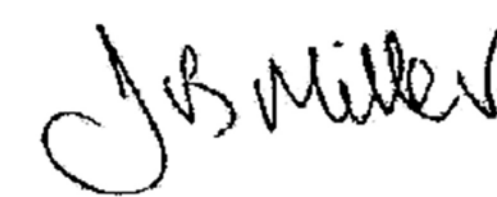
	Note	Unaudited 31 Dec 2023 \$M	Restated Unaudited 31 Dec 2022 \$M	Restated Audited 30 Jun 2023 \$M
SHAREHOLDERS' EQUITY				
Issued capital		378	378	378
Treasury shares	C1	(23)	(38)	(34)
Reserves		4,445	4,480	4,519
Total shareholders' equity		4,800	4,820	4,863
ASSETS				
Current assets				
Cash and cash equivalents		82	53	75
Trade and other receivables		505	394	440
Contract assets and costs		33	28	32
Inventories		145	121	91
Derivative financial instruments	E1	263	314	201
Total current assets		1,028	910	839
Non-current assets				
Property, plant and equipment	B1	8,080	7,979	8,099
Intangible assets	B2	127	156	138
Investment in and advances to associates and joint ventures	D1	74	70	80
Advances to joint operations	D2	3	3	4
Trade and other receivables		-	3	1
Contract assets and costs		17	12	15
Derivative financial instruments	E1	189	458	243
Total non-current assets		8,490	8,681	8,580
Total assets		9,518	9,591	9,419

	Note	Unaudited 31 Dec 2023 \$M	Restated Unaudited 31 Dec 2022 \$M	Restated Audited 30 Jun 2023 \$M
LIABILITIES				
Current liabilities				
Payables and accruals		367	277	344
Provisions		-	-	3
Borrowings	C2	453	462	375
Derivative financial instruments	E1	264	324	186
Taxation payable		29	38	44
Total current liabilities		1,113	1,101	952
Non-current liabilities				
Provisions		86	83	81
Derivative financial instruments	E1	230	480	243
Borrowings	C2	1,567	1,352	1,523
Deferred tax		1,722	1,755	1,757
Total non-current liabilities		3,605	3,670	3,604
Total liabilities		4,718	4,771	4,556
Net assets		4,800	4,820	4,863

For and on behalf of the Board of Directors who authorised the issue of the Financial Statements on 20 February 2024.



**SCOTT ST JOHN // CHAIR
OF THE BOARD OF DIRECTORS**



**JAMES MILLER // CHAIR OF THE RISK
ASSURANCE AND AUDIT COMMITTEE**

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY.

For the six months ended 31 December 2023

	Note	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 2022		378	516	4,153	(245)	(50)	4,752
Adjustment on restatement of PPA valuation (see Significant Matters)		-	5	-	-	-	5
Restated balance as at 1 July 2022		378	521	4,153	(245)	(50)	4,757
Movement in cash flow hedge reserve, net of taxation		-	-	-	(37)	-	(37)
Share of movements in associates' and joint ventures' reserves		-	-	(1)	5	-	4
Other comprehensive income		-	-	(1)	(32)	-	(33)
Net profit/(loss) for the period		-	239	-	-	-	239
Total comprehensive income for the year		-	239	(1)	(32)	-	206
Dividend	C1	-	(166)	-	-	-	(166)
Issue of treasury shares for dividend reinvestment program	C1	-	11	-	-	12	23
Restated balance as at 31 December 2022 (unaudited)		378	605	4,152	(277)	(38)	4,820
Restated balance as at 1 January 2023		378	605	4,152	(277)	(38)	4,820
Movement in asset revaluation reserve, net of taxation		-	-	82	-	-	82
Movement in cash flow hedge reserve, net of taxation		-	-	-	191	-	191
Share of movements in associates' and joint ventures' reserves		-	-	1	6	-	7
Other comprehensive income		-	-	83	197	-	280
Net profit/(loss) for the period		-	(127)	-	-	-	(127)
Total comprehensive income for the year		-	(127)	83	197	-	153
Dividend	C1	-	(120)	-	-	-	(120)
Issue of treasury shares for dividend reinvestment program	C1	-	4	-	-	1	5
Sale of treasury shares	C1	-	2	-	-	3	5
Restated balance as at 30 June 2023 (audited)		378	364	4,235	(80)	(34)	4,863
Restated balance as at 1 July 2023		378	364	4,235	(80)	(34)	4,863
Movement in cash flow hedge reserve, net of taxation		-	-	-	(79)	-	(79)
Share of movements in associates' and joint ventures' reserves		-	-	-	(2)	-	(2)
Other comprehensive income		-	-	-	(81)	-	(81)
Net profit/(loss) for the period		-	174	-	-	-	174
Total comprehensive income for the year		-	174	-	(81)	-	93
Dividend	C1	-	(182)	-	-	-	(182)
Issue of treasury shares for dividend reinvestment program	C1	-	15	-	-	10	25
Issue of treasury shares for long term incentive scheme	C1	-	-	-	-	1	1
Balance as at 31 December 2023 (unaudited)		378	371	4,235	(161)	(23)	4,800

The 'Other reserves' category includes treasury shares, the foreign currency translation reserve and the share based payment reserve.

CONSOLIDATED CASH FLOW STATEMENT.

For the six months ended 31 December 2023

	Unaudited 6 Months 31 Dec 2023 \$M	Unaudited 6 Months 31 Dec 2022 \$M	Audited 12 Months 30 Jun 2023 \$M
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	1,532	1,332	2,620
Payments to suppliers and related parties	(1,011)	(828)	(1,687)
Payments to employees	(85)	(70)	(147)
Interest received	3	2	3
Interest paid	(63)	(45)	(104)
Taxes paid	(93)	(46)	(107)
Net cash provided by operating activities	283	345	578
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments for acquisition of property, plant and equipment	(132)	(75)	(250)
Payments for acquisition of intangibles	(14)	(15)	(47)
Payments for acquisition of NOW New Zealand	-	(17)	(17)
Distributions received from/(Advances paid to) associates and joint ventures	2	3	6
(Lodgements)/return of prudential deposits	(37)	(5)	37
Net cash (used)/received in investing activities	(181)	(109)	(271)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from borrowings	430	115	509
Repayment of borrowings	(359)	(214)	(544)
Principal repayment of lease liabilities	(9)	(6)	(9)
Proceeds from the sale of treasury shares	-	-	5
Dividends paid	(157)	(143)	(258)
Net cash (used)/received in financing activities	(95)	(248)	(297)
Net increase/(decrease) in cash and cash equivalents held	7	(12)	10
Cash and cash equivalents at the beginning of the period	75	65	65
Cash and cash equivalents at the end of the period	82	53	75
<i>Cash balance comprises:</i>			
Cash balance at the end of the period	82	53	75

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS.

For the six months ended 31 December 2023

GENERAL INFORMATION AND SIGNIFICANT MATTERS.

General information.

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

The Company is incorporated in New Zealand and registered under the Companies Act 1993. It is listed on the NZX Main Board and on the ASX, with foreign exempt listed status. It also has bonds quoted on the NZX debt market. Mercury NZ Limited is an FMC reporting entity under the Financial Markets Conduct Act 2013.

The Company is a mixed ownership model company, majority owned by the Government, bound by the requirements of the Public Finance Act 1989. The liabilities of the Group are not guaranteed in any way by the Government or by any other shareholder.

Basis of preparation.

The unaudited Group financial statements have been prepared:

- in accordance with the Financial Markets Conduct Act 2013, Generally Accepted Accounting Practice in New Zealand ("GAAP"), the New Zealand Equivalent to International Accounting Standard 34 *Interim Financial Reporting* and International Accounting Standard 34 *Interim Financial Reporting*.
- on a historical cost basis, with the exception of certain fair value measurements.
- using the same accounting policies for all reporting periods presented, with the exception of a change in the accounting treatment of unhedged electricity derivatives and FTRs (see Significant Matters).
- in millions of New Zealand dollars, unless otherwise stated.
- exclusive of GST, with the exception of payables and receivables that include GST invoiced.

These Group financial statements, including the accounting policies adopted, do not include all the information and disclosures required in the annual financial statements. Beyond those disclosed below, the Group financial statements have been prepared using the same accounting policies as, and should be read in conjunction with, the Group's annual financial statements for the year ended 30 June 2023.

Estimates and judgements.

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

The areas of significant estimates and judgements are as follows:

- Fair value of generation plant and equipment (refer note B1).
- Valuation of financial instruments (refer note E1).

SIGNIFICANT MATTERS.

Change in accounting treatment of unhedged electricity derivatives.

Consistent with the Group's 2023 annual financial statements, realised gains and losses (settlements) on unhedged derivative contracts for the half year are not reclassified to revenue or expenses and continue to be recognised within the change in fair value of financial instruments in the Consolidated Income Statement. Settlements of unhedged derivatives that occurred in the comparative half year period have not been reclassified or restated in the financial statements as the overall impact is not considered material.

Restatement on presentation of Financial Transmission Rights (FTRs).

Consistent with the Group's 2023 annual financial statements, the presentation of FTRs on the Consolidated Balance Sheet has changed to correctly reflect net settlement. Effects of this change in presentation on the 31 December 2022 comparative Consolidated Balance Sheet are shown in the following table:

CONSOLIDATED BALANCE SHEET.

	Unaudited 31 December 2022 \$M	Adjustments \$M	Restated Unaudited 31 December 2022 \$M
CURRENT ASSETS			
Derivative financial instruments	340	(26)	314
NON-CURRENT ASSETS			
Derivative financial instruments	475	(17)	458
CURRENT LIABILITIES			
Payables and accruals	(303)	26	(277)
Derivative financial instruments	(323)	(1)	(324)
NON-CURRENT LIABILITIES			
Payables and accruals	(19)	19	-
Derivative financial instruments	(499)	(1)	(500)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS.

For the six months ended 31 December 2023

Restatement of a PPA Valuation

An error has been identified in the prior period valuations of a power purchase agreement (PPA) that was acquired in August 2021 as part of the acquisition of Tilt New Zealand assets.

	Consolidated Income Statement		Consolidated Balance Sheet		
	Change in fair value of financial instruments	Tax expense	Reserves	Non-current derivative financial liability	Deferred tax liability
1 July 2022			4,424	400	1,753
Adjustments			5	(7)	2
Restated 1 July 2022			4,429	393	1,755
Unaudited 31 December 2022	55	(76)	4,466	500	1,749
Adjustments	13	(4)	14	(20)	6
Restated 31 December 2022	68	(80)	4,480	480	1,755
30 June 2023	(172)	(39)	4,505	263	1,751
Adjustments	13	(4)	14	(20)	6
Restated 30 June 2023	(159)	(43)	4,519	243	1,757

Accounting standards, interpretations and amendments not yet effective.

There are no other accounting standards that are not yet effective that will have a material impact on the Group's financial statements.

A. FINANCIAL PERFORMANCE

NOTE A1. REVENUE

Mercury earns revenue from the following sources:

Electricity generation

Revenue is received from electricity generated and sold through the wholesale markets and physical power purchase agreements (PPAs). Revenue is recognised at the time of generation and at the spot market or contractual price.

Electricity and gas sales to customers

Electricity and gas sales to customers are recognised when the energy is supplied for customer consumption.

Acquisition incentives such as credits and appliances are offered to new customers and treated as individual performance obligations and a portion of the expected revenue over the life of the total contract is allocated to the performance obligation based on their standalone selling price and recognised immediately. Corresponding contract assets are recognised on the balance sheet and amortised to the income statement over the contract period as the future consideration is billed. Incremental costs to obtain and retain customers are recognised on the balance sheet as contract costs and amortised to the income statement on a straight-line basis over the expected average mass market customer tenure.

Telco revenue

Customers consume mobile and broadband services which are measured and billed according to monthly billing cycles and are recognised when the service has been provided. Acquisition incentives are treated the same as above.

Other Revenue

Revenue is received from:

- Insurance proceeds and external management management fees. Revenue is recognised at the time the insurance proceeds are received and the services have been delivered.
- Sale of emission units sold to third parties. Gain on sale is recognised at the point in time that the emission unit is confirmed as being transferred into the acquirer's emission unit account.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS.

For the six months ended 31 December 2023

A. FINANCIAL PERFORMANCE

NOTE A2. SEGMENT REPORTING

Identification of reportable segments

The operating segments are identified by management based on the nature of the products and services provided. Discrete financial information about each of these operating segments is reported to the Chief Executive, being the chief operating decision-maker, on a monthly basis, who assesses the performance of the operating segments on a measure of EBITDAF. EBITDAF is a non-GAAP measure that is used internally to assess the operating performance of the Group without the impact of non-cash and one-off or infrequent transactions. Segment EBITDAF represents earnings before net interest expense, tax expense, depreciation, amortisation, unrealised change in the fair value of financial instruments, gain/(loss) on disposal and impairments by each segment inclusive of an allocation of central operating revenue and costs. Operating segments are aggregated into reportable segments only if they share similar economic characteristics.

Realised gains or losses (settlements) on unhedged electricity swaps are reported within electricity margin for the purposes of EBITDAF, but are reported within the change in fair value of financial instruments in the income statement. Realised gains or losses (settlements) on hedged electricity swaps are reported within electricity margin for the purposes of EBITDAF, and within revenue or expenses as appropriate in the Consolidated Income Statement. Unrealised gains or losses, on both hedged and unhedged electricity swaps are not included in EBITDAF and are reported in either change in fair value of financial instruments in the income statement or in other comprehensive income. A reconciliation of EBITDAF to profit before tax can be found in the summary table of the note.

Identified segments

Generation/Wholesale

The generation/wholesale market segment encompasses activity associated with the electricity production, electricity trading, generation development activities and the company's share of associates earnings in TPC Holdings Limited (see note D1). It also includes revenue from the sale of electricity, to both commercial & industrial customers and the retail segment, net settlement of energy hedges and sale of trading emissions units to third parties.

Retail

The retail market segment encompasses activity associated with sale of electricity, gas, telecommunication products/services and other related products and services to mass market customers in New Zealand.

Other

Represents corporate support services which are not directly attributable to the generation/wholesale or retail segments and the company's share of associates earnings in EnergySource LLC and EnergySource Minerals LLC.

Inter-segment

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

Changes in presentation

The segment note presentation has been updated in both the current and comparative periods to align with current management reporting. Notable changes are (a) the separation of derivatives from generation revenue and (b) the condensed reporting of electricity revenue, costs and margin.

SEGMENT RESULTS

Six months ended 31 December 2023 (Unaudited)	Generation/ Wholesale \$M	Retail \$M	Other \$M	Inter-segment \$M	Total \$M
Generation	573	-	-	-	573
Sales to Customers	226	669	-	-	895
Inter-segment sales	325	-	-	(325)	-
Derivatives	39	-	-	-	39
Electricity purchases	(534)	(325)	-	325	(534)
Transmission, distribution and metering	(73)	(289)	-	-	(362)
ELECTRICITY MARGIN	556	55	-	-	611
Gas Revenue	-	54	-	-	54
Gas purchases	-	(17)	-	-	(17)
Transmission, distribution and metering	-	(23)	-	-	(23)
GAS MARGIN	-	14	-	-	14
Telco Revenue	-	85	-	-	85
Cost of sales	-	(60)	-	-	(60)
TELCO MARGIN	-	25	-	-	25
Other direct cost of sales	(11)	(21)	-	-	(32)
TRADING MARGIN	545	73	-	-	618
Other Income	5	2	-	-	7
Employee compensation and benefits	(29)	(47)	(11)	-	(87)
Maintenance expenses	(31)	(8)	-	-	(39)
Other expenses	(30)	(25)	(10)	-	(65)
Allocation of corporate overheads	(6)	(15)	21	-	-
Total operating expenses	(96)	(95)	-	-	(191)
Segment EBITDAF	454	(20)	-	-	434
Summary and reconciliation to net profit before tax					
Revenue	1,120	810	-	(325)	1,605
Expenses	(709)	(830)	-	325	(1,214)
Realised gain/(loss) on unhedged electricity swaps	45	-	-	-	45
Share of profit/(loss) from associates and joint ventures	(2)	-	-	-	(2)
Segment EBITDAF	454	(20)	-	-	434
Change in fair value of carbon units held for trading					32
Unrealised gain/(loss) on unhedged derivatives and hedge ineffectiveness through income statement					20
Interest income					3
Interest expense					(66)
Depreciation and amortisation					(178)
Profit before tax					245

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS.

For the six months ended 31 December 2023

	Generation/ Wholesale	Retail	Other	Inter- segment	Total
Restated twelve months ended 30 June 2023 (Audited)	\$M	\$M	\$M	\$M	\$M
Generation	766	-	-	-	766
Sales to Customers	442	1,206	-	-	1,648
Inter-segment sales	529	-	-	(529)	-
Derivatives	59	-	-	-	59
Electricity purchases	(656)	(529)	-	529	(656)
Transmission, distribution and metering	(119)	(531)	-	-	(650)
ELECTRICITY MARGIN	1,021	146	-	-	1,167
Gas Revenue	-	89	-	-	89
Gas purchases	-	(29)	-	-	(29)
Transmission, distribution and metering	-	(41)	-	-	(41)
GAS MARGIN	-	19	-	-	19
Telco Revenue	-	155	-	-	155
Cost of sales	-	(105)	-	-	(105)
TELCO MARGIN	-	50	-	-	50
Other direct cost of sales	(35)	(38)	-	-	(73)
TRADING MARGIN	986	177	-	-	1,163
Other Income	21	1	2	-	24
Employee compensation and benefits	(46)	(84)	(18)	-	(148)
Maintenance expenses	(54)	(16)	-	-	(70)
Other expenses	(54)	(62)	(12)	-	(128)
Allocation of corporate overheads	(9)	(21)	30	-	-
Total operating expenses	(163)	(183)	-	-	(346)
Segment EBITDAF	844	(5)	2	-	841
Summary and reconciliation to net profit before tax					
Revenue	1,809	1,450	-	(529)	2,730
Expenses	(973)	(1,456)	-	529	(1,900)
Realised gain/(loss) on unhedged electricity swaps	6	-	-	-	6
Share of profit/(loss) from associates and joint ventures	2	1	2	-	5
Segment EBITDAF	844	(5)	2	-	841
Gain/(loss) on disposal					12
Impairment					(12)
Revaluation loss of generation assets					(41)
Change in fair value of carbon units held for trading					(36)
Unrealised gain/(loss) on unhedged derivatives and hedge ineffectiveness through income statement					(165)
Interest income					3
Interest expense					(103)
Depreciation and amortisation					(344)
Profit before tax					155

	Generation/ Wholesale	Retail	Other	Inter- segment	Total
Restated six months ended 31 December 2022 (Unaudited)	\$M	\$M	\$M	\$M	\$M
Generation	307	-	-	-	307
Sales to Customers	210	621	-	-	830
Inter-segment sales	44	-	-	-	44
Derivatives	271	-	-	(271)	-
Electricity purchases	(248)	(271)	-	271	(248)
Transmission, distribution and metering	(58)	(269)	-	-	(327)
ELECTRICITY MARGIN	526	81	-	-	607
Gas Revenue	-	46	-	-	46
Gas purchases	-	(17)	-	-	(17)
Transmission, distribution and metering	-	(21)	-	-	(21)
GAS MARGIN	-	8	-	-	8
Telco Revenue	-	65	-	-	65
Cost of sales	-	(46)	-	-	(46)
TELCO MARGIN	-	19	-	-	19
Other direct cost of sales	(14)	(15)	(1)	-	(30)
TRADING MARGIN	512	93	(1)	-	604
Other income	5	2	-	-	7
Employee compensation and benefits	(22)	(40)	9	-	(71)
Maintenance expenses	(23)	(8)	-	-	(31)
Other expenses	(27)	(26)	(5)	-	(58)
Allocation of corporate overheads	(4)	(10)	14	-	-
Total operating expenses	(76)	(84)	-	-	(160)
Segment EBITDAF	441	11	(1)	-	451
Summary and reconciliation to net profit before tax					
Revenue	837	734	-	(271)	1,300
Expenses	(395)	(723)	-	271	(848)
Realised gain/(loss) on unhedged electricity swaps	-	-	-	-	-
Share of profit/(loss) from associates and joint ventures	-	-	(1)	-	(1)
Segment EBITDAF	441	11	(1)	-	451
Gain/(loss) on disposal					11
Change in fair value of carbon units held for trading					(3)
Unrealised gain/(loss) on unhedged derivatives and hedge ineffectiveness through income statement					68
Interest income					2
Interest expense					(49)
Depreciation and amortisation					(161)
Profit before tax					319

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS.

For the six months ended 31 December 2023

B. OPERATING ASSETS

NOTE B1. PROPERTY, PLANT AND EQUIPMENT

	Unaudited 6 Months 31 Dec 2023	Unaudited 6 Months 31 Dec 2022	Audited 12 Months 30 Jun 2023
	\$M	\$M	\$M
Opening net book value	8,099	8,080	8,080
Additions	134	41	246
Additions in relation to the acquisition of NOW New Zealand assets	-	4	4
Disposals	-	-	(7)
Gain on revaluation	-	-	110
Loss on revaluation	-	-	(41)
Depreciation charge for the year	(153)	(146)	(293)
Closing net book value	8,080	7,979	8,099

Property, plant and equipment includes \$102m of right-of-use assets (30 June 2023: \$87m, 31 December 2022: \$92m).

ASSETS CARRYING VALUES

All assets, except generation plant and equipment, are recognised at cost less accumulated depreciation. Fixed assets, excluding land, are depreciated on a straight line basis over their expected useful lives.

Generation plant and equipment is originally recognised at cost and subsequently measured at fair value less accumulated depreciation. An independent valuation is completed annually to determine the fair value of these assets.

Assets carried at fair value

All generation assets shown at valuation were revalued using a net present value methodology by PricewaterhouseCoopers, an independent valuer, as at 30 June 2023.

AREA OF KEY JUDGEMENT

Generation asset valuation

The key assumptions used in the valuation include the forecast of the future wholesale electricity price path, generation volumes, projected operational and capital expenditure and asset life assumptions and discount rates. In all cases there is an element of judgement required as valuations make use of unobservable inputs. The valuation also assumes the on-going operation of New Zealand Aluminium Smelter Limited at Tiwai Point, no material changes to the wholesale market regulatory regime, hydro and geothermal fuel supply being sustained over the modelled horizon and no material changes to generation consent conditions.

Generation assets are classified as level three in the fair value hierarchy due to the use of non-market observable inputs in the valuation. Keeping all other valuation inputs constant, the valuation is most sensitive to future wholesale electricity price path and discount rate. A review of the key inputs used in the valuation of generation assets as at 30 June 2023, indicates that there has been no material change in the fair value of the generation assets as at 31 December 2023.

NOTE B2. INTANGIBLE ASSETS

	Unaudited 6 Months 31 Dec 2023	Unaudited 6 Months 31 Dec 2022	Audited 12 Months 30 Jun 2023
	\$M	\$M	\$M
Opening net book value	138	123	123
Additions	17	8	47
Additions in relation to the acquisition of NOW Broadband New Zealand	-	40	41
Impairment	-	-	(13)
Surrendered units	(2)	-	(9)
Amortisation for the year	(25)	(15)	(51)
Closing net book value	127	156	138

Intangible assets consist of software, acquired intangible assets (NOW customer list), rights (mainly land access rights), and carbon units held for settling emissions obligations. All intangible assets are deemed to have a finite useful life.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS.

For the six months ended 31 December 2023

C. FUNDING

NOTE C1. SHARE CAPITAL AND DISTRIBUTION

The share capital of the Company is represented by 1,400,012,517 ordinary shares (30 June 2023: 1,400,012,517) issued and fully paid. The weighted average number of shares on issue during the six months ended 31 December

2023, on both a basic and diluted basis, was 1,388,968,889 (31 December 2022: 1,383,877,786). 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 2023 Number of shares (M)	Unaudited 31 Dec 2023 \$M	Unaudited 31 Dec 2022 Number of shares (M)	Unaudited 31 Dec 2022 \$M	Audited 30 Jun 2023 Number of shares (M)	Audited 30 Jun 2023 \$M
Treasury shares						
Balance at the beginning of the period	13	34	19	50	19	50
Issue of treasury shares for dividend reinvestment program	(4)	(10)	(5)	(12)	(5)	(13)
Issue of treasury shares for long term incentive scheme	-	(1)	-	-	-	-
Sale of treasury shares	-	-	-	-	(1)	(3)
Balance at the end of the period	9	23	14	38	13	34

Treasury shares were issued during the interim period for the following purposes:

- The dividend reinvestment program (DRP) continued in September 2023 with the transfer of 4,059,057 shares (30 June 2023: 4,734,460, 31 December 2022: 3,949,542) to shareholders that elected to reinvest the net proceeds of cash dividends payable; and
- A total of 375,302 treasury shares worth \$1m were issued for management long term incentive (LTI) payments (30 June 2023: 214,106 shares, 31 December 2022: 214,106 shares).

	Cents per share	Unaudited 31 Dec 2023 \$M	Restated Unaudited 31 Dec 2022 \$M	Restated Audited 30 Jun 2023 \$M
Dividends declared and paid				
Final dividend for 2022	12.0	-	166	166
Interim dividend for 2023	8.7	-	-	120
Final dividend for 2023	13.1	182	-	-
		182	166	286
Earnings per share				
Profit for the year attributable to owners of the parent (\$m)		174	239	112
Weighted average ordinary shares		1,400	1,400	1,400
Less weighted average treasury shares		(11)	(16)	(15)
Weighted average ordinary shares for earnings per share (millions)		1,389	1,384	1,385
Basic and diluted earnings per share (cents)		12.53	17.30	8.11

NOTE C2. BORROWINGS

	Borrowing Currency Denomination	Maturity	Coupon	Unaudited 6 Months 31 Dec 2023 \$M Carrying amount	Unaudited 6 Months 31 Dec 2022 \$M Carrying amount	Audited 12 Months 30 Jun 2023 \$M Carrying amount
Debt measured at amortised cost						
Bank facilities	NZD	Various	Floating	130	130	57
Commercial paper programme	NZD	< 3 months	Floating	298	288	300
Capital bonds - MCY020	NZD	Jul-2049	3.60%	302	302	302
Debt in fair value hedge relationships						
Wholesale bonds	NZD	Mar-2023	5.79%	-	25	-
USPP - US\$45m	USD	Dec-2025	4.60%	69	68	70
Green retail bonds - MCY040	NZD	Sept-2026	2.16%	185	176	179
Green retail bonds - MCY030	NZD	Sept-2027	1.56%	180	168	172
Green retail bonds - MCY060	NZD	Jun-2028	5.64%	173	-	156
Green wholesale bonds	AUD	Nov-2028	2.92%	195	188	193
Green wholesale bonds	NZD	Oct-2030	1.92%	129	116	119
Capital bonds - MCY050	NZD	May-2052	5.73%	250	244	245
Lease liabilities				121	117	113
Deferred financing costs				(12)	(8)	(8)
Total carrying value of loans				2,020	1,814	1,898
Current				453	462	375
Non-current				1,567	1,352	1,523
				2,020	1,814	1,898

Current borrowings include all drawn bank facilities, borrowings with a contractual maturity of less than one year, accrued interest (\$12m) and current lease liabilities (\$13m). Undrawn borrowing facilities at 31 December 2023 totalled \$220m, net of Commercial Paper on issue. Fair value adjustment as at 31 December 2023 totalled \$45m decrease to carrying amount (30 June 2023: \$84m, 31 December 2022: \$109m).

NOTE C3. NET INTEREST EXPENSE

	Unaudited 6 Months 31 Dec 2023 \$M	Unaudited 6 Months 31 Dec 2022 \$M	Audited 12 Months 30 Jun 2023 \$M
Interest expense on borrowings	65	46	101
Interest expense on lease liabilities	2	3	6
Unwind of discount on provisions	2	2	3
Less capitalised interest	(3)	(3)	(9)
Total interest expense	66	48	101
Interest income	(3)	(2)	(3)
Net interest expense	63	46	98

The Group is capitalising interest costs related to the construction of new generation assets. The average rate used to determine the amount of borrowing costs eligible for capitalisation as at 31 December 2023 was 6.42% (30 June 2023 6.28%).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS.

For the six months ended 31 December 2023

NOTE C4. COMMITMENTS AND CONTINGENCIES

	Unaudited 6 Months 31 Dec 2023	Unaudited 6 Months 31 Dec 2022	Audited 12 Months 30 Jun 2023
	\$M	\$M	\$M
Capital commitments	322	327	201

Capital commitments

Capital commitments include purchases of both property, plant and equipment (PP&E) and intangibles. PP&E commitments include contracts for refurbishment of hydro generation assets at Karāpiro, contracts for construction of an additional geothermal OEC unit at Ngā Tamariki and geothermal drilling campaigns across the Kawerau, Ngā Tamariki and Rotokawa fields. Intangible commitments are contracts to purchase New Zealand emissions trading scheme (NZ ETS) units. In the event the NZ ETS is terminated the existing purchase agreements, which cover the four year period from the end of the reporting period, will also terminate.

Operating commitments

As part of its day-to-day operations, the Group from time to time enters various operating arrangements and commitments with third parties to support and enhance the Group's long-term licence to operate, provide access to land, and use of natural resources. These operating arrangements may be short-, medium-, or long-term in nature.

Contingencies

On 7 June 2021, the Kawerau geothermal power station experienced an unplanned outage as a result of a mechanical failure. An outage was completed in June 2023 to install replacement equipment. The Group received an initial payment of \$26m recorded as income in 2022, and expects to receive additional insurance proceeds in second half of the 2024 financial year once the total loss to the Group as a result of the incident has been confirmed. It is not currently practical to estimate the value of additional insurance receipts, therefore no additional revenue is recognised.

The Group holds land and has interests in fresh water and geothermal resources that are subject to claims that have been brought against the Crown. The Group discloses these claims as contingent liabilities as the value, timing and likelihood of the claims being successful are all uncertain.

The Pouakani Claims Trust No 2 and a group of kaumatua have filed a claim in the Māori Land Court seeking a declaration that certain parts of the Waikato riverbed on which Mercury operates hydro assets are Māori customary land, including the riverbed beneath the Whakamaru, Maraetai I and II and Waipapa dams and certain related powerstations. The claim has been amended to include interests in the water flowing over the riverbed. Mercury holds the fee simple or beneficial title to those parts of Waikato riverbed beneath the Whakamaru, Maraetai I and II and Waipapa dams, and has received advice that if the outcome of the claim adversely affects the Group's title to, or ability to access or operate its hydro assets, Mercury may bring a claim seeking compensation against the Crown. The claim is currently subject to a judicial review challenge to the Māori Land Court's decision to decline Mercury's application to strike out parts of the claim. Mercury's judicial review was partially successful in the High Court. The High Court decision has been appealed by the applicants, the Crown and Mercury. The applicants have also filed a related claim in the Waitangi Tribunal pursuant to the Treaty of Waitangi Act 1975, but have not yet taken any further steps in relation to that claim.

The Group holds land at Maraetai, Waikato that was subject to a remedies hearing brought against the Government in the Waitangi Tribunal. The remedies hearing related to an application seeking binding recommendations for the resumption of land at Pouakani, including the Group's land at Maraetai. The Crown and Ngāti Kahungunu ki Wairarapa Tāmaki nui-ā-Rua Settlement Trust signed a settlement deed addressing the resumption claim, and settlement legislation has now been enacted to bring this claim to an end. Wairarapa Moana Incorporation has issued a further claim against the Crown claiming the Ngāti Kahungunu ki Wairarapa Tāmaki nui-ā-Rua settlement breaches the New Zealand Bill of Rights Act 1990. Mercury is not a party to this claim. Mercury has received advice that if a resumption claim succeeded, Mercury would have rights of recourse against the Crown for compensation as if the property had been taken under the Public Works Act 1981.

A separate claim by the New Zealand Māori Council relating to fresh water and geothermal resources was lodged in 2012 with the Waitangi Tribunal. The Tribunal concluded that Māori have residual (but as yet undefined) proprietary rights in fresh water and geothermal resources and it will be for the Government to determine how any such rights and interests may best be addressed. The Tribunal has recently indicated it intends to hear stage three of that inquiry in 2024, and the inquiry is currently at the interlocutory (pre-hearing) phase. The impact of this claim on the Group's operations, and consequently the amount of any claim or recourse the Group may have should that impact be adverse to the Group's interests, are unknown at this time.

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

The Group has no other material contingent assets or liabilities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS.

For the six months ended 31 December 2023

D. GROUP STRUCTURE

NOTE D1. INVESTMENTS IN AND ADVANCES TO ASSOCIATES AND JOINT ARRANGEMENTS (JOINT VENTURES AND JOINT OPERATIONS)

The Group financial statements include the following:

Interest held						
Name of entity	Principal activity	Type	Unaudited 31 Dec 2023	Unaudited 31 Dec 2022	Audited 30 Jun 2023	Country
TPC Holdings Limited	Investment holding	Associate ¹	25.00%	25.00%	25.00%	New Zealand
Rotokawa	Steamfield operation	Joint operation	64.80%	64.80%	64.80%	New Zealand
Ngā Awa Pūrua	Electricity generation	Joint operation	65.00%	65.00%	65.00%	New Zealand
EnergySource LLC	Investment holding	Joint venture ¹	20.86%	20.86%	20.86%	United States
EnergySource Minerals LLC	Mineral extraction	Joint venture ¹	17.73%	18.41%	18.41%	United States

¹ Associates and joint ventures are equity accounted.

	Associates:			Joint ventures:		
	Unaudited 6 Months 31 Dec 2023	Unaudited 6 Months 31 Dec 2022	Audited 12 Months 30 Jun 2023	Unaudited 6 Months 31 Dec 2023	Unaudited 6 Months 31 Dec 2022	Audited 12 Months 30 Jun 2023
	\$M	\$M	\$M	\$M	\$M	\$M
Balance at the beginning of the year	72	67	67	8	6	6
Additional investment during the year	-	-	-	-	3	3
Share of earnings	(2)	(1)	4	-	-	2
Share of movement in other comprehensive income and reserves	(2)	5	11	-	-	-
Distributions received during the year	(2)	(3)	(6)	-	(3)	(3)
Reclassification to subsidiary	-	(16)	(16)	-	-	-
Fair value revaluation during the year	-	11	12	-	-	-
Balance at the end of the year	66	63	72	8	6	8

NOTE D2. RELATED PARTY TRANSACTIONS

Majority shareholder

The majority shareholder of Mercury NZ Limited is the Government. Transactions cover a variety of services including energy, postal, travel and tax.

Transactions with related parties

The Group entered into a number of contracts with other Crown-controlled entities to hedge against wholesale electricity price risk, the most significant being a virtual asset swap with Meridian Energy Limited which has a remaining life of two years and a contract for difference with Genesis Energy Limited for generation produced at the Waipipi wind farm.

Mercury NZ Limited also 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 2023	Unaudited 6 Months 31 Dec 2022	Audited 12 Months 30 Jun 2023
	\$M	\$M	\$M
Associates			
• Management fees and service agreements received	13	10	18
• Energy contract settlements (paid)/received	9	(3)	2
• Service fees (paid)/received	-	(3)	(3)
Joint operations			
• Management fees and service fees received and paid	11	10	21
• Energy contract settlements (paid)/received	-	1	-
• Interest income	-	-	1

On 15 December 2022, Mercury NZ Limited acquired the remaining 52% interest in NOW Broadband ("NOW"). After this acquisition date, NOW ceased to be an associate of the Group. The service fees disclosed during the two comparative reporting periods are related to transactions with NOW during the period it was an associate of Mercury NZ Limited.

An advance to TPC Holdings Limited of \$4m (30 June 2023: \$4m, 31 December 2022: \$4m) is interest free and is repayable on demand subject to certain conditions being met.

The long-term advance to our Rotokawa Joint Venture partner of \$3m (30 June 2023: \$4m, 31 December 2022: \$4m) carries a floating interest rate. Repayments under the advance are linked to the level of receipts under the geothermal energy supply agreement. There is no fixed repayment date; the agreement will terminate on receipt of any outstanding balances.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS.

For the six months ended 31 December 2023

NOTE D2. RELATED PARTY TRANSACTIONS (CONTINUED)

	Transaction value		
	Unaudited 6 Months 31 Dec 2023 \$000	Unaudited 6 Months 31 Dec 2022 \$000	Audited 12 Months 30 Jun 2023 \$000
Key management personnel compensation (paid and payable) comprised:			
Directors' fees	579	577	1,101
Benefits for the Chief Executive and Senior Management:			
• Salary and other short-term benefits	4,084	3,673	7,044
• Termination benefits	312	-	-
• Share-based payments	428	416	680
	5,403	4,666	8,825

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.

Some Directors also provide directorship services to other third party entities.

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS.

For the six months ended 31 December 2023

E. RISK

NOTE E1. DERIVATIVE FINANCIAL INSTRUMENTS

The Group uses a range of derivative contracts in order to manage risk and hedge against cash flow and fair value volatility. It is the Group's policy to apply hedge accounting to reduce volatility in profit or loss, and where possible, derivatives are designated into hedging relationships under NZ IFRS 9 as either cash flow or fair value hedges.

Interest rate and cross currency interest rate derivatives

Interest rate swaps and cross currency derivatives are used to manage interest rate risks. Interest rate swaps where we pay-fixed, and receive-floating interest rates are designated as cash flow hedges in a relationship with a portion of floating rate debt exposure. Interest rate swaps where we receive-fixed, pay-floating interest rate are designated as fair value hedges in a relationship with the swap rate on fixed rate bonds. Cross currency swaps are designated as both fair value and cash flow hedge relationships with the USPP and Australian denominated Green wholesale bond (refer note C2) depending on the component of the debt being hedged: the risk free (swap) rate as a fair value hedge; and the credit margin as cash flow hedge.

Foreign exchange derivatives

Foreign exchange forward contracts are designated as cash flow hedges in a relationship with forecast purchases of inventory and capital equipment, mainly for maintenance and construction of generation assets.

Electricity contracts

Where possible, electricity price derivatives are designated as cash flow hedges in a relationship with forecast electricity sales and purchases. Exceptions are swaps and options used for trading (electricity futures, options and financial transmission rights) as well as other contracts that have been deemed not eligible for hedge accounting due to price reset mechanisms or variable volume structures (e.g. wind and solar power purchase agreements).

The fair values of derivative financial instruments are summarised below:

	Unaudited 6 Months 31 Dec 2023 \$M	Restated Unaudited 6 Months 31 Dec 2022 \$M	Restated Audited 12 Months 30 Jun 2023 \$M
CURRENT ASSETS			
Electricity price derivative	256	290	190
Interest rate derivative	7	24	11
Cross currency interest rate derivative	-	-	-
Foreign exchange derivative	-	-	-
	263	314	201
CURRENT LIABILITIES			
Electricity price derivative	210	275	133
Interest rate derivative	38	38	44
Cross currency interest rate derivative	8	8	9
Foreign exchange derivative	8	2	-
	264	323	186
NON-CURRENT ASSETS			
Electricity price derivative	170	439	224
Interest rate derivative	7	9	6
Cross currency interest rate derivative	12	10	13
	189	458	243
NON-CURRENT LIABILITIES			
Electricity price derivative	161	360	160
Interest rate derivative	61	105	73
Cross currency interest rate derivative	8	15	10
	230	480	243
	Unaudited 6 Months 31 Dec 2023 \$M	Restated Unaudited 6 Months 31 Dec 2022 \$M	Restated Audited 12 Months 30 Jun 2023 \$M
Change in fair value of financial instruments			
Realised gain/(loss) on unhedged electricity swaps	45	-	6
Unrealised gain/(loss) on unhedged derivatives and hedge ineffectiveness through income statement	20	68	(165)
Change in fair value of derivative financial instruments per P&L	65	68	(159)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS.

For the six months ended 31 December 2023

NOTE E1. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

AREA OF KEY JUDGEMENT

FAIR VALUE ESTIMATION

Valuation techniques

All fair value balances are assigned to a fair value hierarchy level as defined by NZ IFRS 13 *Fair Value Measurement*. No transfers occurred between hierarchy levels in the period ended 31 December 2023.

The following table provides a breakdown of the fair value of derivatives by the source of key valuation inputs:

31 December 2023	Quoted market price	Market observable inputs	Non-market observable inputs	Total
Valuation technique	Level 1	Level 2	Level 3	
Financial assets	\$M	\$M	\$M	\$M
Derivative instruments				
• Electricity price derivatives	26	-	400	426
• Interest rate derivatives	-	14	-	14
• Cross currency interest rate derivatives	-	12	-	12
	26	26	400	452
Financial liabilities				
Derivative instruments				
• Electricity price derivatives	51	-	320	371
• Interest rate derivatives	-	99	-	99
• Cross currency interest rate derivatives	-	16	-	16
• Foreign exchange rate derivatives	-	8	-	8
	51	123	320	494
Net financial asset/(liability)	(25)	(97)	80	(42)

Restated 30 June 2023	Quoted market price	Market observable inputs	Non-market observable inputs	Total
Valuation technique	Level 1	Level 2	Level 3	
Financial assets	\$M	\$M	\$M	\$M
Derivative instruments				
• Electricity price derivatives	33	-	381	414
• Interest rate derivatives	-	17	-	17
• Cross currency interest rate derivatives	-	13	-	13
	33	30	381	444
Financial liabilities				
Derivative instruments				
• Electricity price derivatives	45	-	248	293
• Interest rate derivatives	-	117	-	117
• Cross currency interest rate derivatives	-	19	-	19
	45	136	248	429
Net financial asset/(liability)	(12)	(106)	133	15

Restated 31 December 2022	Quoted market price	Market observable inputs	Non-market observable inputs	Total
Valuation technique	Level 1	Level 2	Level 3	
Financial assets	\$M	\$M	\$M	\$M
Derivative instruments				
• Electricity price derivatives	14	-	715	729
• Interest rate derivatives	-	33	-	33
• Cross currency interest rate derivatives	-	10	-	10
	14	43	715	772
Financial liabilities				
Derivative instruments				
• Electricity price derivatives	59	-	576	635
• Interest rate derivatives	-	143	-	143
• Cross currency interest rate derivatives	-	23	-	23
• Foreign exchange rate derivatives	-	2	-	2
	59	168	576	803
Net financial asset/(liability)	(45)	(125)	139	(31)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS.

For the six months ended 31 December 2023

NOTE E1. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

Valuation of level 1 financial instruments

Level 1 financial derivatives includes ASX futures and financial transmission rights with fair values determined using quoted prices. These prices represent regularly occurring market transactions on an orderly basis.

Valuation of level 2 financial instruments

The fair values of Level 2 derivatives are determined using discounted cash flow models. Listed below are the Level 2 derivatives and the key inputs to the valuation model.

Derivative	Valuation Input
Cross Currency Interest Rate Swaps (CCIRS)	Forward interest rate price curve and foreign exchange rate curve
Interest Rate Swaps	Forward interest rate curve
Foreign Exchange Contract	Forward foreign exchange rate curves

Valuation of level 3 financial instruments

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

	Unaudited 6 Months 31 Dec 2023	Unaudited 6 Months 31 Dec 2022	Audited 12 Months 30 Jun 2023
Price path	\$85/MWh to \$188/MWh	\$76/MWh to \$214/MWh	\$73/MWh to \$153/MWh
Discount factor	10.3% to 3.5%	16.7% to 4.5%	12.0% to 4.0%

The wide range in discount factors are driven by entering into longer term derivative contracts. Forward electricity spot prices in the front end of the curve in HY23 were higher, driven by futures price, thus resulting in a higher maximum price of \$214/MWh in HY23 compared to \$188/MWh in HY24.

The selection of valuation 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 unrealised fair value movements

The unrealised Level 3 fair value movements in the Group's Consolidated Income Statement are recognised within 'change in the fair value of financial instruments', along with realised gains/losses on financial instruments not in a hedging relationship.

	Fair value through other comprehensive income			Fair value through profit or loss		
	Unaudited 6 Months 31 Dec 2023	Unaudited 6 Months 31 Dec 2022	Audited 12 Months 30 Jun 2023	Unaudited 6 Months 31 Dec 2023	Unaudited 6 Months 31 Dec 2022	Audited 12 Months 30 Jun 2023
	\$M	\$M	\$M	\$M	\$M	\$M
Opening balance sheet position	(78)	(257)	(257)	211	358	358
Acquired contracts	-	-	-	-	-	-
New contracts	(4)	(9)	23	-	(1)	10
Matured contracts	(6)	18	66	(6)	4	17
Gains and losses	-	-	-	-	-	-
Through the income statement	-	-	-	38	81	(175)
Through other comprehensive income	(76)	(55)	90	-	-	-
Closing balance sheet position	(164)	(303)	(78)	244	442	211

Sensitivity of level 3 fair value measurements

The Group uses unobservable inputs to measure the fair value of Level 3 electricity derivatives. These inputs are most sensitive to changes in electricity forward prices. These electricity price derivatives are in a net asset position on the balance sheet. The Group has a net exposure that if there was an increase in the forward price would likely result in an increase in fair value of the Consolidated Balance Sheet, and a decrease in the forward price would likely result in a decrease in fair value.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS.

For the six months ended 31 December 2023

NOTE E1. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

Deferred 'inception' gains/(losses) on level 3 derivatives

There is a presumption that when derivative contracts are entered into at an arm's length basis that the fair value at inception is zero. The contract price of non exchange traded electricity derivative contracts are agreed on a bilateral basis, the pricing for which may differ from the prevailing derived market price curve for a variety of reasons. In these circumstances an inception adjustment is made to bring the initial fair value of the contract to zero at inception. This inception adjustment is amortised over the life of the contract by adjusting the future price path used to determine the fair value of the derivatives by a constant amount to return the initial fair value to zero.

The table below details the movements in inception value gains/(losses) included in the fair value of derivative financial assets and liabilities as at 31 December 2023:

	Unaudited 6 Months 31 Dec 2023 \$M	Unaudited 6 Months 31 Dec 2022 \$M	Audited 12 Months 30 Jun 2023 \$M
Electricity price derivatives			
Opening deferred inception gains/(losses)	39	26	26
Deferred inception gains/(losses) on new hedges	12	21	17
Deferred inception(losses)/gains realised during the year	(5)	-	(4)
Closing inception gains/(losses)	46	47	39

F. OTHER

NOTE F1. SUBSEQUENT EVENTS AND OTHER MATTERS

The Board of Directors has approved a fully imputed interim dividend of 9.3 cents per share to be paid on 2 April 2024. The Group plans to continue with the DRP announced in FY2022, with a DRP strike price to be determined by the average of daily volume weighted average sale price for a share, calculated on all price setting trades of shares that took place through the NZX Main Board over a period of five trading days starting on 18 March 2024, less a 2% discount.

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

INFORMATION FOR SHAREHOLDERS.

Shareholder enquiries

You can view your investment portfolio, change your address, supply your email, update your details or payment instructions online: www.investorcentre.com/nz. You will need your CSN and FIN to access this service.

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

Investor information

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

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

Electronic shareholder communication

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

- Online at www.investorcentre.com/nz by using your CSN and FIN (when you log in for the first time). Select 'My Profile' and 'Communication Preferences' to update your details, or;
- By contacting Computershare Investor Services Limited (see Directory for contact details).

DIRECTORY.

Board of Directors

Scott St John, Chair
Mark Binns
Hannah Hamling
Adrian Littlewood
James Miller
Susan Peterson
Mike Taitoko
Lorraine Witten

Executive Management Team

Vince Hawksworth, Chief Executive
Lucie Drummond, Executive GM Sustainability
Phil Gibson, Executive GM Portfolio
Stewart Hamilton, Executive GM Generation
William Meek, Chief Financial Officer
Craig Neustroski, Executive GM Customer
Fiona Smith, Executive GM People
Experience & Technology

Company Secretary

Howard Thomas,
General Counsel and Company Secretary

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Bankers

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ASB Bank
Bank of China
Bank of New Zealand
China Construction Bank
Commonwealth Bank of Australia
Industrial and Commercial Bank of China
MUFG Bank
Mizuho Bank
Westpac

Credit Rating (re-affirmed December 2023)

Long-term: BBB+
Outlook: Stable

Share Registrar – New Zealand

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