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NEWS RELEASE

Investment in increased scale, higher generation drive Mercury results

HY23 Financial Results Summary

	HY2023	HY2022	Change %
EBITDAF ($M)	451	242	86%
NET PROFIT AFTER TAX ($M)	230	427	-46%
UNDERLYING EARNINGS AFTER TAX ($M)	182	104	75%
STAY-IN-BUSINESS CAPITAL EXPENDITURE ($M)	31	20	55%
ELECTRICITY GENERATION (GWh)	4,817	3,745	29%
INTERIM FULLY IMPUTED ORDINARY DIVIDEND (CENTS PER SHARE) – TO BE PAID ON 3 APRIL 2023	8.7	8.0	9%

21 February 2023 – Significant investment to increase scale and strong generation underpinned Mercury's financial results for the six months to 31 December 2022.

Hydro production was up 852GWh to 2,735GWh after Lake Taupō experienced its highest ever inflows for the July to December period. Wind production was also notably higher (up 201GWh to 788GWh), reflecting a full six months of generation across Mercury's wind farms including from the newly commissioned Turitea North wind farm.

"Wet weather has defined the period, in sharp contrast to a dry FY2022. In addition to producing the highest hydro generation volume in our company's history, another 675GWh was spilled to maintain lakes within Resource Consent operating limits," said Mercury Chief Executive Vince Hawksworth.

The result also reflects a significantly larger retail business, primarily due to completion of the Trustpower retail acquisition in May 2022 and a full six-month contribution at increased scale. Mercury also acquired the outstanding shares in the broadband company NOW NZ in December 2022.

"Mercury is a much larger business than it was this time last year, and it shows strongly in our result. We added 440,000 more connections from those two transactions alone," said Mr Hawksworth.

The company has recently embarked on a major period of growth, having spent more than $1.7b acquiring Tilt Renewables' New Zealand operations in 2021, Trustpower's retail business in 2022 and building New Zealand's biggest windfarm at Turitea.

While operating earnings (EBITDAF) were up $223m to $451m for the period, net profit was down $197m to $230m with the previous period including the one-off net gain made from the sale of Mercury's shareholding in Tilt Renewables when Mercury acquired Tilt's NZ operations in August 2021.

The early exit of a long-term hedge with Norske Skog in HY2022, which reduced revenue by $65m in that period, also contributed to the lift in EBITDAF in HY2023.

Operational expenditure was $54m higher than the prior comparable period while stay-in-business capital expenditure was up $11m, reflecting increased scale and activity across the business.

RECENT WEATHER EVENTS

While the country's generating assets were largely undamaged by recent weather events, the scale of destruction for distribution and lines networks has been significant.

"Resilience of critical infrastructure needs to be one of New Zealand's biggest priorities. We know that weather events will become increasingly severe, and we need to adapt," said Mercury Chair Prue Flacks.

"Keeping the lights on for New Zealanders is a collective goal and so collective action will be vital. Whole-of-system thinking about the investment and delivery of critical infrastructure is our best hope for a reliable and affordable system in an uncertain future.

"This has undoubtedly been a challenging time, and our thoughts are with those impacted by the devastation caused. Across the country many people have lost access to electricity and telecommunications, which has been hugely disruptive."

"Like all of New Zealand, we responded quickly to support our customers and communities. Our team have been making welfare calls, providing financial support to those who are worst affected and staying connected to communities to help hard-to-reach customers where possible.

DELIVERING THROUGH HEADWINDS

Both the retail and generation business encountered significant headwinds over the period including an inflationary environment, access to technology and a tight labour market.

"These challenges are not confined to Mercury alone, with businesses around New Zealand facing similar challenges. We expect these to continue into the future and have factored these into our business planning," said Ms Flacks.

CARING FOR CUSTOMERS

Ms Flacks said regardless of the drivers behind the results, it was still coming in a high cost of living environment.

"Recent events aside, we understand the cost pressures many families are facing, and we are focused on our extensive programme of support for those customers experiencing hardship."

This includes working with the sector, other essential service providers and community organisations to create a more comprehensive approach to supporting those in hardship. Mercury's role will be to trial a capped electricity product that helps contribute to overall wellbeing for these households.

Last year mass market customers' prices increased by an average of 2% across lines and energy and will be limited to between 3% and 5% for the coming year.

"This is despite costs to our business increasing over and above this, which we are absorbing on behalf of our customers."

Ms Flacks also noted that in addition to targeted support, Mercury was delaying price changes (including lines increases) for at least six months for those adversely impacted by recent weather.

EXECUTING ON RENEWABLE GENERATION PIPELINE

The first half of the year saw tangible progress in the delivery of Mercury's substantial renewable generation pipeline, consistent with the goal to play a leading role in the low carbon transition.

Commissioning of the 103MW Turitea South wind farm will begin in April with completion taking longer than expected due to construction and delivery challenges.

"Once complete, Turitea will be Aotearoa New Zealand's largest wind farm and materially shifts the dial on our decarbonisation ambitions. That's a win not just for Mercury, but for the Manawatū region and New Zealand as a whole," said Ms Flacks.

In September Mercury also announced the construction of Stage 1 of the Kaiwera Downs wind farm (43MW), expected to cost $115m excluding capitalised interest. Construction started in October 2022, with all turbines operational by October 2023.

“We’re advancing several other wind farm projects through prospecting, feasibility, consenting and business case phases and we want to get the next cab off the rank as quickly as we can.”

OTHER OPERATIONAL HIGHLIGHTS

- Cross-sector work on the low-carbon transition including supporting an independent report by the Boston Consulting Group to provide a whole-of-sector view of the transition; inputting into a winter peak product proposed to the Electricity Authority.
- Lodging consent for the expansion of an additional unit at Ngā Tamariki geothermal power station, with Mercury currently in the process of engaging with iwi partners.
- Progressing the carbon reinjection trial at Ngā Tamariki (8,000 tonnes of CO_2e successfully reinjected so far). Mercury is currently assessing expansion to other units at Ngā Tamariki and researching options for technology development at Kawerau geothermal power station.
- Piloting a number of customer care initiatives including a trial to secure access to basic needs like food, water and electricity; and another which caps energy bills for customers.
- Building health, safety and wellbeing maturity with a suite of initiatives to facilitate this. TRIFR (Total Reportable Incident Frequency Rate) for the half year was 0.58.

INTERIM DIVIDEND

The Board has declared a fully imputed interim dividend of 8.7 cents per share, representing a 9% increase on HY22 dividend and will continue the Dividend Reinvestment Plan for this dividend.

GUIDANCE

Mercury’s full year EBITDAF guidance remains at $795m.

The uplift in forecasted EBITDAF compared to prior year reflects a lift in the FY23 hydro production forecast to 4,900GWh (from 4,500GWh), with additional hydro mostly generated at a time of low spot electricity prices and the active management of Lake Taupō within consented operating limits.

This increase in generation margin has been eroded by higher operating expenditure including Trustpower retail integration costs that have been bought forward into FY23 with the project running ahead of schedule.

Guidance may change and remains subject to any material events, significant one-off expenses or other unforeseen circumstances including changes to hydrological conditions.

ENDS

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ABOUT MERCURY NZ LIMITED

We generate electricity from 100% renewable sources – hydro, geothermal and wind. We also sell utility services to our customers through our retail brands – Mercury, Trustpower and GLOBUG.

We’re listed on the New Zealand Stock Exchange and the Australian Stock Exchange with foreign exempt listed status with the ticker symbol ‘MCY’. The New Zealand Government holds a legislated 51% shareholding in the Company. Visit us at: www.mercury.co.nz