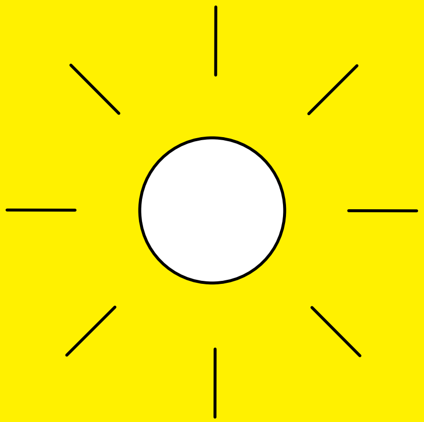
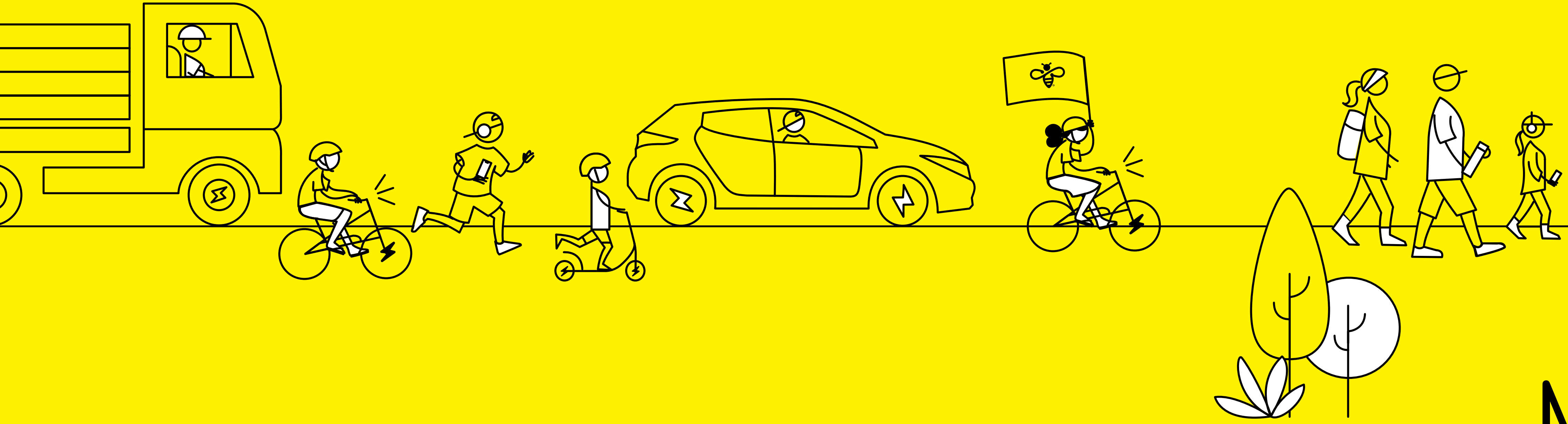
2023 INTEGRATED REPORT.

TOGETHER ON THE JOURNEY.





MERCURY NZ LIMITED

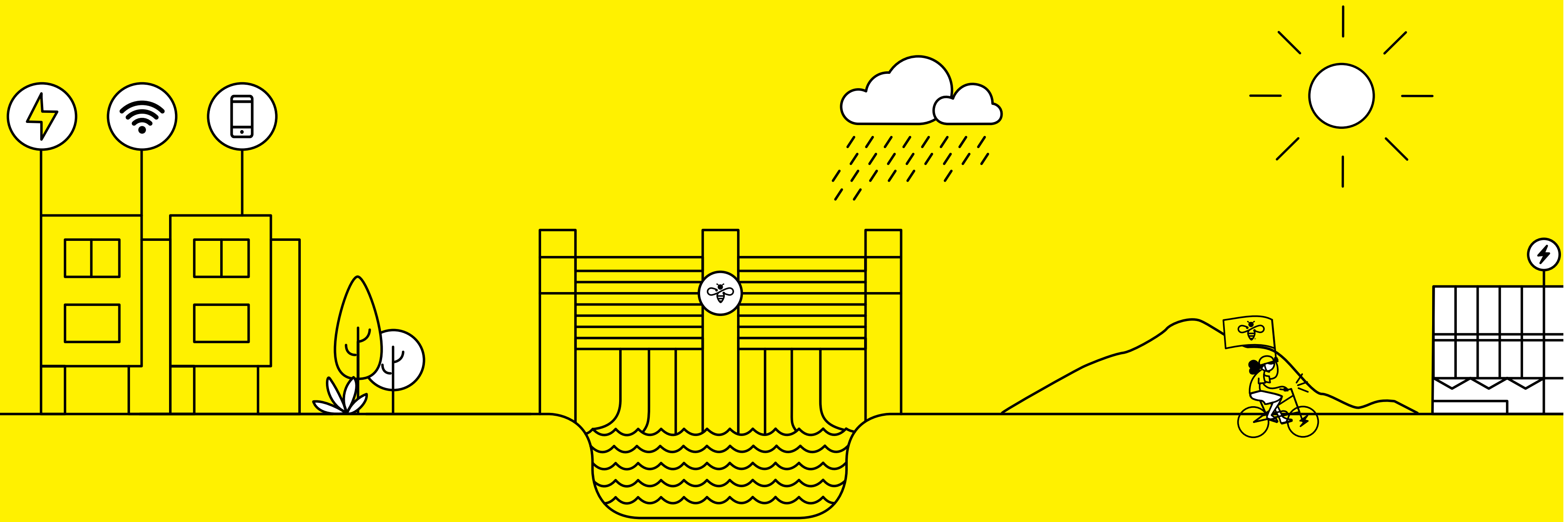
Mercury

TOGETHER ON THE JOURNEY.

Kia ora and welcome to Mercury's 2023 Integrated Report. Our theme this year – Together on the Journey – is a celebration of the power of collaboration, cohesion and unity.

This reflects the many times we've come together with a shared destination in mind this year. Whether this be bringing together our people and customers under a single brand, collaborating with community to strengthen our support of customers or working with the sector to help shape Aotearoa's future energy landscape.

Beyond the bounds of our organisation, we also recognise our role as part of a community navigating the challenges of a rapidly changing, complex world: the ever-pressing issues of climate change, dramatic technological advancement and demand for a more inclusive and equitable society.



ABOUT THIS REPORT.

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

This is an Integrated Report which follows the Integrated Reporting <IR> framework.

We describe Our Business Model, including inputs, outputs, and the outcomes of our strategic approach across our five long-term aspirations that determine how we generate long-term value. We include a specific Global Reporting Initiative (GRI) Index and comprehensive climate disclosures, which align with the recently published Aotearoa New Zealand Climate Standards.

We have grouped our reporting into six sections to help you find areas of particular interest, but they are all part of who we are, what we do and why. Across all this, our aim is to report openly and honestly on our performance in a way that shows the integrated approach we take.

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

STATEMENT FROM THE DIRECTORS

The directors are pleased to present Mercury NZ Limited's Integrated Report and Financial Statements for the year ended 30 June 2023. The Auditor-General is required to be Mercury's auditor, and has appointed Lloyd Bunyan of Ernst & Young to undertake the audit on his behalf.

This Integrated Report is dated 21 August 2023 and is signed on behalf of the Board by:

PRUE FLACKS // CHAIR

JAMES MILLER // DIRECTOR

WHO WE ARE.

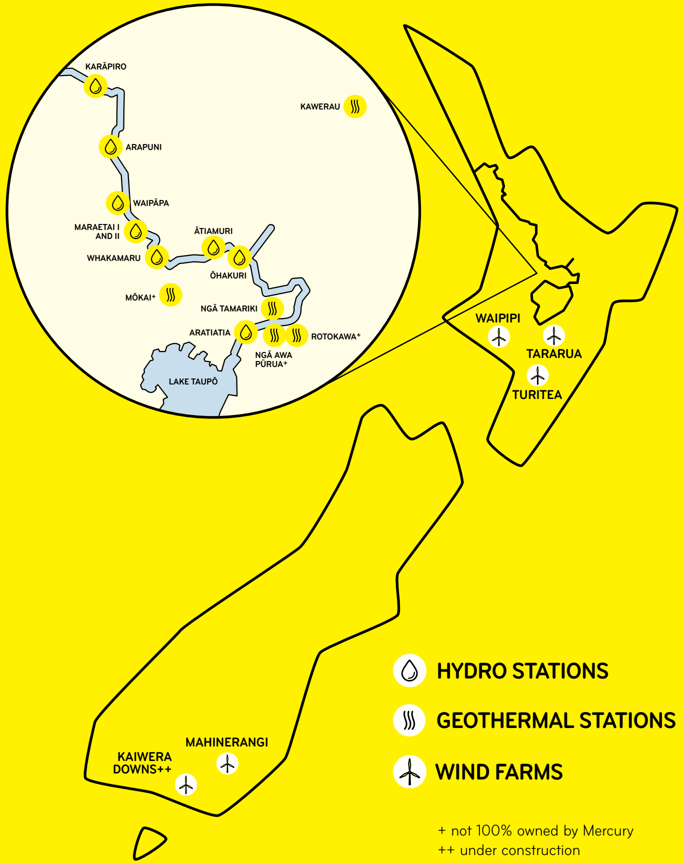
We generate electricity from 100% renewable sources: hydro, geothermal and wind. We are also a retailer of electricity, gas, broadband and mobile services.

Our electricity generation sites are located along the Waikato River (hydro), the nearby steamfields of the northern part of the Central Plateau (geothermal) and in the Manawatū, South Taranaki, Otago and Southland regions (wind).

This year, we completed construction of New Zealand's largest wind farm, Turitea, on the Tararua Ranges in the Manawatū. We have a pipeline of future wind development sites across the country, and are on track to complete construction of Stage 1 of a new wind farm at Kaiwera Downs near Gore in October 2023.

We are committed to building and maintaining, authentic relationships with iwi/Māori, particularly in the lands around our generating assets. This will be achieved through ongoing conversations, and careful listening to understand where our values and aspirations align.

We sell electricity, gas, broadband and mobile services through our retail operations to residential and small to medium-sized business customers. Our sub-brand GLOBUG is our pre-pay electricity product. Our Commercial sales team service industrial and wholesale market customers offering electricity.



+ not 100% owned by Mercury
++ under construction

MENU.

HOW WE CREATE VALUE.

TE PĒWHEA O TĀ MĀTOU WHAKAMANA.

In this section we highlight factors that affect our ability to create value over time (Our Business Model), including outlining our past and current performance and outcomes, and present our strategic framework. Our Chair, Prue Flacks, and Chief Executive, Vince Hawksworth, then jointly summarise our 2023 financial year.

Turitea wind farm.

OUR BUSINESS MODEL.

INPUTS

860K CUSTOMER CONNECTIONS
- **590k** electricity
- **102k** gas
- **151k** telecommunications
- **17k** mobile

10 FORMAL IWI RELATIONSHIPS
- 2 geothermal joint ventures
- 8 formal iwi relationships

20 PARTNERSHIPS
- **20** community and commercial partnerships

1,512 PERMANENT EMPLOYEES
- **763** women
- **747** men
- **2** non-binary
- **518** in Auckland
- **520** in Tauranga
- **124** in Hamilton
- **134** Rest of NZ
- **74** in Rotorua
- **42** in Taupō
- **100** Oamaru

20 POWER STATIONS
- **9** hydro
- **5** geothermal
- **6** wind

72K SHAREHOLDERS

3K BONDHOLDERS

OUR BUSINESS ACTIVITIES

CARE · CONNECT · CURIOUS · COMMIT

ARUMONI / COMMERCIAL
Achieving our commercial goals through sustainable growth.

KIRITAKI / CUSTOMER
Inspiring, rewarding and making it easier for our customers.

NGĀ TĀNGATA / OUR PEOPLE
Enabling our people to perform together in a changing environment and keep each other safe.

KŌTUITANGA / PARTNERSHIPS
Providing greater opportunities for New Zealand, our industry, our partners and our business through long-term collaboration.

KAITIAKITANGA / STEWARDSHIP
Long-term sustainability of natural resources and assets.

OUTPUTS

5,209 GWh HYDRO GENERATION

6,749 GWh PHYSICAL SALES

2,358 GWh GEO GENERATION

1,471 GWh WIND GENERATION

22% GENERATION MARKET SHARE

17% CONSUMPTION MARKET SHARE

OUR BUSINESS MODEL EXPLAINED.

Our Business Model shows our key inputs interacting with our business activities to create outputs of sustainable, commercial value. The outcomes of our activity are measured and take us towards achieving our long-term aspirations and realising our purpose.

PROGRESS TOWARDS OUR FY22-24 OBJECTIVES.

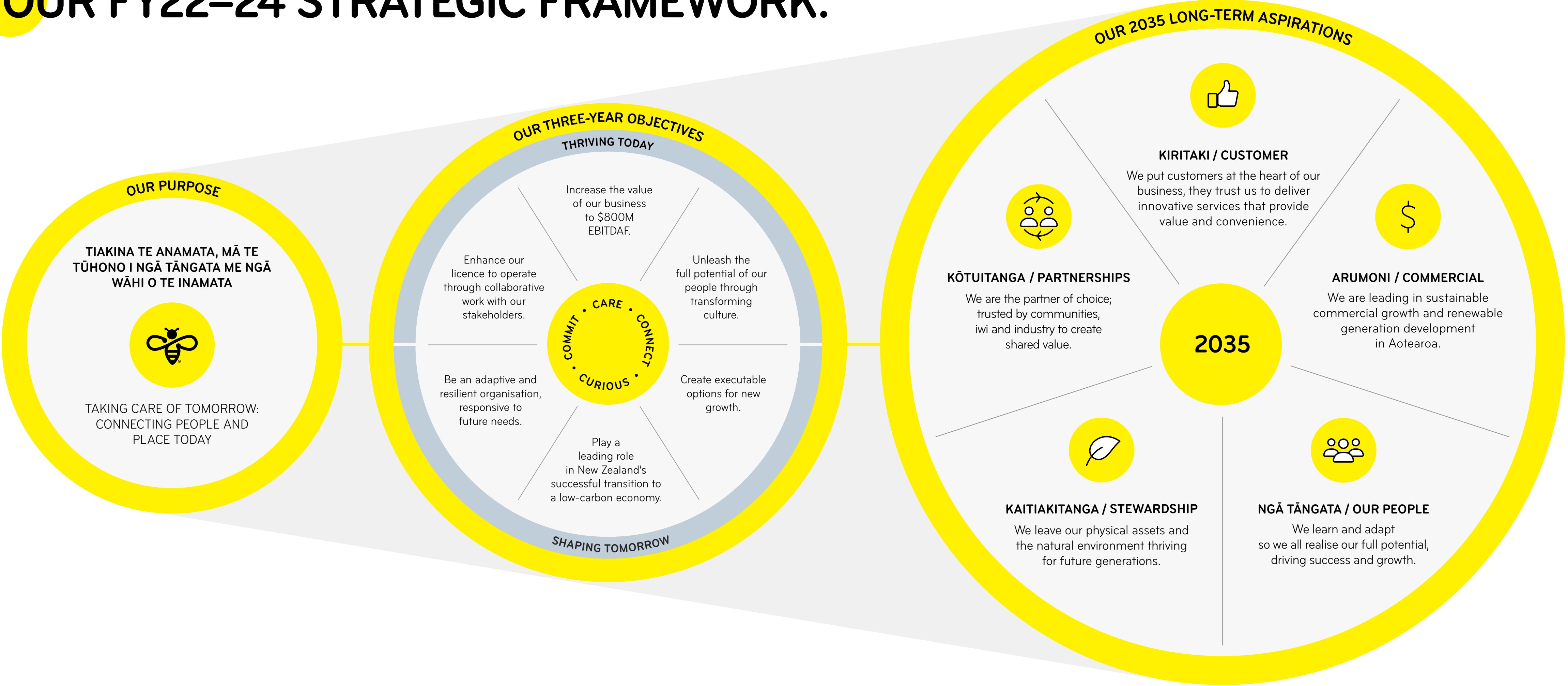
This shows how we are progressing towards our three-year objectives. This helps to identify, based on how we are tracking, where we will be focusing to achieve these objectives by end of FY24.

	THREE-YEAR OBJECTIVES	PROGRESS AGAINST OUR MEASURES	FY23 OUTCOMES	LONG-TERM ASPIRATIONS
THRIVING TODAY	**Enhance our licence to operate through collaborative work with our stakeholders**	Zero Harm organisation	Refreshed Health, Safety & Wellbeing policy launched. Building culture to grow capability of people and systems enabling safe and healthy outcomes.	
		No serious injury at Mercury sites or of customers through our service	No serious injuries in FY23. Total Recordable Injury Frequency Rate 0.49 (down from 0.60 in FY22).	
		Enhanced engagement with iwi, partners & stakeholders	Ongoing partnership meetings held with all river iwi. Leadership Tira Hoe with Waikato Tainui, senior engagement with other key iwi leaders. Relationships progressed with iwi at wind sites. Initiatives to upskill staff in place. Increased use of te reo Māori in company communications.	
		Collaboration with stakeholders in the Waikato to improve the catchment	Continued investment in environmental restoration projects within the Waikato catchment via Waikato Catchment Ecological Enhancement Trust annual contestable fund. Installed real-time water quality monitoring sites in partnership with river iwi. Participating in the BiosecurityNZ golden clam governance group along with river iwi partners.	
		Good practice approach to climate risk	Continued to mature our approach to identifying, managing and disclosing our climate risks. Provided a climate statement in accordance with the Aotearoa New Zealand Climate Standard, adopting this one year earlier than required.	
		Delivering our customer care plan	Vulnerable customer initiatives refined and delivered with several more in development. Commenced two-year trial with Kāinga Ora on capped electricity options to understand impact on wellbeing and test new vulnerable consumer solutions.	
	Increase the value of our business to $800m EBITDAF	EBITDAF growth	Turitea South wind farm fully operational. EBITDAF target in FY23 exceeded due to record generation (hydro and wind) and electricity yield growth. FY24 guidance set at $835m including new generation from Kaiwera Downs Stage 1.	
		Retail value growth	Consolidation of the Trustpower retail business and Mercury brand completed in June; on track to deliver forecast synergies. Exceeded customer connection targets, growth across all products (electricity, gas & telco).	
		Portfolio management	Entered longer term contracts with large commercial and industrial users in elevated electricity spot and futures market. Negotiated long term agreement with Amazon to purchase 50% of the real time output from Turitea South wind farm.	
		Generation asset performance	Operational performance for hydro and wind assets on-track based on availability measures. Geothermal impacted by unplanned outages.	
	Unleash the full potential of our people through transforming culture	Improvement in Culture Index	Culture index steady for majority of FY23, then significant lift near year end (73% in FY22 to 78%).	
		Increase in diverse representation	Diversity increased across a range of measures. Diverse Emerging Leaders programme resulted in large number of secondments and promotions.	
		Learning opportunities taken up that lift capability	Adopted principles of a learning organisation focusing on learning everyday, everywhere, providing wide range of opportunities for formal and informal learning.	
	Be an adaptive & resilient organisation, responsive to future needs	Our people taking up opportunities through internal movement	Approx. 46% of roles appointed internally. Adaptive ways of working embedded, resulting in significant learning opportunities and secondments for people.	
		Our systems are fit for purpose	Significant work underway to review, update or renew fit-for-purpose systems leading to a single technology stack. Artificial Intelligence and Machine Learning use cases deployed to optimise operations, productivity, and improve customer experiences across the business.	
SHAPING TOMORROW	**Play a leading role in New Zealand's successful transition to a low-carbon economy**	Electricity is viewed as an enabler of the transition to a low carbon economy	Continued working with others across the sector to develop mechanisms to support collective action (across the sector and between public/private sector participants).	
		Progress on engagement with new technology	Engaged with industry via the Flex Forum, actively trialling peak demand mechanisms. Also engaged with suppliers on turbine technology developments.	
		Support for transport decarbonisation	Hikotron and Big Street Bikers partnerships in place. Support in place for two-year transport-on-demand trial with Bay of Plenty Regional Council and Waka Kotahi NZTA utilising electric transport.	
		Progress on reducing our own emissions	Committed to set emissions reduction target in line with the Science Based Targets initiative Net Zero guidance and have developed our Climate Transition Action Plan.	
	Create executable options for new growth	New opportunities for growth Executable development options	Significant focus on creating and developing new options, including capacity/flexibility opportunities and exploring solar. Construction commenced on Kaiwera Downs 1 wind farm, on track to be fully operational by October 2023. Consent gained for additional generating unit (OEC5) at Ngā Tamariki geothermal station, now nearing Final Investment Decision. Kaiwera Downs 2 and Kaiwaikawe wind farms also in final stages of planning before moving to Final Investment Decision.	

KEY: On track / likely to meet expectation · Minor delay / uncertain will meet expectation · Significant delay / unlikely to meet expectation

See 'Our Strategic Framework' on Page 7 to see how our objectives link to each of the categories for our long-term aspirations.

OUR FY22–24 STRATEGIC FRAMEWORK.



Our strategic framework maps why we exist, and what we will need to focus on over the near and longer term, to continue to grow and create value over time.

This year we have introduced our new purpose and long-term aspirations. These are foundational aspects of our strategic framework, providing the longer-term direction for our organisation. With the change and growth that our organisation has embarked on over the past few years, we have updated these to better reflect the business that we are.

Our purpose 'Taking care of tomorrow: Connecting people and place today' captures our why. It recognises the role we play in using our unique assets and capabilities to enable everyday living and connectivity in our communities, and to bring together the people we work with to care for the natural environment and resources that we use. Our interconnected long-term aspirations expand on our purpose and capture what we aspire to achieve.

We are now two years into our three-year objectives and are making good progress towards achieving these. Next financial year we will reset our objectives for FY25-27.

SNAPSHOT.

SIGNIFICANT INVESTMENT

Our performance reflects major investment to grow our renewable generation portfolio and retail business.

STRONG GENERATION

The financial year was also characterised by strong hydro and new wind generation.

QUALITY RENEWABLES PIPELINE

We continue to grow our renewable generation portfolio and enhance our existing assets.

SCALE RETAIL BUSINESS

We focussed on successfully integrating our retail business.

PARTNERING FOR CHANGE

We collaborated with others to help shape meaningful change and support decarbonisation in New Zealand.

BUILDING RESILIENCE

We are becoming a more adaptive organisation as we look to thrive in a changeable world.

CHAIR & CHIEF EXECUTIVE UPDATE.

KUPU A TE HEAMANA ME TE POU WHAKAHAERE.

PRUE FLACKS // CHAIR
VINCE HAWKSWORTH // CHIEF EXECUTIVE


Vince Hawksworth, Chief Executive and Prue Flacks, Chair.

Kia tiakina te anamata e tātou, mā te tūhono i te tāngata me te wāhi o te inamata. Together we are taking care of tomorrow: Connecting people and place today.

We believe Mercury can help Aotearoa New Zealand transition to a low carbon future through our renewable generation assets and quality renewable generation pipeline, our scale retail business, our partners and our people.

RESULTS REFLECT SIGNIFICANT INVESTMENT, STRONG GENERATION

Performance over the period was secured by significant investment to increase scale and record generation.

Record inflows in our hydro catchment resulted in a boost to hydro generation, at 5,209 GWh compared with an average of 4,056 GWh. More than 1,000 GWh was spilled over the period to maintain lakes within consented operating limits. We acknowledge the devastating impact rainfall events over the period have had on our communities, and we have provided financial assistance and on-the-ground help for customers most severely impacted.

This financial year we realised the benefits of a materially larger business. Wind generation was 1,471 GWh for the year, up from 1,269 GWh in the prior comparable period, including a significant contribution from our Turitea wind farm. Our scaled retail business contributed a full year with 860k customer connections at the end of the year, reflecting the acquisition of the Trustpower retail business and broadband company NOW NZ in 2022.

Results were partially offset by slightly lower geothermal generation due to outages and lower wholesale electricity prices. Futures prices for CY24-26 have moderated from earlier highs, but industry issues such as high thermal costs and regulatory reform still pose challenges.

Mercury's net profit after tax was $103 million, down $366 million on the previous year, with FY22's results capturing the one-off net gain made on the sale of our Tilt Renewables shareholding. Mercury reported $841 million EBITDAF[1], up $260 million on the prior year's $581 million. Operating expenditure was $346m, up $116m on prior year, while stay-in-business capital expenditure was $119 million (up $51 million on the prior year). Mercury's FY24 EBITDAF guidance has been set at $835 million.

We acknowledge it is a challenging time for many New Zealanders, with the rising cost of living impacting many households. We recognise we have a role to play in supporting customers and outline the actions we are taking further in this report.

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

HIGH-QUALITY GENERATION PIPELINE BUILDS ON OUR STRENGTHS

This year saw several key milestones reached as we continued to grow our wind generation portfolio. Full operation of our Turitea South wind farm commenced in July with total project costs confirmed at $450 million (excluding capitalised interest). We are also nearing completion of our $115 million, 43MW Kaiwera Downs 1 wind farm, and it remains on track to be operational by October 2023.

Simultaneously, we are enhancing the resilience and performance of our generation fleet through our 20-plus year, half-billion dollar hydro refurbishment programme. In particular the Karāpiro hydro upgrade project, currently valued at ~$90m, saw the first of three units replaced with new and uprated turbines and generators. When finished this will add additional capacity of 17MW, additional energy generation of 32GWh per annum and extend the 76-year-old station's life by another 50 years. New turbine and generator rotors were also installed at our Kawerau geothermal station.

Looking forward, we have a quality renewable generation pipeline in varying stages of readiness and continue to focus on identifying new renewable prospects. We are in the pre-Final Investment Decision development stages of Kaiwera Downs 2 and Kaiwaikawe wind farms and are pleased to have gained consent for the expansion of an additional generating unit (OEC5) at our Ngā Tamariki geothermal station.

We are also working on projects that meet the capacity needs of an increasingly renewable future - increasing the resilience of supply to benefit New Zealand electricity users, as well as Mercury.

We note that policy changes including Resource Management Act reform and the risk of regulatory intervention such as Lake Onslow continue to create uncertainty. This, together with global and domestic inflationary impacts (compounded by post-COVID supply constraints), are being factored into future business cases.

VALUE FOR CUSTOMERS ENABLED BY A SCALE RETAIL BUSINESS

Mercury is New Zealand's largest electricity retailer by customer market share following the acquisition of the Trustpower retail business more than a year ago. This year, as part of our focus on successfully 'interGREATing', we transitioned our people and customers to one brand (Mercury) in June. We are now migrating customers to a single technology stack, which is key to unlocking benefits of the acquisition. We remain on track to deliver the cost synergies forecast when we announced the Trustpower retail acquisition.

In parallel we maintained momentum within our core retail business. We saw connection growth across all products – electricity, gas and telco – with a net increase of 61,000 connections. We capped our average annual price change to between 3% and 5% in recognition of cost pressures many households are facing, however we expect prices will continue to increase over the medium term.

Turning to support of customers in need, our joint research into hidden hardship with Genesis is nearing completion and as part of this we have co-designed several solutions with community providers to collaboratively progress. We also launched a two-year Winter Energy Study in partnership with Kāinga Ora - Homes and Communities to offer customers a capped electricity bill in the winter, to encourage whānau to use as much electricity as they need to heat their homes.

Sales to commercial and industrial customers, both physical and financial, lifted over the period to 3,592 GWh. This included a significant long-term agreement with Amazon to purchase half the real-time output from the southern section of our Turitea wind farm. Commercial and industrial (physical and financial) yields increased by $14/MWh, reflecting the strongly rising forward curve repricing contract renewals. Longer dated supply arrangements are becoming more commonplace as large users look to mitigate the impact of rising wholesale prices.

PARTNERING WITH OTHERS TO ACHIEVE MEANINGFUL CHANGE

During the year we actively engaged in the commissioning of an independent report by the Boston Consulting Group (BCG) alongside our sector peers to provide a system-wide perspective on what might be required for a successful and stable transition of the energy sector. We support the report's recommendations and would like to see this work inputting into key workstreams like the National Energy Strategy to help New Zealand move faster on supportive climate and energy policy.

Building on this report, we are working with others in the sector to establish mechanisms that enable collective action and help set New Zealand up for success.

> **"PERFORMANCE OVER THE PERIOD WAS SECURED BY SIGNIFICANT INVESTMENT TO INCREASE SCALE AND RECORD GENERATION.**

$841M↑
EBITDAF

$103M↓
NET PROFIT

13.1CPS↑
FINAL DIVIDEND DECLARED

$346M↑
OPERATING EXPENDITURE

Blades for the turbines at Kaiwera Downs 1 wind farm unloading at Bluff - credit South Port, Chris Howell.

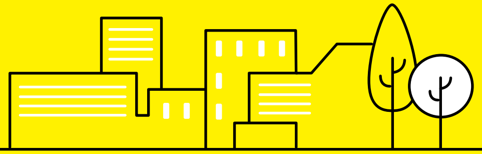
Gordon Lindsay at Ōhakuri Dam.

BUILDING RESILIENCE IN A CHANGEABLE WORLD

In an increasingly fast-paced, complex and uncertain world, we are working to become a more adaptive organisation, placing continuous learning at our core. This approach enables our people to effectively navigate the challenges and opportunities that may arise.

Our focus on building a diverse, equitable and inclusive workforce resulted in changes to our leave policies to better support the needs of our employees. We have made progress on achieving our gender diversity targets and have increased leadership representation of Māori, Pacific Island, and Asian employees during the year. However, we still have more to do in this space, as outlined in more detail further in this report.

Turning to safety, we are pleased to report that our Total Recordable Injury Frequency Rate (TRIFR) was 0.49 for FY23 (down from 0.60 the previous year). We have launched a comprehensive health, safety and wellbeing policy which moves us away from a singular focus on "zero harm" towards a more holistic understanding of the benefits that an improved safety and wellbeing culture has on our performance.



FULL-YEAR DIVIDEND

The Board has declared a final dividend of 13.1 cents per share (cps). This brings the full-year ordinary dividend to 21.8 cps, up 9% (20.0 cps FY22). We are pleased to be able to increase the ordinary dividend for the 15th year in a row. We have further extended our Dividend Reinvestment Plan to allow our shareholders to support Mercury's growth.

Our FY24 ordinary dividend guidance is 23.3 cps, representing a 7% increase on FY23 and the 16th consecutive year of ordinary dividend increases.

CLOSING REMARKS

As we reflect on our progress two years into our three-year objectives, we are pleased to be largely on track to meet or in some cases exceed these targets. We are grateful for the commitment and dedication of our people – they are instrumental to our continued success.

In addition to the achievements outlined in this update, this report marks another significant moment for us as we reach more than a decade since listing.

Both the world and our company have undergone transformative change over this period. We have adapted to new challenges, embraced innovation, and positioned ourselves for a future that holds immense potential.

The future will likely test us in many ways. However, we are confident in our ability to overcome these obstacles and deliver on our commitments. With a clear vision, a resilient business, and a talented team, we are well-equipped to navigate the evolving landscape and seize the opportunities that lie before us.

Whāia te mātauranga, hei oranga mō koutou, hei oranga mō tātou katoa. (Seek knowledge for the sake of your well-being, for the well-being of all.)

Prudence Flacks

PRUE FLACKS // CHAIR

V. P. Hawksworth

VINCE HAWKSWORTH // CHIEF EXECUTIVE

WHAT MATTERS MOST.

TE MEA NUI.

In this section we look at how we have engaged with iwi and stakeholders and then responded to what we have learned, as well as the trends we have seen in our key risk areas in FY23. We then cover how these risks and insights, as well as key opportunities and other external environment insights, combine to form a view of what's material to our business.

Leah Wyatt (right) and Austrian Federal Minister of Labour and Economy, Martin Kocher. The Minister was welcomed to Karāpiro station by mana whenua Ngāti Koroki Kahukura, when he came to see the installation of a new turbine by Austrian contractor Andritz Hydro.

ENGAGING WITH IWI AND STAKEHOLDERS.

TE TORO KI NGĀ IWI ME TE HUNGA WHAI PĀNGA.

Building and maintaining relationships with iwi and stakeholders across our business is fundamental to our ability to create value and contributes to the long-term success of our business.

We need to understand what's important to the people and groups we work with and rely on for our business. That way we can commit the right resource to the most relevant business activities. Our strategy and business plans are developed with consideration given to the relevant priorities identified by stakeholders and iwi/Māori (who we consider partners) as most important to them. We also recognise we need to maintain, and potentially build, stakeholder relationships over time.

During the year we completed a number of formal and informal engagements with key groups we work with. For example, we gathered a wealth of customer feedback through our ongoing Voice of Customer programme and strategic pieces of research to understand what matters most to customers. Further, we conducted quarterly Employee Voice surveys as well as extensive employee engagement to gather input for the creation of our new purpose. We were also actively involved in Government initiatives and programmes and hosted an Investor Day in Palmerston North.

RESPONDING TO WHAT WE HAVE LEARNED

The feedback we have received through these engagements has helped inform our business activities. For example, customer research findings helped us determine which offers we would provide as we transitioned to a single brand, while employee feedback helped to shape our new leave policies.

We also continue to evolve our approach to iwi engagement following a review of our relationships with iwi in FY22. Some of the actions we have taken off the back of this are outlined in the Ngā Tāngata/People section.

We are eager to gather additional insights from our partners and stakeholders and will continue to define the most appropriate and productive ways to shape our engagement processes in FY24.

WORKING TOWARDS A SUSTAINABLE FUTURE

We are focussed on contributing to a collaborative and thriving cross-sector ecosystem to help move New Zealand towards a more sustainable future. In FY23 that has seen us engage on a range of regulatory processes and support multiple sector initiatives, which are outlined in the Kōtuitanga/Partnerships section. This will be a continued focus for us in FY24 as we input into the National Energy Strategy and other key activity.

KEY GROUPS WE WORK WITH:

- CUSTOMERS
- PARTNERS
- GOVERNMENT & REGULATORS
- COMMUNITY
- IWI
- EMPLOYEES
- INVESTORS
- INDUSTRY PARTICIPANTS
- SUPPLIERS

OPENING OUR DOORS TO COMMUNITY.

This year we hosted a hui at our Auckland office for community, industry, government, and research representatives as part of our joint research into hidden hardship.

This was the third and final hui as part of this research, which sought to include community perspectives on hidden hardship challenges and work together with industry to co-design solutions.

At this hui, attendees ranked potential solutions earlier identified by the group. These ranged from 'easy wins' to longer-term, more complex ideas to implement. We are now working collaboratively to progress solutions.

Participants at the hidden hardship hui at our Auckland office.

THE RISKS WE FACE.

A comprehensive summary of our key risks and how we manage them is included in the Governance at Mercury section of the report.

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

KEY RISK AREA	SAFETY	COMPLIANCE AND REGULATORY	REPUTATION	OPERATIONAL	FINANCIAL	PEOPLE
FACTORS IMPACTING CURRENT TRENDS	Safety continues to be one of the major risks that could affect the wellbeing of employees, contractors, customers, and the public. Our focus on process safety continues as a priority at our generating assets. The resources in our Process Safety team have been increased to grow our maturity and effectiveness. We continue a programme of work in FY23 to improve our safety critical elements at our three major hazard facilities. We also continue to monitor and meet the requirements of our safety cases, collaborating regularly with WorkSafe. Managing safety risk is of primary importance to us, particularly with large projects, including our Turitea and Kaiwera Downs wind farms, hydro and geothermal refurbishments, and maintenance turnarounds.	Compliance with resource consents and the Electricity Industry Participation Code is important for our ability to operate. Compliance with internal policies is an important tool to assess risks and deter fraud. We continue to consider possible regulatory change, which can present significant ongoing risks to us. During FY23, several regulatory processes with the potential for significant impact to us were progressed (e.g. Resource Management Act reform, Aotearoa New Zealand Climate Standards (NZ CS), Emissions Reduction Plan, National Energy Strategy, NZ Battery Project, Price discovery under 100% renewable electricity supply, wholesale market review, Transmission Pricing Methodology implementation).	Our reputation with investors, stakeholders and the broader community is one of our most significant assets. Ensuring that our fuel resources, plants and systems don't have negative impacts on others is critical. The importance of stakeholder relationships and input has continued to grow across each of our key stakeholder groups – our customers, communities, partners and owners. The level and sophistication of cyber-attacks continue to increase within New Zealand and globally. We continue to implement a comprehensive and multi-faceted security uplift programme that seeks to improve the organisation's security maturity across our IT, Operational Technology and Internet Service Provider environments.	Operational risks have a potentially significant impact on our ability to generate electricity, provide telco and ISP services and create revenue. The key operational risks include: asset management and availability; fuel availability; market exposure; and business interruption events (such as natural disasters or global pandemics). In managing these risks in FY23, we focussed on our programme of hydro refurbishments and geothermal turnarounds; adding Turitea South into our generation fleet; integrating our retail businesses and actively balancing the challenges faced by highly variable fuel supplies (water, wind and gas).	Key financial risks include: climate change impacts, appropriate insurance cover and our ability to execute on projects and new growth initiatives. Finance and related activities have key process controls that are subject to regular review and continuous improvement. A core element of financial sustainability is the opportunity cost related to our ability to identify and execute growth options. In FY23, this risk was mitigated through the completion of the southern section of the Turitea wind farm, along with the successful integration of our retail businesses.	We continue to deal with the shifting landscape of today's work environment and markets. Attracting, developing and retaining capable people who can contribute to our strategic priorities and grow with the business remains our focus. We also continue to focus on the physical and mental wellbeing of our people. In FY23 we established a new "One Mercury" team culture bringing together all our people. Alongside this we are implementing an Adaptive Leadership programme, with the aim of ensuring our people and business are dynamic, adaptive and future ready. Together these initiatives seek to create a culture and way-of-working that embraces learning, challenges mindsets, lifts capability and celebrates curiosity.
OUR LONG-TERM ASPIRATIONS		$	$	$	$	

Ngā Tamariki geothermal station.

PULLING IT ALL TOGETHER.

Our five long-term aspiration categories, established in 2016, represent the key drivers of material value creation for our business. They enable us to integrate what matters most to Mercury and our stakeholders. They form the framework for our long-term strategy and near-term business planning and reflect the six capitals of the Integrated Reporting <IR> framework.

Each year our view of what is material for us is informed by reviewing our strategy against a broad context including:

- the external environment
- feedback from iwi and stakeholders on what is important to them about Mercury
- insights from our risk assessment, as well as opportunities to explore
- other items covered in the preceding pages

We keep up to date with changes in these areas to consider how our approach needs to evolve to ensure we continue to create value. These insights are combined to form a view of what's material to our business.

In FY23, we reviewed our long-term aspirations, taking into account the broad context noted earlier, and the significant changes to our business from the recent acquisitions of Tilt Renewables' New Zealand operations and the Trustpower retail business.

As part of this process, we reviewed what is material to our business which has been grouped under our five long-term aspiration areas below:

MATERIALITY ASSESSMENT

<IR> Capitals	Our long-term aspiration areas	What's important to us and our stakeholders
Social & Relationship	Kiritaki / Customer	• Building trust • Customer experience • Customer loyalty • Innovative services
	Kōtuitanga / Partnerships	• Building trust • Creating shared value • Forming strong, long-term relationships with iwi, industry and our communities
Natural Manufactured	Kaitiakitanga / Stewardship	• Optimising our physical assets • Improving the natural environment • Resilience to climate change
Human Intellectual	Ngā Tāngata / People	• Being a learning and adaptive organisation • People and capability development • Health, safety and wellbeing
Financial	Arumoni / Commercial	• Sustainable commercial growth • Renewable generation development

Reporting on what's important to us and our stakeholders forms the basis of this Integrated Report. We will continue to engage with iwi and stakeholders to understand what matters most to them, as well as to us, to inform our views on materiality.

HOW WE DELIVER VALUE.

TE PĒWHEA O TĀ MĀTOU TUKU HIRA.

In this section, we report on material activity which has happened over the past year to build towards reaching our long-term aspirations. We reflect on our progress, share successes and how we have responded to challenges we have encountered.

Aratiatia rapids.

DELIVERING VALUE AT A GLANCE.

OUR LONG TERM ASPIRATIONS

KIRITAKI / CUSTOMER

+ KEY TOPICS

- Integrating Mercury and Trustpower retail businesses
- Enabling our business to be Future Ready
- Taking a programme approach to customer care

– KEY RISK AREAS

- Safety
- Reputation

CONNECTIONS WITH:

ARUMONI / COMMERCIAL

+ KEY TOPICS

- Responding to the high rainfall
- Executing on new generation at pace
- Focus on maximising value of geothermal operations

– KEY RISK AREAS

- Operational
- Financial

CONNECTIONS WITH:

KŌTUITANGA / PARTNERSHIPS

+ KEY TOPICS

- Shaping a collective view on decarbonisation
- Supporting customers' decarbonisation goals
- Playing an active role in sector evolution

– KEY RISK AREAS

- Compliance & regulatory
- Reputation
- Operational

CONNECTIONS WITH:

NGĀ TĀNGATA / PEOPLE

+ KEY TOPICS

- Building an adaptive and resilient Mercury
- Fostering diversity, equity and inclusion
- Lifting health, safety and wellbeing

– KEY RISK AREAS

- Safety
- People

CONNECTIONS WITH:

KAITIAKITANGA / STEWARDSHIP

+ KEY TOPICS

- Commitment to Net-Zero
- Enhancing our existing generation assets
- Collaborating to deliver upgrades after the Kawerau outage

– KEY RISK AREAS

- Reputation
- Operational

CONNECTIONS WITH:

1. KIRITAKI / CUSTOMER.

INTEGRATING MERCURY AND TRUSTPOWER RETAIL BUSINESSES

Following our acquisition of the Trustpower retail business in May 2022, we have been working at pace to integrate our two retail businesses and position Mercury as 'Future Ready'. Having a scaled retail offering enables us to add value for our customers in terms of convenience, cost efficiencies and delivery of innovative solutions.

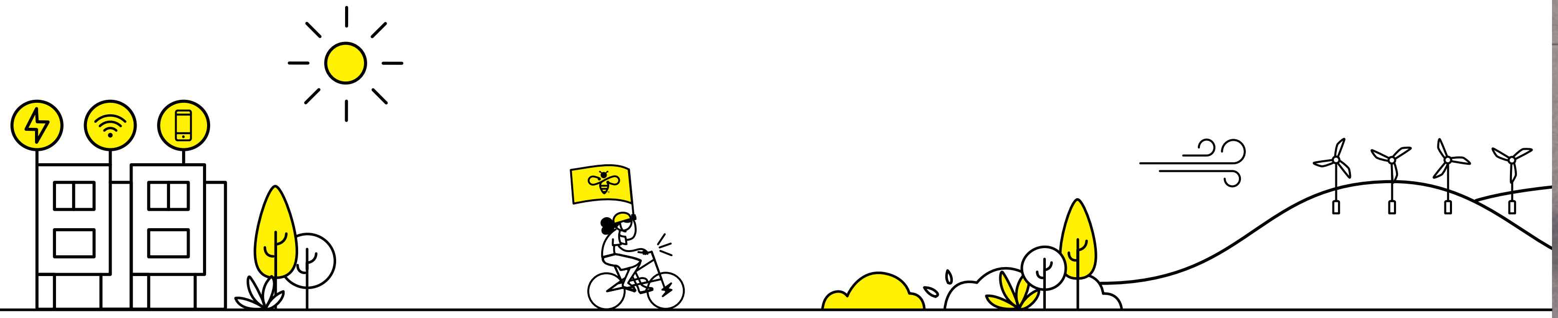
We have called the first stop on our journey to having a Future Ready retail business 'Fit For Now', denoting a focus on moving quickly and pragmatically onto a common operating model (people, process and systems), which is key to unlocking benefits of the acquisition.

We made significant progress over the period, including transitioning customers, sites and people to a single brand (Mercury). As part of the transition to a single brand, we created a set of customer offers combining the best of Mercury and Trustpower's previous offers.

We also enhanced the digital experience for customers providing insights, flexibility and more through a new Mercury app, website, chatbot, customer bill and MyAccount platform. We are in the process of ensuring all Mercury customers have access to these benefits, which will be achieved when we migrate customers onto our single technology stack in the coming months.

We are now seeing the benefits from the use of shared services, decommissioning of several duplicate enterprise technologies and core retail business activity. We remain on track to deliver further signalled benefits over the next two years.

Meanwhile in December we completed our acquisition of NOW NZ, a small telecommunications provider based in Hawke's Bay, which we originally partnered with to pilot Mercury Broadband. We see an exciting opportunity to grow our presence in the small to medium business telecommunications market with the help of NOW, which continues to operate as a standalone business.



Fiona Smith, Gina Mackie and Davey Van Gooswilligen in Tauranga.

ENABLING OUR BUSINESS TO BE FUTURE READY

Our vision for growth in our retail business is centred on meeting our customers changing needs with a range of bundled services.

'Fit For Now' is the springboard for the next stage of our journey in which we will realise remaining synergies and use our scale and evolved operating model to better capitalise on future opportunities.

TAKING A PROGRAMME APPROACH TO CUSTOMER CARE

As one of the largest participants in New Zealand's electricity sector, we are mindful of the material role we can play ensuring the shift to a low-carbon economy is equitable for all consumers.

We are taking action to help maintain accessibility and affordability of electricity supply for our customers. We take a programme approach to customer care which at this stage covers areas such as increasing our knowledge and understanding, directly supporting individuals and delivering through partnerships. Central to our approach is a focus on holistic solutions for those most in need of extra support.

Our joint research into hidden hardship with Genesis is nearing completion and as part of this we have co-designed several solutions with community providers to collaboratively progress. Meanwhile, we have launched a two-year Winter Energy Study in partnership with Kāinga Ora, which we see as an exciting opportunity to test and learn whether a capped proposition might be a sustainable future product for customers in hardship.

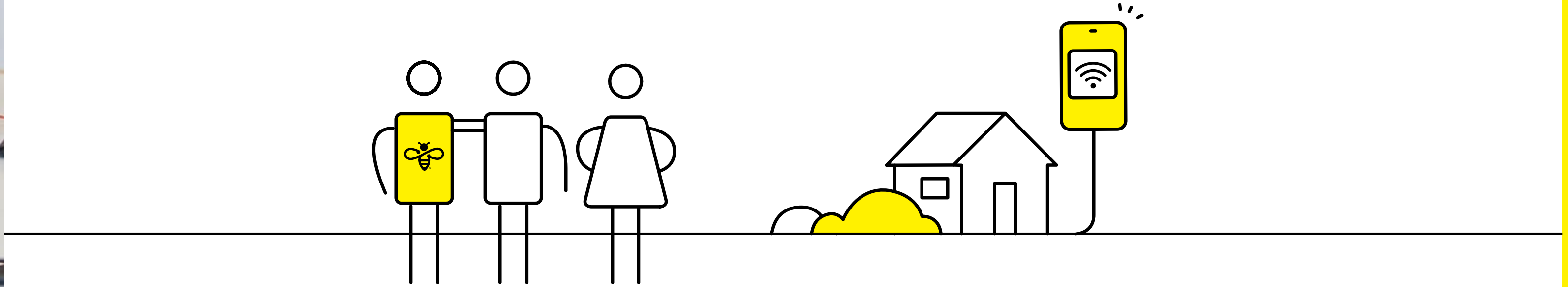
As part of our direct support this year we provided financial assistance to alleviate pressure for households affected by Cyclones Hale and Gabrielle and the Auckland Anniversary weekend floods. This included crediting accounts, waiving bills and field service fees and providing one-off payments.

We have meanwhile expanded our support of social electricity provider Nau Mai Rā, helping to ensure the continuity of their product for whānau in need. We continue to support several ERANZ-managed programmes including a credit scheme for those affected by the low fixed user charge tariff phase out and a pilot with the Ministry of Social Development to fast-track redirections of WINZ payments towards customers' electricity bills, broadening access to post-pay power. We also continue to evolve our approach to digital inclusion, taking learnings from programmes previously delivered by Trustpower.

We recognise maintaining our licence to operate is critical and so are extremely disappointed by an incident which occurred between 2016 and 2020 that saw us incorrectly apply early termination fees for about 2,000 customers. In May we were fined $279,500 for breaching the Fair Trading Act in respect of this matter. We focussed on making things right with affected customers as quickly as possible, including completing remediation almost two years ago.

Malakai Fukofuka and Shazreena Shaheem.

“WE ARE MINDFUL OF THE MATERIAL ROLE WE CAN PLAY ENSURING THE SHIFT TO A LOW CARBON ECONOMY IS EQUITABLE.



70% of our fleet is electric or plug-in hybrid.

2. KŌTUITANGA / PARTNERSHIPS.

SHAPING A COLLECTIVE VIEW ON DECARBONISATION

The challenge of decarbonising New Zealand's energy system is complex and requires widespread collaboration. It is essential we work together to achieve the best outcomes for the country in transitioning to a low-carbon energy system.

During the year we worked with several of our electricity sector peers to commission Boston Consulting Group (BCG) to undertake an independent study on how best to decarbonise New Zealand's economy.

The resulting report, 'The Future is Electric', fills an important gap, providing a whole-of-sector view on the best route for the electricity sector to support Aotearoa's transition to a low-carbon energy system.

The report identifies there is more than enough new renewable generation in the project pipeline across the sector to meet the projected changes, amplifying the importance of taking a long-term view of policy, regulatory and market settings that enable action.

Alongside this, we made a joint commitment with a diverse group of energy sector participants to help reduce emissions and build a more sustainable future for all New Zealanders. The 'Powering Change' initiative kicked off with the launch of a new website. This initiative sets out progress by the sector towards New Zealand's climate change goals and details the collective action of members. It aims to help provide transparency and give the public confidence that change is occurring.

Moving forward, the sector is working on further detailing collective action, including developing targets to evaluate progress. We see an opportunity for this progress to be tracked through the Powering Change platform, maximising our accountability. We are currently working with the private and public sector to understand how this could look.

SUPPORTING CUSTOMERS' DECARBONISATION GOALS

During the year we continued to work with some of our larger customers to support their decarbonisation goals including developing significant Power Purchase Agreements (PPA). A PPA is an electricity supply agreement, where a price is agreed for a period of supply.

This included agreeing a long-term PPA with Amazon for renewable energy for their Auckland data centres, planned for launch in 2024. Amazon will purchase half the real time output of Turitea South (the southern section of Mercury's Turitea wind farm). Mercury has a strong pipeline of renewable development opportunities and having a customer who is able to buy a significant amount of Turitea South's generation means that we remain well positioned to continue developing renewable projects at pace.

We also arranged to 'sleeve' a PPA between our customer, Ryman Healthcare (New Zealand's largest retirement village operator) and independent generator Solar Bay.

This contractual 'sleeving' structure means that Mercury supplies electricity when solar output is low and buys solar output above what the customer needs if output is high. Mercury manages the difference between what Ryman needs and Solar Bay can supply. Through this arrangement Ryman gets a reliable supply of power to some of its villages and long-term price certainty through agreements with both Solar Bay and Mercury. We acknowledge that smaller, independent generators have a role to play in New Zealand's renewable energy supply and see potential to support this through collaborative arrangements like this. In this case, Ryman will be the new solar farm's only customer and having a guaranteed single buyer means Solar Bay can proceed with development.

Looking forward, we see agreements like these become more common as large commercial customers look to directly support renewable generation development while maintaining certainty of cost and certainty of supply.

PLAYING AN ACTIVE ROLE IN SECTOR EVOLUTION

Market and policy frameworks must evolve to support the low-carbon transition and keep pace with rapidly changing technology. During the year we engaged on key regulatory and policy topics to seek views from stakeholders and share our own perspectives.

New Zealand's first three emissions budgets provide a clear pathway for reducing emissions. While cost of living concerns have influenced the first emissions budget (2022 – 2025), we advocate for balancing these immediate pressures with the need to uphold a strong climate change response framework longer term. This certainty enables investment and innovation in renewable electricity generation, which is vital considering the role of electrification in New Zealand's second and third emissions budgets. New Zealand's renewable electricity development pipeline must proceed at pace to meet anticipated growth in demand.

For this reason, Resource Management reforms have been a significant area of focus for Mercury, with Bills for the Natural and Built Environment Act (NBEA) and Spatial Planning Act (SPA) published over the year. In addition to individually submitting our views to government, we worked with peers to provide a cohesive industry perspective. Mercury believes the proposed system needs to go further to enable vital infrastructure development whilst still protecting the environment.

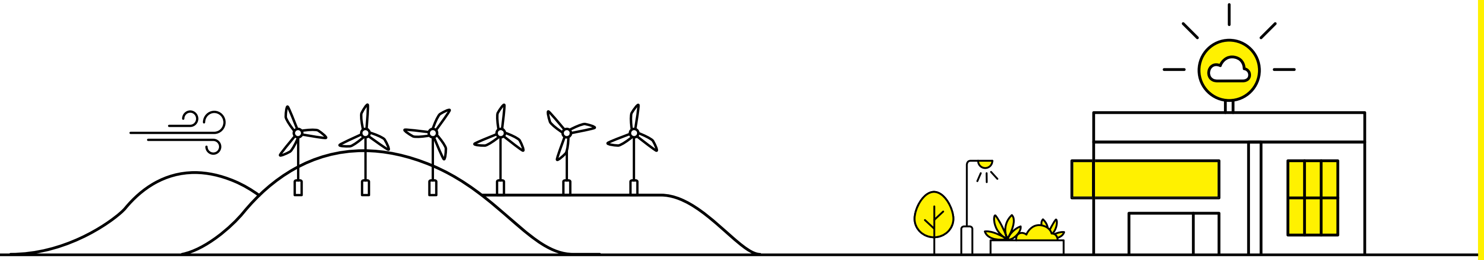
Maintaining a secure supply of electricity is a key challenge as we progress towards a more renewable future. During the year we engaged constructively with our peers, the system operator and regulatory bodies on this shared challenge. This included putting forward options for a winter peak product and engaging on key topics that are likely to form part of New Zealand's gas transition plan, reflecting our view that thermal generation has a critical role to play in managing security of supply over the medium term. The Ministry for Business, Innovation and Employment's work on electricity market measures will be a key process in confirming the role of thermal through the transition, and we continue to watch this closely.

We also engaged on the Commerce Commission's retail service quality work programme aimed at improving information retailers provide about mobile and broadband services. Mercury supports proposals that provide pricing and service quality information in a transparent and understandable form. Helping to make customers' decisions easier and promoting service innovation and competition is becoming increasingly important as a result of rapid and complex technological change. This will continue to be a focus going forward as the Commission looks to build on this programme.

Looking forward, we believe it is crucial that bipartisan support for the climate change response architecture continues and we will advocate strongly for this continuity as a key signal for our trajectory toward 2050.

Vince Hawksworth, Mercury (centre) with Amazon leaders at Turitea.

"THE CHALLENGE OF DECARBONISING NEW ZEALAND'S ENERGY SYSTEM IS COMPLEX AND REQUIRES WIDESPREAD COLLABORATION.



3. KAITIAKITANGA / STEWARDSHIP.

COMMITMENT TO NET ZERO

To play a leading role in Aotearoa New Zealand's successful transition to a low-carbon economy, we must demonstrate how our own actions are consistent with this objective. This year, we have set an emissions reduction target in accordance with the Science Based Targets initiative (SBTi) framework.

This globally recognised framework provides a comprehensive and science-based approach to guide companies in setting emission reduction targets in line with a 1.5° maximum global temperature increase and with the goals of the Paris Agreement. The SBTi recognises the energy sector will be a critical enabler for others to achieve their emissions reduction goals so has shortened the target date for companies operating in this sector to 2040, 10 years earlier than most other sectors.

Our Climate Transition Action Plan outlines our targets in more detail together with the actions we can take as a business. Every individual, organisation and country have a role to play in collectively addressing climate change, and we are confident these targets set Mercury on the path to actively participate in climate change mitigation.

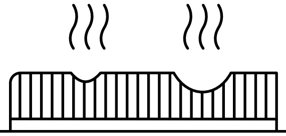
Mercury's targets include:

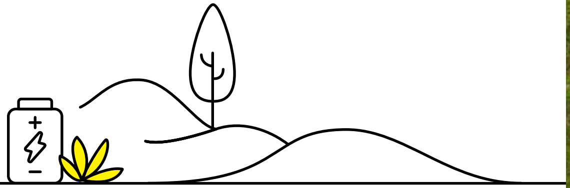
- Reducing scope 1 emissions (emissions associated with generating electricity) by 70% per MWh* and maintained at 70% per MWh* by 2030 and 2040 respectively.
- Reduce scope 3 emissions (emissions from the sale of natural gas) by 42%* and 90%* by 2030 and 2040 respectively.

SCOPE 1
↓70%* BY 2030 > ↓70%* BY 2040

SCOPE 3
↓42%* BY 2030 ↓90%* BY 2040

** from a 2022 base year.*





Waikato river.

Agreeing a target and actions sends a clear message to our people, customers, suppliers, investors, and other stakeholders on our future trajectory to mitigate impact. It supports us to explore innovative technologies and practices, such as carbon reinjection, that can also lead to operational efficiencies and enhanced competitiveness. It helps us deepen relationships with stakeholders, as we seek to collaborate in a meaningful way on this shared challenge.

Details of the material risks we will likely navigate are captured in the Climate Transition Action Plan.

ENHANCING OUR EXISTING GENERATION ASSETS

During the year we continued to execute on our scheduled hydro refurbishment programme to maintain and enhance the generation capacity and resilience of our hydro stations. This builds on nearly a decade of ongoing significant investment and will likely continue over the next 15 years.

Our investment programme at Karāpiro, currently valued at ~$90m, continues to progress with significant planning and enabling works. This year we achieved the successful replacement of the first of three generating units (generators, turbines, and governors). Works were delivered by our contractor partner Andritz Hydro, a global Austrian company.

The project will enable the Karāpiro station to generate renewable power for the next 50 years and enhances value by providing an additional 5MW per unit, increasing capacity from 96MW to 112.5MW (32GWh/year). On-site works for the second unit to be replaced are now underway, with the full project scheduled for completion April 2025.

Lead-in work has started for the next two stations to be rehabilitated. An eight-year project starting in 2027 at Maraetai I will see all turbines, generators and governors replaced at a cost of around $140 million. The upgrades will add around 32 GWh annual output to the station (an additional 5-8MW per generating unit).

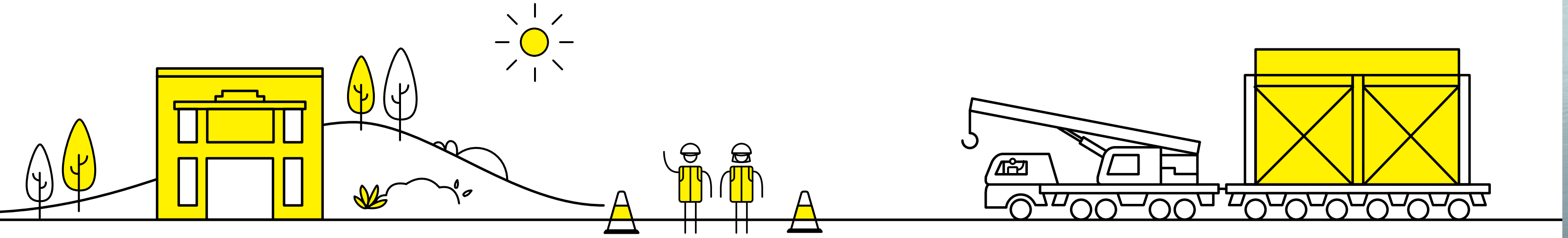
In addition, planning is underway for Ātiamuri, with works scheduled for FY2028 to upgrade all turbines, generators, and governors at a cost of around $90million. These upgrades will add 1-4MW per unit.

Like our new generation builds, this very large and complex programme of work is further challenged by constraints globally in manufacture of equipment, supplier availability and inflation and this is being factored into our planning.

COLLABORATING TO DELIVER UPGRADES AFTER THE KAWERAU OUTAGE

Our asset management team is committed to ongoing comprehensive analysis to build our understanding of risks and increase the resilience of our assets.

Following major damage to the 106MW Kawerau geothermal power station turbine in 2021, a $36m project has been carried out to replace the generator and turbine steam path. We also took the opportunity to replace the main control system, major pumping systems, large diameter steam piping and a range of ancillary equipment. This large piece of work involved collaboration across many teams from geothermal and hydro operations to accommodate the resource required. This programme of work will ensure that the station is ready to run efficiently and safely for the next decade and beyond.



“OUR HYDRO REFURBISHMENT PROGRAMME BUILDS ON NEARLY A DECADE OF ONGOING SIGNIFICANT INVESTMENT.

Karāpiro dam: 39-tonne head gate lift as part of refurbishment project.

Participants of our adaptive leadership programme - Dean Han, together with Kelly Melia and Angela Kennerley.

4. NGĀ TĀNGATA / PEOPLE.

BUILDING AN ADAPTIVE AND RESILIENT MERCURY

The world is increasingly complex and the challenges materially different. Climate change, digital transformation and artificial intelligence, cybersecurity threats, attracting and retaining the best people cannot be sufficiently addressed with simple solutions.

Our business must evolve to enable us to thrive in these less predictable environments, so we are moving to more adaptive ways of thinking and working. We have identified six key dimensions to help us focus our efforts, outlined in the infographic on this page.

During the year we focussed on lifting our people's capability and experience in adaptive practice. We established a leadership programme aimed at developing those in formal and informal leadership roles to grow their leadership skills and we built out our coaching capabilities. Both initiatives equip our people to play an active role shifting Mercury towards a more adaptive business.

While we lift people's capabilities in adaptive practices, we are also introducing these ways of working into some of the complex problems we are working on.

The integration of Mercury and Trustpower retail businesses is an example of where this has worked well. We have established an adaptive delivery model, with the project primarily building on the skills and capability of our own people rather than external providers.

Another example is in evolving our retail business planning approach, bringing multiple teams together to collaborate towards a shared understanding of business goals through 'big room planning' sessions. Through this, we better understand dependencies on other teams, identify risks and uncover impediments early.

Transitioning to an adaptive organisation requires a thoughtful and deliberate approach to people as well as the processes and structures that hinder or help us deliver. At times it has been challenging shifting deeply held beliefs, and we recognise this will be a continuous journey. In the future we will be better placed to achieve our ambitions and leverage the opportunities that come with inevitable disruption.

FOSTERING DIVERSITY, EQUITY, AND INCLUSION

Having a team of individuals with different backgrounds, views, experience, and capability working together makes us stronger and better as an organisation. During this financial year we undertook several initiatives to continue our journey towards fostering greater diversity, equity and inclusion. You can read our Diversity, Equity & Inclusion Policy on our website.

Our Diverse Emerging Leaders programme helps emerging leaders grow their leadership capability and sense of belonging by embracing their cultural identity and the uniqueness they bring. We built on the success of last year's pilot and doubled the number of participants in this year's cohort who over seven months completed the programme where they developed and built capabilities. They explored topics such as resilience, authenticity, conflict management, courageous conversations, career development strategies, and managing the imposter phenomenon.

We are starting to see the impact of this programme now. The second cohort's programme came to an end in May 2023 and 32% of that group have moved into more senior roles at Mercury since they started the programme in November 2022. 86% of the pilot cohort have also experienced internal movement since their programme started in August 2021.

Given the impact and success of the programme, a third cohort will start towards the end of this calendar year. The impacts of this programme not only directly contribute to our Diversity, Equity and Inclusion targets but more broadly we are beginning to see an increase in our cultural maturity, competence and confidence - leading to inclusivity and greater sense of belonging for all our people.

To increase Mercury's cultural capability, our understanding of Te Tiriti o Waitangi (Treaty of Waitangi) and enable our staff to feel more confident in their knowledge to participate in te ao Māori, we launched an online self-driven e-learning programme. This is focussed on te ao Māori, Aotearoa New Zealand history and te reo Māori me ōna tikanga. It includes learning modules covering pronunciation, greetings and introductions, general etiquette, history of Aotearoa and more. About 150 Mercury people including Board, management and operational levels are enrolled on the programme which will span approximately 12 months. At completion, we are hoping our kaimahi will have more knowledge, feel empowered to grow their use of te reo Māori and become more confident to engage with te ao Māori.

During the year we also boosted the inclusiveness of our leave policies to better reflect and allow for the various needs and circumstances of our people. This includes a significant update to our Parental Leave offering, the introduction of Gender Affirmation Leave and an update to our Bereavement Leave policy to remove any prescriptive reference to relationships.

LIFTING HEALTH, SAFETY AND WELLBEING

This year we have lifted the maturity of our approach to safety, shifting towards a more holistic and comprehensive view.

Our new Health, Safety & Wellbeing Policy was launched in April 2023 to reflect this way of thinking.

While preventing harm still underpins our culture, in order to continue to improve in all areas of health, safety and wellbeing it is important we do not create too narrow a focus on zero-harm. Our new policy aims to shift our culture to one where we can learn from the things that haven't gone right and are encouraged to share those learnings widely.

Our refreshed policy reinforces the Mercury Attitude of "Care" for safety and seeks to go beyond being a compliance document – by the nature of its design and language, it is intended to be a living document which is accessible and relevant to all our people regardless of role or physical location. This policy is bought to life for our employees through safety material toolkits to support safety conversations, utilising 'Learning Teams' as an inclusive method to understand events and developing robust safety leadership routines.

Longer term we anticipate that in addition to driving better safety outcomes this enhanced approach will help lift productivity, improve employee engagement and contribute to a more sustainable way of supporting our people.

"OUR PROGRAMME HELPS EMERGING LEADERS GROW THEIR LEADERSHIP CAPABILITY BY EMBRACING THEIR CULTURAL IDENTITY AND THE UNIQUENESS THEY BRING.

OUR SKILLS PLEDGE

While we remain supportive of the intent behind the Aotearoa Skills Pledge Mercury has elected to stop disclosing training data as we have broadened our approach to learning beyond formal training hours to include learning such as on-the-job and peer-to-peer learning, secondments, communities of practice, adaptive learning and coaching or mentoring.

"The Diverse Emerging Leaders programme allowed me to realise that I do have a voice, I do deserve more and most importantly that I was already doing that, I just needed to give myself permission to embrace it."

Shaun A Wilson
Team Leader, Sales Success

5. ARUMONI / COMMERCIAL.

RESPONDING TO THE HIGH RAINFALL

A third consecutive La Ninā weather system (wetter North Island, drier South Island) drove persistent North Island rainfall this year, and Lake Taupō and the catchment had the highest ever in-flows on record. Full year generation from the Waikato Hydro System was above 5,200 GWh (compared with about 4,000 GWh in an average year). The high inflows required us to spill more than 1,000 GWh (divert water past the power stations) to help manage lake levels and protect our assets.

The Taupō Gates and the eight dams that make up the Waikato Hydro System are a critical tool to help manage the impact of floods and droughts in the Waikato catchment from Taupō to Port Waikato. During the extreme rainfall in January-February 2023 the lake level went above our Maximum Control Level by 2.8cm for eight days. The effects of extreme weather events are anticipated by our resource consents, with the probability of exceeding Maximum Control Level at 1 in 5 years. Prior to the exceedance this year, the last time the lake level exceeded the Maximum Control Level was in 2011.

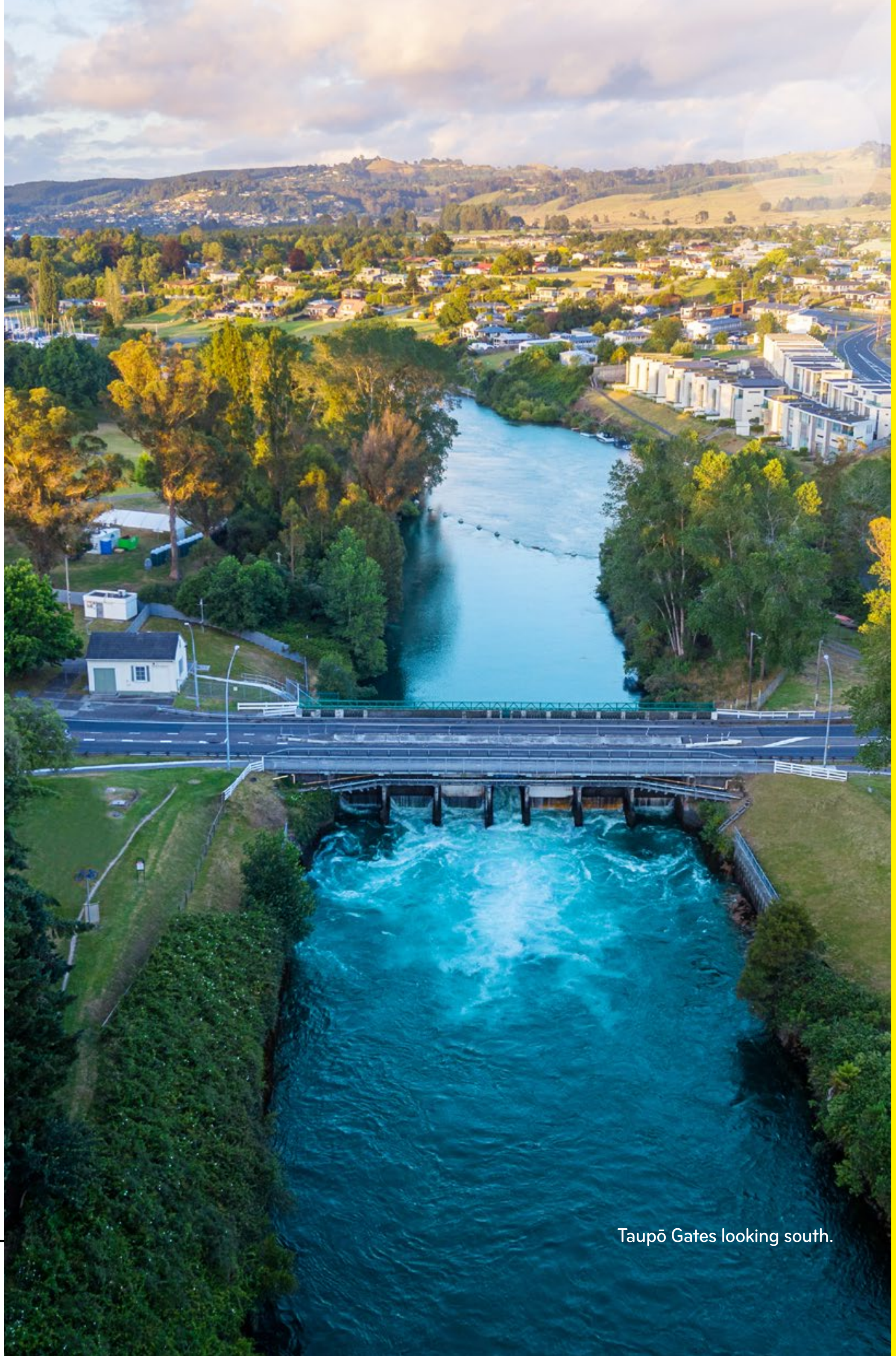
EXECUTING ON NEW GENERATION AT PACE

Developing more renewable generation remains a key growth area for Mercury and is one of the most meaningful ways in which we can contribute to New Zealand's decarbonisation goals. We are well positioned to develop new generation at the pace required and have flexibility to respond to changing market conditions thanks to our diverse suite of options including onshore wind, geothermal, capacity and flexibility projects.

We have a premium development pipeline at varying stages of readiness, and at over 9,000 GWh this is equal in size to our existing fleet of hydro, geothermal and wind generation. We remain confident we have the resource and capability to develop this considerable pipeline ourselves but also continue to look for opportunities to accelerate development, including through partnerships.

5,209GWh
WAIKATO HYDRO GENERATION

> **"WE HAVE A PREMIUM DEVELOPMENT PIPELINE AT VARYING STAGES OF READINESS.**


Taupō Gates looking south.

We celebrated the final construction stage of the $450m Turitea wind farm at a ceremony attended by the Minister of Energy Dr Megan Woods, mana whenua Rangitāne o Manawatū, local government, delivery partners and community. This considerable project adds 2% additional renewable energy to the national grid, and over 2,500 people worked to bring this new electricity to New Zealand over the course of the project.

We also started construction at our $115m Kaiwera Downs 1 wind farm which is proceeding to plan. Once complete in October 2023, this wind farm will have annualised generation of 147 GWh. We have staged the construction of this wind farm so that the initial 10 turbines are constructed now, with the ability to develop the larger second phase when market conditions allow.

We continue to develop other projects in our pipeline. Kaiwera Downs 2 and Kaiwaikawe wind farms are now at the final stages of planning, including monitoring post-COVID market and supply chain pressures as we move towards final investment decisions.

Looking forward, we are actively developing further sites, including monitoring wind at sites where we have options, and actively engaging with landowners. We are also working towards consenting further projects, providing further flexibility to adapt to changing market conditions.

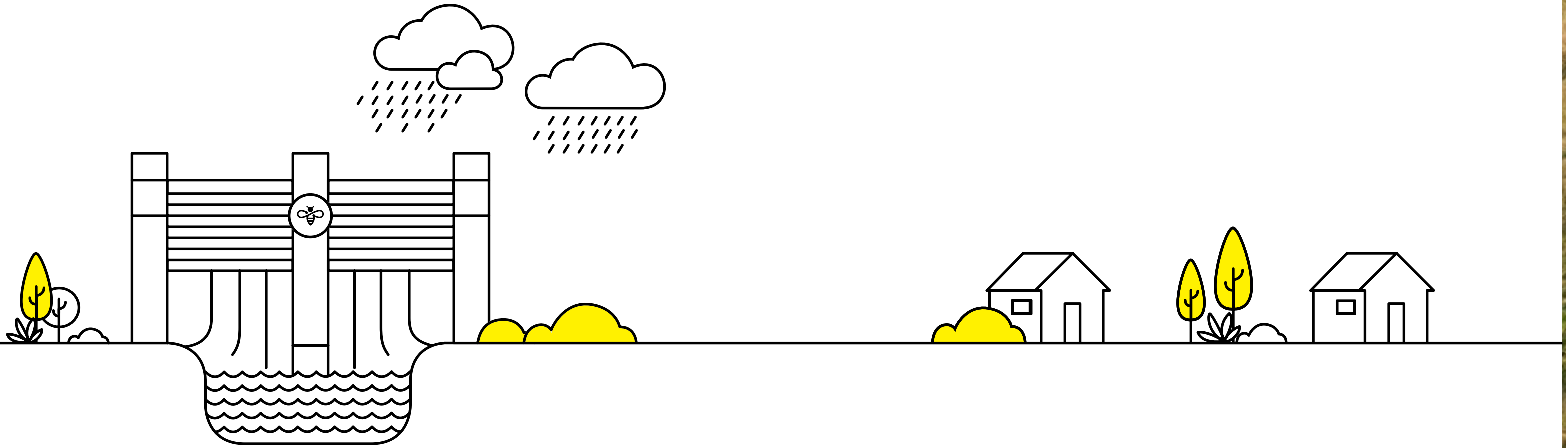
We are developing a project to add a fifth generating unit to the Ngā Tamariki geothermal station, adding ~47MW capacity to the station. With resource consent now approved for this additional unit, we are currently progressing the design and procurement prior to Final Investment Decision. The project to add this fifth unit comes after nearly ten years of operating the current four units, developing a deep understanding of overall sustainable development capacity to be certain that adding the fifth unit will not be detrimental to the geothermal reservoir's ongoing health. The project design will also consider the re-injection of non-condensable gases into the reservoir.

FOCUS ON MAXIMISING VALUE OF GEOTHERMAL OPERATIONS

Geothermal generation is a key supplier of baseload to the national energy mix. Our geothermal operations faced a challenging year with several unplanned outages across the fleet.

A dedicated Optimisation Team is working to maximise the value of our geothermal stations, with initiatives underway to improve performance of the plant machinery and processes and improve output. This includes control system optimisation at the Ngā Tamariki geothermal station, improving management of non-condensable gas accumulation in OEC generating units, reducing inlet pressure on one of the units at Mōkai, and removal of a restriction in the reinjection system at Ngā Awa Pūrua.

We have begun our most ambitious drilling campaign in over a decade, with eight "make up" wells (to maintain generating capacity) and one well repair in a campaign that is scheduled for completion late 2024. The campaign consists of three wells at Kawerau, two at Ngā Tamariki, and a further three at Rotokawa geothermal power stations, with a total investment of $135m.



Rotokawa geothermal field.

LOOKING AT THE NUMBERS.

TE TITIRO KI NGĀ TATAU.

This section explains how our integrated thinking, our decisions and our actions play out in financial results. We provide commentary on our financial performance for the year to the end of June 2023 compared with prior years, as well as our auditor's report and our financial statements. Segment reporting has been set out so that you can clearly see the financial dynamics of our generation operations as distinct from our retail operations.

Whirinaki River.

CONTENTS.

FINANCIAL COMMENTARY.

Mercury's FY2023 EBITDAF is $841 million, up more than 40% on the prior year $581 million. This record high result reflects the ongoing benefits from the Tilt and Trustpower acquisitions made during FY2022, a full year of operations for the north section of Turitea windfarm and commissioning of the south section, as well as above average hydro generation in a year of extremely high inflows.

RETAIL INTEGRATION

One team, one brand, one purpose. Significant progress was made during FY23 "interGREATing" our Trustpower and Mercury staff, customers, brands, processes, and systems. All Trustpower customers rebranded to Mercury in mid-June, with a refreshed Gentrack stack, loyalty programme, new bill, website, and app.

The successful transition was reflected in the strong uptake of the new Mercury customer app by over 60k customers and continued connection growth, which lifted to 860k by the end of the year.

OPERATIONAL ACTIVITY

At 5,209GWh, Mercury's hydro generation was up by almost 1100GWh compared to the group's long-term average, and up over 1500GWh compared to the dry prior year. Lake Taupō started the financial year at 70% storage, ~120GWh above average, and storage remained above average across the entire year as extremely wet conditions persisted with 100th percentile inflows to the Taupō/Waikato catchment. Management of the lake level also resulted in ~1100GWh of spill during the year, and the lake ended the year with storage above average by ~80GWh.

Geothermal generation was down 210GWh on the prior year due to the planned outage at the Kawerau geothermal station to replace the steam path and generator damaged in the June 2021 outage, as well as various planned and unplanned outages at other stations.

Wind generation increased 202GWh despite below average wind conditions with the addition of new generation from the south section of the Turitea windfarm following completion of construction in early 2023.

The above average hydro generation meant that net position increased from neutral last year to 560GWh long for FY2023. Average spot prices were $60/MWh lower although the impact on the portfolio was mitigated by hedging through short-dated sales which achieved prices well above spot outcomes.

In our customer business, we again saw lifts in customer yields across all customer segments. Yields in the commercial and industrial segment (physical and financial) increased by $14/MWh over the period. Average mass market yields increased $7/MWh. Mass market customer numbers increased across all products (electricity, gas, telco and mobile) with customers with 2 or more products up 14,000 to 190,000 continuing Mercury's transition to a truly multi-product utility provider.

OPERATING EARNINGS (EBITDAF)

Mercury's EBITDAF of $841 million rose $260 million from the previous year, as explained below.

Mercury's trading margin of $1,163 million was up $418 million from the previous year's trading margin, driven by above average hydro generation, new wind generation from Turitea and increased scale of the retail business following the Trustpower acquisition in the prior year.

Operating costs increased by $116 million on the prior year, primarily due to an increase in operational activity resulting from the Trustpower retail acquisition, including spend on the Retail Integration as noted above.

PROFIT FOR THE YEAR

Mercury's net profit after tax of $103 million was down significantly from the prior year, primarily due to the $367 million non-taxable gain on disposal of shares in Tilt recognised in FY2022. In addition to the $260 million increase in EBITDAF described above, reductions to profit of note were fair value movements ($126 million), impairments ($12 million), revaluation loss on generation assets ($41 million), depreciation ($51 million), and interest costs ($39 million).

CAPITAL STRUCTURE AND DIVIDENDS

Net debt was $1,907 million as at 30 June 2023, a decrease of $54 million from the prior year. Mercury's USD 30m tranche of USPP Notes was repaid in December 2022 and a $25m wholesale bond was repaid in March 2023. $150m of senior retail green bonds was issued in June 2023 and tracked in accordance with Mercury's Green Financing Framework.

Treasury stock of $28 million was re-issued through FY2023 in relation to Mercury's dividend reinvestment plan (DRP). The company's gearing level is calculated at 2.0 times debt/EBITDAF after adjusting for Mercury's subordinated debt. Gearing is down on the previous year due to the increase in EBITDFAF and slight decrease in debt. The gearing ratio remains within Mercury's target range of 2.0x to 3.0x debt/EBITDAF supporting our S&P credit rating of BBB+. At year end, Mercury held 13 million shares as treasury stock, has available debt headroom of $595 million and held cash and cash equivalents of $75 million. This continues to provide balance sheet flexibility for growth over and above current commitments.

A fully imputed final ordinary dividend of 13.1 cents per share (cps) has been declared. This brings the full-year ordinary dividend to 21.8 cps, up 9% on prior year (from 20.0 cents per share), marking our fifteenth consecutive year of ordinary dividend growth. Under the terms of Mercury's DRP, dated 22 February 2022, shareholders may elect to receive the dividend either wholly or partially by receiving Mercury ordinary shares in lieu of cash. The Board has determined that shares issued under the DRP in respect of the 2023 final ordinary dividend will be issued at a discount of 2.0% to the daily volume weighted average share price calculated in accordance with the DRP terms and conditions.

CASH FLOWS FROM OPERATING ACTIVITIES

Net cash provided by operating activities represents cashflows from the sale of electricity, gas, broadband, and telecommunication services, along with the costs associated with their sale and the cash costs of interest and taxes. Cash flows from operating activities were up $226 million this year, largely due to increased EBITDAF.

BALANCE SHEET

Total assets of the company reduced by $212 million, due mainly to changes in the fair value of financial instruments assets.

Stay in business capital expenditure (CAPEX) increased by $51 million on the prior year at $119 million, with major work including Retail Integration, the Kawerau turbine and steam path replacement, the first unit of the Karāpiro rehabilitation, and preparation for the drilling campaign. Leaving aside the Tilt and Trustpower retail acquisitions made in FY2022, growth CAPEX was up $92 million on the prior year to $177 million with completion of the Turitea windfarm and beginning of the construction of the first stage of Kaiwera Downs windfarm which is expected to be operational in the first half of FY2024.

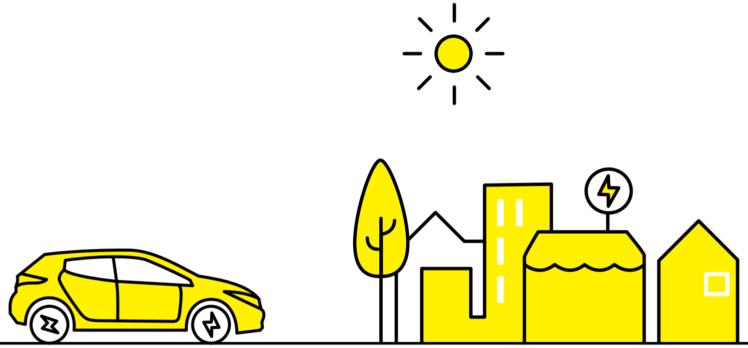
FINANCIAL TRACK RECORD.

FINANCIAL PERFORMANCE TRENDS

For the year ended 30 June ($ million)	2023	2022	2021	2020[1]	2019[2]
Income statement					
Trading margin	1,163	745	616	652	667
EBITDAF	841	581	463	490	506
Net profit for the year	103	469	141	209	357
Balance sheet					
Total shareholders' equity	4,849	4,752	4,186	3,733	3,537
Total assets	9,419	9,631	7,978	6,877	6,484
Total liabilities	4,570	4,879	3,792	3,144	2,947
Cash flow					
Operating cash flow	578	352	338	352	361
Investing cash flow	(271)	(534)	(296)	(194)	63
Financing cash flow	(297)	84	42	(173)	(335)
Capital expenditure					
Total capital expenditure	296	1,420	250	275	115
Growth capital expenditure	177	1,352	194	165	26
Stay-in-business capital expenditure	119	68	56	110	89
Other financial measures					
Free cash flow	459	284	282	242	272
Ordinary and special declared dividends	302	275	231	215	211
Ordinary dividends per share (cents)	21.8	20.0	17.0	15.8	15.5
Earnings per share	7.44	34.32	10.36	15.36	26.23
Net debt	1,907	1,961	1,329	1,149	1,096
Gearing (net debt/net debt + equity, %)	28.2	29.2	24.1	23.5	23.7
Debt/EBITDAF (x)[3]	2.0	2.9	2.5	2.2	1.9

For the year ended 30 June ($ million)	2023	2022	2021	2020[1]	2019[2]
Operational measures					
Total recordable injury frequency rate (TRIFR)[4]	0.49	0.60	0.64	1.26	0.72
Sales to customers (FPVV, GWh)	6,749	5,105	4,522	4,361	4,500
Electricity customers ('000)	590	574	328	348	373
Electricity generation (GWh)	9,038	7,499	6,205	6,331	6,703

[1] Restated for change in accounting policy in relation to configuration and customisation costs incurred in implementing SaaS arrangements.
[2] Financial results for the period 30 June 2019 include Metrix which the Group sold on 1 March 2019.
[3] Restated and adjusted for S&P treatment.
[4] Per 200,000 hours; includes on-site employees and contractors.



INDEPENDENT AUDITOR'S REPORT.

TO THE SHAREHOLDERS OF MERCURY NZ LIMITED

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2023

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

OPINION

We have audited the consolidated financial statements of the Group on pages 33 to 57, that comprise the consolidated balance sheet as at 30 June 2023, the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended on that date, and notes to the consolidated financial statements that include accounting policies and other explanatory information.

In our opinion, the consolidated financial statements of the Group present fairly, in all material respects, the consolidated financial position of the Group as at 30 June 2023, and its consolidated financial performance and cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

BASIS FOR OPINION

We conducted our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the Professional and Ethical Standards and the International Standards on Auditing (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the Auditor-General's Auditing Standards, which incorporate Professional and Ethical Standard 1: *International Code of Ethics for Assurance Practitioners* issued by the New Zealand Auditing and Assurance Standards Board, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

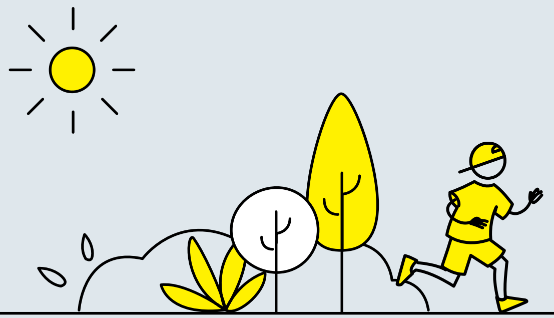
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

In addition to the audit, we have carried out engagements in the areas of a review of the Group's consolidated financial statements for the six months ended 31 December 2022, agreed upon procedures, pre-assurance reviews and other limited assurance engagements, which are compatible with independence requirements. Partners and employees of our firm may deal with the Group on normal terms within the ordinary course of trading activities of the business of the Group. Other than the audit and the engagements described, we have no relationship with or interests in the Group or any of its subsidiaries.

KEY AUDIT MATTERS

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

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



VALUATION OF GENERATION ASSETS

Why significant	How our audit addressed the key audit matter
Generation assets were revalued to $7,773 million at 30 June 2023 as set out in note B1 of the consolidated financial statements. The generation assets represent approximately 83% of the Group's total assets. The Group engages an external valuation specialist to estimate the fair value of generation assets using a discounted cash flow model. The most significant inputs used to estimate the fair value of the generation assets include the forecast wholesale electricity price path, generation volumes and the discount rate as described in note B1 of the consolidated financial statements. The forecast wholesale electricity price path and discount rate assumptions are estimated by the Group's external valuation specialist ("valuer"). Forecast generation volumes are based on the Group's own forecast average generation volumes and are assessed by the valuer. We consider the valuation of generation assets to be a key audit matter given the significance of the assets to the Group and because the inputs to the valuation models are inherently subjective.	In obtaining sufficient appropriate audit evidence we: • met with the valuer to understand the valuation methods adopted and the significant inputs used by the valuer to estimate the fair value of the generation assets as at 30 June 2023. • compared forecast generation volumes to historical generation volumes. • involved our own valuation specialists to: - consider the process used to determine the forecast wholesale electricity price path estimated by the valuer; and - assess the appropriateness of the discount rate. • assessed the competence, capabilities and objectivity of the valuer; • assessed whether the valuation adjustments made to the recorded asset values were in accordance with the Group's accounting policy; and • assessed the adequacy of the related financial statement disclosures in note B1. As a result of the above procedures, we considered the valuation techniques and key assumptions reasonable in forming our opinion on the financial statements as a whole.

VALUATION OF LEVEL 3 DERIVATIVE FINANCIAL INSTRUMENTS

Why significant	How our audit addressed the key audit matter
The Group's activities expose it to certain risks which are managed using derivative financial instruments. At 30 June 2023, the fair value of derivative assets total $444 million and derivative liabilities total $449 million as set out in note F1 of the consolidated financial statements. These balances include certain electricity price derivatives for which the valuation inputs are not readily observable in active primary or secondary markets and require the use of more complex valuation assumptions including the Group's internal forecast wholesale electricity price path. Derivatives for which the valuation inputs are not readily observable are referred to as 'level 3' derivatives as disclosed in note F1 of the consolidated financial statements. We consider the valuation of level 3 derivatives to be a key audit matter as the inputs to the valuation models are inherently subjective.	In obtaining sufficient appropriate audit evidence we: • involved our valuation specialists to assess the models used to estimate the fair value of the level 3 derivatives as at 30 June 2023 on a sample basis. Our valuation specialists: - evaluated the appropriateness of the valuation methodologies; and - assessed the Group's internal forecast wholesale electricity price path by comparing it to other price path estimates obtained in performing the generation asset valuation procedures detailed above. • together with our internal valuation specialists, challenged key assumptions and inputs. • agreed key contract terms, including contract start and maturity dates and electricity strike prices, to the relevant contract on a sample basis. • assessed the adequacy of the related financial statement disclosures as described in notes F1 and F2. As a result of the above procedures, we considered the valuation techniques and key assumptions reasonable in forming our opinion on the financial statements as a whole.

OTHER INFORMATION

The Directors are responsible on behalf of the Group for the other information. The other information comprises the information included on pages 1 to 29 and 58 to 121 but does not include the consolidated financial statements and our auditor's report thereon.

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

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

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The Directors are responsible on behalf of the Group for the preparation and fair presentation of the consolidated financial statements in accordance with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards, and for such internal control as the Directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

AUDITOR'S RESPONSIBILITY FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the use of the going concern basis of accounting by the directors and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure, and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision, and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

Our responsibilities arise from the Public Audit Act 2001.

LLOYD BUNYAN // ERNST & YOUNG
ON BEHALF OF THE AUDITOR-GENERAL

AUCKLAND, NEW ZEALAND
21 AUGUST 2023

GROUP FINANCIAL STATEMENTS.

CONSOLIDATED INCOME STATEMENT.

For the year ended 30 June 2023

	Note	2023 $M	2022 $M
Revenue	A1, A2	2,730	2,188
Expenses	A2	(1,900)	(1,602)
Depreciation and amortisation	B1, B2	(344)	(293)
Impairment	A2, B2	(12)	–
Revaluation loss of generation assets	A2, B1	(41)	–
Change in the fair value of financial instruments	F1, F2	(172)	(85)
Change in the fair value of carbon units held for trading	C2	(36)	3
Share of profit/(loss) from associates and joint ventures	E1	5	(5)
Gain/(loss) on acquisitions and disposals		12	366
Interest income	A2	3	2
Interest expense	A2	(103)	(64)
Profit before tax		142	510
Tax expense	A3	(39)	(41)
Profit for the year attributable to owners of the parent		103	469
Basic and diluted earnings per share (cents)		7.44	34.32

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME.

For the year ended 30 June 2023

	Note	2023 $M	2022 $M
Profit for the year attributable to owners of the parent		103	469
Other comprehensive income			
Items that will not be reclassified subsequently to profit or loss			
Change in asset revaluation reserve		113	298
Change in cash flow hedge reserve transferred to balance sheet	F1	2	(1)
Share of movements in associates' and joint ventures' reserves	E1	11	1
Tax effect		(31)	(83)
Items that may be reclassified subsequently to profit or loss			
Change in cash flow hedge reserve	F1	212	59
Transfer of share of associate's reserves to profit or loss upon disposal of investment in associate	F1	–	(21)
Tax effect		(60)	(16)
Other comprehensive income for the year, net of taxation		247	237
Total comprehensive income for the year attributable to owners of the parent		350	706

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

CONSOLIDATED BALANCE SHEET.

As at 30 June 2023

	Note	2023 $M	Restated 2022 $M
SHAREHOLDERS' EQUITY			
Issued capital		378	378
Treasury shares	D1	(34)	(50)
Reserves		4,505	4,424
Total shareholders' equity		4,849	4,752
ASSETS			
Current assets			
Cash and cash equivalents	D4	75	65
Trade and other receivables	C1	440	489
Contract assets and costs		32	20
Inventories	C2	91	94
Derivative financial instruments	F1	201	311
Total current assets		839	979
Non-current assets			
Property, plant and equipment	B1	8,099	8,080
Intangible assets	B2	138	123
Investment in and advances to associates and joint ventures	E1	80	73
Advances to joint operations	E1	4	4
Trade and other receivables	C1	1	3
Contract assets and costs		15	10
Derivative financial instruments	F1	243	359
Total non-current assets		8,580	8,652
Total assets		9,419	9,631

	Note	2023 $M	Restated 2022 $M
LIABILITIES			
Current liabilities			
Payables and accruals		344	383
Provisions	C3	3	-
Borrowings	D2	375	561
Derivative financial instruments	F1	186	292
Taxation payable	A3	44	14
Total current liabilities		952	1,250
Non-current liabilities			
Provisions	C3	81	81
Derivative financial instruments	F1	263	400
Borrowings	D2	1,523	1,395
Deferred tax	A3	1,751	1,753
Total non-current liabilities		3,618	3,629
Total liabilities		4,570	4,879
Net assets		4,849	4,752

For and on behalf of the Board of Directors who authorised the issue of the Financial Statements on 21 August 2023.

PRUE FLACKS // CHAIR OF THE BOARD OF DIRECTORS

21 August 2023

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

21 August 2023

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY.

For the year ended 30 June 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 2021		378	214	3,959	(268)	(97)	4,186
Recycling of share of associates' reserves to retained earnings upon disposal		–	23	(21)	–	(2)	–
Transfer of share of associates' reserves to profit or loss upon disposal		–	–	–	(20)	(1)	(21)
Movement in asset revaluation reserve, net of taxation		–	–	215	–	–	215
Movement in cash flow hedge reserve, net of taxation		–	–	–	22	–	22
Share of movements in associates' and joint ventures' reserves		–	–	–	21	–	21
Other comprehensive income		–	23	194	23	(3)	237
Net profit for the year		–	469	–	–	–	469
Total comprehensive income for the year		–	492	194	23	(3)	706
Dividend		–	(248)	–	–	–	(248)
Issue of treasury shares		–	58	–	–	50	108
Balance as at 30 June 2022		378	516	4,153	(245)	(50)	4,752
BALANCE AS AT 1 JULY 2022		378	516	4,153	(245)	(50)	4,752
Movement in asset revaluation reserve, net of taxation		–	–	82	–	–	82
Movement in cash flow hedge reserve, net of taxation		–	–	–	154	–	154
Share of movements in associates' and joint ventures' reserves		–	–	–	11	–	11
Other comprehensive income		–	–	82	165	–	247
Net profit for the year		–	103	–	–	–	103
Total comprehensive income for the year		–	103	82	165	–	350
Dividend		–	(286)	–	–	–	(286)
Issue of treasury shares for dividend reinvestment programme	D1	–	15	–	–	13	28
Sale of treasury shares	D1	–	2	–	–	3	5
Balance as at 30 June 2023		378	350	4,235	(80)	(34)	4,849

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

CONSOLIDATED CASH FLOW STATEMENT.

For the year ended 30 June 2023

	Note	2023 $M	2022 $M
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers		2,620	2,011
Payments to suppliers and related parties		(1,687)	(1,433)
Payments to employees		(147)	(93)
Interest received		3	2
Interest paid		(104)	(61)
Taxes paid		(107)	(74)
Net cash provided by operating activities	D4	578	352
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments for acquisition of property, plant and equipment		(250)	(114)
Payments for acquisition of intangibles		(47)	(25)
Proceeds from the disposal of investment in Tilt Renewables Limited		–	603
Proceeds from receivables recognised from acquisitions		–	124
Payments for acquisition of NOW New Zealand		(17)	–
Payments associated with business combinations, net of cash acquired		–	(1,099)
Distributions received from/(Advances paid to) associates and joint ventures		6	10
(Lodgements)/return of prudential deposits		37	(33)
Net cash (used)/received in investing activities		(271)	(534)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from borrowings		509	777
Repayment of borrowings		(544)	(548)
Principal repayment of lease liabilities		(9)	(6)
Proceeds from the sale of treasury shares		5	93
Dividends paid		(258)	(232)
Net cash (used)/received in financing activities		(297)	84
Net increase/(decrease) in cash and cash equivalents held		10	(98)
Cash and cash equivalents at the beginning of the period		65	163
Cash and cash equivalents at the end of the period		75	65
Cash balance comprises:			
Cash held at bank at the end of the period		75	65

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

GENERAL INFORMATION AND SIGNIFICANT MATTERS

GENERAL INFORMATION

These 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. The Company 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 Group financial statements have been prepared:

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

ESTIMATES & JUDGEMENTS

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

The areas of significant estimates and judgements are as follows:

- Purchase price allocation as a result of the acquisition of Trustpower's retail business and NOW New Zealand Ltd (refer to Acquisition Accounting and Significant Matters)
- Fair value of generation plant and equipment (refer note B1)
- Valuation of financial instruments (refer notes F1 and F2).

ACQUISITION ACCOUNTING AND SIGNIFICANT MATTERS

Acquisition of Trustpower Limited's Retail Business ("Trustpower transaction")

In the previous reporting period the Group completed its acquisition of Trustpower Limited's retail business and disclosed a provisional purchase price allocation. The Group has now completed its purchase price allocation in accordance with NZ IFRS 3 *Business Combinations.* The fair values allocated to the assets and liabilities, and the linked derivative are disclosed below. The final allocation differs from the provisional purchase price allocation by $1 million as a result of a reduction in the contract assets balance acquired and a corresponding reduction in the acquisition consideration amount.

Acquisition consideration - by way of cash ($M)	470

	Fair value allocated on 1 May 2022 ($M)
Derivative financial instruments	488
Intangible assets	32
Property, plant and equipment	19
Right-of-use assets	22
Lease liabilities	(22)
Contract assets	28
Inventories	3
Receivables	49
Payables and accruals	(3)
Deferred tax liabilities	(146)
Net assets	**470**

The Group previously recognised a bargain purchase gain of $1m from the transaction.

Acquisition of remaining shares in NOW New Zealand Ltd

In the 2021 financial year Mercury acquired a 48% interest in NOW New Zealand ("NOW"). On 15 December 2022, the Group paid $16.7m in cash to acquire the remaining 52% of shares in NOW. After considering the acquisition date fair value of the existing 48% interest, this resulted in the entire investment being valued at $32.4m and a gain of $12m being recognised in the income statement. The Group has prepared a purchase price allocation in accordance with NZ IFRS 3 *Business Combinations.* The fair value allocated to the asset and liability classes upon acquisition are disclosed below.

	Fair value allocated on 15 December 2022 ($M)
Customer assets	30
Property, plant and equipment	4
Receivables	3
Payables and accruals	(6)
Borrowings	(3)
Deferred tax liabilities	(6)
Goodwill	10
Net assets acquired	32

In the December 2022 interim report, the Group recognised $9m goodwill from the transaction based on the preliminary acquisition accounting. The valuation of the assets and liabilities acquired has now been completed as above and total goodwill of $10m has been recognised.

Since acquisition, revenue and net loss after tax attributable to NOW within the consolidated statement of profit and loss totalled $20m and $(1)m respectively. If the acquisition had occurred as of the beginning of the reporting period, the total revenue and net loss after tax attributable to NOW would have been $45m and $(6)m respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS.

For the year ended 30 June 2023

Change in accounting treatment of unhedged electricity derivatives

Following the IFRS Interpretations Committee (IFRIC) Agenda Decision on Physical Settlement of Contracts to Buy or Sell a Non-Financial Item (IFRS 9 *Financial Instruments*), the Group has reassessed the accounting treatment of realised gains and losses on unhedged electricity derivatives. In 2023, realised gains and losses on unhedged derivative contracts will not be reclassified to revenue or expenses and will continue to be recognised within the change in fair value of financial instruments in the statement of profit and loss. Settlements of unhedged derivatives that occurred in 2022 have not been reclassified or restated in the financial statements as the overall impact is not considered material.

Management reporting continues to reclassify realised gains or losses on unhedged derivatives to revenue or expenses which means the gains and losses are included within the non-GAAP measure of EBITDAF (Earnings before net interest expense, tax expense, depreciation, amortistion, change in the fair value of financial instruments, gain/(loss) on disposal and impairments). This measure is reported in Note A2 and includes a reconciliation of realised and unrealised changes in fair value between the statement of profit and loss and EBITDAF.

Restatement on presentation of Financial Transmission Rights (FTRs):

An error has been identified in the presentation of Financial Transmission Rights (FTRs). FTRs are Level 1 electricity derivatives used to manage locational price risk. The Group previously disclosed FTRs gross with acquisition cost as a liability in Payables and accruals and its hedge value separately as an asset in Derivative financial instruments. As these are net settled, the Group has changed presentation on the consolidated balance sheet in 2023 and restated the prior year. The effects of this change in presentation on the consolidated balance sheet are shown in the following table:

Accounting standards, interpretations and amendments not yet effective

In December 2022, the External Reporting Board ("XRB") of New Zealand released the Aotearoa New Zealand Climate Standards ("NZ CS") setting the requirements for the reporting of climate risks. The NZ CS are mandatory for periods beginning on and from 1 January 2023, so Mercury will apply the standards for the period ending 30 June 2024.

As with previous years, the Group has prepared separate voluntary Climate-related disclosures which can be found in the Climate Statement section of the Integrated Report. These disclosures do not form part of the consolidated financial statements.

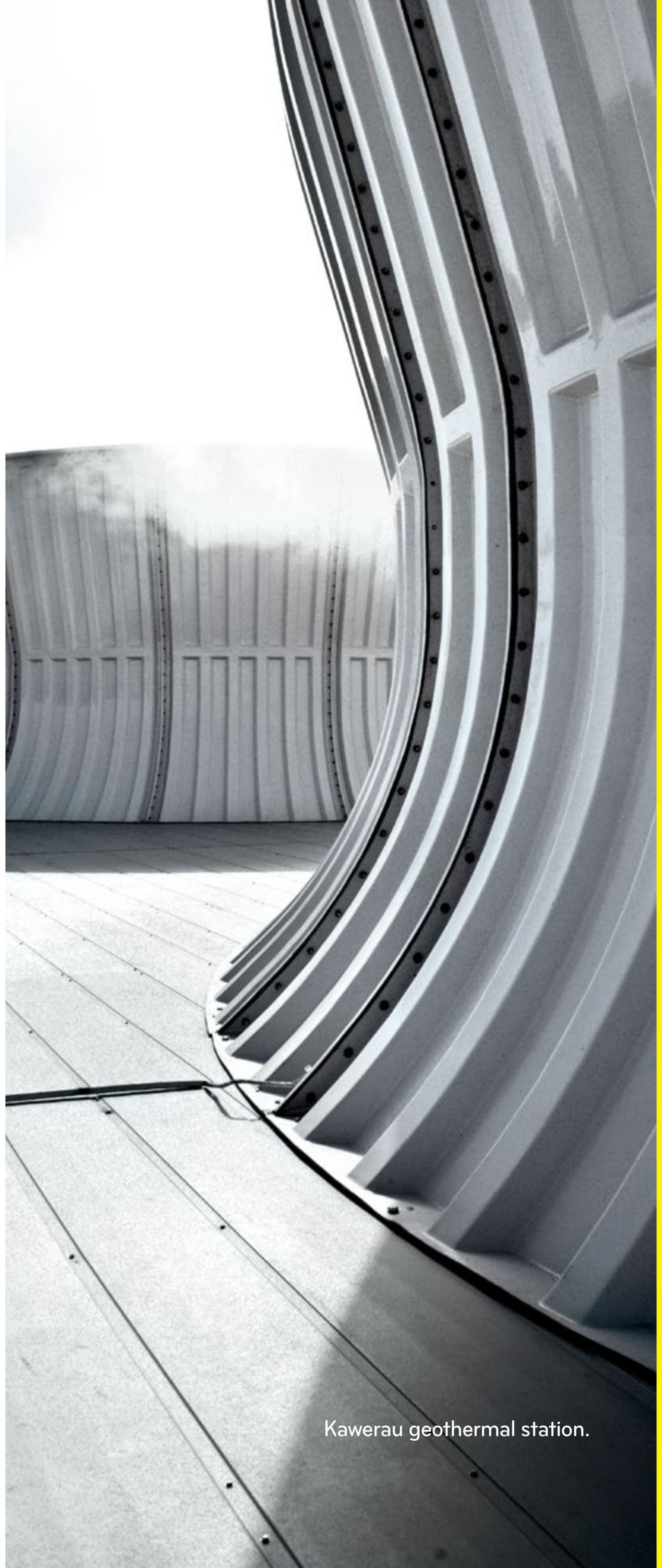
The potential impacts of climate change and the environmental policies of the New Zealand Government have been considered by the Group when determining its strategy. This has potential impacts on the financial statements in the following areas:

- Generation assets and energy derivatives are revalued to fair value at the end of each reporting period. A key input for the valuations is the wholesale electricity price path. This price path reflects the impact of environmental policies on the supply and demand of power which could affect future prices. Refer to note B1.
- The Group is an active participant in New Zealand's Emissions Trading Scheme (ETS) and began trading in surplus carbon units in 2022. The market value of carbon units impacts the fair value of units held for trading and the cost of meeting the Group's ETS compliance obligations.

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

RESTATEMENT ON PRESENTATION OF FTRS

	Audited year ended 30 June 2022 $M	Adjustments $M	Restated audited year ended 30 June 2022 $M
CONSOLIDATED BALANCE SHEET			
Current Assets			
Derivative financial instruments	328	(17)	311
Non-Current Assets			
Derivative financial instruments	371	(12)	359
Current Liabilities			
Payables and accruals	(400)	17	(383)
Non-Current Liabilities			
Payables and accruals	(12)	12	–


Kawerau geothermal station.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS.

For the year ended 30 June 2023

NOTE A1. REVENUE

Mercury earns revenue from the following sources:

Revenue stream	Description & Revenue Recognition
Electricity generation, net of hedging	Revenue is received from: - Electricity generated and sold through the wholesale markets, and power purchase agreements (PPAs). Revenue is recognised at the time of generation. - net settlement of hedged energy contracts sold or bought on the futures market, and to generators, retailers and commercial & industrial customers and recognised at the time of hedge settlement.
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. The net 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.

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, 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 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 income statement. Unrealised gains or losses, recognised in profit and loss, on both hedged and unhedged electricity swaps are not included in EBITDAF and are reported in the change in fair value of financial instruments in the income statement. A reconciliation of EBITDAF to profit before tax can be found in the summary table of the note.

The presentation of segment EBITDAF has been split out in more detail than previous disclosures to provide more transparency on the revenue of products and services provided by the Group.

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 E1). 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

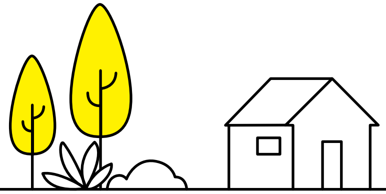
The retail market segment encompasses activity associated with sale of electricity, gas, telecommunication products/services and other related products and services to mass market customers in New Zealand.

Other Segments

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.



NOTE A2. SEGMENT REPORTING (CONTINUED)

SEGMENT RESULTS

YEAR ENDED 30 JUNE 2023	Generation/ Wholesale $M	Retail $M	Other Segments $M	Inter– segment $M	Total $M
Generation, net of economic hedging	825	-	–	–	825
Sales to customers	442	1,206	–	–	1,648
Inter-segment sales	529	-	–	(529)	–
Electricity Revenue	1,796	1,206	–	(529)	2,473
Purchases, net of economic hedging	(656)	(529)	–	529	(656)
Transmission & distribution	(115)	(468)	–	–	(583)
Metering	(4)	(63)	–	–	(67)
ELECTRICITY MARGIN	1,021	146	–	–	1,167
Gas Revenue	–	89	–	–	89
Purchases	–	(29)	–	–	(29)
Transmission & distribution	–	(33)	–	–	(33)
Metering	–	(8)	–	–	(8)
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	Generation/ Wholesale $M	Retail $M	Other Segments $M	Inter– segment $M	Total $M
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 acquisition and disposal	–	12	–	–	12
Impairment	–	(12)	–	–	(12)
Revaluation loss of generation assets	(41)	–	–	–	(41)
Change in fair value of carbon units held for trading	(36)	–	–	–	(36)
Unrealised change in the fair value of financial instruments					(178)
Interest income					3
Interest expense					(103)
Depreciation and amortisation					(344)
Profit before tax					142

NOTE A2. SEGMENT REPORTING (CONTINUED)

YEAR ENDED 30 JUNE 2022	Generation/ Wholesale $M	Retail $M	Other Segments $M	Inter–segment $M	Total $M
Generation, net of economic hedging	929	–	–	–	929
Sales to customers	377	748	–	–	1,125
Inter-segment sales	300	–	–	(300)	–
Electricity Revenue	1,606	748	–	(300)	2,054
Purchases	(851)	(300)	–	300	(851)
Transmission & distribution	(101)	(288)	–	–	(389)
Metering	(4)	(39)	–	–	(43)
ELECTRICITY MARGIN	650	121	–	–	771
Gas Revenue	–	46	–	–	46
Purchases	–	(13)	–	–	(13)
Transmission & distribution	–	(19)	–	–	(19)
Metering	–	(5)	–	–	(5)
GAS MARGIN	–	9	–	–	9
Telco Revenue	–	21	–	–	21
Cost of sales	–	(17)	–	–	(17)
TELCO MARGIN	–	4	–	–	4
Other direct cost of sales	(30)	(10)	–	–	(40)
TRADING MARGIN	620	124	–	–	744
OTHER INCOME	64	5	(2)	–	67
Employee compensation and benefits	(41)	(37)	(16)	–	(94)
Maintenance expenses	(41)	(10)	–	–	(51)
Other expenses	(43)	(30)	(12)	–	(85)
Allocation of corporate overheads	(14)	(14)	28	–	–
Total operating expenses	(139)	(91)	–	–	(230)
Segment EBITDAF	545	38	(2)	–	581

	Generation/ Wholesale $M	Retail $M	Other Segments $M	Inter–segment $M	Total $M
Summary and reconciliation to net profit before tax					
Revenue	1,670	820	(2)	(300)	2,188
Expenses	(1,120)	(782)	–	300	(1,602)
Share of profit/(loss) from associates and joint ventures	(5)	–	–	–	(5)
Segment EBITDAF	545	38	(2)	–	581
Gain / (loss) on disposal	366	–	–	–	366
Revaluation of carbon trading units	3	–	–	–	3
Change in the fair value of financial instruments					(85)
Interest income					2
Interest expense					(64)
Depreciation and amortisation					(293)
Profit before tax					510

Audit Fees

Mercury NZ Limited (the Company) is a public entity as defined in the Public Audit Act 2001 and the Auditor-General is the auditor of every public entity. The Auditor-General has appointed Lloyd Bunyan of EY to carry out the audit on his behalf. NZX listing rules and Mercury's Audit Independence Policy requires that the signing partner performing the audit to rotate every five years.

	2023 $000	2022 $000
Audit of the financial statements	668	742
Review of interim financial statements	75	75
Other assurance related services	187	3
Non-audit services	2	6
Foreign tax services	–	28
Total fees paid to auditors	932	854

Other assurance-related services include a pre-issuance review of climate-related disclosures, and limited assurance engagements relating to Mercury's greenhouse gas emissions inventory ($184k) and Mercury's Master Trust Deed ($3k).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS.

For the year ended 30 June 2023

NOTE A3. TAXATION

	2023 $M	2022 $M
Income Tax		
(i) Tax expense		
Profit before tax	142	510
Prima facie tax expense at 28% on the profit before tax	(40)	(143)
Adjusted for the tax effect of the following items:		
• share of associates' and joint ventures' tax paid earnings	1	1
• capital gain	3	106
• impairment of NOW goodwill	(3)	–
• other differences	–	(5)
Tax expense attributable to profit from ordinary activities	(39)	(41)
Represented by:		
Current tax expense	(140)	(91)
Deferred tax recognised in the income statement	101	50

The effective tax rate for the financial year is 28% (30 June 2022: 8% due to the non-taxable gain on disposal of shares in Tilt Renewables Limited, 29% after adjustment for the gain).

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

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

Deferred Tax

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

Property, plant and equipment is held on capital account for income tax purposes. Where assets are revalued, with no similar adjustment to the tax base, a taxable temporary difference is created that is recognised in deferred tax.

	Property, plant and equipment $M	Financial instruments $M	Employee entitlements $M	Other $M	Total $M
(ii) Movement in deferred tax					
Asset/(Liability) Balance as at 1 July 2021	(1,498)	97	3	35	(1,363)
Charged/(credited) to the income statement	25	28	–	(3)	50
Charged/(credited) to other comprehensive income	(80)	(16)	–	(3)	(99)
Deferred tax associated with the acquisition of Tilt and Trustpower retail businesses	(206)	(125)	–	(7)	(338)
Other movements	–	–	–	(3)	(3)
Asset/(Liability) Balance as at 30 June 2022	(1,759)	(16)	3	19	(1,753)
Asset/(Liability) Balance as at 1 July 2022	(1,759)	(16)	3	19	(1,753)
Charged/(credited) to the income statement	34	53	1	13	101
Charged/(credited) to other comprehensive income	(31)	(60)	–	–	(91)
Deferred tax associated with the acquisition of NOW	–	–	–	(8)	(8)
Asset/(Liability) Balance as at 30 June 2023	(1,756)	(23)	4	24	(1,751)

'Other' deferred tax balances comprises temporary differences relating to the acquisition of NOW and the use of carried forward losses from Waverley Wind Farm Ltd.

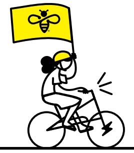
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS.

For the year ended 30 June 2023

NOTE B1. PROPERTY, PLANT AND EQUIPMENT

	Generation assets at fair value $M	Other assets at cost $M	Right-of-use assets $M	Capital work in progress at cost $M	Total $M
YEAR ENDED 30 JUNE 2022					
Opening net book value	6,362	39	40	387	6,828
Additions	–	–	26	128	154
Additions in relation to the acquisition of Tilt New Zealand assets	1,026	–	16	–	1,042
Additions in relation to the acquisition of Trustpower retail business	–	18	22	1	41
Transfers	302	5	–	(307)	–
Disposals	(5)	(2)	–	–	(7)
Net revaluation movement	293	–	–	–	293
Depreciation charge for the year	(255)	(9)	(7)	–	(271)
Closing net book value	7,723	51	97	209	8,080
Balance at 30 June 2022					
Cost or valuation	7,723	137	120	209	8,189
Accumulated depreciation	–	(86)	(23)	–	(109)
Net book value	7,723	51	97	209	8,080

	Generation assets at fair value $M	Other assets at cost $M	Right-of-use assets $M	Capital work in progress at cost $M	Total $M
YEAR ENDED 30 JUNE 2023					
Opening net book value	7,723	51	97	209	8,080
Additions	1	1	–	244	246
Additions in relation to the acquisition of Now New Zealand	–	4	–	–	4
Transfers	257	4	–	(261)	–
Disposals	(7)	–	–	–	(7)
Gain on revaluation	110	–	–	–	110
Loss on revaluation	(41)	–	–	–	(41)
Depreciation charge for the year	(270)	(13)	(10)	–	(293)
Closing net book value	7,773	47	87	192	8,099
Balance at 30 June 2023					
Cost or valuation	7,773	146	120	192	8,231
Accumulated depreciation	–	(99)	(33)	–	(132)
Net book value	7,773	47	87	192	8,099



NOTE B1. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

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. Any surplus on revaluation is recognised in the asset revaluation reserve, except where it offsets a previous decrease in value that was recognised in the income statement. Any accumulated depreciation or impairment recognised between revaluations is eliminated against the gross carrying amount of the asset at the date of the revaluation and the net amount is restated to the revaluated amount of the asset.

The Group's leases relate to properties, geothermal steam royalties, office equipment, and transmission equipment. These leases are recognised as a right-of-use asset and a corresponding liability. The initial value of the asset and liability represent the present value of all reasonably expected future lease payments. Lease payments are recorded as a repayment of the lease obligation and interest expense. Lease assets are depreciated on a straight-line basis over the term of the lease. The most significant leases relate to office buildings in Auckland and Tauranga. The weighted average incremental borrowing rate applied to lease liabilities in 2023 was 5.36% (2022: 5.27%). The Group's lease interest was $6m (2022: $5m) and lease liability is disclosed in note D2.

As at 30 June 2023, the capital work in progress balance is largely made up of the following:

- Karāpiro hydro station rehabilitation project
- Geothermal drilling with expected completion in 2026
- Kaiwera Downs windfarm with stage one of the windfarm project expected to be operational in the first quarter of financial year 2024, and its second stage will remain under development.

Depreciation

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

The annual depreciation rates are as follows:

	2023	2022
Office fixture and fittings, including fit-out	2-33%	2-33%
Generation assets	1-20%	1-20%
Computer hardware and tangible software	5-33%	5-33%
Other plant and equipment	2-33%	2-33%
Vehicles	5-33%	5-33%
Right of use assets	2-50%	2-50%

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. This resulted in an increase of $110.3 million to the carrying value of the Turitea wind farm, a decrease to the carrying value of Tararua and Waipipi wind farms of $4.5 million and $36.8 million respectively and no change in the carrying values of hydro and geothermal assets in the current year.

The revaluation decreases of Tararua and Waipipi result in a revaluation loss of carrying value, which is recognised in the statement of profit and loss, as the assets have no existing revaluation reserve. As a consequence of the revaluation, accumulated depreciation on these generation assets has been reset to nil.

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 including wholesale electricity prices over time of between $99/MWh and $179/MWh (2022: $74/MWh and $145/MWh), average operational expenditure of $224 million p.a. (2022: $204 million p.a.), net average production volumes of 8,771 GWh p.a. (2022: 8,362 GWh p.a.), a post-tax discount rate of between 6.6% and 7.0% for wind assets backed by long-term Power Purchase Agreements (2022: 5.6% to 6.0%) and between 7.5% and 7.9% for other assets (2022: 6.5% to 6.9%). 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. The discounted cash flow valuation approach assumes 100% control and consequently a control premium should be applied if using an equity valuation technique to derive comparative asset values.

Generation assets are classified as level three in the fair value hierarchy due to the use of non-market observable inputs in the valuation. Changes in the level three category during the period relates to transfers from cost measurement (capital work in progress), depreciation and impairment (recognised in profit and loss) and revaluation movements (recognised in other comprehensive income). The following table outlines the valuation impact of changes to assumptions, keeping all other valuation inputs constant, that the valuation is most sensitive to.

	Sensitivity	Valuation impact 2023 $M	Valuation impact 2022 $M
Future wholesale electricity price path	+/- 10%	$1,091 / ($1,087)	$1,201 / ($1,201)
Discount rate	+/- 0.5%	($489) / $573	($733) / $894
Operational expenditure	+/- 10%	($336) / $336	($341) / $341

The carrying amount of revalued generation assets, had they been recognised at cost, would have been $2,654 million (2022: $2,514 million).

NOTE B2. INTANGIBLE ASSETS

	Intangible software $M	Acquired brand $M	Rights $M	Emissions units $M	Work in progress $M	Total $M
YEAR ENDED 30 JUNE 2022						
Opening net book value	24	–	16	60	7	107
Additions	–	–	–	9	26	35
Additions in relation to the Trustpower retail acquisition	11	18	–	–	2	31
Transfers	17	–	–	(27)	(17)	(27)
Disposals	–	–	–	–	–	–
Surrendered Units	–	–	–	(1)	–	(1)
Amortisation for the year	(20)	(1)	(1)	–	–	(22)
Closing net book amount	32	17	15	41	18	123
BALANCE AT 30 JUNE 2022						
Cost	163	18	34	41	18	274
Accumulated amortisation	(131)	(1)	(19)	–	–	(151)
Net book value	32	17	15	41	18	123
YEAR ENDED 30 JUNE 2023						
Opening net book value	32	17	15	41	18	123
Additions	–	–	–	10	37	47
Additions in relation to the Now New Zealand acquisition	–	41	–	–	–	41
Transfers	45	–	–	–	(45)	–
Impairment	–	(13)	–	–	–	(13)
Disposals	–	–	–	–	–	–
Surrendered Units	–	–	–	(9)	–	(9)
Amortisation for the year	(27)	(23)	(1)	–	–	(51)
Closing net book amount	50	22	14	42	10	138
BALANCE AT 30 JUNE 2023						
Cost	208	46	34	42	10	340
Accumulated amortisation	(158)	(24)	(20)	–	–	(202)
Net book value	50	22	14	42	10	138

Software

Acquired computer software licenses are recognised at cost and amortised over their estimated useful lives of 1 - 15 years (2022: 1 - 15 years). As these assets are deemed to have a finite life, impairment testing will only be performed when there is an indication that the intangible asset may be impaired.

Acquired Intangible Assets

As part of the acquisition of the Trustpower retail business in 2022, the Group allocated part of the purchase price to the Trustpower brand acquired ($19m). At the time of acquisition, the brand acquired was assessed to have a useful life of 2 years. With the retirement of the Trustpower brand in June 2023, amortisation of the brand asset has been accelerated to reflect the reduced useful life of the brand.

As part of the acquisition of NOW (refer Significant Matters) the Group allocated part of the purchase price to the customer list acquired ($30m, assessed useful life of 2.5 years) and goodwill ($10m). The goodwill was allocated to the NOW cash generating unit (CGU) within the Retail segment and the unit was tested for impairment at year end. The recoverable amount of the CGU has been determined from an estimate of fair value less costs of disposal. The customer list was tested for impairment before the goodwill. The customer list had a carrying amount of $24m and a recoverable amount of $22m. The CGU had a carrying amount of $29m and a recoverable amount of $16m. The result of the tests is an impairment loss of $2m on the customer list and $10m on the goodwill. The CGU is currently loss making due to customer acquisition combined with manual processes. It is management's expectation that that CGU can be integrated within the wider Retail business to achieve scale and synergies that are not reflected in the current value.

The impairment losses have been recognised in the statement of profit and loss in the current period. The customer list asset fair value was estimated using measurements in Level 3 of the fair value hierarchy. The valuation is an estimate of average margin per customer over the expected 2.5 year useful life. The key assumption is the expected useful life which has been assigned based on past experience. For the recoverable amount of the CGU to equal the carrying amount the useful life would need to increase to 4.5 years.

The remaining assets in the CGU are not considered material and include fixed assets, receivables, payables and borrowings. For these assets their fair value was estimated to be the same as their carrying value.

Rights

Rights, of which land access rights are the most significant, acquired to further the Group's generation development programme are stated at cost less accumulated amortisation and any accumulated impairment losses. Rights, which have a finite life, are amortised over the life of the rights, which range from 5 to 60 years (2022: 5 to 60 years). Testing for impairment will only arise when there is an indication that the asset may be impaired.

Carbon Units & Emissions Obligations

Purchased carbon units are recorded at cost (purchase price). At 30 June 2023, the Group held a total of 1,568,674 units within intangible assets (2022: 1,676,497 units). Carbon units, when allocated or purchased for purposes other than trading units, are recorded as intangible assets and are not revalued subsequent to initial recognition.

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS.

For the year ended 30 June 2023

NOTE C1. RECEIVABLES

	2023 $M	2022 $M
RECEIVABLES		
Trade receivables and accruals	360	379
Allowance for credit loss	(7)	(5)
Net trade receivables and accruals	353	374
ASX prudential deposits	60	97
Prepayments	28	21
	441	492

Trade receivables are measured at amortised cost using the effective interest method. Customers are typically invoiced on a monthly basis. Large commercial and industrial customers are billed on a calendar month basis, while for most mass market customers billing occurs on a rolling cycle each month and over the year. Revenue accruals for unbilled telecommunication services and unread gas and electricity meters at balance date involves an estimate of consumption for each unread meter based on past consumption history. Generation revenue accruals are derived mostly from generation sales to the New Zealand wholesale market at the prevailing spot price at the grid injection point. Revenue is invoiced by the Wholesale Market Clearing Manager on a calendar month basis reflecting actual metered generation at the stations.

Trade receivables are non-interest bearing and are generally on 30 day terms for large commercial and industrial customers and mass market customers are on 18 day terms. For terms and conditions of related party receivables refer to note E1.

The Group recognises an allowance for impairment loss when there is an indication that the Group will not be able to collect amounts due according to the original terms of the receivable. An additional allowance for credit loss of $8 million (2022: $1 million) was recognised during the year. Receivables of $6 million (2022: $1 million) which were deemed uncollectable were written off. The increase from 2022 is due to the Trustpower acquisition resulting in a larger retail business with higher trade receivables, as well as adjustments for tighter economic conditions.

The Company applies the simplified approach to measuring expected credit losses, which uses a lifetime expected loss allowance for all trade receivables, with impairment being recognised in the income statement and a corresponding provision on the balance sheet at the time of billing.

To measure the expected credit losses, trade receivables have been grouped based on days past due. The expected loss rates are based on the historical credit losses in prior periods, adjusted for any significant known amounts that are not receivable. Separate loss rate models are maintained for Mercury and Trustpower customer bases and the table below is consolidated to show combined losses.

The following table details the loss allowance at 30 June 2023:

		1-30 days past due	31-60 days past due	>60 days past due	Total
Expected loss rate	%	4%	24%	84%	
Gross carrying amount – trade receivables	$M	24	2	6	32
Expected credit loss	$M	1	1	5	7

	2023 $M	2022 $M
Movements in the allowance for impairment loss were as follows:		
Balance at the beginning of the year	5	1
Allowance recognised on acquisition of Trustpower retail business	–	4
Charge for the year	8	1
Amounts written off	(6)	(1)
Balance at the end of the year	7	5

Prudential deposits act as security to cover mark-to-market movement in the ASX futures position.

Turitea wind farm.

For the year ended 30 June 2023

NOTE C2. INVENTORIES

Cost of consumable stores are determined on a weighted average basis and includes expenditure incurred in acquiring consumable stores and bringing them to their final condition and location. Consumable stores include consumables held to service and repair operating plants and finished goods relating to the retail business.

Inventories also include carbon units (NZUs) which management has identified as held for trading. These are measured at fair value less cost to sell. A change in fair value is recognised in the income statement. Fair value is calculated based on the CommTrade spot price at the valuation date. As a result, the units are classified as level one in the fair value hierarchy. The change in fair value in carbon units held for trading in 2023 is a result of uncertainty in the carbon market driving the spot price of carbon down.

	2023 $M	2022 $M
Consumable Stores	51	29
Carbon Units - at fair value less cost to sell	40	65
Inventories	91	94

CARBON UNITS - AT FAIR VALUE LESS COST TO SELL	2023 Units 000	2023 Value $M	2022 Units 000	2022 Value $M
Opening Balance	854	65	–	–
Transferred from Intangibles Assets	–	–	685	26
Purchases	321	27	1,284	88
Amounts recognised in profit or loss	(221)	(16)	(1,115)	(52)
Change in fair value	–	(36)	–	3
Closing Balance	954	40	854	65

NOTE C3. PROVISIONS

	2023 $M	2022 $M
Balance at the beginning of the year	81	86
Provisions made/(used) during the year	–	–
Provisions reversed during the year	–	(8)
Discounting movement	3	3
Balance at the end of the year	84	81
Current	3	–
Non-current	81	81
	84	81

Provisions have been recognised for the abandonment and subsequent restoration of areas from which geothermal resources have been utilised. The provision is calculated based on the present value of management's best estimate of the expenditure required, and the likely timing of settlement. Changes in these estimates made during the year are reported as an increase in provisions and a reduction in revaluation reserves. The increase in provision resulting from the passage of time (the discount effect) is recognised as an interest expense. The provision will be utilised when the individual wells are abandoned. The wells are estimated to have an average useful life of 19 years.

NOTE D1. SHARE CAPITAL AND DISTRIBUTION

The share capital of the Company is represented by 1,400,012,517 ordinary shares (2022: 1,400,012,517) issued and fully paid. The weighted average number of shares on issue during the year, on both a basic and diluted basis, was 1,385,131,962 (2022: 1,366,520,442). These shares do not have a par value, have equal voting rights and share equally in dividends and any surplus on winding up.

	2023 Number of shares (M)	2023 $M	2022 Number of shares (M)	2022 $M
Treasury shares				
Balance at the beginning of the year	19	50	39	100
Issue of treasury shares for dividend reinvestment programme	(5)	(13)	(20)	(50)
Sale of treasury shares	(1)	(3)	–	–
Balance at the end of the year	13	34	19	50

Treasury shares were issued during 2023 for the following purposes:

- The dividend reinvestment programme (DRP) continued in 2023 with the transfer of 4,734,460 shares to shareholders that elected to reinvest the net proceeds of cash dividends payable; and
- A trust holding treasury shares for executive long term incentive (LTI) payments was wound up during the year and 860,139 shares were sold in November 2022 for $4.7m.

	Cents per share	2023 $M	2022 $M
Dividends declared and paid			
Final dividend for 2021	10.2	–	139
Interim dividend for 2022	8.0	–	109
Final dividend for 2022	12.0	166	–
Interim dividend for 2023	8.7	120	–
		286	248

The imputation credit account was in a surplus balance at 31 March 2023, as legally required. At 30 June 2023, no imputation credits were available (2022: $nil) as the imputation credit account had a deficit of $39 million (2022: deficit of $39 million) due to the timing of the interim dividend payment.

	2023	2022
Earnings per share		
Profit for the year attributable to owners of the parent ($m)	103	469
Weighted average ordinary shares	1,400	1,400
less weighted average treasury shares	(15)	(33)
Weighted average ordinary shares for earnings per share (millions)	1,385	1,367
Basic and diluted earnings per share (cents)	7.44	34.32

NOTE D2. BORROWINGS

	Borrowing currency denomination	Maturity	Coupon	2023 $M	2022 $M
Debt measured at amortised cost					
Bank facilities	NZD	Various	Floating	57	226
Commercial paper programme	NZD	< 3 months	Floating	300	255
Capital bonds - MCY020	NZD	Jul-2049	3.60%	302	302
Debt in fair value hedge relationships					
USPP – US$30m	USD	Dec-2022	4.35%	–	48
Wholesale bonds	NZD	Mar-2023	5.79%	–	25
USPP – US$45m	USD	Dec-2025	4.60%	70	71
Green retail bonds - MCY040	NZD	Sep-2026	2.16%	179	180
Green retail bonds - MCY030	NZD	Sep-2027	1.56%	172	172
Green retail bonds - MCY060	NZD	Jun-2028	5.64%	156	–
Green wholesale bonds	AUD	Nov-2028	2.92%	193	195
Green wholesale bonds	NZD	Oct-2030	1.92%	119	119
Capital bonds - MCY050	NZD	May-2052	5.73%	245	252
Lease liabilities				113	120
Deferred financing costs				(8)	(9)
Total carrying value of loans				1,898	1,956
Current				375	561
Non-current				1,523	1,395
				1,898	1,956

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS.

For the year ended 30 June 2023

NOTE D2. BORROWINGS (CONTINUED)

Current borrowings include all drawn bank facilities, borrowings with a contractual maturity of less than one year, accrued interest and current lease liabilities. Undrawn borrowing facilities at 30 June 2023 totalled $295m, net of Commercial Paper on issue.

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost, with the exception of the USPP, capital bond (MC050) and Green bonds. When the group applies fair value hedges to borrowings, the carrying value of the borrowings are adjusted for fair value changes attributable to the risk being hedged. Fair value is calculated using the discounted cashflow method, with applicable market yield curves adjusted for the Group's credit rating.

CHANGES IN BORROWINGS FROM FINANCING ACTIVITIES

	2023 $M	2022 $M
Borrowings at the start of the year	1,956	1,491
Net cash borrowed/(repaid)	(35)	229
Cash paid on principal of lease liability	(9)	(6)
Debt acquired from Tilt	–	251
Non-cash change in lease obligations	2	63
Non-cash change in fair value adjustment	(17)	(69)
Non-cash change in deferred financing costs	1	(3)
Borrowings at the end of the year	1,898	1,956

BANK FACILITIES

The Group has $650 million of committed and unsecured bank loan facilities as at 30 June 2023 (30 June 2022: $750 million).

COMMERCIAL PAPER PROGRAMME

The Group has a $400 million Commercial Paper programme which is fully backed by committed and undrawn bank facilities. Notes issued under the programme are short-term money market instruments, unsecured and unsubordinated and targeted at professional investors. The programme is rated A2 by S&P Global.

GREEN BONDS

The Group has $908 million of green bonds as at 30 June 2023 (30 June 2022: $757 million). The green bond proceeds have been tracked in accordance with the Green Financing Framework. On 19 June 2023 Mercury issued $150 million of new 5-year unsecured, unsubordinated, fixed rate green bonds (MCY060). The MCY060 bonds are due to expire on 19 June 2028 and have fixed interest rate of 5.64% per annum.

USPP

The group has $59 million of United States Private Placement (USPP). The group uses a cross currency interest rate swaps (CCIRS) to manage foreign exchange and interest rate risks on the notes. While the NZ dollar amount required to repay the USPP is fixed as a result of the CCIRS, the USPP is required to be translated to NZD at the spot rate at the reporting date. Any revaluation of the USPP as a result of this translation is offset by the change in the value of the CCIRS.

DEEDS

The Group has entered into a Master Trust Deed and Supplementary Trust Deeds for all its NZD denominated Senior Fixed and Floating Rate Bonds with the New Zealand Guardian Trust Company Limited, acting as trustee for the holders. The Group has agreed, subject to certain exceptions, not to create or permit to exist a security interest over or affecting its assets to secure indebtedness, and to maintain certain financial covenants. There has been no breach of the terms of these deeds.

The Group has entered into a negative pledge deed in favour of its bank financiers in which the Group has agreed, subject to certain exceptions, not to create or permit to exist a security interest over or affecting its assets to secure its indebtedness, and to maintain certain financial ratios in relation to the Group. These undertakings and covenants also apply to the US Private Placement terms and conditions. There was no breach of the terms of this deed or the terms and conditions of the US Private Placement.

LEASE LIABILITIES

The Group has entered into various lease contracts for the right to use land & buildings and office equipment and is also deemed to be a lessee of transmission equipment. The most significant leases relate to office buildings in Auckland and Tauranga. Lease payments of $15m were made in 2023, including lease interest expense of $6m (2022: payments of $11m, lease interest expense of $5m).

NOTE D3. COMMITMENTS AND CONTINGENCIES

	Capital	
Commitments	**2023 $M**	**2022 $M**
Within one year	134	157
One to five years	67	85
Later than five years	–	3
	201	245

Capital commitments include purchases of both property, plant and equipment (PP&E) and intangibles. PP&E commitments include contracts for construction of wind generation assets at Kaiwera Downs, refurbishment of hydro generation assets at Karāpiro and well drilling campaigns in 2024 and 2025. Intangible commitments are contracts to purchase New Zealand emissions trading scheme (NZ ETS) units. In the event the NZ ETS is terminated the existing forward purchase agreements, which cover the five year period from the end of the reporting period, will also terminate.

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 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 Group and the Crown.

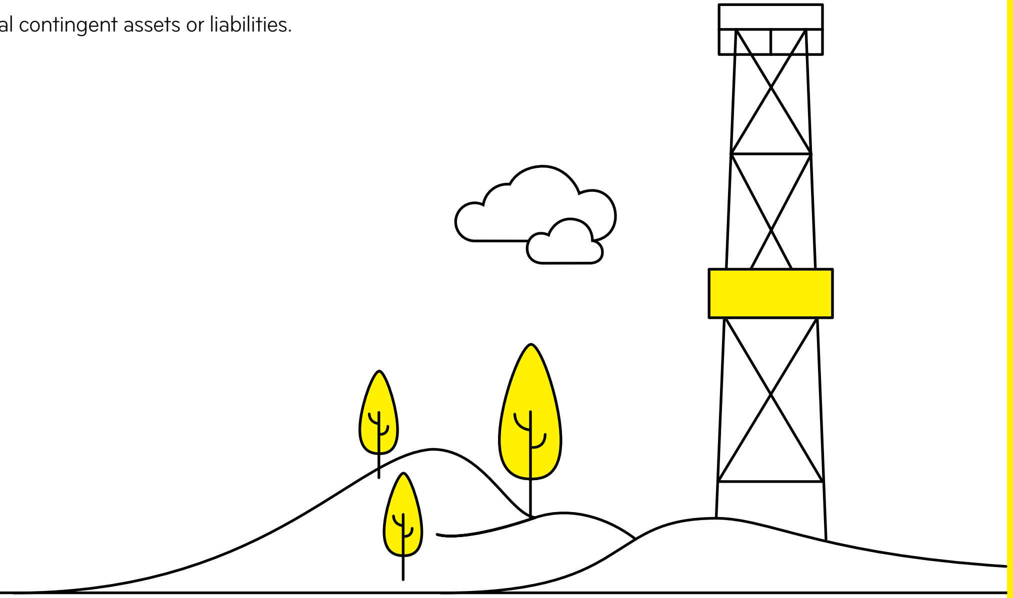
The Pouakani Claims Trust No 2 and a group of kaumatua have filed a claim in the Māori Land Court seeking a declaration that certain parts of the Waikato riverbed on which Mercury operates hydro assets are Māori customary land, including the riverbed beneath the Whakamaru, Maraetai I and II and Waipapa 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 is now subject to appeals 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 Acy 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 its intention to progress to stage three of that inquiry, 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 as a consequence.

The Group has no other material contingent assets or liabilities.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS.

For the year ended 30 June 2023

NOTE D4. CASH & CASH EQUIVALENTS

	2023 $M	2022 $M
Profit for the year	103	469
Items classified as investing or financing activities:		
• Dividend income from Tilt Renewables Limited	–	(5)
Adjustments for non-cash movements:		
• Change in interest accrual	(6)	1
• Gain on revaluation of NOW New Zealand shares	(12)	–
• Gain on disposal of shares in Tilt Renewables Limited	–	(367)
• Depreciation and amortisation	344	293
• Impairment	12	–
• Loss on revaluation of generation assets	41	–
• Amortisation of contract assets and costs to profit or loss	41	8
• Net gain/(loss) on sale of property, plant and equipment	–	2
• Change in the fair value of unrealised financial instruments	178	85
• Change in the fair value of carbon units held for trading	36	(3)
• Movement in effect of discounting on long-term provisions	3	5
• Share of earnings of associate and joint venture companies	(5)	5
• Close-out of electricity swap and non-cash amortisation of acquired swap value	–	43
• Increase in deferred tax	(61)	(50)
Net cash provided by operating activities before change in assets and liabilities	674	486
Change in assets and liabilities during the year:		
• Increase in trade receivables and prepayments	(48)	(141)
• (Decrease)/increase in inventories	3	(67)
• Increase in contract assets and costs, net of amortisation	(58)	–
• (Decrease)/increase in trade payables and accruals	(23)	61
• Increase/(decrease) in provision for tax	30	13
Net cash inflow from operating activities	578	352

NOTE E1. INVESTMENT 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**	**Accounting Method**	**2023**	**2022**	**Country**
TPC Holdings Limited	Investment holding	Associate	Equity	25.00%	25.00%	New Zealand
NOW New Zealand Limited	Broadband ISP	Associate	Equity	N/A	48.46%	New Zealand
Rotokawa	Steamfield operation	Joint operation	Fair value	64.80%	64.80%	New Zealand
Ngā Awa Pūrua	Electricity generation	Joint operation	Fair value	65.00%	65.00%	New Zealand
EnergySource LLC	Investment holding	Joint venture	Equity	20.86%	20.86%	United States
EnergySource Minerals LLC	Mineral extraction	Joint venture	Equity	18.41%	18.99%	United States

In December 2022 the Group acquired the remaining 51.54% shareholding in NOW New Zealand Limited. In accordance with NZ IFRS 3 *Business Combinations*, the Group's existing stake was remeasured to fair value (from $4m to $16m) resulting in a gain of $12m reported in the income statement with the entire investment subsequently being reclassified as a wholly owned subsidiary. Further detail on the acquisition can be found in the General Information and Significant Matters note.

	Associates		Joint ventures	
	2023 $M	**2022 $M**	**2023 $M**	**2022 $M**
Balance at the beginning of the year	67	77	6	9
Additional investment during the year	–	–	3	–
Share of earnings	4	(2)	2	(3)
Share of movement in other comprehensive income and reserves	11	(2)	–	–
Distributions received during the year	(6)	(6)	(3)	–
Reclassification of NOW to subsidiary	(16)	–	–	–
Fair value revaluation of NOW during the year	12	–	–	–
Balance at the end of the year	72	67	8	6

At the end of the year the Group had outstanding advances to its Rotokawa joint venture partner in the amount of $4 million (2022: $4 million) and its associate TPC Holdings Limited of $4 million (2022: $4 million).

NOTE E2. 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 2.5 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	
	2023 $M	**2022 $M**
Associates		
• Management fees and service fees received	18	13
• Energy contract settlements received	2	21
• Service fees paid	7	4
Joint operations		
• Management fees and service agreements received and paid	21	18
• Energy contract settlements received	–	10
• Interest Income	1	–

An advance to TPC Holdings Limited of $4 million (2022: $4 million) 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 $3 million (2022: $4 million) carries a floating interest rate. Repayments under the advance are linked to the level of receipts under the geothermal energy supply agreement. There is no fixed repayment date; the agreement will terminate on receipt of any outstanding balances.

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

	Transaction value	
	2023 $000	**2022 $000**
Key management personnel compensation (paid and payable) comprised:		
• Directors' fees	1,101	1,030
• Benefits for the Chief Executive and Senior Management:		
Salary and other short-term benefits	7,044	6,564
Termination benefits	–	–
Share-based payments	680	561
	8,825	8,155

The increase in Director's fees is due to the addition of two new directors in the current financial year. The total shareholder approved director fee pool has been increased pro-rata to accommodate the new directors in accordance with the NZX Listing Rules.

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.

A number of 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.

NOTE F1. 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 hedge accounted 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 managed 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 D2), 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 (e.g. Manawa contract) or contracts with variable volume structures (e.g. wind and solar power purchase agreements).

The fair values of derivative financial instruments are summarised below:

	2023 $M	Restated 2022 $M
CURRENT ASSETS		
Electricity price derivative	190	276
Interest rate derivative	11	23
Cross currency interest rate derivative	–	9
Foreign exchange derivative	–	3
	201	311
CURRENT LIABILITIES		
Electricity price derivative	133	259
Interest rate derivative	44	28
Cross currency interest rate derivative	9	4
Foreign exchange derivative	–	1
	186	292
NON-CURRENT ASSETS		
Electricity price derivative	224	335
Interest rate derivative	6	11
Cross currency interest rate derivative	13	13
	243	359
NON-CURRENT LIABILITIES		
Electricity price derivative	180	285
Interest rate derivative	73	104
Cross currency interest rate derivative	10	10
	263	400

NOTE F1. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

Change in fair value of financial instruments	2023 $M	2022 $M
Realised gain/(loss) on unhedged electricity swaps	6	–
Unrealised change in the fair value of financial instruments through income statements	(178)	(85)
Change in fair value of derivative financial instruments per income statement	(172)	(85)

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

	Income statement		Other comprehensive income	
	2023 $M	2022 $M	2023 $M	2022 $M
Cross currency interest rate derivatives	(14)	(8)	–	–
USPP bond & AUD Green Bond in fair value hedge relationship	13	8	–	–
Movement in fair value of borrowing derivatives	(1)	–	–	–
Electricity price derivatives	(188)	(68)	211	(8)
Interest rate derivatives (including Green bond fair value change)	(6)	(15)	2	66
Foreign exchange rate derivatives	–	1	(1)	1
Ineffectiveness of cash flow hedges recognised in the income statement	17	(3)	–	–
Total change in fair value of derivative financial instruments	(178)	(85)	212	59

MOVEMENT IN CASH FLOW HEDGE RESERVE ON HEDGED UNREALISED GAINS/LOSSES

	2023 $M	2022 $M
Opening balance	(245)	(268)
Effective portion of cash flow hedges recognised in the reserve	212	59
Amount transferred to balance sheet	2	(1)
Equity accounted share of associates' movement in other comprehensive income	11	1
Transfer of share of associates' reserves to profit or loss upon disposal	–	(20)
Tax effect of movements	(60)	(16)
Closing balance	(80)	(245)

Unrealised gains and losses on hedged derivatives are recognised in the cash flow hedge reserve and other comprehensive income. When the gains or losses are realised, they are released from the cash flow hedge reserve to the balance sheet or profit and loss in line with the underlying hedged item.

For the year ended 30 June 2023

NOTE F1. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

AREA OF KEY JUDGEMENT

FAIR VALUE ESTIMATION

Valuation Techniques

All fair value balances are assigned to a fair value hierarchy levels as defined by NZ IFRS 13 Fair Value Measurement. No transfers occurred between hierarchy levels in 2023.

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

30 June 2023	Quoted market price	Market observable inputs	Non-market observable inputs	Total
	Level 1	Level 2	Level 3	
Valuation technique	$M	$M	$M	$M
Financial assets				
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	–	268	313
• Interest rate derivatives	–	117	–	117
• Cross currency interest rate derivatives	–	19	–	19
	45	136	268	449
Net financial asset/(liability)	(12)	(106)	113	(6)

Restated 30 June 2022	Quoted market price	Market observable inputs	Non-market observable inputs	Total
	Level 1	Level 2	Level 3	
Valuation technique	$M	$M	$M	$M
Financial assets				
Derivative instruments				
• Electricity price derivatives	19	–	592	611
• Interest rate derivatives	–	34	–	34
• Cross currency interest rate derivatives	–	22	–	22
• Foreign exchange rate derivatives	–	3	–	3
	19	59	592	670
Financial liabilities				
Derivative instruments				
• Electricity price derivatives	46	–	498	544
• Interest rate derivatives	–	133	–	133
• Cross currency interest rate derivatives	–	14	–	14
• Foreign exchange rate derivatives	–	1	–	1
	46	148	498	692
Net financial asset/(liability)	(27)	(89)	94	(22)

NOTE F1. 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 two 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 PROCESS 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:

	2023	2022
Price path	$73/MWh to $153/MWh	$76/MWh to $194/MWh
Discount factor	0.31 to 0.93	0.21 to 0.97

The wide range in discount factors are driven by entering into longer term derivative contracts.

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 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		Total	
	2023 $M	2022 $M	2023 $M	2022 $M	2023 $M	2022 $M
Opening balance	(257)	(284)	351	25	94	(259)
Acquired contracts	–	–	–	345	–	345
New contracts	23	(76)	10	(12)	32	(88)
Matured contracts	66	30	17	6	83	36
Gains and losses						
• Through the income statement	–	–	(188)	(13)	(188)	(13)
• Through other comprehensive income	91	73	–	–	91	73
Closing balance	(78)	(257)	191	351	113	94

Level 3 Sensitivity Analysis

The following summarises the potential impact of increases or decreases in price risk exposures of the Group on post tax profit. Sensitivity analysis is based on an assessment of the reasonably possible movements in forward price. The electricity sensitivities disclosed below do not include level 1 electricity derivatives. Refer to note F2 for sensitivity analysis on all electricity derivatives.

	Impact on post tax profit	
	2023 $M	2022 $M
Group		
Electricity forward price increased by 10%	48	50
Electricity forward price decreased by 10%	(36)	(45)

Deferred 'inception' gains/(losses)

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 30 June.

	2023 $M	2022 $M
Electricity price derivatives		
Opening deferred inception gains / (losses)	26	27
Deferred inception gains on new hedges	17	10
Deferred inception (losses)/gains realised during the year	(4)	(11)
Closing inception gains	39	26

NOTE F2. FINANCIAL RISK MANAGEMENT

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

(A) MARKET RISK

Nature of risk exposure	Risk Management Policy
Electricity price The Group is exposed to movements in the spot price of electricity arising from the sale and purchase of electricity in the market.	The Group enters into electricity derivative contracts, including swaps, futures, options and PPAs that establish a fixed price at which future quantities of electricity are purchased and sold. The electricity contracts are periodically settled with any difference between the contract price and the electricity spot price settled between the parties. Cash flow hedge accounting is applied.
Foreign exchange The Group is exposed to foreign exchange risk as a result of transactions denominated in a currency other than the Group's functional currency. The currencies giving rise to this risk are primarily US Dollar, Japanese Yen, Euro, Yuan and AU Dollar.	The Group's policy is to enter into forward exchange contracts to hedge its committed foreign denominated expenditure programme.
Interest rate The Group has exposure to interest rate risk to the extent that it borrows for fixed terms at floating interest rates.	The Group uses mostly interest rate swaps and rarely interest rate options to manage this exposure.

Derivatives in designated hedging relationships

	Electricity		Foreign Exchange		Interest Rate	
	2023 $M	2022 $M	2023 $M	2022 $M	2023 $M	2022 $M
Notional amount	3,613	3,367	31	49	2,061	2,067
Maturity	1- 16 years	1- 31 years	1 year	1 year	0- 10 years	0- 10 years
Carrying amount - asset	414	611	–	3	17	166
Carrying amount - liability	(313)	(544)	–	(1)	(117)	(133)
Recognised in OCI	(188)	(68)	–	1	(7)	(15)
Ineffectiveness	9	(6)	–	–	7	3
Hedge Ratio*	1:1	1:1	1:1	1:1	1:1	1:1

At inception, each hedge relationship is formalised in hedge documentation. Hedge accounting is discontinued when the hedge instrument expires or is terminated, exercised or no longer qualifies for hedge accounting. The Group determines the existence of an economic relationship between the hedging instrument and the hedged item based on the amount and timing of respective cashflows, reference interest rates, currency, maturities and notional amounts. The Group assesses whether the derivative designated in each hedging relationship is expected to be, and has been, effective in offsetting the changes in cash flows of the hedged item using the hypothetical derivative method.

The Group's policy is to designate derivatives in hedge relationships on inception when their fair value is zero, applying a hedge ratio of 1:1. The main source of ineffectiveness for electricity contracts relates to the difference between the market price and the strike price at inception of the contracts.

For interest rate derivatives, the weighted average hedge rate for cashflow hedges (receive floating, pay fixed rate) is 3.6% (2022: 3.6%) and for fair value hedges (pay fixed, receive floating) is 2.5% (2022: 1.8%)

Market risk sensitivity analysis

The following summarises the potential impact of increases or decreases in the relevant market risk exposures of the Group on post tax profit (unhedged derivatives) and on other components of equity (hedged derivatives) from the change in the derivative valuation. The analysis does not take into account dynamic market response over time, which could be material. The electricity sensitivities disclosed below include level 1 derivatives.

	Impact on post tax profit		Impact on equity	
	2023 $M	2022 $M	2023 $M	2022 $M
Group				
Electricity forward price increased by 10%	50	45	(62)	(69)
Electricity forward price decreased by 10%	(34)	(40)	62	70
Forward foreign exchange rates increased by 10%	–	–	(2)	(3)
Forward foreign exchange rates decreased by 10%	–	–	2	4
Interest rates higher by 100 bps	(28)	(31)	6	14
Interest rates lower by 100 bps	29	33	(6)	(15)

(B) CREDIT RISK

Nature of risk exposure	Risk Management Policy
The carrying amounts of financial assets recognised in the balance sheet best represent the Group's maximum exposure to credit risk at the reporting date without taking account of any collateral held by way of customer bonds.	The Group manages its exposure to credit risk under policies approved by the Board of Directors. The Group performs credit assessments on all electricity customers and normally requires a bond from commercial customers who have yet to establish a suitable credit history. In the event of a failure by a retailer to settle its obligations to the Energy Clearing House, following the exhaustion of its prudential security, a proportionate share of the shortfall will be assumed by all generator class market participants. The Group would be impacted in the event that this occurs. It is the Group's policy to only enter into derivative transactions with banks that it has signed an ISDA master agreement with, and which have a minimum long-term Moody's (or equivalent) credit rating of A- or higher.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS.

For the year ended 30 June 2023

NOTE F2. FINANCIAL RISK MANAGEMENT (CONTINUED)

(C) LIQUIDITY RISK

Nature of risk exposure	Risk Management Policy
Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due.	The Group manages its exposure to liquidity risk under policies approved by the Board of Directors. Policies require that prescribed headroom is available in undrawn and committed facilities to cover unplanned needs and that a limited amount of facilities mature over the immediate 12 month forward-looking period. The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of various funding sources.

The following liquidity risk disclosures reflect all contractually fixed payoffs, repayments and interest from recognised non-derivative financial liabilities.

The timing of cash flows for non-derivative financial liabilities is based on the contractual terms of the underlying contract.

The information on contractual cashflows are presented on an undiscounted basis, consequently the totals will not reconcile with the amounts recognised in the balance sheet.

- Net settled derivatives include interest rate derivatives and electricity price derivatives.
- Gross settled derivatives relate to foreign exchange derivatives that are used to hedge future purchase commitments.
- Foreign exchange derivatives may be rolled on an instalment basis until the underlying transaction occurs. While the maturity of these derivatives are short-term the underlying expenditure is forecast to occur over different time periods. The Group also expects to receive funds relating to derivative asset settlements.

While the following table gives the impression of a liquidity shortfall, the analysis does not take into account expected future operating cash flows or committed and undrawn debt facilities that will provide additional liquidity support. The expectation of cash receipts in relation to derivative assets should also be considered when assessing the ability of the Group to meet its obligations.

	Less than 6 months $M	6 to 12 months $M	1 to 5 years $M	Later than 5 years $M	Total $M
30 JUNE 2023					
Liquid financial assets					
Cash and cash equivalents	75	–	–	–	75
Receivables	440	–	1	–	441
Non derivative financial liabilities					
Payables and accruals	(344)	–	–	–	(344)
Borrowings	(383)	(28)	(840)	(1,793)	(3,044)
Lease liabilities	(7)	(7)	(55)	(88)	(157)
Derivative financial liabilities					
Derivative liabilities - net settled					
Electricity price derivatives	(30)	(48)	(163)	4	(238)
Interest rate derivatives	(23)	(23)	(69)	(12)	(128)
Cross currency interest rate derivative	(5)	(5)	(7)	8	(9)
Derivative liabilities - gross settled					
Foreign exchange derivatives inflows	31	–	–	–	31
Foreign exchange derivatives outflows	(31)	–	–	–	(31)
Net outflows	(276)	(112)	(1,134)	(1,881)	(3,403)

	Less than 6 months $M	6 to 12 months $M	1 to 5 years $M	Later than 5 years $M	Total $M
RESTATED 30 JUNE 2022					
Liquid financial assets					
Cash and cash equivalents	65	–	–	–	65
Receivables	489	–	3	–	492
Non derivative financial liabilities					
Payables and accruals	(383)	–	–	–	(383)
Borrowings	(545)	(49)	(454)	(1,918)	(2,966)
Lease liabilities	(7)	(7)	(58)	(99)	(171)
Derivative financial liabilities					
Derivative liabilities - net settled					
Electricity price derivatives	(121)	(120)	(281)	5	(516)
Interest rate derivatives	(12)	(16)	(88)	(18)	(135)
Cross currency interest rate derivative	(1)	(3)	(19)	7	(16)
Derivative liabilities - gross settled					
Foreign exchange derivatives inflows	51	–	–	–	51
Foreign exchange derivatives outflows	(49)	–	–	–	(49)
Net outflows	(514)	(195)	(897)	(2,023)	(3,629)

NOTE F2. FINANCIAL RISK MANAGEMENT (CONTINUED)

(D) CAPITAL RISK MANAGEMENT

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

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

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

	2023 $M	2022 $M
Borrowings at carrying value	1,898	1,956
Fair value adjustments	84	70
Less cash and cash equivalents	(75)	(65)
Net debt	1,907	1,961
Total equity	4,849	4,752
Total capital	6,756	6,713
Gearing ratio	28.2%	29.2%

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

The Group seeks to maintain a debt to EBITDAF ratio of less than 3.0 times, on average through time, to maintain credit metrics sufficient to support its credit rating on an on-going basis. For the purpose of calculating this ratio and consistent with the rating agency treatment, adjustments are made to net debt and EBITDAF based on the definitions provided by the rating agency. For the year ended 30 June 2023, the Group had a debt to EBITDAF ratio of 2.0 times (2022: 2.9 times).

NOTE G1. SHARE-BASED PAYMENTS

Long-term Incentive Plan

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

Under the plan executives are granted the shares at nil cost if certain total shareholder return targets are met. Performance is measured against a combination of: i) other electricity generators who are listed on the NZX; and (ii) out performance against the Group's internal return on capital hurdles. The plan is due to vest in July 2024 and July 2025.

Each LTI plan provides the board with a level of discretion and represents the grant of in-substance nil-price options to executives. During the year the Group expensed $680,022 in relation to equity-settled share based payment transactions (2022: $561,274).

The cost of the share-based payment is recognised over the period in which the performance or service conditions are fulfilled. The total amount expensed is based on the Group's best estimate of the number of equity instruments that will ultimately vest, taking into consideration the likelihood that service conditions will be met, multiplied by the initial fair value of each share.

Movements in the number of share options are as follows:

	2023	2022
Balance at the beginning of the year	863,879	709,603
Options granted	348,101	256,152
Options expired	(57,009)	–
Options exercised	(224,730)	(101,876)
Balance at the end of the year	930,241	863,879

358,528 options were exercisable at the end of the year (2022: 224,730) with the remaining options under the plan having a weighted average life of 1 year (2022: 1.0 year).

NOTE G2. SUBSEQUENT EVENTS & OTHER MATTERS

The Board of Directors has approved a fully imputed final dividend of 13.1 cents per share to be paid on 29 September 2023.
The Company plans to continue with the DRP announced in the last financial year, 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 September 2023, less a 2% discount.

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

CLIMATE STATEMENT.

TE TAUĀKI ĀHUARANGI.

In this section we cover how we consider and respond to climate-related risks and opportunities as we pursue our long-term objective of playing a leading role in New Zealand's successful transition to a low-carbon future.

Ōhakuri substation, downstream of the hydro station.

Turitea wind farm.

MERCURY AND CLIMATE CHANGE.

Impacts from climate change, actions to reduce emissions and the transition to a low carbon economy are shaping the world around us. Our strategy anticipates that our business will encounter both climate-related opportunities and risks as we pursue our objective of playing a leading role in New Zealand's successful transition to a low-carbon future.

This climate statement has been prepared in alignment with the incoming Aotearoa New Zealand Climate Standards[1] (NZ CS). These standards were published in December 2022 by the External Reporting Board, a NZ Government agency, and are aligned with the internationally recognised TCFD framework. These standards provide a consistent framework for entities to consider and disclose information on their climate-related risks and opportunities with the objective of enabling the users of this statement to assess and make decisions on how Mercury is responding to the risks and opportunities of climate change.

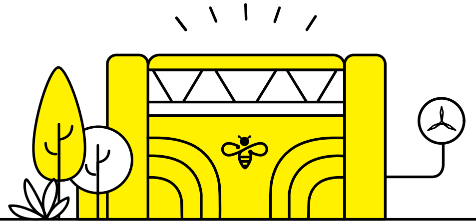
CONTENTS.

[1] www.xrb.govt.nz/standards/climate-related-disclosures/aotearoa-new-zealand-climate-standards/aotearoa-new-zealand-climate-standard-1/

INTRODUCTION.

Over the past six years we have improved our capability to identify, assess and manage climate-related risks and opportunities. Our governance approach and disclosure of these risks and opportunities has evolved over this period. Our integrated strategy considers climate-related risks and opportunities, and we have made changes to our governance frameworks and remuneration models to ensure that Mercury's Executive Management Team (EMT) have appropriate oversight of, and are actively assessing and managing, these climate-related risks and opportunities. A summary of key points in this climate statement are:

- Material climate-related risks and opportunities are regularly discussed by our Board and EMT
- Scenario analysis was completed in FY23, with three scenarios created based on:
  - (1) a 1.5-degree future
  - (2) a 1.5-2 degree future and
  - (3) a greater than 4-degree future
- Based on these scenarios, we have updated our view of material climate-related opportunities and risks that could affect our business



- Material climate-related opportunities have been identified as those arising from:
  - Increase in electricity demand from decarbonisation
  - Investor desire for renewable generation
- Material climate-related risks have been identified as those arising from:
  - Greater variability in weather patterns leading to changes in generation profile
  - Growing intensity of atmospheric conditions (including storm events) leading to damage to assets or damage to transmission and distribution assets
  - Government Policy settings failing to balance the energy trilemma and leading to a decline in electricity demand growth, a loss of investor confidence in the electricity sector, increased costs for the sector and/or delays in generation development
  - Supply chain constraints driven by rising global demand for renewable electricity generation equipment.

We are currently considering the further actions we can take to reduce our own emissions to ensure we are doing our part to mitigate climate change. Further details of these actions are outlined in our Climate Transition Action Plan.

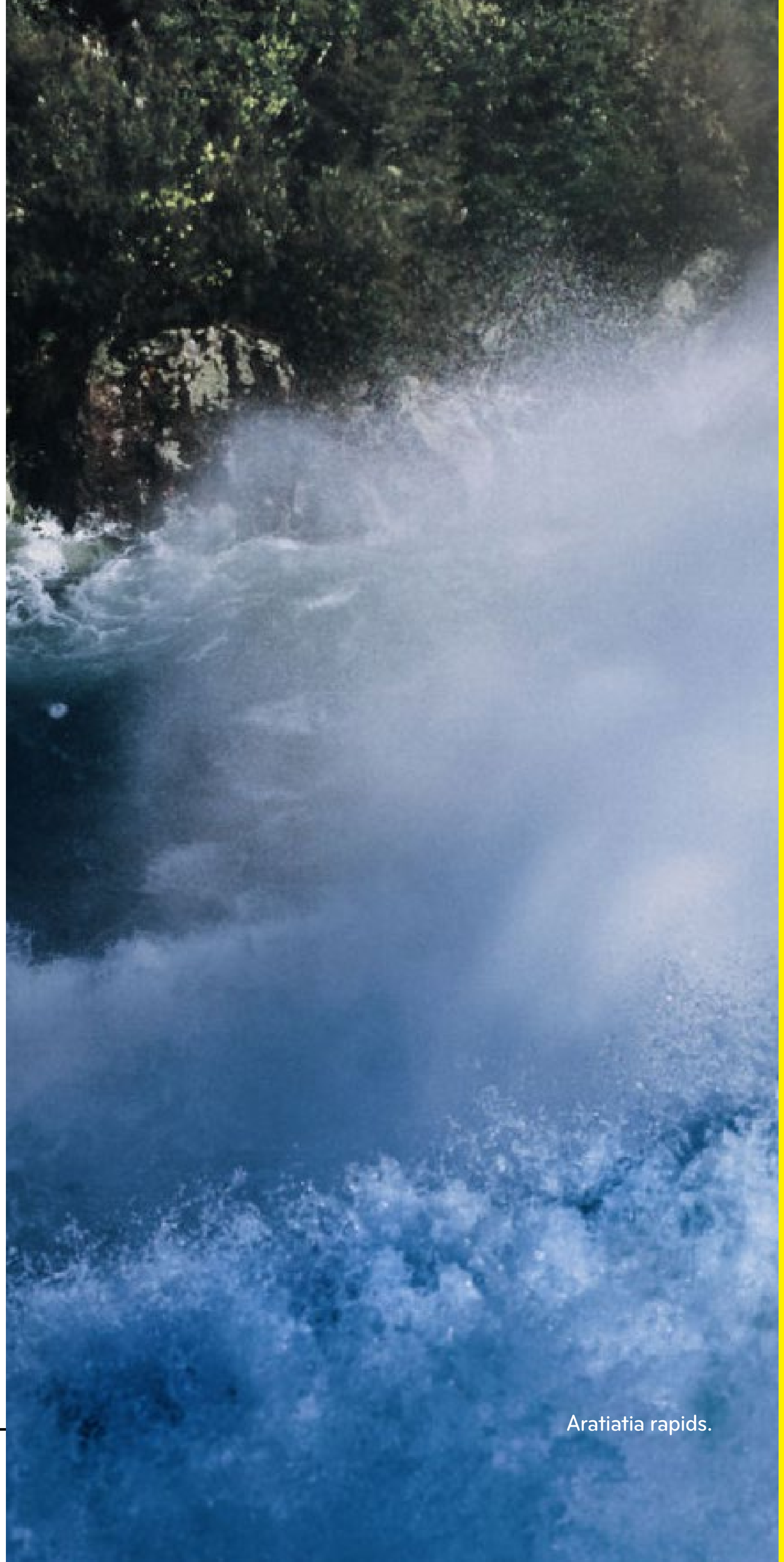
DISCLAIMER

Mercury has used best efforts in the preparation of this Climate-Related Disclosure to provide accurate information as at 21 August 2023, but cautions reliance being placed on representations that are necessarily subject to significant risks, uncertainties or assumptions.

This report contains forward-looking statements, including climate-related metrics, climate scenarios, estimated climate projections, targets, assumptions, forecasts and statements of Mercury's future intentions. These statements necessarily involve assumptions, forecasts and projections about Mercury's present and future strategies and the environment in which Mercury will operate in the future, which are inherently uncertain and subject to limitations, particularly as to inputs, available data and information which is likely to change. Mercury has used its best efforts to provide a reasonable basis for forward-looking statements but is constrained by the novel and developing nature of this subject matter. Climate-related forward-looking statements may therefore be less reliable than other statements Mercury may make in its annual reporting.

Descriptions of the qualitative and quantitative current and anticipated impacts and financial impacts of climate change draw on and/or represent estimated figures only. In particular, the risks and opportunities described in this report, and the forecast emissions reductions, may not eventuate or may be more or less significant than anticipated. There are many factors that could cause Mercury's actual results, performance or achievement of climate-related metrics (including targets) to differ materially from that described, including climatic, government, consumer, and market factors outside of Mercury's control.

Nothing in this report should be interpreted as capital growth, earnings or any other legal, financial tax or other advice or guidance.



Aratiatia rapids.


Ngā Awa Pūrua geothermal station.

GOVERNANCE.

BOARD

Our Board is responsible for overseeing the management of risks and opportunities for Mercury including those related to climate change. Responsibilities are set out in the Board Charter, and include:

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

A committee of the Board - the People and Performance Committee – supports the Board to set the approach to remuneration, including incorporating climate-related matters in the Short-Term incentive component of remuneration.

RISK ASSURANCE AND AUDIT COMMITTEE (RAAC)

A committee of the Board – The Risk Assurance and Audit Committee (RAAC) supports the Board in overseeing climate-related risks. The Board itself has responsibility for climate-related opportunities. Members of the EMT also attend RAAC meetings to ensure appropriate support for the RAAC and facilitate feedback and discussion. The RAAC meets at least quarterly and is responsible for overseeing, reviewing and making recommendations to the Board on our risk management policy and processes, including climate-related risks and opportunities. The Committee reviews progress against our risk management framework.

In FY23, the relevant RAAC meetings were as follows:

- July and August 2022; review and endorsement of FY22 TCFD report
- February 2023; update on climate-related disclosures pre-assurance review by EY
- May 2023; update on FY23 climate scenario analysis and risk and opportunity identification - including updated climate scenarios for meeting the requirements of NZ CS1

And in FY24:

- July and August 2023; review and endorsement of the FY23 Climate Statement

The RAAC provides feedback to management and back up to the wider Board. At each Board meeting that follows a RAAC meeting the RAAC Chair updates the Board on discussions that took place and decisions reached. Mercury does not currently consider it necessary to establish a separate sustainability sub-committee of the board as sustainability and Kaitiakitanga/Stewardship are inherent in Mercury's business operating model and strategy and are therefore addressed within existing governance structures.

RISK MANAGEMENT FRAMEWORK

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

Our risk management framework helps us to identify different categories of risk – compliance risks, operational risks, reputational risks, financial risks and people risks. Climate-related risks show up across many of these categories and are treated in the same way as other risks across these categories. More information on our risk management framework can be found in the Corporate Governance Statement.

SKILLS AND COMPETENCIES TO PROVIDE OVERSIGHT OF CLIMATE-RELATED RISKS AND OPPORTUNITIES

The Board skills matrix specifically includes climate change. In FY20 the Board reviewed whether our risk management framework supported our integrated business planning process and whether climate-related risks were adequately captured within this risk management framework. Given the potential impact of climate change across Mercury, the Board amplified climate-related risks within our consolidated risk register.

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

In FY22 and FY23, a cross-functional team from across the business conducted more in-depth scenario analysis to highlight emerging risks and opportunities.

The Board seeks internal and external expertise and advice relating to climate change as required to ensure that it has up to date information and can provide appropriate oversight of climate-related risks and opportunities.

MANAGEMENT'S ROLE IN ASSESSING AND MANAGING CLIMATE-RELATED RISKS AND OPPORTUNITIES

The Board delegates to the Chief Executive and the EMT, responsibility for developing, and recommending to the Board, strategies to identify, assess and manage climate-related risks and opportunities (refer to the Leadership and Governance section of the FY23 Integrated Report for further detail). The EMT is also charged with fostering improved reporting and disclosure of these risks and opportunities

FY22 & 23
CROSS-FUNCTIONAL TEAM CONDUCTS FURTHER IN-DEPTH SCENARIO ANALYSIS TO HIGHLIGHT EMERGING CLIMATE RISKS AND OPPORTUNITIES

↑

FY21 (MAY)
FIRST CLIMATE CHANGE SCENARIO ANALYSIS REPORT PRESENTED TO BOARD

↑

FY21
MERCURY BOARD ENGAGES IN DEEP DIVE ON REGULATORY, ECONOMIC AND LEGAL ASPECTS OF CLIMATE-RELATED RISKS AND OPPORTUNITIES

including the identification of metrics and targets. Mercury's management is responsible for ensuring the business is identifying, assessing and managing climate-related risks and opportunities. Mercury's annual climate-related risk disclosure process is prepared by Management with a primary governance pathway via the RAAC to the Board.

RISK MANAGEMENT COMMITTEE

Our management operates a Risk Management Committee (RMC) whose mandate is (1) to promote risk awareness and appropriate risk management to all Mercury people; and (2) to monitor and review risk activities as required. Membership of the RMC is the EMT and is chaired by the Chief Executive.

The RMC meets prior to every RAAC meeting and reviews Mercury's risks. This includes reviewing its approach to climate-related risks and opportunities which is carried out at least annually. In FY23 the RMC met six times with climate-related risks being considered at the following meetings:

- Twice in July 22 to review FY22 climate risk disclosures
- Jan 23 to discuss outcomes of a third-party pre-assurance review of Mercury's FY22 climate-related disclosures, and
- April and June 23 to review FY23 climate-related risks, opportunities and disclosures

In FY23, the RMC endorsed updates to the company's climate change scenarios, and subsequent updates to the climate-related risks and opportunities.

(Please refer to table on the following page for more information on specific responsibilities.)

CLIMATE-RELATED RISKS AND OPPORTUNITIES ARE INCORPORATED INTO COMPANY STRATEGY DEVELOPMENT

Climate-related risks and opportunities are also actively considered in the context of management's periodic reviews of Mercury's strategic framework. The reviews form a key element of regular stock takes of any significant market context changes that could result in either identification of new risks and opportunities or re-assessment of existing risks and opportunities, that is, a change in the likelihood and/or consequence of their impact.

A cross functional business team co-ordinates contributions from across the business led by the Sustainability Team reporting through the GM Sustainability. This work feeds into our updates to our future scenarios which provide context when setting our 3-year objectives and long-term aspirations. These scenarios are reviewed each quarter by the EMT and the Board. The EMT undertook these reviews in Aug and Oct 2022 and in Jan, April and May 2023.

MANAGEMENT REMUNERATION IS LINKED TO MANAGEMENT OF CLIMATE-RELATED RISKS AND OPPORTUNITIES

The remuneration of the Chief Executive and the EMT is linked to Mercury's strategic objectives, purpose and goals. The Short-Term Incentive (STI) component of remuneration is set as a percentage of the executive's base salary and for FY23 was set at 60% for the Chief Executive and up to 35% for other EMT members.

A proportion (70% for the Chief Executive and 50% for other EMT members) of the STI is related to a shared set of Group Key Performance Indicators (KPIs) which are aligned to our three year objectives. The climate-related objectives and their related KPIs are shown below.

More information on the responsibilities and remuneration of the Chief Executive and the Executive Management Team can be found in our Corporate Governance Statement and Remuneration Report.

Three-Year Objective	FY23 KPI	FY24 KPI
Play a leading role in New Zealand's successful transition to a low carbon economy	Progress on future development pipeline	Role in electricity sector transition progress
Create executable options for new growth	Clear path to carbon reduction	Progress non-condensable gas reinjection

Ngā Tamariki geothermal station.

OVERVIEW AND RELATIONSHIP BETWEEN RESPONSIBILITIES OF MERCURY BOARD, SUB-COMMITTEES AND MANAGEMENT.

BOARD

MERCURY BOARD

Establishes the purpose and strategic direction, oversees and approves risk management strategy and risk appetite and monitors progress against climate-related risks, metrics and targets. Climate-related risks and opportunities form an integral part of Mercury's overall risk management framework. All key climate-related risks and opportunities are approved by the Board. In addition to reporting from the Risk Assurance and Audit Committee (RAAC), the Board receives quarterly updates on key sustainability trends and issues.

RISK ASSURANCE AND AUDIT COMMITTEE

A sub-committee of the Board, the RAAC supports the Board in overseeing risks and opportunities including climate-related risks and opportunities and on the assurance of the CRDs in relation to compliance with the NZ Climate Standards.

Periodically reviews Mercury's Risk Management Policy and Framework, to ensure these remain fit for purpose, with appropriate and effective risk management strategies in place.	Quarterly review of risk reports from management. Each year, the May quarter review includes climate-related risk assessments and endorsing updated scenarios used in Mercury's identification of key climate-related risks and opportunities.	Reports to the Board on the outcomes of RAAC meetings, including discussion concerning risks and making recommendations to the Board.

EXECUTIVE

CHIEF EXECUTIVE AND EXECUTIVE MANAGEMENT TEAM

Overall accountability for actions and commitments to embed climate change into risk management, business strategy and planning, budgeting processes and frameworks. Includes identifying, considering and monitoring climate-related risks and opportunities and reporting to the RAAC and the Board.

RISK MANAGEMENT COMMITTEE

The Risk Management Committee (RMC) is a committee of the Executive Management Team (EMT) chaired by the Chief Executive. It meets quarterly.

Promotes risk awareness and appropriate risk management to staff. Monitors and reviews risk activities at its quarterly meetings.	Reporting is primarily developed by Mercury's internal experts through the Risk Assurance Team which includes a Risk Assurance Officer to co-ordinate management of all company risks. Climate-related risks and opportunities are reported to the RMC through facilitation by the Sustainability Team.	When appropriate, management engages third-party experts for services such as auditing, specific climate research or strategic management consultants.

EXECUTIVE

Ensures the risks in each business area are identified, understood and managed and monitored and escalated appropriately.

Implements risk mitigation strategies approved by the RMC and RAAC, and where applicable the Board.	Reviews quarterly sustainability updates.	Monitors emerging and developing risks. For climate-related risks and opportunities this is facilitated by Mercury's Sustainability Team which reports to the General Manager Sustainability. Oversight of risk reporting is performed by the risk assurance team which reports to the Chief Financial Officer.	Preparation and presentation of climate-related risk reports to the RAAC. These reports include action taken to mitigate risks previously disclosed.

Management remuneration includes incentives tied to climate-related risks and opportunities.

OPERATIONS

At an operational level the identification and day-to-day management of climate-related risks is dispersed throughout Mercury.

STRATEGY.

WHAT WE ARE SEEING

Mercury recognises that climate change is currently impacting the way we operate in the following ways:

CURRENT PHYSICAL CLIMATE IMPACTS

PHYSICAL IMPACTS
Extreme weather events in FY23, such as the Auckland Anniversary weekend floods and Cyclone Gabrielle, caused widespread flooding and property damage. Over 225,000 homes lost power including ~25,000 Mercury customers. The financial impact on Mercury was immaterial from this event but the impact on some of our customers lives was significant. Recognising these circumstances we elected to delay the implementation of customer price changes and also issued customer credits of ~$200,000.
Extremely wet weather events throughout the year have resulted in the Taupō catchment receiving inflows of 6,243GWh, the highest aggregated inflows for any 12 month period ending 30 June since records began in 1927. Hydro generation across the Waikato Hydro Scheme over the same period was 5,209 GWh, the third highest since records began in 1980. It has not been possible to quantify the impact the changing climate has played in this outcome.

CURRENT TRANSITION CLIMATE IMPACTS

TRANSITION IMPACTS
Stakeholder desire for greater clarity and understanding of climate impacts on business has led to increasing climate-related disclosure standards
Mercury engages with regulators and other stakeholders on climate-related initiatives, such as the NZ Battery Project[1] (sometimes referred to as discussions on Onslow or pumped hydro), seeking to enable the best pathway for New Zealand to transition to a low-carbon economy
As a participant in the New Zealand Emissions Trading Scheme (ETS), Mercury surrenders emissions credits for its geothermal fugitive emissions and natural gas sales
Mercury is currently sequestering ~8,000tCO2e p.a. of fugitive geothermal greenhouse gas emissions by reinjecting non condensable gases from one unit at our Ngā Tamariki geothermal station (about 25% of the total).[2] We are investigating further opportunities at Ngā Tamariki and other geothermal sites.
As part of its asset management programme, Mercury reviews the capabilities of its hydro structures against future changes in flood levels due to climate-induced changes in weather patterns

In FY23 Mercury has chosen not to financially quantify the current financial impacts of climate change due to the significant uncertainty in apportioning impacts to climate but will look to do so in future years where practical.

[1] The NZ Battery Project is a climate change initiative being led by the NZ Government to investigate the ability of pumped hydro, and alternative technologies, to address New Zealand's dry year electricity problem.

[2] Please refer to our GHG Emissions Inventory Report for details on calculation of our emissions.

[3] NIWA is the National Institute of Water and Atmospheric Research, a Crown Research Institute of New Zealand.

LOOKING FORWARD

SCENARIO ANALYSIS

To help improve our understanding of climate-related risks and opportunities over the current, short, medium and long-term and to test the resilience of our strategy, we undertake scenario analysis on a regular basis and will continue to refine and adapt our processes as things continue to change.

Mercury has previously used external third-party consultants for guidance, however in FY23 no external partners or stakeholders were involved in the scenario analysis process. This was internally-led as a standalone process developed by management to comply with NZ CS1 where a cross-functional workgroup consisting of representatives from across each of Mercury's business units was formed to update and refresh our climate scenarios. Once complete, the climate scenarios we developed were closely aligned to three of our company strategic scenarios so we amended those strategic scenarios to incorporate climate-related drivers. In following this process, Mercury developed a single set of company scenarios that are used to identify both strategic and climate-related risks and opportunities and inform our strategic decision-making.

The RAAC and the RMC provided governance oversight of the scenario analysis process through receiving updates from management at meetings in February and May 23. These included reviews of the selected scenarios and material climate-related risks and opportunities where feedback was sought by management and provided.

The Board was also updated on scenario analysis development and the identification of material climate-related risks and opportunities as, after each RAAC meeting, the Chair of the RAAC provided updates at subsequent Board meetings.

In accordance with NZ CS1, three scenarios were analysed – one where global temperature increase is limited to 1.5˚C (with an emissions reductions pathway aligned to RCP1.5), another where the temperature rise is greater than 4˚C (aligned to RCP8.5) and a third scenario where global temperature increase was limited to 1.5-2˚C (aligned to RCP2.0). These scenarios and their associated pathways were chosen to fulfil the NZ CS1 requirement for a 1.5 degrees Celsius climate-related scenario, a 3 degrees Celsius or greater climate-related scenario, and a third climate-related scenario. In Mercury's case, the third scenario was chosen for its alignment with Mercury's strategic scenarios. It provides an alternative view of how New Zealand could successfully transition to a low-carbon economy in order to assess the resilience of Mercury's business model and strategy to climate-related risks and opportunities.

Data sources including Transpower demand forecasts, NIWA[3] temperature and rainfall forecasts and global predictions of carbon price rises were used in the creation of these scenarios. We also considered advice from the Climate Change Commission and the government's Emissions Reduction Plan in shaping our view of how the economy and the energy sector could transition towards Net-Zero carbon. Mercury did not undertake its own modelling in the construction of its scenarios.

The boundary for Mercury's scenario analysis was the whole of the organisation, including our subsidiaries. We also considered the impacts on the upstream and downstream phases of our value chain, e.g. key suppliers, partners and customers.

Our scenario analysis was framed using the focal question: "What climate-related risks and opportunities are affecting Mercury now and could plausibly affect Mercury over the short, medium and long terms?". Our time frames were defined, in alignment with Mercury's business planning, as current: <1 year, short-term: 1 to 3 years, medium-term: 3 to 10 years, and long-term: 10-30 years. The endpoint of these time frames are aligned with:

- Current and short-term: Mercury's 3-year objectives
- Medium-term: Mercury's long-term strategy and strategic scenarios
- Long-term: The expected useful life of new generation development

Following the establishment of the focal question and timeframes, the STEEP (Social / Technological / Economic / Environmental / Political) framework was used to build out our climate scenarios and draft our scenario narratives described on the following page.

As noted above, the climate scenario narratives were closely aligned to three of our company strategic scenarios so we incorporated these together into a single set of company scenarios that are used to identify both strategic and climate-related risks and opportunities and inform our strategic decision-making.

CLIMATE SCENARIOS	ORDERLY TRANSITION SCENARIO (TEAL SCENARIO) Global temperature increases are limited to 1.5 degrees.	DISORDERLY TRANSITION SCENARIO (AMBER SCENARIO) Global temperature increases are limited to 1.5-2 degrees.	4+ DEGREE WARMING SCENARIO (MAROON SCENARIO) Global temperature increases by 4+ degrees.
CLIMATE IMPACTS	Lowest to medium physical climate risk. We are able to navigate to a 1.5 future and new technologies have emerged to help adapt and largely mitigate any disruption caused. Extreme weather events are only moderately higher than historical norms.	We are able to navigate to a 1.5 to 2 future, however when climate events do occur, they are expensive and disruptive as technological solutions are not adequate to help adapt and mitigate the disruption caused.	Highest physical climate risk. We have been unable to navigate to a 1.5 future, with warming on track to realise a 4+ degree future. Incidents of disruptive and expensive damage to infrastructure are growing in frequency. The retreat from the ocean has begun.
ENERGY PATHWAYS: Grid Demand	High demand driven from industry and decarbonisation. Peak shaving and smart demand response are used efficiently to help manage the grid.	High demand driven from industry and decarbonisation. Demand side flexibility is minimal and only used in emergencies (much like today). Most fossil gas has been displaced by electricity.	Electricity demand has been stagnant to declining. Gas is still used quite extensively.
ENERGY PATHWAYS: Grid Supply	Fossil fuels have been retired. Demand growth has been met by grid-scale renewable generation. Wholesale prices decrease.	100% renewable has been achieved through deployment of grid scale wind and other renewable solutions.	Fossil Fuels remain with limited growth in renewables.
MACROECONOMIC TRENDS: Resource and technology constraints	Goods and knowledge are affordable, and flow freely. Technology allows a high degree of sustainable use of natural resources. New Zealand is attractive for investment.	Physical resources were challenging to access due to global demand, however, are now readily available from global sources.	Access to knowledge and technology is difficult and expensive.
POLICY AND SOCIOECONOMIC ASSUMPTIONS: Consumer needs	AI powered digital assistants enrich consumers lives. Consumers have a high work/life balance and discretionary spend on entertainment and other luxuries.	Many are struggling and looking for deals on the basics. This is mixed with an expanding older wealthy segment looking for entertainment and life's comforts.	Financial hardship has created a large price sensitive segment focussed on the basics. There is a culture of conserving, repairing, and reusing limited resources. In contrast to the majority, there is a small segment seeking luxury, who have created off-grid sanctuaries.
POLICY & SOCIOECONOMIC ASSUMPTIONS: Competition / new entrants / disrupters	Benign wholesale conditions drive retail competition in the energy sector. Retail is sophisticated providing innovative products and services. Incumbents are delivering efficiently to meet growth. Successful new entrants exist in niches.	Competition in retail and wholesale is strong with competitive prices. New entrants and novel business models emerge.	Competition in energy is very limited. The market is easy to enter and new entrants with a novel bundle appear from time to time but typically struggle to compete with the scale of the incumbents.
POLICY AND SOCIOECONOMIC ASSUMPTIONS: Future of work	Industry is adapting to shorter working weeks, and an ageing workforce. Employers value employees with attitude and aptitude to keep up with the pace of change. Young employees want to work for businesses that have embraced these changes and are leading further advancements.	New Zealand has suffered from a "brain drain" making talent hard to secure. Young employees have for the most part gone overseas where wages are higher and the cost of living lower. Those that remain have secured senior high-paying jobs.	The highly skilled enjoy flexible working conditions. The majority work hard for low wages. Young employees are looking for the opportunity that will give them a leg up to better job prospects.
CARBON SEQUESTRATION FROM AFFORESTATION	Carbon sequestration from afforestation has been utilised for emissions reduction to a limited extent, being displaced by technological and nature-based solutions as they become available.	Carbon sequestration from afforestation has been widely deployed, being gradually superseded by technological and nature-based solutions.	Carbon sequestration from afforestation is utilised at a local level, without effective global coordination and certification.
NATURE-BASED SOLUTIONS	Nature-based solutions have been developed and form part of a broad portfolio of emissions reductions solutions.	Nature-based solutions have been developed and form part of a broad portfolio of emissions reductions solutions.	Nature-based solutions have been developed but have had limited impact on reducing emissions.
NEGATIVE EMISSIONS TECHNOLOGY	Effective negative emissions technology has been developed and widely deployed.	The development of negative emissions technology was slower than expected, leading to its delayed deployment.	Negative emissions reductions technology has been developed but has had a limited impact on removing emissions.

CLIMATE-RELATED RISKS AND OPPORTUNITIES.

Climate-related risks and opportunities were then identified from the scenario narratives and assessed. To assess which of these were material, the climate scenario workgroup used Mercury's risk matrix, which required consideration of both quantitative impacts, e.g. loss of revenue or increases in costs, and qualitative impacts, e.g. loss of social license to operate or reputational impacts.

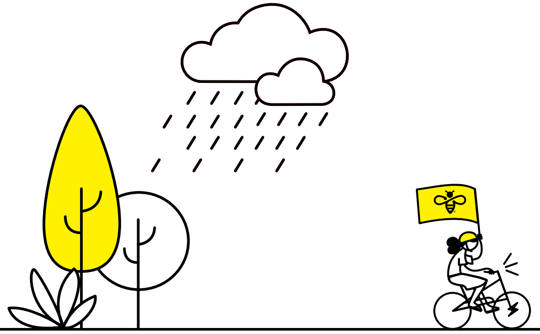
Inclusion of non-financial impacts in assessing materiality aligns with the materiality principles described in the NZ CS. These principles recognise that quantitative assessment of climate-related risks and opportunities is not always possible and thus broader judgement is required in assessing whether risks and opportunities are material.

A description of the identified material climate risks and opportunities and their current and anticipated impacts (both financial and non-financial) are shown in the tables below.

RISK	RISK TYPE: Time Horizons	TIME HORIZON OVER WHICH RISK BECOMES MATERIAL, LIKELIHOOD AND CONSEQUENCE	IMPLICATIONS	ASSESSMENT METHODOLOGY	MANAGEMENT RESPONSE
GREATER VARIABILITY IN WEATHER PATTERNS (INCLUDING MORE FREQUENT HIGH INFLOW EVENTS AND DROUGHTS) REDUCES HYDRO GENERATION FLEXIBILITY AND PROFITABILITY	Chronic Physical: Current, Short, Medium, Long-term	In the long-term, i.e. in 10-30 years' time, this risk is assessed as being highly likely (10-30% probability in any given year) to materialise and may have a significant financial impact, i.e. between $7.5m and $75m.	Changing weather profile could lead to reduced energy margin during droughts, (as Mercury may have to buy from competitors to supplement its own hydro generation output), and also during high inflow events because abundant supply results in low market prices.	Assess changes in average rainfall and min/max inflow profiles to determine decrease in long-run hydro generation earnings and profile factor.	• Mercury manages its peak customer sales commitments by taking a portfolio approach to generation development, existing and operations and financial hedging. We look to balance sales with our physical generation and financial contract purchases. • Mercury's environmental and planning teams engage with governing and consenting bodies to manage the operational impacts of lake storage levels and preserve operational flexibility on the Waikato Hydro System. • Lake Taupō may be held at lower average storage levels to provide buffer for large inflow events.
GROWING INTENSITY OF ATMOSPHERIC CONDITIONS (INCLUDING STORM EVENTS) THAT CAUSE ASSET DAMAGE	Acute Physical: Current, Short, Medium, Long-term	In the long-term, i.e. in 10-30 years' time, this risk is assessed as being likely (1-10% probability in any given year) to materialise and may have a major financial impact, i.e. between $75m and $750m.	Increasing intensity of storm events, floods and high wind events may lead to physical damage to generation assets resulting in costs to repair and lost generation revenue. Increasing storm intensities and/or higher likelihood of heating and fires and/or other extreme atmospheric conditions may lead to severe damage to electricity transmission and distribution systems resulting in Mercury being unable to export from stations.	Greater of estimate of cost to repair generation assets or lost generation revenue from transmission outages.	• Mercury regularly assesses physical risks to generating plant and assets as a reasonable and prudent asset owner/operator and will mitigate risks of damage as they arise. • Mercury has a dam safety programme, including annual and 5-yearly reviews, and is working to gain insight into the impacts of climate change on flood risks. • Mercury maintains a geographically dispersed and fuel diverse generation fleet which reduces impacts arising from locational-specific storm events that could cause asset damage. • Mercury carries insurance cover that mitigates the financial impact of replacing damaged assets and for business interruption.

CLIMATE-RELATED RISKS AND OPPORTUNITIES.

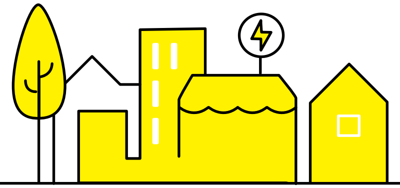
RISK	RISK TYPE: Time Horizons	TIME HORIZON OVER WHICH RISK BECOMES MATERIAL, LIKELIHOOD AND CONSEQUENCE	IMPLICATIONS	ASSESSMENT METHODOLOGY	MANAGEMENT RESPONSE
SUPPLY CHAIN CONSTRAINTS	Acute Transition: Short, Medium, Long-term	In the medium-term, i.e. in 3-10 years' time, this risk is assessed as being almost certain (>30% probability in any given year) to materialise and may have a major financial impact, i.e. between $75m and $750m.	Constrained global supply of renewable generation technology (i.e. wind turbines and solar panels) may cause construction delays and capital cost overruns.	Estimated cost increases between 20-50% in generation development. Longer lead times result in commissioning delays.	• Mercury manages its supplier relationships to support its generation development pipeline including executing procurement processes with sufficient lead time to minimise construction delays.
GOVERNMENT POLICY SETTINGS FAIL TO BALANCE THE ENERGY TRILEMMA AND LEAD TO A DECLINE IN ELECTRICITY DEMAND GROWTH AND/OR A LOSS OF INVESTOR CONFIDENCE IN THE ELECTRICITY SECTOR, INCREASED COSTS FOR THE SECTOR, AND/OR DELAYED DEVELOPMENT OF RENEWABLE ELECTRICITY GENERATION CAPACITY	Chronic Transition: Medium, Long-term	In the medium-term, i.e. in 3-10 years' time, this risk is assessed as being likely (1-10% probability in any given year) to materialise and may have a major financial impact, i.e. between $75m and $750m.	Without clear and considered government policy setting, the rate of electrification of industrial process heat and transport could fall behind projections, resulting in a reduced need for new investment in renewable generation developments. Government response to climate change leads to market intervention which negatively impacts asset valuations. Resource Management Act reforms may favour environmental protection over mitigating climate impacts and renewable electricity generation consents could be declined or delayed, constraining and adversely impacting Mercury's generation development pipeline.	Reduction in average wholesale price for Mercury's generation; Reduced revenue from delays in supplying renewable electricity generation to the NZ market. Reduced enterprise value of the company.	• Engage on policy settings that will support a successful transition for Aotearoa. • Maintain a pipeline of potential large commercial and industrial customers including new forms of demand (e.g. hydrogen, data centres). • Maintain a broad range of renewable electricity generation development options that can be brought to market in different demand scenarios. • Mercury actively engages with regulators and other external stakeholders to increase the understanding that renewable electricity is a key enabler of the transition to a low-carbon economy and promote regulatory settings that support the development of renewable electricity.



CLIMATE-RELATED RISKS AND OPPORTUNITIES.

OPPORTUNITY	OPPORTUNITY TYPE: Opportunity Time Horizons	TIME HORIZON OVER WHICH OPPORTUNITY BECOMES MATERIAL, LIKELIHOOD AND CONSEQUENCE	IMPLICATIONS	ASSESSMENT METHODOLOGY	MANAGEMENT RESPONSE
LOW-CARBON TRANSITION LIFTS ELECTRICITY DEMAND	Chronic Transition: Medium, Long-term	In the medium and long-terms, i.e. in 3-30 years' time, this opportunity is assessed as being almost certain (>30% probability in any given year) to materialise and may have a significant financial impact, i.e. between $7.5m and $75m.	Increased demand for renewable electricity due to decarbonisation of transport and process heat may provide greater opportunities to build renewable generation capacity and increase sales volumes.	Increased generation revenue from new generation development.	• Mercury looks to secure resource consents for generation development projects ahead of expected increases in demand. • Ensure a broad pipeline of development opportunities and maintain strong relationships with generation equipment suppliers.
CAPITAL MARKETS TILT TOWARDS INVESTING IN LOW-CARBON GENERATION	Chronic Transition: Short, Medium, Long-term	In the long-term, i.e. in 10-30 years' time, this opportunity is assessed as being likely (1-10% probability in any given year) to materialise and may have a major reputational impact.	Mercury's profile as a renewable electricity generator may lead to reduced capital costs through increased share price support and cheaper borrowing costs as equity investors and debt issuers seek exposure to climate-resilient investments, reflecting societal desire to invest in the transition to a low carbon economy.	Impact of reduced cost of borrowing.	• Mercury has looked to leverage its renewable profile in issuing Green Bonds and promotes its low-carbon generation profile to research analysts and sustainability rating agencies.

In FY23 Mercury has chosen not to undertake financial quantification of the material risks and opportunities from climate change due to the uncertainty associated with estimating modelling parameters across the medium and long-terms but will look to do so in future years where practical.



RESILIENCE OF STRATEGY.

Actions described above for each of these climate-related risks and opportunities are reflected in our planning processes through:

- the setting of strategic objectives and performance incentives in the Executive Scorecard each financial year;
- the application of our Risk Management Framework to assess physical risks to generating plant and assets and prioritising any required mitigation work in business plans;
- the deployment of capital and funding for the development of new renewable generation; and
- the consideration of portfolio risks when progressing new generation development.

When making capital allocation decisions we consider climate-related transition impacts, such as decarbonisation initiatives and emissions reductions pathways, given the significance these have on future electricity demand growth. We also consider the impacts of climate-related risks and opportunities over different time horizons in developing our capital investment plans. In FY23, over 90% of Mercury's growth capital expenditure was allocated to renewable generation development.

TRANSITION PLAN ASPECTS OF STRATEGY

Our business model and strategy are described in our FY23 Integrated Report. We test the resilience of our strategy through the lens of our material climate-related risks and opportunities.

TRANSITION TO A LOW-CARBON ECONOMY

As the Climate Change Commission recognised in its draft advice to inform the strategic direction of the Government's second emission reduction plan, the largest share of emissions reductions in the second emissions reduction period is expected to come from energy and industry. Therefore, getting the settings right to support electrification is crucial. The Commission recommendations include prioritising and accelerating renewable electricity generation build. Aotearoa has one of the lowest emissions electricity sectors in the world. This electricity can be used to reduce emissions economy-wide through electrifying transport, industrial process heat and space heating. The Commission recommended setting a target so that 50% of all energy consumed comes from renewable sources by 2035, and this has now been adopted by the government in its Emissions Reduction Plan. For context, in CY2022, Aotearoa's renewable share of final energy consumption was 30%.

As a fundamental element of our strategy, we consider the role that we can play in supporting this decarbonisation of New Zealand. In addition to significant investments made in renewable generation development (to help reduce emissions from the electricity sector itself and other sectors), we also consider the role we can play in supporting the decarbonisation of other sectors.

We are also working on how we can reduce our own emissions. We are currently sequestering ~8,000 tonnes per annum of CO_2e at Ngā Tamariki and are looking to expand CO_2 capture and reinjection across this and other geothermal sites.

DEMAND

Electricity demand is a fundamental value driver for our business. Ensuring ongoing resilience of our business model requires an approach to strategy that takes into account an increasingly uncertain future. We improve the resilience of our strategy by ensuring that we are positioned for a range of different outcomes related to demand and taking action to attract new sources of demand to New Zealand such as offering Power Purchase Agreements (PPAs) for new infrastructure such as Data Centres.

PORTFOLIO APPROACH

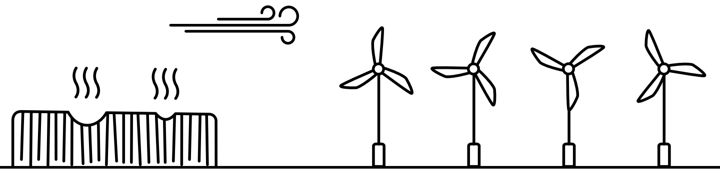
The rapid growth of new renewable electricity generation development is key to Mercury's contribution to New Zealand's transition to a low-carbon economy. We recognise the risks involved in bringing large-scale, complex projects to market while balancing the energy trilemma needs of security, affordability and renewability. In addition to ensuring new generation is delivered on time to meet demand for electricity, the intermittency of new renewable generation sources such as wind and solar, also provides a challenge in balancing day-to-day peak loads.

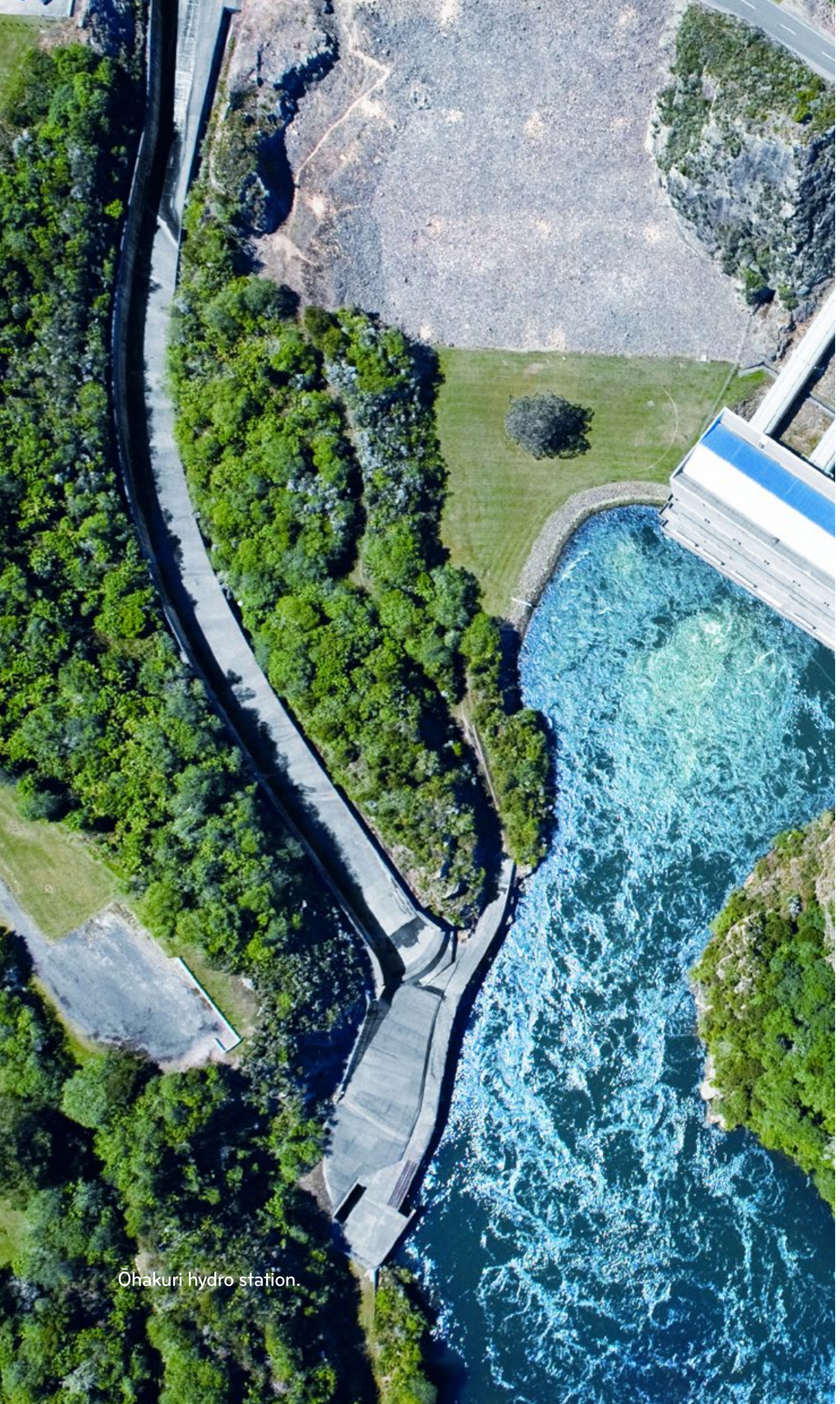
Mercury approaches these risks using a portfolio approach to its generation fleet, utilising the flexibility provided by its existing assets to enable the integration of intermittent new generation and looking towards market-based solutions through offtake agreements. A portfolio approach to new generation development, looking at both fuel types and locational risks (considering the vulnerabilities caused by the co-location of generation assets) is also employed when prioritising new development.

PHYSICAL ASSETS

Underpinning our strategy is a long-term approach to the management of our physical assets. One element of this is that our management of dam safety risks assumes a value for Probable Maximum Flood (PMF). This is a measure of the possible volume and flow rate of the Waikato River in the event of an extreme flood. Our PMF values are prudently conservative. We are mindful that it is possible that in a changing climate PMF values may need to be increased over time. Based on currently available data and analysis, our risk management practices and mitigants are appropriate. Through our ongoing dam safety work programme and hydrological studies, we continue to seek out additional information to ensure resilience of our strategy. We are currently working alongside other dam infrastructure owners in New Zealand to review the PMF assumptions including considering if these need to be updated to reflect the changing climate.

We have also reinvested hundreds of millions of dollars into a hydro refurbishment programme over the past 10+ years to ensure the assets can continue to generate renewable energy for many years to come. For example, we are currently working on a ~$90 million refurbishment of the Karāpiro Hydro Power Station that will extend the asset's life by a further 50 years and make it more efficient.




Ōhakuri hydro station.

RISK MANAGEMENT.

PROCESSES FOR IDENTIFYING AND ASSESSING CLIMATE-RELATED RISKS

Risk management is an integral part of Mercury's business. We have an overarching Risk Management Policy supported by a suite of risk management policies appropriate for our business.

The purpose of the Risk Management Policy is to embed a comprehensive capability in risk management which provides a consistent method for identification, assessment, control, monitoring and reporting of existing and potential risks to our business and to the achievement of its plans.

Our risk management framework meets New Zealand standard AS/NZS ISO 31000 Risk Management – Principles and guidelines and applies to all risks at Mercury and is used across the organisation. This framework provides for the integration of risk across our material value drivers– including financial, non-financial, social, environmental and climate-related risks.

A cross-functional group consisting of representatives from the relevant business functions supports the identification of climate-related risks through scenario analysis (see Scenario Analysis section in this Climate Statement). This group utilises information and data to understand whether potential risks are real, and to inform our view of the likelihood and impact of these risks.

Climate-related risks and opportunities are then classified and assessed relative to other types of risks using a common methodology (the risk matrix – shown below). Mercury's risk matrix requires consideration of both estimated quantitative impacts, e.g. loss of revenue or increases in costs, and qualitative impacts, e.g. loss of license to operate or reputational impacts to classify and assess the materiality of climate-related risks and opportunities. Material climate-related risks and opportunities are assessed as falling within the red and black portions of the risk matrix. From FY23, following assessment under our risk management framework, the RMC and RAAC review climate-related risks which will be incorporated into our existing risk framework through being recorded in our risk register system and assigned to relevant business units.

The climate-related risks and opportunities included in this year's climate statement have been identified by considering our three climate change scenarios over a 30-year time horizon. In doing so, we considered all phases of our value chain (without any exclusions).

		IMPACT					
		Insignificant	Minor	Moderate	Significant	Major	Fundamental
PROBABILITY	Almost Certain						
	Highly Likely						
	Likely						
	Possibly						
	Unlikely						
	Rare						

MANAGING CLIMATE-RELATED RISKS

The day-to-day management of climate-related risks, opportunities occurs across Sustainability, Finance, Generation, Portfolio, Customer Operations and Commercial Operations with cascading responsibilities up to the RMC and the RAAC. The RAAC provides an assessment of whether the business is managing our climate risks and responsibilities appropriately and ensures there are effective policies and procedures in place.

As an example, when the dam safety team considers the risks faced by their business function, potential impacts from climate change are one of the factors that they take into account. The dam safety team work with the GM Generation to build an approach to manage these risks and develop their forward plans. Where material, issues are escalated to the RMC, the RAAC and the Board. The responsibilities of business functions, the RMC, and the RAAC are described in more detail in the Governance section in this Climate Statement.

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

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

RISK MANAGEMENT.

Regulatory risks and opportunities are managed by our Government and Industry Relations team in conjunction with External Communications. Submissions have been made recently on the Climate Change Commission's 2023 draft advice to inform the strategic direction of the government's second Emissions Reduction Plan.

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

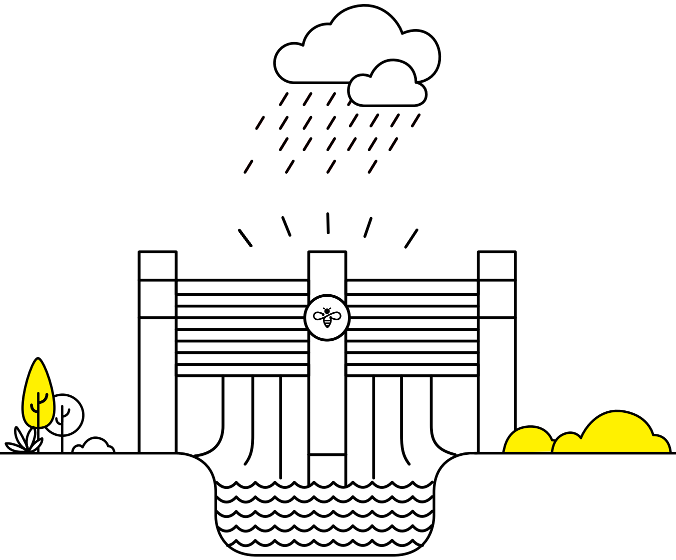
We have models of storm events experienced within the Waikato hydro catchment and we work in partnership with the Waikato Regional Council to engage in training exercises and flood simulations to educate and familiarise Mercury and council staff on the management of storms and flood risks.

We continue to refine and mature our climate-related scenario analysis to assess the impacts of our changing climate on our assets and business and are working with a research organisation, Bodeker Scientific, to improve the quality of our climate data including potential future inflows to the Waikato Hydro Scheme. Currently available regional level datasets are too high level to provide the robust and detailed outputs required for long-term investment decisions for hydro assets.

DATASETS & MODELS USED

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

We have drawn on the Climate Change Commission's advice to the government and the government's Emissions Reduction Plan to better understand how the economy, the broader energy system and the electricity sector will likely evolve towards Net-Zero carbon. In particular, the Commission's modelling of its "demonstration path" has influenced our expectations of future electricity demand.

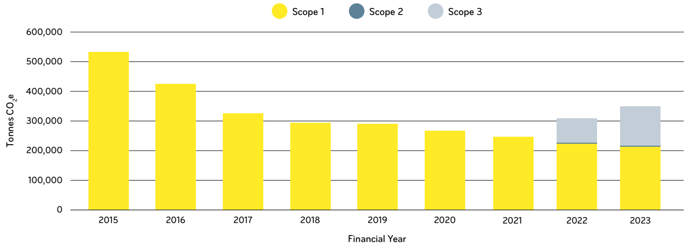


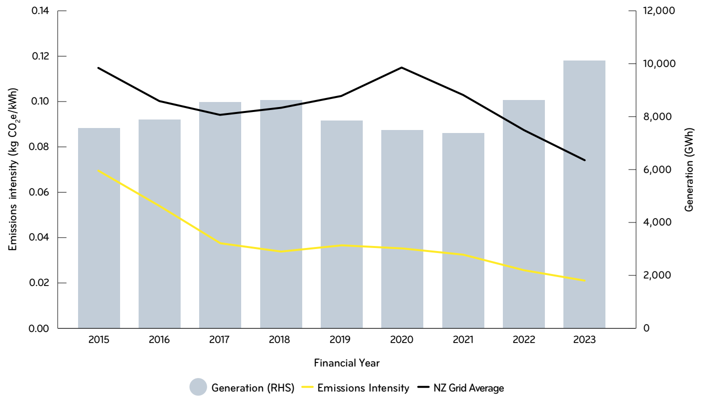
METRICS & TARGETS.

MEASURING OUR IMPACT - EMISSIONS

Mercury produces an annual GHG Emissions Inventory Report in accordance with the Greenhouse Gas Protocol which is available on our website. A summary of our FY23 and prior years GHG emissions and emissions intensity is shown below:

	FY23 (tCO2e)	FY2022 (tCO2e)
Scope 1	213,645	222,736
Scope 2 (location-based)	632	1,108
Scope 3	134,778	84,909





As can be seen from the table and graphics above, our gross emissions are dominated by Scope 1 emissions, which account for 61% of the entire emissions profile currently and have reduced by 60% over the past eight years. This is due to the elimination of our emissions from thermal electricity power generation by decommissioning the Southdown gas-fired power station in FY16, the natural decline in fugitive geothermal emissions over time and our investment in geothermal greenhouse gas reinjection.

Our Scope 3 emissions from the sale of gas to our domestic dual fuel customers now represent 38% of our total gross emissions and increased by 58% (on an annual basis) over the past year due to the acquisition of Trustpower's gas customer base.

The emissions intensity calculation uses gross Scope 1 emissions and total generation output figures from all our power stations. No adjustments have been made to reflect Mercury's part-ownership of two of our geothermal power stations nor have any adjustments been made in relation to carbon credit surrenders or trading conducted under the NZ ETS.

Note: *Under the NZ ETS, Mercury surrenders certified forestry-backed carbon units, purchased under long-term agreements with forest owners, to the NZ Government which cover all of our geothermal emissions and, to the NZ Government or to our gas supplier, for gas sales related emissions.*

Consistent with a reduction in our gross emissions over time, our emission intensity has also reduced including over the past two years where the impact of our increase in wind generation from both new builds and acquisitions is having measurable impacts.

Our Climate Transition Action Plan outlines in detail the actions that we are taking to ensure we are acting consistently with a 1.5 degree future and are playing our part in reducing greenhouse gas emissions.

> **"WE ARE RELEASING OUR CLIMATE TRANSITION ACTION PLAN WHICH SETS OUT HOW WE ARE PLAYING OUR PART IN REDUCING OUR GHG EMISSIONS.**

MEASURING OUR IMPACT – WATER USE AND OTHER ACTIVITY METRICS

In addition to emissions metrics, Mercury has looked to the International Sustainability Standards Board (ISSB) sector metrics for Electric Utilities & Power Generators for general and industry-based metrics for the management of climate-related risks and opportunities. These metrics have been assessed for their materiality to Mercury and the relevant metrics are disclosed below.

WATER USE	FY23	FY2022
Geothermal		
Water extracted (Mm3)	24	25
Water reinjected at source (Mm3)	13	13
Hydro		
Non-consumptive water use (Mm3)	11,529	6,465

Mercury extracts and reinjects geothermal water for geothermal generation and is a non-consumptive user of water through its hydro power stations. Mercury does not extract any water from regions with High or Extremely High Baseline Water Stress and in FY23 did not have any incidents of non-compliance with water quantity and/or quality permits, standards, and regulations.

Other material Activity Metrics are described in the Our Business Model section of our FY23 Integrated Report and disclosed in our Operating Statistics.

METRICS & TARGETS.

IMPACTS OF THE CHANGING CLIMATE ON OUR ASSETS AND BUSINESS ACTIVITIES

Mercury's assets and business activities are vulnerable to transition risks as described below:

- Our geothermal generation assets, comprising ~27% of Mercury's equity-weighted generation in FY23, produce fugitive emissions which are vulnerable to transition risks in the form of rising NZU prices in the event that geothermal emissions are unable to be captured and/or reinjected.
- Our entire generation portfolio is vulnerable to climate transition risk from regulatory settings impacting the energy trilemma, e.g. through influencing carbon pricing in the NZ ETS which directly impacts the spot price of electricity.
- Our generation development portfolio is vulnerable to risks arising from regulatory settings constraining renewable electricity development.
- Our gas sales activities, comprising 1% of FY23 revenue, are vulnerable to changes in regulatory settings and/or changes in consumer preferences away from fossil fuels.

Mercury considers all, i.e. 100%, of its generation assets are vulnerable to the physical risks of climate change such as extreme wind, floods and fires, with detail on identified material risks disclosed earlier in this Climate Statement.

All, i.e. 100%, of Mercury's existing electricity generation assets are considered aligned with climate-related opportunities as enablers in New Zealand's low carbon transition. Increasing demand for renewable electricity due to decarbonisation of transport and process heat has been identified as a material climate-related opportunity from which 100% of Mercury's renewable generation assets stand to benefit. The majority of Mercury's capital deployment is also aligned with climate-related opportunities as in FY23 $155m of growth capital expenditure was allocated to new renewable generation development. Mercury is also pursuing climate-related opportunities to reduce emissions through developing reinjection of geothermal non-condensable gases. In assessing and valuing these opportunities, Mercury does not use a fixed internal emissions price but assesses a range of outcomes under various emissions pricing scenarios.

The alignment of management remuneration to these climate-related risks and opportunities is discussed in the Governance section of this Climate Statement.

CLIMATE TARGETS

Mercury has committed to set the following near and long-term company-wide emission reduction targets in line with science-based Net-Zero with the Science Based Targets Initiative (SBTi). These targets have been developed using tools provided by the SBTi. The SBTi framework uses a sectoral decarbonisation approach to align emissions reductions in each industry to a global emissions reductions pathway consistent with limiting global warming to 1.5 degrees Celsius compared to pre-industrial revolution times. The base year for these targets is FY2022 and they are described to the right:

	Near-Term / Interim Target	Long-Term Target
Scope 1	Target Year: FY2030 70% reduction in emissions intensity (in kgCO2e/kWh) from base year	Target Year: FY2040 70% reduction in emissions intensity (in kgCO2e/kWh) from base year
Scope 2	Target Year: FY2030 42% absolute reduction from base year	Target Year: FY2040 90% absolute reduction from base year
Scope 3 – Use of Sold Products (Natural Gas Sales)	Target Year: FY2030 42% absolute reduction from base year	Target Year: FY2040 90% absolute reduction from base year

Note: These targets are subject to change through the validation process with SBTi.

Mercury does not currently use emissions offsets and, in alignment with the SBTi framework, does not intend to use offsets to achieve interim targets. Offsets may be used for persistent emissions that are unable to be abated for final targets, or for broader purposes outside of achieving interim targets.

In FY23, Mercury's progress against these targets was:

	FY23
Scope 1	18% decrease in emissions intensity
Scope 2	476 tCO2e decrease
Scope 3 – Use of Sold Products	48,932 tCO2e increase

The reduction in the Scope 1 emissions intensity between the FY22 base year and FY23 was due to a significant increase in the amount of renewable electricity we generated over the base year. This was achieved through the commissioning of the Turitea Wind Farm and a significant increase in the amount of hydro electricity generated on the Waikato Hydro Scheme.

As noted earlier, the increase in Scope 3 gross emissions was primarily due to the acquisition of the Trustpower retail business which included ~44,000 new natural gas connections.

LEADERSHIP & GOVERNANCE.

TE TĀTAKI ME TE WHAKAHAERE.

In this section we introduce our Board and Executive Management Team and present our corporate governance statement. We also share our remuneration policy and report, directors' disclosures and other disclosures, information for security holders, sustainability index, directory information and a glossary.

Craig Lusty and Katy Scoullar.

YOUR BOARD OF DIRECTORS.

PRUE FLACKS CHAIR — N P R

Tenure:

First Appointed: 1 May 2010 (Chair since Sep 2019)

Last Elected: 28 Sep 2021

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

Prue is a professional director with experience across a range of industries. Formerly a commercial lawyer and partner in the national law firm Russell McVeagh for 20 years, her expertise included corporate and regulatory matters, corporate finance, capital markets and business restructuring. Prue is a chartered member of the Institute of Directors, and was formerly a director of Chorus Limited, Bank of New Zealand and chair of Queenstown Airport Corporation.

HANNAH HAMLING DIRECTOR — R

Tenure:

First Appointed: 1 Feb 2020

Last Elected: 24 Sep 2020

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

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

JAMES MILLER DIRECTOR — N R

Tenure:

First Appointed: 2 May 2012

Last Elected: 22 Sep 2022

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

James is an experienced company director and Chair of company Audit and Risk Committees. He has specialist expertise in utility economics and 15 years' experience in capital markets. He is currently Chair of Channel Infrastructure NZ Limited and is a director of Vista Group and Ryman Healthcare. James' prior roles have included Chair of NZX, Deputy Chair of Accident Compensation Corporation and board positions with Auckland International Airport, the Financial Markets Authority and Vector.

James is a qualified Chartered Accountant and is a Fellow of the Institute of Chartered Accountants and Institute of Finance Professionals.

SUSAN PETERSON DIRECTOR — P

Tenure:

First Appointed: 1 Sep 2022

Last Elected: 22 Sep 2022

Key Skills*: Commercial experience; AI; automation and digitisation; customer relationships; large organisation and cultural leadership experience.

Susan is an experienced director and business leader with a particular interest in helping companies drive growth through technology, innovative customer solutions and organisational culture. She currently chairs Vista Group, is an independent director of Xero, Arvida and Craigs Investment Partners and is a Trustee on the Board of Global Women. Susan is a past director of Trustpower, ASB Bank, The New Zealand Merino Company, Compaq Sorting and Property for Industry.

Susan is a lawyer whose professional career primarily involved several senior roles in the ANZ Bank group.

*Key Skills are defined as the particular skills each director brings to the Mercury Board, and which we consider in our succession planning.

Tenure Key:

- < 3 years
- 3-6 years
- 6+ years

Committee Membership Key:

- N Nominations Committee
- P People and Performance Committee
- R Risk Assurance and Audit Committee
- ● Chair of the committee

YOUR BOARD OF DIRECTORS.

SCOTT ST JOHN DIRECTOR

P N

Tenure:

First Appointed: 1 Sep 2017

Last Elected: 24 Sep 2020

Key Skills*: M&A and capital structure; stakeholder relationships; commercial experience; people leadership.

Scott has an extensive background in investment advisory and capital markets. Scott is Chair of Fisher & Paykel Healthcare Corporation and a director of Fonterra Cooperative Group, ANZ Bank New Zealand, and Next Foundation. He was formerly a member of the Capital Markets Development Taskforce and the Financial Markets Authority Establishment Board, and was Chancellor of the University of Auckland. He was the Chief Executive of First NZ Capital from 2002 to 2017.

PATRICK STRANGE DIRECTOR

R

Tenure:

First Appointed: 1 Feb 2014

Last Elected: 24 Sep 2020

Key Skills*: Energy industry; major project investment; health and safety.

Patrick was previously a Mercury director in 2006-2007 before being appointed Chief Executive of New Zealand's transmission owner and operator, Transpower, a position he held for more than six years. Patrick currently chairs Auckland International Airport and is a director of Transgrid. He was previously a Director of NZX Limited and Essential Energy, Australia. Patrick has announced his retirement from Mercury after the September 2023 Annual Shareholders' meeting.

MIKE TAITOKO DIRECTOR

P

Tenure:

First Appointed: 28 Aug 2015

Last Elected: 23 Sep 2021

Key Skills*: Iwi and other stakeholder relationships; natural resource management (including water and climate change); digitisation.

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

LORRAINE WITTEN DIRECTOR

R

Tenure:

First Appointed: 1 Sep 2022

Last Elected: 22 Sep 2022

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

Lorraine is an experienced director and business leader with an extensive background in the telco, technology and ICT sectors. Lorraine currently chairs MOVe Logistics Group and Rakon, and is a director of VWORK. Lorraine has energy sector experience, having been a director of Horizon Energy Group.

Lorraine's previous appointments include as an Advisory Board Member and Audit Committee Chair of the Department of Corrections, Board member WREDA, director of Pushpay Holdings and director and chair of Kordia Group for several years.

*Key Skills are defined as the particular skills each director brings to the Mercury Board, and which we consider in our succession planning.

Tenure Key:

- < 3 years
- 3-6 years
- 6^+ years

Committee Membership Key:

- N Nominations Committee
- P People and Performance Committee
- R Risk Assurance and Audit Committee
- Chair of the committee

YOUR BOARD OF DIRECTORS.

DENNIS BARNES DIRECTOR [1] R

Tenure:

First Appointed: 1 Sep 2021

Last Elected: 23 Sep 2021

Resigned: 16 May 2023

Key Skills*: Energy industry; people leadership; major project investment.

Dennis was most recently Chief Executive of Contact Energy, a nine year role during which he led Contact Energy's investment in renewable energy and flexible generation (including construction of the Te Mihi geothermal power station, the development of the Tauhara field and the introduction in 2011 of the Ahuroa gas storage facility and Stratford peaking plant). Dennis retired from the Mercury Board on 16 May 2023 to take up a chief executive role in Australia.

ADRIAN LITTLEWOOD DIRECTOR [2]

Tenure:

First Appointed: 1 Aug 2023

Key Skills*: Commercial experience; large organisation and cultural leadership experience; major project investment; stakeholder relationships.

Adrian brings deep executive experience to Mercury's board. Adrian's executive career included 12 years at Auckland International Airport, nine of these as CEO. Before that he held senior roles across strategy, operations, product and marketing with Telecom New Zealand. Previous governance roles include acting as the New Zealand chair of the Australia/New Zealand Leadership Forum, chair of the NZ Airports Association, a director of North Queensland Airports and Tourism Industry Aotearoa.

MARK BINNS DIRECTOR [3]

Tenure:

First Appointed: With effect from 1 Sep 2023

Key Skills*: Energy industry; wholesale markets trading; commercial experience; major project investment.

Mark brings significant energy experience to Mercury. Mark was CEO of Meridian Energy from 2012 – 2017 and before that spent 22 years with Fletcher Building, including 15 years as CEO of the Construction and Infrastructure division. He currently chairs Crown Infrastructure Partners and Hynds Limited and is a director of Auckland International Airport.

*Key Skills are defined as the particular skills each director brings to the Mercury Board, and which we consider in our succession planning.

[1] Dennis was a director of Mercury from 1 September 2021 until 16 May 2023.

[2] Adrian was not a director during the reporting period. Adrian joined the Board on 1 August 2023 and will stand for election at the 2023 ASM in September.

[3] Mark was not a director during the reporting period. Mark joins the Board on 1 September 2023 and will stand for election at the 2023 ASM in September.

Tenure Key:

- < 3 years
- 6+ years
- 3-6 years

Committee Membership Key:

- N Nominations Committee
- R Risk Assurance and Audit Committee
- P People and Performance Committee
- Chair of the committee

YOUR EXECUTIVE MANAGEMENT TEAM.

The Executive Management Team leads our business to deliver on strategy, ensuring we continue to succeed while also positioning us for future opportunities and challenges. The team bring enterprise-wide leadership capability, together with deep subject knowledge expertise. Together, they provide leadership for our people and more widely in a changing environment.

VINCE HAWKSWORTH //
CHIEF EXECUTIVE

LUCIE DRUMMOND //
GENERAL MANAGER
SUSTAINABILITY

PHIL GIBSON //
GENERAL MANAGER
PORTFOLIO

CRAIG NEUSTROSKI //
GENERAL MANAGER
COMMERCIAL OPERATIONS

WILLIAM MEEK //
CHIEF FINANCIAL OFFICER

STEWART HAMILTON //
GENERAL MANAGER GENERATION

FIONA SMITH //
GENERAL MANAGER
CUSTOMER OPERATIONS

MARLENE STRAWSON //
GENERAL MANAGER
PEOPLE & PERFORMANCE

GOVERNANCE AT MERCURY.

LETTER FROM OUR CHAIR.

Dear Shareholder

It is my pleasure to present our corporate governance statement for the year ended 30 June 2023.

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

FY23 has been another year of significant activity for Mercury and consequently for Mercury's Board. This letter highlights some of that activity.

The Board has overseen: the advancement of Mercury's generation development pipeline including approving investment decisions for the Kaiwera Downs I wind farm and the expansion of the Ngā Tamariki geothermal power station; completion of the Turitea North and South projects; and delivery of the next phase of the Trustpower retail acquisition by the integration of the Mercury and Trustpower brands.

In May, Mercury committed to the new purpose that is showcased in this report, Taking care of tomorrow; connecting people and place today, which further drives our long-term ambitions.

We have made significant progress with another of our strategic convictions which is how Mercury ensures it will be a great partner with iwi. This has included feedback from our iwi partners as to how they view their relationships with us, and reflection on who we are and what we stand for, with the objective of establishing some key principles to underpin how we approach our relationships with iwi, hapū, whānau and landowners.

CLIMATE

In FY23, Mercury published climate related disclosure in accordance with the NZ climate standards, and updated its Climate Change Management Plan. In August 2023, Mercury is publishing its first Climate Transition Action Plan. This has involved aligning our climate scenarios with our strategic scenarios and has been an important focus for the Board, supported by the Risk Assurance and Audit Committee. During the year Mercury issued a further $150m green bonds to assist in financing projects and expenditure relating to renewable energy and other eligible projects. The bond issue was fully subscribed, and the strong response from the market demonstrates continued confidence in Mercury's business performance and long term outlook.

BOARD CHANGES AND SUCCESSION PLANNING

Last year I highlighted the importance of Board succession planning. Susan Peterson and Lorraine Witten joined the Board on 1 September 2022. Andy Lark stepped down from the Board on 22 September 2022 after 8 years' service. Dennis Barnes also stepped down from the Board on 16 May 2023 to take up a full-time executive role in Australia. We are grateful for Dennis and Andy's contributions.

Patrick Strange will retire at the Annual Shareholders' Meeting (ASM) this year after a total of 11 years of service. Patrick's operational experience and deep industry knowledge has been invaluable to the continued progress of Mercury. His inputs into large projects, health and safety, and the development of robust risk management strategies have been deeply appreciated by the Board and management. On behalf of the Board, I would like to thank Patrick for his outstanding service to the Board and to Mercury.

Adrian Littlewood joined the Board on 1 August and Mark Binns will be joining the Board from 1 September. Adrian and Mark bring broad executive experience to the Mercury Board, including capital management, risk management, major project investment and large organisation leadership. Mark also has the deep operational experience in the energy industry previously provided by Patrick Strange and Dennis Barnes.

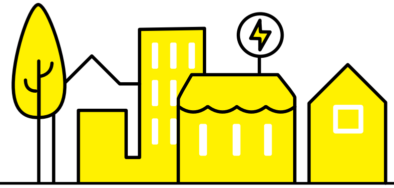
The appointment of Adrian and Mark in 2023, Susan and Lorraine in 2022, and Hannah in 2020, gives the Board refreshed perspectives and ensures the Mercury Board has a strong cohort of directors to take the business forward over the medium to longer term.

Mercury continues to take part in the Future Directors programme established by the Institute of Directors. The process for appointing the next "Future Director" is currently underway.

ANNUAL SHAREHOLDERS' MEETING

Our ASM will be held in a hybrid format again this year, with shareholders being able to join in person or remotely via video link. This approach was successful in 2022 and Mercury is aligned with the New Zealand Shareholders' Association's principles of maximising meaningful shareholder participation and quality engagement. I look forward to seeing you there.

PRUE FLACKS
CHAIR



CORPORATE GOVERNANCE FRAMEWORK.

This corporate governance statement (comprising pages 75 to 94 of this report) has been prepared in accordance with NZX Listing Rule 3.8.1 and was approved by the Board of Mercury NZ Limited on 21 August 2023. The information contained in this corporate governance statement is current as at that date. Some information in the corporate governance statement is expressed to be current at another date, for example the FY23 balance date of 30 June 2023. This corporate governance statement reports against the NZX Corporate Governance Code dated 1 April 2023.

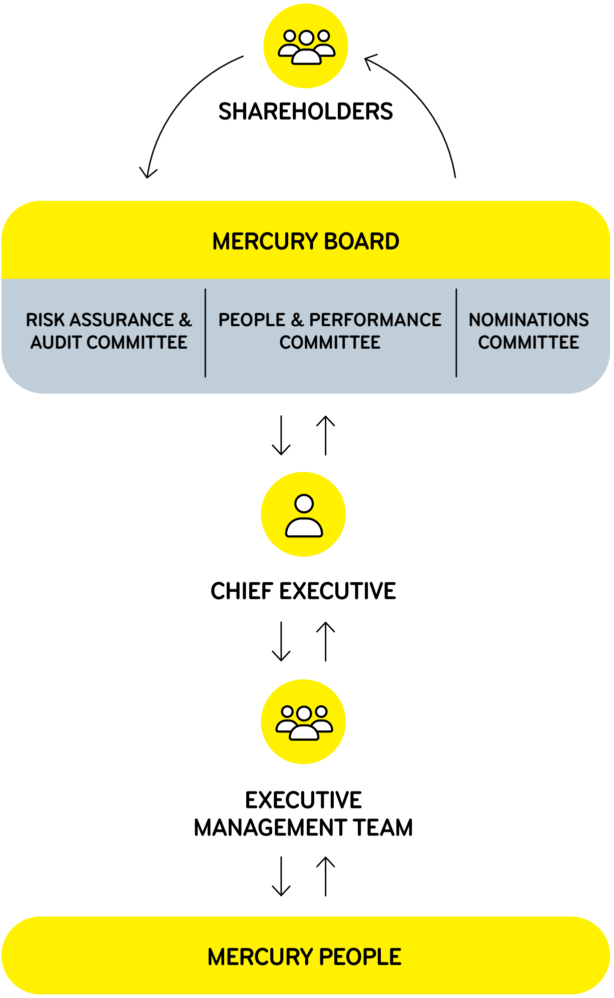
At Mercury, we are committed to the highest standards of corporate governance, business behaviour and transparency to protect and enhance the interests of our owners. Our corporate governance framework includes robust policies and processes which are fundamental to all of Mercury's foundational pillars. Our corporate governance framework underpins the maintenance of strong relationships with our stakeholders and our ability to create long-term value. It also ensures Board accountability to our shareholders and provides for an appropriate delegation of responsibilities to our people.

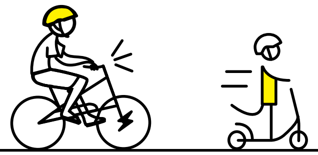
The Board regularly reviews our corporate governance policies and practices to ensure compliance with NZX and ASX standards (Mercury is an ASX Foreign Exempt Listed company) as well as reflecting positive contemporary corporate governance trends in New Zealand and Australia.

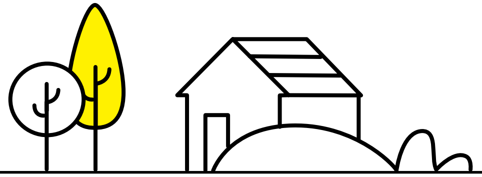
Over the reporting period, our corporate governance practices were in substantial compliance with the NZX Corporate Governance Code. The only exceptions relate to Recommendation 3.3 (Remuneration Committee), where the governance of remuneration at Mercury is split between the People and Performance Committee and the Nominations Committee (see the Board Committees section of this report for a full explanation of this exception); and Recommendation 5.1 (Director Remuneration), where Mercury does not have a specific policy for director remuneration (see the Remuneration Report for a full explanation of this exception).

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

We consider that governance at Mercury generally aligns with the BlackRock Investment Stewardship Global Principles published in January 2023. We consider our practices and procedures substantially reflect the guidelines and principles from the International Corporate Governance Network (ICGN) Global Governance Principles and the Organisation for Economic Cooperation and Development (OECD).







MERCURY'S BOARD.

BOARD COMPOSITION & CHARACTERISTICS

Structure of the Board

The Board typically comprises eight directors although this number may vary as required to ensure effective succession.

To enable Mercury to achieve its strategic goals, the Board strives to include an effective combination and diversity of skills, backgrounds and experiences. The Board also focuses on ensuring that its culture reflects Mercury's values, to foster alignment with the wider business.

There is a brief bio of each director at the beginning of this section.

Chair

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

Future Director

The Institute of Directors' Future Directors Programme provides people with governance potential and ambition with mentorship and the opportunity to participate on a board. It aims to increase the next generation of board- ready directors in New Zealand. The Mercury Board is a supporter and active participant in the programme having welcomed four future directors. Mercury is currently undertaking a future director search.

Future Directors are invited to attend Mercury Board meetings and Committee meetings, although they do not participate in decision making.

The Board is structured to ensure that as a collective group it has the skills, experience, knowledge, diversity and perspective to fulfil its purpose and responsibilities.

INDEPENDENCE

All of Mercury's directors, including the Chair, are considered by the Board to be "independent" directors, in that they are non-executive directors who are not substantial shareholders and who are free of any interest, business or other relationship that would materially interfere with, or could reasonably be seen to materially interfere with, the independent exercise of their judgement.

The Mercury Board takes director tenure into account in considering independence. The NZX recommends that issuers consider the effect of tenure on independence after 12 years' service. The Board has determined Prue Flacks to be independent. Mercury values the experience and deep understanding of Mercury's business and the industry which Prue brings to the Board. While Prue has been on the Board since 2010, she has been Chair only since 2019. Considering these factors, the Board has determined that Prue's independence is not affected by her tenure.

CONFLICTS

Mercury maintains a directors' interests register. The interests' register is reviewed at each Board meeting to ensure it is up to date and to determine if any directors are interested in any current or proposed transaction in which Mercury is or may become involved. If a director is interested in a transaction, this is discussed with the Chair and the Company Secretary and actively managed. A management plan is established and periodically reviewed as necessary. More details on the Board's approach to conflicts of interest can be found in Mercury's Board Charter. Information on current directors' interests can be found under Directors' Disclosures.

RESPONSIBILITIES

The Board is responsible for Mercury's strategic direction and operation and has delegated certain responsibilities to the Chief Executive and the Executive Management Team (EMT).

The Board's responsibilities are set out in the Board Charter, which is reviewed at least every two years, and include:	
Strategy and Planning	• establishing clear strategic goals with appropriate supporting business plans and resources • monitoring strategy implementation
Environmental and Health & Safety	• ensuring Mercury's environmental and health and safety culture and practices comply with all legal requirements, reflect best practice in New Zealand and are recognised by employees and other stakeholders as key priorities
Financial Performance and Integrity	• monitoring financial performance and the integrity of reporting
Executive Authority	• setting delegated authority levels for the Chief Executive and EMT
Risk and Audit	• ensuring that effective audit, risk management and compliance systems are in place and monitored to protect Mercury's assets and to minimise the possibility of Mercury operating beyond legal or regulatory requirements or beyond acceptable risk parameters as determined by the Board
Ethics and Corporate Behaviour	• ensuring Mercury adheres to high standards of corporate behaviour, responsibility and ethics

The Chief Executive and EMT are responsible for:

- developing and making recommendations to the Board on Mercury strategies and associated initiatives
- managing and implementing strategies approved by the Board
- formulating and implementing policies and reporting procedures for management
- decision making compatible with Mercury's Delegations Policy
- managing business risk
- the day-to-day management of Mercury

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

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

GOVERNANCE AT MERCURY.

ACCESS TO ADVICE & COMPANY SECRETARY

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

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

SELECTION, NOMINATION & APPOINTMENT

All directors are elected by Mercury's shareholders (other than directors appointed by the Board to fill casual vacancies, who must retire and stand for election at the next meeting of shareholders) with rotation and retirement determined in line with the NZX Listing Rules. The Board is responsible for considering and appointing directors to the Board after candidates have been identified by the Nominations Committee (see Board Committees). Mercury notifies shareholders of their right to nominate a candidate for election as a director by notice on the NZX and ASX.

Where any director election or re-election is to occur at a shareholder meeting, the Notice of Meeting includes all information on candidates for director election or re-election that the Board considers may be useful to shareholders. Directors must retire every three years and, if desired, seek re-election.

Hannah Hamling and Scott St John, having served for three years since their last re-elections, will retire at the September 2023 annual shareholders' meeting and stand for re-election in accordance with the NZX Listing Rules. Patrick Strange will step down from the Board on 19 September 2023 after more than nine years of service.

The Board and Nominations Committee carry out appropriate due diligence before appointing a director or nominating a candidate for election as a director in accordance with our governance processes.

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

INDUCTION & DEVELOPMENT

All new directors participate in a comprehensive induction programme to familiarise them with Mercury's business and the energy and telecommunications industries. The induction programme covers key Mercury policies and internal frameworks and includes sessions run by EMT members on their business areas and important projects happening within Mercury. New directors may request further induction training as needed.

The Board receives regular briefings on Mercury's business operations from senior managers. Regular Board strategy days are held to consider matters of strategic importance to Mercury, and Board and management run scenario thinking sessions for key issues. Visits to Mercury's facilities keep the Board informed of Mercury's assets and operations and in particular with respect to health and safety and wellness matters.

The Board has an ongoing programme to enhance the effectiveness of directors. This involves both deep-dives into aspects of Mercury's business, and sessions focusing on the broader environment including future trends and innovation. Sessions run during FY23 included dam safety, process safety, and climate. Directors are also encouraged and supported to continue their own professional development through individual learning opportunities.

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

KEY BOARD STATS[1]:

TENURE	5/9 56% 6+ YEARS	1/9 11% 3-6 YEARS	3/9 33% < 3 YEARS
GENDER	4/9 44% FEMALE	5/9 56% MALE	0/9 0% GENDER DIVERSE

[1] Dennis Barnes is included in this data for FY23 as he was a director for the majority of the year. Adrian Littlewood and Mark Binns are not included in this data.

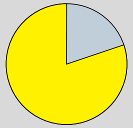
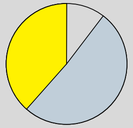
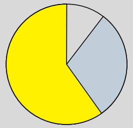
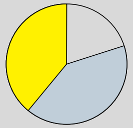
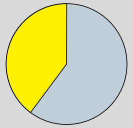
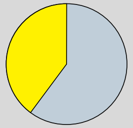
BOARD SKILLS MATRIX

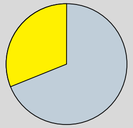
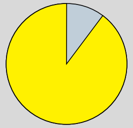
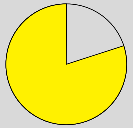
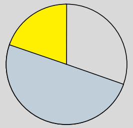
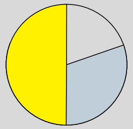
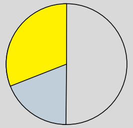
Through the Nominations Committee, the Board regularly assesses its skills and competencies in the context of key outputs required, including:

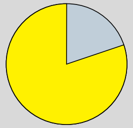
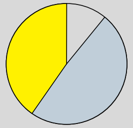
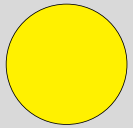
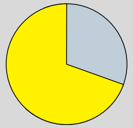
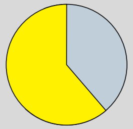
- setting risk parameters for both value creation and value protection;
- cultural leadership to reflect our values, environmental kaitiakitanga and social licence to operate; and
- strategy development in an environment of disruption, requiring courage to challenge, resilience and agility to respond.

During the reporting period, the Nominations Committee has considered and reviewed the skills of the Board and updated the Board skills matrix[4]. Recognising that how well the Board performs is a function of the skills and experience of individual directors and how the directors work together as a whole, we consider that addressing the level of skills and experience collectively is a better indicator of overall Board capability.

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

SKILL & EXPERIENCE CATEGORY	COMBINED BOARD
STRATEGY & RISK SETTINGS	
Significant commercial experience across different industries and economic cycles	
Major project investment and experience	
M&A and capital structure experience	
AI, automation, digitisation, disruption and innovation in energy and other sectors	
Climate Change and natural resource management (including water)	
RETAIL	
Understanding key drivers of value in a customer facing business, through governance or operational experience	

SKILL & EXPERIENCE CATEGORY	COMBINED BOARD
STAKEHOLDERS	
Customer relationships across market segments and demographics	
Government relationships	
Shareholder/investment community relationships	
Iwi relationships/connectivity Hononga ā-iwi/hononga	
ENERGY INDUSTRY	
Energy industry experience	
Wholesale markets trading (energy and/or other commodities)	

SKILL & EXPERIENCE CATEGORY	COMBINED BOARD
GOVERNANCE & RISK MANAGEMENT	
Governance experience, including listed companies	
Finance/accounting/audit committee experience	
Risk management process and experience, including cyber security, climate related, structural asset integrity	
PEOPLE LEADERSHIP	
Health and safety experience	
Large organisation and cultural leadership experience	

KEY

- Substantial
- Medium
- Some

[4] The skills matrix presented here includes data for all current directors as at the date of this Integrated Report as well as Adrian Littlewood (joined the Board on 1 August 2023) and Mark Binns (to join the Board on 1 September 2023). It does not include data for Dennis Barnes (left the Board on 16 May 2023) or Andy Lark (left the Board on 22 September 2022).

GOVERNANCE AT MERCURY.

REVIEWING PERFORMANCE

The performance of the directors (individually and collectively), and the effectiveness of Board processes and committees, are regularly evaluated using a variety of techniques including external consultants, questionnaires and Board discussion. A performance review led by the Chair was carried out during the reporting period. A performance review by an external facilitator will be carried out during FY24.

DIRECTORS' MERCURY SHAREHOLDINGS

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

BOARD COMMITTEES

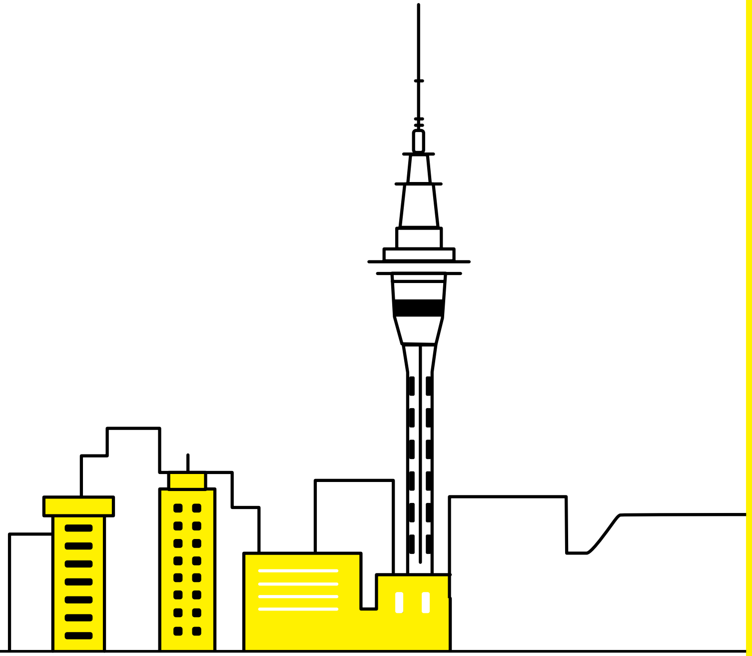
The Board has three standing committees: the Risk Assurance and Audit Committee (RAAC), the People and Performance Committee and the Nominations Committee. Each Committee focuses on specific areas of governance. Together, they strengthen the Board's oversight of Mercury. Committee meetings are scheduled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

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

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

ADDITIONAL COMMITTEES

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



GOVERNANCE AT MERCURY.

Membership & Meetings

P People and Performance Committee

Members as at 30 June 2023: *At least three directors, majority independent.*	**Meetings in FY23:** *At least 3 annually*			
	Aug 22	Nov 22	Apr 23	Jun 23
Scott St John (Chair)	●	●	●	●
Mike Taitoko	●	●	●	●
Susan Peterson[5]	N/A	●	●	●
Andy Lark[6]	●	N/A	N/A	N/A
Prue Flacks[7]	●	●	●	Apology

R Risk Assurance and Audit Committee

Members as at 30 June 2023: *At least three directors, each independent non-executives. At least one with accounting / financial background. Board Chair not eligible to be RAAC Chair.*	**Meetings in FY23:** *At least 3 annually*			
	Aug 22	Nov 22	Feb 23	May 23
James Miller (Chair)	●	●	●	●
Hannah Hamling	●	●	●	●
Patrick Strange	●	●	●	●
Lorraine Witten[8]	N/A	Apology	●	●
Dennis Barnes[9]	Observer	●	●	Apology
Prue Flacks[7]	●	●	●	●

N Nominations Committee

Members as at 30 June 2023: *At least three directors, majority independent.*	**Meetings in FY23:** *At least annually*
	Jun 23
Prue Flacks (Chair)	●
James Miller	●
Scott St John	●
Patrick Strange[10]	N/A

Due to the nature of the Nominations Committee's role, its activity varies each reporting period depending on the requirements of the Board. While the Nominations Committee Charter only requires one formal meeting annually, the Committee meets more frequently as required. In addition to the minimum annual meeting, the Committee convened on several occasions during FY23 to discuss necessary matters.

Purpose

People and Performance Committee

Assisting the Board to fulfil its people and performance responsibilities relating to:

- Mercury's People and Performance strategy and plan
- review of inclusion and diversity objectives and progress against objectives
- the remuneration and performance of the Chief Executive and EMT
- People and performance policies and practices

Monitoring and providing guidance to management on people and performance related matters.

Risk Assurance and Audit Committee

Overseeing, reviewing and advising the Board on Mercury's:

- risk management policy and processes (which include oversight of Health & Safety assurance and climate-related risks and opportunities)
- internal control mechanisms and internal and external audit functions
- compliance with legislation and regulation
- financial information prepared by management for publication

Management retains responsibility for the implementation and operation of adequate risk assurance, internal control and audit systems. Management only attend RAAC meetings by invitation. The Board has delegated to the RAAC the authority to oversee and monitor these activities.

Nominations Committee

Ensuring the Board and its committees are structured appropriately and composed of suitably qualified individuals to support the Board's effectiveness in discharging its duties and responsibilities and adding value through good governance.

The Nominations Committee plays an important role in identifying, for the Board to consider, people with the necessary expertise, experience, diversity and perspectives for selection as potential directors to be nominated for election at the next annual shareholder meeting or to fill a casual vacancy on the Board.

[5] Susan Peterson became a member of the People and Performance Committee following her appointment as a director on 1 September 2022.

[6] Andy Lark was a member of the People and Performance Committee until he ceased to be a director on 22 September 2022.

[7] Prue Flacks is a member of both the People and Performance and Risk Assurance and Audit Committees by virtue of her position as Board Chair.

[8] Lorraine Witten became a member of the Risk Assurance and Audit Committee following her appointment as a director on 1 September 2022.

[9] Dennis Barnes was a member of the Risk Assurance and Audit Committee until he ceased to be a director on 16 May 2023.

[10] Patrick Strange was a member of the Nominations Committee until 1 October 2022.

ASSURANCE & MANAGING RISK.

AUDIT PLAN & ROLE OF AUDITOR

As a public entity under the Public Audit Act 2001, the Auditor General is the independent auditor of Mercury and each of our subsidiaries (together, the 'Group'). The Auditor-General appointed Lloyd Bunyan of Ernst & Young to carry out the FY23 audit on his behalf. The NZX Listing Rules require rotation of the key audit partner at least every five years. The provision of external audit services is guided by the Audit Independence Policy available on the Corporate Governance section of our website. The external auditor attends the Annual Shareholders' Meeting and is available to shareholders to answer questions relevant to the audit.

INTERNAL AUDIT & RISK ASSURANCE

Mercury has a comprehensive internal audit and risk assurance plan, which take a holistic view of Mercury's culture, practices and procedures and include periodic reviews of relevant areas of Mercury's operations. The internal audit plan is designed, updated and approved by the RAAC in consultation with the Risk Assurance Officer and the Internal Auditor (currently made up of an internal team, Deloitte and other internal audit and process specialists appointed on an outsourced basis) who report on progress and the results of internal audit reviews at each RAAC meeting. The Internal Auditor has access to management and the right to seek information and explanations.

The RAAC meets with the Internal Auditor at least once each year without management present.

During FY23, the focus of the RAAC was compliance (regulatory), reputation, financial (including climate), operational and health & safety, which were trending or elevated risks for the Group.

TIMELY & BALANCED DISCLOSURE

Shareholders & Markets

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

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

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

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

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

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

Integrity of Reporting

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

A letter of representation confirming those matters was received by the Board with respect to the Group's FY23 financial statements.

We report on non-financial information in our Integrated Report. Material environmental, social and governance matters are covered in this report, corporate governance statement and the Climate Statement. To provide this information in a format accessible to our stakeholders we take guidance from both the Global Reporting Initiative (GRI) standards and the International Integrated Reporting Council (IIRC) Integrated Reporting <IR> framework. We obtain independent limited assurance from EY on our Greenhouse Gas Emissions Inventory.

OUR KEY RISKS

Safety Risks

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

Compliance Risks
Legislative & regulatory changes

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

Operational Risks
Fuel security & supply

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

Electricity market exposure

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

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

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

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

Broadband and Mobile services

Mercury now retails broadband and mobile telecommunication services to residential and commercial customers. Broadband and mobile both introduce different operational challenges (e.g. network availability, cyber-security) that if not well managed can jeopardise Mercury's capacity to supply telecommunication services to customers.

Power station availability

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

- catastrophic events such as a major earthquake, volcanic eruption, or other natural perils that could cause failure of one or more of our power stations
- material failure of turbines, transformers, key infrastructure, or geothermal wells that results in unplanned power station outages that necessitate replacement or repair and could be influenced by supply chain delays
- unexpected events impacting on the short-term availability of key people required to operate stations, provide hydro control or trading oversight
- cyberattacks upon our power stations that could result in a plant failure or sustained loss of control.

Information security

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

Financial Risks

Insurance

Mercury is insured through a comprehensive programme including cover for generation property, plant and equipment and business interruption with a combined limit of $1 billion. Some catastrophic events are uninsurable, or we have chosen not to insure against them as the cost of cover is prohibitive. In the event of a severe catastrophic event, it is possible that the insurance portfolio will not provide sufficient cover, impacting future operational performance and the financial condition of Mercury. We estimate that the maximum foreseeable loss to which the Group could potentially be exposed (cascade dam failure causing significant flooding, business interruption, direct reinstatement costs and potential loss of life) is approximately $13 billion with an assessed likelihood of occurrence of 1 in 100,000 years.

We review the level and nature of our insurance cover annually. Following a third-party risk tolerance analysis which considered several key financial metrics specific to Mercury, the decision was previously made to retain additional financial risk in the event of an insurable loss to our generation assets. Side C cover, which insures the company against liabilities arising out of securities market conduct breaches, was also removed from our directors' and officers' insurance policy.

Climate Change Risks

For details of our key climate-related risks and how we manage them – please see our Climate Statement.

Growth & Development

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

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

Liquidity and Earnings

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

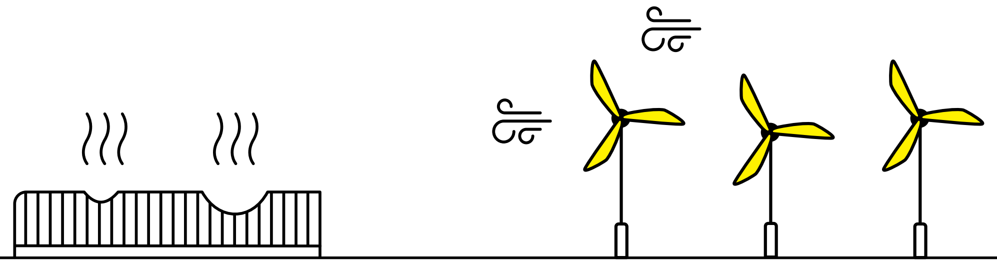
The Crown's shareholding and the provisions of the Public Finance Act may limit our ability to raise equity capital.

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

Reputational Risks

Our reputation with investors, partners, customers and the broader community is one of our most significant assets. In addition to the risks mentioned elsewhere in this statement, the following events could threaten that reputation and could lead to negative publicity resulting in the loss of business revenues or reduction in Mercury's value:

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



GOVERNANCE AT MERCURY.

RISK MANAGEMENT FRAMEWORK & RAAC RESPONSIBILITIES

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

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

The risk management framework supports a comprehensive approach to risk, encompassing financial, strategic, environmental, operational, regulatory, reputational, social and governance risks. This includes assessing and managing climate-related risks.

The framework involves actively identifying and managing risk and taking measures to reduce the likelihood of risk, contain potential hazards and take mitigating action to reduce impacts in line with risk tolerances. This approach is consistent with the precautionary principle.

We must accept some risks to achieve our strategic objectives and to deliver shareholder value. Our tolerance for risks is embodied in our Risk Appetite Statement which are set and regularly reviewed by the Board. As part of the current Risk Appetite Statement, Mercury targets a long-term credit profile of BBB+ (bbb on a stand-alone basis) from S&P Global (or its equivalent).

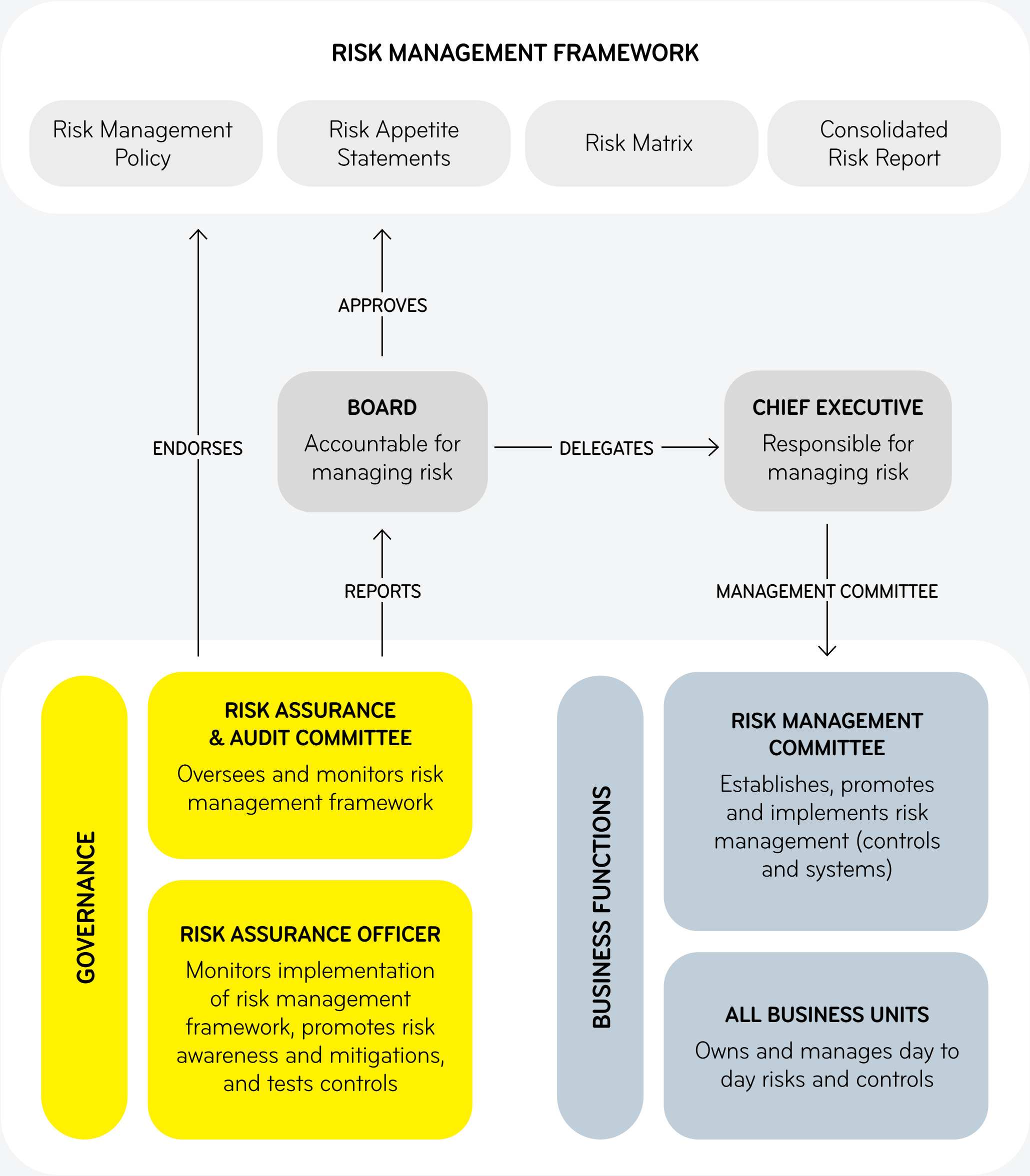
We have a Risk Assurance Officer who has the independence to determine the effectiveness of risk management, assurance and internal audit. The Risk Assurance Officer has a dual reporting line to the Chief Financial Officer and the RAAC Chair. The RAAC tasks the Risk Assurance Officer to ensure healthy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

Our management operates a Risk Management Committee, whose mandate is to raise risk awareness and adequate risk management among all employees, as well as to monitor and review risk actions as circumstances and our strategic and operational goals change. Membership of the Risk Management Committee is made up of representatives from the Executive Management Team and is chaired by the Chief Executive. The Risk Management Committee meets at least four times each year.

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

As noted above, the RAAC is responsible for overseeing, reviewing and providing advice to the Board on Mercury's risk management policies and processes. The Risk Assurance Officer reports regularly to the RAAC on the effectiveness of our management of material business risks. In addition, the RAAC annually reviews the risk management framework. The last review of the risk management framework took place in August 2023.

Mercury's Constitution, and relevant Charters and Policies are available in the Corporate Governance section of Mercury's website.



ENGAGING WITH INVESTORS.

OUR INVESTOR RELATIONS PROGRAMME

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

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

We also run a programme to build understanding and appropriate measurement of Mercury's performance among investors and research analysts. That programme aims to be responsive, clear, timely, consistent, even-handed and accurate, and is designed to ensure appropriate access to management and directors.

Summary records of matters discussed at meetings with investors and analysts are kept for internal use, unless a recording or transcript of the presentation is published on our website.

MERCURY INVESTOR DAY 2023

Mercury hosted an Investor Day in Palmerston North on 15 March 2023.
The day included presentations on generation asset management, energy transition and climate, future ready retail and integration and Mercury's portfolio and generation development. Feedback from the day was positive and Mercury intends to hold another Investor Day in FY24.

GOVERNANCE ROADSHOWS

Mercury held a series of investor meetings during July 2022 and again during August 2023, primarily with institutional investors. The governance roadshows aim to provide an overview of Mercury's activities and significant governance matters during the year. Materials from the roadshows can be found on our website.

WEBSITE

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

Shareholders can direct questions and comments to Mercury through the website or contact investor@mercury.co.nz.

ANNUAL SHAREHOLDERS' MEETINGS & WEBCASTS

An ASM is held in New Zealand at a time and location which aims to maximise participation by shareholders. Mercury's eleventh ASM since listing on the NZX Main Board and ASX will be held in Auckland on 19 September 2023 and once again will be held in a hybrid format (in person and online). This approach was successful at the 2022 ASM and is considered by the New Zealand Shareholders' Association as the most effective approach to enable meaningful shareholder participation.

ELECTRONIC COMMUNICATIONS

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

ACTING ETHICALLY & RESPONSIBLY.

TE NGĀKAU TAPATAHI ME TE HAEPAPA.

Mercury people strive to do what's right. We have put in place the Mercury Code to ensure that our people know what the 'right thing to do' is. The Mercury Code documents the behaviours we require to embed and sustain our culture to successfully deliver our strategy and achieve our Purpose of taking care of tomorrow: connecting people and place today.

MERCURY ATTITUDE

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

Our Mercury Attitude aligns our direction to achieve our Purpose.

THE MERCURY CODE & OUR POLICY FRAMEWORK

The Mercury Code, which is reviewed by our Board at least every 2 years, is our version of a code of conduct and ethics. The Mercury Code underpins everything we do. It requires all Mercury people, including directors and employees, to act honestly and with integrity and fairness at all times, and to strive to foster those standards within Mercury. The Mercury Code is available in the Corporate Governance section of our website. Mercury employees are required to complete training on the Mercury Code at least annually.

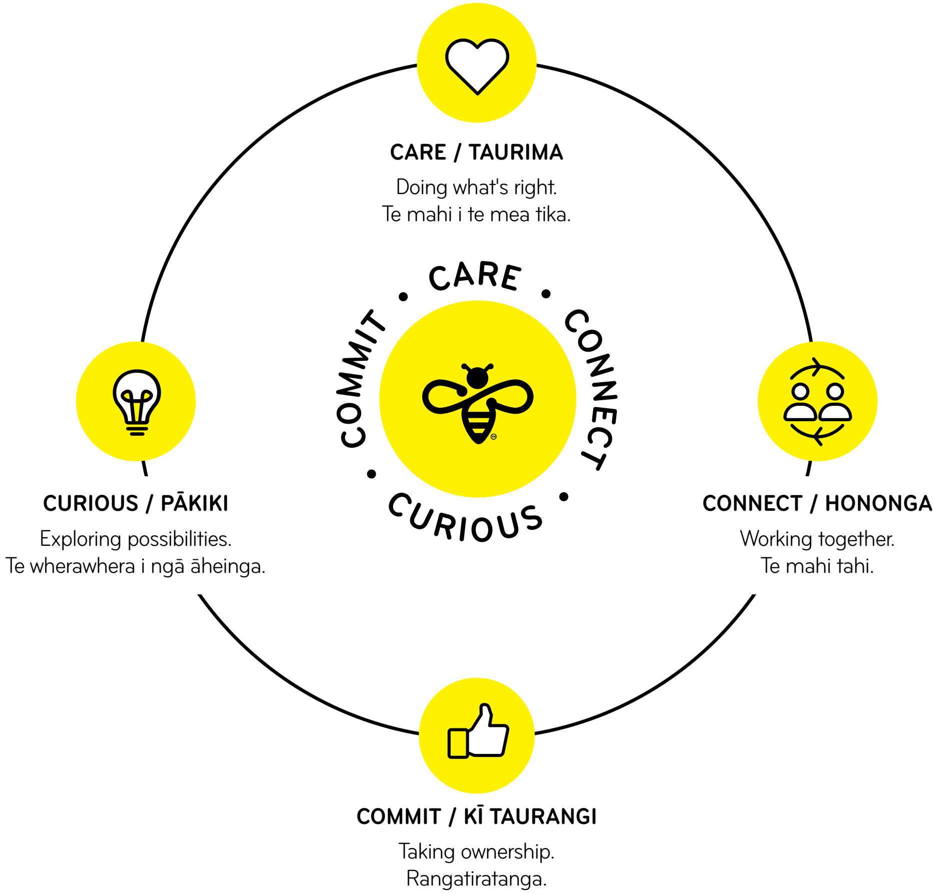
The Mercury Code and the policy framework described below support our promises to each other and define our commitment to our customers, our people and community and our investors.

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

We also want to ensure that we work with suppliers who share our commitment to acting ethically and doing the right thing. Our Supplier Code of Conduct describes the way we work with our suppliers and what we expect in return. The Supplier Code of Conduct includes our commitments and our expectations in relation to social responsibility, health and safety, compliance with all applicable modern slavery laws, environmental responsibility, and business integrity. The Supplier Code of Conduct is available in the Corporate Governance section of our website.

Mercury acknowledges the importance of assessing and addressing the risk of modern slavery in our operations and supply chain. We continue to publish a modern slavery statement, consistent with our obligations under the Australian Modern Slavery Act 2018.

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



GOVERNANCE AT MERCURY.

Our Governance & Responsible Business Practices	
Conflicts	Conflicts of interest must be avoided, except with the prior consent of Mercury. Mercury people are encouraged to discuss possible conflicts with their manager. Mercury takes practical, preventative action wherever possible, for example by substituting project managers in circumstances of possible conflict with contractors and suppliers. Our directors declare all potential conflicts of interest prior to appointment and if applicable, at each Board meeting in relation to specific agenda items.
Bribery	The acceptance of bribes, including gifts or personal benefits of material value which could reasonably be perceived as influencing decisions, is prohibited under the Mercury Code. Under Mercury's Delegations Policy, donations to political parties are prohibited.
Use of Mercury Assets	The Mercury Code places restrictions on the use of corporate information, assets and property. All persons covered by the Mercury Code are encouraged to report any breach or suspected breach of the Code.
Whistleblowing	We provide a framework for the protection of employees wishing to disclose serious wrongdoing. This is described in Mercury's Whistleblowing Policy. Employees are also encouraged to voice with their manager, the HR team, the General Counsel, other managers or directors any concern over ethical or irresponsible behaviour, even if not reaching the threshold of serious wrongdoing. During FY23, the Whistleblowing Policy was updated to reflect legislative changes and to provide a third-party whistleblowing hotline.
Trading In Company Securities	Mercury's Trading in Company Securities Policy sets out the rules and restrictions relating to trading in Mercury securities by directors and employees and contractors, including the prohibition on insider trading. The Policy is closely monitored by the Company Secretary and is overseen by the RAAC. The Chief Executive and EMT members are prohibited, by the Trading in Company Securities Policy, from entering into transactions in associated products which limit the economic risk of participating in unvested entitlements under Mercury's Long-Term Incentive Plans. During FY23, the Trading in Company Securities Policy was updated to reflect the Company Secretary's ability to "call in" additional classes of restricted persons.
Market Disclosures	Our Market Disclosure Policy ensures we maintain a fully informed market through communication with the markets, investors and stakeholders and by giving them equal and timely access to material information. During FY23, the Market Disclosure Policy was updated to reflect who is authorised to speak on behalf of Mercury when dealing with non-material information.

Our Governance & Responsible Business Practices	
Sustainability	Our Sustainability Policy sets out the core principles and values that promote ethical and responsible decision-making. We recognise that our reputation, our operational and financial results, and success in creating long-term value for our shareholders depend on maintaining confidence in: how the Company acts and conducts its business; our approach to managing natural resources, meeting environmental standards, responding and adapting to climate change and playing a leading role in the decarbonisation of Aotearoa New Zealand; our health and safety and wellbeing culture and practices; the service we provide for our customers; the employment experience we offer our people; the relationships we have with our business partners and the communities within which we operate; and broader measures of economic, environmental and social performance. Under the Policy, we commit to integrating sustainability through principles relating to our five-pillar strategy: Customers, Partnerships, Kaitiakitanga, People, Commercial. During FY23, the Sustainability Policy (previously the Integrated Sustainability Policy) was updated to simplify the name, clarify the purpose of the policy, reflect changes made to our strategic framework and include iwi and stakeholder engagement provisions.
Privacy	We are committed to the safeguarding and proper use of personal information. We have a comprehensive Privacy Policy, which is reviewed every two years, and a robust privacy framework. Privacy is afforded significant consideration within Mercury and is managed in accordance with our risk management framework. Our General Counsel is Mercury's Privacy Officer and is responsible for implementing our Privacy Policy, promoting awareness of privacy matters, monitoring matters on a day-to-day basis, and escalating matters as required to our Chief Executive, with notification to our Risk Management Committee. Privacy issues are reported to the Risk Management Committee on a quarterly basis. We also have a Group Information Security Manager who is responsible for ensuring that appropriate systems and processes are in place for the storage and security of personal information.
Environmental	Our Environmental Policy recognises that our generation activities rely on access to natural resources that we know are highly valued by our communities. We strive to maintain this trust by working with partners to deliver renewable electricity and make a long-term difference New Zealand's environmental health. We work responsibly to deliver today and sustainably for future generations and will achieve this by focussing on: Kaitiakitanga, challenging our performance, promoting awareness, complying with requirements, and setting objectives and targets.

GOVERNANCE AT MERCURY.

Our Governance & Responsible Business Practices	
Modern Slavery	During the reporting period we prepared and reported our Modern Slavery Statement in line with our obligations under the Australian Modern Slavery Act 2018. Our statement outlines the work undertaken during FY22 to assess and address the risk of modern slavery in our operations and supply chain and identified the following key focus areas for FY23: integrating supply chain data from the Trustpower retail business and reviewing specific Trustpower suppliers, working with maintenance suppliers to assess modern slavery risks in their supply chains, looking at Energy Source Minerals, a California-based company in which Mercury holds an equity interest, and a continued focus on improving our spend visibility.
Climate-related Disclosures and Carbon Emissions Reporting	Since 2018, Mercury has been publishing reports outlining climate-related risks and opportunities faced by the business. In previous years, we have reported in line with the framework set out by the Financial Stability Board Taskforce on Climate Related Financial Disclosures (TCFD). In FY23, we have prepared a Climate Statement in accordance with the Aotearoa New Zealand Climate Standards, which are aligned with the TCFD framework. The Climate Statement includes disclosure of the potential impacts of climate-related risks and opportunities on Mercury's business and details about Mercury's carbon emissions profile. Refer to the Climate Statement. We have also prepared a Greenhouse Gas Emissions Inventory report which outlines in detail each of Mercury's main emissions sources and how these have tracked over time.
Takeover Response Policy	We have a Takeover Response Policy to guide the Board and management if the Company receives a takeover notice or the Company becomes aware that a takeover offer in respect of the Company (or an analogous scheme of arrangement) is, or is likely to be, proposed by another person.

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

Mercury, Newmarket, Auckland.

DIVERSITY, EQUITY & INCLUSION.

REREKĒTANGA, MANA ŌRITE ME TE WHAKAURU.

Mercury embraces and celebrates diversity in all its forms. When we care, commit, connect and bring our curiosity, we make a real difference.

Being inclusive of individuals with different backgrounds, views, experience and capability working together makes us stronger and better as an organisation. We are committed to recruiting and retaining people who respect each other, our customers, our stakeholders and our partners and have a broad range of skills, experiences and frames of reference to drive innovation, deliver improved financial performance and help us to achieve our ambition.

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

Our approach takes a strategic view that to build diversity, equity and inclusion at Mercury, we must align a variety of initiatives that enable and involve our people, build external partnerships, grow capability, and ensure our work environment and structure support a diverse, equitable and inclusive culture. The activity we undertake across these areas of focus is aligned to the following principles:

- pursue diversity of our people at all levels,
- create a flexible and inclusive work environment that values difference and enhances business outcomes,
- harness diversity of thought and capitalise on individual differences,
- embrace leadership behaviours that reflect our belief in the value of diversity, equity and inclusion,
- attract and retain a talented workforce through increasing the diversity of the candidate pool and maintaining a recruitment strategy that is attractive to all candidates, and
- recognise the importance of investing in creating a greater sense of belonging for our people.

This approach will be practically achieved across our business by:

- providing learning opportunities that raise awareness of the benefits of diversity, equity and inclusion, improve understanding of the biases that hinder progress, and support leaders to create safe, supportive, and equitable spaces where team members of all backgrounds and experiences belong,
- ensuring our recruitment and selection, development and talent management approaches are equitable and enable inclusion and diversity at all levels,
- regularly reviewing and enhancing processes and policies to encourage greater flexibility and diversity and enable an inclusive and equitable environment where everyone can belong,
- embedding diversity, equity and inclusion in our culture through engaging internal communications and events, active employee led network groups that promote awareness, and seeking diverse perspectives on issues that matter to our people,
- regularly tracking progress towards a diverse workforce at all levels against specific targets,
- engaging with educational institutions and partners in our communities to address inequity and promote and encourage wide talent pools for the industry.

In addition to the actions we undertake, we also support a diverse, equitable and inclusive workplace through not permitting or condoning any harassment, discrimination or victimisation. Our Anti Bullying, Harassment and Discrimination Policy outlines our approach to this.

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

Lucie Drummond, GM Sustainability together with Diverse Emerging Leader participants Nico Lumangtad, Commercial Services Specialist and Nickkita Lau, Internal Communications and Engagement Manager.

Objectives	Future years - targets				Prior years - actuals and targets			
Gender We have clear and simple targets for gender diversity of 40:40:20 at all levels. This means we aim for a minimum of 40% female and 40% male, with the balance being any gender. **Pay Equity** We ensure that everyone is rewarded fairly for their work.	Employee Group	FY24	FY25	FY26	June 2022 Target (Female)	June 2022 Actuals (Female/Male)	June 2023 Target (Female)	June 2023 Actuals (Female/Male)
	All Employees	40:40:20	40:40:20	40:40:20	45%	39% / 61%	45%	51% / 49%
	People Leaders	40:40:20	40:40:20	40:40:20	35%	35% / 65%	35%	47% / 53%
	EMT	40:40:20	40:40:20	40:40:20	>40%	44% / 56%	>40%	37.5% / 62.5%
	Board	40:40:20	40:40:20	40:40:20	>40%	25% / 75%	>40%	50% / 50%
	Pay Equity	Our target is 100% Pay Equity.			100%	94.9%	100%	97.1%
Ethnicity Aligned to our goal of having clear & simple targets, we have simplified long-term targets for ethnicity of 15:15:10. This means we aim for a minimum of 15% Māori, 15% Asian and 10% Pasifika at all levels (these are closely aligned to our population demographics and are minimums).	Ethnicity	FY24	FY25	FY26	June 2022 Target	June 2022 Actuals	June 2023 Target	June 2023 Actuals*
	Māori Employees People Leaders	 15% 15%	 15% 15%	 15% 15%	 7% 6%	 4% 2%	 15% 15%	 7% 6%
	Asian Employees People Leaders	 15% 15%	 15% 15%	 15% 15%	 23% 13%	 23% 14%	 15% 15%	 17% 10%
	Pasifika Employees People Leaders	 10% 10%	 10% 10%	 10% 10%	 10% 5%	 5% 1%	 10% 10%	 5% 2%
Age To ensure our business is diverse in a range of ways, we monitor our age profile to check that we are aligned to the national median.	The median age of the NZ workforce is 41.8 years (National Labour Force projections, 2023)				Benchmark against national median age of the labour force in New Zealand National Labour Force projections	41.7, consistent with national labour force projections	Benchmark against national median age of the labour force in New Zealand National Labour Force projections	41.2, slightly below national labour force projections

At 30 June 2023, the proportion of women on the EMT (including the Chief Executive) was 37.5%, or three out of eight (as at 30 June 2022 this was 44% or four out of nine). The proportion of women on the Board at balance date was 50%, or four out of eight, including the Chair (as at 30 June 2022 this was 25%, or two out of eight). At 30 June 2023, no Directors or EMT self-identify as gender diverse (as was the case as at 30 June 2022).

During FY23 we have improved our collection of ethnicity information by expanding from one to three ethnicity fields. In order to maintain consistency of measurement against our targets, we have adopted the Stats NZ prioritised ethnic groups. This involves each person being allocated to a single ethnic group based on the groups they have identified with, which are, in order of priority: Māori, Pacific, Asian and European/Other.

At 30 June 2023, our gender pay equity was 97.1% (as at 30 June 2022 this was 94.9%). Gender pay equity is calculated as the average position in range (relative to the role's band midpoint) of female fixed remuneration compared with the average position in range of male fixed remuneration. Our gender pay gap which compares the median hourly rate between males and females was 41.9% (as at 30 June 2022 this was 21.7%).

Pay equity by ethnicity compared to "other" ethnicity was Māori 99.9%; Asian 98.6% and Pasifika 97.6%. The ethnicity pay gap which compares the median hourly rate between each ethnicity and "other" ethnicity was Māori 32%; Asian -2.7% and 37.7% for Pasifika.

The Board believes that for this reporting period Mercury has continued to make progress towards achieving our inclusiveness, equity, and diversity objectives and against our Diversity, Equity and Inclusion Policy generally. However, the Board notes that continued focus is required for us to achieve our FY24 diversity target.

* We acknowledge there are gaps and we are addressing these through programmes such as the Diverse Emerging Leaders programme

REMUNERATION REPORT.

Dear Shareholder

As Chair of the People and Performance Committee (PPC) of the Board, it is my pleasure to present our Remuneration Report for the year ended 30 June 2023.

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

The Board reviewed management performance against the short-term incentives (STIs) Key Performance Indicators (KPIs). The Board determined that stretch targets were met for Commercial, Retail and Climate KPIs, that the Adapative Organisation and Relationships KPIs were partially met and the Generation KPIs were not met. The Company STI was awarded at 82% of maximum. This year we have provided more details on our FY23 STI Group scorecard assessment on page 96.

In FY23, we extended the Long-term performance incentives policy to be available to four senior managers who were deemed to have the potential to succeed into a general management position within Mercury.

With the increase in inflation and living costs for New Zealanders, this year we focussed on higher salary movements for those employees on lower salaries.

Our continued focus on diversity, equity and inclusiveness has resulted in some positive shifts towards achieving our objectives. We have increased female representation across our employees, in our People Leadership group and our Board and have reached our gender diversity targets this year.

We saw an increase in our gender pay gap this year to 41.9%, which was not unexpected with the higher number of female employees coming across in customer service, sales representative and administration positions from Trustpower into Mercury. However, when comparing comparable roles across the business we were able to close our pay equity gap by 2.2% this year, taking this up to 97.1%.

Moreover, we are pleased that considerable progress was made in closing ethnicity pay equity gaps this year across all our ethnicity groups of Māori (99.9%), Asian (98.6%) and Pasifika (97.6%). As part of the FY23 remuneration review, we identified and addressed gender or ethnicity salary gaps with 24 employees salaries being uplifted to further close those gaps.

Our commitment to providing equitable opportunities for growth and development is reflected in our high employee internal appointments and our ongoing commitment to pay equity.

I want to acknowledge our Executive Management Team (EMT) in the way they looked after employees and customers through the severe weather events that New Zealander's faced this year. Not only did they support financially those employees and customers impacted by events, but also thanked employees for their hard mahi by giving them an additional "Thank you day" off. In addition, to recognise the outstanding contribution of our employees in delivering this year's performance, we are awarding all of our part-time and full-time permanent employees with a $1,000 one off payment.

SCOTT ST JOHN
CHAIR, PEOPLE & PERFORMANCE COMMITTEE

Executive Remuneration Governance

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

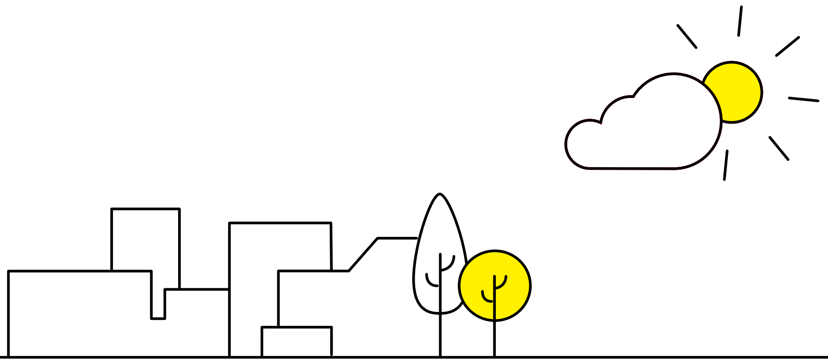
The purpose of the PPC is to assist Mercury's Board in fulfilling its responsibilities relating to Mercury's People and Performance strategy and plan, People and Performance policies and practices and the remuneration of the Chief Executive.

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

Executive remuneration

Mercury's Executive remuneration policy is founded on three guiding principles:

Sustainable shareholder value	Alignment to performance	Simplicity
Remuneration is aligned to long-term sustainable shareholder value	Remuneration for EMT reflects the level of performance and delivery of successful outcomes	Design is kept simple and easy to understand



Executive remuneration components

Total remuneration for all EMT is made up of three components: fixed remuneration, short-term performance incentives and long-term performance incentives. Mercury's remuneration philosophy is to pay for performance and there is an opportunity for executives to receive, where performance has been exceptional, a total remuneration package in the upper quartile for equivalent market-matched roles.

	Fixed Remuneration	Short-term Incentives	Long-Term Incentives
Purpose	Attract and retain Executives of a high calibre and experience to deliver our strategy.	To motivate and reward employees for performance over the financial year.	Reward the achievement of performance measured over the longer term aligning Executive reward with shareholder returns.
FY23 and FY24 approach	Fixed remuneration consists of base salary and benefits. Mercury's policy is to pay fixed remuneration with reference to the fixed pay market median.	Performance assessed against a Company scorecard of predetermined financial and non-financial objectives over the course of the financial year. Criteria closely aligned with Mercury's strategic objectives, purpose and goals.	Performance measured by total shareholder return against (1) an industry peer group and (2) the cost of equity, in each case over the vesting period.

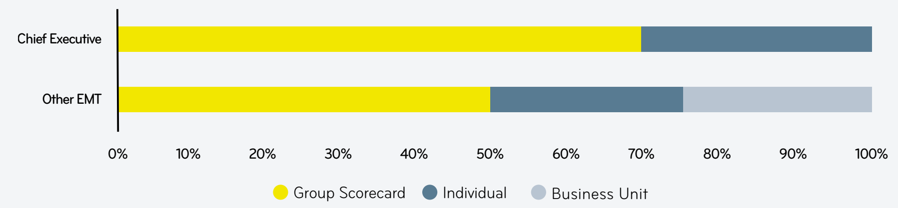
Short-term performance incentives

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

The target value of an STI payment is set annually as a percentage of the executive's base salary. For FY23 the relevant target percentage for the Chief Executive was 60% and up to 35% for other EMT members.

A proportion (70% for the Chief Executive and 50% for other EMT members) of the STI is related to a shared set of Group Key Performance Indicators (KPIs) based on business priorities for the next 12 months, with the objective of aligning the EMT's focus with the company's priorities. The balance of the STI for the Chief Executive is related to individual performance measures set by the Board. In the case of other EMT members, the balance is related to business unit and individual performance measures. The target STI opportunity for all Executives is 100% and maximum STI opportunity is 160%.

Breakdown of STI performance (KPI) measures for FY23



FY23 STI Group scorecard assessment

Aligning to our three year goals, 12 Key Performance Indicators (KPIs) were selected for the FY23 Group Scorecard. The Scorecard consisted of on-target KPIs (aligned to 100% of the KPI) and stretch KPIs (aligned to 160% of the KPI) and appropriately weighted in terms of value. In assessing overall performance the Board carefully considers delivery and achievement against each KPI and where the Board deems necessary, applies discretion both upwards and downwards to agree the final outcome.

FY23 Scorecard	KPIs	Alignment to 3 year Objectives	KPI outcome
Commercial 40%	1. EBITDAF[1] target achieved 2. EBITDAF target exceeded	• Increase the value of our business to $800m EBITDAF	1. EBITDAF target of $720m exceeded by $17m 2. EBITDAF target of $727m exceeded by $10m
Retail 12.5%	3. Retail consolidation of Trustpower and Mercury 4. Lift in total connections	• Enhance our licence to operate through collaborative work with our stakeholders • Increase the value of our business to $800m EBITDAF	3. Achieved. Required milestones met 4. Achieved. Target of 20,000 connections exceeded by 16,000
Adaptive Organisation 10%	5. Lift in safety majority and culture 6. Increased ethnicity in leadership roles	• Unleash the full potential of our people through transforming culture • Be adaptive and resilient organisation, responsive to future needs	5. Part achieved. Overall very positive progress made 6. Part achieved. Good progress made, not all milestones met
Generation Growth 10%	7. Successful execution of the Karāpiro rehab project 8. Lift in drilling capability	• Enhance our licence to operate through collaborative work with our stakeholders • Increase the value of our business to $800m EBITDAF	7. Not achieved. Milestones not met 8. Not achieved. Milestones not met
Relationships 12.5%	9. Deepening of partner relationships 10. Growth in cultural knowledge and capability	• Enhance our licence to operate through collaborative work with our stakeholders • Unleash the full potential of our people through transforming culture	9. Part achieved. Positive progress made which will be built on in FY24 10. Part achieved. Good progress made
Climate 15%	11. Progress on future development pipeline 12. Clear path to carbon reduction	• Play a leading role in New Zealand's successful transition to a low carbon economy • Create executable options for new growth	11. Achieved. Required milestones met 12. Achieved. Required milestones met

[1] EBITDAF normalised for positive and negative annual variations in hydrology. For FY23 normalised EBITDAF was $737m.

REMUNERATION REPORT.

The Board assessed and awarded the Group Scorecard outcome for FY23 at 82% of maximum. This recognises achievement of a mix of 'on-target', 'stretch' performance and those KPIs that were not achieved.

The Board determined that stretch targets were met for Commercial, Retail and Climate KPIs. The Board agreed that the Adapative Organisation and Relationships were partially met and therefore was reduced. For the Generation KPIs the target was not met.

FY24 Group Scorecard

The FY24 Group Scorecard aligns to our three year goals, with 12 Key Performance Indicators (KPIs). The Scorecard consists of on-target KPIs and stretch KPIs and appropriately weighted in terms of value.

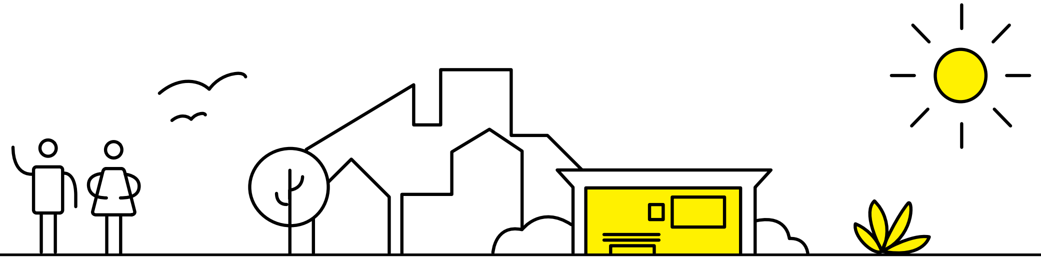
For FY23 and FY24 Group Scorecards, the Commercial goal is normalised for positive and negative annual variations in hydrology as these are beyond management's control.

The stretch performance levels within each goal allowed employees to be rewarded for exceptional performance. The maximum amount of an STI payment for an EMT member for the shared KPIs was 160% of the STI on-target amount.

In the event all on-target KPIs are not met on the Scorecard, no STI payment will be made.

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

Scorecard	KPI's	Alignment to 3 year Objectives	Performance levels	Maximum amount payable
FY24 On-target and Stretch EBITDAF worth 40% On-target and Stretch non-financial goals worth 10-15% each				
Commercial	1. EBITDAF target achieved 2. EBITDAF target exceeded	• Increase the value of our business to $800m EBITDAF	6 KPIs were set at an 'on-target' level and 6 KPIs were set at a 'stretch' level. On-target aligned to 100% of the KPI achieved and Stretch aligned to 160% of the KPI achieved.	160% of the STI on-target
Retail	3. New propositions piloted 4. Successful retail integration delivery	• Create executable options for new growth • Increase the value of our business to $800m EBITDAF		
Adaptive Organisation	5. Increased internal movement 6. Safety critical element verification completion	• Unleash the full potential of our people through transforming culture • Be adaptive and resilient organisation, responsive to future needs		
Generation Growth	7. Pipeline of new renewables options 8. Reduce unplanned/forced outages	• Increase the value of our business to $800m EBITDAF • Create executable options for new growth		
Relationships	9. Deepening of partner relationships 10. Work closely with iwi partners	• Enhance our licence to operate through collaborative work with our stakeholders • Be adaptive and resilient organisation, responsive to future needs		
Climate	11. Role in electricity sector transition progress 12. Progress non-condensable gas reinjection	• Play a leading role in New Zealand's successful transition to a low carbon economy • Enhance our licence to operate through collaborative work with our stakeholders		



Long-term performance incentives

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

Under the LTI plan, grants are made annually with performance measured over a three-year period. The LTI plan is a dividend protected share rights plan and executives are granted a number of share rights determined by dividing the face value of the grant by the value of one Mercury share at the date of the grant. At vesting, subject to meeting the performance hurdles, each share right is converted to one ordinary share. The LTI outcome opportunity is capped at 100%, though executives may also receive additional shares representing the value of dividends paid over the vesting period. The executive is liable for tax on the shares received at this point.

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

Tranche	Performance hurdle
Tranche 1	50% of the grant is based on Mercury's Total Shareholder Return (TSR) relative to the performance of an industry peer group comprising Meridian Energy, Genesis Energy, Contact Energy and Manawa Energy. There is no positive TSR performance gate on this tranche but Mercury's TSR must be at the 50th percentile of the comparator group for any award to be made on this component.
Tranche 2	50% of the grant is based on Mercury's absolute TSR against the company's cost of equity over the vesting period, plus 1%.

For the FY23 grant period commencing 1 July 2022, the value represented 75% of the Chief Executive base salary and between 25% to 35% of base salary for other EMT members.

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

Geothermal pipeline, Rotokawa power station.

CHIEF EXECUTIVE'S REMUNERATION.

Chief Executive's remuneration (FY23 & FY22)

	Salary[2] $	Benefits[3] $	Subtotal $	Pay for performance $			Total remuneration $
				STI	LTI	Subtotal	
Chief Executive – Vince Hawksworth							
FY23	1,391,385	73,011	1,464,396	993,588	899,997[4]	1,893,585	3,357,981
FY22	1,263,976	57,543	1,321,519	750,924	N/A	750,924	2,072,443

[2] Actual salary paid includes holiday pay paid as per NZ legislation. The base salary for Vince Hawksworth for FY22 was $1,224,000 and $1,285,200 for FY23.

[3] Benefits include KiwiSaver and insurance.

[4] The LTI value relates to the grant for the FY21-FY23 performance period ending 30 June 2023. The value shown is the total value of the share rights issued to Vince at the time of the grant on 7 October 2020. 100% of the share rights for the FY21-FY23 grant will transfer to Vince after this integrated report is published. The market value of the vested share rights will be calculated at transfer date and will be reported in our FY24 integrated report.

Five-year summary – Chief Executive's remuneration

		Total remuneration paid[5] $	Percentage STI against maximum[6] %	Percentage vested LTI against maximum %	Span of LTI performance period
Chief Executive – Vince Hawksworth	FY23	3,357,981	81	100	2020 - 2023
	FY22	2,072,443	77	Not eligible	Not eligible
	FY21	1,799,515	50	Not eligible	Not eligible
	FY20	513,940	51	Not eligible	Not eligible
Chief Executive – Fraser Whineray	FY20	1,653,476	69	87	2017 – 2020
	FY19	1,975,715	65	50	2016 – 2019

[5] Total remuneration paid including Salary, Benefits, STI and LTI payments.

[6] For FY23 and FY22 the Maximum STI was 160% of 'on-target' performance pay. All other years the Maximum STI was 178% of 'on-target' performance pay.

Breakdown of Chief Executive's pay for performance (FY23)

	Description	Performance measures	Percentage achieved by Vince Hawksworth
STI[7]	Set at 60% of base salary. Based on a combination of key financial and non-financial performance measures	70% based on the six Company Shared goals (weighted 10-40%)	82%
		30% based on individual measures	78%
LTI[8]	FY21-FY23 grant set at 75% of base salary. Share rights issued at 7 October 2020 with value of $899,997. Volume weighted average price (VWAP)[9] of 4.6997.	50% relative TSR performance against Peer Group	100%
		50% absolute TSR against the company's cost of equity over the vesting period, plus 1%.	100%

[7] The above STI percentages achieved by Vince is the percentage STI against the maximum STI percentage of 160%. The above STI for FY23 will be paid in FY24.

[8] The above LTI outcome for FY21-FY23 will be issued in shares in FY24.

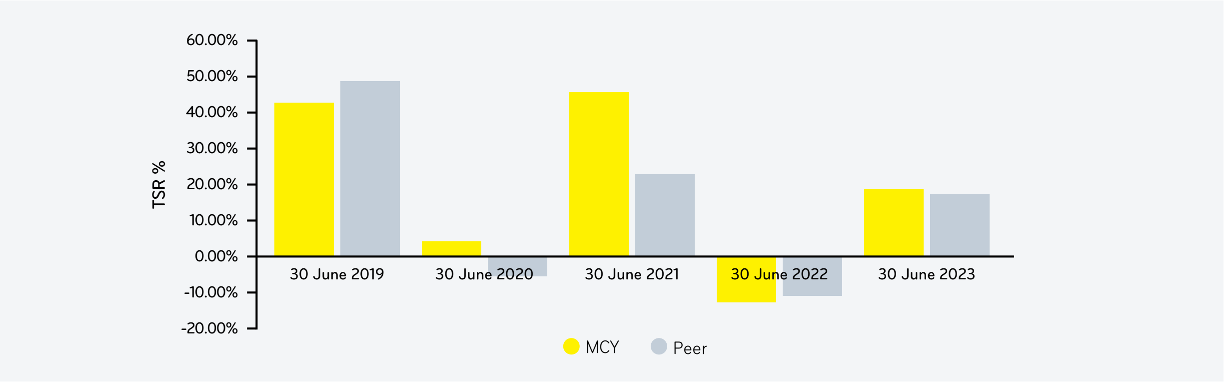
[9] The volume weighted average price calculated across the 10 trading days including and after the Commencement Date of 1 July 2020.

Chief Executive's long-term performance incentives

LTI Tranche	Performance Period	Grant year	Number of share rights issued on grant	Value of share rights on grant date	Number of share rights vested including dividend shares[10]	Value of shares transferred
FY21-FY23	1 July 2020 to 30 June 2023	FY21	191,501	$899,997	214,805	To be determined on transfer date
FY22-FY24	1 July 2021 to 30 June 2024	FY22	137,014	$917,994	To be determined after vesting date	To be determined on transfer date
FY23-FY25	1 July 2022 to 30 June 2025	FY23	167,111	$963,896	To be determined after vesting date	To be determined on transfer date
FY24-FY26	1 July 2023 to 30 June 2026	FY24	83,178	$539,784	To be determined after vesting date	To be determined on transfer date

[10] Vesting is subject to the performance hurdles being met. See page 98 for the performance hurdles.

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



KiwiSaver

The Chief Executive is a member of KiwiSaver. As a member of this scheme, the Chief Executive is eligible to contribute and receive a company contribution of 3% of gross taxable earnings (including short- and long-term incentives). For FY23, the company's contribution for Vince Hawksworth was $64,269.

FY24 CHIEF EXECUTIVE'S REMUNERATION STRUCTURE

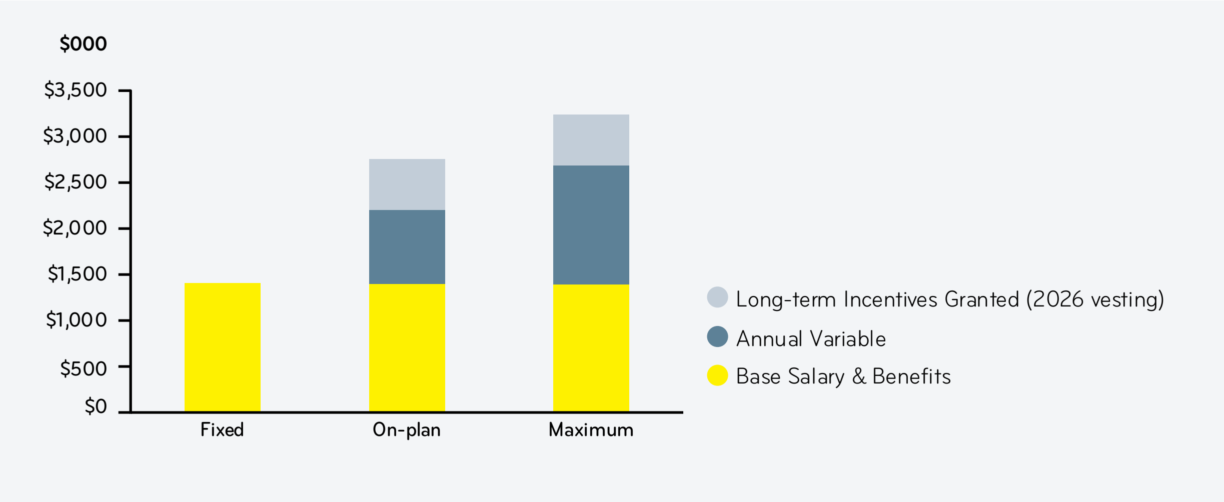
The Board has elected, in the interests of transparency, to disclose in advance the structure and package that will apply for FY24.

FY24	Base Salary $	Benefits[11] $	Subtotal $	Pay for performance 'on-target' $			Total remuneration $
				STI	LTI granted[12]	Subtotal	
Chief Executive	1,349,460	49,226	1,398,686	809,676	539,784	1,349,460	2,748,146

[11] Benefits include KiwiSaver and insurance.

[12] This LTI will be granted in FY24 and, if hurdles are met, paid in shares in 2026.

Chief Executive's remuneration performance pay for FY24



CHIEF FINANCIAL OFFICER'S REMUNERATION

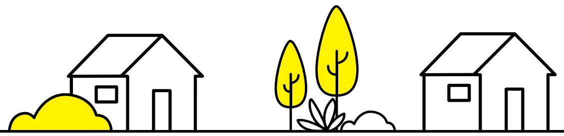
In the interests of providing greater transparency of executive remuneration, the Board has elected to provide details regarding total remuneration paid to the Chief Financial Officer in FY23.

FY23	Base Salary[13] $	Benefits[14] $	Subtotal $	Pay for performance $[15]			Total remuneration $
				STI	LTI	Subtotal	
Chief Financial Officer	539,431	29,607	569,038	211,772	169,998	381,770	950,808

[13] Actual salary paid includes holiday pay paid as per NZ legislation.

[14] Benefits include superannuation and insurance.

[15] The STI payment relates to FY23 but to be paid in FY24. The LTI value above relates to the grant for the FY21-FY23 performance period ending 30 June 2023. The value shown is the total value of the share rights issued to the Chief Financial Officer (CFO) at the time of the grant on 7 October 2020. 100% of the share rights for the FY21-FY23 grant will transfer to the CFO after this integrated report is published. The market value of the vested share rights will be calculated at transfer date.



SHARE OWNERSHIP

The Chief Executive and Chief Financial Officer's ownership of Mercury shares as at 30 June 2023 are:

Executive	Number of shares owned (excludes shares held in trust for the LTI scheme)	Change in shares owned since 30 June 2022
Chief Executive	43,716[16]	11,205
Chief Financial Officer	0	42,182[17]
Balance of EMT	223,716[18]	59,319

[16] Chief Executive shares include shares held in personal capacity as well as those held in trust. The Chief Executive also has a beneficial interest in 100,000 MCY040 bonds and 30,000 MCY060 bonds held in trust.

[17] The Chief Financial Officer disclosed in an Ongoing Disclosure Notice to the market dated 8 September 2022 a transfer of 42,182 shares to Tracey Meek, the Chief Financial Officer's wife. The Chief Financial Officer ceased to have a relevant interest in these shares upon transfer to Tracey Meek.

[18] Balance of shares owned by other EMT members as at 30 June 2023, excluding shares owned by the Chief Executive and Chief Financial Officer. This includes shares in which a beneficial interest is held. This includes shares owned by Julia Jack who left Mercury in April 2023.

EMPLOYEE REMUNERATION

During the FY23 year the Group paid remuneration in excess of $100,000 including benefits to 602 employees (not including directors) in the following remuneration bands:

Remuneration band[19]	Currently employed	No longer employed	Total
$100,001-$110,000	74	6	80
$110,001-$120,000	74	4	78
$120,001-$130,000	79	4	83
$130,001-$140,000	67	4	71
$140,001-$150,000	48	3	51
$150,001-$160,000	44	-	44
$160,001-$170,000	45	5	50
$170,001-$180,000	22	2	24
$180,001-$190,000	14	3	17
$190,001-$200,000	21	-	21
$200,001-$210,000	12	2	14
$210,001-$220,000	15	-	15
$220,001-$230,000	6	-	6
$230,001-$240,000	6	1	7
$250,001-$260,000	3	1	4

Remuneration band[19]	Currently employed	No longer employed	Total
$260,001-$270,000	4	1	5
$270,001-$280,000	3	-	3
$300,001-$310,000	3	-	3
$320,001-$330,000	1	1	2
$330,001-$340,000	3	-	3
$340,001-$350,000	3	1	4
$370,001-$380,000	1	-	1
$420,001-$430,000	1	1	2
$430,001-$440,000	1	-	1
$580,001-$590,000	1	-	1
$590,001-$600,000	1	-	1
$660,001-$670,000	1	-	1
$680,001-$690,000	1	-	1
$710,001-$720,000	1	-	1
$770,001-$780,000	-	1	1
$880,001-$890,000	1	-	1
$1,040,001-$1,050,000	1	-	1
$2,210,001-$2,220,000	1	-	1
Total	**562**	**40**	**602**

[19] The remuneration bands above include 13 employees who received redundancy payments in FY23.

TOTAL REMUNERATION RATIO

The total remuneration ratio for FY23 between employee (median) and Chief Executive was 1:48. This is based on, for employees, actual remuneration paid in FY23 (employee median was $70,501) and for the Chief Executive, the amount specified in the table on page 99, $3,357,981.

1:48

REMUNERATION REPORT.

DIRECTOR REMUNERATION

The directors' remuneration is paid in the form of directors' fees. Additional fees are paid to the Chair and in respect of work carried out by directors on various Board committees to reflect the additional time involved and responsibilities of these positions. As an exception to the NZX Corporate Governance Code, Mercury does not fully comply with Recommendation 5.1 because it does not have a director remuneration policy. Instead, the components of director remuneration are set out in the Board Charter (found on the Corporate Governance section of our website) and described in this section.

The total pool of fees able to be paid to directors is subject to shareholder approval and currently stands at $1,085,400 for a Board of eight directors. Directors' fees were last reviewed in 2021, with the increase taking effect from 1 October 2021. These fees are set following consultation with key stakeholders and having considered independent remuneration benchmarking advice. Under the NZX Listing Rules, the size of the total pool of directors' fees may increase from time to time as the number of directors on the Board increases. Mercury meets directors' reasonable travel and other costs associated with Mercury business. Mercury does not pay any retirement benefits to non-executive directors. The following people held office as directors during the year to 30 June 2023 and the remuneration set out in the following table was approved during the period. The number of meetings and attendance rate by directors during the year to 30 June 2023 was as follows:

Director	Board		Risk Assurance & Audit Committee		People & Performance Committee		Nominations Committee		Total[4]
No. of meetings	9		4		4		1[2]		18
	Fees $	Meetings Attended	Fees $	Meetings Attended	Fees $	Meetings Attended	Fees $	Meetings Attended	Fees $
Prue Flacks	205,000[3] (Chair)	9		4		3		1	205,000
Dennis Barnes[6]	60,083	8	7,583	3[5]		2[5]			67,666
Hannah Hamling	103,000	9	13,000	4					116,000
Andy Lark[7]	25,750	2			2,500	1			28,250
James Miller	103,000	9	28,000 (Chair)	4			6,000	1	137,000
Scott St John	103,000	9		4[5]	20,400 (Chair)	4	4,500	1	127,900
Patrick Strange	103,000	9	13,000	4			1,500[9]		117,500
Mike Taitoko	103,000	9			10,000	4			113,000
Lorraine Witten[8]	85,833	9[5]	9,750	2					95,583
Susan Peterson[8]	85,833	8		1[5]	7,500	3			93,333
Total	977,499		71,333		40,400		12,000		1,101,232[1]

[1] The total directors' fee pool as at 30 June 2023 was $1,085,400. Under Rule 2.11.3 of the NZX Listing Rules, the Board may, without shareholder approval, proportionately increase the total pool of directors' fees to accommodate an increase in the number of directors from the number of directors in office when the fee pool was last approved by shareholders. During FY23, the number of directors on the Board increased from eight to 10 when Lorraine Witten and Susan Peterson became directors, decreased to nine following Andy Lark's retirement and then decreased to eight again following Dennis Barnes' retirement. The total directors' fee pool, as adjusted for the changing number of directors throughout the FY23, was not fully exhausted.

[2] Due to the nature of the Nominations Committee's role, its activity varies each reporting period depending on the requirements of the Board. While the Nominations Committee Charter only requires one formal meeting annually, the Committee meets more frequently as required. In addition to the minimum annual meeting, the Committee convened on several occasions during FY23 to discuss necessary matters.

[3] Prue Flacks' fees cover attendance at all Committee meetings.

[4] Disclosure Committee is not reported on as these occur as ad-hoc and on an as required basis.

[5] Dennis Barnes attended one Risk Assurance and Audit Committee meeting and two People and Performance Committee meetings as an observer. Scott St John attended four Risk Assurance and Audit Committee meetings as an observer. Lorraine Witten attended one Board meeting as an observer. Susan Peterson attended one Risk Assurance and Audit Committee meeting as an observer.

[6] Dennis Barnes retired as a director on 16 May 2023. The fees paid are representative of part-year payments.

[7] Andy Lark retired as a director on 22 September 2022. The fees paid are representative of part-year payments

[8] Lorraine Witten and Susan Peterson became directors on 1 September 2022. The fees paid are representative of part-year payments.

[9] Patrick Strange was a member of the Nominations Committee until 1 October 2022. This payment in FY23 relates to his membership in the period from July to September 2022. For reference: Future Director Kim Gordon was paid $8,333 in relation to her role as future director in FY23. Kim Gordon's position as future director ended on 1 November 2022.

NZX CORPORATE GOVERNANCE CODE INDEX.

NXZ CGC Recommendation		Section title	Location
PRINCIPLE 1 – ETHICAL STANDARDS			
1.1	Code of ethics	Acting Ethically & Responsibly	The Mercury Code & Our Policy Framework, p90-92
1.2	Financial product dealing policy	Acting Ethically & Responsibly	The Mercury Code & Our Policy Framework, p91
PRINCIPLE 2 – BOARD COMPOSITION & PERFORMANCE			
2.1	Board charter	Mercury's Board	Responsibilities, p81
2.2	Board nomination and appointment	Mercury's Board	Selection, Nomination & Appointment, p82
2.3	Director agreements	Mercury's Board	Selection, Nomination & Appointment, p82
2.4	a. Director profiles, tenure and ownership interests	Your Board of Directors Directors' Disclosures	p75-77 Interests register, p104
	b. Director meeting attendance	Remuneration Report	Director Remuneration, p102
	c. Director independence	Mercury's Board	Independence, p81
2.5	Diversity policy	Diversity & Inclusion	p93-94
2.6	Director training	Mercury's Board	Induction & Development, p82
2.7	Director performance	Mercury's Board	Board Skills Matrix, p83 Reviewing Performance, p84
2.8	Majority independent directors	Mercury's Board	Independence, p81
2.9	Independent chair	Mercury's Board	Independence, p81
2.10	Chair / CEO separation	Your Board of Directors Your Executive Management Team	p75-77 p78
PRINCIPLE 3 – BOARD COMMITTEES			
3.1	Audit committee	Mercury's Board	Board Committees, p84-85
3.2	Attendance at audit committee by employees by invitation	Mercury's Board	Board Committees, p85
3.3	Remuneration committee	Mercury's Board	Board Committees, p84
		As an exception to the NZX Corporate Governance Code, Mercury does not comply with Recommendation 3.3 because it does not have a separate remuneration committee. See the Board Committees section of this report for a full explanation of this exception.	
3.4	Nomination committee	Mercury's Board	Board Committees, p85
3.5	Other standing committees	Mercury's Board	Board Committees, p84-85
3.6	Takeover protocol	Acting Ethically & Responsibly	The Mercury Code & Our Policy Framework, p92

NXZ CGC Recommendation		Section title	Location
PRINCIPLE 4 – REPORTING & DISCLOSURE			
4.1	Continuous disclosure policy	Acting Ethically & Responsibly	The Mercury Code & Our Policy Framework, p91
4.2	Code of ethics, charters and policies on website	Acting Ethically & Responsibly www.mercury.co.nz/investors/corporate-governance	The Mercury Code & Our Policy Framework, p90
4.3	Balanced, clear and objective financial reporting	Notes to the Consolidated Financial Statements	p36-57
4.4	Non-financial disclosure	Climate Statement	p58-73
PRINCIPLE 5 - REMUNERATION			
5.1	Director remuneration policy	Remuneration Report	Director Remuneration, p102
		As an exception to the NZX Corporate Governance Code, Mercury does not fully comply with Recommendation 5.1 because it does not have a specific policy for director remuneration. See the Remuneration Report for a full explanation of this exception.	
5.2	Executive remuneration policy	Remuneration Report	Executive Remuneration, p95-101
5.3	CEO remuneration	Remuneration Report	Chief Executive's Remuneration, p99-101
PRINCIPLE 6 – RISK MANAGEMENT			
6.1	Risk management	Assurance & Managing Risk The Risks We Face	Risk Management Framework & RAAC Responsibilities, p86-88 Our Key Risks, p13
6.2	Health and safety risks	The Risks We Face 4. Ngā Tāngata / People	Our Key Risks, p13 Lifting Health, Safety and wellbeing, p24
PRINCIPLE 7 - AUDITORS			
7.1	Audit framework	Assurance & Managing Risk	Audit Plan & Role of Auditor, p86
7.2	External auditor attends annual meeting	Assurance & Managing Risk	Audit Plan & Role of Auditor, p86
7.3	Internal audit	Assurance & Managing Risk	Internal Audit & Risk Assurance, p86
PRINCIPLE 8 – SHAREHOLDER RIGHTS & RELATIONS			
8.1	Investor website	www.mercury.co.nz/investors	
8.2	Shareholder communications	Engaging With Investors	p89
8.3	Right to vote	Other Disclosures	Information About Mercury NZ Limited Ordinary Shares, p113
8.4	Pro rata offers	N/A during the reporting period	
8.5	Notice of meeting	See the Notice of Meeting for 2023 released on NZX and posted on our website	

DIRECTORS' DISCLOSURES.

INTERESTS REGISTER

Disclosure of Directors' Interests

Section 140(1) of the New Zealand Companies Act 1993 requires a director of a company to disclose certain interests. Under subsection (2) a director can make disclosure by giving a general notice in writing to the Company of a position held by a director in another named company or entity. The following are particulars included in the Company's Interests Register as at 30 June 2023:

Prue Flacks	
None	
Hannah Hamling	
Burgundy Holdco Limited	Director[1]
ArcActive Limited	Shareholder[1]
James Miller	
Channel Infrastructure NZ Limited	Chair[1] (previously Director)
Vista Group International Limited	Director
Ryman Healthcare Limited	Director[1]
NZX Limited	Chair[2]
Scott St John	
Fisher & Paykel Healthcare Corporation Limited	Chair / Shareholder
Fonterra Co-operative Group Limited	Director
Next Foundation (and associated vehicles)	Director
ANZ Bank New Zealand Limited	Director
Patrick Strange	
Auckland International Airport Limited	Chair
Transgrid	Director[1]
Chorus Limited	Chair[2]

Mike Taitoko	
Takiwa Limited	Director / Shareholder
Waiora Consulting Limited	Director / Shareholder
Toha Foundry Limited	Director / Shareholder
Takiwā NZ Limited	Director / Shareholder
Maratini Holdings Limited	Director / Shareholder[2]
Canvasland Holdings Limited	Director / Shareholder[2]
Susan Peterson	
Vista Group International Limited	Chair / Shareholder[1]
Craigs Investment Partners Limited	Director[1]
CIP Holdings Limited	Director / Shareholder[1]
Arvida Group Limited	Director / Shareholder[1]
Xero Limited	Director / Shareholder[1]

Lorraine Witten	
VWORK Limited	Director / Shareholder[1]
Move Investments Limited Move Logistics Group Limited	Chair / Shareholder[1]
Rakon Limited	Chair / Shareholder[1]
Rakon ESOP Trustee Limited Rakon PPS Trustee Limited	Director / Shareholder[1]
Pushpay Limited Pushpay (New Zealand) Limited Pushpay IP Limited Pushpay Holdings Limited	Director / Shareholder[1,2]
Simply Security Limited	Director / Shareholder[1,2]
Nelson Property Group Limited	Director / Shareholder[1,2]

[1] Entries added by notices given by the directors during the year ended 30 June 2023

[2] Entries removed by notices given by the directors during the year ended 30 June 2023

Retired during the reporting period

Andy Lark retired as a director during the period on 22 September 2022 and Dennis Barnes retired as a director during the period on 16 May 2023. The following are particulars included against their names in the Company's Interest Register during the period.

Andy Lark	
Group Lark Pty Limited	Chair
Dubber Pty Limited	Chief Marketing and Strategy Officer
Dennis Barnes	
Contact Energy Limited	Shareholder
Snowy Hydro Ltd and associated companies	Managing Director[1]
Tilt Renewables (Australia) and subsidiaries	Director[2]
PARF Company 1 - 10 Pty Ltd (multiple)	Director[2]
PARF FinCo 1 Pty Ltd	Director[2]
PARF Silverton FinCo Pty Ltd	Director[2]
PARF Coopers Gap FinCo Pty Ltd	Director[2]
PISA Acquisition Finance Company Pty Ltd	Director[2]
PISA Hold Co 1 Pty Ltd	Director[2]
PARF Company 2 Pty Ltd	Director[2]

DIRECTORS' DISCLOSURES.

Directors' and Officers' Indemnities

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

Disclosure of Directors' Interests in Share and Bond Transactions

Directors disclosed, pursuant to section 148 of the New Zealand Companies Act 1993, the following acquisitions and disposals of relevant interests in shares and bonds during the period to 30 June 2023:

Name of director	Date of acquisition/ disposal of relevant interest	Nature of relevant interest	Consideration (NZD)	Securities in which a relevant interest was acquired/ (disposed)
Prue Flacks	30 September 2022	Transfer of ordinary shares as a result of participation in Mercury's Dividend Reinvestment Plan	$5,086.21	862
Scott St John	30 September 2022	Transfer of ordinary shares as a result of participation in Mercury's Dividend Reinvestment Plan	$5,476.41	928
Susan Peterson	7 October 2022	On-market acquisition of ordinary shares in Mercury NZ Limited	$29,830.14	5,400
Prue Flacks	3 April 2023	Transfer of ordinary shares as a result of participation in Mercury's Dividend Reinvestment Plan	$3,759.87	617
Scott St John	3 April 2023	Transfer of ordinary shares as a result of participation in Mercury's Dividend Reinvestment Plan	$4,052.38	665

Disclosure of Directors' Interests in Shares and Bonds

Directors disclosed the following relevant interests in shares and bonds as at 30 June 2023:

Director	Number of Shares in which a relevant interest is held	Number of bonds	Change since 30 June 2022
Prue Flacks	47,054	38,000 MCY020 Capital Bonds 69,000 MCY030 Green Bonds 200,000 MCY050 Capital Bonds	1,479 shares
Hannah Hamling	16,300	–	–
James Miller	40,320	–	–
Scott St John	47,239	–	1,593 shares
Patrick Strange	39,160	–	–
Mike Taitoko	2,200	–	–
Dennis Barnes	50,000	–	–
Susan Peterson	5,400	–	5,400 shares

Disclosure of Subsidiary Directors' Interests

The following are particulars included in the Interests Register for Mercury's subsidiary companies as at 30 June 2023:

Director	Interest	Entity
Prue Flacks[1]		
Phil Gibson	Nil	
Stewart Hamilton	Nil	
Vincent Hawksworth[2]	Chief Executive Director	Mercury NZ Limited
Julia Jack	Shareholder	Power to the Pedal Limited
James Miller[1]		
William Meek[2]	Chief Financial Officer	Mercury NZ Limited
Mike Taitoko[1]		
Marlene Strawson	Nil	
Howard Thomas[2]	Nil	
Tim Aynsley	Nil	

[1] Refer to Disclosure of Directors' Interests.

[2] This person is a Director of more than one subsidiary of Mercury NZ Limited, please refer to Company Disclosures.

SECURITY HOLDER INFORMATION.

SHAREHOLDER INFORMATION

Twenty largest registered shareholders as at 30 June 2023[1]

Name	Number of shares	% of shares[2]
The Sovereign in Right of New Zealand	716,140,528	51.15
HSBC Nominees (New Zealand) Limited	60,162,852	4.30
HSBC Nominees (New Zealand) Limited A/C State Street	59,356,825	4.24
JPMorgan Chase Bank N.A. NZ Branch-Segregated Clients ACCT	44,285,078	3.16
Citibank Nominees (New Zealand) Limited	40,131,538	2.87
Custodial Services Limited	37,361,622	2.67
BNP Paribas Nominees (NZ) Limited	32,291,236	2.31
Accident Compensation Corporation	23,022,634	1.64
National Nominees Limited	19,645,291	1.40
FNZ Custodians Limited	15,462,185	1.10
New Zealand Depository Nominee Limited	13,846,907	0.99
Mercury NZ Limited[3]	13,219,637	0.94
JBWere (NZ) Nominees Limited	13,147,559	0.94
BNP Paribas Nominees (NZ) Limited	9,261,426	0.66
Generate KiwiSaver Public Trust Nominees Limited	9,220,469	0.66
HSBC Nominees A/C NZ Superannuation Fund Nominees Limited	9,104,380	0.65
Forsyth Barr Custodians Limited	7,718,723	0.55
Tea Custodians Limited Client Property Trust Account	7,152,498	0.51
ANZ Wholesale Australasian Share Fund	7,090,218	0.51
Simplicity Nominees Limited	5,666,420	0.40
Total	**1,143,288,026**	**81.66**

[1] As required by the NZX Listing Rules, New Zealand Central Securities Depository (NZCSD) holdings are included above and not detailed separately.

[2] Percentage calculated on the basis of Mercury having 1,400,012,517 ordinary shares on issue as at 30 June 2023, which included 13,219,637 ordinary shares held as treasury shares.

[3] Held as treasury shares.

Distribution of shareholders & holdings as at 30 June 2023

Size of holding	Number of shareholders	% of shareholders[1]	Number of shares	Holding quantity %[1]
1 to 1,000	27,981	38.93	18,770,304	1.34
1,001 to 5,000	34,907	48.56	80,554,398	5.75
5,001 to 10,000	5,728	7.97	41,922,281	2.99
10,001 to 100,000	3,152	4.39	65,510,184	4.68
100,001 and above	110	0.15	1,193,255,350	85.23
Total	**71,878**	**100**	**1,400,012,517**	**100**

[1] Rounding applied.

Substantial product holders as at 30 June 2023

	Class of Securities	Number of Securities in Substantial Holding	Total Number of Securities in Class
The Sovereign in Right of New Zealand	Ordinary shares	725,581,340[1]	1,400,012,517[2]

[1] This comprises (a) 716,140,528 shares held by the Crown on its own account; (b) 9,372,812 shares forming part of the New Zealand Superannuation Fund which are the property of the Crown; and (c) 68,000 shares held by Public Trust on trust for the Crown and certain iwi.

[2] As at 30 June 2023, Mercury had 1,400,012,517 ordinary shares on issue, which included 13,219,637 ordinary shares held as treasury shares.

SECURITY HOLDER INFORMATION.

BONDHOLDER INFORMATION

Twenty largest registered holders of MCY020 capital bonds (3.60%) as at 30 June 2023[1]

Name	Number of MCY020 capital bonds	% of MCY020 capital bonds[2]
Forsyth Barr Custodians Limited	96,141,000	32.05
Custodial Services Limited	55,873,000	18.62
JBWere (NZ) Nominees Limited	33,846,000	11.28
Hobson Wealth Custodian Limited	21,110,000	7.04
FNZ Custodians Limited	14,419,000	4.81
Forsyth Barr Custodians Limited	7,373,000	2.46
Generate KiwiSaver Public Trust Nominees Limited	3,387,000	1.13
Forsyth Barr Custodians Limited	3,300,000	1.10
Public Trust	3,000,000	1.00
Best Farm Limited	2,900,000	0.97
Citibank Nominees (New Zealand) Limited	2,815,000	0.94
The Tindall Foundation Inc	1,800,000	0.60
CML Shares Limited	1,700,000	0.57
Hobson Wealth Custodian Limited	1,436,000	0.48
Masfen Securities Limited	1,200,000	0.40
Robert Murray Solloway	1,025,000	0.34
Richard Barton Adams & Allison Ruth Adams	1,000,000	0.33
Hobson Wealth Custodian Limited	986,000	0.33
JBWere (NZ) Nominees Limited	750,000	0.25
Custodial Services Limited	737,000	0.25
Total	**254,798,000**	**84.93**

[1] As required by the NZX Listing Rules, New Zealand Central Securities Depository (NZCSD) holdings are included above and not detailed separately.
[2] Percentage calculated on the basis of Mercury having 300,000,000 MCY020 capital bonds on issue as at 30 June 2023.

Distribution of MCY020 (3.60%) capital bondholders and holdings as at 30 June 2023

Size of holding	Number of MCY020 capital bondholders	% of MCY020 capital bondholders[1]	Number of MCY020 capital bonds	Holding quantity %[1]
1,001 to 5,000	77	5.97	385,000	0.13
5,001 to 10,000	248	19.22	2,404,000	0.80
10,001 to 100,000	890	68.99	30,023,000	10.01
100,001 and above	75	5.81	267,188,000	89.06
Total	**1,290**	**100**	**300,000,000**	**100**

[1] Rounding applied.

SECURITY HOLDER INFORMATION.

Twenty largest registered holders of MCY030 green bonds (1.56%) as at 30 June 2023[1]

Name	Number of MCY030 green bonds	% of MCY030 green bonds[2]
Custodial Services Limited	36,838,000	18.42
Forsyth Barr Custodians Limited	14,198,000	7.10
BNP Paribas Nominees (NZ) Limited	13,260,000	6.63
Tea Custodians Limited Client Property Trust Account	12,900,000	6.45
ANZ Wholesale NZ Fixed Interest Fund	12,250,000	6.13
FNZ Custodians Limited	11,362,000	5.68
HSBC Nominees (New Zealand) Limited	8,500,000	4.25
JBWere (NZ) Nominees Limited	8,397,000	4.20
National Nominees Limited	7,967,000	3.98
Adminis Custodial Nominees Limited	6,000,000	3.00
Mint Nominees Limited	5,937,000	2.97
BNP Paribas Nominees (NZ) Limited	5,600,000	2.80
Queen Street Nominees ACF PIE Funds	5,487,000	2.74
Generate Kiwisaver Public Trust Nominees Limited	5,410,000	2.71
MT Nominees Limited	4,448,000	2.22
ANZ Custodial Services New Zealand Limited	4,417,000	2.21
HSBC Nominees (New Zealand) Limited A/C State Street	3,715,000	1.86
FNZ Custodians Limited	3,467,000	1.73
Citibank Nominees (New Zealand) Limited	2,416,000	1.21
BGLIR Trustee Limited	2,000,000	1.00
Total	**174,569,000**	**87.28**

[1] As required by the NZX Listing Rules, New Zealand Central Securities Depository (NZCSD) holdings are included above and not detailed separately.
[2] Percentage calculated on the basis of Mercury having 200,000,000 MCY030 green bonds on issue as at 30 June 2023.

Distribution of MCY030 (1.56%) green bondholders and holdings as at 30 June 2023

Size of holding	Number of MCY030 green bondholders	% of MCY030 green bondholders[1]	Number of MCY030 green bonds	Holding quantity %[1]
1,001 to 5,000	17	5.23	85,000	0.04
5,001 to 10,000	62	19.08	569,000	0.28
10,001 to 100,000	193	59.38	7,130,000	3.57
100,001 and above	53	16.31	192,216,000	96.11
Total	**325**	**100**	**200,000,000**	**100**

[1] Rounding applied.

SECURITY HOLDER INFORMATION.

Twenty largest registered holders of MCY040 green bonds (2.16%) as at 30 June 2023[1]

Name	Number of MCY040 green bonds	% of MCY040 green bonds[2]
Custodial Services Limited	46,359,000	23.18
FNZ Custodians Limited	31,026,000	15.51
BNP Paribas Nominees (NZ) Limited	16,996,000	8.50
Forsyth Barr Custodians Limited	15,720,000	7.86
HSBC Nominees (New Zealand) Limited	11,875,000	5.94
Southland Building Society	9,250,000	4.63
Pin Twenty Limited	7,178,000	3.59
Citibank Nominees (New Zealand) Limited	6,705,000	3.35
NZX WT Nominees Limited	4,167,000	2.08
Tea Custodians Limited Client Property Trust Account	3,334,000	1.67
FNZ Custodians Limited	3,329,000	1.66
Dunedin City Council	3,000,000	1.50
MT Nominees Limited	3,000,000	1.50
Hobson Wealth Custodian Limited	2,995,000	1.50
Mint Nominees Limited	2,800,000	1.40
Forsyth Barr Custodians Limited	2,565,000	1.28
BNP Paribas Nominees (NZ) Limited	2,500,000	1.25
JBWere (NZ) Nominees Limited	2,013,000	1.01
Investment Custodial Services Limited	1,964,000	0.98
Forsyth Barr Custodians Limited	1,861,000	0.93
Total	**178,637,000**	**89.32**

[1] As required by the NZX Listing Rules, New Zealand Central Securities Depository (NZCSD) holdings are included above and not detailed separately.
[2] Percentage calculated on the basis of Mercury having 200,000,000 MCY040 green bonds on issue as at 30 June 2023.

Distribution of MCY040 (2.16%) green bondholders and holdings as at 30 June 2023

Size of holding	Number of MCY040 green bondholders	% of MCY040 green bondholders[1]	Number of MCY040 green bonds	Holding quantity %[1]
1,001 to 5,000	21	7.12	105,000	0.05
5,001 to 10,000	64	21.69	619,000	0.31
10,001 to 100,000	164	55.59	6,522,000	3.26
100,001 and above	46	15.59	192,754,000	96.38
Total	**295**	**100**	**200,000,000**	**100**

[1] Rounding applied.

SECURITY HOLDER INFORMATION.

Twenty largest registered holders of MCY050 capital bonds (5.73%) as at 30 June 2023[1,3]

Name	Number of MCY050 capital bonds	% of MCY050 capital bonds[2]
Forsyth Barr Custodians Limited	66,853,000	26.74
JBWere (NZ) Nominees Limited	31,744,000	12.70
National Nominees Limited	22,108,000	8.84
Custodial Services Limited	18,916,000	7.57
Hobson Wealth Custodian Limited	17,736,000	7.09
Citibank Nominees (New Zealand) Limited	11,550,000	4.62
Generate KiwiSaver Public Trust Nominees Limited	7,337,000	2.93
FNZ Custodians Limited	5,692,000	2.28
Forsyth Barr Custodians Limited	4,059,000	1.62
Adminis Custodial Nominees Limited	3,800,000	1.52
CML Shares Limited	3,655,000	1.46
Forsyth Barr Custodians Limited	3,010,000	1.20
Millar Capital Fund Limited	3,000,000	1.20
Investment Custodial Services Limited	2,306,000	0.92
Masfen Securities Limited	2,000,000	0.80
Best Farm Limited	1,500,000	0.60
Bank of New Zealand – Treasury Support	1,219,000	0.49
Hobson Wealth Custodian Limited	1,186,000	0.47
Fletcher Building Educational Fund Limited	1,000,000	0.40
JBWere (NZ) Nominees Limited	1,000,000	0.40
Robert William Bentley Morrison & Andrew James Stewart & Anthony James William Howard	1,000,000	0.40
Total	**210,671,000**	**84.27**

[1] As required by the NZX Listing Rules, New Zealand Central Securities Depository (NZCSD) holdings are included above and not detailed separately.
[2] Percentage calculated on the basis of Mercury having 250,000,000 MCY050 capital bonds on issue as at 30 June 2023.
[3] The table above reports the top 21 bondholders as there are three holders sharing the 19th position.

Distribution of MCY050 (5.73%) capital bondholders and holdings as at 30 June 2023

Size of holding	Number of MCY050 capital bondholders	% of MCY050 capital bondholders[1]	Number of MCY050 capital bonds	Holding quantity %[1]
1,001 to 5,000	121	11.17	605,000	0.24
5,001 to 10,000	232	21.42	2,204,000	0.88
10,001 to 100,000	650	60.02	21,197,000	8.48
100,001 and above	80	7.39	225,994,000	90.40
Total	**1083**	**100**	**250,000,000**	**100**

[1] Rounding applied.

SECURITY HOLDER INFORMATION.

Twenty largest registered holders of MCY060 green bonds (5.64%) as at 30 June 2023[1,3]

Name	Number of MCY060 green bonds	% of MCY060 green bonds[2]
Custodial Services Limited	62,059,000	41.37
National Nominees Limited	16,350,000	10.90
Forsyth Barr Custodians Limited	12,942,000	8.63
BNP Paribas Nominees (NZ) Limited	7,110,000	4.74
FNZ Custodians Limited	6,833,000	4.56
Queen Street Nominees ACF PIE Funds	5,900,000	3.93
Generate Kiwisaver Public Trust Nominees Limited	5,890,000	3.93
JBWere (NZ) Nominees Limited	4,335,000	2.89
HSBC Nominees (New Zealand) Limited	4,250,000	2.83
ANZ Fixed Interest Fund	2,950,000	1.97
NZPT Custodians (Grosvenor) Limited	2,500,000	1.67
Forsyth Barr Custodians	2,254,000	1.50
Investment Custodial Services Limited	1,826,000	1.22
Hobson Wealth Custodian Limited	840,000	0.56
Fletcher Building Educational Fund Limited	670,000	0.45
HSBC Nominees (New Zealand) Limited A/C State Street	600,000	0.40
ANZ Custodial Services New Zealand Limited	582,000	0.39
Omega Investments Limited	550,000	0.37
Tea Custodians Limited Client Property Trust Account	540,000	0.36
BNP Paribas Nominees (NZ) Limited	500,000	0.33
Citibank Nominees (New Zealand) Limited	500,000	0.33
Lee Paterson Family Trust Company Limited	500,000	0.33
Total	**140,481,000**	**93.65**

[1] As required by the NZX Listing Rules, New Zealand Central Securities Depository (NZCSD) holdings are included above and not detailed separately.
[2] Percentage calculated on the basis of Mercury having 150,000,000 MCY060 green bonds on issue as at 30 June 2023.
[3] The table above reports the top 22 bondholders as there are three holders sharing the 20th position.

Distribution of MCY060 (5.64%) green bondholders and holdings as at 30 June 2023

Size of holding	Number of MCY060 green bondholders	% of MCY060 green bondholders[1]	Number of MCY060 green bonds	Holding quantity %[1]
1,001 to 5,000	27	9.34	135,000	0.09
5,001 to 10,000	54	18.69	512,000	0.34
10,001 to 100,000	170	58.82	5,098,000	3.40
100,001 and above	38	13.15	144,255,000	96.17
Total	**289**	**100**	**150,000,000**	**100**

[1] Rounding applied.

COMPANY DISCLOSURES.

STOCK EXCHANGE LISTINGS

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

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

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

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

MERCURY NZ LIMITED

The following persons held office as Directors of Mercury NZ Limited during the 2023 financial year and as at the end of the 2023 financial year, being 30 June 2023: Prue Flacks (Chair), Hannah Hamling, Andy Lark[1], James Miller, Scott St John, Patrick Strange, Mike Taitoko, Lorraine Witten[2], Susan Peterson[2] and Dennis Barnes[1].

SUBSIDIARY COMPANIES

The following persons held office as directors of subsidiaries of Mercury NZ Limited during FY23:

Company name	Directors
Blockchain Energy Limited	Vincent Hawksworth William Meek Howard Thomas
Bosco Connect Limited	Vincent Hawksworth William Meek Howard Thomas
Glo-Bug Limited	Vincent Hawksworth William Meek Howard Thomas
Kawerau Geothermal Limited	Vincent Hawksworth William Meek Howard Thomas
Mercury Drive Limited	Vincent Hawksworth[2] William Meek[2] Howard Thomas[2] Julia Jack[1]
Mercury Energy Limited	Vincent Hawksworth William Meek Howard Thomas
Mercury ESPP Limited	William Meek Marlene Strawson Howard Thomas
Mercury Geothermal Limited	Vincent Hawksworth William Meek Howard Thomas
Mercury Insurance Captive Limited[4]	James Miller Vincent Hawksworth William Meek Howard Thomas
Mercury LTI Limited	Prue Flacks Mike Taitoko Howard Thomas
Mercury Solar Limited	Vincent Hawksworth William Meek Howard Thomas
Mercury SPV Limited	Vincent Hawksworth William Meek Howard Thomas
Mercury Wind Limited	Vincent Hawksworth William Meek Howard Thomas
Mighty Geothermal Power International Limited	Vincent Hawksworth William Meek Howard Thomas
Mighty Geothermal Power Limited	Vincent Hawksworth William Meek Howard Thomas
Mighty River Power Limited	Vincent Hawksworth William Meek Howard Thomas
Ngātamariki Geothermal Limited	Vincent Hawksworth William Meek Howard Thomas
NOW New Zealand Limited[3]	Timothy Aynsley Vincent Hawksworth Paul Callow Hamish White
Rotokawa Generation Limited	William Meek Phil Gibson Stewart Hamilton
Rotokawa Geothermal Limited	Vincent Hawksworth William Meek Howard Thomas
Special General Partner Limited	Vincent Hawksworth William Meek Howard Thomas
Tararua Wind Power Limited	Vincent Hawksworth William Meek Howard Thomas
Waverley Wind Farm (NZ) Holding Limited	Vincent Hawksworth William Meek Howard Thomas
Waverley Wind Farm Limited	Vincent Hawksworth William Meek Howard Thomas
What Power Crisis (2016) Limited	Vincent Hawksworth William Meek Howard Thomas

[1] Directors who resigned during FY23.

[2] Directors appointed during FY23.

[3] New Subsidiaries added during FY23

[4] Subsidiaries removed during FY23. Mercury Insurance Captive Limited amalgamated with What Power Crisis (2016) Limited on 28 October 2022 and has been removed from the companies register.

OTHER DISCLOSURES.

WAIVERS FROM THE NEW ZEALAND AND AUSTRALIAN STOCK EXCHANGES

NZX

Mercury NZ Limited (referred to in this section as "Mercury" or "the Company") has a waiver in respect of NZX Listing Rule 8.1.5. This waiver permits Mercury's Constitution ("Constitution") to contain provisions allowing:

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

ASX

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

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

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

INFORMATION ABOUT MERCURY NZ LIMITED ORDINARY SHARES

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

Rights and privileges

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

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

Restrictions on ownership and transfer

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

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

51% Holding

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

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

On 10 December 2018, Mercury entered into an agreement with the Crown, under which the Crown agrees to participate in any future dividend reinvestment plan or share buyback of the Company, in each case only to the extent required to maintain the Crown's proportionate shareholding following the dividend reinvestment plan or share buyback. A copy of the Crown Participation Agreement is available on the Treasury's website.

10% Limit

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

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

Ascertaining whether a breach has occurred

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

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

Determining whether a breach has occurred

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

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

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

Effect of exceeding the 10% Limit

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

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

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

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

OTHER DISCLOSURES.

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

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

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

Crown directions

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

Trustee corporations and nominee companies

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

Share cancellation

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

Sale of less than a Minimum Holding

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

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

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

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

Cancellation of sale of shares

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

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

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

PUBLIC ENTITY

Mercury is a public entity under the Public Audit Act 2001, and the Group's independent auditor is the Auditor-General.

DONATIONS

Donations of $228,125 were made by the Group during the year ended 30 June 2023 ($79,199 during the year ended 30 June 2022). Under Mercury's Delegations Policy, donations to political parties are prohibited.

OTHER DISCLOSURES

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

On 21 August 2023 the Board declared a fully imputed final dividend of 13.1 cents per share to all shareholders who are on the Company's share register at 5pm on the record date of 14 September 2023. The dividends will be imputed at a corporate tax rate of 28%, which amounts to an imputation credit of 5.1 cents per share for the final dividend. Mercury will also pay a supplementary dividend of 2.3 cents per share relating to the final dividend to non-resident shareholders. The Company will receive from the New Zealand Inland Revenue Department a tax credit equivalent to supplementary dividends.

These dividends, together with the interim dividend of $120 million (8.7 cents per share) paid to shareholders on 3 April 2023, brings the total declared dividends to $302 million (or 21.8 cents per share).

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

Mercury's Net Tangible Assets per Share (excluding treasury stock) as at 30 June 2023 was $3.40, compared with $3.35 at 30 June 2022.

GLOBAL REPORTING INITIATIVE (GRI) INDEX.

STANDARD CORE REPORTING

GRI standard	Disclosure title	Location	Comments
GENERAL DISCLOSURES			
ORGANISATIONAL PROFILE			
GRI 2: General Disclosures 2021			
2-1	Organisational details	Front cover, Company Disclosures (p112), Directory (p119), Who We are & Our Business Model (p3, 5)	
2-2	Entities included in the organisation's sustainability reporting	Notes to the Consolidated Financial Statements p36	
2-3	Reporting period, frequency and contact point	Front Cover, Directory (p119)	
2-4	Restatements of information		Restatements of greenhouse gas emissions in prior years are described in our FY23 GHG Emissions Inventory Report
2-5	External assurance		Our FY2023 Climate Statement has not been externally assured
2-6	Activities, value chain and other business relationships	Who We Are & Our Business Model pp3, 5-6	
2-7	Employees	Our Business Model p5	
2-8	Workers who are not employees	Information unavailable	
2-9	Governance structure and composition	Climate Statement p58-73 Governance at Mercury p79-92	
2-10	Nomination and selection of the highest governance body	Governance at Mercury p79-92	
2-11	Chair of the highest governance body	Your Board of Directors p75-77	
2-12, 2-13, 2-14	Role of the highest governance body in overseeing the management of impacts Delegation of responsibility for managing impacts Role of the highest governance body in sustainability reporting	Climate Statement p58-73	
2-15	Conflicts of interest	Directors' Disclosures p104-105	
2-16	Communication of critical concerns	The Risks We Face p13 Climate Statement p58-73 Governance At Mercury p86-88	
2-17	Collective knowledge of the highest governance body	Governance at Mercury p83	
2-18	Evaluation of the performance of the highest governance body	Governance at Mercury p81-85	
2-19, 2-20, 2-21	Remuneration policies Process to determine remuneration Annual total compensation ratio	Remuneration Report p95-102	
2-22	Statement on sustainable development practices	Chair and Chief Executive Update p8-10 Governance at Mercury p90-92	
2-23	Policy commitments	Governance at Mercury p90-92 The Mercury Code Supplier Code of Conduct Sustainability Policy	These policies can be found in the Corporate Governance section of our company website
2-24	Embedding policy commitments	Governance at Mercury p90-92	
2-25	Processes to remediate negative impacts	Governance at Mercury p90-91	
2-26	Mechanisms for seeking advice and raising concerns	Governance at Mercury p91	
2-27	Compliance with laws and regulations	How We Deliver Value p18 Climate Statement p72	
2-28	Membership associations	Company website - Partnerships	
2-29	Approach to stakeholder engagement	What Matters Most p12-14	
2-30	Collective bargaining agreements	Information unavailable	
GRI 3: Material Topics 2021			
3-1	Process to determine material topics	What Matters Most p12-14	
3-2	List of material topics	What Matters Most p12-14 Climate Statement p66-68	
3-3	Management of material topics	What Matters Most p12-14 Climate Statement p66-73	

GLOBAL REPORTING INITIATIVE (GRI) INDEX.

TOPIC STANDARDS

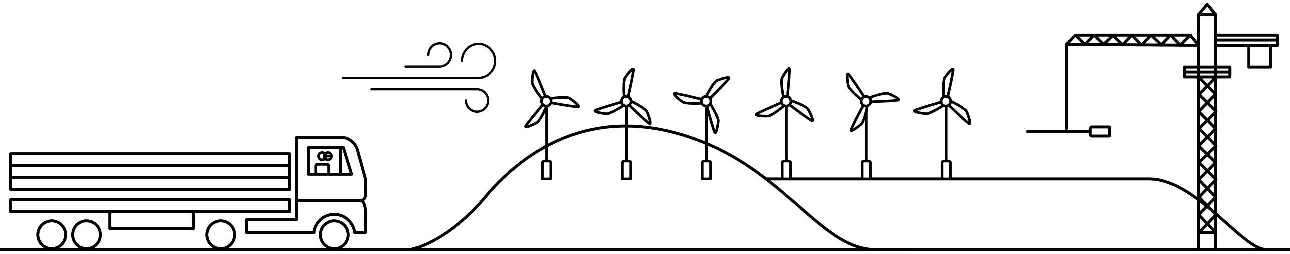
GRI Standard	Description	Location	Comments
GRI 201: Economic Performance 2016			
201-1	Direct economic value generated and distributed	Our Business Model p4-5 Looking At The Numbers p28-29	
201-2	Financial implications and other risks and opportunities due to climate change	Climate Statement p61-68	
GRI 204: Procurement Practices 2016 204-1	Proportion of spending on local suppliers	Company website - Corporate Governance - Modern Slavery Statement	
GRI 207: Tax 2019 207-1	Approach to tax	Looking At The Numbers, Note A3: Taxation p41	
GRI 303: Water and Effluents 2018			
303-3, 303-4, 303-5	Water withdrawal Water discharge Water consumption	Climate Statement p67	Mercury extracts and reinjects geothermal water for geothermal generation (some of which is consumed during the generation process) and is a non-consumptive user of water through its hydro power stations.
GRI 305: Emissions 2016			
305-1	Direct (Scope 1) GHG emissions	Climate Statement p72	For further detail, see our FY23 GHG Emissions Inventory Report available from our company website
305-2	Energy indirect (Scope 2) GHG emissions	Climate Statement p72	
305-3	Other indirect (Scope 3) GHG emissions	Climate Statement p72	
305-4	Emissions intensity	Climate Statement p72	

GRI Standard	Description	Location	Comments
GRI 401: Employment 2016			
401-1	New employee hires and employee turnover	Progress Towards Our FY22-24 Objectives p6	Mercury had 454 new permanent staff commence employment in FY23. Voluntary turnover for permanent staff was 14.6%.
401-2	Benefits provided to full-time employees that are not provided to temporary or part-time employees	Company website - Careers	
GRI 403: Occupational Health and Safety 2018			
403-1	Occupational health and safety management system	Company website - Health, Safety & Wellbeing	
403-4	Worker participation, consultation, and communication on occupational health and safety	Workers' representatives hold a range of positions on health and safety committees including joint chair of the generation committee	
403-9	Work-related injuries	Progress Towards Our FY22-24 Objectives p6 Chair and CE Update p10	
GRI 405: Diversity and Equal Opportunity 2016			
405-1	Diversity of governance bodies and employees	Diversity & Inclusion p94	
405-2	Ratio of basic salary and remuneration of women to men	Diversity & Inclusion p94	

GLOBAL REPORTING INITIATIVE (GRI) INDEX.

SECTOR SPECIFIC: ELECTRIC UTILITIES

GRI Standard	Description	Location	Comments
Sector Specific Generation Standard Disclosures			
EU1	Installed capacity	Our Business Model p5	Mercury owns or has interests in power stations with installed capacity of: Hydro 1,115MW, Geothermal 470MW, Wind 552MW
EU2	Net energy output	Our Business Model p5	
EU3	Number of residential, industrial, institutional and commercial customer accounts	Our Business Model p5	
EU5	Allocation of CO_2e allowances	Climate Statement p72-73	
Access			
EU27	Number of disconnections for non-payment		There were a total of 452 residential disconnections in FY23 due to non-payment.



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 also 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).

Paper & ink information

Our Integrated Report is printed on Eco-100 Natural paper. This environmentally-responsible, carbon-neutral paper is produced using FSC® (Forest Stewardship Council) certified 100% Post Consumer Recycled, Process Chlorine Free (PCF) pulp from Responsible Sources - and manufactured under the strict ISO14001 Environmental Management System. It carries the internationally-recognised Blue Angel, Nordic Swan, Austrian Environmental Label and the NAPM (National Association of Paper Merchants) Recycled Mark.

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DIRECTORY.

Board of Directors

Prue Flacks, Chair
Mark Binns[1]
Hannah Hamling
Adrian Littlewood
James Miller
Susan Peterson
Scott St John
Patrick Strange
Mike Taitoko
Lorraine Witten

Executive Management Team

Vince Hawksworth,
Chief Executive

Lucie Drummond,
General Manager Sustainability

Phil Gibson,
General Manager Portfolio

Stewart Hamilton,
General Manager Generation

William Meek,
Chief Financial Officer

Craig Neustroski,
General Manager Commercial Operations

Fiona Smith,
General Manager Customer Operations

Marlene Strawson,
General Manager People & Performance

Company Secretary

Howard Thomas,
General Counsel and Company Secretary

Investor Relations & Sustainability Enquiries

Paul Ruediger,
Head of Business Performance &
Investor Relations

Phone: +64 27 517 3470
Email: investor@mercury.co.nz

Registered Office in New Zealand

Mercury NZ Limited
33 Broadway, Newmarket, Auckland 1023
P O Box 90399
Auckland 1142
New Zealand

Registered Office in Australia

c/– TMF Corporate Services (Australia) Pty Limited
Suite 1, Level 11, 66 Goulburn Street,
Sydney, NSW 2000

Phone: +61 2 8988 5800

Legal Advisors

Chapman Tripp
Level 34
PwC Tower at Commercial Bay
15 Customs Street West
Auckland 1010
PO Box 2206
Auckland 1140

Phone: +64 9 357 9000

Bankers

ANZ Bank
ASB Bank
Bank of 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 April 2023)

Long-term: BBB+
Outlook: Stable

Share Registrar – New Zealand

Computershare Investor Services Limited
Level 2, 159 Hurstmere Road, Takapuna,
Auckland 0622
Private Bag 92119
Victoria Street West
Auckland 1142, New Zealand

Phone: +64 9 488 8777
Email: enquiry@computershare.co.nz
Web: www.investorcentre.com/nz

Share Registrar – Australia

Computershare Investor Services Pty Limited
Yarra Falls, 452 Johnston Street, Abbotsford,
VIC 3067
GPO Box 3329, Melbourne, VIC 3001, Australia

Phone: 1 800 501 366 (within Australia)
Phone: +61 3 9415 4083 (outside Australia)
Email: enquiry@computershare.co.nz

[1] Appointment is effective 1 September 2023

GLOSSARY.

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

CO_2E
The universal unit of measurement to indicate the global warming potential of each greenhouse gas (GWP), expressed in terms of the GWP of one unit of carbon dioxide.

CPS
Cents per share.

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

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

Fugitive Emissions
Direct discharges of greenhouse gases that occur during geothermal electricity generation processes.

Growth Capital Expenditure (CAPEX)
Capital expenditure incurred by the company to create new assets and revenue.

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

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

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

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

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

Stay-in-Business (SIB) Capital Expenditure (CAPEX)
Capital expenditure incurred by the company to maintain its assets in good working order.

Total Recordable Injury Frequency Rate (TRIFR)
A record of the number of reported medical treatment, restricted work, lost time and serious harm injuries per 200,000 hours, including employees and on-site contractors.

Total Shareholder Return (TSR)
The financial gain or loss resulting from the change in share price plus any dividends paid expressed as a percentage of the initial share price.

Trading Margin
Sales from electricity generation, derivatives and sales of electricity, gas and telco services to customers, less energy costs, lines charges, telco and other direct costs of sales and third party metering.

RĀRANGI INGOA LIST OF NAMES.

OUR POWER STATIONS AND WIND FARMS.

The power stations and wind farms generating renewable energy for New Zealand homes and businesses have names reflecting past stories and histories.

Arapuni
"Ara" means path and "puni" means either blocked up or campsite. The meaning may be either "pathway to campsite" or "blocked path".

Aratiatia
Aratiatia means a series of pegs stuck into a steep ascent in a zig-zag pattern to make climbing easier. It may also refer to the travels of the ancestral explorer Tia of the Arawa canoe who made his way to these rapids while exploring the Waikato River.

Ātiamuri
A-Tia-Muri literally means turned back and refers to Tia of the Arawa canoe. This intrepid traveller had to turn back at the Ātiamuri Rapids in his early explorations of the Waikato River. Legend also says that Tia was petrified into a large stone in the river rapids.

Karāpiro
The name Karāpiro is 'karā' meaning rock, and 'piro' meaning putrid smell. In the 1820s the Ngāti Maru tribe from the Hauraki Gulf were driven south by Northland's Ngāpuhi tribe. Ngāti Maru were given refuge in the Waikato by the Ngāti Haua tribe, but tensions mounted between them. This culminated in the battle of Taumatawīwī in 1830. The cremation of dead warriors took place on rocks beside the Waikato River.

Kaiwera Downs
Named for nearby Kaiwera Downs farmland.

Kawerau
The name Kawerau means "carrier of leaves" (and was the name of an ancient Māori chief).

Mahinerangi
Named after Lake Mahinerangi, the adjacent Manawa hydro asset lake.

Maraetai
The name means meeting place by the sea, from "Marae" (meeting place) and "Tai" (tide or shore). This name was possibly transplanted from somewhere on the coast.

Mōkai
Meaning slave or captive (i.e. captured in battle).

Nga Awa Pūrua
The station was named after the rapids, located nearby on the Waikato River. Ngā Awa Pūrua means "where the waters meet".

Ngā Tamariki
"The children".

Ōhakuri
"Oha" means keepsake or relic and "kuri" means dog. This name may refer to a prized dogskin cloak.

Rotokawa
From "kawa" meaning bitter and "roto" meaning lake or wetlands/swamp.

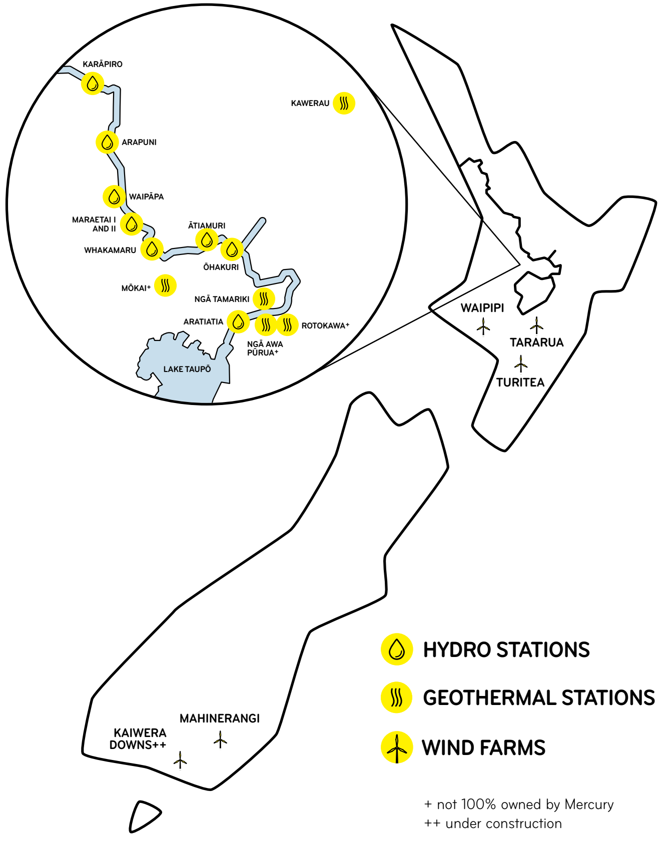
Tararua
The name is taken from the range where the wind farm is located. The metaphorical union between people and the land, Papatūānuku, is seen in places named after parts of the human body. The Tararua Range was declared to be Te Tuarātapu-o-Te Rangihaeata (the sacred back of Te Rangihaeata) to commemorate a peace arrangement between Ngāti Toa and Ngāti Kahungunu. The range became a dividing line between Ngāti Toa on the west side and Ngāti Kahungunu on the east.

Turitea
"Bright clear water."

Waipāpa
"Wai" means water, "papa" means flat or flat rock. The name possibly means the "stream across the plain" or "stream of the flat rock".

Waipipi
Waipipi Stream runs through the site and the Iwi land is known as Waipipi.

Whakamaru
Whakamaru means to give shelter to, or safeguard.



+ not 100% owned by Mercury
++ under construction

Turitea wind farm.

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