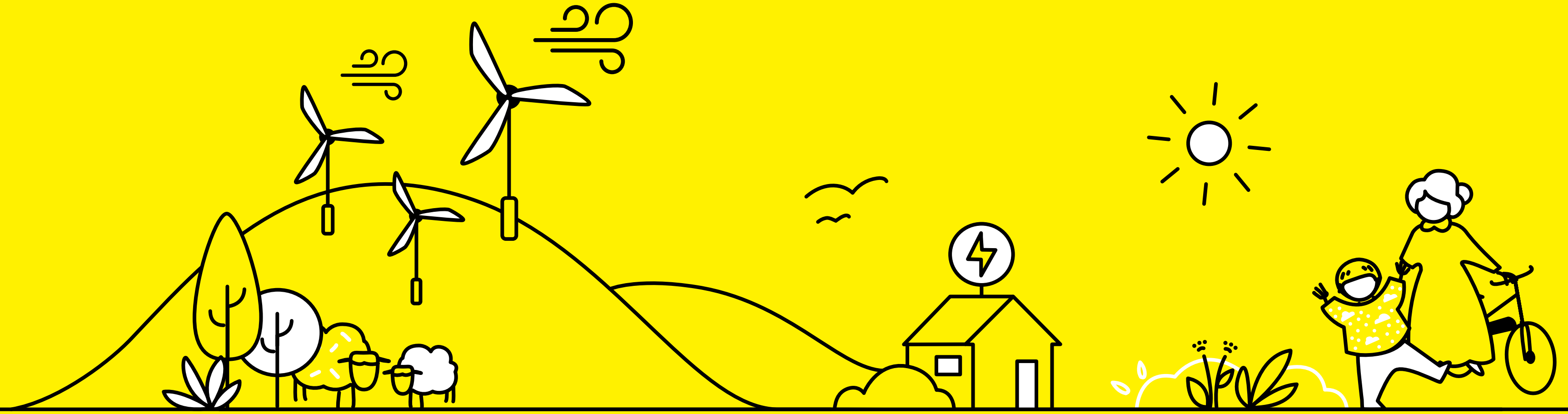
MERCURY NZ LIMITED



2022 INTERIM REPORT.

Mercury

CONTENTS.

CHAIR & CHIEF EXECUTIVE UPDATE.

VINCE HAWKSWORTH // CHIEF EXECUTIVE

PRUE FLACKS // CHAIR

As we assess the challenges that lie ahead for New Zealand's journey to Net Zero, it can be difficult to see past the immediate hurdles. However, we must not lose sight of the significant gains to be made beyond the pressing need to clean up our world – a more equitable society, a resilient economy and a better future for the generations who follow.

Both in New Zealand and globally, the growing urgency to decarbonise has understandably put a spotlight on electricity as the industry underpinning much of this activity. In New Zealand, the sector will play a critical role in ensuring we deliver on our climate change commitments, and it needs to be up for the challenge.

We believe we are. We recognise the growing need for a more unified approach to secure the best possible outcomes for all. Mercury has a role to play in enabling this call for unity, as well as delivering meaningful actions that contribute to our lower carbon future.

BALANCING THE TRILEMMA

Ensuring that the transition to a renewable future is equitable is essential. Balancing affordability and security remains a key consideration for the electricity sector's contribution to the decarbonisation challenge.

Regulatory stability essential

Regulatory uncertainty facing the sector remains elevated. We agree with the Government's position that climate change must be a priority for New Zealand and Mercury is supportive of the climate change targets set. However, we are increasingly concerned about the potential for policy or regulatory change that unintentionally undermines this position and jeopardises New Zealand's decarbonisation goals. There is a need for joined up policy that recognises that the electricity sector is the platform many other industries will depend on to decarbonise.

The electricity market has delivered 85% renewable electricity for New Zealand and will reach 90% renewable within the first emissions budget period. However, the market must continue to evolve for the next phase of the transition, keeping what is good but adapting to address new challenges including the need for rapid response peaking capacity. Mercury welcomes the opportunity to participate in this transition.

Intense retail competition

At the same time, the retail electricity market remains extremely competitive. Amid these high levels of competition, it was pleasing to see Mercury customer numbers hold steady at 327,000 connections, ending a period of declining market share. A clear focus on delivering value to customers, including our 'Move with Mercury' campaign, contributed to this outcome.

Challenging operating conditions

Sustained dry conditions across the Waikato catchment remain a key challenge, with a continuation of conditions that shaped FY21. Prudent lake management is critical, and our teams are planning accordingly.

As a result, hydro generation was 91 GWh down on the prior comparable period.

The 44-day unplanned outage at Kawerau geothermal power station continued into the start of the financial year (ending on 20 July) and coincided with higher spot prices impacted by low national hydrological conditions.

The electricity forward curve is indicating that higher spot prices will persist over the near-term, reflecting higher thermal generation fuel prices and gas supply constraints.

FINANCIAL PERFORMANCE

The challenging operating conditions, along with careful storage management in Lake Taupō, have impacted Mercury's financial results in the first half for FY22. Mercury's operating earnings (EBITDAF[1]) were down $48 million to $242 million.

This result was only partially offset by increased scale following the completion in August of the acquisition of Tilt Renewables' New Zealand wind farms (representing 482 GWh of new wind generation for the period), as well as the Turitea North wind farm starting to come on stream (adding another 105 GWh over the period).

Our continued focus on Thriving Today and Shaping Tomorrow – operational excellence as a mindset – continues to build resilience in our business. Despite challenges through the year and with limited ability to collaborate effectively during lockdowns, Thrive is tracking well against the $30 million EBITDAF benefit signalled for FY22.

Operational expenditure was up $15 million on the prior comparable period, while total stay-in-business capital expenditure for the period was $20 million (down $3 million).

Net profit after tax was up $297 million to $427 million due to the $367 million net gain on sale of our 19.9% Tilt Renewables shareholding.

Mercury's full year EBITDAF guidance remains at $570 million reflecting impacts of the Tilt Renewables and Trustpower retail acquisitions and excludes likely interim insurance payment arising from Kawerau station unplanned outage.

$242M↓
EBITDAF

$106M↑
OPERATING EXPENDITURE

$427M↑
NET PROFIT AFTER TAX

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.

> **“THE CHALLENGING OPERATING CONDITIONS, ALONG WITH CAREFUL STORAGE MANAGEMENT IN LAKE TAUPŌ, HAVE IMPACTED MERCURY’S FINANCIAL RESULTS IN THE FIRST HALF FOR FY22.**

INTERIM DIVIDEND

Your Board has declared a fully imputed interim dividend of 8.0 cents per share payable to our 75,000 owners including the Crown. This represents an increase of 18% on the HY21 dividend and reflects a significant period of growth for Mercury, outlined in more detail below. The dividend will be paid on 1 April 2022.

8.0CPS↑
INTERIM DIVIDEND DECLARED

PEOPLE AND WELLBEING

The first six months of FY22 has been characterised by a sustained lockdown for many in New Zealand. This has been an extremely challenging time for our communities, our stakeholders and our customers. Our people are not immune.

Mercury is monitoring wellbeing carefully and thinking hard about how we can support our people. A range of measures have been implemented; including access to wellbeing tools and workshops, the gifting of extra time off, one-off payments for staff to purchase equipment and efforts to boost collaboration and communication virtually.

Mercury has also been involved in the successful pilot of rapid antigen testing. Our generation sites continue regular rapid antigen testing of our employees and contractors as an added control against COVID-19 along with the introduction across the business of our vaccination policy.

In a trying year, our employees and contract workforce remained committed to health and safety as a priority. This continues to be reflected in a sustained low TRIFR (Total Reportable Incident Frequency Rate) – ending the six-month period with a TRIFR of 0.25. There were no serious harm injuries over the period, despite significant works at some of our generation sites. Our goal remains zero harm, and we continue to review and improve our systems and processes to meet this goal.

THRIVING TODAY, SHAPING TOMORROW

We expect an ever-accelerating pace of change in our sector, and we have developed our strategic framework to best position us to thrive in a rapidly changing environment.

Our strategic themes of ‘Thriving Today’ and ‘Shaping Tomorrow’ reflect our view that purposeful action today influences and will build measurable success in the future. Diversification to strengthen our resilience characterised much of our activity in the first six months of FY22.

This strengthened focus on continuous improvement through Thrive has connected our people more closely to the role they play in delivering our strategy and fulfilling our purpose.

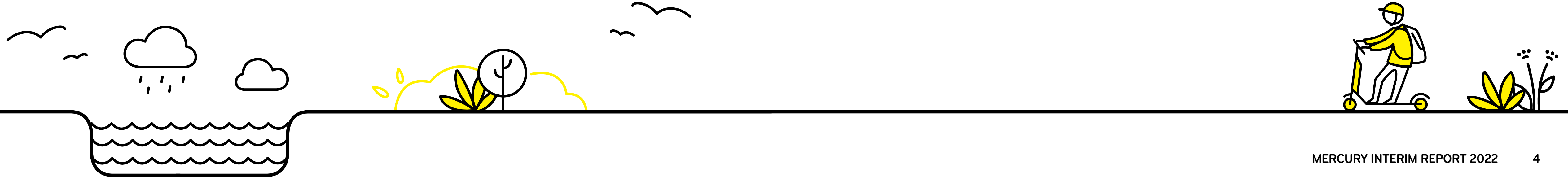
Increasing value; options for growth

In August we completed the addition of Tilt Renewables’ New Zealand wind assets into our portfolio, and the Turitea North wind farm became operational in the last quarter of 2021. Together these significantly diversify our revenue streams.

We are now focussed on the Turitea South wind farm, which is scheduled for completion in mid-2023 and will make Turitea New Zealand’s largest wind farm. We have also commenced early work to advance the consented 53-turbine wind farm at Puketoi.

At the same time, we continue to progress the consents for the 19-turbine Kaiwaikawe wind farm. This project has been a tangible demonstration of how the absence of joined up policy settings is hampering the delivery of new renewable generation by undervaluing the decarbonisation benefits. We continue to engage closely with all relevant parties including the Department of Conservation.

Mercury’s focus on enhancing its existing generation also continues. We have completed $30 million of rebalancing works at the Rotokawa geothermal field, projected to deliver an additional 7MW on average each year. In addition, a successful trial of CO2 reinjection at Ngātamariki shows promising signs for reducing emissions associated with geothermal generation.



Leading the low-carbon transition

The issues associated with New Zealand's transition to a decarbonised economy are complex. Successful transition will require working across different sectors and with Government and public agencies. Policy settings will be critical. The electricity sector is ready to participate and can contribute expertise, financing and consumer knowledge to support informed decisions.

Initiatives such as the Aotearoa Circle Low Carbon Energy Roadmap, of which Mercury is part, show how Government, regulators and the sector can collaborate on the energy transition and secure the best possible outcomes.

The Government's final Emissions Reduction Plan, due in May, is another key milestone in New Zealand's decarbonisation journey. Mercury welcomed the opportunity to contribute to this important document and we are looking forward to engaging on the finalised plan.

Mercury is also focused on progressing a whole-of-energy-sector approach to decarbonisation. This includes working on a collective commitment to the Government to support New Zealand's emission reduction goals.

Value for customers

The acquisition of Trustpower's retail business will accelerate Mercury's retail strategy, which is centred on the right product mix and value for customers. We know customers value the convenience and ease of bundled products and we see Trustpower's deep expertise in this area adding material value to Mercury's customers. The acquisition also significantly grows our retail book, and the increased scale allows us to make meaningful investment in our underlying IT systems to drive greater innovation.

The High Court's approval of the Tauranga Energy Consumer Trust restructure in December was a significant milestone to celebrate, and an exciting step towards bringing these two complementary businesses together. We anticipate remaining conditions will be satisfied and the transaction will complete in the last quarter of FY22. A further update will be provided in our full year results.

Our team continues to look at other opportunities to deepen our connection to customers beyond energy. We have now completed an initial pilot of a broadband product in partnership with NOW NZ, and plan to launch to Mercury's customer base later in the year.

Mercury is focused on ensuring all New Zealanders have access to affordable and reliable electricity. While we are proud of the progress made on customer care, there is much more that can be done to improve how we engage with customers experiencing hardship. Hardship is a complex issue requiring a multi-faceted approach. Continuing to build collaborative relationships with community, social and government agencies is fundamental to our success.

A THANK YOU

The challenges we are facing are unprecedented, but Mercury is well placed to thrive. On behalf of the Board and Executive Management Team, we recognise and thank the talented team of people who underpin Mercury's results and the continued growth of our business.

We also thank the many groups and individuals we partner with across the business. A special mention goes to the Starship Foundation – we are currently celebrating 20 years together and a year of record donations from our customers. We look forward to Mercury's continued path of thriving in the second half of the year.

Ngā mihi nui ki a koutou katoa.

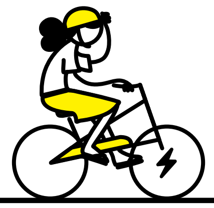
VINCE HAWKSWORTH // CHIEF EXECUTIVE

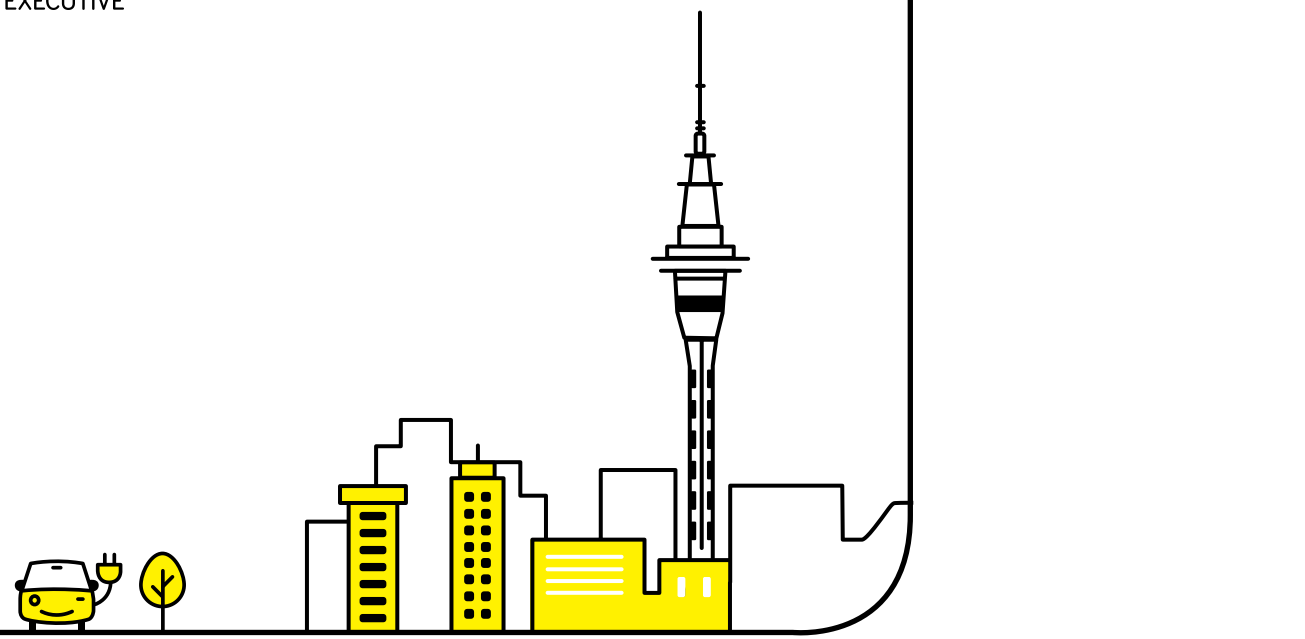
PRUE FLACKS // CHAIR

ZERO
HIGH SEVERITY HEALTH AND SAFETY INCIDENTS

12.0↑
NET PROMOTER SCORE[2]

$20M↓
OF STAY-IN-BUSINESS CAPEX

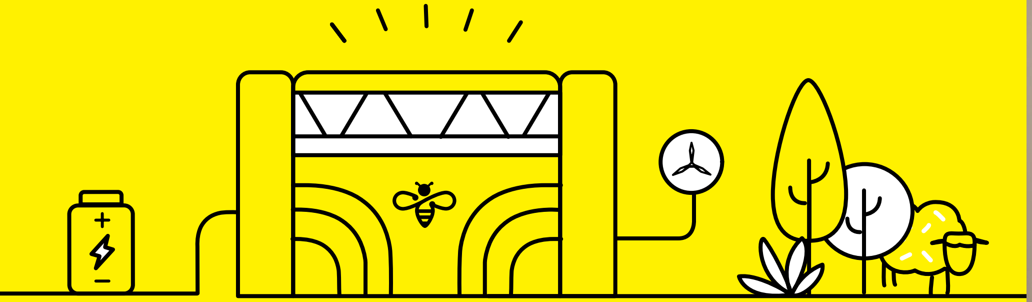




[2] Index ranging from -100 to 100 measuring willingness of customers within target segment to recommend Mercury (three-month rolling average).

OUR FINANCIALS.

LET'S GET INTO THE NUMBERS.



INDEPENDENT AUDITOR'S REVIEW REPORT.

TO THE SHAREHOLDERS OF MERCURY NZ LIMITED

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

CONCLUSION

We have reviewed the consolidated interim financial statements of the Group on pages 8 to 18 which comprise the consolidated statement of financial position as at 31 December 2021, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the six month period ended on that date, and notes to the consolidated interim financial statements including a summary of significant accounting policies and other explanatory information.

Based on our review, nothing has come to our attention that causes us to believe that the accompanying consolidated interim financial statements on pages 8 to 18 of the Group do not present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2021, and its consolidated financial performance and its consolidated cash flows for the six month period ended on that date, in accordance with New Zealand Equivalent to International Accounting Standard 34: *Interim Financial Reporting* and International Accounting Standard 34: *Interim Financial Reporting*.

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

BASIS FOR CONCLUSION

We conducted our review in accordance with NZ SRE 2410 (Revised) *Review of Financial Statements Performed by the Independent Auditor of the Entity*. Our responsibilities are further described in the Auditor's Responsibilities for the Review of the 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 (including International Independence Standards) (New Zealand)* issued by the New Zealand Auditing and Assurance Standards Board, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Ernst & Young carries out agreed upon procedures and other limited assurance reporting engagements and provided tax related services in the United States of America to the Group, all of 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. We have no other relationship with, or interest in, the Group.

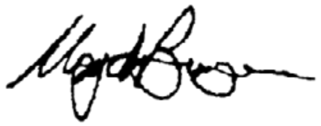
DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITIES FOR THE REVIEW OF THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

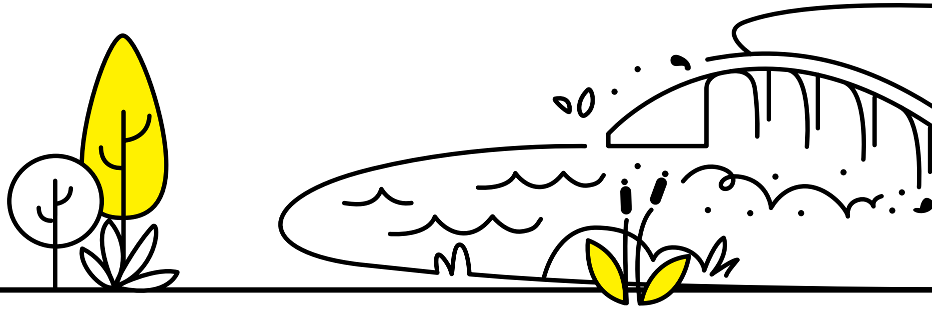
Our responsibility is to express a conclusion on the consolidated interim financial statements based on our review. NZ SRE 2410 (Revised) requires us to conclude whether anything has come to our attention that causes us to believe that the consolidated interim financial statements, taken as a whole, are not prepared in all material respects, in accordance with New Zealand Equivalent to International Accounting Standard 34: *Interim Financial Reporting* and International Accounting Standard 34: *Interim Financial Reporting*.

A review of interim financial statements in accordance with NZ SRE 2410 (Revised) is a limited assurance engagement. We perform procedures, consisting of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with International Standards on Auditing (New Zealand) and consequently do not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on those consolidated interim financial statements.



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

AUCKLAND, NEW ZEALAND
22 FEBRUARY 2022



FINANCIAL STATEMENTS.

CONSOLIDATED INCOME STATEMENT.

For the six months ended 31 December 2021

	Note	Unaudited 6 Months 31 Dec 2021 $M	Restated Unaudited 6 Months 31 Dec 2020 $M	Audited 12 Months 30 Jun 2021 $M
Total revenue	2	873	944	2,045
Total expenses	2	(631)	(654)	(1,582)
EBITDAF[1]		242	290	463
Depreciation and amortisation		(138)	(106)	(221)
Change in the fair value of financial instruments		7	(36)	(47)
Gain/(loss) on disposal	2	365	41	23
Net interest expense	2	(26)	(23)	(45)
Profit before tax		450	166	173
Tax expense		(23)	(36)	(32)
Profit for the period attributable to owners of the parent		427	130	141
Basic and diluted earnings per share (cents)		31.4	9.6	10.4

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME.

For the six months ended 31 December 2021

	Unaudited 6 Months 31 Dec 2021 $M	Unaudited 6 Months 31 Dec 2020 $M	Audited 12 Months 30 Jun 2021 $M
Profit for the period	427	130	141
Other comprehensive income			
Items that will not be reclassified subsequently to profit or loss			
Movement in asset revaluation reserve	–	–	924
Movement in cash flow hedge reserve transferred to balance sheet	–	(15)	(15)
Share of movements in associates' and joint ventures' reserves	–	(4)	28
Tax effect	–	–	(259)
Items that may be reclassified subsequently to profit or loss			
Movement in cash flow hedge reserve	90	(42)	(208)
Cash flow hedge reserve reclassified to profit or loss	112	–	–
Transfer of share of associate's reserves to profit / loss upon disposal of investment in associate	(21)	–	–
Share of movements in associates' and joint ventures' reserves	7	(2)	–
Tax effect	(57)	12	63
Other comprehensive income/(loss) for the period, net of taxation	131	(51)	533
Total comprehensive income for the period attributable to owners of the parent	558	79	674

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

CONSOLIDATED BALANCE SHEET.

As at 31 December 2021

	Note	Unaudited 31 Dec 2021 $M	Restated Unaudited 31 Dec 2020 $M	Audited 30 Jun 2021 $M
SHAREHOLDERS' EQUITY				
Issued capital		378	378	378
Treasury shares		(100)	(101)	(100)
Reserves		4,327	3,407	3,908
Total shareholders' equity		4,605	3,684	4,186
ASSETS				
Current assets				
Cash and cash equivalents		48	91	163
Receivables		250	229	318
Contract assets		2	1	2
Inventories		65	23	24
Taxation receivable		2	–	–
Derivative financial instruments		73	86	120
Investment in associate held for sale		–	–	248
Total current assets		440	430	875
Non-current assets				
Property, plant and equipment	6	7,813	5,934	6,828
Intangible assets		81	69	107
Investment and advances to associates and joint ventures	7	91	276	86
Advances to joint operations		5	6	5
Receivables		3	3	3
Derivative financial instruments		64	61	74
Total non-current assets		8,057	6,349	7,103
Total assets		8,497	6,779	7,978

	Note	Unaudited 31 Dec 2021 $M	Restated Unaudited 31 Dec 2020 $M	Audited 30 Jun 2021 $M
LIABILITIES				
Current liabilities				
Payables and accruals		175	163	318
Provisions		–	2	–
Borrowings	8	487	554	471
Derivative financial instruments		149	166	267
Taxation payable		–	29	1
Total current liabilities		811	914	1,057
Non-current liabilities				
Payables and accruals		7	7	3
Provisions		88	72	86
Derivative financial instruments		209	150	263
Borrowings	8	1,178	794	1,020
Deferred tax		1,599	1,158	1,363
Total non-current liabilities		3,081	2,181	2,735
Total liabilities		3,892	3,095	3,792
Net assets		4,605	3,684	4,186

For and on behalf of the Board of Directors who authorised the issue of the Consolidated Interim Financial Statements on 22 February 2022.

Prudence Flacks

J B Miller

PRUE FLACKS // CHAIR

JAMES MILLER // DIRECTOR

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY.

For the six months ended 31 December 2021

	Issued capital $M	Retained earnings $M	Asset revaluation reserve $M	Cash flow hedge reserve $M	Other reserves $M	Total equity $M
Restated Balance as at 1 July 2020	378	286	3,281	(122)	(90)	3,733
Fair value revaluation of generation assets, net of taxation	–	8	(8)	–	–	–
Movement in cash flow hedge reserve, net of taxation	–	–	–	(45)	–	(45)
Share of movements in associates' and joint ventures' reserves	–	–	–	2	(8)	(6)
Other comprehensive income/(loss)	–	8	(8)	(43)	(8)	(51)
Net profit for the period	–	130	–	–	–	130
Total comprehensive income/(loss)	–	138	(8)	(43)	(8)	79
Dividend	–	(128)	–	–	–	(128)
Restated Balance as at 31 December 2020	378	296	3,273	(165)	(98)	3,684
Restated Balance as at 1 January 2021	378	296	3,273	(165)	(98)	3,684
Movement in asset revaluation reserve, net of taxation	–	–	666	–	–	666
Movement in cash flow hedge reserve, net of taxation	–	–	–	(116)	–	(116)
Share of movements in associates' and joint ventures' reserves	–	–	20	13	1	34
Other comprehensive income/(loss)	–	–	686	(103)	1	584
Net profit for the period	–	11	–	–	–	11
Total comprehensive income	–	11	686	(103)	1	595
Dividend	–	(93)	–	–	–	(93)
Balance as at 30 June 2021	378	214	3,959	(268)	(97)	4,186
Balance as at 1 July 2021	378	214	3,959	(268)	(97)	4,186
Recycling of share of associate's reserves to retained earnings upon disposal	–	22	(21)	–	(1)	–
Transfer of share of associate's reserves to profit or loss upon disposal	–	–	–	(20)	(1)	(21)
Movement in cash flow hedge reserve, net of taxation	–	–	–	145	–	145
Share of movements in associates' and joint ventures' reserves	–	–	–	7	–	7
Other comprehensive income/(loss)	–	22	(21)	132	(2)	131
Net profit for the period	–	427	–	–	–	427
Total comprehensive income/(loss)	–	449	(21)	132	(2)	558
Dividend	–	(139)	–	–	–	(139)
Balance as at 31 December 2021	378	524	3,938	(136)	(99)	4,605

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

CONSOLIDATED CASH FLOW STATEMENT.

For the six months ended 31 December 2021

	Note	Unaudited 6 Months 31 Dec 2021 $M	Restated Unaudited 6 Months 31 Dec 2020 $M	Audited 12 Months 30 Jun 2021 $M
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers		951	970	1,952
Payments to suppliers and employees		(751)	(720)	(1,468)
Interest received		–	–	1
Interest paid		(28)	(26)	(51)
Taxes paid		(40)	(65)	(96)
Net cash provided by operating activities		132	159	338
CASH FLOWS FROM INVESTING ACTIVITIES				
Payments for acquisition of property, plant and equipment		(70)	(177)	(254)
Payments for the acquisition of intangibles		(6)	(13)	(54)
Distributions received from and advances repaid to associates and joint ventures		7	56	61
Proceeds from the disposal of investment in Tilt	1	603	–	–
Payment for acquisition of Tilt New Zealand, net of cash acquired	1	(631)	–	(20)
Proceeds from receivables recognised from the acquisition of subsidiary	1	72	–	–
Proceeds from the sale of Hudson Ranch		–	44	41
(Lodgements)/return of prudential deposits		(13)	(34)	(70)
Net cash used in investing activities		(38)	(124)	(296)
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from loans		482	300	546
Repayment of loans		(548)	(193)	(278)
Payment of lease liabilities		(4)	(2)	(5)
Dividends paid	4	(139)	(128)	(221)
Net cash (used in)/received in financing activities		(209)	(23)	42
Net increase/(decrease) in cash and cash equivalents held		(115)	12	84
Cash and cash equivalents at the beginning of the period		163	79	79
Cash and cash equivalents at the end of the period		48	91	163
Cash balance comprises:				
Cash balance at the end of the period		48	91	163

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS.

For the six months ended 31 December 2021

NOTE 1. ACCOUNTING POLICIES

(1) REPORTING ENTITY

Mercury NZ Limited ("the Company") is incorporated in New Zealand, registered under the Companies Act 1993, an FMC reporting entity under the Financial Markets Conduct Act 2013, and is listed on the NZX Main Board and on the ASX, with foreign exempt listed status.

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

The majority shareholder of Mercury NZ Limited is Her Majesty the Queen in Right of New Zealand ("the Government"), providing it with significant potential influence over the Group. The liabilities of the Group are not guaranteed in any way by the Government or by any other shareholder.

(2) BASIS OF PREPARATION

The Group financial statements have been prepared in accordance with the New Zealand equivalent to International Accounting Standard 34 *Interim Financial Reporting* ("NZ IAS 34"). In complying with NZ IAS 34, these statements comply with International Accounting Standard 34 *Interim Financial Reporting.*

These Group financial statements, including the accounting policies adopted, do not include all the information and disclosures required in the annual financial statements. Beyond those disclosed below, the Group financial statements have been prepared using the same accounting policies as, and should be read in conjunction with, the Group's annual financial statements for the year ended 30 June 2021.

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.

COVID-19 has not had a material impact on the operations or financial performance of the Group.

Trading in Carbon Units

In the current reporting period, Management began trading in carbon units. This has led to the adoption of a new accounting policy in relation to the treatment of carbon units. For carbon units held as at 30 June 2021, Management identified 685,000 carbon units (or $26.4 million) as trading units, and reclassified them from Intangible Assets to Inventories on 1 July 2021. The accounting policy relating to carbon units that remain in Intangible Assets is consistent to prior reporting periods. Carbon units classified as Inventories are initially recognised at cost, with any fair value movement at the end of each reporting period recognised in profit or loss.

Software-as-a-Service ("SaaS") Arrangements

As disclosed in the Group's annual financial statements for the year ended 30 June 2021, the Group changed its accounting policy on intangible software in the previous reporting period following an agenda decision for the configuration and customisation costs incurred relating to a SaaS arrangement published by the International Financial Reporting Standards ("IFRS") Interpretations Committee. The Group applied the new accounting policy retrospectively in the previous annual financial statements. During the current period, the Group restated the comparatives for the six months ended 31 December 2020.

The effect of SaaS arrangements in the comparative financial information are summarised in the table below:

	Balance as at 1 July 2020 $M	Adjustments $M	Restated balance as at 1 July 2020 $M	Unaudited 6 months ended 31 December 2020 $M	Adjustments $M	Restated unaudited 6 months ended 31 December 2020 $M
Consolidated Income Statement						
Total revenue				944	–	944
Total expenses				(650)	(4)	(654)
EBITDAF				294	(4)	290
Depreciation and amortisation				(110)	4	(106)
Change in the fair value of financial instruments				(36)	–	(36)
Gain on sale/impairments				41	–	41
Net interest expense				(23)	–	(23)
Profit before tax				166	–	166
Tax expense				(36)	–	(36)
Profit for the year attributable to owners of the parent				130	–	130
Consolidated Balance Sheet						
Intangible assets	78	(8)	70	77	(8)	69
Deferred tax liabilities	(1,202)	2	(1,200)	(1,160)	2	(1,158)
Retained earnings	(292)	6	(286)	(302)	6	(296)

Disposal of Investment in Tilt Renewables Limited ("Tilt") and Acquisition of Tilt New Zealand assets

In the Group's annual financial statements for the year ended 30 June 2021, the Group had classified its 19.9% investment in Tilt as held-for-sale. On 3 August 2021, the disposal was completed and the Group realised a net gain on sale of $367 million, made up of $603 million from the sale of 75 million shares at $8.035 per share, less the carrying value of the investment of $248 million, plus reclassified accumulated other comprehensive income attributable to Tilt of $21 million. The net gain on sale is disclosed in the Consolidated Income Statement as Gain/(loss) on disposal.

On 3 August 2021, the Group also acquired 100% of the New Zealand operations of Tilt, including the New Zealand subsidiaries Tararua Wind Power Limited, Waverly Wind Farm (NZ) Holding Limited, Waverly Wind Farm Limited, Tilt Renewables Insurance Limited and all contracts and rights held in Tilt that relate to the New Zealand business, for a consideration of $634 million. This includes Tilt's Tararua, Mahinerangi and Waipipi wind farms with an average annual generation of approximately 1,100 GWh, associated power purchase and asset management agreements, wind development options in New Zealand and debt relating to the Waipipi wind farm. Transaction costs of $9 million were incurred. The net gain is disclosed in the Consolidated Income Statement as Gain/(loss) on disposal.

The Group has completed its provisional purchase price allocation in accordance with the requirements of NZ IFRS 3 *Business Combinations.* The fair value allocated to the assets and liabilities classes upon acquisition are disclosed below:

NOTE 1. ACCOUNTING POLICIES (CONTINUED)

Acquisition consideration - by way of cash ($M)	634
	Fair value allocated as at 3 August 2021 ($M)
Property, plant and equipment (Generation assets)	1,032
Derivative financial instruments	(43)
Intangible assets	1
Right-of-use assets	16
Lease liabilities	(16)
Deferred tax liabilities	(192)
Receivables	73
Payables and accruals	(1)
Net borrowings (net of cash and cash equivalents and borrowings)	(236)
Net assets acquired	**634**

The Group did not recognise any goodwill or bargain purchase from the transaction. Subsequent to the acquisition, the Group repaid the debt relating to the Waipipi wind farm. From the acquisition date to the end of the reporting period, the newly acquired entities generated revenue of $30 million, derivatives gain of $5 million, operating expenses of $8 million, an EBITDAF of $27 million, and a profit before tax of $4 million.

NOTE 2. SEGMENT REPORTING

IDENTIFICATION OF REPORTABLE SEGMENTS

The operating segments are identified by management based on the nature of the products and services provided. Discrete financial information about each of these operating segments is reported to the Chief Executive, being the chief operating decision-maker, on a monthly basis, who assesses the performance of the operating segments on a measure of EBITDAF. Segment EBITDAF represents earnings before net interest expense, tax expense, depreciation and amortisation, change in the fair value of financial instruments, gain on sale and impairments by each segment inclusive of an allocation of central operating revenue and costs. Operating segments are aggregated into reportable segments only if they share similar economic characteristics.

TYPES OF PRODUCTS AND SERVICES

Generation/Wholesale

The generation/wholesale market segment encompasses activity associated with electricity production, electricity trading, generation development activities and the Group's share of associates earnings. It also includes revenue from the sale of electricity to both commercial & industrial customers and the retail segment.

Retail

The retail segment encompasses activity associated with sale of energy, and related services and products, to mass market customers in New Zealand.

Other Segments

Represents corporate support services which are not directly attributable to the generation/wholesale or retail segments.

Inter-segment

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

SEGMENT RESULTS

Restated six months ended 31 December 2020 (Unaudited)	Generation/ Wholesale $M	Retail $M	Other Segments $M	Inter–segment $M	Total $M
Sales - electricity generation	426	–	–	–	426
Sales to customers, net of hedging	275	372	–	(151)	496
Earnings of associates	8	–	–	–	8
Other revenue	10	4	–	–	14
Total revenue	719	376	–	(151)	944
Energy costs	(332)	(154)	–	151	(335)
Line charges	(40)	(144)	–	–	(184)
Other direct cost of sales, excluding third party metering	(14)	(5)	–	–	(19)
Direct costs of other revenue	–	(2)	–	–	(2)
Metering costs	(2)	(21)	–	–	(23)
Employee compensation and benefits	(17)	(15)	(7)	–	(39)
Maintenance expenses	(13)	(3)	–	–	(16)
Other expenses	(18)	(15)	(3)	–	(36)
Allocation of corporate overheads	(5)	(5)	10	–	–
Total expenses	(441)	(364)	–	151	(654)
Segment EBITDAF	278	12	–	–	290
Interest expense	(7)	–	(19)	–	(26)
Lease interest expense	–	–	(2)	–	(2)
Interest income	–	–	–	–	–
Interest capitalised to capital work in progress	5	–	–	–	5
Net interest expense	(2)	–	(21)	–	(23)
Gain on sale	41	–	–	–	41
Loss on disposal	–	–	–	–	–
Gain/(loss) on disposal	41	–	–	–	41

NOTE 2. SEGMENT REPORTING (CONTINUED)

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

Six months ended 31 December 2021 (Unaudited)	Generation/ Wholesale $M	Retail $M	Other Segments $M	Inter–segment $M	Total $M
Sales - electricity generation	378	–	–	–	378
Sales to customers, net of hedging	246	365	–	(143)	468
Earnings of associates	2	(2)	–	–	–
Other revenue	26	1	–	–	27
Total revenue	652	364	–	(143)	873
Energy costs	(287)	(149)	–	143	(293)
Line charges	(48)	(142)	–	–	(190)
Other direct cost of sales, excluding third party metering	(16)	(4)	–	–	(20)
Direct costs of other revenue	–	–	–	–	–
Metering costs	(2)	(20)	–	–	(22)
Employee compensation and benefits	(20)	(15)	(8)	–	(43)
Maintenance expenses	(20)	(3)	–	–	(23)
Other expenses	(19)	(22)	1	–	(40)
Allocation of corporate overheads	(4)	(3)	7	–	–
Total expenses	(416)	(358)	–	143	(631)
Segment EBITDAF	236	6	–	–	242
Interest expense	(9)	–	(22)	–	(31)
Lease interest expense	–	–	(1)	–	(1)
Interest income	–	–	–	–	–
Interest capitalised to capital work in progress	6	–	–	–	6
Net interest expense	(3)	–	(23)	–	(26)
Gain on sale	367	–	–	–	367
Loss on disposal	(2)	–	–	–	(2)
Gain/(loss) on disposal	365	–	–	–	365

NOTE 3. NON GAAP MEASURE – UNDERLYING EARNINGS

Underlying earnings after tax is presented to enable stakeholders to make an assessment and comparison of earnings after removing one-off and/or infrequently occurring events (exceeding $10 million of profit before tax, which represents material items), impairments, any change in the fair value of derivative financial instruments and gain/(loss) on disposal, all net of tax expense. Changes in the fair value of financial instruments are excluded from underlying earnings in order to align their impact when they mature with the underlying hedged items.

	Unaudited 6 Months 31 Dec 2021 $M	Unaudited 6 Months 31 Dec 2020 $M	Audited 12 Months 30 Jun 2021 $M
PROFIT FOR THE PERIOD	427	130	141
Change in the fair value of financial instruments	(7)	36	47
Fixed asset loss on disposal	2	–	15
Close-out of electricity swaps	65	–	–
Amortisation of acquired swap value	(15)	–	–
Hudson Ranch sale	–	(44)	(41)
Sale of share in Tilt Renewables Limited	(367)	–	–
Adjustments before tax expense	(323)	(8)	21
Tax expense	(16)	(7)	(17)
Adjustments after tax expense	(339)	(15)	4
Underlying earnings after tax	89	115	145

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

On 10 August 2021, the Group completed a deal with Norske Skog to close out their electricity swap that was out of the money for the Group. The Group recognised an impact before tax of $65 million. The deal also involved the Group novating electricity swaps held by the customer with other third parties. The amortisation of the novated swaps for the six months ended 31 December 2021 was $15 million.

NOTE 4. SHARE CAPITAL AND DISTRIBUTION

The share capital of the Company is represented by 1,400,012,517 ordinary shares (30 June 2021: 1,400,012,517) issued and fully paid. These shares do not have a par value, have equal voting rights and share equally in dividends and any surplus on winding up.

	Unaudited 31 Dec 2021 Number of shares (M)	Unaudited 31 Dec 2021 $M	Unaudited 31 Dec 2020 Number of shares (M)	Unaudited 31 Dec 2020 $M	Audited 30 Jun 2021 Number of shares (M)	Audited 30 Jun 2021 $M
Treasury shares						
Balance at the beginning of the period	39	100	39	101	39	101
Acquisition/(disposal) of treasury shares	–	–	–	–	–	(1)
Balance at the beginning and end of the period	39	100	39	101	39	100

	Cents per share	Unaudited 6 Months 31 Dec 2021 $M	Unaudited 6 Months 31 Dec 2020 $M	Audited 12 Months 30 Jun 2021 $M
Dividends declared and paid				
Final dividend for 2020	9.4	–	128	128
Interim dividend for 2021	6.8	–	–	93
Final dividend for 2021	10.2	139	–	–
		139	128	221

NOTE 5. FINANCIAL INSTRUMENTS

The Group's overall risk management programme focuses on the unpredictability of 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. Further information on the identified risks can be found in note 13 of the Group's annual financial statements for the year ended 30 June 2021.

Fair Values

The carrying amount of financial assets and liabilities recorded in the financial statements approximates their fair values as at 31 December 2021 except for: (i) the Fixed Rate Wholesale Bond, the Fixed Rate Wholesale Green bond, the Fixed Rate Retail Green bonds and the US Private Placement, the fair values for which have been calculated at $26 million (30 June 2021: $27 million), $130 million (30 June 2021: $137 million), $376 million (30 June 2021: $393 million) and $118 million (30 June 2021:

NOTE 5. FINANCIAL INSTRUMENTS (CONTINUED)

$118 million) respectively; (ii) the Capital Bonds, the fair value for which has been calculated at $305 million (30 June 2021: $307 million) and (iii) Australian Medium Term Note, the fair value for which has been calculated at $214 million (30 June 2021: $ nil). Fair values are based on quoted market prices and inputs for each bond issue. Refer to Note 8 for carrying amounts of borrowings.

Valuation techniques

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

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

As at 31 December 2021 all of the Group's financial instruments carried at fair value were categorised as level 2, except for electricity price derivatives. Electricity price derivative assets of $33 million were categorised as level 1 (30 June 2021: $49 million) and $66 million were categorised as level 3 (30 June 2021: $111 million). Further information on the identified risks can be found in note 13 of the Group's annual financial statements for the year ended 30 June 2021. Electricity price derivative liabilities of $31 million were categorised as level 1 (30 June 2021: $54 million) and $225 million were categorised as level 3 (30 June 2021: $370 million).

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

Financial instruments that use a valuation technique which includes non-market observable data include non-exchange traded electricity contracts which are valued using a discounted cash flow methodology. A combination of ASX market prices for the first three years and management's internal view of forward prices for the remainder of the contract's term are used. Management's internal view of forward prices incorporates a minimum price of $41/MWh and a maximum price of $144/MWh (30 June 2021: a minimum price of $89/MWh and a maximum price of $172/MWh) over the period in question (in real terms) and is determined by a demand/supply based fundamental model which takes account of current hydrological conditions, future inflows, an assessment of thermal fuel costs, anticipated demand and supply conditions and future committed generation capacity.

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

RECONCILIATION OF LEVEL 3 FAIR VALUE MOVEMENTS	Fair value through other comprehensive income			Fair value through profit or loss		
	Unaudited 6 Months 31 Dec 2021 $M	Unaudited 6 Months 31 Dec 2020 $M	Audited 12 Months 30 Jun 2021 $M	Unaudited 6 Months 31 Dec 2021 $M	Unaudited 6 Months 31 Dec 2020 $M	Audited 12 Months 30 Jun 2021 $M
Opening balance	(284)	(55)	(55)	25	26	26
New contracts	(54)	(8)	(52)	(7)	(2)	(4)
Matured contracts	10	(3)	2	5	8	8
Gains and losses						
Through the income statement	–	–	–	(3)	(9)	(5)
Through other comprehensive income	149	(61)	(179)	–	–	–
Closing balance	(179)	(127)	(284)	20	23	25

Deferred 'inception' gains/(losses)

There is an assumption that when derivative contracts are entered into on an arm's length basis, fair value at inception would be zero. The contract price of non exchange traded electricity derivative contracts 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:

	Unaudited 6 Months 31 Dec 2021 $M	Unaudited 6 Months 31 Dec 2020 $M	Audited 12 Months 30 Jun 2021 $M
Opening deferred inception gains/(losses)	27	(7)	(7)
Deferred inception gains/(losses) on new hedges	(79)	8	22
Deferred inception gains/(losses) realised during the period	(3)	–	12
Closing inception gains/(losses)	(55)	1	27

NOTE 6. PROPERTY, PLANT AND EQUIPMENT

	Unaudited 6 Months 31 Dec 2021 $M	Unaudited 6 Months 31 Dec 2020 $M	Audited 12 Months 30 Jun 2021 $M
Opening net book value	6,828	5,898	5,898
Additions in relation to the acquisition of Tilt New Zealand assets	1,048	–	–
Additions	69	131	209
Disposals	(3)	–	(15)
Net revaluation movement	–	–	938
Depreciation charge for the period	(129)	(95)	(202)
Closing net book value	7,813	5,934	6,828

NOTE 7. INVESTMENT AND ADVANCES TO ASSOCIATES AND JOINT ARRANGEMENTS (JOINT VENTURES AND JOINT OPERATIONS)

Investments include:

			Interest held			
Name of entity	**Principal activity**	**Type**	**Unaudited 31 Dec 2021**	**Unaudited 31 Dec 2020**	**Audited 30 Jun 2021**	**Country**
TPC Holdings Limited	Investment holding	Associate	25.00%	25.00%	25.00%	New Zealand
Tilt Renewables Limited	Electricity generation and development	Associate	–	19.92%	19.90%	New Zealand
NOW New Zealand Limited	Broadband ISP	Associate	48.46%	–	48.46%	New Zealand
Rotokawa	Steamfield operation	Joint Operation	64.80%	64.80%	64.80%	New Zealand
Ngā Awa Purūa	Electricity generation	Joint Operation	65.00%	65.00%	65.00%	New Zealand
EnergySource LLC	Investment holding	Joint Venture	20.86%	20.86%	20.86%	United States
EnergySource Minerals LLC	Mineral extraction	Joint Venture	20.26%	20.84%	20.84%	United States

	Associates			Joint ventures		
	Unaudited 6 Months 31 Dec 2021 $M	Unaudited 6 Months 31 Dec 2020 $M	Audited 12 Months 30 Jun 2021 $M	Unaudited 6 Months 31 Dec 2021 $M	Unaudited 6 Months 31 Dec 2020 $M	Audited 12 Months 30 Jun 2021 $M
Balance at the beginning of the period	77	328	328	9	–	–
Additions during the period	–	2	11	–	–	6
Share of earnings	–	8	16	–	–	6
Share of movement in other comprehensive income	7	(6)	28	–	–	–
Distributions received during the period	(2)	(56)	(58)	–	–	(3)
Reclassification to held for sale	–	–	(248)	–	–	–
Balance at the end of the period	82	276	77	9	–	9

NOTE 8. BORROWINGS

	Borrowing Currency Denomination	Maturity	Coupon	Unaudited 6 Months 31 Dec 2021 $M	Unaudited 6 Months 31 Dec 2020 $M	Audited 12 Months 30 Jun 2021 $M
Bank facilities	NZD	Various	Floating	160	45	–
Commercial paper programme	NZD	< 3 months	Floating	275	200	160
Wholesale / Credit wrapper	NZD	Sept-2021	Floating	–	300	300
USPP - US$30m	USD	Dec-2022	4.35%	39	39	39
Wholesale bonds	NZD	Mar-2023	5.79%	26	26	26
USPP - US$45m	USD	Dec-2025	4.60%	59	59	59
Green retail bonds	NZD	Sept-2026	2.16%	201	–	201
Green retail bonds	NZD	Sept-2027	1.56%	201	201	201
Australian Green bond - AU$200m	AUD	Nov-2028	2.92%	208	–	–
Green wholesale bonds	NZD	Oct-2030	1.92%	146	100	146
Capital Bonds	NZD	Jul-2049	3.60%	302	302	302
Lease liabilities	NZD			77	66	64
Deferred financing costs				(6)	(6)	(6)
Fair value adjustments				(23)	16	(1)
Carrying value of loans				1,665	1,348	1,491
Current				487	554	471
Non-current				1,178	794	1,020
				1,665	1,348	1,491

NOTE 8. BORROWINGS (CONTINUED)

The Group has $650 million of committed and unsecured bank loan facilities as at 31 December 2021 (30 June 2021: $500 million). In July 2021, Mercury also executed a $440 million bank facility agreement to fund the acquisition of Trustpower's retail business.

The Company 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 Standard & Poor's.

Mercury's Wholesale/Credit wrapper of $300 million was repaid in September 2021.

Following the establishment of the Green Financing Framework in August 2020 and the issuance of $550 million of green bonds in FY21, Mercury issued AU$200 million (NZ$207 million) of 7-year unsecured, unsubordinated fixed rate (2.918%) green bonds on 17 November 2021 . Mercury has tracked the $757 million of green bond proceeds in accordance with the Green Financing Framework.

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

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

The Group has entered into various lease contracts for the right to use land & buildings, motor vehicles and office equipment and is also deemed to be a lessee of transmission equipment.

NOTE 9. RELATED PARTY TRANSACTIONS

Majority shareholder

The majority shareholder of Mercury NZ Limited is the Crown, providing it with significant potential influence over the Group. All transactions with the Crown and other entities wholly or partly owned by the Crown are on normal commercial terms. Transactions cover a variety of services including trading energy, postal, travel and tax.

Transactions with related parties

Mercury NZ Limited has investments in subsidiaries, associates and joint arrangements, all of which are considered related parties.

As these are consolidated financial statements, transactions between related parties within the Group have been eliminated. Consequently, only those transactions between entities which have some owners external to the Group have been reported below:

	Transaction value		
	Unaudited 6 Months 31 Dec 2021 $M	**Unaudited 6 Months 31 Dec 2020 $M**	**Audited 12 Months 30 Jun 2021 $M**
Associates			
• Management fees and service agreements received	5	10	15
• Energy contract settlements received	5	7	26
• Service agreements paid	1	–	1
Joint operations			
• Management fees and service agreements received	7	7	22
• Energy contract settlements received	1	10	36

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

An advance to TPC Holdings Limited of $4 million (2021: $4 million) is interest free and repayable on demand subject to certain conditions being met.

The long-term advance to our Rotokawa Joint Venture partner of $5 million (2021: $6 million) carries a floating interest rate. Repayments under the advance are linked to the level of receipts under the geothermal energy supply agreement. There is no fixed repayment date, the agreement will terminate on payment of any outstanding balances.

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

	Transaction value		
	Unaudited 6 Months 31 Dec 2021 $000	**Unaudited 6 Months 31 Dec 2020 $000**	**Audited 12 Months 30 Jun 2021 $000**
Key management personnel compensation (paid and payable) comprised:			
• Directors' fees	530	493	991
• Benefits for the Chief Executive and Senior Management:			
Salary and other short-term benefits	3,170	3,241	6,233
Termination benefits	–	–	353
Share-based payments	281	266	712
	3,981	4,000	8,289

At the Annual Shareholders' Meeting held on 23 September 2021, the shareholders approved an increase of annual directors' fee.

Other transactions with key management personnel

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

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

A number of key management personnel provide directorship services to subsidiaries and other third party entities as part of their employment without receiving any additional remuneration, with exception to the Group's Chief Executive who was a member of the Board of Directors of Tilt Renewables Limited and directly received renumeration for his directorship services until Tilt Renewables Limited was no longer an associate of the Company and his directorship ceased. A number of these entities transacted with the Group, in all circumstances on normal commercial terms during the reporting period.

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

NOTE 10. COMMITMENTS AND CONTINGENCIES

Commitments	Unaudited 6 Months 31 Dec 2021 $M	Unaudited 6 Months 31 Dec 2020 $M	Audited 12 Months 30 Jun 2021 $M
Capital	195	299	247

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

Contingencies

The Group holds land and has interests in fresh water and geothermal resources that are subject to claims that have been brought against the Government.

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

The Group holds land at Maraetai, Waikato that is subject to a remedies hearing brought against the Government in the Waitangi Tribunal. The remedies hearing relates to an application seeking binding recommendations for the resumption of land at Pouakani, including the Group's land at Maraetai. A Crown Treaty settlement has been offered to Ngāti Kahungunu ki Wairarapa Tāmaki nui-ā-Rua Settlement Trust, which the Tribunal had indicated in a preliminary finding may be an appropriate recipient for the land (although that preliminary finding was set aside following a judicial review decision in the High Court, which remains subject to further appeal). The Crown and Ngāti Kahungunu ki Wairarapa Tāmaki nui-ā-Rua Settlement Trust have signed a settlement deed addressing the resumption claim. Legislation giving effect to the settlement deed has been introduced to Parliament, but has not yet been enacted. It is not yet known whether that settlement deed will result in the Trust and other Maori groups abandoning their claims to resumption of the land. The Group has received advice that a Tribunal decision on the matter, should the matter be remitted to the Tribunal for reconsideration, is unlikely to impair the Group's ability to operate its hydro assets.

A separate claim by the New Zealand Māori Council relating to fresh water and geothermal resources was lodged in 2012 with the Waitangi Tribunal. The Tribunal concluded that Māori have residual (but as yet undefined) proprietary rights in fresh water and geothermal resources and it will be for the Government to determine how any such rights and interests may best be addressed. The Tribunal has recently indicated its intention to progress to stage three of that inquiry, albeit the scope of stage three is still being considered in light of the Government's draft Natural and Built Environments Bill. The impact of this claim on the Group's operations is unknown at this time.

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

The Group has no other material contingent assets or liabilities.

NOTE 11. SUBSEQUENT EVENTS

The Board of Directors has approved an interim dividend of 8.0 cents per share to be paid on 1 April 2022 and has announced a dividend reinvestment plan.

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

On 21 June 2021, the Group announced that it had entered into binding agreements with Trustpower to acquire Trustpower's retail business. The transaction remains conditional on several matters, including completion of the proposed restructure of Tauranga Energy Consumer Trust ("TECT"), but is expected to be completed in the second half of this financial year.

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

Insurance claim in relation to the Kawerau geothermal power station outage

Following the unplanned outage at the Group's Kawerau geothermal power station, the Group submitted an insurance claim request for business interruption and material damage. On 14 January 2022, the Group received confirmation via the loss adjuster that all insurers have accepted cover. The Group continues to work with the insurers and loss adjuster to confirm the insurance due.

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

INFORMATION FOR SHAREHOLDERS.

Shareholder enquiries

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

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

Investor information

Our website at mercury.co.nz 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 numbers (when you log in for the first time). Select 'My Profile' and 'Communication Preferences' to update your details, or;

By contacting Computershare Investor Services Limited (see Directory for contact details).

DIRECTORY.

Board of Directors

Prue Flacks, Chair
Dennis Barnes
Hannah Hamling
Andy Lark
James Miller
Scott St John
Patrick Strange
Mike Taitoko

Executive Team

Vince Hawksworth,
Chief Executive

Lucie Drummond,
General Manager Sustainability

Phil Gibson,
General Manager Portfolio

Stewart Hamilton,
General Manager Generation

Julia Jack,
Chief Marketing Officer

William Meek,
Chief Financial Officer

Craig Neustroski,
General Manager Customer

Marlene Strawson,
General Manager People & Performance

Company Secretary

Howard Thomas,
General Counsel and Company Secretary

Investor Relations & Sustainability Enquiries

Tim Thompson,
Head of Treasury & Investor Relations

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

Credit Rating (re-affirmed November 2021)

Long term: BBB+
Outlook: Stable

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

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

Mercury