

NEWS RELEASE

Results reflect significant business change within half year

HY22 Financial Results Summary

	HY2022	HY2021	Change %
EBITDAF (\$M)	242	290	-17
NET PROFIT AFTER TAX (\$M)	427	130	228
UNDERLYING EARNINGS AFTER TAX (\$M)	89	115	-23
STAY-IN-BUSINESS CAPITAL EXPENDITURE (\$M)	20	23	-13
ELECTRICITY GENERATION (GWh)	3,745	3,320	13
INTERIM FULLY IMPUTED ORDINARY DIVIDEND (CENTS PER SHARE) – TO BE PAID ON 1 APRIL	8.0	6.8	18

22 February 2022 – A period of significant change for Mercury – including becoming New Zealand’s largest wind generator – shaped Mercury’s half year results to 31 December 2021, said Mercury Chief Executive, Vince Hawksworth.

The settlement of the Tilt Renewables transaction and the Turitea North wind farm reaching full generation, as well as the legacy Norske Skog contract close out, all shaped Mercury’s half year results as the company positions itself for a period of growth.

“Within the last six months, Mercury has transformed from a company with no wind generation to the largest wind generator in New Zealand,” Mr Hawksworth said.

In August, Mercury completed the acquisition of Tilt Renewables’ New Zealand wind farms (generating 482 GWh over the period), and within the remaining period progressively brought the Turitea North wind farm on stream (adding another 105 GWh over the period).

“Together these significantly diversify our revenue streams and position us well for an exciting period of growth as we head into an ever-accelerating pace of change with decarbonisation front and centre.”

The Turitea South wind farm is scheduled for completion in mid-2023, which will make Turitea New Zealand’s largest wind farm.

Meanwhile, the acquisition of Trustpower’s retail business will be another significant milestone for Mercury.

“This will accelerate Mercury’s retail strategy, which is centred on delivering utility solutions and creating more value for our customers.

“This acquisition also significantly increases our scale, allowing us to make meaningful investment in our underlying IT systems and ways of working to drive greater innovation, new products and experiences,” said Mr Hawksworth.

The High Court approved the Tauranga Energy Consumer Trust restructure in December with the transaction expected to be completed in the last quarter of FY22.



During the period Mercury also negotiated the early exit of a foundation hedge with Norske Skog. The settlement of the wider transaction and its associated accounting impacts reduced HY2022 EBITDAF by \$50m. Exiting this contract allows Mercury to recontract this volume at a price more reflective of the current market.

While positioning Mercury well for the future, collectively this activity has impacted the HY2022 result. HY2022 EBITDAF is \$242m, \$48m down on the prior year, recognising acquisition accounting for Tilt and the close-out of the Norske Skog legacy contract.

Net profit after tax was \$427 million, up \$297 million on the previous year largely due to the \$367 million net gain on sale of Mercury's 19.9% Tilt Renewables shareholding. Underlying earnings which normalise net profit after tax fell 23% to \$89m.

"The proceeds from the sale were effectively reinvested into furthering our decarbonisation ambitions, with the associated acquisition of Tilt's New Zealand operations and future development options."

Mercury acquired Tilt's New Zealand operations including future development options for an enterprise valuation of NZ\$797m in August 2021, funded from the sale of its Tilt shareholding and a cash cost of NZ\$634 million. This contributed to \$685 million of growth investment in the half.

Shareholders can further support our growth through Mercury's newly established Dividend Reinvestment Plan.

CHALLENGING OPERATING CONDITIONS CONTINUE

"Despite much positive change, the six months was not without its challenges. Sustained dry conditions across the Waikato catchment reduced hydro generation. Careful lake management has been critical to manage electricity portfolio risks, and that prudence is reflected in our results."

Hydro generation was 91 GWh down on the prior comparable period (where conditions were also dry) as a result.

The 44-day unplanned outage at Kawerau geothermal power station also extended into the start of the financial year (ending on 20 July) and coincided with high spot prices.

"These challenging conditions reinforce the importance of building resilience in our business and our people."

Mr Hawksworth said it was pleasing to see Mercury's Thrive programme, focussed on building operational excellence as a mindset, continue to deliver value, tracking well against the \$30 million EBITDAF benefit signalled for FY22.

DECARBONISATION SHAPING MERCURY'S FUTURE

Mercury Chair, Prue Flacks said, "Ensuring the transition to a renewable future is equitable is essential. Balancing affordability and security is a key consideration for the electricity sector's contribution to the decarbonisation challenge.

"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.

"However, regulatory uncertainty facing the sector is a challenge. We agree with the Government's position that climate change must be a priority but are increasingly concerned about the potential for policy or regulatory change that unintentionally undermines this position and jeopardises New Zealand's decarbonisation goals.

"A good example of this is our resource management system, which needs to support renewable generation development if we are to decarbonise at a pace that becomes more urgent by the day," she said.

OTHER OPERATIONAL HIGHLIGHTS

- Enhancing existing generation including \$30 million of rebalancing works at the Rotokawa geothermal field delivering an additional 7MW on average each year; and successful trial of CO₂ reinjection at Ngātamariki showing promising signs for reducing CO₂ emissions.
- Greater focus on supporting customers experiencing hardship including progress on Mercury's customer care approach through a collaborative approach with community, social and government agencies.



- Customer connections holding steady amidst high levels of competition at 327,000, ending a period of declining market share. A clear focus on delivering value to customers, including the 'Move with Mercury' campaign, contributed to this outcome.
- Collaborating with industry and the public on the energy transition initiatives like the Aotearoa Circle Low Carbon Energy Roadmap.
- Building out our COVID-19 preparedness and resilience to sustain critical business operations in a rapidly moving situation. Mercury has also been involved in the successful pilot of rapid antigen testing and introduction across the business of an enterprise-wide vaccination policy.
- Sustained low TRIFR (Total Reportable Incident Frequency Rate) of 0.25 in the six-month period and no serious harm injuries over the period, despite significant works at generation sites.

INTERIM DIVIDEND

The Board has declared a fully imputed interim dividend of 8.0 cents per share, representing an increase of 18% on the HY21 dividend reflecting the expected lift in earnings, and announced a Dividend Reinvestment Plan which is intended to be underwritten for this dividend.

GUIDANCE

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.

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

FY22 stay-in-business capex guidance remains at \$70 million, and FY22 ordinary dividend guidance remains at 20.0cps, fully imputed, representing a 18% increase on FY21 and the 14th consecutive year of ordinary dividend increases.

ENDS

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ABOUT MERCURY NZ LIMITED

Mercury's mission is energy freedom. Our purpose is to inspire New Zealanders to enjoy energy in more wonderful ways and our goal is to be New Zealand's leading energy brand. We focus on our customers, our people, our partners and our country; maintain a long term view of sustainability; and promote wonderful choices. Mercury is energy made wonderful.

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