

# FINANCIAL RESULTS.

SIX MONTHS ENDED 31 DECEMBER 2021

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Chief Executive

22 February 2022

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# HY2022 RESULT REFLECTS SIGNIFICANT CHANGE IN THE PERIOD

## TILT NZ ACQUISITION

Acquired five operating wind farms which combined with Turitea North make Mercury NZ's largest wind generator<sup>1</sup>

## TURITEA OPERATING

All 33 turbines in Turitea North operating, generating 105GWh in HY2022; Southern section civil works underway

## TRUSTPOWER RETAIL

Trustpower Retail acquisition progressing with several key milestones reached; integration team established

## \$242m EBITDAF

Down \$48m versus HY2021 reflecting lower hydro generation, Kawerau outage impacts and Norske Skog partially offset by added wind

## HYDRO STORAGE MANAGED

Hydro storage lifted despite lower inflows in preparation for expected dry conditions in 2H-FY2022

## THRIVE

Evolving our culture and the way we work to deliver FY2022 continuous improvement target of \$30m

## FY2022 GUIDANCE

\$570m reflecting HY2022 conditions and Tilt & Trustpower acquisition accounting

## 8cps INTERIM DIVIDEND

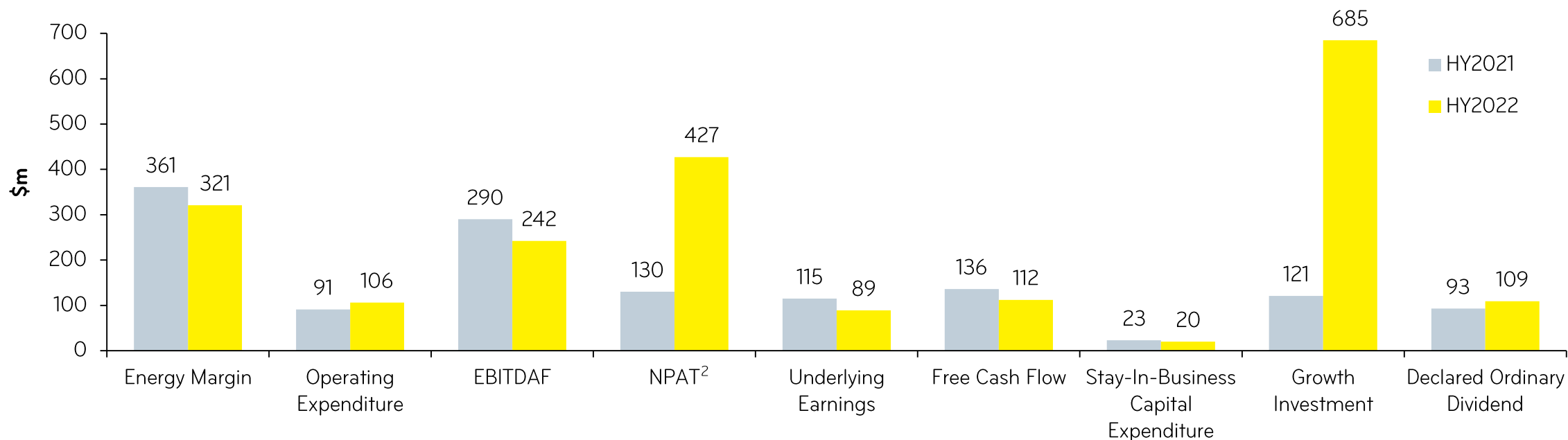
Increase of 18% versus HY2021; full-year ordinary dividend guidance maintained at 20cps

## CAPITAL MANAGEMENT

Dividend Reinvestment Plan announced, intent to underwrite for interim dividend



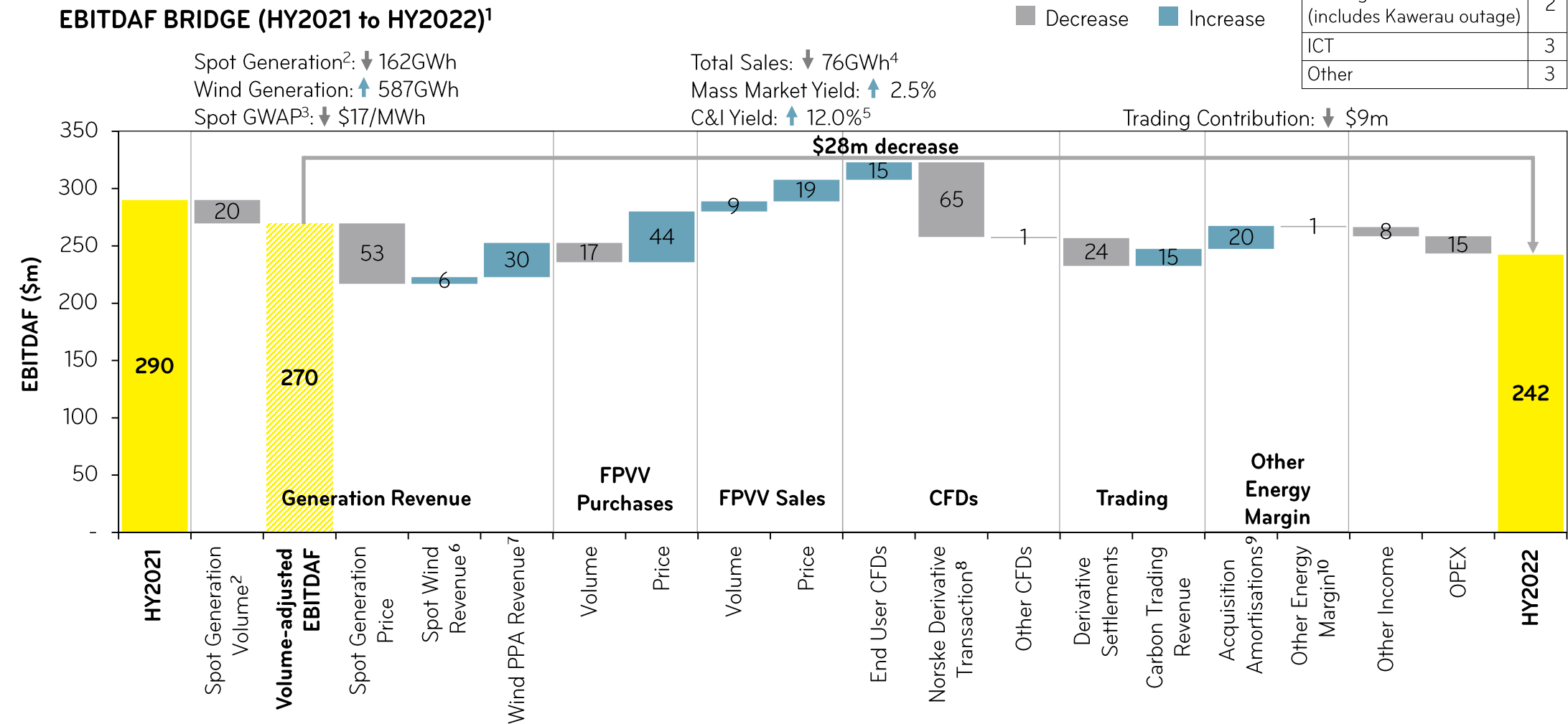
# HY2022 RESULT REFLECTS SIGNIFICANT CHANGE IN THE PERIOD<sup>1</sup>



- > Energy Margin, EBITDAF and Free Cash Flow down versus HY2021 reflecting decreased hydro generation, Kawerau outage and Norske Skog transaction<sup>3</sup>
- > Operating Expenditure up versus HY2021 mainly due to costs relating to added wind generation and inflation
- > NPAT up as \$367m net gain on sale of Tilt Renewables shares recognised
- > Growth Investment increased due to acquisition of Tilt Renewables' New Zealand assets (net consideration of \$634m)



# HY2022 REFLECTS CHANGES AND NORSKE SKOG TRANSACTION



<sup>1</sup> Figures do not add up exactly due to rounding

<sup>3</sup> Generation-Weighted Average Price received for hydro and geothermal

<sup>5</sup> Includes Fixed Price Variable Volume (FPVV) sales and End User Contracts for Differences (CFDs)

<sup>7</sup> Includes generation from Taranaki, Mahinerangi and Waipipi wind farms

<sup>9</sup> For further detail on acquisition amortisation see slides 21-22 in the Appendix

<sup>2</sup> Includes generation from hydro and geothermal

<sup>4</sup> Includes both physical and financial sales

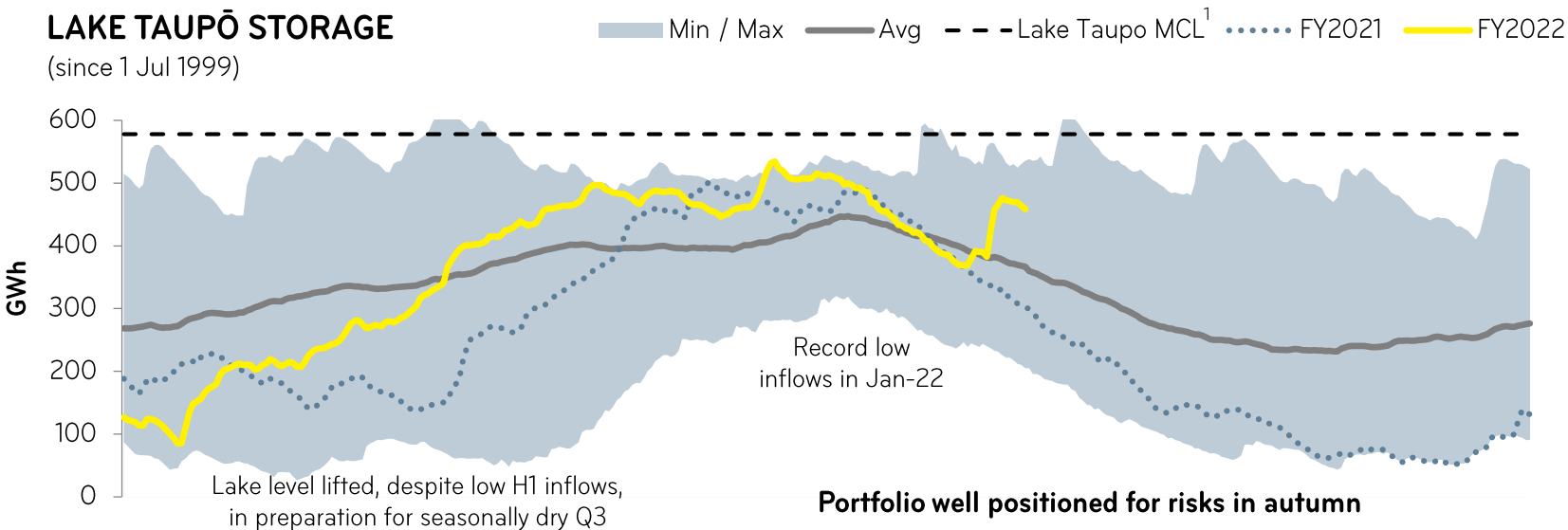
<sup>6</sup> Includes generation from Turitea wind farm

<sup>8</sup> For further detail on this transaction see slide 21 in the Appendix

<sup>10</sup> Includes ancillary services & gas purchases and sales



# HYDRO GENERATION REDUCED DUE TO LOW INFLOWS AND HYDRO MANAGEMENT



| Month End                                              | Jun  | Jul   | Aug   | Sep   | Oct   | Nov   | Dec  | Jan   | Feb <sup>5</sup> | Mar   | Apr   | May | Jun |
|--------------------------------------------------------|------|-------|-------|-------|-------|-------|------|-------|------------------|-------|-------|-----|-----|
| Hydro Generation - Delta to Average <sup>2</sup> (GWh) |      | -67   | -74   | -89   | -72   | -9    | -8   | -14   | -34              |       |       |     |     |
| Waikato Inflows - Delta to Average <sup>3</sup> (GWh)  |      | -27   | -69   | -27   | -48   | -88   | 18   | -145  | 60               |       |       |     |     |
| Taupo Storage - Delta to Average <sup>2</sup> (GWh)    | -145 | -81   | -54   | 45    | 98    | 61    | 75   | -20   | 92               |       |       |     |     |
| Hydro GWAP/TWAP                                        |      | 1.12  | 1.42  | 1.20  | 1.24  | 1.11  | 1.20 | 1.11  | 1.26             |       |       |     |     |
| Spot Price - Otahuhu (\$/MWh)                          |      | \$191 | \$156 | \$97  | \$74  | \$92  | \$65 | \$163 | \$157            |       |       |     |     |
| Futures Price (M-3 <sup>4</sup> ) Otahuhu (\$/MWh)     |      | \$287 | \$328 | \$182 | \$121 | \$118 | \$96 | 105   | \$147            | \$136 | \$177 |     |     |

Winter futures prices elevated with May at \$182/MWh and June at \$189/MWh as at 17 Feb 2022

Source: NZXHydro, WITS, ASX

<sup>1</sup> Maximum Control Level  
<sup>3</sup> Monthly average since July 1927  
<sup>5</sup> To 20 Feb 2022 inclusive

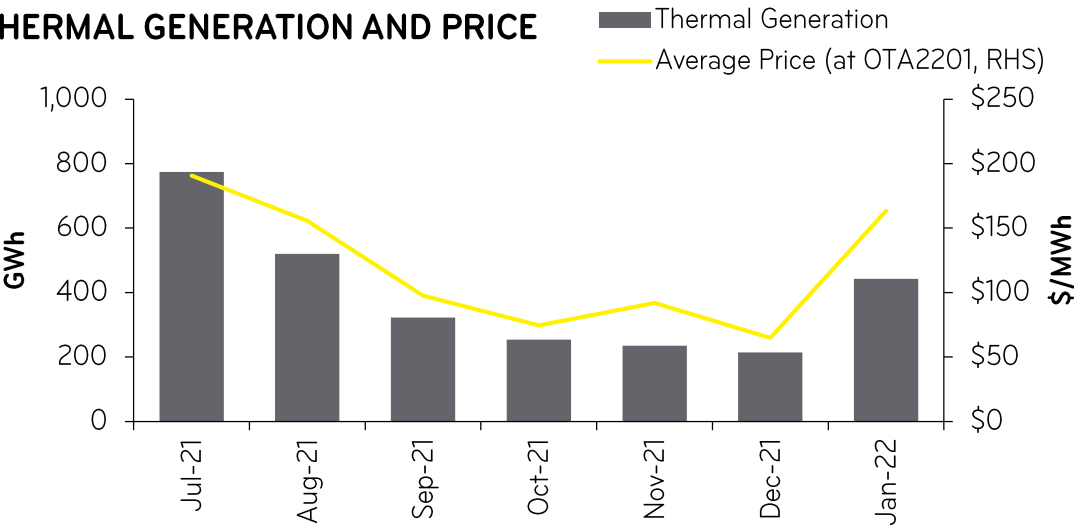
<sup>2</sup> Monthly average since July 1999  
<sup>4</sup> Closing price 3 months prior

>50GWh above average      Above \$100/MWh  
>50GWh below average      Above \$200/MWh

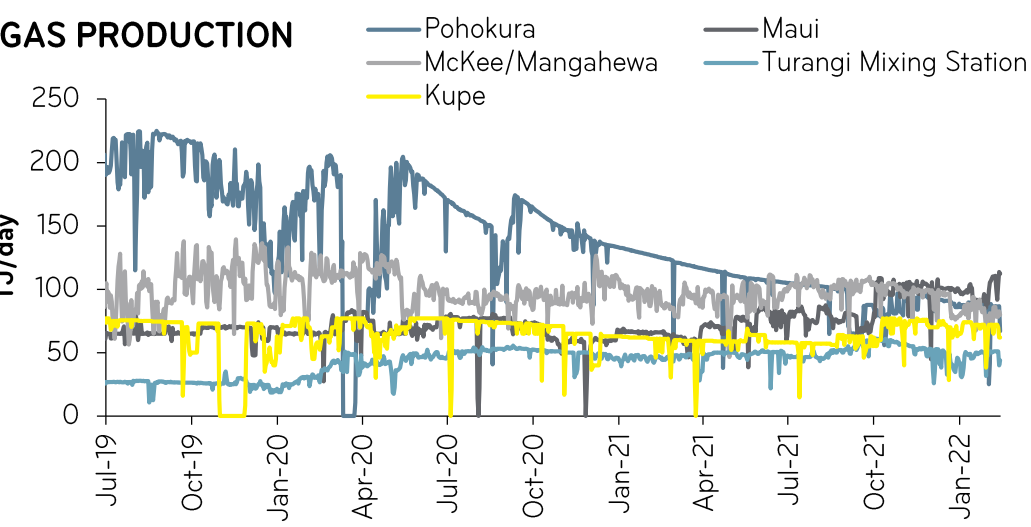


# HIGH SPOT PRICES REFLECT THERMAL UTILISATION AND FUEL COSTS

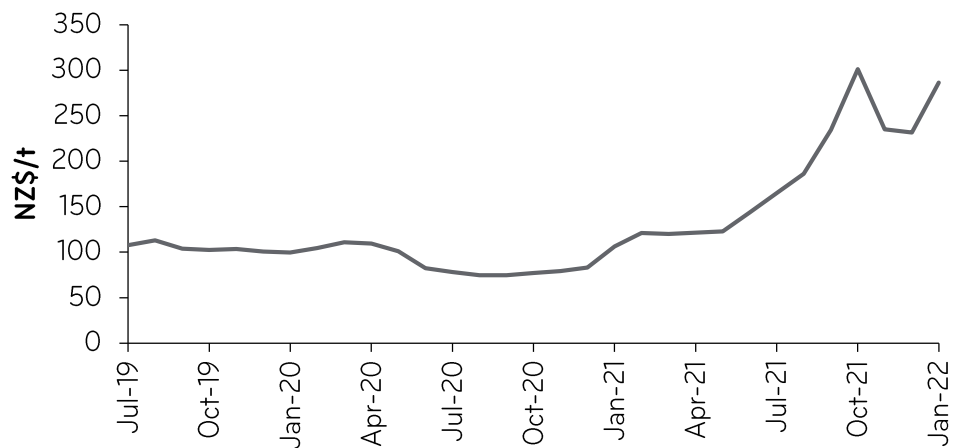
THERMAL GENERATION AND PRICE



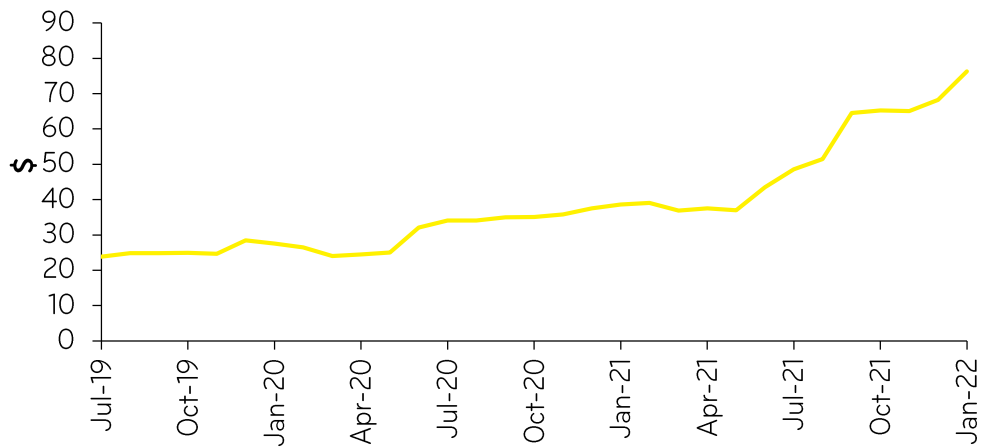
GAS PRODUCTION



COAL PRICE<sup>1</sup>

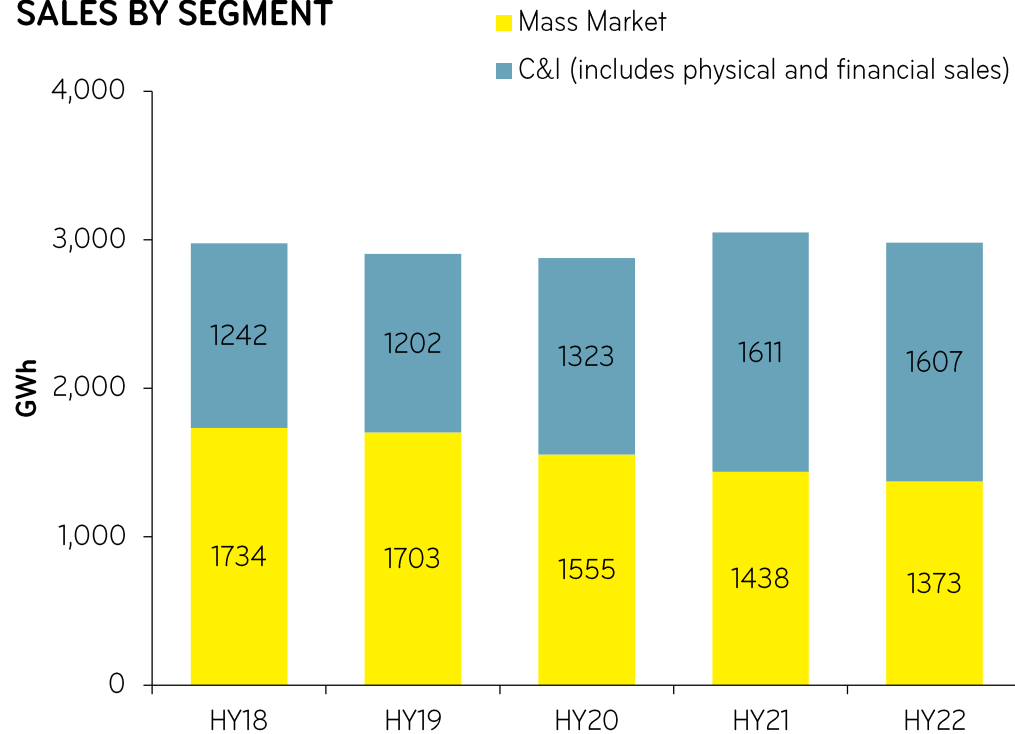


NZU CARBON PRICE

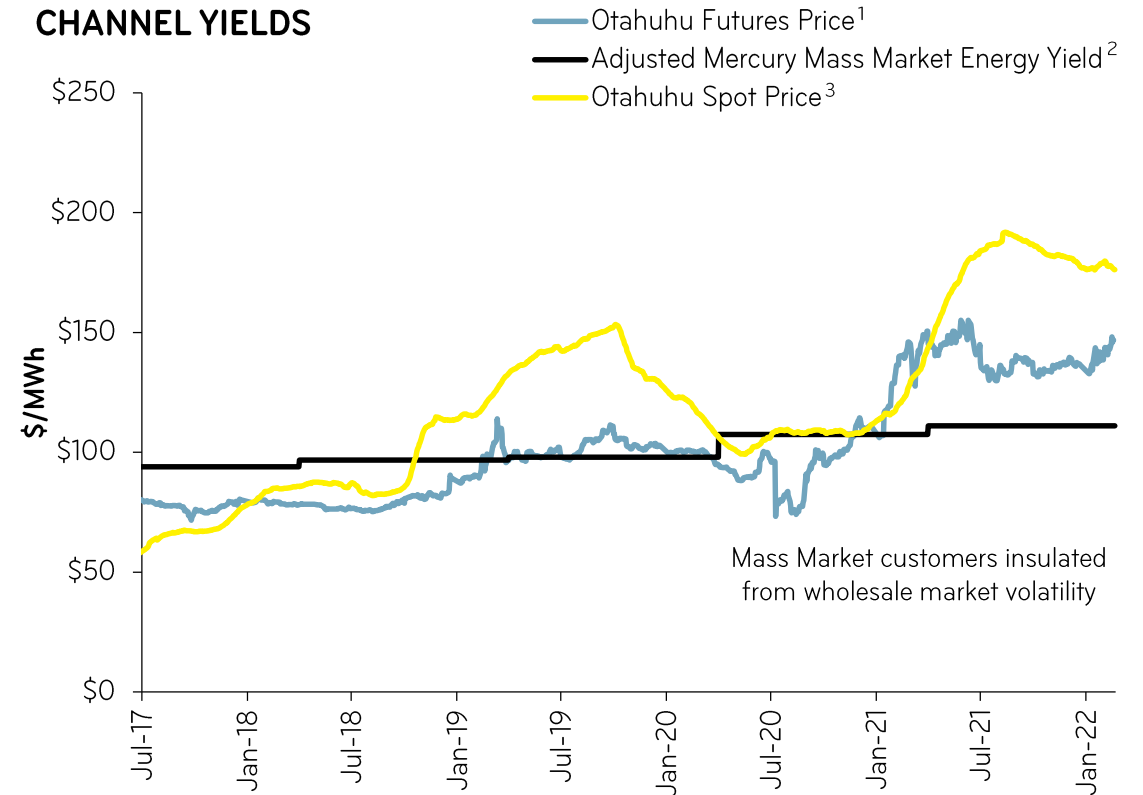


# RETAIL MARKET REMAINS COMPETITIVE WITH MARGINS UNDER PRESSURE

## SALES BY SEGMENT



## CHANNEL YIELDS



Source: ASX, WITS, Mercury

- > Mass Market sales volumes decreased versus HY2021, but expected to stabilise across FY2022
  - > Electricity customer connections remained steady across HY2022, decreasing by 1,000 across the period to 327,000
- > Despite pressure on retail margins, as wholesale prices remain elevated, churn remains at 19%<sup>4</sup>

<sup>1</sup> Two-year forward price starting three quarters ahead

<sup>2</sup> Adjusted for indicative average losses, profile and cost to operate

<sup>3</sup> Rolling 12-monthly average

<sup>4</sup> 12-monthly rolling average churn from all switch types



# REGULATORY DEVELOPMENTS

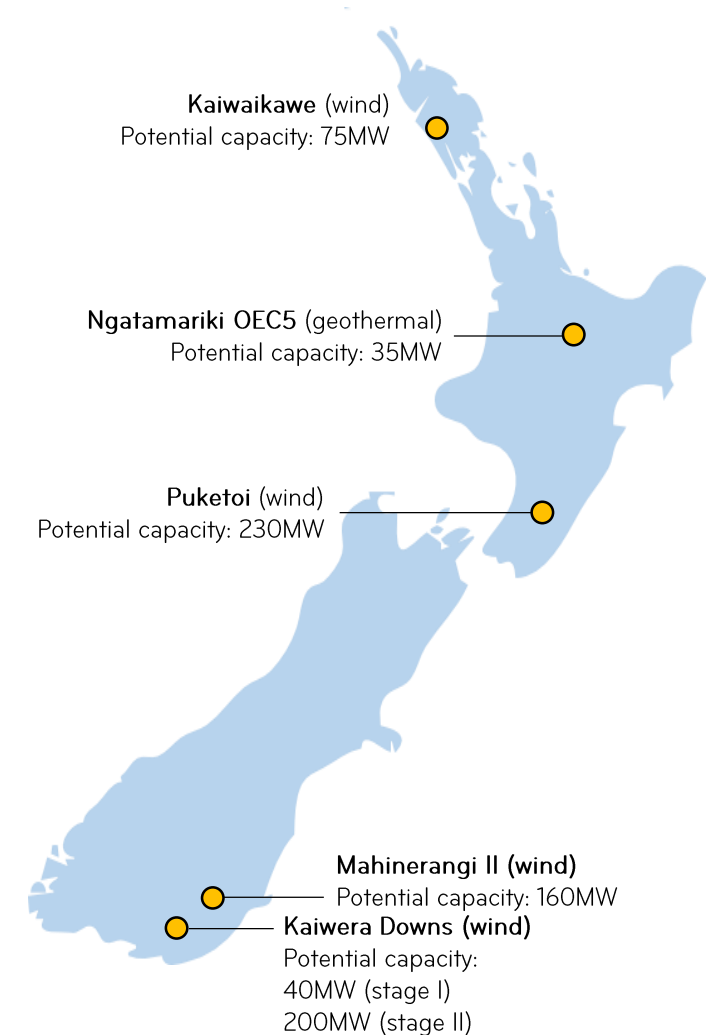
- > Electricity Authority advice to Feb-22 select committee – integrated gentailers not the key issue behind wholesale market volatility
  - > Market signaling more generation required as thermal fuel costs increase and New Zealand moves to decarbonise and electrify
  - > Industry responding to price signals with ~2.8 TWh of new renewable generation under construction<sup>1</sup> and a further ~1.5 TWh being developed
- > 2021 proposed Emissions Reductions Plan positive for electricity sector, Mercury supports focus on renewable energy transition, economy-wide targets and development of a national energy strategy
- > Regulatory focus on supporting the transition to a low carbon economy, including participating in:
  - > Discussions on the evolution in market design for an orderly, adaptive transition to 100% renewable electricity; and
  - > New Zealand Battery Project, particularly as recent OECD report cautions Onslow could undermine least cost decarbonisation abatement
- > Natural and Built Environments Act essential to support generation development work required



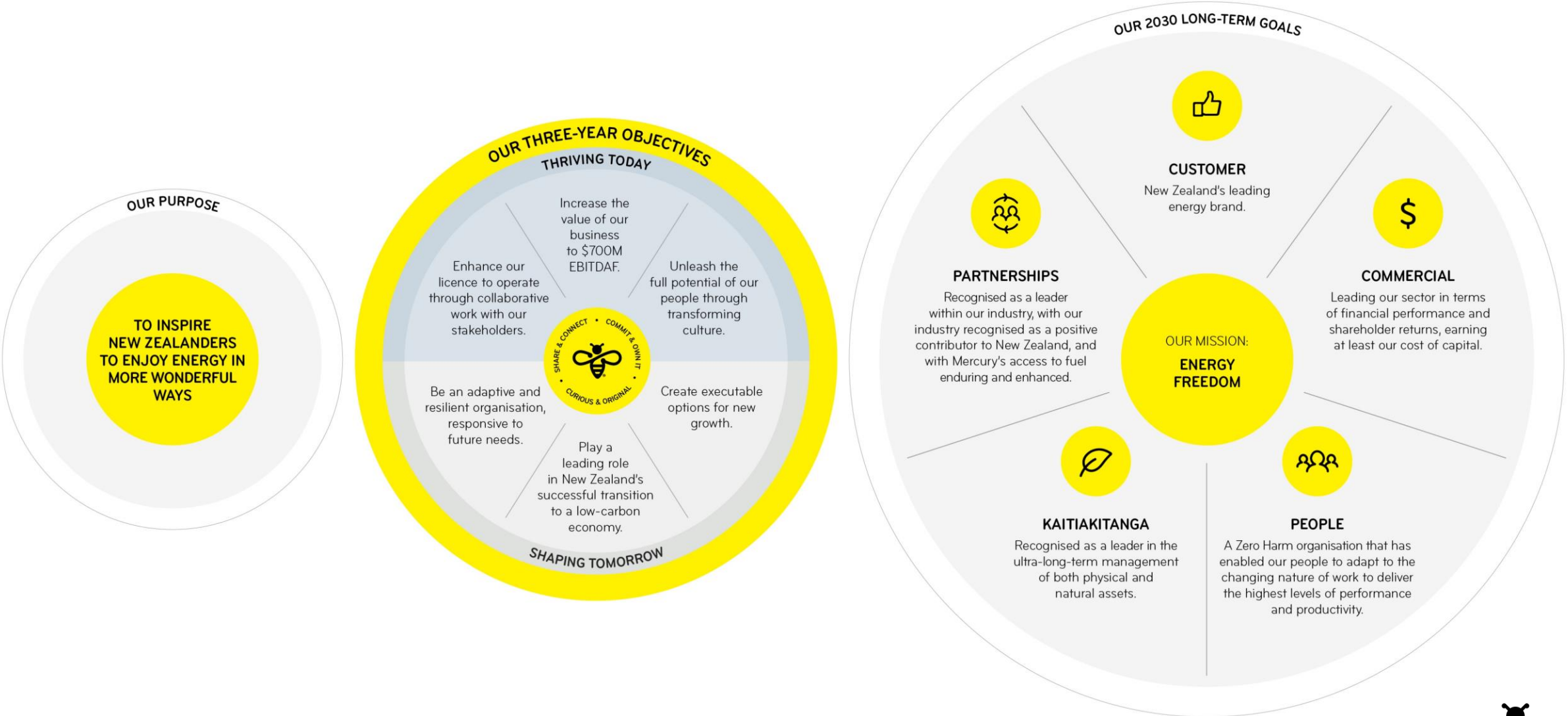
# MERCURY ADVANCING GENERATION DEVELOPMENT OPPORTUNITIES

| Development Options                                                            | Potential Capacity (est.) | Commentary                                                                                                 |
|--------------------------------------------------------------------------------|---------------------------|------------------------------------------------------------------------------------------------------------|
| Puketoi                                                                        | ~230MW                    | Consented lapse period extended to 2031<br>Constructability work and consent enhancements being progressed |
| Kaiwaikawe                                                                     | ~70MW                     | Resource consent hearing complete, decision pending<br>PPA agreed with Genesis                             |
| Mahinerangi II                                                                 | ~160MW                    | Consented                                                                                                  |
| Kaiwera Downs Stage 1                                                          | ~40MW                     | Constructability work underway                                                                             |
| Kaiwera Downs Stage 2                                                          | ~200MW                    | Consented                                                                                                  |
| Ngatamariki                                                                    | ~35MW                     | Initial feasibility studies for 5 <sup>th</sup> unit                                                       |
| Mercury also holds a portfolio of early stage options in addition to the above |                           |                                                                                                            |

- > Advancing development options in response to market price signals and need to support decarbonisation
  - > Procurement and construction cost pressure increasingly impacting project economics
- > Appropriate policy settings critical to meet decarbonisation goals
  - > Need for co-ordinated policy (e.g. RMA) that recognises electricity as the platform for other industries to decarbonise



# STRATEGIC FRAMEWORK LINKING THREE-YEAR OBJECTIVES WITH LONG-TERM GOALS



# DELIVERING ON STRATEGIC FRAMEWORK

| Thriving Today                                                                                                                                                                                   |                                                                                                                                             |                                                                                                                                   |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------|
| Enhance our license to operate through collaborative work with our stakeholders                                                                                                                  | Increase the value of our business to \$700m EBITDAF                                                                                        | Unleash the full potential of our people through transforming culture                                                             |
| <p>Zero high severity health and safety incidents</p> <p>TRIFR<sup>3</sup> decreased from 1.49 to 0.25</p> <p>Completed stakeholder audit ensuring we incorporate feedback into our approach</p> | <p>Total Shareholder Return<sup>1</sup> -4%</p> <p>Interim Dividend 8cps</p> <p>Tilt NZ wind farms acquired generating 482GWh in HY2022</p> | <p>Culture Index<sup>2</sup> increased from 72% to 75%</p> <p>Whakapuāwai program developing plan to evolve Mercury's culture</p> |

| Shaping Tomorrow                                                                                                                                                                                                                                        |                                                                                                                                                                                                                                                                                                                                |                                                                                                                                                                                                                                          |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Be an adaptive and resilient organisation responsive to future needs                                                                                                                                                                                    | Play a leading role in New Zealand's successful transition to a low carbon economy                                                                                                                                                                                                                                             | Create executable options for new growth                                                                                                                                                                                                 |
| <p>Technology platform initial review completed</p> <p>Resilient systems enabled smooth transition to different working conditions during COVID-19 lockdown</p> <p>Thrive initiative looking to embed continuous improvement as part of our culture</p> | <p>All turbines at Turitea North operating, helping to make Mercury the largest wind generator in New Zealand<sup>4</sup></p> <p>Part of Low Carbon Energy Roadmap initiative working to secure best possible energy transition outcomes</p> <p>Reducing generation emissions through CO2 reinjection trial at Ngātamariki</p> | <p>Advancing generation development opportunities at Kaiwaikawe, Kaiwera Downs 1, Puketo and Ngātamariki</p> <p>Trustpower Retail acquisition nearly complete</p> <p>Rotokawa upgrade project expected to deliver average 7MW uplift</p> |

<sup>1</sup> Over the 12 months to 31 December 2021

<sup>2</sup> Index based on five questions looking at how our culture is moving in Mercury's quarterly staff survey

<sup>3</sup> Total Recordable Injury Frequency Rate per 200,000 hours for the 12 months to 31 December 2021; includes employees and onsite contractors

<sup>4</sup> Based on grid-connected wind energy generation in December 2021 and January 2022



# TURITEA NORTH OPERATING WITH SOUTH WORKS UNDERWAY

- > All 33 turbines now operating at Turitea North, generating 105GWh<sup>1</sup> in HY2022
- > Turitea South expected completion remains mid-CY2023
- > Total project forecast spend increased to \$480m<sup>2</sup>, \$16m above initial forecast due to increased costs associated with:
  - > Transmission line ground conditions
  - > COVID-19 delays
  - > Other predominantly delay-related costs
- > Total project spend of \$368m<sup>2</sup> as at end of HY2022 with \$48m<sup>2</sup> in the period
- > Discussions with contractor regarding timeline, claims and liquidated damages unresolved



Turbines at Turitea North



Turitea South access road construction between turbines 36 and 37



# TRUSTPOWER RETAIL ACQUISITION UPDATE

- > Acquisition has passed several key milestones including Trustpower shareholder approval, Commerce Commission approval and High Court approval of TECT Trust Deed changes
- > Transaction completion dependent on TECT change timing, expected to occur in Q4-FY2022
- > Integration team established focusing on:
  - > Integration of systems and processes
  - > Change management to minimise customer impacts
  - > Transition of 500+ Tauranga-based staff
- > Significant amount of work delivered in a virtual environment
- > Expected FY22 net EBITDAF contribution of \$5m with \$10m revenue being offset by \$5m integration costs<sup>1</sup>
- > Accounting adjustment upon acquisition<sup>1</sup> will lead to \$25m EBITDAF decrease in FY2022



# A CULTURE OF CONTINUOUS IMPROVEMENT

- > Mercury has targeted \$30m of benefits in FY22 along with changes to the way we work to embed continuous improvement as part of our culture
  - > Despite challenges through the year and difficulties collaborating through COVID lockdowns, Mercury remains on track to deliver on the FY22 ambition
  - > Some initiatives have been delayed but others have yielded better than expected results e.g. carbon trading
- > Mercury thrives with all our people living our attitudes of 'curious & original', 'share & connect' and 'commit & own it'. Examples include:
  - > Commercial capability – enable our people to make good commercial decisions everyday with support, useful resources and education
  - > Leveraging our data – planning tools to help best utilise water through the river chain; provide customers with high bill comms before their bill
  - > Ways of working – enabling more agile ways of working with the Thrive programme and delivery
- > The integration of the Trustpower Retail business provides a great opportunity to leverage and build on these changes to the way we work



## OTHER ITEMS

- > Mercury has committed to a drilling campaign with Iceland Drilling commencing in FY2023
  - > Involves 8 wells being drilled across FY23-24 with associated increase in stay-in-business capex of ~\$65m in each year
- > Partial payment of insurance receipts from Kawerau outage likely in 2H-FY2022
  - > Excluded from FY2022 guidance due to uncertainty around exact amount and timing
  - > Additional outage will be required to install new parts in CY2023, currently estimated at 40 days duration



# CAPITAL STRUCTURE FLEXIBILITY ENABLES GROWTH

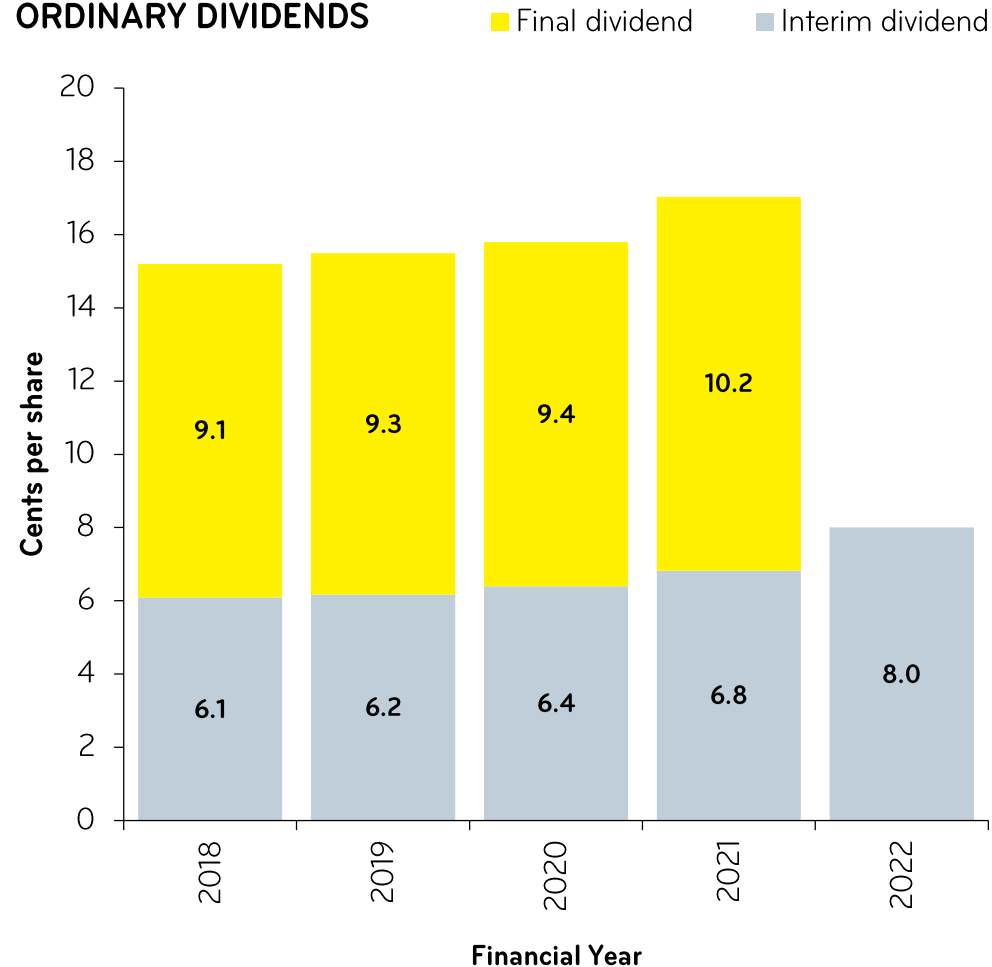
- > Debt / EBITDAF expected to peak in FY2022 following the acquisition of the Trustpower Retail business and prior to the full year contribution of generation development and acquisitions completed within the year
- > S&P Global re-affirmed Mercury's credit rating of BBB+/stable in November 2021 acknowledging the capacity within Mercury's capital structure to fund announced investments
  - > Mercury targets Debt/EBITDAF of between 2-3x, consistent with our BBB+ rating
- > To provide additional flexibility going forward, Mercury:
  - > has announced a Dividend Reinvestment Plan effective from the FY2022 interim dividend
  - > intends to have the Dividend Reinvestment Plan underwritten for the FY2022 interim dividend
  - > is considering a capital bond issue in H2-FY2022 with intermediate (50%) equity credit from S&P Global

|                               | 30 June 2021 | 30 June 2020 | 30 June 2019 | 30 June 2018       | 30 June 2017 | 30 June 2016 |
|-------------------------------|--------------|--------------|--------------|--------------------|--------------|--------------|
| Net debt (\$m)                | 1,329        | 1,149        | 1,096        | 1,264 <sup>2</sup> | 1,038        | 1,068        |
| Debt/EBITDAF (x) <sup>1</sup> | 2.5          | 2.0          | 1.9          | 1.9                | 1.8          | 2.0          |
| Issuer Credit Rating          | BBB+/stable  | BBB+/stable  | BBB+/stable  | BBB+/stable        | BBB+/stable  | BBB+/stable  |
| Ordinary dividend             | 17.0cps      | 15.8cps      | 15.5cps      | 15.1cps            | 14.6cps      | 14.3cps      |



# HY2022 DIVIDEND – DIVIDEND REINVESTMENT PLAN ANNOUNCED

## ORDINARY DIVIDENDS



## Interim Dividend

> 8cps (fully-imputed), up 18% from HY2021

## Dividend Reinvestment Plan (DRP)

- > DRP to apply from interim dividend with a discount of 2.5%
- > Mercury intends for the Dividend Reinvestment Plan to be underwritten for the FY2022 interim dividend, where shares not taken up by shareholders would be placed to an underwriter on identical terms
- > Shares will be sourced from Treasury Stock currently held by the company

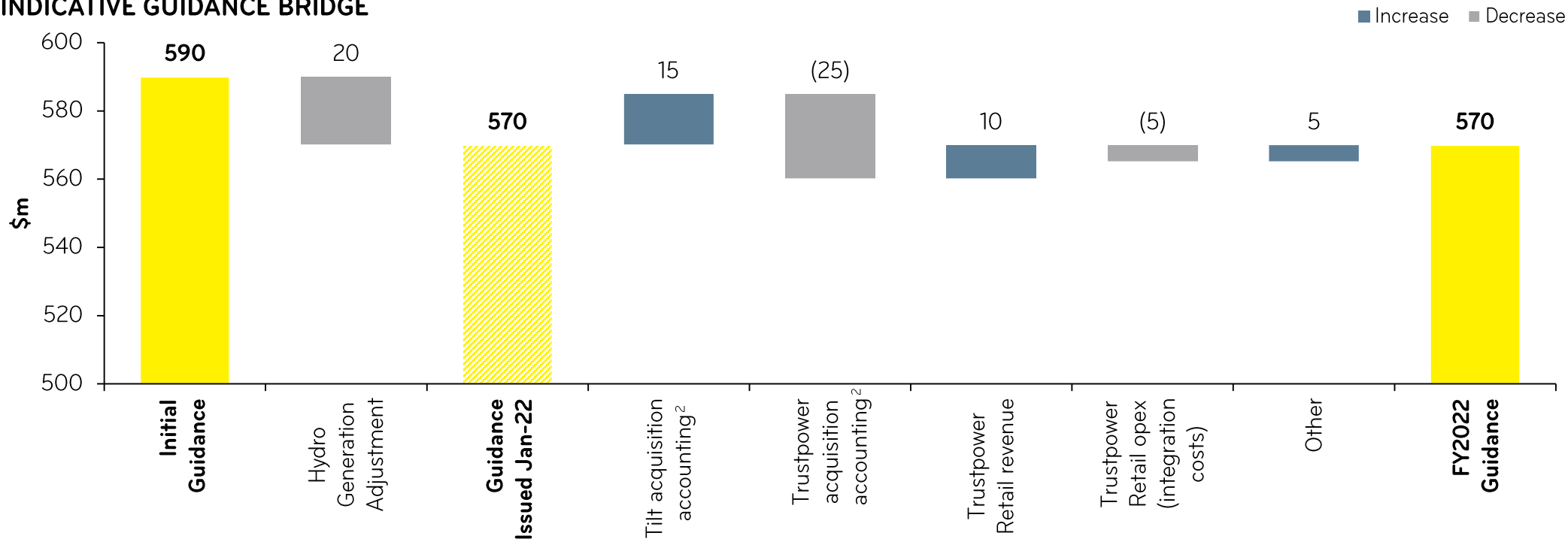
| Key Dates                           |                    |
|-------------------------------------|--------------------|
| Ex-Dividend Date                    | Wednesday 16 March |
| Record Date                         | Thursday 17 March  |
| Participation election closing date | Friday 18 March    |
| AUD FX rate set                     | Wednesday 23 March |
| Pricing Period                      | 21-25 March        |
| Dividend paid and DRP shares issued | Friday 1 April     |



# GUIDANCE ADJUSTMENTS REFLECT GROWTH

- > FY2022 EBITDAF guidance remains \$570m<sup>1</sup> on 3,750GWh of hydro generation subject to hydrological volatility, wholesale market conditions and any material adverse events, significant one-off expenses or other unforeseeable circumstances
- > FY2022 ordinary dividend guidance maintained at 20cps (up 18% on FY2021)
- > FY2022 stay-in-business capital expenditure guidance remains \$70m

INDICATIVE GUIDANCE BRIDGE



<sup>1</sup> Excludes likely interim insurance payment arising from Kawerau station unplanned outage  
<sup>2</sup> For further detail on the accounting impact of these transactions, see slides 21-23 in the Appendix



# Q&A



# ACCOUNTING IMPACTS – NORSKE SKOG TRANSACTION

## > Acquisition accounting principles under IFRS 9:

- > Value ascribed to each acquired derivative asset/liability at Day-1
- > Value amortised through P&L across life of asset/liability

## > Norske Skog transaction involved:

- > \$65m paid to close out foundation hedge; matured Sep-23
- > \$33m received for acquisition of CFDs sold to third parties
- > Transaction results in net reduction in CFD sales of 375GWh in FY2022, 517GWh in FY2023 and 161GWh in FY2024 at strike price of ~\$80/MWh

## > Amortisation of liability from acquisition of third party CFDs will be \$7m in 2H-FY2022 (total \$22m in FY2022), \$8m in FY2023

| Norske Skog Transaction Impact (\$m)   | Cash   | Balance Sheet as at |        |        | HY22 EBITDAF  |
|----------------------------------------|--------|---------------------|--------|--------|---------------|
|                                        |        | 31 Jun              | 13 Aug | 31 Dec |               |
| Close out of foundation hedge          | (64.5) | (112) <sup>1</sup>  | 0      | 0      | (64.5)        |
| Acquisition of CFDs with third parties | 33     |                     | (33)   | (18)   | 15            |
|                                        |        |                     |        |        | <b>(49.5)</b> |



# ACCOUNTING IMPACTS – TILT RENEWABLES' NZ ASSETS ACQUISITION

- > Acquisition of Tilt Renewables' NZ assets involved:
  - > Net consideration of \$634m paid after sale of Tilt Renewables 19.9% shareholding
    - > Recognised \$367m net gain on sale of Tilt Renewables shares
  - > Acquisition of existing CFD agreements
  
- > Impacts on EBITDAF due to:
  - > Amortisation of liability on acquisition of CFD agreements positively impacting EBITDAF
  - > Decrease in 'Other Income' due to removal of share of Tilt Renewables' earnings
  
- > Amortisation of liability from acquisition of existing CFD agreements will be \$10m in 2H-FY2022 (total \$15m in FY2022) and \$16m in FY2023

| Tilt NZ Assets<br>Acquisition Impact (\$m) | Balance Sheet as at |        | HY22<br>EBITDAF |
|--------------------------------------------|---------------------|--------|-----------------|
|                                            | Day 1               | 31 Dec |                 |
| Acquisition of CFD agreements              | (42)                | (37)   | 5               |
| Decrease in 'Other Income'                 |                     |        | (8)             |
|                                            |                     |        | <hr/>           |
|                                            |                     |        | (3)             |



# ACCOUNTING IMPACTS – TRUSTPOWER RETAIL ACQUISITION

- > Trustpower Retail acquisition impacts FY2022 EBITDAF guidance through:
  - > Retail business EBITDAF contribution
  - > Synergies realised
  - > Integration costs
  - > Value ascribed to the 10-year CFD with Trustpower generation business, with subsequent amortisation negatively impacting EBITDAF
    - > Amortisation negative EBITDAF impact mostly in FY22-25
    - > Ascribed value and amortisation dependent on CFD volume (weighted to the near-term) and futures prices
    - > FY2023 amortisation forecast to be ~\$(120)m

| Trustpower Retail Acquisition Indicative Impact (\$m) <sup>1</sup> | Indicative Balance Sheet as at |           | Indicative FY22 EBITDAF |
|--------------------------------------------------------------------|--------------------------------|-----------|-------------------------|
|                                                                    | Q4-FY22                        | 30 Jun 22 |                         |
| Long-term CFD <sup>2</sup>                                         | ~260                           | ~235      | ~(25)                   |
| Other net assets                                                   | ~180                           | ~180      | 0                       |
| Retail forecast EBITDAF                                            |                                |           | ~10                     |
| Integration costs                                                  |                                |           | ~(5)                    |
| Synergies                                                          |                                |           | -                       |
|                                                                    |                                |           | <hr/> ~(20)             |



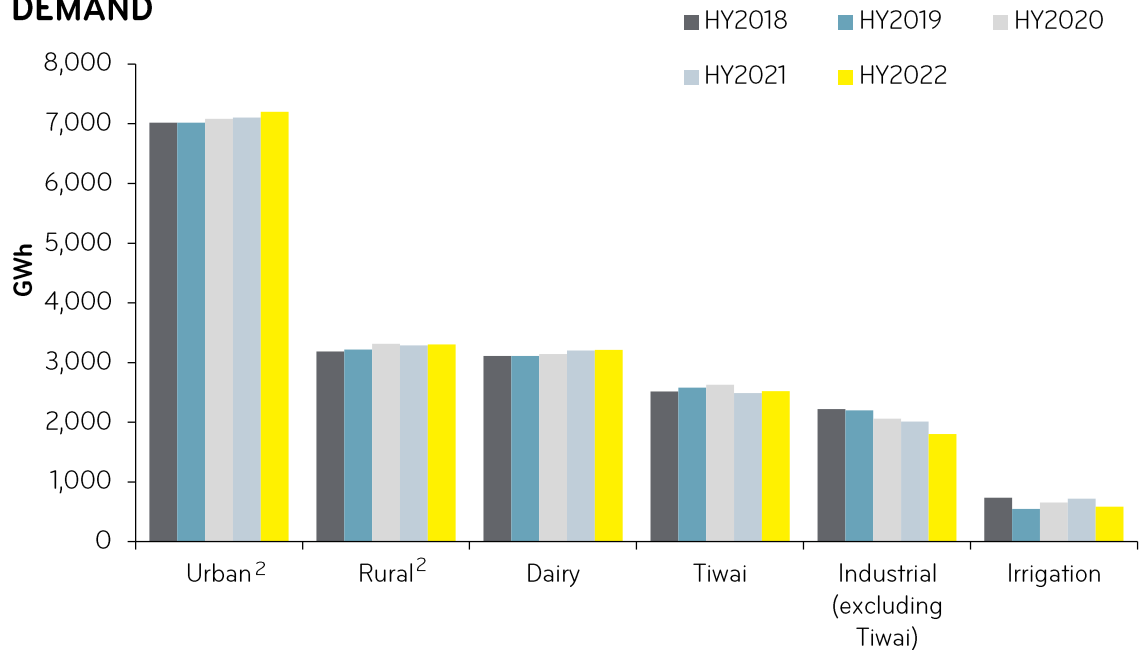
# DEMAND STEADY DESPITE LOCKDOWN; LOWER ON INDUSTRIAL AND IRRIGATION LOAD

- > National demand down 1.0%<sup>1</sup> versus HY2021 due to reductions in industrial and irrigation sectors
- > Urban and rural sector demand lifted despite COVID-19 lockdown
- > Industrial demand decreased due to the closure of Norske Skog and reduced demand from Pan Pac mill and Glenbrook steel mill
- > Tiwai Pt smelter benefiting from strong aluminium prices which lifted from ~\$3,500/T to over \$4,500/T in HY2022

HY2022 NORMALISED DEMAND GROWTH BY SECTOR

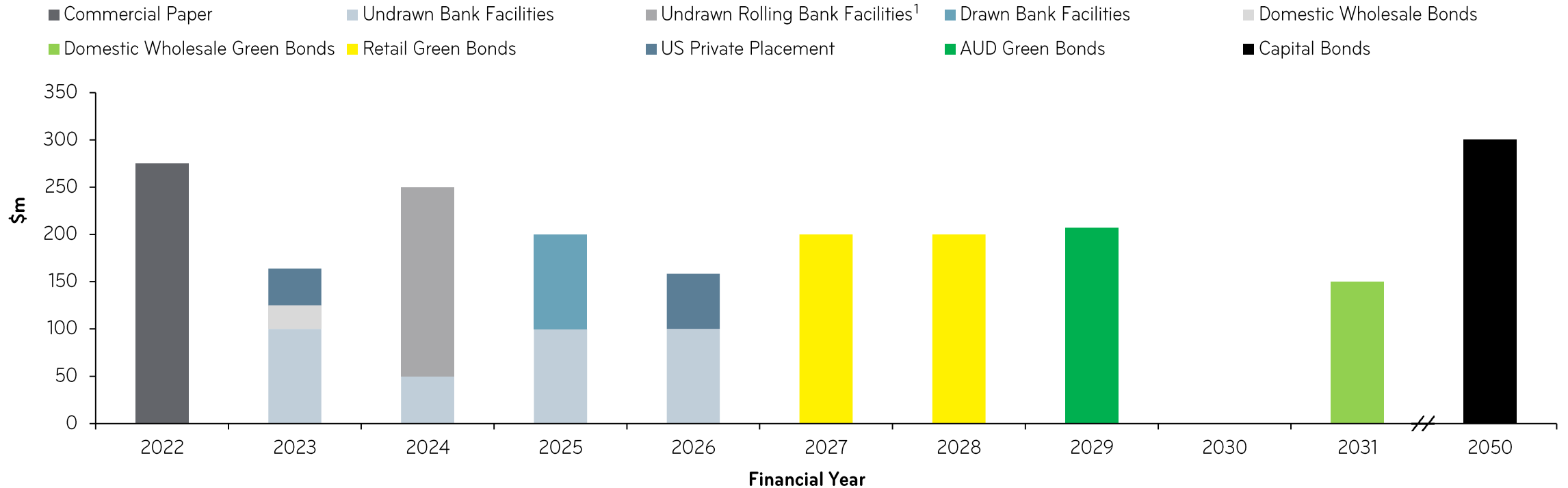
| Sector             | GWh  | Sector %Δ | Total %Δ |
|--------------------|------|-----------|----------|
| Urban <sup>1</sup> | +98  | 1.2%      | 0.5%     |
| Rural <sup>1</sup> | +15  | 0.4%      | 0.1%     |
| Dairy processing   | +11  | 0.3%      | 0.1%     |
| Irrigation         | -130 | (18.1)%   | (0.6)%   |
| Industrial         | -177 | (3.9)%    | (0.9)%   |
| Other              | -21  | (6.1)%    | (0.1)%   |
| Total              | 387  |           | (1.0)%   |

DEMAND



# DIVERSIFIED FUNDING PROFILE

## DEBT MATURITIES AS AT 14 FEBRUARY 2022



- > Diversified funding sources with balanced maturity profile: commercial paper, bank facilities, domestic wholesale bonds, retail bonds, AUD wholesale bonds, USPP and capital bonds
- > AUD 200m (NZD 207m) green bonds issued in HY2022 to refinance \$230m Waipipi project debt assumed by acquisition of Tilt Renewables' New Zealand assets



## FINANCIAL DERIVATIVES

|                                          | 6 months ended<br>31 December 2021 | 6 months ended<br>31 December 2020 |
|------------------------------------------|------------------------------------|------------------------------------|
| <b>Energy Margin contribution (\$m)</b>  |                                    |                                    |
| Sell CFDs                                | (21)                               | (59)                               |
| Buy CFDs                                 | (2)                                | 22                                 |
| Other Financial Derivatives <sup>1</sup> | (1)                                | 23                                 |
| <b>Total Energy Margin contribution</b>  | <b>(24)</b>                        | <b>(14)</b>                        |



## NON-GAAP MEASURES

- > Energy Margin is sales from electricity generation and sales to customers and derivatives, less energy costs, line charges, other direct costs of sales, and third-party metering
- > Operating Expenditure represents employee compensation and benefits, maintenance expenses and other expenses
- > EBITDAF (or Operating Earnings) is earnings before net interest expense, tax expense, depreciation, amortisation, change in the fair value of financial instruments, gain on sale and impairments
- > Underlying Earnings After Tax is profit for the year 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 on sale, all net of tax expense
- > Free Cash Flow is net cash from operating activities less stay-in-business capital expenditure
- > Stay-In-Business Capital Expenditure is the capital expenditure incurred by the company to maintain its assets in good working order
- > Growth Investment is expenditure incurred by the company to create new assets and revenue





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