New Zealand Shareholders Association Inc.

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September 3rd, 2021

Mercury NZ Limited (MCY)

The company will hold its Annual Shareholders Meeting at **10:00am on Thursday September 23rd, 2021.**

Thanks to the Covid-19 lockdowns, the meeting has now been planned as a virtual only meeting. You can join online at https://meetnow.global/nz, and selecting the Mercury meeting.

Company Overview

Mercury owns and operates 9 hydro and 5 geothermal power stations in the North Island employing 752 people and supplying 328,000 customers. It is developing a wind farm at Turitea in the Tararua Ranges.

In June 2021 MCY agreed to acquire Trustpower's retail business for NZ$441 million, payable in cash. This is a multiproduct utilities retailer selling electricity, gas, fixed and wireless broadband and mobile phone services to approximately 231,000 customers nationwide. The combined business will have approximately 780,000 connections across both energy and telco services. The agreement is conditional on a number of approvals, and it is anticipated completion will be in the second half of FY22.

In August 2021 MCY acquired five wind farms formerly owned by Tilt Renewables on the sale of Tilts shares to Powering Australian Renewables (PowAR). MCY had held 19.9% of Tilts shares.

Current Strategy

The company's strategy is to be New Zealand's leading energy brand generating energy from 100% renewable resources.

Key

The following sections calculate an objective rating against criteria contained within NZSA policies.

Colour	Meaning
G	Strong adherence to NZSA policies
A	Part adherence or a lack of disclosure as to adherence with NZSA policies
R	A clear gap in expectations compared with NZSA policies
n/a	Not applicable for the company

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Governance

NZSA assessment against its key policy criteria is summarised below:

Policy Theme	Assessment	Notes
Directors Fees	G	See comment below.
Director share ownership	G	Directors not required to own shares.
Executive Remuneration	G	See comment below.
Golden parachutes/handshakes	A	See comment below.
Director Independence	G	Good disclosure.
Board Composition	G	See comment below.
Director Tenure	G	See comments below.
ASM Format	G	See comments below.
Company Sec independence	G	Generally good disclosure however not disclosed if the Company Secretary receives a profit-based incentive.

Directors Fees: Disclosure is generally excellent. While there is no disclosure in the annual report as to whether retirement benefits are available for Directors, NZSA notes that clause 11 of the standard terms of Mercury's 'letter of appointment' for directors disclosed on its website state that "*you will not be entitled to a retirement allowance*".

Executive Remuneration: Mercury offers good transparency on executive remuneration components, including performance functions and weightings associated with short and long-term incentive payments. While a summary of STI performance achievement is included, the level of achievement against each performance function is not disclosed.

Golden parachutes: While the company does not directly disclose if termination payments beyond those paid to other staff are to be paid, we note that any historical payment would be reflected in the fulsome disclosure of CEO remuneration for the last five years provided, which includes the former CEO (none has been).

Board Composition: Disclosure is very clear. We note that the company participates in the IoD's "Future Directors Programme". The disclosure of Board skills is comprehensive, including both a collective matrix with the relationship highlighted in director's individual profiles.

Director Tenure: NZSA expects evidence of a Board succession plan to ensure governance sustainability and minimise any 'knowledge transfer' risk. The appointment dates of Mercury's directors are 'staggered' such that the company should be able to manage succession effectively.

We note that Prue Flacks (Chair) and Keith Smith have served more than 9 years. Keith is retiring at the upcoming ASM. James Miller has served 9 years; discussions with the company have indicated that James Miller represents both institutional knowledge on the Board and brings significant investment expertise to Mercury.

ASM Format: The company is holding a virtual-only ASM. Discussions with Mercury indicated that the company had been planning a hybrid AGM (preferred by NZSA) but has responded (appropriately) to the impact of current Covid-19 lockdowns.

Audit

NZSA assessment against its key policy criteria is summarised below:

Policy Theme	Assessment	Notes
Audit independence	G	Good disclosure
Audit rotation	A	See comment below

Audit Rotation: Whilst the company ensures the Lead Audit Partner is rotated at 5 years it does not disclose whether the Audit Firm is rotated at 10 years. In common with many other NZX-listed companies, it also does not disclose the appointment date of the Audit Firm or the Lead Audit Partner. We note that Mercury is a public-benefit entity, due to its Crown shareholding.

Ethical and Social

NZSA assessment against its key policy criteria is summarised below:

Policy Theme	Assessment	Notes
Whistleblowing	G	Good disclosure
Political donations	G	No donations made

NZSA also notes and appreciates the significant disclosure, including objectives, measures, and targets, that Mercury has undertaken to focus on relevant social metrics, including diversity and ethnicity.

Financial & Performance

Policy Theme	Assessment	Notes
Dividends and Imputation	G	See comment below
Capital Raise process	n/a	There was no capital raising

We note the dividend per share was 17 cents whilst the earnings per share were 10.36 cents. The investor section on MCY's website clarifies that dividend payments are related to 70-85% of free cash flow rather than Net Profit.

Mercury's share price rose from $5.06 to $6.82 (as of August 24th) over the last 12 months – a 35% return. This compares favourably with the NZX 50 which increased by 9% in the same period. The *Performance Factor* for MCY is 3.89.

Metric	2021	2020	Change
Revenue	$2,045m	$1,768m	16%
EBITDAF	$463m	$490m	-6%

NPAT	$141m	$209m	-33%
EPS[1]	$0.101	$0.149	-33%
PE Ratio	68	34	
Current Ratio	0.83	0.54	53%
Debt Equity	0.91	0.84	8%
Operating CF	$338m	$352m	-4%
Operating CF (cps)	$0.24	$0.25	-4%
NTA Per Share[1]	$2.91	$2.62	11%
Dividend Per Share[1]	$0.17	$0.158	8%

[1] *per share figures based off actual shares at balance date (not weighted average)*

MCY *revenues* increased by 16%, more than matched by operating costs increasing by 24% to deliver reduced *EBITDAF* of $463m. *NPAT* was also significantly down by 33% to $141m and correspondingly EPS declined to 10.1cps. This places MCY on a *PE* of 68 - a high number compared with market averages.

When compared with other Gentailers a theme emerges that the market is more interested in *Operating Cash Flow* and dividends per share. Operating Cashflow was down slightly to $338m or in terms of cents per share came in at 24 cents. Dividends per share were up 8% to $0.17 for FY 21. Dividends are fully imputed.

The company is in sound financial shape with the *debt equity* ratio at 0.91 a slight increase as MCY took on $175m of additional interest-bearing debt. Total debt for MCY is $1,020m. MCY also have a deferred tax liability of $1,363. This arises as Property, plant and equipment is held on capital account for income tax purposes. Where assets are revalued, with no similar adjustment to the tax base, a taxable temporary difference is created that is recognised in deferred tax. MCY believes that the deferred tax liability on these revaluations is unlikely to crystallise in the foreseeable future under existing income tax legislation.

NTA per share was up by 11% to $2.91. MCY trade at a hefty premium to its NTA, reflecting expectations of ongoing future cashflows.

Resolutions

1. To elect Dennis Barnes as an Independent Director.

Dennis Barnes was appointed to the Board on 1 September 2021 and is therefore required to offer himself for election. He was formerly Chief Executive of Contact Energy, a role he held for 9 years.

We will vote undirected proxies **IN FAVOUR** of this resolution.

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2. To re-elect Prue Flacks as an Independent Director.

Prue Flacks was appointed to the Board in May 2010 and was appointed Chair in September 2019. Prue is a professional director and was formerly a commercial lawyer and a partner in the national law firm Russell McVeagh for 20 years. She is currently a director of Chorus and is a chartered member of the Institute of Directors.

We will vote undirected proxies **IN FAVOUR** of this resolution.

3. To re-elect Mike Taitoko as an Independent Director.

Mike Taitoko was appointed to the Board in August 2015. He is a leading advisor on Māori economic development. He is the co-founder and CEO of Takiwā, a technology company commercialising cloud-based geospatial analytics services.

We will vote undirected proxies **IN FAVOUR** of this resolution.

4. To increase the Director Fee Pool by $94,400 from $991,000 to $1,085,400.

Full details are set out in the Notice of Meeting. The current Fee Pool was approved by shareholders in 2015. NZSA policy is that Boards should review their fees on a regular basis to ensure they are appropriate. The Board has commissioned an independent report from PwC, and this is included with the Notice of Meeting. The Board has also consulted with NZSA. We believe the proposed fees are appropriate.

We will vote undirected proxies **IN FAVOUR** of this resolution.

Proxies

You can vote online or appoint a proxy at https://www.investorvote.com.au/

Instructions are on the Proxy/voting paper sent to you.

Voting and proxy appointments close **10.00am Tuesday 21 September 2021.**

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Please note you can appoint the Association as your proxy. We will have a representative attending the meeting.

STANDING PROXIES - AUTOMATICALLY APPOINT NZSA AS YOUR PROXY

MAKE YOUR VOTE COUNT!

Details on the NZSA website.

http://www.nzshareholders.co.nz/shareholders-standing-proxies.cfm

The Team at NZSA