29 August 2023

Mercury NZ Limited (MCY)

The company will hold its Annual Shareholders Meeting at **1.00pm Tuesday 19 September 2023.**

The location is **Hyundai Marine Sports Centre, 8/10 Tāmaki Drive, Ōrākei, Auckland.**

You can also join the meeting online here.

Company Overview

The company is a generator and retailer of energy. It is listed on the NZX and ASX. It generates electricity from 100% renewable sources: hydro, geothermal and wind. Its electricity generation sites are located along the Waikato River (hydro), the nearby steam fields of the northern part of the Central Plateau (geothermal) and in the Manawatū, South Taranaki and Otago regions (wind). In FY23 it completed the Turitea wind farm in the Tararua Ranges of the Manawatū region, which is New Zealand's largest wind farm. The company is on track to complete construction of Stage 1 of a new wind farm at Kaiwera Downs near Gore in October 2023.

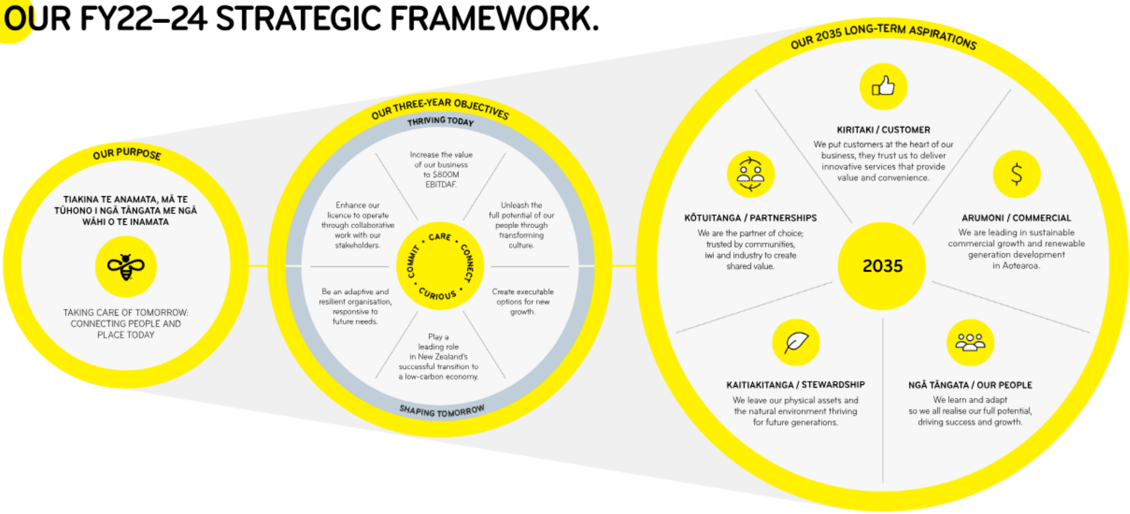
During the year, Dennis Barnes retired from the Board and Adrian Littlewood and Mark Binns were appointed to the Board. Patrick Strange will retire from the Board at the ASM.

Current Strategy

The company's has a comprehensive strategic framework, as shown in the image below. Merucry expresses its purpose as "*Taking care of tomorrow: Connecting people and place today*". The company notes that this "*recognises the role we play in using our unique assets and capabilities to enable everyday living and connectivity in our communities, and to bring together the people we work with to care for the natural environment and resources that we use.*"

Key themes include decarbonisation, an at-scale retail business, partnerships and its people.

OUR FY22–24 STRATEGIC FRAMEWORK.



New Zealand Shareholders Association Inc.

NZSA®

Many Investors, One Voice

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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

Governance

NZSA assessment against its key policy criteria is summarised below:

Policy Theme	**Assessment**	**Notes**
Directors Fees	A	See below.
Director share ownership	G	Directors are not required to own shares.
Executive Remuneration	G	See below.
Golden parachutes/handshakes	A	See below.
Director Independence	G	All Directors are independent.
Board Composition	G	See below.
Director Tenure	G	See below.
ASM Format	G	Hybrid. See below.
Independent Advice for the Board and Risk Management	G	See below.

Directors Fees: Whilst disclosure is generally good it is not disclosed within the annual report if share options are offered (discussions indicate they are not) or if special exertion payments are made. In the interests of transparency NZSA expects definitive statements around these matters.

Executive Remuneration: The CEO is paid a base salary, a short-term incentive (STI) and a long-term incentive (LTI). Full details are set out in the Annual Report. NZSA encourages fulsome disclosure in relation to any incentive payments made to the CEO, including disclosure of measures (or measure 'groups'), weightings, targets and the level of achievement associated with any awards.

Golden parachutes/handshakes: Not disclosed if these or similar payments are offered. NZSA expects full disclosure of the terms of the CEO's remuneration and any other payments.

Board Composition: Good disclosure. The company is one of few that participates in the IoD's Future Director programme designed to develop and mentor the next generation of Directors. NZSA expects NZX50 companies to participate as part of a responsibility to develop and mentor the next generation of Directors.

Director Tenure: NZSA looks for evidence of ongoing succession or 'staggered' appointment dates that reduce the risks associated with effective knowledge transfer in the event of succession. We also prefer a term maximum of 9-12 years, unless there are exceptional circumstances that may apply.

We note the Chair Prue Flacks was appointed to the Board in 2010 and James Miller in 2012. The Board is currently undergoing a period of transition, with succession plans clearly signalled previously. The Governance Report in the Annual Report comments that the longest serving Directors will retire in the next few years.

ASM Format: NZSA prefers 'hybrid' ASM's (i.e., physical, and virtual) as a way of promoting shareholder engagement while maximising participation, and appreciates Mercury's commitment to this format.

Independent Advice for the Board & Risk Management: NZSA looks for evidence, through disclosures, that a Board has access to appropriate internal and external expertise to support board assurance activities. We also look for evidence that Boards are across their risk management responsibilities.

In both matters, the Annual Report includes fulsome disclosures and forms an exemplar for other NZX listed entities.

Audit

NZSA assessment against its key policy criteria is summarised below:

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

Audit Rotation: Whilst the company ensures the Lead Audit Partner is rotated at 5 years as required by the NZX Listing Rules, it does not disclose if the Audit Firm is rotated at 10 years. NZSA also expects disclosure of the appointment dates of the Lead Audit Partner and Audit Firm to improve transparency for investors.

Due to Mercury's status as a public-benefit entity, as a result of its Crown shareholding, we note that MCY's auditor is the Auditor General, with the audit performed by EY.

Environmental Sustainability

NZSA assessment against its key policy criteria is summarised below:

Policy Theme	Assessment
Approach	G
Sustainability Governance	G
Strategy and Impacts	G
Risk and Opportunity	G
Metrics and Targets	G
Assurance	A

Overall approach: While Mercury Energy has been providing sustainability reporting within their Annual Reports for a number of years now, 2023 marks the first time they have produced an Integrated Report. They also include a Global Reporting Initiative (GRI) Index and climate disclosures which are aligned with the New Zealand Climate Standards. Unlike many companies, Mercury has a dedicated General Manager of Sustainability.

Apart from the area of external assurance for their sustainability reporting, Mercury performs well in all other areas of NZSA Environmental Sustainability policy areas.

Sustainability Governance: Mercury discloses a Board skill matrix which specifically includes climate change in the six categories they identify. Mercury does not consider it necessary to establish a separate sustainability sub-committee as they consider their Risk Assurance and Audit Committee to already be fulfilling this purpose.

Strategy and Impact: Mercury recognises that climate change is currently impacting the way they operate. These impacts are not limited solely to climate change as they identify many factors which may impact their long-term strategy. They also have a separate Climate Transition Action Plan.

Risk and Opportunity: Mercury clearly identifies climate change as a prominent risk, but also identifies other not strictly environmental risks. Their description of opportunities is a little more brief.

Metrics and Targets: Mercury has prepared a separate GHG Emissions Inventory Report that has been audited by EY. They are also one of a very few companies that have a CEO sustainability incentive target which is clearly disclosed in their remuneration tables. They also have developed emissions reduction targets in line with the Science Based Targets Initiative (SBTi).

Assurance: While it is good to see Mercury has sought limited assurance from EY for their GHG Emissions Inventory Report, it would be good to see this applied to other claims made within their entire non-financial reporting.

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 were made.

Financial & Performance

Policy Theme	Assessment	Notes
Capital Management	G	Appropriate capital management
Takeover or Scheme	n/a	*n/a if no takeover*

Mercury's share price rose from $5.88 to $6.35 (as of 29th August 2023) over the last 12 months – an 8% increase. This compares favourably with the NZX 50 which remained flat in the same period. The capitalisation of MCY is $8.9b placing it 5th out of 128 companies on the NZX by size and makes it a large company.

Metric	2021	2022	2023	Change
Revenue	$2,045m	$2,188m	$2,730m	25%
EBITDAF	$463m	$581m	$841m	43%
NPAT	$141m	$469m	$103m	-78%
EPS[1]	$0.101	$0.335	$0.074	-78%

PE Ratio	68	18	86	
Capitalisation	$9.5B	$8.2B	$8.9b	8%
Debt Equity	0.91	1.03	0.94	-9%
Operating CF	$338m	$352m	$578m	64%
Operating CF (cps)	$0.24	$0.25	$0.41	64%
NTA Per Share[1]	$2.91	$3.31	$3.36	2%
Dividend Per Share[1]	$0.17	$0.20	$0.218	9%

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

Mercury had mixed metrics for the financial year of FY23, and their share price also outperformed the NZX which may be a reflection of their future prospects. *Revenue* was up an impressive 25% to $2.7b and *EBITDAF* was up 43% to $830m. Operating expenses were up substantially, as a result of the purchase of the Trustpower business. We also note that net finance expenses increased by 61%.

Subsequently, MCY had a dramatic fall in *NPAT by* 78% to $103m - although we do note that last year the result was flattered by a gain on disposal. *EPS* were $0.074 and this places MCY on a *PE* of 86. In the case of MCY the PE figure is meaningless as much of reported profit is made up of revaluations and changes in fair value.

Similar to other Gentailers a theme emerges that the market is more interested in Operating Cash Flow and dividends per share. Operating Cashflow increased by 64% to $578m or in terms of cents per share came in at 41.3 cents. The company has a dividend policy comprising 70-85% of free cashflow; dividends per share were up 9% to a fully imputed $0.218 for FY23.

The company is in sound financial shape with the debt equity ratio at 0.94. Total interest-bearing debt for MCY is $1,523m. MCY also have a deferred tax liability of $1,751. 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 2% to $3.36. MCY trade at a 89% premium to its NTA.

Resolutions

1. To re-elect Hannah Hamling as an Independent Director.

Hannah Hamling was appointed to the Board in February 2020. She is an environmental scientist with a particular interest in sustainable development and resilience. Until January 2020, she was President of the Asia Pacific Region and Global Sustainable Development Leader for Golder, a Canadian global ground engineering and environmental science company. Before joining Golder, Hannah was Managing Director of New Zealand environmental consultancy firm Kingett Mitchell.

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

2. To re-elect Scott St John as an Independent Director.

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

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

3. To elect Adrian Littlewood as an Independent Director.

Adrian Littlewood was appointed to the Board 1 August 2023 and is therefore required to offer himself for election. His executive career included 12 years at Auckland International Airport, nine of these as CEO. Before that he held senior roles across strategy, operations, product, and marketing with Telecom New Zealand. Previous governance roles include acting as the New Zealand chair of the Australia/New Zealand Leadership Forum, chair of the NZ Airports Association, a director of North Queensland Airports and Tourism Industry Aotearoa.

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

4. To elect Mark Binns as an Independent Director.

Mark Binns was appointed to the Board 1 September 2023 and is therefore required to offer himself for election. He was CEO of Meridian Energy from 2012 – 2017 and before that spent 22 years with Fletcher Building, including 15 years as CEO of the Construction and Infrastructure division. He currently chairs Crown Infrastructure Partners and Hynds Limited and is a director of Auckland International Airport.

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 **1.00pm Sunday 17 September 2023.**

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

The Team at NZSA