QUARTERLY OPERATIONAL UPDATE

Three months ended 31 March 2017

>> QUARTERLY HIGHLIGHTS

LOWEST CHURN

LOWEST CUSTOMER SWITCHING RATE OF MAJOR RETAILERS

1.02

LWAP/GWAP IMPROVED
IN CONJUNCTION WITH A 111GWh LIFT IN HYDRO GENERATION

4,500GWh

HYDRO GENERATION FORECAST UP 250GWh FOR FY17 ON HIGHER INFLOWS

>> COMMENTARY

LOW CHURN; ENERGY PRICE UP

For the third consecutive quarter, Mercury recorded the lowest switch rate (churn) among the major retailers. For the quarter ended 31 March 2017, Mercury's annualised churn was 17.6%, well below the market average of 20.5% based on publicly available Electricity Authority data.

Mercury's loyalty initiatives continued to appeal to customers with a further 13,000 customers registering to receive Airpoints™ and customers on fixed-term contracts increasing by 6,000. Customers benefiting from each initiative increased to 110,000 and 149,000 respectively.

The average energy price to customers was up marginally (to $110.70/MWh) when compared to the same period last year ($110.10/MWh). This increase is despite a continued trend of falling prices for commercial and industrial customers (with the VWAP of sales to business customers down approximately $2/MWh).

LIFT IN EXPECTED ANNUAL HYDRO GENERATION

Due to favourable hydrological conditions experienced since February 2017, Mercury has updated its FY2017 mid-point hydro generation forecast to 4,500GWh (up 250GWh on the forecast provided in the preceding operating statistics).

Hydro generation lifted 13% relative to the prior comparable three month period, up 111GWh to 954GWh. This reflects inflows into the Waikato catchment being 170GWh above average and storage being 112GWh higher at 1 January 2017.

LWAP/GWAP was 1.02, an improvement on the same period last year, of 1.03. This benefited from an improvement in hydro GWAP of 2% (to 1.09) despite the management of higher inflows.

Average wholesale prices continued to be impacted by higher than average national hydro generation and averaged $53.49/MWh and $44.37/MWh at Otahuhu and Benmore respectively. This equates to a locational price difference of $9.12/MWh or 21% of the average Benmore price (continuing on from the previous quarter, being $8.38/MWh or 21%).

Geothermal generation was down slightly due to planned plant outages during the period at Ngatamariki and Nga Awa Purua. Geothermal plant availability remains strong, with the quarter again exceeding 95% (relative to 98% for the same quarter last year).

DEMAND SLIGHTLY LOWER

After adjusting for temperature, national demand was down 0.2% compared to the same quarter last year. The reduction in demand was mostly attributable to the industrial sector (-0.5%), which was partially offset by increased demand in the dairy process sector (0.2%).

>> OPERATING STATISTICS

OPERATING INFORMATION	Three months ended 31 March 2017		Three months ended 31 March 2016		Nine months ended 31 March 2017		Nine months ended 31 March 2016	
ELECTRICITY SALES	**VWAP[1] ($/MWh)**	**Volume (GWh)**	**VWAP[1] ($/MWh)**	**Volume (GWh)**	**VWAP[1] ($/MWh)**	**Volume (GWh)**	**VWAP[1] ($/MWh)**	**Volume (GWh)**
FPVV sales to customers	110.70	1,036	110.10	1,006	111.82	3,431	113.87	3,260
FPVV sales to residential customers		496		488		1,798		1,828
FPVV sales to business customers		540		518		1,633		1,432
FPVV purchases from market		1,094		1,063		3,624		3,443
Spot customer purchases		218		220		672		740
Total NZEM Purchases	53.70	1,312	70.00	1,283	54.48	4,296	65.34	4,183
ELECTRICITY CUSTOMERS ('000)		390		377				
North Island Customers		348		340				
South Island Customers		42		37				
Dual Fuel Customers		44		41				
CONTRACTS FOR DIFFERENCE		**Volume (GWh)**		**Volume (GWh)**		**Volume (GWh)**		**Volume (GWh)**
Buy CfD		352		365		1,256		1,294
Sell CfD		775		753		2,576		2,672
End User CFD		324		364		996		1,110
Net Sell CfD[2]		423		388		1,320		1,378
ELECTRICITY GENERATION	**VWAP ($/MWh)**	**Volume (GWh)**	**VWAP ($/MWh)**	**Volume (GWh)**	**VWAP ($/MWh)**	**Volume (GWh)**	**VWAP ($/MWh)**	**Volume (GWh)**
Hydro	55.21	954	70.52	843	55.16	3,321	63.92	3,058
Gas	-	-	-	-	-	-	68.64	146
Geothermal (consolidated)[3]	49.41	628	64.80	654	48.94	1,918	60.90	1,953
Geothermal (equity accounted)[4]	50.30	54	64.86	56	49.94	168	61.17	174
Total	52.82	1,636	67.91	1,553	52.79	5,407	62.85	5,331
LWAP/GWAP		1.02		1.03		1.03		1.04
CARBON EMISSIONS ('000 TONNES CO_2E)		80		86		266		335
METRIX AMI METERS ('000)		401		393				

[1] VWAP is volume weighed average energy only price sold to FPVV customers after lines, metering and fees

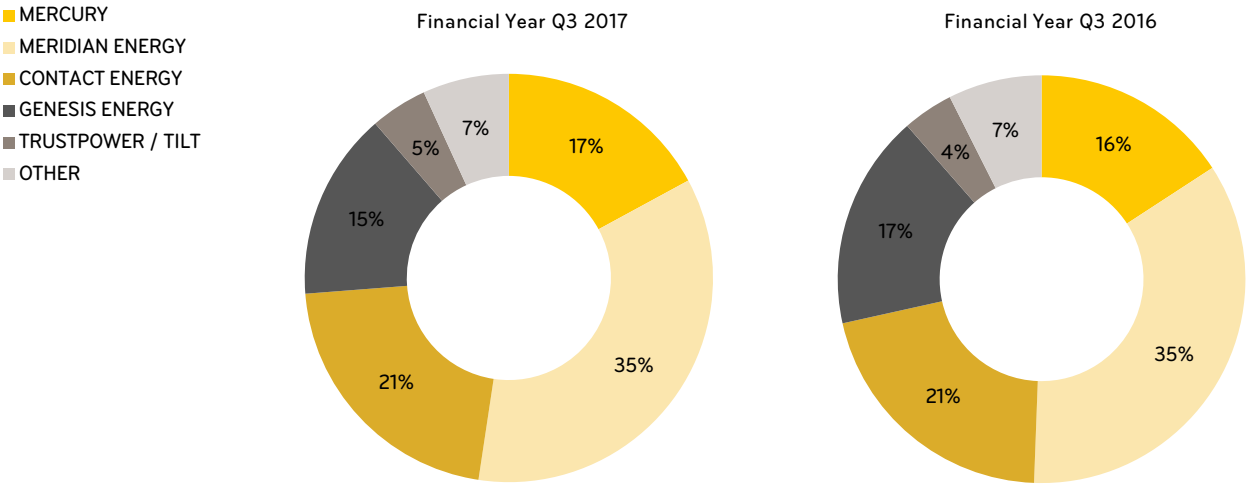
[2] Includes Virtual Asset Swap volumes in both Buy and Sell CfD volumes of 172 GWh for the 3 months ended 31 March 2017 and 174 GWh for the 3 months ended 31 March 2016 and of 525 GWh for the 9 months ended 31 March 2017 and 527 GWh for the 9 months ended 31 March 2016

[3] Includes Mercury's 65% share of Nga Awa Purua generation

[4] Tuaropaki Power Company (Mokai) equity share

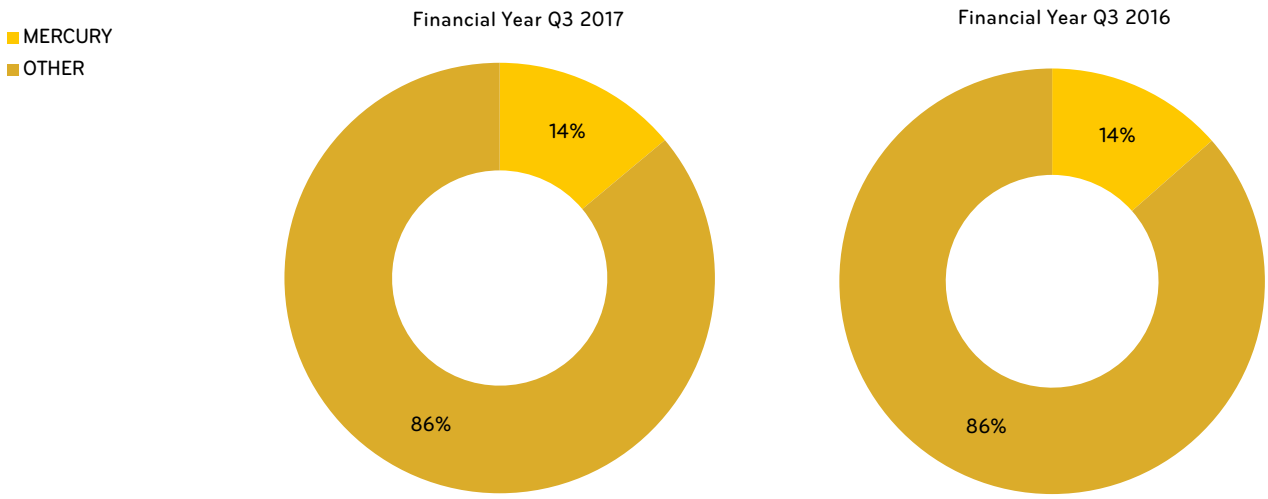
>> MARKET DATA

> ELECTRICITY GENERATION BY COMPANY FOR THE THREE MONTHS ENDED 31 MARCH



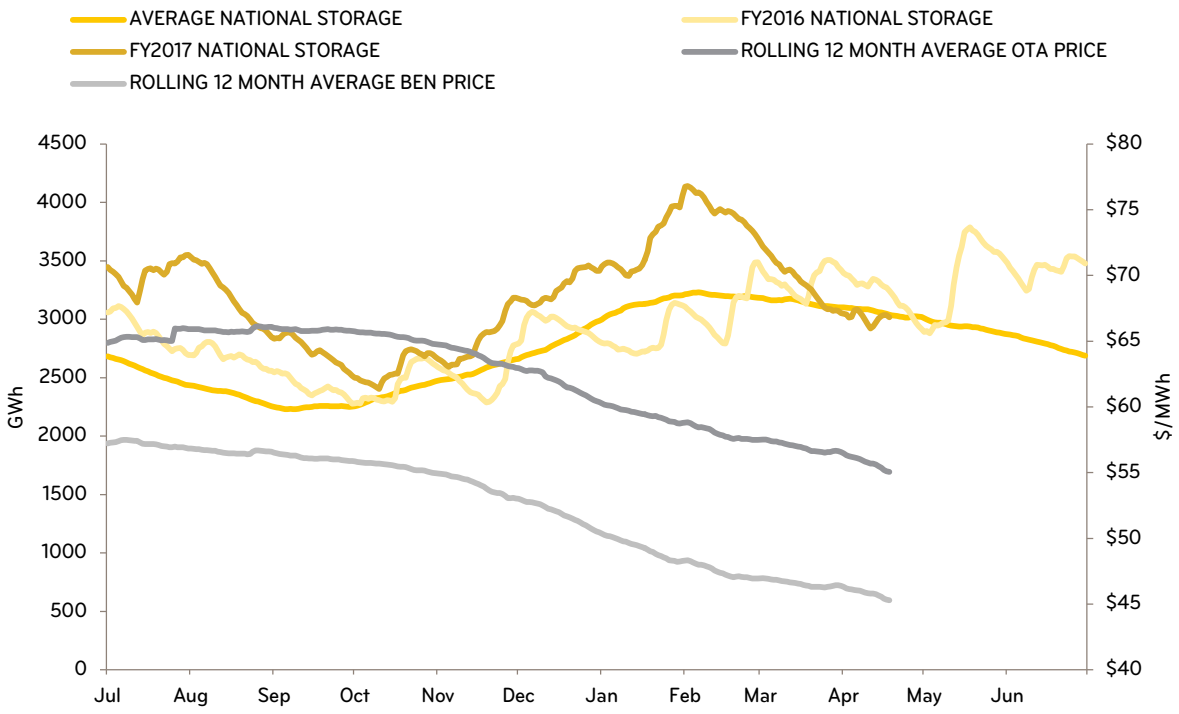
Source: Electricity Authority

> SHARE OF ELECTRICITY SALES (GWh) FOR THE THREE MONTHS ENDED 31 MARCH

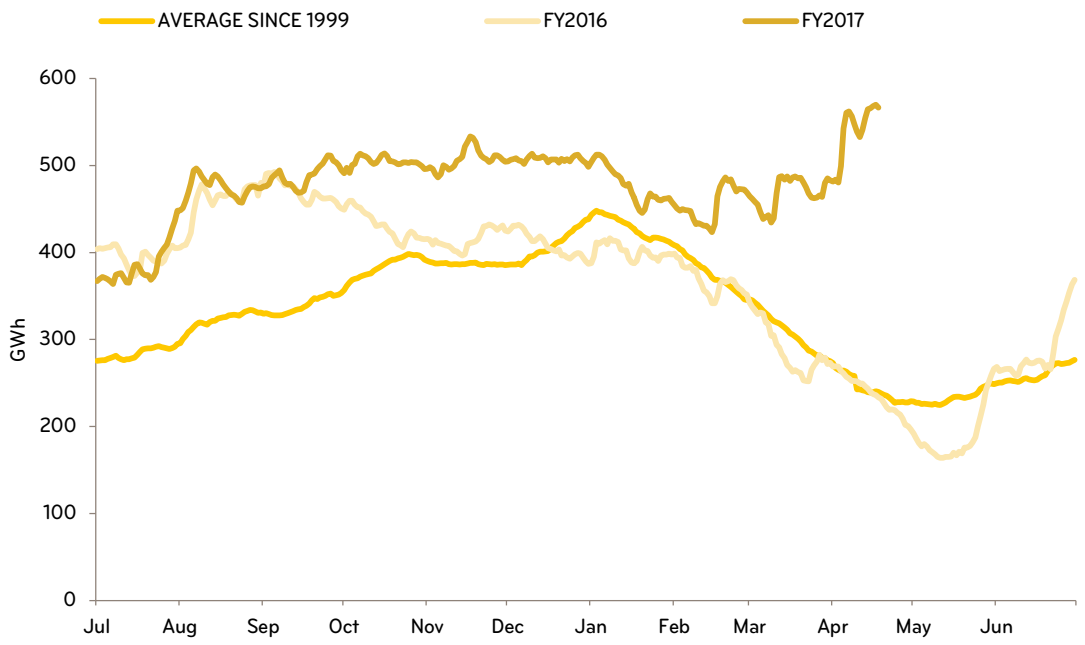


Source: Mercury Purchases and Transpower SCADA

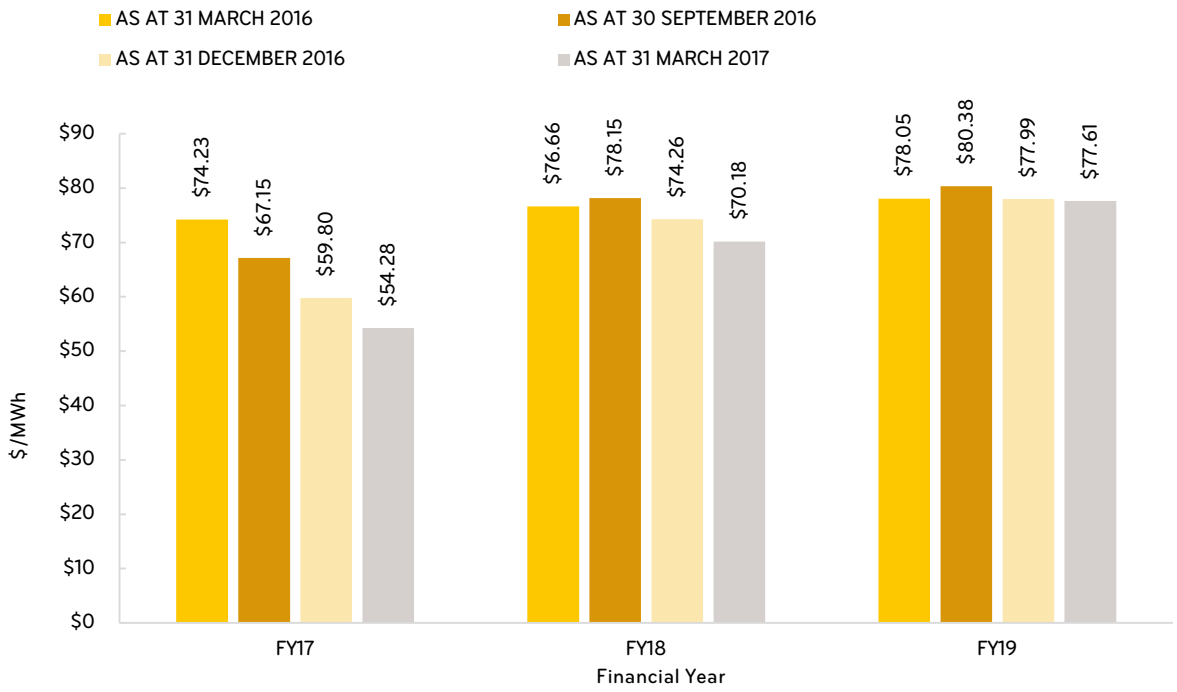
> OTAHUHU WHOLESALE PRICE AND NATIONAL HYDRO STORAGE LEVELS



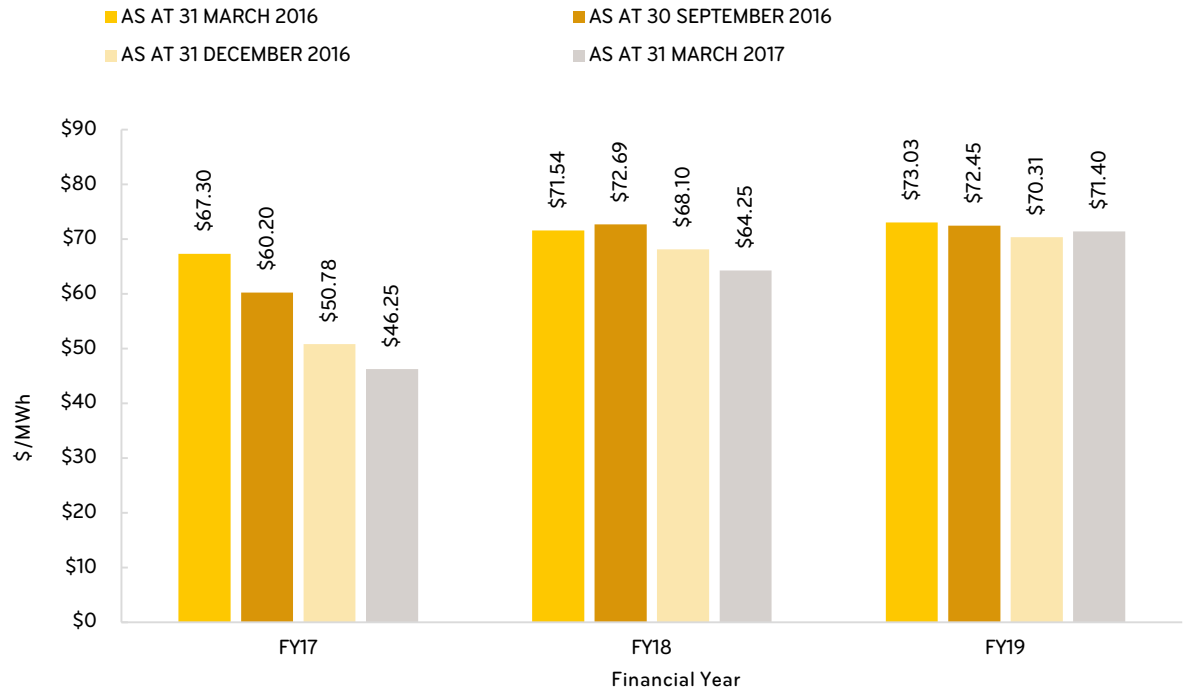
> TAUPO STORAGE



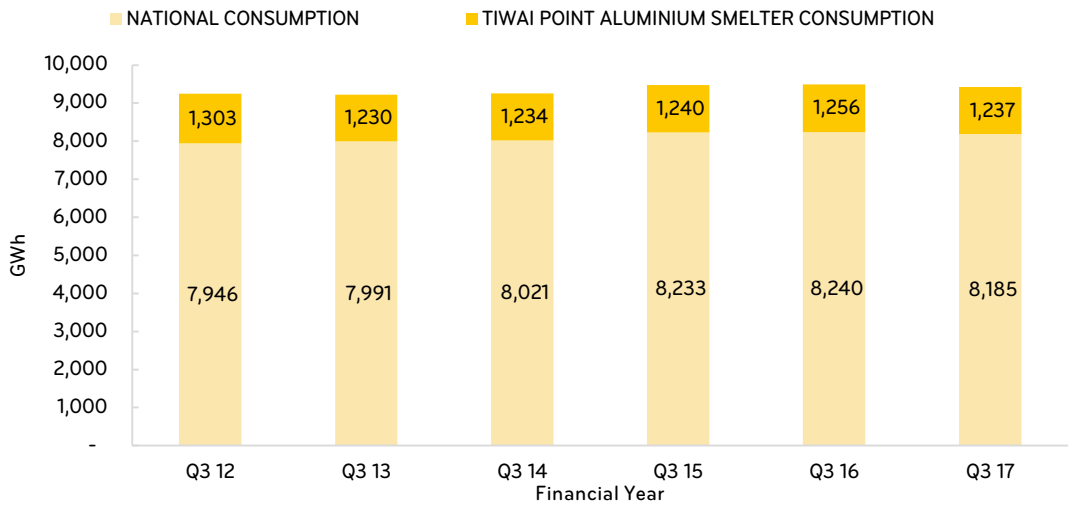
> OTAHUHU ASX FUTURES SETTLEMENT PRICE



> BENMORE ASX FUTURES SETTLEMENT PRICE



> NATIONAL CONSUMPTION (NON-TEMPERATURE ADJUSTED)



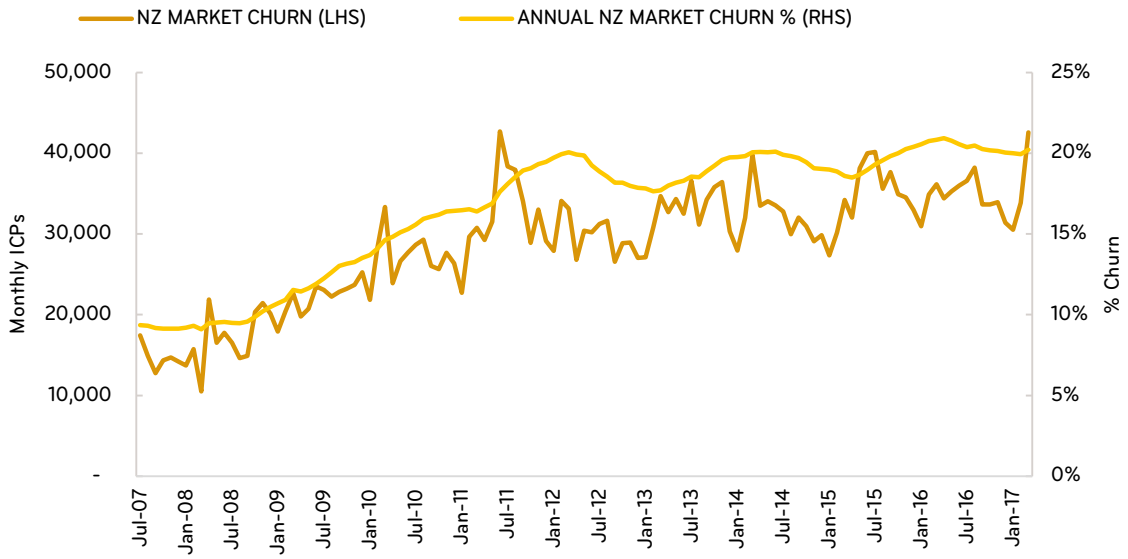
Source: Transpower Information Exchange

> NATIONAL CLIMATE SUMMARY (°C)

FINANCIAL YEAR	Q1	Q2	Q3	Q4
2017	12.1	16.1	19.3	-
2016	11.4	16.0	20.6	15.3
2015	11.9	15.9	19.9	14.3
2014	12.3	16.7	18.9	14.8
2013	12.3	16.5	19.6	14.4
Historical Average (since 1999)	11.9	16.1	19.4	14.2

Source: NIWA, Met Service

> MONTHLY TOTAL CONSUMER RETAIL SWITCHING (ICPs)



Source: Electricity Authority