

Financial Results

for the year ended 30 June 2017

FRASER WHINERAY

Chief Executive

WILLIAM MEEK

Chief Financial Officer

22 August 2017



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A number of non-GAAP financial measures are used in this presentation, which are outlined in the appendix of the presentation. You should not consider any of these in isolation from, or as a substitute for, the information provided in the audited consolidated financial statements for the year ended 30 June 2017, which are available at www.mercury.co.nz.

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Our Mission: Energy Freedom.

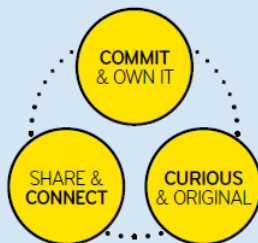
REALISING OUR PURPOSE >>

TO INSPIRE NEW ZEALANDERS
TO ENJOY ENERGY IN MORE
WONDERFUL WAYS

EXECUTING OUR STRATEGY >>

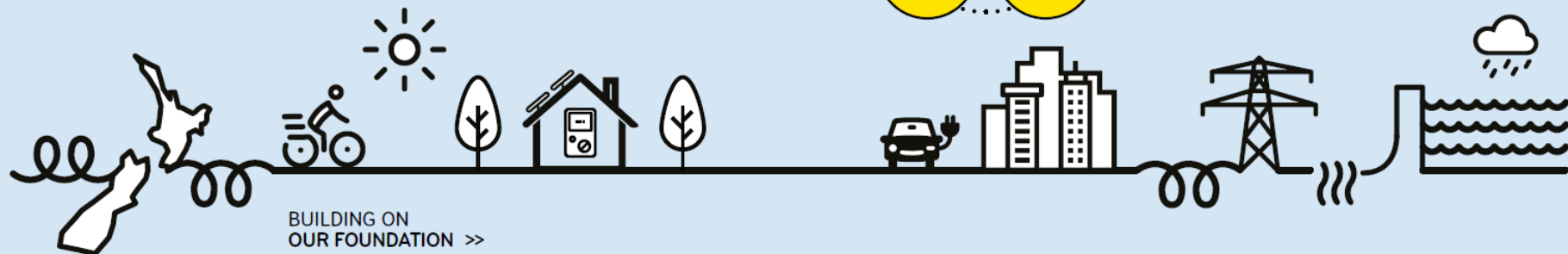
DELIVERING CUSTOMER
ADVOCACY
LEVERAGING CORE STRENGTHS
DELIVERING SUSTAINABLE
GROWTH

LIVING OUR ATTITUDE >>



ACHIEVING OUR GOAL >>

TO BE NEW ZEALAND'S
LEADING ENERGY BRAND



WELLBEING
OF OUR PEOPLE AND
CUSTOMERS

KAITIAKITANGA
THE CUSTODIANSHIP OF
NATURAL RESOURCES

COMMERCIAL
COMMERCIALLY ASTUTE
DECISIONS

3 OUR MISSION



MERCURY'S COMPETITIVE ADVANTAGE



100% renewable generation with two low-cost complementary fuel sources in base-load geothermal and peaking hydro



North Island generation is **uniquely located** close to major load centres and not dependent on the inter-island transmission link (HVDC)



Waikato Hydro System is the largest series of **peaking** stations in the North Island



Rain-fed North Island hydro catchment with inflows correlated with winter peak demand (unlike the South Island)



Established a track record of customer-led innovation and rewarding **loyalty**



Long-term commercial partnerships with Maori landowners and other key stakeholders





5 FY2017 HIGHLIGHTS



FY2017 HIGHLIGHTS

MERCURY

One brand, has combined our heritage and our customer-led innovation



\$523m

RECORD EARNINGS

Mercury capitalised on wet hydrological conditions and executed strongly pan-company

2%

DIVIDEND GROWTH

Fully-imputed ordinary dividend of 14.6cps, including **8.8cps** final dividend

LOYALTY

Mercury's focus on rewarding and inspiring existing customers resulted in increased **loyalty** and materially below market churn

7,533GWh

RECORD GENERATION

Hydro 724GWh above average and geothermal steady

5.0cps

SPECIAL DIVIDEND

Fully-imputed special dividend distributing excess Free Cash Flow and proceeds from carbon credit sales

Customer-led

INNOVATION

has **rewarded**, **inspired** and **made it easier** for our customers

Better **balanced** industry

SUPPLY & DEMAND

evident in increased wholesale prices, but futures prices remain unresponsive

Capital expenditure of

\$116m

included quality **execution** of a substantial geothermal drilling campaign and hydro refurbishment



DELIVERING CUSTOMER ADVOCACY

INSPIRING OUR CUSTOMERS

- > **One brand**, Mercury, combining our strengths in harnessing renewable generation and innovating for customers
- > Illustrating “Energy Made Wonderful” through the promotion of **E-bikes**
- > Partnership with the **Starship** Foundation generating more than \$10m of donations from Mercury and our customers over the past 18 years



MAKING IT EASIER FOR OUR CUSTOMERS

- > Only 200 customer queries this year regarding our new **customer-designed** monthly statement
- > Customer-centric focus recognised with Mercury's Outbound Sales team winning the **Diamond Award** at the 2016 CRM Contact Centre Awards
- > Contact Centre training program **NZQA accredited**

REWARDING OUR CUSTOMERS

- > Over 157,000 **Free Power Days** claimed by our customers
- > More than 119,000 customers signed up to earn **Airpoints Dollars™** through Mercury's relationship with Air New Zealand
- > More than 117,000 Mercury residential customers (34%) and 26,000 commercial customers (63%) are on **fixed-term, fixed-price contracts**

KEY METRICS

17.8%

Total churn¹
FY2016: 21.8%
Market: 20.5%

5.7%

Trader churn²
FY2016: 8.6%
Market: 7.1%

64%

Customer satisfaction³
FY2016: 60%

7 STRATEGY EXECUTION

¹ 12-monthly rolling churn rate (all brands)

² Switching where a customer changes retailer without moving house

³ Based on Mercury's monthly survey of residential customers, 3-monthly rolling average to 30 June for Mercury brand (excludes Bosco and GLOBUG)



LEVERAGING CORE STRENGTHS

ENGAGED TEAMS

- > **Employee engagement**¹ increased to 81%
- > 96% of people leaders completed new StepUp Management Fundamentals Training Programme
- > **Employee advocacy** with close to 1000 new customers referred by staff



SUCCESSFUL PROJECT EXECUTION

- > Co-ordinated multi-reservoir geothermal drilling campaign completed **on time** and **under budget**
- > Developing **ICT system capability** with a SAP² technology platform upgrade and a Metrix project which will deliver certified half-hourly meter readings in FY2018
- > Multi-site major **hydro refurbishment** continuing at Whakamaru and Aratiatia stations
- > International geothermal development **exited**



TAKING OPPORTUNITIES

- > **Record generation** of 7,533GWh with record hydro production of 4,724GWh and high geothermal availability
- > Continuous **portfolio management** with 96th percentile annual inflows into Waikato catchment
- > **\$26m** cash proceeds from carbon credit divestment at elevated prices

KEY METRICS

1.05
TRIFR³
FY2016: 0.74

81%
Employee
engagement¹
FY2016: 79%

1.05
LWAP/GWAP⁴
FY2016: 1.03

96%
Geothermal
availability
FY2016: 96%
Market⁵: ~91%

8 STRATEGY EXECUTION

¹ As measured by the 2017 IBM Employee Engagement Survey Engagement Index

² Customer Management and Billing system

³ Total Recordable Injury Frequency Rate (TRIFR) per 200,000 hours; includes onsite employees and contractors

⁴ Average price of purchases (LWAP) over average price of generation (GWAP)

⁵ Derived from Transpower's New Zealand geothermal generation data (excluding Mercury operated plant)



DELIVERING SUSTAINABLE GROWTH

CUSTOMER LED INNOVATION

- > Providing innovative product offerings with widespread uptake – Airpoints Dollars™, Free Power Days, E-bike retailer discounts
- > Embracing new customer-centric technologies through **Mercury Solar** (including storage offerings) and Southdown R&D centre

PROMOTING NZ'S RENEWABLE ADVANTAGE

- > Encouraging **Electric Vehicle** (EV) uptake through a special overnight EV recharging tariff
- > **Electric Highway™** (launched in partnership with PlugShare) making public EV charging accessible at 500+ locations around NZ
- > Mercury and Air NZ led **EV initiative** will result in more than 1,450 cars being replaced with EVs by 2020



GROWTH FROM CORE BUSINESS

- > **Wind** options (Turitea & Puketoi) remain ready for development at the right time
- > Silica extraction from geothermal fluid investigated as a commercial opportunity

HOME AND BEYOND

- > Undertook **strategic review** of future growth options with focus on our core markets and opportunities within the home and e-mobility
- > Exploring **smart metering** opportunities in Australia

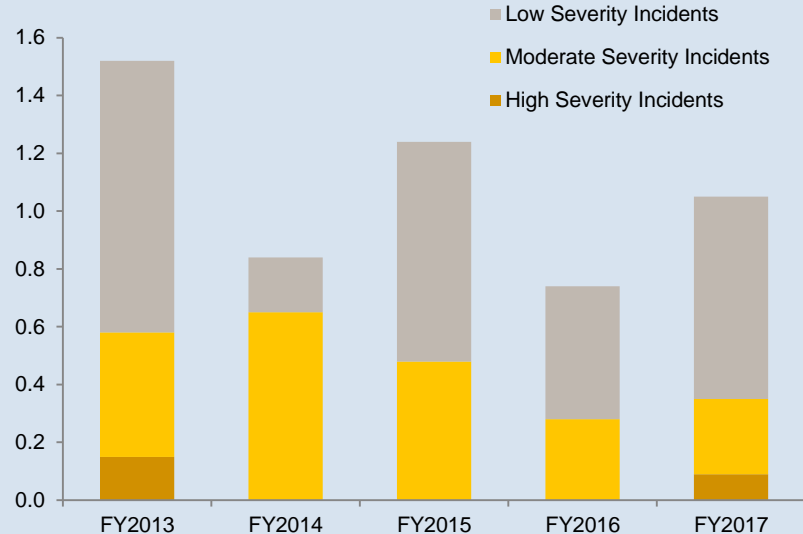


WELL-BEING

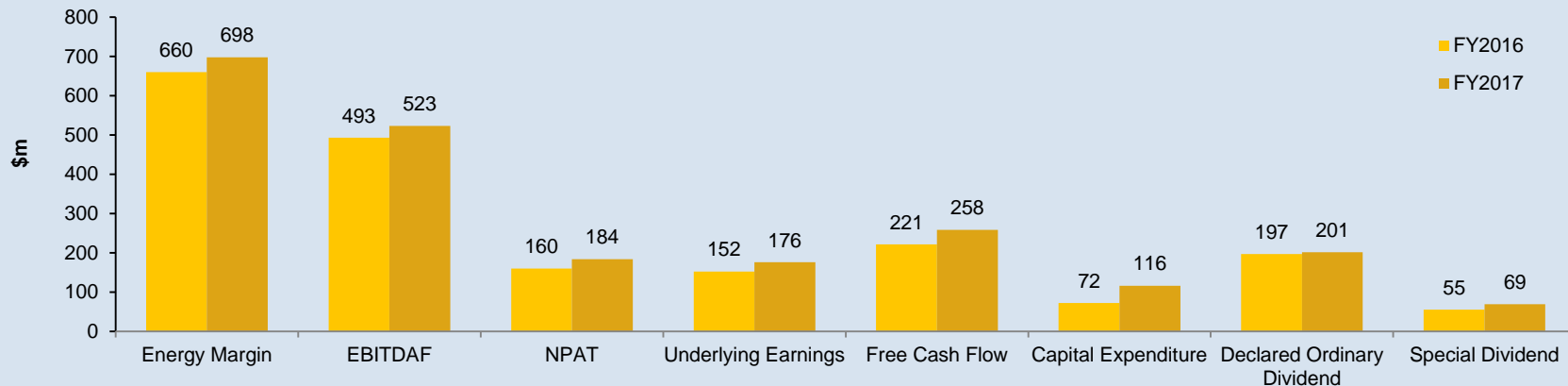
- > Zero harm is our well-being goal
- > One serious injury of an on-site contractor in the first half of FY2017 due to an office stair fall
- > A number of low-severity incidents across the company contributed to a 0.31 increase in TRIFR to 1.05
- > Employee engagement survey supports Mercury's commitment to the Health & Safety of employees:
 - > 95% of employees agreed that Mercury is committed to the Health and Safety of its people
 - > 87% of employees agreed that Mercury cares about the well-being of its people
- > Focus on continuous improvement including a Process Safety programme with emphasis on low probability high consequence events

TOTAL RECORDABLE INJURY FREQUENCY RATE (TRIFR)

(per 200,000 hours; includes onsite employees and contractors)



FINANCIAL PERFORMANCE



- > EBITDAF up \$30m, reflecting record generation, carbon sales and execution of customer loyalty strategies
- > Carbon credit divestment resulting in gain on sale of \$5m and \$26m cash proceeds
- > Impairments of \$18m mainly attributable to the exit of international geothermal development
- > 5.0cps fully-imputed special dividend declared to distribute excess free cash flow and proceeds from carbon sales



FY2018 GUIDANCE

- > FY2018 EBITDAF guidance is \$500m subject to hydrological volatility, wholesale market conditions and any material adverse events, significant one-off expenses or other unforeseeable circumstances
- > The FY2018 EBITDAF guidance assumes:
 - > 4,150GWh of hydro generation (574GWh less than FY2017);
 - > Operating expenditure flat relative to FY2017
- > FY2018 ordinary dividend guidance is up more than 2% to 15.0cps
- > FY2018 stay-in-business capital expenditure guidance is elevated at \$115m due to:
 - > Ongoing major multi-site hydro refurbishment (at Whakamaru and Aratiatia stations)
 - > Spare turbine steam path rotor at Kawerau for reducing outage duration and risk management
 - > Completion of two significant ICT projects:
 - > Metrix meter data project delivering certified half-hourly meter data to Metrix customers
 - > SAP technology platform upgrade creating a foundation for streamlined processes and innovation





13 MARKET DYNAMICS



ANTICIPATED RESPONSE TO BALANCED SUPPLY AND DEMAND

DYNAMIC: THERMAL RATIONALISATION AND POSITIVE DRIVERS OF DEMAND GROWTH

FUNDAMENTALS: SUPPLY AND DEMAND BETTER BALANCED

ANTICIPATED MARKET RESPONSE

- > Increase in wholesale price volatility in the absence of high hydro inflows
- > Futures price increase
- > Commercial and Industrial (C&I) pricing increase
- > Retail churn reduction
- > Upward pressure on retail price



Futures price remains unresponsive



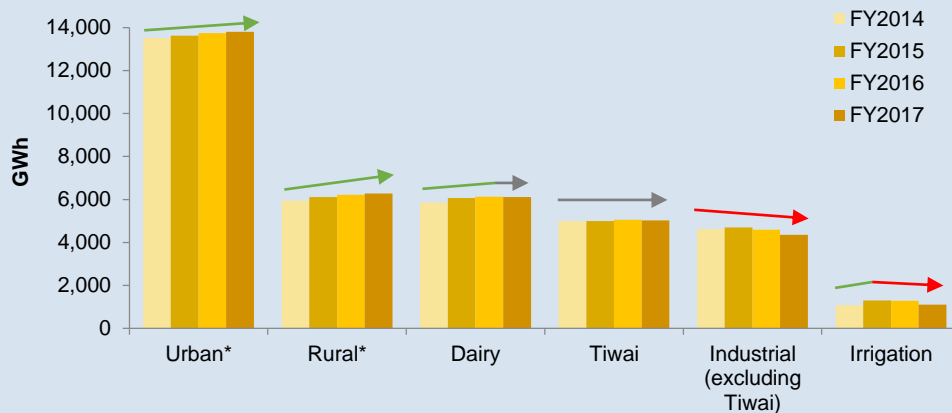
INDUSTRIAL CLOSURES OFFSETTING UNDERLYING GROWTH

- > Demand lower, led by a fall in the irrigation and industrial sectors
 - > Down -0.8% in FY2017 (1HY2017 -2.4% & 2HY2017 1.0%), -0.9% after normalising for temperature (1HY2017 -1.6% & 2HY2017 -0.2%)
 - > Irrigation demand lower due to relatively wet conditions, industrial demand down due to closures
- > The fundamentals underpinning demand growth remain positive
 - > High net migration and growth in GDP per capita

FY2017 NORMALISED DEMAND GROWTH BY SECTOR

Sector	GWh	Sector %Δ	Total %Δ
Urban*	13,793	0.7%	0.3%
Rural*	6,279	0.9%	0.1%
Dairy processing	6,119	-0.1%	-0.0%
Irrigation	1,111	-13.9%	-0.4%
Industrial	9,370	-2.9%	-0.7%

DEMAND



* Normalised for temperature

Source: Transpower SCADA data, Mercury

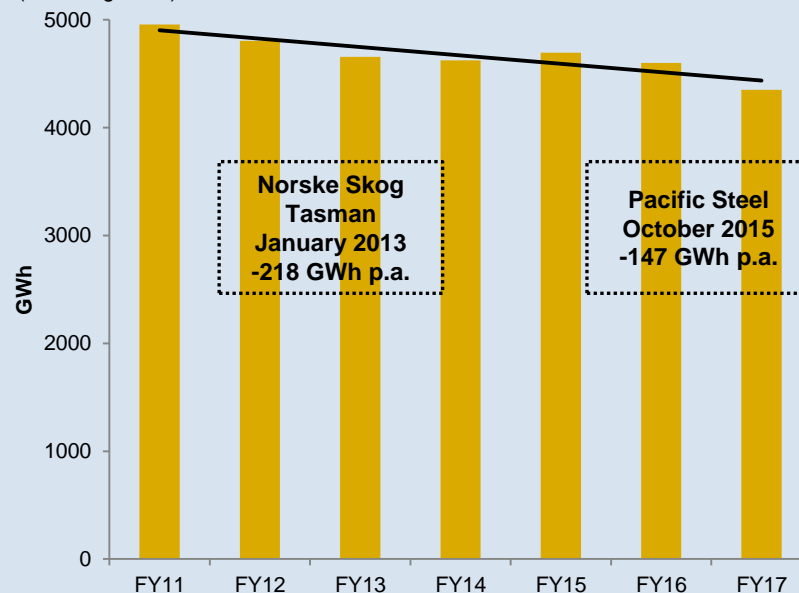


INDUSTRIAL CLOSURES OFFSETTING UNDERLYING GROWTH

- > Recent trend in de-industrialisation continues with FY2017 industrial demand (excluding Tiwai) down 5% and down 9% in the last 5 years
- > Recent industrial closures
 - > Pacific Steel Mill (Oct 2015) ~147 GWh p.a.
 - > Roa Underground Coal Mine (Jan 2016) ~13 GWh p.a.
 - > Oceana Gold's Reefion Mine (Feb 2016) ~38 GWh p.a.
 - > Holcim Cement Plant and Bathurst Mine (May 2016) ~50 GWh p.a.
- > NZAS remains the largest demand risk
 - > 13% of total demand
 - > Exit in the short-term appears unlikely:
 - > Aluminium prices well above historic lows in late 2015
 - > Large remediation provision would be crystallised upon closure
 - > NZ electricity sector, versus Australia, provides certainty to business through being renewable, competitive and reliable – the electricity trifecta

INDUSTRIAL DEMAND

(excluding Tiwai)

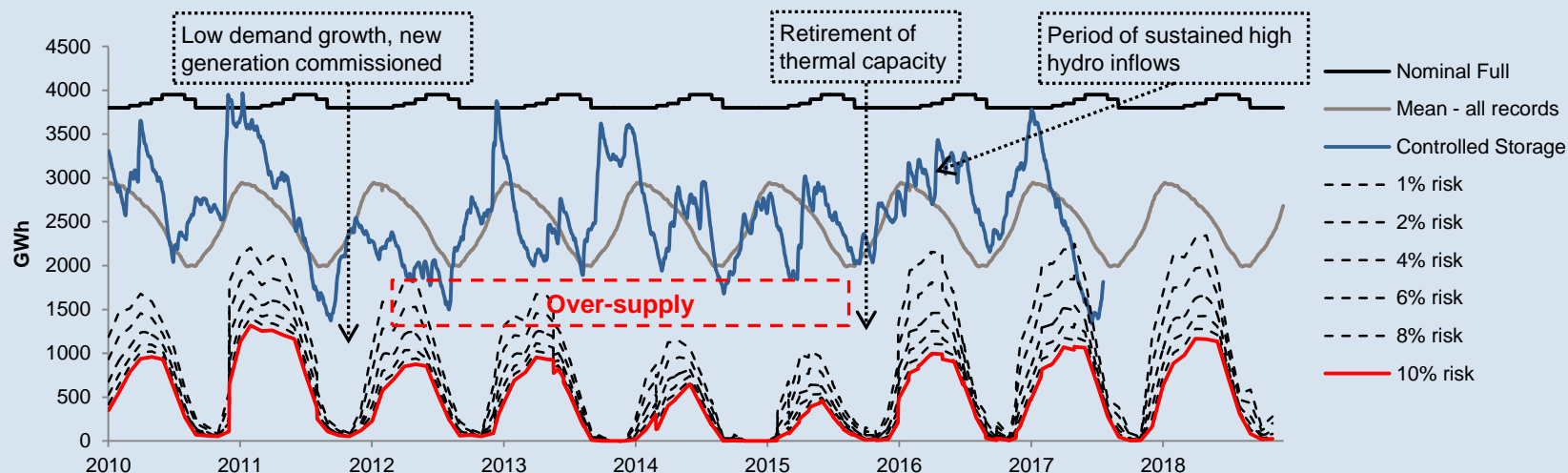


Source: Transpower SCADA data, Mercury



SUPPLY AND DEMAND CONDITIONS IMPACT HYDRO MANAGEMENT

- > The hydro risk curve reflects the risk of an extended energy shortage by tracking controlled storage versus expected hydro inflows; the 10% risk curve is designated as the 'emergency zone' - where one in ten historical inflow sequences would lead to controlled storage running out
- > NZ emergency zone (10% risk) has lifted from 2016 to more efficient levels due to retirement of thermal capacity

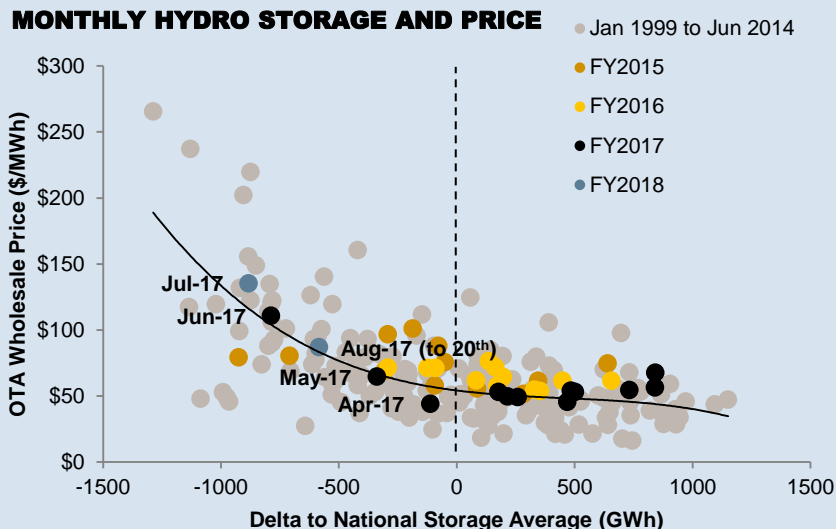


Source: Electricity Authority, EMI – Historical hydro risk curves

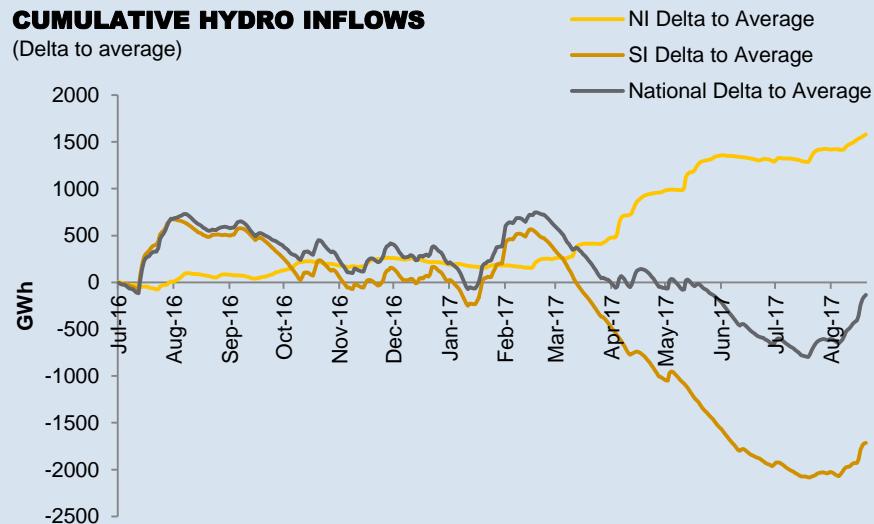


FY2017 WHOLESALE PRICE REFLECTING SOUTH ISLAND STORAGE

- > Wholesale prices highly correlated to South Island storage levels
 - > South Island storage above average through till March 2017
 - > Dry South Island conditions from March 2017 resulted in storage declining to ~1000GWh below average causing prices to peak at \$135/MWh (OTA) for July 2017



Source: NZX Hydro, Pricing Manager (NZX), Mercury



Source: NZX Hydro, Mercury

18 MARKET DYNAMICS

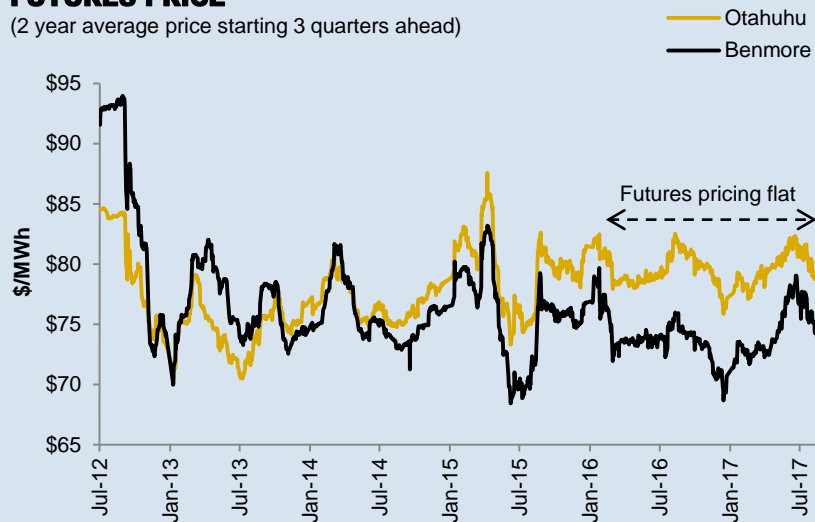


FUTURES MARKET STILL UNRESPONSIVE TO SUPPLY RATIONALISATION

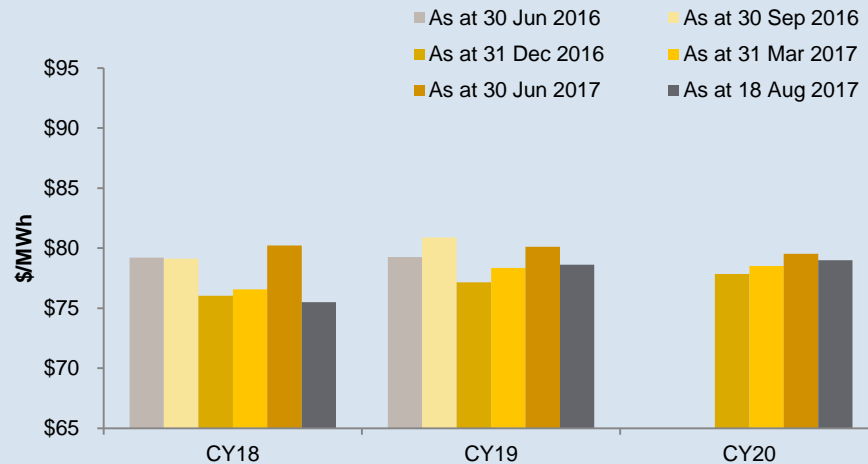
- > Medium term futures pricing flat since thermal retirement announcements
- > Futures pricing a key reference for C&I sales and purchase costs for independent retailers

FUTURES PRICE

(2 year average price starting 3 quarters ahead)



ASX FUTURES PRICING

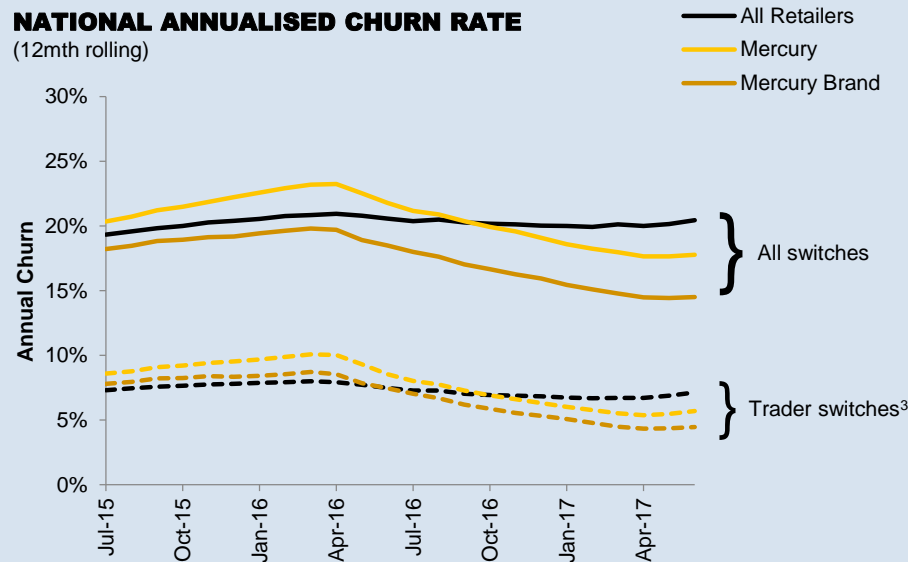
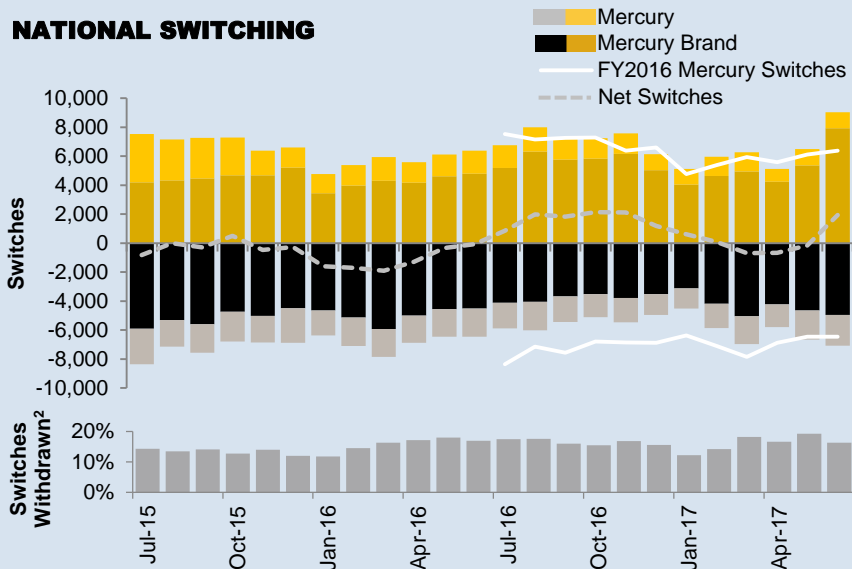


Source: ASX



CHURN LOWER FROM REWARDING CUSTOMER LOYALTY

- > Focus on promoting and rewarding customer loyalty resulted in fewer customers leaving, contributing to Mercury customer numbers increasing by 16,000 in FY2017
- > Customer satisfaction¹ based on Mercury's survey increased through the year from 60% to 64%



20 MARKET DYNAMICS

Source: Electricity Authority, EMI – Market share trends and switching breakdown

¹ Based on Mercury's monthly survey of residential customers, 3-monthly rolling average to 30 June for Mercury brand (excludes Bosco and GLOBUG)

² Switches which were initiated but not completed (inclusive of saves)

³ A trader switch is where a customer changes retailer without changing house

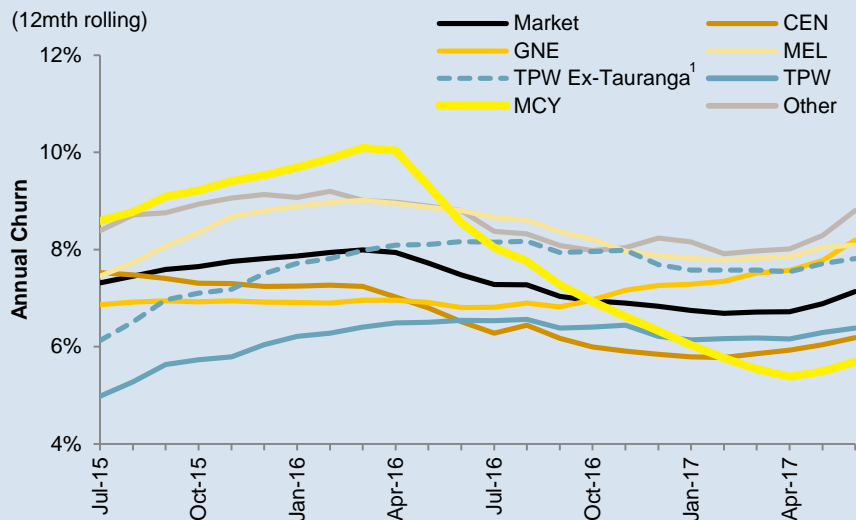


CHURN LOWER FROM REWARDING CUSTOMER LOYALTY

- > Loyalty focus has contributed to Mercury national trader churn falling from highs in FY2016 to the lowest among major retailers
- > Mercury remains market leader for trader churn in the countries largest retail market, Auckland

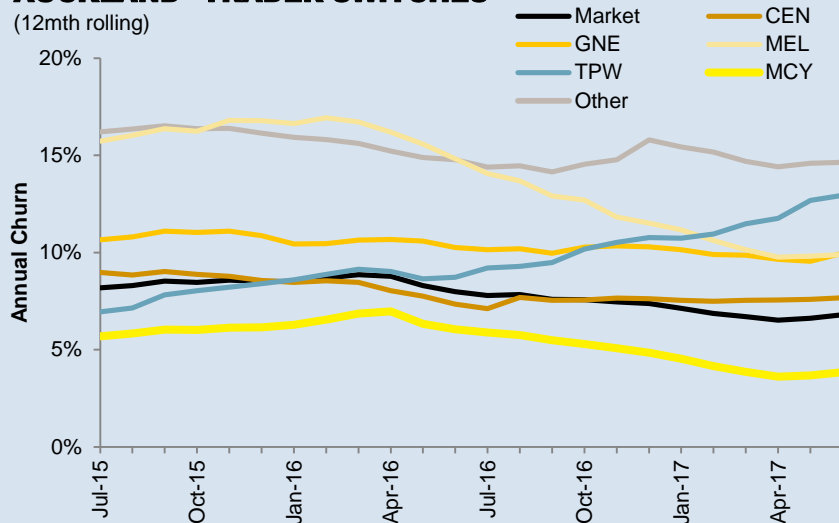
NATIONAL TRADER SWITCHES

(12mth rolling)



AUCKLAND² TRADER SWITCHES

(12mth rolling)





FY2017 FINANCIAL HIGHLIGHTS

\$523m

EBITDAF, up \$30m, reflecting record generation, carbon sales and execution of customer loyalty strategies

\$184m

NPAT, up \$24m, reflecting higher earnings and greater fair value movements offset by higher tax expense

1.8x

Debt/EBITDAF, consistent with BBB+ credit rating and headroom for growth

\$258m

Free Cash Flow, reflecting strong cashflows from low cost 100% renewable generation and sales to customers

14.6cps

Fully-imputed full-year ordinary dividend declared, per guidance

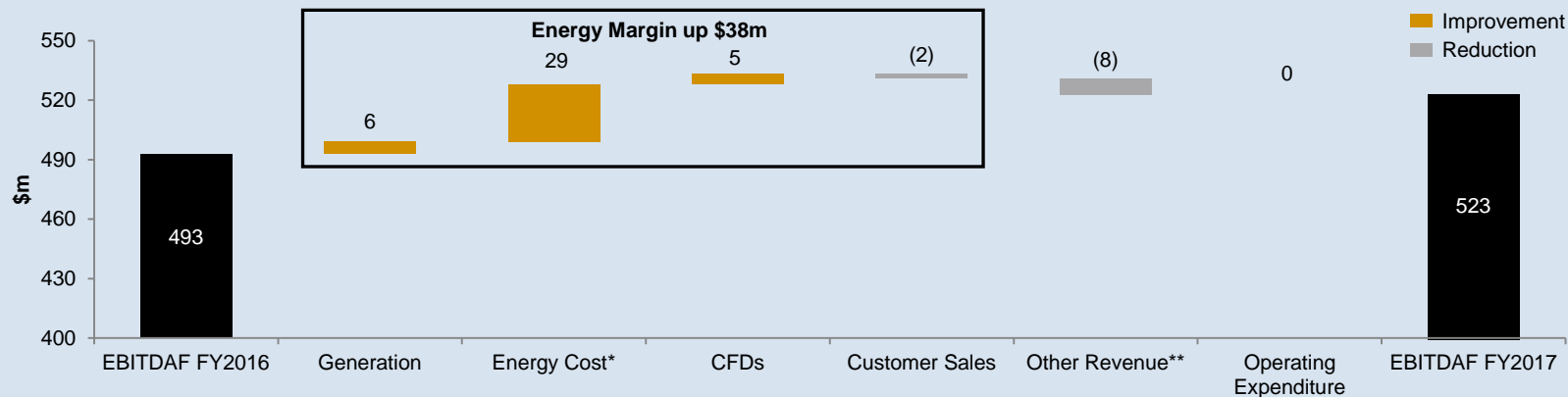
5.0cps

Fully-imputed special dividend declared with a continued focus on appropriate capital management



EBITDAF BRIDGE (FY2017 vs. FY2016)

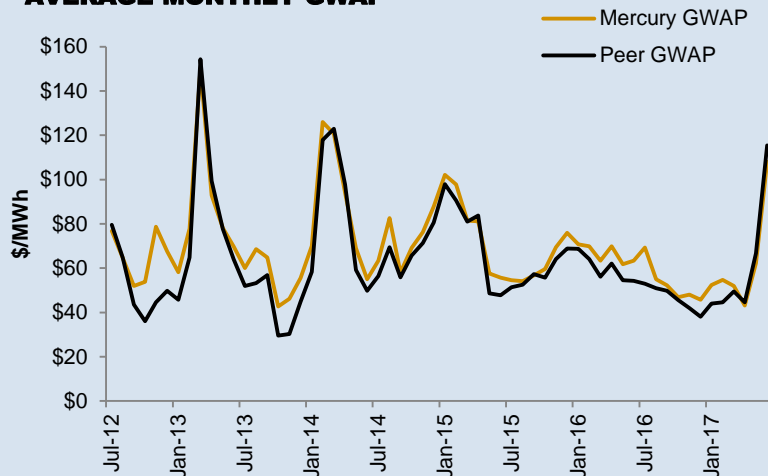
- > Energy margin up \$38m
 - > Record generation with 837GWh more generation from renewable sources
 - > Energy Cost down with wholesale price lower reflecting South Island hydro storage through the year
- > Operating expenditure flat year-on-year
 - > No accounting policy changes affecting operating expenditure
 - > Operating expenditure restated to separate direct costs of other revenue (-\$3m including pcg)
- > Other revenue down \$8m due to land sales in FY2016 (-\$13m), partially offset by carbon credit sales (\$5m)



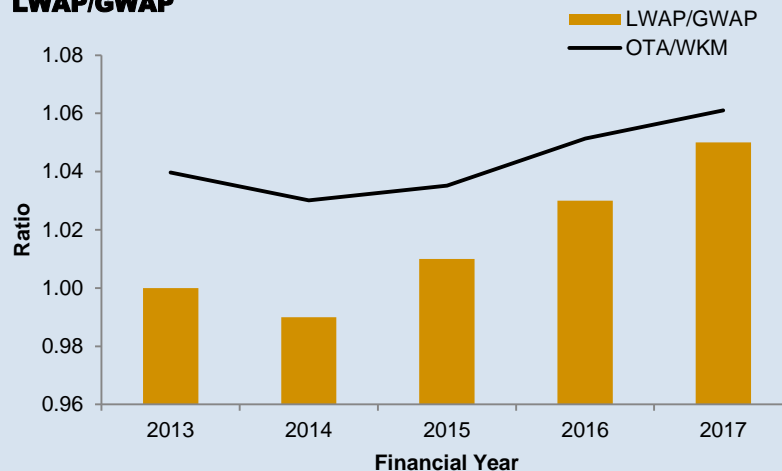
LWAP/GWAP HIGHER REFLECTING UPPER NORTH ISLAND PLANT CLOSURES

- > The price Mercury receives for generation (GWAP) is typically higher than its peers reflecting the flexibility of Mercury's North Island assets
 - > Lower in Q4 FY2017 due to higher southward power flow as hydro storage and generation fell
- > The ratio of the price paid to purchase electricity (LWAP) to GWAP has increased due to upper North Island thermal plant closures in FY2016

AVERAGE MONTHLY GWAP



LWAP/GWAP



Source: Pricing Manager (NZX), Mercury



OTHER FINANCIAL ITEMS

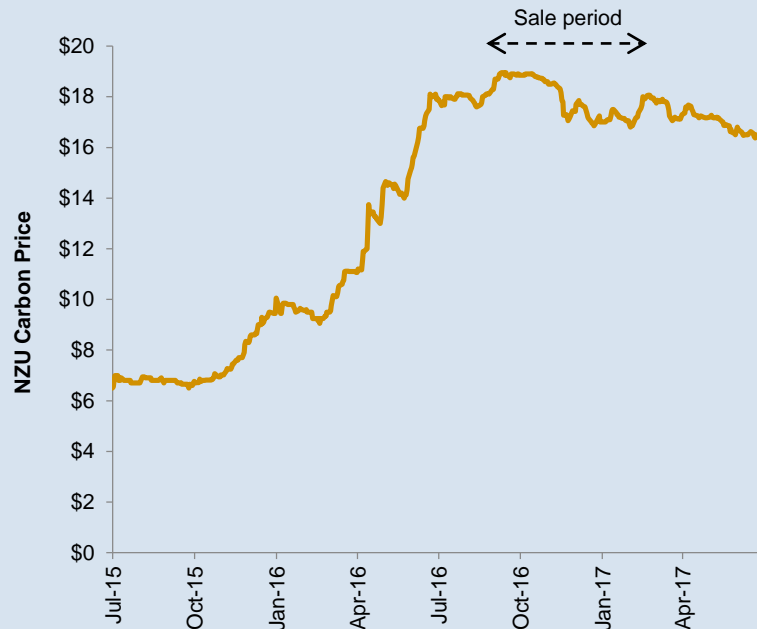
Carbon credits

- > Future carbon obligations substantially reduced following the 2015 mothballing of the Southdown gas-fired station
- > Opportunity taken in FY2017 to divest some carbon credits at elevated prices
 - > Sale of 1.4m credits with cash proceeds of \$26m and gain on sale of \$5m
- > Remaining inventory and supply contracts sufficient to meet future obligations for 10+ years
 - > Including zero cost units (PREs) to meet obligations through to end of FY2018

Impairments

- > Totalling \$18m in FY2017 with the majority relating to the final exit of international geothermal development including the crystallisation of the foreign currency translation reserve loss

NZU CARBON PRICE



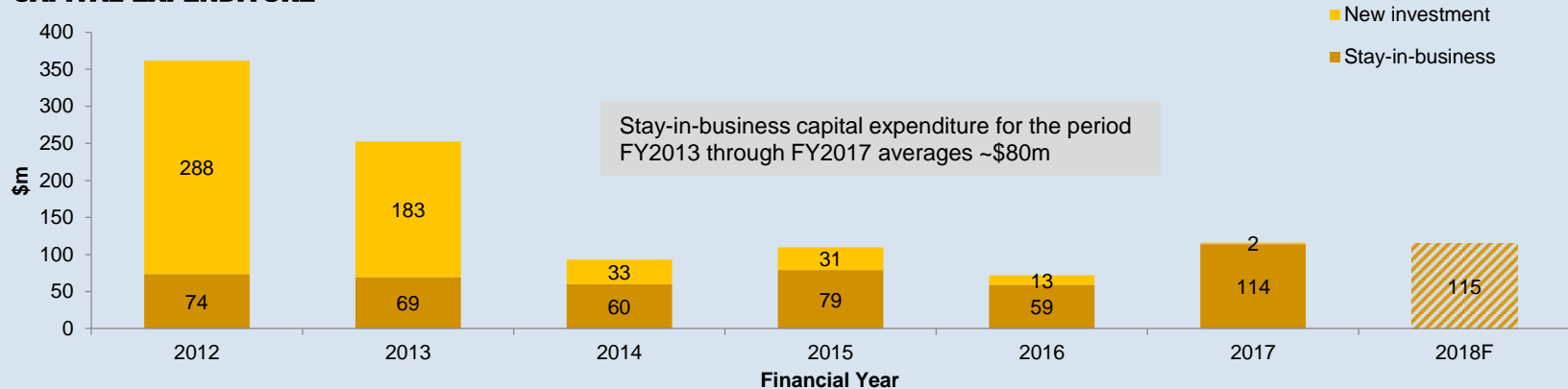
Source: Westpac carbon prices



RE-INVESTING IN PLANT AND SYSTEMS

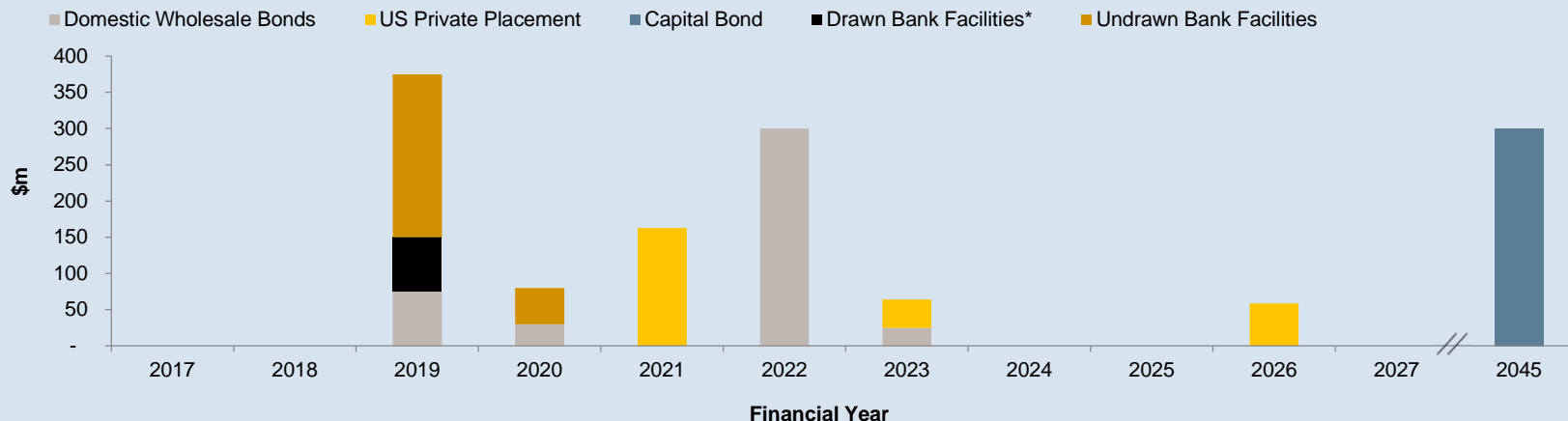
- > Mercury took the opportunity to undertake additional capital expenditure in FY2017 – largely geothermal drilling and large hydro refurbishment
- > Planned capital expenditure in FY2018 includes:
 - > Kawerau spare turbine steam path rotor
 - > Phasing of major hydro investment as Waikato hydro system refurbishment continues at Aratiatia and Whakamaru stations
 - > Investment in ICT systems (Metrix data project and SAP technology platform upgrade)

CAPITAL EXPENDITURE



DIVERSIFIED FUNDING PROFILE

DEBT MATURITIES AS AT 30 JUNE 2017



- > \$120m of wholesale bonds matured in October 2016 and were partially re-financed with a new \$50m bank facility
- > The average debt maturity profile for committed facilities was 8.6 years at 30 June 2017
- > Interest costs elevated due to interest rate hedges put in place in 2008 during the company's domestic geothermal investment programme. These hedges roll off progressively from the end of FY2018 with a circa \$20m net annual cash flow benefit in FY2019.

* Drawn bank facilities includes issued commercial paper



STABLE CAPITAL STRUCTURE WITH CAPACITY FOR GROWTH

- > BBB+ rating is key reference point for dividend policy and an efficient and sustainable capital structure
 - > S&P re-affirmed Mercury's credit rating of BBB+/stable on 4 December 2016
 - > One-notch upgrade given majority Crown ownership
 - > Key ratio for stand alone S&P credit rating BBB requires Debt / EBITDAF between 2.0x and 3.0x
- > Capital management continuously reviewed
 - > Debt/EBITDAF 1.8x at 30 June 2017¹
 - > Gearing level of circa 2.0x will be maintained to provide debt headroom due to Government minimum equity ownership requirement

	30 June 2017	30 June 2016	30 June 2015	30 June 2014	30 June 2013
Net debt (\$m)	1,038	1,068	1,082	1,031	1,028
Gearing ratio (%)	23.9	24.4	24.5	24.3	24.4
Debt/EBITDAF (x)	1.8 ¹	2.0 ¹	2.0 ¹	2.1	2.7

¹Adjusted for S&P treatment of Mercury's Capital Bond



CONTINUOUS FOCUS ON CAPITAL MANAGEMENT

FREE CASH FLOW (FCF) Net Cash Flow from Operating Activities less normalised stay-in-business capital expenditure			
BALANCE SHEET	ORDINARY DIVIDENDS	INVESTMENT IN GROWTH	SPECIAL DISTRIBUTIONS
Key ratio for stand alone S&P rating of 'BBB' is Debt/EBITDAF between 2.0x and 3.0x	Dividend Policy is to make distributions with a pay-out ratio of 70-85% of FCF on average through time	Investment in growth evaluated against all other competing uses of capital	
1	>	2	>
Debt/EBITDAF 1.8x at 30 June 2017 ¹	FY2017 fully imputed ordinary dividends of 14.6cps declared	Minimal FY2017 new investment capital expenditure	5.0cps special dividend declared to distribute excess FY2017 FCF plus the proceeds of the carbon credit sales
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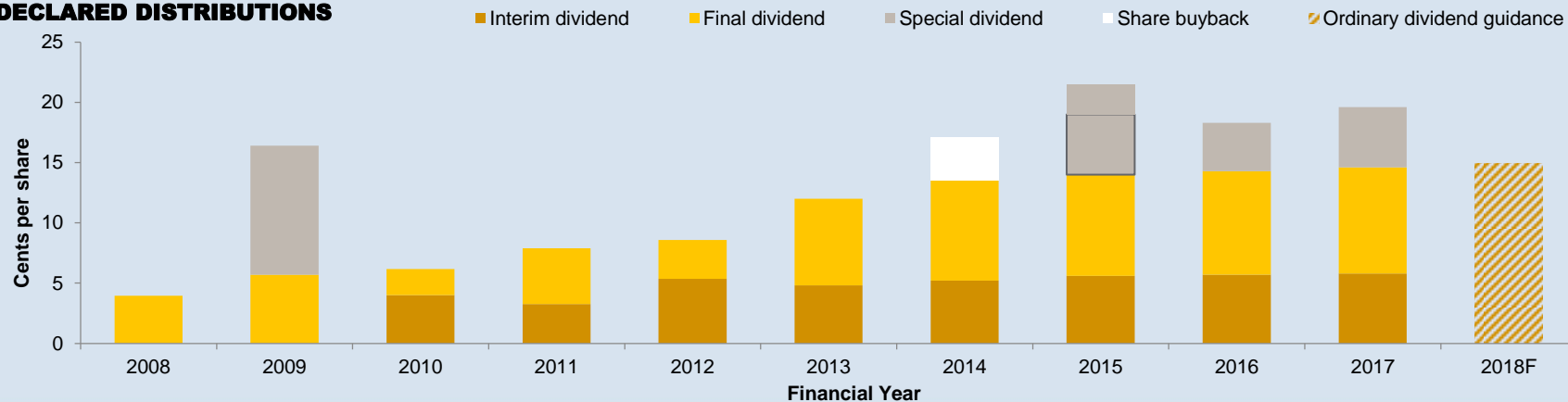
¹Adjusted for S&P treatment of Mercury's Capital Bond



9TH CONSECUTIVE YEAR OF ORDINARY DIVIDEND GROWTH

- > FY2017 fully imputed ordinary final dividend of 8.8cps
 - > Ordinary dividend for FY2017 up 2% to 14.6 cps, in line with guidance
- > 5.0cps fully-imputed special dividend declared
 - > Distribution of excess Free Cash Flow plus proceeds from carbon credit sales within FY2017
 - > Tax pre-payment in FY2018 to facilitate imputing of special dividend (estimated \$20m)
- > FY2018 ordinary dividend guidance is an increase of more than 2% to 15.0cps

DECLARED DISTRIBUTIONS



Q & A



OPERATING INFORMATION

	Year ended 30 June 2017		Year ended 30 June 2016	
Electricity Sales	VWAP¹ (\$/MWh)	Volume (GWh)	VWAP¹ (\$/MWh)	Volume (GWh)
FPVV sales to customers	113.51	4,606	114.83	4,397
Residential customers		2,458		2,438
Commercial customers		2,148		1,959
FPVV purchases from market		4,865		4,643
Spot customer purchases		899		950
Total NZEM purchases	61.04	5,764	65.41	5,593
Electricity Customers (000)²		392		376
North Island customers		349		339
South Island customers		43		37
Dual Fuel customers		45		41
Metrix AMI Meters (000)		403		396

¹ VWAP is volume weighted average energy-only price sold to FPVV customers after lines, metering and fees

² Excludes vacant premises



OPERATING INFORMATION

	Year ended 30 June 2017		Year ended 30 June 2016	
Electricity Generation	VWAP (\$/MWh)	Volume (GWh)	VWAP (\$/MWh)	Volume (GWh)
Hydro	60.31	4,724	64.84	3,866
Gas (all 1HY2016)	-	-	68.64	146
Geothermal (consolidated) ¹	53.87	2,586	60.84	2,596
Geothermal (equity accounted) ²	54.66	223	61.44	234
Total	57.93	7,533	63.29	6,842
LWAP/GWAP		1.05		1.03
Carbon Emissions ('000 tonnes)		359		428

¹ Includes Mercury's 65% share of Nga Awa Purua generation

² Tuaropaki Power Company (Mokai) equity share



CONTRACTS FOR DIFFERENCE

	Year ended 30 June 2017	Year ended 30 June 2016
Net Contracts for Difference (Sell)/Buy GWh		
Sell - End User	(1,325)	(1,448)
Sell - VAS ¹	(699)	(701)
Sell - Inter-generator & ASX	(1,562)	(1,259)
Sell CFD	(3,586)	(3,408)
Buy CFD	1,628	1,741
Net CFD	(1,958)	(1,667)
Energy Margin contribution (\$m)	34	27

¹ VAS included on both buy and sell side CFDs



NON-GAAP MEASURE: ENERGY MARGIN

- > Energy Margin provides a measure that, unlike sales or total revenue, accounts for the variability of the wholesale spot market and the broadly offsetting impact of wholesale prices on the purchase cost of our customers' electricity

\$m	Year ended 30 June 2017	Year ended 30 June 2016
Sales	1,552	1,511
Less: lines charges	(440)	(419)
Less: energy costs	(358)	(384)
Less: other direct cost of sales, excluding third-party metering	(32)	(25)
Less: third party metering	(24)	(23)
Energy Margin	698	660



NON-GAAP MEASURE: FREE CASH FLOW

- > Free Cash Flow is a measure that the Company uses to evaluate the levels of cash available for debt repayments, growth capital expenditure and dividends

\$m	Year ended 30 June 2017	Year ended 30 June 2016
Net cash provided by operating activities	372	280
Less: Stay-in-business capital expenditure (including accrued costs)	(114)	(59)
Free Cash Flow	258	221



NON-GAAP MEASURES: EBITDAF, UNDERLYING EARNINGS AND NET DEBT

- > EBITDAF is reported in the financial statements and is a measure that allows comparison across the electricity sector. EBITDAF is defined as earnings before net interest expense, income tax, depreciation and amortisation, change in fair value of financial instruments, impairments, and equity accounted earnings of associates and joint ventures.
- > Underlying Earnings is reported in the financial statements representing net profit for the year adjusted for one-off and/or infrequently occurring events exceeding \$10 million of net profit before tax, impairments, and any changes in the fair value of derivative financial instruments. In contrast to net profit, the exclusion of these items enables a comparison of the company's underlying performance between financial years.
- > Net Debt is reported in the full year financial statements and is a measure commonly used by investors. Net debt is calculated as total borrowings (both current and non-current) less cash and cash equivalents.





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