



STOCK EXCHANGE LISTINGS: NEW ZEALAND (MCY) / AUSTRALIA (MCY)

NEWS RELEASE

Mercury Investor Day 2017

25 September 2017 – Mercury is hosting its Investor Day 2017 in Auckland today, which includes presentations from the Chief Executive, Fraser Whineray, and other members of the senior leadership team focusing on portfolio and market dynamics, our assets, an introduction to geothermal, driving customer loyalty and technology and digital.

The presentation materials from the Investor Day are attached.

ENDS

For further information:

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ABOUT MERCURY NZ LIMITED

At Mercury we're thinking boldly about the possibilities with energy and inspiring New Zealanders with our renewable electricity and ideas – making energy wonderful. Energy from Mercury's hydro and geothermal stations will power a brighter future for our country.

Visit us at: www.mercury.co.nz



MERCURY INVESTOR DAY 2017



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AGENDA

1:15pm – 2:00pm



Overview

2:00pm – 2:45pm



Our Portfolio and Market Dynamics

3:00pm – 5:15pm



Workshop 1: Our Assets - Enabling Our Mission

(45 mins each)



Workshop 2: Geothermal 101



Workshop 3: Loyalty & Digital Journeys

5:15pm / 6:30pm



Drinks followed by Dinner



OVERVIEW

FRASER WHINERAY
Chief Executive



Our Mission: Energy Freedom.



REALISING OUR PURPOSE >>

TO INSPIRE NEW ZEALANDERS
TO ENJOY ENERGY IN MORE
WONDERFUL WAYS

EXECUTING OUR STRATEGY >>

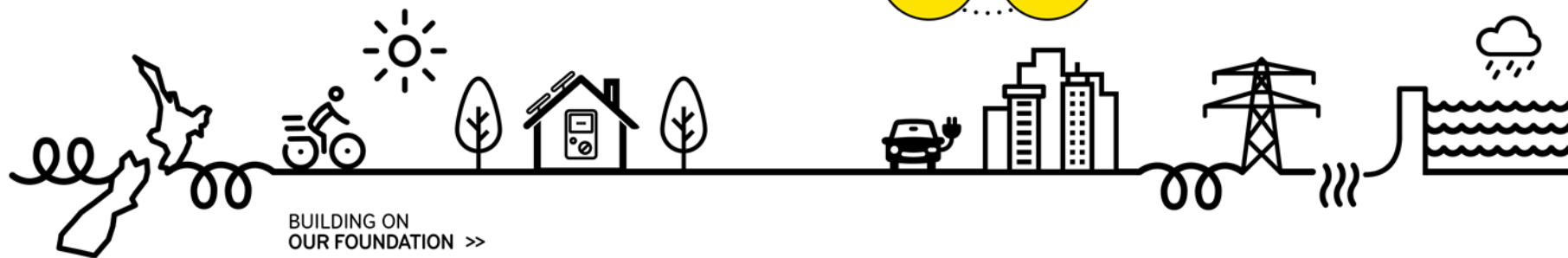
DELIVERING CUSTOMER
ADVOCACY
LEVERAGING CORE STRENGTHS
DELIVERING SUSTAINABLE
GROWTH

LIVING OUR ATTITUDE >>



ACHIEVING OUR GOAL >>

TO BE NEW ZEALAND'S
LEADING ENERGY BRAND



BUILDING ON OUR FOUNDATION >>

WELLBEING
OF OUR PEOPLE AND
CUSTOMERS

KAITIAKITANGA
THE CUSTODIANSHIP OF
NATURAL RESOURCES

COMMERCIAL
COMMERCIALLY ASTUTE
DECISIONS

Ref. FY2017 Annual Report, pp. 4-5





FIVE KEY PILLARS

> Five key pillars underpin Mercury's business model and strategy:

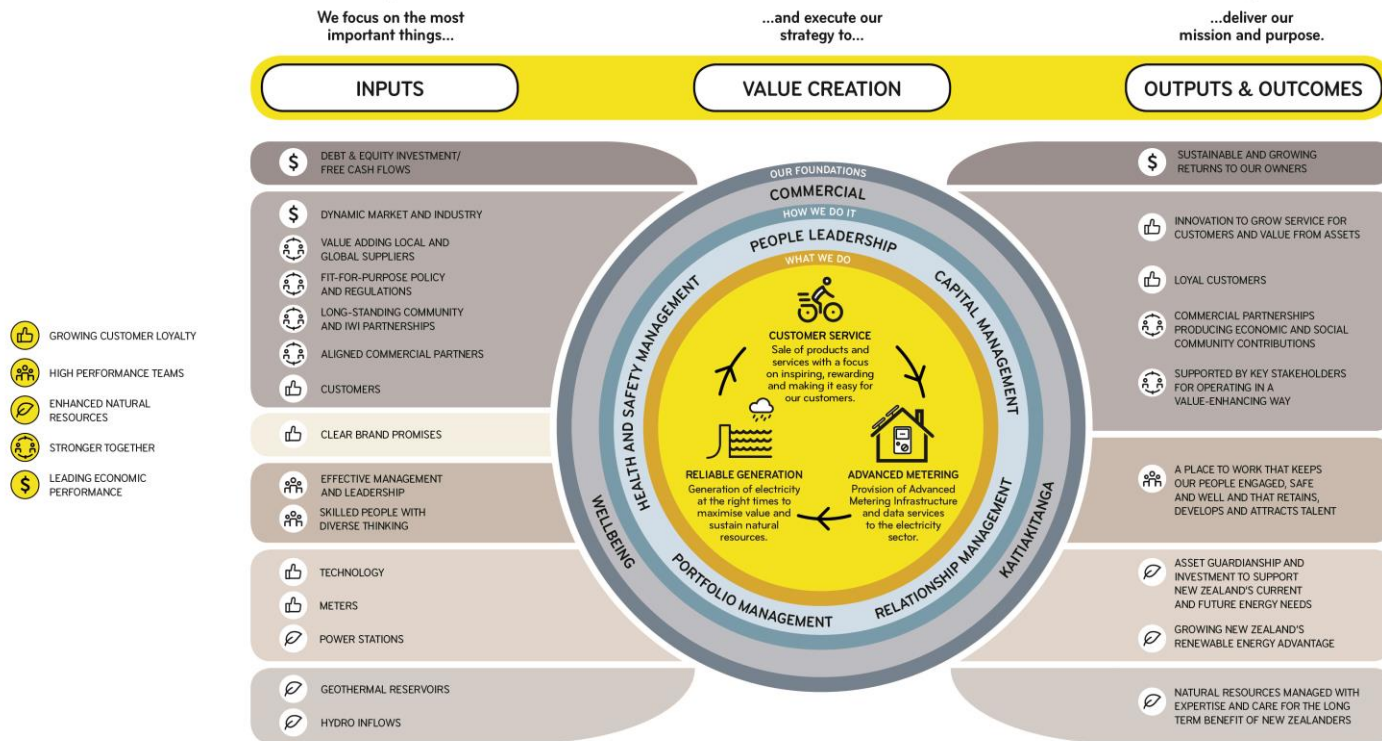


OUR MISSION: ENERGY FREEDOM

Source: FY2017 Mercury Annual Report, p. 21



BUSINESS MODEL



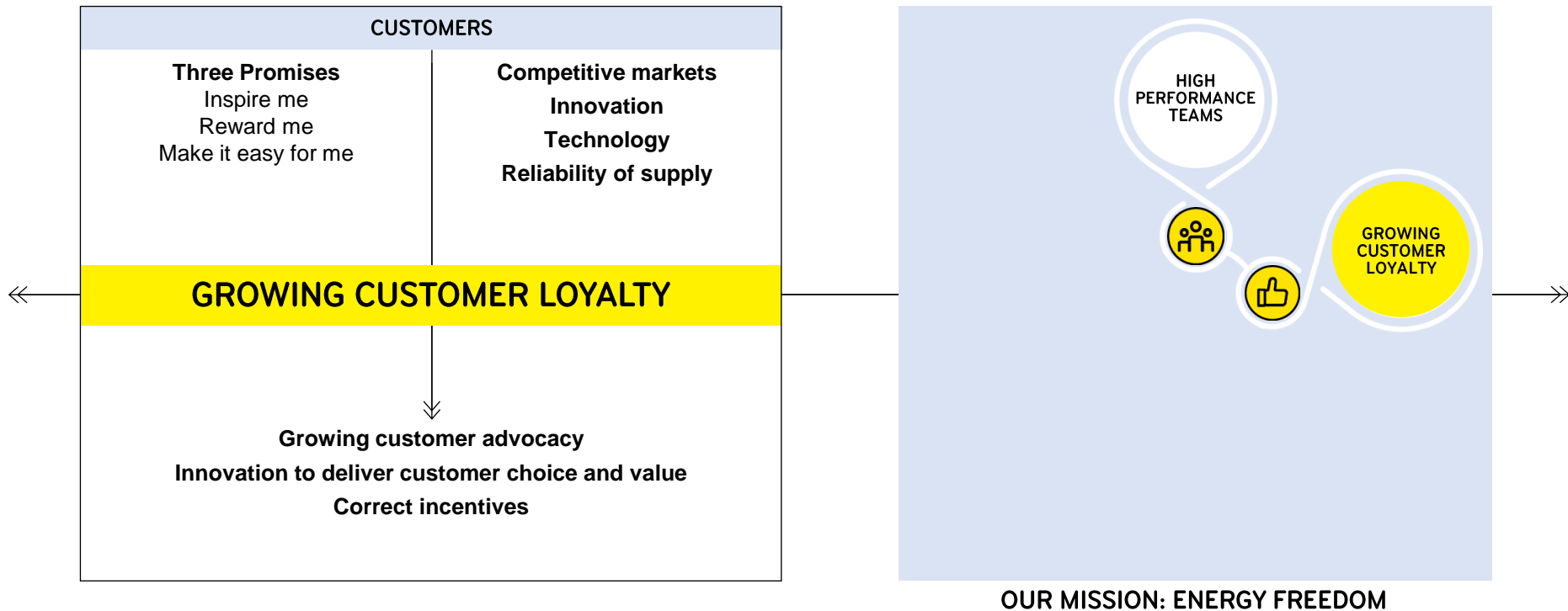
Source: FY2017 Annual Report, pp. 6-7



HIGH PERFORMANCE TEAMS



GROWING CUSTOMER LOYALTY



ENHANCED NATURAL RESOURCES



HYDRO AND GEOTHERMAL RESOURCES

Kaitiakitanga
(Guardianship)
Asset management

Resource management
Water management
Reservoir management

ENHANCED NATURAL RESOURCES

Natural resources managed with expertise and care for the long term benefit of New Zealanders and their communities

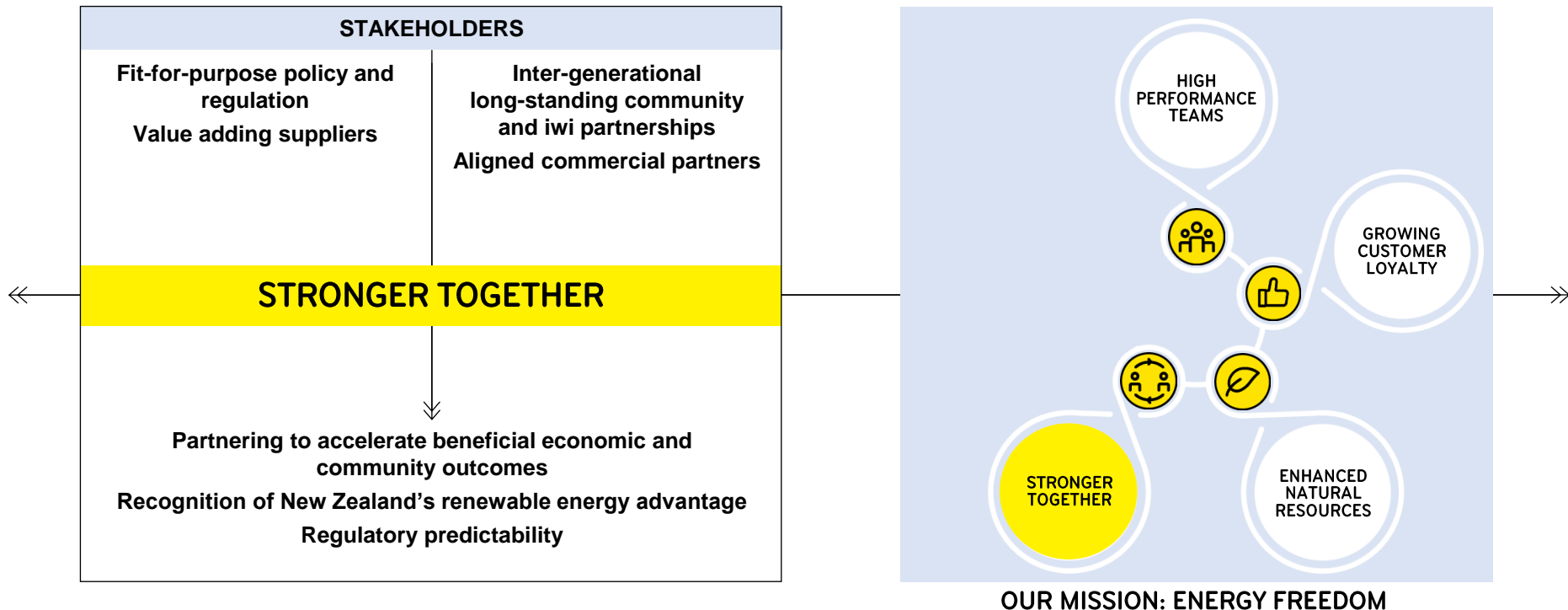
Growing New Zealand's renewable energy advantage
Asset guardianship and investment to support New Zealand's current and future energy needs



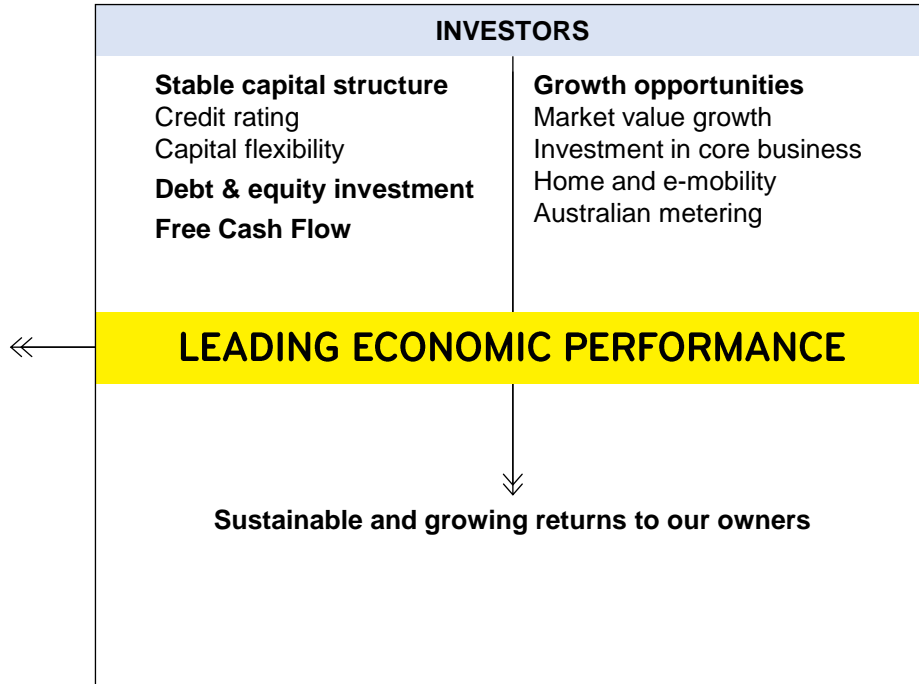
OUR MISSION: ENERGY FREEDOM



STRONGER TOGETHER



LEADING ECONOMIC PERFORMANCE



OUR MISSION: ENERGY FREEDOM

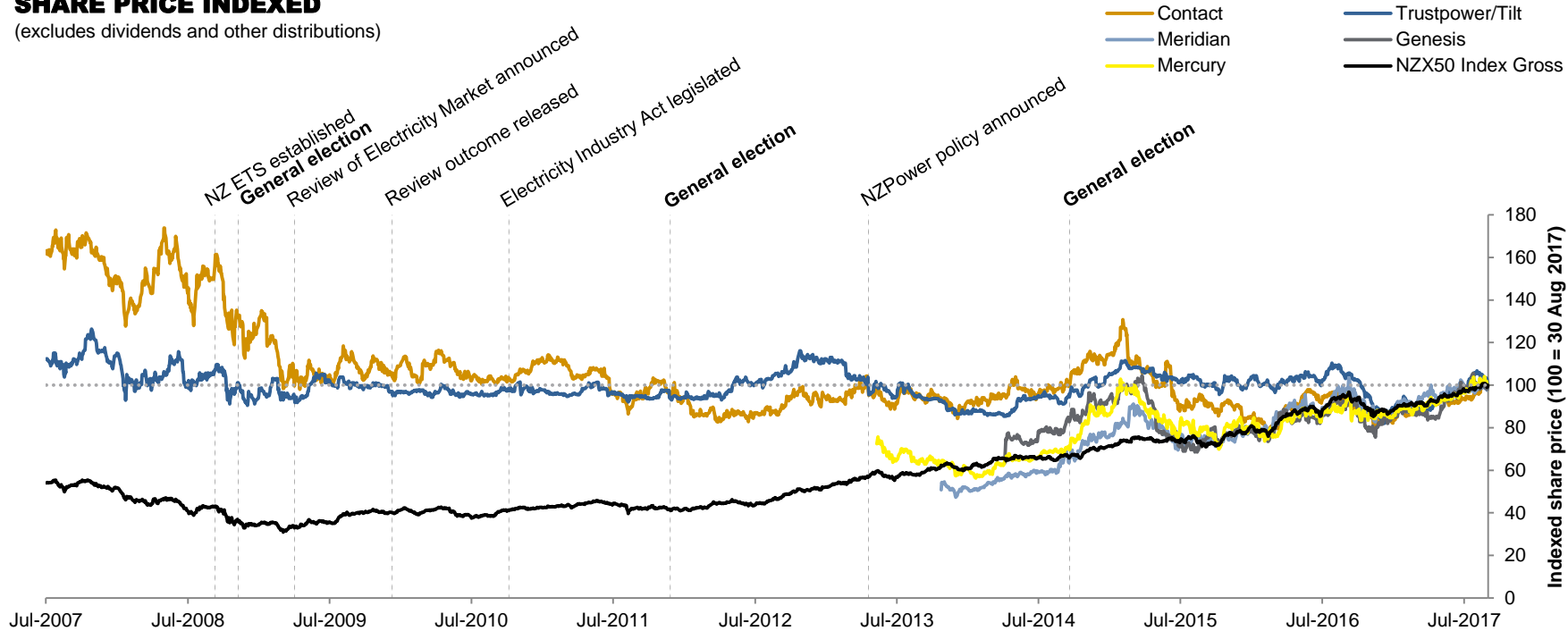


TIDAL FORCES AND SECTOR PERFORMANCE



SHARE PRICE INDEXED

(excludes dividends and other distributions)

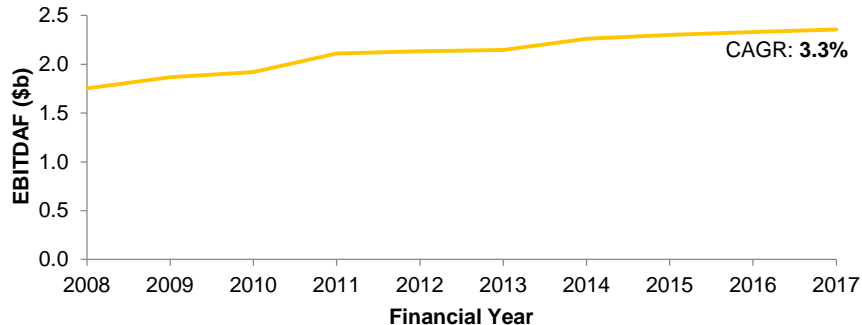


Source: NZX

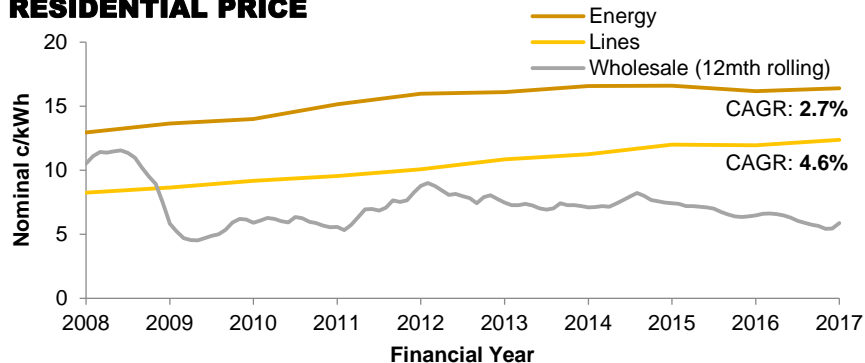


LONG-TERM INDUSTRY TRENDS

SECTOR EARNINGS

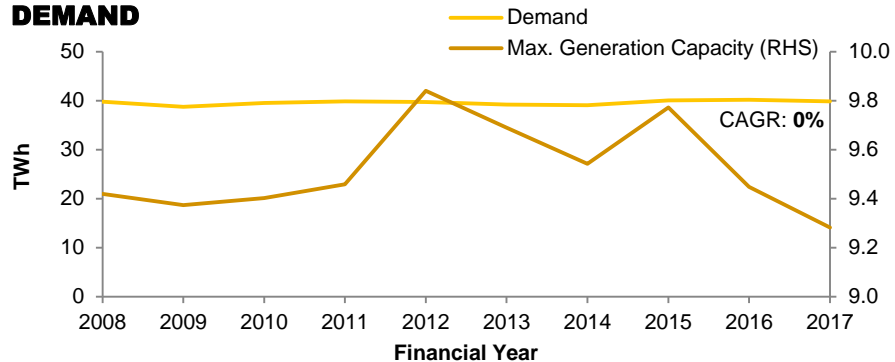


RESIDENTIAL PRICE

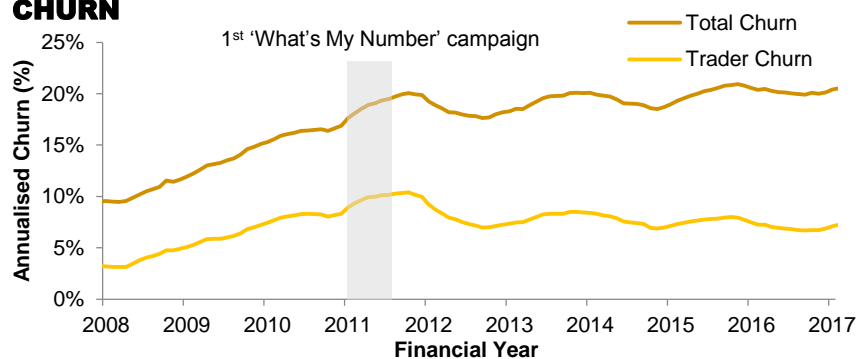


Source: Company reports, MBIE,
Pricing Manager (NZX)

DEMAND



CHURN



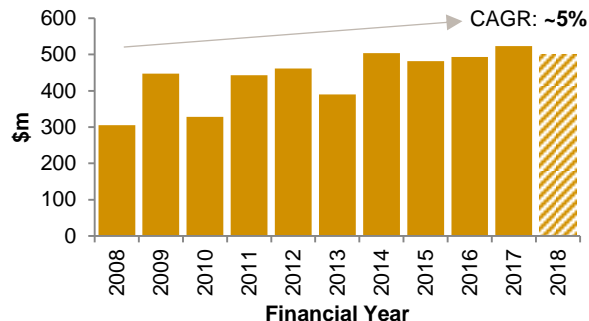
Source: TPIX, MBIE,
Electricity Authority



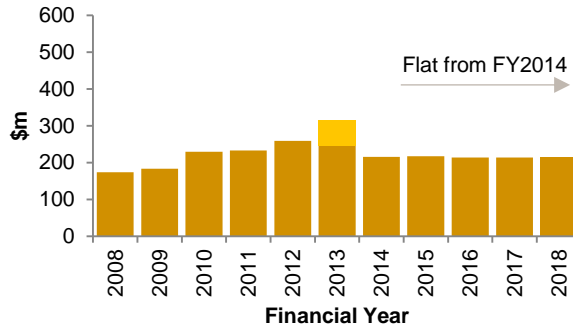
MERCURY GROWTH SUPPORTED BY INVESTMENT AND EFFICIENCY GAINS



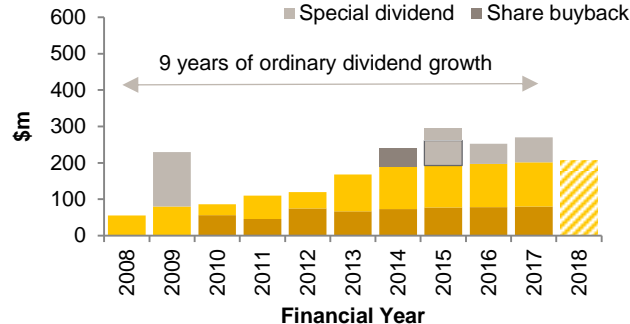
EBITDAF



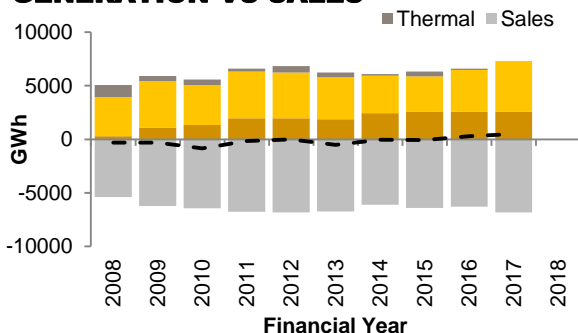
OPEX



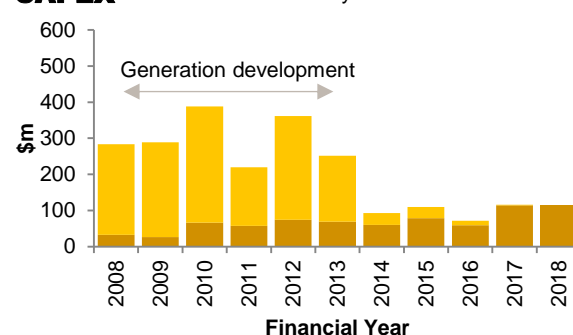
DISTRIBUTIONS



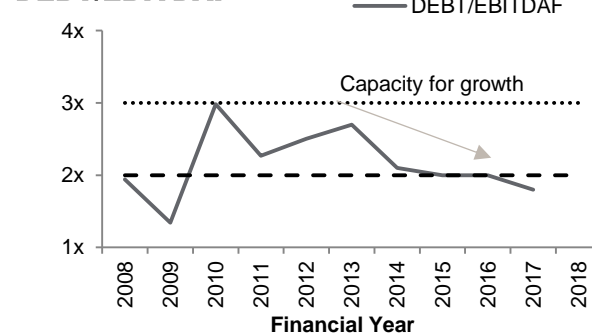
GENERATION VS SALES



CAPEX



DEBT/EBITDAF



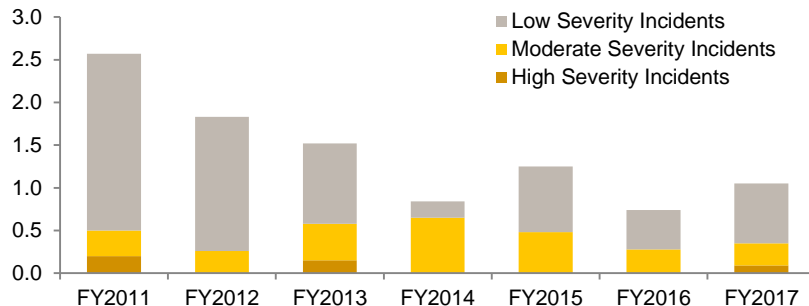
OUR PEOPLE'S WELLBEING

- > Zero harm is our wellbeing goal
- > 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 low probability / high consequence events through Process Safety
- > Strong generation safety collaboration through Staylive



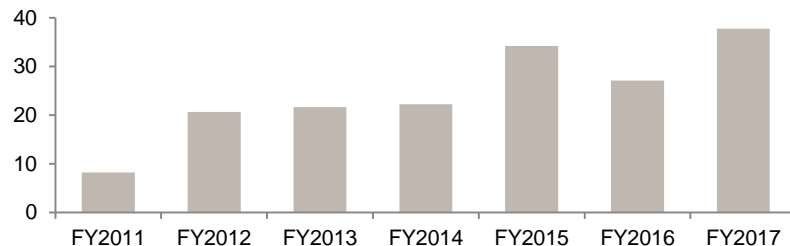
TOTAL RECORDABLE INJURY FREQUENCY RATE (TRIFR)

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



NEAR MISS FREQUENCY RATE

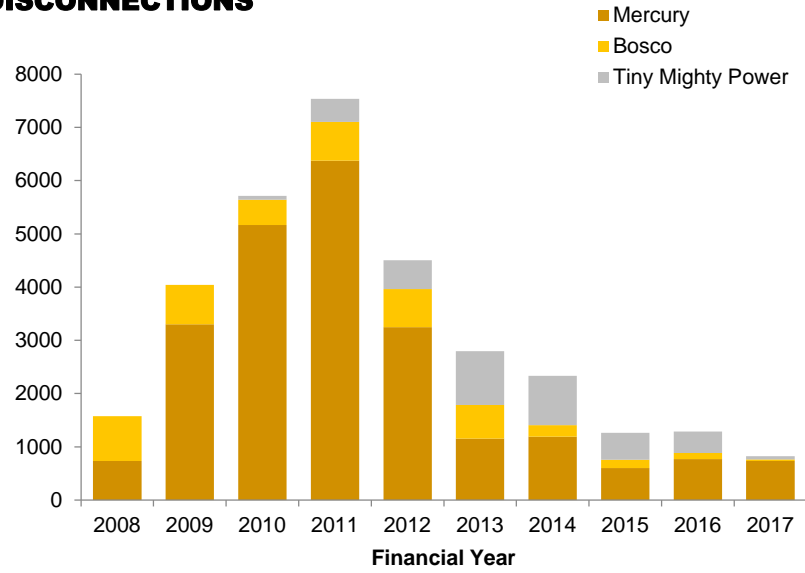
(per 200,000 hours; includes onsite employees and contractors)



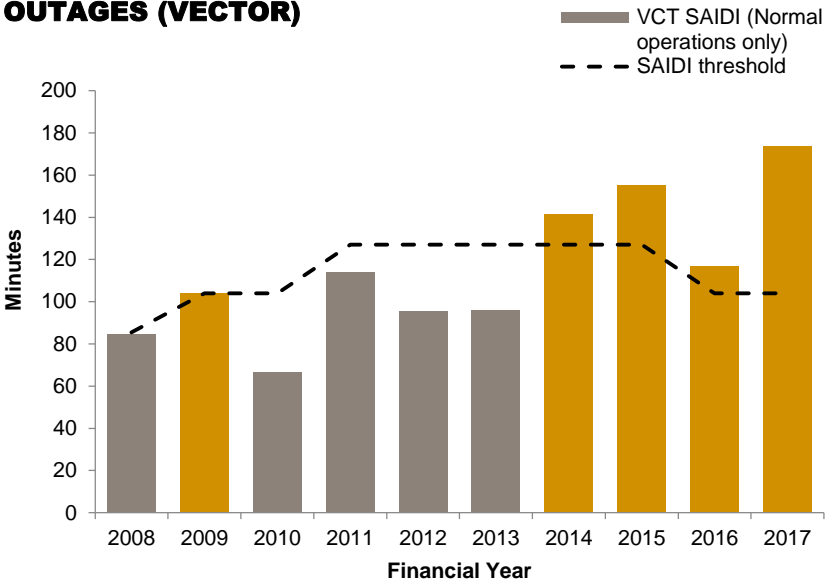
OUR CUSTOMERS' WELLBEING



DISCONNECTIONS



OUTAGES (VECTOR)



Source: Vector





STRATEGIC DRIVERS & FY2017 OUTCOMES



DELIVERING CUSTOMER ADVOCACY

> Below market customer churn

> Trader churn¹ of 5.7% versus market at 7.1%

> Increasing customer satisfaction

> Customer satisfaction² of 64%, up 4% from FY2016

> Award winning 'Energy Made Wonderful' campaign

> New loyalty product offerings

> Partnering to reward customers with Airpoints Dollars™

¹ 12-monthly rolling Electricity Authority published trader churn rate (all Mercury brands) as at 30 June 2017

² Based on Mercury's monthly survey of residential customers, 3-monthly rolling average to 30 June for Mercury brand (excludes Bosco and GLOBUG)





STRATEGIC DRIVERS & FY2017 OUTCOMES



LEVERAGING CORE STRENGTHS

> Goal of zero-harm

- > 95% of employees agreed that Mercury is committed to the Health and Safety of its people¹

> Record employee engagement

- > Employee engagement¹ at 81%, up 2% from FY2016

> Maximised value from renewable resources

- > High geothermal availability maintained at 96%
- > LWAP/GWAP unfavourably higher at 1.05 due to thermal plant closures

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





STRATEGIC DRIVERS & FY2017 OUTCOMES

DELIVERING SUSTAINABLE GROWTH

> **Managing cost**

- > Operating costs flat for the 4th consecutive year

> **Investing in growth**

- > Minimal growth capex in FY2017
- > Strategic review of future growth options in FY2017
- > Generation development options ready

> **Growing returns to shareholders**

- > 9th consecutive year of ordinary dividend growth



DELIVERING INNOVATION FOR CUSTOMERS



GLOBUG

New Zealand's leading pre-paid customer solution



GEM

An energy tracking and reporting tool that gives customers greater visibility of their household energy usage



MERCURY SOLAR

In-house solar and battery storage installation capability



FREE POWER DAYS

Rewarding customers with the freedom to choose wonderful experiences



ELECTRIC HIGHWAY

Launched with PlugShare, New Zealand's EV charging infrastructure in a single data location



E-MOBILITY

EV fuel offering with off-peak pricing for Mercury customers and partnering with bike retail stores to give Mercury customers e-Bike discounts to experience 'Energy Made Wonderful'





EMERGING TECHNOLOGY IN CONTEXT

Solar

- > Will be a niche feature of the NZ electricity market
- > 1m solar panels is equivalent to ~1% of national demand
- > Solar generation is not well matched to NZ's demand profile which peaks in winter evenings
- > Regulatory focus on reforming distribution pricing to ensure network costs fairly recovered

Batteries

- > Useful when coupled to solar but at significant additional cost
- > Lake Taupo storage equivalent to 40m 14kWh Tesla Powerwalls

Electric Vehicles (EVs)

- > New Zealand's largest green growth opportunity
- > Transport related emissions account for 20% of NZ total Green House Gas (GHG) emissions
- > Renewable electricity advantage well suited to transport electrification, along with substantial off-peak grid capacity





LEVERS FOR GROWTH



Better supply and demand

- > Market thesis: Upward pressure on end-user pricing due to supply and demand balance tightening

Investment in core business

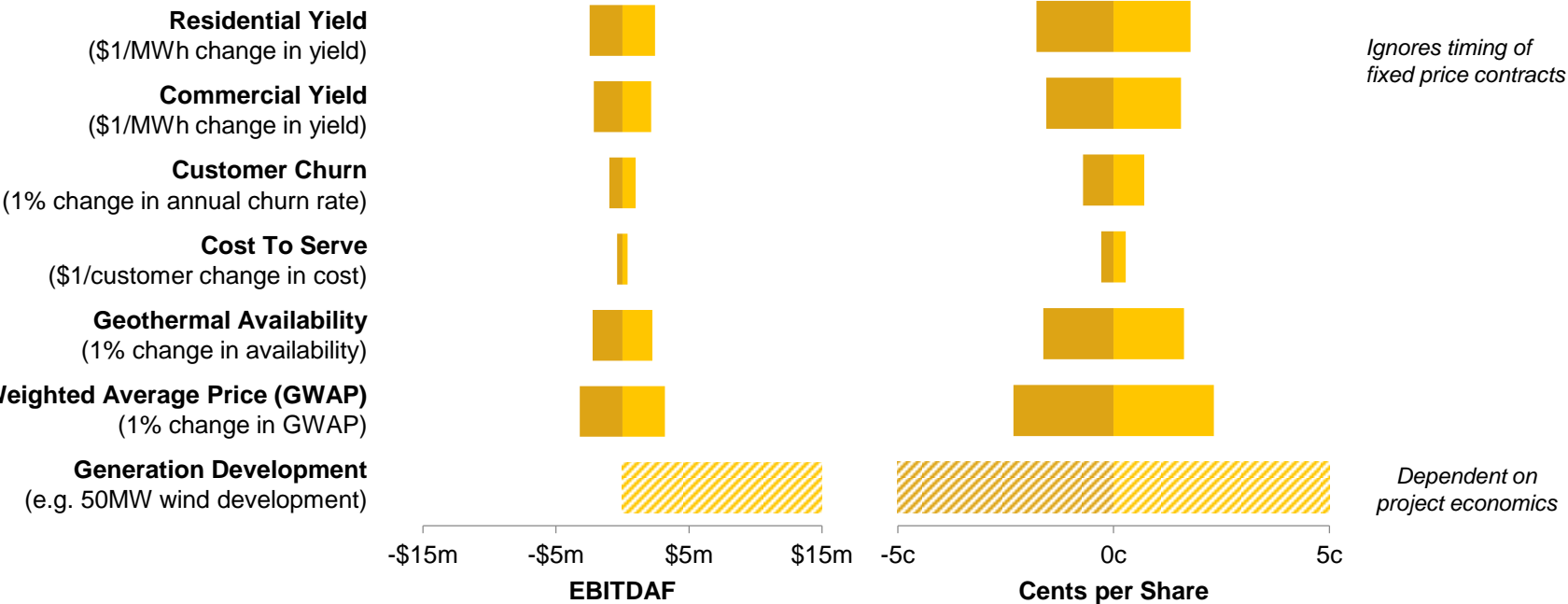
- > Wind options (Turitea & Puketoi) remain ready for multi-stage development at the right time
- > Current geothermal reservoirs may support further development
- > Market consolidation options available but challenging

Home and beyond

- > Global strategic review confirmed focus on our core markets and opportunities within the home and e-mobility
- > Exploring smart metering opportunities in Australia



CONTEXTUALISING VALUE LEVERS



UNIQUE COMPETITIVE ADVANTAGES



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



Rain-fed North Island hydro catchment with inflows correlated with winter peak demand



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



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



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



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



OVERVIEW



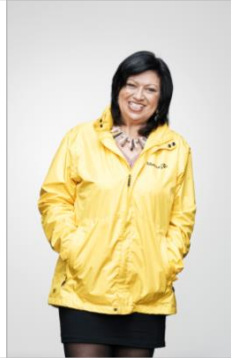
OUR MISSION

- > Ultra long-term
- > Sustainability (in all its forms)



EXECUTION

- > Solid progress to date
- > Performance upside possible



FIVE KEY PILLARS

- > Genuine, integrated and aligned
- > Sector leadership where it can make a difference



LEVERS FOR GROWTH

- > First, do no harm
- > Market tidal
- > Strategic advantages articulated



OUR PORTFOLIO & MARKET DYNAMICS

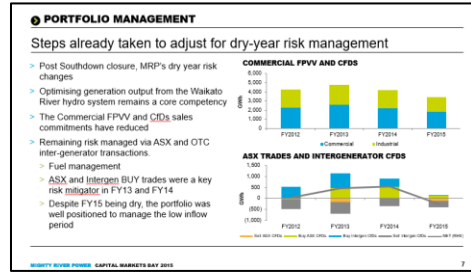
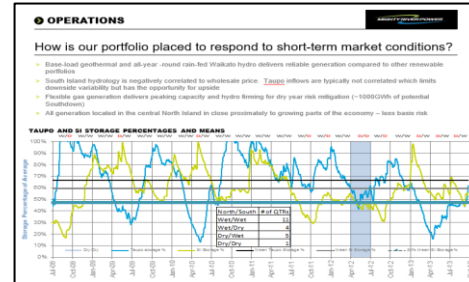
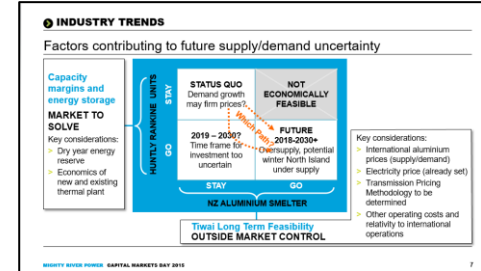
PHIL GIBSON
GM Hydro/Wholesale

JAMES FLEXMAN
Wholesale Markets Manager





BUILDING ON PREVIOUS INVESTOR DAYS





MERCURY'S COMPETITIVE ADVANTAGES



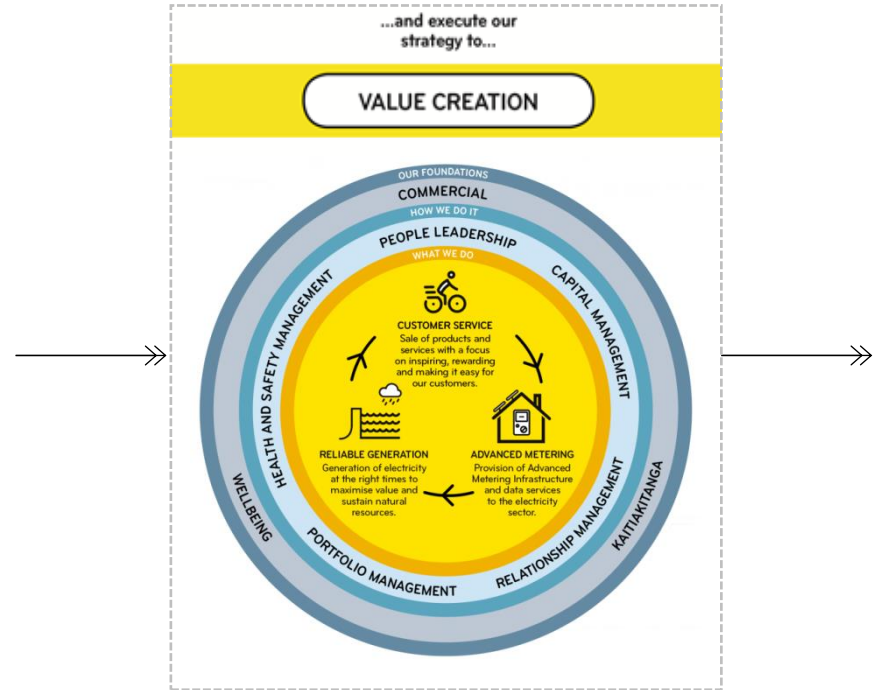
- > Brand aligned portfolio
- > 100% renewable generation with two low-cost complementary fuel sources
- > North Island located assets close to our customers
- > Rain-fed hydro system correlated to demand
- > Largest North Island peaking scheme



MERCURY BRAND AND CULTURE A COMPETITIVE ADVANTAGE



- > End to end understanding of the importance of customers, and their expectations, to long-term value
- > Three promises focus on loyalty
- > We're moving the paradigm of price being the only driver
- > Our asset management considers customer requirements of our portfolio



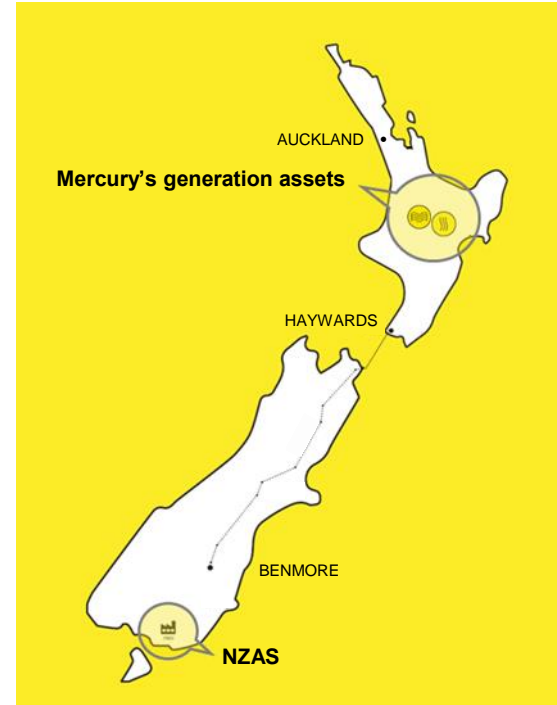
Source: FY2017 Mercury Annual Report p. 7



UNIQUELY LOCATED ASSETS CLOSE TO OUR CUSTOMERS



- > Central North Island assets close to major demand centres and Mercury customer base
- > Geothermal (baseload) and hydro (peaking) fuel systems are complementary
- > Future demand growth likely to be in Auckland region
- > Near-term smelter closure now considered unlikely
 - > Mercury remains best placed for a range of future scenarios

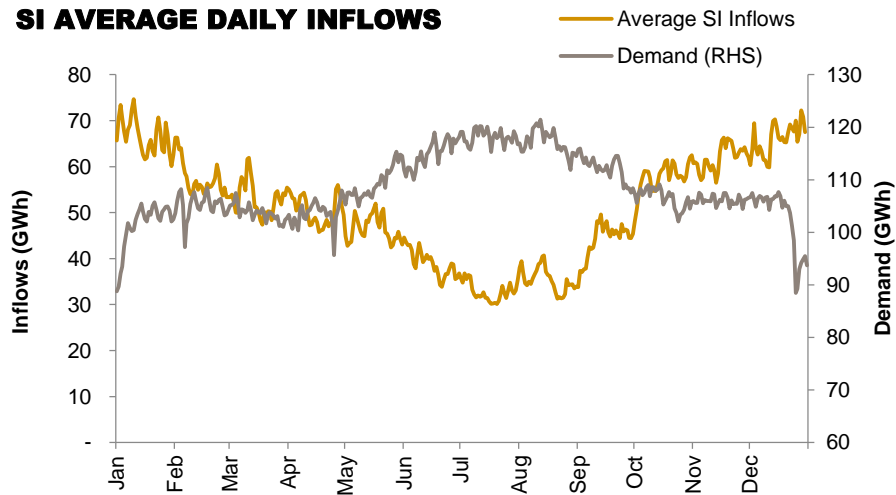


MERCURY'S HYDRO INFLOWS ALIGNED WITH PEAK DEMAND

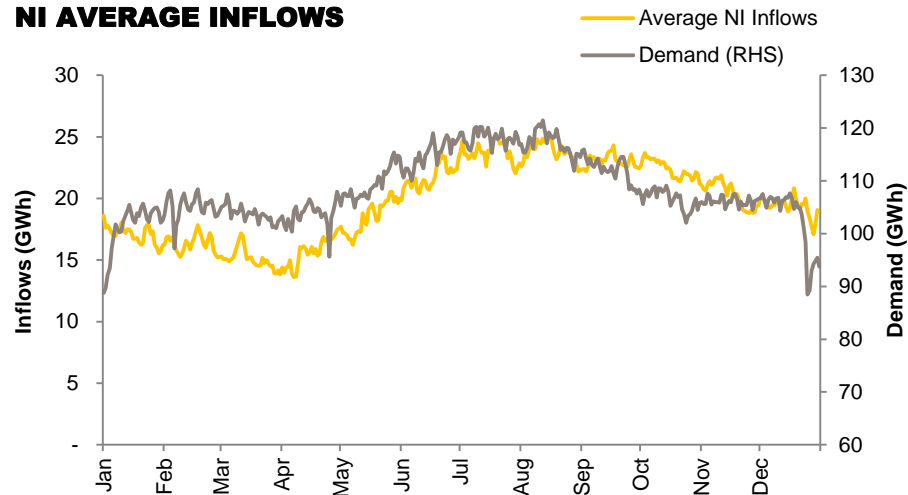


- > North Island winter (liquid) inflows are correlated with peak demand
- > South Island peak inflows are in summer with a negative correlation to peak demand
 - > Requires the use of hydro storage or thermal back-up to cover winter sales exposure

SI AVERAGE DAILY INFLOWS



NI AVERAGE INFLOWS



Source: NZX Hydro

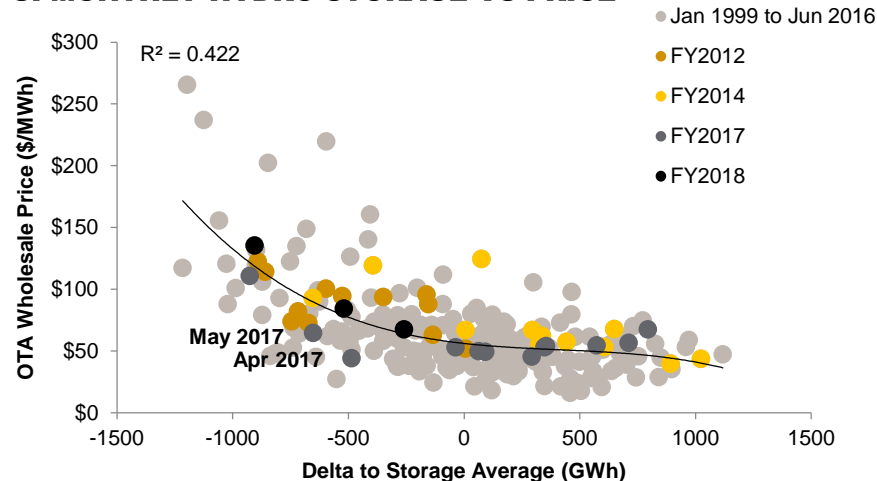


LOW CORRELATION BETWEEN NORTH ISLAND STORAGE AND PRICE

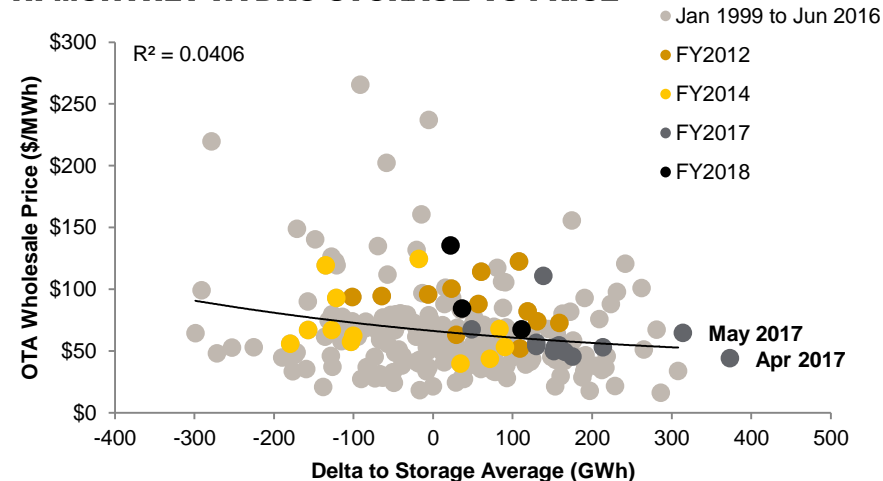


- > Low correlation of price and North Island hydrology
 - > Reduces downside risk as low inflows do not typically equate to high wholesale prices (e.g. FY2014)
 - > Enhances upside opportunity as high inflows do not preclude high wholesale prices (e.g. FY2012)

SI MONTHLY HYDRO STORAGE VS PRICE



NI MONTHLY HYDRO STORAGE VS PRICE



Source: NZX Hydro, Pricing Manager (NZX)



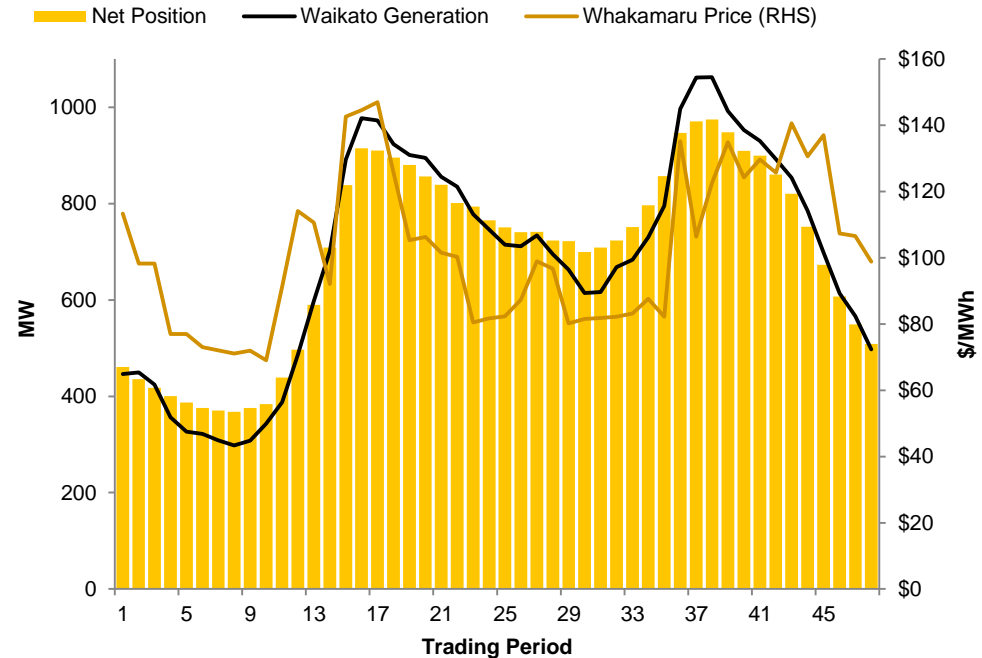
WAIKATO HYDRO SYSTEM THE LARGEST NORTH ISLAND PEAKER



> Example from 4 July 2017:

- > Mercury's flexible hydro assets allowed reduced overnight generation followed by a rapid increase to meet the high-priced morning peak
- > Later in the day, Mercury's fast response peaking capability enabled every installed unit on the river to run at maximum capacity (39 units at 1,063MW)
- > Following the evening peak generation was reduced to cover net position and conserve water

WAIKATO HYDRO GENERATION PROFILE



Source: Transpower SCADA,
Pricing Manager (NZX)





PORTFOLIO MANAGEMENT



- > Integrated portfolio approach
- > Channel mix
 - > Commercial and Industrial (C&I) sales key for positioning portfolio
 - > Timing of C&I sales critical to extract value
- > Derivatives markets deliver risk management and value



INTEGRATED PORTFOLIO MANAGEMENT



RISK ASSURANCE & GOVERNANCE

| | CONTROL | MANAGE | POSITION |
|----------------------|---|--|--|
| Horizon | 6-12 weeks | 3-24 months | Longer-term |
| Objective | Cover risk and achieve short-term fuel optimisation | Manage portfolio for earnings volatility throughout the year | Future earnings growth and long-term value |
| Key decisions | When is the best time to use water? | Should we hedge? Should we adjust the sales channels? | What are competitors, customers and the regulator doing? |
| Mechanism | Physical dispatch | Financial hedging | Portfolio management |



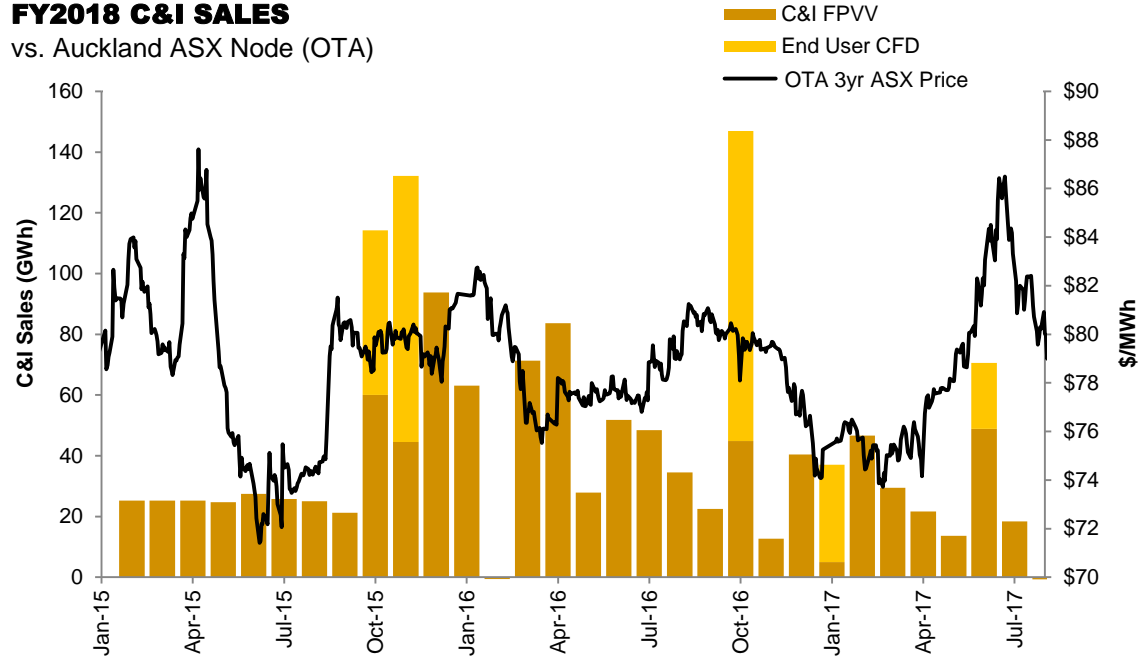
YIELD OPTIMISED THROUGH CHANNEL MIX AND TIMING OF COMMERCIAL & INDUSTRIAL (C&I) SALES



- > Mass market sales deliver highest yield (with highest cost)
- > C&I volumes timed to highest priced periods of ASX (strong correlation to lower national storage)
- > Timing of sales worth \$8m compared to average price for FY2018

FY2018 C&I SALES

vs. Auckland ASX Node (OTA)



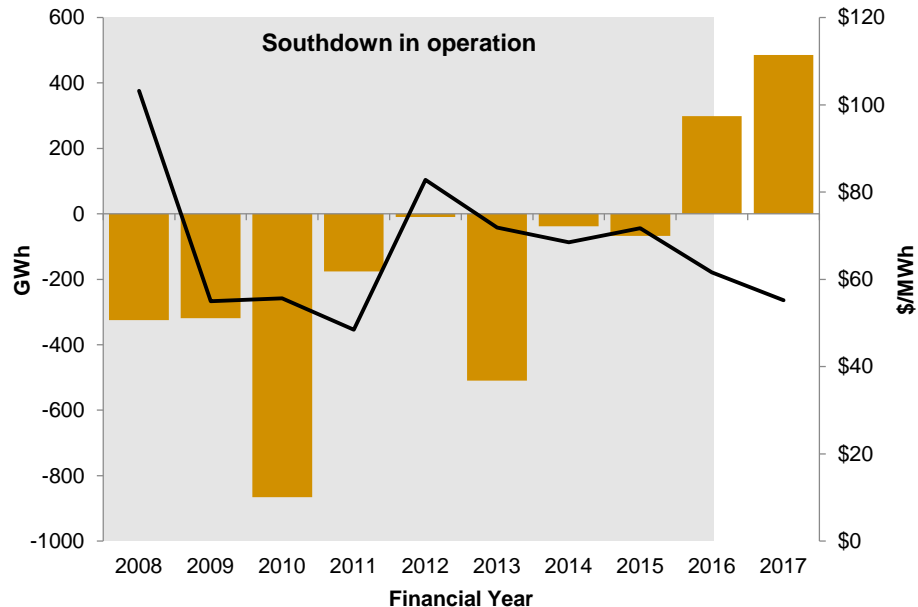
Source: ASX



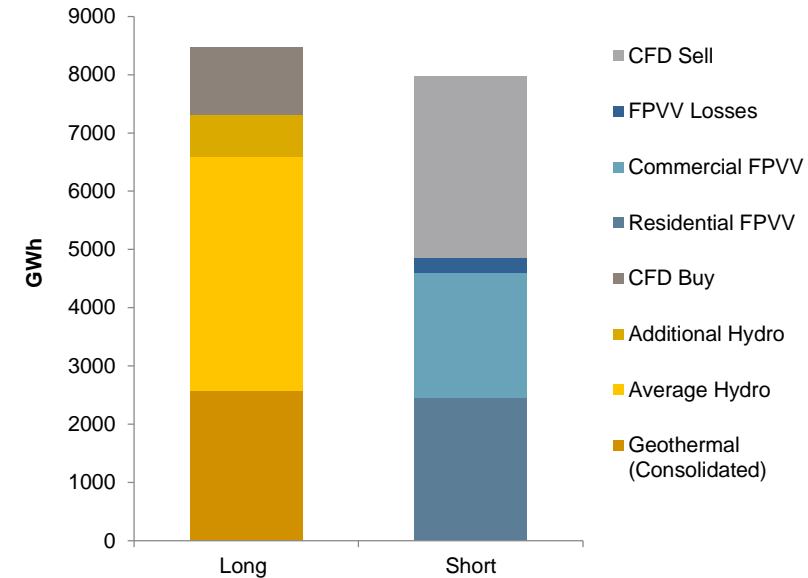


PORTFOLIO POSITIONING REFLECTS INFLOWS, PRICE AND RISK APPETITE

NET POSITION VS SPOT PRICE ■ Unadjusted Net Position
— Whakamaru Average Spot Price



FY2017 NET POSITION BREAKDOWN



Source: Pricing Manager (NZX)



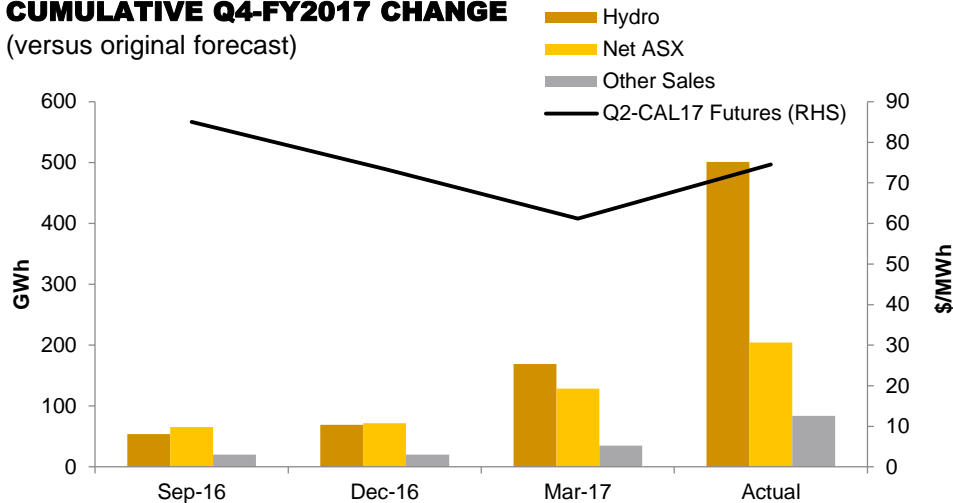
USING DERIVATIVES FOR VALUE AND RISK MANAGEMENT



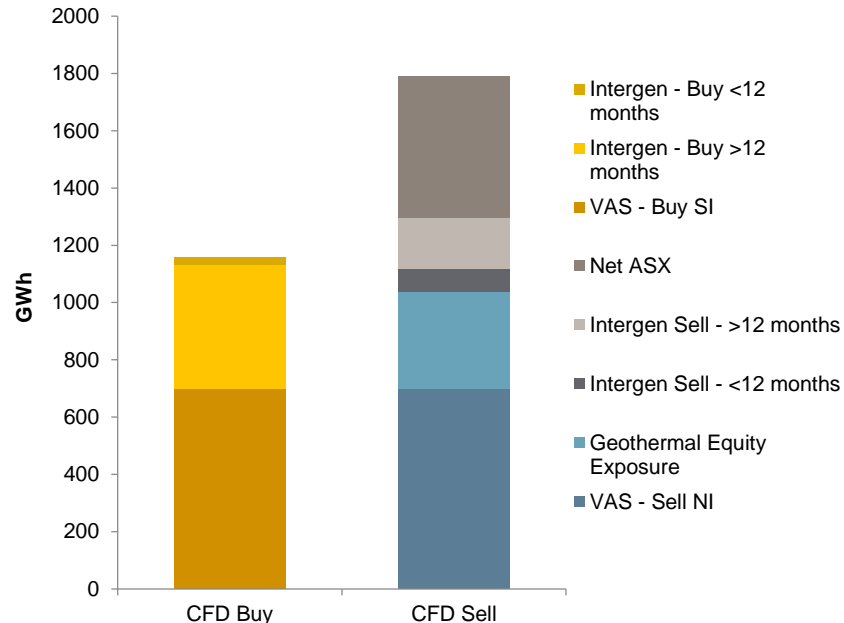
- > Transactions across multiple timeframes
- > Liquidity in the ASX enables hedging for value

CUMULATIVE Q4-FY2017 CHANGE

(versus original forecast)

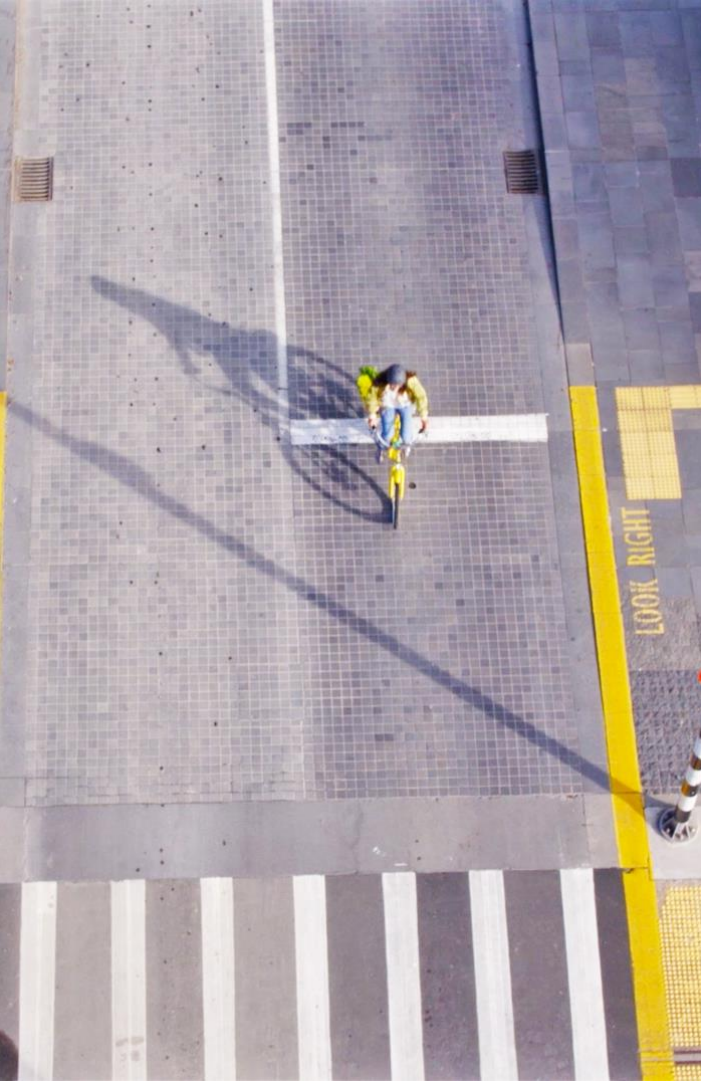


FY2017 CFD BREAKDOWN



Source: ASX





12 MONTH LOOK BACK

- > Late South Island dry sequence insufficient to evoke significant market response
- > High North Island inflows and storage position also reduced market concern

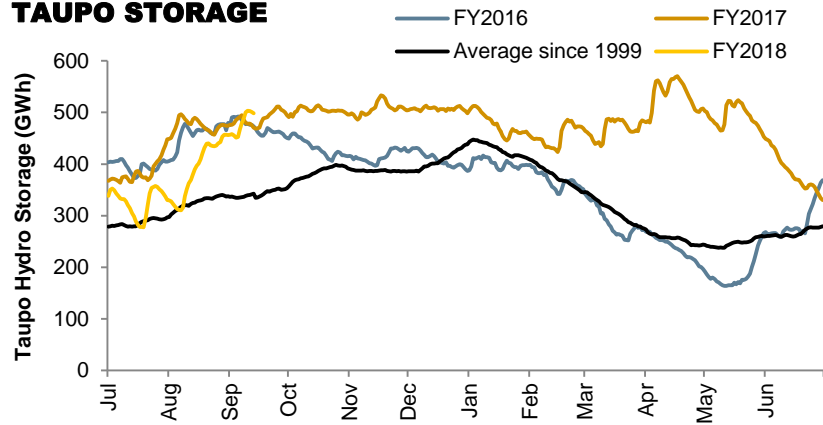


LATE DRY SEQUENCE AND HIGH STARTING STORAGE TEMPERERS PRICE

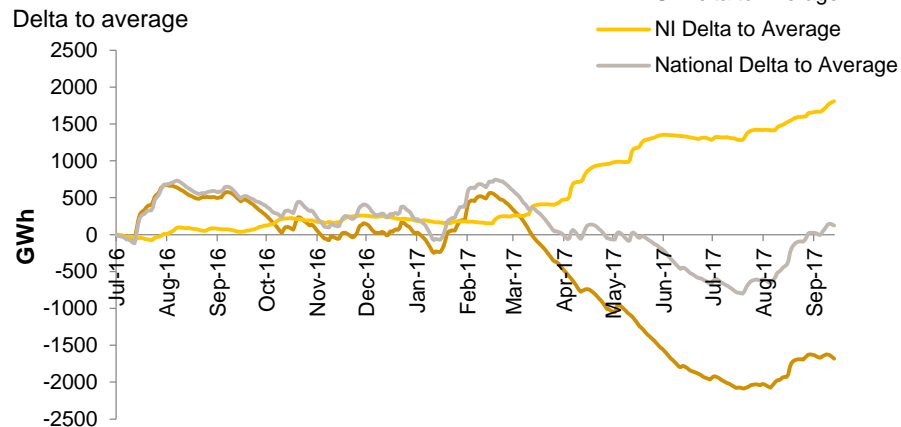


- > North Island inflows built through the year holding Lake Taupo at the top of its storage range
 - > Cyclones and high flow events in Q3-FY2017
- > Given low South Island inflows, might have expected stronger wholesale prices through 2H-FY2017

TAUPO STORAGE



CUMULATIVE HYDRO INFLOWS



Source: NZX Hydro

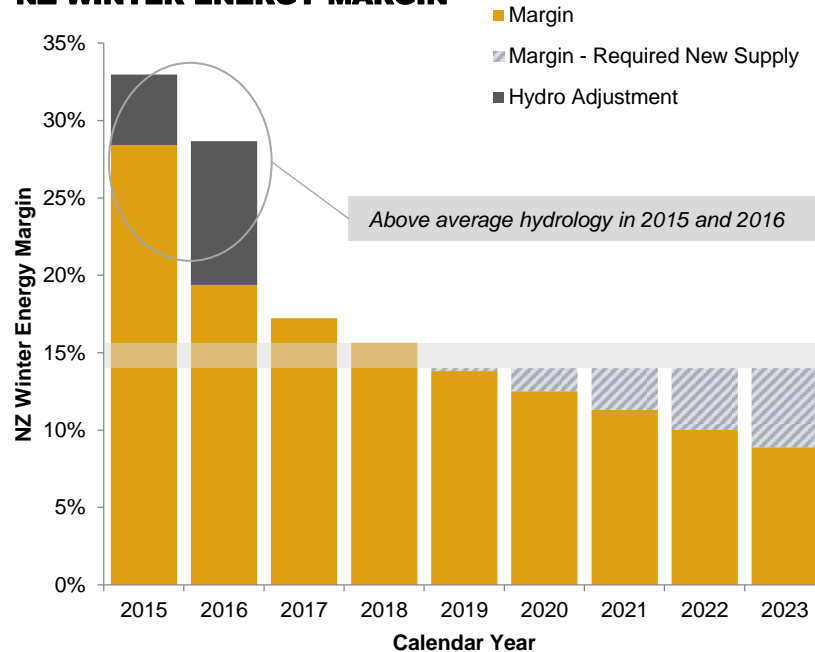


SECURITY MARGIN FORECAST TO TIGHTEN, FUNDAMENTALS REMAIN



- > Supply/demand rebalance impact muted by high inflows and, more recently, lower-priced swaptions
- > Decisions on investments for 2020 will need to be made soon
 - > Size, fuel and location critical decisions
- > Incremental projects such as Whakamaru 'free' capacity useful
- > Smelter future looks more certain but 12 month put option remains

NZ WINTER ENERGY MARGIN¹



¹ Assumes demand growth of ~1%
Source: Transpower, Mercury



MERCURY'S MARKET THESIS REMAINS



DYNAMIC: SECURITY MARGINS TIGHTENING FOLLOWING THERMAL RATIONALISATION

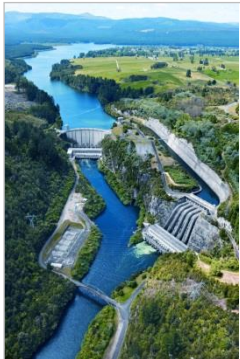
FUNDAMENTALS: SUPPLY AND DEMAND BETTER BALANCED

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 ?



OUR PORTFOLIO & MARKET DYNAMICS



COMPETITIVE ADVANTAGE

- > Our assets and customers a natural advantage
- > Single brand aligns our focus around customer expectations rather than generation



PORTFOLIO MANAGEMENT

- > Extract value from highest benefit sales and low cost generation
- > Extra value from derivatives market



12 MONTH LOOK BACK

- > Strong inflows for Mercury; late dry sequence in South Island
- > Mercury currently experiencing strong inflows and high storage
- > Plenty of choices for FY2018



MERCURY'S MARKET THESIS

- > Tightening of supply/demand likely to continue
- > Thesis remains as previous – positive for value



OUR ASSETS ENABLING OUR MISSION

GRAEME HILL

Infrastructure Asset Manager

GAVIN WILLIAMSON

Hydro Generation Manager



A COMPLEMENTARY PORTFOLIO OF ASSETS



9x HYDRO ASSETS – 1,058MW – ~4,000GWh/yr



01
Aratiatia 78MW
(1964)



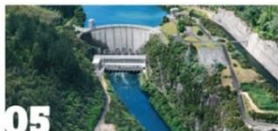
02
Ohakuri 106MW
(1961)



03
Atiamuri 74MW
(1958)



04
Whakamaru 106MW
(1956)



05
Maraetai I & Maraetai II 352MW
(1950 & 1970)



07
Waipapa 54MW
(1961)



08
Arapuni 192MW
(1929)



09
Karapiro 96MW
(1946)

5X GEOTHERMAL ASSETS – 337MW¹ – ~2,800GWh/yr



01
Kawerau 104MW
(2008)



02
Mokai* 112MW
(2000)



03
Rotokawa 34MW
(1997)



04
Nga Awa Purua* 135MW
(2010)



05
Ngatamariki 82MW
(2013)

SOLAR ASSETS – 0.08MW



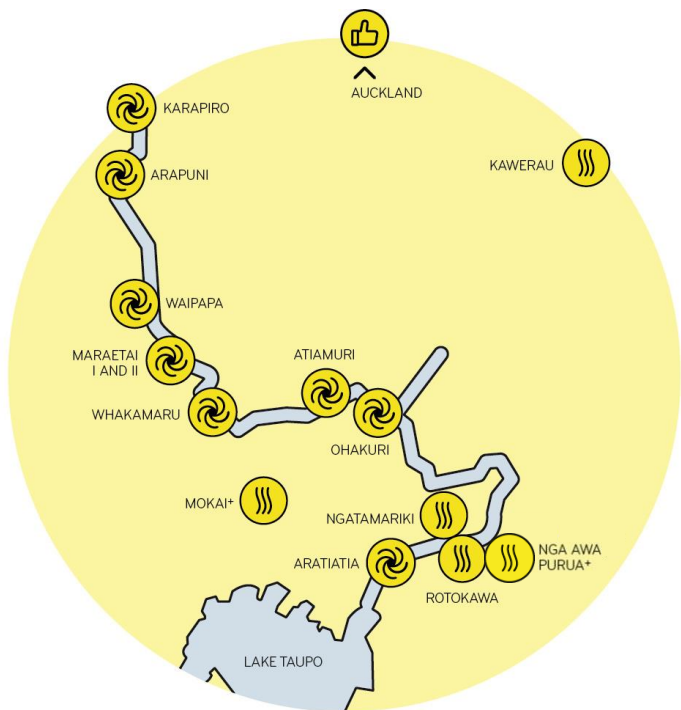
01
0.08MW
(2017)

*Not 100% owned by Mercury

¹ Equity share



A COMPLEMENTARY PORTFOLIO OF ASSETS



| | Hydro | Geothermal |
|--------------------|--|---|
| Location | Central North Island | Central North Island |
| Operating role | Peaking, frequency, reserves | Baseload (24/7) |
| Capacity factor | On average 50-60% but ranges from 30-65% | 94-97% |
| Strengths | Flexible, fast start, large capacity, comparatively slower machines, more gradual decline of asset condition | Weather independent, high availability |
| Variables | Hydrology dependent but inflows positively correlated with winter demand | Dynamic fuel, single shaft risk, faster machines with potential for more rapid decline of asset condition |
| Maintenance cycles | Continuous but targeting high availability in winter | Minimum biennial due to baseload, single shafts |

*Not 100% owned by Mercury





ENSURING LONG-TERM ACCESS TO RENEWABLE ENERGY SOURCES



Custodial approach to renewable resources

- > Aligned values around sustainability of water resources
- > Hydro - non-consumptive
- > Geothermal - injection

Community “licence to operate”

- > Long-term (35 year) consents with 5 review windows
- > We meet or exceed our compliance commitments on 121 conditions in Hydro and 1,100 in Geothermal
- > “Beyond Compliance” collaboration with stakeholder groups





ENSURING LONG-TERM ACCESS TO RENEWABLE ENERGY SOURCES



Partnerships

- > Joint ventures with Maori landowners and partnerships with Waikato River iwi a key foundation
- > Partnering with flood manager (Regional Council) to reduce impacts on the community during high inflow events, e.g. cyclones Cook, Debbie & Donna
- > Preserve minimum flows during droughts
- > Supporting the community with long-term partnerships and world class recreational assets e.g. Waikato River Trails, New Zealand Rowing, Ironman



OBJECTIVE – MANAGING OUR ASSETS TO ENABLE OUR MISSION



Our foundations

- > Commercial
- > Wellbeing
- > Kaitiakitanga (guardianship)

Key inputs

- > Asset Management Framework
- > Capacity - People, Portfolio and Capital

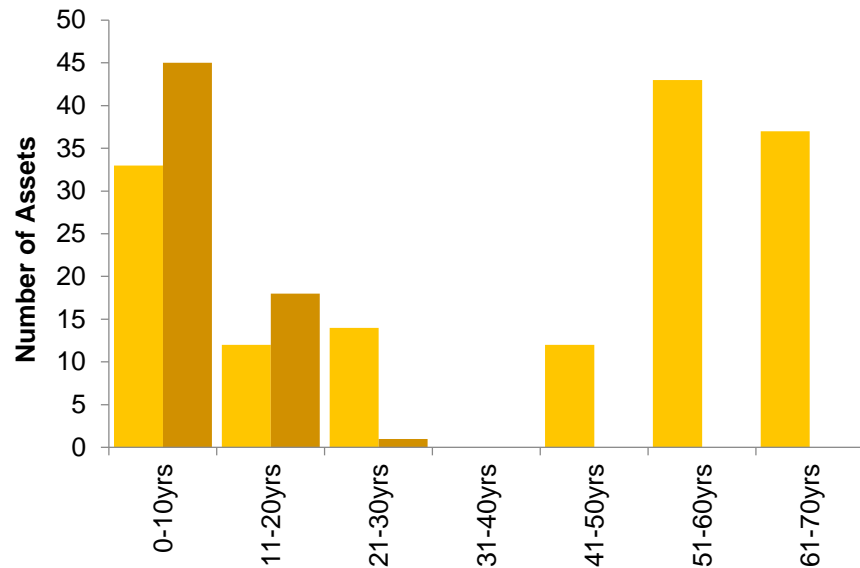
Outcome

- > Cost-effective solutions - optimise asset life (risk/condition) and performance (reliability, efficiency, capacity)
- > Great investment decisions supported by quality data and sound commercial analysis

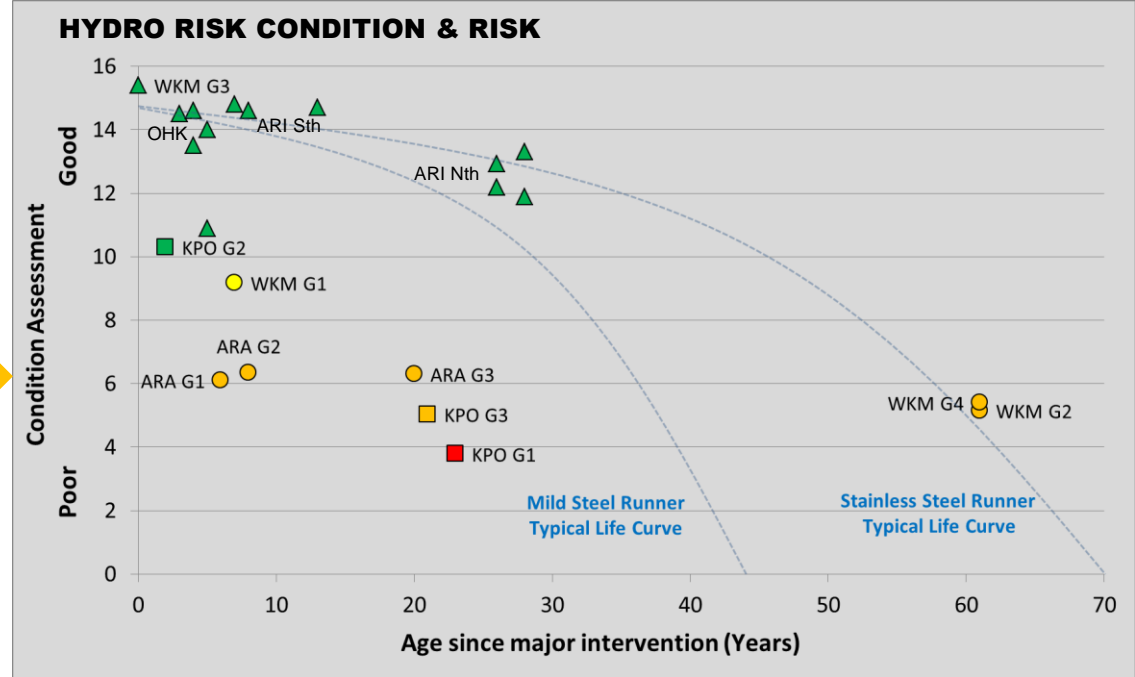
ASSET AGE PROFILE

Turbines, Generators, Governors & Transformers

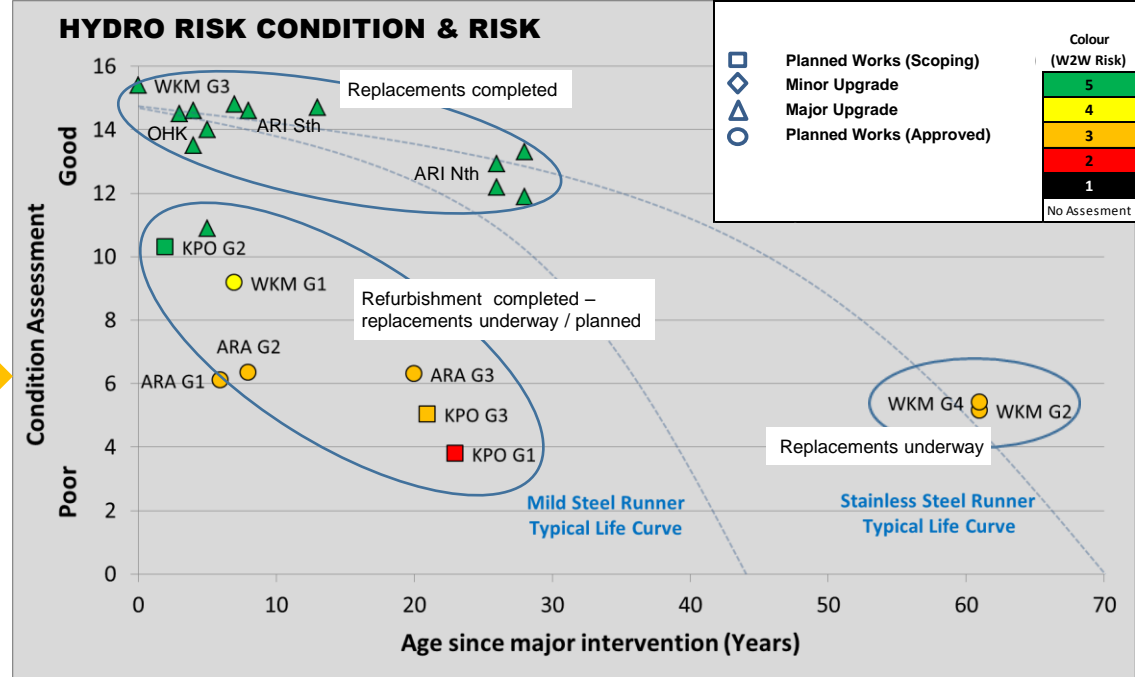
■ Hydro
■ Geothermal



ASSET MANAGEMENT FRAMEWORK – A CONTINUOUS APPROACH & A CORE STRENGTH



ASSET MANAGEMENT FRAMEWORK – A CONTINUOUS APPROACH & A CORE STRENGTH

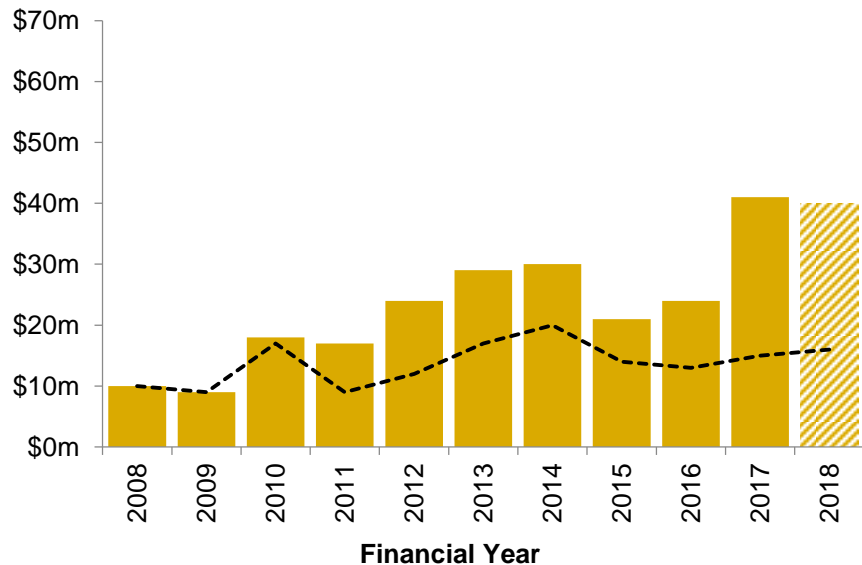


HYDRO CASH COSTS OF ~\$20/MWh

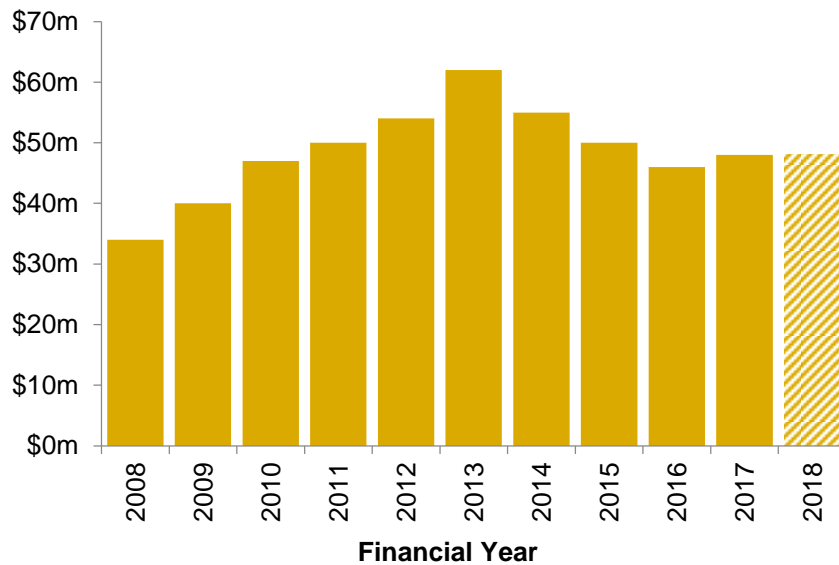


HYDRO CAPEX

----- Excluding Major Refurbishments



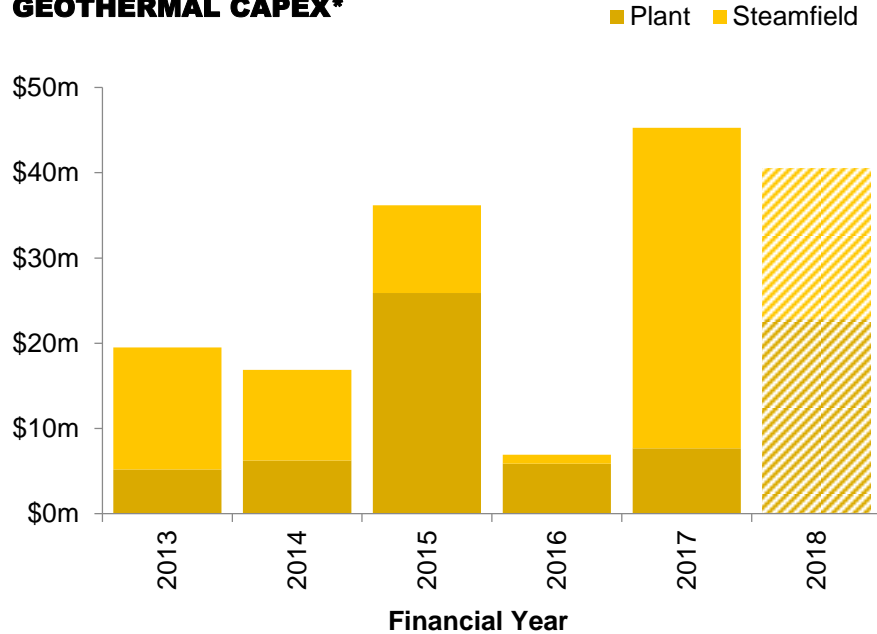
HYDRO / WHOLESALE OPEX



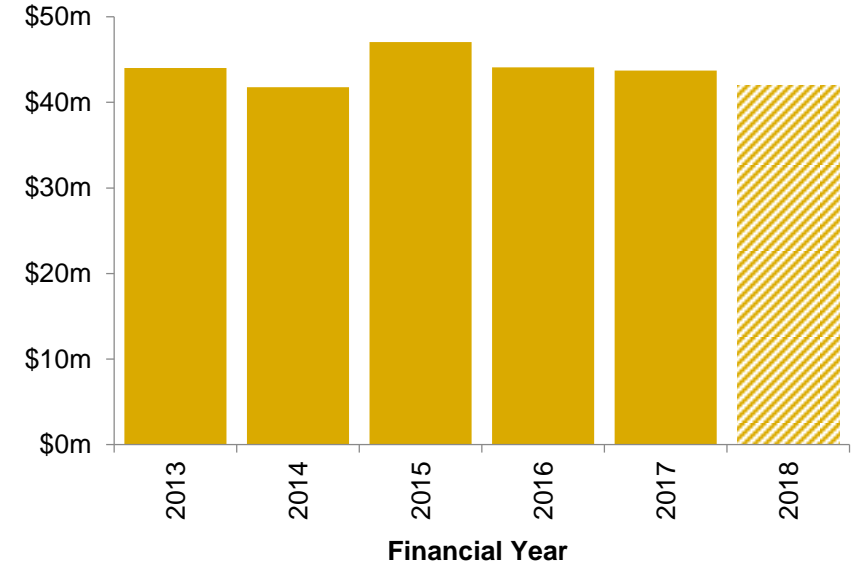
GEOHERMAL CASH COSTS OF ~\$40/MWh¹



GEOHERMAL CAPEX*



GEOHERMAL OPEX*



¹Including direct costs such as steam royalties

*Post commissioning of Ngatamariki





INDEPENDENT REVIEW & CONTINUOUS IMPROVEMENT

Continuous improvement / development

- > Local and global industry forum participation
 - > Hydro - Hydro Power Engineering Exchange, NZ Society of Large Dams, CEATI, Electricity Engineers Association
 - > Geothermal - NZ Geothermal Workshop, World Geothermal Congress, Stanford Geothermal Workshop
- > IPENZ - Professional Development Partner
- > Post-project reviews, on-going staff development and training

Independent review

- > Dam Safety Management System
 - > Annual external dam safety audits and 5-yearly comprehensive reviews
- > Geothermal reservoirs subjected to Peer Review Panel
- > Insurance underwriter annual engineering reviews
- > Comprehensive audit programme





PROCESS SAFETY



Do we understand what can go wrong?

> Major Incident Hazards – loss of containment, or loss of control:



Do we know what our controls are to prevent these happening?

> **PLANT** – make sure they are safe and reliable

> **PROCESSES** – ensuring they are robust

> **PEOPLE** – our people have the training they need

> **PREPAREDNESS** – should anything go wrong, are we ready?

Do we have the information to assure ourselves the controls are working effectively?

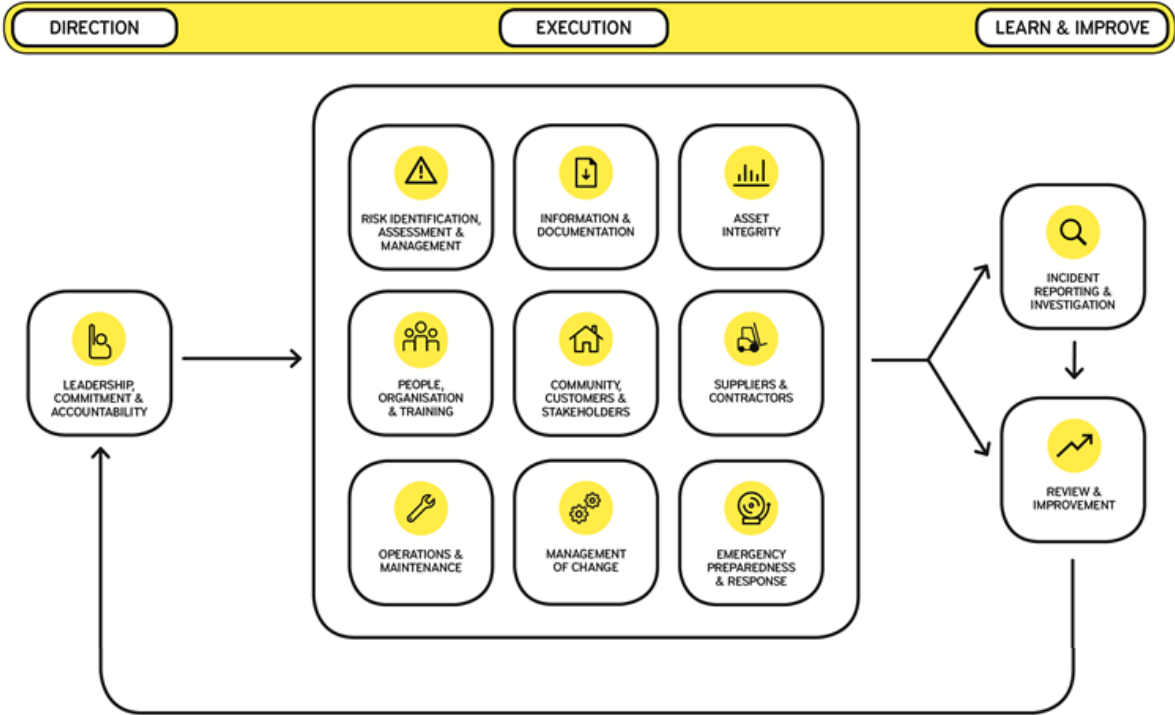
> Key Performance Indicators, scorecards and dashboards

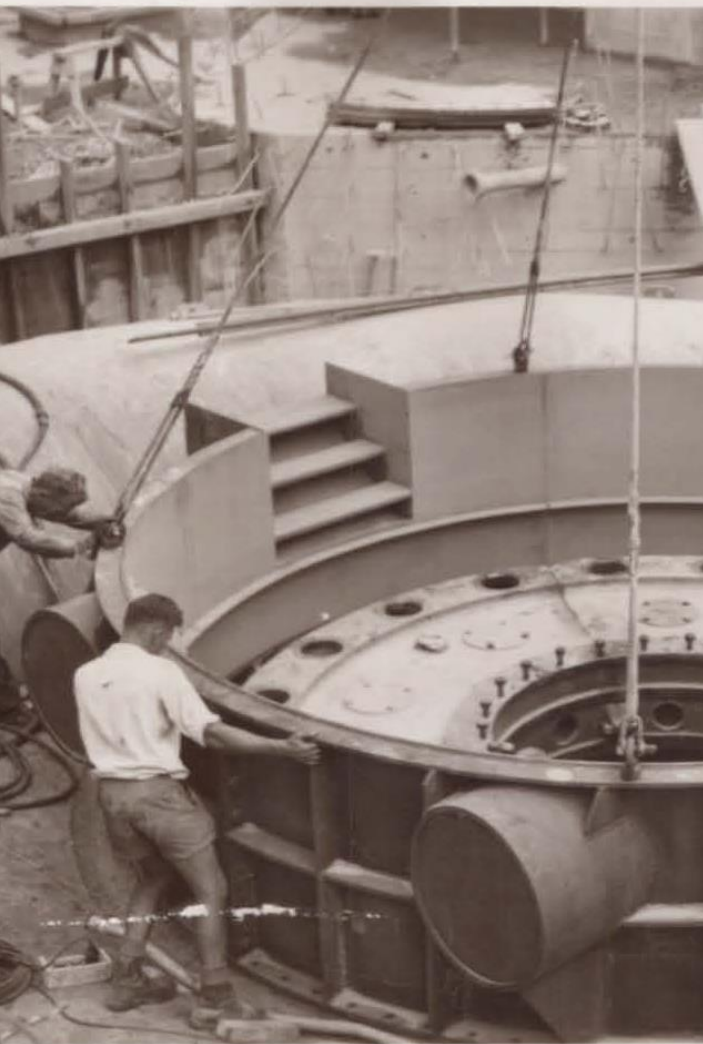
> Audits and assurance activities

> Learning from experience and continuous improvement



PROCESS SAFETY





WHAKAMARU STATION REHABILITATION COMPLETION MID 2020 – ~\$76M



- Drivers** > Mid-life refurbishment and value from reduced risk and uprate
- Choices** > Replace all generators, turbines and governors
 - > Replace all generators and overhaul turbines, and delay replacement of turbines and governors for several years
- Plan** > **Replace all generators, turbines and governors, 1 unit per year**
- Benefits** > Capacity gain – unit uprate 25MW to 31MW, 34GWh p.a. station benefit
 - > Reducing river “bottleneck” – unit efficiency and flow increase
 - > Significant risk reduction and reliability improvement e.g. generator faults
 - > Right timing of capex, People and Portfolio planning certainty
 - > Reduced routine maintenance spend e.g. turbine repairs



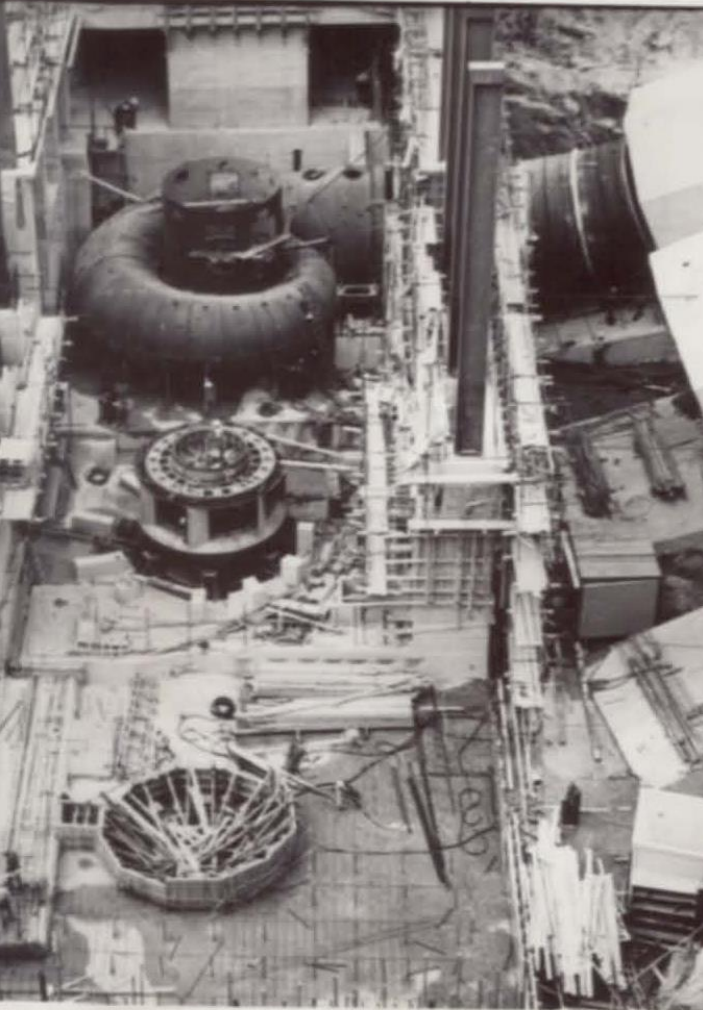


KAWERAU STEAM TURBINE COMPLETION JAN 2018 – ~\$13M



- Drivers** > Significant de-risk of ongoing operation and business interruption
- Choices** > Procure spare LP rotor blades in FY2020
> Procure complete steam path
> Procure turbine rotor and high pressure stationary blades (with low pressure blades in FY2019)
- Plan** > **Proactive procurement of complete spare steam path (turbine rotor, high pressure/low pressure blades)**
- Benefits** > Reduced outage duration
> Reduced business interruption due to repair or replacement lead times
> Asset redundancy
> Right timing of capex reinvestment
> People and Portfolio planning certainty - amalgamation of two major shutdowns





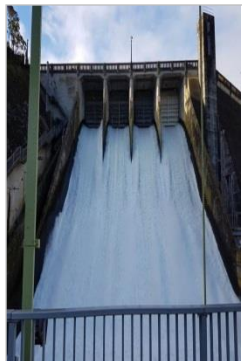
ARATIATIA STATION REHABILITATION COMPLETION MID 2020 – ~\$49M



- Drivers** > Mid-life refurbishment, risk reduction, station performance optimisation
- Choices** > Optimise for min flow - three identical turbines to suit 50 m³/s min flow
- > Optimise for max output - three identical turbines sized to max power output.
- > Mixed Runner Configuration - one turbine sized to suit the min flow requirement, the others sized to max output.
- > Replace all generators and governors
- > Replace all turbines now, or staggered timing, mix of Francis and Kaplan turbines (early consideration)
- Plan** > **Replace generators and governors, replace 1x turbine with low flow optimised (replace 2x high flow turbines >15yrs)**
- Benefits** > Significant generator risk reduction
- > Optimised station operation and reliability improvement
- > Reduced routine maintenance spend i.e. damage from sub optimal operation
- > Right timing of capex i.e. future turbine replacement, People and Portfolio planning certainty



OUR ASSETS – ENABLING OUR MISSION



COMPLEMENTARY PORTFOLIO

- > North Island based and complimentary portfolio
- > Enduring partnerships
- > Operationally astute



ASSET MANAGEMENT

- > Enabling Our Mission
- > Systematic framework based
- > Independent and continuous review



PROCESS SAFETY

- > Understanding what can go wrong
- > Understanding our controls
- > Assurance of our controls



VALUE BASED RE-INVESTMENT

- > Range of choices analysed
- > Sound commercial decisions
- > Delivering exceptional results



GEO THERMAL 101

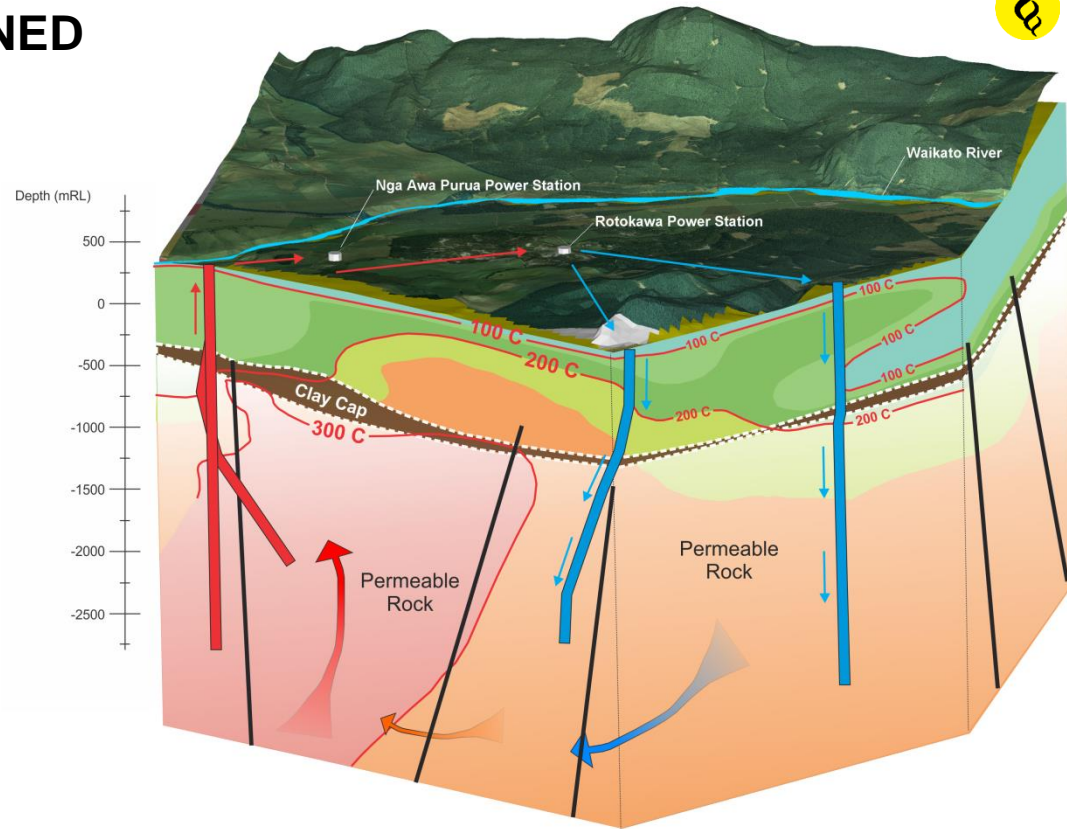
NICK CLARKE
GM Geothermal

JOHN CLARK
Kawerau Field Manager



GEOTHERMAL SYSTEMS EXPLAINED

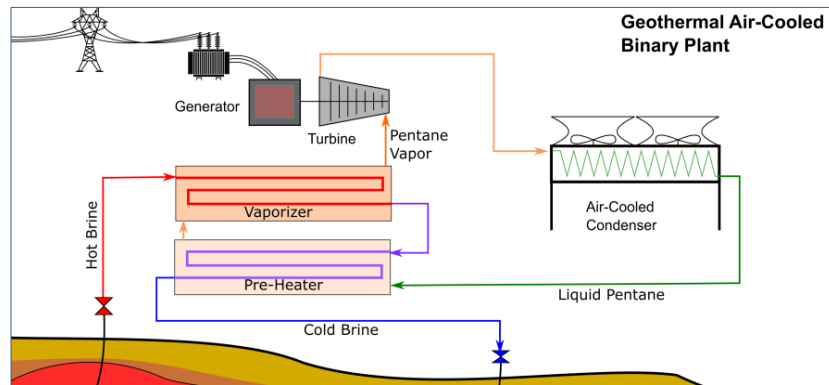
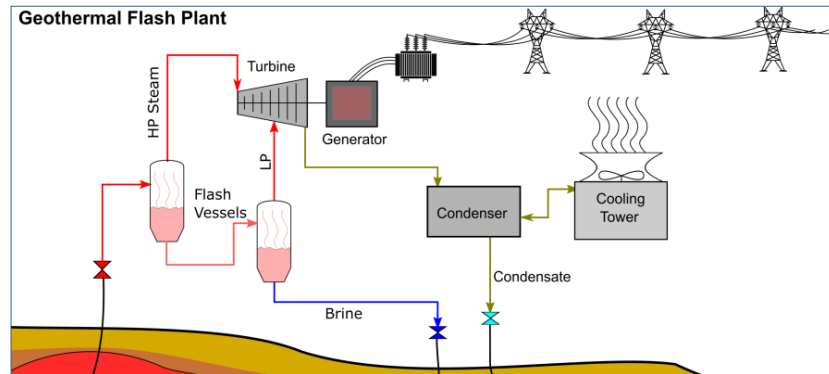
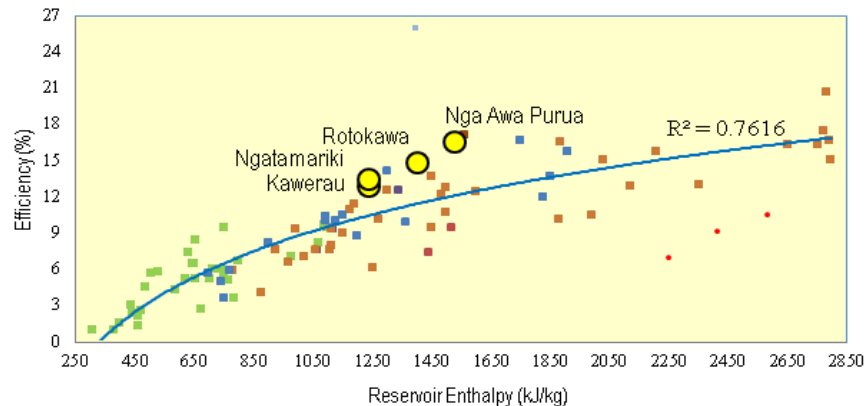
- > Key characteristics of a successful geothermal reservoir are:
 - > Geothermal water temperature
 - > Impermeable clay cap
 - > Permeable rock
- > Heat is supplied from magma intrusion at 5km – 10km depth
- > Natural “convection system” established below clay cap
- > Injection strategy is fundamental to providing reservoir pressure support
- > Renewable



CHOOSING THE RIGHT TECHNOLOGY

- > Right technology selected for maximum conversion efficiency from geothermal heat to electricity:
 - > Flash Plant: Kawerau & Nga Awa Purua
 - > Binary Plant: Ngatamariki
 - > Combined Cycle: Rotokawa

GEOTHERMAL PLANT GENERIC EFFICIENCY¹



¹Source: Moon & Zarrouk 2012, NZGW Workshop and Mercury



GEOHERMAL JOURNEY

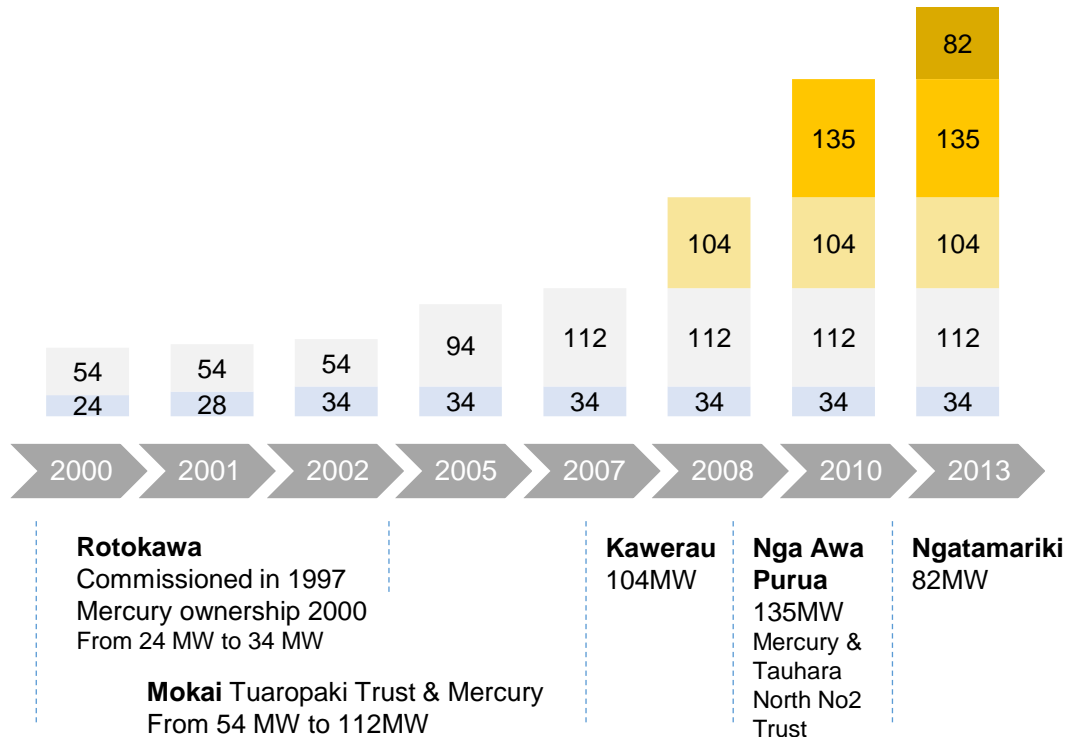
- > New Zealand ranks 5th globally in geothermal electricity generation

New Zealand's journey

- > 1958 Wairakei Power Plant
- > Lessons along the way – environmental impacts at Wairakei and Ohaaki highlighted the importance of good reservoir monitoring and management
- > Now the second largest source of generation, displacing thermal

Mercury's journey

- > Added ~3,900GWh in ~15 years together with our geothermal partners
- > Circa 5%¹ of total world geothermal generation



¹Source: Bertani 2015, WGC and Mercury





DIVERSE OPERATIONS

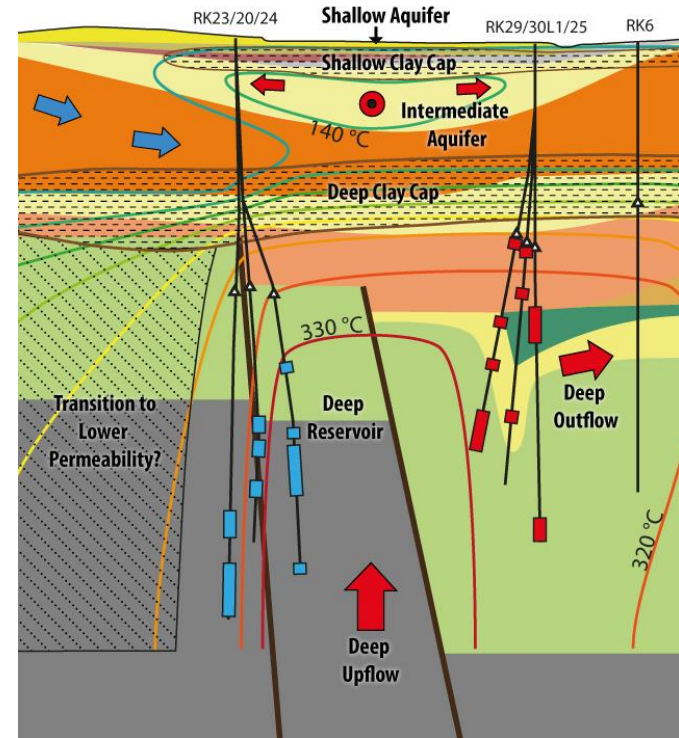


| Mercury In-service Assets | Kawerau | Nga Awa Purua | Rotokawa | Ngatamariki |
|---------------------------|---------|---------------|----------|-------------|
| Production Wells | 7 | 8 | 4 | 4 |
| Injection Wells | 7 | 4 | 2 | 4 |
| Monitoring Wells | 8 | 8 | | 26 |
| Drilling (km) | 40 | 60 | | 35 |
| Steamfield Pipelines (km) | 12 | 10 | 5 | 9 |



TECHNICAL STRENGTH IS OUR COMPETITIVE ADVANTAGE

- > Numerical (Reservoir) Modelling is fundamental to understanding and managing long-term reservoir health
- > We routinely calibrate our Reservoir Models with field data, operational data and technical knowledge
- > Investing in internal modelling know-how and technical capability is one of our competitive advantages



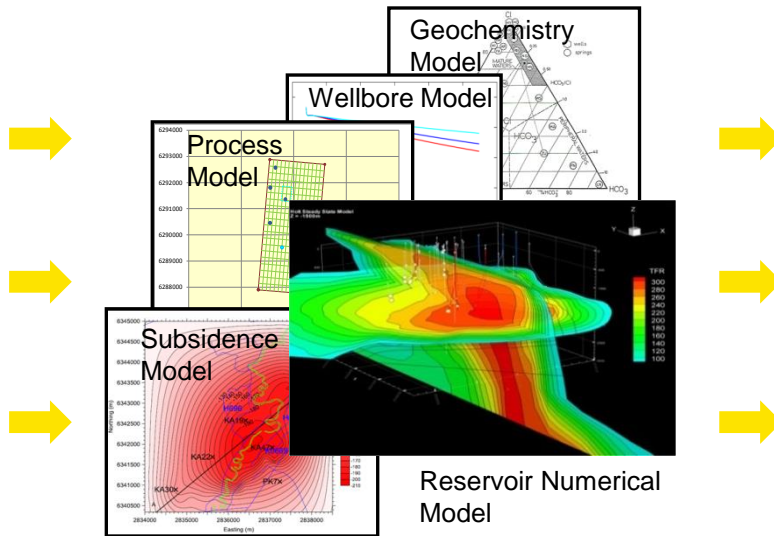
RESERVOIR MANAGEMENT UNDERPINS OUR PERFORMANCE



- > A geothermal reservoir is a natural and living system
- > Proactive and adaptive management of the reservoir is fundamental to our long-term value, and a demonstration of our role in kaitiakitanga (guardianship)

Monitoring Programmes

- > Downhole temperature and pressure
- > Massflow
- > Enthalpy trend
- > Fluid chemistry
- > Groundwater chemistry
- > Tracer testing
- > Micro seismic
- > Levelling survey
- > Aerial infra red survey
- > Surface feature survey
- > Casing integrity check
- > Station process data



Reservoir Management Plan

- > Adaptive management for long-term reservoir health
- > Consent compliance
- > Future well placements
- > Makeup well plan
- > Fuel supply optimisation
- > Asset management
- > Development options



PROACTIVE RISK MANAGEMENT THROUGH INNOVATION



- > We proactively solve geothermal challenges; we collaborate with industry experts globally, constantly exploring fresh ideas and opportunity

| Key focus areas | Examples of how we manage them |
|-------------------------------------|--|
| Reservoir health | Injection and production well placement, enthalpy, geochemistry and downhole pressure monitoring, injection return testing and reservoir modelling |
| Well asset preventative maintenance | Online chemical treatment, offline mechanical and chemical cleaning, casing integrity survey and well performance monitoring |
| Well repair (costs minimisation) | Well design has repair option built-in for corrosive fields, alloy casing option, cement recipe and well casing quality standard |
| Critical asset management | Spare turbines in place, other critical spares being reviewed, online steam to turbine quality monitoring |





UNDERPINNED BY LOCAL PARTNERSHIPS

- > Partnerships and kaitiakitanga are at the heart of our business
- > Land access is an integral part of our geothermal development
- > Through strong partnerships, we build enduring geothermal opportunities, create financial freedom and generate options for each other
- > Geothermal assets partners are Tauhara North No.2 Trust and Tuaropaki Trust
- > Other key geothermal stakeholders are landowners and iwi trusts at Kawerau and Bay of Plenty, Landcorp New Zealand and Wairakei Pastoral Limited at Ngatamariki



TAUHARA NORTH
No.2 TRUST

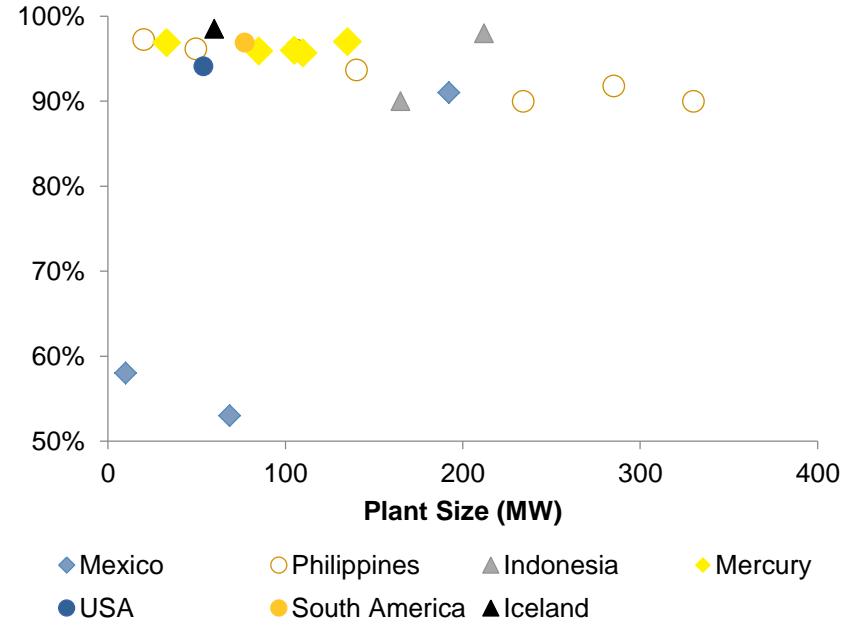


OPERATING FOR THE LONG-TERM



- > We maximise our power plant generation while managing our reservoirs for the long-term
 - > We have achieved higher than the originally designed MW at our power plants
- > We work hard to drive our operational efficiency – consistently high availability
- > Continuous improvement is expected to unleash further value
 - > Process Safety will lift our capability and long-term performance
 - > We are standardising our outage planning as we seek to deliver cost efficiency, quality delivery, shorter down time and longer run time between outages

GEOHERMAL PLANT AVAILABILITY¹



¹Source: Mercury



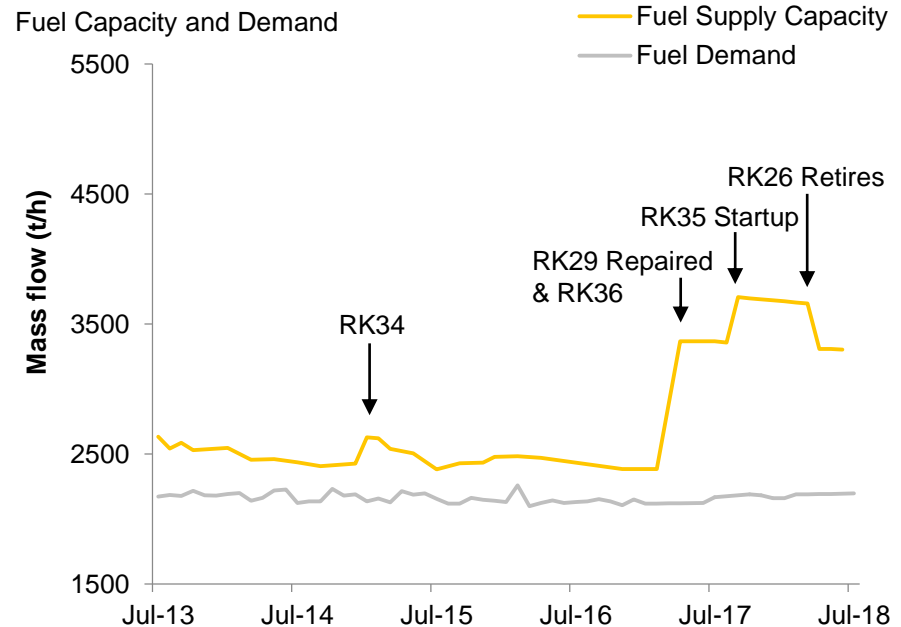
DRILLING SUCCESS THROUGH CONTINUOUS IMPROVEMENT



- > Make-up wells are generally expected to secure fuel supply over time, examples:
 - > Replenish declining fuel supply or injection capacity caused by deposition of minerals near wellbore rocks
 - > Exercise adaptive reservoir management methodology such as spreading fuel take to ensure long-term reservoir health
 - > Replace wells that have mechanical issues
- > In FY2017 we successfully drilled four new make-up wells and repaired one corroded well
 - > LTI free 195,000 work hours and great collaboration with service companies
 - > Secure fuel ~1000 t/h above expectation

ROKAWA DRILLING

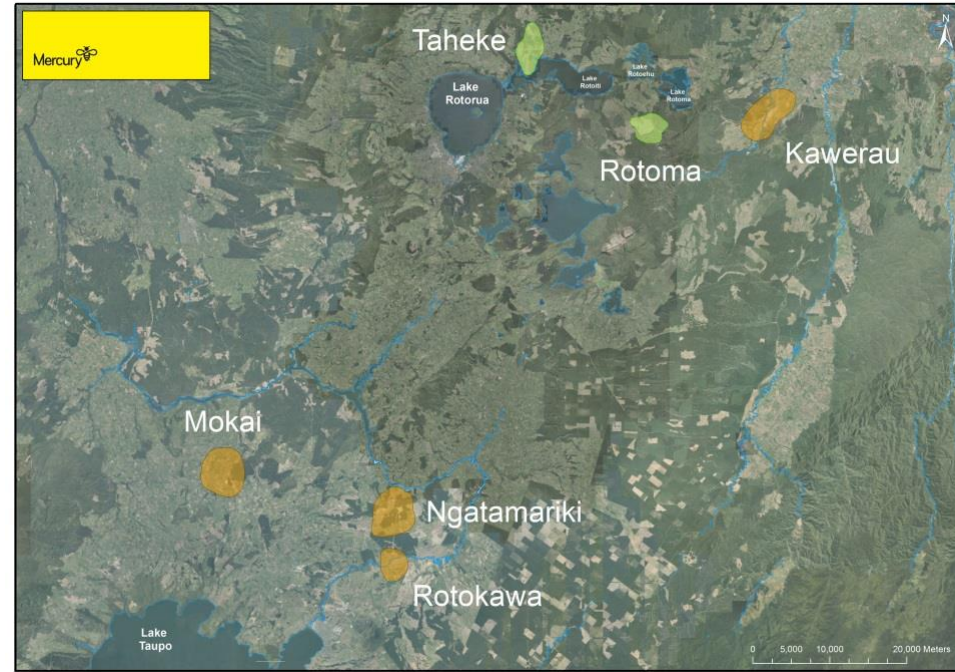
Fuel Capacity and Demand



GROWTH OPTIONS



- > We continually explore a range of growth options:
 - > Silica products, such as colloidal silica, as a potential growth option with industry partner such as Geo40 Limited
 - > Direct heat options
 - > “Bottoming Units” (3MW - 5MW range) to extract energy from lower enthalpy fluid prior to injection at existing assets
 - > Brownfield development for incremental generation (10MW - 20MW range)
 - > Greenfield development options ready for investment at the right time



GEOTHERMAL 101



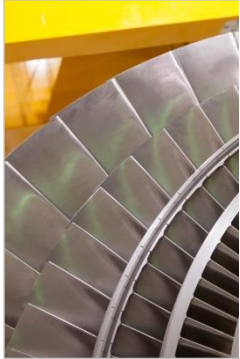
GENERATION PORTFOLIO

- > Geothermal reservoirs are renewable energy systems
- > We have built a world class geothermal business



PLATFORM FOR SUCCESS

- > We invest to understand our reservoirs
- > Reservoir management underpins our success long-term
- > Partnerships are key



LONG-TERM CASH FLOW

- > We deliver long-term shareholder value through operational excellence
- > Recent drilling success as the result of continuous improvement



DEVELOPING GROWTH OPTIONS

- > Growth is possible under the right conditions
- > Organic growth is the most likely path for geothermal in the foreseeable future



DRIVING CUSTOMER LOYALTY

JULIA JACK
Chief Marketing Officer

MOHAMMED ABBAS
Head of Mass Market Sales

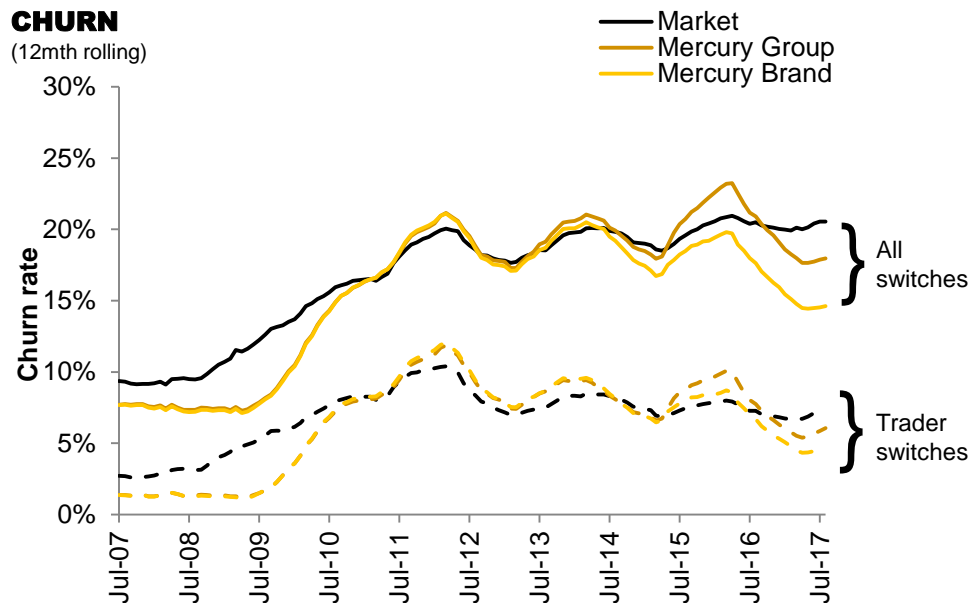
BEN HARVEY-LOVELL
Head of Brand & Marketing





MERCURY NOW OUT-PERFORMS THE MARKET ON RETENTION AS A RESULT OF OUR CONSISTENT STRATEGY

- > Mercury group outperforms the market at both a total and a “trader” switching level
- > Mercury brand customers currently churn at a rate ~6% lower than the market at a total switching level
- > This is the result of a long-term strategic focus which accelerated over the last 2 years and included fixed-term, usage monitoring, loyalty rewards and our new Mercury brand





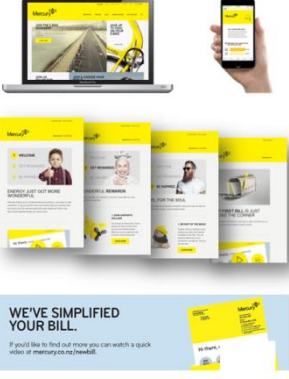
Source: Electricity Authority





OUR CUSTOMERS BUILT OUR STRATEGY WITH US

- > Listening to our customers defined our strategy to:
 - > **INSPIRE ME**
 - > **REWARD ME**
 - > **MAKE IT EASY FOR ME**
- > Customers helped design everything from our logo to our bill

| Inspire | Reward | Make it Easy |
|--|---|---|
|  |  |  |



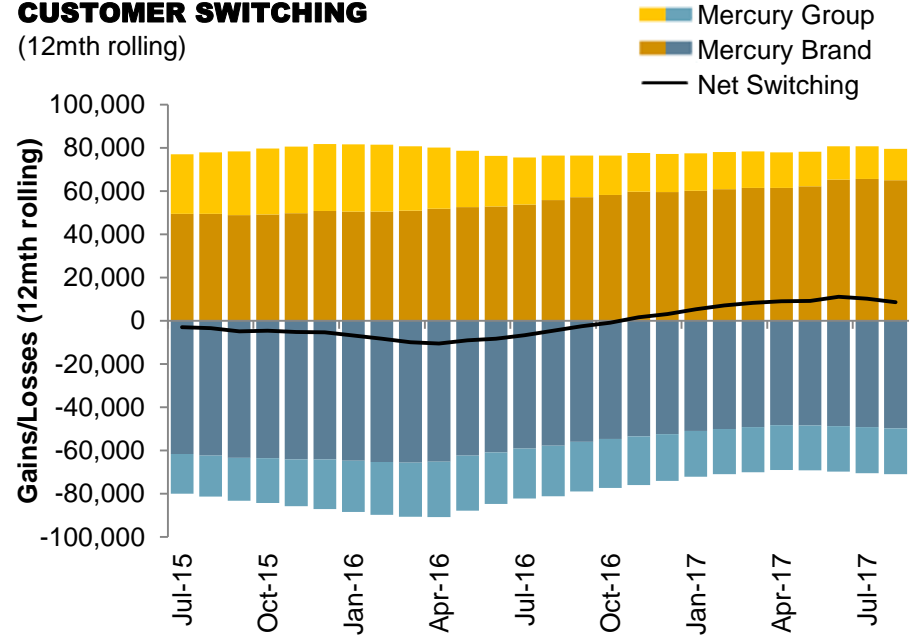
CUSTOMERS CHOOSE US FOR UNIQUE LONG TERM VALUE AND CHOICE



- > Our focus on inspire, reward and make it easy enables us to acquire long-term customers
 - > We sell on “non-price” attributes such as Airpoints™, Free Power Days, GEM, Starship; fixed-term, and digital engagement
 - > We prioritise keeping existing customers over gaining new ones
 - > Our people are our most important asset with award winning sales and service teams and a focus on customer advocacy across Mercury

CUSTOMER SWITCHING

(12mth rolling)



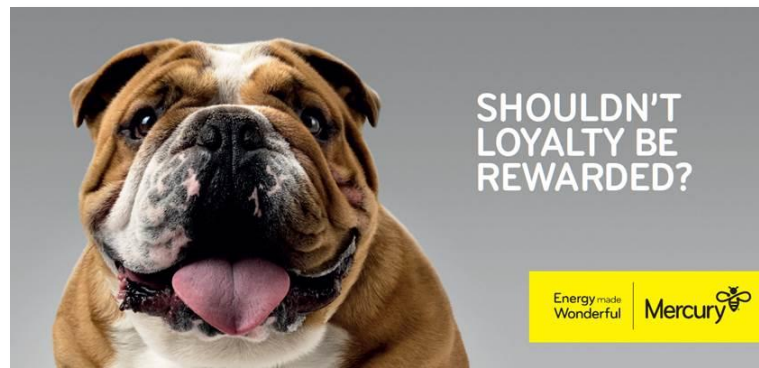
Source: Electricity Authority





CUSTOMERS STAY FOR UNIQUE LONG TERM VALUE AND REWARD

- > The number of customers enjoying unique Mercury rewards continues to grow:
 - > 145,000 Airpoints™ customers
 - > 140,000 on fixed-term pricing
 - > 157,000 Free Power Days in FY2017
 - > \$10m donated to Starship over 18 years





CUSTOMERS LOVE FREE POWER DAY REWARDS

- > Free Power Days have high perceived value and are a unique Mercury reward
 - > Delivering long-term reward and one-off “surprise and delight”
 - > Providing rich user-generated content with customers sharing their “FPD” stories
 - > Giving the opportunity to create “event” experiences e.g. Shortland Street’s 25th anniversary

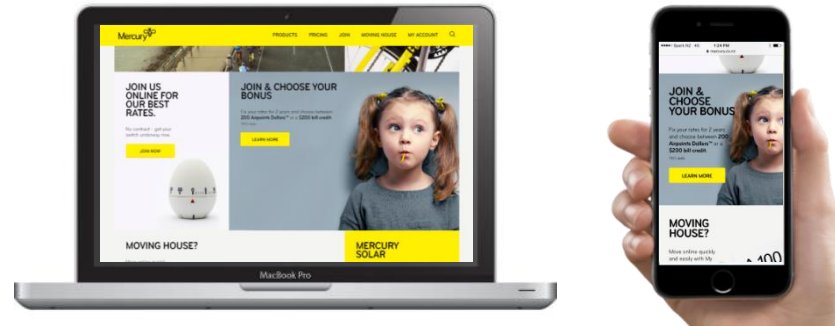
Drying children's clothes and baking biscuits, thanks so much for the gift of free power, Mercury



OUR DIGITAL CHANNELS HAVE BEEN MAKING IT EASY FOR OUR CUSTOMERS



- > Our new responsive Mercury website launched in July 2017
- > Website traffic is up 42% YOY
- > 43% of that traffic is now on mobile/tablet
- > My Account has a high level of engagement with 190,000 customers registered
- > These customers engage with us ~61,000 times per month to complete self-service transactions
- > Our Free Power Days and Airports™ registrations are all fulfilled through My Account



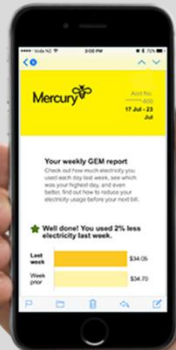
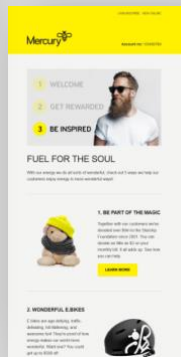
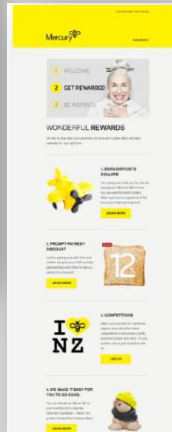
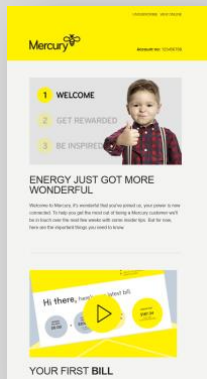
COMPARISON OF FY2017/FY2016 WEB TRAFFIC





DIGITAL IS THE KEY ENABLER TO CONTINUE TO RETAIN AND REWARD OUR CUSTOMERS




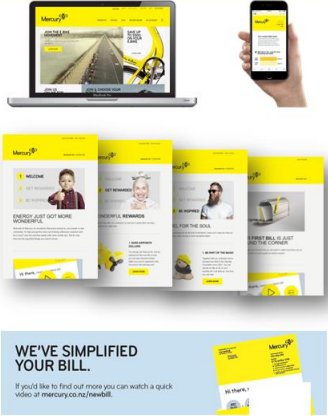
- > Digital engagement is not just about self-service
 - > GEM, our usage monitor, is one of our most popular services with ~100,000 customers engaging every week
 - > Our new digital on-boarding programme has a 77-83% open rate
 - > During FY2017 our social media posts received over 37,000 reactions; more shares than comments, which indicates content resonated strongly; drove 67,843 clicks; and saw over 290,000 full video views on Facebook and YouTube





OUR FOUNDATIONS WILL ENABLE US TO CONTINUE TO INSPIRE, REWARD AND MAKE IT EASY FOR OUR CUSTOMERS TO STAY WITH MERCURY

- > We have built our loyalty platforms as part of a multi-year strategy
- > We have focused on offering unique propositions that reward existing customers, attract new ones and are commercially sustainable
- > We will continue to build and evolve based on what our customers want and need to deliver to our brand purpose and promises

| Inspire | Reward | Make it Easy |
|---|---|---|
|   |  |  |



DRIVING CUSTOMER LOYALTY



GROWING CAPABILITY

- > In a highly competitive market, Mercury already out-performs on retention



CUSTOMER-LED STRATEGY

- > Our retention success is the result of listening to our customers



CREATE FUTURE VALUE

- > Our loyalty platforms are built to deliver long-term value as part of a multi-year strategy



TECHNOLOGY & DIGITAL

KEVIN ANGLAND
General Manager
Digital Services

NISHA CLARK
Head of ICT Delivery

ROXANNE SALTON
Head of Digital Strategy
and Delivery





GROWING OUR TALENT AND CAPABILITY & CHANGING HOW WE DELIVER



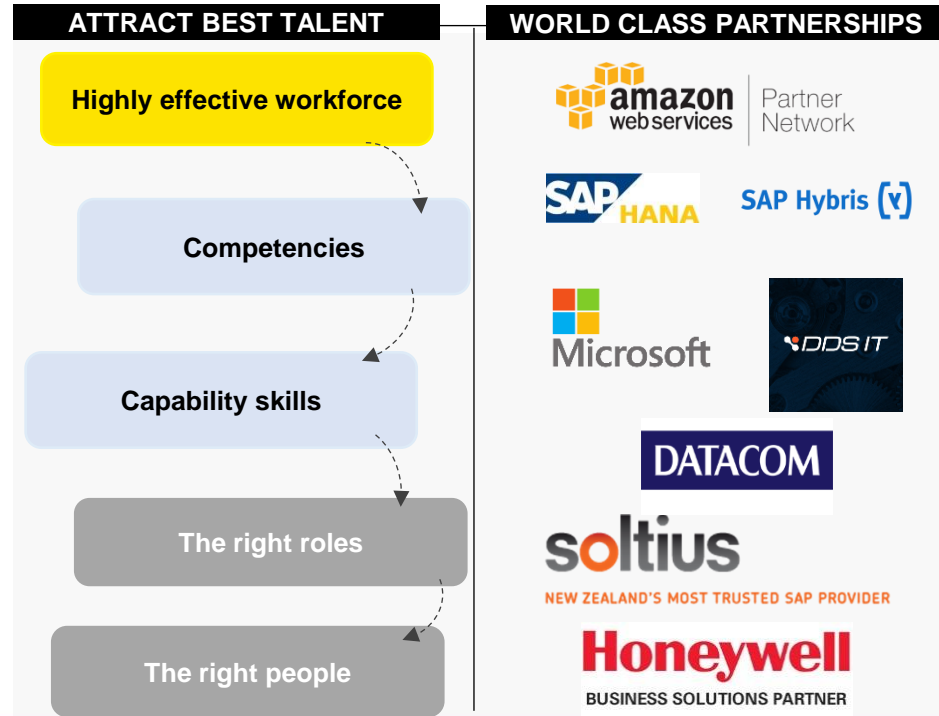
- > We have increased our investment in our brand, people and talent strategy to attract and retain the best talent
- > We have implemented new agile/collaborative ways of working, and are applying a continuous delivery approach to technology change



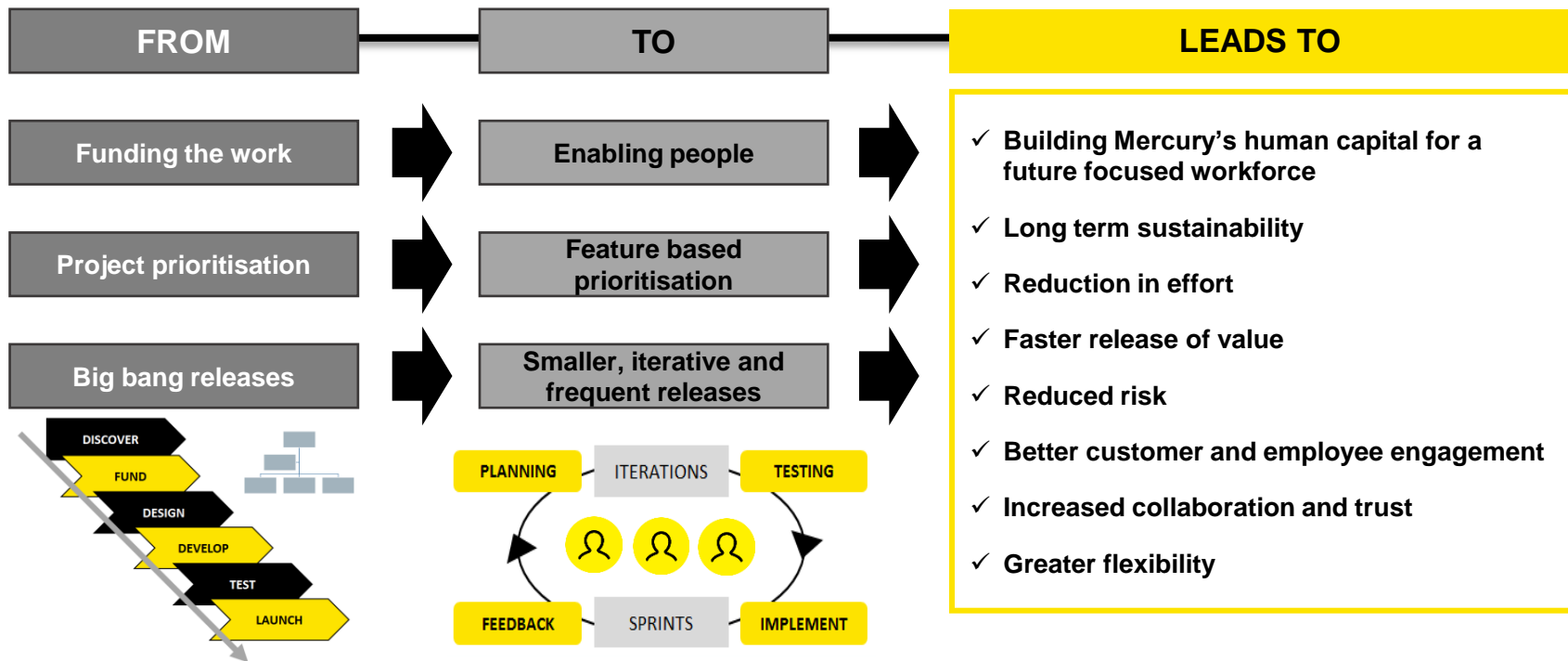
GROWING OUR TALENT AND CAPABILITY – CREATING A CULTURE BUILT ON TRUST AND COLLABORATION



- > We have built a strong experienced internal workforce and are partnering with world class digital technology providers, so that we create:
 - > Scale and expertise to confidently deliver to Mercury's business strategy and achieve Mercury's goals
 - > Diversity of ideas and innovation based on collective experiences



CHANGING HOW WE DELIVER HAS BEEN KEY TO OUR SUCCESS





BUILDING A SOLID TECHNOLOGY FOUNDATION

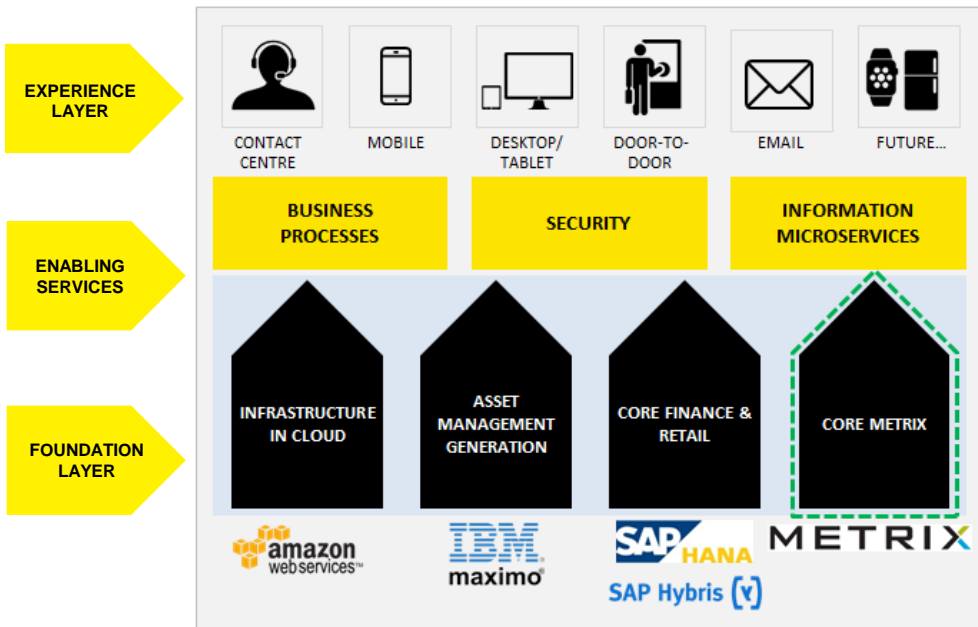
- > Our core technology platforms are being upgraded, setting the foundation for future operational improvement and growth
- > We are investing in future-proof platforms, partners and services while maintaining flexibility and limiting our exposure to risk
- > We have adopted a stepped approach to delivering our technology roadmap to best manage the increasing pace of change and manage cost



WE ARE BUILDING FOR OPERATIONAL EXCELLENCE



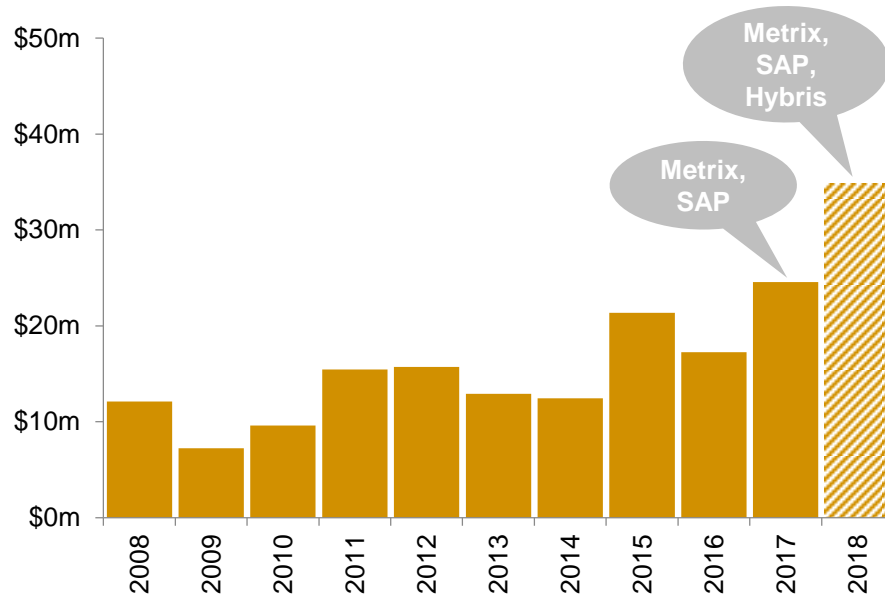
- > We are making it easier for our people to deliver experiences that inspire, reward and make it easy for our customers
- > We are investing in a core foundation that provides us with flexibility, agility and re-use, allowing us to create operational efficiencies and speed to market
- > We are developing strong partnerships, allowing us to leverage global best practices and thought leadership



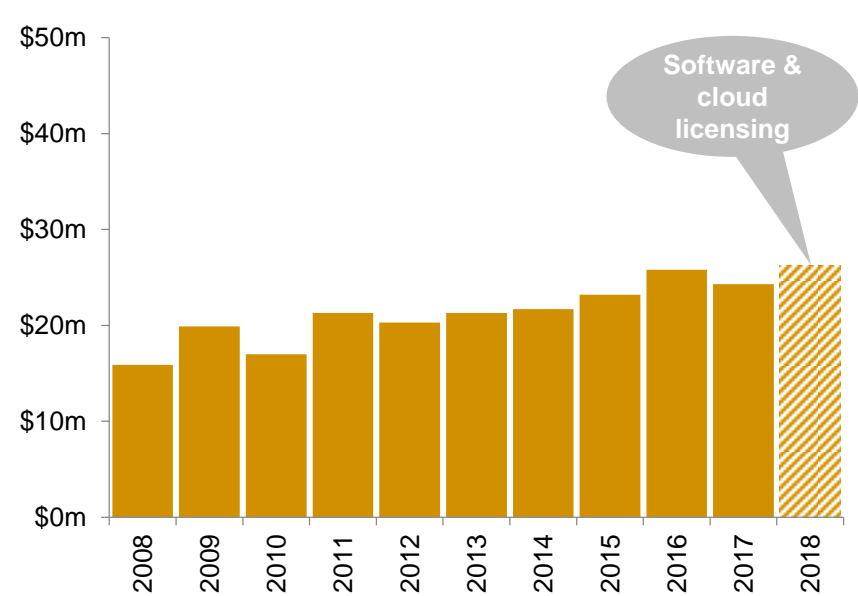
WE ARE TAKING A STEPPED APPROACH TO OUR TECHNOLOGY INVESTMENT



GROUP ICT CAPEX



GROUP ICT OPEX





CUSTOMER-LED DIGITAL EXPERIENCES DELIVERING REAL VALUE

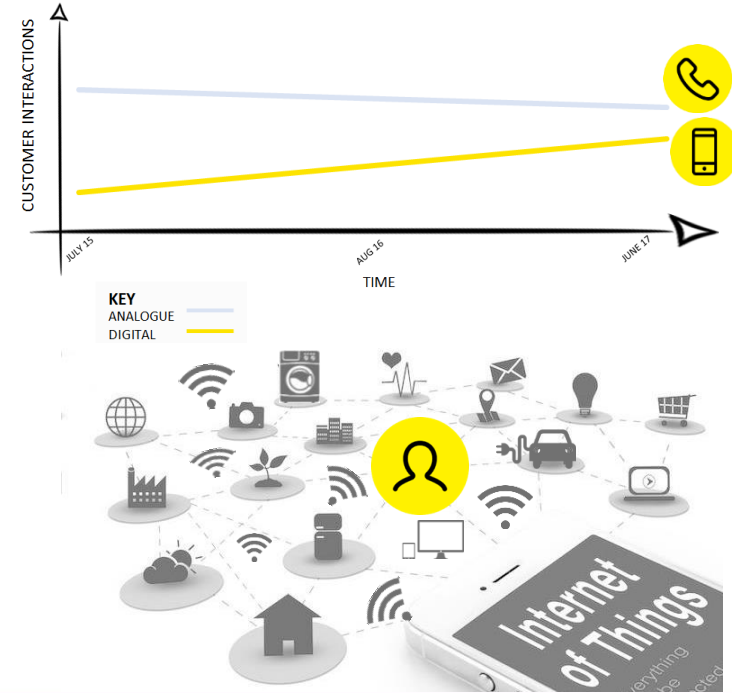
- > Customer engagement via digital continues to grow and we continue to see uplift in customer preference for digital self-services
- > We continue to deliver digital experiences that support our brand promise to inspire, reward, and make it easy for our customers
- > Our priority has been to address customer needs; delivering relevant and seamless multi-channel experiences that meet the needs of our customers on a continuous basis



OUR CUSTOMERS WANT TO ENGAGE DIGITALLY, ACROSS MORE TOUCH POINTS

- > Digital engagement is trending upwards, indicating a shift away from traditional analogue channels as the primary touch point
- > Over 1/3 of our residential customer initiated service interactions are via a digital channel
- > Our customers are becoming increasingly reliant on digital devices as their primary engagement touch point
- > It is critical that we meet and exceed their expectations by offering experiences via their channels of choice

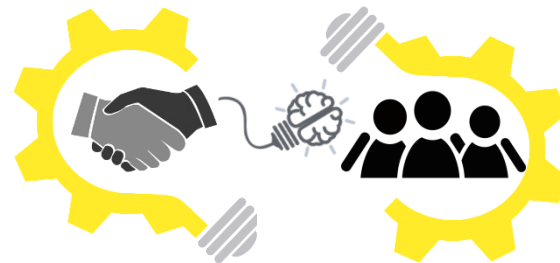
INBOUND CUSTOMER ENGAGEMENT





CREATING FUTURE VALUE ACROSS THE ENTERPRISE BY LEVERAGING EMERGING TECHNOLOGIES AND PARTNERSHIPS

- > We are exploring and experimenting with emerging technologies to identify new opportunities for growth, innovation, optimisation and efficiencies across Mercury
- > We have adopted a lean innovation process approach enabling us to realise value quickly and meet market and customer demand
- > We are engaged in collaborative partnerships, co-innovating future opportunities for Mercury and the wider market continually fostering the creation of new digital economies

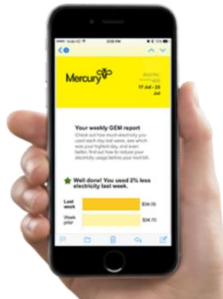


TECHNOLOGY & DIGITAL



GROW TALENT & CAPABILITY

- > We have built the necessary capability to dynamically execute on our digital aspirations



CUSTOMER-LED DIGITAL

- > Digital is a growing channel for Mercury and we continue to deliver rewarding and inspiring experiences supporting our mission



TECHNOLOGY FOUNDATIONS

- > Mercury has addressed its core platform issues and now has the foundations for growth in place



CREATE FUTURE VALUE

- > We are extending our reach to create future value for Mercury through innovation and partnerships



