



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

## NEWS RELEASE

# Governance Roadshow Presentation – December 2017

**12 December 2017** – Mercury will present a series of investor meetings during December 2017.

The presentation materials are attached.

ENDS

### For further information:

Media – Craig Dowling 0272 105 337

Investors – Tim Thompson 0275 173 470

## ABOUT MERCURY NZ LIMITED

Mercury's mission is energy freedom. Our purpose is to inspire New Zealanders to enjoy energy in more wonderful ways and our goal is to be New Zealand's leading energy brand. We focus on our customers, our people, our partners and our country; maintain a long term view of sustainability; and promote wonderful choices. Mercury is energy made wonderful.

Visit us at: [www.mercury.co.nz](http://www.mercury.co.nz)



# Mercury

## Governance Roadshow

**JOAN WITHERS**  
Chair

**JAMES MILLER**  
Director

12 December 2017



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# MERCURY AT A GLANCE

Market Capitalisation of

**\$4.6b<sup>1</sup>**

2<sup>nd</sup> largest NZ gentailer

10<sup>th</sup> largest NZX50 company by market capitalisation

**100% RENEWABLE GENERATOR,  
RETAILER AND METERING PROVIDER**

~7,000GWh generation per annum from flexible hydro and baseload geothermal

~390,000 customers

2<sup>nd</sup> largest NZ meter data and services provider

**85,000**

**OWNERS WITH CROWN AS  
MAJORITY OWNER**

Minimum 51% legislated government ownership

Corporate credit rating from S&P of

**BBB+/Stable**

Debt of \$1.1b

FY2018 EBITDAF guidance of

**\$515m**

Based on above-average hydrology and flat operating expenditure

FY2018 ordinary dividend guidance of

**\$15.0c**

Cash ordinary dividend yield of 4.4%<sup>1</sup> (6.1% gross<sup>2</sup>)

12 month total net dividend yield including special dividend of 5.9%<sup>1</sup> (8.2% gross<sup>2</sup>)



# Our Mission: Energy Freedom.

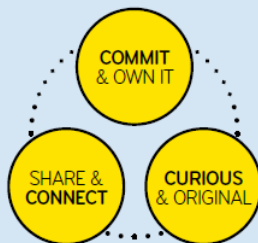
## REALISING OUR PURPOSE >>

TO INSPIRE NEW ZEALANDERS  
TO ENJOY ENERGY IN MORE  
WONDERFUL WAYS

## EXECUTING OUR STRATEGY >>

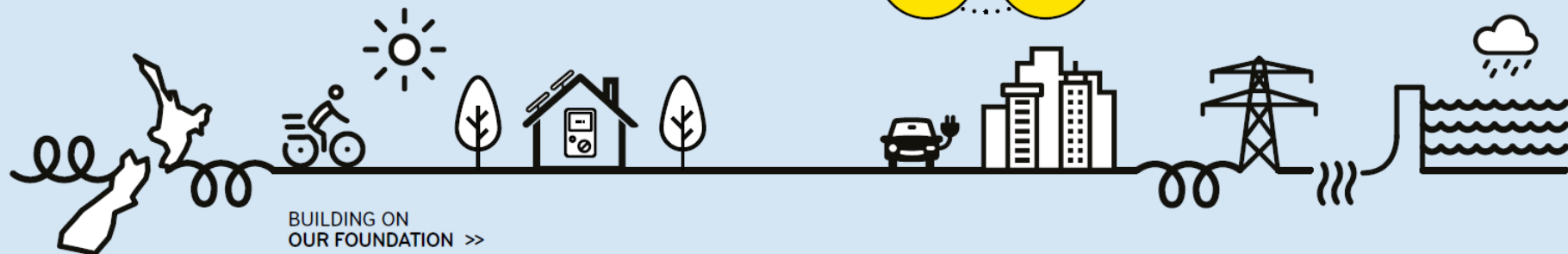
DELIVERING CUSTOMER  
ADVOCACY  
LEVERAGING CORE STRENGTHS  
DELIVERING SUSTAINABLE  
GROWTH

## LIVING OUR ATTITUDE >>



## ACHIEVING OUR GOAL >>

TO BE NEW ZEALAND'S  
LEADING ENERGY BRAND



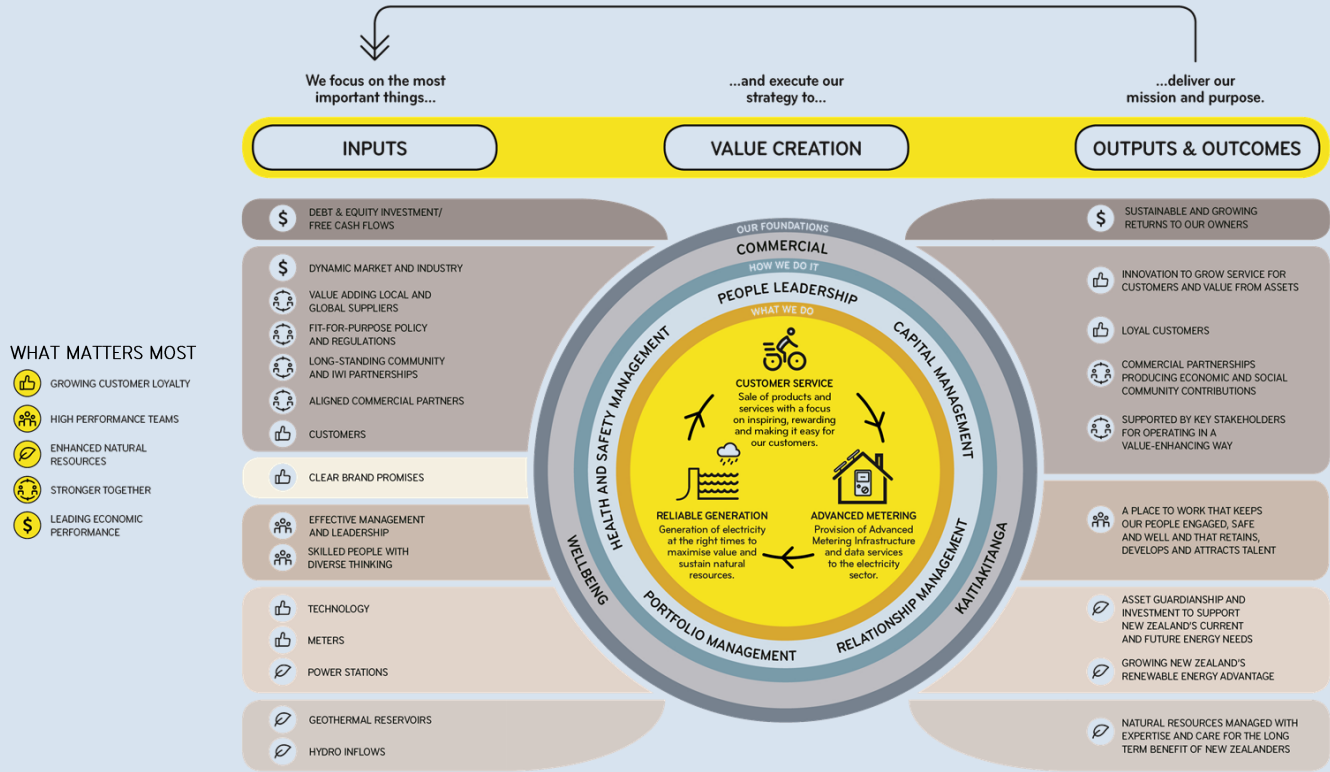
WELLBEING  
OF OUR PEOPLE AND  
CUSTOMERS

KAITIAKITANGA  
THE CUSTODIANSHIP OF  
NATURAL RESOURCES

COMMERCIAL  
COMMERCIALLY ASTUTE  
DECISIONS



# HOW MERCURY SUSTAINS AND GROWS VALUE



## 5 OUR BUSINESS



# STRATEGIC DRIVERS & FY2017 OUTCOMES

## DELIVERING CUSTOMER ADVOCACY

### > Below market customer churn

- > Trader churn<sup>1</sup> of 5.7%<sup>2</sup> versus market at 7.1%

### > Increasing customer satisfaction

- > Customer satisfaction<sup>3</sup> of 64%, up 4% from FY2016
- > Award winning 'Energy Made Wonderful' campaign

### > Innovative loyalty product offerings

- > 147,000 customers rewarded with Airpoints Dollars™
- > 157,000 Free Power Days enjoyed in FY2017
- > GEM, our usage monitor, is one of our most popular services with ~100,000 customers engaging every week



## 6 FY2017 OUTCOMES

<sup>1</sup> Switching where a customer changes retailer without moving house

<sup>2</sup> 12-monthly rolling trader churn rate (all Mercury brands) as at 30 June 2017

<sup>3</sup> 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 people<sup>1</sup>
- > One serious injury incident in FY2017 due to office-based stair fall

### > Increasing employee engagement

- > Employee engagement<sup>1</sup> at 81%, up 2% from FY2016
- > 89% of employees confirm that 'Mercury has a clear vision of where it's going and how it's going to get there'<sup>2</sup>
- > Nominated as a finalist in the Best Enterprise Workplaces category of the IBM Best Workplaces awards

### > Maximised value from renewable resources

- > High geothermal availability maintained at 96%
- > Ongoing hydro refurbishment with the rehabilitation of the first of 4 units at Whakamaru Hydro Station



## 7 FY2017 OUTCOMES

<sup>1</sup> As measured by the 2017 IBM Employee Engagement Survey Engagement Index

<sup>2</sup> 2017 IBM Employee Engagement Survey





# STRATEGIC DRIVERS & FY2017 OUTCOMES

## DELIVERING SUSTAINABLE GROWTH

### > **Managing cost**

- > Operating costs flat for the 4<sup>th</sup> consecutive year

### > **Investing in growth**

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

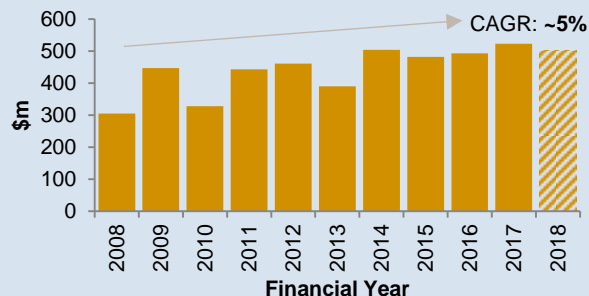
### > **Growing returns to shareholders**

- > Record earnings through capitalising on wet hydrological conditions and strong pan-company execution
- > 9<sup>th</sup> consecutive year of ordinary dividend growth

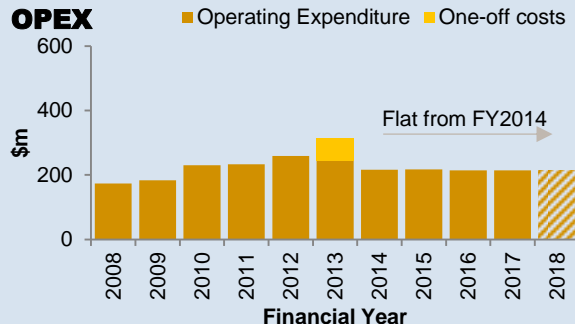


# MERCURY'S FINANCIAL TRACK RECORD

## EBITDAF



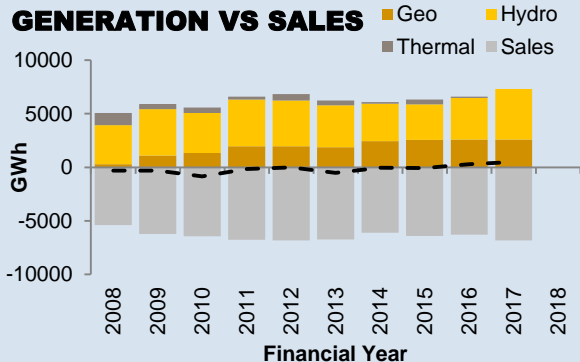
## OPEX



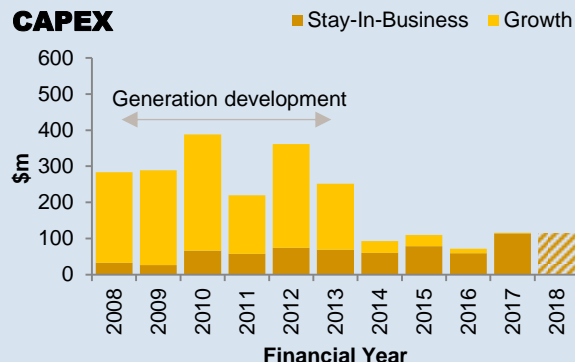
## DISTRIBUTIONS



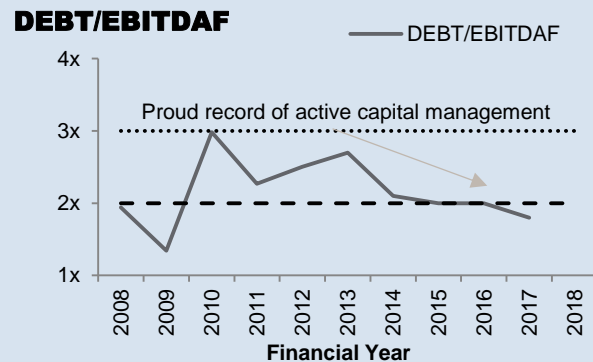
## GENERATION VS SALES



## CAPEX



## DEBT/EBITDAF



# 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	3	4
Debt/EBITDAF 1.8x at 30 June 2017 <sup>1</sup>	FY2017 fully imputed ordinary dividends of 14.6cps	Minimal FY2017 new investment capital expenditure	5.0cps special dividend declared to distribute excess FY2017 FCF plus the proceeds of the carbon credit sales

<sup>1</sup> Adjusted for S&P treatment of Mercury's Capital Bond

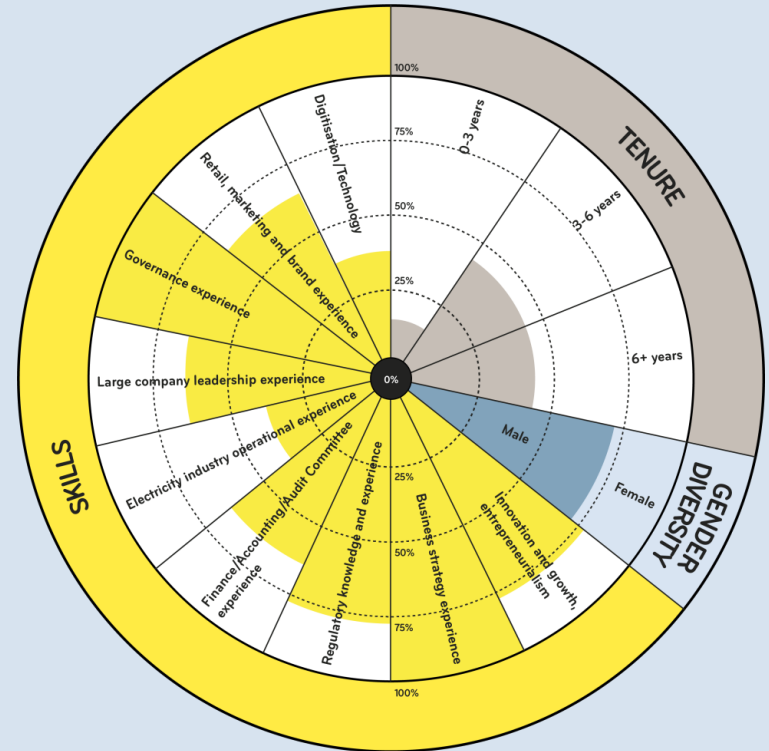


# BOARD OF DIRECTORS



# BOARD OF DIRECTORS

- > Committed to maintaining the highest standards of business behaviour and accountability
- > Key governance focus for 2017 included:
  - > Board skills and experience
  - > Enhanced sustainability reporting
- > Appointment of Scott St John made to complement skills of existing directors after a comprehensive evaluation of company requirements
- > Voluntary early adoption of the NZX Corporate Governance Best Practice Code 2017
- > Developing the pipeline – on-going support for the Institute of Directors Future Directors Programme



# BOARD OF DIRECTORS

## Skills matrix / gaps and strengths<sup>1</sup>

- > Detailed skills requirements developed against business strategies and future direction
- > Balancing industry knowledge with that of management
- > Ensuring diversity of skills/approach
- > Assessed to hold highly relevant capability

## Comprehensive review process

- > External reviews (last completed November 2016) combined with internal reviews
- > Focus on developing optimal dynamic
- > Managing workload and independence

## Ongoing professional development

- > Keeping up to date on core skills and emerging trends through ongoing training, e.g. Cambridge Institute for Sustainability Leadership
- > Continuing and extending learning agenda
- > Tailored to address gaps identified in skills matrix

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## Succession planning

- > Consider appropriate tenure and orderly transition
- > Clear pathway being laid for cohesive Chair and Committee chair transitions

<sup>1</sup> Refer Corporate Governance Statement 2017, p. 5



# LEADERSHIP TEAM

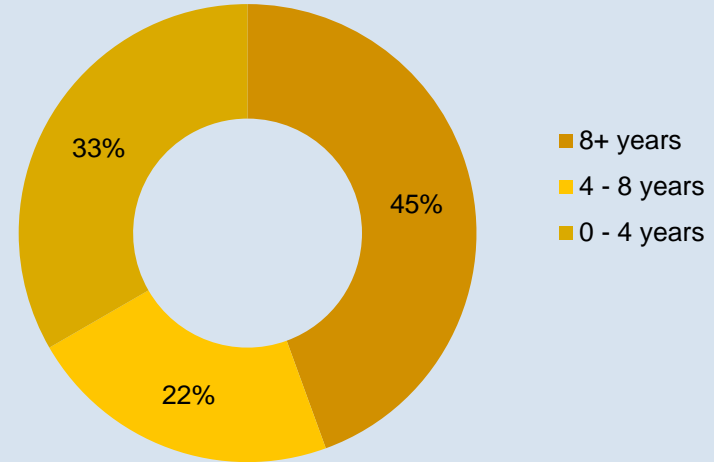




# LEADERSHIP TEAM

- > Composition of Leadership Team aligned with strategic priorities
- > Range of tenures across Leadership Team balances retention of institutional knowledge with diverse perspectives and capabilities
- > HRC provides thought partnership on Leadership Team appointments and performance measurement

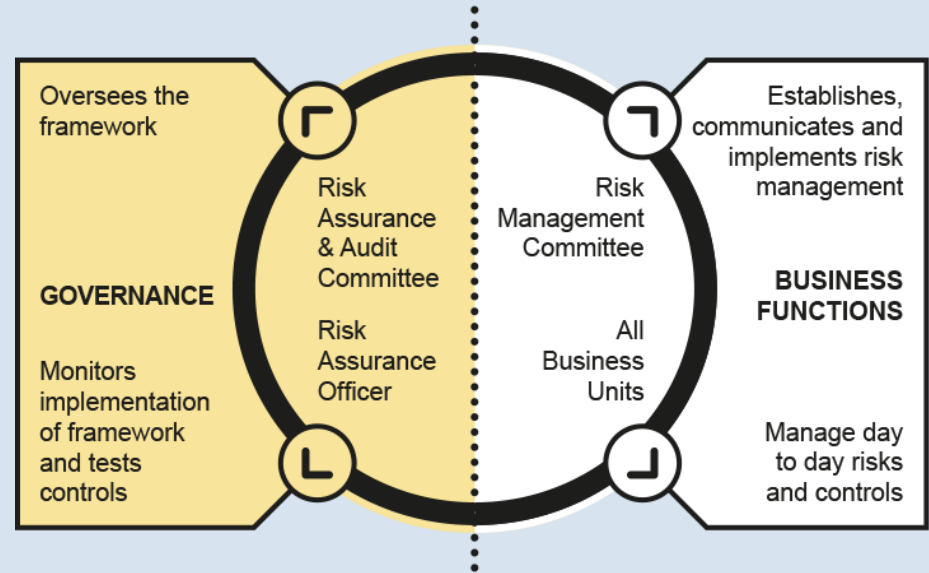
**LEADERSHIP TEAM TENURE IN COMPANY**





# RISK MANAGEMENT

- > Comprehensive approach encompassing financial, strategic, environmental, operational, regulatory, reputational, social and governance risks from internal and external sources
- > Board insurance committee formed in FY2018 for:
  - > Deep dive into key risks facing the business
  - > Comprehensive review of the appropriateness of insurance programme
- > Audit provider considers that, based on their experience with similar New Zealand organisations, Mercury is on par or better in terms of its risk management framework



# ESG

- > Board and management committed to developing reporting on factors material to the business, its ultra-long-term sustainability and prosperity
- > Approach to embedding sustainability reflected in the foundations of the business: wellbeing (of our people and customers), kaitiakitanga (custodianship of our environment) and commercial (making commercially astute decisions)
- > Embedding integrated thinking into our strategy, governance and operations, and how we manage sustainability risks and opportunities
- > High standards of disclosure reporting maintained through:
  - > Incorporation of principles from the Integrated Reporting <IR> Framework
  - > Implementation of Global Reporting Initiative (GRI) standards
  - > Voluntary early adoption of the NZX Corporate Governance Best Practice Code 2017
- > Actively involved in national discussions on key environmental issues material to our business – water and emissions



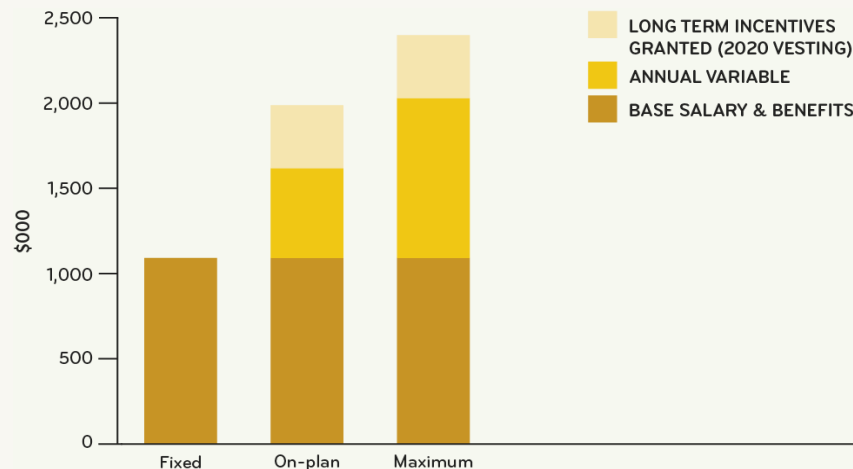
# REMUNERATION

- > Executive short-term incentive KPIs are aligned with our strategy and What Matters Most
- > Scorecard for variable component covers:

Target area	FY2018 Weighting %
Financial: EBITDAF	30
People	20
Customer	20
Wellbeing	20
Long-term Platform	10

- > Long-term incentives are aligned with the enhancement of shareholder value over a multi-year period
- > New Zealand REM incorporates balanced incentives at an order of magnitude different to international markets

Chief Executive remuneration performance pay for FY2018

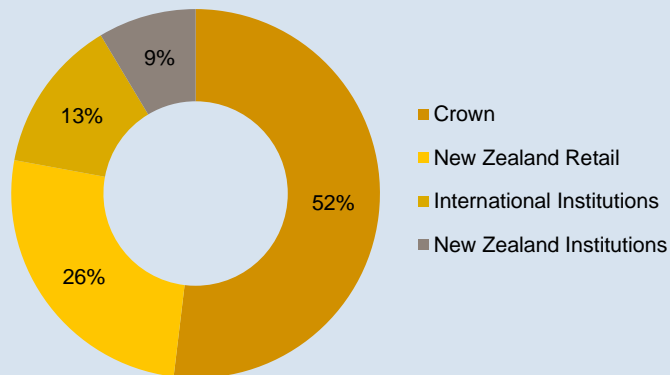


# OWNERSHIP

- > Listed on NZX and ASX in May 2013
- > Currently more than 85,000 shareholders with Crown as majority owner
  - > Public Finance Act and Company's constitution require at least 51% Crown ownership
  - > No other person may hold more than 10% of shares
- > Eight independent Directors - no direct Crown Board representation

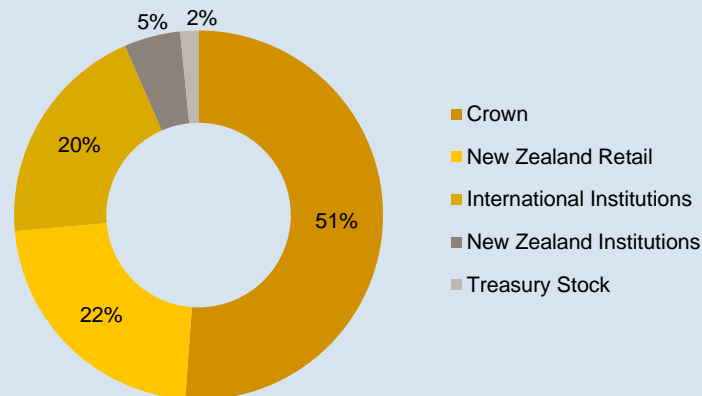
## MERCURY SHARE REGISTER

May 2013



## MERCURY SHARE REGISTER

October 2017





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