Financial Results

Six months ended 31 December 2017

FRASER WHINERAY
Chief Executive

WILLIAM MEEK
Chief Financial Officer

27 February 2018

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Forward-looking statements are subject to any material adverse events, significant one-off expenses or other unforeseeable circumstances including hydrological conditions.

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3 **HIGHLIGHTS**

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 >>

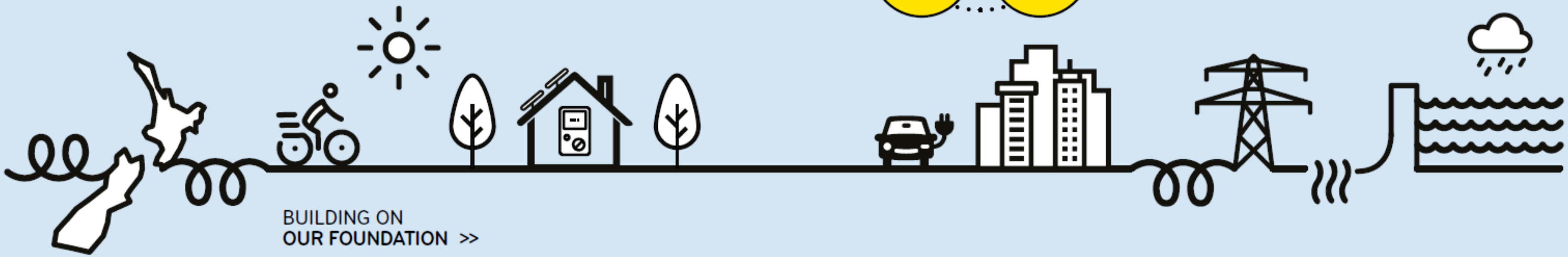
COMMIT & OWN IT

SHARE & **CONNECT**

CURIOUS & ORIGINAL

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

HY2018 HIGHLIGHTS

$301m
RECORD EARNINGS
Achieved through favourable hydrological conditions aided by strong pan-company execution

RECOGNITION
Of pan-company performance with multi-award-winning **‘Energy Made Wonderful’** campaign and **workplace engagement** programme

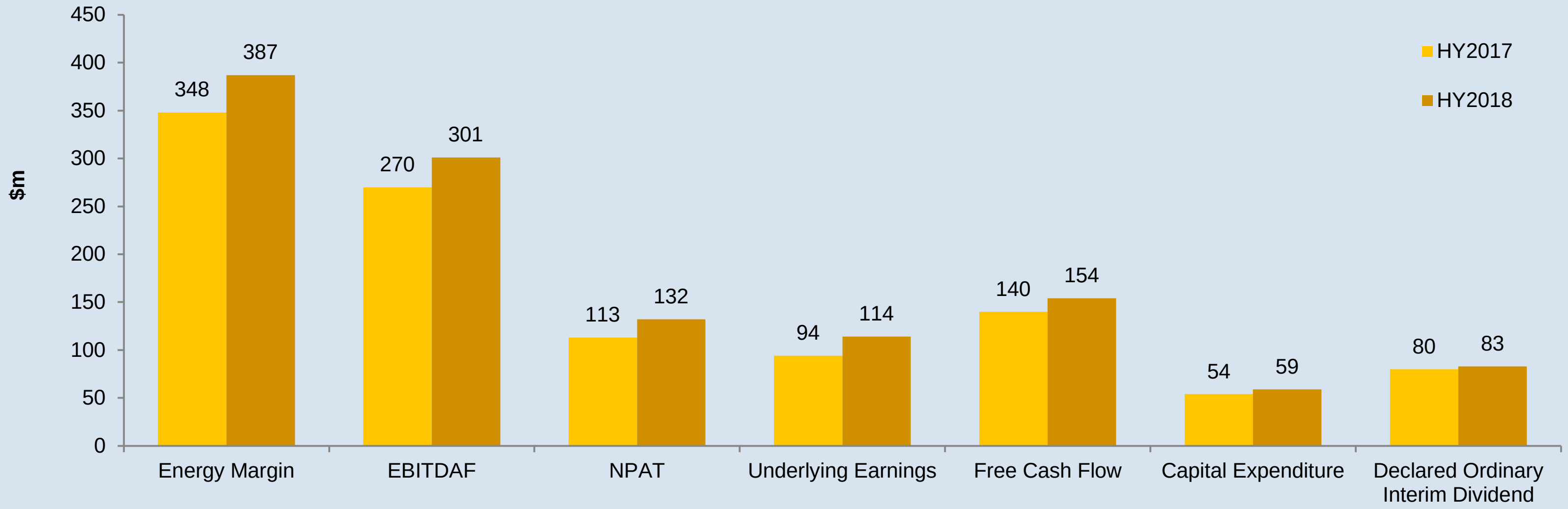
6.0cps
INTERIM DIVIDEND
Fully-imputed interim dividend increase of 3.4% versus HY2017

4,107GWh
RECORD GENERATION
As Mercury capitalised on opportunities provided by hydro inflows and maintained high geothermal availability

LOYALTY
Mercury’s continued focus on **rewarding**, **inspiring** and **making it easy** for existing customers has maintained our below-market churn position

Capital expenditure of
$59m
Included **completion** of geothermal drilling, technology platform upgrades and ongoing hydro refurbishment

FINANCIAL HIGHLIGHTS



- Record financial performance achieved through pan-company execution
- Earnings lifted by Mercury's ability to achieve record generation with elevated wholesale prices

STRATEGIC DRIVERS & HY2018 OUTCOMES

DELIVERING CUSTOMER ADVOCACY

- **Sustained below-market churn position**
  - Mercury brand trader churn[1] significantly lower than market at 5.5%[2]
  - Trader churn for all Mercury brands remains below market at 7.3%[3] versus 7.9%
- **Customer-led technology investment**
  - Completion of SAP technology platform upgrade enabling more efficient fulfilment of our customer promises
- **Effective customer engagement**
  - Widespread consumer engagement generated through 'Energy Made Wonderful' campaign – winner of the 2017 Grand Effie, New Zealand's premier marketing award, and the Supreme TVNZ NZ Marketing Award
  - Mercury's Contact Centre winner of eight awards at the 2017 CRM Contact Centre Awards
- **High impact offerings**
  - 150,000 customers being rewarded with Airpoints Dollars™
  - GEM, our usage monitor, is one of our most popular services with ~100,000 customers engaging every week

5.5%
Mercury brand trader churn[2]
FY2017: 4.4%
Market: 7.9%

18.9%
Total churn[3]
FY2017: 17.7%
Market: 21.0%

62%
Customer satisfaction[4]
HY2017: 61%

[1] Switching where a customer changes retailer without moving house
[2] 12-monthly rolling trader churn (Mercury brand only) as at 31 December 2017
[3] 12-monthly rolling trader churn / total churn (all Mercury brands) as at 31 December 2017
[4] Based on Mercury's monthly survey of residential customers, 6-monthly rolling average to 31 December 2017 for Mercury brand (excludes Bosco and GLOBUG)

STRATEGIC DRIVERS & HY2018 OUTCOMES

LEVERAGING CORE STRENGTHS

> **Goal of zero-harm**
> > TRIFR[1] at 0.86 (down from 1.05 in FY2017) with no high-severity incidents

> **Increasing employee engagement**
> > Winner of the Best Enterprise Workplace (750+ employees) category in the IBM 2017 Best Workplaces Awards and the Workplace Engagement Programme of the Year at the 2018 New Zealand HR Awards

> **Successful project execution**
> > Completed the drilling of a replacement geothermal well at Ngatamariki
> > Carried out major maintenance outages at Rotokawa, Nga Awa Purua and Mokai Geothermal Stations on-time and under budget
> > Upgrade of Customer & Billing platform (SAP) and Asset Management/Work Management platform (IBM Maximo) with Metrix project ongoing
> > Ongoing hydro refurbishment with the rehabilitation of the 2nd of 4 units at Whakamaru Station and work commencing at Aratiatia Station

> **Competitive advantage enabling record earnings**
> > High geothermal availability and favourable hydrological conditions enabled record generation of 4,107GWh leading to HY2018 EBITDAF of $301m

0.86
HY2018 TRIFR[1]
FY2017: 1.05

1.07
LWAP/GWAP[2]
FY2017: 1.05

95%
Geothermal availability[3]
FY2017: 96%
Market[4]: ~97%

[1] Total Recordable Injury Frequency Rate per 200,000 hours; includes onsite employees and contractors
[2] Average price of purchases (LWAP) over average price of generation (GWAP)
[3] Percentage of time plant able to generate after accounting for outages
[4] Derived from Transpower's New Zealand geothermal generation data (excluding Mercury operated plant)

STRATEGIC DRIVERS & HY2018 OUTCOMES

DELIVERING SUSTAINABLE GROWTH

- **Managing cost**
  - Opex higher versus HY2017 but on on track to be flat for the financial year
- **Investing in growth**
  - Testing new technology possibilities with the selection of Tesla as the provider for a grid-connected battery storage trial
  - Southdown Research & Development Centre winner of the Most Innovative New Initiative Award by the Sustainable Electricity Association of New Zealand
  - Pursued acquisition of AGL metering assets but ultimately unsuccessful
- **Growing returns to shareholders**
  - HY2018 interim dividend up 3.4% to 6.0cps
  - FY2018 EBITDAF guidance is $530m subject to any material events, significant one-off expenses or other unforeseeable circumstances including hydrological conditions
  - Full-year guidance of 15.0cps maintained which will be the 10th consecutive year of ordinary dividend growth

10 **MARKET DYNAMICS**

MARKET THESIS

FUNDAMENTALS: SUPPLY AND DEMAND BETTER BALANCED

ANTICIPATED MARKET OUTCOMES

> Demand growth	✓
> Increased 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	?

Pressure on retail margins expected if wholesale price and volatility remains elevated

WEATHER CONDITIONS AND FUNDAMENTALS SPUR DEMAND GROWTH

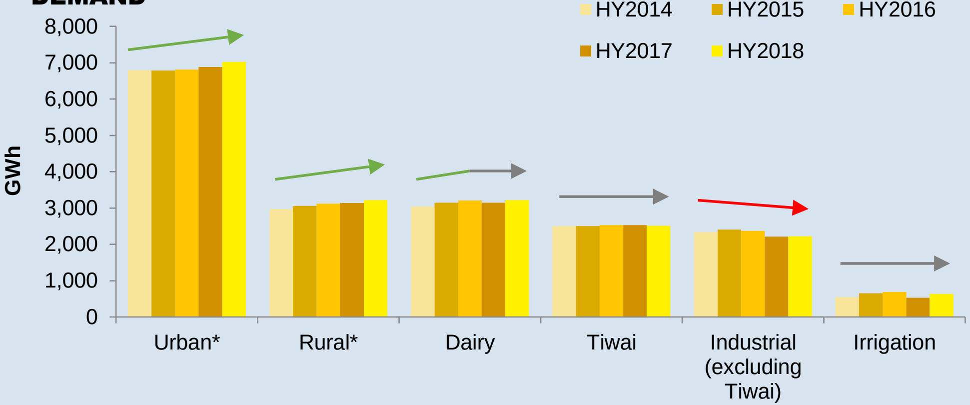
> Demand higher across all sectors except industrial
  > Drier weather conditions in HY2018 contributed to increased demand from both dairy processing and irrigation relative to HY2017
  > Industrial sector continues to show low/no growth

> Demand growth supported by positive movement in fundamental drivers
  > Urban and rural demand supported by high population growth rate[1] despite per household consumption decreasing

HY2018 NORMALISED DEMAND GROWTH BY SECTOR

Sector	GWh	Sector %△	Total %△
Urban[2]	+137	1.7%	0.7%
Rural[2]	+79	2.4%	0.4%
Dairy processing	+71	2.2%	0.4%
Irrigation	+107	20.4%	0.5%
Industrial	-13	(0.3%)	(0.1%)
Other	+39	12%	0.2%
Total	**+420**		**2.1%**

DEMAND

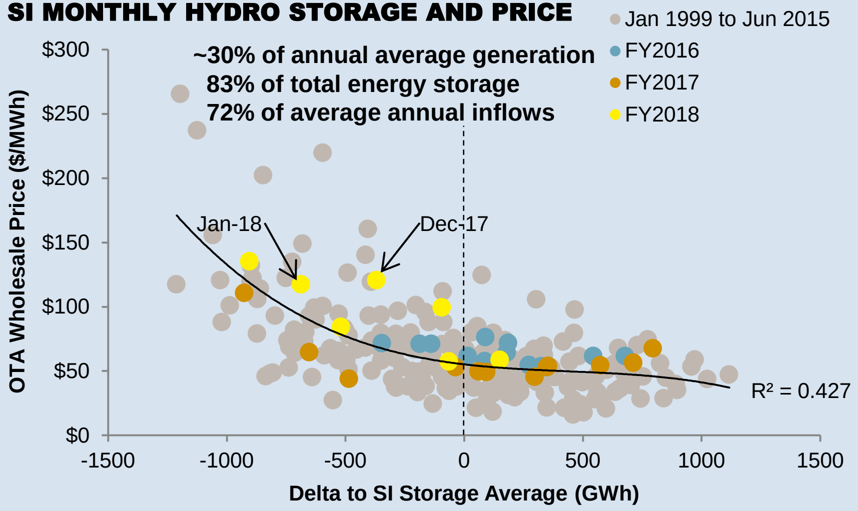


Source: Transpower SCADA data, Mercury
[1] 2017 NZ population growth rate highest in OECD
[2] Normalised for temperature

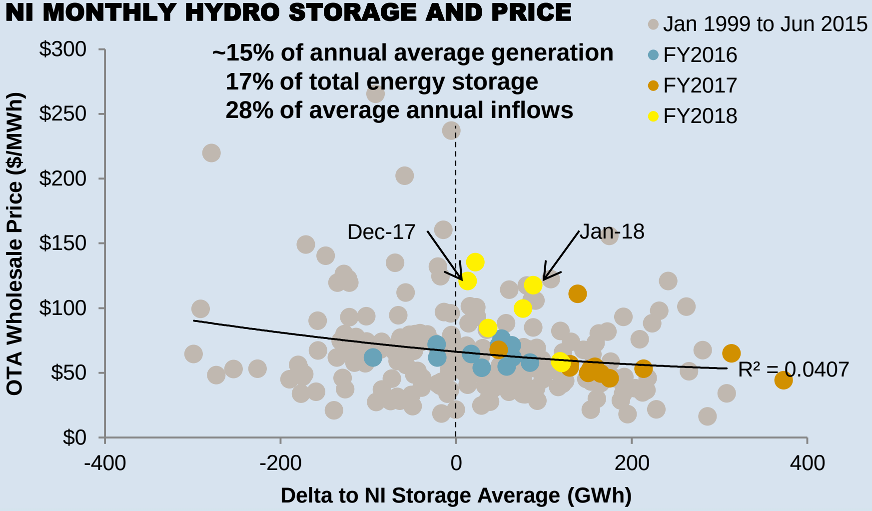
MERCURY'S HYDRO ADVANTAGE LIFTS GENERATION VALUE

- Above average North Island (NI) inflows coincided with low South Island (SI) storage in HY2018
  - Large SI hydro catchments and associated hydrology drive wholesale prices
- Mercury's hydro catchment has low correlation to SI hydrology as demonstrated by MCY long-term GWAP/TWAP[1] ratio of 1.06 versus 0.95 for major SI generators[2]

SI MONTHLY HYDRO STORAGE AND PRICE



NI MONTHLY HYDRO STORAGE AND PRICE

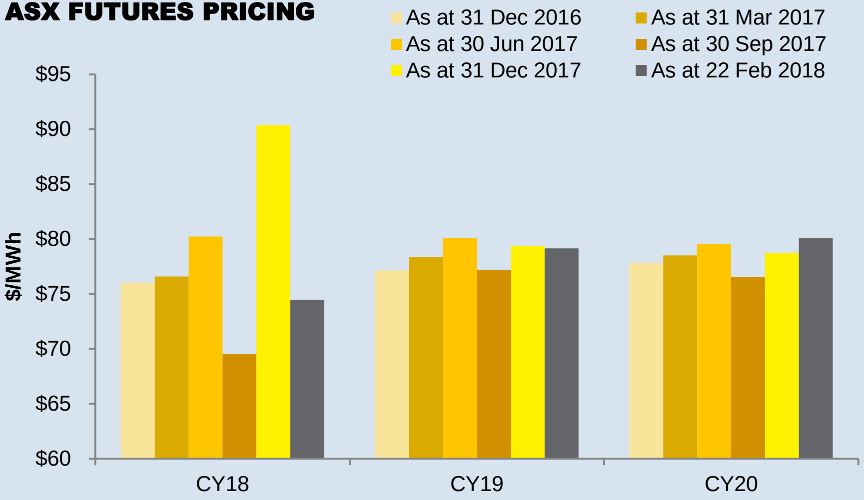


Graphs Source: NZX Hydro, Pricing Manager (NZX), Mercury
[1] Generation-Weighted Average Price / Time-Weighted Average Price
[2] Based on 15yrs to 31 Dec 2017

FUTURES PRICING DRIVEN BY SHORT-TERM HYDROLOGY

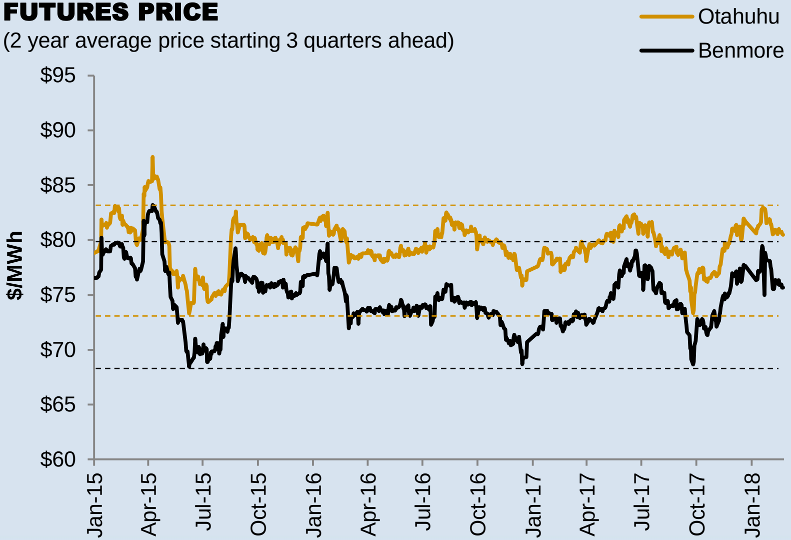
> Short-term futures reflecting changes in hydrology
> Opportunities for Commercial and Industrial contracting limited as buy-side activity curtailed when prices elevated
> Medium-term futures still range-bound (~$73-$83/MWh Otahuhu) despite balanced supply/demand equilibrium

ASX FUTURES PRICING



FUTURES PRICE

(2 year average price starting 3 quarters ahead)



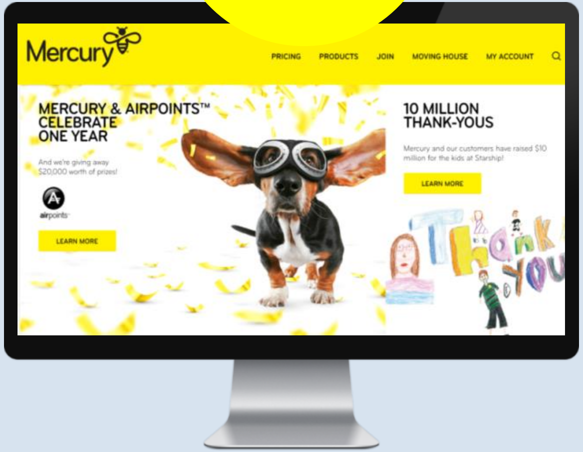
Graphs Source: ASX

CUSTOMER STRATEGY SUPPORTED BY DIGITAL EXECUTION

- Successful implementation of our core technology foundations
  - Upgrade of Customer & Billing platform (SAP HANA) and completion of Business Applications migration to Amazon Web Services
  - Upgrade of Asset Management and Work Management platform (IBM Maximo)
  - Metrix operating platform delayed but completion expected in FY2018
- Growing customer engagement capability
  - Implemented new digital elements including online customer ID capture, quote E-mailing and web chat
  - Design and improvement of our digital channels guided by solid analytics and insights
- Realising customer promises to Reward Me, Inspire Me and Make It Easy
  - Customer traffic to our “Join” pages increased by ~1,400/month in Q2 FY2018 after improving and simplifying the path to purchase journey

DIGITAL CUSTOMER SATISFACTION[1]

70%

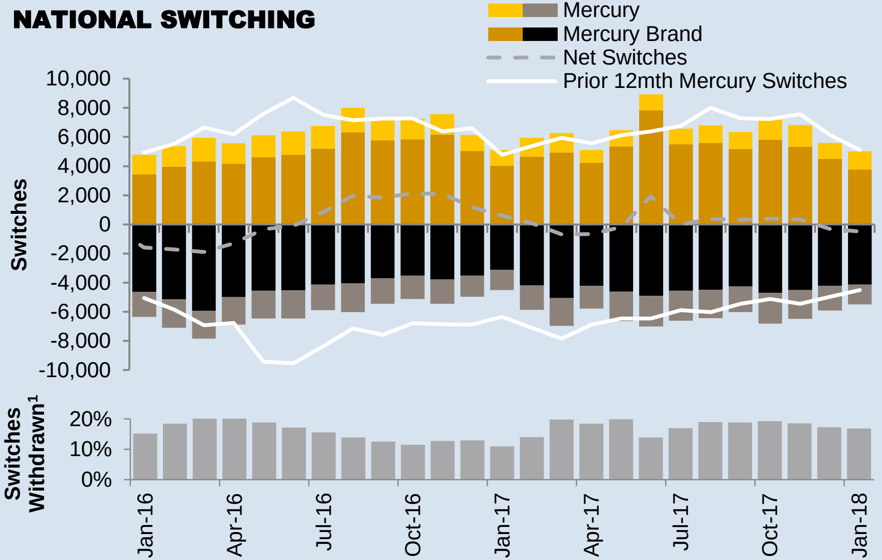


[1] 3-monthly rolling percentage of customer online interactions where satisfaction was rated an 8-10 on a 0-10 scale in Mercury’s own survey

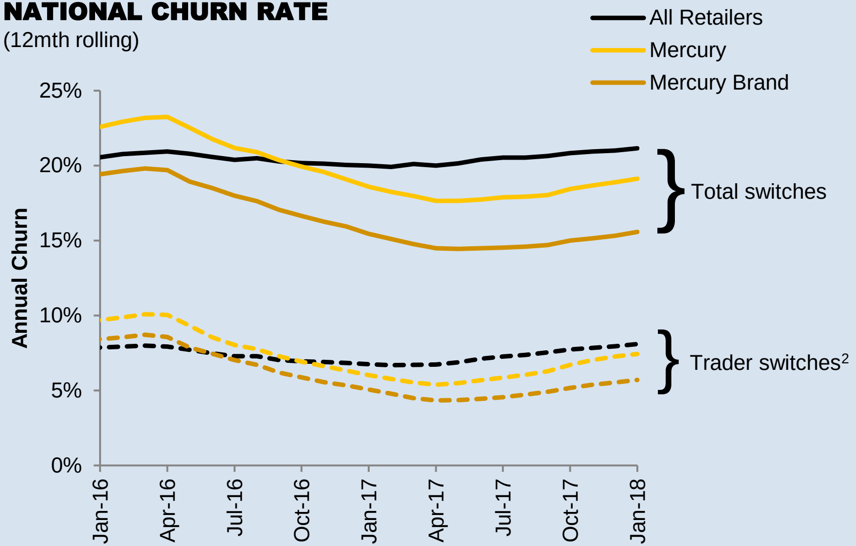
CUSTOMER STRATEGY MAINTAINING BELOW-MARKET CHURN

- > Market churn trended higher in HY2018 with Mercury maintaining a below-market churn position
  - > Reduced churn since brand launch has assisted growth in Mercury's customer base
  - > Increased activity observed market-wide through last 12 months

NATIONAL SWITCHING



NATIONAL CHURN RATE
(12mth rolling)



Source: Electricity Authority, EMI – Market share trends and switching breakdown
[1] Switches which were initiated but not completed (inclusive of saves)
[2] A trader switch is where a customer changes retailer without changing house

POLITICAL CHANGE PRODUCES NEW REGULATORY FOCUS

- **Electricity Price Review (EPR)**
  - Announced as part of coalition agreement with Labour/NZ First following September 2017 general election with review reporting early 2019
  - Important to note New Zealand's success in addressing the energy trilemma recognised internationally
  - New Zealand regarded as "a world leading example of a well-functioning electricity market, which continues to work effectively"[1] (IEA)
- **Climate Change**
  - Government focused on transitioning NZ to a low carbon economy by introducing legislation to tighten NZ's emissions reductions target, improve the ETS and establish an independent Climate Commission
  - Electric Vehicles supported through commitment to improve charging infrastructure, convert government fleet by 2025 and introduce fuel efficiency standards for carbon emissions

RELIABILITY

NZ ranks 3rd lowest out of 25 large energy-consuming countries for energy security risk

PRICING

12th lowest residential electricity price out of 33 OECD countries

RENEWABILITY

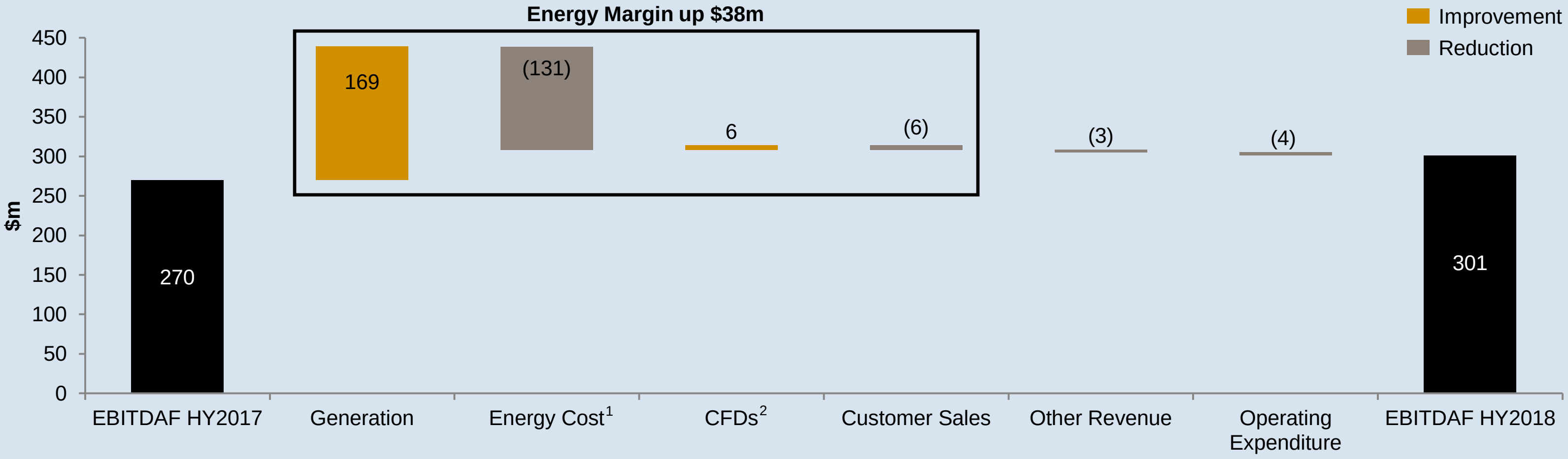
3rd highest level of renewable electricity generation in the OECD

Source: Ministry of Business, Innovation & Employment, United States Chamber of Commerce
[1] IEA Publications (2017), *Energy Policies of IEA Countries: New Zealand 2017 Review*, International Energy Agency, p. 13

18 **FINANCIAL SUMMARY**

EBITDAF BRIDGE (HY2018 vs. HY2017)

- Energy margin up $38m
  - 327GWh more hydro generation than HY2017 with elevated wholesale prices impacting both generation and purchases
  - Higher average energy price to customers (+1.1%); sales volume reduced due to lower commercial contract renewals
- Operating expenditure up $4m due to timing of spend, full year opex expected to be in line with FY2017
- Other revenue down largely due to carbon sales in HY2017



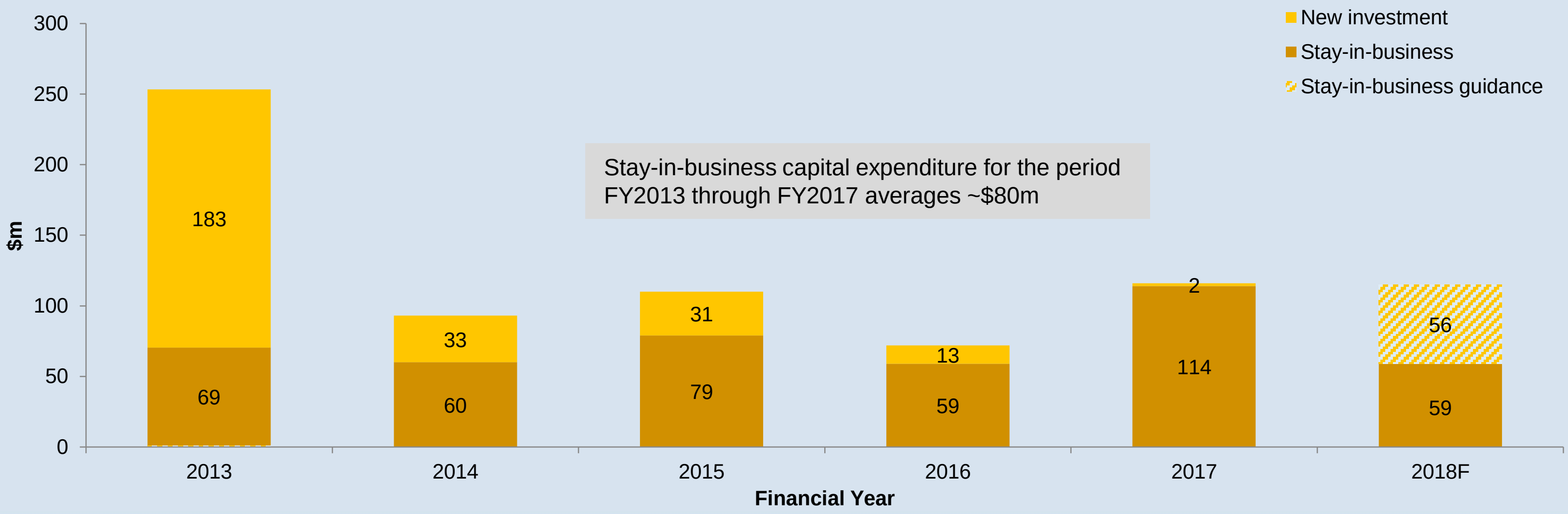
[1] Energy cost excludes gas generation purchases and volume impacts of end user sales, which are included within generation and customer sales respectively
[2] Net CFD Energy Margin contribution (including End User Sales) was -$6m

RE-INVESTING IN OUR STATIONS AND SYSTEMS

> Capital expenditure of $59m (HY2017: $54m) reflects completion of geothermal drilling, technology platform upgrades and ongoing hydro refurbishment

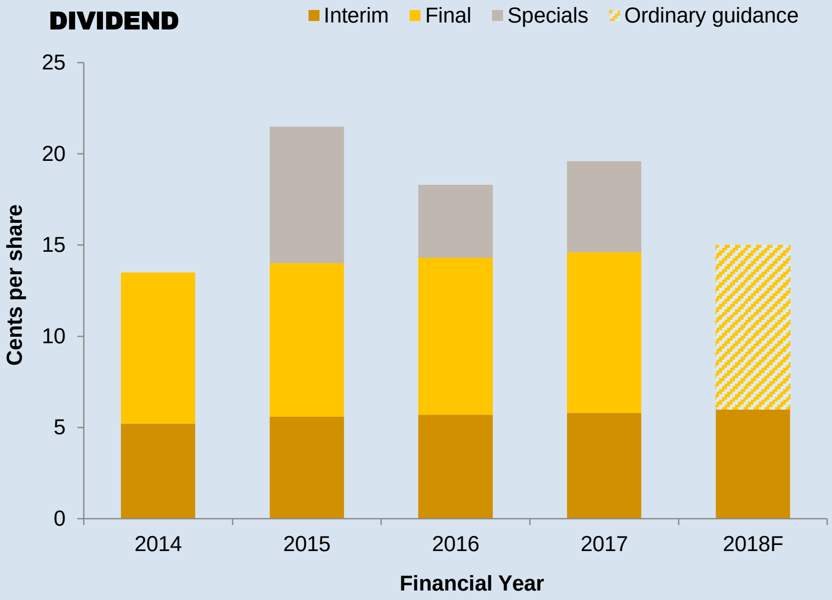
> FY2018 stay-in-business capital expenditure guidance remains at $115m

CAPITAL EXPENDITURE



DIVIDENDS

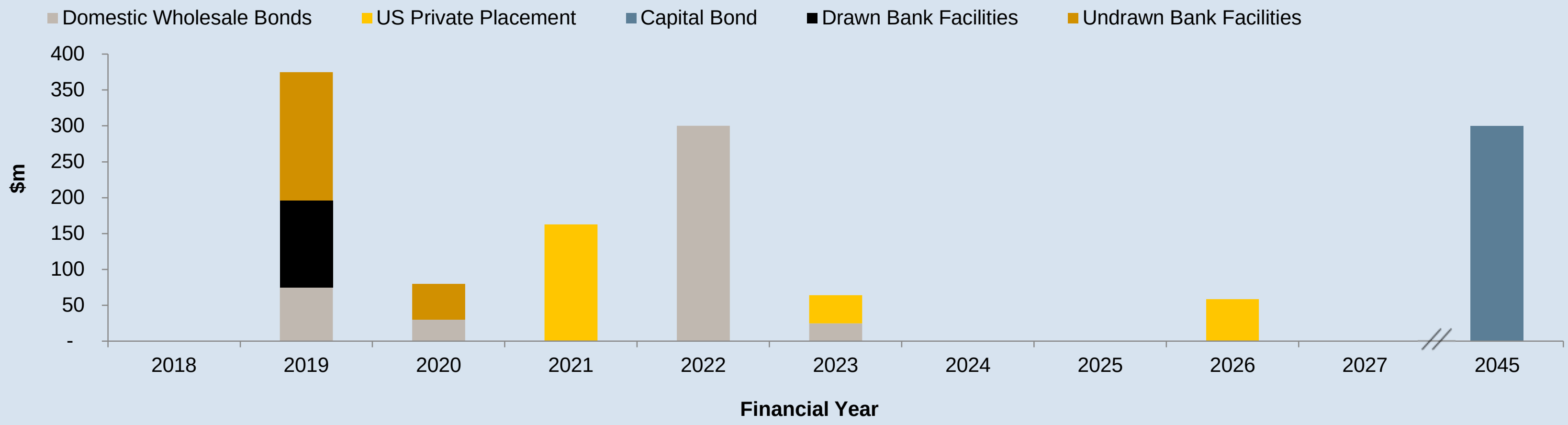
- Focus remains on appropriate capital management reflecting Government ownership constraints
- HY2018 fully-imputed interim dividend up 3.4% to 6.0 cents per share
  - Interim dividend to be paid on 3 April 2018
- FY2018 dividend guidance of 15.0 cents per share maintained
- Guidance represents 10th consecutive year of ordinary dividend growth



22 **APPENDIX**

DIVERSIFIED FUNDING PROFILE

DEBT MATURITIES AS AT 31 DECEMBER 2017



- $200m of currently undrawn bank facilities, due to mature in August 2018, are in the process of being re-financed
- The average debt maturity profile for committed facilities was 8.1 years at 31 December 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 annual cash flow benefit from FY2019.

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 11 December 2017
  - 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 continues to be reviewed
  - Debt/EBITDAF 1.8x at 30 June 2017
  - Gearing level of circa 2.0x will be maintained to provide debt headroom due to Government minimum equity ownership requirement

	31 December 2017	30 June 2017	30 June 2016	30 June 2015	30 June 2014
Net debt ($m)	1,068	1,038	1,068	1,082	1,031
Gearing ratio (%)	24.7%	23.9	24.4	24.5	24.3
Debt/EBITDAF (x)	N/A	1.8[1]	2.0[1]	2.0	2.1

[1] Adjusted for S&P treatment of subordinated debt

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