

Mercury

Investor Roadshow

WILLIAM MEEK
Chief Financial Officer

November 2018

TIM THOMPSON
Head of Treasury &
Investor Relations



DISCLAIMER

This presentation has been prepared by Mercury NZ Limited and its group of companies (“Company”) for informational purposes. This disclaimer applies to this document and the verbal or written comments of any person presenting it.

Information in this presentation has been prepared by the Company with due care and attention. However, neither the Company nor any of its directors, employees, shareholders nor any other person gives any warranties or representations (express or implied) as to the accuracy or completeness of this information. To the maximum extent permitted by law, none of the Company, its directors, employees, shareholders or any other person shall have any liability whatsoever to any person for any loss (including, without limitation, arising from any fault or negligence) arising from this presentation or any information supplied in connection with it.

This presentation may contain projections or forward-looking statements regarding a variety of items. Such projections or forward-looking statements are based on current expectations, estimates and assumptions and are subject to a number of risks, and uncertainties, including material adverse events, significant one-off expenses and other unforeseeable circumstances, such as, without limitation, hydrological conditions. There is no assurance that results contemplated in any of these projections and forward-looking statements will be realised, nor is there any assurance that the expectations, estimates and assumptions underpinning those projections or forward looking statements are reasonable. Actual results may differ materially from those projected in this presentation. No person is under any obligation to update this presentation at any time after its release or to provide you with further information about the Company.

A number of non-GAAP financial measures are used in this 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, which are available at www.mercury.co.nz.

The information in this presentation is of a general nature and does not constitute financial product advice, investment advice or any recommendation. The presentation does not constitute an offer to sell, or a solicitation of an offer to buy, any security and may not be relied upon in connection with the purchase or sale of any security. Nothing in this presentation constitutes legal, financial, tax or other advice.



COUNTRY, INDUSTRY & COMPANY



Stable regulatory framework

- > Underpinned by strong industry performance on Reliability, Renewability and Pricing (the electricity 'trifecta')
- > Electricity recognised as a key enabler for New Zealand's low-carbon economy



Focus on customer loyalty

- > Focus on rewarding our existing customers resulting in increased loyalty and below-market churn



100% renewable generation

- > Low variable cost generation delivering strong and stable cash flows
- > Location and type of Mercury's assets is a competitive advantage



Delivering long-term shareholder value

- > 10 years of ordinary dividend growth
- > Well positioned to deliver on growth opportunities when timing is right



MERCURY AT A GLANCE

Vertically integrated 100% renewable generator and retailer

Key Information¹

Ticker Codes: **MCY.NZ / MCY.AX**

Market Capitalisation: **NZ\$4.6 billion**

Enterprise Value: **NZ\$5.8 billion**

Average Daily Turnover: **NZ\$4.5 million**

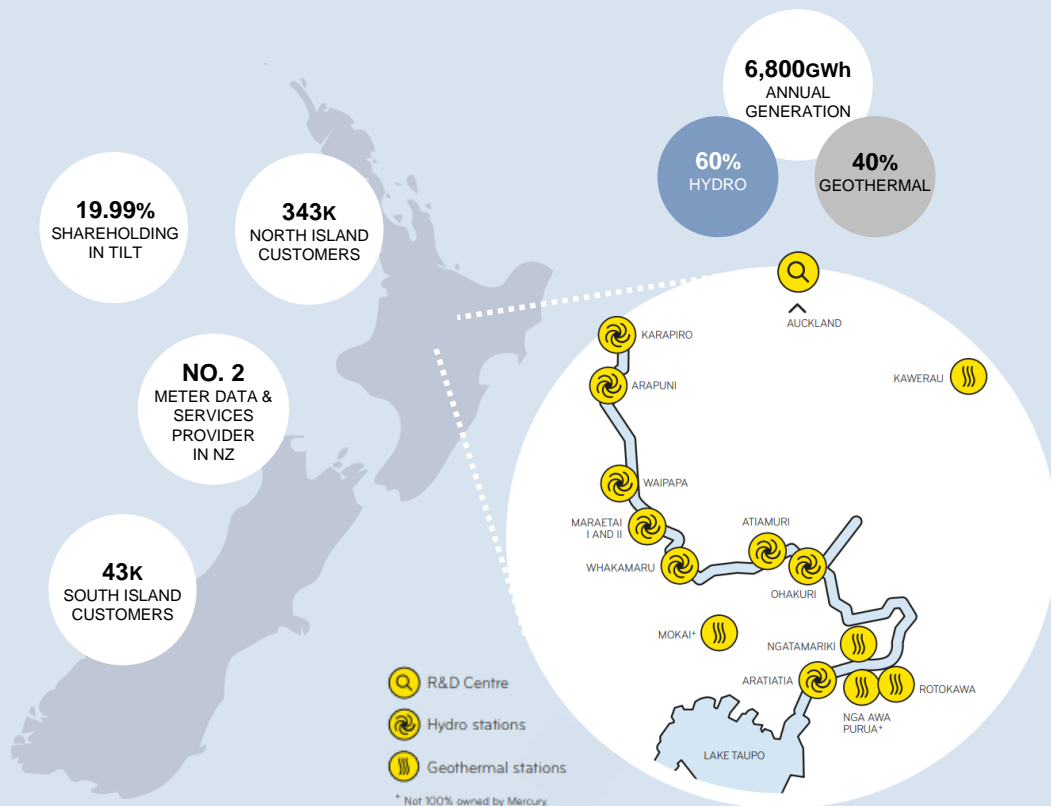
Credit Rating: **BBB+/Stable (S&P)**

EBITDAF (FY19f): **NZ\$515 million**

Cash Dividend Yield: **4.4%**

Gross Dividend Yield: **6.2%²**

PE ratio: **20.0x³**



4 MERCURY AT A GLANCE

¹ As at, or in the 12 months to, 31 October 2018

² Fully imputed for New Zealand residents to 28%

³ Reflects high accounting depreciation due to policy of carrying generation assets at fair value



MERCURY'S COMPETITIVE ADVANTAGE



100% renewable generation

- > Two low-cost complementary fuel sources in base-load geothermal and peaking hydro



Superior asset location

- > North Island generation located near major load centres; rain-fed hydro catchment inflows aligned with winter peak demand



Substantial peaking capacity

- > The Waikato hydro system is the largest group of peaking stations in the North Island



High performance teams

- > Dynamic company culture built on the understanding that our people set us apart



Track record of customer engagement

- > Brand capital built through customer-led innovation and rewarding loyalty



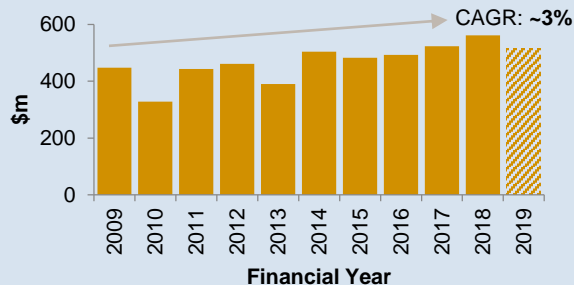
Long-term commercial partnerships

- > With Māori landowners and other key stakeholders

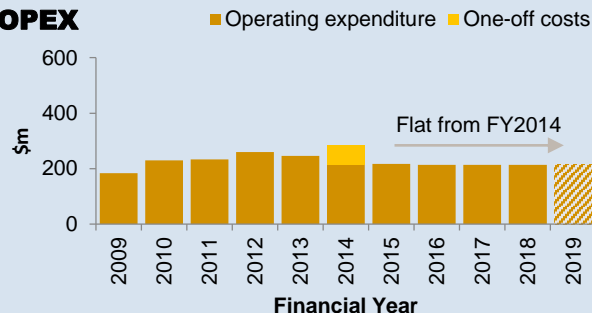


MERCURY'S FINANCIAL TRACK RECORD

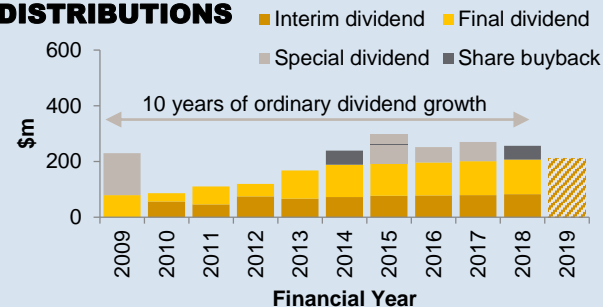
EBITDAF



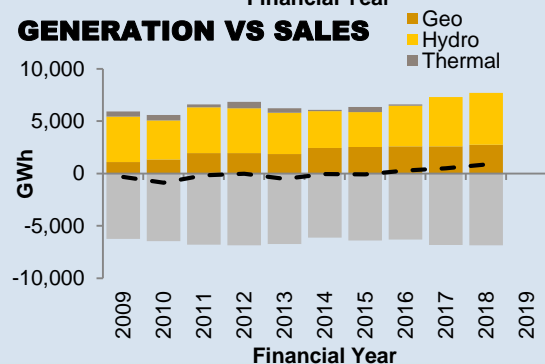
OPEX



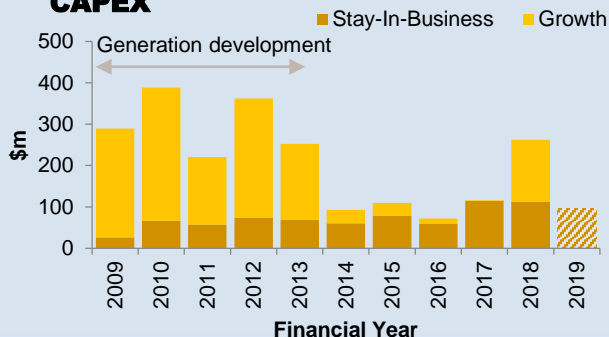
DISTRIBUTIONS



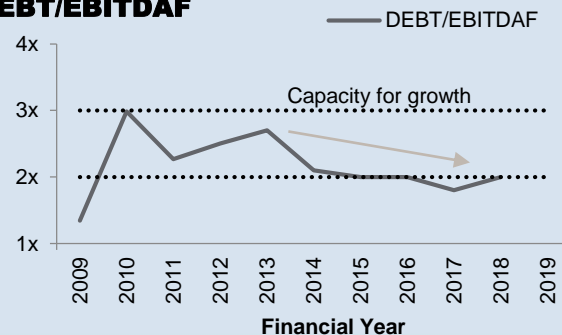
GENERATION VS SALES



CAPEX

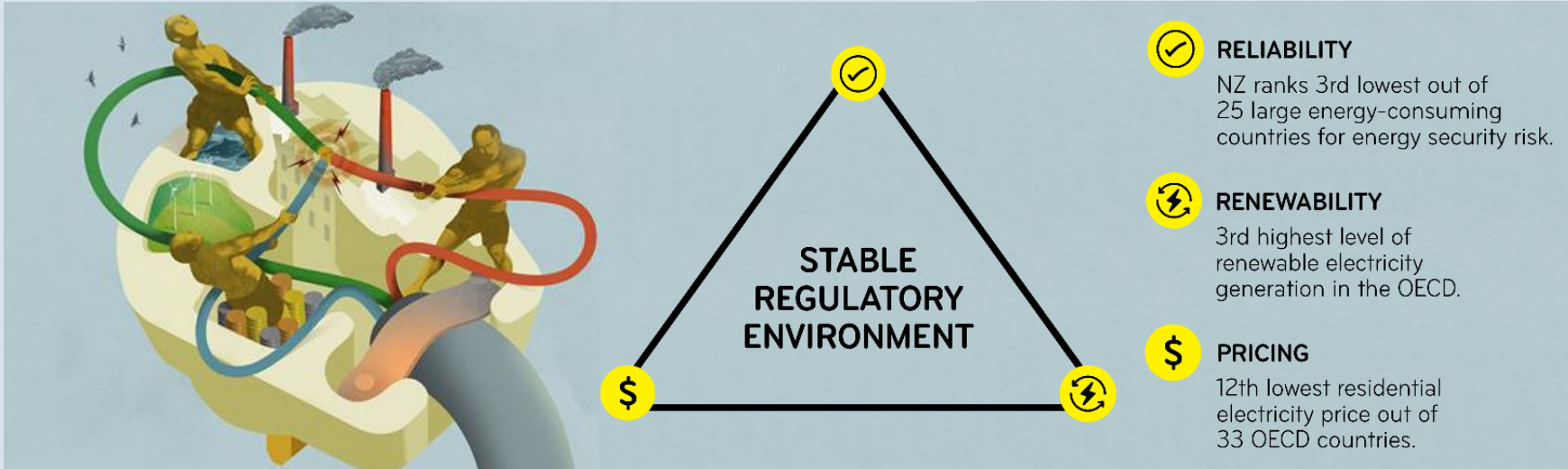


DEBT/EBITDAF



NEW ZEALAND'S COMPETITIVE ADVANTAGE IN ELECTRICITY

- > All electricity markets seek to balance Reliability, Pricing and Renewability – the 'Electricity Trilemma'
- > **New Zealand has achieved the electricity 'Trifecta':**



- > **Opportunity exists in New Zealand to broaden this advantage to reduce reliance on imported fossil fuels**

7 INDUSTRY



INTERNATIONAL ENERGY AGENCY

“ It is a **world leading example** of a well-functioning energy market, which continues to work effectively.”¹

“ The country is endowed with a **diverse range of energy sources, notably renewables**. Among IEA member countries, New Zealand has the highest penetration of geothermal energy and a significant contribution from hydro.

Without any direct subsidies or public support, their share in electricity and heat supply has grown in recent years, as a result of cost-competitive geothermal and hydro and very good conditions for wind power. This performance is a **world-class success story** among IEA member countries.”¹



Kawerau Geothermal Power Station

8 INDUSTRY

¹ IEA Publications (2017), *Energy Policies of IEA Countries: New Zealand 2017 Review*, International Energy Agency, p. 13



CONTRAST TO AUSTRALIA'S 'ELECTRICITY TRILEMMA'

Reliability

- > Coal plant retirements and growing intermittent generation have reduced system stability
 - > “With increasing growth in variable renewable energy resources, both demand and supply are now exposed to the vagaries of weather ... impacting AEMO’s ability to meet demand on extreme peak days”¹

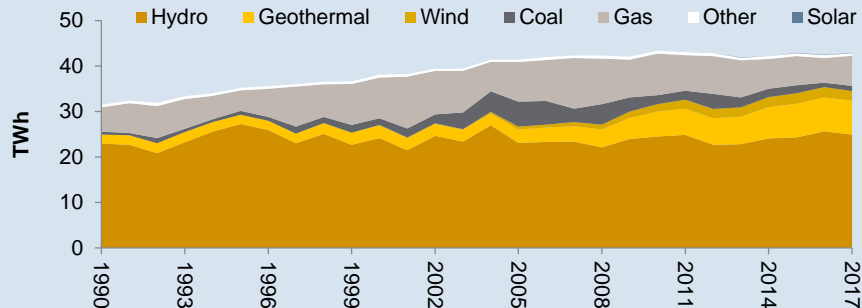
Pricing

- > Wholesale and retail price increases driven by thermal retirement and gas price linkage to international LNG market
 - > “there is a severe electricity affordability problem across the NEM ... putting Australian business and consumers under unacceptable pressure”²

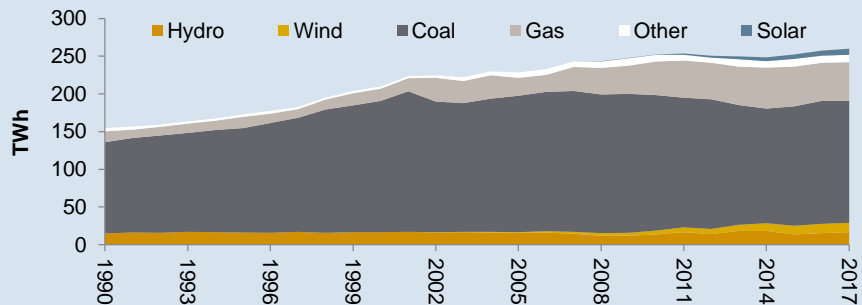
Renewability

- > Renewable generation contribution of 15%
- > Policy uncertainty has created challenging conditions for investment in generation

NEW ZEALAND'S GENERATION MIX



AUSTRALIA'S GENERATION MIX



9 INDUSTRY

Source: Ministry of Business, Innovation & Employment, Australian Government - Department of Industry, Innovation and Science

¹ Australian Energy Market Operator (AEMO), (2018), *AEMO observations: Operational and market challenges to reliability and security in the NEM*, AEMO Limited, p. 72

² Australian Competition and Consumer Commission (ACCC), (2018), *Retail Electricity Pricing Inquiry – preliminary report*, ACCC, p. 5



STABLE REGULATORY FRAMEWORK

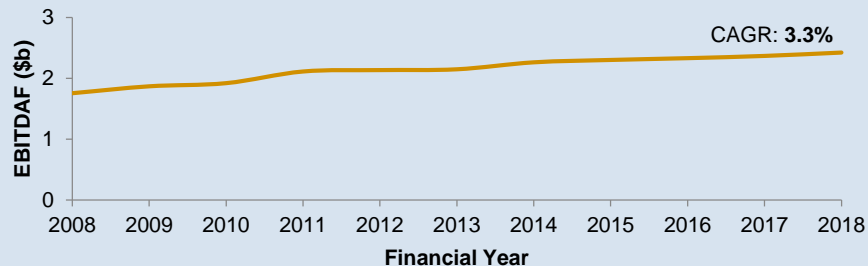
Celebrating 20 years of the market delivering reliability, renewability and choice for customers

- > Electricity sector fully deregulated in the 1990s with introduction of competitive wholesale and retail markets
 - > Generation investment entirely market-led with no payments for reserve capacity (energy-only wholesale market)
 - > Full retail competition with low barriers to entry
 - > Competitive segments (generation and retail) subject to independent regulatory oversight from the Electricity Authority
- > Bipartisan support for a low-carbon economy enabled by New Zealand's electricity advantage
- > Electricity Price Review (EPR) underway as part of coalition agreement following September 2017 general election
 - > EPR focus on incremental changes designed to improve customer access, affordability and energy literacy
- > NZ Emissions Trading Scheme (ETS) places increased cost on emitting generation sources
 - > Emission units trading at ~NZ\$25/t (equivalent to ~\$10/MWh for a CCGT post removal of transitional arrangements by 2019¹)

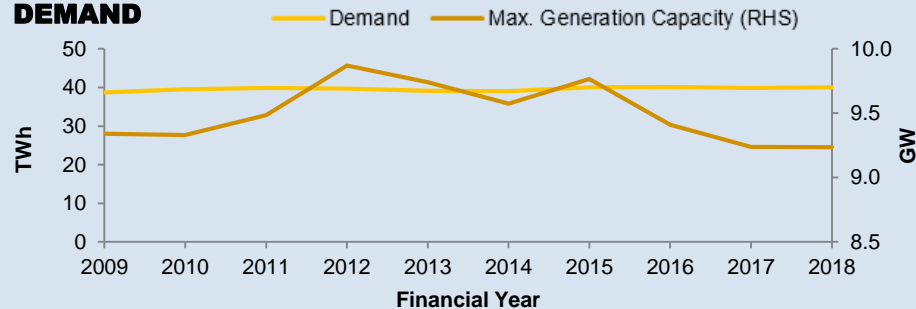


LONG-TERM INDUSTRY TRENDS

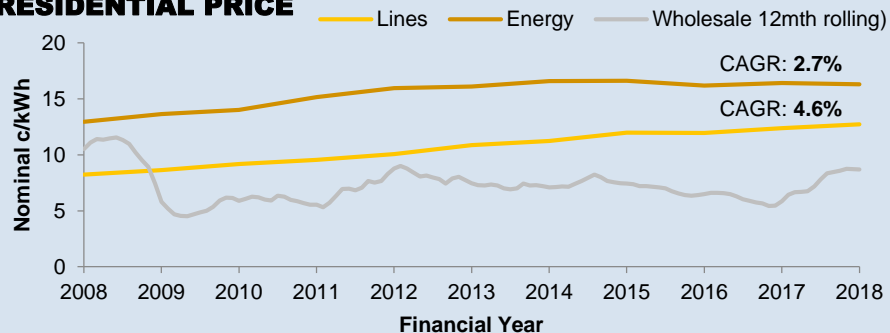
SECTOR EARNINGS



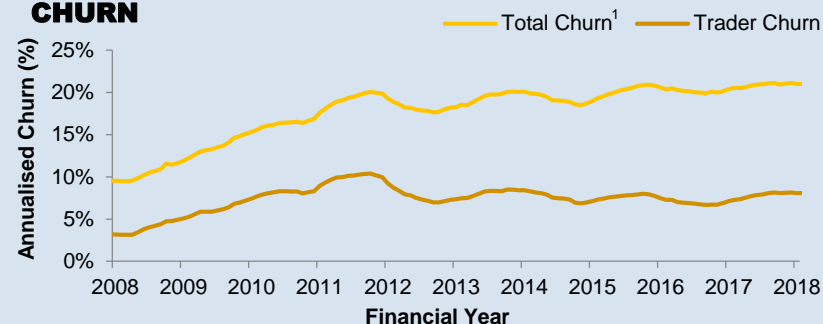
DEMAND



RESIDENTIAL PRICE



CHURN



11 INDUSTRY

Source: Company reports, TPIX, MBIE, Pricing Manager (NZX), Electricity Authority

¹ Includes premise churn – switches caused by customers moving house



EMERGING TECHNOLOGY IN NEW ZEALAND CONTEXT

Solar

- > Still a niche in 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
- > "Given rapid changes in electricity-generation technology and potential effects of rising electricity prices on adoption of low-emissions technology in other parts of the economy, the Government should not use subsidies or regulation to favour particular technologies that generate low-emissions electricity"¹

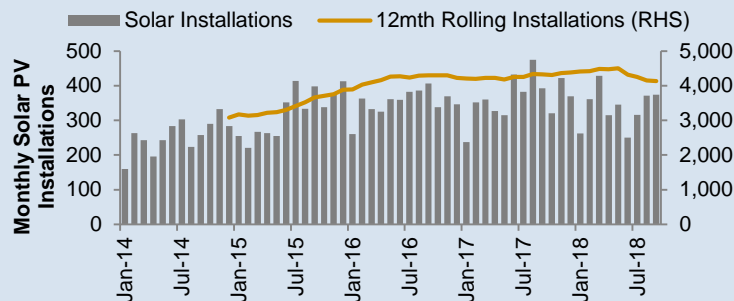
Batteries

- > Useful when coupled to solar but at significant additional cost
- > Lake Taupo storage equivalent to 41m 14kWh Tesla Powerwalls

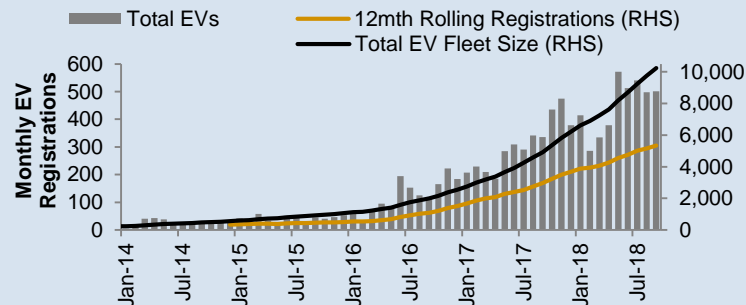
Electric Vehicles (EVs)

- > New Zealand's largest green growth opportunity
- > Renewable electricity advantage well suited to transport electrification

SOLAR PV INSTALLATIONS



ELECTRIC VEHICLE REGISTRATIONS



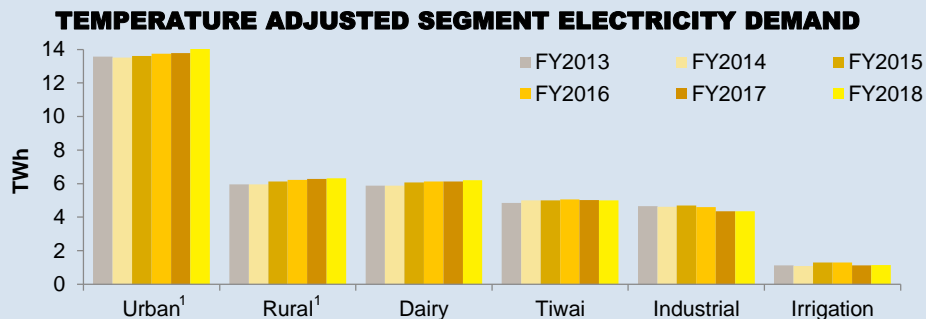
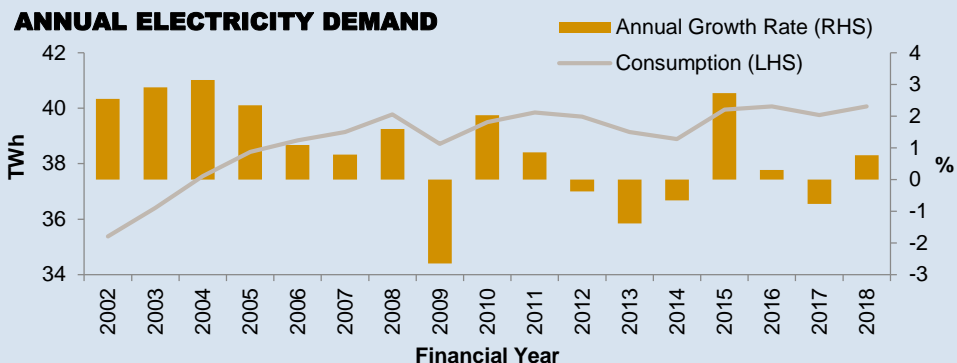
12 INDUSTRY

¹ New Zealand Productivity Commission, (2018), *Low-emissions economy: Final report*, p. 401. Available from www.productivity.govt.nz/low-emissions



UNDERLYING DRIVERS FOR FUTURE DEMAND GROWTH

- > Electricity demand has been flat for a decade
- > Signs of demand growth are re-emerging
 - > Urban, rural and dairy segments continue to grow
 - > NZ Aluminium Smelter (NZAS) is re-commissioning its 4th potline (~1% of national demand)
- > Supportive drivers of demand growth include:
 - > High net migration
 - > GDP per capita growth
- > Adverse drivers of demand growth include:
 - > Reductions in per household consumption due to efficiency
 - > Medium-term trend of de-industrialisation
- > “Transition from fossil fuels to electricity and other low-emissions fuels” identified as one of three significant changes that must occur to achieve low-emissions goals²



13 INDUSTRY

¹ Normalised for temperature

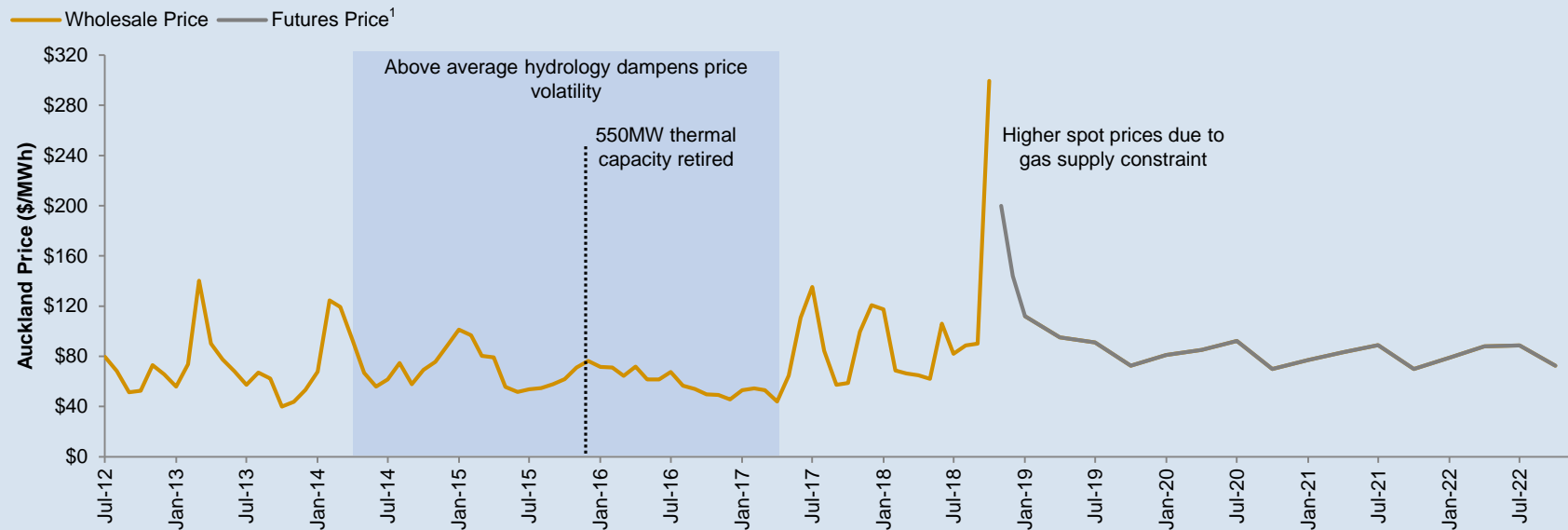
² Low-emissions economy: Final report. Available from www.productivity.govt.nz/low-emissions



DYNAMIC WHOLESALE MARKET

- > Wholesale spot prices reflect near term supply and demand conditions including hydrology
- > Futures pricing tends to Long Run Marginal Cost (LRMC) of new generation in a growing market

ELECTRICITY PRICES



14 MARKET DYNAMICS

¹ As at 31 October 2018



OUR MISSION: ENERGY FREEDOM.

REALISING OUR PURPOSE

TO INSPIRE NEW ZEALANDERS
TO ENJOY ENERGY IN MORE
WONDERFUL WAYS

EXECUTING OUR STRATEGY

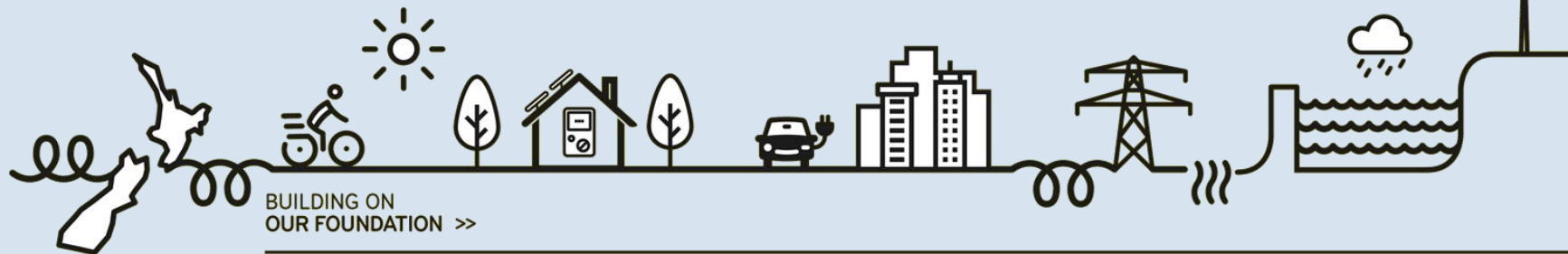
DELIVERING CUSTOMER
ADVOCACY
LEVERAGING CORE STRENGTHS
DELIVERING SUSTAINABLE
GROWTH

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



LEVERS FOR GROWTH

Tighter supply and demand

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

Investment in core business

- > Wind options Turitea (216MW) & Puketoi (300MW) 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

- > 19.99% stake in Tilt Renewables (TLT.NZ) complements NZ wind options and provides opportunity to participate in Australian renewables transition
- > Global strategic review confirmed focus on our core markets and opportunities within the home and e-mobility



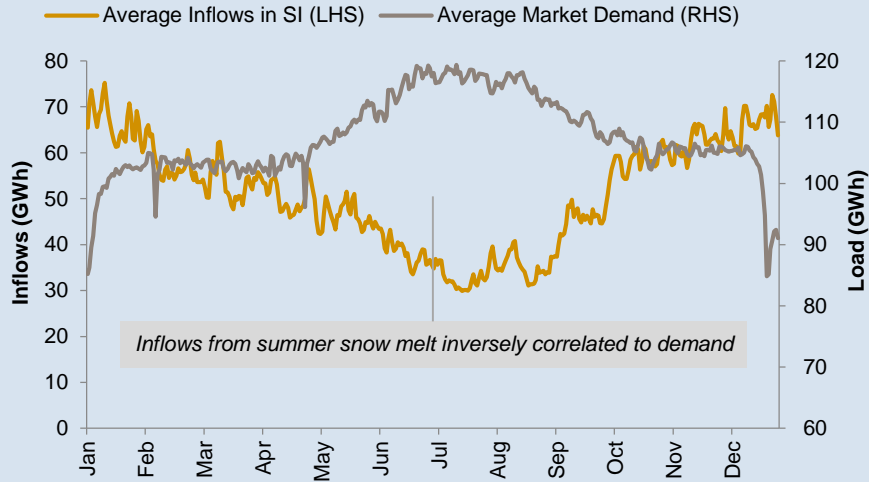
Snowtown Wind Farm – Tilt Renewables



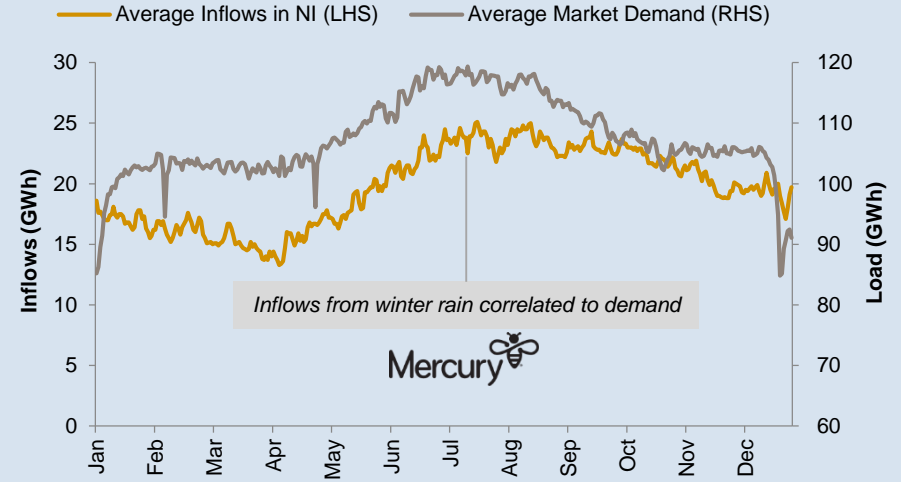
MERCURY'S HYDRO ADVANTAGE

- > Positive correlation of North Island hydro inflows and sales
 - > Inflows into Mercury's North Island hydro catchment peak in winter to match peak winter demand
 - > Complemented by non-weather-dependent baseload geothermal

AVERAGE SOUTH ISLAND INFLOWS VS DEMAND



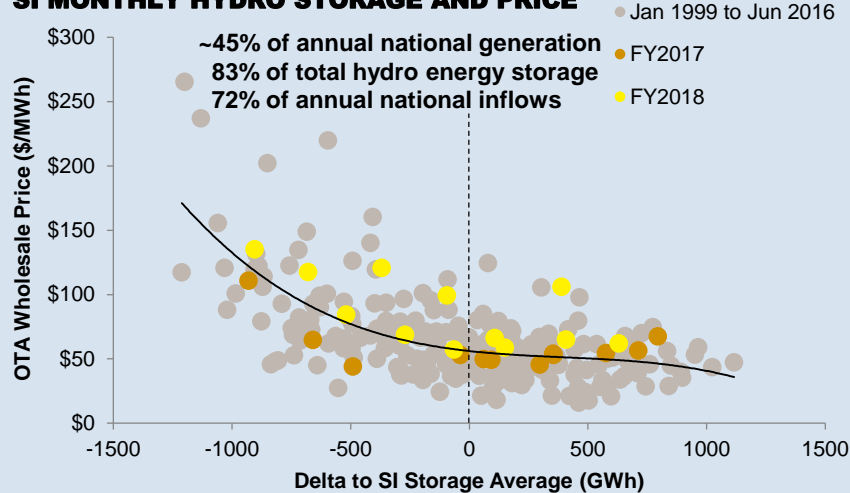
AVERAGE NORTH ISLAND INFLOWS VS DEMAND



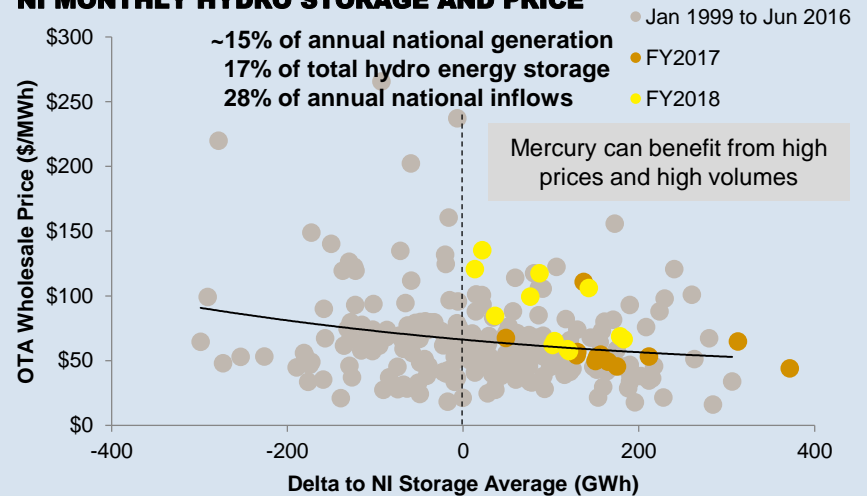
MERCURY'S HYDRO ADVANTAGE

- > Large South Island (SI) hydro catchments and associated hydrology drives wholesale prices
 - > High South Island hydro storage will result in low wholesale prices (and vice versa)
- > Mercury's North Island (NI) hydro catchment has low correlation to wholesale prices
 - > High Mercury hydro storage can occur with high wholesale prices (and low storage with low wholesale prices)

SI MONTHLY HYDRO STORAGE AND PRICE



NI MONTHLY HYDRO STORAGE AND PRICE



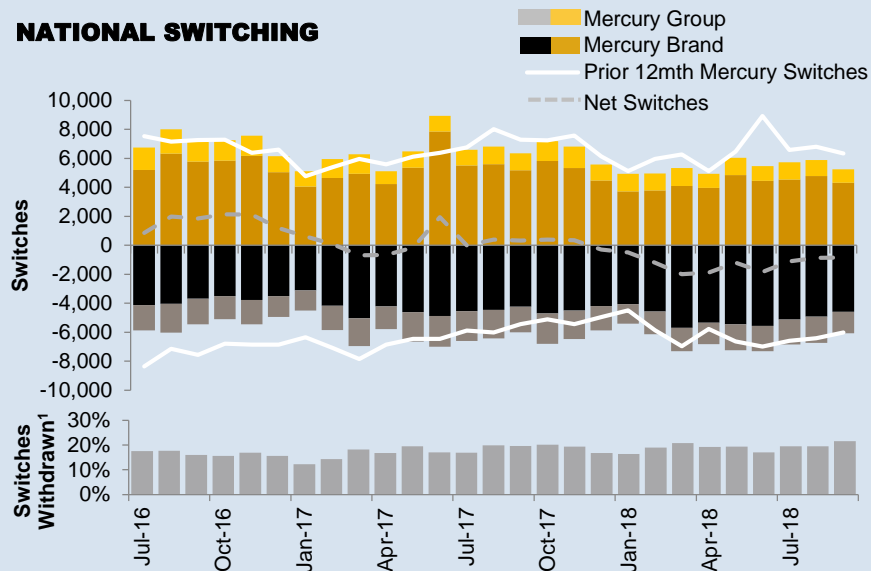
18 MERCURY



FOCUS ON LOYALTY IN A HIGHLY COMPETITIVE RETAIL MARKET

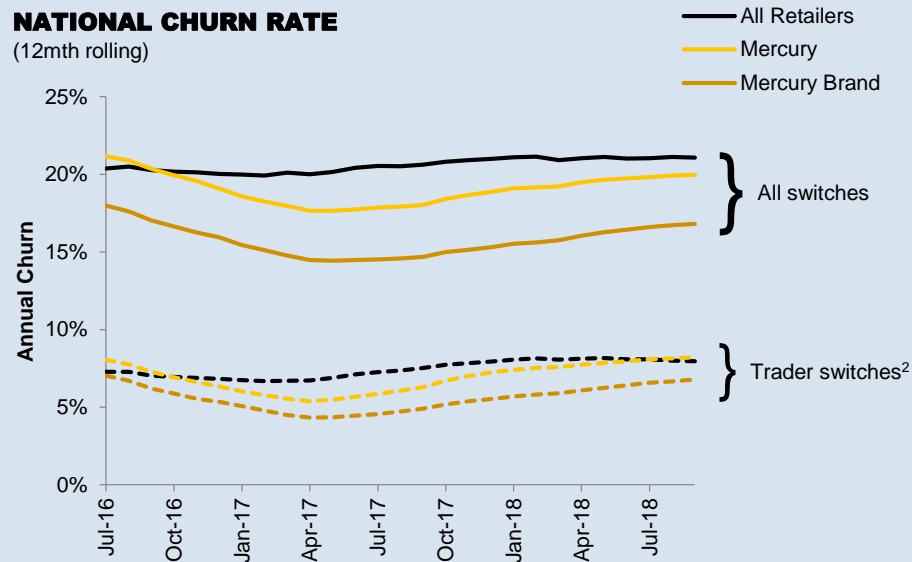
- > In a highly competitive retail market, Mercury is focused on promoting and rewarding customer loyalty
 - > Mercury Brand churn rate significantly below market
 - > Churn rate of other brands reflects behaviour of targeted customers

NATIONAL SWITCHING



NATIONAL CHURN RATE

(12mth rolling)



19 MERCURY

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

¹ Switches which were initiated but not completed (inclusive of saves)

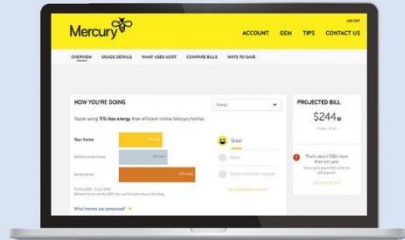
² A trader switch is where a customer changes retailer without changing house



FOCUS ON CUSTOMER LOYALTY

The number of customers enjoying unique Mercury rewards continues to grow:

- > 155,000 Airpoints™ customers (45% of Mercury brand)¹
- > 123,000 on Fixed-Term contracts (36% of Mercury brand)¹
- > GEM, our usage monitor, is one of our most popular services with ~100,000 customers engaging every week¹
- > 94,500 customers enjoyed a Free Power Day in FY2018
- > Growing customer engagement capability through new digital channels and features



STABLE CAPITAL STRUCTURE

- > 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
- > Capital structure prudently managed
 - > Targeting gearing at low end of Debt / EBITDAF between 2.2x and 3.0x (within key ratio for stand-alone S&P credit rating BBB) to provide debt headroom due to Government minimum equity ownership requirement
 - > Gearing range reflects flexibility afforded by Treasury stock retained from share buyback (37.7m shares)
 - > Debt / EBITDAF 2.0x at 30 June 2018¹ (2.3x after EBITDAF normalisation for above-average hydro generation)

	30 June 2018	30 June 2017	30 June 2016	30 June 2015	30 June 2014
Net debt (\$m)	1,249	1,038	1,068	1,082	1,031
Gearing ratio (%)	27.5	23.9	24.4	24.5	24.3
Debt/EBITDAF (x)	2.0 ¹	1.8 ¹	2.0 ¹	2.0 ¹	2.1
Capital management	Capital returns				
priority	Growth				





Karapiro Hydro Power Station



NEW ZEALAND OVERVIEW

Key Facts

Credit Rating: **AA/stable**

Population: **4.9 million**¹

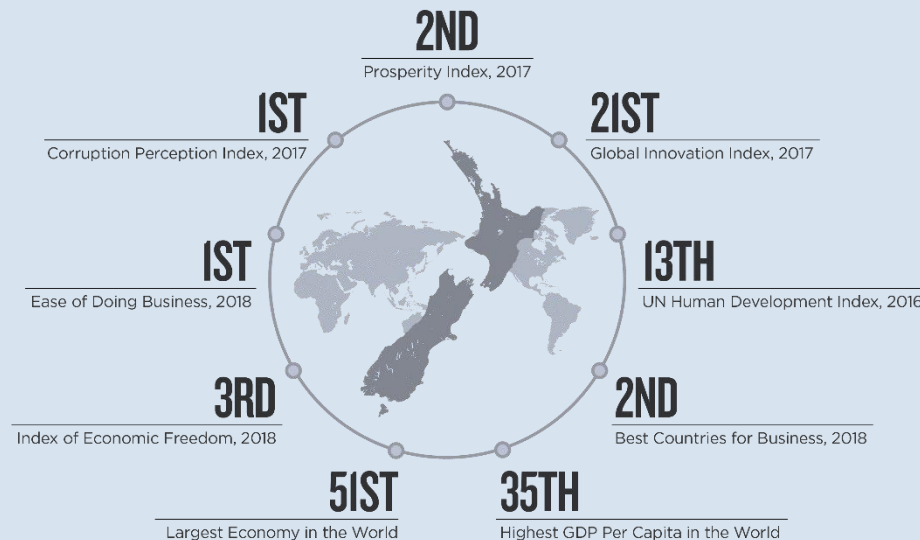
GDP: **NZ\$289 billion (or US\$188 billion)**²

Official Cash Rate (OCR): **1.75%**

10yr Interest Rate: **2.8%**¹

- > Stable political environment
 - > Mixed Member Proportional (MMP) system
 - > Two main parties – National (centre-right) and Labour (centre-left)
 - > Labour-led coalition government since October 2017 (3-year term)
- > Robust GDP growth achieved over recent years (currently 2.7%²), with below-trend unemployment (currently 3.9%¹)

HOW WE RANK



Source: Ministry of Foreign Affairs & Trade, February 2018.

23 APPENDIX

¹ As at 31 October 2018

² As at 30 June 2018



NEW ZEALAND ELECTRICITY MARKET STRUCTURE SINCE 1998

1 RETAILERS AND CONSUMERS

- > Retail prices determined by competition (unregulated)
- > >40 retailer brands buy from wholesale market and on-sell to nearly 2 million consumers
- > Electricity Authority responsible for promoting competition, efficiency and reliability of supply for long-term benefit of consumers
- > NZAS (aluminium smelter) 13% of national demand
- > 2 major metering companies, including Mercury trading as Metrix, with high national smart meter penetration

WE OPERATE HERE

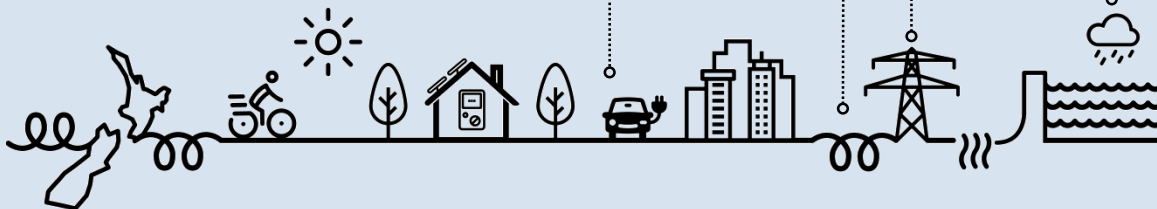
1

WE OPERATE HERE

4

4 GENERATORS

- > Wholesale prices determined by competition
- > Generate electricity and sell to wholesale market
- > 5 major generators producing about 95% of NZ's electricity
- > 80% renewable electricity (unsubsidised)
- > Solar installed in 20,000 or 1% of total customer connections



2 DISTRIBUTION AND NETWORK OWNERS

- > Regulated monopolies
- > 29 distribution companies
- > 150,000km of overhead and underground networks

3 THE NATIONAL GRID

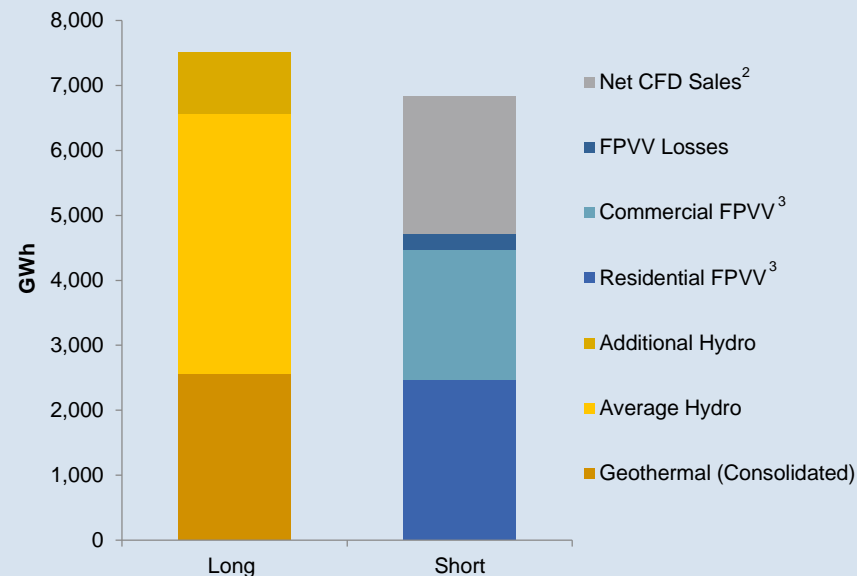
- > Transpower (Government owned) is regulated owner and operator
- > Transports high voltage electricity to networks and large industrial users
- > 1,200MW HVDC link between South and North Islands



MERCURY'S COMPLEMENTARY GENERATION SOURCES

- > 100% renewable generation with two complementary low-cost fuel sources
 - > High up-front build cost, low operating cost
 - > Central North Island close to major load centres and not dependent on inter-island connection (HVDC)
 - > Generation-Weighted Average Price (GWAP) favourable to peers reflecting the flexibility and location of assets
- > Flexible hydro generation (1,064MW / 4,000GWh)
 - > Largest group of peaking stations in North Island
- > Baseload geothermal generation (337MW¹ / 2,800GWh)
 - > Only renewable not dependent on weather
- > Average net long position reflecting integrated portfolio
 - > Movement in net position year-on-year due to hydrology, plant availability and value of sales

FY2018 NET POSITION BREAKDOWN



25 APPENDIX

¹ Equity share

² Contract-For-Difference

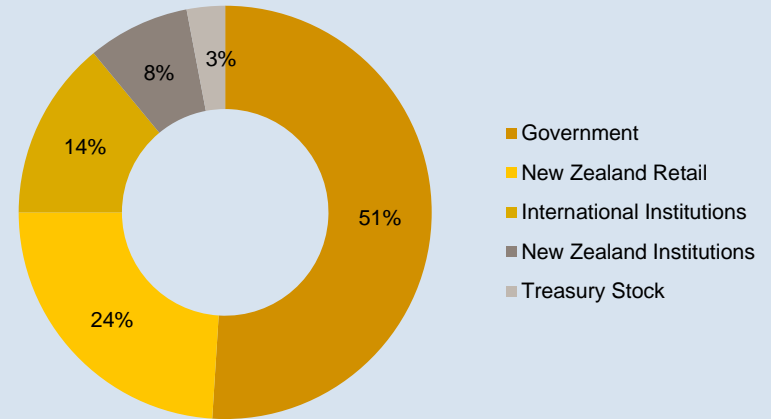
³ Fixed-Price Variable Volume



OWNERSHIP

- > Listed on NZX and ASX in May 2013
- > ~85,000 shareholders (widest-held New Zealand register)
- > Government majority ownership
 - > 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 government representation on Board

MERCURY SHARE REGISTER¹



SUPPLEMENTARY DIVIDEND TO NON-RESIDENTS

- > Reduces or eliminates the economic impact of Non-Resident Withholding Taxes
- > For illustrative purposes see below worked example for a corporate investor. This should not be interpreted as tax advice

	NZ investor	Foreign investor	
		No Supplementary dividend	Supplementary dividend
Gross dividend	100.00	100.00	100.00
Imputation credits	(28.00)	(28.00)	(28.00)
Supplementary dividend	-	-	12.71
	72.00	72.00	84.71
Less: Corporation tax (@28%)	(28.00)	-	-
Add: Imputation credits	28.00	-	-
Less: Non-resident withholding tax (@15% of dividend where DTA ¹)	-	(10.80)	(12.71)
Cash dividend	72.00	61.20	72.00



REFERENCE MATERIAL

MERCURY REFERENCES

Mercury Investor Centre	www.mercury.co.nz/Investor-Centre
Governance Presentation – December 2017	http://issuu.com/mercurynz/docs/governance_roadshow_presentation_de?e=25554184/56318686
FY2018 Results Presentation – August 2018	https://issuu.com/mercurynz/docs/20180821_mercury_financial_results?e=25554184/63952632
Mercury Electricity Price Review Submission	https://www.mbie.govt.nz/info-services/sectors-industries/energy/electricity-price-review/submissions/copy_of_submissions-received-epr/electricity-price-review-submissions-017.pdf

INDUSTRY REFERENCES

Electricity Authority website	www.ea.govt.nz
System Operator website	https://www.transpower.co.nz/system-operator
Wholesale electricity spot prices	www.em6live.co.nz
Electricity futures prices	www.asx.com.au/products/energy-derivatives/new-zealand-electricity.htm

INDUSTRY PUBLICATIONS

Energy Policies of IEA Countries – New Zealand 2017 Review	https://www.iea.org/publications/freepublications/publication/energy-policies-of-iea-countries---new-zealand-2017-review.html
Ministry of Business, Innovation and Employment – Energy in New Zealand	www.mbie.govt.nz/info-services/sectors-industries/energy/energy-data-modelling/publications/energy-in-new-zealand
Electricity Authority - Electricity in New Zealand	www.ea.govt.nz/about-us/media-and-publications/electricity-nz





FOR FURTHER INFORMATION > **TIM THOMPSON** | HEAD OF TREASURY & INVESTOR RELATIONS T. +64 275 173 470 E. INVESTOR@MERCURY.CO.NZ