



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

## NEWS RELEASE

# Governance Roadshow Presentation – December 2018

**3 December 2018** – Mercury will present a series of investor meetings during December 2018.

The presentation materials are attached.

ENDS

### For further information:

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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

3 December 2018



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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**

~6,800GWh 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 \$1.2b<sup>2</sup>

FY2019 EBITDAF guidance of

**\$515m**

Based on above-average hydrology and flat operating expenditure

FY2019 ordinary dividend guidance of

**15.5c**

Ordinary net dividend yield of 4.4%<sup>3</sup>  
(6.1% gross<sup>4</sup>)

## 3 OVERVIEW

<sup>1</sup> As at 31 October 2018

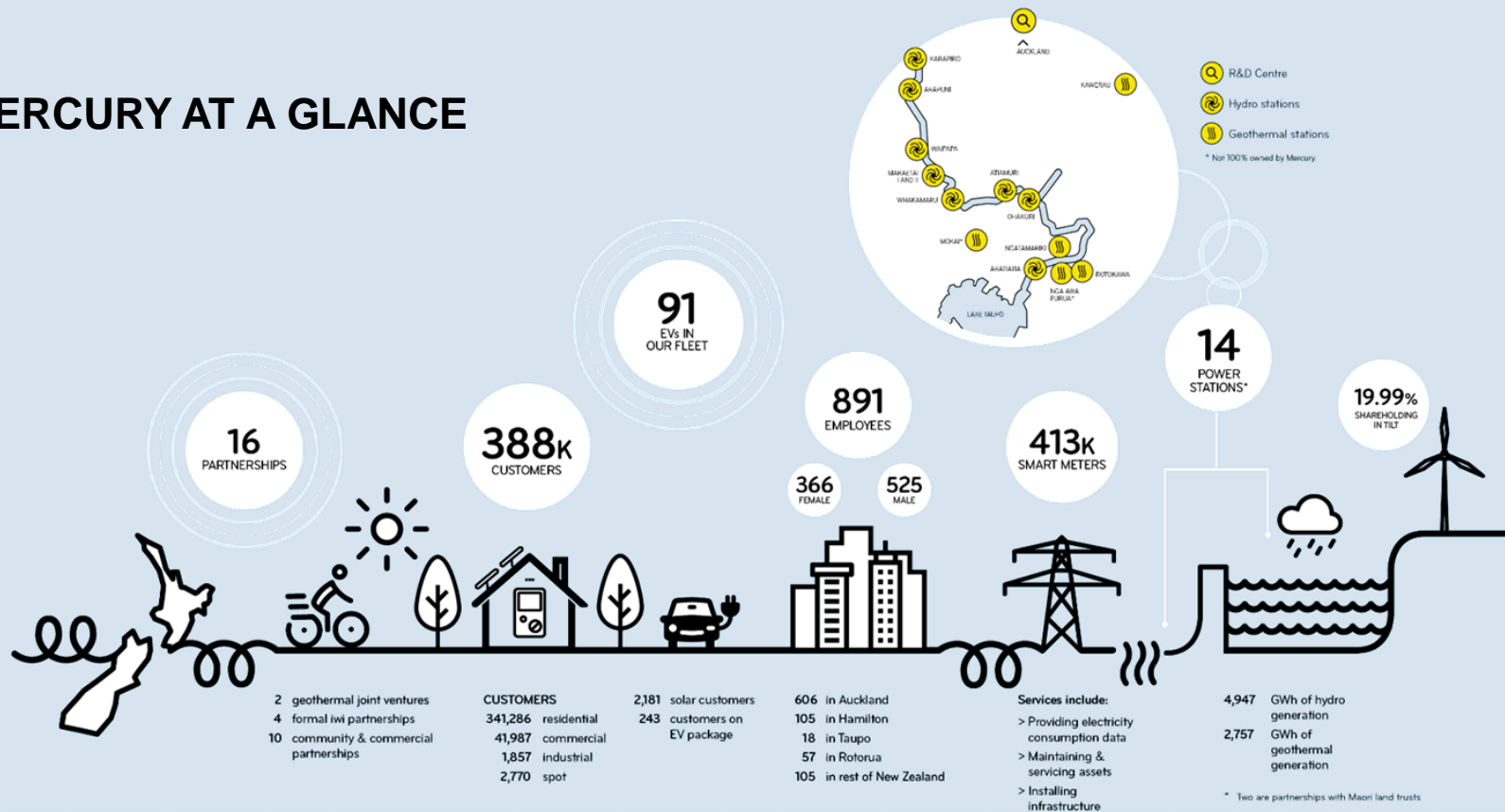
<sup>2</sup> As at 30 June 2018

<sup>3</sup> 12 months to 31 October 2018

<sup>4</sup> Including full imputation



## MERCURY AT A GLANCE



# 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



# EXECUTING OUR STRATEGY

> Our priorities are aligned to our five pillars of sustainable business performance:



# STRATEGIC DRIVERS & FY2018 OUTCOMES

## DELIVERING CUSTOMER ADVOCACY

### > Relative churn advantage

- > Mercury brand trader churn<sup>1</sup> significantly lower than market at 6.4%<sup>2</sup>
- > Trader churn for all Mercury brands increased to be comparable to market at 8.0%<sup>2</sup> versus 8.1% reflecting heightened market competition

### > Customer-led technology investment

- > SAP technology platform upgrades enabling increased functionality and flexibility to meet customer needs and also improved efficiency and processes
- > Metrix data project delivering certified half-hourly meter reads to retailers

### > Sustained brand momentum

- > Award-winning campaigns building strong and distinctive brand assets with associations with E-mobility and EVs in particular
- > Brand recognition steadily increasing (from 43% to 63%)<sup>4</sup> since relaunch
- > Fulfilment of our customer promises to Reward, Inspire and Make It Easy
  - > ~90,000 customers redeemed a Free Power Day in FY2018
  - > Over 155,000 customers registered to receive Airpoints™<sup>5</sup>
  - > Over 93,000 customers engaging with our Good Energy Monitor each week<sup>6</sup>

6.4%

Mercury brand  
trader churn<sup>2</sup>

FY2017: 4.4%  
Market: 8.1%

19.8%

Total churn<sup>2</sup>  
FY2017: 17.7%  
Market: 21.0%

63%

Customer  
satisfaction<sup>3</sup>  
FY2017: 64%



## 7 FY2018 OUTCOMES

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

<sup>2</sup> From EA data; 12-monthly rolling trader churn / total churn as at 30 June 2018

<sup>3</sup> Based on Mercury's monthly survey of residential customers, 3-monthly rolling average to 30 June 2018 / 2017 for Mercury brand only

<sup>4</sup> Based on Mercury commissioned TRA brand survey

<sup>5</sup> As at 30 June 2018

<sup>6</sup> Weekly average over 12 months to 30 June 2018







**0.87**  
**FY2018 TRIFR<sup>1</sup>**  
FY2017: 1.05

**1.06**  
**LWAP/GWAP<sup>2</sup>**  
FY2017: 1.05

**94%**  
**Geothermal  
availability<sup>3</sup>**  
FY2017: 96%  
Market<sup>4</sup>: ~97%

## STRATEGIC DRIVERS & FY2018 OUTCOMES

### LEVERAGING CORE STRENGTHS

#### > Goal of zero-harm

- > No high-severity incidents; TRIFR<sup>1</sup> at 0.87 (down from 1.05 in FY2017)

#### > High-levels of employee engagement maintained

- > High levels of employee engagement in 2017 saw Mercury being recognised at the IBM 2017 Best Workplaces Awards and the 2018 New Zealand HR Awards
- > Employee engagement increased in 2018 to 81.5%<sup>5</sup> from 81.0%<sup>5</sup>

#### > Enterprise-wide project execution

- > Completed major maintenance outages at four geothermal stations
- > Metrix half-hourly reconciled data re-platform brought online
- > Ongoing hydro refurbishment with the rehabilitation of the 1<sup>st</sup> of three units at Aratiatia Station and the 2<sup>nd</sup> of four units at Whakamaru Station leading to material increases in hydro efficiency and capacity
- > Southdown grid-scale battery storage being commissioned

#### > Competitive advantages deliver record earnings

- > Favourable hydrological conditions and strong execution across the business enabled record generation of 7,704GWh leading to FY2018 EBITDAF of \$561m

## 8 FY2018 OUTCOMES

<sup>1</sup> Total Recordable Injury Frequency Rate per 200,000 hours; includes onsite employees and contractors

<sup>2</sup> Average price of purchases (LWAP) over average price of generation (GWAP)

<sup>3</sup> Percentage of time plant able to generate after accounting for outages

<sup>4</sup> Derived from Planned Outage Co-ordination Process New Zealand geothermal outage data (excluding Mercury operated plant)

<sup>5</sup> As measured by the 2018 / 2017 IBM Employee Engagement Survey Engagement Index



# STRATEGIC DRIVERS & FY2018 OUTCOMES

## DELIVERING SUSTAINABLE GROWTH

### > Managing cost

- > Opex flat versus FY2017 at \$214m for fifth year running

### > Investing in growth

- > Acquired a 19.99% stake in Tilt Renewables as a strong platform for gaining exposure to Australia's accelerating renewables transition
- > Joint takeover offer with Infratil underway to advance Mercury's meaningful interest in Tilt's operational performance and growth opportunities

### > Returns to shareholders

- > Efficient distribution of capital to shareholders through share buyback of 15.6m shares for \$50m (circa 3.6cps) while retaining balance sheet strength
- > FY2018 total ordinary dividend up 3.4% to 15.1cps, above original guidance
- > FY2019 EBITDAF guidance is \$515m<sup>1</sup> on 4,200GWh of hydro generation, subject to any material events, significant one-off expenses or other unforeseeable circumstances including hydrological conditions
- > FY2019 ordinary dividend guidance up 2.6% to 15.5cps, which will be the 11<sup>th</sup> consecutive year of ordinary dividend growth

**19.99%**

**Tilt**  
acquisition

**15.1cps**

**Total Ordinary  
Dividend**  
FY2017: 14.6cps

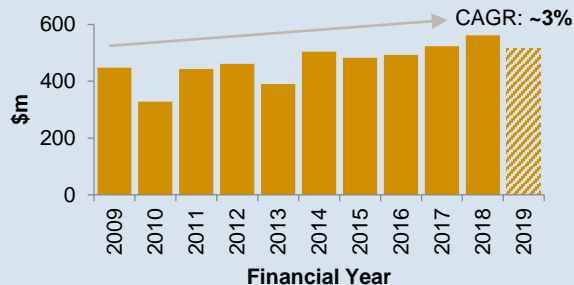
**\$50m**

**Share Buyback**  
of 15.6m shares

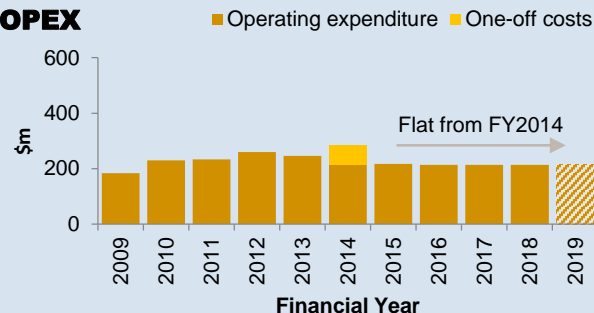


# MERCURY'S FINANCIAL TRACK RECORD

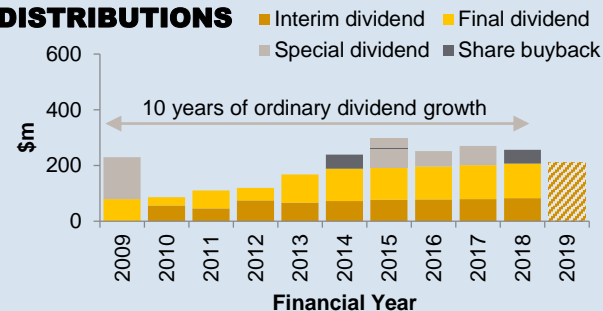
## EBITDAF



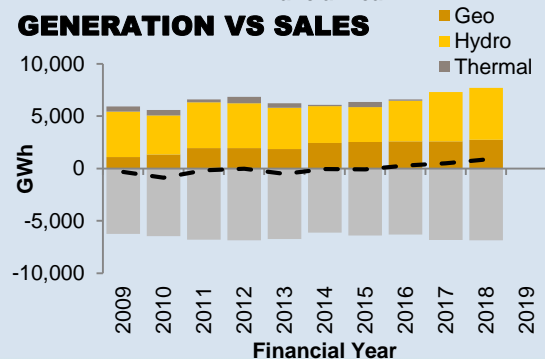
## OPEX



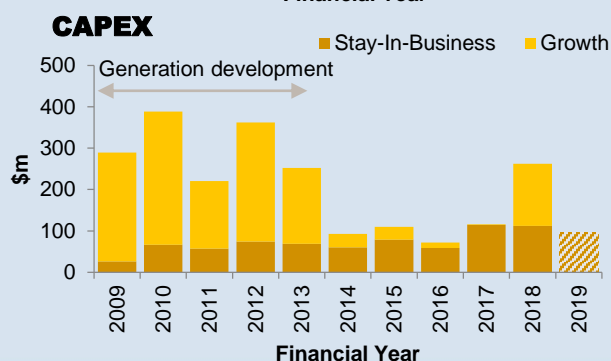
## DISTRIBUTIONS



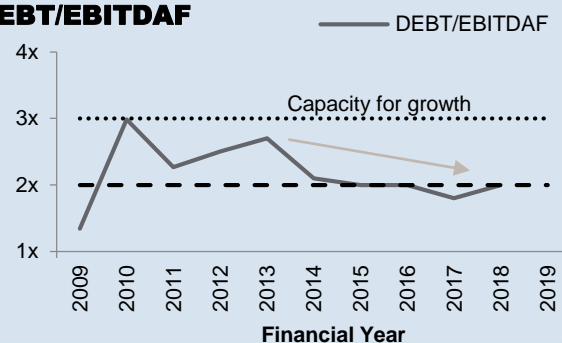
## GENERATION VS SALES



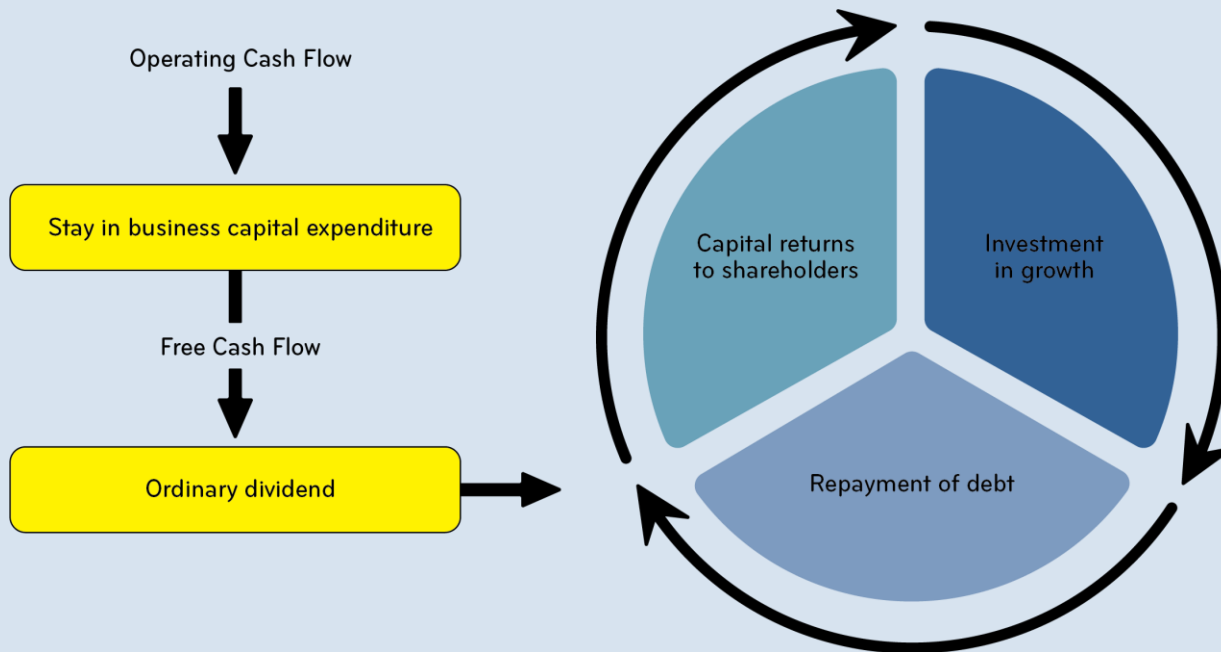
## CAPEX



## DEBT/EBITDAF



# CONTINUOUS FOCUS ON PRUDENT CAPITAL MANAGEMENT



# 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
  - > Debt / EBITDAF 2.0x at 30 June 2018<sup>1</sup> (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 <sup>1</sup>	1.8 <sup>1</sup>	2.0 <sup>1</sup>	2.0 <sup>1</sup>	2.1
Capital management	Capital returns				
priority	Growth				

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



# BOARD OF DIRECTORS



> JOAN WITHERS  
CHAIR



> JAMES MILLER  
DIRECTOR



> MIKE TAITOKO  
DIRECTOR



> PRUE FLACKS  
DIRECTOR



> PATRICK STRANGE  
DIRECTOR



> ANDY LARK  
DIRECTOR



> KEITH SMITH  
DIRECTOR



> SCOTT ST JOHN  
DIRECTOR



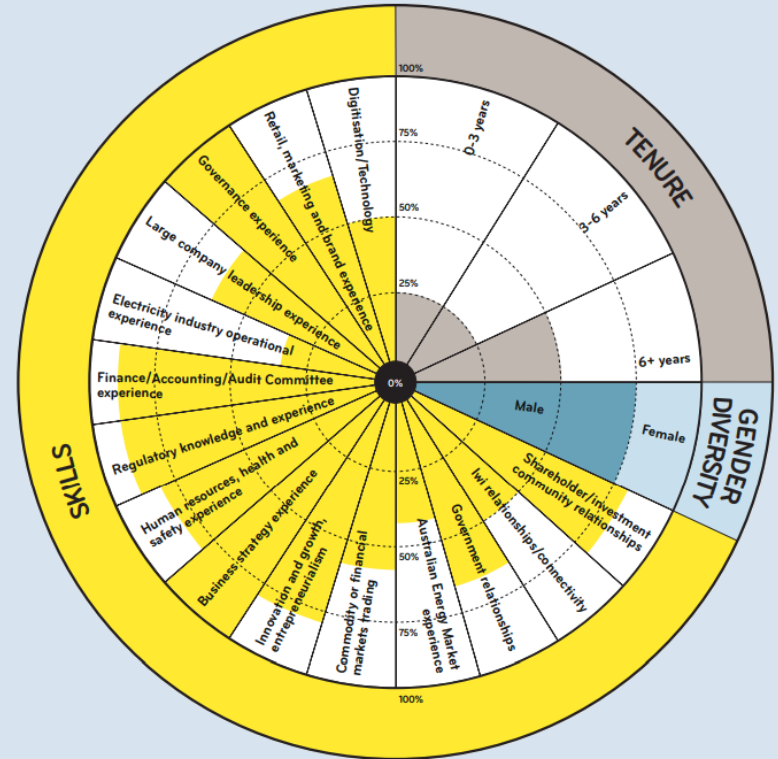
> ANNA LISSAMAN  
FUTURE DIRECTOR





# BOARD OF DIRECTORS

- > Committed to maintaining the highest standards of business behaviour and accountability
  - > Board recognised in Corporate Confidence Index (CCI) in critical areas such as effective board, high standard of corporate governance and appropriate board composition
- > Key governance focus for 2018 included:
  - > Board skills and experience
  - > Succession planning
- > Appointment of Scott St John made to complement skills of existing directors after a comprehensive evaluation of company requirements
- > 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 June 2018) 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; continuous disclosure
  - > Continuing and extending learning agenda
  - > Tailored to address gaps identified in skills matrix
- .....

## 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 2018, pg 3





# LEADERSHIP TEAM



> FRASER WHINERAY  
CHIEF EXECUTIVE



> MATTHEW OLDE  
METRIX CHIEF EXECUTIVE



> TONY NAGEL  
GENERAL MANAGER CORPORATE AFFAIRS



> JULIA JACK  
CHIEF MARKETING OFFICER



> WILLIAM MEEK  
CHIEF FINANCIAL OFFICER



> KEVIN ANGLAND  
GENERAL MANAGER DIGITAL SERVICES



> PHIL GIBSON  
GENERAL MANAGER HYDRO & WHOLESALE



> MARLENE STRAWSON  
GENERAL MANAGER PEOPLE & PERFORMANCE



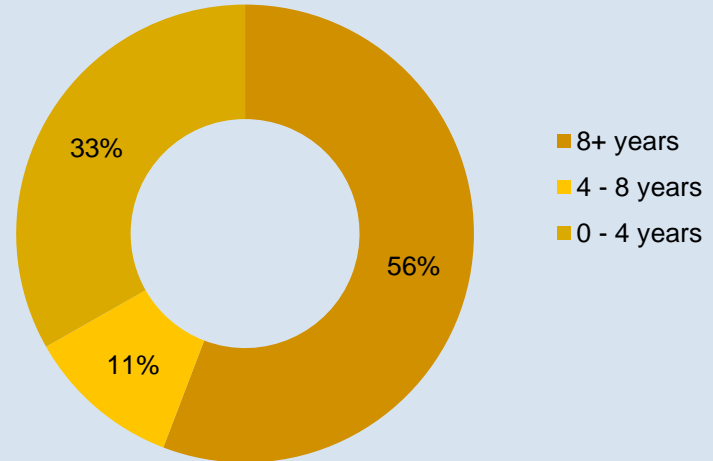
> NICK CLARKE  
GENERAL MANAGER GEOTHERMAL & SAFETY



# 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

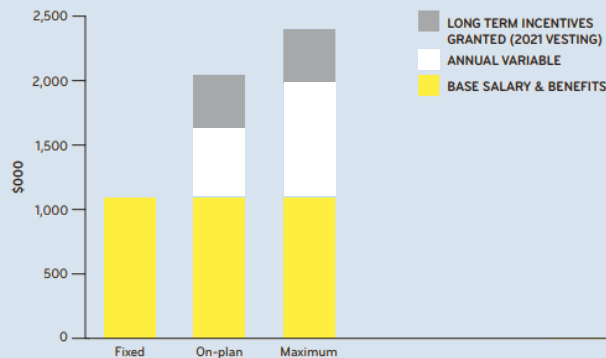
## LEADERSHIP TEAM TENURE IN COMPANY



# REMUNERATION

- > Executive short-term incentive KPIs are aligned with our strategy
- > 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 FY2019



## SHORT TERM INCENTIVE COMPOSITION

Target Area	FY2018 Weighting %	FY2019 Weighting %	Key Pillar
Financial: EBITDAF <sup>1</sup>	30	30	Leading Economic Performance
People	20	30 <sup>2</sup>	High Performance Teams
Wellbeing	20		
Customer	20	20	Growing Customer Loyalty
Long term platform	10	N/A	N/A
Partnerships	N/A	10	Stronger Together
Kaitiakitanga	N/A	10	Enhanced Natural Resources

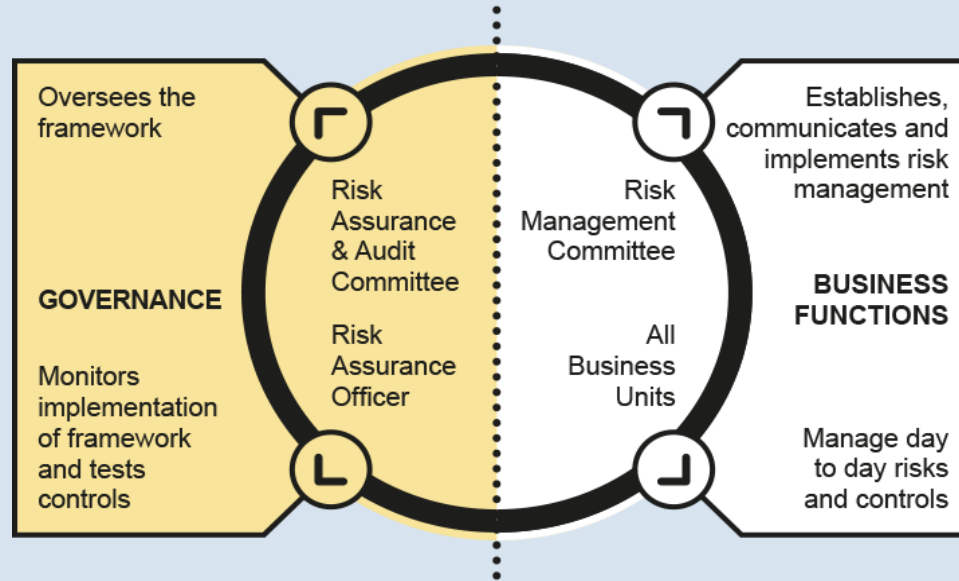
Note 1: EBITDAF is normalised for positive and negative annual variations in Waikato hydro generation.

Note 2: People and Wellbeing have been combined in FY2019 to be People.



# RISK MANAGEMENT

- > Comprehensive approach encompassing financial, strategic, environmental, operational, regulatory, reputational, social and governance risks from internal and external sources

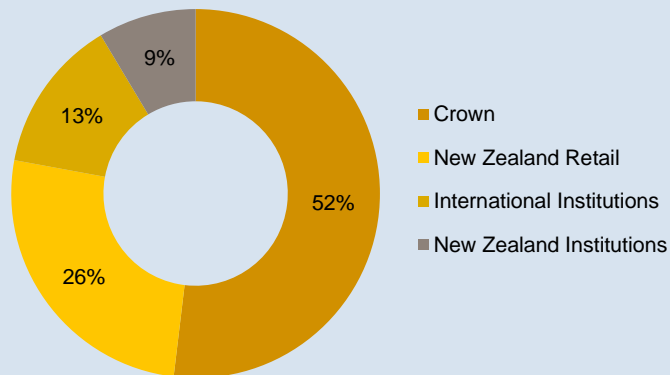


# OWNERSHIP

- > Listed on NZX and ASX in May 2013
- > Approximately 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

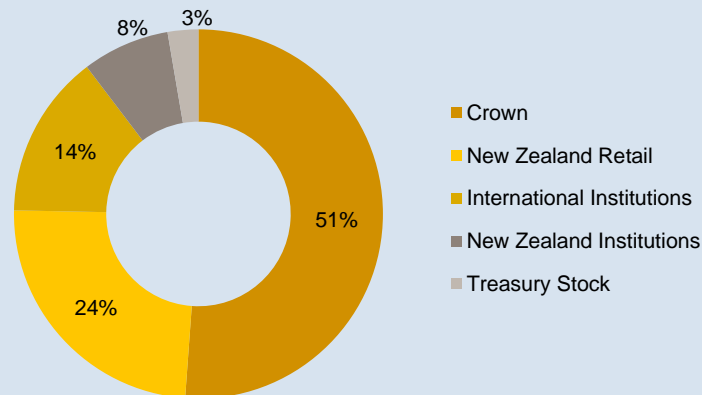
## MERCURY SHARE REGISTER

May 2013



## MERCURY SHARE REGISTER

October 2018





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