Financial Results

Six months ended 31 December 2018

FRASER WHINERAY
Chief Executive

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26 February 2019

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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

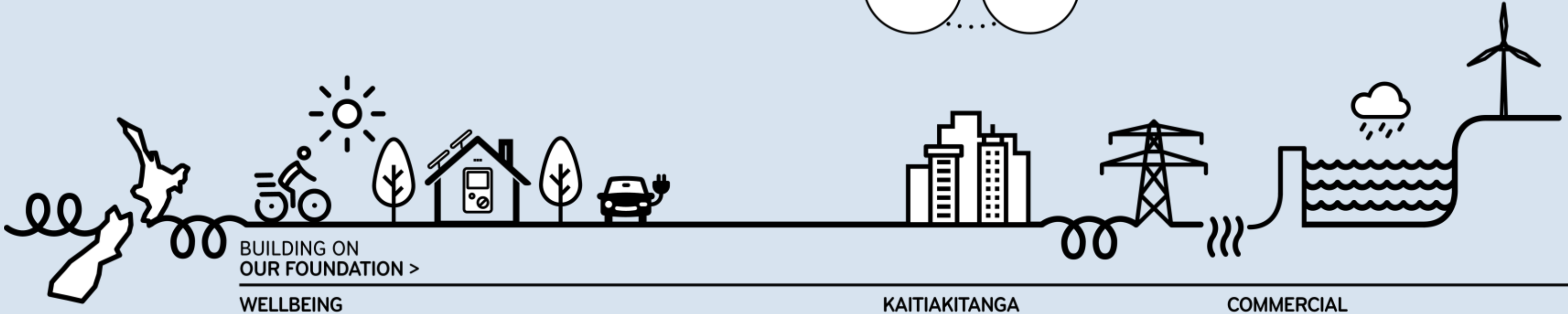
COMMIT & OWN IT

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

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

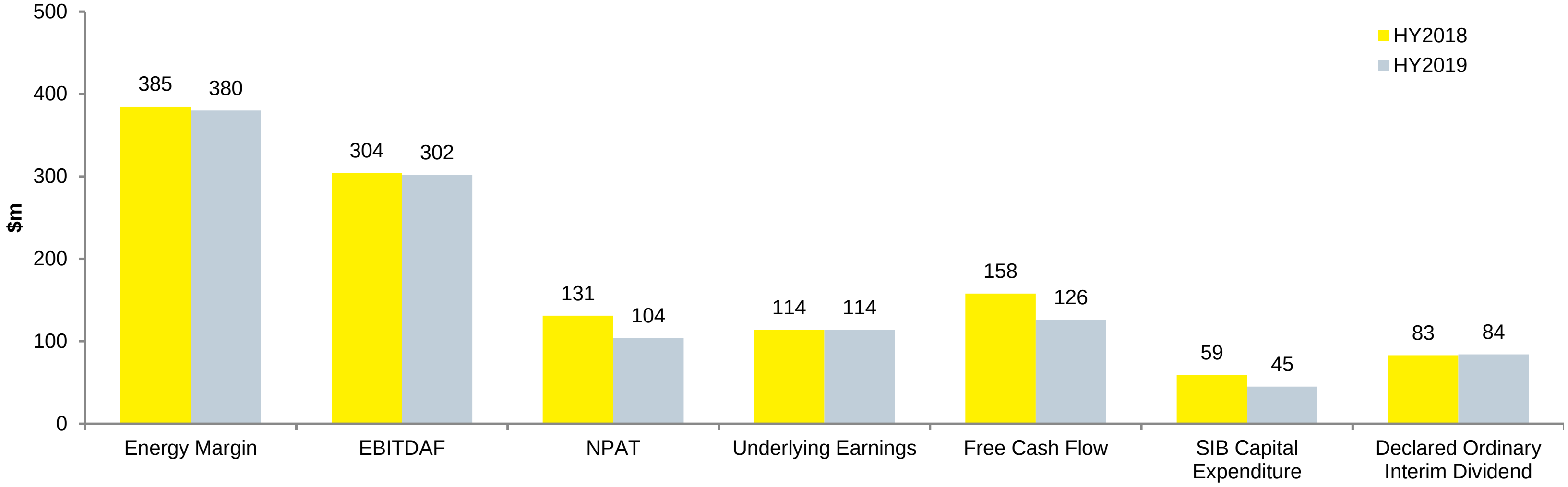
> Brand capital built through customer-led innovation and rewarding loyalty

Long-term commercial partnerships

> With Maori landowners and other key stakeholders

 HY2019 HIGHLIGHTS

HALF YEAR FINANCIAL HIGHLIGHTS



> Stable year-on-year earnings despite generation down 206GWh
> NPAT negatively impacted by the change in fair value of financial instruments (reflecting higher futures prices)
> Reduced FCF driven by a $40m increase in receivables (due to higher ASX margin balances) offset by lower CAPEX

HY2019 HIGHLIGHTS

$302m STABLE EARNINGS

Near-record earnings maintained as **generation alignment with high spot prices** offset lower hydro generation

3,901GWh GENERATION

Hydro down 246GWh from HY2018 as inflows fell below average; geothermal up 40GWh on increased availability

MARKET THESIS COMING TO FRUITION

Higher spot price volatility and futures pricing reflecting short term fuel scarcity but also improved market fundamentals

6.2cps INTERIM DIVIDEND

Fully-imputed interim dividend increase of 3.3% versus HY2018

VALUE FOCUS

Mercury has maintained a disciplined approach in pursuing **value over volume** in a highly competitive retail market

INVESTMENT IN CORE

Whakamaru and Aratiatia hydro refurbishment in progress with Karapiro refurbishment announced; ensuring sustainable long-term operation, while delivering **capacity** and **efficiency** benefits

STRATEGIC DRIVERS & HY2019 OUTCOMES

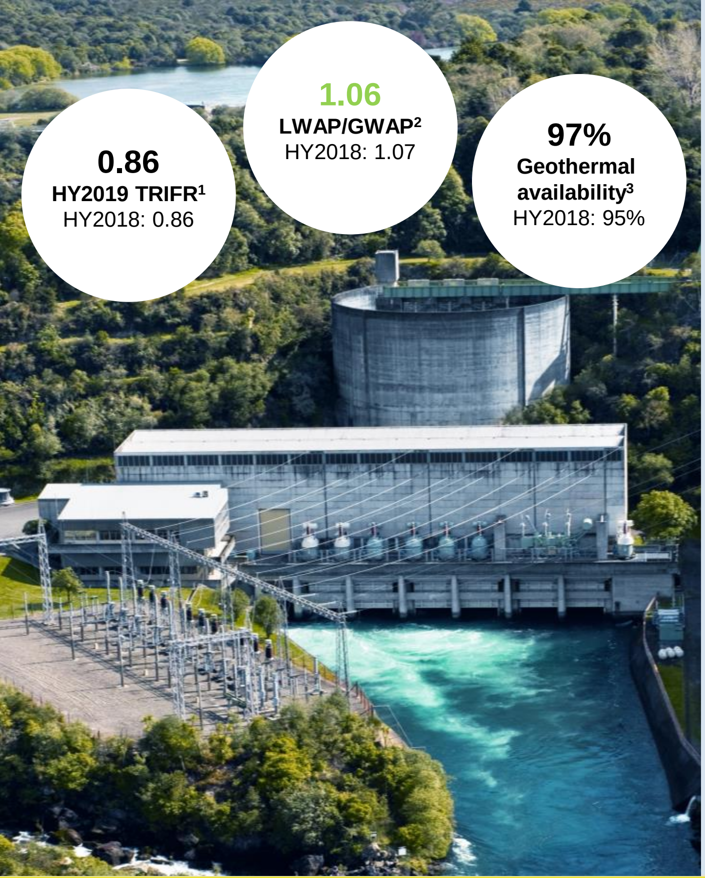
DELIVERING CUSTOMER ADVOCACY

> **Maintaining commercial discipline in competitive retail market**
- > Focus on the customer rather than customer numbers contributed to lower sales volumes but a 4% uplift in volume-weighted average price received across the Mass Market segment
- > Mercury brand trader churn[1] increased to 7.4%[2], but maintained lower than market
- > Trader churn for all Mercury brands increased to 8.5%[2] with the transfer of customers from Tiny Mighty Power to our main Mercury brand

> **Delivering rewarding digital experiences**
- > Successful launch of our Mercury Go app with more than 30,000 downloads in Q2 FY2019

> **Sustained brand momentum**
- > Our 'Evie' campaign continued to drive strong engagement with the Mercury brand
- > Launch of Mercury Drive reinforced our support of e.mobility adoption in NZ
- > Fulfilment of our customer promises to Reward, Inspire and Make It Easy
  - > ~154,000 customers[4] now registered to receive Airpoints™
  - > Over 100,000 customers engaging with our online usage tool every week[5]

[1] Switching where a customer changes retailer without moving house
[2] From EA data; 12-monthly rolling trader churn / total churn as at 31 December 2018
[3] Based on Mercury's monthly survey of residential customers, 6-monthly rolling average to 31 December 2018 / 2017 for Mercury brand only
[4] As at 31 December 2018
[5] Weekly average over 6 months to 31 December 2018



STRATEGIC DRIVERS & HY2019 OUTCOMES

LEVERAGING CORE STRENGTHS

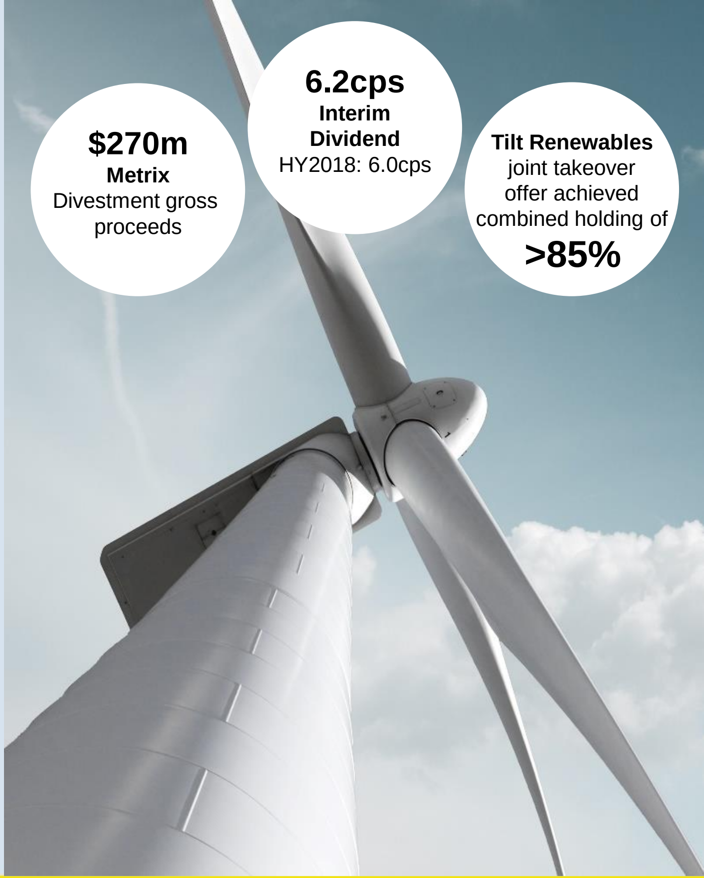
- **Goal of zero-harm**
  - No high-severity incidents; TRIFR[1] at 0.86 (flat versus 0.86 in HY2018)
- **Focus on High Performance Teams**
  - Office consolidation successfully completed in Q3 FY2019 bringing together 550+ employees in an environment that will leverage High Performance Teams
  - 98% of respondents to a recent employee survey say they have participated in High Performance Team development activities
- **Enterprise-wide project execution**
  - Ongoing hydro refurbishment continuing at Whakamaru and Aratiatia hydro stations with contract signed in January 2019 for $75m Karapiro refurbishment
  - Southdown grid-scale battery storage commissioned with discharge of 285MWh in the first quarter of operation
- **Stable earnings despite lower hydro generation**
  - HY2019 EBITDAF at $302m as generation alignment with high spot prices offset lower hydro generation versus HY2018

[1] 12-monthly 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

STRATEGIC DRIVERS & HY2019 OUTCOMES

ENHANCED LONG-TERM VALUE

- **Operational discipline**
  - Opex flat versus HY2018 at $99m
- **Continued review of capital allocation**
  - Sale of Metrix smart metering business for $270m; simplifying Mercury while releasing capital and resources
  - Investment in Tilt Renewables maintained at 19.99%
    - Dundonnell Wind Farm in Victoria approved by Tilt Renewables Board; Mercury participated in capital raising in February 2019 ($55m)
    - Joint takeover offer with Infratil reached 85.3% combined shareholding, but did not succeed in reaching the 90% compulsory acquisition threshold
- **Returns to shareholders**
  - FY2019 EBITDAF guidance maintained at $515m on 4,150GWh of hydro generation, subject to any material events, significant one-off expenses or other unforeseeable circumstances including hydrological conditions
  - HY2019 interim ordinary dividend up 3.3% to 6.2cps
  - FY2019 ordinary dividend guidance maintained at 15.5cps, which will be the 11th consecutive year of ordinary dividend growth

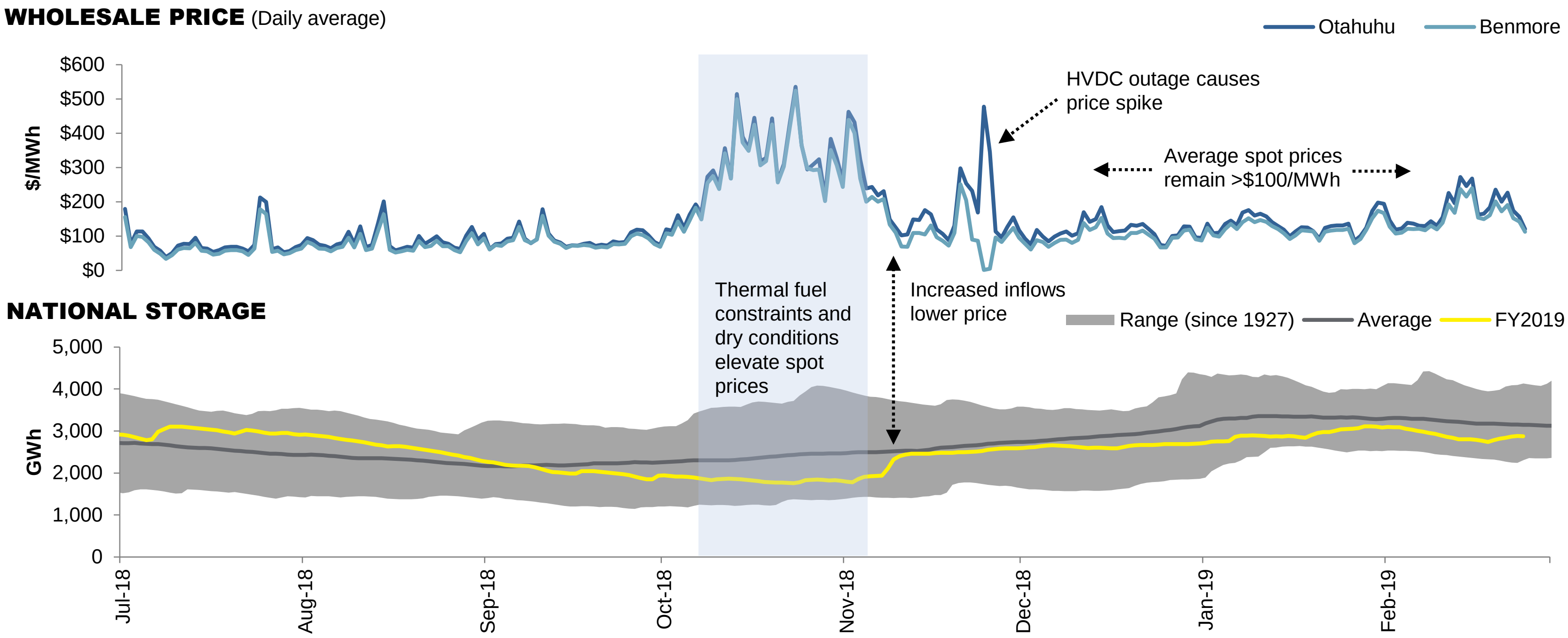


11 MARKET DYNAMICS

REGULATORY OVERVIEW

- Electricity Price Review (EPR) options paper released 20 February 2019
  - Stakeholder engagement through March 2019 with final recommendations to Government by mid-2019
  - Support phase-out of Low Fixed Charge Tariff which had industry consensus
  - Need for sustainable market making arrangements with appropriate coverage and greater upstream fuel transparency
  - Retail price regulation, vertical separation and distributor consolidation not supported by panel
  - Prompt Payments recommended to shift from incentive to penalty
- Interim Climate Change Committee
  - Final report due end of April presented directly to Government due to inter-party delays on Zero Carbon Bill negotiations
  - Targeting 100% renewable electricity prohibitively expensive relative to electrification of transport and process heat
- Transmission Pricing
  - Electricity Authority will consult further in June 2019 on next stages
  - EPR panel support government statement on whether consumers or businesses should benefit from transmission cost reallocations
- Tax Working Group
  - Hydro generation, a non-consumptive water use, looks likely to be excluded in any potential environmental taxation regime

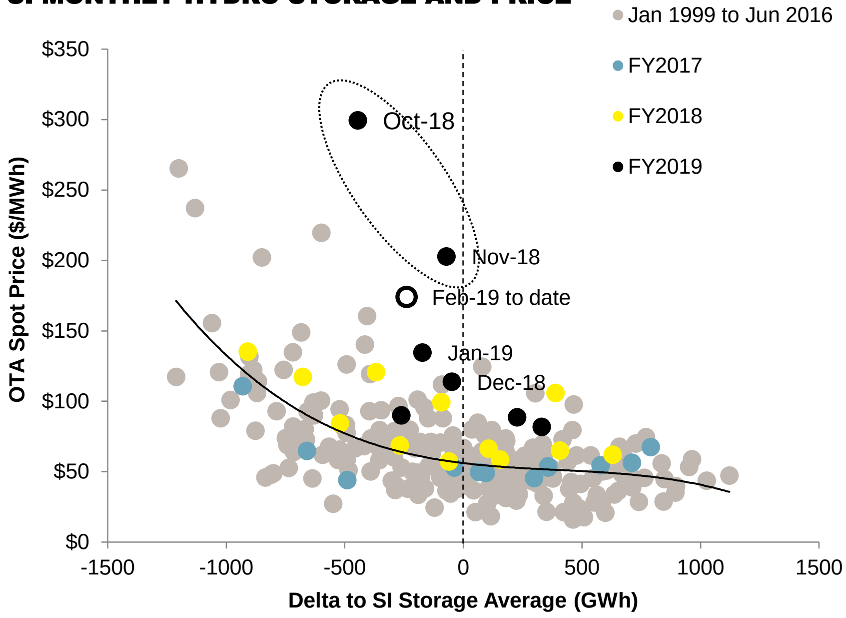
FUEL SCARCITY INCREASES SPOT PRICES



Source: NZX Hydro, Pricing Manager (NZX), Mercury

FUEL SCARCITY INCREASES SPOT PRICES

SI MONTHLY HYDRO STORAGE AND PRICE



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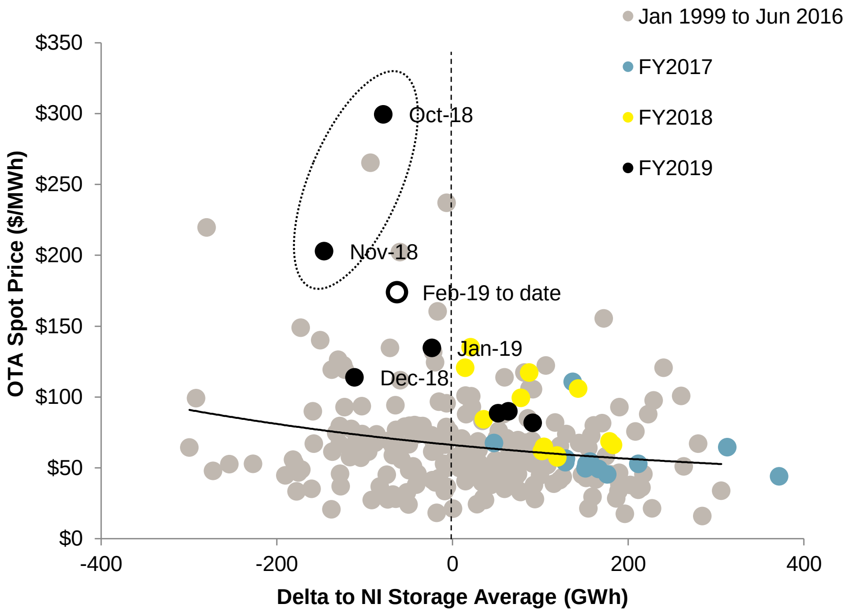
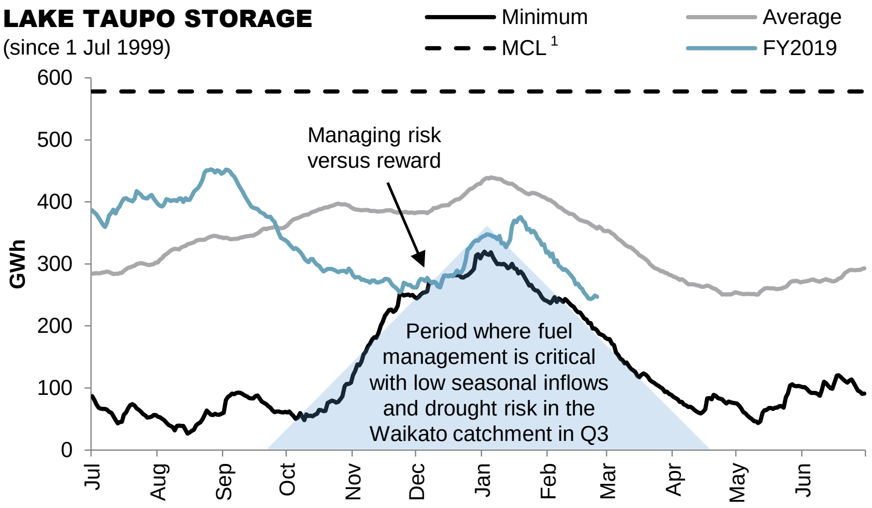


Source: NZX Hydro, Pricing Manager (NZX), Mercury
[1] For quarters ended 30 September since 1928
[2] For quarters ended 31 December since 1928

BALANCED APPROACH TO RISK MANAGEMENT AND OPPORTUNITY

> Mercury exercised prudent hydrological management as storage approached historical minimum
> Mercury's generation (relative to average) increased in line with spot prices in Q1 FY2019
> Ability to realise generation opportunities in Q2 FY2019 tempered by imminent dry period risk in Q3 FY2019
  > High generation relative to inflows caused storage to decrease in Q2 FY2019 instead of increasing as normal

LAKE TAUPO STORAGE
(since 1 Jul 1999)



HY2019	Jul	Aug	Sep	Oct	Nov	Dec
Hydro Generation - Delta to Average[2] (GWh)	+73	+81	+101	-10	-14	-6
Waikato Inflows - Delta to Average[3] (GWh)	+50	+90	-35	-123	-78	+20
Spot Price - Otahuhu ($/MWh)	$82	$89	$90	$300	$203	$114

Source: NZX Hydro, Mercury
[1] Maximum Controllable Level
[2] Monthly average since July 1999
[3] Monthly average since July 1927

MARKET THESIS COMING TO FRUITION

FUNDAMENTALS: SUPPLY AND DEMAND BETTER BALANCED

ANTICIPATED MARKET OUTCOMES

- Demand growth ✓
- Increased wholesale price volatility ✓
- Futures price increase ✓
- Commercial and Industrial (C&I) upwards price pressure ✓
- Retail churn reduction ?
- Upward pressure on retail price ?

Futures and recent C&I contracted prices up $10/MWh+

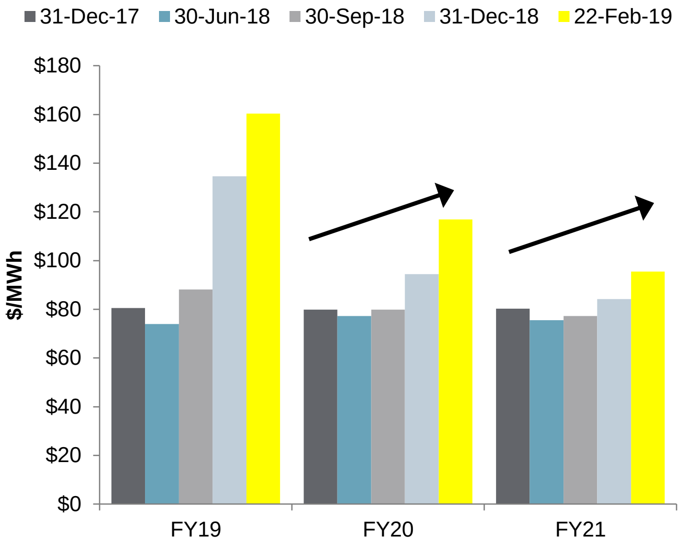
Increase in Futures / C&I prices represents a cost of retailing and a contraction of retail margins

Retail competition remains fierce despite this dynamic with aggressive acquisition offers still prevalent in the market

FUTURES LIFTING IN LINE WITH MARKET THESIS

FUTURES PRICE
(2 year average price starting 3 quarters ahead)

OTAHUHU FUTURES PRICE



Source: ASX, Mercury

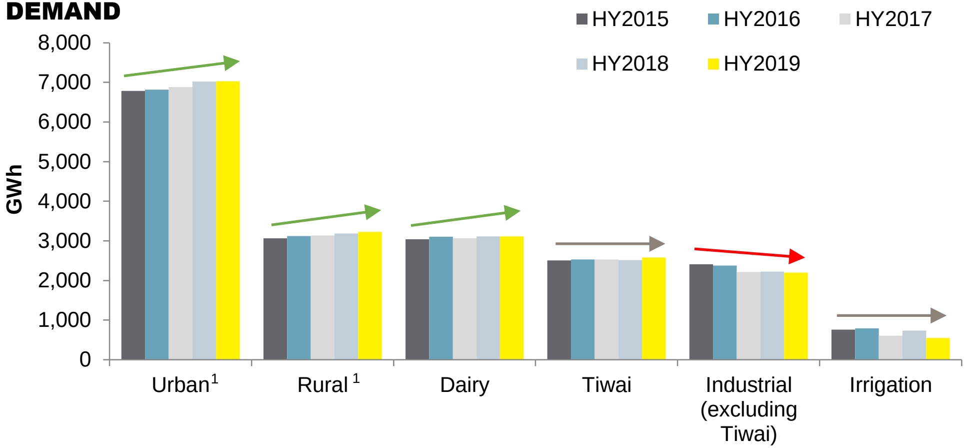
SEASONAL FACTORS CONTRIBUTE TO LOWER DEMAND

> Demand down 0.5% in HY2019 (-0.6% normalising for temperature) led by a decrease in the irrigation sector
> Industrial demand (excluding Tiwai) continues to decline – possibly lower than usual in Q2 FY2019 due to high spot prices
> Tiwai Point 4th potline restart contributed to ~0.3% demand growth in HY2019 (~1.0% annualised)

HY2019 NORMALISED DEMAND GROWTH BY SECTOR

Sector	GWh	Sector %△	Total %△
Urban[1]	+8	0.1%	0.0%
Rural[1]	+39	1.2%	0.2%
Dairy processing	+2	0.1%	0.0%
Irrigation	-191	(25.8)%	(0.9)%
Industrial	+42	0.9%	0.2%
Other	-31	(8.5)%	(0.1)%
Total	**-131**		**(0.6)%**

DEMAND

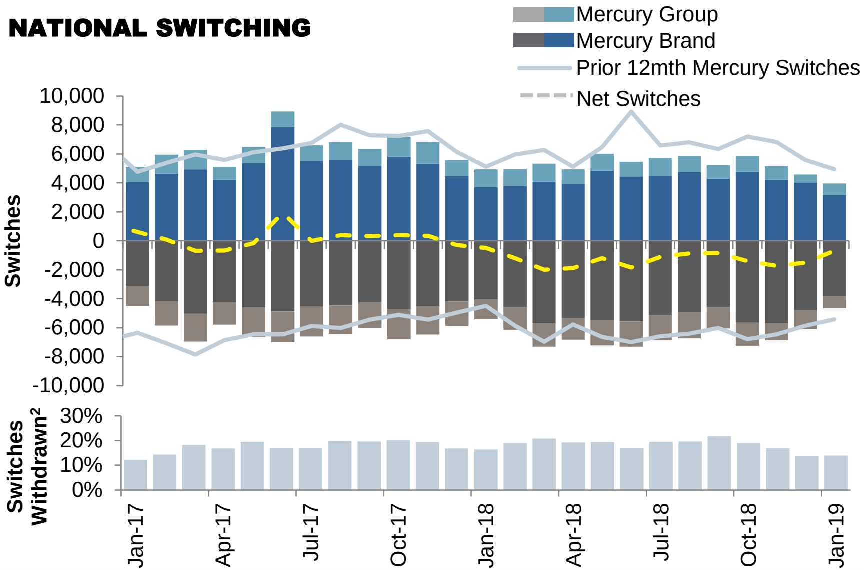


Source: Transpower SCADA data, Mercury
[1] Normalised for temperature

DISCIPLINE IN A HIGHLY COMPETITIVE MARKET

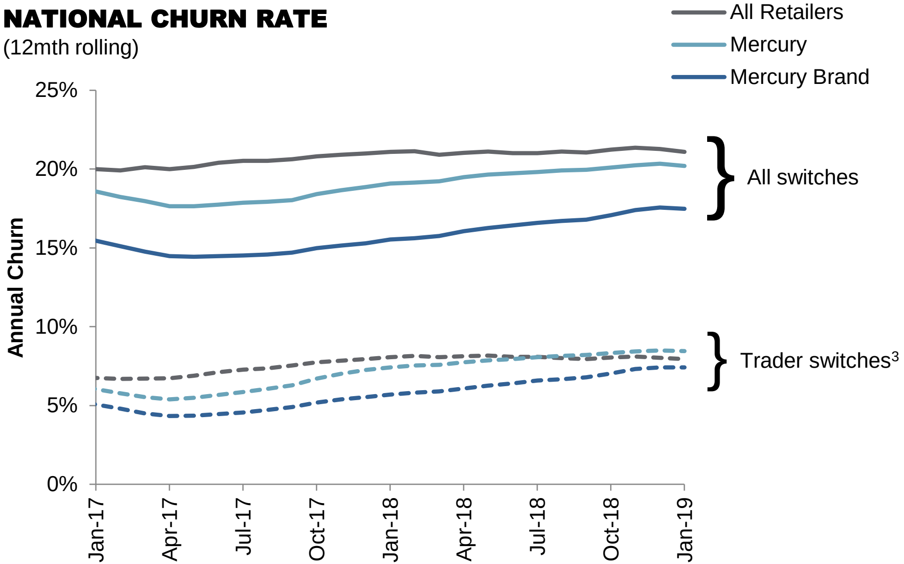
> Maintained a disciplined approach in pursuing value over volume despite high levels of retail market activity
  > Mercury customer numbers decreased by 7,000 in HY2019, while the average Mass Market yield increased by 4%
  > Customer satisfaction[1] based on Mercury's survey remained stable going from 62% in HY2018 to 63%

NATIONAL SWITCHING



NATIONAL CHURN RATE

(12mth rolling)

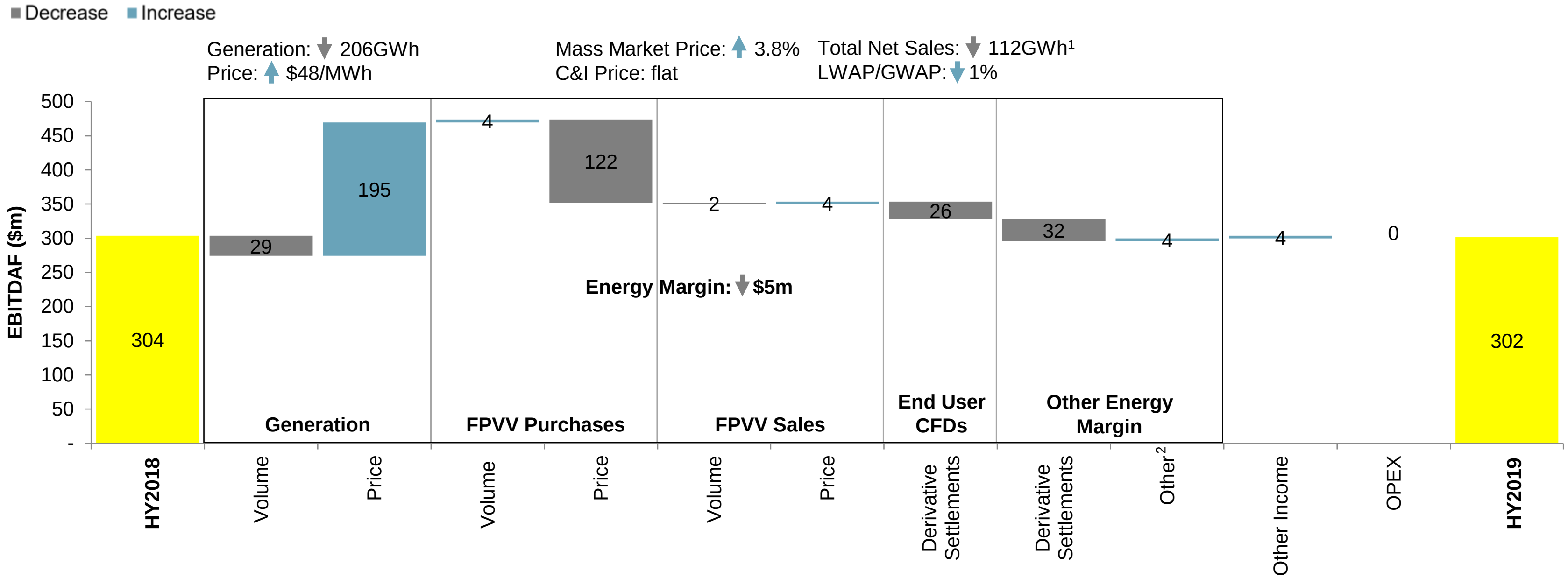


Source: Electricity Authority, EMI – Market share trends and switching breakdown
[1] Based on Mercury's monthly survey of residential customers, 6-monthly rolling average to 31 December for Mercury brand only
[2] Switches which were initiated but not completed (inclusive of saves)
[3] A trader switch is where a customer changes retailer without changing house

20 FINANCIAL SUMMARY

HIGHER PRICES OFFSETTING REDUCTION IN GENERATION VOLUME

EBITDAF BRIDGE (HY2019 vs. HY2018)



[1] Includes FPVV and net CFD sales
[2] Includes ancillary services & gas purchases and sales

FY2019 GUIDANCE CONFIRMED

> FY2019 EBITDAF guidance remains $515m on 4,150GWh of hydro generation, subject to hydrological volatility, wholesale market conditions and any material adverse events, significant one-off expenses or other unforeseeable circumstances

> FY2019 ordinary dividend guidance is 15.5cps (up 2.6% on FY2018)

> FY2019 Free Cash Flow will be positively affected by the maturity of historical interest rate hedges (circa $20m net annual cash flow benefit); partially offset by higher average debt levels

  > Interest paid $10m lower in HY2019 vs. pcp

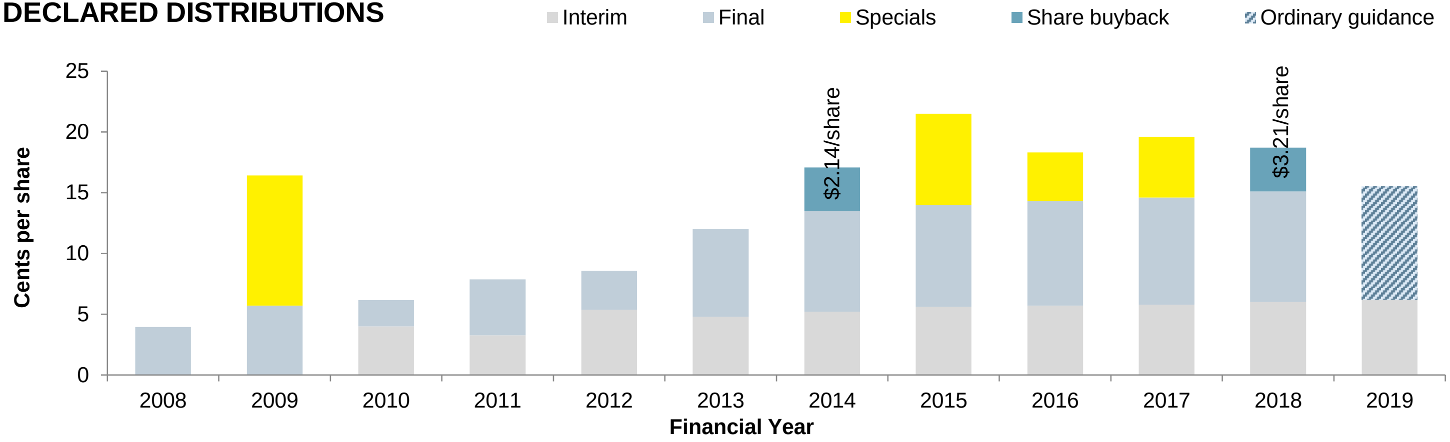
  > Net debt up $183m at 31 December 2018 vs. pcp reflecting Tilt acquisition and share buyback in H2 FY2018

> FY2019 stay-in-business capital expenditure guidance is $95m

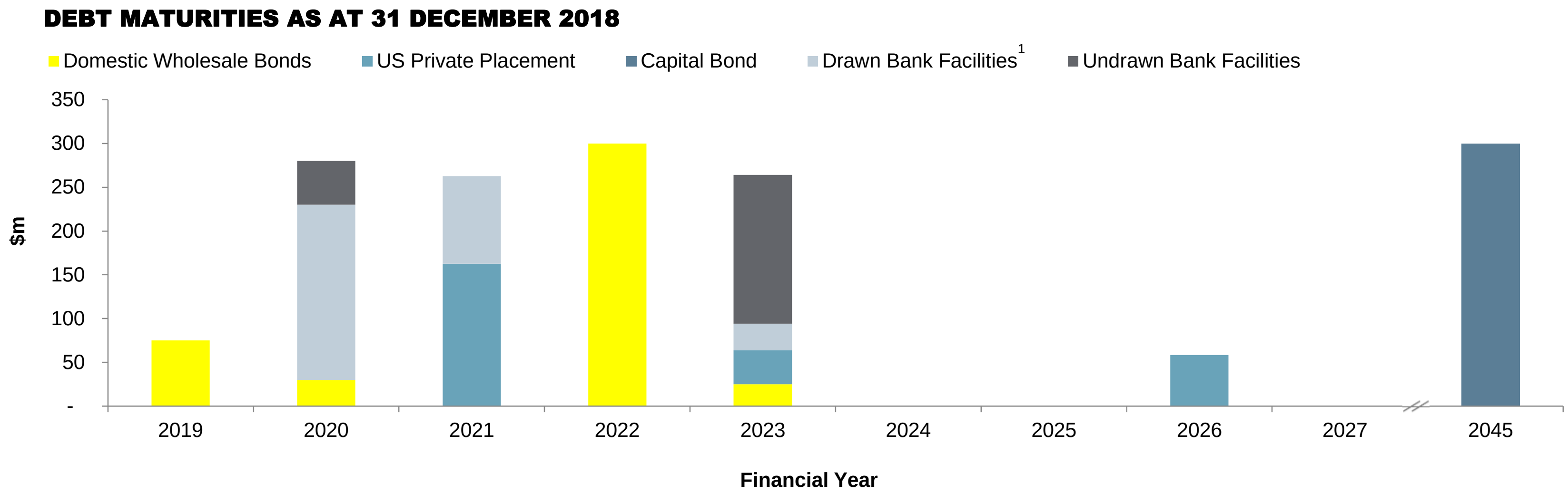
DIVIDENDS

- Focus remains on appropriate capital management reflecting Government ownership constraints and growth aspirations
- HY2019 fully-imputed interim dividend up 3.3% to 6.2 cents per share
  - Interim dividend to be paid on 1 April 2019
  - Fully year guidance of 15.5cps represents the 11th consecutive year of ordinary dividend growth

DECLARED DISTRIBUTIONS



DIVERSIFIED FUNDING PROFILE



- The average debt maturity profile for committed facilities was 7.0 years at 31 December 2018
- Subject to market conditions, Mercury intends to refinance its Capital Bonds at the next reset date, being the 11th of July 2019
- The maturing Wholesale Bonds in H2 FY2019 will be repaid using existing facilities

[1] Drawn bank facilities includes issued commercial paper

QUESTIONS?

CONTRACTS FOR DIFFERENCE

	6 months ended 31 December 2018	6 months ended 31 December 2017
Net Contracts for Difference (GWh)	**(1097)**	**(1,193)**
End User	(586)	(642)
Other	(511)	(551)
Energy Margin contribution	**($64m)**	**($6m)**

[1] VAS included on both buy and sell side CFDs

KEY INVESTOR RELATIONS DATES

Month	Event
JUN-18	2018 Financial Year End - 30th
JUL-18	Q4-FY2018 Operational Statistics - 18th
AUG-18	Annual Results Announcement - 21st
SEP-18	Annual Shareholders Meeting - 28th
OCT-18	Q1-FY2019 Operational Statistics - 17th
NOV-18	UK & Asia Roadshow
DEC-18	Domestic Governance Roadshow
JAN-19	Q2-FY2019 Operational Statistics
FEB-19	Interim Results Announcement - 26th
MAR-19	
APR-19	Q3-FY2019 Operational Statistics
MAY-19	America Roadshow *(planned)*
JUN-19	2019 Financial Year End - 30th
JUL-19	Q4-FY2019 Operational Statistics
AUG-19	Annual Results Announcement
SEP-19	Annual Shareholders Meeting
OCT-19	Q1-FY2020 Operational Statistics
NOV-19	Capital Markets Day *(planned)* UK & Asia Roadshow *(planned)*
DEC-19	Domestic Governance Roadshow

James Flexman (Wholesale Markets Manager) presenting at Mercury’s 2-yearly Capital Markets Day in 2017

REFERENCE MATERIALS

MERCURY REFERENCES

Mercury Investor Centre	www.mercury.co.nz/Investor-Centre
Quarterly Operational Updates	https://www.mercury.co.nz/investors/results-reports/operating-information
FY2018 Results Presentation – August 2018	https://issuu.com/mercurynz/docs/20180821_mercury_financial_results?e=25554184/63952632
Investor Presentation – November 2018	https://issuu.com/mercurynz/docs/mercury_investor_roadshow_presentat?e=25554184/65954670
Governance Presentation – December 2018	https://issuu.com/mercurynz/docs/mercury_governance_roadshow_present?e=25554184/66170875

PUBLICATIONS

Mercury Electricity Price Review Submission	https://www.mercury.co.nz/news/electricity-price-review-executive-summary

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