



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

NEWS RELEASE

Mercury Launches Capital Bond Offer

12 June 2019 – Mercury NZ Limited ("**Mercury**") confirmed today that it is offering up to NZ\$300 million of subordinated capital bonds ("**Capital Bonds**") to New Zealand retail and institutional investors.

The offer opens today and will be made pursuant to the Financial Markets Conduct Act 2013 as an offer of debt securities of the same class as existing quoted debt securities.

Full details of the offer are contained in the indicative terms sheet which has been prepared for the offer and is also attached, as is a presentation on the offer. The Capital Bonds are expected to be quoted on the NZX Debt Market and to be assigned an issue credit rating of BB+ by S&P Global Ratings.

The offer will open with an indicative margin range for the Capital Bonds to the First Reset Date (11 July 2024) of 2.10% p.a. to 2.25% p.a. (subject to a minimum interest rate for that period of 3.60% p.a.). An announcement of the actual margin (which may be above or below the indicative margin range mentioned above) and the interest rate will be made following the bookbuild process, expected to be completed on 19 June 2019 ("**Rate Set Date**"). The terms sheet for the offer will be updated to include the interest rate and will be released on or about the same day.

Subject to a successful bookbuild process for the offer, Mercury intends to redeem its existing subordinated capital bonds which are quoted on the NZX Debt Market under the ticker code MCY010 ("**MCY010 Bonds**") by giving a redemption notice to holders of MCY010 Bonds on or shortly after the Rate Set Date.

Holders of the MCY010 Bonds who wish to participate in the offer should contact their usual financial adviser to obtain an allocation of Capital Bonds. Holders of the MCY010 Bonds who receive an allocation of Capital Bonds from their financial adviser can elect to have some or all of the proceeds from the redemption of their MCY010 Bonds applied to that allocation.

The offer will close on 4 July 2019, with the Capital Bonds expected to be issued on 11 July 2019.

There is no public pool for the Capital Bonds, which will be reserved for clients of the Joint Lead Managers, institutional investors and other primary market participants invited to participate in the bookbuild.

Interested investors (including holders of MCY010 Bonds) should contact Bank of New Zealand, Deutsche Craigs Limited, Forsyth Barr Limited (as Joint Lead Managers), or their usual financial adviser for more details.

For further information please contact:

BNZ	Deutsche Craigs	Forsyth Barr
0800 284 017	0800 226 263	0800 367 227

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.

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INDICATIVE TERMS SHEET FOR

SUBORDINATED UNSECURED CAPITAL BONDS.

12 JUNE 2019

Joint Lead Managers



DeutscheCRAIGS



INDICATIVE TERMS SHEET.

12 JUNE 2019

This indicative terms sheet ("**Terms Sheet**") sets out the key terms of the offer ("**Offer**") by Mercury NZ Limited ("**Mercury**") of up to NZ\$300,000,000 unsecured, subordinated, interest bearing capital bonds maturing on 11 July 2049 ("**Capital Bonds**") under its master trust deed dated 4 April 2003 (as amended from time to time) ("**Trust Deed**") as modified and supplemented by the supplemental trust deed dated 12 June 2019 (together, "**Trust Documents**") entered into between Mercury and The New Zealand Guardian Trust Company Limited as supervisor ("**Supervisor**"). Unless the context otherwise requires, capitalised terms used in this Terms Sheet have the same meaning given to them in the Trust Documents.

IMPORTANT NOTICE

The Offer of Capital Bonds by Mercury is made in reliance upon the exclusion in clause 19 of schedule 1 of the Financial Markets Conduct Act 2013 ("**FMCA**").

The Offer contained in this Terms Sheet is an offer of debt securities that have identical rights, privileges, limitations and conditions (except for the interest rate and maturity date) as Mercury's NZ\$300,000,000 unsecured, subordinated, interest bearing capital bonds with an interest rate of 6.90% per annum and a final maturity date of 11 July 2044, which are currently quoted on the NZX Debt Market under the ticker code MCY010 ("**MCY010 Bonds**").

Accordingly, the Capital Bonds are the same class as the MCY010 Bonds for the purposes of the FMCA and the Financial Markets Conduct Regulations 2014.

Mercury is subject to a disclosure obligation that requires it to notify certain material information to NZX Limited ("**NZX**") for the purpose of that information being made available

to participants in the market and that information can be found by visiting www.nzx.com/companies/MCY.

The MCY010 Bonds are the only debt securities of Mercury that are in the same class as the Capital Bonds and are currently quoted on the NZX Debt Market.

Investors should look to the market price of the MCY010 Bonds referred to above to find out how the market assesses the returns and risk premium for those bonds.

REDEMPTION OF THE MCY010 BONDS

The first reset date for the MCY010 Bonds is 11 July 2019 and Mercury has the right to redeem the MCY010 Bonds on that date. If the bookbuild process for the Offer is successful, Mercury will redeem the MCY010 Bonds by giving a redemption notice to holders of MCY010 Bonds ("**MCY010 Bondholders**") on or shortly after the Rate Set Date (19 June 2019).


Investors should carefully consider the features of the Capital Bonds which differ from the features of a standard senior bond. Those features include the ability of Mercury to defer interest, optional early redemption rights for Mercury, a margin step-up and the subordinated nature of the Capital Bonds. Investors should read this Terms Sheet carefully (including the risks discussed on page 9) and seek financial advice before deciding to invest in the Capital Bonds.

Issuer	Mercury NZ Limited		
Description	The Capital Bonds are unsecured, subordinated, redeemable, cumulative, interest bearing debt securities.		
Ranking	The Capital Bonds will rank equally among themselves and will be subordinated to all other indebtedness of Mercury, other than indebtedness expressed to rank equally with, or subordinate to, the Capital Bonds. The Capital Bonds rank equally with the MCY010 Bonds. See "Ranking on liquidation" on page 6.		
Purpose	The proceeds of the Offer will be used to fund the redemption of the MCY010 Bonds and for general corporate purposes.		
No guarantee	Mercury is the issuer and the sole obligor in respect of the Capital Bonds. None of the Crown, any subsidiary of Mercury or any other person guarantees the Capital Bonds.		
Further indebtedness	Mercury may incur finance debt without the consent of holders of Capital Bonds (" Bondholders ").		
Equity content	<p>S&P Global Ratings is expected to assign an "intermediate" equity content to the Capital Bonds. Where such equity credit content is assigned, S&P Global Ratings will consider that the Capital Bonds comprise 50% equity when calculating its financial ratios for Mercury.</p> <p>The equity content is expected to fall to minimal (0%) on 11 July 2029.</p>		
Capital structure	Mercury believes that hybrid securities such as the Capital Bonds that are ascribed equity content are an effective capital management tool and intends to maintain such instruments as a key feature of its capital structure going forward.		
Credit rating		Issuer Credit Rating	Expected Issue Credit Rating
	S&P Global Ratings	BBB+ (Stable)	BB+
	<p>Mercury's current Issuer Credit Rating includes a one-notch uplift from the company's stand-alone credit profile of 'bbb' reflecting the legislated majority ownership by the New Zealand government. The New Zealand government does not guarantee the Capital Bonds and is under no obligation to provide financial support to Mercury.</p> <p>The expected Issue Credit Rating of the Capital Bonds is two notches below Mercury's stand-alone credit profile. One notch is deducted for the Capital Bonds being subordinated and a second notch because of the potential for interest payments to be deferred.</p> <p>A credit rating is an independent opinion of the capability and willingness of an entity to repay its debts (in other words, its creditworthiness). It is not a guarantee that the financial product being offered is a safe investment. A credit rating should be considered alongside all other relevant information when making an investment decision.</p> <p>A credit rating is not a recommendation by any rating organisation to buy, sell or hold Capital Bonds. The above Issuer Credit Rating is current as at the date of this Terms Sheet and any credit rating may be subject to suspension, revision or withdrawal at any time by the S&P Global Ratings.</p>		
Offer	<p>Mercury is offering up to NZ\$300,000,000 of Capital Bonds to New Zealand retail and institutional investors.</p> <p>The Offer will be conducted on a firm allocation basis as described in more detail below under the headings "Who may apply for Capital Bonds" and "How to apply". MCY010 Bondholders who wish to participate in the Offer are encouraged to contact their financial adviser, one of the Joint Lead Managers or another Market Participant.</p>		

Redemption of MCY010 Bonds	<p>Subject to the bookbuild for the Offer being successful, a redemption notice to redeem the MCY010 Bonds will be sent to the MCY010 Bondholders on 19 June 2019 or shortly thereafter.</p> <p>MCY010 Bondholders that receive an allocation of Capital Bonds through their financial adviser or Market Participant may elect to have the redemption proceeds for their MCY010 Bonds applied and set-off against the application moneys payable by them for the Capital Bonds.</p> <p>To the extent that the redemption proceeds payable to an MCY010 Bondholder exceed the application moneys payable by that holder for Capital Bonds, Mercury will pay the excess in cash to the applicable MCY010 Bondholder on 11 July 2019. The application and set-off described above will be done on a one-for-one basis (i.e. redemption proceeds for one MCY010 Bond will be applied and set-off against the application money for one Capital Bond).</p>
Issue Price and Principal Amount	NZ\$1.00 per Capital Bond.
Interest Rate from the Issue Date to the First Reset Date	The percentage per annum equal to the Benchmark Rate (determined on the Rate Set Date) plus the Margin, but subject to a minimum Interest Rate of 3.60% per annum for this period.
Benchmark Rate	5-year NZD swap rate (adjusted to a quarterly basis as necessary), determined on the Rate Set Date and each subsequent Reset Date.
Margin	<p>The indicative Margin range is 2.10% to 2.25% per annum for the Capital Bonds.</p> <p>The actual Margin for the Capital Bonds (which may be above or below the indicative Margin range mentioned above) will be set by Mercury (in consultation with the Joint Lead Managers) on the Rate Set Date following a bookbuild conducted by the Joint Lead Managers and will be announced by Mercury via NZX on the Rate Set Date.</p>
Payment of interest	Interest will be payable on an Interest Payment Date to the Bondholder as at the Record Date immediately preceding the relevant Interest Payment Date.
Interest Payment Dates	<p>Interest shall be paid quarterly in arrears on 11 January, 11 April, 11 July and 11 October of each year. Interest accrues on the Capital Bonds until (but excluding) the date on which they are redeemed.</p> <p>The first interest payment date is 11 October 2019.</p> <p>Interest may be deferred at Mercury's discretion – see "Discretionary deferral of interest" on page 4.</p>
Record Date	In relation to payments of interest, the date which is 10 calendar days before the due date for the payment. In relation to an Election Process (as defined below), the date which is two Business Days prior to the date on which the applicable Election Notice (as defined below) is given. In either case, if that date is not a Business Day, the Record Date will be the preceding Business Day.
Early Bird Interest	<p>Interest on application moneys received ("Early Bird Interest") will be paid by Mercury to investors in the Offer that receive an allocation of Capital Bonds, other than MCY010 Bondholders that elect to have their redemption proceeds for the MCY010 Bonds applied and set-off against application moneys payable for the Capital Bonds.</p> <p>Mercury will pay Early Bird Interest on application moneys received in respect of such allocated Capital Bonds, at the rate of 3% per annum. This interest will be paid for the period from (and including) the date on which application money is banked, to (but excluding) the Issue Date, unless the application money is returned for any reason. Early Bird Interest will be paid within five Business Days of the Issue Date.</p>
Reset Dates	The First Reset Date for the Capital Bonds is the date that is five years after the Issue Date (11 July 2024). Thereafter there is a further Reset Date every five years. As part of a Successful Election Process, a different Reset Date may be adopted.

Interest Rate after each Reset Date	The Interest Rate applying from each Reset Date up to but excluding the next Reset Date will be the percentage per annum equal to the then Benchmark Rate on that Reset Date (adjusted to a quarterly basis as necessary) plus the Step-up Margin. If a Successful Election Process has been completed, the Interest Rate after each Reset Date will be as set out in the relevant Election Notice (as defined below).
Step-up Margin	Margin plus the Step-up Percentage of 0.25%.
Discretionary deferral of interest	<p>Mercury may defer payment of interest on the Capital Bonds at any time for up to five years at its sole discretion by notifying Bondholders. Where an interest payment has not been paid on its due date, notice of its deferral is deemed to be given.</p> <p>If deferred, an interest payment amount will itself accrue interest (compounding on each Interest Payment Date) at the prevailing Interest Rate on the Capital Bonds (in aggregate, the "Unpaid Interest"). Unpaid Interest is cumulative.</p> <p>See <i>Deferral of interest payments</i> under the "Risks" section on page 9.</p>
Distribution stopper	<p>Whilst there is any Unpaid Interest outstanding Mercury shall not:</p> <ul style="list-style-type: none"> (i) make any dividends, distributions or payments of interest on any shares or securities ranking pari passu with or after the Capital Bonds; or (ii) acquire, redeem or repay any share or other security ranking pari passu with or after the Capital Bonds (or provide financial assistance for the acquisition of such shares or securities), <p>(together, the "Restrictions on Deferral").</p>
Election Process	<p>No earlier than six months and not later than 20 Business Days before any Reset Date, Mercury may give to each Bondholder a notice ("Election Notice") specifying new terms and conditions ("New Conditions") (including for example a new Margin) proposed to apply from the next Reset Date. Bondholders can elect to accept or reject the New Conditions. Bondholders who do not respond will be deemed to have accepted the New Conditions.</p> <p>If Mercury declares a Successful Election Process then it is obliged to purchase any Capital Bonds held by a Bondholder who has rejected the New Conditions. Mercury may choose to establish a resale facility ("Resale Facility") to seek buyers for those Capital Bonds.</p> <p>If Mercury does not wish to purchase all Capital Bonds from those Bondholders that have rejected the New Conditions then Mercury must declare that the Election Process has failed in which case the existing terms and conditions will continue to apply, all Capital Bonds will remain outstanding and any transfers arranged through the Resale Facility will be cancelled.</p>

Optional early redemption by Mercury	<p>Mercury may redeem:</p> <ul style="list-style-type: none"> (i) all or some of the Capital Bonds on any Reset Date; or (ii) all or some of the Capital Bonds on any Interest Payment Date after a Reset Date if a Successful Election Process has not been undertaken in respect of that Reset Date; or (iii) all (but not some only) of the Capital Bonds if there are less than 100,000,000 Capital Bonds on issue; or (iv) all or some of the Capital Bonds if a Tax Event (as defined below) occurs; or (v) all or some of the Capital Bonds if a Rating Agency Event (as defined below) occurs. <p>The Redemption Price will be:</p> <ul style="list-style-type: none"> (a) the Issue Price of the Capital Bonds plus Unpaid Interest plus any Interest Payment scheduled to be paid on the date of redemption; or (b) if the redemption occurs pursuant to paragraph (ii) or (v) immediately above, the higher of: <ul style="list-style-type: none"> (1) the amount calculated under paragraph (a) immediately above; and (2) the market value of the Capital Bonds together with accrued interest. <p>If Mercury is redeeming Capital Bonds in part only then it can only do so to the extent that there will be at least 100,000,000 Capital Bonds outstanding after the partial redemption. Any partial redemption will be done on a proportionate basis and may include adjustments to take account of the effect on marketable parcels and other logistical considerations.</p>
Tax Event	<p>Receipt by Mercury of an opinion from a reputable legal counsel or tax adviser that as a result of an amendment, change or clarification of legislation, regulation, etc. the interest payments on the Capital Bonds would no longer be fully deductible for tax purposes.</p>
Rating Agency Event	<p>Receipt by Mercury of notice from S&P Global Ratings that, as a result of a change of criteria or Mercury ceasing to hold a credit rating, the Capital Bonds will no longer have the same equity content classification from S&P Global Ratings as it had immediately prior to the change in criteria.</p>
Events of Default	<p>The following Events of Default will result in the Capital Bonds becoming immediately redeemable:</p> <ul style="list-style-type: none"> (i) failure to pay any Unpaid Interest by the fifth anniversary of its original deferral; (ii) failure to comply with the Restrictions on Deferral; (iii) failure to pay amounts required to be paid on the redemption of the Capital Bonds; (iv) failure to pay amounts required to be paid in connection with a Successful Election Process; or (v) an insolvency event of Mercury occurs.

Ranking on liquidation	On a liquidation of Mercury amounts owing to Bondholders rank equally with all other unsecured, subordinated obligations of Mercury. The Capital Bonds rank behind Mercury's bank debt, senior bonds, US private placement notes and any amounts owing to unsubordinated general and trade creditors, as well as indebtedness preferred by law and secured indebtedness. The ranking of the Capital Bonds on a liquidation of Mercury is summarised in the diagram below.			
		Ranking on liquidation	Type of liability/equity	Indicative amount ¹
	Higher ranking / earlier priority 	Liabilities that rank in priority to the Capital Bonds	Liabilities preferred by law (for example, Inland Revenue for certain unpaid taxes), unsubordinated creditors (including banks and financial institutions that have lent money to Mercury, holders of Mercury's senior bonds, holders of Mercury's US private placement notes and unsubordinated trade and general creditors)	NZ\$2,705m ²
		Liabilities that rank equally with the Capital Bonds	The Capital Bonds and other subordinated obligations of Mercury	NZ\$300m ³
Lower ranking / later priority	Equity	Ordinary shares, reserves and retained earnings	NZ\$3,216m	
<p>Notes:</p> <ol style="list-style-type: none">1. Amounts shown above are indicative based on the liabilities and equity of the Mercury consolidated group as at 31 December 2018, adjusted for expected issue proceeds (assuming NZ\$300m of Capital Bonds are issued). The actual amounts of liabilities and equity of Mercury at the point of its liquidation will be different to the indicative amounts set out in the diagram above.2. This represents the total liabilities of the Mercury consolidated group at 31 December 2018, other than the MCY010 Bonds. It includes amounts corresponding to deferred tax of over NZ\$1,000m, not all of which would be crystallised on liquidation. Liabilities on liquidation may be materially different.3. This excludes the MCY010 Bonds which will be redeemed on the Issue Date.				
Minimum application amount and minimum holding	Minimum of NZ\$5,000 with multiples of NZ\$1,000 thereafter.			
Transfer restrictions	As a Bondholder, you may only transfer Capital Bonds if the transfer is in respect of Capital Bonds having an aggregate Principal Amount that is an integral multiple of NZ\$1,000. However, Mercury will not register any transfer of Capital Bonds if the transfer would result in the transferor or the transferee holding or continuing to hold Capital Bonds with an aggregate Principal Amount of less than NZ\$5,000, unless the transferor would then hold no Capital Bonds.			

NZX Debt Market quotation	It is a term of the Offer of the Capital Bonds that Mercury take any necessary steps to ensure that the Capital Bonds are quoted immediately following the Issue Date. Application has been made to NZX for permission to quote the Capital Bonds on the NZX Debt Market and all the requirements of NZX relating thereto that can be complied with on or before the distribution of this Terms Sheet have been duly complied with. However, NZX accepts no responsibility for any statement in this Terms Sheet. NZX is a licensed market operator, and the NZX Debt Market is a licensed market under the FMCA.
Expected date of initial quotation and trading on the NZX Debt Market	12 July 2019
NZX Debt Market ticker code	MCY020
ISIN	NZMCYDGO02C0
Business Days	<p>A day (other than a Saturday or Sunday) on which banks are generally open for business in Auckland and Wellington.</p> <p>If an Interest Payment Date, redemption date or the Maturity Date falls on a day that is not a Business Day, the due date for any payment to be made on that date will be the next following Business Day.</p>
Voting rights	None.
Governing law	New Zealand.
Who may apply for Capital Bonds	<p>The Offer is open to New Zealand retail and certain institutional investors.</p> <p>All of the Capital Bonds will be reserved for clients of the Joint Lead Managers, institutional investors and other Market Participants invited to participate in the bookbuild ("Firm Allocations"). There will be no public pool. MCY010 Bondholders who wish to participate in the Offer are encouraged to contact their financial adviser, one of the Joint Lead Managers or another Market Participant.</p>
How to apply	<p>Applicants receiving a Firm Allocation from a financial adviser or Market Participant must return a completed Application Form to the office of that financial adviser or Market Participant which has provided the Firm Allocation in the time to enable it to be forwarded to the Registrar before 5.00pm on the Closing Date. Application Forms are not to be lodged directly with Mercury.</p> <p>You can find a Market Participant by visiting www.nzx.com/services/market-participants/find-a-participant.</p> <p>Any allotment of the Capital Bonds will be at Mercury's discretion, in consultation with the Joint Lead Managers. Mercury reserves the right to refuse all or any part of an application without giving any reason.</p> <p>Each investor's financial adviser will be able to advise them as to what arrangements will need to be put in place for the investors to trade the Capital Bonds including obtaining a common shareholder number (CSN), an authorisation code (FIN) and opening an account with a Market Participant as well as the costs and timeframes for putting such arrangements in place.</p>
Refunds	If Mercury does not accept your application or accepts your application in part, all or the relevant balance of your application moneys received from you will be paid to you as soon as practicable and, in any event, within five Business Days after such refusal or acceptance in part. No interest will be paid on those refunds.
Registrar and Paying Agent	Computershare Investor Services Limited
Supervisor	The New Zealand Guardian Trust Company Limited

Arranger	Forsyth Barr Limited
Joint Lead Managers	Bank of New Zealand, Deutsche Craigs Limited and Forsyth Barr Limited
Fees	<p>Applicants are not required to pay brokerage or any charges to Mercury in relation to applications under the Offer.</p> <p>Mercury will pay brokerage of 0.50% of the gross proceeds raised under the Offer and firm fees of 0.50% of the aggregate amount of valid applications received pursuant to Firm Allocations as appropriate to Market Participants and approved financial intermediaries.</p>
Selling restrictions	<p>The selling restrictions set out in Schedule 1 to this Terms Sheet apply to the Capital Bonds. The Capital Bonds may not be offered or sold other than in strict compliance with those selling restrictions.</p> <p>By subscribing for Capital Bonds, you indemnify Mercury, the Arranger, the Joint Lead Managers and the Supervisor in respect of any loss incurred as a result of you breaching the selling restrictions in Schedule 1.</p>
Non-reliance	<p>This Terms Sheet does not constitute a recommendation by the Arranger, the Joint Lead Managers, the Supervisor or any of their respective directors, officers, employees, agents or advisers to subscribe for, or purchase, any of the Capital Bonds. None of these parties or any of their respective directors, officers, employees, agents or advisers accept any liability whatsoever for any loss arising from this Terms Sheet or its contents or otherwise arising in connection with the Offer.</p> <p>The Arranger, the Joint Lead Managers and the Supervisor have not independently verified the information contained in this Terms Sheet. In accepting delivery of this Terms Sheet, you acknowledge that none of the Arranger, the Joint Lead Managers, the Supervisor nor their respective directors, officers, employees, agents or advisers gives any warranty or representation of accuracy or reliability and they take no responsibility for it. They have no liability for any errors or omissions (including for negligence) in this Terms Sheet, and you waive all claims in that regard.</p>

KEY DATES

Opening Date	Wednesday, 12 June 2019
Rate Set Date	Wednesday, 19 June 2019. The initial Interest Rate for the Capital Bonds will be set and announced to the market on this date.
Closing Date	Thursday, 4 July 2019 at 5.00pm
Issue Date/ Allotment Date	11 July 2019
First Reset Date	11 July 2024
Maturity Date	11 July 2049

The dates set out in this Terms Sheet are indicative only and Mercury, in conjunction with the Joint Lead Managers, may change the dates set out in this Terms Sheet. Mercury has the right in its absolute discretion and without notice to close the Offer early, to extend the Closing Date or to choose not to proceed with the Offer. If the Closing Date is extended, subsequent dates may be extended accordingly.

RISKS

An investment in the Capital Bonds is subject to the risks that:

- (i) Mercury becomes insolvent and is unable to meet its obligations under the Capital Bonds; and/or
- (ii) if the investor wishes to sell the Capital Bonds before maturity, the investor is unable to find a buyer or that the amount received is less than the principal amount paid for the Capital Bonds.

Investors should carefully consider the features of the Capital Bonds which differ from the features of a standard senior bond. Those features include the ability of Mercury to defer interest, optional early redemption rights for Mercury, a margin step-up, an election process and the subordinated nature of the Capital Bonds. Key risks concerning those features are set out in detail below.

This summary does not cover all of the risks of investing in the Capital Bonds. For example, whilst certain risks in relation to the Capital Bonds are set out in more detail below, those risks relating to Mercury, rather than the Capital Bonds themselves, are not set out below on the basis that information relating to Mercury and its operations is already disclosed to the market pursuant to Mercury's continuous disclosure obligations under the NZX Listing Rules. Also, the summary below sets out the risks in relation to the Capital Bonds that differ from risks in relation to standard senior bonds. It does not cover the risks that are common to both the Capital Bonds and standard senior bonds (such as risks around liquidity and your ability to sell the Capital Bonds at a given price, or at all).

Investors should carefully consider those risk factors (together with the other information in this Terms Sheet) before deciding to invest in the Capital Bonds.

The statement of risks in this Terms Sheet also does not take account of the personal circumstances, financial

position or investment requirements of any investor. It is important, therefore, that before making any investment decision, investors give consideration to the suitability of an investment in the Capital Bonds in light of his or her individual risk profile for investments, investment objectives and personal circumstances (including financial and taxation issues).

The interest rate for the Capital Bonds should also reflect the degree of credit risk. In general, higher returns are demanded by investors from businesses with higher risk of defaulting on their commitments. You need to decide whether the Offer of Capital Bonds is fair.

You should speak to your financial adviser about the risks involved with an investment in the Capital Bonds.

Deferral of interest payments

There is a risk that interest payments on the Capital Bonds will be deferred by Mercury for a period of up to five years, as described in the paragraph headed "Discretionary deferral of interest" on page 4.

Mercury has a broad discretion to defer the payment of interest on the Capital Bonds, and holders will not have an immediate redemption right in those circumstances.

Redemption prior to the Maturity Date

Although the Capital Bonds have a term of 30 years, Mercury may choose to redeem the Capital Bonds early in certain circumstances.

Mercury may elect to redeem the Capital Bonds in the circumstances outlined in the paragraph headed "Optional early redemption by Mercury" on page 5. While some of those redemption triggers may appear to be unlikely to occur, recent history suggests that such events can occur, and Mercury will have the right to redeem after five years and on each subsequent Reset Date.

If Mercury is entitled to redeem any of the Capital Bonds, the method and date by which Mercury elects or is required to do so may not accord with the preference of individual Bondholders. This may be disadvantageous in light of market conditions or a Bondholder's individual circumstances.

Ranking

The Capital Bonds rank behind all of Mercury's unsubordinated obligations. In a liquidation of Mercury, the holders of the Capital Bonds would be paid only after all amounts owing by Mercury to its bankers, holders of senior bonds, holders of US private placement notes, and general and trade unsubordinated creditors, have been paid. After payment of those amounts, there may be insufficient funds available to the liquidator to repay all or any of the amounts owing on the Capital Bonds.

Supervisor's enforcement rights

Investors should be aware that even if the right to seek repayment of the Capital Bonds is exercised following the occurrence of an Event of Default, the Supervisor has very limited powers to enforce these rights given the subordinated nature of the Capital Bonds. For example, the Supervisor has no ability to appoint a receiver with a view to recovering amounts owing to Bondholders and is only entitled to file a conditional claim in the event of the liquidation of the Issuer requiring repayment of the Capital Bonds after all prior ranking indebtedness has been repaid in full.

OTHER INFORMATION

Copies of the Trust Documents are available at Mercury's website at www.mercury.co.nz/capitalbonds.

Any internet site addresses provided in this Terms Sheet are for reference only and, except as expressly stated otherwise, the content of any such internet site is not incorporated by reference into, and does not form part of, this Terms Sheet.

Investors should seek qualified independent financial and taxation advice before deciding to invest. In particular, you should consult your tax adviser in relation to your specific circumstances. Investors will also be personally responsible for ensuring compliance with relevant laws and regulations applicable to them (including any required registrations).

For further information regarding Mercury, visit www.nzx.com/companies/MCY.

CONTACT DETAILS

Issuer

Mercury NZ Limited
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Arranger and Joint Lead Manager

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Joint Lead Managers

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0800 284 017

Deutsche Craigs Limited
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48 Shortland Street
Auckland 1010
0800 226 263

Supervisor

The New Zealand Guardian Trust
Company Limited
Level 14, 191 Queen Street
Auckland 1010

Registrar

Computershare Investor Services Limited
Level 2, 159 Hurstmere Road
Takapuna
Auckland 0622
Private Bag 92119
Auckland 1142

Legal advisers to Mercury

Chapman Tripp
Level 38, ANZ Centre
23 Albert Street
Auckland 1010

SCHEDULE 1.

SELLING RESTRICTIONS

GENERAL

The Capital Bonds may only be offered or sold in conformity with all applicable laws and regulations in New Zealand and in any other jurisdiction in which the Capital Bonds are offered, sold or delivered. Specific selling restrictions as of the date of this Terms Sheet are set out below for the United States, Australia, Hong Kong, Japan, Singapore and the United Kingdom.

No action has been or will be taken by Mercury which would permit an offer of Capital Bonds, or possession or distribution of any offering material, in any country or jurisdiction where action for that purpose is required (other than New Zealand).

No person may purchase, offer, sell, distribute or deliver Capital Bonds, or have in their possession, publish, deliver or distribute to any person, any offering material or any documents in connection with the Capital Bonds, in any jurisdiction other than in compliance with all applicable laws and regulations and the specific selling restrictions set out below.

By subscribing for Capital Bonds, you indemnify Mercury, the Arranger, the Joint Lead Managers, the Registrar and the Supervisor in respect of any loss incurred as a result of you breaching these selling restrictions.

UNITED STATES

The Capital Bonds have not been and will not be registered under the Securities Act of 1933, as amended ("**Securities Act**") and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S under the Securities Act ("**Regulation S**")) except in accordance with Regulation S or pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act.

None of Mercury, the Joint Lead Managers, nor any person acting on its or their behalf has engaged or will engage in any directed selling efforts (as defined in Regulation S) in relation to the Capital Bonds, and each of Mercury and the Joint Lead Managers have complied and will comply with the offering restrictions in Regulation S.

The Capital Bonds will not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (i) as part of their distribution at any time, or (ii) otherwise until 40 days after the completion of the distribution of all Capital Bonds of the tranche of which such Capital Bonds are part, as determined and certified by the Joint Lead Managers except in accordance with Rule 903 of Regulation S. Any Capital Bonds sold to any distributor, dealer or person receiving a selling concession, fee or other remuneration during the distribution compliance

period require a confirmation or notice to the purchaser at or prior to the confirmation of the sale to substantially the following effect:

"The Capital Bonds covered hereby have not been registered under the United States Securities Act of 1933, as amended (the "**Securities Act**") or with any securities regulatory authority of any state or other jurisdiction of the United States and may not be offered or sold within the United States, or to or for the account or benefit of, U.S. persons (i) as part of their distribution at any time or (ii) otherwise until 40 days after the later of the commencement of the offering of the Capital Bonds and the closing date except in either case pursuant to a valid exemption from registration in accordance with Regulation S under the Securities Act. Terms used above have the meaning given to them by Regulation S."

Until 40 days after the completion of the distribution of all Capital Bonds or the tranche of which those Capital Bonds are a part, an offer or sale of the Capital Bonds within the United States by any Joint Lead Manager or any dealer or other distributor (whether or not participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with Regulation S.

AUSTRALIA

This Terms Sheet and the offer of Capital Bonds are only made available in Australia to persons to whom an offer of securities can be made without disclosure in accordance with applicable exemptions in sections 708(8) (sophisticated investors) or 708(11) (professional investors) of the Australian Corporations Act 2001 (the "**Corporations Act**"). This Terms Sheet is not a prospectus, product disclosure statement or any other formal "disclosure document" for the purposes of Australian law and is not required to, and does not, contain all the information which would be required in a "disclosure document" under Australian law. This Terms Sheet has not been and will not be lodged or registered with the Australian Securities & Investments Commission or the Australian Securities Exchange and the issuer is not subject to the continuous disclosure requirements that apply in Australia.

Prospective investors should not construe anything in this Terms Sheet as legal, business or tax advice nor as financial product advice for the purposes of Chapter 7 of the Corporations Act. Investors in Australia should be aware that the offer of Capital Bonds for resale in Australia within 12 months of their issue may, under section 707(3) of the Corporations Act, require disclosure to investors under Part 6D.2 if none of the exemptions in section 708 of the Corporations Act apply to the re-sale.

HONG KONG

WARNING: This Terms Sheet has not been, and will not be, registered as a prospectus under the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) of Hong Kong, nor has it been authorised by the Securities and Futures Commission in Hong Kong pursuant to the Securities and Futures Ordinance (Cap. 571) of the Laws of Hong Kong (the "**SFO**"). No action has been taken in Hong Kong to authorise or register this Terms Sheet or to permit the distribution of this

Terms Sheet or any documents issued in connection with it. Accordingly, the Capital Bonds have not been and will not be offered or sold in Hong Kong other than to "professional investors" (as defined in the SFO and any rules made under that ordinance).

No advertisement, invitation or document relating to the Capital Bonds has been or will be issued, or has been or will be in the possession of any person for the purpose of issue, in Hong Kong or elsewhere that is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Capital Bonds that are or are intended to be disposed of only to persons outside Hong Kong or only to professional investors. No person allotted Capital Bonds may sell, or offer to sell, such securities in circumstances that amount to an offer to the public in Hong Kong within six months following the date of issue of such securities.

The contents of this Terms Sheet have not been reviewed by any Hong Kong regulatory authority. You are advised to exercise caution in relation to the Offer. If you are in doubt about any contents of this Terms Sheet, you should obtain independent professional advice.

JAPAN

The Capital Bonds have not been and will not be registered under Article 4, paragraph 1 of the Financial Instruments and Exchange Law of Japan (Law No. 25 of 1948), as amended (the "**FIEL**") pursuant to an exemption from the registration requirements applicable to a private placement of securities to Qualified Institutional Investors (as defined in and in accordance with Article 2, paragraph 3 of the FIEL and the regulations promulgated thereunder). Accordingly, the Capital Bonds may not be offered or sold, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan other than Qualified Institutional Investors. Any Qualified Institutional Investor who acquires

Capital Bonds may not resell them to any person in Japan that is not a Qualified Institutional Investor, and acquisition by any such person of Capital Bonds is conditional upon the execution of an agreement to that effect.

SINGAPORE

SINGAPORE SECURITIES AND FUTURES ACT PRODUCT CLASSIFICATION:

Solely for the purposes of its obligations pursuant to sections 309B(1)(a) and 309B(1)(c) of the Securities and Futures Act (Chapter 289 of Singapore) (the "**SFA**"), Mercury has determined, and hereby notifies all relevant persons (as defined in Section 309A of the SFA) that the Capital Bonds are "prescribed capital markets products" (as defined in the Securities and Futures (Capital Markets Products) Regulations 2018).

This Terms Sheet and any other materials relating to the Capital Bonds have not been, and will not be, lodged or registered as a prospectus in Singapore with the Monetary Authority of Singapore. Accordingly, this Terms Sheet and any other document or materials in connection with the offer or sale, or invitation for subscription or purchase, of Capital Bonds, may not be issued, circulated or distributed, nor may the Capital Bonds be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore except pursuant to and in accordance with exemptions in Subdivision (4) Division 1, Part XIII of the SFA, or as otherwise pursuant to, and in accordance with the conditions of any other applicable provisions of the SFA.

This Terms Sheet has been given to you on the basis that you are (i) an "institutional investor" (as defined in the SFA) or (ii) an "accredited investor" (as defined in the SFA). In the event that you are not an investor falling within any of the categories set out above, please return this Terms Sheet immediately. You may not forward or circulate this

Terms Sheet to any other person in Singapore.

Any offer is not made to you with a view to the Capital Bonds being subsequently offered for sale to any other party. There are on-sale restrictions in Singapore that may be applicable to investors who acquire Capital Bonds. As such, investors are advised to acquaint themselves with the SFA provisions relating to resale restrictions in Singapore and comply accordingly.

UNITED KINGDOM

Neither this Terms Sheet nor any other document relating to the Offer has been delivered for approval to the Financial Conduct Authority in the United Kingdom and no prospectus (within the meaning of section 85 of the Financial Services and Markets Act 2000, as amended ("**FSMA**")) has been published or is intended to be published in respect of the Capital Bonds.

This Terms Sheet is issued on a confidential basis to "qualified investors" (within the meaning of section 86(7) of the FSMA) in the United Kingdom, and the Capital Bonds may not be offered or sold in the United Kingdom by means of this Terms Sheet, any accompanying letter or any other document, except in circumstances which do not require the publication of a prospectus pursuant to section 86(1) of the FSMA. This Terms Sheet should not be distributed, published or reproduced, in whole or in part, nor may its contents be disclosed by recipients to any other person in the United Kingdom.

Any invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) received in connection with the issue or sale of the Capital Bonds has only been communicated or caused to be communicated and will only be communicated or caused to be communicated in the United Kingdom in circumstances in which section 21(1) of the FSMA does not apply to Mercury.

In the United Kingdom, this Terms Sheet is being distributed only to, and is directed at, persons (i) who have professional experience in matters relating to investments falling within Article 19(5) (investment professionals) of the Financial Services and Markets Act 2000 (Financial Promotions) Order 2005 ("**FPO**"), (ii) who fall within the categories of persons referred to in Article 49(2)(a) to (d) (high net worth companies, unincorporated associations, etc.) of the FPO or (iii) to whom it may otherwise be lawfully communicated (together "**relevant persons**"). The investments to which this Terms Sheet relates are available only to, and any offer or agreement to purchase will be engaged in only with, relevant persons. Any person who is not a relevant person should not act or rely on this Terms Sheet or any of its contents.

SCHEDULE 2.

APPLICATION INSTRUCTIONS AND APPLICATION FORM



An application to subscribe for Capital Bonds must be made on the application form following these application instructions ("**Application Form**").

An Application Form will constitute an irrevocable offer by the applicant to subscribe for and acquire the number of Capital Bonds specified on the Application Form (or such lesser number which Mercury may determine) on the terms and conditions set out in this Terms Sheet, the Trust Documents and the Application Form. Applications must be for a minimum of 5,000 Capital Bonds (NZ\$5,000) and thereafter in multiples of 1,000 (NZ\$1,000). Applications for Capital Bonds may only be lodged from when the offer is expected to open on Wednesday 12 June 2019 and close at 5.00pm on Thursday 4 July 2019.

All of the Capital Bonds will be reserved for clients of the Joint Lead Managers, institutional investors and other Market Participants invited to participate in the bookbuild. There will be no public pool. MCY010 Bondholders who wish to participate in the Offer are encouraged to contact their financial adviser, one of the Joint Lead Managers or another Market Participant.

Please complete all the relevant sections of the Application Form using CAPITAL BLOCK LETTERS.

1. APPLICATION DETAILS AND INFORMATION

Insert your full name(s), address and telephone numbers. Please ensure you supply a mobile or daytime phone number to enable Computershare Investor Services Limited to get hold of you regarding your application if necessary. Only legal entities are allowed to hold Capital Bonds. Applications must be in the name(s) of natural persons, companies or other legal entities, up to a maximum of three names per Application Form.

Applications must be in the name(s) of natural persons, companies or other legal entities acceptable to Mercury. At least one full given name and surname is required for each natural person. The name of the beneficiary or any other non-registrable name may be included by way of an account designation if completed exactly as described in the examples of correct forms of registrable names below.

Type of investor

Individual – use given name in full, not initials.

Company – use company title, not abbreviations.

Trusts – do not use the name of the trust, use the personal name(s) of the trustee(s). All trustees must apply as joint applicants.

Deceased estates – do not use the name(s) of deceased, use the personal name(s) of the executor(s).

Clubs / Unincorporated bodies – do not use the name(s) of clubs etc., use the personal name(s) of the office bearer(s).

Superannuation Funds – do not use the name of the fund, use the personal name(s) of the trustee(s).

Use the table below to see how to write your name correctly.

Type of investor	Correct way to write name	Incorrect way to write name
Individual person	JOHN SMITH	J SMITH
More than one person	JOHN SMITH, MICHELLE SMITH	J & M SMITH
Companies	ABC LIMITED	ABC
Trusts	JOHN SMITH, MICHELLE SMITH (JOHN SMITH FAMILY TRUST A/C)	SMITH FAMILY TRUST
Partnerships	JOHN SMITH, MICHAEL SMITH (JOHN SMITH & SONS A/C)	JOHN SMITH & SONS
Clubs and unincorporated associations	JANE SMITH (SMITH INVESTMENT CLUB A/C)	SMITH INVESTMENT CLUB
Superannuation funds	JOHN SMITH LIMITED (SUPERANNUATION FUND A/C)	JOHN SMITH, SUPERANNUATION FUND

2. COMMON SHAREHOLDER NUMBER ("CSN")

If you have other investments registered under a Common Shareholder Number (CSN) you must supply your CSN in the space provided. The name and address details on your Application Form must correspond with the registration details under that CSN.

3. APPLICATION AMOUNT AND PAYMENT

Complete the amount of Capital Bonds applied for. Note the minimum amount of Capital Bonds and minimum integral multiples for Capital Bonds that are stated in the Application Form.

The Capital Bonds are issued at par value so the purchase price is an amount equal to the aggregate amount of the Capital Bonds for which you apply. Payment must be made in New Zealand dollars.

Applicants must pay for the Capital Bonds applied for by a personal cheque, by direct debit or, if the application is for Capital Bonds of an aggregate amount of NZ\$500,000 or more, by bank cheque or any other method approved by the Joint Lead Managers.

MCY010 Bondholders that participate in the Offer may elect to have the redemption proceeds for their MCY010 Bonds applied and set-off against the application moneys payable by them for the Capital Bonds for which they apply. That election may be made by ticking the appropriate box in the Application Form.

If you choose the direct debit option you must tick the box authorising the Registrar to direct debit the bank account nominated on the Application Form on the day the Application Form is received by the Registrar for the amount applied for on the Application Form. You cannot specify a direct debit date and you must ensure that:

- the bank account details supplied are correct;
- the application funds in the bank account for direct debit are available on the day the Registrar receives the Application Form;
- the person(s) giving the direct debit instruction has/have the authority to operate the account solely/jointly; and

- the bank account you nominated is a transactional account eligible for direct debit transactions. If you are uncertain you should contact your bank.

Should your direct debit fail, your application will be rejected. If requested a direct debit authority form will be provided to you by the Registrar.

Personal cheques must be in New Zealand dollars and drawn on a New Zealand branch of a financial institution and submitted with the completed Application Form. Cheques must be made payable to "Mercury Capital Bond Offer", crossed "Not Transferable" and must not be post-dated. If an applicant's cheque is dishonoured, Mercury will cancel that applicant's allotment of Capital Bonds and may pursue any other remedies available to it at law.

Applicants who are members of NZClear, or who are able to have payments made on their behalf through NZClear, may settle their applications for Capital Bonds through NZClear by prior arrangement with the Registrar up to and including the Issue Date.

4. INTEREST AND REDEMPTION PAYMENTS

If you currently receive interest or dividend payments from the Registrar by direct credit, and wish your payments in respect of the Capital Bonds to be direct credited to the same account, then you do not need to complete section 4 of the Application Form.

If you wish to be paid by direct credit and the Registrar does not already hold your bank account details or you wish to have payments credited to another bank account, please tick the box for option 1 and enter the details of the bank account.

If payment to your cash management account with a Market Participant is selected, complete option 2, insert the name of the Market Participant where your cash management account is held and provide your cash management client account number.

5. ELECTRONIC CORRESPONDENCE AND REPORTING

By supplying your email address, Mercury will be able to deliver your investor correspondence to you electronically where possible. This is a much more environmentally friendly, cost effective and timely option than paper-based investor mailing. If you do not provide your email address you will receive communications by mail.

6. IRD NUMBER AND WITHHOLDING TAXES

Provide your IRD number. In the case of a joint holding provide each applicant's IRD number. If you are holding investments in a trustee capacity, provide the trust's IRD number and not your personal IRD number.

Where applicable elect the rate at which you wish resident withholding tax to be deducted by ticking the relevant box.

Tick the relevant box if you hold a resident withholding tax (RWT)

exemption certificate. If you hold a valid exemption certificate, please attach a photocopy of the exemption certificate and supply the expiry date. Please do not attach an original document.

Tick the relevant box(es) if you are a non-resident for New Zealand tax purposes, and if you are engaged in business in New Zealand through a fixed establishment in New Zealand and either (1) will hold the Capital Bonds for the purpose of that business or (2) are a registered bank in New Zealand. Complete your country of tax residence.

7. AGREEMENT OF TERMS

Read the Application Form carefully and sign and date the form.

The Application Form must be signed by the applicant(s) personally, or by two directors of a company (or one director if there is only one director, whose signature must be witnessed), or in either case by an attorney or duly authorised agent. If the Application Form is signed by an attorney, the power of attorney document is not required to be lodged, but the attorney must complete the certificate of non-revocation of power of attorney on the reverse of the Application Form.

If the Application Form is signed by an agent, the agent must complete the certificate of agency on the reverse of the Application Form. Joint applicants must each sign the Application Form.

8. APPLICATION FORMS MUST BE RECEIVED BY THE REGISTRAR NO LATER THAN 5.00PM ON THURSDAY 4 JULY 2019

The Offer is expected to close at 5.00pm on Thursday 4 July 2019. Applicants should remember that the Closing Date may be changed at Mercury's sole discretion. Changes will be advised by announcement. Mercury reserves the right to refuse to accept applications received by the Registrar after 5.00pm on the Closing Date.

Applications received cannot be revoked or withdrawn.

Your Application Form should be returned to, or lodged with, an appropriate person as specified under the heading "How to apply" on page 7 of the Terms Sheet.

Personal information rights

Personal information provided by you will be held by Mercury and the Registrar at their respective addresses shown on page 10 of the Terms Sheet or at such other place as is notified upon request. This information will be used for the purpose of assessing and processing your application and administering your investment, and to help and enable Mercury and the Registrar to comply with (or determine what it needs to do to comply with) any applicable laws, rules or regulations in New Zealand or any other country or the requirements of any governmental, judicial or regulatory entity or authority in any jurisdiction. If you are an individual under the Privacy Act 1993, you have the right to access and correct any of your personal information. You can also access your information at www.computershare.com/nz. You will be required to enter your CSN and FIN.

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MERCURY NZ LIMITED CAPITAL BOND OFFER

APPLICATION FORM.

BROKERS STAMP

This application form ("**Application Form**") is for an offer of capital bonds ("**Capital Bonds**") by Mercury NZ Limited ("**Mercury**") to New Zealand retail and institutional investors and is issued with the indicative terms sheet dated 12 June 2019 ("**Terms Sheet**"), issued by Mercury. Please complete this Application Form and return it to, or lodge it with, an appropriate person as specified under the heading "How to apply" on page 7 of the Terms Sheet.

Capitalised words used but not defined in this Application Form have the same meaning given to them in the Terms Sheet.

Your Application Form must be lodged with your financial adviser or Market Participant in sufficient time to enable your Application Form to be forwarded to and received by the Registrar no later than 5.00pm on Thursday 4 July 2019.

Please complete this Application Form using BLOCK LETTERS.

1. Application details and information (please print in BLOCK LETTERS)

Applications must be made in the name(s) of natural persons, companies or other legal entities, up to a maximum of three names per application.

Applicant #1: First Name(s): _____ Last Name: _____

Applicant #2: First Name(s): _____ Last Name: _____

Applicant #3: First Name(s): _____ Last Name: _____

Company or Designated Account Name (if applicable): _____

Postal Address and Postal Code: _____

Phone Number: Mobile - Home -

2. Common Shareholder Number ("CSN")

Please note that the application must be in the same name as the CSN below, otherwise the application will be deemed to be made without a CSN and a base registry number will be allocated.

If you currently have a CSN, please enter it here:

3. Application amount and payment

Applications must be accompanied by payment in full, in New Zealand currency based on NZ\$1.00 per Capital Bond. Applications must be for a minimum of NZ\$5,000 and, thereafter, in multiples of NZ\$1,000. Mercury may accept or reject all or part of this application without giving reason.

Principal Amount of Capital Bonds applied for: NZ\$

If you are a holder of MCY010 Bonds and wish to apply and set-off the redemption proceeds from your MCY010 Bonds against the application moneys payable by you for Capital Bonds, then enter the number of MCY010 Bonds which you hold and wish to be subject to that application and set-off in the box below. That application and set-off will be done on a one-for-one basis (i.e. redemption proceeds for one MCY010 Bond will be applied and set-off against the application money for one Capital Bond). To the extent that those redemption proceeds exceed the application moneys payable by you, Mercury will pay the excess in cash to you on 11 July 2019.

Principal Amount of MCY010 Bonds I wish to be used for my application: NZ\$

I hereby irrevocably and unconditionally instruct Mercury to apply and set-off the redemption proceeds payable to me in respect of the MCY010 Bonds which I wish to be used (as indicated above) against the application moneys payable by me to Mercury for the Capital Bonds applied for above.

If you are not a MCY010 Bondholder or are subscribing for more Capital Bonds than you hold of MCY010 Bonds you must choose only ONE of the options below for payment of your application moneys. Please tick the box (✓) next to your selected option.

- ☐ **OPTION 1: Direct Debit** Please direct debit my/our bank account stated below for the amount of Capital Bonds applied for above (or any lesser amount as determined by Mercury). By ticking this box and signing this Application Form, I/we agree that Mercury or the Registrar is authorised to direct debit my/our account for the full amount of Capital Bonds applied for (or any lesser amount as determined by Mercury). Future interest payments will be direct credited to this account unless a different account is specified in section 4 below.

NEW ZEALAND DOLLAR BANK ACCOUNT DETAILS FOR DIRECT DEBIT:

Name of bank _____ Name of account _____

Bank/Branch

Account No

Suffix

- ☐ **OPTION 2: Cheque** Please find attached my/our cheque payable to "Mercury Capital Bond Offer" and crossed "Not Transferable". I/we have supplied my/our bank account details under section 4 below for the purpose of direct crediting any future interest paid by Mercury.

- ☐ **OPTION 3: NZClear Payment** will be made through NZClear as arranged with the Registrar (authorised institutional investors only). I/we have supplied my/our account details under section 4 below for the purpose of direct crediting any future interest paid by Mercury.

NZClear Mnemonic:

4. Interest and redemption payments

OPTION 1 – NEW ZEALAND DOLLAR BANK ACCOUNT DETAILS FOR FUTURE PAYMENTS:

Name of bank _____ Name of account _____

Bank/Branch

Account no

Suffix

OPTION 2 – FOR THE PURPOSE OF INTEREST PAYMENTS ONLY, DIRECT CREDIT TO MY CASH MANAGEMENT ACCOUNT

Name of Market Participant where

Cash Management Account held: _____

Cash Management Account client account number:

If you wish to have your future interest payments direct credited to a different bank account you need to advise the Registrar in writing.

5. Electronic correspondence and reporting

To enable Mercury to provide you with your investor correspondence in relation to your holding of Capital Bonds electronically (where possible), please complete your email address below. If you do not provide an email address, investor correspondence will be mailed to you at the postal address provided on this Application Form.

Email Address: _____

- ☐ Tick this box (✓) if you agree to have confirmation information (relating to the issuance, transfer or redemption of Capital Bonds) sent to you semi-annually, not later than 10 working days after the last day of each six month period in which there are any transactions to report. If you do not tick this box, confirmation information will sent to you as required following each relevant transaction.

6. IRD number and withholding taxes

Provide the IRD number of **each applicant**. If you are holding investments in a trustee capacity, provide the trust's IRD number and not your personal IRD number.

		Name of applicant/trust
Applicant #1:	<input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> - <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> - <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/>	<input type="text"/>
Applicant #2:	<input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> - <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> - <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/>	<input type="text"/>
Applicant #3:	<input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> - <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> - <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/>	<input type="text"/>

Please select a resident withholding tax (RWT) rate by ticking the box (✓) next to your selected option (or confirm that you are non-resident and indicate your country of tax residence below).

Please note that a New Zealand company (other than a company which is acting as a trustee or a company which is a Maori authority) does not need to tick any box unless it holds an RWT exemption certificate. Tax will automatically be deducted at 28%.

<input type="checkbox"/> 10.5%	<input type="checkbox"/> 17.5%	<input type="checkbox"/> 30%	<input type="checkbox"/> 33%	<input type="checkbox"/> Exempt (If you are exempt from RWT, attach a copy of your RWT exemption certificate for noting).
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Please tick the relevant box (✓) if any of the below apply to you or your application.

<input type="checkbox"/>	I am a non-resident for New Zealand tax purposes.
<input type="checkbox"/>	I am a non-resident for New Zealand tax purposes and I am engaged in business in New Zealand through a fixed establishment in New Zealand and either (1) will hold the Capital Bonds for the purpose of that business or (2) am a registered bank in New Zealand. (Please note that you should provide your IRD number and rate of RWT above.)

My country of tax residence is: _____

7. Agreement of terms

I/We hereby confirm that I/we have received and read the Terms Sheet for the Capital Bonds, and apply for the Principal Amount of Capital Bonds set out above and agree to accept such Capital Bonds (or such lesser number as may be allotted to me/us) on, and subject to, the terms and conditions set out in the Terms Sheet, the Trust Documents and the Application Form.

Please read the terms and conditions below before signing as it sets out specific terms and conditions which are accepted by an applicant upon signature of this Application Form.

All applicants on the Application Form must sign.

Applicant #1: _____ Applicant #2: _____

Applicant #3: _____ Date: _____

Applications lodged by individuals must be signed personally or by their attorney or agent. If this Application Form is signed by an attorney, the attorney must complete the certificate of non-revocation of power of attorney set out in the Application Form. If this Application Form is signed by an agent, the agent must complete the certificate of agency set out in the Application Form.

Your Application Form must be delivered in accordance with the instructions specified under the heading "How to apply" on page 7 of the Terms Sheet.

8. This Application Form must be received by the Registrar no later than 5.00pm on Thursday 4 July 2019

You must deliver your Application Form to the relevant financial adviser or Market Participant in sufficient time to enable your Application Form to be forwarded to and received by the Registrar no later than 5.00pm on Thursday 4 July 2019.

9. Terms and conditions of application

By signing this Application Form (or authorising an attorney or agent to sign), I/we:

- (a) acknowledge that this Application Form was distributed with the Terms Sheet, and acknowledge that I/we have read and understood the Terms Sheet;
- (b) apply for the Principal Amount of Capital Bonds on, and subject to, the terms and conditions set out in the Terms Sheet, the Trust Documents and this Application Form and I/we agree to be bound by the provisions thereof;
- (c) declare that all details and statements made by me/us in this Application Form are complete and accurate;
- (d) certify that, where information is provided by me/us in this Application Form about another

person, I/we are authorised by such person to disclose the information to you and to give authorisation;

- (e) acknowledge that an application cannot be withdrawn or revoked by the applicant once it has been submitted;
- (f) acknowledge that Mercury reserves the right to decline any application, in whole or in part, without giving any reason and may decide not to accept any applications whatsoever; and
- (g) by applying for the Capital Bonds, I/we agree to indemnify, Mercury, the Arranger, the Joint Lead Managers and the Supervisor for any loss suffered as a result of any breach by me/us of the selling restrictions applicable to the Offer.

The information in this Application Form is provided to enable Mercury and the Registrar to consider and process your

application, and to administer your investment, and to help and enable Mercury and the Registrar to comply with (or determine what it needs to do to comply with) any applicable laws, rules or regulations in New Zealand or any other country or the requirements of any governmental, judicial or regulatory entity or authority in any jurisdiction. By signing this Application Form you authorise Mercury and the Registrar to disclose information in situations where Mercury or the Registrar consider it is required or permitted to do so by any applicable laws, rules or regulations or by any governmental, judicial or regulatory entity or authority in New Zealand or any other jurisdiction. If you are an individual under the Privacy Act 1993, you have the right to access and correct any of your personal information.

10. Certificate of non-revocation of power of attorney/agency

(Complete this section if you are acting on behalf of the applicant on this Application Form for whom you have power of attorney or are acting as agent)

I, _____ (full name)

of _____ (place and country of residence),

_____ (occupation), CERTIFY:

THAT by deed/agreement dated _____ (date of instrument creating the power of attorney/agency),

_____ (name of person/body corporate which granted the power of attorney/agency)

of _____

(place and country of residence of person/body corporate which granted the power of attorney/agency*) appointed me his/her/its attorney/agent;

THAT I have executed the application for the Capital Bonds printed on this Application Form under that appointment and pursuant to the powers thereby conferred on me; and

THAT I have not received notice of any event revoking the power of attorney/agency.

Signed at _____ this _____ day of _____ (month/year)

Signature of attorney/agent _____

* If donor is a body corporate, state place of registered office or principal place of business of donor and, if that is not in New Zealand, state the country in which the principal place of business is situated.

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Mercury

Capital Bond Offer

WILLIAM MEEK
Chief Financial Officer

TIM THOMPSON
Head of Treasury &
Investor Relations

12 June 2019



DISCLAIMER

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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. These measures are discussed in further detail in the Appendix – slide 22.

The information in this presentation is of a general nature and does not constitute financial product advice, investment advice or any recommendation by any person. Nothing in this presentation constitutes legal, financial, tax or other advice. The distribution of this presentation, and the offer or sale of the Capital Bonds, may be restricted by law in certain jurisdictions. Persons who receive this presentation outside New Zealand must inform themselves and observe all such restrictions. Nothing in this presentation is to be construed as authorising its distribution, or the offer or sale of any securities, in any jurisdiction except in accordance with applicable law. No securities referred to in this presentation may be offered or sold directly or indirectly, and neither this presentation nor any other offering material may be distributed or published, in any jurisdiction except with the prior consent of the Company and in conformity with all applicable law.



IMPORTANT INFORMATION

The offer ("**Offer**") of fixed rate subordinated unsecured capital bonds ("**Capital Bonds**") by Mercury described in this presentation is made in reliance upon the exclusion in clause 19 of schedule 1 of the Financial Markets Conducts Act 2013 ("**FMCA**").

The Offer is an offer of debt securities that have identical rights, privileges, limitations and conditions (except for the interest rate and maturity date) as Mercury's \$300,000,000 unsecured, subordinated, interest bearing capital bonds with an interest rate of 6.90% per annum and a final maturity date of 11 July 2044, which are currently quoted on the NZX Debt Market under the ticker code MCY010 ("**MCY010 Bonds**").

Accordingly, the Capital Bonds are the same class as the MCY010 Bonds for the purposes of the FMCA and the Financial Markets Conduct Regulations 2014.

Mercury is subject to a disclosure obligation that requires it to notify certain material information to NZX Limited ("**NZX**") for the purpose of that information being made available to participants in the market and that information can be found by visiting www.nzx.com/companies/MCY.

The MCY010 Bonds are the only debt securities of Mercury that are in the same class as the Capital Bonds and are currently quoted on the NZX Debt Market.

Investors should look to the market price of the MCY010 Bonds referred to above to find out how the market assesses the returns and risk premium for those bonds.

The first reset date for the MCY010 Bonds is 11 July 2019 and Mercury has the right to redeem the MCY010 Bonds on that date. If the bookbuild process for the Offer is successful, Mercury will redeem the MCY010 Bonds by giving a redemption notice to holders of MCY010 Bonds on or shortly after the Rate Set Date (19 June 2019).

An indicative terms sheet dated 12 June 2019 ("**Terms Sheet**") has been prepared in respect of the Offer. Investors should not purchase the Capital Bonds until they have read the Terms Sheet. Investors should consider the risks that are associated with an investment in the Capital Bonds, particularly with regard to their personal circumstances (including financial and tax issues).

An application has been made to NZX for permission to quote the Capital Bonds on the NZX Debt Market and all the requirements of NZX relating thereto that can be complied with on or before the distribution of the Terms Sheet have been duly complied with. However, NZX accepts no responsibility for any statement in this presentation. NZX is a licensed market operator, and the NZX Debt Market is a licensed market under the FMCA.



OFFER SUMMARY

Instrument	Unsecured, subordinated capital bonds
Issue Size	Up to NZ\$300m
Term	30 years (maturing 11 July 2049)
Reset Dates	11 July 2024 and every 5 years thereafter
Purpose	The proceeds will be used to fund the redemption of the MCY010 Bonds and for general corporate purposes
Credit Rating (S&P)	Expected Issue Credit Rating: BB+ (Mercury has an Issuer Credit Rating of BBB+)
Interest Rate¹	Benchmark Rate plus the Margin, subject to a minimum Interest Rate
Bookbuild / Interest Rate set	19 June 2019
Offer closes	4 July 2019

¹ To the First Reset Date





Waipapa Hydro Power Station

5 COMPANY OVERVIEW



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 customers resulting in increased loyalty and below market average churn



100% renewable generation

- > Low variable cost generation delivering strong and stable cash flows
- > 119MW Turitea wind farm under development, due to start operating late CY2020



Integrated generator & retailer

- > Complementary generation sources contribute both flexibility and reliability with sales to customers providing a natural hedge



MERCURY AT A GLANCE

Key Information

Market Capitalisation¹: **NZ\$5.2 billion**

Net Debt¹: **NZ\$1.1 billion**

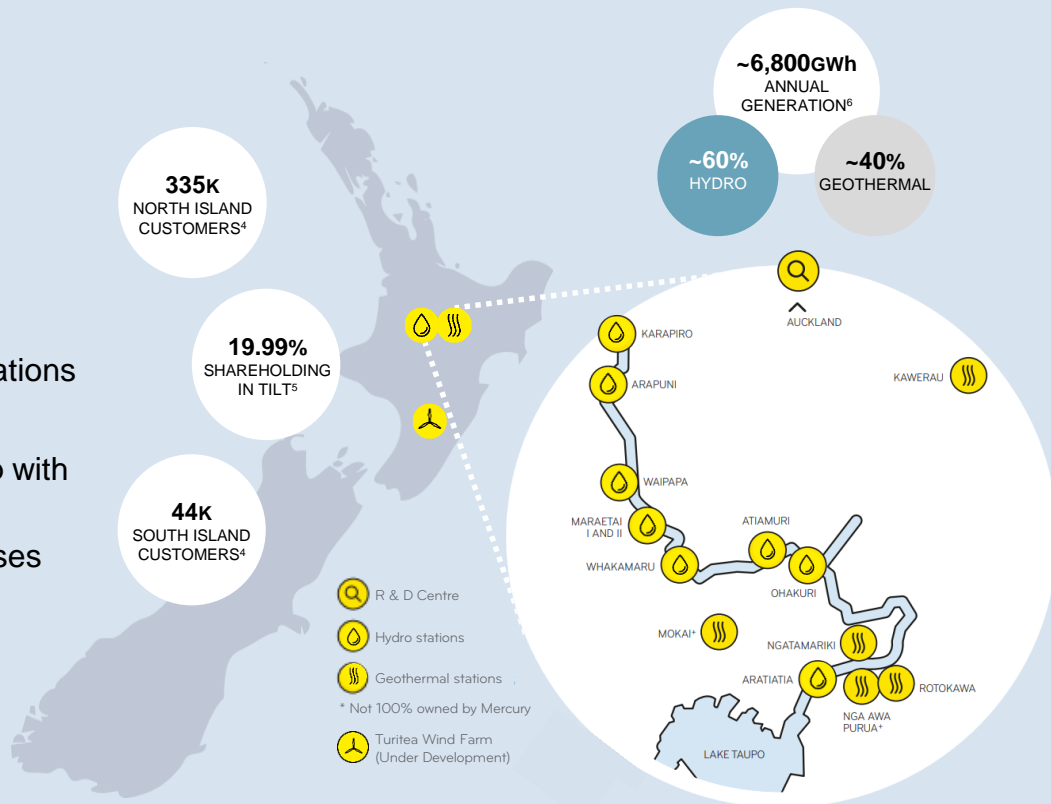
Enterprise Value¹: **NZ\$6.4 billion²**

100% renewable generation from 14 power stations

- > Nine hydro stations on the Waikato River
- > Five geothermal stations, two in partnership with Maori land trusts

18%³ market share of NZ homes and businesses

51% legislated minimum Crown shareholding



7 COMPANY OVERVIEW

¹ As at 31 May 2019

² Rounded to the nearest NZ\$0.1b

³ Based on aggregated residential and business installation control points (ICPs) as at 31 March 2019

⁴ As at 31 March 2019

⁵ Tilt Renewables is a publicly listed company and is traded under ticker codes TLT.NZX and TLT.ASX

⁶ Based on hydro and equity-weighted geothermal generation from FY2014 to FY2018



FY2019 GUIDANCE

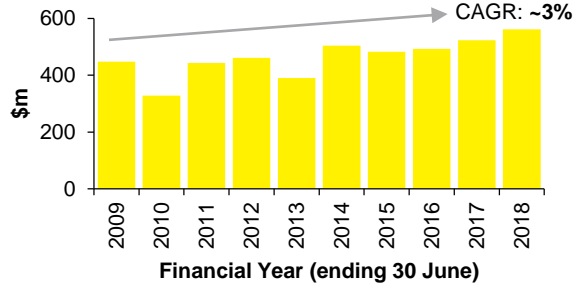
- > FY2019 EBITDAF guidance is \$495m. This is down \$66m from FY2018 mostly due to:
 - > Hydro generation forecast to be ~1,000GWh lower in FY2019 versus FY2018
 - > The sale of the Metrix metering business to intelliHUB on 1 March 2019 resulting in ~\$10m reduction in EBITDAF in FY2019
- > FY2019 stay-in-business capital expenditure guidance is \$95m including:
 - > Ongoing hydro refurbishment at Whakamaru and Aratiatia power stations with Karapiro refurbishment announced
 - > Auckland office consolidation to Newmarket bringing together 550+ employees
- > FY2019 ordinary dividend guidance is 15.5cps (up 2.6% on FY2018)
 - > Represents total ordinary dividend of \$211m¹
- > Guidance remains subject to hydrological volatility, wholesale market conditions and any material adverse events, significant one-off expenses or other unforeseeable circumstances

¹ Based on 1,362m shares

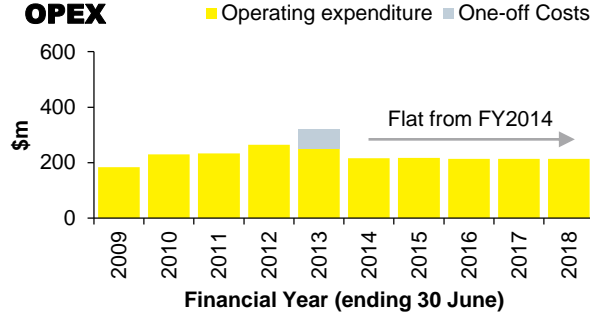


MERCURY'S LONG-TERM TRACK RECORD

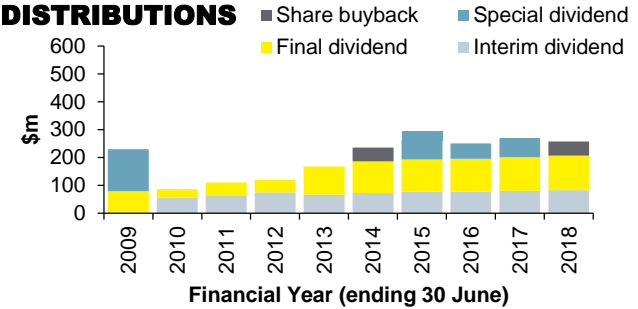
EBITDAF



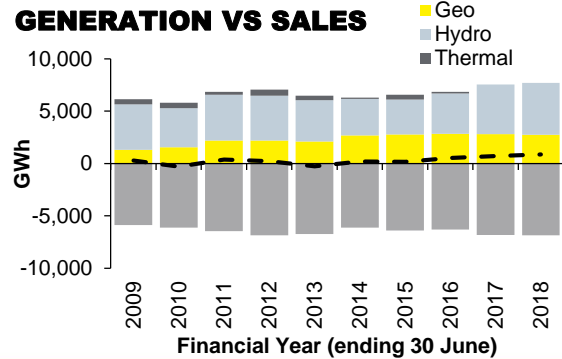
OPEX



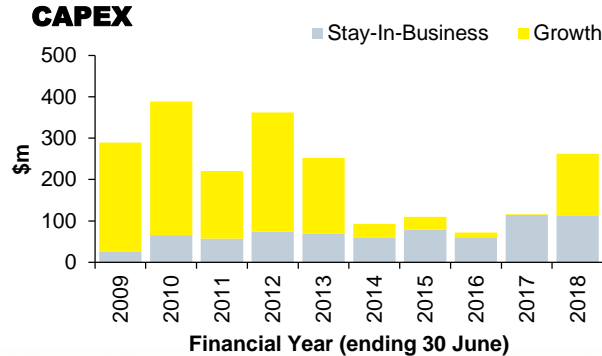
DISTRIBUTIONS



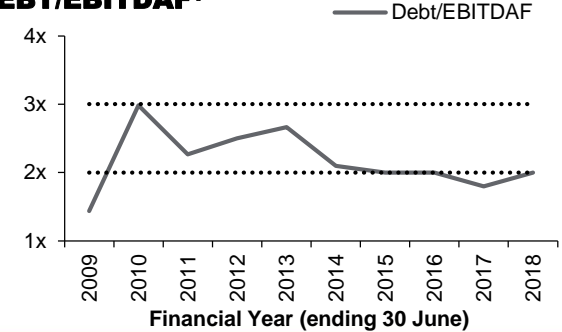
GENERATION VS SALES



CAPEX



DEBT/EBITDAF¹

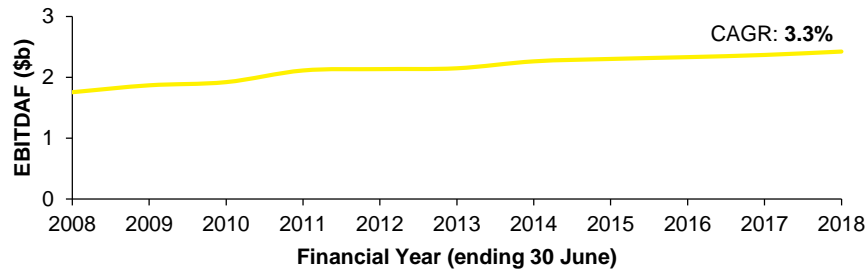


¹ Adjusted for S&P treatment of MCY010 Bonds

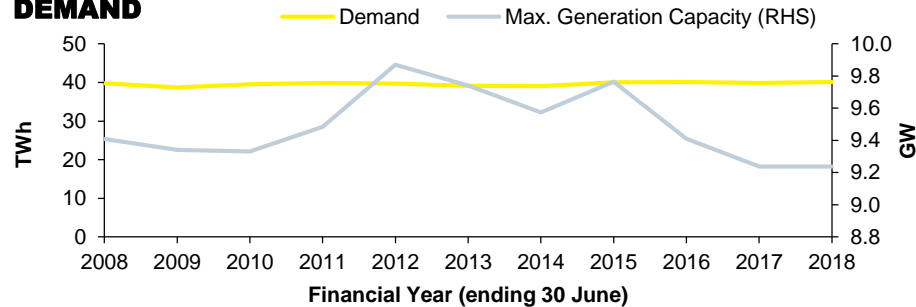


LONG-TERM INDUSTRY TRENDS

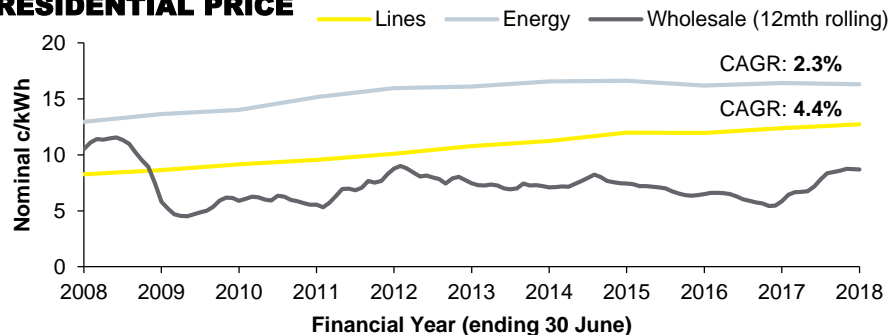
SECTOR EARNINGS



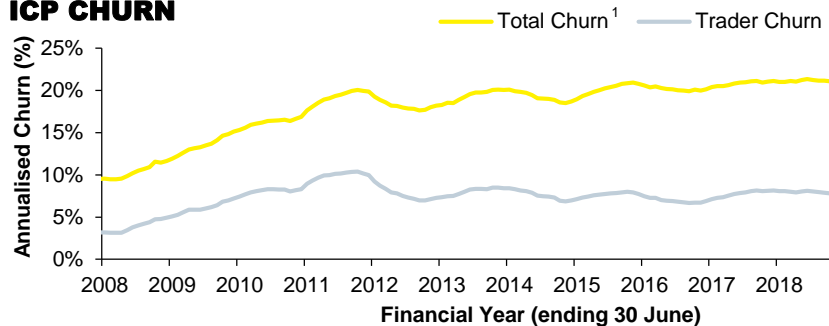
DEMAND



RESIDENTIAL PRICE



ICP CHURN



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

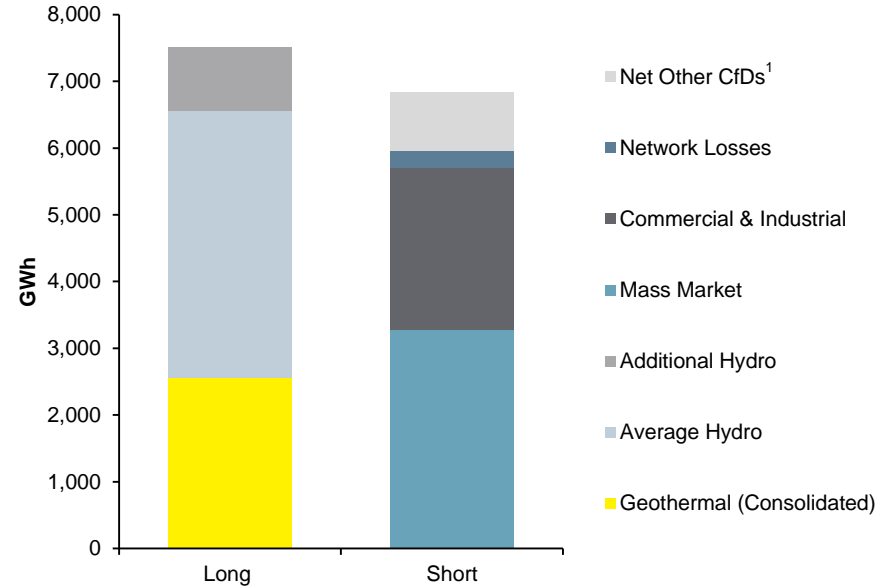
¹ Includes premise churn – switches caused by customers moving house



PORTFOLIO APPROACH TO RISK MANAGEMENT

- > Mercury operates an integrated portfolio with electricity sales to customers providing a natural price hedge to generation
- > Average net long position with movement year-on-year due to hydrology, plant availability and values of sales
- > Two complementary low-cost fuel sources
 - > Flexible hydro generation from the largest group of peaking stations in the North Island
 - > Geothermal provides baseload generation not dependent on weather
- > Diversified sales portfolio including sales to Mass Market, Commercial & Industrial customers and derivatives
- > Turitea wind farm under development, due to start operating late CY2020

FY2018 NET POSITION BREAKDOWN



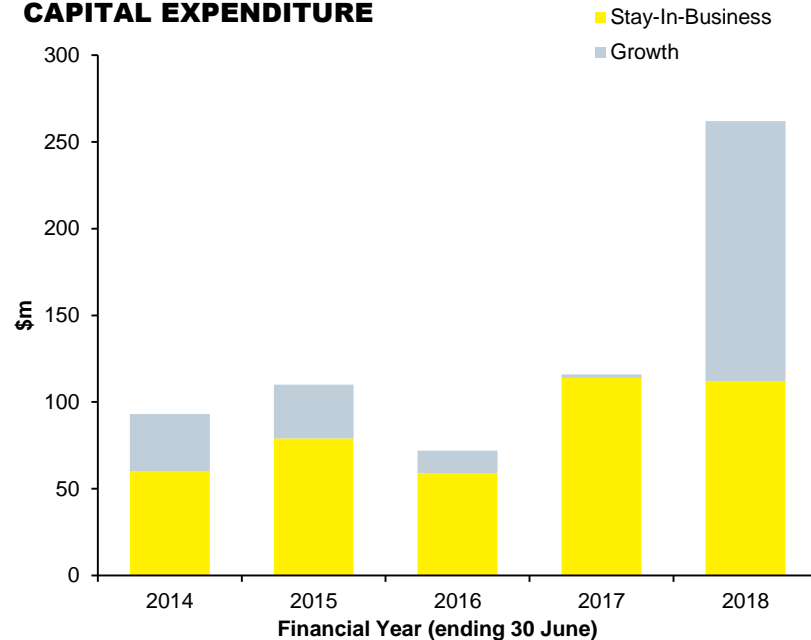
¹ Contract-For-Difference



CAPITAL EXPENDITURE

- > Stay-in-business capital expenditure higher in recent years due to:
 - > Ongoing hydro refurbishment programme delivering significant life extension and capacity and efficiency gains
 - > SAP technology platform upgrades enabling increased functionality and flexibility to meet customer needs
- > Growth capex includes:
 - > Acquiring a 19.99% stake in Tilt Renewables as a strong platform for gaining exposure to Australia's accelerating renewables transition (\$144m in FY2018)
 - > Additional capital contributions to Tilt Renewables for 334MW Dundonnell wind farm in Victoria (\$55m in FY2019)
 - > Financial commitment to Turitea Wind Farm, the first large-scale generation development in New Zealand since 2014 (\$256m over FY2019-2021)
- > Metrix divestment completed in March 2018 for \$270m
 - > Estimated EBITDAF reduction of \$10m in FY2019 (annualised impact of \$28m)

CAPITAL EXPENDITURE



STABLE CAPITAL STRUCTURE

- > Mercury's dividend policy is to make distributions with a pay-out ratio of 70-85% of Free Cash Flow on average through time subject to:
 - > Consideration of the Company's working capital requirements and medium-term asset investment programme;
 - > Maintaining a sustainable financial structure for the company, recognising the Company's targeted long-term credit rating of BBB+ assigned by S&P¹; and
 - > The risks from predicted short and medium-term economic, market and hydrological conditions, and estimated financial performance
- > S&P re-affirmed Mercury's credit rating of BBB+/stable in December 2018
 - > One-notch upgrade given legislated majority Crown ownership
- > Debt / EBITDAF² 2.0x at 30 June 2018 (2.3x after EBITDAF normalisation for above-average hydro generation)

	31 December 2018	30 June 2018	30 June 2017	30 June 2016	30 June 2015	30 June 2014
Net debt (\$m)	1,268	1,264 ³	1,038	1,068	1,082	1,031
Gearing ratio (%)	28.3	27.8 ³	23.9	24.4	24.5	24.3
Debt/EBITDAF (x) ²	N/A	2.0	1.8	2.0	2.0	2.1
Issuer Credit Rating	BBB+/stable	BBB+/stable	BBB+/stable	BBB+/stable	BBB+/stable	BBB+/stable

¹ Or equivalent from another recognised credit rating agency

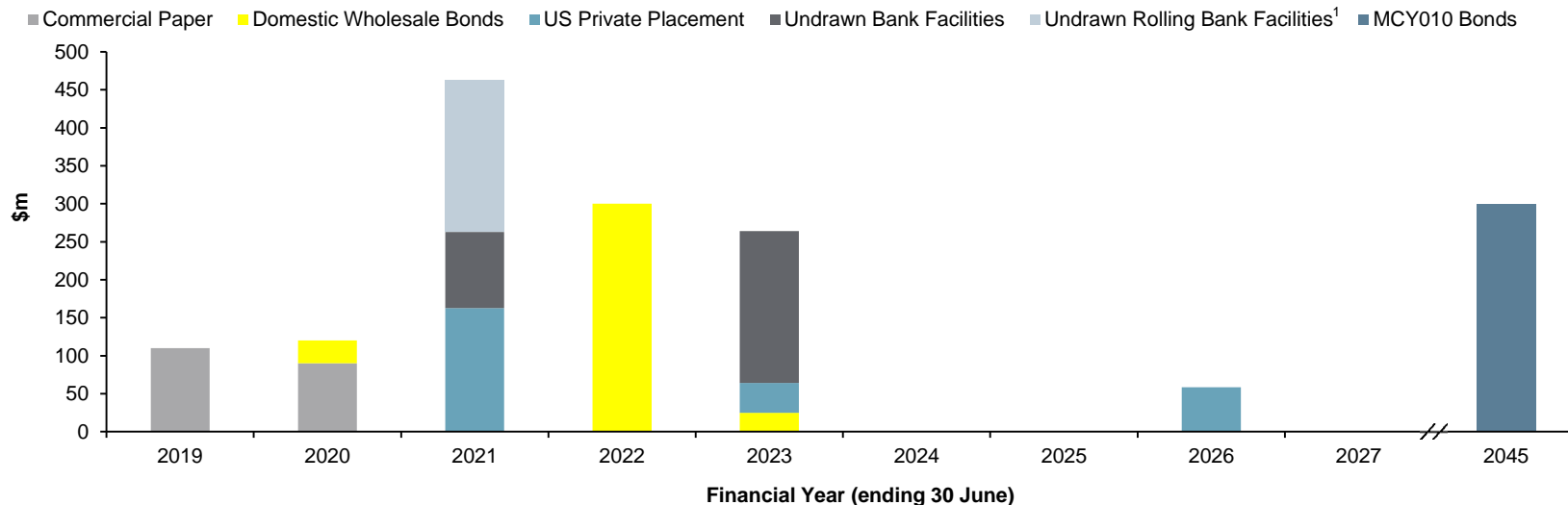
² Adjusted for S&P treatment of MCY010 Bonds

³ Restated to reflect changes in IFRS



DIVERSIFIED FUNDING PROFILE

DEBT MATURITIES AS AT 31 MAY 2019



- > The average debt maturity profile for committed facilities was 6.4 years² at 31 May 2019
- > Subject to market conditions, Mercury intends to refinance its MCY010 Bonds as described in this presentation

¹ Requires 18 months notice of termination from lender

² Includes Commercial Paper on issue, all bank facilities, wholesale bonds, US private placement and MCY010 Bonds to maturity





Kawerau Geothermal Power Station

15 CAPITAL BONDS



KEY TERMS OF THE CAPITAL BONDS

Capital Bonds	Unsecured, subordinated, interest bearing debt securities
Ranking	The Capital Bonds will rank equally among themselves and will be subordinated to all other indebtedness of Mercury, other than indebtedness expressed to rank equally with, or subordinate to, the Capital Bonds
No guarantee	Mercury is the issuer and the sole obligor in respect of the Capital Bonds. None of the Crown, any subsidiary of Mercury or any other person guarantees the Capital Bonds.
Issue amount	Up to NZ\$300m of Capital Bonds for New Zealand retail and institutional investors
Credit Rating (S&P)	Expected Issue Credit Rating: BB+ / Issuer Credit Rating: BBB+ * A credit rating is not a recommendation by any rating organisation to buy, sell or hold Capital Bonds
Term	30 years (maturing 11 July 2049)
Reset Dates	11 July 2024 and every 5 years thereafter
Optional early redemption by Mercury	Each Reset Date, any Interest Payment Date after a Reset Date if a Successful Election Process has not been undertaken, a Tax Event, a Rating Agency Event or if the outstanding amount is less than NZ\$100m
Interest Rate	Interest Rate to the First Reset Date equal to the Benchmark Rate plus the Margin, subject to a minimum Interest Rate. The minimum Interest Rate and indicative Margin range will be announced via the NZX on 12 June 2019. An announcement of the actual Interest Rate and Margin will be made following the bookbuild, expected to be completed on 19 June 2019
Deferral of Interest	An interest payment can be deferred at any time for up to five years at the sole discretion of Mercury but distribution stopper in place while any Unpaid Interest remains outstanding
Redemption of MCY010 Bonds	Subject to the bookbuild for the Offer being successful, a redemption notice to redeem the MCY010 Bonds will be sent to the MCY010 Bondholders on 19 June 2019 or shortly thereafter



INTEREST PAYMENTS

Interest Rate

- > Interest Rate until the First Reset Date will be the higher of:
 - > Minimum Interest Rate; and
 - > Benchmark Rate (on the Rate Set Date) plus the Margin
- > Actual Interest Rate and Margin set following the Bookbuild and announced shortly thereafter
- > Before each Reset Date, Mercury may propose, through an Election Process, that new terms and conditions (including new Interest Rate and Margin) apply to the Capital Bonds from the Reset Date
- > If no Successful Election Process occurs, Interest Rate for the next five year period resets to the sum of the Benchmark Rate on that Reset Date plus the Step-up Margin (Margin plus the Step-up Percentage of 0.25%, if not already added to the Margin)

Deferral of interest

- > Mercury may at its sole discretion defer payment of interest at any time for up to five years but would be required to stop distributions while any Unpaid Interest is outstanding
 - > Total dividends declared in FY2018 were \$207m (versus MCY010 interest of \$20.7m)
- > Unpaid Interest will itself accrue interest at prevailing Interest Rate



ISSUER REDEMPTION RIGHTS

Mercury may redeem the Capital Bonds before the Maturity Date as per the conditions below:

Early redemption:

- > All or some of the Capital Bonds on any Reset Date; or
- > All (but not some only) of the Capital Bonds if there are less than 100m Capital Bonds on issue; or
- > All or some of the Capital Bonds if a Tax Event¹ occurs

- > All or some of the Capital Bonds on any Interest Payment Date after a Reset Date if a Successful Election Process has not been undertaken in respect of that Reset Date; or
- > All or some of the Capital Bonds if a Rating Agency Event² occurs

Redemption price

- > Par plus Unpaid Interest plus any Interest Payment scheduled to be paid on the date of redemption; or

- > The higher of:
 - > The amount calculated above; and
 - > The market value together with accrued interest

If Mercury is redeeming Capital Bonds in part only then it can only do so to the extent that there will be at least 100m Capital Bonds outstanding after the partial redemption

¹ A Tax Event is where a change of law or regulation occurs and interest payable on the Capital Bonds no longer tax deductible

² A Rating Agency Event occurs where S&P changes its criteria (or Mercury ceases to hold a credit rating) and the Capital Bonds no longer qualify for Intermediate equity content



KEY EARLY REDEMPTION DRIVERS

Year 5 (2024) – Reset Date

- > Potential Election Process or Mercury can call the Capital Bonds
- > Step-up in Margin (0.25%) if no Successful Election Process
- > Potential refinancing risk at year ten if not called
- > Call is at par (any subsequent issuer call between Reset Dates is at the higher of par and market, except if there are less than 100m Capital Bonds on issue or if a Tax Event occurs)

Year 10 (2029) – Reset Date

- > S&P's equity content expected to reduce to minimal (0%)
- > Treated as 100% debt by S&P
- > Likely to be high cost debt with limited benefits
- > Outcomes not consistent with rationale for issue

If the bookbuild process for the Offer is successful, Mercury will redeem the MCY010 Bonds on 11 July 2019. However, as illustrated by this Offer, Mercury considers that instruments with ascribed equity content such as the Capital Bonds are an effective capital management tool and intends to maintain such instruments as a key feature of its capital structure going forward.



OFFER STRUCTURE / KEY DATES

Offer structure

- > Bookbuild process
 - > All Capital Bonds reserved for clients of NZX firms, institutional investors, and certain other parties participating in the bookbuild
 - > No public pool
 - > MCY010 Bondholders who receive an allocation from their financial adviser will be able to exchange their MCY010 Bonds for new Capital Bonds on the Issue Date
- > Minimum applications
 - > NZ\$5,000 and multiples of NZ\$1,000 thereafter
- > Early Bird Interest of 3%
- > Fees
 - > Brokerage of 0.50%
 - > Firm fee of 0.50% to those participating in the bookbuild

Key dates

Bookbuild / Interest Rate set	19 June 2019
Offer closes	4 July 2019
Issue Date	11 July 2019
Expected date of initial quotation and trading	12 July 2019
First Reset Date	11 July 2024
Equity credit cliff	11 July 2029
Maturity Date	11 July 2049





Karapiro Hydro Power Station



NON-GAAP MEASURES: NET DEBT, EBITDAF AND FREE CASH FLOW

- > Net Debt is reported in the full year financial statements and is a measure commonly used by investors. Net debt is calculated as total borrowings (both current and non-current) less cash and cash equivalents.
- > EBITDAF is defined as earnings before net interest expense, income tax, depreciation and amortisation, change in fair value of financial instruments, impairments, and equity accounted earnings of associates and joint ventures.
- > Free Cash Flow is Net Cash Flow from Operating Activities less normalised stay-in-business capital expenditure.





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



12 June 2019

Dear bondholder

We are writing to you as a holder of existing Mercury NZ Limited ("**Mercury**") capital bonds with the NZX ticker code MCY010 ("**MCY010 Bonds**").

Mercury has announced that it is offering up to NZ\$300 million of subordinated capital bonds ("**Capital Bonds**") to New Zealand retail and institutional investors. If the new offer is successful, Mercury will redeem all of the MCY010 Bonds (including those held by you).

The offer opens today, 12 June 2019, and will be made pursuant to the Financial Markets Conduct Act 2013 as an offer of debt securities of the same class as existing quoted debt securities.

The Capital Bonds are expected to be quoted on the NZX Debt Market and to be assigned an issue credit rating of BB+ by S&P Global Ratings.

The offer will open with an indicative margin range for the Capital Bonds to the First Reset Date (11 July 2024) of 2.10% p.a. to 2.25% p.a. (subject to a minimum interest rate for that period of 3.60% p.a.). An announcement of the actual margin (which may be above or below the indicative margin range mentioned above) and the interest rate will be made following the bookbuild process, expected to be completed on 19 June 2019 ("**Rate Set Date**").

If the bookbuild process for the offer is successful, Mercury will send a redemption notice to holders of the MCY010 Bonds on or shortly after the Rate Set Date.

If you wish to participate in the new offer, you should contact your usual financial adviser to obtain a copy of the indicative terms sheet and an allocation of Capital Bonds. The indicative terms sheet contains further details of the offer and you must receive a copy before participating. If you receive an allocation of Capital Bonds from your financial adviser you can elect to have some or all of the proceeds from the redemption of your MCY010 Bonds applied to that allocation.

If you would like more details please contact Bank of New Zealand, Deutsche Craigs Limited, Forsyth Barr Limited (as Joint Lead Managers), or your usual financial adviser.

For further information please contact:

BNZ	Deutsche Craigs	Forsyth Barr
0800 284 017	0800 226 263	0800 367 227

Yours sincerely

William Meek | Chief Financial Officer

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