

Financial Results

for the year ended 30 June 2019

FRASER WHINERAY

Chief Executive

20 August 2019

WILLIAM MEEK

Chief Financial Officer



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A number of non-GAAP financial measures are used in this presentation, which are outlined in the appendix of the 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 for the year ended 30 June 2019, which are available at www.mercury.co.nz.

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FY2019 HIGHLIGHTS

\$505m EBITDAF

Achieved through **mean hydro generation** supported by **record geothermal generation** in challenging spot market conditions

MARKET THESIS

Being realised as more balanced supply and demand and thermal fuel constraints led to record futures prices

9.3cps

FINAL DIVIDEND

Fully-imputed **total ordinary dividend** of 15.5cps; an increase of 2.6% versus FY2018; 11th year of ordinary growth

FINANCIAL DISCIPLINE

Demonstrated as **operating expenditure** of \$199m was flat (adjusted for Metrix sale) for the 6th year in a row

CAPITAL ALLOCATION

Active capital management through divestment of **Metrix** for \$272m and growth capital contributions of \$55m to **Tilt Renewables**

RECOGNITION

Of our sales and retention teams at the **CRM Contact Centre Awards** and as the top-ranked Utility in the **KPMG Customer Experience Excellence** report

CUSTOMER VALUE

Focus on rewarding loyalty and value leading to **reduced acquisition** activity in highly competitive retail market

TURITEA WIND FARM

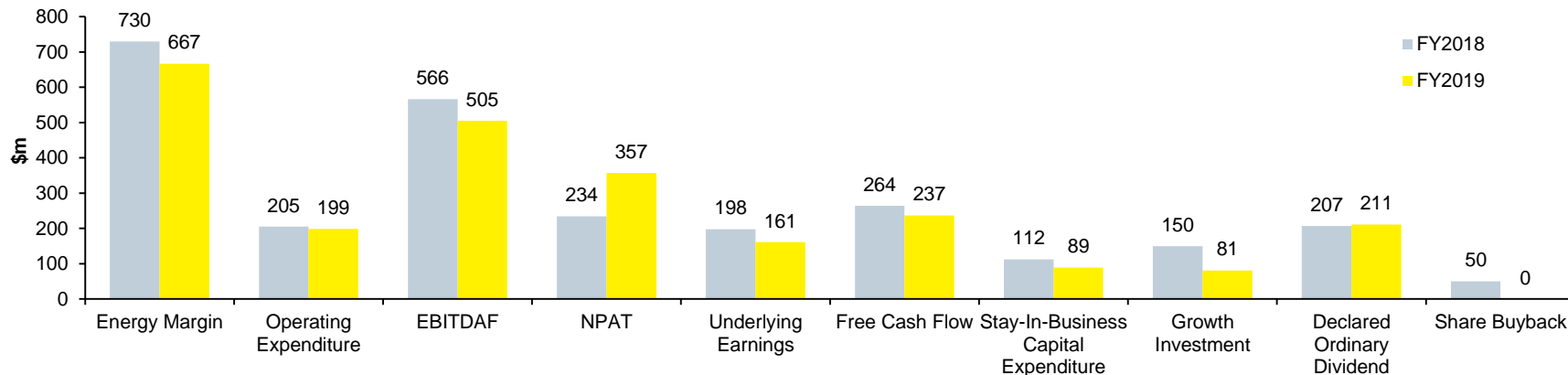
\$256m commitment to a 119MW / 470GWh p.a. wind farm; the first **large-scale NZ renewable electricity generation development** since 2014

Stay-in-business capital expenditure of \$89m

Included office consolidation **bringing teams together** from across Auckland and ongoing hydro refurbishment



FINANCIAL PERFORMANCE



- > Energy Margin, EBITDAF and Free Cash Flow lower reflecting 19% reduction in hydro generation upon return to mean following record levels in FY2018
- > NPAT up reflecting gain on sale following divestment of Metrix metering business for \$272m and also lower interest costs
- > Stay-in-business capex of \$89m reflecting ongoing hydro refurbishment¹ and Auckland office consolidation
- > Growth investment of \$81m reflecting contributions to Tilt Renewables (\$55m) and wind generation development at Turitea
- > Total ordinary dividend of 15.5cps, the 11th year of ordinary dividend growth

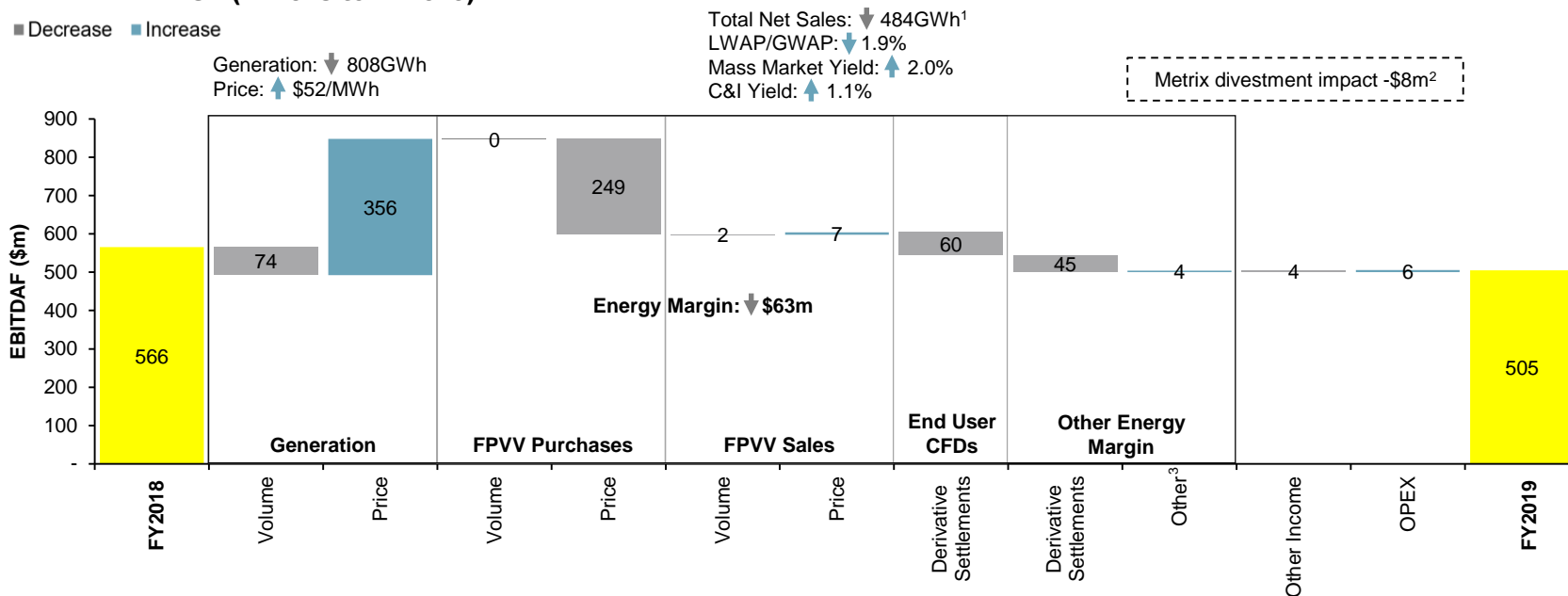
¹ For further detail see *Mercury Annual Report 2019*, pp. 50-53

4 FY2019 FINANCIAL HIGHLIGHTS



HIGHER SPOT PRICES PARTLY OFFSETTING REDUCTION IN GENERATION

EBITDAF BRIDGE (FY2018 to FY2019)



5 FY2019 FINANCIAL HIGHLIGHTS

¹ Includes FPVV and net CFD sales

² Consistent with disclosures in December 2018

³ Includes ancillary services & gas purchases and sales



WHAT MATTERS MOST



LONG-TERM SUCCESS STATEMENTS

By 2030 we will be...

CUSTOMER



New Zealand's leading energy brand

PARTNERSHIPS



Recognised as a leader within our industry, with our industry recognised as a positive contributor to New Zealand; and Mercury's access to fuel and energy storage enduring and enhanced

KAITIAKITANGA



Recognised as a leader in the ultra-long-term management of both physical and natural assets

PEOPLE



A zero harm organisation that has enabled our people to adapt to the changing nature of work to deliver the highest levels of performance and productivity


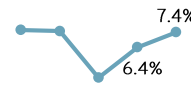
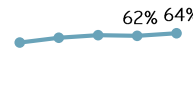


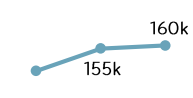

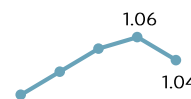

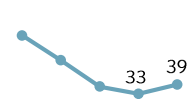


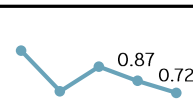


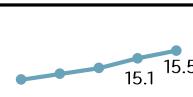

COMMERCIAL



Leading our sector in terms of financial performance and shareholder returns, earning at least our cost of capital



KEY PERFORMANCE INDICATORS – 5 YEAR TRENDS

CUSTOMER		Mercury brand trader churn 7.4%		Customer satisfaction 64% ¹		Brand Love 85% ²	
PARTNERSHIPS		Industry recognised as key enabler of low-carbon economy		Airpoints™ registrations 160,000 ³		EPR final report expected late 2019	
KAITIAKITANGA		LWAP/GWAP 1.04		SIB Capex \$89m		Gross Generation Emissions Intensity 39kg CO ₂ e/MWh	
PEOPLE		Zero high severity health and safety incidents		TRIFR 0.72 ⁴		Employee Engagement 66% ⁵	
COMMERCIAL		Annual Total Shareholder Return 43%		Total Ordinary Dividend 15.5cps		Investment in growth via Tilt and Turitea and Metrix sale	

7 WHAT MATTERS MOST

¹ Based on Mercury's monthly survey of residential customers, 12-monthly rolling average to 30 June 2019 for Mercury brand only

² Percentage of customers who say they 'like' Mercury, 3-monthly rolling average to 30 June 2019

³ Total customers registered for Airpoints™ as at 30 June 2019

⁴ Total Recordable Injury Frequency Rate per 200,000 hours for the 12 months to 30 June 2019; includes employees and onsite contractors

⁵ From CultureAmp survey introduced 2019



RECOGNISING NEW ZEALAND'S RENEWABLE ADVANTAGE

- > Numerous reports released recognising renewable electricity as an opportunity for New Zealand
- > Interim Climate Change Committee (Final report released July 2019)
 - > Recommends focus on renewable electricity for transport and industrial process heat rather than 100% renewable electricity
 - > New Zealand forecast to reach 93% renewable electricity by 2035 under business-as-usual
 - > Targeting 100% renewable electricity prohibitively expensive relative to electrification of transport and process heat
 - > Value of hydro generation to New Zealand's climate objectives should be given "sufficient weight" in water allocation decisions
- > MBIE Electricity Demand and Generation Scenarios 2050 (Released July 2019)
 - > Electricity demand predicted to grow in the range of 18% to 78% (7 to 31GWh p.a.) across all scenarios
 - > Renewable electricity generation predicted to rise in all scenarios from 82% in 2017 to around 95%
- > Productivity Commission - Low Emissions Economy Report (Government response August 2019)
 - > Supports renewable electricity generation as a key enabler of transitioning NZ to a low emissions economy
 - > Government developing Renewable Energy Strategy for public consultation later in 2019
- > Transport electrification
 - > Government consulting on a feebate scheme for low emissions light vehicles for implementation in 2021
 - > Major NZ corporates trialling electric transport options including waste management vehicles, electric ferries, tugs and planes



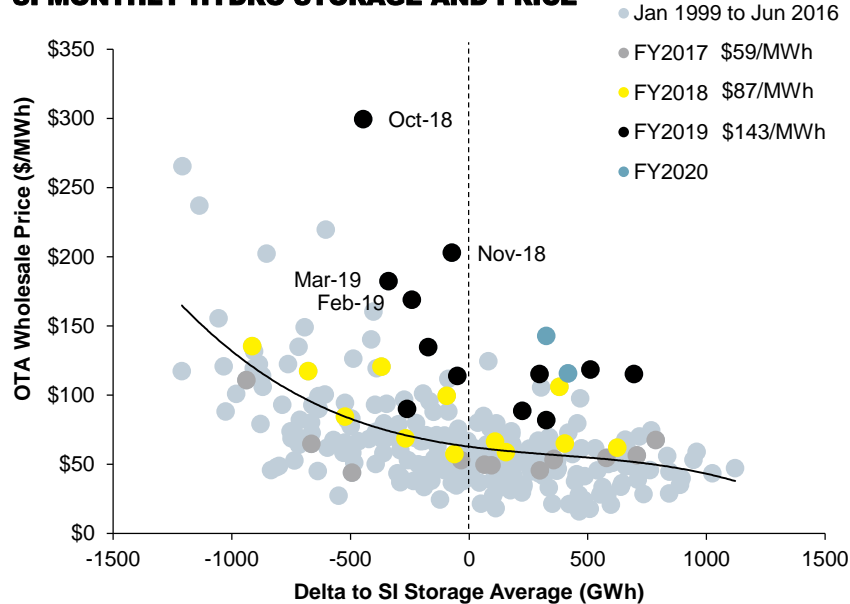
REGULATORY ENVIRONMENT

- > Electricity Price Review (EPR)
 - > Final report and Government response now expected to be released in September 2019
 - > Based on the February EPR options paper, expectations are for incremental rather than fundamental structural reforms
 - > Main focus on improving outcomes for vulnerable customers through targeted assistance and other support mechanisms
- > Transmission Pricing
 - > Electricity Authority released an issues paper for consultation by 1 October
 - > Significant reduction in impacts and benefits from the Authority's 2016 proposal
 - > Indicative impact to Mercury of \$6.6m p.a. not before April 2024; remains contingent on implementation and Government policy
- > Tax Working Group
 - > Work programme includes further investigation of environmental taxes; no tax on hydro use expected in the near term
- > National Policy Statements (NPS)
 - > Uncertainty as to whether hydro generation will be exempted in the new 2019 NPS on Freshwater Management due for consultation in September
 - > Future geothermal generation investment needs to be explicitly recognised within the proposed NPS on Indigenous Biodiversity

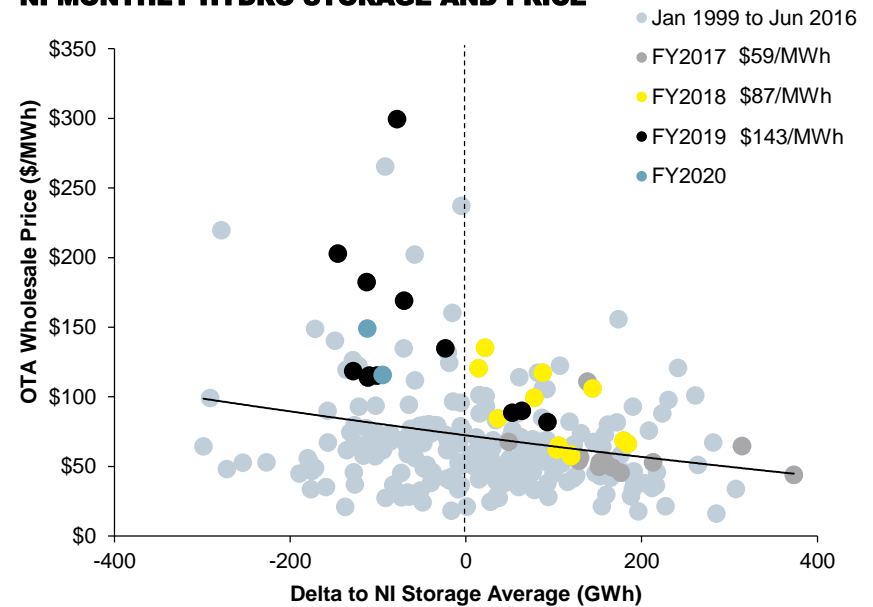


SPOT PRICES PERSIST ABOVE HISTORICAL TREND

SI MONTHLY HYDRO STORAGE AND PRICE¹



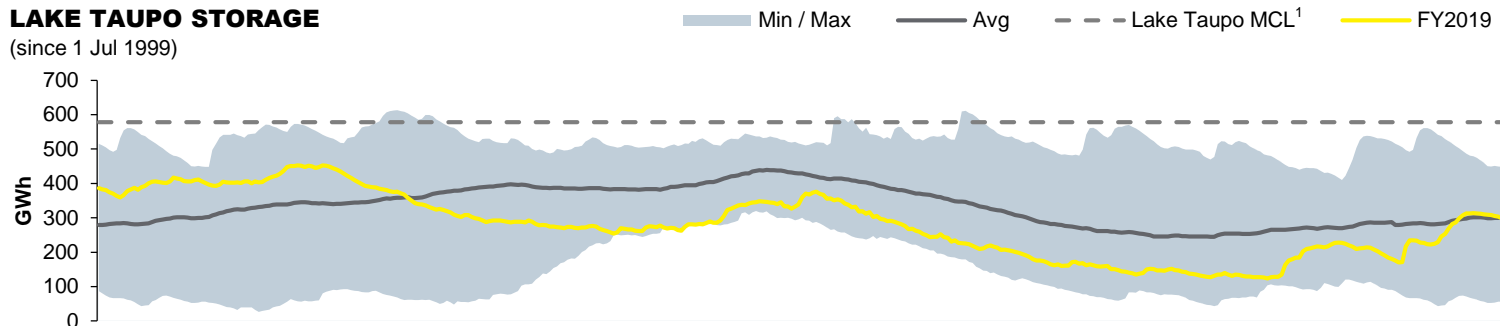
NI MONTHLY HYDRO STORAGE AND PRICE¹



PRUDENT RISK MANAGEMENT GIVEN CHALLENGING CONDITIONS

LAKE TAUPO STORAGE

(since 1 Jul 1999)



	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul
Hydro Generation - Delta to Average ² (GWh)	+73	+81	+101	-10	-14	-6	-45	-45	-45	-47	-56	-29	+10
Waikato Inflows - Delta to Average ³ (GWh)	+49	+90	-35	-123	-78	+20	-62	-102	-104	-80	-85	-40	+82
Spot Price - Otahuhu (\$/MWh)	\$82	\$89	\$90	\$300	\$203	\$114	\$135	\$169	\$182	\$115	\$119	\$115	\$116
Futures Price (M-3 ⁴) Otahuhu (\$/MWh)	\$74	\$71	\$61	\$63	\$69	\$76	\$90	\$105	\$91	\$122	\$130	\$147	\$145

Source: NZX Hydro, Mercury

¹ Maximum Controllable Level

² Monthly average since July 1999

³ Monthly average since July 1927








⁴ Closing price 3 months prior

11 MARKET DYNAMICS



THREE-YEAR MARKET THESIS HAPPENING

ANTICIPATED MARKET OUTCOMES

- > Supply and demand re-balanced 
- > Conditions for demand growth 
- > Increased spot price volatility 
- > Futures price increase 
- > Commercial and Industrial (C&I) upwards price pressure 
- > Retail churn reduction 
- > Upward pressure on retail price 

Futures and recent C&I contracted prices up \$20+/MWh across FY2019 in line with spot prices

Increase in spot prices represents a cost of retailing and a contraction of retail margins

Retail competition remains fierce despite this dynamic

Mercury expects aggressive acquisition offers still prevalent in the market are out of the money



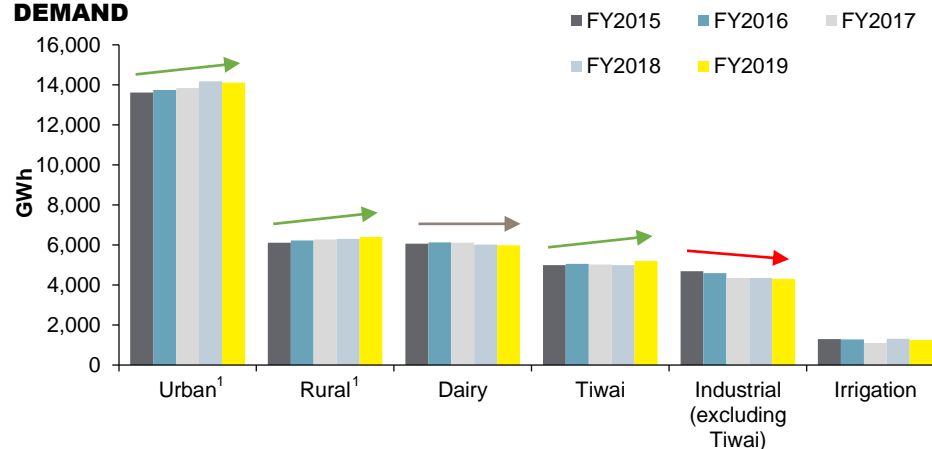
SEASONAL FACTORS CONTRIBUTE TO LOWER DEMAND

- > Demand flat in FY2019 as an increase in industrial demand was offset by decreases in other sectors
- > Industrial demand increase driven by Tiwai Point 4th potline restart
 - > Tiwai Point 4th potline restart increased Tiwai demand by 4.1%, lifting from 572MW average in Jul-18 to a peak of 617MW average in Feb-19 (down to 595MW in Jun-19), which added 0.5% to national demand in FY2019
 - > Excluding Tiwai Point, industrial demand decreased by 1.8% as spot-exposed users demonstrated sensitivity to high prices

FY2019 NORMALISED DEMAND GROWTH BY SECTOR

Sector	GWh	Sector %Δ	Total %Δ
Urban ¹	-75	-0.5%	-0.2%
Rural ¹	+86	1.3%	0.2%
Dairy processing	-32	-0.5%	-0.1%
Irrigation	-65	-4.9%	-0.2%
Industrial	+155	1.7%	0.4%
Other	-51	-7.0%	-0.1%
Total	+18		0.0%

DEMAND



Source: Transpower SCADA data, Mercury

¹ Normalised for temperature



FUTURES LIFTING, CONSISTENT WITH MARKET THESIS

> Gas supply and thermal generation restrictions expected to persist over the medium-term impacting wholesale prices

FUTURES PRICE

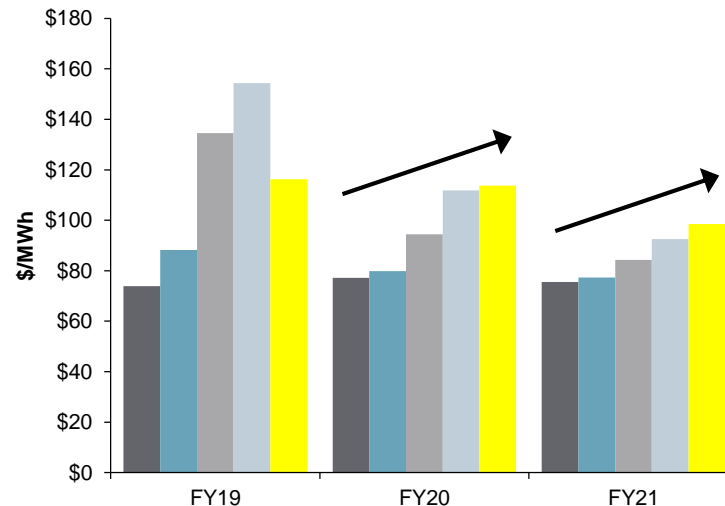
(2 year average price starting 3 quarters ahead)

— Otahuhu
— Benmore



OTAHUHU FUTURES PRICE

■ 30-Jun-18 ■ 30-Sep-18 ■ 31-Dec-18 ■ 31-Mar-19 ■ 30-Jun-19



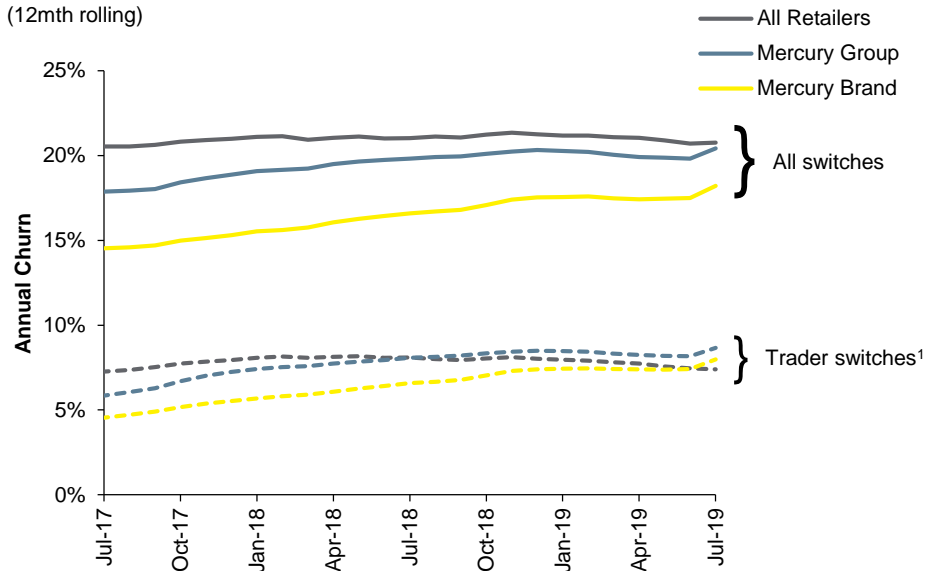
Source: ASX, Mercury



RETAIL COMPETITION UNAFFECTED BY HIGHER WHOLESALE PRICES

NATIONAL CHURN RATE

(12mth rolling)



EXAMPLES OF COMPETITOR OFFERS

20% prompt
payment
discount

Get a free
appliance

Get \$200
power
on us

Get a \$400
credit

Half price
broadband for
12 months!

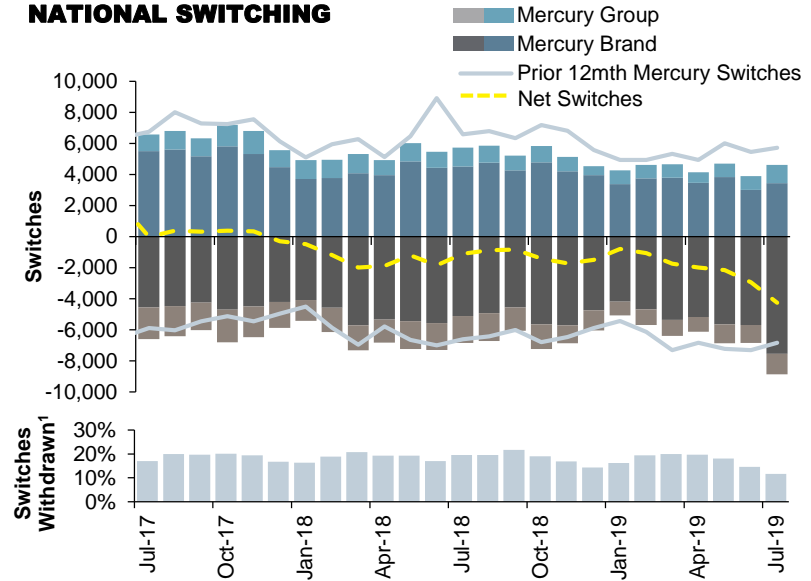
Save in your
first year.
Guaranteed.



MERCURY FOCUSED ON EXISTING CUSTOMERS AND VALUE

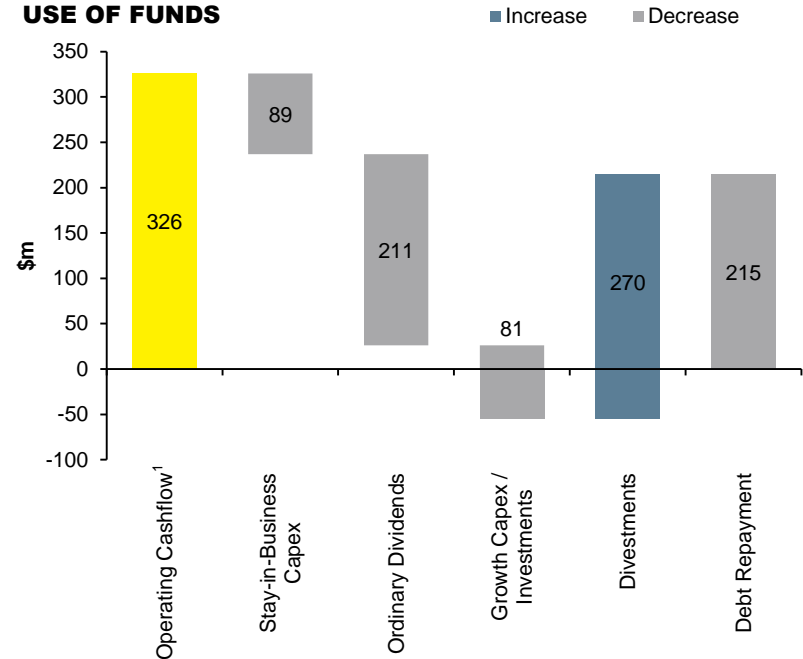
- > Mercury is focused on value and fulfilling our customer promises to reward loyalty, inspire and make it easy
- > In line with this focus:
 - > Mercury has not increased residential headline pricing since April 2018, despite steadily rising input costs
 - > Mercury is moving away from short-term deep discounted acquisition pricing which doesn't deliver value to existing customers
 - > Proportion of Mercury brand customers acquired on discounted rates decreased from 55% in Q4-FY2018 to 27% in Q4-FY2019
- > We expect all acquisition offers by all retailers are out of the money with this wholesale market outlook
- > A strategic channel and partner review led to a mutual agreement to exit the Fonterra Farm Source partnership
 - > ~2,000 of our customer losses in July; will see more of these customers moving over the coming months

NATIONAL SWITCHING



CONTINUOUS REVIEW OF CAPITAL ALLOCATION

- > Mercury Net Debt/EBITDAF ratio at 1.9x
 - > 1.9x after \$272m Metrix divestment
 - > Consistent with low end of target band to retain flexibility and growth aspirations
- > Re-investment in core prioritised with continued hydro refurbishment and technology upgrades
- > Dividend policy is to pay 70-85% of free cash flow on average through time enabling residual cash flow to be applied to growth opportunities/debt repayment
 - > FY2019 represents the 11th year of ordinary dividend growth
- > Tilt Renewables considering sale of Snowtown 2 wind farm which likely means little to no Tilt shareholder capital contributions required in the medium-term



¹ Negatively impacted by an increase in ASX prudential requirements of \$37m



PURSuing GROWTH

- > Financial commitment in March 2019 of \$256m to 119MW Turitea wind farm
 - > Turitea complements Mercury's existing baseload geothermal and flexible hydro assets
 - > Ability to utilise flexibility of Waikato Hydro Scheme in the same island to 'firm' intermittency of wind
 - > Transmission infrastructure enables further wind development at Turitea and Puketo
 - > Gas supply and thermal generation constraints and futures prices indicate new generation capacity required
- > Investment of \$199m in Tilt Renewables as a vehicle to gain exposure to Australia renewables transition
 - > Includes the initial investment (May 2018), a joint takeover offer taking Infratil shareholding to >65% (August-December 2018), and participating in the Dundonnell rights issue (February 2019)
 - > Fraser Whineray appointed to Tilt Renewables Board from 19 July 2019
 - > Investment now worth \$247m¹ representing an ROI of 24%



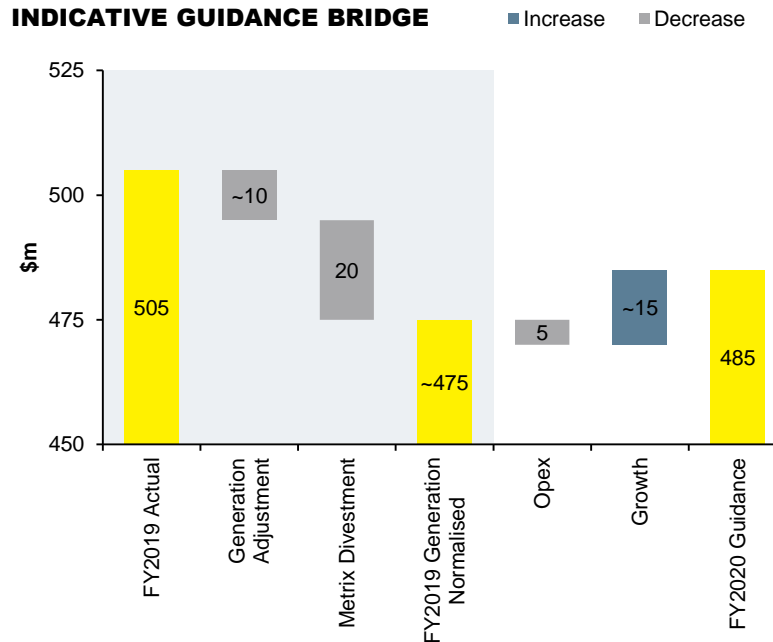
¹ As at 16 August 2019



FY2020 GUIDANCE RE-BASED FOLLOWING METRIX DIVESTMENT

- > FY2020 EBITDAF guidance is \$485m and assumes:
 - > Mean hydro and geothermal generation¹
 - > Operating expenditure reflecting increased activity with multiple geothermal shuts and ongoing hydro refurbishment
 - > Growth through improving customer profitability, cost transparency and trading performance
- > FY2020 ordinary dividend guidance is up 2% to 15.8cps
- > FY2020 stay-in-business capital expenditure guidance is \$105m
 - > Includes ongoing refurbishment at three hydro power stations and drilling of two wells at Kawerau
- > Guidance is subject to hydrological volatility, wholesale market conditions and any material adverse events, significant one-off expenses or other unforeseeable circumstances

INDICATIVE GUIDANCE BRIDGE



Q&A



MERCURY'S COMPETITIVE ADVANTAGE



100% renewable generation

- > Two low-cost complementary fuel sources in baseload geothermal and peaking hydro with same-island wind to be added



Superior asset location

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



Substantial peaking capacity

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



High performance teams

- > Dynamic company culture built on the understanding that our people, working together and in alignment, set us apart



Track record of customer engagement

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



Long-term commercial partnerships

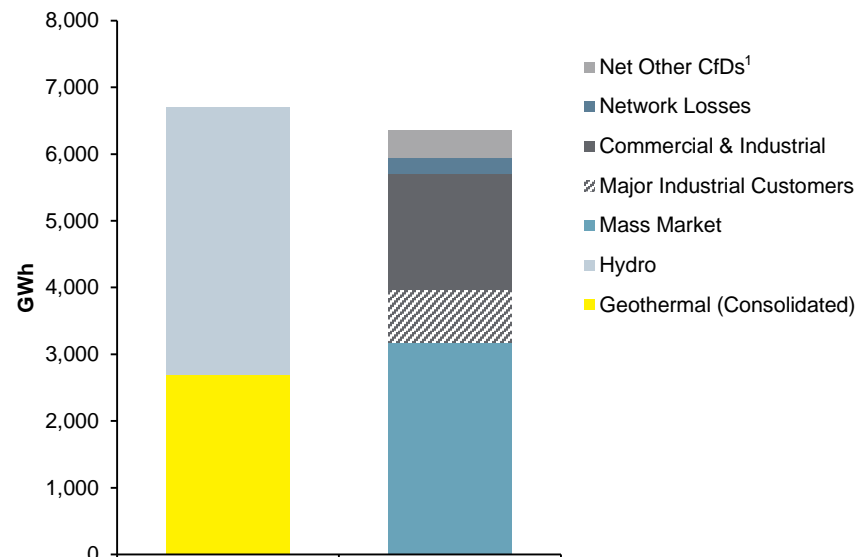
- > With Maori landowners and other key stakeholders



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
- > Diversified sales portfolio including sales to Mass Market, Commercial & Industrial customers and derivatives
 - > Favouring increased spot exposure for value and risk management in higher and more volatile price environment
 - > Significant volume tied to long-dated contracts with major industrial customers (~790GWh p.a.)
- > Turitea wind farm under development, due to start operating late CY2020
 - > Annual generation of 470GWh
 - > Once commissioned, its variable wind generation will be complemented by Mercury's flexible hydro stations and baseload geothermal

FY2019 NET POSITION BREAKDOWN



¹ Contract-For-Difference



STABLE CAPITAL STRUCTURE

- > BBB+ rating is key reference point for dividend policy and an efficient and sustainable capital structure
 - > S&P re-affirmed Mercury's credit rating of BBB+/stable on 5 December 2018
 - > One-notch upgrade given majority Crown ownership
- > Capital management continuously reviewed
 - > Targeting gearing at low end of Net Debt / EBITDAF between 2.0x and 3.0x (key ratio for stand-alone S&P credit rating 'bbb') to provide debt headroom due to Government minimum equity ownership requirement
 - > Net Debt / EBITDAF 1.9x at 30 June 2019¹

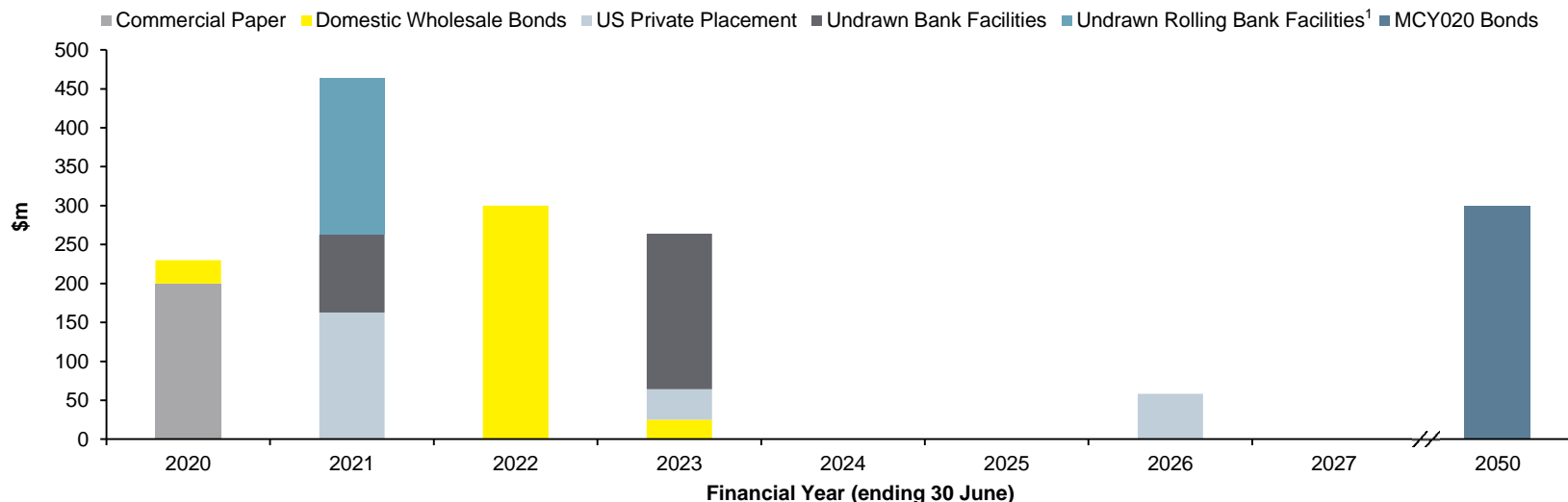
	30 June 2019	30 June 2018	30 June 2017	30 June 2016	30 June 2015
Net Debt (\$m)	1,096	1,264	1,038	1,068	1,082
Gearing Ratio (%)	23.7	27.7	23.9	24.4	24.5
Net Debt / EBITDAF (x) ¹	1.9	1.9	1.8	2.0	2.0

¹ Adjusted for S&P treatment of Mercury's Capital Bond



DIVERSIFIED FUNDING PROFILE

DEBT MATURITIES AS AT 20 AUGUST 2019

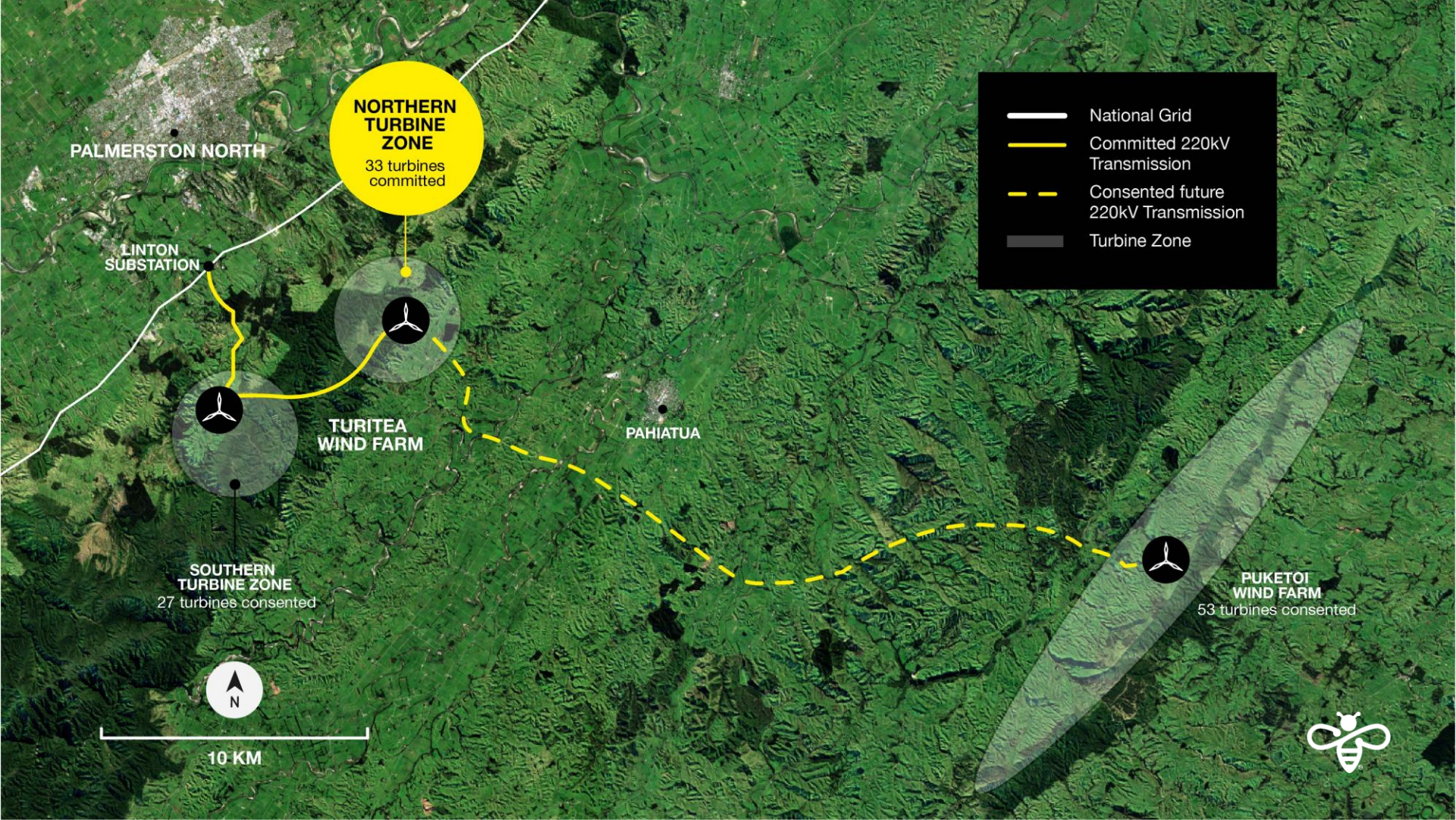


- > The average debt maturity profile for committed facilities was 7.1 years² at 20 August 2019
- > Interest paid decreased by \$24m in FY2019 with further reduction (circa \$10m) expected in FY2020
- > Mercury redeemed its MCY010 Bonds on 11 July 2019 and issued new MCY020 Bonds to mature July 2049

¹ Requires 18 months notice of termination from lender

² Includes Commercial Paper on issue, all bank facilities, wholesale bonds, US private placement and MCY020 Bonds to maturity





CONTRACTS FOR DIFFERENCE

	Year ended 30 June 2019	Year ended 30 June 2018
Net Contracts for Difference (Sell)/Buy GWh		
Sell - End User	(1,352)	(1,226)
Sell - VAS ¹	(599)	(650)
Sell - Inter-generator & ASX	(1,683)	(1,737)
Sell CFD	(3,634)	(3,613)
Buy CFD	2,010	1,504
Net CFD	(1,624)	(2,109)
Energy Margin contribution (\$m)	(106)	(1)

¹ VAS included on both buy and sell side CFDs



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.



REFERENCE MATERIALS

MERCURY REFERENCES

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

PUBLICATIONS

Mercury – Electricity Price Review Submission	https://www.mercury.co.nz/news/electricity-price-review-executive-summary
Productivity Commission – Low-emissions Economy Report	https://www.productivity.govt.nz/assets/Documents/4e01d69a83/Productivity-Commission_Low-emissions-economy_Final-Report.pdf
Interim Climate Change Committee – Accelerated Electrification	https://www.iccc.mfe.govt.nz/assets/PDF_Library/daed426432/FINAL-ICCC-Electricity-report.pdf
Transpower – Transmission Tomorrow – Our Strategy	https://www.transpower.co.nz/sites/default/files/publications/resources/TTourstrategy2018.pdf
MBIE – Electricity Demand and Generation Scenarios	https://www.mbie.govt.nz/building-and-energy/energy-and-natural-resources/energy-statistics-and-modelling/energy-modelling/electricity-demand-and-generation-scenarios/
NZ Initiative – Switched On	https://nzinitiative.org.nz/reports-and-media/reports/switched-on-achieving-a-green-affordable-and-reliable-energy-future/





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