

FINANCIAL RESULTS.

YEAR ENDED 30 JUNE 2020

VINCE HAWKSWORTH
Chief Executive

18 August 2020

WILLIAM MEEK
Chief Financial Officer



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CEO INTRODUCTION

- > Started 30 March, during COVID-19 lockdown
- > Highly experienced in the energy sector in New Zealand and Australia covering both generation and retail
- > Director of Tilt Renewables
- > Former CEO of Hydro Tasmania and Trustpower
 - > CEO of Trustpower for nine years, led development of wind generation at Trustpower, culminating in demerger of Tilt Renewables
- > First impressions of Mercury:
 - > Smooth and capable transition to ensure safe operation of the business across both generation and retail
 - > Combination of great assets, passionate people and clear mission provides strong platform for performance



FY2020 HIGHLIGHTS

\$494m EBITDAF

Down \$12m versus FY2019 reflecting lower generation on second-lowest inflows¹ and Metrix sale; strong underlying portfolio performance across generation and customer markets

LOCKDOWN RESPONSE

Smooth transition to working from home during COVID-19 lockdown; worked with suppliers to mitigate impacts; work at Turitea successfully restarted

CUSTOMER VALUE

Reduced acquisition activity with Mercury's focus on rewarding loyalty and customer value leading to increase in sales portfolio yields

15.8cps TOTAL ORDINARY DIVIDEND

Increase of 1.9% versus FY2019; the 12th consecutive year of ordinary dividend growth

Stay-in-business capital expenditure of \$114m

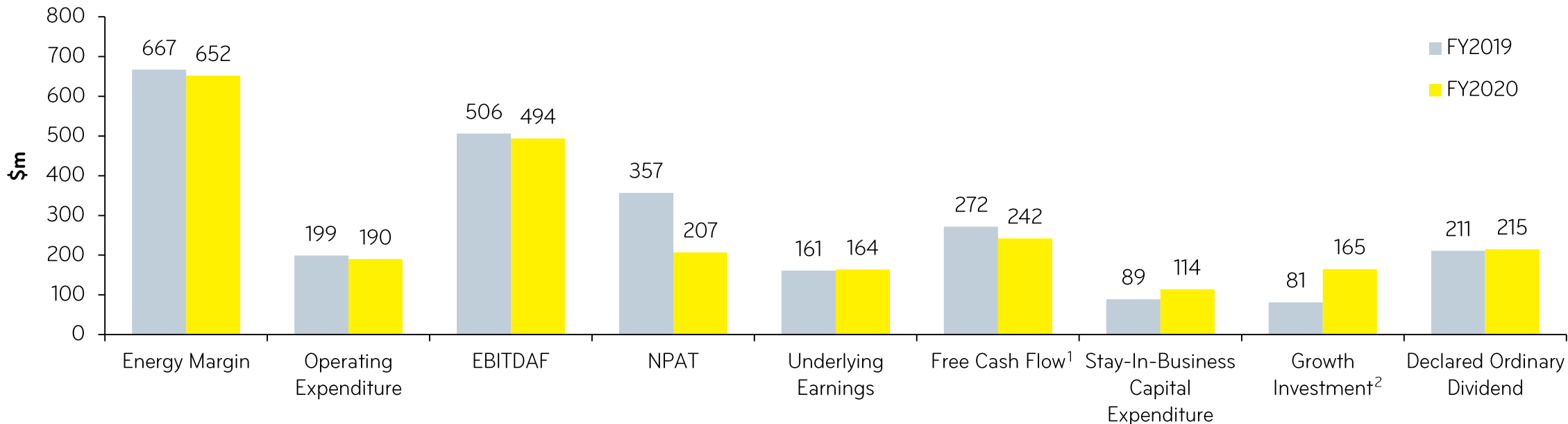
Major refurbishments completed at Whakamaru and Aratiatia providing added capacity and flexibility and geothermal drilling at Kawerau and Rotokawa

TURITEA WIND FARM

Growing our renewable generation portfolio through commitment to full build of 60 turbines at Turitea, increasing average output to 840GWh p.a.



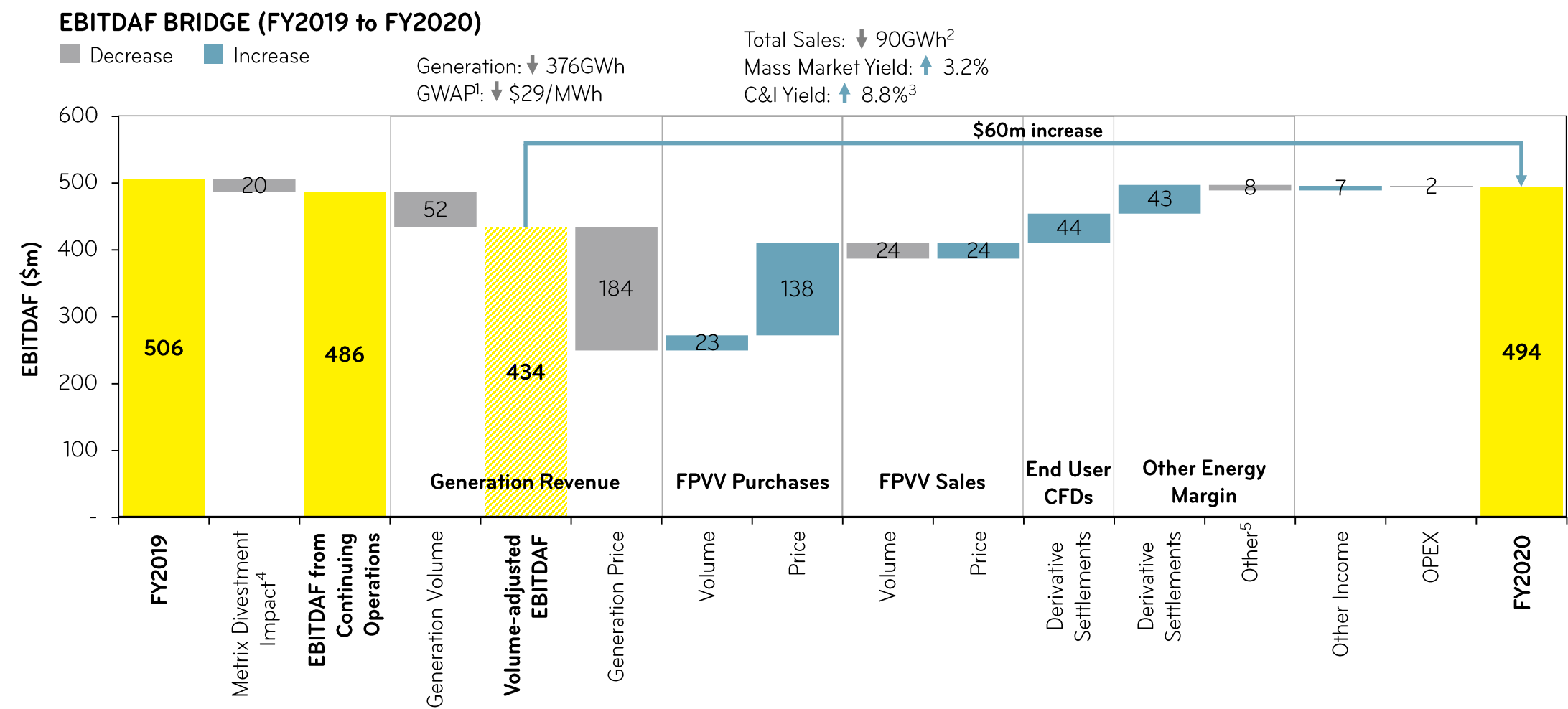
FINANCIAL PERFORMANCE



- > EBITDAF and NPAT down versus FY2019 due to 376GWh generation decrease, lower spot prices and Metrix divestment
- > Free Cash Flow down due to lower EBITDAF and higher SIB capex, partially offset by lower tax and interest costs
- > Operating Expenditure in line with FY2019 after normalising for IFRS changes and Metrix
- > Focus on resilience, productivity and efficiency for FY2021



STRONG PORTFOLIO RESPONSE TO DRY CONDITIONS



¹ Generation-Weighted Average Price received for hydro and geothermal generation

² Includes both physical and financial sales

³ Includes Fixed Price Variable Volume (FPVV) sales and End User Contracts for Differences (CFDs)

⁴ Consistent with disclosures in December 2018

⁵ Includes ancillary services & gas purchases and sales

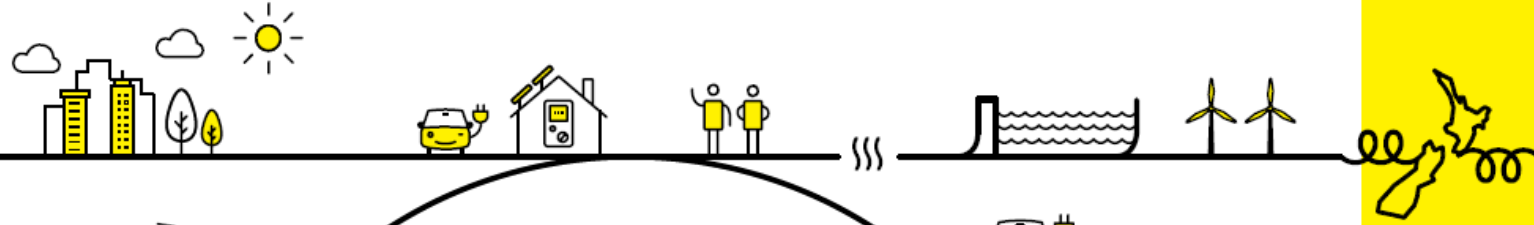


OUR DIRECTION

OUR PURPOSE



TO INSPIRE
NEW
ZEALANDERS
TO ENJOY
ENERGY IN
MORE
WONDERFUL
WAYS

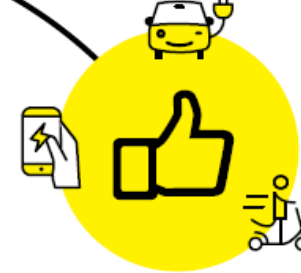


OUR MISSION

ENERGY
FREEDOM



COMMERCIAL
ACHIEVING OUR COMMERCIAL GOALS
THROUGH SUSTAINABLE GROWTH.



CUSTOMER
INSPIRING, REWARDING AND MAKING
IT EASIER FOR OUR CUSTOMERS.



PEOPLE
ENABLING OUR PEOPLE TO
PERFORM TOGETHER IN A
CHANGING ENVIRONMENT AND
KEEP EACH OTHER SAFE.



PARTNERSHIPS
PROVIDING GREATER OPPORTUNITIES
FOR NEW ZEALAND, OUR INDUSTRY, OUR
PARTNERS AND OUR BUSINESS THROUGH
LONG-TERM COLLABORATION.



KAITIAKITANGA
LONG-TERM SUSTAINABILITY OF
NATURAL RESOURCES AND ASSETS.



KEY PERFORMANCE INDICATORS

(versus previous yearly periods / 12-monthly rolling unless indicated)

| | | | | | | | |
|---------------|--|---|--|--|--|--|--|
| CUSTOMER | | Mercury brand trader churn 5.9% ¹ | | Net promoter score 13.7 ² | | Brand Strength 60% ³ | |
| PARTNERSHIPS | | EPR recommendations being actioned | | 16 community partnerships | | Worked with suppliers to mitigate lockdown impacts | |
| KAITIAKITANGA | | Portfolio LWAP/GWAP 1.02 | | Whakamaru refurbishment complete | | Gross Generation Emissions Intensity 36kg CO ₂ e/MWh | |
| PEOPLE | | One high severity health and safety incident | | Employee Engagement 67% ⁴ | | 85% of employees felt productivity was the same or better while working remotely | |
| COMMERCIAL | | Annual Total Shareholder Return 4.5% | | Stay-in-business capital expenditure \$114m | | Commitment to full Turitea wind farm | |

¹ Normalised for the exit of an agreement with Fonterra Farm Source

² Index ranging from -100 to 100 measuring the willingness of customers within target segments to recommend Mercury, 3-monthly rolling average

³ Weighted average of five drivers of brand emotional equity, 3-monthly rolling average

⁴ From CultureAmp survey introduced 2019



COVID-19 LOCKDOWN RESPONSE

People and Operations

- > Smooth transition to working from home
 - > 85% of our people reported same or greater productivity

Demand

- > Down 14% during first lockdown but recovered to similar levels compared with prior year
 - > Medium-term outlook affected by industrial closures

Customers

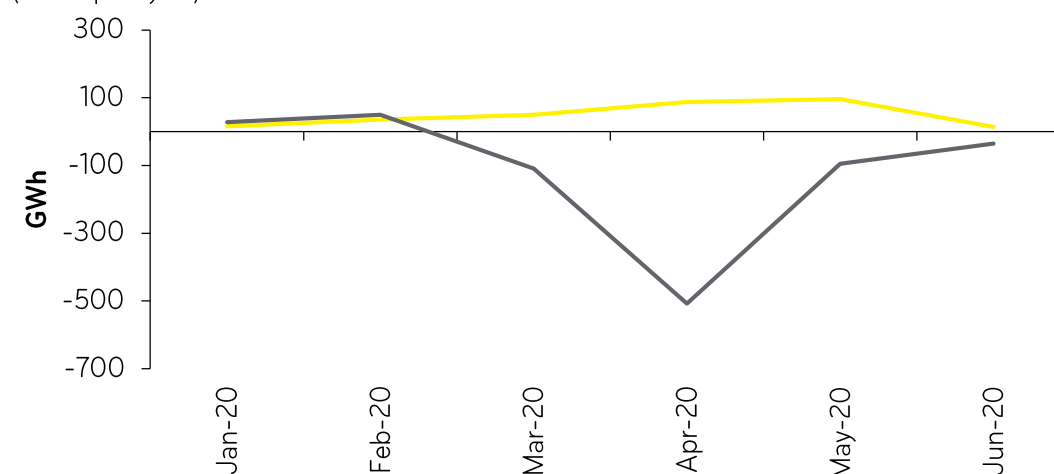
- > Worked proactively with customers to prevent large debt balances accruing
 - > Moderate increase in aged debt by end of FY2020

Development

- > Work put on hold at Turitea, successfully restarted
 - > North section completion delayed into Q2-CY2021

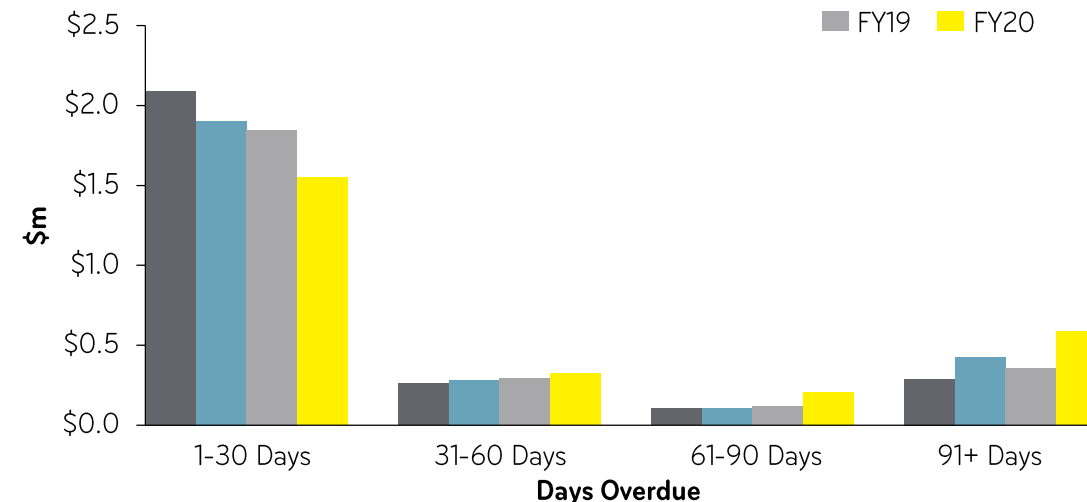
DEMAND DELTA

(versus prior year)



RESIDENTIAL AGED DEBT TRENDS

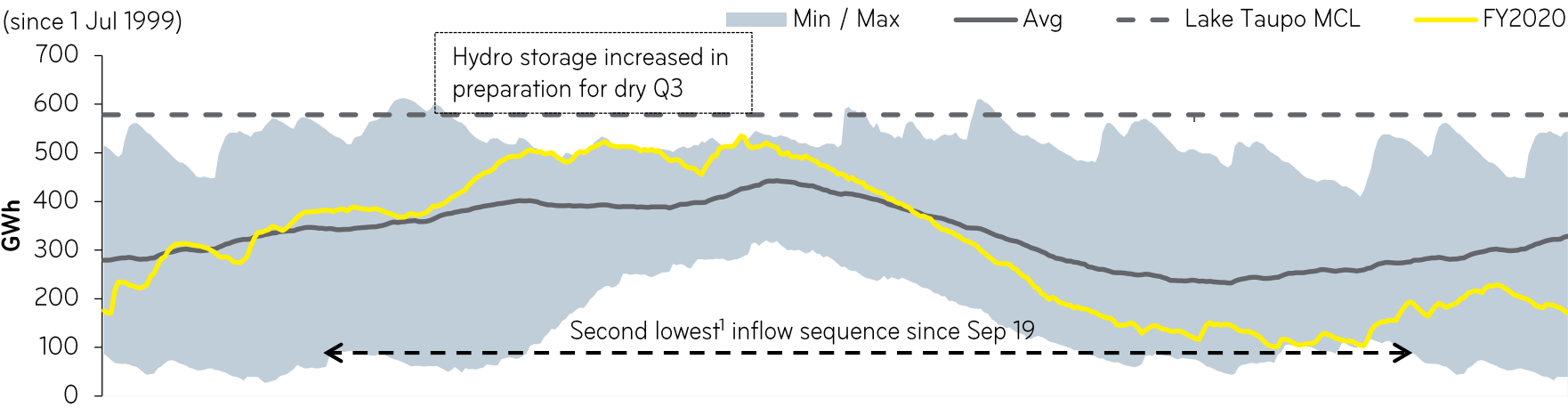
As at end of: FY17 FY18 FY19 FY20



PRUDENT PORTFOLIO MANAGEMENT MITIGATES NEAR-RECORD LOW INFLOWS

LAKE TAUPO STORAGE

(since 1 Jul 1999)



| Month End | Jun | Jul | Aug | Sep | Oct | Nov | Dec | Jan | Feb | Mar | Apr | May | Jun | Jul | Aug² |
|--|------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Hydro Generation - Delta to Average³ (GWh) | | +10 | +11 | +1 | -95 | -34 | +25 | -25 | -44 | +3 | -43 | -45 | -120 | -33 | -13 |
| Waikato Inflows - Delta to Average⁴ (GWh) | | +82 | +41 | -52 | -36 | -66 | -14 | -110 | -128 | -101 | -110 | -112 | -78 | -64 | -72 |
| Taupo Storage – Delta to Average³ (GWh) | -107 | -3 | 37 | 23 | 106 | 116 | 79 | 21 | -29 | -92 | -121 | -152 | -82 | -99 | -158 |
| Spot Price - Otahuhu (\$/MWh) | | \$116 | \$135 | \$125 | \$128 | \$117 | \$61 | \$91 | \$81 | \$75 | \$48 | \$134 | \$163 | \$153 | \$113 |
| Futures Price (M-3⁵) Otahuhu (\$/MWh) | | \$150 | \$114 | \$103 | \$112 | \$131 | \$122 | \$130 | \$137 | \$174 | \$121 | \$116 | \$84 | \$96 | \$108 |

Source: NZXHydro, WITS, ASX

¹ For 10 month periods ended 30 June since 1928

² To 13 August 2020 inclusive

³ Monthly average since July 1999

⁴ Monthly average since July 1927

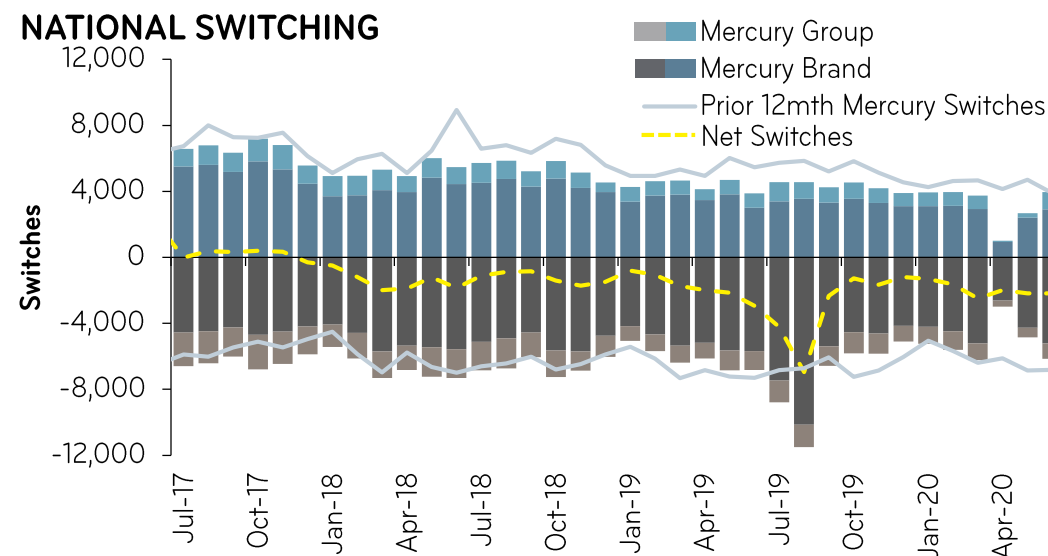
⁵ Closing price 3 months prior

- >50GWh above average
- >50GWh below average
- Above \$100/MWh

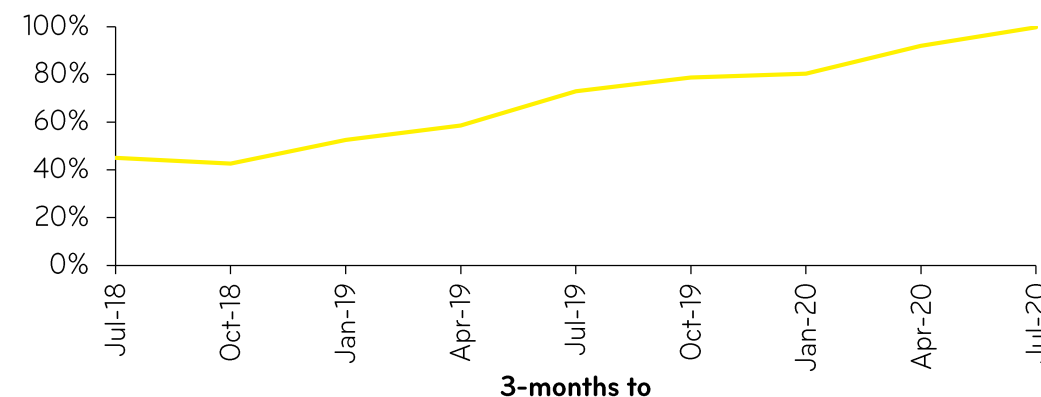


RETAIL TACTICS DRIVING GROWTH IN CUSTOMER VALUE

- > In a highly competitive retail market, Mercury is focused on rewarding our existing customers
 - > Focus on existing customers especially important in challenging economic environment
- > Reduced Mass Market volume through reduced acquisition leading to decrease in customer numbers
- > Farm Source exit completed during FY2020, as part of Mercury's portfolio management strategy, leading to a reduction of ~8,000 customer connections
- > Mass Market segment yields increased by \$4/MWh (3.2%), Commercial and Industrial segment yields¹ increased by \$7/MWh (8.8%) versus FY2019
- > Opportunity to place Turitea volume with channel choice based on relative value



RESIDENTIAL CUSTOMERS ACQUIRED ON HEADLINE OR CONTRACTED RATES



TURITEA WIND FARM DELAYED

Wind farm works

- > Wind farm (excluding transmission and connection) covered by a fixed-price EPC contract with Vestas
- > Site works for the northern 33 turbines behind contracted program due to contractor delivery across design and construction
- > Site shut down throughout COVID-19 Alert Level 4 lockdown
 - > Procurement largely unaffected by COVID-19
- > Expecting completion of the northern 33 turbines in Q2 CY2021 and southern 27 turbines in late CY2021
- > Project times remain subject to contractor performance and further COVID-19 restrictions

Transmission & connection

- > Transmission build is a design and build contract with Electrix
- > Completion delayed from mid CY2020 to late CY2020
- > Linton connection works largely complete



Turbine blades at New Plymouth



Transmission poles

WIND STRATEGY PURSUED THROUGH TILT INVESTMENT

- > Investment in Tilt Renewables part of overall wind strategy
 - > Wind generation recognised as lowest cost new-build renewable generation
- > Provides exposure to Australian decarbonisation transition
 - > Investment now worth \$274m, representing ROI of 67%¹
 - > \$55m capital return in July 2020
- > Active investment with strong development pipeline
 - > Turbine erection completed at Dundonnell wind farm in July 2020
 - > 1,500MW of wind and solar development with planning approvals





MARKET OUTLOOK REVISED FOLLOWING COVID-19 IMPACT AND TIWAI EXIT

MARKET DRIVERS

- > Demand growth limited by economic downturn
- > Potential for further de-industrialisation
 - > NZ Steel and NZ Refining both under review
- > Supply and demand imbalance due to expected Tiwai exit

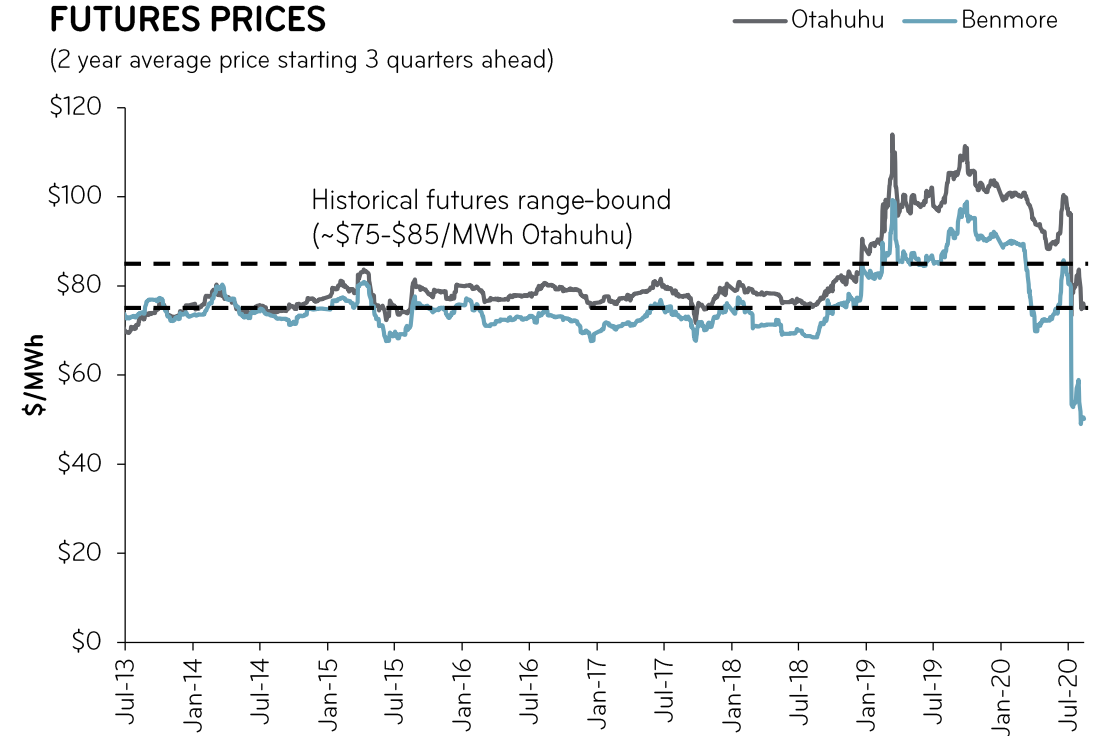


MARKET OUTCOMES

- > Downward pressure on wholesale prices; flowing through to retail
- > Transmission uncertainty to increase basis risk between North and South Islands
- > Retail competition to increase in South Island; possible moderation in North Island

FUTURES PRICES

(2 year average price starting 3 quarters ahead)



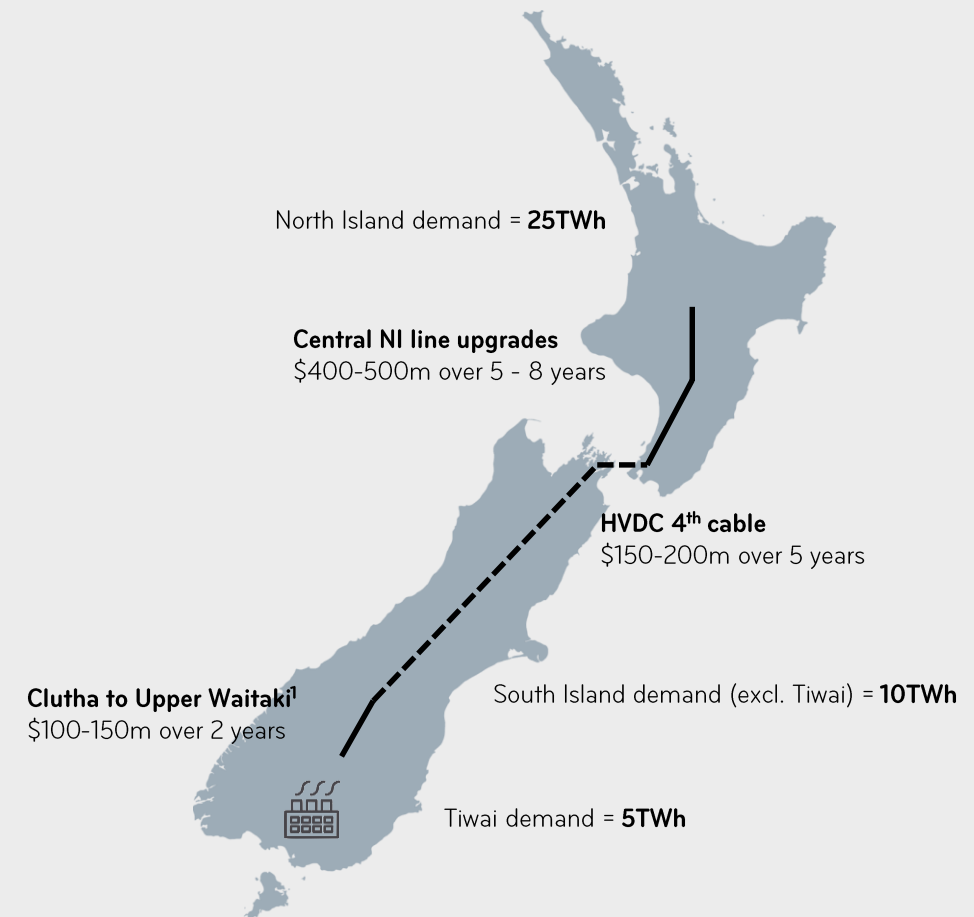
Source: ASX



MERCURY RELATIVELY WELL PLACED TO MANAGE IMPACTS FROM NZAS EXIT

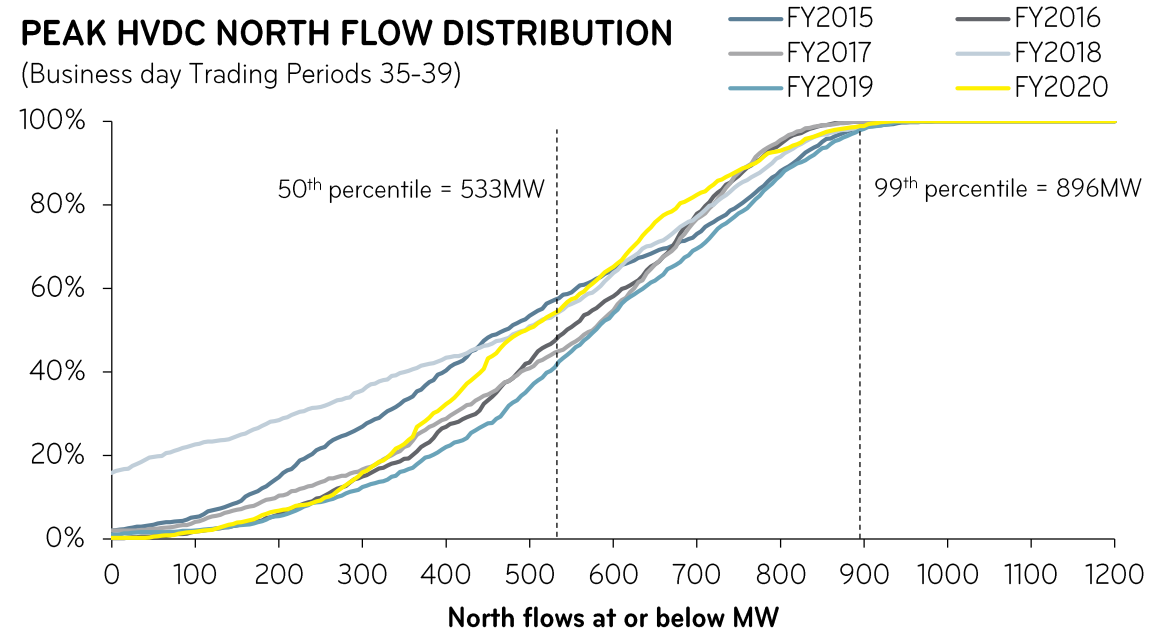
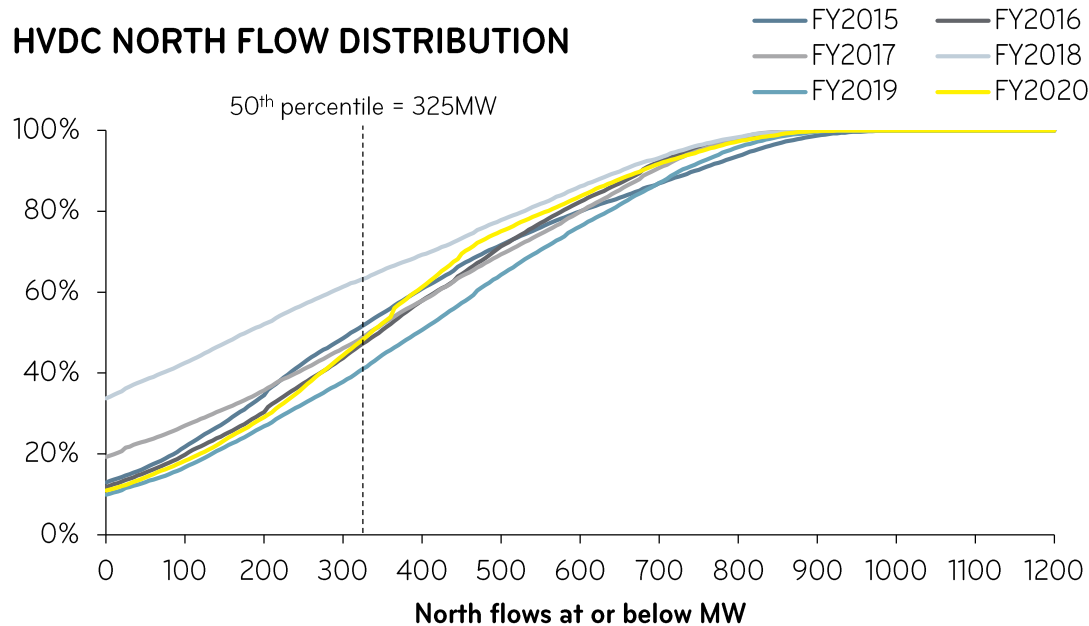
- > In July 2020, Rio Tinto gave notice that the contract relating to Tiwai Point aluminium smelter will be terminated on 31 August 2021
- > Tiwai Point aluminium smelter consumes ~13% of New Zealand national demand
 - > North Island thermal operators considering thermal station closure and assessing generation portfolios
- > Major transmission upgrades required to enable South Island generation to be shifted to North Island load centres
 - > \$650-850m investment required over 5-8 years
- > Mercury relatively well placed to manage impact of NZAS closure:
 - > 100% low variable-cost renewable generation
 - > 100% North Island generation portfolio, free of major transmission constraints and close to major load centres
 - > A major supplier of NI reserves which support high north HVDC transfer

POSSIBLE TRANSMISSION UPGRADES



SPOT PRICE OUTCOMES DEPENDENT ON TRANSMISSION BUILD; THERMAL RESPONSE

- > Spot price impacts likely from FY2022
- > Transmission constraints limit initial impact to South Island
 - > Price impacts primarily felt in the Lower South Island before Clutha Upper Waitaki Lines Project complete; then in the South Island before HVDC upgrade
- > Once transmission upgrades complete, spot price outcomes dependent on thermal rationalisation
 - > Tiwai-equivalent demand decrease during Level 4 lockdown saw prices of \$48/MWh at Otahuhu and \$42/MWh at Benmore



Source: Electricity Authority, EMI - HVDC transfer

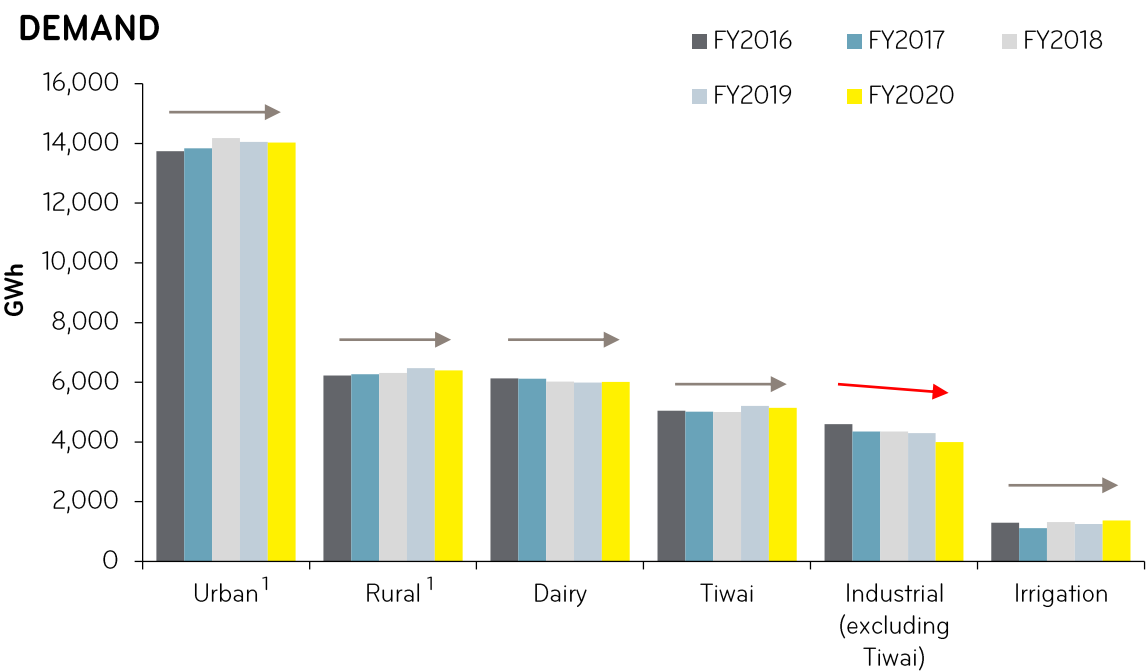


LOCKDOWN IMPACT FELT ACROSS ALL MAJOR SECTORS

- > National demand down 1.0% versus FY2019 led by industrial and urban sectors
 - > Industrial sector most affected by lockdown; Tiwai shut down Potline 4 in early April leading to 45MW load decrease
 - > Urban and rural sector demand decreased reflecting lower commercial activity
 - > Increase in irrigation load due to low rainfall during the year

FY2020 NORMALISED DEMAND GROWTH BY SECTOR

| Sector | GWh | Sector %Δ | Total %Δ |
|--------------------|-------------------|-----------|----------|
| Urban ¹ | -63 | (0.4)% | (0.2)% |
| Rural ¹ | -88 | (1.3)% | (0.2)% |
| Dairy processing | +11 | 0.2% | 0.0% |
| Irrigation | +114 | 9.1% | 0.3% |
| Industrial | -362 | (3.8)% | (0.9)% |
| Other | +2 | 0.1% | 0.0% |
| Total | -387 ² | | (1.0)% |



REGULATORY DEVELOPMENTS

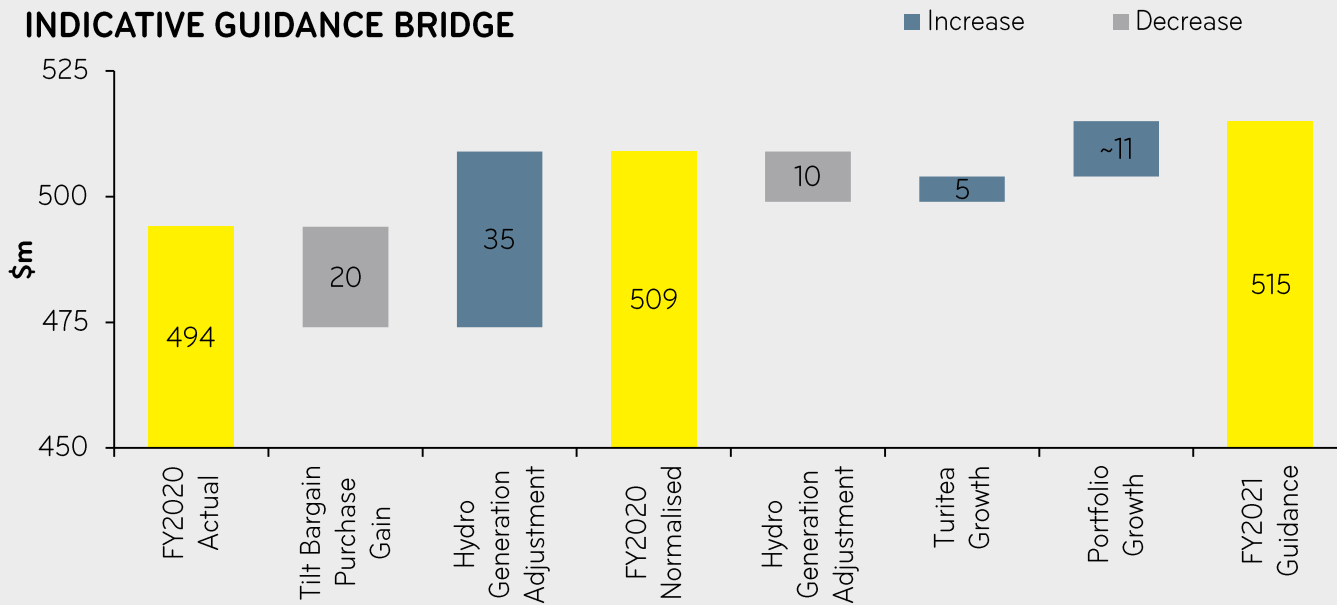
- > Emissions Trading Scheme (ETS)
 - > Legislation to strengthen ETS implemented
 - > Increase in fixed price option to \$35/T and phase down of unit subsidies
 - > Mercury's carbon credit balance was ~1.1m tonnes at the end of FY2020
- > Transmission Pricing Methodology (TPM)
 - > Electricity Authority announced revised TPM will commence from 1 April 2023 with implementation subject to development work by Transpower
 - > Decision subject to legal challenge by Trustpower; timeline may be extended
- > Electricity Price Review (EPR) actions
 - > Active involvement in EA's ongoing review of the Medically Dependent and Vulnerable Consumer Guidelines
- > Refer Note 17, FY2020 Group Financial Statements:

There is an application before the Waitangi Tribunal seeking recommendations for the resumption of land, including at Maraetai. Mercury has received advice that the Tribunal's decision on the matter is unlikely to impair the Group's ability to operate its hydro assets.



FY2021 GUIDANCE

- > FY2021 EBITDAF guidance of \$515m on 3,900GWh of hydro generation, subject to hydrological volatility, wholesale market conditions and any material adverse events, significant one-off expenses or other unforeseeable circumstances
- > FY2021 ordinary dividend guidance 17.0cps (up 7.6% on FY2020)
- > FY2021 stay-in-business capital expenditure guidance of \$80m



Q&A





MERCURY'S COMPETITIVE ADVANTAGE



100% renewable generation

- > Two low-cost complementary fuel sources in baseload geothermal and peaking hydro with 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 able to firm intermittent renewables



High performance teams

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



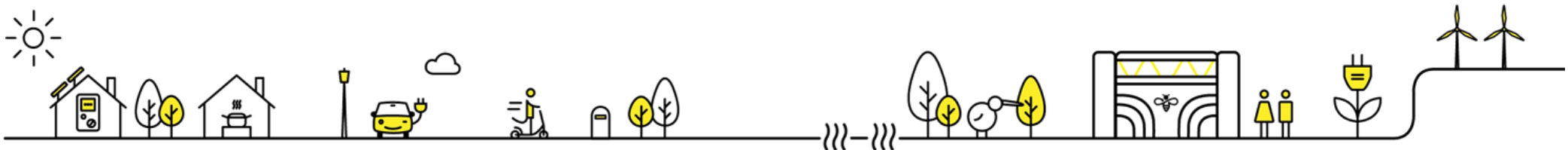
Track record of customer engagement

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



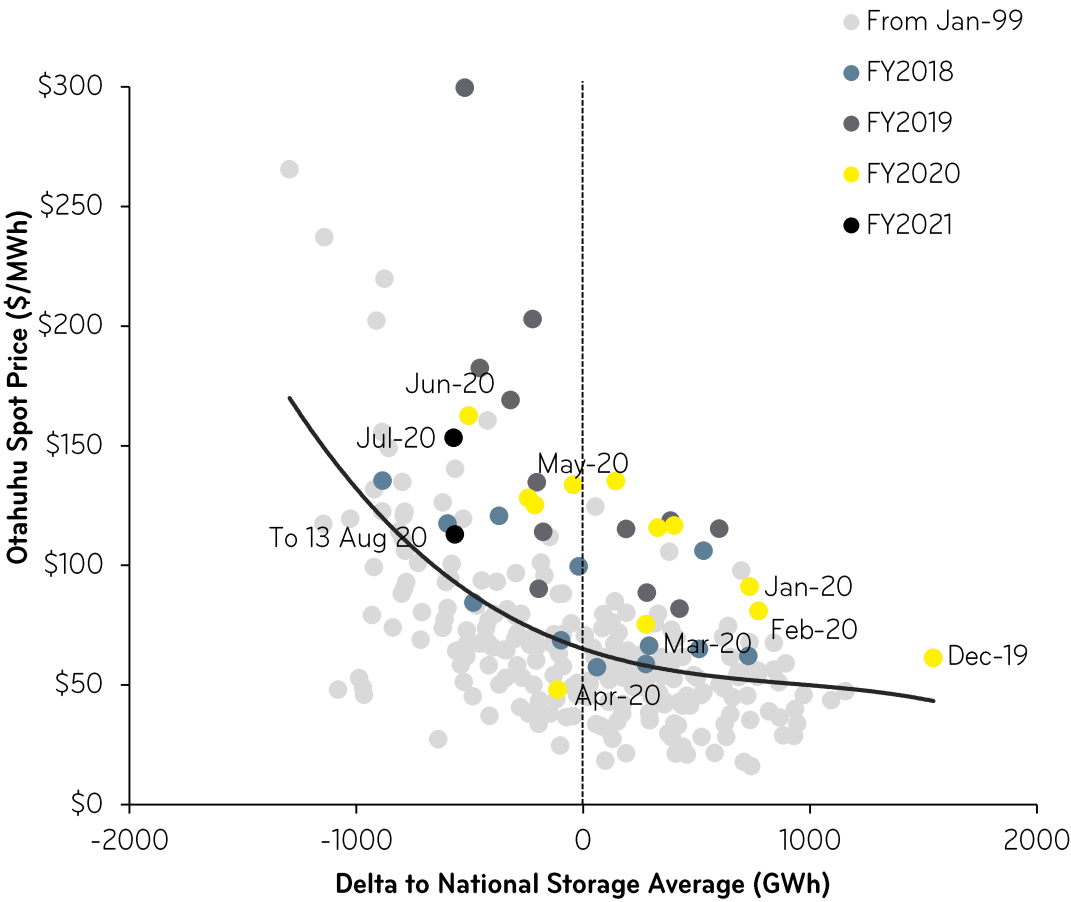
Long-term commercial partnerships

- > With Maori landowners and other key stakeholders

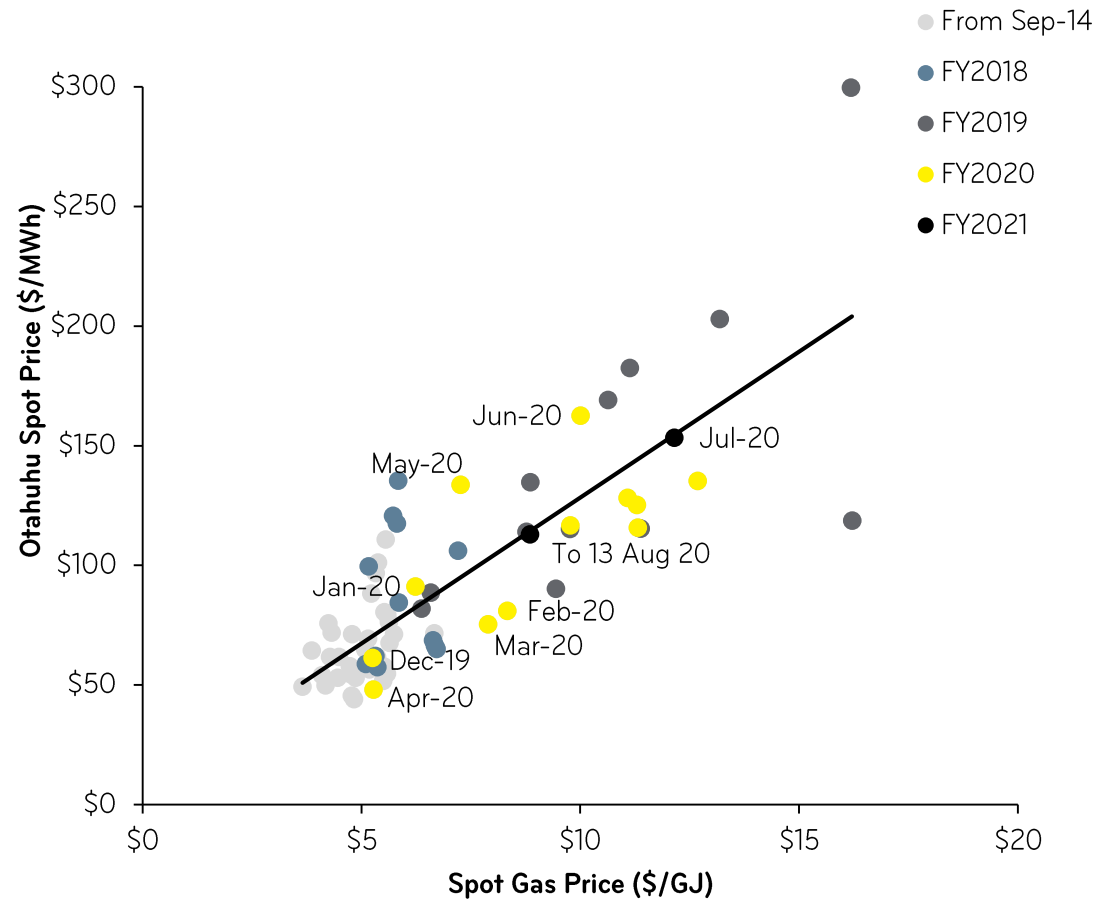


ELECTRICITY SPOT PRICE REFLECTS GAS AVAILABILITY AND HYDROLOGY

HYDRO STORAGE VS. SPOT ELECTRICITY PRICE



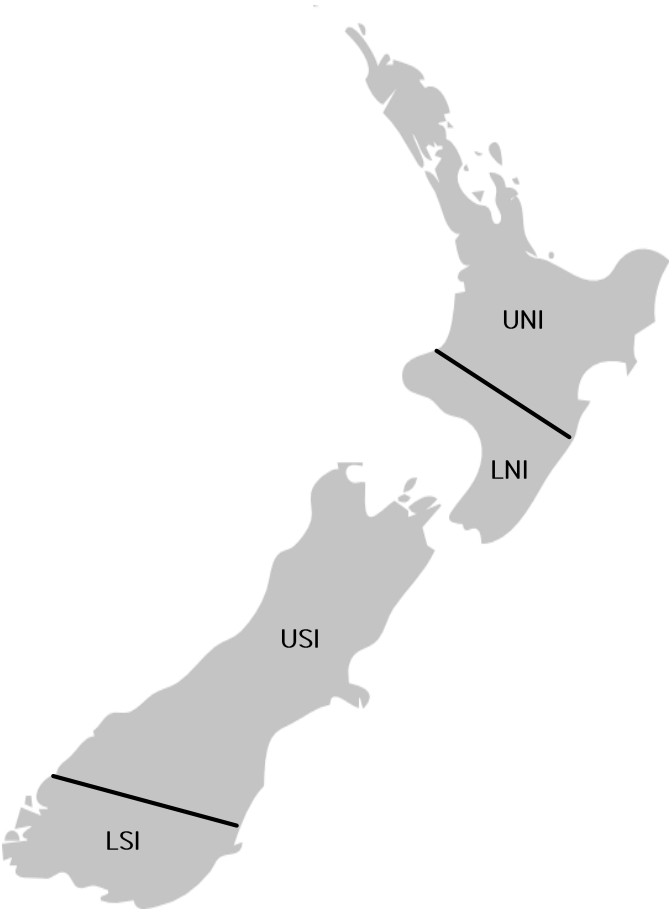
SPOT GAS VS. SPOT ELECTRICITY PRICE



SALES PORTFOLIO PRIMARILY UPPER NORTH ISLAND

| FY2020 | Mass Market | Commercial & Industrial |
|--------------------|-------------|-------------------------|
| Upper North Island | ~2,150GWh | ~2,000GWh |
| Lower North Island | ~350GWh | ~500GWh |
| Upper South Island | ~300GWh | ~250GWh |
| Lower South Island | ~100GWh | ~50GWh |

> Excludes Virtual Asset Swap volumes of ~600GWh



NEW SEGMENT REPORTING

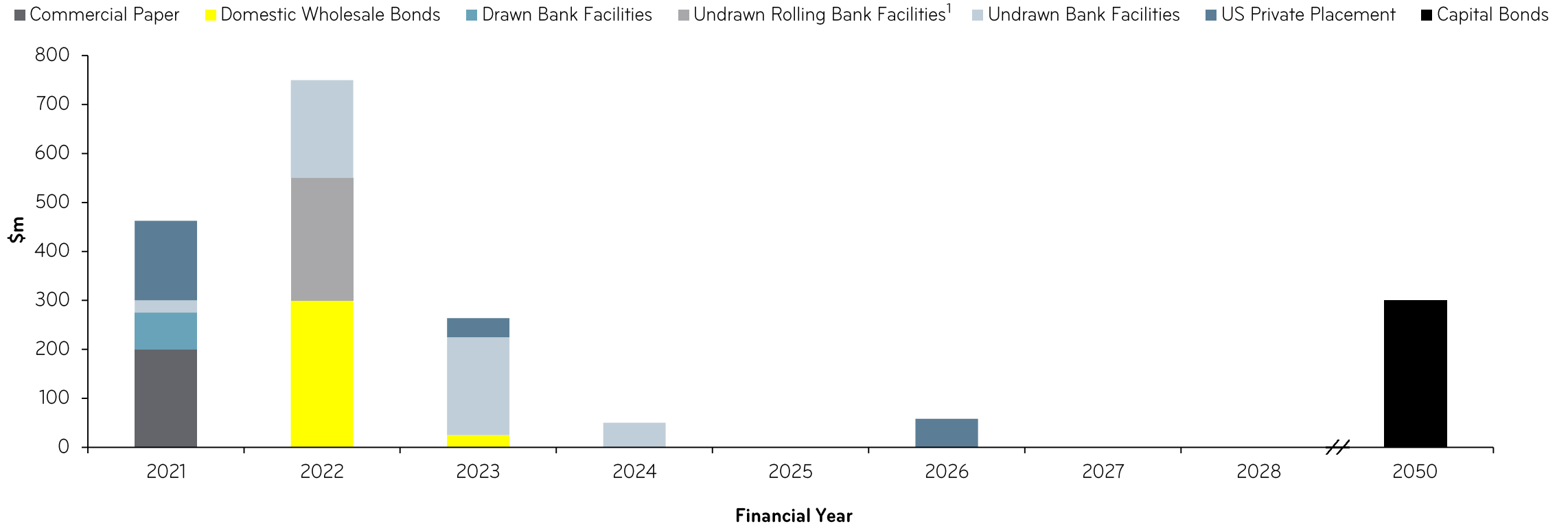
- > Generation/Wholesale segment includes electricity production, electricity trading, generation development and earnings from associates
 - > Also includes revenue from sale of electricity to commercial & industrial customers
- > Retail segment includes energy sales and related services and products, including solar equipment, to mass market customers
- > Inter-segment transactions carried out on normal commercial terms

| | Generation/ Wholesale | Retail | Other | Inter- Segment | Total |
|----------------------|--------------------------|----------|----------|-------------------|------------|
| Total Revenue | 1,318 | 752 | - | (302) | 1,768 |
| Energy costs | (604) | (308) | - | 302 | (610) |
| Other direct costs | (112) | (362) | - | - | (474) |
| Opex | (105) | (63) | (22) | - | (190) |
| Corporate allocation | (11) | (11) | 22 | - | - |
| Total Expenses | (832) | (744) | - | 302 | (1,274) |
| EBITDAF | 486 | 8 | - | - | 494 |



DIVERSIFIED FUNDING PROFILE

DEBT MATURITIES AS AT 30 JUNE 2020



- > Diversified funding sources: commercial paper, bank facilities, domestic wholesale bonds, USPP and capital bonds
- > \$300m of bank facilities added in H2-FY2020 to provide liquidity headroom with Turitea construction progressing and Dec-2020 USPP maturity



FINANCIAL DERIVATIVES

| | 12 months ended 30 June 2020 | 12 months ended 30 June 2019 |
|---|---------------------------------|---------------------------------|
| Energy Margin contribution (\$m) | | |
| Sell CFDs | (59) | (171) |
| Buy CFDs | 22 | 64 |
| Other Financial Derivatives | 17 | 1 |
| Total Energy Margin contribution | (19) | (106) |



NON-GAAP MEASURES

- > Energy Margin is sales from electricity generation and sales to customers and derivatives, less energy costs, line charges, other direct costs of sales, and third-party metering
- > Operating Expenditure represents employee compensation and benefits, maintenance expenses and other expenses
- > EBITDAF (or Operating Earnings) is earnings before net interest expense, tax expense, depreciation, amortisation, change in the fair value of financial instruments, gain on sale and impairments
- > Underlying Earnings After Tax is profit for the year after removing one-off and/or infrequently occurring events (exceeding \$10 million of profit before tax, which represents material items), impairments, any change in the fair value of derivative financial instruments and gain on sale, all net of tax expense
- > Free Cash Flow is net cash from operating activities less stay-in-business capital expenditure
- > Stay-In-Business (SIB) Capital Expenditure (CAPEX) is the capital expenditure incurred by the company to maintain its assets in good working order



REFERENCE MATERIAL

MERCURY REFERENCES

| | |
|---|---|
| Mercury Investor Centre | https://www.mercury.co.nz/investors |
| Quarterly Operational Updates | https://www.mercury.co.nz/investors/results-reports/operating-information |
| HY2020 Results Presentation | https://issuu.com/mercurynz/docs/mercury_hy2020_results_presentation_final |
| Investor Roadshow Presentation – November 2019 | https://issuu.com/mercurynz/docs/investor_roadshow_presentation_final |

PUBLICATIONS

| | |
|---|---|
| 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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