

FINANCIAL RESULTS.

SIX MONTHS ENDED 31 DECEMBER 2020

VINCE HAWKSWORTH
Chief Executive

23 February 2021

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Chief Financial Officer



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HY2021 HIGHLIGHTS

\$294m EBITDAF

Up \$36m versus HY2020 due to strong portfolio performance including lifts in sales yields, trading gains and contributions from other items

ELEVATED PRICES PERSIST

Wholesale market prices remain elevated reflecting continued gas deliverability constraints and future demand firming with NZAS decision

FOCUS ON CUSTOMER VALUE

Mercury pursuing value with changing sales composition leading to increased yields; reduced acquisition activity resulting in lower market share as market churn remains high

6.8cps INTERIM DIVIDEND

An increase of 6.3% versus HY2020; full-year guidance of 17.0cps, the 13th year of ordinary dividend growth

RENEWED EMPHASIS ON CONTINUOUS IMPROVEMENT

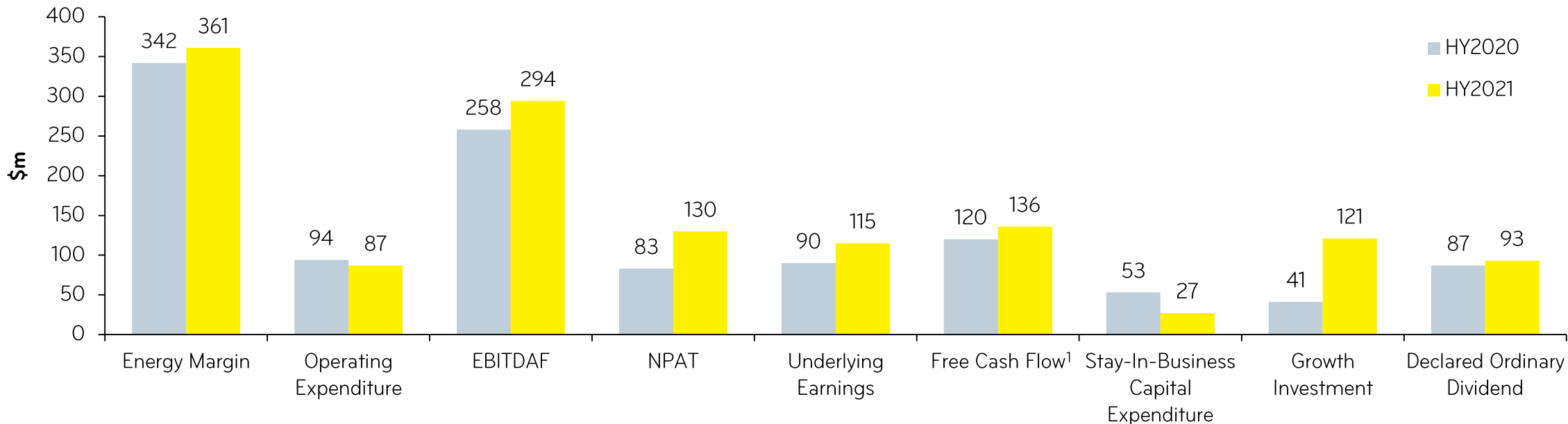
In-house review of opportunities to work smarter, faster and better, setting us up to thrive in the future; seeking \$30m improvement in FY22

TURITEA DELAYED

Due to project delivery delays across design and construction; North section delayed till Oct-21, South section significantly delayed potentially to Jul-23



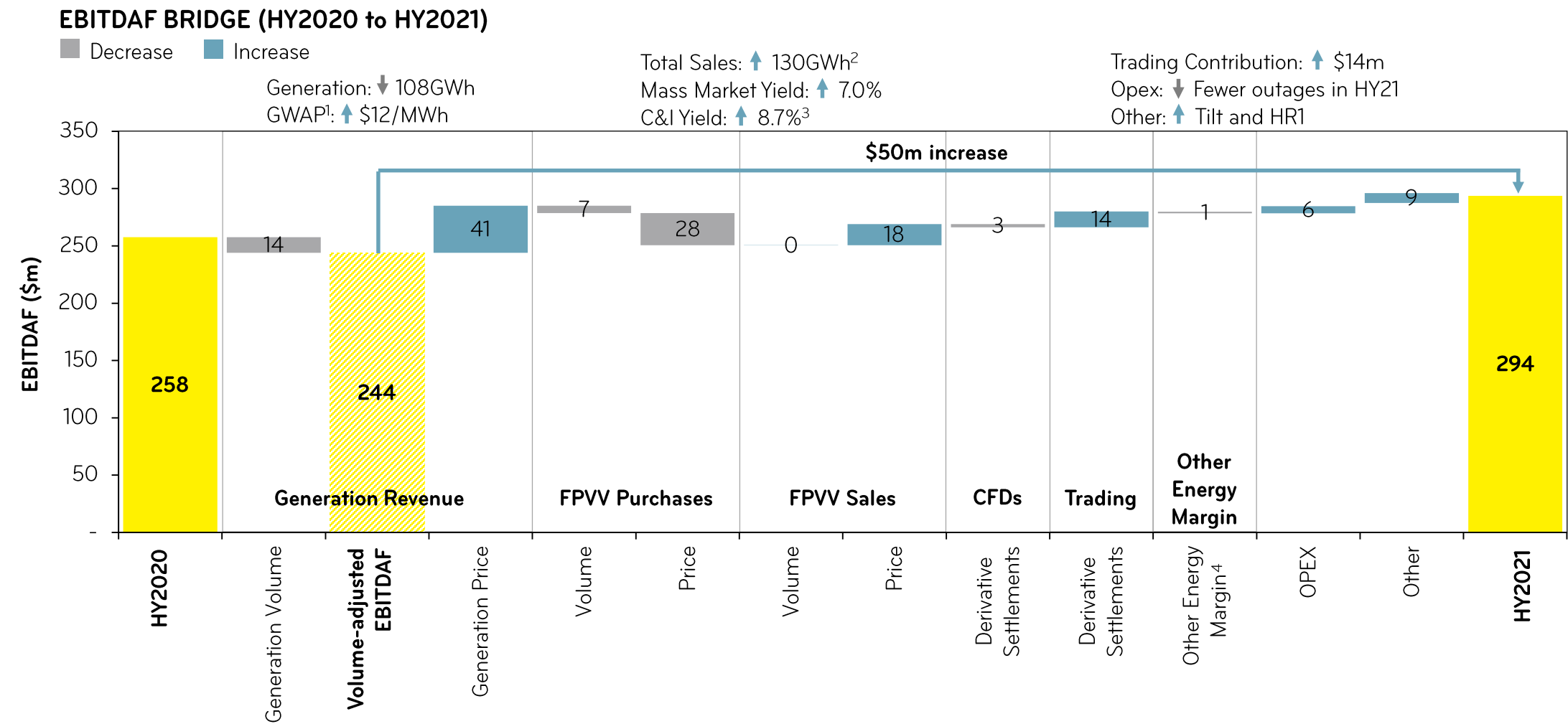
FINANCIAL PERFORMANCE



- > EBITDAF up as 108GWh generation decrease offset by strong portfolio performance and trading gains
 - > Operating Expenditure down due to fewer maintenance outages than carried out in HY2020
- > NPAT up from gain on sale on Hudson Ranch 1 transaction
- > Interim dividend 6.3% higher at 6.8cps; full year dividend guidance maintained at 17.0cps



STRONG UNDERLYING PORTFOLIO PERFORMANCE



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 Includes ancillary services & gas purchases and sales



KEY PERFORMANCE INDICATORS

(versus previous half-year periods / 6-monthly rolling unless indicated)

CUSTOMER		Mercury brand trader churn 6.7% ¹		Net promoter score 19.0 ²		Brand Strength 69 ³	
PARTNERSHIPS		CCC Draft Report supportive of electrification		Commitment to vehicle emissions standards			
KAITIAKITANGA		Portfolio LWAP/GWAP 1.02		Gross Generation Emissions Intensity 33kg CO ₂ e/MWh			
PEOPLE		Zero high severity health and safety incidents		TRIFR 1.49 ⁴			
COMMERCIAL		Annual Total Shareholder Return 32% ⁵		Stay-in-business capital expenditure \$27m		Interim Dividend 6.8cps	

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 to 31 December 2020

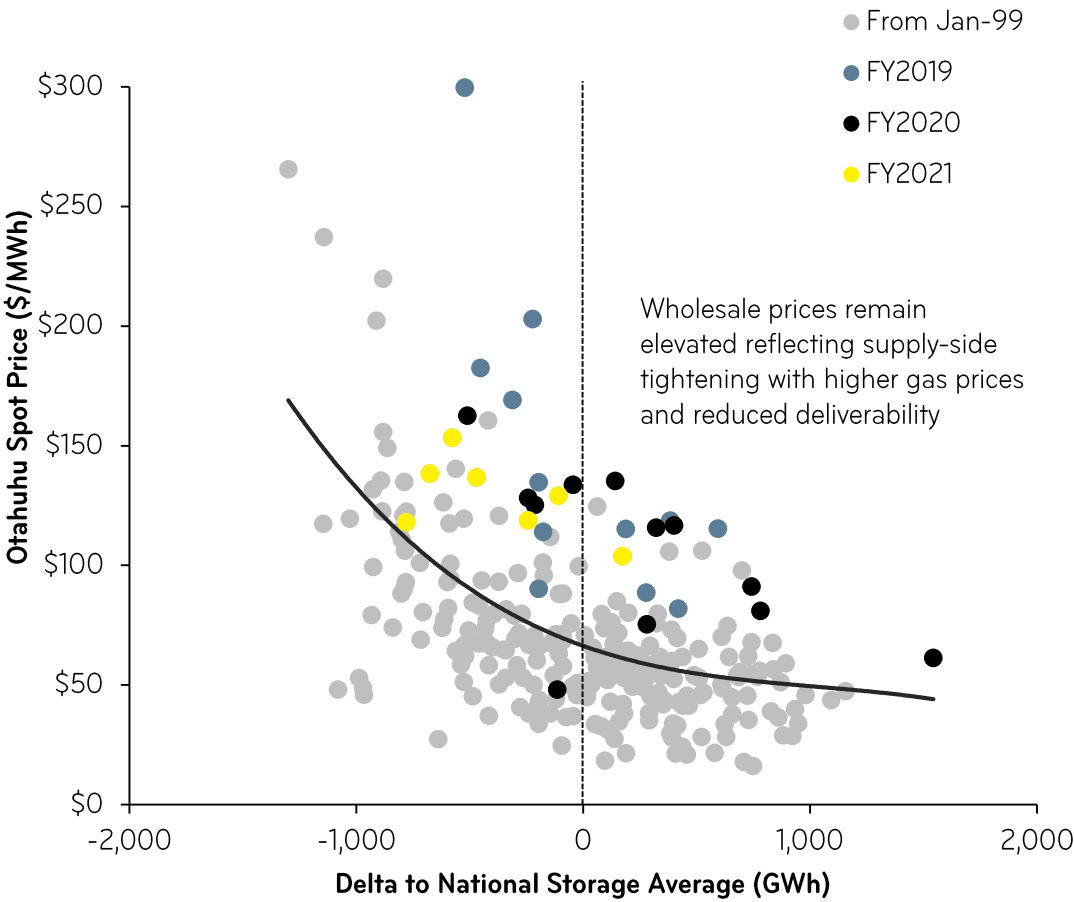
⁴ Total Recordable Injury Frequency Rate per 200,000 hours for the 12 months to 31 December 2020; includes employees and onsite contractors

⁵ 12-monthly rolling average to 31 December 2020

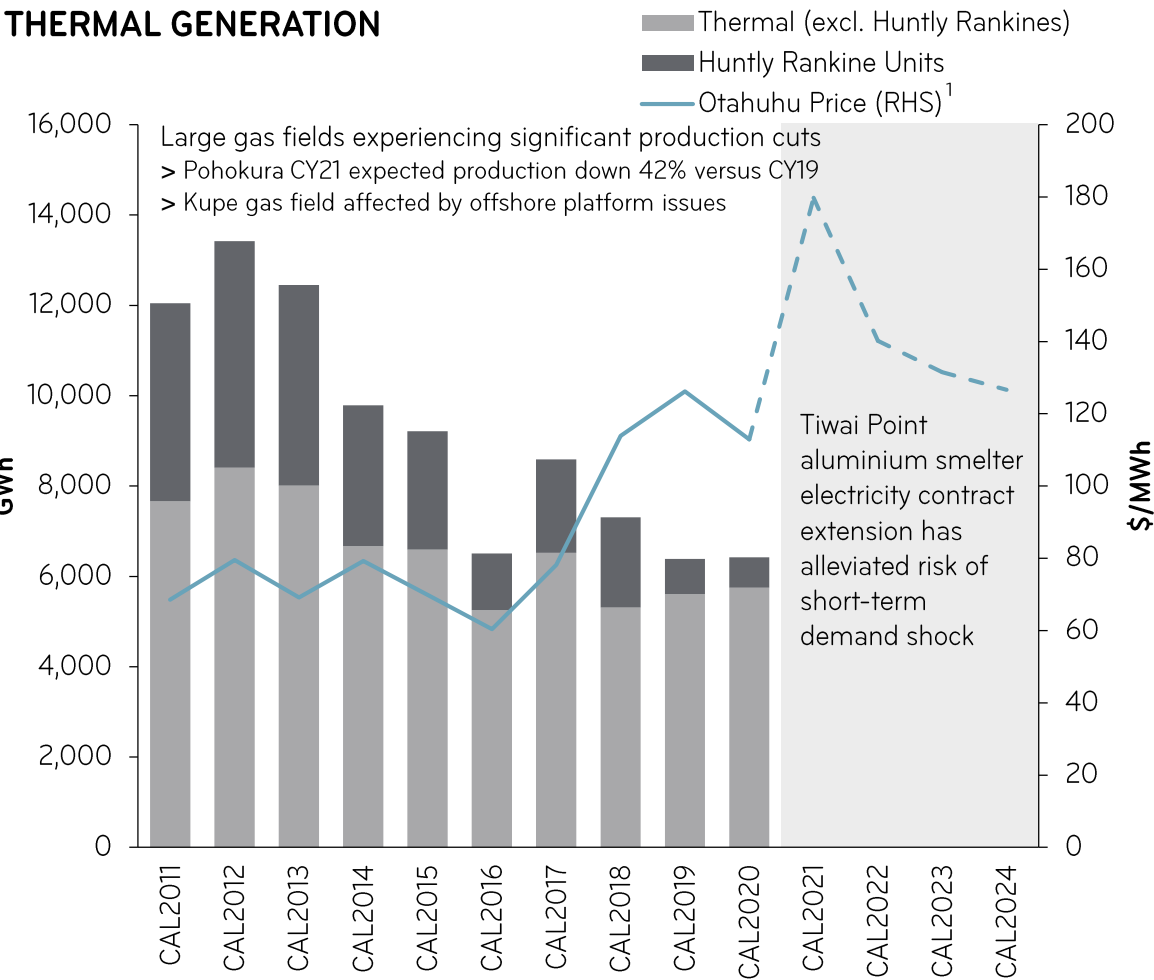


REDUCED GAS AVAILABILITY LIFTS ELECTRICITY SPOT PRICES

HYDRO STORAGE VS. SPOT ELECTRICITY PRICE

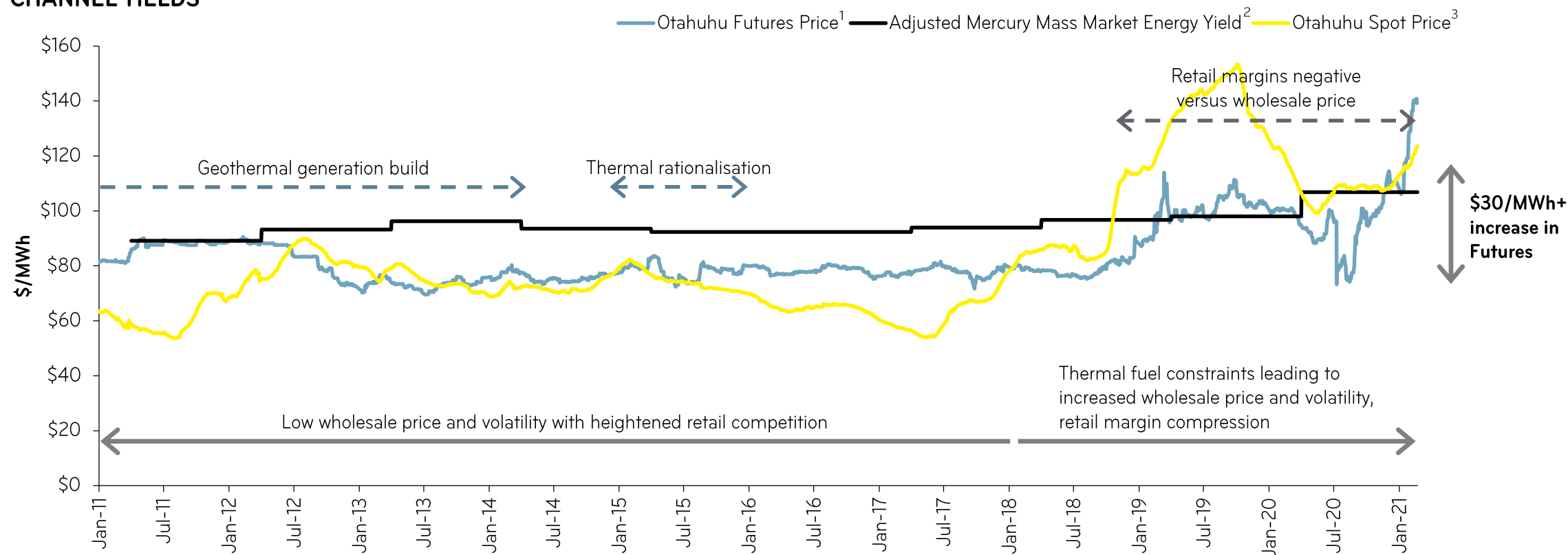


THERMAL GENERATION



RETAIL MARGIN COMPRESSION WITH SUSTAINED ELEVATED WHOLESALE PRICES

CHANNEL YIELDS



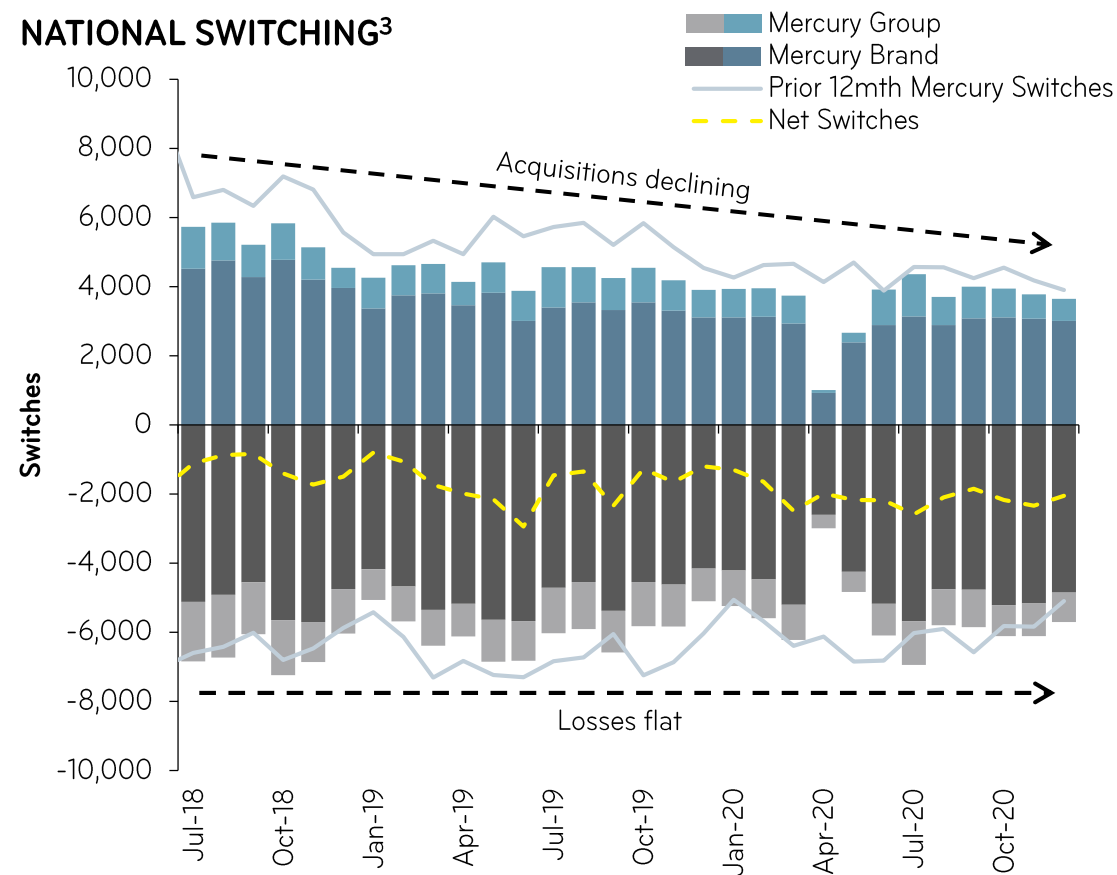
- > Prices supported in the near-term by Tiwai Point aluminium smelter contract extension and in the longer-term by Climate Change Commission draft advice report endorsing electrification to meet emissions targets
- > Market responding to strong price signals with recent generation development announcements



FOCUS ON CUSTOMER VALUE LEADS TO SHIFT IN SALES COMPOSITION

- > Mercury continues to focus on customer value; seeking to optimise value of incremental sales across all channels
 - > Strategy reflected in lift in reported sales yields in all segments
 - > Mercury estimated rates on Powerswitch comparison website are ~\$20-\$60/MWh higher outside Auckland versus cheapest offers from other major gentailers¹
 - > Assuming underlying hedges based on recent futures prices, this implies low-to-negative gross retail margins²
- > Market churn remains high despite low retail margins
- > Reduced Mass Market volume has been replaced with higher yielding wholesale sales
 - > HY2021 Mass Market sales volumes decreased by 117GWh versus HY2020; C&I sales volumes increased 172GWh

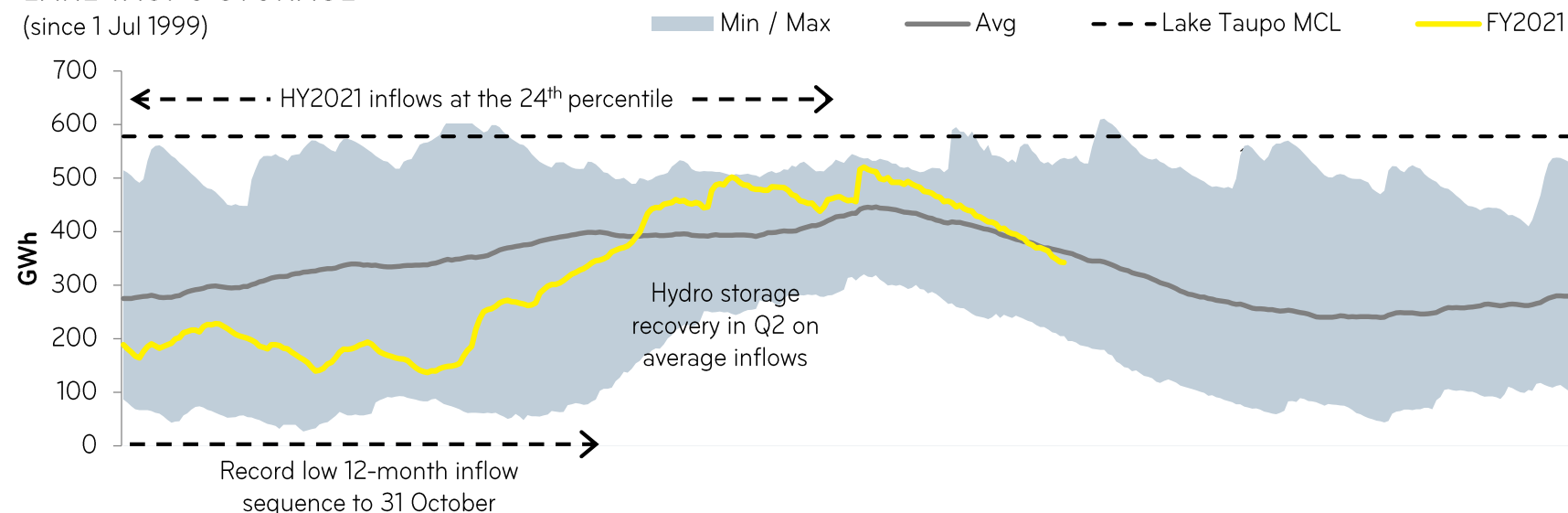
NATIONAL SWITCHING³



PORTFOLIO MANAGEMENT VITAL IN RESPONSE TO FLUCTUATING HYDROLOGY

LAKE TAUPŌ STORAGE

(since 1 Jul 1999)



Month End	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb ¹	Mar	Apr	May	Jun
Hydro Generation - Delta to Average ² (GWh)		-31	-36	-75	-107	-54	69	2					
Waikato Inflows - Delta to Average ³ (GWh)		-64	-104	-74	-74	60	11	-34					
Taupō Storage - Delta to Average ² (GWh)	-90	-94	-145	-101	-33	109	21	20					
Spot Price - Otahuhu (\$/MWh)		\$153	\$118	\$138	\$129	\$104	\$119	\$137	\$206				
Futures Price (M-3 ⁴) Otahuhu (\$/MWh)		\$96	\$108	\$123	\$105	\$122	\$109	\$110	\$126	\$144	\$173		

Source: NZXHydro, WITS, ASX

¹ To 21 February 2021 inclusive

² Monthly average since July 1999

³ Monthly average since July 1927

⁴ Closing price three months prior



REGULATORY DEVELOPMENTS

- > 2021 Climate Change Commission Draft Advice to Government positive for electricity sector
 - > Renewable electricity seen as key driver to decarbonising New Zealand economy to 2050
 - > Supports Mercury view that Government should adopt renewable energy target rather than a goal of 100% renewable electricity
 - > Strong support for transport electrification – NZ Government already committed to an emissions standard and considering other incentives
- > Undesirable Trading Situation
 - > Electricity Authority confirmed there was a UTS in late 2019 with subsequent 'actions to correct' expected in February
 - > Mercury unlikely to be materially impacted



TURITEA WORKS CHALLENGING

Transmission & connection

- > Transmission and grid connection works largely complete

Wind farm works

- > 14 base tower sections erected with 10 nacelles installed
- > North section completion delayed to October 2021 due to contractor delivery delays across design and construction
 - > Blade access critical path
- > South section significantly delayed due to contractor delivery delays, including knock-on impacts from northern section delays
 - > Latest Vestas schedule shows completion in July 2023; concerted efforts being made to bring that date forward
- > EPC contract with Vestas has industry standard delay damages clauses
- > Health & Safety a focus as construction works being carried out on difficult terrain



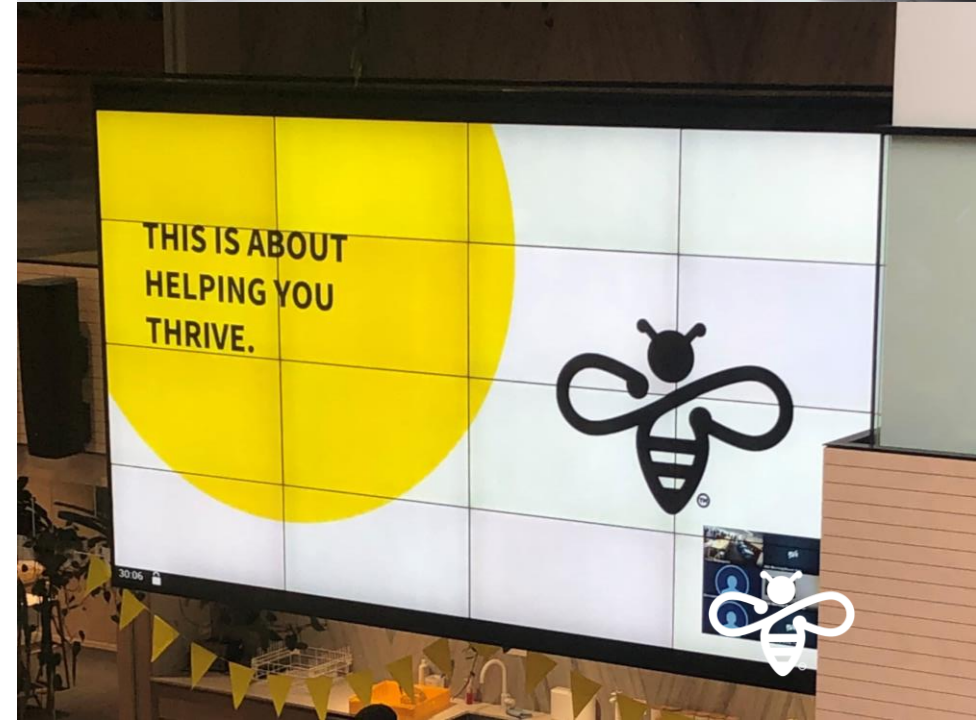
Transmission tower construction



Nacelle installation

BUILDING A CULTURE OF CONTINUOUS IMPROVEMENT

- > Mercury has reinvigorated its focus on continuous improvement with an in-house review of opportunities to work smarter, faster and better, setting us up to thrive in the future
- > Embedding and delivering on a culture of improvement seeking to deliver a \$30m EBITDAF benefit in FY2022
- > Initial areas of focus include:
 - > Adopting new ways of working
 - > Data enabled operational excellence in generation and trading
 - > Delivering customer value
 - > Improving our enterprise-wide capability and processes
 - > Enabling tomorrow, today
- > Xcelerate program bringing together and enabling teams from across the business to rapidly explore and design solutions to key issues facing the business



POSITIONING MERCURY TO SUCCEED

- > Issued \$300m of Green Bonds to retail and wholesale investors
- > Sold interest in Hudson Ranch 1 geothermal power station with net proceeds of ~\$40m
 - > Retained minority interest in EnergySource, advancing lithium extraction from geothermal brine
- > Mercury considering M&A opportunities with strategic reviews at Tilt and Trustpower
 - > No comment on Tilt process
 - > Mercury participating in Trustpower's strategic review of their retail business
- > Puketoi wind farm – progressing Mercury's next best generation development opportunity
- > Simplifying the business through:
 - > Sale of Mercury Solar to ChargeSmart on 1 Feb
 - > Bosco customers transferred to Mercury brand, increasing functionality and product offerings to 5,000 customers through newer Mercury platform



FY2021 GUIDANCE

- > FY2021 EBITDAF guidance has been revised from \$535m to \$520m reflecting an expected 100GWh decrease in full year hydro generation to 3,800GWh due to dry weather in the Taupo catchment and ASX electricity futures indicating wholesale prices remaining elevated for the remainder of the financial year
 - > Guidance may change and remains subject to hydrological volatility, wholesale market conditions and any material adverse events, significant one-off expenses or other unforeseeable circumstances
- > FY2021 ordinary dividend guidance maintained at 17.0cps (up 7.6% on FY2020); interim dividend of 6.8cps
- > FY2021 stay-in-business capital expenditure guidance has been revised from \$80m to \$70m



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



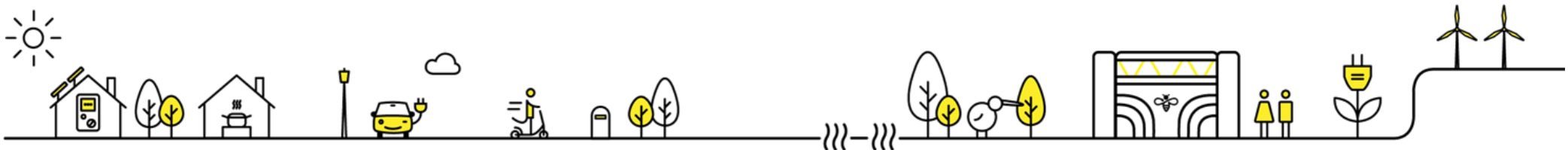
Track record of customer engagement

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



Long-term commercial partnerships

- > With Maori landowners and other key stakeholders



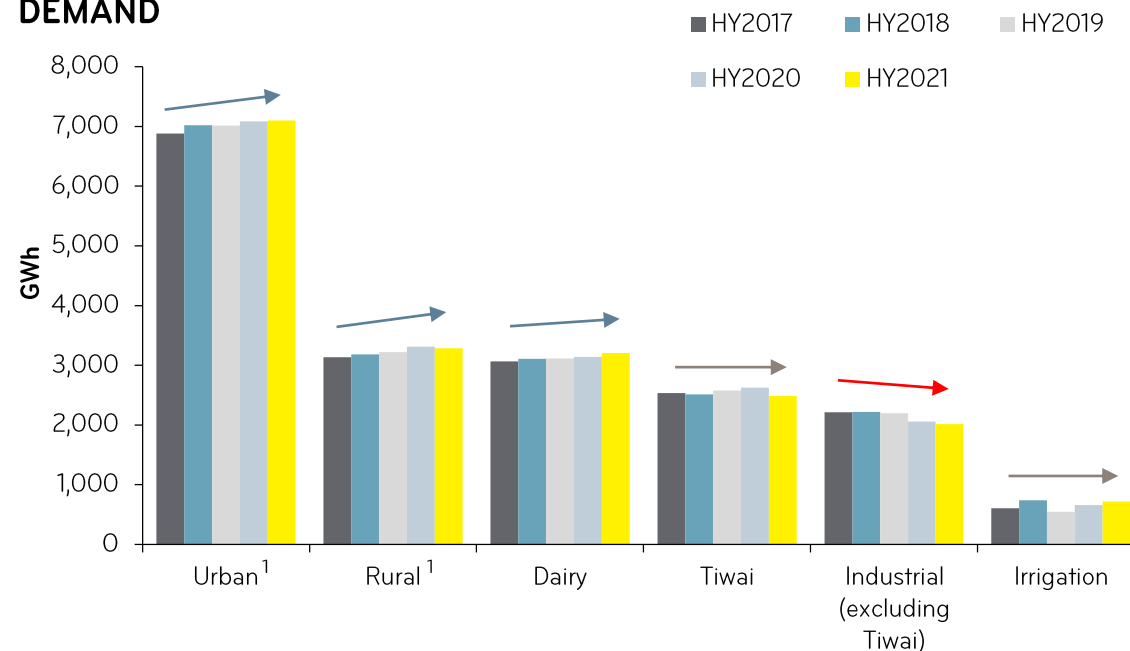
DEMAND RESILIENT TO COVID-19 IMPACT

- > National demand flat, down 0.2%¹ versus HY2020 as decreased industrial sector load was offset by increases across most other sectors
- > Industrial demand declined as large users reduced production due to economic outlook
 - > Tiwai average demand decreased 5% from 595MW in HY2020 to 563MW in HY2021
 - > Reductions in industrial load seen at Kawerau and Glenbrook

HY2021 NORMALISED DEMAND GROWTH BY SECTOR

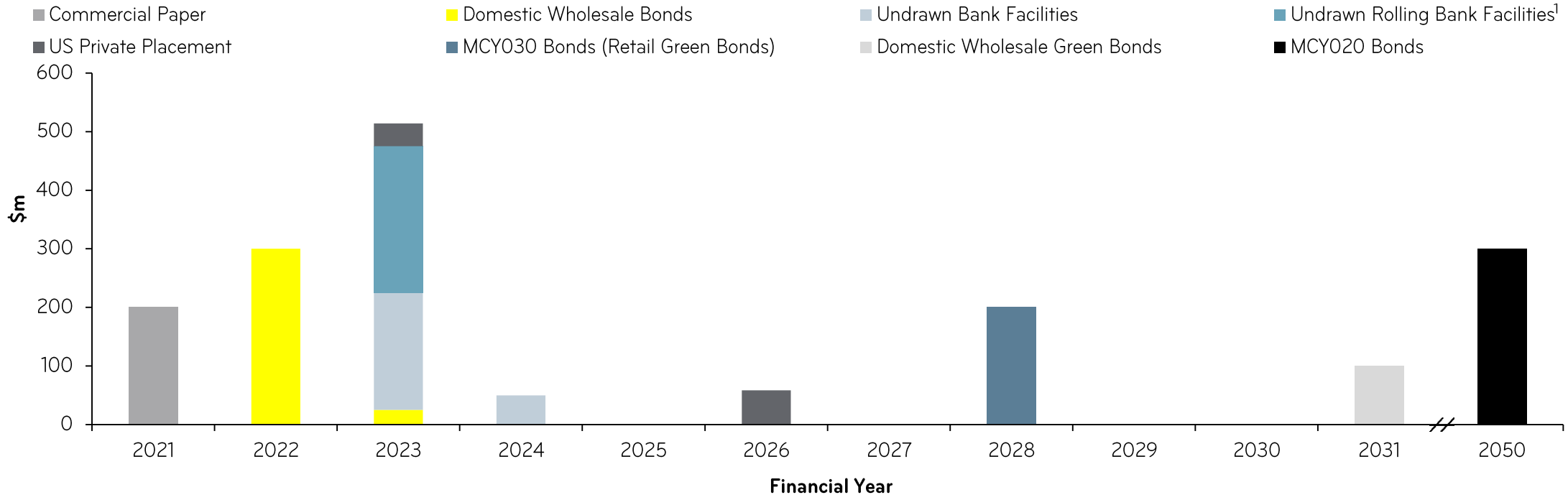
Sector	GWh	Sector %Δ	Total %Δ
Urban ¹	+19	0.2%	0.1%
Rural ¹	-28	(0.8)%	(0.1)%
Dairy processing	+61	1.9%	0.3%
Irrigation	+61	9.3%	0.3%
Industrial	-182	(3.9)%	(0.9)%
Other	+29	(0.5)%	0.1%
Total	-40		(0.2)%

DEMAND



DIVERSIFIED FUNDING PROFILE

DEBT MATURITIES AS AT 19 FEBRUARY 2021



- > Diversified funding sources: commercial paper, bank facilities, domestic wholesale bonds, domestic senior retail bonds, USPP and capital bonds
- > Mercury issued \$200m of senior retail green bonds (MCY030 Bonds) and \$100m of wholesale green bonds in HY2021, with proceeds primarily earmarked to the construction of the Turitea wind farm
- > Mercury is considering a new senior retail green bond issuance in 2H2021 to refinance the Sep-21 debt maturity



FINANCIAL DERIVATIVES

	6 months ended 31 December 2020	6 months ended 31 December 2019
Energy Margin contribution (\$m)		
Sell CFDs	(59)	(48)
Buy CFDs	22	14
Other Financial Derivatives	24	10
Total Energy Margin contribution	(14)	(24)



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 period 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 provided by 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
FY2020 Results Presentation	https://issuu.com/mercurynz/docs/mercury_fy2020_results_presentation_final?fr=sZTcwYTE4MTY2Nzk

PUBLICATIONS

Climate Change Commission – Draft Advice	https://www.climatecommission.govt.nz/get-involved/our-advice-and-evidence/
Transpower – Electrification Roadmap	https://www.transpower.co.nz/about-us/transmission-tomorrow/electrification-roadmap
Productivity Commission – Low-Emissions Economy Report	https://www.productivity.govt.nz/assets/Documents/4e01d69a83/Productivity-Commission_Low-emissions-economy_Final-Report.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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