

Mercury

Investor Roadshow

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15 November 2017

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MERCURY AT A GLANCE

Market Capitalisation of

\$4.5b¹

2nd largest NZ gentailer

11th largest NZX50 company by market capitalisation

**100% RENEWABLE GENERATOR,
RETAILER AND METERING PROVIDER**

~7,000GWh generation per annum from flexible hydro and baseload geothermal

~390,000 customers

2nd largest NZ meter data and services provider

Dual listing on the NZX and ASX

MCY.NZ / MCY.AX

Minimum 51% legislated government ownership

~20% foreign holding

Corporate credit rating from S&P of

BBB+/Stable

Debt of \$1.1b

FY2018 EBITDAF guidance of

\$515m

Based on above-average hydrology and flat operating expenditure

FY2018 ordinary dividend guidance of

\$15.0c

Ordinary net dividend yield of **4.4%¹**
(6.1% gross²)

12 month total net dividend yield including special dividend of **6.0%¹**
(8.3% gross²)

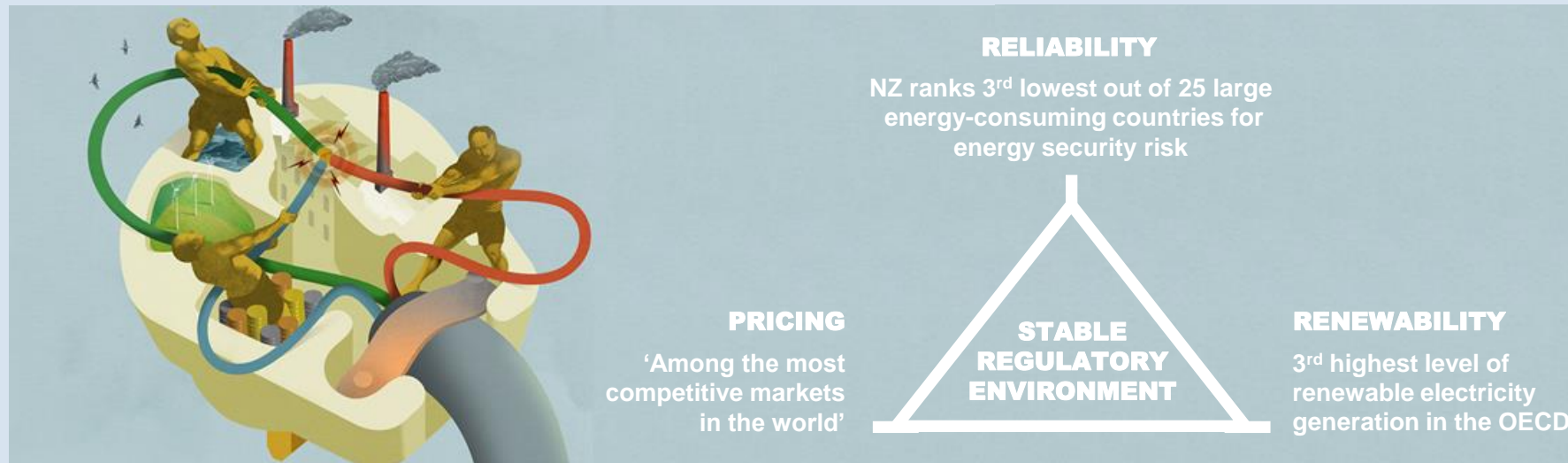
¹ At 1 November 2017

² Including full imputation



NEW ZEALAND'S COMPETITIVE ADVANTAGE IN ELECTRICITY

- > Electricity markets globally seek to balance Reliability, Pricing and Renewability – the 'Electricity Trilemma'
- > **New Zealand has achieved a 'Trifecta':**



- > Opportunity exists in New Zealand to broaden this advantage to reduce reliance on imported fossil fuel

Source: Accenture, Ministry of Business, Innovation & Employment, United States Chamber of Commerce



AUSTRALIA'S 'ELECTRICITY TRILEMMA'

Reliability

- > Coal plant retirements and growing intermittent generation have reduced system stability
 - > Significant outages and unplanned load-shedding including a South Australia state-wide blackout in November 2016

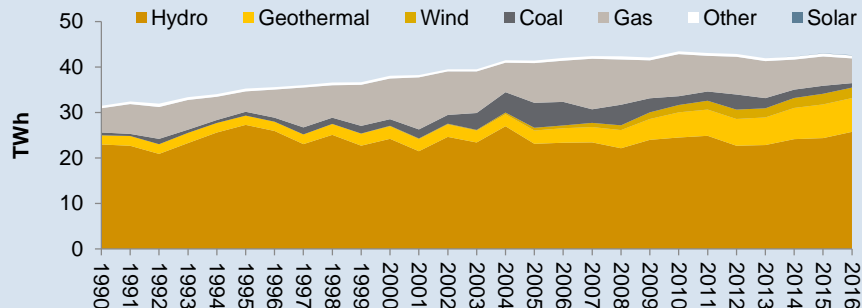
Pricing

- > Wholesale and retail price increases driven by thermal retirement and gas price linkage to international LNG market
 - > 'it is simply not good enough that some families and businesses cannot always afford to turn on their lights, heating and equipment' - Malcolm Turnbull, August 2017

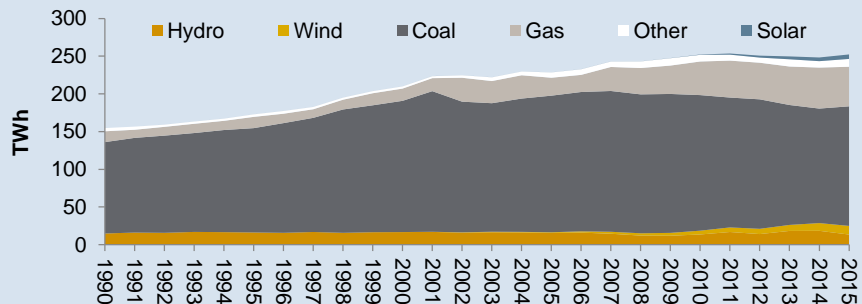
Renewability

- > Renewable generation contribution of 17%
- > Policy uncertainty has slowed investment into renewable generation projects

NEW ZEALAND'S GENERATION MIX



AUSTRALIA'S GENERATION MIX



Source: Ministry of Business, Innovation & Employment, Australian Government - Department of Industry, Innovation and Science



REGULATORY STABILITY

Celebrating 20 years of the market delivering reliability, renewability and choice for customers

- > Electricity sector fully deregulated in the early 1990s with introduction of competitive wholesale and retail markets
 - > Generation investment entirely market-led with no payments for reserve capacity (energy-only wholesale market)
 - > Full retail competition with low barriers to entry
- > Independent regulatory oversight of market and network monopolies from the Electricity Authority (EA)¹ and Commerce Commission²
- > Government sets overall policy direction and is separated from rule-making and regulatory oversight
 - > Labour-led coalition government continues strong support for renewable electricity with a target of 100% by 2035
 - > Coalition agreement flagged broad review of retail pricing inclusive of transmission and distribution costs

Water

- > No charge for non-consumptive application of water for hydro generation
- > Local and central government focus on water quality and water allocation for consumptive uses

Climate

- > NZ Emissions Trading Scheme (ETS) places increased cost on emitting generation sources
 - > Emission units trading at ~NZ\$20/t (equivalent to ~\$8/MWh for a CCGT post removal of transitional arrangements by 2019³)

¹ Regulator for the competitive sectors of the electricity industry

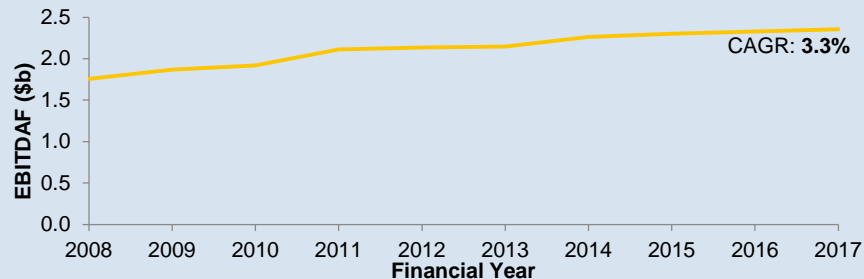
² New Zealand's primary competition regulator and regulator for the monopoly businesses within the electricity industry (Transpower and distribution businesses)

³ Transitioning from 1 unit for 2 tonnes of CO₂ to 1 unit for 1 tonne of CO₂

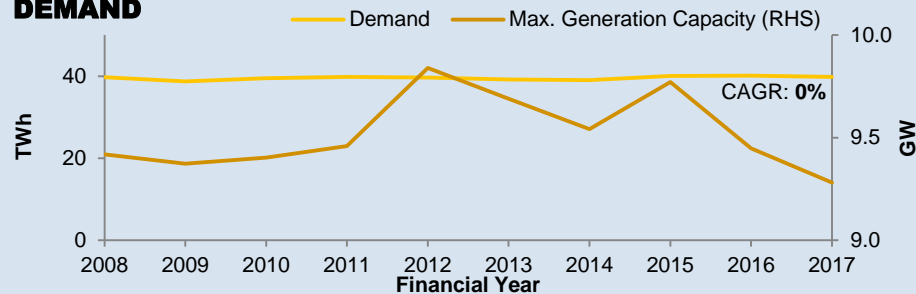


LONG-TERM INDUSTRY TRENDS

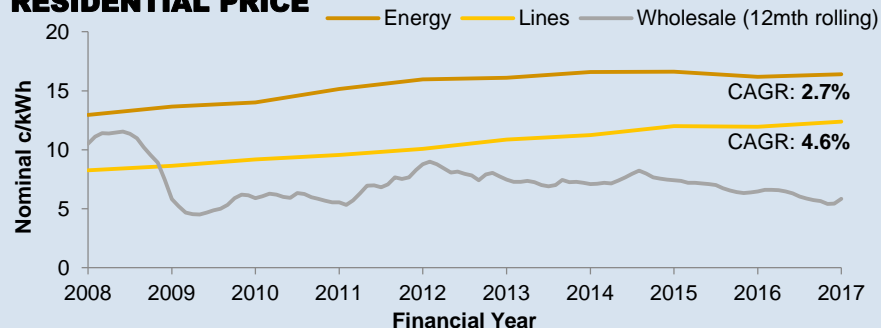
SECTOR EARNINGS



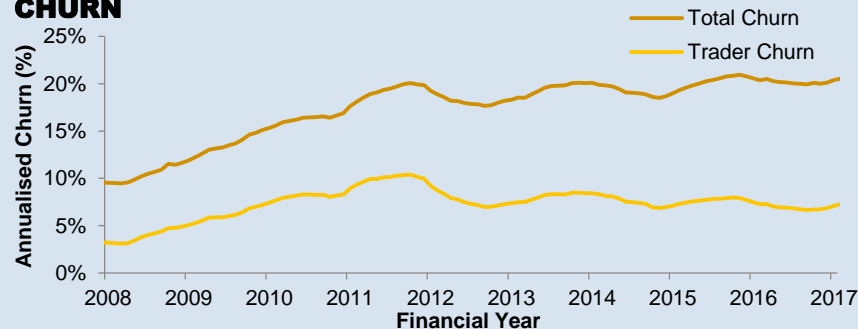
DEMAND



RESIDENTIAL PRICE

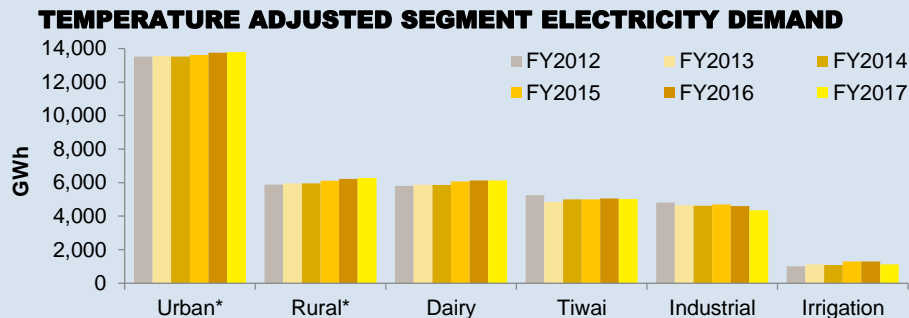
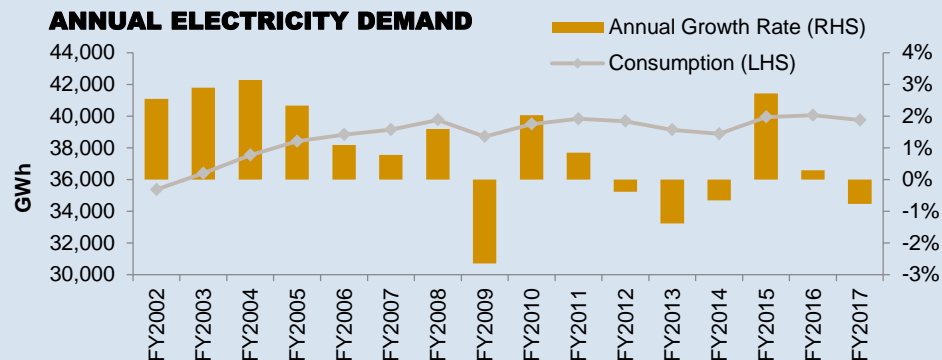


CHURN



STRONG UNDERLYING DRIVERS FOR ELECTRICITY DEMAND

- > System Operator (Transpower) forecasting demand growth of ~1%
 - > Normalised demand* down 0.9% in FY2017 led by reduced industrial and irrigation demand
- > Supportive drivers of demand growth include:
 - > High net migration
 - > GDP per capita growth
- > Adverse drivers of demand growth include:
 - > Reductions in per household consumption due to efficiency
 - > Medium-term trend of de-industrialisation
- > Solar remains a niche customer proposition
 - > No explicit solar subsidy except for variable lines charges
 - > Solar installed in 16,000 or 0.8% of total customer connections

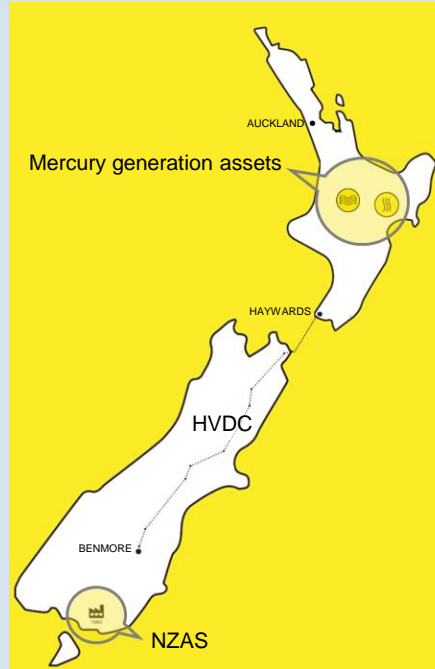


* normalised for temperature



NEW ZEALAND ALUMINIUM SMELTER (NZAS)

- > NZAS represents 13% of New Zealand annual electricity demand¹
- > Indications are that NZAS unlikely to be closed in the near term
 - > Aluminium futures currently trading at 6 year highs at ~NZ\$3,000/t
- > Mercury relatively best placed to deal with resultant wholesale market uncertainty following the closure of NZAS
 - > 100% renewable North Island generation close to major North Island load centres
 - > Wholesale price separation due to increased losses, transmission constraints and North Island reserve requirements



ALUMINIUM PRICE

3 month futures



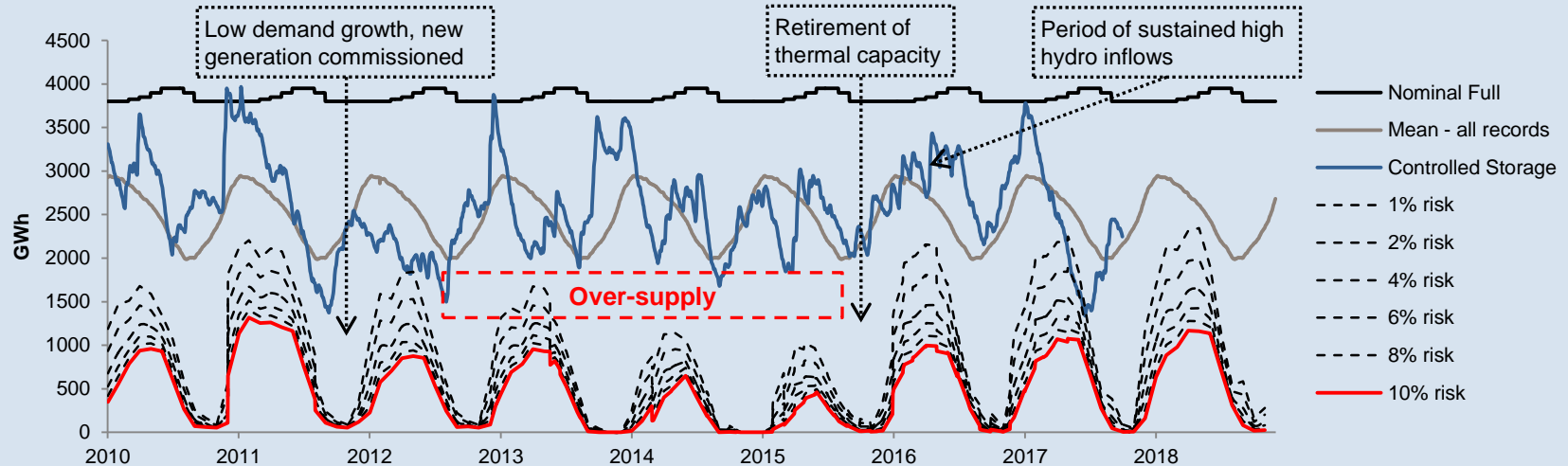
¹ Financial contract exists between NZAS and Meridian for 572MW through to 31 December 2030 with a right to terminate by NZAS with 12 months notice



RE-BALANCED ELECTRICITY SUPPLY

- > Supply and demand balance has tightened after a period of over-supply, as illustrated by the 2016 – 2018 NZ hydro risk curves increasing in magnitude from the 2012 - 2015 curves
- > More balanced supply and demand has increased price sensitivity to changes in storage levels

NZ HYDRO RISK CURVE



Source: Electricity Authority, EMI – Historical hydro risk curves



Our Mission: Energy Freedom.

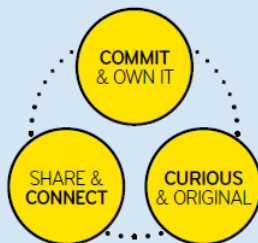
REALISING OUR PURPOSE >>

TO INSPIRE NEW ZEALANDERS
TO ENJOY ENERGY IN MORE
WONDERFUL WAYS

EXECUTING OUR STRATEGY >>

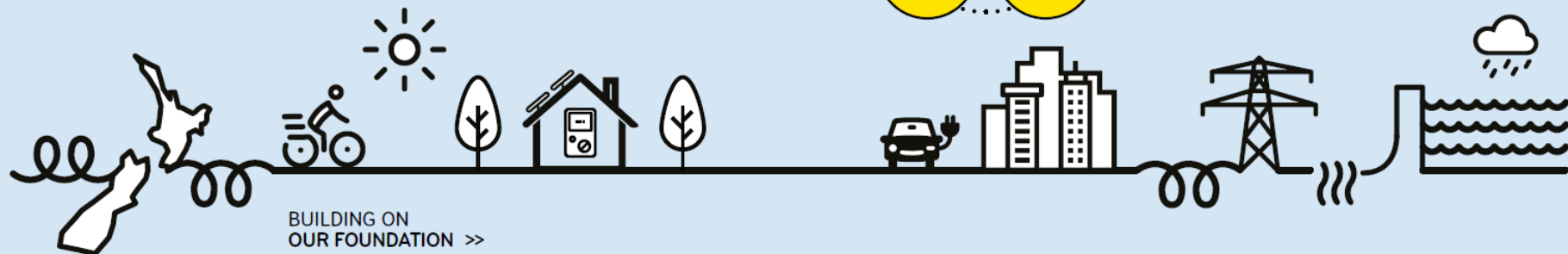
DELIVERING CUSTOMER
ADVOCACY
LEVERAGING CORE STRENGTHS
DELIVERING SUSTAINABLE
GROWTH

LIVING OUR ATTITUDE >>



ACHIEVING OUR GOAL >>

TO BE NEW ZEALAND'S
LEADING ENERGY BRAND



WELLBEING
OF OUR PEOPLE AND
CUSTOMERS

KAITIAKITANGA
THE CUSTODIANSHIP OF
NATURAL RESOURCES

COMMERCIAL
COMMERCIALLY ASTUTE
DECISIONS



MERCURY'S COMPETITIVE ADVANTAGE



100% renewable generation with two low-cost complementary fuel sources in base-load geothermal and peaking hydro



North Island generation is **uniquely located** close to major load centres and not dependent on the inter-island transmission link (HVDC)



Waikato Hydro System is the largest group of **peaking** stations in the North Island



Rain-fed North Island hydro catchment with inflows correlated with winter peak demand (unlike South Island)



Building a track record of customer-led innovation and rewarding **loyalty**



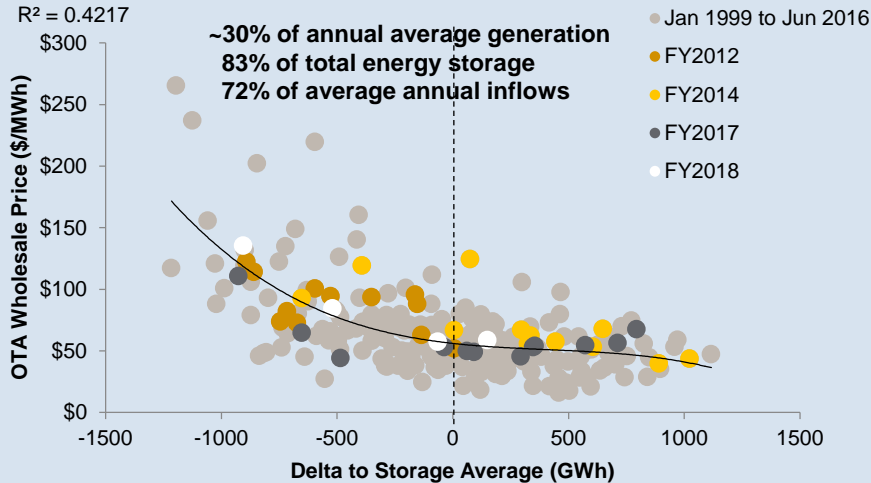
Long-term commercial partnerships with Maori landowners and other key stakeholders



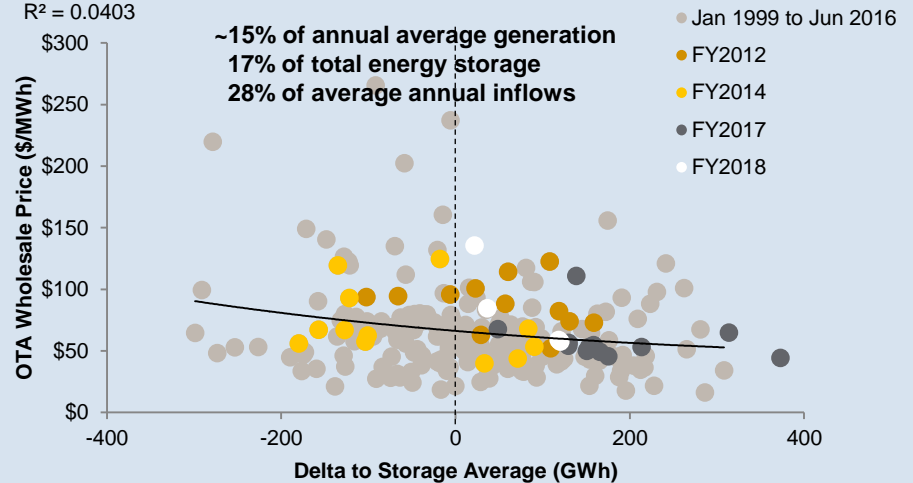
MERCURY'S HYDRO ADVANTAGE

- > Large South Island (SI) hydro catchments and associated hydrology drives wholesale prices
 - > High South Island hydro storage will result in low wholesale prices (and vice versa)
- > Mercury's North Island (NI) hydro catchment has low correlation to wholesale prices
 - > High Mercury hydro storage can occur with high wholesale prices (and low storage with low wholesale prices)

SI MONTHLY HYDRO STORAGE VS PRICE



NI MONTHLY HYDRO STORAGE VS PRICE



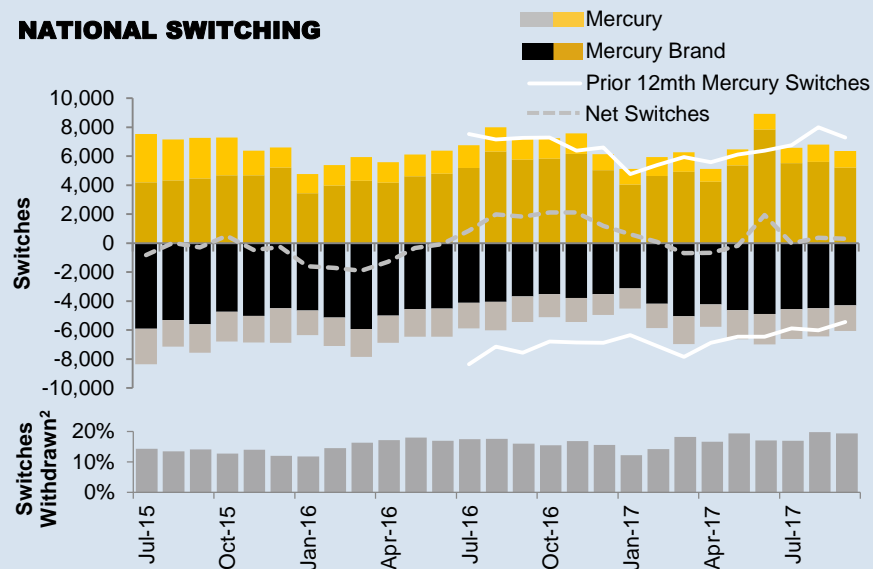
Source: NZX Hydro, Pricing Manager (NZX)



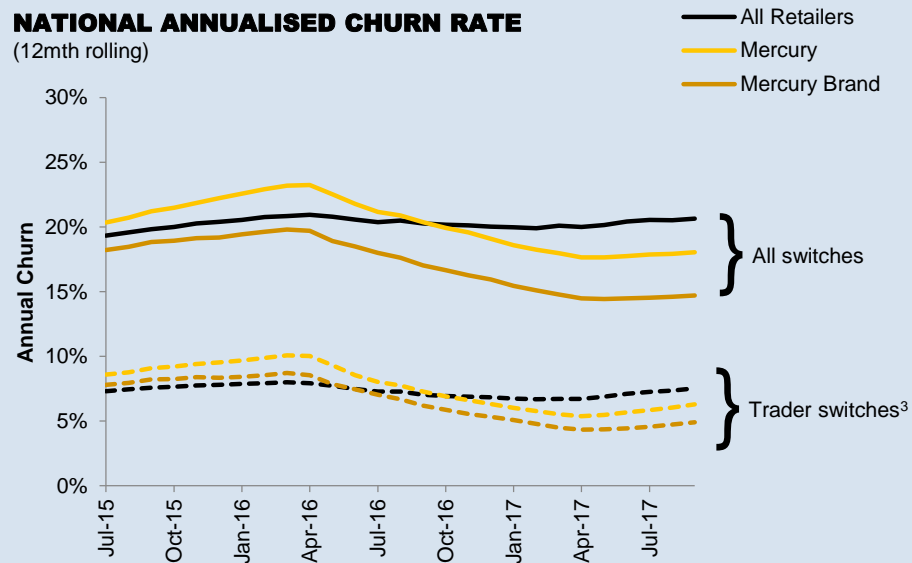
SUCCESS IN A COMPETITIVE RETAIL MARKET

- > In a highly competitive retail market, Mercury is focused on promoting and rewarding customer loyalty
 - > Mercury premise churn rate significantly below market
 - > Customer satisfaction¹ based on Mercury's survey increased through FY2017 from 60% to 64%

NATIONAL SWITCHING



NATIONAL ANNUALISED CHURN RATE (12mth rolling)



Source: Electricity Authority, EMI – Market share trends and switching breakdown

¹ Based on Mercury's monthly survey of residential customers, 3-monthly rolling average to 30 June for Mercury brand (excludes Bosco and GLOBUG)

² Switches which were initiated but not completed (inclusive of saves)

³ A trader switch is where a customer changes retailer without changing house



FOCUS ON CUSTOMER LOYALTY

The number of customers enjoying unique Mercury rewards continues to grow:

- > 147,000 Airpoints™ customers (42% of Mercury brand)
- > 143,000 on Fixed-Term pricing (40% of Mercury brand)
- > 157,000 Free Power Days in FY2017
- > \$10m donated to Starship Children's Hospital over 18 years
- > GEM, our usage monitor, is one of our most popular services with ~100,000 customers engaging every week

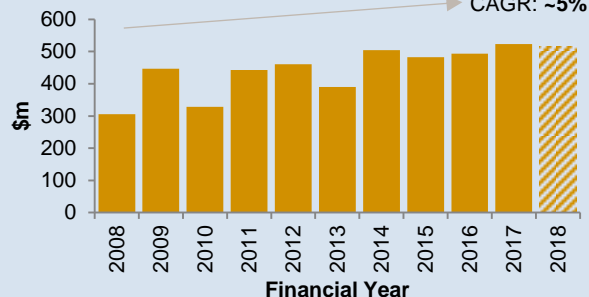


airpoints™

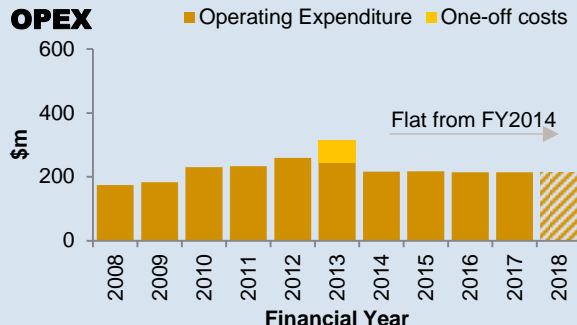


MERCURY'S FINANCIAL TRACK RECORD

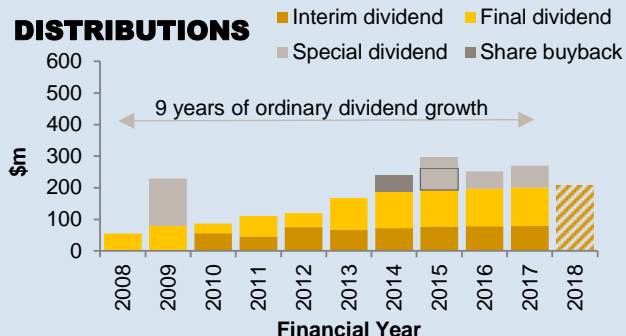
EBITDAF



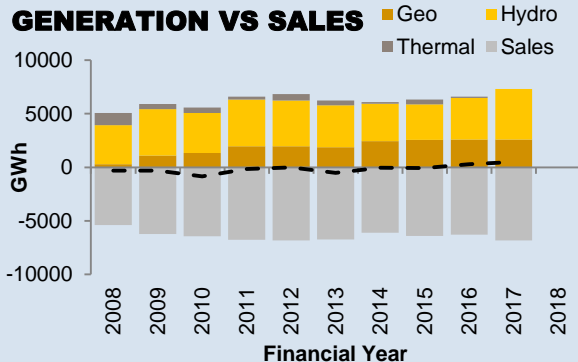
OPEX



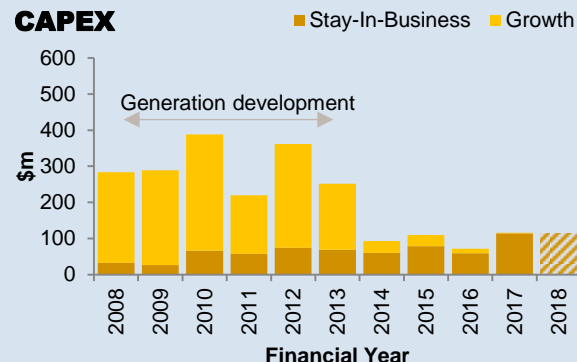
DISTRIBUTIONS



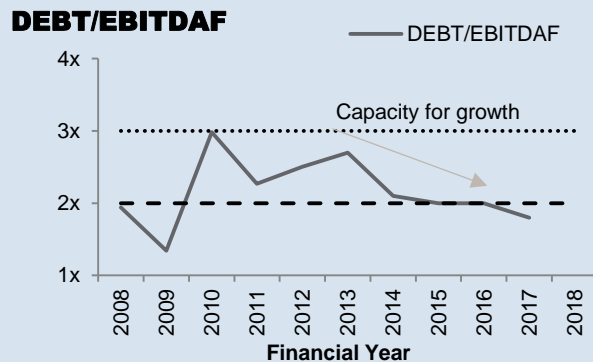
GENERATION VS SALES



CAPEX



DEBT/EBITDAF



CONTINUOUS FOCUS ON CAPITAL MANAGEMENT

FREE CASH FLOW (FCF) Net Cash Flow from Operating Activities less normalised stay-in-business capital expenditure			
BALANCE SHEET	ORDINARY DIVIDENDS	INVESTMENT IN GROWTH	SPECIAL DISTRIBUTIONS
<p>Key ratio for stand alone S&P rating of 'BBB' is Debt/EBITDAF between 2.0x and 3.0x</p> <p>1</p>	<p>Dividend Policy is to make distributions with a pay-out ratio of 70-85% of FCF on average through time</p> <p>2</p>	<p>Investment in growth evaluated against all other competing uses of capital</p> <p>3</p>	<p>4</p>
<p>Debt/EBITDAF 1.8x at 30 June 2017¹</p>	<p>FY2017 fully imputed ordinary dividends of 14.6cps declared</p>	<p>Minimal FY2017 new investment capital expenditure</p>	<p>5.0cps special dividend declared to distribute excess FY2017 FCF plus the proceeds of the carbon credit sales</p>

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



LEVERS FOR GROWTH

Better supply and demand

- > Upward pressure on end-user pricing due to supply and demand balance tightening

Investment in core business

- > Wind options Turitea (216MW) & Puketoi (300MW) remain ready for multi-stage development at the right time
- > Current geothermal reservoirs may support further development
- > Market consolidation options available but challenging

Home and beyond

- > Global strategic review confirmed focus on our core markets and opportunities within the home and e-mobility



EMERGING TECHNOLOGY IN CONTEXT

Solar

- > Will be a niche feature of the NZ electricity market
- > 1m solar panels is equivalent to ~1% of national demand
- > Solar generation is not well matched to NZ's demand profile which peaks in winter evenings
- > The number of new EV registrations has recently exceeded the number of new solar installations

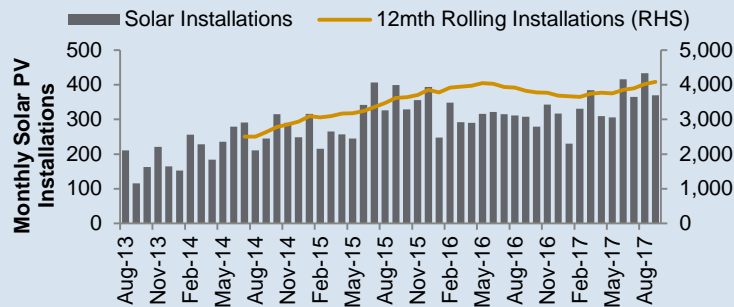
Batteries

- > Useful when coupled to solar but at significant additional cost
- > Lake Taupo storage equivalent to 40m 14kWh Tesla Powerwalls

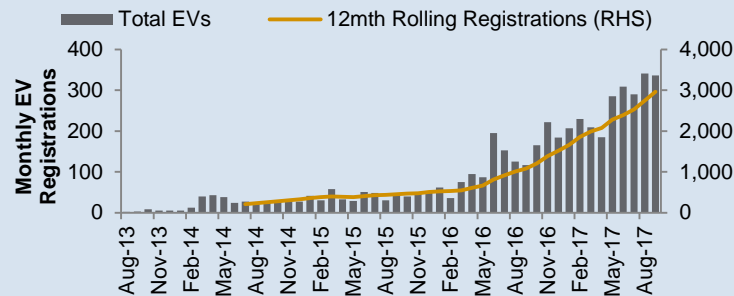
Electric Vehicles (EVs)

- > New Zealand's largest green growth opportunity
- > Transport related emissions account for 20% of NZ total Green House Gas (GHG) emissions
- > Renewable electricity advantage well suited to transport electrification, along with substantial off-peak grid capacity

SOLAR PV INSTALLATIONS



ELECTRIC VEHICLE REGISTRATIONS



THESIS: COUNTRY, INDUSTRY & COMPANY

Stable regulatory framework

- > Underpinned by strong industry performance on Reliability, Renewability and Pricing (the electricity 'trifecta')
- > New Labour-led coalition government supportive of renewables

100% renewable generation

- > Location and nature of Mercury's assets is a competitive advantage
- > Low variable cost generation delivering strong and stable cash flows

Focus on loyalty

- > Focus on rewarding the loyalty of our existing customers is resulting in decreased customer churn and increased satisfaction

Shareholder value

- > Positioning to deliver on growth opportunities when commercially viable
- > High dividend yield with 9 years of ordinary dividend growth





NEW ZEALAND ECONOMIC OVERVIEW

Key Facts

Credit Rating: **AA/stable**

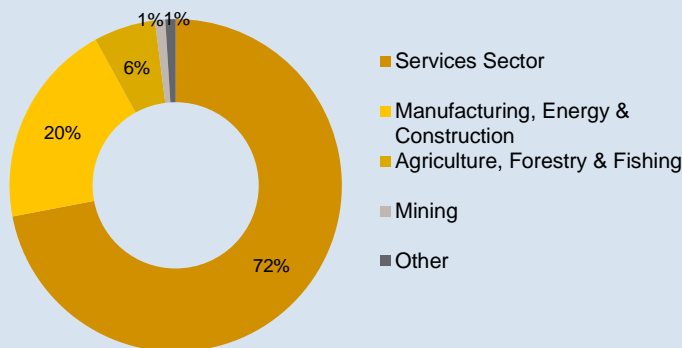
Population: **4.7 million**¹

GDP: **NZ\$270 billion (or US\$190 billion)**²

Official Cash Rate (OCR): **1.75%**

10yr Interest Rate: **3.3%**³

NEW ZEALAND GDP BY SECTOR²



- > Stable political environment
 - > Mixed Member Proportional (MMP) system
 - > Two main parties – National (centre-right) and Labour (centre-left)
 - > Labour-led coalition government since October 2017 (3-year term)
- > Robust GDP growth achieved over recent years (currently 2.7%²), with below-trend unemployment (currently 4.8%⁴)
- > Current supportive drivers of GDP growth include:
 - > Historic high net migration flows (72,100 net annual inflows⁵ or 1.5%)
 - > Strong tourism growth
 - > Robust construction sector activity
 - > Low interest rate settings
- > Risks factors which could dampen GDP growth:
 - > Global geopolitical and growth concerns
 - > Migration cycle creating economic stresses
 - > House price inflation creates stability risks

¹ At 31 December 2016

² Year to 30 June 2017

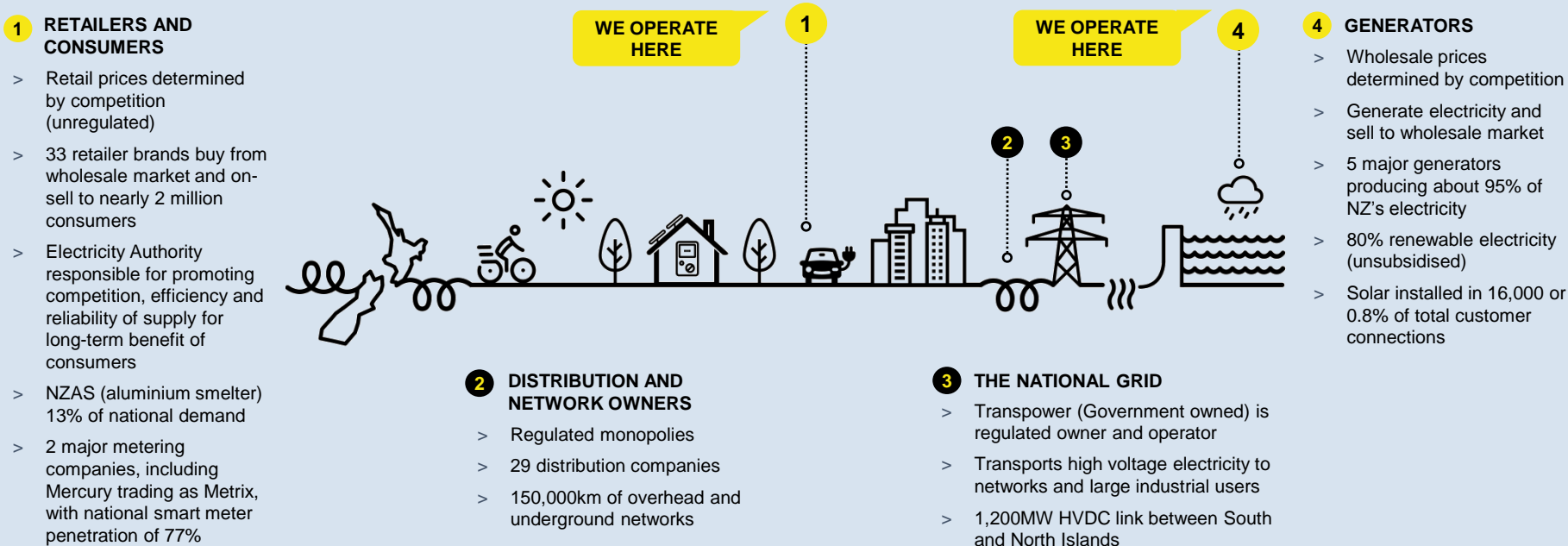
³ At 1 November 2017

⁴ At 30 June 2017

⁵ Year to 31 August 2017



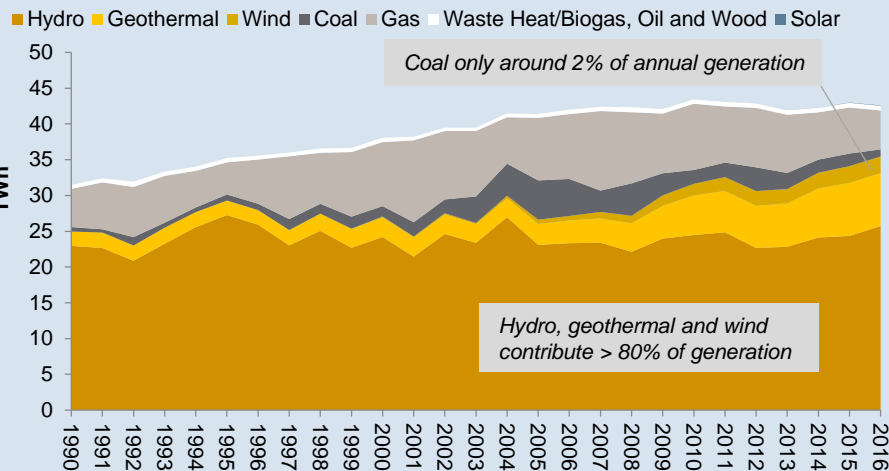
NEW ZEALAND ELECTRICITY MARKET STRUCTURE SINCE 1998



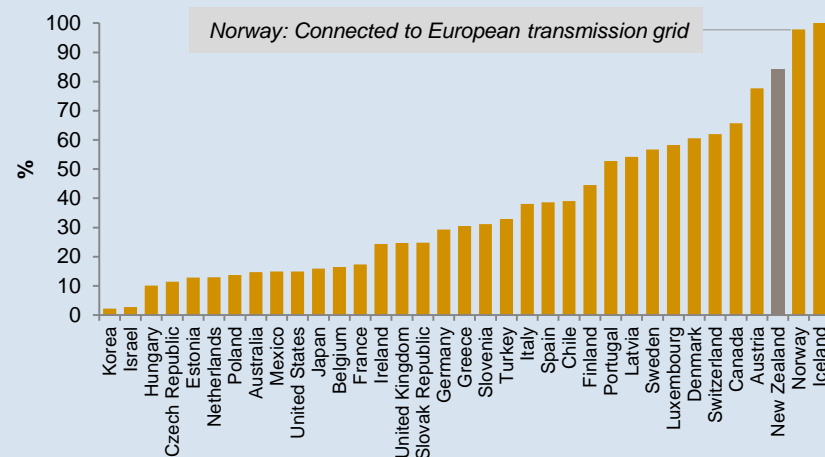
UNSUBSIDISED ELECTRICITY MARKET AND >80% RENEWABLE

- > “With its unique resource base, New Zealand is a success story for the development of renewable energy, notably hydro and geothermal, without government subsidies” – International Energy Agency (IEA)¹
- > Geothermal or wind are the lowest cost development options – 12TWh of renewable projects already consented

NEW ZEALAND'S GENERATION MIX



2016 OECD RENEWABLE ELECTRICITY



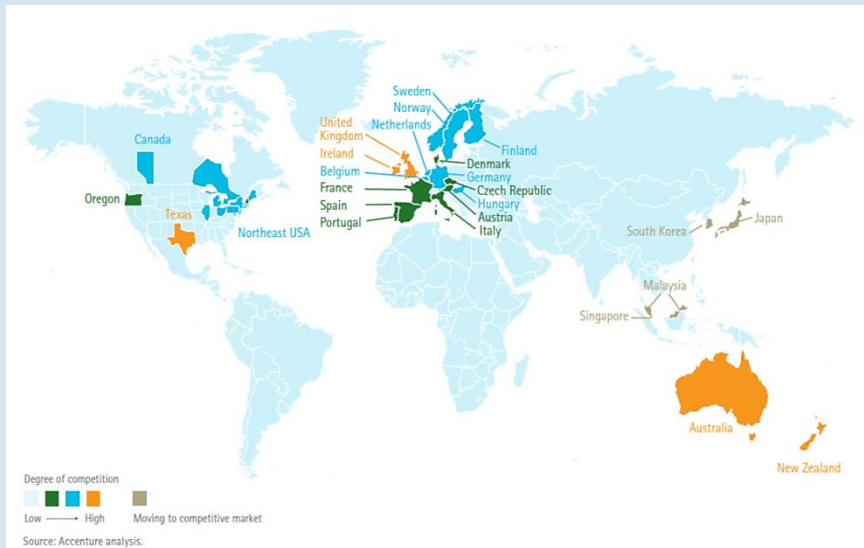
¹ Link to publication pg. 28

Source: Ministry of Business, Innovation & Employment, IEA

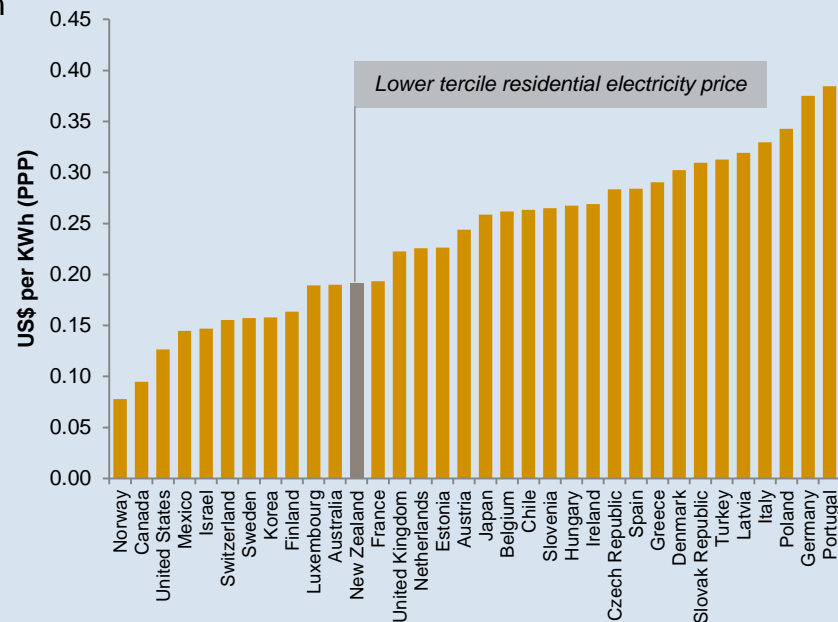


HIGHLY COMPETITIVE RETAIL MARKET DELIVERING CUSTOMER CHOICE

- > One of only 4 highly competitive retail markets – Accenture
- > Energy portion of end-user pricing determined by competition



2015 OECD RESIDENTIAL ELECTRICITY PRICES¹



¹ Residential pricing in US dollars per unit using Purchasing Power Parity (PPP)

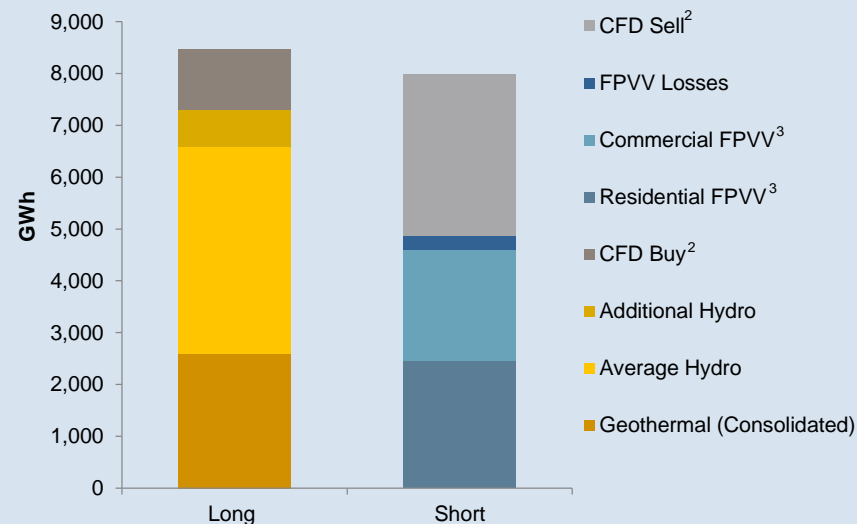
Source: Ministry of Business, Innovation & Employment, IEA, Accenture



COMPLEMENTARY GENERATION SOURCES

- > 100% renewable generation with two complementary low-cost fuel sources
 - > High up-front build cost, low operating cost
 - > Central North Island close to major load centres and not dependent on inter-island connection (HVDC)
 - > Generation-Weighted Average Price (GWAP) favourable to peers reflecting the flexibility and location of assets
- > Flexible hydro generation (1,063MW / 4,000GWh)
 - > Largest group of peaking stations in North Island
- > Baseload geothermal generation (337MW¹ / 2,800GWh)
 - > Only renewable not dependent on weather
- > Average net long position reflecting integrated portfolio
 - > Movement in net position year-on-year due to hydrology, plant availability and value of sales

FY2017 NET POSITION BREAKDOWN



¹ Equity share

² Contract-For-Difference

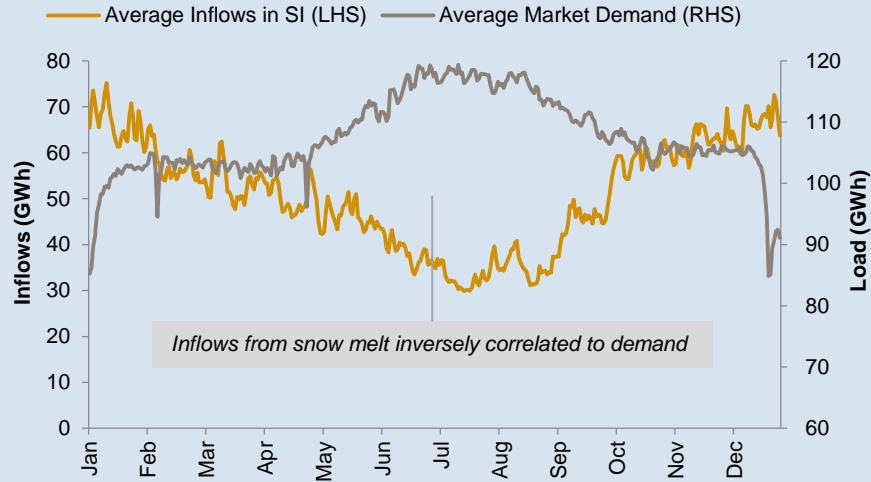
³ Fixed-Price Variable Volume



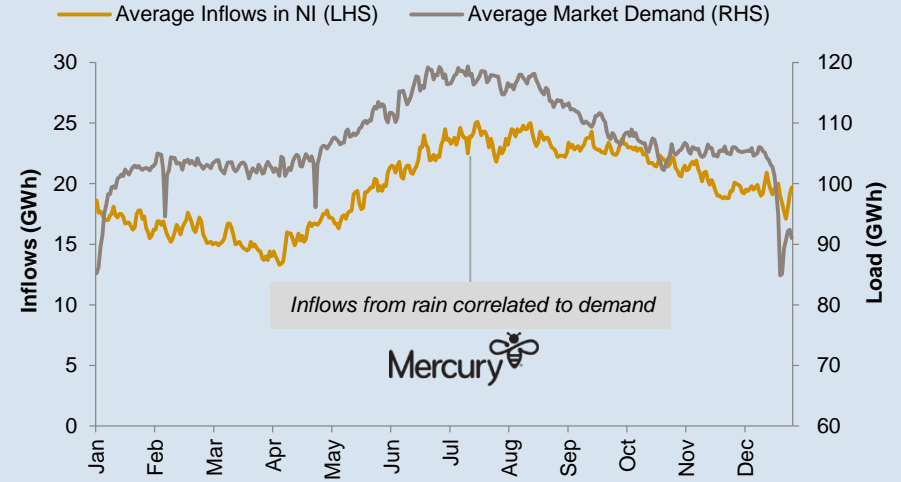
MERCURY'S PERMANENT GENERATION ADVANTAGE

- > Positive correlation of North Island hydro inflows and sales
 - > Inflows into Mercury's North Island hydro catchment peak in winter to match peak winter demand
 - > Complemented by non-weather-dependent baseload geothermal

AVERAGE SOUTH ISLAND INFLOWS VS. DEMAND



AVERAGE NORTH ISLAND INFLOWS VS. DEMAND



MCY.NZ / MCY.AX

Key Facts

Shares on Issue: **1,377.6m**

Market Capitalisation: **\$4.53b¹**

Enterprise Value: **\$5.8b¹**

NZX ranking (by Market Capitalisation): **11th**

Avg. Daily NZX Volume (prior 12mths): **\$0.8m**

Avg. Daily NZX Turnover (prior 12mths): **\$2.4m**

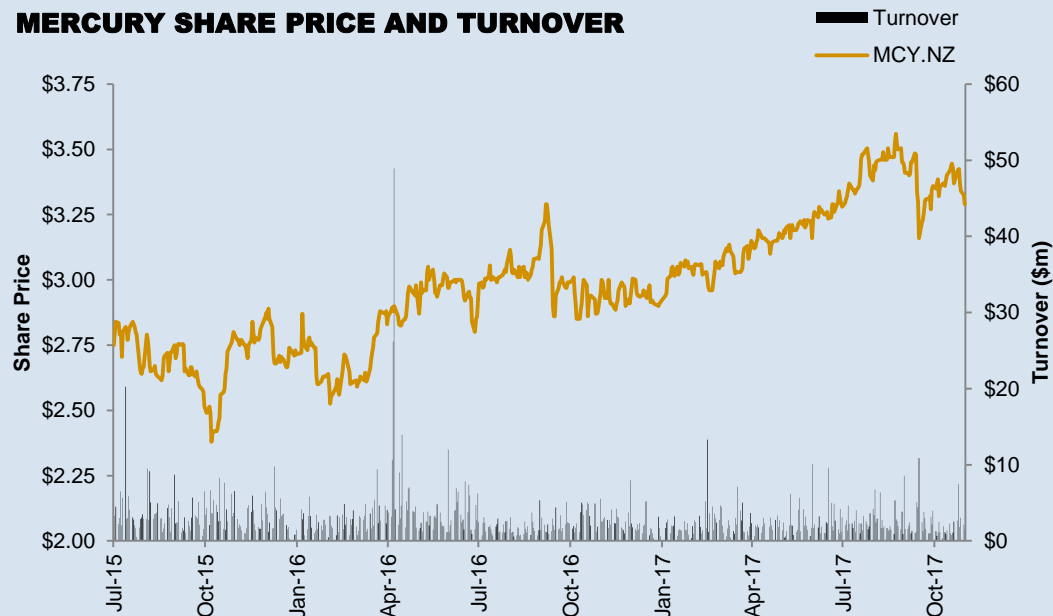
Cash Dividend Yield (prior 12mths): **6.0%¹**

Gross Dividend Yield (prior 12mths)²: **8.3%¹**

EV/EBITDAF (FY2017): **11.1x**

PE ratio (FY2017): **24.4x¹**

MERCURY SHARE PRICE AND TURNOVER



¹ At 1 November 2017

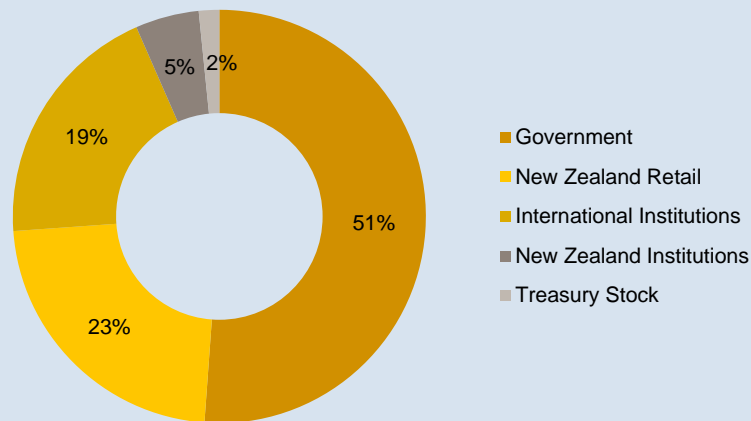
² Fully imputed for New Zealand residents to 28%



OWNERSHIP

- > Listed on NZX and ASX in May 2013
- > 85,000 shareholders (widest-held New Zealand register)
- > Government majority ownership
 - > Public Finance Act and Company's constitution require at least 51% Crown ownership
 - > No other person may hold more than 10% of shares
- > Eight independent Directors
- > No direct government representation on Board

MERCURY SHARE REGISTER¹



¹ At October 2017



SUPPLEMENTARY DIVIDEND TO NON-RESIDENTS

- > Reduces or eliminates the economic impact of Non-Resident Withholding Taxes
- > For illustrative purposes see below worked example for a corporate investor. This should not be interpreted as tax advice

	NZ investor	Foreign investor	
		No Supplementary dividend	Supplementary dividend
Gross dividend	100.00	100.00	100.00
Imputation credits	(28.00)	(28.00)	(28.00)
Supplementary dividend	-	-	12.71
	72.00	72.00	84.71
Less: Corporation tax (@28%)	(28.00)	-	-
Add: Imputation credits	28.00	-	-
Less: Non-resident withholding tax (@15% of dividend where DTA ¹)	-	(10.80)	(12.71)
Cash dividend	72.00	61.20	72.00

¹ Includes United Kingdom, Ireland, United States and Canada



REFERENCE MATERIAL

MERCURY REFERENCES

Mercury Investor Centre	www.mercury.co.nz/Investor-Centre
Governance Presentation – December 2016	https://www.mercury.co.nz/Investors/Results-Reports/Presentations.aspx
FY2017 Interim Results Presentation – February 2017	
FY2017 Results Presentation – August 2017	

INDUSTRY REFERENCES

Electricity Authority website	www.ea.govt.nz
System Operator website	www.systemoperator.co.nz
Wholesale electricity spot prices	www.em6live.co.nz
Electricity futures prices	www.asx.com.au/products/energy-derivatives/new-zealand-electricity.htm

INDUSTRY PUBLICATIONS

Energy Policies of IEA Countries – New Zealand 2017 Review	https://www.iea.org/publications/freepublications/publication/energy-policies-of-iea-countries---new-zealand-2017-review.html
Ministry of Business, Innovation and Employment – Energy in New Zealand	www.mbie.govt.nz/info-services/sectors-industries/energy/energy-data-modelling/publications/energy-in-new-zealand
Electricity Authority - Electricity in New Zealand	www.ea.govt.nz/about-us/media-and-publications/electricity-nz





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