Mercury
Governance Roadshow

JOAN WITHERS
Chair

JAMES MILLER
Director

12 December 2017

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MERCURY AT A GLANCE

Market Capitalisation of

$4.6b[1]

2nd largest NZ gentailer

10th 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

85,000

OWNERS WITH CROWN AS MAJORITY OWNER

Minimum 51% legislated government ownership

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

Cash ordinary dividend yield of **4.4%[1]** (6.1% gross[2])

12 month total net dividend yield including special dividend of **5.9%[1]** (8.2% gross[2])

[1] At 1 December 2017
[2] Including full imputation

Our Mission: **Energy Freedom.**

REALISING
OUR PURPOSE >>

TO INSPIRE NEW ZEALANDERS TO ENJOY ENERGY IN MORE WONDERFUL WAYS

EXECUTING
OUR STRATEGY >>

DELIVERING CUSTOMER ADVOCACY

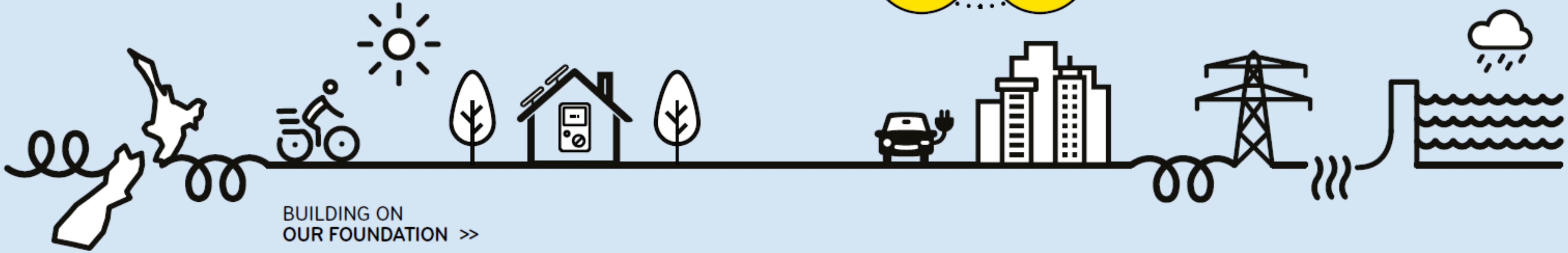
LEVERAGING CORE STRENGTHS

DELIVERING SUSTAINABLE GROWTH

LIVING
OUR ATTITUDE >>

ACHIEVING
OUR GOAL >>

TO BE NEW ZEALAND'S LEADING ENERGY BRAND



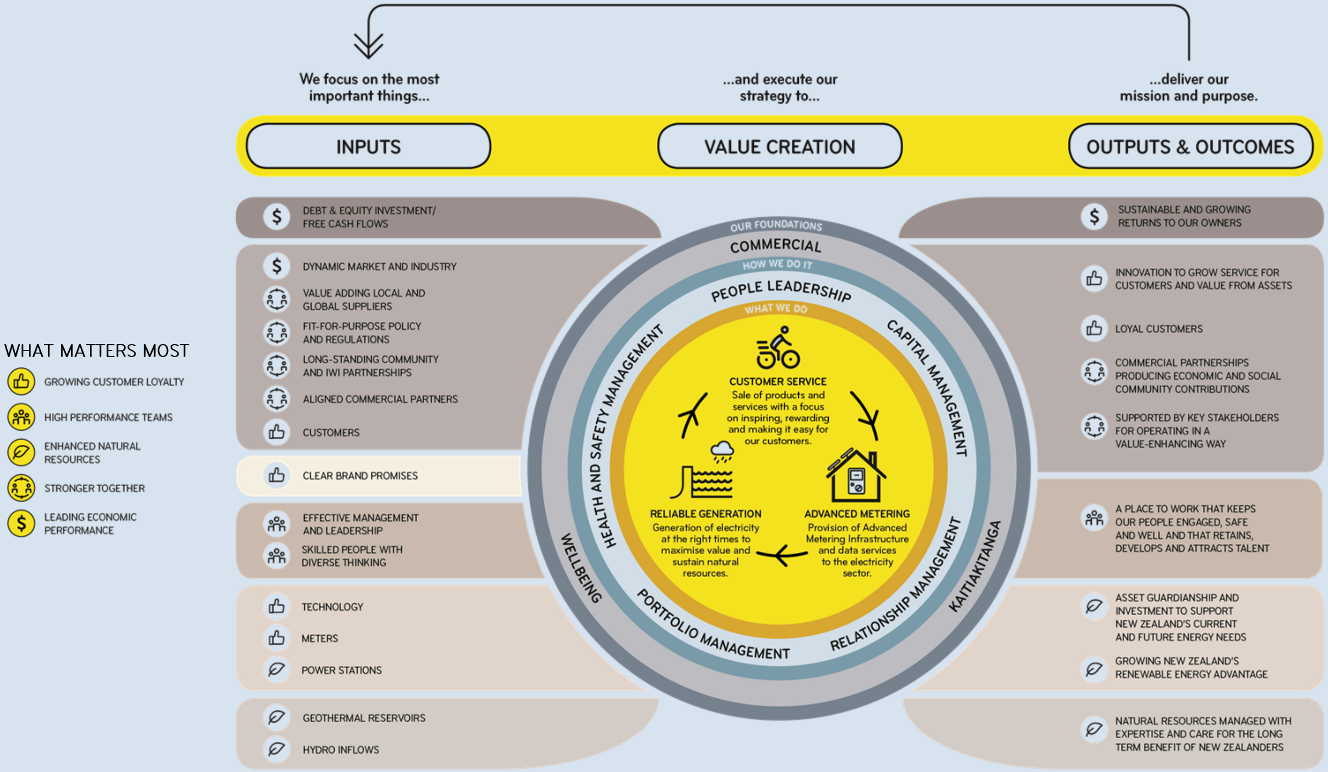
BUILDING ON
OUR FOUNDATION >>

WELLBEING
OF OUR PEOPLE AND CUSTOMERS

KAITIAKITANGA
THE CUSTODIANSHIP OF NATURAL RESOURCES

COMMERCIAL
COMMERCIALLY ASTUTE DECISIONS

HOW MERCURY SUSTAINS AND GROWS VALUE



STRATEGIC DRIVERS & FY2017 OUTCOMES

DELIVERING CUSTOMER ADVOCACY

- **Below market customer churn**
  - Trader churn[1] of 5.7%[2] versus market at 7.1%
- **Increasing customer satisfaction**
  - Customer satisfaction[3] of 64%, up 4% from FY2016
  - Award winning 'Energy Made Wonderful' campaign
- **Innovative loyalty product offerings**
  - 147,000 customers rewarded with Airpoints Dollars™
  - 157,000 Free Power Days enjoyed in FY2017
  - GEM, our usage monitor, is one of our most popular services with ~100,000 customers engaging every week

[1] Switching where a customer changes retailer without moving house
[2] 12-monthly rolling trader churn rate (all Mercury brands) as at 30 June 2017
[3] Based on Mercury's monthly survey of residential customers, 3-monthly rolling average to 30 June for Mercury brand (excludes Bosco and GLOBUG)

STRATEGIC DRIVERS & FY2017 OUTCOMES

LEVERAGING CORE STRENGTHS

- **Goal of zero-harm**
  - 95% of employees agreed that Mercury is committed to the Health and Safety of its people[1]
  - One serious injury incident in FY2017 due to office-based stair fall
- **Increasing employee engagement**
  - Employee engagement[1] at 81%, up 2% from FY2016
  - 89% of employees confirm that ‘Mercury has a clear vision of where it’s going and how it’s going to get there’[2]
  - Nominated as a finalist in the Best Enterprise Workplaces category of the IBM Best Workplaces awards
- **Maximised value from renewable resources**
  - High geothermal availability maintained at 96%
  - Ongoing hydro refurbishment with the rehabilitation of the first of 4 units at Whakamaru Hydro Station

[1] As measured by the 2017 IBM Employee Engagement Survey Engagement Index
[2] 2017 IBM Employee Engagement Survey

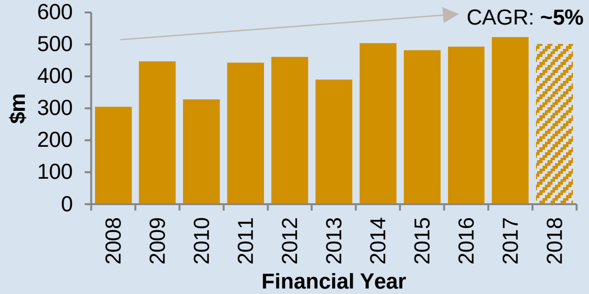
STRATEGIC DRIVERS & FY2017 OUTCOMES

DELIVERING SUSTAINABLE GROWTH

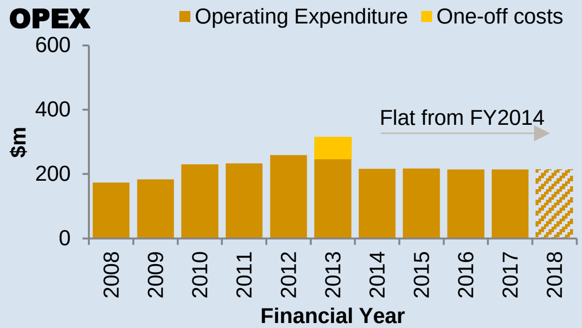
- **Managing cost**
  - Operating costs flat for the 4th consecutive year
- **Investing in growth**
  - Strategic review of future growth options
  - Generation development options ready
  - Minimal growth capex in FY2017
- **Growing returns to shareholders**
  - Record earnings through capitalising on wet hydrological conditions and strong pan-company execution
  - 9th consecutive year of ordinary dividend growth

MERCURY'S FINANCIAL TRACK RECORD

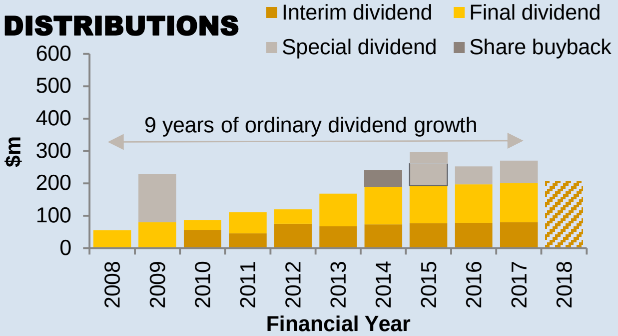
EBITDAF



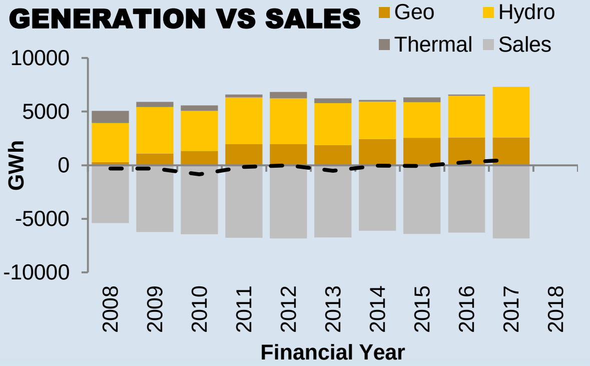
OPEX



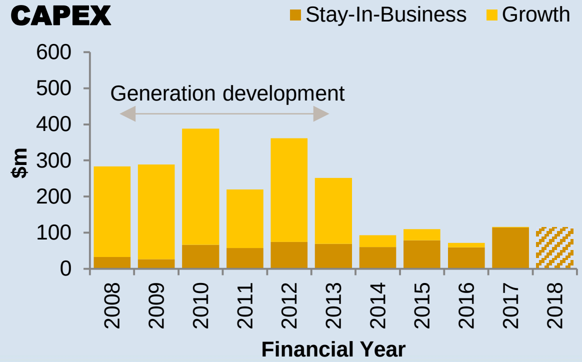
DISTRIBUTIONS



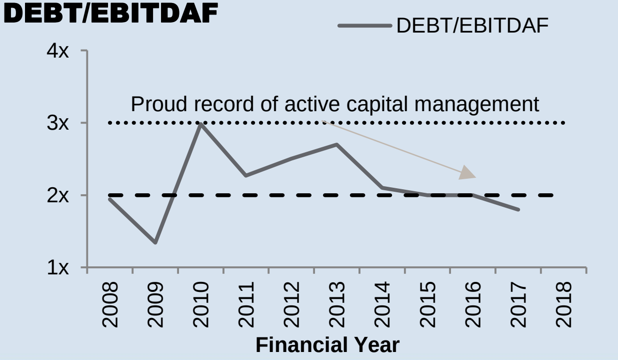
GENERATION VS SALES



CAPEX



DEBT/EBITDAF



CAPITAL MANAGEMENT

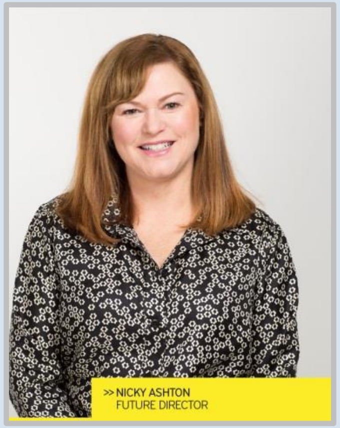
FREE CASH FLOW (FCF)

Net Cash Flow from Operating Activities less normalised stay-in-business capital expenditure

BALANCE SHEET	ORDINARY DIVIDENDS	INVESTMENT IN GROWTH	SPECIAL DISTRIBUTIONS
Key ratio for stand alone S&P rating of ‘bbb’ is Debt/EBITDAF between 2.0x and 3.0x >	Dividend Policy is to make distributions with a pay-out ratio of 70-85% of FCF on average through time >	Investment in growth evaluated against all other competing uses of capital	
1	2	3	4
Debt/EBITDAF 1.8x at 30 June 2017[1] >	FY2017 fully imputed ordinary dividends of 14.6cps >	Minimal FY2017 new investment capital expenditure	5.0cps special dividend declared to distribute excess FY2017 FCF plus the proceeds of the carbon credit sales

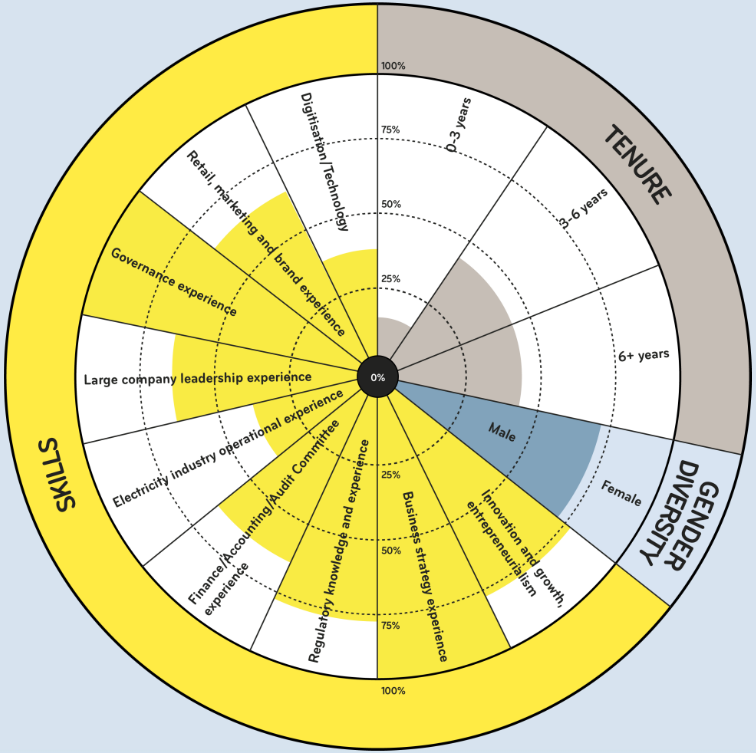
[1] Adjusted for S&P treatment of Mercury’s Capital Bond

BOARD OF DIRECTORS



BOARD OF DIRECTORS

- Committed to maintaining the highest standards of business behaviour and accountability
- Key governance focus for 2017 included:
  - Board skills and experience
  - Enhanced sustainability reporting
- Appointment of Scott St John made to complement skills of existing directors after a comprehensive evaluation of company requirements
- Voluntary early adoption of the NZX Corporate Governance Best Practice Code 2017
- Developing the pipeline – on-going support for the Institute of Directors Future Directors Programme



BOARD OF DIRECTORS

Skills matrix / gaps and strengths[1]

- Detailed skills requirements developed against business strategies and future direction
- Balancing industry knowledge with that of management
- Ensuring diversity of skills/approach
- Assessed to hold highly relevant capability

Comprehensive review process

- External reviews (last completed November 2016) combined with internal reviews
- Focus on developing optimal dynamic
- Managing workload and independence

Ongoing professional development

- Keeping up to date on core skills and emerging trends through ongoing training, e.g. Cambridge Institute for Sustainability Leadership
- Continuing and extending learning agenda
- Tailored to address gaps identified in skills matrix

Succession planning

- Consider appropriate tenure and orderly transition
- Clear pathway being laid for cohesive Chair and Committee chair transitions

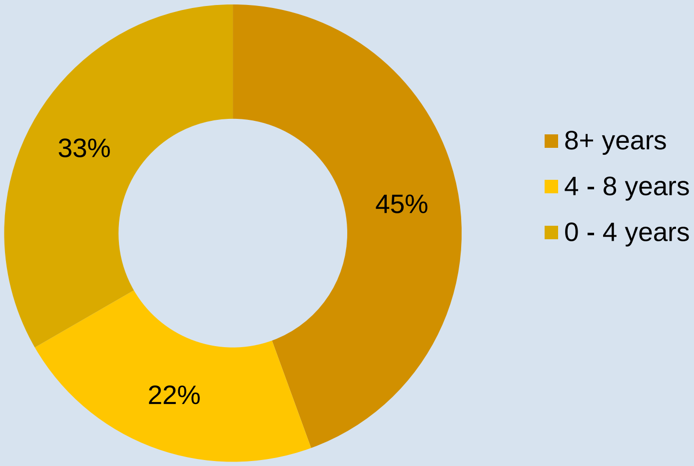
[1] Refer Corporate Governance Statement 2017, p. 5

LEADERSHIP TEAM

LEADERSHIP TEAM

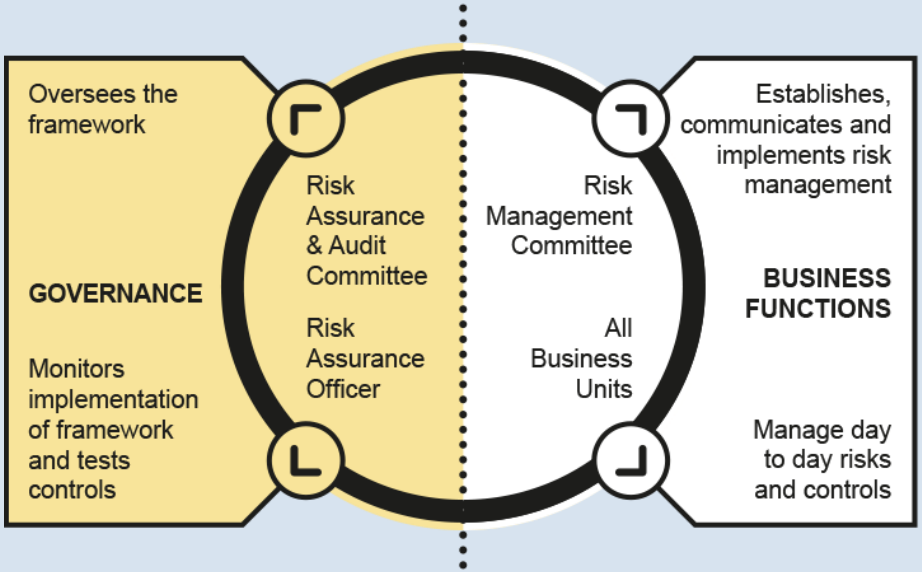
- Composition of Leadership Team aligned with strategic priorities
- Range of tenures across Leadership Team balances retention of institutional knowledge with diverse perspectives and capabilities
- HRC provides thought partnership on Leadership Team appointments and performance measurement

LEADERSHIP TEAM TENURE IN COMPANY



RISK MANAGEMENT

- Comprehensive approach encompassing financial, strategic, environmental, operational, regulatory, reputational, social and governance risks from internal and external sources
- Board insurance committee formed in FY2018 for:
  - Deep dive into key risks facing the business
  - Comprehensive review of the appropriateness of insurance programme
- Audit provider considers that, based on their experience with similar New Zealand organisations, Mercury is on par or better in terms of its risk management framework



ESG

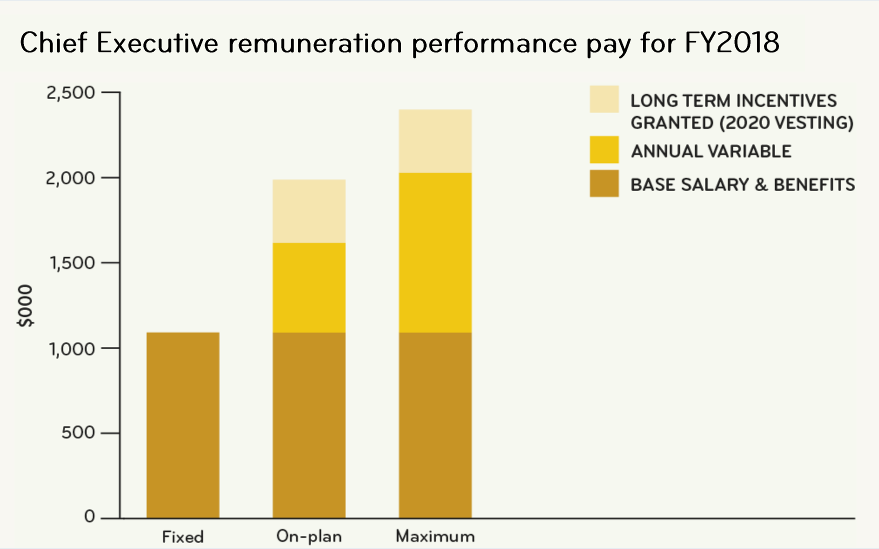
- Board and management committed to developing reporting on factors material to the business, its ultra-long-term sustainability and prosperity
- Approach to embedding sustainability reflected in the foundations of the business: wellbeing (of our people and customers), kaitiakitanga (custodianship of our environment) and commercial (making commercially astute decisions)
- Embedding integrated thinking into our strategy, governance and operations, and how we manage sustainability risks and opportunities
- High standards of disclosure reporting maintained through:
  - Incorporation of principles from the Integrated Reporting <IR> Framework
  - Implementation of Global Reporting Initiative (GRI) standards
  - Voluntary early adoption of the NZX Corporate Governance Best Practice Code 2017
- Actively involved in national discussions on key environmental issues material to our business – water and emissions

REMUNERATION

- Executive short-term incentive KPIs are aligned with our strategy and What Matters Most
- Scorecard for variable component covers:

Target area	FY2018 Weighting %
Financial: EBITDAF	30
People	20
Customer	20
Wellbeing	20
Long-term Platform	10

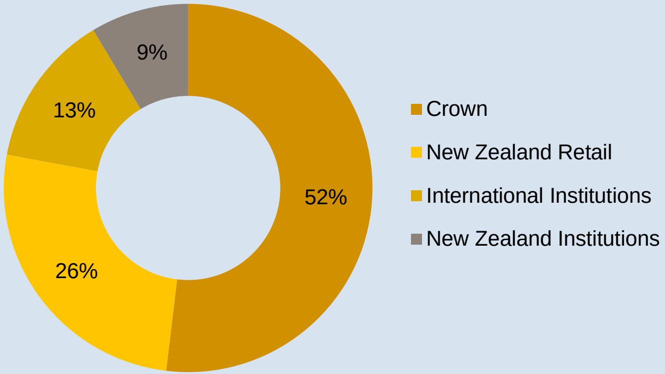
- Long-term incentives are aligned with the enhancement of shareholder value over a multi-year period
- New Zealand REM incorporates balanced incentives at an order of magnitude different to international markets



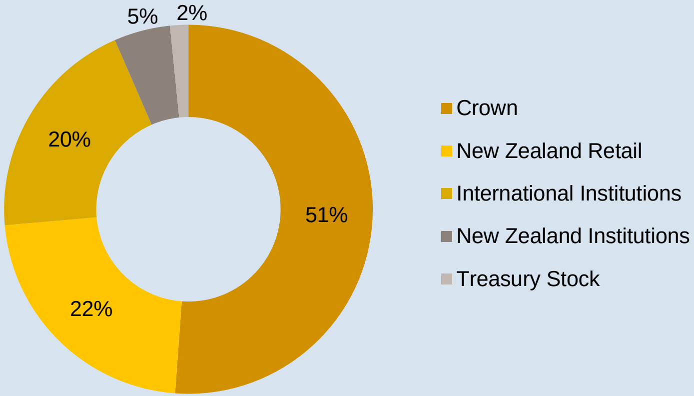
OWNERSHIP

- Listed on NZX and ASX in May 2013
- Currently more than 85,000 shareholders with Crown as majority owner
  - 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 Crown Board representation

MERCURY SHARE REGISTER
May 2013



MERCURY SHARE REGISTER
October 2017



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