

Mercury

Governance Roadshow

JOAN WITHERS
Chair

JAMES MILLER
Director

3 December 2018



DISCLAIMER

This presentation has been prepared by Mercury NZ Limited and its group of companies (“Company”) for informational purposes. This disclaimer applies to this document and the verbal or written comments of any person presenting it.

Information in this presentation has been prepared by the Company with due care and attention. However, neither the Company nor any of its directors, employees, shareholders nor any other person gives any warranties or representations (express or implied) as to the accuracy or completeness of this information. To the maximum extent permitted by law, none of the Company, its directors, employees, shareholders or any other person shall have any liability whatsoever to any person for any loss (including, without limitation, arising from any fault or negligence) arising from this presentation or any information supplied in connection with it.

This presentation may contain projections or forward-looking statements regarding a variety of items. Such projections or forward-looking statements are based on current expectations, estimates and assumptions and are subject to a number of risks, and uncertainties, including material adverse events, significant one-off expenses and other unforeseeable circumstances, such as, without limitation, hydrological conditions. There is no assurance that results contemplated in any of these projections and forward-looking statements will be realised, nor is there any assurance that the expectations, estimates and assumptions underpinning those projections or forward-looking statements are reasonable. Actual results may differ materially from those projected in this presentation. No person is under any obligation to update this presentation at any time after its release or to provide you with further information about the Company.

A number of non-GAAP financial measures are used in this 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, which are available at www.mercury.co.nz.

The information in this presentation is of a general nature and does not constitute financial product advice, investment advice or any recommendation. The presentation does not constitute an offer to sell, or a solicitation of an offer to buy, any security and may not be relied upon in connection with the purchase or sale of any security. Nothing in this presentation constitutes legal, financial, tax or other advice.



MERCURY AT A GLANCE

Market Capitalisation of

\$4.6b¹

2nd largest NZ gentailer

10th largest NZX50 company by market capitalisation

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

~6,800GWh 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 \$1.2b²

FY2019 EBITDAF guidance of

\$515m

Based on above-average hydrology and flat operating expenditure

FY2019 ordinary dividend guidance of

15.5c

Ordinary net dividend yield of 4.4%³
(6.1% gross⁴)

3 OVERVIEW

¹ As at 31 October 2018

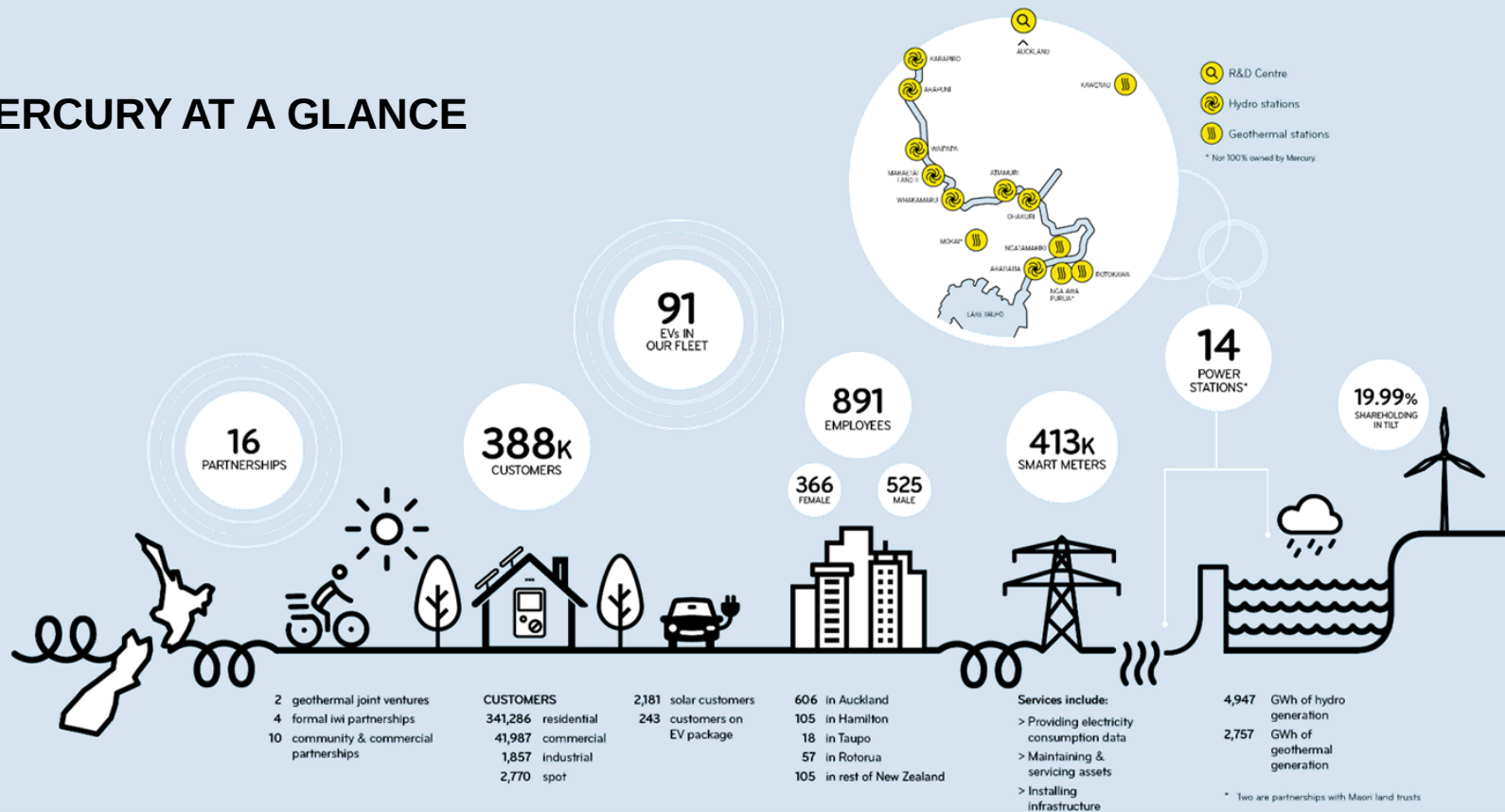
² As at 30 June 2018

³ 12 months to 31 October 2018

⁴ Including full imputation



MERCURY AT A GLANCE



OUR MISSION: ENERGY FREEDOM.

REALISING OUR PURPOSE

TO INSPIRE NEW ZEALANDERS
TO ENJOY ENERGY IN MORE
WONDERFUL WAYS

EXECUTING OUR STRATEGY

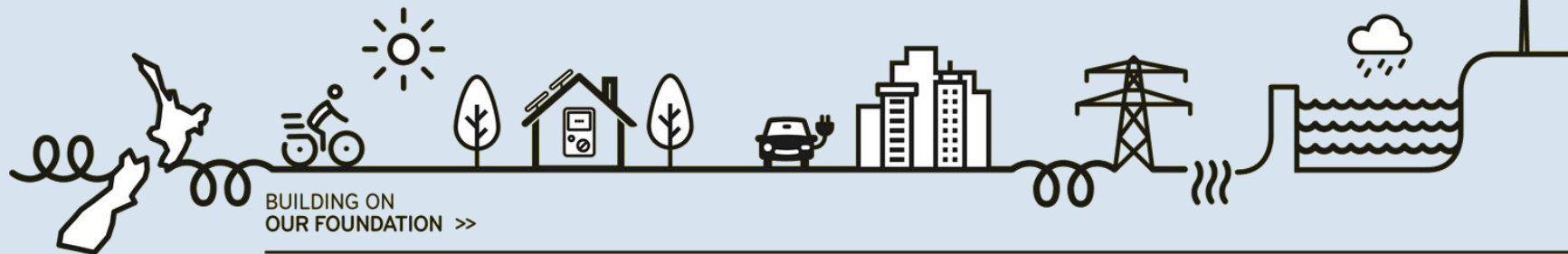
DELIVERING CUSTOMER
ADVOCACY
LEVERAGING CORE STRENGTHS
DELIVERING SUSTAINABLE
GROWTH

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



EXECUTING OUR STRATEGY

> Our priorities are aligned to our five pillars of sustainable business performance:



STRATEGIC DRIVERS & FY2018 OUTCOMES

DELIVERING CUSTOMER ADVOCACY

> Relative churn advantage

- > Mercury brand trader churn¹ significantly lower than market at 6.4%²
- > Trader churn for all Mercury brands increased to be comparable to market at 8.0%² versus 8.1% reflecting heightened market competition

> Customer-led technology investment

- > SAP technology platform upgrades enabling increased functionality and flexibility to meet customer needs and also improved efficiency and processes
- > Metrix data project delivering certified half-hourly meter reads to retailers

> Sustained brand momentum

- > Award-winning campaigns building strong and distinctive brand assets with associations with E-mobility and EVs in particular
- > Brand recognition steadily increasing (from 43% to 63%)⁴ since relaunch
- > Fulfilment of our customer promises to Reward, Inspire and Make It Easy
 - > ~90,000 customers redeemed a Free Power Day in FY2018
 - > Over 155,000 customers registered to receive Airpoints™⁵
 - > Over 93,000 customers engaging with our Good Energy Monitor each week⁶

6.4%

Mercury brand
trader churn²

FY2017: 4.4%
Market: 8.1%

19.8%

Total churn²
FY2017: 17.7%
Market: 21.0%

63%

Customer
satisfaction³
FY2017: 64%



7 FY2018 OUTCOMES

¹ Switching where a customer changes retailer without moving house

² From EA data; 12-monthly rolling trader churn / total churn as at 30 June 2018

³ Based on Mercury's monthly survey of residential customers, 3-monthly rolling average to 30 June 2018 / 2017 for Mercury brand only

⁴ Based on Mercury commissioned TRA brand survey

⁵ As at 30 June 2018

⁶ Weekly average over 12 months to 30 June 2018





STRATEGIC DRIVERS & FY2018 OUTCOMES

LEVERAGING CORE STRENGTHS

> Goal of zero-harm

- > No high-severity incidents; TRIFR¹ at 0.87 (down from 1.05 in FY2017)

> High-levels of employee engagement maintained

- > High levels of employee engagement in 2017 saw Mercury being recognised at the IBM 2017 Best Workplaces Awards and the 2018 New Zealand HR Awards
- > Employee engagement increased in 2018 to 81.5%⁵ from 81.0%⁵

> Enterprise-wide project execution

- > Completed major maintenance outages at four geothermal stations
- > Metrix half-hourly reconciled data re-platform brought online
- > Ongoing hydro refurbishment with the rehabilitation of the 1st of three units at Aratiatia Station and the 2nd of four units at Whakamaru Station leading to material increases in hydro efficiency and capacity
- > Southdown grid-scale battery storage being commissioned

> Competitive advantages deliver record earnings

- > Favourable hydrological conditions and strong execution across the business enabled record generation of 7,704GWh leading to FY2018 EBITDAF of \$561m

8 FY2018 OUTCOMES

¹ Total Recordable Injury Frequency Rate per 200,000 hours; includes onsite employees and contractors

² Average price of purchases (LWAP) over average price of generation (GWAP)

³ Percentage of time plant able to generate after accounting for outages

⁴ Derived from Planned Outage Co-ordination Process New Zealand geothermal outage data (excluding Mercury operated plant)

⁵ As measured by the 2018 / 2017 IBM Employee Engagement Survey Engagement Index



STRATEGIC DRIVERS & FY2018 OUTCOMES

DELIVERING SUSTAINABLE GROWTH

> Managing cost

- > Opex flat versus FY2017 at \$214m for fifth year running

> Investing in growth

- > Acquired a 19.99% stake in Tilt Renewables as a strong platform for gaining exposure to Australia's accelerating renewables transition
- > Joint takeover offer with Infratil underway to advance Mercury's meaningful interest in Tilt's operational performance and growth opportunities

> Returns to shareholders

- > Efficient distribution of capital to shareholders through share buyback of 15.6m shares for \$50m (circa 3.6cps) while retaining balance sheet strength
- > FY2018 total ordinary dividend up 3.4% to 15.1cps, above original guidance
- > FY2019 EBITDAF guidance is \$515m¹ on 4,200GWh of hydro generation, subject to any material events, significant one-off expenses or other unforeseeable circumstances including hydrological conditions
- > FY2019 ordinary dividend guidance up 2.6% to 15.5cps, which will be the 11th consecutive year of ordinary dividend growth

19.99%

Tilt
acquisition

15.1cps

**Total Ordinary
Dividend**
FY2017: 14.6cps

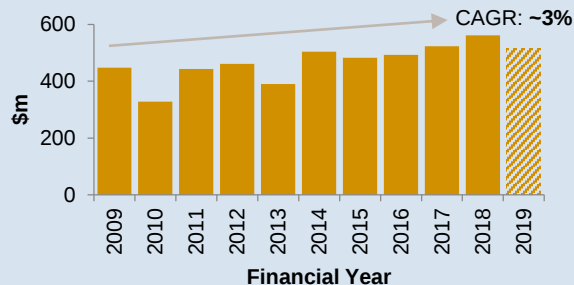
\$50m

Share Buyback
of 15.6m shares

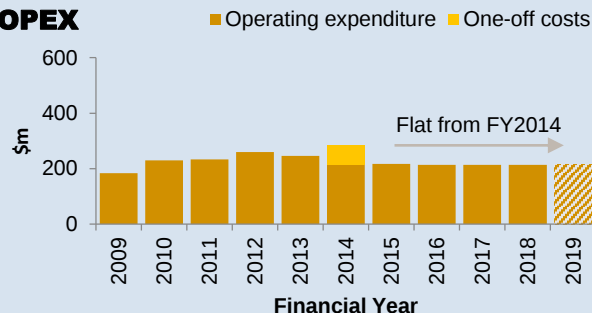


MERCURY'S FINANCIAL TRACK RECORD

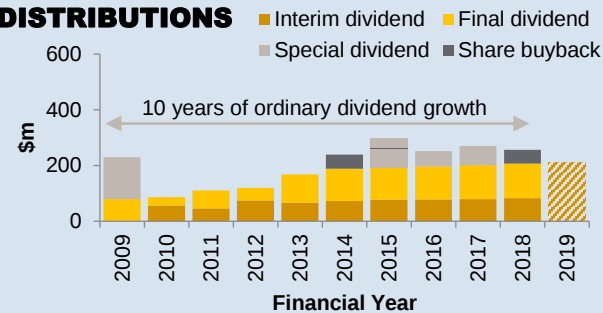
EBITDAF



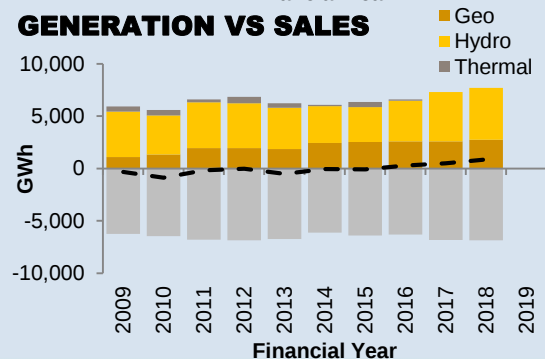
OPEX



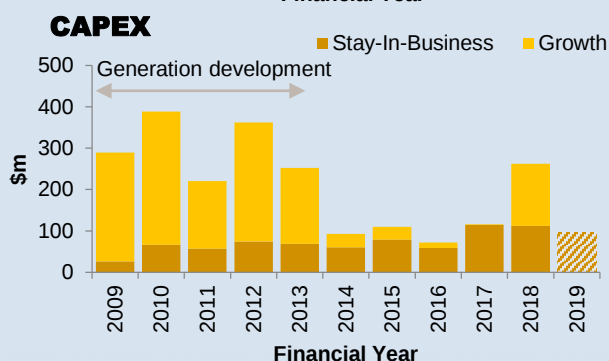
DISTRIBUTIONS



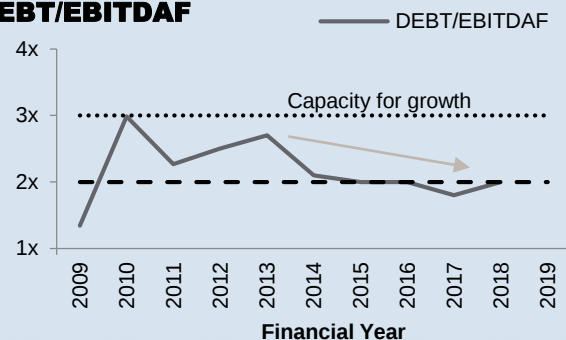
GENERATION VS SALES



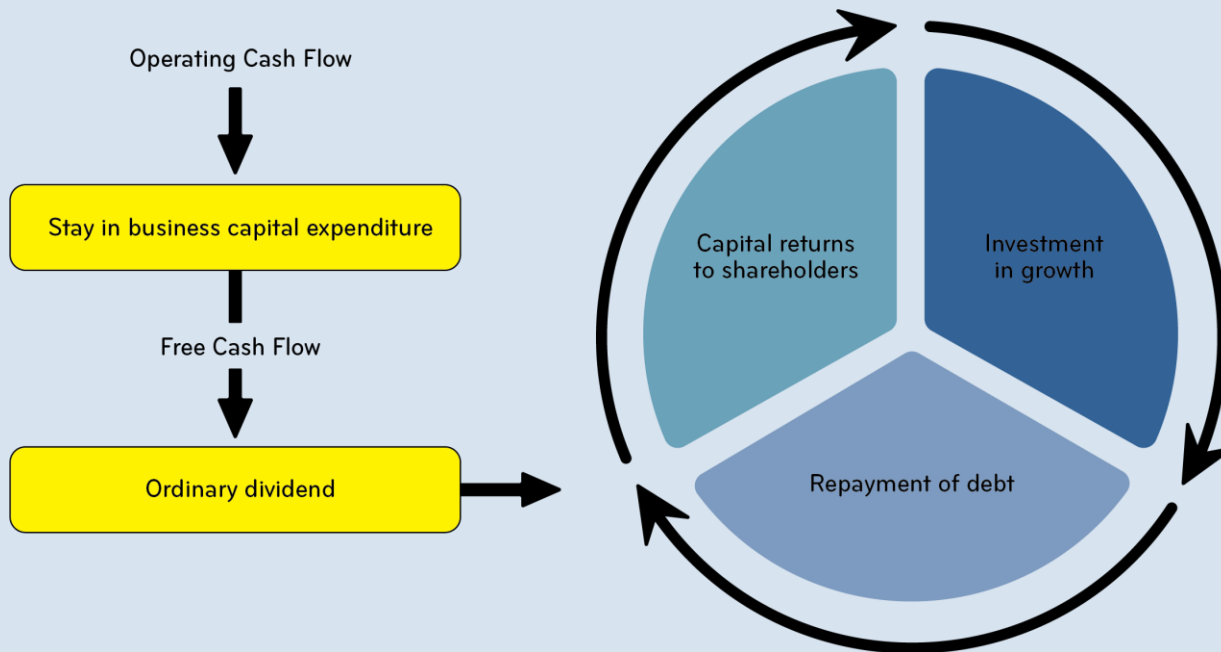
CAPEX



DEBT/EBITDAF



CONTINUOUS FOCUS ON PRUDENT CAPITAL MANAGEMENT



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 11 December 2017
 - > One-notch upgrade given majority Crown ownership
- > Capital structure prudently managed
 - > Targeting gearing at low end of Debt / EBITDAF between 2.2x and 3.0x (within key ratio for stand-alone S&P credit rating BBB) to provide debt headroom due to Government minimum equity ownership requirement
 - > Gearing range reflects flexibility afforded by Treasury stock retained from share buyback
 - > Debt / EBITDAF 2.0x at 30 June 2018¹ (2.3x after EBITDAF normalisation for above-average hydro generation)

	30 June 2018	30 June 2017	30 June 2016	30 June 2015	30 June 2014
Net debt (\$m)	1,249	1,038	1,068	1,082	1,031
Gearing ratio (%)	27.5	23.9	24.4	24.5	24.3
Debt/EBITDAF (x)	2.0 ¹	1.8 ¹	2.0 ¹	2.0 ¹	2.1
Capital management priority	Capital returns				
	Growth				

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



BOARD OF DIRECTORS



> JOAN WITHERS
CHAIR



> JAMES MILLER
DIRECTOR



> MIKE TAITOKO
DIRECTOR



> PRUE FLACKS
DIRECTOR



> PATRICK STRANGE
DIRECTOR



> ANDY LARK
DIRECTOR



> KEITH SMITH
DIRECTOR



> SCOTT ST JOHN
DIRECTOR

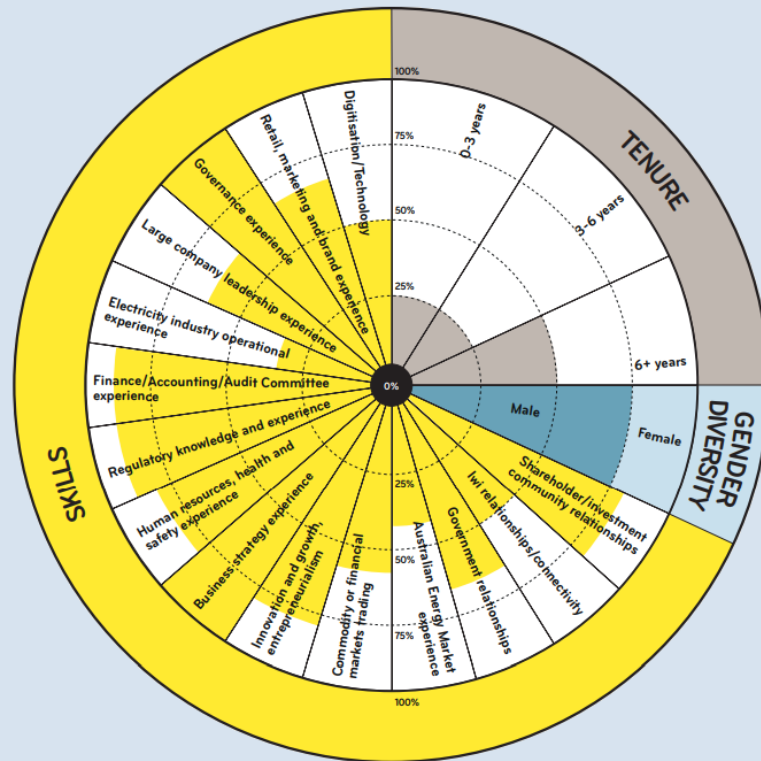


> ANNA LISSAMAN
FUTURE DIRECTOR



BOARD OF DIRECTORS

- > Committed to maintaining the highest standards of business behaviour and accountability
 - > Board recognised in Corporate Confidence Index (CCI) in critical areas such as effective board, high standard of corporate governance and appropriate board composition
- > Key governance focus for 2018 included:
 - > Board skills and experience
 - > Succession planning
- > Appointment of Scott St John made to complement skills of existing directors after a comprehensive evaluation of company requirements
- > Developing the pipeline – on-going support for the Institute of Directors Future Directors Programme



BOARD OF DIRECTORS

Skills matrix / gaps and strengths¹

- > 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 June 2018) 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; continuous disclosure
 - > 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 2018, pg 3



LEADERSHIP TEAM



> FRASER WHINERAY
CHIEF EXECUTIVE



> MATTHEW OLDE
METRIX CHIEF EXECUTIVE



> TONY NAGEL
GENERAL MANAGER CORPORATE AFFAIRS



> JULIA JACK
CHIEF MARKETING OFFICER



> WILLIAM MEEK
CHIEF FINANCIAL OFFICER



> KEVIN ANGLAND
GENERAL MANAGER DIGITAL SERVICES



> PHIL GIBSON
GENERAL MANAGER HYDRO & WHOLESALE



> MARLENE STRAWSON
GENERAL MANAGER PEOPLE & PERFORMANCE



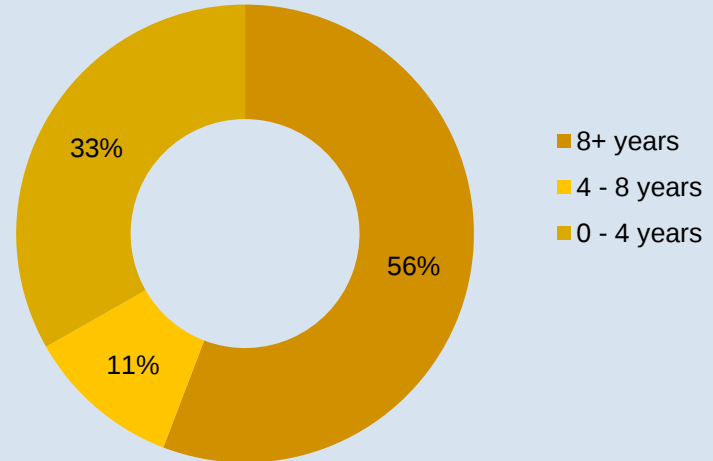
> NICK CLARKE
GENERAL MANAGER GEOTHERMAL & SAFETY



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

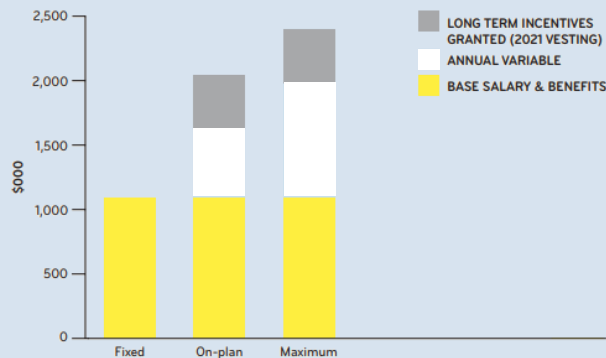
LEADERSHIP TEAM TENURE IN COMPANY



REMUNERATION

- > Executive short-term incentive KPIs are aligned with our strategy
- > 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

CHIEF EXECUTIVE REMUNERATION PERFORMANCE PAY FOR FY2019



SHORT TERM INCENTIVE COMPOSITION

Target Area	FY2018 Weighting %	FY2019 Weighting %	Key Pillar
Financial: EBITDAF ¹	30	30	Leading Economic Performance
People	20	30 ²	High Performance Teams
Wellbeing	20		
Customer	20	20	Growing Customer Loyalty
Long term platform	10	N/A	N/A
Partnerships	N/A	10	Stronger Together
Kaitiakitanga	N/A	10	Enhanced Natural Resources

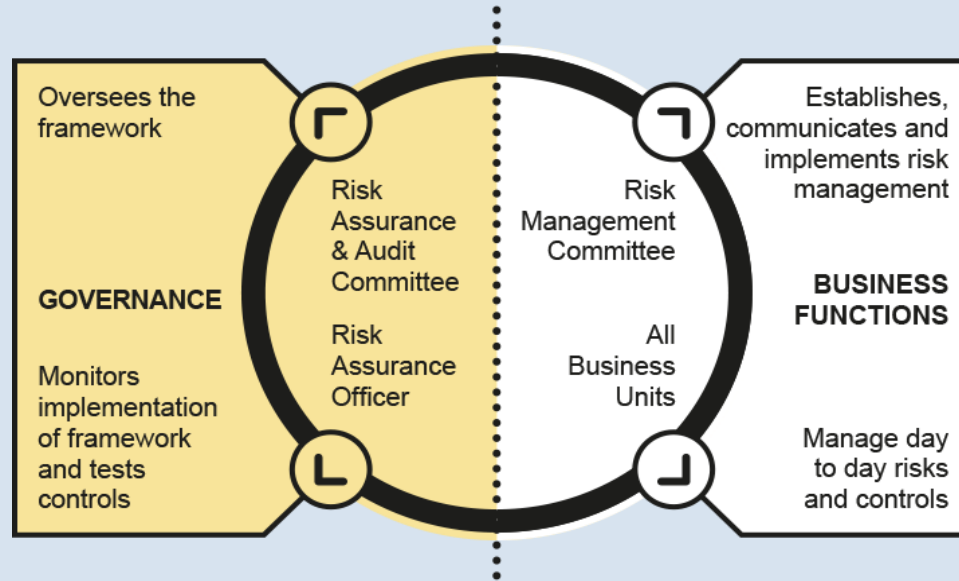
Note 1: EBITDAF is normalised for positive and negative annual variations in Waikato hydro generation.

Note 2: People and Wellbeing have been combined in FY2019 to be People.



RISK MANAGEMENT

- > Comprehensive approach encompassing financial, strategic, environmental, operational, regulatory, reputational, social and governance risks from internal and external sources

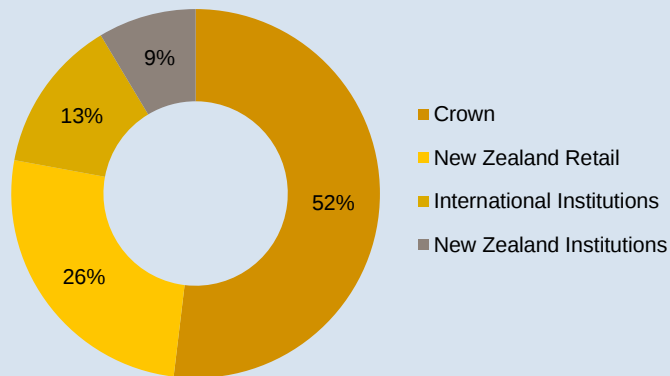


OWNERSHIP

- > Listed on NZX and ASX in May 2013
- > Approximately 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

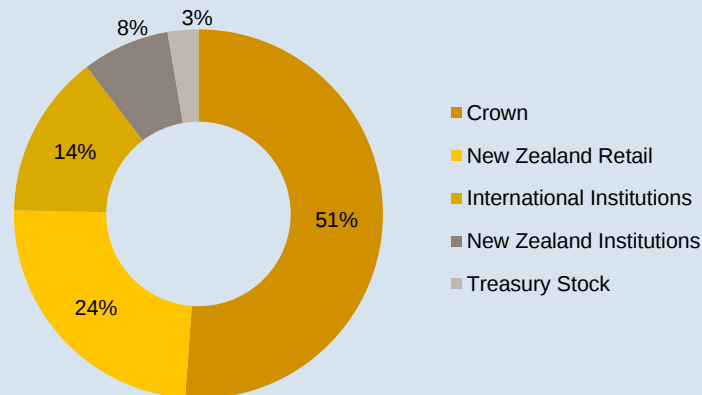
MERCURY SHARE REGISTER

May 2013



MERCURY SHARE REGISTER

October 2018





FOR FURTHER INFORMATION >> **TIM THOMPSON | HEAD OF TREASURY & INVESTOR RELATIONS** T. +64 275 173 470 E. INVESTOR@MERCURY.CO.NZ