

# FINANCIAL RESULTS.

SIX MONTHS ENDED 31 DECEMBER 2019

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Chief Executive

25 February 2020

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# HY2020 HIGHLIGHTS

## **\$258m EBITDAF**

Down \$44m versus HY2019 due to lower generation and Metrix sale; strong underlying portfolio performance

## **DYNAMIC MARKET**

Elevated wholesale prices persist reflecting tight gas deliverability and higher prices; retail market remains highly competitive

## **CUSTOMER VALUE**

Reduced acquisition activity with Mercury's focus on rewarding loyalty and customer value resulting in lower market share

## **6.4cps INTERIM DIVIDEND**

an increase of 3.2% versus HY2019; full-year guidance of 15.8cps being the 12th year of ordinary dividend growth

## **TURITEA WIND FARM**

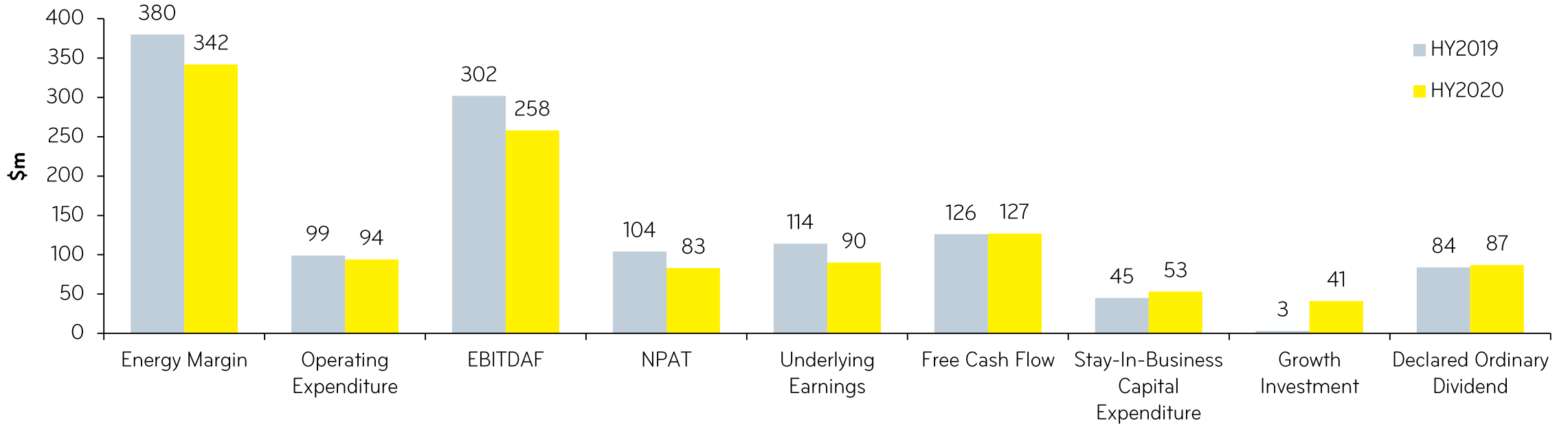
Growing our renewable generation portfolio through commitment to full build of 60 turbines at Turitea, increasing average output to 840GWh p.a.

## **Stay-in-business capital expenditure of \$53m**

Up from \$45m in HY2019 due to geothermal drilling at Kawerau



# FINANCIAL PERFORMANCE



- > EBITDAF and NPAT down due to 377GWh generation decrease, lower spot prices and Metrix divestment
  - > Equity accounted earnings of Tilt and TPC Holdings now recognised in EBITDAF as Other Income
- > Interim dividend 3.2% higher at 6.4cps; full year dividend guidance maintained at 15.8cps
- > Free Cash Flow up versus HY2019 due to lower interest costs, tax paid and elevated ASX prudential in the prior comparable period



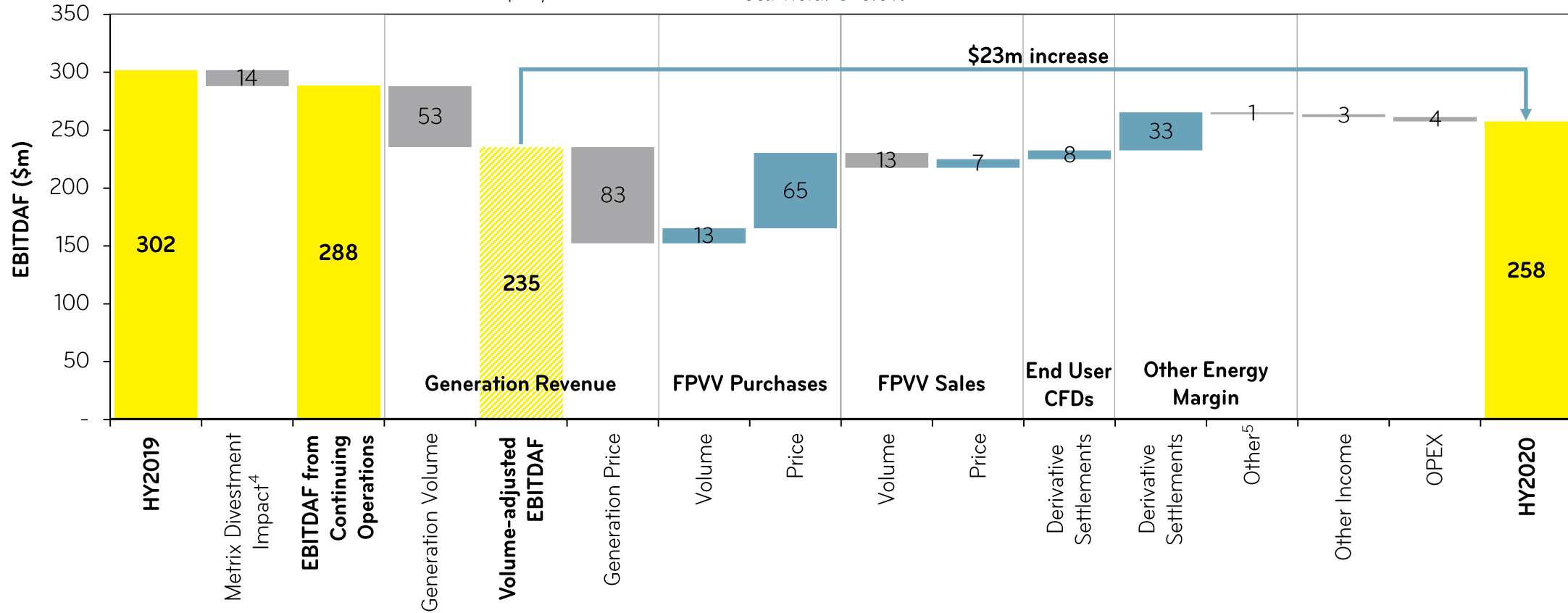
# STRONG UNDERLYING PORTFOLIO PERFORMANCE

## EBITDAF BRIDGE (HY2019 to HY2020)

■ Decrease ■ Increase

Generation: ↓ 377GWh  
GWAP<sup>1</sup>: ↓ \$24/MWh

Total Sales: ↓ 91GWh<sup>2</sup>  
Mass Market Yield: ↑ 1.8%  
C&I Yield: ↑ 6.8%<sup>3</sup>



<sup>1</sup> Generation-Weighted Average Price received for hydro and geothermal generation

<sup>2</sup> Includes both physical and financial sales

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

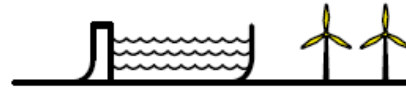
<sup>4</sup> Consistent with disclosures in December 2018

<sup>5</sup> Includes ancillary services & gas purchases and sales



# OUR DIRECTION

OUR PURPOSE



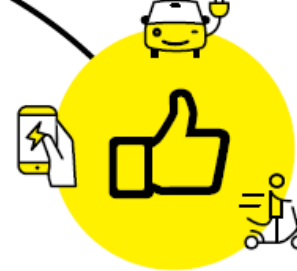
OUR MISSION

**ENERGY  
FREEDOM**

**TO INSPIRE  
NEW  
ZEALANDERS  
TO ENJOY  
ENERGY IN  
MORE  
WONDERFUL  
WAYS**



**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 half-year periods / 6-monthly rolling unless indicated)

CUSTOMER	Mercury brand trader churn 5.9% <sup>1</sup>	Customer satisfaction 64% <sup>2</sup>	Brand Love 82% <sup>3</sup>
PARTNERSHIPS	EPR final report released, supportive of industry structure ✓	Airpoints™ registrations 159,000 <sup>4</sup>	
KAITIAKITANGA	LWAP/GWAP 1.03	SIB Capex \$53m	Gross Generation Emissions Intensity 32kg CO <sub>2</sub> e/MWh
PEOPLE	Zero high severity health and safety incidents ✓	TRIFR 0.67 <sup>5</sup>	
COMMERCIAL	Annual Total Shareholder Return 43% <sup>6</sup>	Interim Dividend 6.4cps	Commitment to full Turitea wind farm ✓

<sup>1</sup> Normalised for the exit of an agreement with Fonterra Farm Source

<sup>2</sup> Based on Mercury's monthly survey of residential customers, 6-monthly rolling average to 31 December 2019 for Mercury brand only

<sup>3</sup> Percentage of customers who say they 'like' Mercury, 3-monthly rolling average to 31 December 2019

<sup>4</sup> Total customers registered for Airpoints™ as at 31 December 2019

<sup>5</sup> Total Recordable Injury Frequency Rate per 200,000 hours for the 6 months to 31 December 2019; includes employees and onsite contractors

<sup>6</sup> 12-monthly rolling average to 31 December 2019



# REGULATORY DEVELOPMENTS

- > Government response to Electricity Price Review (October 2019)
  - > Supportive of industry structure
  - > Ban of Saves and Winbacks from 30 March for three-year period
  - > Retailers to remove discounts for prompt-payment or make cost reflective within 6 months
  - > Temporary code introduced to enforce market making for nine month period by regulator while more sustainable options developed
  - > Ministerial back-stop powers to implement code changes if regulator is unable to progress recommendations
- > Mercury supports freshwater policy changes that would recognise the critical role hydro storage and generation will play in the transition to a low carbon economy
- > As previously stated in our financial accounts<sup>1</sup>, there is an application before the Waitangi Tribunal seeking recommendations for the resumption of land, including at Maraetai. Non-binding guidance from the Tribunal is expected in March. In the unlikely event Mercury is affected, the Crown is required to compensate Mercury.

<sup>1</sup> Refer Note 18, FY2019 Group Financial Statements



# TURITEA WORKS PROGRESSING

## Wind farm works

- > Public roading upgrades and construction of site entrance roads have been completed, allowing the wider works programme to proceed
- > Site fully established and roading, foundation and substation construction under way
- > Major turbine components arriving in NZ via New Plymouth (blades) and Napier (towers, nacelles, drive trains and hubs)

## Transmission & connection

- > Transmission line foundation construction well under way
  - > All major components in-country and ready for erection
  - > Linton connection works in progress
- > \$464m<sup>1</sup> project targeting completion in late CY2021
- > Commissioning of the northern 33 turbines from late CY2020
  - > Timelines are subject to weather impacts over winter and any supply chain impacts due to COVID-19



Turbine tower sections unloading at Napier Port



Turbine blades unloading at Port Taranaki

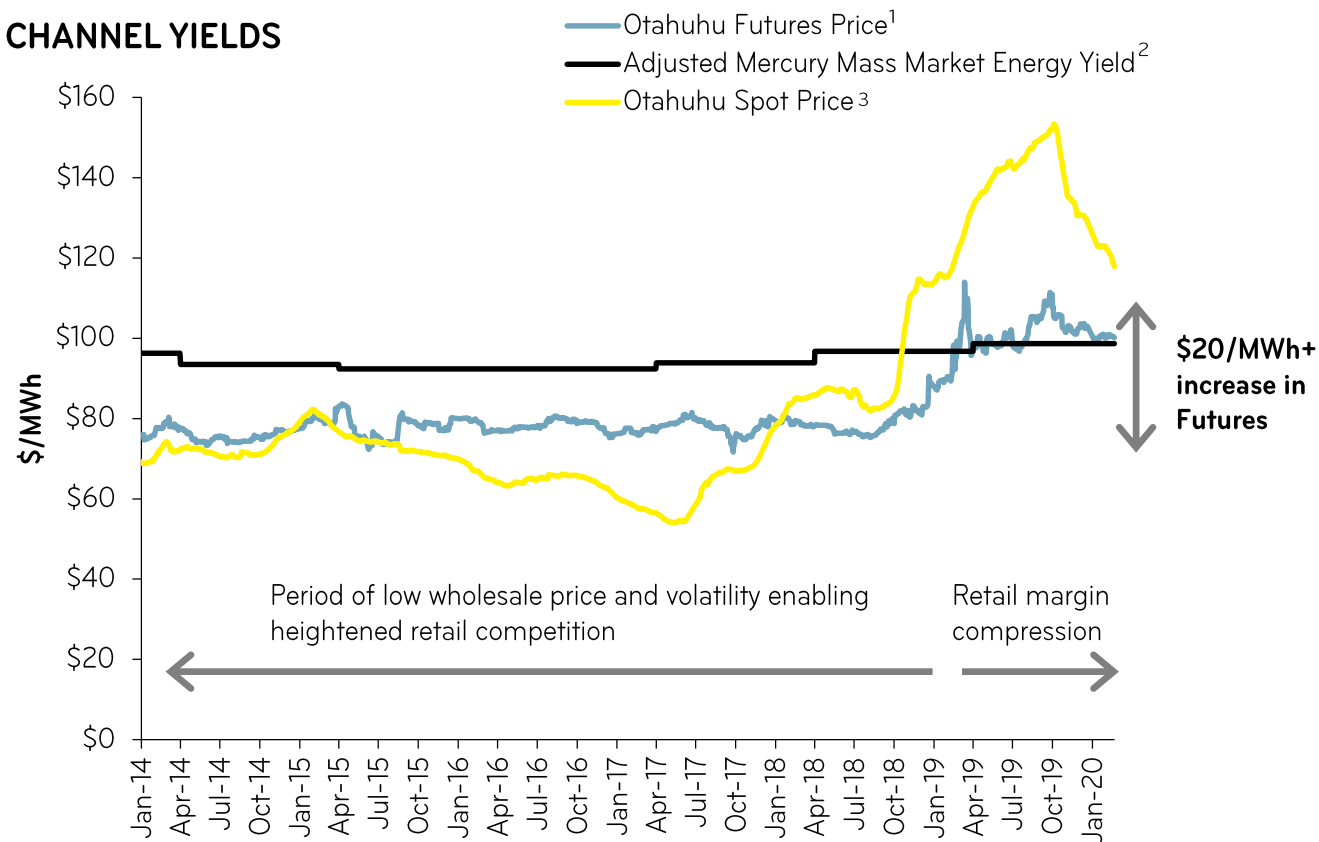


# MERCURY'S ELECTRICITY MARKET THESIS HAPPENING

## ANTICIPATED MARKET OUTCOMES

- > Supply and demand re-balanced ✓
- > Conditions for demand growth ✓
- > Increased spot price volatility ✓
- > Futures price increase ✓
- > Commercial and Industrial (C&I) upwards price pressure ✓
- > Retail churn reduction ?
- > Upward pressure on retail price ?

## CHANNEL YIELDS



- > Wholesale prices remain elevated reflecting supply-side tightening with higher gas prices and reduced deliverability
- > Competitor results signalling increase in cost of contracted gas and carbon

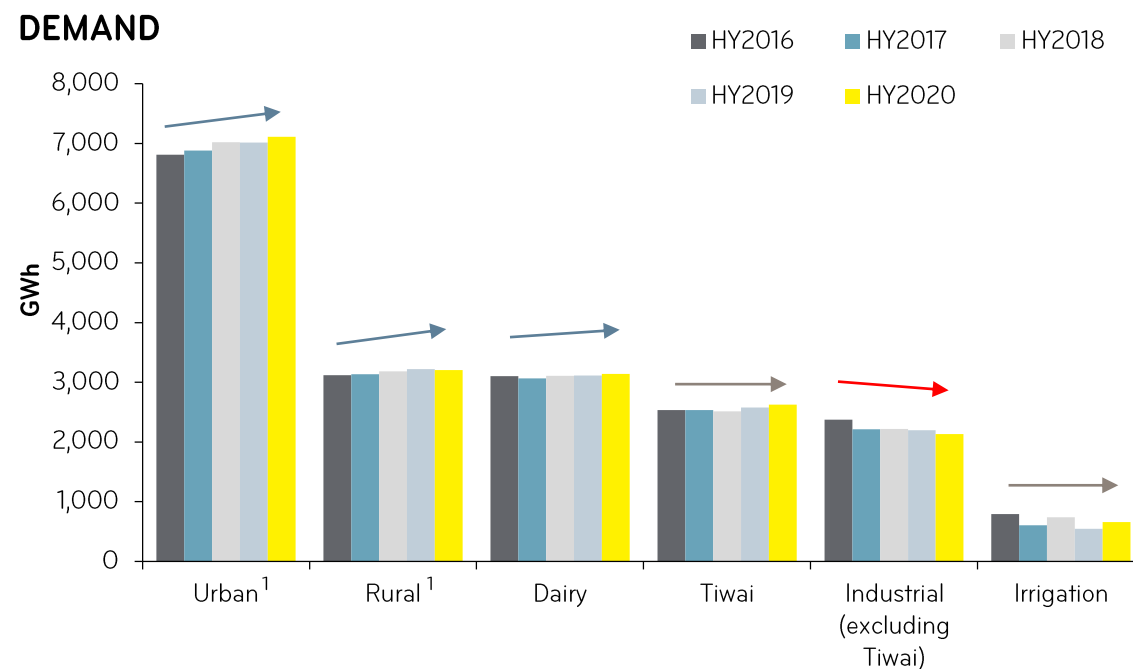


# DEMAND GROWS AS URBAN, IRRIGATION SECTORS OFFSET INDUSTRIAL DECLINE

- > National demand up 0.9% versus HY2019 led by urban and irrigation sectors
- > Industrial demand declined as large users continue to demonstrate sensitivity to high spot prices
  - > Tiwai demand holding at an average 595MW in HY2020, below peak of 622MW
  - > Rio Tinto strategic review of smelter expected to conclude March 2020

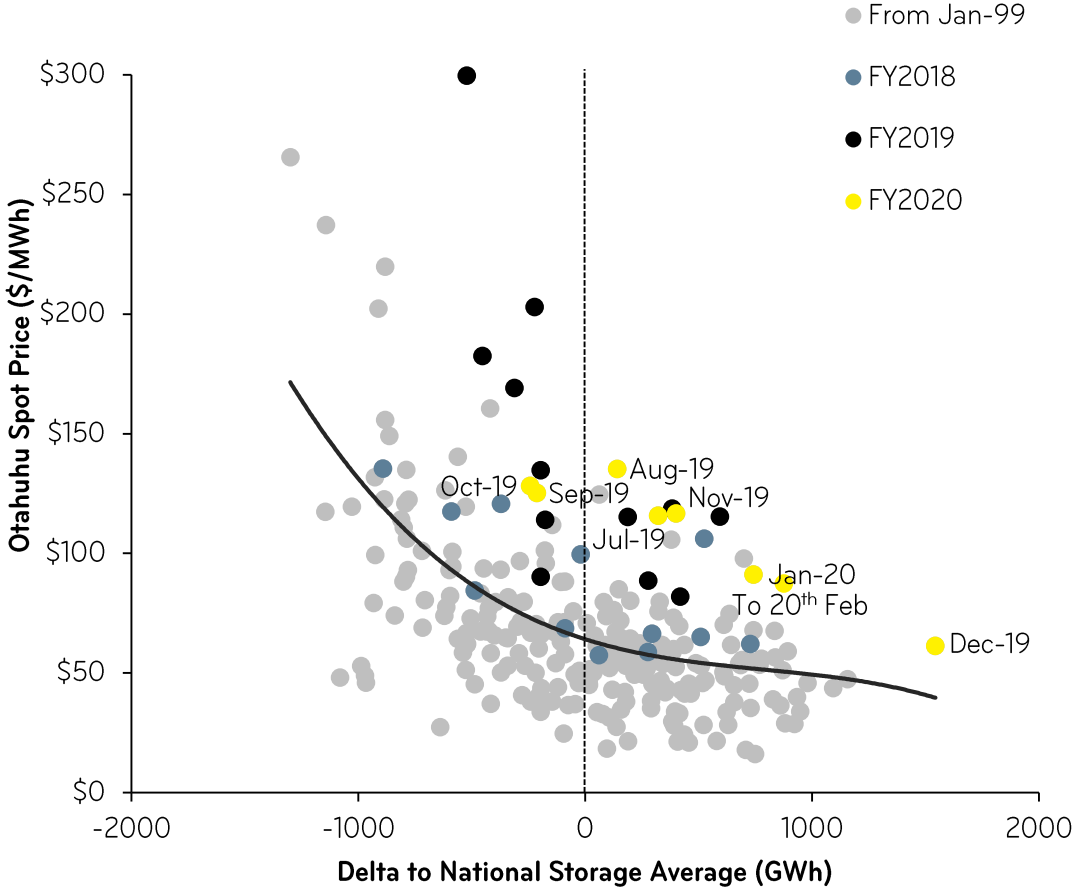
**HY2020 NORMALISED DEMAND GROWTH BY SECTOR**

Sector	GWh	Sector % $\Delta$	Total % $\Delta$
Urban <sup>1</sup>	+93	1.1%	0.5%
Rural <sup>1</sup>	-12	(0.4)%	(0.1)%
Dairy processing	+30	1.0%	0.1%
Irrigation	+109	19.9%	0.5%
Industrial	-17	(0.4)%	(0.1)%
Other	-11	(3.2)%	(0.1)%
<b>Total</b>	<b>192</b>		<b>0.9%<sup>2</sup></b>

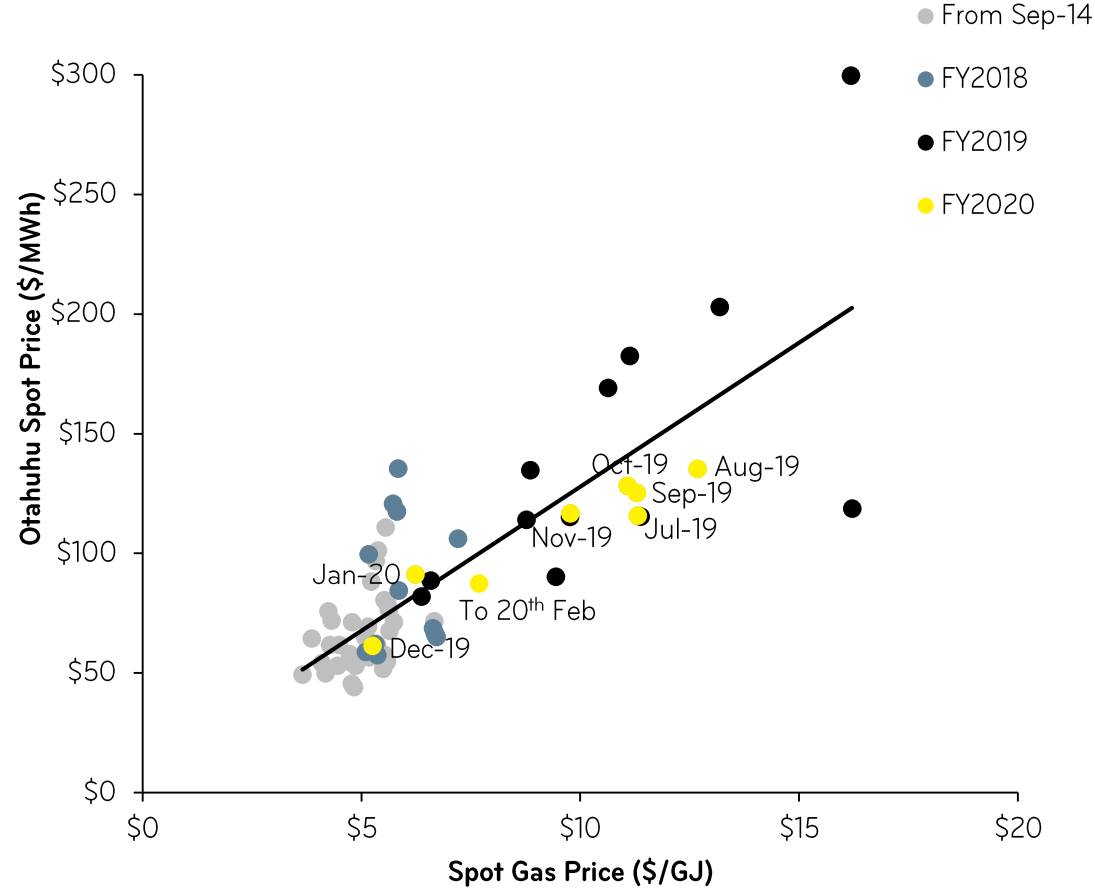


# ELECTRICITY SPOT PRICE REFLECTS GAS AVAILABILITY AND HYDROLOGY

HYDRO STORAGE VS. SPOT ELECTRICITY PRICE



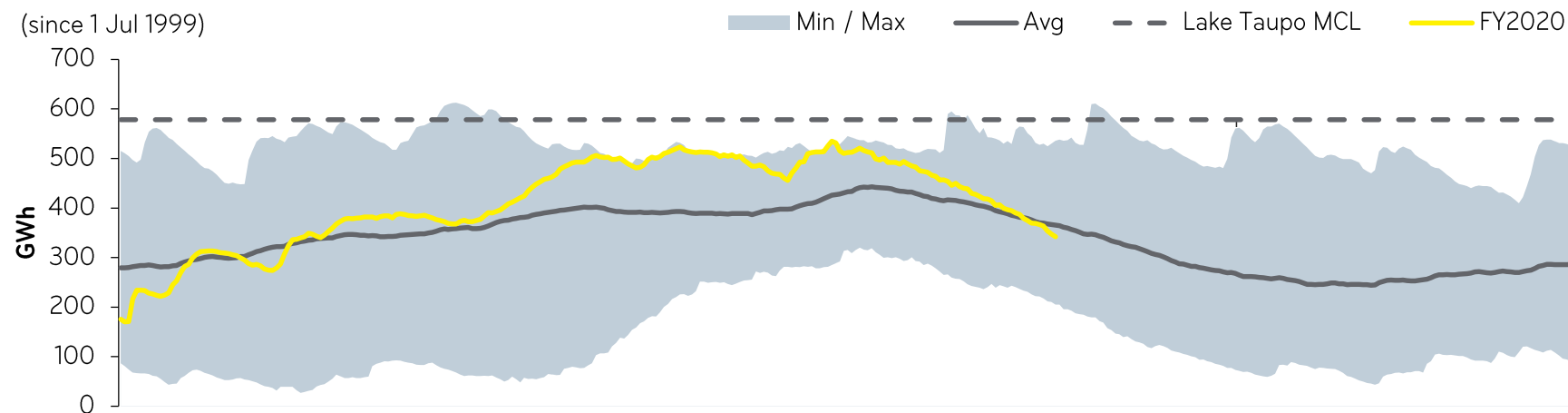
SPOT GAS VS. SPOT ELECTRICITY PRICE



# PRUDENT PORTFOLIO MANAGEMENT WITH HIGH PRICES FORECAST FOR H2-FY2020

## LAKE TAUPO STORAGE

(since 1 Jul 1999)



Month End	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb <sup>1</sup>	Mar	Apr	May	Jun
Hydro Generation - Delta to Average <sup>2</sup> (GWh)		+10	+11	+1	-95	-35	+25	-26	-29				
Waikato Inflows - Delta to Average <sup>3</sup> (GWh)		+82	+41	-52	-36	-66	-14	-110	-91				
Taupo Storage - Delta to Average <sup>2</sup> (GWh)	-107	-3	37	23	106	116	79	21	-23				
Spot Price - Otahuhu (\$/MWh)		\$116	\$135	\$125	\$128	\$116	\$61	\$91	\$87				
Futures Price (M-3 <sup>4</sup> ) Otahuhu (\$/MWh)		\$150	\$114	\$103	\$112	\$131	\$122	\$137	\$137	\$174	\$121		

Source: NZXHydro, WITS, ASX

<sup>1</sup> To 20 February 2020 inclusive

<sup>2</sup> Monthly average since July 1999

<sup>3</sup> Monthly average since July 1927

<sup>4</sup> Closing price 3 months prior

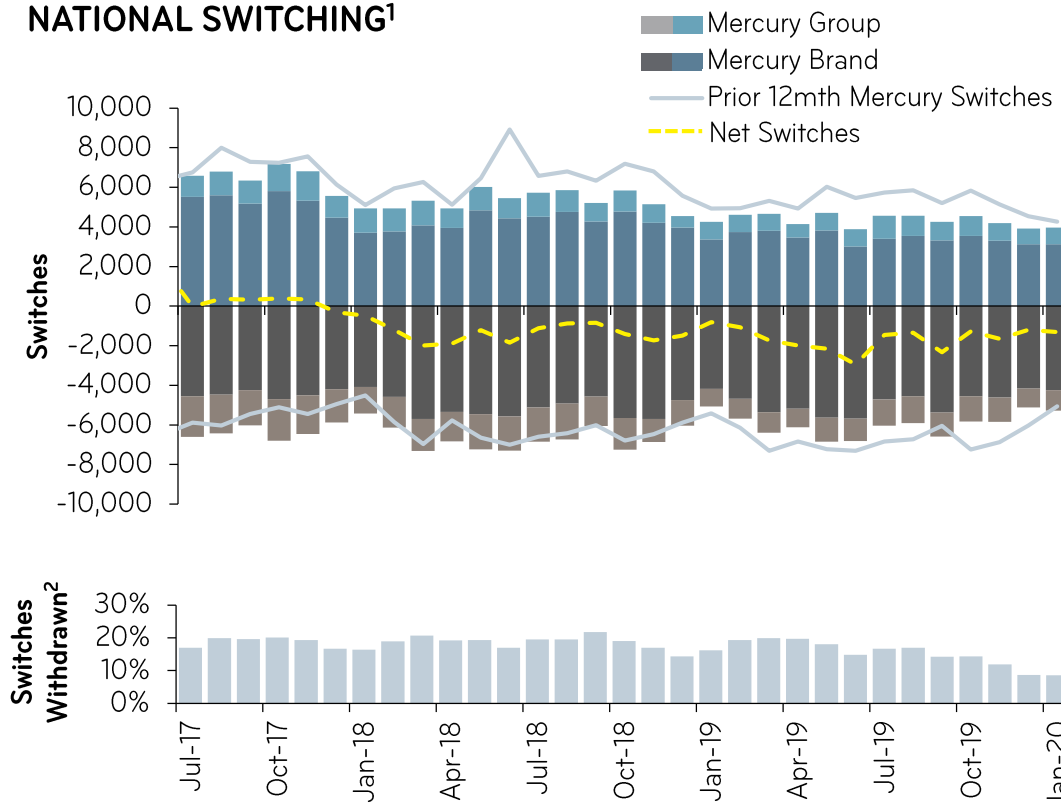




# FOCUS ON REWARDING THE LOYALTY OF OUR EXISTING CUSTOMERS

- > In a highly competitive retail market, Mercury is focused on rewarding our existing customers
- > Mercury has moved away from the recent industry norm of aggressive discounted acquisition, consistent with our focus on loyalty
- > Reduced Mass Market volume through reduced acquisition, replaced by higher yielding wholesale sales (spot and C&I)
- > Farm Source exit completed during HY2020, as part of Mercury's portfolio management strategy, leading to a reduction of ~8,000 customer connections

### NATIONAL SWITCHING<sup>1</sup>



## FY2020 GUIDANCE REVISED


- > FY2020 EBITDAF guidance revised to \$500m (down \$10m) on 3,900GWh of hydro generation (down 170GWh), subject to hydrological volatility, wholesale market conditions and any material adverse events, significant one-off expenses or other unforeseeable circumstances
- > FY2020 ordinary dividend guidance maintained at 15.8cps (up 2% on FY2019)
- > FY2020 stay-in-business capital expenditure guidance increased by \$15m to \$120m
  - > Includes two wells at Kawerau with an additional well planned at Rotokawa due to early abandonment of a production well from well casing corrosion





# 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

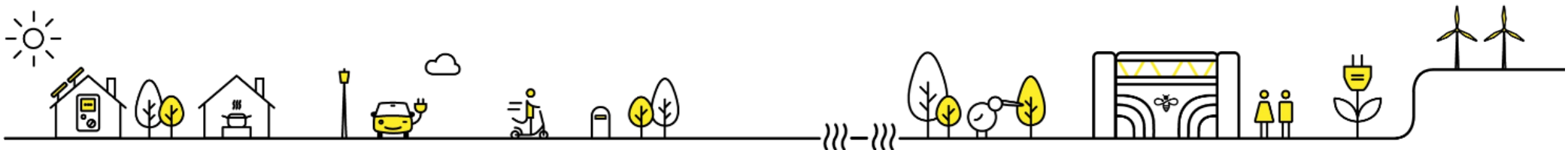
 **Superior asset location**  
> North Island generation located near major load centres; rain-fed hydro catchment inflows aligned with winter peak demand

 **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

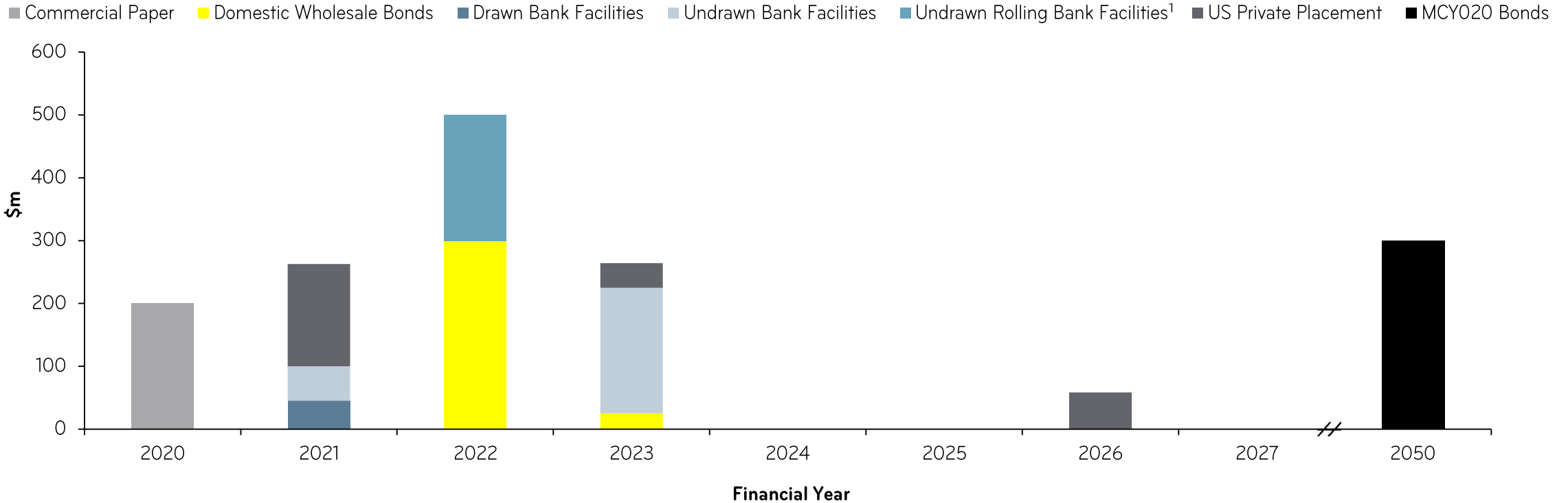
 **Track record of customer engagement**  
> Brand capital built through customer-led innovation and rewarding loyalty

 **Long-term commercial partnerships**  
> With Maori landowners and other key stakeholders



# DIVERSIFIED FUNDING PROFILE

## DEBT MATURITIES AS AT 21 FEBRUARY 2020



- > Diversified funding sources: commercial paper, bank facilities, domestic wholesale bonds, USPP and capital bonds
- > Following a \$24m reduction in interest paid for FY2019, further reductions are expected in FY2020 (circa \$10m<sup>2</sup>)
- > Activities to refinance H1-FY2021 maturities underway

<sup>1</sup> Requires 18 months notice of termination from lender

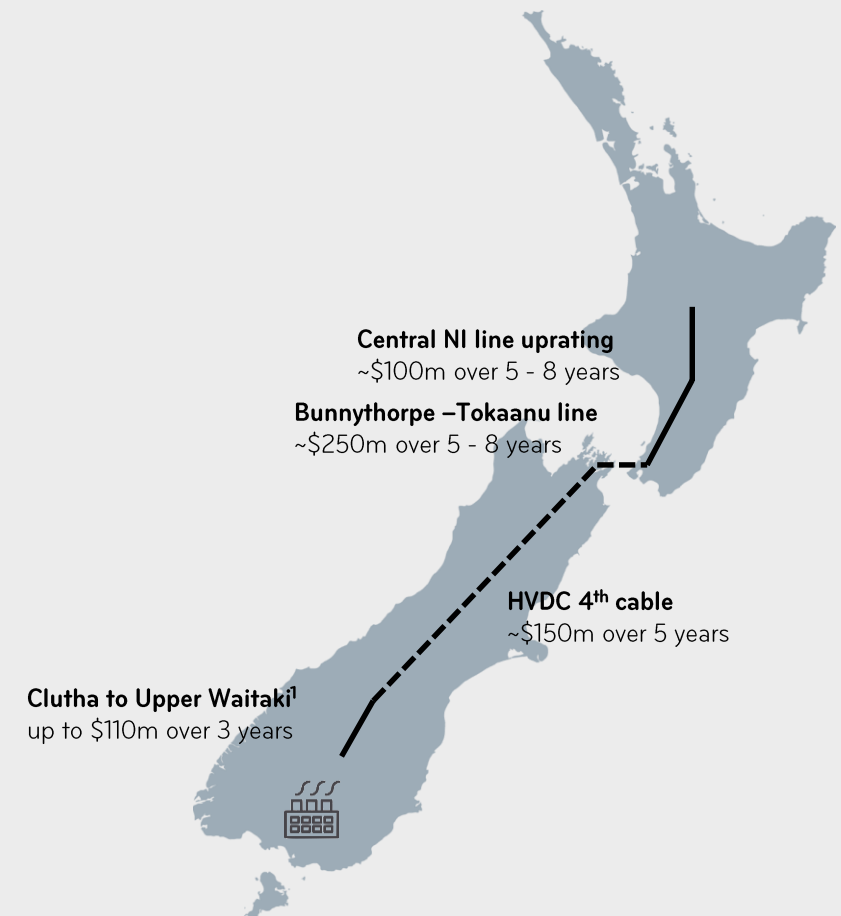
<sup>2</sup> For debt levels equivalent to FY2019



# NZAS REMAINS A RISK FOR THE SECTOR BUT MERCURY BEST PLACED

- > Rio Tinto (79% owner) has announced a strategic review of its interest in New Zealand Aluminium Smelters (NZAS)
  - > NZAS produces high-grade aluminium marketed under Rio's RenewAL™ brand – certified low CO<sub>2</sub> aluminium
  - > Review follows an increase in production capacity of ~50MW to ~622MW (resumption of Potline 4) in December 2018
- > Thermal rationalisation in the North Island likely when NZAS closes
  - > NZAS has the right to terminate the financial contract with Meridian which matures in 2030 with 12 months' notice
  - > Industry has demonstrated ability to quickly respond to changes in supply and demand
- > Mercury best placed in the event of NZAS closure, with generation:
  - > 100% low variable cost renewables
  - > 100% North Island, close to major load centres
  - > A major supplier of NI reserves which support high north HVDC transfer
  - > Free of major transmission constraints as a consequence of closure

## POTENTIAL TRANSMISSION UPGRADES



Source: Transpower

<sup>1</sup> Project commenced following support from major South Island generators



## FINANCIAL DERIVATIVES

	6 months ended 31 December 2019	6 months ended 31 December 2018
<b>Energy Margin contribution (\$m)</b>		
Sell CFDs	(48)	(98)
Buy CFDs	14	35
Other Financial Derivatives	10	(1)
<b>Total Energy Margin contribution</b>	<b>(24)</b>	<b>(64)</b>



## 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, excluding third-party metering, and third-party metering
- > Operating Expenditure represents employee compensation and benefits, maintenance expenses and other expenses
- > EBITDAF (or Operating Earnings) is earnings before depreciation and amortisation, change in the fair value of financial instruments, gain on sale, impairments, net interest expense and tax expense
- > Underlying Earnings is net profit for the period adjusted for one-off and/or infrequently occurring events (exceeding \$10 million of net profit before tax, which represents material items), impairments, gain on sale and any change in the fair value of derivative financial instruments, 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 (or Reinvestment Capital Expenditure) is the capital expenditure incurred by the company to maintain its assets in good working order



# REFERENCE MATERIAL

## MERCURY REFERENCES

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<b>Mercury Investor Centre</b>	<a href="https://www.mercury.co.nz/investors">https://www.mercury.co.nz/investors</a>
<b>Quarterly Operational Updates</b>	<a href="https://www.mercury.co.nz/investors/results-reports/operating-information">https://www.mercury.co.nz/investors/results-reports/operating-information</a>
<b>FY2019 Results Presentation</b>	<a href="https://issuu.com/mercurynz/docs/mercury_fy2019_results_presentation_final?fr=sNjdmzk3MDI">https://issuu.com/mercurynz/docs/mercury_fy2019_results_presentation_final?fr=sNjdmzk3MDI</a>
<b>Governance Presentation – December 2018</b>	<a href="https://issuu.com/mercurynz/docs/mercury_governance_roadshow_present?e=25554184/66170875">https://issuu.com/mercurynz/docs/mercury_governance_roadshow_present?e=25554184/66170875</a>

## PUBLICATIONS

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<b>Productivity Commission – Low-emissions Economy Report</b>	<a href="https://www.productivity.govt.nz/assets/Documents/4e01d69a83/Productivity-Commission_Low-emissions-economy_Final-Report.pdf">https://www.productivity.govt.nz/assets/Documents/4e01d69a83/Productivity-Commission_Low-emissions-economy_Final-Report.pdf</a>
<b>Interim Climate Change Committee – Accelerated Electrification</b>	<a href="https://www.iccc.mfe.govt.nz/assets/PDF_Library/daed426432/FINAL-ICCC-Electricity-report.pdf">https://www.iccc.mfe.govt.nz/assets/PDF_Library/daed426432/FINAL-ICCC-Electricity-report.pdf</a>
<b>Transpower – Transmission Tomorrow – Our Strategy</b>	<a href="https://www.transpower.co.nz/sites/default/files/publications/resources/TTourstrategy2018.pdf">https://www.transpower.co.nz/sites/default/files/publications/resources/TTourstrategy2018.pdf</a>
<b>MBIE – Electricity Demand and Generation Scenarios</b>	<a href="https://www.mbie.govt.nz/building-and-energy/energy-and-natural-resources/energy-statistics-and-modelling/energy-modelling/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/</a>
<b>NZ Initiative – Switched On</b>	<a href="https://nzinitiative.org.nz/reports-and-media/reports/switched-on-achieving-a-green-affordable-and-reliable-energy-future/">https://nzinitiative.org.nz/reports-and-media/reports/switched-on-achieving-a-green-affordable-and-reliable-energy-future/</a>





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