

MERCURY.

RETAIL GREEN BOND OFFER

VINCE HAWKSWORTH
Chief Executive

31 August 2020

WILLIAM MEEK
Chief Financial Officer

GEOFF SMITS
Acting Treasurer



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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. These measures are discussed in further detail in the Appendix – slide 28.

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IMPORTANT INFORMATION

The offer ("Offer") of unsecured, unsubordinated fixed rate green bonds ("Green Bonds") by Mercury described in this presentation is made in reliance upon the simplified disclosure provisions in regulation 49G of the Financial Markets Conduct Regulations 2014.

Mercury is subject to a disclosure obligation that requires it to notify certain material information to NZX Limited ("NZX") for the purpose of that information being made available to participants in the market and that information can be found by visiting www.nzx.com/companies/MCY.

A product disclosure statement ("PDS") has been prepared in respect of the Offer and is available at www.mercury.co.nz/green-bonds, and information relating to Mercury and the Green Bonds are available on the Disclose Register at <https://disclose-register.companiesoffice.govt.nz>. Investors should not purchase the Green Bonds until they have read the PDS. Investors should consider the risks that are associated with an investment in the Green Bonds, particularly with regard to their personal circumstances (including financial and tax issues).

Application has been made to NZX for permission to quote the Green Bonds on the NZX Debt Market and all the requirements of NZX relating thereto that can be complied with on or before the date of distribution of the Terms Sheet have been duly complied with. However, NZX accepts no responsibility for any statement in this presentation. NZX is a licensed market operator, and the NZX Debt Market is a licensed market under the Financial Markets Conduct Act 2013.

Capitalised terms used but not defined in this presentation have the meanings given to them in the PDS.



OFFER HIGHLIGHTS

Issuer	Mercury NZ Limited ("Mercury")
Instrument	Unsecured, unsubordinated fixed rate green bonds ("Green Bonds")
Credit Rating	Issue Credit Rating: BBB+ (Mercury has an Issuer Credit Rating of BBB+)
Issue Amount	Up to NZ\$150m plus oversubscriptions of up to NZ\$50m (at Mercury's discretion)
Term	7 years (maturing 14 September 2027)
Interest Rate	The Green Bonds will pay a fixed rate of interest from the Issue Date until the Maturity Date
Use of proceeds	The proceeds of the Offer are intended to be earmarked to finance or refinance new or existing projects and expenditures relating to Eligible Projects. In particular, as at the date of this presentation, Mercury expects to apply the net proceeds of the Offer to refinance existing debt, and to track an amount equal to the net proceeds within its systems, earmarked to Eligible Projects, primarily the construction of the Turitea wind farm
Arranger and Green Bonds Co-Ordinator	ANZ Bank New Zealand Limited
Joint Lead Managers	ANZ Bank New Zealand Limited, Bank of New Zealand, Craigs Investment Partners Limited and Forsyth Barr Limited





COUNTRY, INDUSTRY & MERCURY



Stable regulatory framework

- > Underpinned by strong industry performance on Reliability, Renewability and Pricing (the electricity 'trifecta')
- > New Zealand has >80% renewable generation
- > Electricity recognised as a key enabler for New Zealand's low-carbon economy



Focus on our customers

- > Focus on rewarding our existing customers in a competitive retail market
- > Making it easy with increased digitisation and self-service



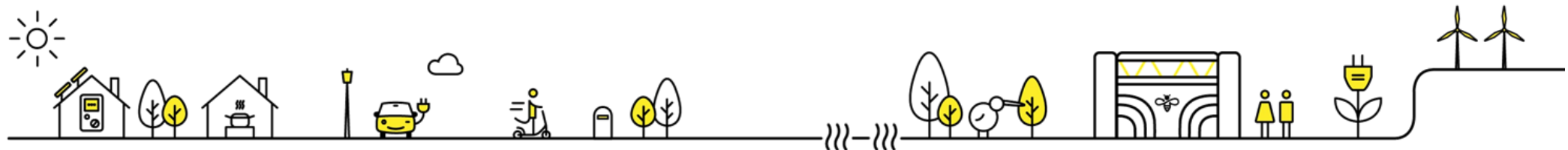
100% renewable generation

- > Low cost hydro and geothermal generation delivering strong and stable cash flows
- > Turitea, New Zealand's largest wind farm, under construction
- > Northern section completion expected in Q2 CY2021, southern section completion in late CY2021



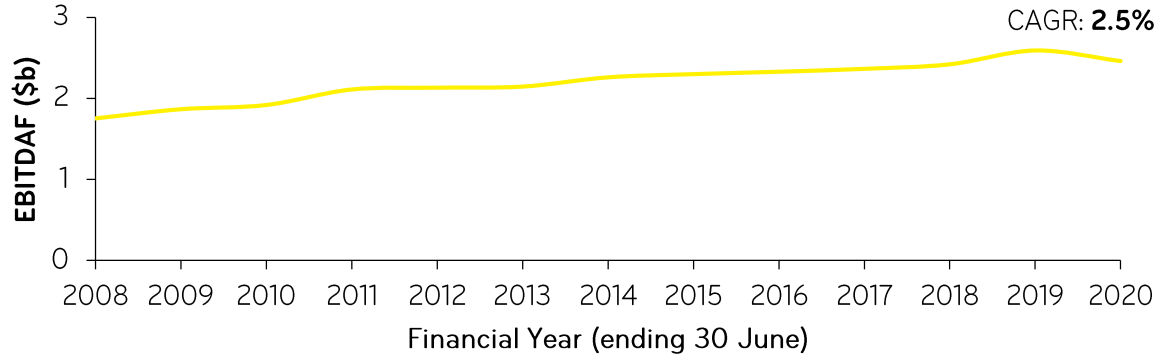
Integrated generator & retailer

- > Complementary generation sources contribute both flexibility and reliability with sales to customers providing a natural hedge against wholesale price volatility

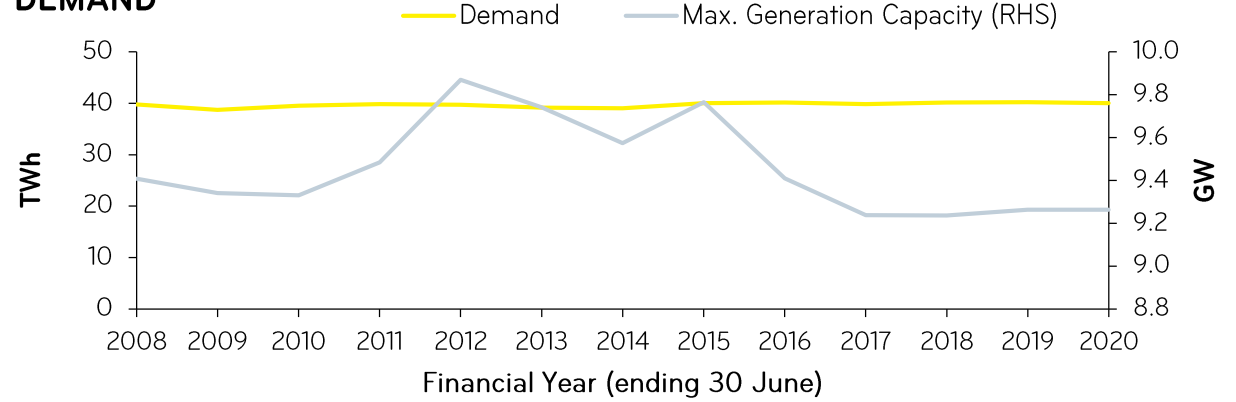


LONG-TERM INDUSTRY TRENDS

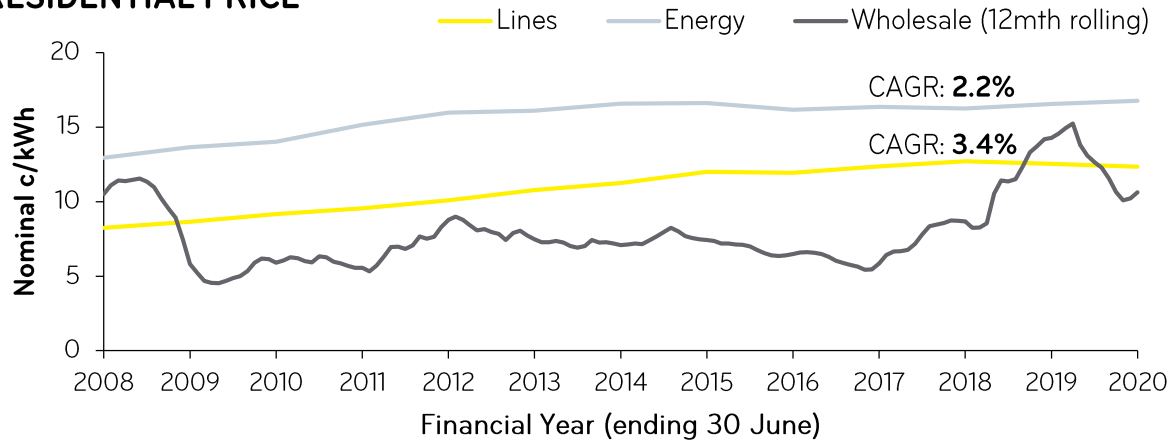
SECTOR EARNINGS



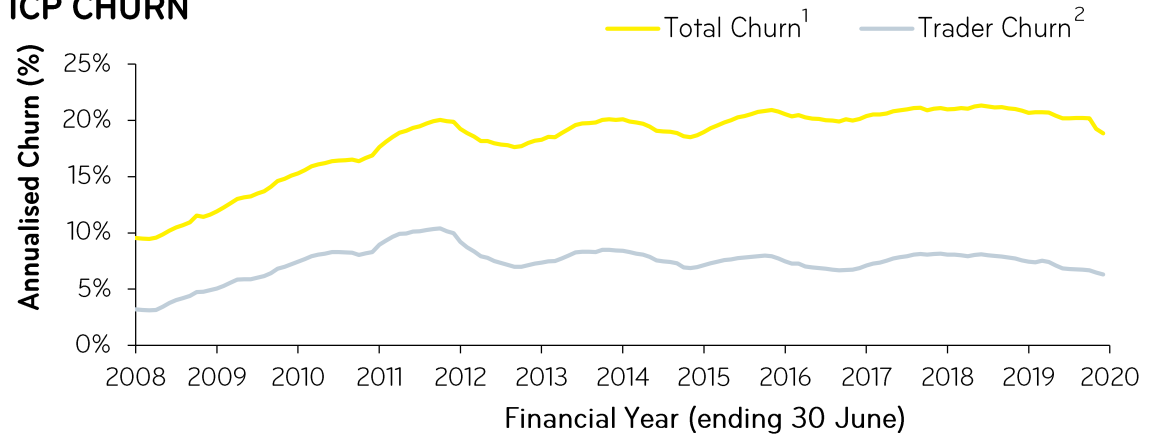
DEMAND



RESIDENTIAL PRICE



ICP CHURN



Source: Company reports, TPIX, MBIE, Pricing Manager (NZX), Electricity Authority

¹ Includes trader churn and premise churn – switches caused by customers moving house

² Switches where a customer changes retailer without changing house



MERCURY AT A GLANCE

- > Vertically integrated 100% renewable North Island generator and national retailer of electricity
- > New Zealand's second largest gentailer¹
- > Generation market share of 15%
- > 51% owned by the New Zealand Government

KEY INFORMATION²

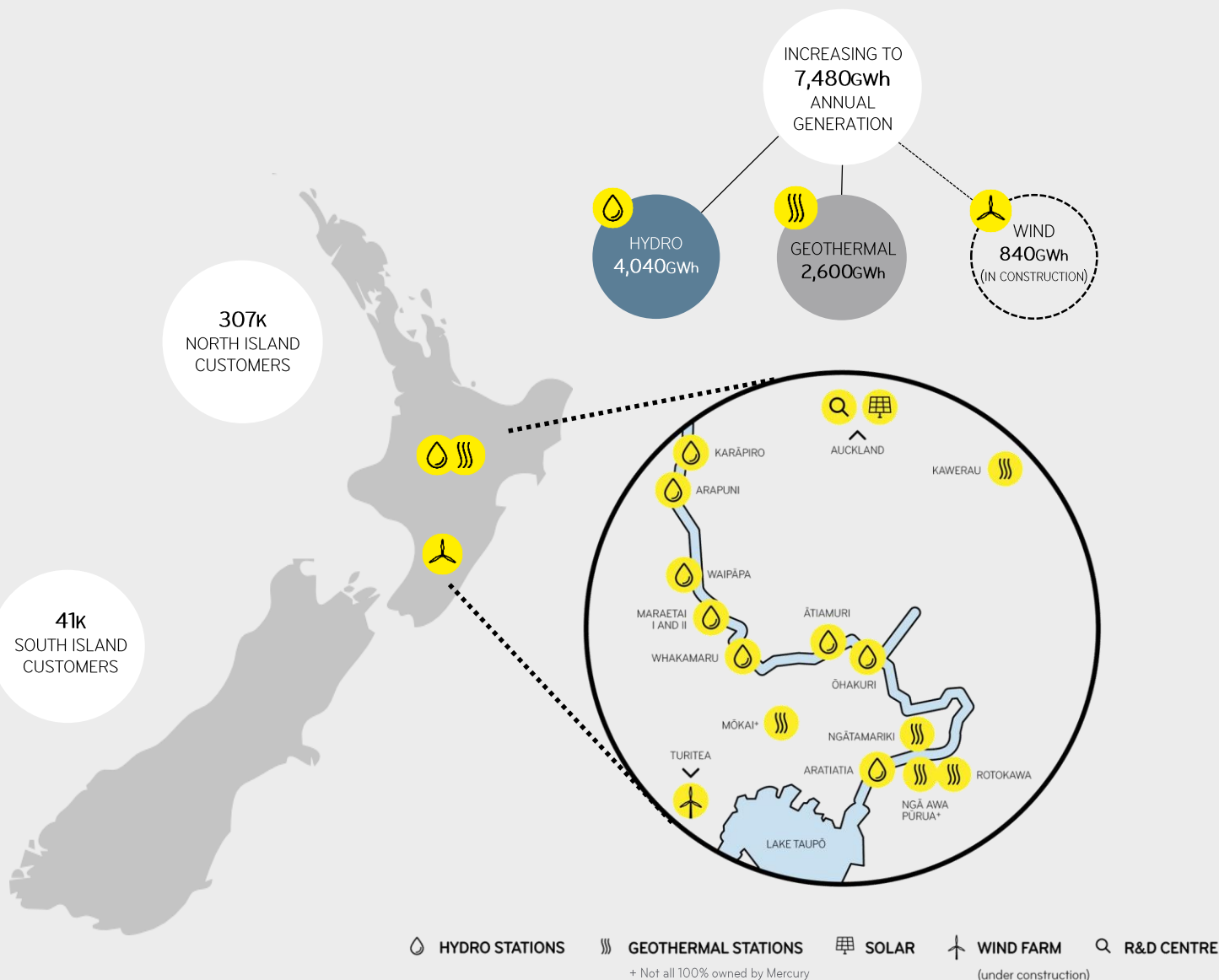
Ticker Codes: **MCY.NZ / MCY.AX**

Market Capitalisation: **NZ\$7.2 billion**

Enterprise Value: **NZ\$8.4 billion³**

Credit Rating: **BBB+/Stable (S&P Global)**

EBITDAF (FY2020): **NZ\$494 million**



¹ By market capitalisation

² As at 27 August 2020

³ Based on sum of market capitalisation and net debt



OUR DIRECTION

OUR PURPOSE



OUR MISSION

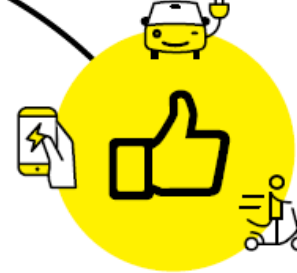
ENERGY FREEDOM

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.



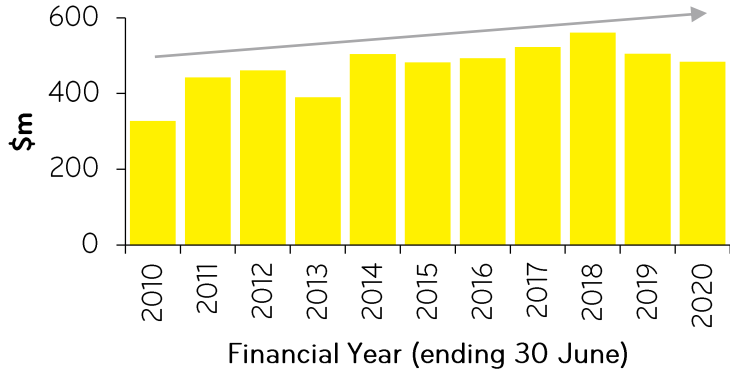
KAITIAKITANGA

LONG-TERM SUSTAINABILITY OF NATURAL RESOURCES AND ASSETS.

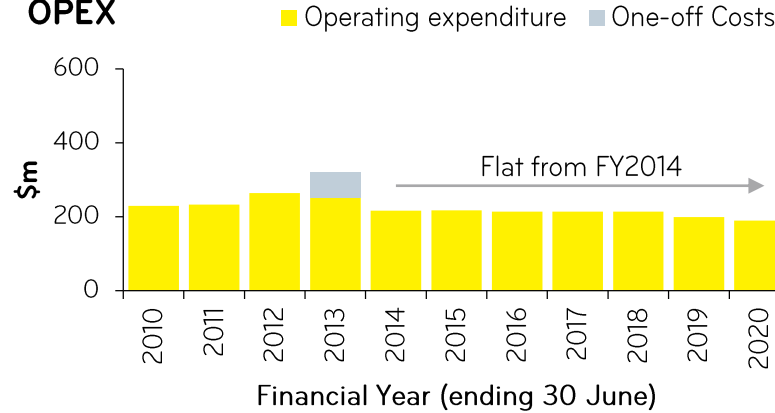


MERCURY'S LONG TERM TRACK RECORD

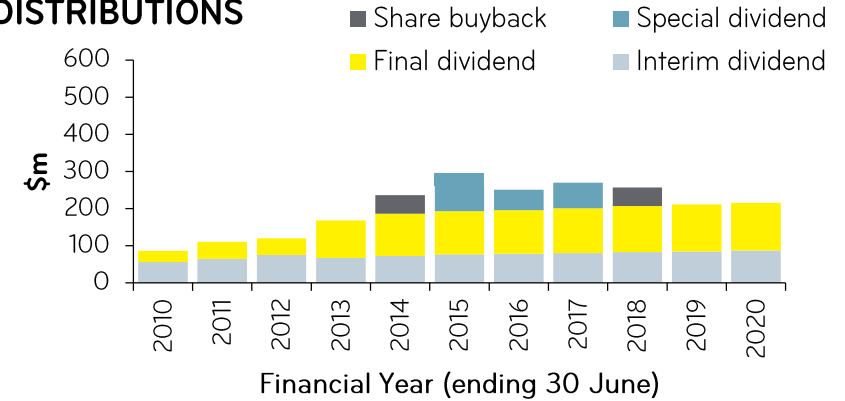
EBITDAF



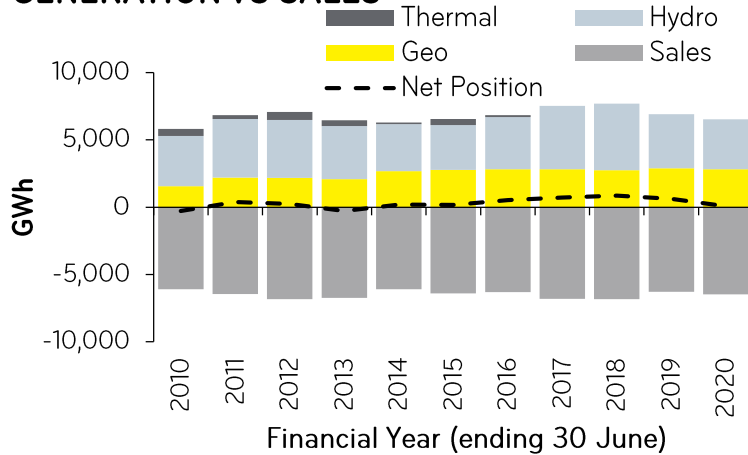
OPEX



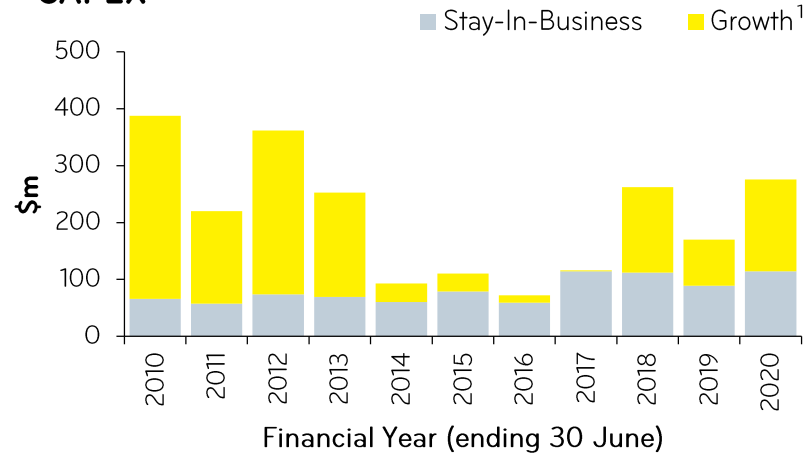
DISTRIBUTIONS



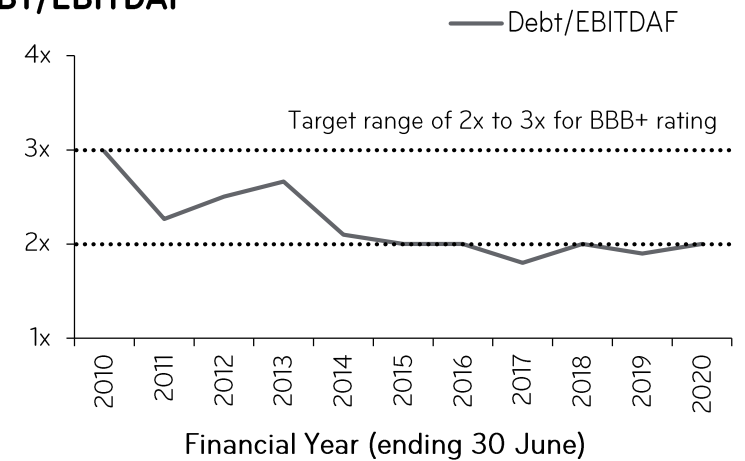
GENERATION VS SALES



CAPEX



DEBT/EBITDAF²



¹ FY2019 growth capex includes Tilt Renewables capital contribution

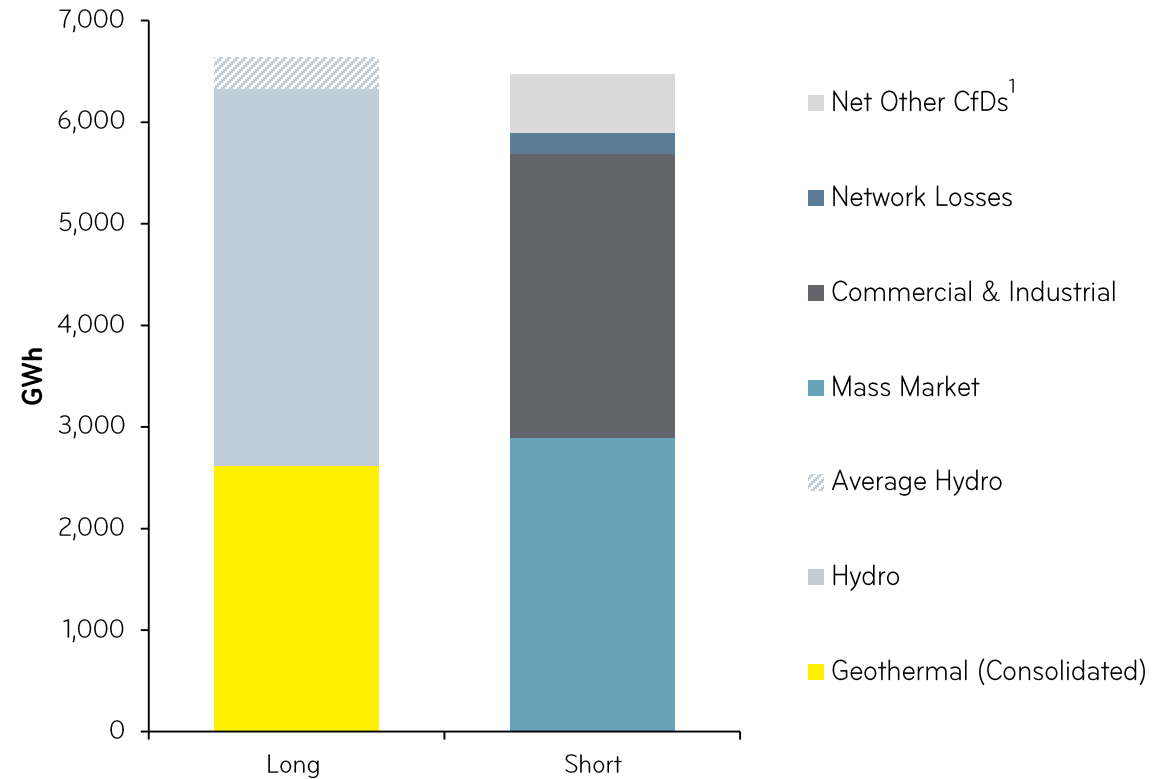
² Adjusted for S&P Global treatment of Capital Bonds



PORTFOLIO APPROACH TO RISK MANAGEMENT

- > Mercury operates an integrated electricity portfolio with electricity sales to customers providing a natural price hedge to generation
- > Average net long position with movement year-on-year due to hydrology, plant availability and values of sales
- > Two complementary low-cost fuel sources
 - > Flexible hydro generation from the largest group of peaking stations in the North Island
 - > Geothermal provides baseload generation not dependent on weather
- > Diversified sales portfolio including sales to Mass Market, Commercial & Industrial customers and derivatives
- > Turitea wind farm under construction, with full output expected in late CY2021

FY2020 NET POSITION BREAKDOWN



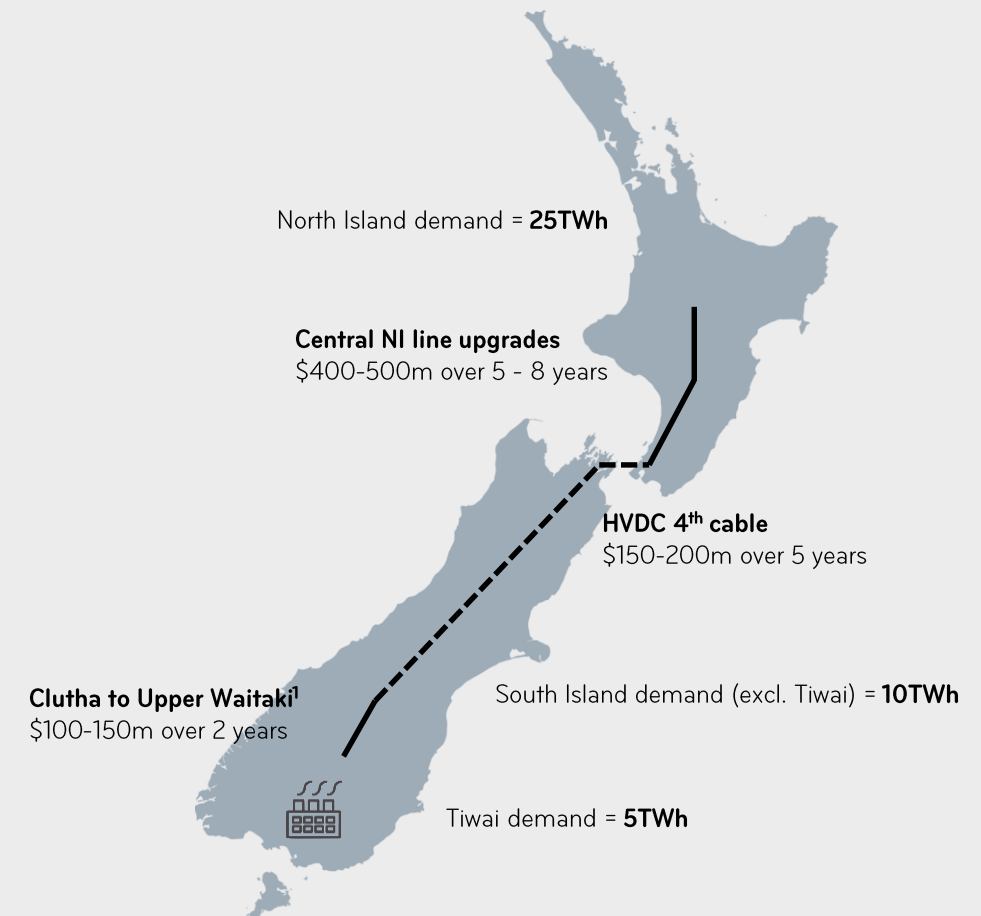
¹ Contract-For-Difference



TIWAI POINT ALUMINIUM SMELTER EXIT

- > In July 2020, Rio Tinto gave notice that the contract relating to New Zealand Aluminium Smelters (NZAS) would be terminated on 31 August 2021
- > The Tiwai Point aluminium smelter consumes ~13% of New Zealand's electricity demand
 - > North Island thermal operators considering thermal station closure and assessing generation portfolios
- > Major transmission upgrades required to enable South Island generation to be shifted to North Island
 - > \$650-850m investment required over 5-8 years
- > Mercury's asset advantages include:
 - > 100% low variable-cost renewable generation
 - > 100% North Island generation portfolio, free of major transmission constraints and close to major load centres
 - > A major supplier of NI reserves which support high north HVDC transfer

TRANSMISSION UPGRADES



Source: Transpower

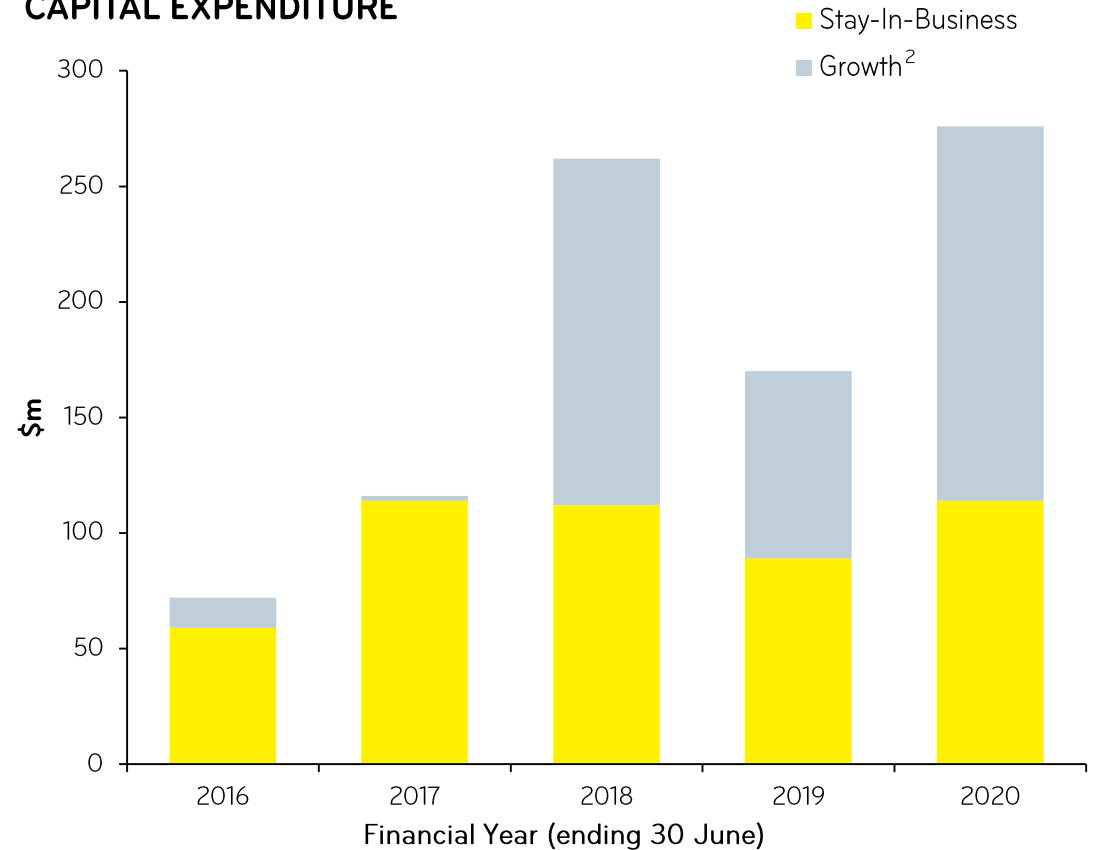




CAPITAL EXPENDITURE

- > Stay-in-business capital expenditure higher in recent years due to:
 - > Ongoing hydro refurbishment programme delivering significant life extension and capacity and efficiency gains
 - > SAP technology platform upgrades enabling increased functionality and flexibility to meet customer needs
 - > Geothermal make-up well drilling at Kawerau and Rotokawa
- > Growth capex includes:
 - > Acquiring a 19.99% stake in Tilt Renewables as a strong platform for gaining exposure to Australia's accelerating renewables transition (\$144m in FY2018)
 - > Additional capital contributions to Tilt Renewables for 334MW Dundonnell wind farm in Victoria (\$55m in FY2019; total investment of \$199m)
 - > Received Tilt capital return of \$55m in July 2020
 - > Financial commitment to Turitea wind farm, the first large-scale generation development in New Zealand since 2014 (\$464m¹ over FY2019-2022)

CAPITAL EXPENDITURE



¹ Excludes capitalised interest

² FY2019 figure includes Tilt Renewables capital contribution



TURITEA WIND FARM

-  National Grid
-  Committed 220kV Transmission
-  Consented future 220kV Transmission
-  Turbine Zone

PALMERSTON NORTH

NORTH
119MW / 470GWh
Committed
\$256m



TURITEA WIND FARM

PAHIATUA

SOUTH
103MW / 370GWh
Committed
\$208m



PUKETOI WIND FARM
53 turbines consented



TURITEA WIND FARM

Green Bond proceeds are intended to be primarily earmarked to financing and refinancing the construction costs of the Turitea wind farm as an Eligible Project

Wind farm works

- > Wind farm (excluding transmission and connection) covered by a fixed price EPC contract with Vestas
- > Transmission build is a design and build contract with Electrix
- > Site works for the northern 33 turbines behind contracted program due to contractor delivery across design and construction
- > Site shut down throughout COVID-19 Alert Level 4 lockdown
 - > Procurement largely unaffected by COVID-19
- > Expecting completion of the northern 33 turbines in Q2 CY2021 and southern 27 turbines in late CY2021
- > Project times remain subject to contract performance and further COVID-19 restrictions



Turbine blades at New Plymouth



Transmission poles



STABLE CAPITAL STRUCTURE

- > Mercury's dividend policy is to make distributions with a pay-out ratio of 70-85% of Free Cash Flow on average through time subject to:
 - > Consideration of the Company's working capital requirements and medium-term asset investment programme;
 - > Maintaining a sustainable financial structure for the Company, recognising the Company's targeted long-term credit rating of BBB+ assigned by S&P Global¹; and
 - > The risks from predicted short and medium-term economic, market and hydrological conditions, and estimated financial performance
- > S&P re-affirmed Mercury's credit rating of BBB+/stable in December 2019
 - > One-notch upgrade from stand-alone credit profile of 'bbb', reflecting legislated majority Crown ownership
- > Debt / EBITDAF² 2.0x at 30 June 2020

	30 June 2020	30 June 2019	30 June 2018	30 June 2017	30 June 2016
Net debt (\$m)	1,149	1,096	1,264 ³	1,038	1,068
Gearing ratio (%)	23.5	23.7	27.7 ³	23.9	24.4
Debt/EBITDAF (x) ²	2.0	1.9	1.9	1.8	2.0
Issuer Credit Rating	BBB+/stable	BBB+/stable	BBB+/stable	BBB+/stable	BBB+/stable
Ordinary dividend	15.8cps	15.5cps	15.1cps	14.6cps	14.3cps

¹ Or equivalent from another recognised credit rating agency

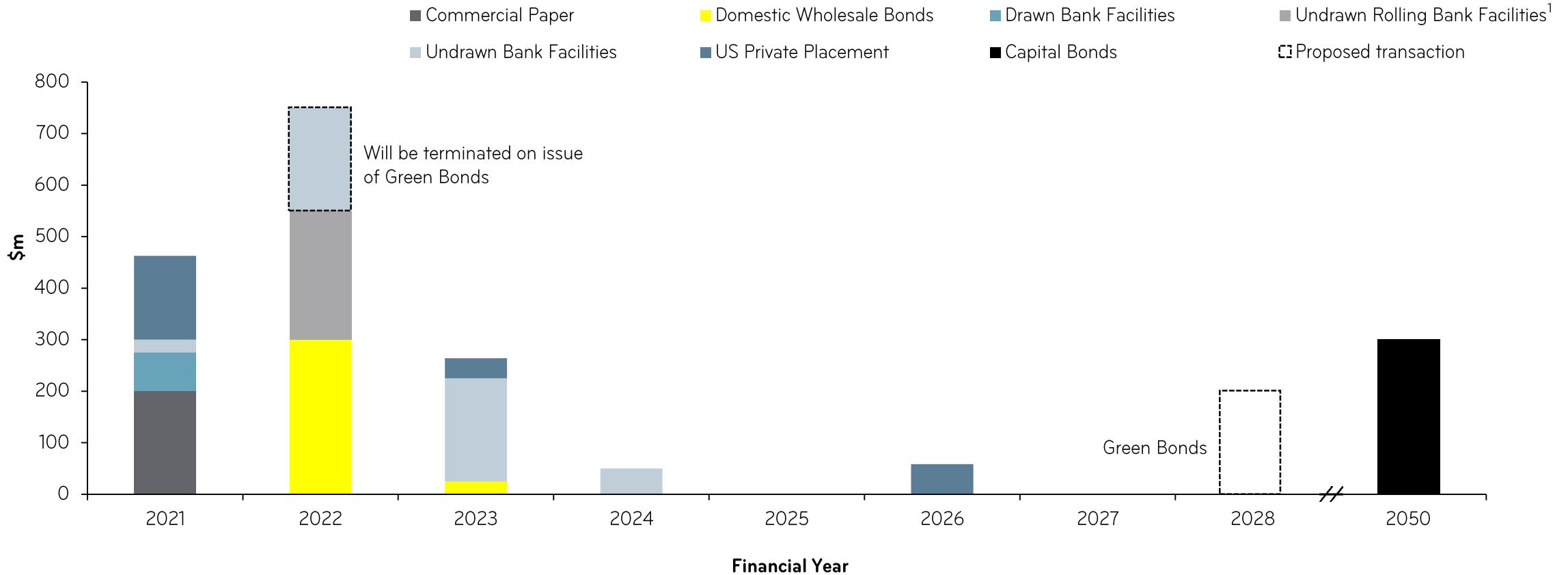
² Adjusted for S&P treatment of Capital Bonds

³ Restated to reflect changes in IFRS



DIVERSIFIED FUNDING PROFILE

DEBT MATURITIES AS AT 30 JUNE 2020



- > Diversified funding sources: commercial paper, bank facilities, domestic wholesale bonds, USPP and capital bonds
- > Proceeds from the Offer will be applied to repay drawn bank facilities and the Dec 2020 US Private Placement maturity



BOND CREDIT FEATURES

- > Mercury, under the Master Trust Deed, agrees to ensure that Net Worth at any time will not be less than \$500m
- > S&P Global has assigned a BBB+ issue rating to the Green Bonds
- > Mercury has Guaranteed Liabilities that are unsecured and would rank equally with the Green Bonds in a liquidation of Mercury as issuer. However, (unlike Bondholders) creditors of Guaranteed Liabilities have the benefit of guarantees from certain subsidiaries of Mercury so may also claim directly against those subsidiaries
 - > Mercury holds some assets in operating subsidiaries, including Mercury's geothermal assets and the Turitea wind farm. Note that all of Mercury's third party debt is held at the Mercury parent level
 - > As at 30 June 2020, Mercury's Guaranteed Liabilities were \$636m. This compares to total consolidated assets of Mercury and its subsidiaries of \$6,885m, and total assets of Mercury's guaranteeing subsidiaries of \$1,928m.





GREEN FINANCING FRAMEWORK



Use of proceeds

- > The proceeds of the Offer are intended to be earmarked to finance or refinance new or existing projects and expenditures relating to renewable energy and other Eligible Projects. Mercury expects to track an amount equal to the net proceeds within its systems, earmarked to Eligible Projects, primarily the construction costs of the Turitea wind farm
- > The Framework outlines the issuer's process relating to use of proceeds, project evaluation and selection, management of proceeds, reporting and assurance. Eligible Projects fall within the eligible categories as outlined in the Framework, are aligned with the ICMA Green Bond Principles and have attained Climate Bonds Initiative Certification

Mercury's Green Financing Framework is available at www.mercury.co.nz/green-bonds



GREEN FINANCING FRAMEWORK



External review	Mercury's Green Financing Framework has been independently reviewed by DNV GL Business Assurance Australia against the Climate Bonds Standard Version 3.0 and the ICMA Green Bond Principles. DNV GL have provided a pre-issuance limited assurance conclusion which is publicly available at www.mercury.co.nz/green-bonds .
CBI certification	The Climate Bonds Standard Board approved pre-issuance certification of the proposed Bond on 8 July 2020. Certification comes into effect once the Green Bonds are issued and is verified annually for the term of the Green Bonds via the annual assurance process.
Monitoring and compliance	<p>The Green Financing Framework provides for Mercury to publish annual use of proceeds reports and report on any changes to the Green Financing Framework.</p> <p>The Green Financing Framework provides for Mercury to report on the environmental impacts (where possible and relevant) resulting from Eligible Projects as part of its annual reporting.</p> <p>Note that lack of compliance with the Green Financing Framework or the CBI standards is not an event of default in relation to the Green Bonds.</p>



ELIGIBLE ASSET VALUES

Geothermal	MCR ¹	Book Value ²
Rotokawa Generation (plant)	35MW	\$106m
Rotokawa JV ³ (steamfield)		\$111m ⁴
Ngā Awa Pūrua JV ³ (plant)	138MW	\$345m ⁴
Mōkai ³	112MW	\$72m ⁴
Ngātamariki	82MW	\$512m
Wind		
Turitea (under construction)	222MW	\$464m ⁵
Tilt Renewables (19.96% shareholding)		\$263m
	TOTAL	\$1,873m



Rotokawa

Mokai



Nga Awa Purua

Ngatamariki



Turitea
(under construction)



¹ Maximum Continuous Rating

² As at 30 June 2020

³ Not 100% owned by Mercury

⁴ Equity ownership-weighted value

⁵ Expected spend, excludes capitalised interest



KEY TERMS OF THE GREEN BOND

Issuer	Mercury NZ Limited ("Mercury")
Instrument	Unsecured, unsubordinated fixed rate green bonds ("Green Bonds")
Credit rating	Issue Credit Rating: BBB+ (Mercury has an Issuer Credit Rating of BBB+)
Issue amount	Up to NZ\$150m plus oversubscriptions of up to NZ\$50m (at Mercury's discretion)
Term	7 years (maturing 14 September 2027)
Interest Rate	The Green Bonds will pay a fixed rate of interest from the Issue Date until the Maturity Date. The Interest Rate will be announced via the NZX following the bookbuild
Indicative Issue Margin	1.25% - 1.45% per annum
Interest payments	Semi-annual in arrear
No guarantee	Mercury is the issuer and the sole obligor in respect of the Green Bonds. None of the Crown, any subsidiary of Mercury or any other person guarantees the Green Bonds
Financial covenant	Mercury agrees to ensure that Net Worth (being total assets less total liabilities of Mercury and its subsidiaries, on a consolidated basis, calculated in accordance with the Master Trust Deed) at any time will not be less than \$500m
No benefit of guarantee	Bondholders will not have the benefit of the guarantee in the Negative Pledge Deed or the USPP Note Purchase Agreement as described in the PDS and will not be able to claim directly against the relevant guaranteeing subsidiaries of Mercury
Minimum application amount	NZ\$5,000 and in multiples of NZ\$1,000 thereafter
Quotation	Mercury intends to quote the Green Bonds on the NZX Debt Market. NZX ticker code MCY030 has been reserved for the Green Bonds

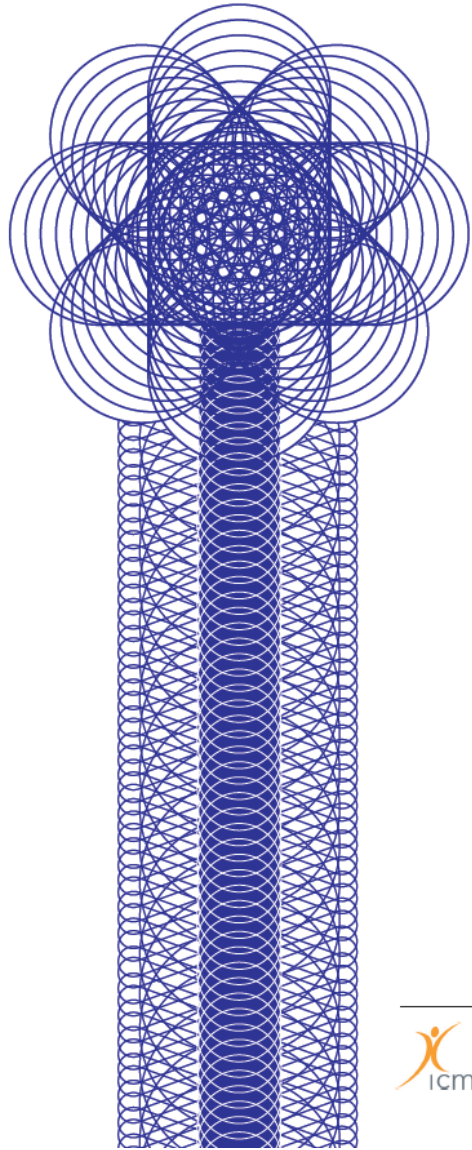


KEY DATES

Opening Date	Monday 31 August 2020
Closing Date	Friday 4 September 2020 at 12.00pm
Rate Set Date	Friday 4 September 2020
Issue Date and allotment date	Monday 14 September 2020
Expected quotation on NZX Debt Market	Tuesday 15 September 2020
Maturity Date	Tuesday 14 September 2027







Climate
Bond
Certified

Certification

This is to certify that the

Mercury NZ Limited 2020 Green Bond

Issued by

Mercury NZ Limited

Has met the criteria for certification by the Climate Bonds Standard Board on behalf of the Climate Bonds Initiative

SEAN KIDNEY
CEO, Climate Bonds Initiative

8 July 2020



CALSTRS

IIGCC



Climate Bonds



NON-GAAP MEASURES

- > 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
- > Operating Expenditure (or Operating Costs) represents employee compensation and benefits, maintenance expenses and other expenses
- > 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
- > Growth Capital Expenditure is the capital expenditure incurred by the company to create new assets and revenue
- > Gearing Ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (both current and non-current) less cash and cash equivalents. Total capital is calculated as shareholders' equity plus net debt



