

Capturing value in a customer-inspired world

Contact[™]

Auckland

23 November 2016

Disclaimer



This presentation may contain projections or forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties.

Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks.

Although management may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realised.

Furthermore, while all reasonable care has been taken in compiling this presentation, Contact accepts no responsibility for any errors or omissions.

This presentation does not constitute investment advice.

Contact in context

» Tailwinds

Strong cash generation, distinctive investments operationally embedded

The wholesale market is balanced and retail margin compression has slowed

Highest GDP growth in the OECD, high net migration, low unemployment

Contact

Electricity Industry



New Zealand



» Headwinds

Temporarily higher debt levels than peers

High churn, mixed demand outlook and potential industrial closures

Global uncertainty and rise of anti-globalisation and New Zealand's reliance on trade

Charting our own improvement path

 **Improved financial performance**

CUSTOMER EXPERIENCE

Promoters have higher customer lifetime value through less churn and lower sensitivity to price

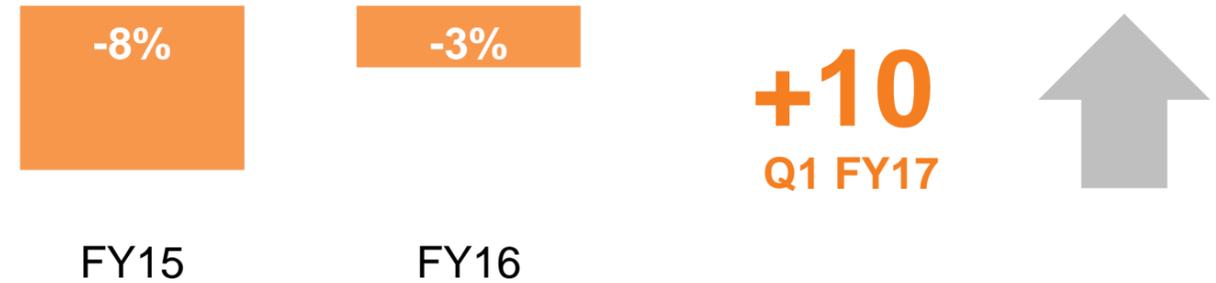
ENGAGED EMPLOYEES

When employees are engaged they use discretionary effort

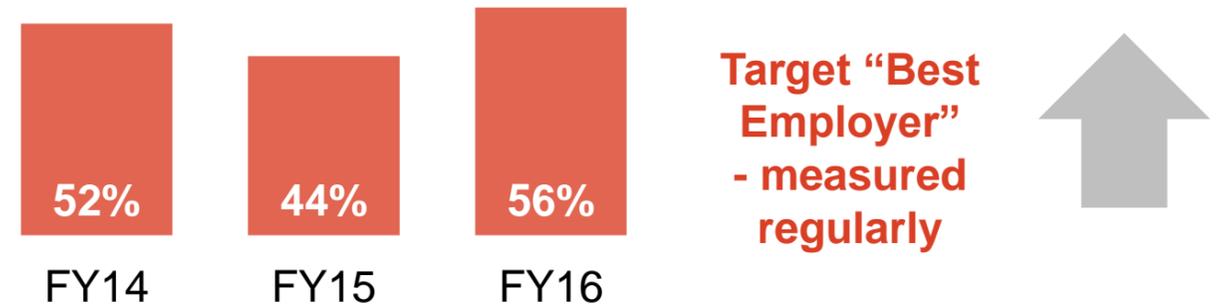
SAFETY

Operational improvement in business performance and process

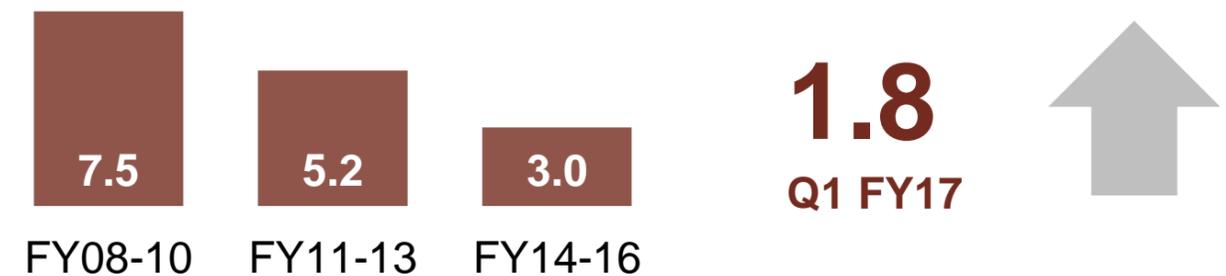
Net promoter score



Aon Hewit – Employee engagement



TRIFR



12 months ago we outlined our customer strategy across the value chain



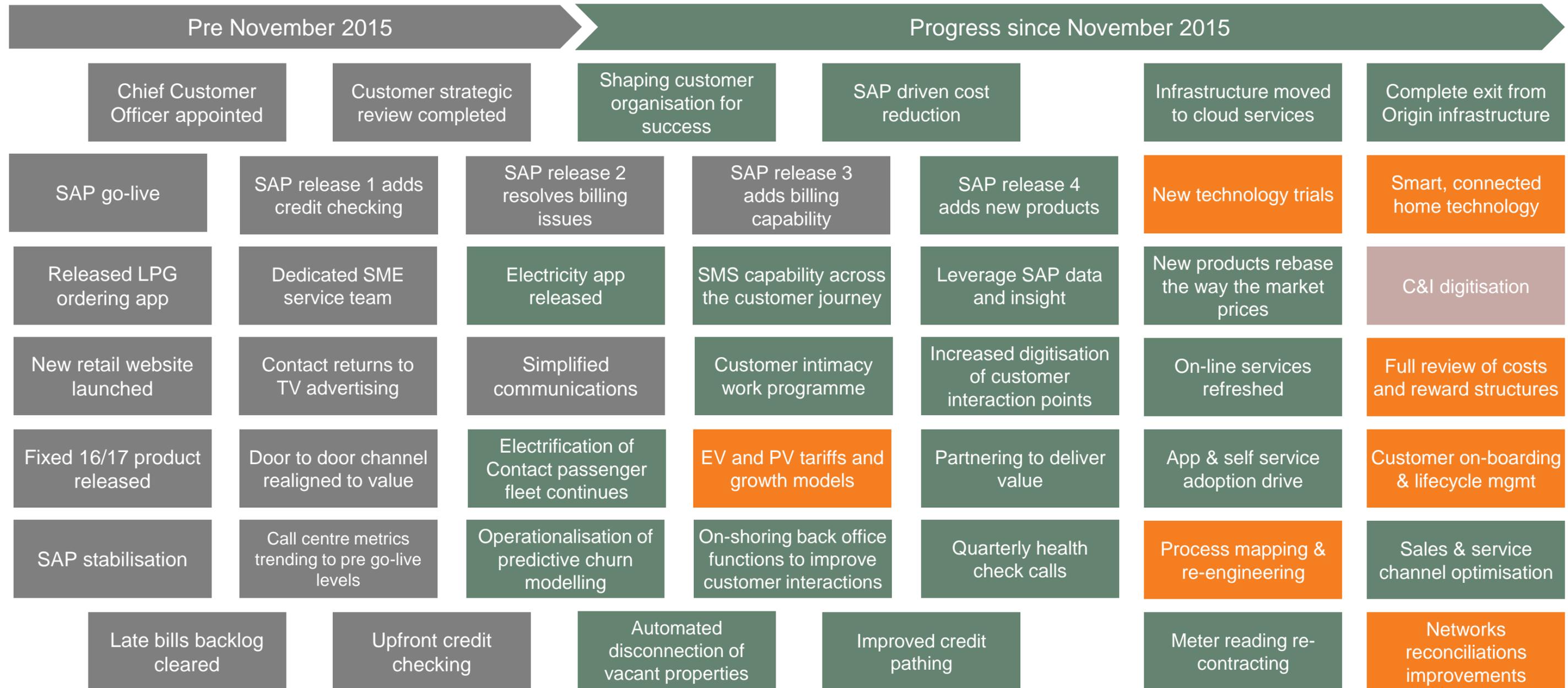
Understanding, winning and keeping customers



Understand – Build propositions – Promote them – Provide great service – Support the operations

» Customer intimacy is built through Data + Digital + Innovation + Agility being embedded in every step of the chain

Since then we have seen our rate of progress accelerate



And what we have done is resonating with our customers



Capturing value in a customer-inspired world

- 1** **Graham Cockroft**
Chief Financial Officer
- 2** **Dennis Barnes**
Chief Executive Officer
- 3** **James Kilty**
Chief Generation Officer
- 4** **Vena Crawley**
Chief Customer Officer
- 5** **Damian Woolfall:** Head of Seamless Operations
Stephen Hastings: Head of Data Analytics
Matt Bolton: Head of Customer Engagement - Win
Michael Pryor: Head of Designing Tomorrow

Maintaining financial discipline



Competitive markets are key for realising value from new technology



Driving value from our generation portfolio



Technology is creating a world of opportunities for a great ME-tailer



Customer inspired in action

1 - Strengthening our core, 2 - Data and analytics,
3 - Flexing with our customers, 4 - A view to the future





Maintaining financial discipline

Graham Cockroft – Chief Financial Officer

Our financial framework

- » Our focus is on free cash flow generation and ensuring a robust balance sheet

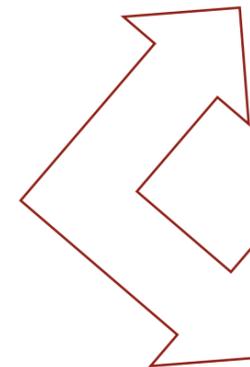
Free cash flow

- » Operating cash flow
 - *Less* net interest paid
 - *Less* stay in business capex
 - *Add* proceeds from asset sales



Balance Sheet

- » Investment grade credit rating
 - Net debt / EBITDA ratio of 2.6 – 3.0



Distributions

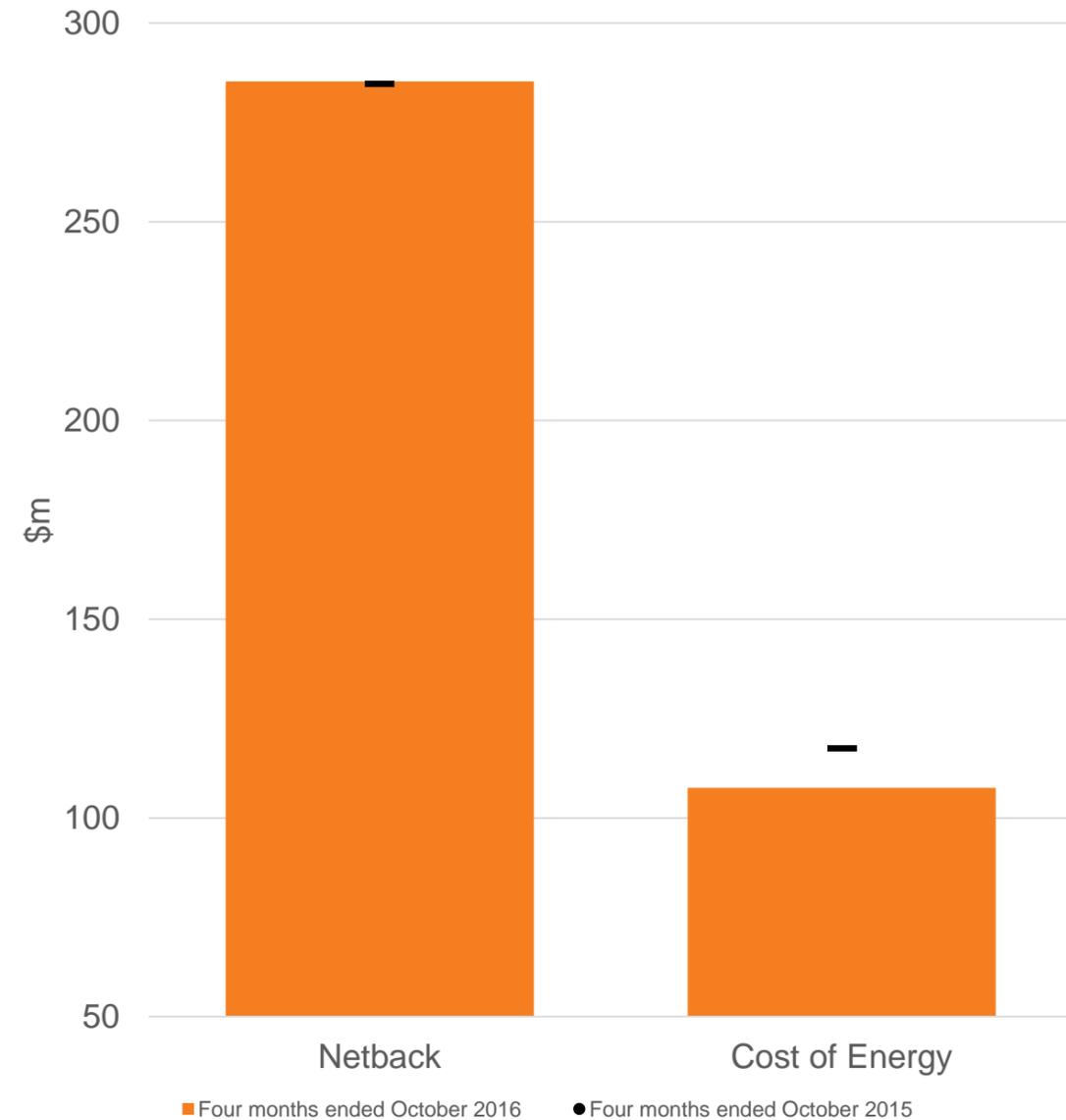
- » Ordinary dividend equal to 100% underlying profit
- » Special dividend where imputation credits available
- » Share buyback

Investment in growth

- » Returns greater than risk adjusted cost of capital
- » Focus on areas of strength



Current performance supports strong cash flows



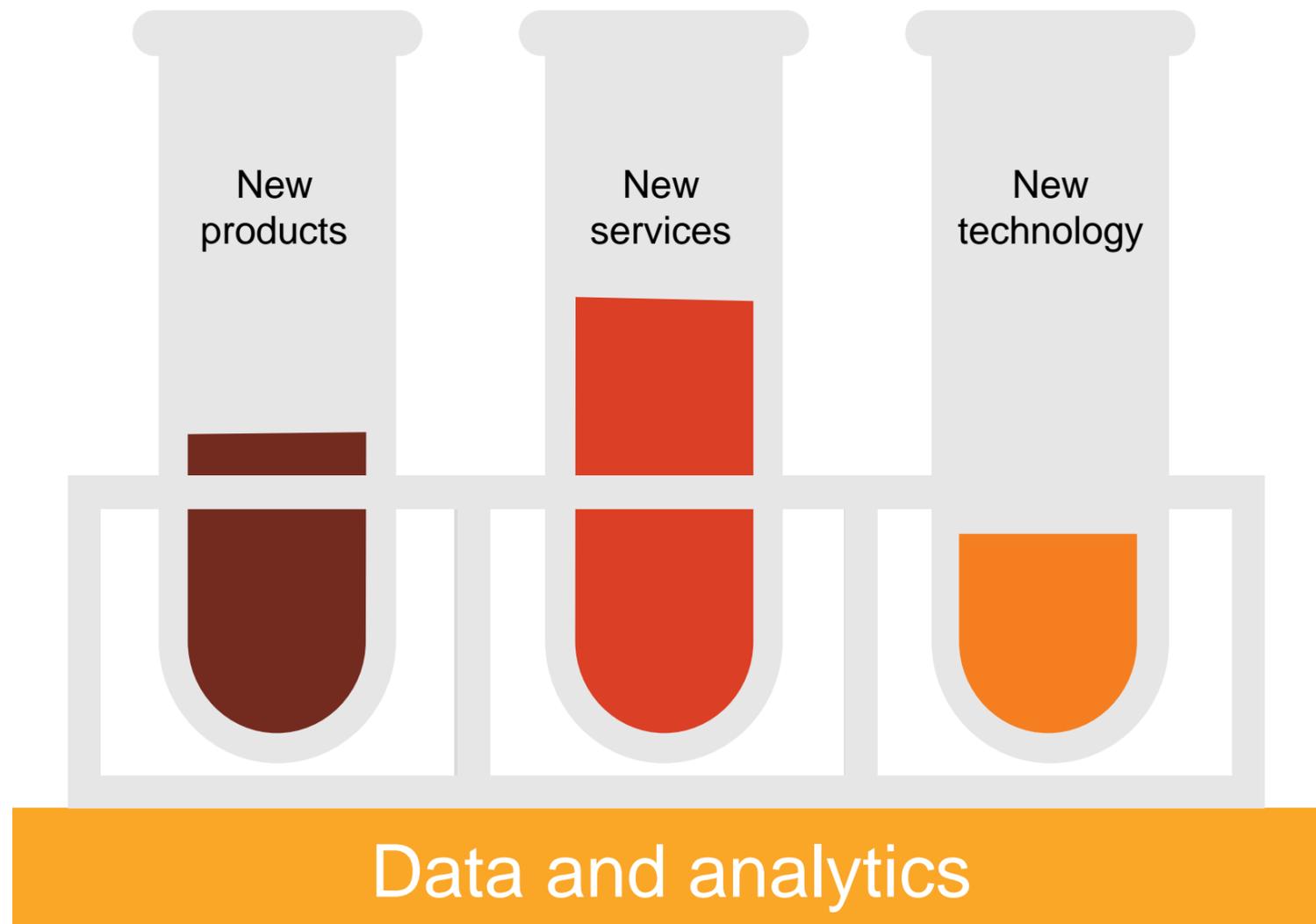
- » New products and prices aligned to value, for the customer and Contact
- » Lower mass market usage per customer
- » Small decrease in customer numbers following the repricing of a below market fixed price product
- » Hydro generation strong, geothermal outage at Te Mihi close to completion
- » High national hydro levels have seen thermal generation replaced with lower cost CfD's and deferral of TCC major maintenance
- » Other operating expenses favourable relative to prior year



Capturing customer inspired value will require innovation and discipline

» Understand the opportunity

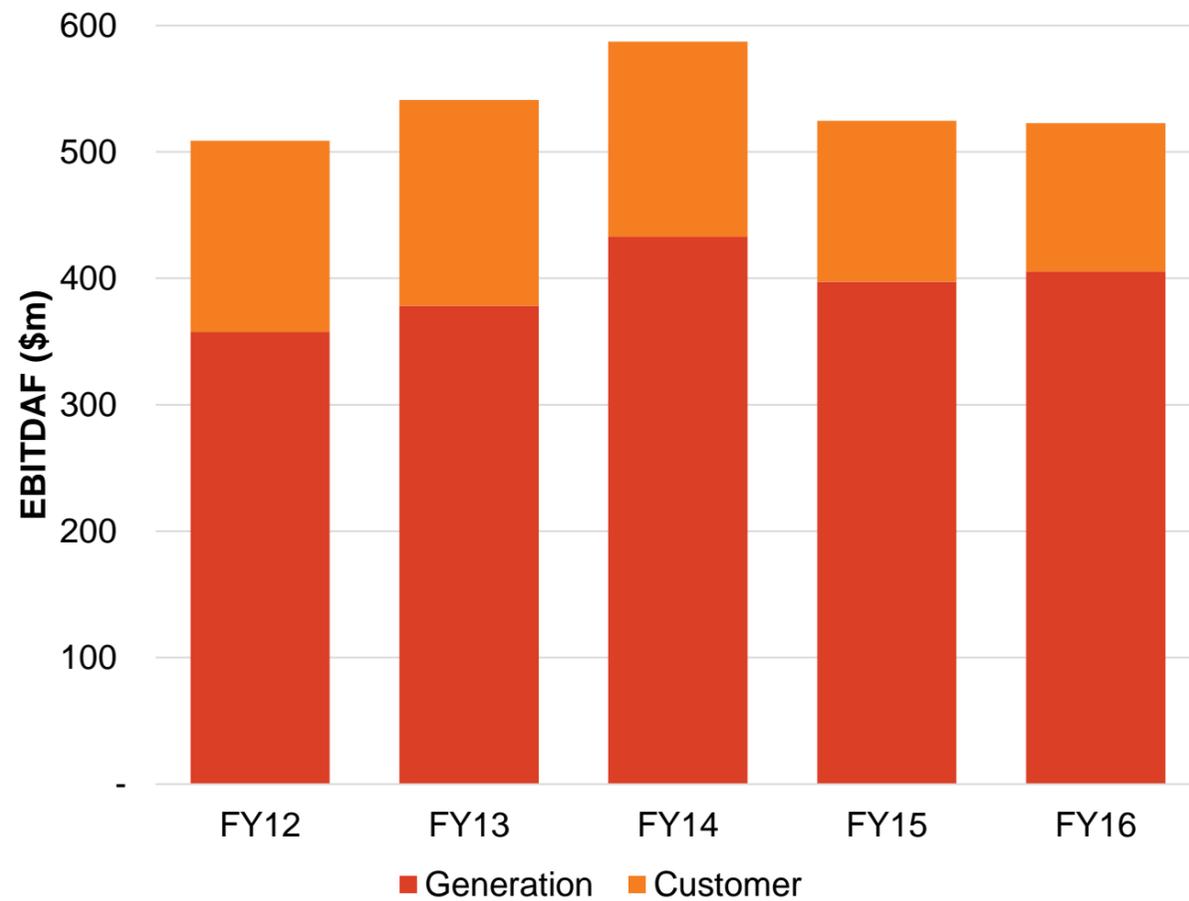
» Decision framework



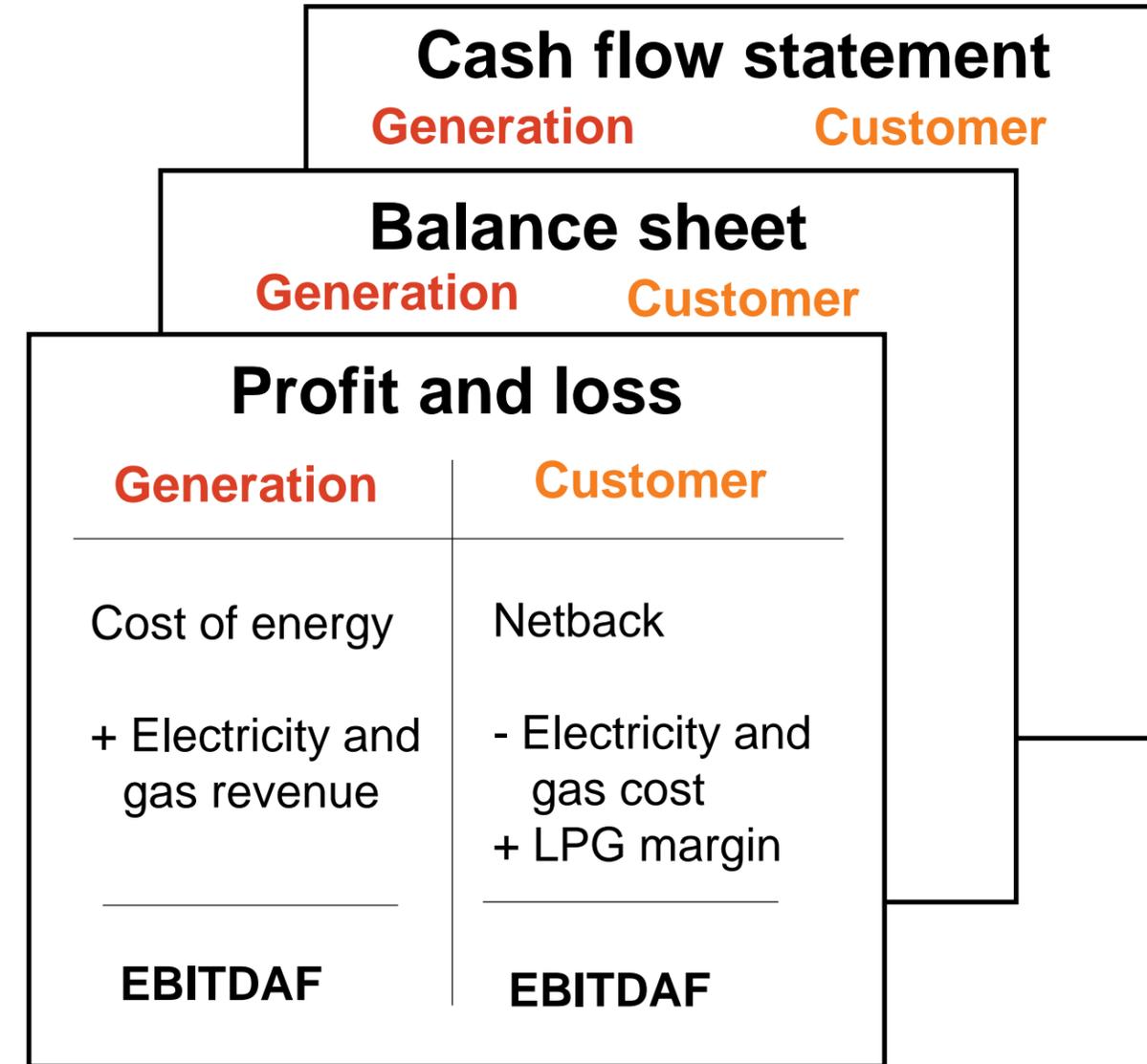
- 01** Value defined by customers
- 02** Scalable
- 03** Leverages existing capabilities and cost structures
- 04** Complementary partnerships
- 05** Impact on market(s)

Transparency of performance will drive focus

» Indicative EBITDAF



» Transfer price reflects the cost for a standalone retailer to purchase electricity from a generator and is linked to the ASX futures price



The efficient return of free cash flow remains a priority

» Prudent financial management

01

Between FY10 and FY14 our growth investments in generation assets and systems exceeded our free cash flow

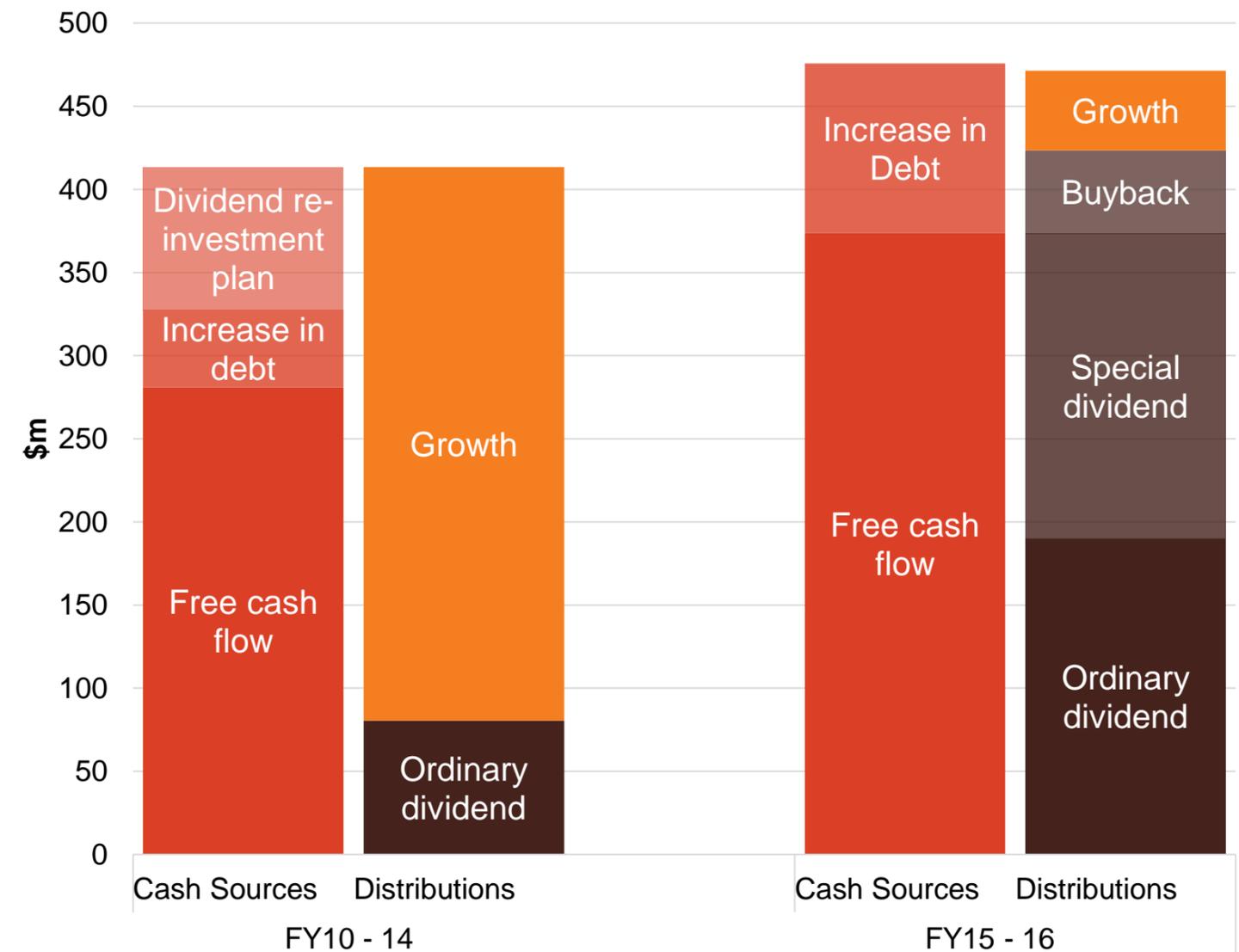
02

By FY15/16 those investments had increased our free cash flow and, with lower growth capex, we have been able to increase our cash distributions

03

Prior to Origin's exit at the end of FY15, we paid a fully imputed special dividend, which led to an increase in our gearing

» Annual average sources and uses of cash

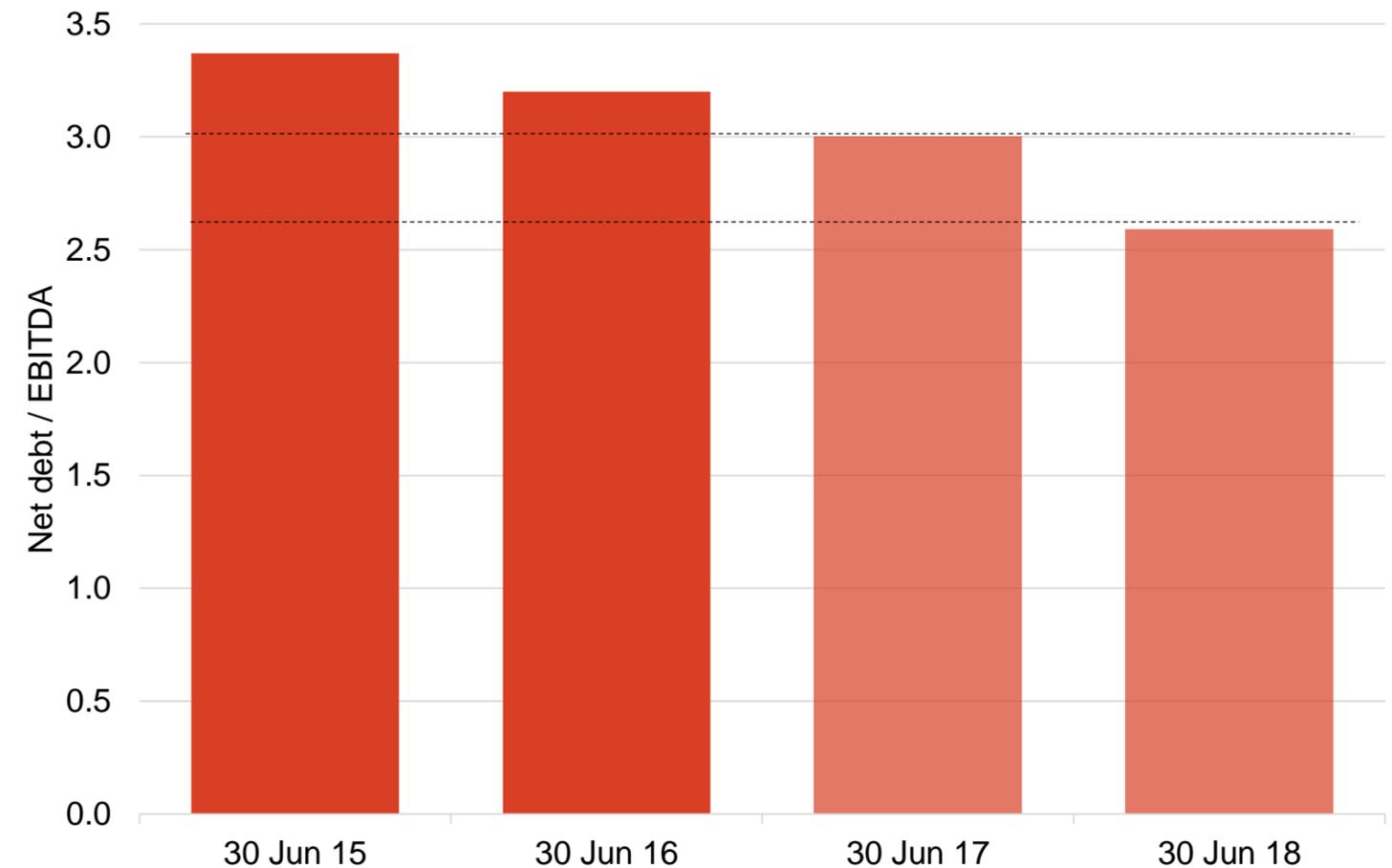


Contact remains committed to an investment grade credit rating

» Contact has had a BBB rating since 2002 : Why BBB?

- ✓ Solid foundation for the management of operational and financial risks
- ✓ Efficient capital structure
- ✓ Access to diverse sources of funding markets and jurisdictions
- ✓ Attractive relative pricing and terms
- ✓ A margin of safety within the investment grade rating

» Debt levels and interest costs falling, with key S&P metric forecast to return to target



» Target net debt / EBITDA ratio of 2.6 – 3.0



Summary

01 Financial framework prioritises a robust balance sheet, with strong cash flow generation directed to debt repayment

02 Disciplined approach to the assessment and funding of new opportunities

03 Cost control and performance management the current focus



Activities

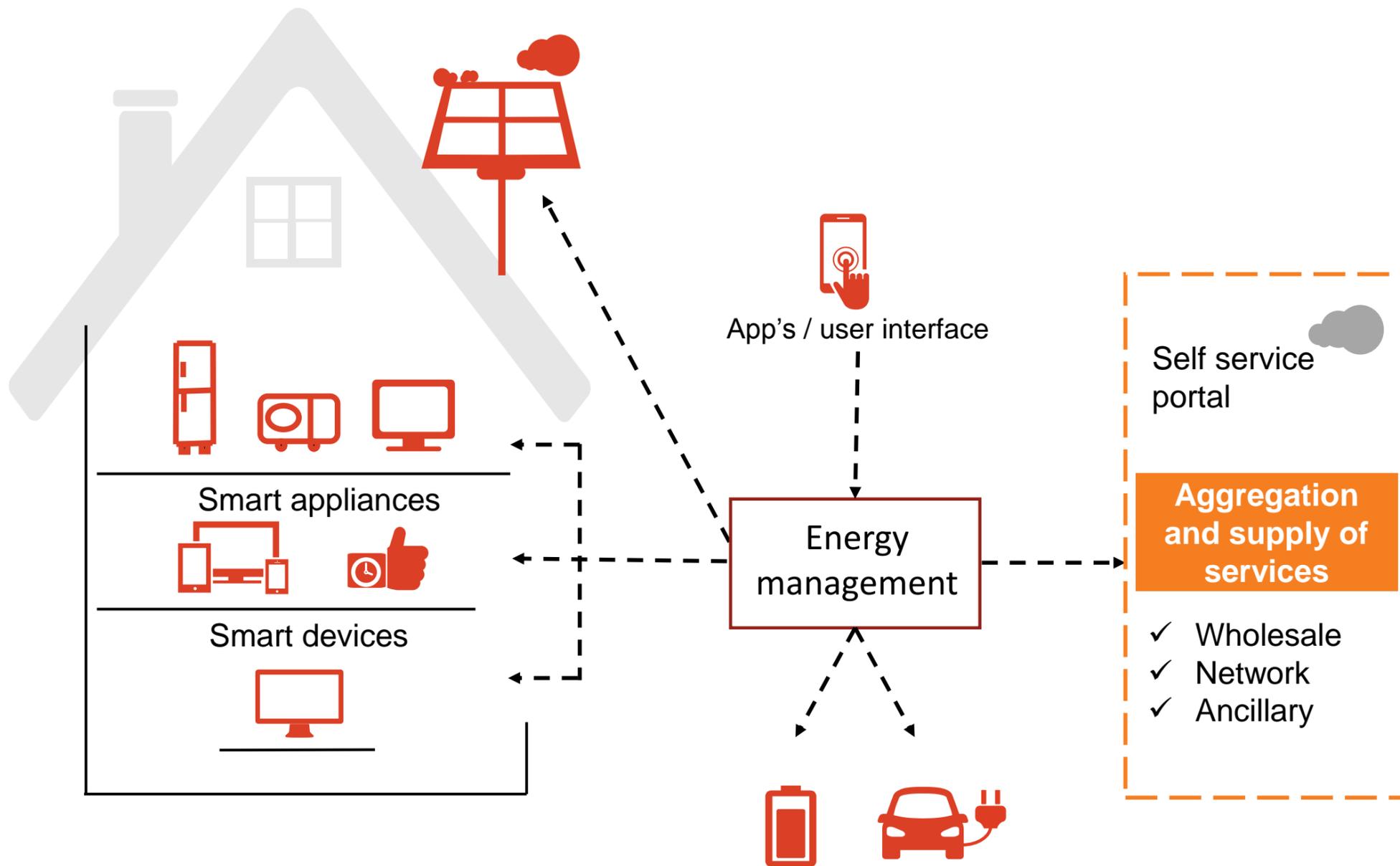
Would you spend your day soaking in culture or soaking in nature? Perhaps you'd catch a local gig or your favourite sport. Tell us what activities you choose to do on holiday, then select next.



Competitive markets are key for realising value from new technology

Dennis Barnes – Chief Executive Officer

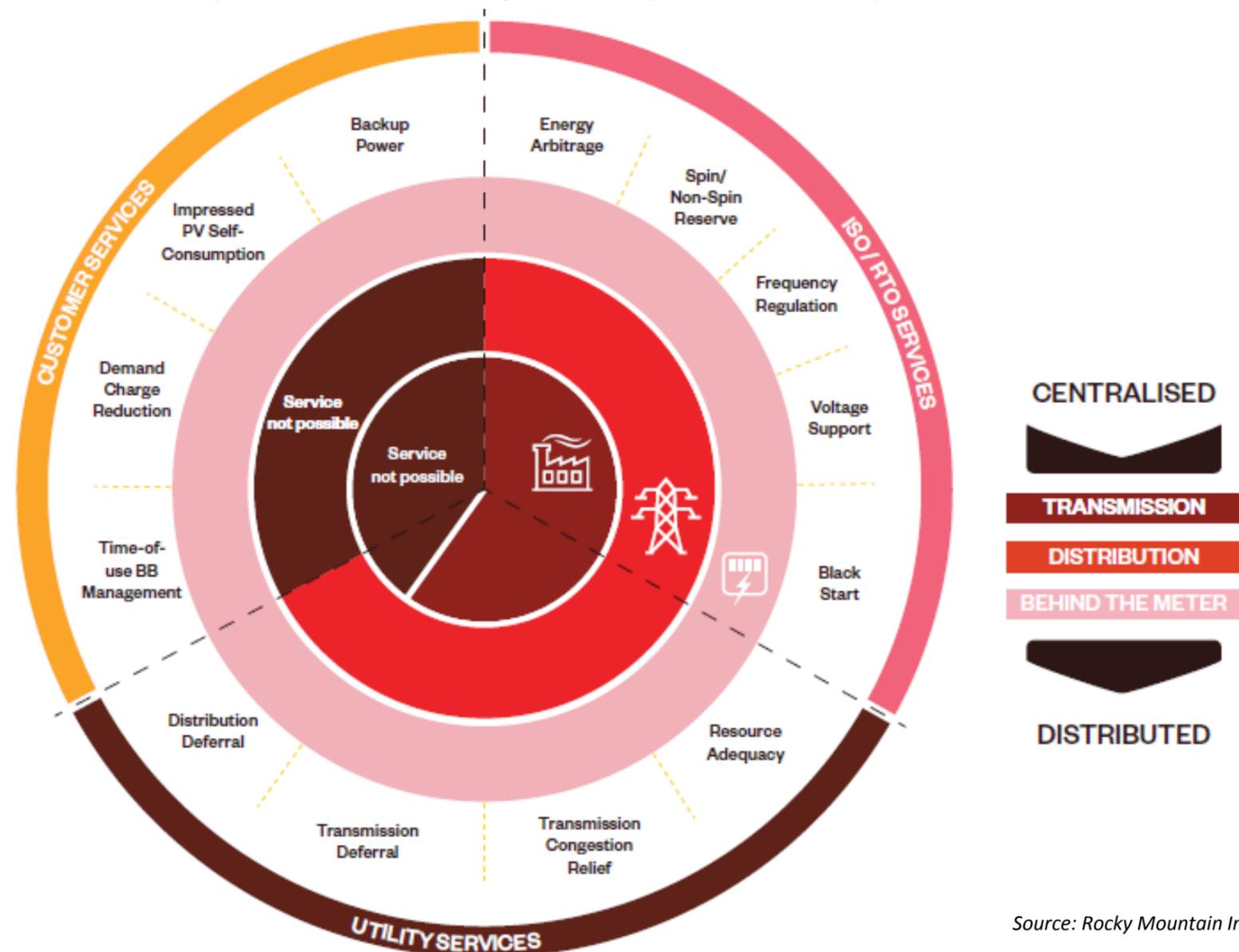
Technology will give customers more choice and control



An integrated energy retailer is well positioned to aggregate and provide services to the Retail, Wholesale and Network markets

Technology can be deployed across the value chain

» As an example, a battery can provide up to 13 services to three stakeholder groups



Source: Rocky Mountain Institute

New technology should play a significant role in minimising the \$10 - \$15bn of forecast investment in generation energy and capacity, transmission and distribution over the next 10 years



A customer centric view of regulation is likely to result in the best market outcomes

Contact has been active in promoting our regulatory manifesto as a framework for pursuing a competitive electricity market in New Zealand

Simplicity	Transparency	Access	Competition	Profitability
Market complexity costs Contact and consumers money. It's our job to make the complex simple	Customers define transparency. Every element of what we do and charge can be defended factually and as reasonable	There should be a reasonable way for everyone to live comfortably with energy	Promote market design changes to ensure greater competition. A healthy competitive market is best for customers	It is in New Zealand's long-term interests for investors to make a reasonable return on investment

- » Our recent submissions have focused on:
 - » Getting the right regulatory settings for consumers' to have choice, certainty, and control
 - » A level playing field for market participants for emerging technologies
 - » Ensuring consumers are not overpaying for monopoly services



In parallel we are testing and learning what our role might be

Distributed energy
Storage & demand response
Electric vehicles

and

Large-scale generation
Poles, wires and peaker generation
Petrol vehicles

Currently trialing combinations of new technologies

**Trial 1:
Batteries**



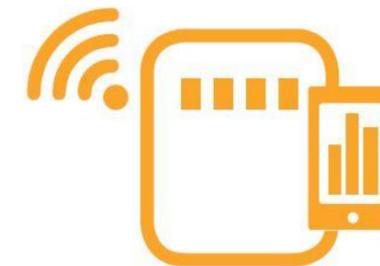
C&I customers

**Trial 2:
Solar & Battery**



Residential solar
customers

**Trial 3:
In-home use**



Residential solar
customers

**Trial 4:
Electric vehicles**



30% Contact fleet
electric by 2019

Customer trials are underway, helping us build our understanding for new services





Driving value from our generation portfolio

James Kilty – Chief Generation and Development Officer

Well run generation and wholesale operations currently drive most value



Discretionary
thermal generation



Strong internalised
risk management

Low cost renewable
generation portfolio

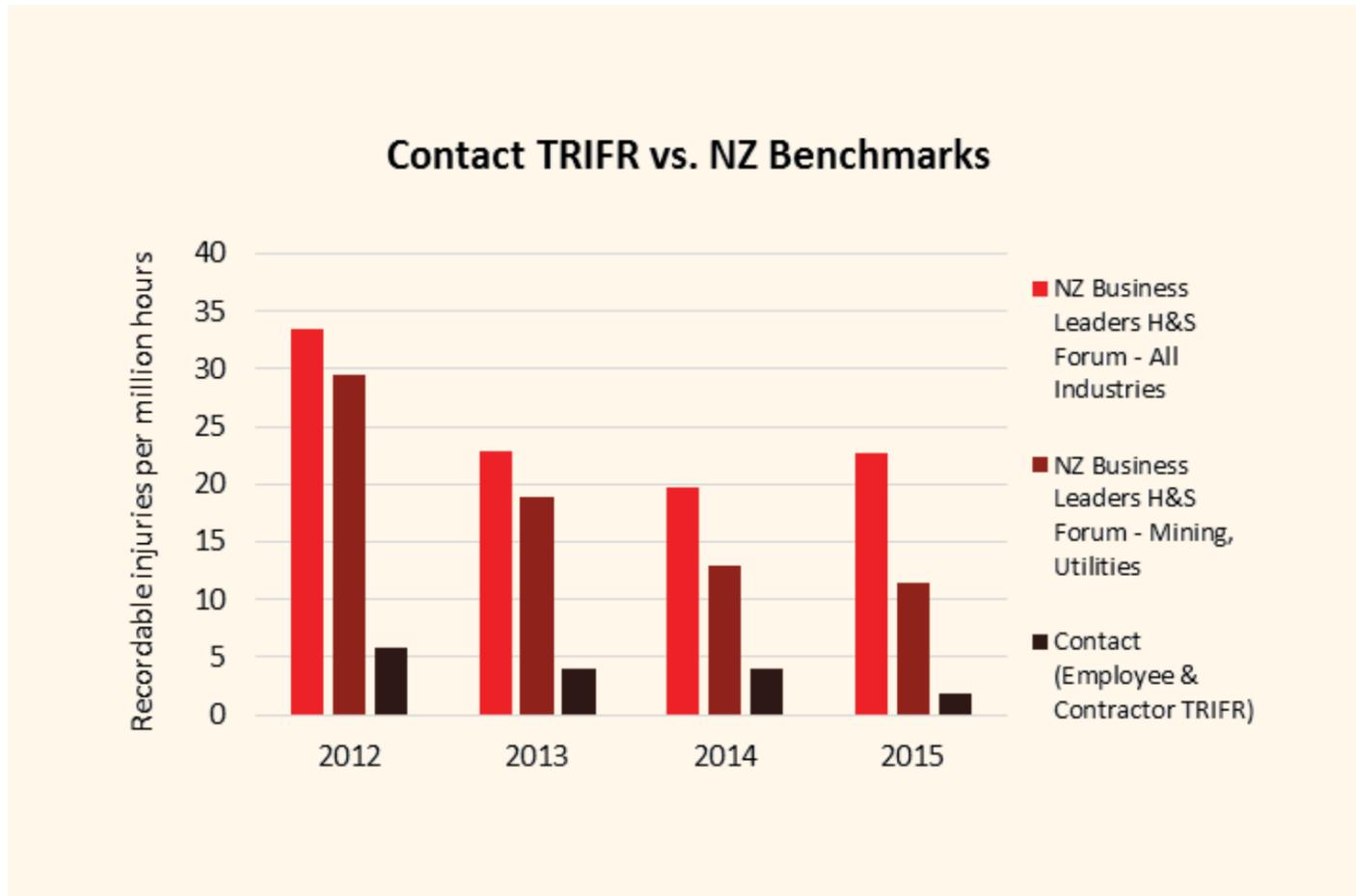


Balanced wholesale
market



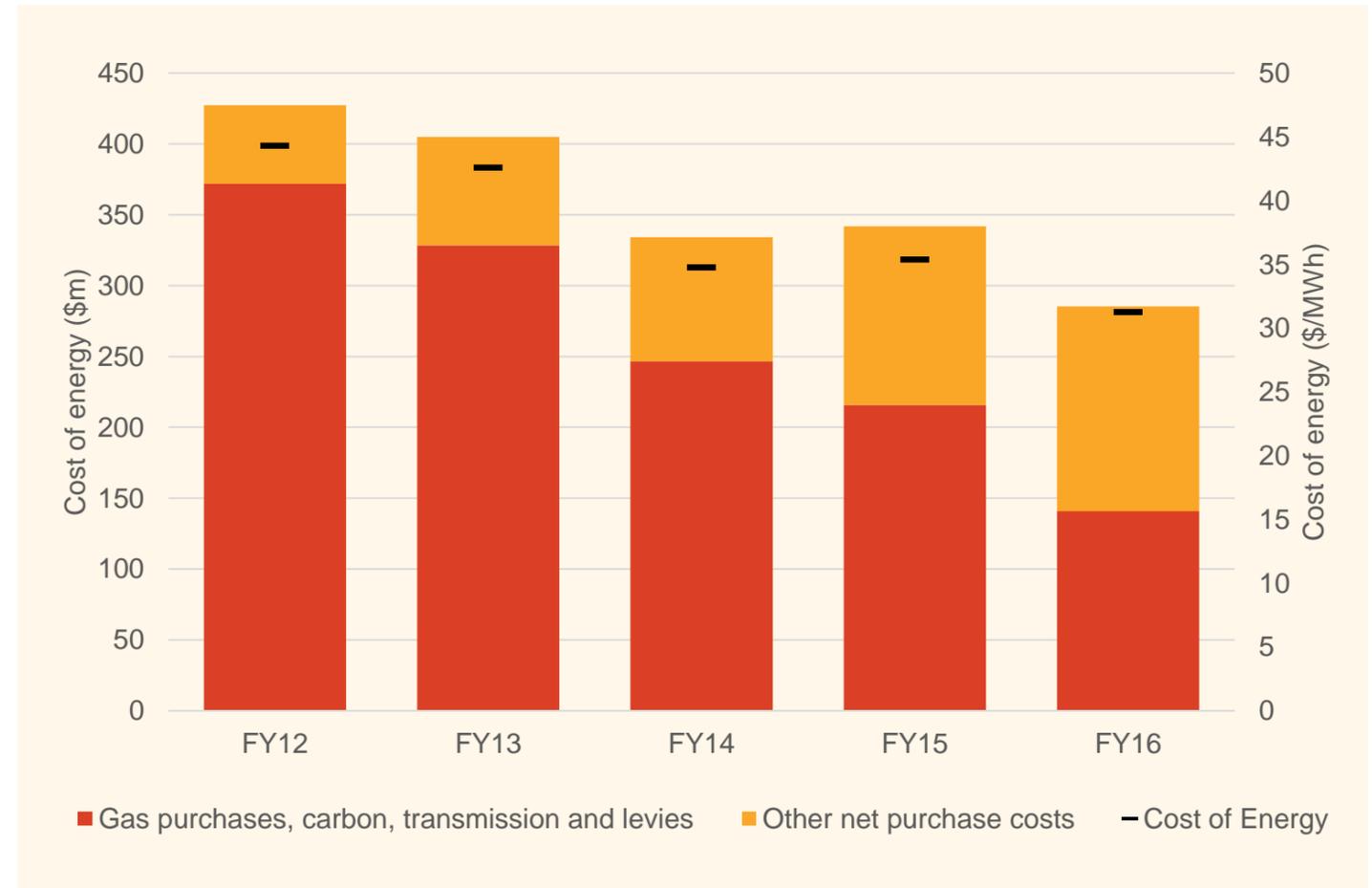
A focus on continuous improvement

» HSE achievements and capability



» Safety and operational reliability improvement – with our “*Safe to Run*” programme

» Record of driving down the cost of energy

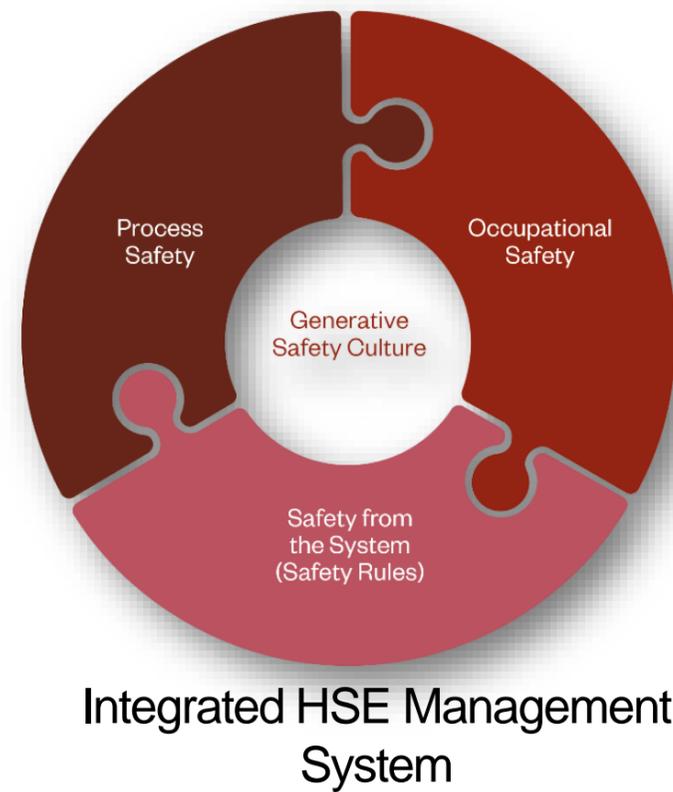


» Target an ongoing improvement in the cash cost of energy



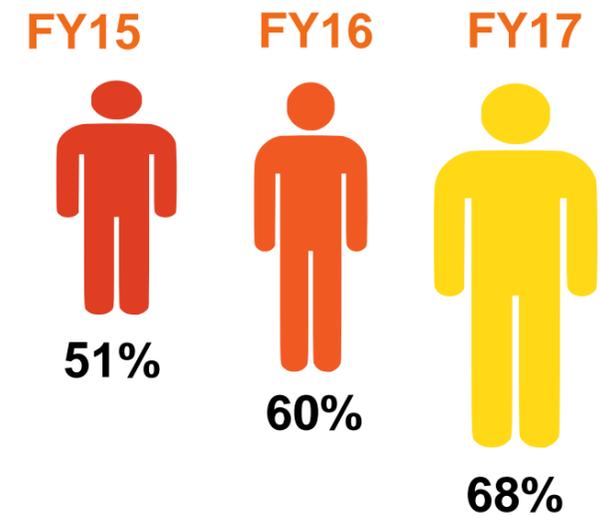
Safe to Run is driving operational improvement

» Our world class process safety improvement programme, Safe to Run, is driving core improvements to our generation business with some unexpected upsides



Overall, massively more positive than last year.

Signs of continuous improvement emerging. Silos reducing and opportunity to do better yet.



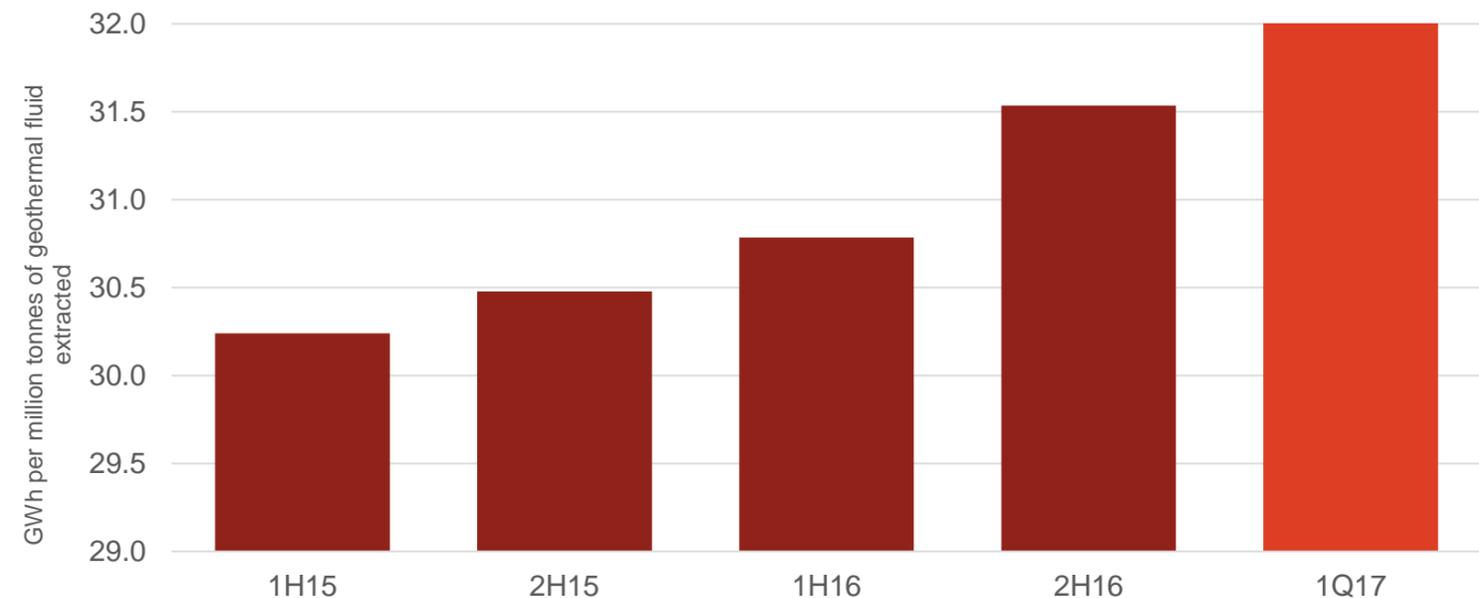
Improving the efficiency of our geothermal business with our world class capability

» Geothermal has become an increasingly important contributor to Contact's earnings

~25%
of Contact FY12
underlying EBITDAF

~35%
of Contact FY16
underlying EBITDAF

» We will continue to improve the efficiency of our geothermal assets



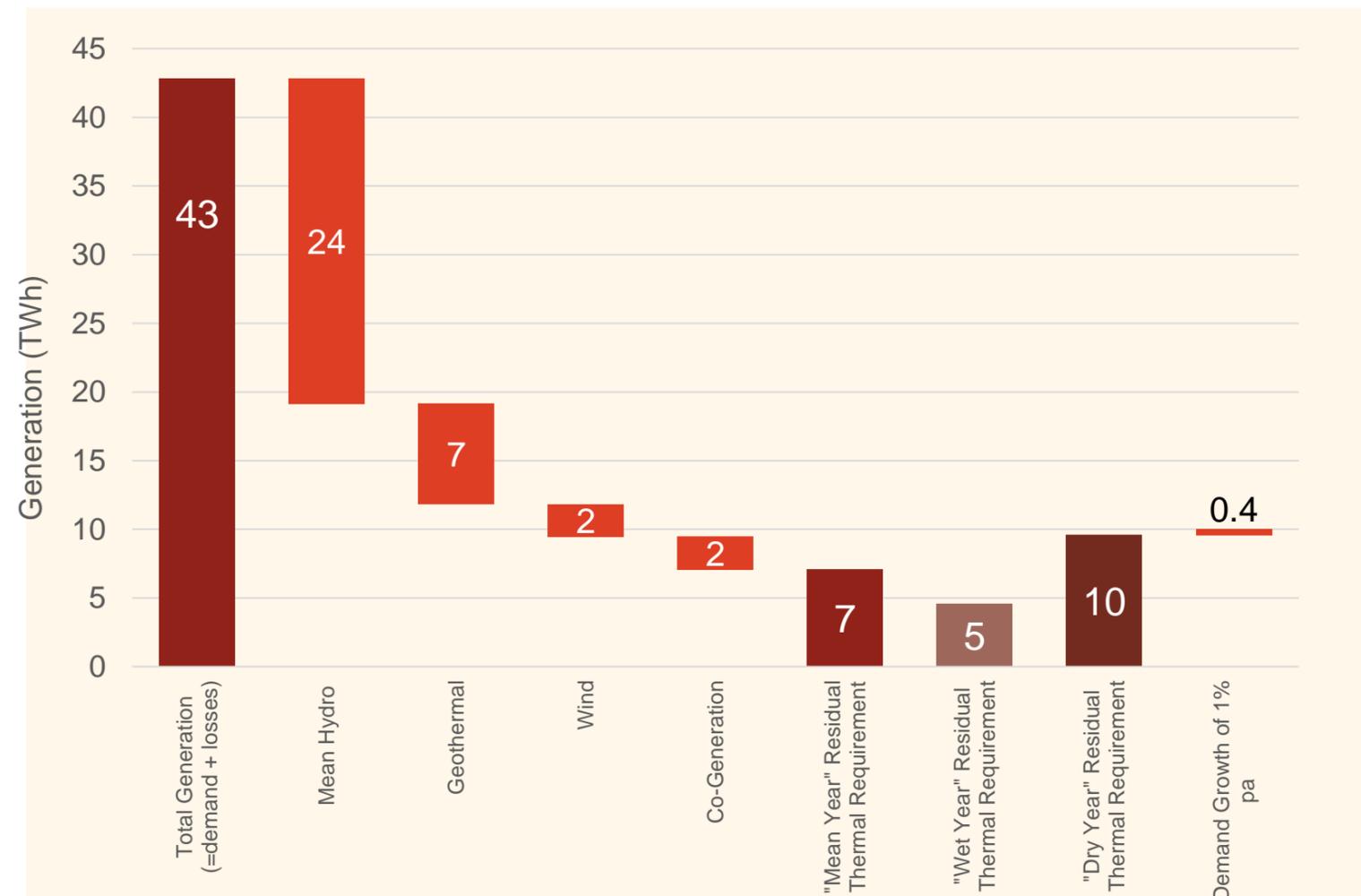
- » 6% improvement in conversion efficiency
- » Generation capacity optimisation has increased extraction to 99.9% of consented mass take in 1Q17 (FY16 – 98.9% and FY15 – 93.6%)



Our market is balanced with no new generation required

» Further thermal asset closures possible if costs not recovered under some scenarios

» There's a clear role for thermal assets to generate between...



Our thermal plants manage risk

Thermal Strategy

Taranaki Combined Cycle (TCC)

- » Discretionary support for C&I sales
- » Gas tolling / winter firming role
- » Must recover margin on costs

Stratford Peakers

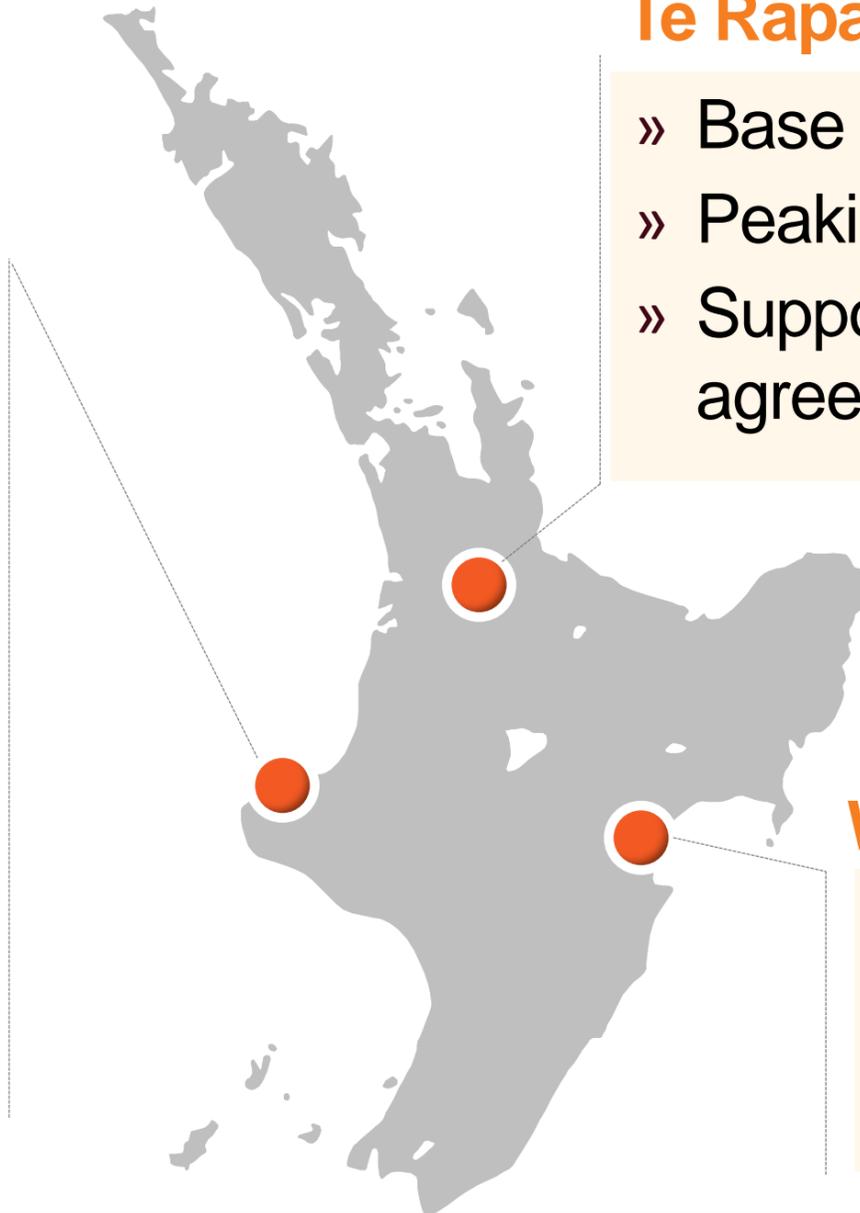
- » Internalise hydro risk management, supported by Ahuroa Gas Storage
- » Targets peak prices

Te Rapa

- » Base load role
- » Peaking option during dairy off-season
- » Supported by long term gas agreement

Whirinaki

- » Portfolio insurance
- » Little market interest in cap products



Our fuel position provides flexibility

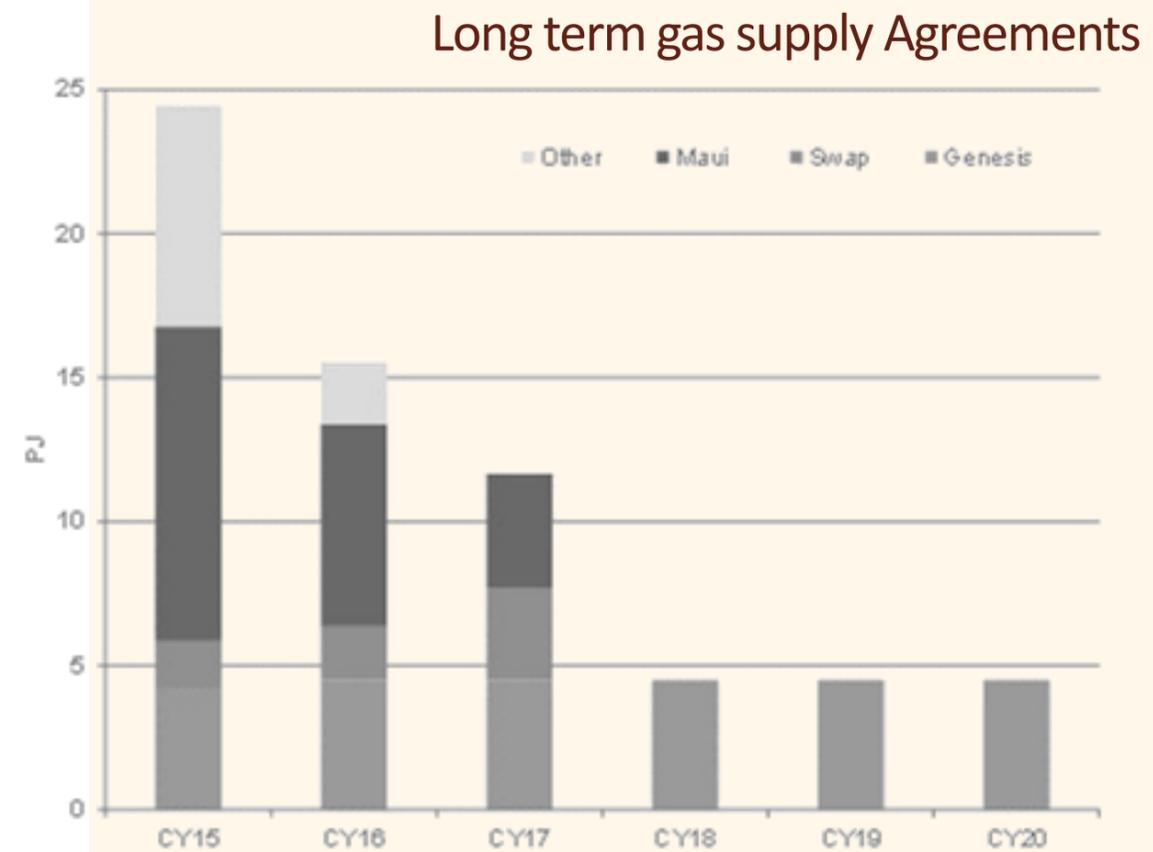
Fuel Strategy

Ahuroa Gas Storage (AGS)

- » Current stored volume =
- » Option of selling to third parties / mid stream role

10 PJ
(max of 17PJ)

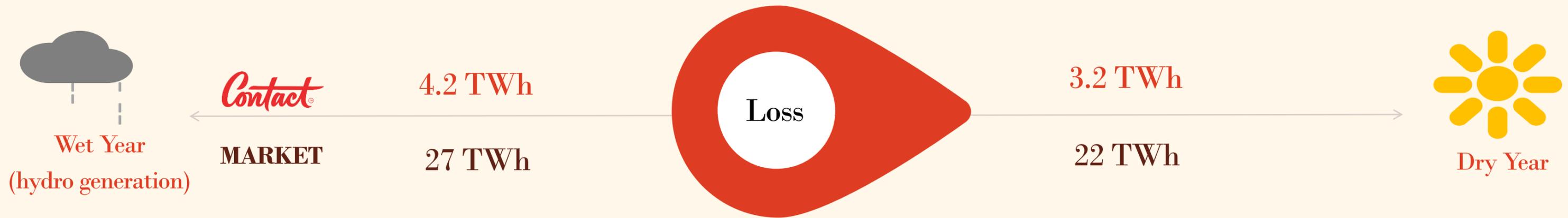
- » Intention only to purchase portfolio gas (to complement AGS) on year ahead basis



- » Enables closure if return on capital not available for discretionary thermal generation



We're well positioned to manage our short-term wholesale costs



GAS SUPPLY

- » Take or Pay commitments meet contracted sales commitments with remainder injected into AGS
- » AGS available for mid-stream role

- » AGS extractions and contracted gas one year ahead meet seasonal portfolio needs – maintain closure option
- » Gas spot market activity and gas oversupply has increased spark spread short term.
- » AGS available for mid-stream role

PLANT

- » Geothermal and hydro maximized, firmed by peakers
- » TCC off to conserve gas and hours, generation replaced by hydro backed CFDs or spot purchases
- » Whirinaki provides risk management

- » Geothermal and hydro maximized, firmed by peakers
- » Discretionary TCC generation only to firm committed sales
- » Discretionary TCC volume to support market if valued
- » Whirinaki provides risk management

FINANCIAL OPTIONS

- » Increased ASX liquidity to hedge excess must-run generation
- » Increased OTC hedge market liquidity to access low cost water and replace thermal generation

- » 100MW Third Party swaption available

OTHER

- » Strong pre-contracted C&I position hedges against lower prices short term, with option not to re-contract if no margin on TCC

- » Sufficient C&I volume rolling off annually to re-contract at higher rates



Many factors affect future wholesale energy/capacity balance



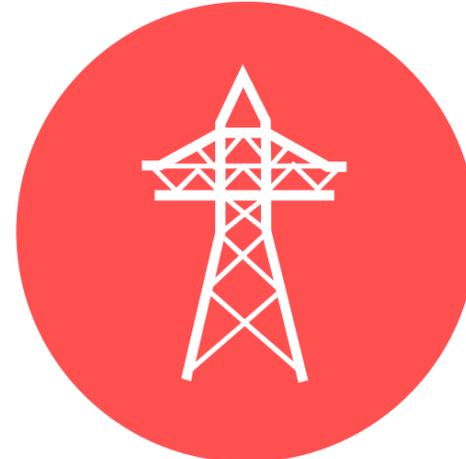
Demand

- » Little winter growth year on year (temp adjusted)
- » Unadjusted decrease of 1.8%
- » MBIE / Transpower forecast of ~1.1% growth
- » Estimated population growth of 320k p.a. by 2020
- » Household consumption falling (per ICP)
- » Commercial / agricultural demand increasing



Industrial demand

- » NZAS's - early termination option is affecting all sectors
- » Resulting North Island peaking requirements depend on HVDC options



Grid generation

- » Market conditions do not support new investment
- » Plant retirement(s) and reduced capital investment on life extension can respond to changes



Fuel

- » ~ 12 years of gas supply
- » Medium term over supply tightens with low oil price reducing production – Methanex decisions could extend over supply
- » Ample LPG, coal and diesel supply
- » Carbon price increasing



New Technology

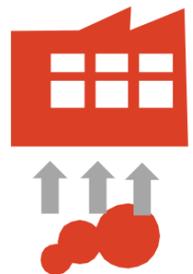
- » PV currently ~61GWh pa. Uptake rate will be affected by TPM implications
- » EVs currently ~ 5.5GWh pa. Uptake rate affected by customer choice
- » Economics improving but regulation driving uncertainty

We are well positioned for the long term



THERMAL

- » 400 MW of peaking generation consented at Stratford – potential replacement of TCC/Huntly
- » Expansion options at AGS for mid stream role – dependent on third party demand
- » Option of shifting Whirinaki
- » Option to close thermal plant if not rewarded



RENEWABLES CHANGE

- » Tauhara geothermal – fully consented and New Zealand’s lowest cost base-load option
- » Post 2026 options to replace Wairakei
- » Ohaaki fueling options
- » Well-managed hydro assets have an increasing role in balancing the portfolio
- » Lower South Island transmission planning well prepared with the risk of Tiwai exit increasingly manageable
- » Contact supports both the TPM review process and a beneficiary pays methodology



NEW TECHNOLOGY

- » Conducting network based trials (supporting Customer 3.0)
- » Reviewing grid connected PV and network connected storage options



LPG

- » Further optimisation of wholesale services with other parties
- » Existing assets will support market growth



Well run generation and wholesale operations currently drive most value

Summary

- 01** » Strong earnings performance from core renewable business, firmed by Ahuroa Gas storage and Stratford Peakers
- 02** » Discretionary thermal generation available if it delivers margin on commercial and industrial sales
- 03** » Market balanced short-term with some uncertainty long-term
- 04** » Contact well positioned to manage risks in all conditions

Targeting the basics

- 01** » Safety and operational reliability improvement – with our Safe to Run programme
- 02** » Engagement improvement
- 03** » Cost of energy improvement
- 04** » Wholesale market that supports a return on capital



**Trading
for Value**



**Continuous
Improvement**



**Sustainable
new revenue**



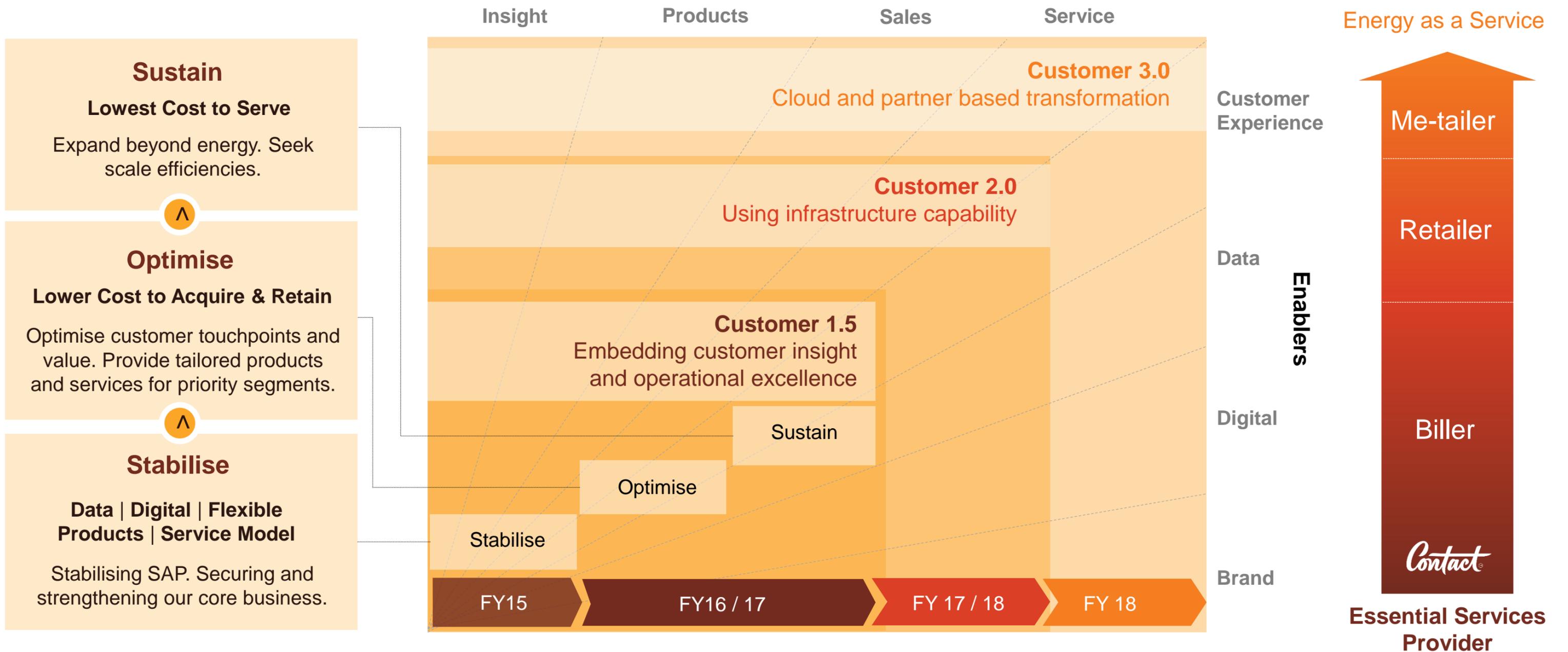


Technology is creating a world of opportunities for a great ME-tailer

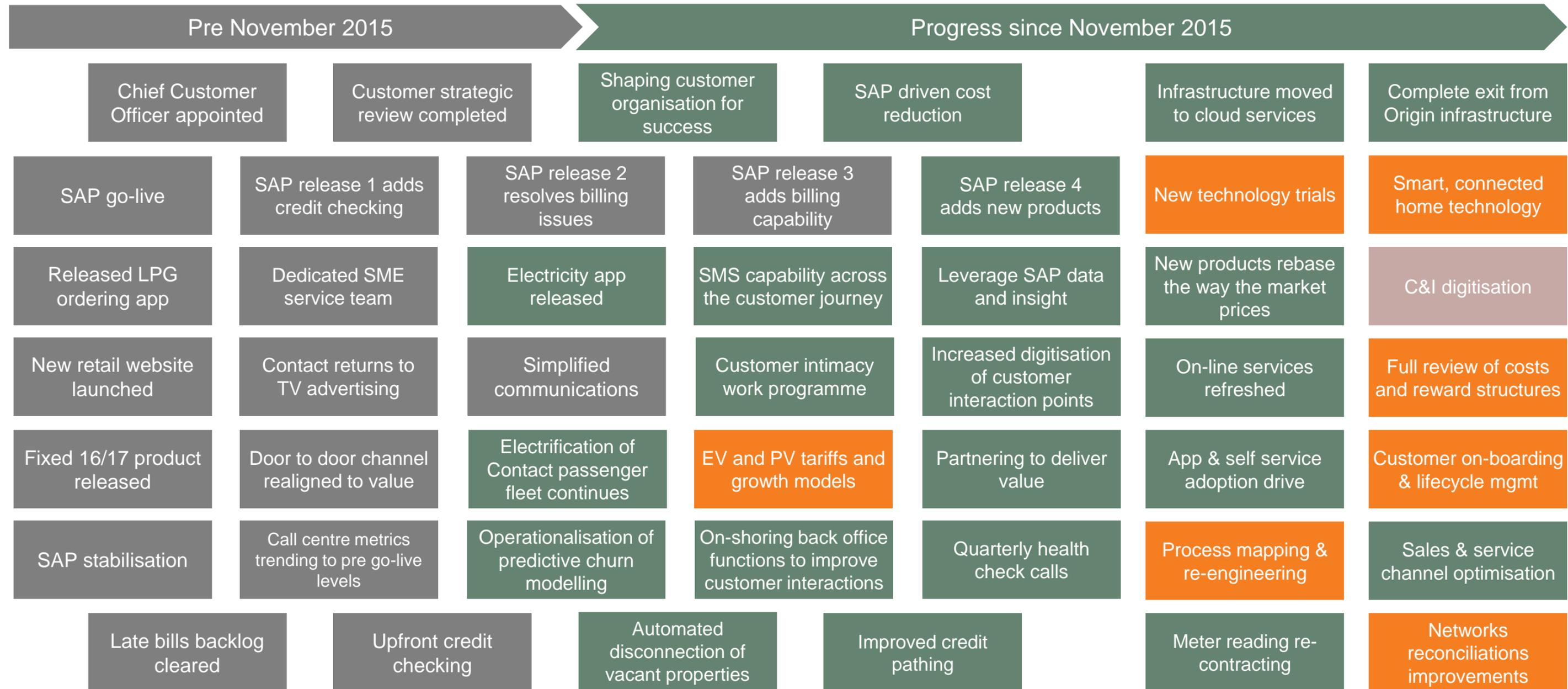
Vena Crawley – Chief Customer Officer

Our evolution from an Essential Services business to a Living Services business

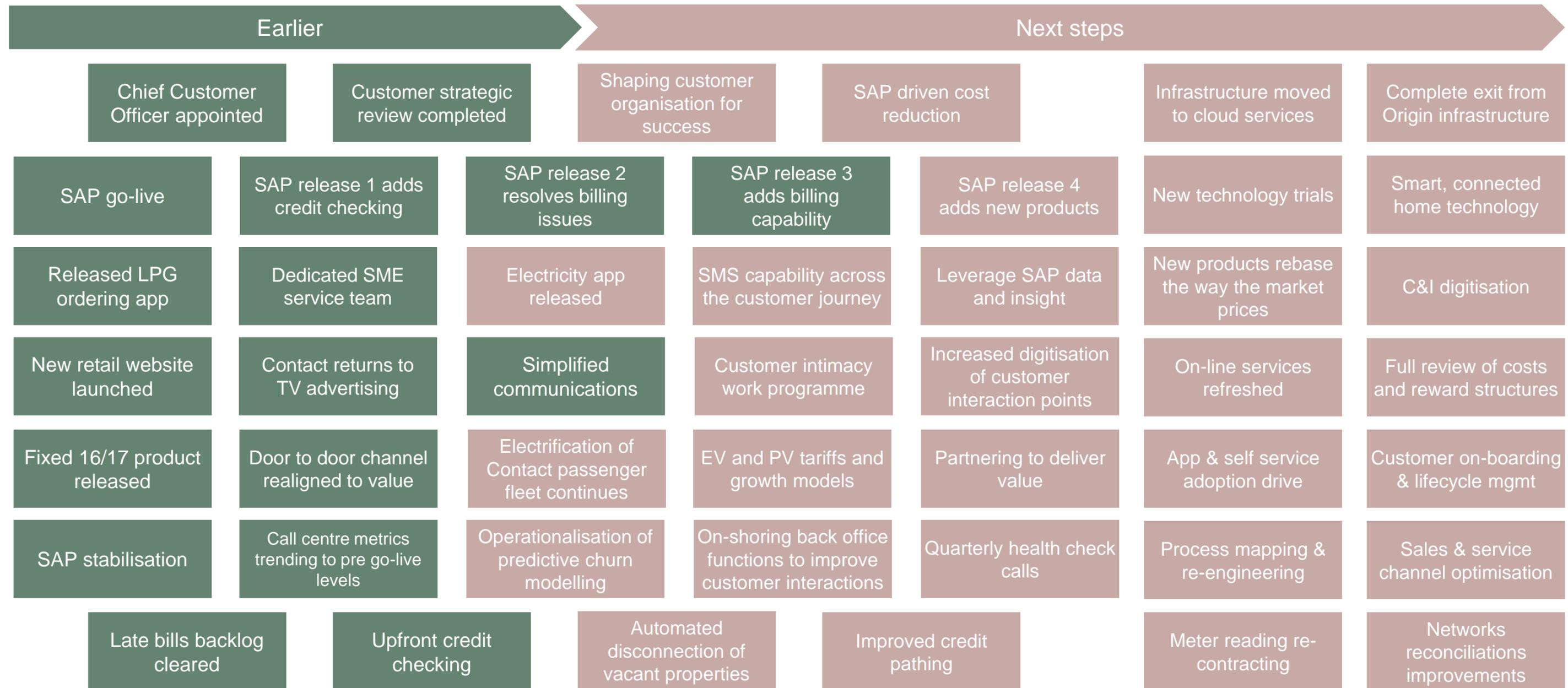
Core Activities



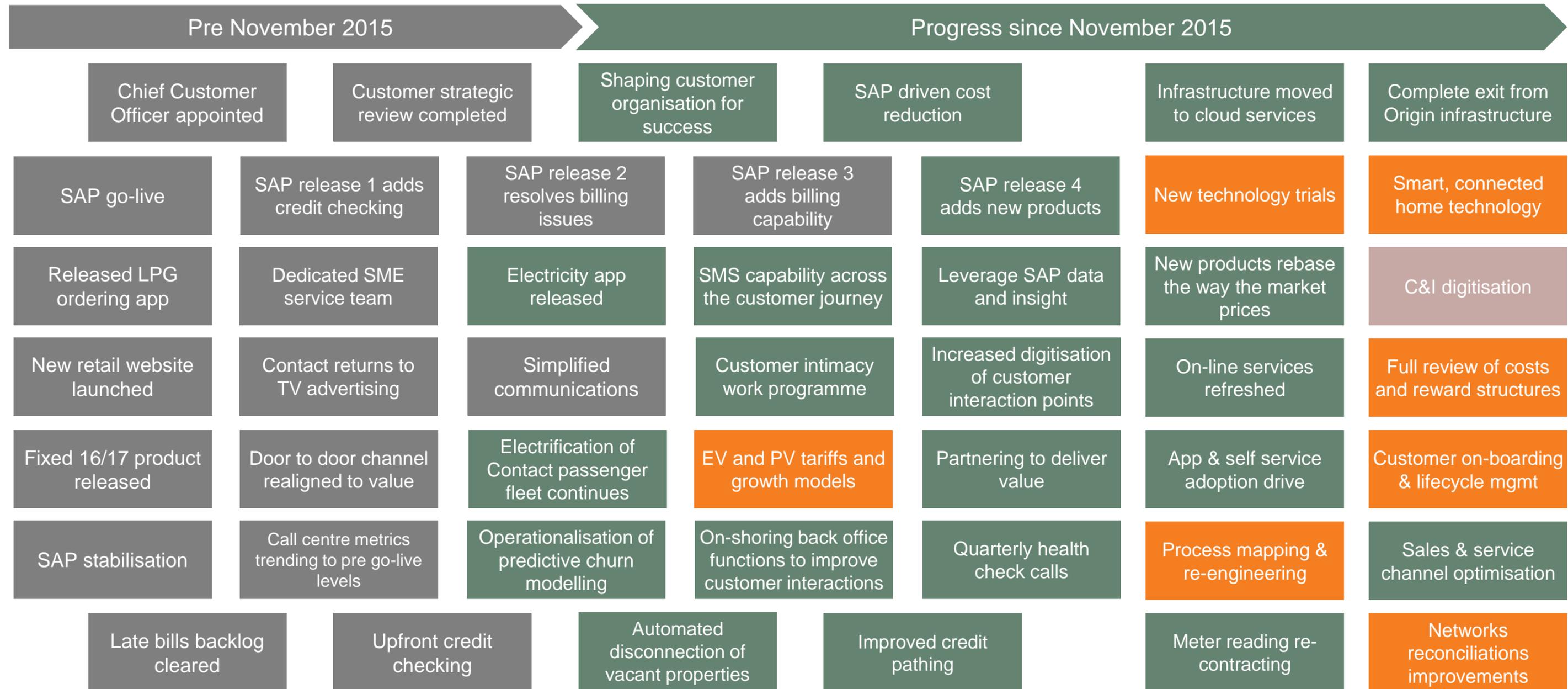
Now delivery speed is accelerating as we become truly customer inspired



We updated on the progress on SAP stabilisation and mapped the key workstreams



Now delivery speed is accelerating as we become truly customer inspired



Delivering return on investments in systems and capability

We've listened to our customers and delivered

- New products
- Battery and solar trials

We've improved how we operate

- Debt management processes
- Streamlined online experience

We've organised our business for the new world

- Refreshed customer leadership team
- Digital and analytics capability

	1H15	2H15	1H16	2H16	YTD17
Change in customer numbers	-7,300	-1,600	-9,800	+5,380	-1,450
Average time to answer (seconds)	220	268	222	141	138
Churn (variance to market)	+2.9%	-0.2%	+1.1%	-1.3%	-0.3%
% of residential customers on >10% discount	63%	70%	76%	82%	82%
% on a fixed term product	9%	10%	11%	24%	26%
% with MM dual fuels or products	18%	20%	20%	22%	22%
Cost to serve per customer	\$113	\$124	\$122	\$106	\$79 (4mths)
Number of vacant properties	12,800	11,500	10,000	4,500	4,200
Average late bills >30 days	12,000	5,000	2,000	1,100	771
Bad debt expense (net) as a % of retail revenue	0.55%	0.70%	0.67%	0.52%	0.50%

Organisational agility will be vital

- » The digitisation of everything and liquid expectations of customers will fundamentally change the market forces, reinventing all product and service constructs and fueling new competitive dynamics.



Digital Everything: Growing infusion of digital technology into the hardware and built environments that surround us in the modern world

Customer Liquid Expectations: Service expectations are no longer being set within an industry, but across it – by the leading experience providers.

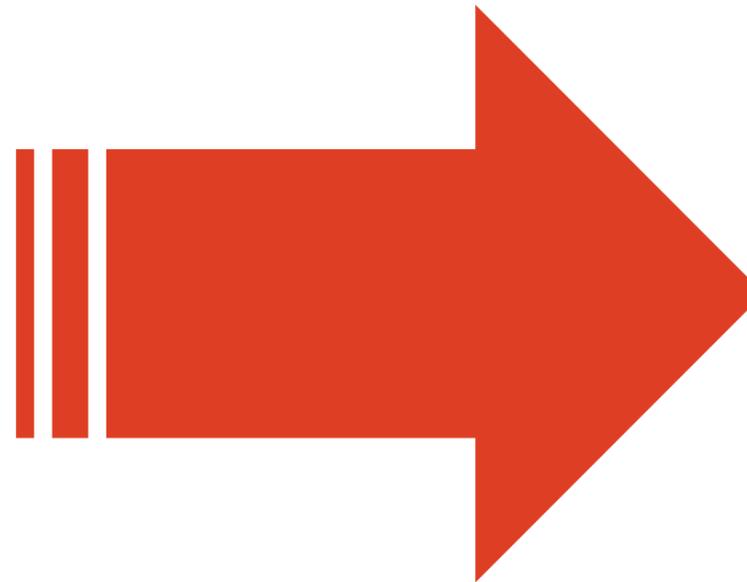
Strengthening our core while pursuing our customer strategy

SUSTAIN WHAT WE HAVE

MOVE AWAY FROM PURE OPERATIONAL RETAILING

OPEN UP THE DIALOGUE

FOCUS ON UNIQUE VALUE



Positioning for a new world



Customer inspired in action

Strengthening our core

Damian Woolfall

Head of Seamless Operations

Data and analytics innovation and performance

Stephen Hastings

Head of Data Analytics

Flexing with our customers

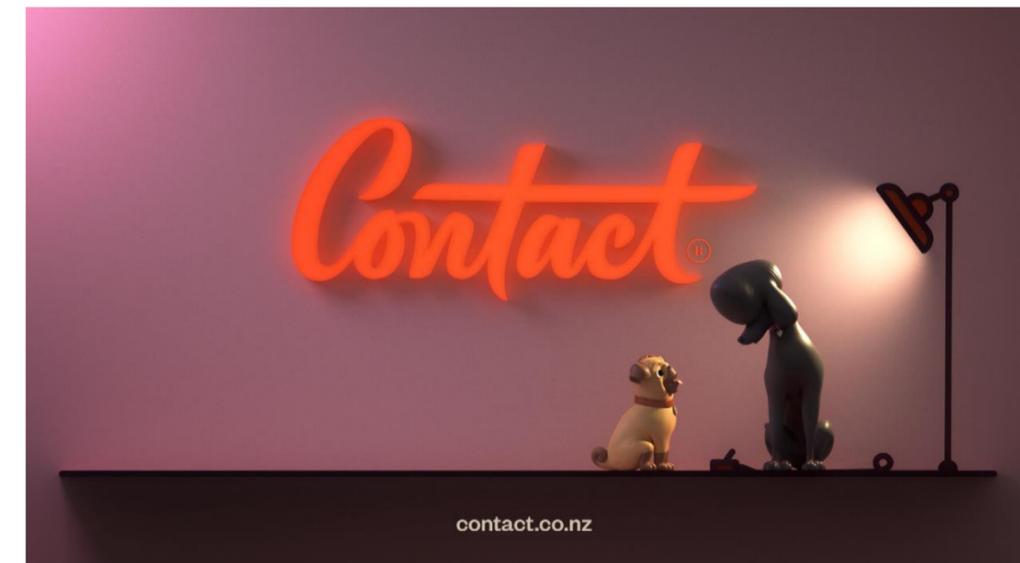
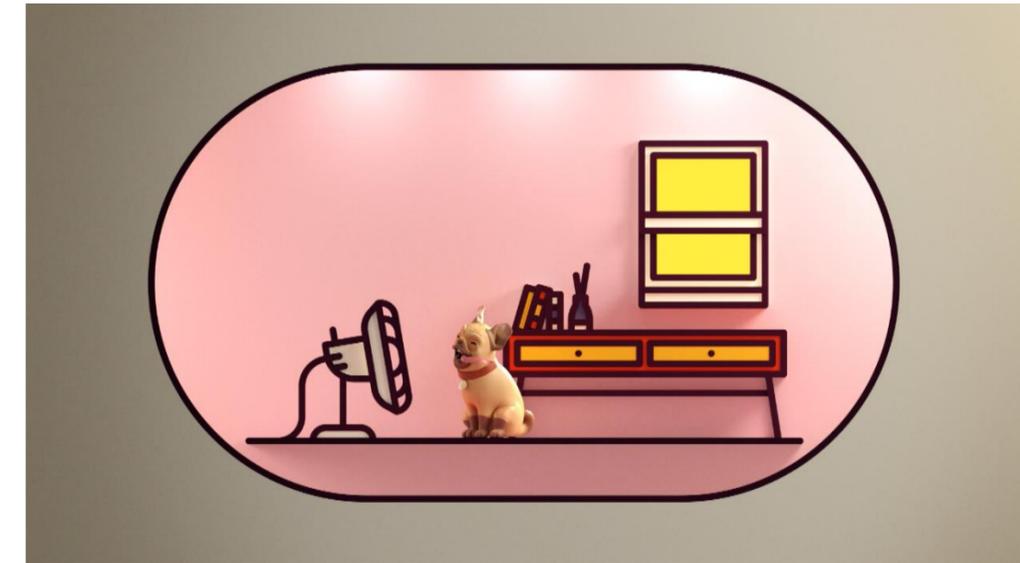
Matt Bolton

Head of Customer Engagement - Win

A view to the future

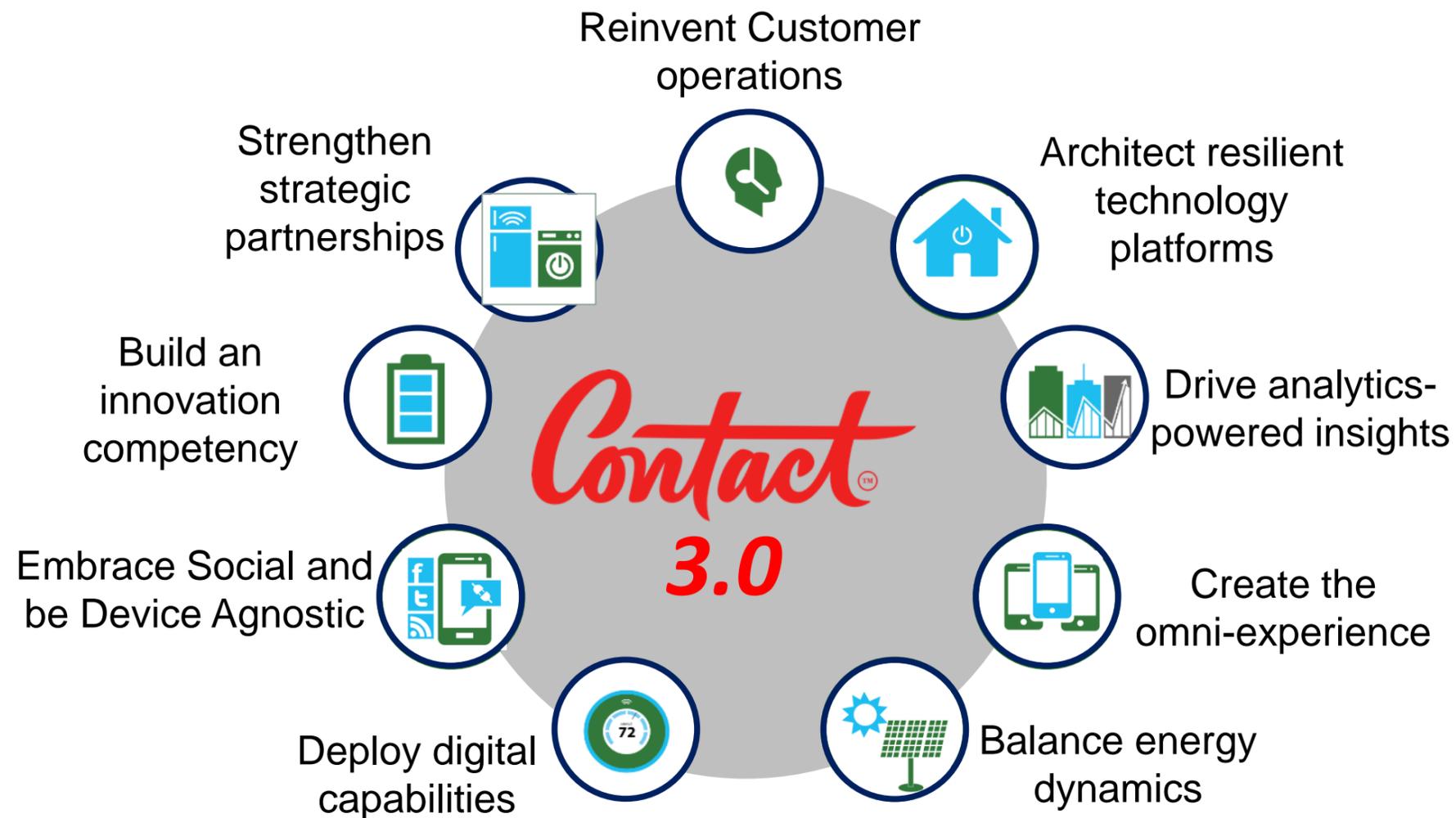
Michael Pryor

Head of Designing Tomorrow



Keys to delivering returns from our customer strategy

» 'Must Dos'



» 'Must Haves'



Extracting value from a deep customer relationship



ADVICE PROVIDER

Provide specific solution and lifestyle suggestions based on deep customer knowledge, insights and purchasing algorithms and data.

ACCESS FACILITATOR

Support the customer everyday/anywhere in accessing solutions that enable them to live the lifestyle they choose.

VALUE AGGREGATOR

Assemble components (energy, living services, own and third parties) to create an integrated solution for customer needs and wants and represents value.

