



# 2016 Investor Roadshow

Dennis Barnes – Chief Executive Officer

Graham Cockroft – Chief Financial Officer

*Contact*®



# Disclaimer

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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.

# Profiles

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## Dennis Barnes

### Chief Executive Officer

Dennis Barnes has been Chief Executive Officer of Contact Energy since 2011. Dennis has completed Contact's NZD2bn investment programme in renewable energy, flexible generation and companywide systems. Over his time at Contact Dennis has provided industry leadership on topics as wide ranging as wholesale electricity market structures and health and safety reform. During 2015, Dennis successfully led Contact as its majority shareholder exited and Contact diversified its shareholding base and listed on the ASX. Prior to joining Contact, he was General Manager Energy Risk Management at Origin where he oversaw Origin's significant and expanding operations in wholesale markets. Prior to Origin, Dennis held a number of positions operating in international energy markets; including managerial roles at Scottish and English electricity companies. Dennis' career began as a Metallurgist with Alcan and he holds a BSc(Hons), GradDip (Marketing) and MBA.



## Graham Cockroft

### Chief Financial Officer

Graham Cockroft was appointed as Contact Energy's Chief Financial Officer in June 2012. Prior to this he spent three years as Contact's Chief Operating Officer in which he was responsible for the operation of Contact's wholesale and generation functions, including generation development. Before joining Contact, Graham worked for nearly two decades for BG Group in senior strategy, business development and operational roles. Most recently, Graham was BG Group's Asset General Manager based in São Paulo, Brazil. He holds a Master of Commerce from the University of Otago, and a Master of Finance from the London Business School.

# Why invest in Contact?

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- » Diverse and flexible portfolio requiring minimal investment provides strong free cash flow
- » Significant investment in systems and capability now in place supported by a clearly articulated customer strategy
- » 58 years geothermal development and operations experience
- » Gas storage and thermal generation underpins internal risk management process
- » Refreshed Board of Directors bringing new perspectives and experiences from other industries
- » Open share register provides increased liquidity and flexibility relative to peers





# About Contact

**\$2.9b**

Our net assets are  
\$2.9 billion (at  
31 December 2015)

**166** MW  
(gross)

of geothermal generation  
commissioned May 2014

**1,066**

We employ 1,066  
people from  
Auckland to Invercargill

**1**

New Zealand's only  
underground gas  
storage facility

**11**

Contact owns and operates  
11 power stations throughout  
New Zealand

**556k**

Contact has 556,000 customers  
across electricity, gas and LPG

**5**

Geothermal stations in the  
central North Island

**22%**

We supply 22 per cent of the  
New Zealand electricity and  
gas retail markets  
(at 31 December 2015)

**23%**

Contact generates  
around a quarter of New  
Zealand's electricity

**2**

Hydro power stations at  
Roxburgh and Clyde

**69,000**

Contact is one of New Zealand's  
largest listed companies with  
around 69,000 shareholders  
across our NZX and ASX listings

**4**

North Island thermal power  
stations support  
renewable generation

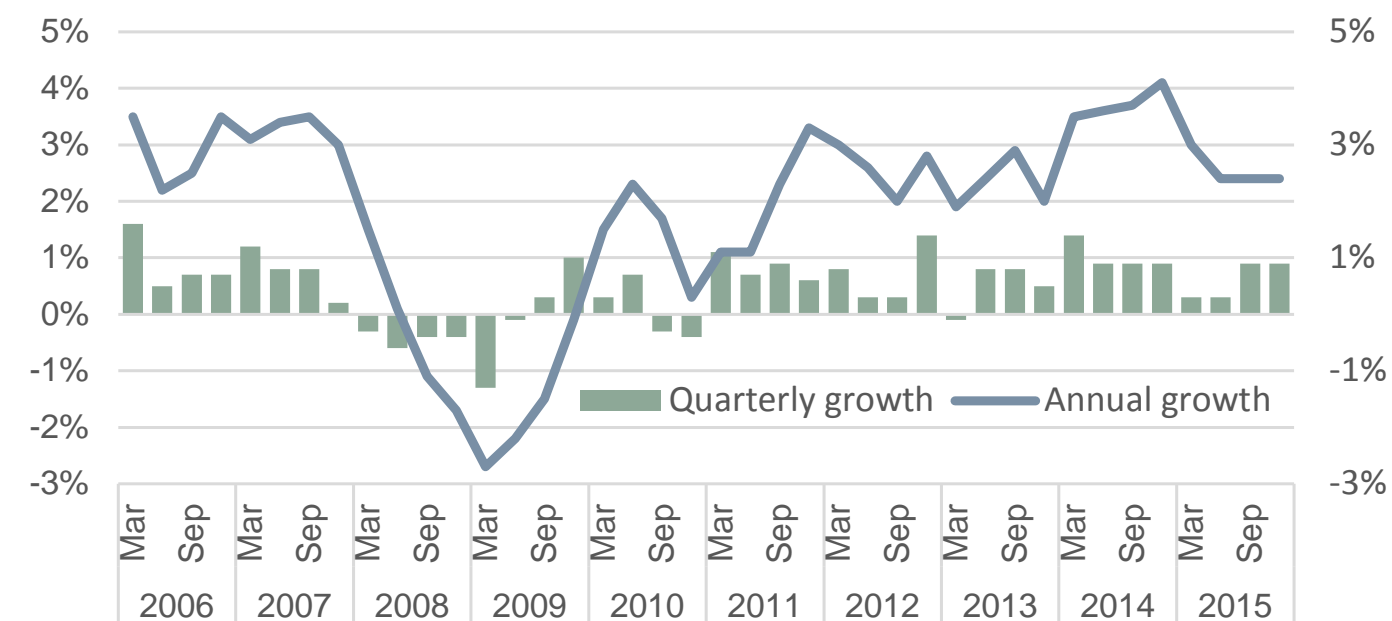


# The New Zealand economy continues to show resilience

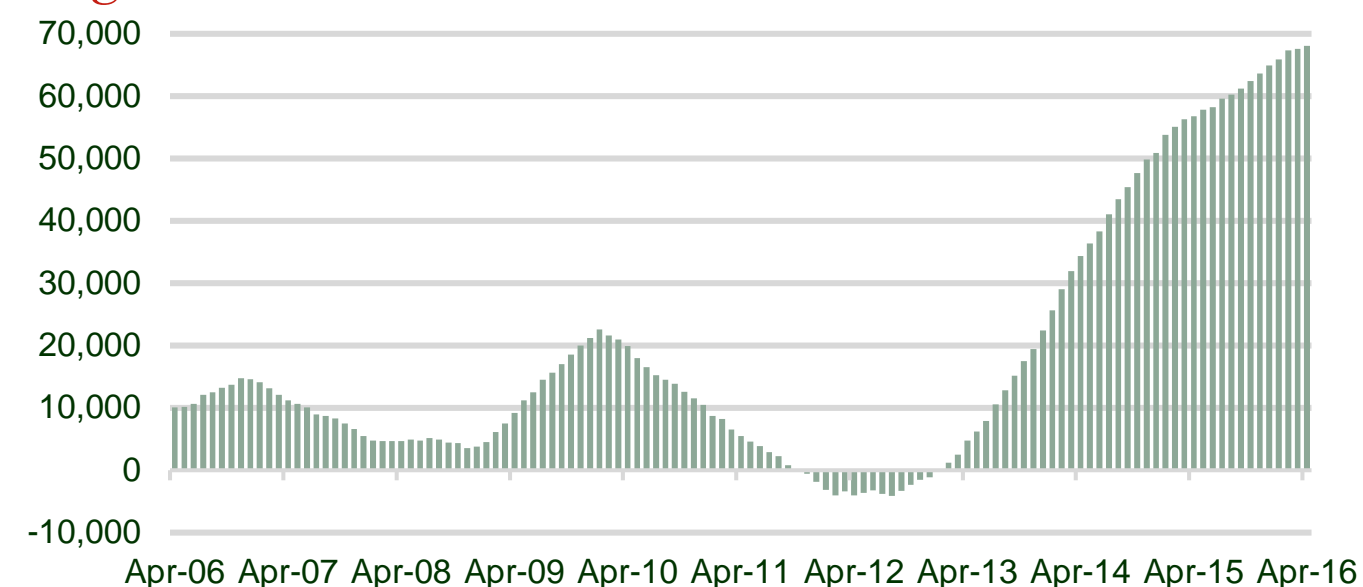
## Leading indicators support near-term annual GDP growth around 2.5%

- Current supportive factors include:
  - Historic high net migration
  - Strong tourism growth
  - Robust construction sector activity – housing and growing infrastructure spend
  - Canterbury earthquake rebuild activity
  - Strengthening house price growth – positive wealth effects
  - Low interest rate settings
- Factors dampening the current growth cycle include:
  - Dairy prices continue to remain below average
  - Global growth concerns
  - China spillovers
  - Canterbury rebuild activity close to a peak

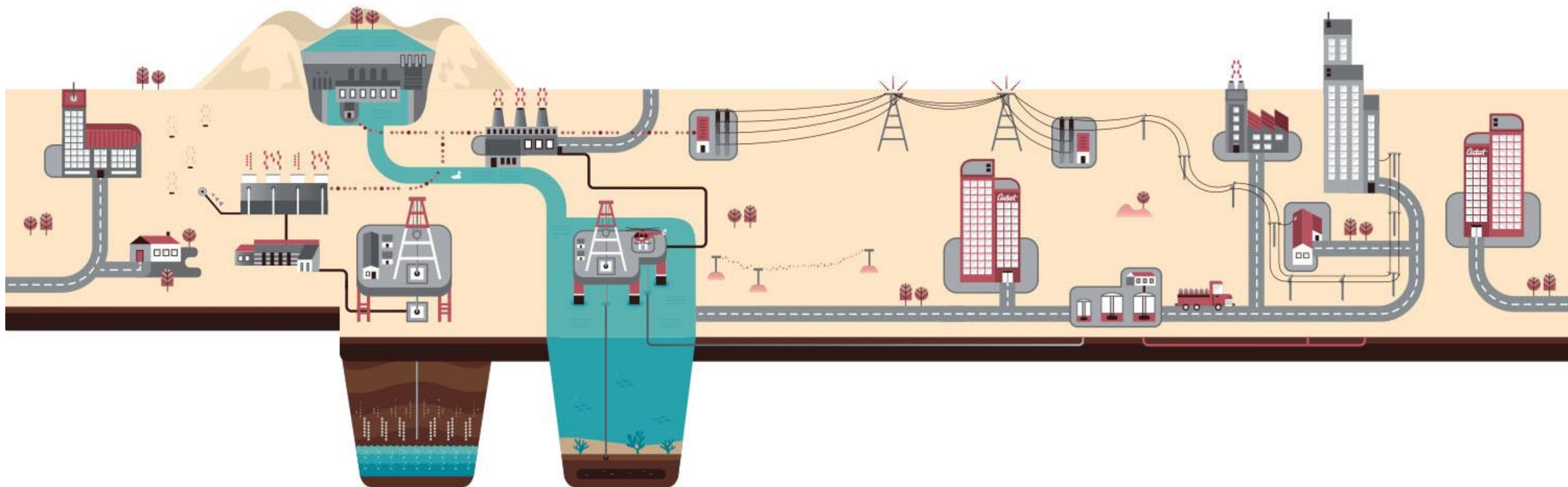
## Gross domestic product



## Net migration



# The New Zealand electricity market



**5** Major generators

**1/2** Hourly wholesale spot market

**1** State-owned national transmission grid operator

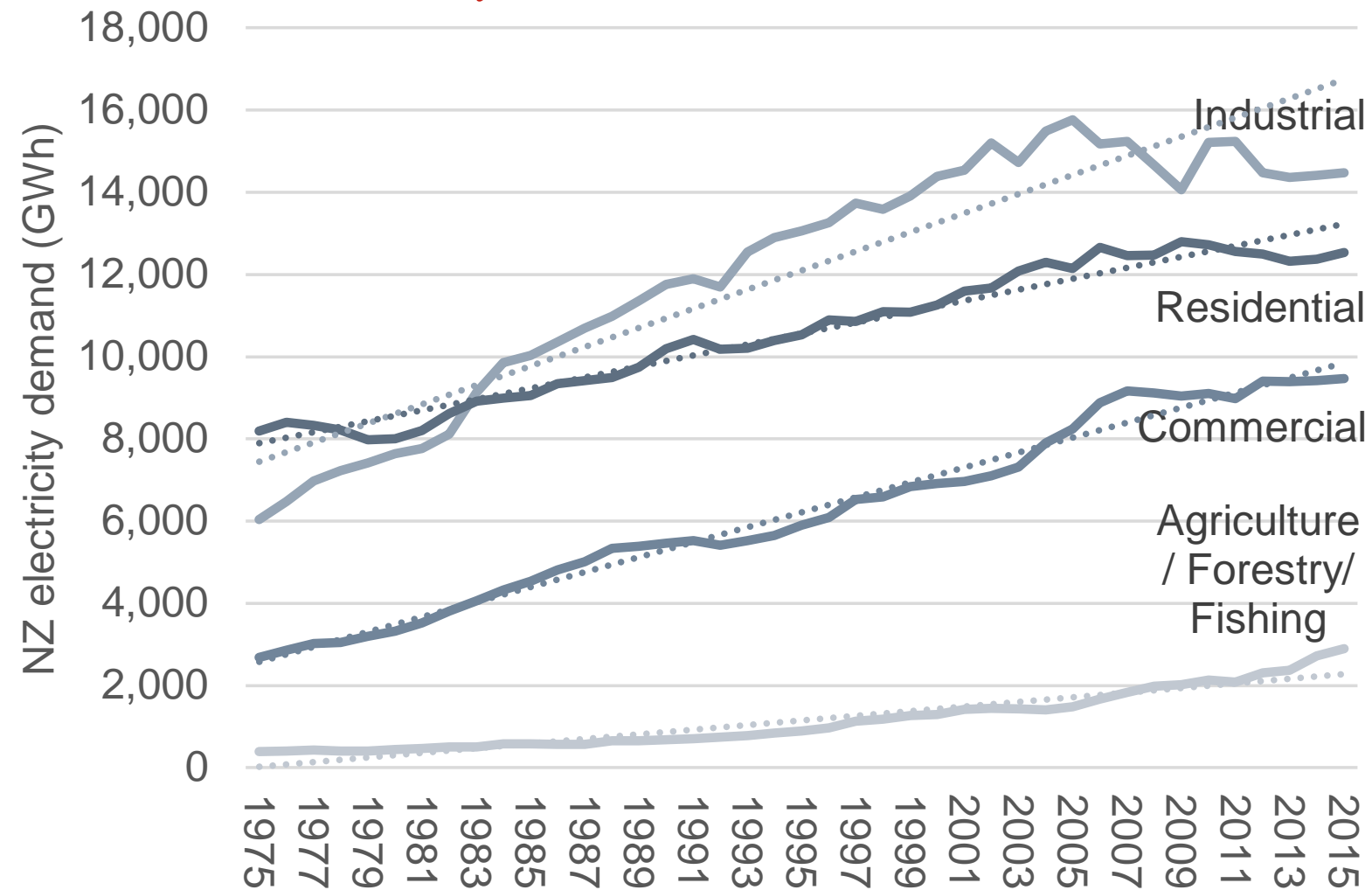
**29** Distribution businesses

**26** Electricity brands

**2** Million consumers

# 80% of New Zealand's 39,000 GWh of electricity consumption in 2015 came from renewable generation

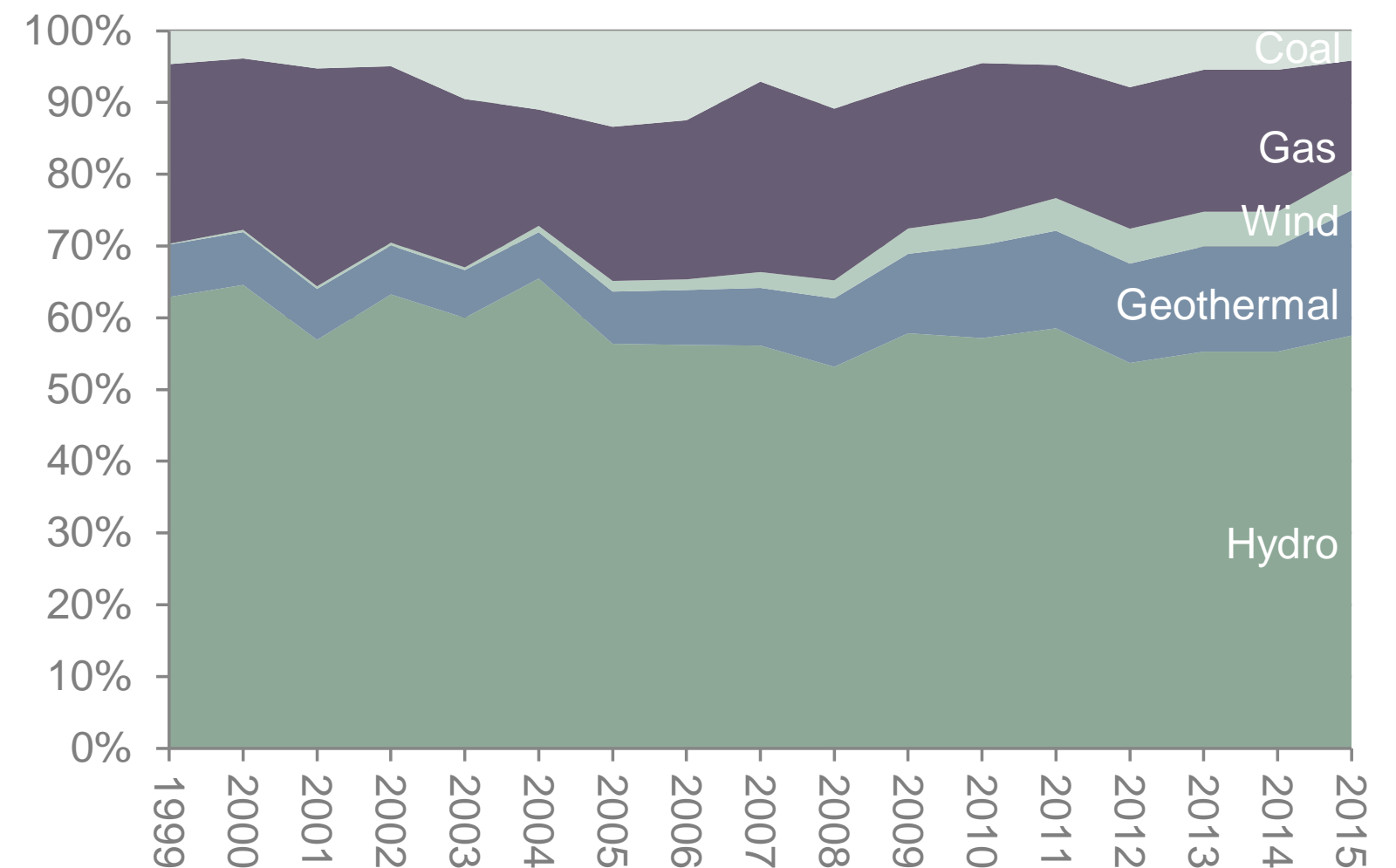
National demand by sector



- » Total demand has remained largely flat since 2008; recent signs of demand growth from migration and agriculture
- » Distributed generation has had relatively little impact

Data source: Annual electricity and consumption and generation, Ministry of Business Innovation & Employment

New Zealand electricity supply (based on GWh generation)



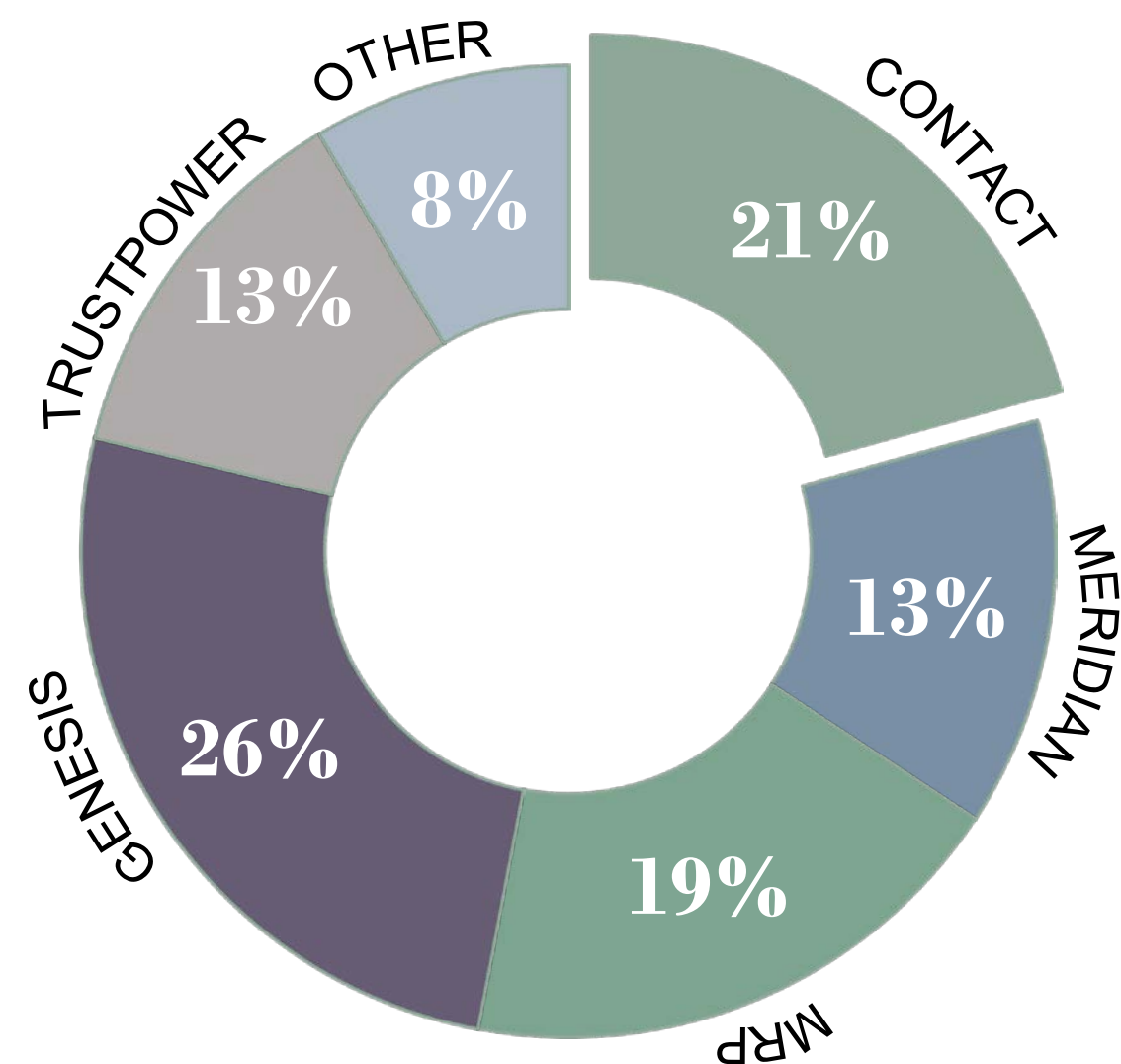
- » New Zealand has added subsidy free renewable generation, which in a period of flat demand, has displaced fossil fuels

Data source: Annual electricity and consumption and generation, Ministry of Business Innovation & Employment

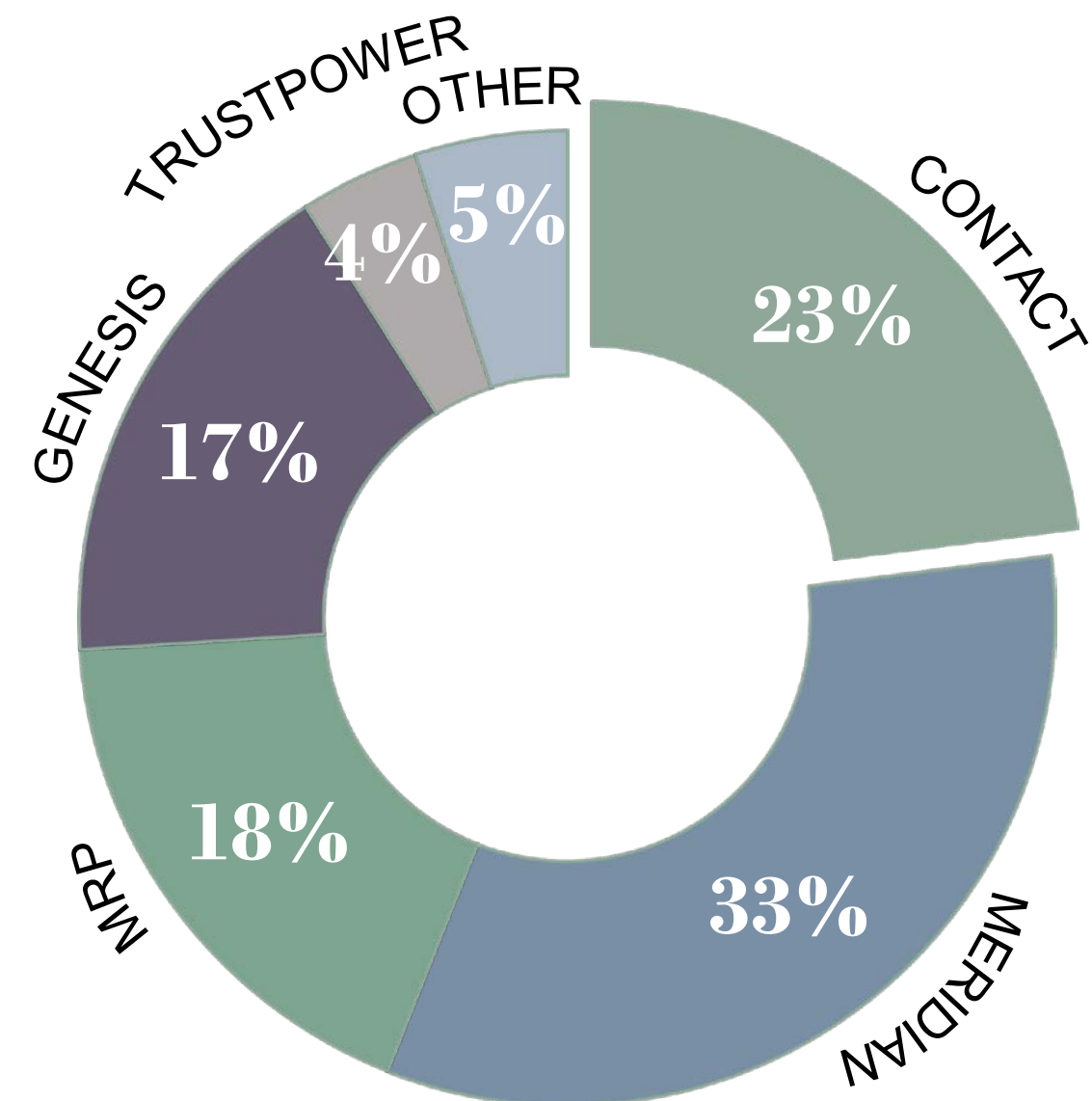


# Industry dominated by vertically integrated companies with the five largest companies now all publicly listed

Retail electricity market share by customer number

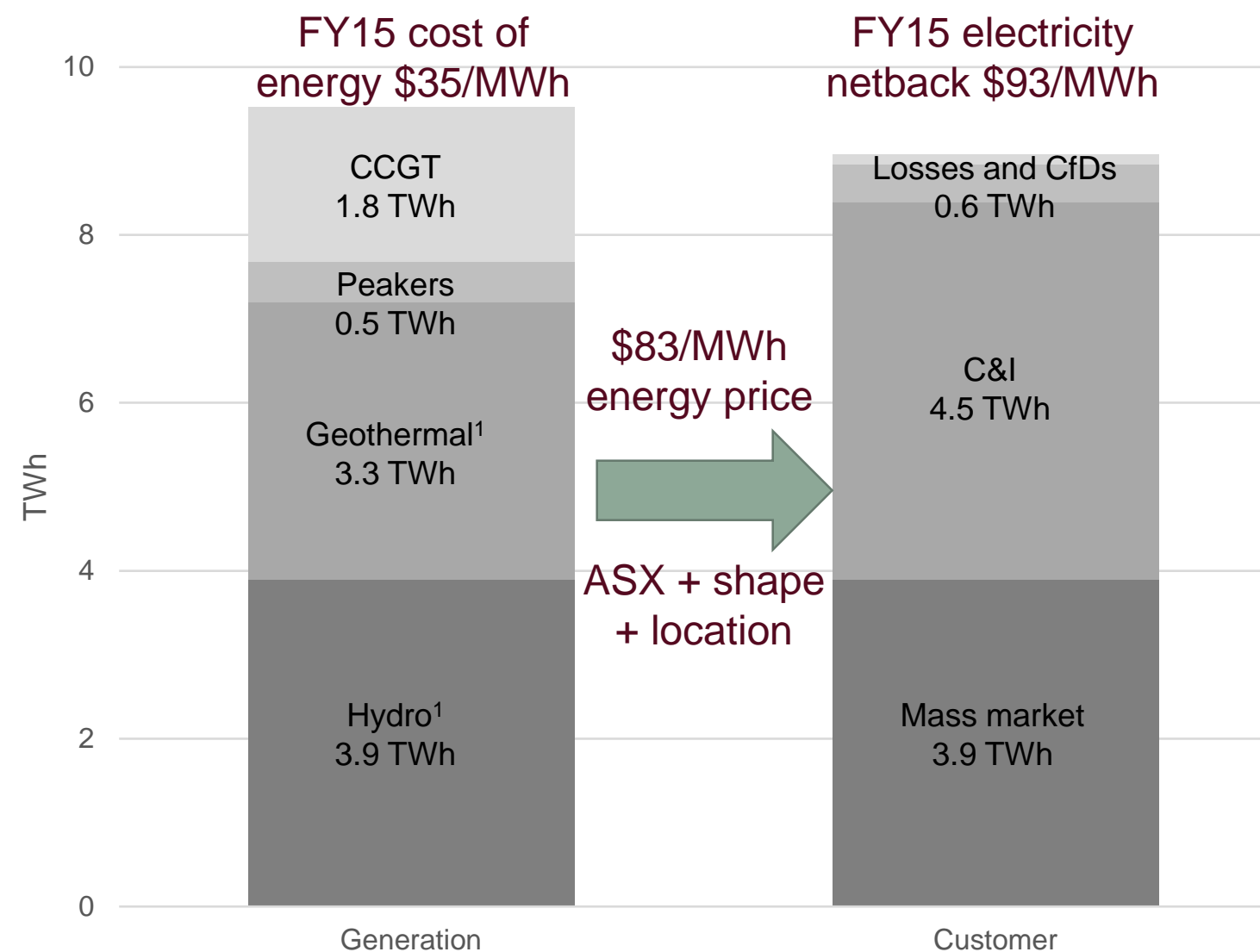


Generation market share by volume



# Contact connects renewable resources to customers

## Portfolio is well hedged with options around thermal operation



<sup>1</sup> FY15 geothermal and hydro generation normalised to expected long-run average

### » Renewable portfolio ...

- Hydro and geothermal long-life renewable assets
  - Fast-start gas peakers supported by New Zealand's only commercial gas storage facility
  - Flexible portfolio of 32 units with largest single unit 120 MW. Diesel peaking provides extreme risk cover.
- ... supported by peakers has a lower short run marginal cost than the total generation portfolio

### » Combined cycle gas turbine (CCGT) operation dependent on achieving a margin

- Minimal long-term fuel or maintenance commitments
- Recently closed Otahuhu, a 400 MW CCGT
- 80MW Tiwai supply contract commences 1/1/2017



# Key market and regulatory update

## » Customer churn

- Retail competition expected to continue, despite high costs of churn
- Contact starting to recover customer losses
- Distributed generation not a major part of NZ market

## » Transmission and distribution reviews

- Regulatory changes around transmission pricing, network charging and carbon critical to ensure the right incentives are in place for customers and industry participants

## » Tiwai

- New Zealand's largest electricity user at 13% of demand
- Transmission pricing review likely to provide cost upside to Tiwai

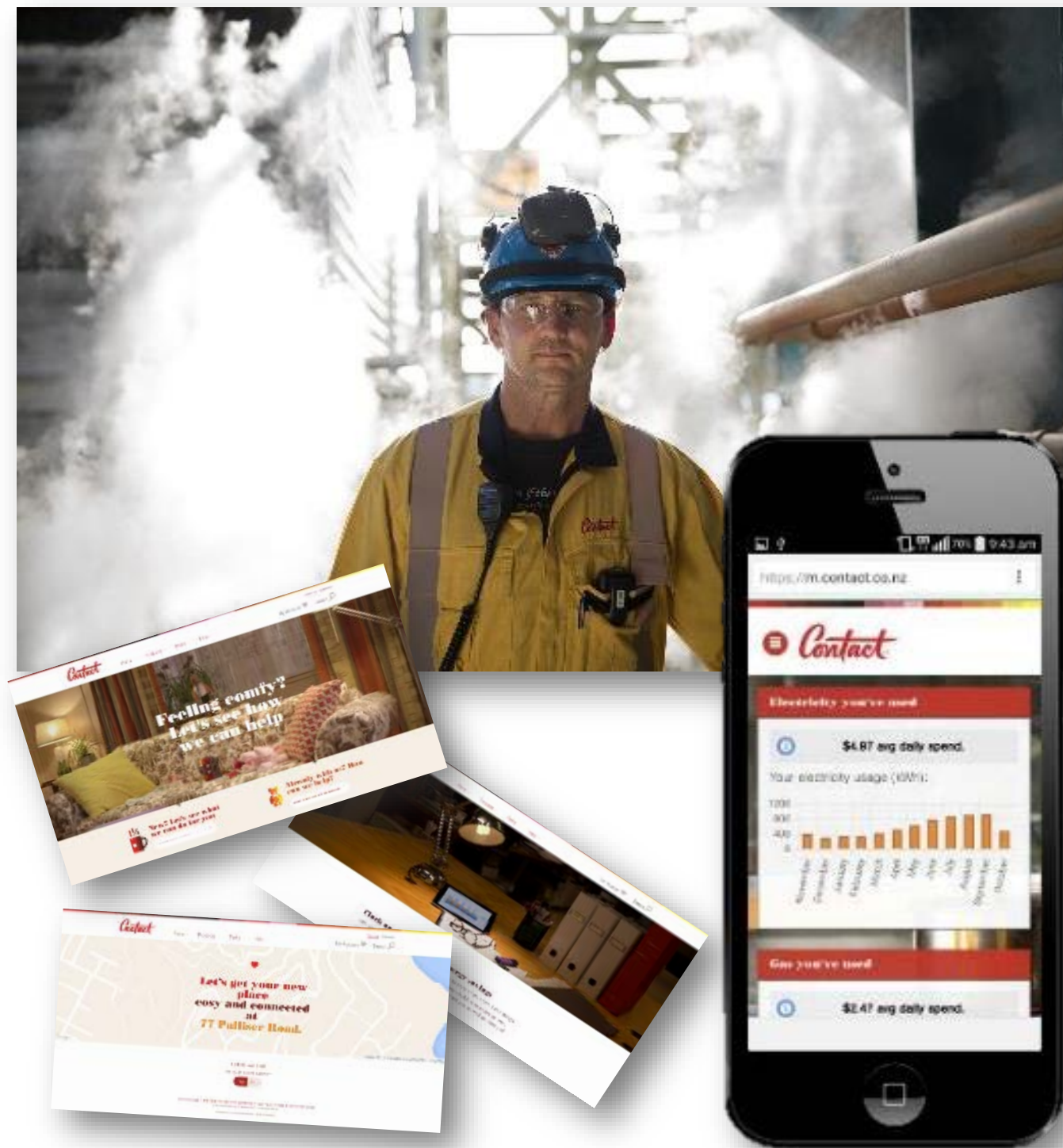
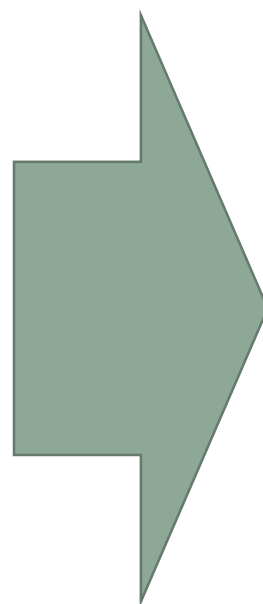
## » 2019 capacity requirement

- Announced Huntly coal units will remain open until 2022; additional gas fired peaking plant likely to be required longer term
- Contact secured additional capacity to further support balanced portfolio

## Electricity churn



# The Contact story

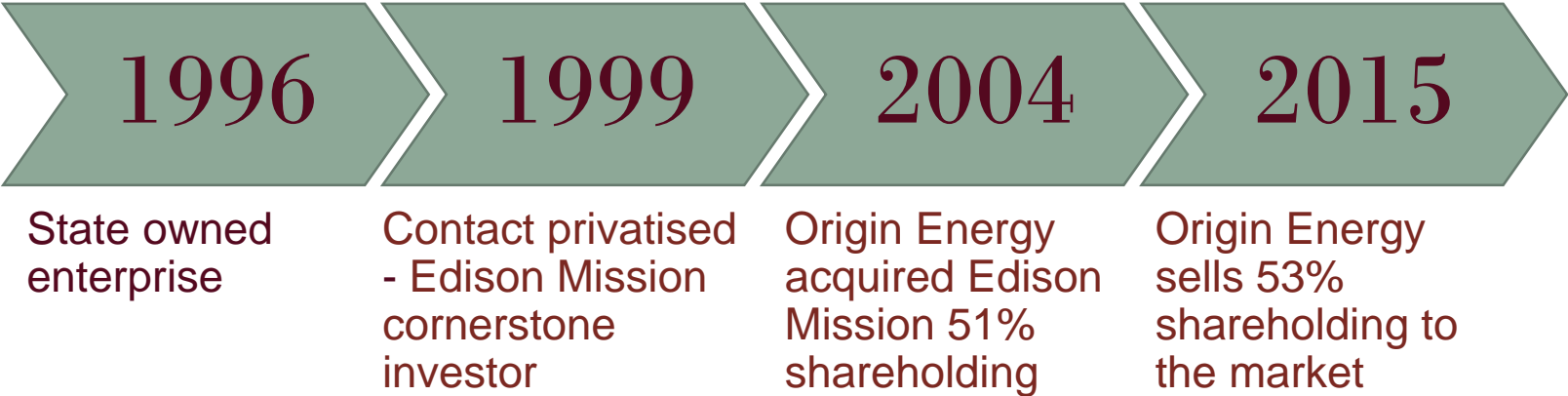




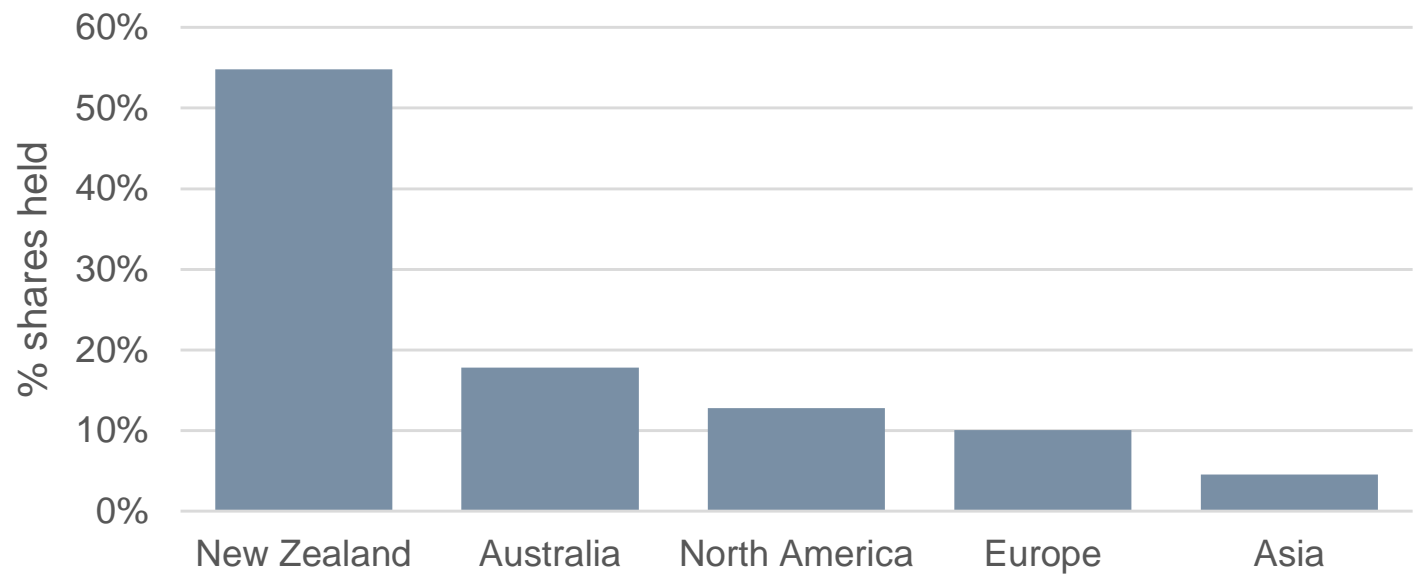
# Where we operate



# For the first time in 20 years Contact doesn't have a majority shareholder



Contact has a diverse share register dual listed on ASX and NZX



Three new directors add valuable skills and experience, joining two existing directors on the Board



**Sir Ralph Norris**  
(Chairman)



**Victoria Crone**



**Rob McDonald**

One more director with engineering experience currently being sought

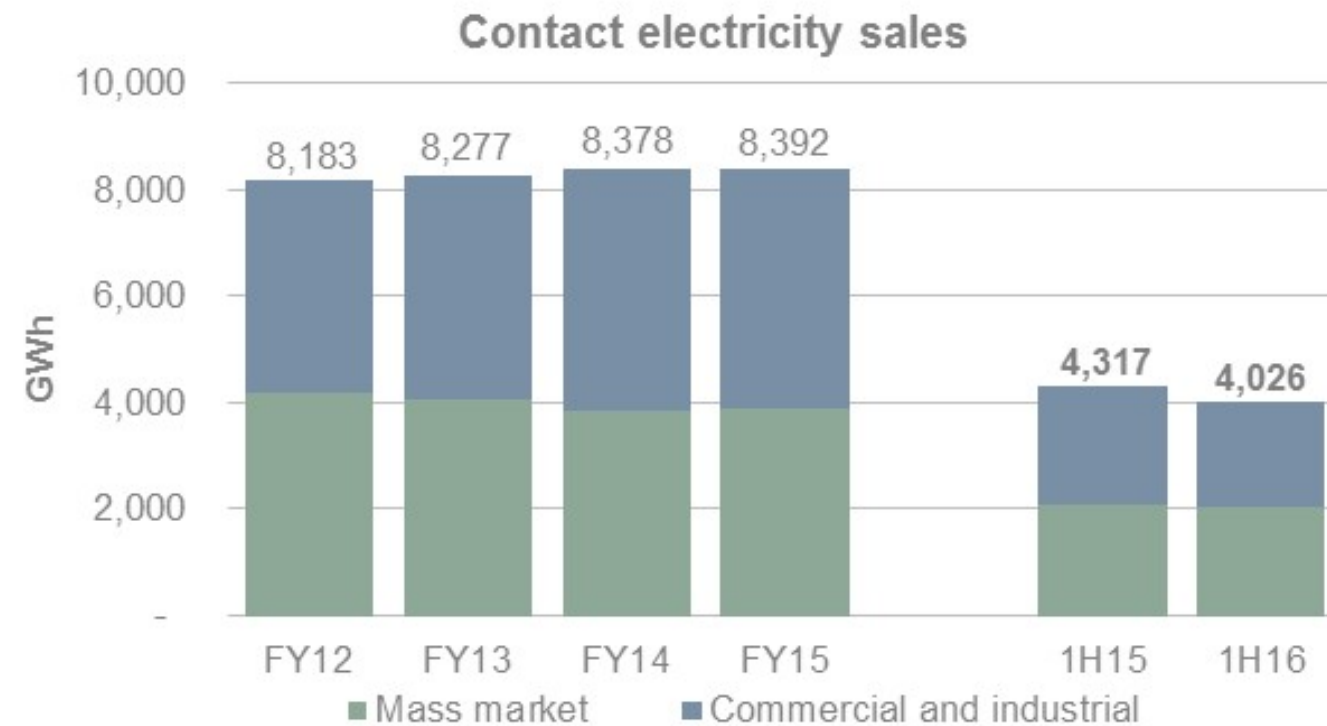


# Contact has been executing on a change programme over a number of years

Finding, developing and generating the energy the market requires	Understanding, winning and keeping customers	Supporting our business	
		Ownership and capital structure	Health and safety
<ul style="list-style-type: none"> <li>» Cost of energy improved from \$49/MWh in FY11 to \$35/MWh in FY15</li> <li>» Renewable generation 76% in FY15 compared to 63% in FY11</li> <li>» Otahuhu closure September 2015</li> </ul>	<ul style="list-style-type: none"> <li>» SAP go-live April 2014 now stabilised</li> <li>» Customer numbers declined during a period of intense competition; offset by increased C&amp;I sales</li> </ul>	<ul style="list-style-type: none"> <li>» Improved tenor and diversity of funding</li> <li>» Contact 100% free float with listing on both NZX and ASX</li> <li>» 50 cps special dividend paid June 2015</li> <li>» BBB re-affirmed</li> </ul>	<ul style="list-style-type: none"> <li>» TRIFR improved from 5.9 in FY11 to 1.9 in FY15</li> <li>» Leadership role in the development of New Zealand's health and safety maturity</li> </ul>
<ul style="list-style-type: none"> <li>» Geothermal and gas peaking development options supported by Ahuroa Gas Storage</li> <li>» International geothermal services</li> </ul>	<ul style="list-style-type: none"> <li>» SAP to drive lowest cost to serve in market</li> <li>» Customer proposition realigned to value</li> <li>» Management team refreshed</li> </ul>	<ul style="list-style-type: none"> <li>» New Board appointments largely complete</li> <li>» \$100m share buyback completed</li> </ul>	<ul style="list-style-type: none"> <li>» Generative safety culture</li> <li>» Operational safety improvement programme is redefining process safety</li> </ul>

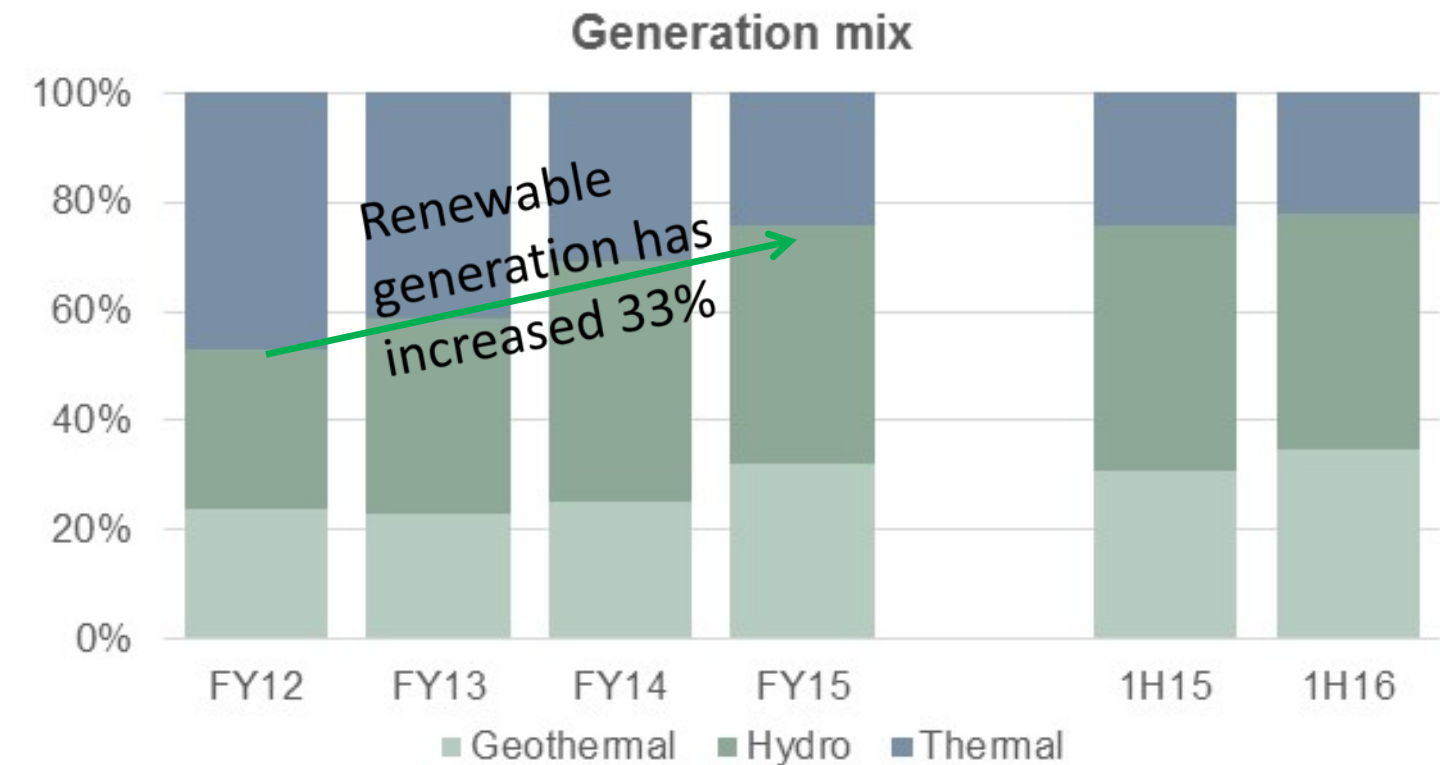
# Contact is well setup to deliver stable cash flow

## Second largest gas and electricity retailer in New Zealand



- » Second largest electricity retailer in New Zealand based on customer accounts
- » Significant LPG and natural gas businesses enhance Contact's energy offering

## Flexible portfolio allows management of variable operating conditions



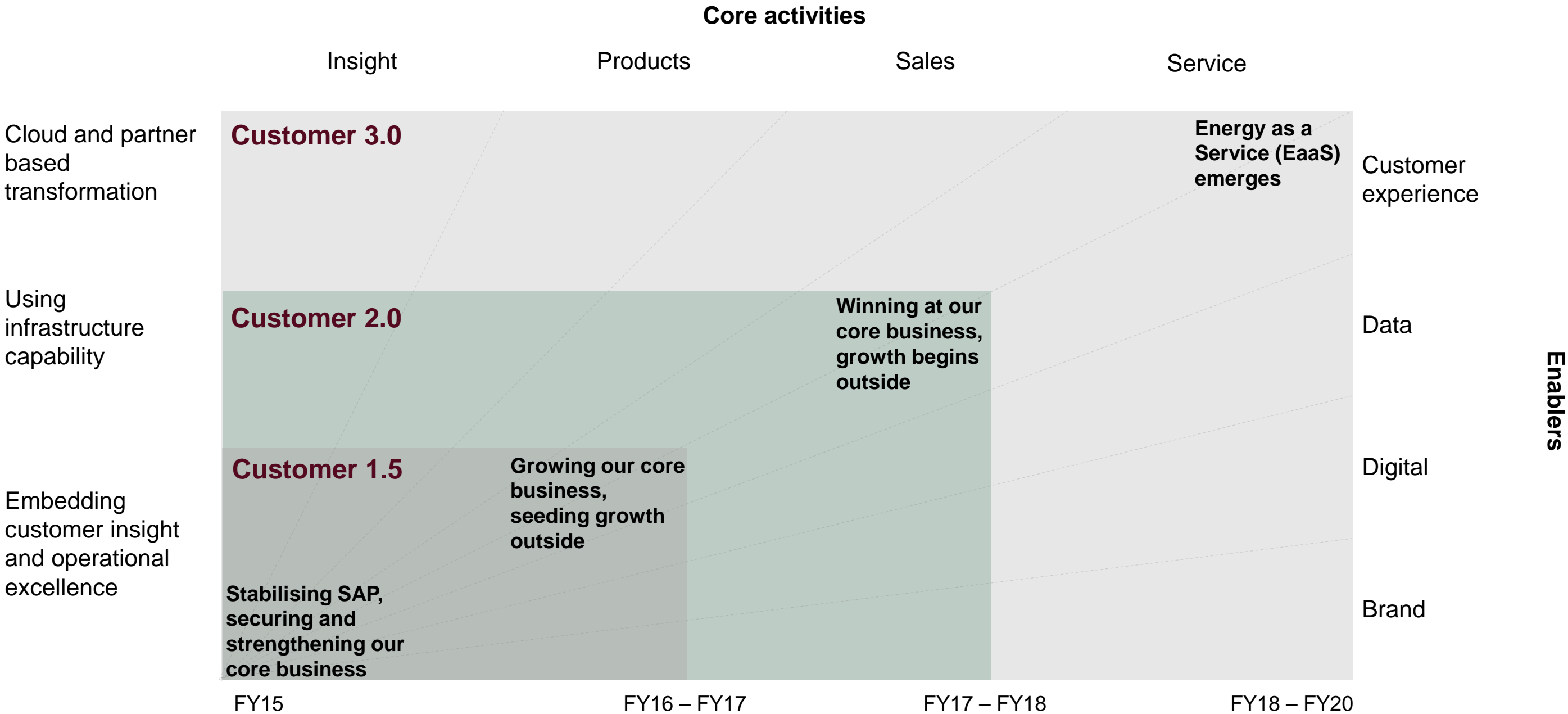
- » Generation spread across hydro, geothermal and thermal fuel sources supported by New Zealand's only commercial gas storage facility
- » Increasingly renewable portfolio with a declining cost of energy

**Expected average annual capital expenditure of \$80-100m per annum, down from an average \$400m per annum during a period of capital investment during FY10-14**



# Positioning the customer business to win in an intensely competitive environment is the current strategic focus

Technology and customer expectations require acceleration of our plans and transformation



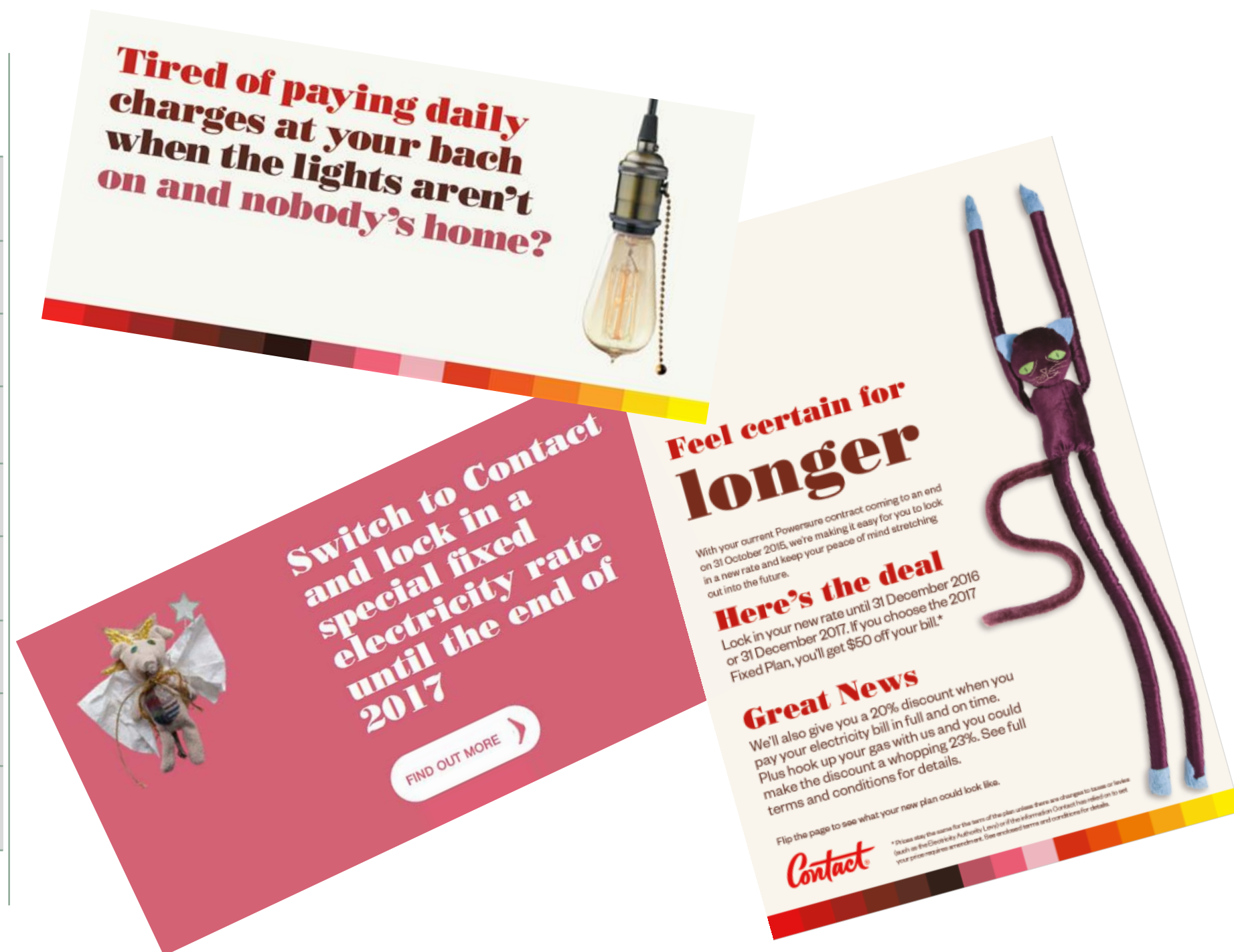
# Improvements are being sought across all customer metrics

Net gain in customers over past quarter, debt collection indicators continue improvement

	1H15	2H15	1H16	Jan–Mar 16
Net promoter score	n/a	-2%	-4%	-3%
Change in customer numbers	-7,300	-1,600	-9,800	+1,500
Average time to answer (seconds)	220	268	222	114
Churn (variance to market)	+2.9%	-0.2%	+1.4%	-0.7%
% of residential customers on non-10% PPD discount	63%	70%	76%	78%
Number of vacant properties <sup>2</sup>	10,679	9,156	8,385	4,846
Average late bills >30 days	12,000	5,000	2,000	1,000
Bad and doubtful debt as a % of revenue	0.55%	0.70%	0.67%	0.61%

<sup>1</sup> Net change in customer numbers (excluding vacant properties) in the period

<sup>2</sup> Electricity and natural gas





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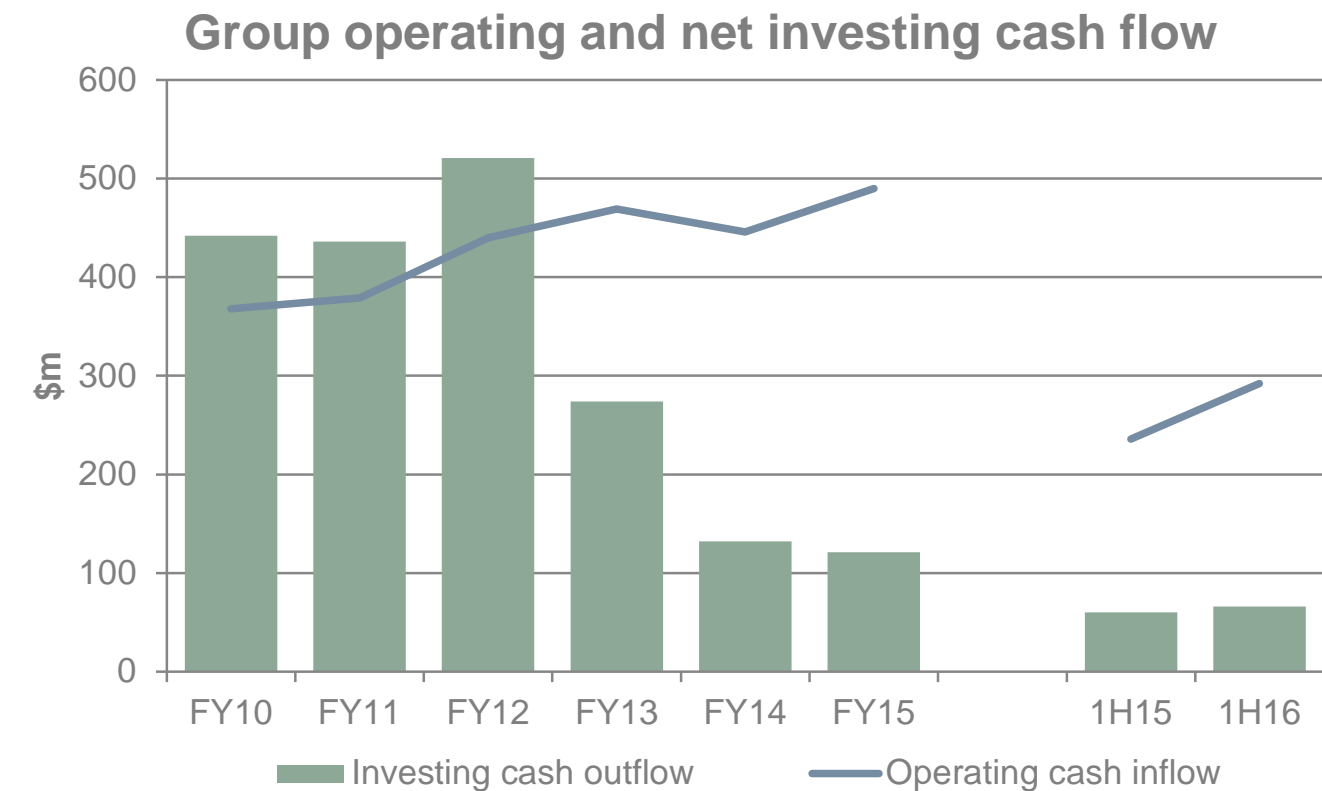
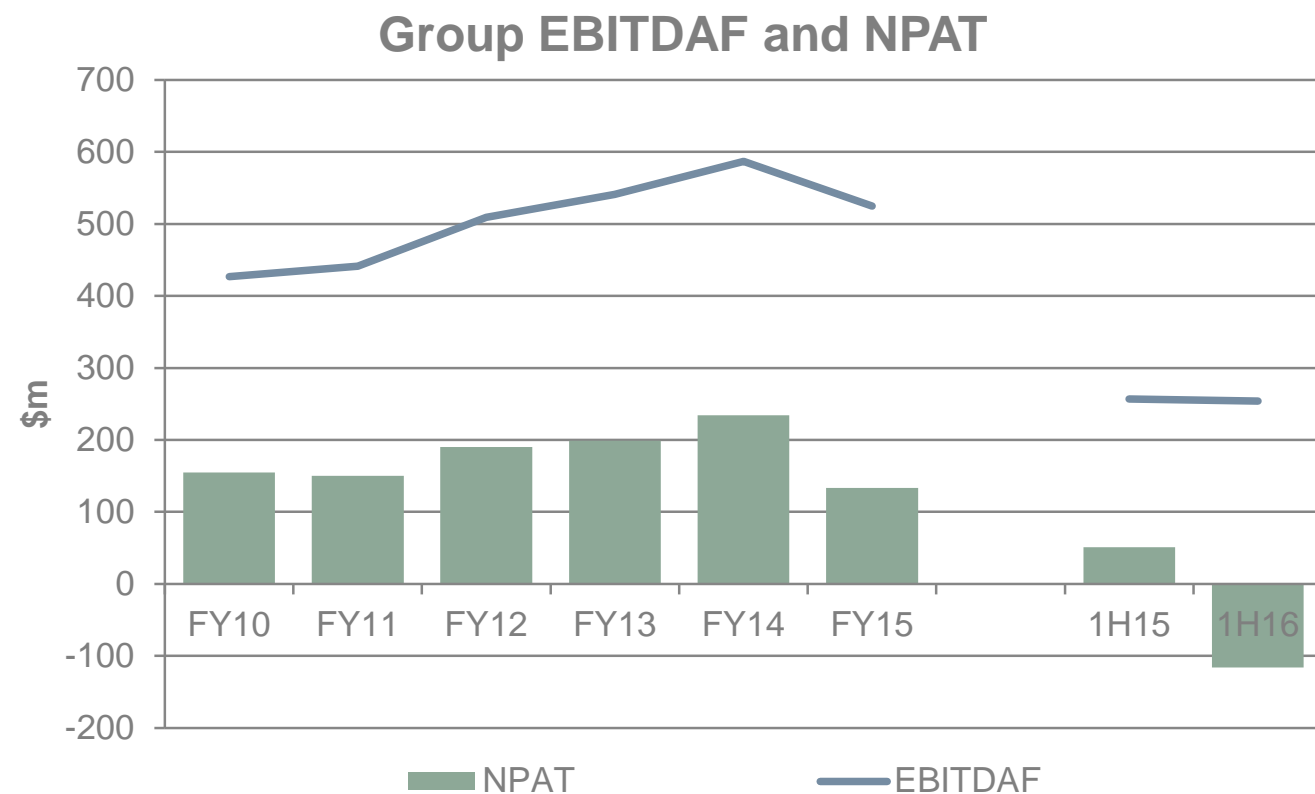


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Supporting material



# Earnings and cash flow

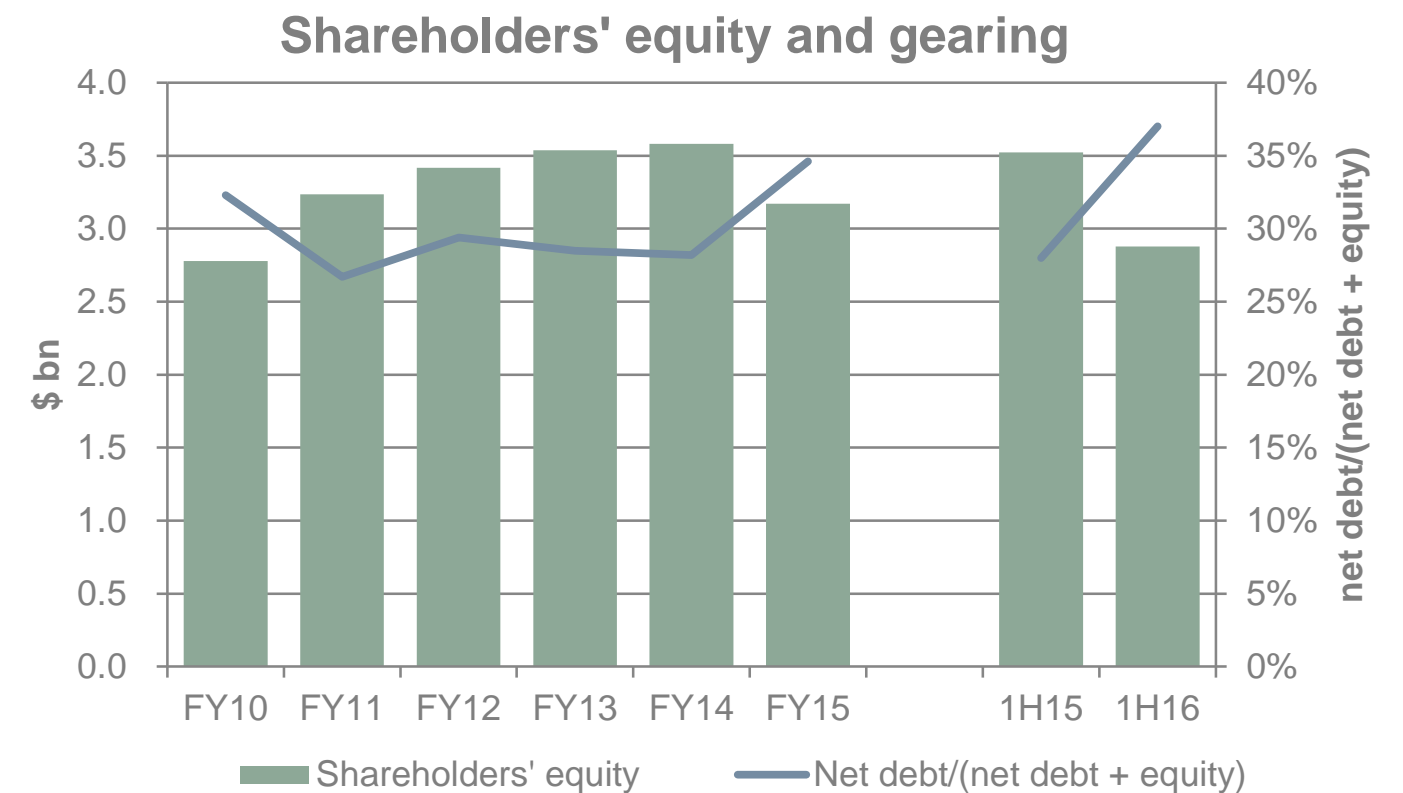
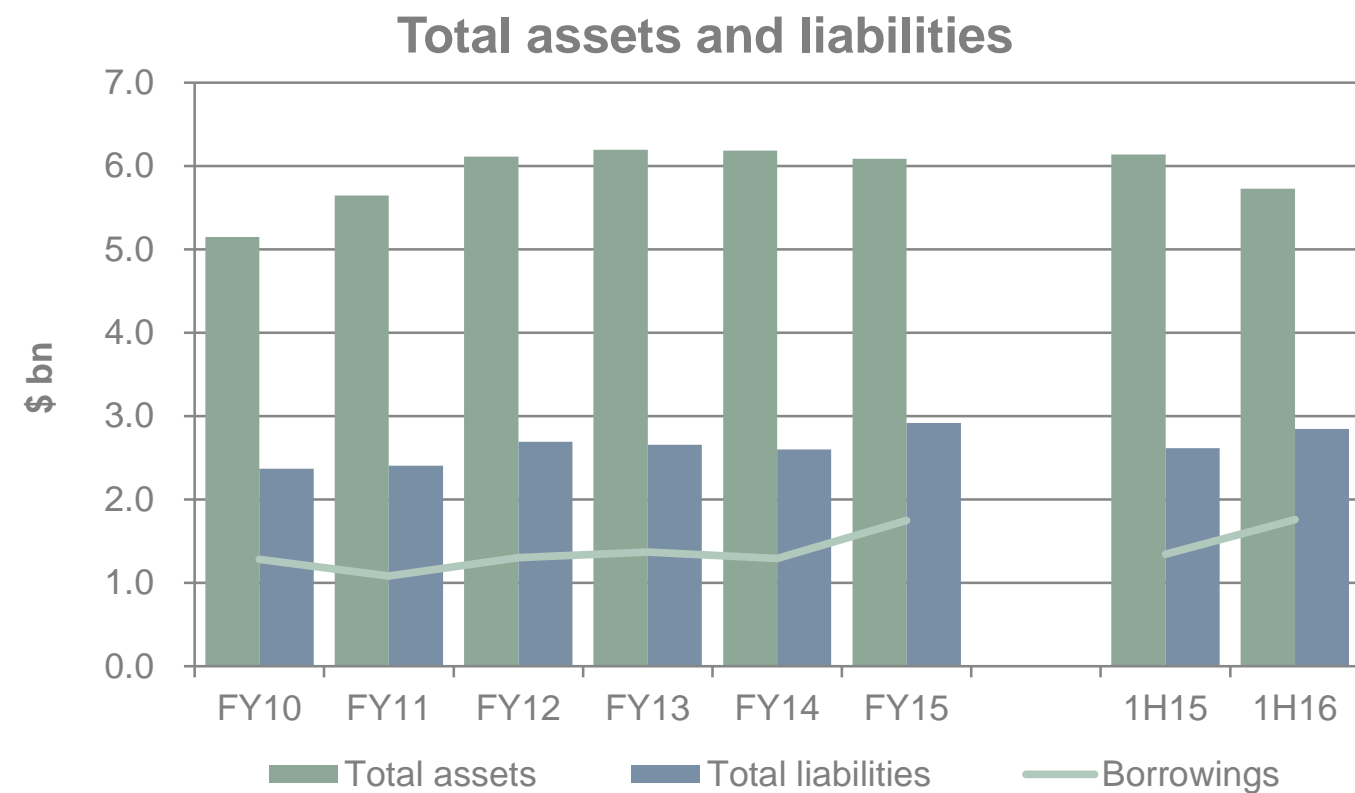


» **Profit largely follows EBITDAF\* trend with steady gains as investments have been completed and flexibility has returned to the generation portfolio**

- FY14 EBITDAF included \$43m compensation as a result of the delayed start-up of Te Mihi without a full year of associated interest and depreciation costs
- 1H16 included \$257m of impairments relating to the Otahuhu power station and an assessment that the Taheke geothermal resource was unlikely to be developed in the foreseeable future

\* A non-GAAP measure equal to earnings before net interest expense interest, tax, depreciation and amortisation, changes in fair value of financial instruments and other significant items

# Balance sheet



» **Gearing has remained low over the period of capital investment**

- Contact raised equity to maintain its investment grade credit rating during the period of capital investment
- Recent increase due to the special dividend paid on 23 June 2015



# April 2016 operating statistics

Data		Measure	The month ended April 2016	The month ended April 2015	The month ended March 2016	Ten months ended April 2016	Ten months ended April 2015
Netback	Mass market electricity sales	GWh	284	296	279	3,111	3,161
	Commercial & industrial electricity sales	GWh	361	370	364	3,384	3,792
	Retail gas sales	GWh	40	40	32	500	493
	Steam sales	GWh	46	59	44	576	611
	Total retail sales	GWh	731	765	718	7,570	8,056
	Average electricity sales price	\$/MWh	177.27	182.75	174.74	178.30	177.44
	Electricity direct pass through costs	\$/MWh	(71.23)	(74.34)	(72.84)	(75.38)	(73.68)
	Electricity and gas cost to serve	\$/MWh	(13.15)	(14.84)	(14.44)	(13.78)	(13.18)
	Netback	\$/MWh	86.22	85.97	82.69	81.80	82.74
	Electricity line losses	%	3%	11%	3%	5%	6%
	Retail gas sales	PJ	0.1	0.1	0.1	1.7	1.7
	Electricity customer numbers <sup>1</sup>	#	423,500	433,000	422,000		
	Gas customer numbers <sup>1</sup>	#	61,500	61,500	61,000		
Cost of energy	Thermal generation	GWh	65	321	137	1,402	1,997
	Geothermal generation	GWh	274	273	269	2,729	2,529
	Hydro generation	GWh	351	235	358	3,269	3,291
	Spot market generation	GWh	691	829	764	7,400	7,817
	Spot electricity purchases	GWh	657	738	656	6,736	7,317
	CfD sales	GWh	(11)	82	52	86	110
	GWAP	\$/MWh	62.40	81.18	56.52	59.50	74.21
	LWAP	\$/MWh	(68.85)	(87.67)	(62.73)	(64.74)	(79.99)
	LWAP/GWAP	%	110%	108%	111%	109%	108%
	Gas used in internal generation	PJ	0.8	2.7	1.3	13.9	18.7
	Wholesale gas sales	PJ	-	0.1	-	0.1	1.9
	Gas storage net movement	PJ	0.6	(0.1)	0.2	(1.1)	(0.6)
	Unit generation cost	\$/MWh	(26.26)	(40.71)	(30.81)	(32.96)	(38.51)
	Cost of energy	\$/MWh	(27.90)	(43.26)	(28.21)	(32.10)	(36.69)
LPG	LPG sales	tonnes	5,472	5,251	4,984	56,636	60,096
	LPG customer numbers (includes franchises)	#	74,000	69,500	73,500		

<sup>1</sup> Data has been rounded to the nearest 500 and reflects numbers as at month end.

# Reference material and contact details

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## Reference material

- » Contact website <https://www.contact.co.nz/corporate>
- » Electricity Authority website [www.ea.govt.nz](http://www.ea.govt.nz)
- » Sector overview <https://www.ea.govt.nz/about-us/media-and-publications/electricity-nz/>
- » Industry news [www.energynews.co.nz](http://www.energynews.co.nz)
- » Wholesale spot prices [www.em6live.co.nz](http://www.em6live.co.nz)
- » Forward prices <http://www.sfe.com.au/content/prices/rtp15ZFEA.html>

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