



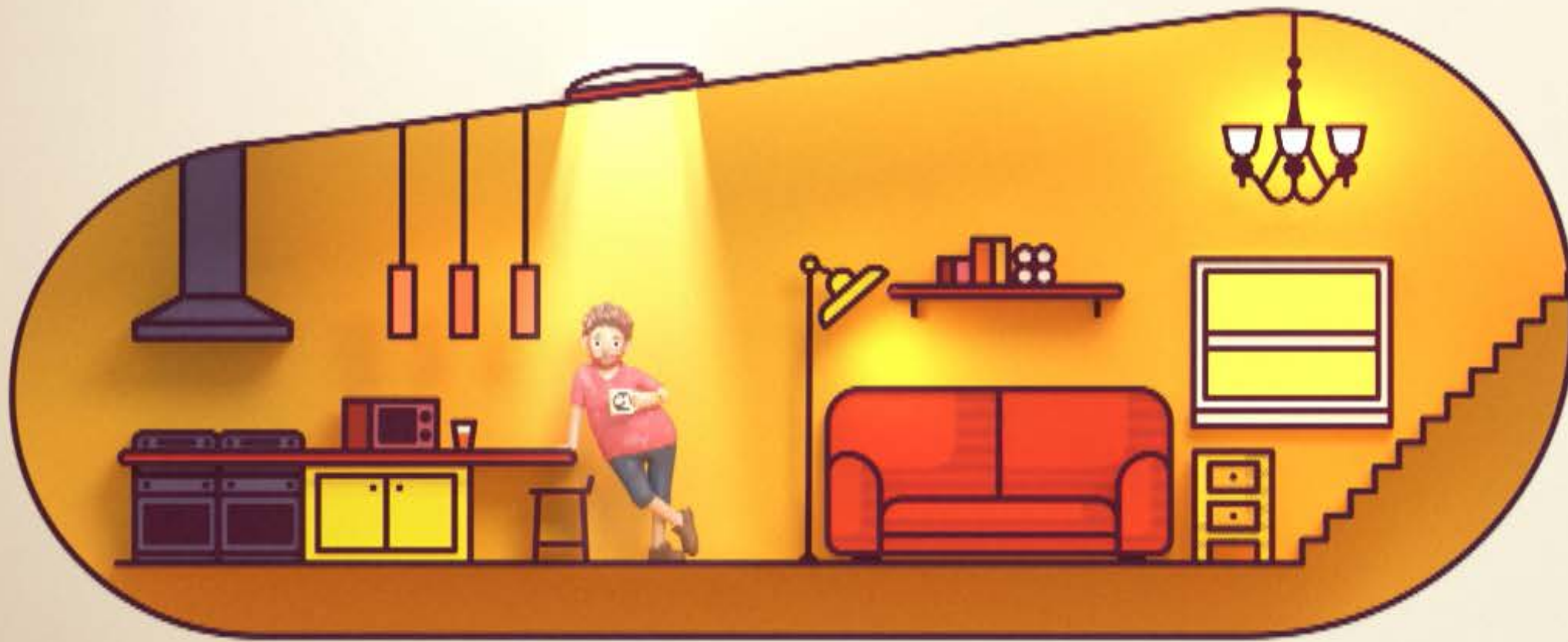
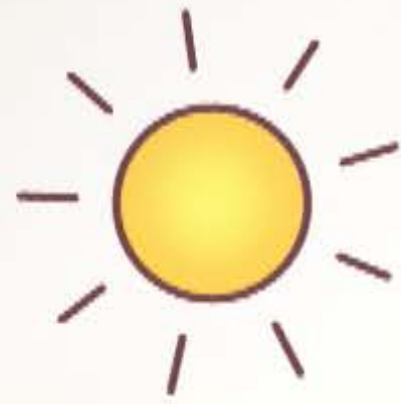
23 November 2016

**Contact Energy investor presentation**

Contact Energy Limited (Contact) is hosting an investor session in Auckland today. The presentation will be made by Contact Chief Executive Dennis Barnes and other members of the senior management team.

Attached is the presentation material.

**ENDS**



Capturing value in a customer-inspired world

*Contact*®

Auckland

23 November 2016

# 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.

# 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<sup>®</sup>

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

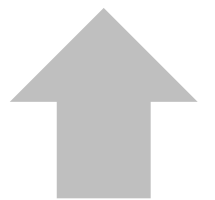


## Net promoter score

-8%

-3%

**+10**  
Q1 FY17



FY15

FY16

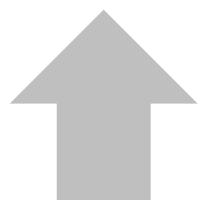
## Aon Hewit – Employee engagement

52%

44%

56%

Target “Best Employer”  
- measured regularly



FY14

FY15

FY16

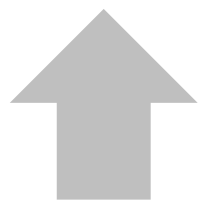
## TRIFR

7.5

5.2

3.0

**1.8**  
Q1 FY17



FY08-10

FY11-13

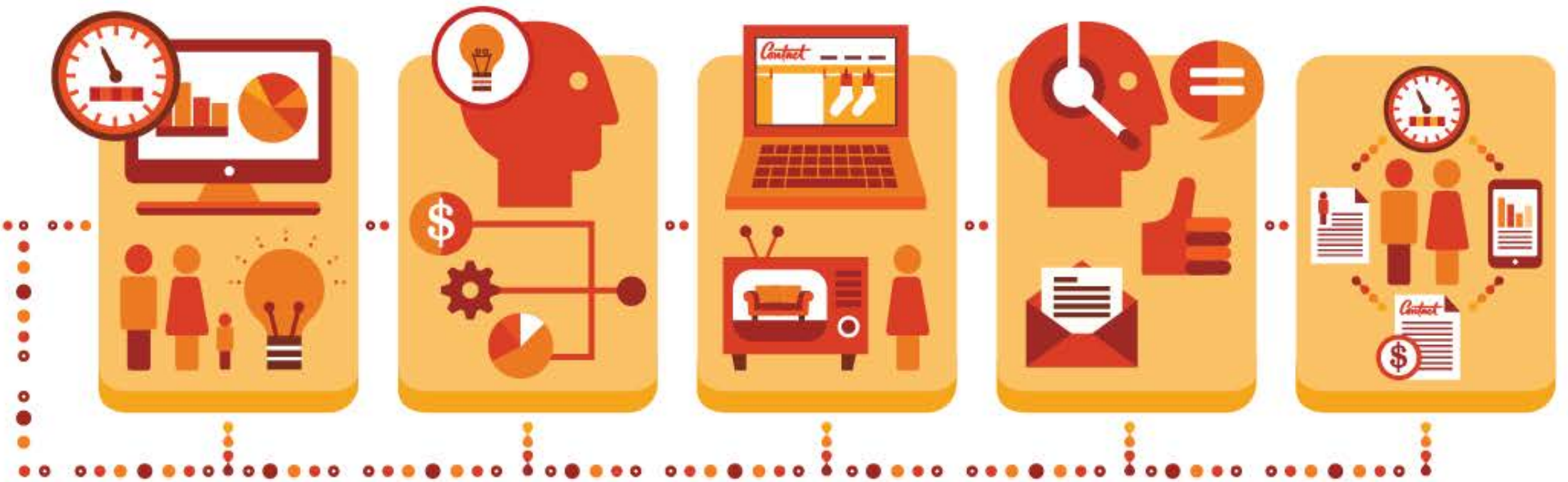
FY14-16



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



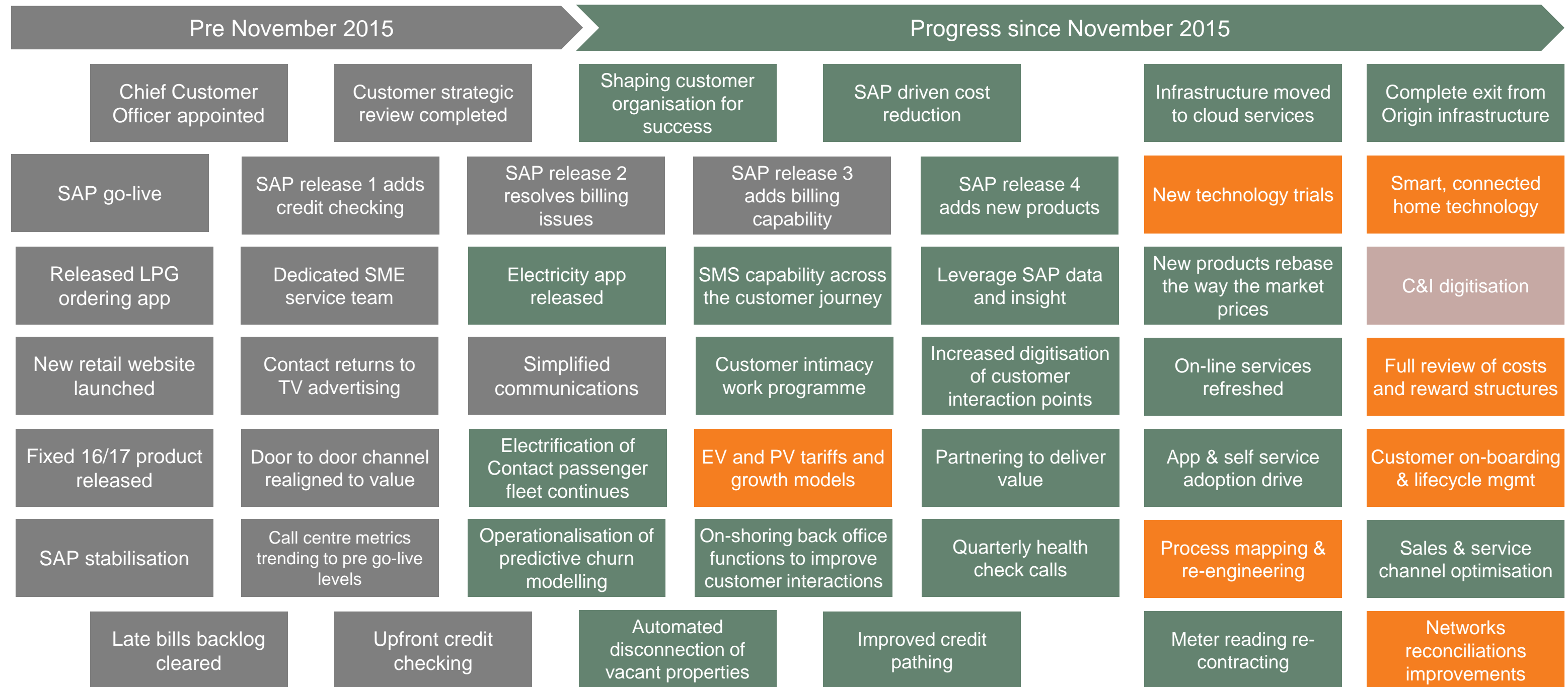
**Understanding, winning and keeping customers**



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

**Maintaining financial discipline**



2

**Dennis Barnes**  
Chief Executive Officer

**Competitive markets are key for realising value from new technology**



3

**James Kilty**  
Chief Generation Officer

**Driving value from our generation portfolio**



4

**Vena Crawley**  
Chief Customer Officer

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



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

**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

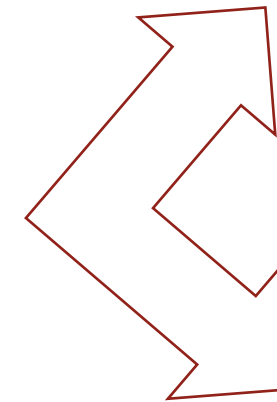
## Free cash flow

- » 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

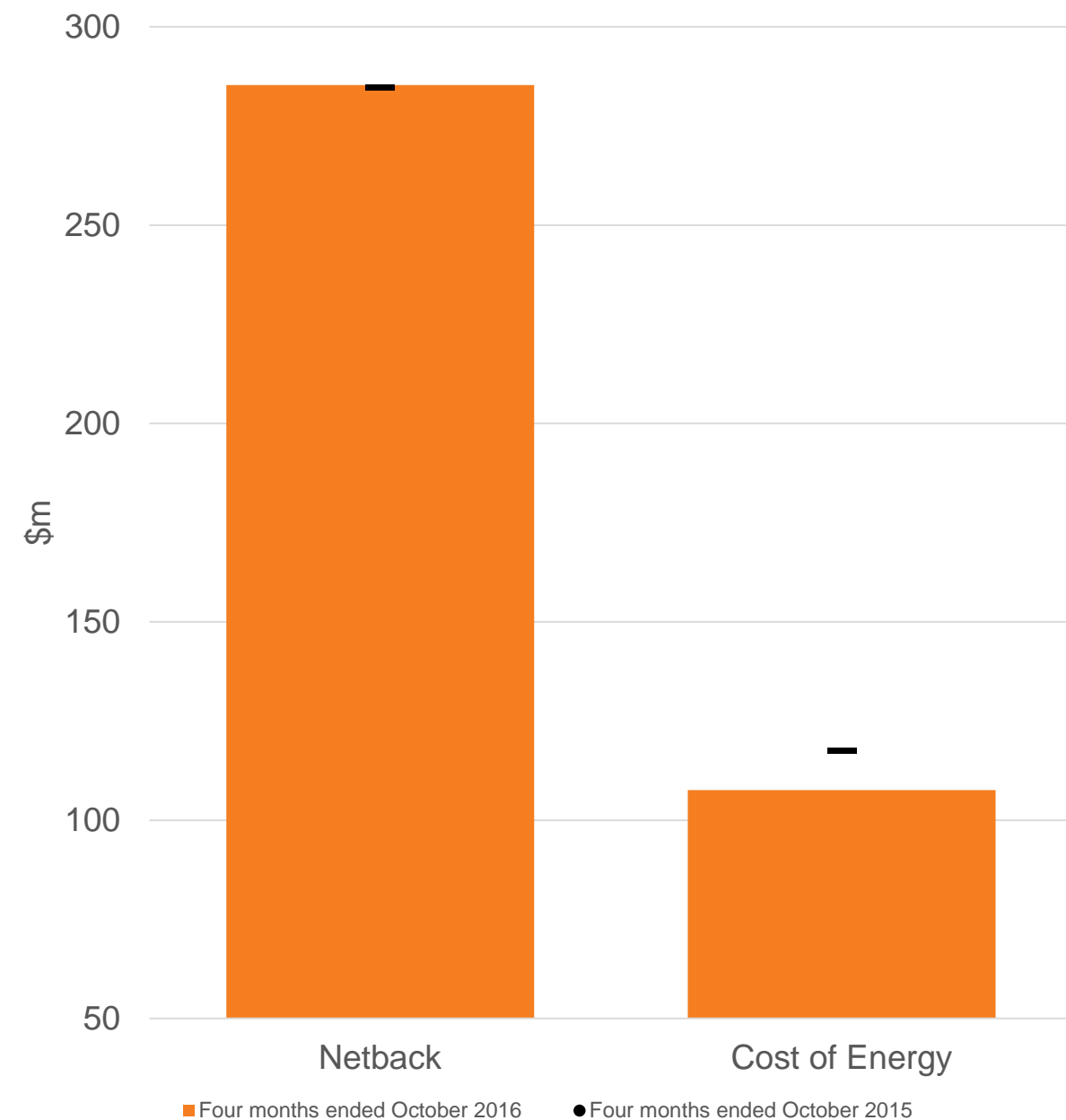
- » Ordinary dividend equal to 100% underlying profit
- » Special dividend where imputation credits available
- » Share buyback

## Investment in growth

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



# Current performance supports strong cash flows

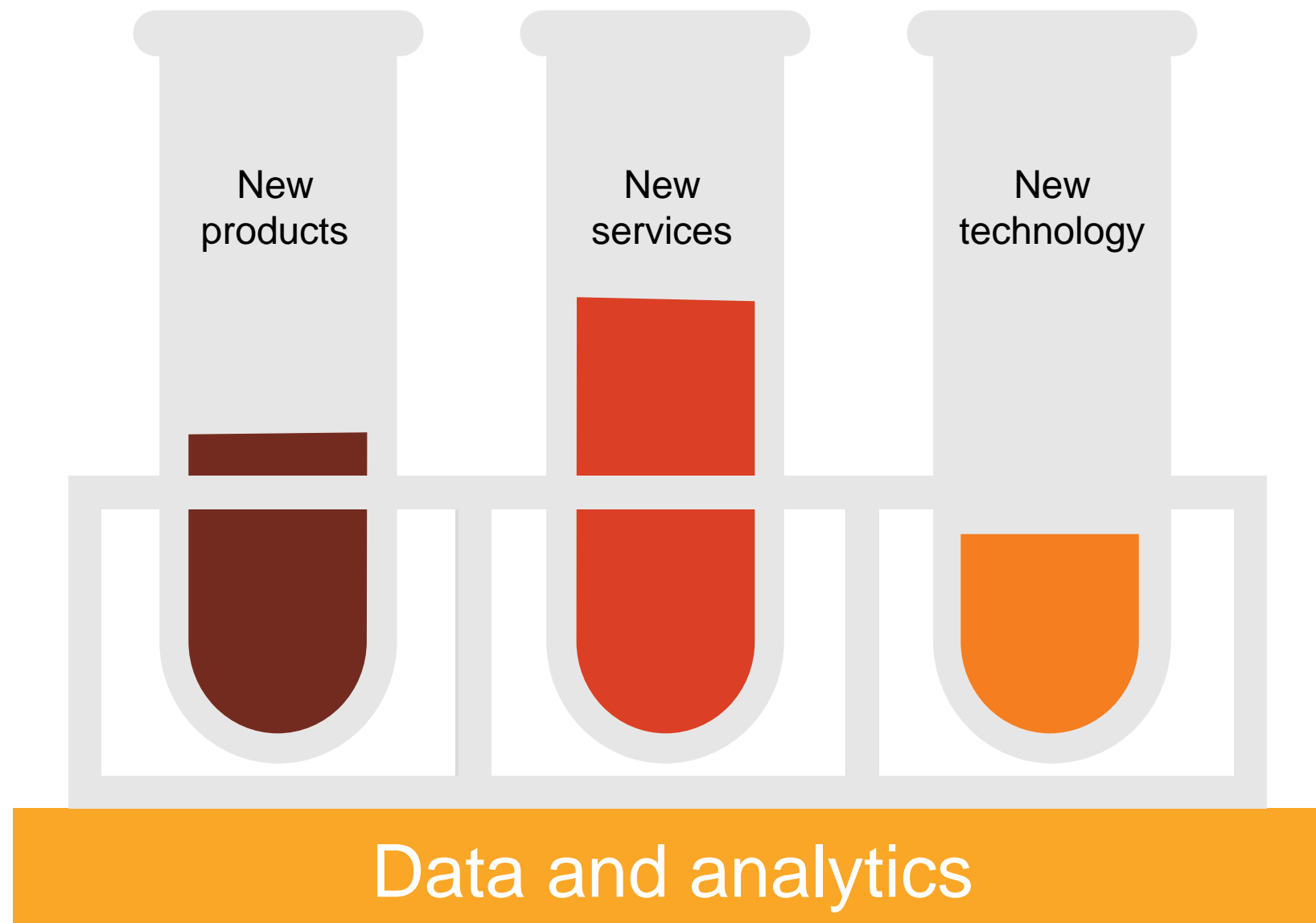


- » New products and prices aligned to value, for the customer and Contact
- » Lower mass market usage per customer
- » Small decrease in customer numbers following the repricing of a below market fixed price product
- » Hydro generation strong, geothermal outage at Te Mihi close to completion
- » High 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



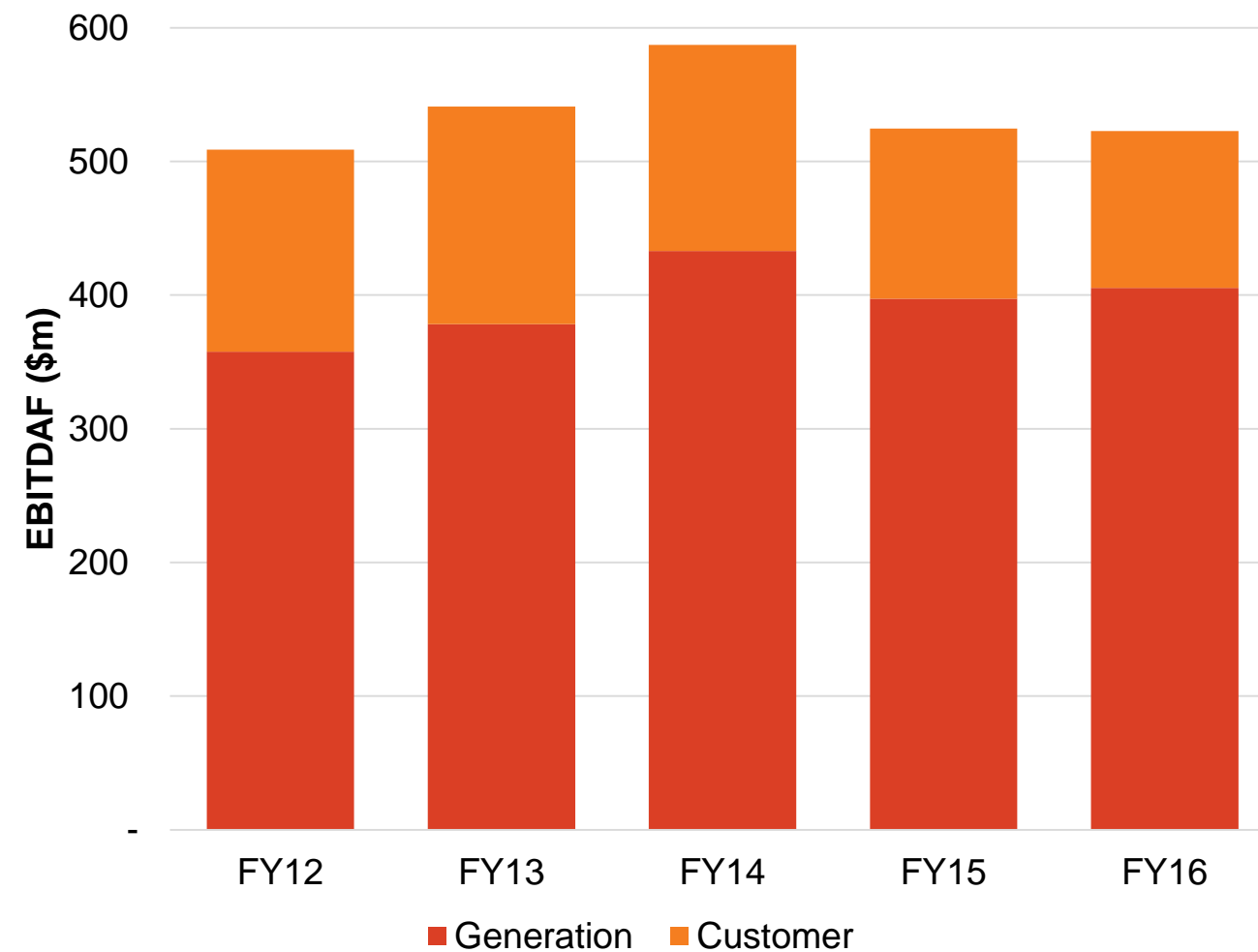
## » Decision framework

- 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

Cash flow statement	
Generation	Customer
Balance sheet	
Generation	Customer
Profit and loss	
Generation	Customer
Cost of energy	Netback
+ Electricity and gas revenue	- Electricity and gas cost + LPG margin
EBITDAF	EBITDAF



# 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

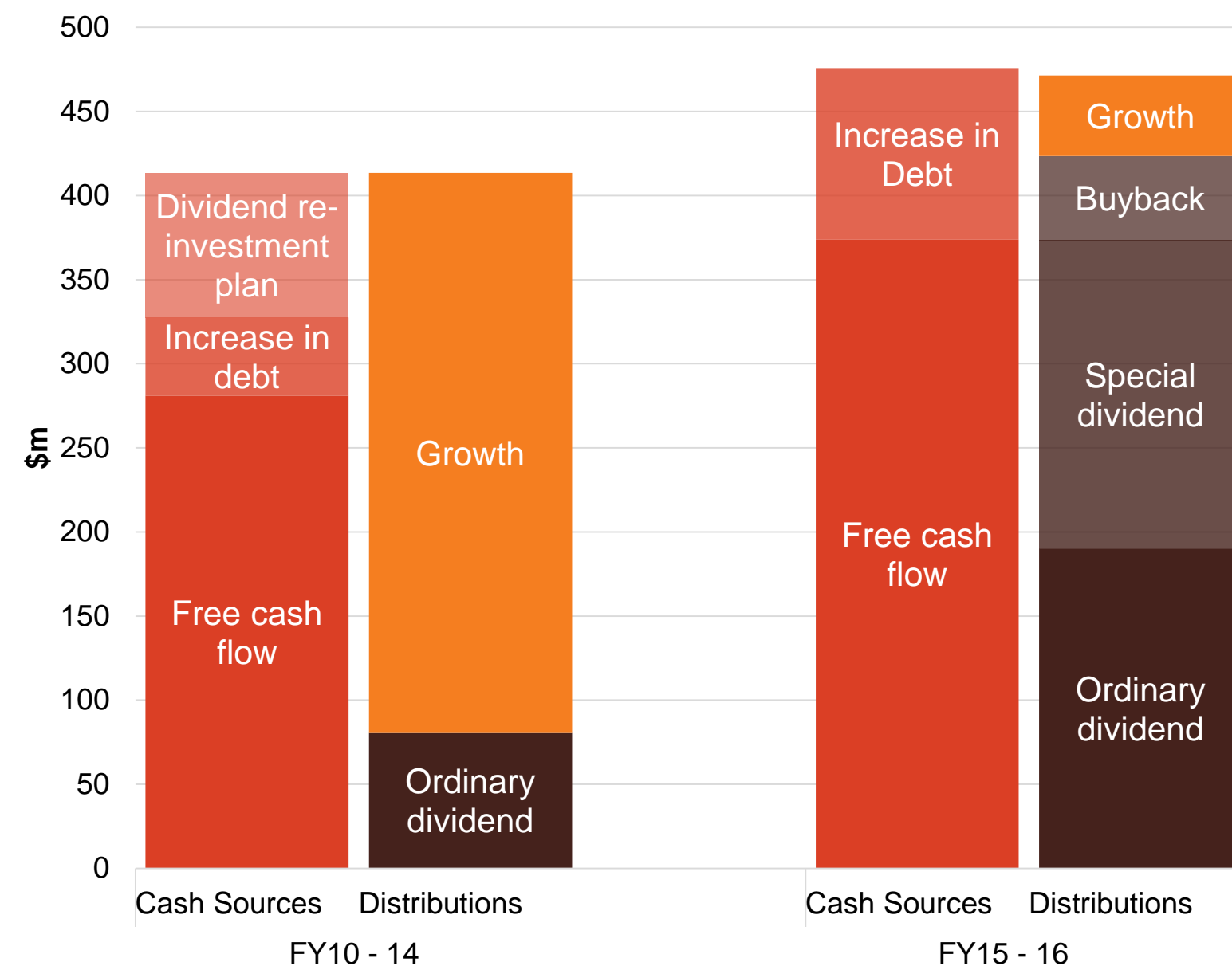
02

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

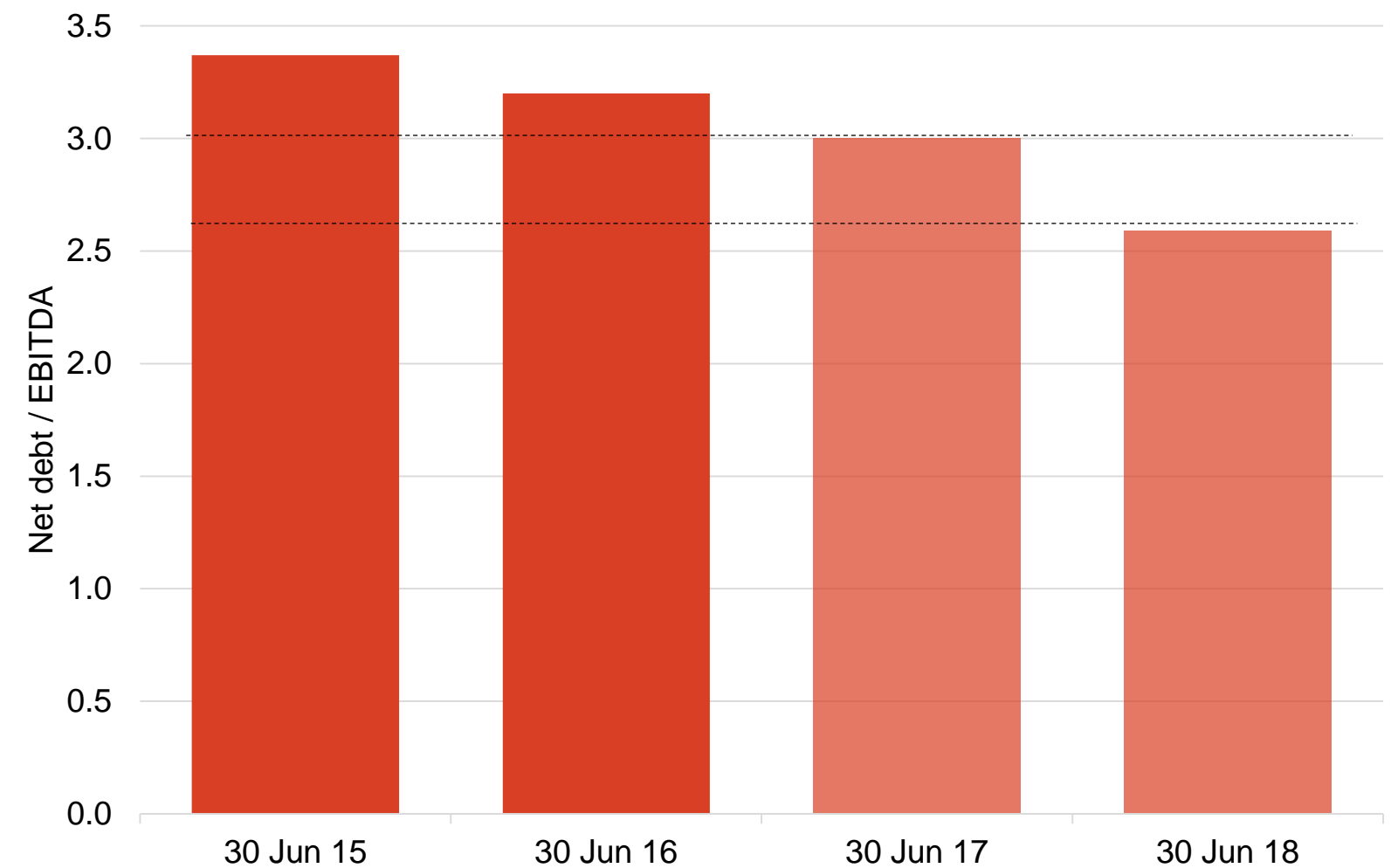


# Contact remains committed to an investment grade credit rating

» 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

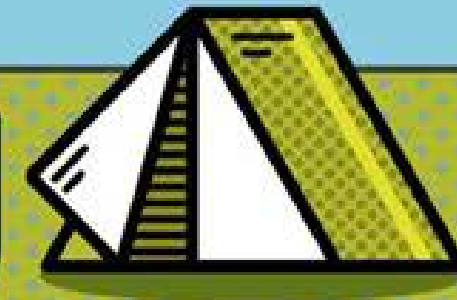
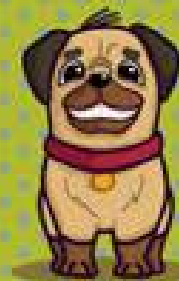
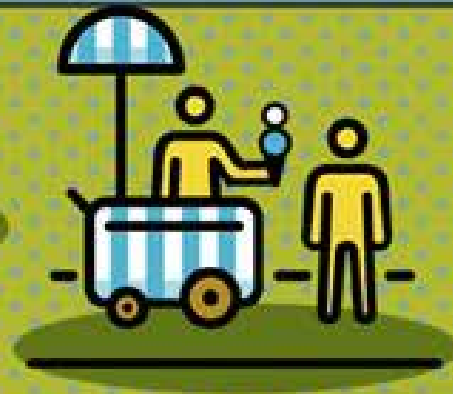
**03** Cost control and performance management the current focus





## 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.

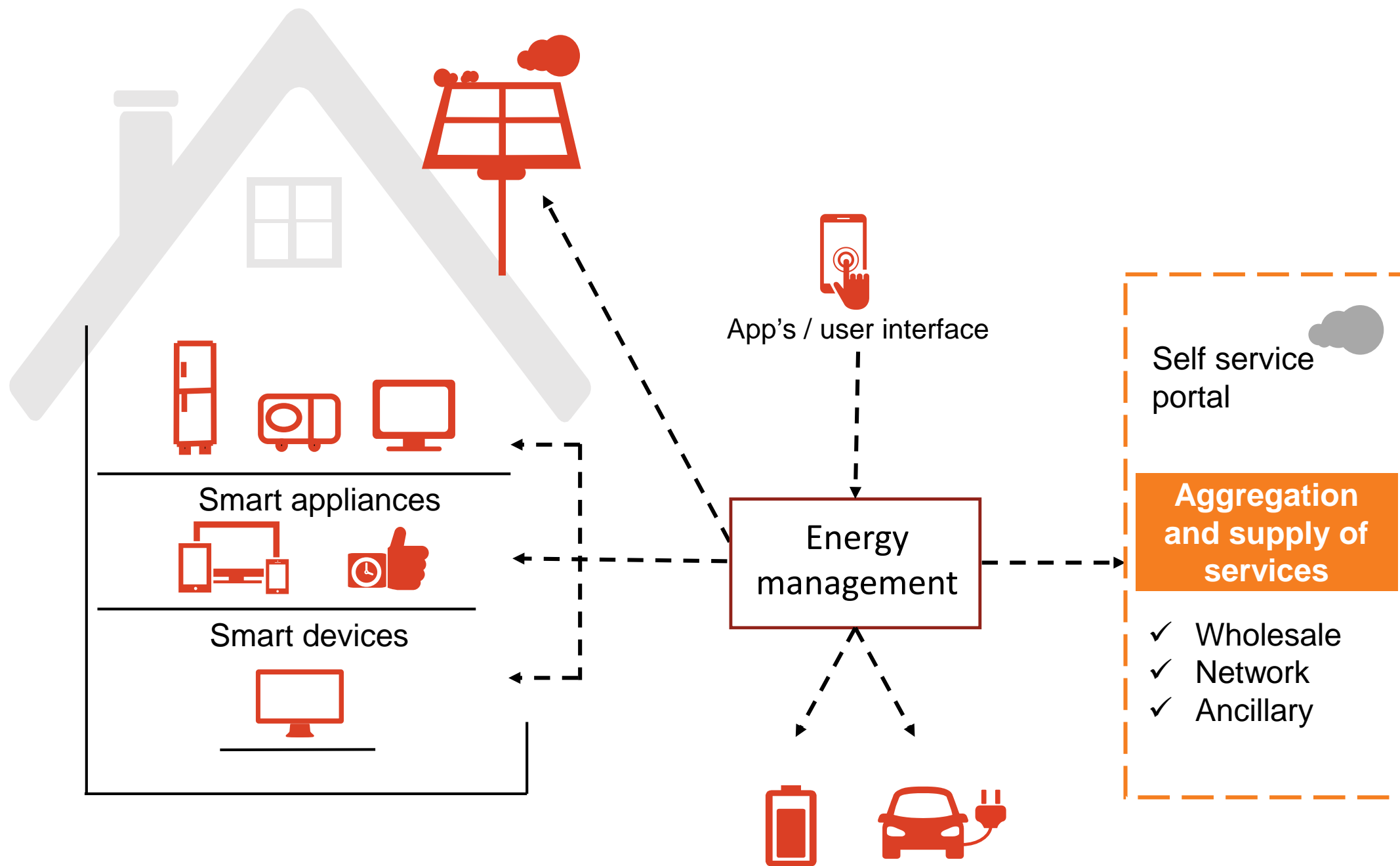


Competitive markets are key for realising value from new technology

Dennis Barnes – Chief Executive Officer



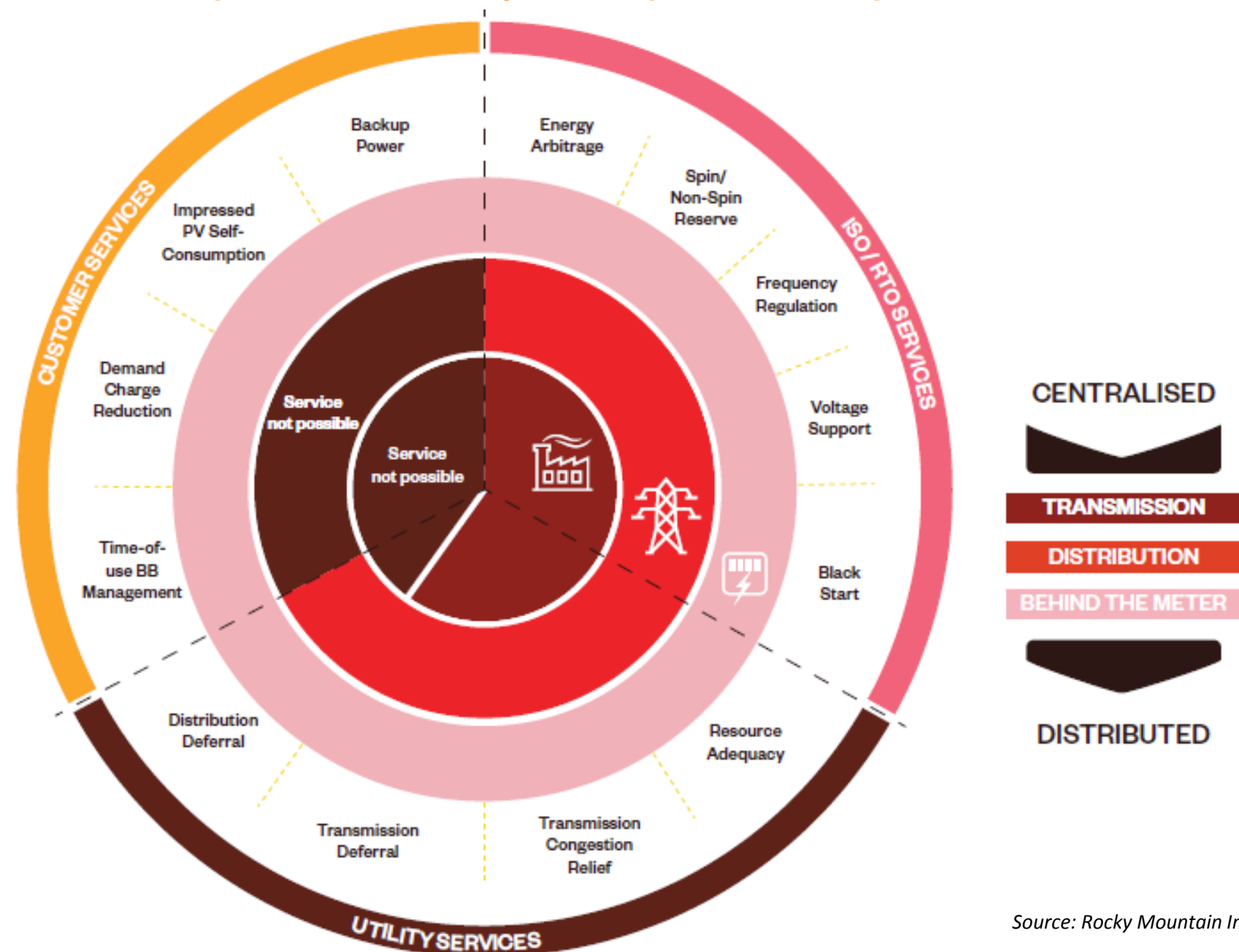
# Technology will give customers more choice and control



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

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

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







# Driving value from our generation portfolio

James Kilty – Chief Generation and Development Officer

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# Well run generation and wholesale operations currently drive most value



Discretionary  
thermal generation



Strong internalised  
risk management

Low cost renewable  
generation portfolio

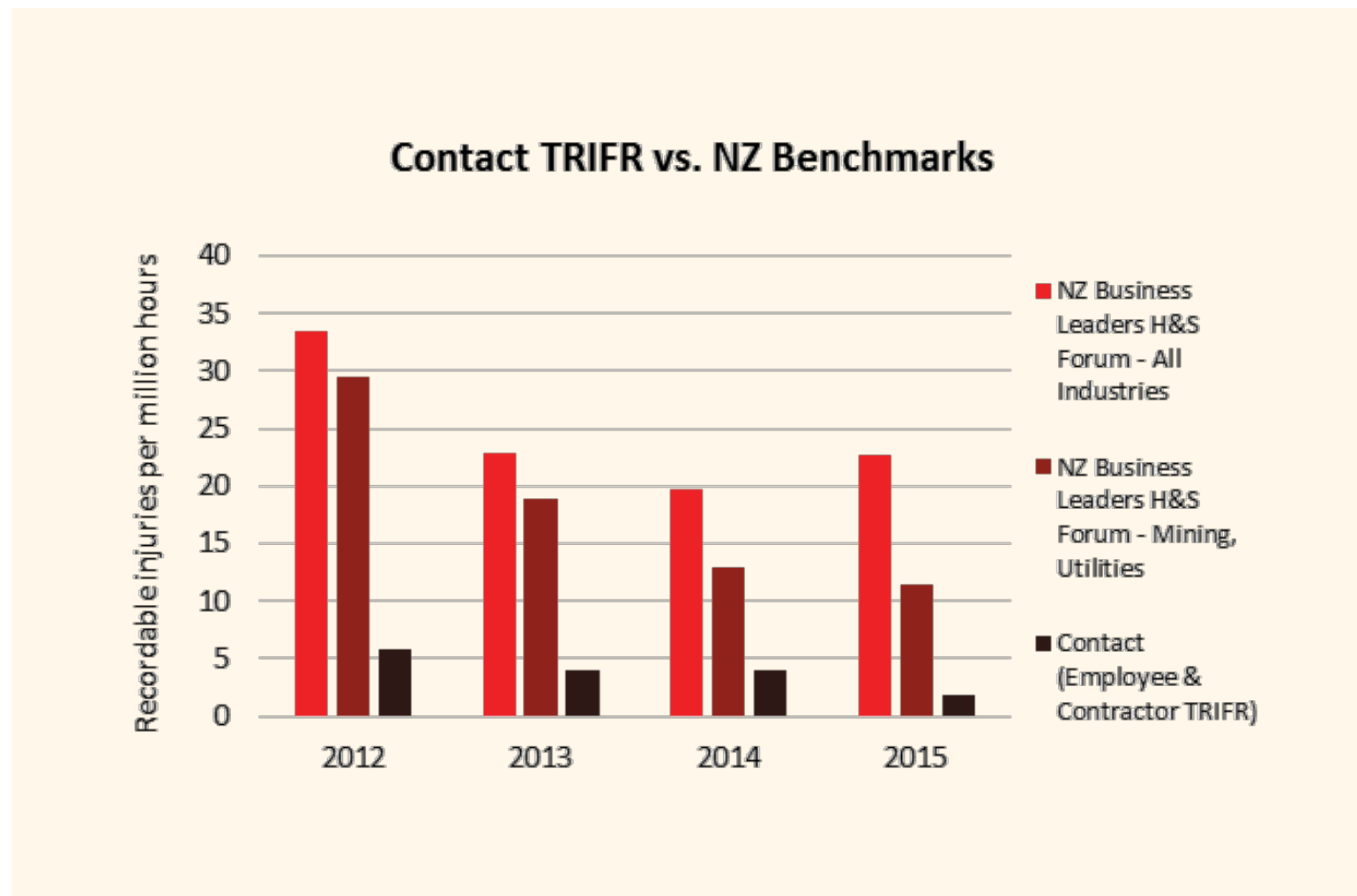


Balanced wholesale  
market



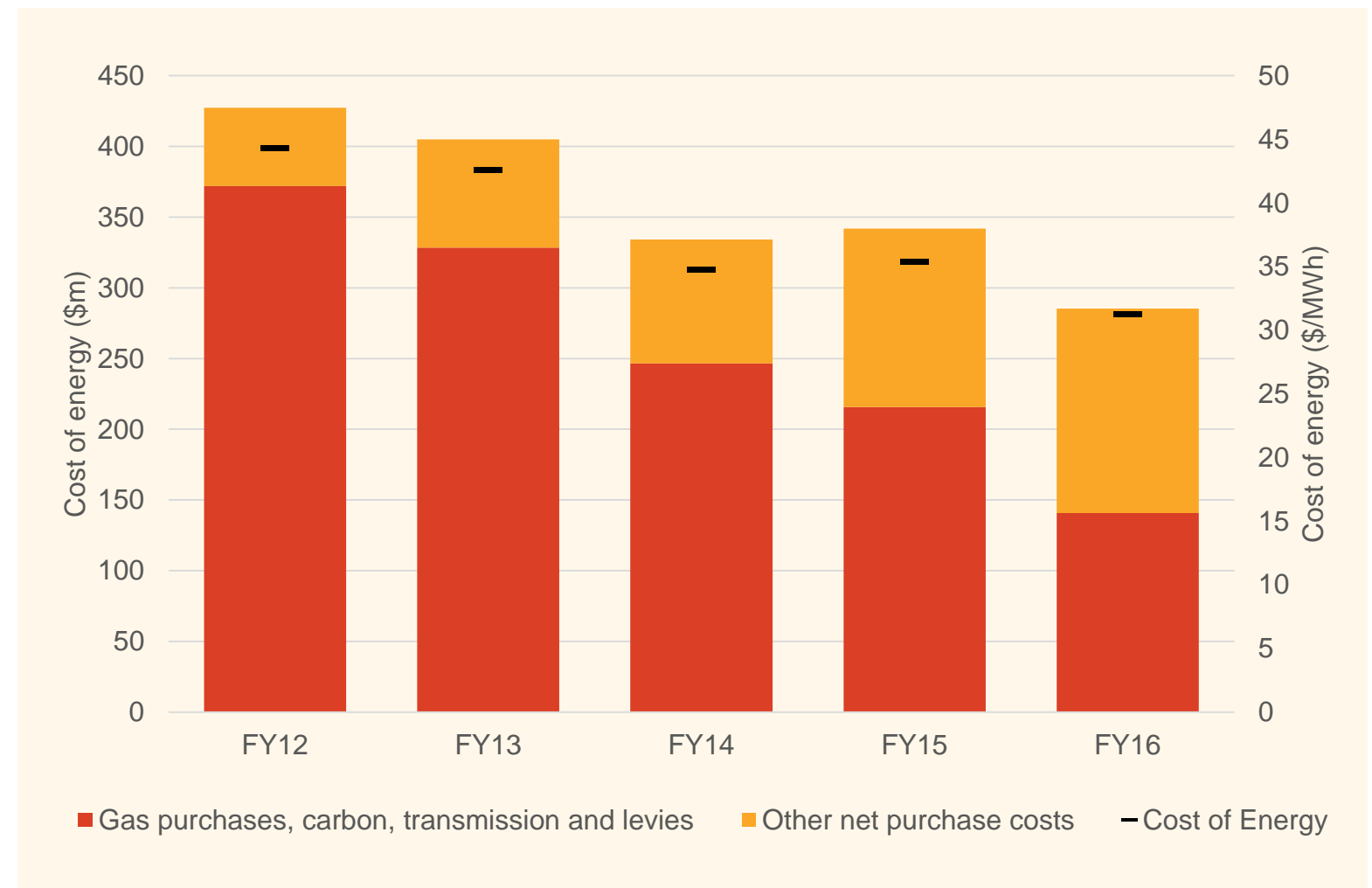
# A focus on continuous improvement

## » HSE achievements and capability



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

## » Record of driving down the cost of energy

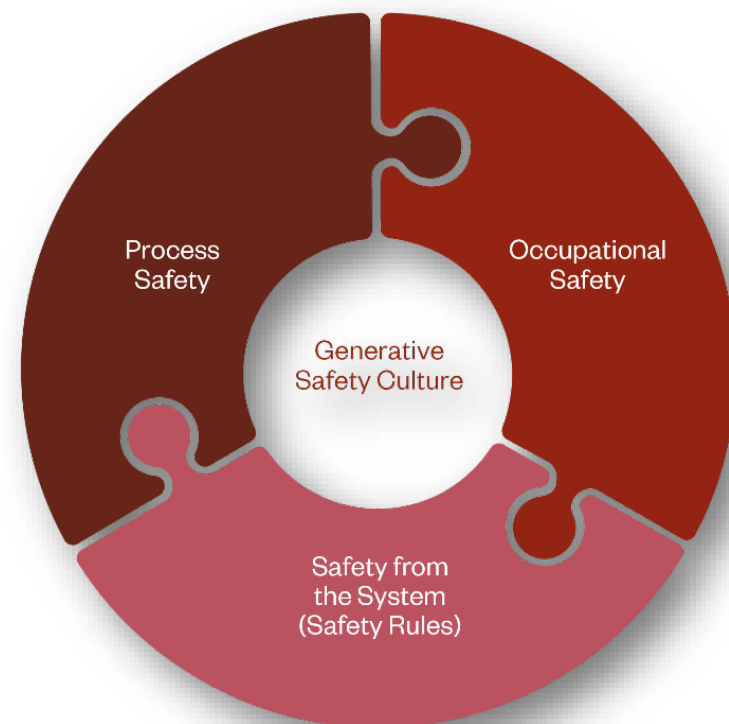


» Target an ongoing improvement in the cash cost of energy

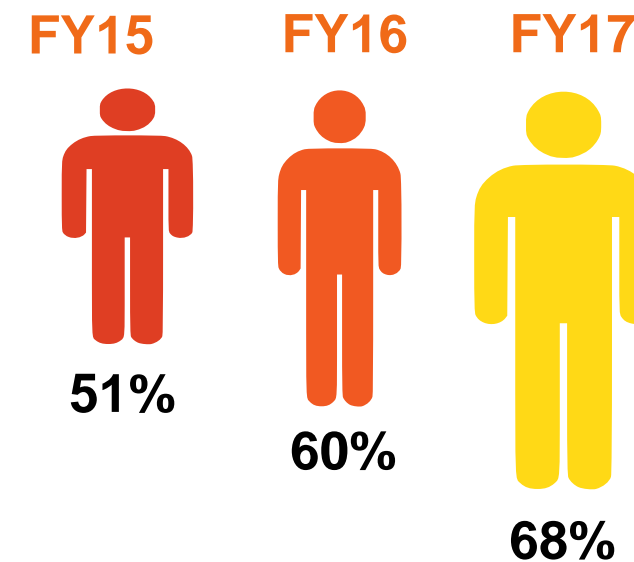


# Safe to Run is driving operational improvement

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



Integrated HSE Management System





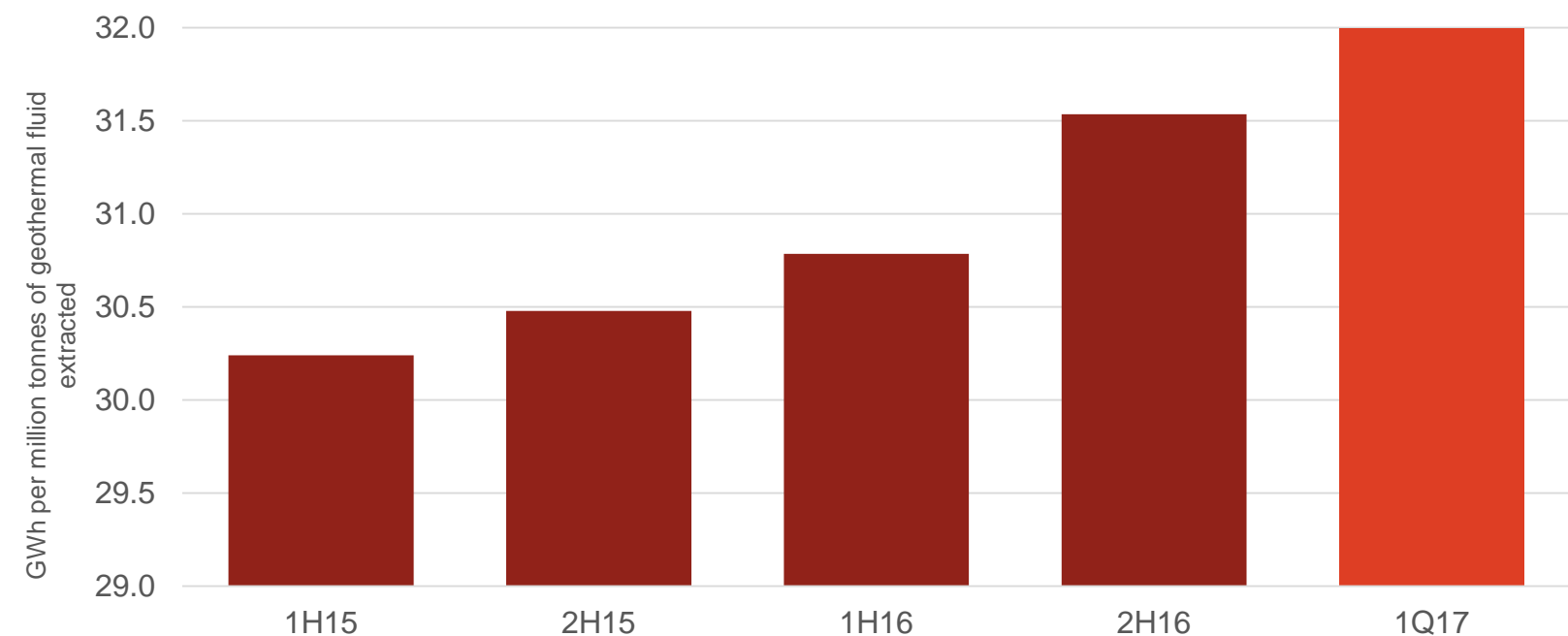
# Improving the efficiency of our geothermal business with our world class capability

- » 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



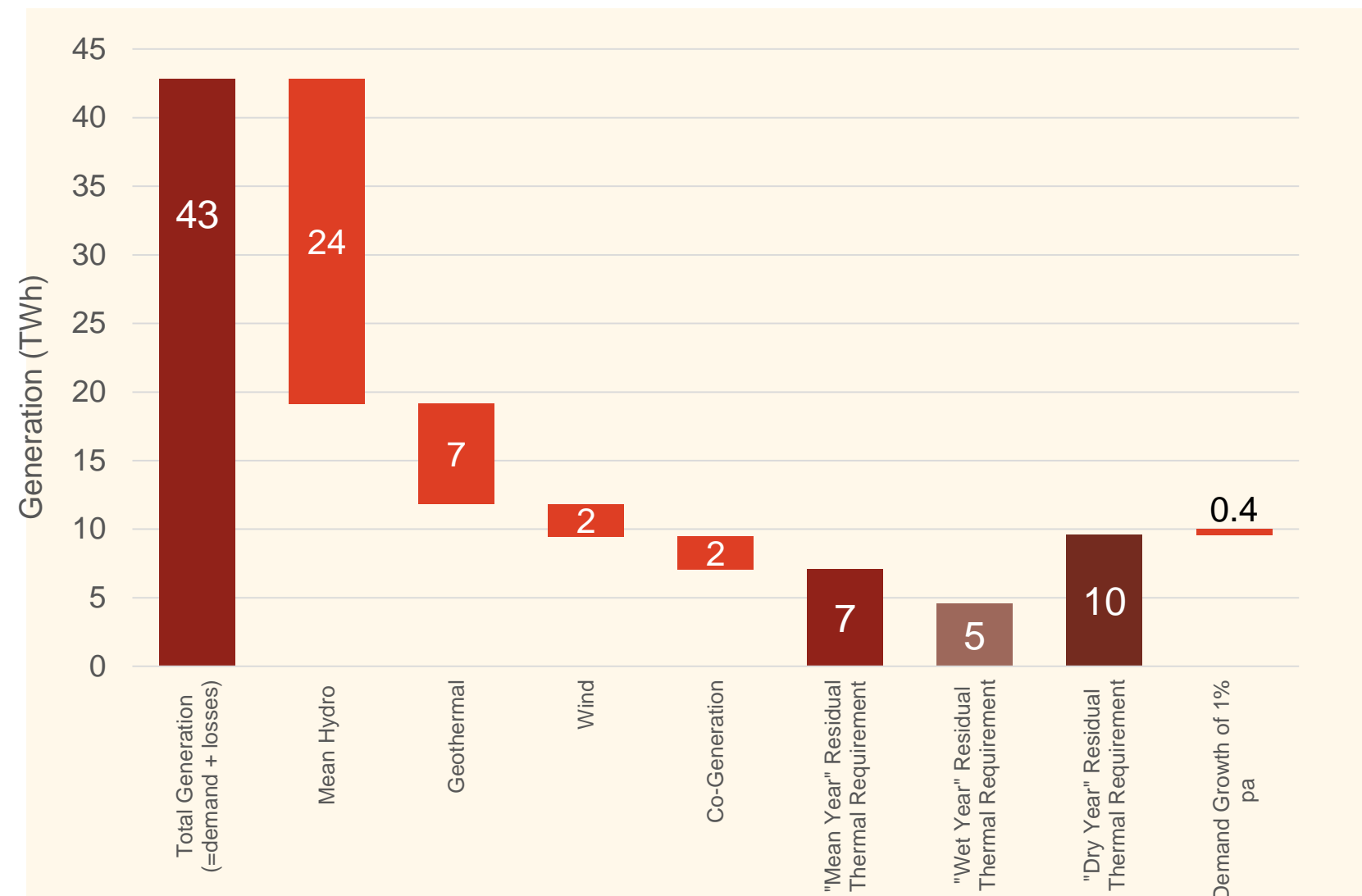
- » 6% improvement in conversion efficiency
- » Generation capacity optimisation has increased extraction to 99.9% of consented mass take in 1Q17 (FY16 – 98.9% and FY15 – 93.6%)



# 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...



5TWh & 10TWh  
per annum



# 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

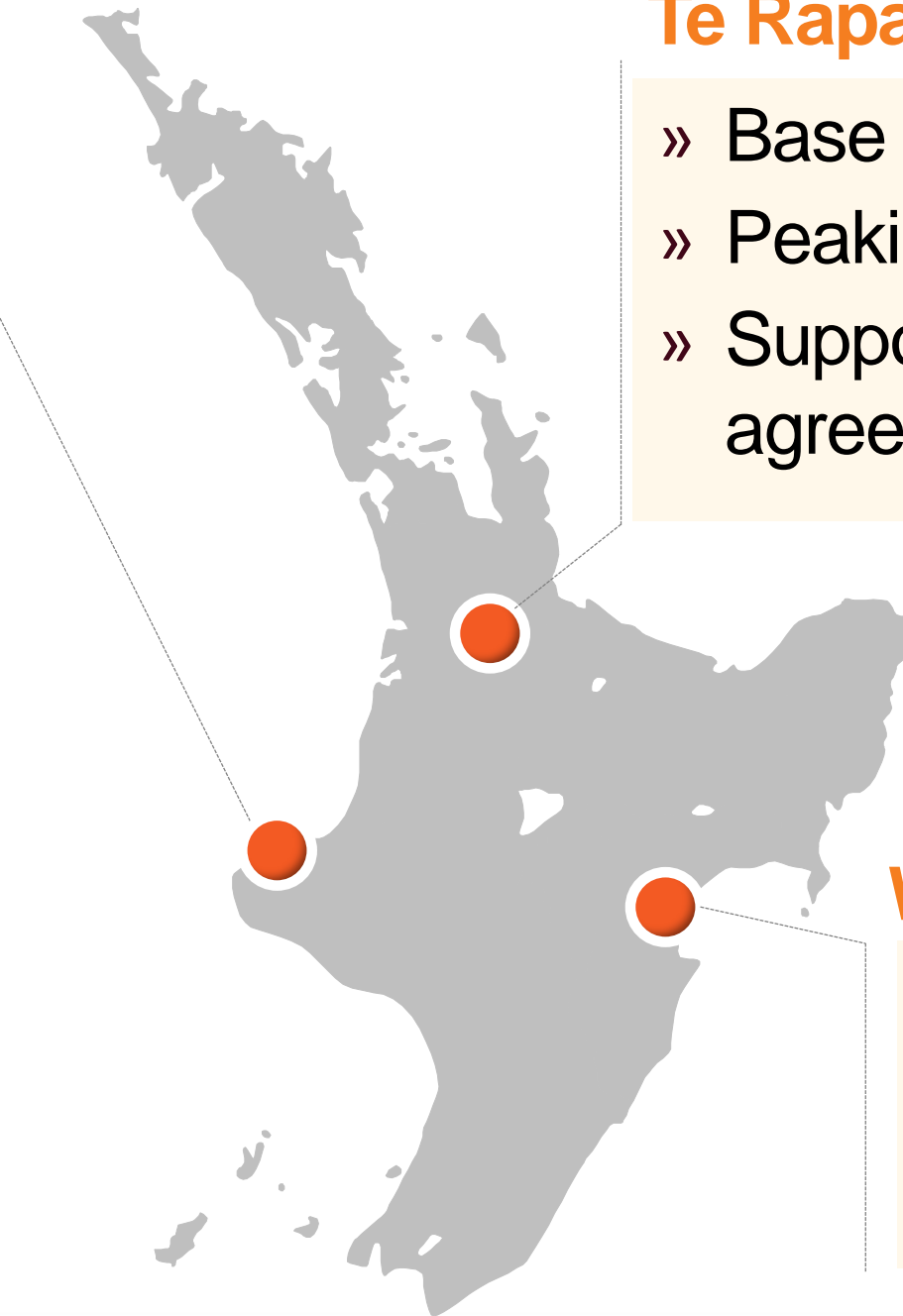
- » Internalise hydro risk management, supported by Ahuroa Gas Storage
- » Targets peak prices

### 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

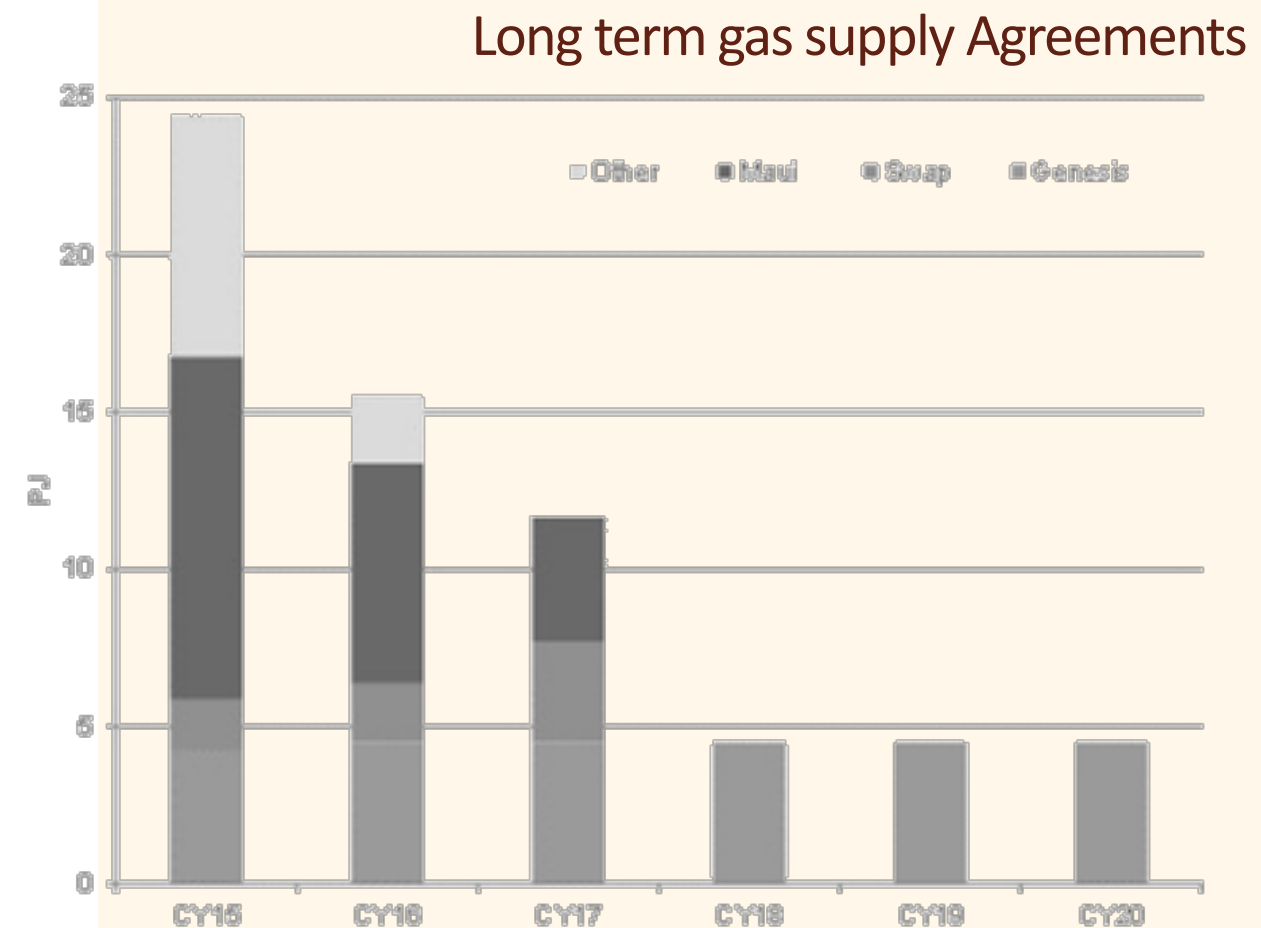
## Fuel Strategy

### Ahuroa Gas Storage (AGS)

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

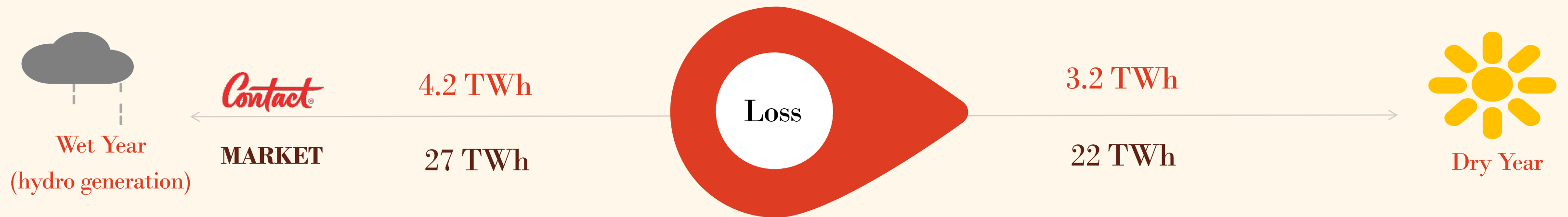
**10 PJ**  
(max of 17PJ)

- » 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



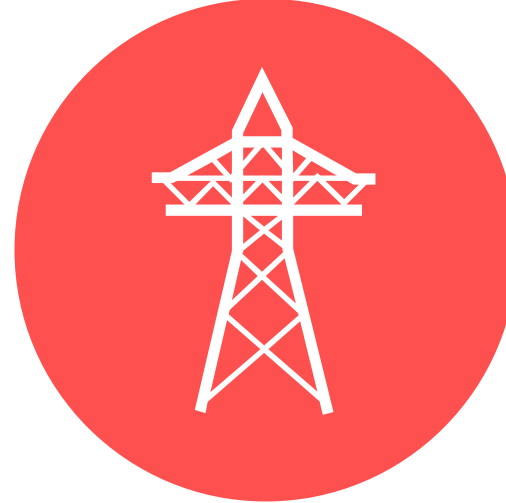
## Demand

- » 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

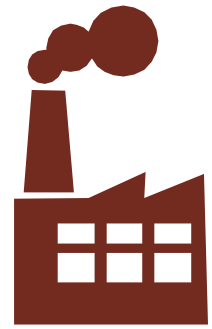
- » ~ 12 years of gas supply
- » Medium term over supply tightens with low oil price reducing production – Methanex decisions could extend over supply
- » Ample LPG, coal and diesel supply
- » Carbon price increasing



## New Technology

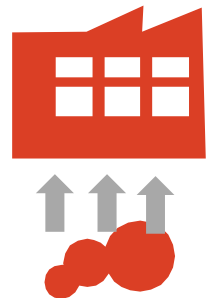
- » PV currently ~61GWh pa. Uptake rate will be affected by TPM implications
- » EVs currently ~ 5.5GWh pa. Uptake rate affected by customer choice
- » Economics improving but regulation driving uncertainty

# 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



**Trading  
for Value**



**Continuous  
Improvement**



**Sustainable  
new revenue**

## 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

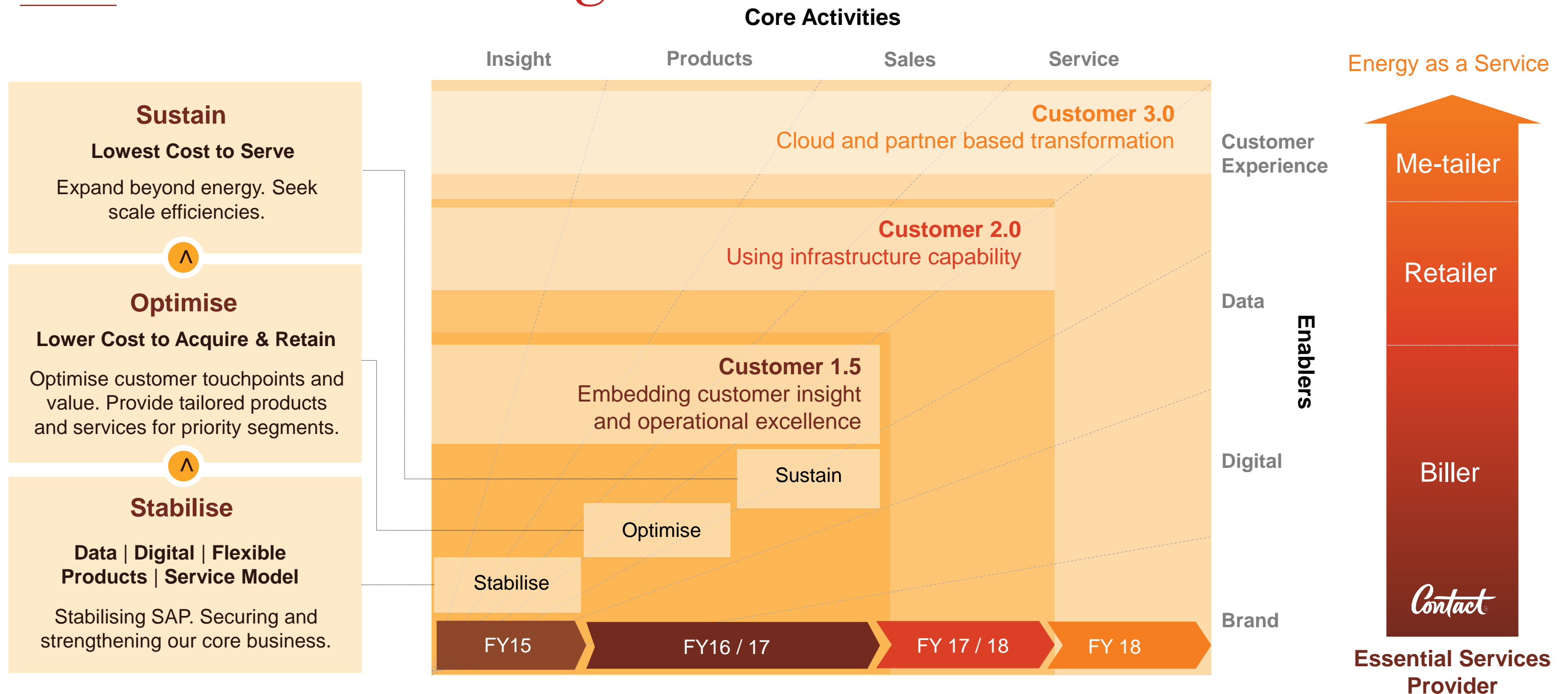




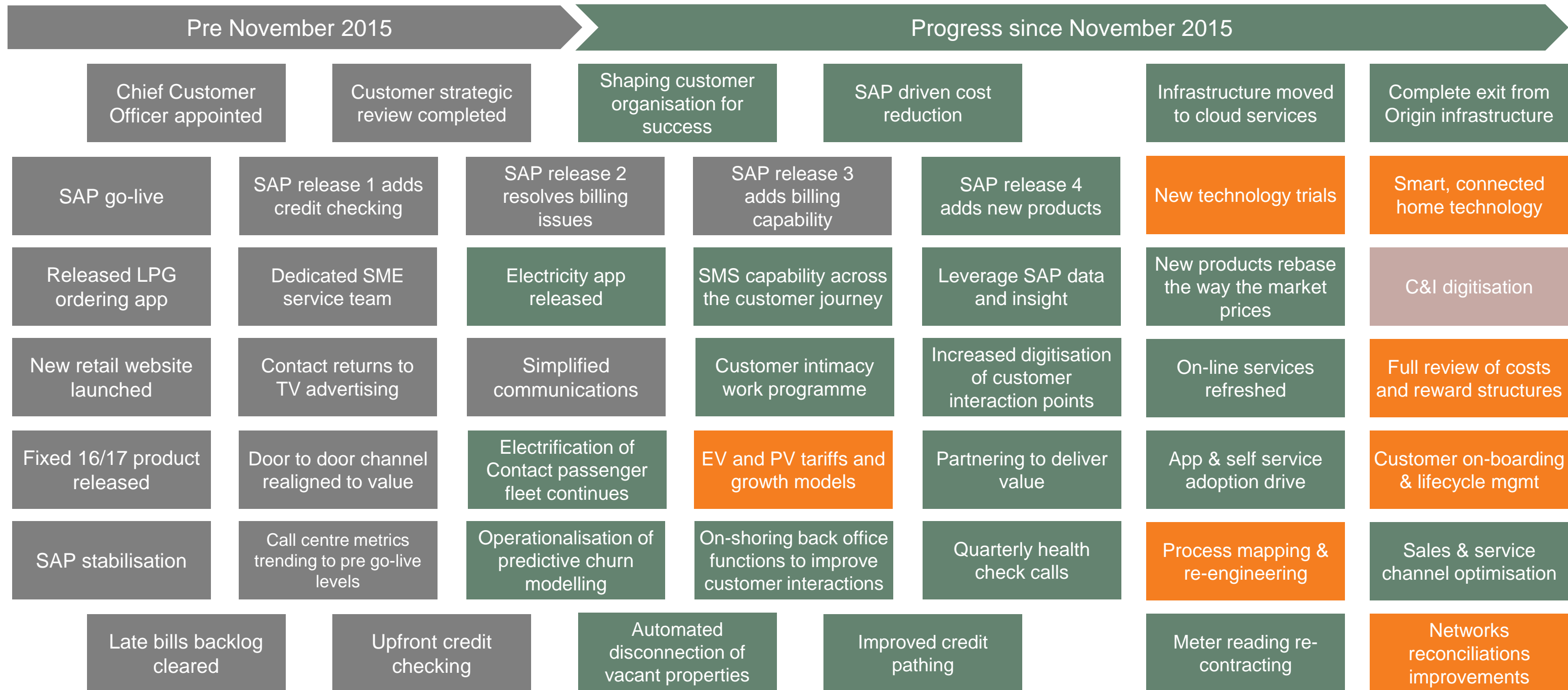
Technology is creating a world of opportunities for a great ME-tailer

Vena Crawley – Chief Customer Officer

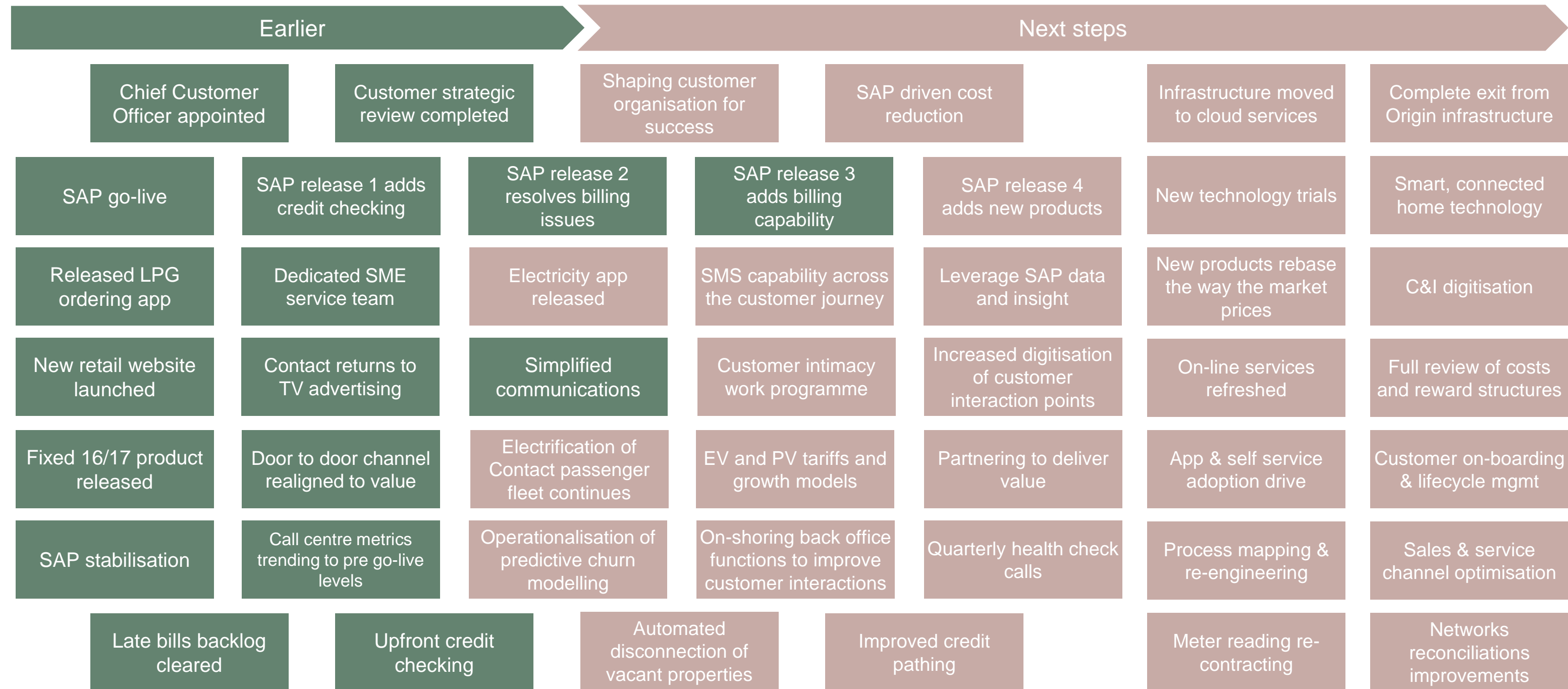
# Our evolution from an Essential Services business to a Living Services business



# Now delivery speed is accelerating as we become truly customer inspired

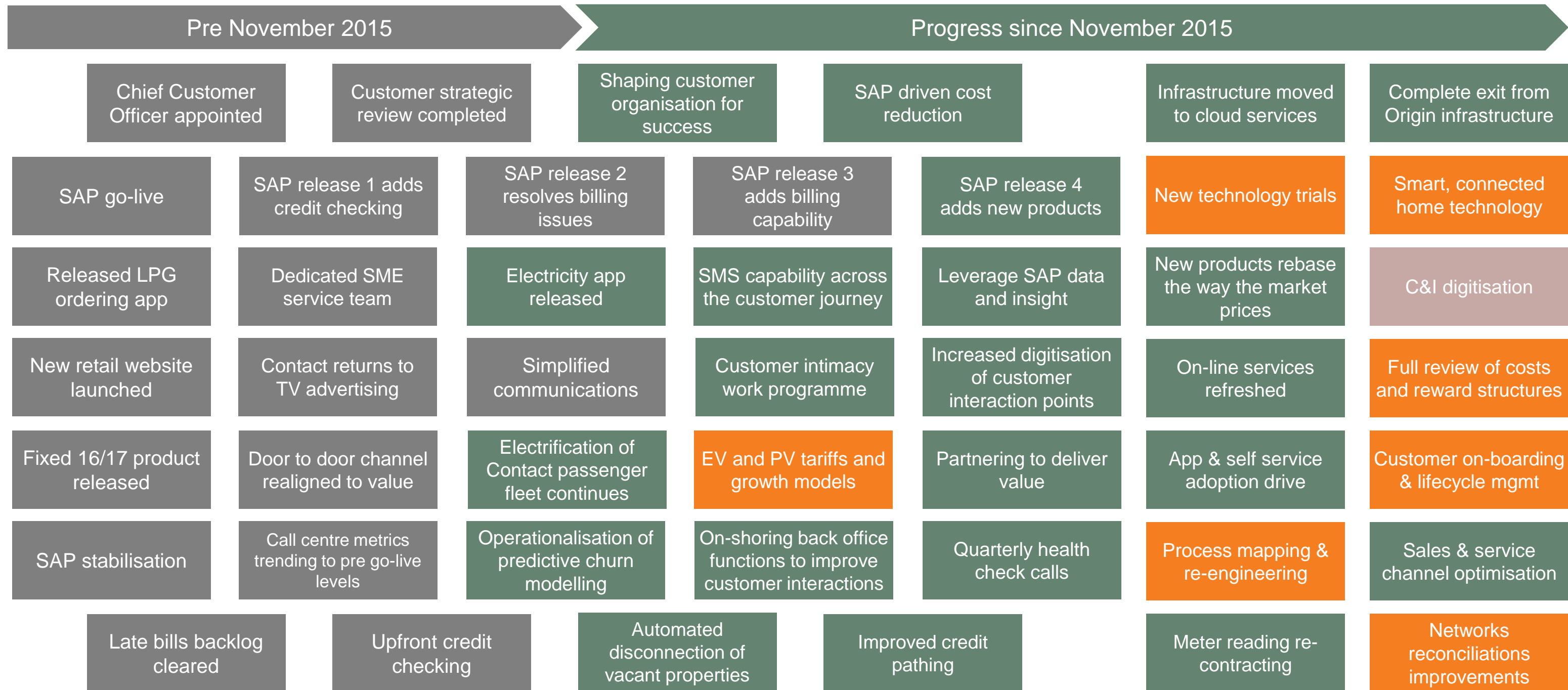


# We updated on the progress on SAP stabilisation and mapped the key workstreams





# 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.

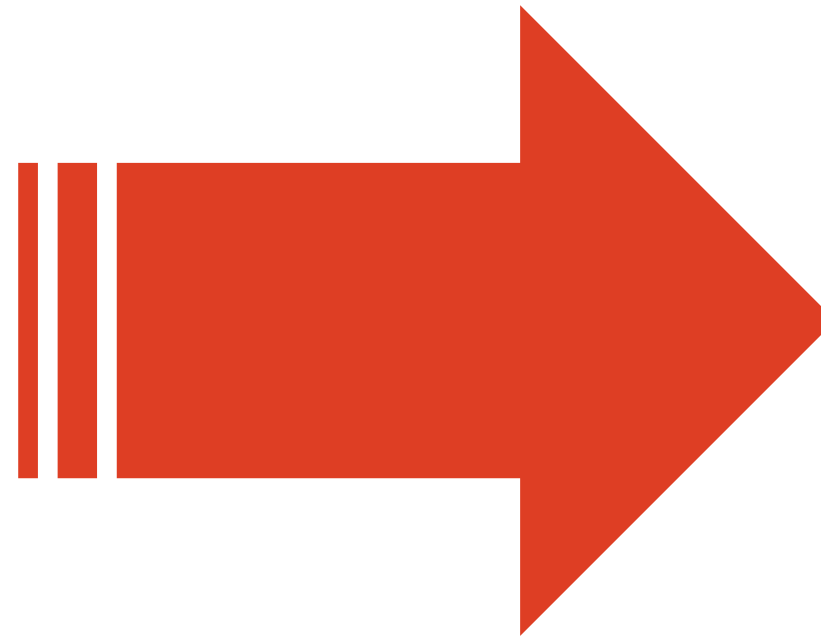
# Strengthening our core while pursuing our customer strategy

**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

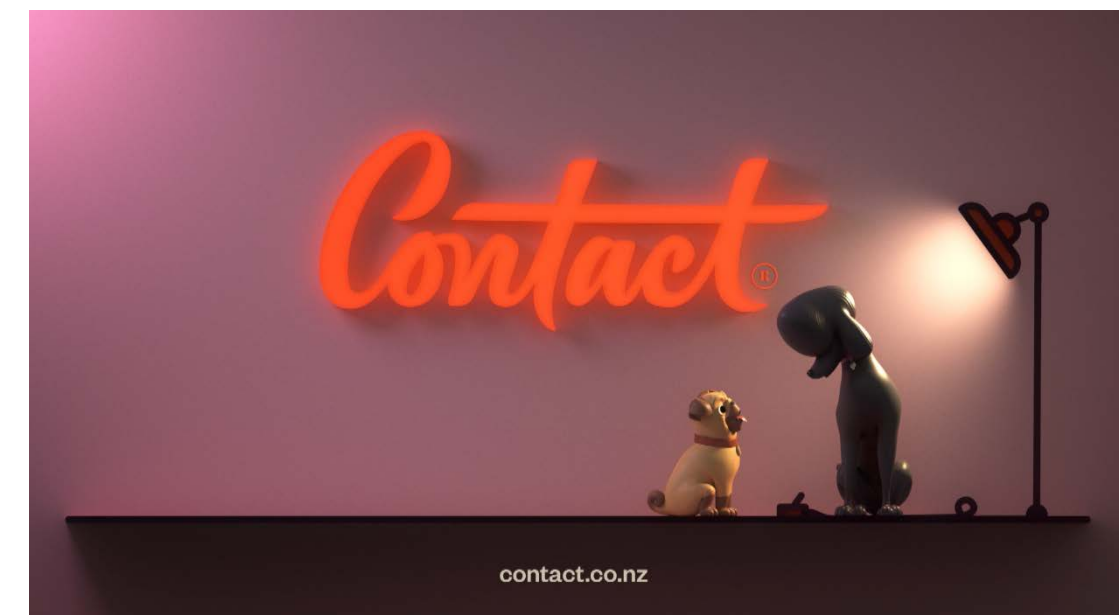
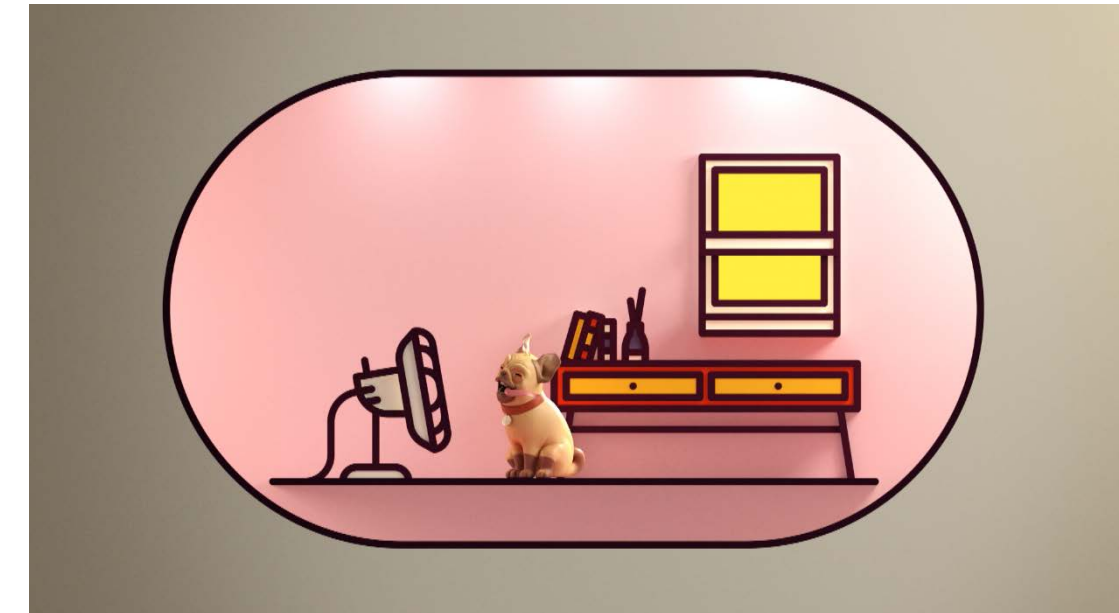
**Matt Bolton**

Head of Customer Engagement - Win

## A view to the future

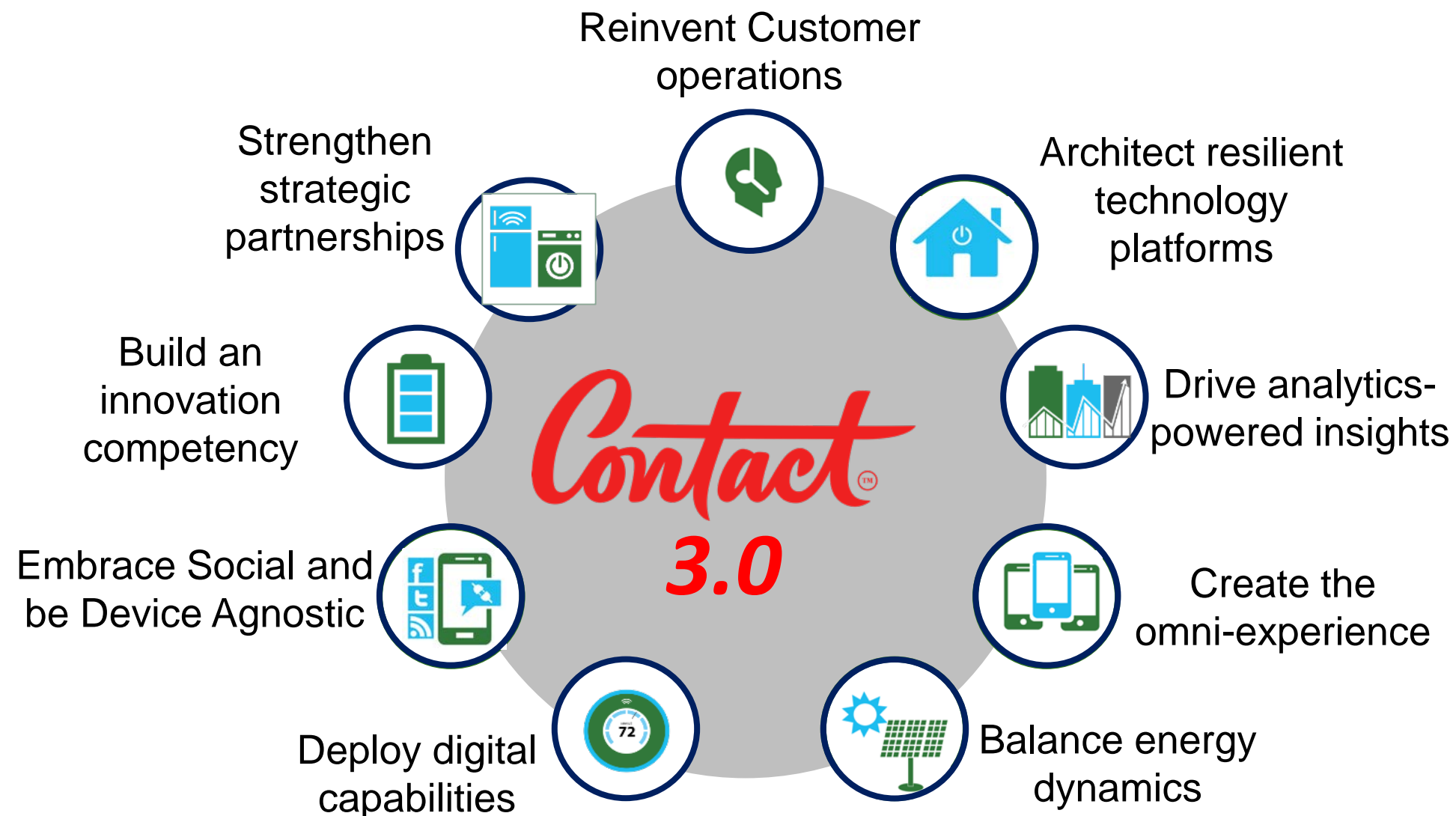
**Michael Pryor**

Head of Designing Tomorrow



# Keys to delivering returns from our customer strategy

## » 'Must Dos'



## » 'Must Haves'

**Digital customer interaction**

**Competitive / Commercial Mindset**

**Nimble Product / Pricing development**

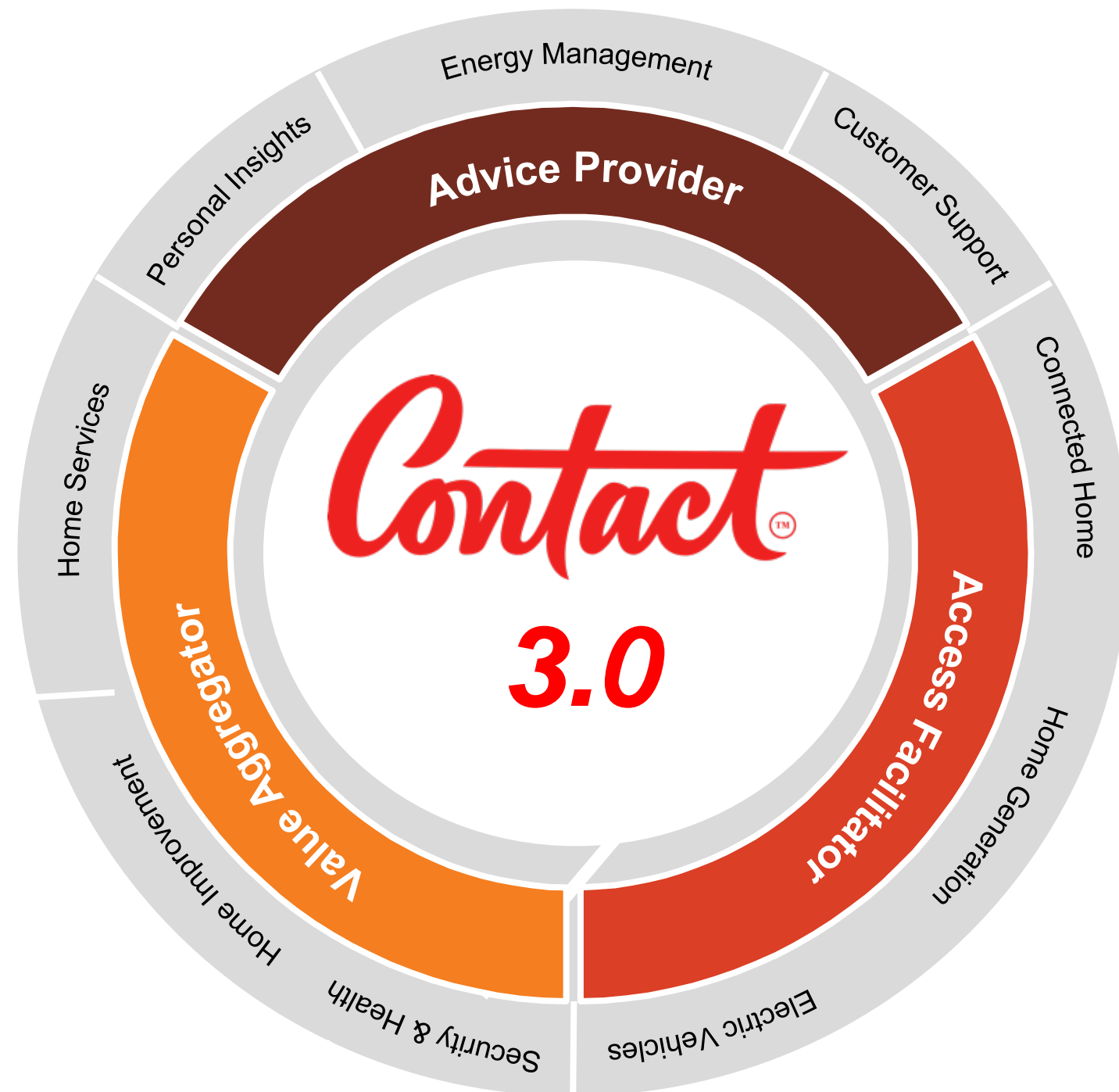
**Unique Partnerships**

**Integrated Analytics**

**Collaborative Culture**



# 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.

