2014 Full Year Results Presentation

18 August 2014

Year ended 30 June 2014
Dennis Barnes, Chief Executive Officer
Graham Cockroft, Chief Financial Officer

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.

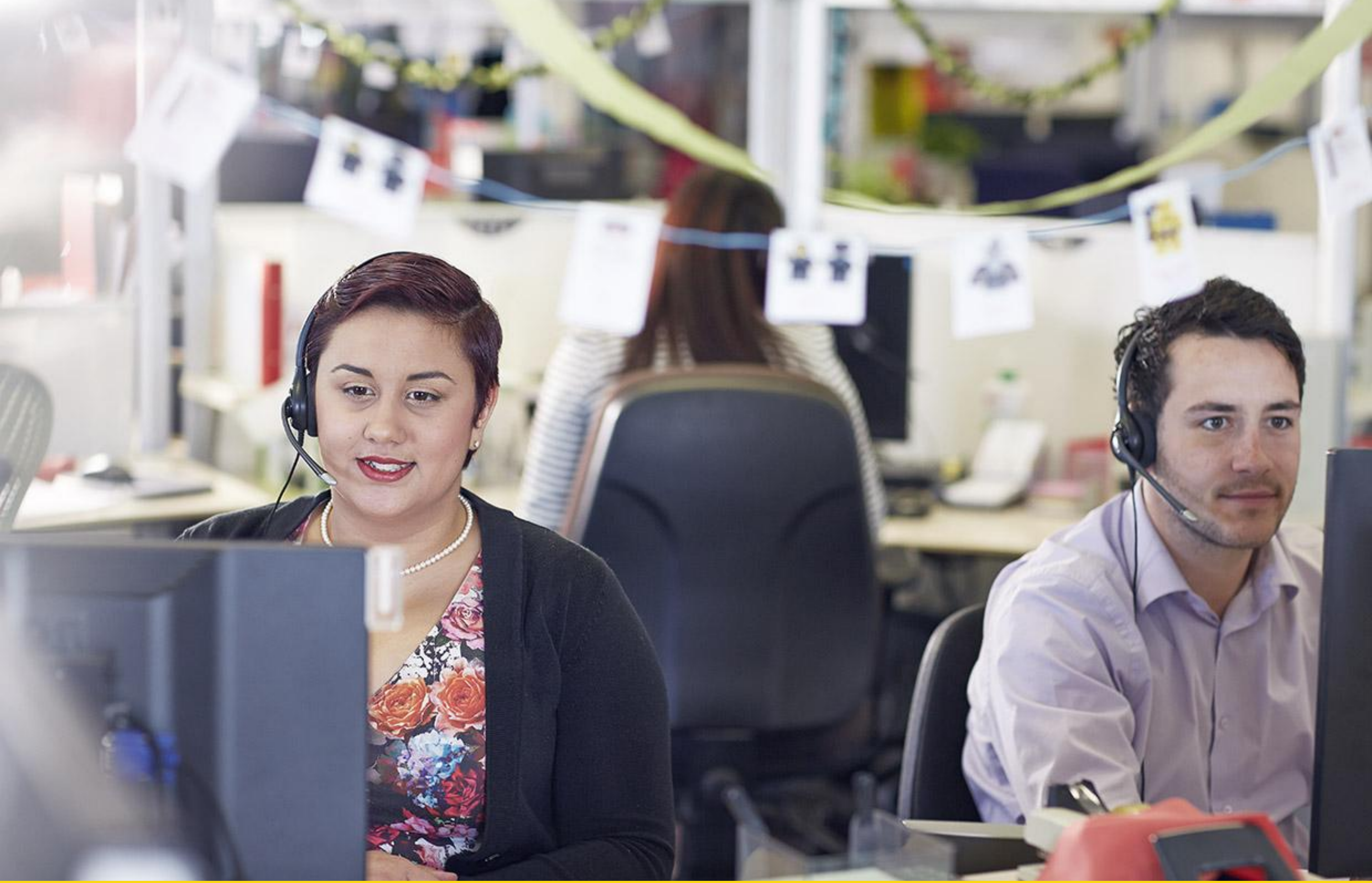
Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks.

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.

EBITDAF and underlying earnings after tax are non-GAAP (generally accepted accounting practice) profit measures. Information regarding the usefulness, calculation and reconciliation of EBITDAF and underlying earnings is provided in the supporting material.

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.

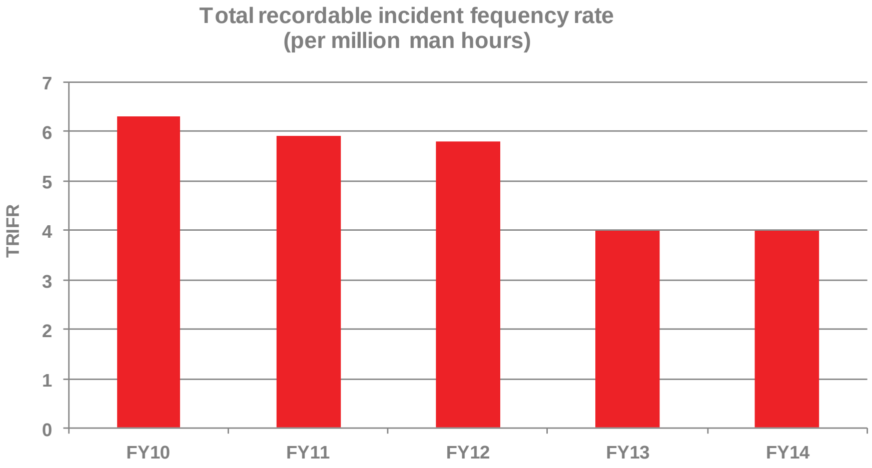


Performance highlights

Safety through visible and active leadership and supporting a learn and improve culture

- The health, safety and well-being of our people remains our number one priority
- In FY14 we have worked over four million hours on Contact sites with 17 injuries – two fractures were our most severe injuries, followed by sprains, strains and bruising
- We have had over 7,000 safety conversations
- We continue our journey of improving safety through visible and active leadership, encouraging a learning culture and simplifying our management system

Safety Coach Campaign



Profit for the period up 18% to $234m

Underlying earnings per share up 12%

	Year ended 30 June 2014	
EBITDAF[1]	$587m	up 9% from $541m
Profit for the period	$234m	up 18% from $199m
Earnings per share (cents)	32.0 cps	up 18% from 27.2cps
Net items excluded from underlying earnings after tax	$7m	up from ($3m)
Underlying earnings after tax (UEAT)[1]	$227m	up 12% from $202m
Underlying earnings per share (cents)	31.0 cps	up 12% from 27.7 cps
Full year dividend (cents)	26.0 cps	up 4% from 25.0 cps
Operating cashflow after tax (OCAT)[1]	$400m	down 3% from $413m
Capital expenditure	$274m	down 18% from $336m

[1] Refer to slides 32-36 for a definition and reconciliation of EBITDAF, UEAT and OCAT

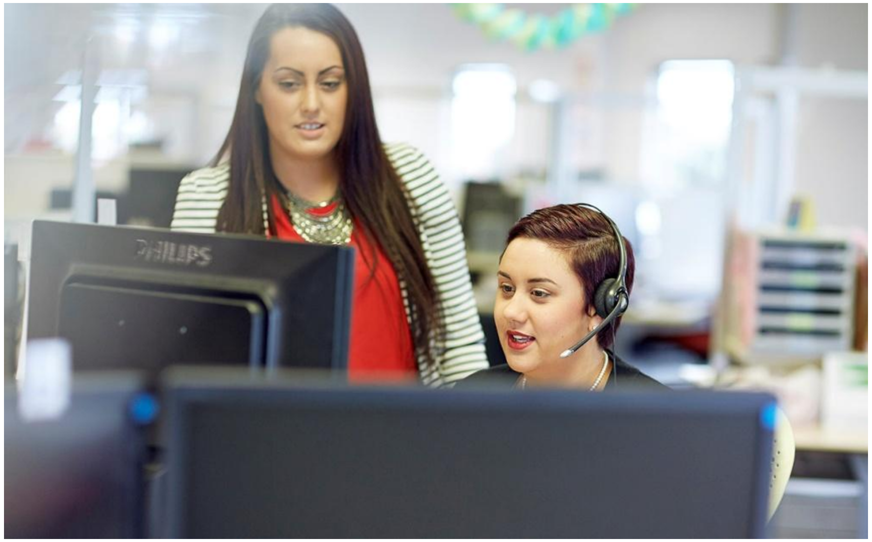
Key milestones completed in FY14

- Te Mihi geothermal power station commissioned May 2014

- Resumption of bi-pole operation of the HVDC supporting increased hydro generation and its flow north

- Final stages of Enterprise Transformation completed with the implementation of SAP customer billing and service system
    - SAP is now implemented across Finance, Procurement, Asset Management and Customer Sales, Service and Billing

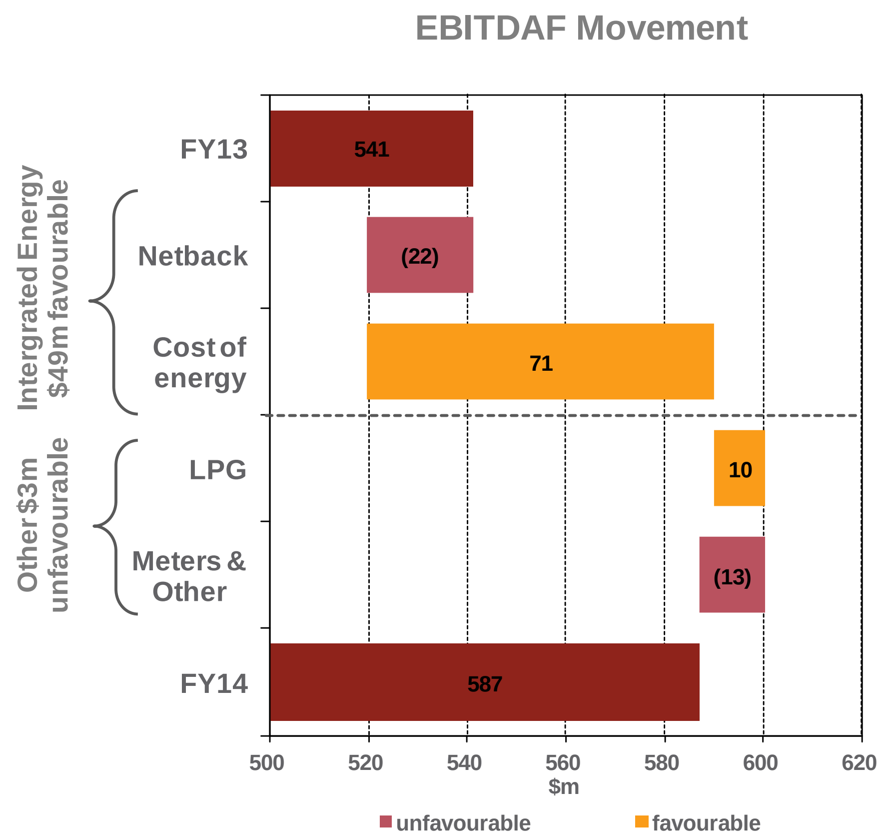
- $773m new funding raised in the past 14 months



Reduced fuel costs supported by increased electricity sales

Integrated Energy segment EBITDAF: up $49m (11%) to $551m

- **Netback:** unfavourable $22m (2%)
  - Retail competition remains intense; volumes up 1%; netback per MWh down 3%
- **Cost of energy:** favourable $71m (17%)
  - 69% renewable – a strong hydro year
  - Gas used primarily to support portfolio and not exposed to merchant prices
  - Includes the receipt of $43m compensation as a result of the delayed start-up of Te Mihi



Other segment EBITDAF: down $3m

- **LPG:** favourable $10m due to a reduction in purchase and operating costs
- **Meters & Other:** unfavourable $13m, reflecting the sale of the gas metering business

Operational Review - Dennis Barnes

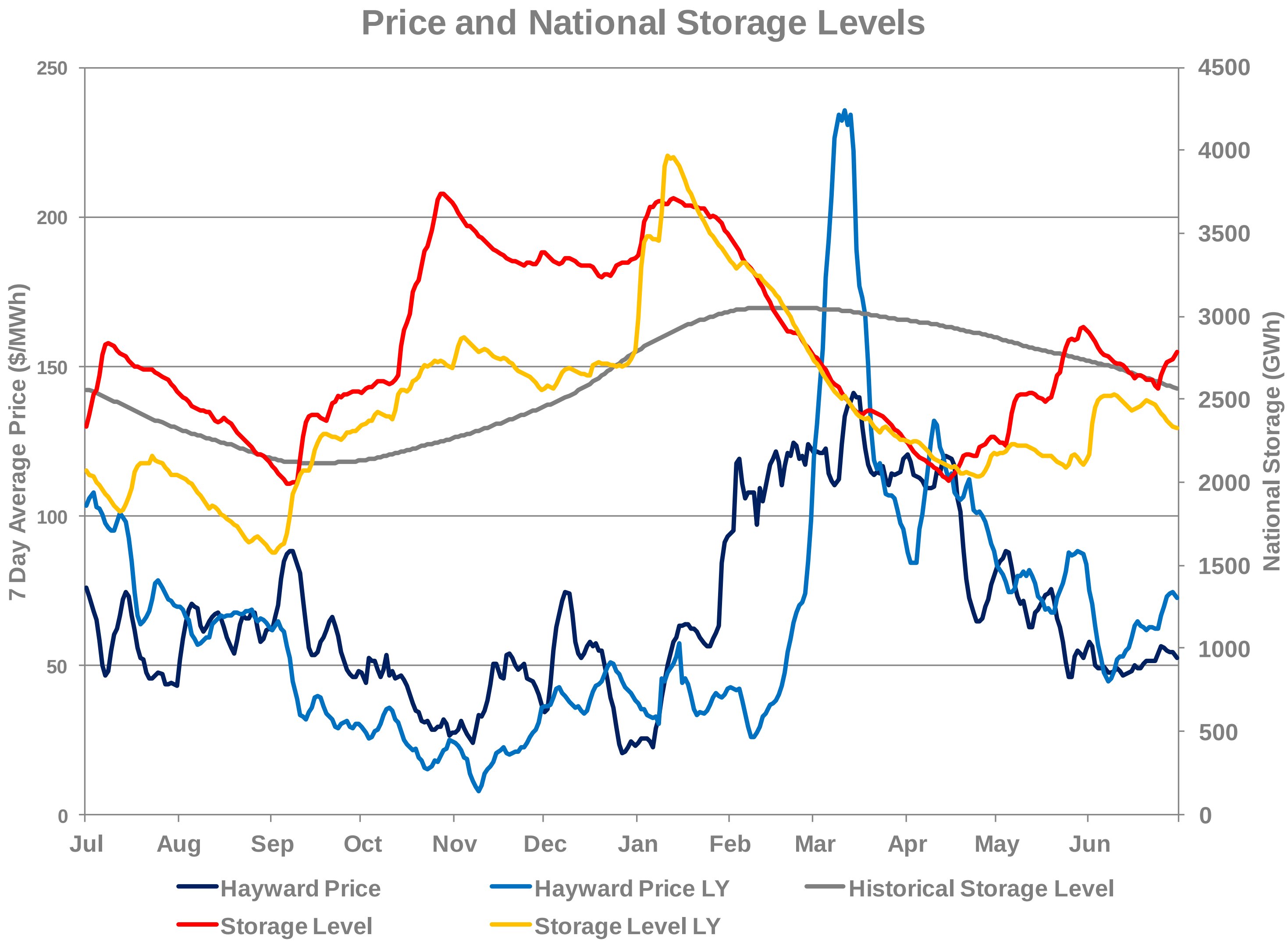
National electricity demand down 1 % reflecting lower mass market demand

	Year ended 30 June 2014 GWh	Year ended 30 June 2013 GWh	Variance GWh	Variance %
North Island	23,214	23,501	(287)	(1%)
South Island ex Tiwai	8,909	9,015	(106)	(1%)
Tiwai	4,989	4,814	175	4%
Total national demand	**37,112**	**37,330**	**(218)**	**(1%)**

Source: Transpower

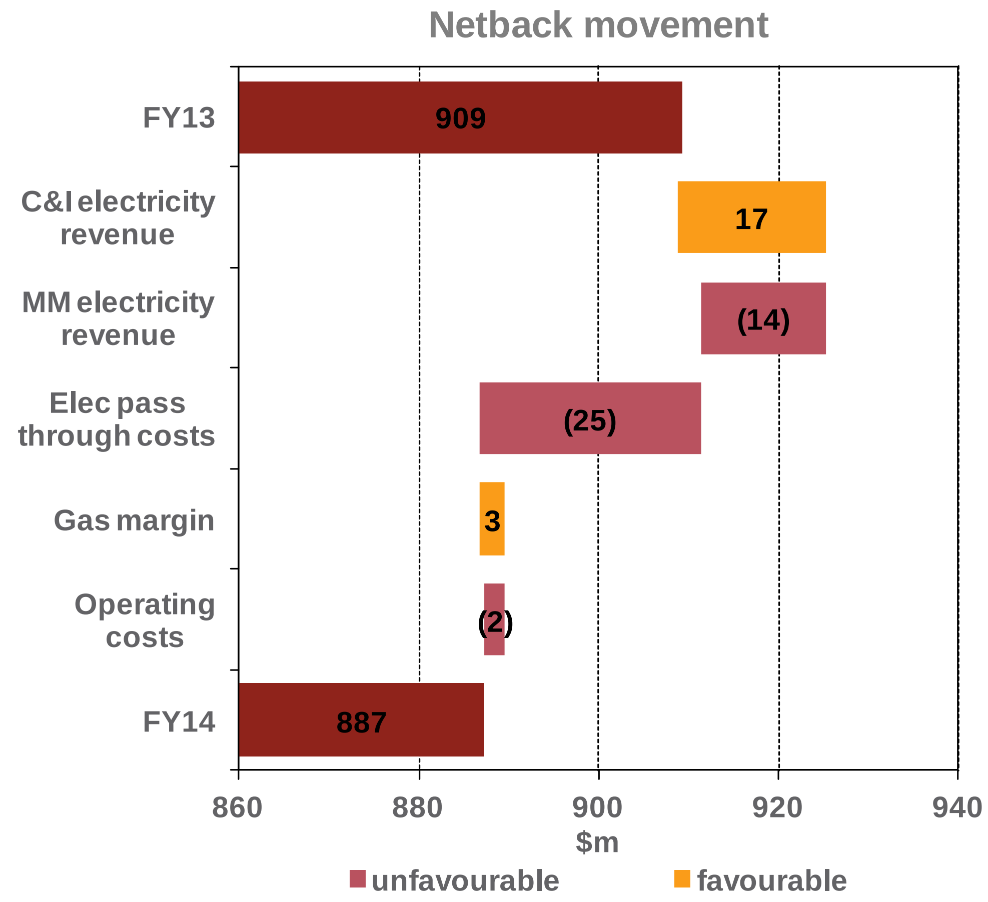
- FY14 national electricity demand down 1% on FY13
- Residential and commercial demand down 1%
  - due to warmer average temperatures during the year and a continuation of home energy efficiency improvements
- Major industrial demand flat
  - Tiwai demand up 175 GWh
  - Norske Skog's closure of plant in January 2013 reduced North Island demand by 50MW
  - Other large industrial demand up 38 GWh

Above mean national storage levels kept wholesale prices suppressed

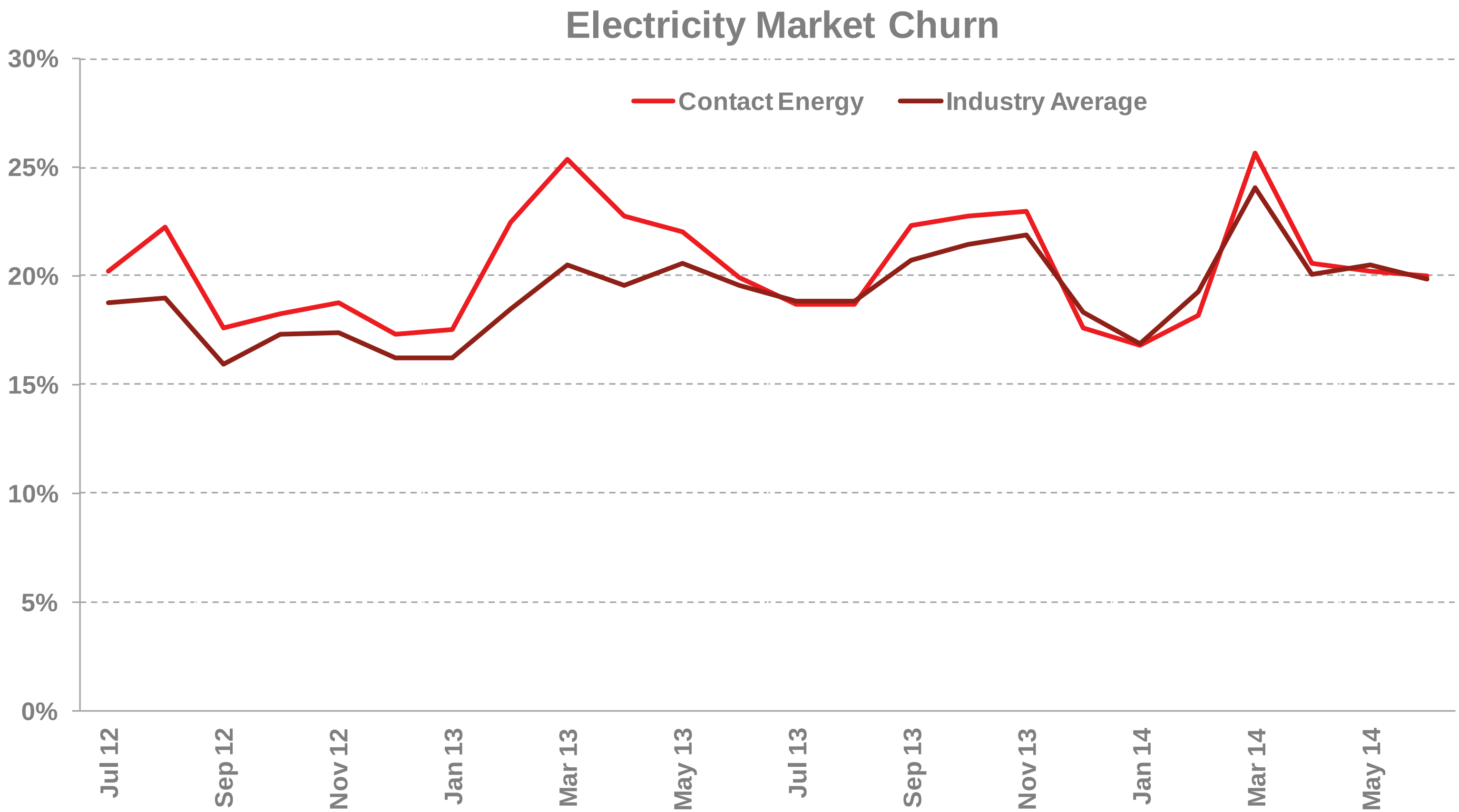


Netback – $22m lower (2%) to $887m

- Change in electricity sales mix; volume increased 101 GWh to 8,378 GWh
  - Mass market consumption down 215 GWh (5%) driven by warmer weather, home energy efficiency measures and mix changes in small and medium sized business customers
  - C&I sales up 316 GWh (8%)
- Netback unfavourable $3/MWh at $92/MWh
  - Mass market netback stable with network cost increases recovered
  - C&I netback down $7/MWh in-line with forward curve movements



Retail market remains highly competitive



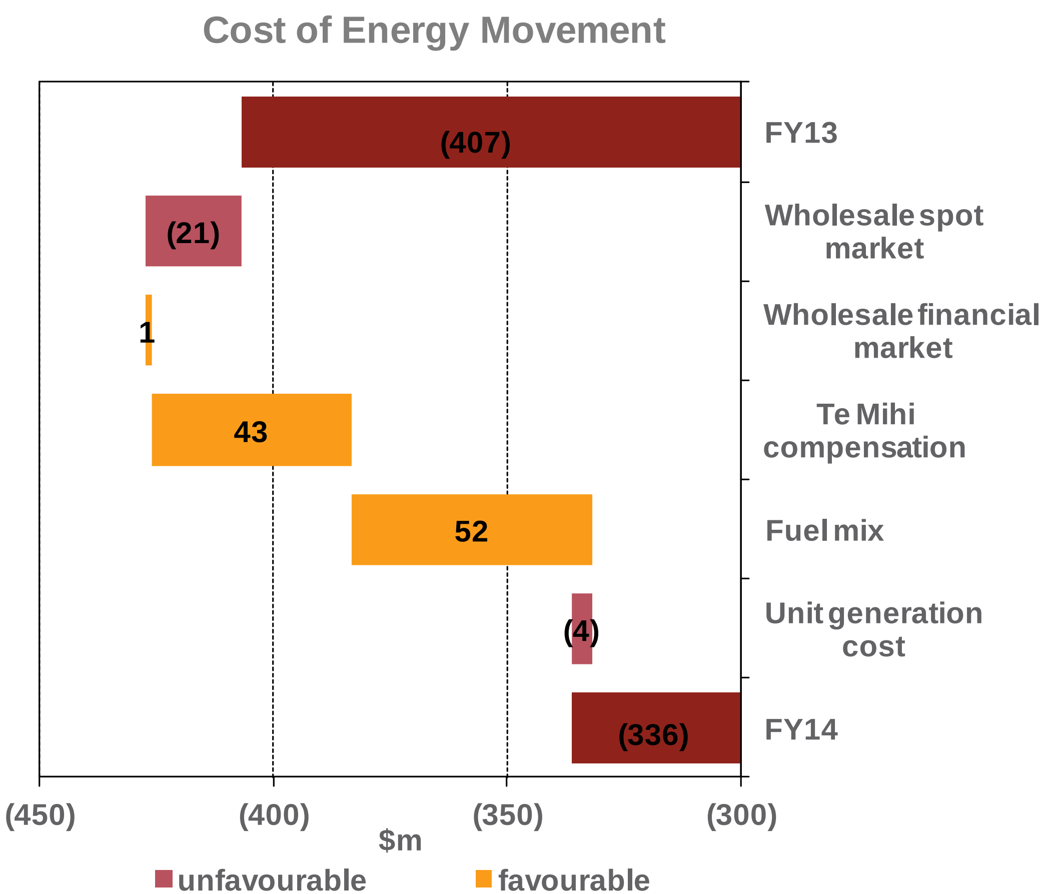
Source: Electricity Authority

- Contact's competitive pricing strategy has seen loss rates move closer to market
- Final quarter customer losses higher as systems implementation limited acquisition and retention activity

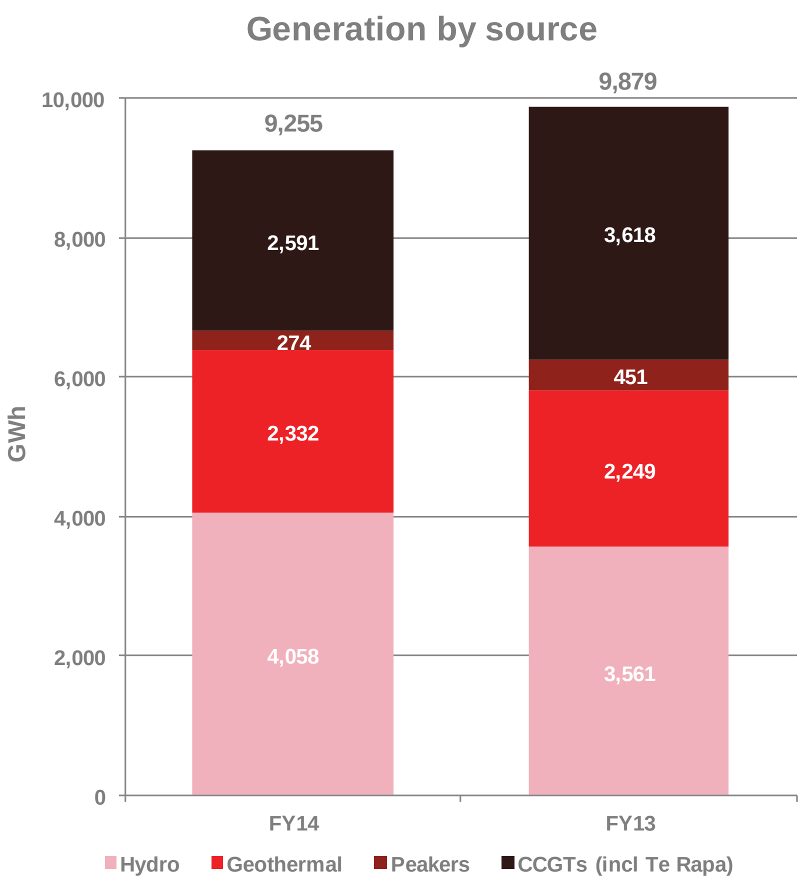
Cost of energy – favourable $71m (17%) to –$336m

Increased hydro generation and Te Mihi delay compensation

- Wholesale spot market down $21m; generation volumes down 623 GWh
- Wholesale financial market stable
  - Net purchaser of CfDs reflecting increased use of forward contracts and peakers to manage position
- $43m compensation from delayed start-up of Te Mihi
- Fuel mix favorable $52m with renewable generation increasing from 59% to 69%
- Unit generation cost unfavorable $4m with higher gas unit costs and plant maintenance costs partially offset by lower carbon unit price



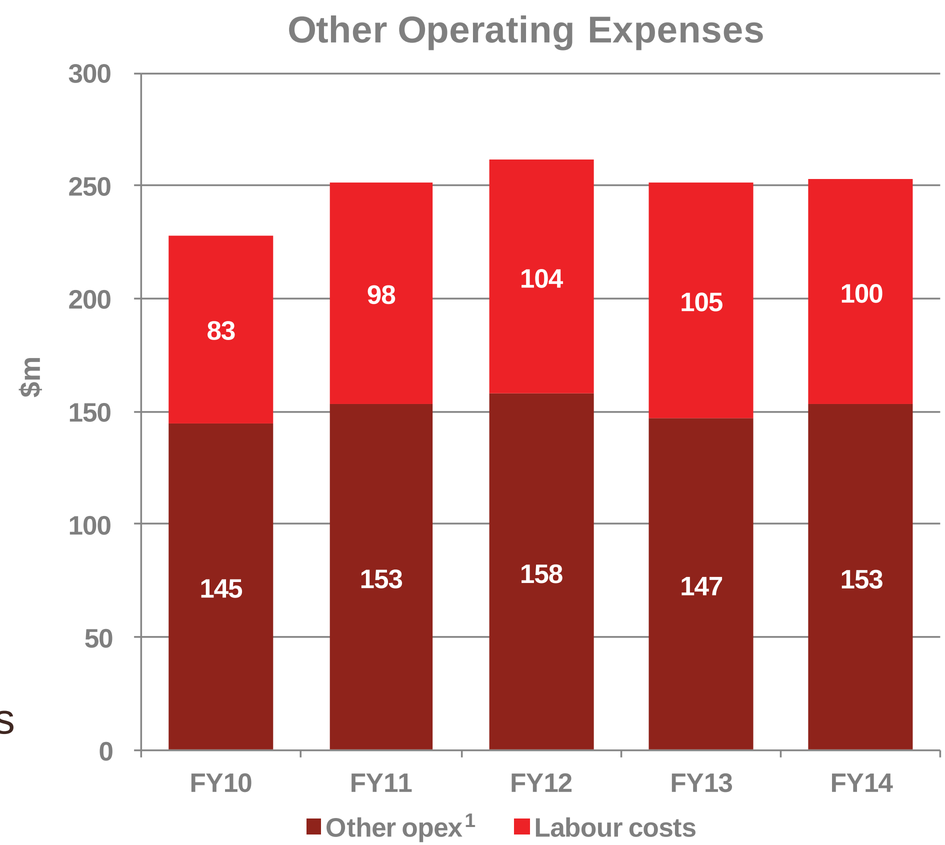
Flexibility of portfolio allows management of variable operating conditions



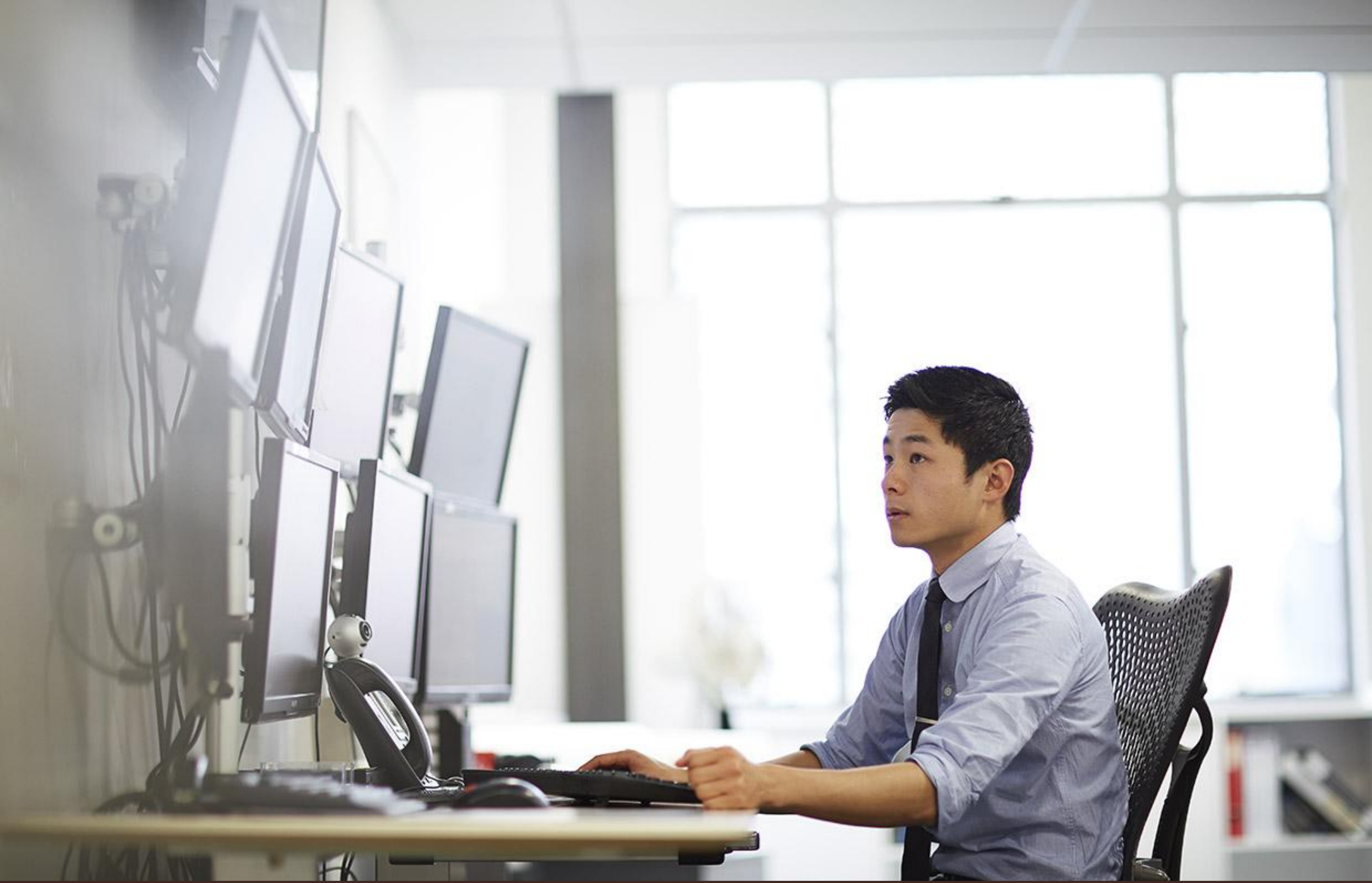
- More flexible fuel allows reduced thermal generation while hydro volumes increase
  - Hydro generation was up 497GWh (14%)
    - HVDC completion gives more south to north flow in these conditions
  - Geothermal generation was up 83 GWh to 2,332 GWh following the commissioning of Te Mihi in May
  - Generation from the CCGTs decreased 1,027 GWh to 2,591 GWh with excess gas injected in to storage
    - Lower wholesale prices and reduced gas take-or-pay volumes supported purchasing spot electricity rather than generating it
    - No CCGT running for 26% of FY14 (4% in FY13)
  - Stratford Peaker generation decreased 174 GWh to 273 GWh; largely used to manage portfolio position

Incremental efficiency gains help absorb cost pressures

- Continuing focus on cost
  - FY13 organisation structure redesign
  - Procurement and ICT rationalisation programmes continue to deliver benefits
  - Increase in non-labour costs primarily due to higher generation plant maintenance and bad debt write-offs
- Cost pressures remain
  - Te Mihi operating costs
  - Retail transformation SAP-related costs
  - Salary and other inflationary pressures
- Competitive market demands continued cost absorption
  - Retail transformation benefits will take time with FY15 a transition year



[1] Repairs and maintenance costs create year-on-year variability



Financial Review – Graham Cockroft

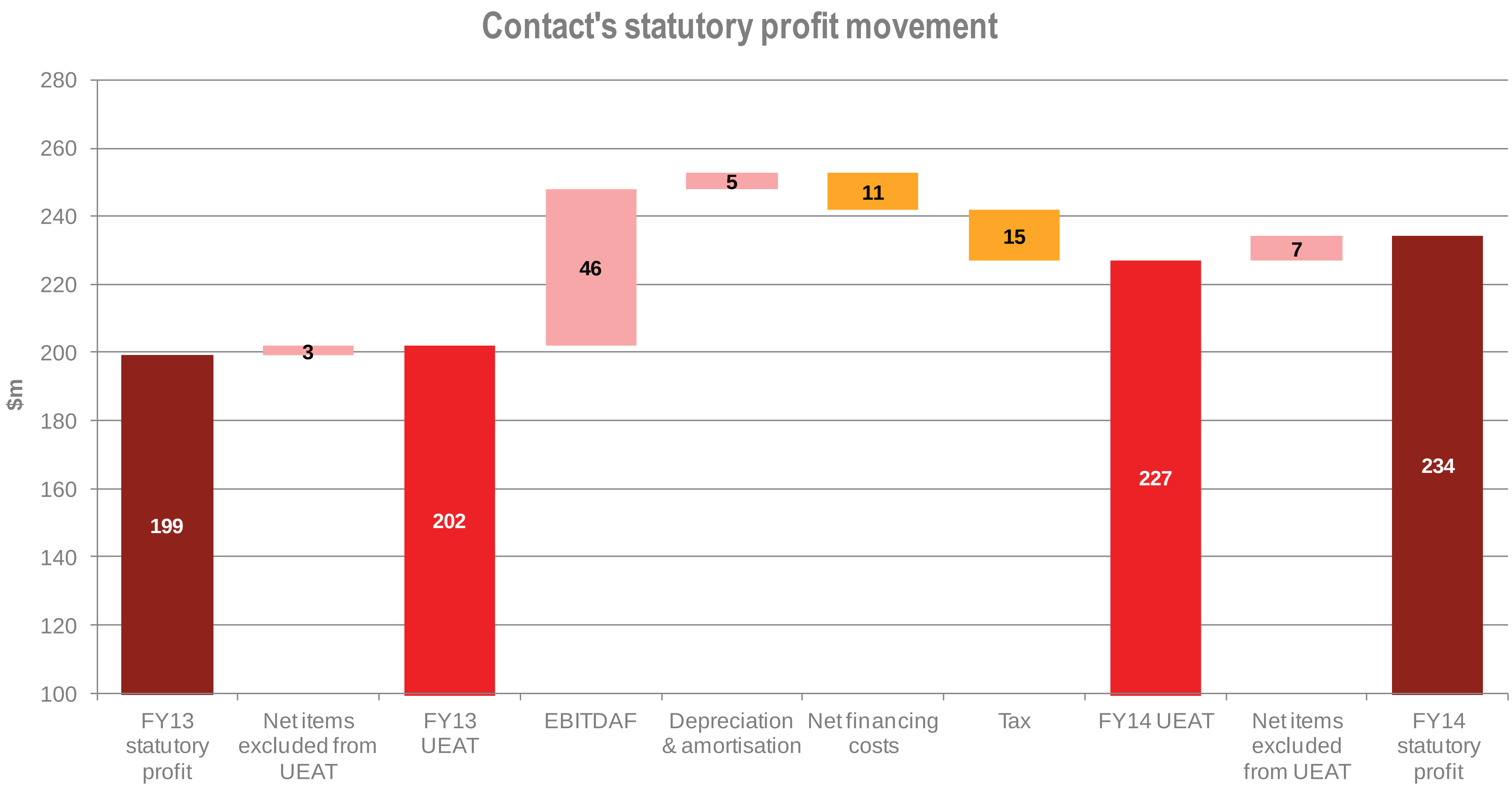
Profit for the period up 18% to $234m

Underlying earnings per share up 12%

	Year ended 30 June 2014 $m	Year ended 30 June 2013 $m	Variance $m	Variance %
Profit for the period	234	199	35	18%
Earnings per share (cents)	32.0	27.2	4.8	18%
Revenue and other income	2,446	2,526	(80)	(3%)
EBITDAF[1]	587	541	46	9%
Underlying EBIT	397	346	51	15%
Underlying earnings after tax[1]	227	202	25	12%
Underlying earnings per share (cents)	31.0	27.7	3.3	12%
OCAT[1]	400	413	(13)	(3%)
Capital expenditure	274	336	62	18%

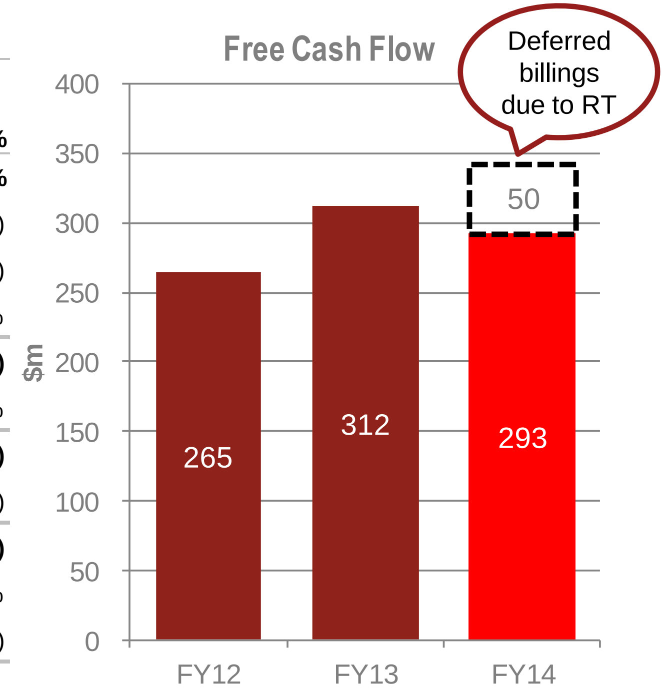
[1] Refer to slides 32-36 for a definition and reconciliation of EBITDAF, UEAT and OCAT

Profit for the period up 18% from $199m to $234m
Underlying earnings after tax up 12% from $202m to $227m



Improved EBITDAF and lower stay in business capex offset by unfavourable working capital movement

	Year ended 30 June 2014 $m	Year ended 30 June 2013 $m	Variance $m	%
EBITDAF	**587**	**541**	**46**	**9%**
Change in working capital	(103)	(32)	(71)	(222%)
Tax paid	(53)	(46)	(7)	(15%)
Other	15	6	9	150%
Operating cash flows	**446**	**469**	**(23)**	**(5%)**
Stay in business capital expenditure	(46)	(56)	10	18%
OCAT[1]	**400**	**413**	**(13)**	**(3%)**
Net interest paid	(107)	(101)	(6)	(6%)
Free cash flow[2]	**293**	**312**	**(19)**	**(6%)**
Average Funds Employed excl. CAPWIP	3,997	3,946	51	1%
OCAT Ratio	9.3%	9.8%	(0.5%)	(6%)



[1] Operating cashflow after tax. Refer to slide 36 for a definition and reconciliation of OCAT

[2] Cash available to fund distributions to shareholders and growth capital expenditure

- Unfavourable working capital movement due to increased injections into Ahuroa gas storage facility and higher receivables as a result of the delay in retail billing as part of new customer management and billing system stabilisation (‘RT’).

Financing costs increased by $11m due to reduction in capitalised interest from the completion of Te Mihi and Retail Transformation projects

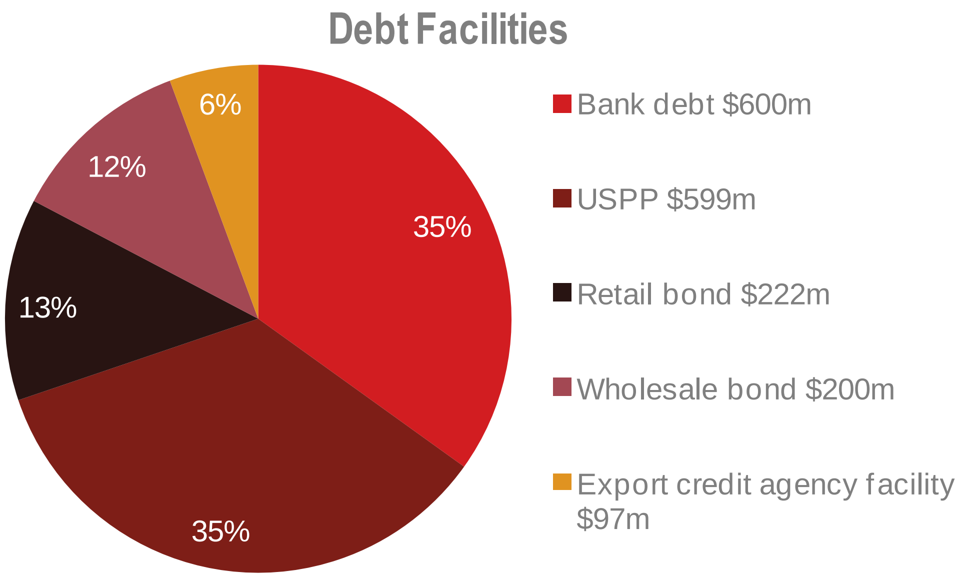
	Year ended 30 June 2014 $m	Year ended 30 June 2013 $m	Variance $m	%
Interest income	6	2	4	200%
Interest expense	(120)	(112)	(8)	(7%)
Financing costs	**(114)**	**(110)**	**(4)**	**4%**
Financing costs capitalised	37	44	(7)	(16%)
Net financing costs	**(77)**	**(66)**	**(11)**	**17%**
Weighted average interest rate on borrowing[1]	6.5%	6.8%	0.3%	4%

[1] excluding fees, costs

- Lower weighted average interest rate predominantly due to a change in the mix of the borrowings portfolio to include lower-priced debt
- Interest expense $8m unfavourable due to a loss on redemption of the capital bond and additional finance lease interest costs
- $7m reduction in capitalised interest from the completion of Te Mihi and Retail Transformation projects
- Higher interest income as increased short-term deposits were generated by prefunding activities

2014 refinancing programme completed, achieving objectives to improve tenor and diversity

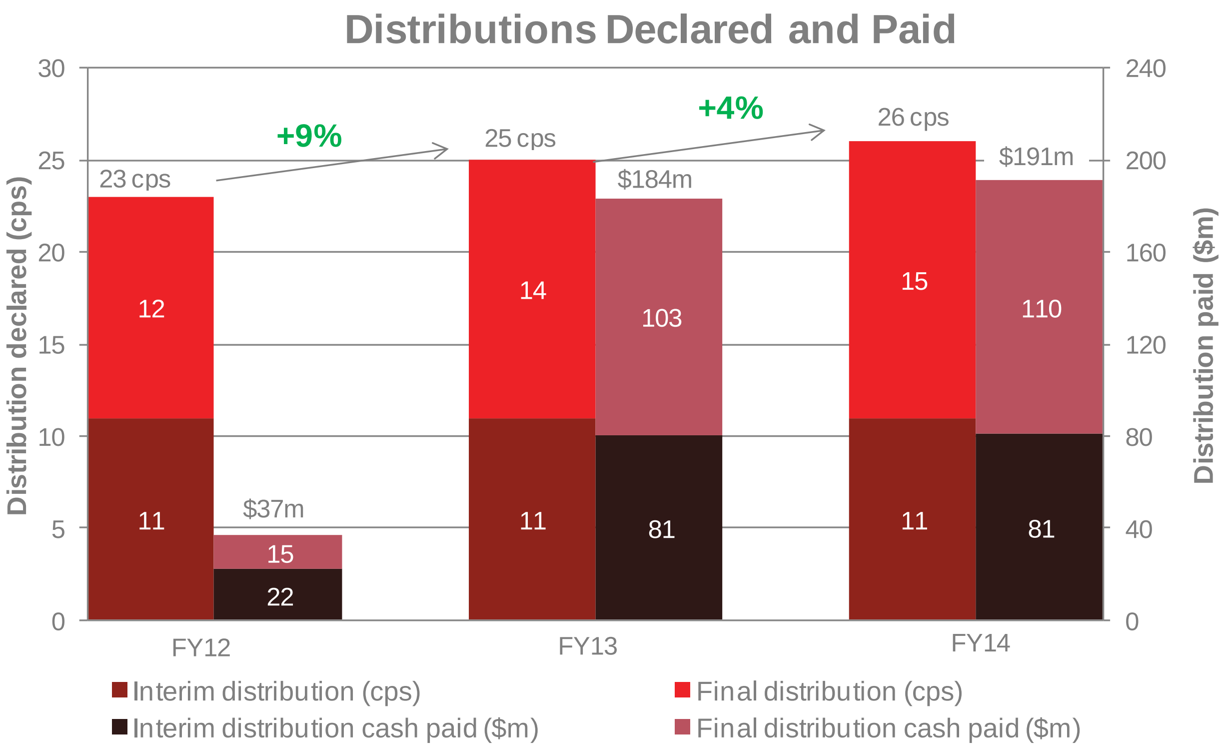
- Balance sheet gearing level remains strong at 30 June 2014:
  - Net debt $1.4bn, in line with June 2013. Gearing ratio 28%
  - $600m total committed facilities ($223m drawn)
  - Weighted average tenor of funding facilities 4.5 years



- Over the past 14 months, Contact has raised $773m in new funding to refinance its $705m 2014 maturities and the $200m Capital Bond which was redeemed in November 2013
  - Refinancing was executed through bank debt, issuance of USPP notes and domestic retail and wholesale bonds
  - At 30 June 2014 Contact had $60 million of short-term commercial paper on issue

Fully imputed final distribution
Distributions increased 1 cps to 26 cps

- Free cash flow including the purchase or sale of fixed assets in FY14 was $201m compared with $92m in FY13 due to the sale of gas meters and reduced growth capital expenditure
- Reduction in growth capital expenditure has resulted in a steady increase in distributions
- Discontinuing the profit distribution plan in FY13 has seen cash distributions increase



- Record date:

  3 September 2014

- Payment date:

  15 September 2014

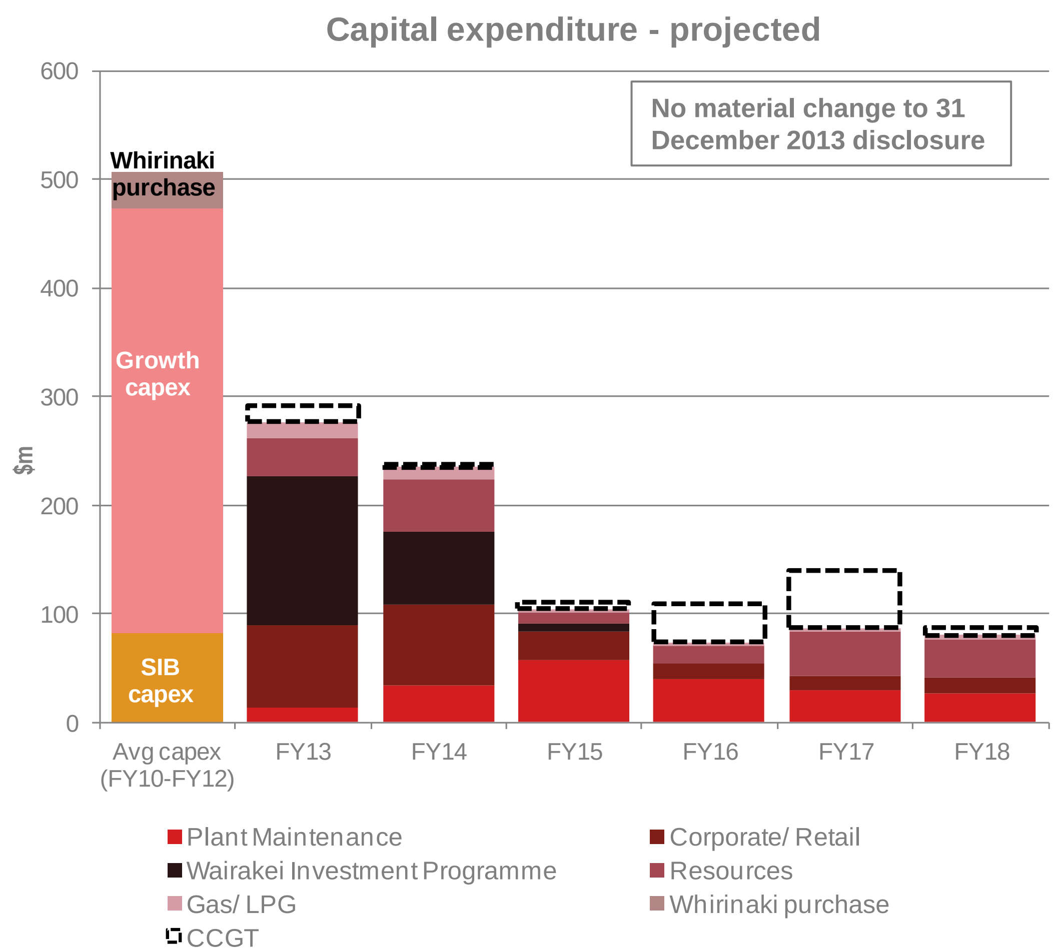
Prospects

In an environment of low growth and margin pressures Contact will target greater efficiencies

- **Leverage existing asset base**
  - Integrate Te Mihi into Wairākei operations
  - Increase production from existing renewable assets
- **Improve efficiency**
  - Reduce cost to serve with the benefits of SAP implementation
  - Ensure the supply of thermal capacity provides security and a fair return
  - Lead industry structure efficiency improvements
- **Continue fuel substitution**
  - Balance generation gas availability with renewable firming requirements
  - Tauhara – next most competitive generation development in New Zealand

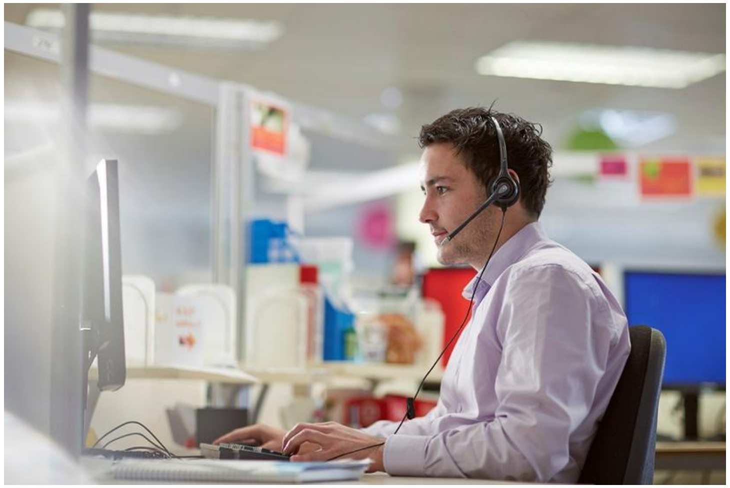
With the completion of the current capital programme the business is focused on managing for cash flow

- Capital investment has positioned the business well for the current market conditions
  - No significant capital investment required in the immediate future
  - Business is well structured and employees motivated to deliver
  - Focus going forward will be on managing for cashflow



Retail Transformation
Operational change will support customer strategy and efficiency

- New customer billing and service system live in late April
  - » Progress since ‘go-live’ remains positive
  - » The transition out of stabilisation and into the future mode of operation has commenced
- Future mode of operation will deliver improved margins without compromising competitiveness
  - » Mass market customer segmentation completed with SAP enabled pricing plans being prepared
  - » Organisation restructured to drive customer focus
  - » New brand ‘soft launched’
  - » Digital improvement project underway with the first phase of website redevelopment nearing completion



Geothermal update

- Te Mihi commissioned 1 May
  - » Final megawatts subject to an outage planned for later in the year
  - » Plant, including hot well pumps, running well
- Wairākei resource optimisation will deliver efficiency improvements
- Ohaaki reconsented and capital investment to improve and sustain production underway

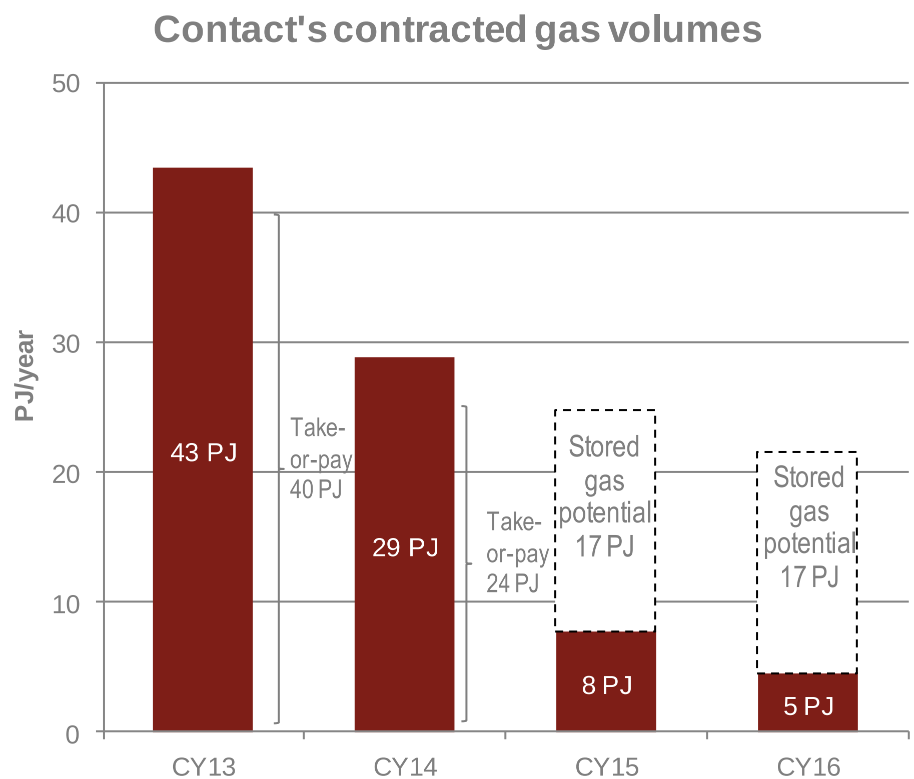
Patient approach to gas contracting continues

- Gas supply agreement signed for 27 PJ over 6 years – significant step in contracting with a secondary supplier

- A number of options exist to manage our gas position beyond the end of 2014
  - » Gas storage allows patient approach to contracting new gas

- Focus for the CCGTs is on managing remaining operating hours
  - » 22,000 equivalent operating hours remaining between Otahuhu and TCC before major maintenance required

- Completed enhancements of the gas storage infrastructure and flexibility improvements in CCGT operation evidence stronger portfolio position



Stable regulatory environment is important given the long-term nature of our business

- **Labour-Green proposed reforms**
  - » Current market structure is delivering competition and security of supply
  - » Charging for water is an issue with broader implications than the electricity generation sector alone and needs careful consideration
  - » Latest MBIE figures show prices up 2.3% driven by a 6.7% increase in distribution charges. Wholesale and retail pricing decreased 0.7%[1]
- **Carbon policy**
  - » New Zealand's Emissions Trading Scheme continues to operate
  - » Scheme comprises solely New Zealand units from 2015
- **Transmission pricing**
  - » Originally proposed to be introduced in 2016. Delays in the process makes introduction before 2017/18 seem unlikely

[1] Source: MBIE Quarterly Survey of Domestic Electricity Prices – June 2014 quarter

Summary

- Benefits of portfolio flexibility reflected in a solid full year result
  - Diverse and flexible generation portfolio took advantage of increased hydro generation
  - Te Mihi reduced cost of energy
  - Focus on being a competitive retailer increased sales volume
  - New retail systems implemented and performing to expectations

- Opportunities now being advanced to leverage core competencies and improve market structures

Supporting material

Non-GAAP profit measure - EBITDAF

- EBITDAF is Contact's earnings before net interest expense, tax, depreciation, amortisation, change in fair value of financial instruments and other significant items
- The CEO monitors EBITDAF as a key indicator of Contact's performance at segment and group levels, and believes it assists investors to understand the performance of the core operations of the business
- Reconciliation of EBITDAF to reported profit:

	Year ended 30 June 2014 $m	Year ended 30 June 2013 $m	Variance $m	%
EBITDAF	**587**	**541**	**46**	**9%**
Depreciation and amortisation	(190)	(195)	5	3%
Change in fair value of financial instruments	7	11	(4)	(36%)
Other significant items	1	(28)	29	104%
Net interest expense	(77)	(66)	(11)	(17%)
Tax expense	(94)	(64)	(30)	(47%)
Profit for the period	**234**	**199**	**35**	**18%**

- Depreciation and amortisation, change in fair value of financial instruments, net interest and tax expense are explained in the following slide.

Explanation of reconciliation between EBITDAF and profit for the period

- The adjustments from EBITDAF to reported profit are as follows:
  - Depreciation and amortisation: Costs decreased by $5m (3%) due to lower operating hours of the thermal stations due to higher renewable generation partially offset by higher depreciation from the commissioning of Te Mihi geothermal power station and new customer billing and service system
  - Change in fair value of financial instruments: the balance of $7m predominantly driven by favourable movements in interest rates since 30 June 2013
  - Other significant items: these are detailed on the next two slides
  - Net interest expense increased $11m (17%) to $77m in FY14. The increase was attributable to a loss on redemption of the capital bond, additional finance lease interest and a reduction in capitalised interest after completion of Te Mihi and Retail Transformation projects. This was partially offset by higher interest income as increased short term deposits were generated by prefunding activities
  - Tax expense for FY14 was $94m, which represents an effective tax rate of 28.6% (FY13: 24.4%)

Non-GAAP profit measure – underlying earnings

- The CEO monitors underlying earnings and believes it assists investors to understand the ongoing performance of the business
- Underlying earnings after tax is calculated by adjusting reported profit for the year for significant items that do not reflect the ongoing performance of the Group
- Other significant items are determined in accordance with the principles of consistency, relevance and clarity. Transactions considered for classification as other significant items include impairment or reversal of impairment of assets; business integration, restructure, acquisition and disposal costs; and transactions or events outside of Contact's ongoing operations that have a significant impact on reported profit
- Reconciliation of reported profit for the year to underlying earnings after tax:

	Year ended 30 June 2014	Year ended 30 June 2013	Variance	
	$m	$m	$m	%
Profit for the period	**234**	**199**	**35**	**18%**
Change in fair value of financial instruments	(7)	(11)	4	36%
Transition costs	11	4	7	175%
Gain on restructure of gas storage operations	(7)	-	(7)	(100%)
Clutha land sales	(7)	(13)	6	46%
Asset impairments	2	72	(70)	(97%)
Gas meter assets sale	-	(26)	26	100%
New Plymouth power station sale and provision release	-	(17)	17	100%
Restructuring costs	-	8	(8)	(100%)
Tax on items excluded from underlying earnings	1	(14)	15	107%
Underlying earnings after tax	**227**	**202**	**25**	**12%**

Explanation of reconciliation from reported profit to underlying earnings

- The adjustments from reported profit to underlying earnings are as follows:
  - The change in fair value of financial instruments that do not qualify for hedge accounting
  - Transition costs are those costs incurred on the Retail Transformation project and associated activities in the Retail business and are comprised primarily of temporary staffing and associated infrastructure costs
  - Gain on sale of priority processing rights through the Waihapa production station as a result of the restructure of gas storage operations
  - Phased programme of land sales in relation to a Clutha River hydro generation development. This development will not proceed in the foreseeable future
  - Asset impairments related to land held for sale and in 2013 impairments for wind generation development and other minor projects.

Operating cashflow after tax (OCAT) and OCAT ratio

- Contact uses OCAT and OCAT ratio as internal measures of the cash-generating performance of the business
- Key difference between OCAT and statutory cash flows from operating activities is OCAT includes stay-in-business capex

OCAT ratio

- Measures Contact's cash returns generated from productive funds employed within operations

OCAT ratio = (OCAT – interest tax shield) / average funds employed (excl CAPWIP)

- Interest tax shield adjustment accounts for the reduction in tax due to interest paid

Average funds employed

- Measures funds employed by Contact in the operating assets of the business, excluding capital work in progress that is not yet operational
- Calculated on a 12-month weighted average basis to match the operating asset base to operational cash flows

Net assets
Less:
Cash
Derivative financial instruments - assets
Capital work in progress
Add:
Debt (NZD equivalent of notional borrowings - after foreign exchange hedging and before deferred financing fees
Derivative financial instruments - liabilities
Fund employed (12 month weighted average)