2015 Interim Results Presentation

16 February 2015

6 months ended 31 December 2014
Dennis Barnes, Chief Executive Officer
Graham Cockroft, Chief Financial Officer

Contact™

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.

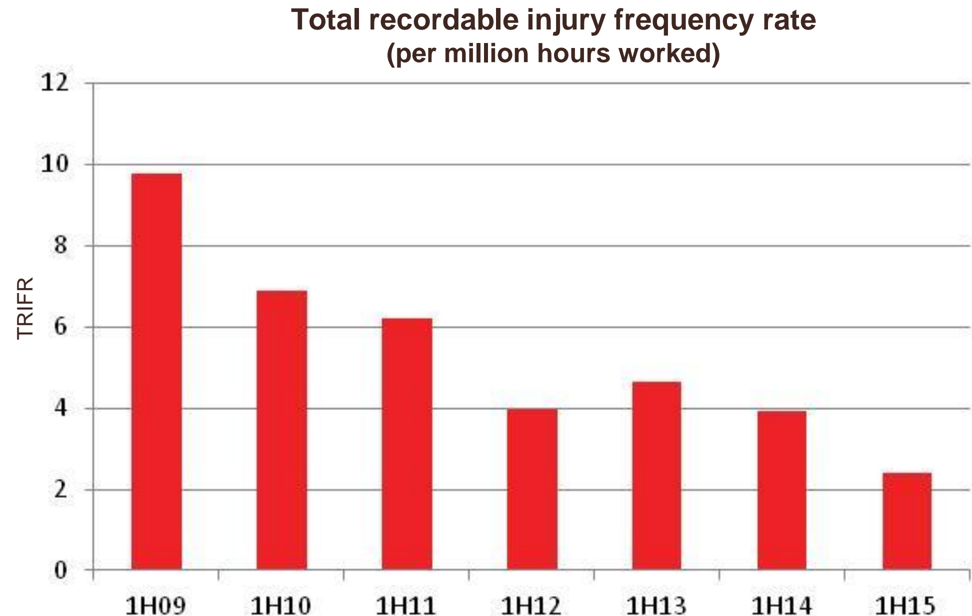
Furthermore, while all reasonable care has been taken in compiling this presentation, Contact accepts no responsibility for any errors or omissions.

This presentation does not constitute investment advice.

Performance highlights

Advancing our safety culture

- Our number one priority is safety and we are advancing our safety culture to achieve zero harm
- On track to meet our target of reducing TRIFR by 20% each year
- Over 4,700 safety conversations recorded in 1H15 puts us on track to reach our observation target which if achieved all eligible employees receive an award of Contact shares
- Vocal and supportive during the process to revise the Health and Safety Act and regulations
- We have commenced an integrated programme of work to improve our process safety performance and capability, simplify our safety systems and advance our safety culture



Statutory profit down 54% to $51m
Underlying earnings per share down 21%

	6 months ended 31 December 2014	
EBITDAF[1]	$257m	down 3% from $264m
Profit	$51m	down 54% from $112m
Earnings per share (cents)	6.9 cps	down 55% from 15.3 cps
Underlying earnings after tax[1]	$76m	down 22% from $97m
Underlying earnings per share (cents)	10.4 cps	down 21% from 13.2 cps
Interim dividend (cents)	11.0 cps	no change from 11.0 cps
Underlying Operating cashflow after tax (OCAT)[1]	$227m	up 31% from $173m
Free cash flow[2]	$180m	up 51% from $119m
Capital expenditure	$48m	down 69% from $153m

[1] Refer to slides 31-35 for a definition and reconciliation of EBITDAF, UEAT and OCAT

[2] Refer to slide 15 for a definition of free cash flow

Free cash flow up 51%

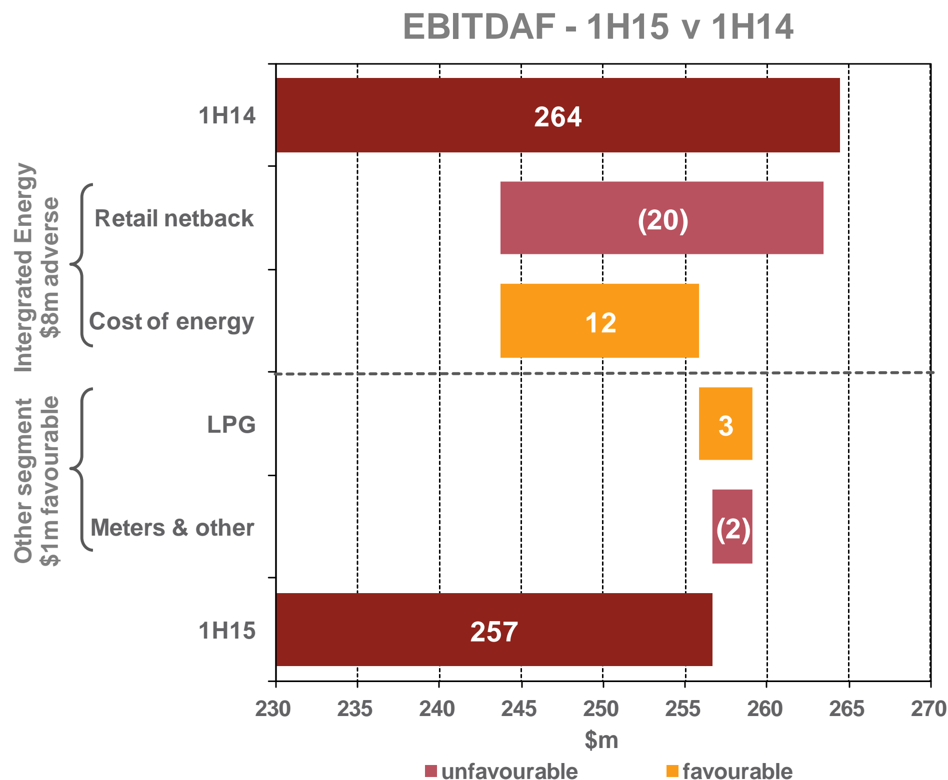
Business performance

- Retail volumes remained stable; increased share of growing small business market offset residential customer losses
  - National demand increased 2.9% with increased irrigation load and cooler temperatures offsetting efficiency gains
- Continued intensity of retail competition reduced margins
- Cost of energy improved with renewable contribution increasing from 68% to 76% following Te Mihi commissioning
- Cash flow improved primarily due to natural gas inventory movements and favourable retail collections offsetting increased stay in business capex
- Current growth capex projects now complete

Cost of energy improvements more than offset by lower retail margins

Integrated Energy segment EBITDAF: down $8m (3%) to $236m

- **Netback:** unfavourable $20m (4%)
  - Intense competition during new system implementation
  - Volumes maintained although netback per MWh down 5%
- **Cost of energy:** favourable $12m (6%)
  - Transition period for the portfolio; contribution from Te Mihi impacted by plant outages



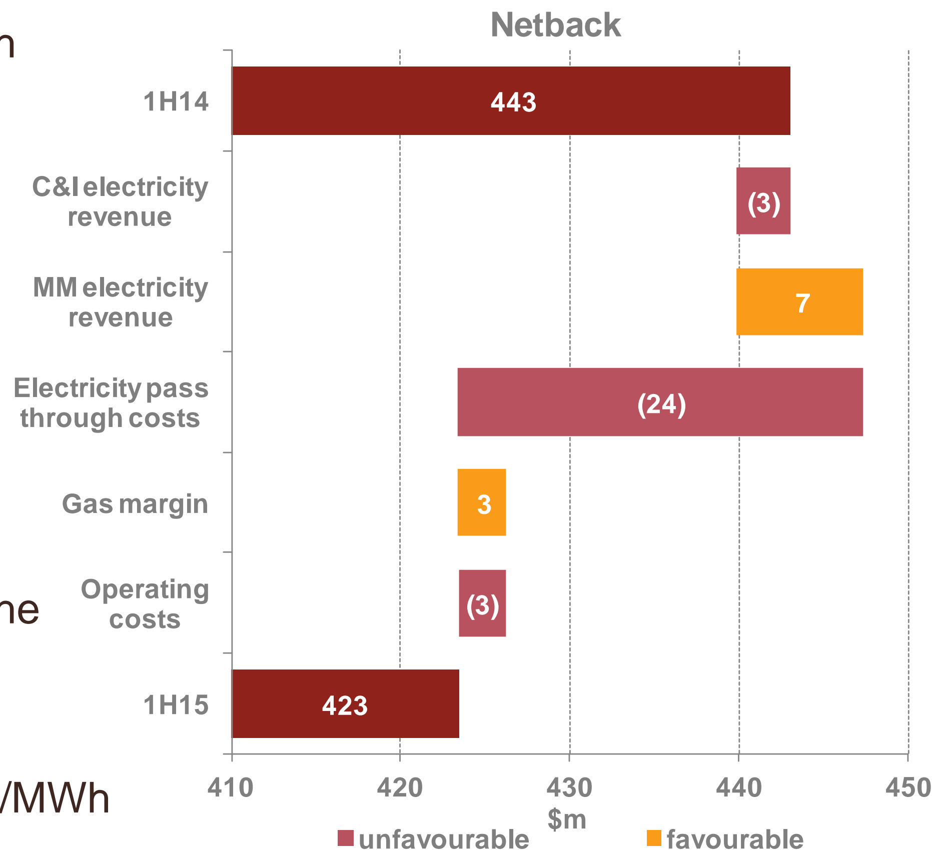
Other segment EBITDAF increased $1m to $21m

- **LPG:** favourable $3m due to a combination of higher sales volumes and lower costs
- **Meters & Other:** unfavourable $2m reflecting the transition to smart meters

Netback – $20m lower (4%) to $423m

Mass market discounting prevents full recovery of rising distribution costs

- Sales volume in line with 1H14 at 4,317 GWh
  - Mass market sales up 38 GWh (2%) due to increased small business customer numbers offsetting residential customer losses
  - Customer numbers down 6,500 due to competition and reduced activity during new system stabilisation
    - 450 customers gained in January
  - C&I sales down 54 GWh (2%) driven by strong competitive activity at the end of the 2014 financial year
- Netback unfavourable $4/MWh at $84/MWh
  - Mass market electricity netback down $7/MWh
    - $3/MWh due to one-off changes in network billing timing
    - $4/MWh largely due to increased discounting
      - Customers on campaign pricing are receiving a full aggregation and risk management service at a netback comparable to C&I customers
  - C&I electricity netback down $3/MWh reflecting forward curve movements



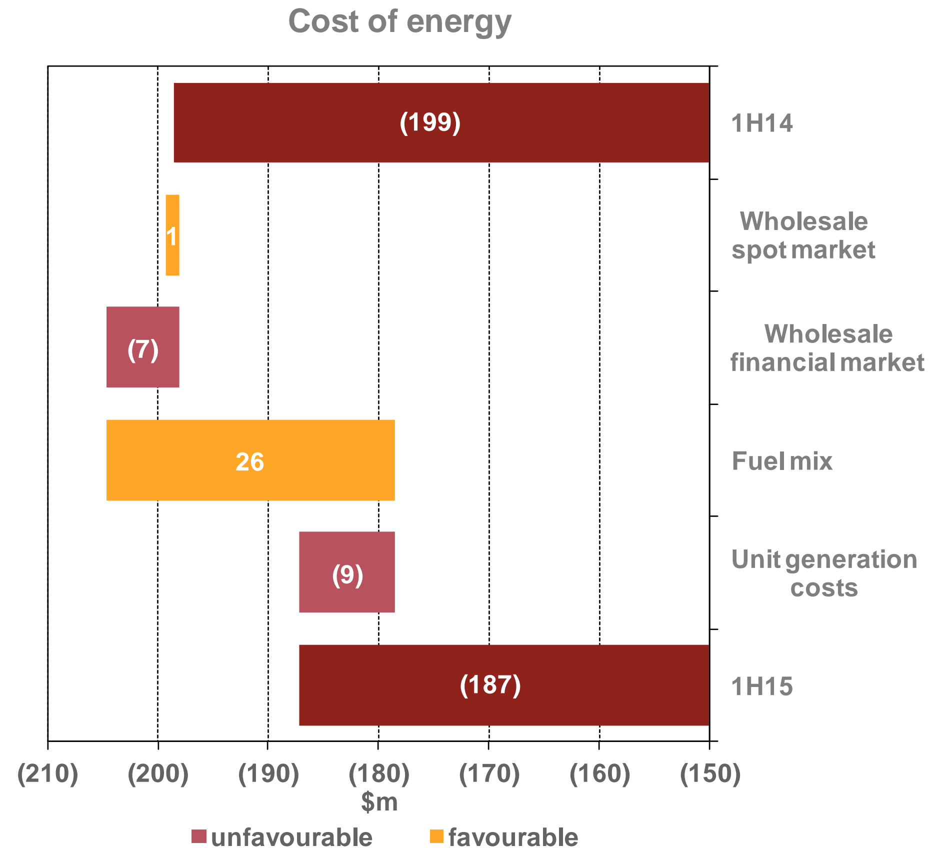
Retail Transformation
Stabilisation continues; benefits realisation commences

- Since system go-live
  - Average time to answer calls down 80%
  - Average call handing times reduced 33%
  - Contact proportion of EGCC complaints reduced from 70% to 30% in the December quarter and are continuing to fall[1]
  - Collection of deferred billings has been slower than planned although late bills are reducing. An additional $1m has been included in the bad debt provision
- New product launches supported by TV commercials. Door-to-door restarted in October on an appointment only basis. 450 customers gained in January
- Process efficiency, new products for mass market segments, revised pricing models and improved digital capability can now be advanced to leverage the system without major capital expenditure

[1] Contact share of quarterly complaints received by the Electricity and Gas Complaints Commissioner

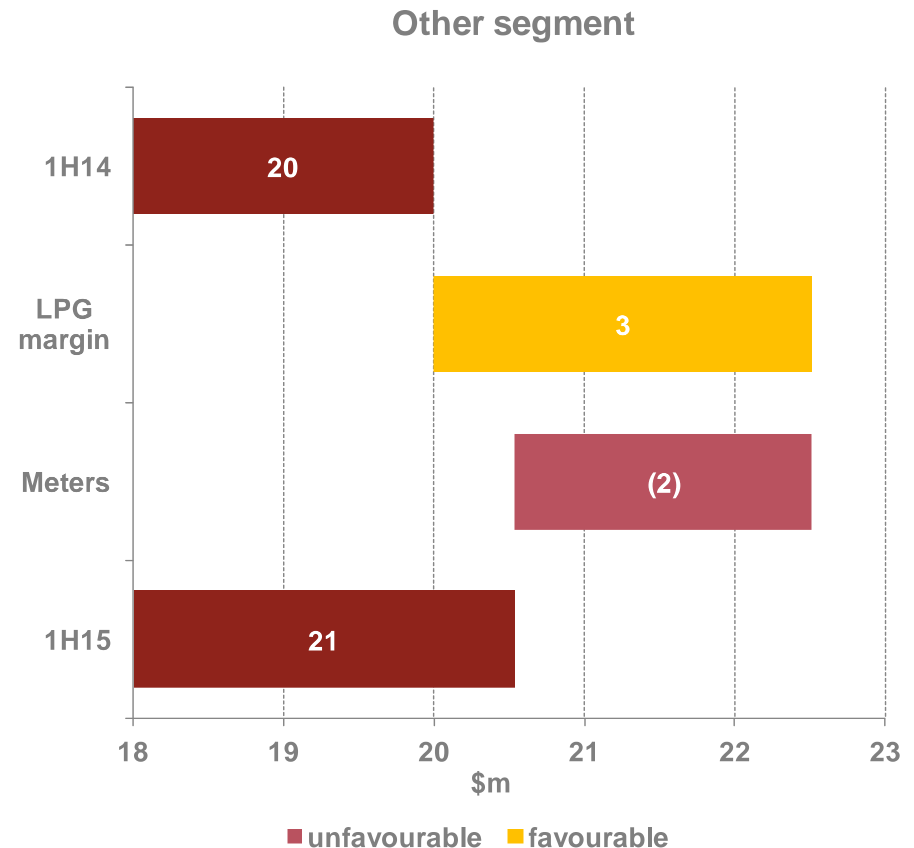
Cost of energy – favourable $12m (6%) to $187m
Renewable generation increased from 68% to 76%

- Wholesale spot market up $1m
  - » Generation volume up 74 GWh with Te Mihi increasing geothermal generation by 392 GWh, purchases up 86 GWh
  - » LWAP/GWAP separation down 3% with average GWAP up $36/MWh
- Wholesale financial market unfavourable $7m due to 1H14 including HVDC commissioning rebates and contract payments
- Fuel mix favourable $26m with renewable generation increasing from 68% to 76%
  - » Gas used in generation down 2.5 PJ (19%); reduced contracted gas supported by storage extractions
  - » Lower plant availability
- Unit generation cost unfavourable $9m with higher gas unit costs reflecting reduced spot purchases, increased storage extractions and increased cost of carbon units



Other segment – favourable $1m (5%) to $21m

- LPG margin up $3m
  - LPG sales up 2,288 tonnes (7%) with reticulated supply responding to cooler weather
  - Profit margin up $42/tonne (12%) with continued margin pressure offset by efficiency savings
  - 2H15 product costs expected to follow oil prices lower
- Meter business unfavourable $2m reflecting the transition to smart meters
  - Smart meter deployment continues with approximately 225,000 customers with a smart meter
  - Meter depreciation reduced by $2m



Financial Review — Graham Cockroft

Statutory profit down 54% to $51m

Underlying earnings per share down 21%

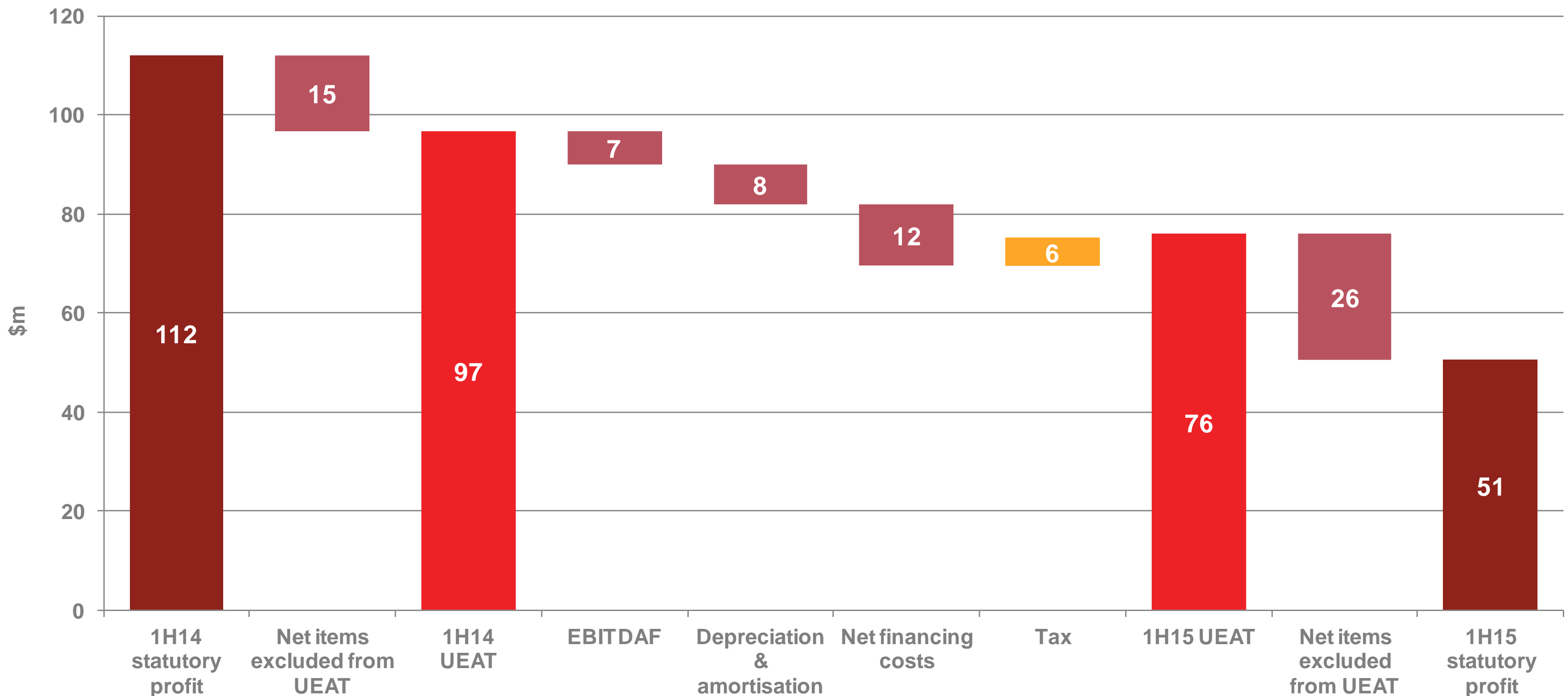
	6 months ended 31 December 2014 $m	6 months ended 31 December 2013 $m	Variance $m	Variance %
Profit	51	112	(61)	(54%)
Earnings per share (cents)	6.9	15.3	(8.4)	(55%)
Revenue and other income	1,240	1,148	92	8%
EBITDAF[1]	257	264	(7)	(3%)
Underlying EBIT	156	171	(15)	(9%)
Underlying earnings after tax[1]	76	97	(21)	(22%)
Underlying earnings per share (cents)	10.4	13.2	(2.8)	(21%)
Underlying OCAT[1]	227	173	55	31%
Free cash flow per share (cents)[2]	24.5	16.2	8.3	51%
Capital expenditure	48	153	105	69%

[1] Refer to slides 31-35 for a definition and reconciliation of EBITDAF, UEAT and OCAT

[2] Refer to slide 15 for a reconciliation of free cash flow

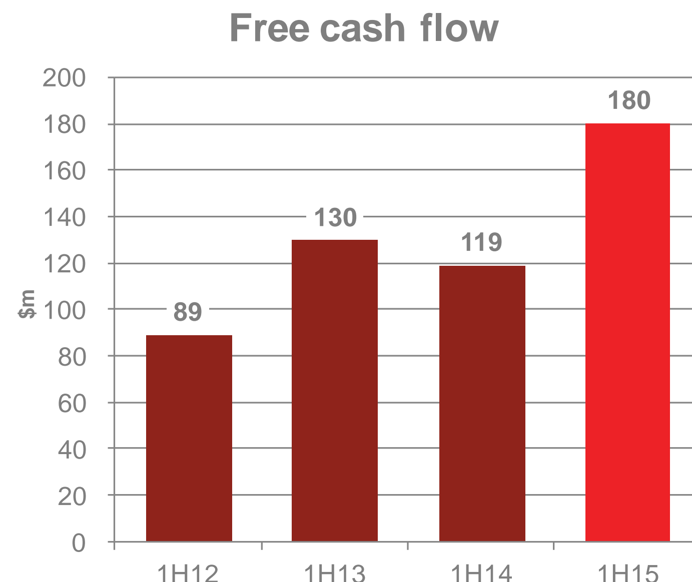
Free cash flow up 51%

Statutory profit down 54% from $112m to $51m
Underlying earnings after tax down 22% from $97m to $76m



Improved working capital is partially offset by higher stay in business capex and lower EBITDAF

	6 months ended 31 December 2014 $m	6 months ended 31 December 2013 $m	Variance $m	%
EBITDAF	**257**	**264**	**(7)**	**(3%)**
Change in working capital	23	(50)	73	146%
Tax paid	(35)	(38)	4	8%
Non-cash items	8	11	(3)	(27%)
Underlying operating cash flows	**253**	**186**	**67**	**36%**
Stay in business capital expenditure	(26)	(13)	(12)	(100%)
Underlying OCAT[1]	**227**	**173**	**54**	**31%**
Net interest paid	(47)	(54)	8	13%
Free cash flow[2]	**180**	**119**	**61**	**51%**
Average Funds Employed excl. CAPWIP	4,696	3,908	788	20%
Underlying OCAT Ratio	4.6%	4.0%	0.5%	13%



[1] Operating cash flow after tax. Refer to slide 35 for a definition and reconciliation of OCAT

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

- Favourable working capital movement primarily due to natural gas inventory movements and favourable retail collections
- Recovery of deferred billings due to Retail Transformation continues, although recovery is slower than foreshadowed

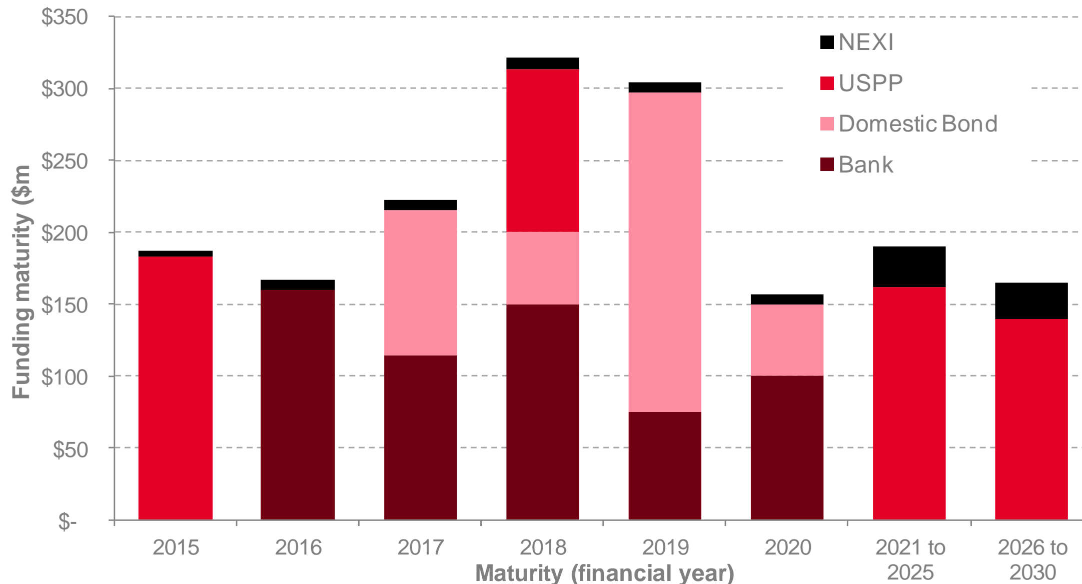
Financing costs increased by $12m due to the reduction in capitalised interest following the completion of the Te Mihi and Retail Transformation projects

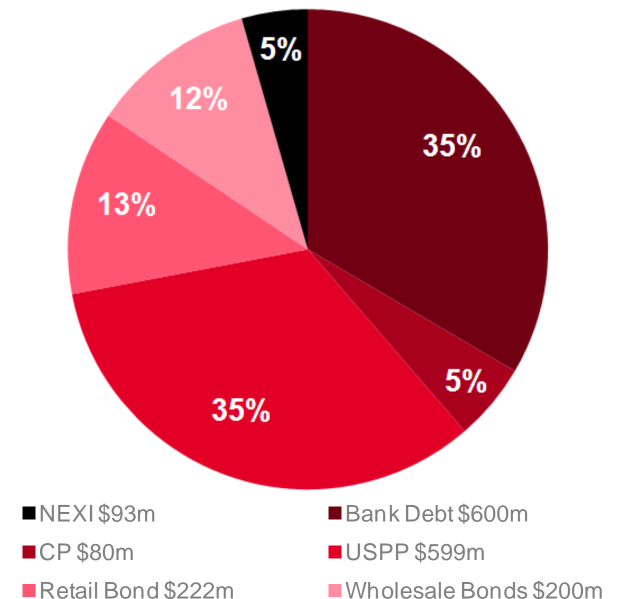
	6 months ended 31 December 2014 $m	6 months ended 31 December 2013 $m	Variance $m	%
Interest income	-	3	(3)	(100%)
Interest expense	(49)	(62)	13	21%
Financing costs	**(49)**	**(59)**	**10**	**(17%)**
Financing costs capitalised	0	22	(22)	(100%)
Net financing costs	**(49)**	**(37)**	**(12)**	**32%**
Weighted average interest rate on borrowing[1]	6.1%	6.4%	0.3%	5%

[1] excluding fees and costs

- Lower weighted average interest rate reflects the improvements resulting from the 2014 refinancing programme
- Interest income of $3m in 1H14 was due to partial pre-funding of 2014 debt maturities
- No interest was capitalised in 1H15 following the completion of Te Mihi and Retail Transformation projects

Contact has a manageable funding maturity profile and retains a diverse portfolio of funding sources

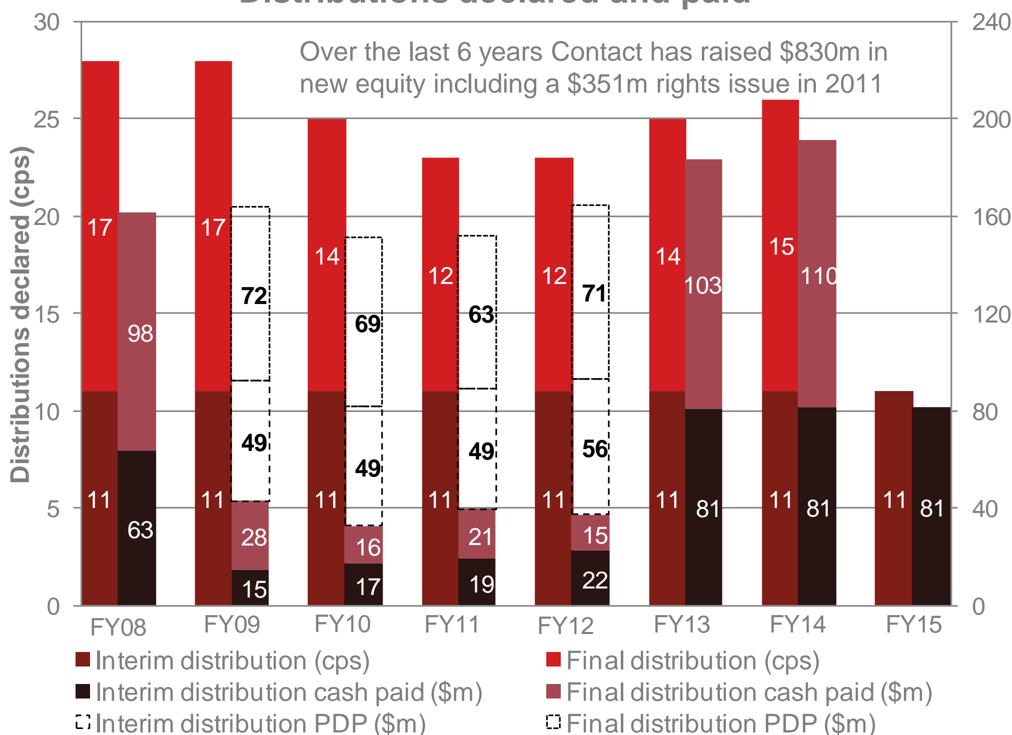


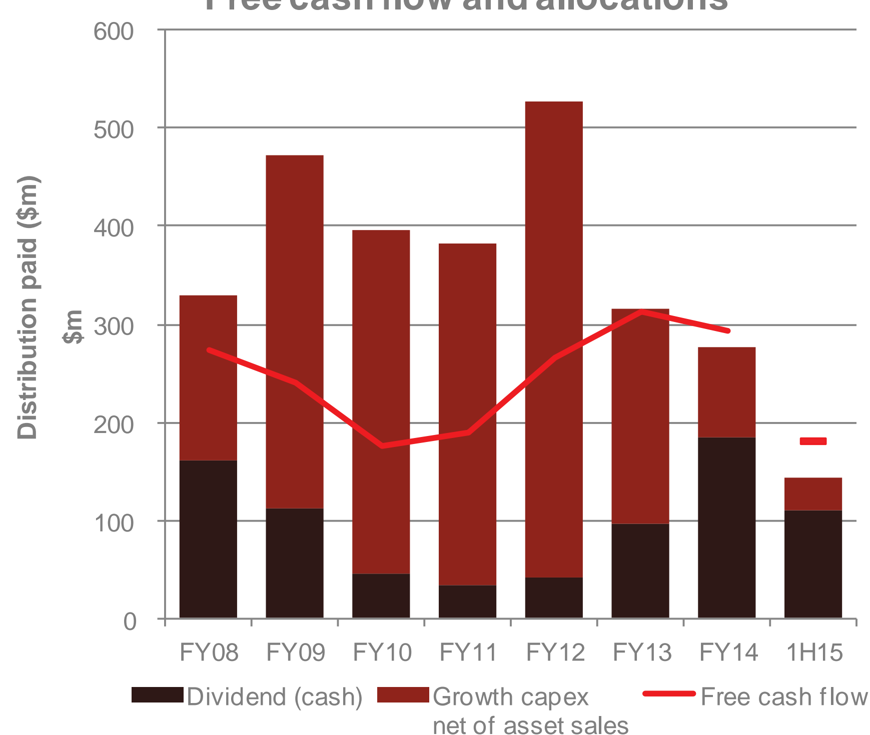


- Balance sheet gearing level remains strong at 31 December 2014:
  - Net debt $1.39bn, in line with June 2014. Gearing ratio 28%
  - $600m total committed facilities ($185m drawn and $80m commercial paper on issue)
  - Weighted average tenor of funding facilities 4.2 years (excluding bridge facility)
- Contact has a $100m bridge facility in place to provide timing flexibility for the $183m USPP maturity in March 2015

Fully imputed interim distribution
Stable at 11 cps

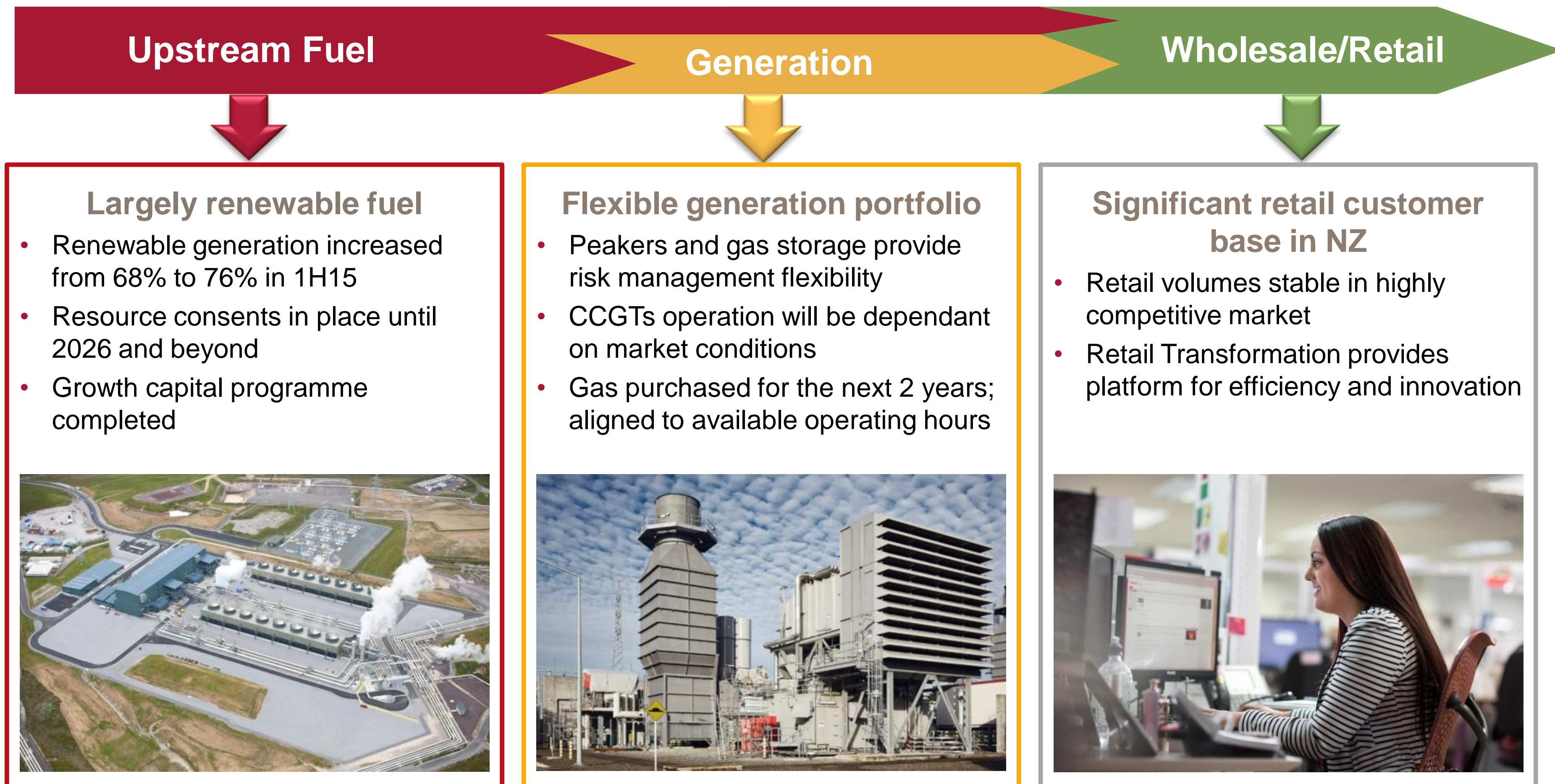
- Free cash flow including the purchase or sale of fixed assets in 1H15 was $146m compared with $117m in 1H14 due to reduced growth capital expenditure, partially offset by the sale of gas meters in 1H14
- Record date 4 March 2015; payment date 26 March 2015





Prospects

Contact's capital investments have positioned it well for the New Zealand market …



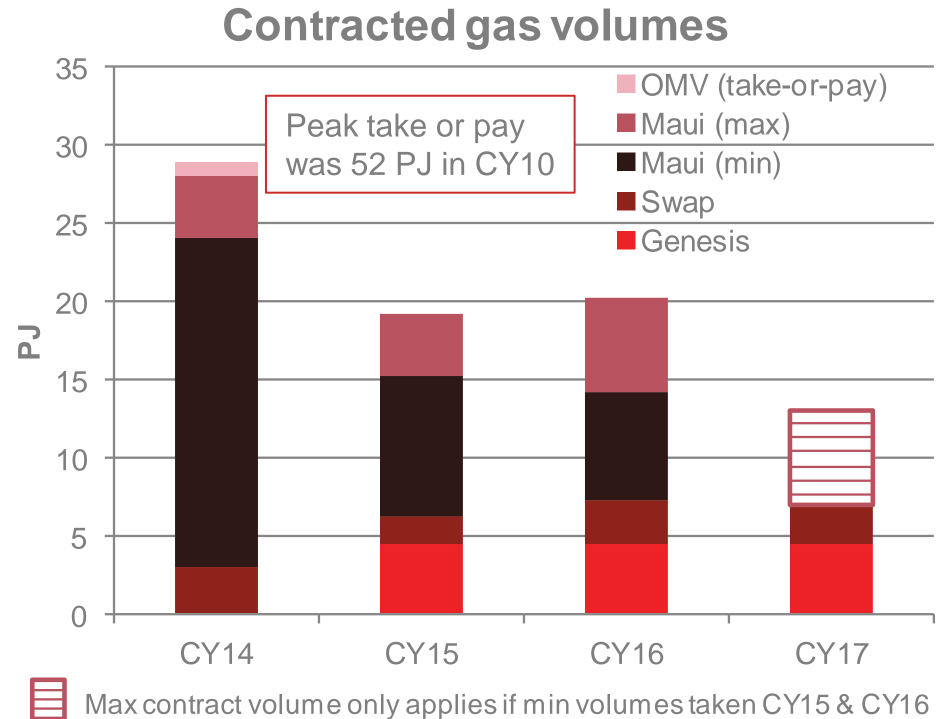
… with limited need for further investment in the operating business

Geothermal performance

- Te Mihi operating above business case
  - Extended outage in 1H15 increased net capacity to 163MW and can operate as high as 176MW
  - All construction claims now settled with EPC contractor
  - A determination process will be complete prior to the end of FY15 to potentially recover $7.7m of extended outage costs
- Wairakei consent conditions revised providing operational flexibility to take 15% more fluid on a day as long as a 3-month average take is maintained
- Ohaaki reconsented for a further 35 years with production stable at 40 MW; development projects underway to optimise output over the next 2-3 years
- Production in calendar year 2015 to be in the order of 3,300GWh (2014 was 2,332 GWh)

Thermal assets provide hydrology risk management and optionality

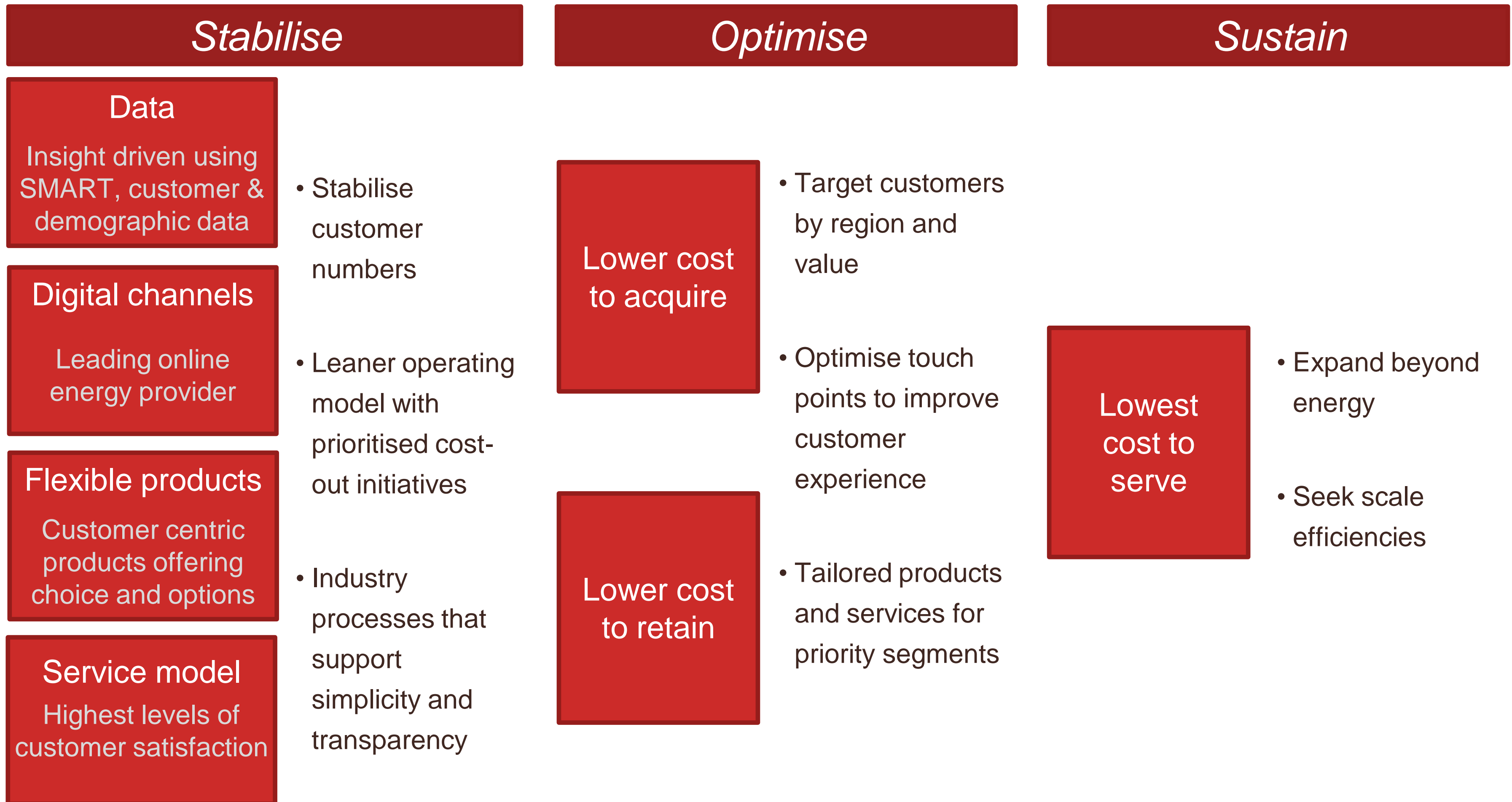
- Extension to gas supply agreement completed with Maui Developments Limited
  - 22 and 26 petajoules over 2015-2017
  - Able to move volumes between years combined with 11.2PJ of gas stored provides significant flexibility
- New long-term peaker maintenance agreement covering support and component replacements including a spare engine on-site



- Focus for the CCGTs is on managing remaining operating hours until Tiwai future becomes clearer
  - 19,400 equivalent operating hours remaining between Otahuhu and TCC before major maintenance required. Only one CCGT expected to be used in winter 2015 if required
  - Contact actively looking at options for Lower South Island transmission upgrades to reduce exposure to Tiwai closure

Retail Transformation provides a platform for efficiency and innovation in a highly competitive market

- Customer proposition based on SAP data capability which enables us to operationalise segmentation



Outlook

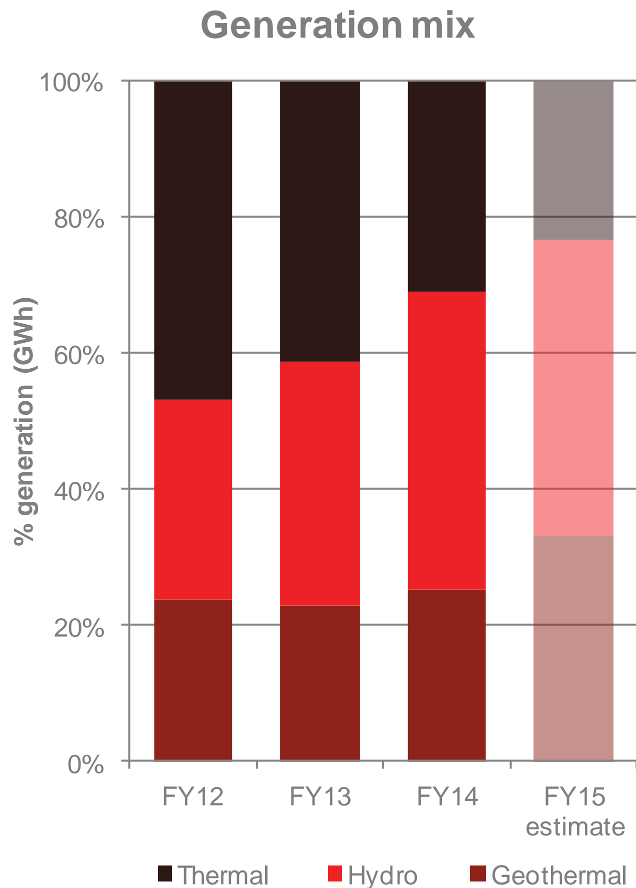
- 2H15 expected to improve
  - Geothermal generation expected to increase to over 1,600 GWh with the possibility of a liquidated damages receipt for the extended Te Mihi outage in 1H15
  - Higher plant availability
  - Lower contract gas costs balanced with storage extractions
  - LPG costs reflective of lower oil prices
  - No repeat of 1H15 one-off network costs
  - Continued intense retail competition

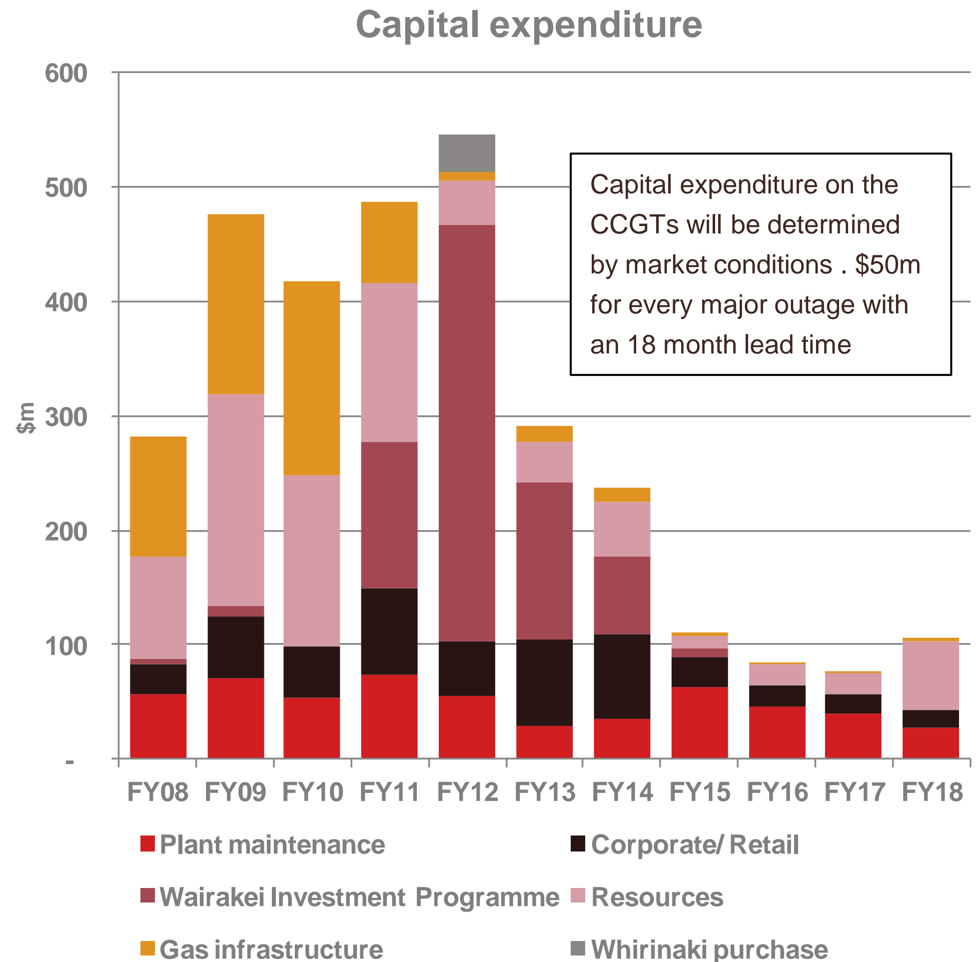
- Medium-term outlook
  - Retail transformation efficiency gains
  - New gas contracts and Te Rapa electricity agreement commence
  - Increased geothermal production offsets return to mean hydrology
  - The wholesale price reflects the reduction in reserve margins as less thermal fuel is committed

The New Zealand electricity market is mature, limiting options for growth

- No material long-term growth expected
  - Tiwai future is uncertain
  - Continued improvement in energy efficiency is likely
  - Technology advances may drive opportunity
    - Distributed generation uptake, particularly solar PV, will continue; however, centralised renewable generation is more economic for customers in the near term
    - Electric vehicles are compelling for New Zealand. Contact will replace its existing fleet with plug in hybrid electric vehicles
    - Contact will offer products and services to engage more deeply with customers through these technology advance
- The New Zealand market is fragmented; however, consolidation opportunities are considered limited
- Tauhara remains New Zealand’s next most competitive generation development but short to medium term development seems unlikely given the demand outlook

The investment in renewable generation has lowered Contact's cost of energy and requires limited ongoing capital expenditure





Contact's strongly cash generative business provides new opportunities to create shareholder value by:

- **Reducing debt**
  - Current gearing ratio is 28% and supportive of BBB credit rating
  - De-leveraging is likely to be inefficient
- **Increasing distributions**
  - To support the recent $2 billion capital programme we have raised $830m of equity
  - Imputation credits and available subscribed capital provide tax effective options for dividends or capital returns
  - Distribution of forecast free cash flow increase through dividends may not be efficient, requiring alternative distribution methods
- **Investing in growth opportunities**
  - Identify and execute on opportunities that provide a return above the cost of capital
  - Absent alternatives in New Zealand, this is likely to be in international markets

… with work continuing to determine the optimal allocation between these three options

A strong capability in geothermal and hydro development and operation provides opportunities for growth

- Geothermal is Contact's area of strongest capability
  - A dedicated, internationally recognised subsurface team in Wairakei
  - Operational experience in one of the world's longest producing geothermal regions
  - Recent success in construction management, consenting and stakeholder engagement
  - Particular strength in engaging with indigenous communities
- We are investigating options to leverage Contact's skills and experience in international markets
  - Any initial investments expected to be funded by free cash flows
- A business delivering a strong yield and supporting renewable growth overseas is an attractive investment

Renewable operations

431MW Geothermal

752MW Hydro

Recent developments

Te Huka (2010) 28MW

Bioreactor (2012)

Te Mihi (2014) 166MW

Summary

- Transitional six-month period
  - Retail competition and generation oversupply reflected in lower retail margins
  - Capital projects integrated
    - Retail system stabilisation allows return to full acquisition activity and commencement of benefits realisation
    - Renewable generation increased with further gains expected
  - Positioning of thermal fleet and reduced fuel purchases starting to be reflected in forward prices
- In 2H15 and FY16 our performance will improve
  - Continued intense retail competition
- Contact is focused on the management and application of cash flow
- Considering the appropriate balance of distributing cash flow versus investing in growth
  - Any material growth investments likely to be in international markets

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 statutory profit:

	6 months ended 31 December 2014	6 months ended 31 December 2013	Variance	
	$m	$m	$m	%
EBITDAF	**257**	**264**	**(7)**	**(3%)**
Depreciation and amortisation	(101)	(93)	(8)	(9%)
Change in fair value of financial instruments	(18)	16	(34)	(213%)
Other significant items	(17)	5	(22)	(440%)
Net interest expense	(49)	(37)	(12)	(32%)
Tax expense	(21)	(43)	22	51%
Profit	**51**	**112**	**(61)**	**(54%)**

- 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 increased by $8m (9%) reflecting commissioning of Te Mihi and go-live of the Retail Transformation in 2H14. This is partially offset by lower operating hours of the thermal power stations due to higher renewable generation
  - Change in fair value of financial instruments: the balance of -$18m reflecting the reduction in swap rates over the period
  - Other significant items: these are detailed on the next two slides
  - Net interest expense increased $12 million (32%) to $49m in 1H15 due to no interest being capitalised ($22m in 1H14) following the commissioning of major projects. This is offset partially by lower interest costs on debt ($8m) due to lower average interest rates and lower deferred financing costs ($5m) from debt restructuring. Interest income also fell in the period due to pre-funding of 2014 maturities being held as cash during 1H14
  - Tax expense for FY14 was $21m, which represents an effective tax rate of 29.2% (1H14: 28.0%)

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 Contact's ongoing performance
- Other significant items are determined in accordance with the principles of consistency, relevance and clarity. Items 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 statutory profit for the year to underlying earnings after tax:

	6 months ended 31 December 2014	6 months ended 31 December 2013	Variance	
	$m	$m	$m	%
Profit	**51**	**112**	**(61)**	**(54%)**
Change in fair value of financial instruments	18	(16)	34	213%
Transition costs	17	2	15	750%
Gain on restructure of gas storage operations	-	(7)	7	(100%)
Clutha land sales	-	(3)	3	100%
Asset impairments	-	3	(3)	(100%)
Tax on items excluded from underlying earnings	(10)	6	(16)	(267%)
Underlying earnings after tax	**76**	**97**	**(21)**	**(22%)**

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

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)