

INVESTOR BRIEFING

Wednesday, 22 November 2017

Contact hosted invited institutional investors and research analysts in Queenstown on Tuesday evening in advance of a tour of the company's hydro generation assets on the Clutha. Dennis Barnes, Contact Chief Executive, presented a brief update current performance and outlook for distributions to shareholders.

Delivering strong operational performance and providing value for customers and shareholders

Progress on our strategy

"Contact's strategy is to optimise the Customer and Generation businesses to deliver strong cash flows which are ultimately for distribution to our shareholders" said Dennis Barnes, Contact Chief Executive.

"The transparency and visibility of performance in our Customer and Generation businesses is driving a relentless focus on growing cash flow by delivering cost efficiency and growing retail margins. In August, we announced our ambitious target to reduce operating costs and capital spend in the financial year by between \$46m and \$66m against FY17.

Pleasingly, four and a half months into the financial year, we are achieving truly sustainable cost reduction. Operating costs are tracking toward the lower end of our target with capital expenditure for the year expected to sit comfortably within the guided range. The cost reduction is in the context of an improving customer experience, increasing customer advocacy and strong generation operational performance.

This transformation is being enabled by the efforts of our dedicated employees including the operationalisation of customer lifetime value, the implementation of long-term asset management plans and through the ideation and execution of a myriad of individual continuous improvement initiatives. I have observed a clear acceleration in performance and accountability since we embedded key commercial capability directly into the two stand-alone businesses after realigning our corporate functions in June. After this period of significant change, we ran a comprehensive companywide engagement and business performance survey which saw another jump in employee engagement to 71% on a stronger connection to our purpose.

This has led to encouraging progress in delivering our strategy" said Mr Barnes.

	Strategy	Focus areas revealed in August	Progress
Customer	Will deliver value by providing customers with choice, certainty and control while reducing cost to serve and improving the customer experience through	<ul style="list-style-type: none"> » Sustainable cost reduction » Digitalisation / streamline highest-priority customer journeys » Optimise and automate processes 	<ul style="list-style-type: none"> » Customers are advocating for Contact in greater numbers, with a 30% improvement in Net Promoter Score since June 2017. » Improving the experience we provide customers has also supported growth, with our overall customer numbers for the year across electricity, natural gas and LPG rising from 567,000 in June to 569,500, in an extremely competitive market. » Price changes for electricity, natural gas and LPG customers, the addition of convenience fees and the greater use of

	systems-enabled operational improvements	<ul style="list-style-type: none"> » Adapt IT operating model to better serve customer needs 	<p>smart meter technology in the first quarter of FY18 have been seamlessly executed to support FY18 year to date gross margin improvement.</p> <ul style="list-style-type: none"> » More customers are choosing to stay with Contact, as we again recorded a level of customer switching below that of the overall market. Contact customer churn for the year to date has reduced to 19.2%, 2.3% below the market average of 21.5% » Cost to serve is down 18% in the first four months of the year on the simplification of our IT services and move to the cloud, reduced churn costs, an increase in digital self-service, reduced bad debt write-offs and lower corporate costs. » Contact Broadband continues to build momentum with around 550 customers after only limited promotional spend. A review of the success of Broadband as a customer retention tool will be made once we have 2,000 customers. While there is clear appetite for the product from customers, Contact will maintain economic discipline. » Contact is not integrated into upstream LPG supply and is exposed to the fluctuations in oil commodity prices. With LPG product costs up by 10% on the prior period, discipline is needed to pass through product cost changes over time.
Generation	Low cost, long life and flexible generation portfolio with a continuous improvement programme focusing on safety, spend, reliability and resource utilisation to improve the efficiency of our generation assets	<ul style="list-style-type: none"> » Sustainable cost reduction » Innovating to lead the world in lowering the cost of geothermal energy » Initiatives to support further decarbonisation of our energy sector 	<ul style="list-style-type: none"> » Contact operates in weather dependent commodity markets. This hydrological variability is managed by using portfolio flexibility and a strong risk management framework. » Hydro generation for the year to date is currently 233GWh below the prior comparative period. Timing of hydro inflows is important to earnings - with the month of July 210GWh down on the prior comparative period. Pricing effects of the dry 2017 winter were short lived and reflected the high lake storage levels in February. » Cannot predict exactly when a reversion to mean hydrology will occur so will continue to focus on the controllable aspects of the business. » Record geothermal production, up 13% on the prior comparative period as Contact obtained a variation to the Wairakei mass take consent in September 2017. This allows for the extraction of 245,000 tonnes of geothermal fluid per day on average over a year. » Contact is hosting Geo40, who will be building two plants at Ohaaki to remove silica from waste geothermal fluids,

			<p>potentially reducing costs associated with silica scaling.</p> <ul style="list-style-type: none"> » Thermal availability and reliability has been good. » External recognition of the strength of our process safety systems and progress in fostering a generative safety culture have led to consulting opportunities which are providing a small revenue stream. » The new government has outlined an ambitious decarbonisation agenda which aligns strongly with our strategy..
Underpinned by a disciplined and transparent approach to operating and capital expenditure while continuing to investigate ways to optimise our portfolio of assets	» Leaner corporate centre with aligned support functions and IT programme in line with business requirements	» Corporate costs are \$2m lower in the first four months of the year, against the prior comparative period as capability requirements are resourced by the business.	<ul style="list-style-type: none"> » Refurbishment of the Taranaki Combined Cycle plant (TCC) underway, potentially critical if low inflows into South Island catchments persist or a second dry sequence eventuates. » Limited gas purchases for FY18 to augment gas available in storage, this includes competitively priced winter-only gas. » Increasingly convinced that gas, and in particular our Ahuroa gas storage facility, will have an important transitional role in the decarbonisation of New Zealand.

Outlook

“The retail market is currently delivering good outcomes for increasingly satisfied customers who now have a choice of providers offering competitive pricing and developing new and innovative products.

While Contact’s earnings for the financial year to date have been impacted by lower hydro generation and to a lesser extent LPG product costs. Contact will continue to focus on delivering operating free cash flow growth over time by capturing gross margin and driving cost efficiency” said Mr Barnes.

Strong cash flows to deliver increasing capital returns

Contact remains committed to maintaining a BBB credit rating, as assessed by S&P. This commitment includes reducing gearing to return the net debt to EBITDAF ratio to 2.8x by June 2018.

Our portfolio of long life generation assets and the progress on delivering on our cost efficiency programme gives confidence in the strength of Contact’s sustainable cash flow generation which allows Contact to target an FY18 ordinary dividend of 32 cents per share, an increase of 23% on FY17.

Once the S&P net debt / EBITDAF ratio is below 2.8x, distributions will then increase to between 80 – 90% of operating free cash flow.

ENDS

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