

INVESTOR BRIEFING

Thursday, 21 December 2017

Sale of the Ahuroa Gas Storage facility

Delivering on our strategy through portfolio optimisation

Contact has entered into an agreement to sell the Ahuroa Gas Storage facility and associated assets (AGS) to Gas Services New Zealand (GSNZ), an associate of First Gas Limited, for a cash consideration of NZ\$200 million. As part of the transaction, Contact has retained access to competitive long term gas storage services compatible with its requirements for flexible thermal generation.

Contact's strategy is to optimise the Customer and Generation businesses to deliver strong cash flows which are ultimately for distribution to shareholders. The strategy is underpinned by a disciplined and transparent approach to operating and capital expenditure while ensuring our portfolio of assets are delivering returns for shareholders.

In line with this strategy, Contact identified higher value owners for this long life infrastructure asset and initiated a negotiated sales process to unlock value for shareholders.

Creating value for Contact shareholders through the commercialisation of AGS

The AGS reservoir is larger than Contact's requirements and is capable of supporting the provision of storage services to other potential customers. GSNZ, as an independent owner of AGS and key gas industry participant, is well placed to accelerate the commercialisation of AGS. With a lower cost of capital and opportunity for a sharing of operational synergies, GSNZ will be a higher value owner of the facility.

To support potential new customers of AGS, GSNZ has committed through to an expansion of the AGS facility within approximately two years of completion of the sale transaction, which will reduce the cost per unit of gas storage services.

Contact preserves long term value by maintaining its capacity rights to the expansion of the AGS facility along with reductions in its annual fee for gas storage services provided by GSNZ where third party customers are contracted by GSNZ.

Consideration

The total consideration for the disposal is NZ\$200 million payable in cash at completion. The sales proceeds arising from the disposal will be subject to income tax payable of approximately \$48 million with net transaction proceeds of NZ\$151 million (after transaction costs of \$1 million) applied to the reduction of debt. The tax payment will result in the creation of additional imputation credits which could allow for the FY18 target dividend of 32 cents per share to be fully imputed.

As a result of the disposal, Contact is expected to record an unaudited estimated gain on the disposal of assets of approximately NZ\$15 million based on the consideration, the carrying value of the assets at 30 November 2017 and the estimated transaction costs.

Until there are additional long term customers of the facility, S&P will capitalise the storage services payments. The S&P net debt / EBITDAF ratio remains substantially unchanged post transaction. Contact expects the transaction to have no impact on its BBB credit rating from S&P.



Completion

Completion of the sale of the AGS is subject to the fulfilment of certain conditions set out in the transaction agreements, including receipt of certain regulatory approvals.

The regulatory approvals include Ministerial consent under the Crown Minerals Act for the sale of the Ahuroa petroleum mining permit and change of operator, and Contact and GSNZ each obtaining required consents under the Overseas Investment Act 2005. Other conditions include GSNZ obtaining an IRD binding ruling as to the tax treatment of the main assets it is acquiring, and a third party taking up (or waiving) its limited entitlements to gas storage capacity in respect of the AGS.

Contact is targeting the satisfaction of these conditions and completion of the transaction by 30 June 2018.

On-going agreements

Contact's need is for competitive storage services compatible with our requirements for flexible thermal generation, including the Stratford peaking plant. Contact has therefore entered into a 15 year agreement with GSNZ for the provision of gas storage services at a competitive annual fee. Contact also has the ability to extend the term of this agreement for further periods of five years at a time.

In addition, Contact will enter into an agreement with GSNZ to provide transitional services, such as operational support and IT services, for three months after completion of the sale transaction.

Background

The AGS facility is a gas processing and compression plant and underground gas storage reservoirs located at Stratford in the Taranaki region of New Zealand. The AGS facility is currently used by Contact for gas injection, storage and withdrawal, and is capable of supporting the provision of storage services to other potential users. The storage capacity of the AGS is up to 18 petajoules, its gas injection capacity of up to 27 terajoules per day and gas extraction capacity of up to 45 terajoules per day.

In 2007, Contact acquired from Origin Energy the rights to develop a gas storage facility using the depleted Ahuroa gas field at a cost of \$164m. Between 2011 and 2017, Contact invested \$58m in the development of the AGS facility, providing the ability to inject pipeline specification gas.

Since taking over the operations of the facility in 2013, Contact has improved the integrity, reliability and costs of operation. The facility cost Contact \$6m p.a. to operate in FY17, compared to historical levels of >\$12m p.a.

About Gas Services New Zealand

GSNZ provides operational services for First Gas and other customers. GSNZ operates one of New Zealand's largest gas networks, with 2,500 kilometres of high pressure gas transmission pipelines and around 4,800 kilometres of gas distribution pipelines in the North Island.

ENDS

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