



Putting our energy where it matters.

International roadshow

**Stockholm, Frankfurt, Zurich, London**

April 2019

**Macquarie Australian Conference**

Sydney, 1<sup>st</sup> May 2019



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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, underlying profit, free cash flow and operating free cash flow are non-GAAP (generally accepted accounting practice) measures. Information regarding the usefulness, calculation and reconciliation of these measures is provided in the supporting material.

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All references to \$ are New Zealand dollars

# Dennis Barnes

## Chief Executive Officer

Dennis Barnes has been Chief Executive Officer of Contact since 2011. Dennis has completed Contact's \$2bn investment programme in renewable energy, flexible generation and companywide systems.

Over his time at Contact Dennis has provided industry leadership on topics as wide ranging as wholesale electricity market structures and health and safety reform.

During 2015, Dennis successfully led Contact as its majority shareholder exited and Contact diversified its shareholding base and listed on the ASX.

Prior to joining Contact, he was General Manager Energy Risk Management at Origin Energy where he oversaw Origin's significant and expanding operations in wholesale markets. Prior to Origin, Dennis held a number of positions operating in international energy markets; including managerial roles at Scottish and English electricity companies. Dennis' career began as a metallurgist with Alcan and he holds a BSc(Hons), GradDip (Marketing) and MBA.



# Agenda

|          |   |                |
|----------|---|----------------|
| <b>1</b> | <b>Contact in context</b>               | <b>5 - 22</b>  |
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## Contact's Wholesale business

Contact is an owner and operator of low-cost, long-life renewable generation assets with consented geothermal development options

Contact owns and operates thermal plant, which is used to manage the risks associated with hydro intermittency


  
**82%**  
**RENEWABLE  
GENERATION**

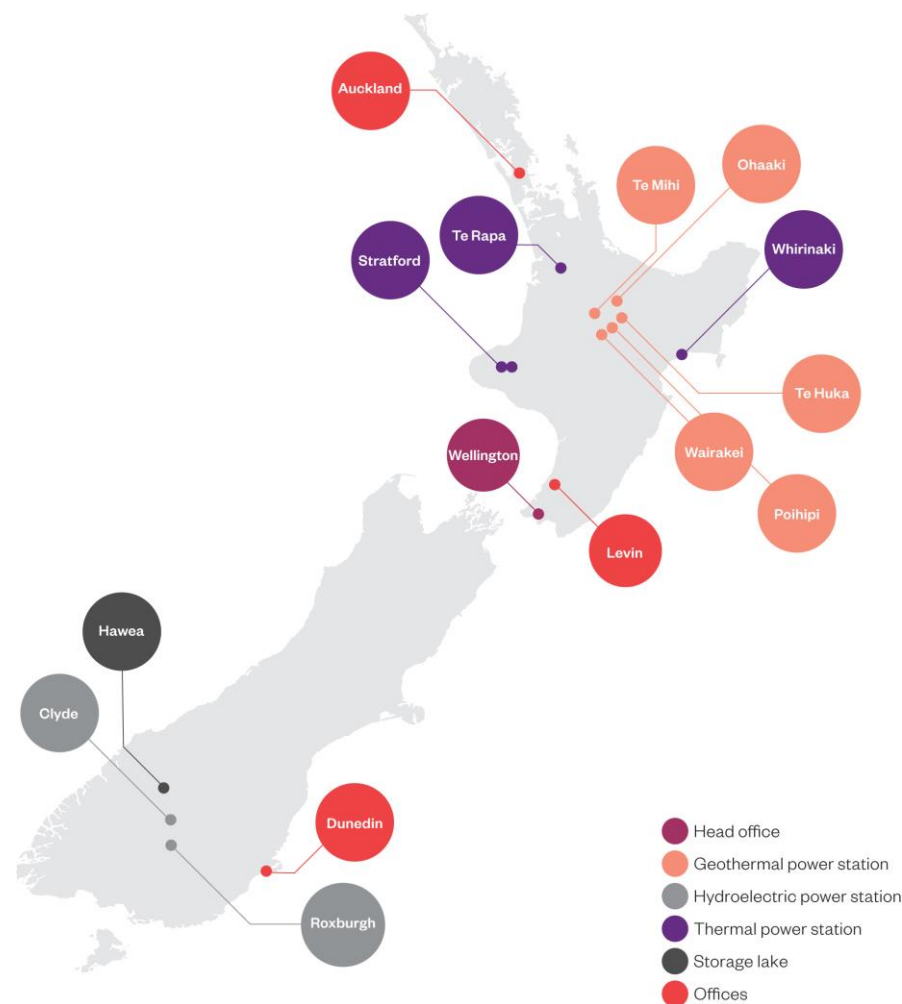
  
**5**  
**GEO THERMAL  
STATIONS**

  
**2 + 1**  
**HYDRO  
STATIONS /  
CONTROLLED  
STORAGE  
LAKE**

  
**4**  
**THERMAL  
STATIONS**

  
**15 years**  
**CONTRACT  
FOR GAS  
STORAGE**

  
**8.6TWh**  
**FY18  
GENERATION**



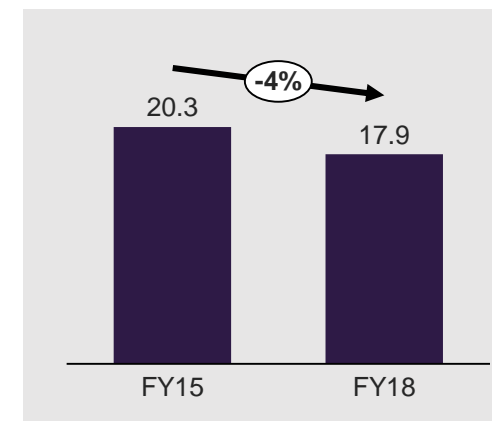


Contact's geothermal operations are significant in a global context with consents to expand production by ~60%

## Underpinning these operations is a world class geothermal capability

- » Operational experience on the world's second longest electricity producing geothermal field (Wairakei - 1958)
- » Capability in construction management, consenting and stakeholder engagement
- » We have maintained a dedicated, internationally-recognised, subsurface team to:
  - » Lower the cost of operations significantly – comfortably New Zealand's lowest cost geothermal operator
  - » Investigate options to extend and improve generation at Wairakei at the 2026 resource consent renewal
  - » Provide geothermal consultancy services internationally

Operating and stay-in-business capital cost of geothermal production (\$/MWh)



### Renewable operations



431MW Geothermal capacity

752MW Hydro capacity

### Most recent developments



Te Huka (2010)  
28MW

Bioreactor (2012)

Te Mihi (2014)  
166MW

This transformation is being driven by macro economic fundamentals

New Zealand is in the early stages of a decades-long transformation from reliance on fossil fuels to renewable electricity



**CLIMATE CHANGE**



**GOVERNMENT POLICY**



**QUALITY, LONG LIFE  
RENEWABLE ASSETS**



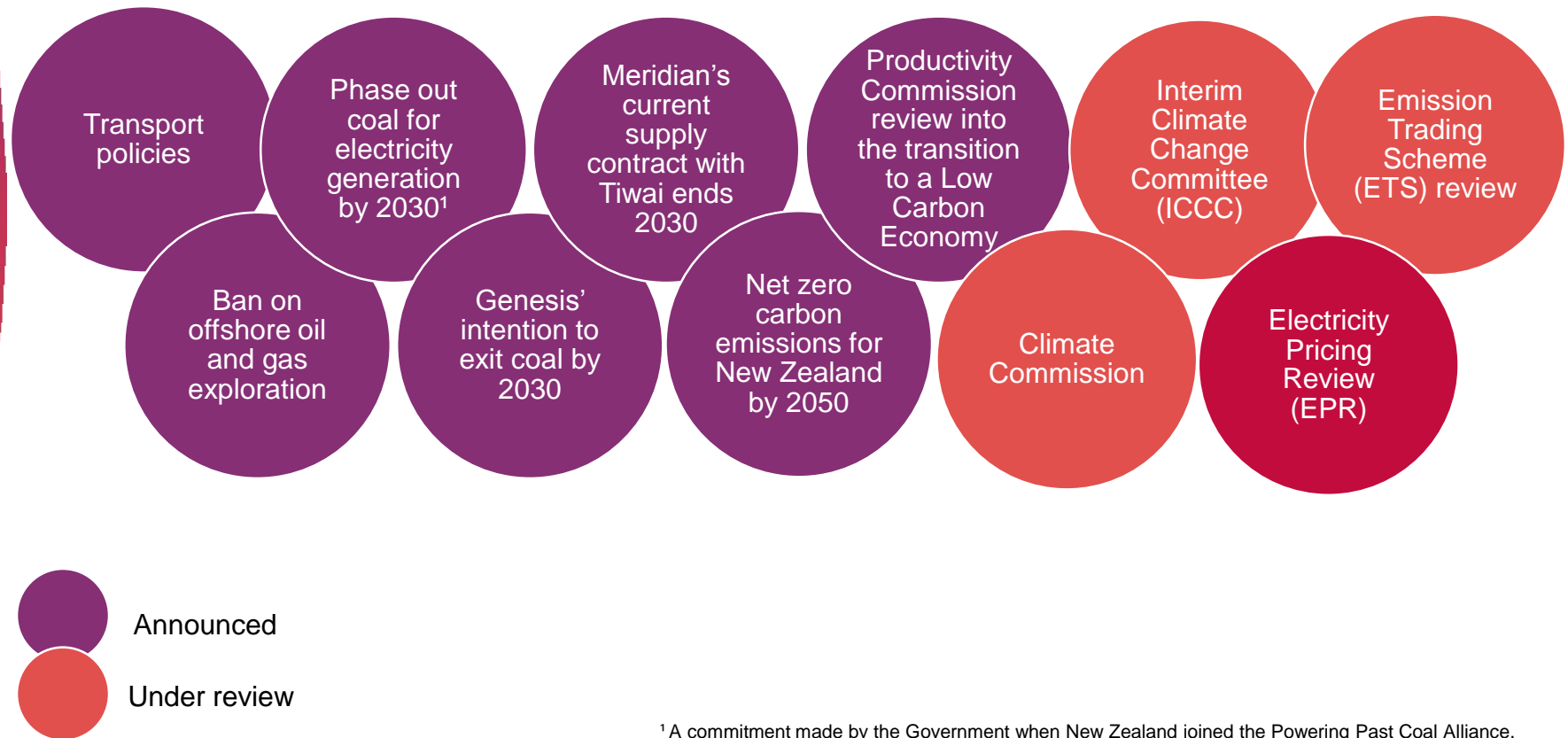
**HISTORICALLY LOW  
COST OF CAPITAL**

Macro-economic environment



## The New Zealand regulatory framework is being adapted to deliver on this societal imperative

Society is demanding action on climate change, with clear progress expected



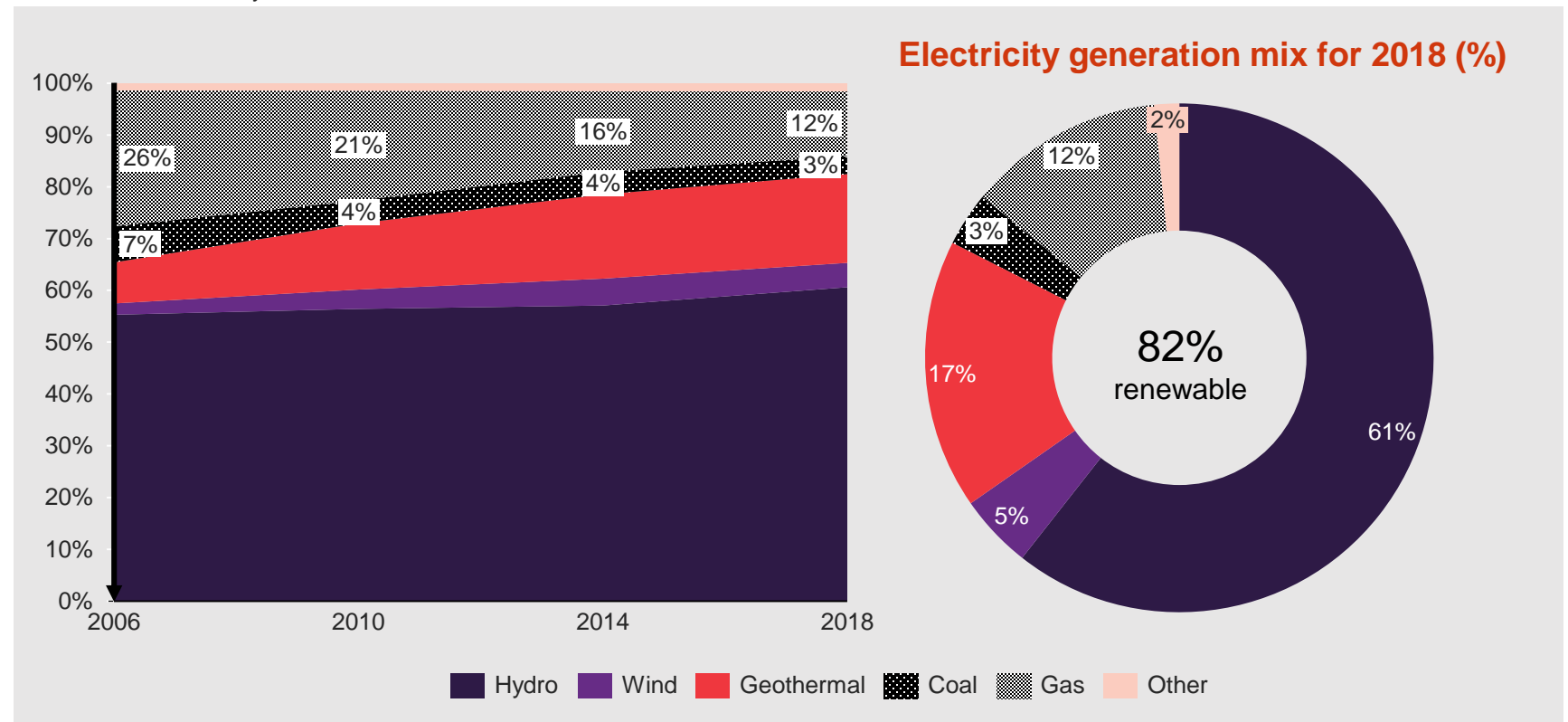
<sup>1</sup> A commitment made by the Government when New Zealand joined the Powering Past Coal Alliance.

New Zealand has added subsidy-free renewable generation in a period of flat demand, displacing fossil fuels

With world-class geothermal and wind resources consented for development

New Zealand electricity supply mix 2006, 2010, 2014, 2018

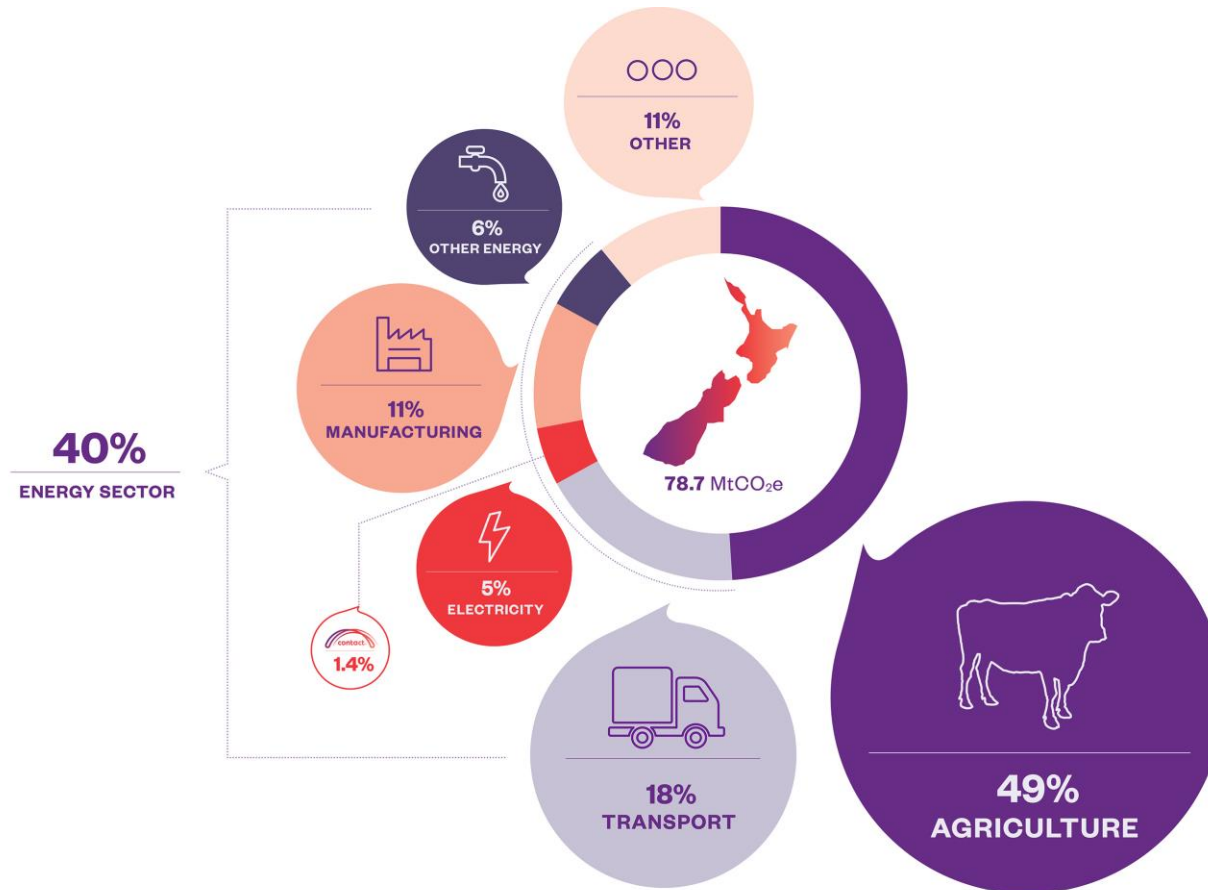
Source: MBIE electricity statistics



Quality, long-life renewable assets

Enabled by falling renewable technology costs and rising thermal fuel costs

Meaningful reductions in carbon emissions are possible with renewable electricity displacing carbon intensive fuels



WITH HIGH RENEWABLE PENETRATION, ELECTRICITY IS THE SOLUTION TO REDUCING CARBON EMISSIONS, NOT THE PROBLEM

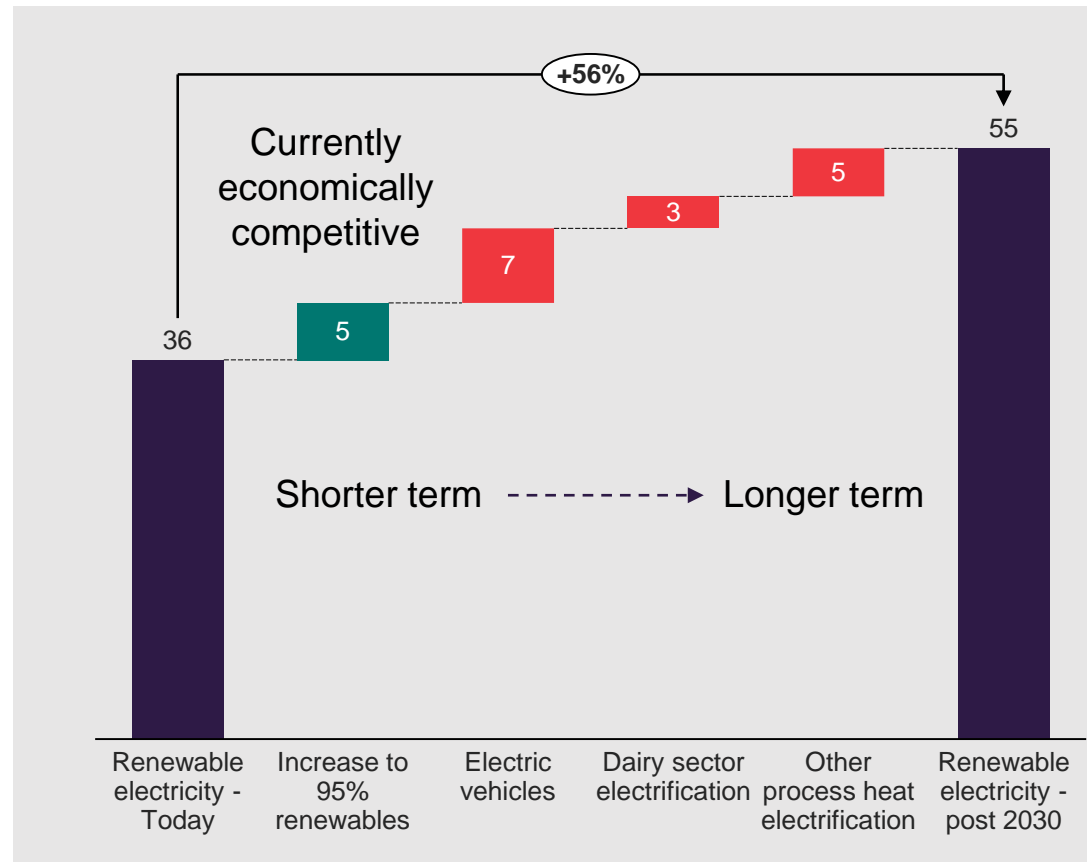
Sources: Productivity Commission's Low Emissions Economy Issues Paper, August 2017 and New Zealand's Action on Climate Change, September 2016

Carbon reduction opportunity

## Demand at 2008 levels means investment discipline is important

It is clear that decarbonisation will drive demand growth, however the timing is currently unclear

Anticipated sources of new renewable demand (TWh)



### Keys to conversion timing

- » Thermal availability and fuel costs
  - » Carbon prices
  - » Investment in domestic gas production
- » Capital investment cycles
  - » Thermal plant life extensions
  - » New electric boilers replacing end of life equipment
  - » Electric vehicle uptake
- » Renewable technology costs
- » Efficient network expenditure



An innovative,  
safe and  
efficient  
generator,  
working with  
business  
customers,  
and partners  
to decarbonise  
New Zealand

Strong operational performance will be maintained while options to grow earnings are being developed

### THERMAL GENERATION



- » Develop options to enable the economic substitution of thermal generation with renewables

### CUSTOMER SOLUTIONS



- » Leveraging capability to expand C&I products and services
- » Partner with customers on mutually beneficial decarbonisation opportunities

### RENEWABLE DEVELOPMENT

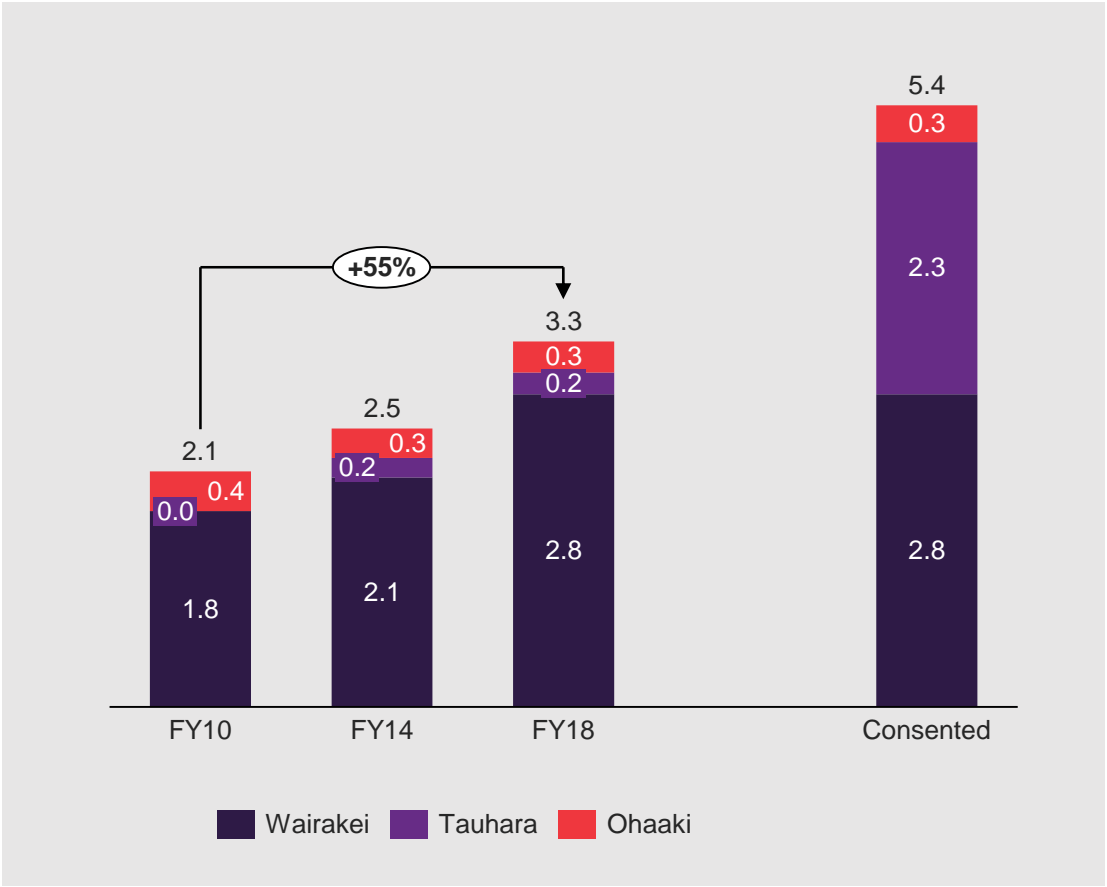


- » Potential to develop Tauhara - New Zealand's best new renewable generation option
  - » Prepare a range of development options for an investment decision (FID)
  - » Deploy capital to enabling works – including pre-FID drilling

Contact has demonstrated proficiency and capability over many decades, as evidenced by Wairakei operating for more than 60 years

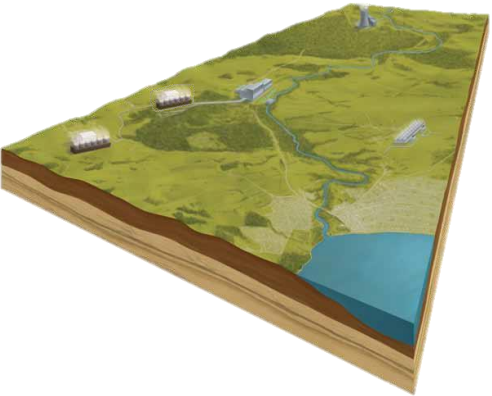
Geothermal production increased by 55% between FY10 and FY15, when the last unit was commissioned

Contact Geothermal generation (TWh)



Tauhara – >250MW consented

- » New Zealand’s pre-eminent scale renewable development
- » Baseload renewable generation option
- » Close proximity to the transmission grid
- » Four wells drilled



Capital deployment opportunity



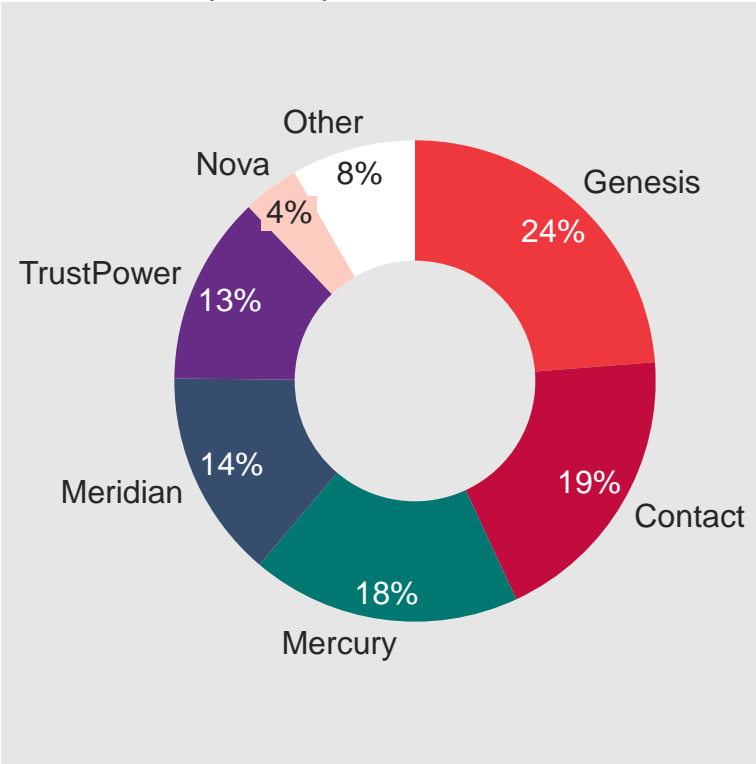
## Contact's Customer business

Contact's Customer business is a service-obsessed retailer of electricity, gas and broadband for the mass market

With a presence in 1 in 5 homes, Contact is the only national retailer of electricity, gas, LPG\* and broadband

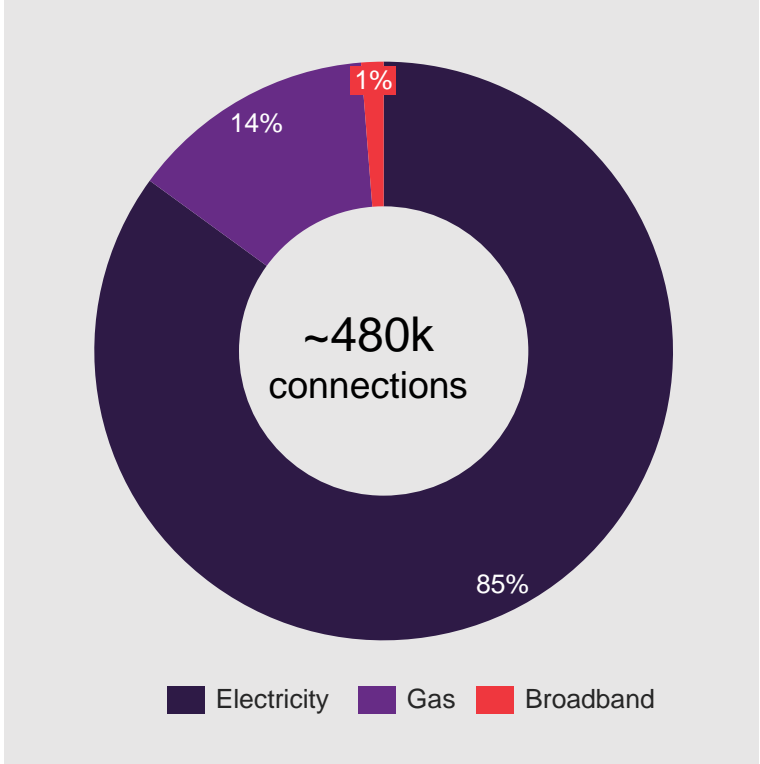
Retail electricity market share by customer connections (%)

Source: Electricity Authority



\*Sold through a partnership with Rockgas

Products by customer connection (%)



Not including ~44,000 Rockgas LPG customers serviced



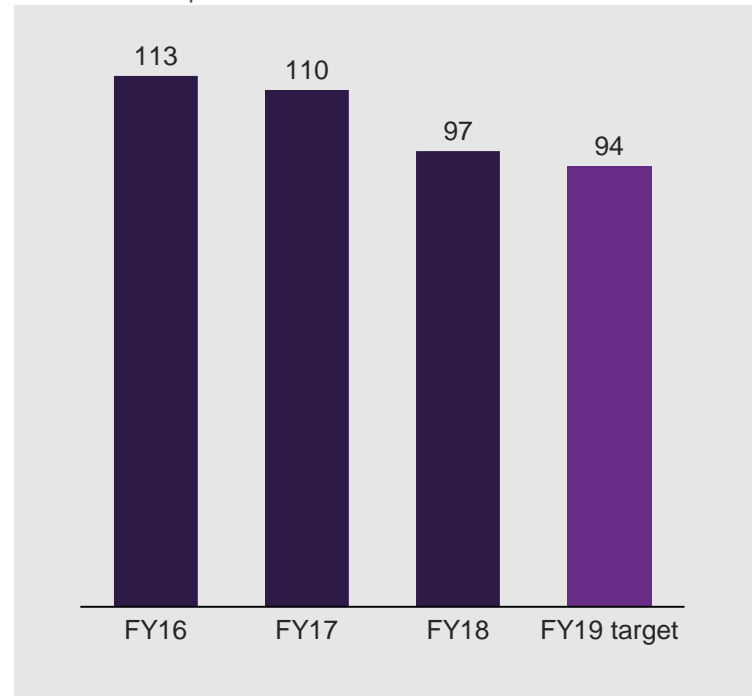
Our target is to be the lowest cost to serve and most advocated for retailer

Market leading meter to cash processes, with significant IT systems investment early in the decade an enabler

### REDUCING COST TO SERVE

#### CUSTOMER OPERATING COSTS (\$m)

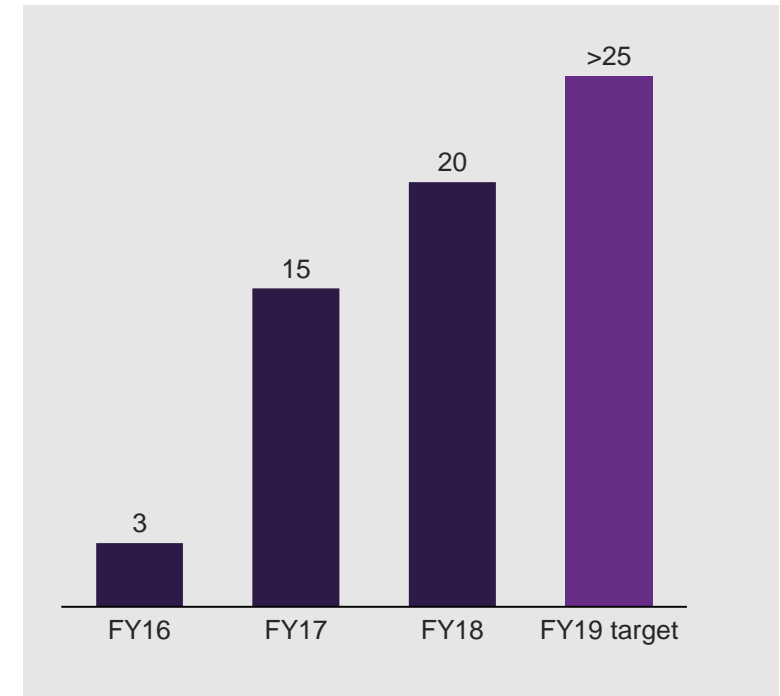
Includes a corporate allocation



### BUILDING CUSTOMER ADVOCACY

#### NET PROMOTER SCORE

Promoters less detractors



Competition remains intense, political and regulatory scrutiny on essential goods and services is expected to continue

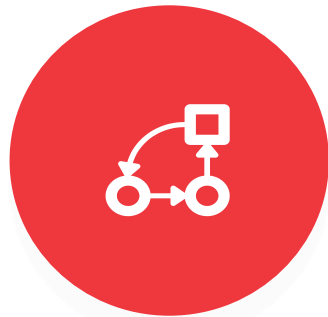
The retail electricity market is highly competitive, resulting in pressure on retail margins



**CAPABLE  
REGULATOR**



**LOW BARRIERS TO  
ENTRY**



**EASE OF SWITCHING**



**READILY AVAILABLE  
RISK MANAGEMENT**

Macro-economic environment

Contact's  
Customer  
business has a  
solid  
foundation on  
which to  
capture further  
scale  
efficiencies

Targeted investments are being made to support the strategy in FY19, which will enable a \$20m reduction in operating costs over the next few years

### OPERATING MODEL



- » Move to a simple, lean operating model centred on the customer experience by reinventing key customer experiences and processes
- » Capable employees identifying and driving performance initiatives with ownership and accountability

### TECHNOLOGY



- » Leverage advances in technology to drive efficiency with automated customer experiences

### BRAND



- » Reposition the brand and reputation from a strong operational retailer to a smart customer solutions provider



Relative earnings, cash flow outlook and performance against operational metrics

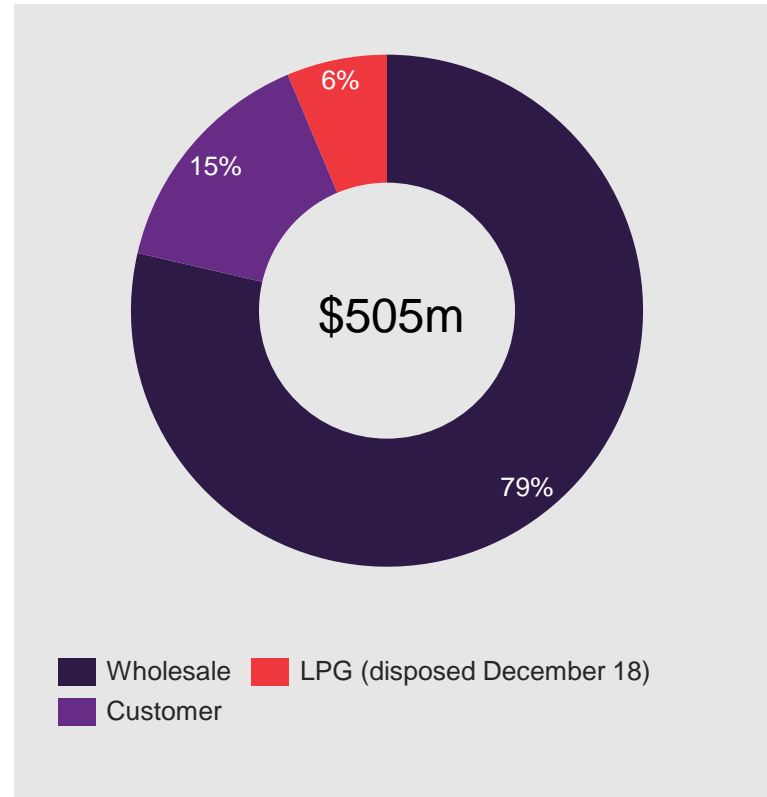


Delivery of strong, stable operating cash flows for distribution to shareholders

## Performance underpinned by a continuous improvement programme

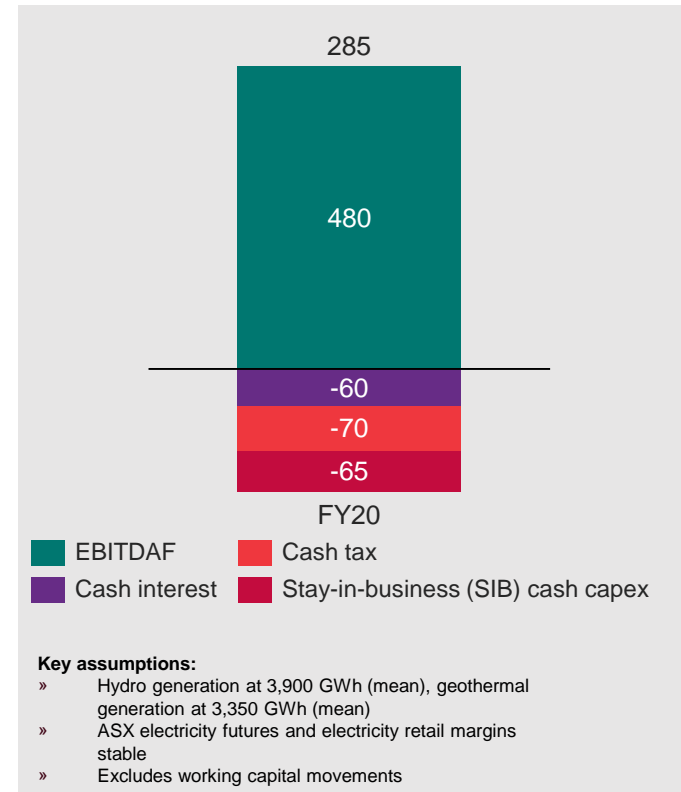
### SEGMENTAL EARNINGS (%) OF FY18 EBITDAF

Excludes corporate costs of \$24m



### FY20(f) Operating Free Cash Flow – OFCF (\$m)

Excludes movements in working capital



Underpinned by a disciplined and transparent approach to operating and stay-in-business capital expenditure while investigating ways to optimise our portfolio of assets

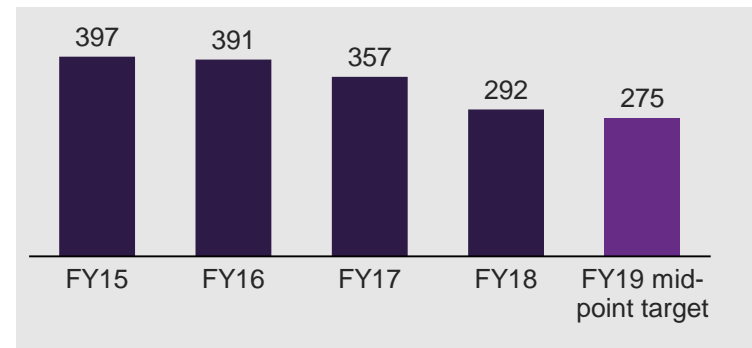
Focus on delivering cash

The focus on continuous improvement, in a period of flat demand, has seen operational performance metrics improve

An efficient and focused business, building capability and disposing of non-core activities

### MAINTAINING FINANCIAL DISCIPLINE

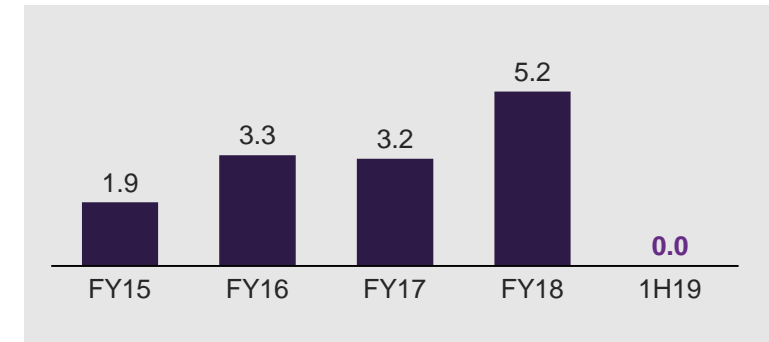
CONTROLLABLE OPEX AND CAPEX COSTS (\$m)



### SAFE AND ENGAGED EMPLOYEES

TOTAL RECORDABLE INJURY FREQUENCY RATE

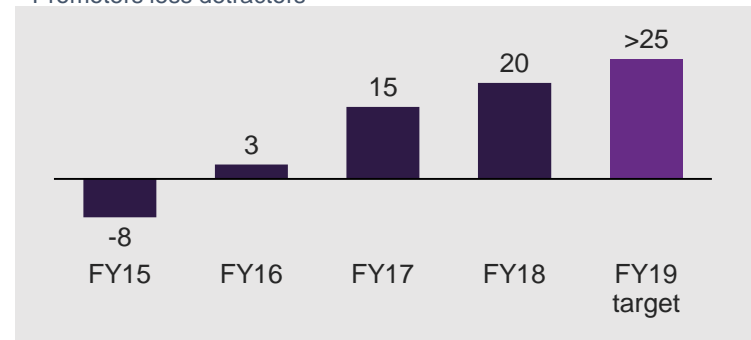
Recordable injuries per million hours worked



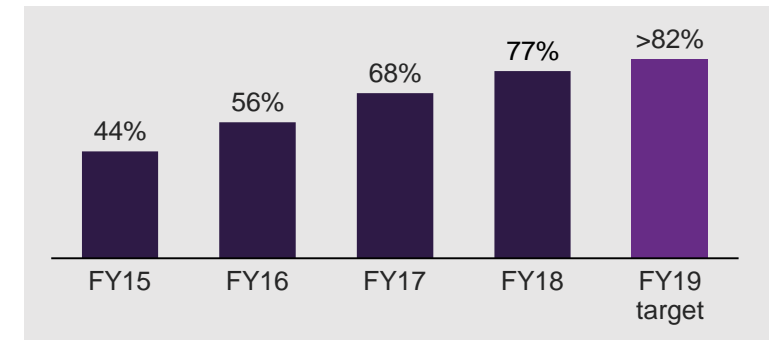
### BUILDING CUSTOMER ADVOCACY

NET PROMOTER SCORE

Promoters less detractors

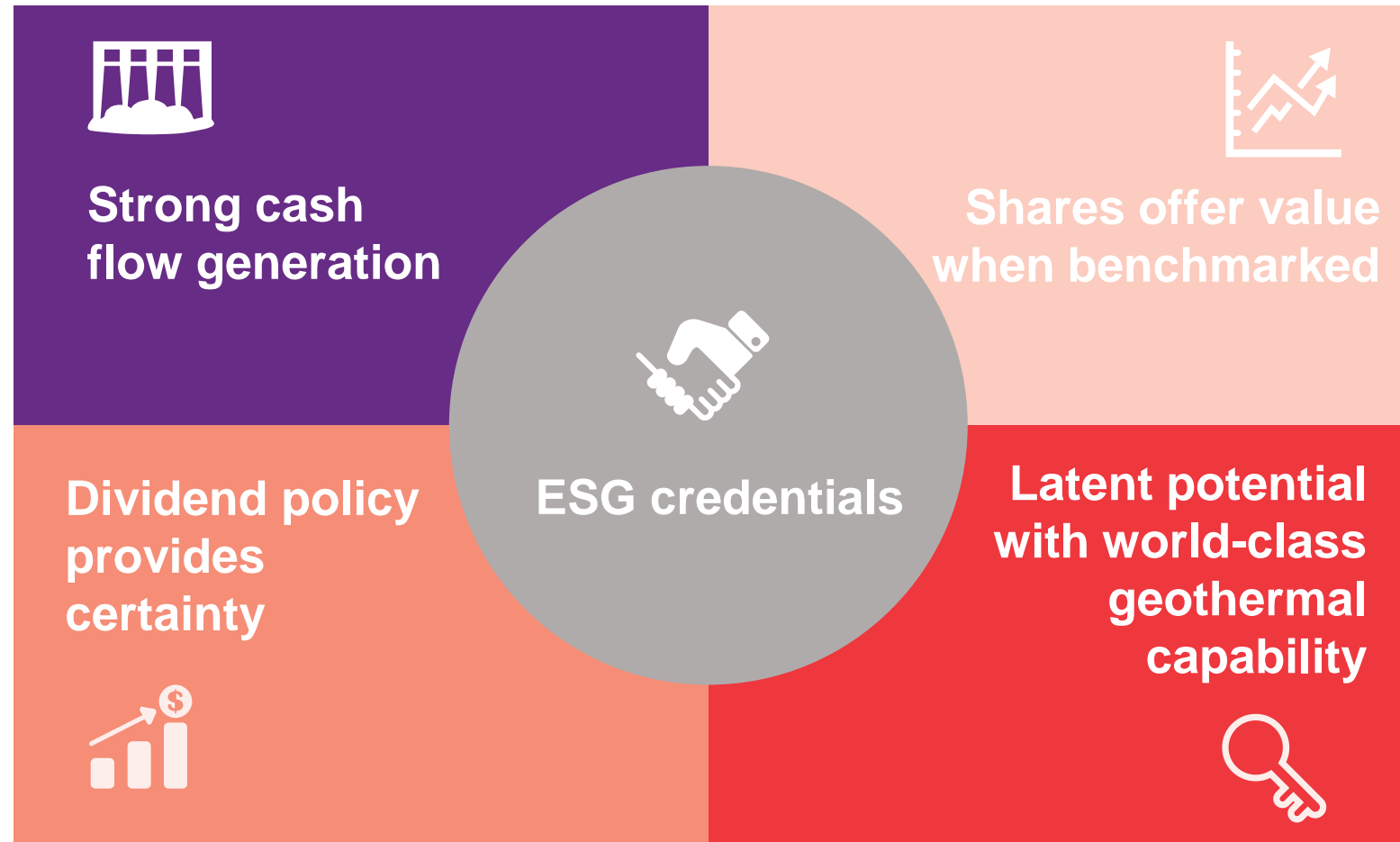


EMPLOYEE ENGAGEMENT (%)



Focus on delivering cash

The investment opportunity in our core markets is large, with good visibility on projects to deliver cash flow growth

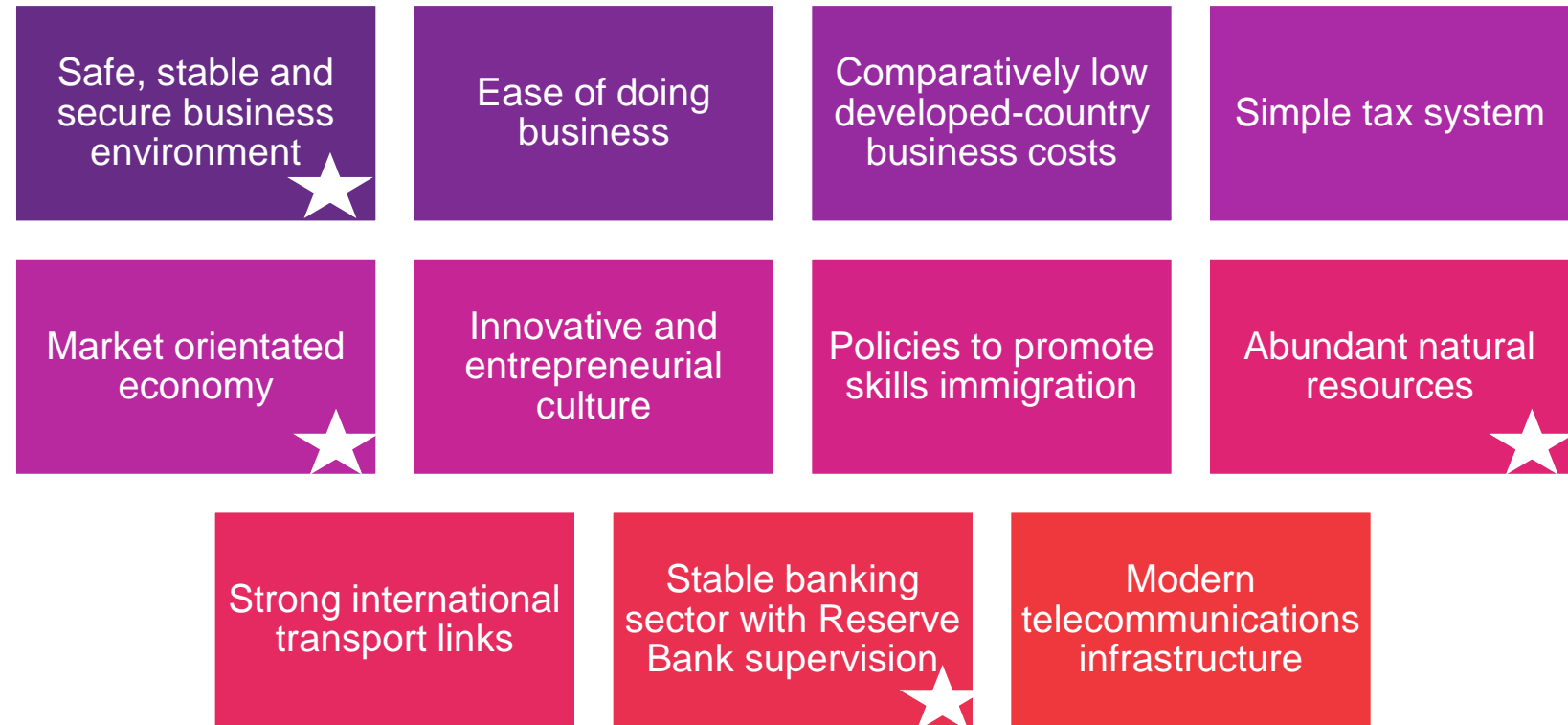


Why invest in Contact?

Strong investment case

A stable economy and political system with a reputation for innovation make New Zealand an attractive place to invest

## New Zealand has an open economy that works on free market principles



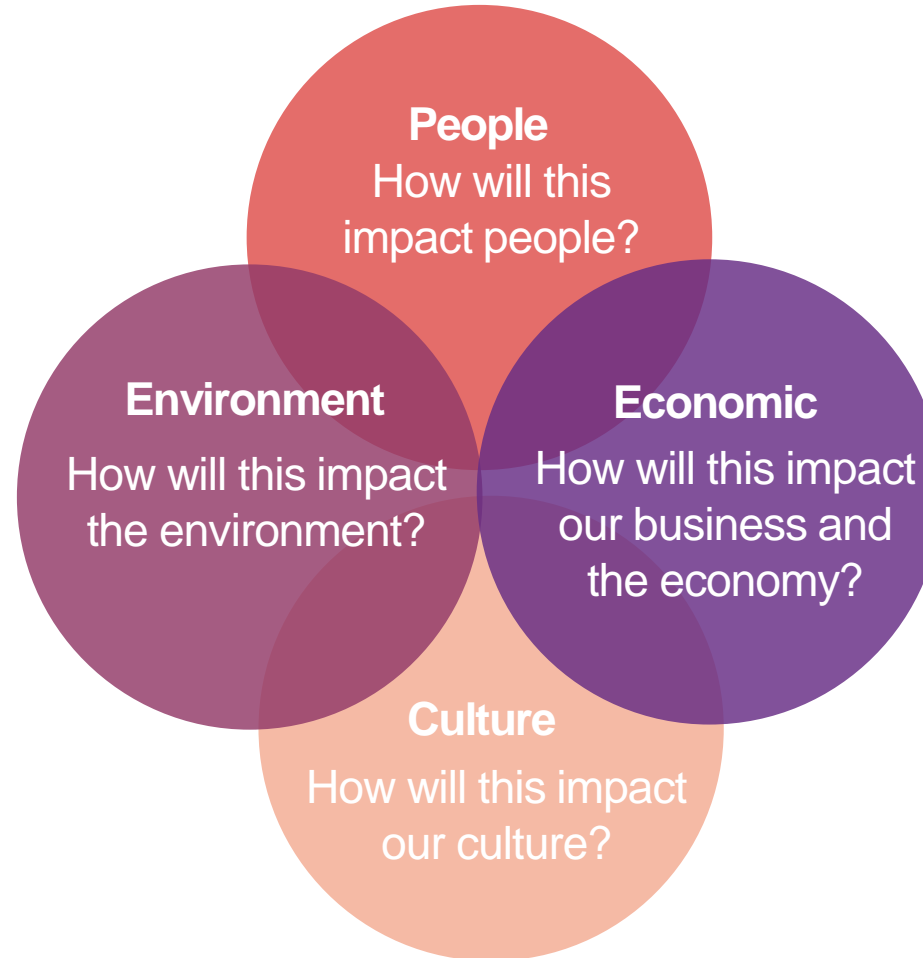
★ Most applicable to an investment in Contact



Sustainability is about integrating diverse perspectives into our strategy to ensure long term value creation

Sustainability is embedded within our decision making and reporting processes, it's who we are

#### Decision frameworks



Strong ESG credentials

#### Current reporting frameworks

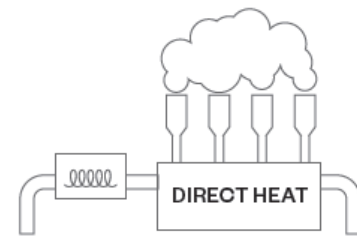


Under development for FY20

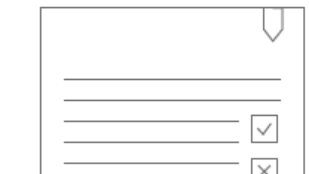
INTEGRATED REPORTING <IR>

Contact has a track record of delivering on ambitious environmental targets

Leading the decarbonisation of New Zealand's energy sector by taking steps to address emissions from our own operations and those of our customers

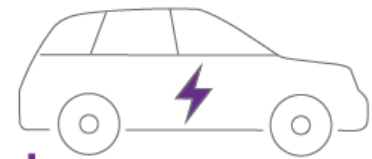


Prawn Park, Tenon,  
Wairakei Terraces, Ohaaki  
Heat, Wairakei Resort,  
The Native Plant Nurseries



**\$174,000**

the total value of funding  
received for customer  
energy audits



**\$484,000**

the total value of funding  
received to help electrify  
customer fleets



Finalist in 2018 Energy  
Excellence Awards –  
Innovation in Energy



**80%**

of our electricity  
comes from  
renewable sources



**51%**

reduction in  
emissions  
since 2012



**44%**

reduction in  
emissions intensity  
since 2012



**51%**

of our fleet  
converted to  
electricity



Improved  
geothermal &  
hydro efficiency



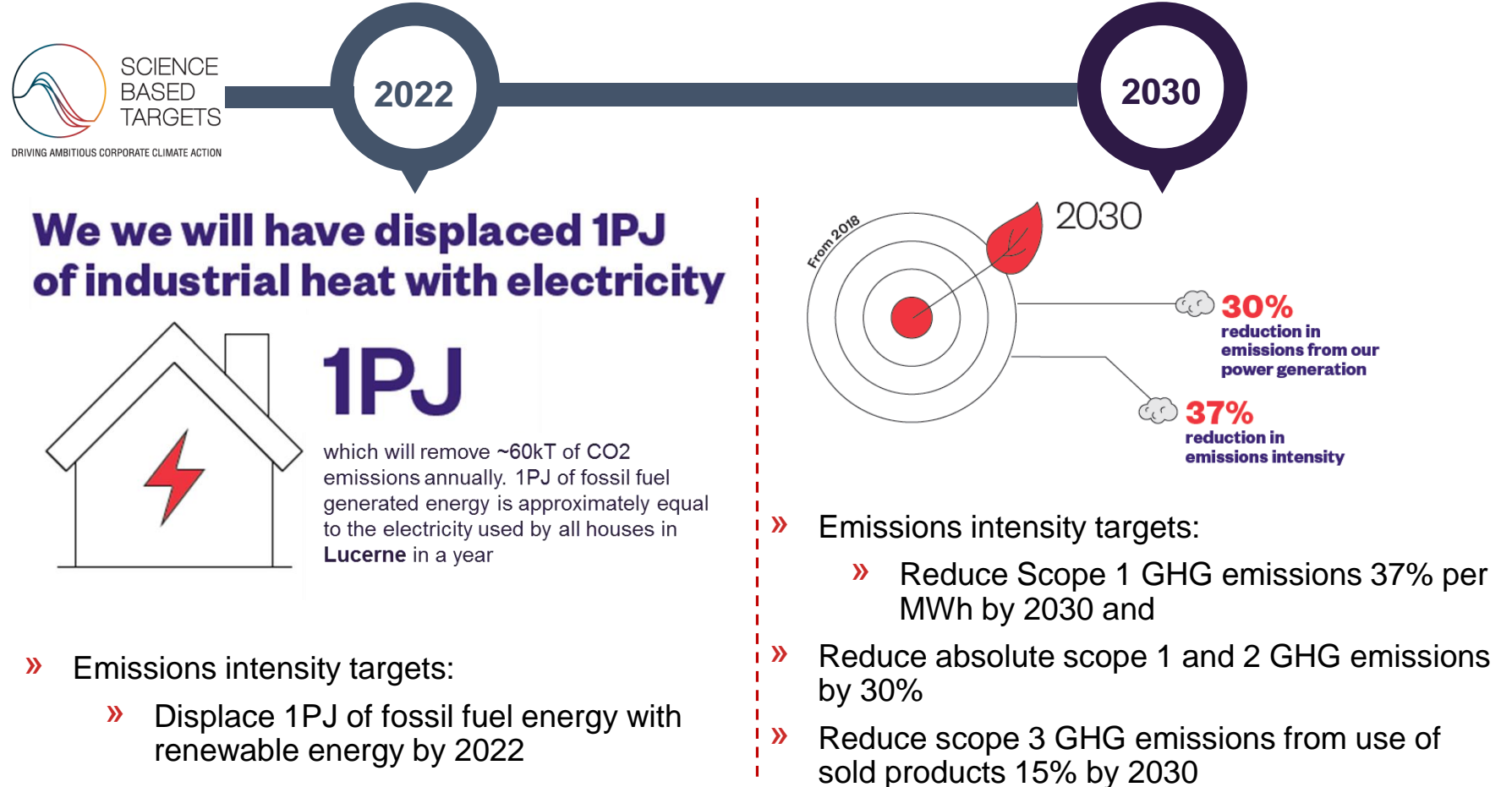
**\$1.8b**

green borrowing  
scheme

Strong ESG credentials

Contact has set greenhouse gas emission reduction targets in line with keeping global warming below 1.5°C

Contact has become the first energy company in New Zealand to have its emission reduction targets approved by the Science Based Target Initiative (SBTi)



Strong ESG credentials

Distribution policy provides clarity to investors and will drive a strong capital discipline

High yielding investment with a clear distribution policy - backed by a strong balance sheet - provides certainty to investors

Distribution policy

FY19 Ordinary dividend

Balance sheet capacity

Ordinary dividend of

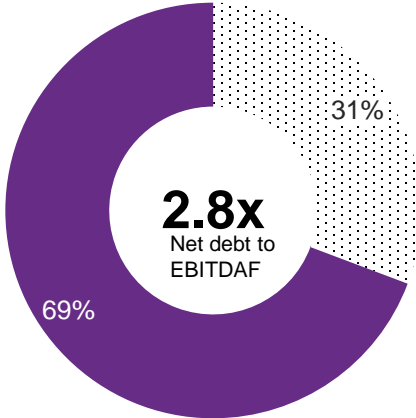


of expected Operating Free Cash Flow\*

39 cps



\* Operating Cash Flow less stay-in-business capex and net interest costs after adjusting for expected medium-term stay-in-business capital expenditure, mean hydrology and appropriate Board consideration of a sustainable financial structure targeting BBB from S&P



Headroom to BBB  
Net debt - 1H19

Assuming FY20(f) EBITDAF of \$480m with gas storage contract not treated as debt by S&P

## Indicative economics for a generic fully developed 250MW geothermal power station at Tauhara

A world-class geothermal expertise with consented brownfield development potential

Estimated total capital cost

Operating free cash flow yield

Opportunity

\$4m  
/MW

=

8 to 9%  
p.a.\*

>25% uplift

from capital deployment into an asset that we have a 60 year track record of managing

### POSSIBLE STAGING OPTIONS

- 30MW-50MW-85MW-85MW
- 85MW-85MW-80MW
- 125MW-125MW

~\$1bn

~11 to 12 cps

\* Assumes debt funded at current rates with an \$75-85/MWh wholesale price

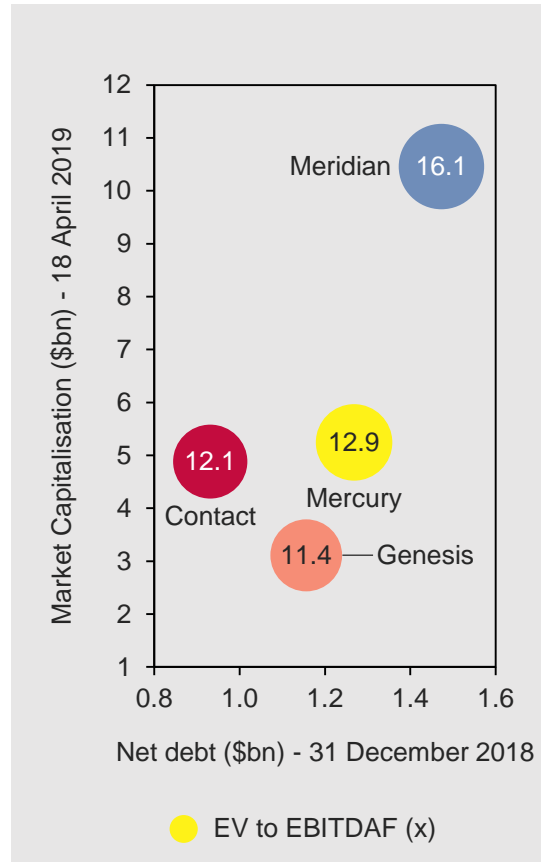
Investment staged to substitute thermal generation and/or capture demand growth, early developments likely lower capital cost

Geothermal potential

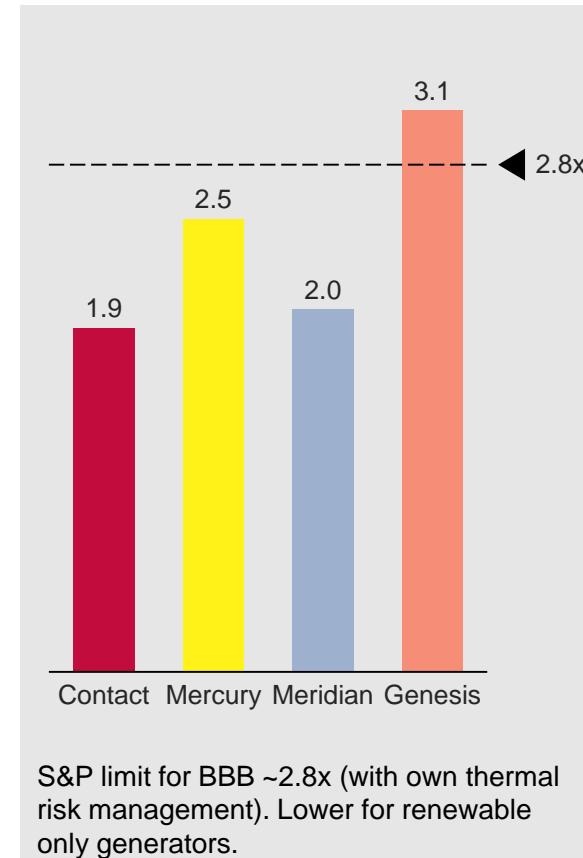
Shares offer value when benchmarked against peers

## Sector leading ordinary dividend yield with significant balance sheet capacity

Bubble size: Enterprise value to FY20 EBITDAF\* multiple

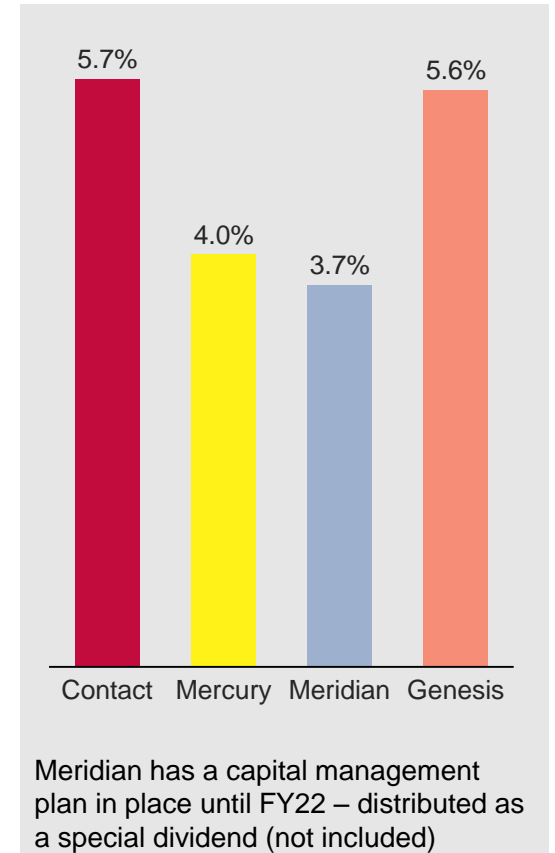


Net debt / FY20 EBITDAF (%)



Ordinary dividend yield (%)\*

Contact: FT19 target, Peers consensus



\* FY20 multiples: indicative Contact EBITDAF of \$480m, peers at consensus. Net debt as reported at 31 December 2018. Share prices as at 18 April 2019.

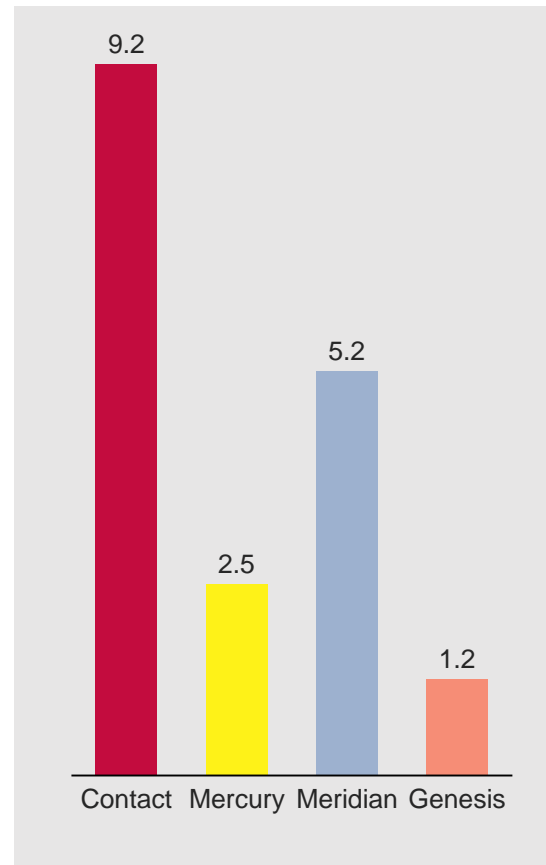
Offers value on current earnings



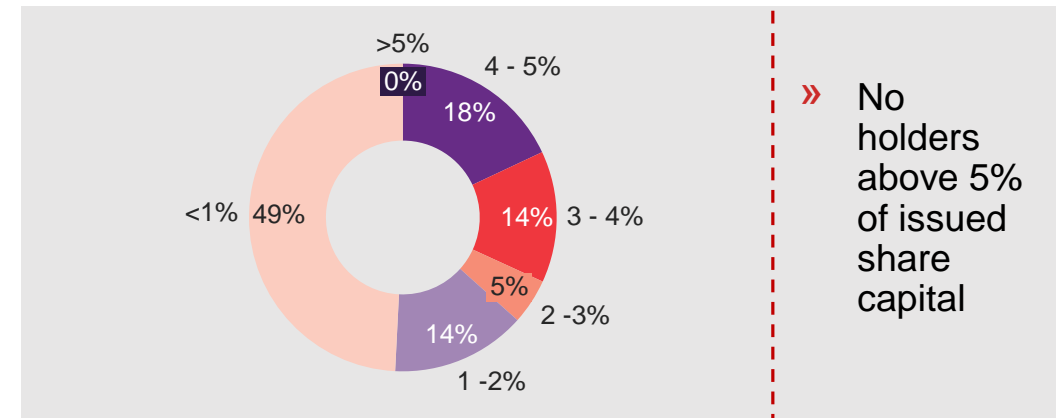
## Open share register provides significantly more liquidity and flexibility relative to government owned peers

Contact is the only listed generator in New Zealand without a majority shareholder

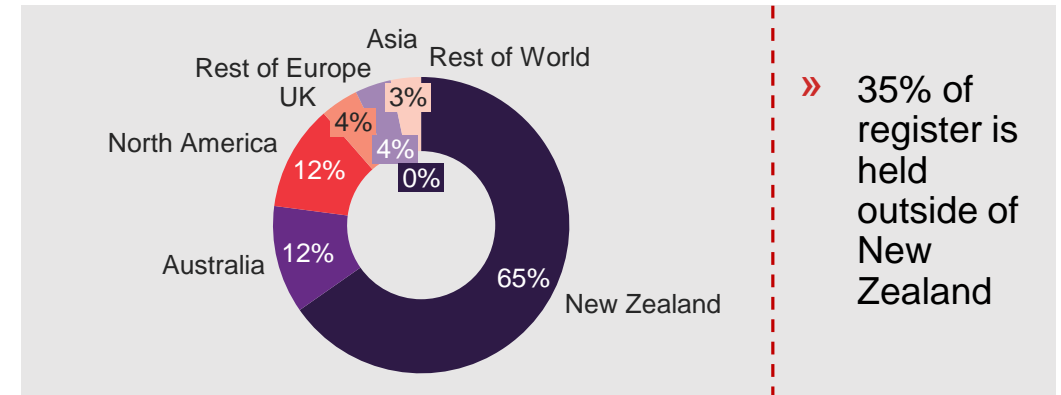
Daily trade by value – last 6 months (\$m/day)



Sum of register by % of issued share capital holding



Holder by region (%)



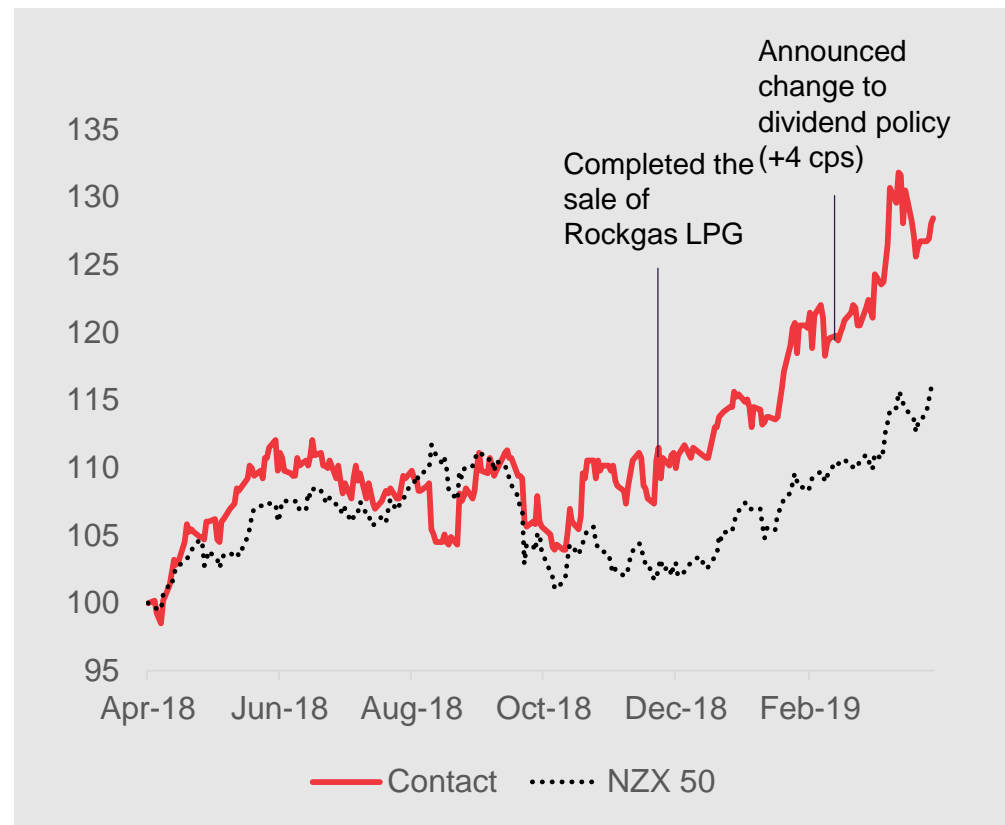
Deep and liquid register

Focus on  
optimising  
cash flow  
generation,  
disposal of  
non-core  
assets has  
resulted in  
strong  
shareholder  
returns

Returns to shareholders improving as operational focus enabled ordinary dividend increases which resonated in a weaker forward interest rate environment

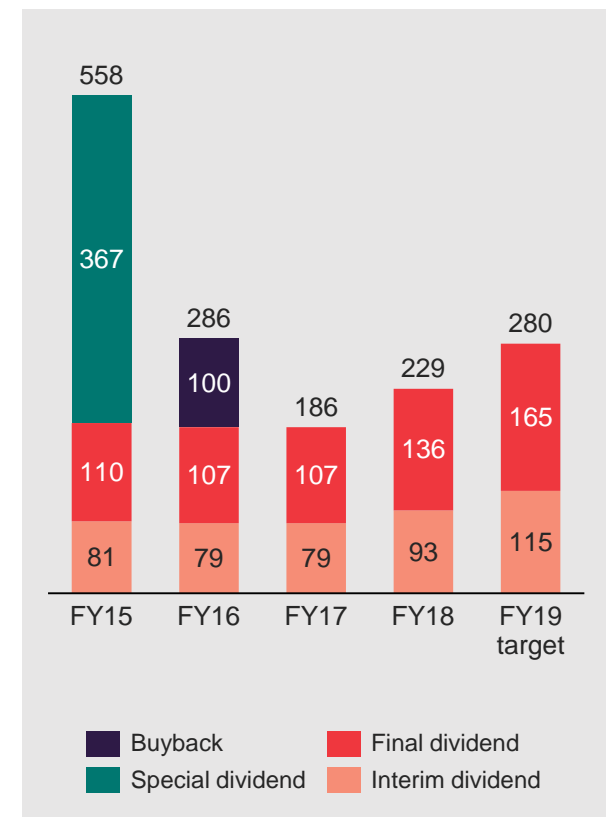
12 MONTH SHARE PRICE VS NZX50

Rebased to 100



DISTRIBUTIONS (\$m)

Declared or target



Delivering for shareholders

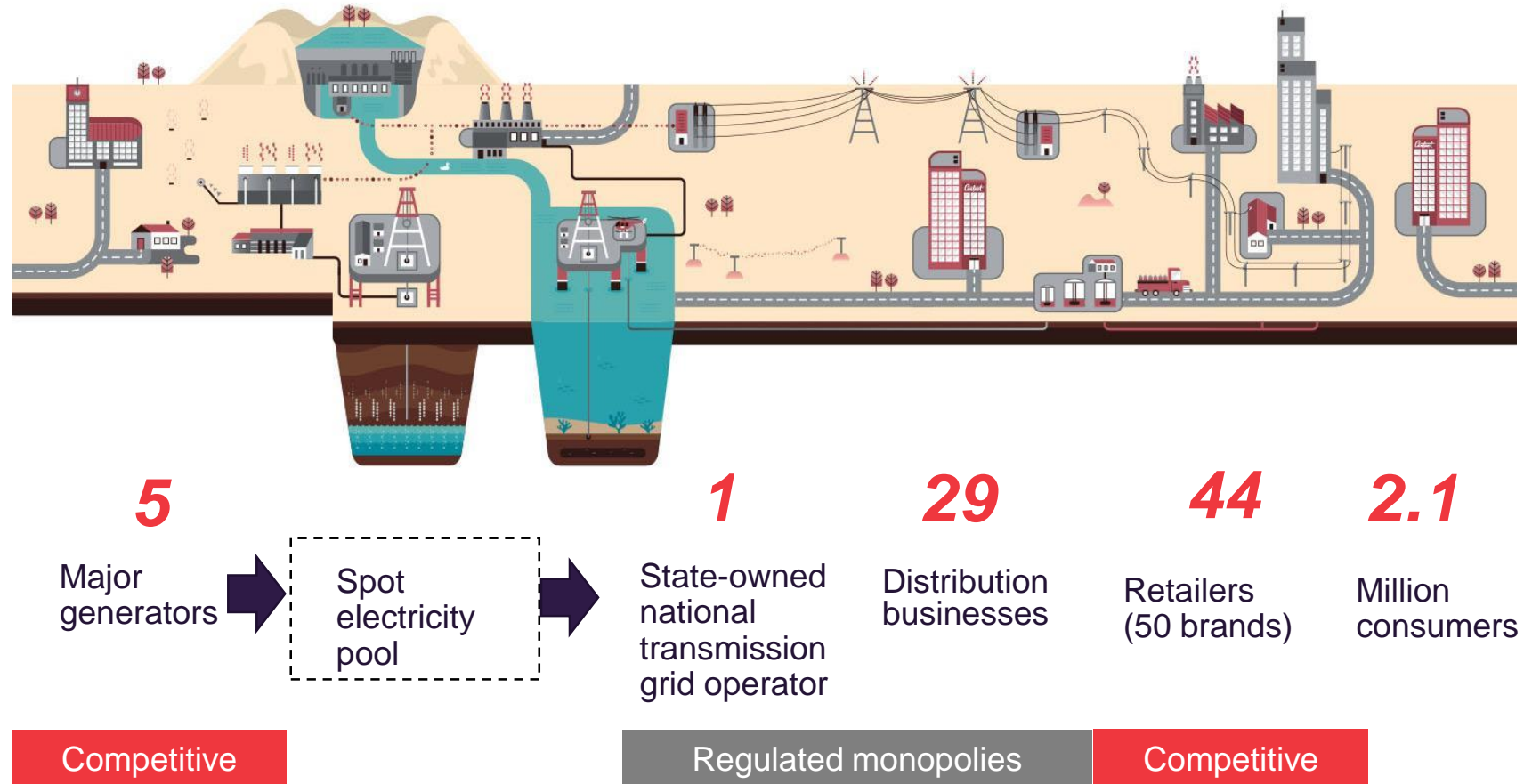


# New Zealand electricity market

“New Zealand serves as a model for effective energy markets and secure power system operation”

International Energy Agency (IEA)  
New Zealand 2017 Review

New Zealand enjoys a reliable, affordable and environmentally sustainable electricity system



New Zealand electricity market

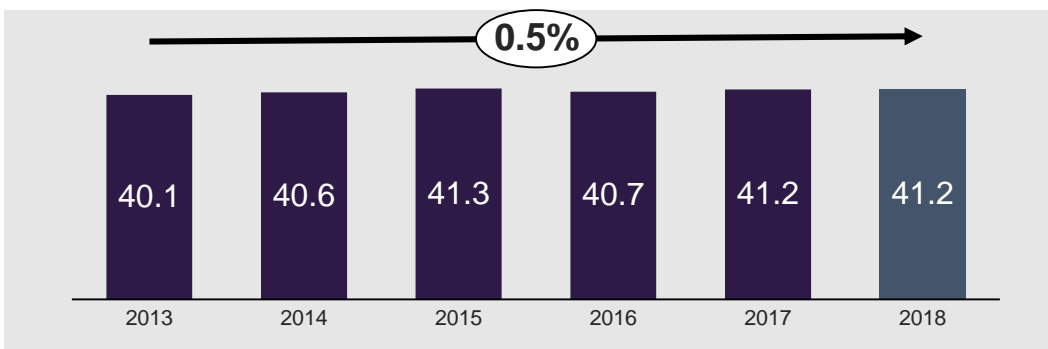


While demand is at a similar level to 2008, there have been encouraging signs of demand growth since 2013

## Despite the continued energy efficiency in the residential market

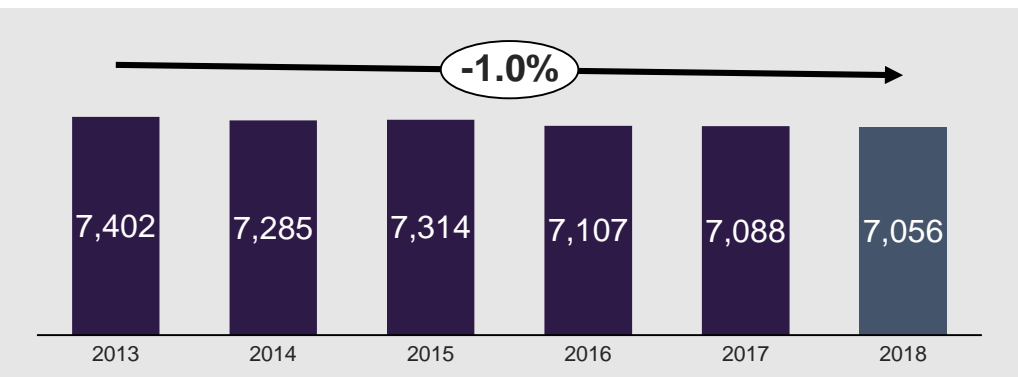
### National electricity demand (TWh)

Source: EMI



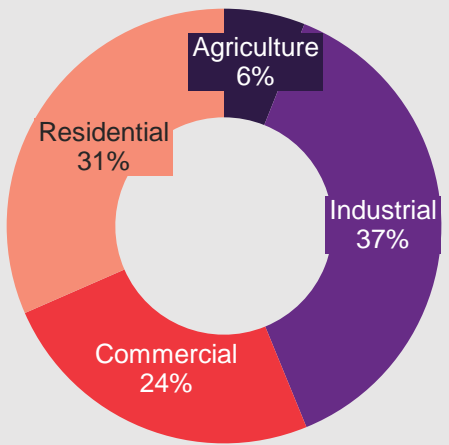
### Annual consumption per household (kWh)

Source: MBIE electricity statistics



### Electricity consumption breakdown

Source: MBIE electricity statistics







- » Forestry/agriculture, food processing and commercial have grown since the GFC
- » This growth has been offset by ongoing reductions in demand from the pulp and paper sector as well as residential efficiency

Hydro storage is crucial, but limited;

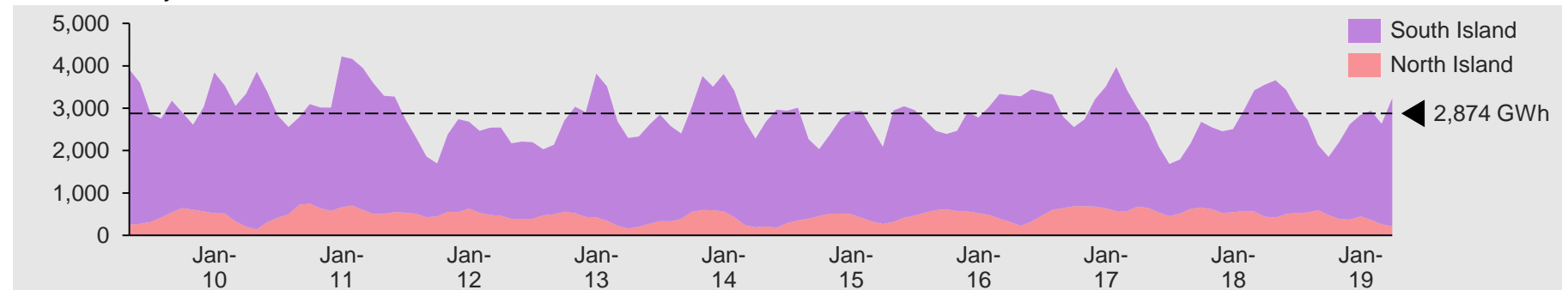
- maximum controlled storage of ~4 TWh spread across four key catchments
- ~10% of annual demand of 41 TWh

Hydro schemes are mostly run-of-river with rainfall into key catchments weighted to summer, while demand is winter biased

| Clutha   | Waitaki   | Manapouri  | Taupo  |
|--|---|--|--|
|   |    |   |   |
| <ul style="list-style-type: none"> <li>Average annual generation of 3,900 GWh</li> <li>Max storage of ~300 GWh</li> <li>Summer inflows</li> <li>Wet to dry range of 1,000 GWh</li> </ul> | <ul style="list-style-type: none"> <li>Average annual generation of 7,000 GWh</li> <li>Max storage of ~2,500 GWh</li> <li>Shared between Genesis (Lake Tekapo) and Meridian (all lakes downstream of Lake Tekapo)</li> <li>Summer inflows</li> <li>Wet to dry range of 3,000 GWh</li> </ul> | <ul style="list-style-type: none"> <li>Average annual generation of 4,800 GWh</li> <li>Max storage of ~800 GWh</li> <li>Highest inflow intra year volatility of all catchments</li> <li>Wet to dry range of 2,000 GWh</li> </ul> | <ul style="list-style-type: none"> <li>Average annual generation of 4,000 GWh</li> <li>Max storage of ~500 GWh</li> <li>Winter inflows</li> <li>Wet to dry range of 1,300 GWh</li> </ul> |

#### National controlled storage (GWh)

Source: NZX hydro

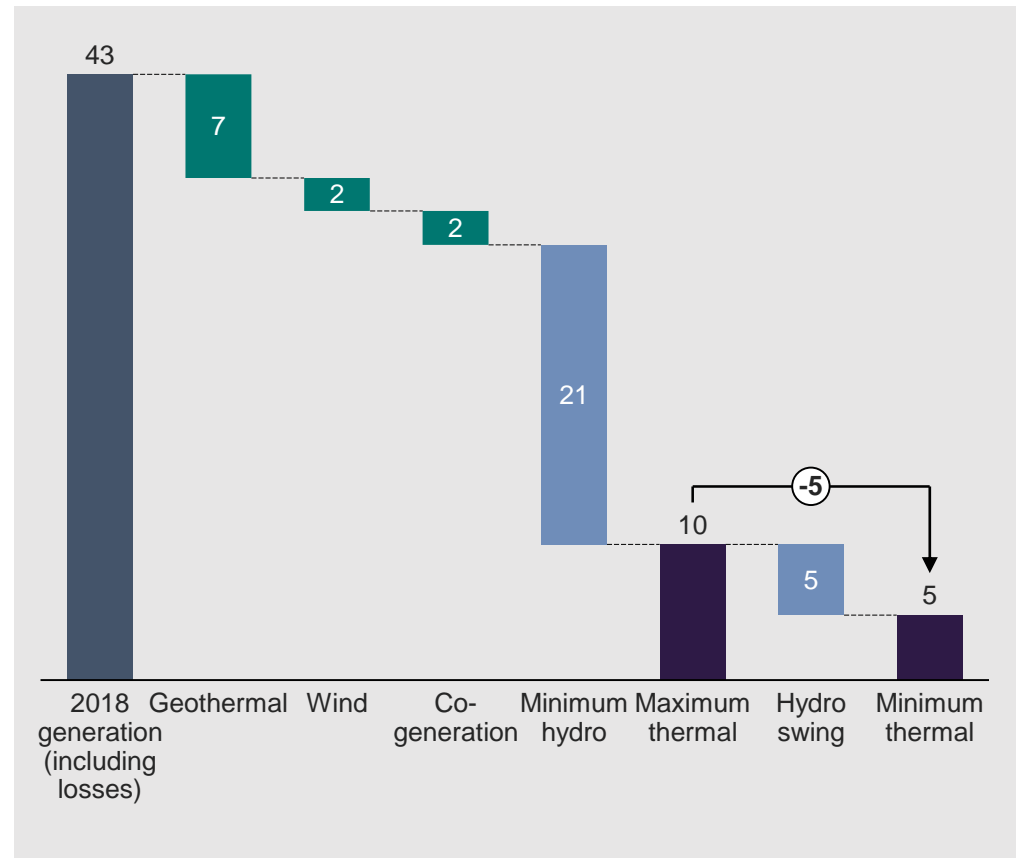




Thermal generation sets the opportunity cost of renewables, this includes stored water

Thermal generation is currently the most economic swing fuel to manage the seasonal supply and demand mismatch

National annual supply (TWh)



Flexible thermal production is required

5TWh to 10TWh

per annum of seasonal renewables firming required

#### Major thermal generators

- **Contact** – gas and diesel with 15 year access to gas storage
- **Genesis** – coal and gas
- **Nova/Todd Energy** – gas

#### Sources of flexibility

- **“Dry year”**: Genesis’s coal stock pile
- **Daily and seasonal**: Gas Storage
- **“Wet year”**: Gas Storage
- **Winter Peaks/Outages**: Diesel

The market quickly responds to changes in supply and demand by sending price signals

In addition to managing the supply and demand balance, thermal fuel supply shocks impact the market in the short-term

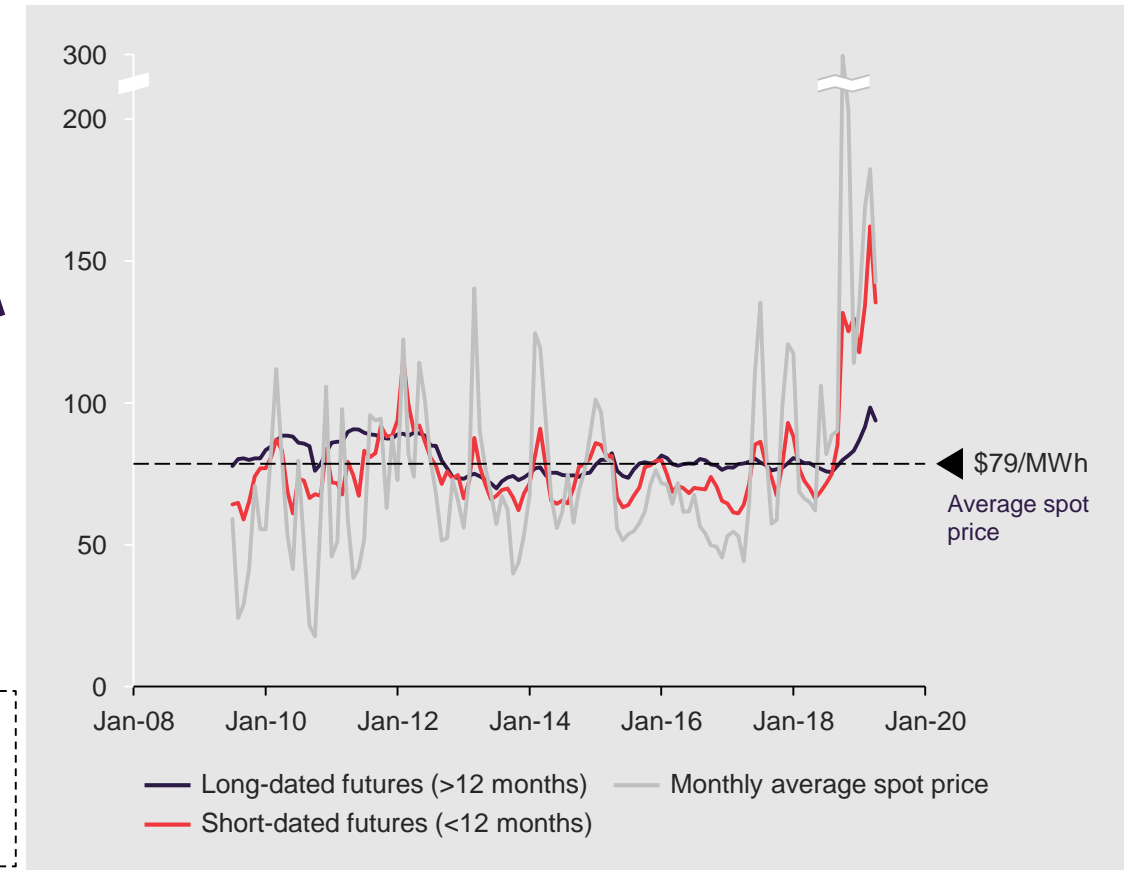
Short-term external factors that can influence the market



Long-term pricing is linked to the **long-run marginal costs of new renewable projects** to meet demand plus costs associated with **firming renewable intermittency**

Wholesale and futures electricity pricing (\$/MWh)

Source: EMI wholesale pricing



Wholesale pricing



## The market in action – 1H19

## REGIONAL CHANGE (%) 1H19 vs 1H18

0% 1% 1% (1%) (1%) 1% 0% 0% (8%) (3%) (17%) 0% 1%

Demand at key South Island irrigation nodes reverted to historical averages after a dry 1H18

Stacked bar chart showing the percentage of revenue by region for the five largest customers from 1H15 to 1H19. The regions are North Island (dark blue), South Island (ex NZAS) (medium blue), and NZAS (red). A 0% change indicator is shown above the bars.

| Period | North Island | South Island (ex NZAS) | NZAS | Total |
|--------|--------------|------------------------|------|-------|
| 1H15   | 13.3         | 5.2                    | 2.5  | 21.0  |
| 1H16   | 13.4         | 5.4                    | 2.5  | 21.3  |
| 1H17   | 13.3         | 5.0                    | 2.5  | 20.8  |
| 1H18   | 13.4         | 5.3                    | 2.5  | 21.2  |
| 1H19   | 13.4         | 5.0                    | 2.6  | 21.0  |

- 40

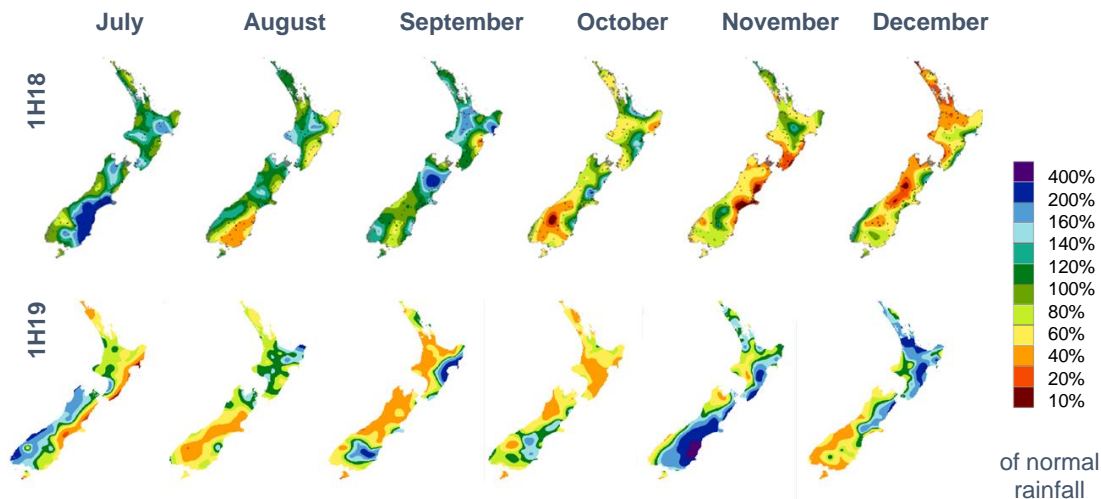
# National storage rising in advance of winter

## SOUTH ISLAND INFLOWS NORMALISED FROM A DRY 1H18

- » An acute drought in key South Island catchments between October and December 2017 was broken in February 2018 when cyclones Fehi and Geta made landfall. This contributed to above mean national storage at the start of winter 2018
- » Extreme November 2018 rainfall added ~700GWh to national storage over a two week period after the traditional spring inflows failed to materialise

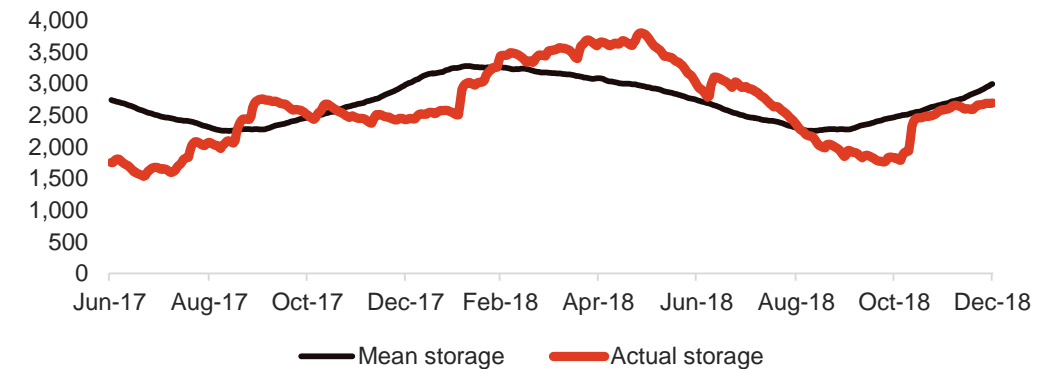
### MONTHLY NATIONAL RAINFALL

As a percentage of 1981 – 2010 monthly normal (source: NIWA)



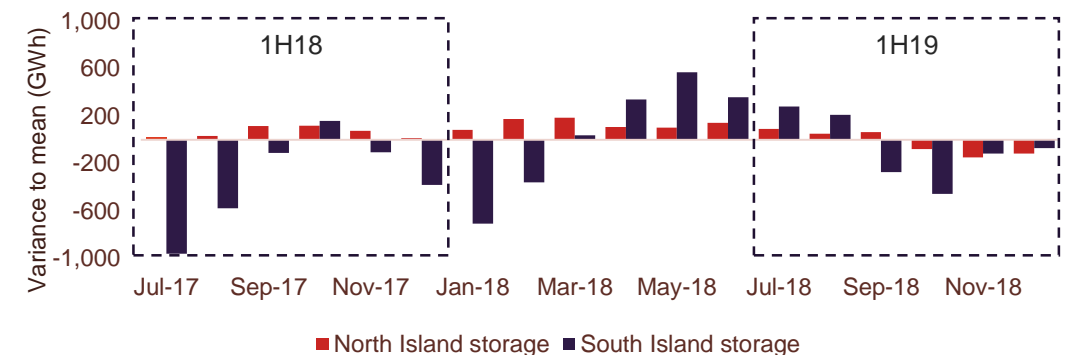
### NATIONAL HYDRO STORAGE AGAINST MEAN STORAGE (GWh)

Mean storage 1926 – 2016 (source: NZX hydro)



### AVERAGE MONTHLY STORAGE VS MEAN BY ISLAND (GWh)

Mean storage 1926 – 2016 (source: NZX hydro)



1H19 supply

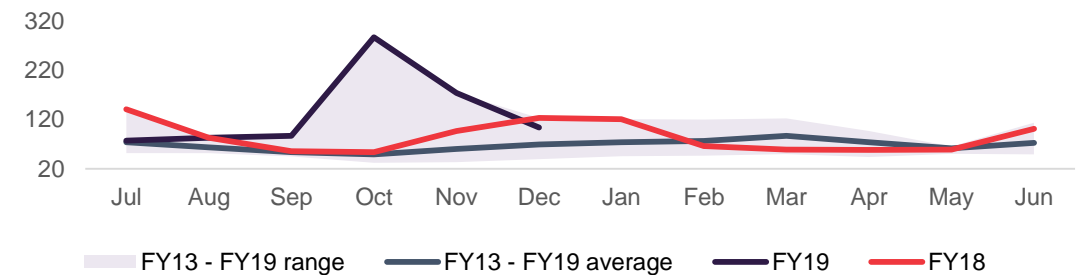
# Wholesale spot prices responded to fuel scarcity

## HYDRO STORAGE LEVELS AND THERMAL FUEL CONSTRAINTS INCREASED NEAR TERM PRICES

- » While volatile hydrology is a well-known feature of electricity supply in New Zealand, normally reliable gas production was significantly constrained in 1H19 impacting generation from thermal assets
  - » Remedial work to the Pohokura gas field's offshore pipeline and platform, which was completed in December 2018, ended more than 200 days of constrained gas supply across two separate outages. Restricted production from Pohokura is expected to continue over 2H19
  - » Gas availability should improve as current constraints are unlocked
- » The elevated spot price environment has led to increases in short-dated forwards (i.e. for contracts maturing less than six months ahead)
- » Long-dated forward prices (1 February 19: \$88.3/MWh) have increased by over \$12.9/MWh (or over 17 per cent) in the last six months

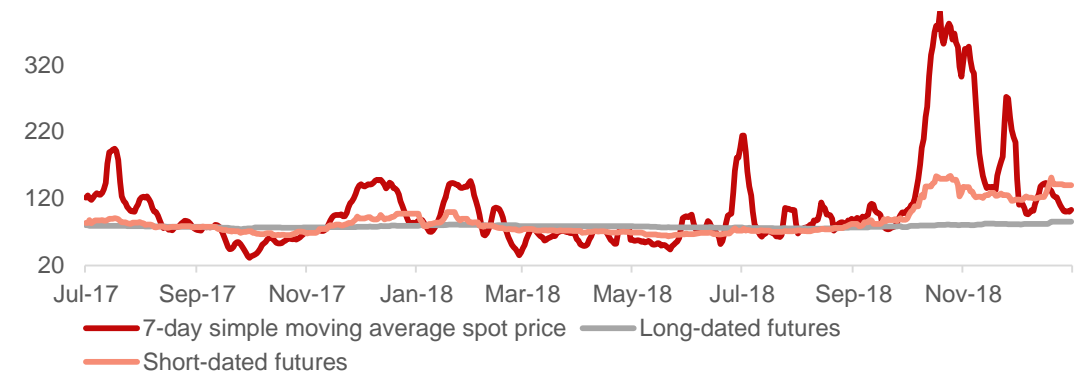
## MONTHLY WHOLESALE SPOT ELECTRICITY PRICES (\$/MWh)

Generation weighted (source: Electricity Authority – Wholesale electricity prices)



## ELECTRICITY FORWARD PRICE CURVES (\$/MWh)

Generation weighted (source: Electricity Authority – Wholesale electricity prices)





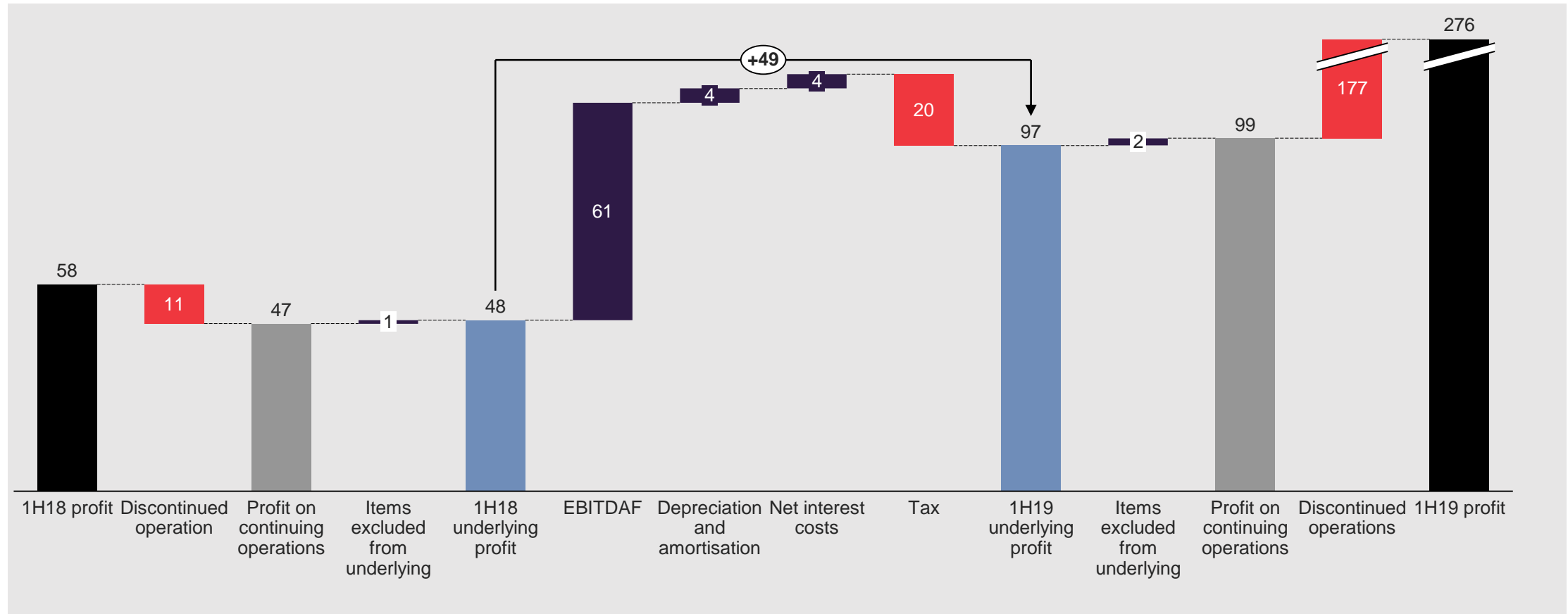


## Appendix - 1H19 Results extracts

# Profit of \$276m, supported by proceeds from portfolio changes

PROFIT ON CONTINUING OPERATIONS UP BY 111% AS EBITDAF FROM CONTINUING OPERATIONS INCREASED BY \$61m

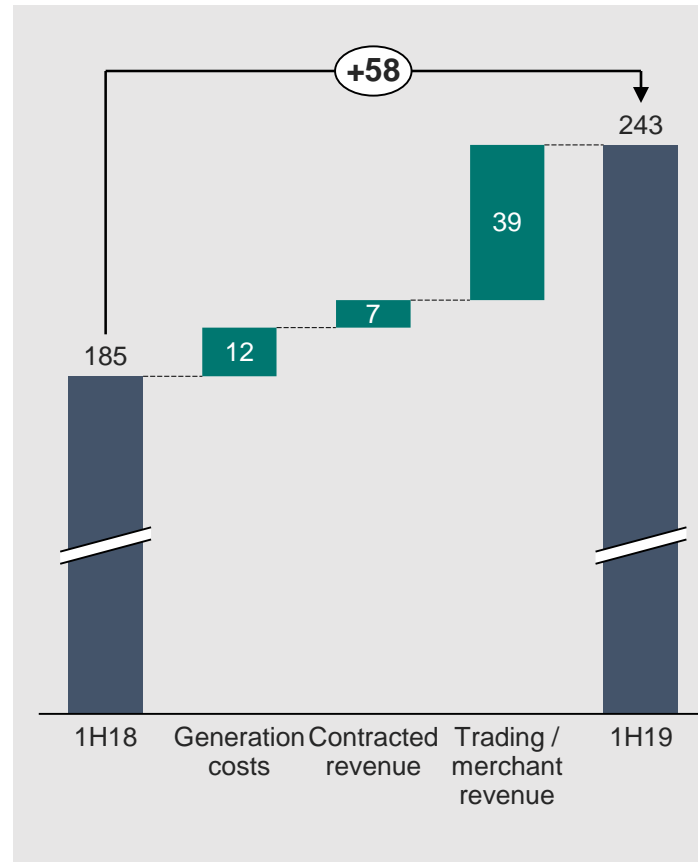
STATUTORY PROFIT (\$m)



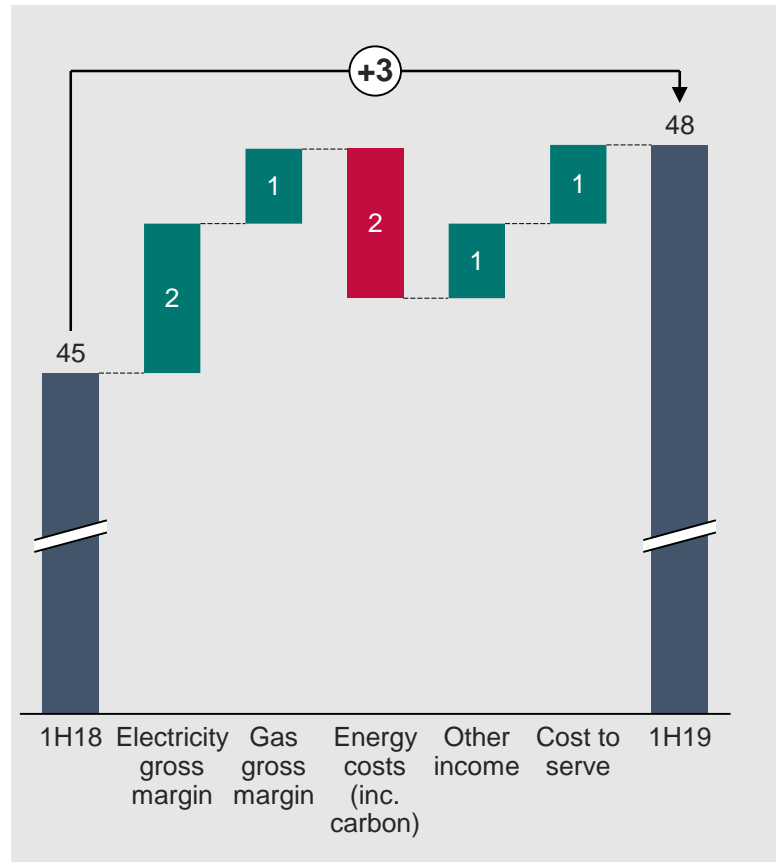
# EBITDAF from continuing operations up by \$61m

## Continuing business performance

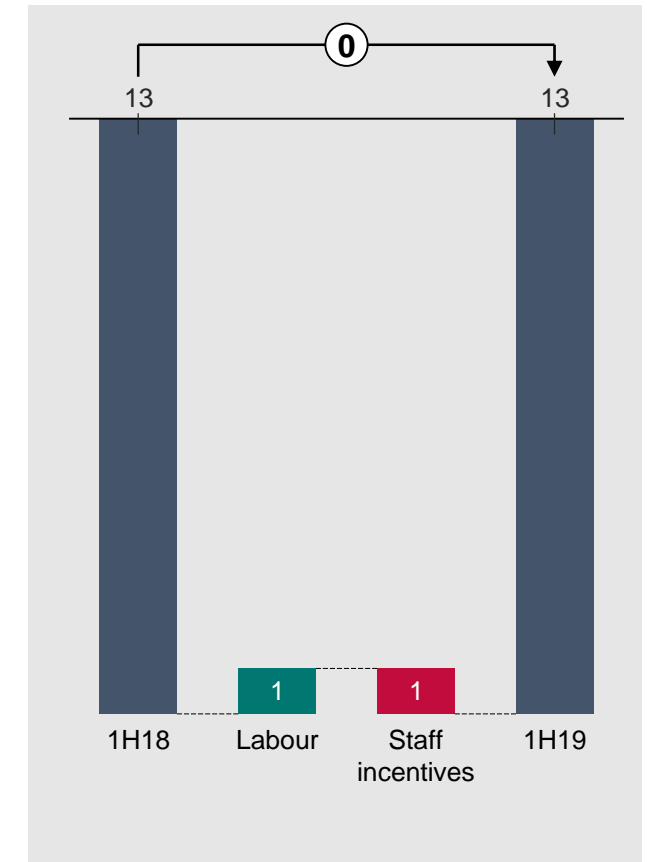
WHOLESALE EBITDAF (\$m)



CUSTOMER EBITDAF (\$m)



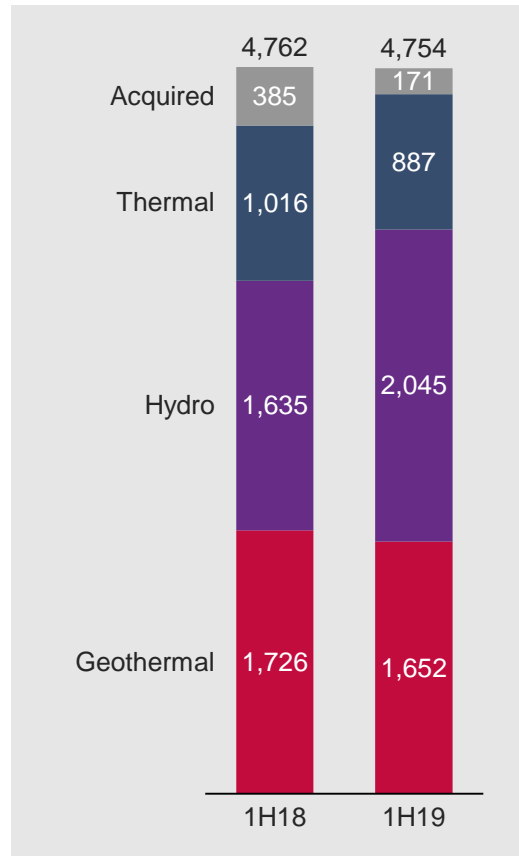
CORPORATE / UNALLOCATED (\$m)



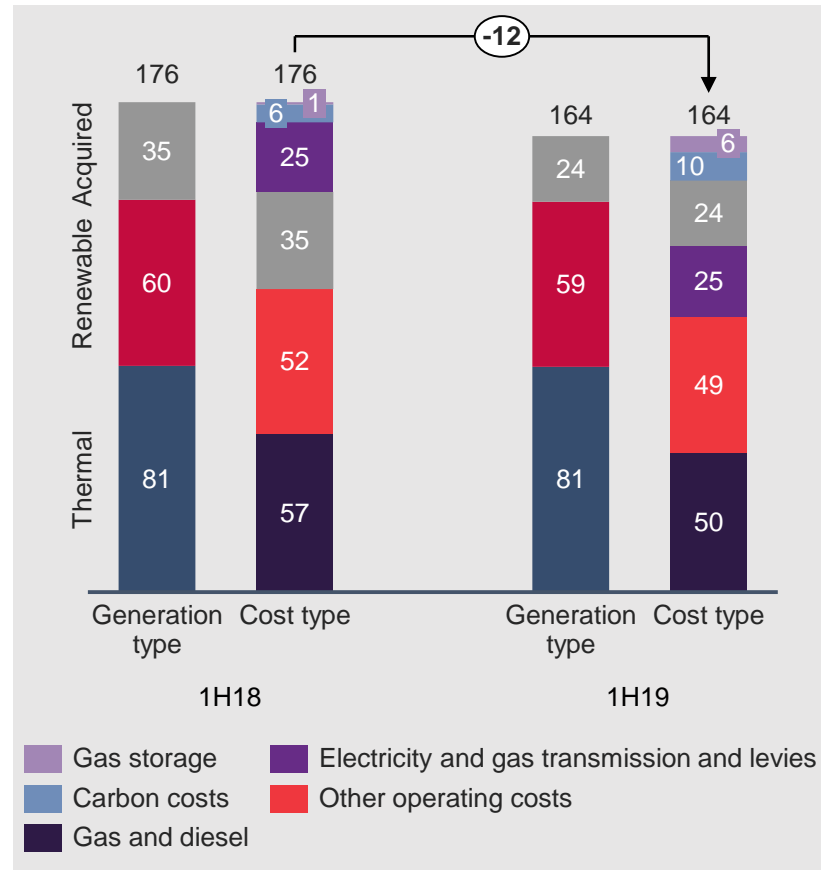
# Generation costs

Renewable generation up 10% on 1H18, costs down by \$12m

Electricity generated or acquired (GWh)



Electricity generated or acquired (\$m)

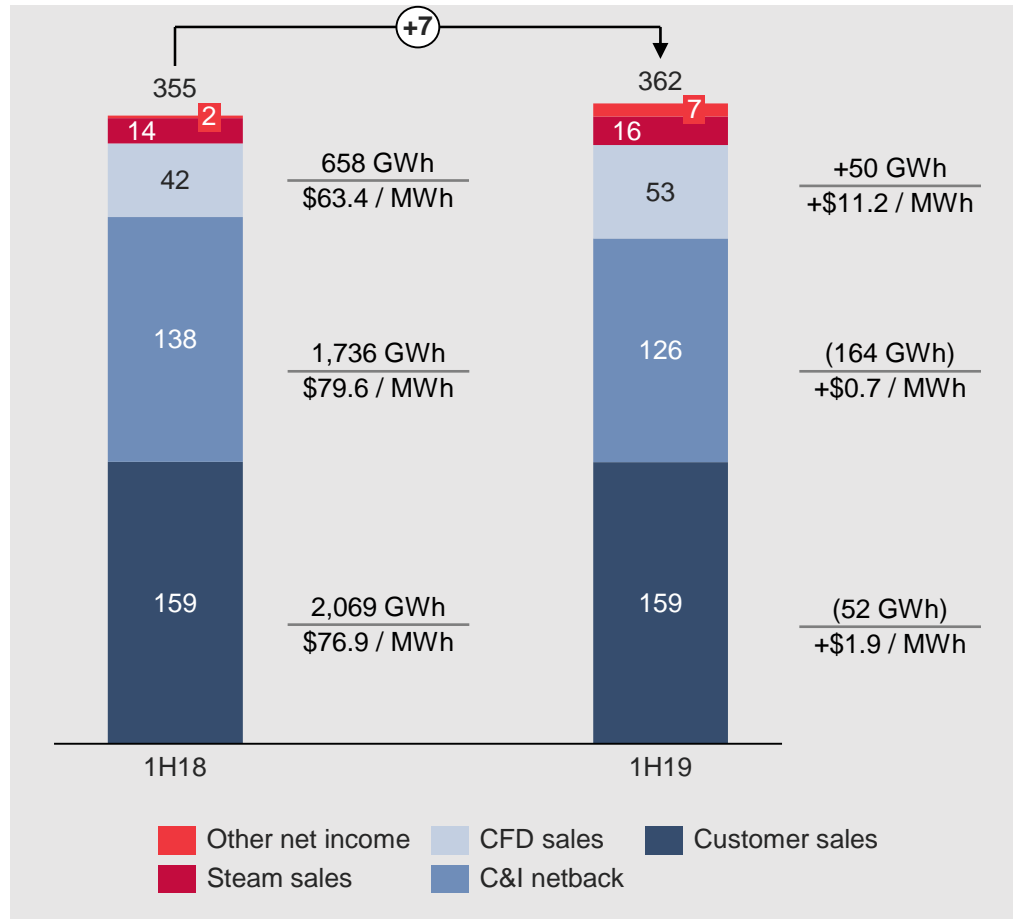


- » Hydro generation was up 410 GWh (25%) as hydro generation returned to mean after a dry 1H18, geothermal lower on planned Wairakei outage
- » Higher renewable production required less thermal generation (+\$5m) and less acquired generation (+\$21m)
- » This was offset by higher unit input costs for gas, diesel and carbon (-\$4m), higher electricity and gas transmission and gas storage costs (-\$4m) and a higher price for the acquired generation (-\$10m)
- » Prioritisation of more efficient thermal plant and lower labour costs saw efficiency gains of \$4m
- » Renewable costs are essentially fixed providing leverage to increased hydro generation

# Wholesale contracted revenue

Energy prices higher on the prior period, reduced exposure to fixed price sales and redirected load to higher priced channels

Contracted revenue (\$m)

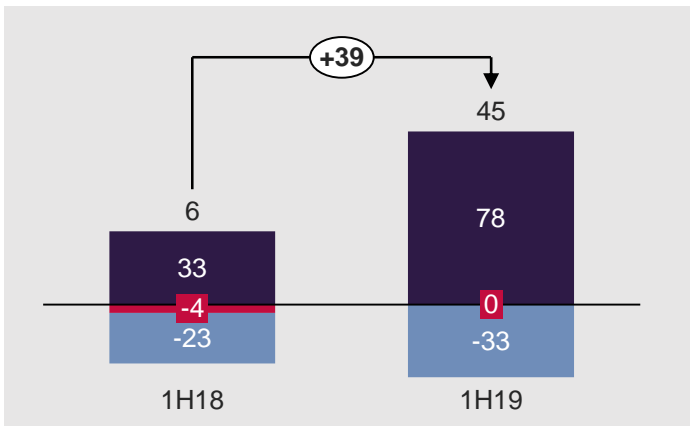


- » Fixed price variable volume electricity sales to Customer and C&I customers were 216 GWh (4%) lower than 1H18 (-\$16m) which was partially offset by higher prices (+\$4m)
- » Increased CFD sales to support NZAS, which was up by 22GWh contributed to higher CFD electricity sales in 1H19 (+\$1m). Higher pricing was achieved on both end-user CFDs (+\$2m) and short-term CFD sales to other generators (+\$8m)
- » Steam revenue was \$2m higher on 1H18 on a 6% increase in volumes and a higher tariff which reflected rising carbon prices
- » Other income was up by \$5m on 1H18, predominantly due to improvements made to trading activity which limited exposure to volatile markets

# Wholesale trading and merchant revenue

Contact was able to generate to support the market during higher priced periods in 1H19

TRADING EBITDAF (\$m)



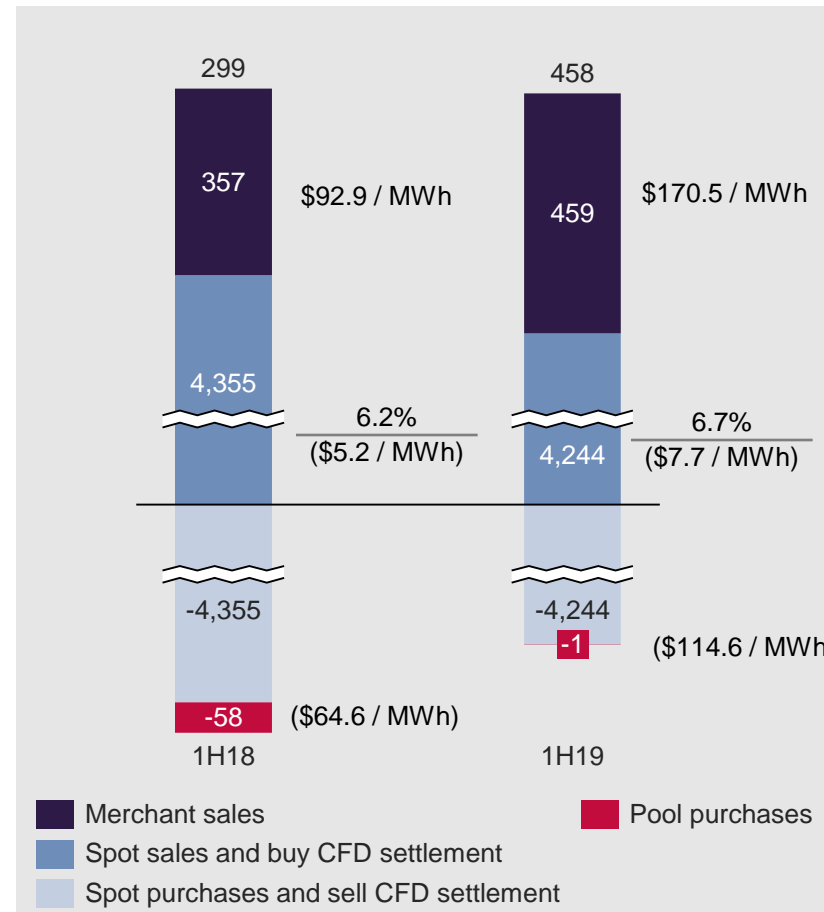
TRADING REVENUE

**Merchant sales:** short-term sales channel available when the spot prices exceed the opportunity cost on Contact generation

**Pool purchase:** short-term opportunistic purchases from the spot electricity market when better value than alternatives (adjusted for volatility and volume)

**LWAP / GWAP losses:** locational price differences between where electricity is generated and purchased

LONG / SHORT POSITION (GWh)



- » Contact's flexible generation portfolio and access to stored gas saw a 102 GWh increase in merchant sales volumes (+\$17m) to support the market during the recent higher priced periods as the spot price responded to gas field outages and lower national hydro storage levels. The price received for this "long" generation was up by \$77/MWh (+\$28m)
- » Strong generation volumes and risk management saw limited price exposure to unhedged spot market purchases
- » LWAP/GWAP losses only increased by 0.5% but higher spot prices saw the absolute cost increase by \$10m to \$33m



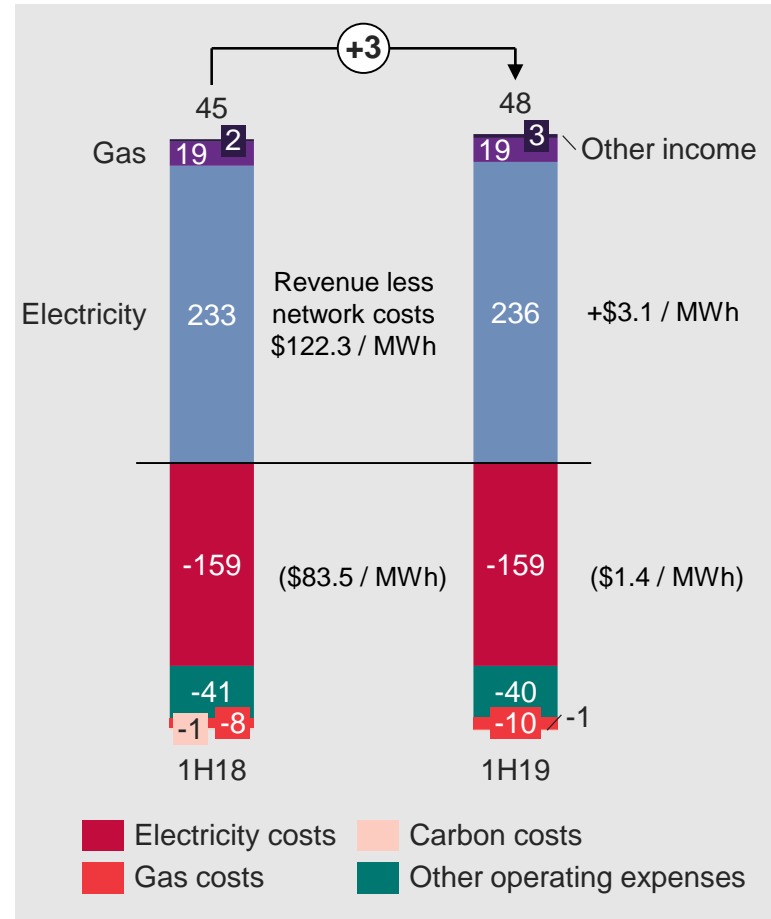
# Customer business performance

EBITDAF up by \$3m on higher tariff, lower network costs and a reduction in cost to serve

Revenue (\$m)



EBITDAF (\$m)



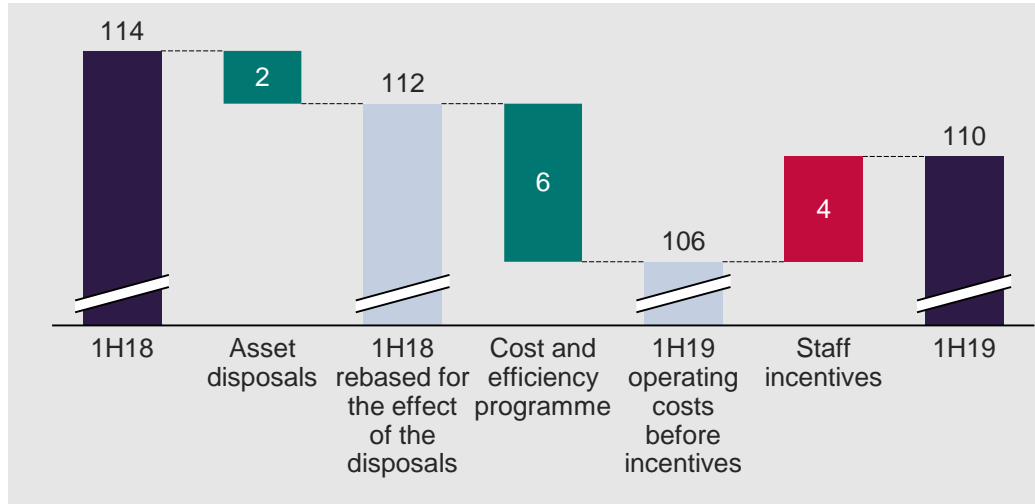
- » Electricity sales volume down 33 GWh due to lower customers numbers, offset by higher gas sales to SME customers
- » Intense competition and the decision not to renew 2,700 SME ICPs reduced average customer connections
- » Customer numbers stable over the past three months with new propositions in market. Broadband offer attractive.
- » Electricity gross margin up on successful customer retentions and corrections to historical pricing anomalies
- » Broadband and LPG services revenue leverages existing cost infrastructure
- » Energy costs increased, following higher ASX prices and higher gas and carbon costs
- » Other operating expenses favourable \$1m despite investment in digital, brand and new products

# Cost efficiency programme continues to deliver controllable cost reduction

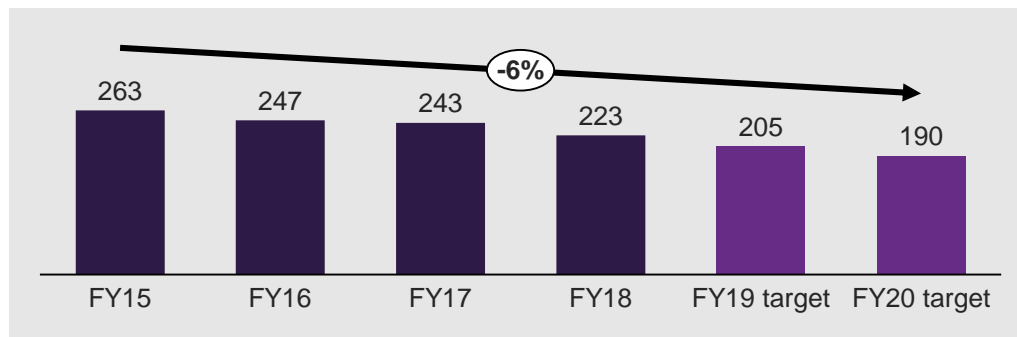
OTHER OPERATING COSTS (\$m)



OTHER OPERATING COST MOVEMENT (\$m)



CONTROLLABLE OPEX (\$m)



## 5% reduction in like for like other operating costs

- » Efficiency programme delivers \$6m operating cost reduction in 1H19, against \$8m target for FY19
- » Wholesale and corporate labour costs down on reduced FTE
- » ICT costs lower after the move to the cloud and efficiency initiatives
- » Further reduction in bad debt
- » Customer investment in brand and digital accommodated
- » On target for guided FY20 reductions
- » Staff incentives up on improvement to financial performance on 1H18

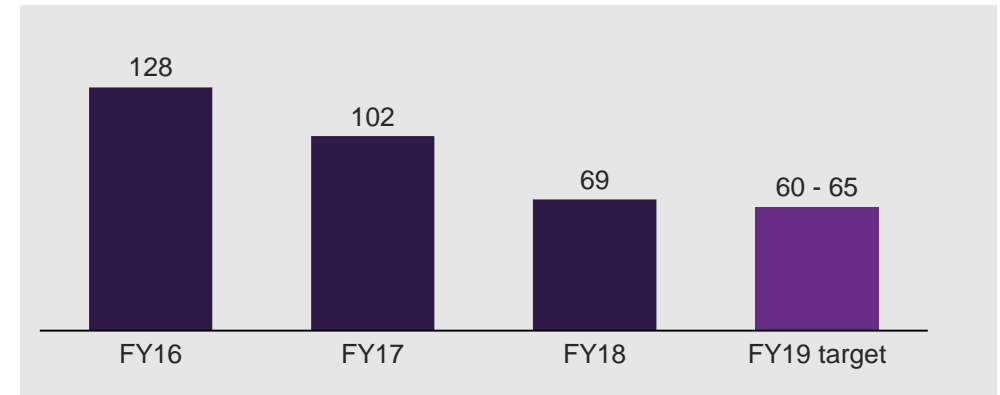
# Cash flow and capital expenditure

**OPERATING CASH FLOW UP BY \$62m ON HIGHER EBITDAF, FAVOURABLE WORKING CAPITAL MOVEMENTS AND LOWER INTEREST AND CAPEX COSTS**

|   | 6 months ended 31 December 2018 | 6 months ended 31 December 2017 | Comparison against 1H18 |
|---|---------------------------------|---------------------------------|-------------------------|
| EBITDAF   | <b>\$291m</b>                   | \$236m                          | ↑ \$55m                 |
| Working capital changes                         | <b>\$10m</b>                    | (\$8m)                          | ↑ \$18m                 |
| Tax and interest paid                           | <b>(\$77m)</b>                  | (\$60m)                         | ↓ (\$17m)               |
| SIB Capital                                     | <b>(\$29m)</b>                  | (\$35m)                         | ↑ (\$6m)                |
| Other non cash movements                        | <b>\$9m</b>                     | \$8m                            | ↑ \$1m                  |
| Operating free cash flow <sup>2</sup>           | <b>\$203m</b>                   | \$141m                          | ↑ \$62m                 |
| Operating free cash flow per share <sup>2</sup> | <b>28.3 cps</b>                 | 19.7 cps                        | ↑ 8.6 cps               |
| Proceeds from sale of assets/operations         | <b>\$438m</b>                   | -                               | ↑ \$438                 |
| Free cash flow                                  | <b>\$641m</b>                   | \$141m                          | ↑ \$500m                |

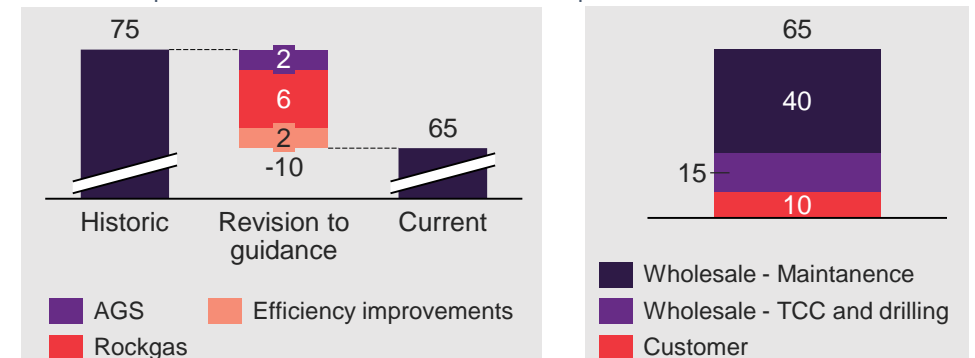
- » EBITDAF up on strong Wholesale performance
- » Working capital changes up by \$18m on improved receivables collections
- » Cash tax up in line with increasing earnings and balancing payments from prior periods
- » Capital expenditure on continuing operations of \$27m in 1H19

**SIB CAPEX (\$m)**



**LONG RUN AVERAGE CAPEX (\$m)**

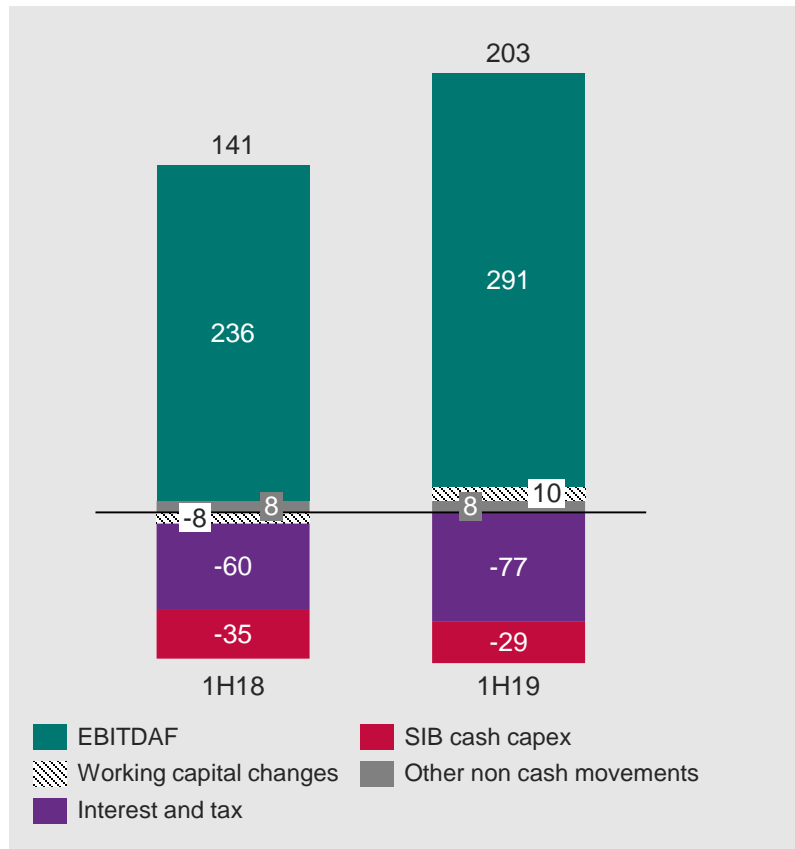
Excludes capex associated with Wairakei extension post 2026



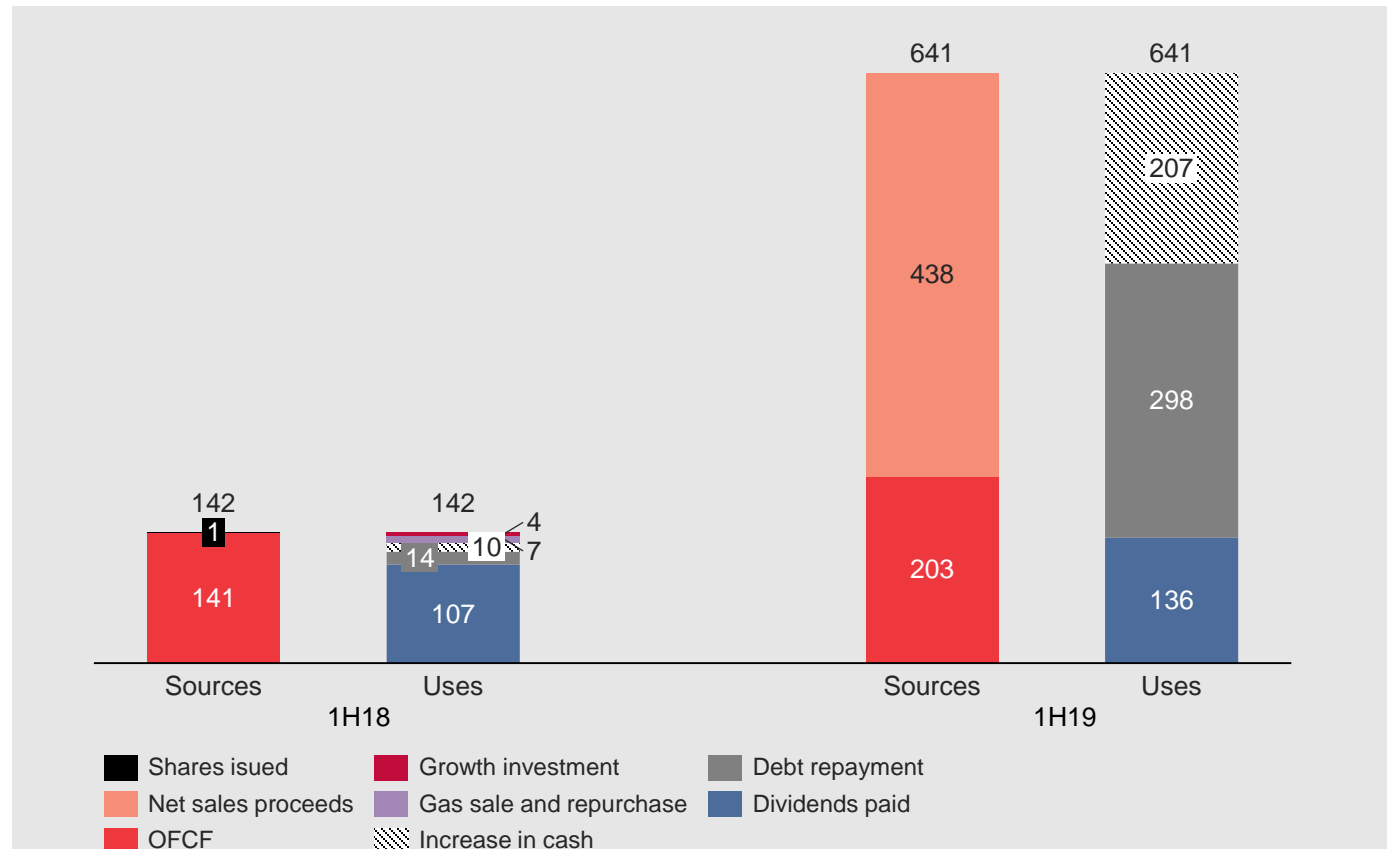
# Strong free cash flow directed to strengthening the balance sheet

EBITDAF TO CASH CONVERSION INCREASED TO 70% IN 1H19 FROM 60% IN 1H18

OPERATING FREE CASH FLOW – OFCF (\$m)



SOURCES AND USES OF CASH (\$M)

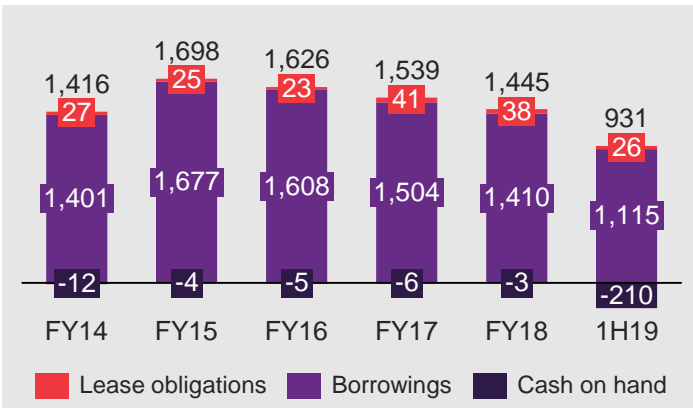


# Strong balance sheet

## ROBUST TREASURY MANAGEMENT ENSURES ACCESS TO DIVERSE FUNDING SOURCES

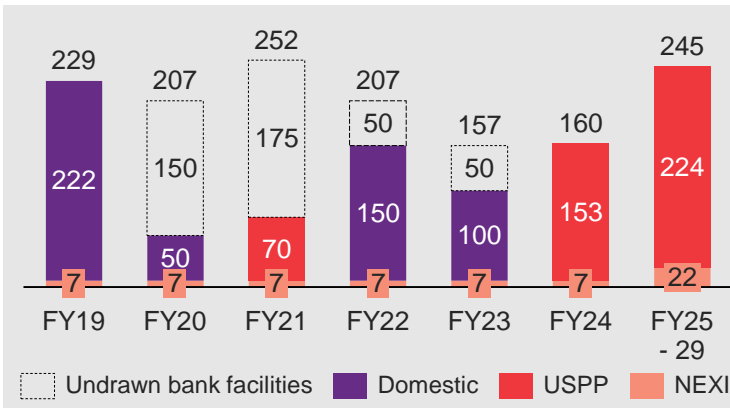
### CLOSING NET DEBT (\$m)

Face value of borrowings less cash



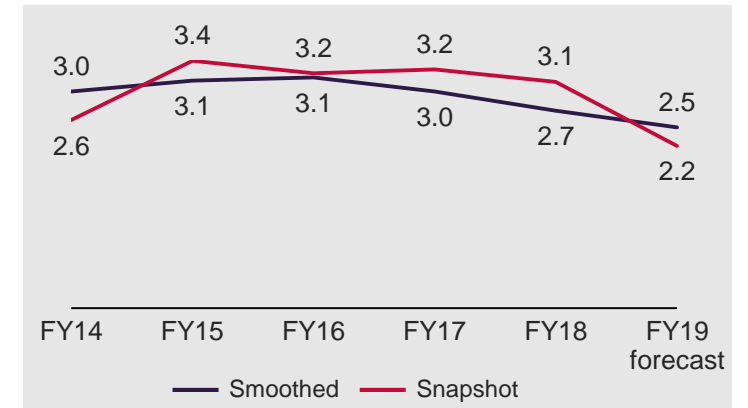
### BORROWING MATURITIES (\$m)

Average tenor of 3.6 years as at 31 December 2018



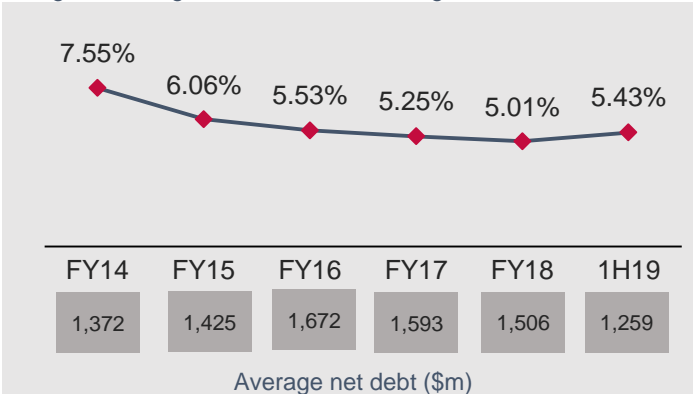
### NET DEBT TO EBITDAF (x)

Includes S&P adjustments (AGS currently treated as a lease)



### INTEREST RATE (%)

Weighted average interest rate on average net debt



- » Face value of net borrowings reduced by \$514m to \$931m following the completion of the asset sales. Net debt has reduced by \$767m since the end of FY15. Gearing reduced to 29.7% at 31 December 2018, down from 35.4% at 30 June 2018
- » \$222m retail bond maturing in May 2019 being partly refinanced
- » Weighted average interest rate increased by 42bp on FY18
- » Contact continues to target a credit rating of BBB (net debt / EBITDAF <2.8x)

# Guidance affirmed

## CONFIDENCE IN THE ABILITY TO DELIVER PERFORMANCE IMPROVEMENTS

|   | <b>FY19 (f)</b> | <i>Change to prior guidance</i>           | <b>FY20 (f)</b> | <i>Change to prior guidance</i> |
|---|-----------------|---|-----------------|---------------------------------|
| Other operating costs                             | \$200 – 210m    | -   | \$185 – 195m    | -                               |
| Depreciation and amortisation                     | \$200 – 205m    | Range narrowed on completion of disposals | \$195 – 205m    | -                               |
| Net interest (accounting)                         | \$75 – 80m      | Range narrowed on completion of disposals | \$60 – 65m      | -                               |
| Cash interest                                     | \$70 – 75m      | New guidance added                        | \$55 – 60m      | New guidance added              |
| Stay in business capital expenditure (accounting) | \$65 – 75m      | -   | \$60 – 65m      | -                               |
| Target ordinary dividend per share                | 39 cps          | up 4 cps (+11%)                           | 39 cps          | New guidance added              |

**FY20 OFCF (\$m)**

