

6 November 2018

Contact hosted invited institutional investors and analysts for dinner in Taupo on Monday evening in advance of an investor day and tour of the company's geothermal generation assets. Dennis Barnes, Contact Chief Executive, presented a brief update on current performance.

Flexible generation assets and focus on cost efficiency grows cash flow

Progress on our strategy

“Contact’s strategy remains to optimise the Customer and Wholesale businesses to deliver strong cash flows, which are ultimately for distribution to our shareholders” said Dennis Barnes, Contact Chief Executive.

“The focus on improving the operational performance and the simplification of our Customer and Wholesale businesses is driving a relentless focus on growing cash flow by delivering cost efficiency which has us targeting operating costs \$18m lower in FY19.

In the last year, we announced two significant transactions which are key enablers to accelerate the delivery of our strategy through simplification and adding flexibility into our business - the sale of Ahuroa gas storage (AGS), and the sale of the Rockgas LPG business.

Last month, we completed the sale of AGS and received \$190 million in cash, with a further \$10 million contingent on the new owner obtaining a favourable binding ruling in line with our tax treatment. Standard and Poors (S&P) will initially capitalise the storage service payments leaving the S&P net debt to EBITDAF ratio substantially unchanged. However, Contact and FlexGas, the new operating entity, are increasingly confident in the further commercialisation of the facility which will trigger a S&P re-assessment, lowering our key debt ratio.

We are making good progress to satisfy the remaining conditions in connection with the sale of Rockgas and expect to have the sale complete in December, with the \$260 million in sale proceeds applied to the reduction of debt. This will return our net debt to EBITDAF ratio to well below 2.8x, which secures our BBB credit rating and satisfies the conditionality in our current distribution policy.” said Mr Barnes.

	Strategy	Focus areas	Progress
Customer	A service and value focussed retailer, connecting customers and communities to smart solutions that make living easier for them now, and in the future	<ul style="list-style-type: none"> » Move to a simple, lean operating model centred on the customer experience reinventing key customer experiences and processes » Capable employees, identifying and driving performance initiatives with ownership and accountability » Transform technology to drive both efficiency and better automated customer experiences » Reposition the brand and reputation from a strong operational 	<ul style="list-style-type: none"> » The Customer business continues to perform well in a highly competitive market, with strong customer advocacy as measured by net promoter scoring and a slight increase in margins as other operating expenses continue to reduce » Despite volatile wholesale prices, heavy discounting and large sign on credits remain the predominant tools for customer acquisition <ul style="list-style-type: none"> » While Contact electricity customer numbers have reduced this financial year, we have a number of initiatives in place to address this. The decision to not renew a large customer accounted for over half of our year to date losses and is an

		<p>retailer to a smart customer solutions provider</p>	<p>example of how we are continuing to balance customer profitability with the value received from the marginal customer</p> <ul style="list-style-type: none"> » The rebrand is resonating with customers » Introduced smart customer solutions which our customers value by making their life easier, this includes weekly or fortnightly billing payment options which leverage smart meter data » Launch of our PrePay product so that customers are not only able to keep track of their usage and manage payments via the app but also receive all the benefits available to a post pay customer – which includes access to discounts and rewards. So far 71% of customers on this product would have failed industry credit checking processes and therefore would not historically have been able to get signed up with Contact » Product planning well progressed with “free-bill”, an innovative reward and budgeting offering, in the pipeline – other customer centric offerings under development » Launched our first energy and broadband advertising campaign as we look to continue to grow our broadband offering which now number more than 3,000 connections » Investing in our digital and data capability to understand and improve customer experience and provide more choice in how customers interact with us. Our customers will see both the Mobile App and the website continually improved with new features. These investments are also building a platform from which we will further reduce costs and develop new, innovative propositions
Wholesale	<p>An innovative, safe and efficient generator working with business customers, partners and suppliers to decarbonise New Zealand’s energy sector</p>	<ul style="list-style-type: none"> » Sustainable cost reduction » Strengthen geothermal capability to remain as a recognised world leader » Partner with customers on mutually beneficial decarbonisation opportunities 	<ul style="list-style-type: none"> » Contact operates in weather dependant commodity markets. Hydrological variability is managed by using portfolio flexibility and a strong risk management framework which has been tested by the current gas supply constraints » We will further outline our progress on our Wholesale strategy tomorrow, which includes: <ul style="list-style-type: none"> » How we think about sustainability and how the Wholesale division is

		<ul style="list-style-type: none"> » Develop options to enable the economic substitution of thermal generation with renewables » Lower the cost of geothermal to ensure Contact development options are cost competitive with firmed intermittent renewables 	<ul style="list-style-type: none"> » planning for a lower carbon future » TCC and its future role » Insight into our high quality and low cost geothermal operations » A preview of the many options for the continued operations at Wairakei. My historic comments on the cost of continuing operations will seem conservative » A rich set of brownfield development opportunities that will only be developed if observable demand growth or contracted by customers
<p>Underpinned by a disciplined and transparent approach to operating and capital expenditure while continuing to investigate ways to optimise our portfolio of assets</p>		<ul style="list-style-type: none"> » Capex spend is on target » Contact is not integrated into upstream LPG supply and is exposed to the fluctuations in oil commodity prices which are 34% up on the prior period. » Focusing on our core areas of advantage will be key to succeed in today's markets and allow us to participate in those that are only just starting to emerge. For now the focus remains on the reduction of controllable costs, simplification of the organisation and asset portfolio and seeking opportunities to deliver value from scale efficiencies. 	

Outlook

“With regards to the current review of the electricity sector, Contact agrees with the Panel’s assessment that the electricity system is working well to produce reliable and sustainable electricity supply.

Where it isn’t working so well is for those customers who are struggling to pay all their household bills and we believe the government, social agencies, Contact and the industry can do more for these customers and we are accelerating the design of new products to play our part.

The current market settings have delivered and changes that would undermine the current momentum or have unintended consequences should be avoided. We believe customer centred specific action is necessary not a “one size fits all” approach.

Contact EBITDAF for the financial year to date is higher than the prior comparative period, having benefitted from comparatively stronger renewable generation following record low inflows during the first quarter of FY18. In addition, our flexible generation portfolio and stored gas reserves saw an increase in merchant sales to support the market during the recent high priced periods as the market responded to gas field outages and lower national hydro storage levels. This has been partly offset by \$3m in higher LPG product costs, as well as payments to secure flexible gas storage which reduce EBITDAF by \$14 million a year from 1 October 2018.

Gas production has recently not been as reliable as we have come to expect but we are unable to ascertain whether these are one-off in nature or the start of a shift in medium term gas availability.



Contact has not contracted for material volumes of gas for calendar year 2019, which is not unusual for this stage of the year, but is engaging with suppliers. In addition to the gas we expect to contract, we have access to stored gas in AGS and other contractual options which will give us appropriate access to energy for our customers.

Contact will continue to focus on delivering operating free cash flow growth, which along with a strengthened balance sheet will support increasing dividends over time” said Mr Barnes.

ENDS

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