



31 July 2018

Sale of Contact's LPG business Rockgas

Delivering on our strategy through portfolio optimisation

Contact has entered into an agreement to sell 100% of the shares in Rockgas Limited (Rockgas) to Gas Services NZ Midco Limited (GSNZ) an associate of First Gas Limited (First Gas), for a cash consideration of \$260 million after an extensive competitive sales process.

Rockgas holds Contact's LPG operations as well as 50% of the issued shares in Rockgas Timaru Limited¹ and an 8.5% investment in Liquigas Limited².

As part of the transaction, Contact will enter into an exclusive marketing alliance with GSNZ to be able to continue to offer LPG to mass market customers. In addition, Contact will enter into a services agreement to provide call centre and billing services for mass market LPG customers.

Rationalisation of non-core portfolio assets

Contact's strategy is to optimise the Customer and Generation businesses to deliver strong cash flows 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.

Rockgas purchases LPG from New Zealand producers (and when necessary, imports LPG) at prices linked to international commodity indices and then arranges for storage and distribution to customers. Rockgas supplies over 88,000 customers through an extensive branch and franchise network, which has national distribution coverage.

The Rockgas business is markedly different to the generation of electricity at single sites and the retailing of electricity, natural gas and broadband, which are distributed on networks not owned or controlled by Contact.

Contact's primary strategic interest in LPG is being able to offer the product as part of its energy offering to customers which is retained as part of the transaction.

Creating value for Contact shareholders

Improve the focus and speed of transformation in the Customer business

In an environment of continuing competitive intensity, operational improvements in the Customer business over the last few years have seen a move to a high-performing, efficient retailer focused on improving the customer experience. The evidence of progress includes an 11% reduction in cost to serve in FY18 (on FY17) and improving customer advocacy.

Divesting Rockgas will enable greater focus and allow for accelerated transformation in the Customer business, delivering digitally led customer experience improvements and ultimately creating value for shareholders.

Value in dual fuel and customer scale retained

Customers value a multiple product offering and are therefore more loyal with a lower propensity to switch providers. Satisfied customers have higher customer lifetime value. The marketing alliance with GSNZ will preserve the value in a multi-fuel offering and support our ability to compete in the electricity market. In addition, the value from the scale advantage that Contact has in servicing customers is maintained through the services agreement covering call centre and billing services for mass market LPG customers. This allows for enhanced returns from digital transformation.

¹ Rockgas Timaru is a Joint Venture with Alpine Energy Limited

² Liquigas is a provider of LPG storage facilities and transport and logistics services in New Zealand

Reduced exposure to commodity prices

The price of and demand for LPG in New Zealand is affected by the domestic availability and wholesale price of LPG (linked to international benchmarks in US\$). Post sale, Contact will no longer be directly exposed to movement in these commodity prices.

Improved balance sheet strength, debt to return to target gearing ratio

The sale proceeds will strengthen our balance sheet and facilitate improved distributions to shareholders. Contact expects that post completion of the transaction the S&P net debt / EBITDAF ratio will fall comfortably below the target 2.8x.

Consideration

The total consideration for the disposal is \$260 million payable in cash at completion, with net proceeds subject to standard pre-completion adjustments for net debt (primarily property leases), working capital movements and transaction costs. As a sale of shares, the sales proceeds arising from the disposal will not be subject to income tax. The transaction proceeds will be applied to the reduction of debt on completion.

Completion

Completion of the sale is subject to the fulfilment of certain conditions set out in the transaction agreements. These include GSNZ obtaining the required consents under the Overseas Investment Act 2005 and the consent to change of control or assignment or novation of agreements from a limited number of contractual counter-parties.

Contact is targeting the satisfaction of these conditions and completion of the transaction by 31 December 2018.

On-going agreements

Rockgas and Contact will enter into a marketing alliance to promote and cross-sell their respective LPG and electricity products. Contact will provide support services, including call centre, billing and credit control services to Rockgas for mass market customers for an annual fee of \$2 million.

Background

Contact entered the LPG market in 2007, through the purchase of Rockgas from Origin Energy (who held a majority shareholding in Contact) for \$156 million, during the first year of operation, EBITDAF was \$20m. The average annual EBITDAF for the period under ownership was \$22 million, with a range of \$13 million to \$35 million.

During the period of ownership, Contact improved the integrity, reliability and costs of operation with operating costs down by \$5 million which along with significant improvements to fuels procurement and consolidation of bulk distribution and shipping along with lower product costs saw FY18 earnings before interest, tax, depreciation and fair value adjustments in financial instruments (EBITDAF) of \$32 million (unaudited).

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. GSNZ and Contact are currently working to satisfy the conditions to complete the sale of the Ahuroa gas storage facility to GSNZ.

ENDS

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Sale of Rockgas

Portfolio optimisation

July 2018

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Disclaimer



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Contact's strategy is to optimise the Customer and Generation businesses to deliver strong cash flows



Customer

Will deliver value by providing customers with choice, certainty and control while reducing cost to serve and improving the customer experience through systems-enabled operational improvements



Generation

A 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

Underpinned by a disciplined and transparent approach to operating and capital expenditure while continuing to investigate ways to optimise our portfolio of assets

Executing our strategy – Transaction summary

- » Contact has entered into an agreement to sell 100% of the shares in Rockgas Limited (Rockgas) which includes 50% of the issued shares in Rockgas Timaru Limited and an 8.5% investment in Liquigas Limited to Gas Services NZ Midco Limited (GSNZ), an associate of First Gas Limited (First Gas)
 - » GSNZ is a provider of 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 pipes and around 4,800 kilometres of gas distribution pipes in the North Island. GSNZ and Contact are currently working to satisfy the conditions to complete the sale of the Ahuroa gas storage facility.
- » The sale price of \$260 million is payable in cash at completion subject to standard pre-completion adjustments for net debt (primarily property leases) and working capital movements. As the sale is of shares there is no tax payable on sale. Contact will apply the net proceeds to the reduction of debt.
- » As part of the transaction the parties will enter into two agreements:
 - » Marketing alliance: This agreement sets out the basis for cooperation on growing the value from dual fuel mass market customers
 - » Services agreement: Contact has agreed a service level agreement with GSNZ, covering call centre services and billing and collections for mass market customers for an annual fee of \$2 million
- » Contact will also provide certain transitional services after completion of the sale to ensure no disruption to customers
- » The conditions precedent to the sale, include Overseas Investment Office approval and the consent to change of control or assignment or novation of agreements from a limited number of contractual counter-parties

Creating value for Contact shareholders through the sale of Rockgas

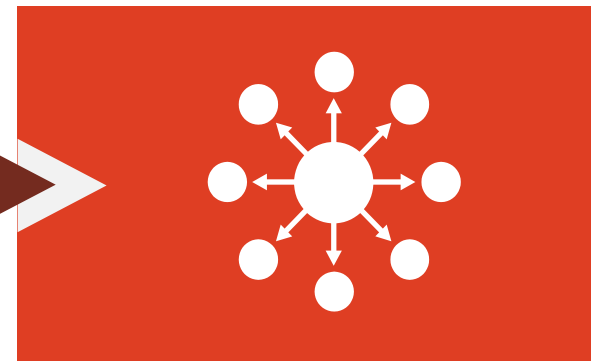
Sale price represents a multiple of 8.1x FY18 EBITDAF, or 11.8x average EBITDAF since 2007

Divesting the logistical aspects of the LPG business will improve the focus and speed of digital transformation of our Customer business



Preserving dual fuel value

- » The marketing alliance allows Contact to continue to offer LPG as part of its product suite and grow the customer base through cross-selling to both new and existing customers
- » The benefits of lower churn retained



Monetising scale advantages

- » The services agreement will preserve our scale advantage to enhance returns from digital transformation



Reduce commodity exposure

- » The sale will eliminate Contact's exposure to the variability in international LPG prices, exchange rates and domestic LPG supply and demand dynamics



Strengthen balance sheet

- » The sale proceeds will improve our balance sheet strength and facilitate improved distributions to shareholders

GSNZ will be Contact's specialist LPG fulfilment partner

Agreements ensure that LPG will continue to be an important part of Contact's product suite

	Contact	GSNZ
LPG procurement and commodity risk management	✗	✓
Operations, distribution and logistics	✗	✓
Call centre and billing	Mass market LPG	Bulk LPG Includes sales to large customers, franchises, service stations and automotive
Ability to market and sell LPG	✓	✓
LPG margin	✗	✓

An important competency of our Customer business is the contracting and management of fulfilment partners

Simplification will allow the Customer business to accelerate it's digital transformation

CUSTOMER BUSINESS STRATEGY REMAINS UNCHANGED

Deliver value by providing customers with choice, certainty and control while reducing cost to serve and improving the customer experience through systems-enabled operational improvements

NEAR TERM SUCCESS MEASURES

- » High-performing, efficient retailer with the lowest cost to serve and best customer experience of the tier 1 retailers in New Zealand, with an ability to execute consistently

ACCELERATE THE STRATEGY TO CAPTURE VALUE FOR SHAREHOLDERS

- » Sustainable cost reduction through continuous improvement
- » Deliver a digitally led customer experience transformation
 - » Digitalise / streamline highest-priority customer journeys
 - » Optimise and automate processes
 - » Adapt IT operating model to better serve customer needs

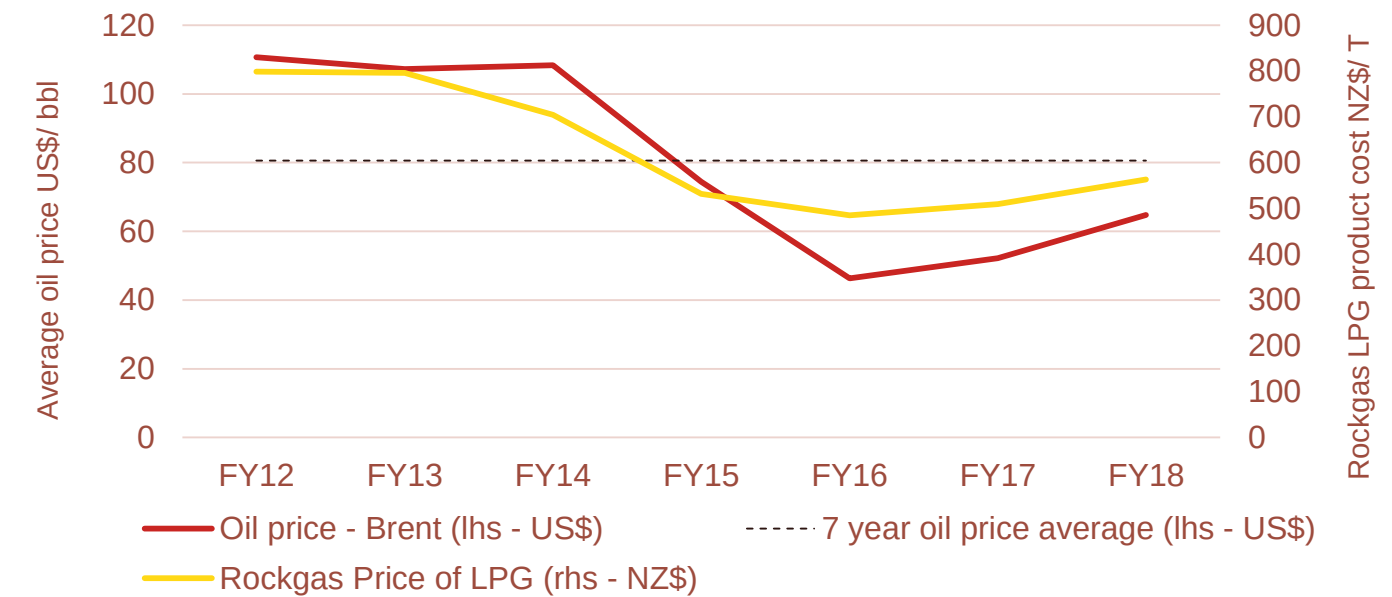


In an environment of continuing competitive intensity, speed is key to capturing value for shareholders

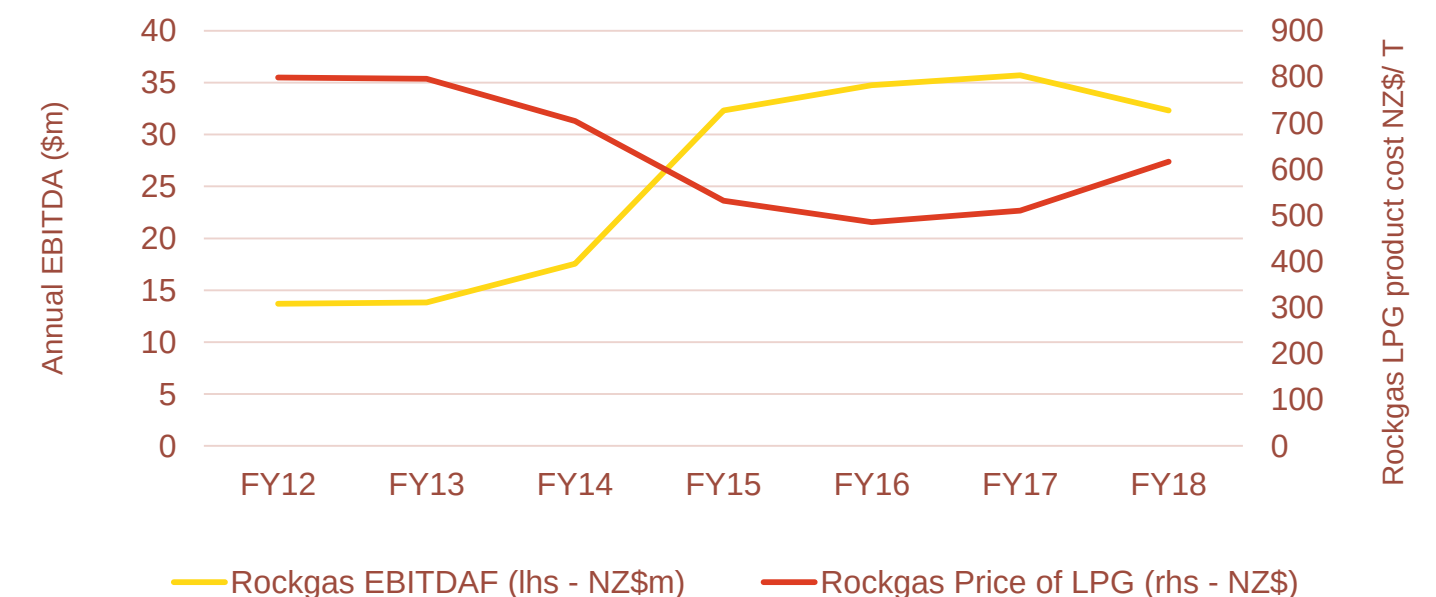
Rockgas history

- » Contact acquired 100% of Rockgas from Origin Energy in 2007 for \$156m
 - » FY07 Rockgas gross profit was \$42m with an EBITDAF of \$20m
- » Contact has improved margins since acquisition through:
 - » Operating cost reduction of ~\$5m p.a
 - » Optimised fuels procurement
 - » Optimised bulk services and shipping
- » Annual average EBITDAF range for the period under ownership (FY07 and FY18) of \$22m with an EBITDAF range of between \$13m to \$35m
- » Rockgas FY18 unaudited EBITDAF is estimated at \$32m.
 - » Sold to GSNZ for \$260m

International oil prices and product cost



Rockgas profitability and product cost



Key financial impacts

On FY18 results

\$250m

Estimated net cash proceeds applied to borrowings after net debt adjustment and transaction fees

(\$32m)

Unaudited FY18 LPG EBITDAF \$32m

(1.3 cps)

Reduction in EBITDAF offset by lower interest (\$15m) and depreciation (\$5m) and accounting tax

(0.8 cps)

Reduction in EBITDAF offset by lower interest (\$15m) and capital expenditure (\$6m) and cash tax

strengthened

S&P net debt to EBITDAF ratio expected to be comfortably below target of 2.8x on completion

Since Contact ownership

	Average (FY07 – 18)	Range (FY07 – 18)
EBITDAF	\$22m	\$13m to \$35m
EPS	(0.3 cps)	0.6 cps to (1.6 cps)
Operating free cash flow	0.2 cps	1.1 cps to (1.1 cps)

Based on the expected net proceeds applied to debt reduction

01	BORROWINGS
02	EBITDAF
03	EARNINGS PER SHARE (EPS)
04	OPERATING FREE CASH FLOW
05	CREDIT METRICS (S&P NET DEBT / EBITDAF)

Conditions precedent and transaction timeline

Limited conditions precedent

- 01** Overseas Investment Office consent for GSNZ to purchase Rockgas
- 02** The consent to change of control or assignment or novation of agreements from a limited number of contractual counter-parties

Transition / Separation arrangements

Contact and GSNZ will work together to transfer the assets and undertakings of the Rockgas business from Contact to Rockgas

Contact is targeting transaction completion by the end of 1H19

