



Tena koe Greetings,

This year has been a noteworthy one for Contact, not least because it marks the last time we will be known by our familiar red brand. In its stead is our new brand, which firmly signals the beginning of our transformation to become a truly digital retailer with the in-house agility to adapt to the evolving needs of our customers. This includes streamlining the channels through which they interact with us, and surprising and delighting them with new products and services that customers' value.

It is also a year where the electricity and gas operating environment has tested us. In the Generation business we experienced a second successive year of hydro inflows that were 10% lower than average. Our Customer business continued to compete hard against an ever-growing number of start-up retailers and reinvigorated incumbents. In the face of the challenges, we showed strong financial discipline and reduced the operating and capital spend by \$58 million, an incredible effort from our dedicated people. Our lean and low-cost operation sets up Contact for any future and has given the Board the confidence to increase dividends to shareholders after a period of serious investment in assets and systems.

In the last year we also announced two transactions. They stand out to me as key enablers to accelerate the delivery of our strategy: the sale of the Ahuroa Gas Storage (AGS) facility, and the sale of the Rockgas LPG business. Although on face value they seem like simple disposals at a fair price, they build significant flexibility into our business. With AGS we retain access to long-term gas storage services to meet our flexible thermal generation requirements without the need to own and operate a gas storage asset. Similarly, the Rockgas sale frees us up from the fulfilment aspects of the LPG business while still being able to sell the product to our mass market customers, which we know is something they value. The sales proceeds will also strengthen our balance sheet and add resilience to the company.

Focussing on our core areas of advantage will be key to succeeding in today's markets and allowing us to participate in those that are only just starting to emerge. For example, we know the demand for low carbon, reliable, renewable electricity will rise as the economy reduces reliance on fossil fuels and decarbonises. This will need to be balanced against access to affordable energy and we will work with the Government to help shape future policy that will impact our regulatory environment. New technologies will continue to disrupt traditional ways of doing business and provide challenges and opportunities that we need to be prepared for. I can say with confidence we will be ready for them.

CONNECTING WITH CUSTOMERS

The New Zealand energy market remains highly competitive and, with more retailers competing for attention, it is more important than ever that we can distinguish our products and services in the eyes of customers. Our new brand marks the culmination of a number of years of work to reinvent Contact as a truly customer-centric digital energy company from the inside out.

The operational performance of the Customer business over the last year has given us the confidence in our belief that we are on the right path, and provides solid momentum to deliver on our brand promise. Our focus on being New Zealand's lowest cost energy retailer with the best customer experience is delivering results, with customers advocating for us in greater numbers than ever before (as measured by our Net Promoter Score) and customers staying longer, with churn below the market average.

Much of this is attributable to our transformation programme which continues to deliver operational efficiencies by empowering the Customer team to remove bottlenecks, reduce operating costs and react to valuable market opportunities. This focus resulted in a \$13 million reduction in electricity and gas cost to serve, and a decline in the number of interactions with customers as the functionality of our online channels improved. Our proactive approach to the debt collection cycle has also led to less debt being written off and fewer customers in the credit cycle.

Despite these operational improvements, the Customer business results in the year were impacted by market headwinds. In particular, increased competition in the commercial and industrial electricity segments reduced margins and Contact was unable to pass through the higher cost of LPG to customers as it rose with global oil prices. As a result, the Customer business EBITDAF was \$109 million in the period, \$9 million lower than FY17.

GENERATING FOR THE FUTURE

Dry conditions impacted the earnings in our Generation business as the low South Island inflows at the end of FY17 extended into the start of FY18 culminating in a dry, hot summer. As a result, hydro generation volumes were below average for the second consecutive financial year and, although hydrology recovered in the last quarter of FY18, it was not enough to offset the dry start.

Hydrological variability is expected and our flexible fleet of generation assets means we are able to increase generation from our thermal plants and supply energy to our customers at a fixed price when they need it, not just when it's raining.

However, the additional cost of gas and carbon to run harder has weighed on our financial performance in the period. Unfortunately the timing of the scheduled five-yearly major refurbishment of our largest thermal plant, the Taranaki Combined Cycle, occurred during November and December, a period of unusually higher wholesale prices due to the dry summer.

As a result, operating earnings (EBITDAF) from the Generation business were \$372 million in the period, \$11 million lower than FY17. The portfolio performed as expected and the 3% reduction was primarily due to lower returns as a market-making participant on the ASX futures market and the liquidated damages received in FY17 were not repeated. The full effect of the dry conditions on our financial performance was mitigated by our continuous improvement programme, which is delivering sustainable reductions in ongoing operating costs and improving the resource utilisation of our renewable assets.

A key focus for the business is to position itself to support further decarbonisation of New Zealand's energy sector. We see the development of the consented geothermal resources under our control playing a key role in the transition and reducing the cost of these renewable generation developments will provide us with options to close thermal plant, if gas and carbon costs continue to rise, and help to keep our cost of energy low. It should be no surprise that as an operator of geothermal plant for 60 years, it is an area where we are a clear leader. We are not resting on our heritage. Since 2015, Contact has improved the efficiency of our geothermal operations by 7%. While the market fundamentals don't currently support new renewable investment, it is something we plan for and refine, especially as New Zealand looks to achieve its carbon reduction ambitions.

OPERATING SUSTAINABLY

Contact can only operate commercially if we ensure the sustainability of the resources that we rely on, and the well-being of our stakeholders who rely on us. This principle is universal and traverses environmental, social and economic partners. We do not shy away from initiating and developing these connections, even when at first there seem to be divergent opinions – this will deliver the best outcomes in both the short and long term.

This year we committed to the Science Based Targets initiatives (SBTi) to set emissions reduction targets in line with limiting global warming to two degrees. We also joined the Climate Leaders Coalition to help New Zealand transition to a low emissions economy. We created a climate change position statement which describes our commitment to reducing our own emissions while supporting our customers and other sectors to reduce theirs.

As an owner and operator of iconic national generation assets, provincial New Zealand is our home. We are an inseparable part of those communities and have a shared interest in creating a vibrant future. This year, we were ranked among the top five companies in New Zealand for community investment activities on the BACS Social Index, which signals that our energy is focussed in the right place. We also work with tangata whenua who have a special relationship with the resources that we use.

Employees who are respected, included and trusted are a sustainable advantage and Contact works hard to create a receptive culture where diversity flourishes. We take the pulse of our progress with an annual engagement survey, which pleasingly recorded a five percentage point increase in engagement to 77% between October 2017 and May 2018. As a dynamic, progressive organisation we will continue to adapt and improve to raise engagement.

At Contact we take pride in our excellent safety systems and generative safety culture, which empowers frontline workers to take ownership of health and safety outcomes with the backing of our world-class process safety systems. It follows that when 14 people were hurt in the year it is incredibly disappointing. While most of the injuries were strains or sprains, this does not diminish our resolve for improvement.

As mentioned, a key sustainable priority is working to position ourselves to take the lead in the decarbonisation of New Zealand's energy sector. To be credible in the conversations with customers, Contact needs to deliver on our carbon strategy. This means measuring, controlling and ultimately reducing our emissions.

Under our new brand, we will put our human energy where it matters: delighting customers, leading the decarbonisation charge, contributing positively to the communities in which we operate, and delivering value for shareholders.

I very much look forward to it.



Dennis Barnes
Chief Executive Officer