

# UBS Australasia Conference

November 2019



Putting our energy where it matters

## Disclaimer and important information

This presentation may contain projections or forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties.

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.

Furthermore, while all reasonable care has been taken in compiling this presentation, Contact accepts no responsibility for any errors or omissions.

This presentation does not constitute investment advice.

Numbers in the presentation have not all been rounded and might not appear to add.

All logos and brands are property of their respective owners. All company, product and service names used in this presentation are for identification purposes only.

All references to \$ are New Zealand dollars

FURTHER INFORMATION IS AVAILABLE ONLINE



**contactenergy.co.nz**

- >Investors
- >Results, reports and presentations

This presentation has been abridged from the fulsome international investor roadshow presentation delivered during October

<https://contact.co.nz/aboutus/investor-centre/reports-and-presentations#Presentations>

# A disorderly exit impacts multiple stakeholders and all gentailers.

## Rio Tinto strategic review >

Target completion first quarter 2020

“Rio Tinto will work with all stakeholders including the **government, suppliers, communities and employees** in order to find a solution that will ensure a **profitable future** for this plant.”

Rio Tinto Aluminium  
Chief Executive, Alf Barrios  
22.10.19

Production  
+4kT<sup>1</sup>

Staff  
+18% over  
3 years

Cash  
tax paid  
\$21m in  
FY18

3 year total  
EBITDA  
less capex<sup>2</sup>  
+\$71m

## Stakeholders >



Suppliers

- Electricity would flow North, in a curtailment scenario without grid upgrades.
- Reduced return on thermal assets and lower natural gas demand.
- Transmission pricing delays – initial benefits to NZAS have been eroded.



Government

- Impact on the Southland and Taranaki economy, loss of regional jobs.
- Carbon leakage from low carbon aluminum.
- Inefficient capital investment decisions.
- Risk to New Zealand's long-term decarbonisation goals.



Communities  
& employees

- Large closing costs (estimate >\$300m on closure).
- Uncertainty from 12 month termination right.
- Infrastructure and supply chain to support NZAS.
- Retooling and reskilling – time and investment.

## Contact's mitigations >

- > Early Lower South Island transmission upgrade
- > Demand growth
  - > Dairy electrification real
- > Thermal portfolio marginal at best
  - > Short gas book
  - > Close baseload thermal (TCC)
- > Strong balance sheet
- > Manage North Island reserves, increase HVDC flow without investment

**“New Zealand should support and grow our low carbon advantage and that includes supporting businesses like the smelter”**

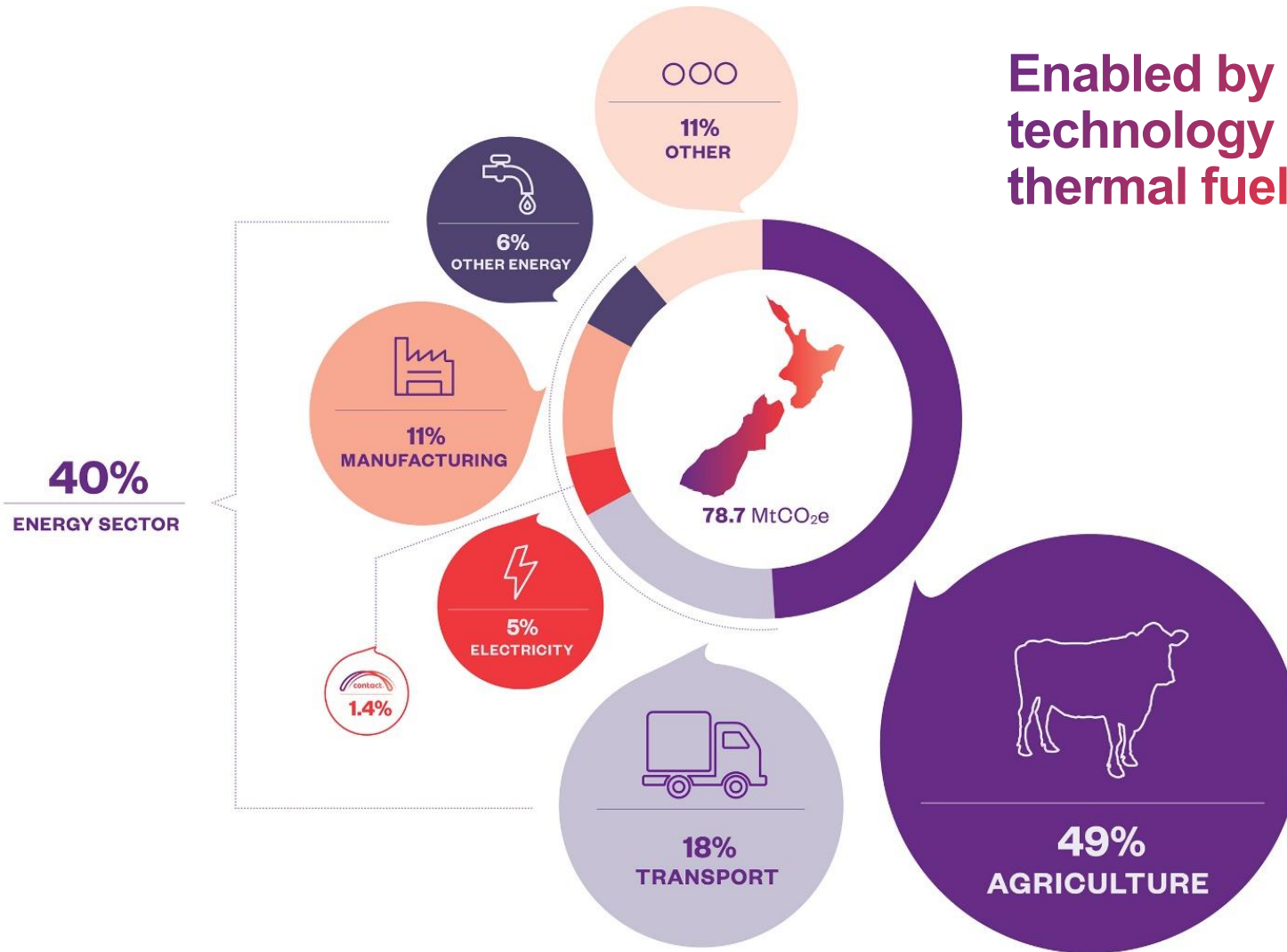
Rob McDonald, 2019 Contact AGM

**Independent analysis of smelter financial performance indicates positive cash flows.**

<sup>1</sup> Commissioned a 4th potline in late 2018, increasing production backed by a new electricity contract until 12/2022, <sup>2</sup> Source Pacific Aluminium (New Zealand) Limited financial statements: EBITDA is equal to Profit before Income Tax; add back Depreciation, Finance costs and fair value movements in derivatives. Capex is equal to cash payments for Plant, Property and Equipment

# CARBON REDUCTION OPPORTUNITY

Enabled by falling renewable technology costs and rising thermal fuel costs.



With high renewable penetration, electricity is the solution to reducing carbon emissions, not the problem.

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

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

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

Investment staged to substitute thermal generation and/or capture demand growth; early developments likely to be at lower capital cost/MW.

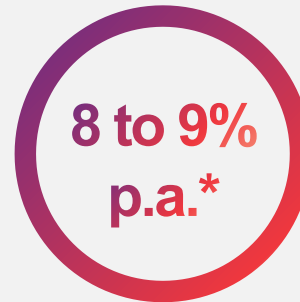
Estimated total capital cost



~\$1bn

=

Operating free cash flow yield



~11 to 12 cps

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

A world-class geothermal expertise with consented brownfield development potential.

Opportunity

>25% uplift

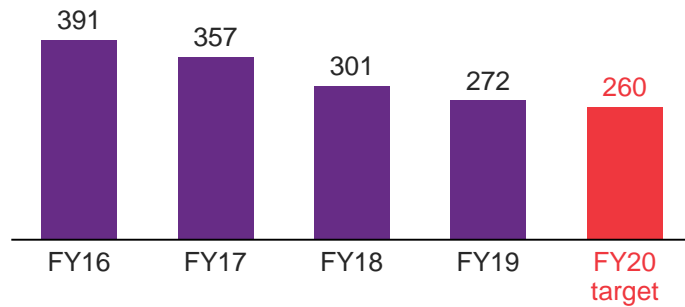
in operating free cash flow from capital deployment into an asset that we have a 60 year track record of managing.



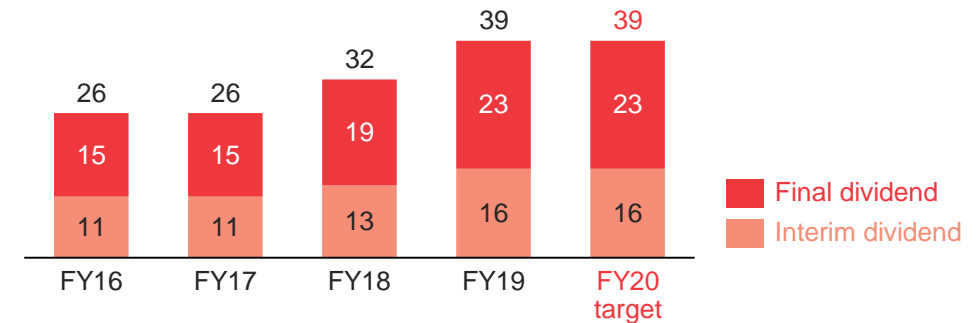
Possible staging timing dependent on results of appraisal drilling, demand growth and economic thermal substitution.

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

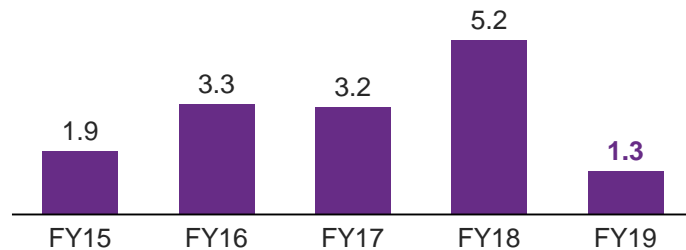
**Maintaining financial discipline**  
Controllable opex and capex costs (\$m)



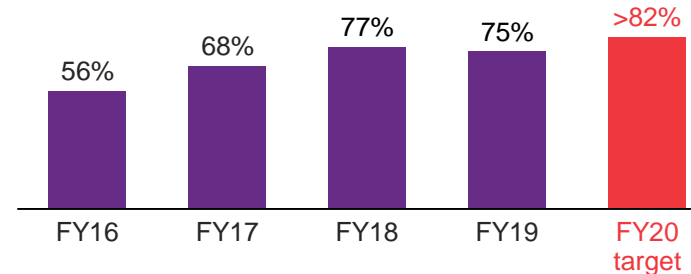
**Rewarding shareholders**  
Ordinary dividends (cps)



**Safe and engaged employees**  
Total recordable injury frequency rate  
(Recordable injuries per million hours worked)

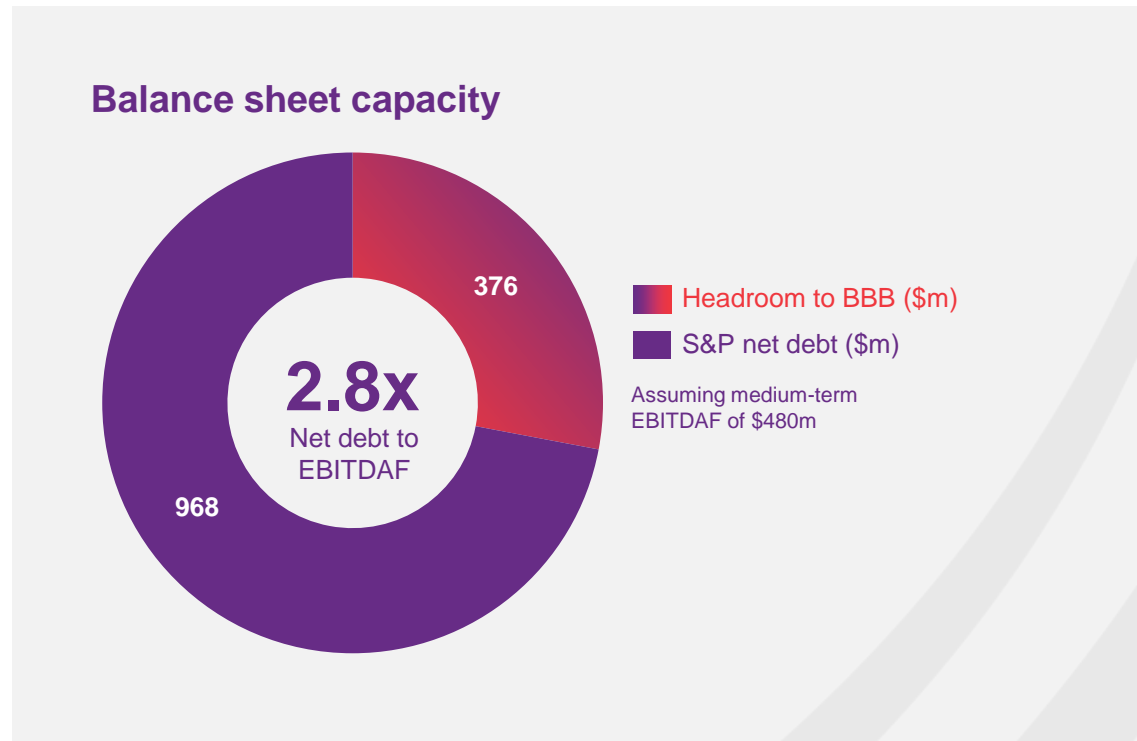
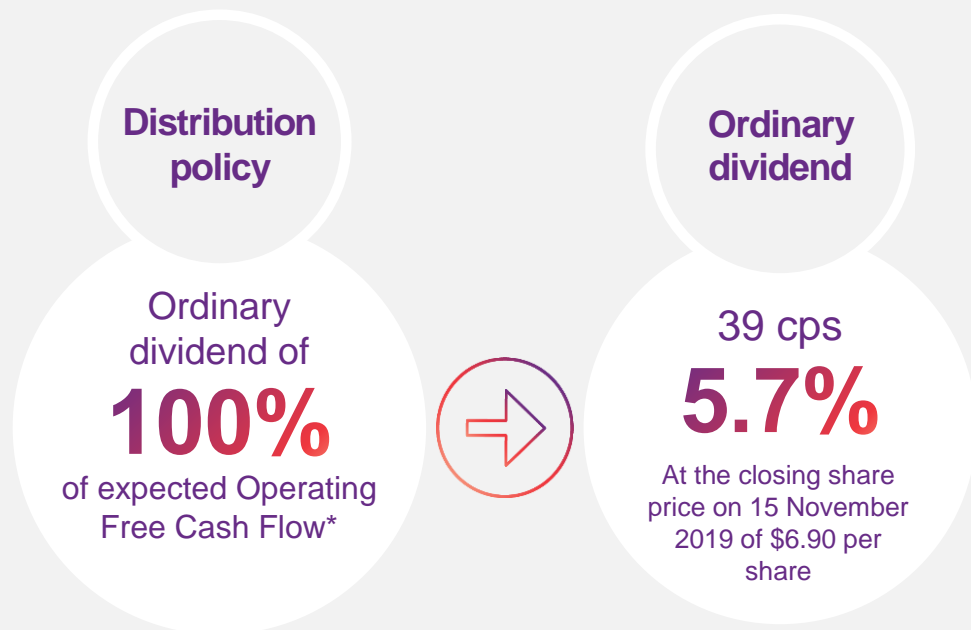


**Employee engagement (%)**



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

## Distribution policy provides clarity to investors and drives a strong capital discipline.



\* 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 including targeting the long-term credit rating of BBB from S&P.

With a new long-term user contracted to access AGS, S&P will no longer capitalise the storage service payments from FY20.