MEDIA RELEASE

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Resilient cash flow despite rare swing in hydrology sequences

Highlights

	Year ended 30 June 2017	Comparison against FY16
EBITDAF[1]	$494m	down 6% from $523m
Profit/(loss)	$150m	up $216m from ($66m)
Earnings per share (cents)	21.0 cps	up 30.1c from (9.1 cps)
Underlying profit[1]	$141m	down 10% from $157m
Underlying profit per share (cents)	19.7 cps	down 9% from 21.7 cps
Declared dividend (cents)	26.0 cps	no change from 26.0 cps
Operating free cash flow[2]	$300m	down 15% from $352m
Operating free cash flow per share (cents)[2]	41.9 cps	down 14% from 48.5 cps
Capital expenditure	$102m	down 20% from $128m

- Strong financial discipline, with capital expenditure down by 20% and an $11m reduction in ongoing other operating costs
- Improved customer experience and advocacy, with a Net Promoter Score of +14, up from -3
- Increasing employee engagement on a stronger connection to Contact's purpose, with 68% of employees engaged, up 12% on FY16
- New products and pricing aligned to value, combined with the launch of Contact AA Smartfuel rewards saw Contact customer churn for the year reduce to 19.6%, below the market average of 21.4%
- Face value of borrowings reduced by $106 million, confirming Contact's commitment to its BBB credit rating from Standard and Poor's (S&P)

Overview of results

"In a competitive market, delivering strong operational performance and providing value for customers and shareholders remains our focus," said Dennis Barnes, Contact Chief Executive.

Contact reported a statutory profit for the year ended 30 June 2017 of $150 million; $216 million higher than the prior corresponding period which contained non-cash impairments. EBITDAF decreased by $29 million, or 6%, to $494 million while underlying profit after tax reduced by $16 million or 10% to $141 million. Operating free cash flow for the period remained strong at $300 million, with the $52 million reduction over FY16 primarily a result of a FY16 tax credit driven by the closure of the Otahuhu power station and the hydrology related reduction in FY17 operating earnings.

[1] Refer to slides 40-43 of the 2017 full year results presentation for a definition and reconciliation between statutory profit and the non-GAAP profit measures earnings before net interest expense, tax, depreciation, amortisation, change in fair value of financial instruments and other significant items (EBITDAF) and underlying profit (profit excluding significant items that do not reflect Contact's ongoing performance).
[2] Refer to slide 27 of the 2017 full year results presentation for a definition and reconciliation between cash flow from operating activities and the non-GAAP measure operating free cash flow. Operating free cash flow represents cash available to repay debt and to fund distributions to shareholders and growth capital expenditure.

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The Board has resolved to maintain the final dividend at 15 cents per share (FY16 15 cents) which will be fully imputed. This represents a pay-out ratio of 132% of Contact's underlying profit. Contact remains committed to maintaining a BBB credit rating, as assessed by S&P, and has continued to reduce gearing levels with a $106 million net reduction in debt during the period. Continued strong cash flow has Contact on target to return the net debt to EBITDAF ratio to below 2.8x.

"This year we continued a relentless focus on improving our customer experience and value proposition which is starting to be evidenced in customer retention, advocacy and innovation in the products and rewards we are offering to our customers.

Improving the experience we provide customers has also supported growth, with our overall customer numbers for the year across electricity, natural gas and LPG rising from 562,500 to 567,000, in an extremely competitive market. More customers are choosing to stay with Contact, as we again recorded a level of customer switching below that of the overall market.

Customers are advocating for Contact in greater numbers, with our Net Promoter Score now at +14, up from -3 last year. This has been achieved off the back of a refresh of the range of products and services we offer our customers, a new digital experience, through the hard work of our team who assist customers and by using the feedback customers give us every day to guide our improvement efforts. The introduction of AA Smartfuel rewards has been a great success story, with over 50,000 of our customers signed up and benefiting from a total of over half a million dollars worth of savings," said Mr Barnes.

"This year we saw a sudden and significant swing in hydrology with above average hydro generation storage at the beginning of the year giving way to 80-year-low inflows into the key South Island lakes, culminating in a "dry winter" and limiting our ability to run our hydro generation.

The changing conditions clearly illustrated the importance and value of Contact's diverse generation portfolio to ensuring flexibility and the ability to continue to supply our customers regardless of the impact of the weather. During the final quarter of the financial year our gas-powered stations ran hard during the peak of winter demand.

We seek to maximise our renewable generation and this year we produced 80% of our electricity for customers from renewable sources," Mr Barnes said.

Looking forward and revision of Distribution Policy

Contact will continue to optimise the Customer and Generation businesses to deliver strong cash flows which are ultimately for distribution to shareholders.

"In the year we have improved the transparency and visibility of performance in our Customer and Generation businesses, tightened the classification of capital and operating costs and refined our cash flow definitions. We will drive a relentless focus on growing cash flow by delivering cost efficiency and growing retail margins.

With a quality portfolio of long life generation assets and confidence in the strength of Contact's sustainable cash flow generation, we have announced a new distribution policy which will see the targeting of between 80 and 90% of operating free cash flow as an ordinary dividend, on average over time, once our S&P net debt / EBITDAF ratio is below 2.8x.

As part of the new policy, Contact will provide investors with a clear and transparent dividend target for the next financial year after a full consideration of the operating conditions. In FY18, Contact will target an ordinary dividend of 32 cents per share, an increase of 23% on FY17.

Once the S&P net debt / EBITDAF ratio is below 2.8x, distributions will increase to between 80 – 90% of operating free cash flow," said Mr Barnes.

ENDS

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