MEDIA RELEASE

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Contact EBITDAF up 3%, despite subdued electricity demand

Highlights

	6 months ended 31 December 2016	Comparison against 1H16
EBITDAF[1]	$261m	up 3% from $254m
Profit/(loss)	$96m	up 183% from ($116m)
Earnings per share (cents)	13.5 cps	up 185% from ($15.9 cps)
Underlying profit[1]	$82m	up 12% from $73m
Underlying profit per share (cents)	11.5 cps	up 15% from 10.0 cps
Interim dividend (cents)	11.0 cps	no change from 11.0 cps
Free cash flow[2]	$141m	down 31% from $203m
Free cash flow per share (cents)[2]	19.7 cps	down 29% from $27.7 cps
Capital expenditure	$63m	down 11% from $71m

- Improved customer advocacy, with a Net Promoter Score of +12, up from -3 in 1H16
- New products and pricing aligned to value increased Contact's mass market retail netback by $1 per megawatt hour (MWh)
- New Zealand electricity demand down 2.0%; Contact electricity sales volumes down 0.6%
- Cost of energy improved by $10m (7%); 84% renewable generation, up from 78% in 1H16
- Other operating expenses reduced by $4m, or 3% to $128 million
- Safety performance improvement with TRIFR down to 1.2 from 3.1 in 1H16
- Face value of borrowings reduced by $21 million

Overview of results

"The first half of the 2017 financial year (1H17) saw Contact modestly grow earnings with continued improvements in retail operating performance and an increase in the proportion of renewable generation. In a competitive market, delivering strong operational performance and providing value for customers and shareholders remains the focus," said Dennis Barnes, Contact Chief Executive.

Contact reported a statutory profit for the six months ended 31 December 2016 of $96 million; $212 million higher than the prior corresponding period due to improved operating earnings without a repeat of the prior period impairments. EBITDAF increased by $7 million, or 3%, to $261 million while underlying profit after tax increased by $9 million or 12% to $82 million. Free cash flow for the period remained strong at $141 million, a $62 million reduction over 1H16, which included a tax credit driven by the closure of the Otahuhu power station together with increased extractions from gas storage and the late collection of FY15 debtors favourably impacting working capital movements.

[1] Refer to slide 31-34 of the 2017 interim 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 20 of the 2017 interim results presentation for a definition and reconciliation between cash flow from operating activities and the non-GAAP measure free cash flow. 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 interim dividend at 11 cents per share (1H16 11 cents) imputed to 8 cents per share. This represents a pay-out ratio of 96% of Contact's underlying profit. Contact remains committed to maintaining an investment grade credit rating and continued to reduce gearing levels with a $21 million reduction in debt during the period. Continued strong cash flow has Contact on target to return the net debt to EBITDA ratio to the preferred 2.6 to 3 times range.

"We have made progress in transforming our Customer business. We have focused on delivering products which provide customers with greater choice, certainty and control and incorporated feedback to drive improvements in customer experience. The Customer business recorded a $6 million improvement in EBITDAF on the back of our operational focus," said Mr Barnes.

Mass market electricity sales volumes were down by 110 GWh as average electricity usage decreased due to above average temperatures and newly acquired business customers using less energy than those they replaced. Average customer numbers were down by 1,100 on 1H16 due to the continued elevated level of competition, including price discounting by large competitors and benign wholesale conditions that supported offerings by new entrants. The reduction in mass market sales was largely offset by increased commercial and industrial sales.

"We have recently completed the simplification and migration of our core IT systems to the Cloud which, amongst other things, will make it easier for us to deliver services through lower cost mobile and online channels. We have also embedded data and analytics capability to better understand our customers' needs, with real-time customer insight improving the customer experience as well as lowering future operating costs. I expect these changes will allow us to continue reducing operating costs," Mr Barnes said.

National electricity demand declined by 2% in 1H17 primarily driven by lower consumption in the residential sector and lower irrigation demand. Warmer temperatures and above average rainfall both contributed to the reduced electricity demand and also resulted in higher hydro generation, lower wholesale electricity prices and limited price volatility.

"The flexibility of our portfolio and low levels of contracted gas were a real asset over the past 6 months. With high levels of renewable generation available in the market, we were able to reduce generation from our thermal plants and purchase lower cost energy from wholesale market participants. This trading strategy, combined with reduced electricity purchases and careful management of costs, resulted in a $1 million improvement in EBITDAF from our Generation business," said Mr Barnes.

Looking forward

Contact's strategy remains centred on optimising the Customer and Generation businesses to deliver strong cash flows which are ultimately for distribution to shareholders.

"In the last six months we have moved to report the performance of our Customer and Generation businesses separately. The focus this brings will be used to monitor and drive improved performance in both businesses and ultimately deliver value for shareholders.

We expect our operational improvement initiatives to continue to reduce our costs. In time our large customer base and world class systems will provide an attractive opportunity for partners to join us in providing value for our customers beyond energy as we continue our evolution from an essential services business to a broader 'living services' business.

We will continue to focus on the structural efficiency of the electricity supply market. This includes the commencement of the 80 megawatt financial agreement with Meridian Energy to support the continued operation of the Tiwai aluminium smelter. With a quality portfolio of long life generation assets we will continue to lower the cost of energy through fuel substitution, electricity trading and gains realised through the execution of our continuous improvement programme," said Mr Barnes.

ENDS

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