MEDIA RELEASE

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Cost efficiency increases cash flow in unprecedented operating conditions while improving the customer experience; increasing dividends to shareholders

Highlights

	Six months ended 31 December 2017	Comparison against 1H17[3]
EBITDAF[1]	$236m	down 11% from $264m
Profit	$58m	down 40% from $96m
Earnings per share (cents)	8.1 cps	down 40% from 13.4 cps
Underlying profit[1]	$59m	down 28% from $82m
Underlying profit per share (cents)	8.2 cps	down 28% from 11.5 cps
Declared dividend (cents)	13.0 cps	up 18% from 11.0 cps
Operating free cash flow[2]	$141m	up 5% from $134m
Operating free cash flow per share (cents)[2]	19.7 cps	up 5% from $18.7 cps
Capital expenditure (accounting)	$40m	down 37% from $63m

- Delivering on our cost efficiency programme with cash spent on capital projects down by $26 million (40%) and an $11 million (9%) reduction in ongoing other operating costs primarily in the Customer business and the central Corporate functions.
- Delivering on our strategy to optimise our asset portfolio, conditional agreement reached for the sale of the Ahuroa Gas Storage facility for $200 million. As part of the sale, Contact has retained access to competitive long term gas storage services compatible with its requirements for flexible thermal generation.
- Improved customer experience and customer advocacy, with a Net Promoter Score of +15, up from +12 in 1H17 and +14 in FY17. This has seen Contact customer churn for the year of 19.1%, 1.8% below the market average of 20.9%.
- Increasing employee engagement despite significant change after realigning our corporate functions in June, with 71% of employees now engaged, 3% up on FY17 and 27% up on FY15
- Face value of borrowings reduced by $14 million with cash on hand increasing by $10m, confirming Contact's commitment to reducing debt and to its BBB credit rating from Standard and Poor's (S&P).
- Increasing returns to shareholders with the interim dividend up 18% to 13 cents per share (1H17 11 cents per share), which will be fully imputed for New Zealand based shareholders.

[1] Refer to slides 40-43 of the 2018 interim 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 26 of the 2018 interim 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.
[3] Contact has elected to early adopt *NZ IFRS 15 Revenue from Contracts with Customers* ('revenue standard') and *NZ IFRS 16 Leases* ('leases standard') for the year ending 30 June 2018. Both standards have been applied retrospectively, which has resulted in the restatement and/or reclassification of comparatives to conform to the current period's classification. Refer to slide 44 of the 2018 interim results presentation for a reconciliation of the changes to the prior period as a result of the adoption of the new accounting standards.

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Operating improvements offset dry hydrological conditions

While record low hydro inflows into our Clutha catchment impacted Contact's first half earnings, operational improvements in our Customer and Generation businesses helped partially offset the impact of the dry hydrological conditions.

Contact reported a statutory profit for the six months ended 31 December 2017 of $58 million, $38 million lower than the prior corresponding period due to greater reliance on its thermal power stations to supply electricity to customers. EBITDAF decreased by $28 million, or 11%, to $236 million while underlying profit after tax decreased by $23 million or 28% to $59 million. Operational improvements resulted in a sustainable reduction in operating costs of $11 million, 9% down on the prior comparative period.

Operating free cash flow remained strong at $141 million, up 5% on 1H17, reaffirming the Board's confidence in the sustainability of Contact's cash flow generation which allowed for the FY18 interim dividend to be increased by 18% to 13 cents per share, compared to 11 cents per share for 1H17. This will be fully imputed for New Zealand based shareholders and payable in April 2018. Contact remains committed to maintaining a BBB credit rating and continues to reduce gearing levels, with a $14 million reduction in the face value of borrowing during the period and cash on hand increasing by $10 million.

Customer business

Contact's Customer business continued to operationally improve amid high levels of competition. LPG product costs rose sharply in the period on higher international oil prices and a weaker New Zealand dollar which weighed on Customer segment earnings.

"Contact is competing well by providing customers with choice, certainty and control while improving the customer experience through systems-enabled operational improvements. As a result we continue to experience lower churn rates than the market, and our customers are increasingly advocating for us in greater numbers" said Mr Barnes.

National demand was over 1% higher in the period, largely driven by increased irrigation demand while warm temperatures over the second quarter also saw lower usage per mass market customer reducing sales volumes when compared to the prior period. Improving the customer experience saw the cost to serve customers fall by 12% on the prior comparative period, with Net Promoter Score of +15, up from +12 in 1H17. This resulted in Contact customer churn for the year of 19.1%, 1.8 percentage points below the market average.

Customer EBITDAF fell by $3 million to $63 million in the six months to 31 December 2017 when compared to the same period a year ago.

Generation business

"Wholesale market conditions in the first half of the financial year were book-ended by record low inflows into our Clutha catchment. Our flexible thermal fuel supply and diverse assets ensured a reliable supply to customers through these dry periods, but the additional fuel and carbon costs incurred adversely impact financial performance. Major maintenance at the Taranaki Combined Cycle plant and Te Mihi was completed safely and on budget with both these plants now available for many years without major works" said Mr Barnes.

Contact hydro generation was 438 GWh, 21% below the prior comparative period with the impact most acutely felt during the high wholesale electricity pricing periods in July, August and December. Wholesale electricity prices responded to the national hydrological conditions with the average price received for generation nearly twice that of the prior period with forward prices also firming.

The effects of the dry hydro sequences to Contact's operations were offset by ongoing operational improvements, with strong plant availability across the portfolio, reduced operating costs and record generation from geothermal power stations, with production up 11% on the prior comparable period.

The Generation business EBITDAF for the six months was $173 million, $25 million lower than the prior comparable period.

Looking forward

While the extent of the current dry period remains unknown, Contact will continue to focus on operating free cash flow growth by delivering ongoing improvements to the aspects of the business it can control, with a disciplined and transparent approach to operating and capital expenditure.

Additionally, Contact sees a number of exciting opportunities as the Government's policy focus shifts towards decarbonising the economy and works on establishing 100% renewable energy targets.

"The dry period will provide some headwinds and the government's Electricity Pricing review has the potential to be distracting in the short term, but equally there are a number of exciting prospects ahead of us. As a leader in geothermal generation, with an increasingly loyal customer base, we are well positioned to help businesses and consumers adapt to a lower carbon future," said Mr Barnes.

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