



6 April 2018

Dear Shareholder



The first half of the 2018 financial year (1H18) has seen encouraging progress in delivering improved operational performance despite poor hydrology and a highly competitive electricity market.

\$236m

EBITDAF, down 11% as record low hydro inflows into our Clutha catchment impacted Contact's first half earnings

19.7cps

Operating free cash flow up 5% against 1H17, with cash spent on capital projects down by \$26m (40%)

\$11m

Or 9% reduction in other operating expenses against 1H17

13cps

Interim dividend up 18% to 13 cents per share (1H17 11 cents per share), which will be fully imputed for New Zealand based shareholders

Financial result

Delivering on our strategy, to optimise the Customer and Generation businesses to increase cash distributions to shareholders, has seen a range of continuous improvement initiatives executed which have improved the customer experience, increased customer advocacy and delivered strong operational performance in Generation.

This focus on cash flow has resulted in a sustainable reduction in operating costs of \$11 million, a 9% reduction on the prior comparative period and a reduction in cash capital expenditure of \$26 million, a 40% reduction.

Despite this progress on the controllable aspects of the business, Contact's short term earnings have been impacted by the weather. Low rainfall into our South Island hydro catchments meant we were more reliant on higher cost generation from our thermal power stations and other generation companies.

As a result, Contact reported a statutory profit for the six months ended 31 December 2017 of \$58 million; \$38 million lower than the prior corresponding period. EBITDAF fell by \$28 million, or 11%, to \$236 million, while underlying profit after tax decreased by \$23 million, or 28%, to \$59 million.

Contact's portfolio of long life generation assets and the progress of our cost efficiency programme has given the Board confidence in the strength of Contact's sustainable cash flow generation. The interim dividend increased 18% to 13 cents per share, compared to 11 cents per share for 1H17, and is fully imputed.

Generation business

Wholesale market conditions in the first half of the financial year were book-ended by record low inflows into our Clutha catchment. Contact's Clutha hydro generation in the six months was 438 GWh, 21% below the prior comparative period with the impact most acutely felt during high wholesale electricity pricing periods in July, August and December.

While Contact's flexible thermal fuel supply and assets have ensured a reliable supply to customers through these dry periods, the additional fuel and carbon costs incurred adversely affected our financial performance. Wholesale electricity prices responded to the national hydrological conditions with the average price received for our generation nearly twice that of the prior period, but this was insufficient to fully offset the additional costs to operate our thermal plant and purchase risk management contracts from the wholesale market.

Our continuous improvement programme is delivering results with strong plant availability across the portfolio, lower operating costs and record generation from our geothermal power stations which was 11% higher than the prior comparative period.

These conditions resulted in the Generation business recording EBITDAF for the six months of \$173 million, \$25 million lower than 1H17.

As part of our strategy we are always looking to optimise our portfolio of assets. In December 2017, Contact entered into an agreement to sell the Ahuroa Gas Storage Facility to Gas Services New Zealand for \$200 million. The sale is subject to a number of conditions being satisfied and is expected to be completed by June 2018. Contact will retain its rights to use the facility and will support the facility's expansion for other users, allowing us to focus on our core generation business.

Customer business

The New Zealand energy market remains highly competitive and is currently delivering good outcomes for increasingly satisfied customers, who now have a choice of providers offering competitive pricing and new and innovative products.

Contact is competing well in this environment by providing customers with choice, certainty and control while systems-enabled operational improvements continue to improve the customer experience.

More customers are choosing to stay with Contact and we again recorded a level of switching below that of the overall market, with customer churn reducing to 19.1% over the last 12 months, 1.8 percentage points below the market average.

The ongoing migration of systems into the cloud continues to deliver benefits by lowering operating costs, improving performance, bolstering security and enhancing the flexibility of our information technology platform.

As a result of our ongoing work in the Customer business, the cost to serve our customers is down 11% on the prior comparative period. We are also seeing customers advocate for Contact in greater numbers with a Net Promoter Score of +15 for the period, up from +12 in the same period last year and +14 for the 2017 financial year.

Despite this strong operational performance, the Customer business EBITDAF fell by \$3 million to \$63 million in the six months to 31 December 2017 compared to the same period a year ago. This was mainly due to rising LPG product costs, which are linked to international oil prices and foreign exchange rates.

People

Contact continues to empower frontline workers to play a meaningful role in identifying risks and coming up with ways to manage them. The strength of our process safety systems and progress in fostering a generative safety culture has led to consulting opportunities, which not only provide a small revenue stream but also confirm we are on the right track.

Disappointingly, Contact recorded four low severity injuries in the first six months with a Total Recordable Injury Frequency Rate per million hours worked (TRIFR) of 2.9. Although these injuries were relatively minor, we continue to work on identifying critical risks and key controls through rigorous planning. A good example of this was the recently completed major outage at the Taranaki Combined Cycle plant where 125,000 hours were worked with no recordable injuries.

In line with advancing our safety culture, Contact introduced a new Health Safety and Environmental Management System, a simpler and more engaging framework focused on learning and improving.

Alongside these improvements to safety systems, the wellbeing of our people has been emphasised in the period with focus on mental health, workload and stress. Contact is implementing more creative and flexible ways of working through a new employee programme named ContactFlex to further foster a more inclusive and diverse workplace.

Looking forward

Contact's focus for the next six months remains on delivering operating free cash flow growth by focusing on the aspects of the business we can control and maintaining a disciplined and transparent approach to operating and capital expenditure.

The extent of the current dry period, its impact on hydro inflows, and the government's Electricity Pricing Review all present potential operational challenges for the remainder of the year. However, there are also a number of exciting opportunities for Contact to pursue.

Chief amongst these is the opportunity to help New Zealand businesses transition to low-emissions operating platforms as the government's policy focus shifts towards decarbonising the economy and establishing 100% renewable energy targets.

Our generation assets, deep relationship with customers, ongoing cost efficiency programme, and lean operations gives us confidence in our ability to execute on our strategy, manage the challenges, and develop the opportunities ahead of us.



Dennis Barnes
Chief Executive Officer

THE LAST FIVE YEARS IN REVIEW

	Unit	1H14	1H15	1H16	1H17	1H18
Revenue and other income	\$m	1,148	1,240	1,120	1,037	1,194
Expenses	\$m	884	983	866	773	958
EBITDAF	\$m	264	257	254	264	236
Profit (loss)	\$m	112	51	(116)	96	58
Underlying profit	\$m	97	76	73	82	59
Underlying profit per share	cps	13.2	10.4	10.0	11.5	8.2
Operating free cash flow	\$m	55	163	200	134	141
Operating free cash flow per share	cps	7.6	22.2	27.3	18.7	19.7
Dividends declared	cps	11.0	11.0	11.0	11.0	13.0
Total assets	\$m	6,271	6,139	5,726	5,587	5,390
Total liabilities	\$m	2,732	2,617	2,848	2,766	2,663
Total equity	\$m	3,539	3,522	2,878	2,821	2,727
Gearing ratio	%	28	28	37	36	35