MEDIA RELEASE

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Strong cash flow delivered and customer experience improved

Highlights

	Year ended 30 June 2016	
EBITDAF[1]	$523m	down 0.4% from $525m
Profit/(loss)	($66m)	down 150% from $133m
Earnings per share (cents)	(9.1) cps	down 150% from 18.2 cps
Underlying profit[1]	$157m	down 2% from $161m
Underlying profit per share (cents)	21.7 cps	down 1% from 21.9 cps
Declared dividends (cents)	26.0 cps	down 66% from 76.0 cps[3]
Free cash flow[2]	$403m	up 17% from $345m
Free cash flow per share (cents)	55.5 cps	up 18% from 47.1 cps
Capital expenditure	$128m	up 22% from $105m

- Net customer gains for 19 of the last 20 weeks of the financial year
- Range of new plans and products launched in past eight months
- Contact's customer switching rates 1.3% below market for past 6 months
- Customer-related performance measures at 'historical best' levels
- Cost of energy improved by $4 per megawatt hour; 82% renewable generation, up from 76%
- $100 million share buyback completed and debt reduced by $71 million

Overview of results

"The majority of the 2016 financial year (FY16) saw Contact as a newly independent company. We have smoothly managed the transition to a refreshed Board who are supporting the transformation to a customer-inspired business. The improved offering we are providing customers and our steps to ensure the wholesale market remains balanced, position us to continue to deliver strong cash flows. We have continued to return cash to shareholders while at the same time reducing debt. Behind all of this are our people and the improvements we have seen in employee engagement and continued recognition for our work in health and safety are all positive steps", said Dennis Barnes, Contact Chief Executive.

Contact reported a statutory loss for the year ended 30 June 2016 of $66 million; $199 million lower than the prior corresponding period. This was primarily due to $204 million of impairments, net of tax, relating to the closure of the Otahuhu power station, an assessment that the Taheke geothermal resource is unlikely to be developed in the foreseeable future and a write-down of inventory gas.

[1] Refer to slide 36-39 of the 2016 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 25 of the 2016 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.
[3] FY15 dividends included a special dividend of 50 cents per share paid in June 2015.

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Underlying profit and EBITDAF were broadly in line with last year, as we signalled in December; while our free cash flow improved 17% to $403 million.

The Contact Energy Board of Directors resolved that the final distribution to shareholders would remain stable at 15 cents per share. The distribution will have 7 cents imputed and combined with the 11 cents per share interim dividend represents a pay-out ratio of 120% of Contact's underlying profit. During FY16 Contact also completed a $100 million share buyback at an average price of $4.83 per share and reduced debt by $71 million.

Contact's focus on offering customers the products and services they value continued throughout FY16 with many customer-related performance measures at 'historical best' levels. "In the second half of FY16 we started to deliver the benefits of investments in systems and capability to our customers. The launch of new products and mobile apps combined with health checks, assistance for people struggling to pay their bill and options to manage price changes are all examples of our evolving approach. Ultimately the value of these improvements is judged by our customers so it was very pleasing to gain customers in 19 of the last 20 weeks of the financial year and to see our customer switching rates fall to 1.3% below the market average for the last six months. We still have a long way to go but I am encouraged by the progress we are making and believe we are now positioned to compete", said Mr Barnes.

Contact's cost of energy improved by $4 per megawatt hour in FY16 as lower purchase volumes and improved gas costs were supported by an increase in geothermal generation. In FY16, 82% of Contact's generation came from renewable resources, up from 76% in the previous year. "The closure of Contact's Otahuhu and Mercury's Southdown power stations combined with signs of continued demand growth have reduced the amount of surplus supply in the market. We have continued to position our generation portfolio for an increasingly renewable future where the requirements for thermal plants are moving from larger generation units to flexible fast-start peaking generation. In the last six months we have seen the initial signs of some volatility returning to the market, which we expect will increase and provide greater returns for fast-start peaking capacity," Mr Barnes said

Looking forward

Contact's strategy remains centred on leveraging the integrated customer and generation business to deliver strong cash flows.

"We have started to get traction in providing customers with increased choice, certainty and control. Our investment in systems and capability is providing us opportunities to increase our digital connection to customers, improve our insights through analytics and presents a potentially attractive offering for partners in home services and new technologies. In a market where significant competition is compressing retail margins we will continue to target the lowest cost to serve in the industry to ensure our ongoing competiveness. Our investments in generation have ensured a robust business with a low cost, long life and flexible generation portfolio and a team focused on safety, reliability and resource utilisation.

For the next financial year I expect to see a continued improvement in operational performance. Our expected cost savings will be largely offset by increased carbon costs and the commencement of our 80 MW Tiwai supply contract. With new products in market and retail price changes we expect to see increasing value in our retail offering but ultimately our performance will be influenced by our need to be competitive," said Mr Barnes.

ENDS

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