



22 August 2017

# Dear Shareholder



During the 2017 financial year we continued our relentless focus on improving our customer experience and value proposition. This has delivered improvements in our customer retention and advocacy, and we have also introduced innovations in the products and rewards we are offering to our customers. Record low inflows to the South Island lakes towards the end of the financial year saw a significant reduction in our hydro generation compared with prior periods, but also demonstrated the importance of our diverse and flexible generation portfolio in ensuring security of energy supply for our customers.

## \$150m

Statutory profit

## \$186m

Distributed to shareholders in dividends this year

## 567k

Total customer connections across electricity, natural gas and LPG

### Financial result

Contact reported a statutory profit of \$150 million, up from a \$66 million statutory loss reported last year, which contained impairments. Earnings before net interest expense, tax, depreciation, amortisation, change in fair value of financial instruments and other significant items (EBITDAF)<sup>1</sup> for the year was \$494 million, down \$29 million as a result of unfavourable hydrology.

The Contact Energy Board of Directors resolved that the final dividend would remain stable at 15 cents per share. Total shareholder distributions for the financial year were \$186 million, equating to full year dividends of 26 cents per share, which is consistent with the prior year.

The Board also confirmed a change to Contact's distribution policy. This is to target a distribution of between 80% and 90% of operating free cash flow on average over time once our net debt to EBITDAF ratio is below 2.8x. We will transition to the policy and for financial year 2018 will target an ordinary dividend of 32 cents per share, an increase of 23% on financial year 2017.

### Customer business highlights

Our focus on delivering a best-in-class customer experience has seen customers advocating for us 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 and a new digital experience. We have also introduced new tools and training for our teams who communicate directly with customers and we work with customers on the development of new offerings. We use the feedback customers and our employees provide every day to help us identify where to focus our improvement efforts.

One of the success stories of the year was the change we made to the rewards we offer our customers. We are now proud members of the AA Smartfuel programme and over 50,000 customers are receiving more instant rewards through this partnership. Every day customers tell us stories of their delight with this move and to date our customers have benefited from over \$500,000 worth of savings back into their pockets. 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, and our sales volume for the year was up slightly.

1. EBITDAF, underlying profit and operating free cash flow are non-generally accepted accounting practice (non-GAAP) performance measures. Refer to Contact's 2017 annual report and/or the investor presentation for a definition and reconciliation to statutory profit. These are available at [contact.co.nz/AboutUs/Investor-Centre](http://contact.co.nz/AboutUs/Investor-Centre)

## Generation & Development business highlights

The year has seen a sudden and significant swing in hydrology with above average hydro storage at the beginning of the year giving way to record low hydro inflows into the key South Island lakes culminating in a 'dry winter'. During the final quarter of the financial year our gas-powered plants ran hard in order to meet New Zealand's electricity needs during the peak of winter demand. However as a result of this increase our percentage of generation from renewable sources fell to 80% this year, our greenhouse gas emissions increased and our overall cost of energy was higher. Our focus on continuous improvement has seen us further optimise the way we operate and maintain our portfolio of power stations, and progress our process safety journey. Our Taranaki power station for example, which has been a vital asset during the 'dry winter', is now able to run more flexibly when required by the market. Our safety work has focused on developing greater visibility and focus on our performance in process safety. We are striving for world-class performance and this year have provided our expertise to other energy businesses overseas who recognise the work that we have done.

During the year we also conducted some research and development into uses of new technology that has the potential to provide Contact with sustainable new revenue in the future. Work in this area involved collaborating with several network companies, technology suppliers and local authorities to trial a range of solutions combining home solar generation, battery energy storage and hot water diverters, all controlled via a real-time mobile app. The combination of this technology at scale has the ability to avoid the need for large capital

investment by network companies that is ultimately paid for by consumers. It will also allow consumers and retailers to be rewarded for time-shifting electricity load, as well as offering resilience to households in the event of natural disasters.

## Embracing sustainability

We recognise the wider context we operate in and consider the environmental, social and economic drivers that impact our business. Our actions are guided by our Tikanga. My personal view is that it's important to truly understand what issues matter to our stakeholders and to be proactive and deliberate in the way we work with them to address these, considering the short-term factors impacting our business as well as the longer-term intergenerational context.

This year we created New Zealand's first corporate Green Borrowing Programme. This provides our investors with an opportunity to invest in certified green debt issued by a New Zealand corporate for the first time ever.

We have a strong focus on people engagement, and creating a culture that embraces diversity. We are targeting employee engagement of 82% or higher, the AON Hewitt Best Employer level, and this year we took another step towards our target with a 12 percentage point increase to take Contact's overall engagement score to 68%. During the year Contact was also ranked fifth out of over 5,000 internationally publicly listed companies in the Thomson Reuters Diversity and Inclusion Index, making us one of the most diverse and inclusive workplaces globally.

An external audit highlighted our continued improvement in our safety culture this year. Our continued focus on empowering frontline workers on safety also saw our health and

safety performance improve. While unfortunately 10 of our people were hurt during the year, most of the injuries were less severe strains or sprains.

In local communities where we operate we continued to invest in initiatives that support issues which they have told us are important. This year we invested \$346,144 across New Zealand and our employees contributed 1,796 volunteer hours to help community organisations.

We will continue to operate sustainably in the year ahead. A key priority is taking the lead in decarbonisation of New Zealand's energy sector and working with industrial companies to find innovative ways for new technology and operational efficiencies to help propel this shift for their businesses and for New Zealand.

**Thank you for your continued support.**



*Dennis Barnes*

**Dennis Barnes**  
Chief Executive Officer

## The last five years in review

For the year ended 30 June	Unit	2013	2014	2015	2016	2017
Revenue	\$m	2,526	2,446	2,443	2,163	2,080
Expenses	\$m	1,985	1,859	1,918	1,640	1,586
EBITDAF	\$m	541	587	525	523	494
Profit/(loss)	\$m	199	234	133	(66)	150
Underlying profit	\$m	202	227	161	157	141
Underlying profit per share	cps	27.7	31.0	21.9	21.7	19.7
Operating free cash flow	\$m	312	293	338	352	300
Operating free cash flow per share	cps	42.7	40.0	46.6	48.5	41.9
Dividends declared <sup>1</sup>	cps	25	26	76	26	26
Total assets	\$m	6,197	6,186	6,089	5,652	5,429
Total liabilities	\$m	2,660	2,604	2,918	2,829	2,654
Total equity	\$m	3,537	3,582	3,171	2,823	2,775
Gearing ratio <sup>2</sup>	%	28	27	36	38	36

1. FY15 included a special dividend of 50 cents per share.

2. The gearing ratio calculation has changed from prior period to align with the gearing definition in Contact's Deed of Negative Pledge and Guarantee.