MEDIA RELEASE

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New products and services send customer advocacy sharply higher. Flexible generation portfolio performed well in a volatile market. Distributions to shareholders rise following the completion of two significant transactions

Highlights

	Six months ended 31 December 2018	Comparison against 1H18
EBITDAF[1]	$291m	up 23% from $236m
EBITDAF on continuing operations	$278m	up 28% from $217m
Profit	$276m	up 376% from $58m
Profit on continuing operations	$99m	up 111% from $47m
Profit per share (cents)	38.6 cps	up 377% from 8.1 cps
Underlying profit[1]	$107m	up 81% from $59m
Underlying profit per share (cents)	15.0 cps	up 83% from 8.2 cps
Declared dividend (cents)	16.0 cps	up 23% from 13.0 cps
Operating free cash flow[2]	$203m	up 44% from $141m
Operating free cash flow per share (cents)[2]	28.3 cps	up 44% from 19.7 cps
SIB Capital expenditure (cash)	$29m	down 17% from $35m

- Introduction of differentiated products and digital service investments improve customer advocacy by 20%
- Flexible generation portfolio and access to stored gas saw Contact increase wholesale spot market sales during the higher priced October period as the market responded to major gas field outages and lower national hydro storage levels
- Working with customers, partners and suppliers to decarbonise New Zealand's energy sector, renewable generation up 10% on 1H18
- Cost efficiency programme delivering, with cash spent on stay in business (SIB) capital projects down by $6 million (17%) and other operating costs down $4 million (4%)
- Completed the sale of Ahuroa gas storage (AGS) and the sale of the Rockgas LPG business, receiving net cash proceeds of $438m in the period
- Strong balance sheet, high quality renewable generation assets and lean, low cost operations enable increasing dividends to shareholders with the target FY19 ordinary dividend increasing to 39 cents per share, 7 cents per share higher than FY18. The interim declared dividend is up by 23% to 16 cents per share

[1] Refer to slides 39-42 of the 2019 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 23 of the 2019 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, to fund distributions to shareholders and growth capital expenditure.

Putting our energy where it matters

"Despite a testing operating environment that included extended unplanned outages at some of New Zealand's largest gas fields, low hydro storage levels and a continuation of intense retail competition, Contact's flexible and resilient portfolio performed well. This was underpinned by strong financial discipline, deepening the relationship with our customers and a robust risk management framework", Chief Executive Dennis Barnes said.

Contact reported a statutory profit for the six months ended 31 December 2018 of $276 million, $218 million higher than the prior corresponding period after realising a gain on the sale of Rockgas and AGS of $172m. EBITDAF from continuing operations increased by $61 million, or 28%, to $278 million led by strong operational performance in the Wholesale business. Operational improvements resulted in a further reduction in other operating costs of $4 million, 4% down on the prior comparative period. Operating free cash flow increased to $203 million, up 44% on 1H18 on a combination of higher operating earnings, lower stay in business capital expenditure and interest costs that were partially offset by higher cash tax.

"During the half we completed the sale of the AGS facility and the sale of the Rockgas LPG business. These transactions simplify and focus the organisation and strengthen our balance sheet", Mr Barnes said.

Contact's portfolio of long-life renewable generation assets supported by a robust balance sheet provides the Board confidence to change the distribution policy to distribute ordinary dividends targeting a pay-out ratio of 100% of Operating Free Cash Flow. This will see the FY19 full year dividend target increased to 39 cents per share, compared to the 32 cents per share declared for FY18. In line with the new policy, the Board has approved an interim dividend of 16 cents per share which will be imputed up to 10 cents per share for qualifying shareholders.

Connecting with our customers

Contact's Customer business continues to reduce the cost to serve while improving the customer experience.

Customer experience improvements saw a final quarter Net Promoter Score of +24, up 20% on the prior comparative period while operational efficiencies led to a 2% reduction in the cost to serve customers while also investing in a refreshed brand and new digital capability. This has contributed to customer churn being 0.9 percentage points below the market average and improved mass market electricity and gas earnings, with Customer EBITDAF up by $3 million to $48 million for the six months ended 31 December 2018 when compared to the same period a year ago.

"Even with volatile wholesale prices, the retail electricity market remains highly competitive, with heavy discounting and large sign on credits the predominant tools for acquiring customers. It's important that we distinguish our products and services from our competitors and we have accelerated the delivery of several smart customer solutions in the period, including our new payment methods - PrePay and weekly/fortnightly billing - that help customers manage their bills, and launched new products to deliver customer choice and innovative rewards such as 'free-bill', 'promise plan' and our broadband and electricity bundle. Empowering more customers to interact with us on their preferred digital channels gives me confidence that our transformation into a customer-centric digital energy company is progressing well" said Mr Barnes.

Generating for the future

Contact's Wholesale business is working with business customers, partners and suppliers to decarbonise New Zealand's energy sector.

"The conversion of business customers with a high carbon footprint to renewable energy will enable demand-backed development of our consented geothermal resources. To accelerate delivery of our strategy, we moved the Commercial and Industrial team into the Wholesale business and are looking for opportunities to expand our offering to customers beyond commoditised electricity", Mr Barnes said.

Generation EBITDAF increased by $58 million to $243 million in the six months to 31 December 2018 compared to the same period a year ago, as production from hydro generation increased by 25%, or 410GWh in line with historic averages after a dry 1H18 in Contact's Clutha catchment. In addition, as gas supply reduced, Contact supported the market by accessing gas stored in AGS and offering additional thermal generation above our contracted sales to meet wholesale spot demand.

"While the current lack of demand growth doesn't support new renewable investment, we are working hard to reduce the cost of our consented renewable development options to meet the anticipated increasing demand from customers or execute on the economic substitution of thermal generation with new renewables", Mr Barnes said.

Outlook

"Contact has developed customer-centred processes, products and propositions that means all customers can reliably access our best deals. This will continue with the imminent release of our "basic plan", a competitive no-frills, no prompt payment discount proposition. With regards to the initial findings of the Electricity Price Review, customer-centred specific action is necessary and a "one size fits all" approach will not work, as it is ultimately our customers who will define the value of product features, discounts or rewards.

Recent gas production hasn't been as reliable as we would have expected and we continue to operate cautiously as we manage short-term supply constraints. Contact is engaging with suppliers to contract gas for calendar year 2019 and beyond. In addition to the gas we expect to contract, we have access to stored gas in AGS and other contractual options that will give us appropriate access to energy for our customers.

In addition some of the nearer term priorities outlined, we will focus on delivering on our transformation programme to reduce controllable costs, and seek opportunities to capture value from scale efficiencies through brownfield geothermal development and by leveraging our customer systems and lean operating model to improve returns", Mr Barnes said.

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