

MEDIA RELEASE

Monday, 12 August 2019

Investments in customer-centric processes, products and propositions benefit customers

Key financial metrics

| | Twelve months ended 30 June 2019 | Comparison against FY18 |
|---|-------------------------------------|----------------------------|
| EBITDAF ¹ | \$518m | up 8% from \$481m |
| EBITDAF on continuing operations | \$505m | up 12% from \$449m |
| Profit | \$345m | up 161% from \$132m |
| Profit on continuing operations | \$170m | up 52% from \$112m |
| Profit per share (cents) | 48.2 cps | up 162% from 18.4 cps |
| Underlying profit ¹ | \$176m | up 35% from \$130m |
| Underlying profit per share (cents) | 24.6 cps | up 36% from 18.1 cps |
| Declared dividend (cents) | 39.0 cps | up 22% from 32.0 cps |
| Operating free cash flow ² | \$341m | up 13% from \$301m |
| Operating free cash flow per share (cents) ² | 47.5 cps | up 13% from 42.0 cps |
| SIB Capital expenditure (cash) | \$60m | down 30% from \$78m |

Highlights for the year

- Introduction of new, differentiated products and digital service investments improve customer advocacy by 6 points. Smart payment solutions help customers avoid entering the credit cycle; outstanding debt at record low levels
- Flexible generation portfolio with favourable hydrology, access to stored gas and strong risk management delivers a \$56 million improvement to operating earnings over FY18
- Cost efficiency programme continues to deliver capital efficiency, with cash spent on stay-in-business (SIB) capital projects down by \$18 million (30%) and other operating costs down \$11 million (5%)
- Completed the sale of Ahuroa gas storage (AGS) and the sale of the Rockgas LPG business in the year, receiving net cash proceeds of \$390m. These transactions simplify and focus the organisation and have strengthened our balance sheet
- Committed to drilling four geothermal appraisal wells at Tauhara in anticipation of a final investment decision to develop a new renewable power station
- Investment made in Simply Energy to add the capability required to deliver innovative solutions that will help our Commercial and Industrial customers transition to the low carbon solutions that Tauhara will deliver
- Rewarding shareholders with increasing dividends. FY19 ordinary dividend of 39 cents per share (FY18 32 cents per share)

¹ Refer to slides 42-45 of the 2019 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 24 of the 2019 Full year 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

“It is pleasing to report a strong financial result for FY19 following the transformation programme we have successfully executed in recent years which included sector leading reductions to operating and capital expenditure, a deepening of the relationship with our customers and the simplification of our portfolio of assets”, Chief Executive Dennis Barnes said.

Contact reported a statutory profit for the twelve months ended 30 June 2019 of \$345 million, \$213 million higher than the prior corresponding period after realising a gain on the sale of Rockgas and AGS of \$170m. EBITDAF from continuing operations increased by \$56 million, or 12%, to \$505 million led by strong operational performance in the Wholesale business. Operational improvements resulted in a further reduction in other operating costs of \$11 million, 5% down on the prior comparative period. Operating free cash flow increased to \$341 million, up 13% on FY18 on a combination of higher operating earnings, lower stay in business capital expenditure and interest costs that were partially offset by higher cash tax.

Contact’s portfolio of long-life renewable generation assets continues to provide the Board confidence to distribute ordinary dividends which target a pay-out ratio of 100% of expected operating free cash flow. For FY19 this equated to 39 cents per share, compared to the 32 cents per share declared for FY18.

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 +26, up +6 on the prior comparative period as operational efficiencies led to a 1% reduction in the cost to serve customers. Contact also invested in a refreshed brand, new products and digital capability to drive improved customer experience. These factors have contributed to customer churn being 1.7 percentage points below the market. Despite strong operational performance, Customer EBITDAF was down \$9 million to \$67 million for the twelve months ended 30 June 2019, as continuing competitive pressures limited Contact’s ability to recover rising costs for electricity and distribution networks, with the result also impacted by lower sales volumes to electricity customers.

“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. In order to differentiate our products and services from our competitors we have delivered several smart customer solutions in the period, including our new payment methods - PrePay and weekly/fortnightly billing - that help customers manage their bills, and we launched new products to deliver customer choice and innovative rewards such as ‘free-bill’, ‘promise plan’ and our broadband and electricity bundle. To assist those who struggle to pay their bills we are removing prompt payment discounts and replacing them with simple plans such as our pre-existing ‘basic plan’ or guaranteed discounts.

The significant improvement in customer advocacy and take-up of our new products 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.

"Volatile wholesale market conditions driven by a shortage of gas have shown the value of our flexible and diverse generation assets, strong risk management, our continuous improvement programme and our access to stored gas", Mr Barnes said.

Generation EBITDAF increased by \$67 million to \$464 million in the twelve months to 30 June 2019 compared to the same period a year ago, as production from hydro generation increased by 22%, or 752GWh after a dry FY18 in Contact's Clutha catchment. In addition, Contact supported the market by accessing gas stored in AGS and offering additional thermal generation above our contracted sales to meet wholesale spot demand.

"New Zealand is undergoing a transformation from reliance on fossil fuels to renewable electricity. Contact is well placed to meet the expected growth in electricity demand which will result in meaningful reductions to the nation's carbon emissions by developing our large-scale consented geothermal development options backed by our world-class geothermal capability and strong balance sheet", Mr Barnes said.

Outlook

"After successfully lowering the cost of geothermal since our last build, we are taking the next step towards developing the geothermal power station project we have consented at Tauhara by committing to drill a series of four appraisal wells.

Our commitment to reducing carbon emissions is not limited to the supply-side and we are actively partnering with our Commercial and Industrial customers through our investment in Simply Energy - an innovative energy solutions company that uses demand-side management tools to assist customers switch to electricity from their current energy sources, help them be more energy efficient, reduce their costs and cut their carbon emissions.

We remain focussed 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.

ENDS

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