



17 March 2017

## Dear Shareholder

**Tena koe (Greetings),**

The first half of the 2017 financial year (1H17) saw Contact earnings grow modestly with continued improvements in retail operating performance and an increase in the proportion of renewable generation. In a competitive market, delivering strong operational performance and providing value for customers and shareholders remain our focus.



# \$261m

EBITDAF, up 3% from \$254m on improved operational performance

# \$96m

Profit for the period, \$212 million higher than 1H16 due to prior period impairments

# \$4m

Or 3% reduction in other operating expenses over 1H16

Contact reported a statutory profit for the six months ended 31 December 2016 of \$96 million; \$212 million higher than the prior corresponding period due to improved operating earnings and no repeat of the prior period impairments. EBITDAF increased by \$7 million, or 3%, to \$261 million while underlying profit after tax increased by \$9 million or 12% to \$82 million. Free cash flow for the period remained strong at \$141 million, a \$62 million reduction over 1H16, which included a tax credit driven by the closure of the Otahuhu power station together with increased extractions from gas storage and the late collection of FY15 debtors favourably impacting working capital movements.

Your Board has resolved to maintain the interim dividend at 11 cents per share (1H16 11 cents per share), imputed to 8 cents per share. This represents a pay-out ratio of 96% of underlying profit. We remain committed to maintaining an investment grade credit rating and continued to reduce gearing levels with a \$21 million reduction in debt during the period. Continued strong cash flow has us on target to return the net debt to EBITDA ratio to the preferred 2.6 to 3 times range.

### Transforming the Customer business

Our focus has been on delivering products which provide customers with greater choice, certainty and control as well as utilising data, real-time analytics and customer feedback to drive improvements in customer experience. Pleasingly, this progress has been reflected in an improvement in our key customer advocacy measure, Net Promoter Score which is up to +12 from -3 in 1H16. The Customer business recorded a \$6 million improvement in EBITDAF on the back of our operational focus.

Mass market electricity sales volumes were down by 110 GWh as average electricity usage decreased due to above average temperatures and newly acquired business customers who are lower users of energy than those replaced. Average customer numbers were down by 1,100 on 1H16 due to the continued elevated level of competition, including price discounting by large competitors and benign wholesale conditions that supported offerings by new entrants. The reduction in mass market sales was largely offset by increased commercial and industrial sales.

We have recently completed the simplification and migration of our core IT systems to the Cloud which, amongst other things, will make it easier for us to deliver services through lower cost mobile and online channels. We have also embedded data and analytics capability to better understand our customers' needs, with real-time customer insight improving the customer experience as well as lowering future operating costs.

Our systems and large customer base provide us with many opportunities to offer more than just our current service. We are continuing to explore opportunities for battery and solar products with customer trials in progress and continue to be a strong voice for the customer in a range of regulatory consultations. Our support of the adoption of electric vehicles in New Zealand continues through the conversion of our own fleet and as a partner of the Electric Highway. However, we operate in a competitive market and it remains our challenge to find products and services which allow us to leverage our investments and scale to offer a unique service.

## THE LAST FIVE YEARS IN REVIEW

	Unit	1H13	1H14	1H15	1H16	1H17
Revenue and other income	\$m	1,213	1,148	1,240	1,120	1,039
Expenses	\$m	960	884	983	866	778
EBITDAF	\$m	253	264	257	254	261
Profit	\$m	88	112	51	(116)	96
Underlying profit	\$m	92	97	76	73	82
Underlying profit per share	cps	12.7	13.2	10.4	10.0	11.5
Free cash flow	\$m	128	123	164	203	141
Free cash flow per share	cps	17.6	16.8	22.2	27.7	19.7
Dividends declared	cps	11.0	11.0	11.0	11.0	11.0
Total assets	\$m	6,097	6,271	6,139	5,726	5,561
Total liabilities	\$m	2,600	2,732	2,617	2,848	2,742
Total equity	\$m	3,497	3,539	3,522	2,878	2,819
Gearing ratio	%	29	28	28	37	36

### Competitive and reliable energy, delivered at a reduced cost

National electricity demand declined by 2% in 1H17 primarily driven by lower consumption in the residential sector and lower irrigation demand. Warmer temperatures and above average rainfall both contributed to the reduced electricity demand and also resulted in higher hydro generation, lower wholesale electricity prices and limited price volatility.

The flexibility of our portfolio and low levels of contracted gas were a real asset over the past six months. With high levels of renewable generation available in the market, we were able to reduce generation from our thermal plants and purchase lower cost energy from wholesale market participants. This trading strategy, combined with reduced electricity purchases and careful management of costs resulted in a \$1 million improvement in EBITDAF from our Generation business.

### We take safety seriously

Safety is top of mind in everything we do at Contact and is critical to the ongoing sustainable operation of our business. Done well, it creates value. It helps us perform reliably, is a reflection of business quality, makes us a strong employer brand, enables an engaged workforce, and has a positive effect on the bottom line. Our process safety programme, Safe to Run, helps us monitor and measure how well our systems are performing at keeping hazards away from our people, assets and the environment. At its heart

process safety is about engagement and creating a culture that empowers people to play a meaningful role in identifying safety risks and coming up with ways to manage them.

The advance of our journey towards a generative safety culture is a priority, and the results of our latest people survey showing positive movement across the majority of measures that we track which is pleasing. This improvement is also being seen through our lag performance measure, Total Recordable Injury Frequency Rate (TRIFR) which indicates we are on the right track with a strong 1H17 TRIFR result of 1.2 with over 1.6 million hours worked and 2 people unfortunately sustaining low severity injuries, an improvement from 3.1 that was recorded in 1H16.

### Looking forward

Our strategy remains centred on optimising the Customer and Generation businesses to deliver strong cash flows which are ultimately for distribution to shareholders.

In the last six months we have moved to report the performance of our Customer and Generation businesses separately. The focus this brings will be used to monitor and drive improved performance in both businesses and ultimately deliver value for shareholders.

We expect our operational improvement initiatives to continue to reduce our costs. In time our large customer base and world class systems will provide an attractive opportunity for partners to join us in providing value for our customers beyond energy as we continue our evolution from

an essential services business to a broader 'living services' business.

We will continue to focus on the structural efficiency of the electricity supply market. This includes the commencement of the 80MW financial agreement with Meridian Energy to support the continued operation of the Tiwai aluminium smelter. Our portfolio of long life generation assets will continue to lower the cost of energy through fuel substitution, electricity trading and gains realised through the execution of our continuous improvement programme.

**Thank you for your continued support.**

*Dennis Barnes*

**Dennis Barnes**  
Chief Executive Officer



### Electronic Communication

We would like to encourage more of our shareholders to enjoy this efficient, fast and secure method of communication.

To receive future investor communication by email, please provide or update your details online:

[investorcentre.linkmarketservices.co.nz](http://investorcentre.linkmarketservices.co.nz)

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