



12 August 2019

Contact Energy Limited – 2019 Full Year Results

Please find attached the following documents relating to Contact Energy Limited's (Contact) full year results for the year ended 30 June 2019.

- (a) Media Release
- (b) NZX Results announcement form (LR 3.5)
- (c) NZX Distribution form (LR 3.14.1)
- (d) Shareholder letter

The 2019 Annual Report and 2019 Results Presentation are being loaded separately on ASX online and will be available on Contact's website <https://contact.co.nz/AboutUs/Investor-Centre>.

Dividend information filed on Appendix 3A.1 will follow.

ENDS

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.

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Results announcement

(for Equity Security issuer/Equity and Debt Security issuer)

Results for announcement to the market		
Name of issuer	Contact Energy Limited	
Reporting Period	12 months to 30 June 2019	
Previous Reporting Period	12 months to 30 June 2018	
Currency	NZD	
	Amount (000s)	Percentage change
Revenue from continuing operations	\$2,460,000	14.3%
Total Revenue	\$2,519,000	10.7%
Net profit/(loss) from continuing operations	\$170,000	51.7%
Total net profit/(loss)	\$345,000	161.6%
Interim/Final Dividend		
Amount per Quoted Equity Security	\$0.23	
Imputed amount per Quoted Equity Security	\$0.15	
Record Date	29 August 2019	
Dividend Payment Date	17 September 2019	
	Current period	Prior comparable period
Net tangible assets per Quoted Equity Security	\$3.27	\$3.18
A brief explanation of any of the figures above necessary to enable the figures to be understood	Total revenue and net profit/(loss) from continuing operations are the combined result for the continuing operations and discontinued operation.	
Authority for this announcement		
Name of person authorised to make this announcement	Kirsten Clayton, Company Secretary	
Contact person for this announcement	Matthew Forbes, Investor Relations Manager	
Contact phone number	+64 21 072 8578	
Contact email address	investor.centre@contactenergy.co.nz	

Results announcement

(for Equity Security issuer/Equity and Debt Security issuer)

Date of release through MAP	12 August 2019
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Audited financial statements accompany this announcement.

Section 1: Issuer information				
Name of issuer	Contact Energy Limited			
Financial product name/description	Ordinary shares			
NZX ticker code	CEN			
ISIN (If unknown, check on NZX website)	NZCENE0001S6			
Type of distribution (Please mark with an X in the relevant box/es)	Full Year	X	Quarterly	
	Half Year		Special	
	DRP applies			
Record date	29/08/2019			
Ex-Date (one business day before the Record Date)	28/08/2019			
Payment date (and allotment date for DRP)	17/09/2019			
Total monies associated with the distribution	\$164,858,199.86 (716,744,782 shares @ \$0.23 / share)			
Source of distribution (for example, retained earnings)	Operating Free Cash Flow			
Currency	NZD			
Section 2: Distribution amounts per financial product				
Gross distribution	\$0.28833333			
Total cash distribution	\$0.23000000			
Excluded amount (applicable to listed PIEs)	N/A – Not a listed PIE			
Supplementary distribution amount	\$0.02647059			
Section 3: Imputation credits and Resident Withholding Tax				
Is the distribution imputed	Fully imputed			
	Partial imputation			
	No imputation			
If fully or partially imputed, please state imputation rate as % applied	65% (15 cents per share)			
Imputation tax credits per financial product	\$0.05833333			
Resident Withholding Tax per financial product	\$0.03681667			
Section 4: Distribution re-investment plan (if applicable) – Not Applicable				
DRP % discount (if any)	%			

Start date and end date for determining market price for DRP	[dd/mm/yyyy]	[dd/mm/yyyy]
Date strike price to be announced (if not available at this time)	[dd/mm/yyyy]	
Specify source of financial products to be issued under DRP programme (new issue or to be bought on market)		
DRP strike price per financial product	\$	
Last date to submit a participation notice for this distribution in accordance with DRP participation terms	[dd/mm/yyyy]	
Section 5: Authority for this announcement		
Name of person authorised to make this announcement	Kirsten Clayton, Company Secretary	
Contact person for this announcement	Matthew Forbes, Investor Relations Manager	
Contact phone number	+64 21 072 8578	
Contact email address	investor.centre@contactenergy.co.nz	
Date of release through MAP	12 August 2019	

Tēnā koe, greetings

This year has been notable for the completion of significant transactions, progress in accelerating decarbonisation, increasing customer value and strong financial performance.

We have delivered a solid financial result, improved capital efficiency, deployed good risk management practices, and again proved the value of the flexibility we have built into our diverse generation portfolio.

Two major transactions strengthened our balance sheet and enhanced the resilience of our operations. In October, we completed the sale of the Ahuroa Gas Storage facility to Gas Services New Zealand (GSNZ) for \$200 million¹ and, in November, we completed the sale of Rockgas LPG to GSNZ for \$260 million.

The Ahuroa sale gave us access to long-term gas storage services to meet our flexible thermal generation needs without needing to own and operate the asset, and the Rockgas sale freed us from the fulfilment aspects of the LPG business while still being able to sell LPG to our customers.

We also acquired a 49.9% interest in New Zealand-owned energy innovator Simply Energy. Investing in Simply Energy gives us access to capability to deliver innovative solutions that will help our Commercial and Industrial customers transition to low carbon solutions sustainably and sooner.

Our vision is to create sustainable value for New Zealanders by putting our energy where it matters. We have stood the test of volatile wholesale markets and a competitive retail sector to deliver on that commitment this year.

Our Wholesale business successfully managed periods of low hydro inflows and constrained gas supply, reinforcing the value of our diverse portfolio.

The Customer business has been digitising the customer experience and building data, automation and integration capability, while focusing on lowering operating expenses and reinvesting savings in investment in our brand and technology solutions.

Both businesses have demonstrated their capability and flexibility to respond to complex market conditions, the competitive environment and to contribute positively to the Energy Trilemma of Accessibility, Reliability and Environmental Sustainability.

Accessibility

Our Customer business has made good ground on our strategy of being a service and value focused retailer, connecting customers and communities to smart solutions that make living easier.

This has included innovating to make it easier for customers to connect with us online and with our mobile app, and helping our most vulnerable customers keep the power on with initiatives such as PrePay and flexible billing options.

We have helped our customers to avoid getting into difficult credit positions, and intervened early if they did, which delivered record low levels of outstanding debt.

The government initiated Electricity Price Review highlighted this year that some New Zealand families are struggling to pay for their energy and that the prompt payment discounts are not fair to customers who are unable to pay their bills on time. We have responded by accelerating plans to remove prompt payment discounts and are replacing them with simple plans such as our existing Basic Plan or guaranteed discounts.

Operating earnings (EBITDAF²) in our Customer business was \$67 million, down \$9 million from \$76 million in FY18, as continuing competitive pressures limited Contact's ability to recover higher costs for electricity and distribution networks through customer price changes. The result was also impacted by lower sales volumes to electricity customers.

Reliability

New Zealand is at the start of a transformation from reliance on fossil fuels to renewable electricity. Contact is well placed to meet the expected growth in renewable electricity demand, which will result in meaningful reductions to carbon emissions.

1. Up to \$10 million of this is contingent on GSNZ obtaining a favourable binding tax treatment ruling.

2. EBITDAF: Earnings before Interest, Taxation, Depreciation and Amortisation and changes in fair value of financial instruments and other significant items.

This alignment with political and public sentiment underpins our Wholesale business strategy of being 'an innovative, safe and efficient generator, working with business customers and partners to decarbonise New Zealand'.

The increased price and reduced reliability of gas is accelerating the case for replacing thermal plant with new baseload geothermal. In this context, we are taking the next step in developing the geothermal project we have consented at Tauhara by committing to drill four appraisal wells. The drilling will lay the groundwork for a final investment decision for a new power station in early 2020.

We are actively partnering with our Commercial and Industrial customers who are undoubtedly the prime decarbonisation opportunity. Our target is to enable customers to switch to electricity from their current energy sources, help them be more energy efficient, reduce their costs and cut their carbon emissions.

This year we successfully piloted our demand flexibility platform, which rewards Commercial and Industrial customers for reduced energy use at peak times, so we don't have to resort to fossil fuel generation to meet high demand.

EBITDAF from our Wholesale business was \$464 million in the period, up \$67 million from \$397 million in FY18.

We rely on the dedication, passion and innovation of our people to be able to keep delivering safe, dependable energy and adding value for our customers and stakeholders.

This year we again measured the engagement of our people with the Ask Your Team survey. Our overall engagement score was 75%, which was well ahead of the 67% benchmark for private companies but behind our 2018 score of 77%. The survey results will help us keep adapting and improving to raise engagement.

We are committed to being an inclusive and diverse employer and this year we achieved Rainbow Tick certification, recognising us as a workplace that accepts and welcomes sexual and gender diversity.

We take pride in our excellent safety systems and generative safety culture, where everyone is empowered to take ownership of health and safety outcomes. Our results this year evidence our good safety culture.

Environmental sustainability

This year we recommitted ourselves to a climate change position, embedded a reporting tool enabling more oversight of our emissions targets. We were the first New Zealand energy company to have emission reduction targets approved by the Science Based Targets initiative (SBTi). We are revising those targets to align with new recommendations from the SBTi. We were also the first company in New Zealand to sign up as an official supporter of the Taskforce for Climate-related Financial Disclosures. This internationally recognised transparent disclosure regime is increasingly being relied on by the investment community as a tool for understanding climate change risk. We partnered with other New Zealand companies to invest in forestry on marginal land to sequester carbon.

With the National Institute of Water and Atmospheric Research (NIWA), we assessed the potential impact of climate change on our business and used this baseline data to identify climate change risks and opportunities.

We have maintained a strong focus on biodiversity programmes, including supporting the development of a National Policy Statement for Indigenous Biodiversity, continuing to mitigate our impacts on fish migration around our dams, and restoring and protecting habitats.

We also engaged with the Government appointed Interim Climate Change Committee as they developed their report into the Government's renewable electricity aspirations.

And we continued to work collaboratively with tangata whenua and the communities around our sites to involve them, respect their interests, create opportunities and give back in ways that are meaningful to them.

Despite our commitment to environmental sustainability, a landslip at one of our geothermal storage ponds at Karapiti sent sediment and geothermal fluid into the Waipuwera Stream and Waikato River in February. We are thankful that no one was hurt. However, the discharge did impact the river, iwi and the community and we deeply regret that. We are working with iwi and the local community to put things right and to learn from the event.

Transition

Finally, I have made the Board aware of my intention to leave Contact. In making this decision I know that the company is in a strong position, with excellent prospects and a talented and committed team in place.

It has been a privilege to lead Contact. I am proud of many things Contact has delivered in the past eight years and in particular the value we have returned to you, our shareholders, including the distribution of nearly \$2 billion. At the same time we have transformed into a leading New Zealand business investing to reduce our carbon emissions by more than 50% and providing more choice, certainty and control to customers than ever before.

I thank the Board and the many people I've worked with and wish you a prosperous future.

Ngā mihi mahana, nā Dennis



Dennis Barnes
Chief Executive Officer
Contact Energy Ltd