MEDIA RELEASE

10 February 2020: Contact Energy FY20 Interim Result

Giving customers choice, certainty and control in a volatile period. Decarbonisation opportunities accelerate.

Key metrics

	Six months ended 31 December 2019	Comparison against continuing operations[3] 31 December 2018		Six months ended 31 December 2018	
EBITDAF[1]	$221m	↓	21% from $278m	↓	24% from $291m
Profit	$59m	↓	40% from $99m	↓	79% from $276m
Interim dividend per share	16.0 cps			-	16.0 cps
Operating free cash flow[2]	$120m	↓	38% from $196m	↓	41% from $203m
Operating free cash flow per share[2]	16.8 cps	↓	38% from 27.3 cps	↓	41% from 28.3 cps

Highlights

- Average electricity tariffs for customers lower than last year despite increases in wholesale electricity costs.
- Constructive participation in the Electricity Price Review to ensure the electricity market delivers reliable, low-carbon electricity for New Zealanders.
- Investment in geothermal appraisal wells and strong competitive interest from construction partners, in advance of a final investment decision for Tauhara.
- Decarbonisation-driven demand momentum with a long-term, 13MW, renewable agreement signed, and demand management platform customer base growing quickly.
- Navigated risks relating to constrained natural gas supply via reduction in fixed priced electricity sales and prudent management of gas and hydro storage.
- Co-funded accelerated work programme by Transpower to help move renewable electricity generation north in the event of a disorderly Tiwai Point smelter exit.
- Strong, stable interim dividend of 16 cents per share will be paid on 7 April 2020.

[1] Refer to slides 48-49 of the 2020 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 slides 28, 40 of the 2020 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.
[3] Sale of Rockgas LPG which completed on 30 November 2018

Contact Energy ('Contact') released its interim financial results for the six months to 31 December 2019 this morning.

Contact CEO Dennis Barnes said repeating the record financial performance from the first six months of FY19 was always going to be a challenge, even without the natural gas scarcity that has characterised the last six months.

"The impact of the recent under-investment in New Zealand's ageing gas fields has been acutely felt over the past six months with the supply of natural gas proving unreliable, leading to thermal input costs increasing sharply.

"In this environment we took decisive action to limit our fixed priced sales commitments, conserve fuel for winter 2020 and explore innovative gas purchase arrangements. Although the gas supply constraints have increased our generation costs, this has been mitigated by our high-quality, long-life, renewable generation assets, and lean, low-cost retail operations."

Financial performance

Contact reported a statutory profit for the six months ended 31 December 2019 of $59 million, $217 million lower than the prior corresponding period which included Rockgas profit of $10m and the $172m gain on the sale of both Rockgas and Ahuroa gas storage.

EBITDAF from continuing operations reduced by $57 million, or 21%, to $221 million. This was due to rising thermal generation costs, lower sales to commercial and industrial customers and strong financial performance under unique wholesale market conditions in the prior period.

The increasing cost of gas and carbon is accelerating the case for the substitution of Contact's baseload TCC thermal plant with new renewables. In this context, the useful life of the plant has been reduced, increasing depreciation by $9m on the prior comparative period.

Operational improvements and portfolio changes resulted in a further reduction in other operating costs of $8 million, down 7% on a year ago.

Operating free cash flow for 1H20 was $120 million, down 39% on the first six months of FY19. This was due to a combination of lower operating earnings (EBITDAF), partially offset by lower stay in business capital expenditure and interest costs. Cash tax paid of $56 million was $15 million higher, reflecting tax payable on the strong profit realised in FY19.

Mr Barnes said the dividend policy, complemented by the robust balance sheet, has insulated shareholders from the financial effects of volatile operating conditions. "The policy targets an expected operating free cash flow which is normalised for the effects of fuel and capital investment variability."

The Board has approved an interim ordinary dividend of 16 cents per share which will be imputed up to 10 cents per share for qualifying shareholders and paid on 7 April 2020. The target for the full year ordinary dividend remains at 39 cents per share.

Customer business: Broadband customers ramping up

Mr Barnes said Contact's Customer business remained focussed on reducing the 'cost to serve' while improving the customer experience.

"Customer demand for our broadband and energy bundles has surpassed even our most optimistic forecasts with more than 17,000 new broadband connections over the past 12 months. This gives us confidence around our transformation into a customer-centric digital energy company and shows our refreshed brand resonates with customers."

Despite strong operational performance on many metrics and underlying efficiency improvements of 6%, EBITDAF in the Customer business was down $18 million (38%) year-on-year to $30 million, as rising input costs for electricity, gas, carbon and distribution networks were not recovered.

Mr Barnes said wholesale energy and network costs for the products that Contact sold to retail customers have seen sustained increases over the past three years. “We deliberately shield customers from these sharp increases as we believe a long-term customer relationship is more valuable than short-term improvements to profitability.”

Wholesale business: diverse assets, managing risk and advancing renewable options

Mr Barnes said Contact’s Wholesale business was continuing to work with business customers, partners and suppliers to decarbonise New Zealand’s energy sector. “The difficult wholesale market conditions driven by a shortage of gas have shown the value of diverse generation assets, strong risk management and renewable development options.”

EBITDAF in the Wholesale business reduced by $39 million to $204 million year-on-year, as production from hydro generation was down by 8 per cent (159GWh). Thermal generation costs also increased by 10%, driven by gas, carbon and gas storage facility costs.

He said New Zealand was undergoing “a transformation” from reliance on fossil fuels to renewable electricity. “The transformational shift has impacted Contact’s near-term profitability as thermal costs rise, but over the longer term we are well-positioned to connect our customers with renewable energy.

“We expect to drive reductions in costs and deliver strong returns to shareholders at the same time as we develop our large-scale consented geothermal development at Tauhara. This will help reduce the nation’s carbon emissions, backed by our world-class geothermal capability and strong balance sheet.”

Outlook

Mr Barnes said the Rio Tinto-initiated strategic review of the Tiwai aluminium smelter remained firmly on the radar. “A disorderly exit of the smelter would be a poor outcome for New Zealand and we are actively engaged in negotiations for revised terms for electricity supply to Tiwai.

“We are also executing on a range of mitigation options, including co-funding an accelerated work programme by Transpower. This will help move renewable electricity generation in the lower South Island north through the national transmission network, if the smelter review leads to curtailment or closure.

“We are working with commercial and industrial customers to deliver reductions to their carbon footprints by connecting them with low-carbon, reliable electricity. We believe the long-term 13MW renewable agreement signed recently is the first of many.

“Thermal generation remains an important part of our current portfolio. The gas supply agreements we announced today see us well-positioned to deliver improving financial performance.”

He said the company remained focussed on delivering on its transformation programme to reduce controllable costs, and capture value from scale efficiencies through geothermal development and leveraging its customer systems and lean operating model.

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