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Contact delivers for customers, employees and shareholders despite Covid-19 disruption

Key financial metrics

	12 months ended 30 June 2020 (FY20)	Comparison against continuing operations in FY19[3]		12 months ended 30 June 2019 (FY19)	
EBITDAF[1]	$451m	↓	-11% from $505m	↓	-13% from $518m
Profit	$125m	↓	-26% from $170m	↓	-64% from $345m
Underlying profit	$129m	↓	-22% from $166m	↓	-27% from $176m
Dividend (per share)	39.0 cents			-	39.0 cents
Operating free cash flow per share[2]	$290m	↓	-13% from $334m	↓	-15% from $341m

Highlights

- Resilient through COVID-19 lockdown
- Confirmed world-class geothermal resource at Tauhara after successful appraisal programme
- 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
- More than 500,000 customer connections across electricity, gas and broadband
- New Chief Executive Officer (CEO) and new Chief People Officer (CPO) appointed to leadership team
- Cost efficiency focus delivering, with cash spent on continuing 'stay in business' capital projects down by $7m (12%) and $9m (4%) reduction in other operating costs from continuing operations.
- Focus on Tiwai smelter exit and executing mitigation options, including putting the Tauhara project on hold and co-funding accelerated work programme by Transpower

[1] Refer to slides 54-55 of the 2020 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 Note A3 in the Contact FY20 Financial Statements 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

New Zealand's second-largest energy company Contact Energy ('Contact') released its full year financial results for the 12 months to 30 June 2020 ('FY20') this morning.

Contact Chair Rob McDonald said Contact had delivered a "solid" financial result. "The second half of the year has been in line with expectations despite the impact of COVID-19. This follows on from a more challenging first half of the year which was impacted by poor gas availability.

"Profit from continuing operations was down 26 per cent to $125m but we're pleased to deliver investors a 39 cents per share annual dividend this year which is in line with last year. The results are underpinned by Contact's operational efficiency, high quality and flexible portfolio of gas-fired and renewable generation assets, and the continued strength of our balance sheet."

Mr McDonald said he was proud of the way Contact had come through the pandemic response and lockdown period. "It was an extraordinary time, but overall Contact coped extremely well in challenging, uncharted circumstances. There was a real focus on crisis management and doing right by Contact's customers, our team of more than 900 people and broader New Zealand too."

There were changes to the Contact leadership team in FY20, with new CEO Mike Fuge starting in February 2020, and Jan Bibby joining as CPO in November 2019. In July 2020 James Kilty was promoted to Deputy CEO, and Jacqui Nelson joined the leadership team as Chief Generation Officer.

Financial performance

CEO Mike Fuge said Contact reported a statutory profit for FY20 of $125m. "This was $220m lower than FY19, but last year included a $170m gain on the sale of the Rockgas business and the Ahuroa gas storage facility."

He said EBITDAF from continuing operations was down $54m (11%) on last year to $451m in FY20. "This was due to a combination of lower renewable generation, lower wholesale prices and the impact of rising costs of thermal generation and restricted gas supply."

He said income from electricity market making was also down $10m on the prior year following "volatile swings" in the wholesale market during the large inter-island transmission outage early in 2020, pleasingly the market headwinds were partially offset by strong cost control with fixed costs down by $13m.

Mr Fuge said the increasing cost of gas and carbon was "accelerating the case" for the substitution of Contact's Taranaki Combined Cycle thermal plant at Stratford with new renewables. The useful life of the plant has been reduced, increasing depreciation by $15m year-on-year.

Contact's operating free cash flow for FY20 was $290m, down 15 per cent on FY19. "This was due to a combination of lower operating earnings, partially offset by lower stay-in-business capital expenditure and interest costs," Mr Fuge said.

Cash tax of $70m was paid, up $23m on FY19 and reflecting the increased tax payable on the strong profit realised in the last financial year.

The Board approved a final ordinary dividend of 23 cents per share (imputed by up to 15 cents per share for qualifying shareholders) to be paid on 15 September 2020. An interim ordinary dividend of 16 cents per share was paid in April 2020, meaning the annual dividend declared for FY20 is 39 cents per share.

Customer business: 500,000 connections, driving digitisation

Mr Fuge said Contact's Customer business now had more than 500,000 connections across electricity, gas and broadband. In June more than 10,000 energyclubnz customers joined Contact after that retailer exited the market. "We're continuing our transformation to becoming a digital-first retailer, with more than 100,000 customers now using our apps and website for self-service each month. Not only have customers told us they prefer this engagement channel but this has eased demand on our traditional service channels, with call volumes reducing from 850,000 in FY19 to 760,000 in FY20."

Despite strong operational performance and underlying efficiency improvements, EBITDAF in the Customer business was down $17m year-on-year to $50m, as rising costs for electricity, gas and carbon were not recovered in the year as average electricity tariffs were flat year-on-year.

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

Mr Fuge said Contact's Wholesale business was continuing to work with business customers, partners and suppliers to decarbonise New Zealand's energy sector. "We're helping our commercial and industrial customers with their transition to low carbon fuels, with new products and renewable substitutes. We aim to displace 1PJ of industrial heat with electricity by 2022 — roughly equivalent to the electricity used by all the houses in Taupō in a year."

He said the difficult wholesale market conditions driven by a shortage of gas in the first half of the financial year showed the value of diverse generation assets, Contact's strong risk management systems and executable renewable development options.

EBITDAF in the Wholesale business reduced by $38m to $425m year-on-year, as production from hydro-generation was restricted by transmission constraints and dipped by 11 per cent (479GWh) despite strong hydro inflows. Thermal generation costs per unit increased by 1 per cent after a $6m increase in gas storage facility costs.

Mr Fuge said New Zealand was undergoing a shift from reliance on fossil fuels to renewable electricity. "This transformation has impacted Contact's near-term profitability as thermal costs rise, but over the longer term we are well-positioned to connect renewable energy to our customers."

Looking ahead

Mr Fuge said there was a focus on last month's announcement that Rio Tinto was preparing to close the Tiwai Point smelter in August 2021. "We've made no secret of our view that we were disappointed about this – we believe the best interests of NZ Inc are served by the smelter remaining operational for at least the next five years. The inability for this to happen will be bad news not only for Southland, but also for global emissions and New Zealand's renewable energy aspirations."

He said Contact was well-placed to emerge in "a stronger competitive position over the longer term" and that it is under way with mitigating the impact of the smelter's looming closure. "One major decision was pausing our world-class, shovel-ready geothermal project at Tauhara. It is on hold for now but we believe it is a matter of when – not if – Tauhara will play an important role in New Zealand's transition to a low-carbon future. However we must get a clearer picture of demand before we make any final decision to proceed with this $600m investment."

He said Contact was also “actively engaged” in negotiations for revised terms for electricity supply to the Tiwai smelter and has been co-funding an accelerated work programme by Transpower to help move renewable electricity generation in the lower South Island north.

“We’re also working with commercial and industrial customers to deliver reductions to their carbon footprints by connecting them with low-carbon, reliable electricity. We recently signed a long-term 13MW renewable agreement with Open Country Dairy and anticipate this will be the first of many.”

Mr Fuge said Contact would remained focussed on improving operational efficiency and leveraging its lean operating model. “We’re excited about the future. We’re a strong company with plenty of options and opportunities in front of us. We have a robust balance sheet, an excellent portfolio of assets and a very capable team.”

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Investor enquiries: Matthew Forbes +64 21 072 8578

Media enquiries: Paul Ford +64 21 809 589