Contact

23 March 2016

Dear Shareholder

The first half of the 2016 financial year was a period of significant activity. Our ownership changed as a result of Origin selling its majority shareholding, we played an important role in the ongoing operation of the Tiwai Aluminium Smelter as we executed an 80 megawatt (MW) financial agreement with Meridian Energy and we completed the closure and sale of our Otahuhu thermal power station. We continue to work on reforming our customer business, have secured an additional $295 million of debt in the US Private Placement (USPP) and domestic retail bond markets at very competitive interest rates and bought back $62 million of shares.

Contact reported a statutory loss for the six months ended 31 December 2015 of $116 million; $167 million lower than the prior corresponding period. This was primarily due to $257 million of impairments relating to the closure of the Otahuhu power station and an assessment that the Taheke geothermal resource is unlikely to be developed in the foreseeable future. Underlying profit and earnings before net interest expense, tax, depreciation, amortisation, change in fair value of financial instruments and other significant items (EBITDAF) were reasonably stable while free cash flow[1] improved 24% largely due to a lower tax expense and a reduction in transition costs relating to the implementation of our customer billing and service system.

We have announced that the interim distribution to shareholders will be 11 cents per share and will have 7 cents imputed reflecting the continued low imputation credit balance following the payment of a fully imputed special dividend in June 2015. It is also expected that we will complete the final $38 million of the current share buyback programme announced in October during the second half of the financial year. Contact's financial performance over the past two years has been impacted by the customer business coming under increasing pressure from the growth of smaller competitors and increased innovation and targeted offers from existing retailers. Much of this overlapped with the implementation and stabilisation of our customer billing and service system which has limited our ability to respond. While we have seen a continuation of this theme in our financial performance over this period, I remain confident that our focus on becoming a truly customer inspired business will deliver improvements in the next six months and the years ahead.
To support this change I am very pleased with the appointment of Sir Ralph Norris, Victoria Crone and Rob McDonald to our Board who all bring significant skills and experience in transforming and operating customer-centred businesses.

Understanding, winning and keeping customers

The market has remained highly competitive during the first half of the financial year with discounting and upfront credits dominating the market and leading to an increase in the number of customers switching providers. In recent months we have seen a decline in our customer numbers as competitors' new offers and focus on market share has outpaced our customer acquisitions. We have introduced new offers to the market including the 'Fixed 16/17' and 'Home and Bach' products as well as our successful '20 years of Contact' engagement with existing customers.

Despite the loss in customer numbers our mass market sales volume has remained relatively stable during this period as cooler temperatures helped increase usage per customer. We also reduced our commercial and industrial (C&I) sales in the period as a number of existing, lower priced contracts expired. These contracts will be replaced over time with higher margin contracts or sold through the contracts for difference (CfD) and futures markets.

In the next year our customer business will focus on reducing costs; increasing the level of digital interaction with customers supported by the launch of a mobile app; and introducing a range of new products that will allow customers more choice.

Finding, developing and generating the energy the market requires

In the generation and trading business cost of energy improved by $4 per megawatt hour (MWh) as lower purchase volumes and improved gas costs were supported by an increase in geothermal generation.

In the last six months we have continued to focus on positioning our generation portfolio for an increasingly renewable future where the requirements for thermal support are moving from baseload to fast-start peaking generation.

1 EBITDAF, underlying profit and free cash flow are non-generally accepted accounting practice (non-GAAP) performance measures. They are defined in the glossary on page 25 of Contact's half year report with reconciliations provided in the financial statements and/or the investor presentation. These reports are available at contact.co.nz/financial-results.

The last five years in review	Unit	1H12[2]	1H13	1H14	1H15	1H16
Revenue	$m	1,283	1,213	1,148	1,240	1,125
Expenses	$m	1,052	960	884	983	871
EBITDAF	$m	231	253	264	257	254
Profit	$m	68	88	112	51	(116)
Underlying profit	$m	76	92	97	76	73
Underlying profit per share	cps	10.9	12.7	13.2	10.4	10.0
Free cash flow	$m	89	128	123	164	203
Free cash flow per share	cps	12.2	17.6	16.8	22.2	27.3
Dividends declared	cps	11.0	11.0	11.0	11.0	11.0
Total assets	$m	5,873	6,097	6,271	6,139	5,726
Total liabilities	$m	2,564	2,600	2,732	2,617	2,848
Total equity	$m	3,309	3,497	3,539	3,522	2,878
Gearing ratio	%	29	29	28	28	37

2 '1H' refers to the first half of the financial year.

($116m)

Statutory loss predominately due to impairments at Otahuhu and Taheke

24%

Improvement in free cash flow

$62m

Of shares bought back

In August 2015 we announced an 80MW financial agreement with Meridian Energy to support the ongoing operation of the Tiwai Aluminium Smelter, an outcome which I believe is important for the whole energy sector. This agreement provided us with increased certainty and a range of risk management products that allowed us to close the Otahuhu thermal power station from September and commit to refurbishing our Taranaki combined-cycle power station.

In February 2016 we announced the Otahuhu site had been sold to Auckland developer Stonehill Property Trust for $30 million plus an equal share in the proceeds of the sale of plant and equipment onsite over a 12 month period.

Supporting our business

Ensuring we have a culture focused on safety, agility and efficiency will be a key component in our future financial performance. We have invested heavily in ensuring that all of our people can return home safely to their families and it is pleasing to see the continued improvement in our Total Recordable Injury Frequency Rate.

We are working to build our capability for a changing market with the realignment of our customer organisation in the past six months the most evident change. I am particularly pleased with the work we are doing to simplify our information technology and leverage the benefits of our customer billing and service system to reduce cost and improve customer capability. Over the next year I expect our customers will start to see these benefits in our service and products.

Contact remains committed to our investment grade credit rating and our BBB rating was recently reaffirmed by credit agency Standard and Poor's. The refinancing work we have done in recent years, including the very competitively priced retail bond and USPP executed in this period, has ensured we now have a more diverse and longer dated debt portfolio.

Looking forward

The past year has been a hugely formative year in the future of Contact. We are in a new, independent era without a majority shareholder for the first time in our 20 year history. We have new shareholders and investors in the company, a renewed Board of Directors and a stronger sense of ownership amongst our employees.

Our strategy remains centred around leveraging the integrated customer and generation business to deliver strong cash flows for distribution to shareholders. We will continue to deliver value to our customers by providing choice, control and certainty. We are developing customer centric offers in-house and with partners to improve customer life time value while we also target the lowest cost to serve in the industry.

Our investments in the generation business have ensured a robust business and we have a low cost, long life and flexible generation portfolio with a focus on safety, reliability and resource utilisation.

As we updated the market in December we don't expect our EBITDAF and underlying profit for FY16 to be materially different to FY15 but continue to expect a marked increase in operating cash flow. I do however expect that we will see further improvement across our customer metrics as we launch new products, correct historical pricing anomalies and improve the efficiency of our operations.

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
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