MEDIA RELEASE

Monday 16 February 2015

Contact positioned well in a highly competitive market

	6 months ended 31 December 2014	
EBITDAF[1]	$257m	down 3% from $264m
Profit	$51m	down 54% from $112m
Earnings per share (cents)	6.9 cps	down 55% from 15.3 cps
Underlying earnings after tax[2]	$76m	down 22% from $97m
Underlying earnings per share (cents)	10.4 cps	down 21% from 13.2 cps
Interim dividend (cents)	11.0 cps	no change from 11.0 cps
Underlying Operating cashflow after tax (OCAT)	$227m	up 31% from $173m
Free cash flow	$180m	up 51% from $119m
Capital expenditure	$48m	down 69% from $153m

Overview of results

"The first half of the 2015 financial year (1H15) was a transitional period for Contact as the Te Mihi geothermal power station and the new retail system were integrated into the business. Following the go-live of our new retail customer billing and service system we have made considerable progress in stabilising the system and the processes that support it. A system change of this size always creates challenges and I am pleased with the way we have been able to manage this process and hold sales volumes stable during a period of continued intense competition and price discounting. We have integrated the Te Mihi geothermal power station into our generation portfolio increasing renewable generation from 68 per cent to 76 per cent of our total output. Work completed during an extended outage at Te Mihi has improved the performance of the plant to a level above the business case which, combined with improved availability across the remainder of the portfolio, is expected to further reduce our cost of energy" said Dennis Barnes, Contact Chief Executive.

Contact reported statutory profit for the 6 months ended 31 December 2014 of $51 million; $61 million (54 per cent) lower than the prior corresponding period primarily due to an unfavourable movement in the fair value of financial instruments and transition costs from the Retail Transformation project and associated activities. This was further impacted by EBITDAF[1] reducing by $7 million (3 per cent) to $257 million predominantly due to a $20 million reduction in retail margins as a result of the continued intensity of retail competition.

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[1] Refer to page 1 and 2 of the Management discussion of financial results for the 6 months ended 31 December 2014 for a definition and reconciliation between statutory profit and the non-GAAP profit measure earnings before net interest expense, tax, depreciation, amortisation, change in fair value of financial instruments and other significant items (EBITDAF).

[2] Refer to page 3 and 4 of the Management discussion of financial results for the 6 months ended 31 December 2014 for a definition and reconciliation between statutory profit and the non-GAAP profit measure underlying earnings after tax (profit excluding significant items that do not reflect Contact's ongoing performance).

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Underlying earnings after tax was $76 million, $21 million (22 per cent) lower than the first half of the 2014 financial year (1H14) reflecting lower retail margins and the impact of plant outages reducing EBITDAF by more than the increased depreciation and interest costs following the completion of the significant capital programme. Operating cash flow after tax was $227 million, up $54 million (31 per cent).

The Contact Energy Board of Directors resolved that the interim distribution to shareholders would remain stable at 11 cents per share. The distribution represents a payout ratio of 106 per cent Contact's underlying earnings after tax.

"We remain focused on the health, safety and well-being of our people. Our people worked over 2 million hours which has resulted in 5 people being hurt. While this is still 5 more than we want, our year to date Total Recordable Injury Frequency Rate improved from 3.9 in 1H14 to 2.4 in the current period. We have also launched an integrated programme of work to further improve process safety performance and capability, simplify safety systems and advance our safety culture.

The retail electricity market remains highly competitive with discounting dominating the market. Maintaining sales volumes has been important to us as we grew our share of the small business market and cooler temperatures drove a 1 per cent increase in residential usage per customer. This was partially offset by residential customer losses as we implemented our new retail system. As our systems and processes have stabilised we have been able to resume customer acquisitions which saw us reverse customer losses and add 450 customers in January. On 1 April 2015, Contact will be passing through to customers changes in the costs charged by network companies, increases and decreases, but will not be raising the energy and service components of a customers bill that Contact controls," Mr Barnes said.

In the generation and trading business cost of energy improved by $2 per megawatt hour as Contact's percentage of generation from renewable fuel increased from 68 per cent to 76 per cent following the commissioning of the Te Mihi geothermal power station. This was partially offset by lower plant availability and reliability, with extended outages at Te Mihi and Poihipi reducing geothermal generation, and increased unit gas and carbon costs.

Looking forward

Contact's capital investments have positioned it well for the New Zealand market with limited need for further investment in the operating business.

"Following a transitional period in 1H15, the second half of the 2015 financial year (2H15) is expected to see improvement. Te Mihi power station is now performing better than business case expectations which, combined with changes to the existing Wairakei resource consent, are expected to increase overall geothermal generation to over 1,600 gigawatt hours in 2H15. The increase in renewable generation, subject to hydrology, will allow further reductions in gas-fired generation and the cost of energy. New natural gas and LPG contracts will reduce costs and, along with Ahuroa gas storage, provide flexibility to cover any shortfall in renewable supply.

In the retail business, our new customer service and billing system provides a platform for efficiency and innovation in a highly competitive market. One-off impacts due to changes in network billing timing are not expected to repeat going forward although retail margins are likely to remain under pressure.

In FY16 I expect a reduction in the cost to serve our customers that will provide a positive contribution to profits above the increase in interest and depreciation costs from the new system. The supply side of the business will continue to focus on efficiency and availability. The new Te Rapa contract, utilisation of our diverse and flexible fuel and asset portfolio coupled with wholesale prices that reflect the reduction in oversupply are all expected to add to profitability.

Moving forward Contact will be a strongly cash generative business, providing new opportunities to create value for shareholders. The New Zealand electricity market is mature with no material growth in electricity demand expected and risks around the future of the Tiwai aluminium smelter and continued erosion of retail margins. Industry consolidation would be typical and beneficial to a fragmented market such as New Zealand; however, these opportunities appear limited.

We believe that in the current environment, material growth opportunities in New Zealand that leverage Contact's long history in geothermal and hydro development and operation are unlikely. Therefore, we are investigating options to leverage our skills and experience to grow in international markets.

Our priorities remain the safe operation of our business, providing customers with the quality of service and products they expect and creating long-term value for our shareholders" said Mr Barnes.

ENDS

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