

MEDIA RELEASE

Monday 15 February 2016

Free cash flow improvement supports continued distribution to shareholders

| | Six months ended 31 December 2015 | |
|-------------------------------------|--------------------------------------|-------------------------|
| EBITDAF ¹ | \$254m | down 1% from \$257m |
| Profit/(loss) | (\$116m) | down 327% from \$51m |
| Earnings per share (cents) | (15.9) cps | down 330% from 6.9 cps |
| Underlying profit ¹ | \$73m | down 4% from \$76m |
| Underlying profit per share (cents) | 10.0 cps | down 4% from 10.4 cps |
| Interim dividend (cents) | 11.0 cps | no change from 11.0 cps |
| Free cash flow ² | \$203m | up 24% from \$164m |
| Free cash flow per share (cents) | 27.7 cps | up 24% from \$22.4 cps |
| Capital expenditure | \$71m | up 48% from \$48m |

Overview of results

“The first half of the 2016 financial year (1H16) was a period of significant activity for Contact. 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 financial agreement with Meridian Energy and we completed the closure and sale of our Otahuhu thermal power station. In addition we continue to work on reforming our customer business, have secured an additional \$295 million of debt in the US Private Placement and domestic retail bond markets at very competitive interest rates and bought back \$62 million of shares,” said Dennis Barnes, Contact Chief Executive.

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 EBITDAF were reasonably stable while free cash flow improved 24% as a result of a lower tax expense and a reduction in transition costs relating to the implementation of Contact’s customer billing and service system.

¹ Refer to slide 34-37 of the 2016 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 slide 24 of the 2016 interim results presentation for a definition and reconciliation between cash flow from operating activities and the non-GAAP measure free cash flow. Free cash flow represents cash available to fund distributions to shareholders and growth capital expenditure.

The Contact Energy Board of Directors resolved that the interim distribution to shareholders would remain stable at 11 cents per share. The distribution will have 7 cents imputed and represents a pay-out ratio of 111% of Contact's underlying profit. The Board also confirmed that the \$100 million share buyback for FY16, announced in October 2015, will continue and is likely to be completed during the second half of the financial year.

Contact's Customer business is evolving in a market where margins are coming under increasing pressure from the growth of smaller competitors and increased innovation and targeted offers from existing retailers. "Increasing retail competition overlapped with the implementation and stabilisation of our customer service and billing system which has limited our ability to respond. I am pleased that in recent months we have started to increase our activity with the launch of new fixed term offers and our 'Home and Bach' offer providing customers with increased options and value", said Mr Barnes.

In the generation and trading business cost of energy improved by \$4 per megawatt hour as lower purchase volumes and improved gas costs were supported by an increase in geothermal generation. The closure of the Otahuhu thermal power station in September further positioned the generation portfolio for an increasingly renewable future where the requirements for thermal support are moving from baseload to fast-start peaking generation.

Looking forward

Contact's strategy remains centred around leveraging the integrated customer and generation business to deliver strong cash flows for distribution to shareholders.

"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.

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 announced in December we don't expect our FY16 EBITDAF and underlying profit 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," said Mr. Barnes.

ENDS

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