MEDIA RELEASE

Monday 18 August 2014

Flexible portfolio delivers in highly competitive market

	Year ended 30 June 2014	
EBITDAF[1]	$587m	up 9% from $541m
Profit for the period	$234m	up 18% from $199m
Earnings per share (cents)	32.0 cps	up 18% from 27.2cps
Net items excluded from underlying earnings after tax	$7m	up from ($3m)
Underlying earnings after tax[2]	$227m	up 12% from $202m
Underlying earnings per share (cents)	31.0 cps	up 12% from 27.7 cps
Full year dividend (cents)	26.0 cps	up 4% from 25.0 cps
Operating cashflow after tax (OCAT)	$400m	down 3% from $413m
Capital expenditure	$274m	down 18% from $336m

Overview of results

"The completion of Contact's current investment programme in over $2 billion of new assets is evident in the strong results our business has delivered in FY14. Our diverse and flexible generation portfolio, supported by a reduction in gas take-or-pay commitments and the upgrade of the inter-island transmission link, allowed Contact to benefit from higher than normal inflows to hydro schemes. The commissioning of the Te Mihi geothermal power station in May 2014 was a major milestone for the company and completes this stage of geothermal growth, and demonstrates Contact's geothermal expertise. A continued focus on customer service and competitively priced products saw a 1 per cent increase in retail sales, during a period where we implemented our SAP customer billing and service system" said Dennis Barnes, Contact Chief Executive.

Contact reported profit after tax for the year ended 30 June 2014 of $234 million, up $35 million (18 per cent) compared with the prior corresponding period (FY13). Earnings before net interest expense, tax, depreciation, amortisation, change in fair value of financial instruments and other significant items (EBITDAF)[1] were $587 million, $46 million (9 per cent) higher than FY13. Underlying earnings after tax[2] (profit for the period

[1] Refer to page 1 and 2 of the Management discussion of financial results for the year ended 30 June 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 year ended 30 June 2014 for a definition and reconciliation between statutory profit and the non-GAAP profit measure underlying earnings.

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adjusted for significant items that do not reflect the ongoing performance of the Group) were $227 million, $25 million (12 per cent) above FY13.

The increase in EBITDAF is primarily due to a reduction in the cost of energy arising from increased hydro generation and the receipt of $43 million of compensation as a result of the delayed start-up of the Te Mihi power station. This higher level of EBITDAF is expected to be sustained in FY15 with a full year of Te Mihi operation. The increases in underlying earnings after tax and profit for the period were driven by the increase in EBITDAF, partially offset by the inclusion of depreciation and interest costs for Te Mihi and Retail Transformation from the beginning of May 2014.

The Contact Board of Directors resolved that the final distribution to shareholders would increase by 1 cent per share to the equivalent of 15 cents per share, resulting in a full year dividend of 26 cents per share. The distribution represents a payout ratio of 84 per cent of Contact's underlying earnings after tax.

"The business is continuing to adapt to the reality of no demand growth and increasing competition and innovation in the retail market. Culture change is being led by our continued focus on the health, safety and well-being of our people and enhancing the customer experience. I believe a culture that delivers safety and has the customer at the centre of its decisions will deliver stronger outcomes for all stakeholders. While our total recordable injury frequency rate is in-line with FY13, the journey we are on to improve safety through visible and active leadership, encouraging a learning culture and simplifying our management systems will help us achieve our aspiration of zero harm and improve performance across all areas of the business.

We are continuing to hold market share in one of the most competitive retail electricity markets in the world, with our range of products and payment options remaining popular with customers both at home and in business. The number of customers switching electricity provider in FY14 increased by 10 per cent, driven by the continued growth of smaller competitors, increased innovation and targeted offers from existing retailers and several new retailers entering the market. Retail margins remain under pressure with price increases only recovering network cost increases. As the latest Statistics New Zealand Quarterly Survey of Domestic Electricity Prices shows, the annual rate of increase in the energy component of tariffs was 0.5 per cent over the past three years and was only 0.3 per cent in the past year; in the last quarter of the year the energy component decreased by 0.7 per cent. Warmer weather and home energy efficiency measures resulted in reduced residential demand; however, for Contact this was more than offset by increased sales in the commercial and industrial business, with total electricity sales increasing 1 per cent or 101 GWh.

A 14 per cent increase in our hydro generation in FY14 reduced the need to run more expensive thermal generation and reduced our cost of energy. As expected, with take-or-pay gas no longer such a constraint, utilisation of our combined-cycle gas-fired power stations continued to decrease with third-party supply increasingly used to meet customer demand. Te Mihi has reduced our generation costs which, combined with

lower future gas take-or-pay constraints and New Zealand's only gas storage facility, means our thermal power stations will only operate when we can achieve an economic return. These factors contribute to making Contact's earnings more predictable," said Mr Barnes.

Refinancing programme

Over the past 14 months Contact raised $773 million in new funding to refinance its $705 million of 2014 maturities and to redeem the $200 million Capital Bond in November 2013. "Our refinancing programme aimed to increase the term and maintain the diversity of our funding sources. I am pleased that through the utilisation of bank debt, issuance of United States Private Placement notes and domestic retail and wholesale bonds we have been able to achieve this objective," Mr Barnes said.

Looking forward

Contact is focussed on enhancing the customer experience, increasing the efficiency of existing operations and managing cashflow. The $2 billion capital investment programme has positioned the business for current market conditions with no significant capital expenditure required in the immediate future.

"The work we have completed over the past five years sees the business well structured and our employees motivated to deliver. With intense retail competition we need to find ways to reduce our costs to acquire and serve customers and I believe our SAP customer billing and service system will provide us with an advantage. Process efficiency, mass market segmentation, revised pricing models and improved digital capability will all provide opportunities to leverage the new system to reduce cost to serve at the same time as enhancing customer experience. It will take time to fully realise the benefits of the new systems and processes and provide a positive contribution to profits above the increase in interest and depreciation costs.

Our investment in the Ahuroa gas storage facility and the flexibility of our portfolio allows us to take a patient approach to gas contracting beyond 2014 as we manage regulatory and demand uncertainty. In June 2014 we announced a gas supply agreement to support the extension of our Te Rapa co-generation contract. Completing the supporting gas purchase with Genesis Energy was a significant step for Contact as we contemplate our future gas purchase needs," said Mr Barnes.

The 2015 financial year will include a full year of Te Mihi generation, replacing the contribution from the delay compensation, together with a full year of associated depreciation and interest costs.

"It is important that we operate in a stable regulatory environment given the long-term nature of our industry. The current market structure has delivered a significant increase in renewable generation including our $623 million Te Mihi power station which we were pleased to formally open last week. Consumers are seeing clear evidence that the current market is working with high levels of competition leading to lower energy prices.

Contact has positioned itself strongly with the right assets, the right systems, and a strong pipeline of new products for the future which will continue to ensure we serve our customers well," Mr Barnes said.

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