# MEDIA RELEASE

Monday 17 August 2015

## Intense competition impacts earnings but free cash flow improvements allow increased distribution to shareholders

| | Year ended 30 June 2015 | |
|---|---|---|
| EBITDAF[1] | $525m | down 11% from $587m |
| Profit | $133m | down 43% from $234m |
| Earnings per share (cents) | 18.2 cps | down 43% from 32.0 cps |
| Underlying earnings after tax[2] | $161m | down 29% from $227m |
| Underlying earnings per share (cents) | 21.9 cps | down 29% from 31.0 cps |
| FY15 declared dividends (cents) | 76.0 cps | up 192% from 26.0 cps |
| Free cash flow[3] | $363m | up 21% from $299m |
| Capital expenditure | $105m | down 62% from $274m |

### Overview of results

"The commissioning of the Te Mihi geothermal power station and the retail system at the end of the 2014 financial year (FY14) has required much of the year's effort to be focussed on their successful integration. While both projects have created challenges in FY15, we are now positioned with a diverse generation portfolio that reduces our cost and increases flexibility. Importantly for our retail business we have maintained sales volumes as we navigated the stabilisation of our retail system in an increasingly competitive retail market. While competition has led to increased discounting we are now positioned to realise the benefits of our investment in the years ahead with early evidence of improving churn rates and credit performance.

As expected from the investments made, free cash flow increased by 21 per cent in FY15 and with no near-term opportunities for capital investment it was pleasing to declare total dividends for the year of 76 cents per share" said Dennis Barnes, Contact's Chief Executive.

[1] Refer to page 1 and 2 of the Management discussion of financial results for the year ended 30 June 2015 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 2015 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).
[3] Free cash flow is a non-GAAP measure that measures the cash generating performance of the business and represents cash available to fund distributions to shareholders and growth capital expenditure. Free cash flow is equal to cash flows from operating activities less stay in business capital expenditure interest costs and transition costs included within other significant items.

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Contact reported statutory profit for the year ended 30 June 2015 of $133 million; $101 million (43 per cent) lower than the prior corresponding period due to continued margin pressure in the retail electricity business, an unfavourable movement in the fair value of financial instruments and transition costs from the Retail Transformation project and associated activities. This was partially offset by a reduction in tax expense including a $16 million tax adjustment for depreciation on powerhouses.

Underlying earnings after tax was $161 million, $66 million (29 per cent) lower than FY14 reflecting lower retail margins reducing EBITDAF and increased depreciation and interest costs following the completion of the significant capital programme. Free cash flow was $363 million, up $64 million (21 per cent) due to natural gas inventory movements and favourable retail collections more than offsetting the reduction in EBITDAF.

In May 2015, the Contact Board of Directors announced a revised distribution policy to pay an average ordinary dividend equivalent to 100 per cent of underlying earnings after tax. In line with this policy the Board has resolved that the final distribution to shareholders for FY15 would be 15 cents per share which will be unimputed following Contact's imputation credit balance being reduced to zero after the sale by Origin Energy. The Board also intends to conduct a share buyback programme commencing in the first half of the 2016 financial year. As part of ongoing debt refinancing, Contact is considering making an offer of unsecured, unsubordinated fixed rate bonds to institutional investors and New Zealand retail investors in the coming weeks.

"We remain focused on the health, safety and well-being of our people. We are not satisfied with injuries to 7 of our people during a total of 3.7 million hours worked. While we are pleased to have reduced our Total Recordable Injury Frequency Rate to 1.9 in FY15, a 55 per cent improvement on FY14, we continue to advance our safety culture to improve our safety and overall business performance.

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 retail system. Pleasingly, as our system has stabilised we have reduced the rate of customer losses to a level below the industry average. It has been a difficult year for our customer business and I am pleased that through the commitment of our people and the patience of our customers we are now in a position to offer greater value than we could a year ago," Mr Barnes said.

In the generation and trading business cost of energy was stable at $35 per megawatt hour as total generation increased 3 per cent to offset additional purchases. The generation from the Te Mihi geothermal power station and reduced thermal generation resulted in Contact's percentage of generation from renewable fuel increasing from 69 per cent to 76 per cent.

**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 disappointing year in FY15, improvements across all areas of the business are expected in FY16. The completion of maintenance outages at the geothermal power stations will see increased availability with generation expected to exceed 3,300 GWh in the 2016 financial year (FY16).

In the retail business, our retail system provides a platform for efficiency and innovation in a highly competitive market. While retail margins are expected to remain under pressure, I expect a reduction in the cost to serve our customers in FY16 that will provide a positive contribution to profits above the increase in interest and depreciation costs from the retail system. We will continue to review our pricing and product offerings to ensure that customers are provided with profitable services that they value.

The continued operation of the Tiwai Aluminium Smelter is an important outcome for the whole energy sector and we are pleased to have been able to support the Smelter's ongoing operation. Today we have announced plans to complete a major maintenance that will ensure we are able to provide an additional 24,000 hours of efficient base load generation from our Taranaki combined-cycle gas-fired power station. We have also announced that we will be closing the Otahuhu power station from the end of September 2015. These decisions reflect the important role that gas-fired generation will play in the future, but also the transition the industry is making. Contact is well positioned to support this transition through the Ahuroa gas storage facility and if required a pipeline of thermal peaking developments.

We believe we will look back at FY15 as a turning point in Contact's performance as its flexible asset portfolio and world class retail system provide the platform for Contact to improve performance and remain competitive in the New Zealand market.

As we enter our twentieth year we are confident that Contact will prosper as an independent company with a diverse range of shareholders. We thank Origin Energy for its support over the last eleven years in getting us to this position.

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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