26 August 2016

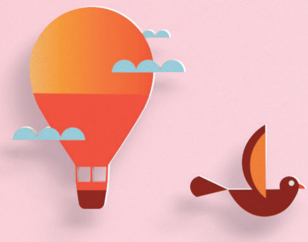
Contact Energy Limited – FY16 Shareholder letter and related documents

Please find attached the following documents:

(a) FY16 Shareholder letter
(b) Section 209 Notice
(c) Revocation letter

Contact would like to advise that it has made a minor update to page 48 of the 2016 annual report to clarify the total equity rights exercised during the year. This change is not material. The updated annual report is available on Contact's website www.contact.co.nz/corporate/investor-centre

ENDS



26 August 2016

Dear Shareholder

The majority of the 2016 financial year (FY16) saw Contact as a newly independent company. We have smoothly managed the transition to a refreshed Board who are supporting the transformation to a customer-inspired business. The improved offering we are providing customers and our steps to ensure the wholesale market remains balanced, position us to continue to deliver strong cash flows. We have continued to return cash to shareholders while at the same time reducing debt. Behind all of this are our people and the improvements we have seen in employee engagement and continued recognition for our work in health and safety are all positive steps.

Contact reported a statutory loss for the year ended 30 June 2016 of $66 million, $199 million lower than the prior year. This was primarily due to $204 million of impairments, net of tax, relating to the closure of the Otahuhu power station, an assessment that the Taheke geothermal resource is unlikely to be developed in the foreseeable future, and a write-down of inventory gas. Underlying profit and earnings before net interest expense, tax, depreciation, amortisation, change in fair value of financial instruments and other significant items (EBITDAF) were broadly in line with last year, as we signalled in December; while our free cash flow[1] improved 17% to $403 million.

The Contact Energy Board of Directors resolved that the final distribution to shareholders would remain stable at 15 cents per share. The distribution will have 7 cents imputed and combined with the 11 cents per share interim dividend represents a pay-out ratio of 120% of underlying profit. During FY16 we also completed a $100 million share buyback at an average price of $4.83 per share and reduced debt by $71 million. I believe these are all positive signs for shareholders but I know there is still much more work to be done.

1. EBITDAF, underlying profit and free cash flow are non-generally accepted accounting practice (non-GAAP) performance measures. Refer to Contact's 2016 annual report and/or the investor presentation for a definition and reconciliation to statutory profit. These are available at contact.co.nz/corporate/investor-centre

FY16 highlights

Contact celebrated its 20th birthday in November 2015 as a newly independent company following Origin's sale of its majority shareholding. As I look back on the year I believe there have been a number of success stories. First, we have smoothly managed the transition to a new, independent era with new shareholders and a stronger sense of ownership and engagement amongst our employees. Second, it is pleasing to see initial signs that the investment in customer systems and capability are starting to come together in products and services our customers like. Flowing on from this, I have felt a lift in the energy and excitement amongst our employees as they become increasingly customer-inspired. Finally we have continued to make progress in ensuring that all of our people can return home safely to their families. While it is disappointing our Total Recordable Injury Frequency Rate has increased slightly, the severity of our incidents continues to decline and the leadership position we are taking on safety has been widely recognised.

Retail competition continues

Annual national retail customer switching rates remain above 20% and we have seen the average price customers pay for their electricity reduced at a national level for the first time as new competitors enter the market and existing competitors increase innovation and target multiple offers to customers. This has resulted in the netback calculation we use to measure the financial performance of our retail business declining by $11 per megawatt hour or 12% over the past four years. With our system implementation now behind us we have improved our billing and debt management performance to historically high levels and we are responding to the increased competition by resetting prices, launching new products and enhancing the capability of our team. For 19 of the last 20 weeks of the financial year we gained more customers than we lost. I expect, with the new products we are launching in August, by making ongoing system and service improvements and striving to have the lowest cost to serve in the industry we will become increasingly competitive.

The uptake of new technologies in New Zealand remains in the early stages but electric vehicles, batteries and solar, amongst other technologies, will increasingly provide customers with opportunities to change how they buy and use electricity. Our focus on this is threefold. First, we are testing technologies to understand what benefits they can provide consumers which includes transitioning our vehicle fleet to electric and conducting solar and battery trials. Second, we are working to understand what our customers want and how we can meet their needs from a combination of new technologies and with new and existing

products and services. Finally, we have been proactive in conversations around getting the right regulatory structure in place to ensure consumers are able to obtain the maximum benefit from new technologies.

Wholesale market rebalanced

The closure of the Contact's Otahuhu and Mercury's Southdown power stations combined with initial signs of demand growth have reduced the amount of surplus supply in the market. We have continued to position our generation portfolio for an increasingly renewable future where the requirements for thermal plants are moving from larger generation units to flexible fast-start peaking generation. In the last six months we have seen the initial signs of some volatility returning to the market, which we expect will increase and provide greater returns for fast-start peaking capacity.

The future of the Tiwai aluminium smelter remains a risk for the industry and we will increase our support for its continued operation through our 80 megawatt (MW) financial agreement with Meridian Energy that starts on 1 January 2017. We continue to not make any commitments to fuel or maintenance that would increase our exposure if Tiwai were to close, and for that reason, we think the decision for Genesis Energy to keep its Huntly coal power station open was a logical one.

The Electricity Authority's Transmission Pricing Methodology review that looks at how approximately $900 million of electricity transmission charges are allocated has continued throughout the year. The current proposal, planned for implementation in 2019, is neutral to slightly positive for Contact and is supported by Contact and many in the industry. The Government has announced the phasing out of the transitional measures for the Emissions Trading Scheme over the next three years which will see the costs of carbon emission increase, with our expectation that this will be recovered through wholesale prices.

Looking forward

We have started to get traction in providing customers with increased choice, certainty and control. Our investment in systems and capability is providing us opportunities to increase our digital connection to customers, improve our insights through analytics and presents a potentially attractive offering for partners in home services and new technologies. In a market where significant competition is compressing retail margins we will continue to target the lowest cost to serve in the industry to ensure our ongoing competitiveness. Our investments in generation have ensured a robust business with a low cost, long life and flexible generation portfolio and a team focused on safety, reliability and resource utilisation.

For the next financial year I expect to see a continued improvement in operational performance. Our expected cost savings will be largely offset by increased carbon costs and the commencement of our 80 MW Tiwai supply contract. With new products in market and retail price changes we expect to see increasing value in our retail offering but ultimately our performance will be influenced by our need to be competitive.

Thank you for your continued support.

Dennis Barnes

Dennis Barnes
Chief Executive Officer

($66) million

Statutory loss predominantly due to impairments at Otahuhu and Taheke and a write down of stored gas

$289 million

Distributed to shareholders through a stable dividend and a $100m share buyback

17%

Improvement in free cash flow to $403 million

The last five years in review

For the year ended 30 June	Unit	2012	2013	2014	2015	2016
Revenue	$m	2,701	2,526	2,446	2,443	2,163
Expenses	$m	2,192	1,985	1,859	1,918	1,640
EBITDAF	$m	509	541	587	525	523
Profit/(loss)	$m	190	199	234	133	(66)
Underlying profit	$m	176	202	227	161	157
Underlying profit per share	cps	25.0	27.7	31.0	21.9	21.7
Free cash flow	$m	269	367	366	345	403
Free cash flow per share	cps	38.1	50.3	49.9	47.0	55.5
Dividends declared[2]	cps	23	25	26	76	26
Total assets	$m	6,112	6,197	6,186	6,089	5,652
Total liabilities	$m	2,695	2,660	2,604	2,918	2,829
Total equity	$m	3,418	3,537	3,582	3,171	2,823
Gearing ratio	%	29	29	28	35	36

2. FY15 included a special dividend of 50 cents per share.

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
investorcentre.linkmarketservices.com.au

Contact Energy Limited
ABN 68 080 480 477
Incorporated in New Zealand

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Dear Investor(s)

Contact Energy Limited 2016 Annual Report

Contact's 2016 annual report is available to view on our website at **https://www.contact.co.nz/cenergymedia/investor/cen-annual-report-current.pdf**
The Board has not prepared a concise annual report for the year ended 30 June 2016.

Even though Contact's annual and half year reports are available electronically, you have the right to receive, upon request and free of charge, a printed copy of these reports (when available). If you wish to receive a printed copy of these reports, please tick the box below and return this form to Link Market Services Limited (Link) within 15 business days of receiving it in the envelope provided.

Please tick this box only if you wish to receive a printed copy of the reports. If you make this request, Contact will send you a printed copy each year.

☐ I/We would like to receive printed copies of Contact's annual and half year reports (when available) each year.

Electronic investor communication

If you have not already done so, you may also elect to receive investor communications from Contact via email as it keeps costs down, delivery of communication is faster and better for the environment. To receive future investor communications electronically (where possible), please provide or update your details online at any time by visiting the Link Investor Centre:

New Zealand Register:	**investorcentre.linkmarketservices.co.nz** you will require your CSN/Holder number and Authorisation Code (FIN) to access your holding.
Australian Register:	**investorcentre.linkmarketservices.com.au** you will require your HIN/SRN and postcode to access your holding.

Alternatively, please complete this form and return it in the envelope provided.

☐ I/We would like to receive all Contact's investor communications electronically to the email address provided below

Email address

If you have any further questions about receiving investor communications, please contact Link directly.

Shehnaz Hajati
Company Secretary

26 August 2016

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Dear Investor(s)

Contact Energy Limited 2016 Annual Report

We enclose a copy of Contact's 2016 annual report which is also available to view on our website at **https://www.contact.co.nz/cenergymedia/investor/cen-annual-report-current.pdf**

You have previously requested that we send you a printed copy of Contact's annual and half year reports, and we will continue to do this until you tell us otherwise.

If you no longer require us to send you a printed copy of Contact's annual and half year reports (when that is available) then please tick the box below and return this form to Link Market Services Limited (Link) in the envelope provided. You will then receive a notice every year when the reports are available for viewing online.

☐ I/We revoke my/our election to receive printed copies of Contact's annual and half year reports each year.

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Shehnaz Hajati
Company Secretary

26 August 2016