



Tuesday 15 October 2013

CEO's Address to Contact Energy 2013 Annual Meeting of Shareholders

Tēnā koutou ki ngā rangatira e hui mai nei i tēnei rā
Hari koa te ngākau kua tae mai tātou mō te kaupapa o te hui-a-tau
Nau mai, haere mai
Tēnā tātou katoa

I'm Dennis Barnes, your CEO. I'd like to join Grant in welcoming you to this AGM and talking to you about the successes that Contact, your company, had in the past Financial Year.

Very early in my two and a half years as your CEO the whole country was shocked to see the impact of the Christchurch earthquakes on the people of Canterbury. With the earthquakes that hit Wellington recently I now have some first hand experience, albeit on a different scale, of the stress and discomfort earthquakes create. This only increases my admiration for the way the people of Christchurch have responded. I am proud of the support Contact has been able to provide with contributions of over \$4 million in the period following the earthquake providing free LPG, helping customers manage their bills and contributing to the overall recovery fund. With increasing activity and a recovery in demand from Christchurch I look forward to Contact continuing to support the people of Canterbury.

Before I discuss Contact's performance for the financial year, firstly, let me introduce the Contact Leadership team. While you will recognise most of the names, some of their roles may have changed:

- Seated with the Board is Paul Ridley-Smith, Contact's General Counsel.
- Graham Cockroft is Contact's Chief Financial Officer.
- James Kilty is Contact's General Manager Sales and Customer Experience.
 - Throughout the last year James successfully led our Trading, Development and Geothermal Resources team. James recently moved across to the customer side of the business to focus on implementing and getting value from our new SAP system – or Retail Transformation as we call it..
- Nick Robinson is Contact's General Manager Customer Insight, Pricing and Communications.
 - Nick was previously focused on Communications but has now expanded his role to cover marketing. Nick and his team were responsible for the new integrated annual report some of you will have seen.
- Peter Kane is Contact's General Manager Operations.
- Annika Streefland is Contact's General Manager of People and Culture.

Two new faces have been promoted to the Leadership Team. I am proud of the fact that I have been able to fill these key roles internally.

- Mark Corbitt is our new General Manager Information, Communication and Technology in a critical role as we extract the benefits of our SAP investment.
- Tania Palmer is our new General Manager Health and Safety charged with continuing to lift our safety performance as we strive toward zero harm.

At the end of this meeting, I hope you will enjoy a cup of tea with us, introduce yourself to members of the team and share with us any thoughts you have about the company and its direction.

Our 2013 results reflect the progress we have made in all aspects of the business. I firmly believe that we are delivering on our promise to you to focus on operational performance and improved returns.

In response to the expiry of cheaper gas contracts, Contact has invested over \$2 billion dollars in the past five-years. This now sees us responsible for the ownership and operation of New Zealand's most diverse and flexible generation portfolio. We have led the transition away from baseload gas to renewable geothermal generation, while ensuring we have retained the capability to provide thermal back-up to the volatility in hydro and wind generation.

This is an example of how an efficient market works. I do not believe that the Labour and Green's proposed NZ Power policy would operate in such an efficient manner. The significant risks of over investment, pricing volatility and security of supply will all be transferred from private companies to New Zealand tax payers. The combination of these risks and the inefficiencies of a central bureaucracy mean I cannot envision how the NZ Power proposal will be able to derive the \$500-\$700 million savings they have stated. At best we will just see a transfer of value from shareholders and the Government to electricity customers, and, at worst a return to an unstable and inefficient electricity industry. We have today issued a report from a regarded economic consultancy supporting this view and highlighting that something of this nature has not been implemented successfully anywhere in the world.

You can be assured that my management team and I are actively engaging with politicians on both sides of the house to bring informed debate and analysis on this emotive subject.

Now on to the year in review.

Our number one priority is the health and safety of our staff. I firmly believe that the attitudes and processes that ensure everyone at Contact can return home safely every day to their families are closely connected to a company that performs well financially. A 31 per cent reduction in the total recordable injury frequency rate in 2013 is a result which makes me believe that we can achieve our aspiration of zero harm. Our stay safe mate and life saver initiatives have been very successful in driving home the message that each individual has a responsibility to themselves, their families and their workmates to operate in a safe manner.

The Government recently announced changes to the Health and Safety Act and Contact is very supportive of the 'Working Safer' blueprint's recommendations. We believe New Zealand business has to make a step-change in how it manages work-related hazards and safety risks, and the blueprint's recommendations are a significant move in the right direction.

The past few years have demonstrated the value of investments in our generation portfolio which have enabled us to deliver consistent profits during a range of hydrology sequences, transmission constraints and plant outages.

As is typical in the New Zealand electricity market, market conditions were dictated by the weather and 2013 saw periods of both low and high rainfall and included a drought. This meant that thermal generation was required to meet demand and support low hydro lake storage levels. Contact has the most diverse and flexible fuel portfolio in the New Zealand market. By that I mean we can generate electricity through hydro, geothermal, combined-cycle gas-fired power stations, and gas-fired peakers and also have the ability to store and use gas from our Ahuroa gas storage facility. This gave us the ability to respond quickly and decisively to changing market conditions and delivered the growth in earnings.

It's fair to say that the retail market continues to be highly competitive and our business worked hard to maintain market share in a market defined by high levels of customer switching activity. The loss of demand we saw in our residential and small business customers was offset by sales to larger commercial and industrial customers.

We are New Zealand's largest online energy company, with nearly 200,000 customers now signed up to our online services. Through online services, customers can access and manage their account, review energy usage, as well as utilise our Home Energy Assessment Tool (HEAT) to explore how their energy is being used and look for opportunities to save. Around 43 per cent of our residential customers also enjoy a special online prompt payment discount, which rewards them with a substantial saving for choosing to receive their bills online and pay on time by direct debit or internet banking.

Over 130,000 customers now have smart meters and we are on track to provide almost all of our residential and small-to-medium business customers with smart meter services by December 2015.

Pricing and customer disconnections are two key issues that have been raised with us during the course of the year. Our approach involves regularly reviewing our pricing across the country so we strike a balance between providing a fair, reliable and competitive service, and remaining a profitable business. We have a range of pricing plans and highly competitive offers along with a number of payment options to help our customers meet their energy needs. It is likely that with the current oversupply in the market and the continued intense competition that we will not raise prices for the foreseeable future.

A large part of a customer's bill is for Transmission and Distribution services that we do not control, our job is to pass them on effectively and these may cause prices to change, up or down. A very recent example being a price reduction for some of our gas customers as the network company reduced its rates.

We also take our obligation to assist customers in vulnerable circumstances seriously. We work with customers who are experiencing real hardship by exploring options such as

setting up payment arrangements and seeking Work and Income New Zealand assistance, only stopping supply via disconnection as a last resort. This comes at a significant cost to your company and is often ignored by politicians and policy makers. There are not many services where supply is immediately available but you don't have to pay for it for many weeks.

As I've mentioned the electricity market in New Zealand is both oversupplied in terms of generation capacity, and is stagnant in terms of demand growth. During the year Contact made important steps in restructuring the business to ensure the right organisation structure is in place to appropriately manage our costs. We are absorbing cost pressures through sustainable reductions in employee numbers, procurement savings and IT rationalisation.

Restructuring is never easy, both for those that lose their jobs as well as those that remain to see colleagues leave and roles change. Throughout the process we provided support through access to resources for interview preparation, career guidance, job placement assistance as well as confidential counselling services.

We are pleased to see from results of our most recent engagement survey that engagement has increased despite going through this restructure, which is a testament to the way the restructure was managed. Our people remain at the core of a strong Contact, and it will be wonderful to have all of our Wellington-based team in the same office following our recent commitment to consolidate our head office in Wellington.

During the year we also completed the sale of \$115 million of non-core assets. This included the sale of the gas meter assets to Vector for \$60 million, and the sale of the site of the former New Plymouth power station for a total price of \$24 million. The sale of the power station site allows the Port of Taranaki to use a redundant site while also retaining options for Contact in the future should we wish to develop the site for gas infrastructure. In addition, we also progressed our multi-year programme to sell land assets that are not core to our operations or future developments.

In addition to these sales we also raised \$401m in New Zealand and overseas as part of our important programme to re-finance the company in advance of a large proportion of our debt expiring early in 2014.

We have a long history in the Taupo region, operating the Wairakei Power Station for over 50 years. In September 2012 we opened the Wairakei bioreactor which significantly reduces its operations impact on the Waikato River. We also opened the Ohaaki wetland, a 2-year project that involved transforming 35 hectares of previously unused land impacted by subsidence into a useful natural resource, which will help increase biodiversity in the Ohaaki region. With the help of a number of our local employees, the wetland was fully planted with 26,000 plants native to the region.

The close relationship we have with the local Iwi and community in Taupo has helped in the consenting of the Ohaaki power station that is currently in progress.

We put the ‘be the neighbour you’d want to have’ philosophy into place in 2007 and it has helped guide us in all our community engagement.

Over the 2013 financial year, we invested over \$1.24 million, supporting community initiatives ranging from learn to swim programmes to community festivals and national sporting events. Our people helped deliver 59 community-based projects across New Zealand, investing over 1,650 hours through our employee volunteering programme, Community Contact.

Our waiata, Mai I Runga, which you heard earlier, recognises that we work with our communities to ensure the responsible stewardship of the precious resources we use.

Looking forward our priorities remain the completion of our Te Mihi and Retail Transformation Programmes and the consolidation of our new organisational structure including a deeper focus on operational efficiency and meeting our customers’ needs.

We have made significant progress on the construction of the Te Mihi power station, with all power station related construction complete and commissioning well advanced. Like any major construction project, final commissioning depends on a number of factors, but we expect first power to the grid in the next few months, maybe even weeks.

Our Retail Transformation project is also nearing completion and we are working hard to ensure staff are trained and a smooth transition can be completed towards the end of the year. Retail Transformation is a multi cultural programme that includes Kiwis, Germans, Indians and Australians. Our ties to Australia are allowing us to learn from their experience in implementing the same system in the past few years. With the combined skills and experience we have working on the project I have every confidence in us delivering a transformation that will enable us to offer a greater service and experience to our customers.

We expect the completion of transmission network upgrades, including the additional HVDC link between the North Island and South Island, and the reduction in our gas take-or-pay commitments will further increase flexibility and earnings going forward, particularly during wet sequences.

Related to that is a decision we continue to grapple with, which is “how much gas we buy to fuel our thermal generation plant”. At the moment we have very little gas contracted for the 2015 as we balance the needs of the market and the relative electricity and gas prices. With more renewable generation coming into the market, we believe that there will be less need for thermal generation under normal hydrology conditions.

We will also continue to focus on ensuring we deal with the political challenges we face while ensuring we remain open to opportunities to grow the business

All of this is not possible without the energy, commitment and discipline of the people that come to work every day to operate our power stations, answer the phones or run the

numbers. Myself and the Leadership Team are proud of the Contact team and of what they have achieved this year.

We will experience the commitment of some of our team this afternoon as a number of them are going to take us on a tour of Christchurch to see first hand the rebuilding effort and what we are doing to participate in that rebuild through our LPG business which is proudly embedded in Christchurch.

I would also like to thank the Board members for their contribution and support. Their guidance and support for me remains invaluable.

As you can see, Contact, your company, is in a great position to be able to rise to the opportunities and challenges ahead.

Thank you

No reira, huri noa o te hui nei, tēnā tātou katoa.

(Therefore, in conclusion, greetings to us all)

ENDS