17 October 2012

# Chairman's Address to Contact Energy 2012 Annual Meeting of Shareholders

About five years ago we recognized the importance of making Contact Energy's generation and fuel portfolio more flexible to respond effectively to changes in the New Zealand energy market. At that time we didn't foresee the impact the Global Financial Crisis would have on global and regional economies, including here in New Zealand. This has led to a material reduction in the demand outlook for Energy in New Zealand. Nor could we anticipate a number of years of higher than normal rainfall which has created a surplus of energy in the New Zealand market.

These circumstances have resulted in a number of challenging years for Contact particularly in terms of financial performance. In this light, it is particularly pleasing that the strategy for increased flexibility in Contact's generation and fuel portfolio is now contributing to improved financial performance.

## Financial Performance

For the financial year ended 30 June 2012, EBITDAF increased by 15 percent to $509 million, and underlying earnings after tax for the year were $176 million, an increase of seventeen per cent from the year before.

## Progress on our strategy

During the year we saw the benefits of Contact's more flexible generation and fuel portfolio – a pleasing and affirming result of our strategy given the continued environment of suppressed demand, excess generation and heightened competition for retail customers. As examples:

- The **Stratford peakers**, were put to use, by supplying valuable thermal generation in the low hydro generation environment.
- Our **Ahuroa gas storage facility** played its part in our strong results, storing gas in an oversupplied gas market in the first half of the year, and providing extra gas in the second half as the peakers were called into play.
- We further enhanced the diversity of our generation assets with the addition of the **diesel-fired Whirinaki power station** which provides additional cover in periods of very high prices.
- We divested our interest in the **Oakey power station** in Australia which allows us to concentrate our efforts entirely on New Zealand.
- Contact maintained its **retail market share** – a considerable accomplishment considering the high levels of customer churn and generally suppressed demand. In particular, we continued to see the success of our On-Line-On-Time product at a time when customers have become increasingly concerned about higher energy costs.

We also continue to invest for the future to ensure the ongoing competitiveness of our business

- Construction continued apace at the 166 MW Te Mihi geothermal development, near Taupo. We expect this project to be completed towards the end of this financial year.
- The programme of implementing SAP in our Retail business is progressing; however, the project completion date is looking later than planned to ensure the smoothest possible transition.

Dennis will describe these activities in more detail in his presentation.

## Capital Expenditure and Balance Sheet

During the year we invested over $550 million to further the implementation of our strategy.

In order to further strengthen and improve balance sheet flexibility, we added long-term funding during the year through the $200-million issuance of capital bonds. We also established a long-term, $105-million export-credit agency financing for the Te Mihi project.

We expect that capital expenditure in the current year will remain relatively high, although lower than the prior year. In the forward years our committed capital expenditure is substantially reduced.
Distribution to shareholders

Given the year's performance and a reduction in forward capital requirements your Directors resolved that the final distribution to shareholders be the equivalent of 12 cents per share, a total distribution for the year of 23 cents per share, representing a payout ratio of 93 per cent of Contact's underlying earnings per share. This distribution is the same as the prior year but on an increased number of shares on issue due to the use of the profit distribution plan. Contact has utilised the Profit Distribution Plan for the last time in making this distribution.

## Outlook

Looking to the future, we expect little growth in demand for electricity and the retail market to remain highly competitive. The government's proposed partial privatisation of the State Owned electricity companies will mean that the industry, including Contact Energy, will be in the full glare of scrutiny from investors, customers and the community to maintain a reliable and competitive supply of energy. A challenge Contact Energy is sure the industry can meet.

The Board is confident that our strategy over the past five years provides Contact with a more flexible generation and fuel portfolio to compete profitably in the environment. Your company is positioned well for the years ahead.

When New Zealand does experience increased demand for electricity or older, less efficient plant is retired Contact is well positioned with some of the most competitive development opportunities, particularly in Geothermal power generation.

With the current capital investment programme coming to end the Contact Board will be considering how best to utilise the significant cash-flow of the business and how this could best be applied to the benefit of shareholders.

In concluding, I would like to thank my colleagues on the Board, your directors, for their contribution during the year. We also thank all the team at Contact for their ongoing efforts on your behalf.

We would also like to thank you, our shareholders, for your continued support of the company.

ENDS