

Chairman's Address to Contact Energy 2014 Annual Meeting of Shareholders

For immediate release

Tuesday 14 October 2014

The 2014 financial year has been one of significant achievement.

Financial performance has been sound with underlying earnings after tax of \$227 million up 12 per cent compared to the prior year and free cash flow, including the purchase and sale of fixed assets, for the year of \$201 million, up \$109 million on the prior year.

Given the year's performance, your Directors have resolved that the final dividend should be increased one cent per share to the equivalent of 15 cents per share. This makes a total distribution for the year of 26 cents per share, representing a payout ratio of 84 per cent of underlying earnings after tax. All distributions have been paid as fully imputed cash distributions.

Our balance sheet is strong with a number of financing transactions undertaken during the year to ensure the company had sufficient liquidity to fund its activities and maintain a BBB credit rating.

Two major projects were also successfully completed during the year. The company's investment in new retail systems, which we called Retail Transformation, was completed with the stabilisation activity, often necessary after large system investments, nearly complete. The investment in the \$623 million geothermal power station at Te Mihi was also completed with this project now making a significant contribution to Contact's earnings and cash flow. Your CEO, Dennis Barnes, will talk further about these in his presentation shortly.

The completion of these investments puts Contact in a strong competitive position and well placed to produce consistent earnings and strong free cash flow.

These outcomes for the year are achievement enough, but I think are best viewed in light of events that began seven years ago.

Until then Contact was generating a substantial amount of energy from its fleet of thermal power stations using relatively cheap and flexible gas available to it under legacy take-or-pay gas contracts. This was at the then core of the Company's competitive advantage but all began to change when gas contracts became less flexible and gas prices began to rise in response to predicted shortages in indigenous supply. The unexpected removal of Pole 1 transmission capacity between the North and South Islands also significantly impacted the connection between our generation assets and customer demand.

With reducing flexibility of Contact's portfolio, increasing renewable generation supply in the market, and diminishing demand growth, it became clear to us that Contact's reliance on its gas position and in particular the take-or-pay nature of those gas contracts was becoming a source of inflexibility - a liability not an asset.

For these reasons Contact entered a significant period of change characterised by substantial investment to improve the flexibility of its investments in generation and the competitiveness of its business.

This period was characterised by investment in;

- the Ahuroa gas storage project and associated gas pipeline projects to allow gas to be injected and withdrawn from storage to better reflect demand.
- the 200 MW Stratford and the 155 MW Whirinaki peaking plants to make generation more able to respond to changes in demand for electricity.
- the 166 MW Te Mihi geothermal power station to increase the amount of low marginal cost renewable generation.
- the Retail Transformation project to improve the quality and competitiveness of products and services it can offer its customers.
- repositioning the Company's customer base to better match its position in fuel and generation.

During this period Contact also reviewed all of its activities, as a result Contact discontinued development of wind generation and divested a number of assets, including its gas metering business, the New Plymouth power station and a number of properties no longer required for the effective future conduct of its business.

In November 2013 the interconnector capacity between the North Island and South Island was finally restored, coinciding with the completion of all these investments and restoring the flexibility that Contact's hydro generation in the South Island brings to Contact's business.

It is also worth noting that this all occurred through a period of significant uncertainty: economic uncertainty triggered by the global financial crisis and policy uncertainty leading up to the partial privatisation of the previously state-owned energy companies, a step we believe was a sound initiative to put all energy companies on the same competitive basis. The significant uncertainty around the potential restructuring of the industry under proposals known as the single buyer policy were, we believe, an unwarranted intervention in a market that is working effectively.

Contact now has a much more flexible portfolio of fuel and generation with a significantly lower operating cost and the customer systems to compete effectively in this very competitive energy market in New Zealand. Contact also has access to some of the best undeveloped geothermal resources in the world to be developed when demand for energy requires this to be done. With little requirement for more capital investment in the short to medium term Contact will be a strongly cash generative business able to fund whatever opportunities the future has to offer.

During this period of significant change Contact has been well led by your current CEO Dennis Barnes and his predecessor David Baldwin who set much of this change in motion. They and their colleagues have demonstrated the strategic, tactical and executional skills to manage this change and equip Contact with world leading skills particularly in geothermal generation. These skills will provide the basis for the ongoing growth and development of your Company.

As we report to shareholders today all of these initiatives and issues are behind us and Contact is very well placed to face the future whatever challenges it will most certainly bring.

In concluding, I would like to thank my colleagues on the Board, your Directors, for their contribution during the year. We also thank Dennis and 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.

Thank you.

ENDS