

CEO's Address to Contact Energy 2015 Annual Meeting of Shareholders

For immediate release

Wednesday 9 December 2015

Tēnā koutou katoa,
Ki ā tātou kua huihui mai i tēnei rā,
nau mai haere mai ki runga i te kaupapa – te hui-ā-tau.
Na reira tēnā koutou, tēnā koutou, tēnā koutou katoa

I am Dennis Barnes, your CEO. I'd like to join Phil in welcoming you here to Wellington, the home of Contact's head office since our incorporation 20 years ago.

You heard us sing our waiata - mai i runga. The waiata was gifted to us a couple of years ago and us singing it is our way of showing respect and connection to the tangata whenua of Wellington and New Zealand. We take great pride in the progressive and productive relationships we have with Maori which we believe adds enormous value to Contact as a business.

As Phil has already covered, the 15 months since our last AGM have been full of change for Contact and myself. I'm excited to be the CEO of your company as we enter our next phase. I am pleased with the foundations we have put in place over the past four years and I am looking forward to working with our new Board to create opportunities that deliver both short-term performance improvements and long-term value for our shareholders.

Before I provide you with an update on our business operations, let me first introduce you to my leadership team.

I'm pleased to say that you will recognise most of the names; although, some of their roles may have changed:

- Seated with the Board is Catherine Thompson, Contact's General Counsel. In Catherine's first year she has played a key role in our regulatory positioning and in facilitating Contact's part in the Origin sale process and our subsequent ASX listing.
- Graham Cockroft is Contact's Chief Financial Officer.
- James Kilty is Contact's Chief Generation & Development Officer.
- Vena Crawley is our Chief Customer Officer. In Vena's first year he has overseen the stabilisation of our retail systems and is now positioning our customer business to truly put customers first, ensuring we can adapt and act.
- Nick Robinson is Contact's General Manager Corporate Affairs.
- Annika Streefland is Contact's General Manager of People and Culture.
- Mark Corbitt is our General Manager Information, Communication and Technology

- Tania Palmer is our General Manager Health and Safety, an area we have made great progress in and where our skills and experience are now being sought by other companies.

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.

Now for an update on the business.

Phil referred to the most recent phase in Contact's history starting in 2008 and over the past 7 years we have worked hard across many areas of our business

1. *Understanding, winning and keeping customers*

Our SAP customer billing and service system went live in April 2014 and is now largely stabilised. This system provides a platform for efficiency and innovation in a highly competitive market.

2. *Finding, developing and generating the energy the market requires*

We have completed the Te Mihi and Te Huka geothermal power stations, Wairakei bioreactor, Stratford peakers, acquired the Whirinaki peaker and built the unique Ahuroa gas storage facility which all provide us with a lower cost and more flexible generation portfolio. We also retain geothermal and gas fired peaking development options for when the market requires.

3. *Supporting our business*

We have invested heavily in ensuring that all of our people can return home safely to their families. We continue to work on our safety culture with the aim of zero harm remaining central to everything we do. Our earlier investment in SAP for our Finance and Asset Management businesses are delivering benefits in efficiency, procurement savings and plant maintenance.

4. *Secure funding and balance sheet*

We have maintained our investment grade credit rating and our BBB rating was recently reaffirmed by credit agency Standard and Poor's. Our refinancing activity in recent years, including the most recent very competitively priced retail bond, has ensured we now have a much more diverse and longer dated debt portfolio.

The commissioning of the Te Mihi geothermal power station and the retail system at the end of the 2014 financial year required much of the past year's effort to be focused on their successful integration. As expected, realising the full benefit of these investments takes time and while both projects have created challenges, we are now positioned well for the New Zealand market and to deliver on our purpose of helping New Zealanders live more comfortably with energy.

Now for a deeper look at the last year's performance and outlook for our business.

Understanding, winning and keeping customers

The retail electricity market remained highly competitive throughout the 2015 financial year with discounting dominating the market. Maintaining sales volumes was 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. As we have focused on retaining and winning new customers we have had a 10% increase in the number of customers receiving a higher discount which has resulted in margin reductions. In recent months we have seen a decline in our customer numbers as competitor's new offers and focus on retaining and growing market share has outpaced our increase in gains.

However, we are fighting back with new offers in the market including the successful launch of our Fixed 16/17 product, our '20 years of Contact' engagement with existing customers and small, but convenient innovations such as our LPG ordering app which gains more customers every week ordering their LPG easily with just a few taps on their phone.

New technologies and changes in customer behaviours are requiring us to adapt and Contact is accelerating the evolution of our retail business. With over 560,000 customers across our electricity, natural gas and LPG businesses we are positioned well to compete.

In the next few years I expect we will be able to evidence:

- A reduction in cost to serve and acquire customers while improving customer experience
- An increasingly digital interaction with customers built around our soon to be launched app
- A resolution to all historical pricing anomalies
- New product offerings and pricing structures that move customer consideration from 'price' to 'value'.
- Moving our core customer service and billing systems to the 'cloud' and increasing the level of standardisation in our systems

To support this process we are establishing a Customer business that ensures we have the right leadership, capabilities, teams, processes and systems in place to truly put the customer first and be able to adapt and act quickly in a data-connected and digitally-driven world.

It should be no surprise that as we embark on this change in focus we have ensured we have strong capability at the Board level to support this and I very much look forward to engaging the experience and skills of Sir Ralph, Victoria and Rob together with Vena and his team in creating a truly customer centric business.

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.

Finding, developing and generating the energy the market requires

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

Since Te Mihi was commissioned in May 2014 we have had a couple of outages at the plant. While outages are frustrating, I have been very pleased with how the new plant has operated and combined with a consent variation we received around the flexibility of our geothermal fluid extraction we are well placed to further improve the efficiency of our geothermal operations at Wairakei.

At a global level we are seeing trends toward an increased focus on renewable generation, improving economics and competitiveness of new technology and decreasing energy intensity in developed countries.

This has had a significant impact on utilities companies in other countries but I think it is important to note there are some key differences in New Zealand.

As a country we already generate over 80% of our electricity from renewable resources with the thermal generation we use playing a critical role in ensuring the lights stay on when it hasn't rained or the wind doesn't blow.

Our electricity prices are in the middle of the OECD range which means that new technologies such as solar and batteries are not currently economical relative to centralised generation.

While electricity demand has been largely flat since 2008, in the past five quarters we have seen electricity demand grow by over 2 per cent. This is all encouraging and provides a more positive outlook, although industrial closures quickly offset any growth.

In the past year we have seen further uncertainty around the ongoing operation of the Tiwai Aluminium Smelter. I believe the continued operation of the plant is important for the whole energy sector.

We were pleased to have been able to support the Smelter's ongoing operation while securing some certainty in a four year contract with Meridian and a range of risk management products. This contract has contributed to us making two significant decisions which we announced in August 2015.

1. An increase in renewable generation over the past few years has meant the need for thermal generation has been decreasing and so we closed Ōtāhuhu Power Station in September. We are currently in the process of selling the Otahuhu land and power station with offers received from a number of parties, each containing a range of

conditions. We're beginning the process of assessing the bids and associated sale requirements to determine how we wish to proceed. This process includes assessing if there are alternative uses for the land in a very tight Auckland property market to ensure we achieve the best value possible for shareholders.

2. We have also committed to complete a major maintenance that will ensure we are able to provide an additional 25,000 hours of efficient base load generation from our Taranaki combined-cycle gas-fired power station. These decisions reflect the important role that gas-fired generation will play in the future, but also the transition the industry is making.

At a similar time to when we made our announcements, it was also announced that Genesis Energy plan to close its Huntly Rankine units from the end of 2018. While we believe a continued transition to a lower carbon intensity industry is a positive, there is the potential that if Huntly closes as planned then New Zealand will require additional generation by 2019-2020. While there is no update on a solution I remain confident the industry will resolve any issue in a rational manner. Contact is well positioned to support this transition through the Ahuroa gas storage facility and if required a pipeline of thermal peaking developments.

Within Contact, the development and operation of Te Mihi has contributed to an exponential growth in expertise. Earth scientists, chemists, operators, managers, and engineers of every kind have contributed to the development of Te Mihi and are now a part of our highly skilled geothermal workforce. Earlier in the year we undertook a review to see if there were opportunities for us to leverage these skills to grow in international markets. While we concluded that there are no material investment opportunities available at this time that would sufficiently reward shareholders I am pleased that we have been able to retain these skills in the company and we are now starting to deploy these through an operational services model.

Supporting our business

Underlying our customer and energy procurement activities are our business support functions which cover wide and varied roles.

Health and safety remains our top priority at Contact. 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.

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.

As I have highlighted earlier our industry is in state of rapid change as technology and customer preferences continually re-set expectations and challenge the status quo. This is

not just a challenging environment for companies such as Contact but also for regulators and policy makers who are trying to ensure the market settings are in place to enable the efficient adoption of new technologies and customer demands without creating unintended cross-subsidies or behaviours.

We continue to be guided by our regulatory manifesto which provides a framework for pursuing a competitive retail electricity market in New Zealand. One of our concerns is that while the regulatory momentum is strong, the voice of the customer is absent. In the past year we have been active in helping establish the Electricity Retailers Association of New Zealand and we have been vocally promoting transparency, simplicity and fairness with regulators and politicians.

We pride ourselves on our ability to build and maintain strong relationships with the communities within which we operate. This year we completed a review of our community investment programme, and are in the process of refocusing our investment towards our most material issues including social inequity and ecosystems.

In the 2015 financial year, we invested \$560k into New Zealand communities. We funded groups such as 'Contact Swim Well' in Taupō, which, through our support have delivered over 122,000 learn to swim lessons over the last five years; we helped support the establishment of the Taranaki Connector Bus service aimed at providing increased access to health, education and work opportunities; and we have created a work programme for Horowhenua school leavers, providing employment opportunities for young people through our Levin contact centre. We also continued to support established community events such as the Contact Epic Mountain bike race – and the resulting inaugural Contact Epic Community Fund that supports local Hāwea initiatives and the Alexandra Blossom Festival, an event that, with our support, will celebrate its 60th anniversary next year.

In recent months we have released our 'Behind the Plug teaching resource that's currently being used to teach Central Otago kids about hydro electricity generation at our Clyde Power Station, and have entered into a conversation with our community and stakeholders about use of and access to water. We are firmly of the view that all our communities input is vital to the work we do, and we look forward to sharing more about our views on water in the months ahead.

Of course, a company like Contact is only as strong as the people who spend their working days answering customers' calls, running our power stations and supporting our business. We know that the past two years has been testing for many of our employees during the implementation of our new customer system and this was reflected in lower engagement scores than we wish for and we have been putting in place a programme of work to improve Contact as a place to work. One of these improvements was an internal crowd-sourced innovation campaign that pulled on the many hundreds of innovative ideas that our employees have to improve our business for Contact and our customers. One of the innovations included the account management app that we are currently testing with customers and given the strong support and positive feedback it has generated we will be launching to all customers shortly.

Summary

Now the outlook. While Contact does not provide explicit guidance to the market, we provide monthly operating reports that allow analysts, and shareholders, to see how well the year is progressing and to update their models. We also monitor where the analysts' consensus forecasts are over the year and if there is a material divergence with our own forecasts, we will provide some commentary to the market.

You will have seen that on Monday we released our November monthly operating report and provided an update on performance. As highlighted, the combination of lower commercial and industrial sales, continued intense competition in the mass market business and a slower than expected reduction in operating cost reductions means that we don't expect our FY2016 EBITDAF and UEAT to be materially different to FY2015 but we do expect a marked increase in operating cash flow.

I am disappointed that progress is slower than expected but I am confident we are on the right path and momentum is building as we become a truly customer-inspired business with low cost operations.

So in summary, the past year has been a hugely formative year in the history of Contact. We are in a new, independent era without a majority shareholder for the first time in our 20 year history. We have new shareholders and investors in the company, a new Board of Directors and a stronger sense of ownership amongst the employees.

Our investments have ensured a robust business with a strong cash flow and while there is limited outlook for growth investment, changing customer expectations are increasing our focus on our retail business.

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.

All of this work is only made possible by the energy, commitment and discipline of our people at Contact and through your financial support, as shareholders.

The Leadership Team and I are proud of the Contact team and what they have achieved this year but we know we have much to do.

I would also like to thank the Board members for their contribution. The guidance and support they provide me remains invaluable. Specifically I would like to recognise the 11 years of expert advice and insight that Bruce has provided to the Contact business.

Lastly, I would like to personally thank Phil for his support and the counsel he has given to me during my time as CEO and for the 20 years of dedicated service he has given to Contact. For those of you that know Phil, you know that he is vociferous with his views which can sometimes be challenging, but that at the heart of that stridency is a true passion for Contact.

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

Thank you.

Tēnā koutou, tēnā koutou, tēnā koutou katoa.

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