

# Chairman's Address to Contact Energy 2015 Annual Meeting of Shareholders

For immediate release

Wednesday 9 December 2015

Tēnā koutou, tēnā koutou, tēnā koutou katoa.

Tena koutou katoa,

Nau mai haere mai ki tenei hui.

Ki te tangata whenua, tena koutou.

Ki a tatou katoa kua huihui mai i tenei ra, tena koutou, tena koutou, tena koutou katoa.

Greetings,

Welcome to this gathering.

To the tangata whenua, acknowledgements.

To all of you gathered here today, greetings, greetings, greetings.

Welcome to the Contact 2015 AGM. It is my pleasure to see many of you here today at what is Contact's 17th AGM in our 20th year since incorporation – a milestone I will talk about shortly. Firstly, let me cover off the past financial year.

## Performance and capital management

The 2015 financial year was a transitional year for Contact. Following the completion of Te Mihi and SAP at the end of the previous financial year much of the effort was focused on their stabilisation and integration and it was pleasing that as expected from the investments made free cash flow increased by 21 per cent in the 2015 financial year.

Contact reported statutory profit for the year ended 30 June 2015 of \$133 million; \$101 million (43 per cent) lower than the prior corresponding period due to continued margin pressure in the retail electricity business, an unfavourable movement in the fair value of financial instruments and transition costs from the Retail Transformation project and associated activities. This was partially offset by a reduction in tax expense including a \$16 million tax adjustment for depreciation on powerhouses.

Underlying earnings after tax was \$161 million, \$66 million (29 per cent) lower than FY14 reflecting lower retail margins reducing EBITDAF and increased depreciation and interest costs following the completion of the significant capital programme. Free cash flow was \$363 million, up \$64 million (21 per cent) due to natural gas inventory movements and favourable retail collections more than offsetting the reduction in EBITDAF.

With strong free cash flows, world-class skills in geothermal, a domestic environment with limited material growth opportunities and the support of the majority owner Contact

announced in February the plan to investigate options to leverage our skills and experience in international markets.

After a thorough review drawing on independent advice and analysis the Board decided that the scale and commitment outweighed the risk and reward of the opportunity and; therefore, we decided that the opportunity would not be in the best interest of shareholders and we voted not to proceed with the investment into international expansion.

Having concluded that Contact would have limited capital requirements in the near-term the Board revised the Company's distribution policy to target an average ordinary dividend equivalent to approximately 100 per cent of Underlying Earnings after Tax. It was also announced that to the extent free cash flow exceeds Underlying Earnings, additional distributions will be made and are likely to take the form of share buybacks.

As the possibility of Origin selling down its majority shareholding in Contact increased, the Board took the decision to pay a fully imputed special dividend of 50 cents per share. In part this was a result of the company having accumulated a significant balance of imputation credits in recent years. This value would have been lost to shareholders if we had not acted.

Total distributions to shareholders in the 2015 financial year were 76 cents per share and provided a total shareholder return of 18 per cent with the share price remaining largely unchanged over the year.

Contact remains committed to maintaining an efficient capital structure and to an investment grade credit rating. While our gearing ratio increased to 35 per cent, principally due to the debt associated with the timing of the special dividend paid on 23 June, we remain comfortable with the strong cash flow performance of the company and the capacity this gives us to return additional cash flow to shareholders. On 15 October 2015 we announced an on-market share buyback of up to 25 million ordinary shares for an aggregate purchase price of up to NZ\$100 million during the remainder of the 2016 financial year, which at 3 December 2015 we had acquired 9.5 million shares or approximately \$48 million.

## **Change of ownership**

The other significant change in the year was the sale of Origin Energy's 53 per cent shareholding in Contact in August, an event that I am sure many of you followed with interest.

During the 11 years of Origin ownership Contact was able to make significant investments into its generation and customer capabilities and helped Contact grow into the mature business that it is today.

Over the course of the sale process the Independent Directors took great care in ensuring that Contact was best-placed coming out of the sale and we negotiated a transition agreement that set out a formal, staged separation of the two companies to ensure the continued smooth running of Contact.

Arising from the sale, we were pleased to secure Dennis Barnes as a permanent Contact employee – prior to this Dennis had worked 17 years for Origin and I know was greatly valued and respected for his time there.

Of course, the exit of Origin has required me and the remaining Board members to search and appoint a new set of directors for the Board, of which you will be introduced to today and will get to vote on their appointment.

Appointing new directors requires much thought and care – you need to balance the requirement of experience and expertise with the emerging strategy and needs of the business. The Committee tasked with identifying the new directors were clear in their direction – we needed to find individuals who would help Contact lead in being a truly customer-inspired business, bringing with them the experience of sales and marketing, digital and other emerging technologies.

I am extremely pleased that Sir Ralph, Victoria and Rob have agreed to join the Board at this juncture. Their combined expertise in customer management, product development and operational excellence will greatly assist your management in meeting the challenges of the next few years – particularly in shifting the culture of Contact to a truly customer focussed business – a not insignificant challenge.

We are confident that the new directors we will vote on today have the set of skills and experience that Contact will need as it ushers in the next phase of its development.

As the process to identify and appoint your Board's new directors progressed with an impressive set of high quality, deeply experienced candidates, it became clear to me that it was also time for me to retire from the Board of Contact. It was no easy decision – I have dedicated a significant portion of my professional life to Contact, twenty years in fact, a period that I am extremely proud of. However, with such strong directors nominated and with Sir Ralph Norris on-board to become Chairman, I felt confident that Contact would be in good hands and I could retire from the Board.

### **Looking back over 20 years**

It is 20 years since Contact was first created and in that time it has gone through many iterations to get to its current form.

The first phase from 1995 to about 2000 was Contact's inception – taking what was a rag-tag bunch of assets and turning them into a profitable, safe and efficient generation portfolio.

Contact's second phase began in 1999 and saw the development of Contact's retail business through the purchase of thirteen of the customer bases of the then regional power boards and the winding out of Maui take or pay gas contracts. These reforms fundamentally shifted the nature of the relationships in the industry and provided the substrate for the highly competitive and transparent industry we see today.

The natural progression to our most recent phase of investment, beginning in 2008 came with a renewed focus on investing in renewable electricity generation as well as investing in the systems that underpin the whole of the businesses key processes – including customer.

It is particularly pleasing to me that the development of our renewables business (including the development of new drilling and management technologies in our steamfields) has led to a very low marginal cash cost of fuel to underpin the further development of the business to be customer led in the future. This was but a gleam in the eye when we established Contact in 1995.

That phase came to an end this year, and I am confident that the completion of these investments will be hugely important and mark the beginning of a new phase in Contact's development and history.

Contact's next incarnation will be customer-led, and we are positioned well to lead here. Not only in the systems we have built but also in the generation portfolio that will provide strong cash flow, a position that gives us the confidence to now focus on developing a NZ leading customer business.

Before I finish I'd like to thank the exceptional people I have had the pleasure of working with at Contact over the last 20 years.

I also wish Sir Ralph, Whai, Sue, Rob and Victoria, as well as Dennis and the whole of Contact much success in the future.

Lastly, we the Contact Board would also like to thank you, our shareholders for your continued support of the company.

Thank you.

ENDS