

## CEO's Address to Contact Energy 2016 Annual Meeting of Shareholders

For immediate release

Wednesday 12 October 2016

Tēnā koutou katoa,

Ki nga iwi o Tamaki Makaurau - anei te mihi.

Ki a tatou katoa kua hui mai nei - nau mai haere mai ki runga i te kaupapa – te hui-ā-tau.

Nau mai, nau mai, aa tena koutou katoa

Greetings,

To the tribes of Auckland – I acknowledge you.

To all of us who have gathered here today, welcome to what has brought us together – the AGM.

Welcome, and greetings.

I am Dennis Barnes, your CEO. I'd like to join Sir Ralph in welcoming you here to Auckland. Our purpose is to help New Zealanders live more comfortably with energy. I am proud to be a part of a company that is living our purpose every day and building a shared culture that is aligned to our Tikanga. Our Tikanga is our "compass" and provides guidance on our principles, commitments and behaviours.

The last year has been significant as we smoothly managed the transition to a refreshed Board who are supporting our transformation to a customer-inspired business. At the same time we have maintained the safety of our operations, improved employee engagement, continued to return cash to shareholders and reduce debt. It has been a year that I would summarise as many small steps that have strengthened our business.

At the end of the meeting I hope you will be able to spend time with me and my leadership team. We'd love to hear your thoughts on the company and its direction and answer any questions you may have.

Catherine, Graham, Vena and Annika are here today but unfortunately James and Tania are not able to make it. Both of them are away supplementing their education, an important activity to ensure we have current and best practice thinking being applied to your company.

Mark Corbitt our General Manager Information, Communication and Technology will be leaving Contact in December. I would like to take this opportunity to acknowledge the work he has done in firstly overseeing the simplification of our systems and more recently the massive job in separating all of our IT infrastructure from Origin. I believe Contact is leading the pack in our capability to compete in the digital world we now operate in.

We've looked at how our activities impact and influence New Zealand and we've identified seven themes that we believe tackle the key issues. I would now like to talk through how we are helping New Zealanders live more comfortably with energy by tracking our performance for the year against these seven themes, as laid out in the Annual Report.

### **Making every dollar count**

We are focused on providing financial returns that reward investors and ensure our long-term sustainability, it is therefore fitting that our first material theme is making every dollar count.

Our EBITDAF for FY16 was \$523 million, \$2 million lower than the previous year. Our energy procurement costs improved by \$57 million primarily due to lower gas costs and an increase in geothermal generation. This was offset by lower electricity sales as some lower-priced contracts were not renewed and on average we had less mass market customers than the year before. This was compounded by a continuation of price discounting to maintain market share while we launched new products and improved our customer experience. In this context, it is pleasing to see tangible signs that the investment in customer systems and capability are starting to deliver operational efficiencies, greater flexibility and increased digital interaction that is essential to reducing operating costs and developing products our customers want. In the 2016 financial year we reduced our operating costs by \$16 million and I am expecting a further reduction in the current year.

A disciplined approach to capital expenditure means we are set up to generate strong cash flow and in FY16 free cash flow increased 17 per cent to \$403 million.

### **Inspired by our customers**

In line with our second material theme, being inspired by our customers, we are developing a customer experience that offers customers increasing choice, certainty and control in both the products we offer and how we interact with them. We have done this by listening to our customers and delivering what they want, we have improved how we operate and we have organised our business for a digital future. There have been many examples of the progress we have made but there are a few I would like to point out today.

- Our new customer-inspired strategy has seen us organise our team differently, refreshing our leadership and investing in new capability. Our new specialist teams have a strong focus on digital and sophisticated analytics, helping us to better understand our customers.
- Our measure of customer advocacy is net promoter score which is used extensively globally and measures how likely a customer is to promote Contact in a positive light to others. Customers giving you a nine or ten are considered promoters and are offset by detractors, or customers who give a score between zero and six. So a pretty high bar. Our net promoter score is increasing and currently sits at 8.

- Over the past year we launched more than 10 exciting new products that provide individual customers flexibility and options they personally value. One example was our home and Bach product that was designed to resolve a common customer pain point around paying for fixed daily charges when their Bach isn't being used.
- We've made real progress addressing the issue of customer debt by significantly improving our debt management processes. A reduction in late bills and vacant properties has led to a 35% reduction in the total amount owed due to non-payment of bills (the lowest in the past seven years) and a \$3 million reduction in the amount of customer debt written off in FY16.
- We've also made it easier for customers to interact with us via digital channels, launching two mobile apps and improving what we offer via our website. We now have over 267,000 customers on e-billing and online payment options.
- Ultimately the value of these improvements is judged by our customers so it is very pleasing to have gained more than 4,000 customers since January and to see our customer switching rates fall.

I am very encouraged by the progress we are making in our customer business, and in time I believe our large customer base and systems investment will provide an attractive opportunity for partners to join us in providing value for our customers beyond energy.

Part of our transformation to being customer inspired has seen us taking an increasing role in customer advocacy. The uptake of new technologies in New Zealand remains in the early stages; electric vehicles, batteries and solar, amongst other technologies, will provide our customers with opportunities to change how they buy and use electricity. We were a key supporter in the establishment of the Electricity Retailers Association which has a purpose of delivering value to customers and supporting an open, competitive and effective electricity market. More recently we have been strongly advocating on behalf of customers to promote a level playing field for all sector participants where competitive markets, rather than regulation, drive value for consumers. We believe we are making progress in ensuring that customers can obtain the maximum benefit from new technologies.

As the competitive landscape becomes clearer we are increasing our understanding of new technologies with a range of battery and solar trials and I believe these will form part of our product set.

### **Competitive, reliable supply, responsibly delivered**

Our customers deserve a competitive, reliable supply of energy and they expect it to be responsibly delivered. This is the essence of our third material theme and the basis for our generation strategy. With 82% of our generation coming from renewable resources in FY16, including a record geothermal output, we are clearly focused on optimising the value of our renewable assets. That said our thermal generation and gas storage facility remain critical in ensuring the lights stay on when renewable fuel sources are not available.

In the past year we've made key decisions that maintain shareholders value, including the closure and sale of the Otahuhu power station and supporting the electricity supply agreement with the Tiwai Aluminium Smelter. The closure of the Otahuhu power station was

a positive step for Contact and the market as we reduced costs and improved the balance of the country's capacity and with the benefit of hindsight absolutely the right decision.

Although becoming increasingly manageable with an improved understanding of the possible transmission upgrades, we have recognised that the future of the Tiwai Aluminium Smelter remains a risk for the industry. We are very conscious of the smelter's first potential closure date of 1 January 2018 and therefore we will not make any commitments to fuel or maintenance that would increase our exposure if it were to close.

The Electricity Authority's Transmission Pricing Methodology review, that looks at how approximately \$900 million of electricity transmission charges are allocated, has continued throughout the year. The current proposal, planned for implementation in 2019, is neutral to slightly positive for Contact and is supported by Contact and many in the industry.

### **Empowering safety**

Health and safety remains a priority at Contact and is our fourth material theme. For the past three years we have been working to change our safety culture from the enforcement of rules and complicated procedures to one where our people are empowered and we are constantly learning and improving.

While it is disappointing our Total Recordable Injury Frequency Rate (TRIFR) has increased in 2016, the severity of our incidents continues to decline. The leadership position we are taking on safety has been widely recognised with Contact winning the top award for safety at the annual Deloitte Energy Excellence Awards in August.

Keeping our generation assets and LPG business safe and reliable is critical to our ongoing operations, so we constantly look at ways to make our processes and systems as robust as possible. Over the year we made significant progress in embedding systems that seek to enhance process safety, including launching a near real-time dashboard to increase visibility of our process safety barriers. This is a positive step in ensuring we have the right controls in place to protect our people, our assets and our environment.

### **Powered by our people**

As Sir Ralph mentioned, the new independent Contact, has resulted in a stronger sense of ownership and increased engagement amongst our employees. The energy, commitment and discipline of our people at Contact is something to be proud of and I can unreservedly say is our greatest asset. We rely on a team of approximately 1,000 people to keep our business running so it was important to me that employee engagement improved by 12 percentage points in FY16. However, this is a long way from being great, and we are now refreshing and making consistent all our touchpoints with our people and developing engagement plans for all levels of the business. We continue to recognise the value of diversity, training, development and engagement to our people as part of creating a positive and supportive workplace.

## **Positively part of our neighbourhoods**

The nature of our business means our operations can sometimes impact on the environment and the people who live within it, so we continue to work hard to be a good neighbour. Our sixth theme drives us to be positively part of our neighbourhoods. In 2016 we were the proud recipient of a Good Business Egg Award for Community Empowerment. This is recognition for our increasing focus on the issues that are important to our customers and communities which has seen us reorient our community investments toward social and environmental issues. We've developed some great partnerships with organisations such as Swimwell Taupo, Greening Taupo, and relationships with Iwi such as Ngati Tahu. We sponsor local events such as the Alexandra Blossom festival and the Contact Epic bike race and in the last year we have provided opportunities for school leavers to join our Contact team in Levin and we provided support for Te Puea Memorial Marae Manaaki Tangata programme. We also believe it is important for our employees to be involved in their communities and we support this by allowing our people to gift paid time each year to a cause of their choice.

## **Caring for our ecosystems**

We use our Tikanga to provide guidance for positioning on key issues that our stakeholders care about and which impact on our business. This is the foundation for the final material theme, caring for our ecosystems.

There has been an increased focus on the issue of climate change and reducing greenhouse gas emissions, both internationally and within New Zealand. Contact's investment into renewable energy and flexible thermal assets has allowed us to reduce our gas purchases and carbon emissions, resulting in a 50% reduction of greenhouse gas emissions from generating electricity over the past five years.

Water quality, access and biodiversity continue to be high priorities for all New Zealanders. Water is a precious resource we all share and need to maintain it for current and future generations. The growing range of competing demands on water means everyone needs to do their bit to look after this shared resource. We have now developed a positioning statement on water that we believe supports our near-term profitability and longer term sustainability.

In the coming year we will do more to understand the complex issue of energy access for all which includes the drivers of energy affordability, socio-economic disparity and energy efficiency of available housing.

## **Summary**

In summary, we will continue our strategy to connect customers and markets to renewable resources. The start to the new Financial Year has been positive with great production and availability from our renewable generation and newly launched products exciting our customers.

For the coming year I expect we will be able to evidence further progress across all seven material themes. We will continue giving customers choice, certainty and control at the same

time reducing our costs as we focus on digital transformation by leveraging our systems and capability investments.

We are in the unique position with our open share register and no majority shareholder and while our focus remains on improving the performance of our core business I look forward to working with the Board and my team to identify opportunities that create value for you our supportive shareholders.

I'd like to thank all of my colleagues for their energy, commitment and discipline and to you our shareholders for your financial support.

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

Thank you.

Tēnā koutou, tēnā koutou, tēnā koutou katoa.

**ENDS**