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

For immediate release

Wednesday 12 October 2016

Welcome to Contact's 2016 AGM. It is my pleasure to see you here today at what is my first AGM as your chairman and the one year anniversary of my joining the Contact Board.

## 2016 Financial Year

It has been a busy and enjoyable first year and I believe that as a Board and management team we have worked well together to improve many aspects of Contact's performance as an independent company. Before I go any further, let me first cover the financial and operational performance of Contact over the past year.

Contact reported a statutory loss for the year ended 30 June 2016 of \$66 million, \$199 million lower than the prior year. This was primarily due to \$204 million of impairments, net of tax, relating to the closure of the Otahuhu power station, an assessment that the Taheke geothermal resource is unlikely to be developed in the foreseeable future, and a write-down of the gas held in our gas storage facility. These impairments were non-cash in nature.

Underlying profit and EBITDAF were broadly in line with last year; while our free cash flow improved 17 per cent to \$403 million. These results came in an operating environment that remains highly competitive and is evidence of the actions that have focused the business on cash generation and efficiency following a period of significant capital investment.

The strong cash flow of the business provides choices for the Board between distributions to shareholders, paying down debt or reinvesting capital in maintaining and growing the business. We understand that investors are looking at Contact as a company with a strong dividend yield and so we continue to have a dividend policy that focuses on returning cash to shareholders in the most tax efficient way.

In the past two years Contact has returned \$847 million to shareholders through a stable ordinary dividend of 26 cents per share, a 50 cents per share special dividend and a \$100 million share buyback at an average price of \$4.83 per share. All up this equates to approximately \$1.16 per share.

Contact is committed to maintaining an investment grade credit rating and has held a BBB rating since 2002. Following the payment of the special dividend last year, our debt levels increased and it is pleasing that we have started the process of reducing the gearing ratio with a \$71 million debt reduction in FY16. We expect to have a bias over the next 12 to 18

months to paying down debt, although we will continue to evaluate this as business risks and forecasts change.

## **Board**

Contact is operating in a dynamic market where the pace of change is rapid as customers' value choice, certainty and control in an increasingly digital way. In this environment it is important directors possess the full range of skills required to govern the business. The exit of Origin last year provided the opportunity to rigorously re-assess and refresh the skills and experience required not only today but also under all future scenarios.

The appointment of Elena Trout today will mean we have a Board with six independent, New Zealand based directors. We now have a full set of directors who collectively meet all of the skills identified in the capability matrix we established over a year ago to support the appointment process. Our collective skills and experience will support Contact as it continues the transformation to a customer-centred business.

We know a diverse workforce creates diversity of thought, helping us to innovate, solve problems and collaborate to make better business decisions. We are very pleased that our recruitment process has delivered the calibre and diversity of directors on the board. It is something to be proud of that Contact has been ranked number six out of 4,255 publicly traded companies in the Thomson Reuters diversity and inclusion index, making it one of the most diverse and inclusive workplaces – globally.

## **Employee engagement**

As I have outlined we have a business that generates a strong cash flow and we have a diverse and experienced Board; but ultimately I am a very firm believer that much of Contact's success will come from the engagement of our employees. Each year we conduct an independent survey to assess our progress on employee engagement and to identify areas for development. Our overall engagement score for 2016 was 56%, an increase of 12 percentage points on last year's score. Even with this improvement we are not satisfied with this level of engagement and it will be one of the key areas that we will drive as a Board in the next year.

## **Customer experience**

We are driving the transformation to a customer-inspired business and with a lot of focus and hard work we are starting to see some improvement in our customer experience. It is pleasing to see initial signs that the investment in customer systems and capability are coming together in products and services our customers like, and our employees are excited about selling. We are seeing the benefits of removing complexity, errors and rework that add cost and frustrate customers. Combining these improvements with a focus on getting it right first time has delivered for our customers and is evidenced with gains of more than 4,000 electricity and gas customers since January 2016.

We believe we have a tremendous opportunity to further improve how we deliver an effortless customer experience. As we do this, we need an infrastructure that has the ability to not only run our business today, but enables success going forward. For almost a decade we've been investing in the foundation of what makes great service possible – from long-life

renewable and flexible generation assets to best in class systems and of course our people. I expect that over the next couple of years we will see the full benefit of these investments.

Fundamental to our future success will be our ability to first maintain and then grow market share in a profitable and sustainable way. We recognise that this can only be achieved by delivering superior customer value propositions and by providing complete, seamless end-to-end solutions to achieve a differentiated customer experience. This is easy to say but will require a company-wide effort to achieve.

## **Strategy**

In the past year we have seen the management team and their people embrace the new independent world. Contact has an open ownership structure and refreshed Board which provides us with opportunities to grow and create value for shareholders.

The New Zealand electricity market is mature with no material growth in electricity demand and continued high levels of retail competition. Our strategy remains centred on leveraging the integrated customer and generation business to deliver strong cash flows and to provide our customers with choice, certainty and control.

Over time we see consolidation in the New Zealand retail market as a logical step and I believe we are well positioned to participate in that, but first we need to prove we are a great retailer.

Our investment in core systems and capability is providing us opportunities to increase our digital connection to customers, improve our insights through analytics and presents a potentially attractive offering for partners in home services and new technologies.

Investments in our generation portfolio have ensured a robust business and we have a low-cost, long-life and flexible generation portfolio with a focus on safety, reliability and resource utilisation. We have exceptional and unique skills in this business that we have been leveraging for over fifty years and we continue to use these capabilities to add value for shareholders.

We will continue to operate your business well and look for growth opportunities while maintaining capital discipline in our balance sheet, with the ultimate goal of providing sustainable returns for you, our shareholders.

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.

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

Thank you.

**ENDS**