



Chairman's Address to Contact Energy 2018 Annual Meeting of Shareholders

For immediate release

Wednesday 14 November 2018

Brand refresh

You will have noticed we look a little different.

At our Full Year results announcement in August, we unveiled our new brand look. Contact has evolved as a business and so has our brand.

The new logo better reflects the type of energy and services company we are. Inspired by the changing needs of our customers, we are adapting to new technologies, services and ways of doing things.

As part of the brand refresh we also reviewed the behaviours we expect of our people. You can see these on the slide behind me. These behaviours form part of our Code of Conduct and apply to everyone, including the Directors.

Before reviewing our performance in FY18, I would like to make a few comments about our current operating environment – a very different one from a year ago.

Current operating context

As widely reported, the coalition government wants to accelerate the transition to a low carbon economy needed to tackle climate change.

Contact supports the vision for a low carbon future and we are taking steps to play a meaningful role in helping develop cost-effective solutions to some of the difficult global issues.

We will do this through decisions we take in our generation business, while providing tools to support our customers to reduce their emissions too.

I'm pleased to say our fleet of generating assets is now more than 80 per cent renewable, with our most recent developments funded without government subsidies or higher energy prices for customers. This is a fantastic result.

This has resulted in a 50 per cent reduction in our greenhouse gas emissions from generation since 2012.

In just the last year, we've removed 328,000 tonnes of carbon emissions from our operations.



In the past year, we signed up to the Science Based Targets initiative, which commits us to an emissions target required to keep global warming below 2.0 degrees.

As new scientific evidence is presented, we will continue to revisit our targets. To this end, we are currently reviewing the latest report of the International Panel on Climate Change calling for global warming to be kept below 1.5 degrees.

As well as responding to the urgent challenge of climate change, Contact is actively engaged with the Electricity Price Review panel, the Interim Climate Change Commission and the broader government agenda.

No doubt, you will have seen various comments about the Price Review with deliberate positioning by some parties.

For the record, Contact agrees with the panel's assessment that the electricity system is working well to produce reliable and sustainable electricity supply.

Where it isn't working so well is for those customers who are struggling to pay all their household bills and we believe the government, social agencies, Contact and the industry can do more for these customers and we are accelerating the design of new products to play our part. These include weekly/fortnightly billing and PrePay.

In terms of generation, we believe the current market design has ensured the right investments have been made at the right time and place, and at the least cost to consumers. Any major changes in direction should only be considered with great caution.

Dennis and his team are actively engaged in the Electricity Price Review process. Dennis will speak more on this shortly.

I turn now to the year in review.

Delivering financial returns for shareholders

Contact reported a statutory profit for the year ended 30 June 2018 of \$132 million, \$19 million lower than the prior corresponding period as operating earnings fell by \$20 million, or 4 per cent, to \$481 million.

In the Customer business, operating earnings were \$9 million lower as increased competition in the Commercial and Industrial electricity segment reduced retail margins and rising oil prices increased the cost of LPG which were not able to be fully passed through to customers.

In the Generation business, operating earnings fell by \$11 million, primarily as a result of ASX futures volatility with the sudden hydrological swings.

For the second successive year, we experienced below average inflows in our catchment area, resulting in higher energy costs as we were forced to produce electricity from our thermal assets to replace lost hydro flows.

Naturally, we are disappointed and frustrated with this outcome.



Despite these impacts, our operational efficiencies, the quality of our generation assets and our strategic access to flexible gas supply, give the Board confidence in the ability to generate strong free cash flow.

Contact showed strong financial discipline to deliver similar year-on-year operating free cash flow of \$301 million despite lower operating earnings by reducing both operating costs and stay in business capital expenditure.

In August 2017, the Board revised the distribution policy, targeting distributions between 80 and 90 percent of operating free cash flow, once net debt falls below 2.8 times EBITDAF.

The Board was pleased to declare a full year dividend of 32 cents per share, up 23 per cent on FY17. In FY19, we are targeting 35 cents per share, up 9 per cent on this year.

Encouragingly, we have seen a reversion to more normal hydrological conditions in our catchment area in the current year. This combined with the continued focus on operational performance and flexible generation assets has resulted in a strong start to the current year.

Our people

In FY18, the company continued to invest in the capability of our staff, resulting in ongoing improvements in engagement scores.

In May, staff engagement was 77 per cent, up from 72 per cent in October the previous year.

I'm delighted to be able to announce we have been awarded the Rainbow Tick evidencing our commitment to inclusion and diversity.

Customer business

In our Customer business, we launched our new brand – a key part of our transformation to a digital retailing business.

Our transformation is about engaging customers via digital channels and surprising them with products and services they value.

This is enabling us to move closer to our aspiration to be the most advocated for retailer with the lowest cost to serve.

Generation business

Our generation business delivered record geothermal production and sustainable cost efficiencies in FY18, which helped offset lower than average hydro generation.

With the current low hydro storage levels and constraints to gas supply, this fuel scarcity is being reflected in higher short-term wholesale prices.

The current situation underlines the critical importance of having a flexible generation portfolio and strong risk management systems.



Leadership

In terms of maintaining our leadership position in the domestic energy sector, the Board has looked at developments and trends abroad.

Earlier this year, three members of the Board joined some of the executive team to visit the global technology epicentres of San Francisco, Berlin and London to learn what others are doing to prepare for a low carbon future.

The Board takes great confidence in the fact that this country has a world-class electricity system that is trusted by consumers and is the envy of much of the developed world.

Governance

Earlier this year, the Board announced we would engage an external search firm to assist the Board with succession planning.

We were assisted in this process by the Board skills matrix, to assess the skills of each director against the areas of competence we are looking to acquire with any new appointment.

Over the last few months, we have announced the appointment of Dame Therese Walsh David Smol and Jon Macdonald, to the Board. Shortly they will each speak to you outlining the skills they bring to the Board and I will invite you to vote on the appointment of the new board members and the re-election of Whaimutu Dewes.

Before we go to that matter, I would like to acknowledge my predecessor Sir Ralph Norris for his leadership of the Board since 2015.

Sir Ralph successfully navigated the company through a period of substantial change and renewal and helped lay the platform for ongoing success today.

I also acknowledge and thank Sue Sheldon for her outstanding contribution to the Board for almost a decade, again during a period of tremendous change.

Finally, on behalf of the Board and Leadership team, I would like to thank all of you for your ongoing support of Contact.

I will hand over to Dennis for an overview of the year.

ENDS