



# CEO's Address to Contact Energy 2018 Annual Meeting of Shareholders

For immediate release

Wednesday 14 November 2018

## Introduction

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

Greetings to you all  
To those who have gathered here today  
Welcome to the subject of the day – the annual meeting.

Before commencing my formal notes, I would like to introduce my Leadership Team who are here today.

Tania Palmer, Vena Crawley and of course on the stage with me Catherine Thompson. James Kilty cannot be here today as he is overseas meeting some of our suppliers.

Lynette Glover is Acting Chief Financial Officer and has been doing an excellent job, pending the arrival of our new CFO Dorian Devers in December.

## Competition and innovation key to success

As mentioned by the Chair, the Electricity Price Review panel published its first issues paper last month and Contact is actively engaged in the review.

News media headlines said the panel found residential prices increased by 79 per cent over the last 28 years.

As is often the case, the headlines belie the complex facts, which show that our electricity system is providing good outcomes for customers.

In a period when transmission and distribution costs have increased, retail prices have remained relatively flat since 2013.

This is largely because of increased competition, switching initiatives and transparency promoted by regulators and our customers.

As shareholders, this has resulted in your earnings from retailing electricity more than halving since regulation and competition became effective.

In this intensely competitive market, we are doing a good job and I will come to that later.



We agree with the panel that there is a group of customers who struggle to pay all their bills and this isn't right.

We believe the answer to this challenge is a combination of social policy intervention and more innovative products.

As owners of the company, you can be assured that Contact is actively helping all our customers to maintain access to energy and to avoid incurring burdensome debt with us.

Today, we offer more product options and more payment options than ever before, giving our customers more choice, certainty and control over their energy costs and new ways to engage with the company so that we hear their views.

We are also working through the Electricity Retailers Association on Access to Energy projects to support vulnerable customers and will work with the Government, social agencies and others in the sector to find solutions for the most vulnerable.

Our key message to the Electricity Price Review panel is to look at the positive outcomes the current market settings have delivered and beware of changes that would undermine them, or have unintended consequences.

Competitive pressures in the retail market are intense and we see this continuing.

Independent retailers account for 11 percent – or 200,000 customers – in the retail market. We support 45,000 of those customers through the electricity we sell to independent retailers. The growth of these retailers is evidence of a healthy, competitive market, and we welcome that.

There will be a lot more commentary and positioning through the next phase of the Electricity Price Review.

Our focus will remain firmly on delivering our strategy through product innovation and reducing our cost to serve.

## Meeting stakeholder expectations

Turning now to the year in review, I'm pleased to note FY18 was another good year for the business, underpinned by strong relationships with our key stakeholders in the financial, social and environmental sectors.

### Financial

We have over \$2.7 billion in net assets, more than 64,000 shareholders and 3,500 bondholders who rely on us to deliver sustainable financial returns.

Over the past year, we have reduced costs, capital expenditure and debt levels and maintained our triple-B credit rating from Standard & Poor's, which we've held since 2002.

This is a solid foundation for managing operational and financial risk and ensures we can access diverse and cost-effective funding and continue to grow dividends for shareholders.



As Rob mentioned, the weather gods have not been kind to Contact over the last two financial years, but we remain focussed on controlling the controllables on your behalf. There is reason to be optimistic given recent increased inflows into our hydro catchments.

## **Social**

In terms of community engagement, we were ranked among the top five New Zealand companies for community investment activities, according to the Business and Community Shares social index – a corporate social responsibility ranking of 100 New Zealand businesses.

Our staff continued to invest work time in local communities, volunteering with organisations like the Porirua Homework Club, Octacan, Zealandia, Foodbank, and Lake Taupo Cycle Challenge. Our community partners regularly tell us this volunteering makes a huge impact for them.

We also continued to work closely with *tangata whenua* across a range of initiatives and projects such as our Māori internship programme, our Geo40 and Ngati Tahu partnership and relationships with local iwi groups in Wairakei and Tauhara.

## **Environmental**

We rely on natural resources to generate electricity, which is why sustainability and respect for the environment is integrated into how we do things.

At our hydro operations, we worked with farmers, irrigators, environmental groups, iwi and regulators to resolve appeals on the Otago Regional Policy Statement without resorting to an Environment Court hearing. This collaboration is a real success story.

We have continued to provide water to a third party for irrigation through a pipeline from Lake Dunstan into the Fraser River. And we also worked closely with bore users in the Hawea area to manage historically low water levels on the dam.

In biodiversity, we have management plans for half of our operational sites and expect to have plans in place for all our sites by September 2019.

The Government is committed to improving biodiversity and we will continue to use our expertise to manage and improve biodiversity outcomes in areas under our control.

We have also planted 66,000 native trees and established fencing and pest control on 78 hectares of land in partnership with community groups in Otago, Taupo and Stratford.

To ensure we take the actions that will result in a low emissions future for New Zealand, we have set emissions reduction targets. We have set these using the Science Based Targets initiative.

Earlier this year, we joined the Climate Leaders Coalition to show our commitment to help New Zealand transition to a low emissions economy.



## Delivering on our core business

In terms of maintaining strong cash flows, and simplifying our business, we have executed two major transactions during the year:

1. the sale of the Ahuroa Gas Storage facility, and
2. the sale of the Rockgas LPG business.

Both transactions provide significant flexibility for our business.

With Ahuroa, we retain access to long-term gas storage services to meet our flexible thermal generation requirements without needing to own and operate the asset. This transaction was completed in early October.

Similarly, the sale of Rockgas frees us from the fulfilment aspects of the LPG business while still being able to sell the product to our mass market customers. We continue to own Rockgas as the pre-conditions to completion are worked through.

We have been pleased to partner with FirstGas on both these transactions.

## Our Customer business

Our Customer business continued to compete hard against an ever-growing number of start-up retailers and reinvigorated incumbents.

Contact's total customer numbers across electricity, natural gas and LPG were 570,700 – up 3,700 on the previous year.

Our customers continue to advocate for us in greater numbers, with our Net Promoter Score averaging +18 during the period, up from an average of +14, last year.

Our success in this area has been enabled by our transformation programme, resulting in a reduction of \$13 million in electricity and gas cost to serve and streamlining of customer channels.

However, operating earnings in our Customer business was \$109 million in FY18, down \$9 million on FY17, as LPG product costs increased and intense competition for Commercial and Industrial customers saw margins decline.

The launch of our new brand provides an exciting platform to surprise and delight our customers and move closer to our aspirational target of being New Zealand's most advocated for energy retailer with the lowest cost to serve.

## Our wholesale business

As Rob mentioned, dry conditions impacted earnings in our Generation business as low South Island inflows extended into the start of FY18.

Hydro generation volumes were below average for the second consecutive financial year.

The scheduled five-yearly refurbishment of the Taranaki Combined Cycle plant in November and December also impacted earnings.



As a result, operating earnings from the Generation business was \$372 million in the period, \$11 million lower than FY17.

The full effect of the dry conditions on our financial performance was mitigated by our continuous improvement programme, which is delivering sustainable reductions in ongoing operating costs and improving the resource utilisation of our renewable assets.

A key focus for the business is to position itself to support further decarbonisation of New Zealand's energy sector.

We see the development of our consented geothermal resources playing a key role in the transition. And reducing the cost of renewable generation developments will give us options to close thermal plant, if gas and carbon costs continue to rise.

As we mark the 60<sup>th</sup> anniversary of the Wairakei geothermal power station this week, I am reminded of why we are a clear leader in renewable generation, which will play an increasingly important role in New Zealand's move to a low carbon economy.

## **People**

All our leaders and people work to create a culture where inclusion is the norm and diversity flourishes.

As Rob mentioned, our staff engagement was up five percentage points to 77 per cent from October 2017 to May this year. While we are pleased with the improvement, as a dynamic, progressive organisation, we will continue to adapt and improve to make Contact a "best-in-class" employer.

## **Health and safety**

At Contact, our safety systems and culture empower frontline staff to take ownership of health and safety outcomes with the backing of our world-class safety systems.

Even with this focus, disappointingly 14 of our people got injured during the year, most of them strains or sprains. This is a clear sign we need to remain vigilant around the clock and to apply the lessons gathered from all injuries and near misses.

## **Future outlook**

As mentioned earlier, Contact supports the goal of a low carbon future and we will be taking a leadership role in achieving that future.

We are also firmly focused on the present, with a strategy that delivers innovative products at lower cost for customers, while decarbonising our generation business.

We will continue to compete vigorously in both the retail and generation markets and to advocate for a stable regulatory environment that delivers benefits for consumers both now and the long-term.

Contact is well placed to deliver sustainable financial returns to shareholders while positioning ourselves to take advantage of opportunities in the market, as New Zealand transitions to a low carbon future.



## Closing

As I do every year, I would 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