

**CONTACT ENERGY ANNUAL MEETING**  
**CHAIRMAN'S REVIEW**  
**12 October 2005**

Ladies and Gentlemen,

**Financial performance**

It is around 8 months since I last addressed shareholders at our Annual Meeting in Wellington in February.

As foreshadowed at the last Annual Meeting, Contact has recently adopted a 30 June balance date, so the period under review is the nine months to 30 June 2005.

I am pleased to report to you that Contact Energy has delivered a solid performance for the period.

The company's net surplus for the nine months ended 30 June 2005 was \$138.2 million, a 37 percent increase on the same nine month period last financial year.

The main drivers for this increase were an improved operating result with earnings before interest, taxation, depreciation and amortisation of \$363.5 million, 14% above the result in the last comparable period, combined with a lower effective tax rate of 33 percent compared to 40 percent for last year.

The solid result reflects the strength of Contact's integrated business model, and the influence of tightening electricity and fuel supply, which is putting upward pressure on wholesale and retail prices.

During the nine-month period borrowings declined slightly, resulting in a net debt position of \$1 billion as at 30 June 2005 and gearing standing at 26%.

Earnings per share were 24 cents over the nine-month period, with dividends per share in the period being 18 cents fully imputed. On a pro rata basis, this dividend is comparable to the level of dividend paid in the previous financial year.

Through the last year, the board also completed a review of dividend policy and concluded that Contact's policy is to maintain or grow dividends on a year-to-year basis whilst targeting an average net surplus pay-out of approximately 80 per cent over time.

In reviewing the dividend policy, the Board was conscious of the need to maintain balance sheet strength and the flexibility to deal with some of the potential capital demands and growth opportunities in the next phase of development.

As you are aware, Contact has elected to be an early adopter of the New Zealand equivalents to International Financial Reporting Standards.

The financial results we report for the six month period ending 31 December 2005 will be the first period to be reported under these standards.

It is possible that the new standards will introduce a higher degree of volatility into Contact's reported financial results, particularly in relation to the treatment of hedging contracts for electricity sales, and foreign exchange and interest rate exposures. However, I think it is important to emphasise that the new accounting rules make no change to the underlying economic value of the company.

The company has also recently completed a further step in its strategy to focus on the New Zealand energy market. Earlier this year Contact initiated a process to sell its stake in the Valley Power peaking station in Australia. In August, Contact announced that the enterprise would be sold to Snowy Hydro. We expect this process to be completed shortly.

## **Governance**

It is now a year since the change in ownership of Contact's majority shareholding. I believe this has been a smooth change, and that it has not distracted the company or management from its objective of creating value for shareholders.

In 2004 the company initiated a formal Board and director assessment process. As part of this process, the first of what will be two yearly assessments of the Board's performance was undertaken. This included a comprehensive 360 degree type questionnaire incorporating the views of Board members, and also the views of Contact's senior management team.

The assessment established that the Board is functioning satisfactorily and in an effective manner.

Along with the assessment of overall Board performance, individual assessments were carried out of the two directors standing for re-election at this meeting – Phil Pryke and John Milne.

Phil and John both have long associations with Contact. The Board supports the continued contribution of these valuable independent directors as they seek re-election at today's Annual Meeting.

Together with Tim Saunders, Phil and John bring a depth of experience with Contact and also the wider New Zealand corporate sector. This complements the skills of the Origin associated directors.

This year the Board has also been highly focussed on the task of finding the replacement for outgoing chief executive Steve Barrett, who retired from his position at Contact at the end of September.

Steve presided over a very successful period in Contact's growth and consolidated the company's leadership position in the energy industry in New Zealand. We appreciate Steve's stewardship of the company, and wish him well for the future.

The Board recently announced that David Hunt had been chosen to succeed Steve Barrett as Chief Executive effective from the beginning of this month.

David's appointment followed an extensive executive search process that began earlier this year to identify a candidate suitable to take Contact Energy into its next phase of development.

David has a proven industry track record at both Contact Energy and more recently in his role as Executive General Manager, Corporate Development, for Origin Energy.

The board is pleased with David's appointment and the skills he will bring to the leadership of the company.

## **Outlook**

Contact's financial performance over recent years has been marked by strong growth in earnings, as the company has benefited from rising energy prices. Contact expects this dynamic to support continued earnings growth in the current financial year, albeit with some flattening off in momentum.

Looking further ahead, the company faces a major challenge in the coming 3-4 years as its legacy entitlements under the Maui gas contracts are progressively used up, and an increasing proportion of the company's thermal fuel comes from higher cost sources, such as the Pohokura gas contract.

While wholesale electricity prices are likely to continue to rise over this period, it is not expected that these prices will keep pace with the increase in

Contact's fuel costs, and there will be significant pressure on the company's trading margins.

In response to these pressures, Contact will be putting an increased emphasis on measures to optimise revenue and make efficiency gains across the business.

Contact will be giving priority to identifying and securing the next round of development opportunities, to ensure the company captures its share of market growth.

In the near term, Contact is focussed on incremental opportunities within the existing generation business, such as the geothermal expansion opportunities at Wairakei.

While the near term outlook is for constraints on earnings, looking toward the end of the decade there are larger scale opportunities further ahead, particularly within Contact's thermal generation business.

To capitalise on these opportunities, Contact and New Zealand must identify and secure the next major source of thermal fuel, which will itself bring significant investment requirements

I would like to comment now on the importance of maintaining a supportive investment environment.

Fuel developments and power stations have large up-front costs, and only make their paybacks over many years. Private investors will not commit the capital required for such investments unless they can rely on a stable and predictable policy environment.

While policy makers naturally take a close interest in the energy sector, they need to recognise the impact that their actions can have on investment momentum.

There is no doubt that New Zealand faces significant energy challenges. However, the industry is responding to the price signals to invest in new fuel sources and expanded generation capacity.

The competitiveness of the market for generation development is reflected in the number of investment plans announced over the last 18 months, and the solid progress Contact has made on its own investment plans.

A supportive policy environment is essential to securing the sustained flow of that new investment.

Contact will continue to make positive, practical contributions to the development of energy policy in New Zealand, and provide constructive input on public policy issues.

In conclusion, I would like to thank my colleagues on the Board, management and staff for their efforts over the nine months. It has been another solid period of growth for Contact – a reflection of the contribution of all those involved in the success of the company.

It is now my pleasure to introduce David Hunt, Chief Executive of Contact Energy to provide his view on the company's recent performance and future prospects.