



9 September 2009

## **BBB Fitch rating for Contact**

Contact Energy today advised that Fitch Ratings had decided to downgrade the company from BBB+ to BBB. The decision is based on the company's capital expenditure projects and current debt levels. In its release (attached), Fitch acknowledges that over time these initiatives will improve the company's operational flexibility and generation diversity.

Contact Managing Director David Baldwin said the move to a BBB rating also brings Fitch into line with Standard and Poor's BBB rating of Contact which has been recently confirmed.

"This change in rating acknowledges the impacts of transmission constraints on Contact's 2009 full year earnings and Contact's significant investment programme in two new power stations and the country's first underground natural gas storage facility.

"The replacement for pole one of the High Voltage Direct Current (HVDC) transmission link is expected to be in operation in early 2012, and the gas storage facility and the two new power stations will be operational in mid-2010, at which point Contact's credit metrics are expected to significantly improve," he said.

"While making these investments results in an increase in debt, which is acknowledged in this decision, we are pleased that Fitch also recognises the benefits that these three projects will bring to Contact on completion," said Mr Baldwin.

Contact remains in a strong financial position with a net debt to net debt plus equity ratio of 27 per cent.

Media  
Jonathan Hill  
04 462 1285  
021 440 090

Investor Relations  
Liz Kelly  
04 462 1190  
021 461 302

## Fitch Downgrades Contact Energy Ltd's Ratings

Fitch Ratings-Brisbane/Sydney/Singapore – 8 September 2009: Fitch Ratings has today downgraded Contact Energy Ltd.'s (Contact) Long-term Issuer Default Rating (IDR) and Senior Unsecured ratings to 'BBB' from 'BBB+'. At the same time Fitch has downgraded the Short-term IDR and Commercial Paper rating to 'F3' from 'F2'. The Outlook is Stable.

The downgrade reflects Contact's significant capital expenditure programme and the resulting weakening in credit metrics. Currently Contact is constructing the Tauhara phase 1 geothermal plant, the Stratford gas-fired plant and the Ahuroa gas storage facility.

"Whilst the 2009 financial year proved challenging for Contact largely as a result of transmission and weather issues, it is the weakening of credit metrics which has placed the rating under pressure," noted Gavin Madson, Director in Fitch's Asia-Pacific Energy & Utilities team. "Contact has undertaken a capital expenditure programme which, while positive to the company's business risk profile, has resulted in higher levels of debt," Mr Madson added.

In 2007 one of the two high voltage DC transmission lines connecting the North and South Islands of New Zealand was removed from service. This, combined with a drought which affected inflows to Contact's hydro plant, limited the company's ability to mitigate its South Island retail market risks. This had a negative impact on the company's 2009 financial results.

"In the long-term, the capital expenditure programme, and in particular the Stratford gas-fired plant and Ahuroa storage facility, will improve Contact's operational flexibility and add further diversification to its generation portfolio. However, over the next couple of years, these benefits are insufficient to mitigate the additional credit risk associated with higher leverage" said Mr Madson. "Fitch is also beginning to see some improvements to the transmission and regulatory issues which have been present in the New Zealand market for some time," he added.

The rating is underpinned by the vertically integrated nature of Contact's business, diversified portfolio of generation assets, its significant customer base which is diversified both geographically and by customer type, and strong liquidity position; during the 2009 financial year, Contact increased and extended its bank facilities and placed a retail bond.

Although Contact is 51.4% owned by Australian energy company Origin Energy Ltd. ('BBB+' / Rating Watch Positive), under Fitch's parent and subsidiary rating methodology, the agency assesses that the links between the two companies are not strong enough to warrant any uplift to Contact's ratings for parental support

Contacts: Gavin Madson, Brisbane, +61 7 3222 8612; Sajal Kishore, Sydney, +61 2 8256 0325; Steve Durose, Sydney, +61 2 8256 0307.

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