



Grant King 2009 AGM speech

Introduction

It has clearly been a challenging year for Contact, as evidenced by a 21 per cent decrease in EBITDAF to \$445.3 million and a 31 per cent decrease in underlying earnings to \$160.6 million. Notwithstanding this reduction in profits, directors maintained distributions to shareholders at the equivalent of 28 cents per share - the same level as the prior year.

As we reflect on the year just passed, we saw a once in a generation global financial crisis which has resulted in a substantial contraction in economic activity. This has impacted substantially on many companies in many countries, and the community at large.

Perhaps fortunately, we can also reflect on rapid, co-ordinated and effective responses by governments here in New Zealand and globally that have avoided some of the more dire predictions of a year ago, to the extent that we can sooner than we may have thought look forward to improving economic circumstances and a return to growth in economic activity.

While the global financial crisis had some impact on Contact's operational and financial performance (in part through a reduction in demand for energy), by far the greater impact has been an extraordinary convergence of events specific to the New Zealand energy market.

More specifically, the impact of the loss of flexibility and increased costs of Contact's gas supply portfolio that fuels our thermal generation has been exacerbated by electricity transmission constraints and extremes of weather which has more recently resulted in very high inflows to New Zealand's hydroelectric generation.

Some of these issues were foreseen by Contact three years ago and that is why current projects being undertaken by Contact, such as the Ahuroa gas storage project, the Stratford peaking power project and the expansion of geothermal generation, have been initiated. Other impacts such as the global financial crisis and high rainfall were not so predictable – nonetheless all these factors have combined to result in a substantial reduction in performance in the last year.

David Baldwin will talk in more detail about these factors and the initiatives being taken to address them in his presentation.

Financial strength

As the circumstances of the year became clearer and the impact of the global financial crisis deepened, the main priority of the Board was to ensure the financial strength and flexibility of the company was preserved. This was essential because of the higher level of capital investments being made by Contact to respond to operational constraints.

At the half year, the Board implemented a Profit Distribution Plan (PDP) to preserve capital. As you will be aware, under the plan, shareholders receive distributions in the form of non-taxable bonus shares, with the option of having Contact buy them back for cash if they so choose. Since the plan was introduced in March we have seen a high level of participation from shareholders, allowing Contact to retain \$120 million of cash within the business.

At the same time Contact went to the market to raise \$300 million through a retail bond offer. Less than a week after it opened we capped the offer, which was heavily oversubscribed, accepting applications to the value of \$550 million.

As a further step to strengthen the company's financial position, Contact also increased and extended the terms of its bank credit facilities during the year. As at 30 June 2009, the company had undrawn bank facilities amounting to \$685 million, and a gearing of net debt to net debt plus equity of 27 percent.

The strength of Contact's financial position was confirmed when Standard and Poor's re-confirmed Contact's BBB credit rating.

We consider the high level of reinvestment in Contact through the PDP and the high demand for Contact's Retail Bonds evidence of investor confidence in Contact's business and its future prospects.

As a result, Contact is in a strong financial position, and is able to fund the initiatives designed to improve the operational flexibility of the company and future growth.

Changes to the Board

There have been a number of changes to the Contact Board over the year. In March, highly regarded company director Sue Sheldon joined the Board as an independent director, and Contact's Chief Executive, David Baldwin, was appointed to the position of Managing Director.

Sue is based in Christchurch and has been a director of a number of other businesses, including a major energy company, and was recently appointed a

director of the Reserve Bank. She is a Chartered Accountant and brings valued skills, experience and perspectives to Contact.

At the end of the financial year Tim Saunders retired from the Contact Board as an independent director. With the exception of a two-year period, Tim has been involved in Contact's governance since the company was first formed, and has made a significant contribution to building the business. On behalf of the Board, I thank Tim for his contribution and commitment and wish him all the best for the future.

While there has been no increase to directors' base fees, the increase in the fee pool has enabled all directors on the Board to be paid and the Board expanded to include additional directors to broaden the skills and experience to lead the company effectively. The appointment of Sue and David as directors will continue to support the Board's ability to oversee a major investment programme in a complex environment, while applying strong governance across every aspect of the company's operations. In addition, we are in the advanced stages of a search for an additional independent director for the Contact Board. We expect to make an appointment in the near future.

Outlook

Looking ahead, we are realistic about the market conditions Contact faces. The economic conditions currently impacting New Zealand are expected to continue to dampen demand growth, and a range of market and operating uncertainties remain.

In this context, the Board considered it would not be prudent to provide quantitative guidance for the 2010 full year financial performance.

As we indicated at the full year results announcement, the maintenance of dividends at prior year levels depends on restoring profitability to more normal levels. Your Board and management are focused on improving profitability and providing ongoing opportunities for growth.

The Board will also continue to focus on ensuring that Contact retains its financial strength. Over recent years we have been progressively investing more to meet New Zealand's need for new generation capacity. In the 2009 financial year we almost doubled our level of capital expenditure over 2008, investing close to half a billion dollars in new capacity. In the 2010 financial year, Contact's capital expenditure is forecast to be at a similar level to the prior year. When the country emerges from recession, increasing demand for energy will require new sources of generation to be built in order to maintain security of supply. Contact has the best generation options of all generators in New Zealand which we will develop as market conditions support them.

I'd now like to hand over to Managing Director David Baldwin, who will go into more detail as to the events of the 2009 year and the steps we are taking to restore operational flexibility. As I do so, I would like to thank David and his management team for their efforts in responding to challenging circumstances over 2009.

Without doubt we will continue to face challenges in the years ahead. I believe Contact is in a strong financial position and well placed to meet them.

Thank you.