

# International Roadshow

Europe, London / June 2022

We're ready to  
drive New Zealand's  
decarbonisation:

Contact **26** 





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# Presenters



## **Mike Fuge**

### **Chief Executive Officer**

Mike Fuge was appointed CEO in September 2019 and joined Contact in February 2020.

Mike was previously the chief executive of Refining New Zealand and has a long history in the energy sector, both in New Zealand and internationally. He has previously been the chief executive of global renewable energy owner operator and developer Pacific Hydro in Australia and held senior roles at Genesis Energy and Royal Dutch Shell Group.



## **Dorian Devers**

### **Chief Financial Officer**

Dorian joined Contact in December 2018 as Contact's Chief Financial Officer.

Dorian is experienced in business transformations having led successful turnarounds of businesses in both the UK and South Africa. He has successfully delivered several acquisitions including ones in the Australian and New Zealand energy sector. He has governance experience having served on the Board of Afrox a publicly listed company and the largest industrial gases business in Africa, as well as being a previous Board member of Liquigas a New Zealand LPG infrastructure business.

# Why invest in Contact?

The investment opportunity in our core market is large and in line with our unique capability which will deliver cash flow growth ultimately flowing through to dividends.



# Agenda

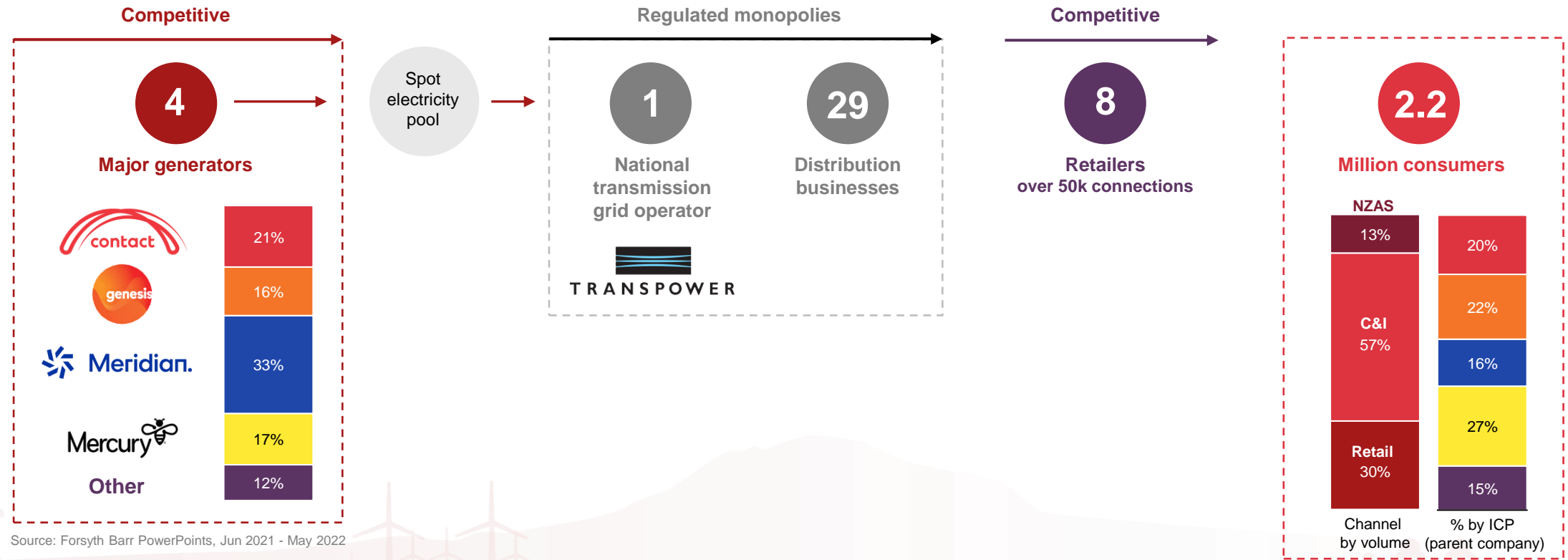
<b>1</b>	<b>Introduction: New Zealand electricity market</b>	<b>6 - 7</b>
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<b>2</b>	<b>Contact's business and value drivers</b>	<b>18 - 26</b>
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A hand holding a lit sparkler against a background of bokeh lights. The scene is festive and celebratory, with warm orange and yellow tones from the sparklers and cooler blue tones from the bokeh lights. A diagonal grey bar runs across the upper right portion of the image.

# **New Zealand electricity market**

# New Zealand enjoys a reliable, affordable and environmentally sustainable electricity system



Source: Forsyth Barr PowerPoints, Jun 2021 - May 2022

Source: EMI, Jun 2021-May 2022

# **Market fundamentals: Price setting**



# Supply fundamentals

Hydro schemes are mostly run-of-river, with flows into key catchments weighted to summer, while demand is winter biased.



## Clutha

Average annual generation of 3,900 GWh  
 Max storage of ~300 GWh  
 Summer inflows  
 Wet to dry range of 1,000 GWh



## Waitaki

Average annual generation of 7,000 GWh  
 Max storage of ~2,500 GWh  
 Shared between Genesis (Lake Tekapo) and Meridian  
 (all lakes downstream of Lake Tekapo)  
 Summer inflows  
 Wet to dry range of 3,000 GWh



## Manapouri

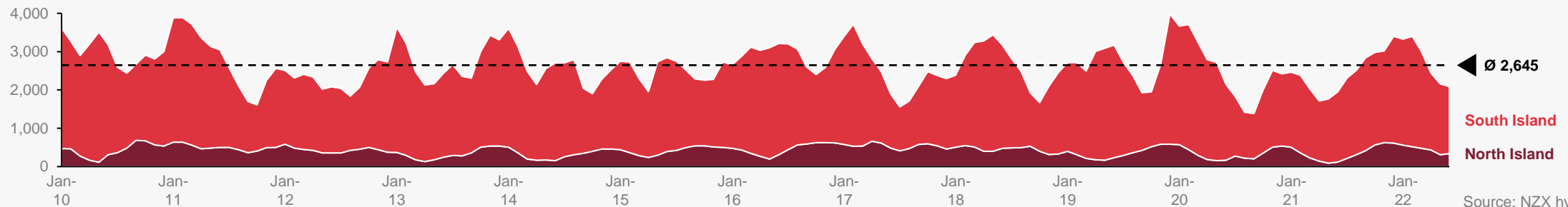
Average annual generation of 4,800 GWh  
 Max storage of ~800 GWh  
 Highest inflow intra year volatility of all catchments  
 Wet to dry range of 2,000 GWh



## Taupo

Average annual generation of 4,000 GWh  
 Max storage of ~500 GWh  
 Winter inflows  
 Wet to dry range of 1,300 GWh

National controlled storage (GWh)



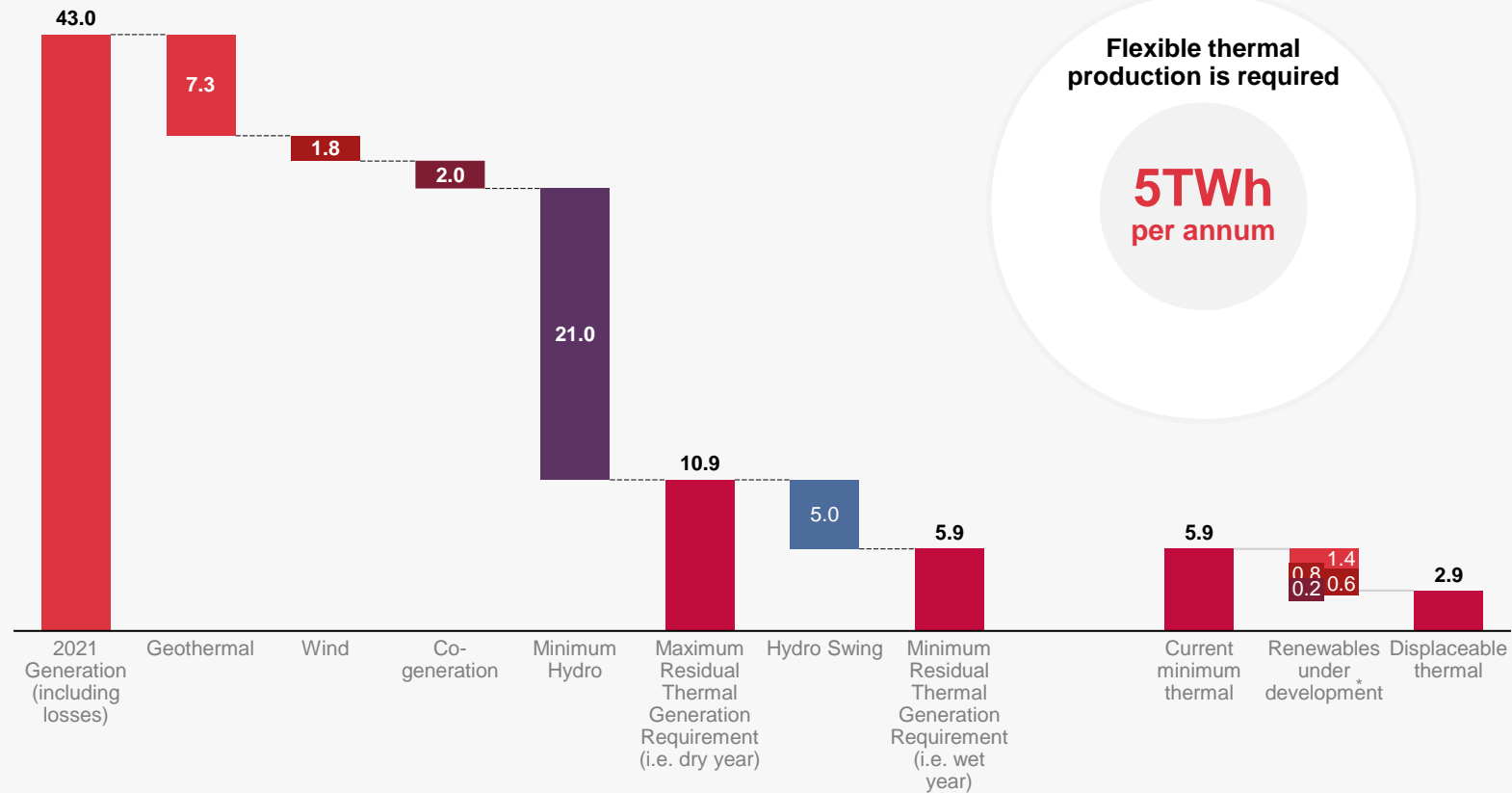
## Hydro storage is crucial, but limited

Maximum controlled storage of ~4 TWh spread across four key catchments, ~9% of annual generation of 43TWh.

# Supply fundamentals

## Thermal generation costs sets the opportunity cost of storable renewables

National annual supply (TWh)



**Major thermal generators**

**Contact:**  
gas and diesel with long-term contract for gas storage

**Genesis:**  
coal and gas

**Nova/  
Todd Energy:**  
gas



**Sources of flexibility**

**“Dry year”:**  
Genesis’s coal stock pile

**Daily and seasonal:**  
Gas storage

**“Wet year”:**  
Gas storage

**Winter peaks/  
outages:**  
Diesel

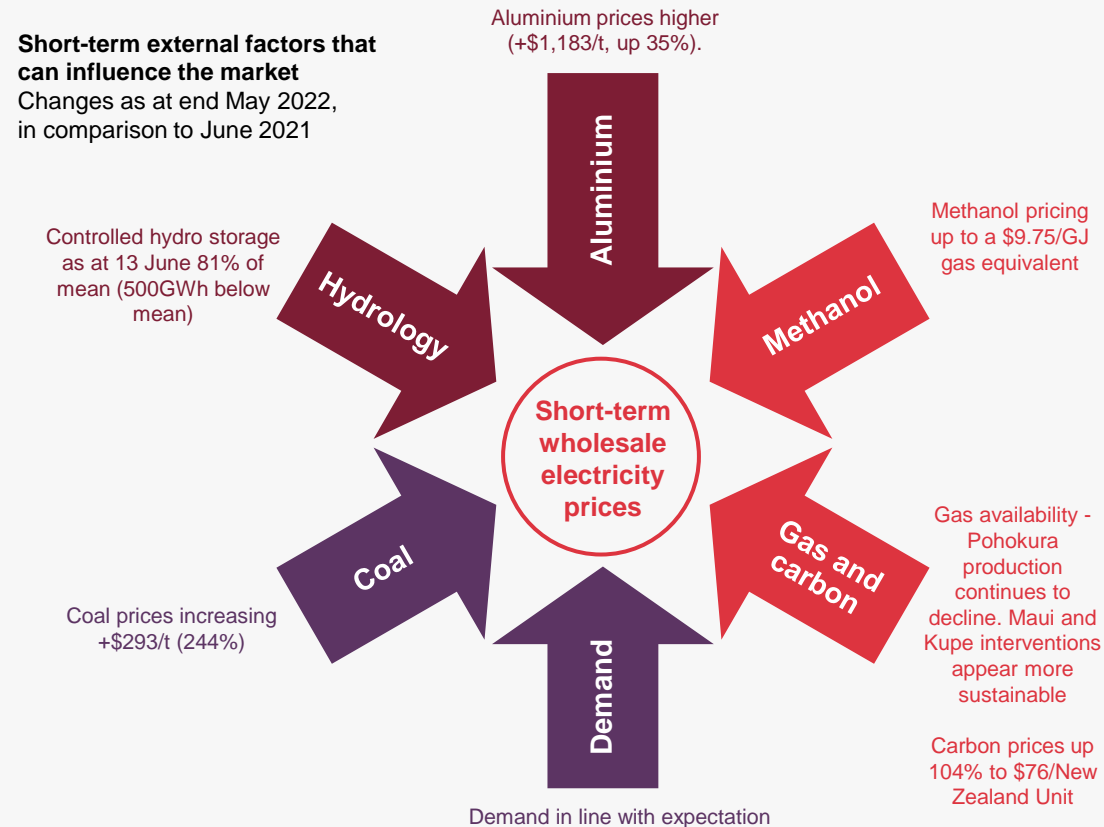
**Contingent/  
emergency  
hydro storage**

Thermal generation is currently the most economic swing fuel to manage the seasonal supply and demand mismatch.

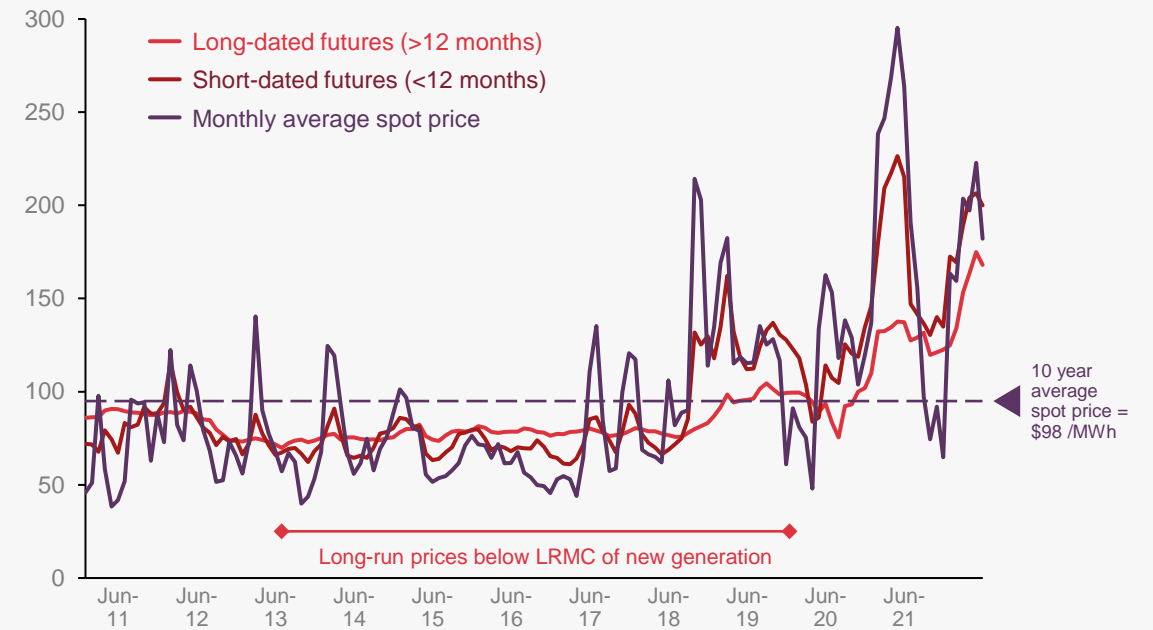
\* Includes Tauhara (Contact 2023), Turitea i:(Mercury 2021 and ii) 2023), Harapaki (Meridian 2024), and Rangitaiki (Nova: 2023)

# Fuel supply and pricing impacts

Longer-term the market is reacting to these price signals and adding new capacity



Wholesale and futures electricity pricing (\$/MWh)



Source: EMI wholesale pricing

There is currently extreme volatility across commodity markets, driven by a combination of global energy supply and security concerns, exacerbated by the impact of the Russian invasion of Ukraine, with subsequent unprecedented increases in international energy prices including coal, gas and oil. Domestically, gas field outages and high coal and gas prices have contributed to a steep escalation in wholesale electricity prices.

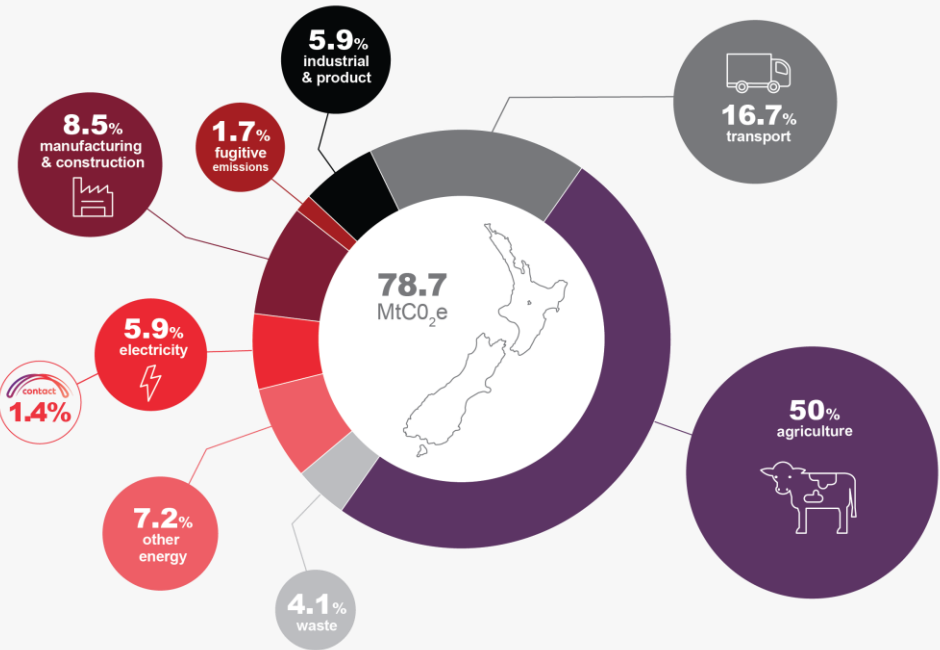


# **Market fundamentals: demand outlook**

# Carbon reduction opportunity

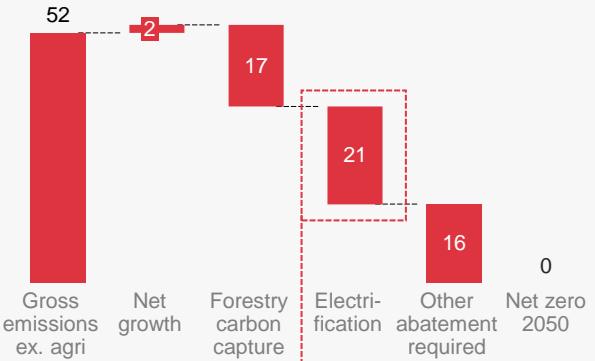
With high renewable penetration, electricity is the solution to reducing carbon emissions, not the problem.

### Greenhouse gas emissions by sector



Meaningful reductions in carbon emissions are possible with renewable electricity displacing carbon intensive fuels.

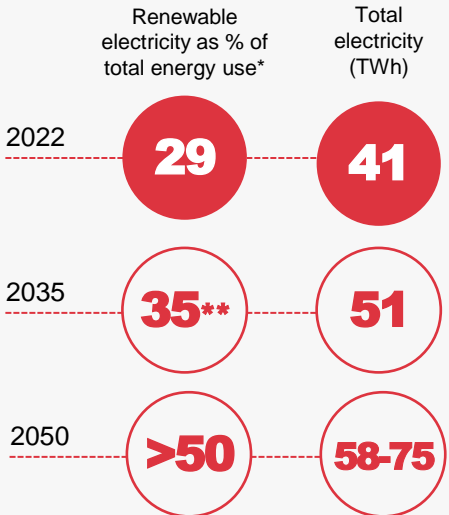
### Paris agreement target, Mt CO2e



To meet this annual emissions reduction, Transpower estimates 70% more renewable generation is required to electrify heat and decarbonise transportation. This amounts to ~23TWh p.a..

**This is the equivalent investment of around \$610m every year for 27.5 years.\*\***

### Our future energy profile



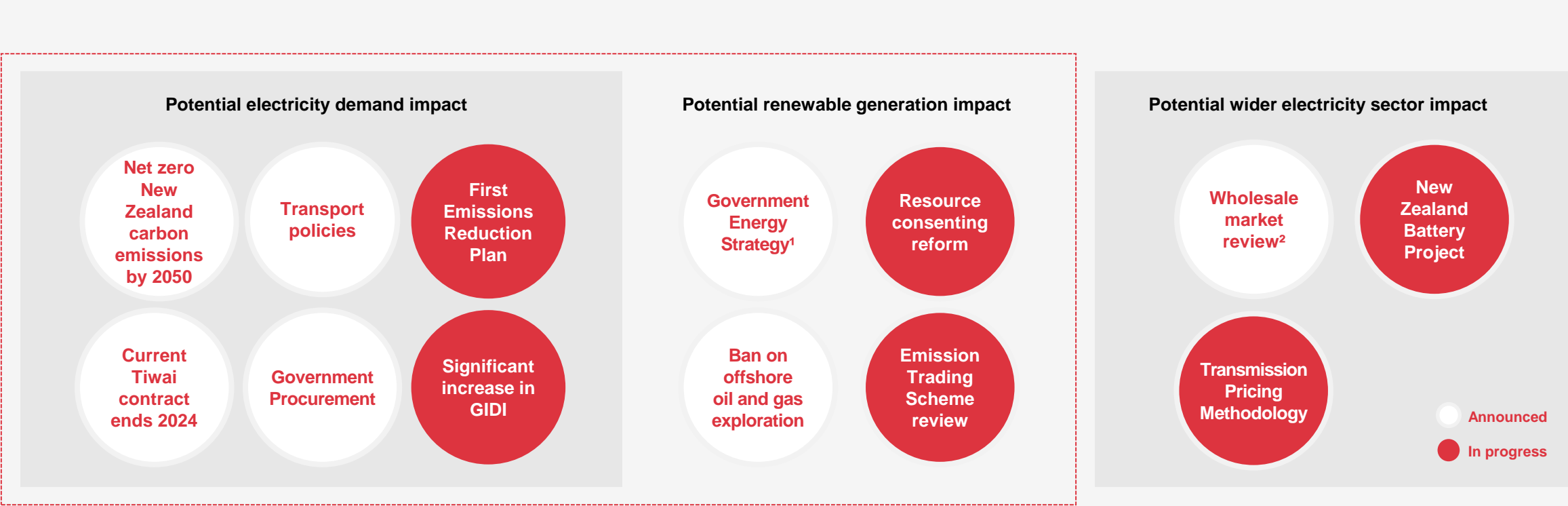
Sources: New Zealand's Greenhouse Gas Inventory 1990-2020 snapshot, 2022 Inventory, Te Rārangī Haurehu Kati Mahana a Aotearoa 1990-2020 - He whakarāpopoto New Zealand and Whakamana i Te Mauri Hiko - Empowering our Energy Future, March 2020, Climate change commission 2021 final advice

\* Based on the cost of the Meridian Harapaki wind farm as per February 2021 NZX announcement (\$395m, 542GWh p.a.)

\*\* Based on Consumer Energy use rather than Primary Energy use  
 \*\* Government emissions reductions plan, released subsequently targets 50% renewable electricity of total usage.

# Climate change and regulation

Bi-partisan support for the New Zealand regulatory framework is being adapted to deliver on this societal imperative.



Society is demanding action on climate change, with clear progress expected.

<sup>1</sup> Covering electricity, hydrogen, gas transition, and industry decarbonisation.

<sup>2</sup> Preliminary findings release, under consultation.



# Government support for decarbonisation

## The Government has recently released its first Emissions Reduction Plan

An economy wide plan to meet New Zealand’s net zero emissions target by 2050. It includes specific actions government will undertake, as well as policies and strategies to influence emissions from private firms. There are three key impacts for Contact Energy:

### 1. Target of reaching 50% total energy consumption from renewable sources by 2035

Government developing an ‘Energy Strategy’ by the end of 2024

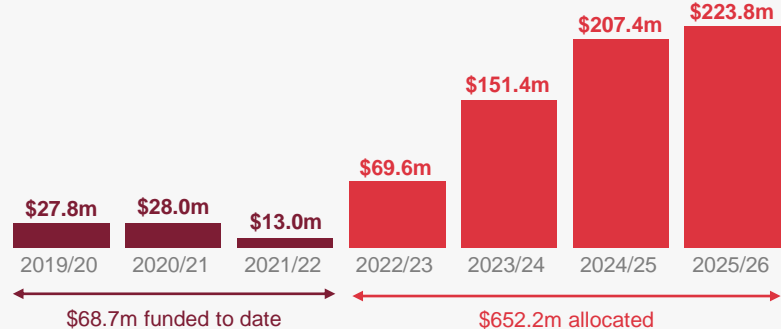
Strategy will include an action plan for decarbonising industry

Strategy will also consider how to make it easier to gain consent for renewable generation

### 2. A large boost in financial support for decarbonisation

Government has committed \$650m+ over the next four years to contribute to the costs of industry decarbonisation projects.

#### GIDI<sup>1</sup> Fund commitment



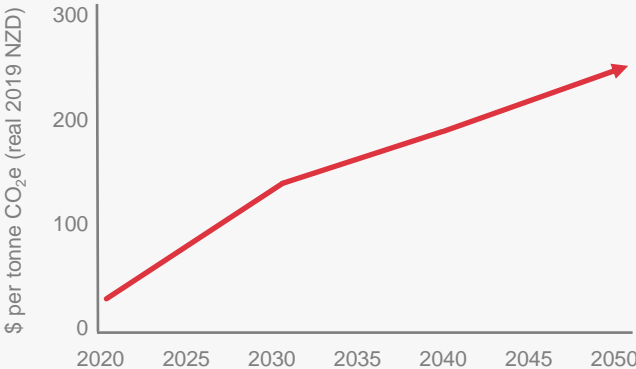
Government has allocated a further \$200m+ to decarbonise the public sector, focussing on replacing coal boilers

### 3. New Zealand carbon prices expected to continue to rise

Carbon priced at \$76 unit at June 2022 auction. Price is expected to rise as number of auctioned credits reduces which is creating demand for increased electrification.

#### Carbon Price Trajectory estimate

New Zealand Climate Change Commission, 2021



<sup>1</sup> GIDI: Government Investment In Decarbonising Industry

# New Zealand in the early stages of decades-long transformation from reliance on fossil fuels to renewable electricity

## Key drivers of decarbonisation



**Increased** focus on climate change globally incl. from New Zealand government and consumers, e.g. Climate Change Commission



**Increasing** carbon, gas and coal prices

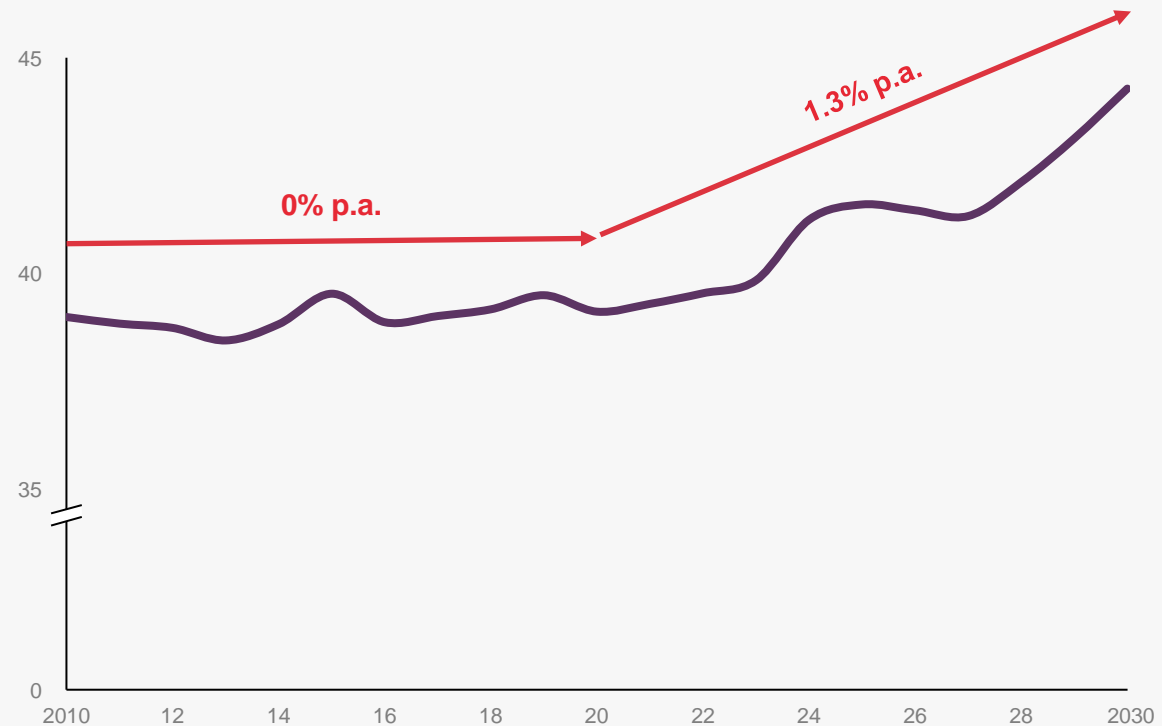


**Competitive** electricity costs against alternatives



**Falling** technology costs including renewables, electric boilers, electrolysers and electric vehicles (EVs)

## The Climate Change Commission expects electricity demand to grow to meet climate targets Electricity demand, TWh<sup>1</sup>



## Key drivers



~40% EVs



~40% industry

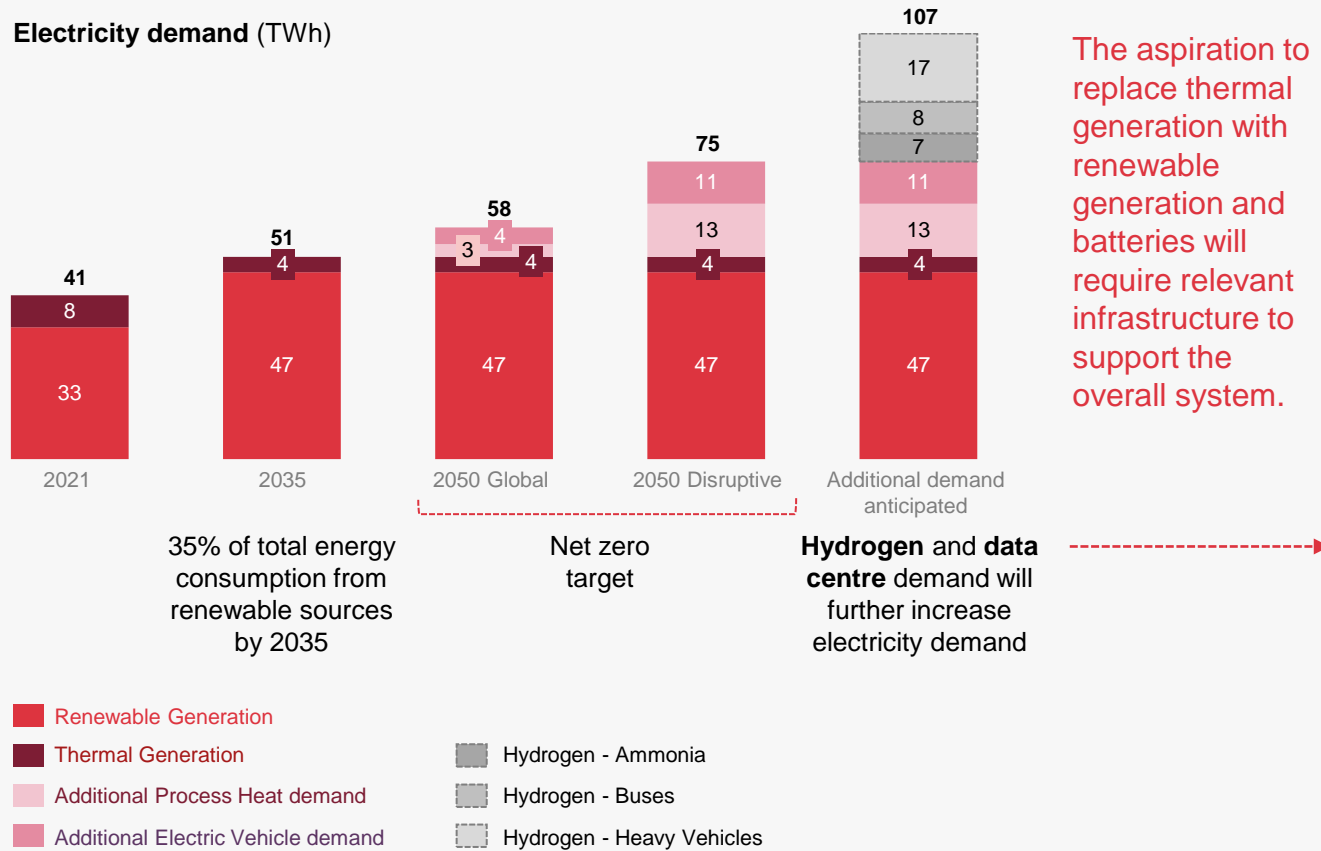


~20% buildings

1. Assumes demand equivalent to NZAS is operating

# Electrification needs will require renewable energy sources as demand increases

Electricity demand (TWh)



Source: 2035 using Climate Change Commission 2021 final advice; 2050 Transpower NZGP1 Scenarios Update Dec 2021

## Additional demand expected beyond electrification

### Hydrogen



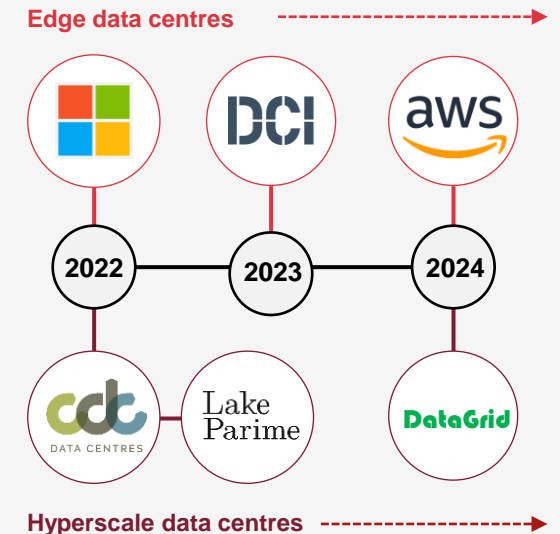
Woodside Energy Group and Fortescue Future Industries have entered final stage negotiations.

Final selection of lead developer to be announced soon after detailed proposals sent through end of August 2022.

### New data centre build

Several credible data centre owners have publicly announced they are planning to invest in New Zealand. The baseload characteristics of data centres make them attractive.

Data centres proposed by:



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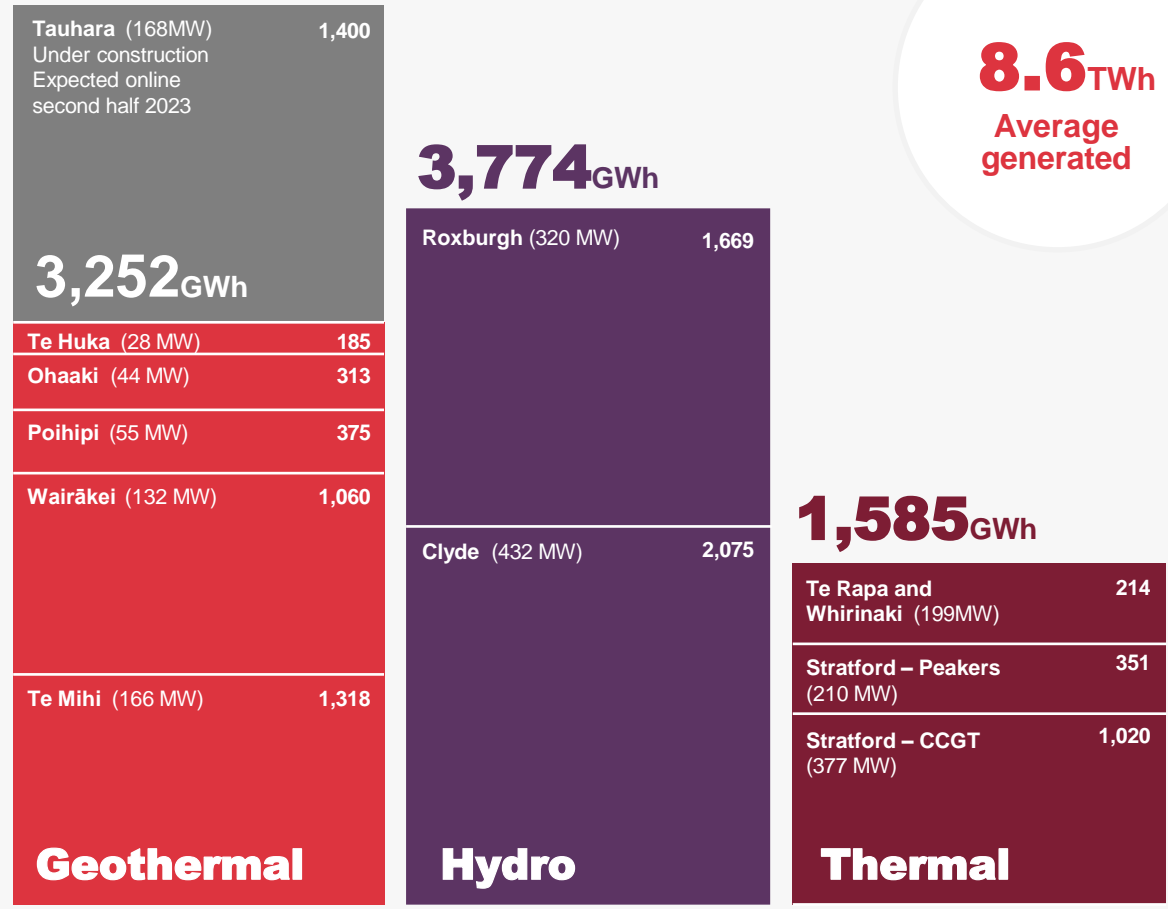


# Contact's business and value drivers

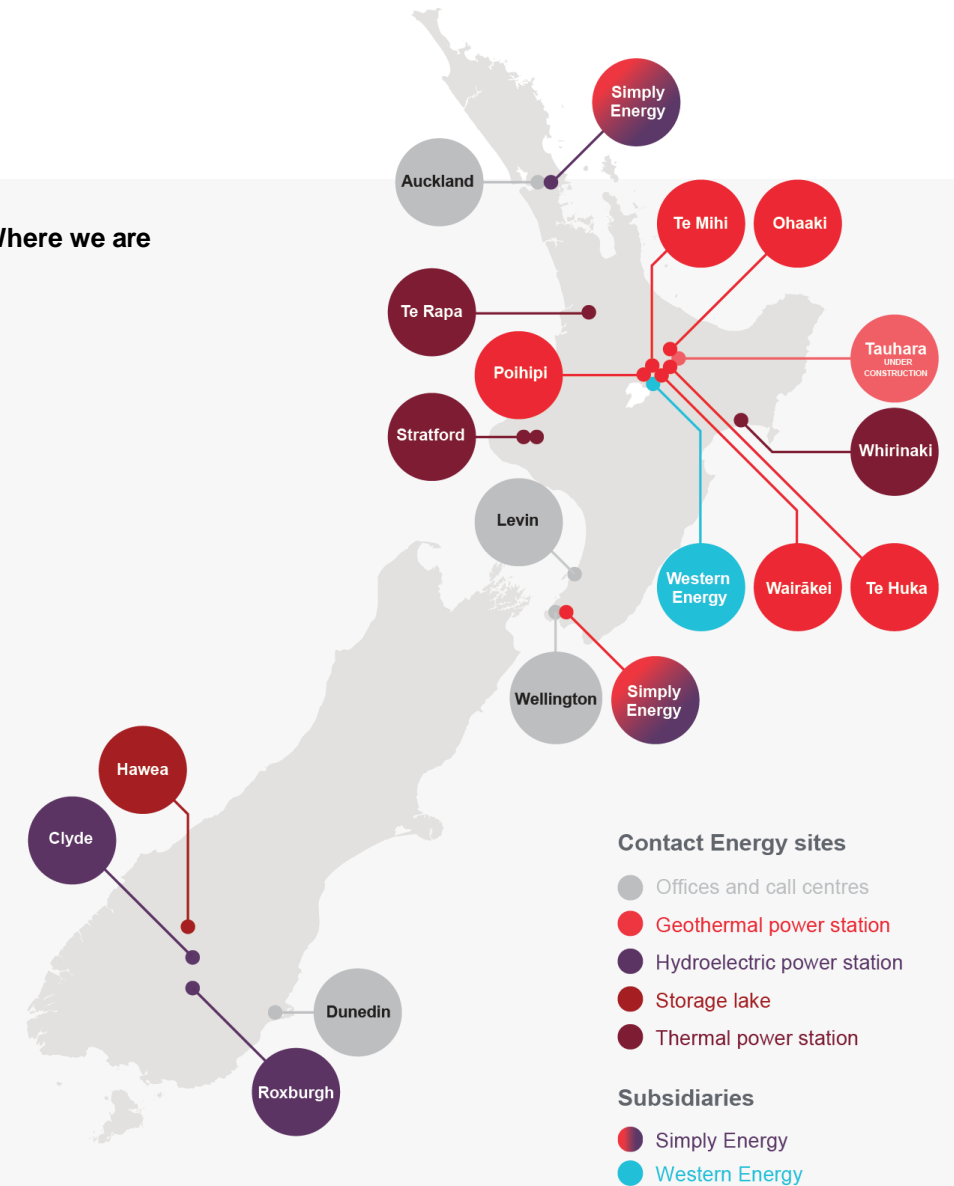


# Our assets

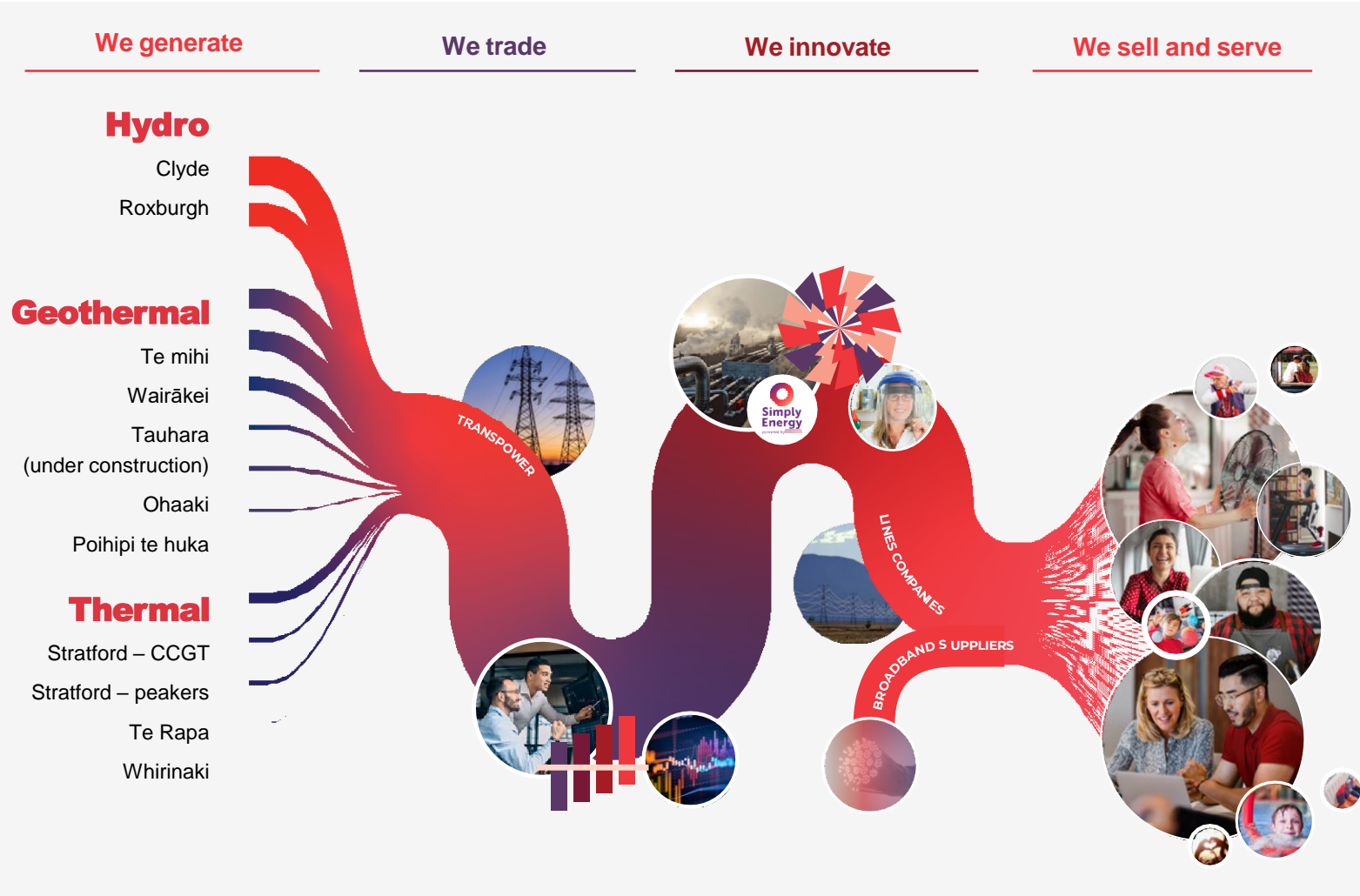
2017 - 2021 generation by station and type (five-year average)



Where we are

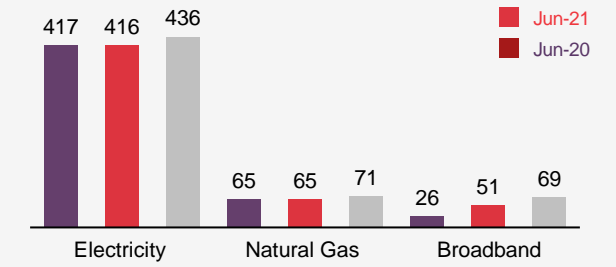


# How we add value

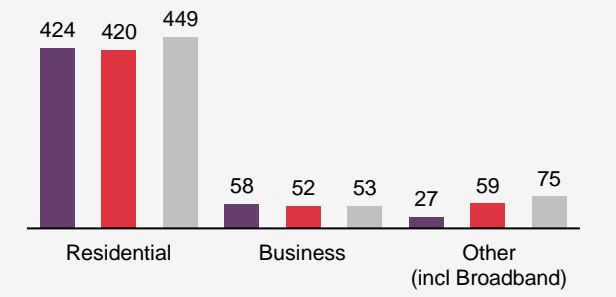


 **576k**  
total customer connections

Connections by energy type (k)



Connections by account type (k)



These connection figures include Simply Energy connections.



# How we manage risk

A range of flexible fuels and “virtual generators” allows for effective risk management and fuel substitution opportunities in a market with significant daily, seasonal and annual variations in supply and demand.

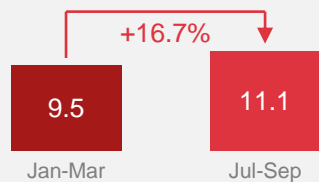
## National demand and supply fluctuation

Annual hydrology 2000 - 2021

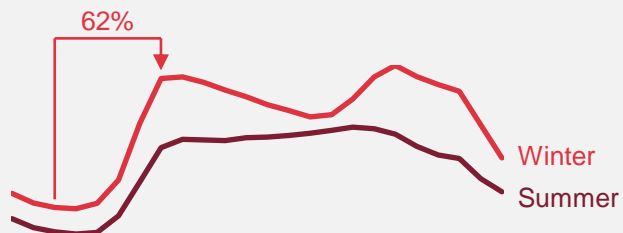


Min 22.7 TWh | Mean 25.3 TWh | Max 27.7 TWh

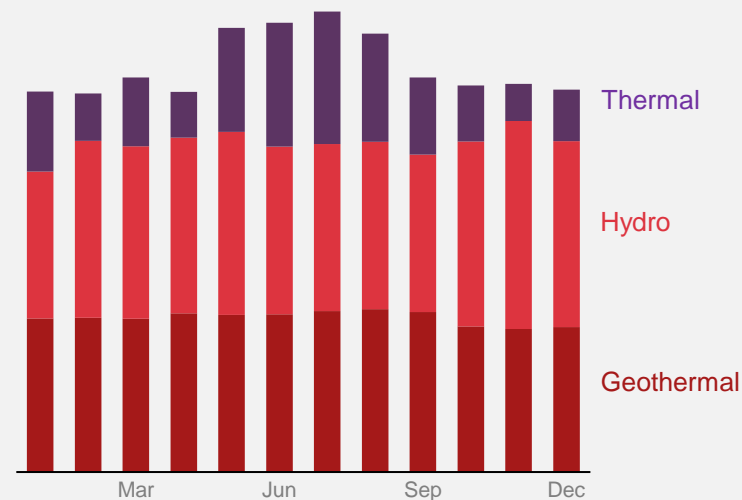
Average seasonal demand (TWh)



Average daily demand (MWh)



## Contact's current portfolio



### FY21 SRMC<sup>1</sup>

### Contact advantage

\$129/MWh

- Thermal costs will continue to rise
- 83% renewables is hedge against rising costs.
- Gas storage allows for opportunistic gas purchases.
- Control closure of the assets

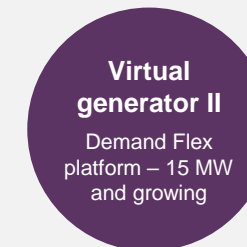
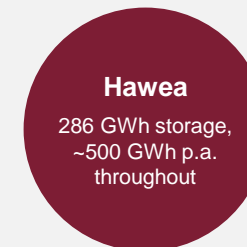
\$13/MWh

- Strong operational efficiency focus.
- Seasonal variation smoothed with lake storage.

\$16/MWh

- World-leading geothermal expertise delivering innovative cost reductions and improving the cost of production.
- Building Tauhara (online 2-half 2023)

## Sources of portfolio flexibility – most diverse risk management tools within the industry

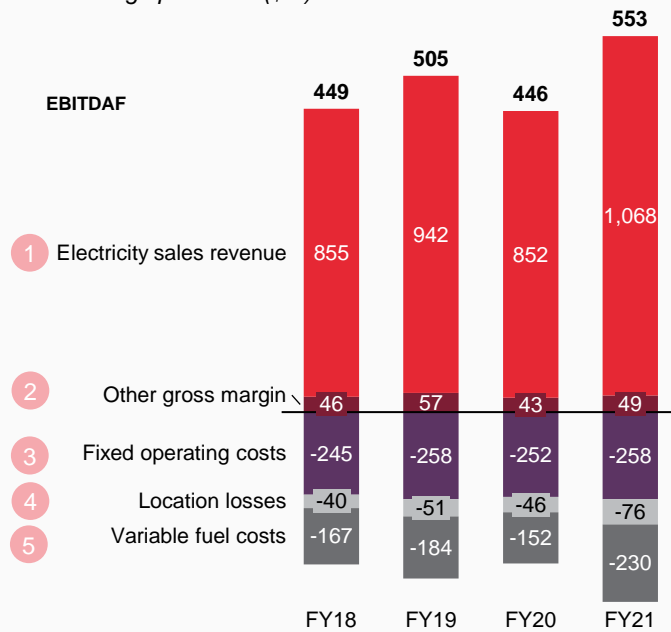


<sup>1</sup> Short-run marginal cost: Fuel and carbon costs, direct operating costs (inc. gas storage)

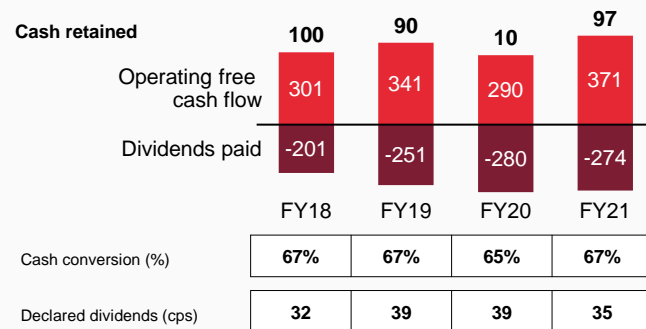
# Flexible portfolio

## Operating earnings (EBITDAF)

Continuing operations (\$m)

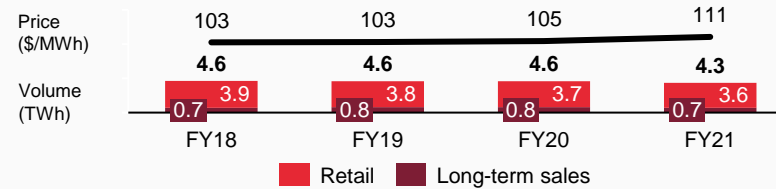


## Strong cash flow distributed

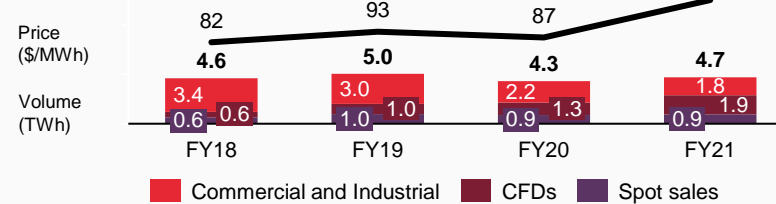


## 1 Electricity sales

(i) Long-term channels

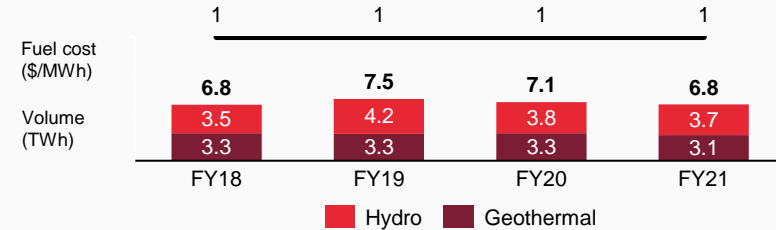


(ii) Market channels

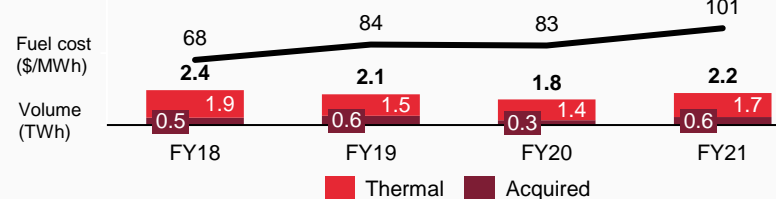


## 5 Variable fuel costs

(i) Renewables



(ii) Thermal and acquired



## Annual sensitivities

- Electricity revenue: Electricity sales (net of network, meters costs) for all sales channels**
  - Pricing: Long-term channels linked to inflation, market channels are linked to futures pricing
  - Volumes: Variable, dependant on hydrology and fuel
- Other gross margin: Steam sale revenue, retail gas gross margin, broadband gross margin and other income**
  - Growing broadband contribution offsetting gas retail margin decline.
- Fixed operating costs: Electricity and gas transmission, gas storage costs and other operating costs (includes labour, maintenance expenses, cost to serve, cost to acquire and development)**
  - Inflation linked
- Location losses: Difference between wholesale revenue from generation assets and costs to purchase electricity to support sales**
  - Expected to approximate ~6 to 7% of electricity sales revenue
- Variable fuel costs: Gas, carbon and acquired generation to manage risk**
  - Cost: Thermal generation costs continue to rise on higher gas and carbon costs
  - Volumes: Variable, dependant on hydrology and wholesale prices vs fuel costs

# Contact 26 > Our strategy to lead NZ's decarbonisation



# We set ambitious measures of success across our strategic themes in May 2021



## Grow demand



## Grow renewable development



## Decarbonise our portfolio



## Create outstanding customer experiences

### Objective

Attract new industrial demand with globally competitive renewables

Build renewable generation and flexibility on the back of new demand

Lead an orderly transition to renewables

Create New Zealand's leading sustainable energy brand that will support renewable development ambitions

### Metrics & measures

Senior in-house capability to support industry electrification partnerships by 2021

100 MW of new commercial and industrial demand by 2025

Identified 300+ MW of market-backed demand opportunities, replacing NZAS in the lower SI by end of 2024 (e.g., hydrogen)

Tauhara online in second half of 2023

FID on next renewable build (Wairakei, wind, and/or solar) by 2024

Decision on North Island battery by end of 2023, for delivery in 2024

100 MW demand response capacity by 2025

Complete thermal review in 2021, and executed by the end of 2022

TCC decommissioned by end of 2023

Reduce Scope 1 and 2 GHG emissions 45% compared to 2018 baseline by 2026<sup>2</sup> aligning to our Science based targets commitments

Top 10 'most trusted retailer' by 2025<sup>1</sup>

+650,000 customer connections by 2025

CTS < \$120 per connection

75% of customer interactions through digital channels

1. As per Colmar Brunton Rep Track report, 2021 ranked 44<sup>th</sup>  
 2. Science Based Targets Initiative (Sbti) target at 1.5 degrees.



# We are best positioned to enable New Zealand's decarbonisation



## 1/ Distinctive capabilities

Deep understanding of energy applications  
 Unique in-house geothermal capability  
 Wind capability  
 Solar partnership

## 2/ New Zealand's best renewable development pipeline



**Geothermal +2.9TWh p.a**  
 Under development +1.4TWh p.a  
 Medium-term target – +1.5TWh p.a (net)



**Wind 600MW**  
 Land access arrangements



**Solar target 200MW**  
 Initial target



## 3/ Leading New Zealand's thermal generation transition

We have led the economic substitution of almost 3 TWh of thermal generation over the last 15 years (twice as much as all our peers combined), while developing advanced trading capabilities and systems to manage changes to our commodity risk position

### Low-cost, innovative operations

We have a track record of sustainably reducing costs across the business, with lowest cost geothermal and retail cost-to-serve



### Largest New Zealand electricity brand

We are New Zealand's largest electricity brand, catering to changing customer needs with a great customer experience



### Future-focused capabilities

Our capabilities will support our growth with major projects, business development and digital and analytics skills recently added



A wide-angle landscape photograph of a large concrete dam in a mountain valley. The dam is in the foreground, with a reservoir behind it. The valley is surrounded by steep, rugged mountains, some with patches of snow. The sky is overcast with heavy clouds. The overall tone is somewhat somber and industrial.

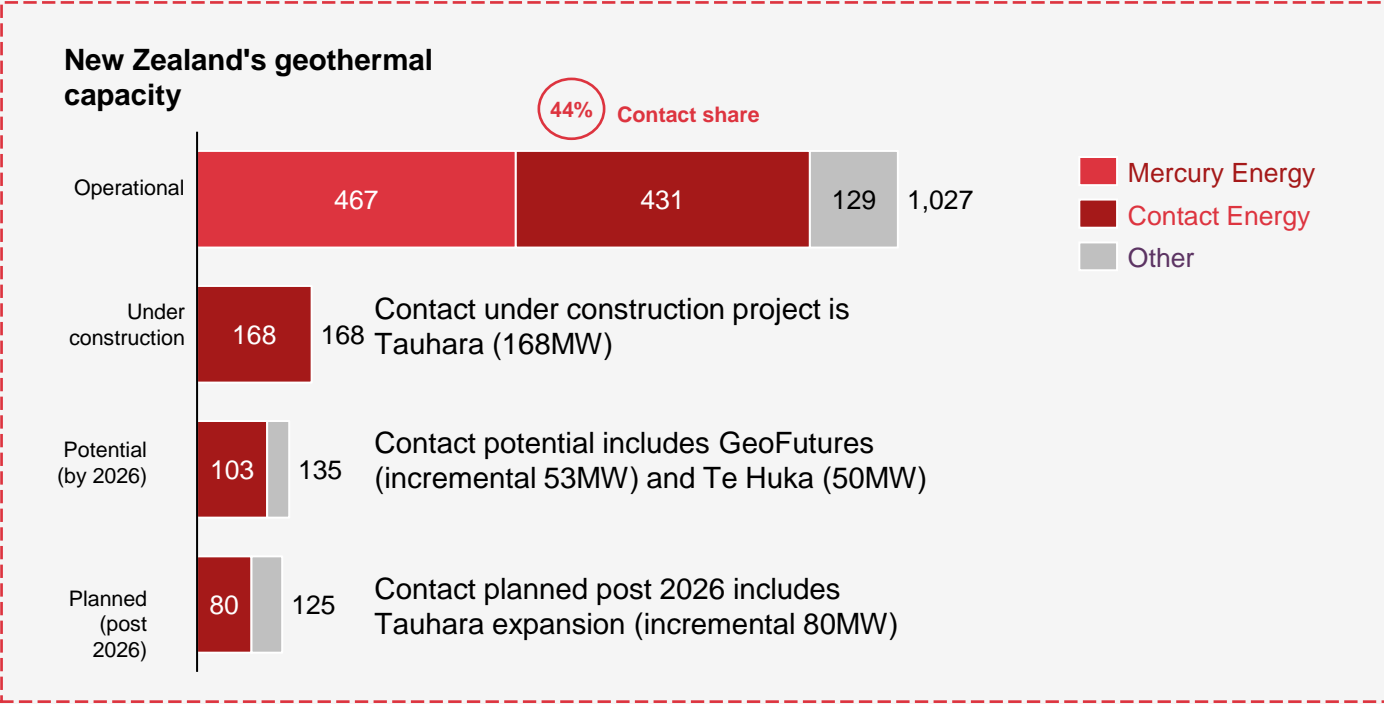
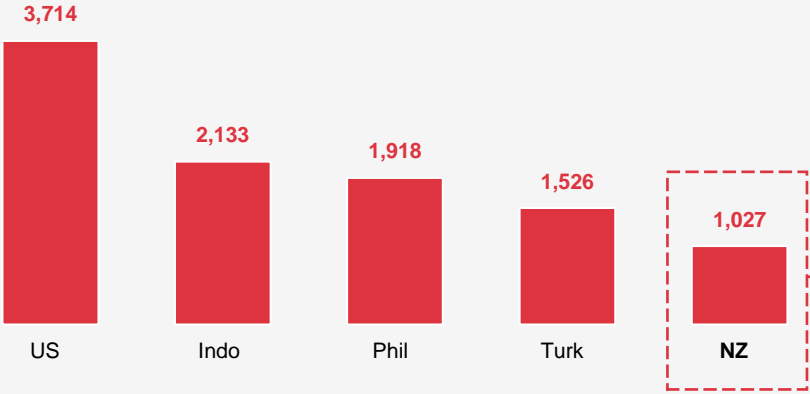
# **1/ Distinctive capabilities**

# Contact is a globally significant geothermal operator

With executable development options

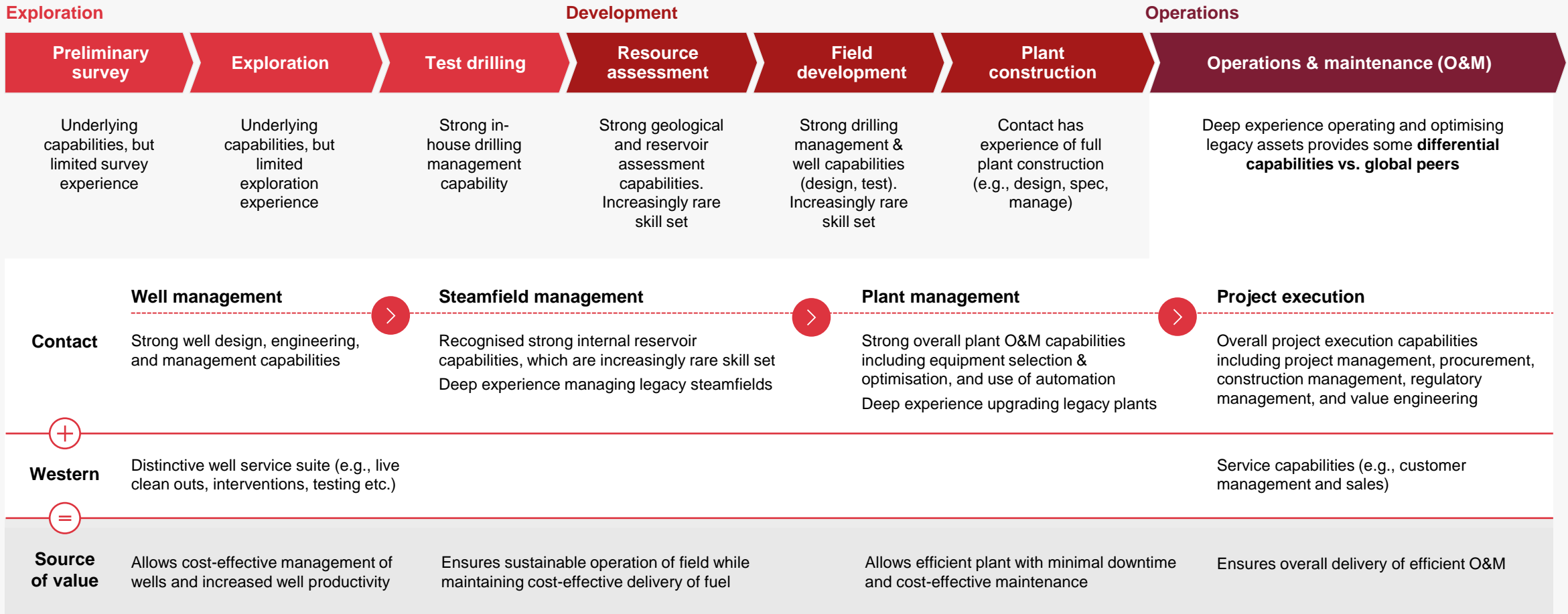
Global geothermal power generation 15,608MW

Top 5 global producers



Source: Think GEOENERGY, UDI world electric power plants data base (2021); NZGA; Contact Energy financials; Mercury Energy financial reports; Company websites

# Contact has a world class suite of capabilities in Geothermal Engineering, Development and Operations



Source: Expert interviews; Management discussions; Western / Contact Capability Map



# World-class geothermal resources

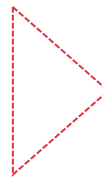
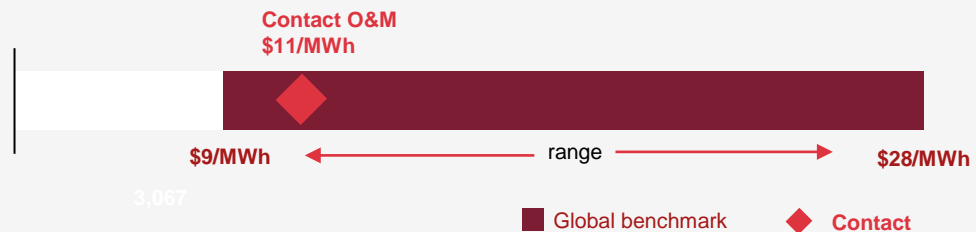
Contact's costs to deliver geothermal power stations are at the low end of global benchmarks

## Contact vs. Global geothermal benchmarks

Geothermal Capital cost \$k/MW capacity USD

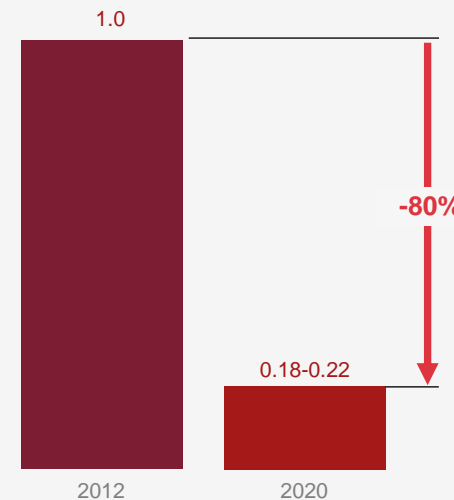


Geothermal O&M cost \$/MWh USD

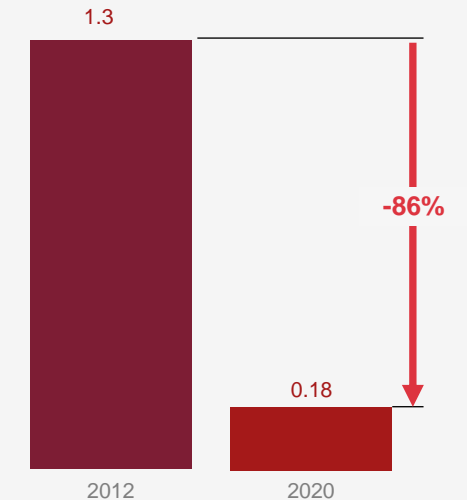


## Novel techniques to reduce operating and capital costs Contact / Western Energy specific cost savings, \$m NZD

Reduced cost of well abandonments (Rig 16) using coil tubing unit vs rig



Reduced cost of cleaning mineral scale from production well using coil tubing techniques vs rig



Sources: Lazard's Levelised Cost of Energy Analysis – Version 15.0, 2021, U.S. Department of Energy, Mckinsey expert interviews

# Strategic acquisitions and partnerships to build capability

## Wind: Roaring40s adds wind development capability



Roaring40s  
Wind Power



Immediate wind development experience having been involved in 70% New Zealand wind projects



Deep knowledge of New Zealand's undeveloped wind sites, giving us a head start



Strong balance sheet to support build of renewable generation



Ability to incorporate and trade wind developments into market



Strong consenting and community relationships

**Assessment and consenting of low-cost wind sites**  
in an exclusive partnership until April 2026

## Solar: Lightsource BP partnership adds solar development capability

lightsource bp



Capability and resourcing to accelerate Contact's position in grid-scale solar



Immediate access to world-leading solar development Strong connections into solar supply chains and dedicated procurement functions to source solar components for LSBP's projects around the globe. Utilised innovative contracting approaches eg reverse auctions



Extensive experience, legal documentation and processes for establishing special purpose vehicles (**SPV**) and undertaking project financing activities



Likely will provide on-going operations and maintenance (O&M) services to any developed solar farms.



Creditworthy counterparty to support a Power Purchase Agreement (PPA) which is a major hurdle to securing project finance and de-risking a project



Significant experience in the New Zealand's electricity market for both trading and development providing assurances to LSBP on risks associated with entering a new market



Strong stakeholder relationships

Exclusive partnership to deliver a series of **grid-scale solar generation** projects initially targeting 200MW by 2026



An aerial photograph of a lush green forest. A prominent white pipeline runs diagonally from the top center towards the bottom right. The forest is dense with various types of trees and ferns, showing a mix of dark green and lighter, yellowish-green foliage. At the top of the image, there are some structures and a road, suggesting a developed area or a power plant. The overall scene is a natural landscape with a man-made infrastructure element.

**2/ New Zealand's  
best renewable  
development pipeline**



# Investing to deliver renewable energy

## Tauhara development key metrics



\* (Gas CCGT ~9x more, Gas Peaker ~11x more)

<sup>1</sup> Excluding capitalised interest as at 31 May 2022. \$550m as of 31 December 2021

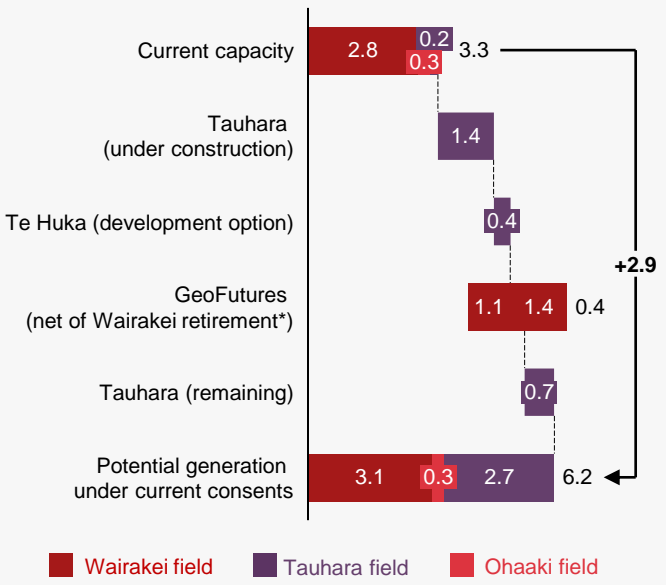
<sup>2</sup> Includes operating costs, carbon costs and stay-in-business capex (excluding make-up drilling and major mid-life capex replacement)

<sup>3</sup> The total addition to PPE on Tauhara commissioning will include ~\$18m capitalised transmission asset, ~\$80m of capitalised interest (\$27m sunk) and \$24m of residual sunk capex related to the next phase of development of the field expected total of \$940m (\$818m + \$18m + \$80m + \$24m)

# Market leading development pipeline

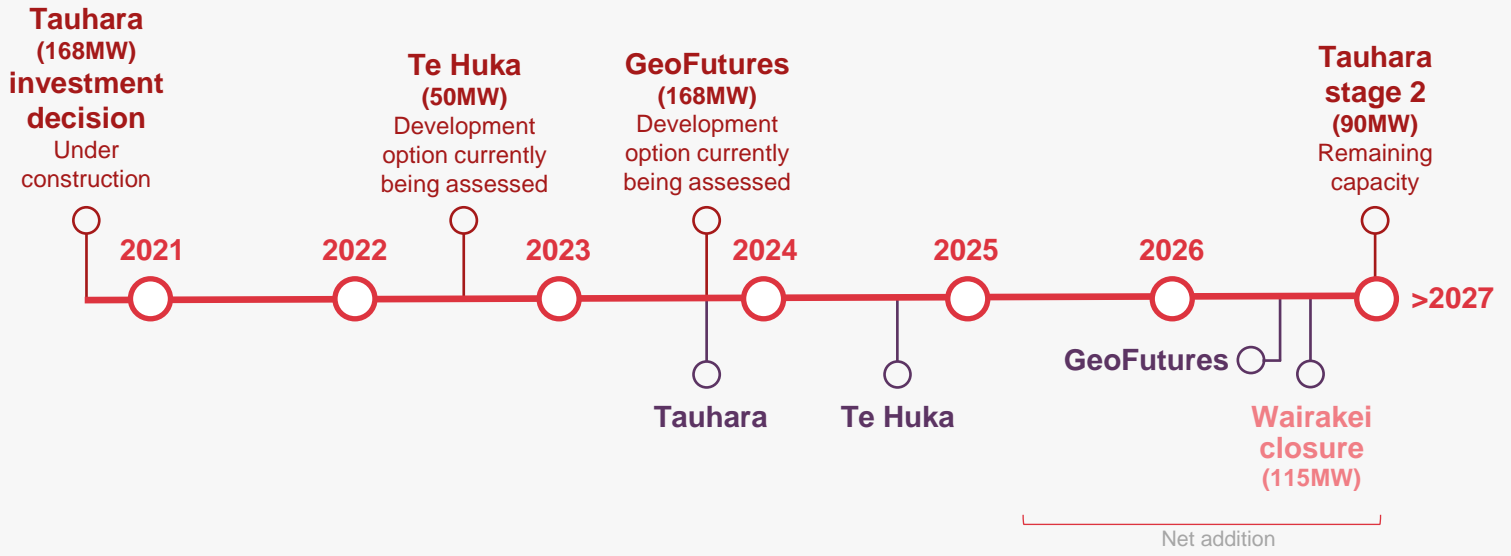
To meet expected market demand

Geothermal generation potential (TWh p.a.)



Geothermal field responses to extraction and injection will determine the ultimate geothermal generation potential beyond current consents.

Potential geothermal development projects



Generation impact

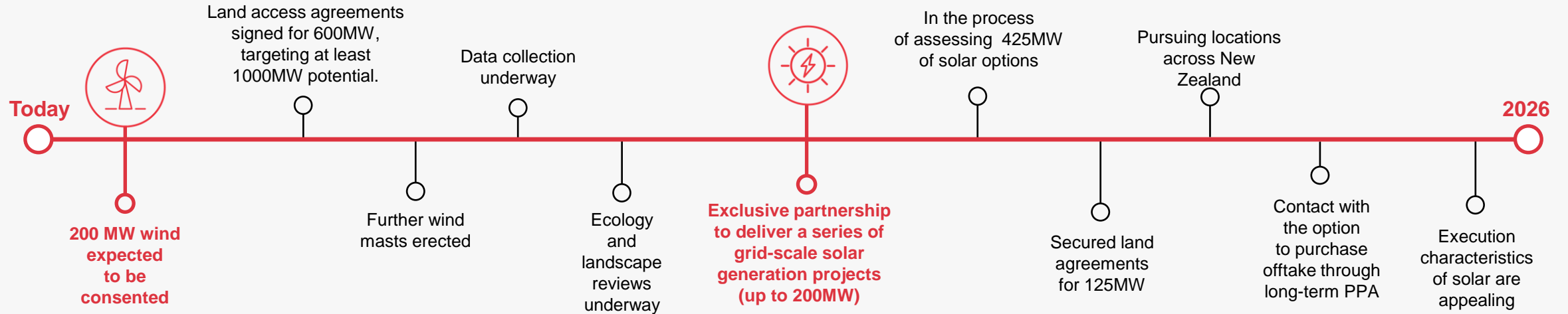
\*Expected enthalpy decline at Wairakei is expected to be offset through continuous improvement projects

Subject to Board investment decision



# Market leading development pipeline

To meet expected market demand





A person wearing a red long-sleeved shirt and khaki shorts is running on a grassy hillside. The background features a vast mountain range under a clear blue sky. The person's legs and feet are in motion, suggesting a steady pace. The overall scene conveys a sense of outdoor activity and nature.

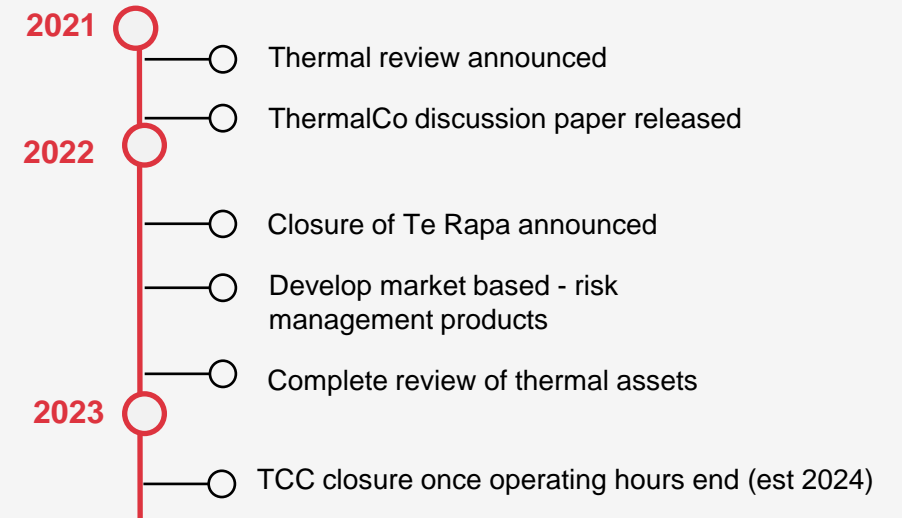
# **3/ Leading New Zealand's thermal generation transition**



# Decarbonising our portfolio: Leading an orderly transition to renewables

## Key outcomes of the pillar:

- Act on our commitment to ESG, contributing to better outcomes for our communities and the environment
- Support secure 24x7 electricity supply for Contact's customers and all other market participants
- Capture the value flexibility offers to the electricity market
- Provide an integrated system to support the transition to renewables by providing risk-coverage to the market and reducing price volatility
- Reduce fixed costs by finding cost reductions, synergies and highest-value ownership

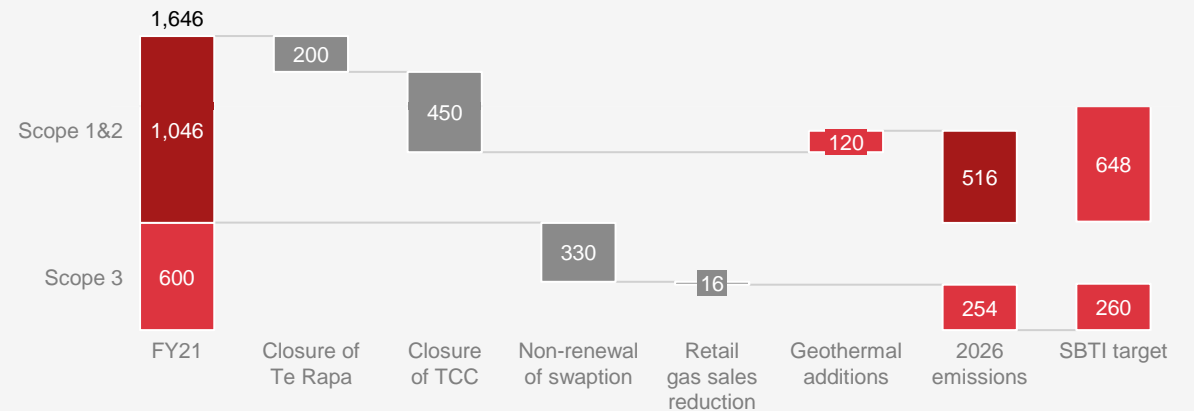


## Other external commitments

Our targets have been approved by the Science-based targets initiative (1.5 degree warming)

Reduce Scope 1 and 2 GHG emissions 45% compared to 2018 baseline by 2026


30% reduction of 2018 Scope 3 GHG emissions by 2026




# Financial strategy

Our strategy grows shareholder value by generating cash flows from strategic investments, backed by new demand.

## Grow our business



**Build a pipeline of demand**

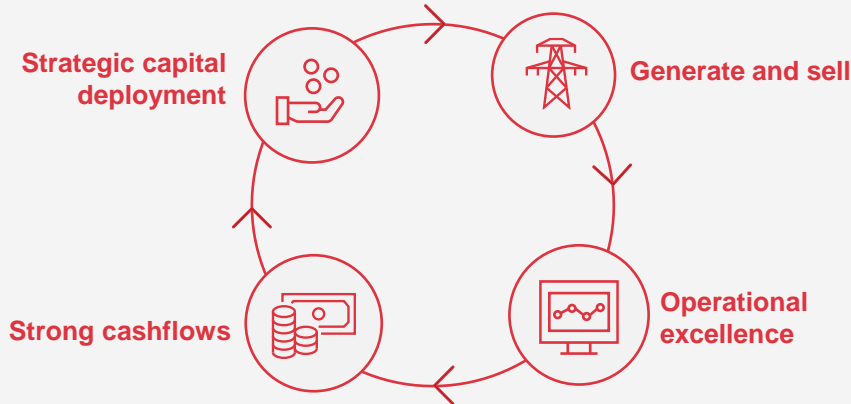


**Capabilities and endowments**

**Collaborate with customers across industry** to generate new demand opportunities.


**Use our high-quality renewable resources and distinctive capabilities** to capture value from new projects.

## Generate returns on our capital investments



- Operate our assets** to meet New Zealand’s evolving energy needs.
- Actively manage channels** to balance fuel risk and returns.
- Continue to operate efficiently** through our operational excellence program.
- Invest in a portfolio of projects with returns above the cost of capital.**

## Fiscal discipline to maximise returns



**Return capital to shareholders**

Pay out **stable and predictable dividends to shareholders** with dividends between 80-100% of operating free cash flows over the preceding four years.

**\$326m**  
4-year average operating free cash flows (FY18-21)

**\$273m**  
Expected FY22 ordinary dividend (35 cps)

**FY22 payout of 84% at DPS of 35 cps.**

# Appendix



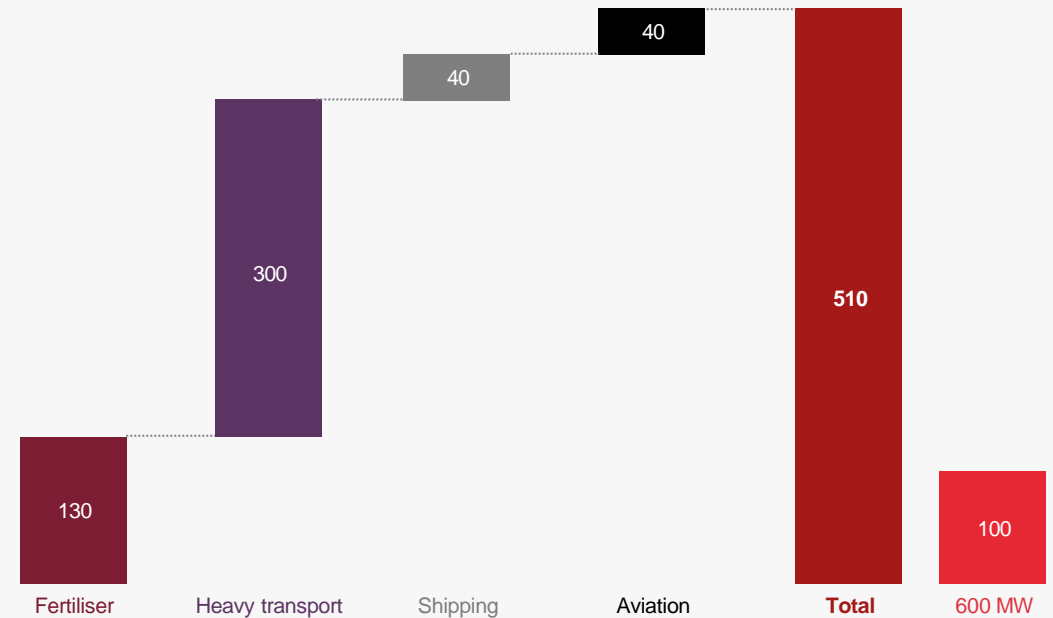
# Hydrogen - domestic market development

Exporting could create immediate economies of scale that will accelerate domestic demand growth

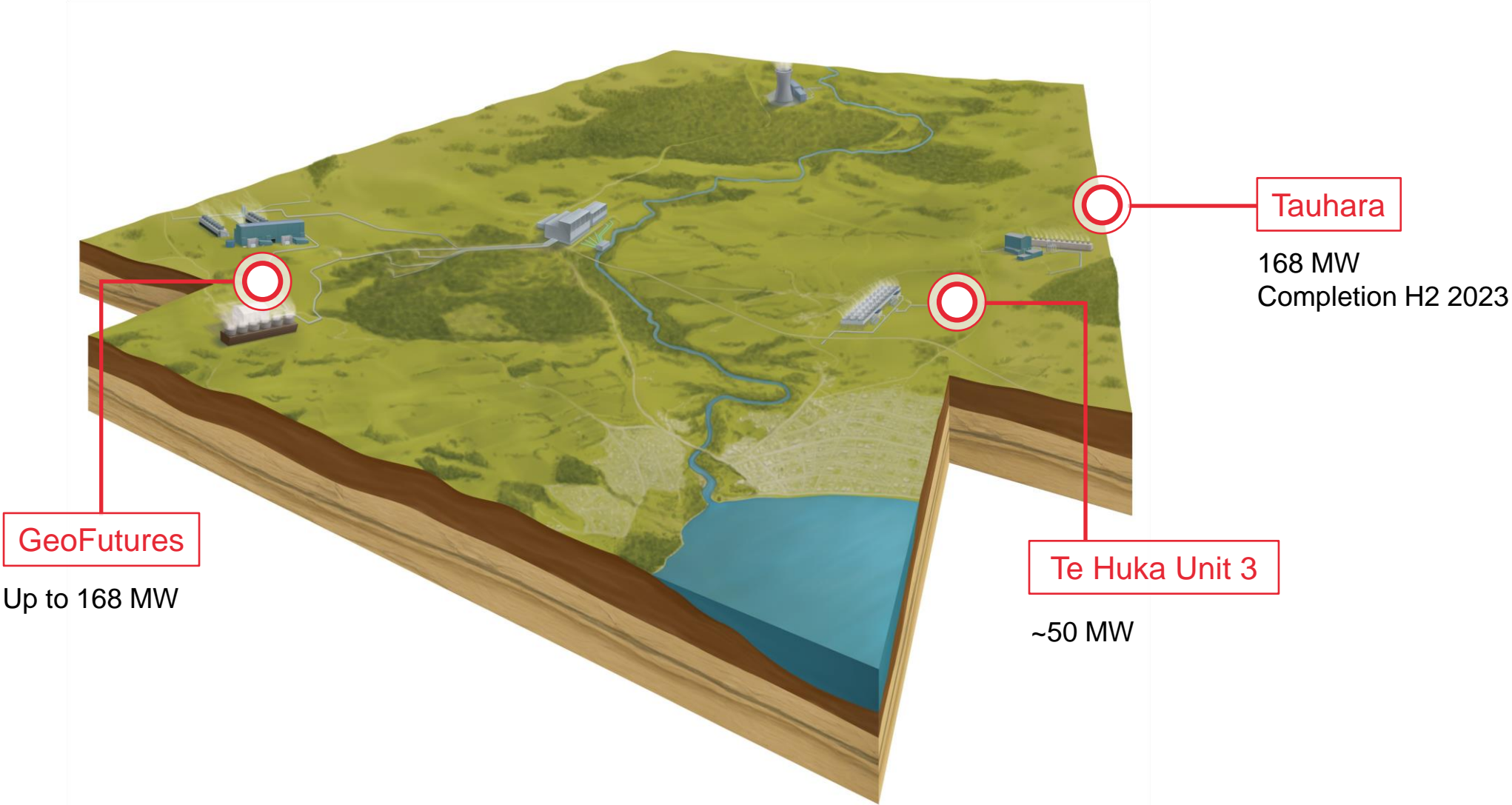
## Key domestic hydrogen applications



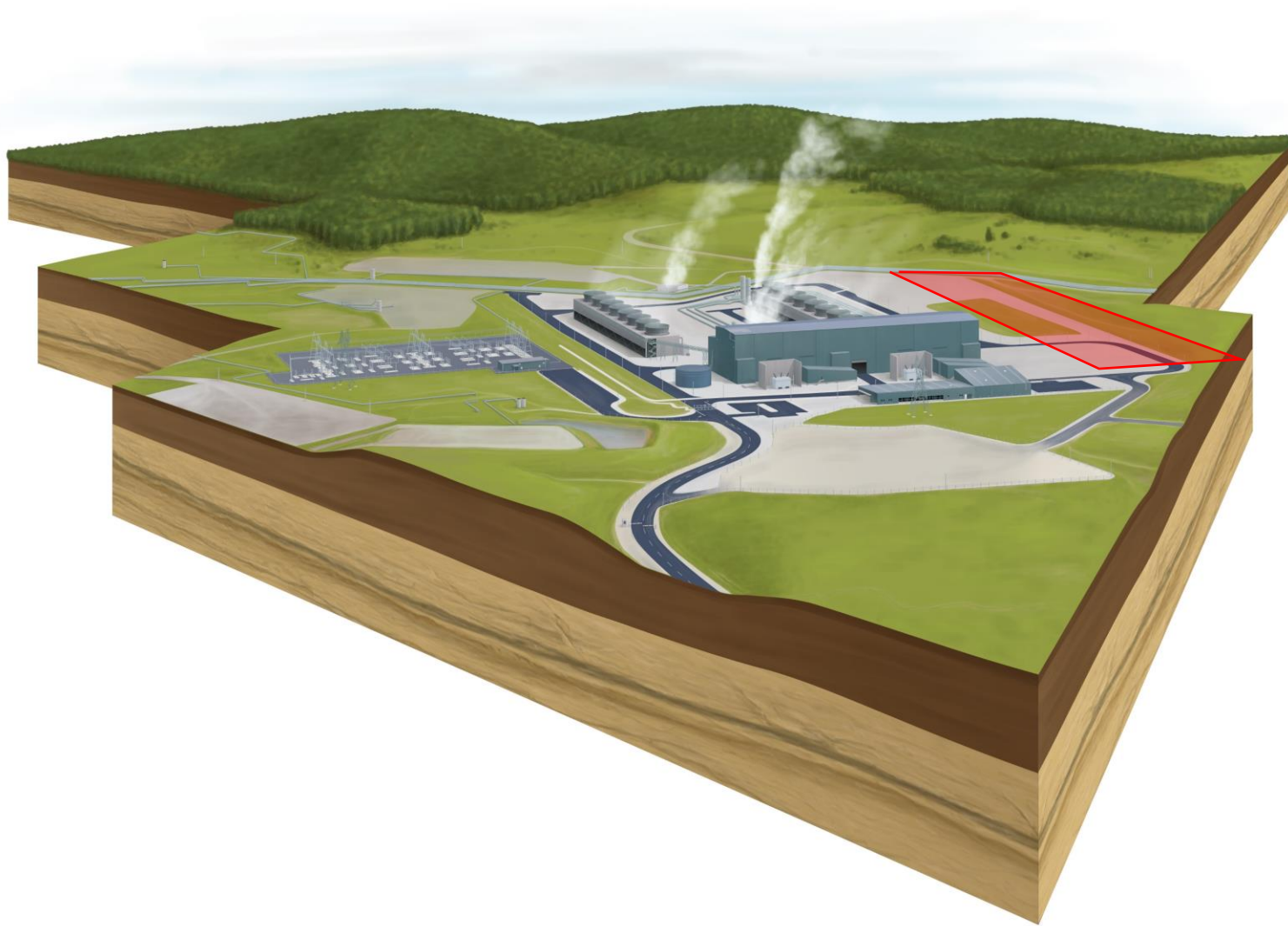
## Domestic market potential (H<sub>2</sub> ktpa)



# Geothermal projects locations



# Geothermal projects – GeoFutures



Field in operation since

**1958**

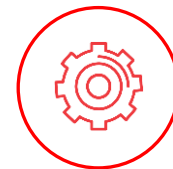
With oldest WRK A&B station to be replace



Estimated MW (net export to grid)

**168MW**

Bringing field total ~400 MW`



Estimated plant generation

**1,400GWh**

(3.5% of New Zealand's current generation)

**Thank you**

