



Wednesday, 16 November 2022

Chair's address to ASM

I want to update you on our strategic ambitions and to take a moment to talk about the path ahead as we continue to play a leading role in decarbonisation.

Despite challenging global economic headwinds, we have continued to deliver solid returns for our shareholders and ensure that Contact is well positioned for the future; a future where we will help to build a better Aotearoa New Zealand.

Before I begin, I would like to acknowledge Mike, the Contact leadership team and all our Contact whānau, who everyday come to work to make a positive difference for our customers and stakeholders. They focus on how Contact can support New Zealand's decarbonisation at the same time continuing to deliver solid financial performance through the economic and Covid headwinds. Contact people have consistently delivered.

For that I say, well done and thank you.

Overview of the Year

It has been two years since we launched our Contact26 strategy to be a leader in New Zealand's decarbonisation by:

- developing new, flexible renewable generation,
- decarbonising our portfolio,
- growing demand for renewable electricity, and
- creating outstanding customer experiences.

I am pleased to report significant progress in the past year that positions Contact well for sustainable growth.

Our strategy allows Contact to leverage our strengths and respond to external drivers, including changing stakeholder and societal expectations. We are responsibly managing the natural resources we use, as well as reducing New Zealand's greenhouse gas emissions.

Developing new, flexible renewable generation

Contact is continuing to bring new renewable electricity projects to market.

We have made good progress with our Tauhara geothermal development near Taupō - a nationally significant renewable generation project. It is now expected to generate 174 MW of renewable electricity, up from 152 MW when we first announced the investment. The scale of this project is evident with over 500 people currently working on the construction site.

This year, we were also pleased to announce a further \$300m investment in a new 51.4 MW geothermal power station at Te Huka, near Taupō which will be generating from 2024. Our technical capability and knowledge and experience gained with the Tauhara project has enabled us to confidently bring forward the Te Huka investment.

We have lodged resource consent applications to redevelop the Wairakei geothermal station when consents expire in 2026. The original Wairakei geothermal plant was commissioned in

1958. This redevelopment will move existing operations away from the Waikato River and increase the efficiency and generation capacity from the Wairakei resource.

In addition to our geothermal development, we have developed a strong pipeline of wind, solar and grid scale battery opportunities. This pipeline will provide us with investment options for solar generation as early as 2024, and wind generation as early as 2027.

Decarbonising our portfolio

As we invest in new renewable generation to support demand growth, thermal generation will be removed from our portfolio. We will ensure that our transition is orderly to support the security of supply and energy affordability for New Zealand.

Our journey to decarbonisation began in 2015 with the closure of our Otahuhu thermal plant. In 2023 we will close our Te Rapa gas co-generation power station, and we expect to decommission the gas-fired Taranaki Combined Cycle power station in 2024 once the Tauhara power station plant is operating.

Contact is committed to our science-based target to reduce from 2018 levels Scope 1 and 2 CO2 emissions by 45 percent by 2026.

Today I am pleased to tell you that we are well on target; we have reduced our greenhouse gas emissions by 33 per cent from 2018.

With the planned closures of Te Rapa and TCC, together with the closure of Otahuhu in 2015, Contact's emissions will have reduced by 70 per cent over a 10-year period. This represents approximately two million tonnes of CO2 emissions being avoided each year. That certainly makes Contact Energy one of the leaders of the decarbonisation of the New Zealand economy. We are also continuing to explore options to reduce emissions further including piloting reinjection of fugitive CO2 emissions from geothermal fluids.

Growing demand for renewable energy

Transpower's Te Mauri Hiko report forecasts electricity demand to increase by 68 per cent by 2050. We are seeing accelerated interest from both domestic and international customers for significant new demand. New Zealand's electricity market, in the face of volatile international energy markets, is increasingly being recognised as a world leader in stability and affordability as well as a high and growing portion of renewables.

This new demand has been slower than anticipated, however our pipeline of new projects is strong, and we remain confident that new demand will continue to materialise.

Creating outstanding customer experiences

We are pleased to have won a number of awards that recognise Contact's focus on outstanding customer experiences. This includes Energy Retailer of the Year at the New Zealand Energy Excellence Awards, four awards at the New Zealand Compare Awards: Best Customer Support – Power; Best Mobile Application; Power Provider of the Year; and Supreme Champion Award across Broadband and Power. And at the advertising industry effectiveness awards last month we won a gold Effie for our brand campaign launch, It's Good To Be Home. These awards are testament to the focus of the Contact team.

The Investment Environment

The path to decarbonisation will demand significant investment. The recent independent Boston Consulting Group (BCG) report **The Future is Electric** sets out the extent of investment the sector will have to make collectively through to 2030 to deliver near 100% renewable generation. That figure is \$42 billion in the 2020s across generation, transmission and distribution.

As I have said Contact is well placed to play our part to deliver a fully renewable electricity system.

We will continue to support work by the Government on options to support renewable electricity, including the development of a New Zealand energy strategy. However, the government must carefully consider how potential interventions impact necessary investment in new generation.

The report highlights there are significant policy considerations for the distribution and transmission of electricity to support transition to a zero-carbon electricity industry.

The Government's New Zealand Battery Project is exploring options to address dry year risk, including the large-scale Lake Onslow scheme. Contact has a direct interest in the specifics of Lake Onslow with the proposed intake and outlet impacting water flows at our Roxburgh dam.

The BCG report clearly identifies the significant progress already underway to address the dry year risk, and that there are lower cost and more effective ways to decarbonise New Zealand energy sector, including the use of smart technology and increased demand response.

While the government's evaluation of Lake Onslow is at early stages and ongoing, Onslow is a high risk and expensive option to address the final few percent of renewable generation, when compared to other opportunities to decarbonise New Zealand. It is a less than ideal location and we fear its cost is vastly understated. If it proceeds it will have a chilling effect on the robust renewables' investment pipeline we now see.

Experience with similar but smaller projects than Lake Onslow, such as Snowy River Hydro in Australia, face significant cost overruns and delay.

Financial performance and environment

On the financial front, the 2022 financial year was a solid one – a year in which we continued to deliver to New Zealanders and the communities we are privileged to operate in.

Contact delivered a firm financial performance over the last year, with EBITDAF of \$537 million and a net profit of \$182 million, despite unpredictable and volatile trading conditions. This unpredictability has been compounded by a combination of global energy supply and security concerns, exacerbated by the impact of Russia's invasion of Ukraine, with subsequent unprecedented increases in international energy prices, including coal, which has also coincided with a reduction in gas output from the domestic gas market.

These thermal fuel challenges further support the acceleration of our Contact26 strategy, and we continue to progress a range of renewable energy projects across the country in our aim to lead New Zealand's decarbonisation. Our retail business has grown its market share in electricity and broadband through innovative retail plans resulting in Contact being the fastest growing energy and broadband company in the past financial year.

In February 2021, the dividend policy was revised to target a pay-out ratio of between 80 and 100 per cent of the average operating free cash flow of the proceeding four financial years. This saw the Board approve a final dividend that brought the annual dividend to 35 cents per share, in line with the previous year.

Our financial performance in the first four months of this current year has reflected the significant rainfall resulting in softer wholesale spot electricity prices. We expect wholesale prices for the remaining seven months of this year to firm, with fuel also secured for next year when the market is expected to be tighter.

People

Before I hand over to Mike, I would like to pay tribute to the Board. Our Board is full of talented people with a wide range of experience, perspectives, and networks. You are in good hands. Thank you to Victoria, Sandra, Rukumoana, Elena, Jon and David for your relentless commitment and dedication this past year.

I would also like to acknowledge and thank KPMG for their 17 years of service as the Contact auditors. The Board decided after 17 years as a matter of good governance to seek new auditors. This also aligns with our recent policy of limiting an auditor's tenure to 15 years.

Finally, I would like to say thank you to all of you who have come today, whether in person or virtually and for your ongoing support as investors in Contact Energy. Your support is much appreciated.

We are focused and well-positioned for the future leading New Zealand's energy transition, and to create value for all stakeholders alongside sustainable success for our shareholders for the long term.

Ngā mihi nui.

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Investor enquiries

Shelley Hollingsworth
+64 27 227 2429
shelley.hollingsworth@contactenergy.co.nz

Media enquiries

Louise Wright
+64 21 840 313
louise.wright@contactenergy.co.nz