

13 November 2019

Chair's Address to Contact Energy 2019 Annual Meeting of Shareholders

Introduction

My address today is a deliberate forward-looking view of the business and how it will fare in our rapidly changing world.

A particular focus is Contact's ability to be a leader in tackling climate change with tangible actions that drive good business outcomes.

Context and performance

New Zealand's energy sector is rapidly changing.

We are facing increasing expectations from investors, customers and communities and increased focus on environmental performance.

We are also facing more volatile conditions in weather and security of fuel supply.

Our people and assets have risen to these challenges and delivered strong financial performance in the last financial year.

We delivered a full year dividend of 39 cents per share, up 21% on last year and we are targeting a full year dividend of 39 cents per share for the current financial year.

Underpinning these results is Contact's operational efficiencies, the quality of our generation assets and strength of the balance sheet.

This was enhanced by completing the sale of Ahuroa Gas Storage and the Rockgas LPG business.

With Ahuroa, we have retained long-term access to gas storage services and with Rockgas, we have retained the ability to market LPG to our customers.

The asset sales materially improved the strength of our balance sheet and positions us well for future investment.

A lower carbon future

The time for talking about the climate is over. It's action that matters now.

We are continuing to make reductions in our carbon emissions and are focused on helping our customers to do the same.

You have heard this before but I believe it is worth reminding ourselves, since 2012 we have more than halved our emission from electricity generation – it has fallen from nearly 2.5 million tonnes of CO₂ emitted per annum to under a million tonnes,



and in the last financial year alone our emissions decreased by 16% on the prior year.

It is worth noting that since 2012, Contact has done more in absolute and relative terms to reduce direct emissions than any other major generator in New Zealand.

We didn't just remove carbon emissions from the system.

We invested over \$800m when we built the 166MW geothermal power station at Te Mihi, developed the world first Wairakei Bioreactor and renovated the 60 year old Wairakei steamfield.

We recently became one of the first power companies in the world to have our carbon emissions targets verified by the Science Based Targets initiative (SBTi).

Our targets are in line with what the latest climate science says is needed to meet the goals of the Paris Agreement - to limit global warming to well below 2°C above pre-industrial levels.

These new targets are to reduce Scope 1 and 2 emissions by 34% from 2018 to 2026, and Scope 3 greenhouse gas emissions by 30%.

To achieve this, we are reducing our own emissions and helping our large customers with theirs.

Investing in more renewable generation

Notwithstanding the current strategic review of the aluminium smelter at Tiwai, the Board believes a new geothermal power station at Tauhara field remains New Zealand's cheapest and most attractive option for renewable baseload generation.

Adding this to our flexible portfolio of gas-fired and renewable generation assets helps us contribute to security of supply and a lower carbon future.

We are currently drilling four appraisal wells on the Tauhara field and the Board will make a final investment decision on Tauhara next year.

Earlier this year the Interim Climate Change Commission reported to government. They were clear that in order to meet the government's climate change ambition the government should be looking at policy settings to support accelerated electrification of the process heat and transport sectors.

That is where the big gains can be made. The government itself can and should continue to make tangible steps to reduce its carbon footprint wherever it can from electrification of the Government vehicle fleet to conversion of thermal heating to electricity in the public sector.

The Commission also effectively confirmed what we have always understood: that continued access to gas for electricity generation will ensure New Zealand maintains the migration away from carbon intensive fossil fuels like coal and petroleum without unduly burdening the economy and consumers.

Our goal to reduce carbon emissions saw the Board support the acquisition of 49.9% of Simply Energy – a provider of demand-side management tools to improve efficiency and reduce emissions.

The steps we have taken this year are significant and have made a substantial and positive impact on our business.

Tiwai Aluminium Smelter

You will have seen the news that Rio Tinto is conducting a strategic review of the Tiwai aluminium smelter. As a consumer of 14% of New Zealand's electricity any closure could be impactful to our sector.

It's too early to say what the conclusion of the review will be, but it is evident there is a desire to find a solution to enable the smelter to keep operating.

Rio Tinto has cited the cost of electricity and transmission as reasons for the review and we certainly share their frustration on transmission costs.

The transmission pricing methodology review has taken too long and the potential benefit to the smelter has been reduced from more than \$50 million a year in 2015 to \$11 million now, with an implementation date pushed out to 2024.

Tiwai is a producer of high-quality low carbon aluminium and supports more than 3,000 jobs in Southland. If it were to close carbon emissions would increase globally and those jobs would be lost to New Zealand.

Carbon is a global issue and considering it from a New Zealand perspective is short sighted. We should support and grow our low-carbon advantage and that includes supporting businesses like the smelter.

Electricity Pricing Review

In early October, the government announced its decisions on the report of the Electricity Price Review panel chaired by Miriam Dean.

The government acknowledged the benefits of the current competitive retail market, but found room for improvement in energy hardship and consumer advocacy.

We agree with the decision to introduce a consumer advocacy body and we are committed to industry funding of this initiative.

Contact is already phasing out prompt payment discounts and supports the recommendation of the panel to remove win backs.

The market will and should evolve and the team will work with officials and regulators as they deliver the changes that will flow from the review. The Minister has been clear that she wants to see action and we will ensure that we are part of that process. The goal should be enduring solutions rather than reactive or short term solutions. History tells us that a temporary or reactive 'fix' can be hard to unwind

Before I close I would like to focus on three areas of change at Contact:

Integrated Reporting <IR>

As you may have seen in our Annual Report, we have taken the decision to use the globally recognised International Integrated Reporting framework to report the performance of our business.

The IR framework requires us to show how we create value for all our stakeholders. It also encourages us to think about the value we create from and for our people, our brand, intellectual property, our assets, natural resources, and our customers, community and relationships.

This approach is particularly pertinent in the current global context where climate change is both a threat and an opportunity for those who can be part of the solution, such as our business.

Governance

In FY19, the membership of your Board changed, with Sir Ralph Norris and Sue Sheldon retiring on 31 August 2018.

We appointed three new directors – Dame Therese Walsh, David Smol and Jon Macdonald.

Each of these directors brings valuable skills that complement the expertise of the longer serving Board members.

The Board is focused on delivering value to you the shareholders and being a leader in the sector and wider economy.

Succession

In September this year, the Board announced the appointment of Mike Fuge as the new CEO. Mike will start with Contact in the first quarter next year.

Mike is currently CEO of Refining NZ prior to which he has a long history in the energy sector, both in New Zealand and internationally.

On behalf of the Board, I thank Dennis Barnes for his substantial contribution as Chief Executive for the past eight years.

He has led Contact to an outstanding safety culture, more highly engaged employees, and customers advocating for it in greater numbers and delivered strong and sustained financial performance over that period.

Finally, on behalf of the Board and Leadership team, I would like to thank all of you for your ongoing support of Contact. I will hand over to Dennis for an overview of the year.