



10 November 2021

CEO's address to ASM

I'm delighted to be sharing my perspectives on another action-packed and opportunity-laden year for Contact, having completed my first full year as CEO.

I feel a huge sense of pride and satisfaction at all that the team at Contact has achieved over the past year.

I'm proud that we have continued our strong performance and positioned ourselves well for the future. As we look to FY22 and beyond, there is a lot more to do – it is a very exciting time to be involved in the electricity sector.

We have had a significant strategic reset with Contact26, which was delivered in the second half of FY21 and has ushered in an exciting new chapter for the business.

As Rob mentioned, at the heart of Contact26 is our commitment to building a better New Zealand and leading the country's decarbonisation. We are doing this by:

- growing demand for New Zealand's renewable electricity;
- developing new, renewable, flexible electricity generation;
- decarbonising our own portfolio; and
- creating outstanding customer experiences.

The key enablers of our strategy are:

- our commitments to strong environmental, social and governance practices;
- a relentless focus on operational excellence; and
- the ongoing transformation of how we work together.

We are well-positioned to deliver our strategy. We have a strong platform with our existing knowledge and capabilities in decarbonisation. We have the renewable assets and development pipeline we need to provide firm and flexible electricity supply at a reasonable price. And we have considerable flexibility in our portfolio both now and for the future.

We also have the people with the passion, capability and commitment to deliver.

Advances in technology and the improving economics will accelerate the shift toward electrification across the economy. Fossil fuel input costs have rapidly risen, with carbon costs doubling over the past two years. Gas prices are rising as supply becomes less secure. Meanwhile the cost of green technologies has fallen, as new uses like green hydrogen emerge and electric vehicle production gains scale.

The upshot is that clean, low-cost, renewable electricity will be increasingly attractive and in hot demand. And we are ready to respond. We are more than ready. We are in action.

Tauhara...

The decision in February to proceed with the development of the Tauhara geothermal power station was a huge milestone of the company and a highlight of the year.

An enormous amount of complex work went into the project ahead of the final investment decision: research, preparation, discussion, listening and engineering wizardry must happen before an investment like this can get off the ground.

It has been a long time coming, with some of the people involved at Contact since the initial phase of investigation kicked off more than 10 years ago. Having visited the site several times this year – but not as much as I would like given pandemic restrictions – it is hugely exciting seeing this take shape in the central North Island.

The team showed much perseverance, resilience and patience in the pre-investment decision chapter and now there is an enormous amount of mahi going into the construction effort. We have a fantastic team from within and beyond Contact who will ensure it is a world-class power station that everyone can be very proud of.

Delivering this project, in these unusual times and amid disrupted supply chains should not be underestimated: so far the project team have shown that they are more than up to the task. Given the favourable reservoir conditions we have encountered in our drilling to date, we have commenced studies as to how we can increase the final capacity of the plant to as much as 165 MW. This may require additional cost, but I can assure you it will be very, very reasonable compared to the cost of a greenfield site. As we get conclusions from the studies, we will update you.

Linked to Tauhara is the trio of long-term 'power purchase agreements' announced with Genesis Energy, forestry products manufacturer Pan Pac and pulp and paper company Oji. These amount to three terrific votes of confidence from customers who are willing to make long-term commitments to support renewable generation development and are exactly the type of long-term commercial arrangements needed to underpin the acceleration of renewable energy investment in this country.

We want to grow demand for renewable electricity by displacing thermal generation and deals like this help make that happen. And that will ultimately be good for New Zealand both in terms of reducing carbon emissions and keeping electricity prices as low as possible.

...and beyond

It does not stop with Tauhara. We are actively looking at how we can bring more geothermal development forward in response to the clear market signals – long may these continue. And we are under way with innovative options including increased generation efficiency from our existing assets (for example, new and improved turbines; gas tolling deals; refined geothermal processes) and exploring options around wind, solar and the potential development of a battery in the North Island.

We're also excited about our work with Meridian Energy to investigate the potential of a large scale, renewable hydrogen production facility in the lower South Island. The Southern Green Hydrogen project could be trailblazer that sees a new industry deliver long-term economic value for New Zealand while helping to decarbonise our economy and parts of the world's economy too. We received huge interest in the project from around the world and are currently in the process of refining the interest into a short list and establish the best options for progressing this project.

Another major focus is on the retail business where our energy is going into creating outstanding customer experiences. This commitment has seen us grow our net promoter score across all of our customer 'touchpoints' by 39 points over the past five years in a highly competitive market. Our plans for a high profile brand campaign have been postponed due to production complications around Covid19 but look out for that in the New Year.

In line with our plans to increase customer connections by expanding into new products and services, we now have close to 60,000 broadband connections and we are New Zealand's fastest-growing broadband provider. We had zero broadband connections four years ago.

Blackout

A lowlight of the year were the unfortunate outages for more than 30,000 households on 9 August, including around 5000 Contact customers who we provided with a credit as a gesture of goodwill for the inconvenience.

We had all of our available generation in the market at the time, including hydro generation (Clutha scheme), geothermal generation (central North Island) and thermal generation (Te Rapa, Whirinaki and the gas peakers at Stratford).

We have been contributing to the various investigations that have ensued the August event and we are very keen to better understand the details of what happened. One thing that does seem clear is that there needs to be a better way of communicating outages like this to everyone who might be affected, especially consumers.

TWoW / COVID

We know the success of our strategy hinges on our people being ready and excited to execute. We have a fantastic team, engagement is high, and we are building our capability to support growth.

We are building on our Transformative Ways of Working (TWOw) programme and continuing to re-engineer the way we work. Our strong – and improving – engagement survey results show we are definitely moving in the right direction, but we will need to keep evolving and improving.

Our team has also continued to demonstrate great resilience in the face of the ongoing Covid19 restrictions and level changes throughout the year. Our Auckland-based team is well set up to work from home, but has undoubtedly been doing it tough as the lockdowns continue in the City of Sails.

With the support of the leadership team and the Board, I have been a passionate advocate for encouraging our people to get vaccinated. We welcome the Government's expanded mandates around requiring vaccination and we are looking forward to the details of the looming guidance around risk assessments for roles that will require vaccination.

We have several roles across the company where our risk assessments have shown that up-to-date vaccination status will be very important in maintaining our lifeline utility capability. And more broadly, we may arrive where others have too: one of the key ways of keeping indoor environments shared by groups of people safe is to only allow fully vaccinated individuals into them. We'll be moving into the consultation phase with our people very soon.

LT changes

We have had some changes to our leadership team this year. Our Chief Customer Officer Vena Crawley left in April 2021, our Deputy CEO James Kilty left in August to be the CEO at electricity distributor Powerco, and our Chief Corporate Affairs Officer & General Counsel Catherine Thompson resigned last month. All have made significant contributions to Contact over a long time and we wish them well in the future.

We have also had a series of senior appointments, with:

- Jacqui Nelson joining the Leadership Team in July 2020 as Chief Generation Officer and recently moving into a new role as Chief Development Officer.
- Jack Ariel joined the LT and took up the new role of Major Projects Director in April. Jack is responsible for overseeing the execution of all major surface engineering projects, starting with the Tauhara power station development.
- Iain Gauld joined the LT as Chief Information Officer in September, alongside our Chief Digital Officer, Tighe Wall.
- And in October, Matt Bolton was appointed as our Chief Retail Officer.

It is good to have the bulk of the leadership team now in place and poised to deliver on the growth and transformation agenda we have set out earlier this year.

Financial performance

This year we delivered a strong financial performance with EBITDAF up 24 per cent year-on-year to \$553m, and profit up significantly to \$187m from \$125m a year ago.

Operating earnings were up by \$107m on FY20, partially offset by increased depreciation on thermal generation stations and higher tax to pay on the improved financial performance.

We did an outstanding job in securing gas supply to ensure we could continue to generate electricity when renewable generation options were constrained by weather for most of the second half of the year.

Although we expect continued reliance on higher cost fuel sources over the short-term, these will be displaced over the next few years as the more than three terawatt hours of low-carbon, renewable generation plants come on stream, including our geothermal development at Tauhara.

Operating free cash flow for FY21 was \$371m, up 28 per cent on FY20 with higher operating earnings and lower interest costs. This was partially offset by higher stay-in-business capital spending to support our scheduled geothermal outages.

Our results are underpinned by continued smart channel management of our flexible portfolio of gas-fired and renewable assets, continued operational excellence, strong asset availability, and a strong financial position.

You will have seen from our operating stats that we have made a strong start to FY22 across the board, maintaining the momentum from FY21 into Q1 FY22.

The future

While we can be proud of our FY21 performance and results, and the ground we have taken to assure future growth, there is no room for complacency.

Our retail landscape continues to change with the sale of Trustpower announced in June. We're looking forward to the challenges or changes this brings to the market – after all, competition drives us to evolve faster and it will bring out the best in us for our customers.

We continue to see volatility in the wholesale market too, underpinned by the increase in gas shortages and gas field issues over the past three years and the impact on investment that accompanied the Tiwai Point smelter's threatened closure.

There is no doubt flexible thermal generation will be required as New Zealand transitions to 100 per cent renewable. But market stability encourages investment in sustainable generation and we have made a good start with more than two terawatt hours of low-carbon renewable generation projects set to come on stream across the sector in the next three years.

As an industry we will need to expedite sensible decarbonisation, while maintaining security of supply and affordability. One action we've taken on that front is to start engaging about an option to consolidate New Zealand's thermal generation arrangements into one entity, which we have dubbed 'Thermal Co'.

As the market transitions to lower carbon solutions, we are likely to see sub-optimal levels of capacity from intermittent renewables, for example, for demand peaks or dry periods. Additional flexibility from fast-start thermal generation will continue to be needed during the transition, however asset owners will struggle to make economic returns as the frequency of use declines.

We believe consolidating thermal assets into a new 'Thermal Co' could encourage electricity generation from coal and gas-fired plants in ways that are aligned with New Zealand's decarbonisation objectives, ensuring affordable, ongoing stable electricity supply, and we will be sharing more details on our current thinking next week.

There is a further stake in the ground for our industry with the goals and challenges set out in the Climate Change Commission's advice to the Government in June. Our response at Contact is unequivocal: we are up for the challenge.

Let's get moving.

It is a hugely exciting time to be involved in the electricity sector. As a country and a company we have some audacious goals. We are confident we can deliver and we are looking forward to it.

Thanks

Some brief acknowledgements before I finish.

I would like to thank Rob and the Board for their support over the past year.

A huge thank you to the Contact team for their commitment to doing a great job. None of this would be possible without our people.

Thank you to our customers and suppliers.

Thank you to our neighbours. We live, work and operate in communities across the country, and we know our actions impact on the people and environment around us. We will keep striving to be the neighbour you want to have.

And thank you to you – our investors – we appreciate your continued support of Contact.

Ngā mihi nui.

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