



10 November 2021

Chair's address to ASM

On behalf of the Contact Energy Board of directors, today I'm very pleased to be sharing some observations on the year, our strategic ambitions, and taking a brief moment to look ahead to the future possibilities and opportunities for Contact as we pursue our strategy to play a leading role in the decarbonisation of New Zealand.

2021 has been a year in which we have achieved a lot, stared down some significant challenges, kicked off a phase of growth and change, continued to deliver returns for our shareholders, and ensured the company is well-positioned for future success.

Before I start though I would like to acknowledge Mike and the Contact leadership team and everyone at Contact who has put their energy in day-after-day. Even with the challenges of the COVID-19 pandemic, which continue to this very day, Contact's people have consistently delivered.

Well done and thank you.

Strategy

The Contact26 strategy was developed in the latter half of 2020 and sets out the company's plan of action for the five years until 2026. We presented this to investors at our Capital Markets Day in May. The pursuit of this strategy sees Contact ushering in a time of significant change and adaptation, as we position for growth.

Our focus is on leading New Zealand's decarbonisation efforts, and leading the transition away from reliance on fossil fuels. New Zealand is privileged to start the decarbonisation journey with a low-carbon electricity system.

As demand for electricity grows with industry and transport decarbonising, Contact will bring new renewable projects to market to meet that increased demand. These will follow in the footsteps of the world-class Tauhara geothermal project.

The highlight of the year was final decision to proceed with the Tauhara project in February. We are absolutely delighted that market conditions allowed us to proceed with this important development that had been in the planning stages for more than a decade.

Tauhara is not just important for Contact, but for New Zealand. It is a major post-COVID-19 private sector investment, and will have a substantial impact on the country's transition to becoming 100 per cent renewable-energy.

In March we also successfully completed a \$400m equity raise which was heavily over-subscribed. This was to initially reduce net debt and provide financial flexibility to fund the Tauhara project and other future growth projects. The capital raise gives us the flexibility to execute on up to \$800m of additional projects beyond Tauhara.

And now we are under way with a new \$200m capital bond. The bonds will be certified as 'green' by the Climate Bonds Initiative as part of our green borrowing programme and will be

New Zealand's first certified green capital bonds. This continues Contact's leadership in the sustainable financing area with all bi-lateral bank facilities converted to sustainability-linked loans earlier this year and all eligible debt certified as 'green'.

The Bonds provide investors with another opportunity to invest in Contact as one of New Zealand's leading renewable energy companies. The proceeds from the issue of the capital bonds will be used to refinance Contact's maturing green bond and to finance renewable generation developments and upgrades and other green assets.

We believe hybrid securities such as these capital bonds are an effective capital management tool, and we intend to maintain these instruments as a key feature of the company's capital structure into the future.

On the subject of growth projects, this year we entered an exclusive partnership with wind generation experts Roaring40s to develop a pipeline of large-scale wind generation assets. We also acquired the specialist geothermal service company Western Energy, and in July we released a report we have been working on with Meridian Energy that examines the potential to develop green hydrogen at scale in the South Island.

Projects like Tauhara and other potential geothermal developments, the work that Western Energy does to make geothermal production more efficient, the work that Simply Energy does to help new and existing industries access low carbon energy, examining the potential of hydrogen, and investigating the best wind projects, will all play an important role in New Zealand's transition to a low-carbon future.

The Contact26 strategy gives momentum to these important projects and many others across the company. This includes using automation and digitisation to simplify experiences, and expanding into new products and plans to help our mass market customers decarbonise.

Contact26 was underpinned by two significant shifts in our operating environment. First, Rio Tinto announced it would extend the operation of New Zealand's Aluminium Smelter at Tiwai Point – a major source of demand for the energy sector – until the end of 2024.

And second, we see continued acceleration in stakeholder expectations and regulatory pressure around natural resource management, particularly climate change, and the drive for action to reduce New Zealand's CO2 emissions.

Tiwai

Contact is pleased to have played its part in helping to secure the Tiwai resolution, which has provided much-needed certainty that the transition away from this significant source of demand can be achieved in an orderly way.

We supply Meridian with a hedge contract for around 17% of the electricity needed to power the Tiwai smelter. Late last month some selective analysis emerged from the Electricity Authority's wholesale market competition review, questioning the merits of the deal and making some puzzling assertions about how the wholesale market might perform if the smelter abruptly shut its doors.

Frankly we do not agree with the EA's criticism of the short-term deal to ensure the smelter continued its operations until 2024.

Our view is that enabling Tiwai to stay open until at least the end of 2024 was the right thing to do for several reasons including:

- providing a window of certainty for an economic transition of Southland;
- allowing time to plan for the ultimate exit of New Zealand's largest energy user;
- at a pragmatic level, it meant the spectre of large spills of water trapped in the lower South Island have been avoided while further investment by Transpower in the lower South Island is made; and
- for Contact it meant there was sufficient market certainty to invest in renewable energy projects like Tauhara that was green lighted in February and is under construction now.

I know Mike and the team will be providing Contact's views via the submission process but I think it is important to note that we find the EA's concerns perplexing and unhelpful in terms of providing the market with the certainty needed to drive investment in the significant amount of renewable energy projects the country is going to need over the coming decades.

There is also an implication that we act only in self-interest. That is wrong. Our approach is much more holistic. For example, in the case of the Tiwai deal, among other things we considered the impact on Southland, the impact on New Zealand, the impact on the environment, and the impact on the country's decarbonisation goals.

We were very motivated to avoid an immediate, sudden, short-term exit that would likely have been followed by a disorderly exit of thermal generation assets from the New Zealand grid. As the recent blackout issue highlights, there is an ongoing reliance on thermal assets for some time.

When they go they need to go in an orderly way to ensure reliability of the grid and ensure investor confidence in the market is retained.

The fact that not only Contact, but also other market participants, have announced significant investments subsequent to the Tiwai renewal highlights the importance of a stable environment if New Zealand wants to transition to a more renewable system at pace.

Market settings

We strongly advocate that the New Zealand electricity market settings are appropriate and we remain the envy of many countries for our ability to balance the three parts of the energy trilemma: security of supply, affordability, and sustainability.

As Carl Hansen, the former chief executive of the Electricity Authority said in August this year:

"The electricity reforms of the 1990s delivered a world-class electricity system. Today, electricity is more affordable here than in most other OECD countries. It is also green, with renewables generating more than 80% of our electricity. Only Norway and Iceland have more. Renewables will likely generate more than 90% of our electricity later this decade. The 1990s reforms also improved reliability.

New Zealand achieves this trifecta of affordable, green, reliable electricity without using subsidies – possibly the only country in the OECD to do so. Renewables compete on a level playing field with thermal generation – and win."

There is a direct correlation between regulatory interference and markets getting distorted and malfunctioning, as we can see in Europe and elsewhere at the moment.

We need to be sure any changes are well-considered and ensure confidence is maintained to enable further investment in renewables. Renewable investments require significant amounts of capital and to maintain support from investors we need to minimise uncertainty and ensure we do not tip up the confidence of the capital markets. Let's not make it harder to get renewable projects away at a reasonable cost.

There is no doubt that over the long term, recent high wholesale electricity prices are not sustainable. But an environment that solves this issue by encouraging more investment in lower cost renewable generation and technologies is a much better option than one stifled by uncertainty and additional regulation. The market is signalling for people to invest and they are investing.

Financials

On the financial front the last year has been a solid one – a year in which we have continued to deliver solid returns for our shareholders and made significant moves to ensure the company is well-positioned for the future.

We delivered a strong financial result after successfully navigating:

- the potential departure of major energy users;
- the short-term issues around low rainfall in the hydro catchments; and
- the ongoing challenges around reliable gas supply.

As signalled last year, 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 preceding four financial years. This saw the Board approve a final cash dividend of 21 cents per share and deliver investors a 35 cents per share annual dividend, down slightly from 39 cents per share in previous year.

People

On a personal note, I would like to acknowledge the departure of two directors from the Board. In March Whaimutu Dewes departed after more than 10 years on the Contact Board. And in August we farewelled Dame Therese Walsh from the Board as she left to focus on her other governance roles.

Both Whai and Dame Therese have made considerable contributions to Contact and I would like to thank them both very much, and wish them both well. Whai remains an advisor to the company.

In March we were joined at the Board by, Rukumoana Schaafhausen. Ruku holds a range of governance roles at various organisations and has strong iwi connections and experience. We are delighted to have her strong values, diverse thinking, and passion for Aotearoa on the Contact Board.

We also welcomed Sandra Dodds to the Board in September. Sandra resides across the Tasman and brings an international infrastructure perspective, as well as strong financial skills and executive and governance experience.

The Board is a robust environment, full of talented people and a wide range of perspectives. You are in good hands. Thank you to Victoria, Elena, Sandra, Rukumoana, David and Jon for your commitment and dedication around the Board table over the year.

I think we can all be proud of the important contribution Contact is making to New Zealand. It remains a strong participant in New Zealand's efficient, competitive energy market, and will be a leader in the country's decarbonisation.

We are entering a phase of significant change and your company is well-positioned for growth as we focus on leading New Zealand's energy transition.

I'm looking forward to seeing what can be achieved in line with the Contact26 strategy, as we build a better future for New Zealand and create value for all stakeholders, alongside sustainable success for our shareholders over the long term.

And finally, I would like to express my thanks to our shareholders for tuning in today and for your ongoing support as investors in Contact Energy. We appreciate your commitment to Contact's ongoing success and we appreciate the opportunity to speak with you today.

Ngā mihi nui.

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