



Wednesday, 15 November 2023

CEO's address to ASM

Tēnā koutou, tēnā koutou, tēnā koutou katoa. Ngā mihi nui ki a koutou katoa.

Today I want to share my reflections on the past 12 months with you, what we have achieved, what we have learned, and what we have in front of us.

We're now into the third year of our Contact26 strategy with the vision to build a better Aotearoa New Zealand by leading the decarbonisation of our country. The place we all call home.

Our strategy is to:

- Grow demand;
- Grow renewable development;
- Decarbonise our portfolio; and
- Create outstanding customer experiences.

This strategy remains sound. It is delivering on our strong commitment to decarbonise, invest, grow and deliver shareholder value.

We're deep in execution mode, in what has been a year that can be characterised by significant investment, continued transformation and demonstrable progress against our strategy. As Contact transforms and grows, we remain focussed on operational excellence, using the learning from this period of change and expansion to continuously improve the execution of our strategy.

I am incredibly proud of our 1200-strong Contact team and what they have achieved. They are a team of dedicated professionals who everyday come to work passionate about the part they play in helping us reach our goal of Net Zero from our generation activities by 2035.

But more on Net Zero later.

Business and Financial performance

Looking at our achievements in the past financial year, our business underlying performance has remained resilient in a volatile environment.

We have delivered a solid financial performance with underlying EBITDAF growth to \$573million - a five per cent increase from last year.

Contact's profit after tax was \$127million. This included an onerous contract provision for the Ahuroa Gas Storage facility. On an underlying basis, our profit was \$211 million.

This solid performance was delivered despite soft short-term wholesale market conditions, the highest hydro inflows in post-market history, and the North Island's rainfall being the highest on record.

This resulted in lower spot market prices and saw spot prices separate between the North and South Islands. We responded to these conditions by reducing thermal generation to the lowest in Contact's history. The decision bore good financial results – and lowered our greenhouse gas emissions.

We continue to carefully manage existing operations to optimise performance while focusing on investment in renewable generation and innovation and decarbonising our portfolio. This includes the \$1.2billion of construction currently underway, a strong pipeline of potential geothermal, wind, solar and battery investments, the measured retirement of thermal generation, and investment in digital innovation in retail and generation.

As the benefits of this investment is realised, we anticipate a sustained uplift in earnings and shareholder returns and cash flow in future years.

Our FY24 normalised and expected EBITDAF guidance of \$600million remains.

Grow demand

Demand for our renewable energy is strong.

Our watershed moment came in May when we announced a pioneering energy agreement with industrial giant New Zealand Steel. We will provide 30MW of energy for its new \$300million electric arc furnace in a unique arrangement that will enable the industry leader to scale down production in peak demand time, or supply shortages.

The flexible off-peak feature is also part of a significant step towards meeting New Zealand's climate change goals and once in operation this feature will remove 800,000 tonnes of greenhouse gas emissions annually. This is the same as taking 300,000 cars off the road permanently, or one per cent of New Zealand's total emissions. This is an outstanding example of how we – in industry – can with smart thinking and a partnership mindset work together for the good of the planet.

The trend continues with accelerating opportunities with other industrial companies exploring similar opportunities to decarbonise industrial heat processes and cut fossil fuel use.

And so, to Tiwai. We believe strongly that decarbonisation of our economy should not mean the deindustrialisation of our country. The New Zealand Aluminium Smelter at Tiwai is valuable to our economy, is a significant exporter, and a major employer and contributor to the Southland economy.

Contact has provided Tiwai with commercial terms for a long-term agreement to support a tranche of its electricity requirements. Like New Zealand Steel, demand response opportunities at Tiwai also offer an opportunity to support New Zealand's energy security with the ability to scale down production if required in the event of supply shortages. It is time that we moved forward from talking, and to get this settled.

Grow renewable development: Tauhara and Major Projects

I also want to update you all on our \$1.2 billion of renewable generation sites currently under construction, along with an update on our pipeline of potential geothermal, wind, solar and battery investments.

As we go on a journey of decarbonisation and make a real difference to the world in which we live, we are going to have some tough experiences. Being a leader is bold, and at times you have to pause and regroup in order to move forward. As history shows there are challenges and opportunities whenever there is big change.

Ignoring the challenges of climate change is not an option. To improve the outcomes for New Zealand and to play our part in the country's electric future demands grit, determination, and focus. We play the long game in leaving our legacy for good. A legacy for future generations.

We have announced that Tauhara, in Taupō is now expected to come online in Q3 2024, from Q1 2024.

Building a geothermal plant is complex. We are working through a range of commissioning issues at the development, including the remediation of underperforming steam-field valves and liquid handling systems, as well as the implications of a steam hammer event.

Given the range of commissioning issues identified, some elements of the steam separation plant will require further design and modification. It is because of this; the timeline is impacted.

With the expectation to have the plant online in Q3, this will be at least at the initial design capacity of 152MW, and we are targeting the full planned output of 174MW at Tauhara's first planned outage following further optimisation and plant modifications.

While this is not the outcome we were targeting when we started commissioning, the commissioning stage in any geothermal project is when unknowns such as this are brought to the fore and mitigations are applied.

The onsite team are expert in major infrastructure and geothermal development, and are focussed on minimising this delay, while ensuring process safety first on this asset, Tauhara, that will serve generations.

It is in the Major Projects team, created by us to support our execution mode, we have built in-house expertise so we can troubleshoot these issues in real time, and without delay for the best outcome.

Tauhara remains a stand-out renewable energy project that will be a fantastic long-term asset for New Zealand and Contact.

Contact knows the importance to New Zealand of quality infrastructure and rebuilding executional capability.

In line with international best practice, we have stronger processes with front end design, have applied modern digital design tools, and significantly bolstered in-house capability and

capacity with the setting up of a Major Projects division led by Jack Ariel, with a significant depth of experience developing large infrastructure programmes internationally.

Te Huka3 is now more than 66 per cent complete, ahead of schedule and with all major equipment here in New Zealand or in transit.

Te Huka 3, next to our existing Te Huka geothermal power station, will be a single unit binary power plant at 51.4MW, with carbon capture capability from day one. Once operational it will produce clean, renewable electricity that operates 24/7 and common with all geothermal generation, is not reliant on the weather.

Our GeoFuture project, while subject to a final investment decision, will see us replace the original Wairakei geothermal plant commissioned in 1958, and move existing operations away from the Waikato River, increasing the efficiency and generation capacity from the Wairakei geothermal source.

After comprehensive engagement with the local community and tangata whenua, we received consents to operate for the next 35 years on the Wairakei steamfield.

As part of our commitment to reducing and mitigating the impacts of the environment, we are reducing significantly our impacts on the local waterways. Through GeoFuture we will be able to stop all operational discharges of geothermal and cooling water into the Waikato River.

We are confident of the lessons we have learned, and changes made since Tauhara's final investment decision, starting with Te Huka 3 and firmly applied for GeoFuture to ensure much-improved performance.

This will also apply to our proposed wind, solar and industrial grid-scale batteries. We will ensure the business cases and market conditions are right for final investment.

Our customers

We've worked hard to ensure it is good to be home for New Zealanders in our retail business. We're stepping beyond the big stuff to help everyday Kiwi homes decarbonise. And it's working.

The FY23 year saw us finish with over 589,000 total customer connections – and a net back growth of 11.1 per cent on the previous year. Connection growth continues to increase with as of this month total customer connections is just shy of 600,000.

Also growing, is the uptake of innovative products to help Kiwis lower their own carbon emissions by making a small change to their behaviour. More than 66,000 customers are using either our Good Nights plan where electricity is free between 9pm and midnight, or Dream Charge plan which gives EV owners cheaper rates between 11pm and 7am. So far 84 million hours of free off-peak time has been used by New Zealanders choosing these products. Next month Good Weekend launches, incentivising customers to use weekend off peak energy – further reducing the need to use gas or other fossil fuels at peak times.

Our brand tracking research shows that we are second equal for brand trust amongst New Zealand energy providers. Our Net Promoter Score (the number of customers who say they would recommend us, versus those who would not) increased again this year from +39 to +41. Seventy six percent of customers say Contact is easy to deal with.

Our Legacy for good

As a company we are an integral part of daily life in New Zealand and we're acutely aware that our every action, good and bad, has a marked impact on the wellbeing of our communities – today and in the future.

This was acknowledged in December 2022 when we joined the Dow Jones Sustainability Asia Pacific Index achieving the second highest ranking of any New Zealand company. We are delighted to be among the best. It reflects where we are, and a sense that people are appreciative of businesses that put words into actions, rather than just talk about ambition.

This year, we took the step of accelerating our ambitions to decarbonise our own portfolio. We now have a clear path to achieve net zero emissions from our generation operations by 2035.

The focus on an orderly transition to renewable energy generation, to retire baseload gas generation, and to invest and innovate to support the eventual retirement of our peaking plant, along with targeted sustainable forestry investments, has given us the confidence – and pathway – to commit to Net Zero for our generation operations by 2035.

It takes courage to take steps forward, and to improve the outcomes for communities and for people.

As we go on our decarbonisation journey and commit to making a difference, we are going to have some tough experiences, but fundamentally this is the right thing to do.

Decarbonisation is our legacy for good.

Ngā mihi nui.

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