

NZX release: 13 February 2023: Contact Energy 1H23 Result

Contact's performance reflects short-term wholesale market conditions, investing in decarbonisation strategy

Key financial metrics

	Six months ended 31 December 2022 1H23		Six months ended 31 December 2021 1H22	
	Underlying ¹	Reported	Against underlying	
EBITDAF ²	\$246m	\$126m	↓	24% from \$322m
Profit	\$79m	(\$7m)	↓	41% from \$134m
Profit per share	10.1 cps	(\$0.9) cps	↓	41% from 17.2 cps
Operating free cash flow ³	\$60m		↓	54% from \$131m
Stay-in-business capital expenditure	\$55m		↑	57% from \$35m
Growth capital expenditure (cash)	\$217m		↑	87% from \$116m

Overview

New Zealand renewable energy company Contact Energy ('Contact') today released its interim financial results for the six months to 31 December 2022.

Contact CEO Mike Fuge said the financial performance in the first half of the FY23 financial year was reflective of soft short-term wholesale market conditions. Contact had made strong progress on delivering to its Contact26 strategy and was focused on leading New Zealand's decarbonisation by connecting customers with its renewable development pipeline.

- Net loss of \$7m reported after recognising an onerous contract provision of \$120m (\$86m after tax) following a review of the estimated available capacity of the Ahuroa Gas Storage Facility (AGS). Excluding AGS, underlying net profit was \$79m.
- Underlying EBITDAF (pre-AGS provision) decreased by \$76m to \$246m as a result of lower wholesale prices, lower renewable and thermal generation, increased operating costs to deliver on strategic growth priorities and inflationary conditions.
- Operating free cash flow decreased by \$71m to \$60m. Working capital continues to be elevated, with more gas and carbon in inventory.
- Resource consent gained to continue operating on the Wairākei geothermal field for the next 35 years, enabling planning to proceed on GeoFuture, a new station of up to 180MW at Te Mihi to replace Contact's 64 year-old operations (Wairākei, 127MW).

¹ Underlying EBITDAF and profit are shown excluding a \$120 million onerous contract provision (\$86 million after tax) for AGS. All variances are shown on an underlying basis.

² Refer to slide 36 of the 2023 interim results presentation for a definition and reconciliation between statutory profit and the non-GAAP profit measure earnings before net interest expense, tax, depreciation, amortisation, change in fair value of financial instruments (EBITDAF).

³ Refer to note A3 of the 2023 interim financial statements for a definition and reconciliation between cash flow from operating activities and the non-GAAP measure operating free cash flow. Operating free cash flow represents cash available to repay debt, to fund distributions to shareholders and growth capital expenditure.

- Selected by Christchurch Airport to deliver 170MWp (150MW) solar farm at Kōwhai Park through Contact's joint venture with Lightsource bp.
- Market leading development pipeline expected to deliver up to 6TWh of new renewable electricity this decade, with 3.0TWh already consented.
- Te Rapa power station prepared for closure in June. On track to more than halve FY21 scope 1 and 2 carbon emissions by 2026.
- Strong endorsement of Contact's refreshed retail offering in the past six months, with more than 20,000 new connections.
 - Expanded 'time of use' offerings by introducing *Dream Charge*, enabling customers to charge their EVs at home at cheaper night rates and contributing to the decarbonisation of New Zealand.
 - Supported customers by keeping price increases below inflation, despite sustained higher wholesale prices over the last 3 years.
- Launched a leading parental leave policy, 'Growing your Whānau', one of the most comprehensive, far-reaching parental leave policies in New Zealand.

Financial performance

Contact reported a net loss of \$7m after recognising an onerous contract provision of \$120m (\$86m after tax) following a review of the estimated available storage capacity of AGS. This is a non-cash accounting adjustment to recognise the difference between the expected benefits received and the contracted schedule of payments. Underlying net profit of \$79m was down \$55m from a year ago on lower operating earnings (EBITDAF) and unfavourable movements to the fair value of financial instruments, partially offset by lower depreciation and lower tax on earnings against the prior year.

Underlying EBITDAF (pre-AGS provision) decreased by \$76m to \$246m, down 24 percent on the record result of 1H22, with lower wholesale prices, lower renewable and thermal generation and increased operating costs to deliver on strategic growth priorities and reflecting inflationary conditions.

Operating free cash flow for the period decreased from \$131m to \$60m, down 54% year-on-year on lower operating earnings, higher stay-in-business capital expenditure and higher cash tax paid on strong earnings in prior periods. This was partially offset by favourable working capital movements on a net basis. While lower than last year, working capital was still elevated as we held more gas and carbon in inventory.

The Board approved an interim dividend of 14 cents per share (imputed by up to 12 cents per share for qualifying shareholders) to be paid on 30 March 2023.

"Contact's financial performance reflected the soft short-term wholesale market conditions experienced in the half year," said Mr Fuge.

"We saw unprecedented hydro inflows which depressed market prices and saw greater price separation between the North and South Islands. We responded running less thermal

generation and positioned our portfolio to benefit from expected improved market conditions in the second half.”

“Global energy and supply concerns continued to impact on commodity markets, with international energy prices holding at unprecedented levels, including coal. Domestic gas output remains constrained and readily accessible storage has reduced. These thermal fuel challenges continue to support the acceleration of our Contact26 strategy.”

Demand

In line with Contact’s decarbonisation focus, Mr Fuge said demand for renewable electricity from forward-thinking customers remained strong. Contact is focused on five key areas for demand growth, being large scale 24/7 data centres, industrial process heat, major industrial energy users, road transport and green chemicals.

“While still early days, we are excited about opportunities to work with major energy users pursuing their own decarbonisation strategies. Examples include working with NZ Steel to look at options around interruptibility and with the HW Richardson Group to assess a trial use of hydrogen for heavy transport. These have the potential to lead to large scale sources of new demand,” Mr Fuge said.

“With all new supply contracts, we are looking to build in demand response. This is of high value to Contact, our industrial customers and ultimately New Zealand. These initiatives will contribute to the decarbonisation of New Zealand whilst improving the security of supply at peak periods. We have been positively surprised by the customer appetite - from retail customers to large industrials - for demand response mechanisms to be packaged into new contracts,” said Mr Fuge.

“Significant new electricity demand is also now emerging in New Zealand, with new large scale 24/7 data centres. Hyperscale data centre projects announced by the likes of CDC, Microsoft and DCI are starting to come online and will see significant contributions to electricity demand over the next few years as each project stage reaches completion.”

Rio Tinto is looking to continue operating its unique low carbon smelter at Tiwai Point beyond 2024. Contact is engaging constructively and working toward new commercial arrangements.

Renewable development

Contact has been granted new consents to operate on the Wairākei geothermal field for the next 35 years. This enables it to proceed with replacing the 1950s-built Wairākei A and B power stations with a new station of up to 180MW at Te Mihi – the GeoFuture project. Contact is targeting a final investment decision around the end of this calendar year.

“This is an exciting milestone for Contact, moving our geothermal production off-river, and delivering better environmental outcomes,” said Mr Fuge.

“GeoFuture will be the third major development in five years from Contact’s world-class geothermal development pipeline, with Tauhara and Te Huka Unit 3 well on track for completion in 2023 and 2024 respectively. This is all low carbon, baseload renewable electricity that operates around the clock and is not weather reliant.”

Our joint venture partnership with global solar developer Lightsource bp has been selected by Christchurch Airport to deliver the first stage of its renewable energy precinct, Kōwhai

Park – an estimated 170MWp solar farm. Subject to a final investment decision, construction is expected to begin in 2024.

Consenting for another 170MWp solar farm in the North Island is underway and the partnership has land access rights to potentially develop another ~60MWp of solar power.

Decarbonising our portfolio

Contact has announced the successful completion of carbon capture trials at its Te Huka geothermal power station. This gives Contact the option of either reinjecting carbon back into the geothermal reservoir, now a routine part of its Te Huka operation, or harvesting the CO₂ for commercial use. Contact is working with leading industrial gas supplier BOC, a Linde company, to assess the highest value commercial options for the use of the CO₂ being captured at its geothermal facilities. This includes pure CO₂ and combining CO₂ with hydrogen production for complementary derivative products (e.g. green chemicals).

“We are thrilled with these results. We will see the capture of 10,000 tons of greenhouse gas emissions per annum from Te Huka on an ongoing basis. This can be eliminated through reinjection or potentially used in commercial applications where these align to our decarbonisation strategy,” said Mr Fuge.

In addition, Contact is optimizing the flexibility it can achieve in its geothermal generation portfolio by shifting up to 11GWh of generation on the Wairākei field between the summer and winter periods in 2023. This reduces the need to run thermal generation.

The first half also saw Contact preparing for the planned closure of its 44MW Te Rapa power station in June 2023.

Retail

Mr Fuge said Contact’s retail business has continued with targeted growth in the first half of 2023, with customers on bundled packages up 13% on the prior period.

“We have seen connections increase by more than 20,000 in the half year. We are seeing significant growth in broadband, with connections up 30% on the prior period, and have introduced wireless broadband, providing yet another way for our customers to stay connected at home.”

Contact has expanded its time-of-use offerings, with its *Dream Charge* plan enabling customers to charge their EVs at home at cheaper night rates. This adds to Contact’s existing time-of-use offer, *Good Nights*, an initiative that’s proven popular with customers who can access three hours of free power every night from 9pm, shifting their load from peak evening times and thereby reducing the need for peak thermal generation, lowering carbon emissions.

In December, we were recognised at the NZ Compare Awards, winning Power Provider of the Year, Best Customer Support; Power and Best Bundled Plan. The awards recognise excellence and achievement in New Zealand’s broadband, energy and mobile sectors.

Outlook

Looking ahead, Mr Fuge said Contact remains committed to leading the decarbonisation of New Zealand.

“We are excited about the future. We have a clear strategy, strong balance sheet with supportive shareholders and a host of opportunities in front of us to lead the decarbonisation of the New Zealand economy over the next decade.”

1/ MORE INFORMATION

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2/ CONFERENCE CALL

A conference call to support the interim results announcement will be held at 10am, NZ (New Zealand) time on 13 February 2023.

If you would like to attend the live presentation, please see the details below to view the webcast off your chosen device:

Click here to enter the webcast: [LIVE EVENT LINK](#)

Or access this link via our website: <https://contact.co.nz/aboutus/investor-centre>