

16 August 2021

Contact delivers solid financial performance to support renewable generation investment

	Twelve months ended 30 June 2021 (FY21)		Twelve months ended 30 June 2020 (FY20)
EBITDAF ¹	\$553m	↑	24% from \$446m ²
Profit	\$187m	↑	50% from \$125m
Profit per share	25.3 cps	↑	45% from 17.5 cps
Operating free cash flow ³	\$371m	↑	28% from \$290m
Operating free cash flow per share	50.2 cps	↑	24% from 40.4 cps
Dividend declared	\$272m	↓	3% from \$280m
Dividend declared per share	35.0 cps	↓	10% from 39.0 cps
Stay-in-business (SIB) capital expenditure (cash)	\$61m	↑	20% from \$51m
Growth capital expenditure (cash)	\$76m	↑	55% from \$49m
Strategic investments (cash)	\$40m	↑	471% from \$7m

Highlights

- Launched Contact26 strategy focused on leading New Zealand’s decarbonisation by connecting customers with our renewable energy development pipeline.
 - Development of new 152 megawatt Tauhara geothermal power station on track after \$580m investment approved in February.
 - Completed \$400m equity raise to support the Tauhara project and the significant expected medium-term growth capital investment programme.
 - Milestone of 50,000 broadband connections reached after rapid growth this year. Average electricity tariff to mass market electricity customers only up by 1.4% on FY20 despite sustained higher wholesale prices.
 - Ongoing strategic review of thermal assets, including ‘Thermal Co’ proposal to reduce New Zealand’s cost and carbon intensity of thermal generation while ensuring security of supply.

¹ Refer to slide 48 of Contact’s FY21 Investor Results Presentation for a definition and reconciliation of the non-GAAP measure EBITDAF

² Restated to account for the removal of the significant items classification previously excluded from EBITDAF

³ Refer to slide 21 of Contact’s FY21 Investor Results Presentation for a reconciliation of operating free cash flow



- Southern Green Hydrogen project launched with Meridian Energy to assess New Zealand's near-term hydrogen potential.
- Guided by our tikanga and pricing principles, we proactively worked with customers that were struggling to pay their bills, helping reduce both disconnections and bad debt.
- Solid financial performance, with operating earnings (EBITDAF) up 24% year-on-year to \$553m and profit up by 50% to \$187m.
 - Underpinned by strong asset availability and a disciplined approach to managing fuel in FY20 to support the market in FY21.
 - Final dividend of 21 cents per share will be paid on 15 September 2021, bringing the full year declared dividend to \$272m.

New Zealand's largest privately-owned energy company Contact Energy ('Contact') released its full year financial results for the 12 months to 30 June 2021 ('FY21') this morning.

Contact Chair Rob McDonald said Contact had delivered a "solid" financial result.

"Contact has performed ahead of expectations after successfully navigating the potential departure of major energy users, short-term issues around low rainfall in the hydro catchments, and ongoing challenges around reliable gas supply. FY21 has been 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 by spending \$177m on capital investments."

The results are underpinned by Contact's "decisive" channel management, as it supported fuel-constrained competitors with its flexible portfolio of gas-fired and renewable assets.

Mr McDonald said the company had refreshed its strategy and was on a path to invest to meet the anticipated market growth for low-cost renewable generation.

"Contact is preparing for a time of significant change and is positioned for growth as we focus on leading New Zealand's decarbonisation. It's pleasing to see evidence of the strategy in action in significant ways too.

"This includes investigating the potential for hydrogen production in the lower South Island, the development of the world-class Tauhara geothermal power station in the central North Island, and the \$400m equity raise for our capital investment programme as we look ahead to further renewable generation developments."

He said it was pleasing to deliver investors a 35 cents per share annual dividend, down slightly from 39 cents per share in FY20. "This is in line with the dividend policy we updated in February this year where we target a pay-out ratio of between 80 per cent and 100 per cent of the average operating free cash flow of the preceding four financial years."

Financial performance

CEO Mike Fuge said Contact had reported a statutory profit for FY21 of \$187m, up 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’ve done an excellent 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.

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

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

Strategy in action

Mr Fuge said the company had undertaken “a significant strategic reset” and the new strategy communicated in the second half of FY21 signalled an exciting new chapter for Contact.

“At the heart of this is our commitment to building a better New Zealand by growing demand for renewable electricity, developing our renewable electricity generation options, decarbonising our own portfolio and creating outstanding experiences for our customers.”

He said the company had hit the ground running in terms of delivering on the strategy. “We’re obviously very excited about the development under way at Tauhara, but it does not stop here. The capital raise gives us the flexibility to execute on up to \$800m of additional projects and we are actively looking at how we can bring more geothermal development forward in response to customer demand for our renewable electricity.

“We’re also under way with delivering innovative projects that increase generation efficiency from our existing assets and exploring opportunities around geothermal, wind, solar and the potential for further green electricity flexibility, including grid-scale batteries.”

He said Contact had also made sensible investments where it saw opportunities that would play an important role in New Zealand’s transition to a low-carbon future.



“For example, we established our exclusive partnership with wind generation experts Roaring40s to develop a pipeline of large-scale wind generation assets, acquired specialist geothermal service company Western Energy to drive efficiency, and we’re very optimistic about the role our subsidiary Simply Energy can play in helping customers decarbonise their businesses.”

Mr Fuge said Contact would continue to increase customer connections by expanding into new products and services and had recently celebrated the milestone of 50,000 broadband connections.

People

There was one change to the Contact Board in FY21 with the departure of independent director Whaimutu Dewes in March 2021, after more than 10 years as an independent director.

Mr Dewes was replaced by new independent director Rukumoana Schaafhausen. She holds a range of governance roles at various organisations and has strong iwi connections and experience. Mr McDonald said: “We are delighted to have her strong values, diverse thinking, and passion for Aotearoa on the Contact Board.”

Independent director Dame Therese Walsh will also leave the Contact Board this month to focus on her other governance roles. She will be replaced by Sandra Dodds who joins on 1 September 2021.

Mr McDonald acknowledged the contributions of the two departing directors. “Both Whaimutu and Dame Therese have made considerable contributions to Contact and I would like to thank them both very much for their leadership, and wish them both well.”

There have also been changes to the Contact leadership team this year. Jacqui Nelson was appointed as Chief Generation Officer in July 2020, after more than 15 years at Contact in a wide range of roles across finance, resource management, trading and operations. And in April 2021, Jack Ariel joined in a new role as General Manager, Major Projects.

Chief Customer Officer Vena Crawley left Contact in April 2021 and last month deputy CEO James Kilty finished up at Contact ahead of his new role as CEO at electricity distributor Powerco.

Mr Fuge said: “On behalf of the Contact whānau, I would like to thank both James and Vena and wish them all the best for the future.”

Outlook

Mr Fuge said there was “no doubt” flexible thermal generation would still be required as the New Zealand electricity sector moves toward the Government’s goal of being 100 per cent renewable.



“As an industry we will need work together to expedite sensible decarbonisation, while maintaining security of supply and affordability.”

Contact is leading the market in delivering emission reductions. This included a 'gas tolling' deal with Nova Energy to use Contact's more efficient thermal generation leading to a net reduction in carbon emissions, and a recent power purchase agreement with Genesis Energy that will further reduce New Zealand's reliance on fossil fuels.

The company was also engaging with a range of stakeholders about an option to consolidate New Zealand's thermal generation arrangements into one entity. “We believe consolidating thermal assets could optimise electricity generation from coal and gas-fired plants in ways that are aligned with New Zealand's emission reduction objectives, and also ensure affordable and stable electricity supply.”

Mr Fuge said Contact was looking forward to FY22 and beyond. “We understand the critical role that the electricity sector is set to play in reducing emissions and minimising climate change across the New Zealand economy over the next decade, as laid out in the Climate Change Commission's recent advice to the Government. Our response is unequivocal: we are up for the challenge.

“We're a strong company with a clear strategy and a host of opportunities in front of us. We have a robust balance sheet, a portfolio of high quality and flexible assets and a very capable team. We're excited about the future.”

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Additional information:

- Investor presentation [\[link\]](#)
- Investor webcast [\[link\]](#)
- FY21 Integrated Report [\[link\]](#)

Contacts:

- Investor enquiries: Matt Forbes, matthew.forbes@contactenergy.co.nz, +64 21 072 8578
- Media enquiries: Paul Ford, paul.ford@contactenergy.co.nz, Ph +64 21 809 589