

Tēnā koe, greetings

This year has been notable for the completion of significant transactions, progress in accelerating decarbonisation, increasing customer value and strong financial performance.

We have delivered a solid financial result, improved capital efficiency, deployed good risk management practices, and again proved the value of the flexibility we have built into our diverse generation portfolio.

Two major transactions strengthened our balance sheet and enhanced the resilience of our operations. In October, we completed the sale of the Ahuroa Gas Storage facility to Gas Services New Zealand (GSNZ) for \$200 million¹ and, in November, we completed the sale of Rockgas LPG to GSNZ for \$260 million.

The Ahuroa sale gave us access to long-term gas storage services to meet our flexible thermal generation needs without needing to own and operate the asset, and the Rockgas sale freed us from the fulfilment aspects of the LPG business while still being able to sell LPG to our customers.

We also acquired a 49.9% interest in New Zealand-owned energy innovator Simply Energy. Investing in Simply Energy gives us access to capability to deliver innovative solutions that will help our Commercial and Industrial customers transition to low carbon solutions sustainably and sooner.

Our vision is to create sustainable value for New Zealanders by putting our energy where it matters. We have stood the test of volatile wholesale markets and a competitive retail sector to deliver on that commitment this year.

Our Wholesale business successfully managed periods of low hydro inflows and constrained gas supply, reinforcing the value of our diverse portfolio.

The Customer business has been digitising the customer experience and building data, automation and integration capability, while focusing on lowering operating expenses and reinvesting savings in investment in our brand and technology solutions.

Both businesses have demonstrated their capability and flexibility to respond to complex market conditions, the competitive environment and to contribute positively to the Energy Trilemma of Accessibility, Reliability and Environmental Sustainability.

Accessibility

Our Customer business has made good ground on our strategy of being a service and value focused retailer, connecting customers and communities to smart solutions that make living easier.

This has included innovating to make it easier for customers to connect with us online and with our mobile app, and helping our most vulnerable customers keep the power on with initiatives such as PrePay and flexible billing options.

We have helped our customers to avoid getting into difficult credit positions, and intervened early if they did, which delivered record low levels of outstanding debt.

The government initiated Electricity Price Review highlighted this year that some New Zealand families are struggling to pay for their energy and that the prompt payment discounts are not fair to customers who are unable to pay their bills on time. We have responded by accelerating plans to remove prompt payment discounts and are replacing them with simple plans such as our existing Basic Plan or guaranteed discounts.

Operating earnings (EBITDAF²) in our Customer business was \$67 million, down \$9 million from \$76 million in FY18, as continuing competitive pressures limited Contact's ability to recover higher costs for electricity and distribution networks through customer price changes. The result was also impacted by lower sales volumes to electricity customers.

Reliability

New Zealand is at the start of a transformation from reliance on fossil fuels to renewable electricity. Contact is well placed to meet the expected growth in renewable electricity demand, which will result in meaningful reductions to carbon emissions.

1. Up to \$10 million of this is contingent on GSNZ obtaining a favourable binding tax treatment ruling.

2. EBITDAF: Earnings before Interest, Taxation, Depreciation and Amortisation and changes in fair value of financial instruments and other significant items.

This alignment with political and public sentiment underpins our Wholesale business strategy of being 'an innovative, safe and efficient generator, working with business customers and partners to decarbonise New Zealand'.

The increased price and reduced reliability of gas is accelerating the case for replacing thermal plant with new baseload geothermal. In this context, we are taking the next step in developing the geothermal project we have consented at Tauhara by committing to drill four appraisal wells. The drilling will lay the groundwork for a final investment decision for a new power station in early 2020.

We are actively partnering with our Commercial and Industrial customers who are undoubtedly the prime decarbonisation opportunity. Our target is to enable customers to switch to electricity from their current energy sources, help them be more energy efficient, reduce their costs and cut their carbon emissions.

This year we successfully piloted our demand flexibility platform, which rewards Commercial and Industrial customers for reduced energy use at peak times, so we don't have to resort to fossil fuel generation to meet high demand.

EBITDAF from our Wholesale business was \$464 million in the period, up \$67 million from \$397 million in FY18.

We rely on the dedication, passion and innovation of our people to be able to keep delivering safe, dependable energy and adding value for our customers and stakeholders.

This year we again measured the engagement of our people with the Ask Your Team survey. Our overall engagement score was 75%, which was well ahead of the 67% benchmark for private companies but behind our 2018 score of 77%. The survey results will help us keep adapting and improving to raise engagement.

We are committed to being an inclusive and diverse employer and this year we achieved Rainbow Tick certification, recognising us as a workplace that accepts and welcomes sexual and gender diversity.

We take pride in our excellent safety systems and generative safety culture, where everyone is empowered to take ownership of health and safety outcomes. Our results this year evidence our good safety culture.

Environmental sustainability

This year we recommitted ourselves to a climate change position, embedded a reporting tool enabling more oversight of our emissions targets. We were the first New Zealand energy company to have emission reduction targets approved by the Science Based Targets initiative (SBTi). We are revising those targets to align with new recommendations from the SBTi. We were also the first company in New Zealand to sign up as an official supporter of the Taskforce for Climate-related Financial Disclosures. This internationally recognised transparent disclosure regime is increasingly being relied on by the investment community as a tool for understanding climate change risk. We partnered with other New Zealand companies to invest in forestry on marginal land to sequester carbon.

With the National Institute of Water and Atmospheric Research (NIWA), we assessed the potential impact of climate change on our business and used this baseline data to identify climate change risks and opportunities.

We have maintained a strong focus on biodiversity programmes, including supporting the development of a National Policy Statement for Indigenous Biodiversity, continuing to mitigate our impacts on fish migration around our dams, and restoring and protecting habitats.

We also engaged with the Government appointed Interim Climate Change Committee as they developed their report into the Government's renewable electricity aspirations.

And we continued to work collaboratively with tangata whenua and the communities around our sites to involve them, respect their interests, create opportunities and give back in ways that are meaningful to them.

Despite our commitment to environmental sustainability, a landslip at one of our geothermal storage ponds at Karapiti sent sediment and geothermal fluid into the Waipuwera Stream and Waikato River in February. We are thankful that no one was hurt. However, the discharge did impact the river, iwi and the community and we deeply regret that. We are working with iwi and the local community to put things right and to learn from the event.

Transition

Finally, I have made the Board aware of my intention to leave Contact. In making this decision I know that the company is in a strong position, with excellent prospects and a talented and committed team in place.

It has been a privilege to lead Contact. I am proud of many things Contact has delivered in the past eight years and in particular the value we have returned to you, our shareholders, including the distribution of nearly \$2 billion. At the same time we have transformed into a leading New Zealand business investing to reduce our carbon emissions by more than 50% and providing more choice, certainty and control to customers than ever before.

I thank the Board and the many people I've worked with and wish you a prosperous future.

Ngā mihi mahana, nā Dennis



Dennis Barnes
Chief Executive Officer
Contact Energy Ltd