

NZX release: 14 August 2023: Contact Energy FY23 Result

Contact delivers solid FY23 performance while investing for decarbonisation

Key financial metrics

| | Twelve months ended 30 June 2023 FY23 | | Twelve months ended 30 June 2022 FY22 | |
|---|---|----------|---|-------------------|
| | Underlying ¹ | Reported | Against underlying | |
| EBITDAF ² | \$573m | \$460m | ↑ | 5% from \$546m |
| Profit | \$211m | \$127m | ↑ | 16% from \$182m |
| Profit per share | 26.9 cps | 16.3 cps | ↑ | 15% from 23.4 cps |
| Operating free cash flow ³ | \$282m | | ↓ | 15% from \$330m |
| Stay-in-business capital expenditure (cash) | \$113m | | ↑ | 51% from \$75m |
| Growth capital expenditure (cash) | \$472m | | ↑ | 62% from \$291m |

Overview

New Zealand renewable energy company Contact Energy ('Contact') today released its financial results for the year to 30 June 2023.

- Net profit of \$127m after recognising an onerous contract provision expense of \$84m (\$113m EBITDAF impact) following a review of the estimated available capacity of the Ahuroa Gas Storage facility (AGS). Excluding AGS, underlying net profit was \$211m.
- Underling EBITDAF (excluding the AGS provision) increased by \$27m to \$573m with higher realised electricity pricing and a gain on sale of the Te Rapa co-generation plant, partially offset by high gas and carbon unit costs, lower electricity sales volumes and higher fixed operating costs.
- Operating free cash flow decreased by \$48m to \$282m. Working capital continues to be elevated, with more gas and carbon units in inventory.

Contact has made significant progress on delivering to its Contact26 strategy and remains focused on leading New Zealand's decarbonisation by connecting customers with its renewable development pipeline.

¹ Contact has recognised a net onerous contract provision expense for AGS of \$113m within EBITDAF and \$84m within profit. Underlying performance excludes these impacts. All variances are shown on an underlying basis.

² Refer to slide 43 of the 2023 full year 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). Contact has made reclassifications to better align with IFRIC guidance on IFRS 9 resulting in realised gains/losses from market derivatives not in a hedge relationship (includes market making activity) no longer being reported in operating income (EBITDAF). FY22 figures restated accordingly.

³ Refer to note A3 of the 2023 Full Year 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.

- New geothermal station of up to 180MW at Te Mihi, GeoFuture, proceeding to final investment decision in early 2024. Investment of up to \$114m approved. Pre-construction drilling to begin from September 2023.
- Preparing for final investment decisions on Kōwhai Park 170MWp solar farm and 100MW North Island battery in FY24.
- Planning to apply for resource consent at Glorit on the Kaipara Coast, northwest of Auckland by the end of 2023 for the second 160MWp solar farm through Contact's joint venture with Lightsource bp.
- Te Rapa power station closed on 30 June 2023 as planned. Contact's generation on track to be more than 95% renewable by FY27.
- Strong endorsement of Contact's retail offering, reaching approximately 589,000 energy and broadband connections.
 - Introduced wireless broadband and *Dream Charge* time-of-use plan, enabling customers to charge their EVs at home at lower night rates, contributing to the decarbonisation of New Zealand. Contact Mobile launches later this month.
 - Supported mass market customers by keeping average electricity price increase realised year-on-year in line with general inflation, despite elevated forward wholesale prices over the last three years.

Financial performance

In FY23 Contact recognised an onerous contract provision expense of \$84m after tax (\$113m EBITDAF impact) 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 from access to gas storage and the contracted schedule of payments over the remaining 10 years of the contract.

Reported net profit of \$127m was down \$55m on the prior year, with lower operating earnings (EBITDAF) reflecting the onerous contract provision, higher interest expense reflecting the higher interest rate environment and unfavourable movements in the fair value of financial instruments as higher losses were realised from unhedged financial instruments, partially offset by lower depreciation and amortisation and lower tax on earnings. Excluding the impact of the AGS provision, underlying net profit was \$211m, up \$29m from the prior year.

Underlying EBITDAF, which excludes the impact of the AGS provision, increased by \$27m to \$573m, up five percent on the prior year, with higher realised electricity pricing as our sales channels align closer to the wholesale market, and higher other income which included a \$7m gain on sale of Te Rapa. This was partially offset by continued higher thermal generation input costs, lower electricity sales volumes and higher fixed costs driven by inflation and the preparation of the business for growth.

Operating free cash flow decreased from \$330m to \$282m, down 15 percent year-on-year with higher underlying operating earnings offset by higher stay-in-business capital expenditure, higher cash tax paid on strong earnings in prior periods and unfavourable working capital movements. Working capital remained elevated as Contact held more gas and carbon units in inventory on lower thermal generation than the prior year.

The Board approved a final dividend of 21 cents per share (imputed by up to 18 cents per share for qualifying shareholders) to be paid on 26 September 2023; taking the annual dividend declared for FY23 to 35 cents per share, which is in line with the prior year.

“Contact delivered a solid financial performance despite soft short-term wholesale market conditions,” said Mr Fuge.

“We saw the highest nationwide hydro inflows in post-market history, with North Island rainfall the highest on record. This depressed spot market prices and saw greater price separation between the North and South Islands. We responded by purchasing excess renewable electricity from the wholesale spot market and reduced our thermal generation to the lowest in Contact history.”

Renewable development

Contact’s geothermal development activity is moving at pace, with plans to replace the 1950s-built Wairākei A and B power stations with a new station of up to 180MW at Te Mihi – the GeoFuture project. Development costs of up to \$114m have been approved and Contact is targeting a final investment decision in early 2024.

“It is an exciting time for Contact as we focus on advancing our steamfield design work for GeoFuture and we will start pre-construction drilling in September. This comes as we are reaching completion of our world-class geothermal development at Tauhara,” said Mr Fuge.

The Minister for the Environment has approved the Southland Wind Farm Project for fast-track consenting. If approved, the 300MW facility would be Contact’s first wind farm and New Zealand’s largest. Together with its partner, Roaring40s, Contact continues to engage with local communities and mana whenua.

Subject to taking a final investment decision in FY24, Contact’s joint venture with Lightsource bp will begin construction on a 170MWp solar farm at Christchurch Airport, Kōwhai Park in 2024. The joint venture’s second proposed solar farm development is in Glorit on the Kaipara Coast, northwest of Auckland. The proposed site has good access to the transmission grid and is expected to generate 0.3TWh per year. The joint venture plans to apply for consent for the Glorit site in the second half of 2023.

Demand

Industry interest in converting to renewable electricity was strong, Mr Fuge said.

“In May we announced a pioneering energy agreement with NZ Steel. We will provide 30MW of flexible off-peak renewable electricity for its proposed new \$300m electric arc furnace. This will enable NZ Steel to scale down production in peak demand times or supply shortages, with the project representing a significant step towards meeting New Zealand’s climate change goals.”

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

The New Zealand Aluminium Smelter (NZAS) has indicated it would like to continue operations at Tiwai Point beyond December 2024. “We are encouraged as we continue to work closely with NZAS to negotiate a new agreement. The smelter is valuable to our country, and our economy, particularly as a significant exporter. It is also highly carbon

efficient in its production of premium aluminium, and a major employer and contributor to the Southland economy.”

Decarbonising our portfolio

In June 2023, as planned, Contact closed its 44 MW Te Rapa gas-fired co-generation power station. And the company has confirmed it won't extend the operating hours of its gas-fired Taranaki Combined Cycle (TCC) plant. While it will support security of supply with remaining operating hours, decommissioning is expected at the end of 2024.

The 1.9TWh of new renewable generation that Contact will be bringing online at Tauhara and Te Huka is enabling Contact to take these steps. And, after a successful trial at Te Huka, Contact has confirmed it is exploring the feasibility of CO₂ capture and reinjection or reuse across existing and planned geothermal plants.

“This year we have taken key steps towards decarbonising our own portfolio and now have a clear path to achieve net zero emissions from our generation operations by 2035. We are committed to doing this in an orderly manner, ensuring security of supply and energy affordability to New Zealanders,” said Mr Fuge.

In line with Contact's decarbonisation strategy, the company will be taking a final investment decision on a 100MW battery in FY24. Contact has a preferred site option at Glenbrook, subject to consenting, and has resource consent to build at Stratford where Contact has existing operations.

“Investment in renewable energy flexibility in the North Island, close to retail load, is key to our strategy to lead New Zealand's decarbonisation. With more intermittent renewables being introduced, grid-scale batteries will play an important role by storing energy during periods of low demand and discharging power into the grid during the peaks. This investment will reduce our reliance on gas peaking plant and will enable us to participate across physical, reserve and frequency-keeping markets,” said Mr Fuge.

Retail

Mr Fuge said Contact's retail business has continued with targeted growth in FY23. “Multi-product customers are up 10% on FY22 driven by growth in our broadband business and supported by the introduction of fixed wireless broadband and expanded time-of-use offerings with the new *Dream Charge* EV plan. We've also been preparing to introduce Contact mobile, which will launch later this month.” Contact has been named as a finalist for Energy Retailer of the Year for the second year running.

Outlook

Looking ahead, Mr Fuge said the coming year will see Contact reaching significant milestones in the delivery of its strategy to lead the decarbonisation of New Zealand.

“We're preparing for Tauhara to come online by the end of the year, which will be a pivotal moment for the company. We're well on track to bring Te Huka 3 online by the end of 2024 and we'll be taking final investment decisions on GeoFuture, Kōwhai Park and a 100MW battery all within this financial year. I'm exceptionally proud of the team's dedication in laying the groundwork to realise our strategy.”

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

1/ MORE INFORMATION

Investors: Shelley Hollingsworth
Investor Relations & Strategy Manager
shelley.hollingsworth@contactenergy.co.nz
+64 27 227 2429

Media: Louise Wright
Head of Communications and Reputation
louise.wright@contactenergy.co.nz
+64 21 840 313

2/ CONFERENCE CALL

A conference call to support the full year results announcement will be held at 10am, NZ (New Zealand) time on 14 August 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>