New Zealand Shareholders Association Inc.

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November 1st 2024

Contact Energy Limited (CEN)

contact

The company will hold its Annual Shareholders Meeting at **9.30am Wednesday 13 November 2024.**

The location is **The Maritime Room Princes Wharf Viaduct Harbour Auckland.**

You can also join the meeting at this link.

Company Overview

The company is the second-largest energy supplier in the country, delivering 20% of the country's electricity generation. It also offers broadband and mobile services. Contact operate 6 geothermal, 2 hydro and 3 thermal power stations, producing 8.6TWh of energy of which 81% is renewable. The company has 1,273 employees and 625,000 customers. It aims to generate over 95% of energy from renewable sources by FY27 and achieve 'net zero' by FY35.

In July 2024, the company signed an agreement with NZ Aluminium Smelters to supply electricity to the Tiwai Point smelter up to 2044. In August, the company entered into a 50/50 joint venture with Lightsource bp to develop the Kowhai Park Solar Farm in Christchurch. This will be able to supply energy to 36,000 homes. It is also nearing final commissioning of the new geothermal power station at Tauhara, Taupō and has achieved significant progress on the Te Huka 3 geothermal power station and committed to an investment in a grid-connected battery at Glenbrook.

On September 11th, Contact announced an agreement to purchase Manawa Energy (NZX: MNW) for a combination of cash and shares under a Scheme of Arrangement. A decision from the Commerce Commission is expected in the first half of 2025.

David Gibson was appointed to the Board as an independent Directors in February 2024.

Current Strategy

The *Contact26* strategy was developed in the second half of FY21 and sets out the company's plan of action for the five years until 2026. There are four key themes at its core:

- Growing Demand
- Grow renewable development
- Decarbonise the portfolio
- Creating an outstanding customer experience

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Strategic theme	Grow demand	Grow renewable development	Decarbonise our portfolio	Create outstanding customer experiences
Objective	Attract new industrial demand with globally competitive renewables	Build renewable generation and flexibility on the back of new demand	Lead an orderly transition to renewables	Create New Zealand's leading sustainable energy brand that will support renewable development ambitions

In one of the clearer articulations of strategy by NZX companies, their Annual Report is structured around the Contact26 strategic themes and enablers, including progress against key milestones.

It also uses the Global Reporting Initiative (GRI) standards and the International Integrated Reporting Council Framework to report on material environmental, social and governance activities, and to provide a balanced view of performance.

Strategic theme	FY24 Achievements/progress	FY27 ambitions[1]
Grow demand	Concluded new long-term NZAS deal with improved pricing and demand response. Over 30MW new demand facilitated. Concluded green chemical deal: Support for HWR Richardson hydrogen/diesel initiative. CO_2 commercialisation opportunity validated. Advancing to Final Investment Decision in FY25. Total contracted flexible demand 173MW (including 55MW in market).	• Facilitate 100MW of new demand. • Reach 100MW total Demand Flex and start pivoting to Demand Response. • New green chemical channel established contributing incremental EBITDAF.[2]
Grow renewable development	Tauhara came online Q2 2024 after steam separation plant re-design and rebuild. Final commissioning activity underway. Commissioning underway on Te Huka 3. Expected online Q4 2024. Achieved Final Investment Decision on 168MWp solar farm at Kōwhai Park. Achieved Final Investment Decision on 100MW BESS (battery) at Glenbrook. GeoFuture project adjusted to phased replacement programme (Te Mihi Stage 2&3). Consenting activity underway for Glorit and Stratford solar options (each 0.3TWh). Consent lodged on 0.9-1.2TWh Southland wind project. Turbine delivery taken for replacement at Roxburgh hydro power station.	• Grow to 10.3TWh p.a of total renewable assets from geothermal new build, solar and wind. • 100MW battery operational.
Decarbonise our portfolio	Progressing to meet all carbon reduction commitments under net zero roadmap (Scope 1 and 2). Prepared for decommissioning of TCC, expected at the end of 2024. Approved BESS (battery) investment will reduce reliance on thermal peakers. Investigating options for further carbon offsets through native vegetation on Contact land. CO_2 reinjection being installed on Te Huka 3.	• Scope 1 and 2 GHG emissions run-rate of ~300ktCO_2e, working towards our 2035 net zero commitment. • Renewable flexibility strategy to reduce reliance on thermal peaking.
Create outstanding customer experiences	More than 620,000 connections, up ~6 percent. Cost to serve per connection increase below CPI. Telco gross margin growth of >60 percent. Net zero generation brand campaign launched. Contact Mobile launched and has now reached 7,600 customers. Electricity net price up by >5 percent aligning closer to market while maintaining low churn.	• Greater than 685k connections. • Cost to serve (CTS) at global benchmark of <$80/ connection. • Triple EBITDAF contribution from non-energy lines of business. • Top quartile NZ Business for Sustainability survey[3] and most Trusted Energy brand.[4]

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Key

The following sections calculate an objective rating against criteria contained within NZSA policies.

Colour	Meaning
G	Strong adherence to NZSA policies
A	Part adherence or a lack of disclosure as to adherence with NZSA policies
R	A clear gap in expectations compared with NZSA policies
n/a	Not applicable for the company

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NZSA

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Governance

NZSA assessment against its key policy criteria is summarised below:

Policy Theme	Assessment	Notes
Directors Fees	G	See below.
Director share ownership	G	See below.
CEO Remuneration	G	See below.
Director Independence	G	All Directors are independent.
Board Composition	A	See below.
Director Tenure	G	See below.
ASM Format	G	Hybrid meeting.
Independent Advice for the Board and Risk Management	G	See below.

Directors Fees: NZSA notes there is no disclosure as to whether other benefits are available for Directors, such as share options or retirement benefits, and the conditions under which they are paid. Discussions with the company in the past has clearly indicated that no such benefit is available.

The table of payments in the Annual Report includes $24,000 (FY23: $3,000) described as "*Ad hoc committee fee related to major projects*", related to the commissioning of the Tauhara Power Station.

Director Share Ownership: In line with NZSA policies, the Board Charter encourages Directors to accumulate 20,000 shares over their first three years, without introducing compulsion.

CEO Remuneration: The company discloses its remuneration strategy, policies and framework in the Annual Report and on its website, which includes an overview of the remuneration philosophy applicable to the company. The People Committee are responsible for implementing the policy. The company also describes the 'target outcome' for CEO remuneration and the FY25 remuneration structure.

NZSA notes the significant improvement in remuneration disclosures as compared with FY23.

Incentives: The CEO is paid a base salary in cash a short-term incentive (STI) in both cash and equity and a long-term incentive (LTI) by way of Performance Share Rights.

NZSA encourages fulsome disclosure in relation to any incentive payments made to the CEO, including disclosure of measures (or measure 'groups'), weightings, targets, and the level of achievement versus target for each component associated with any awards. This methodology is supported by the new NZX Remuneration Reporting Template

For the STI, the cash component is awarded at a maximum of 50% of base salary, with the equity STI able to be awarded at a maximum of 30%. The measures, weightings and level of achievement against each component are well-disclosed, with the overall STI award being made at 71% of maximum.

The STI Equity component vests on the basis of a two-year tenure, rather than being subject to any further performance testing. In general, NZSA does not support tenure-based awards. In this case, NZSA recognises, however, that the level of award (in this case, 71%) has already been tested, based on FY24 performance. This incentive design is essentially a form of 'deferred' payment, that continues to incentivise the CEO to improve share price and remain the with the company.

The LTI is awarded at 35% of base salary. Vesting then occurs after a three-year performance assessment period. Measures determining the level of eventual share vesting are well-disclosed. We note 50% is based on a relative total shareholder return measure (rTSR), which is supported by NZSA.

The company is clear in describing the amounts *awarded/earned* by the CEO for the reporting period, with further disclosure detailing the value of the amounts paid as a result of *paid/vesting* STI & LTI share awards. NZSA supports this approach as avoiding 'conflation' amounts earned and amounts paid.

The STI forms the majority of incentives. NZSA prefers a weighting towards the LTI to ensure the CEO is aligned with the interests of long-term shareholders.

Golden Parachutes: In the interests of transparency, NZSA believes there should be explicit disclosure around the severance terms and notice periods associated with the CEO, including whether specific termination payments are offered.

We note the Annual Report discloses the CEO has a 6 month notice period.

Board Composition: The company provides a 'collective' skills matrix in the Annual Report, although does not break this down to attribute the skill sets of individual Directors to provide assurance for shareholders. In mitigation, we note that the Board skills were independently reviewed by Korn Ferry during 2021, a best-in-class practice for an NZX company.

The company does not participate in the IoD's "Future Director" programme (or similar) to develop and mentor the next generation of Directors. NZSA expect NZX50 companies to participate as part of a responsibility to develop and mentor the next generation of Directors.

The nature of the company's board indicates a commitment to thought, experiential and social diversity, with relevant experience for Contact. We note the wording in section 6 of their Board Charter that places a minimum threshold for male and female directors at 30%.

Director Tenure: NZSA looks for evidence of ongoing succession or 'staggered' appointment dates that reduce the risks associated with effective knowledge transfer in the event of succession. We also prefer a term maximum of 9-12 years, unless there are exceptional circumstances that may apply.

Directors' appointment dates range from 2015 to 2024 indicating a commitment to good succession planning.

Independent Advice for the Board & Risk Management: NZSA looks for evidence, through disclosures, that a Board has access to appropriate internal and external expertise to support board assurance activities. We also look for evidence that Boards are across their risk management responsibilities.

The Board Charter states that Directors are entitled to seek independent external advice at Contact's expense, with the prior approval of the Chair. Board members are also able to access internal staff as required. The Board Charter also notes that the General Counsel / Company Secretary has unfettered access to the Board.

Contact offers comprehensive disclosure of the key strategic, climate-related business and financial risks that impact the business, and their mitigations. There is also good disclosure of risk management and governance processes. The company has also published a separate 33-page Climate Statement.

Audit

NZSA assessment against its key policy criteria is summarised below:

Policy Theme	Assessment	Notes
Audit independence	G	Good disclosure.
Audit rotation	G	See below.

Audit Rotation: The company is one of very few NZX issuers that not only disclose the Lead Audit Partner is rotated at 5 years as required by the NZX Listing Rules but also discloses the Audit Firm is rotated at 15 years. The current Audit Firm and Lead Audit Partner were appointed in FY22.

Environmental Sustainability

NZSA assessment against its key policy criteria is summarised below:

Policy Theme	Assessment
Approach	G
Sustainability Governance	G
Strategy and Impacts	G
Risk and Opportunity	G
Metrics and Targets	G
Assurance	A

Overall approach: Contact Energy prepare their Annual Reports within the Integrated Reporting Framework, and have been providing sustainability disclosures since 2015. The company offered strong disclosure against the NZSA environmental policy last year and were also graded "A" in the inaugural Forsyth Barr Carbon & ESG Ratings for New Zealand companies.

NZSA policies encourage issuers to take a "broad approach" to environmental risks; this may result in disclosures that offer more insight into relevant environmental risks for the business beyond climate change. The company's climate disclosures occur within the context of a broader environmental sustainability framework, which includes water management and sustainability.

We note that the company has adopted three (out of seven) adoption provisions related to the CRD regime. NZSA considers this an appropriate step in the company building its capability to meet full disclosure.

<u>Sustainability Governance:</u> Contact Energy disclose a director skills matrix that show the number of directors with primary or secondary expertise in 16 skill areas, including capital markets, investment, community and sustainability. Environmental sustainability matters are the responsibility of the Health, Safety and Environment Committee while climate-related issues are the responsibility of the Safety and Sustainability Committee.

<u>Strategy and Impact:</u> Contact Energy's sustainability future is embedded within its strategy, noting that "*leading decarbonisation means cutting greenhouse gas (GHG) emissions from our own operations and helping our customers to cut theirs*". They also disclose a clear understanding of the financial implications of climate-related risk on their business as a result of their updated scenario analysis done in FY24 and describe the social and environmental impacts they have in New Zealand.

The company is yet to fully describe the financial impacts on their strategy or articulate a transition plan.

<u>Risk and Opportunity:</u> Contact Energy provide good disclosure of their climate-related and other external risks and opportunities over the short to long term. Disclosure around their risk mitigation strategies has improved significantly from 2023.

<u>Metrics and Targets:</u> Contact disclose their GHG emissions across scopes 1 to 3 with comparative data from FY22, with 2018 being their baseline. They have set multiple Science Based Targets initiative (SBTi) emissions reductions targets and disclose their pathway to net zero Scope 1 and 2 emissions.

<u>Assurance:</u> In their Auditor's Report, EY disclose having provided limited assurance for specific elements of Contact Energy's Global Reporting Initiative (GRI) disclosures and unless otherwise stated, does not provide any assurance on other information. We encourage Contact to consider expanding the scope of it limited assurance review to include environmentally-related statements.

Ethical and Social

NZSA assessment against its key policy criteria is summarised below:

Policy Theme	Assessment	Notes
Whistleblowing	G	Good disclosure.
Political donations	G	No donations are made.

Financial & Performance

Policy Theme	Assessment	Notes
Capital Management	G	
Takeover or Scheme	n/a	*n/a if no takeover*

Contact Energy's share price rose from \$8.06 to \$8.56 (as of 10th October 2024) over the last 12 months – a 6% increase. This compares unfavourably with the NZ50 which rose by 13% in the same period. The capitalisation of CEN is \$6.8b placing it 8th out of 121 companies on the NZX by size and makes it a large company.

Metric	2020	2021	2022	2023	2024	Change
Revenue	\$2,073m	\$2,573m	\$2,387m	\$2,118m	\$2,863m	35%
EBITDA	\$446m	\$553m	\$537m	\$505m	\$675m	34%
NPAT	\$125m	\$187m	\$182m	\$127m	\$235m	85%
EPS[1]	\$0.174	\$0.241	\$0.233	\$0.162	\$0.298	84%
PE Ratio	38	34	31	50	29	
Capitalisation	\$4.8b	\$6.3b	\$5.6b	6.4b	\$6.8b	6%
Current Ratio	0.66	0.89	0.73	0.76	0.71	-7%
Debt Equity	0.87	0.72	0.82	1.07	1.37	28%
Operating CF	\$341m	\$432m	\$400m	\$395m	\$580m	47%
Operating CF (cps)	\$0.47	\$0.56	\$0.51	\$0.50	\$0.73	46%
NTA Per Share[1]	\$3.08	\$3.18	\$3.07	\$3.00	\$2.98	-1%
Dividend[1]	\$0.39	\$0.35	\$0.35	\$0.35	\$0.37	6%

[1] *per share figures based off actual shares at balance date (not weighted average)*

As we reported last year, markets are forward looking and had anticipated the good results that CEN managed to post in FY24.

Revenues were up 35% to \$2,863m and *EBITDA* was up 34% to \$675m. Subsequently *NPAT* was up 85% to \$235m (we note this was impacted positively by a change in fair value of financial instruments of \$8m). This places CEN on a high *PE* of 29, in line with the sector where share prices rely more on net cashflows rather than EPS for distribution to shareholders.

Operating cashflows are a more useful financial metric for a company such as CEN, and these increased by 47% on the prior year coming in at \$580m (although somewhat flattered by changes in working capital). Measured in cents per share this equates to \$0.73. These robust operating cash flows enabled CEN to increase their *dividend* by 6% to \$0.37. As the dividend is higher than EPS (and thus tax paid), dividends are only partially imputed. This year they are 26% imputed, close to full imputation.

CEN operates a financially sound balance sheet and average levels of debt, with *debt equity* at 1.37. We note that the company took on an additional \$382m of debt after taking on more debt last year. The debt-equity ratio has been steadily increasing over the last 4 years. Debt is a mixture of bank debt and bonds.

The company provided an investor presentation in conjunction with their annual results and provided a host of forward looking metrics for FY25 (these can be found on page 41). CEN are predicting dividends of 39 cents per share for the upcoming year.

The company is widely held by a variety of institutions and individuals.

Resolutions

1. To re-elect Sandra Dodds as an Independent Director.

Sandra Dodds was appointed to the Board 1 September 2021. She is based in Melbourne and currently sits on the boards of Snowy Hydro Limited, OceanaGold corporation and Fletcher Building Limited. She has more than 30 years' experience as a senior leader in complex infrastructure businesses in Australia, New Zealand, and Asia. She holds a Bachelor of Commerce from the University of Otago, is a graduate of The Australian Institute of Directors, and is a fellow of Chartered Accountants Australia and New Zealand.

We will vote undirected proxies **IN FAVOUR** of this resolution.

2. To re-elect Jon MacDonald as an Independent Director.

Jon MacDonald was appointed to the Board 1 November 2018. He was CEO for the Trade Me Group for 11 years. Prior to joining Trade Me, Jon worked in London for HSBC Investment Bank in a variety of technical and management positions and has worked for Deloitte Consulting with a focus on telecommunications and financial services. Jon is also a director of several other companies including Sharesies, Mitre 10 New Zealand, Trade Me Group (through Titan Parent NZ Ltd) and Kiwibank Limited. Jon has a background in engineering and technology. He has a Bachelor of Electrical Engineering (Hons) from the University of Canterbury

We will vote undirected proxies **IN FAVOUR** of this resolution.

3. To elect David Gibson as an Independent Director.

David Gibson was appointed to the Board 20 February 2024 and is therefore required to offer himself for election He has over 20 years' investment banking experience, including as Co-Head of Investment Banking in New Zealand for Deutsche Bank and Deutsche Craigs where he completed a number of New Zealand's largest M&A and equity transactions, including within the energy sector. He is currently Deputy Chair of Goodman (NZ) Limited and a Director of Freightways, NZME and Rangatira Limited. He is a former Director of Trustpower. David holds a Bachelor of Laws (Honours) and Bachelor of Commerce from the University of Canterbury.

We will vote undirected proxies **IN FAVOUR** of this resolution.

4. That the Board is authorised to fix the auditor's remuneration for the coming year.

This is an administrative resolution.

We will vote undirected proxies **IN FAVOUR** of this resolution.

Proxies

You can vote online or appoint a proxy at https://vote.linkmarketservices.com/CEN/

Instructions are on the Proxy/voting paper sent to you.

Voting and proxy appointments close **9.30am Monday 11 November 2024.**

Please note you can appoint the Association as your proxy. We will have a representative attending the meeting.

The Team at NZSA