

October 28th 2021

Contact Energy Limited (CEN)

The company will hold its Annual Shareholders Meeting at **9.00am Wednesday 10 November 2021**.

It will be a virtual meeting.

You can join the meeting online at <https://www.virtualmeeting.co.nz/agm/cen21/register>

Company Overview

The company is the second largest energy supplier in the country. It also offers broadband services. It operates 5 geothermal, 2 hydro and 3 thermal power stations producing 8.4TWh of energy, 81% renewable. The company has over 900 employees and 532,000 customers, 100,000 using its apps and website to self-service their requirements

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. Their latest annual report is structured around the Contact26 strategic themes and enablers. 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.

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

Disclaimer

To the maximum extent permitted by law, New Zealand Shareholders Association Inc. (NZSA) will not be liable, whether in tort (including negligence) or otherwise, to you or any other person in relation to this document, including any error in it.

Forward looking statements are inherently fallible

Information on www.nzshareholders.co.nz and in this document may contain forward-looking statements and projections. For any number of reasons, the future could be different – potentially materially different. For example, assumptions may be wrong, risks may crystallise, unexpected things may happen. We give no warranty or representation as to any future financial performance or any other future matter. We may not update our website and related materials for changes.

There is no offer or financial advice in our documents/website

Information included on www.nzshareholders.co.nz and in this document is for information purposes only. It is not an offer of financial products, or a proposal or invitation to make any such offer. It is not financial advice and does not take into account any person's individual circumstances or objectives. Prior to making any investment decision, NZSA recommends that you seek professional advice from a licensed financial advice provider.

There are no representations as to accuracy or completeness

The information, calculations, and any opinions on www.nzshareholders.co.nz and in this document are based upon sources believed reliable. The NZSA, its officers and directors make no representations as to their accuracy or completeness. All opinions reflect our judgement on the date of communication and are subject to change without notice.

Please observe any applicable legal restrictions on distribution

Distribution of our documents and materials on www.nzshareholders.co.nz (including electronically) may be restricted by law. You should observe all such restrictions which may apply in your jurisdiction.

Governance

NZSA assessment against its key policy criteria is summarised below:

Policy Theme	Assessment	Notes
Directors Fees	G	See comments below.
Director share ownership	G	Directors are not compelled to own shares
Executive Remuneration	A	See comments below.
Golden parachutes/handshakes	A	Not disclosed. NZSA expects full disclosure around whether these are similar payments are offered.
Director Independence	G	Majority of independents as defined by NZX Code of Corporate Governance
Board Composition	A	See comments below.
Director Tenure	G	See comments below.
ASM Format	G	See comments below.
Company Sec independence	G	Good disclosure.

Directors Fees: While disclosure is generally good, there is no disclosure as to whether retirement benefits or share options are available for Directors. Following discussion with the company, NZSA is comfortable with Contact's position.

Executive Remuneration: Generally good disclosure. For the CEO, some remuneration structural elements do not accord with NZSA Policy – for example, the short-term incentive (STI) opportunity is greater than 33% of total incentives. NZSA prefers a weighting towards long-term incentive rewards, based on total shareholder return. We also note the total maximum incentive opportunity is 115% of base salary (NZSA prefers an opportunity pool less than base salary), although this reduces below fixed remuneration for an 'on-target' performance.

We note the company has made changes to its STI arrangements for staff below senior management level for the coming year, increasing the proportion of fixed remuneration paid. For the senior leadership, the proportion of STI paid in cash has been reduced, with an increase in equity-based payments.

NZSA encourages fulsome disclosure in relation to any incentive payments, including disclosure of measures (or measure 'groups'), weightings, targets and the level of achievement associated with any awards. For both STI and LTI (long-term incentive) schemes, we're pleased with the clarity of disclosure provided by Contact.

We note that overall, a potential 56% of the total maximum incentive opportunity can be paid by way of performance or deferred share rights. NZSA prefers equity awards to be made in shares purchased on-market, to avoid dilution for shareholders. We note that Contact is clear about the dilutionary impact of options in its financial statements.

We appreciate the disclosure of the ratio of CEO remuneration to that of the median employee (20:1) as well as pay-equity disclosures.

Board Composition: The company discloses a ‘collective’ skills matrix outlining how the Board matches the skills required to govern the company, although an ‘individual’ matrix is not disclosed that would otherwise allow shareholders to make their own assessment. We note the company uses an external provider to provide an objective view of Board skills.

The company does not participate in the IoD’s “Future Director Programme”; given the scale of CEN and its prominent status in NZ, we feel that the company should offer greater commitment to director development and future governance sustainability.

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 note that Contact has a range of appointment dates between 2015-2021 – the recent/upcoming retirements of Whaimatu Dewes and Dame Therese Walsh, with two new Directors to be elected at this ASM, indicate ongoing succession management.

ASM Format: The shareholder meeting has been planned as a virtual-only meeting, a decision supported by NZSA in this context. Normally, NZSA favours a hybrid meeting, to maximise shareholder attendance and engagement through both virtual and physical means.

Audit

NZSA assessment against its key policy criteria is summarised below:

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

Audit Rotation: Whilst the company ensures the Lead Audit Partner is rotated at 5 years it does not disclose whether the Audit Firm is rotated at 10 years. In common with many other NZX-listed companies, it also does not disclose the appointment date of the Audit Firm or the Lead Audit Partner.

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 were made.

Financial & Performance

Policy Theme	Assessment	Notes
Dividends and Imputation	G	Good disclosure
Capital Raise process	A	See comments below.

Capital Raise Process: The company raised capital via a Placement and Retail Offer. NZSA's preferred method is a renounceable rights issue to ensure shareholders can maintain their proportionality or derive some value for the sale of rights.

We note that the company engaged with NZSA at the time, and publicly stated it would ensure retail shareholders who participated in the Offer were able to maintain their proportionality. We note the clear disclosure and rationale associated with both the reason for the capital raise and capital raise methodology.

Contact Energy's share price rose from \$6.65 to \$8.30 (as of September 30th) over the last 12 months – a 25% increase. This compares favourably with the NZX 50 which increased by 12% in the same period. The Performance Factor for CEN is 2.12.

Metric	2021	2020	Change
Revenue	\$2,573m	\$2,073m	24%
EBITDA	\$553m	\$446m	24%
NPAT	\$187m	\$125m	50%
EPS ¹	\$0.241	\$0.174	38%
PE Ratio	34	38	
Current Ratio	0.89	0.66	35%
Debt Equity	0.72	0.87	-17%
Operating CF	\$432m	\$341m	27%
Operating CF (cps)	\$0.56	\$0.47	17%
NTA Per Share ¹	\$3.18	\$3.08	3%
Dividend Per Share ¹	\$0.35	\$0.39	-10%

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

Contact Energy had a stellar year with metrics across the board improving leading to a higher share price. Revenues were up 24% to \$2,573m and operating expenses increased commensurately leading to an increased EBITDA of \$553m. NPAT was up 50% to \$187m delivering EPS of \$0.241. This places CEN on a high PE of 34 but this is in line with the sector where share prices, rely more on net cashflows for distribution to shareholders, than EPS.

Operating cashflows are a more useful financial metric for a company such as CEN, and these increased by 27% on the prior year coming in at \$432m. Measured in cents per share this equates to \$0.56. These robust operating cash flows enabled CEN to pay a slightly reduced dividend of \$0.35. As the dividend is higher than EPS (and thus tax paid) dividends are only partially imputed.

CEN operates a financially sound balance sheet and low levels of debt, with debt equity a low 0.72. During the year CEN raised \$392m in a share issue and used \$285m of this to retire non-current debt.

It is rather refreshing to see an honest self-reflection that the company would highlight in the Annual report that it: "Rated lowest in Consumer NZ's 2021 power company satisfaction survey".

On page 28 of an investor presentation to market released on 16th August 2021, <http://nzx-prod-s7fsd7f98s.s3-website-ap-southeast-2.amazonaws.com/attachments/CEN/377286/352214.pdf> CEN provide some forward guidance for FY22 on a variety of financial metrics.

Resolutions

1. To re-elect Jon Macdonald as an Independent Director.

Jon Macdonald was appointed to the Board in November 2018. He is also a director of several other companies including Sharesies, Mitre 10 New Zealand, Trade Me Group and My Food Bag Group. He was formerly CEO for the Trade Me Group for 11 years. Prior to joining Trade Me, he 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.

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

2. To re-elect David Smol as an Independent Director.

David Smol was appointed to the Board in October 2018. He is currently Chair of both the Capital & Coast, and Hutt Valley, District Health Boards. In 2008 he was appointed as chief executive of the Ministry of Economic Development and, from 2012–2017 was the inaugural chief executive of the Ministry of Business, Innovation and Employment (MBIE), following the merger of four government departments. He was part of the Contact Energy establishment team in 1995-1996 and a member of the team that developed the rules for the New Zealand electricity market.

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

3. To elect Rukumoana Schaafhausen as an Independent Director.

Rukumoana Schaafhausen was appointed to the Board 1 March 2021 and is therefore required to offer herself for election. She is a commercial and property lawyer and has served as a Director at Genesis Energy. She was recently the Chair of Waikato-Tainui and is currently serving across a number of Iwi, community, private and public organisations in governance roles including Water Governance Board, AgResearch, Miro Berries, Tindall Foundation, and The Princes Trust.

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

4. To elect Sandra Dodds as an Independent Director.

Sandra Dodds was appointed to the Board 1 September 2021 and is therefore required to offer herself for election. She is based in Melbourne and currently sits on the boards of Snowy Hydro Limited, Beca Group and OceanaGold corporation. Until recently she led the infrastructure sector team at Broadspectrum.

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

Proxies

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

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

Voting and proxy appointments close **9.00am Monday 8 November 2021**.

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

STANDING PROXIES - AUTOMATICALLY APPOINT NZSA AS YOUR PROXY

MAKE YOUR VOTE COUNT!

Details on the NZSA website.

<http://www.nzshareholders.co.nz/shareholders-standing-proxies.cfm>

The Team at NZSA