CHAIR'S ADDRESS: 2024 Manawa Energy Shareholder Meeting
Deion Campbell
17 September 2024

[Introduction]

It is my pleasure to provide this update to the Manawa Energy Shareholders.

The release of our results for FY24 may feel like a long time ago, but the changes and challenges experienced since our last shareholder meeting should not detract from the FY24 outcome which I believe was encouraging and reflective of our continuing improvement in capability and understanding of how to operate as an independent power producer (IPP).

More recently, there have been some challenging moments in the New Zealand energy market, exposing some of the risks we take as an IPP selecting customers, which when combined with a market wide fuel shortage, can have material consequences.

Most of you will have seen the significant announcement made by Manawa Energy last week. I will discuss this further later but thought it would be useful to firstly cover our core IPP strategy, the recent market difficulties and why the proposed transaction with Contact Energy is positive for the market and shareholders of both companies.

In his first address as CEO, Clayton will provide commentary on his team's progress with existing assets (including reliability improvements), the development pipeline and more detail on the FY24 year financials.

[IPP Strategy]

Manawa's position as an IPP, with a diverse collection of valuable hydro generation assets and an attractive development pipeline, requires careful assessment and management of operational risk and a laser focus on lowering the cost of energy produced to ensure our developments find customers.

Since our last meeting, your board and executive team have been focused on positioning the business for success as an independent power producer, dedicating a lot of time to understanding where the pockets of value exist for Manawa and how to best access these.

The performance of Manawa's existing assets is key to unlocking the inherent value in our expanded development pipeline.

Over time, Manawa has tried to maintain a high level of relevant operational and technical expertise at governance and executive level, with the understanding that deep sector experience in leadership ranks allows a business to take more informed positions on risk and capital allocation. Knowledge of compliance and safety obligations, and being able to fully consider all aspects of likelihood and consequences associated with operational risk, allows more efficient use of capital without material performance degradation.

When it comes to new developments, for Manawa, there is a well understood process of finding great options, developing and designing these well, attracting high quality customers and then delivering the construction projects to plan, all to produce the lowest cost electricity as possible.

One of the key factors influencing the cost of energy from a new project is the cost of capital used to fund the project, both equity and debt, and this is largely driven by risk. One important opportunity to lower risk and therefore cost of capital, is to remove revenue uncertainty by securing large volume, long tenor offtake agreements with credit worthy customers.

These customers understand the market and are also looking for certainty to allow them to supply their industrial load, or their own electricity customers. They effectively put their own balance sheet to work to enable the right projects to be funded, whilst also effectively meeting their own energy needs.

[Financials]

Clayton will provide more details on the financials shortly, but I will highlight that in May we reported financial performance for FY24 with EBITDAF from continuing operations of $145m, a 6% improvement on the prior year.

Also, the Board approved a final ordinary dividend of 11 cents per share, to lift the total ordinary dividend for the year to 19 cents per share, a 19% increase on the prior year.

[Industry observations]

New Zealand's electricity market celebrates the dominance of renewables, with greater than 80% of electricity in a typical year produced from renewable sources like hydro, wind and geothermal. The market also relies on thermal fuel, coal and gas, to provide risk protection in the event of renewable fuel shortage.

This year, New Zealand experienced a sustained period of unusually low wind and rain weather patterns. At the same time, ideologically based previous government policy settings resulted in reduced gas supply. This combination resulted in high prices, which in any market typically signal a need to reduce consumption. This is further evidenced by the fact that when this supply of fuel has increased, along with demand response from some large load, prices have decreased rapidly.

This access to fuel has absolutely nothing to do with competition in the electricity market – it is simply reflecting expected variability from time to time in the level of available renewable resources and a declining level of production in the case of gas.

A large part of the solution to this is to encourage more renewable generation build to allow more of the fuel that does become available to be used and for the hydro assets to be used increasingly as risk cover, rather than base load. Other parts will be associated with storage, demand side management and other innovations that can be expected from the sector in the future.

I reiterate, this has nothing to do with lack of competition. It has everything to do with available generation and New Zealand needs to get on with building a variety of new generation options. With the certainty that the New Zealand Aluminium Smelter (NZAS) will operate for at least the next couple of decades, many of the announced and planned generation projects from both large participants and increasingly of late, a great many independent power producers, will be built, resulting in a significant increase in generation capacity and energy produced. There is sufficient competition in the generation sector.

Manawa recently announced the impact of one of its customers facing stress in the market conditions that persisted until recently. This is perhaps the best illustration of why a company like Manawa has publicly stated its strategy is to sell to large, credit worthy customers, those who can support new renewable asset build, essentially underpinning more generation supply and therefore lowering cost for all other participants. Our developments need a cornerstone customer to be financeable.

The risk cover required by an energy market which supports a mix of independent participants can only be offered at sufficient capacity when the market includes larger participants, including generators, retailers and consumers (e.g. NZAS). Without them, both sides of the market, generation and consumption, face higher costs and higher risk.

[The Contact Transaction]

Receiving an unsolicited offer to buy all the shares in your company is an interesting and relatively rare occurrence for a board of directors. It can be seen as confirmation of the value being created, but it is also cause to reflect on what is fair value.

As I mentioned earlier, your board has worked to understand the value potential in Manawa, both in its present status and under several future scenarios. The Board unanimously believes that this offer from Contact Energy, represents an attractive outcome for shareholders, including offering the option to remain invested in the New Zealand energy market.

The board also understands the importance of successfully integrating Manawa's people and assets into Contact and has negotiated a seat on the Contact board, proposing that I should take that role, given my long history with the business and wider industry.

The transaction remains subject to several conditions, including the report from an Independent Advisor concluding that the transaction provides a value to shareholders within or above their assessed valuation, and the approval from the New Zealand Commerce Commission.

I am confident the Commerce Commission will understand that the short term fuel shortage and different political or other opinions are not relevant to the ownership of assets designed to last for more than 100 years. Manawa Energy is no longer an electricity retailer, so this transaction is about accelerating growth in the generation mix in New Zealand. The opportunity for the strengthened Contact Energy resulting from the combination of our existing assets with theirs, to really accelerate the build out of the combined development pipeline and offer cost effective energy products to a wide variety of independent retailers and other customers is important.

The cost of new generation is impacted by many factors, including foreign exchange rates, interest rates and other things outside of the control of the developer. Factors that can be controlled include scale, diversity, and total company resilience which all affect the cost of capital of a project sponsor and even the prices offered by international equipment manufacturers. A larger scale Contact Energy, with a very diverse existing asset base, and better able to manage its hydro generation variability, will result in a faster and cheaper generation build than either company can achieve alone.

Until the transaction receives regulatory approval and then passes a shareholder vote, your board and executive team is focused on running the company effectively, including progressing on-foot asset upgrades, the re-consenting program and advancing the development pipeline.

[Conclusion]

To conclude, I would like to acknowledge and thank my fellow directors for their additional effort this year, not only in navigating the transaction with Contact, but also in the reset of the executive team and looking through the recent market stress as we settle into our position as an IPP.

I also want to thank the executive team, the FY24 result was pleasing, and the work required to achieve the improved generation asset performance, progress on the development pipeline and allow Contact’s due diligence, all whilst the market has been challenging, cannot be understated.

To the shareholders, this is potentially Manawa’s last annual meeting, so I will take the opportunity to thank you, also, for your ongoing support.

I will now hand over to Clayton Delmarter, the Manawa Energy Chief Executive.

Thank you.