Contact Energy
Annual Report 2011

contact

Contents

The 2011 Annual Meeting of Contact Energy Limited shareholders will be held at the Rotorua Convention Centre, 1170 Fenton Street, Rotorua on Wednesday 19 October 2011, commencing at 9.30am.

The Notice of Annual Meeting and shareholder voting/proxy form are provided separately to shareholders.

Summary

For the financial year ended 30 June 2011

- Underlying earnings after tax for the year of $150.9 million. An increase of 1 per cent from $149.8 million for the 12 months to 30 June 2010.
- Commenced full commercial operation of the Ahuroa gas storage facility and the Stratford peakers – the anticipated flexibility that these assets will restore to Contact's generation portfolio has already been evidenced in second half-year earnings.
- Commenced construction on the 166 megawatt (MW), $623 million Te Mihi geothermal project.
- Consented three key energy developments:
  - Tauhara 2 – a 250 MW geothermal power station – consented for construction on the Tauhara geothermal area near Taupō.
  - Waitahora wind farm – a 156 MW wind farm – consented for construction in southern Hawke's Bay.
  - Hauāuru mā raki wind farm – a 504 MW wind farm – consented for construction along the western coast of the Waikato region to Te Akau South.
- Strengthened the company's balance sheet for investment in growth opportunities, completing a one-for-nine renounceable Entitlement Offer in June 2011.
- Finished the financial year with a net debt to net debt plus equity ratio of 27 per cent.
- Increased retail sales volumes by 8 per cent, largely due to commercial (Time of Use) customer sales.
- Significantly improved health and safety performance – an 11 per cent reduction in employee incidents and a 28 per cent reduction in contractor incidents.

For more information, please visit our website at www.contactenergy.co.nz or contact:

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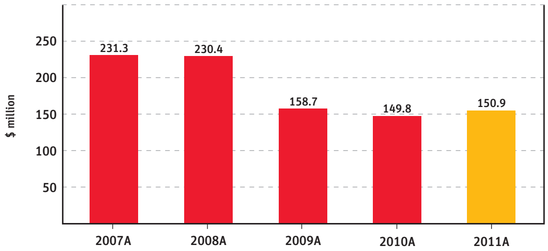
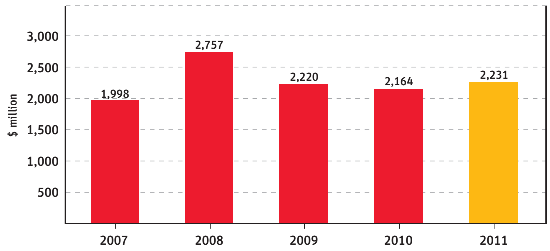
Performance indicators

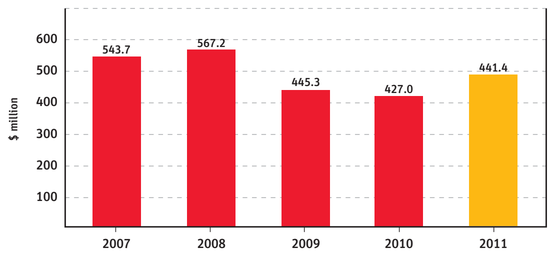
Underlying earnings for the period



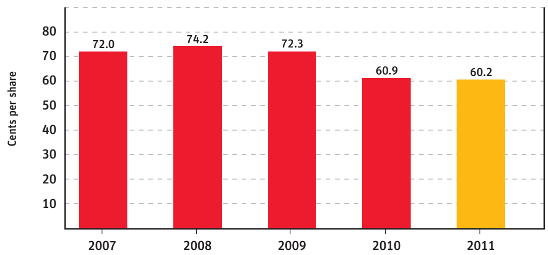
Total operating revenue



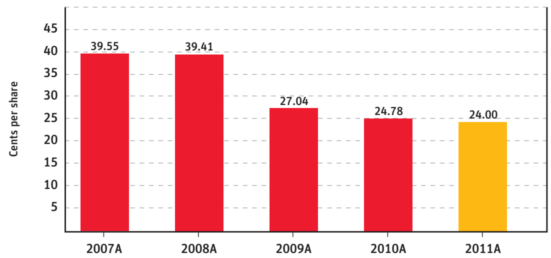
EBITDAF[1]



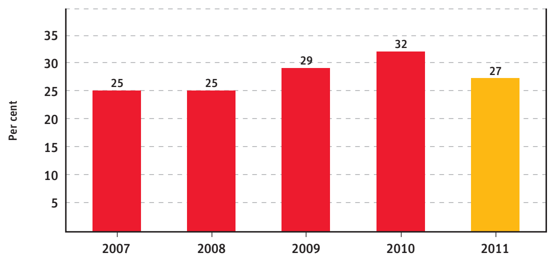
Operating cash flow per share[2]



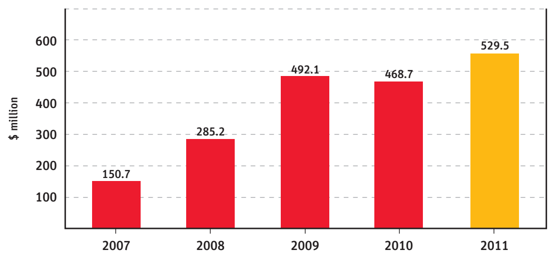
Underlying earnings per share[2]



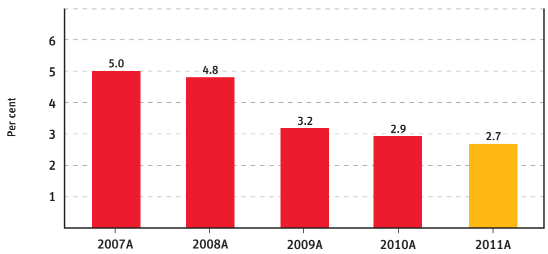
Net debt/debt+equity



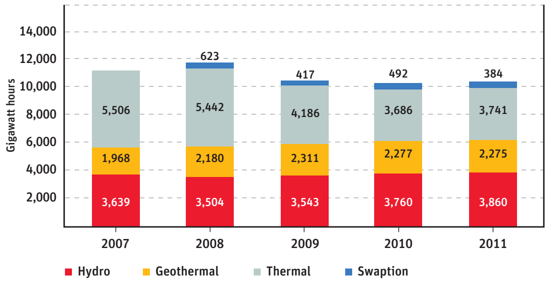
Capital and investment expenditure



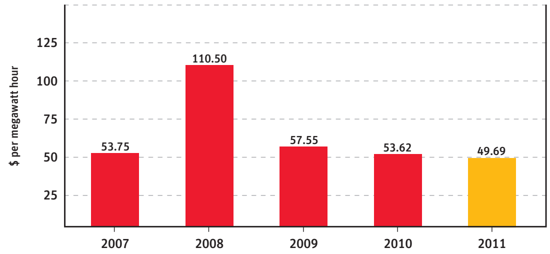
Underlying return on total assets



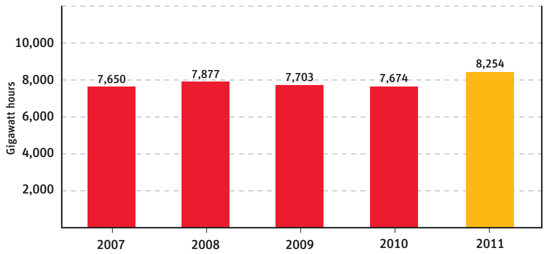
Generation by fuel source



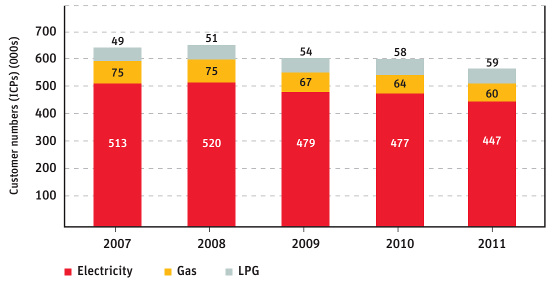
Wholesale electricity price



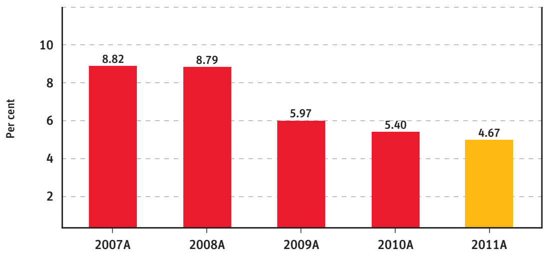
Retail electricity sales



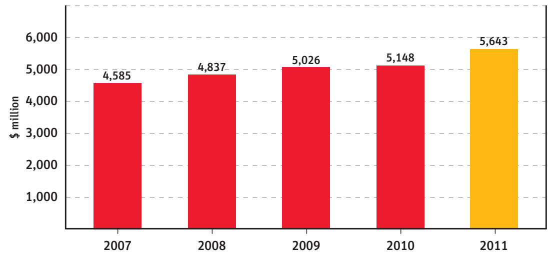
Customer numbers (including LPG franchisees)



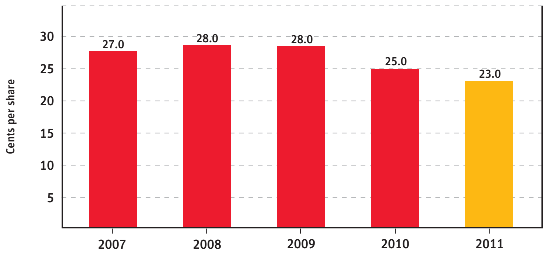
Underlying return on shareholders' equity



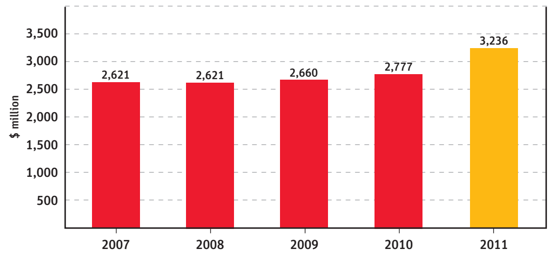
Total assets



Profit distribution and dividends per share



Shareholders' equity



Notes to the graphs

Comparatives have been restated to reflect current period presentation where appropriate.

- The above financial statistics, returns and ratios are based on Financial Statements prepared in accordance with New Zealand equivalents to International Financial Reporting Standards (NZIFRS).

A Excludes change in fair value of financial instruments and other significant one-off items both net of tax where appropriate.

1 Earnings before net interest expense, income tax, depreciation, amortisation, change in fair value of financial instruments and other significant items.

2 Underlying earnings per share and operating cash flow per share have been calculated using the weighted average number of shares on issue during the year. Comparatives have been restated to reflect the one-for-nine renounceable Entitlement Offer in June 2011.

Chairman's review

The financial year ending 30 June 2011 (FY11) was another wet year, with hydro storage levels averaging 120 per cent of mean. In particular the third quarter of the financial year, traditionally a time of lower demand, saw strong inflows into southern hydro lakes. This, combined with suppressed demand due to more difficult economic circumstances, made it difficult for Contact to achieve any real growth in earnings when compared to the prior year.

In FY11 Contact achieved earnings before net interest expense, income tax, depreciation, amortisation, change in fair value of financial instruments and other significant items (EBITDAF) of $441.4 million, an increase of 3 per cent from $427 million in the 2010 financial year (FY10). Underlying earnings after tax for the year were $150.9 million, an increase of 1 per cent from $149.8 million in FY10.

Net debt as at 30 June 2011 was $1,194.8 million, compared with $1,347.1 million as at 30 June 2010. Late in FY11 Contact raised $351 million of equity through a one-for-nine renounceable Entitlement Offer to strengthen its balance sheet for investment in growth opportunities, the first part of which is Te Mihi.

Existing term debt comprises US$330 million (NZ$587.3 million notional equivalent) of US private placements of various maturities, $550 million of fixed rate retail bonds and $100 million of fixed rate wholesale bonds that mature in May 2014 and April 2017 respectively.

Contact has additional liquidity available from $450 million of committed bank facilities, of which nil was drawn at 30 June 2011.

The Contact Board of Directors resolved that the final distribution to shareholders would be 12 cents per share, resulting in a total distribution for the year of 23 cents per share, a reduction of 2 cents from the previous financial year. The 2011 distribution to shareholders reflects the company's financial performance in the year in review.

The distribution represents a payout ratio of 100 per cent of Contact's underlying earnings.

During FY11 Contact completed two significant projects that will provide greater flexibility for its generation portfolio, support earnings in wet years and provide greater security of supply.

These projects are the Stratford peakers and the associated Ahuroa gas storage facility. In the first few months of operation, these facilities have already had a positive impact by reducing costs during periods of low wholesale spot prices and delivering earnings during high price periods.

During FY11 Contact also commenced construction on its Te Mihi geothermal development, near Taupo. Once complete, Contact will have a further 114 megawatts (MW) of base load renewable generation, which will provide further flexibility in its generation portfolio and reduce reliance on its gas-fired combined-cycle plants. The construction of Te Mihi reflects Contact's commitment to renewable generation and its belief that geothermal generation is the country's most cost-effective way to meet future electricity demand.

During this period Contact also received resource consents for three significant renewable generation developments, comprising two wind farms and a further geothermal plant.

During FY11 Contact increased retail sales, particularly through the Time of Use market. Contact was disappointed to lose residential and small business customers during the period and is committed to offering excellent service and competitive pricing in what is a very dynamic market.

As discussed in the Half Year Report, David Baldwin resigned as Managing Director and moved to the position of Chief Development Officer at Origin Energy on 1 April. David remains a director of Contact and will continue to contribute to Contact's generation development. I thank David for his valuable contribution over the last five years.

In April we welcomed Dennis Barnes as the new Chief Executive of Contact. Dennis has a long association with Origin Energy, having started with the company in 1998. Most recently Dennis held the role of General Manager Energy Risk Management at Origin, based in Sydney. In addition to his experience at Origin, where he guided Origin's significant and expanding operations in wholesale markets, Dennis has considerable skills and expertise gained through many years operating in international energy markets.

We recognise that FY11 was difficult for New Zealand as it recovered from the impact of the global economic recession and the Christchurch earthquakes. Looking forward, we expect demand for electricity to grow. Contact is well positioned to help meet this demand.

Grant King
Chairman

Chief Executive Officer's review

Focus on flexibility, customers and future development

Flexibility already delivering positive results

Last year we reported that the 2011 financial year (FY11) would be one of substantial change, with full commercial operation commencing of two projects that are critical to Contact's future.

It is therefore pleasing to report that the Ahuroa gas storage facility and Stratford peakers were opened this year by the Prime Minister, Rt Hon. John Key, and we are already accruing benefits from the restoration of generation portfolio flexibility.

The fixed costs associated with Contact's thermal generation reduced as a result of the new assets. These improvements are reflected in this year's results. In the second half of the year, lower gas take-or-pay volumes and the flexibility provided by the Stratford peakers and Ahuroa gas storage facility allowed Contact to manage risk more efficiently during periods of generally low wholesale prices. This resulted in an increase in hedged generation EBITDAF of $52 million compared with the same period in 2010.

Prior to the introduction of the Stratford peakers and the Ahuroa gas storage facility, two gas-fired combined-cycle gas turbine plants would have been required during winter demand periods to provide price and transmission risk coverage despite long periods of low wholesale spot prices. By utilising the Stratford peakers in combination with the combined-cycle gas turbine plants instead, we can now provide the same demand risk cover at a lower operating cost.

Similarly, the Ahuroa gas storage facility enables gas to be stored and used as required, lowering Contact's generation cost base. During the year, 5.8 petajoules (PJ) of gas were injected into Ahuroa, the equivalent of $45 million of gas costs which, during periods of wet hydrology and low wholesale prices, are not required. At the same time, Ahuroa's flexibility gave Contact the confidence to not replace a major gas contract and lowered the volume of gas that must be purchased under take-or-pay arrangements. During high wholesale spot price periods, the Stratford peakers and Ahuroa gas storage facility enable higher generation volumes at attractive margins.

Customers

Heavy and frequent rainfall this year ensured that fuel was plentiful. However, demand has been stagnant due to a combination of a mild winter, the Christchurch earthquakes and subdued economic conditions.

Despite these factors, Contact's retail sales volumes increased, with new customer acquisitions in the Time of Use market key to this increase.

In the residential retail market, Contact experienced an unprecedented level of customer churn in the last quarter of FY11. We are continuing to create new products and offers to be competitive in a market that is constantly changing. Accordingly, in August 2011, Contact increased its existing prompt payment discount for residential customers who subscribe to Online OnTime and receive their bills online, from 12 per cent to 22 per cent. Contact also commenced offering new wholesale risk management products to larger industrial consumers, to help them manage their energy purchase costs in this changing market.

Strategy for growth

Geothermal

Contact believes that geothermal generation represents the best and most cost-effective renewable generation option to meet New Zealand's energy needs. Contact continued its leadership in geothermal generation with the commencement in 2011 of the $623 million Te Mihi project.

Work on the Te Mihi project commenced on a site approximately 5 kilometres from the Wairakei geothermal power station and the Te Mihi power station is expected to be brought into operation in 2013. Once completed, 45 MW of the existing Wairakei station will be decommissioned, resulting in a net increase in output from the power stations on the Wairakei geothermal resource of 114 MW.

In 2011, resource consent was also obtained for the construction of the 250 MW Tauhara 2 geothermal development to be sited on the Tauhara geothermal field, to the north-east of Taupō. Timing of the Tauhara 2 development will be dependent on market conditions.

Investigation of the potential for development of the Taheke geothermal field is ongoing in partnership with the Taheke 8c and Adjoining Block Incorporation. This work has been progressing since the owners selected Contact to be their partners in the development of the resource in FY10.

Wind hydro and gas developments

Contact continues to investigate wind, hydro and gas-fired developments to help meet New Zealand's long-term demand needs.

In 2011 Contact was granted consents for two wind farm developments, the 156 MW Waitahora wind farm consented for construction along the Puketoi Range near Dannevirke in southern Hawke's Bay, and the 504 MW Hauāuru mā raki wind farm consented for construction on the west coast of the Waikato region.

Contact has the most advantageous gas-fired power station development sites in New Zealand, and consultation is ongoing with the Stratford community and iwi on the development of a second set of gas-fired peakers at the Stratford power station.

Successful Entitlement Offer

To strengthen its balance sheet for investment in growth opportunities, Contact launched a successful one-for-nine renounceable Entitlement Offer in June 2011. Approximately 65.7 million new shares, representing 94.5 per cent of shares offered in respect of entitlements, were purchased under the Offer.

Only 5.5 per cent of the new shares in respect of entitlements were unclaimed and a shortfall book build was conducted to sell these shares. The Offer and shortfall book build were successful and raised a total of $351.2 million which will allow Contact to invest in growth opportunities, the first of which is the Te Mihi project.

Our people

Safety

The Total Recordable Injury Frequency Rate is the total number of recordable injuries for employees per million hours worked. Contact's rate this year was 5.9, a significant improvement from the previous year's 6.6. An improvement of 11 per cent for employees and 28 per cent for contractor incidents represents real progress toward our goal of zero harm.

Enterprise Transformation programme

Contact's three-wave Enterprise Transformation (ET) programme reached key milestones this year. ET involves implementing SAP software and accompanying new processes across the company to support the business's financial, generation asset management, and retail functions.

Wave 1, addressing Contact's finance systems, was completed in October 2010. Wave 2, focusing on generation operations, was completed in July 2011. Both were on schedule and on budget. This brings the company another step closer to achieving its vision of becoming the region's reference generation organisation through the improved management of site safety, better information to support site management and new maintenance processes to increase plant reliability and availability.

Contact will be rolling out the final wave of ET in its retail business in 2012.

Our communities

In 2011 Contact continued to build on the relationships established with the communities in which we operate through sponsorship of events and community activities in Taupō, Central Otago and Taranaki, such as the Lake Taupō Cycle Challenge and the Contact Alexandra Blossom Festival.

The opening of the Stratford peakers and the Ahuroa gas storage facility involved South Taranaki iwi, Ngāti Ruanui, and this successful event has opened the doors for a strong and enduring relationship to be developed.

We continue to build our relationships with tangata whenua as we work to develop projects such as Te Mihi and Tauhara and look to the future of Ohaaki. And we are earning and building on the trust placed in Contact by the Taheke 8C Incorporation.

Looking forward

In the coming financial year Contact's immediate focus will be on delivery, realising value from the newly commissioned assets to raise base earnings, and continuing to meet the needs of our customers. The Te Mihi project will gather momentum and we will work to ensure Te Mihi is delivered on time and within budget.

With portfolio flexibility greatly enhanced and consequent expected improvement in base earnings, we are continuing a period of bold growth. I would like to thank the Board and everyone at Contact for their contribution to our successes this year; there is much we can be proud of.

Dennis Barnes
Chief Executive Officer

Management discussion of financial results

for the 12-month period ended 30 June 2011

Financial results to 30 June 2011

Key financial information

	12 months ended 30 June 2011 $ million	12 months ended 30 June 2010 $ million	Variance $ million	%
Operating revenue	2,230.9	2,164.4	66.5	3%
Operating expenses[1]	(1,789.5)	(1,737.4)	(52.1)	(3%)
EBITDAF	**441.4**	**427.0**	**14.4**	**3%**
Depreciation and amortisation	(166.3)	(161.9)	(4.4)	(3%)
Equity accounted earnings of associates	3.9	3.3	0.6	18%
Change in fair value of financial instruments	(5.9)	4.5	(10.4)	(231%)
Removal of New Plymouth asbestos and related costs	–	(5.6)	5.6	100%
Retail transaction processing outsourcing costs	–	(3.3)	3.3	100%
Earnings before net interest expense and income tax	**273.1**	**264.0**	**9.1**	**3%**
Net interest expense	(62.4)	(56.0)	(6.4)	(11%)
Income tax expense	(60.4)	(53.3)	(7.1)	(13%)
Profit for the year	**150.3**	**154.7**	**(4.4)**	**(3%)**
Underlying earnings after tax[2]	**150.9**	**149.8**	**1.1**	**1%**
Underlying earnings per share (cents)	**24.00**	**24.78**	**(0.78)**	**(3%)**
Shareholders' equity	**3,235.6**	**2,776.8**	**458.8**	**17%**

1 Includes electricity purchases.
2 Underlying earnings after tax removes significant one-off items and the non-cash change in fair value of financial instruments.

EBITDAF

In FY11 Contact's EBITDAF was $441 million, $14 million (3 per cent) higher than the prior corresponding period (FY10).

Following the flat EBITDAF in the first half of FY11 compared with the first half of FY10, second-half EBITDAF increased 7 per cent to $216 million. EBITDAF contribution in the same period from Contact's core electricity business increased 8 per cent on the second half of FY10 due to the improvement in flexibility with the Ahuroa gas storage facility and Stratford peakers commissioned and gas contract levels falling 23 per cent.

The availability of the Ahuroa gas storage facility and lower gas take-or-pay obligations enabled generation from Contact's combined-cycle gas turbine plants and the swaption to be reduced in the second half of FY11 in response to low wholesale electricity prices. This was most evident in June with the full commercial operation of the Stratford peakers at the start of the month. The availability of the Ahuroa gas storage facility and the Stratford peakers place Contact in an improved position to increase earnings, even with continuing wet conditions in FY12.

Weak wholesale spot prices and load re-balancing related to the state-owned enterprise asset transfers have increased the level of retail competition. In response to the competitive market, Contact has continued to target markets and channels that made economic sense. Time of Use sales increased 31 per cent to 3,920 gigawatt hours (GWh) and further incentives have been offered to customers on Contact's lower-cost online billing and payment option.

FY11 revenue was up 3 per cent to $2,231 million due to increased retail volumes and prices. While national electricity demand remained static, Contact's retail sales volume increased by 8 per cent to 8,254 GWh, predominantly due to the 31 per cent increase in Time of Use sales. Time of Use customers offer the benefit of a flatter demand profile, allowing better utilisation of generation capacity and lower costs of supply. The increase in Time of Use sales allowed Contact to reduce its exposure to electricity spot sales in a period of weak wholesale prices. Average retail prices increased 4 per cent on FY10.

Generation volumes increased 45 GWh from FY10 to 10,260 GWh. The average wholesale price for generation was down $4 per megawatt hour (MWh) to $50 per MWh in FY11. Contact sold 1,233 GWh into the exposed channel compared with 1,244 GWh in FY10.

FY11 operating expenses increased 3 per cent to $1,790 million, predominantly due to the introduction of the Emissions Trading Scheme from 1 July 2010 and higher third-party network costs. Contact incurs carbon emission costs associated with gas used in generation and sold to customers, LPG purchases and geothermal generation. For FY11, this represented a total cost of $30 million. Network costs were $32 million (6 per cent) higher than FY10 driven by increased Time of Use sales and a $5 per MWh increase in unit network charges for mass market customers. The total cost of gas used in generation was up $14 million. The cost of gas used in generation in the second half of FY11 was $21 million lower than the comparable period in FY10.

Depreciation

The depreciation expense increased by $4 million or 3 per cent. The increase largely reflected the commissioning of the Ahuroa gas storage facility, Stratford peakers and the Finance and Generation streams of Enterprise Transformation going live during the year.

Change in fair value of financial instruments

The reported profit for the year included an unfavourable non-cash pre-tax movement of $6 million in the value of financial instruments. The movement was predominantly driven by an unfavourable movement in various interest rate and currency derivatives. This compared with a favourable pre-tax movement of $5 million in FY10.

Interest expense

The net interest expense increased by $6 million or 11 per cent to $62 million in FY11. The increase in the net interest expense was primarily attributable to a decrease in interest income due to lower levels of cash held during the year, combined with a decrease in capitalised interest as major capital projects were completed. This was partially offset by a lower average cost of funding. Interest of $42 million was capitalised in the year compared with $48 million in FY10.

Income tax expense

The income tax expense for the period was $60 million (2010: $53 million). This represents an effective tax rate of 28.7 per cent. The difference between this and the current corporate rate of 30 per cent is principally due to the final adjustment to restate deferred tax to the new corporate tax rate of 28 per cent effective for FY12 and various incidental prior period adjustments.

Reported profit

	12 months ended 30 June 2011 $ million	12 months ended 30 June 2010 $ million	Variance $ million	%
EBITDAF	**441.4**	**427.0**	**14.4**	**3%**
Depreciation and amortisation	(166.3)	(161.9)	(4.4)	(3%)
Change in fair value of financial instruments	(5.9)	4.5	(10.4)	(231%)
Equity accounted earnings of associates	3.9	3.3	0.6	18%
Removal of New Plymouth asbestos and related costs	–	(5.6)	5.6	100%
Retail transaction processing outsourcing costs	–	(3.3)	3.3	100%
Net interest expense	(62.4)	(56.0)	(6.4)	(11%)
Income tax expense	(60.4)	(53.3)	(7.1)	(13%)
Profit for the year	**150.3**	**154.7**	**(4.4)**	**(3%)**

Net profit for the year was $150 million, down $4 million (3 per cent) compared with the prior year, primarily due to the increase in EBITDAF of $14 million and the absence of other significant one-off items in FY11. This was more than offset by an unfavourable non-cash pre-tax movement in financial instruments, and an increase in interest expense and tax.

Underlying earnings after tax

Underlying earnings after tax adjusts reported profit for significant one-off items and the non-cash change in the fair value of financial instruments. In FY11, underlying earnings after tax were $151 million, up $1 million from FY10. Notable adjustments included a re-estimate of the impact of the change in the corporate income tax rate announced in the Government's May 2010 Budget and fair value movements in financial instruments.

	12 months ended 30 June 2011 $ million	12 months ended 30 June 2010 $ million	Variance $ million	%
Profit for the year	**150.3**	**154.7**	**(4.4)**	**(3%)**
Removal of New Plymouth asbestos and related costs (after tax)	–	3.9	(3.9)	(100%)
Retail transaction processing outsourcing costs (after tax)	–	2.3	(2.3)	(100%)
Change in fair value of financial instruments (after tax)	4.1	(3.2)	7.3	231%
Impact of change in corporate income tax rate	(3.5)	(42.7)	39.2	92%
Removal of tax depreciation on buildings	–	34.8	(34.8)	(100%)
Underlying earnings after tax	**150.9**	**149.8**	**1.1**	**1%**

Distributions to shareholders

The Contact Board of Directors resolved that the final distribution to shareholders would be 12 cents per share. In combination with the 11 cents per share interim distribution, the full-year distribution is 23 cents per share, a reduction of 2 cents from the prior financial year. The distribution represents a payout ratio of 100 per cent of Contact's underlying earnings after tax for the period. The distribution will be made via a tax-free bonus issue under Contact's Profit Distribution Plan (PDP).

Financial position and liquidity

Net debt as at 30 June 2011 was $1,195 million, compared with $1,347 million as at 30 June 2010. Balance sheet gearing improved from 32 per cent as at 30 June 2010 to 27 per cent as at 30 June 2011. The decrease in debt is predominantly due to the one-for-nine renounceable Entitlement Offer carried out in June 2011.

Existing term debt comprises US$330 million (NZ$587 million notional equivalent) of US private placements of various maturities, $550 million of fixed rate retail bonds and $100 million of fixed rate wholesale bonds that mature in May 2014 and April 2017 respectively.

Contact has additional liquidity available from $450 million of committed bank facilities, of which nil was drawn at 30 June 2011.

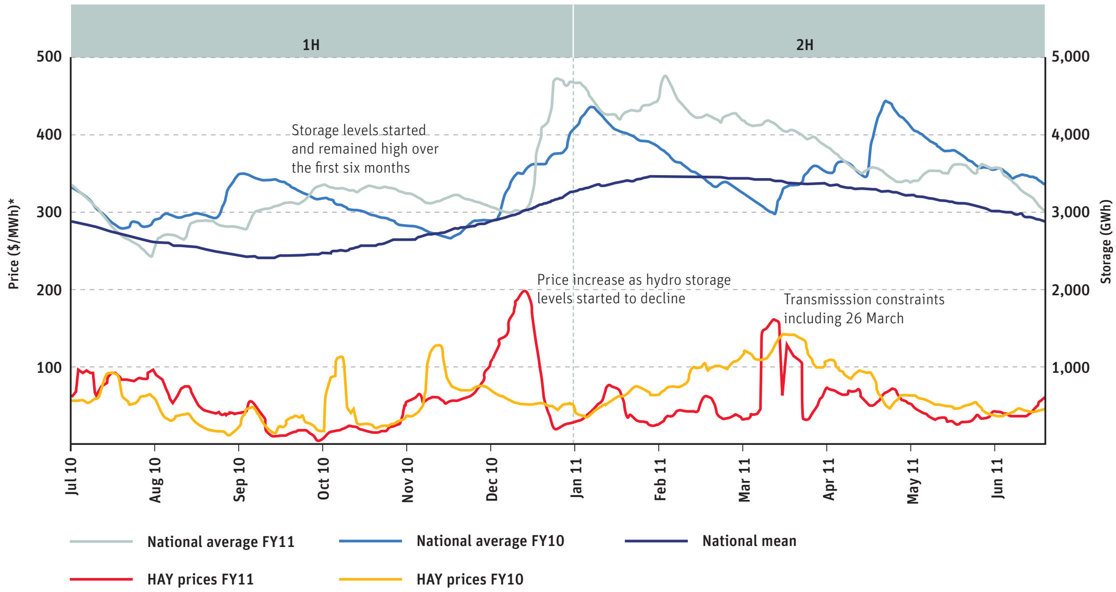
Outlook

FY11 was marked by significant achievements, with the completion of the Ahuroa gas storage facility, commissioning of the Stratford peakers and commencement of the Te Mihi geothermal development. Costs have continued to increase with the introduction of the Emissions Trading Scheme in FY11 and the expected increase in network charges as the national grid upgrades are completed. FY12 will be focused on delivery, in terms of utilising the newly commissioned assets to raise base earnings even if wet hydrology continues, profitably growing retail demand and ensuring Te Mihi is delivered on time and within budget.

Overview of performance for the period

Electricity market conditions

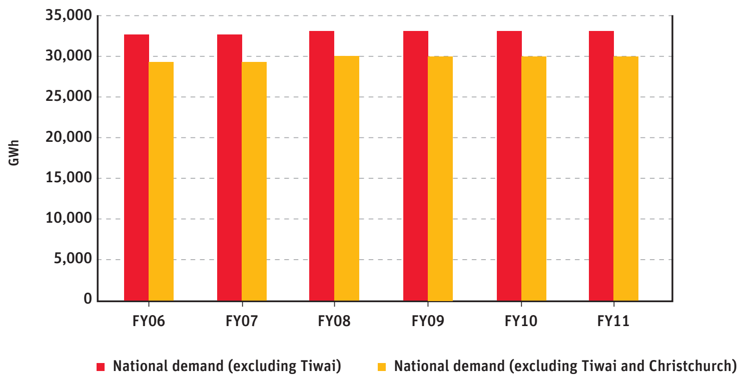
The average wholesale spot price for FY11 was $50 per MWh compared with $54 per MWh for FY10. In general, hydrological conditions in FY11 were wetter than in FY10, with 64 per cent of the year having storage levels in the upper quartile of historical ranges. High hydrology resulted in relatively low wholesale spot prices on average, except for a temporary increase in prices in December 2010 as storage returned to mean levels and in March 2011 due to a series of transmission constraints and HVDC bi-pole outages.



* Prices are based on the revised draft remedial pricing schedule relating to the 26 March Undesirable Trading Situation. The Undesirable Trading Situation decision, and the prices relating to it, are currently under appeal.

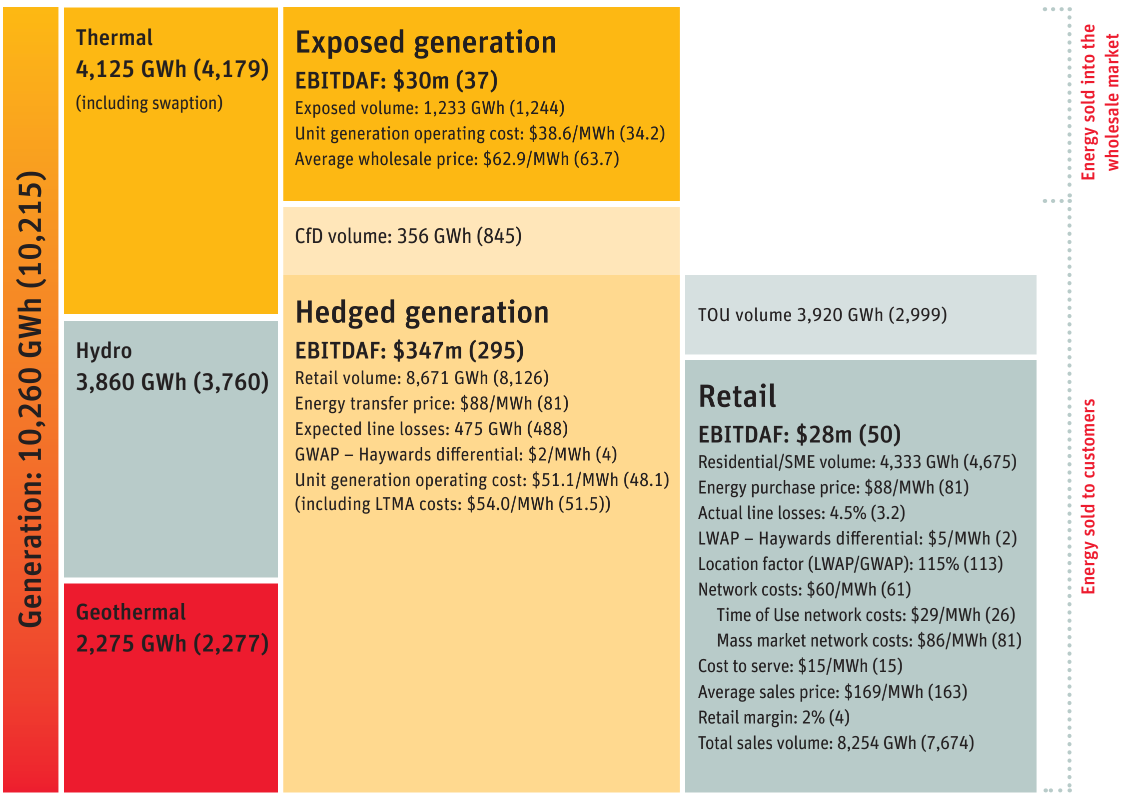
Strongly correlated to electricity demand, New Zealand's gross domestic product and business confidence have remained at relatively low levels since emerging from five quarters of recession at the start of 2009. While gross domestic product increased slightly in FY11, the combined impact of the Christchurch earthquakes and warm temperatures resulted in national demand (excluding the Tiwai Aluminium Smelter) decreasing 0.2 per cent compared with FY10.

Historical national demand



Segment results

The operational performance data for FY11 (FY10 in parentheses) is provided in the chart below, and in the table on the following page.



Note: Line losses in hedged generation are based on an expected annual level of line losses; actual line losses are reflected in retail.

Electricity segment

	12 months ended 30 June 2011 $ million	12 months ended 30 June 2010 $ million	Variance $ million	%
Wholesale electricity revenue	505.7	539.4	(33.7)	(6%)
Retail electricity revenue	1,443.6	1,301.9	141.7	11%
Steam revenue	19.7	17.9	1.8	10%
Total electricity revenue	**1,969.0**	**1,859.2**	**109.8**	**6%**
Electricity purchases	(476.7)	(480.4)	3.7	1%
Electricity transmission, distribution and levies	(541.3)	(509.7)	(31.6)	(6%)
Gas purchases and transmission	(279.3)	(265.3)	(14.0)	(5%)
Carbon emissions	(25.1)	–	(25.1)	–
Meter lease internal charge[1]	(29.2)	(29.0)	(0.2)	(1%)
Labour costs and other operating expenses	(212.3)	(193.2)	(19.1)	(10%)
Total operating expenses	**(1,563.9)**	**(1,477.6)**	**(86.3)**	**(6%)**
EBITDAF	**405.1**	**381.6**	**23.5**	**6%**
Depreciation and amortisation	(156.5)	(153.3)	(3.2)	(2%)
Segment result	**248.6**	**228.3**	**20.3**	**9%**
Average wholesale electricity price ($ per MWh)[2]	$49.69	$53.62	($3.93)	(7%)
Cost of exposed generation ($ per MWh)	($38.61)	($34.20)	($4.41)	(13%)
Cost of hedged generation ($ per MWh)	($51.05)	($48.06)	($2.99)	(6%)
Hedged generation margin ($ per MWh)	$38.43	$32.84	$5.59	17%
Gas used in internal generation (PJ)	30.1	29.5	0.6	2%
Swaption generation – hedged (GWh)	–	2	(2)	(100%)
Swaption generation – exposed (GWh)	384	490	(106)	(22%)
Thermal generation – hedged (GWh)	2,858	2,900	(42)	(1%)
Thermal generation – exposed (GWh)	850	754	96	13%
Geothermal generation (GWh)	2,275	2,277	(2)	–
Hydro generation (GWh)	3,860	3,760	100	3%
Embedded generation (GWh)	33	32	1	3%
Total generation including swaption (GWh)	**10,260**	**10,215**	**45**	–
Average electricity purchase price ($ per MWh)[2]	($55.14)	($58.77)	$3.63	6%
Retail electricity purchases (GWh)	8,635	7,925	710	9%
Generation – exposed (GWh)	1,234	1,244	(10)	(1%)
CfD sales (GWh)	356	845	(490)	(58%)
Retail electricity sales (GWh)	8,254	7,674	580	8%
Electricity customer numbers	447,000	477,000	(30,000)	(6%)

1 Inter-segment meter lease internal charge is eliminated upon consolidation of the two segments.
2 This price excludes Contracts for Differences.

Generation

Contact's thermal generation in FY11 was 4,092 GWh, 54 GWh lower than in FY10. This was largely due to the swaption volume being down 108 GWh as wholesale electricity prices were lower and the Stratford peakers were utilised to provide risk cover in June.

Contact's geothermal generation was down 2 GWh to 2,275 GWh in FY11 with the outage at Wairakei for statutory maintenance and lower output from Ohaaki offset by generation from the new Te Huka power station.

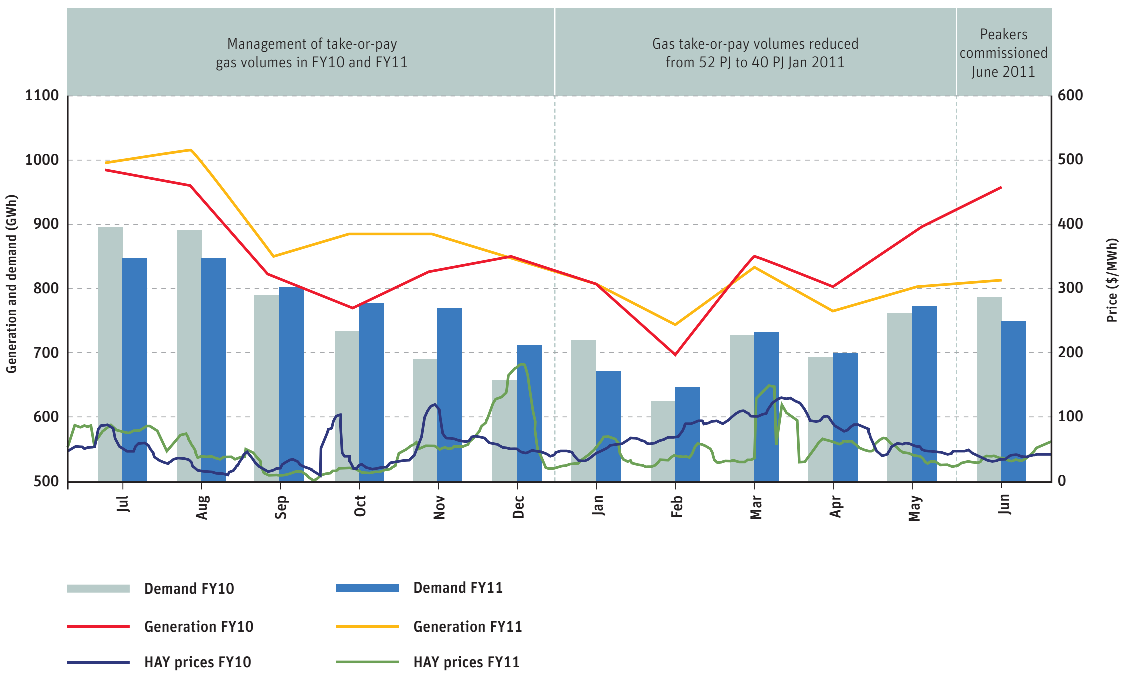
Contact's hydro generation at 3,860 GWh was 3 per cent or 100 GWh more than in FY10 as high storage levels and tributary flows were utilised.

In FY11 the volumes used by hedged customers (retail and Contracts for Differences) increased 56 GWh to 9,027 GWh. This increase was largely due to a 31 per cent increase in Time of Use sales allowing Contact to increase hedge levels. The average operating cost of hedged generation was $51 per MWh, up 6 per cent on FY10 due to increased gas costs and the introduction of carbon costs. Overall, margins from hedged generation increased $6 per MWh, increasing the contribution from the hedged generation by $52 million.

Exposed generation volumes and prices were similar to FY10 with volumes decreasing by 11 GWh to 1,233 GWh and the average price down 1 per cent. The introduction of the Emissions Trading Scheme saw costs increase $7 million for exposed generation. Revenues and other costs were similar to those in FY10.

Gas costs

The completion of the Ahuroa gas storage facility and a reduction in contracted gas levels from 52 PJ per annum to 40 PJ improved Contact's cost position in the second half of FY11 as generation was reduced in reaction to low wholesale electricity prices. This was most evident in June, with the full commercial operation of the Stratford peakers at the start of the month enabling improved pricing and transmission risk management.



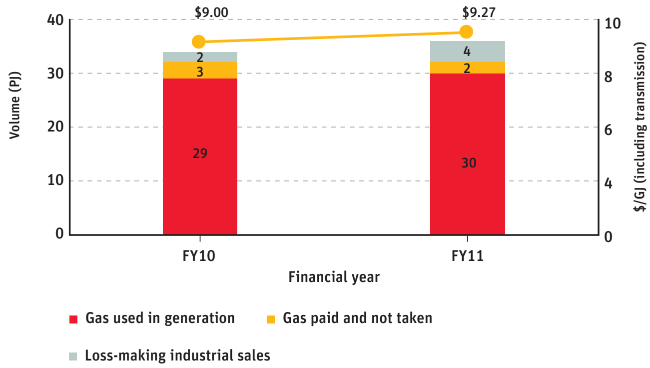
Reduced combined-cycle gas turbine generation and lower wholesale gas sales in the second half of 2011 resulted in total gas used in FY11 being 4.1 PJ lower than in FY10 at 47.9 PJ. Hydrological conditions and consequential periods of low wholesale prices during the year resulted in gas length of 11.8 PJ, up from 10.2 PJ in the prior period. 5.8 PJ of the 11.8 PJ were injected into the Ahuroa gas storage facility, resulting in 6 PJ of gas that were either sold at a net loss or paid for and not taken.

Gas that was sold at a net loss or not taken resulted in the effective cost of gas used in generation being $0.79 per gigajoule (GJ) higher than the average contracted cost of gas, which is equivalent to $24 million of additional costs during FY11, down $1 million from FY10.

The unit cost of gas used in generation before take-or-pay related costs increased $0.27 per GJ in FY11 due to a significant increase in gas price from 1 January 2010 under one of Contact's main gas contracts, partially offset by contracted reductions across other contracts.

The graph below shows the gas that was attributed to generation. Gas paid and not taken and the loss on distressed sales are both attributed to hedged generation as the contracts and their obligations are in place primarily to provide generation to ensure Contact's retail demand is met.

Gas used in generation



As at 30 June 2011, Ahuroa gas storage held 16.3 PJ of natural gas and 0.6 PJ of LPG, of which 10.6 PJ of natural gas are working volume. The successful commissioning of the extraction phase of gas storage occurred in February 2011.

Carbon costs

The Emissions Trading Scheme was introduced on 1 July 2010. The electricity segment incurs carbon costs based on the amount of gas used in generation and the amount of steam extracted by geothermal power stations. In FY11 this cost totalled $25 million for the electricity segment.

Retail

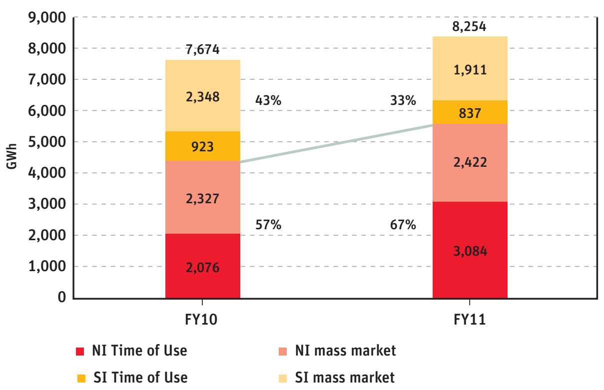
The contribution from retail electricity was $22 million lower than in FY10 at $28 million due to increases in revenue being more than offset by increasing costs.

Retail electricity revenue increased 11 per cent to $1,444 million due to:

- retail electricity sales increasing 8 per cent to 8,254 GWh with Time of Use volume up 31 per cent to 3,920 GWh and mass market volume down 7 per cent to 4,333 GWh
- the average sales price for retail up 4 per cent or $6 per MWh.

The chart below illustrates the growth in demand during FY11. Overall North Island demand grew 25 per cent, with Time of Use volume increasing 49 per cent and mass market up 4 per cent. North Island demand was 67 per cent of total demand in FY11 compared with 57 per cent in FY10.

Load split by customer type and island (sales)



The majority of the reduction in South Island demand came from mass market customers as Contact reduced its exposure to South Island transmission risk and other retailers competed aggressively for mass market customers.

Despite the increase in sales volumes and price, the overall contribution from retail was down due to increasing costs. The key cost movements were:

- an increase in the internal energy purchase cost from $81 per MWh to $88 per MWh
- third-party network costs up $27 million due to mass market network unit costs up $5 per MWh and increased Time of Use volume
- line losses up 1.3 per cent to 4.5 per cent resulting in a cost of $10 million in additional purchases
- an increase in location costs from $2.15 per MWh to $4.81 per MWh. This represents the increase in the price differential between the generation injection node and purchase node or grid exit point (LWAP). Location costs are allocated to retail electricity based on the difference between the LWAP and the Haywards price node
- other retail costs up by $6 million, reflecting the contribution to the Christchurch earthquake-related costs and the increased cost to acquire, retain and serve mass market customers offset by a reduction in bad debt write-offs.

Other segment

The Other segment comprises Contact's retail and wholesale gas, LPG and meters.

	12 months ended 30 June 2011 $ million	12 months ended 30 June 2010 $ million	Variance $ million	Variance %
Wholesale gas revenue	50.9	75.4	(24.5)	(32%)
Retail gas revenue	72.4	78.0	(5.6)	(7%)
LPG revenue	117.0	130.3	(13.3)	(10%)
Meter leases revenue	12.7	11.8	0.9	8%
Meter leases revenue – internal[1]	29.2	29.0	0.2	1%
Other revenue	8.9	9.7	(0.8)	(8%)
Total Other segment revenue	**291.1**	**334.2**	**(43.1)**	**(13%)**
Gas purchases and transmission	(101.8)	(131.4)	29.6	23%
LPG purchases	(85.4)	(99.2)	13.8	14%
Meter lease costs	(22.0)	(21.0)	(1.0)	(5%)
Carbon emissions	(5.2)	–	(5.2)	–
Market levies	(1.0)	(1.7)	0.7	41%
Labour costs and other operating expenses	(39.4)	(35.5)	(3.9)	(11%)
Total operating expenses	**(254.8)**	**(288.8)**	**34.0**	**12%**
EBITDAF	**36.3**	**45.4**	**(9.1)**	**(20%)**
Depreciation	(9.8)	(8.6)	(1.2)	(14%)
Segment result	**26.5**	**36.8**	**(10.3)**	**(28%)**
Gas sales wholesale customers (PJ)	7.1	10.7	(3.6)	(34%)
Gas sales retail customers (PJ)	2.8	3.2	(0.4)	(13%)
Gas sales LPG customers (tonnes)	65,201	70,327	(5,126)	(7%)
Gas customer numbers	60,000	64,000	(4,000)	(6%)
LPG customer numbers (including franchisees)	59,300	58,000	1,300	2%

1 Inter-segment internal meter leases revenue is eliminated upon consolidation of the two segments.

Other segment EBITDAF decreased $9.1 million to $36.3 million due to decreasing volumes and carbon costs.

Other segment contribution	12 months ended 30 June 2011 $ million	12 months ended 30 June 2010 $ million	Variance $ million	Variance %
Wholesale gas	(3.2)	(1.8)	(1.4)	(78%)
Retail gas	6.4	8.9	(2.5)	(28%)
LPG	7.2	10.5	(3.3)	(31%)
Meters	17.0	18.2	(1.2)	(7%)
Other	8.9	9.6	(0.7)	(7%)
Other segment EBITDAF	**36.3**	**45.4**	**(9.1)**	**(20%)**

The wholesale gas contribution decreased $1.4 million due to lower sales volumes and decreasing margins. Sales volumes decreased from 9.2 PJ in FY10 to 3.1 PJ in FY11 due to the expiry of a long-term contract. Contractual increases in gas purchase costs and pressure on prices due to over-supply resulted in decreasing margins in FY11. A further 4 PJ of distressed gas sales were made in FY11, an increase of 2.5 PJ on FY10. Distressed gas sales are short-term sales made at a discount to the purchase price of gas in order to monetise gas that Contact could not inject into gas storage, sell to retail or wholesale customers, or use in generation. In the Other segment this sale is reflected as a sale at nil contribution, with the loss on sale allocated to the Electricity segment.

The retail gas contribution decreased $2.5 million with volumes down 0.4 PJ to 2.8 PJ and carbon costs of $1.1 million. As at 30 June 2011, Contact had 60,000 gas customers compared with 62,000 as at 31 December 2010 and 64,000 as at 30 June 2010.

The LPG contribution was down $3.3 million or 31 per cent. LPG sales were down 5,126 tonnes in FY11 primarily due to a decrease in service station demand and lower reticulated demand following the Christchurch earthquakes. Despite continued pricing pressure, a reduction in purchase costs saw the net sales price improve by $39 per tonne. This benefit was largely offset by the introduction of carbon costs of $30 per tonne or $2 million. Other operating expenses increased $1.8 million due to LPG support of the Christchurch community in the aftermath of the February earthquake. With support from Rinnai, Contact provided mobile hot water shower units, offered free 9 kilogram bottle fills through the branch and service station channel and ensured security of supply to essential services such as hospitals and rest homes. FY11 expenses also include provisions for anticipated reticulated network repair and re-commissioning costs.

Company overview

Contact is one of New Zealand's leading publicly listed companies, with around 79,000 shareholders, a national staff of about 1,050 and the ability to supply electricity and gas products across New Zealand.

Retail

Contact has approximately:

- 447,000 retail electricity customers
- 60,000 reticulated natural gas customers
- 59,500 LPG customers.

Generation

- Contact owns and operates 10 power stations across the North and South Islands.
- In FY11, these power stations provided around 25 per cent of New Zealand's total electricity generation.
- Contact is also contracted to operate the Crown-owned reserve generation plant at Whirinaki in Hawke's Bay and holds a minority interest in the Oakey power station in Australia.
- Contact recently commenced operation of New Zealand's first underground natural gas storage facility near Stratford and the 200 MW gas-fired peakers plant located at the Stratford power station.
- Construction recently began near Taupō on the 166 MW Te Mihi geothermal power station, which will eventually partially replace the Wairakei geothermal power station opened in 1958.
- Contact continues to advance development options across a range of fuel options, including thermal, geothermal, wind and hydro.

Otahuhu B – combined-cycle gas turbine, 400 MW

Commissioned in 1999, the Otahuhu B power station is a high-efficiency combined-cycle gas-fired power station. Located in South Auckland, Otahuhu B provides electricity directly into the country's largest load centre.

Otahuhu A

Commissioned in 1968, this gas-fired power station provides reactive power, which supports the stable operation of the electricity transmission system.

Te Rapa – cogeneration, 44 MW

Commissioned in 1999, the Te Rapa cogeneration plant is efficient, using natural gas to generate steam and electricity for Fonterra's Te Rapa factory, with surplus electricity being exported into the electricity network.

Ohaaki – geothermal, 105 MW (currently operating at 40 MW)

Commissioned in 1989, the Ohaaki geothermal power station is currently producing around 40 MW of electricity.

Wairakei – geothermal, 157 MW plus 15 MW binary plant

Commissioned in 1958 as the first geothermal plant of its kind anywhere in the world, Wairakei has become an iconic symbol of New Zealand's electricity generation system.

Poihipi Road – geothermal, 55 MW

Purchased by Contact in 2000, the Poihipi Road power station draws its steam from the Wairakei steamfield.

Te Huka – geothermal, 23 MW

Commissioned in 2010, Te Huka draws its steam from the Tauhara steamfield.

Stratford – combined-cycle gas turbine and gas-fired peaking plant, 577 MW

Commissioned in 1998 and upgraded during 2008, the combined-cycle gas turbine is a high-efficiency, gas-fired plant.

Commissioned in 2011, the peakers plant comprises two 100 MW General Electric LMS100 gas turbines, and will add to New Zealand's security of supply during periods of peak demand.

Clyde – hydro, 432 MW

Commissioned in 1992, the Clyde dam on the Clutha River in Central Otago is the largest concrete gravity dam in New Zealand, generating electricity from four large generator turbines.

Roxburgh – hydro, 320 MW

Commissioned in 1956, the Roxburgh dam was the first large-scale hydro dam on the Clutha River.

Oakey – distillate/gas-fired peaking station, 282 MW

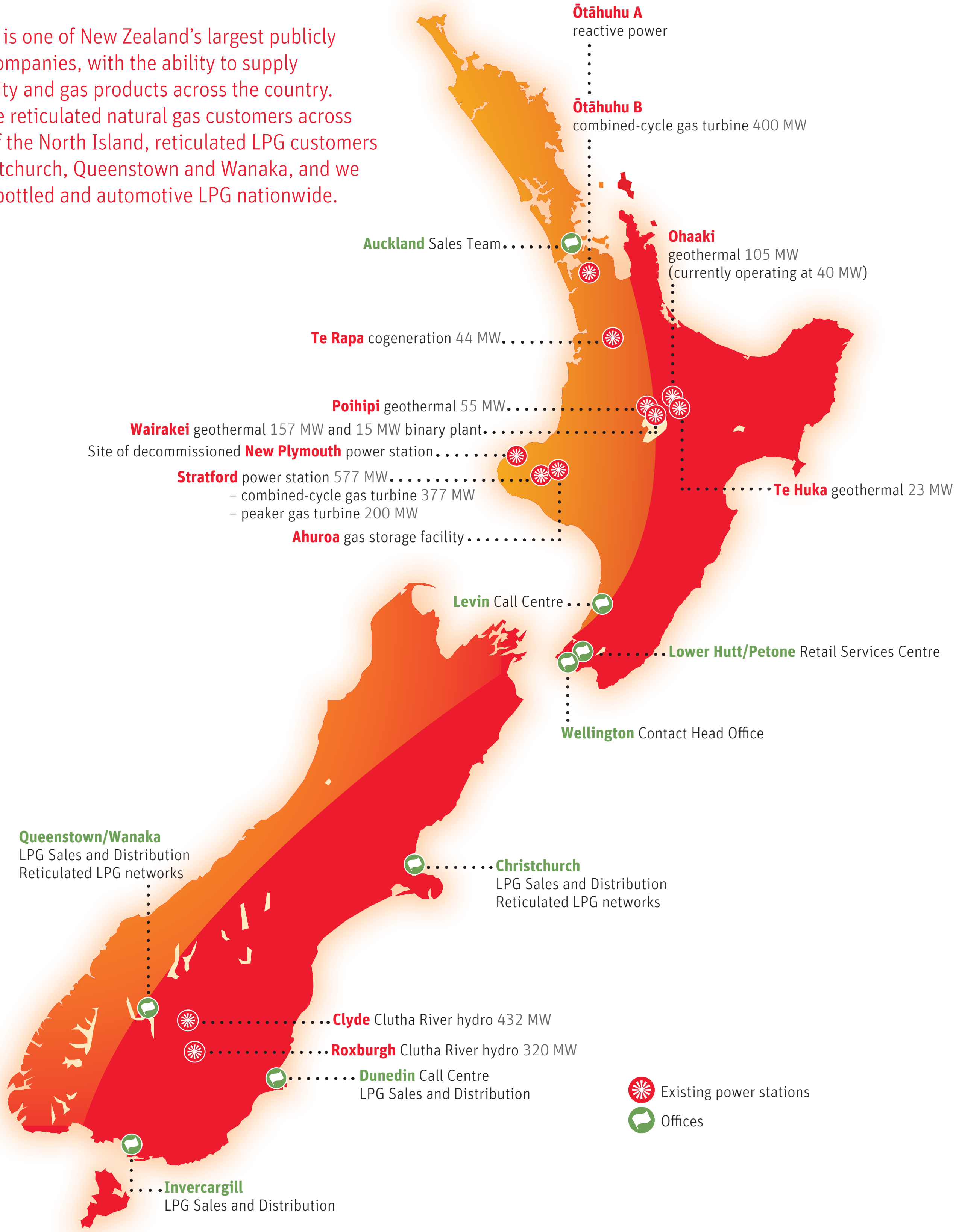
Contact owns 25 per cent of this peaking power station, based in Queensland, Australia, which was commissioned in February 2000. Contact is also the operator of this station.

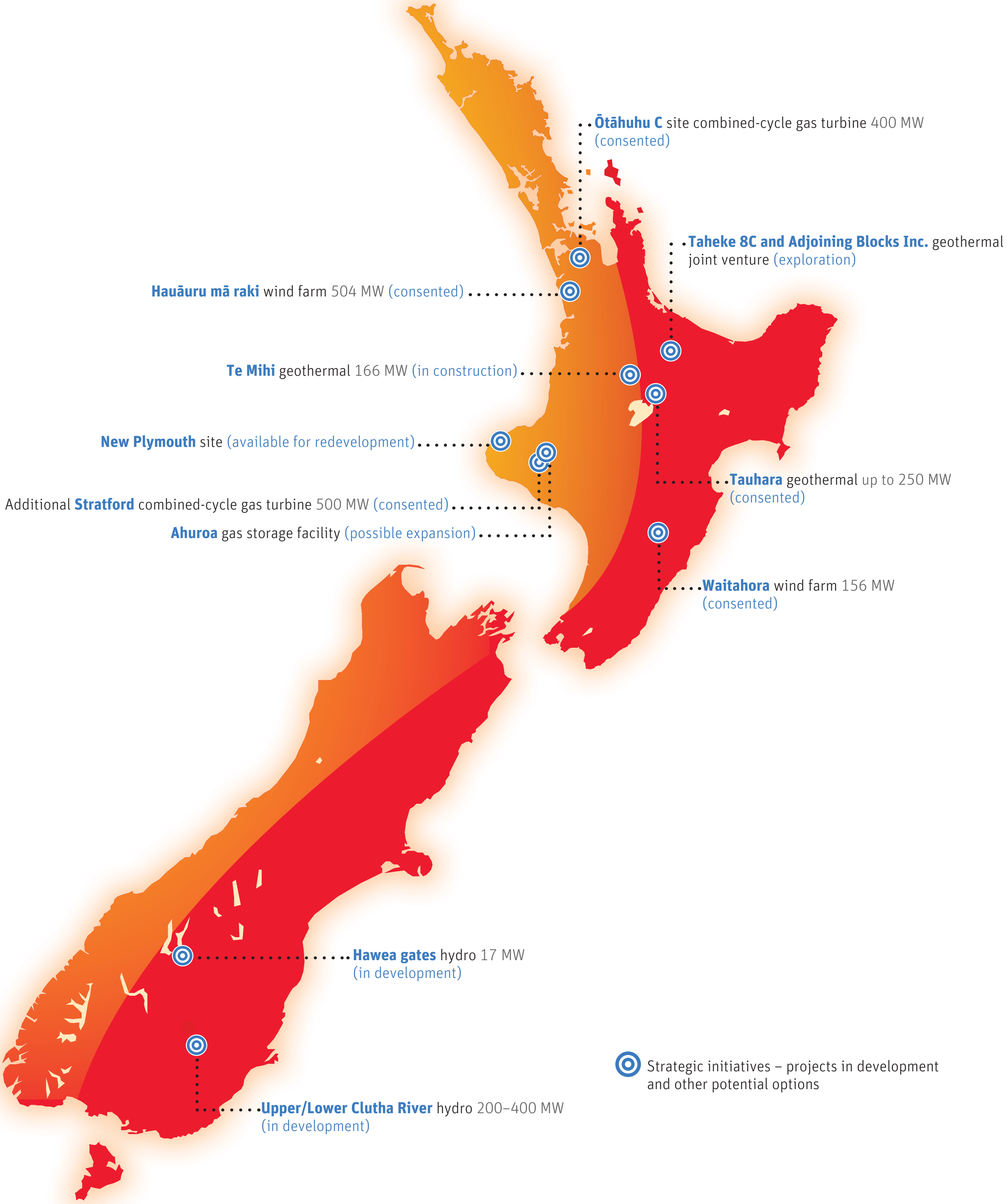
Whirinaki – distillate-fired peaking station, 155 MW

Contact operates the Whirinaki peaking station on behalf of the Crown. Contact owns the land upon which the power station is located in Hawke's Bay.

National overview

Contact is one of New Zealand's largest publicly listed companies, with the ability to supply electricity and gas products across the country. We have reticulated natural gas customers across much of the North Island, reticulated LPG customers in Christchurch, Queenstown and Wanaka, and we supply bottled and automotive LPG nationwide.




Ōtāhuhu C site combined-cycle gas turbine 400 MW (consented)
Taheke 8C and Adjoining Blocks Inc. geothermal joint venture (exploration)
Hauāuru mā raki wind farm 504 MW (consented)
Te Mihi geothermal 166 MW (in construction)
New Plymouth site (available for redevelopment)
Additional Stratford combined-cycle gas turbine 500 MW (consented)
Ahuroa gas storage facility (possible expansion)
Tauhara geothermal up to 250 MW (consented)
Waitahora wind farm 156 MW (consented)
Hawea gates hydro 17 MW (in development)
Upper/Lower Clutha River hydro 200–400 MW (in development)
Strategic initiatives – projects in development and other potential options

Governance

Contact is a limited liability company incorporated under the New Zealand Companies Act 1993.

Contact's company number is 660760. The company is listed on, and its shares are quoted on, the main board equity security market (NZSX) operated by NZ Exchange Limited (NZX) and has retail bonds listed on the debt security market (NZDX) operated by NZX.

The company's listing is under the trading code 'CEN'.

Contact's **Constitution** is available on the company's website (www.contactenergy.co.nz) and the New Zealand Companies Office website (www.companies.govt.nz).

Compliance with NZX Best Practice Code and other guidelines

Contact follows the principles set out in the NZX *Corporate Governance Best Practice Code*.

Contact also follows the Securities Commission's *Corporate Governance in New Zealand Principles and Guidelines*.

One of the Securities Commission's corporate governance principles is that there should be a balance of independence, skills, knowledge, experience and perspectives among a board's directors so that the board works effectively. Contact considers that it satisfies this requirement for a number of reasons, including that:

- the members of its Board hold substantial and diverse business, governance and energy-industry experience,
- the Board comprises a balance of independent directors and Origin Energy-associated directors,
- the Chairman does not hold a casting vote,
- the Board regularly assesses its performance to ensure that constructive working relationships are maintained.

The Securities Commission guidelines recommend that the chairman be an independent director. Contact's Chairman, Grant King, is not an independent director. However, for the reasons set out above, Contact is satisfied that it satisfies the intent of the Commission's principle. A table summarising Contact's compliance with the NZX *Corporate Governance Best Practice Code* and the Securities Commission's *Corporate Governance in New Zealand Principles and Guidelines* is available on the company's website.

Role of the Board of Directors

The Board is responsible for setting the strategic direction of Contact, with its ultimate goal being to protect and enhance the value of Contact's assets and business in the interests of the company and for all of its shareholders. The Board's role includes approving the budget and strategic plan; approving major investments; monitoring the financial performance of the company, including approval of half year and annual financial statements; appointing and reviewing the performance of the Chief Executive Officer; ensuring the appropriate risk management systems are established and risks monitored; and ensuring the integrity of corporate governance and overseeing Contact's commitment to its values, sustainable development, the environment and the health and safety of employees, contractors, customers and the community.

The Board has delegated certain of its powers to committees of the Board, and the day-to-day management of the company to the Chief Executive Officer. The ambit of these delegations is documented in the Board committee charters and the company's Delegated Authorities Policy and by relevant minuted resolutions of the Board.

The Board has a statutory obligation to reserve to itself responsibility for certain matters, such as the payment of distributions and the issue of shares. It also reserves responsibility for significant matters, including those described above, such as the approval of business plans and budgets and the incurring of significant obligations. In addition, under the Companies Act 1993 and the NZSX Listing Rules, Contact is required to seek the approval of its shareholders prior to entering into certain types of transactions.

The Board's role, responsibilities, operation, delegations and committees are set out in Contact's **Board Charter**, which is available on the company's website.

Operation of the Board

The Board meets regularly on a formal scheduled basis and otherwise as required. The Chairman and the Chief Executive Officer establish the agenda for each Board meeting. Each month, as a standing item, the Chief Executive Officer prepares a report to the Board that includes disclosure of performance against key health and safety benchmarks and a summary of the company's operations, together with financial and other reports. In addition, the Board receives regular briefings on key strategic issues from management, either as part of the regularly scheduled Board meetings or in separate dedicated sessions. New directors appointed to the Contact Board receive induction training. This training primarily involves written and oral presentations by the Chief Executive Officer and leadership team on the key strategic and operational business issues facing Contact.

Board composition

The composition of the Board did not change during FY11. On 31 March 2011 David Baldwin ceased to be Managing Director of Contact and was appointed to the Board as a non-executive director to fill a casual vacancy.

Accordingly, from 1 July 2010 to 30 June 2011 the Board comprised seven members as follows:

Grant King	Chairman and Origin Energy associate
Phillip Pryke	Deputy Chairman and independent director
David Baldwin	Managing Director and Origin Energy associate until 31 March 2011, thereafter Origin Energy associate
Bruce Beeren	Origin Energy associate
Whaimutu Dewes	Independent director
Karen Moses	Origin Energy associate
Sue Sheldon	Independent director

Biographies of the directors are set out on the company's website.

Board committees

The Board has four standing committees – the Board Audit Committee (BAC), the Health, Safety and Environment (HSE) Committee, the Nominations Committee and the Remuneration Committee. Copies of the **Charters** for these committees are available on the company's website.

Other committees of the Board are formed as and when required. For example, an Independent Directors Committee comprising Phillip Pryke (Chair), Sue Sheldon and Whaimutu Dewes meets to evaluate and approve various related party transactions with Origin Energy.

In FY11, these included the Ahuroa gas storage project and workstreams related to Contact's business systems transformation project, comprising an agreement for the provision and hosting by Origin Energy of hardware and other services to allow Contact to benefit from Origin Energy's experience, resources and common deliverables in this area, and the Secondment Agreement appointing Dennis Barnes to the position of Chief Executive Officer.

The **Independent Directors Committee Charter** is available on the company's website.

Board Audit Committee

During the financial year, the BAC comprised Sue Sheldon (Chair), Bruce Beeren and Whaimutu Dewes. NZSX Listing Rule 3.6.2 requires that the BAC comprises solely of directors, has a minimum of three members, has at least one member with an accounting or financial background and has a majority of independent directors. Sue Sheldon is a Fellow Chartered Accountant and a former President of the Institute of Chartered Accountants of New Zealand. Bruce Beeren is a Fellow of CPA Australia and the Australian Institute of Company Directors. Sue Sheldon and Whaimutu Dewes are both independent directors.

The BAC's purpose is to assist the Board to discharge its responsibility to exercise due care, diligence and skill and make recommendations to the Board in relation to external financial reporting and related risks, audit, treasury, related party transactions and tax. The BAC is responsible for setting the principles and standards with respect to accounting policies and practice, internal controls, internal and external audit, treasury and financing functions and related party transactions. The BAC is also responsible for providing oversight over the integrity and compliance of financial statement preparation, monitoring risk with respect to external financial reporting and monitoring the independence and performance of the external auditors and business assurance.

The Chief Executive Officer and the Chief Financial Officer attend each BAC meeting at the invitation of the BAC. At the conclusion of each meeting, and at any other time the BAC requires, the BAC meets separately with the Head of Business Assurance, Contact's external auditors and the Chief Financial Officer, without any other members of management being present.

The **BAC Charter** is available on the company's website.

Health, Safety and Environment Committee

During the financial year, the HSE Committee comprised Karen Moses (Chair), Phillip Pryke and Whaimutu Dewes. The HSE Committee meets at least three times per year, and its role is to assist the Board to fulfil its responsibilities in relation to HSE matters arising out of the activities of Contact and its related companies. These matters relate to those activities that affect employees, contractors, communities and the environment in which the company operates. The HSE Committee is responsible, among other matters, for periodically reviewing the company's HSE Policy, monitoring the company's compliance with this policy, reviewing and recommending to the Board targets for HSE performance and assessing performance against those targets, and reviewing HSE-related incidents and considering appropriate actions to minimise the risk of recurrence.

The **HSE Committee Charter** and the **HSE Policy** are available on the company's website.

Nominations Committee

During FY11 the Nominations Committee comprised Grant King (Chair), Phillip Pryke and Sue Sheldon. The Nominations Committee's primary purpose is to ensure that the Board comprises individuals who are best able to discharge the responsibilities of directors, and it also attends to other matters put to it, including director performance assessment and appointments. The Nominations Committee's recommendations are provided to the Board.

In FY11 the Nominations Committee considered the assessment of David Baldwin's, Grant King's and Sue Sheldon's performance as directors ahead of their standing for election/re-election at the October 2011 Annual Meeting, and considered Board composition and succession issues.

The **Nominations Committee Charter** is available on the company's website.

Remuneration Committee

During the financial year the Remuneration Committee comprised Phillip Pryke (Chair), Grant King and Bruce Beeren. The Remuneration Committee's primary purpose is to review directors' fees, the Chief Executive Officer's remuneration package and performance, and the policy for remuneration of senior management, with a view to ensuring that the interests of employees and shareholders are aligned. These reviews form the basis of recommendations to the Board.

The Remuneration Committee met four times during the financial year and has met a further time since the end of the financial year to assess and make recommendations to the Board about a variety of remuneration issues that relate to directors, the Chief Executive Officer and Contact employees, including the level of directors' fees, employee short-term incentives and the Long-Term Incentive (LTI) Scheme for senior executives and high-potential and critical employees. Details of director and executive remuneration arrangements are set out in the remuneration report section of this Annual Report.

The **Remuneration Committee Charter** is available on the company's website.

Attendance at meetings

In FY11 the Board met 12 times. The table below sets out attendance at meetings for all directors.

		Committee attendance				
Director	Board attendance (scheduled and special purpose)	BAC	HSE	Remuneration	Nominations	Independent directors
Grant King	12	N/A	N/A	4	1	N/A
Phillip Pryke	12	1**	3	4	1	1
David Baldwin*	12	3	3	4	N/A	N/A
Bruce Beeren	12	4	N/A	4	N/A	N/A
Whaimutu Dewes	11	4	3	N/A	N/A	1
Karen Moses	12	2***	3	N/A	N/A	N/A
Sue Sheldon	12	4	N/A	N/A	1	1

Notes:
* David Baldwin attended all committee meetings as an observer.
** Phillip Pryke attended one BAC meeting as an observer.
*** Karen Moses attended two BAC meetings as an observer.

Board assessment

Contact's Board follows a practice of reviewing the performance of the Board as a whole and the Board committees every two years, and of reviewing the performance of those directors standing for re-election at the next Annual Meeting every year. In accordance with this practice, in July 2011:

- Contact undertook a formal assessment of the Board and the Board committees
- the Board reviewed the performance of Grant King, Sue Sheldon and David Baldwin, being those directors required to retire and stand for re-election, or to stand for election, at the 2011 Annual Meeting.

The Board recommended that shareholders vote in favour of the election of David Baldwin and re-election of Grant King and Sue Sheldon.

Directors

Election and re-election of directors

The NZSX Listing Rules and Contact's Constitution require that directors who have been appointed to fill casual vacancies during a financial year must stand for election at the next Annual Meeting. Accordingly, David Baldwin will stand for election at the 2011 Annual Meeting.

The NZSX Listing Rules and Contact's Constitution also require a minimum of one-third of directors (other than one executive director and any directors appointed to fill casual vacancies) to retire at each Annual Meeting and, if appropriate, stand for re-election. The directors required to resign are those who have been in office longest since their last election. Accordingly, Grant King and Sue Sheldon will retire and stand for re-election at the 2011 Annual Meeting.

Residence of directors

The NZSX Listing Rules and Contact's Constitution require at least two directors to be ordinarily resident in New Zealand. Whaimutu Dewes and Sue Sheldon satisfy this requirement.

Independence of directors

The NZSX Listing Rules and Contact's Constitution require Contact to have a minimum of two independent directors. In order to be an independent director, a director must not be an executive officer of the company, or have a 'Disqualifying Relationship'. Having a 'Disqualifying Relationship' includes (but is not limited to):

- being an associated person of a substantial security holder of the company (in Contact's case, the Origin Energy group of companies), other than solely as a consequence of being a director of Contact, or
- having a relationship (other than the directorship itself) with the company or a substantial security holder of the company by virtue of which the director is likely to derive, in the current financial year of the company, a substantial portion of his or her annual revenue from the company (excluding dividends and other distributions payable to all shareholders).

The Board resolved that, at the end of the financial year, Phillip Pryke, Whaimutu Dewes and Sue Sheldon each held (and still hold) no 'Disqualifying Relationship' in relation to Contact and are therefore each independent directors.

Grant King, Bruce Beeren and Karen Moses are not considered to be independent directors by virtue of being directors of, and hence associated persons of, substantial security holder Origin Energy. David Baldwin is not considered to be an independent director because he is employed by, and hence is an associated person of, substantial security holder Origin Energy. Grant King, Bruce Beeren, Karen Moses and David Baldwin were therefore not independent directors as at 30 June 2011.

Entries recorded in the interest register

The following interest register entries were recorded for the company and its subsidiaries in FY11:

Security dealings of directors

Contact directors disclosed the following transactions in Contact securities in FY11. Note that all dealings are in ordinary shares unless otherwise specified.

Director	Date of transaction	Consideration per security*	Number of securities acquired (disposed of)	Nature of relevant interest
Grant King	23/08/10 06/10/10 25/02/11 05/04/11	$5.78 $5.77 $6.23 $5.82	2,890 2,889 2,681 2,864	Shares acquired by New Zealand Permanent Trustees Limited (NZPT) on trust under the Contact GA King Director Remuneration Share Trust
	27/09/10 31/03/11	$5.71 $5.84	11 18	Acquisition of bonus issue shares under the Profit Distribution Plan (PDP) by Fabco Investments Pty Limited
	27/09/10 31/03/11	$5.71 $5.84	457 456	Acquisition of bonus issue shares under the PDP by Contact GA King Director Remuneration Share Trust
	28/09/10 28/09/10 31/03/11 31/03/11	NIL (NCBO) NIL (NCBO) NIL (NCBO) NIL (NCBO)	(457) 457 (456) 456	Transfer of bonus issue shares acquired under the PDP from Contact GA King Director Remuneration Share Trust to Fabco Investments Pty Limited
Phillip Pryke	23/08/10 06/10/10 25/02/11 05/04/11	$5.78 $5.77 $6.23 $5.82	1,445 1,805 1,675 1,790	Shares acquired by NZPT on trust under the Contact PJ Pryke Director Remuneration Share Trust
	23/08/10 23/08/10 01/10/10 01/10/10 25/02/11 25/02/11 05/04/11 05/04/11	NIL (NCBO) NIL (NCBO) NIL (NCBO) NIL (NCBO) NIL (NCBO) NIL (NCBO) NIL (NCBO) NIL (NCBO)	(1,201) 1,201 (1,195) 1,195 (1,473) 1,473 (1,329) 1,329	Transfer of shares from Contact PJ Pryke Director Remuneration Share Trust to Pryke Pty Limited
	27/09/10 31/03/11	$5.71 $5.84	1,325 1,116	Acquisition of bonus issue shares under the PDP by Pryke Pty Limited
	27/09/10 31/03/11	$5.71 $5.84	1,206 942	Acquisition of bonus issue shares under the PDP by Contact PJ Pryke Director Remuneration Share Trust
	28/09/10 28/09/10 31/03/11 31/03/11	NIL (NCBO) NIL (NCBO) NIL (NCBO) NIL (NCBO)	(1,206) 1,206 (942) 942	Transfer of bonus issue shares acquired under the PDP from Contact PJ Pryke Director Remuneration Share Trust to Pryke Pty Limited
	09/06/11	$5.05	6,959	Acquisition of shares under the Entitlement Offer by Pryke Pty Limited
	09/06/11	$5.05	5,605	Acquisition of shares under the Entitlement Offer by Contact PJ Pryke Director Remuneration Share Trust
	13/06/11 13/06/11	NIL (NCBO) NIL (NCBO)	(5,605) 5,605	Transfer of shares acquired under the Entitlement Offer from Contact PJ Pryke Director Remuneration Share Trust to Pryke Pty Limited

* NIL (NCBO) means no change in beneficial ownership.

Director	Date of transaction	Consideration per security*	Number of securities acquired (disposed of)	Nature of relevant interest
David Baldwin	17/11/10	Provision of services under employment	575,601 options to acquire ordinary shares	Options to acquire ordinary shares under Contact's Employee LTI Scheme
Bruce Beeren	23/08/10 06/10/10 25/02/11 05/04/11	$5.78 $5.77 $6.23 $5.82	1,734 1,589 1,474 1,575	Shares acquired by NZPT on trust under the Contact BG Beeren Director Remuneration Share Trust
	23/08/10 23/08/10 01/10/10 01/10/10 25/02/11 25/02/11 05/04/11 05/04/11	NIL (NCBO) NIL (NCBO) NIL (NCBO) NIL (NCBO) NIL (NCBO) NIL (NCBO) NIL (NCBO) NIL (NCBO)	(802) 802 (797) 797 (980) 980 (886) 886	Transfer of shares from Contact BG Beeren Director Remuneration Share Trust to BG Beeren
	27/09/10 31/03/11	$5.71 $5.84	192 191	Acquisition of bonus issue shares under the PDP by BG Beeren
	27/09/10 31/03/11	$5.71 $5.84	370 309	Acquisition of bonus issue shares under the PDP by Contact BG Beeren Director Remuneration Share Trust
	28/09/10 28/09/10 31/03/11 31/03/11	NIL (NCBO) NIL (NCBO) NIL (NCBO) NIL (NCBO)	(370) 370 (309) 309	Transfer of bonus issue shares acquired under the PDP from Contact BG Beeren Director Remuneration Share Trust to BG Beeren
	09/06/11	$5.05	1,281	Acquisition of shares under the Entitlement Offer by BG Beeren
	09/06/11	$5.05	1,896	Acquisition of shares under the Entitlement Offer by Contact BG Beeren Director Remuneration Share Trust
	13/06/11 13/06/11	NIL (NCBO) NIL (NCBO)	(1,896) 1,896	Transfer of shares acquired under the Entitlement Offer from Contact BG Beeren Director Remuneration Share Trust to BG Beeren
Whaimutu Dewes	23/08/10 06/10/10 25/02/11 05/04/11	$5.78 $5.77 $6.23 $5.82	1,642 1,589 1,473 1,575	Shares acquired by NZPT on trust under the Contact WK Dewes Director Remuneration Share Trust
	27/09/10 31/03/11 31/03/11	$5.71 $5.84 $5.84	26[1] 21[1] 2[2]	Acquisition of bonus issue shares under the PDP by: [1] WK Dewes, and [2] WK Dewes, JA Baillie and GW David
	27/09/10 31/03/11	$5.71 $5.84	54 99	Acquisition of bonus issue shares under the PDP by Contact WK Dewes Director Remuneration Share Trust
	28/09/10 28/09/10 31/03/11 31/03/11	NIL (NCBO) NIL (NCBO) NIL (NCBO) NIL (NCBO)	(54) 54 (99) 99	Transfer of bonus issue shares acquired under the PDP from Contact WK Dewes Director Remuneration Share Trust to WK Dewes, JA Baillie and GW David
	09/06/11 09/06/11	$5.05 $5.05	122[1] 18[2]	Acquisition of shares under the Entitlement Offer by: [1] WK Dewes, and [2] WK Dewes, JA Baillie and GW David
	09/06/11	$5.05	756	Acquisition of shares under the Entitlement Offer by Contact WK Dewes Director Remuneration Share Trust
	13/06/11 13/06/11	NIL (NCBO) NIL (NCBO)	(756) 756	Transfer of shares acquired under the Entitlement Offer from Contact WK Dewes Director Remuneration Share Trust to WK Dewes, JA Baillie and GW David

* NIL (NCBO) means no change in beneficial ownership.

Director	Date of transaction	Consideration per security*	Number of securities acquired (disposed of)	Nature of relevant interest
Karen Moses	23/08/10 06/10/10 25/02/11 05/04/11	$5.78 $5.77 $6.23 $5.82	1,734 1,589 1,474 1,575	Shares acquired by NZPT on trust under the Contact KA Moses Director Remuneration Share Trust
	27/09/10 31/03/11	$5.71 $5.84	6 9	Acquisition of bonus issue shares under the PDP by KA Moses
	27/09/10 31/03/11	$5.71 $5.84	236 239	Acquisition of bonus issue shares under the PDP by Contact KA Moses Director Remuneration Share Trust
	28/09/10 28/09/10 31/03/11 31/03/11	NIL (NCBO) NIL (NCBO) NIL (NCBO) NIL (NCBO)	(236) 236 (239) 239	Transfer of bonus issue shares acquired under the PDP from Contact KA Moses Director Remuneration Share Trust to KA Moses
Sue Sheldon	23/08/10 06/10/10 25/02/11 05/04/11	$5.78 $5.77 $6.23 $5.82	1,733 1,589 1,473 1,575	Shares acquired by NZPT on trust under the Contact SJ Sheldon Director Remuneration Share Trust
	27/09/10 27/09/10 31/03/11 31/03/11	$5.71 $5.71 $5.84 $5.84	3[1] 14[2] 6[1] 11[2]	Acquisition of bonus issue shares under the PDP by: [1] SJ Sheldon, PJ Sheldon and MJ Walker, and [2] Private Nominees Limited
	27/09/10 31/03/11	$5.71 $5.84	177 194	Acquisition of bonus issue shares under the PDP by Contact SJ Sheldon Director Remuneration Share Trust
	28/09/10 28/09/10 31/03/11 31/03/11	NIL (NCBO) NIL (NCBO) NIL (NCBO) NIL (NCBO)	(177) 177 (194) 194	Transfer of bonus issue shares acquired under the PDP from Contact SJ Sheldon Director Remuneration Share Trust to SJ Sheldon, PJ Sheldon and MJ Walker
	09/06/11 09/06/11	$5.05 $5.05	55[1] 64[2]	Acquisition of shares under the Entitlement Offer by: [1] SJ Sheldon, PJ Sheldon and MJ Walker, and [2] Private Nominees Limited
	09/06/11	$5.05	1,316	Acquisition of shares under the Entitlement Offer by Contact SJ Sheldon Director Remuneration Share Trust
	13/06/11 13/06/11	NIL (NCBO) NIL (NCBO)	(1,316) 1,316	Transfer of shares acquired under the Entitlement Offer from Contact SJ Sheldon Director Remuneration Share Trust to SJ Sheldon, MJ Sheldon and MJ Walker
John Milne**	23/08/10	$5.78	867 + 866	Shares acquired by NZPT on trust under the Contact JHG Milne Director Remuneration Share Trust
	23/08/10 23/08/10 26/08/10 26/08/10	NIL (NCBO) NIL (NCBO) NIL (NCBO) NIL (NCBO)	(400 + 401) 400 + 401 (15,822 + 15,820) 15,822 + 15,820	Transfer of shares from Contact JHG Milne Director Remuneration Share Trust to John Milne Trust and Maureen Milne Trust
	27/09/10	$5.71	1,480 + 992	Acquisition of bonus issue shares under the PDP by John Milne Trust and Maureen Milne Trust

* NIL (NCBO) means no change in beneficial ownership.

** John Milne retired from his directorship with effect from 30 June 2010.

Securities of the company in which each director has a relevant interest as at 30 June 2011

Director	Number of ordinary shares[1]	Number of bonds	Number of restricted ordinary shares[2]	Number of options
Grant King	28,438	Nil	N/A	N/A
Phillip Pryke	125,632	Nil	N/A	N/A
David Baldwin	Nil	Nil	133,070	1,354,757
Bruce Beeren	31,762	Nil	N/A	N/A
Whaimutu Dewes	8,949	Nil	N/A	N/A
Karen Moses	14,947	Nil	N/A	N/A
Sue Sheldon	14,345	10,000	N/A	N/A

1 Including shares held under the Directors' Share Scheme.
2 David Baldwin participated in the LTI Scheme during his secondment to Contact. David Baldwin retains these securities subject to exercise hurdles and vesting requirements.

Directors' interests in transactions

General disclosures

As at 30 June 2011 the following directors had made the following general disclosures in the interest register of the company. Notices given or adjusted in FY11 are marked with an asterisk (*). Each such director will be regarded as interested in all transactions between Contact and the disclosed entity.

Grant King	
Origin Energy Limited and Group companies	Managing Director/Shareholder/Employee
Australian Petroleum Production and Exploration Association	Councillor
Phillip Pryke	
Co-Investor Capital Partners Pty Limited	Director/Shareholder
Digital Performance Group Limited	Chairman
Frog Hollow Limited	Director/Shareholder
GMT Bond Issuer Limited	Director/Shareholder
GMT Wholesale Bond Issuer Limited* (appointed October 2010)	Director
Goodman (NZ) Limited	Director
Goodman Property Aggregated Limited	Director
Pauatahanui Projects Limited	Director/Shareholder
Pryke Pty Limited	Director/Shareholder
Tru-Test Corporation Limited	Director
Tru-Test Pty Limited	Director
David Baldwin	
Origin Energy Limited	Employee/Shareholder
Gas Industry Company Limited* (resigned 20 April 2011)	Director
Bruce Beeren	
Origin Energy Limited and Group companies	Director/Shareholder and former Employee/Executive Director
Coal & Allied Industries Limited	Director
Equipsuper Pty Limited	Director
ConnectEast Group	Director

Whaimutu Dewes	
Ngati Porou Forests Limited	Director
Ngati Porou Whanui Forests Limited	Chairman/Shareholder
Ngati Porou Fisheries Limited	Chairman
Ngati Porou Seafoods Limited	Director
Real Fresh Limited	Director
Iwi Rakau Limited	Director
Whainiho Developments Limited	Managing Director/Shareholder
Advisory Board to Kalyx	Member
Rugby World Cup Authority* (appointed December 2010)	Member
Advisory Group on Green Growth* (appointed February 2011)	Member
Housing New Zealand Board* (appointed June 2011)	Member
Karen Moses	
Origin Energy Limited and Group companies	Director/Employee/Shareholder
Australian Energy Market Operator Limited	Director
CSIRO, Energy and Transport Sector Advisory Council UNSW,	Committee Member
Australian School of Business Advisory Council	Director
Energy and Water Ombudsman (Victoria) Limited* (resigned November 2010)	Director
Sue Sheldon	
Paymark Limited	Director
FibreTech New Zealand Limited	Chairman
Freightways Limited	Chairman
Reserve Bank of New Zealand	Director
Sue Sheldon Advisory Limited	Director
Smiths City Group Limited and subsidiaries*	Director
(ceased Directorship 31 December 2010)	
Telecom Corporation of New Zealand Limited	Director
Wool Industry Network Limited* (ceased directorship September 2010)	Chairman
Wool Grower Holdings Limited* (ceased directorship September 2010)	Director

Specific disclosures

There were no specific disclosures made during the year of any interests in transactions entered into by Contact or any of its subsidiaries.

Use of company information

No director issued a notice requesting to use information received in his or her capacity as a director that would not otherwise be available to the director.

Directors' and employees' indemnity and insurance

Contact has agreed to indemnify Contact's employees and directors, including directors of subsidiary and associated companies, against potential liabilities or costs incurred in any proceeding, excluding actions for gross negligence, criminal liability, breach of fiduciary duty or breach of directors' duties.

Contact has paid premiums and taken out comprehensive insurance cover, including insurance policies that indemnify employees and directors, against various potential legal liabilities.

In March 2011 Contact's Board authorised a three-month-extension and in June 2011 the renewal of the Directors and Officers and Statutory Liability Insurance covers for 12 months. These policies were certified, in terms of section 162 of the Companies Act 1993, that this cover is fair to the company.

Corporate policies

Conflicts of interest

In accordance with Contact's Conflict of Interests Policy and Guidelines, where any Contact director has a conflict of interest or is otherwise interested in any transaction, that director is generally required to disclose his or her conflict of interest to the company, and thereafter will normally not be able to participate in the discussion, or vote in relation to the relevant matter. The company maintains a register of interests.

Ethics

Contact's Code of Conduct sets out the ethical and behavioural standards expected of the company's directors, officers, employees and contractors.

Contact has established internal procedures to monitor compliance with the Code of Conduct. Every six months, a report is provided to the BAC highlighting any matters raised by staff in relation to the Code of Conduct. In FY11 there were no material issues reported in relation to the Code of Conduct.

Contact's **Code of Conduct** is available on the company's website.

Health, safety and environment

Improving HSE performance is a top priority at Contact and measuring individuals and business units against key performance indicators (KPIs) is an integral part of assessing management's achievement of annual goals.

Contact's **HSE Policy** is available on the company's website.

Whistleblowing Policy

Contact's Whistleblowing Policy facilitates the disclosure and impartial investigation of any serious wrongdoing. This Policy advises employees of their right to disclose serious wrongdoing and sets out Contact's internal procedures for receiving and dealing with such disclosures. Deloitte operates an independent 'open line' service on behalf of Contact for employees, contractors and suppliers to use to report serious concerns. The Whistleblowing Policy is consistent with and facilitates the Protected Disclosures Act 2000.

Contact's **Whistleblowing Policy** is available on the company's website.

Securities Trading Policy

Contact's Securities Trading Policy applies to all directors, officers, employees and contractors of Contact and its subsidiaries ('directors and employees'). Under the Policy, directors and employees must not trade Contact securities, or advise or encourage others to trade or hold Contact securities, or pass on material information, if they are in possession of material information that is not publicly available. In addition:

- directors and employees may not trade during the period between 1 January and the date of the announcement of Contact's half-year results to NZX (inclusive) or during the period between 1 July and the date of the announcement of Contact's full-year results to NZX (inclusive)
- directors and specified employees must adhere to additional obligations prior to any trade of Contact securities.

Contact's **Securities Trading Policy** is available on the company's website.

Financial reporting

Contact undertakes twice-yearly financial reporting and also provides a suite of **operational data** on a monthly basis through the NZX. Contact's **Annual** and **Half Year Reports** are available on Contact's website. The annual financial statements are audited. In accordance with the Companies Act 1993, Contact does not automatically mail printed copies of the Annual and Half Year Reports to shareholders. A notice is posted to shareholders when the Annual Report is available each year, and shareholders can request, free of charge, a hard copy of the Annual Report or the next Half Year Report and subsequent reports within 15 working days of receiving that notice.

The Chief Executive Officer and Chief Financial Officer have provided the Board with written confirmation that Contact's financial statements for FY11 have been prepared in accordance with New Zealand Generally Accepted

Accounting Practice and that they comply with New Zealand Equivalents to International Financial Reporting Standards and other appropriate financial reporting standards, as appropriate for profit-oriented entities.

Auditor independence

The BAC is responsible for considering and making recommendations to the Board regarding any issues relating to the appointment or termination of the external and internal auditors. The External Audit Independence Policy prohibits the external auditor from undertaking any work that compromises, or is seen to compromise, independence and objectivity.

The BAC requires the external auditor to confirm on a six-monthly basis that it has:

- remained independent of the Group at all times
- complied with the provisions of all applicable laws and relevant professional guidance in respect of independence, integrity and objectivity
- adopted a 'best practice' approach in relation to matters of financial independence and business relationships.

The BAC is responsible for pre-approving all other assurance and other services provided by the external auditor.

The Chief Financial Officer is responsible for the day-to-day relationship with the external auditor, while individual business units have a direct responsibility for their relationship with the external or internal auditor, ensuring the provision of timely and accurate information and full access to company records.

Auditor fees

The amount payable by Contact and its subsidiaries to KPMG as audit fees in respect of FY11 was $598,000.

KPMG also provided assurance services in relation to the prospectus for the Entitlement Offer ($46,914) and IT security assurance services in relation to Contact's ET project ($36,174).

Risk management

Contact has an Enterprise Risk Management System, which is aligned to the International Standard ISO 31000 Risk Management – Principles and Guidelines. The implementation of this system demonstrates that Contact is committed to the effective management of risk, which is central to the continued growth and profitability of the company. A Risk Management Policy defines the framework for identifying, assessing and managing risks that could have a material impact on the objectives of the company.

Contact's Policy outlines the accountabilities of individuals for the governance of the Risk Management System, the identification, assessment and management of risks, and ensuring there is effective oversight of risks.

The Board and its committees are accountable for monitoring the company's key risks. Regular reporting on risks and their mitigation is provided to the Board, the Board and management committees, and business units.

The Enterprise Risk Management team and its champions in business units ensure risk management practices are applied consistently across the business and are integrated within core processes, including strategic planning, budgeting and forecasting, project delivery, contract management and capital expenditure.

Contact's **Risk Management Policy** is available on the company's website.

Assurance

Contact has an independent in-house business assurance function that provides objective assurance of the effectiveness of the internal control framework.

The Business Assurance team assists Contact to accomplish its objectives by bringing a disciplined approach to evaluating and improving the effectiveness of risk management, internal controls and governance processes. The Business Assurance team adopts a risk-based assurance approach driven from the company's Risk Management System.

The Business Assurance team also assists external audit by reporting findings from the internal assurance programme so the external auditors may independently assess the degree of reliance it is able to place on the control environment when providing their opinion on the financial statements.

On a day-to-day basis the Business Assurance team reports to the Chief Risk Officer. The Business Assurance team has the autonomy to report significant issues directly to the Chief Executive Officer and the BAC or, if considered necessary, the Chairman of the Board.

The BAC oversees the assurance programme and provides the Business Assurance team with the mandate to perform the agreed assurance programme. The Business Assurance team has unlimited access to all other departments, records and systems of the Contact Group and to the external auditors and other third parties as it deems necessary.

Distribution Policy

Contact's Distribution Policy is to maintain or grow distributions on a year-to-year basis while targeting an average distribution equivalent to approximately 80 per cent of underlying earnings after tax.

Profit Distribution Plan

Contact implemented a PDP in February 2009. Under the PDP, instead of distributing profits in the form of fully imputed dividends in cash, all shareholders receive distributions in the form of Contact shares (as a non-taxable bonus issue), but have the opportunity to have those shares, or a portion of them, bought back by Contact for cash as a fully imputed taxable dividend. This means that shareholders have a choice between retaining bonus shares or receiving cash, or a combination of both. More detail about the **PDP**, including a full description of its terms and conditions, is available on Contact's website.

Current NZX waivers

A summary of all **waivers** granted and published by NZX within or relied on by Contact in the 12-month period preceding 11 August 2011 is available on Contact's website. This summary will remain on Contact's website for at least 12 months following the publication of this Annual Report.

Exercise of NZX disciplinary powers

NZX did not exercise any of its powers under Listing Rule 5.4.2 in relation to Contact during FY11.

Credit rating

As at 11 August 2011, Standard & Poor's long-term credit rating for Contact was BBB Stable. Fitch's long-term credit rating for Contact was BBB Stable.

As at 11 August 2011, the $550 million unsubordinated, unsecured fixed rate bonds issued by Contact in March 2009 were rated BBB by Standard & Poor's.

Donations

In FY11 Contact made donations amounting to $26,445. No subsidiaries made any donations during FY11. In addition, Contact has pledged $4 million in response to the Christchurch earthquakes. This includes donations to the Red Cross Relief Fund, free LPG refills and hardship support through fee waivers and grants for electricity and gas customers.

Donations are made on the basis that the recipient is not obliged to provide any service such as promoting Contact's brand and are separate from Contact's sponsorship activity. There were no political donations made in FY11.

Remuneration report

Directors' remuneration

Directors' fees

The current total directors' fee pool approved by shareholders in 2008 is $1,500,000 per annum. The Board passed resolutions and signed accompanying certificates to confirm the distributions for FY11 among directors of $1,008,307 as detailed below.

Remuneration details of directors

Details of the total remuneration and the value of other benefits received by each Contact director for FY11 are as follows:

Director	Position		Board fees	Committee fees	Special fees	Total remuneration
		Cash	Shares	Cash	Cash	
Grant King	Chairman	$133,333	$66,667	–	–	$200,000
Phillip Pryke	Deputy Chairman	$83,333	$41,667	$35,000	–	$160,000
David Baldwin	Director	$27,500[1]	–	–	–	$27,500
Bruce Beeren	Director	$73,333	$36,667	$37,000	–	$147,000
Whaimutu Dewes	Director	$73,333	$36,667	$37,000	–	$147,000
Karen Moses	Director	$73,333	$36,667	$20,000	–	$130,000
Sue Sheldon	Director	$73,333	$36,667	$54,307	$32,500[2]	$196,807
Total		**$537,498**	**$255,002[3]**	**$183,307**	**$32,500**	**$1,008,307**

1. As Managing Director (up to and including 31 March 2011), David Baldwin did not receive any fees in his capacity as a director nor was he a participant in the Directors' Share Scheme. Fees received have been in David Baldwin's capacity as director subsequent to 31 March 2011.
2. Sue Sheldon received special fees in relation to due diligence for the review of the Contact LTI Scheme and the Entitlement Offer.
3. Owing to trading period restrictions under Contact's Securities Trading Policy, purchases of shares valued at $63,853.76 of this total amount occurred on 23 August 2011.

Directors' fees exclude GST, where appropriate. In addition, Board members are entitled to be reimbursed for costs directly associated with carrying out their duties, including travel costs.

Directors' share scheme

Contact operates a directors' share scheme (Directors' Share Scheme), approved by shareholders in 2004 to improve the alignment of directors' and shareholders' interests. Instead of receiving all of their pre-tax base directors' fees in cash, those directors participating in the Directors' Share Scheme receive one-third of that amount by way of Contact shares that are held by a trustee for a period of three years or until a director ceases to hold office. Directors are not otherwise entitled to any payment in connection with their retirement or cessation of office. The directors participating in the Directors' Share Scheme during the financial year were Grant King, Phillip Pryke, Whaimutu Dewes, Bruce Beeren, Karen Moses and Sue Sheldon. Under the Directors' Share Scheme, at the end of each quarter Contact pays to a trustee on behalf of each participant one-third of the pre-tax base remuneration accrued by the participant during that quarter. The trustee uses the payment to purchase Contact shares on-market through a broker. This trading may only take place during a period that is not a specified blackout period to ensure compliance with the company's Securities Trading Policy. The trustee is then required to hold the shares purchased until the earlier of three years from the commencement of the quarter immediately following the quarter in which the fees were accrued, and the date of the director ceasing to hold office. On transfer by the trustee to the participant at this time, the participant is entitled to sell the shares, subject to Securities Trading Policy requirements. Throughout the time that the shares are held by the trustee, the participant is entitled to receive distributions and participate in other rights attaching or accruing to the shares, subject to any particular restrictions set out in the Directors' Share Scheme or elsewhere.

In FY11 Contact provided financial assistance in connection with the ongoing operation of the Scheme. A **disclosure document** relating to the financial assistance to be provided in the next 12 months was sent to shareholders in September 2011 and is available on the company's website.

The table below details the shares of each of Contact's directors that were transferred out of the Directors' Share Scheme trust in FY11.

Director	Date of acquisition	Date of transfer	Number of shares	Original acquisition price
Phillip Pryke	29 August 2007	23 August 2010	1,201	$9.40
	5 October 2007	1 October 2010	1,195	$9.42
	25 February 2008	25 February 2011	1,473	$7.69
	4 April 2008	5 April 2011	1,329	$8.47
Bruce Beeren	29 August 2007	23 August 2010	802	$9.40
	5 October 2007	1 October 2010	797	$9.42
	25 February 2008	25 February 2011	980	$7.69
	4 April 2008	5 April 2011	886	$8.47

In addition, on 23 August 2010 and 26 August 2010, 801 and 31,642 shares respectively held in the Directors' Share Scheme on behalf of John Milne were transferred to Mr Milne's family trusts following his retirement from the Contact Board on 30 June 2010.

Managing Director and Chief Executive Officer remuneration

Employment arrangements

Dennis Barnes was appointed as Chief Executive Officer of Contact with effect on 1 April 2011 and is seconded to the role by his employer, Origin Energy.

David Baldwin, Managing Director of Contact until 31 March 2011, was seconded to the role by his employer, Origin Energy. David Baldwin did not receive any director fees while he was in the role of Managing Director.

During the term of their respective secondments, remuneration paid by Contact to Dennis Barnes for the performance of his role as Chief Executive Officer, and to David Baldwin for the performance of his role as Managing Director, is processed by Contact reimbursing Origin Energy for the cost of this remuneration. An exception exists for performance share rights and restricted shares, and share options awarded under Contact's LTI Scheme, which are provided directly by Contact.

Remuneration

Remuneration paid by Contact to the Managing Director and now the Chief Executive Officer reflects the breadth and complexity of the role; references market remuneration data benchmarks; is linked to the achievement of performance goals; and aligns with the creation of sustainable shareholder value in the long-term. The remuneration packages paid to both David Baldwin and Dennis Barnes include a fixed remuneration component comprising cash salary and other employment benefits, and at-risk/variable remuneration comprising short-term incentives (cash) and long-term incentives (share options, performance share rights or restricted shares).

Approximately two-thirds of both David Baldwin's and Dennis Barnes's potential annual remuneration from Contact was/is at-risk/variable remuneration and one-third was/is paid as fixed remuneration. The amount of short-term incentive paid and the level of long-term incentive allocated to both David Baldwin and Dennis Barnes was/is dependent on the degree to which company financial; HSE; and other strategic goals are met, which is determined after the end of the relevant financial year and paid in the subsequent financial year. Dennis Barnes's annual remuneration to 30 June 2011 also reflected his appointment date of 1 April 2011, towards the end of the financial year.

The following tables detail the nature and amount of the remuneration paid to both David Baldwin in relation to his role as Managing Director and Dennis Barnes in relation to his role as Chief Executive Officer during FY11.

	Cash remuneration paid		
	Fixed cash remuneration $	Variable cash remuneration[1] $	Total cash remuneration paid $
David Baldwin Managing Director (1 July 2010 to 31 March 2011)			
Year ended 30 June 2011	$718,412	$340,229	$1,058,641
Year ended 30 June 2010	$838,856	$364,000	$1,202,856
Dennis Barnes Chief Executive Officer (1 April 2011 to 30 June 2011)			
Year ended 30 June 2011	$196,250	$150,000	$346,250

1 Short-term incentive remuneration is determined following the end of the financial year and is based on the achievement of performance goals and criteria set by the Board.

	Equity rights issued (options, performance share rights and restricted shares)[2]					
	Number of options issued during year	Number of performance share rights issued during year	Number of restricted shares issued during year	Value of equity rights issued and amortising during year[3] $	Value of equity rights issued in past years and amortising during year[3] $	Total equity rights vested during year $
David Baldwin[1] Managing Director (1 July 2010 to 31 March 2011)						
Year ended 30 June 2011	470,946	104,655	–	$174,250	$405,962	–
Year ended 30 June 2010	253,609	–	44,728	$139,037	$379,234	–
Dennis Barnes Chief Executive Officer (1 April 2011 to 30 June 2011)						
Year ended 30 June 2011	106,082	23,574	–	$39,250	–	–

1 David Baldwin has participated in Contact's LTI Scheme since its inception in 2006. Following the completion of his secondment to the role of Managing Director on 31 March 2011, David Baldwin will not be issued with any further securities under the Contact Energy LTI Scheme but will retain existing securities subject to exercise hurdles and vesting requirements (this is permitted under the Restricted Share Plan Rules and Share Option Scheme Rules). Contact relied on NZSX Listing Rule 7.3.9 to allow Mr Baldwin to continue to participate in the LTI Scheme following his appointment as Managing Director. On 23 July 2009, NZX Regulation granted a waiver in respect of NZSX Listing Rule 7.6.4(b)(iii) to allow Mr Baldwin to continue to receive financial assistance under the LTI Scheme, which was amended on 22 August 2011). The full version of the waiver can be found on the company's website.

2 Although share options, performance share rights and restricted shares are granted with effect from October each year under Contact's LTI Scheme, they pertain to the at-risk component of the prior financial year's remuneration. Dennis Barnes was issued with share options and performance share rights upon his appointment to the role of Chief Executive Officer.

3 The allocation of long-term incentives is determined at the end of each financial year. Each allocation has a total performance period of five years from the grant date with exercise hurdles tested on the third, fourth and fifth anniversaries of the grant date. Whether any options and performance share rights vest and become exercisable, and any restricted shares vest and transfer as unrestricted shares, by or to David Baldwin or Dennis Barnes, is subject to the achievement of specified exercise hurdles as described on page 46. To comply with financial reporting requirements, the fair value of the options, performance share rights and restricted shares is calculated at the grant date using a combination of Monte-Carlo simulation and binomial option pricing model, and subsequently amortised over a period of three years (the period from grant date to the first test date). The value of long-term incentive disclosed above is the portion of the fair value of options, performance share rights and restricted shares allocated to the relevant reporting period. None of the options, performance share rights or restricted shares allocated to David Baldwin and Dennis Barnes vested in the 2010 and 2011 financial years.

Movements during FY11 in the number of options over ordinary shares, performance share rights and restricted shares held in Contact are set out in the following tables.

Restricted shares	Held as at 1 July 2010	Granted as compensation	Vested during year	Held at 30 June 2011
David Baldwin Managing Director (1 July 2010 to 31 March 2011)	133,070	–	–	133,070
Dennis Barnes Chief Executive Officer (1 April 2011 to 30 June 2011)	–	–	–	–

Options	Held as at 1 July 2010	Granted as compensation	Exercised	Held at 30 June 2011	Vested during year	Vested and exercisable at 30 June 2011
David Baldwin Managing Director (1 July 2010 to 31 March 2011)	779,156	470,946	–	1,250,102	–	–
Dennis Barnes Chief Executive Officer (1 April 2011 to 30 June 2011)	–	106,082	–	106,082	–	–

Performance share rights	Held as at 1 July 2010	Granted as compensation	Exercised	Held at 30 June 2011	Vested during year	Vested and exercisable at 30 June 2011
David Baldwin Managing Director (1 July 2010 to 31 March 2011)	–	104,655	–	104,655	–	–
Dennis Barnes Chief Executive Officer (1 April 2011 to 30 June 2011)	–	23,574	–	23,574	–	–

Employee remuneration

There are two components to employee remuneration – fixed and at-risk/variable remuneration.

The determination of fixed remuneration is based on responsibilities, individual performance and experience, and available market remuneration data. At-risk/variable remuneration comprises short-term incentives and, for senior executives, employees with high potential to advance to key leadership roles, and senior employees who hold critical skills essential for Contact's success, long-term incentives.

Short-Term Incentive (STI) Scheme

Contact's variable remuneration recognises and rewards high-performing individuals whose contributions support business goals and objectives, whilst meeting the goals set for the individual. Contact's short-term incentives (STI) comprise cash payments based on performance measured against KPI. In FY11 different levels of incentives were determined reflecting the nature of roles in the company. KPI generally comprise company, team and individual targets. These targets are designed to create goals that will support an achievement and performance-oriented culture. The STI programme is designed to differentiate and reward exceptional, outstanding and good performance.

The Board reserves the right to adjust STI awards if HSE targets are not met.

Employee Long-Term Incentive (LTI) Scheme

Contact offers a combination of share options and performance share rights under the current Contact LTI Scheme to ensure incentives align participating employees' performance with shareholders' interests, in both favourable and unfavourable share market conditions. Following a review of Contact's LTI Scheme in 2010, no further restricted shares have been issued since the 1 October 2009 grant date. Performance share rights (issued under the Share Option Scheme) replaced restricted shares from October 2010. The Restricted Share Plan is now grand-parented but restricted shares issued prior to October 2010 are still held by participants and remain subject to exercise hurdles and vesting criteria.

Contact's LTI Scheme for participating employees now consists of a Share Option Scheme under which both share options and performance share rights are issued. Details of the Scheme are set out below (along with historical details of restricted shares that remain on issue under the now grand-parented Restricted Share Plan).

Long-term incentives are awarded to reward and retain key talent, align participants' interests with that of Contact's shareholders, and encourage and reward longer-term decision-making. Under the Scheme, for FY11, the Board allocated long-term incentive awards that are, by value, 50 per cent share options and 50 per cent performance share rights. Under the Scheme, the share options and performance share rights will only become exercisable to the extent that the relevant exercise hurdles are satisfied. The exercise hurdles for the share options and performance share rights in relation to FY11 are set out on page 46. The number of share options and performance share rights awarded is calculated by dividing the value of the long-term incentive award (being a percentage of the relevant participant's salary) by the fair value of the share options and performance share rights.

At 30 June 2011 there were 79 participants in Contact's LTI Scheme.

In June 2011, Contact's Board approved the following adjustments to unvested securities under Contact's LTI Scheme to compensate participants for any loss in value as a result of the Entitlement Offer:

- An adjustment to the exercise price for options issued under the Share Option Scheme in accordance with the formula set out in NZX Listing Rule 8.1.7(b).
- The issue of further performance share rights in respect of performance share rights already issued under the Share Option Scheme and restricted shares issued under the Restricted Share Plan.

Any additional securities issued remain subject to normal exercise hurdles and vesting periods. These actions are permitted under the Restricted Share Plan Rules and the Share Option Scheme Rules. A total of 18,002 additional performance share rights were issued in August 2011, following NZX approval under Listing Rule 8.1.4. The adjustments made to the exercise price for options are detailed in the footnote of the table on page 42.

Share Option Scheme

Under the Share Option Scheme, the Board issues share options to participants to acquire ordinary shares in Contact at the market price determined at the effective grant date. For share options granted in FY11, the market price was the weighted average market price of Contact's ordinary shares traded on the NZSX in the five business days prior to the effective grant date. Under the Share Option Scheme, the Board also issues performance share rights to participants to acquire ordinary shares in Contact at zero cost.

As noted above, the options are exercisable subject to exercise hurdles as determined by the Board. The exercise hurdles for share options and performance share rights issued in FY11 are described on page 46. There is a vesting period of approximately three years from the effective grant date before share options may be exercised. Following the end of that period, the exercise hurdles are measured on three annual test dates. There is a two-year, two-month exercise period following the first test date during which share options and performance share rights may be exercised, again to the extent that the exercise hurdles are met.

The share options and performance share rights may also be exercised if, between the effective grant date and the exercise date, a change of control of Contact occurs. In addition, the Board may, at its discretion, permit share options and performance share rights to be exercised prior to the commencement of the relevant exercise period where Contact shares cease to be listed on the NZSX or other circumstances occur where such an early exercise is considered appropriate by the Board.

The share options and performance share rights will lapse:

- if the exercise hurdles are not met by the final measurement date
- if the share options or performance share rights are not exercised by the lapse date
- on the date on which the participant ceases to be employed by the company or, in certain circumstances, the ultimate parent company (except in the case of redundancy), or
- on the death of the participant (provided, however, that the Board may, in its discretion, allow the participant's successor to exercise the share options and performance share rights).

In the event of redundancy, the Share Option Scheme will continue, except that the number of share options and performance share rights will be recalculated on a proportionate basis.

The share options and performance share rights are unlisted and are personal to the employee and therefore cannot be traded.

In May 2007, NZX Regulation granted approval under NZSX Listing Rule 8.1.4 for the issue of share options under the Share Option Scheme with effective grant dates of 1 July 2006 and 20 November 2006. NZX Regulation also made a ruling that NZSX Listing Rule 7.10 (being additional requirements for rights issues) does not apply to the granting of share options under the Share Option Scheme. The full version of the **waiver** and NZX decision can be found on the company's website.

The number of options currently on issue and their exercise status as at 30 June 2011 are set out in the table below.

Number of options issued	Effective grant date	Exercise price per option	First exercise date	Number lapsed	Final lapse date	Vested	Number exercisable
365,322	1 July 2006	$7.35	1 October 2009	81,245[1]	30 November 2011	No	Nil
13,413	15 January 2007	$8.28	1 October 2009	13,413[2]	30 November 2011	No	Nil
490,326	1 October 2007	$9.15	1 October 2010	227,779[3]	30 November 2012	No	Nil
22,706	1 February 2008	$7.63	1 October 2010	7,698[4]	30 November 2012	No	Nil
881,769	1 October 2008	$8.60	1 October 2011	326,031[5]	30 November 2013	No	Nil
1,701,718	1 October 2009	$5.75	1 October 2012	229,439[6]	30 November 2014	No	Nil
3,982,607	1 October 2010	$5.71	1 October 2013	56,757[7]	30 November 2015	No	Nil

1 Owing to the cessation of employment of participants, options from this tranche lapsed pursuant to the Share Option Scheme Rules on the following dates: 7 September 2007 (14,103 options), 30 June 2008 (20,513 options), 2 July 2008 (13,808 options) and 31 July 2009 (32,821 options).

2 Of the 13,413 options granted with an effective date of 15 January 2007, 7,927 vested during FY10 and became exercisable, however no options were exercised. All 13,413 options lapsed effective from 6 July 2010 due to the cessation of employment of the participant effective 30 June 2010.

3 Owing to the cessation of employment of participants, options from this tranche lapsed pursuant to the Share Option Scheme Rules on the following dates: 3 December 2007 (6,591 options), 2 April 2008 (18,136 options), 30 June 2008 (20,000 options), 2 July 2008 (33,656 options), 31 December 2008 (47,457 options), 31 July 2009 (50,455 options), 6 July 2010 (44,848 options) and 13 August 2010 (6,636 options).

4 Owing to the cessation of employment of participants, 7,698 options from this tranche lapsed pursuant to the Share Option Scheme Rules on 24 December 2008.

5 Owing to the cessation of employment of participants, options from this tranche lapsed pursuant to the Share Option Scheme Rules on the following dates: 24 December 2008 (19,871 options), 31 December 2008 (57,065 options), 31 July 2009 (133,914 options), 6 July 2010 (59,348 options), 13 August 2010 (10,181 options) and 5 November 2010 (45,652 options).

6 Owing to the cessation of employment of participants, options from this tranche lapsed pursuant to the Share Option Scheme Rules on the following dates: 9 April 2010 (8,788 options), 25 June 2010 (36,727 options), 6 July 2010 (80,413 options), 13 August 2010 (12,071 options), 17 September 2010 (4,508 options), 5 November 2010 (62,630 options), 31 December 2010 (18,437 options) and 31 May 2011 (5,865 options). A further 3,539 options lapsed on 1 July 2011 due to the cessation of employment of participants.

7 Owing to the cessation of employment of a participant, 56,757 options from this tranche lapsed pursuant to the Share Option Scheme Rules on 24 February 2011. A further 23,157 and 32,789 options lapsed on 1 July 2011 and 12 August 2011 due to the cessation of employment of participants.

As a result of the one-for-nine Entitlement Offer and in accordance with both the Share Option Scheme Rules and the formula set out in NZX Listing Rule 8.1.7(b), the following adjustments have been made to the exercise price for options issued under the Share Option Scheme:

Effective grant date	1 July 2006	1 October 2007	1 February 2008	1 October 2008	1 October 2009	1 October 2010
Old exercise price of options	$7.35	$9.15	$7.63	$8.60	$5.75	$5.71
New exercise price of options	$7.27	$9.07	$7.55	$8.53	$5.67	$5.63

The number of performance share rights issued and their exercise status as at 30 June 2011 are set out in the table below.

Number of performance share rights issued	Effective grant date	First exercise date	Number lapsed	Final lapse date	Vested	Number exercisable
885,056	1 October 2010	1 October 2013	12,613[1]	30 November 2015	No	Nil

1 A further 5,146 and 7,287 performance share rights lapsed on 1 July 2011 and 12 August 2011 due to the cessation of employment of participants.

A total of 18,002 additional performance share rights will be issued in August 2011 as a result of the Entitlement Offer to compensate participants for any loss in value to their LTI. This is permitted under the Restricted Share Plan Rules and the Share Option Scheme Rules.

Restricted Share Plan

Under the now grand-parented Restricted Share Plan, the Board issued restricted shares to the participants at the market price determined at the effective grant date. Although participants have beneficial title to the restricted shares, under the terms of the Restricted Share Plan:

- the restricted shares are issued to a trustee to be held on trust for the participant
- the trustee will not exercise any voting rights attaching to the restricted shares and has forgone the right to distributions.

Legal title to the restricted shares cannot be transferred to a participant, and therefore traded by the participant, unless and until the restricted shares become unrestricted. A participant may not transfer, assign or otherwise dispose of, or create any interest in (including any security, or legal or equitable interest), a restricted share until it becomes unrestricted.

No restricted shares were issued during FY11.

If the exercise hurdles are met, the restricted shares will be released from the trust to a participant following the relevant test date. There is a vesting period of approximately three years from the effective grant date before restricted shares that vest may be released from the restrictions and transferred to the participant. Following the end of that period, the exercise hurdles are measured on three annual test dates. To the extent the hurdles are met on each of these test dates, restricted shares must be released from the restrictions and transferred from the trustee to the participant.

For restricted shares to which a participant becomes entitled, the company pays a taxable bonus, out of which the participant must repay the loan. Upon repayment of the loan, the trustee transfers legal title to the restricted shares to the participant.

The participant must transfer to the trustee their rights to any restricted shares that have not been released to the participant by the final test date. The allocation price for those restricted shares transferred to the trustee will be applied to the trustee to immediately repay the loan to the company. The restricted shares may be released from the restrictions and transferred to the participant if, between the grant date and a test date, a change of control of Contact occurs. The rights to the restricted shares will lapse:

- if the exercise hurdles are not met by the final test date,
- on the date on which the participant ceases to be employed by the company, or in certain circumstances, the ultimate parent company (except in the case of redundancy), or
- on the death of the participant (provided, however, that the Board may, in its discretion, allow legal title to the restricted shares to be transferred to the participant's successors).

In the event of redundancy, the Restricted Share Plan will continue, except that the number of restricted shares will be recalculated on a proportionate basis.

While restricted, the restricted shares are unlisted and are personal to the employee and therefore cannot be traded or used for security.

In May 2007, NZX Regulation granted approval under NZSX Listing Rule 8.1.4 for the issue of restricted shares under the Restricted Share Plan with effective grant dates of 1 July 2006 and 20 November 2006. NZX Regulation also granted an ongoing waiver from NZSX Listing Rule 8.1.3 for issues of reallocated shares under the Restricted Share Plan (being those restricted shares that are not released to a participant at the final transfer date, but are instead purchased by the trustee then reallocated to the participant). The full version of the **waiver** and approval can be found on the company's website.

The number of restricted shares issued and their status as at 30 June 2011 are set out in the table below.

Number of restricted shares issued	Number reallocated from unallocated pool (see following)	Effective grant date	Allocation price per date	First test date	Final test date	Number transferred to unallocated pool (see following)	Number vesting during the year
70,890	Nil	1 July 2006	$7.35	1 October 2009	1 October 2011	15,765	Nil
3,581	Nil	20 November 2006	$7.55	1 October 2009	1 October 2011	3,581	N/A
2,504	Nil	15 January 2007	$8.28	1 October 2009	1 October 2011	1,024	Nil
83,242	2,737	1 October 2007	$9.15	1 October 2010	1 October 2012	39,941	Nil
3,091	1,156	1 February 2008	$7.63	1 October 2010	1 October 2012	1,440	Nil
104,712	19,247	1 October 2008	$8.60	1 October 2011	1 October 2013	45,833	Nil
241,940	58,200	1 October 2009	$5.75	1 October 2012	1 October 2014	40,467[1]	Nil

1 A further 624 restricted shares were transferred to the unallocated pool on 1 July 2011 due to the cessation of employment of the participant.

Pursuant to the Restricted Share Plan Rules, where a participant ceases employment, the beneficial ownership of restricted shares is transferred to the trustee to hold on trust in an unallocated pool to be reallocated to a participant at a future date. As at 30 June 2011, there were 66,711 restricted shares held by the trustee in the unallocated pool. The following table sets out the movements of the unallocated pool to 30 June 2011.

Original issue date	Number of restricted shares transferred to unallocated pool	Date of transfer to unallocated pool[1]	Number of shares reallocated to a participant	Date of reallocation to participant
21 June 2007	2,737	7 September 2007	2,737	31 October 2007
	3,980	30 June 2008	3,980	11 November 2008
	2,679	2 July 2008	2,679	11 November 2008
	3,581	31 December 2008	3,581	7 December 2009
	6,369	31 July 2009	6,369	7 December 2009
	1,024	6 July 2010	Nil	N/A
31 October 2007	1,156	3 December 2007	1,156	25 February 2008
	3,180	2 April 2008	3,180	11 November 2008
	3,507	30 June 2008	3,507	11 November 2008
	5,901	2 July 2008	5,901	11 November 2008
	8,322	31 December 2008	8,322	7 December 2009
	8,847	31 July 2009	8,847	7 December 2009
	7,864	6 July 2010	Nil	N/A
	1,164	13 August 2010	Nil	N/A
25 February 2008	1,440	24 December 2008	1,440	7 December 2009
11 November 2008	2,794	24 December 2008	2,794	7 December 2009
	8,022	31 December 2008	8,022	7 December 2009
	18,825	31 July 2009	18,825	7 December 2009
	8,343	6 July 2010	Nil	N/A
	1,431	13 August 2010	Nil	N/A
	6,418	5 November 2010	Nil	N/A
7 December 2009	1,550	9 April 2010	Nil	N/A
	6,478	25 June 2010	Nil	N/A
	14,182	6 July 2010	Nil	N/A
	2,129	13 August 2010	Nil	N/A
	795	17 September 2010	Nil	N/A
	11,046	5 November 2010	Nil	N/A
	3,252	31 December 2010	Nil	N/A
	1,035	31 May 2011	Nil	N/A

1 An additional 624 restricted shares were transferred to the unallocated pool on 1 July 2011 due to the cessation of employment of a participant, bringing the total number of restricted shares in the unallocated pool to 67,335.

Exercise hurdles

Broadly, the number of unrestricted ordinary shares to which a participant is entitled under the LTI Scheme is determined by the achievement of a predetermined exercise hurdle or hurdles. For the restricted shares, performance share rights and share options, the hurdle is a comparison of Contact's total shareholder return (TSR) against the TSR of a reference group comprising the NZX50 index in the relevant period, commencing on the effective grant date. For the performance share rights and share options issued in FY11, participants' vesting entitlements will be calculated on three test dates, being 1 October 2013, 1 October 2014 and 1 October 2015.

Contact's TSR will be determined as follows:

- The volume weighted average market price of Contact ordinary shares for the three months prior to the effective grant date is subtracted from the price of the shares as determined by measuring the volume weighted average market price of the shares in the three-month period prior to the relevant test date.
- Adjusting the calculation in (a) above to reflect the assumed reinvestment of distributions (excluding imputation credits) in the period from the effective grant date to the relevant test date.

A participant's vesting entitlements will be based on a predetermined formula relative to the achievement of the predetermined hurdle or hurdles. For the restricted shares and share options issued in FY11, these are:

- Zero per cent vesting if Contact's TSR over the performance period does not exceed the 50th percentile of the TSRs of those companies that are in the NZX50 at grant date and remain listed at the relevant test dates.
- 50–100 per cent vesting (on a sliding scale, that is the percentage of restricted shares released/share options exercisable increases proportionately on a straight-line sliding scale from the 50th up to the 75th percentile), if Contact's TSRs is ranked between the 50th percentile and the 75th percentile of those companies that are in the NZX50 at the grant date and remain listed at the relevant test date.
- 100 per cent vesting if Contact's TSR is at or above the 75th percentile of the TSRs of those companies that are in the NZX50 at the grant date and remain listed at the relevant test date.

Employee remuneration

The table at right shows the number of employees and former employees of Contact who, in their capacity as employees, received remuneration and other benefits (including redundancy payments and the fair value of any options, performance share rights and restricted shares allocated to the relevant reporting period) during FY11 of at least $100,000 in brackets of $10,000. As at 30 June 2011, no Contact subsidiary had any employees.

The remuneration figures analysed include all monetary payments actually paid during the course of FY11, including the short-term variable remuneration relating to FY10. The figures do not include amounts paid post 30 June 2011 that related to the period ended 30 June 2011.

The value of remuneration benefits analysed includes fixed, short-term and long-term at risk/variable components of remuneration, and redundancy and other payments made on termination of employment. The value of the equity-based incentives included in the remuneration band analysis represents the portion of the grant-date fair value of the equity instruments allocated to the reporting period ended 30 June 2011. The remuneration (and any other benefits) of the previous Managing Director, David Baldwin, and Chief Executive Officer, Dennis Barnes, is disclosed in the Managing Director and Chief Executive Officer remuneration section on page 38.

Remuneration bands	Number of employees
	Parent
$100,001–$110,000	56
$110,001–$120,000	61
$120,001–$130,000	58
$130,001–$140,000	27
$140,001–$150,000	19
$150,001–$160,000	32
$160,001–$170,000	10
$170,001–$180,000	11
$180,001–$190,000	7
$190,001–$200,000	7
$200,001–$210,000	5
$210,001–$220,000	5
$220,001–$230,000	6
$230,001–$240,000	6
$240,001–$250,000	3
$250,001–$260,000	2
$260,001–$270,000	3
$270,001–$280,000	5
$280,001–$290,000	3
$290,001–$300,000	3
$300,001–$310,000	1
$310,001–$320,000	1
$320,001–$330,000	2
$340,001–$350,000	1
$350,001–$360,000	1
$360,001–$370,000	1
$370,001–$380,000	1
$390,001–$400,000	1
$410,001–$420,000	1
$450,001–$460,000	1
$480,001–$490,000	1
$490,001–$500,000	2
$590,001–$600,000	1
$620,001–$630,000	1
$630,001–$640,000	1
$760,001–$770,000	1
$840,001–$850,000	1
Total	**348**

Contact subsidiaries – directors and remuneration

Other than Paul Smith, who received the Australian dollar equivalent of $45,716 in FY11 in his capacity as a consultant to Contact Australia Pty Limited and Contact Operations Australia Pty Limited, no director of any of Contact's subsidiaries received additional remuneration or benefits in respect of their directorships.

The table below lists the directors of Contact subsidiary companies as at 30 June 2011.

Contact subsidiary	Directors
Contact Aria Limited	Dennis Barnes Elizabeth Kelly*
Contact Australia Pty Limited	Dennis Barnes Elizabeth Kelly* Paul Smith
Contact Operations Australia Pty Limited	Dennis Barnes Elizabeth Kelly* Paul Smith
Contact Wind Limited	Dennis Barnes Graham Cockroft Alistair Yates
Empower Limited	Dennis Barnes Ruth Bound
Rockgas Limited	Dennis Barnes Graham Cockroft Chris Brown

* Paul Ridley-Smith replaced Elizabeth Kelly as a director of Contact Aria Limited, Contact Australia Pty Limited and Contact Operations Australia Pty Limited on 20 July 2011.

Security holder information

20 largest registered holders of Quoted Equity Securities (ordinary shares) as at 11 August 2011 (including holdings within New Zealand Central Securities Depository Limited)

Origin Energy Pacific Holdings Limited	359,962,548
National Nominees New Zealand Limited	24,108,168
HSBC Nominees (New Zealand) Limited A/C State Street	22,604,576
Accident Compensation Corporation	16,823,025
New Zealand Superannuation Fund Nominees Limited	15,555,267
Citibank Nominees (New Zealand) Limited	11,449,684
HSBC Nominees (New Zealand) Limited	8,369,259
Premier Nominees Ltd – Onepath Wholesale Australasian Share Fund	7,016,383
NZGT Nominees Limited – AIF Equity Fund	6,696,152
AMP Investments Strategic Equity Growth Fund	6,472,537
Custodial Services Limited	6,412,240
FNZ Custodians Limited	5,758,924
Origin Energy Universal Holdings Limited	4,452,385
Tea Custodians Limited	4,279,383
Westpac NZ Shares 2002 Wholesale Trust	3,381,212
Custody and Investment Nominees Limited	3,304,455
Asteron Life Limited	3,180,118
Custodial Services Limited	2,766,636
Masfen Securities Limited	2,724,882
Private Nominees Limited	2,554,889
Total top 20 holders (excluding Treasury Stock)	**517,872,723**
Total other ordinary shares	**177,195,565**
Total issued ordinary shares	**695,068,288**

Distribution of Quoted Security Holders and security holdings as at 11 August 2011

Ordinary shares: NZX code CEN

Size of holding	Number of holders	% of holders	Number of shares	% of shares
1 to 499	12,495	15.97	4,536,619	0.65
500 to 999	27,672	35.37	22,355,904	3.22
1,000 to 4,999	33,151	42.38	56,960,779	8.19
5,000 to 9,999	3,152	4.03	21,341,372	3.07
10,000 to 49,999	1,578	2.02	27,783,481	4.00
50,000 to 99,999	83	0.11	5,471,709	0.79
100,000 to 499,999	51	0.07	9,309,528	1.34
500,000 and above	43	0.05	547,308,896	78.74
Total	**78,225**	**100.00**	**695,068,288**	**100.00**

Retail bonds

Size of holding	Number of holders	% of holders	Number of bonds	% of bonds
1 to 4,999	1	0.01	3,000	0
5,000 to 9,999	1,178	12.53	6,661,000	1.21
10,000 to 49,999	6,083	64.71	119,839,000	21.79
50,000 to 99,999	1,326	14.1	72,911,000	13.26
100,000 to 499,999	733	7.8	107,920,000	19.62
500,000 and above	80	0.85	242,666,000	44.12
Total	**9,401**	**100.00**	**550,000,000**	**100.00**

Substantial security holders

According to notices given under the Securities Markets Act 1988, the following persons were substantial security holders in the company as at 11 August 2011.

Substantial security holder	Number and class of listed voting securities	Percentage
Origin Energy New Zealand Limited and its subsidiaries	365,348,258	52.568

The total number of shares of Contact as at 11 August 2010 was 695,576,768, consisting of 695,068,288 listed ordinary shares and 508,480 restricted ordinary shares issued pursuant to Contact's LTI Scheme (the restricted ordinary shares are not tradeable and are not listed or quoted on the NZSX). The ordinary shares and restricted ordinary shares are voting securities, except the trustee holding the restricted ordinary shares on behalf of the participants has waived all voting rights in relation to those shares. Accordingly, the total number of listed voting securities of Contact as at 11 August 2010 was 695,068,288.

Directors' statement

This Annual Report is dated 6 September 2011 and is signed on behalf of the Board by

Grant King
Chairman

Phillip Pryke
Deputy Chairman

Financial Statements

for the year ended 30 June 2011

Income Statement for the year ended 30 June 2011

	Note	Group 30 June 2011 $000	Group 30 June 2010 $000	Parent 30 June 2011 $000	Parent 30 June 2010 $000
Revenue	3	2,209,290	2,143,017	1,958,128	1,848,978
Other income		21,564	21,391	42,625	45,401
Operating expenses	4	(1,789,439)	(1,737,426)	(1,597,378)	(1,512,693)
Earnings before net interest expense, income tax, depreciation, amortisation, change in fair value of financial instruments and other significant items (EBITDAF)		**441,415**	**426,982**	**403,375**	**381,686**
Depreciation and amortisation	15, 16	(166,322)	(161,903)	(162,413)	(158,610)
Change in fair value of financial instruments	23	(5,940)	4,531	(5,939)	4,531
Other significant items	5	–	(8,894)	–	39,180
Equity accounted earnings of associates	20	3,862	3,272	–	–
Net interest expense	6	(62,338)	(55,980)	(62,346)	(55,845)
Profit before income tax		**210,677**	**208,008**	**172,677**	**210,942**
Income tax expense	7	(60,383)	(53,340)	(49,416)	(39,793)
Profit for the year		**150,294**	**154,668**	**123,261**	**171,149**
Basic and diluted earnings per share (cents)	9	**23.89**	**25.58**		

Non-statutory measure: underlying earnings

Underlying earnings after tax is presented to allow stakeholders to make an assessment and comparison of underlying earnings after adjusting for significant one-off items and the non-cash change in fair value of financial instruments.

	Note	Group 30 June 2011 $000	Group 30 June 2010 $000
Profit for the year		**150,294**	**154,668**
Underlying adjustments			
Change in fair value of financial instruments	23	5,940	(4,531)
Other significant items:			
Retail transaction processing outsourcing costs	5	–	3,330
Removal of New Plymouth asbestos and related costs	5	–	5,564
Adjustments before income tax		**5,940**	**4,363**
Income tax expense		(1,782)	(1,309)
Impact of change in corporate income tax rate	7	(3,503)	(42,650)
Removal of tax depreciation on buildings	7	–	34,765
Adjustments after income tax		**655**	**(4,831)**
Underlying earnings after tax		**150,949**	**149,837**
Underlying earnings per share (cents)	9	**24.00**	**24.78**

The accompanying notes form an integral part of these financial statements.

Statement of Comprehensive Income for the year ended 30 June 2011

	Note	Group 30 June 2011 $000	Group 30 June 2010 $000	Parent 30 June 2011 $000	Parent 30 June 2010 $000
Profit for the year		**150,294**	**154,668**	**123,261**	**171,149**
Other comprehensive income:					
Change in foreign currency translation reserve		415	(221)	–	–
Change in cash flow hedge reserve		(122)	8,298	(82)	8,206
Total other comprehensive income before tax		**293**	**8,077**	**(82)**	**8,206**
Deferred tax relating to components of other comprehensive income	26	(3,888)	(2,209)	(3,765)	(2,248)
Impact of change in corporate income tax rate	26	(1,192)	555	(1,192)	555
Total other comprehensive income after tax		**(4,787)**	**6,423**	**(5,039)**	**6,513**
Total comprehensive income for the year		**145,507**	**161,091**	**118,222**	**177,662**

Contact Energy Limited and Subsidiaries

Statement of Changes in Equity for the year ended 30 June 2011

Group	Note	Share capital $000	Foreign currency translation reserve $000	Cash flow hedge reserve $000	Share-based payment reserve $000	Retained earnings $000	Total shareholders' equity $000
Opening balance as at 1 July 2009		828,613	310	(38,660)	1,752	1,867,587	2,659,602
Total comprehensive income for the year		–	(182)	6,605	–	154,668	161,091
Restricted shares and options lapsed during the year		–	–	–	(36)	36	–
Transactions with owners recorded directly in equity:							
Change in share capital	10	120,374	–	–	–	–	120,374
Change in share-based payment reserve	11	–	–	–	1,148	–	1,148
Restricted shares vested during the year	11	10	–	–	(10)	–	–
Distributions declared	8	–	–	–	–	(165,437)	(165,437)
Total transactions with owners recorded directly in equity		**120,384**	–	–	**1,138**	**(165,437)**	**(43,915)**
Closing balance as at 30 June 2010		**948,997**	**128**	**(32,055)**	**2,854**	**1,856,854**	**2,776,778**
Opening balance as at 1 July 2010		948,997	128	(32,055)	2,854	1,856,854	2,776,778
Total comprehensive income for the year		–	292	(5,079)	–	150,294	145,507
Transactions with owners recorded directly in equity:							
Change in share capital	10	463,863	–	–	–	–	463,863
Change in share-based payment reserve	11	–	–	–	2,510	–	2,510
Distributions declared	8	–	–	–	–	(153,048)	(153,048)
Total transactions with owners recorded directly in equity		**463,863**	–	–	**2,510**	**(153,048)**	**313,325**
Closing balance as at 30 June 2011		**1,412,860**	**420**	**(37,134)**	**5,364**	**1,854,100**	**3,235,610**

Parent	Note	Share capital $000	Foreign currency translation reserve $000	Cash flow hedge reserve $000	Share-based payment reserve $000	Retained earnings $000	Total shareholders' equity $000
Opening balance as at 1 July 2009		828,613	–	(38,608)	1,752	1,787,900	2,579,657
Total comprehensive income for the year		–	–	6,513	–	171,149	177,662
Restricted shares and options lapsed during the year		–	–	–	(36)	36	–
Transactions with owners recorded directly in equity:							
Change in share capital	10	120,374	–	–	–	–	120,374
Change in share-based payment reserve	11	–	–	–	1,148	–	1,148
Restricted shares vested during the year	11	10	–	–	(10)	–	–
Distributions declared	8	–	–	–	–	(165,437)	(165,437)
Total transactions with owners recorded directly in equity		**120,384**	–	–	**1,138**	**(165,437)**	**(43,915)**
Closing balance as at 30 June 2010		**948,997**	–	**(32,095)**	**2,854**	**1,793,648**	**2,713,404**
Opening balance as at 1 July 2010		948,997	–	(32,095)	2,854	1,793,648	2,713,404
Total comprehensive income for the year		–	–	(5,039)	–	123,261	118,222
Transactions with owners recorded directly in equity:							
Change in share capital	10	463,863	–	–	–	–	463,863
Change in share-based payment reserve	11	–	–	–	2,510	–	2,510
Distributions declared	8	–	–	–	–	(153,048)	(153,048)
Total transactions with owners recorded directly in equity		**463,863**	–	–	**2,510**	**(153,048)**	**313,325**
Closing balance as at 30 June 2011		**1,412,860**	–	**(37,134)**	**5,364**	**1,763,861**	**3,144,951**

The accompanying notes form an integral part of these financial statements.

Contact Energy Limited and Subsidiaries

Statement of Financial Position as at 30 June 2011

	Note	Group 30 June 2011 $000	Group 30 June 2010 $000	Parent 30 June 2011 $000	Parent 30 June 2010 $000
Shareholders' equity		**3,235,610**	**2,776,778**	**3,144,951**	**2,713,404**
Represented by:					
Current assets					
Cash and short-term deposits	12	47,267	921	47,191	–
Receivables and prepayments	13	243,521	219,148	247,534	210,415
Inventories	14	111,512	58,366	104,170	53,452
Carbon emission units		9,552	–	9,552	–
Derivative financial instruments	23	1,669	4,955	1,669	4,914
Tax receivable		778	54	778	57
Total current assets		**414,299**	**283,444**	**410,894**	**268,838**
Non-current assets					
Property, plant and equipment	15	4,813,619	4,511,314	4,715,116	4,421,033
Intangible assets	16	342,324	284,201	283,690	225,567
Gas storage – cushion gas	17	51,512	49,022	51,512	49,022
Investment in subsidiaries	19	–	–	132,788	132,788
Investment in associates	20	11,603	8,809	1,579	1,587
Available-for-sale financial assets	21	2,935	2,935	–	–
Derivative financial instruments	23	357	787	357	787
Other non-current assets		6,850	7,305	6,850	7,305
Total non-current assets		**5,229,200**	**4,864,373**	**5,191,892**	**4,838,089**
Total assets		**5,643,499**	**5,147,817**	**5,602,786**	**5,106,927**
Current liabilities					
Borrowings	22	3,012	3,180	2,806	3,453
Derivative financial instruments	23	46,142	31,895	46,142	31,895
Payables and accruals	24	354,693	262,430	414,404	291,328
Provisions	25	6,351	13,146	6,127	12,907
Total current liabilities		**410,198**	**310,651**	**469,479**	**339,583**
Non-current liabilities					
Borrowings	22	1,082,110	1,279,233	1,082,106	1,279,216
Derivative financial instruments	23	180,349	98,811	180,349	98,811
Provisions	25	54,534	43,429	52,325	41,808
Deferred tax	26	680,204	638,190	673,084	633,380
Other non-current liabilities		494	725	492	725
Total non-current liabilities		**1,997,691**	**2,060,388**	**1,988,356**	**2,053,940**
Total liabilities		**2,407,889**	**2,371,039**	**2,457,835**	**2,393,523**
Net assets		**3,235,610**	**2,776,778**	**3,144,951**	**2,713,404**

The Directors of Contact Energy Limited authorised these financial statements for issue.

On behalf of the Board

Grant King
Chairman, 19 August 2011

Phillip Pryke
Deputy Chairman, 19 August 2011

The accompanying notes form an integral part of these financial statements.

Contact Energy Limited and Subsidiaries

Statement of Cash Flows for the year ended 30 June 2011

	Note	Group 30 June 2011 $000	Group 30 June 2010 $000	Parent 30 June 2011 $000	Parent 30 June 2010 $000
Cash flows from operating activities					
Cash provided from:					
Receipts from customers		2,198,125	2,185,718	1,955,128	1,893,401
Dividends received		1,864	3,862	1,480	2,936
		2,199,989	2,189,580	1,956,608	1,896,337
Cash applied to:					
Payments to suppliers and employees		(1,797,284)	(1,780,762)	(1,565,815)	(1,506,382)
Supplementary dividend paid to shareholders	8	(1,184)	(1,293)	(1,184)	(1,293)
Tax paid	7	(22,990)	(39,166)	(22,990)	(39,166)
		(1,821,458)	(1,821,221)	(1,589,989)	(1,546,841)
Net cash inflow from operating activities		**378,531**	**368,359**	**366,619**	**349,496**
Cash flows from investing activities					
Cash provided from:					
Interest received		1,078	4,848	995	4,768
		1,078	4,848	995	4,768
Cash applied to:					
Purchase of property, plant and equipment		(379,372)	(411,279)	(364,749)	(394,029)
Purchase of intangible assets		(57,821)	(29,557)	(59,139)	(29,557)
Removal of New Plymouth asbestos and related costs		(144)	(2,922)	(144)	(2,922)
Purchase of investment in Energyhedge Limited	20	–	(8)	–	(8)
Purchase of cushion gas	17	–	(1,490)	–	(1,490)
Repayment of loan to associate		–	(1,886)	–	–
		(437,337)	(447,142)	(424,032)	(428,006)
Net cash (outflow) to investing activities		**(436,259)**	**(442,294)**	**(423,037)**	**(423,238)**
Cash flows from financing activities					
Cash provided from:					
Proceeds from borrowings		–	100,000	–	100,000
Proceeds from other loans		356,518	250,258	356,518	250,258
Proceeds from Entitlement Offer	10	351,169	–	351,169	–
		707,687	350,258	707,687	350,258
Cash applied to:					
Interest paid		(100,067)	(103,324)	(100,067)	(103,109)
Distributions paid to shareholders	10	(34,351)	(44,904)	(34,351)	(44,904)
Financing costs		(687)	(923)	(687)	(923)
Profit distribution-related costs		–	(311)	–	(311)
Entitlement Offer-related costs		(4,649)	–	(4,649)	–
Repayment of borrowings		–	(160,228)	–	(160,228)
Repayment of other loans and finance lease liabilities		(463,919)	(145,296)	(463,898)	(145,263)
		(603,673)	(454,986)	(603,652)	(454,738)
Net cash inflow from/(outflow to) financing activities		**104,014**	**(104,728)**	**104,035**	**(104,480)**
Net increase/(decrease) in cash and cash equivalents		**46,286**	**(178,663)**	**47,617**	**(178,222)**
Add: cash and cash equivalents at the start of the year		(1,118)	177,545	(2,333)	175,889
Cash and cash equivalents at the end of the year		**45,168**	**(1,118)**	**45,284**	**(2,333)**
Cash and cash equivalents comprise:					
Bank overdraft	12, 22	(2,099)	(2,039)	(1,907)	(2,333)
Cash and short-term deposits	12	47,267	921	47,191	–
	12	**45,168**	**(1,118)**	**45,284**	**(2,333)**

The accompanying notes form an integral part of these financial statements.

Statement of Cash Flows for the year ended 30 June 2011 (continued)

Reconciliation of profit for the year to cash flows from operating activities	Note	Group 30 June 2011 $000	Group 30 June 2010 $000	Parent 30 June 2011 $000	Parent 30 June 2010 $000
Profit for the year		**150,294**	**154,668**	**123,261**	**171,149**
Items classified as investing/financing					
Net interest expense	6	62,338	55,980	62,346	55,845
		62,338	55,980	62,346	55,845
Non-cash items					
Write-off of receivables	4	12,095	15,046	10,663	11,988
Movement in provisions		1,311	8,023	1,311	8,114
Share-based payments	11	2,928	1,596	2,928	1,596
Depreciation and amortisation	15, 16	166,322	161,903	162,413	158,610
Equity accounted (earnings) of associates net of dividends received	20	(2,382)	(261)	–	–
Change in fair value of financial instruments	23	5,940	(4,531)	5,939	(4,531)
Increase in deferred tax	7	36,934	10,250	34,747	8,255
Write-off of advance to subsidiary	5	–	–	–	26
Write-back of subsidiary advance	5	–	–	–	(48,100)
Other non-cash items		538	(1,225)	1,185	–
		223,686	190,801	219,186	135,958
Movement in working capital					
(Increase)/decrease in receivables and prepayments		(35,962)	19,936	(47,398)	2,587
(Increase) in inventories		(53,630)	(42,460)	(51,202)	(46,852)
Increase/(decrease) in payables and accruals		42,831	(11,876)	71,449	30,252
(Increase)/decrease in tax receivable		(724)	2,628	(721)	1,875
(Increase) in other assets		(10,302)	(1,318)	(10,302)	(1,318)
		(57,787)	(33,090)	(38,174)	(13,456)
Net cash inflow from operating activities		**378,531**	**368,359**	**366,619**	**349,496**

The accompanying notes form an integral part of these financial statements.

Notes to the financial statements
for the year ended 30 June 2011

1 Statement of accounting policies

Reporting entity

Contact Energy Limited (the Parent) is a profit-oriented company domiciled in New Zealand, registered under the Companies Act 1993 and listed on the New Zealand Stock Exchange (NZSX). It also has bonds listed on the New Zealand Debt Exchange (NZDX). The Parent is an issuer in terms of the Financial Reporting Act 1993. The financial statements of Contact Energy Limited (the financial statements) as at, and for the year ended, 30 June 2011 comprise the Parent and its subsidiaries, interests in associates and jointly controlled entities (together referred to as Contact or the Group).

Contact is a diversified and integrated energy group focusing on the generation and retailing of electricity. Other activities include the sale of natural gas and liquefied petroleum gas (LPG) to retail and wholesale customers throughout New Zealand.

Basis of preparation

The functional and reporting currency used in the preparation of the financial statements is New Zealand dollars, rounded to the nearest thousand ($000).

The financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice (NZ GAAP). They comply with the New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS), and other applicable Financial Reporting Standards, as appropriate for profit-oriented entities. The financial statements comply with International Financial Reporting Standards (IFRS).

The financial statements were approved by the Board of Directors (the Board) on 19 August 2011.

The measurement basis adopted in the preparation of these financial statements is historical cost except for:

- derivative financial instruments, which are stated at their fair value as identified in the accounting policies below,
- recognised assets and liabilities that are hedged in a fair value hedging relationship, which are stated at fair value in respect of the risk that is hedged, and
- generation plant and equipment purchased prior to 1 October 2004, which is stated at deemed historical cost as identified in the accounting policies below.

Changes in accounting policies

The accounting policies set out below have been applied consistently to all years presented in these financial statements.

As a result of the introduction of the Emissions Trading Scheme, Contact has adopted a new accounting policy on emissions trading from 1 July 2010 as identified in the accounting policies below.

There have been no other changes in accounting policies in the year.

Adoption status of relevant new financial reporting standards and interpretations

The following relevant new standards and amendments to standards are mandatory for the financial year beginning 1 July 2010 and have been adopted by Contact in the preparation of these financial statements. The adoption of these amendments has had no material impact on the financial statements.

- *NZ IAS 7 Statement of Cash Flows (amendment)* – the amendment clarifies that only expenditure that results in a recognised asset can be classified as a cash flow from investing activities.
- *NZ IAS 32 Financial Instruments (amendment)* – the amendment clarifies that share rights, warrants or options may be classified as equity instruments subject to certain criteria being satisfied.
- *NZ IAS 36 Impairment of Assets (amendment)* – the amendment clarifies that the largest cash-generating unit (or group of units) to which goodwill should be allocated for the purposes of impairment testing is an operating segment as defined in *NZ IFRS 8*.

Contact has elected not to early adopt the following standards, considered relevant to these financial statements, which have been issued but are not yet effective:

- *NZ IAS 24 Related Party Disclosures (revised 2009)* – amendment approved November 2009 and effective for annual reporting periods beginning on or after 1 January 2011.
- *Improvements to NZ IFRS 2010* – these improvements include various amendments effective for periods beginning on or after 1 July 2011.
- *FRS 44 New Zealand Additional Disclosures* – approved April 2011 and effective for annual reporting periods beginning on or after 1 July 2011.

- *NZ IFRS 9 Financial Instruments* – approved November 2009 and effective for annual reporting periods beginning on or after 1 January 2013.
- *NZ IFRS 10 Consolidated Financial Statements* – approved June 2011 and effective for annual reporting periods beginning on or after 1 January 2013.
- *NZ IFRS 11 Joint Arrangements* – approved June 2011 and effective for annual reporting periods beginning on or after 1 January 2013.
- *NZ IFRS 12 Disclosure of Interests in Other Entities* – approved June 2011 and effective for annual reporting periods beginning on or after 1 January 2013.
- *NZ IFRS 13 Fair Value Measurement Statements* – approved June 2011 and effective for annual reporting periods beginning on or after 1 January 2013.

Contact does not currently intend to early adopt any of these standards or amendments before their effective dates.

With the exception of *NZ IFRS 9 Financial Instruments*, the Directors anticipate that the above standards and amendments will have no material impact on the financial statements in the period of initial application other than increased disclosure. It is likely that the changes arising from *NZ IFRS 9* will affect the classification and measurement of financial assets and liabilities as well as the rules around derecognition. A detailed review is underway to determine the effect on the financial statements.

Accounting estimates and judgements

Contact's significant areas of estimation and critical judgements in these financial statements are as follows:

Derivative financial instruments

Note 23 contains information about the assumptions and the risk factors relating to derivative financial instruments and their valuation. The base future settlement price path for electricity derivatives is derived from the Australian Securities Exchange New Zealand Electricity Futures and Options price path overlaid with Contact's financial model for future electricity prices.

Intangible assets – gas storage rights

Contact has exercised judgement in determining the useful life of the gas storage rights. The useful life is based on the current assumption of the period over which future economic benefits are expected to be derived. The useful life is reviewed annually. Refer to note 16.

Intangible assets – goodwill

The carrying value of goodwill is subject to an annual impairment test to ensure the carrying value does not exceed the recoverable amount at the end of the reporting period. For the purpose of impairment testing, goodwill is allocated to the individual cash-generating units to which it relates. Any impairment losses are recognised in the Income Statement.

In determining the recoverable amount of goodwill, Contact uses a valuation model to calculate the net present value of the expected future cash flows of the cash-generating units. The major inputs and assumptions that are used in the model that require management judgement include customer numbers and customer churn, price inflation, terminal growth rates, cost of product (e.g. gas costs, wholesale electricity price path, LPG purchase costs), operating costs, and the weighted average cost of capital. Refer to note 16.

Inventory gas

Inventory gas is held at the lower of cost and net realisable value. Contact has exercised judgement in determining the net realisable value of the gas, which is the recoverable amount of the gas based on its intended use.

Property, plant and equipment and finite life intangible assets

Contact has exercised judgement in determining whether expenditure is in relation to bringing an asset to the location and condition necessary for its intended use and is therefore appropriate for capitalisation as part of the cost of the asset.

In assessing the recoverable amount of capital work in progress, Contact has exercised judgement in determining the likely future use or development of the asset.

Contact has also exercised judgement in determining the useful lives of property, plant and equipment and finite life intangible assets. Useful lives are reviewed annually and, where appropriate, adjusted at the end of each reporting period.

Provision – restoration and environmental rehabilitation

Liabilities are estimated for the abandonment and site restoration of areas from which natural resources are extracted and for the removal of asbestos at generation properties. Such estimates are valued at the net present value of the expenditure expected to settle the obligation. Key assumptions have been made as to the expected amount and timing of expenditure to remediate based on the expected life of the assets employed on the sites and the period over which asbestos is expected to be removed. Refer to note 25.

Retail revenue

Contact has exercised judgement in determining estimated retail sales for unread gas and electricity meters at the end of the reporting period. Specifically, this involves an estimate of consumption for each unread meter based on the customer's past consumption history.

Basis of consolidation

Subsidiaries

Subsidiaries are those entities controlled, directly or indirectly, by the Parent. The purchase method of accounting is used to account for the acquisition of subsidiaries by the Parent. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of an acquisition over the fair value of the Parent's share of the identifiable net assets acquired is recorded as goodwill. If the cost of an acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the Income Statement. Subsidiaries are fully consolidated from the date on which control is transferred to the Group.

Associates

Associates are entities in which Contact has significant influence, but not control, over the operating and/or financial policies. Associates are reflected in the financial statements by applying the equity accounting method. The equity accounting method recognises Contact's share of the current year retained surpluses or deficits in the Group Income Statement and its share of post acquisition increases or decreases in net assets in the Group Statement of Financial Position.

Jointly controlled assets and jointly controlled entities

Jointly controlled assets and jointly controlled entities are joint arrangements with other parties in which Contact jointly controls or owns one or more assets or entities and is consequently entitled to a share of the future economic benefits through its share of the jointly controlled assets or entities. Contact's share of the assets, liabilities, outputs (revenues) and expenses of jointly controlled assets or entities is incorporated into the financial statements on a proportionate line-by-line basis.

Transactions and balances eliminated on consolidation

The effects of intra-group transactions and balances are eliminated in preparing the Group financial statements.

Borrowings

Borrowings are recognised initially at fair value less attributed transaction costs and are subsequently stated at amortised cost.

Borrowings designated in a hedge relationship are carried at fair value and are subject to measurement under hedge accounting requirements. Refer to the accounting policy for derivative financial instruments and hedging.

Discounts, premiums, prepaid interest and financing costs such as origination, commitment and transaction fees are amortised to interest expense on a yield-to-maturity basis over the period of the borrowing. Any difference between the cost and redemption value is recognised in the Income Statement over the period of the borrowing on an effective interest basis.

All borrowing costs are recognised in the Income Statement using the effective interest method with the exception of borrowing costs directly associated with the acquisition or construction of qualifying assets, which are capitalised. Refer to the accounting policies on property, plant and equipment and intangible assets.

Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held on call with banks and other short-term, highly liquid investments with original maturities of three months or less, net of outstanding bank overdrafts.

Bank overdrafts are shown within borrowings in current liabilities in the Statement of Financial Position.

Derivative financial instruments and hedging

Derivative financial instruments are initially recognised at fair value on the date a derivative contract is entered into and are periodically re-measured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative financial instrument is designated as a hedging instrument and, if so, the nature of the item being hedged. Contact designates certain derivative financial instruments as either:

- hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedge), or
- hedges of highly probable forecast transactions (cash flow hedge).

Fair value hedge

Changes in the fair value of derivative financial instruments that are designated and qualify as fair value hedges are recorded in the Income Statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

Cash flow hedge

The effective portion of changes in the fair value of derivative financial instruments that are designated and qualify as cash flow hedges is recognised in the Statement of Comprehensive Income. The gain or loss relating to the ineffective portion is recognised immediately in the Income Statement.

Amounts accumulated in other comprehensive income are recycled to the Income Statement in the year when the hedged item will affect the Income Statement. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset (for example, inventory) or a liability, the gains and losses previously deferred in other comprehensive income are transferred from other comprehensive income and included in the initial measurement of the cost of the asset or liability.

When a hedging instrument expires or is sold, terminated or exercised, or the entity revokes designation of the hedge relationship such that the derivative financial instrument no longer qualifies for hedge accounting, but the hedged forecast transaction is still expected to occur, the cumulative gain or loss at that point remains in other comprehensive income and is recognised in accordance with the above policy when the transaction occurs. If the hedged transaction is no longer expected to take place, the cumulative unrealised gain or loss recognised in other comprehensive income is recognised immediately in the Income Statement.

Derivative financial instruments that do not qualify for hedge accounting

Certain derivative financial instruments do not qualify for hedge accounting. Changes in the fair value of any derivative financial instruments that do not qualify for hedge accounting are recognised immediately in the Income Statement.

Emissions trading

Carbon emission units purchased for compliance purposes are recognised at initial cost (purchase price) less any accumulated impairment losses. For the purpose of impairment testing, carbon emission units are allocated to the individual cash-generating units to which they relate. Carbon emission units are surrendered on a first-in first-out basis according to the liquidity of the units. Although carbon emission units can be banked, they will generally be surrendered within one year and are therefore recognised as current intangible assets and not amortised.

Any purchased forward contracts of carbon emission units for compliance purposes are measured at cost on the dates Contact acquires the units. For all forward contracts, Contact determines whether the contracts meet the definition of a financial instrument during the period between when the forward contracts are entered into and when the units are received. Where forward contracts for carbon emission units are entered into and continue to be held in accordance with Contact's own usage expectation, Contact makes use of the 'own use' exemption. This allows forward contracts on those units not to be accounted for as financial instruments.

Where the 'own use' exemption does not apply, forward contracts for the purchase of carbon emission units are measured at fair value from the date of inception until the receipt of the units. Gains and losses arising from changes in the fair value are recognised in the Income Statement.

Contact recognises a liability in respect of its obligation to deliver carbon emission units as the obligation arises. The liability is measured at the cost of the purchased units less accumulated impairment losses on a first-in first-out basis to the level of units or forward contracts held, with the balance recognised at fair value at the end of the reporting period. Any change in the liability is recognised within operating expenses in the Income Statement.

Employee benefits

Annual, long service and retirement leave benefits estimated to be payable to employees are accounted for on the basis of statutory and contractual requirements.

Long-term service benefits

Contact's net obligation in respect of long-term service benefits, other than pension plans, is the amount of future benefits that employees have earned in return for their service in the current and prior years. The obligation is calculated using an actuarial technique.

Share-based payments

Share-based payments are provided to participating employees via a Share Option Scheme and a Restricted Share Plan.

The fair value of the employee services received in exchange for the grant of the options, performance share rights and restricted shares is recognised as an expense, with a corresponding increase in equity over the vesting period.

The fair value is measured at grant date by reference to the fair value of the equity instruments granted, taking into account market performance conditions only. Non-market vesting conditions are included in the assumptions determining the number of options, performance share rights and restricted shares that are expected to become exercisable or vest.

At the end of each reporting period, Contact revises the amount to be recognised as an expense to reflect the number of options, performance share rights and restricted shares that are expected to become exercisable or vest.

Exploration and evaluation expenditure

Exploration and evaluation expenditure in relation to geothermal sites is accounted for in accordance with the area of interest method. The application of this method is based on the partial capitalisation model closely aligned to the successful efforts approach.

All exploration and evaluation costs, including directly attributable overheads, general permit activity, geological and geophysical costs are expensed as incurred except the cost of drilling exploration wells and the cost of acquiring new interests. The cost of drilling exploration wells is initially capitalised as development capital work in progress pending the determination of the success of the area.

Exploration and evaluation expenditure is partially or fully capitalised where either:

- the expenditure is expected to be recouped through the successful development and exploration of the area of interest (or alternatively, by its sale), or
- the exploration and evaluation activities in the area of interest have not, at the end of each reporting period, reached a stage that permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, and active and significant operations in, or in relation to, the area of interest are continuing.

Exploration and evaluation expenditure is impaired in the Income Statement under the successful efforts method of accounting in the period that exploration work demonstrates that an area of interest is no longer prospective for economically recoverable reserves or when the decision to abandon an area of interest is made.

Foreign currencies

Foreign currency transactions are recorded at the exchange rates in effect at the dates of the transactions. Monetary assets and monetary liabilities denominated in foreign currencies are translated at the rates of exchange ruling at the end of each reporting period. Non-monetary assets and non-monetary liabilities denominated in foreign currencies that are measured at fair value are translated to the functional currency at the exchange rate at the date that the fair value was determined.

Hedged assets and liabilities accounted for as cash flow hedges are translated at the hedged rate, with the underlying hedge contract being separately recorded in the Statement of Financial Position at fair value.

Group entities

The results and financial positions of all Group entities (none of which have a currency of a hyperinflationary economy) that have functional currencies different from the reporting currency are translated into the reporting currency as follows:

- income and expenses are translated at average exchange rates,
- assets and liabilities are translated at the closing exchange rate at the end of each reporting period,
- all resulting exchange differences are recognised in other comprehensive income.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities are taken to the foreign currency translation reserve in other comprehensive income. When a foreign operation is sold, such exchange differences are recognised in the Income Statement as part of the gain or loss on sale.

Gas entitlements

Where Contact has take-or-pay gas purchase contracts, such pay obligations are expensed to the Income Statement in the month the payment obligation crystallises, or as Contact uplifts the gas, depending on the contracted terms.

Gas storage – cushion gas

Cushion gas is necessary to develop and maintain the operation of a gas storage facility and represents a long-term investment in natural gas reserves. Cushion gas is recognised at cost and not depreciated on the basis that it is economically recoverable at the end of the life of the gas storage facility. The carrying amount is reviewed at the end of each reporting period to determine whether there is any objective evidence of impairment. Refer to the impairment accounting policy. Gas reserves in excess of that required for cushion gas are treated as inventory. Refer to the inventory accounting policy.

Generation and other research and development expenditure

Expenditure on research activities undertaken with the prospect of gaining new scientific or technical knowledge and understanding is recognised in the Income Statement as an expense as incurred.

Expenditure on generation and other development activities is capitalised if the process is technically and commercially feasible, future economic benefits are probable and Contact intends to and has sufficient resources to complete development and to use or sell the asset. The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of directly attributable overheads and capitalised interest. Revenue earned in the period until the asset is operating in the manner intended by management is deducted from the cost of the asset.

Capitalised work in progress is reviewed at the end of each reporting period to determine whether further work is planned to support the continued carrying value of the capitalised costs.

Assets are transferred from capital work in progress when they are operating in the manner intended by management and depreciated over the period of their expected economic benefit.

Goods and services tax (GST)

The Income Statement and Statement of Cash Flows have been prepared so that all components are stated exclusive of GST. All items in the Statement of Financial Position are stated exclusive of GST, with the exception of receivables and payables, which include GST.

Impairment

The carrying amounts of Contact's assets, other than inventories and deferred tax assets, are reviewed at the end of each reporting period to determine whether there is any indication of impairment. If any such indication exists, the asset's net recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the Income Statement.

The recoverable amount of receivables is calculated as the present value of expected future cash flows.

For retail receivables that are not significant on an individual basis, collective impairment is assessed on a portfolio basis, based on historical delinquency rates and historical losses.

The recoverable amount of other assets is the greater of their net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their net present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

Intangible assets

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of Contact's share of the net identifiable assets of the acquired subsidiary/associate at the date of acquisition. Goodwill on the acquisition of subsidiaries is included in intangible assets. Goodwill on the acquisition of associates is included in the investment in associates. Goodwill is tested annually for impairment and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

For the purpose of impairment testing, goodwill is allocated to the individual cash-generating unit to which it relates. Each cash-generating unit represents Contact's lowest level of assets that generate cash inflows largely independent from each other.

Other intangible assets

Other intangible assets with finite lives are stated at cost less accumulated amortisation and accumulated impairment losses. Amortisation is charged to the Income Statement on a straight-line basis over the estimated useful lives of intangible assets from the date they are available for use.

The amortisation rates are as follows:

Type of asset	Amortisation rate
Computer software	10–33%
Gas storage rights	3%
Patents	10%

Asset residual values and useful lives are reviewed annually and adjusted if appropriate.

Borrowing costs incurred on the construction or acquisition of a qualifying intangible asset are capitalised during the period of time that is required to complete and prepare the intangible asset for its intended use. The amount of borrowing costs capitalised is determined using either the actual borrowing costs incurred, where qualifying assets have been specifically project funded, less any investment income from the temporary investment of those borrowings, or a capitalisation rate representing Contact's weighted average borrowing cost applicable to the general borrowings (excluding any specific borrowings) that were outstanding during the period. Costs cease to be capitalised as soon as the intangible asset is operating in the manner intended by management or production is temporarily suspended, and do not include any inefficiency costs.

Inventories

Consumables, spare parts and LPG

Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. The cost of materials, consumable supplies and maintenance spares is determined on a weighted average basis.

Inventory gas

Gas reserves in excess of the levels required for cushion gas are treated as inventory. Inventory gas is stated at the lower of cost or net realisable value. The cost of inventory gas is determined on a weighted average basis and includes expenditure incurred in bringing the fuel stocks to their present location and condition. Net realisable value is the estimated recoverable amount of the gas based on its intended use.

Inventory gas is classified as a current asset as it is expected to be realised in Contact's normal operating cycle, which could extend beyond one year.

Investments – financial instruments

Contact classifies its investments in the following categories:

- financial assets at fair value through profit or loss,
- held-to-maturity financial assets, or
- available-for-sale financial assets.

The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at the end of each reporting period.

Purchases and sales of financial assets are recognised on the trade date.

When financial assets are initially recognised, they are measured at fair value plus, in the case of financial assets not at fair value through profit or loss, directly attributable transaction costs.

Financial assets at fair value through profit or loss

A financial asset is classified as a financial asset at fair value through profit or loss if it is acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorised as fair value through profit or loss unless they are designated as hedges. Assets in this category are classified as current assets if the cash flows associated with the assets are expected to be realised within 12 months of the end of the reporting period.

Subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value, with changes in fair value recognised immediately in the Income Statement.

Held-to-maturity financial assets

Held-to-maturity financial assets are stated at amortised cost less impairment losses.

Available-for-sale financial assets

Investments in unlisted shares are classified as being available-for-sale and are stated at fair value, with any resultant gain or loss being recognised directly in other comprehensive income, except for impairment losses and foreign exchange gains and losses, which are recognised in the Income Statement. If the fair value of an unlisted equity instrument cannot be reliably determined, the investment is held at cost. When these investments are derecognised, the cumulative gain or loss previously recognised directly in other comprehensive income is recognised in the Income Statement.

Operating leases

Contact leases certain plant, equipment, land and buildings. Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases.

Operating lease receipts and payments are representative of the pattern of benefits derived from the leased assets and, accordingly, are recognised in the Income Statement on a straight-line basis.

Other revenue

Dividend income

Dividend income is recognised in the Income Statement on the date that the dividend is declared.

Interest income

Interest income is recognised in the Income Statement as it accrues using the effective interest rate method.

Payables

Payables are stated at cost.

Property, plant and equipment

Contact's generation plant and equipment purchased prior to 1 October 2004 is stated at deemed historical cost less accumulated depreciation and accumulated impairment losses. All other property, plant and equipment is carried at historical cost less accumulated depreciation and accumulated impairment losses.

The cost of purchased property, plant and equipment, including strategic spares, is the value of the consideration given to acquire the assets and the value of other directly attributable costs that have been incurred in bringing the assets to the location and condition necessary for their intended use.

The cost of assets constructed by Contact, including capital work in progress, includes the cost of all materials used in construction, direct labour costs specifically associated with construction, resource management consent costs and an appropriate proportion of directly attributable variable and fixed overheads. It also includes a reduction to cost in respect of any revenue earned by the asset in the period until it is operating in the manner intended by management. Borrowing costs incurred on the construction of a qualifying asset project are capitalised during the period of time that is required to complete and prepare the asset for its intended use. The amount of borrowing costs capitalised is determined using either the actual borrowing costs incurred, where qualifying assets have been specifically project funded, less any investment income from the temporary investment of those borrowings, or a capitalisation rate representing Contact's weighted average borrowing cost applicable to the general borrowings (excluding any specific borrowings) that were outstanding during the period. Costs cease to be capitalised when the asset is operating as intended by management or the development is suspended, and do not include any inefficiency costs.

Where an item of property, plant and equipment comprises major components having different useful lives, the components are accounted for as separate items of property, plant and equipment.

Subsequent expenditure is capitalised where it is incurred to replace a component of an item of property, plant and equipment that is accounted for separately, including major inspection and overhaul expenditure. Other subsequent expenditure is capitalised only when it is probable that the future economic benefits embodied in the item of property, plant and equipment will flow to the entity and can be reliably measured. All other expenditure is recognised in the Income Statement as an expense as incurred.

Leased assets

Leases in which Contact assumes substantially all the risks and rewards of ownership are classified as finance leases. Any asset acquired by way of a finance lease is stated at an amount equal to the lower of its fair value or the net present value of the future minimum lease payments at the inception of the lease.

Depreciation

With the exception of certain generation plant and equipment assets, depreciation is charged to the Income Statement on a straight-line basis so as to allocate the cost of the assets, less any estimated residual value, over their expected remaining useful lives. Generation plant and equipment assets where the asset's future economic benefits are expected to be consumed on a usage basis, are depreciated on an equivalent hours of use basis. The range of annual depreciation rates for each class of asset is as follows:

Type of asset	Depreciation rate
Land	Not depreciated
Generation plant and equipment (including buildings)	1–33%
Other buildings	1–18%
Other plant and equipment	1–33%
Generation plant and equipment assets on an equivalent hours of use basis	25,000–100,000 equivalent hours of use

Asset residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Receivables

Receivables are recognised initially at fair value and are subsequently measured at amortised cost using the effective interest method, less any impairment loss. An impairment loss is recognised when there is objective evidence that Contact will not be able to collect amounts due according to the original terms of the receivable. The amount of the impairment loss is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the impairment loss is recognised in the Income Statement.

Restoration and environmental rehabilitation

Liabilities are estimated for the abandonment and site restoration of areas from which natural resources are extracted and for the removal of asbestos at generation sites. Such estimates are valued at the present value of the expenditure expected to be required to settle the obligation.

Estimations are also made for the expected cost of environmental rehabilitation of commercial sites. A liability is immediately recognised when exposure is identified and rehabilitation costs can be reasonably estimated.

Revenue

Revenue comprises the amounts received and receivable at the end of the reporting period for electricity, gas, LPG, steam and related services supplied to customers in the ordinary course of business, including estimated amounts for unread meters. Sales revenue is recognised in accordance with contractual arrangements, where applicable, and only once the significant risks and rewards of ownership of the goods have passed from Contact to the customer or when services have been rendered to the customer and collection is reasonably assured.

Share capital

Ordinary shares are classified as share capital. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction from the proceeds.

Where the Parent purchases its own equity share capital (treasury stock), the consideration paid, including any directly attributable incremental costs, is deducted from equity until the shares are cancelled or re-issued. Where such shares are subsequently re-issued, any consideration received, net of any directly attributable incremental transaction costs, is included in equity.

Statement of Cash Flows

The following are the definitions used in the Statement of Cash Flows:

- operating activities include all transactions and other events that are not investing or financing activities,
- investing activities are those activities relating to the acquisition, holding and disposal of property, plant and equipment, intangible assets and investments,
- financing activities are those activities that result in changes in the size and composition of the capital structure of Contact. Dividends and interest paid in relation to the capital structure are included in financing activities.

Cash flows arising from the following operating, investing or financing activities may be reported on a net basis:

- cash receipts and payments on behalf of customers where the cash flows reflect the activities of the customers rather than those of Contact, or
- cash receipts and payments for financing activities where the maturities are short.

Tax

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the Income Statement except to the extent that it relates to items recognised directly in other comprehensive income, in which case the income tax is recognised in other comprehensive income.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the end of the reporting period, together with any adjustment to tax payable in respect of previous years.

Deferred tax is calculated using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the end of the reporting period.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefits will be realised.

2 Segment reporting

Identification of reportable segments

Contact has identified its operating segments based on the internal reports that are reviewed and used by the Chief Executive Officer in assessing performance and in determining the allocation of resources. The Chief Executive Officer is Contact's 'chief operating decision-maker' within the meaning of *NZ IFRS 8*.

Contact has identified two operating segments: Electricity and Other.

Products and services from which reportable segments derive their revenues

Electricity

The 'Electricity' business is a generator and retailer of electricity throughout New Zealand. Electricity is generated by means of hydro, geothermal and thermal sources/power stations. Electricity generated is required to be sold to the national grid and then purchased from the relevant node to be retailed to commercial and residential customers.

Other

The 'Other' business is a combination of other services offered by Contact. These include the sale of gas to retail and wholesale customers and the sale of LPG to commercial and residential customers in New Zealand. Individual services within the 'Other' segment do not exceed 10 per cent of revenue, profit or total assets and are therefore not separately disclosed.

Accounting policies and inter-segment transactions

The accounting policies used by Contact in reporting segments internally are the same as those contained in note 1 to the financial statements except as detailed below:

Inter-segment revenue

The inter-segment revenue is a charge for electricity meters between the 'Electricity' and 'Other' segments. The inter-segment charge aims to have the 'Electricity' segment pay the 'Other' segment an equivalent cost for Contact-owned meters as it would for third party owned meters.

The following items are not allocated to operating segments as they are not reported to the chief operating decision-maker at a segmental level:

- change in fair value of financial instruments,
- other significant items,
- equity accounted earnings of associates,
- net interest expense,
- income tax expense,
- assets,
- liabilities,
- capital expenditure.

Presentational changes

Presentational changes have been made to the allocation of certain costs between segments. These changes, which have been applied retrospectively, relate to the allocation of:

- HVAC rental rebates between 'hedged generation' and 'retail electricity',
- purchases between 'hedged generation' and 'retail electricity',
- gas costs between 'hedged generation' and 'Other' segment,
- operating expenses between 'hedged generation', 'retail electricity' and 'Other' segment.

Geographical segment information

Contact operates predominantly in one geographical location, being New Zealand. Contact's operations in Australia are immaterial. Therefore, disclosure of geographical revenue and assets has not been made.

Major customers

Contact has a large number of customers, but no single external customer accounts for more than 10 per cent of revenue.

Contact Energy Limited and Subsidiaries
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Segment note

Group 2011	Electricity $000	Other $000	Inter-segment $000	Total $000
Total segment revenue and other income	1,969,012	291,088	(29,246)	2,230,854
Total segment direct costs	(1,351,578)	(215,469)	29,246	(1,537,801)
Segment operating margin	**617,434**	**75,619**	–	**693,053**
Segment other operating expenses	(212,355)	(39,283)	–	(251,638)
Segment EBITDAF*	**405,079**	**36,336**	–	**441,415**
Depreciation and amortisation	(156,545)	(9,777)	–	(166,322)
Segment result	**248,534**	**26,559**	–	**275,093**
Change in fair value of financial instruments				(5,940)
Equity accounted earnings of associates				3,862
Net interest expense				(62,338)
Income tax expense				(60,383)
Profit for the year				**150,294**

Group 2010	Electricity $000	Other $000	Inter-segment $000	Total $000
Total segment revenue and other income	1,859,223	334,167	(28,982)	2,164,408
Total segment direct costs	(1,284,331)	(253,310)	28,982	(1,508,659)
Segment operating margin	**574,892**	**80,857**	–	**655,749**
Segment other operating expenses	(193,279)	(35,488)	–	(228,767)
Segment EBITDAF*	**381,613**	**45,369**	–	**426,982**
Depreciation and amortisation	(153,274)	(8,629)	–	(161,903)
Segment result	**228,339**	**36,740**	–	**265,079**
Change in fair value of financial instruments				4,531
Other significant items				(8,894)
Equity accounted earnings of associates				3,272
Net interest expense				(55,980)
Income tax expense				(53,340)
Profit for the year				**154,668**

* In addition to the above information, the chief operating decision-maker also considers the following components of EBITDAF within the 'Electricity' segment:

Group	30 June 2011 $000	30 June 2010 $000
Hedged generation	346,884	294,610
Exposed generation	29,919	36,673
Retail electricity	28,276	50,330
Electricity segment EBITDAF	**405,079**	**381,613**

3 Revenue

	Group 30 June 2011 $000	Group 30 June 2010 $000	Parent 30 June 2011 $000	Parent 30 June 2010 $000
Wholesale electricity revenue	505,701	539,359	505,701	539,359
Retail electricity revenue	1,443,602	1,301,924	1,309,477	1,138,189
Gas revenue	123,241	153,490	123,241	153,490
LPG revenue	117,037	130,304	–	–
Steam revenue	19,709	17,940	19,709	17,940
Total revenue	**2,209,290**	**2,143,017**	**1,958,128**	**1,848,978**

4 Operating expenses

	Group 30 June 2011 $000	Group 30 June 2010 $000	Parent 30 June 2011 $000	Parent 30 June 2010 $000
Electricity purchases	476,723	480,360	439,002	429,311
Electricity transmission, distribution and levies	542,315	511,413	488,578	451,405
Gas purchases and transmission	381,059	396,719	381,685	397,944
LPG purchases	85,416	99,175	–	–
Meter costs	22,032	20,992	18,519	16,922
Emission costs	30,257	–	28,276	–
Labour costs	98,456	83,490	95,426	80,532
Christchurch earthquake costs*	4,000	–	4,000	–
Other operating expenses	149,181	145,277	141,892	136,579
Total operating expenses	**1,789,439**	**1,737,426**	**1,597,378**	**1,512,693**

* Christchurch earthquake costs include donations made to the Red Cross Earthquake Relief Fund, free LPG refills offered to customers, hardship support through bill waivers and grants for electricity and gas customers.

Other operating expenses include:	**Note**	Group 30 June 2011 $000	Group 30 June 2010 $000	Parent 30 June 2011 $000	Parent 30 June 2010 $000
Auditor's remuneration					
– Audit services: KPMG *		598	612	598	612
Total auditor's remuneration		598	612	598	612
Donations		26	75	26	75
Write-off of receivables		12,095	15,046	10,663	11,988
Increase/(decrease) in provision for impairment of receivables		6	(891)	–	(800)
Rental expense on operating leases		6,849	6,583	5,213	5,005
Write-off of Energyhedge Limited	20	8	–	8	–

* In the year ended 30 June 2011, KPMG charged $46,914 for other assurance services in relation to the prospectus for the Entitlement Offer. These amounts have been included in the transaction costs of the Entitlement Offer, which have been recognised in equity. In addition KPMG charged $36,174 for IT security assurance services in relation to Contact's Enterprise Transformation project, which was capitalised to the cost of the asset.

Labour costs include:	Group 30 June 2011 $000	Group 30 June 2010 $000	Parent 30 June 2011 $000	Parent 30 June 2010 $000
Contributions to KiwiSaver	1,982	1,624	1,861	1,568

Contact Energy Limited and Subsidiaries
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5 Other significant items

	Note	Group 30 June 2011 $000	Group 30 June 2010 $000	Parent 30 June 2011 $000	Parent 30 June 2010 $000
Retail transaction processing outsourcing costs	25	–	3,330	–	3,330
Removal of New Plymouth asbestos and related costs		–	5,564	–	5,564
Write-back of subsidiary advance*		–	–	–	(48,100)
Write-off of advance to subsidiary		–	–	–	26
Total other significant items		–	**8,894**	–	**(39,180)**

* As a result of the amalgamation of Stratford Power Limited into Empower Limited on 7 September 2009, $48.1 million relating to a subsidiary advance was written-back to the Parent in the year ended 30 June 2010.

6 Net interest expense

	Note	Group 30 June 2011 $000	Group 30 June 2010 $000	Parent 30 June 2011 $000	Parent 30 June 2010 $000
Interest expense		101,350	105,509	101,350	105,509
Interest expense: unwind on restoration provision	25	3,903	3,057	3,826	2,843
Interest expense capitalised		(41,838)	(48,208)	(41,838)	(48,208)
Interest income		(1,077)	(4,378)	(992)	(4,299)
Net interest expense		**62,338**	**55,980**	**62,346**	**55,845**

The weighted average capitalisation rate on funds borrowed is 7.54 per cent per annum (2010: 7.4 per cent).

7 Income tax

Income tax expense

	Group 30 June 2011 $000	Group 30 June 2010 $000	Parent 30 June 2011 $000	Parent 30 June 2010 $000
Profit before income tax	210,677	208,008	172,677	210,942
Tax thereon at 30%	63,203	62,402	51,803	63,283
Plus/(less) tax effect of adjustments:				
Impact of change in corporate income tax rate*	(3,503)	(42,650)	(3,516)	(42,335)
Removal of tax depreciation on buildings*	–	34,765	–	34,412
Temporary differences no longer expected to reverse	(13)	7	–	–
Other differences	1,669	151	1,769	(297)
Research and development tax credit 2009	–	(669)	–	(669)
Income tax (over) provided in prior year	(973)	(666)	(640)	(171)
Non-assessable write-back of subsidiary advance	–	–	–	(14,430)
Income tax expense	**60,383**	**53,340**	**49,416**	**39,793**
Comprising:				
Current tax	23,449	43,090	14,669	31,538
Deferred tax	36,934	10,250	34,747	8,255
	60,383	**53,340**	**49,416**	**39,793**

* The 2010 Budget contained two provisions which have had a material effect on the Group and Parent's tax expense:

- a decrease in the corporate income tax rate from 30 per cent to 28 per cent, effective from Contact's income tax year ending 30 June 2012. As a result of this change, deferred tax has been restated to 28 per cent, as deferred tax is required to be recorded at the tax rate that will apply when the future tax liability/asset is expected to crystallise,
- the removal of tax depreciation on buildings with estimated useful lives of 50 years or more. Contact is no longer able to claim tax depreciation on buildings from its income tax year ending 30 June 2012. This resulted in an increased deferred tax liability in the year ended 30 June 2010 in respect of buildings completed before May 2010.

Imputation credits

Group	30 June 2011 $000	30 June 2010 $000
Opening balance	205,256	186,219
Imputation credits attached to dividends paid	(13,830)	(20,823)
Imputation credits attached to dividends received	165	694
New Zealand income tax paid	22,990	39,166
Closing balance	**214,581**	**205,256**

The imputation credits are available to shareholders through the consolidated imputation group. Under current legislation, imputation credits can be attached to future dividends at a ratio of 30/70.

8 Distributions

Group and Parent	Distribution payment date	Cents per share	30 June 2011 $000	30 June 2010 $000
Distributions				
2009 year final distribution	22 September 2009	17.0	–	99,503
2010 year interim distribution	30 March 2010	11.0	–	65,934
2010 year final distribution	27 September 2010	14.0	84,915	–
2011 year interim distribution	31 March 2011	11.0	68,133	–
Supplementary dividend			1,184	1,293
Foreign investor tax credit			(1,184)	(1,293)
Total distributions			**153,048**	**165,437**

All distributions were made pursuant to the Parent's Profit Distribution Plan (PDP).

Under the PDP, all shareholders receive distributions in the form of non-taxable bonus shares with the option to have the shares, or a portion of them, bought back by the Parent for cash. Shareholders who elect to have their bonus shares bought back by the Parent at an equivalent cost under the off-market buy-back facility are treated as having received a fully imputed cash dividend.

On 19 August 2011, the Board declared a distribution in the form of a non-taxable bonus issue under the PDP equivalent to 12.0 cents per share, for shares on issue at 5 September 2011, the record date, with bonus shares allocated and/or cash distributed, if elected, on 27 September 2011. Refer to note 33.

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9 Earnings and net tangible assets per share

Group	30 June 2011	30 June 2010**
Underlying earnings per share (cents)*	24.00	24.78
Basic and diluted earnings per share (cents)	23.89	25.58
Weighted average number of shares on issue over the year	629,068,222	604,650,134
Net tangible assets per share (dollars)	4.16	4.06
Number of shares on issue at the end of the year	695,068,288	604,934,976

* Non-statutory measure.

** The June 2010 comparatives have been restated to reflect the one-for-nine renounceable Entitlement Offer in June 2011. Refer to note 10.

The calculation of underlying earnings per share is based on underlying earnings after tax after adjusting for significant one-off items and the non-cash change in fair value of financial instruments attributable to holders of unrestricted ordinary shares. It is calculated using the weighted average number of shares on issue over the year.

The weighted average number of shares on issue over the year is reflective of the issue and repurchase of ordinary share capital (excluding treasury stock) pursuant to the Parent's PDP and the Entitlement Offer.

For the purpose of calculating the weighted average number of shares on issue, the restricted shares previously issued under Contact's Employee Long-Term Incentive Scheme are excluded until the shares become unrestricted.

The dilutive effect of share options, performance share rights and restricted shares has not been taken into account in the calculation of diluted earnings per share at 30 June 2011 and 30 June 2010, as the relevant performance hurdles have not yet been met.

The calculation of basic and diluted earnings per share is based on profit after tax.

The calculation of net tangible assets per share at 30 June 2011 and 30 June 2010 is based on the total net assets less intangible assets, divided by the number of shares on issue at the end of each year. The calculation of net tangible assets per share at 30 June 2010 has been adjusted to reflect the one-for-nine renounceable Entitlement Offer in June 2011.

10 Share capital

	Ordinary shares – unrestricted	
Group and Parent	**Number**	**$000**
Opening balance as at 1 July 2009	585,314,624	828,613
Share capital issued	26,907,379	165,437
Share capital repurchased and cancelled during the year	(7,288,507)	(44,904)
Restricted shares vested during the year	1,480	10
Transaction costs	–	(159)
Closing balance as at 30 June 2010	**604,934,976**	**948,997**
Opening balance as at 1 July 2010	604,934,976	948,997
Share capital issued	26,537,944	153,048
Share capital repurchased and cancelled during the year	(5,942,974)	(34,351)
Entitlement Offer	69,538,342	351,169
Transaction costs	–	(6,003)
Closing balance as at 30 June 2011	**695,068,288**	**1,412,860**

The holders of unrestricted ordinary shares are entitled to receive dividends or distributions as declared from time to time and are entitled to one vote per share at meetings of the Parent. Ordinary shares have no par value and are fully paid.

The Parent issued 14,871,511 and 11,666,433 ordinary shares pursuant to the Parent's PDP on 27 September 2010 and 31 March 2011 respectively. The PDP allows shareholders to elect to have the Parent buy back the shares issued to them at the issue price. As a result of shareholder elections, the Parent completed an off-market buy-back of 2,736,590 shares on 27 September 2010 and 3,206,384 shares on 31 March 2011. These shares were immediately cancelled upon buy-back.

On 9 June 2011, the Parent issued 65,741,274 shares in relation to a one-for-nine renounceable Entitlement Offer made to all New Zealand and Australian resident shareholders at an issue price of $5.05 per share. On 13 June 2011, the Parent issued a further 3,797,068 shares in relation to a shortfall bookbuild for Rights not taken up during the initial offer.

Contact has previously issued restricted ordinary shares (restricted shares) pursuant to the Employee Long-Term Incentive Scheme. The restricted shares are held in trust, and are recognised as part of the share-based payment reserve until performance hurdles are met. The restricted shares then become unrestricted and are transferred to ordinary share capital.

While restricted shares confer the same rights on the holder as unrestricted ordinary shares, restricted shares are subject to the terms of the Restricted Share Plan that restrict the right to vote and to receive dividends or distributions. Refer to note 11.

11 Share-based payments

Contact has an Employee Long-Term Incentive Scheme for participating employees whereby the value of the long-term incentive award is allocated as a mix of share options and performance share rights (options with an exercise price of zero), both under a Share Option Scheme, and restricted shares under a Restricted Share Plan. Under the Share Option Scheme and Restricted Share Plan, the share options and performance share rights will only be exercisable, and the restricted shares will only become unrestricted, to the extent that the relevant performance hurdles are met. For the restricted shares, share options and performance share rights issued under the Share Option Scheme and Restricted Share Plan, the hurdle is a comparison of Contact's total shareholder return (TSR) relative to the TSR of a reference group comprising the NZX50 index over the relevant period, commencing on the effective grant date.

As a result of a review of the Employee Long-Term Incentive Scheme in 2010, no further restricted shares have been issued since the 1 October 2009 grant date. Performance share rights replaced restricted shares from October 2010. The Restricted Share Plan is now grand-parented but restricted shares issued prior to October 2010 are still held by participants and remain subject to the exercise hurdles and vesting criteria.

The share options, performance share rights and restricted shares are unlisted and are personal to the employee and therefore cannot be traded.

The total expense recognised for share-based payments under the Share Option Scheme and Restricted Share Plan during the year ended 30 June 2011 was $2.9 million (2010: $1.6 million).

Share Option Scheme

Under the Share Option Scheme, the Board issues share options to participating employees to acquire ordinary shares in the Parent at the market price determined at the effective grant date. For share options granted in the years ended 30 June 2011 and 30 June 2010, the market price was the weighted average market price of the Parent's ordinary shares traded on the NZSX over the five business days prior to the effective grant date. Under the Share Option Scheme, the Board also issues performance share rights to participating employees to acquire ordinary shares in the Parent at zero cost.

The share options and performance share rights do not entitle the participating employees to receive dividends or distributions from, nor vote in respect of, the shares subject to the share options and performance share rights.

There is a vesting period of approximately three years from the effective grant date before share options and performance share rights may be exercised. Following the end of that period, the performance hurdles are measured on three annual test dates. There is a two-year, two-month exercise period following the first test date during which share options and performance share rights may be exercised, again to the extent that the performance hurdles are met.

The share options and performance share rights may also be exercised if, between the effective grant date and the exercise date, a change of control of the Parent occurs. In addition, the Board may, at its discretion, permit share options and performance share rights to be exercised prior to the commencement of the relevant exercise period where the shares cease to be listed on the NZSX or other circumstances occur where such an early exercise is considered appropriate by the Board.

The share options and performance share rights will lapse:

- if the performance hurdles are not met by the last measurement date, or
- if the share options or performance share rights are not exercised by the lapse date, or
- on the date on which the participant ceases to be employed by the Parent or, in certain cirumstances, the ultimate parent company (Origin Energy Limited) (except in the case of redundancy), or
- on the death of the participant (provided, however, that the Board may, in its discretion, allow the participant's successor to exercise the share options and performance share rights).

In the event of redundancy, the Share Option Scheme will continue, except that the number of share options and performance share rights will be recalculated on a proportionate basis.

The number of share options granted and lapsed during the reporting period and on issue at the end of the reporting period is summarised below:

Group and Parent 2011

Effective grant date	First exercise date	Expiry date	Exercise price per option	Balance at 1 July 2010	Granted	Lapsed	Balance at 30 June 2011	Exercisable at 30 June 2011
1 Jul 2006	1 Oct 2009	30 Nov 2011	$7.35	284,077	–	–	284,077	–
15 Jan 2007	1 Oct 2009	30 Nov 2011	$8.28	13,413	–	(13,413)	–	–
1 Oct 2007	1 Oct 2010	30 Nov 2012	$9.15	314,031	–	(51,484)	262,547	–
1 Feb 2008	1 Oct 2010	30 Nov 2012	$7.63	15,008	–	–	15,008	–
1 Oct 2008	1 Oct 2011	30 Nov 2013	$8.60	670,919	–	(115,181)	555,738	–
1 Oct 2009	1 Oct 2012	30 Nov 2014	$5.75	1,656,203	–	(183,924)	1,472,279	–
1 Oct 2010	1 Oct 2013	30 Nov 2015	$5.71	–	3,982,607	(56,757)	3,925,850	–
				2,953,651	**3,982,607**	**(420,759)**	**6,515,499**	–

Group and Parent 2010

Effective grant date	First exercise date	Expiry date	Exercise price per option	Balance at 1 July 2009	Granted	Lapsed	Balance at 30 June 2010	Exercisable at 30 June 2010
1 Jul 2006	1 Oct 2009	30 Nov 2011	$7.35	316,898	–	(32,821)	284,077	–
15 Jan 2007	1 Oct 2009	30 Nov 2011	$8.28	13,413	–	–	13,413	7,927
1 Oct 2007	1 Oct 2010	30 Nov 2012	$9.15	364,486	–	(50,455)	314,031	–
1 Feb 2008	1 Oct 2010	30 Nov 2012	$7.63	15,008	–	–	15,008	–
1 Oct 2008	1 Oct 2011	30 Nov 2013	$8.60	804,833	–	(133,914)	670,919	–
1 Oct 2009	1 Oct 2012	30 Nov 2014	$5.75	–	1,701,718	(45,515)	1,656,203	–
				1,514,638	**1,701,718**	**(262,705)**	**2,953,651**	**7,927**

A further 59,485 share options have lapsed since 30 June 2011.

The number of performance share rights granted and lapsed during the reporting period and on issue at the end of the reporting period is summarised below:

Group and Parent 2011

Effective grant date	First exercise date	Expiry date	Exercise price per option	Balance at 1 July 2010	Granted	Lapsed	Balance at 30 June 2011	Exercisable at 30 June 2011
1 Oct 2010	1 Oct 2013	30 Nov 2015	$0.00	–	885,056	(12,613)	872,443	–
				–	**885,056**	**(12,613)**	**872,443**	–

A further 12,433 performance share rights have lapsed since 30 June 2011.

Restricted Share Plan

Under the now grand-parented Restricted Share Plan, the Board issues restricted shares to the participants at the market price determined at the effective grant date. Although the participant has beneficial title to the restricted shares, under the terms of the Restricted Share Plan:

- the restricted shares are issued to an independent trustee to be held on trust for the participant, and
- the trustee will not exercise any voting rights attaching to the restricted shares and has forgone the right to distributions.

Legal title to the restricted shares cannot be transferred to the participant, and therefore traded by the participant, unless, and until, the restricted shares become unrestricted. A participant may not transfer, assign, or otherwise dispose of, or create any interest (including any security, or legal or equitable interest) in, a restricted share until it becomes unrestricted.

No restricted shares were issued during the year ended 30 June 2011. For restricted shares issued in the year ended 30 June 2010, the market price or allocation price of the restricted shares was the weighted average market price of the Parent's ordinary shares traded on the NZSX over the five business days prior to the effective grant date. Payment of the allocation price for the restricted shares was funded by an interest-free loan from the Parent in an amount equal to the allocation price for the shares.

If the performance hurdles are met, the restricted shares will be released from the trust to the participant following the relevant test date. There is a vesting period of approximately three years from the effective grant date before restricted shares that vest may be released from the restrictions and transferred to the participant. Following the end of that period, the exercise hurdles are measured on three annual test dates. To the extent the hurdles are met on each of these test dates, restricted shares must be released from the restrictions and transferred from the trustee to the participant.

For restricted shares that a participant becomes entitled to, the Parent pays a bonus, which the participant must use to repay the loan. Upon repayment of the loan, the trustee transfers legal title to the restricted shares to the participant and the shares become unrestricted.

The restricted shares may be released from the restrictions and transferred to the participants if, between the grant date and a test date, a change of control of the Parent occurs.

The rights to the restricted shares will lapse:

- if the performance hurdles are not met by the last test date, or
- on the date on which the participant ceases to be employed by the Parent or, in certain circumstances, the ultimate parent company (except in the case of redundancy), or
- on the death of the participant (provided, however, that the Board may in its discretion, allow legal title to the restricted shares to be transferred to the participant's successors).

In the event of redundancy, the Restricted Share Plan will continue, except that the number of restricted shares will be recalculated on a proportionate basis.

The number of restricted shares granted, lapsed and vested during the reporting period and the unvested number of restricted shares at the end of the reporting period is summarised below:

Group and Parent 2011 Effective grant date	First test date	Final test date	Shares issued	Allocation price per share	Unvested balance at 1 July 2010	Granted	Returned to unallocated pool	Vested	Unvested balance at 30 June 2011
Unallocated pool					8,028	–	58,683	–	66,711
1 Jul 2006	1 Oct 2009	1 Oct 2011	70,890	$7.35	55,125	–	–	–	55,125
20 Nov 2006	1 Oct 2009	1 Oct 2011	3,581	$7.55	–	–	–	–	–
15 Jan 2007	1 Oct 2009	1 Oct 2011	2,504	$8.28	1,024	–	(1,024)	–	–
1 Oct 2007	1 Oct 2010	1 Oct 2012	83,242	$9.15	55,066	–	(9,028)	–	46,038
1 Feb 2008	1 Oct 2010	1 Oct 2012	3,091	$7.63	2,807	–	–	–	2,807
1 Oct 2008	1 Oct 2011	1 Oct 2013	104,712	$8.60	94,318	–	(16,192)	–	78,126
1 Oct 2009	1 Oct 2012	1 Oct 2014	241,940	$5.75	292,112	–	(32,439)	–	259,673
			509,960		**508,480**	–	–	–	**508,480**

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Group and Parent 2010 Effective grant date	First test date	Final test date	Shares issued	Allocation price per share	Unvested balance at 1 July 2009	Granted	Returned to unallocated pool	Vested	Unvested balance at 30 June 2010
Unallocated pool					24,159	(58,200)	42,069	–	8,028
1 Jul 2006	1 Oct 2009	1 Oct 2011	70,890	$7.35	61,494	–	(6,369)	–	55,125
20 Nov 2006	1 Oct 2009	1 Oct 2011	3,581	$7.55	–	–	–	–	–
15 Jan 2007	1 Oct 2009	1 Oct 2011	2,504	$8.28	2,504	–	–	(1,480)	1,024
1 Oct 2007	1 Oct 2010	1 Oct 2012	83,242	$9.15	63,913	–	(8,847)	–	55,066
1 Feb 2008	1 Oct 2010	1 Oct 2012	3,091	$7.63	2,807	–	–	–	2,807
1 Oct 2008	1 Oct 2011	1 Oct 2013	104,712	$8.60	113,143	–	(18,825)	–	94,318
1 Oct 2009	1 Oct 2012	1 Oct 2014	241,940	$5.75	–	300,140	(8,028)	–	292,112
			509,960		**268,020**	**241,940**	–	**(1,480)**	**508,480**

Pursuant to the Restricted Share Plan's rules, where the rights to the restricted shares lapse, beneficial ownership of the restricted shares is transferred to the trustee to hold in trust in an unallocated pool, to be reallocated by the Board at a future date.

As at 30 June 2011, 66,711 (2010: 8,028) restricted shares were held by the trustee in the unallocated pool. A further 624 restricted shares have been transferred to the unallocated pool since 30 June 2011.

Adjustments to the Share Option Scheme and Restricted Share Plan

In June 2011, Contact's Board approved the following adjustments under the Share Option Scheme and Restricted Share Plan to compensate participants for any loss in value as a result of the Entitlement Offer:

- an adjustment to the exercise price for options issued under the Share Option Scheme in accordance with the formula set out in NZX Listing Rule 8.1.7(b), and
- the issue of further performance share rights in respect of performance share rights already issued under the Share Option Scheme and restricted shares issued under the Restricted Share Plan.

Any additional securities issued remain subject to normal exercise hurdles and vesting periods. As a result, the Board approved the following adjustments to the exercise price for options issued under the Share Option Scheme:

Group and Parent 2011 Tranche	1 July 2006	1 October 2007	1 February 2008	1 October 2008	1 October 2009	1 October 2010
Old exercise price of options	$7.35	$9.15	$7.63	$8.60	$5.75	$5.71
New exercise price of options	$7.27	$9.07	$7.55	$8.53	$5.67	$5.63

On 19 August 2011, the Board also approved the issue of 18,002 additional performance share rights.

Fair value of share-based payments

The fair value of services received in return for share options and performance share rights granted is based on the fair value of share options and performance share rights granted, measured using a combination of Monte-Carlo simulation and a binomial option pricing model. The valuation of the options and performance share rights granted in the year ended 30 June 2011 was based on the following weighted average assumptions:

Group and Parent	30 June 2011	30 June 2010
Risk-free interest rate	4.3%	5.0%
Expected dividend yield	3.8%	5.0%
Expected option life (in years)	5.1	5.1
Expected share price volatility	18.0%	26.0%
Weighted average remaining contractual life (in years)	3.8	3.7

Restricted shares are valued based on the market price at the effective grant date, adjusted for dividends and distributions that are not received until the restricted shares vest. Volatility is based on historical volatility in Contact's share price. The performance hurdles noted above are included in the valuation model used in determining the fair value of share options and performance share rights issued during the year.

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12 Cash and cash equivalents

	Group 30 June 2011 $000	Group 30 June 2010 $000	Parent 30 June 2011 $000	Parent 30 June 2010 $000
Unrestricted cash	47,267	921	47,191	–
Cash and short-term deposits	**47,267**	**921**	**47,191**	–
Bank overdrafts (refer to note 22)	(2,099)	(2,039)	(1,907)	(2,333)
Cash and cash equivalents in the Statement of Cash Flows	**45,168**	**(1,118)**	**45,284**	**(2,333)**

13 Receivables and prepayments

	Note	Group 30 June 2011 $000	Group 30 June 2010 $000	Parent 30 June 2011 $000	Parent 30 June 2010 $000
Retail electricity, other receivables and accruals		193,383	176,308	163,024	141,391
Less: provision for impairment		(6,307)	(6,301)	(4,521)	(4,521)
Wholesale electricity receivables		53,147	47,049	53,147	47,049
Net receivables		**240,223**	**217,056**	**211,650**	**183,919**
Prepayments		2,985	1,796	2,985	1,796
Interest receivable		3	1	3	1
Advances to subsidiaries	29	–	–	32,896	24,699
Advance to associates		310	295	–	–
Total receivables and prepayments		**243,521**	**219,148**	**247,534**	**210,415**

Receivables past due but not impaired

Included in retail electricity, other receivables and accruals are receivables that are past due but not impaired. These relate to a number of customers who pay outside terms and for whom there is no recent history of default.

	Group 30 June 2011 $000	Group 30 June 2010 $000	Parent 30 June 2011 $000	Parent 30 June 2010 $000
0–30 days past due	21,874	18,885	18,687	14,755
30–90 days past due	8,010	6,510	7,035	4,459
Over 90 days past due	2,497	2,722	2,232	2,431
Total receivables past due but not impaired	**32,381**	**28,117**	**27,954**	**21,645**

Included in other operating expenses are receivables written-off during the year totalling $12.1 million (Group) and $10.7 million (Parent) (2010: $15.0 million (Group) and $12.0 million (Parent)). Refer to note 4.

Provision for impairment

	Group 30 June 2011 $000	Group 30 June 2010 $000	Parent 30 June 2011 $000	Parent 30 June 2010 $000
Provision for impairment at the start of the year	(6,301)	(7,192)	(4,521)	(5,321)
(Increase)/decrease in provision for the year	(6)	891	–	800
Provision for impairment at the end of the year	**(6,307)**	**(6,301)**	**(4,521)**	**(4,521)**

14 Inventories

	Group 30 June 2011 $000	Group 30 June 2010 $000	Parent 30 June 2011 $000	Parent 30 June 2010 $000
LPG	7,162	4,677	–	–
Consumables and spare parts	6,597	6,774	6,417	6,537
Inventory gas	97,753	46,915	97,753	46,915
Total inventories	**111,512**	**58,366**	**104,170**	**53,452**

Inventory gas relates to the gas reserves in the Ahuroa reservoir in excess of the reserves required for cushion gas. Refer to note 17.

15 Property, plant and equipment

Group	Generation plant and equipment (including land and buildings) at deemed cost $000	Other land and buildings at cost $000	Other plant and equipment at cost $000	Generation capital work in progress at cost $000	Development capital work in progress at cost $000	Other capital work in progress at cost $000	Total $000
Cost							
Balance as at 1 July 2009	4,237,044	61,893	263,760	72,132	321,501	23,416	4,979,746
Additions	75,282	1,021	4,081	102,946	232,685	11,355	427,370
Transfers from capital work in progress	104,120	117	13,898	(40,572)	(63,548)	(14,015)	–
Disposals	(10)	–	(2,058)	–	–	–	(2,068)
Balance as at 30 June 2010	**4,416,436**	**63,031**	**279,681**	**134,506**	**490,638**	**20,756**	**5,405,048**
Balance as at 1 July 2010	4,416,436	63,031	279,681	134,506	490,638	20,756	5,405,048
Additions	151,876	741	8,787	28,365	261,867	6,085	457,721
Transfers from capital work in progress	422,832	215	7,972	(21,279)	(401,386)	(8,354)	–
Reclassification of asset class	6,748	(10,706)	5,382	(1,480)	2,224	(2,168)	–
Transfer to intangible assets	–	–	(2,229)	–	–	–	(2,229)
Disposals	(58,309)	(227)	(10,330)	–	–	–	(68,866)
Balance as at 30 June 2011	**4,939,583**	**53,054**	**289,263**	**140,112**	**353,343**	**16,319**	**5,791,674**
Depreciation and impairment losses							
Balance as at 1 July 2009	(574,754)	(11,333)	(151,228)	–	(2,830)	–	(740,145)
Depreciation charge	(139,897)	(2,636)	(12,877)	–	–	–	(155,410)
Disposals	10	–	1,811	–	–	–	1,821
Balance as at 30 June 2010	**(714,641)**	**(13,969)**	**(162,294)**	–	**(2,830)**	–	**(893,734)**
Balance as at 1 July 2010	(714,641)	(13,969)	(162,294)	–	(2,830)	–	(893,734)
Depreciation charge	(140,503)	(1,422)	(13,259)	–	–	–	(155,184)
Reclassification of asset class	989	1,365	(2,354)	–	–	–	–
Transfer to intangible assets	–	–	2,219	–	–	–	2,219
Disposals	58,309	16	10,319	–	–	–	68,644
Balance as at 30 June 2011	**(795,846)**	**(14,010)**	**(165,369)**	–	**(2,830)**	–	**(978,055)**
Carrying value							
As at 30 June 2010	3,701,795	49,062	117,387	134,506	487,808	20,756	4,511,314
As at 30 June 2011	**4,143,737**	**39,044**	**123,894**	**140,112**	**350,513**	**16,319**	**4,813,619**

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Parent	Generation plant and equipment (including land and buildings) at deemed cost $000	Other land and buildings at cost $000	Other plant and equipment at cost $000	Generation capital work in progress at cost $000	Development capital work in progress at cost $000	Other capital work in progress at cost $000	Total $000
Cost							
Balance as at 1 July 2009	4,237,044	57,654	136,127	72,132	307,564	18,003	4,828,524
Additions	75,282	865	5,293	102,946	220,742	4,764	409,892
Transfers from capital work in progress	104,120	–	6,256	(40,572)	(63,548)	(6,256)	–
Disposals	(10)	–	(316)	–	–	–	(326)
Balance as at 30 June 2010	**4,416,436**	**58,519**	**147,360**	**134,506**	**464,758**	**16,511**	**5,238,090**
Balance as at 1 July 2010	4,416,436	58,519	147,360	134,506	464,758	16,511	5,238,090
Additions	151,876	533	6,915	28,365	254,424	3,255	445,368
Transfers from capital work in progress	422,832	45	6,264	(21,279)	(401,386)	(6,476)	–
Reclassification of asset class	6,748	(10,225)	4,468	(1,480)	2,224	(1,735)	–
Disposals	(58,309)	–	(9,053)	–	–	–	(67,362)
Balance as at 30 June 2011	**4,939,583**	**48,872**	**155,954**	**140,112**	**320,020**	**11,555**	**5,616,096**
Depreciation and impairment losses							
Balance as at 1 July 2009	(574,754)	(10,543)	(79,969)	–	–	–	(665,266)
Depreciation charge	(139,897)	(2,550)	(9,670)	–	–	–	(152,117)
Disposals	10	–	316	–	–	–	326
Balance as at 30 June 2010	**(714,641)**	**(13,093)**	**(89,323)**	–	–	–	**(817,057)**
Balance as at 1 July 2010	(714,641)	(13,093)	(89,323)	–	–	–	(817,057)
Depreciation charge	(140,503)	(1,255)	(9,527)	–	–	–	(151,285)
Reclassification of asset class	989	1,408	(2,397)	–	–	–	–
Disposals	58,309	–	9,053	–	–	–	67,362
Balance as at 30 June 2011	**(795,846)**	**(12,940)**	**(92,194)**	–	–	–	**(900,980)**
Carrying value							
As at 30 June 2010	3,701,795	45,426	58,037	134,506	464,758	16,511	4,421,033
As at 30 June 2011	**4,143,737**	**35,932**	**63,760**	**140,112**	**320,020**	**11,555**	**4,715,116**

Under the Treaty of Waitangi Act 1975, the Waitangi Tribunal has the power to recommend, in appropriate circumstances, that some of the land and interest in land purchased from the Electricity Corporation of New Zealand (ECNZ) and now owned by Contact be resumed by the Crown in order that it be returned to the Māori claimants. In the event that the Tribunal's initial recommendation is confirmed and the land is to be returned, compensation will be paid to Contact under the provisions of the Public Works Act 1981.

Generation plant and equipment and capital work in progress

Deloitte, as an independent valuer, valued the generation plant and equipment and generation capital work in progress as at 30 June 2010.

The carrying amount of generation plant and equipment and generation capital work in progress, had they been recognised at fair value at 30 June 2010, would have been in the range of $3.9 billion to $5.0 billion.

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16 Intangible assets

Group	Goodwill $000	Patents $000	Gas storage rights $000	Computer software $000	Total $000
Cost					
Balance as at 1 July 2009	181,941	1,222	30,868	51,897	265,928
Additions	–	–	2,485	36,050	38,535
Disposals	–	–	–	(135)	(135)
Balance as at 30 June 2010	**181,941**	**1,222**	**33,353**	**87,812**	**304,328**
Balance as at 1 July 2010	181,941	1,222	33,353	87,812	304,328
Additions	–	–	1,659	67,592	69,251
Transfer from property, plant and equipment	–	–	–	2,229	2,229
Disposals	–	–	–	(7,080)	(7,080)
Balance as at 30 June 2011	**181,941**	**1,222**	**35,012**	**150,553**	**368,728**
Amortisation and impairment losses					
Balance as at 1 July 2009	–	(1,222)	–	(12,547)	(13,769)
Amortisation charge	–	–	–	(6,493)	(6,493)
Disposals	–	–	–	135	135
Balance as at 30 June 2010	–	**(1,222)**	–	**(18,905)**	**(20,127)**
Balance as at 1 July 2010	–	(1,222)	–	(18,905)	(20,127)
Amortisation charge	–	–	(294)	(10,844)	(11,138)
Transfer from property, plant and equipment	–	–	–	(2,219)	(2,219)
Disposals	–	–	–	7,080	7,080
Balance as at 30 June 2011	–	**(1,222)**	**(294)**	**(24,888)**	**(26,404)**
Carrying value					
As at 30 June 2010	181,941	–	33,353	68,907	284,201
As at 30 June 2011	**181,941**	–	**34,718**	**125,665**	**342,324**

Parent	Goodwill $000	Patents $000	Gas storage rights $000	Computer software $000	Total $000
Cost					
Balance as at 1 July 2009	123,307	–	30,868	51,897	206,072
Additions	–	–	2,485	36,050	38,535
Disposals	–	–	–	(135)	(135)
Balance as at 30 June 2010	**123,307**	–	**33,353**	**87,812**	**244,472**
Balance as at 1 July 2010	123,307	–	33,353	87,812	244,472
Additions	–	–	1,659	67,592	69,251
Disposals	–	–	–	(7,080)	(7,080)
Balance as at 30 June 2011	**123,307**	–	**35,012**	**148,324**	**306,643**
Amortisation and impairment losses					
Balance as at 1 July 2009	–	–	–	(12,547)	(12,547)
Amortisation charge	–	–	–	(6,493)	(6,493)
Disposals	–	–	–	135	135
Balance as at 30 June 2010	–	–	–	**(18,905)**	**(18,905)**
Balance as at 1 July 2010	–	–	–	(18,905)	(18,905)
Amortisation charge	–	–	(294)	(10,834)	(11,128)
Disposals	–	–	–	7,080	7,080
Balance as at 30 June 2011	–	–	**(294)**	**(22,659)**	**(22,953)**
Carrying value					
As at 30 June 2010	123,307	–	33,353	68,907	225,567
As at 30 June 2011	**123,307**	–	**34,718**	**125,665**	**283,690**

Goodwill

For the purpose of impairment testing, all goodwill is allocated to the retail electricity (Group: $143.0 million; Parent: $87.6 million), retail gas (Group and Parent: $35.7 million) and LPG (Group: $3.2 million; Parent: nil) cash-generating units. The impairment test for each unit is based on a value in use discounted cash flow valuation. Cash flow projections are based on a 10-year financial forecast for the underlying business and are extrapolated using an average annual growth rate of approximately 1.0–3.0 per cent. 10-year financial forecasts are considered appropriate because of the long-term nature of the business. The cash flow projections are discounted using post-tax discount rates of 8.0–10.0 per cent.

Key assumptions in the value in use calculations for the cash-generating units are:

Assumptions	Method of determination
Customer numbers and customer churn	Review of actual customer numbers and historical data regarding movements in customer numbers. The historical analysis is considered against expected market trends and competition for customers.
Gross margin per customer	Review of actual gross margin per customer and consideration of expected market movements and impacts.
Operating costs	Review of actual operating costs and consideration of expected market movements and impacts.

Gas storage rights

In June 2008, Contact acquired the exclusive right to use the Ahuroa reservoir in order to develop an underground gas storage facility.

The acquisition was completed in conjunction with Contact's ultimate parent company, Origin Energy Limited (Origin), which acquired certain New Zealand oil and gas assets from Swift Energy New Zealand Limited. These assets included a petroleum mining licence (PML 38139, the PML) for an area that includes the Ahuroa reservoir.

In December 2010 Contact was issued Petroleum Mining Permit (PMP) 52278 with a term of 40 years. The PMP exists concurrently with the PML but gives Contact exclusive rights to the Ahuroa reservoir.

Additions to gas storage rights since acquisition relate to capitalised interest on the original acquisition of the rights.

Impairment

No impairment exists for any intangible asset at 30 June 2011 (2010: nil).

17 Gas storage – cushion gas

As part of the acquisition of the gas storage rights (refer to note 16), Contact also secured beneficial access to the remaining natural gas and LPG reserves (excluding condensate) in the Ahuroa reservoir. The natural gas reserves at the date of acquisition, together with additional natural gas injections since acquisition, are referred to as cushion gas and represent the investment necessary to enable the field to be used for the storage of future 'operational' gas.

Cushion gas is recognised at cost, which includes capitalised interest, and is presented in the Statement of Financial Position as a separate non-current, non-depreciable asset, referred to as gas storage – cushion gas.

Gas injected in excess of cushion gas requirements is treated as inventory. Refer to note 14.

18 Investment in jointly controlled entity

Name of entity	Interest held by Group 30 June 2011	Interest held by Group 30 June 2010	Principal activity
Gasbridge Joint Venture	50%	50%	Liquefied natural gas importation development

The Gasbridge Joint Venture is operated through Gasbridge Limited, an entity jointly controlled by Contact Aria Limited (a 100 per cent subsidiary of Contact Energy Limited) and GP No. 1 Limited (a 100 per cent subsidiary of Genesis Power Limited). The joint venture was set up to preserve the option of importing natural gas, if required in the future. During the year ended 30 June 2009, Contact and Genesis Power Limited decided to put on hold the development of the land-based liquefied natural gas terminal. As a result of this decision, Contact wrote-off its share of the assets of the Gasbridge Joint Venture relating to the facility. The following amounts represent Contact's 50 per cent share of the remaining assets and liabilities, income and results of the joint venture. These are included in the Statement of Financial Position and the Income Statement.

Group	30 June 2011 $000	30 June 2010 $000
Assets		
Current assets	4	7
Total assets	**4**	**7**
Liabilities		
Current liabilities	5	2
Total liabilities	**5**	**2**
Net (liabilities)/assets	**(1)**	**5**
Income	–	3
Expenses	(5)	(10)
Loss after income tax	**(5)**	**(7)**
Proportionate interest in joint venture's commitments	–	–

There are no contingent liabilities relating to Contact's interest in the joint venture and no contingent liabilities in the joint venture itself (2010: nil).

19 Investment in subsidiaries

Name of entity	Interest held by Parent 30 June 2011	Interest held by Parent 30 June 2010	Principal activity	Country of incorporation
Empower Limited	100%	100%	Electricity retailer and gas wholesaler	New Zealand
Contact Aria Limited	100%	100%	Investment holding company	New Zealand
Contact Wind Limited	100%	100%	Wind generation development	New Zealand
Rockgas Limited	100%	100%	LPG retailer	New Zealand
Contact Australia Pty Limited	100%	100%	Investment holding company	Australia
Contact Operations Australia Pty Limited	100%	100%	Manages Australian interests relating to operation and maintenance of Oakey Power Holdings Pty Limited	Australia

All subsidiaries have a 30 June balance date.

20 Investment in associates

	Interest held by Group			
Name of entity	30 June 2011	30 June 2010	Principal activity	Country of incorporation
Oakey Power Holdings Pty Limited	25%	25%	Electricity generation	Australia
Rockgas Timaru Limited	50%	50%	LPG distribution	New Zealand
Energyhedge Limited	20%	20%	Futures trading	New Zealand

	Group 30 June 2011 $000	Group 30 June 2010 $000	Parent 30 June 2011 $000	Parent 30 June 2010 $000
Carrying value of associates				
Carrying value at the start of the year	8,809	8,687	1,587	1,579
Purchase of investment in Energyhedge	–	8	–	8
Write-off of investment in Energyhedge*	(8)	–	(8)	–
Share of recognised revenue and expenses	3,862	3,272	–	–
Movements taken to foreign currency translation reserve	420	(147)	–	–
Dividends received	(1,480)	(3,011)	–	–
Carrying value at the end of the year	**11,603**	**8,809**	**1,579**	**1,587**

* In the year ended 30 June 2011 Contact wrote-off its investment in Energyhedge Limited following the transition of the energy hedge trading platform to the ASX.

Rockgas Timaru Limited has a balance sheet date of 31 March.

Group Aggregate summary financial information of associates, not adjusted for the percentage held by Contact	30 June 2011 $000	30 June 2010 $000
Total assets	146,324	146,487
Total liabilities	100,355	111,803
Total revenues	49,507	43,791
Profit for the year	15,186	13,334

There are no contingent liabilities relating to Contact's interest in associates and no contingent liabilities in the associates themselves (2010: nil).

21 Available-for-sale financial assets

Available-for-sale financial assets are financial assets that do not fall into any other financial instrument category. Contact does not currently intend to sell these assets.

	Group 30 June 2011 $000	Group 30 June 2010 $000	Parent 30 June 2011 $000	Parent 30 June 2010 $000
At cost*				
Unlisted shares in Liquigas Limited	2,935	2,935	–	–
Total available-for-sale financial assets	**2,935**	**2,935**	–	–

* As the fair value of the investment in the unlisted shares of Liquigas Limited cannot be reliably determined, the investment is held at cost.

22 Borrowings

This note provides information about the contractual terms of Contact's borrowings. For more information about Contact's exposure to interest rate and foreign currency risk, refer to note 23.

Carrying value of borrowings

	Borrowing currency denomination	Group 30 June 2011 $000	Group 30 June 2010 $000	Parent 30 June 2011 $000	Parent 30 June 2010 $000
Current borrowings					
Bank overdraft	NZD	2,099	2,039	1,907	2,333
Finance lease liabilities	NZD	913	1,141	899	1,120
Total current borrowings		**3,012**	**3,180**	**2,806**	**3,453**
Non-current borrowings					
Non-current portion of term borrowings					
6.9% February 2013	USD	97,989	121,094	97,989	121,094
5.3% March 2014	USD	112,848	136,282	112,848	136,282
5.3% March 2015	USD	135,851	163,223	135,851	163,223
5.6% March 2018	USD	53,691	64,913	53,691	64,913
7.1% April 2018	USD	36,536	44,573	36,536	44,573
Fixed rate senior notes		**436,915**	**530,085**	**436,915**	**530,085**
8.0% retail fixed rate bonds May 2014	NZD	543,681	541,809	543,681	541,809
7.86% wholesale fixed rate bonds April 2017	NZD	99,788	99,795	99,788	99,795
Total non-current portion of term borrowings		**1,080,384**	**1,171,689**	**1,080,384**	**1,171,689**
Committed credit facilities	NZD	–	106,200	–	106,200
Finance lease liabilities	NZD	1,726	1,344	1,722	1,327
Total non-current borrowings		**1,082,110**	**1,279,233**	**1,082,106**	**1,279,216**

Foreign currency denominated term borrowings are hedged by cross currency interest rate swaps and are measured at fair value less deferred financing costs in the Statement of Financial Position. All other borrowings are held at amortised cost using the effective interest rate less deferred financing costs. The reconciliation of the New Zealand dollar equivalent of contracted term borrowings to the Statement of Financial Position carrying value is detailed below:

Group and Parent 2011	Fixed rate senior notes $000	Retail fixed rate bonds $000	Wholesale fixed rate bonds $000	Total term borrowings $000
New Zealand dollar equivalent of notional borrowings	587,299	550,000	100,000	1,237,299
Deferred financing costs	(1,006)	(6,319)	(212)	(7,537)
Net fair value adjustment	(149,378)	–	–	(149,378)
Carrying value of term borrowings	**436,915**	**543,681**	**99,788**	**1,080,384**
Current	–	–	–	–
Non-current	436,915	543,681	99,788	1,080,384
	436,915	**543,681**	**99,788**	**1,080,384**

Group and Parent 2010	Fixed rate senior notes $000	Retail fixed rate bonds $000	Wholesale fixed rate bonds $000	Total term borrowings $000
New Zealand dollar equivalent of notional borrowings	587,299	550,000	100,000	1,237,299
Deferred financing costs	(1,275)	(8,191)	(205)	(9,671)
Net fair value adjustment	(55,939)	–	–	(55,939)
Carrying value of term borrowings	**530,085**	**541,809**	**99,795**	**1,171,689**
Current	–	–	–	–
Non-current	530,085	541,809	99,795	1,171,689
	530,085	**541,809**	**99,795**	**1,171,689**

Compliance with covenants

All borrowing covenant requirements were met at 30 June 2011 and at 30 June 2010.

Security

Except for finance leases, Contact's borrowings are unsecured. Contact borrows under a negative pledge arrangement, which does not permit Contact to grant any security interest over its assets, unless it is an exception permitted within the negative pledge arrangements.

Credit facilities

Contact has total committed facilities at 30 June 2011 of $450.0 million, of which nil has been drawn (2010: $520.0 million, $106.2 million drawn). As at 30 June 2011, $150.0 million of the facilities mature in December 2012, $270.0 million mature in March 2016 and $30.0 million mature in May 2016.

These committed credit facilities also support a $250.0 million commercial paper programme. This programme is unutilised at 30 June 2011 (30 June 2010: unutilised).

Finance lease liabilities

Future minimum lease payments are as follows:

	Group 30 June 2011 $000	Group 30 June 2010 $000	Parent 30 June 2011 $000	Parent 30 June 2010 $000
Not later than one year	959	1,191	941	1,166
Later than one year and not later than five years	1,876	1,655	1,871	1,637
Minimum lease payments	**2,835**	**2,846**	**2,812**	**2,803**
Future finance charges on finance leases	(196)	(361)	(191)	(356)
Present value of finance lease liabilities	**2,639**	**2,485**	**2,621**	**2,447**

The finance leases relate to computer equipment.

The present value of finance lease liabilities are as follows:

	Group 30 June 2011 $000	Group 30 June 2010 $000	Parent 30 June 2011 $000	Parent 30 June 2010 $000
Not later than one year	913	1,141	899	1,120
Later than one year and not later than five years	1,726	1,344	1,722	1,327
Present value of finance lease liabilities	**2,639**	**2,485**	**2,621**	**2,447**

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23 Derivative financial instruments

Financial risk management objectives

In the normal course of business, Contact is exposed to a variety of financial risks: market risk (including foreign currency risk, interest rate risk and price risk), credit risk and liquidity risk. Contact's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on Contact's financial performance. Contact uses derivative financial instruments to hedge these risk exposures.

Fair value of derivative financial instruments

The fair value of the significant types of derivative financial instruments outstanding are summarised below:

Group	Fair value assets 30 June 2011 $000	Fair value liabilities 30 June 2011 $000	Fair value assets 30 June 2010 $000	Fair value liabilities 30 June 2010 $000
Cross currency interest rate swaps	771	(150,160)	724	(56,555)
Interest rate derivatives	–	(30,723)	–	(32,405)
Cross currency interest rate swaps – margin	–	(6,026)	–	(3,325)
Forward foreign exchange derivatives	–	(14,093)	91	(1,511)
Electricity price hedges	1,255	(25,489)	4,927	(36,910)
Total derivative financial instruments	**2,026**	**(226,491)**	**5,742**	**(130,706)**
Current	1,669	(46,142)	4,955	(31,895)
Non-current	357	(180,349)	787	(98,811)
	2,026	**(226,491)**	**5,742**	**(130,706)**

Parent	Fair value assets 30 June 2011 $000	Fair value liabilities 30 June 2011 $000	Fair value assets 30 June 2010 $000	Fair value liabilities 30 June 2010 $000
Cross currency interest rate swaps	771	(150,160)	724	(56,555)
Interest rate derivatives	–	(30,723)	–	(32,405)
Cross currency interest rate swaps – margin	–	(6,026)	–	(3,325)
Forward foreign exchange derivatives	–	(14,093)	50	(1,511)
Electricity price hedges	1,255	(25,489)	4,927	(36,910)
Total derivative financial instruments	**2,026**	**(226,491)**	**5,701**	**(130,706)**
Current	1,669	(46,142)	4,914	(31,895)
Non-current	357	(180,349)	787	(98,811)
	2,026	**(226,491)**	**5,701**	**(130,706)**

Changes in fair value of financial instruments

The changes in the fair value of financial instruments recognised in the Income Statement and cash flow hedge reserve are summarised below:

Group Favourable/(unfavourable)	Hedge accounting designation	Income Statement 30 June 2011 $000	Cash flow hedge reserve 30 June 2011 $000	Income Statement 30 June 2010 $000	Cash flow hedge reserve 30 June 2010 $000
Cross currency interest rate swaps	Fair value hedge	(93,558)	–	(1,012)	–
Borrowings		93,439	–	1,104	–
		(119)	–	**92**	–
Interest rate derivatives	No hedge	1,477	205	3,683	647
Cross currency interest rate swaps – margin	Cash flow hedge	(6,160)	3,459	3,135	(4,123)
Forward foreign exchange derivatives	Cash flow hedge	–	(12,673)	–	807
Electricity price hedges	Cash flow hedge	(1,627)	8,887	(3,097)	10,967
Electricity price hedges	No hedge	489	–	718	–
Income tax on change in fair value of financial instruments taken to other comprehensive income		–	(4,957)	–	(1,693)
Total change in fair value of financial instruments		**(5,940)**	**(5,079)**	**4,531**	**6,605**

Parent Favourable/(unfavourable)	Hedge accounting designation	Income Statement 30 June 2011 $000	Cash flow hedge reserve 30 June 2011 $000	Income Statement 30 June 2010 $000	Cash flow hedge reserve 30 June 2010 $000
Cross currency interest rate swaps	Fair value hedge	(93,558)	–	(1,012)	–
Borrowings		93,439	–	1,104	–
		(119)	–	**92**	–
Interest rate derivatives	No hedge	1,477	205	3,683	647
Cross currency interest rate swaps – margin	Cash flow hedge	(6,160)	3,459	3,135	(4,123)
Forward foreign exchange derivatives	Cash flow hedge	1	(12,633)	–	715
Electricity price hedges	Cash flow hedge	(1,627)	8,887	(3,097)	10,967
Electricity price hedges	No hedge	489	–	718	–
Income tax on change in fair value of financial instruments taken to other comprehensive income		–	(4,957)	–	(1,693)
Total change in fair value of financial instruments		**(5,939)**	**(5,039)**	**4,531**	**6,513**

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Movement in cash flow hedge reserve

	Group $000	Parent $000
Balance as at 1 July 2009	(38,660)	(38,608)
Effective portion of cash flow hedges recognised in the cash flow hedge reserve	1,680	1,538
Amount transferred from the cash flow hedge reserve to revenue	2,213	2,213
Amount transferred from the cash flow hedge reserve to operating expenses	505	555
Amount transferred from the cash flow hedge reserve to change in fair value of financial instruments (ineffectiveness)	647	647
Amount transferred from the cash flow hedge reserve to property, plant and equipment	1,863	1,863
Amount transferred from the cash flow hedge reserve to deferred tax	(303)	(303)
Balance as at 30 June 2010	**(32,055)**	**(32,095)**
Balance as at 1 July 2010	(32,055)	(32,095)
Effective portion of cash flow hedges recognised in the cash flow hedge reserve	(9,871)	(9,871)
Amount transferred from the cash flow hedge reserve to revenue	283	283
Amount transferred from the cash flow hedge reserve to operating expenses	182	222
Amount transferred from the cash flow hedge reserve to change in fair value of financial instruments (ineffectiveness)	6,405	6,405
Amount transferred from the cash flow hedge reserve to property, plant and equipment	1,238	1,238
Amount transferred from the cash flow hedge reserve to deferred tax	(3,316)	(3,316)
Balance as at 30 June 2011	**(37,134)**	**(37,134)**

Risk management

Contact is committed to having appropriate systems to identify material risks, and to ensuring that the financial impact of these risks are well understood and reported, limits are in place to control selected exposures, and collective and individual responsibilities and accountabilities are assigned and understood. Risk management is carried out by a central treasury department (Treasury) for interest rate and foreign exchange exposures and Wholesale and Energy Risk functions for the management and oversight of commodity risk through the Commodity Risk Management System, which provides the framework for identifying, monitoring and managing the commodity exposures of Contact. Treasury, Energy Risk and Wholesale operate under policies approved by the Board. The Board's policies provide written principles for overall risk management, as well as written policies covering specific areas, such as foreign currency risk, price risk, credit risk, interest rate risk, use of derivative financial instruments and non-derivative financial instruments, and the investment of excess liquidity.

(a) Market risk

(i) Foreign currency risk

Contact is exposed to foreign currency risk as a result of transactions denominated in currencies other than Contact's functional currency, New Zealand dollars. The currencies giving rise to this risk are primarily the Australian dollar, US dollar, Swiss franc, Japanese yen and the Euro.

Foreign currency risk arises from future commercial transactions (including interest payments on long-term borrowings and the purchase of capital equipment and maintenance), recognised assets and liabilities (including borrowings) and net investments in foreign operations.

Contact uses forward foreign exchange contracts to manage foreign exchange risk arising from future commercial transactions and recognised assets and liabilities. To manage the foreign currency risk arising from the future interest payments required on foreign currency denominated long-term borrowings, Contact uses cross currency interest rate swaps (fixed to floating), which convert the foreign currency denominated future interest payments into the functional currency for the full term of the underlying borrowings.

Treasury is responsible for managing the net position in each foreign currency within the parameters of Board policy.

Forward foreign exchange contracts
The aggregate notional principal amount of the outstanding forward foreign exchange contracts at 30 June 2011 is $196.6 million (2010: $44.4 million). As at 30 June 2011, all forward foreign exchange contracts are designated in a cash flow hedge relationship.

The hedged anticipated transactions denominated in foreign currencies are expected to occur at various dates between one month and four years and one month (2010: between one month and nine months) from the end of the reporting period. Gains and losses recognised in the cash flow hedge reserve in other comprehensive income on forward foreign exchange contracts as at 30 June 2011 will be released at dates when the cash flow from the underlying anticipated transactions will occur and will be recognised in the Income Statement or included in the cost of any asset or liability acquired. During the year ended 30 June 2011, no hedges were de-designated, and all underlying forecast transactions remain highly probable to occur as originally forecast.

Sensitivity analysis

At 30 June 2011, if the New Zealand dollar had weakened/strengthened by 10 per cent against the currencies with which Contact had foreign currency risk, with all other variables held constant:

- post-tax profit for the year would not have been materially different, and
- the cash flow hedge reserve component of other comprehensive income would have been $10.9 million higher/lower (2010: $2.7 million higher/lower), arising from unrealised foreign exchange gains/losses on the revaluation of forward foreign exchange contracts in a cash flow hedge relationship.

(ii) Price risk

Contact is exposed to commodity price risk, primarily from electricity prices. To manage its commodity price risk in respect of electricity, Contact utilises electricity price hedges including options, where Contact sells and buys electricity price hedges at a fixed price.

Electricity price hedges

The aggregate notional volume of the outstanding fixed volume electricity price hedges at 30 June 2011 is 656 gigawatt hours (GWh) (2010: 1,028 GWh). The aggregate notional volume of the outstanding variable volume electricity price hedges at 30 June 2011 is 846 GWh (2010: 1,073 GWh).

Electricity price hedges are hedging underlying exposures over various trade periods out to December 2014. As at 30 June 2011 the fair value of the electricity price hedges is $(24.2) million (2010: $(32.0) million), of which $(23.7) million is designated in a cash flow hedge relationship (2010: $(30.9) million).

The hedged anticipated transactions are expected to occur at various dates between one month and three years and six months (2010: between one month and four years and six months) from the end of the reporting period. Gains and losses on hedged electricity price hedges recognised in the cash flow hedge reserve in other comprehensive income will be continually released to the Income Statement in the year in which the underlying sale/purchase transactions are recognised in the Income Statement.

Sensitivity analysis

The following table summarises the impact of increases/decreases in the relevant electricity forward prices on Contact's post-tax profit for the year and on the cash flow hedge reserve component of other comprehensive income. The sensitivity analysis is based on the assumption that the relevant market prices have increased/decreased by 10 per cent, with all other variables held constant:

Group and Parent **Favourable/(unfavourable)**	**30 June 2011 +10% $000**	**30 June 2011 -10% $000**	**30 June 2010 +10% $000**	**30 June 2010 -10% $000**
Impact on post-tax profit	1,047	433	(1,535)	(686)
Impact on other comprehensive income	5,221	(3,910)	6,518	(7,040)

(iii) Interest rate risk (cash flow and fair value)

Contact's income and operating cash flows are substantially independent of changes in market interest rates. Contact is primarily exposed to interest rate risk as a result of issuing term borrowings at fixed interest rates. Contact manages the combined interest and foreign currency risk on borrowings issued in foreign currencies by entering into cross currency interest rate swaps to convert the proceeds into a floating rate New Zealand dollar exposure. In addition, New Zealand dollar interest rate swaps are used to cover domestic interest rate risk.

Cross currency interest rate swaps

The aggregate notional principal amount of the outstanding cross currency interest rate swap contracts at 30 June 2011 is $587.3 million (2010: $587.3 million). The cross currency interest rate swaps have been split into two components for the purpose of hedge designation. The hedge of the benchmark interest rate is designated as a fair value hedge, and the hedge of the issuance margin is designated as a cash flow hedge.

The hedged anticipated interest payments are expected to occur at various dates between one month and seven years (2010: one month and eight years) from the end of the reporting period as a result of the maturities of the underlying borrowings.

Interest rate swaps

The aggregate notional principal amount of the outstanding interest rate swap contracts at 30 June 2011 is $730.0 million (2010: $895.0 million) including $95.0 million of forward starting swaps (2010: $170.0 million).

The anticipated interest payment transactions are expected to occur at various dates between one month and eight years (2010: one month and nine years) from the end of the reporting period.

Sensitivity analysis

The following table summarises the impact on Contact's post-tax profit if interest rates had been 100 basis points higher or 25 basis points lower, with all other variables held constant. This is mainly as a result of the fair value change in interest rate swaps, which are valid economic hedges but which do not qualify for hedge accounting under *NZ IAS 39*. There would be no effect on other comprehensive income.

Group and Parent Favourable/(unfavourable)	30 June 2011 +100bps $000	30 June 2011 -25bps $000	30 June 2010 +100bps $000	30 June 2010 -25bps $000
Impact on post-tax profit	7,646	(1,990)	7,207	(2,694)

(b) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations, resulting in financial loss to Contact. Contact is exposed to credit risk in the normal course of business arising from cash, short-term investments, trade receivables, other receivables and derivative financial instruments.

The Board has approved a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults.

Contact minimises its exposure to credit risk of receivables through the adoption of counterparty credit limits. Derivative counterparties and cash transactions are limited to high-credit-quality financial institutions and other organisations in the relevant industry. Contact's exposure and the credit ratings of its counterparties are continually monitored, and the aggregate value of transactions concluded is spread amongst approved counterparties.

The carrying amounts of financial assets recognised in the Statement of Financial Position best represent Contact's maximum exposure to credit risk at the end of the reporting period without taking account of the value of any collateral obtained.

Contact does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. Concentration of credit risk with respect to receivables is limited owing to Contact's large customer base in a diverse range of industries throughout New Zealand. Contact has no significant concentration of credit risk with any one institution, despite there being significant sales to NZX Energy. NZX Energy acts as an electricity market clearing agent and the counterparty risk sits with the market participants. Market participants are required to provide letters of credit to NZX Energy, which could be called upon should any market participant default.

(c) Liquidity risk

Contact's liquidity risk arises from its need to ensure it has access to sufficient committed financing to meet its committed expenditure and debt repayment obligations over an appropriate time period.

Prudent liquidity risk management requires Contact to maintain sufficient liquidity, which can comprise cash and marketable securities and/or the availability of funding through committed credit facilities and the spreading of debt maturities. To reduce refinancing risk, debt maturities are spread over a number of years.

Liquidity risk is monitored by continually forecasting actual cash flows.

Contractual maturities of financial liabilities and derivative financial instruments

The contractual and expected maturities disclosed below are the contracted undiscounted cash flows for all financial liabilities, except for the derivative financial instruments where the contractual maturities are the undiscounted settlements expected under the contracts. As the amounts presented are contracted undiscounted cash flows and include forward starting derivatives, the totals will not reconcile with the Statement of Financial Position.

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Group 2011 Outflow/(inflow)	Note	Total contractual cash flows $000	Less than 1 year $000	1–2 years $000	2–5 years $000	More than 5 years $000
Payables and accruals		229,440	229,440	–	–	–
Borrowings		1,317,434	77,237	165,249	879,262	195,686
Finance lease liabilities	22	2,835	959	1,427	449	–
Net settled derivative financial instruments:						
Electricity price hedges		23,196	17,324	5,632	240	–
Interest rate derivatives		33,776	11,013	8,383	11,188	3,192
Gross settled derivative financial instruments:						
Forward foreign exchange derivatives						
– Inflow		(179,462)	(137,722)	(35,707)	(6,033)	–
– Outflow		196,647	150,229	40,659	5,759	–
Cross currency interest rate swaps						
– Inflow		(486,092)	(23,151)	(113,371)	(261,733)	(87,837)
– Outflow		700,125	22,981	162,456	386,249	128,439
Total		**1,837,899**	**348,310**	**234,728**	**1,015,381**	**239,480**

Group 2010 Outflow/(inflow)	Note	Total contractual cash flows $000	Less than 1 year $000	1–2 years $000	2–5 years $000	More than 5 years $000
Payables and accruals		242,170	242,170	–	–	–
Borrowings		1,600,704	82,486	79,746	1,211,689	226,783
Finance lease liabilities	22	2,846	1,191	969	686	–
Net settled derivative financial instruments:						
Electricity price hedges		30,037	7,411	13,902	8,724	–
Interest rate derivatives		36,761	11,889	7,782	12,725	4,365
Gross settled derivative financial instruments:						
Forward foreign exchange derivatives						
– Inflow		(42,707)	(42,707)	–	–	–
– Outflow		44,127	44,127	–	–	–
Cross currency interest rate swaps						
– Inflow		(610,540)	(27,763)	(27,756)	(449,713)	(105,308)
– Outflow		748,000	27,321	32,200	559,664	128,815
Total		**2,051,398**	**346,125**	**106,843**	**1,343,775**	**254,655**

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Parent 2011 Outflow/(inflow)	Note	Total contractual cash flows $000	Less than 1 year $000	1–2 years $000	2–5 years $000	More than 5 years $000
Payables and accruals		261,054	261,054	–	–	–
Borrowings		1,317,434	77,237	165,249	879,262	195,686
Finance lease liabilities	22	2,812	941	1,422	449	–
Net settled derivative financial instruments:						
Electricity price hedges		23,196	17,324	5,632	240	–
Interest rate derivatives		33,776	11,013	8,383	11,188	3,192
Gross settled derivative financial instruments:						
Forward foreign exchange derivatives						
– Inflow		(179,462)	(137,722)	(35,707)	(6,033)	–
– Outflow		196,647	150,229	40,659	5,759	–
Cross currency interest rate swaps						
– Inflow		(486,092)	(23,151)	(113,371)	(261,733)	(87,837)
– Outflow		700,125	22,981	162,456	386,249	128,439
Total		**1,869,490**	**379,906**	**234,723**	**1,015,381**	**239,480**

Parent 2010 Outflow/(inflow)	Note	Total contractual cash flows $000	Less than 1 year $000	1–2 years $000	2–5 years $000	More than 5 years $000
Payables and accruals		271,536	271,536	–	–	–
Borrowings		1,600,998	82,780	79,746	1,211,689	226,783
Finance lease liabilities	22	2,803	1,166	952	685	–
Net settled derivative financial instruments:						
Electricity price hedges		30,037	7,411	13,902	8,724	–
Interest rate derivatives		36,761	11,889	7,782	12,725	4,365
Gross settled derivative financial instruments:						
Forward foreign exchange derivatives						
– Inflow		(44,691)	(44,691)	–	–	–
– Outflow		46,152	46,152	–	–	–
Cross currency interest rate swaps						
– Inflow		(610,540)	(27,763)	(27,756)	(449,713)	(105,308)
– Outflow		748,000	27,321	32,200	559,664	128,815
Total		**2,081,056**	**375,801**	**106,826**	**1,343,774**	**254,655**

Fair values

The carrying amount of financial assets and financial liabilities recorded in the financial statements approximates their fair values, with the exception of the wholesale and retail fixed rate bonds. The retail bonds have a fair value of $598.8 million (2010: $591.6 million), compared with a carrying value of $543.7 million (2010: $541.8 million). The wholesale bonds have a fair value of $108.4 million (2010: $104.3 million), compared with a carrying value of $99.8 million (2010: $99.8 million).

Estimation of fair values

The fair values of financial assets and financial liabilities are determined using a hierarchy as follows:

- Level one – the fair value is determined using unadjusted quoted prices from an active market for identical assets and liabilities. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial instruments held by Contact is the current bid price.
- Level two – the fair value is derived from inputs other than quoted prices included within level one that are observable for the asset or liability. Fair value is determined by using a discounted future cash flow valuation model derived from a directly (i.e from prices) or indirectly (i.e derived from prices using a discounted future cash flow valuation model) observable applicable forward price curve (for the relevant interest rate, foreign exchange rate or commodity price) and a discount rate. Financial instruments in this level include short-term electricity derivatives, forward foreign exchange contracts, interest rate derivatives and foreign currency denominated debt.

- Level three – the fair value is derived from inputs that are not based on observable market data and is estimated by using a discounted future cash flow valuation model involving internal price curves (for the relevant commodity price) and a discount rate. Financial instruments included in this level include certain long-term electricity price hedges, which are valued using internal price paths.

Where the fair value of a derivative financial instrument is calculated as the present value of the estimated future cash flows of the instrument, the two key types of variable used by the valuation technique are:

- forward price curves (for the relevant underlying interest rate, foreign exchange rate or electricity prices), and
- discount rates.

The selection of variables requires significant judgement and therefore there is a range of reasonably possible assumptions in respect of these variables that could be used in estimating the fair values of these derivatives. Maximum use is made of observable market data when selecting variables and developing assumptions for the valuation techniques.

The following table presents the hierarchy of the Group and Parents' financial assets and liabilities that are recognised at fair value:

Group 2011	Level one $000	Level two $000	Level three $000	Total balance $000
Financial assets at fair value				
Derivatives designated as cash flow hedging instruments	–	1,184	–	1,184
Derivatives designated as fair value hedging instruments	–	771	–	771
Derivatives held for trading	–	71	–	71
Financial liabilities at fair value				
Derivatives designated as cash flow hedging instruments	–	22,736	22,269	45,005
Derivatives designated as fair value hedging instruments	–	150,160	–	150,160
Fixed rate senior notes	–	436,915	–	436,915
Derivatives held for trading	–	31,326	–	31,326

Group 2010	Level one $000	Level two $000	Level three $000	Total balance $000
Financial assets at fair value				
Derivatives designated as cash flow hedging instruments	–	5,018	–	5,018
Derivatives designated as fair value hedging instruments	–	724	–	724
Financial liabilities at fair value				
Derivatives designated as cash flow hedging instruments	–	5,191	35,595	40,786
Derivatives designated as fair value hedging instruments	–	56,555	–	56,555
Fixed rate senior notes	–	530,085	–	530,085
Derivatives held for trading	–	33,365	–	33,365

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Parent 2011	Level one $000	Level two $000	Level three $000	Total balance $000
Financial assets at fair value				
Derivatives designated as cash flow hedging instruments	–	1,184	–	1,184
Derivatives designated as fair value hedging instruments	–	771	–	771
Derivatives held for trading	–	71	–	71
Financial liabilities at fair value				
Derivatives designated as cash flow hedging instruments	–	22,736	22,269	45,005
Derivatives designated as fair value hedging instruments	–	150,160	–	150,160
Fixed rate senior notes	–	436,915	–	436,915
Derivatives held for trading	–	31,326	–	31,326

Parent 2010	Level one $000	Level two $000	Level three $000	Total balance $000
Financial assets at fair value				
Derivatives designated as cash flow hedging instruments	–	4,977	–	4,977
Derivatives designated as fair value hedging instruments	–	724	–	724
Financial liabilities at fair value				
Derivatives designated as cash flow hedging instruments	–	5,191	35,595	40,786
Derivatives designated as fair value hedging instruments	–	56,555	–	56,555
Fixed rate senior notes	–	530,085	–	530,085
Derivatives held for trading	–	33,365	–	33,365

The following table presents the changes in level three instruments:

Group and Parent	Derivatives designated as cash flow hedging instruments $000
Balance as at 1 July 2009	(49,134)
Gains and losses recognised in profit or loss*	(3,022)
Gains and losses recognised in cash flow hedge reserve	16,561
Balance as at 30 June 2010	**(35,595)**
Balance as at 1 July 2010	(35,595)
Gains and losses recognised in profit or loss*	(1,586)
Gains and losses recognised in cash flow hedge reserve	14,912
Balance as at 30 June 2011	**(22,269)**

* Change in fair value of financial instruments

The following table summarises the impact of a reasonable change in the assumptions used to measure the fair value of financial instruments categorised as level three. A 10 per cent increase/decrease in the internal electricity forward price with all other variables held constant would have the following effect on Contact's post-tax profit for the year and on the cash flow hedge reserve component of other comprehensive income.

Group and Parent Favourable/(unfavourable)	30 June 2011 +10% $000	30 June 2011 -10% $000	30 June 2010 +10% $000	30 June 2010 -10% $000
Impact on post-tax profit	1,395	85	(1,207)	(1,967)
Impact on other comprehensive income	9,025	(7,714)	11,882	12,405

Financial instruments by category

The following tables provide an analysis of financial assets and financial liabilities by category:

Group 2011	Note	Held for trading $000	Loans and receivables $000	Available-for-sale financial assets $000	Other financial liabilities $000	Derivatives designated as fair value hedging instruments $000	Derivatives designated as cash flow hedging instruments $000	Total $000
Assets								
Cash and short-term deposits	12	–	47,267	–	–	–	–	47,267
Receivables		–	240,536	–	–	–	–	240,536
Derivative financial instruments		71	–	–	–	771	1,184	2,026
Available-for-sale financial assets	21	–	–	2,935	–	–	–	2,935
Total financial assets		**71**	**287,803**	**2,935**	–	**771**	**1,184**	**292,764**
Total non-financial assets								5,350,735
Total assets								**5,643,499**
Liabilities								
Borrowings	22	–	–	–	1,085,122	–	–	1,085,122
Derivative financial instruments		31,326	–	–	–	150,160	45,005	226,491
Payables and accruals		–	–	–	229,440	–	–	229,440
Total financial liabilities		**31,326**	–	–	**1,314,562**	**150,160**	**45,005**	**1,541,053**
Total non-financial liabilities								866,836
Total liabilities								**2,407,889**

Group 2010	Note	Held for trading $000	Loans and receivables $000	Available-for-sale financial assets $000	Other financial liabilities $000	Derivatives designated as fair value hedging instruments $000	Derivatives designated as cash flow hedging instruments $000	Total $000
Assets								
Cash and short-term deposits	12	–	921	–	–	–	–	921
Receivables		–	217,352	–	–	–	–	217,352
Derivative financial instruments		–	–	–	–	724	5,018	5,742
Available-for-sale financial assets	21	–	–	2,935	–	–	–	2,935
Total financial assets		–	**218,273**	**2,935**	–	**724**	**5,018**	**226,950**
Total non-financial assets								4,920,867
Total assets								**5,147,817**
Liabilities								
Borrowings	22	–	–	–	1,282,413	–	–	1,282,413
Derivative financial instruments		33,365	–	–	–	56,555	40,786	130,706
Payables and accruals		–	–	–	242,170	–	–	242,170
Total financial liabilities		**33,365**	–	–	**1,524,583**	**56,555**	**40,786**	**1,655,289**
Total non-financial liabilities								715,750
Total liabilities								**2,371,039**

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Parent 2011	Note	Held for trading $000	Loans and receivables $000	Available-for-sale financial assets $000	Other financial liabilities $000	Derivatives designated as fair value hedging instruments $000	Derivatives designated as cash flow hedging instruments $000	Total $000
Assets								
Cash and short-term deposits	12	–	47,191	–	–	–	–	47,191
Receivables		–	244,549	–	–	–	–	244,549
Derivative financial instruments		71	–	–	–	771	1,184	2,026
Total financial assets		**71**	**291,740**	–	–	**771**	**1,184**	**293,766**
Total non-financial assets								5,309,020
Total assets								**5,602,786**
Liabilities								
Borrowings	22	–	–	–	1,084,912	–	–	1,084,912
Derivative financial instruments		31,326	–	–	–	150,160	45,005	226,491
Payables and accruals		–	–	–	261,054	–	–	261,054
Total financial liabilities		**31,326**	–	–	**1,345,966**	**150,160**	**45,005**	**1,572,457**
Total non-financial liabilities								885,378
Total liabilities								**2,457,835**

Parent 2010	Note	Held for trading $000	Loans and receivables $000	Available-for-sale financial assets $000	Other financial liabilities $000	Derivatives designated as fair value hedging instruments $000	Derivatives designated as cash flow hedging instruments $000	Total $000
Assets								
Receivables		–	208,619	–	–	–	–	208,619
Derivative financial instruments		–	–	–	–	724	4,977	5,701
Total financial assets		–	**208,619**	–	–	**724**	**4,977**	**214,320**
Total non-financial assets								4,892,607
Total assets								**5,106,927**
Liabilities								
Borrowings	22	–	–	–	1,282,669	–	–	1,282,669
Derivative financial instruments		33,365	–	–	–	56,555	40,786	130,706
Payables and accruals		–	–	–	271,536	–	–	271,536
Total financial liabilities		**33,365**	–	–	**1,554,205**	**56,555**	**40,786**	**1,684,911**
Total non-financial liabilities								708,612
Total liabilities								**2,393,523**

Capital risk management objectives

Contact's capital includes share capital, reserves and retained earnings. Contact's objective when managing capital is to safeguard Contact's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Board may adjust the amount and nature of distributions to shareholders, return capital to shareholders, issue new shares or sell assets. The Board reviews the capital structure on a regular basis.

Contact monitors capital on the basis of the cash flow metrics required to sustain an investment credit rating.

Contact manages its capital structure to ensure it can continue to attract capital from investors and banks on reasonable terms. Contact seeks to retain a modest gearing ratio of net debt to total capital funding and maintain earnings sufficient to cover its interest borrowing costs satisfactorily.

Net debt is calculated as total borrowings less short-term deposits. Total borrowings are calculated using the New Zealand dollar equivalent value of unsecured loans after the effect of foreign exchange hedging of the borrowings and before the deduction of deferred financing costs.

Total capital funding is calculated as shareholders' equity, adjusted for the net effect of the fair value of financial instruments, plus net debt.

The gearing ratios at 30 June 2011 and 30 June 2010 are as follows:

Group	Note	30 June 2011 $000	30 June 2010 $000
Net debt			
Current borrowings	22	(3,012)	(3,180)
New Zealand dollar equivalent of notional borrowings – after foreign exchange hedging and before deferred financing costs	22	(587,299)	(587,299)
Retail fixed rate bonds – before deferred financing costs	22	(550,000)	(550,000)
Wholesale fixed rate bonds – before deferred financing costs	22	(100,000)	(100,000)
Committed credit facilities	22	–	(106,200)
Other non-current borrowings	22	(1,726)	(1,344)
Cash and short-term deposits	12	47,267	921
Total net debt		**(1,194,770)**	**(1,347,102)**
Equity			
Shareholders' equity		(3,235,610)	(2,776,778)
Remove net effect of fair value of financial instruments after tax		(52,561)	(48,317)
Adjusted equity		**(3,288,171)**	**(2,825,095)**
Total capital funding		**(4,482,941)**	**(4,172,197)**
Gearing ratio		**26.7%**	**32.3%**

24 Payables and accruals

	Note	Group 30 June 2011 $000	Group 30 June 2010 $000	Parent 30 June 2011 $000	Parent 30 June 2010 $000
Electricity purchases accrual		49,732	34,192	45,460	30,870
Other trade payables and accruals*		272,005	199,647	249,550	163,187
Advances from subsidiaries	29	–	–	86,438	69,148
Employee benefits		22,754	17,029	22,754	16,561
Interest payable		10,202	11,562	10,202	11,562
Total payables and accruals		**354,693**	**262,430**	**414,404**	**291,328**

* Other trade payables and accruals include transactions with Contact's ultimate parent entity (Origin) and its subsidiaries. Refer to note 29.

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25 Provisions

Group	Restoration/ environmental rehabilitation $000	Retail transaction processing outsourcing $000	Other $000	Total $000
Balance as at 1 July 2009	39,694	–	2,251	41,945
Provisions made during the year	14,309	3,330	1,215	18,854
Provisions used during the year	(5,506)	(427)	(114)	(6,047)
Provisions reversed during the year	(87)	–	(1,147)	(1,234)
Unwind of discount rate	3,057	–	–	3,057
Balance as at 30 June 2010	**51,467**	**2,903**	**2,205**	**56,575**
Balance as at 1 July 2010	51,467	2,903	2,205	56,575
Provisions made during the year	5,004	–	950	5,954
Provisions used during the year	(3,871)	(1,390)	(116)	(5,377)
Provisions reversed during the year	–	–	(170)	(170)
Unwind of discount rate	3,903	–	–	3,903
Balance as at 30 June 2011	**56,503**	**1,513**	**2,869**	**60,885**
Current	3,639	1,513	1,199	6,351
Non-current	52,864	–	1,670	54,534
	56,503	**1,513**	**2,869**	**60,885**

Parent	Restoration/ environmental rehabilitation $000	Retail transaction processing outsourcing $000	Other $000	Total $000
Balance as at 1 July 2009	37,818	–	2,251	40,069
Provisions made during the year	14,309	3,330	1,215	18,854
Provisions used during the year	(5,363)	(427)	(114)	(5,904)
Provisions reversed during the year	–	–	(1,147)	(1,147)
Unwind of discount rate	2,843	–	–	2,843
Balance as at 30 June 2010	**49,607**	**2,903**	**2,205**	**54,715**
Balance as at 1 July 2010	49,607	2,903	2,205	54,715
Provisions made during the year	4,321	–	950	5,271
Provisions used during the year	(3,684)	(1,390)	(116)	(5,190)
Provisions reversed during the year	–	–	(170)	(170)
Unwind of discount rate	3,826	–	–	3,826
Balance as at 30 June 2011	**54,070**	**1,513**	**2,869**	**58,452**
Current	3,415	1,513	1,199	6,127
Non-current	50,655	–	1,670	52,325
	54,070	**1,513**	**2,869**	**58,452**

The restoration and environmental rehabilitation provision includes estimates of future expenditure for the abandonment and restoration of areas from which natural resources are extracted and the expected cost of environmental rehabilitation of commercial sites. The provision also includes estimates of future expenditure for the removal of asbestos from generation properties and New Plymouth. Cash outflows are typically expected to coincide with the end of the useful lives of the sites, with the exception of asbestos removal costs, which are expected to be incurred within the next five years.

The retail transaction processing outsourcing provision represents the best estimate of the costs relating directly to the outsourcing of some back-office retail processes. Cash outflows in relation to this are expected to occur within the next year.

Other provisions cover a range of commercial matters that are the subject of legal privilege and/or confidentiality arrangements.

26 Deferred tax

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are offset on the face of the Statement of Financial Position where they relate to entities within a Consolidated Income Tax Group.

Group	**Assets 30 June 2011 $000**	**Assets 30 June 2010 $000**	**Liabilities 30 June 2011 $000**	**Liabilities 30 June 2010 $000**
Property, plant and equipment	–	–	(716,334)	(673,977)
Investment in associates	–	–	(2,863)	(2,270)
Inventories	2,537	2,113	–	–
Employee benefits	6,488	5,884	–	–
Provisions	12,379	17,831	–	–
Financial instruments	17,079	19,440	–	–
Other	510	–	–	(7,211)
Total	**38,993**	**45,268**	**(719,197)**	**(683,458)**

Parent	**Assets 30 June 2011 $000**	**Assets 30 June 2010 $000**	**Liabilities 30 June 2011 $000**	**Liabilities 30 June 2010 $000**
Property, plant and equipment	–	–	(710,720)	(669,686)
Investment in associates	–	–	(162)	(174)
Inventories	2,537	2,113	–	–
Employee benefits	6,488	5,741	–	–
Provisions	11,196	16,738	–	–
Financial instruments	17,079	19,440	–	–
Other	498	–	–	(7,552)
Total	**37,798**	**44,032**	**(710,882)**	**(677,412)**

Movement in deferred tax

Group	**Balance 1 July 2010 $000**	**Recognised in income $000**	**Recognised in other comprehensive income $000**	**Change in tax rate* $000**	**Balance 30 June 2011 $000**
Property, plant and equipment	(673,977)	(45,409)	–	3,052	(716,334)
Investment in associates	(2,270)	(675)	(123)	205	(2,863)
Inventories	2,113	454	–	(30)	2,537
Employee benefits	5,884	1,067	–	(463)	6,488
Provisions	17,831	(5,413)	–	(39)	12,379
Financial instruments	19,440	1,782	(3,765)	(378)	17,079
Other	(7,211)	7,757	–	(36)	510
Total	**(638,190)**	**(40,437)**	**(3,888)**	**2,311**	**(680,204)**

Contact Energy Limited and Subsidiaries
Notes to the financial statements
for the year ended 30 June 2011

Group	Balance 1 July 2009 $000	Recognised in income $000	Recognised in other comprehensive income $000	Change in tax rate* $000	Balance 30 June 2010 $000
Property, plant and equipment	(666,021)	(52,421)	–	44,465	(673,977)
Investment in associates	(2,235)	(74)	39	–	(2,270)
Inventories	2,179	85	–	(151)	2,113
Employee benefits	4,241	1,643	–	–	5,884
Provisions	15,173	3,503	–	(845)	17,831
Financial instruments	23,889	(1,359)	(2,248)	(842)	19,440
Other	(3,512)	(4,277)	–	578	(7,211)
Total	**(626,286)**	**(52,900)**	**(2,209)**	**43,205**	**(638,190)**

Parent	Balance 1 July 2010 $000	Recognised in income $000	Recognised in other comprehensive income $000	Change in tax rate* $000	Balance 30 June 2011 $000
Property, plant and equipment	(669,686)	(44,208)	–	3,174	(710,720)
Investment in associates	(174)	–	–	12	(162)
Inventories	2,113	454	–	(30)	2,537
Employee benefits	5,741	1,210	–	(463)	6,488
Provisions	16,738	(5,587)	–	45	11,196
Financial instruments	19,440	1,782	(3,765)	(378)	17,079
Other	(7,552)	8,086	–	(36)	498
Total	**(633,380)**	**(38,263)**	**(3,765)**	**2,324**	**(673,084)**

Parent	Balance 1 July 2009 $000	Recognised in income $000	Recognised in other comprehensive income $000	Change in tax rate* $000	Balance 30 June 2010 $000
Property, plant and equipment	(663,190)	(50,646)	–	44,150	(669,686)
Investment in associates	(174)	–	–	–	(174)
Inventories	2,179	85	–	(151)	2,113
Employee benefits	4,053	1,688	–	–	5,741
Provisions	14,048	3,535	–	(845)	16,738
Financial instruments	23,889	(1,359)	(2,248)	(842)	19,440
Other	(4,237)	(3,893)	–	578	(7,552)
Total	**(623,432)**	**(50,590)**	**(2,248)**	**42,890**	**(633,380)**

* The change in tax rate column reflects the net change in deferred tax as a result of the reduction in the corporate income tax rate to 28 per cent effective for Contact's income tax year ending 30 June 2012. The effect of the change is recognised in the Income Statement; Group and Parent $3.5 million (2010: Group $42.7 million and Parent $42.3 million) and in other comprehensive income; Group and Parent $(1.2) million (2010: Group and Parent $0.6 million) consistent with the underlying items that give rise to the deferred tax.

Unrecognised deferred tax assets and liabilities

There are no unrecognised deferred tax assets and liabilities.

27 Commitments

Capital and investment commitments

	Group 30 June 2011 $000	Group 30 June 2010 $000	Parent 30 June 2011 $000	Parent 30 June 2010 $000
Not later than one year	296,761	86,158	296,761	86,158
Later than one year and not later than five years	96,766	70,390	96,766	70,390
Later than five years	272	296	272	296
Total capital and investment commitments	**393,799**	**156,844**	**393,799**	**156,844**

Operating lease commitments

The operating leases are of a rental nature and are on normal commercial terms and conditions. The majority of the lease commitments are for buildings and accommodation. The remainder relate to vehicles and plant and equipment.

	Group 30 June 2011 $000	Group 30 June 2010 $000	Parent 30 June 2011 $000	Parent 30 June 2010 $000
Not later than one year	7,577	6,614	6,039	5,119
Later than one year and not later than five years	17,859	14,967	14,021	10,615
Later than five years	9,798	11,540	5,057	6,672
Total operating lease commitments	**35,234**	**33,121**	**25,117**	**22,406**

Lease commitments are stated exclusive of GST.

Operating lease income

The operating lease income is of a rental nature and on normal commercial terms and conditions.

	Group 30 June 2011 $000	Group 30 June 2010 $000	Parent 30 June 2011 $000	Parent 30 June 2010 $000
Not later than one year	1,355	1,476	1,216	1,157
Later than one year and not later than five years	2,235	3,107	1,858	2,525
Later than five years	217	177	50	80
Total operating lease income	**3,807**	**4,760**	**3,124**	**3,762**

Operating lease income is stated exclusive of GST.

Gas commitments

Maui contracts with Maui Development Limited

Contact has entered into four contracts to secure Maui gas from Maui Development Limited, each with a 1 April 2007 first delivery date and a 31 December 2014 expiry date. Delivery of gas from early 2014 is subject to confirmation of sufficient Maui reserves. Under the four contracts, and while the contracts remain in effect, Contact has agreed to make fixed annual payments for the right to take gas. The contracts require Contact to have arrangements in place in order to transport the gas in the Maui pipeline.

OMV New Zealand Limited

Contact has contracts with OMV New Zealand Limited giving Contact rights to gas from the Pohokura gas field until 31 December 2013. Under the current contract that expires on 31 March 2012, Contact is committed to pay fixed fees and may have to pay additional fees if the amount of gas actually uplifted is less than a contractually specified amount on each day. Under a second contract that has a first delivery date of 1 April 2012 and an expiry date of 31 December 2013, Contact has agreed to make fixed annual payments for the right to take gas. Under a third agreement Contact has an option to take gas on a daily basis through to 31 December 2011.

All contracts require Contact to have arrangements in place to transport the gas in the Maui pipeline.

Gas transmission contracts

Contact has contracts with Vector Gas Limited relating to the transport of natural gas. Under these contracts, Contact is committed to pay minimum fees for reserved pipeline capacity.

28 Resource consents

Contact requires resource consents (authorisations to use land, water and air obtained under the Resource Management Act 1991) to enable it to operate its geothermal, thermal and hydro power stations and its Ahuroa underground gas storage facility in Taranaki as well as to enable the direct supply of geothermal energy to industry in Taupo. The duration of resource consents, once exercised, may vary up to a maximum of 35 years except for land use consents, which run for the duration of the activity they authorise. The current resource consents within which Contact's power stations operate are due for renewal at varying times.

In addition to consents for its existing operations, Contact has consents to construct and operate a net 220 MW geothermal power station at Te Mihi (near Taupo). Construction has commenced on a two-unit 166 MW Te Mihi power station and works are well underway. Contact also holds consents to install a third unit at Te Mihi.

At Otahuhu, Contact holds resource consents to construct and operate a new 400 MW combined-cycle power station (Otahuhu C) for which the lapse date (the date by which the consents must be exercised) has been extended to 2015. The consents themselves expire in 2021. Contact also has the ability to construct and operate a 120 MW open-cycle power station under its existing consents (Otahuhu A).

In Taranaki Contact has consents to construct and operate an up to 500 MW combined-cycle power station at its Stratford site (TCC 2) for which the lapse period has been extended to 2017. These consents expire in 2034.

Contact has obtained consents to construct and operate a 17.2 MW hydro power station on the Hawea Dam.

In December 2010, Contact secured consents for a 250 MW geothermal project (Tauhara II) near Taupo.

In March 2011, Contact was granted the consents necessary to build a 156 MW wind farm at Waitahora, near Dannevirke in the Tararua District.

In May 2011, Contact was granted consents for a 504 MW wind farm on the west Waikato coast called Hauāuru mā raki.

29 Related party transactions

Parent company

As at 30 June 2011, Origin Energy Pacific Holdings Limited is the majority shareholder in the Parent, owning 51.8 per cent (2010: 51.0 per cent) of the ordinary shares of the Parent.

Further shares amounting to 0.8 per cent (2010: 0.8 per cent) of the Parent's ordinary shares are held by Origin Energy Universal Holdings Limited and Origin Energy New Zealand Limited at 30 June 2011. All three companies are 100 per cent owned by Origin, an Australian incorporated company.

The ultimate parent entity of Contact is Origin.

Identities of related parties with whom material transactions have occurred

Notes 18, 19 and 20 identify group entities, associates and joint ventures in which Contact has an interest. All of these entities are related parties of the Parent.

Related parties also include other Origin Group entities, the Directors and members of the Leadership Team.

Material related party transactions

Transactions with ultimate parent entity

- The Parent issued 7,679,632 and 6,035,007 ordinary shares to its Origin shareholders pursuant to the Parent's PDP on 27 September 2010 and 31 March 2011 respectively (2010: 8,252,200 on 22 September 2009 and 5,563,640 on 31 March 2010). As a result of elections, the Parent completed an off-market buy-back of 606,849 shares on 27 September 2010 and 589,718 shares on 31 March 2011 (2010: 868,865 on 22 September 2009 and 568,385 on 31 March 2010).
- On 9 June 2011, the Parent issued 36,206,220 shares to its Origin shareholders as part of the Entitlement Offer made to all New Zealand and Australian resident shareholders at an issue price of $5.05 per share. A further 3,322,068 shares were issued as part of the book-build. Refer to note 10.

Amounts paid/payable

- Dennis Barnes, Chief Executive Officer of Contact, is seconded to Contact from his employer Origin. Fees incurred or accrued since Mr Barnes' appointment on 1 April 2011 total $0.4 million (2010: nil), which includes the cost of his salary and other employment benefits including a 2010/2011 short-term incentive payment. At 30 June 2011, $0.3 million remains outstanding (2010: nil). In addition, share-based payments under Contact's Employee Long-Term Incentive Scheme amounting to $0.04 million (2010: nil) were accrued for Mr Barnes, being the fair value of the share-based payments relating to this reporting period. Refer to note 11.
- David Baldwin, former Managing Director of Contact, was seconded to Contact from his employer Origin until 31 March 2011. Fees incurred or accrued during the year ended 30 June 2011 in relation to Mr Baldwin's role as Managing Director totalled $1.1 million (2010: $1.2 million), which includes the cost of his salary and other employment benefits including a 2010/2011 short-term incentive payment. At 30 June 2011, $0.4 million (2010: $0.5 million) of this amount remains outstanding. In addition, share-based payments under Contact's Employee Long-Term Incentive Scheme amounting to $0.6 million (2010: $0.5 million) were accrued for Mr Baldwin, being the fair value of the share-based payments relating to this reporting period. Refer to note 11.
- Origin was employed for consulting work on the Stratford Peaker project. There were no transactions during the year ended 30 June 2011 (2010: $0.5 million). At 30 June 2011, no amounts remain outstanding (2010: nil).
- Contact, Origin and Origin Energy Services Limited have entered into an agreement in respect of the purchase of SAP-related intellectual property. During the year ended 30 June 2011, the transactions under this agreement totalled $5.0 million (2010: nil). At 30 June 2011, $2.5 million of this amount remains outstanding (2010: nil).
- Contact and Origin have an agreement in respect of the purchase of SAP-related software. During the year ended 30 June 2011, the transactions under this agreement totalled $0.1 million (2010: nil). At 30 June 2011, $0.1 million remains outstanding (2010: nil).
- Contact and Origin have entered into a Master Services Agreement for the provision of professional, consulting and/or administrative services between the parties. In the year ended 30 June 2011, two members of staff were seconded from Contact to Origin and seven members of staff were seconded from Origin to Contact. These services were charged at normal commercial rates. Subsequent to the Christchurch earthquake, Origin seconded several employees to Contact on a temporary basis. These services were charged at normal commercial rates.

Transactions with Origin subsidiaries

Amounts paid/payable

- Contact and Origin Energy Resources NZ (TAWN) Limited have an agreement in respect of the development and operation of the Ahuroa gas storage facility. During the year ended 30 June 2011, the transactions under this agreement totalled $12.5 million (2010: $7.8 million). At 30 June 2011, $12.0 million remains outstanding (2010: nil).
- Contact has an agreement with Origin Energy Services Limited to provide infrastructure and data centre services for Contact's SAP system. During the year ended 30 June 2011, the transactions under this agreement totalled $2.6 million (2010: $1.1 million). At 30 June 2011, $0.2 million remains outstanding (2010: nil).
- Contact, Origin Energy Resources NZ (TAWN) Limited and Origin Energy Five Star Holdings Limited have an agreement in respect of drilling and other costs associated with the development of assets for the Ahuroa gas storage facility. During the year ended 30 June 2011, the transactions under this agreement totalled $2.8 million (2010: $24.6 million). At 30 June 2011, $0.3 million remains outstanding (2010: $0.6 million).
- Rockgas Limited and Origin Energy LPG Limited have an LPG Sale and Purchase Agreement for the purchase and shipping of imported LPG. During the year ended 30 June 2011, transactions totalled $7.4 million (2010: $24.8 million). At 30 June 2011, $1.9 million remains outstanding (2010: $2.0 million).

- Rockgas Limited has an LPG Gas Sale Agreement with Origin Energy Resources NZ (Rimu) Limited and Origin Energy Resources NZ (TAWN) Limited for the supply of LPG from the Rimu Production Station. Transactions for the year totalled $0.9 million (2010: $1.7 million). At 30 June 2011, $0.2 million remains outstanding (2010: $0.1 million).
- Rockgas Limited has an LPG Sales and Logistics Agreement with Origin Energy Resources (Kupe) Limited and Kupe Mining (No.1) Limited for the supply of LPG from the Kupe Production Station. Transactions for the year totalled $35.9 million (2010: $19.1 million). At 30 June 2011, $2.6 million remains outstanding (2010: $4.4 million).
- Rockgas Limited and Origin Energy Contracting Limited had an agreement in place during the year whereby Origin Energy Contracting Limited provided coastal LPG shipping services to Rockgas Limited. Transactions for the year totalled $0.2 million (2010: $3.3 million). At 30 June 2011, no amounts remain outstanding (2010: nil).

Amounts received/receivable

- Gas sales of $0.1 million to Origin Energy Resources NZ Limited were made in the year ended 30 June 2011 (2010: $0.1 million). At 30 June 2011, no amounts remain outstanding (2010: nil).
- Contact and Origin Energy Resources NZ Limited have an electricity supply contract to supply Origin's facilities in Taranaki. Transactions for the year amounted to $0.8 million (2010: $0.9 million). At 30 June 2011, $0.7 million remains outstanding (2010: $0.5 million).

Transactions with subsidiaries and associates

- Advances to/from subsidiaries and associates are included in notes 13 and 24 respectively. Advances are repayable on demand and are interest free.
- The Parent had transactions with Empower Limited, a 100 per cent owned subsidiary, in respect of management fees, which are calculated at arm's length. These charges totalled $11.3 million for the year ended 30 June 2011 (2010: $13.8 million). All balances are settled through the intercompany account.
- The Parent had transactions with Empower Limited in respect of gas purchases, which are calculated at arm's length. Purchases from Empower Limited totalled $56.7 million for the year ended 30 June 2011 (2010: $104.2 million). All balances were settled through the intercompany account and this contract ended on 31 December 2010.
- The Parent charges Rockgas Limited a management fee for various management services. Total fees charged for the year ended 30 June 2011 amounted to $11.0 million (2010: $10.9 million). All balances are settled through the intercompany account.
- Contact pays various operating expenses on behalf of its wholly owned subsidiaries, which are passed on directly to those subsidiaries.
- During the year ended 30 June 2011, Rockgas Limited had transactions with Rockgas Timaru Limited (Rockgas Timaru), an associate, in respect of the supply of LPG to Rockgas Timaru amounting to $1.0 million (2010: $1.1 million), and in respect of the provision of deliveries by Rockgas Timaru amounting to $0.1 million (2010: $0.1 million), both of which were calculated at arm's length. At 30 June 2011, no amount remains outstanding (2010: $0.2 million receivable).

Transactions with Directors and key management personnel

- Fees paid or accrued to Directors and Officers of Origin for director services for the year ended 30 June 2011 totalled $0.5 million (30 June 2010: $0.5 million). At 30 June 2011, $0.1 million remains outstanding (30 June 2010: $0.1 million).
- New Zealand based Directors and members of the Leadership Team purchase gas and electricity from the Group for domestic purposes.

30 Key management personnel

The table below includes remuneration of Directors, the Chief Executive Officer and his Leadership Team.

	Note	Group 30 June 2011 $000	Group 30 June 2010 $000	Parent 30 June 2011 $000	Parent 30 June 2010 $000
Directors' fees		**1,008**	**993**	**1,008**	**993**
Chief Executive Officer and Leadership Team					
Salary and other short-term benefits		6,068	4,537	6,068	4,537
Share-based payments	11	1,493	1,065	1,493	1,065
Total Chief Executive Officer and Leadership Team		**7,561**	**5,602**	**7,561**	**5,602**
Total key management personnel		**8,569**	**6,595**	**8,569**	**6,595**

Group and Parent For the year ended 30 June 2011 Director	Position	Board fees $	Committee and special fees $	Total remuneration $
G King	Chairman	200,000	–	200,000
P Pryke	Deputy Chairman	125,000	35,000	160,000
B Beeren	Director	110,000	37,000	147,000
K Moses	Director	110,000	20,000	130,000
S Sheldon	Director	110,000	86,807	196,807
W Dewes	Director	110,000	37,000	147,000
D Baldwin*	Director	27,500	–	27,500
Total		**792,500**	**215,807**	**1,008,307**

Group and Parent For the year ended 30 June 2010 Director	Position	Board fees $	Committee and special fees $	Total remuneration $
G King	Chairman	200,000	–	200,000
P Pryke	Deputy Chairman	137,500	17,500	155,000
B Beeren	Director	105,000	37,000	142,000
J Milne (retired 30 June 2010)	Director	105,000	60,000	165,000
K Moses	Director	105,000	20,000	125,000
S Sheldon	Director	105,000	32,000	137,000
W Dewes (appointed 22 February 2010)	Director	38,575	30,710	69,285
D Baldwin*	Managing Director	–	–	–
Total		**796,075**	**197,210**	**993,285**

* On 31 March 2011, David Baldwin's secondment from Origin ended. As Managing Director Mr Baldwin did not receive any fees in his capacity as a Director on the Board. Fees received have been in Mr Baldwin's capacity as a non-executive Director subsequent to 1 April 2011.

31 Whirinaki generation plant

Contact is contracted to operate the Crown-owned reserve generation plant at Whirinaki in Hawke's Bay.

Contact owns the Whirinaki site and has agreed to lease it to the Crown until June 2015. The Crown owns the plant and has engaged Contact to operate and maintain it until June 2015.

Under the Project Development Agreement entered into in 2003, the Crown agreed to pay Contact compensation for loss of use of the site. Contact also receives an annual fee under the Operating and Maintenance Management Services Agreement.

In December 2010 the Crown offered the Whirinaki generating plant for sale by open tender. The Crown has indicated a wish to transfer ownership of the plant on either 1 December 2011 or 1 October 2012.

32 Contingent liabilities

There are no known material contingent liabilities at 30 June 2011 (2010: nil).

33 Subsequent events

On 19 August 2011, the Board declared a distribution pursuant to the PDP in the form of a non-taxable bonus issue for the year ended 30 June 2011 equivalent to 12.0 cents per share, for shares on issue at 5 September 2011, the record date, with bonus shares allocated and/or cash distributed, if elected, on 27 September 2011. Refer to note 8.

On 19 August 2011, the Board approved the issue of 18,002 performance share rights. Refer to note 11.

Independent Auditor's Report

To the shareholders of Contact Energy Limited

Report on the Company and Group Financial Statements

We have audited the accompanying financial statements of Contact Energy Limited ('the company') and the group, comprising the company and its subsidiaries, on pages 52 to 105. The financial statements comprise the statements of financial position as at 30 June 2011, the income statements and statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, for both the company and the group.

Directors' Responsibility for the Company and Group Financial Statements

The directors are responsible for the preparation of company and group financial statements in accordance with generally accepted accounting practice in New Zealand and International Financial Reporting Standards that give a true and fair view of the matters to which they relate, and for such internal control as the directors determine is necessary to enable the preparation of company and group financial statements that are free from material misstatement whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these company and group financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the company and group financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the company and group financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company and group's preparation of the financial statements that give a true and fair view of the matters to which they relate in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company and group's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, as well as evaluating the presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Our firm has also provided other assurance services to the company and group. Partners and employees of our firm also deal with the company and group on normal terms within the ordinary course of trading activities of the business of the company and group. These matters have not impaired our independence as auditors of the company and group. The firm has no other relationship with, or interest in, the company and group.

Opinion

In our opinion the financial statements on pages 52 to 105:

- comply with generally accepted accounting practice in New Zealand;
- comply with International Financial Reporting Standards;
- give a true and fair view of the financial position of the company and the group as at 30 June 2011 and of the financial performance and cash flows of the company and the group for the year then ended.

Report on Other Legal and Regulatory Requirements

In accordance with the requirements of sections 16(1)(d) and 16(1)(e) of the Financial Reporting Act 1993, we report that:

- we have obtained all the information and explanations that we have required; and
- in our opinion, proper accounting records have been kept by Contact Energy Limited as far as appears from our examination of those records.

KPMG

19 August 2011

Wellington

Corporate directory

Board of Directors

Grant King, Chairman
Phillip Pryke, Deputy Chairman
David Baldwin
Bruce Beeren
Whaimutu Dewes
Karen Moses
Sue Sheldon

Leadership team

Dennis Barnes, Chief Executive Officer
Ruth Bound, General Manager, Retail and Strategic Marketing
Graham Cockroft, Chief Operating Officer
Mark Elliott, Chief Financial Officer
Luc Hennekens, Chief Information Officer and General Manager, Information and Communication Technology
Paul Ridley-Smith, General Counsel and Company Secretary
Annika Streefland, General Manager, People and Culture
Andy Williams, General Manager, Enterprise Transformation

Head office

Level 1, Harbour City Tower
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Email: investor.centre@contactenergy.co.nz
Website: www.contactenergy.co.nz

NZX trading code: CEN

Company number: 660760

Share registrar

Computershare Investor Services Limited
Private Bag 92119
Auckland 1142
159 Hurstmere Road
Takapuna, Auckland 0622

Shareholder enquiries

To change your address, add or change your bank account and to view your registered details including transactions, please visit:

www.computershare.co.nz/investorcentre

General enquiries can be directed to:

enquiry@computershare.co.nz
Private Bag 92119, Auckland 1142
Telephone +64 9 488 8777
Facsimile +64 9 488 8787

Please assist our registrar by quoting your CSN or shareholder number.

General enquiries on the company's operating and financial performance should be made to the company at:

Chief Financial Officer
Contact Energy Limited
PO Box 10742, The Terrace, Wellington 6143
Email: investor.centre@contactenergy.co.nz

Financial calendar

Final distribution announced	22 August 2011
Record date for final distribution	5 September 2011
Cut-off date for receipt of election notices for buy back of bonus shares under Profit Distribution Plan	Noon, 23 September 2011
Final distribution date	27 September 2011
End of first quarter	30 September 2011
Annual meeting	19 October 2011
Half year end	31 December 2011
Results announcement for the half year ended 31 December 2011	February 2012
End of third quarter	31 March 2012
Financial year end	30 June 2012

Notes

The paper this report is printed on is from sustainable plantation forests. The manufacturer is ISO accredited and an environmental award winner. The ink used in this report is vegetable based, mineral free and from 100 per cent renewable resources.

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