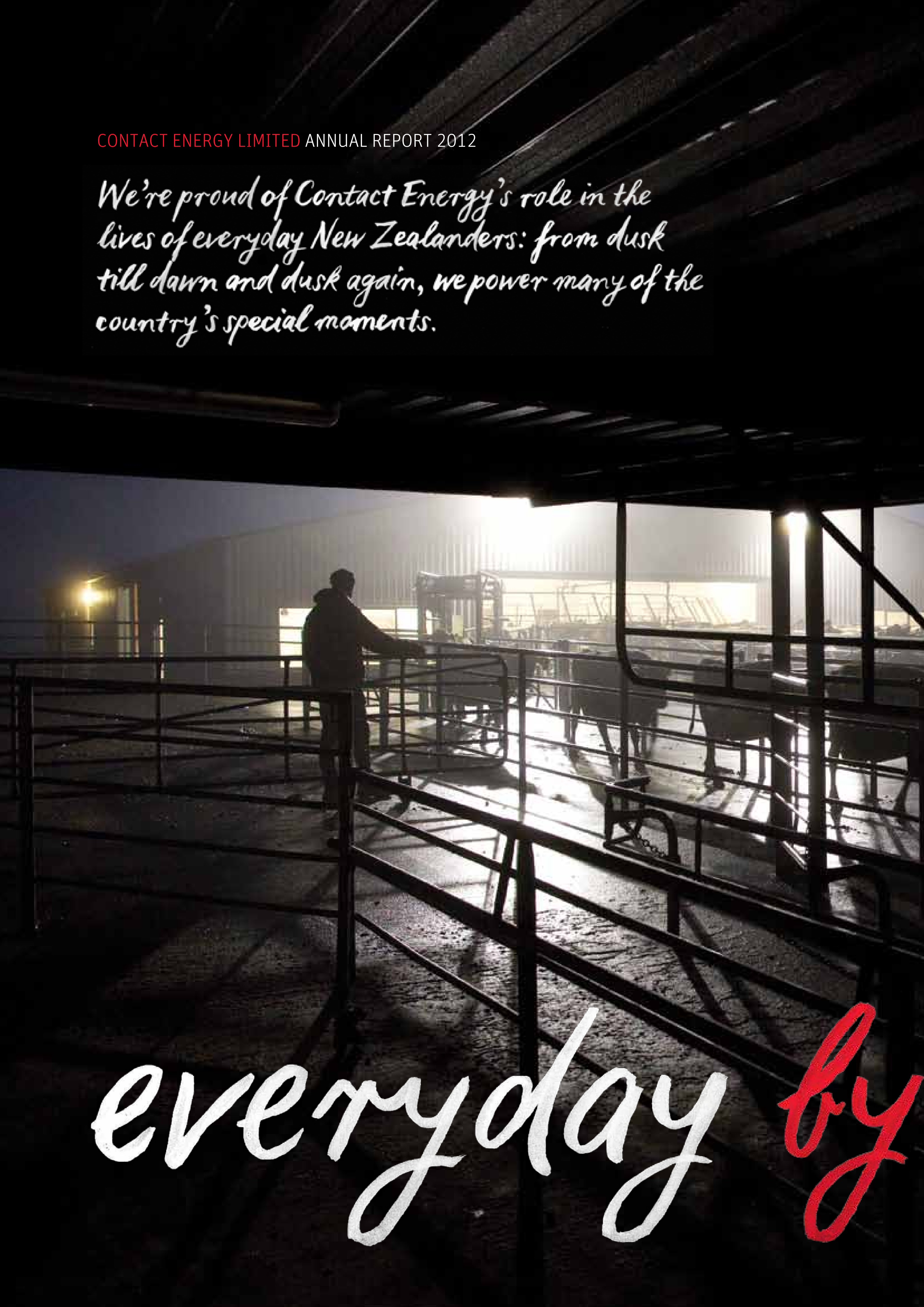
contact

ANNUAL REPORT 2012

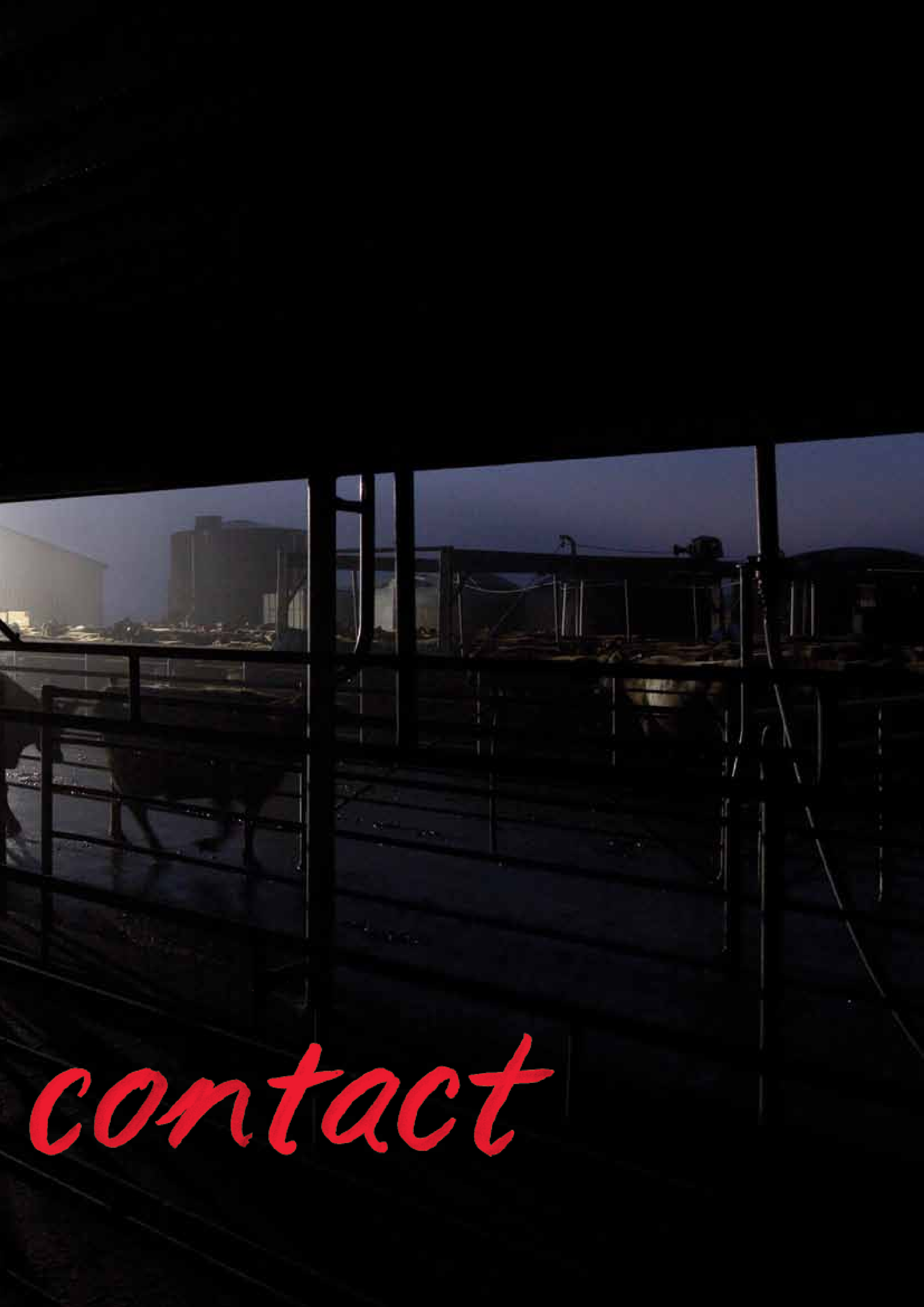
powered by contact

CONTACT ENERGY LIMITED ANNUAL REPORT 2012

We're proud of Contact Energy's role in the lives of everyday New Zealanders: from dusk till dawn and dusk again, we power many of the country's special moments.



everyday by



contact


Our image gallery captures the everyday Kiwi moments made possible by Contact.

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ANNUAL REPORT 2012

The Annual Meeting of Shareholders of Contact Energy Limited will be held at the Ellerslie Event Centre, 80-100 Ascot Avenue, Greenlane East, Auckland, New Zealand on Wednesday 17 October 2012 commencing at 10.00am.

This Annual Report is dated 7 September 2012 and is signed on behalf of the Board by:

Grant King
Chairman

Sue Sheldon
Director

teamwork by

1.2 million

Our call centre teams are committed to being genuinely helpful. And they are. Last year, around 190 call centre staff received – and answered – over 1.2 million customer calls. To ensure the best service, Contact seeks call centre team members who are positive, adaptable, and have great problem solving skills.

Gwenda McVeigh, Customer Service Representative, Levin

contact

mahi-tahi by

Face 2 Face

Contact continues to build our relationships with tangata whenua as we develop projects such as Te Mihi and look forward to the future of Ohaaki. We have learned that healthy and respectful partnerships are a hallmark of projects that are environmentally, culturally and financially sustainable. Through our geothermal developments, Contact works with Māori entities and is building partnerships with iwi and Māori economic authorities for mutual benefit.

Topia Rameka, Chairman of the Tauhara Moana Trust

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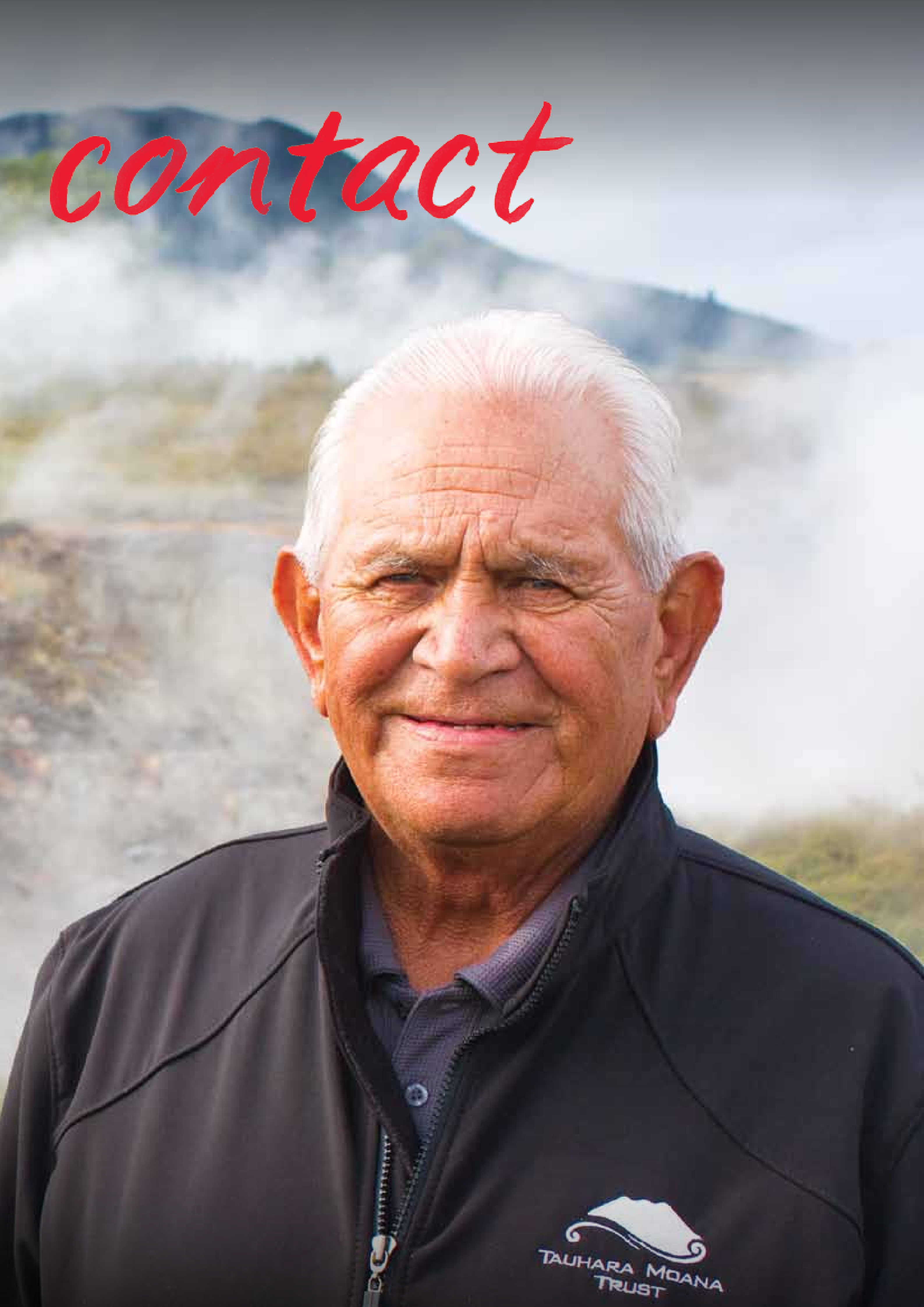


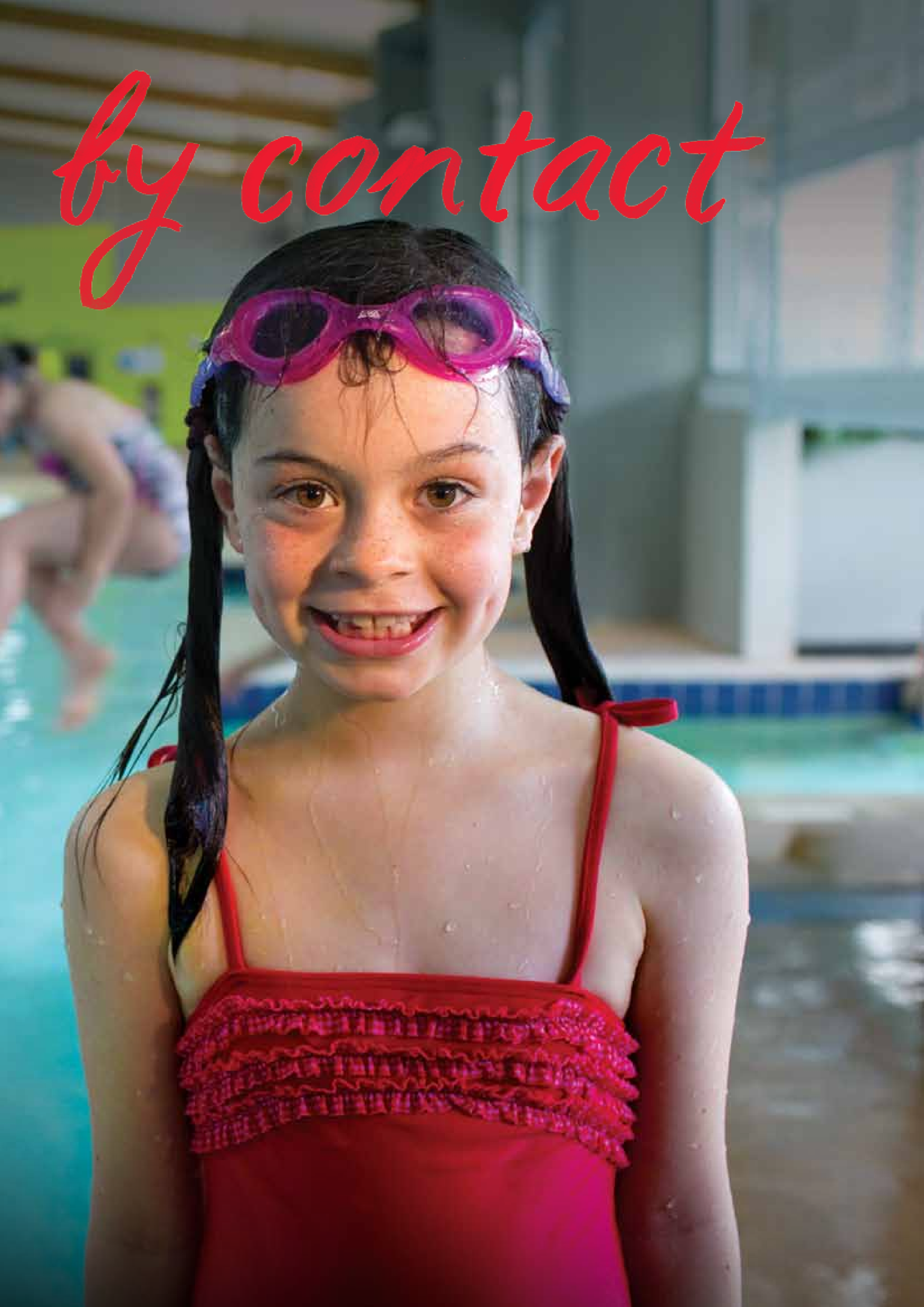
community

25,000

The number of free swimming lessons leapt into by primary and intermediate school students over the last year, thanks to Contact's sponsorship of Swim Well Taupō. Lessons involve 17 schools across the wider Taupō region. Our aim is to support the National Water Safety Goal that every year 8 student can swim 200 metres.

Pupils from St Patrick's Catholic School, Taupō

fy contact



local by con

1,200

Fresh bread is always popular at Johnsonville's Nada Bakery – they sell, on average, well over a thousand bread items a week. Thousands of other delicious items sold include buns, doughnuts and pies. The bakery is powered by Contact, just like over 24 per cent of all the small and medium-sized enterprises around New Zealand.

Michael Gray, Owner of Nada Bakery, Johnsonville and Tawa

tact

performance

Chairman's Review 2012

The benefits of Contact's diverse generation and fuel portfolio were realised in the financial year 2012 (FY12) with Contact increasing profit for the year by $40 million (27 per cent). Contact's earnings before net interest expense, income tax, depreciation, amortisation, change in fair value of financial instruments and other significant items (EBITDAF) for FY12 was $509 million, $67 million higher than FY11 (15 per cent). Underlying earnings after tax (profit for the year adjusted for significant items that do not reflect the ongoing performance of the Group) was $176 million, up $25 million (17 per cent).


by contact

The Contact Energy Board of Directors resolved that the final distribution to shareholders would be the equivalent of 12 cents per share, resulting in a total distribution for the year of 23 cents per share. The distribution represents a payout ratio of 93 per cent of Contact's underlying earnings per share. Contact will utilise the Profit Distribution Plan for the last time.

Contact has added long-term funding during the year to support current capital spend and improve balance sheet flexibility through the $200 million issuance of capital bonds and the establishment of the long-term, $105 million export-credit agency financing for the Te Mihi project. Contact's balance sheet gearing remains strong. As at 30 June 2012, net debt was $1.44 billion with a gearing ratio of 29 per cent.

Overall, FY12 was much drier than the previous financial year with Contact's hydro generation at record low levels. Lower hydro generation meant higher wholesale electricity prices and greater need for thermal generation, including from Contact's Stratford peaker plant. Contact also called on the Ahuroa gas storage facility: injections in the first half of FY12 reflected an oversupplied gas market; while extractions in the second half of FY12 provided additional volume when all our thermal units were needed. Contact's financial results for FY12 highlight the benefits of having a diverse and flexible generation portfolio in the New Zealand market, and the continuing reduction of contracted gas volumes positions Contact to achieve further gains from this mix in the future.

Contact has further enhanced the diversity of its generation assets during the year as the generation portfolio added the diesel-fired Whirinaki power station. Flexibility is becoming increasingly important in the currently oversupplied electricity market as it enables Contact to take advantage of low wholesale electricity prices by not using its thermal capacity but still protects its earnings during higher priced periods.

Contact successfully maintained its retail market share in a highly competitive environment where demand remains suppressed. As discussed in last year's report, the residential retail market experienced an unprecedented level of customer churn in the last quarter of FY11 and competition has continued to be strong in 2012. However, Contact succeeded in this environment to maintain customer numbers and sales volumes at almost the same levels as FY11, and increase its sales volumes to commercial and industrial customers.

With the continued suppressed demand for electricity we expect the retail market to remain highly competitive. Contact will continue to focus on being competitive and serving our customers well.

With the company's increasingly diverse generation and fuel portfolio, customer focus and the Te Mihi power station due to be commissioned next year, your company is in a strong position to compete in this environment and is well positioned for the years ahead.

Contact has performed well in 2012 and is well positioned for the future. Thank you for your support.

Grant King
Chairman

Contact's Te Mihi project is part of a substantial programme of investments that safely and sustainably expands the use of the Wairakei steamfield. When Te Mihi comes on line in 2013 it will provide New Zealanders with 166 megawatts of renewable, geothermal power which could power up to 160,000 homes.


highlights
CEO's Review
2012

by contact

Investment in portfolio flexibility contributes to earnings growth

I am pleased to report that FY12 has been a successful one for Contact. We have delivered on key commitments and, as expected, the flexibility of our portfolio has well-proven its worth. Further, while the overall market has seen high levels of customer churn, our focus on retaining and gaining customers has led to our customer numbers remaining relatively stable.

I reported last year that the Ahuroa gas storage facility and the Stratford peaker plant had been brought into service and were showing positive early signs of contributing to the company's flexibility and that we expected gains to be made from this investment. We also stated when the interim result was released that we expected an improved second half result. Contact has delivered on both.

The second half of FY12 was characterised by low hydrology and our thermal assets, including the Stratford peaker plant, were drawn on as lower hydro generation was replaced with thermal generation. This resulted in wholesale electricity prices being higher overall than the previous year; however, the impact of our hydro generation falling by 25 per cent meant the increased prices were largely offset by the higher costs associated with thermal generation.

The Contact Epic – New Zealand's ultimate mountain biking challenge.

In the first half of FY12 Contact met its gas take-or-pay commitments with no excess take-or-pay costs, contributing to a $24 million improvement over FY11. Additional savings in gas and carbon unit costs also contributed to the improved result.

In December 2011, Contact completed the acquisition of the 150 MW Whirinaki diesel-fired peaker plant. The plant is a welcome addition to Contact's portfolio, providing enhanced flexibility and fuel security to complement Contact's existing generation capacity. Since its acquisition, Whirinaki has been used seven times, predominantly to manage portfolio risks during unplanned outages and transmission constraints. Contact also completed the exit of a 25 per cent shareholding in Australia-based Oakey Power Holdings Pty Limited in January 2012. Combined with the Whirinaki acquisition, this is a positive portfolio change, shedding a non-controlling offshore interest and gaining more flexible generation capacity in New Zealand.

Our results show substantial improvement in our underlying business performance as we have utilised our flexible fuel and generation portfolio and responded decisively to increased competition in the retail sector.

Customers

Despite the market continuing to experience high levels of customer churn, Contact's sales volumes were in line with the prior year, with continuing growth in commercial and industrial sales. Competition in the mass market sector continued to be strong in FY12, and a focus on retaining and gaining customers has enabled Contact to achieve customer numbers and sales volumes at almost the same levels as in the prior year.

In a period when competitors in the electricity industry will be focused on the mixed ownership model, our focus will be on remaining competitive and providing valued services and products to our customers.

Contact's strategy to align load with the location of our generation was validated by the dry conditions of the second half of FY12. With around 71 per cent of load now located in the North Island, we were much better placed to deal with reduced South Island generation and transmission constraints than during the last dry period.

Contact continued to increase its commercial and industrial sales, with total volumes increasing by 4 per cent to 4,092 gigawatt hours (GWh) and margins increasing.

After successfully completing the finance, procurement and generation projects, the Enterprise Transformation programme is now focused on upgrading Contact's aging customer billing and service systems that will enable us to better meet the needs of customers in the future.

Te Mihi development continues toward completion

Progress on building Contact's Te Mihi power station continues. The 166 MW project is due for completion in 2013, and combined with several other projects focused on the care and sustainability of the Wairakei steamfield, represents a significant investment in the Wairakei geothermal resource.

The completion of Te Mihi next year will bring to an end the current investment programme in around 500 MW of low-cost, flexible, thermal and geothermal generation capacity, and New Zealand's first gas storage facility.

Post Te Mihi, our full focus will be on optimising the value of our current assets and minimising the costs required to retain Contact's high quality range of development options. While the world-class geothermal resource at Tauhara is ready for execution, the current low demand growth environment means Contact will not be committing to further generation developments in the near term.

I also announced in May this year that after three years of thorough research and community engagement, we would not proceed with any of the options being investigated for hydro generation development on the Clutha at this time.

People

The Total Recordable Injury Frequency Rate (TRIFR) is the total number of recordable injuries for employees per million hours worked. Contact reported a modest improvement in the company's safety performance this year, reducing its TRIFR by 2 per cent over the year, to 5.8.

We had a huge improvement in safety performance in our operations business unit which shows that with a concerted effort from the whole team and the support of our core health and safety systems, we can achieve our aspiration of zero harm.

To help us in this, in August 2012, we introduced Tana Umaga as spokesperson for our employee Safety and Well-being campaign. The initiative is about changing our health and safety culture by challenging our people to think ahead, look out for their mates and take personal responsibility for managing the risks they face in their day-to-day roles.

Communities

Contact has continued to sponsor local events and activities in the communities we operate in. We have also continued to strengthen our partnerships with iwi as we develop projects such as Te Mihi and as we look to the future of Ohaaki.

Water has also been used to generate electricity in New Zealand for over 100 years and is one of the country's greatest natural resources and assets. In 2009 the Government established the Land and Water Forum to consider the myriad of issues around the use and management of this valuable resource. Environmentalists, farmers, industry, iwi and electricity generators have come together to seek consensus recommendations for water issues. Contact fully supports the work of the Forum and was active in the debate during the year. We believe that a multi-stakeholder approach to debate the issues is the best way forward for what is a complex and multi-faceted topic.

Looking forward

Contact's immediate focus through the 2013 financial year will continue to be on delivery – completing Te Mihi, progressing the Enterprise Transformation programme and continuing to focus on providing better services to customers.

An important decision in the next 18 months relates to the amount of gas we will contract and the resulting operating regime of our combined-cycle gas-fired power stations. Changes in both the supply and demand for gas in New Zealand mean there are increasing choices available to Contact, which gives me confidence that we can markedly improve our contracted position.

Completing the current asset and systems investment programme, leveraging existing investments to reduce costs and continuing to improve our fuel purchase costs will position Contact to grow earnings in coming years.

This is a period of exciting transformation and I appreciate your support.

Dennis Barnes

Dennis Barnes
Chief Executive Officer

Our Board

GRANT KING

CHAIRMAN AND NON-EXECUTIVE DIRECTOR

Term of office: appointed director 1 October 2004, last re-elected 2011 annual meeting

Board committees: chairman of the Nominations Committee and member of the Risk Committee

Grant King was appointed to the board when Origin Energy became Contact's majority shareholder in 2004. He is the managing director of Origin Energy, which he was appointed to at the time of its demerger from Boral Limited in February 2000, and was managing director of Boral Energy from 1994. Prior to joining Boral, he was general manager for AGL Gas Companies. Grant is a councillor of the Australian Petroleum Production and Exploration Association, a director of the Business Council of Australia, and chairman of the Business Council of Australia Infrastructure and Sustainability Growth Committee. Grant has a civil engineering degree from the University of New South Wales and a Master of Management from the University of Wollongong.

PHILLIP PRYKE

DEPUTY CHAIRMAN AND INDEPENDENT NON-EXECUTIVE DIRECTOR

Term of office: appointed director 8 November 1995, last re-elected 2010 annual meeting

Board committees: chairman of the Remuneration Committee and member of the Health, Safety and Environment Committee, Nominations Committee, and Risk Committee

Phil Pryke has been involved with Contact since its establishment in 1995 and was the chairman of the board until October 2004. Phil has management and governance experience in a diverse range of industries including the energy sector, fishing, financial services, health, and technology industries. Phil is a director of Co-Investor Group, Tru-Test Corporation Limited, and Goodman (NZ) Limited. His previous roles include vice president, global sales and client solutions – Asia Pacific at Electronic Data Systems (EDS), chief executive of Nextgen Networks and chief executive officer of Lucent Technologies Australia Pty Limited. Phil holds an economics degree.

DAVID BALDWIN

NON-EXECUTIVE DIRECTOR

Term of office: appointed director 16 March 2009, last elected 2011 annual meeting

Board committees: chairman of the Health, Safety and Environment Committee, and member of the Risk Committee

David Baldwin was managing director of Contact between 2009 and April 2011 and served as chief executive officer of the company from 2006-2009. Before joining Contact, David was based in Asia and the United States overseeing the energy asset interests of a United States-based investment fund. He has also held senior development and operational roles in Asia and the United States with MidAmerican Energy Holding Company, a United States-based global energy company, and Shell in New Zealand and the Netherlands. David is currently Origin Energy's chief development officer with responsibility for the development of the company's major projects. David holds a Master of Business Administration and a Bachelor of Engineering (chemical).

BRUCE BEEREN

NON-EXECUTIVE DIRECTOR

Term of office: appointed director 1 October 2004, last re-elected 2009 annual meeting

Board committees: member of the Board Audit Committee, Remuneration Committee and Risk Committee

With over 35 years experience in the energy industry, Bruce was chief executive officer of VENCorp, the Victorian gas system operator, and held several senior management positions at Origin Energy and AGL, including chief financial officer. He is a director of Origin Energy Limited (since March 2000), Equipsuper Pty Limited (since August 2002) and The Hunger Project Australia Pty Limited (since August 2008). He is a former director of ConnectEast Group (2009-2011), Coal & Allied Industries Limited (2004-2011), Envestra Limited (2000-2007) and Veda Advantage Limited (2004-2007). Bruce has degrees in science and commerce and a Master of Business Administration. He is a fellow of CPA Australia and the Australian Institute of Company Directors.

WHAIMUTU DEWES

INDEPENDENT NON-EXECUTIVE DIRECTOR

Term of office: appointed director 22 February 2010, last elected 2010 annual meeting

Board committees: member of the Board Audit Committee, Health, Safety and Environment Committee, and Risk Committee

Whaimutu Dewes is of Ngāti Porou and Ngāti Rangitihi descent and lives in Rotorua. He is the chairman of Aotearoa Fisheries Limited and a director of Housing New Zealand. His former directorships include Television New Zealand Limited and the AMP New Zealand Advisory Board, and he was deputy chairman of Sealord Group between 1992 and 2008. Whaimutu has also held senior management roles at Fletcher Challenge and the Department of Māori Affairs. Whaimutu has a Masters degree in public administration and degrees in arts and law.

KAREN MOSES

NON-EXECUTIVE DIRECTOR

Term of office: appointed director 1 October 2004, last re-elected 2010 annual meeting

Board committees: chairman of the Risk Committee and member of the Remuneration Committee

Karen Moses is the Executive Director, Finance and Strategy of Origin Energy Limited, and prior to this was Origin Energy's Chief Operating Officer. Before joining Origin, Karen held development and trading roles with Exxon Group (1983-1994). Karen is a director of SAS Trustee Corporation (since March 2012) and Sydney Dance Company (since May 2012). She is a former director of Australian Energy Market Operator Limited (July 2009-June 2012), Energy and Water Ombudsman (Victoria) Limited (October 2005-November 2010), Australian Energy Market Operator (Transitional) Limited (September 2008-July 2009) and VENCorp (2007-2009). Karen holds a Bachelor of Economics and a Diploma of Education from the University of Sydney.

SUE SHELDON CNZM

INDEPENDENT NON-EXECUTIVE DIRECTOR

Term of office: appointed director 16 March 2009, last re-elected 2011 annual meeting

Board committees: chairman of the Board Audit Committee, member of the Nominations Committee and Risk Committee

Sue Sheldon is a professional company director. She is the chairman of Chorus Limited and Freightways Limited, along with holding directorships on the Reserve Bank of New Zealand and Paymark Limited. She is a former deputy chairman of Christchurch International Airport Limited, a former director of Smiths City Group Limited and former chairman of the board of trustees of the National Provident Fund. Prior to moving into a professional director role, Sue practised as a chartered accountant. She is a former president of the New Zealand Institute of Chartered Accountants and was made a Companion of the New Zealand Order of Merit in the Queen's Birthday Honours List in 2007 for services to business.

Our Leadership Team

PAUL RIDLEY-SMITH
GENERAL COUNSEL

Governance looks after Contact's legal, regulatory and Government relations roles. Contact is committed to being a good corporate citizen. To do this we have a strong internal compliance and training focus, and we engage externally with various regulators, Government agencies and politicians in areas of mutual interest.

NICHOLAS ROBINSON
GENERAL MANAGER STRATEGIC COMMUNICATIONS AND PARTNERSHIPS

Around New Zealand, Contact is proud to play an active role in the communities we serve. We're working to further strengthen our community links, and to grow New Zealanders' awareness that Contact is a vibrant business in both electricity Generation and Retail. We're working to align the different aspects of our external and internal communications.

DENNIS BARNES
CHIEF EXECUTIVE OFFICER

The year under review was a pleasing one for Contact Energy. The benefit of a more flexible fuel and generation portfolio was reflected in the substantial improvement in underlying business performance on the previous year. The year also saw Contact respond decisively to increased activity in the retail sector. In the mass market sector, customer numbers and sales volumes were held at almost the same levels, while for commercial and industrial customers, total volumes increased by 4 per cent.

JAMES KILTY
GENERAL MANAGER TRADING DEVELOPMENT AND GEOTHERMAL RESOURCES

Contact's Wairakei Investment Programme has seen major progress through the year as the company continues its strategy of reducing its overall cost of generation. Our relationships with tangata whenua at Taheke and Tauhara also continue to progress positively in support of that goal. In the markets, the performance of the Stratford peakers and the gas storage facility were particularly pleasing and we continue to see positive signs for future gas contracting as our existing commitments roll off. These developments and partnerships represent a reshaping of our business to the new economic environment.

LUC HENNEKENS
CHIEF INFORMATION OFFICER

Technology continues to play a critical role in helping Contact make smarter decisions, work effectively, provide great products and services to our customers, and run our operations efficiently. We continue to support the enterprise transformation team. This year we have invested in world-class infrastructure to ensure the reliability and security of our services.

RUTH BOUND
GENERAL MANAGER
RETAIL

More Contact customers than ever before are staying with us. In a market known for its 'churn', we've put real focus on retaining customers by providing great products and services that make things easy. We've ended the year with a churn rate that is in-line with the market.
Other milestones include Contact now having more customers accessing services online than any other New Zealand electricity retailer. The world continues to change: and so do we.

ANDY WILLIAMS
GENERAL MANAGER
ENTERPRISE TRANSFORMATION

Work is well advanced on Contact's aging systems. During the year, rollout was completed for Generation. The team's focus is now on Retail, replacing our existing systems so that we can serve and understand our customers better. When complete, the new system will span the majority of Contact. It will enhance efficiency, lower operational risk, and improve our understanding of customers – supporting both retention and acquisition and helping us to be ever-more innovative in our services.

ANNIKA STREEFLAND
GENERAL MANAGER
PEOPLE & CULTURE

We are on a journey to make Contact a great place to work as people are our greatest asset. We have integrated our approach to talent for a more seamless approach to getting our people stuff right, from recruitment, through to developing and retaining a high performing team. This year also saw the launch of our online learning and development tool, power.me.

GRAHAM COCKROFT
CHIEF FINANCIAL OFFICER

During the last 18 months, Contact successfully raised over $650 million to fund new assets.
These investments are already improving our business efficiency and competitiveness – and will support New Zealand's future energy security. In parallel, we've divested a number of assets that are not core business, so that capital can be redeployed, and we can stay focused on key activities. Additionally, we are improving our productivity through the simplification of processes and investment in technology.

PETER KANE
GENERAL MANAGER
OPERATIONS

It is crucial that Contact is the right shape and size, and has the flexibility and agility to respond to market change. We continue work on major projects to ensure that our generation teams, our assets, and our processes are best placed to perform.
Operational milestones for the year include marked improvement in health and safety performance, and continuing to build preparedness for the planned 2013 commissioning and operation of the Te Mihi geothermal power station.

warmth by

Contact is amongst the leaders in both electricity generation and retail. We provide electricity and natural gas to over half a million customers around New Zealand. Our power stations generate around 25 per cent of all the country's electricity. We provide almost half of all LPG. And we're always asking ourselves: how can we offer even more?

Briana Lee, Contact customer, Aro Valley, Wellington

contact

Governance

Responsible corporate conduct is integral to the way we do business. Our actions are governed by our commitments, values and principles, which are reinforced at all levels within the company. We, at Contact, are committed to doing things the right way, which means taking business decisions and acting in a way that is ethical and is in compliance with the applicable legislation.

The Board of Directors ('the Board') is responsible for and committed to maintaining the highest standards of corporate governance, ensuring transparency and accountability to investors and stakeholders.

Compliance

Contact seeks to follow best practice recommendations for listed companies to the extent that is appropriate to the size and nature of Contact's operations.

Contact considers its governance practices complied with the NZX Corporate Governance Best Practice Code ('NZX Code') in its entirety for the year ended 30 June 2012.

The comprehensive Financial Markets Authority (previously Securities Commission) Corporate Governance in New Zealand Principles and Guidelines set out nine fundamental principles of good governance. The structure of this section in the annual report reflects Contact's compliance with those fundamental principles.

Contact's constitution, and the Board and committee charters, codes and policies referred to in this section are available to view at www.contactenergy.co.nz.

Principle 1 – Ethical standards

Directors observe and foster high ethical standards.

Contact expects its directors, officers, employees and contractors to act legally, ethically and with integrity in a manner consistent with Contact's commitments, policies, principles and values.

Code of Conduct

The Code of Conduct sets out the ethical and behavioural standards expected of Contact's directors, officers, employees and contractors. Contact has established internal procedures to monitor compliance with the Code of Conduct. The reporting serious concerns directive supports the reporting and investigation of breaches of the Code of Conduct and serious wrongdoing in or by Contact.

Securities trading policy

Directors and employees who are likely to have knowledge of, or access to, inside information can only buy or sell Contact securities during permitted periods and with the written consent of the General Counsel. They must not use their position of confidential knowledge of the company or its business to engage in securities trading for personal benefit or to provide benefit to any third party.

Short-term trading in Contact securities while in possession of unpublished, price-sensitive information is strictly prohibited. Compliance with this policy is monitored with regular checks across our share register.

Principle 2 – Board composition and performance

There is a balance of independence, skills, knowledge, experience and perspective among directors that allows the Board to work effectively.

Board size and composition

The Board encourages strong individual thinking and rigorous discussion and analysis when making decisions. The current Board comprises directors with a mix of qualifications and skills, who hold substantial and diverse business, governance and energy-industry experience appropriate to Contact's existing operations and strategic directions.

Contact's Board comprises a balance of independent directors and Origin Energy associated directors. The Board consists of seven directors, three of whom are independent directors, with two being resident in New Zealand.

The chairman of Contact's Board, Grant King, is not an independent director and does not hold a casting vote. The Board regularly assesses its performance to ensure that constructive working relationships are maintained. Qualifications and experience of individual directors are detailed on pages 20 to 21.

Director independence

The NZSX Listing Rules and the company'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 being 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).

At 30 June 2012, 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, David Baldwin, Bruce Beeren and Karen Moses are not considered to be independent directors by virtue of being directors/employees of, and hence associated persons of, substantial security holder Origin Energy.

Board role and responsibility

The Board charter regulates Board procedures and describes its role and responsibilities. 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 its shareholders.

The Board meets regularly on a scheduled basis and otherwise as required. The Chairman and the Chief Executive Officer (CEO) establish the agenda for each Board meeting. Each month, as a standing item, the CEO 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 the 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.

Delegation

The Board has delegated certain aspects of its powers to committees of the Board, and the day-to-day management of the company to the CEO. The CEO in turn delegates authority to his direct reports and senior management. These authorisation levels are subject to internal and external audit review.

Avoiding conflicts of interest

The Board is conscious of its obligations to ensure that directors avoid conflicts of interest between their duty to Contact and their own interests. Contact maintains an interest register in which relevant transactions and matters involving the directors are recorded. See the 'Statutory Disclosures' section (page 40) of this annual report for details of directors' interest.

Induction and Board access to information and advice

New directors appointed to the Board receive induction training. This training primarily involves written and oral presentations by the CEO and leadership team on the key strategic and operational business issues facing Contact.

Directors have unrestricted access to company information and briefings from senior management. Site visits provide directors with a better understanding of the company and industry issues.

Directors and Board committees have the right, in connection with their duties and responsibilities, to seek independent professional advice at the company's expense, with the approval of the chairman.

Nomination and appointment of directors

Procedures for the appointment and removal of directors are governed by the company's constitution. The Nominations Committee identifies and nominates candidates to fill director vacancies for the approval of the Board.

Recently appointed directors must stand for election at the next annual meeting. All directors are subject to re-election by rotation at least once every three years. Directors who retire each year are those who have been longest in office since their last election or, where there are more than one of equal term, by agreement.

Evaluation of Board performance

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, and
- the Board reviewed the performance of Bruce Beeren and Phillip Pryke, being those directors required to retire and stand for re-election, at the 2012 annual meeting.

The Board recommends that shareholders vote in favour of the re-election of Bruce Beeren and Phillip Pryke.

Principle 3 – Board committees

The Board uses committees where this enhances effectiveness in key areas while retaining Board responsibility.

Committees established by the Board review and analyse policies and strategies, usually developed by management. They examine proposals and make recommendations to the full Board. They do not take action or make decisions unless specifically mandated by their charter or by prior Board authority to do so.

The Board appoints the chairman of each committee. Members are chosen for skills, experience and other qualities they bring to the relevant committees. Each committee operates under a charter agreed by the Board.

The Board restructured its committees during the year, making changes to membership and established a new Risk Committee.

Standing Board committees are:

- Board Audit Committee
- Health, Safety and Environment Committee
- Nominations Committee
- Remuneration Committee
- Risk Committee

In addition, the Board establishes special committees to deal on its behalf with specific issues from time to time. An Independent Directors Committee (IDC) meets to evaluate and approve various related party transactions with Origin Energy. As at 30 June 2012, the members of the IDC were:

- Phillip Pryke (chairman)
- Sue Sheldon
- Whaimutu Dewes

Board Audit Committee

Membership is restricted to non-executive directors, with at least three members, and the majority must be independent. The chairman must also be independent and must not be the chairman of the Board. All must have appropriate financial experience and at least one member must have an accounting or financial background. As at 30 June 2012, the members of the Board Audit Committee were:

- Sue Sheldon (chairman)
- Bruce Beeren
- Whaimutu Dewes

Sue Sheldon is a Fellow Chartered Accountant and a former president of the New Zealand Institute of Chartered Accountants. 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 Board Audit Committee meets a minimum of four times each year. The Board Audit Committee's role is to assist the Board to fulfil its responsibilities in relation to the oversight of the:

- quality and integrity of external financial reporting
- independence and performance of the external auditor, and
- adequacy of the internal control system for financial reporting integrity.

The CEO and the Chief Financial Officer (CFO) attend each Board Audit Committee meeting at the invitation of the Committee. At each meeting, and at any other time the Board Audit Committee requires, it holds private sessions with the head of Business Assurance, Contact's external auditors, the CEO and the CFO.

Health, Safety and Environment Committee

Membership shall comprise at least three members, and the majority must be independent. As at 30 June 2012, the members of the Health, Safety and Environment Committee were:

- David Baldwin (chairman)
- Phillip Pryke
- Whaimutu Dewes

The Health, Safety and Environment Committee meets a minimum of three times each year. The Health, Safety and Environment Committee's role is to assist the Board to fulfil its responsibilities in relation to health, safety and environment 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 Contact operates. The Health, Safety and Environment Committee monitors Contact's compliance with the health, safety and environment policy, reviewing and recommending to the Board targets for health, safety and environment performance and assessing performance against those targets, and reviewing health, safety and environment-related incidents and considering appropriate actions to minimise the risk of recurrence.

Nominations Committee

Membership shall comprise a minimum of three members, and the majority must be independent. As at 30 June 2012, the members of the Nominations Committee were:

- Grant King (chairman)
- Phillip Pryke
- Sue Sheldon

The Nominations Committee meets as required but must meet at least once a year. The Nominations Committee's role is to ensure that the Board comprises individuals who are best able to discharge the responsibilities of directors. The committee also attends to other matters put to it, including directors' performance assessment and appointments, with recommendations to the Board.

Remuneration Committee

Membership is restricted to non-executive directors, with no fewer than three members. As at 30 June 2012, the members of the Remuneration Committee were:

- Phillip Pryke (chairman)
- Bruce Beeren
- Karen Moses

The Remuneration Committee meets at least twice a year and more frequently if required. The Remuneration Committee's role is to provide advice and make recommendations to the Board on remuneration policy for employees, remuneration for the CEO and senior management, performance-based components of remuneration, and remuneration for non-executive directors.

Risk Committee

Membership shall comprise at least three members. As at 30 June 2012, all directors are members of the Risk Committee, and Karen Moses is Chairman. No additional fees are being paid for this membership.

The first Risk Committee meeting was held on 14 March 2012. The Risk Committee meets at least three times a year, with additional meetings called as deemed necessary. The role of the Risk Committee is to assist the Board to fulfil its responsibilities in relation to the identification and control of significant risks to Contact. The Risk Committee receives and reviews reports on the risk management framework, risk capacity, tolerance and exposure limits, the enterprise-wide risk profile, significant risks, and selected risk management processes and functions.

Board and committee meetings

The Board normally meets at least 10 times a year or whenever necessary to deal with specific matters. The table below shows the directors' attendance at the board and committee meetings during the year ended 30 June 2012.

	Board	Board Audit Committee	Health, Safety and Environment Committee	Nominations Committee	Remuneration Committee	Risk Committee	Independent Directors Committee
Number of meetings	**13**	**4**	**3**	**1**	**3**	**2**	**2**
Grant King	13			1	1	2	
Phillip Pryke	13		3	1	3	2	2
David Baldwin	13		2			2	
Bruce Beeren	13	4			3	2	
Whaimutu Dewes	13	3	3			2	2
Karen Moses	13	3*	2		3	2	
Sue Sheldon	13	4		1		2	2

* Attended as an observer

Notes: Effective 1 October 2011, Karen Moses replaced Grant King on the Remuneration Committee and David Baldwin replaced Karen Moses on the Health, Safety and Environment Committee.

Principle 4 – Reporting and disclosure

The Board demands integrity both in financial reporting and in the timeliness and balance of disclosures on entity affairs.

The Board has overall responsibility for reporting company results. The directors are committed to preparing financial statements that present a balanced and clear assessment of Contact's financial position and prospects. To assist with this task, the Board Audit Committee monitors the effectiveness of the company's internal financial controls.

Financial reporting

The Board Audit Committee oversees the quality and the integrity of external financial reporting including the accuracy, completeness and timeliness of financial statements. It reviews half-year and annual financial statements, and makes recommendations to the Board concerning accounting policies, areas of judgement, compliance and accounting standards, stock exchange legal requirements, and the results of the external audit.

Management accountability for the integrity of Contact's financial reporting is reinforced by certification from the CEO and the CFO. The CEO and CFO provided the Board with written confirmation that Contact's financial report presents a true and fair view, in all material respects, of Contact's financial position at, and for the year ended 30 June 2012, and that operational results are in accordance with relevant accounting standards.

Timely and balanced disclosure

Contact is committed to promoting investor confidence by providing timely, accurate, complete and equal access to information in accordance with the NZSX Listing Rules. To achieve and maintain high standards of disclosure, Contact has adopted a continuous disclosure policy, which is designed to ensure compliance with NZX continuous disclosure requirements. This policy sets guidelines and outlines responsibilities to safeguard employees against inadvertent breaches of continuous disclosure obligations.

The General Counsel has responsibility for overseeing and co-ordinating disclosure to the market.

Principle 5 – Remuneration

The remuneration of directors and executives is transparent, fair and reasonable.

Contact's remuneration structure is designed to attract, retain and motivate high calibre directors and senior executives who are able to enhance the company's performance. The Remuneration Report on pages 36 to 39 outlines in detail the remuneration framework of Contact.

Principle 6 – Risk management

The Board regularly verifies that the entity has appropriate processes that identify and manage potential and relevant risks.

The Board has primary responsibility for ensuring Contact has an appropriate risk management framework. The Risk Committee assesses the systems and procedures that are in place to ensure that all significant risks and issues are reported to the Board.

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.

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.

The Chief Risk Officer (CRO) is accountable for monitoring the company's key risks. Regular reporting on risks and their mitigation is provided to the Risk Committee and Board.

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 (BAT) 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 BAT adopts a risk-based assurance approach driven from the company's Enterprise Risk Management system.

The BAT also assists external audits by reporting findings from the internal assurance programme so the external auditors may independently assess the degree of reliance they are able to place on the control environment when providing their opinion on the financial statements.

On a day-to-day basis, the BAT reports to the CRO. The BAT has the autonomy to report significant issues directly to the CFO, CEO and the Board Audit Committee or, if considered necessary, the chairman of the Board.

The Risk Committee oversees the assurance programme and provides the BAT with the mandate to perform the agreed assurance programme. The BAT has unrestricted 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.

Principle 7 – Auditors

The Board ensures the quality and independence of the external audit process.

The independence of the external auditor is of particular importance to shareholders and the Board. The Board Audit Committee 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 auditors are prohibited from undertaking any work that compromises, or is seen to compromise, independence and objectivity.

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

The CFO 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.

Principle 8 – Shareholder relations

The Board fosters constructive relationships with shareholders that encourage them to engage with the company.

Contact values its dialogue with institutional and private investors, and is committed to giving all shareholders comprehensive, timely and equal access to information about its activities.

Contact currently keeps shareholders informed through:

- periodic and continuous disclosure to NZX
- information provided to analysts and media during regular briefings
- annual and half-year reports
- the annual shareholders' meeting and any other meetings called to obtain approval for Board actions as appropriate, and
- the company's website.

The Board considers the annual report to be an essential opportunity for communicating with shareholders. Contact publishes its annual and half-year reports electronically on its website. Investors may also request a hard copy of the reports by contacting Contact's share registrar, Link Market Services Limited, whose details appear in the directory section of this report.

The notice of meeting for the annual shareholders' meeting is circulated at least 10 days before the meeting and is also posted on Contact's website. Shareholders are provided with notes on resolutions proposed through the notice of annual meeting. The Board encourages full participation of shareholders to ensure a high level of accountability and identification with Contact's strategies and goals.

Contact's external auditor also attends the annual meeting, and is available to answer questions relating to the conduct of the external audit, and the preparation and content of the auditor's report.

Principle 9 – Stakeholder interests

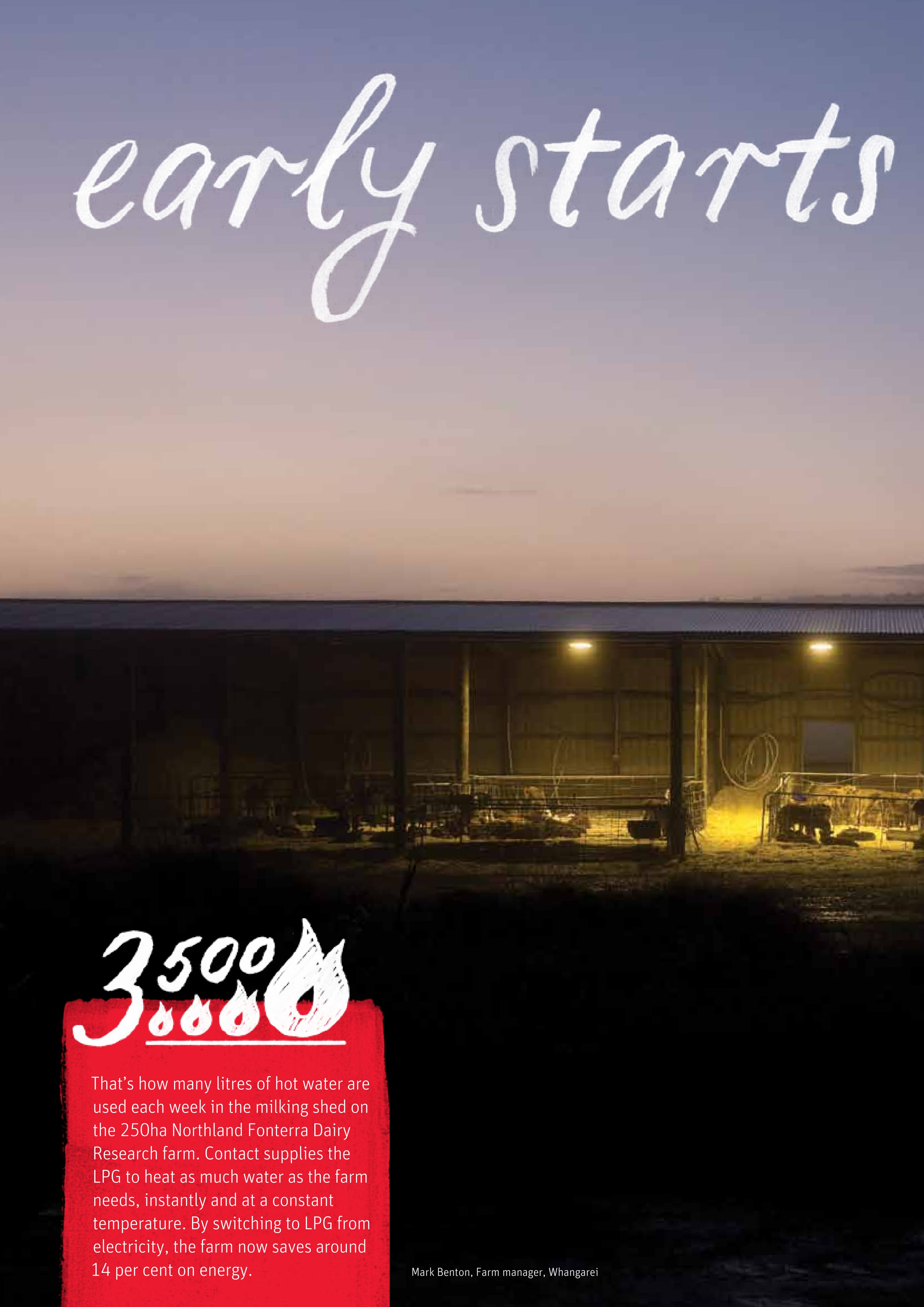
The Board respects the interests of stakeholders within the context of the company's ownership type and its fundamental purpose.

Contact is committed to making, selling and using energy responsibly and sustainably. The company manages its business in a way that balances its economic, environmental and social responsibilities.

Contact's approach to social responsibility is based on sharing and listening. The key to finding what's important to stakeholders lies in two-way communication – asking the right questions to understand the relevant issues. Once those issues are clear, they are considered alongside the potential risks for and impacts on Contact. From this engagement process the issues Contact can influence and support are established and addressed.

Contact encourages a working environment in which diversity is recognised and where equal employment opportunities are offered to all potential and existing employees.

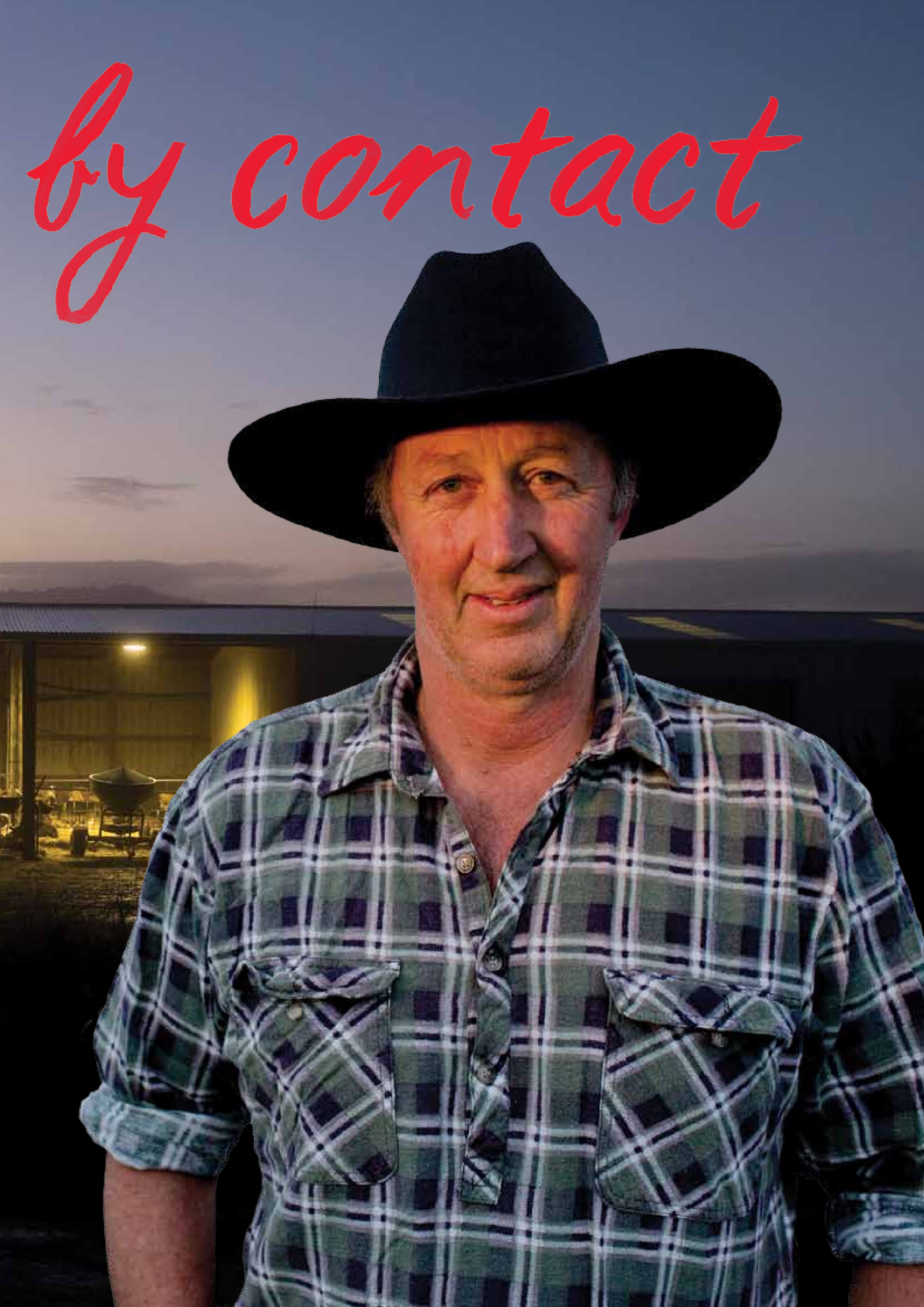
early starts



3,500

That's how many litres of hot water are used each week in the milking shed on the 250ha Northland Fonterra Dairy Research farm. Contact supplies the LPG to heat as much water as the farm needs, instantly and at a constant temperature. By switching to LPG from electricity, the farm now saves around 14 per cent on energy.

Mark Benton, Farm manager, Whangarei


by contact

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 FY12 among directors of $1,141,000 as detailed below.

Remuneration details of directors

Details of the total remuneration and the value of other benefits received by each Contact director for FY12 are as follows:

Director	Position	Board fees	Committee fees	Special fees	Total remuneration
Grant King	Chairman	$210,000	–	–	$210,000
Phillip Pryke	Deputy Chairman	$131,500	$37,000	–	$168,500
David Baldwin	Director	$115,500	$15,750	–	$131,250
Bruce Beeren	Director	$115,500	$39,000	-	$154,500
Whaimutu Dewes	Director	$115,500	$39,000	–	$154,500
Karen Moses	Director	$115,500	$13,125	–	$128,625
Sue Sheldon	Director	$115,500	$58,000	$20,125[1]	$193,625
Total		**$919,000**	**$201,875**	**$20,125**	**$1,141,000**

1. Sue Sheldon received special fees in relation to due diligence undertaken for Contact's capital bonds issue.

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

Prior to 30 June 2011, directors received one third of their pre-tax base fees by way of Contact shares that were held by a trustee for a period of three years or until a director ceased to hold office. In FY12, the Directors' Share Scheme was disestablished and replaced by a requirement that current directors hold 20,000 ordinary shares within three years of commencement of fees being paid. Any new directors appointed are required to hold a minimum of 20,000 shares within three years of appointment. Any shares that were previously held on trust were transferred to the relevant director during the year to allow the Directors' Share Scheme trusts to be terminated.

The table on page 41 details the number of shares held by each director at 30 June 2012.

Chief Executive Officer remuneration

Employment arrangements

Dennis Barnes is seconded to the role of Chief Executive Officer (CEO) by his employer, Origin Energy Limited.

During the term of his secondment, remuneration paid by Contact to Dennis Barnes is processed by Contact reimbursing Origin Energy for the cost of this remuneration. An exception exists for performance share rights and share options awarded under Contact's Long-Term Incentive (LTI) Scheme, which are provided directly by Contact.

Remuneration

Remuneration paid by Contact to the CEO 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 package paid includes 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 and performance share rights).

Approximately two-thirds of the CEO's potential annual remuneration is at-risk/variable remuneration and one-third is paid as fixed remuneration. The amount of short-term incentive paid and the level of long-term incentive allocated to the CEO is dependent on the degree to which Contact's financial, health and safety and environment, and other strategic goals are met, which is determined after the end of the relevant financial year and paid in the subsequent financial year.

The following tables detail the nature and amount of the remuneration paid to Dennis Barnes during FY12.

	Cash remuneration paid		
	Fixed remuneration $	Variable remuneration[1] $	Total cash remuneration paid[2] $
Year ended 30 June 2012	$811,250	$492,000	$1,303,250
Year ended 30 June 2011	$196,250	$150,000	$346,250

1. Short-term incentive remuneration relates to payment for the financial year noted, is determined following the end of the financial year and is based on the achievement of performance goals and criteria set by the Board.
2. Total cash remuneration for the financial year ended 30 June 2011 was pro-rated reflecting Dennis Barnes' commencement date of 1 April 2011.

	Equity rights issued (options and performance share rights)				
	Number of options issued during year	Number of performance share rights issued during year	Value of equity rights issued and amortising during year[1] $	Value of equity rights issued in past years and amortising during year $	Total equity rights vested during year $
Year ended 30 June 2012	490,625	106,409	$52,335	$196,251	–
Year ended 30 June 2011	106,082	23,574	$39,250	–	–

1. The allocation of LTI 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 by or to Dennis Barnes is subject to the achievement of specified exercise hurdles as described on page 38. The value of the LTI disclosed above is the portion of the fair value of options and performance share rights allocated to the relevant reporting period. None of the options or performance share rights allocated to Dennis Barnes vested in the 2011 and 2012 financial years.

Movements during FY12 in the number of options over ordinary shares and performance share rights held in Contact are set out in the following tables.

	Held at 1 July 2011	Granted as compensation	Exercised	Held at 30 June 2012	Vested during year	Vested and exercisable at 30 June 2012
Options	106,082	490,625	–	596,707	–	–
Performance share rights	23,574	106,409[1]	–	129,983	–	–

1. 327 performance share rights were granted as a result of the 2011 shareholder entitlement offer and 106,082 performance share rights were granted as compensation.

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 long-term incentives (the latter 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).

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 STI comprises cash payments and is designed to differentiate and reward performance measured against key performance indicators (KPIs). KPIs generally comprise company, business unit and individual targets. These targets are designed to create goals that will support an achievement and performance-oriented culture.

The Board reserves the right to adjust STI awards if health, safety and environment targets are not met.

Long-Term Incentive (LTI) Scheme

LTIs are awarded to key talent to align participants' interests with that of Contact's shareholders, and encourage and reward longer term decision making.

During FY12, the Board allocated LTI awards that are, by value, 50 per cent share options and 50 per cent performance share rights (options with an exercise price of zero). Contact also previously issued restricted shares under a Restricted Share Plan.

At 30 June 2012 there were 93 participants in Contact's LTI Scheme.

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. The Board also issues performance share rights to participants to acquire ordinary shares in Contact at zero cost.

The options and performance share rights will only become exercisable to the extent that exercise hurdles determined by the Board are satisfied. The exercise 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. The exercise hurdle will be measured on three annual test dates, the first being three years from the effective grant date.

For the options and performance share rights issued in FY12, participants' vesting entitlements will be:

- 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 performance share rights/share options exercisable increases proportionately on a straight-line sliding scale from the 50th up to the 75th percentile), if Contact's TSR 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.

These vesting entitlements will be calculated on three test dates, being 1 October 2014, 1 October 2015 and 1 October 2016.

For full details of the Share Option Scheme and the number of options and performance share rights granted and lapsed and on issue at the end of the reporting period, see note 11 to the financial statements.

Restricted Share Plan

Following a review of the LTI Scheme in 2010, no restricted shares have been issued since the 1 October 2009 grant date. In June 2012, the Restricted Share Plan was closed. Full details of the closure of the Restricted Share Plan are contained in note 11 to the financial statements.

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 and performance share rights allocated to the relevant reporting period) during FY12 of at least $100,000 in brackets of $10,000. At 30 June 2012, no Contact subsidiary had any employees.

The remuneration figures analysed include all monetary payments actually paid during the course of FY12, including the short-term variable remuneration relating to FY11. The figures do not include amounts paid post 30 June 2012 that related to the year ended 30 June 2012.

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 2012. The remuneration (and any other benefits) of the CEO, Dennis Barnes, is disclosed in the CEO remuneration section on pages 36 and 37.

	Number of employees
Remuneration bands	Parent
$100,001-$110,000	57
$110,001-$120,000	57
$120,001-$130,000	69
$130,001-$140,000	31
$140,001-$150,000	24
$150,001-$160,000	30
$160,001-$170,000	19
$170,001-$180,000	17
$180,001-$190,000	11
$190,001-$200,000	10
$200,001-$210,000	4
$210,001-$220,000	7
$220,001-$230,000	3
$230,001-$240,000	2
$240,001-$250,000	6
$250,001-$260,000	7
$260,001-$270,000	3
$270,001-$280,000	1
$280,001-$290,000	3
$290,001-$300,000	4
$300,001-$310,000	4
$310,001-$320,000	3
$320,001-$330,000	1
$330,001-$340,000	2
$350,001-$360,000	2
$370,001-$380,000	1
$400,001-$410,000	1
$410,001-$420,000	1
$420,001-$430,000	1
$470,001-$480,000	1
$490,001-$500,000	1
$530,001-$540,000	1
$540,001-$550,000	2
$590,001-$600,000	1
$600,001-$610,000	2
$620,001-$630,000	1
$650,001-$660,000	1
$790,001-$800,000	1
$900,001-$910,000	1
$990,001-$1,000,000	1
Total	**394**

Statutory Disclosures

Disclosures of interests by directors

At 30 June 2012, the following general disclosures of interests have been made by the directors in terms of section 140(2) of the Companies Act 1993. Notices given since 1 July 2011 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* (resigned 31 August 2012)	Chairman
Frog Hollow Limited	Director/shareholder
GMT Bond Issuer Limited	Director
GMT Wholesale Bond Issuer Limited	Director
Goodman Funds Management Limited	Director
Goodman Limited	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 and Group companies	Employee/shareholder
Bruce Beeren	
Origin Energy Limited and Group companies	Director/shareholder and former employee/executive director
ConnectEast Group* (resigned 26 October 2011)	Director
Equipsuper Pty Limited	Director
The Hunger Project Australia Pty Limited	Director
Whaimutu Dewes	
Aotearoa Fisheries Limited* (appointed 1 October 2011)	Chairman
Housing New Zealand Board	Director
Iwi Rakau Limited	Director
Ngati Porou Fisheries Limited	Chairman
Ngati Porou Forests Limited	Director
Ngati Porou Holding Company Limited* (appointed 29 June 2012)	Director
Ngati Porou Seafoods Limited	Director
Ngati Porou Whanui Forests Limited	Chairman/shareholder
Rakaikura Limited	Director
Real Fresh Limited	Director
Rugby World Cup Authority	Member
Whainiho Developments Limited	Managing director/shareholder
Advisory Board to Kalyx	Member
Advisory Group on Green Growth	Member

Karen Moses	
Origin Energy Limited and Group companies	Director/employee/shareholder
Australian Energy Market Operator Limited* (resigned June 2012)	Director
Commonwealth Scientific and Industrial Research Organisation, Energy and Transport Sector Advisory Council* (resigned 22 December 2011)	Committee member
SAS Trustee Corporation Board* (appointed 19 March 2012)	Director
Sydney Dance Company* (appointed 14 May 2012)	Director
University of New South Wales, Australian School of Business Advisory Council	Committee member
Sue Sheldon	
Chorus Limited* (appointed 1 December 2011)	Chairman
FibreTech New Zealand Limited	Chairman
Freightways Limited	Chairman
Paymark Limited	Director
Reserve Bank of New Zealand	Director
Sue Sheldon Advisory Limited	Director
Telecom Corporation of New Zealand Limited* (directorship ceased 30 November 2011)	Director

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

Information used by directors

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.

Indemnity and insurance

In accordance with section 162 of the Companies Act 1993 and the constitution of the company, Contact has continued to indemnify and insure its directors and officers, including directors of subsidiary and associated companies, against potential liability or costs incurred in any proceeding, excluding actions for gross negligence, criminal liability, breach of fiduciary duty or breach of directors' duties.

Directors' security participation

Securities of the company in which each director has a relevant interest as at 30 June 2012

Director	Number of ordinary shares	Number of bonds	Number of options (including PSRs[1])
Grant King	33,072	Nil	N/A
Phillip Pryke	103,401	Nil	N/A
David Baldwin	Nil	Nil	1,244,100[2]
Bruce Beeren	35,038	Nil	N/A
Whaimutu Dewes	16,308	Nil	N/A
Karen Moses	20,532	Nil	N/A
Sue Sheldon	21,932	10,000	N/A

[1] Performance share rights.

[2] David Baldwin participated in the LTI Scheme during his secondment to Contact. Mr Baldwin retains these securities subject to exercise hurdles and vesting.

Securities dealings of directors

During the year, the directors disclosed the following transactions in respect of section 148(2) of the Companies Act 1993. 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	23/08/11 21/10/11	$5.21 NIL (NCBO)	3,203 30,253	Acquisition of shares by New Zealand Permanent Trustees Limited (NZPT) on trust under the Contact GA King Director Remuneration Share Trust and transfer to Fabco Investments Pty Limited
	27/09/11	$5.35	680	Acquisition of bonus issue shares under the Profit Distribution Plan (PDP) by Contact GA King Director Remuneration Share Trust and transfer to Fabco Investments Pty Limited
	27/09/11 30/03/12	$5.35 $4.95	32 719	Acquisition of bonus issue shares under the PDP by Fabco Investments Pty Limited
Phillip Pryke	23/08/11 23/08/11 21/10/11	$5.21 NIL (NCBO) NIL (NCBO)	2,005 1,935 50,513	Acquisition of shares by NZPT on trust under the Contact PJ Pryke Director Remuneration Share Trust and transfer to Pryke Pty Limited
	27/09/11	$5.35	1,134	Acquisition of bonus issue shares under the PDP by Contact PJ Pryke Director Remuneration Share Trust and transfer to Pryke Pty Limited
	27/09/11 30/03/12	$5.35 $4.95	1,732 2,898	Acquisition of bonus issue shares under the PDP by Pryke Pty Limited
	10/04/12	$4.66	(30,000)	On-market sale by Pryke Pty Limited
David Baldwin	23/08/11	Nil (adjustment under entitlement offer)	3,291	Options to acquire ordinary shares under LTI Scheme
	14/11/11	Nil	(40,053)	Surrender of Restricted Ordinary Shares under LTI Scheme
	30/11/11	Nil	(206,410)	Lapse of options under LTI Scheme
	30/11/11	Nil	(555)	Lapse of PSRs under LTI Scheme
	21/06/12	Surrender of restricted ordinary shares under LTI Scheme	93,017	PSRs under LTI Scheme
Bruce Beeren	23/08/11 23/08/11 21/10/11	$5.21 NIL (NCBO) NIL (NCBO)	1,762 1,291 17,532	Acquisition of shares by NZPT on trust under the Contact BG Beeren Director Remuneration Share Trust and transfer to BG Beeren
	27/09/11	$5.35	394	Acquisition of bonus issue shares under the PDP by Contact BG Beeren Director Remuneration Share Trust and transfer to BG Beeren
	27/09/11 30/03/12	$5.35 $4.95	359 761	Acquisition of bonus issue shares under the PDP by BG Beeren
Whaimutu Dewes	23/08/11 21/10/11	$5.21 NIL (NCBO)	1,762 8,565	Acquisition of shares by NZPT on trust under the Contact WK Dewes Director Remuneration Share Trust and transfer to WK Dewes, JA Baillie and GW David
	27/09/11	$5.35	193	Acquisition of bonus issue shares under the PDP by Contact WK Dewes Director Remuneration Share Trust and transfer to WK Dewes, JA Baillie and GW David
	27/09/11 27/09/11 30/03/12 30/03/12	$5.35 $5.35 $4.95 $4.95	28[1] 21[2] 139[1] 216[2]	Acquisition of bonus issue shares under the PDP by: [1] WK Dewes, and [2] WK Dewes, JA Baillie and GW David
	23/12/11	$5.20	5,000	On-market purchase by WK Dewes

Karen Moses	23/08/11 21/10/11	$5.21 NIL (NCBO)	1,762 15,996	Acquisition of shares acquired by NZPT on trust under the Contact KA Moses Director Remuneration Share Trust and transfer to KA Moses
	27/09/11	$5.35	360	Acquisition of bonus issue shares under the PDP by Contact KA Moses Director Remuneration Share Trust and transfer to KA Moses
	27/09/11 30/03/12	$5.35 $4.95	17 446	Acquisition of bonus issue shares under the PDP by KA Moses
	09/12/11	$5.39	3,000	On-market purchase by KA Moses
Sue Sheldon	23/08/11 21/10/11	$5.21 NIL (NCBO)	1,762 13,603	Acquisition of shares acquired by NZPT on trust under the Contact SJ Sheldon Director Remuneration Share Trust and transfer to SJ Sheldon, PJ Sheldon and MJ Walker
	27/09/11	$5.35	306	Acquisition of bonus issue shares under the PDP by Contact SJ Sheldon Director Remuneration Share Trust and transfer to SJ Sheldon, PJ Sheldon and MJ Walker
	27/09/11 27/09/11 30/03/12	$5.35 $5.35 $4.95	42[1] 14[2] 463[1]	Acquisition of bonus issue shares under the PDP by: [1] SJ Sheldon, PJ Sheldon and MJ Walker, and [2] Private Nominees Limited
	22/02/12	$4.83	5,000	On-market purchase by SJ Sheldon, PJ Sheldon and MJ Walker

* NIL (NCBO) means no change in beneficial ownership

Subsidiary company directors

Other than Paul Smith, who received the Australian dollar equivalent of $33,950 in FY12 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 following people held office as directors of subsidiary companies at 30 June 2012.

Company	Directors
Contact Aria Limited	Dennis Barnes Paul Ridley-Smith
Contact Australia Pty Limited	Dennis Barnes Paul Ridley-Smith Paul Smith
Contact Operations Australia Pty Limited	Dennis Barnes Paul Ridley-Smith 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

Stock exchange listings

Contact's ordinary shares are listed and quoted on the New Zealand Stock Market (NZSX) under the company code 'CEN'. Contact has two issues of retail bonds listed and quoted on the New Zealand Debt Market (NZDX) under the company codes 'CEN010' (2009 series) and 'CENFA' (2011 series).

Shareholder statistics

Twenty largest shareholders of ordinary shares as at 14 August 2012

	Number of ordinary shares	% of ordinary shares
Origin Energy Pacific Holdings Limited	374,923,100	52.17
JP Morgan Chase Bank – NZCSD[1]	23,270,695	3.24
HSBC Nominees (New Zealand) Limited – NZCSD[1]	21,274,245	2.96
Accident Compensation Corporation – NZCSD[1]	19,411,608	2.70
National Nominees New Zealand Limited – NZCSD[1]	12,916,341	1.80
New Zealand Superannuation Fund Nominees Limited – NZCSD[1]	11,929,308	1.66
Citibank Nominees (NZ) Limited – NZCSD[1]	10,104,828	1.41
HSBC Nominees (New Zealand) Limited – NZCSD[1]	9,914,074	1.38
Cogent Nominees Limited – NZCSD[1]	7,524,472	1.05
AMP Investments Strategic Equity Growth Trust Fund – NZCSD[1]	7,405,717	1.03
Tea Custodians Limited – NZCSD[1]	7,058,748	0.98
FNZ Custodians Limited	6,412,876	0.89
Premier Nominees Limited – NZCSD[1]	6,053,682	0.84
NZGT Nominees Limited – NZCSD[1]	6,032,714	0.84
Custodial Services Limited	5,488,377	0.76
Custody and Investment Nominees Limited – NZCSD[1]	4,913,803	0.68
Origin Energy Universal Holdings Limited	4,653,390	0.65
Private Nominees Limited – NZCSD[1]	3,464,550	0.48
Masfen Securities Limited	3,024,882	0.42
Guardian Nominees Limited – NZCSD[1]	2,852,607	0.40
Total for top 20	**548,630,017**	**76.34**

[1] New Zealand Central Securities Depository Limited (NZCSD) is a depository system which allows electronic trading of securities to members. As at 14 August 2012, total holdings in NZCSD were 163,585,980 or 22.76% of shares on issue.

Distribution of ordinary shares and shareholders as at 14 August 2012

Size of holding	Number of shareholders	% of shareholders	Number of ordinary shares	% of ordinary shares
1 – 1,000	35,474	47.00	23,425,670	3.25
1,001 – 5,000	35,110	46.52	59,039,288	8.21
5,001 – 10,000	3,172	4.20	21,526,567	3.00
10,001 – 50,000	1,559	2.07	27,435,936	3.82
50,001 – 100,000	89	0.12	5,952,117	0.83
100,001 – 500,000	43	0.06	8,178,185	1.14
500,001 and over	19	0.03	573,112,544	79.75
Total	**75,466**	**100.00**	**718,670,307**	**100.00**

Substantial security holders

According to notices given under the Securities Markets Act 1988, the following persons were substantial security holders of the company as at 14 August 2012:

Substantial security holder	Number of ordinary shares in which relevant interest is held	% of ordinary shares	Date of notice
Origin Energy New Zealand Limited and its subsidiaries	380,589,576	52.96	11 August 2011

The total number of voting securities of Contact as at 14 August 2012 was 718,670,307 fully paid ordinary shares.

Bondholder statistics

Retail fixed rate bonds (CEN010) as at 14 August 2012

Size of holding	Number of bondholders	% of bondholders	Number of bonds	% of bonds
1,001 – 5,000	823	9.14	4,115,000	0.75
5,001 – 10,000	2,116	23.50	20,233,000	3.68
10,001 – 50,000	5,005	55.59	144,280,000	26.23
50,001 – 100,000	702	7.80	61,269,000	11.14
100,001 – 500,000	312	3.47	72,402,000	13.16
500,001 and over	45	0.50	247,701,000	45.04
Total	**9,003**	**100.00**	**550,000,000**	**100.00**

Capital bonds (CENFA) as at 14 August 2012

Size of holding	Number of bondholders	% of bondholders	Number of bonds	% of bonds
1,001 – 5,000	419	10.71	2,095,000	1.05
5,001 – 10,000	1,053	26.92	10,219,000	5.11
10,001 – 50,000	2,034	51.99	57,275,000	28.64
50,001 – 100,000	249	6.36	22,018,000	11.00
100,001 – 500,000	138	3.53	31,209,000	15.61
500,001 and over	19	0.49	77,184,000	38.59
Total	**3,912**	**100.00**	**200,000,000**	**100.00**

Auditor fees

KPMG has continued to act as auditors of the company. The amount payable by Contact and its subsidiaries to KPMG as audit fees in respect of FY12 was $546,400. There was no non-audit work undertaken during FY12.

Donations

In accordance with section 211(1)(h) of the Companies Act 1993, Contact records that it donated $11,388 (2011: $26,445). No subsidiaries made any donations during FY12. 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. No political contributions were made during FY12.

NZX waivers

Details of all waivers granted and published by NZX within or relied upon by Contact in the 12 months immediately preceding the date two months before the date of publication of this annual report are available on the company's website www.contactenergy.co.nz.

Exercise of NZX disciplinary powers

NZX did not exercise any of its powers under NZSX Listing Rule 5.4.2 in relation to Contact during FY12.

Credit rating as at 14 August 2012

Contact Energy Limited had a Standard & Poor's long-term credit rating of BBB/stable and short-term rating of A-2/stable.

The $550 million unsubordinated, unsecured fixed rate bonds issued in March 2009 were rated BBB by Standard & Poor's.

The $200 million subordinated, unsecured, redeemable, cumulative fixed rate capital bonds issued in December 2011 were rated BB- by Standard & Poor's.

Contact is the principal partner of Triathlon New Zealand and the Contact Tri Series

Financial Statements

FOR THE YEAR ENDED 30 JUNE 2012

Income Statement

FOR THE YEAR ENDED 30 JUNE 2012

	Note	Group 30 June 2012 $000	Group 30 June 2011 $000	Parent 30 June 2012 $000	Parent 30 June 2011 $000
Revenue	3	2,679,689	2,209,290	2,462,608	1,958,128
Other income		21,030	21,564	34,871	42,625
Operating expenses	4	(2,192,030)	(1,789,439)	(2,007,212)	(1,597,378)
Earnings before net interest expense, income tax, depreciation, amortisation, change in fair value of financial instruments and other significant items (EBITDAF)		**508,689**	**441,415**	**490,267**	**403,375**
Depreciation and amortisation	15, 16	(193,052)	(166,322)	(189,241)	(162,413)
Change in fair value of financial instruments	23	(11,507)	(5,940)	(11,507)	(5,939)
Other significant items	5	21,275	-	31,850	-
Equity accounted earnings of associates	20	1,873	3,862	-	-
Net interest expense	6	(71,592)	(62,338)	(71,393)	(62,346)
Profit before income tax		**255,686**	**210,677**	**249,976**	**172,677**
Income tax expense	7	(65,257)	(60,383)	(64,080)	(49,416)
Profit for the year		**190,429**	**150,294**	**185,896**	**123,261**
Basic and diluted earnings per share (cents)	9	**26.94**	**23.89**		

Non–statutory measure: underlying earnings

Underlying earnings after tax is presented to enable stakeholders to make an assessment and comparison of ongoing performance. It is calculated by adjusting profit for the year for significant items that do not reflect the ongoing performance of the Group.

	Note	Group 30 June 2012 $000	Group 30 June 2011 $000
Profit for the year		**190,429**	**150,294**
Underlying adjustments			
Change in fair value of financial instruments	23	11,507	5,940
Other significant items:	5		
Transition costs		4,520	-
Clutha asset impairment and land sale		2,114	-
Exit of investment in Oakey Power Holdings Pty Limited		(27,909)	-
Adjustments before income tax		**(9,768)**	**5,940**
Income tax credit on underlying adjustments		(4,281)	(1,782)
Impact of change in corporate income tax rate	7	-	(3,503)
Adjustments after income tax		**(14,049)**	**655**
Underlying earnings after tax		**176,380**	**150,949**
Underlying earnings per share (cents)	9	**24.95**	**24.00**

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

Statement of Comprehensive Income

FOR THE YEAR ENDED 30 JUNE 2012

	Note	Group 30 June 2012 $000	Group 30 June 2011 $000	Parent 30 June 2012 $000	Parent 30 June 2011 $000
Profit for the year		**190,429**	**150,294**	**185,896**	**123,261**
Other comprehensive income:					
Change in foreign currency translation reserve		(751)	415	-	-
Change in cash flow hedge reserve		35,745	(122)	35,745	(82)
Total other comprehensive income before tax		**34,994**	**293**	**35,745**	**(82)**
Deferred tax relating to components of other comprehensive income	26	(6,873)	(3,888)	(6,936)	(3,765)
Impact of change in corporate income tax rate		-	(1,192)	-	(1,192)
Total other comprehensive income after tax		**28,121**	**(4,787)**	**28,809**	**(5,039)**
Total comprehensive income for the year		**218,550**	**145,507**	**214,705**	**118,222**

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

Statement of Changes in Equity

FOR THE YEAR ENDED 30 JUNE 2012

Group	Note	Share capital $000	Foreign currency translation reserve $000	Cash flow hedge reserve $000	Share-based compensation reserve $000	Retained earnings $000	Total shareholders' equity $000
Opening balance as at 1 July 2010		948,997	128	(32,055)	2,854	1,856,854	2,776,778
Profit for the year after tax		-	-	-	-	150,294	150,294
Other comprehensive income after tax		-	292	(5,079)	-	-	(4,787)
Transactions with owners recorded directly in equity:							
Change in share capital	10	463,863	-	-	-	-	463,863
Change in share-based compensation reserve		-	-	-	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**
Opening balance as at 1 July 2011		1,412,860	420	(37,134)	5,364	1,854,100	3,235,610
Profit for the year after tax		-	-	-	-	190,429	190,429
Other comprehensive income after tax		-	(688)	28,809	-	-	28,121
Restricted shares and options lapsed during the year		-	-	-	(910)	910	-
Transactions with owners recorded directly in equity:							
Change in share capital	10	121,429	-	-	-	-	121,429
Change in share-based compensation reserve		-	-	-	3,676	-	3,676
Distributions declared	8	-	-	-	-	(161,593)	(161,593)
Total transactions with owners recorded directly in equity		**121,429**	**-**	**-**	**3,676**	**(161,593)**	**(36,488)**
Closing balance as at 30 June 2012		**1,534,289**	**(268)**	**(8,325)**	**8,130**	**1,883,846**	**3,417,672**

Parent	Note	Share capital $000	Foreign currency translation reserve $000	Cash flow hedge reserve $000	Share-based compensation reserve $000	Retained earnings $000	Total shareholders' equity $000
Opening balance as at 1 July 2010		948,997	-	(32,095)	2,854	1,793,648	2,713,404
Profit for the year after tax		-	-	-	-	123,261	123,261
Other comprehensive income after tax		-	-	(5,039)	-	-	(5,039)
Transactions with owners recorded directly in equity:							
Change in share capital	10	463,863	-	-	-	-	463,863
Change in share-based compensation reserve		-	-	-	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**
Opening balance as at 1 July 2011		1,412,860	-	(37,134)	5,364	1,763,861	3,144,951
Profit for the year after tax		-	-	-	-	185,896	185,896
Other comprehensive income after tax		-	-	28,809	-	-	28,809
Restricted shares and options lapsed during the year		-	-	-	(910)	910	-
Transactions with owners recorded directly in equity:							
Change in share capital	10	121,429	-	-	-	-	121,429
Change in share-based compensation reserve		-	-	-	3,676	-	3,676
Distributions declared	8	-	-	-	-	(161,593)	(161,593)
Total transactions with owners recorded directly in equity		**121,429**	**-**	**-**	**3,676**	**(161,593)**	**(36,488)**
Closing balance as at 30 June 2012		**1,534,289**	**-**	**(8,325)**	**8,130**	**1,789,074**	**3,323,168**

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

Statement of Financial Position

AS AT 30 JUNE 2012

	Note	Group 30 June 2012 $000	Group 30 June 2011 $000	Parent 30 June 2012 $000	Parent 30 June 2011 $000
Shareholders' equity		**3,417,672**	**3,235,610**	**3,323,168**	**3,144,951**
Represented by:					
Current assets					
Cash and short-term deposits	12	5,892	47,267	3,533	47,191
Receivables and prepayments	13	351,344	243,521	361,399	247,534
Inventories	14	131,114	111,512	126,168	104,170
Carbon emission units		17,015	9,552	17,015	9,552
Derivative financial instruments	23	2,845	1,669	2,845	1,669
Assets held for sale	15	7,228	-	7,228	-
Tax receivable		-	778	-	778
Total current assets		**515,438**	**414,299**	**518,188**	**410,894**
Non-current assets					
Property, plant and equipment	15	5,163,599	4,813,619	5,062,796	4,715,116
Goodwill and intangible assets	16	369,961	342,324	311,327	283,690
Gas storage – cushion gas	17	51,512	51,512	51,512	51,512
Investment in subsidiaries	19	-	-	132,788	132,788
Investment in associates	20	310	11,603	-	1,579
Available-for-sale financial assets	21	2,935	2,935	-	-
Derivative financial instruments	23	1,008	357	1,008	357
Other non-current assets		7,600	6,850	7,600	6,850
Total non-current assets		**5,596,925**	**5,229,200**	**5,567,031**	**5,191,892**
Total assets		**6,112,363**	**5,643,499**	**6,085,219**	**5,602,786**
Current liabilities					
Borrowings	22	101,907	3,012	101,903	2,806
Derivative financial instruments	23	56,330	46,142	56,330	46,142
Payables and accruals	24	409,295	354,693	484,365	414,404
Provisions	25	4,619	6,351	4,595	6,127
Tax payable		27,831	-	27,831	-
Total current liabilities		**599,982**	**410,198**	**675,024**	**469,479**
Non-current liabilities					
Borrowings	22	1,202,026	1,082,110	1,202,026	1,082,106
Derivative financial instruments	23	128,016	180,349	128,016	180,349
Provisions	25	63,753	54,534	61,102	52,325
Deferred tax	26	700,479	680,204	695,448	673,084
Other non-current liabilities		435	494	435	492
Total non-current liabilities		**2,094,709**	**1,997,691**	**2,087,027**	**1,988,356**
Total liabilities		**2,694,691**	**2,407,889**	**2,762,051**	**2,457,835**
Net assets		**3,417,672**	**3,235,610**	**3,323,168**	**3,144,951**

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

On behalf of the Board

Grant King
Chairman, 13 August 2012

Sue Sheldon
Director, 13 August 2012

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

Statement of Cash Flows

FOR THE YEAR ENDED 30 JUNE 2012

	Note	Group 30 June 2012 $000	Group 30 June 2011 $000	Parent 30 June 2012 $000	Parent 30 June 2011 $000
Cash flows from operating activities					
Cash provided from:					
Receipts from customers		2,614,577	2,198,125	2,405,908	1,955,128
Dividends received		855	1,864	-	1,480
		2,615,432	2,199,989	2,405,908	1,956,608
Cash applied to:					
Payments to suppliers and employees		(2,153,890)	(1,797,284)	(1,951,906)	(1,565,815)
Supplementary dividend paid to shareholders	8	(1,399)	(1,184)	(1,399)	(1,184)
Tax paid		(19,828)	(22,990)	(19,828)	(22,990)
		(2,175,117)	(1,821,458)	(1,973,133)	(1,589,989)
Net cash inflow from operating activities		**440,315**	**378,531**	**432,775**	**366,619**
Cash flows from investing activities					
Cash provided from:					
Interest received		3,017	1,078	2,931	995
Exit of investment in Oakey Power Holdings Pty Limited	20	38,045	-	38,045	-
Proceeds from sale of property, plant and equipment		3,377	-	3,377	-
Proceeds from advance to associate		351	-	-	-
		44,790	1,078	44,353	995
Cash applied to:					
Purchase of property, plant and equipment		(482,289)	(379,516)	(476,949)	(364,893)
Purchase of intangible assets		(47,227)	(57,821)	(47,227)	(59,139)
Purchase of Whirinaki generation plant and on-site diesel fuel		(36,295)	-	(36,295)	-
		(565,811)	(437,337)	(560,471)	(424,032)
Net cash (outflow) to investing activities		**(521,021)**	**(436,259)**	**(516,118)**	**(423,037)**
Cash flows from financing activities					
Cash provided from:					
Proceeds from other loans		123,526	356,518	123,526	356,518
Proceeds from capital bonds offer		200,000	-	200,000	-
Proceeds from share issue		139	-	139	-
Proceeds from entitlement offer	10	-	351,169	-	351,169
		323,665	707,687	323,665	707,687
Cash applied to:					
Interest paid		(97,077)	(100,067)	(96,927)	(100,067)
Distributions paid to shareholders	10	(42,549)	(34,351)	(42,549)	(34,351)
Financing costs		(10,337)	(687)	(10,337)	(687)
Entitlement offer - related costs		(544)	(4,649)	(544)	(4,649)
Repayment of other loans and finance lease liabilities		(121,828)	(463,919)	(121,816)	(463,898)
Advance in relation to gas sale and repurchase arrangement		(9,900)	-	(9,900)	-
		(282,235)	(603,673)	(282,073)	(603,652)
Net cash inflow from financing activities		**41,430**	**104,014**	**41,592**	**104,035**
Net (decrease)/increase in cash and cash equivalents		**(39,276)**	**46,286**	**(41,751)**	**47,617**
Add: cash and cash equivalents at the start of the year		45,168	(1,118)	45,284	(2,333)
Cash and cash equivalents at the end of the year		**5,892**	**45,168**	**3,533**	**45,284**
Cash and cash equivalents comprise:					
Bank overdraft	12, 22	-	(2,099)	-	(1,907)
Cash and short-term deposits	12	5,892	47,267	3,533	47,191
	12	**5,892**	**45,168**	**3,533**	**45,284**

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

Statement of Cash Flows

FOR THE YEAR ENDED 30 JUNE 2012 (CONTINUED)

Reconciliation of profit for the year to cash flows from operating activities	Note	Group 30 June 2012 $000	Group 30 June 2011 $000	Parent 30 June 2012 $000	Parent 30 June 2011 $000
Profit for the year		**190,429**	**150,294**	**185,896**	**123,261**
Items classified as investing/financing					
Net interest expense	6	71,592	62,338	71,393	62,346
Gain on sale of property, plant and equipment		(2,461)	-	(2,461)	-
Exit of investment in Oakey Power Holdings Pty Limited	20	(25,892)	-	(36,466)	-
		43,239	62,338	32,466	62,346
Non-cash items					
Write-off of receivables	4	13,454	12,095	13,069	10,663
Movement in provisions		2,047	1,311	2,047	1,311
Share-based compensation	11	3,427	2,928	3,427	2,928
Depreciation and amortisation	15, 16	193,052	166,322	189,241	162,413
Equity accounted (earnings) of associates net of dividends received	20	(1,673)	(2,382)	-	-
Change in fair value of financial instruments	23	11,507	5,940	11,507	5,939
Increase in deferred tax	7	13,402	36,934	15,428	34,747
Clutha asset impairment		4,262	-	4,262	-
Other non-cash items		(19)	538	(19)	1,185
		239,459	223,686	238,962	219,186
Movement in working capital					
(Increase) in receivables and prepayments		(104,677)	(35,962)	(110,046)	(47,398)
(Increase) in inventories		(17,071)	(53,630)	(19,467)	(51,202)
Increase in payables and accruals		68,540	42,831	84,568	71,449
Increase/(decrease) in tax payable/receivable		28,609	(724)	28,609	(721)
(Increase) in other assets		(8,213)	(10,302)	(8,213)	(10,302)
		(32,812)	(57,787)	(24,549)	(38,174)
Net cash inflow from operating activities		**440,315**	**378,531**	**432,775**	**366,619**

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

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2012

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 two series of bonds quoted on the New Zealand Debt Exchange (NZDX). The Parent is an issuer in terms of the Financial Reporting Act 1993. The financial statements comprise the Parent and its subsidiaries, interest in associates and a jointly controlled entity (together referred to as Contact or the Group) as at, and for the year ended, 30 June 2012.

Contact is a diversified and integrated energy group focusing on the generation and retailing of electricity. Other operating 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 13 August 2012.

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
- 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
- held for sale assets that are expected to be sold for less than their carrying value which are stated at fair value less costs to sell, and
- generation plant and equipment purchased prior to 1 October 2004, which are stated at deemed historical cost.

Changes in accounting policies

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

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

Adoption status of relevant new financial reporting standards and amendments

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 1 Presentation of Financial Statements (amendment)* – effective for annual reporting periods beginning on or after 1 July 2012.
- *NZ IAS 27 Separate Financial Statements (amendment)* – effective for annual reporting periods beginning on or after 1 January 2013.
- *NZ IAS 28 Investments in Associates and Joint Ventures (amendment)* – effective for annual reporting periods beginning on or after 1 January 2013.
- *NZ IAS 32 Offsetting Financial Assets and Financial Liabilities* – effective for annual reporting periods beginning on or after 1 January 2014.
- *NZ IFRS 7 Disclosures – Offsetting Financial Assets and Financial Liabilities* – effective for annual reporting periods beginning on or after 1 January 2013.
- *NZ IFRS 9 Financial Instruments* – effective for annual reporting periods beginning on or after 1 January 2015.
- *NZ IFRS 10 Consolidated Financial Statements* – effective for annual reporting periods beginning on or after 1 January 2013.
- *NZ IFRS 11 Joint Arrangements* – effective for annual reporting periods beginning on or after 1 January 2013.
- *NZ IFRS 12 Disclosure of Interests in Other Entities* – effective for annual reporting periods beginning on or after 1 January 2013.
- *NZ IFRS 13 Fair Value Measurement* – 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. Contact is in the process of assessing the impact of the adoption of these new financial reporting standards and amendments.

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 used for the swaption electricity derivative was previously derived from historical observations and is now derived from the Australian Securities Exchange (ASX) New Zealand Electricity Futures and Options price path. Management believe that the ASX New Zealand Electricity Futures and Options price path provides the best estimate of future liquid market prices given that the swaption expires six months after the end of the reporting period.

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 unit to which it relates. Any impairment losses are recognised in the Income Statement.

In determining the recoverable amount of goodwill, Contact uses either a value in use or a fair value less costs to sell 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 value in use and fair value less costs to sell models that require management judgement include customer numbers and customer churn, gross margin per customer, operating costs, annual growth rates and the weighted average cost of capital. Refer to note 16.

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.

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.

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 consumption history of the customer's meter.

Basis of consolidation

Subsidiaries

Subsidiaries are those entities controlled, directly or indirectly, by the Parent. The acquisition method of accounting is used to account for the acquisition of subsidiaries by the Parent. Identifiable acquired assets 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 non-controlling interest. The excess of the fair value of the consideration transferred over the fair value of the Parent's share of the identifiable net assets acquired is recorded as goodwill. If the fair value of the consideration transferred is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised immediately 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 from the date that significant influence commences until the date that significant influence ceases.

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 its share of the future economic benefits 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 that are designated as being in a hedge relationship are carried at fair value. 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 include 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 for the purpose of the Statement of Cash Flows.

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 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 underlying 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 underlying 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 any 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, is sold, is terminated, is exercised, or Contact 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 that do not qualify for hedge accounting are categorised as held for trading. Changes in the fair value of any derivative financial instrument 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 held for compliance purposes 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 are consequently not amortised.

Any purchased forward contracts of carbon emission units for compliance purposes are measured at cost on the date 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 date of receipt of the units. Gains and losses arising from changes in fair value are recognised in the Income Statement.

Contact recognises a liability in respect of its obligation to deliver carbon emission units when an obligation arises. The liability is measured at the cost of the carbon emission units and forward contracts on a first-in first-out basis (according to the liquidity of the units), 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.

Share-based compensation

Share-based compensation is provided to participating employees via share options and performance share rights both issued under a Share Option Scheme.

The fair value of the employee services received in exchange for the grant of the share options and performance share rights 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 share options and performance share rights 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 share options and performance share rights 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, and 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 date of the transactions. Monetary assets and monetary liabilities denominated in foreign currencies are translated at the exchange rates prevailing 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 has 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, the pay obligations are expensed to the Income Statement in the month that 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 is 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 inventories 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' to 'property, plant and equipment' when they are operating in the manner intended by management and are depreciated over the period of their expected economic benefit.

Goods and services tax (GST)

All items in the financial statements are stated exclusive of GST, with the exception of receivables and payables, which are stated inclusive of GST.

Held for sale assets

Non-current assets, or disposal groups comprising assets, that are expected to be recovered primarily through sale rather than through continuing use, are classified as 'held for sale' and are recognised as current assets. Immediately before classification as held for sale, the assets, or components of a disposal group, are re-measured in accordance with Contact's accounting policy for that asset. Thereafter the assets, or disposal groups, are measured at the lower of their carrying amount and fair value less costs to sell.

Once classified as held for sale, property, plant and equipment, and intangible assets are no longer depreciated or amortised.

Impairment

The carrying amounts of Contact's assets, other than inventories, financial assets, held for sale assets 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 other assets is the greater of their value in use and fair value less costs to sell. In assessing recoverable amount, 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.

Goodwill and intangible assets

Goodwill

Goodwill represents the excess of the fair value of the consideration transferred 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 goodwill. 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.

Intangible assets

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. Borrowing costs cease to be capitalised when the intangible asset is operating in the manner intended by management or production is temporarily suspended, and exclude 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 and diesel fuel

Gas reserves in excess of the levels required for cushion gas are treated as inventory.

Inventory gas and diesel fuel are stated at the lower of cost and net realisable value. The cost of inventory gas and diesel fuel 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 fuel stocks based on their intended use.

Inventory gas and diesel fuel are classified as current assets as they are expected to be realised in Contact's normal operating cycle, which extends beyond one year.

Investments – financial instruments

Contact classifies its investments in the following categories:

- financial assets at fair value through profit or loss, 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

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if it is acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives that are held for trading are also categorised as fair value through profit or loss. Assets in this category are classified as current assets if the cash flows associated with the assets are expected to be realised within one year 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.

Available-for-sale financial assets

Investments in unlisted shares are classified as '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

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

Interest revenue 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 are stated at deemed historical cost less accumulated depreciation and accumulated impairment losses. All other property, plant and equipment are 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. Borrowing costs cease to be capitalised when the asset is operating as intended by management or the development is suspended, and exclude 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 subsequent expenditure is recognised in the Income Statement as an expense as incurred.

Where property, plant or equipment is disposed of, the profit or loss recognised in the Income Statement is calculated as the difference between the sale proceeds and the carrying value of the asset.

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 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 assets' 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 – 33%
Other plant and equipment	1 – 33%
Generation plant and equipment assets on an equivalent hours of use basis	23,500–100,000 equivalent hours of use

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

Provisions

A provision is recognised if, as a result of a past event, Contact has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are valued at the present value of the expected future cash flows required to settle the obligation.

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. Estimations are also made for the expected cost of environmental rehabilitation of commercial sites. Such estimates are valued at the present value of the expenditure expected to be required to settle the obligation. A liability is immediately recognised when the exposure is identified and rehabilitation costs can be reasonably estimated.

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. For retail receivables that are not significant on an individual basis, collective impairment is assessed on a portfolio basis, based on historic delinquency rates and historical losses. The amount of the impairment loss is recognised in the Income Statement.

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.

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 operating, investing or financing activities that may be reported on a net basis are:

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

Tax

Income tax in 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 Operating Segments*.

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, the sale of LPG to commercial and residential customers, and the lease of electricity and gas meters to other retailers and internally to the 'Electricity' segment. 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.

Geographical segment information

Contact operates predominantly in one geographical location, being New Zealand. Contact's operations in Australia during the year were immaterial.

Major customers

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

Segment note

Group 30 June 2012	Electricity $000	Other $000	Inter-segment $000	Total $000
Total segment revenue and other income	2,471,369	257,775	(28,425)	2,700,719
Total segment direct costs	(1,780,482)	(177,586)	28,425	(1,929,643)
Segment operating margin	**690,887**	**80,189**	**-**	**771,076**
Segment other operating expenses	(222,706)	(39,681)	-	(262,387)
Segment EBITDAF*	**468,181**	**40,508**	**-**	**508,689**
Depreciation and amortisation	(181,945)	(11,107)	-	(193,052)
Segment result	**286,236**	**29,401**	**-**	**315,637**
Change in fair value of financial instruments				(11,507)
Other significant items				21,275
Equity accounted earnings of associates				1,873
Net interest expense				(71,592)
Income tax expense				(65,257)
Profit for the year				**190,429**

Group 30 June 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**

* 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 2012 $000	30 June 2011 $000
Hedged generation	383,885	346,884
Exposed generation	74,221	29,919
Retail electricity	10,075	28,276
Electricity segment EBITDAF	**468,181**	**405,079**

3. REVENUE

	Group 30 June 2012 $000	Group 30 June 2011 $000	Parent 30 June 2012 $000	Parent 30 June 2011 $000
Retail electricity	1,480,425	1,443,602	1,379,884	1,309,477
Wholesale electricity	970,542	505,701	970,542	505,701
LPG	116,540	117,037	-	-
Gas	91,780	123,241	91,780	123,241
Steam	20,402	19,709	20,402	19,709
Total revenue	**2,679,689**	**2,209,290**	**2,462,608**	**1,958,128**

4. OPERATING EXPENSES

	Group 30 June 2012 $000	Group 30 June 2011 $000	Parent 30 June 2012 $000	Parent 30 June 2011 $000
Electricity purchases	851,160	476,723	807,145	439,002
Electricity transmission, distribution and levies	567,955	542,315	523,859	488,578
Gas purchases and transmission	389,801	381,059	389,801	381,685
LPG purchases	83,091	85,416	-	-
Meter costs	22,752	22,032	20,372	18,519
Emission costs	14,884	30,257	14,459	28,276
Labour costs	103,659	98,456	99,880	95,426
Christchurch earthquake relief and support costs	-	4,000	-	4,000
Other operating expenses	158,728	149,181	151,696	141,892
Total operating expenses	**2,192,030**	**1,789,439**	**2,007,212**	**1,597,378**

Other operating expenses include:	Note	Group 30 June 2012 $000	Group 30 June 2011 $000	Parent 30 June 2012 $000	Parent 30 June 2011 $000
Auditor's remuneration – KPMG audit fees*		546	598	546	598
Donations		11	26	11	26
Write-off of receivables		13,454	12,095	13,069	10,663
(Decrease)/increase in provision for impairment of receivables		(376)	6	629	-
Rental expense on operating leases		7,553	6,849	5,968	5,213
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, in the year ended 30 June 2011, KPMG charged $36,174 for IT security assurance services in relation to Contact's Enterprise Transformation project, which were capitalised to the cost of the asset.

Labour costs include:	Group 30 June 2012 $000	Group 30 June 2011 $000	Parent 30 June 2012 $000	Parent 30 June 2011 $000
Contributions to KiwiSaver	2,247	1,982	2,119	1,861

5. OTHER SIGNIFICANT ITEMS

	Note	Group 30 June 2012 $000	Group 30 June 2011 $000	Parent 30 June 2012 $000	Parent 30 June 2011 $000
Transition costs*		4,520	-	4,520	-
Clutha asset impairment and land sale**		2,114	-	2,114	-
Exit of investment in Oakey Power Holdings Pty Limited	20	(27,909)	-	(38,484)	-
Total other significant items		**(21,275)**	**-**	**(31,850)**	**-**

* Transition costs arising on implementation of Enterprise Transformation and associated activities in the Retail business.

**As a result of the decision not to proceed in the foreseeable future with any of the options being investigated for hydro generation development on the Clutha River, the project development costs have been impaired ($4.3 million) and some of the associated land has been sold ($2.2 million).

6. NET INTEREST EXPENSE

	Note	Group 30 June 2012 $000	Group 30 June 2011 $000	Parent 30 June 2012 $000	Parent 30 June 2011 $000
Interest expense		102,218	101,350	102,068	101,350
Interest expense: unwind on provisions	25	5,044	3,903	4,910	3,826
Interest expense capitalised		(32,655)	(41,838)	(32,655)	(41,838)
Interest income		(3,015)	(1,077)	(2,930)	(992)
Net interest expense		**71,592**	**62,338**	**71,393**	**62,346**

The weighted average interest rate used for capitalisation on funds borrowed is 7.2 per cent per annum (2011: 7.5 per cent).

7. INCOME TAX

Income tax expense

	Group 30 June 2012 $000	Group 30 June 2011 $000	Parent 30 June 2012 $000	Parent 30 June 2011 $000
Profit before income tax	255,686	210,677	249,976	172,677
Tax thereon at 28% (2011: 30%)	71,592	63,203	69,993	51,803
Plus/(less) tax effect of adjustments:				
Exit of investment in Oakey Power Holdings Pty Limited:				
Reverse non assessable gain recognised	(7,815)	-	(7,815)	-
Write-off of unclaimable non-resident withholding tax	2,018	-	2,018	-
Release of deferred tax liability	(618)	-	(163)	-
Income tax under/(over) provided in prior year	1,289	(973)	1,120	(640)
Non assessable gain on sale of Clutha land	(630)	-	(630)	-
Other differences	(589)	1,669	(443)	1,769
Temporary differences no longer expected to reverse	10	(13)	-	-
Change in corporate income tax rate	-	(3,503)	-	(3,516)
Income tax expense	**65,257**	**60,383**	**64,080**	**49,416**
Comprising:				
Current tax	51,855	23,449	48,652	14,669
Deferred tax	13,402	36,934	15,428	34,747
	65,257	**60,383**	**64,080**	**49,416**

Imputation credits

Imputation credits available for use in subsequent reporting periods are 245.6 million (2011: 214.6 million).

These are available to shareholders through the consolidated imputation group. Under current legislation, imputation credits can be attached at a ratio of 30/70 to dividends paid prior to 1 April 2013 and at a ratio of 28/72 from that date.

8. DISTRIBUTIONS

Group and Parent	Distribution payment date	Cents per share	30 June 2012 $000	30 June 2011 $000
2010 year final distribution	27 September 2010	14.0	-	84,915
2011 year interim distribution	31 March 2011	11.0	-	68,133
2011 year final distribution	27 September 2011	12.0	83,641	-
2012 year interim distribution	30 March 2012	11.0	77,952	-
Supplementary dividend			1,399	1,184
Foreign investor tax credit			(1,399)	(1,184)
Total distributions			**161,593**	**153,048**

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 13 August 2012, 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 28 August 2012, the record date, with bonus shares allocated and/or cash distributed, if elected, on 21 September 2012. Refer to note 32.

9. EARNINGS AND NET TANGIBLE ASSETS PER SHARE

Group	30 June 2012	30 June 2011
Underlying earnings per share (cents)*	24.95	24.00
Basic and diluted earnings per share (cents)	26.94	23.89
Weighted average number of shares on issue over the year	706,845,891	629,068,222
Net tangible assets per share (dollars)	4.24	4.16
Number of shares on issue at the end of the year	718,670,307	695,068,288

* Non-statutory measure. Underlying earnings after tax represents profit for the year adjusted for significant items that do not reflect the ongoing performance of the Group.

The calculation of underlying earnings per share is based on underlying earnings after tax divided by the weighted average number of shares on issue over the year.

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

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 Restricted Share Plan (Restricted Share Plan) 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 as the relevant performance hurdles have not yet been met.

The calculation of net tangible assets per share is based on the total net assets less goodwill and intangible assets, divided by the number of shares on issue at the end of each year.

10. SHARE CAPITAL

Group and Parent	Ordinary shares - unrestricted	
	Number	$000
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**
Opening balance as at 1 July 2011	695,068,288	1,412,860
Share capital issued	31,377,916	161,593
Share capital repurchased and cancelled during the year	(8,284,377)	(42,549)
Restricted shares converted to ordinary shares during the year	508,480	2,401
Transaction costs	-	(16)
Closing balance as at 30 June 2012	**718,670,307**	**1,534,289**

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 15,645,402 and 15,732,514 ordinary shares pursuant to the Parent's PDP on 27 September 2011 and 30 March 2012 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 3,837,911 shares on 27 September 2011 and 4,446,466 shares on 30 March 2012. These shares were immediately cancelled upon buy-back.

Contact has previously issued restricted ordinary shares (restricted shares) pursuant to the Restricted Share Plan. The restricted shares were held in trust, and recognised as part of the share-based compensation reserve until performance hurdles were met. In June 2012 the Restricted Share Plan was closed, the 508,480 restricted shares were converted to ordinary shares and sold on market. There was a corresponding increase in ordinary share capital. Refer to note 11.

11. SHARE-BASED COMPENSATION

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) under the Share Option Scheme. Contact also previously issued restricted shares under a Restricted Share Plan.

The total expense recognised for share-based compensation under the Share Option Scheme and Restricted Share Plan during the year ended 30 June 2012 was $3.4 million (2011: $2.9 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 2012 and 30 June 2011, 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 are unlisted and are personal to the employee and therefore cannot be traded. 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.

The share options and performance share rights will only be exercisable to the extent that the relevant performance hurdles are met (the hurdle is a comparison of Contact's total shareholder return (TSR) relative to the TSR of a reference group comprising companies in the NZX50 index over the relevant period, commencing on the effective grant date).

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 test 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 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 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
2012

Effective grant date	First exercise date	Expiry date	Exercise price per option*	Balance at 1 July 2011	Granted	Lapsed	Balance at 30 June 2012
1 Jul 2006	1 Oct 2009	30 Nov 2011	$7.27	284,077	-	(284,077)	-
1 Oct 2007	1 Oct 2010	30 Nov 2012	$9.07	262,547	-	-	262,547
1 Feb 2008	1 Oct 2010	30 Nov 2012	$7.55	15,008	-	-	15,008
1 Oct 2008	1 Oct 2011	30 Nov 2013	$8.53	555,738	-	-	555,738
1 Oct 2009	1 Oct 2012	30 Nov 2014	$5.67	1,472,279	-	(42,991)	1,429,288
1 Oct 2010	1 Oct 2013	30 Nov 2015	$5.63	3,925,850	-	(198,758)	3,727,092
1 Oct 2011	1 Oct 2014	30 Nov 2016	$5.40	-	2,835,114	(45,725)	2,789,389
				6,515,499	**2,835,114**	**(571,551)**	**8,779,062**

* In June 2011, the Board approved an adjustment to the exercise price for options issued under the Share Option Scheme in accordance with the formula set out in NZSX Listing Rule 8.1.7(b).

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
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**

No share options were exercisable at 30 June 2012 (2011: nil). A further 37,534 share options have lapsed since 30 June 2012.

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
2012

Effective grant date	First exercise date	Expiry date	Exercise price per option	Balance at 1 July 2011	Granted	Lapsed	Balance at 30 June 2012
1 Jul 2006	1 Oct 2009	30 Nov 2011	$0.00	-	766	(766)	-
1 Oct 2007	1 Oct 2010	30 Nov 2012	$0.00	-	46,679	-	46,679
1 Feb 2008	1 Oct 2010	30 Nov 2012	$0.00	-	2,846	-	2,846
1 Oct 2008	1 Oct 2011	30 Nov 2013	$0.00	-	79,208	-	79,208
1 Oct 2009	1 Oct 2012	30 Nov 2014	$0.00	-	255,648	(77)	255,571
1 Oct 2010	1 Oct 2013	30 Nov 2015	$0.00	872,443	11,917	(44,610)	839,750
1 Oct 2011	1 Oct 2014	30 Nov 2016	$0.00	-	613,030	(9,888)	603,142
				872,443	**1,010,094**	**(55,341)**	**1,827,196**

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
1 Oct 2010	1 Oct 2013	30 Nov 2015	$0.00	-	885,056	(12,613)	872,443
				-	**885,056**	**(12,613)**	**872,443**

No performance share rights were exercisable at 30 June 2012 (2011: nil). A further 8,100 performance share rights have lapsed since 30 June 2012.

Restricted Share Plan

Since the establishment of the Employee Long-Term Incentive Scheme in 2010, no restricted shares have been issued, under the Restricted Share Plan since the 1 October 2009 grant date. Performance share rights issued under the share option scheme replaced restricted shares from October 2010. In June 2012, the Restricted Share Plan was closed and the participants were offered one performance share right for each unvested restricted share held. As a result, 379,062 additional performance share rights were issued to participants and remain subject to the existing performance hurdles and vesting criteria. The restricted shares previously held by participants were transferred to the unallocated pool. Those restricted shares, along with 129,418 restricted shares already held in the unallocated pool, were converted to unrestricted ordinary shares and sold on market.

Under the former Restricted Share Plan, the Board issued restricted shares to the participants at the market price determined at the effective grant date. Although the participant had beneficial title to the restricted shares, under the terms of the Restricted Share Plan:

- the restricted shares were issued to an independent trustee to be held on trust for the participant, and
- the trustee could not exercise any voting rights attaching to the restricted shares and forwent the right to distributions.

Legal title to the restricted shares could not be transferred to the participant, and therefore traded by the participant, unless, and until, the restricted shares became unrestricted. A participant could 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 became unrestricted.

The number of restricted shares returned to the unallocated pool and converted to ordinary shares during the reporting period is summarised below:

Group and Parent
2012

Effective grant date	First test date	Final test date	Shares issued	Allocation price per share	Unvested balance at 1 July 2011	Returned to unallocated pool	Converted to ordinary shares	Unvested balance at 30 June 2012
Unallocated pool					66,711	441,769	(508,480)	-
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 Oct 2007	1 Oct 2010	1 Oct 2012	83,242	$9.15	46,038	(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	78,126	(78,126)	-	-
1 Oct 2009	1 Oct 2012	1 Oct 2014	241,940	$5.75	259,673	(259,673)	-	-
			509,960		**508,480**	**-**	**(508,480)**	**-**

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	Returned to unallocated pool	Converted to ordinary shares	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**

Fair value of share-based compensation

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 2012 was based on the following weighted average assumptions:

Group and Parent	30 June 2012	30 June 2011
Risk-free interest rate	3.4%	4.3%
Expected dividend yield	4.7%	3.8%
Expected option life (in years)	5.1	5.1
Expected share price volatility	24.0%	18.0%
Weighted average remaining contractual life (in years)	3.4	3.8

Volatility is based on the 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.

12. CASH AND CASH EQUIVALENTS

	Note	Group 30 June 2012 $000	Group 30 June 2011 $000	Parent 30 June 2012 $000	Parent 30 June 2011 $000
Unrestricted cash		5,892	47,267	3,533	47,191
Cash and short-term deposits		**5,892**	**47,267**	**3,533**	**47,191**
Bank overdraft	22	-	(2,099)	-	(1,907)
Cash and cash equivalents in the Statement of Cash Flows		**5,892**	**45,168**	**3,533**	**45,284**

13. RECEIVABLES AND PREPAYMENTS

	Note	Group 30 June 2012 $000	Group 30 June 2011 $000	Parent 30 June 2012 $000	Parent 30 June 2011 $000
Retail electricity, other receivables and accruals*		201,058	193,383	175,137	163,024
Less: provision for impairment		(5,931)	(6,307)	(5,150)	(4,521)
Wholesale electricity receivables		134,490	53,147	134,490	53,147
Net receivables		**329,617**	**240,223**	**304,477**	**211,650**
Prepayments		11,827	2,985	11,827	2,985
Interest receivable		-	3	-	3
Advance in relation to gas sale and repurchase arrangement		9,900	-	9,900	-
Advances to subsidiaries	29	-	-	35,195	32,896
Advance to associate		-	310	-	-
Total receivables and prepayments		**351,344**	**243,521**	**361,399**	**247,534**

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

Receivables past due but not impaired

Included in retail electricity, other receivables and accruals are receivables that are past due but not impaired.

	Group 30 June 2012 $000	Group 30 June 2011 $000	Parent 30 June 2012 $000	Parent 30 June 2011 $000
0-30 days past due	21,305	21,874	17,341	18,687
30-90 days past due	6,672	8,010	5,973	7,035
Over 90 days past due	1,841	2,497	1,442	2,232
Total receivables past due but not impaired	**29,818**	**32,381**	**24,756**	**27,954**

Included in other operating expenses are receivables written-off during the year totalling $13.5 million (Group) and $13.1 million (Parent) (2011: $12.1 million (Group) and $10.7 million (Parent)). Refer to note 4.

Provision for impairment

	Group 30 June 2012 $000	Group 30 June 2011 $000	Parent 30 June 2012 $000	Parent 30 June 2011 $000
Provision for impairment at the start of the year	(6,307)	(6,301)	(4,521)	(4,521)
Decrease/(increase) in provision for the year	376	(6)	(629)	-
Provision for impairment at the end of the year	**(5,931)**	**(6,307)**	**(5,150)**	**(4,521)**

14. INVENTORIES

	Group 30 June 2012 $000	Group 30 June 2011 $000	Parent 30 June 2012 $000	Parent 30 June 2011 $000
Inventory gas	115,785	97,753	115,785	97,753
Consumables and spare parts	7,398	6,597	7,281	6,417
LPG	4,829	7,162	-	-
Diesel fuel	3,102	-	3,102	-
Total inventories	**131,114**	**111,512**	**126,168**	**104,170**

Inventory gas relates to the gas reserves in the Ahuroa reservoir in excess of the reserves required for cushion gas (refer to note 17). Contact's normal operating cycle for inventory gas extends beyond one year. Contact expects to utilise up to 20 per cent of the inventory gas held at 30 June 2012 within one year from the end of the reporting period.

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 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**
Balance as at 1 July 2011	4,939,583	53,054	289,263	140,112	353,343	16,319	5,791,674
Additions	76,279	3,445	6,515	58,322	390,259	4,345	539,165
Transfers from capital work in progress	90,606	629	5,766	(36,867)	(53,739)	(6,395)	-
Reclassification of asset class	(332)	110	222	-	-	-	-
Transfer to assets held for sale*	-	(241)	-	-	(6,987)	-	(7,228)
Disposals	(46,592)	(679)	(280)	-	(7,092)	-	(54,643)
Balance as at 30 June 2012	**5,059,544**	**56,318**	**301,486**	**161,567**	**675,784**	**14,269**	**6,268,968**
Depreciation and impairment losses							
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)**
Balance as at 1 July 2011	(795,846)	(14,010)	(165,369)	-	(2,830)	-	(978,055)
Depreciation charge	(161,472)	(2,220)	(13,185)	-	-	-	(176,877)
Impairment	-	-	-	-	(4,262)	-	(4,262)
Reclassification of asset class	43	-	(43)	-	-	-	-
Disposals	46,488	8	237	-	7,092	-	53,825
Balance as at 30 June 2012	**(910,787)**	**(16,222)**	**(178,360)**	**-**	**-**	**-**	**(1,105,369)**
Carrying value							
As at 30 June 2011	4,143,737	39,044	123,894	140,112	350,513	16,319	4,813,619
As at 30 June 2012	**4,148,757**	**40,096**	**123,126**	**161,567**	**675,784**	**14,269**	**5,163,599**

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 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**
Balance as at 1 July 2011	4,939,583	48,872	155,954	140,112	320,020	11,555	5,616,096
Additions	76,279	3,445	4,267	58,322	388,151	2,533	532,997
Transfers from capital work in progress	90,606	602	3,142	(36,867)	(53,739)	(3,744)	-
Reclassification of asset class	(332)	110	222	-	-	-	-
Transfer to assets held for sale*	-	(241)	-	-	(6,987)	-	(7,228)
Disposals	(46,592)	(657)	-	-	(4,262)	-	(51,511)
Balance as at 30 June 2012	**5,059,544**	**52,131**	**163,585**	**161,567**	**643,183**	**10,344**	**6,090,354**
Depreciation and impairment losses							
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)**
Balance as at 1 July 2011	(795,846)	(12,940)	(92,194)	-	-	-	(900,980)
Depreciation charge	(161,472)	(2,112)	(9,482)	-	-	-	(173,066)
Impairment	-	-	-	-	(4,262)	-	(4,262)
Reclassification of asset class	43	-	(43)	-	-	-	-
Disposals	46,488	-	-	-	4,262	-	50,750
Balance as at 30 June 2012	**(910,787)**	**(15,052)**	**(101,719)**	**-**	**-**	**-**	**(1,027,558)**
Carrying value							
As at 30 June 2011	4,143,737	35,932	63,760	140,112	320,020	11,555	4,715,116
As at 30 June 2012	**4,148,757**	**37,079**	**61,866**	**161,567**	**643,183**	**10,344**	**5,062,796**

* Certain land assets have been classified as held for sale as they are being actively marketed by Contact following Board approval to dispose of the land. These land assets are expected to be sold within one year from the end of the reporting period.

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 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.

16. GOODWILL AND INTANGIBLE ASSETS

Group	Goodwill $000	Patents $000	Gas storage rights $000	Computer software $000	Total $000
Cost					
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**
Balance as at 1 July 2011	181,941	1,222	35,012	150,553	368,728
Additions*	-	-	-	43,812	43,812
Balance as at 30 June 2012	**181,941**	**1,222**	**35,012**	**194,365**	**412,540**
Amortisation and impairment losses					
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)**
Balance as at 1 July 2011	-	(1,222)	(294)	(24,888)	(26,404)
Amortisation charge	-	-	(881)	(15,294)	(16,175)
Balance as at 30 June 2012	**-**	**(1,222)**	**(1,175)**	**(40,182)**	**(42,579)**
Carrying value					
As at 30 June 2011	181,941	-	34,718	125,665	342,324
As at 30 June 2012	**181,941**	**-**	**33,837**	**154,183**	**369,961**

Parent	Goodwill $000	Patents $000	Gas storage rights $000	Computer software $000	Total $000
Cost					
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**
Balance as at 1 July 2011	123,307	-	35,012	148,324	306,643
Additions*	-	-	-	43,812	43,812
Balance as at 30 June 2012	**123,307**	**-**	**35,012**	**192,136**	**350,455**
Amortisation and impairment losses					
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)**
Balance as at 1 July 2011	-	-	(294)	(22,659)	(22,953)
Amortisation charge	-	-	(881)	(15,294)	(16,175)
Balance as at 30 June 2012	**-**	**-**	**(1,175)**	**(37,953)**	**(39,128)**
Carrying value					
As at 30 June 2011	123,307	-	34,718	125,665	283,690
As at 30 June 2012	**123,307**	**-**	**33,837**	**154,183**	**311,327**

* Total computer software additions in the year ended 30 June 2012 include $39.6 million of internally generated assets (30 June 2011: $63.0 million).

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 or fair value less costs to sell discounted cash flow valuation. Cash flow projections are based on a five-year financial forecast for the underlying business and are extrapolated using an average annual growth rate of approximately 1.0 to 3.0 per cent. Five-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 to 10.0 per cent.

Key assumptions in the value in use and fair value less costs to sell calculations for the cash-generating units are as follows:

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. In addition, for fair value less costs to sell potential transaction costs and estimated costs of acquisition and operation by a third party.

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 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.

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 2012 (2011: 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 up to the date of commissioning of the Ahuroa gas storage facility, and is presented in the Statement of Financial Position as a separate non-current, non-depreciable asset.

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

18. INVESTMENT IN JOINTLY CONTROLLED ENTITY

	Interest held by Group		
Name of entity	30 June 2012	30 June 2011	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. Contact wrote-off its share of the assets of the Gasbridge Joint Venture in the year ended 30 June 2009 following the decision by Contact and Genesis Power Limited to put on hold the development of the land-based liquefied natural gas terminal.

During the year ended 30 June 2012, Contact and Genesis Power Limited agreed to discontinue the Gasbridge Joint Venture. At 30 June 2012 the entity has not been wound up.

19. INVESTMENT IN SUBSIDIARIES

	Interest held by Parent			
Name of entity	30 June 2012	30 June 2011	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%	Managed Australian interests relating to operation and maintenance of Oakey Power Holdings Pty Limited	Australia

All subsidiaries have a 30 June balance date.

Contact's exit of its investment in Oakey Power Holdings Pty Limited during the year (refer to note 20) has resulted in the ceasing of operations of Contact Operations Australia Pty Limited.

20. INVESTMENT IN ASSOCIATES

Name of entity	Interest held by Group 30 June 2012	Interest held by Group 30 June 2011	Principal activity	Country of incorporation
Rockgas Timaru Limited	50%	50%	LPG distribution	New Zealand
Energyhedge Limited	-	20%	Futures trading	New Zealand
Oakey Power Holdings Pty Limited	-	25%	Electricity generation	Australia

	Group 30 June 2012 $000	Group 30 June 2011 $000	Parent 30 June 2012 $000	Parent 30 June 2011 $000
Carrying value of associates				
Carrying value at the start of the year	11,603	8,809	1,579	1,587
Write-off of investment in Energyhedge Limited	-	(8)	-	(8)
Equity accounted earnings of associates	1,873	3,862	-	-
Exit of investment in Oakey Power Holdings Pty Limited	(12,755)	-	(1,579)	-
Movements taken to foreign currency translation reserve	(211)	420	-	-
Dividends received	(200)	(1,480)	-	-
Carrying value at the end of the year	**310**	**11,603**	**-**	**1,579**

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. Energyhedge Limited was struck off the companies office register in November 2011.

Contact exited its investment in Oakey Power Holdings Pty Limited on 18 January 2012 through a selective capital reduction and share cancellation for $38.0 million (AUD31.3 million). The gain on exit of the investment of $27.9 million (Group) and $38.5 million (Parent) before tax is recognised in the Income Statement.

Rockgas Timaru Limited (Rockgas Timaru) has a balance date of 31 March.

Group Aggregate summary financial information of associates, not adjusted for the percentage held by Contact	30 June 2012 $000	30 June 2011 $000
Total assets	833	146,324
Total liabilities	213	100,355
Total revenues	1,988	49,507
Profit for the year	278	15,186

There are no contingent liabilities relating to Contact's interest in associate and no contingent liabilities in the associate (2011: 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 2012 $000	Group 30 June 2011 $000	Parent 30 June 2012 $000	Parent 30 June 2011 $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 2012 $000	Group 30 June 2011 $000	Parent 30 June 2012 $000	Parent 30 June 2011 $000
Current borrowings					
Current portion of term borrowings					
6.9% February 2013	USD	97,782	-	97,782	-
Total current portion of term borrowings		**97,782**	**-**	**97,782**	**-**
Bank overdraft	NZD	-	2,099	-	1,907
Committed credit facilities	NZD	3,208	-	3,208	-
Finance lease liabilities	NZD	917	913	913	899
Total current borrowings		**101,907**	**3,012**	**101,903**	**2,806**
Non-current borrowings					
Non-current portion of term borrowings					
6.9% February 2013	USD	-	97,989	-	97,989
5.3% March 2014	USD	116,380	112,848	116,380	112,848
5.3% March 2015	USD	142,464	135,851	142,464	135,851
5.6% March 2018	USD	60,001	53,691	60,001	53,691
7.1% April 2018	USD	40,289	36,536	40,289	36,536
Fixed rate senior notes		**359,134**	**436,915**	**359,134**	**436,915**
8.0% retail fixed rate bonds May 2014	NZD	545,683	543,681	545,683	543,681
7.9% wholesale fixed rate bonds April 2017	NZD	99,824	99,788	99,824	99,788
8.0% capital bonds February 2042	NZD	195,788	-	195,788	-
Total non-current portion of term borrowings		**1,200,429**	**1,080,384**	**1,200,429**	**1,080,384**
Finance lease liabilities	NZD	1,597	1,726	1,597	1,722
Total non-current borrowings		**1,202,026**	**1,082,110**	**1,202,026**	**1,082,106**

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 30 June 2012	Fixed rate senior notes $000	Retail fixed rate bonds $000	Wholesale fixed rate bonds $000	Capital bonds $000	Total term borrowings $000
New Zealand dollar equivalent of notional borrowings	587,299	550,000	100,000	200,000	1,437,299
Deferred financing costs	(739)	(4,317)	(176)	(4,212)	(9,444)
Net fair value adjustment	(129,644)	-	-	-	(129,644)
Carrying value of term borrowings	**456,916**	**545,683**	**99,824**	**195,788**	**1,298,211**
Current	97,782	-	-	-	97,782
Non-current	359,134	545,683	99,824	195,788	1,200,429
	456,916	**545,683**	**99,824**	**195,788**	**1,298,211**

Group and Parent 30 June 2011	Fixed rate senior notes $000	Retail fixed rate bonds $000	Wholesale fixed rate bonds $000	Capital 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**

Capital bonds

In December 2011, Contact issued $200.0 million of subordinated capital bonds at a coupon rate of 8.0 per cent. Costs directly attributable to the bond issue were $4.4 million. Interest is payable quarterly in arrears. The coupon rate on the capital bonds will be reset on 15 February 2017 and on every five-year anniversary thereafter. The bonds mature on 15 February 2042. Contact has the option to redeem the bonds on the first reset date, and on any interest payment date thereafter.

Export credit agency facility

In November 2011, Contact obtained an export credit agency facility of $105.0 million. The facility becomes available as certain payments are made on the Te Mihi geothermal power station development. The facility has a fixed maturity date of 30 November 2027 with scheduled repayments from the date the facility becomes fully drawn. At 30 June 2012, the available facility was $91.6 million, of which nil has been drawn.

Committed credit facilities

Contact has total committed credit facilities at 30 June 2012 of $450.0 million, of which $3.2 million has been drawn (2011: $450.0 million, nil drawn). At 30 June 2012, $150.0 million of the facilities mature in December 2012, $225.0 million in March 2016, $45.0 million in April 2016 and $30.0 million in May 2016.

These committed credit facilities also support a $250.0 million commercial paper programme. This programme is unutilised at 30 June 2012 (2011: unutilised).

Compliance with covenants

All borrowing covenant requirements were met at 30 June 2012 and at 30 June 2011.

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.

Finance lease liabilities

Future minimum lease payments are as follows:

	Group 30 June 2012 $000	Group 30 June 2011 $000	Parent 30 June 2012 $000	Parent 30 June 2011 $000
Not later than one year	1,098	959	1,094	941
Later than one year and not later than five years	1,753	1,876	1,753	1,871
Minimum lease payments	**2,851**	**2,835**	**2,847**	**2,812**
Future finance charges on finance leases	(337)	(196)	(337)	(191)
Present value of finance lease liabilities	**2,514**	**2,639**	**2,510**	**2,621**

The finance leases relate to computer equipment and are on normal commercial terms and conditions.

The present value of finance lease liabilities is as follows:

	Group 30 June 2012 $000	Group 30 June 2011 $000	Parent 30 June 2012 $000	Parent 30 June 2011 $000
Not later than one year	917	913	913	899
Later than one year and not later than five years	1,597	1,726	1,597	1,722
Present value of finance lease liabilities	**2,514**	**2,639**	**2,510**	**2,621**

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, price risk and interest rate 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 the market risk exposures.

Fair value of derivative financial instruments

The fair value of derivative financial instruments outstanding is summarised below:

Group and Parent	Fair value assets 30 June 2012 $000	Fair value liabilities 30 June 2012 $000	Fair value assets 30 June 2011 $000	Fair value liabilities 30 June 2011 $000
Cross-currency interest rate swaps	-	(129,563)	771	(150,160)
Interest rate derivatives	804	(42,045)	-	(30,723)
Cross-currency interest rate swaps – margin	-	(4,035)	-	(6,026)
Foreign exchange derivatives	57	(3,177)	-	(14,093)
Electricity price hedges	2,992	(5,526)	1,255	(25,489)
Total derivative financial instruments	**3,853**	**(184,346)**	**2,026**	**(226,491)**
Current	2,845	(56,330)	1,669	(46,142)
Non-current	1,008	(128,016)	357	(180,349)
	3,853	**(184,346)**	**2,026**	**(226,491)**

Change in fair value of financial instruments

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

Group Favourable/(unfavourable)	Hedge accounting designation	Income Statement 30 June 2012 $000	Cash flow hedge reserve 30 June 2012 $000	Income Statement 30 June 2011 $000	Cash flow hedge reserve 30 June 2011 $000
Cross-currency interest rate swaps	Fair value hedge	19,826	-	(93,558)	-
Borrowings		(19,734)	-	93,439	-
		92	**-**	**(119)**	**-**
Interest rate derivatives	No hedge	(10,669)	151	1,477	205
Cross-currency interest rate swaps – margin	Cash flow hedge	137	1,854	(6,160)	3,459
Foreign exchange derivatives	Cash flow hedge	-	10,973	-	(12,673)
Electricity price hedges	Cash flow hedge	(1,207)	22,767	(1,627)	8,887
Electricity price hedges	No hedge	140	-	489	-
Income tax on change in fair value of financial instruments taken to other comprehensive income		-	(6,936)	-	(4,957)
Total change in fair value of financial instruments		**(11,507)**	**28,809**	**(5,940)**	**(5,079)**

Parent Favourable/(unfavourable)	Hedge accounting designation	Income Statement 30 June 2012 $000	Cash flow hedge reserve 30 June 2012 $000	Income Statement 30 June 2011 $000	Cash flow hedge reserve 30 June 2011 $000
Cross-currency interest rate swaps	Fair value hedge	19,826	-	(93,558)	-
Borrowings		(19,734)	-	93,439	-
		92	**-**	**(119)**	**-**
Interest rate derivatives	No hedge	(10,669)	151	1,477	205
Cross-currency interest rate swaps – margin	Cash flow hedge	137	1,854	(6,160)	3,459
Foreign exchange derivatives	Cash flow hedge	-	10,973	1	(12,633)
Electricity price hedges	Cash flow hedge	(1,207)	22,767	(1,627)	8,887
Electricity price hedges	No hedge	140	-	489	-
Income tax on change in fair value of financial instruments taken to other comprehensive income		-	(6,936)	-	(4,957)
Total change in fair value of financial instruments		**(11,507)**	**28,809**	**(5,939)**	**(5,039)**

Movement in cash flow hedge reserve

	Group $000	Parent $000
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)**
Balance as at 1 July 2011	(37,134)	(37,134)
Effective portion of cash flow hedges recognised in the cash flow hedge reserve	20,297	20,297
Amount transferred from the cash flow hedge reserve to revenue	7,623	7,623
Amount transferred from the cash flow hedge reserve to operating expenses	(6)	(6)
Amount transferred from the cash flow hedge reserve to change in fair value of financial instruments (ineffectiveness)	(137)	(137)
Amount transferred from the cash flow hedge reserve to property, plant and equipment	3,126	3,126
Amount transferred from the cash flow hedge reserve to deferred tax	(2,094)	(2,094)
Balance as at 30 June 2012	**(8,325)**	**(8,325)**

Risk management

Contact is committed to having appropriate systems to identify material risks, and to ensure that the financial impacts of these risks are well understood and reported, that limits are in place to control exposures, and that collective and individual responsibilities and accountabilities are assigned and well understood. Contact manages funding, liquidity, foreign exchange and interest rate risks. Wholesale commodity price risk is managed through the Commodity Risk Management System, which provides the framework for identifying, monitoring and managing commodity exposures. 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, interest rate risk, credit risk, liquidity 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, United States dollar, Swiss franc, Japanese yen and Euro.

Foreign currency risk arises from future commercial transactions such as the purchase of capital equipment and payments for maintenance denominated in currencies other than New Zealand dollars. To manage this risk Contact uses foreign exchange derivatives to manage foreign exchange risk arising from these future commercial transactions.

Contact also has foreign currency risk arising from the future interest and principal payments required on foreign currency denominated term borrowings. To manage this risk, Contact uses cross-currency and interest rate swaps, which convert the foreign currency denominated future interest and principal payments into the functional currency for the full term of the underlying borrowings.

Treasury is responsible for managing foreign currency exposures within the parameters of Board policy.

Foreign exchange derivatives

The aggregate notional principal amount of the outstanding foreign exchange derivatives at 30 June 2012 is $79.7 million (2011: $196.6 million). At 30 June 2012, all foreign exchange derivatives are designated in a cash flow hedge relationship.

The hedged anticipated transactions relating to commercial foreign currency exposures denominated in foreign currencies are expected to occur at various dates between one month and three years and one month (2011: between one month and four years and one month) from the end of the reporting period. Gains and losses recognised in the cash flow hedge reserve in other comprehensive income on foreign exchange derivatives at 30 June 2012 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 2012, no hedges were de-designated.

Sensitivity analysis

At 30 June 2012, 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 $5.5 million higher/lower (2011: $10.9 million higher/lower), arising from unrealised foreign exchange gains/losses on the revaluation of foreign exchange derivatives 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 2012 is 731 gigawatt hours (GWh) (2011: 656 GWh). The aggregate notional volume of the outstanding variable volume electricity price hedges at 30 June 2012 is 926 GWh (2011: 846 GWh).

Electricity price hedges are hedging underlying exposures over various trade periods out to December 2014. At 30 June 2012, the fair value of the electricity price hedges is $(2.5) million (2011: $(24.2) million), of which $(2.1) million (2011: $(23.7) million) is designated in a cash flow hedge relationship.

The hedged anticipated transactions are expected to occur at various dates between three months and three years and six months (2011: between one month and three years and six months) from the end of the reporting period. Gains and losses on hedged electricity derivatives 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 2012 +10% $000	30 June 2012 -10% $000	30 June 2011 +10% $000	30 June 2011 -10% $000
Impact on post-tax profit	(1,212)	789	1,047	433
Impact on other comprehensive income	(3,976)	2,070	5,221	(3,910)

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

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 currency 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 derivatives 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 2012 is $587.3 million (2011: $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 eight months and five years and nine months (2011: one month and seven years) from the end of the reporting period as a result of the maturities of the underlying borrowings. The tenor of cross-currency interest rate swaps matches the underlying United States dollar fixed rate senior notes. All underlying forecast transactions remain highly probable to occur as originally forecast.

Interest rate derivatives

The aggregate notional principal amount of the outstanding interest rate derivatives at 30 June 2012 is $688.0 million (2011: $730.0 million) including $95.0 million of forward starting interest rate derivatives (2011: $95.0 million).

The anticipated interest payment transactions are expected to occur at various dates between two months and six years and three months (2011: one month and eight 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. There would be an impact on post-tax profit as a result of the fair value change in interest rate swaps being valid economic hedges but not qualifying for hedge accounting. There would be no effect on other comprehensive income.

Group and Parent Favourable/(unfavourable)	30 June 2012 +100bps $000	30 June 2012 -25bps $000	30 June 2011 +100bps $000	30 June 2011 -25bps $000
Impact on post-tax profit	9,471	(2,452)	7,646	(1,990)

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 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. Contact, as a participant in the electricity market, has issued letters of credit to Energy Clearing House Limited under the electricity market's security requirements. These letters of credit are issued as part of normal trading conditions and are to ensure that there is no significant credit exposure to any one market participant, should another participant default.

c. Liquidity risk

Contact's liquidity risk arises from its need to ensure that it has access to sufficient committed financing to meet its committed expenditure and debt repayment obligations, normal periodic fluctuations and unexpected funding requirements.

Prudent liquidity risk management requires Contact to maintain sufficient liquidity, which can comprise cash and marketable securities and/or the availability of funding through undrawn 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.

Group 30 June 2012 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		323,599	323,599	-	-	-
Borrowings		1,942,377	190,084	745,457	323,701	683,135
Finance lease liabilities	22	2,851	1,098	1,520	233	-
Net settled derivative financial instruments:						
Electricity price hedges		2,534	2,469	84	(19)	-
Interest rate derivatives		44,475	8,689	10,266	23,061	2,459
Gross settled derivative financial instruments:						
Foreign exchange derivatives						
- Inflow		(76,208)	(70,230)	(2,838)	(3,140)	-
- Outflow		79,666	73,888	2,747	3,031	-
Cross-currency interest rate swaps						
- Inflow		(485,578)	(118,997)	(127,602)	(151,850)	(87,129)
- Outflow		650,286	156,064	170,397	205,021	118,804
Total		**2,484,002**	**566,664**	**800,031**	**400,038**	**717,269**

Group 30 June 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:						
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**

Parent 30 June 2012 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		365,411	365,411	-	-	-
Borrowings		1,942,377	190,084	745,457	323,701	683,135
Finance lease liabilities	22	2,847	1,094	1,520	233	-
Net settled derivative financial instruments:						
Electricity price hedges		2,534	2,469	84	(19)	-
Interest rate derivatives		44,475	8,689	10,266	23,061	2,459
Gross settled derivative financial instruments:						
Foreign exchange derivatives						
- Inflow		(76,208)	(70,230)	(2,838)	(3,140)	-
- Outflow		79,666	73,888	2,747	3,031	-
Cross-currency interest rate swaps						
- Inflow		(485,578)	(118,997)	(127,602)	(151,850)	(87,129)
- Outflow		650,286	156,064	170,397	205,021	118,804
Total		**2,525,810**	**608,472**	**800,031**	**400,038**	**717,269**

Parent 30 June 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:						
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**

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 retail fixed rate, wholesale fixed rate and capital bonds. The retail bonds have a fair value of $589.3 million (2011: $598.8 million), compared with a carrying value of $545.7 million (2011: $543.7 million). The wholesale bonds have a fair value of $112.0 million (2011: $108.4 million), compared with a carrying value of $99.8 million (2011: $99.8 million). The capital bonds have a fair value of $210.0 million (2011: nil), compared with a carrying value of $195.8 million (2011: nil).

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 price hedges, 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 Parent financial assets and liabilities that are recognised at fair value:

Group and Parent 30 June 2012	Level one $000	Level two $000	Level three $000	Total balance $000
Financial assets at fair value				
Derivatives designated as cash flow hedging instruments	-	2,919	-	2,919
Derivatives held for trading	-	934	-	934
Financial liabilities at fair value				
Derivatives designated as cash flow hedging instruments	-	7,612	4,603	12,215
Derivatives designated as fair value hedging instruments	-	129,563	-	129,563
Fixed rate senior notes	-	456,916	-	456,916
Derivatives held for trading	-	42,568	-	42,568

Group and Parent 30 June 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

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 2010	(35,595)
Gains and losses recognised in profit and loss*	(1,586)
Gains and losses recognised in cash flow hedge reserve	14,912
Balance as at 30 June 2011	**(22,269)**
Balance as at 1 July 2011	(22,269)
Gains and losses recognised in profit and loss*	(1,207)
Gains and losses recognised in cash flow hedge reserve	18,873
Balance as at 30 June 2012	**(4,603)**

* Change in fair value of financial instruments.

The base future settlement price path used in the valuation of the swaption has been updated at 30 June 2012 from historical observations to the ASX New Zealand Electricity Future and Options price path. This change has had the impact of increasing the fair value of the swaption by $2.1 million.

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 2012 +10% $000	30 June 2012 -10% $000	30 June 2011 +10% $000	30 June 2011 -10% $000
Impact on post-tax profit	-	-	1,395	85
Impact on other comprehensive income	2,249	(1,395)	9,025	(7,714)

Financial instruments by category

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

Group 30 June 2012	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	-	5,892	-	-	-	-	5,892
Receivables		-	339,517	-	-	-	-	339,517
Derivative financial instruments		934	-	-	-	-	2,919	3,853
Available-for-sale financial assets	21	-	-	2,935	-	-	-	2,935
Total financial assets		**934**	**345,409**	**2,935**	**-**	**-**	**2,919**	**352,197**
Total non-financial assets								5,760,166
Total assets								**6,112,363**
Liabilities								
Borrowings	22	-	-	-	1,303,933	-	-	1,303,933
Derivative financial instruments		42,568	-	-	-	129,563	12,215	184,346
Payables and accruals		-	-	-	323,599	-	-	323,599
Total financial liabilities		**42,568**	**-**	**-**	**1,627,532**	**129,563**	**12,215**	**1,811,878**
Total non-financial liabilities								882,813
Total liabilities								**2,694,691**

Group 30 June 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**

Parent 30 June 2012	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	-	3,533	-	-	-	-	3,533
Receivables		-	349,572	-	-	-	-	349,572
Derivative financial instruments		934	-	-	-	-	2,919	3,853
Total financial assets		**934**	**353,105**	**-**	**-**	**-**	**2,919**	**356,958**
Total non-financial assets								5,728,261
Total assets								**6,085,219**
Liabilities								
Borrowings	22	-	-	-	1,303,929	-	-	1,303,929
Derivative financial instruments		42,568	-	-	-	129,563	12,215	184,346
Payables and accruals		-	-	-	365,411	-	-	365,411
Total financial liabilities		**42,568**	**-**	**-**	**1,669,340**	**129,563**	**12,215**	**1,853,686**
Total non-financial liabilities								908,365
Total liabilities								**2,762,051**

Parent 30 June 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**

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 grade 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 2012 and 30 June 2011 are as follows:

Group	Note	30 June 2012 $000	30 June 2011 $000
Net debt			
Current borrowings (excluding current portion of term borrowings)	22	(4,125)	(3,012)
New Zealand dollar equivalent of notional borrowings - after foreign exchange hedging and before deferred financing costs:			
Fixed rate senior notes	22	(587,299)	(587,299)
Retail fixed rate bonds	22	(550,000)	(550,000)
Wholesale fixed rate bonds	22	(100,000)	(100,000)
Capital bonds	22	(200,000)	-
Other non-current borrowings	22	(1,597)	(1,726)
Cash and short-term deposits	12	5,892	47,267
Total net debt		**(1,437,129)**	**(1,194,770)**
Equity			
Shareholders' equity		(3,417,672)	(3,235,610)
Remove net effect of fair value of financial instruments after tax		(36,611)	(52,561)
Adjusted equity		**(3,454,283)**	**(3,288,171)**
Total capital funding		**(4,891,412)**	**(4,482,941)**
Gearing ratio		**29.4%**	**26.7%**

24. PAYABLES AND ACCRUALS

	Note	Group 30 June 2012 $000	Group 30 June 2011 $000	Parent 30 June 2012 $000	Parent 30 June 2011 $000
Electricity purchases accrual		112,353	49,732	106,998	45,460
Other trade payables and accruals*		260,707	272,005	241,163	249,550
Advances from subsidiaries	29	-	-	99,969	86,438
Employee benefits		24,086	22,754	24,086	22,754
Interest payable		12,149	10,202	12,149	10,202
Total payables and accruals		**409,295**	**354,693**	**484,365**	**414,404**

* Other trade payables and accruals include transactions with Origin and its subsidiaries. Refer to note 29.

25. PROVISIONS

Group	Note	Restoration/ environmental rehabilitation $000	Other $000	Total $000
Balance at 1 July 2011		56,503	4,382	60,885
Provisions made during the year		559	5,971	6,530
Provisions used during the year		(1,672)	(2,415)	(4,087)
Unwind of discount rate	6	4,626	418	5,044
Balance as at 30 June 2012		**60,016**	**8,356**	**68,372**
Current		1,136	3,483	4,619
Non-current		58,880	4,873	63,753
		60,016	**8,356**	**68,372**

Parent	Note	Restoration/ environmental rehabilitation $000	Other $000	Total $000
Balance at 1 July 2011		54,070	4,382	58,452
Provisions made during the year		420	5,971	6,391
Provisions used during the year		(1,641)	(2,415)	(4,056)
Unwind of discount rate	6	4,492	418	4,910
Balance as at 30 June 2012		**57,341**	**8,356**	**65,697**
Current		1,112	3,483	4,595
Non-current		56,229	4,873	61,102
		57,341	**8,356**	**65,697**

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 the decommissioned New Plymouth power station. 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.

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.

Group	Assets 30 June 2012 $000	Assets 30 June 2011 $000	Liabilities 30 June 2012 $000	Liabilities 30 June 2011 $000
Property, plant and equipment	-	-	(738,301)	(716,334)
Investment in associates	-	-	-	(2,863)
Inventories	2,716	2,537	-	-
Employee benefits	6,407	6,488	-	-
Provisions	13,897	12,379	-	-
Derivative financial instruments	13,365	17,079	-	-
Other	1,437	510	-	-
Total	**37,822**	**38,993**	**(738,301)**	**(719,197)**

Parent	Assets 30 June 2012 $000	Assets 30 June 2011 $000	Liabilities 30 June 2012 $000	Liabilities 30 June 2011 $000
Property, plant and equipment	-	-	(732,131)	(710,720)
Investment in associates	-	-	-	(162)
Inventories	2,716	2,537	-	-
Employee benefits	6,407	6,488	-	-
Provisions	12,928	11,196	-	-
Derivative financial instruments	13,365	17,079	-	-
Other	1,267	498	-	-
Total	**36,683**	**37,798**	**(732,131)**	**(710,882)**

Movement in deferred tax

Group	Balance 1 July 2011 $000	Recognised in income statement $000	Recognised in other comprehensive income $000	Change in tax rate* $000	Balance 30 June 2012 $000
Property, plant and equipment	(716,334)	(21,967)	-	-	(738,301)
Investment in associates	(2,863)	2,800	63	-	-
Inventories	2,537	179	-	-	2,716
Employee benefits	6,488	(81)	-	-	6,407
Provisions	12,379	1,518	-	-	13,897
Derivative financial instruments	17,079	3,222	(6,936)	-	13,365
Other	510	927	-	-	1,437
Total	**(680,204)**	**(13,402)**	**(6,873)**	**-**	**(700,479)**

Group	Balance 1 July 2010 $000	Recognised in income statement $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
Derivative 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)**

Parent	Balance 1 July 2011 $000	Recognised in income statement $000	Recognised in other comprehensive income $000	Change in tax rate* $000	Balance 30 June 2012 $000
Property, plant and equipment	(710,720)	(21,411)	-	-	(732,131)
Investment in associates	(162)	162	-	-	-
Inventories	2,537	179	-	-	2,716
Employee benefits	6,488	(81)	-	-	6,407
Provisions	11,196	1,732	-	-	12,928
Derivative financial instruments	17,079	3,222	(6,936)	-	13,365
Other	498	769	-	-	1,267
Total	**(673,084)**	**(15,428)**	**(6,936)**	**-**	**(695,448)**

Parent	Balance 1 July 2010 $000	Recognised in income statement $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
Derivative 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)**

* 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 ended 30 June 2012.

Unrecognised deferred tax assets and liabilities

There are no unrecognised deferred tax assets and liabilities.

27. COMMITMENTS

Capital and investment commitments

	Group 30 June 2012 $000	Group 30 June 2011 $000	Parent 30 June 2012 $000	Parent 30 June 2011 $000
Not later than one year	110,030	296,761	110,030	296,761
Later than one year and not later than five years	14,716	96,766	14,716	96,766
Later than five years	-	272	-	272
Total capital and investment commitments	**124,746**	**393,799**	**124,746**	**393,799**

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 relates to vehicles, and plant and equipment.

	Group 30 June 2012 $000	Group 30 June 2011 $000	Parent 30 June 2012 $000	Parent 30 June 2011 $000
Not later than one year	5,871	7,577	4,523	6,039
Later than one year and not later than five years	12,618	17,859	9,464	14,021
Later than five years	7,995	9,798	3,728	5,057
Total operating lease commitments	**26,484**	**35,234**	**17,715**	**25,117**

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 2012 $000	Group 30 June 2011 $000	Parent 30 June 2012 $000	Parent 30 June 2011 $000
Not later than one year	1,456	1,355	1,302	1,216
Later than one year and not later than five years	2,234	2,235	1,642	1,858
Later than five years	284	217	58	50
Total operating lease income	**3,974**	**3,807**	**3,002**	**3,124**

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. 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 to transport the gas in the Maui pipeline.

OMV New Zealand Limited

Contact has a contract with OMV New Zealand Limited giving Contact rights to gas from the Pohokura gas field until 31 December 2013. The contract has a first delivery date of 1 April 2012 and expiry date of 31 December 2013. Under the contract, Contact has agreed to make fixed annual payments for the right to take gas. The contract requires 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.

Gas sale and repurchase arrangement

Contact has entered into a sale and repurchase arrangement to deliver a fixed amount of gas between 1 July 2012 and 31 December 2013 and to receive a fixed amount of gas from 1 January 2014 to 31 December 2015. The contract requires Contact to have arrangements in place to transport the gas in the Maui pipeline.

28. RESOURCE CONSENTS

Contact holds resource consents (authorisations to use land, water and air obtained under the Resource Management Act 1991) which allow the construction and operation of its geothermal, thermal and hydro power stations and its Ahuroa underground gas storage facility, and also to enable the direct supply of geothermal energy to industry in Taupō. Once exercised, the duration of resource consents may vary up to a maximum of 35 years except for land use consents issued by territorial authorities that run for an indefinite period. The current resource consents within which Contact's power stations operate are due for renewal at varying times.

In December 2011, Contact purchased the Whirinaki diesel-fuelled power station in Hawke's Bay from the Crown and the consents for its operation have been transferred to Contact.

In addition to consents for its existing operations, Contact has consents for future generation projects utilising a variety of fuel types.

Contact has consent to construct and operate a net 220-megawatt (MW) geothermal power station at Te Mihi (near Taupō). Construction, which began in 2011, continues on the two-unit 166 MW Te Mihi power station. Contact also holds consents to install a third unit at Te Mihi. These consents expire in 2043.

Contact has consent to develop and operate a 250 MW geothermal power station and steamfield at Tauhara. Contact has exercised some of these consents and has until 2020 to exercise the remainder before they lapse. These consents expire in 2045.

At Ōtāhuhu, Contact holds resource consents to construct and operate a new 400 MW combined-cycle power station (Ōtāhuhu C). Contact also has consent to construct and operate a 120 MW open-cycle power station (Ōtāhuhu A). Contact has until 2015 to exercise these consents before they lapse. These consents expire in 2021.

In Taranaki, Contact holds resource consents to construct and operate an up to 500 MW combined-cycle or fast-start peaker power station at its Stratford site (TCC 2). Contact has until 2017 to exercise these consents. These consents expire in 2034.

In Central Otago, Contact holds resource consents to modify the existing Hawea Dam and install hydro turbines capable of generating 17.2 MW. Contact has until 2017 to exercise these consents before they lapse. These consents expire in 2017.

Contact holds resource consents to construct and operate a 156 MW wind farm at Waitahora, near Dannevirke in the Tararua district. These consents will lapse in 2016. These consents are of unlimited duration once exercised.

Contact holds resource consents to construct and operate a 504 MW wind farm (Hauāuru mā raki) on the Waikato coast. Contact has until 2016 to exercise the designations for a transmission line and until 2021 to exercise the wind farm consents before they lapse. These consents expire in 2061.

29. RELATED PARTY TRANSACTIONS

Parent company

At 30 June 2012, Origin Energy Pacific Holdings Limited is the majority shareholder in the Parent, owning 52.2 per cent (2011: 51.8 per cent) of the ordinary shares of the Parent.

Further shares amounting to 0.8 per cent (2011: 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 2012. 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 a joint venture in which Contact has an interest. All of these entities are related parties of the Parent.

Related parties also include Origin entities, the directors and members of the leadership team.

Material related party transactions

Transactions with ultimate parent entity

- The Parent issued 8,201,342 and 8,279,521 ordinary shares to its Origin shareholders pursuant to the Parent's PDP on 27 September 2011 and 30 March 2012 respectively (2011: 7,679,632 on 27 September 2010 and 6,035,007 on 31 March 2011). As a result of elections, the Parent completed an off-market buy-back of 644,212 shares on 27 September 2011 and 631,513 shares on 30 March 2012 (2011: 606,849 on 27 September 2010 and 589,718 shares on 31 March 2011).

Amounts paid/payable

- Dennis Barnes, Chief Executive Officer of Contact, is seconded to Contact from his employer, Origin. Fees incurred or accrued during the year ended 30 June 2012 in relation to Mr Barnes' role as Chief Executive Officer totalled $1.4 million (2011: $0.4 million), which includes the cost of his salary and other employment benefits including a 2011/2012 short-term incentive payment. At 30 June 2012, $0.4 million remains outstanding (2011: $0.3 million). In addition, share-based compensation under Contact's Employee Long-Term Incentive Scheme amounting to $0.3 million (2011: $0.04 million) was accrued for Mr Barnes, being the fair value of the share-based compensation relating to this reporting period.
- 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, which included the cost of his salary and other employment benefits including a 2010/2011 short-term incentive payment. At 30 June 2011, $0.4 million of this amount remained outstanding. In addition, in the year ended 30 June 2011, share-based compensation under Contact's Employee Long-Term Incentive Scheme amounting to $0.6 million was accrued for Mr Baldwin, being the fair value of the share-based compensation.
- Contact and Origin have a Master Services Agreement for the provision of professional, consulting and/or administrative services between the parties. During the year ended 30 June 2012, five members of staff were seconded from Origin to Contact, and one staff member was seconded from Contact to Origin. 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. Transactions for the year ended 30 June 2012 amounted to $9.7 million (2011: $12.5 million). At 30 June 2012, $1.4 million remains outstanding (2011: $12.0 million).
- 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 2012, the transactions under this agreement totalled $0.1 million (2011: $2.8 million). At 30 June 2012, $0.02 million remains outstanding (2011: $0.3 million).
- Contact has an agreement with Origin Energy Services Limited to provide infrastructure and data centre services for Contact's SAP system. Transactions for the year ended 30 June 2012 amounted to $3.5 million (2011: $2.6 million). At 30 June 2012, $0.4 million remains outstanding (2011: $0.2 million).
- Rockgas Limited and Origin Energy LPG Limited have an LPG Sale and Purchase Agreement for the purchase and shipping of imported LPG. Transactions for the year ended 30 June 2012 amounted to $5.1 million (2011: $7.4 million). At 30 June 2012, $2.7 million remains outstanding (2011: $1.9 million).
- Rockgas Limited has an agreement with Origin Energy Resources NZ (Rimu) Limited and Origin Energy Resources NZ (TAWN) Limited for the supply of LPG from the Rimu and Waihapa production stations. Transactions for the year ended 30 June 2012 totalled $0.6 million (2011: $0.9 million). At 30 June 2012, no amount remains outstanding (2011: $0.2 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 ended 30 June 2012 totalled $37.2 million (2011: $35.9 million). At 30 June 2012, $3.6 million remains outstanding (2011: $2.6 million).

Amounts received/receivable

- Contact and Origin Energy Resources NZ Limited have an electricity supply contract to supply Origin's facilities in Taranaki. Transactions for the year ended 30 June 2012 amounted to $0.8 million (2011: $0.8 million). At 30 June 2012, no amount remains outstanding (2011: $0.7 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 charges Empower Limited a management fee for various management services, which is calculated at arm's length. These charges totalled $5.1 million for the year ended 30 June 2012 (2011: $11.3 million). All balances are settled through the intercompany account.
- The Parent charges Rockgas Limited a management fee for various management services. Total fees charged for the year ended 30 June 2012 amounted to $10.9 million (2011: $11.0 million). All balances are settled through the intercompany account.
- During the year ended 30 June 2012, Rockgas Limited had transactions with Rockgas Timaru in respect of the supply of LPG to Rockgas Timaru amounting to $1.2 million (2011: $1.0 million), which was calculated at arm's length. At 30 June 2012, $0.03 million remains outstanding (2011: nil).
- Contact pays various operating expenses on behalf of its wholly owned subsidiaries, which are passed on directly to those subsidiaries.

Transactions with key management personnel

- Fees paid or accrued to directors and officers for director services for the year ended 30 June 2012 totalled $1.1 million (2011: $1.0 million). At 30 June 2012, $0.04 million remains outstanding (2011: $0.3 million).
- New Zealand based directors and members of the leadership team purchase gas and electricity from the Group for domestic purposes.

Other related party transactions

- Contact has a 12.5 per cent share in the Gas Industry Company Limited, which is owned by industry shareholders and is funded by a levy on industry participants. For the year ended 30 June 2012, Contact made payments to the Gas Industry Company Limited in the form of levies and cost reimbursements totalling $1.5 million (2011: $1.8 million). At 30 June 2012, no amount remains outstanding (2011: nil).

30. KEY MANAGEMENT PERSONNEL

The table below includes remuneration of directors, the Chief Executive Officer and his leadership team.

	Group 30 June 2012 $000	Group 30 June 2011 $000	Parent 30 June 2012 $000	Parent 30 June 2011 $000
Directors' fees	**1,141**	**1,008**	**1,141**	**1,008**
Chief Executive Officer and Leadership Team				
Salary and other short-term benefits	5,282	6,068	5,282	6,068
Share-based compensation	1,337	1,493	1,337	1,493
Total Chief Executive Officer and Leadership Team	**6,619**	**7,561**	**6,619**	**7,561**
Total key management personnel	**7,760**	**8,569**	**7,760**	**8,569**

Group and Parent
For the year ended 30 June 2012

Director	Position	Board fees $	Committee and special fees $	Total remuneration $
G King	Chairman	210,000	-	210,000
P Pryke	Deputy Chairman	131,500	37,000	168,500
B Beeren	Director	115,500	39,000	154,500
K Moses	Director	115,500	13,125	128,625
S Sheldon	Director	115,500	78,125	193,625
W Dewes	Director	115,500	39,000	154,500
D Baldwin	Director	115,500	15,750	131,250
Total		**919,000**	**222,000**	**1,141,000**

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**

* 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 by Mr Baldwin have been in his capacity as a non-executive director post 1 April 2011.

31. CONTINGENT LIABILITIES

There are no known material contingent liabilities at 30 June 2012 (2011: nil).

32. SUBSEQUENT EVENTS

On 13 August 2012, the Board declared a distribution pursuant to the PDP in the form of a non-taxable bonus issue for the year ended 30 June 2012 equivalent to 12.0 cents per share, for shares on issue at 28 August 2012, the record date, with bonus shares allocated and/or cash distributed, if elected, on 21 September 2012. Refer to note 8.

KPMG

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 48 to 93. The financial statements comprise the statements of financial position as at 30 June 2012, 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) and International Standards on Auditing. 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.

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 auditor 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 48 to 93:

- 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 2012 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

13 August 2012
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

Graham Cockroft,
Chief Financial Officer

Luc Hennekens,
Chief Information Officer

Peter Kane,
General Manager – Operations

James Kilty,
General Manager – Trading, Development & Geothermal Resources

Paul Ridley-Smith,
General Counsel

Nicholas Robinson,
General Manager – Strategic Communications and Partnerships

Annika Streefland,
General Manager – People & Culture

Andy Williams,
General Manager – Enterprise Transformation

Registered office

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Auditor

KPMG
PO Box 996
Wellington 6140
New Zealand

Share registry

Link Market Services Limited
Level 16, Brookfields House
19 Victoria Street West
Auckland 1010, New Zealand
Website: www.linkmarketservices.co.nz

Shareholder/bondholder enquiries

To view your investment portfolio, supply your email address, change your details, or update your payment instructions relating to Contact, please contact our registry, Link Market Services Limited, by either:

Email: contactenergy@linkmarketservices.co.nz
Mail: Link Market Services, PO Box 91976, Auckland 1142, New Zealand
Fax: +64 9 375 5990, or
Phone: +64 9 375 5998

Please provide your CSN/holder number on any correspondence with our registry.

Direct crediting of dividends/interest payments

To minimise the risk of fraud and misplacement of dividend/interest payment cheques, shareholders/bondholders are strongly recommended to have all payments made by way of direct credit to their nominated bank account in New Zealand.

We also encourage investors to elect to receive investor communications electronically. Please visit the Link Market Services website (www.linkmarketservices.co.nz) or contact them directly to update your information.

Investor relations enquiries

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Investor Relations and Group Performance Manager

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Stock exchange listings

NZSX trading code: CEN

NZDX trading codes: CEN010 and CENFA

Company number

660760

Bernd Pummer, Project Manager, Te Mihi, Wairakei