The sum of small things

Contact

It’s smart to sweat the small stuff

We are one of New Zealand's largest listed companies but we operate with the same genuine concern for our customers and communities as the smallest.

We are integral to our customers' lives – and our customers are integral to us.

This Annual Report is dated 15 August 2016 and is signed on behalf of the Board by:

Sir Ralph Norris
Chairman

Sue Sheldon
Director

Contents

Sir Ralph Norris, Chairman, and Dennis Barnes, CEO, take us through their views on Contact's performance in the past year and their outlook for the company going forward.

"My first eight months as Chair have been focused on setting up a new Board and understanding what Contact is good at and where the gaps are. I have been impressed with what I have seen and I am looking forward to helping the company realise its potential."

Sir Ralph Norris

How has Contact performed this year for its shareholders?

This year Contact has undergone significant change, and set a course for the future. Three new directors with diverse skills and experiences have joined the Board and we've seen the management team and their people embrace their new independent world. With a lot of focus and hard work we are starting to see some improvement in our customer experience.

From a financial point of view, Contact reported a statutory loss for the year ended 30 June 2016 of $66 million, $199 million lower than the prior year. This was primarily due to $204 million of impairments, net of tax, relating to the closure of the Otahuhu power station, an assessment that the Taheke geothermal resource is unlikely to be developed in the foreseeable future, and a write-down of inventory gas. Underlying profit and EBITDAF[1] were broadly in line with last year, as we signalled in December; while our free cash flow[2] improved 17% to $403 million.

We have maintained our dividend at 26 cents per share, completed a $100 million share buyback and we reduced debt by $71 million. I believe these are all positive signs for shareholders but I know there is still much more work to be done.

1. EBITDAF and underlying profit are non-GAAP profit measures. EBITDAF is earnings before net interest expense, tax, depreciation, amortisation, change in fair value of financial instruments and other significant items. Underlying profit is statutory profit excluding significant items that do not reflect the ongoing performance of the Group. The CEO monitors EBITDAF and underlying profit as key indicators of Contact's performance and believes they assist investors in understanding the performance of the core operations of the business. Reconciliations of EBITDAF to underlying profit and from underlying profit to Group statutory profit is provided in Note A2. of Contact's audited Financial Statements, on page 60.

2. Free cash flow is a non-generally accepted accounting practice (non-GAAP) measure of the cash generating performance of the business and represents cash available to repay debt and to fund distributions to shareholders and growth capital expenditure. Free cash flow is equal to cash flows from operating activities plus proceeds from assets sales less stay in business capital expenditure and interest costs.

What changes have you noticed in the past year?

I think the biggest change has been around ownership and focus. The new Board has an acute focus on performance and the management team have really enjoyed the opportunity to control their own destiny. We have added significant capability to our customer business and I think the return to customer number gains and improvements in our service metrics in the second half of the year are all positive signs.

We've made key decisions to maintain shareholders value, including the closure of Otahuhu power station and supporting the electricity supply agreement with the Tiwai Aluminium Smelter. Our share register has stabilised over the past three or four months, employee engagement has improved and we are working to appoint a sixth and final director to the Board, who will bring industry and engineering experience. I am a firm believer that the quality of a strategy comes down to execution, identifying a small number of key areas and going hard at them.

Contact produces strong free cash flows, how do you see these being used in the coming years?

We have three choices for the cash flow: distribute to shareholders, pay down debt or reinvest capital in maintaining and growing the business.

For the last two years we have returned $847 million to shareholders through a stable ordinary dividend of 26 cents per share, a 50 cents per share special dividend and a $100 million share buyback. We understand that investors are looking at Contact as a company with a strong dividend yield and so we continue to have a dividend policy that focuses on returning cash to shareholders.

As a Board we are also very conscious of maintaining a strong balance sheet and our current gearing level of 36% is higher than we would like, so I expect for the next 18 months or so you will see a bias to paying down debt with the free cash flow available after paying ordinary dividends. That said, we feel it is important to continue to look at options that use our skills to grow in an appropriate way.

How would you describe Contact's strategy?

I think the exciting thing for Contact is that our open ownership structure and refreshed Board provide us with opportunities to grow and create value for shareholders. We also understand we are in a low growth domestic industry and at the core of our investment proposition we provide a strong dividend yield for shareholders.

Our strategy remains centred on leveraging the integrated customer and generation business to deliver strong cash flows and to provide our customers with choice, certainty and control. Over time we see consolidation in the New Zealand retail market as a logical step and I believe we are well positioned to partake in that, but first we need to prove we are a good retailer who can capture the value for our shareholders. Our investment in core systems and capability is now providing us opportunities to increase our digital connection to customers, improve our insights through analytics and presents a potentially attractive offering for partners in home services and new technologies.

Investments in our generation portfolio have ensured a robust business and we have a low-cost, long-life and flexible generation portfolio with a focus on safety, reliability and resource utilisation. We have exceptional and unique skills in this business, particularly in our geothermal team, and we continue to look for opportunities to use these capabilities and add value for shareholders.

Dennis Barnes

What were some of the highlights of the year?

Contact celebrated its 20th birthday in November 2015 as a newly independent company following Origin's sale of its majority shareholding. As I look back on the year I believe there have been a number of success stories. First, we have smoothly managed the transition to a new, independent era with new shareholders and a stronger sense of ownership and engagement amongst our employees. The appointments of Sir Ralph Norris, Victoria Crone and Rob McDonald have brought significant skills and experience to the Board, particularly in transforming and operating customer-centred businesses. Second, it is pleasing to see initial signs that the investment in customer systems and capability are starting to come together in products and services our customers like. Flowing on from this, I have felt a lift in the energy and excitement amongst our employees as they become increasingly customer-inspired. Third, I think the closure and sale of the Otahuhu power station was a positive step for Contact and the market as we reduced costs and improved the balance of the country's capacity. Finally, we have continued to make progress in ensuring that all of our people can return home safely to their families. While it is disappointing our Total Recordable Injury Frequency Rate has increased slightly, the severity of our incidents continues to decline and the leadership position we are taking on safety has been widely recognised.

The retail business continues to appear challenging for Contact with new competitors and technologies coming to market. What are your plans for this business?

Yes, it is definitely a competitive market. Annual retail customer switching rates remain above 20% and we have seen the average price customers pay for their electricity reduced at a national level for the first time as new competitors enter the market and existing competitors increase innovation and target multiple offers to customers. This has resulted in the netback calculation we use to measure the financial performance of our retail business declining by $11 per megawatt hour (MWh) or 12% over the past four years. With our system implementation now behind us we have improved our billing and debt management performance to historically high levels and we are responding to the increased competition by resetting prices, launching new products and enhancing the capability of our team. For 19 of the last 20 weeks of the financial year we gained more customers than we lost. I expect with the new products we are launching in August, by making ongoing system and service improvements and striving to have the lowest cost to serve in the industry we will become increasingly competitive. In time I believe our large customer base and systems investment will provide an attractive opportunity for partners to join us in providing value for our customers beyond energy.

The uptake of new technologies in New Zealand remains in the early stages but electric vehicles, batteries and solar, amongst other technologies, will increasingly provide customers with opportunities to change how they buy and use electricity. Our focus on this is threefold. First, we are testing technologies to understand what benefits they can provide consumers which includes transitioning our vehicle fleet to electric and conducting solar and battery trials. Second, we are working to understand what our customers want and how we can meet their needs from a combination of new technologies and with new and existing products and services. Finally, we have been proactive in conversations around getting the right regulatory structure in place to ensure consumers obtain the maximum benefit from new technologies.

How would you describe the generation and wholesale markets?

The closure of Contact's Otahuhu and Mercury's Southdown power stations combined with initial signs of demand growth have reduced the amount of surplus supply in the market. We have continued to position our generation portfolio for an increasingly renewable future where the requirements for thermal plant are moving from larger generation units to flexible fast-start peaking generation. In the last six months we have seen the initial signs of some volatility returning to the market, which we expect will increase and provide greater returns for fast-start peaking capacity.

The future of the Tiwai Aluminium Smelter remains a risk for the industry and we will increase our support for its continued operation through our 80 megawatt (MW) financial agreement with Meridian Energy that starts on 1 January 2017. We continue to not make any commitments to fuel or maintenance that would increase our exposure if Tiwai were to close, and for that reason, we think the decision for Genesis to keep their Huntly coal power station open was a logical one.

The Electricity Authority's Transmission Pricing Methodology review that looks at how approximately $900 million of electricity transmission charges are allocated has continued throughout the year. The current proposal, planned for implementation in 2019, is neutral to slightly positive for Contact and is supported by Contact and many in the industry. The Government has announced the phasing out of the transitional measures for the Emissions Trading Scheme over the next three years which will see the costs of carbon emission increase, with our expectation that this will be recovered through wholesale prices.

How does Contact balance its obligations for long-term sustainability with short-term profits?

I don't think it is a case of choosing short or long-term. For Contact, sustainability is about building resilience, which requires us to act in accordance with our Tikanga. That means recognising the wider context that we operate in, and proactively positioning ourselves on key issues that our stakeholders care about which impact on our business.

There has been an increased focus on the issue of climate change and reducing greenhouse gas emissions, both internationally and within New Zealand. Contact's investment into renewable energy and flexible thermal assets has allowed us to reduce our gas purchases and carbon emissions, resulting in a 50% reduction of greenhouse gas emissions from generating electricity over the past five years.

Water quality and access, and biodiversity continue to be high priorities for New Zealanders. We have now developed a positioning statement on water that we believe supports our near-term profitability and longer term sustainability.

As part of our sustainability journey we increasingly invest in the issues that are important to our customers and in FY16 we reoriented our community investments toward social and environmental issues, and invested $475,000 into communities across New Zealand.

We will continue to develop our sustainability programme with near-term immediate priorities being a programme of action on climate change, biodiversity and access to energy and implementing our water programme starting with the development of a stewardship plan for the Clutha River.

> **"Every day, across all aspects of our business we are looking for ways to improve the service and choices we are giving our customers, the performance of our assets and the engagement of our people."**

Our Board

Sir Ralph Norris KNZM
Chairman and Independent Non-Executive Director

Term of office
Appointed director 12 November 2015, last elected 2015 annual meeting.
Board committees
Chairman of the Remuneration and Nominations Committee.

Sir Ralph Norris has over 40 years of business and banking experience, having led large organisations through transformational change in both New Zealand and Australia. He is the chairman of Fletcher Building Limited and RANQX Holdings Limited, along with holding directorships on the Advisory Boards of New Zealand Treasury, Tax Management NZ and SouthPark Corporation. He is a former director of Fonterra Limited and Origin Energy Limited. He was managing director and chief executive of Commonwealth Bank of Australia for six years until 2011, and prior to that served as chief executive of Air New Zealand and ASB Bank. Sir Ralph was made a Knight Companion of the New Zealand Order of Merit in 2009 and a Distinguished Companion of the New Zealand Order of Merit for services to business in 2006. In 2012 he had conferred on him an Honorary Doctorate of Business by the University of New South Wales.

Victoria Crone
Independent Non-Executive Director

Term of office
Appointed director 12 November 2015, last elected 2015 annual meeting.
Board committees
Member of the Health, Safety and Environment Committee and member of the Remuneration and Nominations Committee.

Victoria has over 20 years' experience in the communications and IT sectors. Her experience spans from start-ups to mature products across consumer, small business and enterprise sectors. She is chair of Figure.NZ, a director of Creative HQ and Redshield Security, and a trustee of NZ Hi-Tech Trust. A former managing director of Xero New Zealand, Victoria also held senior management roles in sales and marketing at Chorus and Telecom. She is a passionate kiwi and a member of NZ Global Women. Victoria holds a Master's degree in Commerce and Administration (Marketing and Management) from Victoria University.

Whaimutu Dewes
Independent Non-Executive Director

Term of office
Appointed director 22 February 2010, last re-elected 2013 annual meeting.
Board committees
Chairman of the Health, Safety and Environment Committee and member of the Audit Committee.

Whaimutu Dewes is of Ngati Porou and Ngati Rangitihi descent and lives in Rotorua. He is the chairman of Aotearoa Fisheries Limited and Sealord Group Limited, and is a non-executive director on the Treasury Board. His former directorships include the Housing New Zealand Board, 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 Maori Affairs. Whaimutu has a Master's degree in public administration and degrees in arts and law.

Rob McDonald
Independent Non-Executive Director

Term of office
Appointed director 12 November 2015, last elected 2015 annual meeting.
Board committees
Member of the Audit Committee and member of the Health, Safety and Environment Committee.

Rob's finance career spans over 30 years, having worked overseas before joining Coopers and Lybrand in the corporate advisory and valuations practice in 1985. He is currently the chief financial officer with Air New Zealand, a position held since 2004, prior to which he was the group treasurer. He is a former board member of the Institute of Finance Professionals New Zealand Inc. and the former vice chairman of the IATA Financial Committee. Rob has a Bachelor of Commerce from Auckland University and in 1999 completed the Programme of Management Development at Harvard Business School. He is a Fellow of Chartered Accountants Australia and New Zealand.

Sue Sheldon CNZM
Independent Non-Executive Director

Term of office
Appointed director 16 March 2009, last re-elected 2014 annual meeting.
Board committees
Chairman of the Audit Committee and member of the Remuneration and Nominations Committee.

Sue Sheldon is a professional company director. She is the chairman of Freightways Limited, chair of NZ Global Women and a director of Real Journeys Limited. Sue has previously held the roles of chairman of Chorus Limited, Paymark Limited, the board of trustees of the National Provident Fund, deputy chairman of the Reserve Bank of New Zealand and Christchurch International Airport Limited, and director of Smiths City Group Limited. 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.

Leadership Team

Dennis Barnes
Chief Executive Officer

Graham Cockroft
Chief Financial Officer

"As a newly independent company, we are now able to pursue a strategy that we believe is right for Contact, focusing on our strengths and targeting the most appropriate opportunities in the market. Greater clarity on our strategy is leading to improved alignment of all activities across the company."

Venasio-Lorenzo Crawley
Chief Customer Officer

"Being customer-inspired ensures our people have the knowledge, tools and capabilities to make decisions and suggest solutions that our customers value most. By offering our customers choice, certainty and control, our aim is to help make every interaction they have with Contact — easy."

Annika Streefland
General Manager, People and Culture

"We are looking to elevate and stabilise our performance through having the right culture that is aligned to our Tikanga. As part of this we look to make our people journey hum. This is from when you first consider joining Contact, the courtship, the first 90 days of finding your feet, bringing your human to work, making a difference...and finally, saying goodbye."

"After a long period of significant capital investment and as a newly independent company we are now focused on developing a culture that improves the service and choices we are giving our customers, the performance of our assets and the engagement of our people."

— Dennis Barnes

James Kilty
Chief Generation and Development Officer

"This year we've focused on delivering improved performance from our recent investments in both renewable and flexible thermal generation assets. We're focused on continuously improving the safety, reliability, and profitability of our activities every day and are investing in our leadership capability to build a generative culture that will continue to support that."

Tania Palmer
General Manager, Health, Safety and Environment

"We're continuing to advance our safety culture and central to this has been to put problem identification and solution creation in the hands of our sharp-end workers. This has delivered better learnings and empowered our people."

Mark Corbitt
General Manager, Information and Communication Technology

"Investments we've made in standardising our technology are helping us reduce the time we need to deliver the products, service and choices we give our customers."

Catherine Thompson
General Counsel

"I am proud to work for a company that recognises the value that we can achieve by encouraging a diverse and inclusive environment to flourish. From the Board table right across the company we acknowledge the strength that comes from diversity of thinking."

Our Tikanga

Our purpose is to help New Zealanders live more comfortably with energy.

What we believe in, our Tikanga, guides how we bring our purpose to life. It's our set of beliefs, and values expressed as a series of Principles and Commitments.

Our Principles

These provide guidance for making decisions every day

1. We conduct ourselves and our business with due care and in accordance with relevant laws and regulations. We have an overriding duty to ensure the health and safety of our employees, and to minimise the health, safety and environmental impacts on our customers and the communities in which we operate.
2. We will add value to the resources that come under our control.
3. The value we create will be distributed to stakeholders, recognising the need to ensure the sustainability of our business, and its impact on the environment and the communities in which we operate.
4. We encourage diversity and expression of ideas and opinions but require alignment with Contact's Principles, Commitments and the policies established to implement them.
5. When faced with choices, we make decisions knowing they will be subject to scrutiny. We should be able to demonstrate the soundness of our decisions to all stakeholders.

Our Commitments

These define the sustainable outcomes that we always strive to achieve for our key stakeholders

1. Deliver market-leading performance for shareholders by identifying, developing, operating and growing value-creating businesses.
2. Create value for our customers by understanding their needs, and delivering relevant and competitive energy solutions to meet these needs, both today and into the future.
3. Create a rewarding workplace for our people by valuing everyone's contribution, encouraging personal development, recognising good performance, and fostering equality of opportunity.
4. Respect the rights and interests of the communities in which we operate by listening to them, understanding and managing the environmental, economic and social impacts of our activities.
5. Respect the rights and interests of our business partners, by working collaboratively to create valued and rewarding partnerships.

Contact from head to toe

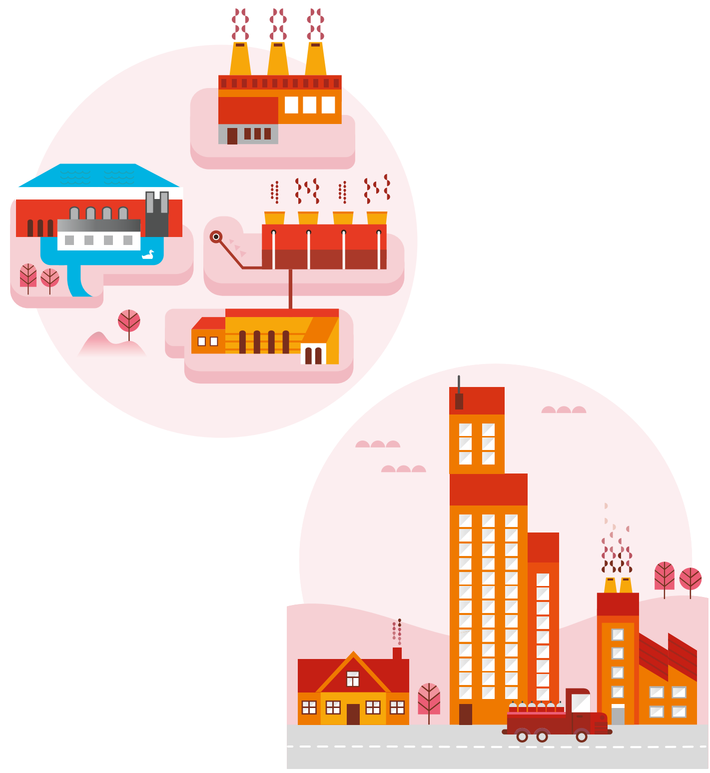
Legend

- Head office
- Power stations
- Offices
- Gas storage facility
- LPG sales and distribution
- LPG franchises
- Lake Hawea control structure

Generation by type for the year ended 30 June

Generation type	2016	2015
Hydro (GWh[1])	4,091	4,119
Geothermal (GWh)	3,297	3,074
Thermal (GWh)	1,614	2,321
Total	**9,002**	**9,514**

1. GWh = Gigawatt hours.



Customer connections by energy type as at 30 June

Energy type	2016	2015
Electricity	425,000	430,000
Natural gas	62,000	61,500
LPG	75,500	70,500
Total	**562,500**	**562,000**

Generation by station

North Island

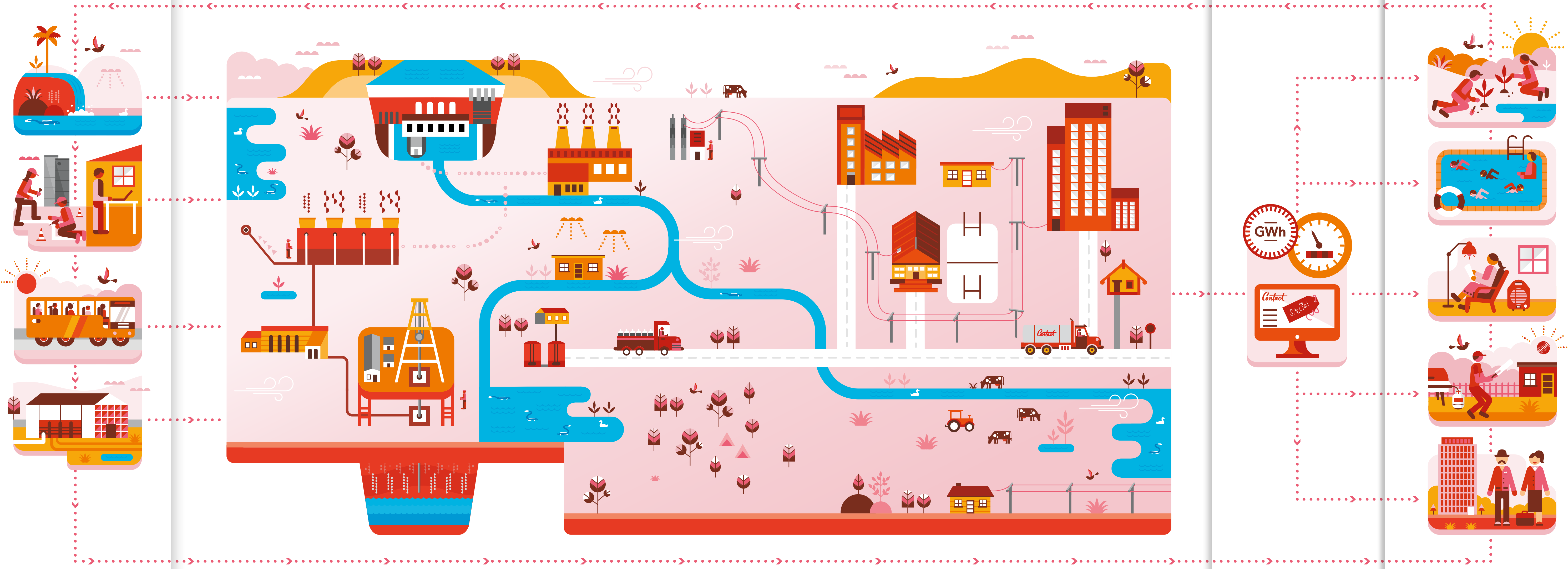
Name	Output	Commissioned	Type	Location	Capacity (MW)[1]	2016 Generation (GWh)	2015 Generation (GWh)
Ahuroa	–	2011	Gas storage facility	Taranaki	Ability to store and extract gas as conditions require	Can store up to 17 PJ[2] of gas – enough to run our Stratford peakers for 12 months at full capacity	
Ohaaki	Geothermal	1989	Flash steam	Waikato	50	337	327
Otahuhu B[3]	Thermal	1999	Combined-cycle gas turbine	Auckland	400	553	1,326
Poihipi	Geothermal	1996	Flash steam	Waikato	55	407	298
Stratford	Thermal	1998	Combined-cycle gas turbine	Taranaki	377	334	329
Stratford	Thermal	2011	Peaker, gas turbine	Taranaki	210	506	477
Te Huka	Geothermal	2010	Binary cycle	Taupo	28	196	204
Te Mihi	Geothermal	2014	Flash steam	Taupo	166	1,282	1,159
Te Rapa	Thermal	1999	Open-cycle gas turbine cogeneration	Waikato	44	221	189
Wairakei	Geothermal	1958, 2005	Flash steam/binary cycle	Taupo	132	1,075	1,086
Whirinaki	Thermal	2004	Diesel fuel, open-cycle turbine	Hawke's Bay	155	–	–

South Island

Name	Output	Commissioned	Type	Location	Capacity (MW)[1]	2016 Generation (GWh)	2015 Generation (GWh)
Clyde	Hydro	1992	Conventional	Otago	432	2,289	2,300
Roxburgh	Hydro	1956-1962	Conventional	Otago	320	1,802	1,819

1. Megawatts.
2. Petajoules.
3. Closed September 2015.

Our business



Inputs

We purchase goods and services from more than 2,000 suppliers. Our biggest purchase is gas which we use to run our thermal power stations, or on-sell to customers as LPG. We also purchase things like metering services, geothermal engineering and drilling services, office supplies, and machinery.

Source

We source fuel for electricity generation. We buy gas and diesel from producers; rain and snow-melt fill hydro storage lakes; drilling extracts geothermal fluid and steam.

Generate

We generate electricity at our 11 power stations. We vary the output and combination of generation plants used to meet energy demand peaks and changing weather conditions. We also have the ability to store and use gas from our Ahuroa gas storage facility.

Wholesale

We sell the electricity we generate on the wholesale electricity market and also purchase the electricity needed for sales to our customers. We also trade a range of financial products to manage our risk.

Distribute

Electricity is transmitted from power stations by Transpower to regional connection points and is then distributed by local lines companies to customers. Gas is sourced from producers and transported by gas network companies to customers. These distribution costs are passed through to our customers in their bills. Contact delivers bottled LPG to customers via our fleet of delivery trucks and pipeline network.

Sell & serve

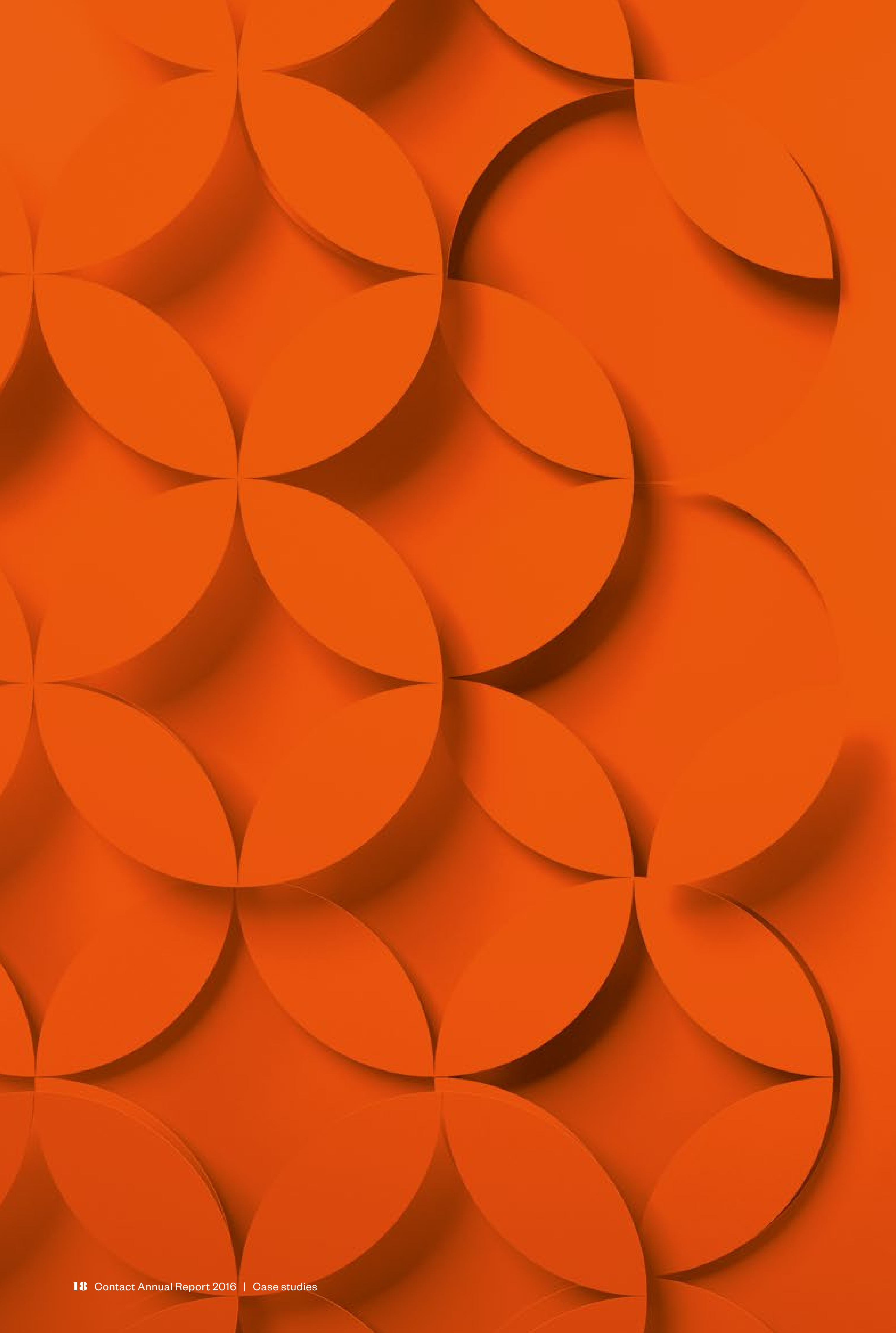
As a retailer we sell electricity, gas and LPG products and services to residential, small business and commercial and industrial customers to meet their energy needs.

Outputs

Through our business we produce a range of outputs such as the 9,002 GWh of electricity we generated for the market in FY16, and the products we've developed for the retail market, like our Home and Bach plan, and fixed term products.

Outcomes

Our outcomes deliver on the commitments we make in our Tikanga. From helping our customers live comfortably, to being a great business partner and employer, and delivering returns to shareholders.



In living our purpose we make things easier for our customers, more fulfilling for our people, and better for our communities every day.

Listening to our people is important. Here are their stories...

Keeping the Metallica playing

Bodie

Customer team member

There are amazing people out there dealing with all sorts of challenges in their lives. I'm talking to a lot of them every day to help them with their electricity use and payments. If I can find a way to help them through tricky spots, it makes my day.

One of the customers I work with is Ross. He got in touch two years ago when he'd faced big losses in his life and things were tough. We had a catch up over a cuppa recently. I wanted to know what worked for him and what we could do better.

The first time I talked to him he was bringing up three children on his own and money was tight. We set up a payment arrangement straight away.

"I was about ready to jump off a bridge, I seriously was. I'd been left with three girls, an empty house and a power bill. I thought I needed to physically try and to do something about this and here we are," he said.

It hadn't always been like that for Ross. He'd started his career as an apprentice in newspaper typesetting and went on to work as a production manager for several newspapers around New Zealand. When circumstances change for people, it's so important we offer them choices and give them the flexibility they need.

The flexible payment arrangements were a big help for Ross, but he thinks the most important thing is actually being able to contact us direct for a quick response.

"It's just service and how you can actually talk to someone. The Facebook thing's been great — I can get a reply back in minutes on your Facebook page. I like the way you run."

So what could we do better?

"One thing would be email letters so I can sort it straight away and not stress. The way the mail system works I might not get the letter for a few days but on email I know straight away and I can sort it."

I've now organised that for him. We also talked about the option of fixed pricing and he liked the idea of a one-year fixed price term to give him a little more certainty.

My customers inspire me every day. Like Ross — he doesn't have a telly but as long as he's got a stereo to play his Metallica on he's quite happy — and he's a pretty handy cook; in fact I'd be keen to get an invite to his house for Christmas!

"It's a tradition we haven't broken. I started it. I'm up at six in the morning. The night before I've frozen wine glasses with fruit juice on the bottom. We have a chilly bin full of bubbly and we have a bubbly and barbecue breakfast. We have a cold afternoon lunch with the ham and all the salads. I do all the cooking," he said.

I love this job because it's personal. We try really hard to be flexible and find solutions that work for our customers, not just things that might make it smoother at our end. I like that.

Lifting our performance

We spend a lot of time at work, so it's really important our people feel good about being here – to feel they're valued and achieving. Two members of our team give their thoughts on culture and capability.

Stephen

Head of Data Analytics, Innovation and Performance

I head up the Data, Analytics, Innovation and Performance Team and I'm a big believer in personal development and the opportunity to upskill. We've set up the team in a way that ensures we have the right people and attitudes in place to make some important breakthroughs, specifically around better use of our data.

We now have a data science team. What we're trying to do is make better use of Contact's data and enrich this with external data, creating a more accurate view of our customers so we can serve them better. We've got smart people on board to help us become a data driven organisation.

This has led to doing things like using advanced analytical techniques to better understand why customers leave us. We then use the insights to make changes and improve.

We're also working to enhance our digital capability. Our customers have told us that choice, certainty and control are really important to them and our digital channels can help us provide that, and allow us to personalise the service.

We've become a lot more agile and adaptive. Having different viewpoints when we're trying to solve a problem creatively can help us come up with a better, more robust solution.

Natalie

Culture Manager

We need a culture that helps people perform at their best and we need them to work together with the right capabilities to bring that to life.

When we align capability and culture to strategy, that's when I think we get real performance. We want every person to understand and feel comfortable with the big picture, so they know what we're doing and how their role fits into that. But it's the 'why' we do what we do that really matters.

We're looking at things that make up culture, like purpose, capability, values, behaviours, identity, actions and environment. Then we're asking ourselves, 'where do we need a little more momentum to really elevate Contact's culture?'. We're lucky to have such a strong foundation with our Tikanga. That really guides us to live our purpose at Contact.

You always need to work on these things. When I look across Contact, what really stands out is that the sum is greater than the parts. When I've seen Contact do amazing things, it's where people from different teams have shared their capabilities and worked together.

We need to have the courage to try new things, test, learn and fine tune. It's early days, but we're already seeing some great results.

Leading with safety

Process Safety helps us monitor and measure how well our systems are performing at keeping hazards away from our people, our assets and the environment. We call this Safe to Run and it's been a big focus for us over the past year. To help our leaders drive change we've focused on personal development and skills to lead change. We asked Sarah and Paul, two of our leaders, how it's changed their thinking and the way they work.

Sarah

Project Manager
Safe to Run

Paul

Head of
Generation
Taranaki

How would you describe our Safe to Run journey?

Sarah I think it's been reflective, harrowing at times, exciting and significant. It's a lot of things to me. I feel there's been a big shift in Contact in the past 18 months — there's optimism, there's a little bit of goodness — what a lot of change we're going to have to make. But because people believe in it, there's willingness from them to roll up their sleeves and give it a go.

Paul I think it's a bold step for Contact. Our commitment to process safety and safety as a whole is a 'pace-setting' decision. Process industries globally have come a long way but in spite of that, catastrophic events like the Pike River tragedy still happen. Contact and other industries need to challenge each other in how we create a continuous improvement safety culture.

Sarah We're really putting ourselves out there aren't we? We're saying 'we believe in this' and watch us commit, watch us act, watch us do it.

What are the benefits for our people, customers and communities?

Sarah The benefits are obvious aren't they? I think that's why it's quite easy for us to get on board with Safe to Run. It's about our people getting home safely, our communities being happy for us to be near-by and our customers knowing that their electricity is provided to them in the safest possible way.

How does the personal development programme that supports Safe to Run create change?

Sarah It's helping our people grow together and encouraging the behaviours from them that are required to lead the change and be brave.

Paul And sustain the changes that have been made to ensure they're embedded.

Sarah For the 46 people involved, it's been monumental. The camaraderie and that deeper understanding of each other that comes when you collaborate together and get a bit vulnerable is very enriching.

What's been your greatest insight from the personal development programme?

Paul For me it's actually an acute sense of self awareness. What I might do and how I might behave and the impact this has on others. It's also the development of the trust with others, through the work we've been doing with the programme. The tools and the models have helped me personally and I'm tested frequently on that at home with my teenage kids being, well teenagers! It's about jazzing things up.

Sarah For me the personal significance is a real belief that we're all leaders — it's not something for the management team. It's been recognising the leadership qualities I have that I didn't see as leadership qualities.

What changes have you observed in others?

Paul I've seen a significant shift in how we communicate with each other, how we behave, which has led to a significant change in how we operate as humans — whether inside or outside work.

It's the behavioural model that tests us all from time to time...thinking about whether our actions are 'above the line' — being positive and orientated towards the future, or 'below the line' — things like blame, denial, living in the past, and defensiveness.

Sarah I've seen that in a lot of participants in the programme. They go through a period of a bit of self-doubt, worry and concern. But then through self-awareness and being honest with themselves they come to a really exciting space where they trust themselves to have a crack at the task at hand. It's a realisation that they're geniuses of their intent and it's apparent that they will be successful.

Living our Tikanga

At Contact we strive to balance our economic, environmental, cultural and social responsibilities. We've looked at how our activities impact and influence New Zealand and we've come up with seven themes to tackle the key issues. To us, this is about delivering on our purpose and living our Tikanga. So how are we tracking? Let us tell you…

Making every dollar count

With over 68,000 shareholders and around 3,500 bondholders across the world, Contact is focused on providing financial returns that meet investor expectations and ensure our long-term health. We focus on smart investments and careful control of costs.

Contact's business is set up to deliver strong cash flow to investors and our recent investments have built more flexibility and lowered our costs. In the past year we have continued to focus on our sales and customer service performance with the significant investment in systems and capability beginning to deliver our customer strategy. We will continue to develop customer centric offers in-house and with partners to improve customer life time value while also targeting the lowest cost to serve in the industry to ensure our ongoing competiveness.

The transition to a lower cost fuel portfolio is now largely complete and has improved New Zealand's energy and capacity balance. The closure and sale of our Otahuhu power station and our 14-year agreement with Meridian to support the continued operation of Tiwai have contributed to a competitive, reliable and sustainable electricity supply.

The nitty gritty

We're constantly reviewing how we apply the cash we generate and seek to get the right balance between distributions to shareholders, debt reduction and investment in the growth of our business.

Our distribution policy continues to target an average ordinary dividend equivalent to approximately 100% of our underlying profit. Where free cash flow exceeds ordinary dividends, we will look to make additional distributions in the most tax efficient way for our shareholders. The $367 million special dividend paid in June 2015 ensured we maximised the value of the imputation credits we had accumulated before they were lost on the change of control when Origin sold its shares in Contact. In line with our distribution policy, in the 2016 financial year we have maintained our ordinary dividend at 26 cents per share (cps) and also completed a $100 million share buyback at an average price of $4.83 per share.

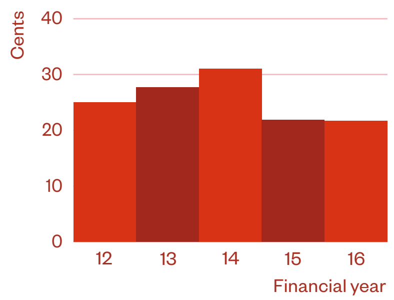
The payment of the special dividend resulted in our debt levels increasing, and following the completion of the buyback we are now planning to reduce our debt levels to support our BBB Standard and Poor's credit rating. In the past five years we have sold $180 million of assets not required for the ongoing operation of our business in order to maintain the strength of our balance sheet and in the second half of FY16 we have reduced debt by $71 million. Our funding approach ensures we maintain diversity in both the source and duration of funding and we have seen our average cost of debt fall from 7.2% in FY12 to 5.3% in FY16.

Investment has been largely limited to maintaining our current operations over the past three years as we have bedded in new assets following the $2 billion investment programme we completed in 2014. Our capital expenditure is now focused on projects that maintain the safe reliable and profitable operation of our power stations and improving our customer experience.

10%
Total shareholder return for FY16

56 cps
Free cash flow

$523 million EBITDAF

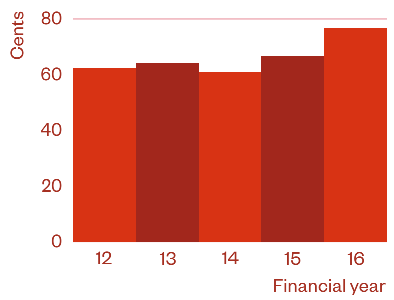


Underlying profit per share

Measures performance of the underlying business and is calculated by dividing underlying profit by the weighted average number of shares on issue during the year. Underlying profit is calculated by adjusting reported profit for the year to remove any significant items that are not related to the ongoing performance of our business.

2016

Underlying profit per share was stable in FY16 following the repurchase of $100 million shares between October 2015 and March 2016.



Operating cash flow per share

Cash available to fund distributions to shareholders debt repayments and growth capital expenditure. Operating cash flow per share is calculated as operating cash flow divided by the weighted average number of shares on issue over the year.

2016

Operating cash flow increased by $66 million due to tax credits primarily relating to the closure of the Otahuhu power station in September 2015. A total of 52 cps cash flow allocated to dividends, repayment of debt and share buyback.

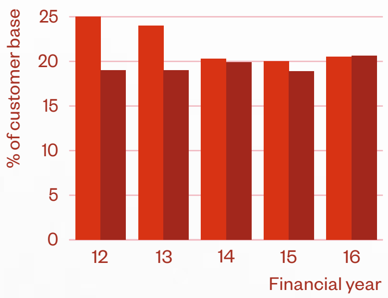
Net debt to EBITDA ratio

Contact has had a BBB Standard and Poor's credit rating since 2002. The key financial metric used to determine this rating is net debt divided by EBITDA which is calculated based on a rolling average across five years.

2016

Contact's ratio increased following the payment of the special dividend in 2015 and has since reduced from 3.4x as at 30 June 2015 to 3.2x as at 30 June 2016. Contact is planning to further reduce debt levels to support its BBB credit rating.

Inspired by our customers



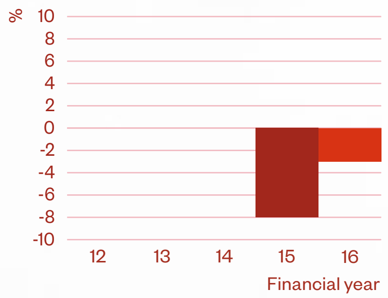
Contact Market excluding Contact

Loyalty and customer switching

Our performance relative to other retailers is shown by comparing the percentage of customers who switch away from Contact each year, compared with the industry (excluding Contact). Over 30,000 residential electricity customers change their supplier every month in New Zealand.

2016

While overall market churn continues to increase, Contact customer switching has continued to trend down relative to competitors, and in the second half of FY16 was 1.3% below the market average. This reflects the growing focus on customer retention and the success of our new products and service in building customer loyalty.

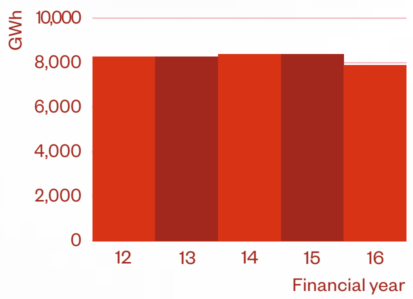


Net promoter score (NPS)

NPS is a widely used metric that measures the degree to which customers are willing to promote our business to others. Measured monthly, scores range between -100% and +100%, with positive scores reflecting higher numbers of promoters and negative scores representing higher levels of detractors. We began using NPS in May 2015 because it provided us with better, more actionable real-time insights compared to our previous Customer Experience Monitor. It also means we can benchmark our performance against other companies in our industry.

2016

Our annualised FY16 NPS score was -3%, an improvement of five points from our FY15 score. Although we only measured NPS from May 2015, we believe the slight increase reflects the implementation of our new customer strategy, which we introduced in November. Our long term goal is to be the leading energy retailer.



Electricity sales volume

In an integrated business like Contact's, the energy volume sold to customers is a key component in ensuring stable earnings. Volume needs to be carefully managed against the risks associated with selling too much load and not being able to cover demand during high price periods.

2016

Total retail electricity sales volume was down 502GWh as lower priced commercial and industrial customer contracts ended (397GWh) and mass market electricity customer gains in the second half of the financial year did not offset losses in the previous 18 months.

Our customers are vital to the success of our company. We're in the homes and businesses of hundreds of thousands of New Zealanders and we go all out to help them live more comfortably with energy.

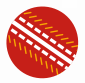
In a market facing intense competition, fast paced technological change and growing expectations, our customers told us they value choice, certainty, control, and us making it easy for them. Over the past year we have started implementing our customer strategy with early signs of success, as our performance has stabilised and then improved across the key metrics we measure.

We've listened to our customers and delivered

To us, consistently delivering is about having a good grasp of the current and evolving needs of our customers and providing the right products and services — at the right price, backed by outstanding customer service and technology to deliver the best experience possible.

During the year we launched seven new products and services including a variety of fixed price and fixed term plans for both residential and business customers. These have proven popular, with more than 24% of our customers on fixed price plans as at 30 June 2016. We've also introduced innovative new products such as our Home and Bach Plan, online self-service options, and Power Fairy, which enables new customers to choose when they'd like to be rewarded with an account credit.

We've also introduced health check calls which we use to confirm whether customers are on the energy plan that best suits their circumstances and to understand what more we could be doing to add more value for them. In the year ahead we'll continue to design new offers and enhance the services we provide, putting the needs of our customers at the heart of everything we do.



We've improved how we operate

We've made real progress addressing the issue of customer debt by significantly improving our debt management processes. By introducing credit checking, early communication and introducing new payment plan options we're helping to prevent debt escalating to the point where it becomes unmanageable for customers. The changes we've made have contributed to a 35% reduction in the total amount owed due to non-payment of bills (the lowest in the past seven years) and a $3 million reduction in the amount of customer debt written off in FY16.

We recognise that getting into debt can have a compounding effect on customers facing hardship and affordability issues. That's why we've lowered our prepaid pricing to align with our standard pricing and strengthened relationships with social service providers, allowing customers with prior credit issues to still access the energy they need. We've also started working on a wider programme to understand how Contact can assist further in addressing access to energy. Part of our plan will include developing measures and targets to track our performance.

Our improved service has led to a 39% reduction in customer complaints and a significant fall in the number of complaints going to the Electricity and Gas Complaints Commissioner. We regularly seek feedback from our customers on their experience and we've seen an improvement in our Net Promoter Score (see graph on page 30) in FY16, an international measure of customer advocacy. These results have been supported by a 17 percentage point improvement in employee engagement within our Customer Business Unit.

Throughout the year we've focused on providing transparent information and giving customers more choice and control so they can make decisions to suit their circumstances. Since April 2016 we've increased electricity prices in a number of regions across the country to reflect changes to network company charges, as well as the energy component of the bill which Contact controls. This year we gave customers the option of moving to one of our fixed term, fixed price plans prior to the planned price increase, and provided an online portal to make signing up easy.

Many of Contact's operating statistics are now heading towards historical lows, with our customer switching rate now below that of the market (see graph on page 30), our average speed to answer customer calls improving 25% from FY15 to 180 seconds, and the number of late customer bills down by 82% compared with the prior year.

We've organised our business for the new world

This year we've implemented our new customer strategy to help us deliver the things our customer's value most. We began by organising our team differently, refreshing our customer leadership and investing in new capability. Our new specialist teams have a strong focus on digital and sophisticated analytics, helping us to better understand our customers.

We've made it easier for customers to interact with us via digital channels, launching two mobile apps and improving what we offer via our website, including the ability to pay online. We now have over 267,000 customers on e-billing and online payment options, an increase of 11% since June 2015, making us the largest online energy retailer in New Zealand. We're one of New Zealand's largest LPG retailers and over 80% of all LPG customers now order their LPG cylinders via our app.

Our improved offers saw us consistently win new customers in the second half of the financial year. We have also recognised the needs of our existing customers, offering them new services and rewarding their loyalty with giveaways as part of our 20th birthday celebrations. During the financial year we gifted more than 11.5 million Fly Buys points to customers.

Competitive, reliable supply, responsibly delivered

To deliver reliable, renewable, safe electricity to our customers, we make sure we have all the bases covered every minute of every day. This takes several critical things working together.

Diverse portfolio big on renewables

We harness the power of steam, water, gas and diesel so we can swiftly respond to changing market needs. It also means that when the weather doesn't play ball, or one of our power stations is out for maintenance, we can still generate enough electricity to meet the needs of New Zealanders.

Our generation strategy is centred on optimising the value of our renewable assets, with thermal generation and our gas storage facility providing daily and seasonal wholesale market risk management for Contact when renewable fuel sources are not available.

In FY16, 82% of the electricity we generated came from renewable sources as we improved geothermal resource management and plant availability while reducing the amount of gas-fired generation. This is an increase from 76% in FY15.

Cost of energy improved by $55 million year on year as a result of increased renewable generation, more flexible gas contracts and reduced costs following the closure of the Otahuhu power station in September 2015.

During the year uncertainty around the future of the Tiwai Aluminium Smelter, the largest single electricity user in New Zealand, along with speculation about the future of the Huntly coal-fired power station, continued to influence forward prices in the New Zealand electricity market.

In August 2015 we signed a long-term financial contract with Meridian Energy to support the continued operation of the Tiwai Aluminium Smelter. We also closed the Otahuhu power station and intend to refurbish the Taranaki combined-cycle power station in due course to extend the life of that plant. We also entered into a financial contract with Genesis Energy for risk management support from the Huntly power station. These actions have improved New Zealand's energy and capacity balance while enabling Contact to switch to lower cost renewable fuel.

We forecast future electricity demand using a range of data sources, including a number of external forecasts. While there are inherent uncertainties in forecasts, there is a consensus that near-term demand growth will be slow. Contact is well positioned to meet any additional demand with its consented geothermal and thermal options were significant demand growth to occur.

Our focus remains on leveraging the flexibility in our fuel and generation portfolio, while focusing on continuous improvement in our operational activities.

82%

Electricity generated from renewable sources

$55 million

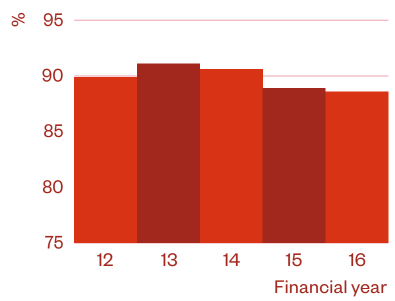
Improvement on cost of energy

Boosting our process safety

Keeping our generation assets and LPG business safe and reliable is critical to our ongoing operations, so we constantly look at ways to make our processes and systems as robust as possible.

Last year we launched an improvement programme to bolster our process safety barriers to help prevent major accidents. Process safety is all about keeping the hazardous stuff we deal with, such as steam or electricity, out of contact with people and to prevent it damaging our assets. To make it more meaningful to our people we called the programme Safe to Run and it is helping us to improve our process safety systems and sharpen the way we monitor and measure how well those systems are performing. As part of Safe to Run, and after lots of feedback from our people, we are also taking the opportunity to simplify the Health, Safety and Environment (HSE) management systems that we operate under (see pages 34-35).

Over the year we made significant progress in embedding systems that seek to enhance process safety, including launching a near real-time dashboard to increase visibility of our process safety barriers. This is a positive step in ensuring we have the right controls in place to protect our people, our assets and our environment. The enhanced awareness of our process safety barriers as a result of Safe to Run and the dashboard have resulted in an increase in process safety issues being identified and recorded.

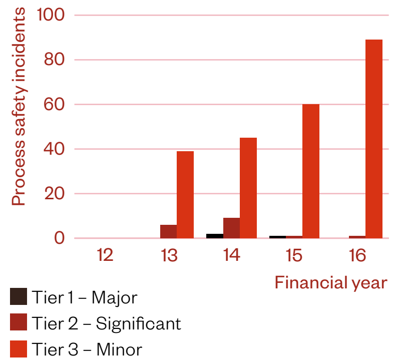


Plant availability

Measures the reliability of our generation plants. The rolling availability factor calculates the total availability of the generation portfolio over a 39-month historical time period. The time period selected removes the effect of seasonality and known standard maintenance cycles to provide a comparable measure of performance across years.

2016

At 30 June 2016 our rolling 39 month availability reduced slightly as higher availability periods (recorded earlier that period) rolled off. In the 12 months of FY16, however, our availability improved from 84% to 90% with improvements across all fuel types, in particular geothermal following extended outages at Poihipi and Te Mihi during the previous year.



Process safety incidents

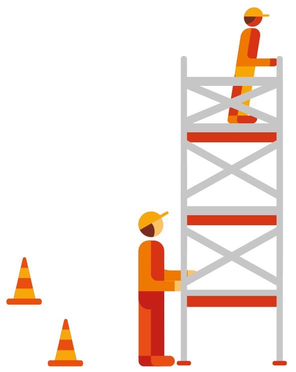
This graph represents the number of process safety incidents recorded across our operations. We use the American Petroleum Institute's Recommended Practice 754 as the basis of our process to identify and then classify process safety incidents. Any incidents resulting in harm to people are also recorded.

2016

We had 90 recorded process safety incidents with all except one of these being at Tier 3 and minor in nature. The increase in recording of these minor process safety incidents is as a result of enhanced awareness of process safety barriers. There were no Tier 1 incidents in the year and only one Tier 2; this is the lowest level of the higher tier incidents since recording began. All past Tier 1 incidents relate to third party damage to our buried LPG pipelines.

Empowering safety

At Contact, just ticking the box on safety isn't good enough. Our people deal with risks and hazardous situations every day, and it's our job to keep them and our customers safe. That's why we've been working relentlessly to improve our capacity to fail safely, recover quickly and learn.



We're closer than ever to our aspiration of a generative safety culture, where we have great leaders, effective systems and all of our people contribute to health and safety. We aspire to be well beyond a culture that enforces unreasonable rules and complicated procedures.

Our Health, Safety and Environment (HSE) management system sets out our commitments to our people, contractors, customers, communities and the environment we operate in. These commitments are cascaded through all of our procedures that provide guidance on how to identify risks and undertake work safely. We're constantly evolving our HSE management system to ensure continual improvement in the way our business operates, today and in the future. Our HSE management system is supported by verification and audit activities.

Safety's been a focus for all of New Zealand with the new Health and Safety at Work Act 2015 coming into force this year. We've been improving our HSE management system to meet the new requirements.

Continually improving

We can't improve if we don't know what to fix, so we measure our safety culture every two years. Our next survey is planned for November 2016. The insights we gain from this will help guide consistent changes to the way we lead safety and empower our workers and contractors.

Our more traditional measures are Total Recordable Injury Frequency Rate (TRIFR — injuries to our people as a rate of hours worked) and Observation Frequency Rate (OFR — recorded safety conversations as a rate of hours worked). A recordable injury is any incident where someone hurt has required medical treatment, has had their duties at work changed on a temporary basis, has needed to stay home from work, or has sustained a serious or fatal injury. When it comes to TRIFR we monitor and report on the basis of whether the incident has occurred under our own HSE management system (Controlled) or under our partners' HSE systems (Monitored).

Our safety performance

The injuries in Controlled Activity involved nine strains, trips and small falls, one involved a vehicle rolling, and one involved the partial amputation of the end of a person's finger. Nine of the eleven people hurt were male, and two were female. This equates to a TRIFR of 3.3.

In our Monitored Activity, ten people were hurt this year (all male), equating to a TRIFR of 16.6 (an improvement on the prior year). Monitored covers activity where we've requested work to be undertaken on our behalf — it's not on one of our sites and our contracting partners use their own HSE management system and procedures (we agree on HSE standards to be met). This includes activity like reading meters and metering maintenance at our customers' homes or bulk distribution of LPG by a specialised transport company. The injuries in Monitored Activity included four dog bites requiring medical treatment, five sprains or strains, and one fractured foot bone due to stepping in a hole.

These measures will evolve over time as we move closer to our aspirational generative culture goal.

Customer wellbeing

Customer safety is a priority for Contact and we do our very best to ensure we comply with all regulations and industry standards. This includes industry guidelines for disconnection of medically dependent and vulnerable customers due to non-payment, as well as privacy laws.

While we've had no incidences of non-compliance resulting in a fine, warning or penalty we have had three minor privacy incidents involving emails being sent to the wrong person, and one incident where an LPG truck damaged a customer's property, injuring one of our drivers. We also had one incident where a customer received an electric shock from their meter box. When an incident occurs our focus is on immediately containing and remedying the issue. We then investigate the causes, and seek to learn from the experience and improve our defences.

These incidents highlight why safety is critical to our business, and why we continuously work to foster a culture that enables the safety of our people, customers and assets.

Shining the Light on Learning

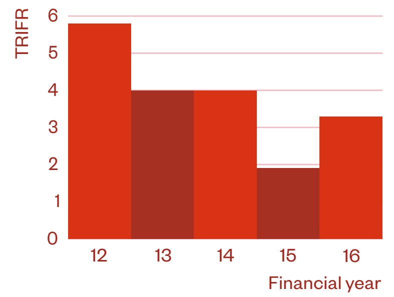
A vital part of building our generative culture is learning and improving — and we have introduced Learning Teams as a key enabler.

Rather than 'investigating' incidents in a formal and traditional way, which tends to focus on what went wrong and why, Learning Teams provide a different focus. This innovative Learning Team approach brings all parties together soon after an incident to discuss the event. One of the team is appointed facilitator and questions the group around the conditions at play leading up to the incident, concentrating on how the incident happened, rather than why. It's proving highly effective in improving our defences and systems and learning how to 'fail safely'.

The Learning Team approach has been very well received by our people and contractors and has quickly spread further afield. WorkSafe NZ invited us to share the Learning Team innovation with them so they could help others improve safety culture at work. We did that with a video and case study.

We've also recently been awarded the Deloitte Energy Excellence Award for Health and Safety Initiative of the Year, which recognised Contact's successful culture and Learning Teams as an important enabler.

"Learning Teams are empowering people to own health and safety processes and outcomes. Leaders support these actions to happen rather than directing them. By moving away from blame, to workers and leaders problem-solving together, everyone is working more constructively." Tania Palmer, General Manager, Health, Safety and Environment

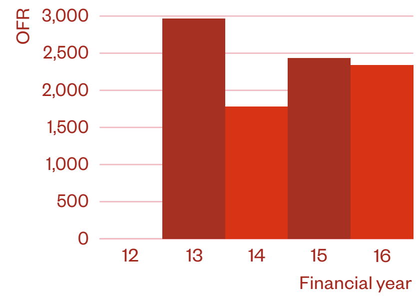


Total Recordable Injury Frequency Rate — Controlled

Our Controlled TRIFR looks at how many people are hurt when working for us under Contact's HSE management systems, and includes contractors as well as our own people. TRIFR is calculated by dividing the number of incidents that resulted in medical treatment, restricted work or time off work by the hours worked, and multiplying this by 1 million.

2016

Our Controlled TRIFR was 3.3. Although this is behind our target of 1.7 for FY16, the previous year was well ahead of target for performance against this measure. The trend of reducing TRIFR has continued over the last five years.



Observation Frequency Rate (OFR)

We encourage all of our people (contractors, customers and visitors too) to speak up about safety, and we have operated an observation programme for the last four years to embed the habit of talking openly about safety — this requires people to have safety conversations and record them in a database. The Observation Frequency Rate (OFR) measures the number of these observations per million hours worked.

2016

During FY16 we set ourselves an OFR target of 2,000, and have exceeded this, with an OFR of 2,343, corresponding to 7,755 safety conversations this year.

Powered by our people

We rely on a team of more than 1,000 people to keep our business running. We want everyone at Contact to aim high, achieve their very best and feel supported in doing so. We want to look after our people, and for them to feel motivated to make a difference.

One way to do that is by ensuring everyone understands why we do what we do — meaningfully connecting our team to our purpose and strategy. We believe that living our Tikanga is a key driver of this, alongside recognising the value of diversity, training, development, engagement and creating a positive and supportive workplace. When it's right, then we're a team that really hums.

Upping the ante on culture and connection

This year we are focusing on strengthening our organisational culture. We're not starting from scratch but we have an opportunity to further connect people to our Tikanga, and ensure we are all working together to achieve our strategic priorities, recognising that a great culture elevates and stabilises performance.

During the closure of the Otahuhu power station in September 2015, we worked hard to support our people and took a values-based approach to this. All people employed at Otahuhu were fully supported to take the next step in their career, whether it be internally or externally. We established a programme called Fresh Start, which incentivised any of our employees thinking of leaving Contact to let us know early, so that we could identify potential opportunities for the Otahuhu team to remain at Contact. This scheme worked in conjunction with the redeployment process and the combination resulted in us retaining 15 highly skilled, committed people.

Another significant people change project was Organising for Success so we can better serve our customers. We established a new operating model and corresponding organisational structure to put the right leadership, capabilities and teams in place to be truly customer inspired and have the capability and agility for a data-connected and digital-driven world. This is a major shift.

Checking our temperature

To measure engagement and gauge how our employees are feeling about their roles here at Contact, we conduct engagement surveys. This provides us with a useful benchmark and guides areas of focus for the following 12 months and beyond. Our overall score for 2016 was 56%, a 12 percentage point increase from 2015, providing a solid foundation for us to improve on. Our focus on leadership and connection to our Tikanga has helped drive this increase.

We're continuing to evaluate our programmes to ensure they are developing our people in the right way and that our people feel supported during their learning. As well as our overall engagement result, another statement we're using to help us measure success is: "My manager has helpful conversations with me which assist in developing and growing my career". Our score in 2016 was 59% (62% for females, 56% for males), an uplift from 49% in 2015.

Growing our people

To be a high performing company, we need to recruit, develop and retain great people with the right skills, who will continue to learn and grow and help us perform. We've improved the content and delivery of the technical and professional training and development already in place. We've developed broader career opportunities internally through new projects, secondments and jobs, supporting this with coaching and mentoring on the job.

Last year we undertook a Capability Needs Assessment, assessing the capability we currently have against the needs of the future. We've since also focused on the development of emotionally intelligent leaders who can motivate, inspire and build high performing teams.

At Contact, we know a diverse workforce creates diversity of thought helping us to innovate, solve problems and collaborate to make better business decisions. We're proud of the diversity in our Leadership Team and Board. We're building an inclusive culture which lays the foundation for diversity to be accepted, recognised and valued.

We're monitoring our ethnic and gender diversity on a six-monthly basis. We've established aspirational targets for the future, and our focus is currently on achieving a 38% split of men and women in leadership roles, increasing diversity, especially Maori, Pasifika and Asian, and retaining this diversity through creating an inclusive and supportive culture. Ultimately, we want our team to reflect the wider make-up of New Zealand.

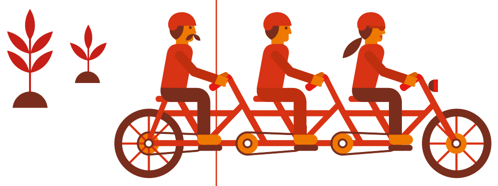
As at 30 June 2016 44% of our workforce were female, and 56% were male. 67.7% of our workforce were European and other, while 5.1% were Maori, 1.7% Pacifica and 5.5% Asian. We know there's still work to be done for us to become an even more diverse company in order to be representative of New Zealand's population. We're constantly looking at how we can further increase diversity and have a number of initiatives in place, for example, we have a Maori summer internship programme which connects to our tangata whenua strategy. We use different recruiting channels to attract skills from a range of ethnicities and backgrounds. Our Chief Executive, Dennis Barnes, is also involved in Champions of Change, an initiative run by Global Women to support gender diversity in leadership.

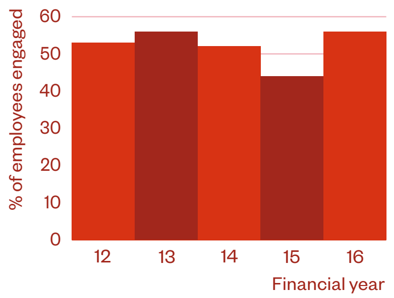
Fair play on pay

We ensure that everyone at Contact, regardless of their gender, is rewarded fairly for their work which supports our gender diversity goals. We report on pay equity twice per year to our Remuneration and Nominations committee. Our annual remuneration tool recommends an increase based on the employee's position within their salary range and their performance rating. These factors help ensure we take gender out of our remuneration decisions.

We calculate the ratio of pay equity difference by comparing male and female wages within each salary band to assess if equal pay is given for similar sized roles. We've seen a big improvement in pay equity over recent years, although we've had a slight drop in our pay equity ratio this year to 98%, down from 100%, as a result of changes in our workforce.

Our focus remains on continuing to create an environment where our people feel recognised and supported through strengthening our company culture and new employee value proposition — 'Humming at Contact,' developing the capability of our people and increasing our diversity. We'll continue to provide flexibility in our working practices to ensure everyone at Contact feels that they can balance their life and career.



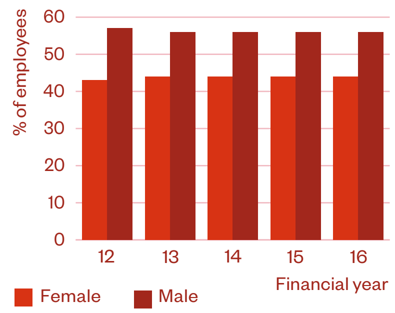


Employee engagement

We aspire to develop and challenge our people and be recognised as a great place to work. Each year we conduct an independent AON Hewitt survey to assess our progress on employee engagement and to identify areas for development.

2016

Our overall engagement score for 2016 was 56%, an increase of 12 percentage points on last year's scores.



Gender diversity

We believe the inclusion of a diverse range of perspectives and ideas are a key ingredient for success for any business.

2016

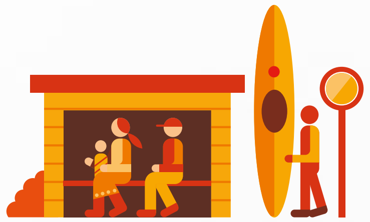
In 2016 our gender diversity remained steady with 44% of our workforce made up of women, and 56% men. For more information on the diversity of our workforce see pages 81-82.

Positively part of our neighbourhoods

The nature of our business means our operations can sometimes impact on the environment and the people who live within it, so we work hard to be a good neighbour and a positive part of the communities we live and work in.

We manage a multitude of relationships with a diverse set of community stakeholders across all parts of our business. While at times engagement with our stakeholders is driven by consenting processes, changes in regulation or business priorities, at the end of the day it's about building trust over the long term and ensuring our communities are comfortable with us and what we do. It's also essential in maintaining access to the natural resources we need to run our business.

In living our Tikanga, we take a consultative approach and work with communities and local stakeholders to develop an understanding of what their aspirations and needs are and then provide support where we think we can offer greatest benefit. It's an approach that works, and in 2016 we were the proud recipient of a BACS Good Business Egg Award for Community Empowerment. The Awards are held annually, with recipients nominated by the community.



Help on the ground

In some places like Levin, Ohaaki and Taupo, we have community engagement plans to guide how we support positive community outcomes. We've developed some great partnerships with organisations such as Swim Well Taupo, Greening Taupo and relationships with iwi such as Ngati Tahu. These engagement plans account for 23% of our operational sites by region.

In other communities we have more informal relationships in place such as in and around Clyde and Stratford. While we're developing a stewardship plan for the Clutha over the next financial year, we also enjoy many existing partnerships in the community, having supported longstanding events like the Alexandra Blossom Festival, and helped to establish new ones such as Contact Epic, and more.

A great example of responding to a specific community need is a programme we've started in Levin, home to one of our contact centres. We'd received feedback that opportunities for local youth was a key issue for the community. With more than 110 people based in our office, Contact is one of the largest employers in the region. To provide pathways for youth who wished to remain and work in the community, in late 2015 we worked with three local colleges — Horowhenua College, Manawatu College and Waiopehu College — to select two Year 13 school leavers from each school to join the Contact team in Levin. The initiative has been a great success and has paved the way for new roles to be offered each year to school leavers from the region.

Last year we invested around $475,000 into regional and national organisations and communities through sponsorships and partnerships. We have developed a partnership with neighbourly.co.nz, created a community fund for Hawea in partnership with Epic, and provided support for Te Puea Memorial Marae Manaaki Tangata programme. We also have a Community Contact initiative that enables our people to use one paid work day per year to gift their time and skills to a local cause of their choice.

$475 thousand

Invested into regional and national organisations and communities through sponsorships and partnerships

Making the tough calls

Because of the nature of our operations, sometimes relationships can be tested. When these situations arise we rely on our Tikanga to guide our decision making. For example, earlier this year we decided not to extend an agreed deadline with a business partner who was working to meet consent requirements for a proposed aquaculture venture in Taupo. The proposed venture would have seen a grass carp farm established on land leased from Contact, resulted in around 20 jobs being created, with Contact supplying geothermal energy for heating purposes. There was significant opposition to the development from the local community, who felt the farm could impact the biodiversity of the waterways in the region. Our decision to not extend this relationship was a difficult one to make, but was the outcome we arrived at when thoroughly reviewing the situation in accordance with our Tikanga.

We've also had complaints from our neighbours about noise from our Te Mihi power station. Over the last year we've worked through a process to monitor the noise, and have undertaken works to minimise it. While the noise is within consented levels and we're comfortable that we've delivered beyond our compliance requirements, we also want to be a good neighbour and so we're still in dialogue with our neighbours about how we can support them to be comfortable with our operations.

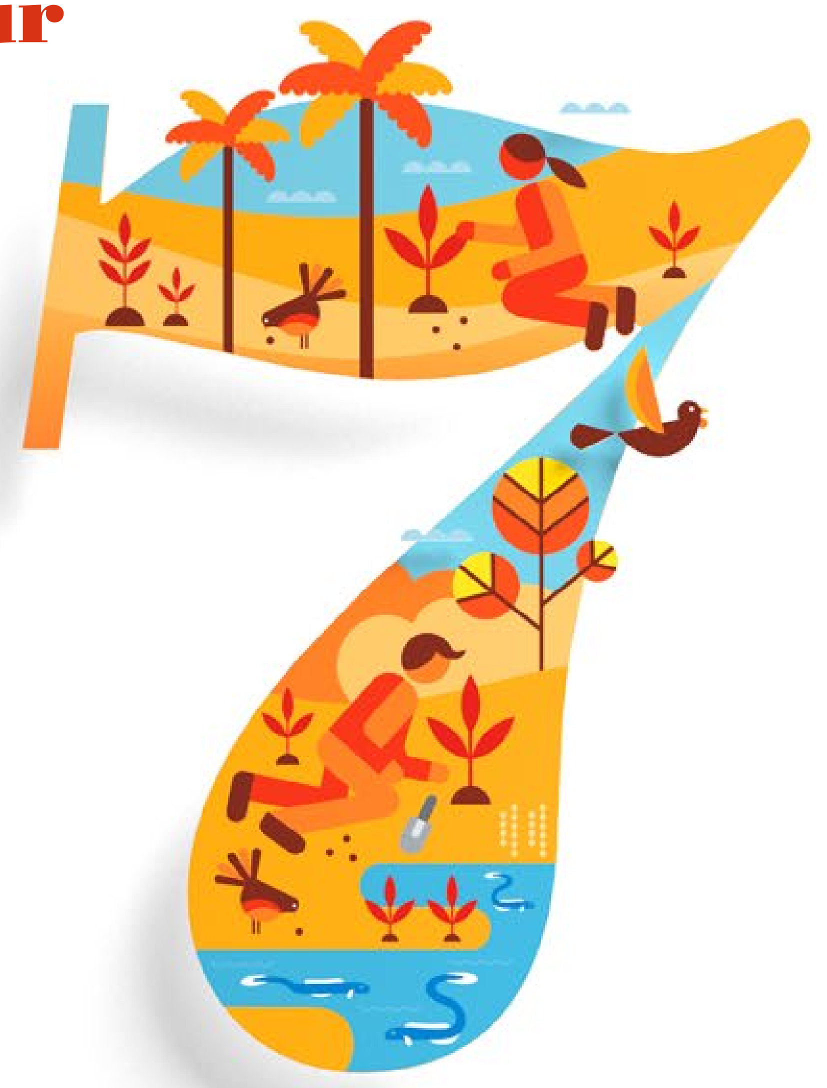
Behind the Plug

We've been inspiring a community of knowledge through our work with kids in the Central Otago district.

Behind the Plug is a programme we've created in Clyde to help teach local school kids about our operations in their community. It's proven a popular resource for kids and teachers alike, who have enjoyed the opportunity to learn more about what goes on inside our Clyde Dam, a local landmark that many of them have grown up with and see every day.

The project was partly inspired by feedback from local stakeholders as part of the Ecosystems Services Review in 2014 — they wanted to see more educational opportunities offered around the dam. We worked with a company called School Kit to help us bring that vision to life, and create resources that teach kids about the mechanics and physics of the dam, as well as the wider social, cultural, environmental and economic impacts of our operations. These resources are currently available worldwide on iTunes U — search for "Behind the Plug: Clyde".

Caring for our ecosystems



Our operations are here for the long term, so in line with our Tikanga we've made a commitment to take care of the natural resources that we rely on so that future generations of New Zealanders can continue to enjoy them too. It's all about balance, and we're working to maintain that balance every day.

Our business impacts on natural resources so we extensively monitor the effects our operations have on the environment, and work towards reducing these at all times. We hold resource consents granted under the Resource Management Act 1991. Ensuring we comply with our consents is critical in making sure we are sustainably managing New Zealand's resources, operating within the law, and maintaining relationships within the community.

This year we've managed the requirements of 212 resource consents across the local communities in which our power stations and other operations are located. We monitor our environmental impacts and report to the local and regional councils overseeing our consents. We use the ISO14001 Environmental Management System to help us manage our environmental responsibilities and track our objectives and progress towards continual improvement. This process is externally audited each year. We also comply with district and regional council monitoring frameworks, reporting requirements, and audits.

We've had no significant environmental incidents or breaches of resource consents in FY16 which resulted in fines or compliance action. However, a few relatively minor incidents have been reported promptly to the relevant councils and addressed in line with our policies and consent conditions. For a list of these consent breaches please see page 80.

Improving our water stewardship

Water is a precious resource we all share and need to maintain for current and future generations. The growing range of competing demands on water means everyone needs to do their bit to look after this shared resource. That includes us.

We rely on an on-going supply of good quality water to generate electricity and to run our business. Contact uses energy from water in the Clutha River/Mata-Au as the fuel source to generate electricity at our Clyde and Roxburgh Dams, and stores water in Lake Hawea for those operations. Fresh water is used at our thermal power stations to provide cooling water and to lower air emissions. At our geothermal plants, water is taken for cooling and a limited amount of treated geothermal fluid is discharged to the Waikato River. Storm water is discharged into local waterways at many of our sites. Our resource consents set the limits for water take, use and discharge of any contaminants to water. They also and outline our obligations to mitigate the impact on the natural environment.

Last year we worked through a process with a broad group of stakeholders to establish a holistic and sustainable commitment to water. Our commitment to water outlines our intent to take a collaborative approach to managing this resource, recognising that access to water is important for New Zealand's economic success, and that we have a role to play. To see the position in full visit www.contact.co.nz/water.

While we are at the beginning of a long journey, the next steps are to create a stewardship plan for the Clutha/Mata-Au, to develop a dashboard for increased visibility of our water usage, and create environmental key performance indicators for each of our sites. Our previous work on building the bio-reactor at Wairakei, which treats geothermal fluid to remove hydrogen sulphide (H_2S) before discharging it to the Waikato River, continues to demonstrate how outcomes can be improved with both commitment and technology.

We take part in the Land and Water Forum, a group that brings together people from right across New Zealand with an interest in fresh water. It exists to develop recommendations towards a shared and common approach to water management. Our commitment to water guides our approach to issues raised in this forum.

We believe a proactive and inclusive approach to water will be beneficial for all of our stakeholders, and will position Contact for the future.

Water usage for year ended 30 June 2016[1]

Source / Water use	Withdrawal (megalitres ML)	Discharge (ML)
Geothermal Reservoir	107,504	69,055
Rivers & Streams	402,738	416,582
Estuary	1,167	1,032
Third Party	292	4,151
Council	37	0
Total	**511,738**	**490,820**

Non-consumptive water usage[2]

Turbine/Spillway (ML)	
Clyde	15,288,981
Roxburgh	16,523,644

1. Contact has changed its reporting timeframe for geothermal water use from calendar to financial years, and revised its methodology for calculating Council and office water usage. Council water usage has been estimated based on a per-person flow allowance. Geothermal fluid discharges to rivers and streams fall within consented limits for temperature and mineral concentrations. The quality of water reinjected into the geothermal reservoirs is unchanged. Third party water use refers to water taken from, and discharged for use by other companies who utilise water discharged for other purposes.

2. Non-consumptive use refers to water that flows through our dams.

Biodiversity, Conservation and Resource Management

Contact recognises the importance of the complex biodiversity that exists in and around our operational sites and we acknowledge our operations impact on these ecosystems.

The creation of our hydro operations have had significant impacts on the aquatic habitat of the Clutha/Mata-Au. We have a Native Fish Management Plan as part of our consent conditions, the implementation of which has been agreed with the Department of Conservation. The plan implements projects such as longfin eel (tuna) and lamprey (kana kana) surveys, whitebait (inanga) population monitoring and habitat enhancement and fish passage. Since 2012 we've moved elvers (juvenile eels) upstream and over the Roxburgh Dam with guidance from NIWA.

We also prepare a Sports Fish Management Plan. In 2016 we released over 200,000 salmon smolt into the Clutha/Mata-Au as part of our consent obligations to maintain and improve the sport fishery.

Our geothermal operations can impact on wetlands and thermotolerant vegetation and surface features, issues which we continue to manage and seek to improve on. This year we carried out riparian planting of 0.78ha along Te Kiri o Hinekai Stream in partnership with Greening Taupo. We also commenced the restoration and management of 28ha of the Torepatutahi wetland as part of the 2013 Ohaaki consent renewal requirements. This work was assured by an external assurer, and we monitor this site twice a year.

Contact also has significant landholdings around many of our operational sites and we've undertaken a number of initiatives to improve biodiversity, streamside protection and pest control. In Stratford, we undertook willow removal in preparation for planting natives on land owned by Contact. We've also replanted native plants as part of ongoing maintenance around the farmland that we own (various sites ranging from 400m² up to 1 hectare), and at Lake Hawea, we undertook wilding pine removal and native plantings.

All these activities are directed at mitigating the effects that our operations have had on the environment and implementing a continuous drive towards improving New Zealand's precious native species and biodiversity.

Reducing greenhouse gas emissions

Contact has reduced its direct (Scope 1) greenhouse gas emissions[1] from electricity generation by 22% (328,000 tonnes) on the prior financial year, and by 50% since 2012 as a result of investing around $1.7 billion to build more renewable generation capacity and more flexible thermal plant in order to reduce the use of gas-fired generation.

50%

Reduction in greenhouse gas emissions from electricity generation over the last five years

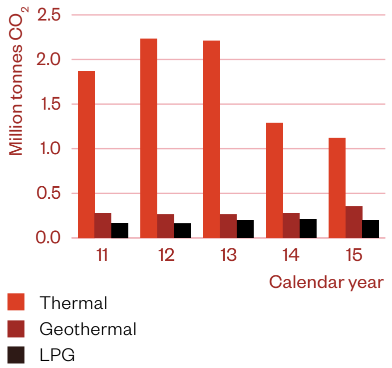
Thermal and geothermal electricity generation produces greenhouse gas emissions, which contribute to climate change. We monitor these and other discharges to air in line with resource consent and reporting requirements under the New Zealand Emissions Trading Scheme (NZETS), which has been established to drive a reduction in emissions and contribute to meeting global climate change targets. Reducing Contact's greenhouse gas emissions not only assists New Zealand to achieve these targets, it also has positive implications for our business and the environment.

Under the NZETS Contact purchases carbon emission units and surrenders units based on our calendar year emissions[2]. Our costs cover the emissions embedded in the natural gas and LPG we purchase (including that used by our customers), SF_6 purchases (a synthetic compound used to keep equipment insulated against high voltages), and the geothermal steam we utilise, which emits some greenhouse gases into the atmosphere. This represents the most significant financial implication of climate change to our business.

While over the last few years the electricity sector has made substantial progress in reducing its emissions, our view is that without increasing the cost of generation or creating security of supply challenges, the electricity sector's ability to make further changes is limited. This is because of the important role gas-fired generation currently plays in meeting electricity peak load periods and at times of low hydro inflows and when the wind isn't blowing.

Contact's submission on the recent Government review of aspects of the NZETS encouraged the Government to find a way for all sectors and all gases to play a role in reducing New Zealand's greenhouse gas emissions. That would involve implementing appropriate economic signals, and balancing any move to a full surrender regime with access to international units and/or an auctioning mechanism to ensure the market provides sustainable outcomes.

Under existing NZETS rules, companies like Contact currently submit one emissions unit per two tonnes of carbon emitted. As announced in May this year, companies with surrender obligations will transition to surrendering one emissions unit per one tonne of carbon emitted (1 for 1) by 2019. Transitioning from a 50% unit cost to full market price for emissions from 1 January 2019 represents an increase in cost to Contact and other emitters, and therefore a financial incentive to optimise our use of renewable resources available and to continue to reduce our emissions where we can.



Greenhouse gas obligations

This graph shows our annual carbon dioxide CO_2 emissions for which we have obligations under the NZETS, over the last 5 calendar years. The majority of our NZETS emissions came from our natural gas operations.

2016

In the 2015 calendar year we surrendered $10.1 million worth of carbon emission units to the Government for 1.7 million tonnes of ETS emissions, which is in line with the 2014 year.

1. See the emissions table on page 80 for more information.
2. See page 64 Note C1. of the Financial Statements for our carbon emission costs.

Governance, Remuneration Report & Statutory Disclosures

Governance

Contact's 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 for the size and nature of Contact's operations.

Contact believes that it complies in all material respects with the NZX Corporate Governance Best Practice Code (NZX Code).

Contact's approach to governance is reported against the nine principles of good governance as set out in the Financial Markets Authority 'Corporate Governance in New Zealand Principles and Guidelines'.

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

PRINCIPLE 1 – ETHICAL STANDARDS

Contact expects its directors, employees and contingent workers to act legally, ethically and with integrity in a manner consistent with Contact's purpose, behaviours, principles, commitments and policies.

Code of Conduct

Contact has a Code of Conduct which sets out the ethical and behavioural standards expected of its directors, employees and contingent workers. Contact has established internal procedures to monitor compliance with, and measures for dealing with breaches of, the Code of Conduct. Whistleblowing procedures for reporting serious wrongdoing are provided for in the reporting serious concerns directive.

Securities trading policy

Directors and employees who are likely to have knowledge of, or access to, inside information 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. They can only buy or sell Contact securities during permitted periods and with the written consent of the General Counsel. 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

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

At 30 June 2016, Contact's Board consists of five directors, all of whom are resident in New Zealand. The Board regularly assesses its performance to ensure that constructive working relationships are maintained. Qualifications and experience of individual directors are detailed on pages 8 and 9.

Director independence

The NZX Listing Rules and the company's constitution require Contact to have a minimum of two independent directors. 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):

- any direct or indirect relationship that could reasonably influence in a material way the director's decisions, or being related (considered broadly) to a major shareholder; or
- having a relationship (other than the directorship itself) with the company or being a substantial product 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)

For the purposes of NZX Listing Rule 3.3.2, all of the current directors are considered by the Board to be independent directors.

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 standing agenda and otherwise as required. The Chairman and the Chief Executive Officer (CEO) establish the agenda for each Board meeting. Each meeting, as a standing item, the CEO prepares a report to the Board that includes disclosure of health and safety performance and a summary of the company's operations, together with a detailed financial report. In addition, the Board receives regular briefings on key strategic and operational 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 may, in turn delegate authority to other employees through various standard and non-standard delegations. These authorisation levels are periodically subject to independent audit.

Avoiding conflicts of interest

The Board is conscious of its obligation 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 50) 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, including health and safety, 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 Remuneration and Nominations Committee identifies and nominates candidates to fill director vacancies for the approval of the Board. Each director receives a letter formalising their appointment.

Directors who are Board appointed must stand for election at the next annual meeting after their appointment. 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 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 2015, Contact undertook a formal assessment of the Board and the Audit Committee, and
- in August 2016, the Board reviewed the performance of Whaimutu Dewes and Sue Sheldon, being those directors required to retire and stand for re-election at the 2016 annual meeting

PRINCIPLE 3 – BOARD COMMITTEES

Committees established by the Board review and analyse policies, strategies and performance. 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.

In December 2015, the Board reviewed its committee structure factoring the skills and experience of its current directors, and made the following changes:

- Disestablishment of the Independent Directors Committee as the full board is comprised of independent directors
- Disestablishment of the Risk Committee
- Combined the Remuneration Committee and the Nominations Committee to be the Remuneration and Nominations Committee.

At 30 June 2016, the standing Board committees are:

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

Audit Committee

Membership is restricted to non-executive, independent directors, with at least three members. The chairman of the Committee must not be the chairman of the Board. All members must have appropriate financial experience and at least one member must have an accounting or financial background. At 30 June 2016, the members of the Audit Committee were:

- Sue Sheldon (chairman)
- Whaimutu Dewes
- Rob McDonald

Sue Sheldon is a Fellow Chartered Accountant and a former President of the New Zealand Institute of Chartered Accountants. Rob McDonald is a Fellow of Chartered Accountants Australia and New Zealand.

The Audit Committee meets a minimum of four times each year. The Committee's role is to assist the Board to fulfil its responsibilities in relation to Contact's:

- external financial reporting;
- internal control environment;
- internal audit and external audit functions; and
- risk management practices

The CEO and the Chief Financial Officer (CFO) attend each Audit Committee meeting at the invitation of the Committee. The Audit Committee holds private sessions with each of the Head of Risk and Assurance, Contact's external auditors, the CEO and the CFO regularly as required.

Health, Safety and Environment Committee

Membership shall comprise at least three members, and the majority must be independent. At 30 June 2016, the members of the Health, Safety and Environment Committee were:

- Whaimutu Dewes (chairman)
- Victoria Crone
- Rob McDonald

The Health, Safety and Environment Committee meets a minimum of three times each year. The 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 reviews and recommends to the Board targets for health, safety and environment performance, assesses performance against those targets, assures that the company has adequate resources to operate the business safely and reviews serious incidents and audit results, evaluating responses and being satisfied with the adequacy of management actions.

Remuneration and Nominations Committee

Membership shall comprise a minimum of three members, and the majority must be independent. At 30 June 2016, the members of the Remuneration and Nominations Committee were:

- Sir Ralph Norris (chairman)
- Victoria Crone
- Sue Sheldon

The Remuneration and Nominations Committee meets at least twice a year and more frequently as required. The Committee's role is to support the Board on:

- matters relating to remuneration, including remuneration policy and practices for employees, remuneration for the CEO, leadership team and directors;
- the appointment and performance of the CEO; and
- the composition and performance of the Board

Board and committee meetings

The Board must meet a minimum of eight times per year and 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 2016.

	Board	Audit Committee	Health, Safety and Environment Committee	Nominations Committee [1]	Remuneration Committee [1]	Remuneration and Nominations Committee	Independent Directors Committee [2]
Number of meetings	**13**	**4**	**3**	**1**	**1**	**2**	**1**
Sir Ralph Norris [3]	8	3 [6]	2 [7]			2	
Victoria Crone [3]	7		2 [8]			2	
Whaimutu Dewes	13	3	3		1 [9]		1
Rob McDonald [3]	8	3 [10]	1				
Sue Sheldon	13	4	2 [11]	1		2	1
Bruce Beeren [4]	7	1			1		
David Baldwin [5]	1						
Grant King [5]	1						
Karen Moses [5]	1						
Phil Pryke [4]	7		1	1	1		1

1. Combined to become the Remuneration and Nominations Committee effective 1 January 2016.
2. Independent Directors Committee disestablished effective 1 January 2016.
3. Sir Ralph Norris, Victoria Crone and Rob McDonald appointed to the Board effective 12 November 2015.
4. Phil Pryke and Bruce Beeren retired from the Board on 9 December 2015.
5. David Baldwin, Grant King and Karen Moses ceased to be directors effective 10 August 2015.
6. Sir Ralph Norris attended two Audit Committee meetings as a member and one meeting as an observer.
7. Sir Ralph Norris attended one Health, Safety and Environment Committee meeting as a member and one meeting as an observer.
8. Victoria Crone attended one Health, Safety and Environment Committee meeting as a member and one meeting as an observer.
9. Whaimutu Dewes ceased to be a member of the Nominations Committee and the Remuneration Committee effective 1 January 2016.
10. Rob McDonald attended two Audit Committee meetings as a member and one meeting as an observer.
11. Sue Sheldon ceased to be a member of the Health, Safety and Environment Committee effective 1 January 2016.

PRINCIPLE 4 – REPORTING AND DISCLOSURE

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. To assist with this task, the Audit Committee monitors the effectiveness of the company's internal financial controls.

Financial reporting

The Audit Committee oversees the quality and the integrity of external financial reporting including the accuracy and completeness of Financial Statements. It reviews half-year and annual Financial Statements, and makes recommendations to the Board concerning accounting policies, areas of significant estimation and judgement, compliance with New Zealand generally accepted accounting practice and New Zealand equivalents to international financial reporting 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 Statements present a true and fair view, in all material respects, of Contact's financial position at, and for the year ended 30 June 2016, and that 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 NZX Listing Rules. To achieve and maintain high standards of disclosures, 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 Company Secretary has responsibility for overseeing and co-ordinating disclosure to the market.

PRINCIPLE 5 – REMUNERATION

Contact's remuneration structure is designed to attract, reward and retain high performing directors and employees who are able to enhance the company's performance. The 'Remuneration Report' on pages 48 and 49 outlines in detail the remuneration framework of Contact.

PRINCIPLE 6 – RISK MANAGEMENT

The Board has primary responsibility for ensuring Contact has an appropriate risk management framework, including identification and control of significant risks, reviewing and approving Contact's risk capacity and tolerance, ensuring appropriate risk management systems are established and monitoring selected risks.

The Audit Committee ensures that management has established a risk management framework in line with the Board's expectations and assesses the effectiveness of, and monitors compliance with, the risk management framework.

Contact has an Enterprise Risk Management system, which is aligned to the International Standard ISO 31000, Risk Management — Principles and Guidelines. The implementation and operation 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 Risk Management team and business managers 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 Head of Risk and Assurance is accountable for monitoring the company's key risks. Regular reporting on risks and their mitigation is provided to the Board.

Assurance

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

Business Assurance 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. Business Assurance adopts a risk-based assurance approach driven from the company's Enterprise Risk Management system. Business Assurance also assists external audits by making available findings from the internal assurance programme for the external auditors to consider when providing their opinion on the Financial Statements. Led by the Head of Risk and Assurance, Business Assurance has the autonomy to report significant issues directly to the CEO, CFO and the Audit Committee or, if considered necessary, the chairman of the Board.

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

PRINCIPLE 7 – AUDITORS

The independence of the external auditor is of particular importance to shareholders and the Board.

The Audit Committee is responsible for considering and making recommendations to the Board regarding any issues relating to the appointment or termination of the external auditors.

The external auditors are prohibited from undertaking any work that compromises, or is seen to compromise, independence and objectivity.

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

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

PRINCIPLE 8 – SHAREHOLDER RELATIONS

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 operates an investor relations programme, which includes scheduled interactions with institutional investors, analysts and other market commentators. Presentations are also disclosed on Contact's website and the NZX and ASX announcement platforms.

Contact currently keeps shareholders informed through:

- Periodic and continuous disclosure to NZX and ASX
- Information provided to analysts and media during regular briefings
- Half-year and annual reports
- The annual meeting and any other meetings called to obtain approval for Board actions as appropriate
- The company's website

The Board encourages full participation of investors 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

Contact's approach of dealing with its stakeholders is guided by our Tikanga (pages 12 and 13). Contact's key stakeholder groups, their interests, and our responses to the issues they've raised are outlined on page 78.

Diversity

Contact encourages a working environment in which diversity is recognised and where equal employment opportunities are offered to all potential and existing employees on the basis of relevant merit.

Contact strongly values and supports diversity, ensuring that the company and its leadership, management and employees reflect the diverse range of individuals and groups within our society. While Contact has not adopted a formal diversity policy, the company's intent is embedded in its principles, commitments and behaviours. For Contact's evaluation of its diversity performance see the 'Powered by our people' section on pages 36 and 37.

For the gender composition of Contact's workforce please refer to page 82.

Sustainability

Contact's sustainability programme aims to assess and address the most material issues to the company so as to proactively manage those issues for the long term. Transparency about our performance on those issues is a cornerstone of this approach. The sustainability performance using the Global Reporting Initiatives (GRI) sustainability reporting framework is detailed on pages 78-84.

Remuneration Report

DIRECTORS' REMUNERATION

The current total directors' fee pool approved by shareholders in 2008 is $1,500,000 per annum. Directors receive fees determined by the Board on the recommendation of the Remuneration and Nominations Committee. Those fees must be within the aggregate amount per annum approved by shareholders.

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.

Details of the total remuneration received by each Contact director for FY16 are as follows:

Directors	Board fees	Committee fees	Total remuneration
Sir Ralph Norris (Chairman) [1]	$178,031	–	$178,031
Victoria Crone [1]	$80,438	$12,000	$92,438
Whaimutu Dewes	$126,500	$60,989	$187,489
Rob McDonald [1]	$80,438	$21,750	$102,188
Sue Sheldon	$126,500	$71,946	$198,446
David Baldwin [2]	$13,750	$2,554	$16,304
Bruce Beeren [3]	$55,688	$19,149	$74,837
Grant King [2]	$25,000	–	$25,000
Karen Moses [2]	$13,750	$2,609	$16,359
Phil Pryke [3]	$91,902	$4,565	$96,467 [(4)]
Total	**$791,997**	**$195,562**	**$987,559**

1. Appointed to the Board on 12 November 2015.
2. Ceased to be directors effective 10 August 2015.
3. Retired from the Board on 9 December 2015.
4. Phil Pryke also received $49,000 in consulting fees during FY16.

CHIEF EXECUTIVE OFFICER REMUNERATION

Employment arrangements

Dennis Barnes was appointed as the Chief Executive Officer (CEO) in August 2015 following a secondment into the role by his previous employer, Origin Energy Limited. A one-off lump sum of $200,000 was paid to reimburse Dennis Barnes for the benefits relinquished as a result of leaving Origin Energy Limited.

During FY16, remuneration paid by Contact to Dennis Barnes until August 2015 was processed by Contact reimbursing Origin Energy for the cost of this remuneration, thereafter his remuneration was 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 deferred share rights) and long-term incentives (share options and performance share rights).

Approximately one-third of the CEO's potential annual remuneration is paid as fixed remuneration and two-thirds is at-risk/variable remuneration. The amount of short-term incentive awarded and the level of long-term incentive allocated to the CEO is dependent on the degree to which Contact's financial, HSE, and other strategic goals are met. This 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 FY16.

Cash remuneration

	Fixed remuneration $	Variable remuneration $	Total cash remuneration paid $
Year ended 30 June 2016	928,500	417,825	1,346,325
Year ended 30 June 2015	928,500	281,645	1,210,145

1. Employer superannuation contribution of 3% is paid on top of total cash remuneration from 12 August 2015.

Equity rights issued (options, performance share rights and deferred share rights)[1]

	Number of options issued during year	Number of performance share rights issued during year	Number of deferred share rights issued during year	Value of equity rights issued and amortising during year $	Value of equity rights issued in past years and amortising during year $	Number of equity rights exercised during year
Year ended 30 June 2016	532,746	102,841	31,225	$215,297	$853,591	418,240
Year ended 30 June 2015	620,157	32,371	51,390	$185,151	$494,857	–

1. The allocation of equity based incentives is determined at the end of each financial year. The value of equity disclosed above is the portion of the fair value of options, performance share rights and deferred share rights allocated to the relevant reporting period. Details on the equity scheme are described on page 49.

EMPLOYEE REMUNERATION

There are three components to employee remuneration — fixed remuneration, at-risk/variable remuneration and other benefits. These are designed to attract, reward and retain high performing employees.

Fixed remuneration

Fixed remuneration is determined based on the role responsibilities, individual performance and experience, and available market remuneration data. Contact targets fixed remuneration at the median of the market range.

At-risk/variable remuneration

At-risk/variable remuneration recognises and rewards high performing employees and comprises short-term incentives (cash and deferred share rights), and long-term incentives (options and performance share rights).

• Short-term incentives (STIs)

STIs are designed to differentiate and reward high performance with cash incentives for eligible employees, and deferred share rights through Contact's equity scheme for some higher level roles. The STIs are based on employee performance measured against key performance indicators (KPIs) which generally comprise company, business unit and individual objectives. The Board reserves the right to adjust STI awards if company targets are not met.

• Long-term incentives (LTIs)

Contact provides awards of options and performance share rights through Contact's equity scheme to senior and key talent employees. This aims to encourage and reward longer-term decision making and align participants' interests with that of Contact's shareholders. These are subject to performance hurdles.

Equity scheme

At 30 June 2016 there were 105 participants in Contact's equity scheme. For further details on the equity scheme and the number of options, performance share rights and deferred share rights granted, exercised, lapsed and on issue at the end of the reporting period, see note E.9 to the Financial Statements.

Other benefits

Contact also offers a range of benefits. These have varying eligibility criteria and include the following: discounts for home energy, including electricity, natural gas and LPG; employer subsidised health insurance; an employee share ownership plan 'Contact Share' (details of Contact Share can be found on page 72); and additional benefits and offers from retailers and services providers.

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 during FY16 of at least $100,000. At 30 June 2016, no Contact subsidiary had any employees.

The value of remuneration benefits analysed includes:

- Fixed remuneration including allowance/overtime payments
- Employer superannuation contributions
- Short-term cash incentives relating to FY15 performance but paid in FY16
- The value of equity-based incentives expensed during FY16. (Note, expensing values in FY16 were higher than previous years as a result of Origin selling its shareholding in Contact triggering vesting of equity due to the change of control)
- The value of Contact Share expensed during FY16
- Redundancy and other payments made on termination of employment

The figures do not include amounts paid post 30 June 2016 that relate to the year ended 30 June 2016. The remuneration (and any other benefits) of the CEO, Dennis Barnes, is disclosed in the CEO remuneration section on page 48.

Remuneration band	Number of employees
$100,001 – $110,000	55
$110,001 – $120,000	46
$120,001 – $130,000	54
$130,001 – $140,000	61
$140,001 – $150,000	47
$150,001 – $160,000	27
$160,001 – $170,000	23
$170,001 – $180,000	13
$180,001 – $190,000	21
$190,001 – $200,000	11
$200,001 – $210,000	7
$210,001 – $220,000	8
$220,001 – $230,000	5
$230,001 – $240,000	5
$240,001 – $250,000	3
$250,001 – $260,000	5
$260,001 – $270,000	5
$270,001 – $280,000	2
$280,001 – $290,000	4
$290,001 – $300,000	2
$300,001 – $310,000	3
$310,001 – $320,000	2
$320,001 – $330,000	3
$330,001 – $340,000	3
$340,001 – $350,000	1
$350,001 – $360,000	1
$360,001 – $370,000	1
$380,001 – $390,000	4
$390,001 – $400,000	1
$400,001 – $410,000	1
$430,001 – $440,000	1
$450,001 – $460,000	1
$460,001 – $470,000	1
$470,001 – $480,000	1
$510,001 – $520,000	1
$540,001 – $550,000	1
$550,001 – $560,000	1
$560,001 – $570,000	1
$590,001 – $600,000	1
$730,001 – $740,000	1
$790,001 – $800,000	1
$870,001 – $880,000	1
$1,000,001 – $1,010,000	1
Grand Total	**437** [(1)]

1. Includes 42 former employees.

Statutory Disclosures

DISCLOSURES OF INTERESTS BY DIRECTORS

The following are particulars of general disclosures of interest by directors holding office as at 30 June 2016, pursuant to section 140(2) of the Companies Act 1993. Each such director will be regarded as interested in all transactions between Contact and the disclosed entity.

Sir Ralph Norris	
Advisory Board New Zealand Treasury	Director
Advisory Board Tax Management NZ	Director
Advisory Board SouthPark Corporation	Director
Auckland Grammar School Foundation Trust	Trustee
Fletcher Building Limited	Chairman
RANQX Holdings Limited	Director
The Parenting Place Board	Member
University of Auckland	Council Member
Victoria Crone	
Creative HQ Limited	Director
Figure.NZ	Chair
NZ Hi-Tech Trust	Trustee
Redshield Security Limited	Director
Whaimutu Dewes	
Aotearoa Fisheries Limited	Chairman
Iwi Rakau Limited	Director
Kura Limited	Chairman
Ngati Porou Fisheries Limited	Director
Ngati Porou Forests Limited	Director
Ngati Porou Holding Company Limited	Chairman
Ngati Porou Seafoods Limited	Director
Ngati Porou Whanui Forests Limited	Director
Pupuri Taonga Limited	Director
Rakaikura Limited	Director
Real Fresh Limited	Director
Sealord Group Limited	Chairman
The Treasury Board	Director
Whainiho Developments Limited	Managing director/shareholder
Rob McDonald	
Air New Zealand Limited	Chief Financial Officer
Various Air New Zealand subsidiaries	Director
Pratt & Whitney Air New Zealand Services T/A Christchurch Engine Centre	Director
McDonald Family Trust	Trustee
Sue Sheldon	
Christchurch City Council	Independent Chair of Audit and Risk Management Committee
FibreTech New Zealand Limited	Chairman
Freightways Limited	Chairman
NZ Global Women	Chair
Real Journeys Limited	Director
Sue Sheldon Advisory Limited	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 subsidiaries, against potential liability or costs incurred in any proceeding, except to the extent prohibited by law.

DIRECTORS' SECURITY PARTICIPATION

Directors are required to hold a minimum of 20,000 shares within three years of appointment.

Securities of the company in which each director has a relevant interest at 30 June 2016

Director	Number of ordinary shares
Sir Ralph Norris	20,000
Whaimutu Dewes	20,011
Rob McDonald	30,000
Sue Sheldon	21,803

Securities dealings of directors

During the year, the directors disclosed in respect of section 148(2) of the Companies Act 1993 that they acquired or disposed of a relevant interest in ordinary shares as follows:

Director	Date of purchase	Consideration per share	Number of ordinary shares acquired	Natural of relevant interest
Sir Ralph Norris	29/04/16	$5.06	20,000	Beneficial
Rob McDonald	16/02/16	$4.45	30,000	Beneficial

Subsidiary company directors

The following people held office as directors of Rockgas Limited during the year ended 30 June 2016. No director of Rockgas received additional remuneration or benefits in respect of their directorships.

Company	Directors
Rockgas Limited	Dennis Barnes
	Graham Cockroft
	Peter Kane (resigned 18/03/16)
	Jacqui Nelson (appointed 23/06/16)

Stock exchange listings

Contact's ordinary shares are listed and quoted on the New Zealand Stock Market (NZSX) and the Australian Securities Exchange (ASX) 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 code 'CEN020' (2014 series) and 'CEN030 (2015 series).

SHAREHOLDER STATISTICS

Twenty largest shareholders at 30 June 2016

	Number of ordinary shares	% of ordinary shares
JP Morgan Chase Bank – NZCSD [1]	71,099,379	9.94
HSBC Nominees (New Zealand) Limited – NZCSD [1]	62,185,186	8.69
HSBC Nominees (New Zealand) Limited – NZCSD [1]	61,483,426	8.59
Citibank Nominees (NZ) Limited – NZCSD [1]	46,121,418	6.45
National Nominees New Zealand Limited – NZCSD [1]	39,145,937	5.47
Accident Compensation Corporation – NZCSD [1]	36,524,727	5.10
J P Morgan Nominees Australia Limited	20,533,835	2.87
Cogent Nominees Limited – NZCSD [1]	19,914,133	2.78
FNZ Custodians Limited	15,829,366	2.21
Tea Custodians Limited – NZCSD [1]	14,271,968	1.99
New Zealand Superannuation Fund Nominees Limited – NZCSD [1]	13,081,826	1.83
Guardian Nominees Limited No.2 Ltd – NZCSD [1]	11,822,340	1.65
BNP Paribas Nominees NZ Limited – NZCSD [1]	10,971,987	1.53
Forsyth Barr Custodians Limited	9,993,541	1.40
Custodial Services Limited	8,997,331	1.26
Premier Nominees Limited – NZCSD [1]	8,204,883	1.15
National Nominees Limited	8,203,322	1.15
RBC Investor Services Australia Nominees Pty Limited	6,092,432	0.85
Investment Custodial Services Limited	6,036,068	0.84
Private Nominees Limited – NZCSD [1]	5,800,374	0.81
Total for top 20	**476,313,479**	**66.56**

1. New Zealand Central Securities Depository Limited (NZCSD) is a depository system which allows electronic trading of securities to members. As at 30 June 2016, total holding in NZCSD were 425,011,813 or 59.40% of shares on issue.

Distribution of ordinary shares and shareholders at 30 June 2016

Size of holding	Number of shareholders	% of shareholders	Number of ordinary shares	% of ordinary shares
1 – 1,000	30,513	44.51	20,275,746	2.83
1,001 – 5,000	32,232	47.02	57,503,250	8.04
5,001 – 10,000	3,513	5.13	24,729,530	3.46
10,001 – 50,000	2,051	2.99	38,376,310	5.36
50,001 – 100,000	135	0.20	9,259,120	1.29
100,001 and over	103	0.15	565,381,800	79.02
Total	**68,547**	**100.00**	**715,525,756**	**100.00**

Substantial product holders

According to notices given under the Financial Markets Conduct Act 2013, the following persons were substantial product holders of the company as at 30 June 2016:

Substantial product holder	Number of ordinary shares in which relevant interest is held	Date of notice
Accident Compensation Corporation [1]	36,945,940	8 December 2015
AustralianSuper Pty Ltd	37,327,277	1 October 2015

1. Contact also received a substantial product holder notice in respect of Jason Familton. Mr Familton is not, individually, a substantial product holder. The notice was submitted on the basis of the aggregation of interests in securities held by him personally and held by Accident Compensation Corporation (ACC) given the qualified powers he may have to exercise voting rights and acquire or dispose of Contact shares beneficially owned by ACC.

The total number of voting securities of Contact at 30 June 2016 was 715,525,756 fully paid ordinary shares.

BONDHOLDER STATISTICS

Retail fixed rate bonds (CEN020) at 30 June 2016

Size of holding	Number of bondholders	% of bondholders	Number of bonds	% of bonds
1,001 – 5,000	209	8.11	1,043,334	0.47
5,001 – 10,000	527	20.47	5,078,500	2.29
10,001 – 50,000	1,496	58.10	42,580,500	19.18
50,001 – 100,000	220	8.54	18,662,666	8.40
100,001 and over	123	4.78	154,635,000	69.66
Total	**2,575**	**100.00**	**222,000,000**	**100.00**

Retail fixed rate bonds (CEN030) at 30 June 2016

Size of holding	Number of bondholders	% of bondholders	Number of bonds	% of bonds
1,001 – 5,000	61	6.70	305,000	0.20
5,001 – 10,000	147	16.14	1,417,000	0.95
10,001 – 50,000	507	55.65	14,580,000	9.72
50,001 – 100,000	104	11.42	8,524,000	5.68
100,001 and over	92	10.09	125,174,000	83.45
Total	**911**	**100.00**	**150,000,000**	**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 FY16 was $483,000 and $4,500 for scrutineering at the Annual Meeting. There was no non-audit work undertaken by KPMG during the year.

DONATIONS

In accordance with section 211(1)(h) of the Companies Act 1993, Contact records that it donated $5,600 in FY16. 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 the year.

NZX WAIVER

On 4 August 2015, NZX Regulation granted Contact a waiver from NZX Listing Rule 5.2.3 (for a period of twelve months from 4 September 2015) in respect of Contact's September 2015 issue of $150 million of unsecured, unsubordinated, fixed rate debt securities ("CEN030 Bonds"). Listing Rule 5.2.3 provides that a class of securities will generally not be considered for quotation unless those securities are held by at least 500 members of the public, holding at least 25% of the number of securities in the class issued, with each member holding at least a minimum holding. The effect of the waiver from Listing Rule 5.2.3 is that the CEN030 Bonds may not be widely held and there may be reduced liquidity in the CEN030 Bonds.

EXERCISE OF NZX DISCIPLINARY POWERS

NZX did not exercise any of its powers under Listing Rule 5.4.2 in relation to Contact during FY16.

CREDIT RATING

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

The $222 million unsubordinated, unsecured fixed rate bonds issued in March 2014 are rated BBB by Standard & Poor's.

The $150 million unsubordinated, unsecured fixed rate bonds issued in September 2015 are rated BBB by Standard & Poor's.

The last five years in review

For the year ended 30 June	Unit	2012	2013	2014	2015	2016
Revenue	$m	2,701	2,526	2,446	2,443	2,163
Expenses	$m	2,192	1,985	1,859	1,918	1,640
EBITDAF	$m	509	541	587	525	523
Profit/(loss)	$m	190	199	234	133	(66)
Underlying profit	$m	176	202	227	161	157
Underlying profit per share	cps	25.0	27.7	31.0	21.9	21.7
Free cash flow	$m	269	367	366	345	403
Free cash flow per share	cps	38.1	50.3	49.9	47.0	55.5
Dividends declared[1]	cps	23	25	26	76	26
Total assets	$m	6,112	6,197	6,186	6,089	5,652
Total liabilities	$m	2,695	2,660	2,604	2,918	2,829
Total equity	$m	3,418	3,537	3,582	3,171	2,823
Gearing ratio	%	29	29	28	35	36

1. FY15 included a special dividend of 50 cents per share.

Financial Statements

About these Financial Statements

FOR THE YEAR ENDED 30 JUNE 2016

These Financial Statements are for Contact, a group made up of Contact Energy Limited and the entities over which it has control or joint control.

Contact Energy Limited is registered in New Zealand under the Companies Act 1993. It is listed on the New Zealand stock exchange (NZX) and the Australian Securities Exchange (ASX) and has bonds listed on the NZX debt market. Contact is an FMC reporting entity under the Financial Markets Conduct Act 2013.

Contact's Financial Statements are prepared:

- In accordance with New Zealand generally accepted accounting practice (GAAP) and comply with New Zealand equivalents to International Financial Reporting Standards (IFRS) and IFRS as appropriate for profit-oriented entities
- In millions of New Zealand dollars (NZD) unless otherwise noted
- On an historical cost basis except for debt and derivatives held at fair value, and assets held for sale reported at fair value less costs to sell
- Using the same accounting policies for all reporting periods presented with no changes in those policies from previous periods.

Estimates and judgements are made in applying Contact's accounting policies. Areas that involve a higher level of estimation or judgement are:

- Useful lives of property plant and equipment (PP&E) and intangible assets (note C1)
- Impairment testing of cash-generating units (CGUs) and future development capital work in progress (note C2)
- Net realisable value of inventory gas and classification between current and non-current (note E3)
- Unbilled retail electricity and gas revenue and provision for impairment of receivables (note E4)
- Provision for future restoration and rehabilitation obligations (note E5)
- Fair value measurement of financial instruments (notes D1 and E7).

The Financial Statements were authorised on behalf of Contact's Board of Directors on 12 August 2016.

Sir Ralph Norris
Chairman

Sue Sheldon
Director

Statement of Comprehensive Income

FOR THE YEAR ENDED 30 JUNE 2016

$m	Note	2016	2015
Revenue and other income	A2	2,163	2,443
Operating expenses	A2	(1,640)	(1,918)
Significant items	A2	(327)	(61)
Depreciation and amortisation	C1	(201)	(204)
Net interest expense	B5	(101)	(98)
Profit/(loss) before tax		**(106)**	**162**
Tax (expense)/credit	E1	40	(29)
Profit/(loss)		**(66)**	**133**
Items that may be reclassified to profit/(loss):			
Change in cash flow hedge reserve		5	12
Deferred tax relating to cash flow hedges	E1	(3)	(2)
Other comprehensive income	E7	**2**	**10**
Comprehensive income/(loss)		**(64)**	**143**
Profit/(loss) per share (cents)	B3	**(9.1)**	**18.2**

Statement of Cash Flows

FOR THE YEAR ENDED 30 JUNE 2016

$m	Note	2016	2015
Receipts from customers		2,172	2,495
Payments to suppliers and employees		(1,620)	(1,970)
Tax received/(paid)		1	(45)
Liquidated damages received		2	9
Dividends received		1	1
Operating cash flows	E6	**556**	**490**
Purchase of assets		(122)	(129)
Proceeds from sale of assets		27	7
Interest received		1	1
Investing cash flows		**(94)**	**(121)**
Dividends paid	B3	(189)	(558)
Share buyback	B2	(100)	–
Proceeds from borrowings		360	455
Repayment of borrowings		(426)	(192)
Interest paid		(94)	(90)
Gas sale and repurchase arrangement		(7)	(2)
Financing cash flows		**(456)**	**(387)**
Net cash flow		**6**	**(18)**
Add: cash at the beginning of the year		(6)	12
Cash at the end of the year		**–**	**(6)**
Bank overdraft	B4	(5)	(10)
Cash and cash equivalents		5	4

Statement of Financial Position

AT 30 JUNE 2016

$m	Note	2016	2015
Cash and cash equivalents	B4	5	4
Trade and other receivables	E4	201	217
Inventories	E3	58	64
Intangible assets	C1	15	15
Derivative financial instruments	D1	22	15
Tax receivable		–	19
Assets held for sale		1	2
Total current assets		**302**	**336**
Inventories	E3	46	99
Property, plant and equipment	C1	4,699	5,078
Intangible assets	C1	318	314
Goodwill	C2	182	182
Derivative financial instruments	D1	88	69
Other non-current assets		17	11
Total non-current assets		**5,350**	**5,753**
Total assets		**5,652**	**6,089**
Trade and other payables		223	214
Borrowings	B4	305	531
Derivative financial instruments	D1	24	28
Provisions	E5	10	8
Total current liabilities		**562**	**781**
Borrowings	B4	1,391	1,219
Derivative financial instruments	D1	82	53
Provisions	E5	44	51
Deferred tax	E1	736	792
Other non-current liabilities		14	22
Total non-current liabilities		**2,267**	**2,137**
Total liabilities		**2,829**	**2,918**
Net assets		**2,823**	**3,171**
Share capital	B2	1,515	1,605
Retained earnings		1,294	1,546
Cash flow hedge reserve	E7	7	5
Share-based compensation reserve		7	15
Shareholders' equity		**2,823**	**3,171**

Statement of Changes in Equity

FOR THE YEAR ENDED 30 JUNE 2016

$m	Note	Share capital	Retained earnings	Other reserves	Shareholders' equity
Balance at 1 July 2014		1,605	1,968	9	3,582
Profit		–	133	–	133
Change in cash flow hedge reserve (net of tax)		–	–	10	10
Lapsed share scheme awards		–	3	(3)	–
Share-based compensation expense	E9	–	–	4	4
Dividends paid	B3	–	(558)	–	(558)
Balance at 30 June 2015		**1,605**	**1,546**	**20**	**3,171**
Loss		–	(66)	–	(66)
Change in cash flow hedge reserve (net of tax)		–	–	2	2
Lapsed share scheme awards		–	3	(3)	–
Change in share capital	B2	(90)	–	(10)	(100)
Share-based compensation expense	E9	–	–	5	5
Dividends paid	B3	–	(189)	–	(189)
Balance at 30 June 2016		**1,515**	**1,294**	**14**	**2,823**

A. Our Performance

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

A1. SEGMENTS

Contact's operating segments for internal reporting purposes are Integrated Energy and Other.

Integrated Energy is our core business of generating electricity and selling energy to New Zealand customers. Integrated Energy's performance is measured as the difference between retail netback and cost of energy:

- Retail netback is the revenue from delivering energy to customers less costs to service customers, network charges and metering costs
- Cost of energy is the cost to generate and/or purchase the energy we sell.

The Other segment is mostly made up of our LPG business, Contact Rockgas, which purchases and sells LPG to New Zealand customers. It also includes some revenue and expenses not allocated to Integrated Energy or LPG.

A2. EARNINGS

The table below provides a breakdown of Contact's revenue and expenses, earnings before interest, tax, depreciation and amortisation and significant items (EBITDAF) by segment and a reconciliation from EBITDAF and underlying profit to profit/(loss) reported under NZ GAAP.

		2016					2015				
$m	Note	Retail netback	Cost of energy	Integrated Energy	Other	Total	Retail netback	Cost of energy	Integrated Energy	Other	Total
Mass market electricity		903	–	903	–	903	951	–	951	–	951
Commercial & Industrial (C&I) electricity		520	–	520	–	520	563	–	563	–	563
Wholesale electricity		–	539	539	–	539	–	693	693	–	693
LPG		–	–	–	117	117	–	–	–	118	118
Gas		62	1	63	–	63	61	20	81	–	81
Steam		25	–	25	–	25	21	–	21	–	21
Total revenue		**1,510**	**540**	**2,050**	**117**	**2,167**	**1,596**	**713**	**2,309**	**118**	**2,427**
Other income (including liquidated damages)		–	6	6	5	11	–	9	9	7	16
Total revenue and other income[1]		**1,510**	**546**	**2,056**	**122**	**2,178**	**1,596**	**722**	**2,318**	**125**	**2,443**
Electricity purchases		–	(528)	(528)	–	(528)	–	(674)	(674)	–	(674)
Gas and LPG purchases		–	(122)	(122)	(68)	(190)	–	(183)	(183)	(70)	(253)
Electricity networks, transmission, levies & meter costs		(596)	(41)	(637)	–	(637)	(619)	(46)	(665)	–	(665)
Gas networks, transmission, levies & meter costs		(33)	(12)	(45)	–	(45)	(31)	(26)	(57)	–	(57)
Other operating expenses		(112)	(121)	(233)	(14)	(247)	(118)	(130)	(248)	(15)	(263)
Carbon emissions		–	(7)	(7)	(1)	(8)	–	(5)	(5)	(1)	(6)
Total operating expenses[1]		**(741)**	**(831)**	**(1,572)**	**(83)**	**(1,655)**	**(768)**	**(1,064)**	**(1,832)**	**(86)**	**(1,918)**
EBITDAF		**769**	**(285)**	**484**	**39**	**523**	**828**	**(342)**	**486**	**39**	**525**
Depreciation and amortisation						(201)					(204)
Net interest expense						(101)					(98)
Tax on underlying profit						(64)					(62)
Underlying profit						**157**					**161**
Significant items											
Change in fair value of financial instruments						(21)					(37)
Otahuhu power station closure and sale						(217)					–
Write-down of inventory gas						(43)					–
Asset impairments						(36)					–
Transition costs						(10)					(24)
Tax on significant items						100					17
Reinstatement of tax depreciation on powerhouses						4					16
Profit/(loss)						**(66)**					**133**
Underlying profit per share (cents)	B3					**21.7**					**21.9**

1. For internal reporting purposes the fixed price agreed for contracts for differences (CfDs) sold to C&I customers is treated as C&I electricity revenue while the settlement price component is classified as electricity purchases. This grosses up revenue and expenses by $15 million compared to that reported in the Statement of Comprehensive Income.

EBITDAF and underlying profit are used to monitor performance and are non-GAAP profit measures.

EBITDAF is commonly used in the electricity industry so provides a comparable measure of performance. It is profit/(loss) before tax excluding interest, depreciation, amortisation and significant items.

Underlying profit provides a consistent measure of our ongoing performance. It excludes the effect of significant items from reported profit/(loss).

Significant items are excluded from EBITDAF and underlying profit when they meet criteria approved by the Board of Directors in our non-GAAP financial information policy. The significant items in this reporting period are:

- **Change in fair value of financial instruments:** Movements in the valuation of interest rate and electricity price derivatives that are not accounted for as hedges, hedge accounting ineffectiveness and the effect of credit risk on the valuation of hedged debt and derivatives. Refer note E7 for a breakdown
- **Otahuhu power station closure and sale:** The Otahuhu power station was closed and the site was sold during the reporting period. The amount recognised of $217 million includes an asset impairment of $250 million and a gain on sale of assets of $33 million
- **Write-down of inventory gas:** At 30 June 2016 inventory gas was written down by $43 million to net realisable value of $90 million. Refer note E3 for more information
- **Asset impairments:** Contact's development of the Taheke geothermal resource was fully impaired as Contact is unlikely to develop the resource in the foreseeable future
- **Transition costs** incurred as a result of:
  - Origin Energy Limited's (Origin's) sale of its majority shareholding in Contact in August 2015 mostly made up of ASX listing costs and incremental share-based compensation expense ($2 million)
  - The Retail Transformation project mostly comprising temporary staffing and infrastructure costs ($4 million)
  - ICT Change and Transition programme that will significantly change Contact's ICT infrastructure and service delivery. While most of the programme relates to asset replacements it also includes consultancy costs while the transition is occurring and the accelerated depreciation on assets being replaced ($4 million). The programme will be completed in FY17.

A3. FREE CASH FLOW

Free cash flow is a non-GAAP cash measure that shows the amount of cash Contact has available to distribute to shareholders, reduce debt or reinvest in the business. A reconciliation from EBITDAF to GAAP operating cash flow and to free cash flow is provided below.

$m	Note	2016	2015
EBITDAF		**523**	**525**
Tax received/(paid)		1	(45)
Change in working capital net of non-cash, investing and financing activities		22	20
Non-cash items included in EBITDAF		20	13
Significant items, net of non-cash amounts		(10)	(23)
Operating cash flows		**556**	**490**
Net interest paid		(93)	(89)
Stay in business capital expenditure		(87)	(63)
Proceeds from sale of assets		27	7
Free cash flow		**403**	**345**
Free cash flow per share (cents)	B3	**55.5**	**47.0**

Stay in business capital expenditure is required to maintain our business operations and includes major plant inspections and replacements of existing assets and IT systems.

B. Our Funding

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

B1. CAPITAL STRUCTURE

Contact's capital includes equity and net debt. Our objectives when managing capital are to ensure Contact can pay its debts when they are due and to optimise the cost of our capital.

To adjust the capital structure, the Board of Directors may adjust the amount and nature of distributions to shareholders, issue new shares and increase or repay debt.

Contact manages its capital structure to maintain an investment grade credit rating and a gearing ratio suitable to the nature of our business.

$m	2016	2015
Face value of borrowings	(1,631)	(1,702)
Cash and cash equivalents	5	4
Net debt	**(1,626)**	**(1,698)**
Shareholders' equity	(2,823)	(3,171)
Remove fair value of financial instruments after tax	(50)	(38)
Adjusted equity	**(2,873)**	**(3,209)**
Total capital funding	**(4,499)**	**(4,907)**
Gearing ratio	**36.1%**	**34.6%**

B2. SHARE CAPITAL

Share capital is comprised of ordinary shares listed on the NZX and ASX. Certain ordinary shares are held on trust on behalf of employees under the Contact Share scheme (note E9). Shares held under Contact Share are purchased on market and reduce the value of Contact's share capital. All shareholders are entitled to receive distributions and to make one vote per share.

	Note	Number	$m
Balance at 1 July 2014		733,308,762	1,605
Share capital issued		50,110	–
Balance at 30 June 2015		**733,358,872**	**1,605**
Share capital issued		2,871,844	10
Share capital repurchased and cancelled		(20,704,960)	(100)
Balance at 30 June 2016		**715,525,756**	**1,515**
Comprised of:			
Ordinary shares		715,123,326	1,516
Contact Share	E9	402,430	(1)

Share issues

As a result of Origin's sale of its majority shareholding in Contact all awards outstanding under Contact's Equity Scheme at August 2015 became exercisable, and all Performance Share Rights (PSRs) and Deferred Share Rights (DSRs) were exercised between August 2015 and October 2015 (note E9).

B3. DISTRIBUTIONS

Contact targets an average ordinary dividend equivalent to approximately 100% of our underlying profit. When free cash flow exceeds this amount and there are no new growth opportunities or adverse market events, Contact may choose to make additional distributions to shareholders and/or repay debt.

Earnings per share and free cash flow per share

cents	2016	2015
Profit/(loss) per share – basic	(9.1)	18.2
Profit/(loss) per share – diluted	(9.0)	18.2
Underlying profit per share – basic	21.7	21.9
Free cash flow per share – basic	55.5	47.0
Weighted average		
Number of shares – basic	725,446,379	733,345,281
Number of shares – diluted	736,016,721	733,793,826

The basic calculation uses the weighted average number of shares actually on issue over the period.

The diluted weighted average number of shares takes into account the number of share options, PSRs and DSRs that are currently exercisable or will become exercisable because vesting depends only on an employee staying with Contact.

Dividends

Paid during the year ended	Cents per share	$m
2014 final	15.0	110
2015 interim	11.0	81
2015 special	50.0	367
30 June 2015		**558**
2015 final	15.0	110
2016 interim	11.0	79
30 June 2016		**189**

On 12 August 2016, the Board resolved to pay a final dividend of 15 cents per share on 23 September 2016. On 12 August 2016, Contact held 3.3 million imputation credits.

Share buybacks

As well as paying dividends, Contact completed a $100 million on market share buyback programme during the reporting period. A total of 20,704,960 shares were purchased at an average of $4.83 per share. Repurchased shares were immediately cancelled.

B4. BORROWINGS

Borrowings are recognised initially at fair value less financing costs and subsequently at amortised cost using the effective interest rate method. Some borrowings are designated in fair value hedge relationships, which means that any change in market interest and foreign exchange rates result in a change in the fair value adjustment on that debt (note E7).

$m	Maturity	Coupon	2016	2015
Bank overdraft	< 3 months	Floating	5	10
Commercial paper	< 3 months	Floating	165	100
Bank facilities	Various	Floating	223	639
Finance lease liabilities	Various	Various	23	25
Wholesale bonds	Apr 2017	7.86%	100	100
USPP notes – US$40m	Mar 2018	5.55%	71	71
USPP notes – US$25m	Apr 2018	7.13%	43	43
Wholesale bonds	May 2018	4.80%	50	50
Retail bonds – CEN020	May 2019	5.80%	222	222
Wholesale bonds	May 2020	5.28%	50	50
USPP notes – US$56m	Dec 2020	3.46%	70	70
Retail bonds – CEN030	Nov 2021	4.40%	150	–
USPP notes – US$22m	Dec 2023	4.19%	28	28
USPP notes – US$51m	Dec 2023	4.09%	64	64
USPP notes – US$42m	Dec 2023	3.63%	61	–
USPP notes – US$58m	Dec 2025	4.33%	73	73
USPP notes – US$43m	Dec 2025	3.85%	62	–
Export credit agency facility	Nov 2027	Floating	82	90
USPP notes – US$15m	Dec 2027	3.95%	22	–
USPP notes – US$23m	Dec 2028	4.44%	29	29
USPP notes – US$30m	Dec 2028	4.50%	38	38
Total borrowings at face value			**1,631**	**1,702**
Deferred financing costs			(8)	(8)
Total borrowings at amortised cost			**1,623**	**1,694**
Fair value adjustment on hedged borrowings			73	56
Carrying value of borrowings			**1,696**	**1,750**
Current			305	531
Non-current			1,391	1,219

For disclosure purposes, the fair value of all borrowings is $1,707 million (2015: $1,763 million). This fair value is derived from market data.

Short-term funding

Contact uses bank facilities to manage its liquidity risk (note D3). These facilities provide a buffer that can be drawn at short notice. While drawings under our bank facilities are typically for periods of three months or less, the amounts drawn down can be rolled for the term of the facility. Drawn facilities are classified as current when the facility will expire or the debt is expected to be repaid within one year of balance date.

Contact's total bank facilities have a range of maturities:

Maturity $m	2016	2015
Less than 1 year	115	430
Between 1 and 2 years	240	145
Between 2 and 3 years	155	150
More than 3 years	140	175
	650	**900**

Finance lease liabilities

Contact's finance leases are mostly for connections to the national electricity grid. These assets are included in the carrying values of generation plant and equipment (note C1).

Security

Contact's Deed of Negative Pledge and Guarantee and its United States Private Placement (USPP) note agreements restrict Contact from granting security interest over its assets, subject to certain permitted exceptions. Because of these restrictions Contact's borrowings are all unsecured, except for finance leases secured over the leased assets. The Deed of Negative Pledge and Guarantee and the USPP note agreements contain various debt covenants, all of which Contact complied with during the reporting period.

Cash and cash equivalents

Contact trades electricity price derivatives on the ASX market using a broker who holds collateral on deposit for margin calls. At 30 June 2016, this collateral was $3 million (2015: $4 million) and is included within cash.

B5. NET INTEREST EXPENSE

Interest expense on borrowings is made up of interest on drawn debt and interest rate swaps, and the unwind of deferred financing costs.

$m	Note	2016	2015
Interest expense on borrowings		(98)	(93)
Unwind of discount on provisions	E5	(6)	(6)
Interest income		3	1
Net interest expense		**(101)**	**(98)**

C. Our Assets

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

C1. PROPERTY, PLANT & EQUIPMENT AND INTANGIBLE ASSETS

Contact's property, plant and equipment (PP&E) and intangible assets include:

- Generation plant and equipment: hydro, geothermal and thermal power stations, geothermal wells and pipelines, the Ahuroa gas storage facility and cushion gas in the Ahuroa reservoir
- Other plant and equipment: LPG reticulation networks in the South Island, bulk tanks, cylinders and meters used to deliver LPG to our customers
- Computer software: our SAP system that is used for customer service, finance functions and generation asset management which has a value of $256 million (2015: $264 million) and a remaining life of 13 years.

All assets are recognised at cost less accumulated depreciation or amortisation and impairments.

Cost

Contact capitalises the costs to purchase and bring assets into service. When Contact develops an asset, it also capitalises employee time and other directly attributable costs, these are carried as capital work in progress until the asset is commissioned.

Contact capitalises costs to obtain resource consents and to drill geothermal exploration wells. These costs are expensed if the exploration area that they relate to is unsuccessful or abandoned. All other geothermal exploration costs are expensed.

Cushion gas is the level of gas required to maintain pressure in the Ahuroa reservoir so that Contact can inject and extract gas to use in its thermal power plants. Cushion gas of $52 million (2015: $52 million) is classified as generation plant and equipment.

Carbon emission units are purchased to offset our emissions under the New Zealand Emissions Trading Scheme (ETS). The units are measured at weighted average cost. They are classified as current assets when they will be used to offset Contact's ETS obligations at balance date or obligations expected to be incurred within 1 year of balance date.

Depreciation and amortisation

The cost of Contact's assets is spread evenly over their useful lives (straight line method) or, for certain thermal assets, over the equivalent operating hours (EOH) those assets are expected to be of benefit to Contact.

Management estimates an asset's useful life or EOH. These estimates are reviewed annually for triggers that may indicate the need for a revised estimate. The asset useful life review completed in the current reporting period resulted in an increase in generation plant and equipment depreciation of $6 million. The useful life changes are expected to increase depreciation in 2017 by approximately $1 million.

Land, capital work in progress, cushion gas and carbon emission units are not depreciated or amortised. The depreciation and amortisation rates for all other assets are:

Assets	Rate/hours
Generation plant and equipment:	
– Straight line	1 – 33%
– EOH	8,000 – 100,000
Other buildings, plant and equipment	2 – 33%
Computer software	6 – 33%
Gas storage rights	3%

Capital commitments

At 30 June 2016, Contact is committed to $33 million of capital expenditure, with all payments due within one year of the reporting period end (2015: $32 million).

Property, Plant & Equipment $m	Generation plant and equipment	Other land and buildings	Other plant and equipment	Capital work in progress	Total
Cost					
Balance at 1 July 2014	5,966	27	233	380	6,606
Additions	31	–	5	43	79
Transfers from capital work in progress	81	9	15	(105)	–
Transfers to assets held for sale	(2)	(3)	–	–	(5)
Disposals	–	–	(1)	–	(1)
Balance at 30 June 2015	**6,076**	**33**	**252**	**318**	**6,679**
Balance at 1 July 2015	6,076	33	252	318	6,679
Additions	35	–	6	47	88
Transfers from capital work in progress	43	–	4	(47)	–
Transfers to assets held for sale	–	(3)	–	–	(3)
Disposals	(471)	–	(19)	(102)	(592)
Balance at 30 June 2016	**5,683**	**30**	**243**	**216**	**6,172**
Depreciation and impairment					
Balance at 1 July 2014	(1,191)	(11)	(158)	(66)	(1,426)
Depreciation charge	(166)	(2)	(10)	–	(178)
Transfers to assets held for sale	2	–	–	–	2
Disposals	–	–	1	–	1
Balance at 30 June 2015	**(1,355)**	**(13)**	**(167)**	**(66)**	**(1,601)**
Balance at 1 July 2015	(1,355)	(13)	(167)	(66)	(1,601)
Depreciation charge[1]	(161)	(2)	(12)	–	(175)
Impairment	(250)	–	–	(37)	(287)
Disposals	470	–	18	102	590
Balance at 30 June 2016	**(1,296)**	**(15)**	**(161)**	**(1)**	**(1,473)**
Carrying amount					
At 30 June 2015	4,721	20	85	252	5,078
At 30 June 2016	**4,387**	**15**	**82**	**215**	**4,699**

1. $2 million of the depreciation charge is classified as a significant item as part of the transition costs for the ICT Change and Transition programme (note A2).

Intangible Assets $m	Computer software and capital work in progress	Gas storage rights	Carbon emission units	Total
Cost				
Balance at 1 July 2014	341	35	21	397
Additions	29	–	1	30
Disposals	–	–	(2)	(2)
Balance at 30 June 2015	**370**	**35**	**20**	**425**
Balance at 1 July 2015	370	35	20	425
Additions	36	–	6	42
Disposals	(1)	–	(10)	(11)
Balance at 30 June 2016	**405**	**35**	**16**	**456**
Amortisation				
Balance at 1 July 2014	(67)	(3)	–	(70)
Amortisation charge	(25)	(1)	–	(26)
Balance at 30 June 2015	**(92)**	**(4)**	**–**	**(96)**
Balance at 1 July 2015	(92)	(4)	–	(96)
Amortisation charge	(27)	(1)	–	(28)
Disposals	1	–	–	1
Balance at 30 June 2016	**(118)**	**(5)**	**–**	**(123)**
Carrying amount				
At 30 June 2015	278	31	20	329
At 30 June 2016	**287**	**30**	**16**	**333**
Current	–	–	15	15
Non-current	287	30	1	318

C2. GOODWILL AND ASSET IMPAIRMENT TESTING

Contact has three cash-generating units (CGUs): Generation, Retail and LPG. The Retail and LPG CGUs include goodwill of $179 million and $3 million respectively, which is unchanged from the prior reporting period. Capital work in progress (CWIP) includes $95 million (2015: $129 million) related to future generation developments not allocated to a CGU.

Every reporting period management estimates the value expected to be recovered from Contact's CGUs and future generation development in CWIP. If this recoverable value is lower than the CGU or asset's carrying value an impairment must be recognised. An impairment is also recognised when an asset is classified as held for sale and the expected net sale proceeds are lower than its carrying value.

Determining value in use involves estimating future cash flows for each CGU. The cash flows are adjusted for future growth based on historical inflation and discounted at a post-tax discount rate of 7 – 9% to arrive at the present value, or recoverable amount, of each CGU.

The key inputs to each CGU's cash flows are:

Retail and LPG CGUs

Customer numbers and churn	Actual customer numbers adjusted for historical churn data and expected market trends
Margin per customer	Actual margin per customer adjusted for expected market changes
Cost of purchased energy	ASX future electricity prices adjusted for location and seasonal shape Contracted and/or market LPG prices

Generation CGU

Generation volume and mix	Generation strategy based on expected demand, hydro volumes and expected market pricing
Amount received for generated electricity	ASX future electricity prices adjusted for location and seasonal shape for periods quoted on the ASX market, or prices estimated based on an analysis of expected demand and cost of new supply for periods not quoted on the ASX market
Gas price	Contracted gas prices otherwise Contact's best estimate of future prices

A change in future wholesale electricity prices used to determine Generation CGU cash flows could affect the amount Contact receives for its generated electricity. A systemic reduction in wholesale electricity prices may result in an impairment of the Generation CGU.

Wholesale electricity prices are influenced by a number of factors that are difficult to predict. In particular, weather can impact short term prices. Wholesale electricity prices may also be adversely affected by a reduction in demand, the availability of fuel and generation capacity in the wholesale electricity market, competitor and transmission system availability. This could affect both the volume of energy Contact can generate as well as the price it receives for generation. Whether Contact is adversely affected will depend on the specific circumstances and how those circumstances impact Contact's portfolio.

The future generation development valuations use the same key inputs as the Generation CGU plus an estimate of plant commissioning costs.

During the reporting period, an impairment was recognised when the Otahuhu power station was classified as held for sale (note A2). The Taheke geothermal development was fully impaired (note A2).

No impairments were recognised in the prior period.

D. Our Financial Risks

Contact's financial risk management system mitigates the exposure to market, credit and liquidity risks by ensuring that material risks are identified, the financial impact is understood and tools and limits are in place to manage exposures. Written policies provide the framework for Contact's financial risk management system.

D1. MARKET RISK

Interest rate risk

Contact has issued fixed and floating rate debt so is exposed to movements in interest rates. For fixed rate debt the exposure is to falling interest rates as we could have secured that funding at lower rates, while for floating rate debt there is uncertainty of future cash flows.

Contact manages these risks through the use of interest rate swaps (IRS) and cross currency and interest rate swaps (CCIRS) to ensure that the total debt portfolio has an appropriate amount of fixed and floating rate debt. The risk is monitored by assessing the notional amount of debt on a fixed and floating basis and ensuring this is in accordance with set policies.

Foreign exchange risk

Contact is exposed to movements in foreign exchange rates through its commitments to pay offshore suppliers and USPP note holders.

To mitigate the risk, forward foreign exchange contracts are used to secure a foreign exchange rate and fix future cash flows in NZD terms. Foreign debt is hedged through the use of CCIRS, which converts the foreign currency principal and interest payments to NZD at a fixed foreign exchange rate.

Commodity price risk

Contact is exposed to electricity price risk through the sale and purchase of electricity on the wholesale electricity market. Contact's integrated generation and retail business provide a natural hedge for most of this exposure. Derivatives may be used to fix the price at which Contact buys or sells any residual exposure to electricity price risks. The hedged residual exposure is measured as the aggregate notional volume of outstanding fixed volume electricity price derivatives. In addition, Contact is party to fixed price, variable volume electricity price derivatives to provide cover in extreme price situations.

Contact is also exposed to LPG price risk on its LPG purchases and may use derivatives to fix the price of LPG.

Summary of exposures

A summary of Contact's notional market risk exposure at the reporting period end is provided below:

Derivative used	Unit	Maturities	2016	2015
CCIRS	$m	2017 – 2029	560	560
Foreign exchange derivatives	$m	2017 – 2018	35	29
IRS – floating exposure	$m	2017 – 2020	472	673
IRS – fixed exposure	$m	2017 – 2024	1,131	994
Electricity price derivatives	GWh	2017 – 2031	8,544	4,533
LPG price derivatives	tonnes	n/a	–	29,960

The notional exposure for electricity price derivatives in the table above does not include fixed price, variable volume contracts.

Sensitivities

The table below summarises the impact on derivative valuations of possible changes in forward wholesale electricity prices, forward LPG prices, forward foreign exchange rates and forward interest rates. The analysis assumes that all variables were held constant except for the relevant market risk factor.

Favourable/(unfavourable) $m		2016	2015
Impact on cash flow hedge reserve (CFHR)			
Forward electricity and LPG prices	+10%	(16)	(1)
	-10%	16	1
Forward foreign exchange rates	+10%	(2)	(2)
	-10%	2	2
Impact on post-tax profit/(loss)			
Forward interest rates	+100bps	21	23
	-25bps	(6)	(6)
Forward electricity prices	+10%	(8)	2
	-10%	–	(2)

Fair value of derivatives

The fair value of derivatives used to hedge risk, categorised by accounting treatment, is provided below:

$m	2016 Asset	2016 Liability	2015 Asset	2015 Liability
Fair value hedges				
CCIRS	72	(17)	56	(12)
IRS	14	–	6	–
Cash flow hedges				
CCIRS – margin	2	(4)	6	(5)
Foreign exchange derivatives	–	(4)	3	–
Electricity and LPG price derivatives	17	–	4	(2)
Derivatives not designated in hedge relationships				
IRS	3	(79)	4	(58)
Electricity price derivatives	2	(2)	5	(4)
	110	**(106)**	**84**	**(81)**
Current	22	(24)	15	(28)
Non-current	88	(82)	69	(53)

The change in fair value of derivatives is provided below:

$m	2016 Profit/ (loss)	2016 CFHR	2015 Profit/ (loss)	2015 CFHR
CCIRS	11	–	164	–
IRS	8	–	10	–
Fair value adjustment to borrowings	(17)	–	(181)	–
Fair value hedges	**2**	**–**	**(7)**	**–**
CCIRS – margin	–	(3)	–	11
Foreign exchange derivatives	–	(7)	–	4
Electricity and LPG price derivatives	–	15	–	(3)
Tax on change in fair value	–	(3)	–	(2)
Cash flow hedges	**–**	**2**	**–**	**10**
IRS	(22)	–	(32)	–
Electricity price derivatives	(1)	–	2	–
Derivatives not designated in hedge relationships	**(23)**	**–**	**(30)**	**–**
Total fair value movement	**(21)**	**2**	**(37)**	**10**

Further information on fair value and accounting for derivatives is provided in note E7.

D2. CREDIT RISK

Total credit risk exposure is measured by the notional amount of financial instruments in an asset position of $314 million (2015: $303 million).

To minimise credit risk exposure, we have a policy to only transact with credit worthy counterparties and do not exceed internally imposed exposure limits to any one counterparty. Where appropriate, collateral is obtained. Further information on customer related credit risk is provided in note E4.

D3. LIQUIDITY RISK

To reduce liquidity risk, Contact maintains a diverse portfolio of funding, debt maturities are spread over a number of years and any new financing or refinancing requirements are addressed with an appropriate lead time. In addition, Contact maintains a buffer of undrawn bank facilities over its forecast funding requirements to enable it to meet any unforeseen cash flows.

Contact monitors the available liquidity buffer by comparing forecast cash flows to available facilities to ensure a liquidity buffer is maintained in accordance with internal limits.

Information on contracted cash flows in the tables below is presented on an undiscounted basis.

2016 $m	Total contractual cash flows	Less than 1 year	1 – 2 years	2 – 5 years	More than 5 years
Trade and other payables	(220)	(220)	–	–	–
Borrowings	(2,088)	(369)	(408)	(478)	(833)
Finance lease liabilities	(46)	(4)	(4)	(8)	(30)
Electricity price derivatives – net settled	41	17	10	14	–
IRS – net settled	(134)	(31)	(30)	(63)	(10)
Foreign exchange derivatives – inflow	51	50	1	–	–
Foreign exchange derivatives – outflow	(56)	(55)	(1)	–	–
CCIRS – inflow	803	25	25	126	627
CCIRS – outflow	(749)	(24)	(136)	(129)	(460)
	(2,398)	**(611)**	**(543)**	**(538)**	**(706)**

2015					
Trade and other payables	(212)	(212)	–	–	–
Borrowings	(2,140)	(538)	(397)	(551)	(654)
Finance lease liabilities	(50)	(4)	(4)	(9)	(33)
Electricity price derivatives – net settled	4	1	3	–	–
IRS – net settled	(24)	(6)	(4)	(11)	(3)
Foreign exchange derivatives – inflow	31	28	3	–	–
Foreign exchange derivatives – outflow	(29)	(26)	(3)	–	–
CCIRS – inflow	943	169	26	160	588
CCIRS – outflow	(1,015)	(178)	(37)	(212)	(588)
	(2,492)	**(766)**	**(413)**	**(623)**	**(690)**

E. Other Disclosures

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

E1. TAX

Tax expense is made up of current tax expense and deferred tax expense. Current tax expense relates to the current financial reporting period while deferred tax will be payable in future periods.

Tax is recognised in profit, except when it relates to items recognised directly in other comprehensive income (OCI).

$m	2016	2015
Profit/(loss) before tax	(106)	162
Tax at 28%	30	(45)
Tax effect of adjustments:		
– Non-taxable sale of land	9	–
– Reinstatement of tax depreciation on powerhouses	4	16
– Other	(3)	–
Tax (expense)/credit	**40**	**(29)**
Current tax expense	(19)	(7)
Deferred tax expense	59	(22)

Contact's deferred tax liability is calculated as the difference between the carrying value of assets and liabilities for financial reporting purposes and the values used for taxation purposes.

$m	PP&E and Intangible assets	Derivative financial instruments	Other	Total
Balance at 1 July 2014	(791)	7	16	(768)
Recognised in profit/(loss)	(31)	11	(2)	(22)
Recognised in OCI	–	(2)	–	(2)
Balance at 30 June 2015	**(822)**	**16**	**14**	**(792)**
Recognised in profit/(loss)	44	6	9	59
Recognised in OCI	–	(3)	–	(3)
Balance at 30 June 2016	**(778)**	**19**	**23**	**(736)**

E2. OPERATING EXPENDITURE

Operating leases

Operating leases relate to the rental of buildings, plant and equipment and vehicles on normal commercial terms and conditions. Rental expenses of $5 million (2015: $6 million) are included in other operating expenses (note A2).

$m	2016	2015
Less than 1 year	5	6
Between 1 and 5 years	15	16
More than 5 years	3	7
Total operating lease commitments	**23**	**29**

Other operating expenses

Other operating expenses (note A2) include contributions to KiwiSaver of $3 million (2015: $3 million).

Audit fees paid to Contact's auditors (KPMG) of $483,000 for review of the interim and audit of the year end Financial Statements (2015: $564,723) and $4,500 for scrutineering at the Annual meeting (2015: $3,850 for tax compliance).

E3. INVENTORY

Contact's inventories include gas in storage at the Ahuroa gas storage facility for use in thermal generation. At 30 June 2016, Contact wrote inventory gas down by $43 million to net realisable value (NRV). This write down is excluded from underlying profit (note A2).

Inventory gas NRV is based on the value Contact expects to realise for the gas through electricity production. This is estimated as thermal generation revenue (based on ASX futures prices) less forecast operating, transmission and carbon costs.

$m	2016	2015
Inventory gas	90	148
Consumables and spare parts	8	10
LPG	3	2
Diesel fuel	3	3
	104	**163**
Current	58	64
Non-current	46	99

Consumables and spare parts for power stations, LPG fuel for sale and diesel fuel for use in the Whirinaki power plant are stated at cost and are all classified as current assets.

Inventory gas is split between current and non-current based on expected future and past actual gas usage. At 30 June 2016, Contact expects to use 40% of the gas held in storage within 1 year of the end of the reporting period (2015: 30%).

E4. TRADE AND OTHER RECEIVABLES

$m	2016	2015
Trade receivables	91	110
Unbilled receivables	101	115
Provision for impairment	(5)	(10)
Net trade receivables	**187**	**215**
Prepayments	2	2
Other receivables	12	–
	201	**217**

Unbilled receivables represent Contact's best estimate of retail sales for unread electricity and gas meters at the end of the reporting period. The estimate uses the consumption history of customer meters.

Contact recognises a provision for impairment of trade receivables for each category of aged debt based on historical delinquency rates across the customer base. When Contact has been unable to recover aged debt it is written off.

$m	2016	2015
Not past due	161	177
0 – 30 days past due	13	21
30 – 90 days past due	5	10
Over 90 days past due	8	7
	187	**215**

Bad debts net of recoveries of $9 million (2015: $12 million) were recognised during the reporting period.

E5. PROVISIONS

Contact has restoration and environmental rehabilitation provisions that represent the expected costs to abandon and restore geothermal wells, generation and LPG sites and to remove asbestos from properties.

$m	Restoration/ environmental rehabilitation	Other	Total
Balance at 1 July 2015	57	2	59
Created	1	1	2
Utilised	(4)	–	(4)
Released	(9)	–	(9)
Unwind of discount	6	–	6
Balance at 30 June 2016	**51**	**3**	**54**
Current	8	2	**10**
Non-current	43	1	**44**

These provisions are based on estimates of future cash flows to make good the affected sites at the end of the assets' useful lives. The expected future cash flows are discounted to their present value using a pre-tax discount rate equivalent to a post-tax rate of between 7 and 9%.

E6. PROFIT/(LOSS) TO OPERATING CASH FLOWS

$m	2016	2015
Profit/(loss)	**(66)**	**133**
Depreciation and amortisation	201	204
Change in fair value of financial instruments	21	37
Asset impairments	36	–
Write-down of inventory gas	43	–
Otahuhu power station closure and sale	217	–
Gain on sale of assets	–	(2)
Net interest expense	101	98
Bad debt expense	14	15
Movement in deferred tax	(59)	22
Share-based compensation	5	4
Other	2	(4)
Changes in assets and liabilities, net of non-cash, investing and financing activities		
Trade and other receivables	16	59
Inventories	13	6
Trade and other payables	(7)	(45)
Tax	19	(37)
Operating cash flows	**556**	**490**

E7. FINANCIAL INSTRUMENTS AT FAIR VALUE

All derivatives are shown gross by instrument in the Statement of Financial Position (and in note D1) because Contact does not have a legally enforceable right to set off its assets and liabilities with the same counterparty, except in the event of default. The fair values of derivatives netted by counterparty are:

$m	2016 Asset	2016 Liability	2015 Asset	2015 Liability
CCIRS	67	(12)	53	(9)
CCIRS – margin	1	(3)	6	(5)
Foreign exchange derivatives	–	(4)	3	–
IRS	14	(76)	6	(54)
Electricity and LPG price derivatives	18	(1)	7	(4)
	100	**(96)**	**75**	**(72)**

Fair value

Contact uses discounted cash flow valuations to estimate the fair value of all derivatives and of borrowings for disclosure purposes. The key variables used in these valuations are forward prices (for the relevant underlying interest rates, foreign exchange rates, and wholesale electricity and LPG prices) and discount rates.

All inputs are sourced or derived from market information except for forward wholesale electricity prices which are:

- derived from ASX market quoted prices adjusted for Contact's estimate of the effect of location and seasonality, or
- estimated based on an analysis of expected demand and cost of new supply for periods not quoted on the ASX market.

The following table provides a breakdown of derivatives by the source of key valuation inputs:

$m	2016	2015
Sourced from market data	–	(1)
Derived from market data	(5)	2
Electricity price estimates	9	2
	4	**3**

The electricity price derivatives most affected by estimates are reconciled below:

$m	2016	2015
Opening balance	2	1
Gain/(loss) in profit/(loss):		
– wholesale electricity revenue	(2)	–
– change in fair value of financial instruments	(1)	1
Gain in OCI	1	–
Instruments issued	9	–
Closing balance	**9**	**2**

Initial recognition difference

Contact has an agreement in place with Meridian Energy Limited for the supply of 80MW of electricity, which forms part of the electricity required by New Zealand Aluminium Smelters to operate its Tiwai smelter. This agreement is for a period of up to 14 years and is recognised as an electricity price derivative at fair value.

The fair value of this agreement takes into account management's estimate of future electricity prices and other quoted information, e.g. future carbon and aluminium prices.

An initial recognition difference arises when the fair value of the derivative differs from its transaction price. The difference is accounted for by recalibrating the fair value by a fixed percentage to arrive at a value at inception equal to the transaction price.

The calibration adjustment is applied to future valuations and reflects the estimated future gains or losses yet to be recognised in the Statement of Comprehensive Income (SOCI) over the remaining life of the agreement. The change in calibration adjustment is provided in the table below:

$m	2016	2015
Opening difference	2	–
Initial differences in new hedges	(24)	2
Changes for future prices and time	5	–
Closing difference	**(17)**	**2**

Fair value hedges

The interest rate swaps Contact enters into to manage its interest rate risk meet the criteria for hedge accounting where they directly relate to issued debt and the terms of the derivative match the debt. The hedge is against future fair value movements in the debt and can be for a portion of the debt. Contact has designated all its USPP notes, $100 million of wholesale bonds and $174 million of retail bonds in fair value hedge relationships.

Both the hedging instrument (IRS) and the hedged risk are recognised at fair value. The change in the fair value of both items offset in change in fair value of financial instruments in the SOCI to the extent the hedging relationship is effective.

Cash flow hedges

The derivatives used to manage commodity price risk and foreign exchange risk usually qualify for cash flow hedge accounting.

Only the derivative is recognised at fair value with the effective portion of all changes in fair value recognised in the cash flow hedge reserve. Any ineffective portion is recognised immediately in profit/(loss). Amounts recognised in the cash flow hedge reserve are reclassified to profit /(loss) or Statement of Financial Position according to the nature of the hedged item.

Refer below for a reconciliation of the movement in the cash flow hedge reserve.

$m	2016	2015
Opening balance	5	(5)
Effective portion of cash flow hedges	5	7
Transferred to revenue	(6)	4
Transferred to deferred tax	3	(1)
Closing balance	**7**	**5**

Derivatives not in hedge relationships

These include IRS not attached to specific debt and electricity price derivatives purchased as part of a requirement to participate in the ASX futures electricity market. All changes in fair value of these derivatives are recognised directly in profit/(loss).

E8. FINANCIAL INSTRUMENTS AT AMORTISED COST

The value of financial instruments carried at amortised cost is provided in the table below.

$m	2016	2015
Cash and cash equivalents	5	4
Trade and other receivables	199	215
Trade and other payables	(220)	(212)
Borrowings	(1,623)	(1,694)

E9. SHARE-BASED COMPENSATION

Equity Scheme

Contact provides an equity award made up of options, performance share rights (PSRs) and deferred share rights (DSRs) to certain eligible employees. If performance hurdles are met, the awards vest and become exercisable. On exercise, PSRs and DSRs convert to ordinary shares at no cost to the employee and options convert on payment of the agreed exercise price. The awards lapse if the performance hurdles are not met, if they are not exercised by the lapse date or if an employee voluntarily leaves Contact. The scheme continues on redundancy but the entitlements are adjusted.

The table below provides a reconciliation of the number of outstanding options and their weighted average exercise price.

	Options	
	Number outstanding	Price
Balance at 1 July 2014	14,752,055	$5.41
Granted	1,263,498	$5.94
Exercised	(12,458)	$5.46
Lapsed	(2,539,672)	$5.54
Balance at 30 June 2015	**13,463,423**	**$5.44**
Balance at 1 July 2015	13,463,423	$5.44
Granted	1,012,408	$4.92
Exercised	–	–
Lapsed	(3,474,844)	$5.61
Balance at 30 June 2016	**11,000,987**	**$5.34**

The table below provides a reconciliation for the number of outstanding PSRs and DSRs. The exercise price of these awards is nil.

Number outstanding	PSRs	DSRs
Balance at 1 July 2014	2,724,916	–
Granted	219,108	417,483
Exercised	(37,652)	–
Lapsed	(430,042)	(21,969)
Balance at 30 June 2015	**2,476,330**	**395,514**
Balance at 1 July 2015	2,476,330	395,514
Granted	314,660	341,861
Exercised	(2,476,330)	(395,514)
Lapsed	(20,344)	(27,691)
Balance at 30 June 2016	**294,316**	**314,170**

At 30 June 2016, 10,028,742 share options were exercisable. The exercisable share options have a weighted average exercise price of $5.38.

Share options had a weighted average remaining life of 2 years (2015: 2 years and 2 months), PSRs had 4 years and 4 months (2015: 2 years) and DSRs had 1 year and 5 months (2015: same).

Contact Share

Contact Share is Contact's employee share ownership plan that enables eligible employees to acquire a set number of Contact's ordinary shares. The shares are acquired on market and legally held by a trustee company for a restrictive period of three years, during which time the employee is entitled to receive distributions and direct the exercise of voting rights that attach to shares held on their behalf.

At the end of the restrictive period the shares are transferred to the employee. Employees who leave Contact due to redundancy, and in certain other circumstances, have their shares transferred at that time; all other employees who leave Contact have their shares transferred to an unallocated pool. Shares in the unallocated pool can be used by the trustee company for future allocations under Contact Share.

Number outstanding	Restricted Shares
Balance at 1 July 2014	157,056
Granted	127,968
Exercised	(10,320)
Balance at 30 June 2015	**274,704**
Balance at 1 July 2015	274,704
Granted	148,277
Exercised	(20,551)
Balance at 30 June 2016	**402,430**

At 30 June 2016, none of the awards were exercisable.

Share-based compensation expense

The current reporting period's expense was $5 million (2015: $4 million), of which $1 million was excluded from underlying profit as part of transition costs (note A2).

The share-based compensation expense is based on the fair value of the awards granted adjusted to reflect the number of awards expected to vest. The fair values of awards granted during the reporting period are:

$	2016	2015
Share options	0.61	0.57
PSRs	3.16	3.64
DSRs	4.51	5.24
Contact Share	4.92	5.93

Key inputs in determining the fair values are:

	2016	2015
Risk-free interest rate	3%	4%
Expected dividend yield	5%	6%
Expected share price volatility	22%	19%

E10. RELATED PARTIES

Contact's related parties include Directors, the Leadership Team and Rockgas Timaru Limited. In August 2015, Origin sold its majority shareholding in Contact. Transactions with Origin up to that point, and all other related party transactions are disclosed in the table below.

Received/(paid) $m	2016	2015
Origin and its subsidiaries		
Purchase of LPG	(6)	(24)
SAP infrastructure and data services costs	(1)	(6)
Sale of electricity	–	6
Rockgas Timaru Limited		
Sale of LPG	1	1
Key management personnel		
Directors' fees	(1)	(1)
Leadership Team – salary and other short-term benefits	(5)	(6)
Leadership Team – share-based compensation expense	(2)	(1)
Balances payable at end of the year		
Origin and its subsidiaries	–	(2)
Key management personnel	(1)	(1)

Members of the Leadership Team purchase electricity and gas from Contact for domestic purposes on normal commercial terms and conditions with staff discount.

Contact wholly owns Rockgas Limited, which holds 50% of Rockgas Timaru Limited. Both entities are LPG retailers.

During the reporting period Contact Wind Limited and Contact Aria Limited, both wholly owned dormant subsidiaries, were amalgamated into Contact Energy Limited.

E11. CONTINGENT LIABILITIES

Contact has identified potential non-compliance with the Holidays Act 2003 in respect of payments to current and previous employees. Management is in the process of investigating and quantifying the extent of the non-compliance.

E12. NEW ACCOUNTING STANDARDS

Contact has chosen not to early adopt NZ IFRS 15 *Revenue from Contracts with Customers*, NZ IFRS 9 *Financial Instruments* (both effective for the year ending 30 June 2019) and NZ IFRS 16 *Leases* (effective for the year ending 30 June 2020). The standards are likely to have an impact on our Financial Statements when adopted but this has not yet been assessed.

Independent Auditor's Report

TO THE SHAREHOLDERS OF CONTACT ENERGY LIMITED

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Opinion

We have audited the consolidated Financial Statements of Contact Energy Limited (the Company) and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 30 June 2016, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated Financial Statements, including significant accounting policies.

In our opinion, the accompanying consolidated Financial Statements present fairly, in all material respects, the consolidated financial position of the Group as at 30 June 2016, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) and International Financial Reporting Standards (IFRS).

This report is made solely to the shareholders as a body. Our audit work has been undertaken so that we might state to the Company's shareholders those matters we are required to state to them in the auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company's shareholders as a body, for our audit work, this report or any of the opinions we have formed.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) (ISAs (NZ)). Our responsibilities under those standards are further described in the *Auditor's Responsibilities* section of our report. We are independent of the Group in accordance with the Professional and Ethical Standard 1 (Revised) *Code of Ethics for Assurance Practitioners* issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants (IESBA Code)* and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our firm has provided other assurance services in relation to trustee reporting and annual meeting scrutineering to the Company and Group. Subject to certain restrictions, partners and employees of our Firm also deal with the Group on normal terms within the ordinary course of trading activities of the business of the Group. These matters have not impaired our independence as auditor of the Group. The firm has no other relationship with, or interest in, the Group.

Audit Approach and Scoping

The context for our audit is set by the Group's major activities in 2016. The Group had a continued focus on realising benefits from its investments in its retail customer business and strategic reviews of its generation portfolio in light of sector changes and any associated risk exposures.

The scope of our audit is designed to ensure that we perform adequate work to be able to give an opinion on the consolidated Financial Statements as a whole, taking into account the structure of the Group, the financial reporting systems, processes and controls, and the industry in which it operates.

Audit Materiality

The scope of our audit was influenced by our application of materiality. Materiality helped us to determine the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and on the consolidated Financial Statements as a whole. The materiality for the consolidated Financial Statements as a whole was set at $12.5 million determined with reference to a benchmark of Group profit before tax adjusted for certain significant non-recurring items. We chose adjusted profit before tax as the benchmark as the Group is a profit oriented business and we consider this represents a key measure of its performance.

In identifying the non-recurring items to be excluded we reviewed the significant items reported by the Company considering the magnitude and nature of these items. On that basis we excluded the Otahuhu power station closure and sale of $217 million (refer note A2 of the Financial Statements) from profit before tax in determining materiality.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated Financial Statements in the current period. We summarise below those matters, our key audit procedures to address those matters and our findings from those procedures in order that the Group's shareholders as a body may better understand the process by which we arrived at our audit opinion. Our findings are the result of procedures undertaken in the context of and solely for the purpose of our statutory audit opinion on the consolidated Financial Statements as a whole and we do not express discrete opinions on separate elements of the consolidated Financial Statements.

Key audit matter: Carrying value of cash-generating units

(inclusive of $182 million of goodwill). Note C2 of the Financial Statements.

The Group splits its business into three cash-generating units (CGUs) for the purpose of asset impairment testing. The value of each CGU, including any allocated goodwill, is supported by a discounted cash flow model which is inherently subjective.

The key judgements in that model are future electricity prices and volumes, forecast operating and asset costs, terminal growth rate and the discount rate applied to the future cash flows.

We focused primarily on the Generation CGU due to the significance of the assets to the statement of financial position.

Our procedures to address the key audit matter and findings:

Our work to assess whether the Group should recognise any impairment to the CGUs included ensuring the methodology adopted in the model is consistent with accepted valuation approaches. We also assessed whether the modelled cash flows appropriately reflect the Group's strategy and budget.

We reviewed and tested the significant judgements in the modelled cash flows supporting the Generation CGU, including comparing future prices to external market projections, comparing future volumes to historical volumes and comparing operating costs and asset renewal costs to budget and external analysts' expectations. We also compared the discount rate used to our own independently determined rate.

We challenged the assumptions by performing a sensitivity analysis, considering a range of likely outcomes based on various scenarios.

As an overall test we compared the Group's net assets at 30 June 2016 of $2,823 million to its market capitalisation of $3,706 million at 30 June 2016 and noted an implied headroom of $875 million.

Based on our analysis, the future prices, and volumes, forecast operating and asset costs, terminal growth rate and the discount rate assumptions used by management were within an acceptable range and in line with the current market view. We did not identify any material issues with the carrying value of CGUs, the accuracy of the impairment assessment and the disclosures in the Financial Statements.

Key audit matter: Net realisable value of inventory gas

($43 million impairment) Note A3 of the Financial Statements.

The Group determines the value of its inventory gas based on it being a cost or input to electricity production.

The net realisable value of inventory gas is considered to be a key audit matter due to the reliance on management's strategy for using inventory gas to support its carrying value and its significance to the Group's consolidated statement of financial position.

The key judgements that have the largest impact on determining net realisable value are, management's intended strategy for usage, forward electricity prices, and the operating costs of thermal generation plants.

Our procedures to address the key audit matter and findings:

To assess the value of inventory gas through electricity production our work included ensuring whether management's cash flow forecasts are consistent with the Group strategy and budget; comparing the modelled forward electricity price to external price paths and comparing operating costs of thermal generation plants to prior periods.

We also compared the carrying value to the historical realised and observed usage and benchmarked the assessed net realisable value to prices of other material sources of gas supply.

We are satisfied with the overall assessment of net realisable value of inventory gas and that the assumptions used in calculating write-down were within an acceptable range.

Key audit matter: Capital work in progress carrying value

($215 million) Note C1 and ($38 million impairment) Note A3 of the Financial Statements.

We focused on the capitalisation of costs and recoverability of capital work in progress, with a focus on geothermal projects that are held for future development.

We consider this a key audit matter because of the significance of the assets to the Group's Statement of Financial Position, and due to the level of judgement involved, principally, the initial capitalisation or expensing of costs and the assumptions modelled to determine future economic feasibility of major projects; management's intention for continued investment in the project and consistency with the Group's current investment strategy.

Our procedures to address the key audit matter and findings:

In assessing the recoverability of the Group's capital work in progress our audit procedures included, examining the controls surrounding application of accounting policies to capitalise or expense project spend, testing expenditure on a sample basis to assess whether asset additions were capital in nature, ensuring that carrying value of capital work in progress is supported by appropriate valuation models and reviewing underlying valuation assumptions.

As an overall check we reviewed minutes of board and executive management meetings to ensure there is continued support for development of future generation development projects.

We found the impairment of the Taheke project to be appropriate and are satisfied with the judgments and assumptions supporting the recoverability of capital work in progress.

Key audit matter: Revenue recognition – estimation of unbilled revenue and receivables

($101 million) Note E4 of the Financial Statements.

As customer billing cycles are not aligned to the end of reporting period management is required to estimate the unbilled receivable in relation to electricity and gas revenue.

The estimation of revenue that has not been billed to customers is considered a key audit matter due to its significance to profit and the judgment involved in estimating each customer's electricity and gas consumption since their last bill.

Our procedures to address the key audit matter and findings:

Our audit procedures to assess the estimate of unbilled revenue and receivables included ensuring the unbilled revenue reconciles to the underlying billing system, assessing the methodology used to calculate the unbilled revenue and recalculating a sample of the unbilled receivables at the individual customer level, performing trend analysis and comparing the unbilled receivable to forecasted expectation; and, comparing the purchased gas and electricity volumes to the sold gas and electricity volumes assumed in the unbilled sales accrual and comparing the unbilled sales accrual to revenue.

We found the estimate of unbilled revenue and receivables to be balanced.

Information other than the Consolidated Financial Statements and Auditor's Report

The directors are responsible for the other information. The other information comprises the directors' report, statutory information, sustainability reporting, five year summary and statistics and corporate governance policies.

Our opinion on the consolidated Financial Statements does not cover the other information and we do not express any form of audit opinion or assurance conclusion thereon.

In connection with our audit of the Financial Statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the Financial Statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Directors' Responsibilities for the Consolidated Financial Statements

The directors are responsible on behalf of the entity for the preparation and fair presentation of the consolidated Financial Statements in accordance with NZ IFRS, and for such internal control as the directors determine is necessary to enable the preparation of consolidated Financial Statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated Financial Statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated Financial Statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (NZ) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated Financial Statements.

A detailed description of the auditors' responsibilities including those related to assessment of risk of material misstatement, evaluation of appropriateness of going concern assumptions and determining key audit matters are available on the External Reporting Board website: https://www.xrb.govt.nz/Site/Auditing_Assurance_Standards/Current_Standards/Page1.aspx

KPMG

David Gates (Partner)
For and on behalf of KPMG
Wellington
12 August 2016

Sustainability Reporting

Report Content

Contact's 2016 Annual Report is an integrated sustainability report which has been developed in accordance with the core GRI-G4 guidelines. Contact took a stakeholder led approach to define the non-financial content reported. For the purpose of this report we spoke to people who represented each of our key stakeholder groups to ask what mattered to them. We then considered their feedback alongside the potential risks, opportunities and priorities for Contact, and undertook a thematic analysis, and reviewed it for completeness, sustainability context, materiality and stakeholder inclusiveness. We believe the content of this report reflects the most material issues for Contact.

STAKEHOLDER ENGAGEMENT

Contact's stakeholder groups have been identified as the major groups who are impacted by our operations, or who have a stake in how we run. There is regular ongoing dialogue with our stakeholders, we also have a Stakeholder Council with whom we meet twice per year.

Our key stakeholder groups, their issues and our responses are outlined in the following table.

Stakeholders	How they talk to us	Key issues	Contact's response
Customers	• Through our contact centres, email, phone, website, social media and post • Surveys and market research • Conversations with employees	• Choice, certainty and control • Customer service • Competitive pricing • Value for money	Our approach to these issues is outlined on pages 30 and 31.
Investors	• Investor meetings • AGM • Email, phone, website, social media and post enquiries • Contact with our registry	• Earnings growth • Efficient capital management • Delivering a strong dividend	Our approach to these issues is outlined on pages 28 and 29.
Employees	• Email, meetings, conversations and intranet • Surveys such as our annual engagement survey, and regular PING surveys	• Delivering on our promises • Being valued, respected and safe • Training and development opportunities	Our approach to these issues is outlined on pages 36 and 37.
Partners and suppliers	• Emails, meetings, phone calls, and conversations	• Maintaining positive relationships with Contact • Understanding our needs as a customer	Each business unit manages their external supplier relationships, supported by our team of procurement specialists. We work hard to build enduring relationships with our suppliers and take an honest approach to communication.
Local communities	• Local meetings and hui • Letters, emails, social media and phone calls • Consultation relating to consents • Conversations with our people	• Early, open and clear communication • To be a good neighbour, and to be accountable • Building relationships based on trust	Our approach to these issues is outlined on pages 38 and 39.
Tangata whenua (iwi and hapu)	• Hui • Letters, emails and phone calls • Relationship meetings/conversations • Consultation relating to consents	• Resource management, stewardship and ownership • Treaty of Waitangi • Sustainability of resources • Rights and relationships recognised	We have developed a tangata whenua engagement plan to support our work towards improving our relationships with iwi and hapu.
Government, regulatory and political	• Letters, emails and phone calls • Meetings • Consultation processes • Stakeholder sessions	• Competitive retail market • Efficiently operating market • Secure supply of electricity at a reasonable price • Assisting delivering on NZ's energy targets • Freshwater reform and NZETS	Our approach to these issues is outlined on page 79.

The sustainability aspects reported in this annual report cover the operations of Contact Energy Limited and its subsidiary Rockgas within New Zealand for the period 1 July 2015 – 30 June 2016[1].

Contact does not have a policy on the assurance of non-financial or sustainability data. This report has been assured by Deloitte on behalf of the Board, and their Independent Assurance Report can be found on pages 85 and 86.

1. On 30 June 2016, Contact Wind and Contact Aria were amalgamated into Contact Energy.

Sustainability Data

1. Customer numbers

Connections by account type	FY16	FY15
Residential	487,500	482,500
Business	73,500	77,000
Other	1,500	2,500
Total	**562,500**	**562,000**

2. Public policy

Changes to legislation and regulation can have a significant impact on Contact, our customers, shareholders and stakeholders. We have a Government and Regulatory Affairs team who work hard to represent Contact's views to policy makers and regulators, and seek to influence legislation, regulation or policy being developed. This table outlines our key positions on issues that we engaged with regulators on in this financial year.

Issue	Policy position	
Distribution pricing *These are the prices that distributors charge for delivering electricity to consumers.*	Contact made a submission to the Electricity Authority on its review of the implications of evolving technologies on the pricing of distribution services. Contact wants to see a more standardised and simplified approach to distribution pricing that is fit for the future and a shift towards more cost-reflective pricing (e.g. pricing that reflects the costs of providing electricity at different times of the day).	Recognising that such a change will impact on customers we recommended rolling out any changes in a way that keeps customers informed, supports customers to transition safely to a new pricing structure, and has in place a support programme for vulnerable customers.
Input methodologies *These are the building blocks used by the Commerce Commission in their review of how the monopoly electricity distribution businesses recover their costs.*	A review of input methodologies for regulated lines companies is currently being undertaken by the Commerce Commission. Contact's submission focused on the emergence of new technologies and whether the current input methodologies remain fit for purpose for the adoption of these technologies, and whether the current weighted average cost of capital settings (WACC) provides a fair balance of risk and return/cost for consumers and regulated service providers.	Contact's view is that regulatory settings for investment in new technology should promote the best long term outcome for consumers and ensure that there is a level playing field and open access for the provision of new technologies like battery services. In other words networks, retailers and third parties should all be able to provide battery services on the same basis and be able to access market prices for all related services they provide.
Transmission pricing *This is the methodology used by Transpower to allocate transmission costs.*	In May 2016 the Electricity Authority released its second issues paper on the Transmission Pricing Methodology (TPM). The TPM determines which parties pay, and how much they pay for New Zealand's transmission services. Currently, the costs are around $900 million per year for New Zealand.	The paper proposes changes to the way TPM charges are recouped, with the proposal focusing on a move to a beneficiary pays type approach. In late July Contact made a submission supporting the Electricity Authority's proposal at a principled level as well as setting out some of the issues we believe need to be worked through.
Emissions Trading Scheme	Contact made a submission to the NZETS Review in February 2016. Our position is outlined on page 42.	
Fresh water	Contact's position on fresh water can be found at www.contact.co.nz/water. This position formed the basis of our submission to the Waikato Regional Council to assist in the development of their "Let's talk water" document, available on the Waikato Regional Councils website.	

3. Memberships of associations or advocacy organisations

Holds a position on the governance body	Participates in projects or committees
The Electricity and Gas Complaints Commissioner Scheme	Retailers Working Group Forum
Electricity Retailers' Association of New Zealand	Business New Zealand Energy Council
Gas Industry Company	The Sustainable Business Council
	Land and Water Forum

4. Resource consents

This table outlines our resource consent breaches in FY16, all of which were minor. See page 40 for more information.

Description of breach	Scale	Location	Reported to Council	Penalty
Non-toxic spill	Minor	Taranaki – Patea Stream	Yes	Nil
Short term river temperature consent exceedence	Minor	Wairakei	Yes	Nil
Property damage from geothermal output test	Minor	Te Huka	Yes	Nil
Spill of hazardous substance	Minor	Ohaaki	Yes	Nil
Pond leakage	Minor	Wairakei	Yes	Nil
Small discharge of oil to river	Minor	Wairakei	Yes	Nil

5. Contact's direct (Scope 1) emissions

This table reports on greenhouse gas emissions (tCO_2e) directly emitted through our operations (on an operational control basis), including from our power stations, vehicles and use of SF_6, and includes all gases as per the most recent Intergovernmental Panel on Climate Change (IPCC) report. The emissions factors used were from the Ministry for the Environment (2015) *Guidance for Voluntary Corporate Greenhouse Gas Reporting* and the Emissions Trading Scheme (for geothermal). We have used FY12 as the base year to show our emission reductions over time.

	Emissions (tCO_2e)			Thermal Generation Emission Intensity (tCO_2 per MWh)			Total Generation Emission Intensity (tCO_2 per MWh)		
	FY16	FY15	FY12[1]	FY16	FY15	FY12	FY16	FY15	FY12
Fuel used for electricity generation	1,167,091	1,494,819	2,341,574	0.504	0.475[2]	0.433	0.128	0.156[2]	0.234
Fuel used in vehicles	809	900	–						
Fugitive emissions – SF_6[3]	654	–	–						
Total	**1,168,554**	**1,495,719**	**2,341,574**						

1. Vehicle emissions were not recorded in FY12.
2. FY15 data for emissions intensity restated as incorrectly calculated.
3. SF_6 is used to insulate high voltage switchgear. The gas is vacuum sealed inside the switchgear, and the pressure levels inside are monitored so that leaks can be detected and rectified.

6. Workforce by gender and employment type

FY16	Total Headcount	Female	Male	Fixed term	Permanent	Permanent part-time	Permanent full-time
Leadership Team	8	3	5	0	8	0	8
Corporate	168	96	72	10	158	13	145
Customer	526	307	219	60	466	52	414
Generation & Development	336	55	281	20	316	12	304
Total	**1038**	**461**	**577**	**90**	**948**	**77**	**871**

FY15	Total Headcount	Female	Male	Fixed term	Permanent	Permanent part-time	Permanent full-time
Leadership Team	9	3	6	1	8	0	8
Corporate	183	107	76	14	169	13	156
Customer	510	303	207	75	435	46	389
Generation & Development	364	60	304	28	336	11	325
Total	**1066**	**473**	**593**	**118**	**948**	**70**	**878**

7. Employee diversity

	Gender		Age				Ethnicity[1]						
FY16	Female	Male	<30	30 – 49	50 – 59	60+	European	Other inc. NZer	Maori	Asian	Pasifika	AMELA[2]	Undisclosed
Leadership Team	38%	62%	0%	50%	38%	12%	75%	50%	0%	0%	13%	0%	0%
Corporate	57%	43%	5%	69%	18%	8%	40%	38%	7%	7%	1%	1%	25%
Customer	58%	42%	26%	46%	18%	10%	34%	24%	6%	5%	3%	1%	37%
Generation & Development	16%	84%	8%	45%	32%	15%	41%	35%	4%	7%	0%	1%	23%
Total	**44%**	**56%**	**17%**	**49%**	**23%**	**11%**	**38%**	**30%**	**5%**	**5%**	**2%**	**1%**	**30%**

	Gender		Age				Ethnicity[1]						
FY15	Female	Male	<30	30 – 49	50 – 59	60+	European	Other inc. NZer	Maori	Asian	Pasifika	AMELA[2]	Undisclosed
Leadership Team	33%	67%	0%	57%	43%	0%	67%	56%	0%	0%	11%	0%	11%
Corporate	58%	42%	5%	73%	18%	4%	41%	40%	7%	9%	1%	1%	19%
Customer	59%	41%	25%	50%	20%	5%	38%	26%	7%	5%	3%	1%	30%
Generation & Development	16%	84%	11%	44%	31%	13%	41%	37%	3%	6%	0%	1%	22%
Total	**44%**	**56%**	**16%**	**52%**	**24%**	**8%**	**40%**	**32%**	**6%**	**6%**	**2%**	**1%**	**25%**

1. Employees can indicate more than one ethnic group, therefore percentages do not equal 100%.
2. AMELA: Latin American, Middle Eastern, or African.

8. Board and Leadership diversity

	FY16			FY15		
	Male	Female	Total	Male	Female	Total
Board of Directors	3	2	5	5	2	7
	60%	40%	100%	71%	29%	100%
Leadership Team	5	3	8	6	3	9
	62%	38%	100%	66%	34%	100%

	FY16		
	NZ European /Pakeha	Maori	Total
Board of Directors[1]	3	2	5
	60%	40%	100%

1. Board ethnicity data was not recorded in FY15. Leadership Team ethnicity data is included with employee diversity statistics on page 81.

9. Employee absentee rate[1]

	FY16		
	Females	Males	All employees
Total scheduled days	113,365	148,489	261,854
Total absence days	4,335	3,052	7,387
Lost days as a percentage	4%	2%	3%

1. Measures days lost as a percentage of total scheduled work days for employees.

10. Safety data

	FY16	FY15
Occupational Disease Rate – Controlled[1]	0	0
Lost Time Injury Frequency Rate – Controlled[2]	1.5	0.3
Lost Time Injury Frequency Rate – Monitored[2]	5.0	11.0

1. Measures occupational disease as a rate of hours worked for employees and contractors working under our HSE management systems.
2. Measures the rate of days lost by employees and contractors relative to hours worked.

11. Gender pay ratio by business group[1]

	FY16	FY15
Corporate	96.70%	98.40%
Customer	98.50%	99.80%
Generation & Development	96.70%	95.60%
Total	**98.30%**	**99.50%**

1. We measure pay equity difference within salary bands using the average compa-ratio between males and females.

GRI Content Index

General standard disclosures

Disclosure	Description	Page
Strategy and analysis		
G4-1	Statement from the most senior decision maker	CEO & Chairs Q&A pp.4-7
Organisational profile		
G4-3	Name of the organisation	Contact Energy Limited
G4-4	Brands, products, and/or services	Our business pp.16-17
G4-5	Headquarter location	Contact at a glance p.14
G4-6	Countries in operation	Contact operates only in New Zealand
G4-7	Nature of ownership	Listed New Zealand Limited Liability Company
G4-8	Markets served	Contact at a glance pp.14- 17
G4-9	Scale of the organisation	Total employees p.81, contractor workforce data not available Number of operations p.15 Net revenue p.60 GWh sold p.30
G4-10	Employee statistics	Sustainability data pp.81-82, contractor workforce data not available
G4-11	Employees covered by collective bargaining agreements	11% of total Contact Energy employees were covered by collective bargaining agreements as at 30 June 2016. Contractor data not collected
G4-12	Organisation's supply chain	Our business pp.16-17
G4-13	Significant changes regarding size, structure, or ownership	In August 2015 Origin Energy sold its 53% shareholding in Contact. See CEO & Chairs Q&A for other changes
G4-14	Precautionary approach	Not specifically addressed. Potentially adverse environmental impacts are addressed through adaptive management including official (often publicly notified) resource consent assessments
G4-15	External charters, principles, or other initiatives	None noted
G4-16	Memberships in associations and advocacy organisations	Sustainability data p.80
G4-EU1	Installed capacity	Contact at a glance p.15
G4-EU2	Net energy output broken down by primary energy source and by region	Contact at a glance p.15
G4-EU3	Number of customer accounts	Sustainability data p.79
G4-EU4	Length of transmission and distribution lines by region	Not applicable
G4-EU5	Allocation of CO_2 emissions permits	Zero allocations
Identified material aspects and boundaries		
G4-17	Entities included in the organisation's consolidated Financial Statements	Financial statements p.56
G4-18	Process for defining the report content	Report content p.78
G4-19	Material aspects identified	GRI index – specific standard disclosures p.84
G4-20	Aspect boundaries within the organisation	The boundary of almost all material topics is within Contact Energy, apart from occupational health and safety and customer safety where there are impacts created by companies in our supply chain as well as ourselves
G4-21	Aspect boundaries outside the organisation	
G4-22	Restatements of information	FY15 Thermal generation emission intensity data p.80
G4-23	Significant changes in the scope, and aspect boundaries compared to previous years	No significant changes
Stakeholder engagement		
G4-24	Stakeholder groups	Report content p.78
G4-25	Stakeholder identification and selection	Report content p.78
G4-26	Approaches to stakeholder engagement	Report content p.78
G4-27	Key topics and concerns raised by stakeholders	Report content p.78
Report profile		
G4-28	Reporting period	Financial year
G4-29	Date of most recent previous report	The previous report was dated 3 September 2015
G4-30	Reporting cycle	Annual
G4-31	Contact point for questions	Corporate Directory p.87
G4-32	Chosen 'In accordance' option, GRI index and external Assurance Report	Report content p.78
G4-33	External assurance for the report	Letter of Assurance, pp.85-86

Disclosure	Description	Page
Governance		
G4-34	Governance structure	Governance, Principle 3 p.45
Ethics and integrity		
G4-56	Organisation's values, principles, standards and norms of behaviour, and codes of ethics	Our Tikanga p.12-13

Specific standard disclosures

Material Aspect	Description	Page	Omissions and explanations
Category: Economic			
DMA	Economic Performance	pp.28-29, p.42	
G4-EC2	Financial implications of climate change	p.42	
DMA	Availability and Reliability (Sector specific)	pp.32-33	
EU10	Planned capacity against projected electricity demand	pp.32-33, p.15	
Category: Environmental			
DMA	Water	p.41	
G4-EN8	Total water withdrawal by source	p.41	
DMA	Effluents and Waste	p.41	
G4-EN22	Total water discharge by quality and destination	p.41	
DMA	Biodiversity	p.41	
G4-EN13	Habitats protected or restored	p.41	
DMA	Emissions	p.42	
G4-EN15	Direct (Scope 1) Greenhouse gas emissions	p.80	
DMA	Environmental compliance	p.40	
G4-EN29	Non-compliance with environmental laws and regulations	p.40	
Category: Social			
DMA	Occupational Health and Safety	pp.34-35	
G4-LA6	Workplace injuries	pp.34-35, p.82	Contractor data not available for Absentee Rate, Occupational Disease Rate and fatalities.
DMA	Training and Education	pp.36-37	
Own indicator	Performance and career development reviews	pp.36-37	Employee category data not available
DMA	Diversity and Equal Opportunity	pp.36-37	
G4-LA12	Gender and ethnic diversity	pp.81-82	
DMA	Equal remuneration for men and women	pp.36-37	
G4-LA13	Gender pay ratio	pp.36-37, p.82	Leadership Team data not reported. We measure pay equity within salary bands which is not applicable to the Leadership Team.
DMA	Local Communities	pp.38-39	
G4-SO1	Community engagement and development	pp.38-39	
DMA	Public policy	p.79	No donations or in kind contributions were made to any political party. In line with our Gifts and Gratuities policy, donations to any political party should not be made without the approval of the Board.
G4-SO6	Total value of political contributions	p.84	
DMA	Customer health and safety	pp.34-35	
G4-PR2	Incidences of non-compliance	pp.34-35	
DMA	Product and Service Labelling	pp.30-31	
G4-PR5	Customer satisfaction	pp.30-31	
DMA	Access (Sector specific) – socio-economic	pp.30-31	
Own measure	Reduction of customer debt expressed as a percentage	pp.30-31	

Independent Accountant's Assurance Statement

TO THE DIRECTORS OF CONTACT ENERGY LIMITED

REPORT ON THE SUSTAINABILITY CONTENT OF THE 2016 ANNUAL REPORT

We have been engaged by the Directors to conduct a limited assurance engagement relating to the sustainability content of Contact Energy Limited's (the "Company's") 2016 Annual Report (the "Annual Report") for the year ending 30 June 2016.

Board of Director's Responsibility

The Board of Directors of Contact Energy Limited is responsible for ensuring that the Annual Report is presented fairly in accordance with the "Core" requirements of the Global Reporting Initiative's G4 Sustainability Reporting Guidelines ("the GRI G4 Guidelines"). This responsibility includes the design, implementation and maintenance of internal control relevant to the Company's compliance with the GRI G4 Guidelines, as well as:

- ensuring the accuracy and completeness of the information subject to this engagement, including adequate disclosure as required by the GRI G4 Guidelines;
- providing us with all of the information required for us to complete this engagement;
- providing us with unrestricted access to persons within the company from whom we determine it necessary to obtain information;
- the maintenance and integrity of the Contact Energy Limited website where the Annual Report will be hosted, and ensuring that the electronic copy of the Annual Report is not altered post our review;
- determining objectives in respect of sustainability performance;
- establishing and maintaining an effective system of internal control over its operations and reporting, including, without limitation, systems designed to ensure achievement of its control objectives and its compliance with the GRI G4 Guidelines; and
- the fair presentation of the information and statements contained within the Annual Report.

Independent Accountant's Responsibility

Our responsibility is to express an opinion whether, based on the procedures performed:

- Core requirements of the GRI G4 Guidelines — anything has come to our attention that causes us to believe that the 2016 Annual Report content has not been prepared, in all material respects, in accordance with the Core requirements of the GRI G4 Guidelines; and
- GRI G4 Guidelines General and Specific Standard Disclosures — anything has come to our attention that causes us to believe that the information provided in the 2016 Annual Report to meet the requirements of the GRI G4 Guidelines General and Specific Standard Disclosures identified in the GRI Index on pages 83-84 has not been fairly stated, in all material respects.

Our engagement has been conducted in accordance with International Standard on Assurance Engagements (New Zealand) 3000: *Assurance Engagements Other than Audits or Reviews of Historical Financial Information* ("ISAE (NZ) 3000") issued by the New Zealand Auditing and Assurance Standards Board, to provide limited assurance that the 2016 Annual Report complies with the Core requirements of the GRI G4 Guidelines against which the 2016 Annual Report has been assessed in all material respects. Our procedures included:

- A review of the materiality process followed and the list of topics chosen for inclusion in the Report;
  - Interviewing the group level sustainability team responsible for compiling the Annual Report to understand the process used for determining the Annual Report content;
  - Obtaining an understanding of the approach used for determining the material issues to be reported;
  - Considering the results of stakeholder engagement, risk analysis and media searches to assess whether all potential material issues have been considered;
- A review of the adherence to the report content and quality principles outlined in the GRI G4 Guidelines, which includes a consideration of completeness and balance;
- Obtaining an understanding of the process of compiling and validating information received from data and issue owners for inclusion in the Annual Report;
- Review of material quantitative indicators used to demonstrate performance against the material topics, including corroborative enquiry and examination of selected supported documentation and calculations;
- Consideration of material qualitative statements and performing appropriate enquiries or seeking evidence to support the statements;
- Comparing the GRI index table to the GRI G4 Guidelines and the GRI Electric Utilities Sector Supplement (EUSS); and
- Reviewing the contents of the Annual Report against the findings of our work and, as necessary, providing recommendations for improvement.

These procedures have been undertaken to form a conclusion that nothing has come to our attention that causes us to believe that the 2016 Annual Report does not comply, in all material respects, with the Core requirements of the GRI G4 Guidelines for the year ending 30 June 2016.

A limited assurance engagement is substantially less in scope than a reasonable assurance engagement in relation to both the risk assessment procedures, including an understanding of internal control, and the procedures performed in response to the assessed risks.

The procedures performed in a limited assurance engagement vary in nature and timing from, and are less in extent than for, a reasonable assurance engagement. Consequently, the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had a reasonable assurance engagement been performed. Accordingly, we do not express a reasonable assurance opinion about whether the Company's Annual report has been prepared, in all material respects, in accordance with the Core requirements of the GRI G4 Guidelines.

Deloitte.

Inherent Limitations

Because of the inherent limitations of any limited assurance engagement, it is possible that fraud, error or non-compliance may occur and not be detected. A limited assurance engagement is not designed to detect all instances of non-compliance with the Core requirements of the GRI G4 Guidelines as it generally comprises making enquiries, primarily of the responsible party, and applying analytical and other review procedures. The conclusion expressed in this report has been formed on the above basis.

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of Professional and Ethical Standard 1 (Revised): *Code of Ethics for Assurance Practitioners* issued by the New Zealand Auditing and Assurance Standards Board, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

Other than in our capacity as independent accountant in relation to the sustainability content of the Annual Report and the provision of tax advice and consulting services, we have no relationship with or interests in Contact Energy Limited or any of its subsidiaries.

The firm applies Professional and Ethical Standard 3 (Amended): *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance Engagements* issued by the New Zealand Auditing and Assurance Standards Board, and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Use of report

This report is provided solely for your exclusive use and solely for the purpose of attaching this report to your Annual Report. Our report is not to be used for any other purpose, recited or referred to in any document, copied or made available (in whole or in part) to any other person without our prior written express consent. We accept or assume no duty, responsibility or liability to any other party in connection with the report or this engagement including without limitation, liability for negligence in relation to the opinion expressed in this report.

Conclusion

This conclusion has been formed on the basis of, and is subject to, the inherent limitations outlined elsewhere in this independent assurance report.

Based on the evidence obtained from the procedures we have performed:

- Core option of the GRI G4 Guidelines – nothing has come to our attention that causes us to believe that management's assertion that the 2016 Annual Report content is in accordance with the GRI G4 Guidelines Core option has not been fairly stated, in all material respects, for the year ending 30 June 2016; and
- GRI G4 Guidelines General and Specific Standard Disclosures — nothing has come to our attention that causes us to believe that the information provided in the 2016 Annual Report to meet the requirements of the GRI G4 General and Specific Standard Disclosures identified in the GRI Index on pages 83-84 has not been fairly stated, in all material respects, for the year ending 30 June 2016.

Deloitte

Chartered Accountants
15 August 2016
Wellington, New Zealand

This limited assurance report relates to the 2016 Annual Report of Contact Energy Limited for the year ended 30 June 2016 as presented on Contact Energy Limited's website. Contact Energy Limited's Board of Directors is responsible for the maintenance and integrity of Contact Energy Limited's website. We have not been engaged to report on the integrity of Contact Energy Limited's website. We accept no responsibility for any changes that may have occurred to the 2016 Annual Report since it was initially presented on the website. This limited assurance report refers only to the Annual Report named above. It does not provide an opinion on any other information which may have been hyperlinked to/from the Annual Report. If readers of this report are concerned with the inherent risks arising from electronic data communication they should refer to the published hard copy of the Annual Report and related limited assurance statement dated 15 August 2016 to confirm the information included in the Annual Report presented on this website.

Corporate Directory

BOARD OF DIRECTORS

Sir Ralph Norris (Chairman)

Victoria Crone

Whaimutu Dewes

Rob McDonald

Sue Sheldon

LEADERSHIP TEAM

Dennis Barnes
Chief Executive Officer

Graham Cockroft
Chief Financial Officer

Mark Corbitt
General Manager — Information and Communication Technology

Venasio-Lorenzo Crawley
Chief Customer Officer

James Kilty
Chief Generation and Development Officer

Tania Palmer
General Manager — Health, Safety and Environment

Annika Streefland
General Manager — People and Culture

Catherine Thompson
General Counsel

REGISTERED OFFICE

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New Zealand

COMPANY NUMBERS

NZ Incorporation 660760
ABN 68 080 480 477

AUDITOR

KPMG
PO Box 996
Wellington 6140
New Zealand

REGISTRY

Link Market Services Limited is Contact's registrar for shares and bonds. To view your investment portfolio, supply your email address, change your details, or update your payment instructions relating to Contact, please contact Link Market Services Limited.

New Zealand

Email: contactenergy@linkmarketservices.co.nz
Online: investorcentre.linkmarketservices.co.nz
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Sydney South, NSW 1235
Office: 680 George Street, Sydney, NSW 2000
Phone: +61 2 8280 7111
Fax: +61 2 9287 0303
Web: linkmarketservices.com.au

Electronic investor communication

We encourage investors to elect to receive investor communications electronically as it keeps costs down, delivery of our communication to you is faster and it is better for the environment. You can manage your holding online or contact our registry directly to update your information.

Direct crediting of dividends

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

INVESTOR RELATIONS ENQUIRIES

Fraser Gardiner
Head of Investor Relations and Communications
Email: investor.centre@contactenergy.co.nz
Phone: +64 4 499 4001

SUSTAINABILITY

Sustainability enquiries

Kaapua Smith
Sustainability Manager
Email: kaapua.smith@contactenergy.co.nz

Assurer

Deloitte
P O Box 1990
Wellington 6140
New Zealand

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