contact™

2018 Annual Report

The energy that makes the water hot, the milk cold, keeps the warmth in and the darkness out, is nowhere near as vital as the kind we carry within ourselves. Human energy is what makes us different. It's the kind of energy that Contact is built on. And the same energy that sets us apart.

This Annual Report is dated 13 August 2018 and is signed on behalf of the Board by:

Sir Ralph Norris KNZM
Chairman

Sue Sheldon CNZM
Director

Contents

Chairman's Review

As the outgoing chair of Contact's Board of Directors I have the privilege of being able to share my perspective on Contact's business, the industries it operates in, and the challenges and opportunities that lie ahead.

It is fair to say that New Zealand's energy industry is continuing to change at quite a pace.

The already competitive markets that we operate in are getting more competitive. The pace of technological change in both operational segments of Contact's business has dispelled any notions that we can continue to operate on a business-as-usual basis. At the same time, the policy landscape is shifting rapidly too. The change of government in 2017 has sharpened the focus on climate change in the eyes of policy makers and the public alike, and the energy sector is increasingly being expected to play a leading role in moving New Zealand's economy off fossil fuels. Recent developments, like the ban on oil and gas exploration, have shown that if the energy sector doesn't adapt, Government will do it for us.

What this means for Contact is that being adaptable and agile is no longer a guarantee of a winning hand, but merely a place at the table. We are laying the groundwork to lead the low-carbon generation market of the future, while continuing to operate safely and efficiently in the market realities of today. In the Customer business, we are developing products that deliver real value to customers to differentiate Contact in a market where electricity is unfairly seen as a grudge purchase, while also ensuring the most vulnerable in society retain their access to energy.

This is a tough challenge. But it is one Contact is already delivering on, as is evident from the improvements to all the operational metrics and the development of execution capability within the business.

The Board is acutely aware of the scale of the task and pace of change facing our industry, and has proactively developed the capabilities to deliver for shareholders, customers and New Zealand society at large. To ensure we are keeping abreast with the latest developments, three directors and members of the executive team recently travelled to the global technology epicentres of San Francisco, Berlin and London to gain first-hand insight from those who will most likely shape the face of energy in the coming decades.

Since my appointment in 2015, Board composition, continuity and capability have been important considerations for me. It was therefore immensely pleasing that Rob McDonald will step into the chair role after almost three years on the Board. Dame Therese Walsh has also agreed to join the Board as a new independent director. She fills the vacancy left by Sue Sheldon who recently resigned after serving as a director for nine years. The Board and I thank Sue for her service and significant contribution to Contact.

The Customer and Generation businesses are delivering on our strategy by focussing on the controllable aspects of the business with delivery of operational efficiencies.

In FY18, the Generation business delivered record geothermal production and sustainable cost efficiencies through its continuous improvement programme, which has helped offset lower than average hydro generation.

In the Customer business, our brand refresh is an outward manifestation of the customer-centric changes that have been implemented in recent years. The ongoing transformation programme has Contact well on the way to the aspirational target of being New Zealand's most advocated-for energy retailer with the lowest cost to serve.

As a result of this immense effort from our people in the business, operating costs declined by $20 million (8%) in the period, and stay-in-business capital expenditure was $38 million (33%) lower than last year, helping reduce debt by $97 million in the financial year. The delivery of Contact's operational efficiencies, the quality of the generation assets and the strength of the balance sheet have given the Board confidence in the business's ability to generate cash flow, despite the inevitable short-term earnings swings with changes in hydrology illustrated in this year's result. This has seen the Board declare a full year dividend of 32 cents per share, up 23% on last year, and target a FY19 dividend of 35 cents per share, up 9% on FY18.

As I prepare to leave, I see a business well placed for the certainties of the present as well as the uncertain future. Our long-life renewable generation fleet will mean we will continue to play a critical part in reducing New Zealand's greenhouse gas emissions and limiting the negative effects of climate change on our environment. Our dependence on natural resources to generate energy means we will remain a cornerstone business and employer in provincial New Zealand. Our belief that customers are at the heart of every decision means we will continue to provide tailored energy services so that customers can continue to use energy in a way that best suits them. And, ultimately, these efforts culminate in an investment that delivers for shareholders.

Sir Ralph Norris
Chairman

This year has been a noteworthy one for Contact, not least because it marks the last time we will be known by our familiar red brand. In its stead is our new brand, which firmly signals the beginning of our transformation to become a truly digital retailer with the in-house agility to adapt to the evolving needs of our customers. This includes streamlining the channels through which they interact with us, and surprising and delighting them with new products and services that customers value.

It is also a year where the electricity and gas operating environment has tested us. In the Generation business we experienced a second successive year of hydro inflows that were 10% lower than average. Our Customer business continued to compete hard against an ever-growing number of start-up retailers and reinvigorated incumbents. In the face of the challenges, we showed strong financial discipline and reduced the operating and capital spend by $58 million, an incredible effort from our dedicated people. Our lean and low-cost operation sets up Contact for any future and has given the Board the confidence to increase dividends to shareholders after a period of serious investment in assets and systems.

In the last year we also announced two transactions. They stand out to me as key enablers to accelerate the delivery of our strategy: the sale of the Ahuroa Gas Storage (AGS) facility, and the sale of the Rockgas LPG business. Although on face value they seem like simple disposals at a fair price, they build significant flexibility into our business. With AGS we retain access to long-term gas storage services to meet our flexible thermal generation requirements without the need to own and operate a gas storage asset. Similarly, the Rockgas sale frees us up from the fulfilment aspects of the LPG business while still being able to sell the product to our mass market customers, which we know is something they value. The sales proceeds will also strengthen our balance sheet and add resilience to the company.

Focussing on our core areas of advantage will be key to succeeding in today's markets and allowing us to participate in those that are only just starting to emerge. For example, we know the demand for low carbon, reliable, renewable electricity will rise as the economy reduces reliance on fossil fuels and decarbonises. This will need to be balanced against access to affordable energy and we will work with the Government to help shape future policy that will impact our regulatory environment. New technologies will continue to disrupt traditional ways of doing business and provide challenges and opportunities that we need to be prepared for. I can say with confidence we will be ready for them.

CONNECTING WITH CUSTOMERS

The New Zealand energy market remains highly competitive and, with more retailers competing for attention, it is more important than ever that we can distinguish our products and services in the eyes of customers. Our new brand marks the culmination of a number of years of work to reinvent Contact as a truly customer-centric digital energy company from the inside out.

The operational performance of the Customer business over the last year has given us the confidence in our belief that we are on the right path, and provides solid momentum to deliver on our brand promise. Our focus on being New Zealand's lowest cost energy retailer with the best customer experience is delivering results, with customers advocating for us in greater numbers than ever before (as measured by our Net Promoter Score) and customers staying longer, with churn below the market average.

Much of this is attributable to our transformation programme which continues to deliver operational efficiencies by empowering the Customer team to remove bottlenecks, reduce operating costs and react to valuable market opportunities. This focus resulted in a $13 million reduction in electricity and gas cost to serve, and a decline in the number of interactions with customers as the functionality of our online channels improved. Our proactive approach to the debt collection cycle has also lead to less debt being written off and fewer customers in the credit cycle.

Despite these operational improvements, the Customer business results in the year were impacted by market headwinds. In particular, increased competition in the commercial and industrial electricity segments reduced margins and Contact was unable to pass through the higher cost of LPG to customers as it rose with global oil prices. As a result, the Customer business EBITDAF was $109 million in the period, $9 million lower than FY17.

GENERATING FOR THE FUTURE

Dry conditions impacted the earnings in our Generation business as the low South Island inflows at the end of FY17 extended into the start of FY18 culminating in a dry, hot summer. As a result, hydro generation volumes were below average for the second consecutive financial year and, although hydrology recovered in the last quarter of FY18, it was not enough to offset the dry start.

Hydrological variability is expected and our flexible fleet of generation assets means we are able to increase generation from our thermal plants and supply energy to our customers at a fixed price when they need it, not just when it's raining.

However, the additional cost of gas and carbon to run harder has weighed on our financial performance in the period. Unfortunately the timing of the scheduled five-yearly major refurbishment of our largest thermal plant, the Taranaki Combined Cycle, occurred during November and December, a period of unusually higher wholesale prices due to the dry summer.

As a result, operating earnings (EBITDAF) from the Generation business were $372 million in the period, $11 million lower than FY17. The portfolio performed as expected and the 3% reduction was primarily due to lower returns as a market-making participant on the ASX futures market and the liquidated damages received in FY17 were not repeated. The full effect of the dry conditions on our financial performance was mitigated by our continuous improvement programme, which is delivering sustainable reductions in ongoing operating costs and improving the resource utilisation of our renewable assets.

A key focus for the business is to position itself to support further decarbonisation of New Zealand's energy sector. We see the development of the consented geothermal resources under our control playing a key role in the transition and reducing the cost of these renewable generation developments will provide us with options to close thermal plant, if gas and carbon costs continue to rise, and help to keep our cost of energy low. It should be no surprise that as an operator of geothermal plant for 60 years, it is an area where we are a clear leader. We are not resting on our heritage. Since 2015, Contact has improved the efficiency of our geothermal operations by 7%. While the market fundamentals don't currently support new renewable investment, it is something we plan for and refine, especially as New Zealand looks to achieve its carbon reduction ambitions.

OPERATING SUSTAINABLY

Contact can only operate commercially if we ensure the sustainability of the resources that we rely on, and the well-being of our stakeholders who rely on us. This principle is universal and traverses environmental, social and economic partners. We do not shy away from initiating and developing these connections, even when at first there seem to be divergent opinions – this will deliver the best outcomes in both the short and long term.

This year we committed to the Science Based Targets initiatives (SBTi) to set emissions reduction targets in line with limiting global warming to two degrees. We also joined the Climate Leaders Coalition to help New Zealand transition to a low emissions economy. We created a climate change position statement which describes our commitment to reducing our own emissions while supporting our customers and other sectors to reduce theirs.

As an owner and operator of iconic national generation assets, provincial New Zealand is our home. We are an inseparable part of those communities and have a shared interest in creating a vibrant future. This year, we were ranked among the top five companies in New Zealand for community investment activities on the BACS Social Index, which signals that our energy is focussed in the right place. We also work with tangata whenua who have a special relationship with the resources that we use.

Employees who are respected, included and trusted are a sustainable advantage and Contact works hard to create a receptive culture where diversity flourishes. We take the pulse of our progress with an annual engagement survey, which pleasingly recorded a five percentage point increase in engagement to 77% between October 2017 and May 2018. As a dynamic, progressive organisation we will continue to adapt and improve to raise engagement.

At Contact we take pride in our excellent safety systems and generative safety culture, which empowers frontline workers to take ownership of health and safety outcomes with the backing of our world-class process safety systems. It follows that when 14 people were hurt in the year it is incredibly disappointing. While most of the injuries were strains or sprains, this does not diminish our resolve for improvement.

As mentioned, a key sustainable priority is working to position ourselves to take the lead in the decarbonisation of New Zealand's energy sector. To be credible in the conversations with customers, Contact needs to deliver on our carbon strategy. This means measuring, controlling and ultimately reducing our emissions.

Under our new brand, we will put our human energy where it matters: delighting customers, leading the decarbonisation charge, contributing positively to the communities in which we operate, and delivering value for shareholders.

I very much look forward to it.

Dennis Barnes

Dennis Barnes
Chief Executive Officer

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 Chairman of Fletcher Building and a director of RANQX Holdings Limited. 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. Sir Ralph retires from the Contact Board on 31 August 2018.

Victoria Crone

Independent Non-Executive Director

Term of office
Appointed director 12 November 2015, last elected 2017 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 chief executive of Callaghan Innovation and chair of Figure.NZ. 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.

Sue Sheldon CNZM

Independent Non-Executive Director

Term of office
Appointed director 16 March 2009, last re-elected 2016 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 chairman of Regenerate Christchurch and Freightways Limited and a director of Real Journeys Limited. Sue has previously held the roles of chairman of Chorus Limited, Paymark Limited, NZ Global Women and 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. Sue's resignation from the Contact Board is effective on 31 August 2018.

Whaimutu Dewes

Independent Non-Executive Director

Term of office
Appointed director 22 February 2010, last re-elected 2016 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 Gisborne. He is the chairman of Aotearoa Fisheries Limited and Sealord Group Limited. His former directorships include the Treasury Board, Housing New Zealand Board, Television New Zealand Limited and the AMP New Zealand Advisory Board. 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.

Elena Trout

Independent Non-Executive Director

Term of office
Appointed director 3 October 2016, last elected 2016 annual meeting.

Board committees
Member of the Health, Safety and Environment Committee

Elena is an experienced company director and a professional engineer who has held a number of leadership positions in the transport, infrastructure and energy sectors. She has over 30 years of experience in the management, planning and delivery of large projects. She is a director of Energy Efficiency and Conservation Authority, Harrison Grierson Holdings Limited, Marsden Maritime Holdings Limited, Ngapuhi Asset Holdings Company Ltd. Her former directorships include Electricity Authority and Transpower New Zealand Limited. She is a Past-President of Engineering New Zealand with a membership status of Fellow and is a chartered member of the Institute of Directors. Elena holds a Master's of Civil Engineering degree from Canterbury University.

Rob McDonald

Independent Non-Executive Director

Term of office
Appointed director 12 November 2015, last elected 2017 annual meeting.

Board committees
Member of the Audit 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 a director of Chartered Accountants Australia and New Zealand and Sovereign Assurance Company Limited, and was formerly the chief financial officer with Air New Zealand. From 1 September 2018 he will be a director of Fletcher Building Limited. 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 Program of Management Development at Harvard Business School. He is a Fellow of Chartered Accountants Australia and New Zealand.

Leadership Team

Dennis Barnes
Chief Executive Officer

Tania Palmer
General Manager, People and Safety

James Kilty
Chief Generation and Development Officer

Catherine Thompson
General Manager, External Relations and General Counsel

Graham Cockroft
Chief Financial Officer

Venasio-Lorenzo Crawley
Chief Customer Officer

OUR TIKANGA

Our purpose is to put our human energy where it matters.

Our tikanga, what we believe in, guides how we bring this purpose to life. It's our set of beliefs, expressed as a series of Commitments, Principles and Behaviours; to guide the actions we take, both as individuals and as a whole organisation.

Our Principles

These provide guidance for making decisions every day.

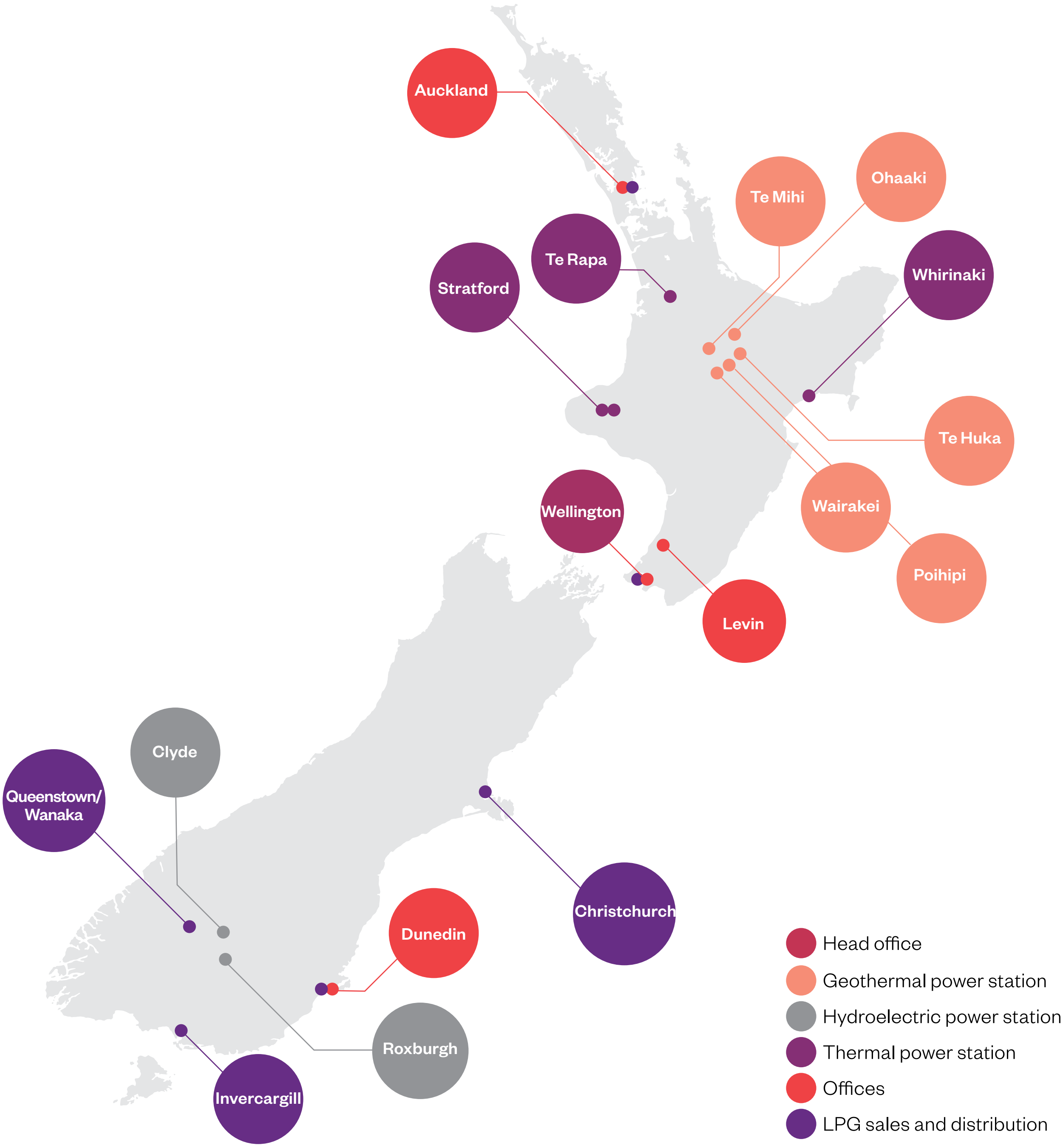
1. We act professionally at all times, in accordance with laws and regulations.
2. We care deeply about the health and safety of our people and strive to minimise any health, safety and environmental impacts on our customers and communities.
3. We put our energy into things that really matter by:
   - » Creating value from the resources that come under our control
   - » Being inclusive, encouraging diversity and expression of ideas and opinions (in line with our Commitments and Behaviours)
   - » Ensuring the sustainability of our business
   - » Taking care of the environment by looking after our natural and shared resources
   - » Being a good neighbour in the communities where we operate
   - » Being authentic.
4. When faced with choices, we make sound decisions knowing they will be subject to scrutiny.

Our Commitments

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

1. Creating value for our customers and communities by developing smart solutions that make living easier for them now, and in the future.
2. Creating a rewarding workplace for our people by valuing everyone's contribution, encouraging personal development, recognising good performance and fostering equality of opportunity.
3. Respecting the rights and interests of communities by listening to them, and understanding and managing the environmental, economic and social impacts of our activities.
4. Being respectful of the rights and interests of our business partners so we work collaboratively to create valued, rewarding partnerships.
5. Delivering market-leading performance for shareholders by identifying, developing, operating and growing value-creating businesses.
6. Staying a step ahead, anticipating the things that are going to matter. Not just to our business, but to New Zealand.

OUR OPERATIONS



CUSTOMER CONNECTIONS AND VOLUME SOLD BY ENERGY TYPE AS AT 30 JUNE

		2018		2017
Energy type	**Connections**	**Volume sold**	**Connections**	**Volume sold**
Electricity	416,500	6,997 (GWh)[1]	423,000	7,266 (GWh)[2]
Natural gas	65,000	806 (GWh)	64,000	685 (GWh)
LPG	89,200	72,845 (tonnes)	80,000	72,700 (tonnes)
Total	**570,700**		**567,000**	

1. GWh = gigawatt hours.
2. Electricity volume sold in 2017 restated due to change in reporting format.

Customer connections by account type as at 30 June

	2018	2017
Residential	493,300	492,000
Business	75,800	74,000
Other[1]	1,600	1,000
Total	**570,700**	**567,000**

1. Includes LPG connections where data on account type was unavailable.

Generation by type for the year ended 30 June

Generation type	2018	2017
Hydro (GWh)	3,479	3,562
Geothermal (GWh)	3,323	3,233
Thermal (GWh)	1,812	1,742
Total	**8,614**	**8,537**

GENERATION BY STATION

North Island

Name	Output	Commissioned	Type	Location	Capacity (MW)[1]	2018 Generation (GWh)	2017 Generation (GWh)
Ahuroa	–	2011	Gas storage facility	Taranaki	Ability to store and extract gas as conditions require	Can store up to 18 PJ[2] of gas – enough to run our Stratford peakers for 12 months at full capacity	
Ohaaki	Geothermal	1989	Flash steam	Waikato	44	280	336
Poihipi	Geothermal	1996	Flash steam	Waikato	55	411	403
Stratford	Thermal	1998	Combined-cycle gas turbine	Taranaki	377	1,071	1,020
Stratford	Thermal	2011	Peaker, gas turbine	Taranaki	210	528	495
Te Huka	Geothermal	2010	Binary cycle	Taupo	28	198	189
Te Mihi	Geothermal	2014	Flash steam	Taupo	166	1,372	1,184
Te Rapa	Thermal	1999	Open-cycle gas turbine cogeneration	Waikato	44	211	226
Wairakei	Geothermal	1958, 2005	Flash steam/binary cycle	Taupo	132	1,062	1,121
Whirinaki	Thermal	2004	Diesel fuel, open-cycle turbine	Hawke's Bay	155	3	1

1. MW = megawatts.
2. PJ = petajoules.

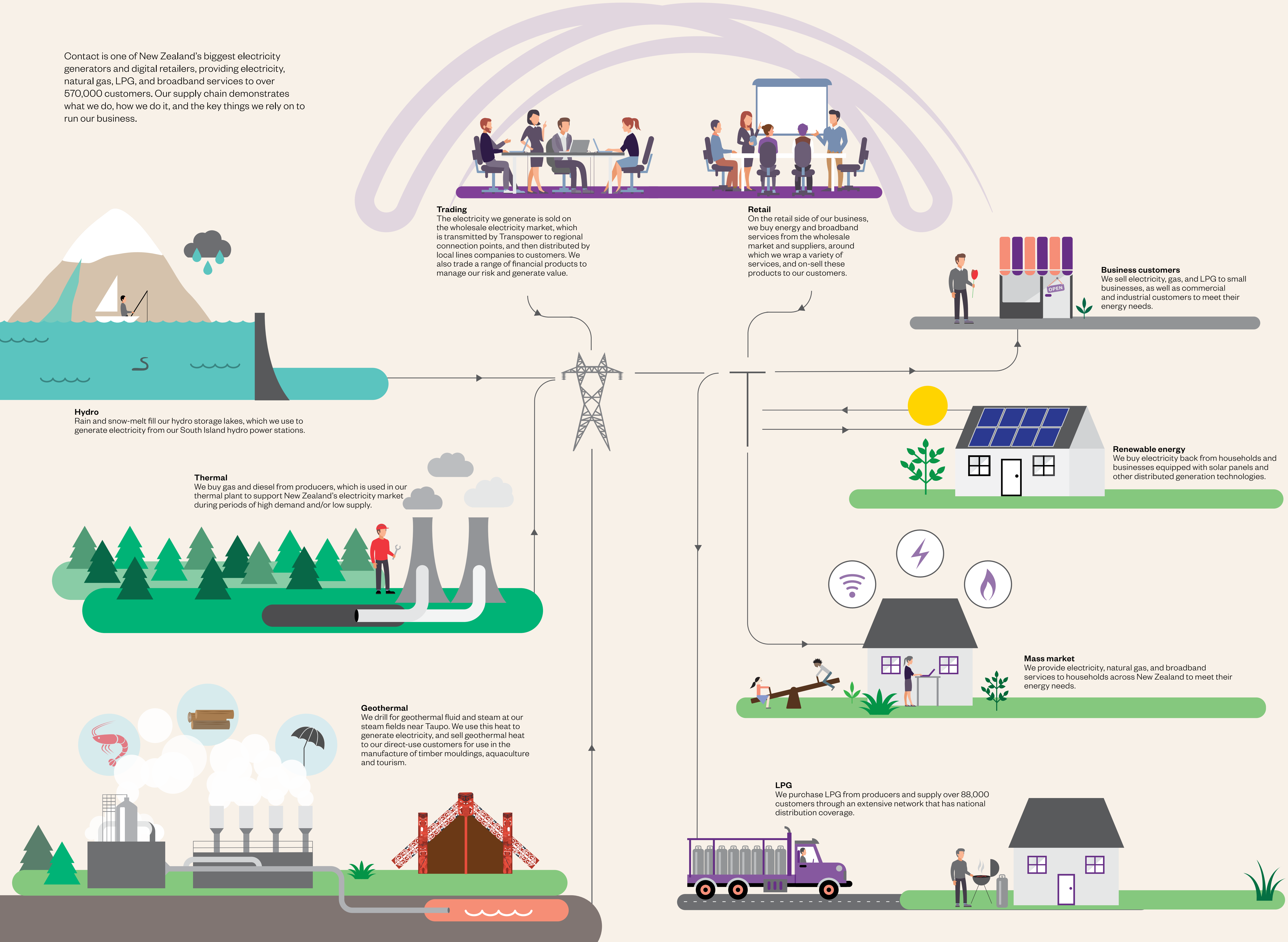
South Island

Name	Output	Commissioned	Type	Location	Capacity (MW)[1]	2018 Generation (GWh)	2017 Generation (GWh)
Clyde	Hydro	1992	Conventional	Otago	432	1,912	1,999
Roxburgh	Hydro	1956-1962	Conventional	Otago	320	1,567	1,563

1. MW = megawatts.

Our Business

Contact is one of New Zealand's biggest electricity generators and digital retailers, providing electricity, natural gas, LPG, and broadband services to over 570,000 customers. Our supply chain demonstrates what we do, how we do it, and the key things we rely on to run our business.



Focussing on What Matters

To ensure we are reporting on the things that our stakeholders care about, we ask them what matters most.

Our stakeholders include a wide range of representatives from different stakeholder areas across the five pillars of sustainability – social, cultural, economic, environmental and political. Our key stakeholder managers are continually engaging throughout the year to get regular feedback. This year they told us:

Customers

They've told us they want choice, certainty and control. Customer service, competitive pricing, value for money and flawless service are also very important to them.

Investors

Earnings growth, efficient capital management, and a strong dividend are important to them. They are also interested in our response to the Electricity Price Review and hydrology risk management.

Employees

Our people told us how inclusion and diversity, leadership development, and health and well-being are important.

Partners and suppliers

They've told us that maintaining positive relationships, partnerships and mutual value and ensuring that they understand our evolving needs are key.

Communities

Our communities want us to be a good neighbour, to look after our natural and shared resources, to build relationships based on trust and have open, clear and early conversations.

Tangata whenua

Partnership, protection and participation in the management of natural resources alongside social, cultural and economic development are key for them.

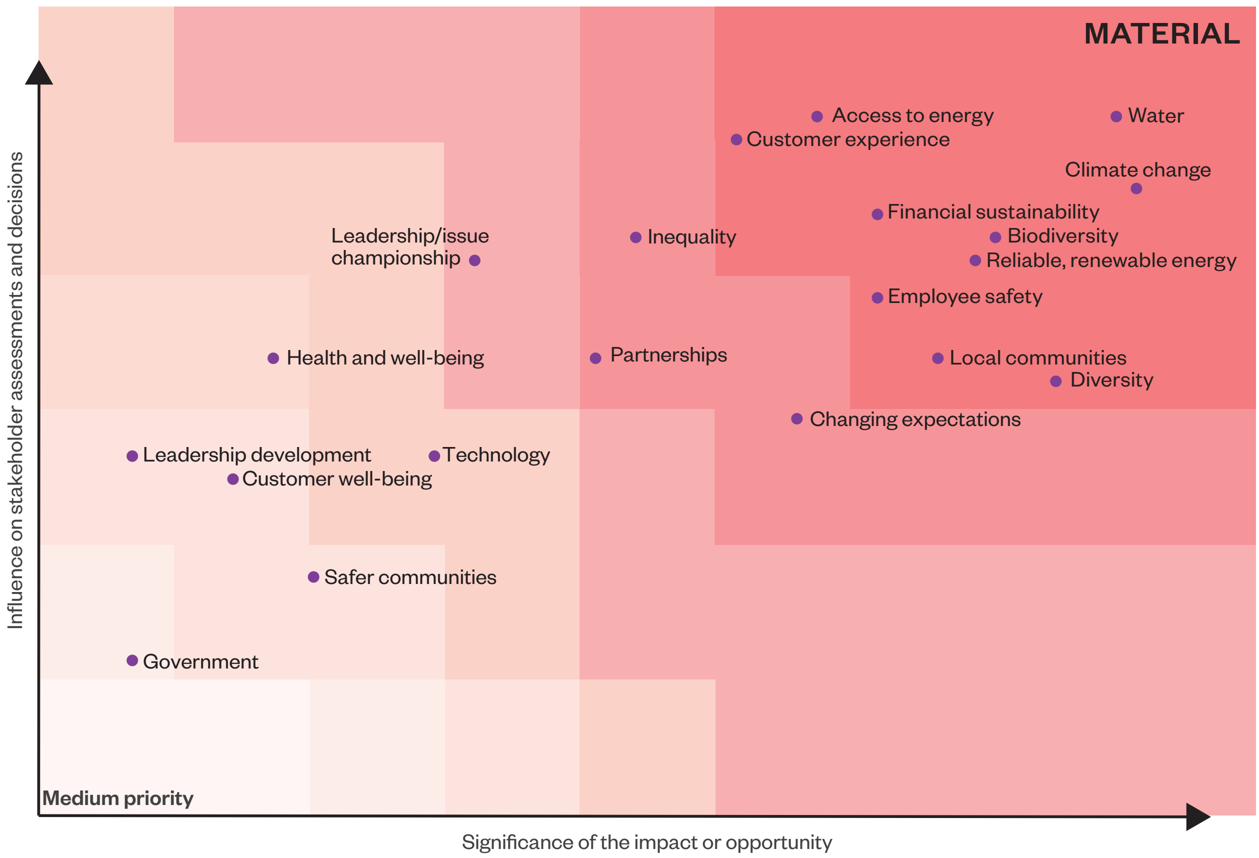
Government

A competitive retail market, secure supply of electricity at reasonable prices, fresh water, and delivering on New Zealand's energy and climate change targets are important to our government stakeholders.

We also run an annual Stakeholder Council which includes 14 stakeholders, some who have participated every year, some who are new to the process. The stakeholders selected for this process are chosen because of their broad understanding of issues, willingness to engage and representativeness. This helps us to achieve dependency, responsibility, tension, influence and diversity.

The Stakeholder Council helps us to identify and prioritise our material issues by ranking each issue that has been raised. Collectively, the group decides which the top issues are. We then take these back to the business and consider these alongside global trends and research and Contact's own strategy and risks.

We take this information and graph it based on the importance of the issue to our stakeholders and the business impact on the issue and our ability to influence. We then review it for completeness, balance, sustainability context, materiality and stakeholder inclusiveness.



While all these issues are important, our focus is on the material issues in the top right corner of the report. Our responses to these issues and results over FY18 form the basis of this report.

Customer

As an energy company, we play a vital role in the lives of hundreds of thousands of individuals and businesses in New Zealand who rely on the electricity, natural gas, LPG and broadband we supply. We help them warm their homes, power their businesses, and connect with their communities and the world. That's why we put our time and effort into the areas that make the most difference to customers.

Our strategy to match customers with the right products, at the right time, and at the right price has continued to strike a chord over the past 12 months. Despite highly competitive conditions supressing mass market electricity connections, our focus on offering a multi-fuel service has allowed us to increase the number of customers across electricity, natural gas and LPG by 3,000. We have also started to offer broadband services, and over 2,000 customers have joined us to date. Our customers continue to advocate for us in greater numbers, with our Net Promoter Score (NPS) averaging +18 over the past 12 months, up from an average of +14 last year.

With the activity of over 40 retailers increasing market switching by 0.90% in FY18, our switching rate of 19.56% was marginally lower than our 2017 switching rate, and 1.62% below the market average.

EXPERIENCE MATTERS

We strive to provide our customers with products and services that give them price certainty, a wide choice of plans, and control of their usage. But we know that success is not determined by great products alone. In today's busy world the thing most people lack is time. That is why we focus on responding to queries quickly, and providing multiple channels through which customers can interact with us – and in ways that suit them best. Good service and good products lead to a positive customer experience, and improved loyalty. This in turn lowers the cost to acquire new customers and support existing ones.

This year we've continued to invest in delivering an outstanding experience by focussing on our relationships with our customers. We've continued to upskill and empower our frontline teams to enable them to proactively make decisions on the spot. This means more customers are getting their questions answered and issues resolved the first time they interact with us.

We've refreshed our website, made it easier for our customers to manage their bills and monitor power usage online, and we've also added chat to our website so they can get immediate online help when they need it. We've also added messages into the body of our billing emails, which means there's less chance our customers miss important information by not opening the attached bill.

Our focus on improving customer experience and business performance means we've been making ongoing changes to our systems and processes to ensure our service is as streamlined as possible. Using a business transformation platform that empowers all people in the Customer team to identify better ways of doing things, we've successfully delivered 180 business improvements in the past year. A number of bigger initiatives have also seen us working closely with our customers to redesign our processes and products.

Access to energy

Access to reliable, sustainable and affordable energy is a critical issue, and as an energy company we know that we have a role in helping those most in need to keep their lights on and homes warm. We believe we must lend our efforts to those areas that we directly control, as well as those that we can only influence, such as the wider policy environment.

This is particularly fitting this year, with the Electricity Price Review enquiry already underway and the Government's renewed focus on the housing stock problem, which is a significant factor in energy poverty in New Zealand.

We're working with other retailers through the Electricity Retailers Association of New Zealand to find collaborative solutions to this complex issue. We've also been working together with community organisations, government departments and other retailers to identify ways that we can work more effectively towards solving access to energy issues in New Zealand.

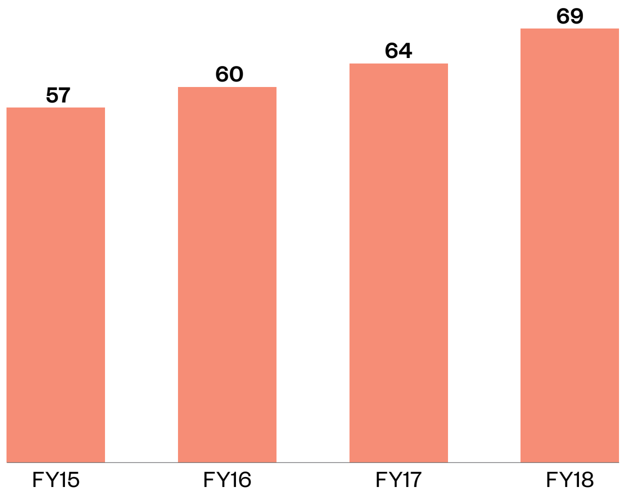
On a day-to-day basis, the best way we can help customers maintain access to energy is by ensuring our energy prices are competitive and that we have the right systems in place to ensure those critically in need of energy, like medically dependent customers and those facing material hardship, get it.

Our customers have also told us that having weekly or fortnightly payment options that align with their salary and wages cycles would help with budgeting. We have just launched this option and look forward to being able to help make it easier for our customers to manage their finances.

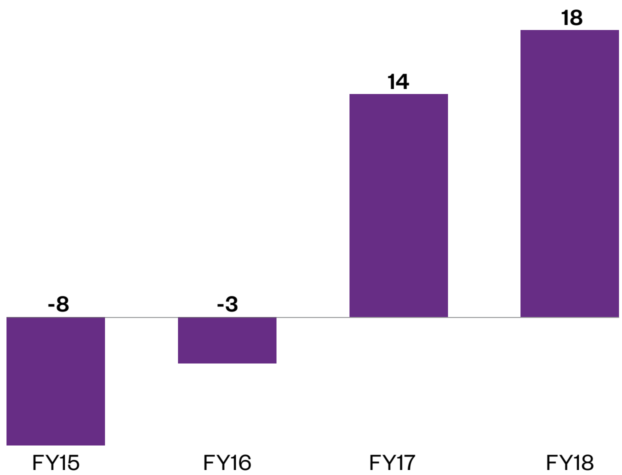
If customers do get into debt, we have a team who proactively works with customers to manage their outstanding bills before they get too big. In the past year we have reduced the amount of debt that is older than 90 days by 40%. We have also reduced the time customers spend in the credit cycle, meaning that if we need to disconnect them as a last resort, they have a lower debt to manage before they are reconnected.

Over the last quarter of FY18 the average debt at disconnection had reduced by 25% to $527, which has allowed customers to be reconnected faster, with 47% reconnected within 24 hours, up from 27% in FY17. We've also reduced the cost of disconnection and reconnection for our customers, and we've improved the number of reconnections made within the first 24 hours of a disconnection occurring.

Reputation institute - reputation score



Net Promoter Score



Our generation business is focussed on delivering sustainable electricity as part of our strategy to lead the decarbonisation of New Zealand's energy sector. Doing this sustainably means ensuring there's enough electricity available to meet customers' needs today and in the future, while keeping costs competitive, and doing our bit to look after the resources and communities that we work with. This is enabled by our flexible generation portfolio, backed by our Continuous Improvement programme, and driven by our strategy.

OPERATIONS

We maximise production from our renewable hydro and geothermal assets, with thermal plant providing electricity when renewable sources are not sufficient to meet demand from customers (such as in low wind or dry periods, or when it's really cold). This strategy has proven its worth this financial year, as a dry winter extended into a dry summer, resulting in historical low inflows into the South Island catchments. Although we have no control over the weather, our flexible generation portfolio meant we were able to make greater use of thermal assets to meet electricity demand. This resulted in our cost of energy rising from $27.61/MWh to $28/MWh, and increased our emissions by 4% on the prior year. Even with greater use of our thermal generation plants, we were able to produce 80% of our electricity from renewable sources in the last financial year.

In December we announced the sale of Ahuroa Gas Storage Facility to GSNZ SPV1 Limited, a move that frees up capital while maintaining our access to the facility as part of a 15-year gas storage services agreement. Our ongoing Continuous Improvement programme is ensuring we remain competitive, with operating expenditure of $223 million in FY18, down 8% on the previous period.

DECARBONISING NEW ZEALAND'S ENERGY SYSTEM

Our decarbonisation strategy positions us to both support and benefit from New Zealand's transition to a low carbon economy through electrification. This allows us to leverage opportunities from new technologies, and enable greater utilisation of our renewable generation options.

Over the year, we have aligned our generation business around our decarbonisation strategy which focusses both on taking advantage of commercial opportunities while demonstrating authenticity in our own actions to tackle climate change. We've invested in a demand management platform and developed an energy solutions ecosystem, and we're more closely aligning our commercial and industrial sales team with our wholesale energy activities as we continue to proactively engage with large scale industrial energy users on energy solutions.

At a governance level, we have also developed a climate change position, set ambitious emissions reduction targets, and strengthened our governance oversight and management systems on climate change and decarbonisation.

A range of future energy scenarios was published by various bodies over the course of the year and we continue to undertake our own scenario work to understand pathways to the Government's target of 100% renewable electricity in an average hydrological year.

It is very difficult to predict the future accurately, but we do believe that customers will adopt lower carbon solutions for their energy needs over time (transport, industry, and home), including renewable electricity. We believe that in response to this growth in demand there will be an increase in renewable electricity generation, much of it intermittent in nature, making controllable stored energy a key component of our energy future. For the medium term, thermal plant will continue to play a key role. Ultimately, it is unclear how technology and increased electrical consumption will interact, and so we adopt a view that near-term demand will grow at a rate of around 1% annually. We are well placed with our diverse and flexible fleet and our consented options to meet a range of demand outcomes in the near to medium term.

Financial Sustainability

We have over $2.7 billion in net assets, more than 64,000 shareholders and 3,500 bondholders around the world who rely on us to deliver sustainable financial returns now, and into the future. These investors include New Zealand families, investment firms, professional investors and superannuation funds that people are relying on for their financial security during retirement. Delivering on the expectations of our investors is vital to our sustainability as a business.

With no large-scale, capital-intensive investments planned in the short term, our business is able to focus on our strategy of delivering strong cash flows for investors. Over the past year we have continued to focus on improving performance for our customers, while seeking to unlock additional value for our shareholders through a focus on reducing costs and capital expenditure across all of our operations.

Contact has had a BBB Standard & Poor's (S&P) credit rating since 2002. Following a period of significant investment in building generation assets and updating our systems, our focus has been on reducing debt levels to ensure the rating is maintained. This investment grade credit rating provides a solid foundation for the management of operational and financial risks, allows an efficient capital structure and ensures we can access diverse and cost effective sources of funding markets around the world.

In August 2017 the Board approved a change to our distribution policy to provide greater clarity for investors on expected future returns. The revised policy targets distributions to shareholders at the level of between 80% and 90% of operating free cash flow, on average over time once our net debt to EBITDAF ratio falls below 2.8x, as assessed by S&P.

Consistent progress has been made on reducing the net debt to EBITDAF ratio since its peak in our 2015 financial year. During the year we reduced debt by a further $97 million to bring the ratio down to 3.1x as at 30 June 2018.

This year the Board declared a full-year ordinary dividend of 32 cents per share, of which the final dividend of 19 cents per share will be paid in September 2018. For the 2019 financial year we will target an ordinary dividend of 35 cents per share, an increase of 9% on financial year 2018.

THE LAST FIVE YEARS IN REVIEW

For the year ended 30 June	Unit	2014	2015	2016	2017[2]	2018[3]
Revenue	$m	2,446	2,443	2,163	2,079	2,283
Expenses	$m	1,859	1,918	1,640	1,578	1,802
EBITDAF	$m	587	525	523	501	481
Profit/(loss)	$m	234	133	(66)	151	132
Underlying profit	$m	227	161	157	142	130
Underlying profit per share	cps	31.0	21.9	21.7	19.9	18.1
Operating free cash flow	$m	293	338	352	305	301
Operating free cash flow per share	cps	40.0	46.6	48.5	42.6	42.0
Dividends declared[1]	cps	26	76	26	26	32
Total assets	$m	6,186	6,089	5,652	5,455	5,311
Total liabilities	$m	2,604	2,918	2,829	2,677	2,584
Total equity	$m	3,582	3,171	2,823	2,778	2,727
Gearing ratio	%	27	36	38	36	35

1. FY15 included a special dividend of 50 cents per share.
2. Figures have been restated for the adoption of NZ IFRS 15 *Revenue from Contracts with Customers* and NZ IFRS 16 *Leases*.
3. Figures above reflect the combined result and position for the continuing operations and discontinued operation.

Our people are vital to driving world-class performance. They connect with our customers, shareholders, suppliers, business partners, tangata whenua, government, and communities. They are a rich source of innovative ideas that drive our competitive edge.

That is why we invest significant time and energy to ensure we hire, develop and keep great talent, and foster a workplace that engages our people, rewards their performance, is safe, and encourages inclusion and expression of different views.

ENGAGING OUR PEOPLE

The measure we use to tell us if we are providing an enriching and rewarding workplace is how engaged our people are. For many years we used an employee engagement survey, independently facilitated by AON Hewitt, to identify where we were getting things right and where improvements were needed. This measure showed we were making positive progress, with a score of 68% in 2017.

We recently moved to a new people survey called AskYourTeam, a tool that gives us a more direct insight into what our people think and enables more agility for managers to action and monitor progress. Our first survey in October 2017 noted an engagement score of 72%. We acted on the feedback from this survey, implemented a number of changes and as a result saw our engagement score rise to 77% in the May 2018 survey.

Key to lifting this score has been a focus on developing the capability of our leaders. A first step was to broaden our definition of leadership to include people leadership, technical leadership, and influencers. To support our current and future leaders, we've introduced the Hogan predictive assessment tools – to help us de-bias our leadership and selection decisions, gain a more comprehensive view of future potential (rather than relying only on past performance), and support succession planning and leadership development. We're also refining our leadership development programmes to align with this work.

EMBRACING DIVERSITY

A truly diverse workforce manifests in great company performance and a good reputation that attracts the best talent. We see diversity as an important contributor to our competitiveness, providing a source of creative ideas from a wide range of perspectives, allowing us to solve problems faster and achieve better business performance. Our stakeholders also value organisations whose make-up reflects that of broader society. This is why we place such a strong focus on fostering an inclusive work environment through our diversity and inclusion policy.

We have already achieved a number of milestones. In FY18 our Board of Directors was one of the most diverse among New Zealand-listed companies, with equal gender representation and two directors of Maori descent. Our female employees earn on average 97% of the average salary of male employees in the same salary band, the same as we reported last year. We were also ranked first in the 2017 Thomson Reuters Diversity & Inclusion Index, a gain of five places on 2016.

We're proud of these achievements and recognise that they are milestones on a journey to make inclusion and diversity a self-sustaining behaviour within our organisation.

To deepen our understanding of the issue, this year we conducted a series of in-depth workshops across all of our sites. The findings encouragingly show our people value diversity and our sites need different levels of support to help them fully embrace inclusion within their workplace culture. We are currently working with each of our sites to support them to meet these challenges.

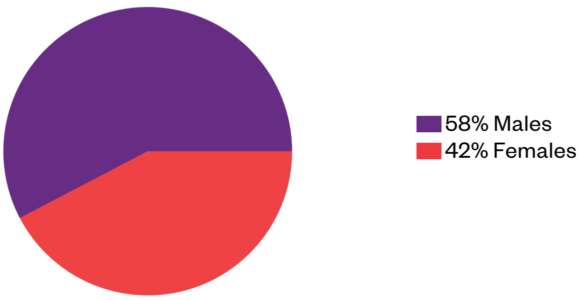
FLEXIBLE WORK

People's home lives do not always keep nine-to-five hours. For us to attract and keep talent from as wide-a-pool as possible, we need to provide a flexible work environment that accommodates life's other commitments. This is why this year we launched Contactflex, a programme that encourages all our people to consider flexible working options to balance their work and home lives.

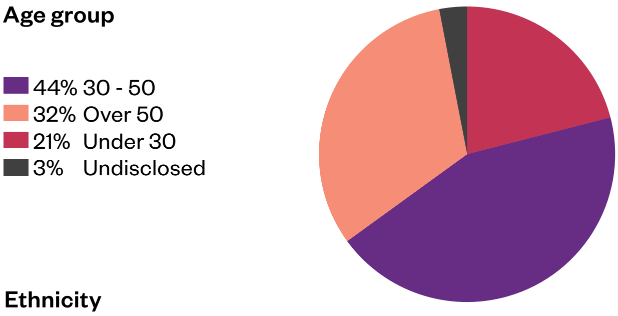
Our Recruiting and Acquisitions team is using Contactflex to position Contact as an employer of choice. We've signed up to Flex Careers, Getaflex and Job Café to connect with women looking to get back into the workforce. We are currently undergoing Rainbow Tick accreditation – designed to ensure our workplace is safe and inclusive for people of diverse gender identity and sexual orientation. The term 'rainbow' includes people who are LGBT+ or lesbian, gay, bisexual, transgender, and other people who don't feel they fit conventional categories when it comes to gender or sexual identity. We're also a founding partner of The Diversity (A) Gender, an Engineering New Zealand initiative aiming to increase the number of female engineers in senior roles.

To support achievement of our business strategies, we're also reviewing our critical roles, capability strengths and gaps, succession planning, and how we develop talent. Over the last year we've re-aligned our Generation workforce to be more efficient and flexible to move our strategy forward. While these changes saw the creation of new roles to support our future strategy, it resulted in a reduction of headcount overall.

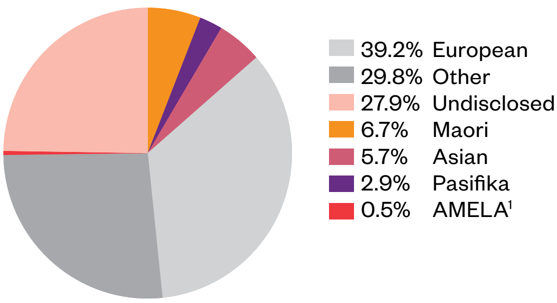
Gender



Age group



Ethnicity



1. African, Middle Eastern or Latin American.

Gender pay ratio by business group[1]

	FY18	FY17
Corporate	98.7%	97.1%
Customer	97.7%	98.3%
Generation and Development	97.1%	96.8%
Overall	97.4%	98.0%

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

HEALTH AND SAFETY

People are the lifeblood of our business, and our Health, Safety and Environment Management System (HSEMS) is designed to keep them, and the environment and communities they operate in, safe. As a major energy producer and supplier, our focus has long been on physical safety, especially in our power stations and LPG delivery business, where there is an elevated risk of injury due to the nature of the activity.

Our approach is to empower and trust our people to make the right decisions, and to constructively help them learn from mistakes when things don't go as planned. This generative approach has made us a health and safety leader in New Zealand.

This year we improved our safety focus with a new HSEMS, which was created in-house. This framework is simple, flexible and forward-looking, with a set of commitments across five areas guiding our people to take ownership in how they bring these to life in their day-to-day work.

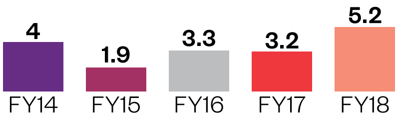
Our people have also told us they want a broader focus on health as well as safety, with more support around stress, mental health and workload.

We have rethought our approach to occupational health monitoring, and in the year ahead we will offer regular health checks for all our people, not just those working in high risk areas. These health checks will cover physical, nutritional, mental and general health and well-being and advice. Doing this will give us more visibility of our people's health and well-being and where there might be trends and gaps, facilitating more targeted support.

We are also working proactively to address the psychosocial risks encountered by our customer-facing staff, providing change resilience support as we work through business changes, and supporting our leaders to take a whole-person approach to managing their teams. This will complement the employee assistance programme we already have in place, where we offer free counselling services to our people.

SAFETY METRICS

Total Recordable Injury Frequency Rate – controlled activity

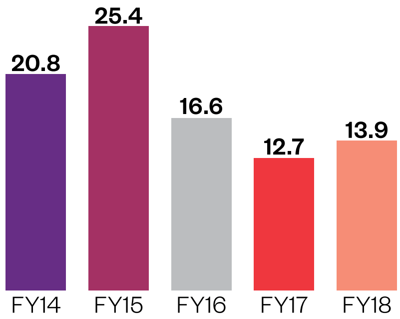


Controlled activity is where we require work to be undertaken using the guidance of our HSEMS, e.g. work undertaken on our sites, or by our people on customer sites, etc. Our controlled TRIFR number tells us how many people have been harmed, including contractors, public visitors to our sites as well as our own people. To calculate our TRIFR, we divide the number of incidents that needed medical care, or resulted in restricted work or required time off, by the hours worked and multiply this by 1 million.

2018

This year our controlled TRIFR was 5.2 with 14 injuries (11 male and 3 female) and was higher than our target of 1.9 (which was based on 6 injuries). While this number is higher than we hoped for, our positive reporting culture ensured we learned from these events. As in past years, most of these injuries were minor and consisted mainly of sprains and strains.

Total Recordable Injury Frequency Rate – monitored activity



Monitored activity covers work performed by our partners under their own HSE systems, e.g. meter reading and maintenance, LPG franchises, bulk LPG distribution, etc. Contact works collaboratively with our partners to ensure HSE systems are aligned with Contact's standards. Our monitored TRIFR measures the number of contractors hurt working for Contact and we proactively work with our contractors and industry partners to learn from these issues and agree solutions.

2018

Our monitored TRIFR for the year was 13.9 with 6 injuries (all male) which was slightly above our target of 10.7 (also based on 5 injuries). This is an improvement on the prior period where TRIFR was 12.7. We calculate this figure by dividing the number of incidents that needed medical care, have limited work or resulted in time off, by the hours worked and multiply this by 1 million.

Total Incident Severity Rate

This year we've formally monitored Total Incident Severity Rate (TISR), an HSE measure that is an early indicator metric. TISR assesses all HSE events and considers both actual and potential consequences so that we get a view of how well our defences are working for our critical risks. TISR incorporates process safety events, injuries and general safety events. It uses a weighting system to ensure incidents with higher risk potential are highlighted within the calculation and, similar to TRIFR, it uses working hours to calculate the rate.

TISR was 3,500 within controlled activity in FY18 (compared to 3,100 in FY17), while TISR in monitored activity was 10,600 for FY18 (compared to 8,200 in FY17).

TISR has increased slightly within controlled activity due to more minor injuries being reported, in alignment with the TRIFR increase.

Within monitored activity, we have seen an increase in reporting practices from our contracting partners resulting in more incidents being reported, including a number of incidents with a serious potential consequence within Field Services work.

Process safety incidents

	FY14	FY15	FY16	FY17	FY18
Tier 1	2	1	0	0	0
Tier 2	9	1	1	2	0
Tier 3	45	60	88	72	79

This table 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.

2018

In FY18 we saw the more serious Tier 1 and Tier 2 safety incidents drop to zero, albeit from a very low base in FY17. This is a result of embedded awareness of process safety, which has led to early identification and management of issues.

Of the 78 Tier 3 incidents, roughly a third related to our automatic protection operating as designed to keep our plant safe, another third related to minor losses of containment of material, and the remainder was due to various faults in safety-related equipment (in all cases other equipment was available to ensure safe operation) and anomalies in our procedures for isolating equipment.

We rely on many natural resources to generate electricity. It is important that we look after these resources so that we can continue to supply reliable electricity to New Zealanders, and ensure these resources are available for future generations.

CLIMATE CHANGE

Climate change is a real global challenge that will affect our communities, our economy and our environment. We produce greenhouse gas emissions from our activities, primarily our thermal and geothermal plant. We're focussed on reducing these in line with the Paris Agreement's goal of limiting the global temperature increase to 2 degrees Celsius, while also supporting our customers to reduce their emissions.

Our stakeholders and customers have told us that energy resilience is important to them, so we're committed to maintaining affordable, sustainable and reliable access to energy. We also see commercial opportunities in the transition to a low carbon economy and are open to forging partnerships that enable us to offer low carbon solutions to our customers.

Risks and opportunities

Climate-related risks and opportunities are considered during our annual strategy process. This involves a thorough analysis of our operating environment, and takes a range of environmental, economic and social factors into consideration. We use this information, as well as a range of other reports, analysis and data, to create future scenarios that guide management's decision-making. For example, in FY18, Contact undertook analysis to further understand decarbonisation pathways for the New Zealand electricity sector.

The risks of a changing climate and its effects on natural resources, especially in regards to water, affect our strategy and financial planning. This was evident over autumn and summer where historically low inflows in the Clutha Mata-Au catchment required us to run our thermal power stations more in order to maintain a reliable supply of energy.

Risk assessments using the International Energy Agency 450 scenario highlight the risks to the availability of fuel for electricity generation, but also signal that the Clutha Mata-Au catchment may receive increased rainfall over the longer term.

We've identified several climate-related risks, including changes in demand for electricity, changing customer expectations and the potential for increasing costs to supply electricity. There are also opportunities in this area as customers adopt lower carbon energy sources, like renewable electricity (grid connected or distributed).

More details of the short-, medium- and long-term climate-related risks and opportunities can be found in the Sustainability Report on page 40.

STRATEGY

Our renewable electricity generation fleet and development options mean we're well placed to supply electricity to industry as it looks to move from high-emission fuel sources, like coal, to electricity, or to lower-emission transitional fuels, like natural gas.

As the leading geothermal company in New Zealand, we're also exploring ways to use this heat directly in the manufacturing process.

Our renewable generation fleet is complemented by thermal plant, which is critical to ensure reliable electricity supply during adverse hydrological conditions, and as the share of intermittent renewable generation grows. This diverse generation fleet gives us the flexibility to respond to potential risks and opportunities as they arise, but can result in higher operating costs and greenhouse gas emissions when it is called on to support New Zealand.

Metrics and targets

We use a number of metrics to assess climate-related risks and opportunities in line with our strategy and risk management processes. We monitor commodity costs, such as carbon and coal prices, the advancement of new technologies, the costs of electricity generation technologies, regulation changes, marginal abatement costs and international trends.

This year Contact committed to the Science Based Targets initiative (SBTi), using the sectoral decarbonisation methodology to set emissions targets in line with limiting global warming to 2 degrees. Our unverified[1] targets are:

a. 30% reduction of 2018 Scope 1 emissions by 2030 (absolute emissions reduction target)

b. 36% reduction of 2018 emission intensity by 2030 (emissions intensity target)

c. 1 petajoule (PJ) of fossil fuel energy displaced by renewable energy by 2022 (electrification target).

Over the last seven years, our strategy has enabled us to reduce our emissions by 51%.

Our targets do not include any offsetting from domestic or international schemes.

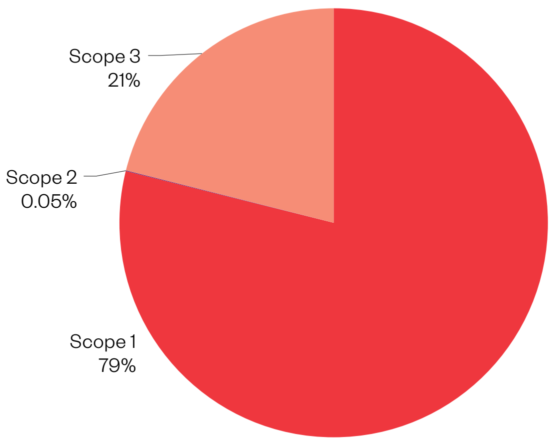
1. Verification is intended to be completed in FY19.

OUR EMISSIONS

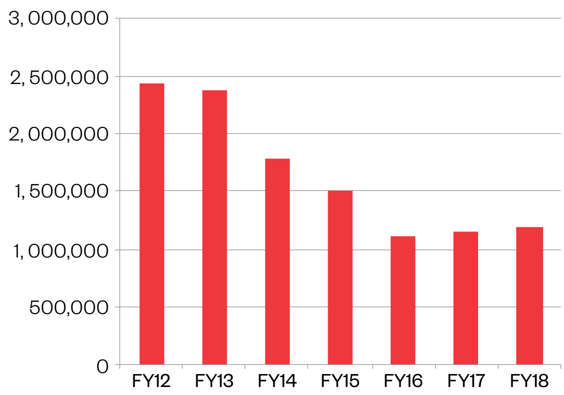
Our greatest emissions are in our Scope 1 emissions from power generation at our thermal and geothermal operations and through fuel use in our vehicles. We monitor our direct emissions and other discharges to air in line with resource consents and reporting requirements under the Emissions Trading Scheme. Accurate monitoring enables us to track progress against targets and ensure transparency in reporting. This year we are voluntarily reporting our Scope 1, 2 and 3 emissions in line with the Greenhouse Gas Protocol 2004, and we have rebased our Scope 1 emissions to align across the three scopes. We have also applied the operational control consolidation approach, which allows us to focus on those emissions sources that we have control over and have the ability to change.

This year our emissions from electricity generation increased by 4% on the prior year as a result of low hydro inflows in South Island catchments over summer and autumn, which required us to run our thermal power stations more to maintain electricity supply.

Total Greenhouse Gas Emissions by Scope (tCO2e)



Emissions from electricity generation (tCO2e)



Water

Our use of water in our operations can affect this resource in a number of ways. We pass water through the dams on a non-consumptive basis but there are other river impacts such as sedimentation and disruption to fish passage. Our geothermal operations use fresh water for cooling, and we discharge some geothermal fluid into rivers. In our thermal power stations, fresh water is used for cooling and to reduce air discharges. At Te Rapa power station we also produce super-heated steam for Fonterra.

Continued supply and access to fresh water is crucial to our operations. Competing users, potential regulatory changes, water charges, and other issues all pose risks to our access of this resource, but also present opportunities for Contact to play a leadership role in these areas.

Our management of these risks is guided by our water position, which states that water should be shared by all New Zealanders, and our access to this resource is a privilege that comes with responsibilities. As such, we're committed to using this resource as efficiently as possible, enhancing its quality, and ensuring sustainable access to water for cultural, recreational, and other economic uses. This policy is central to all the decisions we make in relation to water.

To support our sustainable management of freshwater resources, we created a water dashboard which makes it easier to monitor use across our operations. We used 14,399,800 megalitres of water over this financial year. Ninety-nine per cent of this water was not consumed, but returned to rivers or geothermal reservoirs, with the remainder discharged in line with our resource consents. Overall water usage for processing, cooling and consumption in our thermal power stations was 1,656.95 megalitres.

At our hydro operations, this year we worked with farmers, irrigators, environmental groups, iwi and regulators to resolve appeals on the Otago Regional Policy Statement without the need for an Environment Court hearing. We have continued to provide water to a third party for irrigation through a pipeline from Lake Dunstan into the Fraser River. And we also worked closely with bore users in the Hawea area to manage historically low water levels on the dam.

At our Wairakei power station, where we discharge some geothermal water to the Waikato River, our maximum arsenic discharge limit was decreased in August 2017 from 53 tonnes per year to 34 tonnes per year. To ensure we met this new limit, our volume of reinjected fluid was increased through a number of projects across the steamfield. The total arsenic discharged to river in FY17 was 8.8 tonnes lower than FY16.

We also committed to a long-term partnership with Te Kapa o te Rangiita to restore the Te-Rau-o-te-huia stream. Ecological investigations found koura (crayfish), tuna (eels), brook char, and many native plants. The stream is significant to local iwi as a site of historical kai and kokowai gathering, and also provides fresh water for use throughout our geothermal steamfields.

Contact actively engages in conversations at a district, regional and national level and supports activities that are consistent with our position on water. We have held a long-term position on the Land and Water Forum, which has provided advice to the Minister for the Environment in relation to the careful balances needed to significantly improve New Zealand's water quality, while maintaining social, economic and cultural equity.

Total water usage for year ended 30 June 2018[1]

Source / water use	Withdrawal (ML)	Discharge (ML)
Geothermal reservoir	107,008	
River and surface water	3,031	
Water from third parties	344	
Council	53	
Discharge from all sources		20,448
Total	**110,436**	**20,448**

1. Management of the use and impact on water is largely done through our resource consent compliance activities.

Non-consumptive water usage (ML)

Source / water use	(ML)
Clutha Mata-Au River water	13,888,694
Geothermal reservoir	68,716
Geothermal cooling water	331,954
Total	**14,289,364**
Grand total	**14,399,800**

In July, our main Stratford water take pump at the Patea River intake failed. While this pump was being fixed, we were able to re-use all of the available water from sources on-site and only purchased an extra 827 cubic metres of potable water.

Biodiversity

New Zealand has rich and varied biodiversity which is increasingly threatened. As a major natural resources user, we see ourselves as stewards of the resources under our control, and we have a responsibility to protect, maintain and enhance the biodiversity of the areas we operate in. Throughout the year, protection and advancement of biodiversity have been central to our conversations with communities and tangata whenua.

The diverse nature of our operations means that our impacts differ across each of our sites, which is why we take a site-by-site approach to biodiversity management, and develop a site-specific management plan for each site, or bio bubbles as we refer to them. So far we have biodiversity management plans in place for 50% of our operational sites, and expect to have plans in place for all our sites by 1 September 2019. For Contact, protection of biodiversity means protecting the indigenous ecosystems that were present before our operations altered them. Our goal is to have thriving and sustainable ecosystems within all habitats that we influence.

Geothermal

Our geothermal operations can affect the existing habitat of at-risk or threatened thermotolerant species. In addition, our discharges to freshwater can negatively affect water quality.

We work hard to mitigate these impacts, and this year we have increased our focus on protecting these areas by fencing off an area of thermotolerant plants to reduce the impact from animals and humans, and we have also removed exotic species from this area. In addition, a co-ordinated pest control programme was started in October with the installation of 97 predator traps, which has caught over 400 pests so far.

In Ohaaki, the creation of a flood protection bund along the Waikato River provided a habitat for the planting of over 38,000 native plants. We've also started work to restore a small wetland through an exotic plant control programme.

We continue to sponsor the Greening Taupo and Kids Greening Taupo education and environmental initiatives, which aim to increase native flora and fauna of the district. We also support the Kiwis for Kiwi programme, a Department of Conservation-managed initiative that helps rehabilitate the native kiwi population by removing eggs from the wild and later releasing fully grown birds back into nature.

Hydro

The biggest biodiversity impacts from our hydro operations are in the disruption of fish movements. Our Roxburgh, Hawea and Clyde dams were built many decades ago with little consideration to fish passage, which has made it challenging to maintain the migratory patterns of native fish, including eel and lamprey.

Over the year we have been working with key stakeholders, including the Department of Conservation, Ngai Tahu and the South Island Eel Industry Association, to discuss ways to improve the population and habitat of longfin eel in the Clutha Mata-Au catchment.

Key to these efforts will be tracking the population of threatened species. To this end, in April a major study of resident and migrant eel populations in Roxburgh, Hawea and Dunstan lakes was completed. Over 530 nets were set, resulting in the humane capture of 1,096 longfin eel, who were all weighed, measured and released. The results of this study will help us understand the health of the eel population in our hydro lakes, and inform our trap and transfer process.

We also installed a new elver trap at the Roxburgh Dam in time for the 2018 run to support the passage of fish. The new trap has been highly successful, with over 25 kilograms caught in the last elver season, a significant improvement on last year.

In addition, we've worked with the Department of Conservation and private landowners to restore three different farmland sites for three at-risk species as part of our Native Fish Management Programme. These partnerships focussed on replanting, habitat restoration and maintenance projects, which saw volunteers plant 2,675 native species. These efforts on the Waitahuna River, Lovells Stream, and the Clutha Mata-Au River will enhance the habitat of a number of native fish species, including longfin eel (tuna), kanakana, giant kokopu, and whitebait (inanga).

Thermal

In Taranaki, local and central government, and the community are working to become the first predator-free region in New Zealand. We are supporting this through Project Stoat, a predator trapping programme at our Stratford site that has been running for two years. Over the past year, 69 predators have been trapped along two to three kilometres of stream margin.

Overall, our ongoing restoration and maintenance programmes saw a total of 66,335 trees planted in FY18 and 78 hectares protected across all operational sites since these initiatives began.

Communities have an important role as stewards and shared users of the resources we rely on for our business. Ensuring we play our part as a good neighbour and community member is an important part of maintaining our licence to operate both in the short and long term. In practical terms that means establishing long-term relationships based on trust with local stakeholders, being a trusted steward of the environments we operate in, and lending our support to good causes. Our community support is guided by local sponsorship committees that we've established at our sites.

CAUSES BIG AND SMALL

Our approach to community investment is to keep it local, and to put our energy into the causes that matter to our people and our communities.

Contact has been a long-time supporter of the Alexandra Blossom Festival, and this marks the 14th year that we have supported this family-friendly event, and the 10th year since we became the principal partner. We've also continued to support Swimwell Taupo, who we've partnered with since 2010, which saw around 3,500 students receive swimming and water safety training over the course of the year.

Also, 2018 marks the 10th anniversary of Contact Epic, a 125 kilometre race around Lake Hawea, which takes riders on a unique but gruelling tour of private and conservation land. We have been principal partner of this event since its inception, and a portion of the funds raised goes to support the Hawea District community. We also continue to operate and maintain a webcam at the top of Clyde Dam to help recreational users on Lake Dunstan gauge local weather conditions.

This year the Wairakei Charity Golf Tournament raised $27,500 to support the local animal charity CARE. The event was started 17 years ago by our people to support local charities and organisations.

In addition to these recurring events, we supported a number of individual community initiatives. In June we launched our energy audits for schools initiative in Taranaki, a pilot programme that sponsors free energy audits to help them become more efficient with their energy use. We also donated $5,000 of electricity to a shelter in Rotorua.

The Contact Renal Fund, which was started in 2009, continues to support Northland patients on dialysis to lessen the hardships they often face when dealing with treatment at home. We provided funding support to the Reporoa College CACTUS programme, a youth development programme that aims to assist local youth in their personal development. It is run by the police with support from the local community. We also raised $45,000 for Wellington Free Ambulance partly through the donation of a gift, which was auctioned at the service's 90th birthday gala.

In addition, we dedicated 1,256 employee volunteer hours to community organisations that our people have identified as good causes. Some examples of organisations supported by our people include the Porirua Homework Club, Octacan, Zealandia, Foodbank, and Lake Taupo Cycle Challenge.

Our community work has also been recognised. In December 2017 we were awarded an 8 out of 10 on the BACS Social Index, a corporate social responsibility ranking of 100 New Zealand businesses. This ranks us among the top five companies in New Zealand for community investment activities, and underscores our commitment to being a good corporate citizen.

TANGATA WHENUA

We interact with various iwi and hapu (indigenous communities) who have a special relationship with the resources that we use. We aim to be proactive in this space and have a tangata whenua strategy that guides us in maintaining these relationships, some of which have been formalised through mitigation agreements as part of our consenting processes.

We recognise that, in order to strengthen our business sustainability, these relationships have to be respectful, positive, aligned on shared long-term goals, and mutually beneficial. Our Maori internship programme, for example, aims to grow our relationships with iwi by giving people an opportunity to gain work experience, while building our capacity to grow an inclusive and diverse workplace. It enables us to learn more about one another, recognising our different viewpoints but shared values. The programme, which has been running for four years, saw six interns work on a range of projects this year, spanning from emissions data collection through to building a stakeholder registry for our sites. We also partnered with Waikato University to co-fund two of these internships.

In 2018 we teamed up with Geo40 and Ngati Tahu Tribal Lands Trust to extract silica from our geothermal fluid as part of a world-leading sustainable energy initiative. Our iwi partners on the Ohaaki steamfield will receive an ongoing revenue stream, as well as employment opportunities for tribe members, and it will also improve the clarity of a local ngawha (natural hot spring).

We have also mutually leveraged the strength of this relationship to benefit other indigenous communities. This year Contact and Ngati Tahu were awarded the prestigious 2018 US Energy Association Corporate Volunteer Award for helping power company KenGen and Maasai communities establish a sustainable partnership to co-manage geothermal resources in Kenya.

This year we also started a formal process to grow our relationship with Wairakei and Tauhara hapu, and are working to establish a Mahinga Kai trust with Ngai Tahu.

At Contact we believe that good corporate governance is important as it protects the interests of investors and creates and enhances value over the short and long term. We regularly review our corporate governance systems and are always looking for opportunities to improve the way we do things.

As at 30 June 2018, we comply with all of the recommendations of the NZX Corporate Governance Code. Our full reporting against the NZX Code is set out in our Corporate Governance Statement, which is available on our website at contact.co.nz/aboutus/investor-centre/governance. A summary of our corporate governance practices is set out in this section of the annual report.

Unless otherwise stated all of the information in this section is current as at 30 June 2018.

CONTACT'S BOARD

The Board's role and responsibilities

Our Board is elected by our shareholders and is accountable to them for the performance of Contact. The Board's primary role is to ensure the long-term prosperity of Contact. Specific responsibilities include:

- setting and approving the strategic direction of Contact
- monitoring financial performance
- ensuring appropriate systems are established to manage risk
- reviewing and approving our compliance systems
- overseeing our commitment to our tikanga.

Board composition

Our Board consists of six directors, with a wide range of skills, experience and points of view. The Contact Board is one of the most diverse in the top 50 New Zealand listed companies, with 50% female representation and two directors who are highly regarded for their Maori heritage. Profiles of each director, including length of service, are set out on page 8.

The Board has developed a skills matrix, which sets out the skills that the Board believes are necessary for Contact's success and measures the key skills of each director against the desired skills. It is not expected that every director will be an expert in every area, but all skills should be represented in the Board as a whole. Candidates for appointment are assessed against the skills matrix with a focus on areas of competence the Board is looking to acquire with any new appointments.

One-third of our directors is required by our constitution to retire by rotation at each annual meeting and are eligible to stand for re-election by shareholders. That means each director is up for re-election at least every three years. Information about candidates for election or re-election is included in the notice of meeting to assist shareholders' decision as to whether or not to elect or re-elect the candidate.

The Board considers all of the current directors to be independent in that they are not executives of the company and do not have a direct or indirect interest or relationship that could reasonably influence, in a material way, their decisions in relation to Contact.

Board performance

We recognise the value of professional development and the need for directors to remain current in relation to both industry and corporate governance matters. Contact assists directors with their professional development in a number of ways, including an induction programme for new directors and briefings to upskill the Board on new developments, such as changes to relevant law.

Reviews of the performance of the Board and individual directors are carried out regularly to ensure the Board as a whole and individual directors are performing to a high standard. A comprehensive review is carried out every two years, the last one being an external review of individual directors, the Board and committees by Propero Consulting Limited in FY17. In FY18, the Board has focussed on implementing the recommendations that came out of this review. In addition, a review of the performance of each director standing for re-election at the annual meeting is carried out before that meeting and the Board's recommendation on re-election, as a result of that review, is made available to shareholders in the notice of meeting.

Board committees

The Board has established Board committees to perform work and provide specialist advice in particular areas. We have three standing committees: the Audit Committee; the Remuneration and Nominations Committee; and the Health, Safety and Environment Committee. Members are chosen for the skills, experience and other qualities they bring to the relevant committee.

The current members of the committees are:

Committee	Members
Audit	Sue Sheldon (chair)[1] Whaimutu Dewes, Rob McDonald
Remuneration and Nominations	Sir Ralph Norris (chair)[1] Victoria Crone, Sue Sheldon
Health, Safety and Environment	Whaimutu Dewes (chair) Victoria Crone, Elena Trout

1. Dame Therese Walsh will be Audit Committee chair and Rob McDonald will be Remuneration and Nomination Comittee chair from 1 September 2018.

Each committee operates under a written charter, which is available on our website. Detailed information about the role and responsibilities of each committee is available in our Corporate Governance Statement.

Attendance at Board and committee meetings

	Board	Audit Committee	Health, Safety and Environment Committee	Remuneration and Nominations Committee
Number of meetings	**11**	**3**	**3**	**3**
Sir Ralph Norris	11	3*	2*	3
Victoria Crone	10		2	3
Whaimutu Dewes	11	3	3	1*
Rob McDonald	11	2		1*
Sue Sheldon	11	3		3
Elena Trout	11	2*	3	

* The relevant director is not a member of the committee, but attended as an observer.

OUR CORPORATE POLICIES

Code of conduct

We are guided by our tikanga – our set of beliefs, comprising our purpose, commitments, principles and behaviours. These beliefs guide the actions we take, both as individuals and as an organisation, our decision-making and the way we treat each other and our customers, shareholders and the communities we are part of.

Our Code of Conduct outlines how Contact people are expected to behave. It applies equally to our directors, employees and contingent workers (such as contractors). Our tikanga sits at the heart of our Code of Conduct.

Contact people are encouraged to report breaches, or suspected breaches, of the Code of Conduct to their manager, a Leadership Team member or a representative from People and Safety. Breaches of the Code of Conduct or other serious wrongdoing may also be reported via the 'whistleblowing' procedures of our Protected Disclosures (Whistleblowing) Policy, which includes an option for people to report an issue or potential issue through an independent reporting service.

Securities trading

Our Securities Trading Policy sets out Contact's expectations and requirements for all our people, including directors, when buying, selling or otherwise dealing with Contact shares or bonds.

In addition to the prohibition on insider trading, Contact people must not buy or sell Contact securities during 'blackout periods'. These blackout periods occur twice per year, before each of the half- and full-year results. Certain individuals within Contact, including the directors, all members of the Leadership Team and some others ('restricted persons') must obtain the written consent of the company before buying or selling Contact securities (which can only occur outside of blackout periods).

We offer our people training on insider trading law and Contact procedures. Anyone who, from time to time, is likely to be in possession of material information about Contact that is not available to the market is required to complete this training every year. Through our share registrar, Link Market Services (Link), we actively monitor trading in Contact shares by our restricted persons.

Inclusion and diversity

We believe an inclusive culture and a diverse workforce leads to diversity of thought, better decision-making, drives stronger business performance, and creates a stronger economy and a better world.

Our Inclusion and Diversity Policy, which was approved by the Board in June 2017, provides the framework for diversity and inclusion initiatives at Contact. Our diversity objectives are set by the Board. Each year the Board reviews the objectives with management and assesses our progress towards meeting them. Details about these objectives, and our evaluation of how well we are performing in respect of them, is set out on page 21.

Health, safety and environment

Our commitment to health, safety and the environment is outlined in our Health, Safety and Environment Policy. Under this policy, health, safety and environmental risks are managed through effective leadership and by engaging our people in health, safety and environmental activities. We work with our people to develop robust processes and procedures that lay the foundation for safe and sustainable work. By focussing on learning and improving and empowering workers at the front line to actively manage safety outcomes, we continually strengthen our capacity to fail safely and reduce our environmental impact.

REPORTING AND DISCLOSURE

Continuous disclosure

We are committed to ensuring that all of our investors have timely access to full and accurate material information about Contact. Our Market Disclosure Policy sets out procedures that are in place to make sure all material information is identified, reported for review and, where required, disclosed in a timely manner. It also describes the procedures that have been adopted to prevent the selective disclosure of material, non-public information.

Under the policy, Leadership Team members and other executives are required to escalate any potential 'material information' matters to the CEO, CFO and General Counsel (the Disclosure Group). The Disclosure Group is ultimately responsible for approving the form and content of material information that is disclosed. The Company Secretary then coordinates disclosure to the market. We also monitor information in the market about Contact and will release information to the extent necessary to prevent development of a false market for Contact shares.

Financial reporting

The Audit Committee oversees the preparation of our financial statements, including materiality guidance and setting policy to ensure the information presented is useful for investors and other stakeholders. We make our financial statements easy to read by using clear, plain language, and structure them so that key information is presented at the beginning. In addition to the full-year audit, our auditors complete a review of the half-year financial statements and we undertake an internal certification process to ensure the information presented is accurate, balanced and objective.

Non-financial reporting

As part of our commitment to providing our investors and other stakeholders with access to all relevant information about Contact, we report on material environmental, social and governance factors and practices in accordance with the Global Reporting Initiative (GRI) guidelines in our annual report. We've chosen to use GRI because it is an internationally recognised framework under which we can present information on the particular matters that are significant for Contact and our stakeholders. While we do not have a policy on the assurance of non-financial or sustainability data, our sustainability reporting data is independently reviewed by Ernst & Young.

RISK MANAGEMENT AND ASSURANCE

Risk management

Our Board has established a robust risk management framework across the business, which is aligned to the International Standard ISO 31000, Risk Management – Principles and Guidelines. Our framework ensures that there are appropriate systems in place to identify material risks Contact faces. We make sure that we understand the potential impact of identified risks and that, where applicable, appropriate tolerance limits are set by the Board. Our framework ensures that responsibilities are assigned to individuals to manage identified risks and that any material changes to Contact's risk profile are monitored.

Assurance

Our Business Assurance Team fulfils our internal audit function and provides objective assurance of the effectiveness of our internal control framework. The team is based in-house, but draws on external expertise where required.

The team helps us to achieve our objectives by bringing a disciplined approach to evaluating and improving the effectiveness of risk management, internal controls and governance processes. We use a risk-based assurance approach driven from our risk management system. The Business Assurance Team also assists external audits by making findings from the internal assurance process available for the external auditor to consider when providing their opinion on the financial statements. The team has unrestricted access to all other departments, records and systems of Contact, and to the external auditor and other third parties as it deems necessary.

Auditors

We recognise that the role of our external auditor is critical for the integrity of our financial reporting. KPMG is our external auditor and our audit partner is David Gates. David has been our audit partner for three financial years.

Our External Audit Independence Policy sets out the framework under which we ensure the independence of the external auditors is maintained and that their ability to carry out their statutory audit role is not impaired. Under this policy, the external auditor may not undertake any work for Contact that compromises, or is seen to compromise, the independence and objectivity of the external audit process. In addition, KPMG confirms their continuing independent status to the Board every six months.

Before KPMG undertakes any non-audit work for Contact, specific approval must be given by the Audit Committee or the Audit Committee chair. Approval will only be given where the performance of such work does not compromise KPMG's independence. There was no non-audit work undertaken by KPMG during the year.

Representatives from KPMG attend Contact's annual shareholder meeting each year, where they are available to answer any questions from shareholders in relation to the audit.

INVESTOR RELATIONS

Investor relations programme

We have designed and implemented an investor relations programme to facilitate effective two-way communication with investors. The investor relations programme provides the context in which shareholders and potential investors can make an informed judgement about the fair value of Contact's shares consistently over time.

A primary aim of our investor relations programme is to allow investors and other financial market participants to gain a greater understanding of Contact's business, governance, financial performance and prospects. It also provides an opportunity for investors and other financial market participants to express their views on matters of concern or interest to them, and for those views to then be distilled and communicated to our Board.

Investor communication and information

Our website is regularly updated. It contains brief biographies of directors, the CEO and Leadership Team; financial and operational information (including copies of annual reports and financial statements); details of previous annual shareholder meetings; key governance documents; and copies of NZX/ASX announcements. To ensure that our investors and the market are kept up-to-date, we release a regular operating report that sets out key information about Contact's performance. These reports are also available on our website.

Annual shareholder meeting

Our last annual shareholder meeting was held in Auckland on 11 October 2017. We hold the annual meeting in a location and at a time that enables a number of shareholders to attend. There were 147 shareholders at our 2017 meeting (167 shareholders in 2016). A webcast of the meeting is made available on our website for those shareholders who are unable to attend. Our directors, CEO and members of our Leadership Team attend the meeting each year and really enjoy the opportunity to meet and talk with our shareholders.

Our notice of meeting is sent to all of our shareholders and posted on our website. Voting at our annual shareholder meeting in October 2017 was by poll (i.e. one vote per share) and we will continue this practice at our shareholder meeting in 2018.

For more detailed information about our corporate governance practices see our Corporate Governance Statement at:
contact.co.nz/aboutus/investor-centre/governance

Remuneration Report

Contact is committed to ensuring that the remuneration of Board Directors, the Chief Executive Officer, Leadership Team and all of our people at Contact is transparent, fair and reasonable.

DIRECTORS' REMUNERATION

The total directors' fee pool is $1,500,000 per annum. It has not been increased since it was approved by shareholders in 2008. Actual fees paid to directors are determined by the Board on the recommendation of the Remuneration and Nominations Committee.

The remuneration scale for directors at 30 June 2018 is set out below. Between FY17 and FY18, the fees increased by between 1.5% and 2.5%, with no increase to the Board Chairman's fees. The overall increase was 1.7%. The remuneration scale for directors for the year ending 30 June 2019 is also set out below. The Board has approved a 1.5% increase to base director fees, with an 8% reduction to the Board Chairman's fee and approximately 30% reduction to the Audit Committee fees.

	FY18		FY19	
	Chairman per annum	**Member per annum**	**Chairman per annum**	**Member per annum**
Board of Directors[1]	$300,000	$133,000	$275,000[2]	$135,000
Audit Committee	$61,500	$33,000	$45,000[2]	$22,500[2]
Health, Safety and Environment Committee	$25,000	$12,750	$25,000	$12,750
Remuneration and Nominations Committee	$25,000	$12,750	$25,000	$12,750

1. No additional fees are paid to the Board Chairman for committee roles.
2.Takes effect 1 September 2018.

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

Details of the total remuneration received by each Contact director for FY18 are as follows:

Directors	Board fees	Audit Committee	Health, Safety and Environment Committee	Remuneration and Nominations Committee	Total Remuneration
Sir Ralph Norris (Chairman)[1]	$300,000			$0	$300,000
Victoria Crone	$133,000		$12,750	$12,750	$158,500
Whaimutu Dewes	$133,000	$33,000	$25,000		$191,000
Rob McDonald	$133,000	$33,000			$166,000
Sue Sheldon	$133,000	$61,500		$12,750	$207,250
Elena Trout	$133,000		$12,750		$145,750
Total	**$965,000**	**$127,500**	**$50,500**	**$25,500**	**$1,168,500**

1. Inclusive of Committee fees.

CHIEF EXECUTIVE OFFICER REMUNERATION

The CEO's remuneration is approved by the Board on the recommendation of the Remuneration and Nominations Committee. The remuneration 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 total remuneration paid includes a fixed remuneration component comprising cash salary and other employment benefits, and pay for performance remuneration comprising short-term incentives (cash and equity awarded through deferred share rights) and long-term incentives (equity awarded through share options and performance share rights). The CEO has a four month notice period.

CEO remuneration for performance periods ended 30 June 2017 and 30 June 2018

	Fixed remuneration			Pay for performance remuneration				Total remuneration
	Salary paid $	Benefits[1] $	Subtotal $	Cash STI $	Equity STI $	Equity LTI $	Subtotal $	$
FY18	958,306	44,202	1,002,508	529,100[2]	177,008[4]	481,000[6]	1,187,108	2,189,616
FY17	939,834	42,026	981,860	471,200[3]	157,381[5]	471,200[7]	1,099,781	2,081,641

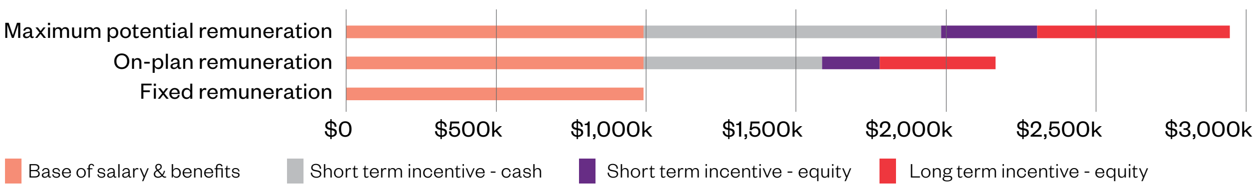
1. Benefits include 3% KiwiSaver contribution and health insurance.
2. STI for FY18 period, paid in FY19.
3. STI for FY17 period, paid in FY18.
4. Equity – based on fair value allocation, performance hurdles tested 2020, if met will be paid in shares.
5. Equity – based on fair value allocation, performance hurdles tested 2019, if met will be paid in shares.
6. Equity – based on fair value allocation, performance hurdles tested 2021 and 2022, if met will be paid in shares.
7. Equity – based on fair value allocation, performance hurdles tested 2020 and 2021, if met will be paid in shares.

Pay for performance remuneration breakdown for the year ended 30 June 2018

Scheme	Description	Performance measure	Percentage awarded %
Cash STI	Cash STI is a discretionary scheme based on achievement of KPIs. *Maximum potential set at 100% of base salary.*	60% based on corporate shared KPIs: • *60% free cash flow* • *30% earnings per share* • *10% total recordable incident frequency rate* 40% based on individual KPIs being engagement, costs, corporate reputation and executive capability.	55% (payable in September 2018)
Equity STI (awarded as deferred share rights)	Equity STI allows the CEO to acquire shares at a $0 exercise price subject to the time-bound exercise hurdle being achieved. *Maximum potential set at 33.4% of base salary.*	The CEO's performance rating influences the Equity STI awarded by the Board. The exercise hurdle to receive these is to remain employed by Contact 2 years from the grant date.	18.4% (To be granted 1 October 2018 and tested October 2020)
Equity LTI (awarded as options and performance share rights)	Equity LTI allows the CEO to acquire shares at the specified exercise price subject to the exercise hurdle being achieved. *Maximum potential set at 66.6% of base salary.*	The CEO's performance rating influences the Equity LTI awarded by the Board. The exercise hurdle to receive these is Contact's relative total shareholder return (TSR) ranking within a peer group of other New Zealand NZX50 listed utilities companies. Tested twice over a 4-year period at year 3 and year 4. 50% vesting at 50th percentile and 100% at 75th percentile; pro-rata vesting in between.	50% (To be granted 1 October 2018 and tested October 2021 and 2022)

CEO remuneration

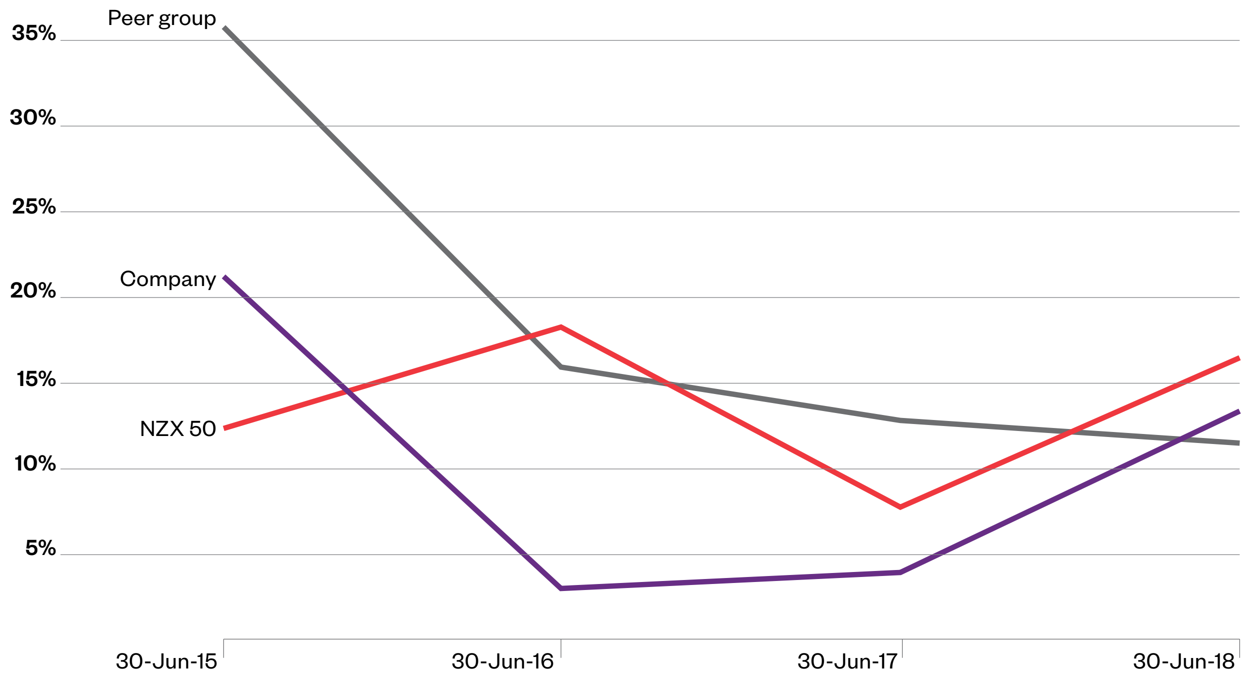
The scenario chart below demonstrates the elements of the CEO remuneration design for the year ending 30 June 2018.



	Total Remuneration Paid[1] $	Percentage Cash STI awarded against maximum %	Percentage vested Equity STI against maximum %	Span of Equity STI performance period	Percentage vested Equity LTI against maximum %	Span of Equity LTI performance period
FY18	2,189,616	55%	100%	2015-2017	0%	n/a
FY17	2,081,641	50%	0%	n/a	0%	n/a
FY16	1,875,948	45%	100%[2]	2014-2016	100%	2010-2013 2011-2014 2012-2015 2013-2016 2014-2017
FY15	1,210,145[3]	35%	0%	n/a	0%	n/a
FY14	1,463,316[3]	69%	0%	n/a	0%	n/a

1. Total remuneration paid includes salary, benefits, cash STI, and Equity STI and LTI fair values which have been allocated but awards are subject to achievement of performance hurdles.
2. 100% of Equity STI and LTI vested in August 2015 as a result of Origin selling its shareholding in Contact triggering vesting of equity due to the change of control.
3. Dennis Barnes was seconded to the role of CEO by his employer Origin Energy Limited from April 2011 until August 2015. During the term of the secondment remuneration paid by Contact to Dennis Barnes was processed by Contact reimbursing Origin Energy for his costs. The figures provided confirm his base salary level and cash STI for the periods.

Four year summary TSR performance graph



EMPLOYEE REMUNERATION

We are committed to paying appropriate market levels for roles, ensuring employees are being rewarded appropriately given their performance and experience.

There are three components to employee remuneration – fixed remuneration, pay for performance 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.

Pay for performance remuneration

Pay for performance 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 that have a maximum potential level set reflecting the employee position grade 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 those of Contact's shareholders. These are subject to performance hurdles.

Equity scheme

At 30 June 2018 there were 86 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 E9 to the financial statements.

Contact does not implement any clawback practices on employee remuneration other than in situations permitted by New Zealand legislation (e.g. for correction of overpayments).

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 68; 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 received remuneration and other benefits during FY18 of at least $100,000 for the year ended 30 June 2018.

The value of remuneration benefits analysed includes:

- fixed remuneration including allowance/overtime payments
- employer superannuation contributions
- short-term cash incentives relating to FY17 performance but paid in FY18
- the value of equity-based incentives received during FY18
- the value of Contact Share received during FY18
- redundancy and other payments made on termination of employment.

The figures do not include amounts paid post 30 June 2018 that relate to the year ended 30 June 2018. The remuneration (and any other benefits) of the CEO, Dennis Barnes, is disclosed in the CEO remuneration section on page 34.

Remuneration band	Number of employees
$100,001-$110,000	49
$110,001-$120,000	51
$120,001-$130,000	35
$130,001-$140,000	39
$140,001-$150,000	64
$150,001-$160,000	33
$160,001-$170,000	24
$170,001-$180,000	15
$180,001-$190,000	13
$190,001-$200,000	10
$200,001-$210,000	9
$210,001-$220,000	5
$220,001-$230,000	6
$230,001-$240,000	4
$240,001-$250,000	3
$250,001-$260,000	1
$260,001-$270,000	4
$270,001-$280,000	4
$280,001-$290,000	4
$290,001-$300,000	1
$300,001-$310,000	3
$320,001-$330,000	3
$330,001-$340,000	1
$340,001-$350,000	3
$350,001-$360,000	2
$360,001-$370,000	2
$370,001-$380,000	1
$390,001-$400,000	1
$410,001-$420,000	1
$420,001-$430,000	1
$440,001-$450,000	1
$480,001-$490,000	1
$510,001-$520,000	1
$530,001-$540,000	1
$650,001-$660,000	1
$730,001-$740,000	1
$860,001-$870,000	1
Total	**399**

1. Includes 31 former employees.

DISCLOSURES OF INTERESTS BY DIRECTORS

The following are particulars of general disclosures of interest by directors holding office as at 30 June 2018, 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	
Auckland Grammar School Foundation Trust	Trustee
Fletcher Building Limited[1]	Chairman
RANQX Holdings Limited	Director
The Parenting Place Board	Member
University of Auckland	Council Member

Victoria Crone	
Callaghan Innovation	Chief Executive Officer
Figure.NZ	Chair

Whaimutu Dewes	
Aotearoa Fisheries Limited	Chairman
Kura Limited	Chairman
Ngati Porou Berries Limited	Director
Ngati Porou Fisheries Limited	Chairman
Ngati Porou Forests Limited	Chairman
Ngati Porou Holding Company Limited	Director
Ngati Porou Seafoods Limited	Director
Ngati Porou Whanui Forests Limited	Chairman
Pupuri Taonga Limited	Director
Real Fresh Limited	Director
Sealord Group Limited	Chairman
Whainiho Developments Limited	Managing Director/ shareholder

Rob McDonald	
Chartered Accountants Australia & New Zealand	Director
Fletcher Building Limited[2]	Director
Sovereign Assurance Company Limited	Director
McDonald Family Trust	Trustee

1. Until 1 September 2018
2. From 1 September 2018

Sue Sheldon	
Auckland Council Audit and Risk Committee	Independent Chair
Audit and Risk Management Committee of the Christchurch City Council[3]	Independent Chair
FibreTech New Zealand Limited	Chairman
Freightways Limited[4]	Chairman
Real Journeys Limited	Director
Regenerate Christchurch	Chairman
Sue Sheldon Advisory Limited	Director

Elena Trout	
Joint NZ Defence Force and Ministry of Defence Capability Management Board	External Advisory Member
Electricity Efficiency and Conservation Authority (EECA)	Director
Harrison Grierson Holdings Limited	Director
Low Emissions Vehicle Fund (a fund from EECA budget)	Chair
Marsden Maritime Holdings Limited	Director
Motiti Investments Limited	Director
Ngapuhi Asset Holding Company Limited	Director
Ngapuhi Books and Stationery Limited	Director
Ngapuhi Food & Beverage Limited	Director
Ngapuhi Service Station Limited	Director
Unitec[5]	Council Member

3. Until 2 July 2018
4. Until 25 October 2018
5. Until 23 July 2018

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 2018

Director	Ordinary shares	Bonds
Sir Ralph Norris	20,000	-
Whaimutu Dewes	20,011	-
Rob McDonald	30,000	35,000
Sue Sheldon	21,803	-
Elena Trout	16,000	-

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 securities as follows:

Director	Date of acquisition	Nature of transaction	Consideration per share	Number of shares acquired
Elena Trout	20/09/17	On-market purchase of shares	$5.46	8,000
	15/03/18	On-market purchase of shares	$5.25	8,000

SUBSIDIARY COMPANY DIRECTORS

The following people held office as directors of Rockgas Limited during the year ended 30 June 2018. No director of Rockgas Limited received additional remuneration or benefits in respect of their directorships.

Company	Directors
Rockgas Limited	Dennis Barnes Graham Cockroft Jacqui Nelson

SHAREHOLDER STATISTICS

Twenty largest shareholders at 30 June 2018

	Number of ordinary shares	% of ordinary shares
HSBC Nominees (New Zealand) Limited – NZCSD[1]	84,886,729	11.85
JP Morgan Chase Bank – NZCSD[1]	67,275,908	9.39
Citibank Nominees (NZ) Limited – NZCSD[1]	50,595,195	7.06
HSBC Nominees (New Zealand) Limited – NZCSD[1]	46,883,930	6.55
Accident Compensation Corporation – NZCSD1	31,995,407	4.47
National Nominees New Zealand Limited – NZCSD[1]	27,668,637	3.86
HSBC Custody Nominees (Australia) Limited	26,044,868	3.64
J P Morgan Nominees Australia Limited	22,779,573	3.18
FNZ Custodians Limited	22,099,439	3.09
Cogent Nominees Limited – NZCSD[1]	19,606,558	2.74
Tea Custodians Limited– NZCSD[1]	15,735,175	2.20
New Zealand Superannuation Fund Nominees Limited – NZCSD[1]	15,652,664	2.19
BNP Paribas Nominees NZ Limited – NZCSD[1]	10,521,464	1.47
National Nominees Limited	10,257,027	1.43
Premier Nominees Limited – NZCSD[1]	9,644,109	1.35
Custodial Services Limited	9,389,805	1.31
JB Were (NZ) Nominees Limited	8,958,100	1.25
Private Nominees Limited – NZCSD[1]	7,620,622	1.06
Citicorp Nominees Pty Limited	6,462,296	0.90
Custodial Services Limited	6,377,665	0.89
Total for top 20	**500,455,171**	**69.88**

1. New Zealand Central Securities Depository Limited (NZCSD) is a depository system which allows electronic trading of securities to members. As at 30 June 2018, total holding in NZCSD were 406,849,885 or 56.8% of shares on issue.

Distribution of ordinary shares and shareholders at 30 June 2018

Size of holding	Number of shareholders	% of shareholders	Number of ordinary shares	% of ordinary shares
1 – 1,000	29,394	45.73	19,193,844	2.68
1,001 – 5,000	29,618	46.08	52,916,765	7.39
5,001 – 10,000	3,193	4.97	22,482,405	3.14
10,001 – 50,000	1,850	2.88	34,916,958	4.87
50,001 – 100,000	127	0.20	8,948,010	1.25
100,001 and over	93	0.14	577,828,588	80.67
Total	**64,275**	**100.00**	**716,286,570**	**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 2018:

Substantial product holder	Number of ordinary shares in which relevant interest is held	Date of notice
AustralianSuper Pty Ltd	37,327,277	1 October 2015

The total number of voting securities of Contact at 30 June 2018 was 716,286,570 fully paid ordinary shares.

BONDHOLDER STATISTICS

Retail fixed rate bonds (CEN020) at 30 June 2018

Size of holding	Number of bondholders	% of bondholders	Number of bonds	% of bonds
1,001 – 5,000	195	8.26	973,334	0.44
5,001 – 10,000	506	21.42	4,846,500	2.18
10,001 – 50,000	1,343	56.86	37,656,500	16.96
50,001 – 100,000	196	8.30	16,659,000	7.50
100,001 and over	122	5.17	161,864,666	72.91
Total	**2,362**	**100.00**	**222,000,000**	**100.00**

Retail fixed rate bonds (CEN030) at 30 June 2018

Size of holding	Number of bondholders	% of bondholders	Number of bonds	% of bonds
1,001 – 5,000	61	7.46	305,000	0.20
5,001 – 10,000	141	17.24	1,335,000	0.89
10,001 – 50,000	435	53.18	12,337,000	8.22
50,001 – 100,000	87	10.64	7,111,000	4.74
100,001 and over	94	11.49	128,912,000	85.94
Total	**818**	**100.00**	**150,000,000**	**100.00**

Retail fixed rate bonds (CEN040) at 30 June 2018

Size of holding	Number of bondholders	% of bondholders	Number of bonds	% of bonds
1,001 – 5,000	37	10.45	183,000	0.18
5,001 – 10,000	78	22.03	751,000	0.75
10,001 – 50,000	184	51.98	4,926,000	4.93
50,001 – 100,000	22	6.21	1,683,000	1.68
100,001 and over	33	9.32	92,457,000	92.46
Total	**354**	**100.00**	**100,000,000**	**100.00**

NZX WAIVERS

There were no waivers granted by NZX or relied on by Contact in the 12 months preceding 30 June 2018.

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 three issues of retail bonds listed and quoted on the New Zealand Debt Market (NZDX) under the company codes 'CEN020' (2014 series), 'CEN030' (2015 series) and 'CEN040' (2017 series). Contact's listing on the ASX is as a Foreign Exempt Listing. For the purposes of ASX listing rule 1.15.3, Contact confirms that it continues to comply with the NZX listing rules.

EXERCISE OF NZX DISCIPLINARY POWERS

NZX did not exercise any of its powers under Listing Rule 5.4.2 in relation to Contact during FY18.

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 FY18 was $520,000 and $2,500 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 $3,227 in FY18. 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. We also donated $5,000 of electricity to a shelter in Rotorua and raised $45,000 for Wellington Free Ambulance through the donation of a gift.
No political contributions were made during the year.

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 $100 million unsubordinated, unsecured fixed rate bonds issued in February 2017 are rated BBB by Standard & Poor's.

The sustainability aspects reported in this annual report cover the operations of Contact Energy Limited and its subsidiary Rockgas for the period 1 July 2017 – 30 June 2018.

Contact does not have a policy on the assurance of non-financial or sustainability data.

1. MEMBERSHIPS OF ASSOCIATIONS OR ADVOCACY ORGANISATIONS

Holds a position on the governance body	Participates in projects or committees
Electricity Retailers' Association of New Zealand (ERANZ)	Retailers' Working Group Forum
Gas Industry Company	Business New Zealand Energy Council
Electricity Authority Market Development Advisory Group	The Sustainable Business Council
Liquigas Limited	Land and Water Forum
	Liquefied Petroleum Gas Association
	Retailer Forum
	ERANZ Vulnerable & Medically Dependent Customer (VCMDC) Working Group

2. EXTERNAL COMMITMENTS

Organisation/Group	Date of adoption	Commitment
Climate Leaders Coalition	July 2018	• To measure our greenhouse gas emissions and publicly report on them. • To set a public emissions reduction target consistent with keeping within 2 degree of warming. • To work with our suppliers to reduce their greenhouse gas emissions. • We support the Paris Agreement and NZ's commitment to it. • We support the introduction of a climate commission and carbon budgets enshrined in law.
Science Based Targets Initiative - Committed	March 2018	• To set a science based emissions reduction target within a year of signing up.
Sustainable Business Council Platform for Action on Climate and Emissions	November 2017	• Committed to setting emission reduction targets that, at a minimum, align with New Zealand's national target under the Paris Agreement (30% by 2030 vs 2005 levels). • Publicly reporting on progress towards targets. • Collaborating with others and sharing learnings on emissions reduction activities. • Encourage other organisations to be part of the movement.

3. EMISSIONS DATA AS AT 30 JUNE 2018

Contact uses the Greenhouse Gas Protocol to guide its emissions reporting. Emissions are reported on an operational control basis with a base year of FY12 which represents the year of Contact's peak emissions. This year Contact is expanding its emissions reporting to include Scope 2 and 3 emissions. Given this change, FY18 will form the base year for all greenhouse gas emissions reporting going forward. As per the Contact Energy policy for the recalculation of base year emissions data, any structural, methodological or other changes identified that change the emissions reported by more than 5% will trigger a recalculation of the base year and the current reporting year.

Our emissions data includes all gases as per the most recent Intergovernmental Panel on Climate Change (IPCC) report. Emission factors are sourced from the Ministry for the Environment except in the following cases: Scope 1 – gas field specific emissions factors are provided by the supplier and geothermal field specific factors approved under the Climate Change Unique Emissions Factor regulations 2009. SF6 is sourced from the IPCC fifth assessment report. Scope 3 – category 3 emissions factors are sourced from the Carnegie Mellon University Economic Input-Output lifecycle assessment.

For more detail on FY18 emissions refer to the Greenhouse Gas Inventory document on contact.co.nz.

Scope 1 emissions

This table reports Contact's scope 1 greenhouse gas emissions (tCO2e) directly emitted through our operations and includes emissions from our power stations, vehicles and the use of SF6.

	Emissions (tCO2)			Thermal Generation Emission Intensity (tCO2 per MWh)			Total Generation Emission Intensity (tCO2 per MWh)		
	FY18 (Audited)	FY17 (Unaudited)	FY12 (Unaudited)	FY18 (Audited)	FY17 (Unaudited)	FY12 (Unaudited)	FY18 (Audited)	FY17 (Unaudited)	FY12 (Unaudited)
Fuel used for generation	1,184,289	1,141,534	2,425,978	0.534	0.509	0.460	0.137	0.134	0.244
Fuel used in vehicles[1]	1,072	1,039[3]							
Fugitive emissions - SF6[2]	2.35	2							
Total	**1,185,363**	**1,142,575**							

1. Vehicle emissions were not recorded in FY12.
2. SF6 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.
3. FY17 emissions have been restated due to incorrect vehicle emissions calculation.

Scope 2 and 3 emissions

Scope	Category	FY18 tCO2e
Indirect Emissions (Scope 2) (Audited)	Electricity Consumption	759
Indirect Emissions (Scope 3) (Unaudited)	Capital Goods	13,899
	Fuel & Energy	77,049
	Waste	134
	Business Travel	1,182
	Use of Sold Products	219,870
	Franchises	4,536
	Subtotal	**316,670**
Total (Scope 1, 2 and 3)		**1,502,792**

4. CLIMATE RELATED RISKS

Timeframe	Reduced margin or revenue due to:	Improved margin or revenue due to:
Short term (now – 2020)	• Outdated or uncertain regulation drives inefficient adoption of new technologies or otherwise adversely impacts transition to electricity as a low carbon fuel • Regulatory interventions lead to additional costs that cannot be recovered from customers and Contact faces a higher cost than its competitors	• Increased electricity demand from customers transitioning to electricity as a lower carbon fuel • Opportunities to become an originator of carbon units at a price that is lower than the market price
Medium term (2020-2050) (all short term risks and opportunities continue)	Demand impacts: • Customer adoption of new technologies and/or energy efficient products reduces demand for grid connected electricity • The costs imposed on NZ customers related to climate policies result in production being transferred to other countries resulting in lower demand for electricity (carbon leakage) • The costs imposed on NZ customers related to climate policies are not high enough, or policy direction not certain enough, to incentivise a switch to low carbon electricity Supply impacts: • Overbuild of new low carbon generation lowers wholesale prices reducing the value of existing assets • Wholesale market conditions (whether through regulation or otherwise) fail to reward dispatchable capacity resulting in electricity shortages and an adverse regulatory response • The costs imposed on Contact's business related to climate policies (e.g. carbon costs, emissions reduction targets) impact Contact more than its competitors and are unable to be recovered from customers • A new technology aimed at reducing emissions bypasses grid connected electricity and/or a digital retailer	Demand impacts: • Electrification of transport and industry grows demand for electricity increasing prices • Customer uptake of new technologies enables Contact to grow its product and service offering • NZ's clear regulatory direction and low carbon electricity attracts new large customers to NZ • Direct use of low carbon geothermal energy becomes a preferred heat source for industry Supply impacts: • Grids operate as platforms for competitive models to roll out new technologies and customer offerings and Contact grows its business • Contact's thermal plant is rewarded for its important role in the low carbon electricity transition • Contact is able to develop new low carbon supply as demand for low carbon electricity grows
Long term (2050-onwards) (all short and medium term risks continue)	Demand Impacts • Costs imposed on customers due to weather extremes result in reduced demand for Contact's services Supply Impacts • Costs imposed on Contact's business due to weather extremes (impacting fuel supplies or operational plant and property) impact Contact more than its competitors and cannot be recovered from customers	Demand Impacts: • Ongoing electrification increases demand for electricity and associated central or distributed generation growth for Contact Supply Impacts • Contact is able to develop new low carbon solutions to meet growing demand

5. GREEN BORROWING PROGRAMME

In line with our commitment to a low carbon economy, Contact has a Green Borrowing Programme to finance Contact's past and future renewable energy generation investments. This is a progressive approach to financing and provides investors and lenders with an opportunity to access a broad range of accredited green debt instruments where proceeds have been applied to eligible green assets.

The Green Borrowing Programme is described in Contact's Green Bond Framework ("Framework"), which aligns with the Green Bond Principles and is certified by the Climate Bonds Initiative (CBI) under Climate Bond Standard V2.1 with assurance from EY. The Framework, CBI certification and EY's latest annual assurance statement is available on contact.co.nz. The Framework articulates which of Contact's debt instruments and assets qualify as green, and provides for a comprehensive compliance and disclosure regime to ensure the Climate Bonds Standard V2.1 is always met, in turn ensuring that the existing CBI certification remains in place. A key compliance indicator is the "Green Ratio" whereby the total green asset value must be at least equal to total green debt (i.e. a ratio of 1.0 minimum). This indicator is reported on a half yearly basis.

The following table sets out the total green asset value and total green debt for the current reporting period, and confirms that the Green Ratio is met at 1.08. Contact confirms to the best of its knowledge that its Green Borrowing Programme continues to remain in compliance with the CBI certification in place, including the requirements of the Climate Bond Standard V2.1.

Geothermal Assets data as at 30 June 2018	Book Value $m	Generation (GWh)	Emissions (CO2)	Emissions Intensity (gCO2e/KWh)	Compliance with CBI standards (< 100 gCO2e/KWh)
Poihipi[1]	162	411	15,796	38	Yes
Tauhara[1]	97	-	-	N/A	Yes
Te Mihi[1]	546	1,372	60,608	44	Yes
Te Huka[1]	110	198	7,395	37	Yes
Wairakei[1]	884	1,062	24,559	23	Yes
Tenon[1]	4	110	1,308	12	Yes
Ohaaki	114	280	107,812	385	No
Geothermal portfolio total/average	**1,917**	**3,433[2]**	**217,478**	**63**	Yes
Eligible Green Asset total/average	**1,803.36**	**3,153**	**109,666**	**34.78**	Yes
Total Eligible Green Debt Instruments (refer Borrowing Note)	**1,672**				
Green Ratio (total Eligible Green Assets / total Green Debt Instruments)	**1.08**				

1. Eligible green asset in relation to Contact's Green Borrowing Programme
2. Includes direct heat sold to Tenon

6. WORKFORCE BY GENDER AND EMPLOYMENT TYPE AS AT 30 JUNE 2018[1]

FY18	Total Headcount	Female	Male	Fixed Term	Permanent	Part Time	Full time
Officers[2]	6	2	4	-	6	-	6
Corporate	107	57	50	6	101	15	92
Customer	548	296	252	28	520	67	481
Generation	317	59	258	8	309	24	293
Total	**978**	**414**	**564**	**42**	**936**	**106**	**872**

FY17	Total Headcount	Female	Male	Fixed Term	Permanent	Part Time	Full time
Officers[2]	6	2	4	-	6	-	6
Corporate	137	75	62	6	131	12	119
Customer	563	314	249	75	488	55	433
Generation	320	55	265	8	312	14	298
Total	**1026**	**446**	**580**	**89**	**937**	**81**	**856**

1. Gender is recorded by self-identification.
2. "Officers" means the CEO and members of Contact's Leadership Team.

7. EMPLOYEE DIVERSITY AS AT 30 JUNE 2018

	Gender		Age				Ethnicity[1]						
FY18	**Female**	**Male**	**<30**	**30 - 50**	**>50**	**Undisclosed**	**Maori**	**Pasifika**	**Asian**	**European**	**Other[2]**	**AMELA[3]**	**Undisclosed**
Officers	33%	67%	-	67%	33%	-	-	17%	-	67%	50%	-	-
Corporate	53%	47%	17%	61%	19%	3%	8%	1%	9%	40%	35%	-	24%
Customer	54%	46%	28%	44%	25%	3%	9%	5%	5%	39%	26%	-	30%
Generation	19%	81%	9%	39%	50%	2%	3%	-	5%	39%	34%	1%	27%
Total	42%	58%	20%	44%	32%	3%	7%	3%	6%	39%	30%	1%	28%

	Gender		Age				Ethnicity[1]						
FY17	**Female**	**Male**	**<30**	**30 - 50**	**>50**	**Undisclosed**	**Maori**	**Pasifika**	**Asian**	**European**	**Other[2]**	**AMELA[3]**	**Undisclosed**
Officers	33%	67%	-	67%	33%	-	-	17%	-	67%	50%	-	-
Corporate	55%	45%	9%	64%	23%	3%	7%	1%	9%	38%	34%	1%	25%
Customer	56%	44%	29%	42%	26%	3%	7%	3%	6%	38%	25%	1%	34%
Generation	17%	83%	9%	40%	49%	1%	3%	-	6%	40%	35%	1%	24%
Total	**43%**	**57%**	**20%**	**44%**	**33%**	**3%**	**6%**	**2%**	**6%**	**39%**	**29%**	**1%**	**29%**

1. Ethnicity data does not equal 100% as employees may affiliate to more than one ethnicity.
2. Other includes individuals who identify as New Zealanders, not as Europeans.
3. African, Middle Eastern or Latin American.

8. BOARD DIVERSITY AS AT 30 JUNE 2018

	Gender		Ethnicity				Age		
	Male	**Female**	**Total**	**NZ European/ Pakeha**	**Maori**	**Total**	**<30**	**30-50**	**>50**
Board of Directors FY18	3	3	6	4	2	6	-	1	5
	50%	50%	100%	67%	33%	100%	-	17%	83%
Board of Directors FY17	3	3	6	4	2	6	-	1	5
	50%	50%	100%	67%	33%	100%	-	17%	83%

9. EMPLOYEE ABSENTEE RATE[1] AS AT 30 JUNE 2018

	FY18			FY17		
	Females	Males	All Employees	Females	Males	All Employes
Total scheduled days	101,223	144,586	245,809	109,749	148,130	257,878
Total absence days	3,808	3,271	7,080	4,652	2,868	7,520
Lost days as a percentage	4%	2%	3%	4%	2%	3%

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

10. SAFETY DATA AS AT 30 JUNE 2018

	FY18	FY17
Fatalities	-	-
Occupational Disease Rate – Controlled[1]	0.7	-
Lost Time Injury Frequency Rate – Controlled[2]	3.0	3.2
Lost Time Injury Frequency Rate – Monitored[2]	9.3	12.7

1. Measures occupational disease as a rate of hours worked for employees and contractors working under our HSE management systems.
2. Measures the number of lost time injuries occurring in a workplace per 1 million man-hours worked for employees and contractors. 'Lost days' is based on work days not calendar days. A lost time injury commences the next rostered day after the injured person is signed off work by a medical practitioner. First aid injuries are not included in this rate. It only includes injuries that result in a lost time injury.

11. INJURIES BY GENDER AS AT 30 JUNE 2018

	Controlled		Monitored	
Type of injury	**Male**	**Female**	**Male**	**Female**
Sprain or strain	6	-	3	-
Bruising or crushing	-	-	2	-
Laceration	1	-	-	-
Puncture wound	-	1	-	-
Poisoning or toxic effects	1	-	-	-
Fracture	1	1	-	-
Illness (medical condition)	1	-	-	-
Dislocation	-	1	-	-
Burns (hot or cold)	-	1	-	-
Total	**10**	**4**	**5**	**0**

12. TCFD INDEX

Disclosure	Page number
Describe the Board's oversight of climate-related risks and opportunities.	Board oversight is through the Health, Safety and Environment Committee
Describe management's role in assessing and managing climate-related risks and opportunities.	p.24
Describe the climate-related risks and opportunities the organisation has identified over the short, medium and long term.	p.42
Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy and financial planning.	p.24
Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2 degree or lower scenario.	p.24
Describe the organisation's processes for identifying and assessing climate-related risks.	p.24
Describe how processes for identifying, assessing and managing climate-related risks are integrated into the organisation's overall risk management.	p.30
Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process.	p.25
Disclose Scope 1, 2 and if appropriate 3 greenhouse gas (GHG) emissions, and the related risks.	p.41
Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets.	p.25

GENERAL STANDARD DISCLOSURES

	Description	Page Number
STRATEGY AND ANALYSIS		
102-14	Statement from the most senior decision maker	Chair and CEO reviews, p.5-7
ORGANIZATIONAL PROFILE		
102-1	Name of the organization	Contact Energy Limited
102-2	Brands, products, and/or services	Our business p. 14-15
102-3	Headquarter location	Contact at a glance p. 12
102-4	Locations of operations	Contact operates only in New Zealand
102-5	Ownership and legal form	Listed New Zealand limited liability company
102-6	Markets served	Contact at a glance p. 13
102-7	Scale of the organization	Total employees p. 43, contractor workforce data not available Number of operations p. 12 Net revenue p. 50 GWh sold p.12 Total capitalisation broken down by debt and equity p.50-52 Quantity of products and services provided p.12
102-8	Employee statistics	Sustainability data p. 43
102-41	Employees covered by collective bargaining agreements	11% of total Contact employees were covered by collective bargaining agreements as at 30 June 2018. Contactor data not collected.
102-9	Organisation's supply chain	Our business p. 14-15
102-10	Significant changes regarding size, structure, or ownership	None
102-11	Precautionary approach	Not specifically addressed. Potential adverse environmental impacts are addressed through adaptive management including official (often publicly notified) resource consent assessments.
102-12	External charters, principles, or other initiatives	ISO14001
102-13	Memberships in associations and advocacy organizations	Sustainability data p. 40
EU1	Installed capacity	Contact at a glance p. 13
EU2	Net energy output broken down by primary energy source and by region	Contact at a glance p. 13
EU3	Number of customer accounts	Contact at a glance p. 12
EU4	Length of transmission and distribution lines by region	Not applicable
EU5	Allocation of CO_2 emissions permits	Zero allocations
IDENTIFIED MATERIAL ASPECTS AND BOUNDARIES		
102-45	Entities included in the organization's consolidated financial statements	Financial statements p. 50
102-46	Process for defining the report content	Focussing on what matters p. 16
102-47	Material aspects identified	Focussing on what matters p. 16

102-47	Aspect boundaries within the organization	For the majority of our material topics, the impacts occur within our operational boundary. For some topics, Biodiversity, Water, Climate Change and Access to Energy, impacts can be felt downstream of our operational boundary, or we are contributing to a larger issue. Health and safety impacts are also created by companies in our supply chain. In all cases, our focus is on areas that we can control or influence.
102-47	Aspect boundaries outside the organization	
102-48	Restatements of information	FY17 emissions data p. 41 FY17 customer connections by account type p.12
102-49	Significant changes of aspect boundaries compared to previous years	No significant changes
STAKEHOLDER ENGAGEMENT		
102-40	Stakeholder groups	Focussing on what matters most p. 16
102-42	Stakeholder identification and selection	Focussing on what matters most p. 16
102-43	Approaches to stakeholder engagement	Focussing on what matters most p. 16
102-44	Key topics and concerns raised by stakeholders	Focussing on what matters most p. 16
REPORT PROFILE		
102-50	Reporting period	Financial year 2018
102-51	Date of most recent previous report	The previous report was dated 14 August 2017
102-52	Reporting cycle	Annual
102-53	Contact point for questions	Corporate directory p. 73
102-54	Chosen 'In accordance' option, GRI index	This report has been developed in accordance with the core GRI 2016 guidelines
102-56	External assurance for the report	Annual Report 2018 was not assured by an external assurer.
GOVERNANCE		
102-18	Governance structure. Committee responsible for decision making on economic, environmental and social topics.	Governance, p. 29
ETHICS AND INTEGRITY		
102-16	Organization's values, principles, standards and norms of behaviour, and codes of ethics	Our tikanga p. 11

SPECIFIC STANDARD DISCLOSURES

Material Aspect	Description	Page	Omissions and explanations
DMA	Water	p. 25	
303-1	Total water withdrawal by source	p. 25	
303-1	Overall water usage for processing, cooling and consumption in thermal power plants	p. 25	
DMA	Biodiversity	p. 26	
304-3	Habitats protected or restored	p. 26	
304-3	Describe what partnerships exist with third parties	p. 26	
DMA	Emissions	p. 24-25	
305-1	Direct (Scope 1) Greenhouse gas emissions	p. 41	
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CATEGORY: SOCIAL			
DMA	Occupational health and safety	p. 22	
403-2	Workplace injuries	p.23	Contractor data not available for absentee rate, occupational disease rate and fatalities
Self-selected	TISR	p. 23	
Self-selected	Process safety data	p. 23	
DMA	Diversity and equal opportunity	p. 21, 43	
405-1	Gender, age and ethnicity statistics	p. 43	
405-2	Ratio of the basic salary and rem of women to men for each employee category	p. 22	
Self-selected	Staff engagement	p. 21	
DMA	Local communities	p. 27	
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DMA	Customer experience	p. 17	
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Own measure	Customer satisfaction (Net Promoter Score)	p. 17	
DMA	Access (sector specific) – socio-economic	p. 18	
Own measure	Reduction of customer debt expressed as a percentage	p. 19	

Independent Limited Assurance Statement to the Management and Directors of Contact Energy Limited

Our Conclusion:

Ernst & Young ('EY', 'we') were engaged by Contact Energy Limited ("Contact Energy") to undertake limited assurance as defined by the International Standards on Assurance engagements (New Zealand), over Contact Energy's Scope 1 and Scope 2 GHG emissions data and associated disclosures in its FY18 Annual Report, for the year ended 30 June 2018. Based on our limited assurance procedures, nothing came to our attention that caused us to believe that Contact Energy's Scope 1 and Scope 2 GHG emissions data and associated disclosures in its FY18 Annual Report, detailed in the table below, has not been prepared and presented fairly, in all material respects, in accordance with the criteria defined below.

What our assurance covered

We reviewed Contact Energy's Scope 1 and Scope 2 GHG emissions data and associated disclosures for the year ended 30 June 2018 in its FY18 Annual Report, only. Each of the Scope 1 and Scope 2 GHG emissions metrics covered by our assurance procedures is detailed in the table below.

Emissions Data	Report page
Fuel used for generation (tCO2e-)	
Fuel used in vehicles (tCO2e-)	
Fugitive emissions - SF6 (tCO2e-)	25, 41
Thermal Generation Emission Intensity (tCO2e- per MWh)	
Total Generation Emission Intensity (tCO2e- per MWh)	
Scope 2 emissions (tCO2e-)	25, 41

Criteria applied by Contact Energy

The criteria for our assurance engagement was Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard ('The GHG Protocol').

Scope 1 and Scope 2 emissions factors were sourced from the New Zealand Ministry for the Environment's Guidance for Voluntary Corporate Greenhouse Gas Reporting – 2016.

Key responsibilities

EY's responsibility and independence

Our responsibility was to express a conclusion on Contact Energy's Scope 1 and Scope 2 GHG emissions data and associated disclosures in its FY18 Annual Report based on our review.

We were also responsible for maintaining our independence and confirm that we have met the requirements of the *External Reporting Board of New Zealand*, and have the required competencies and experience to conduct this assurance engagement.

Contact Energy's responsibility

Contact Energy's management ("management") was responsible for selecting the Criteria, and preparing and fairly presenting the Scope 1 and Scope 2 GHG emissions data and associated disclosures in its FY18 Annual Report in accordance with that Criteria. This responsibility includes establishing and maintaining internal controls, adequate records and making estimates that are reasonable in the circumstances.

Our approach to conducting the review

We conducted this review in accordance with the International Standard on Assurance Engagements ISAE (NZ) 3000: *Assurance Engagements Other than Audits or Reviews of Historical Financial Information* and the terms of reference for this engagement as agreed with Contact Energy on 17 May 2018.

Summary of assurance procedures performed

A limited assurance engagement consists of making enquiries and applying analytical, appropriate testing, and other evidence-gathering procedures.

Our procedures included, but were not limited to:

- Conducting interviews with personnel to understand the business and reporting process.
- Checking that the flow of information from site metering or monitoring through to calculation spreadsheets is accurate and any calculations are appropriate.
- Identifying and testing assumptions supporting the calculations.
- Tests of calculation, aggregation and controls.
- Comparing year on year activity-based greenhouse gas and energy data where possible.
- Checking organisational and operational boundaries to test completeness of greenhouse gas emissions sources.
- Checking that emissions factors and methodologies have been correctly applied as per the criteria.
- Tests that statements to be included in the Annual Report are consistent with the data we have tested.

We believe that the evidence obtained is sufficient and appropriate to provide a basis for our limited assurance conclusions.

Limited Assurance

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.

While we considered the effectiveness of management's internal controls when determining the nature and extent of our procedures, our assurance engagement was not designed to provide assurance on internal controls. Our procedures did not include testing controls or performing procedures relating to checking aggregation or calculation of data within IT systems.

Use of our Assurance Statement

We disclaim any assumption of responsibility for any reliance on this assurance report to any persons other than management and the Directors of Contact Energy or for any purpose other than that for which it was prepared. You may not disclose this assurance report externally without our prior written consent.

Ernst & Young Limited

Graeme Bennett
Partner - Assurance
Auckland

10 August 2018

Financial Statements

About these Financial Statements

FOR THE YEAR ENDED 30 JUNE 2018

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 and liabilities held for sale reported at fair value less costs to sell
- using the same accounting policies for all reporting periods presented. The impact of the early adoption of NZ IFRS 15 *Revenue from Contracts with Customers* and NZ IFRS 16 *Leases* is shown in note A1.

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 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 (note E4)
- provision for future restoration and rehabilitation obligations (note E5)
- fair value measurement of financial instruments (notes D1 and E7).

The financial statements present Contact's wholly owned subsidiary Rockgas Limited as a held for sale disposal group at 30 June 2018. The results of the disposal group have been presented as a discontinued operation. Note A5 provides information on the held for sale disposal group and discontinued operation.

Certain comparative amounts in the Statement of Comprehensive Income have been restated either due to the early adoption of NZ IFRS 15 *Revenue from Contracts with Customers* and NZ IFRS 16 *Leases* (note A1), or as a result of the discontinued operation during the current financial year (note A5).

The financial statements were authorised on behalf of Contact's Board of Directors on 10 August 2018.

Sir Ralph Norris KNZM
Chairman

Sue Sheldon CNZM
Director

Statement of Comprehensive Income

FOR THE YEAR ENDED 30 JUNE 2018

$m	Note	2018	Restated 2017
Continuing operations			
Revenue and other income	A3	2,160	1,959
Operating expenses	A3	(1,711)	(1,494)
Significant items	A3	3	11
Depreciation and amortisation	A3	(215)	(203)
Net interest	B5	(84)	(93)
Profit before tax		**153**	**180**
Tax expense	E1	(41)	(51)
Profit from continuing operations		**112**	**129**
Discontinued operation			
Profit from discontinued operation after tax	A3	20	22
Profit		**132**	**151**
Items that may be reclassified to profit/(loss):			
Change in cash flow hedge reserve (net of tax) - continuing operations		11	(15)
Change in cash flow hedge reserve (net of tax) - discontinued operation	A5	3	-
Comprehensive income		**146**	**136**
Profit per share (cents) - basic and diluted	B3	**18.4**	**21.0**
Profit per share (cents) from continuing operations		15.6	18.0
Profit per share (cents) from discontinued operation		2.8	3.0

Statement of Cash Flows

FOR THE YEAR ENDED 30 JUNE 2018

$m	Note	2018	Restated 2017
Receipts from customers		2,281	2,072
Payments to suppliers and employees		(1,791)	(1,527)
Tax paid		(33)	(37)
Operating cash flows	E6	**457**	**508**
Purchase of assets		(82)	(118)
Proceeds from sale of assets		6	9
Interest received		1	1
Investing cash flows		**(75)**	**(108)**
Dividends paid	B3	(201)	(186)
Proceeds from issues of shares		1	-
Proceeds from borrowings		118	115
Repayment of borrowings		(217)	(226)
Interest paid		(79)	(88)
Gas sale and repurchase arrangement		(7)	(14)
Financing cash flows		**(385)**	**(399)**
Net cash flow		**(3)**	**1**
Add: cash at the beginning of the year		6	5
Cash at the end of the year	B4	**3**	**6**

Statement of Financial Position

AT 30 JUNE 2018

$m	Note	2018	Restated 2017
Cash and cash equivalents	B4	3	6
Trade and other receivables	E4	175	197
Inventories	E3	35	46
Intangible assets	C1	10	11
Derivative financial instruments	D1	14	8
Assets held for sale	A5	299	-
Total current assets		**536**	**268**
Inventories	E3	23	24
Property, plant and equipment	C1	4,253	4,611
Intangible assets	C1	262	321
Goodwill	C2	179	182
Derivative financial instruments	D1	51	38
Other non-current assets		7	11
Total non-current assets		**4,775**	**5,187**
Total assets		**5,311**	**5,455**
Trade and other payables		172	202
Tax payable		7	4
Borrowings	B4	513	391
Derivative financial instruments	D1	17	50
Provisions	E5	11	14
Liabilities held for sale	A5	42	-
Total current liabilities		**762**	**661**
Borrowings	B4	972	1,158
Derivative financial instruments	D1	44	52
Provisions	E5	48	50
Deferred tax	E1	751	749
Other non-current liabilities		7	7
Total non-current liabilities		**1,822**	**2,016**
Total liabilities		**2,584**	**2,677**
Net assets		**2,727**	**2,778**
Share capital	B2	1,520	1,515
Retained earnings		1,194	1,263
Cash flow hedge reserve	E7	7	(8)
Share-based compensation reserve		6	8
Shareholders' equity		**2,727**	**2,778**

Statement of Changes in Equity

FOR THE YEAR ENDED 30 JUNE 2018

$m	Note	Share capital	Retained earnings	Other reserves	Shareholders' equity
Balance at 1 July 2016		**1,515**	**1,294**	**14**	**2,823**
Adjustment on adoption of new IFRS	A1	-	2	-	2
Restated opening balance at 1 July 2016		**1,515**	**1,296**	**14**	**2,825**
Profit		-	151	-	151
Change in cash flow hedge reserve (net of tax)		-	-	(15)	(15)
Lapsed share scheme awards		-	2	(2)	-
Share-based compensation expense	E9	-	-	3	3
Dividends paid	B3	-	(186)	-	(186)
Restated balance at 30 June 2017		**1,515**	**1,263**	**-**	**2,778**
Profit		-	132	-	132
Change in cash flow hedge reserve (net of tax)		-	-	14	14
Exercised share scheme awards		-	-	(4)	(4)
Share-based compensation expense	E9	-	-	3	3
Change in share capital	B2	5	-	-	5
Dividends paid	B3	-	(201)	-	(201)
Balance at 30 June 2018		**1,520**	**1,194**	**13**	**2,727**

A. Our Performance

Notes to the financial statements for the year ended 30 June 2018

A1. ADOPTION OF NEW ACCOUNTING POLICIES

Contact has elected to early adopt NZ IFRS 15 Revenue from *Contracts with Customers* ('revenue standard') and NZ IFRS 16 *Leases* ('leases standard') for the year ended 30 June 2018. Both standards have been adopted using the full retrospective approach with an adjustment to retained earnings on 1 July 2016.

With the adoption of the revenue standard the incremental costs incurred to acquire new customers are capitalised as a contract asset instead of being expensed as incurred. The contract asset is amortised to operating expenses over the expected life of the customer relationship. Incentives given to customers are also capitalised as a contract asset and amortised to revenue, which is consistent with the previous accounting treatment. The amortisation period has been revised from the contract term to the expected life of the customer relationship. At 30 June 2018 contract assets totalled $13 million (2017: $12 million) (note E4).

The adoption of the leases standard results in those leases previously classified as operating leases being recorded on balance sheet. All other arrangements will be considered under the leases standard when the contract is amended or renewed. On 1 July 2016 Contact recognised lease assets and lease obligations that represent the present value of future lease payments for the minimum lease term and all lease renewal options that Contact is reasonably certain to exercise. Lease payments are recorded as a repayment of the lease obligation and interest expense, instead of as an operating expense. Lease assets are depreciated over the lease term.

The effect of these changes in accounting policies are shown below:

$m	2017	NZ IFRS 15 Revenue	NZ IFRS 16 Leases	Restated 2017
Statement of Comprehensive Income				
Revenue and other income	2,080	(1)	-	2,079
Operating expenses	(1,586)	3	5	(1,578)
Depreciation and amortisation	(204)	-	(4)	(208)
Net interest expense	(92)	-	(1)	(93)
Tax expense	(59)	(1)	-	(60)
Profit	150	1	-	151
Statement of Financial Position				
Contract assets (Trade and other receivables)	5	7	-	12
Lease assets (Property, plant and equipment)	25	-	19	44
Lease obligations (Borrowings)	19	-	22	41
Deferred tax liability	748	1	-	749
Retained earnings	1,260	5	(2)	1,263

The adjustment on adoption of these new IFRS standards, on 1 July 2016, resulted in an increase in lease obligations of $26 million, lease assets of $23 million, contract asset of $6 million, deferred tax liability of $1 million and retained earnings of $2 million.

A2. SEGMENTS

Contact reports activities under two operating segments; being the Generation segment and the Customer segment. There have been no significant changes to Contact's operating segments in the current year.

The Generation segment includes revenue from the sale of electricity to the wholesale electricity market and to the Customer segment, less the cost to generate and/or purchase the electricity sold.

The Customer segment includes revenue from delivering energy to customers less the cost of energy, and costs to service and distribute energy to the customer. The presentation of the Customer segment in note A3 excludes the discontinued operation.

The Customer segment purchases electricity from the Generation segment at a price fixed in a manner similar to transactions with third parties.

A3. EARNINGS

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

2018

$m	Note	Generation	Customer	Eliminations	Total continuing operations	Discontinued operation	Total
Mass market electricity		-	884	(1)	883	-	883
Commercial & Industrial electricity		8	444	-	452	-	452
Wholesale electricity		718	-	-	718	-	718
Inter-segment electricity sales		587	-	(587)	-	-	-
Gas		4	71	-	75	-	75
LPG		-	-	-	-	121	121
Steam		25	-	-	25	-	25
Total revenue		**1,342**	**1,399**	**(588)**	**2,153**	**121**	**2,274**
Other income		3	4	-	7	2	9
Total revenue and other income		**1,345**	**1,403**	**(588)**	**2,160**	**123**	**2,283**
Electricity purchases		(681)	-	-	(681)	-	(681)
Inter-segment electricity purchases		-	(587)	587	-	-	-
Gas purchases		(108)	(16)	-	(124)	-	(124)
LPG purchases		-	-	-	-	(73)	(73)
Electricity networks, transmission, levies & meters		(48)	(587)	-	(635)	-	(635)
Gas networks, transmission, levies & meters		(9)	(37)	-	(46)	-	(46)
Other operating expenses		(112)	(97)	1	(208)	(15)	(223)
Carbon emissions		(15)	(2)	-	(17)	(3)	(20)
Total operating expenses		**(973)**	**(1,326)**	**588**	**(1,711)**	**(91)**	**(1,802)**
EBITDAF		**372**	**77**	**-**	**449**	**32**	**481**
Depreciation and amortisation	C1				(215)	(5)	(220)
Net interest expense					(84)	-	(84)
Tax on underlying profit					(40)	(7)	(47)
Underlying profit					**110**	**20**	**130**
Significant items							
Change in fair value of financial instruments	D1				3	-	3
Transition costs					-	-	-
Remediation for Holidays Act non-compliance					-	-	-
Tax on significant items					(1)	-	(1)
Profit					**112**	**20**	**132**
Underlying profit per share (cents)	B3				**15.4**	**2.7**	**18.1**

EBITDAF and underlying profit are non-GAAP profit measures that provide a consistent measure of Contact's ongoing performance.

EBITDAF is profit/(loss) before tax excluding interest, depreciation, amortisation and changes in the fair value of financial instruments and other significant items.

Underlying profit 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. They are determined in accordance with the principles of consistency, relevance and clarity. Transactions considered for classification as significant items include change in fair value of financial instruments; impairment or reversal of impairment of assets; significant business integration, restructure, acquisition and disposal costs; and transactions or events outside of Contact's ongoing operations that have a significant impact on reported profit.

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 D1 and E7.

Restated 2017

$m	Note	Generation	Customer	Eliminations	Total continuing operations	Discontinued operation	Total
Mass market electricity		-	892	(1)	891	-	891
Commercial & Industrial electricity		8	465	-	473	-	473
Wholesale electricity		492	-	-	492	-	492
Inter-segment electricity sales		596	-	(596)	-	-	-
Gas		-	66	-	66	-	66
LPG		-	-	-	-	119	119
Steam		25	-	-	25	-	25
Total revenue		**1,121**	**1,423**	**(597)**	**1,947**	**119**	**2,066**
Other income		6	6	-	12	1	13
Total revenue and other income		**1,127**	**1,429**	**(597)**	**1,959**	**120**	**2,079**
Electricity purchases		(460)	-	-	(460)	-	(460)
Inter-segment electricity purchases		-	(596)	596	-	-	-
Gas purchases		(101)	(14)	-	(115)	-	(115)
LPG purchases		-	-	-	-	(67)	(67)
Electricity networks, transmission, levies & meters		(48)	(590)	-	(638)	-	(638)
Gas networks, transmission, levies & meters		(8)	(36)	-	(44)	-	(44)
Other operating expenses		(119)	(110)	1	(228)	(15)	(243)
Carbon emissions		(8)	(1)	-	(9)	(2)	(11)
Total operating expenses		**(744)**	**(1,347)**	**597**	**(1,494)**	**(84)**	**(1,578)**
EBITDAF		**383**	**82**	**-**	**465**	**36**	**501**
Depreciation and amortisation	C1				(203)	(5)	(208)
Net interest expense					(93)	-	(93)
Tax on underlying profit					(49)	(9)	(58)
Underlying profit					**120**	**22**	**142**
Significant items							
Change in fair value of financial instruments	D1				23	-	23
Transition costs					(7)	-	(7)
Remediation for Holidays Act non-compliance					(5)	-	(5)
Tax on significant items					(2)	-	(2)
Profit					**129**	**22**	**151**
Underlying profit per share (cents)	B3				**16.8**	**3.1**	**19.9**

A4. 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 growing the business. A reconciliation from EBITDAF to NZ GAAP operating cash flows and to free cash flow is provided below.

$m	Note	2018	Restated 2017
EBITDAF	A3	**481**	**501**
Tax paid		(33)	(37)
Change in working capital net of non-cash, investing and financing activities		(7)	35
Non-cash items included in EBITDAF		17	17
Significant items, net of non-cash amounts		(1)	(8)
Operating cash flows	E6	**457**	**508**
Net interest paid		(78)	(87)
Stay in business capital expenditure		(78)	(116)
Operating free cash flow		**301**	**305**
Proceeds from sale of assets		6	9
Free cash flow		**307**	**314**
Operating free cash flow per share (cents)	B3	**42.0**	**42.6**

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

A5. HELD FOR SALE DISPOSAL GROUP AND ASSETS, AND A DISCONTINUED OPERATION

Held for sale disposal group and discontinued operation

At 30 June 2018 the sale of Rockgas Limited, a wholly owned subsidiary of Contact, was highly probable resulting in the assets and liabilities of Rockgas Limited being classified as held for sale in the Statement of Financial Position for the current reporting period. On 31 July 2018 Contact entered into a conditional sale agreement with Gas Services NZ Midco Limited for the Rockgas Limited business for $260 million plus adjustments on completion for working capital movements and net debt balances.

As Rockgas Limited represents a major line of business for Contact it is classified as a discontinued operation in the current financial year. The comparative amounts in the Statement of Comprehensive Income have been restated to show the discontinued operation separately from continuing operations.

Results of the discontinued operation

The profit from the discontinued operation is provided on the face of the Statement of Comprehensive Income and a breakdown in note A3.

The change in cash flow hedge reserve net of tax of $3 million (2017: nil) in the Statement of Comprehensive Income is comprised of the movement in the fair value of LPG price derivatives and foreign exchange contracts.

Net cash flows of the discontinued operation

The Statement of Cash Flows, free cash flow (note A4) and the reconciliation of profit to operating cash flows (note E6) include the cash flows for continuing operations and the discontinued operation.

The cash flows for the discontinued operation are presented below.

$m	2018	2017
Net operating cash flows	35	30
Net investing cash flows	(6)	(7)
Net cash flows from discontinued operation	**29**	**23**

Operating free cash flow and free cash flow from the discontinued operation is $29 million (2017: $23 million).

Financial position of the disposal group

$m	Note	2018
Trade and other receivables		19
Inventories		4
Derivative financial instruments		4
Property, plant and equipment		81
Goodwill	C2	3
Other non-current assets		3
Assets held for sale		**114**
Trade and other payables		16
Tax payable		7
Borrowings (lease obligations)	B4	9
Provisions		2
Deferred tax	E1	8
Liabilities held for sale		**42**
Net assets held for sale		**72**

Rockgas is exposed to LPG price risk on its LPG commodity purchases and may use derivatives to fix the price of LPG. At 30 June 2018, Rockgas had LPG price derivatives in an asset position of $2 million, maturing in December 2018, for exposure of 27,600 tonnes (2017: nil). Rockgas also uses foreign exchange derivatives to mitigate the risk of payments in US dollars. These derivatives are in an asset position of $2 million at 30 June 2018 (2017: nil).

There were capital expenditure commitments at 30 June 2018 in relation to the Rockgas disposal group of $1 million. These are due within one year of the reporting period end.

Held for sale assets

In addition to the Rockgas Limited disposal group assets ($114 million), assets classified as held for sale include the Ahuroa Gas Storage Facility ($185 million). The Ahuroa Gas Facility assets comprise generation plant and equipment, land and buildings, gas storage rights and cushion gas (being the level of gas required to maintain pressure in the reservoir to enable injection and extraction) and costs to sell.

In December 2017 Contact entered into an agreement to sell the Ahuroa Gas Storage Facility to GSNZ SPV1 Limited for $200 million. The sale remains subject to a number of conditions being satisfied. The Ahuroa Gas Storage Facility is expected to be sold within one year of the reporting period end.

B. Our Funding

Notes to the financial statements for the year ended 30 June 2018

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 its capital.

To manage 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 support a BBB credit rating and a gearing ratio suitable to the nature of its business.

$m	Note	2018	Restated 2017
Borrowings	B4	1,494	1,549
Shareholders' equity		2,727	2,778
Total capital funding		**4,221**	**4,327**
Gearing ratio		**35.4%**	**35.8%**

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). All shareholders are entitled to receive distributions and to make one vote per share.

	Note	Number	$m
Balance at 30 June 2017		**715,525,756**	**1,515**
Balance at 1 July 2017		715,525,756	1,515
Share capital issued		760,814	5
Balance at 30 June 2018		**716,286,570**	**1,520**
Comprised of:			
Ordinary shares		715,898,925	1,521
Contact Share	E9	387,645	(1)

B3. DISTRIBUTIONS

Earnings and operating free cash flow per share

Cents per share	2018	Restated 2017
Profit - basic	18.4	21.0
Profit - diluted	18.4	21.0
Underlying profit - basic	18.1	19.9
Operating free cash flow - basic	42.0	42.6
Weighted average		
Number of shares - basic	716,075,154	715,525,756
Number of shares - diluted	716,154,227	715,586,571

The basic calculation uses the weighted average number of shares 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 may become exercisable because vesting depends only on an employee staying with Contact or it is likely vesting conditions will be met.

Dividends

Paid during the year ended	Cents per share	$m
2016 final	15.0	107
2017 interim	11.0	79
30 June 2017		**186**
2017 final	15.0	107
2018 interim	13.0	93
30 June 2018		**201**

On 10 August 2018, the Board resolved to pay a fully imputed final dividend of 19 cents per share on 18 September 2018. On 10 August 2018, Contact had nil imputation credits available. Future tax payments will cover the full imputation of the final dividend.

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 changes in market interest and foreign exchange rates result in a change in the fair value adjustment on that debt (note E7).

Borrowings denoted with an asterisk (*) are Green Debt Instruments under Contact's Green Borrowing Programme, which has been certified by the Climate Bond Initiative.

$m	Maturity	Coupon	2018	Restated 2017
Bank overdraft	< 3 months	Floating	2	3
* Commercial paper	< 3 months	Floating	140	180
* Bank facilities	Various	Floating	231	113
Lease obligations	Various	Various	38	41
USPP notes - US$40m	Mar 2018	5.55%	-	71
USPP notes - US$25m	Apr 2018	7.13%	-	43
Wholesale bonds	May 2018	4.80%	-	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	150
* Retail bonds - CEN040	Nov 2022	4.63%	100	100
* 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	61
* USPP notes - US$58m	Dec 2025	4.33%	73	73
* USPP notes - US$43m	Dec 2025	3.85%	62	62
* Export credit agency facility	Nov 2027	Floating	68	75
* USPP notes - US$15m	Dec 2027	3.95%	22	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			**1,448**	**1,545**
Deferred financing costs			(6)	(7)
Total borrowings at amortised cost			**1,442**	**1,538**
Fair value adjustment on hedged borrowings			52	11
Carrying value of borrowings			**1,494**	**1,549**
Current			513	391
Non-current			972	1,158
Liabilities held for sale - Lease obligations			9	-

A summary of the changes in Contact's borrowings is provided below:

$m	2018	Restated 2017
Borrowings at the start of the year	1,549	1,723
Net cash borrowed/(repaid)	(99)	(111)
Non-cash change in lease obligations	3	(2)
Non-cash change in deferred financing costs	1	1
Non-cash change in fair value adjustment	40	(62)
Borrowings at the end of the year	**1,494**	**1,549**

Short-term funding

Contact uses bank facilities for general corporate purposes including to manage its liquidity risk (note D2). 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 the reporting period end.

Contact's total bank facilities (including undrawn facilities of $364 million at 30 June 2018) have a range of maturities:

Maturity $m	2018	2017
Less than 1 year	160	150
Between 1 and 2 years	160	265
Between 2 and 3 years	175	30
More than 3 years	100	155
	595	**600**

These bank facilities form part of Contact's Green Borrowing Programme, with exception of an $100 million facility due within one year (fully drawn at 30 June 2018).

Lease obligations

Contact's leases are mostly for property and connections to the national electricity grid. These assets are included in the carrying value of property, 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 lease obligations 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

Cash and cash equivalents exclude bank overdrafts which are included within borrowings. Contact trades electricity price derivatives on the ASX market using a broker that holds collateral on deposit for margin calls. At 30 June 2018, this collateral was $3 million (2017: $6 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	2018	Restated 2017
Interest expense on borrowings		(80)	(90)
Unwind of discount on provisions	E5	(5)	(5)
Interest income		1	2
Net interest expense		**(84)**	**(93)**

C. Our Assets

Notes to the financial statements for the year ended 30 June 2018

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 and geothermal wells and pipelines.

» other plant and equipment: LPG reticulation networks, bulk tanks, cylinders and meters used to deliver LPG to our customers, motor vehicles and electricity meters

» computer software: our SAP system that is used for customer service and billing, finance functions and generation asset management, which has a value of $239 million (2017: $260 million) and a remaining life of 11 years.

All assets are recognised at cost less accumulated depreciation or amortisation and impairments. Generation plant and equipment acquired before 1 October 2004 is recognised at deemed historical cost, which is the fair value of those assets at 1 October 2004, less accumulated depreciation and accumulated impairment losses.

Property, plant and equipment $m	Generation plant and equipment	Other land and buildings	Other plant and equipment	Capital work in progress	Leases	Total
Cost						
Balance at 1 July 2016	5,655	30	240	218	77	6,220
Additions	28	-	6	31	-	65
Transfers from capital work in progress	27	-	1	(28)	-	-
Disposals	(2)	-	(7)	-	(2)	(11)
Restated balance at 30 June 2017	**5,708**	**30**	**240**	**221**	**75**	**6,274**
Balance at 1 July 2017	5,708	30	240	221	75	6,274
Additions	25	-	5	28	3	61
Transfers from capital work in progress	90	-	2	(92)	-	-
Transfer to assets held for sale	(180)	(5)	(160)	(6)	(18)	(369)
Disposals	(50)	(3)	(1)	-	-	(54)
Balance at 30 June 2018	**5,593**	**22**	**86**	**151**	**60**	**5,912**
Depreciation and impairment losses						
Balance at 1 July 2016	(1,294)	(15)	(159)	(1)	(27)	(1,496)
Depreciation charge	(158)	(2)	(10)	-	(5)	(175)
Disposals	1	-	7	-	-	8
Restated balance at 30 June 2017	**(1,451)**	**(17)**	**(162)**	**(1)**	**(32)**	**(1,663)**
Balance at 1 July 2017	(1,451)	(17)	(162)	(1)	(32)	(1,663)
Depreciation charge	(167)	(3)	(7)	-	(5)	(182)
Transfer to assets held for sale	30	2	91	-	9	132
Disposals	50	3	1	-	-	54
Balance at 30 June 2018	**(1,538)**	**(15)**	**(77)**	**(1)**	**(28)**	**(1,659)**
Carrying value						
Restated at 30 June 2017	4,257	13	78	220	43	4,611
At 30 June 2018	**4,055**	**7**	**9**	**150**	**32**	**4,253**

Intangible assets $m	Computer software and capital work in progress	Gas storage rights	Carbon emission units	Total
Cost				
Balance at 1 July 2016	405	35	16	456
Additions	37	-	3	40
Disposals	-	-	(8)	(8)
Balance at 30 June 2017	**442**	**35**	**11**	**488**
Balance at 1 July 2017	442	35	11	488
Additions	8	-	15	23
Transfer to assets held for sale	(2)	(35)	-	(37)
Disposals	(1)	-	(16)	(17)
Balance at 30 June 2018	**447**	**-**	**10**	**457**
Amortisation				
Balance at 1 July 2016	(118)	(5)	-	(123)
Amortisation charge	(32)	(1)	-	(33)
Disposals	-	-	-	-
Balance at 30 June 2017	**(150)**	**(6)**	**-**	**(156)**
Balance at 1 July 2017	(150)	(6)	-	(156)
Amortisation charge	(37)	(1)	-	(38)
Transfer to assets held for sale	2	7	-	9
Disposals	-	-	-	-
Balance at 30 June 2018	**(185)**	**-**	**-**	**(185)**
Carrying value				
At 30 June 2017	292	29	11	332
At 30 June 2018	**262**	**-**	**10**	**272**
Current	-	-	10	10
Non-current	262	-	-	262

Commitments

At 30 June 2018, Contact was committed to $6 million of capital expenditure (2017: $11 million) and $27 million of carbon forward contracts (2017: $7 million), of which $29 million is due within one year of the reporting period end and $4 million is due between one to two years of the reporting period end.

Cost

Contact capitalises the costs to purchase and bring assets into service. When Contact develops an asset, employee time and other directly attributable costs are capitalised and held 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 existing area of operations that they relate to is unsuccessful or abandoned. All other geothermal exploration costs are expensed.

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 our ETS obligations at balance date or obligations expected to be incurred within one 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 and this is reviewed annually. The useful life changes identified in the current reporting period did not result in a material change in depreciation.

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

Asset	Rate/hours
Generation plant and equipment:	
- Straight line	1 - 33%
- Equivalent operating hours	8,000 - 100,000
Other buildings, plant and equipment	2 - 33%
Computer software	5 - 33%
Gas storage rights	3%

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 (2017: $95 million) related to future generation developments not allocated to a CGU.

Every reporting period management estimates the value in use expected to be recovered from Contact's CGUs and future generation development in CWIP. Held for sale assets and disposal groups are measured at the lower of their carrying value and fair value less costs to sell. An impairment is recognised when the recoverable amount or fair value less costs to sell is lower than the 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 between 7 and 8% to arrive at the present value, or recoverable amount, of each CGU. The future generation development valuations use the same key inputs as the Generation CGU plus an estimate of plant commissioning costs.

The LPG CGU is a disposal group at 30 June 2018 (refer note A5). The expected net sale proceeds from the sale agreement entered into on 31 July 2018 is higher than the carrying value of the LPG CGU. The expected net sale proceeds for the held for sale Ahuroa Gas Storage Facility assets (refer note A5) is greater than the carrying value of $185 million.

No impairments were recognised in the current or prior period.

The key inputs to CGU and future generation development cash flows are:

Retail CGU	
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.

Generation CGU and future generation development	
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, which 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 and 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.

D. Our Financial Risks

Notes to the financial statements for the year ended 30 June 2018

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 and 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 interest payments.

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 certain suppliers and USPP note holders.

To mitigate the risk, forward foreign exchange contracts are used to fix future cash flows in NZD terms. Foreign debt is hedged through the use of CCIRS, which convert 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 provides 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. 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 natural gas price risk on purchases of natural gas. Short and long term gas purchase contracts are used to fix the price of gas. These are not derivative financial instruments.

Summary of hedged exposures

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

Derivative used	Unit	Maturities	2018	2017
CCIRS	$m	2020 - 2028	447	560
Foreign exchange	$m	2018	4	25
IRS - floating exposure	$m	2019 - 2022	394	521
IRS - fixed exposure	$m	2018 - 2025	1,014	979
Electricity price	GWh	2018 - 2022	9,141	8,290

The notional market risk exposure maturities and amounts for electricity price derivatives in the table above does not include fixed price, variable volume contracts and options not yet called.

Sensitivities

The table below summarises the impact on derivative valuations of possible changes in forward wholesale electricity 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.

$m Favourable/(unfavourable)		2018	2017
Hedging impact on cash flow hedge reserve (CFHR)			
Forward electricity prices	+10%	(14)	(14)
	-10%	14	14
Forward foreign exchange rates	+10%	-	(1)
	-10%	-	1
Hedging impact on post-tax profit/(loss)			
Forward interest rates	+100bps	20	20
	-25bps	(5)	(5)
Forward electricity prices	+10%	2	(19)
	-10%	(5)	-

Fair value of derivatives

The fair value of derivatives used to hedge risk, excluding held for sale derivatives for the current reporting period, categorised by accounting treatment is provided below:

$m	2018 Asset	2018 Liability	2017 Asset	2017 Liability
Fair value hedges				
CCIRS	47	(2)	33	(30)
IRS	5	-	8	-
Cash flow hedges				
CCIRS - margin	-	(2)	2	(6)
Electricity price derivatives	9	(1)	-	(6)
Derivatives not designated in hedge relationships				
IRS	2	(54)	-	(53)
Electricity price derivatives	2	(2)	3	(7)
	65	**(61)**	**46**	**(102)**
Current	14	(17)	8	(50)
Non-current	51	(44)	38	(52)

The change in fair value of derivatives is provided below. The fair value movements in the cash flow hedge reserve (CFHR) includes the discontinued operation in both periods.

$m	2018 Profit/ (loss)	2018 CHFR	2017 Profit/ (loss)	2017 CHFR
CCIRS	42	-	(52)	-
IRS	(3)	-	(6)	-
Fair value adjustment to borrowings	(41)	-	62	-
Fair value hedges	**(2)**	**-**	**4**	**-**
CCIRS - margin	-	2	-	(2)
Foreign exchange derivatives	-	1	-	4
Electricity price derivatives	-	16	-	(23)
Tax on change in fair value	-	(5)	-	6
Cash flow hedges	**-**	**14**	**-**	**(15)**
IRS	1	-	23	-
Electricity price derivatives	4	-	(4)	-
Derivatives not designated in hedge relationships	**5**	**-**	**19**	**-**
Total fair value movement	**3**	**14**	**23**	**(15)**

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

D2. 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.

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

Information on contracted cash flows in the table below is presented on an undiscounted basis and excludes held for sale assets and liabilities for the current reporting period.

CCIRS cash flows are included within Borrowings in the table below. US dollar inflows on the CCIRS offsets the US dollar outflow on the USPP.

2018 $m	Total contractual cash flows	Less than 1 year	1-2 years	2-5 years	More than 5 years
Trade and other payables	(170)	(170)	-	-	-
Borrowings	(1,689)	(559)	(129)	(516)	(485)
Electricity price derivatives - net settled	7	6	-	1	-
IRS - net settled	(37)	(10)	(10)	(15)	(2)
Foreign exchange derivatives - inflow	4	4	-	-	-
Foreign exchange derivatives - outflow	(4)	(4)	-	-	-
	(1,889)	**(733)**	**(139)**	**(530)**	**(487)**
Restated 2017					
Trade and other payables	(201)	(201)	-	-	-
Borrowings	(1,857)	(473)	(343)	(412)	(629)
Electricity price derivatives - net settled	(40)	(10)	(6)	(12)	(12)
IRS - net settled	(51)	(14)	(11)	(24)	(2)
Foreign exchange derivatives - inflow	25	25	-	-	-
Foreign exchange derivatives - outflow	(25)	(25)	-	-	-
	(2,149)	**(698)**	**(360)**	**(448)**	**(643)**

D3. CREDIT RISK

Total credit risk exposure, excluding the held for sale assets, is measured by the notional amount of financial instruments in an asset position of $227 million (2017: $234 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.

E. Other Disclosures

Notes to the financial statements for the year ended 30 June 2018

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	2018	Restated 2017
Profit before tax - continuing operations	153	180
Tax at 28%	(43)	(50)
Tax effect of adjustments:		
- Non-taxable sale of land	-	1
- Other	(1)	(2)
- Prior period adjustments	3	-
Tax expense - continuing operations	**(41)**	**(51)**
Current tax expense	(36)	(33)
Deferred tax expense	(5)	(18)

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
Restated balance at 1 July 2016	(777)	19	21	(737)
Recognised in profit/(loss)	(6)	(7)	(5)	(18)
Recognised in OCI	-	6	-	6
Restated balance at 30 June 2017	**(783)**	**18**	**16**	**(749)**
Recognised in profit/(loss)	(7)	-	2	(5)
Recognised in OCI	-	(5)	-	(5)
Deduct held for sale liabilities	10	1	(3)	8
Balance at 30 June 2018	**(780)**	**14**	**15**	**(751)**

E2. OPERATING EXPENSES

Other operating expenses (note A3) include total labour costs of $99 million (2017: $103 million). Labour costs include contributions to KiwiSaver of $3 million (2017: $3 million).

Audit fees paid to Contact's auditors (KPMG) comprise of $520,000 for review of the interim, and audit of the year end, financial statements (2017: $480,000), and $2,500 for scrutineering at the Annual meeting (2017: $2,150).

E3. INVENTORY

Contact's inventories include gas in storage at the Ahuroa gas storage facility for use in thermal generation. Inventory gas is carried at the lower of net realisable value (NRV) and cost. 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.

Inventory gas is split between current and non-current based on expected future and past actual gas usage. At 30 June 2018, Contact expects to use 50% of the gas held in storage within one year of the reporting period end (2017: 50%).

$m	2018	2017
Inventory gas	46	54
Consumables and spare parts	9	10
LPG	-	2
Diesel fuel	3	4
	58	**70**
Current	35	46
Non-current	23	24

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.

E4. TRADE AND OTHER RECEIVABLES

$m	2018	Restated 2017
Trade receivables	65	78
Unbilled receivables	96	100
Provision for impairment	(2)	(3)
Net trade receivables	**159**	**175**
Contract assets	13	12
Prepayments	3	3
Other receivables	-	7
	175	**197**

Trade and unbilled receivables are recognised net of discounts based on past experience of the amount of discounts taken up by customers. 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 to determine the relevant unbilled amount for the period.

Provision for impairment

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

Ageing of trade receivables not impaired is:

$m	2018	Restated 2017
Not past due	141	149
0-30 days past due	15	18
30-90 days past due	1	4
Over 90 days past due	2	4
	159	**175**

Bad debts net of recoveries of $6 million (2017: $7 million) were recognised during the reporting period.

Contract assets

Contact capitalises the incremental costs incurred to acquire new customers and amortises these costs to operating expenses over the expected life of the customer relationship. Incentives given to customers are also capitalised as a contract asset and amortised to revenue over the same period.

$m	2018	Restated 2017
Opening balance	12	9
Additions	9	9
Amortised to revenue	(5)	(3)
Amortised to operating expenses	(3)	(3)
Closing balance	**13**	**12**

Of the total contract assets balance, $7 million (2017: $6 million) is expected to be amortised within one year of the reporting period and the remainder between one to three years of the reporting period end.

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.

The other provision includes $4 million (2017: $5 million) for remediation of the Holidays Act non-compliance.

$m	Restoration/ environmental rehabilitation	Other	Total
Balance at 1 July 2017	(55)	(9)	(64)
Created	-	(1)	(1)
Released	1	-	1
Utilised	7	1	8
Unwind of discount	(5)	-	(5)
Deduct held for sale liabilities	2	-	2
Balance at 30 June 2018	**(50)**	**(9)**	**(59)**
Current	(5)	(6)	(11)
Non-current	(45)	(3)	(48)

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 8%.

E6. PROFIT TO OPERATING CASH FLOWS

A reconciliation of profit to operating cash flows for continuing and discontinued operations is provided below. Refer to note A5 for the operating cash flows for the discontinued operation.

$m	2018	Restated 2017
Profit	**132**	**151**
Depreciation and amortisation	220	208
Amortisation of contract assets	8	6
Change in fair value of financial instruments	(3)	(23)
Movement in provisions	-	5
Net interest expense	84	93
Bad debt expense	7	10
Movement in deferred tax	5	18
Share-based compensation	3	3
Other	(2)	(2)
Changes in assets and liabilities, net of non-cash, investing and financing activities		
Trade and other receivables	(16)	(7)
Inventories and intangible assets	9	35
Trade and other payables	-	7
Tax	10	4
Operating cash flows	**457**	**508**

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, excluding held for sale derivatives for the current reporting period, are:

$m	2018 Asset	2018 Liability	2017 Asset	2017 Liability
CCIRS	45	-	26	(23)
CCIRS - margin	-	(2)	-	(4)
Foreign exchange derivatives	-	-	-	-
IRS	6	(53)	8	(53)
Electricity price derivatives	10	(2)	3	(13)
	61	**(57)**	**37**	**(93)**

Fair value

Contact uses discounted cash flow valuations with market observable data, to the extent that it is available, in estimating the fair value of all derivatives and borrowings. The key variables used in these valuations are forward prices (for the relevant underlying interest rates, foreign exchange rates and wholesale electricity prices) and discount rates (based on the forward IRS curve adjusted for counterparty risk).

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
- when quoted prices are not available or relevant (i.e. long dated and large contracts), Contact's best estimate of the cost of new supply is used. This is derived using key unobservable inputs, relevant wholesale market factors and management judgement.

Additional key inputs and assumptions used to determine the fair value of electricity derivatives include Contact's best estimate of volumes called over the life of electricity options, forward quoted commodity prices (e.g. aluminium and carbon) and calibration adjustments as a consequence of initial recognition differences.

The following table provides a breakdown of the fair value of derivatives, excluding held for sale derivatives in the current reporting period, by the source of key valuation inputs:

$m	2018	2017
Sourced from market data	-	(3)
Derived from market data	(2)	(45)
Electricity price estimates	6	(8)
	4	**(56)**

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

$m	2018	2017
Opening balance	(8)	9
Gain/(loss) in profit/(loss):		
- wholesale electricity revenue	1	(7)
- change in fair value of financial instruments	2	(1)
(Loss)/gain in OCI	6	(9)
Instruments issued	5	-
Closing balance	**6**	**(8)**

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 remaining period of up to 12 years and is recognised as an electricity price derivative at fair value.

In addition, Contact has entered into a new agreement with Meridian Energy Limited for the supply of 18.75MW of electricity required by New Zealand Aluminium Smelters to operate the fourth potline at its Tiwai smelter. The term commences on commissioning date of the fourth potline until 31 December 2022.

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	2018	2017
Opening difference	(33)	(17)
Initial differences in new hedges	3	-
Volumes expired and amortised	8	(1)
Changes for future prices and time	23	(15)
Closing difference	**1**	**(33)**

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, $50 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 the 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 the 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	2018	2017
Opening balance	(8)	7
Effective portion of cash flow hedges	15	(29)
Transferred to revenue	5	11
Transferred to property, plant and equipment	-	(3)
Transferred to deferred tax	(5)	6
Closing balance	**7**	**(8)**

Derivatives not in hedge relationships

These include IRS not attached to specific debt, electricity price derivatives purchased as part of a requirement to participate in the ASX futures electricity market and financial transmission rights. 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, excluding held for sale assets and liabilities in the current reporting period, is provided in the table below.

$m	2018	Restated 2017
Cash and cash equivalents	3	6
Trade and other receivables	159	182
Trade and other payables	(170)	(201)
Borrowings	(1,433)	(1,538)

For disclosure purposes, the fair value of borrowings, excluding held for sale, is $1,503 million (2017: $1,572 million). This fair value is derived from market data.

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, or there is a company change in control, 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 or by utilising the option of a facility which cancels the options in return for a reduced number of issued shares. There are no loans available. There are no holding/retention periods or ownership requirements for employees who exercise equity. 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 2016	11,000,987	$5.34
Granted	1,157,407	$4.98
Lapsed	(2,511,733)	$5.37
Balance at 30 June 2017	**9,646,661**	**$5.28**
Granted	1,148,119	$5.54
Exercised	(4,318,578)	$5.24
Lapsed	(330,834)	$5.30
Balance at 30 June 2018	**6,145,368**	**$5.36**

At 30 June 2018, 3,050,726 share options were exercisable. The exercisable share options have a weighted average exercise price of $5.55.

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 2016	294,316	314,170
Granted	285,054	345,720
Lapsed	(43,067)	(64,654)
Balance at 30 June 2017	**536,303**	**595,236**
Granted	274,347	309,212
Exercised	-	(276,784)
Lapsed	(43,085)	(39,452)
Balance at 30 June 2018	**767,565**	**588,212**

Share options had a weighted average remaining life of one year and 10 months (2017: one year, seven months), PSRs had two years and nine months (2017: three years, five months) and DSRs had 11 months (2017: 11 months).

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, may 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	Contact Share
Balance at 1 July 2016	402,430
Shares purchased and issued	139,071
Transferred to employees	(138,128)
Balance at 30 June 2017	**403,373**
Shares purchased and issued	105,471
Transferred to employees	(121,199)
Balance at 30 June 2018	**387,645**

These shares have a weighted average remaining life of one year and three months (2017: one year, four months).

Share-based compensation expense

The current reporting period's expense was $3 million (2017: $3 million).

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:

$m	2018	2017
Share options	0.42	0.44
PSRs	3.03	2.91
DSRs	4.88	4.50
Contact Share	5.54	4.98

Key inputs in determining the fair values are:

$m	2018	2017
Risk-free interest rate	2%	2%
Expected dividend yield	6%	6%
Expected share price volatility	20%	21%

E10. RELATED PARTIES

Contact's related parties include Directors, the Leadership Team (LT) and Rockgas Timaru Limited. Contact wholly owns Rockgas Limited, which holds 50% of Rockgas Timaru Limited. Both entities are LPG retailers.

Related party transactions are disclosed in the table below.

Received/(paid) $m	2018	2017
Rockgas Timaru Limited		
Sale of LPG - discontinued operation	2	2
Key management personnel		
Directors' fees	(1)	(1)
LT - salary and other short-term benefits	(5)	(6)
LT - share-based compensation expense	(1)	(1)
Balances payable at end of the year		
Key management personnel	(1)	(1)

Members of the Leadership Team purchase goods and services from Contact for domestic purposes on normal commercial terms and conditions which includes staff discount available to all eligible employees.

E11. NEW ACCOUNTING STANDARDS

Contact has chosen not to early adopt NZ IFRS 9 *Financial Instruments* (NZ IFRS 9), which is effective for the year ending 30 June 2019.

NZ IFRS 9 addresses the classification and measurement of financial assets and liabilities, the impairment of financial assets and hedge accounting.

The adoption of NZ IFRS 9 will permit Contact to reduce reported volatility in the Statement of Comprehensive Income as NZ IFRS 9 enables Contact to hedge account for interest rate swaps that could not be hedge accounted under the current accounting standards. This change to the hedge accounting rules aligns more closely with Contact's interest rate risk management activity. While this is expected to reduce profit/(loss) volatility over time, the interest rate swaps in place on transition to NZ IFRS 9 may not be fully effective hedges and may continue to accounted for as derivatives not designated in a hedge relationship.

Changes in the fair value of the cost to convert foreign currency to NZD of Contact's CCIRS will be separately accounted for as a cost of hedging and recognised within a new reserve within equity (cost of hedging reserve).

No other significant changes are expected as a result of the adoption of NZ IFRS 9.

KPMG

Independent Auditor's report

To the shareholders of Contact Energy Limited

REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

Opinion

In our opinion, the accompanying consolidated financial statements of Contact Energy Limited (the company) and the entities which it has control or joint control (the group) on pages 48 to 69:

i. present fairly in all material respects the Group's financial position as at 30 June 2018 and its financial performance and cash flows for the year ended on that date; and

ii. comply with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

We have audited the accompanying consolidated financial statements which comprise:

» the consolidated statement of financial position as at 30 June 2018;

» the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended; and

» notes, including a summary of significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) ('ISAs (NZ)'). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We are independent of the group in accordance with 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.

Our responsibilities under ISAs (NZ) are further described in the auditor's responsibilities for the audit of the consolidated financial statements section of our report.

Our firm has also provided other services to the group in relation to trustee reporting and annual meeting scrutineering to the Company and Group. Subject to certain restrictions, partners and employees of our firm may 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.

Scoping

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.

The context for our audit is set by the group's major activities in the financial year ended 30 June 2018. The group had a continued focus on implementing its cost efficiency programme and improvements in customer operating performance as it seeks to realise benefits from its investments in its retail customer business. There also remains an ongoing focus on the portfolio of long life generation assets in light of potential sector developments and an overall strategy to increase the proportion of renewable generation in New Zealand.

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 $8.2 million determined with reference to a benchmark of group profit before tax from continuing operations. We chose the benchmark because, in our view, this is a key measure of the group's performance.

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 and our key audit procedures to address those matters in order that the shareholders as a body may better understand the process by which we arrived at our audit opinion. Our procedures were 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 matters: Carrying value of cash-generating units
Note C1 and C2 of the financial statements

The Group separates 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.

We focussed primarily on the generation assets due to the significance of the assets relative to the Group's financial position, the impact changes in underlying assumptions may have and the sensitivity of the generation portfolio to developments and changes in the electricity generation sector as a whole.

The significant assumptions in the generation model are forward electricity prices, future generation volumes, forecast operating and asset costs, the terminal growth rate and the discount rate applied to the future cash flows. All these assumptions involve judgement.

How the matter was addressed in our audit

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 tested the significant judgements in the modelled cash flows by comparing forward electricity prices to external market projections, comparing future generation volumes to historical volumes, comparing operating costs and asset renewal costs to historical levels and budgets and assessing any impact in changes in the cost structure of generation sites. We also compared the model's terminal growth and discount rates to our own independently determined rates.

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

We are satisfied that the forward electricity prices, future generation volumes, forecast operating and asset renewal costs, terminal growth rate and discount rate assumptions used by Management were within acceptable ranges and in line with the current market view.

As an overall test we compared the Group's net assets at 30 June 2018 of $2.7 billion to its market capitalisation of $4.2 billion at 30 June 2018 and noted an implied headroom of $1.5 billion.

Key audit matters: Future development of generation capital work in progress
Note C1 of the financial statements

We considered the recoverability of capital work in progress, with a particular focus on the Tauhara geothermal project and wells that are held for future development.

We consider this a key audit matter due to the recoverability assessment being based on Management's intention for continued investment in the project; the impact of future developments in the electricity generation sector and the level of judgement involved in the assumptions modelled to determine future economic feasibility of these projects.

How the matter was addressed in our audit

We satisfied ourselves that the recoverability of generation projects held in capital work in progress for future development were supported by appropriate development plans and economic feasibility models.

The minutes of board and executive management meetings, which we reviewed, demonstrated continued support for the future development of the generation projects held in work in progress. The strategy towards development of low emission generation assets is supported by external sector factors.

Key audit matters: Revenue recognition
Notes A1 and A3 of the financial statements

The Group has numerous revenue streams for which there are different price structures and deliverables.

For electricity and gas revenue, customer billing cycles are not aligned to the end of reporting period therefore an estimate for unbilled receivables is required.

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 judgement involved in estimating each customer's electricity and gas consumption since their last bill.

For the year ended 30 June 2018 the Group has early adopted NZ IFRS 15 *Revenue from Contracts with Customers*. The early adoption of this accounting standard has impacted both how the Group recognises revenue and the treatment of costs to obtain customer contracts.

Our focus has been on the recognition of revenue in respect of:

- » accounting for retail customer product offerings, including cash incentives, loyalty programmes and service fees; and
- » accounting for material commercial and industrial contracts that included multiple performance obligations that exist under the contract.

The other area of focus was on the incremental customer acquisition costs incurred to obtain a customer and direct customer incentives. These are capitalised as contract assets and recognised over the expected life of the relationship with of customers.

The early adoption has been retrospectively applied with comparative periods being restated in the financial statements.

How the matter was addressed in our audit

We assessed the control environment for capturing customer revenue and compared each revenue stream to our expectation which was supported by internal and external factors. We agreed wholesale electricity to third party documentation.

Our audit procedures to assess the estimate of unbilled electricity and gas revenue and receivables included assessing the methodology used to calculate the unbilled revenue, recalculating a sample of the unbilled receivables at the individual customer level, performing trend analysis by comparing the unbilled mass market receivable to our forecasted expectation; and verifying a sample of commercial and industrial unbilled receivables to subsequent invoices.

We found that the estimate of unbilled revenue and receivables to be in line with our expectation.

Our procedures to assess the appropriate level of revenue to be recognised in accordance with the transition to NZ IFRS 15 *Revenue from Contracts with Customers* included:

- » Comparing on a portfolio basis, the mass market customer performance obligations identified were consistent with the standard terms and conditions within underlying contracts;
- » Comparing on a sample basis, the commercial and industrial electricity customer performance obligations identified were consistent with the terms and conditions within underlying contracts; and

- Evaluating the appropriateness of the transaction price allocation, which includes variable consideration, to the performance obligations identified.

Our procedures to assess the contract assets included:

- Agreeing a sample of capitalised acquisition costs to invoice and external contracts to ensure that the capitalised costs were incremental in nature and incurred in the process of obtaining a customer contract;
- Evaluating the appropriateness of the expected life of the relationship with the customer by observing historical customer information; and
- Assessing whether contract assets are appropriately recognised over the expected life of the relationship with the customer.

We have agreed the restatement in note A1: *Adoption of new accounting policies* to the underlying calculations and re-performed those calculations.

Our procedures did not identify any significant findings surrounding the adoption of NZ IFRS 15 *Revenue from Contracts with Customers*.

Other information

The Directors, on behalf of the group, are responsible for the other information included in the entity's Annual Report. Other information includes 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 any other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears 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.

Use of this independent auditor's report

This independent auditor's report is made solely to the shareholders as a body. Our audit work has been undertaken so that we might state to the shareholders those matters we are required to state to them in the independent 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 shareholders as a body for our audit work, this independent auditor's report, or any of the opinions we have formed.

Responsibilities of the Directors for the consolidated financial statements

The Directors, on behalf of the company, are responsible for:

- the preparation and fair presentation of the consolidated financial statements in accordance with generally accepted accounting practice in New Zealand (being New Zealand Equivalents to International Financial Reporting Standards) and International Financial Reporting Standards;
- implementing necessary internal control to enable the preparation of a consolidated set of financial statements that is fairly presented and free from material misstatement, whether due to fraud or error; and
- assessing the ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objective is:

- 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 independent 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. They 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 further description of our responsibilities for the audit of these consolidated financial statements is located at the External Reporting Board (XRB) website at:

http://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-1/

This description forms part of our independent auditor's report.

The engagement partner on the audit resulting in this independent auditor's report is David Gates

KPMG

David Gates
For and on behalf of KPMG
Wellington, 10 August 2018

Corporate directory

BOARD OF DIRECTORS

Sir Ralph Norris (Chairman) KNZM

Victoria Crone

Whaimutu Dewes

Rob McDonald

Sue Sheldon CNZM

Elena Trout

LEADERSHIP TEAM

Dennis Barnes
Chief Executive Officer

Graham Cockroft
Chief Financial Officer

Venasio-Lorenzo Crawley
Chief Customer Officer

James Kilty
Chief Generation and Development Officer

Tania Palmer
General Manager, People and Safety

Catherine Thompson
General Manager, External Relations and General Counsel

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Change of address, payment instructions and investment portfolios can be viewed and updated online:

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