

Contact Energy
Annual Report 2010

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The 2010 Annual Meeting of Contact Energy Limited shareholders will be held at the Christchurch Convention Centre, 95 Kilmore Street, Christchurch on Wednesday 27 October 2010, commencing at 10:30am [NZDST].

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

Summary

For the financial year ended 30 June 2010

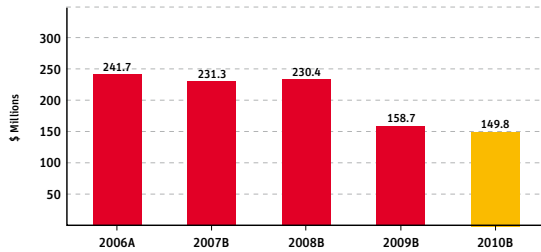
- Portfolio inflexibility in another wet year, together with rising retail costs, impacted on Contact Energy's result for the financial year ended 30 June 2010, with Underlying Earnings after Tax for the financial year of \$150 million down six per cent from \$159 million for the 12 months to 30 June 2009
- Te Huka geothermal power station (23 MW) was handed over to Contact for commercial operation on 23 May 2010, under budget and ahead of schedule
- Chosen as joint venture partner by the Taheke 8C and Adjoining Blocks Incorporation for the exploration and possible development of the Taheke geothermal field
- Lodged applications for resource consents with the Environmental Protection Authority for the proposed Tauhara 2 geothermal development project in Taupo
- Continued to advance plans for the Te Mihi geothermal power station (having obtained final resource consents in 2008)
- Continued construction of the 200 MW Stratford peaker plant
- Injected a further 5.2 PJ into the Ahuroa gas storage facility and continued to invest in infrastructure to enable the extraction, as well as injection of gas
- Grew Contact's time of use customer base by seven per cent
- Significantly improved our health and safety performance, reducing our total recordable injury frequency rate by 25 per cent
- Continued to advance the resource consent applications for the proposed Hauāuru mā raki and Waitahora wind farm projects (located in the Waikato and southern Hawke's Bay respectively)

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

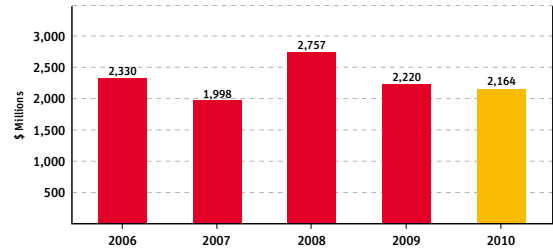
 Investor Relations
PO Box 10742
The Terrace
Wellington 6143
Phone: 64 4 499 4001
Email: annualreport@contactenergy.co.nz

Performance indicators

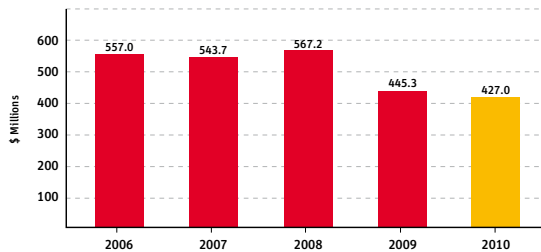
Underlying earnings for the period¹



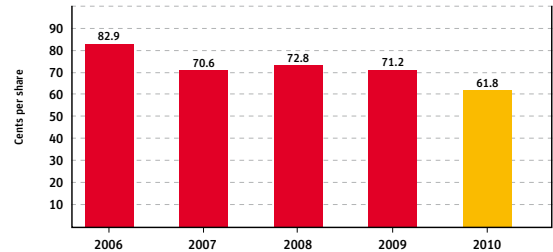
Total operating revenue



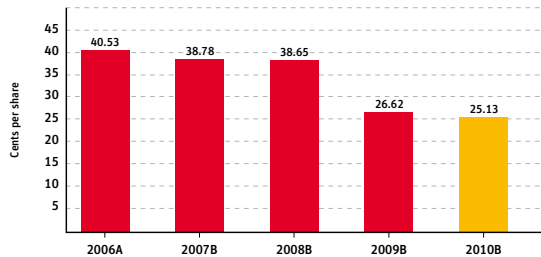
EBITDAF²



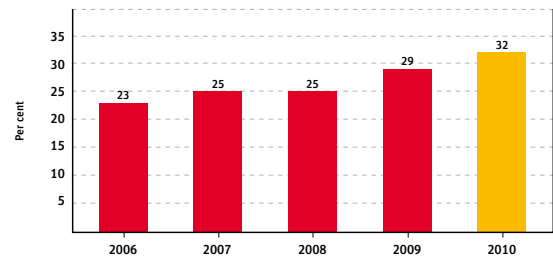
Operating cash flow per share³



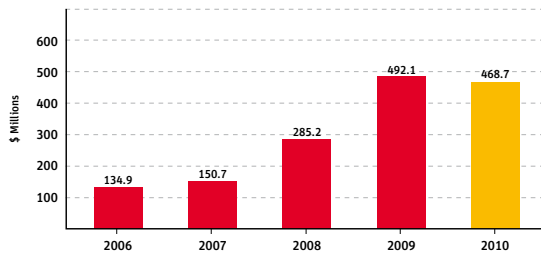
Underlying earnings per share^{1,3}



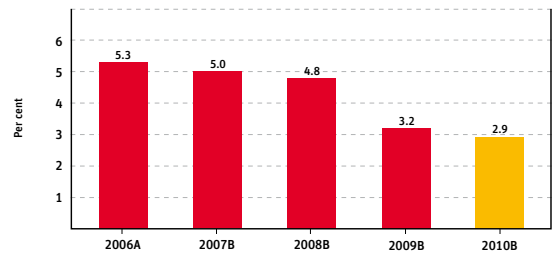
Net debt/debt+equity¹



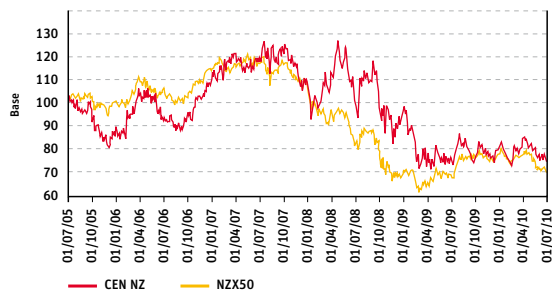
Capital and investment expenditure¹



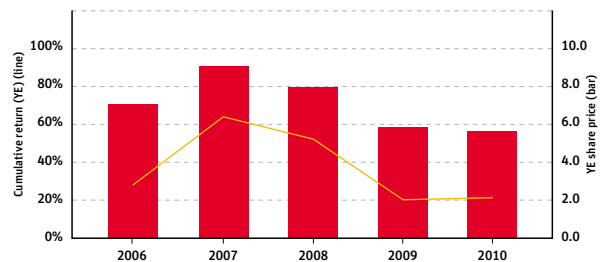
Underlying return on total assets¹



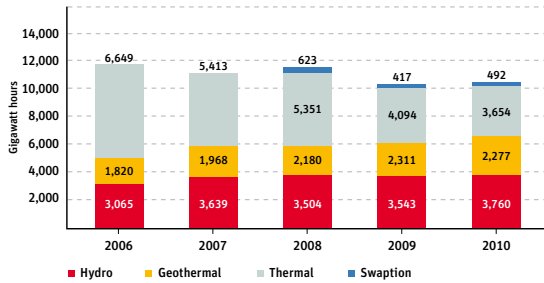
CEN relative to the NZX50



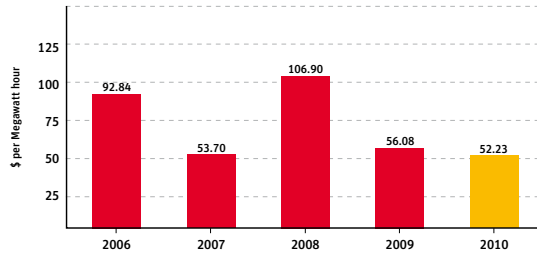
Shareholder return



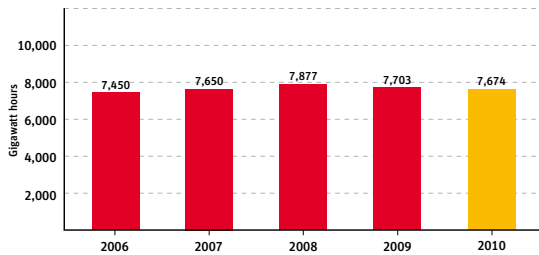
Generation by fuel source⁴



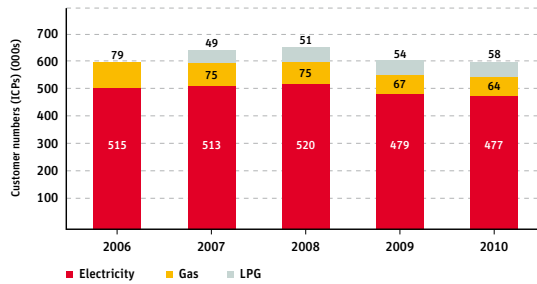
Wholesale electricity price



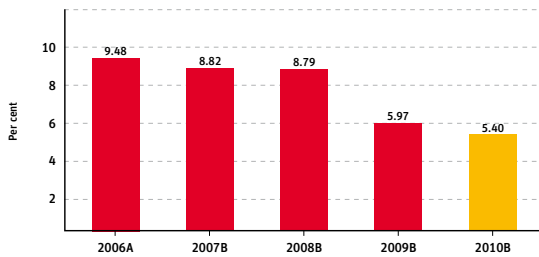
Retail electricity sales⁴



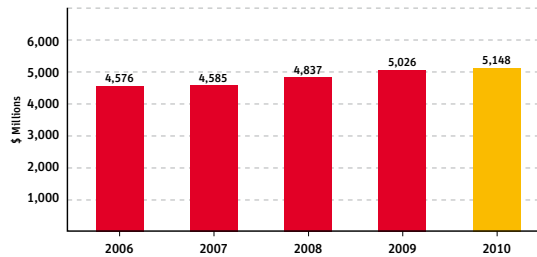
Customer numbers (including LPG franchisees)



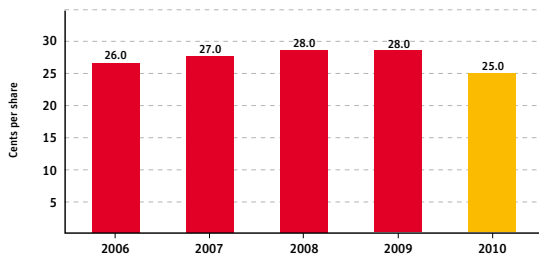
Underlying return on shareholders' equity¹



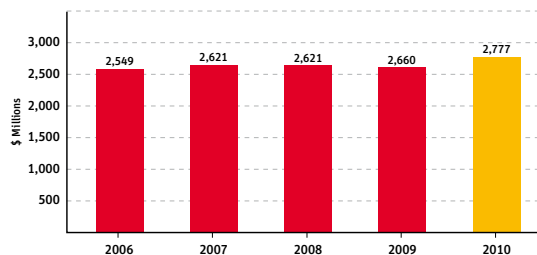
Total assets¹



Profit distribution and dividends per share



Shareholders' equity¹



Notes to the graphs

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

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

A Excludes gain on disposal of subsidiaries and change in fair value of financial instruments, both net of tax.

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

1 Comparative financial statistics, returns and ratios have been restated due to a voluntary change in accounting policy in 2010 that has been retrospectively applied.

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

3 Underlying earnings per share and operating cash flow per share for each year have been calculated using the weighted average number of shares on issue in 2010, in order to eliminate the impact of changes in share base on these performance indicators. Comparatives have been restated as appropriate.

4 Generation by fuel source and retail electricity sales have been adjusted to reflect the change in reportable segments. Comparatives have been restated as appropriate.

Chairman's review

The financial year ending 30 June 2010 was not without its challenges for Contact, with wet weather hindering Contact's performance. However, considerable progress was made during the year on the investments that will restore flexibility, the benefits of which were beginning to be seen during the financial year, as well as on the future options that will deliver growth.

For the financial year ending 30 June 2010, Contact achieved Earnings Before Net Interest Expense, Income Tax, Depreciation, Amortisation, Change in Fair Value of Financial Instruments and Other Significant Items (EBITDAF) of \$427 million, down 4 per cent from \$445 million in the 2009 financial year. Underlying Earnings after Tax for the year were \$150 million, down 6 per cent from \$159 million.

Performance during the year was impacted by higher than normal rainfall, resulting in lower wholesale electricity prices, which consequentially constrained the extent to which higher gas and network costs could be recovered.

The wet conditions also resulted in higher levels of hydro generation at a time when Contact was contracted to take, or pay for, relatively high volumes of gas. To mitigate the impact of surplus gas during the year, the company expedited the delivery of additional gas compression equipment to the Ahuroa underground gas storage project, which resulted in about half of the 10 petajoules of surplus gas being injected into Ahuroa. Although the company incurred about \$24 million of additional gas costs due to the wet conditions, injecting gas into Ahuroa saved about \$30 million during the year, which indicates how important the Ahuroa gas storage project is to Contact in re-establishing gas supply flexibility.

Another project that the company initiated in 2007 to restore operational flexibility is the 200 megawatt Stratford peaker project. The project is currently commissioning and expected to be operational in the first half of the 2011 financial year.

During the financial year Contact completed the Te Huka geothermal power station, the first in a series of developments that leverage the company's position in geothermal energy. Te Huka was delivered into commercial operation on 23 May 2010, under budget, ahead of schedule and exceeding planned generation output.

The company was also selected by the Taheke 8C and Adjoining Blocks Incorporation to jointly develop the Taheke geothermal project. The partnership represents a significant step forward for Contact in the joint development of energy resources with iwi.

Distribution to shareholders

The Contact Board of Directors resolved that the final distribution to shareholders would be the equivalent of 14.0 cents per share, resulting in a total distribution for the year of 25.0 cents per share per year, a reduction of 3.0 cents from the prior financial year. The 2010 distribution to shareholders reflects the company's financial performance in the year in review, which was impacted primarily by wet conditions. The distribution represents a payout ratio of 100 per cent of Contact's underlying earnings per share. Directors considered this approach prudent under the circumstances.

Financial position

Based on the NZD equivalent of borrowings, after foreign exchange hedging and before deferred financing costs, and net of short-term deposits, net debt as at 30 June 2010 was \$1,347.1 million, compared with \$1,124.2 million as at 30 June 2009. This is largely due to the ongoing capital expenditure associated with the three major growth projects under construction.

Contact remains in good financial health and well positioned for the future.

The company remains conservatively geared, with a net debt to net debt plus equity ratio at the end of the financial year of 32 per cent. The operating cash flow for the financial year ended 30 June 2010 was \$368 million – while this was \$56 million lower than in the prior financial year as a result of the weather conditions, it represents a strong basis from which to fund the ongoing growth in the business.

Governance

There have been two changes to the Board over the year in review. In March 2010, Whaimutu Dewes joined the Board as an independent director. Whaimutu has held numerous directorships in organisations including Television New Zealand and the AMP New Zealand Advisory Board and acted as Deputy Chair of Sealord Group between 1992 and 2008. He is of Ngati Porou and Ngati Rangitahi descent.

In June 2010, John Milne, one of the founding directors, retired from the Board after 15 years of service. John served the company from the time it was created as a state-owned enterprise in 1995 and over that time has made a tremendous contribution to the company's continued success and development. John has been integral to a range of significant processes and achievements. Following the split up of ECNZ, John's skills contributed greatly to bringing the relevant assets together, and ensuring the company could operate as a successful business. The Board has valued John's impeccable recollection of the many issues that have marked the development of Contact and his status as a senior independent director has stood the company in good stead through the years.

On behalf of the Board I thank John for his contribution and commitment to the company and its people, and wish him well for his future endeavours.

Outlook

In light of the range of market and operating uncertainties, particularly in relation to hydrology, it would be inappropriate to provide specific quantitative guidance for the 2011 full-year performance.

The 2011 financial year will be a year of two halves. Continuing high levels of take-or-pay gas and high hydro inflows are likely to result in the first half being broadly similar to the first half of the 2010 financial year. EBITDAF in the second half of the 2011 financial year is expected to benefit from increased operational flexibility as the Ahuroa gas storage and Stratford peaker plant are brought into commercial operation, and as take-or-pay gas levels reduce from January 2011.

With the portfolio well on its way to restoring flexibility, geothermal development will become Contact's priority generation investment.



Grant King
Chairman

Managing Director's review

Strategic initiatives position Contact well for the future

Strategy for portfolio flexibility

The ability to adjust the volume of gas to suit demand requirements is central to Contact's ability to perform well in either wet or dry conditions. Until 2006, highly flexible Maui 367 gas supply contracts enabled Contact to reduce generation from its gas-fired stations during periods of low gas demand (during summer or high-hydro inflow periods for example) and increase gas supplies during low-hydro or high electricity demand periods.

By 2007, Contact's Maui 367 gas contracts had been replaced with significantly more expensive and highly inflexible gas supply arrangements. To illustrate: in FY06 Contact's gas costs were approximately \$4.70 per gigajoule¹ – and the amount of gas Contact required could be tailored to suit requirements. By contrast, in FY10, Contact's gas costs were approximately \$8.50 per gigajoule¹ – with a requirement to take, or pay for, 52 petajoules of gas (which is appropriate for a dry year but significantly more gas than required for a high-hydro year). Essentially, Contact's gas costs rose from \$244 million in FY06 to \$445 million per year in FY10 (on an equivalent volume basis), and the amount of gas can no longer be tailored to suit the operating environment.

The combination of higher gas costs and the requirement to take, or pay for, gas – irrespective of whether the gas is needed or not – has significantly constrained the value of Contact's portfolio diversity. For this reason, in 2007, Contact initiated two projects which, upon completion, will restore flexibility back into the portfolio. The development and construction of both of these projects will be complete by the end of 2010.

The first is the Ahuroa underground gas storage project. The \$170 million Ahuroa project will provide Contact with the ability to store gas in periods of low demand and to extract gas during periods of high demand. Although still in the development phase, Ahuroa made a significant contribution to Contact's FY10 results by allowing Contact to inject five petajoules – half of the volume of gas that Contact was unable to utilise during the year but was required to pay for.

The Contact team's efforts to accelerate the development of the Ahuroa gas storage project, to enable the injection of this volume of gas during the financial year, saved the company tens of millions of dollars.

The second project Contact initiated in 2007 is the Stratford peaker project. The \$250 million fast-start power station will add to New Zealand's security of supply by balancing weather-dependent renewables such as wind and hydro, and adding to supply during periods of peak electricity demand. The Stratford peaker is currently commissioning and is expected to be operational in November 2010.

Strategy for growth

Contact's strategy for growth remains focussed on pursuing a range of options across the major fuel types – gas, geothermal, wind and hydro – that the company can execute at the right time.

Geothermal developments

Contact's geothermal development team did an outstanding job in delivering the \$100 million Te Huka geothermal plant (formerly known as Tauhara 1) into commercial operation in May 2010, under budget and ahead of schedule.

The team is also continuing to develop the Te Mihi geothermal project (having obtained final resource consents in 2008), in addition to progressing the consent process for the 250 megawatt Tauhara 2 geothermal project. The Tauhara 2 consent application was lodged in February 2010 and is the first major energy project to be accepted under the new fast-track process managed by the Environmental Protection Authority. A decision on the application is due in early 2011.

¹ Including transmission costs

Another accomplishment in FY10 was the Taheke 8C and Adjoining Blocks Incorporation (Taheke Inc) selecting Contact to be its joint development partner for the Taheke geothermal project. We are excited to be partnering with Taheke Inc and are looking forward to commencing exploration drilling this year.

Wind, hydro and gas developments

In addition to the array of geothermal projects the company is developing, Contact is continuing to advance the resource consent applications for the Hauāuru mā raki and Waitahora wind farm projects (located in north-west Waikato and southern Hawke's Bay respectively). Also, Contact is continuing to engage with community groups on potential hydro projects on the Clutha River, and is investigating several North Island sites for new gas-fired generation projects.

Our people

Safety

Contact made good progress in its health and safety performance, reducing the total recordable injury frequency rate for staff and contractors by 25 per cent in FY10. Safety is Contact's highest priority and during FY10 Contact invested in systems and training to foster the company's safety culture in order to progress toward our aspiration of zero harm.

Enterprise Transformation programme

Contact is currently implementing new systems to support the business's financial, generation and asset management, and retail functions, in a project known as Enterprise Transformation. The first wave of Enterprise Transformation is on track to be delivered later in 2010, with subsequent waves (for asset management and retail) rolling out in 2011 and 2012.

Our customers

Retail competition continued to intensify during the year, with the number of customers switching retailers increasing from an average of 20,000 per month in July 2009 to around 25,000 per month in July 2010.

During FY10, Contact grew its larger commercial and industrial (time of use) customer volumes – which were up seven per cent on the previous year – while maintaining residential customers, despite the competitive intensity and rising prices.

Our communities

One of our biggest achievements this year was the opening of the Te Huka geothermal power station. We celebrated the launch with the unveiling of a pou Te Huka, a sculpture and guardian carved by local master carver Delani Brown.

Delani also carved the waharoa, a nine metre high entranceway, gifted by Contact to the community in November 2009 to celebrate 50 years of geothermal energy generation at Wairakei power station. The waharoa provides a symbolic new landmark for Taupo and a tangible link between Contact and all local community interests. It is located in front of the cenotaph on Tongariro Street, Taupo.

Conclusion

Over the coming financial year, the benefits of the strategy we initiated in 2007 will start to be realised, particularly through the completion of the Stratford peaker and Ahuroa gas storage projects. We are also looking forward to favourable decisions on major new resource consent applications – which form the basis of the company's future growth.

With the first elements of our strategy coming to fruition, we are entering a new phase of development. I look forward to engaging with our people, our customers, the communities with which we're involved and Contact's many other stakeholders to ensure we meet the challenges of the years ahead.



David Baldwin
Managing Director

Management discussion of financial results

for the twelve-month period ended 30 June 2010

Financial results to 30 June 2010

Key financial information

	12 months ended 30 June 2010 \$ million	12 months ended 30 June 2009 \$ million	Variance	
			\$ million	%
Operating revenue and other income	2,164.4	2,220.1	(55.7)	(3%)
Operating expenses ⁽¹⁾	(1,737.4)	(1,774.8)	37.4	2%
EBITDAF ⁽²⁾	427.0	445.3	(18.3)	(4%)
Depreciation and amortisation	(161.9)	(165.9)	4.0	2%
Equity accounted earnings of associates	3.3	3.6	(0.3)	(8%)
Change in fair value of financial instruments	4.5	(57.5)	62.0	(108%)
Removal of New Plymouth asbestos and related costs	(5.6)	-	(5.6)	-
Impairment of Gasbridge assets	-	(2.8)	2.8	-
Retail transaction processing outsourcing costs	(3.3)	-	(3.3)	-
Earnings Before Net Interest Expense and Income Tax (EBIT)	264.0	222.7	41.3	19%
Net interest expense	(56.0)	(62.7)	6.7	11%
Income tax expense	(53.3)	(44.4)	(8.9)	(20%)
Profit for the period	154.7	115.6	39.1	34%
Underlying earnings after tax ⁽³⁾	149.8	158.7	(8.9)	(6%)
Shareholders' equity	2,776.8	2,659.6	117.2	4%

1 Includes electricity purchases.

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

3 Underlying earnings after tax removes significant one-off items and the non cash change in fair value of financial instruments.

EBITDAF

For the year ending 30 June 2010 ('FY10'), Contact's Earnings Before Net Interest Expense, Income Tax, Depreciation, Amortisation, Change in Fair Value of Financial Instruments and Other Significant Items (EBITDAF) was \$427 million, \$18 million (four per cent) lower than the prior corresponding period ('FY09').

FY10 was, in many respects, not dissimilar to FY09. Both years were impacted by weather conditions and increasing retail competition. However, FY10 did not see the significant constraints affecting the operation of the Cook Strait cable that materially impacted Contact's financial performance in the first half of FY09.

The wet conditions, which characterised the second, third and fourth quarters of FY09, were prevalent across the majority of FY10. As a result, FY10 commenced with above-mean hydro storage levels, which then continued to be above mean through most of the financial year.

High hydro inflows can result in periods of low wholesale electricity prices, making it uneconomic to convert take-or-pay gas into electricity in Contact's combined-cycle gas-fired power stations. In FY10, Contact was obligated to take or pay for 52 petajoules (PJ) of gas (approximately 5 PJ higher than FY09). 58 per cent (30 PJ) of that volume was used in generation, 12 per cent (4 PJ) less than FY09. This was due, in part, to the relatively high hydro inflows, and in part because of an extended outage at the Otahuhu B combined-cycle gas-fired plant from December 2009 through March 2010. A further 23 per cent (12 PJ) was sold to Contact's residential, commercial and industrial gas customers during the year.

Contact was able to expedite the delivery of gas compression equipment to the company's Ahuroa gas storage project to enable 5 PJ of the remaining 10 PJ take-or-pay commitment to be injected into the Ahuroa gas reservoir. A further 1.5 PJ were sold to an industrial customer and the remainder was not uplifted.

The costs associated with take-or-pay gas (gas paid for and not taken, and the loss on the 1.5 PJ sale to an industrial customer), and the lower capacity factors of Contact's combined-cycle gas-fired stations, contributed toward five per cent higher unit generation operating costs relative to FY09.

Underlying increases in generation costs (particularly gas and maintenance costs of combined-cycle gas plants) were, to a large extent, mitigated by an increase in the proportion of Contact's renewable generation in FY10. Renewables (geothermal and hydro) contributed 60 per cent of total generation volume in FY10, up from 55 per cent in FY09.

As discussed earlier, high inflows and surplus fuel resulted in periods of low wholesale electricity prices during FY10. The average wholesale electricity price during FY10 was \$52 per megawatt hour (MWh), compared with \$56 per MWh in FY09 and \$107 per MWh in FY08 (which was a drier than average year). It was encouraging to note, however, that wholesale prices from November 2009 through February 2010 were higher than the prior corresponding period, even though hydro storage levels were higher than they were the prior year. This suggests that the electricity market is adjusting to reflect the costs and the role of thermal generation in balancing weather dependent renewables such as hydro and wind. However, it is also clear that the market has yet to fully reflect the costs associated with thermal generation's role of providing security of supply in a predominantly renewable system.

Wholesale price volatility impacts the contribution from Contact's exposed (unhedged) generation. The six per cent decrease in average prices for the exposed generation relative to FY09 was more than offset by a 32 per cent increase in exposed generation volumes. The \$40 million contribution to EBITDAF from exposed generation, while 25 per cent higher than FY09, was about 60 per cent of a mean hydro year contribution.

The predominately wet conditions through the year negatively impacted Contact's FY10 EBITDAF by at least \$30 million.

Retail competition intensified across the country during the year, with national churn increasing from an average of approximately 20,000 customers per month in July 2009 to approximately 25,000 customers per month in July 2010.

While Contact largely maintained its customer numbers over the year, this did not come without higher costs. Higher churn results in higher costs to retain and acquire customers, and increased customer debt write-offs due to some customers switching away without paying their final bill.

Network costs were \$27 million (six per cent) higher than FY09, and, as mentioned earlier, energy costs were also higher.

The intensity of the competition during FY10 constrained the extent to which these higher retail costs could be passed on to consumers. Of the \$48 million increase in retail costs, only \$18 million (38 per cent) was passed on to consumers through tariff increases. As a consequence, retail margins contracted from five per cent in FY09 to two per cent in FY10.

Retail margins are unsustainably low for the degree of risk electricity retailers are required to take. August 2008 clearly illustrated how events, such as extreme weather and transmission constraints, can combine to materially impact the financial performance of energy retailers. While the winter and spring events of 2008/09 were, in part, due to extreme weather, retailers continue to be exposed to location and price risks arising from events such as capacity constraints on the national transmission grid, the narrowing of capacity reserve margins, and the increasingly 'peaky' demand for electricity. Retail prices will need to continue to rise to reflect increasing costs and risks.

Wholesale and retail gas and LPG sales contributed \$40 million EBITDAF in FY10, up \$7 million relative to FY09 due to an improvement in margins.

Depreciation

Depreciation expense decreased by \$4 million or two per cent. The key movements largely reflect the impact of the periodic review of asset lives for Contact's fixed assets.

Change in fair value of financial instruments

The reported profit for FY09 was negatively affected by a non-cash pre-tax movement of \$57.5 million in financial instruments. In the period ended 30 June 2010 a positive pre-tax adjustment of \$4.5 million has been made for the movement in financial instruments.

Interest expense

Net interest expense for the period reduced by \$6.7 million or 11 per cent to \$56.0 million for FY10. While the total net debt increased to \$1.35 billion from \$1.12 billion as at 30 June 2009, interest costs were lower primarily due to the fact that interest on strategic initiatives, such as the Stratford peaker project, the Te Huka geothermal project and the Ahuroa gas storage project is capitalised until construction is completed. In FY10, \$48.2 million of interest has been capitalised compared with \$21.5 million in FY09.

Income tax expense

Income tax expense for FY10 was \$53.3 million, up \$8.9 million on FY09. This is due to the profit before tax for FY10 of \$208.0 million being 30 per cent higher than the \$160.1 million reported for the prior financial year as a result of:

- a \$62.0 million pre-tax positive movement in the value of financial instruments;
- changes arising from the recent tax legislation impacting the deferred tax liability (\$7.9 million) composed of:
 - *a reduction of \$42.7 million:* The corporate income tax rate changes from 30 per cent to 28 per cent from 1 July 2011. As a result, the portion of the deferred tax liability/asset held at 30 June 2010 that will not crystallise until after 1 July 2011 has been restated to 28 per cent. The restated tax predominantly relates to deferred tax on property, plant and equipment; and
 - *an increase of \$34.8 million:* Tax depreciation on buildings with an estimated useful life of 50 years or more can no longer be claimed from 1 July 2011. This has resulted in an increased deferred tax liability on buildings, reflecting the future income tax payable on the use of the buildings against which no tax deduction is now available.

Reported profit

NZ\$ millions	12 months ended 1 July 2010	12 months ended 1 July 2009	Variance	
			\$ million	%
EBITDAF	427	445	(18)	(4%)
Depreciation and amortisation	(162)	(166)	4	2%
Equity accounted earnings of associates	3	4	(1)	(25%)
Change in fair value of financial instruments	5	(57)	62	109%
Removal of New Plymouth asbestos and related costs	(6)	-	(6)	-
Impairment of Gasbridge assets	-	(3)	3	100%
Retail transaction processing outsourcing costs	(3)	-	(3)	-
Net interest expense	(56)	(63)	7	11%
Income tax expense	(53)	(44)	(9)	(20%)
Profit for the period	155	116	39	34%

In addition to the items influencing reported profit discussed above, there were two significant one-off items, being an increase in the provision related to asbestos removal at the New Plymouth site of \$5.6 million (pre-tax), and a provision related to the costs of restructuring Contact's back office retail functions that are being outsourced co-incident with Contact's Enterprise Transformation project for retail operations of \$3.3 million (pre-tax).

On a net basis, profit for FY10 was \$155 million, up \$39 million (34 per cent) compared with FY09, primarily due to the change in the fair value of financial instruments.

Underlying earnings after tax

Underlying earnings after tax adjusts reported profit for significant one-off items and the non-cash change in the fair value of financial instruments. In FY10, notable adjustments were for the impact of the recent budget tax changes, the New Plymouth asbestos related costs, and retail back office outsourcing costs.

Underlying earnings after tax for FY10 were \$150 million, down \$9 million (six per cent) from the prior year. This reduction is primarily due to the \$18 million reduction in EBITDAF partially offset by an \$11 million reduction in depreciation and interest cost.

NZ\$ millions	12 months ended 30 June 2010	12 months ended 30 June 2009	Variance	
			\$ million	%
Profit for the year	155	116	39	34%
Removal of New Plymouth asbestos and related costs (after tax)	4	-	4	-
Impairment of Gasbridge assets	-	3	(3)	(100%)
Retail transaction processing outsourcing costs (after tax)	2	-	2	-
Change in fair value of financial instruments (after tax)	(3)	40	(43)	(108%)
Change in corporate income tax rate	(43)	-	(43)	-
Removal of tax depreciation on buildings	35	-	35	-
Underlying earnings after tax	150	159	(9)	(6%)

Distributions to shareholders

The Contact Board of Directors resolved that the final distribution to shareholders would be the equivalent of 14 cents per share, resulting in a total distribution of 25 cents per share, a reduction of three cents from the prior financial year. The 2010 distribution to shareholders reflects the financial performance of the financial year in review, which was impacted primarily by wet conditions. The possibility that the distribution might be adjusted if hydrology (among other things) continued to impact Contact's performance in the near-to-medium term was signalled in August 2009 and February 2010. The distribution represents a payout ratio of 100 per cent of Contact's underlying earnings per share. The distribution will be made via a non-taxable bonus issue under Contact's Profit Distribution Plan (PDP).

Financial performance and liquidity

Based on the New Zealand dollar (NZD) equivalent of borrowings, after foreign exchange hedging and before deferred financing costs, and net of short-term deposits, net debt as at 30 June 2010 was \$1,347.1 million, compared with \$1,124.2 million as at 30 June 2009. This is largely due to the ongoing capital expenditure associated with the three major growth projects under construction.

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

Contact has additional liquidity available from \$520 million of committed bank facilities, of which \$106 million was drawn at 30 June 2010.

Capital expenditure and investments

Contact's capital expenditure and investments for FY10 was \$468.7 million (including capitalised interest). Of this, \$75.6 million was 'stay in business' and \$393.1 million was growth capital expenditure (including investment in gas storage). This compares with \$106.5 million and \$385.6 million respectively for FY09.

The decrease in the stay in business capital expenditure is mainly due to the fact that FY09 included costs associated with the scheduled major overhaul at Otahuhu B combined cycle power station. While there were also significant outages associated with thermal plant in FY10, the impact on stay in business capital expenditure was significantly less than the extended planned outage in FY09.

The capital expenditure in growth projects reflects the ongoing activities associated with Contact's new projects including the completed Te Huka geothermal project, the Ahuroa gas storage and the Stratford peaker projects.

Outlook

In light of the range of market and operating uncertainties, particularly in relation to hydrology, it would be inappropriate to provide specific quantitative guidance for the 2011 full-year performance.

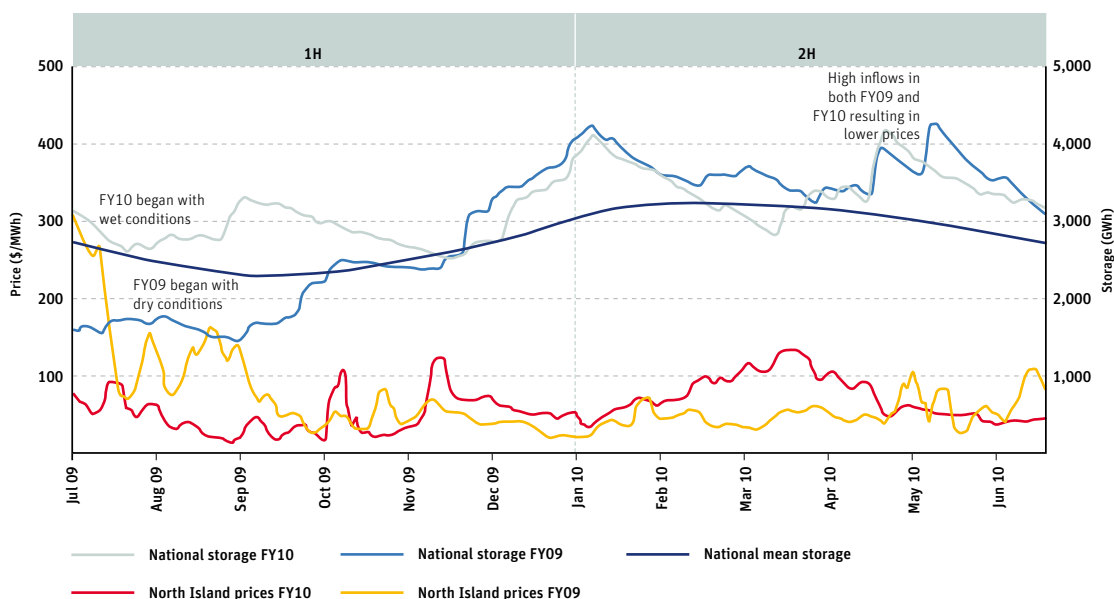
Near-term forecasts suggest a continuation of relatively high hydro inflows which, when coupled with Contact's CAL2010 relatively high take-or-pay gas obligations, are expected to result in first half EBITDAF being broadly similar to the first half of FY10.

EBITDAF in the second half of FY11 is expected to benefit from increased operational flexibility as the Ahuroa gas storage and Stratford peaker plant are brought into commercial operation, and as take-or-pay gas levels reduce from the beginning of CAL2011.

Overview of performance for the period

Electricity market conditions

The average wholesale electricity price for FY10 was \$52 per MWh compared with \$56 per MWh for FY09. While FY10 did not have the extremes of hydrology experienced in FY09, conditions were very similar, with periods of high hydrology leading to relatively low prices on average.



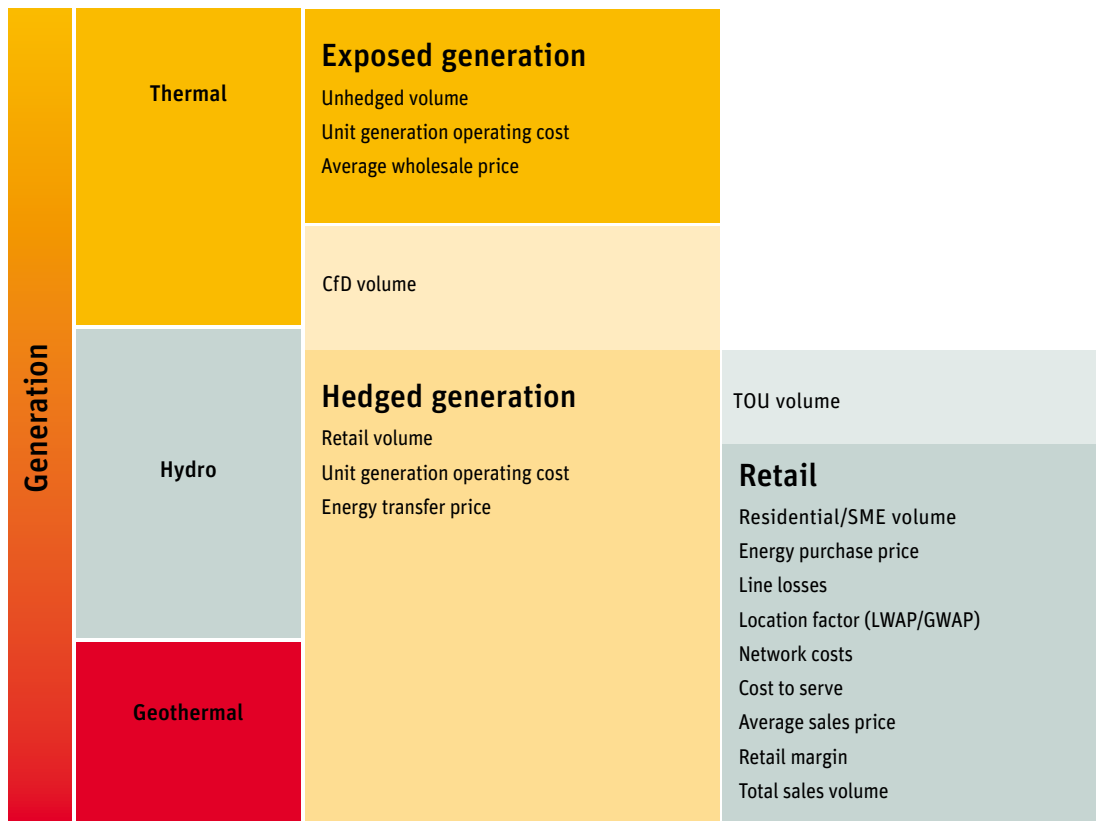
Change to reported segments

Historically, Contact reported financial results based on the retail and generation segments. To improve the quality of financial reporting, Contact has now established the following two segments:

- Electricity (retail and generation)
- Other (retail and wholesale gas, LPG and meters)

Adopting an 'Electricity' segment better reflects the integrated nature of Contact's business and removes the volatility in the prior segment results caused by wholesale price movements.

Conceptually, the Electricity segment is reflected in the chart below.

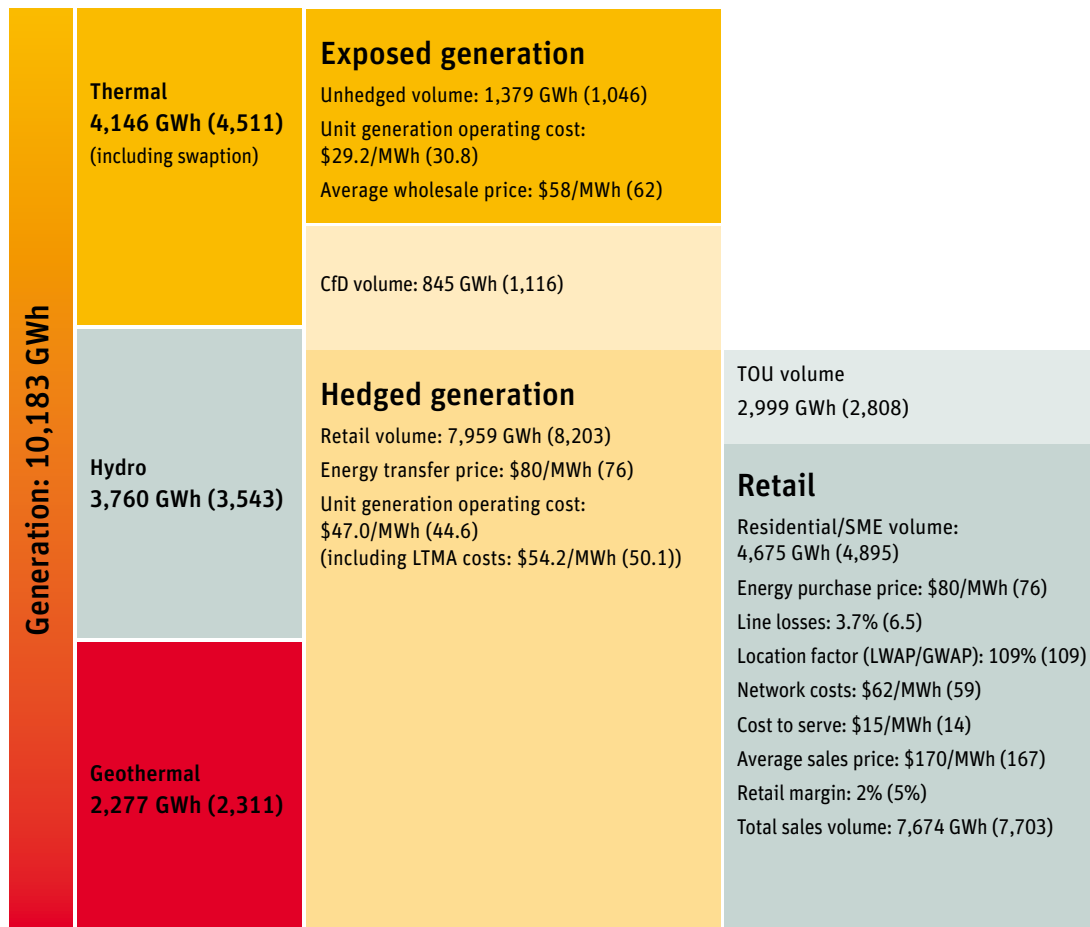


The chart illustrates the way Contact's generation is sold through two primary channels to market: the 'hedged' channel and the 'exposed' (unhedged) channel. The majority of Hedged generation is 'sold' (by internal transfer price) to Contact's retail markets and on to time-of-use sales and residential customers. The balance of Hedged generation is sold to industrial customers through wholesale (CfD) sales. Exposed generation volumes are sold into the wholesale electricity market.

Consequently, EBITDAF from the Electricity segment is the aggregate of the contributions from Hedged generation, Exposed generation and Retail.

Segment results

The operational performance data for FY10 (FY09 in parentheses) is provided in the chart below, and in the table on the following page.



Electricity segment

	12 months ended 30 June 2010 \$ million	12 months ended 30 June 2009 \$ million	Variance	
			\$ million	%
Wholesale electricity revenue	539.4	594.3	(54.9)	(9%)
Retail electricity revenue	1,301.9	1,284.5	17.4	1%
Steam revenue	17.9	12.9	5.0	39%
Total electricity revenue	1,859.2	1,891.7	(32.5)	(2%)
Electricity purchases	(480.8)	(528.9)	48.1	9%
Electricity transmission, distribution and levies	(509.7)	(492.5)	(17.2)	(3%)
Gas purchases and transmission	(265.0)	(253.7)	(11.3)	(4%)
Meter lease internal charge ⁽¹⁾	(29.0)	(29.0)	-	0%
Labour costs and other operating expenses	(187.3)	(174.6)	(12.7)	(7%)
Total operating expenses	(1,471.8)	(1,478.7)	6.9	0%
EBITDAF	387.4	413.0	(25.6)	(6%)
Depreciation and amortisation	(153.3)	(153.8)	0.5	0%
Segment result	234.1	259.2	(25.1)	(10%)
Average wholesale electricity price (\$ per MWh) ⁽²⁾	\$52.23	\$56.08	(\$3.85)	(7%)
Cost of exposed generation (\$ per MWh)	(\$29.15)	(\$30.76)	\$1.61	5%
Cost of hedged generation (\$ per MWh)	(\$46.97)	(\$44.61)	(\$2.36)	(5%)
Hedged generation margin (\$ per MWh)	\$36.13	\$34.47	\$1.66	5%
Gas used in internal generation (PJ)	29.5	33.4	(3.9)	(12%)
Swaption generation – hedged (GWh)	-	116	(116)	(100%)
Swaption generation – exposed (GWh)	492	301	191	63%
Thermal generation – hedged (GWh)	2,767	3,349	(582)	(17%)
Thermal generation – exposed (GWh)	887	745	142	19%
Geothermal generation (GWh)	2,277	2,311	(34)	(1%)
Hydro generation (GWh)	3,760	3,543	217	6%
Total generation including swaption (GWh)	10,183	10,365	(182)	(2%)
Average electricity purchase price (\$ per MWh) ⁽²⁾	(\$58.95)	(\$65.79)	\$6.84	10%
Retail electricity purchases (GWh)	7,959	8,203	(244)	(3%)
Generation – exposed (GWh)	1,379	1,046	333	32%
Contracts for Differences (CfD) sales (GWh)	845	1,116	(271)	(24%)
Retail electricity sales (GWh)	7,674	7,703	(30)	(0%)
Electricity customer numbers	477,000	479,000	(2,000)	(0%)

1 Inter-segment meter lease internal charge of \$29.0 million is eliminated upon consolidation of the two segments.

2 This price excludes Contracts for Differences (CfD).

Generation

Contact's thermal generation in FY10 was 3,654 GWh, 440 GWh lower than the prior financial year. This was largely due to extended outages at both the Otahuhu B and TCC power stations to carry out necessary maintenance.

Contact's geothermal generation decreased one per cent or 34 GWh in FY10 to 2,277 GWh. While steam was available, delays connecting some wells to the plant limited the ability of the plant to operate at full capacity at certain times.

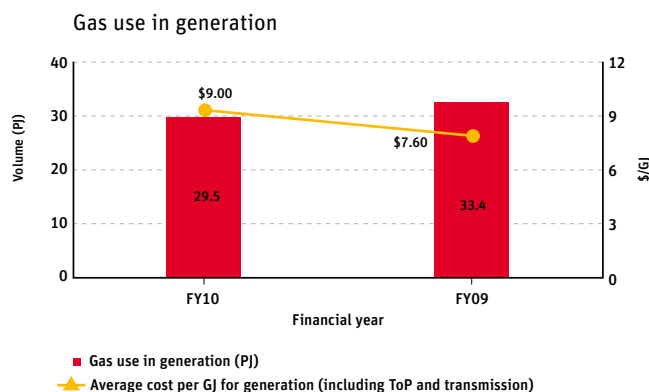
Contact's hydro generation at 3,760 GWh was 217 GWh more than in FY09.

In FY10 the volumes used by hedged customers reduced by 515 GWh to 8,804 GWh, largely due to a reduction in volumes sold through contracts for difference. The hedged generation earned \$80 per MWh compared with \$76 per MWh in the prior financial year. The average operating cost of the hedged generation was \$47 per MWh, up five per cent on the prior financial year. The increase in revenue largely offset this increase in cost and accordingly the contribution from hedged generation was relatively flat between the periods.

The exposed generation increased by 333 GWh to 1,379 GWh in FY10. The average price earned by the exposed generation was \$58 per MWh, compared with \$62 per MWh in FY09. Due to the increase in volume and a five per cent reduction in the costs of exposed generation, the contribution from the exposed generation increased by about \$7 million.

Gas costs

One of the key costs for generation is natural gas. Gas purchases for use in generation increased by four per cent or \$11.3 million. However, the average unit cost of gas has increased by 18 per cent from \$7.60 per gigajoule (GJ) to \$9.00 per GJ. As a consequence of the hydrological conditions Contact was unable to uplift 3.2 PJ of gas and therefore incurred a financial penalty. This cost has been allocated to the Electricity segment and added 66c per GJ to the cost of gas for generation. In addition, Contact made short-term gas sales of 1.5 PJ in order to minimise the take or pay cost. The difference between the purchase price of that gas and its sale price has been allocated to the Electricity segment. This impact of Contact's take-or-pay gas 'length' in FY10 was \$24 million (\$19.5 million related to gas not taken, and \$4.7 million for the short-term gas sales).

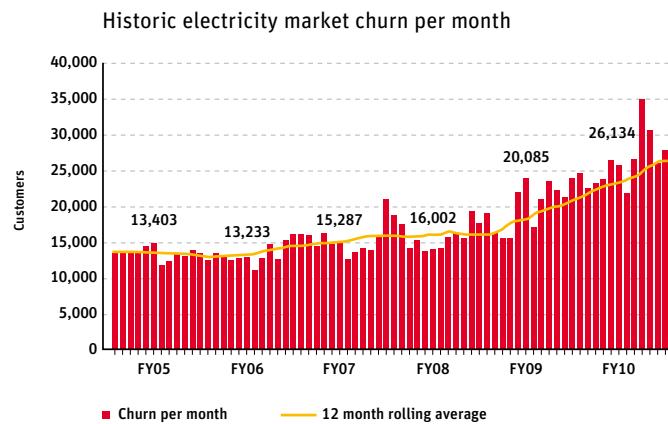


Retail

The contribution from electricity retail was \$30 million lower than in FY09. This was due to:

- network costs increasing by \$27 million or six per cent compared with the prior financial year;
- energy costs increasing by two per cent with the transfer price from hedged generation increasing from \$76 per MWh to \$80 per MWh;
- other retail costs up by \$7 million – due mainly to a \$4 million increase in cost to acquire or retain customers and a \$6 million increase in bad debt write-offs (partially offset by a \$3 million positive impact of provisions);
- average tariffs increasing by only two per cent due to retail market competition constraining the ability to move tariffs to more appropriate levels.

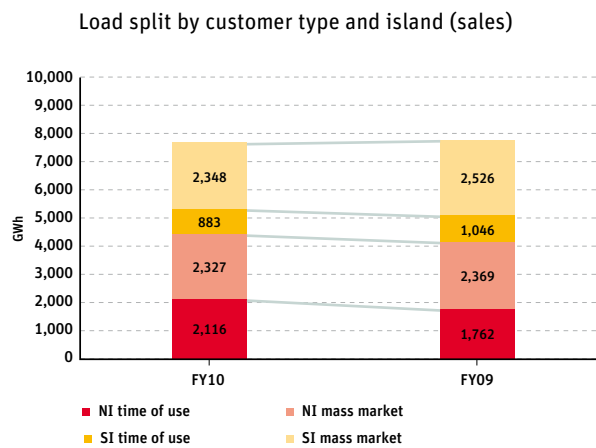
Total retail sales in FY10 were 7,674 GWh compared with 7,703 GWh in FY09. The sales volume to the time of use segment (large commercial and industrials) increased by seven per cent, reflecting the success Contact has had in that segment of the market. Mass market volumes reduced by five per cent, with most of the reduction coming from the South Island. Retail competition was intense in FY10 with churn across the industry averaging around 17 per cent.



Note: Data labels indicate average monthly churn for the financial year.

At 30 June 2010, Contact had 477,000 retail electricity customers compared with 478,000 as at 31 December 2009 and 479,000 as at 30 June 2009.

The chart below illustrates that most of the reduction in demand has been from the South Island and predominantly in the mass market.



Other segment

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

Other segment	12 months ended	12 months ended	Variance	
	30 June 2010 \$ million	30 June 2009 \$ million	\$ million	%
Wholesale gas revenue	75.4	72.7	2.7	4%
Retail gas revenue	78.0	81.9	(3.9)	(5%)
LPG revenue	130.3	153.8	(23.5)	(15%)
Meter leases revenue	11.8	10.3	1.5	15%
Meter leases revenue – internal ⁽¹⁾	29.0	29.0	–	0%
Other revenue	9.7	9.7	–	0%
Total Other segment revenue	334.2	357.4	(23.2)	(6%)
Gas purchases and transmission	(131.7)	(145.9)	14.2	10%
LPG purchases	(99.2)	(116.8)	17.6	15%
Meter lease costs	(21.0)	(20.2)	(0.8)	(4%)
Market levies	(1.7)	(2.0)	0.3	15%
Labour costs and other operating expenses	(41.0)	(40.2)	(0.8)	(2%)
Total operating expenses	(294.6)	(325.1)	30.5	9%
EBITDAF	39.6	32.3	7.3	23%
Depreciation	(8.6)	(12.1)	3.5	29%
Segment result	31.0	20.2	10.8	53%
Gas sales wholesale customers (PJ)	10.7	11.1	(0.4)	(4%)
Gas sales retail customers (PJ)	3.2	3.9	(0.7)	(18%)
Gas sales LPG customers (tonnes)	70,327	77,082	(6,755)	(9%)
Gas customer numbers	64,000	67,000	(3,000)	(4%)
LPG customer numbers (including franchisees)	58,000	53,700	4,300	8%

1 Inter-segment internal meter leases revenue of \$29.0 million is eliminated upon consolidation of the two segments.

The EBITDAF from the Other segment increased by \$7.3 million or 23 per cent in FY10.

Other contribution	Units	FY10A	FY09A	Variance	
				\$ million	%
Volumes					
Wholesale gas	PJ	10.7	11.1	(0.4)	(4%)
Retail gas	PJ	3.2	3.9	(0.7)	(18%)
LPG	T	70,327	77,082	(6,755)	(9%)
Contribution					
Wholesale gas	\$ million	(2.0)	(12.1)	10.1	83%
Retail gas	\$ million	5.3	2.8	2.5	89%
LPG	\$ million	8.0	14.1	(6.1)	(43%)
Meters	\$ million	18.7	17.8	0.9	5%
Other	\$ million	9.6	9.7	(0.1)	(1%)
Other EBITDAF	\$ million	39.6	32.3	7.3	23%

Contact's gas revenue from wholesale customers increased by \$2.7 million to \$75.4 million in FY10. The volume sold was 10.7 PJ compared with 11.1 PJ in FY09. Approximately 1.5 PJ of this was by way of short term sales at a discount to the purchase price of the gas in order to monetise gas that Contact could not inject into gas storage or use in generation. In the Other segment this sale is reflected as a sale at nil contribution, with the loss on sale allocated to the Electricity segment.

Accordingly the average cost of gas (excluding transmission) for wholesale gas sales was \$6.27 per GJ compared with \$6.47 per GJ in the prior financial year. The average sales price for wholesale gas sales was \$6.15 per GJ compared with \$5.55 per GJ in FY09. This improvement in margin is a key driver in the improvement in the Other segment EBITDAF performance.

The other key improvement was, in the retail gas contribution where retail gas revenue decreased by \$3.9 million but the contribution increased by \$2.5 million, reflecting an increase in the average sales price of \$3.34 per GJ while the average cost of gas for retail increased by \$1.17 per GJ (including gas transmission).

As at 30 June 2010 Contact had 64,000 gas customers compared with 65,000 as at 31 December 2009, and 67,000 as at 30 June 2009.

Revenue from LPG sales reduced by 15 per cent to \$130.3 million in FY10. The LPG cost of goods sold declined by 15 per cent to \$99.2 million. This was driven by:

- a seven per cent decrease in the cost of LPG from \$1,498 per tonne to \$1,399 per tonne; and
- a decrease in LPG volume by nine per cent to 70,327 tonnes, reflecting a drop in the overall market for LPG due to fuel switching by some customers.

LPG margins have dropped due to the fact that the average sales price has decreased by \$145 per tonne while the cost of LPG has only decreased by \$99 per tonne. This reflects the change in the supply position in New Zealand as more domestic production has resulted in an excess supply for certain periods.

This margin reduction resulted in a drop in the contribution from LPG by \$6 million in FY10.

Company overview

Contact Energy is one of New Zealand's leading publicly listed companies, with around 81,000 shareholders, a national staff of about 1,050 and the ability to supply electricity and gas products across New Zealand.

Retail

Contact Energy has approximately:

- 477,000 retail electricity customers,
- 64,000 reticulated natural gas customers,
- 58,000 LPG customers.

Generation

- Contact owns and operates 10 power stations across the North and South Islands.
- In FY10, these power stations provided around 25 per cent of New Zealand's total electricity generation.
- Contact is also contracted to operate the Crown-owned reserve generation plant at Whirinaki in Hawke's Bay and holds a minority interest in the Oakey power station in Australia.
- Contact is currently constructing a 200 MW gas-fired peaking power station and the country's first underground natural gas storage facility near Stratford.
- Contact has recently completed a 23 MW geothermal binary power station, Te Huka, in Taupo.
- Contact continues to advance development options across a range of fuel options, including thermal, geothermal, wind and hydro.

Otahuhu B – combined-cycle gas turbine, 400 MW

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

Otahuhu A

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

Te Rapa – cogeneration, 44 MW

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

Ohaaki – geothermal, 105 MW (currently operating at 65 MW)

Commissioned in 1989, the Ohaaki geothermal power station is currently producing around 65 MW of electricity.

Wairakei – geothermal, 157 MW plus 15 MW binary plant

Commissioned in 1958, the Wairakei geothermal power station marked its 50th anniversary in FY09.

Poihipi Road – geothermal, 55 MW

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

Te Huka – geothermal, 23 MW

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

Taranaki – combined-cycle gas turbine, 377 MW

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

Clyde – hydro, 432 MW

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

Roxburgh – hydro, 320 MW

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

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

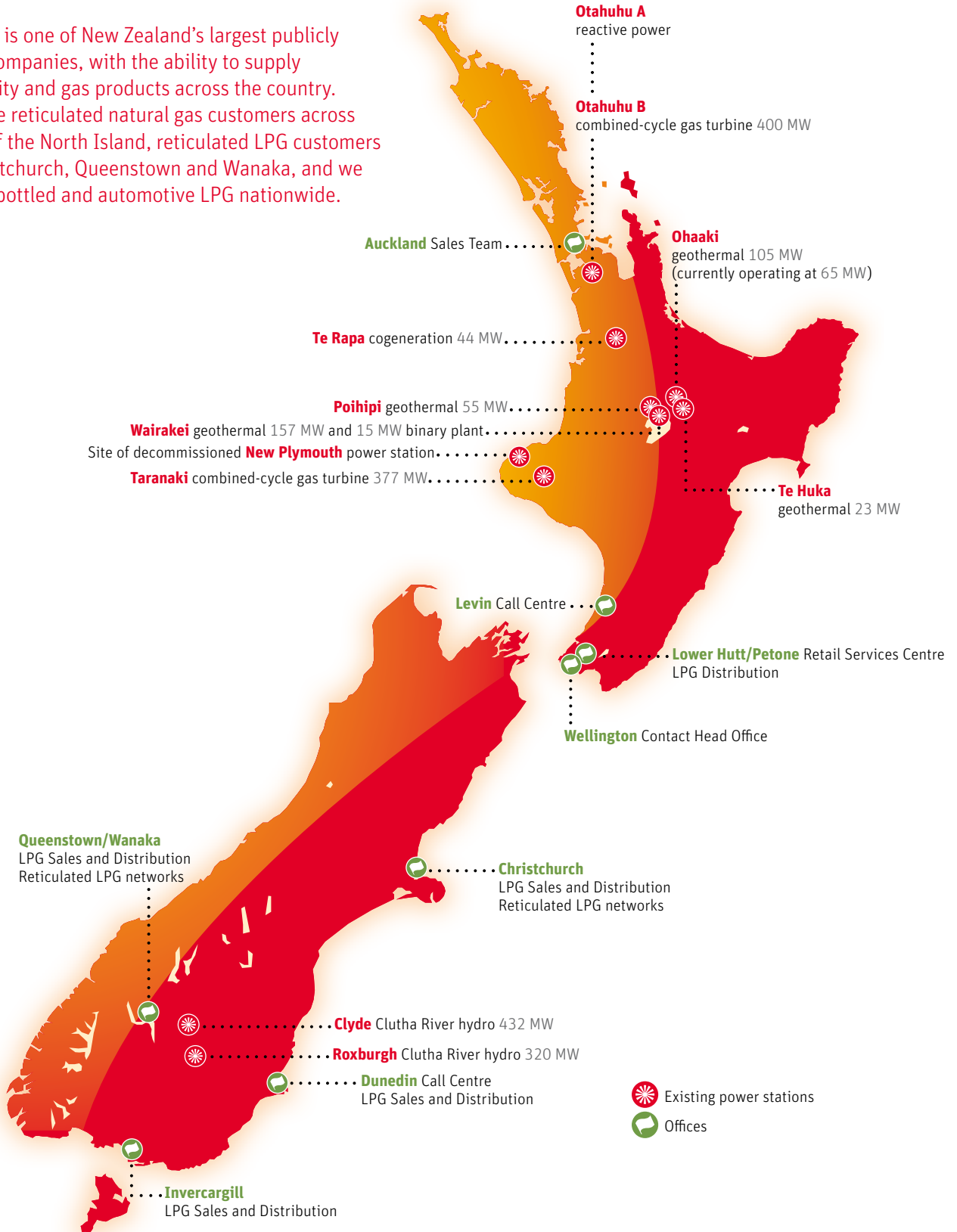
Commissioned in February 2000, Contact owns 25 per cent of this peaking power station, based in Queensland, Australia. Contact is also the operator of this station.

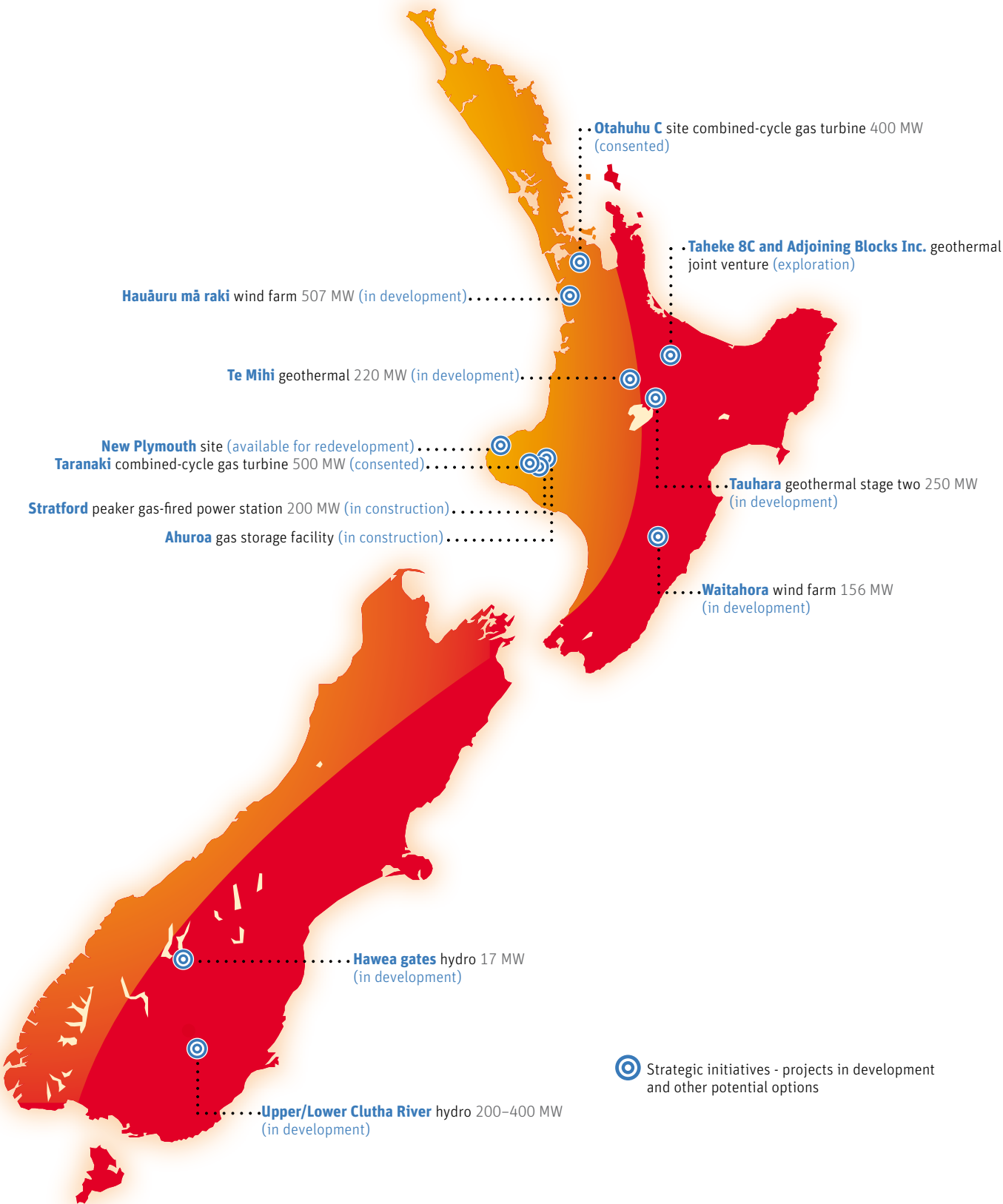
Whirinaki – distillate-fired peaking station, 155 MW

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

National overview

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





Governance

Contact Energy Limited is a limited liability company registered under the New Zealand Companies Act 1993.

Contact's company registration number is 660760. The company is listed on, and its shares are quoted on, the New Zealand Stock Market (NZSX), and has retail bonds listed on the New Zealand Debt Market (NZDX). The company's listing is under the trading code 'CEN'.

Contact's **Constitution** is available on the company's website. Contact is required to seek shareholder approval to amend its Constitution at the 2010 Annual Meeting in order to reflect changes to the NZSX Listing Rules. Details about the proposed new Constitution are set out in the Notice of Annual Meeting and a copy, marked up to show the changes, is available on the company's website or on request.

Distribution Policy

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

Ethics

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

Contact has established internal procedures to monitor compliance with the Code of Conduct. Every six months, a report is provided to the Board Audit Committee highlighting any matters raised by staff under the Code of Conduct. In FY10 there were no issues to report in relation to the Code of Conduct.

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

Health, safety and environment

Health, safety and environment (HSE) is a key priority at Contact and is an integral factor in assessing management's achievement of annual goals, which are measured against key performance indicators (KPI). Contact's **HSE Policy** is available on the company's website.

Whistleblowing Policy

Contact's **Whistleblowing Policy**, available on the company's website, facilitates the disclosure and impartial investigation of any serious wrongdoing. This Policy advises employees of their right to disclose serious wrongdoing and sets out Contact's internal procedures for receiving and dealing with such disclosures. The Policy is consistent with and facilitates the Protected Disclosures Act 2000.

Role of the Board of Directors

The Board is responsible for setting the strategic direction of Contact, with its ultimate goal being to protect and enhance the value of Contact's assets and business in the interests of the company and for all of its shareholders. The Board's role includes approving the budget and strategic plan; approving major investments; monitoring the financial performance of the company, including approval of half year and annual financial statements; appointing and reviewing the performance of the Managing Director; and ensuring the integrity of corporate governance.

The Board has delegated certain of its powers to committees of the Board, and the day-to-day management of the company to the Managing Director. The ambit of these delegations is documented in the **Board Committee Charters**, the company's Delegated Authorities Policy and by relevant minuted resolutions of the Board.

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

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

Operation of the Board

The Board meets regularly on a formal scheduled basis and otherwise as required. The Chairman and the Managing Director establish the agenda for each Board meeting. Each month, as a standing item, the Managing Director prepares a report to the Board that includes disclosure of performance against key HSE benchmarks and a summary of the company's operations, together with financial and other reports. In addition, the Board receives regular briefings on key strategic issues from management, either as part of the regularly scheduled Board meetings or in separate dedicated sessions.

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

Compliance with NZX Best Practice Code and other guidelines

Contact complies with the corporate governance principles set out in the *NZX Corporate Governance Best Practice Code*.

Contact also complies with all of the principles in the Securities Commission's *Corporate Governance in New Zealand Principles and Guidelines*.

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

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

The Securities Commission includes as a guideline relating to this principle that the Chairman should be an independent director. Contact departs from this guideline because its Chairman, Grant King, is not an independent director. Despite this departure, for the reasons set out above, Contact is satisfied that it complies with the Commission's principle.

A **table** summarising Contact's compliance with the *NZX Corporate Governance Best Practice Code* and the Securities Commission's *Corporate Governance in New Zealand Principles and Guidelines* is available on the company's website.

Board composition

The composition of the Board changed during the financial year. On 22 February 2010, Whaimutu Dewes was appointed to the Contact Board and, effective from 30 June 2010, John Milne retired from the Contact Board.

Accordingly, from 30 June 2010, the Board comprises seven members as follows:

Grant King	Chairman and Origin Energy associate
Phillip Pryke	Deputy Chairman and Independent Director
David Baldwin	Managing Director and Origin Energy associate
Bruce Beeren	Origin Energy associate
Whaimutu Dewes	Independent Director
Karen Moses	Origin Energy associate
Sue Sheldon	Independent Director

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

Independence of directors

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

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

The Board has confirmed that, at the end of the financial year, Phillip Pryke, Whaimutu Dewes and Sue Sheldon each held (and still hold) no 'Disqualifying Relationship' in relation to Contact and are therefore each independent directors. Until his retirement on 30 June 2010, John Milne held no 'Disqualifying Relationship' in relation to Contact and was therefore an independent director.

Grant King, Bruce Beeren and Karen Moses are not considered to be independent directors by virtue of being directors of and hence associated persons of, substantial security holder Origin Energy. David Baldwin is not considered to be an independent director because although he is an executive of Contact, he is employed by and hence is an associated person of substantial security holder, Origin Energy. Grant King, Bruce Beeren, Karen Moses and David Baldwin were therefore not independent directors as at 30 June 2010.

Residence of directors

The NZSX Listing Rules and Contact's Constitution require at least two directors to be ordinarily resident in New Zealand. David Baldwin, Whaimutu Dewes and Sue Sheldon satisfy this requirement (as did John Milne until his retirement on 30 June 2010).

Election and re-election of directors

The NZSX Listing Rules and Contact's Constitution require that directors who have been appointed to fill casual vacancies during a financial year must stand for election at the next Annual Meeting. Accordingly, Whaimutu Dewes will stand for election at the 2010 Annual Meeting.

The NZSX Listing Rules and Contact's Constitution also require a minimum of one-third of directors (other than one executive director and any directors appointed to fill casual vacancies) to retire at each Annual Meeting and, if appropriate, stand for re-election. The directors required to resign are those who have been in office longest since their last election. Accordingly, Karen Moses and Phillip Pryke will retire and stand for re-election at the 2010 Annual Meeting.

Conflicts of interest

Where any Contact director has a conflict of interest or is otherwise interested in any transaction, that director is generally required to disclose his or her conflict of interest to the company, and thereafter will normally not be able to participate in the discussion, nor vote in relation to the relevant matter. The company maintains a register of interests.

Board assessment

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

- in July 2009, Contact undertook a formal assessment of the Board and the Board committees, and
- in July 2010 the Board reviewed the performance of Phillip Pryke, Karen Moses and Whaimutu Dewes, being those directors required to retire and stand for re-election, or to stand for election, at the 2010 Annual Meeting.

Board committees

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

Other committees of the Board are formed as and when required. For example, an Independent Directors Committee comprising Phillip Pryke (Chair), John Milne (until 30 June 2010), Sue Sheldon and Whaimutu Dewes (from 22 February 2010) meets to evaluate and approve various related party transactions with Origin Energy. In FY10, these included the Ahuroa gas storage project and workstreams related to Contact's business systems transformation project comprising an agreement for the provision and hosting by Origin of hardware and other services to allow Contact to benefit from Origin's experience, resources and common deliverables in this area. A copy of the **Charter** for the Independent Directors Committee is available on the website.

Board Audit Committee

During the financial year, the BAC comprised John Milne (Chair until 30 June 2010), Bruce Beeren, Sue Sheldon and Whaimutu Dewes (from 24 June 2010). Following John Milne's retirement from the Contact Board on 30 June 2010, Sue Sheldon was appointed as Chair. NZSX Listing Rule 3.6.2 requires that the BAC has at least one member with an accounting or financial background and has a majority of independent directors. Sue Sheldon is a Fellow Chartered Accountant, Bruce Beeren is a fellow of CPA Australia and John Milne is a qualified Chartered Accountant. John Milne (until 30 June 2010), Sue Sheldon and Whaimutu Dewes are independent directors.

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

The Managing Director attends each BAC meeting at the invitation of the BAC. At the conclusion of each meeting, and at any other time the BAC requires, the BAC meets separately with the head of internal audit, Contact's external auditors and the Chief Financial Officer without any other members of management being present.

Health, Safety and Environment Committee

During the financial year, the HSE Committee comprised Karen Moses (Chair), Phillip Pryke, John Milne (until 30 June 2010) and Whaimutu Dewes (from 24 June 2010).

The HSE Committee meets at least three times per year, and its role is to assist the Board to fulfil its responsibilities in relation to HSE matters arising out of the activities of Contact and its related companies. These matters relate to those activities that affect employees, contractors, communities and the environment in which the company operates. The HSE Committee is responsible, among other matters, for periodically reviewing the company's **HSE Policy**, monitoring the company's compliance with this Policy, reviewing and recommending to the Board targets for HSE performance and assessing performance against those targets, and reviewing HSE-related incidents and considering appropriate actions to minimise the risk of recurrence. The **HSE Committee Charter** and the **HSE Policy** are set out on the company's website.

Nominations Committee

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

In FY10, the Nominations Committee considered the assessment of Grant King, Bruce Beeren, David Baldwin and Sue Sheldon's performance as directors ahead of their standing for election/re-election at the October 2009 Annual Meeting, and considered Board composition and succession issues (including processes for the appointment of Whaimutu Dewes as a Director). In July 2010, the Nominations Committee considered the assessment of Phillip Pryke, Karen Moses and Whaimutu Dewes' performance as directors ahead of their standing for election/re-election at the October 2010 Annual Meeting.

Remuneration Committee

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

The Remuneration Committee met four times during the financial year and has met a further time since the end of the financial year to assess and make recommendations to the Board about a variety of remuneration issues that relate to Directors, the Managing Director and Contact employees, including the level of directors' fees, employee short term incentives and the Long Term Incentive Scheme for senior executives and high potential and critical employees. Details of director and executive remuneration arrangements are set out in the remuneration report section of this Annual Report. The **Remuneration Committee Charter** is set out on the company's website.

Attendance at meetings

In FY10, the Board met 12 times. The table below sets out attendance at meetings for all Directors.

Director	Board attendance (scheduled and special purpose)	Committee attendance					Independent Directors
		BAC	HSE	Remuneration	Nominations		
Grant King	11	N/A	N/A	4	1	N/A	
Phillip Pryke	12	N/A	3	4	1	3	
David Baldwin*	12	5	3	4	N/A	3	
Bruce Beeren	12	5	N/A	4	N/A	N/A	
Whaimutu Dewes**	6	N/A	1***	N/A	N/A	2	
John Milne	12	5	3	N/A	N/A	3	
Karen Moses	12	3****	3	N/A	N/A	N/A	
Sue Sheldon	11	5	N/A	N/A	1	3	

Notes:

- * David Baldwin attended all committees as an observer.
- ** Whaimutu Dewes was appointed to the Board on 22 February 2010.
- *** Whaimutu Dewes attended one HSE Committee meeting as an observer.
- **** Karen Moses attended the Board Audit Committee as an observer.

Distribution plans

Profit Distribution Plan

Contact implemented a Profit Distribution Plan (PDP) in February 2009. Under the PDP, instead of distributing profits in the form of fully imputed dividends in cash, all shareholders receive distributions in the form of Contact shares (as a non-taxable bonus issue), but have the opportunity to have those shares, or a portion of them, bought back by Contact for cash as a fully imputed taxable dividend. This means that shareholders have a choice between retaining bonus shares or receiving cash, or a combination of both.

More detail about the **PDP**, including a full description of its terms and conditions, is available on Contact's website.

Current NZX waivers

A summary of all **waivers** granted and published by NZX within or relied on by Contact in the 12 month period preceding 27 July 2010 (being two months before the date of publication of this Annual Report) is available on Contact's website. This summary will remain on Contact's website for at least 12 months following publication of this Annual Report.

Exercise of NZX disciplinary powers

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

Financial reporting

Contact undertakes twice-yearly financial reporting and also provides a suite of **operational data** on a monthly basis.

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

The Managing Director and Chief Financial Officer have provided the Board with written confirmation that Contact's financial statements for FY10 have been prepared in accordance with New Zealand Generally Accepted Accounting Practice and that they comply with New Zealand Equivalents to International Financial Reporting Standards and other appropriate financial reporting standards, as appropriate for profit-oriented entities.

Auditor independence

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

The **BAC Charter** prohibits the external auditor from consulting to Contact on matters that could be regarded as compromising audit independence.

The BAC requires the external auditor to confirm annually that it has complied with all professional regulations relating to auditor independence. Specifically, the external auditor is required to confirm its commitment to strict procedures to ensure that:

- the external auditor, its partners and current audit team do not have any financial interest in Contact;
- the superannuation fund of the partners or staff of the external auditor does not hold any direct financial interest in Contact;
- there are no business interests between Contact and the external auditor;
- no fee paid by Contact to the external auditor is paid on a contingency basis.

In addition, the external audit partners and concurring partner must rotate after a maximum of five years, with suitable succession planning in place.

The BAC is responsible for determining whether potential engagements of the external auditor are appropriate, documenting decisions and recommending to the Board accordingly.

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

Auditor fees

The amount payable by Contact and its subsidiaries to KPMG as audit fees in respect of FY10 was \$612,000. KPMG did not undertake any other services for Contact during the financial year.

Credit rating

As at the date of this Annual Report, Standard & Poor's long term credit rating for Contact was BBB Stable. As at the date of this Annual Report, Fitch's long term credit rating for Contact was BBB Stable.

The \$550 million unsubordinated, unsecured fixed rate bonds issued by Contact in March 2009 were rated BBB by Standard & Poor's as at the date of this Annual Report.

Donations

In FY10 Contact made donations amounting to \$75,456. No subsidiaries made any donations during FY10.

Donations are made on the basis that the recipient is not obliged to provide any service such as promoting Contact's brand and are separate from Contact's sponsorship activity.

There were no political donations made during the financial year.

Risk management

Contact's Risk Management System aligns with recognised best practice (International Standard ISO 31000: Risk management – Principles and Guidelines).

The Board has an overarching **Risk Management Policy** governing the company's approach to risk oversight and management and internal control systems. The Board requires management to design and implement the risk management and internal control systems to manage the company's material business risks.

Contact's Risk Management System is designed to identify, assess, address and monitor all key risks to achieving business objectives, including strategic, operational, legal, reputational, commodity and financial risks. Management committees have been established to consider risks in detail. Management reports to the Board on whether the systems of risk management and control operate effectively in all material respects. Regular reports on the company's risks are presented to the Board.

Internal audit

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

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

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

On a day-to-day basis, internal audit reports to the Chief Risk Officer. Internal audit has the autonomy to report significant issues to the Managing Director and the BAC or, if considered necessary, the Chairman of the Board. The BAC oversees the audit programme and provides internal audit with the mandate to perform the agreed audit programme. Internal audit has unlimited access to all other departments, records and systems of the Contact Group and to the external auditors and other third parties as it deems necessary.

Securities Trading Policy

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

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

Entries recorded in the interest register

The following interest register entries were recorded for the company and its subsidiaries in FY10:

(a) Security dealings of directors

Contact directors disclosed the following transactions in Contact securities in FY10. Note that all dealings are in ordinary shares unless otherwise specified.

Director	Date of transaction	Consideration per security*	Number of securities acquired (disposed of)	Nature of relevant interest	
G King	17/08/09	\$6.35	2,627	Restricted shares acquired by New Zealand Permanent Trustees Limited (NZPT) on trust under the Contact GA King Director Remuneration Share Trust	
	05/10/09	\$5.85	2,849		
	24/02/10	\$5.79	2,878		
	07/04/10	\$6.44	2,591		
	22/09/09	\$6.20	204	Acquisition of bonus issue shares pursuant to the Profit Distribution Plan by NZPT as Trustee of the Contact GA King Director Remuneration Share Trust	
	30/03/10	\$6.10	238		
	30/03/10	\$6.10	4	Acquisition of bonus issue shares pursuant to the Profit Distribution Plan by Fabco Investments Pty Limited	
	22/09/09	NIL (NCBO)	(204)	Transfer of bonus issue shares acquired pursuant to the Profit Distribution Plan from NZPT as Trustee of the Contact GA King Director Remuneration Share Trust to Fabco Investments Pty Limited	
	22/09/09	NIL (NCBO)	204		
	30/03/10	NIL (NCBO)	(238)		
30/03/10	NIL (NCBO)	238			
P Pryke	17/08/09	\$6.35	1,970	Restricted shares acquired by NZPT on trust under the Contact PJ Pryke Director Remuneration Share Trust	
	05/10/09	\$5.85	2,137		
	24/02/10	\$5.79	2,158		
	07/04/10	\$6.44	1,944		
	17/08/09	NIL (NCBO)	(1,653)	Transfer of unrestricted shares from NZPT as Trustee of the Contact PJ Pryke Director Remuneration Share Trust to Pryke Pty Limited as beneficiary of the Contact PJ Pryke Director Remuneration Share Trust	
	17/08/09	NIL (NCBO)	1,653		
	05/10/09	NIL (NCBO)	(1,554)		
	05/10/09	NIL (NCBO)	1,554		
	24/02/10	NIL (NCBO)	(1,286)		
	24/02/10	NIL (NCBO)	1,286		
	07/04/10	NIL (NCBO)	(1,213)		
	07/04/10	NIL (NCBO)	1,213		
	22/09/09	\$6.20	1,282		Acquisition of bonus issue shares pursuant to the Profit Distribution Plan by NZPT as Trustee of the Contact PJ Pryke Director Remuneration Share Trust
	30/03/10	\$6.10	870		
	22/09/09	\$6.20	1,221	Acquisition of bonus issue shares pursuant to the Profit Distribution Plan by Pryke Pty Limited	
	30/03/10	\$6.10	900		
22/09/09	NIL (NCBO)	(1,282)	Transfer of bonus issue shares acquired pursuant to the Profit Distribution Plan from NZPT as Trustee of the Contact PJ Pryke Director Remuneration Share Trust to Pryke Pty Limited		
22/09/09	NIL (NCBO)	1,282			
30/03/10	NIL (NCBO)	(870)			
30/03/10	NIL (NCBO)	870			
D Baldwin	7/12/09	\$5.75	44,728 restricted ordinary shares	Beneficial interest in, and conditional entitlement to become legal and beneficial owner of, ordinary shares held in trust by NZPT under Contact's LTI Scheme (Restricted Share Plan)	
	7/12/09	Provision of services under employment	253,609 options to acquire ordinary shares	Options to acquire ordinary shares under Contact's LTI Scheme (Share Option Plan)	

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

Director	Date of transaction	Consideration per security*	Number of securities acquired (disposed of)	Nature of relevant interest
B Beeren	17/08/09	\$6.35	1,313	Restricted shares acquired by NZPT on trust under the Contact BG Beeren Director Remuneration Share Trust
	05/10/09	\$5.85	1,425	
	24/02/10	\$5.79	1,438	
	07/04/10	\$6.44	1,296	
	17/08/09	NIL (NCBO)	(1,103)	Transfer of unrestricted shares by NZPT as Trustee of the Contact BG Beeren Director Remuneration Share Trust to BG Beeren
	17/08/09	NIL (NCBO)	1,103	
	05/10/09	NIL (NCBO)	(1,036)	
	05/10/09	NIL (NCBO)	1,036	
	24/02/10	NIL (NCBO)	(859)	
	24/02/10	NIL (NCBO)	859	
	07/04/10	NIL (NCBO)	(808)	
	07/04/10	NIL (NCBO)	808	
	22/09/09	\$6.20	349	Acquisition of bonus issue shares pursuant to the Profit Distribution Plan by NZPT as Trustee of the Contact BG Beeren Director Remuneration Share Trust
	30/03/10	\$6.10	247	
	22/09/09	\$6.20	96	Acquisition of bonus issue shares pursuant to the Profit Distribution Plan by BG Beeren
	30/03/10	\$6.10	106	
	22/09/09	NIL (NCBO)	(349)	Transfer of bonus issue shares acquired pursuant to the Profit Distribution Plan from NZPT as Trustee of the Contact BG Beeren Director Remuneration Share Trust to BG Beeren
	22/09/09	NIL (NCBO)	349	
	30/03/10	NIL (NCBO)	(247)	
	30/03/10	NIL (NCBO)	247	
J Milne	17/08/09	\$6.35	657 + 657	Restricted shares acquired by NZPT on trust under the Contact JHG Milne Director Remuneration Share Trust
	05/10/09	\$5.85	712 + 712	
	24/02/10	\$5.79	719 + 719	
	07/04/10	\$6.44	648 + 648	
	17/08/09	NIL (NCBO)	(551 + 551)	Transfer of unrestricted shares by NZPT as Trustee of the Contact JHG Milne Director Remuneration Share Trust to John Milne Trust and Maureen Milne Trust, as beneficiaries of the Contact JHG Milne Director Remuneration Share Trust
	17/08/09	NIL (NCBO)	551 + 551	
	05/10/09	NIL (NCBO)	(518) + (518)	
	05/10/09	NIL (NCBO)	518 + 518	
	24/02/10	NIL (NCBO)	(429) + (429)	
	24/02/10	NIL (NCBO)	429 + 429	
	07/04/10	NIL (NCBO)	(404) + (404)	
	07/04/10	NIL (NCBO)	404 + 404	
	22/09/09	\$6.20	402 + 402	Acquisition of bonus issue shares pursuant to the Profit Distribution Plan by NZPT as Trustee of the Contact JHG Milne Remuneration Share Trust
	30/03/10	\$6.10	273 + 273	
	22/09/09	\$6.20	1,104	Acquisition of bonus issue shares pursuant to the Profit Distribution Plan by John Milne Trust as beneficiary of the Contact JHG Milne Remuneration Share Trust
	30/03/10	\$6.10	771	
	22/09/09	\$6.20	582	Acquisition of bonus issue shares pursuant to the Profit Distribution Plan by Maureen Milne Trust as beneficiary of the Contact JHG Milne Remuneration Share Trust
	30/03/10	\$6.10	418	
22/09/09	NIL (NCBO)	(402) + (402)	Transfer of bonus issue shares acquired pursuant to the Profit Distribution Plan from NZPT as Trustee for the Contact JHG Milne Director Remuneration Share Trust to John Milne Trust and Maureen Milne Trust, as beneficiaries of Contact JHG Milne Director Remuneration Share Trust	
22/09/09	NIL (NCBO)	402 + 402		
30/03/10	NIL (NCBO)	(273) + (273)		
30/03/10	NIL (NCBO)	273 + 273		

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

Director	Date of transaction	Consideration per security*	Number of securities acquired (disposed of)	Nature of relevant interest
K Moses	17/08/09	\$6.35	1,314	Restricted shares acquired by NZPT on trust under the Contact KA Moses Director Remuneration Share Trust
	05/10/09	\$5.85	1,424	
	24/02/10	\$5.79	1,439	
	07/04/10	\$6.44	1,295	
	22/09/09	\$6.20	102	Acquisition of bonus issue shares pursuant to the Profit Distribution Plan by NZPT as Trustee of the Contact KA Moses Director Remuneration Share Trust
	30/03/10	\$6.10	119	
	30/03/10	\$6.10	2	Acquisition of bonus issue shares pursuant to the Profit Distribution Plan by KA Moses
	22/09/09	NIL (NCBO)	(102)	Transfer of bonus issue shares acquired pursuant to the Profit Distribution Plan by NZPT as Trustee of the Contact KA Moses Director Remuneration Share Trust to KA Moses
	22/09/09	NIL (NCBO)	102	
	30/03/10	NIL (NCBO)	(119)	
30/03/10	NIL (NCBO)	119		
S Sheldon	17/08/09	\$6.35	1,313	Restricted shares acquired by NZPT on trust under the Contact SJ Sheldon Director Remuneration Share Trust
	05/10/09	\$5.85	1,424	
	24/02/10	\$5.79	1,438	
	07/04/10	\$6.44	1,296	
	22/09/09	\$6.20	37	Acquisition of bonus issue shares pursuant to the Profit Distribution Plan by NZPT as Trustee of the Contact SJ Sheldon Director Remuneration Share Trust
	30/03/10	\$6.10	76	
	30/03/10	\$6.10	1 ¹	Acquisition of bonus issue shares pursuant to the Profit Distribution Plan by:
	30/03/10	\$6.10	10 ²	
	22/09/09	\$6.20	(37)	Transfer of bonus issue shares acquired pursuant to the Profit Distribution Plan from Contact SJ Sheldon Director Remuneration Share Trust to SJ Sheldon, PJ Sheldon and MJ Walker
	22/09/09	\$6.20	37	
30/03/10	\$6.10	(76)		
30/03/10	\$6.10	76		
W Dewes	22/02/10	NIL (NCBO)	1,029	Initial disclosure of registered holder of ordinary shares on appointment as director
	07/04/10	\$6.44	524	Restricted shares acquired by NZPT on trust under the Contact WK Dewes Director Remuneration Share Trust
	30/03/10	\$6.10	19	Acquisition of bonus issue shares pursuant to the Profit Distribution Plan by WK Dewes
T Saunders**	17/08/09	\$6.35	1,313	Restricted shares acquired by NZPT on trust under the Contact TEC Saunders Director Remuneration Share Trust
	17/08/09	NIL (NCBO)	(25,890)	Transfer of unrestricted shares by NZPT as Trustee of the Contact TEC Saunders Director Remuneration Share Trust to TEC Saunders Family Trust as beneficiary of Contact TEC Saunders Director Remuneration Share Trust following cessation as a director
	17/08/09	NIL (NCBO)	25,890	
	21/08/09	NIL (NCBO)	(1,313)	
	21/08/09	NIL (NCBO)	1,313	
	22/09/09	\$6.20	585 ³	Acquisition of bonus issue shares pursuant to the Profit Distribution Plan by:
22/09/09	\$6.20	19 ⁴		

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

** Tim Saunders resigned as a director with effect from 30 June 2009.

(b) Directors' interests in transactions

General disclosures

As at 30 June 2010, the following directors had made the following general disclosures in the interests register of the company. Notices given or adjusted in FY10 are marked with an asterisk (*). Each such director will be regarded as interested in all transactions between Contact and the disclosed entity.

G King	
Origin Energy Limited and Group companies	Managing Director/Shareholder/Employee
Australian Petroleum Production and Exploration Association	Councillor
P Pryke	
ComTel Corporation Limited	Director/Chairman
Co-Investor Capital Partners Pty Limited	Director/Shareholder
Frog Hollow Limited	Director/Shareholder
GMT Bond Issuer Limited* (appointed November 2009)	Director
Goodman (NZ) Limited	Director
Goodman Property Aggregated Limited	Director
New Zealand Deer Farms Limited* (Company ceased existence 28 September 2009)	Director/Shareholder
Pauatahanui Projects Limited	Director/Shareholder
Pryke Pty Limited	Director/Shareholder
Tru-Test Corporation Limited	Director
Tru-Test Pty Limited*	Director
D Baldwin	
Origin Energy Limited	Employee/Shareholder
Gas Industry Company Limited	Director
B Beeren	
Origin Energy Limited and Group companies	Director/Shareholder and former Employee/Executive Director
Coal & Allied Industries Limited	Director
Equipsuper Pty Limited	Director
ConnectEast Group	Director
W Dewes**	
Ngati Porou Forests Group*	Chairman
Ngati Porou Seafoods Group*	Chairman
Crater Lake Park Limited (resigned as Director 12 April 2010)*	Director
CNI Iwi Holdings Limited (resigned as Director 22 February 2010)*	Director
Crater Lake Nominees Limited (resigned as Director 12 April 2010)*	Managing Director/Shareholder
Whainiho Developments Limited*	Managing Director/Shareholder
Advisory Board to Kalyx (appointed April 2010)*	Member
J Milne***	
The He Huarahi Tamariki Trust	Chairman/Trustee
Wellington City Council Audit and Risk Management Subcommittee	Independent Member
K Moses	
Origin Energy Limited and Group companies (appointed to Origin Energy Limited directorship March 2009)	Director/Employee/Shareholder
Australian Energy Market Operator (Transitional) Limited (deregistered in 2009)*	Director
Australian Energy Market Operator Limited*	Director
CSIRO, Energy and Transport Sector Advisory Council UNSW, Australian School of Business Advisory Council	Committee Member
Energy and Water Ombudsman (Victoria) Limited	Director
Department of Resources, Energy and Tourism's Energy White Paper High Level Consultative Committee*	Committee Member

** Whaimutu Dewes was appointed as a Contact Energy Director on 22 February 2010.

*** John Milne retired from the Contact Energy Board on 30 June 2010.

S Sheldon CNZM

Christchurch International Airport Limited* (resigned as Deputy Chairman and Director September 2009)	Deputy Chairman
Paymark* (name changed from Electronic Transaction Services Limited in September 2009)	Director
FibreTech New Zealand Limited	Chairman
Freightways Limited	Director
National Provident Fund Board of Trustees* (term ended 30 September 2009)	Chairman
Reserve Bank of New Zealand	Director
Sue Sheldon Advisory Limited	Director
Smiths City Group Limited and subsidiaries	Director
Telecom Corporation of New Zealand Limited* (appointed Director June 2010)	Director
Wool Industry Network Limited	Chairman
Wool Grower Holdings Limited	Director

Specific disclosures

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

(c) Use of company information

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

(d) Board-approved remuneration and other benefits

The Board passed resolutions and signed accompanying certificates to confirm the distribution for FY10 amongst directors of a portion of the \$1,500,000 remuneration pool (that pool having been approved by shareholders at the 2008 Annual Meeting). See page 39 for further details about the distribution approved by the Board.

(e) Directors' and employees' indemnity and insurance

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

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

In March 2010, Contact's Board authorised the renewal of the Directors and Officers and Statutory Liability Insurance covers for 12 months and certified, in terms of section 162 of the Companies Act 1993, that this cover is fair to the company.

Remuneration report

Directors' remuneration

Directors' fees

The current total directors' fee pool is \$1,500,000 per annum. A total of \$993,285 was distributed in respect of FY10 as follows:

- Base director fees: \$796,075, distributed as follows:
 - Chairman (Grant King) – \$200,000 per annum,
 - Deputy Chairman (Phillip Pryke) – \$125,000 per annum, paid with effect from 1 January 2010 (\$150,000 per annum including committee fees for the six months to 31 December 2009),
 - other non-executive directors – \$110,000 per annum each, paid with effect from 1 January 2010 (\$100,000 per annum for the six months to 31 December 2009). Whaimutu Dewes' fees were paid with effect from 22 February 2010,
 - Managing Director (David Baldwin) – Nil,
- Committee fees: \$167,210 was distributed,
- Special fees: \$30,000, distributed to Whaimutu Dewes for work in relation to generation projects.

Directors' restricted share scheme

Contact operates a directors' restricted share scheme (Directors' Share Scheme), approved by shareholders in 2004 to improve the alignment of directors' and shareholders' interests. Instead of receiving all of their pre-tax base directors fees in cash, those directors participating in the Directors' Share Scheme receive one-third of that amount by way of Contact shares that are restricted for a period of three years or until a director ceases to hold office. Directors are not otherwise entitled to any payment in connection with their retirement or cessation of office.

The Directors participating in the Directors' Share Scheme during the financial year were Grant King, Phillip Pryke, Bruce Beeren, John Milne (until 30 June 2010), Karen Moses, Sue Sheldon, and Whaimutu Dewes (from 22 February 2010). John Milne's participation in the Directors' Share Scheme ceased following the final share purchase on 26 August 2010, using his director fees from the quarter ended 30 June 2010.

Under the Directors' Share Scheme, at the end of each quarter Contact pays to a trustee on behalf of each participant one-third of the pre-tax base remuneration accrued by the participant during that quarter. The trustee uses the payment to purchase Contact shares on-market through a broker. This trading may only take place during a period that is not a specified blackout period to ensure compliance with the company's Securities Trading Policy.

The trustee is then required to hold the shares purchased until the earlier of three years from the commencement of the quarter immediately following the quarter in which the fees were accrued, and the date of the director ceasing to hold office. On transfer by the trustee to the participant at this time, the participant is entitled to sell the shares, subject to Securities Trading Policy requirements. Throughout the time that the shares are held by the trustee, the participant is entitled to receive distributions and participate in other rights attaching or accruing to the shares, subject to any particular restrictions set out in the Directors' Share Scheme or elsewhere.

In FY10, Contact provided financial assistance in connection with the ongoing operation of the Scheme. A **disclosure document** relating to the financial assistance to be provided in the next 12 months was sent to shareholders in September 2010 and is available on the company's website.

The table below details the restricted shares of each of Contact's Directors that became unrestricted under the Directors' Share Scheme in FY10.

Name	Date of acquisition	Date unrestricted	Number unrestricted	Original acquisition price
Phillip Pryke	28 August 2006	17 August 2009	1,653	\$6.84
	10 October 2006	5 October 2009	1,554	\$7.24
	6 March 2007	24 February 2010	1,286	\$8.78
	5 April 2007	7 April 2010	1,213	\$9.28
John Milne	28 August 2006	17 August 2009	1,102	\$6.84
	10 October 2006	5 October 2009	1,036	\$7.24
	6 March 2007	24 February 2010	858	\$8.78
	5 April 2007	7 April 2010	808	\$9.28
Bruce Beeren	28 August 2006	17 August 2009	1,103	\$6.84
	10 October 2006	5 October 2009	1,036	\$7.24
	6 March 2007	24 February 2010	859	\$8.78
	5 April 2007	7 April 2010	808	\$9.28

In addition, on 17 August 2009 and 21 August 2009, 25,890 and 1,313 shares respectively held in the Directors' Share Scheme on behalf of Tim Saunders were transferred to Mr Saunders' family trust following his retirement from the Contact Board.

Remuneration details of directors

Details of the total remuneration and the value of other benefits received by each director of Contact from Contact in their capacity as a Director in FY10 are as follows:

Director	Position	Board fees		Committee fees	Special fees	Total remuneration
		Cash	Restricted shares	Cash	Cash	
G King	Chairman	\$133,333	\$66,667	-	-	\$200,000
P Pryke	Deputy Chairman	\$91,667	\$45,833	\$17,500	-	\$155,000
D Baldwin ¹	Managing Director	-	-	-	-	-
B Beeren	Director	\$70,000	\$35,000	\$37,000	-	\$142,000
J Milne	Director	\$70,000	\$35,000	\$60,000	-	\$165,000
K Moses	Director	\$70,000	\$35,000	\$20,000	-	\$125,000
S Sheldon	Director	\$70,000	\$35,000	\$32,000	-	\$137,000
W Dewes ²	Director	\$25,717	\$12,858	\$710	\$30,000	\$69,285
Total		\$530,717	\$265,358³	\$167,210	\$30,000	\$993,285

¹ As an executive, David Baldwin does not receive fees in his capacity as a director nor is he a participant in the Directors' Share Scheme. See page 41 for details of David Baldwin's remuneration.

² Whaimutu Dewes became a director on 22 February 2010.

³ Due to trading period restrictions under Contact's Securities Trading Policy, purchases of restricted shares valued at \$74,479 of this total amount occurred on 26 August 2010.

Managing Director remuneration

Employment arrangements

David Baldwin, Managing Director of Contact, has been seconded to the role by his employer, Origin Energy. During the term of the secondment, remuneration paid by Contact to David Baldwin for the performance of his role as Managing Director is processed by reimbursing Origin Energy for the cost of this remuneration, except for restricted shares and options awarded to him under Contact's LTI Scheme, which are provided directly by Contact. David Baldwin does not receive any director fees.

Remuneration

Remuneration paid by Contact to the Managing Director reflects the breadth and complexity of the role; references market remuneration data benchmarks; is linked to achievement of performance goals; and aligns with the creation of sustainable shareholder value in the long term. The remuneration package includes a fixed remuneration component comprising cash salary and other employment benefits, and at-risk/variable remuneration comprising short term incentives (cash) and long term incentives (options and restricted shares).

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

The following tables detail the nature and amount of the remuneration paid to David Baldwin in relation to his role as Managing Director for FY10.

David Baldwin Managing Director	Cash remuneration paid		
	Fixed cash remuneration \$	Variable cash remuneration ¹ \$	Total cash remuneration paid \$
Year ended 30 June 2010	838,856	364,000	1,202,856
Year ended 30 June 2009	838,856	246,000	1,084,856

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

Equity rights issued (options and restricted shares) ¹					
	Number of options issued during year ²	Number of restricted shares issued during year ²	Value of equity rights issued and amortising during year ³ \$	Value of equity rights issued in past years and amortising during year ³ \$	Total equity rights vested during year \$
David Baldwin Managing Director					
Year ended 30 June 2010	253,609	44,728	139,037	379,234	–
Year ended 30 June 2009	220,652	31,020	143,030	395,642	–

1 Although options and restricted shares are granted in October each year under Contact's LTI Scheme, they pertain to the at-risk component of the prior financial year's remuneration.

2 Contact Energy Limited equity securities.

3 The allocation of long term incentives is determined at the end of each financial year. Each allocation has a total performance period of five years from the grant date with exercise hurdles tested on the third, fourth and fifth anniversary of the grant date. Whether any options and restricted shares vest and become exercisable or transfer, respectively by or to David Baldwin, is subject to the achievement of specified exercise hurdles as described on page 47. To comply with financial reporting requirements, the fair value of the options and restricted shares is calculated at the grant date using a combination of Monte-Carlo simulation and binomial option pricing model, and subsequently amortised over a period of three years (the period from grant date to the first test date). The value of long term incentive disclosed above is the portion of the fair value of options and restricted shares allocated to the relevant reporting period. None of the options or restricted shares allocated to David Baldwin vested in the 2009 or 2010 financial years.

David Baldwin has participated in Contact's LTI Scheme since its inception in 2006. Contact relies on NZSX Listing Rule 7.3.9 to allow Mr Baldwin to continue to participate in the LTI Scheme following his appointment as Managing Director. On 23 July 2009, NZX Regulation granted a waiver in respect of NZSX Listing Rule 7.6.4(b)(iii) to allow Mr Baldwin to continue to receive financial assistance under the LTI Scheme. The full version of the **waiver** can be found on the company's website.

Movement during the reporting period in the number of options over ordinary shares and restricted shares held in Contact is set out in the following tables.

Restricted Shares	Held at 1 July 2009	Granted as compensation	Vested during year	Held at 30 June 2010
David Baldwin Managing Director	88,342	44,728	–	133,070

Options	Held at 1 July 2009	Granted as compensation	Exercised	Held at 30 June 2010	Vested during year	Vested and exercisable at 30 June 2010
David Baldwin Managing Director	525,547	253,609	–	779,156	–	–

Employee remuneration

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

Short term incentive scheme

Contact's variable remuneration recognises and rewards high-performing individuals whose contributions support business goals and objectives, whilst meeting the goals set for the individual.

Contact's short term incentives (STIs) comprise cash payments based on performance measured against key performance indicators (KPIs). In FY10, different levels of incentives were determined reflecting the nature of roles in the company. KPIs generally comprise company, team and individual targets. These targets are designed to create goals that will support an achievement and performance-oriented culture. The STI programme is designed to differentiate and reward exceptional, outstanding and good performance.

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

Legacy Long Term Incentive Scheme

Up until 30 June 2006, because a review of long term incentives was pending, only a limited number of senior executives participated in the then-existing long term incentive scheme (Legacy LTI Scheme). Upon completion of that review, the LTI Scheme was introduced in FY07 and beyond. No performance hurdles relating to the Legacy LTI Scheme were met during the financial year, so there were no shares purchased under the scheme. As the final test date has now passed, the Legacy LTI Scheme has been disestablished.

Employee Long Term Incentive Scheme

Contact offers a combination of share options and restricted shares under its current LTI Scheme to ensure incentives align participating employees' performance with shareholders' interests, in both favourable and unfavourable share market conditions.

Contact's LTI Scheme for participating employees consists of a Share Option Plan and a Restricted Share Plan (together, the 'Plans'). Details of the Plans are set out below.

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

Under the Plans, for FY10, the Board allocated long term incentive awards that are, by value, 50 per cent share options and 50 per cent restricted shares. Under the Plans, the share options will only be exercisable, and the restricted shares will only become unrestricted and transfer to participants, to the extent that the relevant exercise hurdles are satisfied. The exercise hurdles for the share options and restricted shares in relation to FY10 are set out on page 47. The number of share options and restricted shares awarded is calculated by dividing the value of the long term incentive award (being a percentage of the relevant participant's salary) by the fair value of the share options and restricted shares.

At the end of the year there were 61 participants in the LTI Scheme.

Share Option Plan

Under the Share Option Plan, the Board issues share options to participants to acquire ordinary shares in Contact at the market price determined at the effective grant date. For share options granted in FY10, the market price was the weighted average market price of Contact's ordinary shares traded on the NZSX over the five business days prior to the effective grant date.

As noted above, the options are exercisable subject to exercise hurdles as determined by the Board. The exercise hurdles for share options issued in FY10 are described on page 47. There is a vesting period of approximately three years from the effective grant date before share options may be exercised. Following the end of that period, the exercise hurdles are measured on three annual test dates. There is a two-year, two-month exercise period following the first test date during which share options may be exercised, again, to the extent that the exercise hurdles are met.

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

The share options will lapse:

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

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

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

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

The number of options issued and their exercise status as at 30 June 2010 are set out in the table below.

Number of options issued	Effective grant date	Exercise price per option	First exercise date	Number lapsed	Final lapse date	Vested	Number exercisable
365,322	1 July 2006	\$7.35	1 October 2009	81,245 ¹	30 November 2011	No	Nil
18,361	20 November 2006	\$7.55	1 October 2009	18,361 ²	30 November 2011	No	Nil
13,413	15 January 2007	\$8.28	1 October 2009	Nil ³	30 November 2011	7,927	7,927
490,326	1 October 2007	\$9.15	1 October 2010	176,295 ⁴	30 November 2012	No	Nil
22,706	1 February 2008	\$7.63	1 October 2010	7,698 ⁵	30 November 2012	No	Nil
881,769	1 October 2008	\$8.60	1 October 2011	210,850 ⁶	30 November 2013	No	Nil
1,701,718	1 October 2009	\$5.75	1 October 2012	45,515 ⁷	30 November 2014	No	Nil

- 1 Due to the cessation of employment of participants, options from this tranche lapsed pursuant to the Share Option Plan Rules on the following dates: 7 September 2007 (14,103 options), 30 June 2008 (20,513 options), 2 July 2008 (13,808 options) and 31 July 2009 (32,821 options).
- 2 Due to the cessation of employment of participants, all 18,361 options from this tranche lapsed pursuant to the Share Option Plan Rules on 31 December 2008.
- 3 Of the 13,413 options granted with an effective date of 15 January 2007, 7,927 vested during the year and became exercisable, however no options were exercised. All 13,413 options lapsed effective from 6 July 2010 due to the cessation of employment of the participant effective 30 June 2010.
- 4 Due to the cessation of employment of participants, options from this tranche lapsed pursuant to the Share Option Plan Rules on the following dates: 3 December 2007 (6,591 options), 2 April 2008 (18,136 options), 30 June 2008 (20,000 options), 2 July 2008 (33,656 options), 31 December 2008 (47,457 options), and 31 July 2009 (50,455 options). A further 44,848 options lapsed on 6 July 2010 due to the cessation of employment of the participant effective 30 June 2010.
- 5 Due to the cessation of employment of participants, 7,698 options from this tranche lapsed pursuant to the Share Option Plan Rules on 24 December 2008.
- 6 Due to the cessation of employment of participants, options from this tranche lapsed pursuant to the Share Option Plan Rules on the following dates: 24 December 2008 (19,871 options), 31 December 2008 (57,065 options) and 31 July 2009 (133,914 options). A further 59,348 options lapsed on 6 July 2010 due to the cessation of employment of the participant effective 30 June 2010.
- 7 Due to the cessation of employment of participants, options from this tranche lapsed pursuant to the Share Option Plan Rules on the following dates: 9 April 2010 (8,788 options) and 25 June 2010 (36,727 options). A further 80,413 options lapsed on 6 July 2010 due to the cessation of employment of the participant effective 30 June 2010.

Restricted Share Plan

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

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

Legal title cannot be transferred to the participant, and therefore traded by the participant, unless and until the restricted shares become unrestricted.

For restricted shares issued in FY10, the market price or allocation price of the restricted shares was the weighted average market price of Contact's ordinary shares traded on the NZSX in the five business days prior to the effective grant date. Payment of the allocation price for the restricted shares was funded by an interest-free loan from the company in an amount equal to the allocation price for the shares. **Financial assistance disclosures** were sent to shareholders in September 2010 and are available on the company's website.

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

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

The participants must transfer to the trustee their rights to any restricted shares that have not been released to the participant by the final test date. The allocation price for those restricted shares transferred to the trustee will be applied to the trustee to immediately repay the loan to the company.

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

The rights to the restricted shares will lapse:

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

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

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

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

The number of restricted shares issued and their status as at 30 June 2010 are set out in the table below.

Number of restricted shares issued	Number reallocated from unallocated pool (see following)	Effective grant date	Allocation price per date	First test date	Final test date	Number transferred to unallocated pool (see following)	Number vesting during the year
70,890	Nil	1 July 2006	\$7.35	1 October 2009	1 October 2011	15,765	Nil
3,581	Nil	20 November 2006	\$7.55	1 October 2009	1 October 2011	3,581	N/A
2,504 ¹	Nil	15 January 2007	\$8.28	1 October 2009	1 October 2011	Nil	1,480
83,242	2,737	1 October 2007	\$9.15	1 October 2010	1 October 2012	30,913	Nil
3,091	1,156	1 February 2008	\$7.63	1 October 2010	1 October 2012	1,440	Nil
104,712	19,247	1 October 2008	\$8.60	1 October 2011	1 October 2013	29,641	Nil
241,940	58,200	1 October 2009	\$5.75	1 October 2012	1 October 2014	8,028	Nil

¹ Of the 2,504 restricted shares granted with an effective date of 15 January 2007: 1,480 vested during the year and were released to a participant; the remaining 1,024 restricted shares were transferred to the unallocated pool on 6 July 2010 due to the resignation of the participant effective 30 June 2010.

Pursuant to the Restricted Share Plan Rules, where a participant ceases employment, beneficial ownership of restricted shares is transferred to the trustee to hold on trust in an unallocated pool to be reallocated to a participant at a future date. As at 30 June 2010, there were 8,028 restricted shares held by the trustee in the unallocated pool. The following table sets out the movements of the unallocated pool to 30 June 2010.

Original issue date	Number of restricted shares transferred to unallocated pool	Date of transfer to unallocated pool ¹	Number of shares reallocated to a participant	Date of reallocation to participant
21 June 2007	2,737	7 September 2007	2,737	31 October 2007
	3,980	30 June 2008	3,980	11 November 2008
	2,679	2 July 2008	2,679	11 November 2008
	3,581	31 December 2008	3,581	7 December 2009
	6,369	31 July 2009	6,369	7 December 2009
31 October 2007	1,156	3 December 2007	1,156	25 February 2008
	3,180	2 April 2008	3,180	11 November 2008
	3,507	30 June 2008	3,507	11 November 2008
	5,901	2 July 2008	5,901	11 November 2008
	8,322	31 December 2008	8,322	7 December 2009
8,847	8,847	31 July 2009	8,847	7 December 2009
25 February 2008	1,440	24 December 2008	1,440	7 December 2009
11 November 2008	2,794	24 December 2008	2,794	7 December 2009
	8,022	31 December 2008	8,022	7 December 2009
	18,825	31 July 2009	18,825	7 December 2009
7 December 2009	1,550	9 April 2010	Nil	N/A
	6,478	25 June 2010	Nil	N/A

¹ An additional 31,413 restricted shares were transferred to the unallocated pool on 6 July 2010 due to the cessation of employment of a participant effective 30 June 2010, bringing the total number of restricted shares in the unallocated pool to 39,441.

Exercise hurdles

Broadly, the number of unrestricted ordinary shares to which a participant is entitled under the Plans is determined by achievement of a predetermined exercise hurdle or hurdles. For the restricted shares and share options issued in FY10, the hurdle is a comparison of Contact's total shareholder return (TSR) against the TSR of a reference group comprising the NZX50 index in the relevant period, commencing on the effective grant date.

For the restricted shares and share options issued in FY10, participants' vesting entitlements will be calculated on three test dates, being 1 October 2012, 1 October 2013 and 1 October 2014.

Contact's TSR will be determined as follows:

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

The participant's vesting entitlements will be based on a predetermined formula relative to achievement of the predetermined hurdle or hurdles. For the restricted shares and share options issued in FY10, these are:

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

Employee remuneration

The following table shows the number of employees and former employees of Contact who, in their capacity as employees, received remuneration and other benefits (including redundancy payments, and the fair value of any options and restricted shares allocated to the relevant reporting period) during FY10 of at least \$100,000 in brackets of \$10,000. As at 30 June 2010, no Contact subsidiary had any employees.

The remuneration figures analysed include all monetary payments actually paid during the course of FY10, including the short term variable remuneration relating to FY09. The figures do not include amounts paid post 30 June 2010 that related to the period ended 30 June 2010.

The value of remuneration benefits analysed includes both fixed, short term and long term at risk/variable components of remuneration, and redundancy and other payments made on termination of employment. The value of the equity-based incentives included in the remuneration band analysis represents the portion of the grant date fair value of the equity instruments allocated to the reporting period ended 30 June 2010.

The remuneration (and any other benefits) of the Managing Director, David Baldwin, is disclosed in the Managing Director remuneration section on page 41.

Remuneration bands	Number of employees
	Parent
\$100,001-\$110,000	60
\$110,001-\$120,000	45
\$120,001-\$130,000	41
\$130,001-\$140,000	33
\$140,001-\$150,000	19
\$150,001-\$160,000	21
\$160,001-\$170,000	14
\$170,001-\$180,000	6
\$180,001-\$190,000	3
\$190,001-\$200,000	9
\$200,001-\$210,000	8
\$210,001-\$220,000	7
\$220,001-\$230,000	4
\$230,001-\$240,000	2
\$240,001-\$250,000	1
\$250,001-\$260,000	5
\$260,001-\$270,000	1
\$270,001-\$280,000	1
\$280,001-\$290,000	0
\$290,001-\$300,000	2
\$300,001-\$310,000	2
\$310,001-\$320,000	2
\$320,001-\$330,000	1
\$330,001-\$340,000	1
\$340,001-\$350,000	1
\$350,001-\$360,000	1
\$370,001-\$380,000	1
\$430,001-\$440,000	1
\$470,001-\$480,000	1
\$490,001-\$500,000	1
\$570,001-\$580,000	2
\$600,001-\$610,000	1
Total	297

Contact subsidiaries – directors and remuneration

Other than Paul Smith, who received the Australian dollar equivalent of \$38,198 in FY10 in his capacity as a consultant to Contact Australia Pty Limited and Contact Operations Australia Pty Limited, no director of any of Contact's subsidiaries received additional remuneration or benefits in respect of their directorships.

The table below lists the directors of Contact subsidiary companies as at 30 June 2010.

Contact subsidiary	Directors
Contact Aria Limited	David Baldwin Elizabeth Kelly
Contact Australia Pty Limited	David Baldwin Elizabeth Kelly Paul Smith
Contact Operations Australia Pty Limited	David Baldwin Elizabeth Kelly Paul Smith
Contact Wind Limited ¹	David Baldwin Graham Cockroft Alistair Yates
Empower Limited ^{2,3}	David Baldwin Ruth Bound
Rockgas Limited ⁴	David Baldwin Graham Cockroft

¹ Mark Trigg was a director of Contact Wind Limited until 31 July 2009 when he was replaced by Graham Cockroft.

² Jason Delamore was a director of Empower Limited until 15 June 2010, when he was replaced by Ruth Bound.

³ Stratford Power Limited was amalgamated into Empower Limited on 8 September 2009. The director of Stratford Power Limited before the amalgamation was Elizabeth Kelly.

⁴ Rockgas Holdings Limited was amalgamated with Rockgas Limited on 7 September 2009. The director of Rockgas Holdings Limited before the amalgamation was David Baldwin.

Security holder information

The following information is provided in accordance with the Listing Rules of New Zealand Exchange Limited.

20 largest registered holders of Quoted Equity Securities as at 2 August 2010 (including holdings within New Zealand Central Securities Depository Limited)

Origin Energy Pacific Holdings Limited	308,660,189
National Nominees New Zealand Limited	21,996,746
HSBC Nominees (New Zealand) Limited A/C State Street	20,789,015
New Zealand Superannuation Fund Nominees Limited	17,232,598
Accident Compensation Corporation	11,692,529
Citibank Nominees (New Zealand) Limited	8,586,121
Premier Nominees Limited – ING Wholesale Australasian Share Fund	7,170,921
Custodial Services Limited	6,699,153
HSBC Nominees (New Zealand) Limited	6,592,216
Tea Custodians Limited	5,929,832
NZGT Nominees Limited –AIF Equity Fund	5,352,150
AMP Investments Strategic Equity Growth Fund	4,264,805
FNZ Custodians Limited	4,051,213
Origin Energy Universal Holdings Limited	3,838,938
Custody and Investment Nominees Limited	3,544,127
Aestron Life Limited	3,350,550
Masfen Securities Limited	2,544,863
Guardian Trust Investment Nominees (RWT) Limited	2,238,652
Westpac NZ Shares 2002 Wholesale Trust –a/c	2,229,548
NZ Guardian Trust Investment Nominees Limited	2,096,906
Total top 20 holders (excluding Treasury Stock)	448,861,072
Total other shares	156,073,904
Total issued shares¹	604,934,976

1 Calculations exclude 508,480 restricted ordinary shares issued pursuant to Contact's LTI Scheme.

Distribution of Quoted Security Holders and security holdings as at 2 August 2010

Ordinary Shares

Size of holding	Number of holders	% of holders	Number of shares ¹	% of shares
1 – 99 shares	1,055	1.30	29,637	0.01
100 – 199 shares	517	0.64	74,251	0.01
200 – 499 shares	11,456	14.16	4,295,391	0.71
500 – 999 shares	35,769	44.21	27,456,897	4.54
1,000 – 1,999 shares	19,401	23.98	23,193,359	3.83
2,000 – 4,999 shares	8,280	10.23	24,842,761	4.11
5,000 – 9,999 shares	2,894	3.58	18,775,578	3.10
10,000 – 49,999 shares	1,384	1.71	23,415,526	3.87
50,000 – 99,999 shares	64	0.08	4,127,135	0.68
100,000 – 499,999 shares	54	0.06	9,961,146	1.65
500,000 – 999,999 shares	6	0.01	4,172,772	0.69
1,000,000 shares and above	31	0.04	464,590,523	76.8
Total	80,911	100.00	604,934,976	100.00

1 Calculations are based on the number of ordinary shares quoted and listed on the NZSX as at 2 August 2010 and exclude 508,480 restricted ordinary shares issued pursuant to Contact's LTI Scheme.

Retail bonds

Size of holding	Number of holders	% of holders	Number of bonds	% of bonds
5,000 – 10,000 bonds	3,074	31.64	25,668,000	4.67
10,001 – 25,000 bonds	3,105	31.96	61,079,000	11.10
25,001 – 50,000 bonds	2,344	24.12	9,661,5000	17.57
50,001 – 100,000 bonds	791	8.14	69,437,000	12.62
100,001 – 500,000 bonds	346	3.56	81,154,000	14.76
500,001 – 1,000,000 bonds	28	0.29	23,999,000	4.36
1,000,001 bonds and above	28	0.29	192,048,000	34.92
Total	9,716	100.00	550,000,000	100.00

Substantial security holders

As at 2 August 2010, the following persons had notified the company in accordance with the Securities Markets Act 1988 that they were currently substantial security holders in the company.

Substantial security holder	Nature of relevant interest	Number and class of listed voting securities
Origin Energy New Zealand Limited and its related bodies corporate (including Origin Energy Limited and Origin Energy Vic Holdings Limited)	Shareholder	313,334,898 ordinary shares

The total number of shares of Contact as at 2 August 2010 was 605,443,456, consisting of 604,934,976 listed ordinary shares and 508,480 restricted ordinary shares issued pursuant to Contact's LTI Scheme (the restricted ordinary shares are not tradeable and are not listed or quoted on the NZSX). The ordinary shares and restricted ordinary shares are voting securities, except the trustee holding the restricted ordinary shares on behalf of the participants has waived all voting rights in relation to those shares. Accordingly, the total number of listed voting securities of Contact as at 2 August 2010 was 604,934,976.

Securities of the company in which each director has a relevant interest as at 30 June 2010

Director	Number of ordinary shares	Number of bonds	Number of restricted ordinary shares	Number of options
G King	16,172	Nil	N/A	N/A
P Pryke	101,764	Nil	N/A	N/A
D Baldwin	Nil	Nil	133,070	779,156
B Beeren	21,151	Nil	N/A	N/A
W Dewes	1,572	Nil	N/A	N/A
J Milne	99,076	150,000	N/A	N/A
K Moses	8,085	Nil	N/A	N/A
S Sheldon	6,135	10,000	N/A	N/A

Directors' statement

This Annual Report is dated 6 September 2010 and is signed on behalf of the Board by



G King
Chairman



P Pryke
Deputy Chairman

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for the year ended 30 June 2010

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Income Statement for the year ended 30 June 2010

	Note	Group 30 June 2010 \$000	Group 30 June 2009* \$000	Parent 30 June 2010 \$000	Parent 30 June 2009* \$000
Revenue	4	2,143,017	2,200,081	1,848,978	1,846,234
Other income		21,391	19,984	45,401	35,280
Operating expenses	5	(1,737,426)	(1,774,806)	(1,512,693)	(1,508,470)
Earnings before net interest expense, income tax, depreciation, amortisation, change in fair value of financial instruments and other significant items (EBITDAF)		426,982	445,259	381,686	373,044
Depreciation and amortisation	16, 17	(161,903)	(165,885)	(158,610)	(160,742)
Change in fair value of financial instruments	24	4,531	(57,511)	4,531	(57,511)
Other significant items	6	(8,894)	(2,830)	39,180	(5,145)
Equity accounted earnings of associates	21	3,272	3,624	-	-
Net interest expense	7	(55,980)	(62,601)	(55,845)	(62,492)
Profit before income tax		208,008	160,056	210,942	87,154
Income tax expense	8	(53,340)	(44,417)	(39,793)	(25,463)
Profit for the year		154,668	115,639	171,149	61,691
Basic and diluted earnings per share (cents)	10	25.94	19.98	28.70	10.66

* Comparative numbers have been restated due to a voluntary change in accounting policy. Refer to note 1.

Non-statutory measure: underlying earnings

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

	Note	Group 30 June 2010 \$000	Group 30 June 2009* \$000
Profit for the year		154,668	115,639
Underlying adjustments			
Change in fair value of financial instruments	24	(4,531)	57,511
Other significant items:			
Impairment of Gasbridge assets	6	-	2,830
Retail transaction processing outsourcing costs	6	3,330	-
Removal of New Plymouth asbestos and related costs	6	5,564	-
Adjustments before income tax		4,363	60,341
Income tax expense		(1,309)	(17,253)
Impact of change in corporate income tax rate	8	(42,650)	-
Removal of tax depreciation on buildings	8	34,765	-
Adjustments after income tax		(4,831)	43,088
Underlying earnings after tax		149,837	158,727
Underlying earnings per share (cents)	10	25.13	27.42

* Comparative numbers have been restated due to a voluntary change in accounting policy. Refer to note 1.

Statement of Comprehensive Income for the year ended 30 June 2010

	Note	Group 30 June 2010 \$000	Group 30 June 2009* \$000	Parent 30 June 2010 \$000	Parent 30 June 2009* \$000
Profit for the year		154,668	115,639	171,149	61,691
Other comprehensive income:					
Change in foreign currency translation reserve		(221)	(106)	-	-
Change in cash flow hedge reserve		8,298	52,091	8,206	51,889
Total other comprehensive income before tax		8,077	51,985	8,206	51,889
Deferred tax relating to components of other comprehensive income	27	(2,209)	(16,452)	(2,248)	(16,394)
Re-measurement of deferred tax on change in corporate income tax rate	27	555	-	555	-
Other comprehensive income for the year after tax		6,423	35,533	6,513	35,495
Total comprehensive income for the year		161,091	151,172	177,662	97,186

* Comparative numbers have been restated due to a voluntary change in accounting policy. Refer to note 1.

Statement of Changes in Equity for the year ended 30 June 2010

Group*	Note	Share capital \$000	Foreign currency translation reserve \$000	Asset revaluation reserve \$000	Cash flow hedge reserve \$000	Share-based payment reserve \$000	Retained earnings \$000	Total shareholders' equity \$000
Opening balance as at 1 July 2008		780,037	396	1,898,383	(74,279)	1,171	298,363	2,904,071
Impact of change in accounting policy	1	-	-	(1,898,383)	-	-	1,615,307	(283,076)
Restated opening balance as at 1 July 2008		780,037	396	-	(74,279)	1,171	1,913,670	2,620,995
Total comprehensive income for the year		-	(86)	-	35,619	-	115,639	151,172
Transactions with owners recorded directly in equity:								
Change in share capital	11	48,576	-	-	-	-	-	48,576
Change in share-based payment reserve	12	-	-	-	-	581	-	581
Dividends paid and distributions declared	9	-	-	-	-	-	(161,722)	(161,722)
Total transactions with owners recorded directly in equity		48,576	-	-	-	581	(161,722)	(112,565)
Closing balance as at 30 June 2009		828,613	310	-	(38,660)	1,752	1,867,587	2,659,602
Opening balance as at 1 July 2009		828,613	310	-	(38,660)	1,752	1,867,587	2,659,602
Total comprehensive income for the year		-	(182)	-	6,605	-	154,668	161,091
Restricted shares and options lapsed during the year		-	-	-	-	(36)	36	-
Transactions with owners recorded directly in equity:								
Change in share capital	11	120,374	-	-	-	-	-	120,374
Change in share-based payment reserve	12	-	-	-	-	1,148	-	1,148
Restricted shares vested during the year	11	10	-	-	-	(10)	-	-
Distributions declared	9	-	-	-	-	-	(165,437)	(165,437)
Total transactions with owners recorded directly in equity		120,384	-	-	-	1,138	(165,437)	(43,915)
Closing balance as at 30 June 2010		948,997	128	-	(32,055)	2,854	1,856,854	2,776,778

Parent*	Note	Share capital \$000	Foreign currency translation reserve \$000	Asset revaluation reserve \$000	Cash flow hedge reserve \$000	Share-based payment reserve \$000	Retained earnings \$000	Total shareholders' equity \$000
Opening balance as at 1 July 2008		780,037	-	1,704,969	(74,103)	1,171	466,038	2,878,112
Impact of change in accounting policy	1	-	-	(1,704,969)	-	-	1,421,893	(283,076)
Restated opening balance as at 1 July 2008		780,037	-	-	(74,103)	1,171	1,887,931	2,595,036
Total comprehensive income for the year		-	-	-	35,495	-	61,691	97,186
Transactions with owners recorded directly in equity:								
Change in share capital	11	48,576	-	-	-	-	-	48,576
Change in share-based payment reserve	12	-	-	-	-	581	-	581
Dividends paid and distributions declared	9	-	-	-	-	-	(161,722)	(161,722)
Total transactions with owners recorded directly in equity		48,576	-	-	-	581	(161,722)	(112,565)
Closing balance as at 30 June 2009		828,613	-	-	(38,608)	1,752	1,787,900	2,579,657
Opening balance as at 1 July 2009		828,613	-	-	(38,608)	1,752	1,787,900	2,579,657
Total comprehensive income for the year		-	-	-	6,513	-	171,149	177,662
Restricted shares and options lapsed during the year		-	-	-	-	(36)	36	-
Transactions with owners recorded directly in equity:								
Change in share capital	11	120,374	-	-	-	-	-	120,374
Change in share-based payment reserve	12	-	-	-	-	1,148	-	1,148
Restricted shares vested during the year	11	10	-	-	-	(10)	-	-
Distributions declared	9	-	-	-	-	-	(165,437)	(165,437)
Total transactions with owners recorded directly in equity		120,384	-	-	-	1,138	(165,437)	(43,915)
Closing balance as at 30 June 2010		948,997	-	-	(32,095)	2,854	1,793,648	2,713,404

* Comparative numbers have been restated due to a voluntary change in accounting policy. Refer to note 1.

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

Statement of Financial Position as at 30 June 2010

Note	Group 30 June 2010 \$000	Group 30 June 2009* \$000	Group 30 June 2008* \$000	Parent 30 June 2010 \$000	Parent 30 June 2009* \$000	Parent 30 June 2008* \$000
Shareholders' equity	2,776,778	2,659,602	2,620,995	2,713,404	2,579,657	2,595,036
Represented by:						
Current assets						
Cash and short-term deposits	13 921	179,220	2,542	-	177,848	-
Receivables and prepayments	14 219,148	253,836	517,365	210,415	224,786	488,987
Tax receivable	-	-	162	-	-	662
Inventories	15 58,366	15,906	21,111	53,452	6,600	7,014
Derivative financial instruments	24 4,955	14,987	52,940	4,914	14,987	52,940
Total current assets	283,390	463,949	594,120	268,781	424,221	549,603
Non-current assets						
Property, plant and equipment	16 4,511,314	4,239,601	3,976,864	4,421,033	4,163,258	3,905,033
Intangible assets	17 284,201	252,159	214,552	225,567	193,525	155,918
Gas storage – cushion gas	18 49,022	46,252	23,622	49,022	46,252	23,622
Investment in subsidiaries	20 -	-	-	132,788	132,788	132,788
Investment in associates	21 8,809	8,687	8,015	1,587	1,579	1,579
Available-for-sale financial assets	22 2,935	2,935	2,935	-	-	-
Derivative financial instruments	24 787	6,597	13,554	787	6,597	13,554
Other non-current assets	7,305	5,987	2,945	7,305	5,987	2,945
Total non-current assets	4,864,373	4,562,218	4,242,487	4,838,089	4,549,986	4,235,439
Total assets	5,147,763	5,026,167	4,836,607	5,106,870	4,974,207	4,785,042
Current liabilities						
Borrowings	23 3,180	4,311	132,811	3,453	2,982	130,384
Current portion of term borrowings	23 -	141,662	-	-	141,662	-
Derivative financial instruments	24 31,895	72,368	139,282	31,895	72,317	139,024
Payables and accruals	25 262,430	304,235	540,619	291,328	338,246	522,949
Tax payable	6,046	2,218	-	6,043	2,968	-
Provisions	26 13,146	8,195	20,954	12,907	7,953	20,746
Total current liabilities	316,697	532,989	833,666	345,626	566,128	813,103
Non-current liabilities						
Borrowings	23 1,279,233	1,091,106	554,725	1,279,216	1,091,066	554,695
Derivative financial instruments	24 98,811	85,905	194,925	98,811	85,905	194,925
Provisions	26 43,429	33,750	33,618	41,808	32,116	31,701
Deferred tax	27 632,090	621,386	596,802	627,280	618,532	595,582
Other non-current liabilities	725	1,429	1,876	725	803	-
Total non-current liabilities	2,054,288	1,833,576	1,381,946	2,047,840	1,828,422	1,376,903
Total liabilities	2,370,985	2,366,565	2,215,612	2,393,466	2,394,550	2,190,006
Net assets	2,776,778	2,659,602	2,620,995	2,713,404	2,579,657	2,595,036

* Comparative numbers have been restated due to a voluntary change in accounting policy. Refer to note 1.

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

On behalf of the Board



Grant King
Chairman, 19 August 2010



Phillip Pryke
Deputy Chairman, 19 August 2010

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

Statement of Cash Flows for the year ended 30 June 2010

Note	Group 30 June 2010 \$000	Group 30 June 2009 \$000	Parent 30 June 2010 \$000	Parent 30 June 2009 \$000
Cash flows from operating activities				
Cash provided from:				
Receipts from customers	2,185,718	2,492,488	1,893,401	2,157,053
Associate dividends received	3,862	3,842	2,936	2,865
	2,189,580	2,496,330	1,896,337	2,159,918
Cash applied to:				
Payments to suppliers and employees	(1,779,301)	(2,035,904)	(1,504,921)	(1,712,259)
Retail transaction processing outsourcing costs	26 (427)	-	(427)	-
Supplementary dividend paid to shareholders	9 (1,293)	(10,776)	(1,293)	(10,776)
Tax paid	(40,200)	(25,000)	(40,200)	(25,000)
	(1,821,221)	(2,071,680)	(1,546,841)	(1,748,035)
Net cash inflow from operating activities	368,359	424,650	349,496	411,883
Cash flows from investing activities				
Cash provided from:				
Interest received	4,848	4,961	4,768	4,961
Loan from associate	-	80	-	-
	4,848	5,041	4,768	4,961
Cash applied to:				
Purchase of property, plant and equipment	(411,279)	(385,715)	(394,029)	(372,982)
Purchase of intangible assets	(29,557)	(25,750)	(29,557)	(25,750)
Removal of New Plymouth asbestos and related costs	(2,922)	(17,280)	(2,922)	(17,280)
Purchase of gas storage rights	-	(120)	-	(120)
Purchase of investment in Energyhedge	21 (8)	-	(8)	-
Purchase of cushion gas	18 (1,490)	(41,151)	(1,490)	(41,151)
Repayment of loan to associate	(1,886)	(1,317)	-	-
	(447,142)	(471,333)	(428,006)	(457,283)
Net cash (outflow) to investing activities	(442,294)	(466,292)	(423,238)	(452,322)
Cash flows from financing activities				
Cash provided from:				
Proceeds from borrowings	100,000	550,000	100,000	550,000
Proceeds from other short-term loans	250,258	173,524	250,258	173,524
	350,258	723,524	350,258	723,524
Cash applied to:				
Interest paid	(103,324)	(79,019)	(103,109)	(78,909)
Distributions and dividends paid to shareholders	(44,904)	(112,582)	(44,904)	(112,582)
Financing costs	(923)	(11,151)	(923)	(11,151)
Profit distribution-related costs	(311)	(432)	(311)	(432)
Repayment of borrowings	(160,228)	-	(160,228)	-
Repayment of other short-term loans and finance lease liabilities	(145,296)	(301,943)	(145,263)	(301,938)
	(454,986)	(505,127)	(454,738)	(505,012)
Net cash (outflow)/inflow to/from financing activities	(104,728)	218,397	(104,480)	218,512
Net (decrease)/increase in cash and cash equivalents	(178,663)	176,755	(178,222)	178,073
Add: cash and cash equivalents at the start of the year	177,545	790	175,889	(2,184)
Cash and cash equivalents at the end of the year	(1,118)	177,545	(2,333)	175,889
Cash and cash equivalents comprise:				
Bank overdraft	13, 23 (2,039)	(1,675)	(2,333)	(1,959)
Cash and short-term deposits	13 921	179,220	-	177,848
	13 (1,118)	177,545	(2,333)	175,889

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

Statement of Cash Flows for the year ended 30 June 2010 (continued)

Reconciliation of profit for the year to cash flows from operating activities	Note	Group 30 June 2010 \$000	Group 30 June 2009* \$000	Parent 30 June 2010 \$000	Parent 30 June 2009* \$000
Profit for the year		154,668	115,639	171,149	61,691
Items classified as investing/financing					
Net interest expense	7	55,980	62,601	55,845	62,492
		55,980	62,601	55,845	62,492
Non-cash items					
Write-off of receivables	5	15,046	9,100	11,988	7,486
Movement in provisions		8,023	2,596	8,114	2,110
Share-based payments	12	1,596	868	1,596	868
Impairment of Gasbridge assets	19	-	2,830	-	-
Depreciation and amortisation	16, 17	161,903	165,885	158,610	160,742
Equity accounted (earnings) of associates net of dividends received	21	(261)	(739)	-	-
Change in fair value of financial instruments	24	(4,531)	57,511	(4,531)	57,511
Increase in deferred tax	8	9,050	6,815	7,055	6,556
Write-off of subsidiary advance	6	-	-	26	5,145
Write-back of subsidiary advance	6	-	-	(48,100)	-
Other non-cash items		(1,225)	(2,872)	-	(1,601)
		189,601	241,994	134,758	238,817
Movement in working capital					
Decrease in receivables and prepayments		19,936	251,998	2,587	249,625
(Increase)/decrease in inventories		(42,460)	5,205	(46,852)	414
(Decrease)/increase in payables and accruals		(11,876)	(252,312)	30,252	(201,931)
Increase in tax payable		3,828	2,567	3,075	3,817
(Increase) in other non-current assets		(1,318)	(3,042)	(1,318)	(3,042)
		(31,890)	4,416	(12,256)	48,883
Net cash inflow from operating activities		368,359	424,650	349,496	411,883

* Comparative numbers have been restated due to a voluntary change in accounting policy. Refer to note 1.

Notes to the financial statements

for the year ended 30 June 2010

1 Statement of accounting policies

Reporting entity

Contact Energy Limited (the Parent) is a profit-oriented company domiciled in New Zealand, registered under the Companies Act 1993 and listed on the New Zealand Stock Exchange (NZSX). It also has bonds listed on the New Zealand Debt Exchange (NZDX). The Parent is an issuer in terms of the Financial Reporting Act 1993. The financial statements of Contact Energy Limited (the financial statements) as at, and for the year ended, 30 June 2010 comprise the Parent and its subsidiaries, interests in associates and jointly controlled entities (together referred to as Contact or the Group).

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

Basis of preparation

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

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

The financial statements were approved by the Board of Directors (the Board) on 19 August 2010.

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

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

Changes in accounting policies

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

Contact adopted a policy of revaluing its core generation plant and equipment from the commencement of the Group. Contact has relied upon an independent valuation of such assets for determining a fair value. As there is a limited market for trading comparable generation assets in New Zealand, the valuation has primarily relied upon a discounted cash flow analysis of the estimated long-term cash flows from the generation plant and equipment. Given the long life (up to 100 years) of such assets, the valuation is very sensitive to any variation in assumptions. Events like the global financial crisis have added increased uncertainty to the independent valuation assumptions. The range in the current independent valuation has correspondingly increased compared with prior valuations, such that a single point fair value within the valuation range is difficult to reliably determine.

In the alternative, the cost valuation basis is considered a reliable basis for measurement of generation plant and equipment. Cost also provides relevant information about the long-term cash-generating performance of the core generation plant and equipment, which is the primary objective for Contact in owning the plant and equipment. For example, core metrics such as return on capital invested in plant and equipment can be calculated without adjustment to the return, or the investment, for the impact of asset revaluations. Cost aligns with global industry practice for similar long life core operating assets. Cost also aligns with the policy of Contact's ultimate parent Origin Energy Limited (Origin).

Contact has elected to make a voluntary change in accounting policy in relation to the measurement basis for generation plant and equipment and move to a cost basis as it is reliable and more relevant. The change in accounting policy has been applied retrospectively to 1 October 2004, the date of Contact's transition to NZ IFRS and the date of acquisition of 51.4 per cent of the shares in Contact by Origin. Fair value at 1 October 2004 is considered deemed historical cost owing to the impracticability of determining actual cost back to the original asset purchase date. As a result of the change, the revaluation reserve at 1 October 2004 (\$1,547.6 million) has been transferred to retained earnings. In addition, the revaluation in 2007 (\$401.1 million) and the consequential deferred tax (\$120.3 million) have been reversed.

Contact Energy Limited and Subsidiaries
Notes to the financial statements
for the year ended 30 June 2010

The change in accounting policy has had the following impacts on the current and prior years presented in these financial statements:

	Group 30 June 2010 \$000	Group 30 June 2009 \$000	Group 30 June 2008 \$000	Parent 30 June 2010 \$000	Parent 30 June 2009 \$000	Parent 30 June 2008 \$000
Increase in depreciation and amortisation	3,285	3,931	4,772	3,285	3,931	4,772
Decrease in income tax expense*	(1,001)	(2,034)	(2,412)	(1,001)	(2,034)	(2,412)
Decrease in profit for the year	2,284	1,897	2,360	2,284	1,897	2,360
Decrease in property, plant and equipment	(408,118)	(405,372)	(404,736)	(408,118)	(405,372)	(404,736)
Decrease in deferred tax	(123,546)	(122,706)	(121,660)	(123,546)	(122,706)	(121,660)
Decrease in asset revaluation reserve	(1,895,698)	(1,896,076)	(1,898,383)	(1,702,284)	(1,702,662)	(1,704,969)
Increase in retained earnings	1,611,126	1,613,410	1,615,307	1,417,712	1,419,996	1,421,893

	Group 30 June 2010	Group 30 June 2009	Group 30 June 2008	Parent 30 June 2010	Parent 30 June 2009	Parent 30 June 2008
Decrease in basic and diluted earnings per share (cents)	(0.38)	(0.33)	(0.40)	(0.38)	(0.33)	(0.40)
Decrease in underlying earnings per share (cents)	(0.38)	(0.33)	(0.40)	(0.38)	(0.33)	(0.40)
Decrease in net tangible assets per share (dollars)	(0.47)	(0.49)	(0.49)	(0.47)	(0.49)	(0.49)

- * The decrease in income tax expense is due to the tax benefit from the higher depreciation expense, and the deferred tax asset on restoration provisions previously recognised through the asset revaluation reserve now being recognised through the Income Statement.

As a result of the change in accounting policy, the comparatives in the Income Statement, Statement of Changes in Equity and Statement of Financial Position and the related notes have been restated.

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

Presentational changes

Certain presentational changes have been made to the comparative Income Statement, Statement of Changes in Equity, Statement of Financial Position, Statement of Cash Flows and the related notes to ensure consistency with the current year treatment. These changes, which have been applied retrospectively to 30 June 2009 and 30 June 2008, relate to the:

- reclassification of restricted share capital from 'share capital' to 'share-based payment reserve',
- reclassification of write-off of subsidiary advance from 'other operating expenses' to 'other significant items',
- presentation of 'proceeds from other short-term loans' and 'repayment of other short-term loans and finance lease liabilities', which has been amended to disclose repayments and drawdowns separately,
- reclassification of certain recoveries from 'retail electricity and gas revenue' to 'other operating expenses',
- reclassification of certain rebates from 'electricity purchases' to 'electricity transmission, distribution and levies',
- reclassification of certain delivery costs from 'other operating expenses' to 'LPG purchases'.

Adoption status of relevant new financial reporting standards and interpretations

The following relevant new standards and amendments to standards are mandatory for the financial year beginning 1 July 2009 and have been adopted by Contact in the preparation of these financial statements:

- *NZ IAS 1 (Revised) Presentation of Financial Statements* – the revised standard prohibits the presentation of items of income and expenses (i.e. 'non-owner changes in equity') in the Statement of Changes in Equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity in a Statement of Comprehensive Income. As a result, Contact presents all transactions with owners in the Statement of Changes in Equity, whereas all movements in reserves are presented in a separate Statement of Comprehensive Income. The standard requires retrospective application and consequently comparative information has been revised.

- *NZ IFRS 7 Financial Instruments – Disclosures (amendment)* – the amendment requires enhanced disclosures about fair value measurement and liquidity risk. In particular, the amendment requires additional disclosure of fair value measurement methodologies according to a fair value measurement hierarchy. Refer to note 24.
- *NZ IFRS 8 Operating Segments* – the standard requires operating segments to reflect the internal management reports of Contact, which are regularly reviewed by the chief operating decision-maker in order to allocate resources and to assess performance. As a result of changing how internal financial information is presented to the chief operating decision-maker, Contact's reportable segments have changed. Refer to note 3.
- *Improvements to NZ IFRS 2009* – these improvements have resulted in minor changes to disclosures but have had no material effect on amounts reported.

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

- *NZ IFRS 2 Amendment: Share-Based Payment: Group Cash-Settled Share-Based Payment Transactions* – amendment approved August 2009 and effective for annual reporting periods beginning on or after 1 January 2010.
- *NZ IFRS 9 Financial Instruments* – approved November 2009 and effective for annual reporting periods beginning on or after 1 January 2013.
- *NZ IAS 24 Related Party Disclosures (revised 2009)* – amendment approved November 2009 and effective for annual reporting periods beginning on or after 1 January 2011.
- *NZ IAS 32 Amendment: Financial Instruments – Presentation* – amendment approved October 2009 and effective for annual reporting periods beginning on or after 1 February 2010.
- *NZ IAS 36 Amendment: Impairment of Assets* – amendment approved May 2009 and effective for annual reporting periods beginning on or after 1 January 2010.

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

The Directors anticipate that the above standards and amendments will have no material impact on the financial statements in the period of initial application.

Accounting estimates and judgements

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

Financial instruments

Note 24 contains information about the assumptions and the risk factors relating to financial instruments and their valuation. The base future settlement price path for electricity derivatives is derived from the energy hedge market price path overlaid with Contact's financial model for future electricity prices. Accounting judgements have been made in determining the hedge designation for the different types of derivative financial instruments employed by Contact to hedge its risk exposures.

Intangible assets – gas storage rights

Contact has exercised judgement in determining the useful life of the gas storage rights. The useful life has been based on the current assumption of the period over which future economic benefits are expected to be derived. This life, however, is subject to the assumption that the contractual agreement under which the rights were acquired continues in existence and that any petroleum mining or other permit that may be required can be successfully renewed or a new permit granted. The useful life is reviewed annually. Refer to note 17.

Intangible assets – goodwill

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

In determining the recoverable amount of goodwill, Contact uses a valuation model to calculate the net present value of the expected future cash flows of the cash-generating units. The major inputs and assumptions that are used in the model that require judgement include sales forecasts, cost to serve, customer numbers and customer churn, forecast gas costs, interest rates, discount rates and a forecast of the future electricity price path. Refer to note 17.

Inventory gas

Inventory gas is held at the lower of cost and net realisable value. Contact has exercised judgement in determining the net realisable value of flexible gas contracts.

New Plymouth power station

In calculating the provision for the removal of asbestos and other related costs, estimates have been made as to the expected expenditure based on the status of contractor negotiations at the end of the reporting period.

Property, plant and equipment and finite life intangible assets

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

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

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

Provision – restoration and environmental rehabilitation

Liabilities are estimated for the abandonment and site restoration of areas from which natural resources are extracted and for the removal of asbestos at generation properties. Such estimates are valued at the net present value of the expenditure expected to settle the obligation. Key assumptions have been made as to the expected amount and timing of expenditure to remediate based on the expected lives of the assets employed on the sites. Refer to note 26.

Retail revenue

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

Basis of consolidation

Subsidiaries

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

Business combinations of commonly controlled entities

Business combinations involving entities or businesses under common control are those in which all of the combining entities or businesses are ultimately controlled by the same party or parties, both before and after the business combination.

Assets and liabilities assumed in business combinations of commonly controlled entities are measured initially at acquisition date at the book values of the acquired entities. Any difference between the cost of acquisition and the book values of the assets and liabilities acquired is recorded directly in equity against retained earnings.

Associates

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

Jointly controlled assets and jointly controlled entities

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

Transactions and balances eliminated on consolidation

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

Borrowings

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

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

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

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

Cash and cash equivalents

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

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

Derivative financial instruments and hedging

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

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

Fair value hedge

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

Cash flow hedge

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

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

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

Derivative financial instruments that do not qualify for hedge accounting

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

Employee benefits

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

Long-term service benefits

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

Share-based payments

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

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

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

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

Exploration and evaluation expenditure

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

All exploration and evaluation costs, including directly attributable overheads, general permit activity, geological and geophysical costs are expensed as incurred except the costs of drilling exploration wells and the costs of acquiring new interests. The costs of drilling exploration wells are initially capitalised as development capital work in progress pending the determination of the success of the area. Costs are expensed where the area of interest does not result in a successful discovery.

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

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

Capitalised costs are reviewed at the end of each reporting period to determine whether economic quantities of reserves have been found or whether further exploration and evaluation work is underway or planned to support the continued carry forward of the capitalised costs. Exploration and evaluation expenditure is impaired in the Income Statement under the successful efforts method of accounting in the period that exploration work demonstrates that an area of interest is no longer prospective for economically recoverable reserves or when the decision to abandon an area of interest is made.

Foreign currencies

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

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

Group entities

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

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

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

Gas entitlements

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

Gas storage – cushion gas

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

Generation and other research and development expenditure

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

Expenditure on generation and other development activities is capitalised if the process is technically and commercially feasible, future economic benefits are probable and Contact intends to, and has sufficient resources to, complete development and to use or sell the asset. The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of

directly attributable overheads and capitalised interest. Revenue earned in the period until the asset is operating in the manner intended by management is deducted from the cost of the asset.

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

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

Goods and services tax (GST)

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

Impairment

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

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

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

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

Intangible assets

Goodwill

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

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

Other intangible assets

Other intangible assets with finite lives are stated at cost less accumulated amortisation and accumulated impairment losses. Amortisation is charged to the Income Statement on a straight-line basis over the estimated useful lives of intangible assets from the date they are available for use. In the case of the gas storage rights, this will be when the gas storage facility is operating as management intended.

The amortisation rates are as follows:

Type of asset	Amortisation rate
Computer software	10–33%
Gas storage rights	4%
Patents	10%

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

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

Inventories

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

Gas reserves in excess of the levels required for cushion gas are treated as inventory. The cost of inventory gas is determined on a weighted average basis.

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

Investments – financial instruments

Contact classifies its investments in the following categories:

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

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

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

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

Financial assets at fair value through profit or loss

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

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

Held-to-maturity financial assets

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

Available-for-sale financial assets

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

Operating leases

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

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

Other income

Dividend income

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

Interest income

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

Payables

Payables are stated at cost.

Property, plant and equipment

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

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

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

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

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

Leased assets

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

Depreciation

With the exception of regular major inspections, depreciation is charged to the Income Statement on a straight-line basis so as to allocate the cost of the assets, less any estimated residual value, over their expected remaining useful lives. Regular major inspections are depreciated on an equivalent hours of use basis. The range of annual depreciation rates for each class of asset is as follows:

Type of asset	Depreciation rate
Land	Not depreciated
Generation plant and equipment (including buildings)	1–33%
Other buildings	1–18%
Other plant and equipment	1–33%
Regular major inspections*	Over 25,000 equivalent hours of use

* Included in generation plant and equipment

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

Receivables

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

Restoration and environmental rehabilitation

Liabilities are estimated for the abandonment and site restoration of areas from which natural resources are extracted. Such estimates are valued at the present value of the expenditure expected to be required to settle the obligation. The cost primarily represents geothermal field restorations.

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

Revenue

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

Share capital

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

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

Statement of Cash Flows

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

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

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

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

Tax

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

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

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

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

2 New Plymouth power station

In December 2007, Contact announced the decommissioning of its 31-year-old New Plymouth power station following the discovery of asbestos in areas of the station where it had not been previously recorded on the station's asbestos register. In May 2008, Contact announced the temporary recommissioning of one 100-megawatt (MW) gas-fired generator unit in response to tight electricity supply conditions over the winter period. In January 2009, this unit was decommissioned.

The financial impact of the decision to decommission the plant was recorded in the year ended 30 June 2008 and was an expense of \$33.7 million. This expense principally represented an estimate of the cost to remove asbestos at the plant and other related costs. Additional asbestos was identified in the 2010 financial year and the remaining provision was increased by \$5.6 million to cover the cost of removing the asbestos. No impairment of the New Plymouth asset has been recorded on the basis that the recoverable amount of the asset, based on an assessed fair value less cost to sell, exceeds the carrying amount. Following the decommissioning, the New Plymouth asset was transferred from generation plant and equipment to other land and buildings at 30 June 2009. Refer to note 16.

3 Segment reporting

Identification of reportable segments

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

Contact has identified two operating segments: Electricity and Other.

Products and services from which reportable segments derive their revenues

Electricity

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

Other

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

Accounting policies and inter-segment transactions

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

Inter-segment revenue

The inter-segment revenue is a charge for electricity meters between the 'Electricity' and 'Other' segments. The inter-segment charge aims to have the 'Electricity' segment break even on retail customer meter activity.

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

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

Geographical segment information

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

Major customers

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

Segment note

Group 2010	Electricity \$000	Other \$000	Inter-segment \$000	Total \$000
Total segment revenue and other income	1,859,223	334,167	(28,982)	2,164,408
Total segment direct costs	(1,284,531)	(253,540)	28,982	(1,509,089)
Segment operating margin	574,692	80,627	-	655,319
Segment other operating expenses	(187,347)	(40,990)	-	(228,337)
Segment EBITDAF*	387,345	39,637	-	426,982
Depreciation and amortisation	(153,274)	(8,629)	-	(161,903)
Segment result	234,071	31,008	-	265,079
Change in fair value of financial instruments				4,531
Other significant items				(8,894)
Equity accounted earnings of associates				3,272
Net interest expense				(55,980)
Income tax expense				(53,340)
Profit for the year				154,668

Group 2009	Electricity \$000	Other \$000	Inter-segment \$000	Total \$000
Total segment revenue and other income	1,891,723	357,389	(29,047)	2,220,065
Total segment direct costs	(1,304,086)	(284,884)	29,047	(1,559,923)
Segment operating margin	587,637	72,505	-	660,142
Segment other operating expenses	(174,658)	(40,225)	-	(214,883)
Segment EBITDAF*	412,979	32,280	-	445,259
Depreciation and amortisation	(153,760)	(12,125)	-	(165,885)
Segment result	259,219	20,155	-	279,374
Change in fair value of financial instruments				(57,511)
Other significant items				(2,830)
Equity accounted earnings of associates				3,624
Net interest expense				(62,601)
Income tax expense				(44,417)
Profit for the year				115,639

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

Group	30 June 2010 \$000	30 June 2009 \$000
Hedged generation	318,067	321,221
Exposed generation	39,967	32,296
Retail electricity	29,311	59,462
Electricity segment EBITDAF	387,345	412,979

4 Revenue

	Group 30 June 2010 \$000	Group 30 June 2009 \$000	Parent 30 June 2010 \$000	Parent 30 June 2009 \$000
Wholesale electricity revenue	539,359	594,267	539,359	594,267
Retail electricity revenue	1,301,924	1,284,529	1,138,189	1,084,461
Gas revenue	153,490	154,579	153,490	154,579
LPG revenue	130,304	153,779	-	-
Steam revenue	17,940	12,927	17,940	12,927
Total revenue	2,143,017	2,200,081	1,848,978	1,846,234

5 Operating expenses

	Group 30 June 2010 \$000	Group 30 June 2009 \$000	Parent 30 June 2010 \$000	Parent 30 June 2009 \$000
Electricity purchases	480,790	528,864	429,741	477,501
Electricity transmission, distribution and levies	511,413	494,492	451,405	412,519
Gas purchases and transmission	396,719	399,533	397,944	400,804
LPG purchases	99,175	116,823	-	-
Meter costs	20,992	20,211	16,922	16,140
Labour costs	83,490	80,396	80,532	73,499
Other operating expenses	144,847	134,487	136,149	128,007
Total operating expenses	1,737,426	1,774,806	1,512,693	1,508,470

	Group 30 June 2010 \$000	Group 30 June 2009 \$000	Parent 30 June 2010 \$000	Parent 30 June 2009 \$000
Other operating expenses include:				
Auditors' remuneration				
- Audit services: KPMG*	612	691	612	691
- Other assurance services: KPMG*	-	35	-	35
Total auditors' remuneration	612	726	612	726
Donations	75	94	75	94
Write-off of receivables	15,046	9,100	11,988	7,486
(Decrease)/increase in provision for impairment of receivables	(891)	2,431	(800)	1,945
Rental expense on operating leases	6,583	5,969	5,005	4,358

* In addition, in the year ended 30 June 2009 KPMG charged \$186,000 for audit services and \$28,000 for other assurance services in relation to the debt prospectus for the retail bond issue. These amounts have been included in the transaction costs of the retail bond issue.

	Group 30 June 2010 \$000	Group 30 June 2009 \$000	Parent 30 June 2010 \$000	Parent 30 June 2009 \$000
Labour costs include:				
Contributions to KiwiSaver	1,624	1,475	1,568	1,405

6 Other significant items

	Note	Group 30 June 2010 \$000	Group 30 June 2009 \$000	Parent 30 June 2010 \$000	Parent 30 June 2009 \$000
Impairment of Gasbridge assets	19	–	2,830	–	–
Retail transaction processing outsourcing costs	26	3,330	–	3,330	–
Removal of New Plymouth asbestos and related costs	2, 26	5,564	–	5,564	–
Write-back of subsidiary advance*		–	–	(48,100)	–
Write-off of subsidiary advance	19	–	–	26	5,145
Total other significant items		8,894	2,830	(39,180)	5,145

- * As a result of the amalgamation of Stratford Power Limited into Empower Limited (refer to note 20), \$48.1 million relating to a subsidiary advance has been written-back. The reversal of this amount is included within 'other significant items' in the Income Statement.

7 Net interest expense

	Group 30 June 2010 \$000	Group 30 June 2009 \$000	Parent 30 June 2010 \$000	Parent 30 June 2009 \$000
Interest expense	108,566	89,860	108,352	89,685
Interest expense capitalised	(48,208)	(21,473)	(48,208)	(21,473)
Interest income	(4,378)	(5,786)	(4,299)	(5,720)
Net interest expense	55,980	62,601	55,845	62,492

The weighted average capitalisation rate on funds borrowed is 7.4 per cent per annum (2009: 7.1 per cent).

8 Income tax expense

	Group 30 June 2010 \$000	Group 30 June 2009 \$000	Parent 30 June 2010 \$000	Parent 30 June 2009 \$000
Profit before income tax	208,008	160,056	210,942	87,154
Tax thereon at 30%	62,402	48,017	63,283	26,146
Plus/(less) tax effect of adjustments:				
Change in corporate income tax rate*	(42,650)	-	(42,335)	-
Removal of tax depreciation on buildings*	34,765	-	34,412	-
Temporary differences no longer expected to reverse	7	21	-	-
Other differences	151	(399)	(297)	201
Research and development tax credit 2009	(669)	-	(669)	-
Income tax over provided in prior year	(666)	(3,222)	(171)	(884)
Non-assessable write-back of subsidiary advance	-	-	(14,430)	-
Income tax expense	53,340	44,417	39,793	25,463
Comprising:				
Current tax	44,290	37,602	32,738	18,907
Deferred tax	9,050	6,815	7,055	6,556
	53,340	44,417	39,793	25,463

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

- A decrease in the corporate income tax rate from 30 per cent to 28 per cent, effective from Contact's income tax year ending 30 June 2012. As a result of this change, deferred tax which is not expected to crystallise in the next 12 months has been restated to 28 per cent, as deferred tax is required to be recorded at the tax rate that will apply when the future tax liability/asset is expected to crystallise.
- The removal of tax depreciation on buildings with estimated useful lives of 50 years or more. Contact will no longer be able to claim tax depreciation on buildings from its income tax year ending 30 June 2012. This has resulted in an increased deferred tax liability in respect of buildings completed before May 2010.

Imputation credits

Group	30 June 2010 \$000	30 June 2009 \$000
Opening balance	186,219	206,535
Imputation credits attached to dividends paid	(20,823)	(44,675)
Imputation credits attached to dividends received	694	1,172
New Zealand income tax paid	39,166	23,187
Closing balance	205,256	186,219

The imputation credits are available to shareholders of the Parent through the consolidated imputation group.

The imputation credit account balance includes tax paid at both 30 per cent (\$62.4 million) and 33 per cent (\$142.9 million). Under current legislation, imputation credits can only be attached to future dividends at a ratio of 30/70.

9 Distributions and dividends

Group and Parent	Distribution/dividend payment date	Cents per share	30 June 2010 \$000	30 June 2009 \$000
Dividends				
2008 year final dividend	23 September 2008	17.0	-	98,028
Supplementary dividend			-	10,197
Foreign investor tax credit			-	(10,197)
Distributions				
2009 year interim distribution	31 March 2009	11.0	-	63,694
2009 year final distribution	22 September 2009	17.0	99,503	-
2010 year interim distribution	30 March 2010	11.0	65,934	-
Supplementary dividend			1,293	579
Foreign investor tax credit			(1,293)	(579)
Total distributions and dividends			165,437	161,722

The distributions on 31 March 2009, 22 September 2009 and 30 March 2010 were made pursuant to the Parent's Profit Distribution Plan (PDP).

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

On 19 August 2010, the Board declared a distribution in the form of a non-taxable bonus issue under the PDP equivalent to 14.0 cents per share, for shares on issue at 3 September 2010, the record date, with bonus shares allocated and/or cash distributed, if elected, on 27 September 2010. Refer to note 34.

10 Earnings and net tangible assets per share

Group	30 June 2010	30 June 2009
Underlying earnings per share (cents)*	25.13	27.42
Basic and diluted earnings per share (cents)	25.94	19.98
Weighted average number of shares on issue over the year	596,288,553	578,821,979
Net tangible assets per share (dollars)	4.12	4.11
Number of shares on issue at the end of the year	604,934,976	585,314,624

* Non-statutory measure.

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

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

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

The dilutive effect of share options and restricted shares has not been taken into account in the calculation of diluted earnings per share at 30 June 2010 and 30 June 2009, as the relevant performance hurdles have not yet been met.

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

The calculation of net tangible assets per share at 30 June 2010 and 30 June 2009 is based on the total net assets less intangible assets, divided by the number of shares on issue at the end of each year.

11 Share capital

Group and Parent	Ordinary shares – unrestricted	
	Number	\$000
Opening balance as at 1 July 2008	576,633,982	780,037
Share capital issued	11,251,746	63,694
Share capital repurchased and held as treasury stock*	(2,571,104)	(14,555)
Transaction costs	-	(563)
Closing balance as at 30 June 2009	585,314,624	828,613
Opening balance as at 1 July 2009	585,314,624	828,613
Share capital issued	26,907,379	165,437
Share capital repurchased and cancelled during the year	(7,288,507)	(44,904)
Restricted shares vested during the year	1,480	10
Transaction costs	-	(159)
Closing balance as at 30 June 2010	604,934,976	948,997

* Treasury stock cancelled on 23 November 2009.

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

The Parent issued 16,091,878 and 10,815,501 ordinary shares pursuant to the Parent's PDP on 22 September 2009 and 30 March 2010 respectively. The PDP allowed shareholders to elect to have the Parent buy back the shares issued to them at the issue price. As a result of shareholder elections, the Parent completed an off-market buy-back of 4,554,184 shares on 22 September 2009 and 2,734,323 shares on 30 March 2010. These shares were immediately cancelled upon buy-back.

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

While restricted shares confer the same rights on the holder as unrestricted ordinary shares, restricted shares are subject to the terms of the Restricted Share Plan that restrict the right to vote and to receive dividends or distributions. Refer to note 12.

12 Share-based payments

Contact has an Employee Long-Term Incentive Scheme for participating employees whereby the value of the long-term incentive award is allocated, by value, 50 per cent in share options under a Share Option Plan and 50 per cent in restricted shares under a Restricted Share Plan (together the Plans). Under the Plans, the share options will only be exercisable, and the restricted shares will only become unrestricted, to the extent that the relevant performance hurdles are met. For the restricted shares and share options issued under the Plans, the hurdle is a comparison of Contact's total shareholder return (TSR) against the average TSR of a reference group comprising the NZX50 index over the relevant period, commencing on the effective grant date.

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

The total expense recognised for share-based payments under the Plans during the year ended 30 June 2010 was \$1.6 million (2009: \$0.9 million).

Share Option Plan

Under the Share Option Plan, the Board issues share options to participating employees to acquire ordinary shares in the Parent at the market price determined at the effective grant date. For share options granted in the year ended 30 June 2010, the market price was the weighted average market price of the Parent's ordinary shares traded on the NZSX over the five business days prior to the effective grant date (30 June 2009: 20 business days).

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

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

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

The share options will lapse:

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

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

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

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

Group and Parent 2009								
Effective grant date	First exercise date	Expiry date	Exercise price per option	Balance at 1 July 2008	Granted	Lapsed	Balance at 30 June 2009	Exercisable at 30 June 2009
1 Jul 2006	1 Oct 2009	30 Nov 2011	\$7.35	330,706	-	(13,808)	316,898	-
20 Nov 2006	1 Oct 2009	30 Nov 2011	\$7.55	18,361	-	(18,361)	-	-
15 Jan 2007	1 Oct 2009	30 Nov 2011	\$8.28	13,413	-	-	13,413	-
1 Oct 2007	1 Oct 2010	30 Nov 2012	\$9.15	445,599	-	(81,113)	364,486	-
1 Feb 2008	1 Oct 2010	30 Nov 2012	\$7.63	22,706	-	(7,698)	15,008	-
1 Oct 2008	1 Oct 2011	30 Nov 2013	\$8.60	-	881,769	(76,936)	804,833	-
				830,785	881,769	(197,916)	1,514,638	-

A further 198,022 share options, including the 7,927 exercisable at 30 June 2010, lapsed on 6 July 2010.

Restricted Share Plan

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

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

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

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For ordinary shares issued in the year ended 30 June 2010, the market price or allocation price of the restricted shares was the weighted average market price of the Parent's ordinary shares traded on the NZSX over the five business days prior to the effective grant date (30 June 2009: 20 business days). Payment of the allocation price for the restricted shares is funded by an interest-free loan from the Parent in an amount equal to the allocation price for the shares.

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

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

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

The rights to the restricted shares will lapse:

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

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

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

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

Group and Parent 2009									
Effective grant date	First test date	Final test date	Shares issued	Allocation price per share	Unvested balance at 1 July 2008	Granted	Returned to unallocated pool	Vested	Unvested balance at 30 June 2009
Unallocated pool					10,667	(19,247)	32,739	-	24,159
1 Jul 2006	1 Oct 2009	1 Oct 2011	70,890	\$7.35	64,173	-	(2,679)	-	61,494
20 Nov 2006	1 Oct 2009	1 Oct 2011	3,581	\$7.55	3,581	-	(3,581)	-	-
15 Jan 2007	1 Oct 2009	1 Oct 2011	2,504	\$8.28	2,504	-	-	-	2,504
1 Oct 2007	1 Oct 2010	1 Oct 2012	83,242	\$9.15	78,136	-	(14,223)	-	63,913
1 Feb 2008	1 Oct 2010	1 Oct 2012	3,091	\$7.63	4,247	-	(1,440)	-	2,807
1 Oct 2008	1 Oct 2011	1 Oct 2013	104,712	\$8.60	-	123,959	(10,816)	-	113,143
			268,020		163,308	104,712	-	-	268,020

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

As at 30 June 2010, 8,028 (2009: 24,159) restricted shares were held by the trustee in the unallocated pool. A further 31,413 restricted shares were transferred to the unallocated pool on 6 July 2010.

On 7 December 2009, 1,480 restricted shares issued pursuant to Contact's Employee Long-Term Incentive Scheme became unrestricted ordinary shares as the relevant performance hurdles were met. As such, legal title to these shares transferred to the participant. Refer to note 11.

Fair value of share-based payments

The fair value of services received in return for share options granted is based on the fair value of share options granted, measured using a combination of Monte-Carlo simulation and a binomial option pricing model. The valuation of the options granted in the year ended 30 June 2010 was based on the following weighted average assumptions:

Group and Parent	30 June 2010	30 June 2009
Risk-free interest rate	5.0%	5.6%
Expected dividend yield	5.0%	3.9%
Expected option life (in years)	5.1	5.1
Expected share price volatility	26.0%	21.0%
Weighted average remaining contractual life (in years)	3.7	3.7

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

13 Cash and cash equivalents

	Group 30 June 2010 \$000	Group 30 June 2009 \$000	Parent 30 June 2010 \$000	Parent 30 June 2009 \$000
Unrestricted cash	921	179,220	-	177,848
Cash and short-term deposits	921	179,220	-	177,848
Bank overdrafts (refer to note 23)	(2,039)	(1,675)	(2,333)	(1,959)
Cash and cash equivalents in the Statement of Cash Flows	(1,118)	177,545	(2,333)	175,889

14 Receivables and prepayments

	Group 30 June 2010 \$000	Group 30 June 2009 \$000	Parent 30 June 2010 \$000	Parent 30 June 2009 \$000
Retail electricity, other receivables and accruals	176,308	170,184	141,391	128,031
Less: provision for impairment	(6,301)	(7,192)	(4,521)	(5,321)
Wholesale electricity receivables	47,049	70,080	47,049	70,080
Net receivables	217,056	233,072	183,919	192,790
Prepayments	1,796	1,340	1,796	1,333
Interest receivable	1	637	1	637
Advances to subsidiaries	-	-	24,699	11,239
Advance to associates	295	-	-	-
Other receivables	-	18,787	-	18,787
Total receivables and prepayments	219,148	253,836	210,415	224,786

Receivables past due but not impaired

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

	Group 30 June 2010 \$000	Group 30 June 2009 \$000	Parent 30 June 2010 \$000	Parent 30 June 2009 \$000
0-30 days past due	20,224	20,734	18,349	18,624
30-90 days past due	7,262	5,997	5,656	5,929
Over 90 days past due	3,877	5,196	3,701	4,979
Total receivables past due but not impaired	31,363	31,927	27,706	29,532

Included in other operating expenses are receivables written-off during the year totalling \$15.0 million (Group) and \$12.0 million (Parent) (2009: \$9.1 million (Group) and \$7.5 million (Parent)). Refer to note 5.

Provision for impairment

	Group 30 June 2010 \$000	Group 30 June 2009 \$000	Parent 30 June 2010 \$000	Parent 30 June 2009 \$000
Provision for impairment at the start of the year	(7,192)	(4,761)	(5,321)	(3,376)
Decrease/(increase) in provision for the year	891	(2,431)	800	(1,945)
Provision for impairment at the end of the year	(6,301)	(7,192)	(4,521)	(5,321)

15 Inventories

	Group 30 June 2010 \$000	Group 30 June 2009 \$000	Parent 30 June 2010 \$000	Parent 30 June 2009 \$000
LPG	4,677	9,004	-	-
Consumables and spare parts	6,774	6,902	6,537	6,600
Inventory gas	46,915	-	46,915	-
Total inventories	58,366	15,906	53,452	6,600

Inventory gas relates to the gas reserves in the Ahuroa reservoir in excess of the reserves required for cushion gas. Refer to note 18.

16 Property, plant and equipment

Group	Generation plant and equipment (including land and buildings) at deemed cost \$'000	Other land and buildings at cost \$'000	Other plant and equipment at cost \$'000	Generation capital work in progress at cost \$'000	Development capital work in progress at cost \$'000	Other capital work in progress at cost \$'000	Total \$'000
Cost							
Balance as at 1 July 2007	3,938,799	25,209	272,009	94,286	32,795	21,874	4,384,972
Additions	73,664	13,139	10,718	50,055	60,761	23,343	231,680
Transfers from capital work in progress	77,731	888	14,914	(64,889)	(11,165)	(17,479)	-
Disposals	-	(2,992)	-	-	(3,038)	-	(6,030)
Balance as at 30 June 2008	4,090,194	36,244	297,641	79,452	79,353	27,738	4,610,622
Balance as at 1 July 2008	4,090,194	36,244	297,641	79,452	79,353	27,738	4,610,622
Transfer to intangible assets	-	-	(6,467)	-	-	(5,132)	(11,599)
Reclassification of New Plymouth land and buildings	(19,889)	19,889	-	-	-	-	-
Additions	104,171	6,517	9,709	55,307	243,871	16,723	436,298
Transfers from capital work in progress	64,538	117	15,608	(62,627)	(1,723)	(15,913)	-
Disposals	(1,970)	(874)	(52,731)	-	-	-	(55,575)
Balance as at 30 June 2009	4,237,044	61,893	263,760	72,132	321,501	23,416	4,979,746
Balance as at 1 July 2009	4,237,044	61,893	263,760	72,132	321,501	23,416	4,979,746
Additions	75,282	1,021	4,081	102,946	232,685	11,355	427,370
Transfers from capital work in progress	104,120	117	13,898	(40,572)	(63,548)	(14,015)	-
Disposals	(10)	-	(2,058)	-	-	-	(2,068)
Balance as at 30 June 2010	4,416,436	63,031	279,681	134,506	490,638	20,756	5,405,048
Depreciation and impairment losses							
Balance as at 1 July 2007	(314,908)	(2,624)	(168,156)	-	-	(123)	(485,811)
Depreciation charge	(127,220)	(446)	(20,404)	-	-	123	(147,947)
Balance as at 30 June 2008	(442,128)	(3,070)	(188,560)	-	-	-	(633,758)
Balance as at 1 July 2008	(442,128)	(3,070)	(188,560)	-	-	-	(633,758)
Transfer to intangible assets	-	-	6,085	-	-	-	6,085
Reclassification of New Plymouth land and buildings	8,051	(8,051)	-	-	-	-	-
Depreciation charge	(142,647)	(1,086)	(21,043)	-	-	-	(164,776)
Disposals	1,970	874	52,290	-	-	-	55,134
Impairment losses recognised in Income Statement*	-	-	-	-	(2,830)	-	(2,830)
Balance as at 30 June 2009	(574,754)	(11,333)	(151,228)	-	(2,830)	-	(740,145)
Balance as at 1 July 2009	(574,754)	(11,333)	(151,228)	-	(2,830)	-	(740,145)
Depreciation charge	(139,897)	(2,636)	(12,877)	-	-	-	(155,410)
Disposals	10	-	1,811	-	-	-	1,821
Balance as at 30 June 2010	(714,641)	(13,969)	(162,294)	-	(2,830)	-	(893,734)
Carrying value							
As at 30 June 2008	3,648,066	33,174	109,081	79,452	79,353	27,738	3,976,864
As at 30 June 2009	3,662,290	50,560	112,532	72,132	318,671	23,416	4,239,601
As at 30 June 2010	3,701,795	49,062	117,387	134,506	487,808	20,756	4,511,314

* Refer to note 19.

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Parent	Generation plant and equipment (including land and buildings) at deemed cost \$000	Other land and buildings at cost \$000	Other plant and equipment at cost \$000	Generation capital work in progress at cost \$000	Development capital work in progress at cost \$000	Other capital work in progress at cost \$000	Total \$000
Cost							
Balance as at 1 July 2007	3,938,799	22,538	163,750	94,286	30,665	13,075	4,263,113
Additions	73,664	13,139	10,712	50,055	54,411	12,690	214,671
Transfers from capital work in progress	77,731	-	9,522	(64,889)	(11,165)	(11,199)	-
Disposals	-	(2,992)	-	-	(3,038)	-	(6,030)
Balance as at 30 June 2008	4,090,194	32,685	183,984	79,452	70,873	14,566	4,471,754
Balance as at 1 July 2008	4,090,194	32,685	183,984	79,452	70,873	14,566	4,471,754
Transfer to intangible assets	-	-	(6,467)	-	-	(5,132)	(11,599)
Reclassification of New Plymouth land and buildings	(19,889)	19,889	-	-	-	-	-
Additions	104,171	5,954	2,803	55,307	238,414	16,723	423,372
Transfers from capital work in progress	64,538	-	7,966	(62,627)	(1,723)	(8,154)	-
Disposals	(1,970)	(874)	(52,159)	-	-	-	(55,003)
Balance as at 30 June 2009	4,237,044	57,654	136,127	72,132	307,564	18,003	4,828,524
Balance as at 1 July 2009	4,237,044	57,654	136,127	72,132	307,564	18,003	4,828,524
Additions	75,282	865	5,293	102,946	220,742	4,764	409,892
Transfers from capital work in progress	104,120	-	6,256	(40,572)	(63,548)	(6,256)	-
Disposals	(10)	-	(316)	-	-	-	(326)
Balance as at 30 June 2010	4,416,436	58,519	147,360	134,506	464,758	16,511	5,238,090
Depreciation and impairment losses							
Balance as at 1 July 2007	(314,908)	(2,094)	(106,664)	-	-	-	(423,666)
Depreciation charge	(127,220)	(327)	(15,508)	-	-	-	(143,055)
Balance as at 30 June 2008	(442,128)	(2,421)	(122,172)	-	-	-	(566,721)
Balance as at 1 July 2008	(442,128)	(2,421)	(122,172)	-	-	-	(566,721)
Transfer to intangible assets	-	-	6,085	-	-	-	6,085
Reclassification of New Plymouth land and buildings	8,051	(8,051)	-	-	-	-	-
Depreciation charge	(142,647)	(945)	(16,041)	-	-	-	(159,633)
Disposals	1,970	874	52,159	-	-	-	55,003
Balance as at 30 June 2009	(574,754)	(10,543)	(79,969)	-	-	-	(665,266)
Balance as at 1 July 2009	(574,754)	(10,543)	(79,969)	-	-	-	(665,266)
Depreciation charge	(139,897)	(2,550)	(9,670)	-	-	-	(152,117)
Disposals	10	-	316	-	-	-	326
Balance as at 30 June 2010	(714,641)	(13,093)	(89,323)	-	-	-	(817,057)
Carrying value							
As at 30 June 2008	3,648,066	30,264	61,812	79,452	70,873	14,566	3,905,033
As at 30 June 2009	3,662,290	47,111	56,158	72,132	307,564	18,003	4,163,258
As at 30 June 2010	3,701,795	45,426	58,037	134,506	464,758	16,511	4,421,033

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

Generation plant and equipment and capital work in progress

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

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

Contact Energy Limited and Subsidiaries
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17 Intangible assets

Group	Goodwill \$000	Patents \$000	Gas storage rights \$000	Computer software \$000	Total \$000
Cost					
Balance as at 1 July 2008	181,941	1,222	28,563	10,134	221,860
Transfer from property, plant and equipment	-	-	-	11,599	11,599
Additions	-	-	2,305	30,897	33,202
Disposals	-	-	-	(733)	(733)
Balance as at 30 June 2009	181,941	1,222	30,868	51,897	265,928
Balance as at 1 July 2009	181,941	1,222	30,868	51,897	265,928
Additions	-	-	2,485	36,050	38,535
Disposals	-	-	-	(135)	(135)
Balance as at 30 June 2010	181,941	1,222	33,353	87,812	304,328
Amortisation and impairment losses					
Balance as at 1 July 2008	-	(1,222)	-	(6,086)	(7,308)
Transfer from property, plant and equipment	-	-	-	(6,085)	(6,085)
Amortisation charge	-	-	-	(1,109)	(1,109)
Disposals	-	-	-	733	733
Balance as at 30 June 2009	-	(1,222)	-	(12,547)	(13,769)
Balance as at 1 July 2009	-	(1,222)	-	(12,547)	(13,769)
Amortisation charge	-	-	-	(6,493)	(6,493)
Disposals	-	-	-	135	135
Balance as at 30 June 2010	-	(1,222)	-	(18,905)	(20,127)
Carrying value					
As at 30 June 2009	181,941	-	30,868	39,350	252,159
As at 30 June 2010	181,941	-	33,353	68,907	284,201

Contact Energy Limited and Subsidiaries
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Parent	Goodwill \$000	Patents \$000	Gas storage rights \$000	Computer software \$000	Total \$000
Cost					
Balance as at 1 July 2008	123,307	-	28,563	10,134	162,004
Transfer from property, plant and equipment	-	-	-	11,599	11,599
Additions	-	-	2,305	30,897	33,202
Disposals	-	-	-	(733)	(733)
Balance as at 30 June 2009	123,307	-	30,868	51,897	206,072
Balance as at 1 July 2009	123,307	-	30,868	51,897	206,072
Additions	-	-	2,485	36,050	38,535
Disposals	-	-	-	(135)	(135)
Balance as at 30 June 2010	123,307	-	33,353	87,812	244,472
Amortisation and impairment losses					
Balance as at 1 July 2008	-	-	-	(6,086)	(6,086)
Transfer from property, plant and equipment	-	-	-	(6,085)	(6,085)
Amortisation charge	-	-	-	(1,109)	(1,109)
Disposals	-	-	-	733	733
Balance as at 30 June 2009	-	-	-	(12,547)	(12,547)
Balance as at 1 July 2009	-	-	-	(12,547)	(12,547)
Amortisation charge	-	-	-	(6,493)	(6,493)
Disposals	-	-	-	135	135
Balance as at 30 June 2010	-	-	-	(18,905)	(18,905)
Carrying value					
As at 30 June 2009	123,307	-	30,868	39,350	193,525
As at 30 June 2010	123,307	-	33,353	68,907	225,567

Goodwill

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

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

Assumption	Method of determination
Customer numbers and customer churn	Review of actual customer numbers and historical data regarding movements in customer numbers. The historical analysis is considered against expected market trends and competition for customers.
Gross margin per customer	Review of actual gross margin per customer and consideration of expected market movements and impacts.
Cost to serve per customer	Review of actual cost to serve per customer and consideration of expected market movements and impacts.

Gas storage rights

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

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

Contact's beneficial right in the PML shall continue until such time as the term of the PML expires or until a new permit is granted.

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

Impairment

No impairment exists for any intangible asset at 30 June 2010 (2009: nil).

18 Gas storage – cushion gas

As part of the acquisition of the gas storage rights (refer to note 17), Contact also secured beneficial access to the remaining natural gas and LPG reserves (excluding condensate) in the Ahuroa reservoir. The natural gas reserves at the date of acquisition, together with additional natural gas injections since acquisition, are referred to as cushion gas and represent the investment necessary to enable the field to be used for the storage of future 'operational' gas.

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

Gas injected in excess of cushion gas requirements is treated as inventory. Refer to note 15.

19 Investment in jointly controlled entity

Name of entity	Interest held by Group		Principal activity
	30 June 2010	30 June 2009	
Gasbridge Joint Venture	50%	50%	Liquefied natural gas importation development

The Gasbridge Joint Venture is operated through Gasbridge Limited, an entity jointly controlled by Contact Aria Limited (a 100 per cent subsidiary of Contact Energy Limited) and GP No. 1 Limited (a 100 per cent subsidiary of Genesis Power Limited). The joint venture was set up to preserve the option of importing natural gas, if required in the future. The following amounts represent Contact's 50 per cent share of the assets and liabilities, income and results of the joint venture. These are included in the Statement of Financial Position and the Income Statement.

Group	30 June 2010 \$000	30 June 2009 \$000
Assets		
Current assets	7	42
Total assets	7	42
Liabilities		
Current liabilities	2	59
Total liabilities	2	59
Net assets/(liabilities)	5	(17)
Income	3	4
Expenses	(10)	(344)
Loss after income tax	(7)	(340)
Proportionate interest in joint venture's commitments	-	-

During the year ended 30 June 2009 Contact and Genesis Power Limited decided to put on hold the development of the land-based liquefied natural gas (LNG) terminal. As a result of this decision, Contact wrote-off its share of the assets of the Gasbridge Joint Venture relating to the previously planned onshore LNG storage and land-based regasification facility. An impairment loss of \$2.8 million was taken to the Income Statement relating to this write-off for the year ended 30 June 2009.

As a result of this decision, the Parent wrote-off an amount of \$5.1 million receivable from its subsidiary Contact Aria Limited in relation to its investment in the Gasbridge Joint Venture for the year ended 30 June 2009.

There are no contingent liabilities relating to Contact's interest in the joint venture and no contingent liabilities in the joint venture itself (2009: nil).

20 Investment in subsidiaries

Name of entity	Interest held by Parent		Principal activity	Country of incorporation
	30 June 2010	30 June 2009		
Empower Limited	100%	100%	Electricity retailer and gas wholesaler	New Zealand
Stratford Power Limited*	N/a	100%	Gas wholesaler	New Zealand
Contact Aria Limited	100%	100%	Investment holding company	New Zealand
Contact Wind Limited	100%	100%	Wind generation development	New Zealand
Rockgas Holdings Limited**	N/a	100%	Holding and management company	New Zealand
Rockgas Limited	100%	100%	LPG retailer	New Zealand
Contact Australia Pty Limited	100%	100%	Investment holding company	Australia
Contact Operations Australia Pty Limited	100%	100%	Manages Australian interests relating to operation and maintenance of Oakey Power Holdings Pty Limited	Australia

* Effective 7 September 2009 Stratford Power Limited was amalgamated into Empower Limited.

** Effective 7 September 2009 Rockgas Holdings Limited was amalgamated into Rockgas Limited.

All subsidiaries have a 30 June balance date.

21 Investment in associates

Name of entity	Interest held by Group		Principal activity	Country of incorporation
	30 June 2010	30 June 2009		
Oakey Power Holdings Pty Limited	25%	25%	Electricity generation	Australia
Rockgas Timaru Limited	50%	50%	LPG distribution	New Zealand
Energyhedge Limited	20%	N/a	Futures trading	New Zealand

	Group 30 June 2010 \$000	Group 30 June 2009 \$000	Parent 30 June 2010 \$000	Parent 30 June 2009 \$000
Carrying value of associates				
Carrying value at the start of the year	8,687	8,015	1,579	1,579
Purchase of investment in Energyhedge	8	-	8	-
Share of recognised revenue and expenses	3,272	3,624	-	-
Movements taken to foreign currency translation reserve	(147)	(67)	-	-
Dividends received	(3,011)	(2,885)	-	-
Carrying value at the end of the year	8,809	8,687	1,587	1,579

Rockgas Timaru Limited has a balance date of 31 March.

Contact acquired shares in Energyhedge Limited on 1 August 2009.

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Group	30 June 2010	30 June 2009
Aggregate summary financial information of associates, not adjusted for the percentage held by Contact	\$000	\$000
Total assets	146,487	161,644
Total liabilities	111,803	127,416
Total revenues	43,791	42,138
Profit for the year	13,334	13,244

22 Available-for-sale financial assets

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

	Group 30 June 2010 \$000	Group 30 June 2009 \$000	Parent 30 June 2010 \$000	Parent 30 June 2009 \$000
At cost*				
Unlisted shares in Liquigas Limited	2,935	2,935	-	-
Total available-for-sale financial assets	2,935	2,935	-	-

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

23 Borrowings

This note provides information about the contractual terms of Contact's borrowings. For more information about Contact's exposure to interest rate and foreign currency risk, refer to note 24.

Carrying value of borrowings

	Borrowing currency denomination	Group 30 June 2010 \$000	Group 30 June 2009 \$000	Parent 30 June 2010 \$000	Parent 30 June 2009 \$000
Current borrowings					
Bank overdraft	NZD	2,039	1,675	2,333	1,959
Loan from associate	AUD	–	1,580	–	–
Finance lease liabilities	NZD	1,141	1,056	1,120	1,023
Total current borrowings		3,180	4,311	3,453	2,982
Current portion of term borrowings					
4.5% March 2010	USD	–	141,662	–	141,662
Total current portion of term borrowings		–	141,662	–	141,662
Non-current borrowings					
Non-current portion of term borrowings					
6.9% February 2013	USD	121,094	130,593	121,094	130,593
5.3% March 2014	USD	136,282	140,867	136,282	140,867
5.3% March 2015	USD	163,223	166,886	163,223	166,886
5.6% March 2018	USD	64,913	65,411	64,913	65,411
7.1% April 2018	USD	44,573	45,595	44,573	45,595
Fixed rate senior notes					
Retail fixed rate bonds May 2014	NZD	541,809	540,219	541,809	540,219
Wholesale fixed rate bonds April 2017	NZD	99,795	–	99,795	–
Total non-current portion of term borrowings		1,171,689	1,089,571	1,171,689	1,089,571
Committed credit facilities	NZD	106,200	–	106,200	–
Finance lease liabilities	NZD	1,344	1,535	1,327	1,495
Total non-current borrowings		1,279,233	1,091,106	1,279,216	1,091,066

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

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

Group and Parent 2009	Fixed rate senior notes \$000	Retail fixed rate bonds \$000	Wholesale fixed rate bonds \$000	Total term borrowings \$000
New Zealand dollar equivalent of notional borrowings	747,527	550,000	-	1,297,527
Deferred financing costs	(1,678)	(9,781)	-	(11,459)
Net fair value adjustment	(54,835)	-	-	(54,835)
Carrying value of term borrowings	691,014	540,219	-	1,231,233
Current	141,662	-	-	141,662
Non-current	549,352	540,219	-	1,089,571
	691,014	540,219	-	1,231,233

Wholesale fixed rate bonds

On 13 April 2010, Contact issued \$100.0 million of fixed rate bonds at a coupon rate of 7.86 per cent. Financing costs directly attributable to the bond issue were \$0.2 million.

Interest is payable bi-annually in arrears until the bonds mature on 13 April 2017, at which point Contact will pay the bondholders the face value of the fixed rate bonds.

Contact accounts for these bonds at amortised cost using the effective interest rate.

Retail fixed rate bonds

On 31 March 2009, Contact issued \$550.0 million of fixed rate bonds at a coupon rate of 8.0 per cent. Financing costs directly attributable to the bond issue were \$10.1 million.

Interest is payable quarterly in arrears until the bonds mature on 15 May 2014, at which point Contact will pay the bondholders the face value of the fixed rate bonds.

Contact accounts for these bonds at amortised cost using the effective interest rate.

Security

Except for finance leases, Contact's borrowings are unsecured. Contact borrows under a negative pledge arrangement, which does not permit Contact to grant any security interest over its assets, unless it is an exception permitted within the negative pledge arrangements. All borrowing covenant requirements were met at 30 June 2010 and at 30 June 2009.

Credit facilities

Contact had total committed credit facilities at 30 June 2010 of \$520.0 million, of which \$106.2 million was drawn (2009: \$685.0 million, nil drawn). As at 30 June 2010, \$75.0 million of the facilities mature in May 2011, \$150.0 million mature in December 2012 and \$295.0 million mature in March 2013.

These committed credit facilities also supported a \$250.0 million commercial paper programme. This programme was unutilised at 30 June 2010 (30 June 2009: unutilised).

Finance lease liabilities

Future minimum lease payments are as follows:

	Group 30 June 2010 \$000	Group 30 June 2009 \$000	Parent 30 June 2010 \$000	Parent 30 June 2009 \$000
Not later than one year	1,191	1,205	1,166	1,173
Later than one year and not later than five years	1,655	1,758	1,637	1,717
Minimum lease payments	2,846	2,963	2,803	2,890
Future finance charges on finance leases	(361)	(372)	(356)	(372)
Present value of finance lease liabilities	2,485	2,591	2,447	2,518

The finance leases relate to computer equipment.

The present value of finance lease liabilities are as follows:

	Group 30 June 2010 \$000	Group 30 June 2009 \$000	Parent 30 June 2010 \$000	Parent 30 June 2009 \$000
Not later than one year	1,141	1,056	1,120	1,023
Later than one year and not later than five years	1,344	1,535	1,327	1,495
Present value of finance lease liabilities	2,485	2,591	2,447	2,518

24 Financial instruments

Financial risk management objectives

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

Fair value of derivative financial instruments

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

Group	Fair value assets 30 June 2010 \$000	Fair value liabilities 30 June 2010 \$000	Fair value assets 30 June 2009 \$000	Fair value liabilities 30 June 2009 \$000
Cross currency interest rate swaps	724	(56,555)	4,103	(58,922)
Interest rate derivatives	-	(32,405)	1,809	(38,544)
Cross currency interest rate swaps – margin	-	(3,325)	117	(2,454)
Forward foreign exchange derivatives	91	(1,511)	3,713	(5,940)
Electricity price hedges	4,927	(36,910)	11,842	(52,413)
Total derivative financial instruments	5,742	(130,706)	21,584	(158,273)
Current	4,955	(31,895)	14,987	(72,368)
Non-current	787	(98,811)	6,597	(85,905)
	5,742	(130,706)	21,584	(158,273)

Parent	Fair value assets 30 June 2010 \$000	Fair value liabilities 30 June 2010 \$000	Fair value assets 30 June 2009 \$000	Fair value liabilities 30 June 2009 \$000
Cross currency interest rate swaps	724	(56,555)	4,103	(58,922)
Interest rate derivatives	-	(32,405)	1,809	(38,544)
Cross currency interest rate swaps – margin	-	(3,325)	117	(2,454)
Forward foreign exchange derivatives	50	(1,511)	3,713	(5,889)
Electricity price hedges	4,927	(36,910)	11,842	(52,413)
Total derivative financial instruments	5,701	(130,706)	21,584	(158,222)
Current	4,914	(31,895)	14,987	(72,317)
Non-current	787	(98,811)	6,597	(85,905)
	5,701	(130,706)	21,584	(158,222)

Change in fair value of financial instruments

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

Group	Hedge accounting designation	Income Statement 30 June 2010 \$000	Cash flow hedge reserve 30 June 2010 \$000	Income Statement 30 June 2009 \$000	Cash flow hedge reserve 30 June 2009 \$000
Favourable/(unfavourable)					
Cross currency interest rate swaps	Fair value hedge	(1,012)	-	136,436	-
Borrowings		1,104	-	(136,444)	-
		92	-	(8)	-
Interest rate derivatives	No hedge	3,683	647	(51,096)	904
Cross currency interest rate swaps – margin	Cash flow hedge	3,135	(4,123)	2,444	1,810
Forward foreign exchange derivatives	Cash flow hedge	-	807	-	(6,058)
Forward foreign exchange derivatives	No hedge	-	-	56	-
Electricity price hedges	Cash flow hedge	(3,097)	10,967	1,814	55,435
Electricity price hedges	No hedge	718	-	(10,721)	-
Income tax on change in fair value of financial instruments taken to other comprehensive income		-	(1,693)	-	(16,472)
Total change in fair value of financial instruments		4,531	6,605	(57,511)	35,619

Parent	Hedge accounting designation	Income Statement 30 June 2010 \$000	Cash flow hedge reserve 30 June 2010 \$000	Income Statement 30 June 2009 \$000	Cash flow hedge reserve 30 June 2009 \$000
Favourable/(unfavourable)					
Cross currency interest rate swaps	Fair value hedge	(1,012)	-	136,436	-
Borrowings		1,104	-	(136,444)	-
		92	-	(8)	-
Interest rate derivatives	No hedge	3,683	647	(51,096)	904
Cross currency interest rate swaps – margin	Cash flow hedge	3,135	(4,123)	2,444	1,810
Forward foreign exchange derivatives	Cash flow hedge	-	715	-	(6,260)
Forward foreign exchange derivatives	No hedge	-	-	56	-
Electricity price hedges	Cash flow hedge	(3,097)	10,967	1,814	55,435
Electricity price hedges	No hedge	718	-	(10,721)	-
Income tax on change in fair value of financial instruments taken to other comprehensive income		-	(1,693)	-	(16,394)
Total change in fair value of financial instruments		4,531	6,513	(57,511)	35,495

Movement in cash flow hedge reserve

	Group \$000	Parent \$000
Balance as at 1 July 2008	(74,279)	(74,103)
Effective portion of cash flow hedges recognised in the cash flow hedge reserve	46,003	46,045
Amount transferred from the cash flow hedge reserve to revenue	(10,853)	(10,853)
Amount transferred from the cash flow hedge reserve to operating expenses	(717)	(975)
Amount transferred from the cash flow hedge reserve to change in fair value of financial instruments	904	904
Amount transferred from the cash flow hedge reserve to property, plant and equipment	(2,961)	(2,961)
Amount transferred from the cash flow hedge reserve to deferred tax	3,243	3,335
Balance as at 30 June 2009	(38,660)	(38,608)
Balance as at 1 July 2009	(38,660)	(38,608)
Effective portion of cash flow hedges recognised in the cash flow hedge reserve	1,680	1,538
Amount transferred from the cash flow hedge reserve to revenue	2,213	2,213
Amount transferred from the cash flow hedge reserve to operating expenses	505	555
Amount transferred from the cash flow hedge reserve to change in fair value of financial instruments	647	647
Amount transferred from the cash flow hedge reserve to property, plant and equipment	1,863	1,863
Amount transferred from the cash flow hedge reserve to deferred tax	(303)	(303)
Balance as at 30 June 2010	(32,055)	(32,095)

Risk management

Risk management is carried out by a central treasury department (Treasury) for interest rate and foreign exchange exposures. Risk management activities in respect of the electricity exposures are undertaken by the wholesale group (Wholesale). Both Treasury and Wholesale operate under policies approved by the Board. Treasury and Wholesale identify, evaluate and hedge the financial risks in close co-operation with Contact's operating units. The Board's policies provide written principles for overall risk management, as well as written policies covering specific areas, such as foreign currency risk, price risk, credit risk, interest rate risk, use of derivative financial instruments and non-derivative financial instruments, and the investment of excess liquidity.

(a) Market risk

(i) Foreign currency risk

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

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

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

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

Contact has certain investments in foreign operations whose net assets are exposed to foreign currency translation risk. Currency exposure arising from the net assets of Contact's foreign operations is managed primarily through borrowings denominated in the relevant foreign currencies.

Forward foreign exchange contracts

The aggregate notional principal amount of the outstanding forward foreign exchange contracts at 30 June 2010 was \$44.4 million (2009: \$120.3 million). As at 30 June 2010, all forward foreign exchange contracts were designated in a cash flow hedge relationship.

The hedged anticipated transactions denominated in foreign currency are expected to occur at various dates between one and nine months (2009: between one month and one year and three months) from the end of the reporting period. Gains and losses recognised in the cash flow hedge reserve in other comprehensive income on forward foreign exchange contracts as at 30 June 2010 will be released at dates when the cash flow from the underlying anticipated transactions will occur and will be recognised in the Income Statement or included in the cost of any asset or liability acquired. During the year to 30 June 2010, no hedges were de-designated, and all underlying forecast transactions remain highly probable to occur as originally forecast.

Sensitivity analysis

At 30 June 2010, if the New Zealand dollar had weakened/strengthened by 10 per cent against the currencies with which Contact had foreign currency risk, with all other variables held constant:

- post-tax profit for the year would not have been materially different; and
- the cash flow hedge reserve component of other comprehensive income would have been \$2.7 million higher/lower (2009: \$8.7 million higher/lower), arising from unrealised foreign exchange gains/losses on the revaluation of forward foreign exchange contracts in a cash flow hedge relationship.

(ii) Price risk

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

Electricity price hedges

The aggregate notional volume of the outstanding fixed volume electricity price hedges at 30 June 2010 was 1,028 gigawatt hours (GWh) (2009: 1,522 GWh). The aggregate notional volume of the outstanding variable volume electricity price hedges at 30 June 2010 was 5,093 GWh (2009: 7,634 GWh).

Electricity price hedges are hedging underlying exposures over various trade periods out to August 2013. As at 30 June 2010 the fair value of the electricity price hedges was \$(32.0) million (2009: \$(40.6) million), \$(30.9) million of which was designated in a cash flow hedge relationship (2009: \$(38.8) million).

Gains and losses on hedged electricity price hedges recognised in the cash flow hedge reserve in other comprehensive income will be continually released to the Income Statement in the year in which the underlying sale/purchase transactions are recognised in the Income Statement.

Sensitivity analysis

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

Group and Parent	30 June 2010	30 June 2010	30 June 2009	30 June 2009
Favourable/(unfavourable)	+10%	-10%	+10%	-10%
	\$000	\$000	\$000	\$000
Impact on post-tax profit	(1,535)	(686)	251	(786)
Impact on other comprehensive income	6,518	(7,040)	13,013	(12,335)

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

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

Cross currency interest rate swaps

The aggregate notional principal amount of the outstanding cross currency interest rate swap contracts at 30 June 2010 was \$587.3 million (2009: \$747.5 million). The cross currency interest rate swaps have been split into two components for the purpose of hedge designation. The hedge of the benchmark interest rate is designated as a fair value hedge, and the hedge of the issuance margin is designated as a cash flow hedge.

The hedged anticipated interest payments are expected to occur at various dates between one month and eight years (2009: one month and nine years) from the end of the reporting period as a result of the maturities of the underlying borrowings.

Interest rate swaps

The aggregate notional principal amount of the outstanding interest rate swap contracts at 30 June 2010 was \$895.0 million (2009: \$1,016.4 million) including \$170.0 million of forward starting swaps (2009: \$355.0 million).

The anticipated interest payment transactions are expected to occur at various dates between one month and nine years (2009: one month and 10 years) from the end of the reporting period.

Sensitivity analysis

The following table summarises the impact on Contact's post-tax profit, if interest rates had been 100 basis points higher or 25 basis points lower (2009: 100 basis points higher/lower), with all other variables held constant. This is mainly as a result of the fair value change in interest rate swaps, which are valid economic hedges but which do not qualify for hedge accounting under *NZ IAS 39*. There would be no effect on other comprehensive income. The change in the sensitivity rates used on the prior year is driven by Contact's expectation of future interest rate movements.

(b) Credit risk

Group and Parent	30 June 2010 +100bps \$000	30 June 2010 -25bps \$000	30 June 2009 +100bps \$000	30 June 2009 -100bps \$000
Impact on post-tax profit	7,207	(2,694)	16,472	(17,563)

Credit risk refers to the risk that a counterparty will default on its contractual obligations, resulting in financial loss to Contact. Contact is exposed to credit risk in the normal course of business arising from receivables, the purchase of commercial paper and transactions with financial institutions.

The Board has approved a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. Contact minimises its exposure to credit risk of receivables through the adoption of counterparty credit limits. Derivative counterparties and cash transactions are limited to high-credit-quality financial institutions and other organisations in the relevant industry. Contact's exposure and the credit ratings of its counterparties are continually monitored, and the aggregate value of transactions concluded is spread amongst approved counterparties.

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

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

(c) Liquidity risk

Contact's liquidity risk arises from its ability to attract cost-effective funding, which is largely driven by its credit standing.

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the spreading of debt maturities.

Liquidity risk is monitored by continually forecasting actual cash flows and matching the maturity profiles of financial assets and liabilities.

Contractual maturities of financial liabilities and derivative financial instruments

The contractual maturities disclosed below are the contracted undiscounted cash flows for all financial liabilities, except for the derivative financial instruments which are the undiscounted settlements expected under the contracts. Balances due within 12 months equal their carrying values as the impact of discounting is not significant. As the amounts presented are contracted undiscounted cash flows and include forward starting derivatives, the totals will not reconcile with the Statement of Financial Position.

Group 2010		Total contractual cash flows \$000	Less than 1 year \$000	1–2 years \$000	2–5 years \$000	More than 5 years \$000
Outflow/(inflow)	Note					
Payables and accruals		242,170	242,170	–	–	–
Borrowings		1,600,704	82,486	79,746	1,211,689	226,783
Finance lease liabilities	23	2,846	1,191	969	686	–
Net settled derivative financial instruments:						
Electricity price hedges		30,037	7,411	13,902	8,724	–
Interest rate derivatives		36,761	11,889	7,782	12,725	4,365
Gross settled derivative financial instruments:						
Forward foreign exchange derivatives						
– Inflow		(42,707)	(42,707)	–	–	–
– Outflow		44,127	44,127	–	–	–
Cross currency interest rate swaps						
– Inflow		(610,540)	(27,763)	(27,756)	(449,713)	(105,308)
– Outflow		748,000	27,321	32,200	559,664	128,815
Total		2,051,398	346,125	106,843	1,343,775	254,655

Group 2009		Total contractual cash flows \$000	Less than 1 year \$000	1–2 years \$000	2–5 years \$000	More than 5 years \$000
Outflow/(inflow)	Note					
Payables and accruals		289,512	289,512	–	–	–
Borrowings		1,604,451	222,784	73,817	1,014,402	293,448
Finance lease liabilities	23	2,963	1,205	783	975	–
Net settled derivative financial instruments:						
Electricity price hedges		44,487	8,789	16,123	19,575	–
Interest rate derivatives		40,623	24,934	11,841	4,288	(440)
Gross settled derivative financial instruments:						
Forward foreign exchange derivatives						
– Inflow		(111,637)	(109,654)	(1,983)	–	–
– Outflow		114,684	112,851	1,833	–	–
Cross currency interest rate swaps						
– Inflow		(831,010)	(175,462)	(29,809)	(332,236)	(293,503)
– Outflow		972,957	189,594	32,254	407,596	343,513
Total		2,127,030	564,553	104,859	1,114,600	343,018

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Parent 2010		Total contractual cash flows \$000	Less than 1 year \$000	1–2 years \$000	2–5 years \$000	More than 5 years \$000
Outflow/(inflow)	Note					
Payables and accruals		271,536	271,536	–	–	–
Borrowings		1,600,998	82,780	79,746	1,211,689	226,783
Finance lease liabilities	23	2,803	1,166	952	685	–
Net settled derivative financial instruments:						
Electricity price hedges		30,037	7,411	13,902	8,724	–
Interest rate derivatives		36,761	11,889	7,782	12,725	4,365
Gross settled derivative financial instruments:						
Forward foreign exchange derivatives						
– Inflow		(44,691)	(44,691)	–	–	–
– Outflow		46,152	46,152	–	–	–
Cross currency interest rate swaps						
– Inflow		(610,540)	(27,763)	(27,756)	(449,713)	(105,308)
– Outflow		748,000	27,321	32,200	559,664	128,815
Total		2,081,056	375,801	106,826	1,343,774	254,655

Parent 2009		Total contractual cash flows \$000	Less than 1 year \$000	1–2 years \$000	2–5 years \$000	More than 5 years \$000
Outflow/(inflow)	Note					
Payables and accruals		324,161	324,161	–	–	–
Borrowings		1,603,154	221,487	73,817	1,014,402	293,448
Finance lease liabilities	23	2,890	1,173	742	975	–
Net settled derivative financial instruments:						
Electricity price hedges		44,487	8,789	16,123	19,575	–
Interest rate derivatives		40,623	24,934	11,841	4,288	(440)
Gross settled derivative financial instruments:						
Forward foreign exchange derivatives						
– Inflow		(106,071)	(104,088)	(1,983)	–	–
– Outflow		109,052	107,219	1,833	–	–
Cross currency interest rate swaps						
– Inflow		(831,010)	(175,462)	(29,809)	(332,236)	(293,503)
– Outflow		972,957	189,594	32,254	407,596	343,513
Total		2,160,243	597,807	104,818	1,114,600	343,018

Fair values

The carrying amount of financial assets and financial liabilities recorded in the financial statements approximates their fair values, with the exception of the wholesale and retail fixed rate bonds. The retail fixed rate bonds have a fair value of \$591.6 million (2009: \$563.4 million), compared with a carrying value of \$541.8 million (2009: \$540.2 million). The wholesale fixed rate bonds have a fair value of \$104.3 million (2009: N/a), compared with a carrying value of \$99.8 million (2009: N/a).

Estimation of fair values

The fair value of financial assets and financial liabilities is determined using a hierarchy as follows:

- Level one – the fair value is determined using unadjusted quoted prices from an active market for identical assets and liabilities. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial instruments held by Contact is the current bid price.
- Level two – the fair value is derived from inputs other than quoted prices included within level one that are observable for the asset or liability, either directly (i.e. from prices) or indirectly (i.e. derived from prices). Financial instruments in this level include short-term electricity price hedges, forward foreign exchange derivatives, interest rate derivatives and foreign currency denominated debt.
- Level three – the fair value is derived from inputs that are not based on observable market data. Financial instruments included in this level include certain long-term electricity price hedges, which are valued using internal price paths.

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

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

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

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

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

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

The following table presents the changes in level three instruments:

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

* Change in fair value of financial instruments.

Financial instruments by category

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

Group 2010		Held for trading \$000	Loans and receivables \$000	Available- for-sale financial assets \$000	Other financial liabilities \$000	Derivatives designated as fair value hedging instruments \$000	Derivatives designated as cash flow hedging instruments \$000	Total \$000
	Note							
Assets								
Cash and short-term deposits	13	-	921	-	-	-	-	921
Receivables		-	217,352	-	-	-	-	217,352
Derivative financial instruments		-	-	-	-	724	5,018	5,742
Available-for-sale financial assets	22	-	-	2,935	-	-	-	2,935
Total financial assets		-	218,273	2,935	-	724	5,018	226,950
Total non-financial assets								4,920,813
Total assets								5,147,763
Liabilities								
Borrowings	23	-	-	-	1,282,413	-	-	1,282,413
Derivative financial instruments		33,365	-	-	-	56,555	40,786	130,706
Payables and accruals		-	-	-	242,170	-	-	242,170
Total financial liabilities		33,365	-	-	1,524,583	56,555	40,786	1,655,289
Total non-financial liabilities								715,696
Total liabilities								2,370,985

Group 2009		Held for trading \$000	Loans and receivables \$000	Available- for-sale financial assets \$000	Other financial liabilities \$000	Derivatives designated as fair value hedging instruments \$000	Derivatives designated as cash flow hedging instruments \$000	Total \$000
	Note							
Assets								
Cash and short-term deposits	13	-	179,220	-	-	-	-	179,220
Receivables		-	233,709	-	-	-	-	233,709
Derivative financial instruments		1,539	-	-	-	4,103	15,942	21,584
Available-for-sale financial assets	22	-	-	2,935	-	-	-	2,935
Total financial assets		1,539	412,929	2,935	-	4,103	15,942	437,448
Total non-financial assets								4,588,719
Total assets								5,026,167
Liabilities								
Borrowings	23	-	-	-	1,237,079	-	-	1,237,079
Derivative financial instruments		40,013	-	-	-	58,922	59,338	158,273
Payables and accruals		-	-	-	289,512	-	-	289,512
Total financial liabilities		40,013	-	-	1,526,591	58,922	59,338	1,684,864
Total non-financial liabilities								681,701
Total liabilities								2,366,565

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Parent 2010	Note	Held for trading \$000	Loans and receivables \$000	Available- for-sale financial assets \$000	Other financial liabilities \$000	Derivatives designated as fair value hedging instruments \$000	Derivatives designated as cash flow hedging instruments \$000	Total \$000
Assets								
Receivables		-	208,619	-	-	-	-	208,619
Derivative financial instruments		-	-	-	-	724	4,977	5,701
Total financial assets		-	208,619	-	-	724	4,977	214,320
Total non-financial assets								4,892,550
Total assets								5,106,870
Liabilities								
Borrowings	23	-	-	-	1,282,669	-	-	1,282,669
Derivative financial instruments		33,365	-	-	-	56,555	40,786	130,706
Payables and accruals		-	-	-	271,536	-	-	271,536
Total financial liabilities		33,365	-	-	1,554,205	56,555	40,786	1,684,911
Total non-financial liabilities								708,555
Total liabilities								2,393,466

Parent 2009	Note	Held for trading \$000	Loans and receivables \$000	Available- for-sale financial assets \$000	Other financial liabilities \$000	Derivatives designated as fair value hedging instruments \$000	Derivatives designated as cash flow hedging instruments \$000	Total \$000
Assets								
Cash and short-term deposits	13	-	177,848	-	-	-	-	177,848
Receivables		-	204,666	-	-	-	-	204,666
Derivative financial instruments		1,539	-	-	-	4,103	15,942	21,584
Total financial assets		1,539	382,514	-	-	4,103	15,942	404,098
Total non-financial assets								4,570,109
Total assets								4,974,207
Liabilities								
Borrowings	23	-	-	-	1,235,710	-	-	1,235,710
Derivative financial instruments		40,013	-	-	-	58,922	59,287	158,222
Payables and accruals		-	-	-	324,161	-	-	324,161
Total financial liabilities		40,013	-	-	1,559,871	58,922	59,287	1,718,093
Total non-financial liabilities								676,457
Total liabilities								2,394,550

Capital risk management objectives

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

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

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

Contact also considers its gearing ratio in monitoring capital structure. This ratio is calculated as net debt divided by total capital funding.

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

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

The gearing ratios at 30 June 2010 and 30 June 2009 were as follows:

Group	Note	30 June 2010 \$000	30 June 2009 \$000
Net debt			
Current borrowings	23	(3,180)	(4,311)
New Zealand dollar equivalent of term borrowings – after foreign exchange hedging and before deferred financing costs	23	(587,299)	(747,527)
Retail fixed rate bonds – before deferred financing costs	23	(550,000)	(550,000)
Wholesale fixed rate bonds – before deferred financing costs	23	(100,000)	–
Committed credit facilities	23	(106,200)	–
Other non-current borrowings	23	(1,344)	(1,535)
Cash and short-term deposits	13	921	179,220
Total net debt		(1,347,102)	(1,124,153)
Equity			
Shareholders' equity		(2,776,778)	(2,659,602)
Remove net effect of fair value of financial instruments after tax		(48,317)	(57,298)
Adjusted equity		(2,825,095)	(2,716,900)
Total capital funding		(4,172,197)	(3,841,053)
Gearing ratio		32.3%	29.3%

25 Payables and accruals

	Group 30 June 2010 \$000	Group 30 June 2009 \$000	Parent 30 June 2010 \$000	Parent 30 June 2009 \$000
Electricity purchases accrual	34,192	46,012	30,870	39,943
Other trade payables and accruals	199,647	230,999	163,187	193,467
Advances from subsidiaries	–	–	69,148	78,250
Employee benefits	17,029	14,723	16,561	14,085
Interest payable	11,562	12,501	11,562	12,501
Total payables and accruals	262,430	304,235	291,328	338,246

26 Provisions

Group	New Plymouth \$000	Restoration/ environmental rehabilitation \$000	Retail transaction processing outsourcing \$000	Other \$000	Total \$000
Balance as at 1 July 2008	18,837	33,259	-	2,476	54,572
Provisions made during the year	-	3,295	-	165	3,460
Provisions used during the year	(15,352)	(3,129)	-	(390)	(18,871)
Provisions reversed during the year	-	(1,215)	-	-	(1,215)
Unwind of discount rate	-	3,999	-	-	3,999
Balance as at 30 June 2009	3,485	36,209	-	2,251	41,945
Balance as at 1 July 2009	3,485	36,209	-	2,251	41,945
Provisions made during the year	5,564	8,745	3,330	1,215	18,854
Provisions used during the year	(2,661)	(2,845)	(427)	(114)	(6,047)
Provisions reversed during the year	-	(87)	-	(1,147)	(1,234)
Unwind of discount rate	-	3,057	-	-	3,057
Balance as at 30 June 2010	6,388	45,079	2,903	2,205	56,575
Current	6,388	3,313	2,903	542	13,146
Non-current	-	41,766	-	1,663	43,429
	6,388	45,079	2,903	2,205	56,575

Parent	New Plymouth \$000	Restoration/ environmental rehabilitation \$000	Retail transaction processing outsourcing \$000	Other \$000	Total \$000
Balance as at 1 July 2008	18,837	31,134	-	2,476	52,447
Provisions made during the year	-	3,295	-	165	3,460
Provisions used during the year	(15,352)	(3,068)	-	(390)	(18,810)
Unwind of discount rate	-	2,972	-	-	2,972
Balance as at 30 June 2009	3,485	34,333	-	2,251	40,069
Balance as at 1 July 2009	3,485	34,333	-	2,251	40,069
Provisions made during the year	5,564	8,745	3,330	1,215	18,854
Provisions used during the year	(2,661)	(2,702)	(427)	(114)	(5,904)
Provisions reversed during the year	-	-	-	(1,147)	(1,147)
Unwind of discount rate	-	2,843	-	-	2,843
Balance as at 30 June 2010	6,388	43,219	2,903	2,205	54,715
Current	6,388	3,074	2,903	542	12,907
Non-current	-	40,145	-	1,663	41,808
	6,388	43,219	2,903	2,205	54,715

Refer to note 2 for discussion on the provision for removal of asbestos at New Plymouth power station. Cash outflows in relation to this are expected to occur within the next year.

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

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

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

27 Deferred tax

Recognised deferred tax assets and liabilities

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

Group	Assets	Assets	Liabilities	Liabilities
	30 June 2010 \$000	30 June 2009 \$000	30 June 2010 \$000	30 June 2009 \$000
Property, plant and equipment	-	-	(667,877)	(661,121)
Investment in associate	-	-	(2,270)	(2,235)
Inventories	2,113	2,179	-	-
Employee benefits	5,884	4,241	-	-
Provisions	17,831	15,173	-	-
Financial instruments	19,440	23,889	-	-
Other	-	-	(7,211)	(3,512)
Total	45,268	45,482	(677,358)	(666,868)

Parent	Assets	Assets	Liabilities	Liabilities
	30 June 2010 \$000	30 June 2009 \$000	30 June 2010 \$000	30 June 2009 \$000
Property, plant and equipment	-	-	(663,586)	(658,290)
Investment in associate	-	-	(174)	(174)
Inventories	2,113	2,179	-	-
Employee benefits	5,741	4,053	-	-
Provisions	16,738	14,048	-	-
Financial instruments	19,440	23,889	-	-
Other	-	-	(7,552)	(4,237)
Total	44,032	44,169	(671,312)	(662,701)

Movement in deferred tax

Group	Balance	Recognised in	Recognised	Change in	Balance
	1 July 2009 \$000	income \$000	in other comprehensive income \$000	tax rate* \$000	30 June 2010 \$000
Property, plant and equipment**	(661,121)	(51,221)	-	44,465	(667,877)
Investment in associate	(2,235)	(74)	39	-	(2,270)
Inventories	2,179	85	-	(151)	2,113
Employee benefits	4,241	1,643	-	-	5,884
Provisions	15,173	3,503	-	(845)	17,831
Financial instruments	23,889	(1,359)	(2,248)	(842)	19,440
Other	(3,512)	(4,277)	-	578	(7,211)
Total	(621,386)	(51,700)	(2,209)	43,205	(632,090)

Contact Energy Limited and Subsidiaries
Notes to the financial statements
for the year ended 30 June 2010

Group	Balance 1 July 2008 \$000	Recognised in income \$000	Recognised in other comprehensive income \$000	Change in tax rate* \$000	Balance 30 June 2009 \$000
Property, plant and equipment**	(641,732)	(19,389)	-	-	(661,121)
Investment in associate	(2,071)	1,133	(1,297)	-	(2,235)
Inventories	1,759	420	-	-	2,179
Employee benefits	5,166	(925)	-	-	4,241
Provisions	18,007	(2,834)	-	-	15,173
Financial instruments	22,930	17,431	(16,472)	-	23,889
Other	(861)	(2,651)	-	-	(3,512)
Total	(596,802)	(6,815)	(17,769)	-	(621,386)

Parent	Balance 1 July 2009 \$000	Recognised in income \$000	Recognised in other comprehensive income \$000	Change in tax rate* \$000	Balance 30 June 2010 \$000
Property, plant and equipment**	(658,290)	(49,446)	-	44,150	(663,586)
Investment in associate	(174)	-	-	-	(174)
Inventories	2,179	85	-	(151)	2,113
Employee benefits	4,053	1,688	-	-	5,741
Provisions	14,048	3,535	-	(845)	16,738
Financial instruments	23,889	(1,359)	(2,248)	(842)	19,440
Other	(4,237)	(3,893)	-	578	(7,552)
Total	(618,532)	(49,390)	(2,248)	42,890	(627,280)

Parent	Balance 1 July 2008 \$000	Recognised in income \$000	Recognised in other comprehensive income \$000	Change in tax rate* \$000	Balance 30 June 2009 \$000
Property, plant and equipment**	(640,017)	(18,273)	-	-	(658,290)
Investment in associate	(174)	-	-	-	(174)
Inventories	1,759	420	-	-	2,179
Employee benefits	4,930	(877)	-	-	4,053
Provisions	16,930	(2,882)	-	-	14,048
Financial instruments	22,853	17,430	(16,394)	-	23,889
Other	(1,863)	(2,374)	-	-	(4,237)
Total	(595,582)	(6,556)	(16,394)	-	(618,532)

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

** Contact holds its property, plant and equipment on capital account for income tax purposes. Where the generation plant and equipment are held at deemed historical cost, and this differs from tax cost, a resulting taxable temporary difference is created that is recognised in deferred tax. Any deferred tax liability on the difference between deemed historical cost and tax cost would not crystallise under existing income tax legislation if the assets were to be sold at the end of the reporting period. At 30 June 2010, this deferred tax liability was \$364.8 million (2009: \$413.0 million).

Unrecognised deferred tax assets and liabilities

There were no unrecognised deferred tax assets and liabilities.

28 Commitments

Capital and investment commitments

	Group 30 June 2010 \$000	Group 30 June 2009 \$000	Parent 30 June 2010 \$000	Parent 30 June 2009 \$000
Not later than one year	86,158	173,612	86,158	173,426
Later than one year and not later than five years	70,390	75,658	70,390	75,658
Later than five years	296	551	296	551
Total capital and investment commitments	156,844	249,821	156,844	249,635

Operating lease commitments

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

	Group 30 June 2010 \$000	Group 30 June 2009 \$000	Parent 30 June 2010 \$000	Parent 30 June 2009 \$000
Not later than one year	6,614	6,592	5,119	4,796
Later than one year and not later than five years	14,967	13,395	10,615	10,816
Later than five years	11,540	9,728	6,672	5,114
Total operating lease commitments	33,121	29,715	22,406	20,726

Lease commitments are stated exclusive of GST.

Operating lease income

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

	Group 30 June 2010 \$000	Group 30 June 2009 \$000	Parent 30 June 2010 \$000	Parent 30 June 2009 \$000
Not later than one year	1,476	1,015	1,157	770
Later than one year and not later than five years	3,107	2,704	2,525	1,854
Later than five years	177	357	80	208
Total operating lease income	4,760	4,076	3,762	2,832

Operating lease income is stated exclusive of GST.

Other operating commitments

Other operating commitments include a portion of regular major inspections entered into for generation assets, with the remainder of commitments under these agreements included in capital and investment commitments. Other commitments relate to retail transaction processing outsourcing costs.

	Group 30 June 2010 \$000	Group 30 June 2009 \$000	Parent 30 June 2010 \$000	Parent 30 June 2009 \$000
Not later than one year	6,909	6,661	6,909	6,661
Later than one year and not later than five years	11,279	5,703	11,279	5,703
Later than five years	6,837	-	6,837	-
Total other operating commitments	25,025	12,364	25,025	12,364

Gas commitments

Maui contracts with Maui Development Limited

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

Shell New Zealand Limited

Contact has a contract with Energy Finance NZ Limited (a Shell New Zealand Limited subsidiary), whereby Contact has agreed to make fixed monthly payments over the period from 1 October 2007 to 31 December 2010 for the right to take gas.

OMV New Zealand Limited

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

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

Gas transmission contracts

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

29 Resource consents

Contact requires resource consents (authorisations to use land, water and air obtained under the Resource Management Act 1991) to enable it to operate its geothermal, thermal and hydro power stations. The duration of resource consents may vary up to a maximum of 35 years except for land use consents, which run for the duration of the activity they authorise. The current resource consents within which Contact's power stations operate are due for renewal at varying times.

In addition to consents for its existing operational power stations, Contact holds resource consents to construct and operate a new 400 MW combined-cycle power station (Otahuhu C) and has the ability to construct and operate a 120 MW open-cycle power station under its existing consents (Otahuhu A), both at its Otahuhu site. Contact also has consents to construct and operate an up to 500 MW combined-cycle power station at its Stratford site (TCC 2). Lapse dates on the consents for the combined-cycle plants have been extended to 2015 (Otahuhu C) and 2017 (TCC 2).

Contact also has consents to construct and operate a net 220 MW geothermal power station at Te Mihi (near Taupo) and a 200 MW gas-fired peaking power station at Stratford. Development of the Stratford gas-fired peaking power station is near completion.

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

In 2008 Contact filed applications for an up to 177 MW wind farm at Waitahora, near Dannevirke in the Tararua District. Initial consents were declined, and Contact appealed to the Environment Court. Following mediation between the parties, the proposal has been refined and consents are being sought for approximately 156 MW. The appeal will be heard in the first half of the 2011 financial year.

Contact has also filed applications for an up to 540 MW wind farm on the west Waikato coast called Hauāuru mā raki. The applications were called in by the Minister for the Environment to be heard by a Board of Inquiry. The hearing commenced in April 2009 and was adjourned for 12 months to allow Contact to address issues raised by the Board of Inquiry. The hearing is to resume in the first half of the 2011 financial year for a refined wind farm of 507 MW.

Contact has also filed applications with the Environmental Protection Authority for a 250 MW geothermal project (Tauhara II) near Taupo. The consent hearing is scheduled to commence in September 2010 with a decision expected in January 2011.

In addition Contact has applied to vary one of its Clutha hydro consents, which will provide a greater operating range in Lake Roxburgh.

30 Related party transactions

Parent company

As at 30 June 2010, Origin Energy Pacific Holdings Limited was the majority shareholder in the Parent, owning 51.0 per cent (2009: 50.6 per cent) of the ordinary shares of the Parent.

Further shares amounting to 0.8 per cent (2009: 0.8 per cent) of the Parent's ordinary shares were held by Origin Energy Universal Holdings Limited and Origin Energy New Zealand Limited at 30 June 2010. All three companies are 100 per cent owned by Origin Energy Limited (Origin), an Australian incorporated company.

The ultimate parent entity of Contact is Origin.

Identity of related parties with whom material transactions have occurred

Notes 19, 20 and 21 identify group entities, associates and joint ventures in which Contact has an interest. All of these entities are related parties of the Parent.

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

Material related party transactions

Transactions with ultimate parent entity

- David Baldwin, Managing Director of Contact, is seconded to Contact from his employer Origin. Fees incurred or accrued during the year ended 30 June 2010 in relation to David's role as Managing Director totalled \$1.2 million (2009: \$1.0 million), which includes the cost of his salary and other employment benefits including a 2009/2010 short-term incentive payment. At 30 June 2010 \$0.5 million (2009: \$0.2 million) of this amount remained outstanding. In addition, share-based payments under Contact's Employee Long-Term Incentive Scheme amounting to \$0.5 million (2009: \$0.5 million) were accrued for David, being the fair value of the share-based payments relating to this reporting period. Refer to note 12.
- In the year ended 30 June 2010, Origin was employed for consulting work on the Stratford Peaker project. Transactions totalled \$0.5 million (2009: \$0.1 million). At 30 June 2010, no amounts remained outstanding (2009: \$0.1 million).
- Contact and Origin undertook a joint marketing project for the renewal of both parties' insurance cover. Contact and Origin are covered under separate policies. Incentive payments to the insurance brokers to date total \$0.1 million (2009: nil) being Contact's share of the incentive payment. No amounts remained outstanding at 30 June 2010 (2009: nil).
- Contact and Origin have entered into a Master Services Agreement for the provision of professional, consulting and/or administrative services between the parties. There were no material transactions under this agreement during the year.
- A payment of \$2.6 million was made to Origin in April 2009 in relation to the acquisition of natural gas reserves following an independent reservoir measurement relating to the initial gas and LPG reserves acquired as part of the acquisition of the gas storage rights in 2008. No further payments were made in the year ended 30 June 2010.

Transactions with Origin subsidiaries

- Contact and Origin Energy Resources NZ (TAWN) Limited have entered into an agreement in respect of the development and operation of the Ahuroa gas storage facility. During the year ending 30 June 2010, the transactions under this agreement totalled \$7.8 million (2009: \$3.8 million). At 30 June 2010, no amounts remained outstanding (2009: \$0.6 million).
- Gas sales of \$0.1 million to Origin Energy Resources NZ Limited were made in the year ended 30 June 2010 (2009: nil). At 30 June 2010, no amounts remained outstanding (2009: nil).
- Contact entered into an agreement with Origin Energy Services Limited in the current year to provide infrastructure and data centre services for Contact's new SAP system. Transactions for the year amounted to \$1.1 million (2009: nil) of which no amounts were outstanding at year end (2009: nil).
- Contact, Origin Energy Resources NZ (TAWN) Limited and Origin Energy Five Star Holdings Limited entered into an agreement in the current year in respect of drilling and other costs associated with the development of assets for the Ahuroa gas storage facility. During the year ended 30 June 2010, the transactions under this agreement totalled \$24.6 million (2009: nil). At 30 June 2010, \$0.6 million remained outstanding (2009: nil).
- Contact and Origin Energy Resources NZ Limited entered into an electricity supply contract to supply Origin's facilities in Taranaki in the current year. Transactions for the year amounted to \$0.9 million (2009: nil). At 30 June 2010, \$0.5 million remained outstanding (2009: nil).

- Contact and Origin Energy Resources NZ Limited previously entered into an LPG Gas Sales Agreement for the supply of LPG from the Rimu Production Station and any LPG produced from the Waihapa Production Station. There were no transactions for the year as this agreement has now expired (2009: transactions of \$2.9 million, with \$0.2 million outstanding at year end).
- Rockgas Limited and Origin Energy LPG Limited have entered into an LPG Sale and Purchase Agreement for the purchase and shipping of imported LPG. During the year ended 30 June 2010, transactions totalled \$24.8 million (2009: \$45.0 million). At 30 June 2010, \$2.0 million remained outstanding (2009: \$4.6 million).
- Rockgas Limited has entered into an LPG Gas Sale Agreement with Origin Energy Resources NZ (Rimu) Limited and Origin Energy Resources NZ (TAWN) Limited for the supply of LPG from the Rimu Production Station. Transactions for the year totalled \$1.7 million (2009: \$2.9 million). At 30 June 2010, \$0.1 million remained outstanding (2009: \$0.2 million).
- Rockgas Limited has entered into an LPG Sales and Logistics Agreement with Origin Energy Resources (Kupe) Limited and Kupe Mining (No.1) Limited for the supply of LPG from the Kupe Production Station. Transactions for the year totalled \$19.1 million (2009: nil). At 30 June 2010, \$4.4 million remained outstanding (2009: nil).
- Rockgas Limited and Origin Energy Contracting Limited had an agreement in place during the year whereby Origin Energy Contracting Limited provided coastal LPG shipping services to Rockgas Limited. Transactions for the year totalled \$3.3 million (2009: \$0.1 million). At 30 June 2010, no amounts remained outstanding (2009: nil).

Transactions with subsidiaries and associates

- Advances to/from subsidiaries and associates are included in notes 14, 23 and 25 respectively. Advances are repayable on demand and are interest free.
- The Parent had transactions with Empower Limited, a 100 per cent owned subsidiary, in respect of electricity charges, network charges and management fees, which are calculated at arm's length. These charges totalled \$13.8 million for the year ended 30 June 2010 (2009: \$16.0 million). All balances are settled through the intercompany account.
- The Parent had transactions with Stratford Power Limited and subsequently Empower Limited in respect of gas purchases, which are calculated at arm's length. Stratford Power Limited was a 100 per cent owned subsidiary until it was amalgamated into Empower Limited effective 7 September 2009 (refer to note 20). Purchases from Stratford Power Limited and Empower Limited totalled \$104.2 million for the year ended 30 June 2010 (2009: \$115.2 million). All balances are settled through the intercompany account.
- The Parent charges Rockgas Limited a management fee for various management services. Total fees charged for the year ended 30 June 2010 amounted to \$10.9 million (2009: nil). All balances are settled through the intercompany account.
- Contact pays various operating expenses on behalf of its wholly owned subsidiaries, which are passed on directly to those subsidiaries.
- During the year ended 30 June 2010, Rockgas Limited had transactions with Rockgas Timaru Limited (Rockgas Timaru), an associate, in respect of the supply of LPG to Rockgas Timaru amounting to \$1.1 million (2009: \$1.1 million), and in respect of the provision of deliveries by Rockgas Timaru amounting to \$0.1 million (2009: \$0.3 million), both of which are calculated at arm's length. At 30 June 2010, a receivable of \$0.2 million remained outstanding (2009: \$0.2 million receivable).

Transactions with Directors and key management personnel

- Fees paid or accrued to Directors and Officers of Origin for director services for the year ended 30 June 2010 totalled \$0.5 million (30 June 2009: \$0.4 million). At 30 June 2010 \$0.1 million remained outstanding (30 June 2009: \$0.1 million).
- New Zealand based Directors and members of the Leadership Team purchase gas and electricity from the Group for domestic purposes.

31 Key management personnel

The table below includes the remuneration of Directors, the Managing Director and his Leadership Team.

	Note	Group 30 June 2010 \$000	Group 30 June 2009 \$000	Parent 30 June 2010 \$000	Parent 30 June 2009 \$000
Directors' fees		993	853	993	853
Managing Director and Leadership Team					
Salary and other short-term benefits		4,537	4,911	4,537	4,911
Share-based payments	12	1,065	1,050	1,065	1,050
Total Managing Director and Leadership Team		5,602	5,961	5,602	5,961
Total key management personnel		6,595	6,814	6,595	6,814

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

Group and Parent For the year ended 30 June 2009		Board fees \$	Committee and special fees \$	Total remuneration \$
Director*	Position			
G King***	Chairman	133,333	–	133,333
P Pryke	Deputy Chairman	150,000	–	150,000
B Beeren	Director	100,000	44,714	144,714
J Milne	Director	100,000	77,500	177,500
K Moses***	Director	66,667	10,000	76,667
T Saunders (resigned 30 June 2009)	Director	100,000	33,150	133,150
S Sheldon (appointed 16 March 2009)	Director	29,445	7,842	37,287
D Baldwin (appointed 16 March 2009)**	Managing Director	–	–	–
Total		679,445	173,206	852,651

* Remuneration paid and payable to Origin associated Directors Grant King, Bruce Beeren and Karen Moses is paid to them in their individual capacities and complies with the NZX waiver dated 12 May 2008.

** David Baldwin, as Managing Director, does not receive any fees in his capacity as an Executive Director.

*** Grant King and Karen Moses did not receive fees in relation to their role as Contact Directors prior to 1 November 2008.

32 Whirinaki generation plant

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

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

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

Following the announcement of sector reforms, ownership of the Whirinaki generating plant is anticipated to be transferred from the Crown to Meridian Energy Limited, a State Owned Enterprise.

33 Contingent liabilities

There were no known material contingent liabilities at 30 June 2010 (2009: nil).

34 Subsequent events

On 19 August 2010, the Board declared a distribution pursuant to the PDP in the form of a non-taxable bonus issue for the year ended 30 June 2010 equivalent to 14.0 cents per share, for shares on issue at 3 September 2010, the record date, with bonus shares allocated and/or cash distributed, if elected, on 27 September 2010. Refer to note 9.

From 1 July 2010, Contact is required to participate under the New Zealand Emissions Trading Scheme. Contact will be required to surrender eligible carbon units or pay a fixed price to the Government to offset its carbon emissions at the end of each carbon trading period.



Audit Report

To the shareholders of Contact Energy Limited

We have audited the financial statements on pages 54 to 109. The financial statements provide information about the past financial performance and financial position of the company and group as at 30 June 2010. This information is stated in accordance with the accounting policies set out on pages 60 to 69.

Directors' responsibilities

The Directors are responsible for the preparation of financial statements which give a true and fair view of the financial position of the company and group as at 30 June 2010 and the results of their operations and cash flows for the year ended on that date.

Auditors' responsibilities

It is our responsibility to express an independent opinion on the financial statements presented by the Directors and report our opinion to you.

Basis of opinion

An audit includes examining, on a test basis, evidence relevant to the amounts and disclosures in the financial statements. It also includes assessing:

- the significant estimates and judgements made by the Directors in the preparation of the financial statements;
- whether the accounting policies are appropriate to the company's and group's circumstances, consistently applied and adequately disclosed.

We conducted our audit in accordance with New Zealand Auditing Standards. We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to obtain reasonable assurance that the financial statements are free from material misstatements, whether caused by fraud or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Partners and employees of our firm may deal with the company and group on normal terms within the ordinary course of trading activities of the business of the company and group. These matters have not impaired our independence as auditors of the company and group. The firm has no other relationship with or interest in the company or any of its subsidiaries.

Unqualified opinion

We have obtained all the information and explanations we have required.

In our opinion:

- proper accounting records have been kept by the company as far as appears from our examination of those records;
- the financial statements on pages 54 to 109:
 - comply with New Zealand generally accepted accounting practice;
 - give a true and fair view of the financial position of the company and group as at 30 June 2010 and the results of their operations and cash flows for the year ended on that date.

Our audit was completed on 19 August 2010 and our unqualified opinion is expressed as at that date.

Wellington

Corporate directory

Board of Directors

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

Leadership team

David Baldwin, Managing Director
Steve Bielby, General Counsel and Company Secretary
Ruth Bound, General Manager, Retail and Strategic Marketing
Graham Cockroft, Chief Operating Officer
Mark Elliott, Chief Financial Officer
Luc Hennekens, General Manager, Information and Communication Technology
Liz Kelly, General Manager, Development and Acquisitions
Dean Stebbing, Kaawai Rautaki
Annika Streefland, General Manager, People and Culture
Andy Williams, General Manager, Enterprise Transformation

Head office

Level 1, Harbour City Tower
29 Brandon Street, Wellington, New Zealand

Postal address

PO Box 10742, The Terrace, Wellington 6143, New Zealand
Telephone 64 4 499 4001 Facsimile 64 4 499 4003
Email: investorcentre@contactenergy.co.nz
Website: www.contactenergy.co.nz

NZX trading code: CEN

Company number: 660760

Share registrar

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

Shareholder enquiries

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

www.computershare.co.nz/investorcentre

General enquiries can be directed to:

enquiry@computershare.co.nz

Private Bag 92119, Auckland 1142

Telephone +64 9 488 8777 Facsimile +64 9 488 8787

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

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

General Manager, Development and Acquisitions

Contact Energy Limited

PO Box 10742, The Terrace, Wellington 6143

Email: investor.centre@contactenergy.co.nz

Financial calendar

Final distribution announced	20 August 2010
Record date for final distribution	3 September 2010
Cut-off date for receipt of election notices for buy back of bonus shares under Profit Distribution Plan	Noon, 21 September 2010
Final distribution date	27 September 2010
End of first quarter	30 September 2010
Annual meeting	27 October 2010
Half year end	31 December 2010
Results announcement for the half year ended 31 December 2010	February 2011
End of third quarter	31 March 2011
Financial year end	30 June 2011



www.contactenergy.co.nz