Financial statements

Financial statements

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About these financial statements

For the year ended 30 June 2021

These financial statements are for Contact, a group made up of Contact Energy Limited, the entities over which it has control and its associate.

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

Contact's financial statements are prepared:

- in accordance with New Zealand generally accepted accounting practice (GAAP) and comply with New Zealand equivalents to International Financial Reporting Standards (IFRS) and IFRS as appropriate for profit-oriented entities
- in millions of New Zealand dollars (NZD) unless otherwise noted
- on a historical cost basis except for financial instruments held at fair value
- using the same accounting policies for all reporting periods presented
- with certain comparative amounts reclassified to conform to the current year's presentation.

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

- useful lives of property, plant and equipment and intangible assets (note C1)
- impairment testing of cash-generating units (CGUs) and future generation development capital work in progress (note C2)
- fair value measurement of financial instruments (notes D1 and E8)
- provision for future restoration and rehabilitation obligations (note E5).

The financial statements were authorised on behalf of the Contact Energy Limited Board of Directors on 13 August 2021.

Robert McDonald
Chair

Dame Therese Walsh
Chair, Audit and Risk Committee

Statement of comprehensive income

For the year ended 30 June 2021

$m	Note	2021	2020
Revenue and other income	A2	2,573	2,073
Operating expenses	A2	(2,020)	(1,627)
Net interest expense	B5	(50)	(55)
Depreciation and amortisation	C1	(249)	(220)
Change in fair value of financial instruments	D1	7	–
Profit before tax		**261**	**171**
Tax expense	E1	(74)	(46)
Profit		**187**	**125**
Items that may be reclassified to profit/(loss):			
Change in hedge reserves (net of tax)	E7	(2)	(10)
Comprehensive income		**185**	**115**
Profit per share (cents) – basic		25.3	17.5
Profit per share (cents) – diluted		25.3	17.4

Statement of cash flows

For the year ended 30 June 2021

$m	Note	2021	2020
Receipts from customers		2,524	2,058
Payments to suppliers and employees		(1,970)	(1,598)
Interest paid		(43)	(49)
Interest received		–	–
Tax paid		(79)	(70)
Operating cash flows	E6	**432**	**341**
Purchase and construction of assets		(129)	(94)
Capitalised interest		(8)	(6)
Investment in joint venture/associate		(8)	(3)
Acquisition of subsidiaries	E11	(31)	–
Acquisition of Energyclub NZ		(1)	(3)
Investing cash flows		**(177)**	**(106)**
Dividends paid	B3	(274)	(280)
Proceeds from borrowings		356	226
Repayment of borrowings		(623)	(184)
Net proceeds from share issue		392	–
Financing cash flows		**(149)**	**(238)**
Net cash flow		**106**	**(3)**
Add: cash at the beginning of the year		44	47
Cash at the end of the year	B4	**150**	**44**

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Statement of financial position

At 30 June 2021

$m	Note	2021	2020
Cash and cash equivalents	B4	150	44
Trade and other receivables	E4	255	191
Inventories	E3	69	56
Intangible assets	C1	24	3
Derivative financial instruments	D1	56	37
Total current assets		**554**	**331**
Property, plant and equipment	C1	3,961	4,026
Intangible assets	C1	213	227
Goodwill	C2	220	179
Investments in joint venture/associate	E11	10	14
Derivative financial instruments	D1	70	119
Total non-current assets		**4,474**	**4,565**
Total assets		**5,028**	**4,896**
Trade and other payables		305	190
Tax payable		39	28
Borrowings	B4	163	220
Derivative financial instruments	D1	92	53
Provisions	E5	23	10
Total current liabilities		**622**	**501**
Borrowings	B4	693	978
Derivative financial instruments	D1	84	74
Provisions	E5	51	58
Deferred tax	E1	635	653
Other non-current liabilities		16	11
Total non-current liabilities		**1,479**	**1,774**
Total liabilities		**2,101**	**2,275**
Net assets		**2,927**	**2,621**
Share capital	B2	1,922	1,528
Retained earnings		1,048	1,134
Hedge reserves	E7	(51)	(49)
Share-based compensation reserve		8	8
Shareholders' equity		**2,927**	**2,621**

Statement of changes in equity

For the year ended 30 June 2021

$m	Note	Share capital	Retained earnings	Other reserves	Shareholders' equity
Balance at 1 July 2019		**1,523**	**1,288**	**(29)**	**2,782**
Profit		–	125	–	125
Change in hedge reserves (net of tax)	E7	–	–	(10)	(10)
Change in share-based compensation reserve	E10	–	–	(2)	(2)
Change in share capital	B2	5	–	–	5
Dividends paid	B3	–	(280)	–	(280)
Balance at 30 June 2020		**1,528**	**1,134**	**(41)**	**2,621**
Profit		–	187	–	187
Change in hedge reserves (net of tax)	E7	–	–	(2)	(2)
Change in share-based compensation reserve	E10	–	–	–	–
Change in share capital	B2	394	–	–	394
Dividends paid	B3	–	(274)	–	(274)
Balance at 30 June 2021		**1,922**	**1,048**	**(43)**	**2,927**

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Notes to the financial statements

A. Our performance

A1. Segments

Contact reports activities under the Wholesale segment and the Customer segment.

The Wholesale segment includes revenue from the sale of electricity to the wholesale electricity market, to Commercial and Industrial (C&I) customers and to the Customer segment, less the cost to generate and/or purchase the electricity and costs to serve and distribute electricity to C&I customers.

The results of Simply Energy Limited and Western Energy Services Limited, following their acquisition on 31 August 2020 and 31 March 2021 respectively, have been included within the Wholesale segment, within the relevant line items. Prior to acquisition date, Contact's share of net earnings of Simply Energy Limited as an associate were included in 'Unallocated' other operating expenses.

The Customer segment includes revenue from delivering electricity, natural gas, broadband and other products and services to mass market customers less the cost of purchasing those products and services, and the cost to serve customers.

'Unallocated' includes corporate functions not directly allocated to the operating segments, and Contact's share of earnings from associates and joint ventures.

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

A2. Earnings

The tables on the next pages provide a breakdown of Contact's revenue and expenses, earnings before interest, tax, depreciation and amortisation, and changes in fair value of financial instruments (EBITDAF) by segment, and a reconciliation from EBITDAF to profit reported under NZ GAAP. EBITDAF is used to monitor performance and is a non-GAAP profit measure.

The significant items category has been removed in the current financial year. The increase in Holidays Act provision recognised in the reporting period ended 30 June 2020 has been reclassified to other operating expenses, reducing EBITDAF by $5 million with no overall impact to profit.

The key revenue categories are:

- **Electricity and gas**
  Electricity and gas revenue (including mass market electricity, C&I electricity and gas) is recognised when energy is supplied for customer consumption. Mass market electricity includes net revenue for AA Smartfuel rewards. Revenue is initially recognised net of prompt payment discounts.
- **Wholesale electricity, net of hedging**
  Revenue received from electricity generated and sold through the wholesale market, the net settlement of electricity hedges sold on the electricity futures markets and to generators, other retailers and industrial customers. Revenue is recognised as the energy is delivered.
- **Electricity-related services**
  Revenue from the sale of complementary products and services to the wholesale market for the provision of instantaneous reserves, frequency keeping and other ancillary services. Revenue is recognised as the services are provided.
- **Broadband and steam**
  Revenue from the sale of steam is recognised as the steam is delivered. Broadband revenue is recognised as the broadband services are provided.

Revenue recognition involves the calculation of unbilled revenue accruals for mass market, C&I electricity and gas, as well as the recognition of contract assets (note E4).

Simply Energy Limited revenue for electricity supply and billing services is included in the 'C&I electricity – fixed price', 'C&I electricity – pass through' and 'Wholesale electricity, net of hedging' revenue lines. Revenue is recognised when energy is supplied for customer consumption and as billing services are provided.

$m	2021					2020				
	Wholesale	Customer	Unallocated	Eliminations	Total	Wholesale	Customer	Unallocated	Eliminations	Total
Mass market electricity	–	839	–	(1)	838	–	861	–	(1)	860
C&I electricity – fixed price	249	–	–	–	249	275	–	–	–	275
C&I electricity – pass through	44	–	–	–	44	16	–	–	–	16
Wholesale electricity, net of hedging	1,285	–	–	–	1,285	791	–	–	–	791
Electricity-related services revenue	8	–	–	–	8	8	–	–	–	8
Inter-segment electricity sales	338	–	–	(338)	–	332	–	–	(332)	–
Gas	2	74	–	–	76	1	74	–	–	75
Steam	28	–	–	–	28	26	–	–	–	26
Geothermal services	3	–	–	–	3	–	–	–	–	–
Broadband	–	32	–	–	32	–	17	–	–	17
Total revenue	**1,957**	**945**	**–**	**(339)**	**2,563**	**1,449**	**952**	**–**	**(333)**	**2,068**
Other income	4	6	–	–	10	–	5	–	–	5
Total revenue and other income	**1,961**	**951**	**–**	**(339)**	**2,573**	**1,449**	**957**	**–**	**(333)**	**2,073**
Electricity purchases, net of hedging	(974)	–	–	–	(974)	(635)	–	–	–	(635)
Electricity purchases – pass through	(30)	–	–	–	(30)	(14)	–	–	–	(14)
Electricity-related services cost	(7)	–	–	–	(7)	(7)	–	–	–	(7)
Inter-segment electricity purchases	–	(338)	–	338	–	–	(332)	–	332	–
Gas and diesel purchases	(126)	(24)	–	–	(150)	(90)	(24)	–	–	(114)
Gas storage costs	(24)	–	–	–	(24)	(22)	–	–	–	(22)
Carbon emissions costs	(41)	(4)	–	–	(45)	(24)	(4)	–	–	(28)
Generation transmission & levies	(28)	–	–	–	(28)	(32)	–	–	–	(32)
Electricity networks, levies & meter costs – fixed price	(82)	(378)	–	–	(460)	(95)	(414)	–	–	(509)
Electricity networks, levies & meter costs – pass through	(13)	–	–	–	(13)	(2)	–	–	–	(2)
Gas networks, transmission & meter costs	(7)	(37)	–	–	(44)	(9)	(37)	–	–	(46)
Geothermal service costs	(1)	–	–	–	(1)	–	–	–	–	–
Broadband costs	–	(33)	–	–	(33)	–	(17)	–	–	(17)
Other operating expenses	(101)	(81)	(30)	1	(211)	(93)	(79)	(30)	1	(201)
Total operating expenses	**(1,434)**	**(895)**	**(30)**	**339**	**(2,020)**	**(1,023)**	**(907)**	**(30)**	**333**	**(1,627)**
EBITDAF	**527**	**56**	**(30)**	**–**	**553**	**426**	**50**	**(30)**	**–**	**446**
Depreciation and amortisation					(249)					(220)
Net interest expense					(50)					(55)
Change in fair value of financial instruments					7					–
Tax expense					(74)					(46)
Profit					**187**					**125**

A3. Free cash flow

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

$m	Note	2021	2020
EBITDAF	A2	**553**	**446**
Tax paid		(79)	(70)
Change in working capital net of investing and financing activities		3	7
Non-cash items included in EBITDAF		(2)	7
Net interest paid, excluding capitalised interest		(43)	(49)
Operating cash flows	E6	**432**	**341**
Stay-in-business capital expenditure		(61)	(51)
Operating free cash flow and free cash flow		**371**	**290**
Operating free cash flow per share (cents)	B3	**50.2**	**40.4**

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

B. Our funding

B1. Capital structure

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

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

Contact manages its capital structure to support an investment grade credit rating and a gearing ratio suitable to our operating environment.

$m	Note	2021	2020
Borrowings	B4	856	1,198
Shareholders' equity		2,927	2,621
Total capital funding		**3,783**	**3,819**
Gearing ratio		**22.6%**	**31.4%**

B2. Share capital

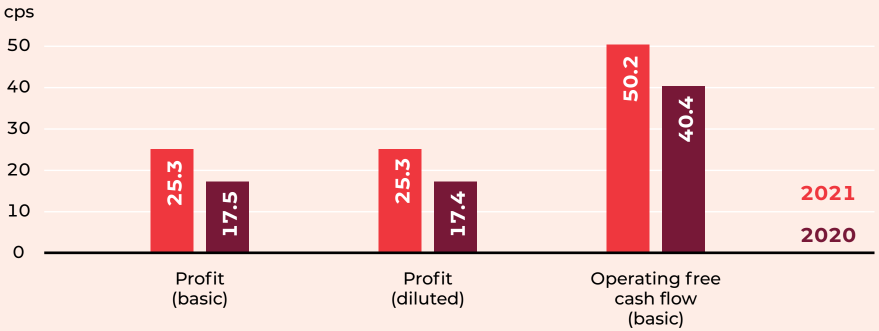
Share capital comprises ordinary shares listed on the NZX and ASX. Certain ordinary shares are held in trust on behalf of employees under the Contact Share scheme (note E10). All shareholders are entitled to receive distributions and to make one vote per share.

Contact undertook a $400 million equity raise during the year ended 30 June 2021. Direct, incremental costs associated with the equity raise of $8 million were deducted from share capital.

	Note	Number	$m
Balance at 30 June 2020		**718,131,884**	**1,528**
Share capital issued		57,990,186	394
Balance at 30 June 2021		**776,122,070**	**1,922**
Comprises:			
Ordinary shares		775,854,408	1,923
Contact Share	E10	267,662	(1)

B3. Distributions

Earnings and operating free cash flow per share



Weighted average	2021	2020
Number of shares (basic)	738,614,475	717,652,455
Number of shares (diluted)	739,042,889	718,964,789

The basic earnings per share calculation uses the weighted average number of shares on issue over the period.

The diluted weighted average number of shares takes into account the number of share options, performance share rights and deferred share rights that are currently exercisable or will become exercisable depending on likelihood of meeting vesting conditions.

Dividends paid

Paid during the year ended	Cents per share	$m
2019 final	23.0	165
2020 interim	16.0	115
30 June 2020		**280**
2020 final	23.0	165
2021 interim	14.0	109
30 June 2021		**274**

On 13 August 2021, the Board resolved to pay a 65% imputed final dividend of 21 cents per share on 15 September 2021. On 13 August 2021, Contact had $27 million of imputation credits available for use in future periods.

B4. Borrowings

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

Borrowings denoted with an asterisk (*) are Green Debt Instruments under Contact's Green Borrowing Programme, which has been certified by the Climate Bonds Initiative. At 30 June 2021 Contact remains compliant with the requirements of the programme. Further information is available on the Sustainability section on Contact's website.

$m	Maturity	Coupon	2021	2020
Bank overdraft	< 3 months	Floating	–	1
* Commercial paper	< 3 months	Floating	–	120
* Drawn bank facilities	Various	Floating	–	64
Lease obligations	Various	Various	21	22
* USPP notes – US$56m	Dec 2020	3.46%	–	70
* Retail bonds – CEN030	Nov 2021	4.40%	150	150
* Retail bonds – CEN040	Nov 2022	4.63%	100	100
* USPP notes – US$22m	Dec 2023	4.19%	28	28
* USPP notes – US$51m	Dec 2023	4.09%	64	64
* USPP notes – US$42m	Dec 2023	3.63%	61	61
* Retail bonds – CEN050	Aug 2024	3.55%	100	100
* USPP notes – US$58m	Dec 2025	4.33%	73	73
* USPP notes – US$43m	Dec 2025	3.85%	62	62
* Export credit agency facility	Nov 2027	Floating	47	54
* USPP notes – US$15m	Dec 2027	3.95%	22	22
* USPP notes – US$23m	Dec 2028	4.44%	29	29
* USPP notes – US$30m	Dec 2028	4.51%	38	38
Face value of borrowings			**795**	**1,058**
Deferred financing costs			(3)	(4)
Total borrowings at amortised cost			**792**	**1,054**
Fair value adjustment on hedged borrowings			64	144
Carrying value of borrowings			**856**	**1,198**
Current			163	220
Non-current			693	978

Changes in borrowings

$m	2021	2020
Borrowings at the start of the year	1,198	1,096
Net cash borrowed/(repaid)	(267)	42
Non-cash change in lease obligations	3	1
Non-cash change in deferred financing costs	1	1
Non-cash change in fair value adjustment	(80)	58
Borrowings at the end of the year	**856**	**1,198**

Short-term funding

Contact uses bank facilities for general corporate purposes including to manage its liquidity risk (note D2). While drawings under our bank facilities are typically for periods of three months or less, the amounts drawn down can be rolled for the term of the facility. Drawn facilities are classified as current when the facility will expire within one year of the reporting period end.

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

Maturity $m	2021	2020
Less than 1 year	–	–
Between 1 and 2 years	–	325
Between 2 and 3 years	50	195
More than 3 years	380	110
	430	**630**

All of these bank facilities form part of Contact's Green Borrowing Programme.

Lease obligations

Contact's leases predominately relate to property and connections to the national electricity grid. These assets are included in the carrying value of property, plant and equipment (note C1).

Security

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

Cash and cash equivalents

Cash and cash equivalents exclude bank overdrafts which are included within borrowings. Contact trades electricity price derivatives on the ASX market using a broker that holds collateral on deposit for margin calls. At 30 June 2021, this collateral was $109 million (2020: $44 million) and is included within cash.

B5. Net interest expense

$m	Note	2021	2020
Interest expense on borrowings		(52)	(53)
Interest expense on finance leases		(1)	(2)
Unwind of discount on provisions	E5	(5)	(5)
Unwind of deferred financing costs		(1)	(1)
Capitalised interest		8	6
Interest income		1	–
Net interest expense		**(50)**	**(55)**

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C. Our assets

C1. Property, plant and equipment and intangible assets

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

- Generation plant and equipment: hydro, geothermal and thermal power stations and geothermal wells and pipelines.
- Computer software: our SAP system that is used for customer service and billing, finance functions and generation asset management, which has a carrying value of $169 million (2020: $194 million) and a remaining life of nine years.

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

Included within additions for the year ended 30 June 2021 is capitalised interest of $8 million (2020: $6 million) in relation to the build of the Tauhara geothermal plant and steamfield.

Property, plant and equipment $m	Generation plant and equipment	Other land, buildings, plant and equipment	Capital work in progress	Leased assets	Total
Cost					
Balance at 1 July 2019	5,627	111	156	60	5,954
Additions	16	4	63	1	84
Transfers from capital work in progress	18	4	(22)	–	–
Disposals	(3)	–	–	–	(3)
Balance at 30 June 2020	**5,658**	**119**	**197**	**61**	**6,035**
Additions	7	1	124	3	135
Acquisitions	–	12	1	3	16
Transfers from capital work in progress	53	–	(53)	–	–
Disposals	–	–	(2)	–	(2)
Balance at 30 June 2021	**5,718**	**132**	**267**	**67**	**6,184**
Depreciation and impairment					
Balance at 1 July 2019	(1,698)	(98)	(1)	(31)	(1,828)
Depreciation charge	(177)	(4)	–	(3)	(184)
Disposals	3	–	–	–	3
Balance at 30 June 2020	**(1,872)**	**(102)**	**(1)**	**(34)**	**(2,009)**
Depreciation charge	(200)	(4)	–	(4)	(208)
Acquisitions	–	(6)	–	–	(6)
Disposals	–	–	–	–	–
Balance at 30 June 2021	**(2,072)**	**(112)**	**(1)**	**(38)**	**(2,223)**
Carrying value					
At 30 June 2020	3,786	17	196	27	4,026
At 30 June 2021	**3,646**	**20**	**266**	**29**	**3,961**

The useful economic life of certain Wairākei plant and steamfield assets was reassessed during the reporting period ended 30 June 2021 to reflect management's current best estimate that the existing Wairākei A&B stations will be replaced around 2026. As a change in accounting estimate, this was applied prospectively from 1 January 2021 and has resulted in a $12.9 million increase in depreciation in the year ended 30 June 2021.

Intangible assets $m	Computer software and capital work in progress	Carbon emission units	Other	Total
Cost				
Balance at 1 July 2019	467	14	–	481
Additions	17	15	1	33
Disposals	(2)	(26)	–	(28)
Balance at 30 June 2020	**482**	**3**	**1**	**486**
Additions	19	68	–	87
Acquisitions	–	–	8	8
Disposals	–	(47)	–	(47)
Balance at 30 June 2021	**501**	**24**	**9**	**534**
Amortisation				
Balance at 1 July 2019	(221)	–	–	(221)
Amortisation charge	(36)	–	–	(36)
Disposals	1	–	–	1
Balance at 30 June 2020	**(256)**	**–**	**–**	**(256)**
Amortisation charge	(40)	–	(1)	(41)
Balance at 30 June 2021	**(296)**	**–**	**(1)**	**(297)**
Carrying value				
At 30 June 2020	226	3	1	230
At 30 June 2021	**205**	**24**	**8**	**237**
Current	–	24	–	24
Non-current	205	–	8	213

Contact is in the process of completing a review of its software assets in light of the IFRIC agenda decision *Configuration or Customisation costs in a Cloud Computing Arrangement* (published in April 2021), which will be concluded within its interim reporting for the six months ended 31 December 2021. Based on the review completed to date, no material changes are expected to arise.

Capital commitments

At 30 June 2021, Contact was committed to $334 million of capital expenditure (2020: $8 million) and $60 million of carbon-forward contracts (2020: $33 million), of which $249 million is due within one year of balance date.

Cost

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

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

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

Depreciation and amortisation

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

Management estimates an asset's useful life or EOH and this is reviewed annually.

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

Asset	Rate/hours
Generation plant and equipment	
Straight line	1 – 33%
Equivalent operating hours	40,000 – 100,000
Other buildings, plant and equipment	**2 – 33%**
Computer software	**5 – 50%**

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C2. Goodwill and asset impairment testing

Contact has two cash-generating units (CGUs): Wholesale and Customer. The Customer CGU includes goodwill of $179 million (2020: $179 million), and the Wholesale CGU includes provisional goodwill of $41 million, following the acquisition of Simply Energy Limited and Western Energy Services Limited in the year. Capital work in progress (CWIP) includes $223 million (2020: $140 million) related to future generation developments not allocated to a CGU.

Further information on the acquisition of Simply Energy Limited and Western Energy Services Limited is provided in note E11.

The recoverable amount of an asset or CGU is calculated as the higher of its value in use and fair value less costs to sell. Every reporting period management estimates the value in use expected to be recovered from Contact's CGUs and future generation development in CWIP. An impairment is recognised when the value in use or fair value less costs to sell is lower than the carrying value.

Determining value in use involves estimating future cash flows for each CGU. These cash flows are adjusted for future growth based on historical inflation and discounted at a post-tax discount rate between 6 per cent and 7 per cent to arrive at the present value, or value in use, of each CGU. The future generation development is assessed separately, however, key inputs are the same as for the Wholesale CGU plus an estimate of plant commissioning costs.

No impairments were recognised in the current or prior period.

The key inputs to CGU and future generation development cash flows, and their method of determination, are:

Customer CGU	
Post-tax discount rate and inflation	External WACC report prepared by Cameron Partners and implicit inflation rate.
Customer numbers and churn	Actual customer numbers adjusted for historical churn data and expected market trends.
Margin per customer	Actual margin per customer adjusted for expected market changes.
Estimated future capital expenditure and operating costs	Budgeted capital and operating expenditure, reflecting historical levels and known differences.
Cost of purchased energy	ASX future electricity prices adjusted for location and seasonal shape.
Wholesale CGU and future generation development	
Post-tax discount rate and inflation	External WACC report prepared by Cameron Partners, and implicit inflation rate.
Wholesale electricity price path	Modelled wholesale prices based on ASX future electricity prices adjusted for location and seasonal shape, and price estimates based on an analysis of expected demand and cost of new supply for periods not quoted on the ASX market.
Generation volume and mix	Generation strategy based on expected demand, hydro volumes and expected market pricing.
Estimated future capital expenditure and operating costs	Budgeted capital and operating expenditure, reflecting historical levels and known differences.
Gas price	Contracted gas prices otherwise Contact's best estimate of future prices.

Sensitivities

The calculation of the value in use for the CGUs is most sensitive to the inputs for wholesale electricity prices and the post-tax discount rate.

Wholesale electricity prices are influenced by a number of factors that are difficult to predict, in particular, weather, which can impact short-term prices. Wholesale electricity prices may also be adversely affected by a reduction in demand, the availability of fuel and generation capacity in the wholesale electricity market, and competitor and transmission system availability.

The post-tax discount rate is an estimate of Contact's weighted average cost of capital and is influenced by a number of external factors such as the risk-free rate and inflation.

The sensitivity of the valuation model to the wholesale electricity prices and discount rate, where all other inputs remain constant, is as follows:

Significant unobservable inputs	Sensitivity	Impact $m
Post-tax discount rate	- 0.5% + 0.5%	+ 822 - 655
Wholesale electricity price path	+ 10% - 10%	+ 364 - 364

The value in use exceeded the carrying value for all sensitivities carried out.

There is interrelation between the key inputs in the valuation. Any changes in the price path and post-tax discount rate would not occur in isolation and would drive other changes which could also impact the value in use.

D. Our financial risks

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

D1. Market risk

Interest rate risk

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

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

Foreign exchange risk

Contact is exposed to movements in foreign exchange rates through its commitments to pay certain suppliers and United States Private Placement (USPP) note holders.

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

Commodity price risk

Contact is exposed to electricity price risk through the sale and purchase of electricity on the wholesale electricity market. Contact's integrated Wholesale and Customer businesses provide a natural hedge for most of this exposure. Derivatives may be used to fix the price at which Contact buys or sells any residual exposure to electricity price risks. In addition, Contact is party to a fixed-price swaption to provide cover in extreme price situations.

Contact is also exposed to natural gas price risk on purchases of natural gas. Short- and long-term gas purchase contracts are used to fix the price of gas. These are not derivative financial instruments.

Contents

Related to this, Contact is exposed to carbon price risk on its carbon obligations. Spot purchases, forward purchases and auction participation are used to manage the price risk relating to carbon.

Summary of derivative financial instruments

A summary of the exposures from derivatives and the impact on Contact's financial position is provided below, grouped by type of hedge relationship.

$m	Fair value hedge	Cash flow and fair value hedge	Cash flow hedge			No hedge relationship	
2021	**IRS**	**CCIRS**	**IRS**	**Electricity price derivatives**	**Foreign exchange contracts**	**Electricity price derivatives[1]**	**Total**
Notional amount of derivatives	188	376	800	6,160 GWh	179	1,220 GWh	
Maturity years	2021 – 2024	2023 – 2028	2021 – 2027	2021 – 2025	2021 – 2026	2021 – 2024	
Average rate/price[2]	1.7%	2.5%/0.75USD[3]	3.2%	$83/MWh	Various[4]	$128/MWh	
Carrying value of derivatives – asset	5	59	5	32	3	22	**126**
Carrying value of derivatives – liability[5]	–	(5)	(53)	(93)	(2)	(24)	**(176)**
Carrying value of hedged borrowings	192	436	–	–	–	–	**628**
Fair value adjustments to borrowings	(5)	(59)	–	–	–	–	**(64)**
2020							
Notional amount of derivatives	188	447	660	5,247 GWh	9	385 GWh	
Maturity years	2021 – 2024	2020 – 2028	2020 – 2026	2020 – 2024	2020 – 2022	2020 – 2023	
Average rate/price[2]	1.7%	2.4%/0.76USD	3.9%	$70/MWh	0.76USD	$96/MWh	
Carrying value of derivatives – asset	12	131	–	8	–	5	**156**
Carrying value of derivatives – liability[5]	–	(1)	(90)	(33)	–	(3)	**(127)**
Carrying value of hedged borrowings	199	578	–	–	–	–	**777**
Fair value adjustments to borrowings	(12)	(132)	–	–	–	–	**(144)**

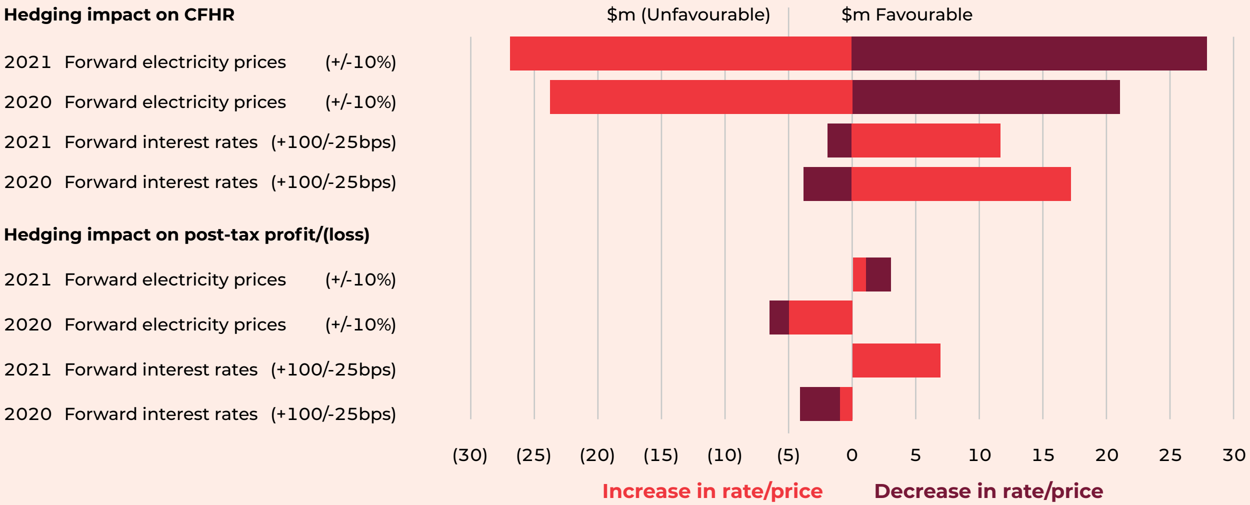
1 Notionals, maturities and average prices for electricity price hedges not in hedge relationships do not include options not yet called.
2 Average interest rates for IRS and CCIRS are based on their pay legs. For pay-float swaps (CCIRS and IRS in fair value hedges), the rate comprises the floating base rate plus the margin.
3 The NZD/USD closing spot rate at 30 June 2021 was 0.70 (2020 – 0.65)
4 Average exchange rates include 0.92 AUD, 0.58 EUR, 0.71 USD and 75.56 JPY.
5 The CCIRS liability arises from the cash flow hedge component.

The change in fair value of derivatives recognised in the Statement of Comprehensive Income is provided below, grouped by type of hedge relationship. Further information on hedging activities and fair value of derivatives is provided in notes E7 and E8.

$m	Fair value hedge	Cash flow and fair value hedge	Cash flow hedge			No hedge relationship	
2021	**IRS**	**CCIRS**	**IRS**	**Electricity price derivatives**	**Foreign exchange contracts**	**Electricity price derivatives**	**Total**
Change in fair value recognised in profit/(loss)							
• Hedge ineffectiveness	–	–	8	–	–	–	**8**
• Hedge effectiveness	(7)	(73)	–	–	–	–	**(80)**
• Non-hedge movements	–	–	–	–	–	(1)	**(1)**
• Fair value adjustments to hedged borrowings	7	73	–	–	–	–	**80**
Total change in fair value of financial instruments	**–**	**–**	**8**	**–**	**–**	**(1)**	**7**
Hedge effectiveness recognised in OCI	**–**	**(3)**	**27**	**(61)**	**1**		**(37)**
Amounts reclassified to profit/(loss)	**–**	**–**	**7**	**25**	**–**	**–**	**32**
2020							
Change in fair value recognised in profit/(loss)							
• Hedge ineffectiveness	–	–	2	–	–	–	**2**
• Hedge effectiveness	4	54	–	–	–	–	**58**
• Non-hedge movements	–	–	–	–	–	(2)	**(2)**
• Fair value adjustments to hedged borrowings	(4)	(54)	–	–	–	–	**(58)**
Total change in fair value of financial instruments	**–**	**–**	**2**	**–**	**–**	**(2)**	**–**
Hedge effectiveness recognised in OCI	**–**	**2**	**(20)**	**(19)**	**–**	**–**	**(37)**
Amounts reclassified to profit/(loss)	**–**	**–**	**5**	**19**	**–**	**–**	**24**

Sensitivities

The graph (right) summarises the impact on derivative valuations of possible changes in forward wholesale electricity prices and forward interest rates. The analysis assumes that all variables were held constant except for the relevant market risk factor.



D2. Liquidity risk

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

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

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

CCIRS cash flows are included within Borrowings in the table (right). US dollar inflows on the CCIRS offset the US dollar outflows on the USPP notes.

$m	Total contractual cash flows	Less than 1 year	1–2 years	2–5 years	More than 5 years
2021					
Trade and other payables	(197)	(197)	–	–	–
Borrowings	(911)	(193)	(139)	(463)	(116)
Electricity price derivatives – net settled	(64)	(27)	(23)	(14)	–
IRS – net settled	3	(8)	(3)	13	1
Foreign exchange derivatives – inflow	178	93	74	11	–
Foreign exchange derivatives – outflow	(180)	(93)	(75)	(12)	–
	(1,171)	**(425)**	**(166)**	**(465)**	**(115)**
2020					
Trade and other payables	(163)	(163)	–	–	–
Borrowings	(1,226)	(303)	(195)	(448)	(280)
Electricity price derivatives – net settled	(39)	(29)	(6)	(4)	–
IRS – net settled	(20)	(10)	(6)	(4)	–
Foreign exchange derivatives – inflow	6	6	–	–	–
Foreign exchange derivatives – outflow	(6)	(6)	–	–	–
	(1,448)	**(505)**	**(207)**	**(456)**	**(280)**

D3. Credit risk

Total credit risk exposure is measured by the financial instruments in an asset position of $476 million (2020: $374 million). To minimise credit risk exposure, Contact has a policy to only transact with creditworthy counterparties and do not exceed internally imposed exposure limits to any one counterparty. Where appropriate, collateral is obtained. Further information on customer-related credit risk is provided in note E4.

E. Other disclosures

E1. Tax

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

Tax is recognised in profit, except when it relates to items recognised directly in OCI.

$m	2021	2020
Profit before tax	261	171
Tax at 28%	(73)	(48)
Tax effect of adjustments:		
• Prior period adjustments	–	(1)
• Reinstatement of tax depreciation on buildings	–	5
• Other	(1)	(2)
Tax expense – continuing operations	**(74)**	**(46)**
Current	(91)	(67)
Deferred	17	21

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

$m	PP&E and intangible assets	Derivative financial instruments	Other	Total
Balance at 1 July 2019	(728)	30	22	(676)
Recognised in profit/(loss)	16	–	5	21
Recognised in OCI	–	4	–	4
Recognised in other reserves	–	–	(2)	(2)
Balance at 30 June 2020	**(712)**	**34**	**25**	**(653)**
Recognised in profit/(loss)	16	(2)	3	17
Recognised in balance sheet	(1)	–	(1)	(2)
Recognised in OCI	–	2	–	2
Recognised in other reserves	–	–	1	1
Balance at 30 June 2021	**(697)**	**34**	**28**	**(635)**

E2. Operating expenses

Other operating expenses (note A2) include total labour costs of $111 million (2020: $99 million). Labour costs include contributions to KiwiSaver of $3 million (2020: $3 million).

Audit fees paid to Contact's auditor (KPMG) amounted to $541,000 for review of the interim, and audit of the year end, financial statements (2020: $560,000). Other fees paid to the auditor were $53,750 for other assurance work (2020: $44,500), and $3,500 for supervisor reporting (2020: $3,500). Other assurance work relates to review of greenhouse gas emissions reporting, Global Reporting Initiative indicators and our Green Borrowing Programme.

E3. Inventory

Contact's inventories comprise gas in storage for use in thermal generation, consumables and spare parts for power stations, and diesel fuel for use in the Whirinaki power plant. Inventory gas is measured at weighted average cost. All other inventories are stated at cost.

$m	2021	2020
Inventory gas	56	41
Consumables and spare parts	10	11
Diesel fuel	3	4
	69	**56**

E4. Trade and other receivables

$m	2021	2020
Trade receivables	168	102
Unbilled receivables	76	75
Provision for impairment	(2)	(3)
Net trade receivables	**242**	**174**
Contract assets	9	13
Prepayments	4	4
	255	**191**

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

Unbilled receivables represent Contact's best estimate of unbilled retail sales at the end of the reporting period. The estimate uses smart meter data to determine the relevant unbilled amount for the period. Consumption history is used if smart meter data is not available.

As a high proportion of the data now reflects actual usage recorded by smart meters, unbilled receivables is no longer considered to be an area of higher estimation or judgement within the financial statements.

Ageing of trade receivables past due but not impaired are:

$m	2021	2020
Less than one month	12	9
Greater than one month	4	2
	16	**11**

When Contact has been unable to collect amounts due from customers those debts are written off. Trade receivables, net of recoveries, of $1 million (2020: $3 million) were written off during the reporting period.

Contract assets

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

$m	2021	2020
Opening balance	13	16
Additions	8	8
Amortised to revenue	(10)	(8)
Amortised to operating expenses	(2)	(3)
Closing balance	**9**	**13**

Of the total contract assets balance, $7 million (2020: $9 million) is expected to be amortised within one year of the reporting period end and the remainder between one to three years of the reporting period end.

E5. Provisions

Contact recognises restoration and environmental rehabilitation provisions for the expected costs to abandon and restore geothermal wells and generation sites and to remove asbestos from properties.

Other provisions includes $7 million for remediation of the Holidays Act non-compliance (2020: $5 million) and $8 million for Simply Energy performance payments (2020: nil).

The restoration provision was reduced by $16 million in the year ended 30 June 2021 due to a lower estimated future cost to abandon and restore wells. The lower cost estimate results from the acquisition of Western Energy Services Limited, who provide well abandonment and restoration services.

$m	Restoration/ environmental rehabilitation	Other	Total
Balance at 1 July 2020	(59)	(9)	(68)
Created	(5)	(15)	(20)
Released	16	–	16
Utilised	3	–	3
Unwind of discount	(5)	–	(5)
Balance at 30 June 2021	**(50)**	**(24)**	**(74)**
Current	(4)	(19)	(23)
Non-current	(46)	(5)	(51)

These provisions are based on estimates of future cash flows to make good the affected sites at the end of the assets' useful lives. The expected future cash flows are discounted to their present value using a pre-tax discount rate equivalent to a post-tax rate of between 6 per cent and 7 per cent.

E6. Profit to operating cash flows

A reconciliation of profit to operating cash flows is provided below.

$m	2021	2020
Profit	**187**	**125**
Depreciation and amortisation	249	220
Amortisation of contract assets	11	11
Change in fair value of financial instruments	(7)	–
Movement in provisions	2	10
Deferred finance costs	1	1
Bad debt expense	2	5
Share-based compensation	2	3
Share of profit/loss in joint venture/associate	1	–
Changes in assets and liabilities, net of non-cash, investing and financing activities		
Trade and other receivables	(68)	(8)
Inventories and intangible assets	(35)	(3)
Trade and other payables	92	1
Tax payable	11	(6)
Deferred tax	(16)	(18)
Operating cash flows	**432**	**341**

E7. Hedging activities

Contact has designated derivatives used to manage market risks into fair value and cash flow hedge relationships. A hedge ratio of 1:1 is applied for all hedge relationships, as the notional value of the derivative matches the notional value of the hedged item.

Fair value hedges

Interest rate risk

The derivatives (IRS) Contact uses to manage its interest rate risk meet the criteria for hedge accounting where they directly relate to issued debt. The hedge is against future fair value movements in the debt and can be for a portion of the debt. Contact has designated $188 million of retail bonds into fair value hedge relationships with receive-fixed, pay-floating IRS. The fixed interest rates and other terms match the relevant bond to create an economic relationship.

The bonds are recognised at amortised cost. Both the hedged risk and the hedging instrument (IRS) are recognised at fair value. The change in the fair value of both items is recognised in profit/(loss) and will offset to the extent the hedging relationship is effective. There are no material sources of ineffectiveness.

Cash flow hedges

The derivatives Contact uses to manage exposure to wholesale electricity prices, floating interest rate risk and foreign exchange rates usually qualify for cash flow hedge accounting. For cash flow hedges, only the derivative is recognised at fair value with the effective portion of all changes in fair value recognised in the cash flow hedge reserve. Any ineffective portion is recognised immediately in profit/(loss). Amounts recognised in the cash flow hedge reserve are reclassified to profit/(loss) or the Statement of Financial Position according to the nature of the hedged item.

The movement in hedge reserves is reconciled below.

$m	Note	2021	2020
Opening balance		(49)	(39)
Effective portion of cash flow hedges	D1	(37)	(37)
Transferred to revenue		33	23
Transferred to deferred tax		2	4
Closing balance		**(51)**	**(49)**

Included in the closing balance at 30 June 2021 is $3 million relating to the cost of hedging reserve (2020: $2 million).

Commodity price risk

Contact designates forecast electricity sales and purchases into cash flow hedges with electricity price derivatives. Volumes are matched to create an economic relationship. There are no material sources of ineffectiveness.

Interest rate risk

Contact designates a certain level of its floating rate exposure into cash flow hedges with receive-floating, pay-fixed IRS in line with set internal policies.

An economic relationship exists between the floating rate exposure and the IRS based on the reference interest rate. Ineffectiveness arises due to IRS that have been designated into hedge relationships part way through their term. These IRS were designated on 1 July 2018 on adoption of NZ IFRS 9.

Combined fair value and cash flow hedges

Contact has designated all its USPP notes into both fair value and cash flow hedge relationships with CCIRS, depending on the component of the USPP note being hedged:

- For the fair value hedges the change in fair value of the USPP note is recognised in profit/(loss) to offset the change in fair value of the relevant CCIRS component.
- For the cash flow hedges the change in fair value of the CCIRS component is recognised in the cash flow hedge reserve.
- The cost to convert foreign currency cash flows under CCIRS is excluded from the hedge relationship and recognised in the cost of hedging reserve.

An economic relationship exists based on the reference interest rates, exchange rate and other terms. There are no material sources of ineffectiveness.

Derivatives not in hedge relationships

These are electricity price derivatives purchased and sold as part of a requirement to participate in the ASX futures electricity market, electricity derivatives entered into for profit making, financial transmission rights and electricity price options. All changes in fair value of these derivatives are recognised directly in profit/(loss).

E8. Financial instruments at fair value

Fair value

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

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

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

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

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

$m	2021	2020
Sourced from market data	(20)	(15)
Derived from market data	12	55
Electricity price estimates	(42)	(11)
	(50)	**29**

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

$m	2021	2020
Opening balance	(11)	(23)
Gain/(loss) in profit/(loss):		
• wholesale electricity revenue	10	13
Gain/(loss) in OCI	(4)	(3)
Instruments issued	(37)	2
Closing balance	**(42)**	**(11)**

For these derivatives a 10 per cent increase in the electricity price would result in an unfavourable movement in fair value of $20 million (2020: $33 million) and a 10 per cent decrease would result in a favourable movement in fair value of $21 million (2020: $29 million).

Initial recognition difference

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

The calibration adjustment is applied to future valuations and reflects the estimated future gains or losses yet to be recognised in the Statement of comprehensive income over the remaining life of the agreement.

The change in calibration adjustment is provided in the table below:

$m	2021	2020
Opening difference	6	(1)
Initial differences in new hedges	(5)	7
Volumes expired and amortised	(2)	4
Changes for future prices and time	(1)	(4)
Closing difference	**(2)**	**6**

E9. Financial instruments at amortised cost

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

$m	2021	2020
Cash and cash equivalents	150	44
Trade and other receivables	207	174
Trade and other payables	(197)	(163)
Borrowings	(792)	(1,054)

The fair value of borrowings is $852 million (2020: $1,215 million). This fair value is derived from market data.

E10. Share-based compensation

Equity Scheme

Contact provides an equity award to certain eligible employees made up of options, performance share rights (PSRs) and deferred share rights (DSRs). If performance hurdles are met, or there is a company change in control, the awards vest and become exercisable. On exercise, PSRs and DSRs convert to ordinary shares at no cost to the employee and options convert on payment of the agreed exercise price or by utilising the option of a facility which cancels the options in return for an equivalent value in issued shares. There are no loans available. There are no holding/retention periods or ownership requirements for employees who exercise equity rights. The awards lapse if the performance hurdles are not met, if they are not exercised by the lapse date or if an employee voluntarily leaves Contact. The scheme continues on redundancy but the entitlements are adjusted.

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

	Options	
	Number outstanding	Price
Balance at 1 July 2019	2,620,181	$5.17
Exercised	(1,110,849)	$4.94
Lapsed	(9,678)	$5.54
Balance at 30 June 2020	**1,499,654**	**$5.33**
Exercised	–	–
Lapsed	(555,559)	$4.97
Balance at 30 June 2021	**944,095**	**$5.54**

At 30 June 2021, no share options were exercisable.

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

Number outstanding	PSRs	DSRs
Balance at 1 July 2019	791,841	1,030,898
Granted	154,164	244,404
Exercised	(314,638)	(581,968)
Lapsed	(44,852)	(23,155)
Balance at 30 June 2020	**586,515**	**670,179**
Granted	228,761	301,355
Exercised	–	(434,021)
Lapsed	(151,518)	(33,141)
Balance at 30 June 2021	**663,758**	**504,372**

Share options had a weighted average remaining life of 5 months (2020: 1 year and 1 month), PSRs had 1 year and 11 months (2020: 1 year and 11 months) and DSRs had 11 months (2020: 9 months).

Contact Share

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

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

Number outstanding	Contact Share
Balance at 1 July 2019	319,841
Shares purchased and issued	61,015
Transferred to employees	(102,701)
Balance at 30 June 2020	**278,155**
Shares purchased and issued	87,741
Transferred to employees	(98,234)
Balance at 30 June 2021	**267,662**

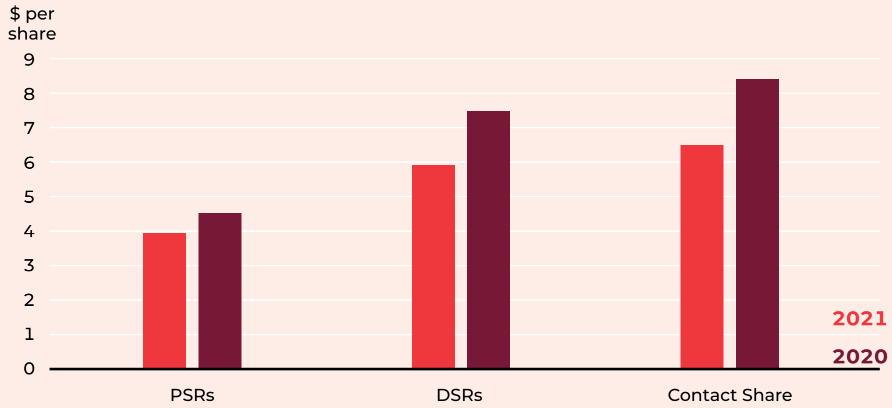
These shares have a weighted average remaining life of 1 year and 4 months (2020: 1 year and 2 months).

Share-based compensation reserve

The movement in the share-based compensation reserve is reconciled below:

$m	Note	2021	2020
Opening balance		8	10
Exercised share scheme awards		(4)	(6)
Share-based compensation expense		3	4
Current tax on share scheme		–	2
Deferred tax on share scheme	E1	1	(2)
Closing balance		**8**	**8**

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



Key inputs in determining the fair values are:

	2021	2020
Risk-free interest rate	0.1%	1%
Expected dividend yield	6%	7%
Expected share price volatility	25%	18%

E11. Related parties

Simply Energy Limited

Simply Energy Limited (Simply) is based in Wellington, New Zealand and provides energy solutions to independent generators, retailers and commercial energy users.

Contact Energy Limited increased its shareholding in Simply to 100 per cent on 31 August 2020, as part of its efforts to accelerate decarbonisation and provide commercial and industrial customers with valuable, innovative energy solutions. From this date, Simply became a subsidiary of Contact with its results consolidated into the group.

In addition to the remaining $2 million payable for the initial 49.9 per cent shareholding, $7 million is to be paid over the next 18 months. This will be followed by a variable performance-based payment in December 2022 that is linked to decarbonisation and earnings targets. Contact has recorded a provision of $8 million for the performance payment reflecting its fair value (possible range of $nil to $15 million).

Identifiable assets acquired and liabilities assumed

The table below summarises the fair value of the assets acquired and liabilities assumed at the date of acquisition.

$m	2021
Cash and cash equivalents	1
Derivatives – asset	2
Receivables and prepayments	5
Property, plant and equipment	2
Inangible assets	8
Payables and accruals	(5)
Derivatives – liability	(2)
Deferred tax	(2)
Total identifiable net assets acquired	**8**

Goodwill

The fair value of the existing investment and purchase consideration, less the fair value of the net identifiable assets acquired is reconciled below.

$m	2021
Consideration for option to acquire	15
Fair value of existing investment	10
Fair value of identifiable net assets	(8)
Goodwill	**17**

The goodwill is attributable mainly to the capabilities that Simply provides and the synergies expected to be achieved from integrating Contact's C&I business with Simply's innovative technology, data solutions and agile customer engagement platform. None of the goodwill recognised is expected to be deductible for tax purposes.

Western Energy Services Limited

On 31 March 2021, Contact Energy Limited acquired a 100 per cent shareholding in Western Energy Services Limited (Western) for a purchase price of $32 million. On that date, Western became a subsidiary as Contact gained a controlling interest in the company.

Western is based in Taupō, New Zealand and provides geothermal well services domestically and internationally. Working closely with Western allows Contact to add to our geothermal capability and continue to be innovative in geothermal technology development.

Identifiable assets acquired and liabilities assumed

The table below summarises the provisional fair value of the assets acquired and liabilities assumed at the date of acquisition.

$m	2021
Receivables and prepayments	3
Property, plant and equipment	8
Payables and accruals	(2)
Total identifiable net assets acquired	**8**

Goodwill

The fair value of the purchase consideration less the fair value of the net identifiable assets acquired has been provisionally recorded below.

$m	2021
Consideration	32
Fair value of identifiable net assets	(8)
Provisional goodwill	**24**

The goodwill is attributable mainly to synergies expected to be achieved from integrating Western's innovative geothermal technology and service techniques, along with conventional well services, into Contact's existing steamfield operations. None of the goodwill recognised is expected to be deductible for tax purposes.

The purchase price allocation for Western will be finalised within 12 months of the acquisition date, which may result in the allocation of a proportion of provisional Goodwill to identifiable intangible assets such as brand and intellectual property.

Drylandcarbon One Limited Partnership

Contact owns a 16.5 per cent share of Drylandcarbon One Limited Partnership (Drylandcarbon) and at 30 June 2021 is committed to invest up to $9 million over the next three years. Drylandcarbon is based in Wellington, New Zealand and is focused on long-term carbon farming and afforestation on economically marginal land in New Zealand, which will offset some of Contact's carbon obligations.

Drylandcarbon is accounted for as an associate, as Contact has significant influence through its participation in Drylandcarbon's financial and operating policy decisions being equivalent to the other three foundational investors.

Contact applies the equity method of accounting for its investment in Drylandcarbon. The initial investments are recognised at cost and are subsequently adjusted for Contact's share of the entity's profits or losses.

Related party transactions

Contact's related parties also include its directors and leadership team (LT). Transactions with Simply up until acquisition date are disclosed below.

Received/(paid) $m	2021	2020
Simply Energy Limited		
Electricity contracts	1	2
Drylandcarbon One Limited Partnership		
Capital contributions	(7)	(4)
Key management personnel		
Directors' fees	(1)	(1)
LT – salary and other short-term benefits	(5)	(5)
LT – share-based compensation expense	(1)	(2)
Balances payable at end of the year		
Key management personnel	(2)	–

Members of the leadership team and directors purchase goods and services from Contact for domestic purposes on normal commercial terms and conditions. For members of the leadership team this includes staff discount available to all eligible employees.

E12. New accounting standards

There are no new accounting standards issued but not yet effective which materially impact Contact.

Combined Independent Auditor's and Limited Assurance Report

General

Our assurance procedures consisted of the audit of the Consolidated Financial Statements of Contact Energy Limited and limited assurance procedures in relation to Contact Energy Limited's selected Global Reporting Initiative ('GRI') indicators within Contact Energy Limited's Annual Report.

Our scope can be summarised as follows:

Consolidated Financial Statements	Selected GRI Indicators
Audit Scope	**Assurance Scope**
Reasonable assurance	Limited assurance
Other Information in Contact Energy Limited's Annual Report	
Consider consistency with Consolidated Financial Statements	
No assurance	

Independent Auditor's Report

To the shareholders of Contact Energy Limited

Report on the audit of the consolidated financial statements

Opinion

In our opinion, the accompanying consolidated financial statements of Contact Energy Limited (the 'company'), the entities over which it has control and its investment in associate (the 'group') on pages 81 to 105:

- present fairly in all material respects the Group's financial position as at 30 June 2021 and its financial performance and cash flows for the year ended on that date; and
- comply with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

We have audited the accompanying consolidated financial statements which comprise:

- the consolidated statement of financial position as at 30 June 2021;
- the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended; and
- notes, including a summary of significant accounting policies and other explanatory information.

Basis for opinion

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

We are independent of the group in accordance with Professional and Ethical Standard 1 International Code of Ethics for Assurance Practitioners (including International Independence Standards) issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) ('IESBA Code'), and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

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

Please refer to the section of our report entitled "Our independence and quality control" below for detail of the other services we have provided to the group.

Scoping

The scope of our audit is designed to ensure that we perform adequate work to be able to give an opinion on the consolidated financial statements as a whole, taking into account the structure of the group, the financial reporting systems, processes and controls, and the industry in which it operates. The context for our audit is set by the group's major activities being wholesale electricity generation and an electricity retailer in the financial year ended 30 June 2021.

Materiality

The scope of our audit was influenced by our application of materiality. Materiality helped us to determine the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and on the consolidated financial statements as a whole. The materiality for the consolidated financial statements as a whole was set at $10 million determined with reference to a benchmark of group profit before tax. We chose the benchmark because, in our view, this is a key measure of the group's performance.

Contents

Key audit matters

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

The key audit matter	How the matter was addressed in our audit
Future generation capital work in progress – Note C1 and C2 of the financial statements	
We considered the recoverability of capital work in progress, with a particular focus on the Tauhara geothermal project which is currently in development. We consider this a key audit matter due to the recoverability assessment being based on Management's intention for continued investment in the project; the impact of future developments in the electricity generation sector and the level of judgement involved in the assumptions modelled.	We satisfied ourselves that the recoverability of Tauhara related capital work in progress was supported by appropriate project plans, construction contracts and modelled future cash flows at year end. We considered Contact's generation asset portfolio strategy and known third-party future generation developments and the potential impact of these on the Tauhara project as well as the wholesale generation market as a whole. We tested the significant judgements in the Tauhara project modelled cash flows by comparing: • Forward electricity prices to external market data; • Future generation volumes, operating costs and asset renewal costs to budgets and signed construction contracts; and • The model's discount rates to our own independently determined rates. We challenged the assumptions by performing a sensitivity analysis, considering a range of likely outcomes.

The key audit matter	How the matter was addressed in our audit
Carrying value of cash-generating units – Note C1 and C2 of the financial statements	
The Group separates its business into two cash-generating units (CGUs) for the purpose of asset impairment testing. The value of each CGU, including any allocated goodwill, is supported by a discounted cash flow model which is inherently subjective. In terms of the Wholesale CGU we focus on the generation assets due to the significance of the assets relative to the Group's financial position and goodwill related to recent acquisitions. Our focus for the customer CGU is the valuation of goodwill of $179 million. The key judgements in determining the CGUs' value in use are: forward electricity prices, future generation volumes, customer transfer price and margin, forecast operating and asset costs, the terminal growth rate and the discount rate applied to the future cash flows.	Our work to assess whether the Group should recognise any impairment to the CGUs included ensuring the methodology adopted in the model is consistent with accepted valuation approaches. We also assessed whether the modelled cash flows appropriately reflect the Group's strategy and budget. We tested the significant judgements in the modelled cash flows by comparing: • forward electricity prices to external market projections; • future generation volumes to historical volumes; • Customer transfer price and margin to budget and historic data; • operating costs and asset renewal costs to historical levels and budgets; and • the modelled terminal growth and discount rates to our own independently determined rates. We challenged the assumptions by performing a sensitivity analysis, considering a range of likely outcomes based on various scenarios. We are satisfied that the key assumptions are within acceptable ranges and in line with current market view. As an overall test we compared the market-based enterprise value of $7.2 billion to the Group's carrying value at 30 June 2021 of $4.1 billion.

Other information

The Directors, on behalf of the group, are responsible for the other information included in the entity's Annual Report. Other information includes Key activity this year, Who we are, Creating value, Strategic themes, Strategic enablers, Governance matters and Additional disclosures. Our opinion on the consolidated financial statements does not cover any other information and we do not express any form of assurance conclusion thereon.

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

Use of this independent auditor's report

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

Responsibilities of the Directors for the consolidated financial statements

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

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

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

Our objective is:

- to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error; and
- to issue an independent auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (NZ) will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

A further description of our responsibilities for the audit of these consolidated financial statements is located at the External Reporting Board (XRB) website at: http://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-1/

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

Independent limited assurance report on the selected GRI Indicators included in the Annual Report

To the Directors of Contact Energy Limited

Conclusion

Our limited assurance conclusion has been formed on the basis of the matters outlined in this report.

Based on our limited assurance engagement, nothing has come to our attention that would lead us to believe that the selected Global Reporting Initiative ('GRI') indicators of Contact Energy Limited (the 'company') within the Annual Report have not, in all material respects, been prepared in accordance with the Global Reporting Initiative Standards ('GRI Standards'), for the period 1 July 2020 to 30 June 2021.

Basis for conclusion

We have performed an engagement to provide limited assurance in relation to whether anything has come to our attention to indicate the selected GRI indicators have not been prepared in all material respects in accordance with the GRI Standards for the year ended 30 June 2021.

The selected GRI indicators covered by this assurance report include:

102-8 Employee statistics (page 73–74)

303-3 Total water withdrawal by source (page 42)

303-4 Total water discharge by destination (page 42)

303-5 Total water consumption (page 42)

304-3 Habitats protected or restored (page 76)

403-9 Work-related injuries (page 71)

405-1 Gender, age and ethnicity statistics (page 73–74)

413-1 Community engagement and development (page 38)

308-2 Negative environmental impacts in the supply chain and actions taken (page 71)

414-2 Negative social impacts in the supply chain and actions taken (page 71)

307-1 Non-compliance with environmental laws and regulations (page 38)

419-1 Non-compliance with laws and regulations in the social and economic area (page 49)

418-1 Substantiated complaints concerning breaches of customer privacy and losses of customer data (page 75)

We conducted our limited assurance engagement in accordance with International Standard on Assurance Engagements (New Zealand) 3000 (Revised) *Assurance Engagements other than audits or reviews of historical financial information* and Standard on Assurance Engagements SAE 3100 (Revised) *Assurance Engagements on Compliance*. We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our conclusion. In accordance with those standards we have:

- used our professional judgement to plan and perform the engagement to obtain limited assurance that the information subject to assurance is free from material non-compliance, whether due to fraud or error;
- considered relevant internal controls when designing our assurance procedures, however we do not express a conclusion on the effectiveness of these controls; and
- ensured that the engagement team possess the appropriate knowledge, skills and professional competencies.

Use of this limited assurance report

Our report should not be regarded as suitable to be used or relied on by any parties other than Contact Energy Limited for any purpose or in any context. Any party other than Contact Energy Limited who obtains access to our report or a copy thereof and chooses to rely on our report (or any part thereof) will do so at its own risk.

To the fullest extent permitted by law, we accept or assume no responsibility and deny any liability to any party other than Contact Energy Limited for our work, for this independent limited assurance report, or for the conclusions we have reached.

Management's responsibility for the GRI indicators

Management of the company are responsible for the preparation and fair presentation of the selected GRI indicators in all material respects in accordance with the GRI standards, and the information and assertions contained within the Annual Report.

This responsibility includes determining the company's objectives in respect of sustainable development performance and reporting, including the identification of stakeholders and material issues, and for establishing and maintaining appropriate performance management and internal control systems from which the reported performance information is derived.

Management is responsible for preventing and detecting fraud and for identifying and ensuring that the company complies with laws and regulations applicable to its activities.

Management is also responsible for ensuring that staff involved with the preparation and presentation of the GRI indicators are properly trained, information systems are properly updated and that any changes in reporting encompass all significant business units.

Our responsibility

Our responsibility is to express a conclusion to the directors on whether anything has come to our attention that the selected GRI indicators of Contact Energy Limited have not, in all material respects, been prepared in accordance with the GRI standards for the year ending 30 June 2021.

Procedures performed

A limited assurance engagement consists of making inquiries, primarily of persons responsible for the preparation of information presented in the selected GRI indicators, and applying analytical and other evidence gathering procedures, as appropriate. These procedures included:

- Inquiries of management to gain an understanding of Contact Energy Limited's processes for determining the material issues for Contact Energy Limited's key stakeholder groups;
- Interviews with senior management and relevant staff concerning sustainability strategy and policies for material issues, and the implementation of these across the business;
- Interviews with relevant staff responsible for providing the information in the selected GRI indicators;
- Comparing the information presented in the selected GRI indicators to corresponding information in the relevant underlying sources to determine whether all the relevant information contained in such underlying sources has been included in the GRI indicators; and
- Reading the information presented in the selected GRI indicators to determine whether it is in line with our overall knowledge of, and experience with, the sustainability performance of Contact Energy Limited.

The procedures performed in a limited assurance engagement vary in nature and timing from, and are less in extent than for, a reasonable assurance engagement, and consequently the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained has a reasonable assurance engagement been performed.

Due to the inherent limitations of any internal control structure it is possible that errors or irregularities in the information presented in the GRI indicators may occur and not be detected. Our engagement is not designed to detect all weaknesses in the internal controls over the preparation and presentation of the GRI indicators, as the engagement has not been performed continuously throughout the period and the procedures performed were undertaken on a test basis.

Our independence and quality control

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

The firm applies Professional and Ethical Standard 3 (Amended) and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Our firm has provided services to Contact Energy Limited in relation to statutory audit, trustee reporting and other assurance for Greenhouse Gas Emissions reporting, Green Borrowing Programme reporting and Global Initiative Reporting indicators. Subject to certain restrictions, partners and employees of our firm may also deal with the Contact Energy Limited on normal terms within the ordinary course of trading activities of the business of the Contact Energy Limited. These matters have not impaired our independence as assurance providers of Contact Energy Limited for this engagement. The firm has no other relationship with, or interest in, Contact Energy Limited.

The partner on the engagement resulting in this Combined Independent Auditor's and Limited Assurance Report is Sonia Isaac.

KPMG

Sonia Isaac
KPMG
Wellington
13 August 2021