Financial statements

Financial statements

Contents

About these financial statements

For the year ended 30 June 2023

These financial statements are for Contact, a group made up of Contact Energy Limited, its subsidiaries and its interests in associates and joint arrangements.

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 and future generation development capital work in progress (note **C2**)
- fair value measurement of financial instruments (notes **D1** and **E9**)
- provision for future restoration and rehabilitation obligations and the Ahuroa Gas Storage facility (AGS) onerous contract provision (note **E6**).

The financial statements were authorised on behalf of the Contact Energy Limited Board of Directors on 11 August 2023.

Robert McDonald
Chair

Sandra Dodds
Chair, Audit and Risk Committee

Statement of comprehensive income

For the year ended 30 June 2023

$m	Note	2023	2022
Revenue	A2	2,118	2,387
Operating expenses	A2	(1,613)	(1,820)
Interest expense	B5	(45)	(36)
Interest revenue	B5	4	–
Depreciation and amortisation	C1	(224)	(262)
Change in fair value of financial instruments	D1	(63)	(16)
Profit before tax		**177**	**253**
Tax expense	E1	(50)	(71)
Profit		**127**	**182**
Items that may be reclassified to profit/(loss):			
Change in hedge reserves (net of tax)	E8	73	(31)
Comprehensive income		**200**	**151**
Profit per share (cents) – basic and diluted		16.3	23.4

Profit before tax includes an onerous contract provision relating to AGS of $116 million, of which $3 million is in interest expense. Excluding the onerous contract provision, Profit before tax would be $293 million, Profit would be $211 million and profit per share (basic and diluted) would be 26.9 cents per share.

Statement of cash flows

For the year ended 30 June 2023

$m	Note	2023	2022
Receipts from customers		2,117	2,406
Payments to suppliers and employees		(1,592)	(1,880)
Interest paid		(25)	(28)
Tax paid		(105)	(89)
Operating cash flows	E7	**395**	**409**
Purchase and construction of assets		(541)	(347)
Capitalised interest		(44)	(19)
Realised gains/(losses) on market derivatives		(27)	(9)
Investment in associates		(11)	(11)
Proceeds from sale of assets		16	1
Deferred consideration for acquisition of subsidiaries		(11)	(5)
Investing cash flows		**(618)**	**(390)**
Dividends paid	B3	(243)	(242)
Proceeds from borrowings		1,092	536
Repayment of borrowings		(650)	(291)
Financing costs		(4)	(4)
Financing cash flows		**195**	**(1)**
Net cash flow		(28)	**18**
Add: cash at the beginning of the year		168	150
Cash at the end of the year	B4	**140**	**168**

Statement of financial position

At 30 June 2023

$m	Note	2023	2022
Cash and cash equivalents	B4	140	168
Trade and other receivables	E4	249	227
Inventories	E3	48	58
Intangible assets	C1	33	27
Derivative financial instruments	D1	123	23
Assets held for sale		–	5
Total current assets		**593**	**508**
Property, plant and equipment	C1	4,615	4,095
Intangible assets	C1	202	200
Inventories	E3	37	–
Goodwill	C2	214	214
Investments in associates	E12	31	21
Derivative financial instruments	D1	116	128
Total non-current assets		**5,215**	**4,658**
Total assets		**5,808**	**5,166**
Trade and other payables	E5	275	261
Tax payable		33	36
Borrowings	B4	384	287
Derivative financial instruments	D1	83	98
Provisions	E6	5	15
Total current liabilities		**780**	**697**
Borrowings	B4	1,172	812
Derivative financial instruments	D1	159	128
Provisions	E6	*277	58
Deferred tax	E1	589	616
Other non-current liabilities		27	15
Total non-current liabilities		**2,224**	**1,629**
Total liabilities		**3,004**	**2,326**
Net assets		**2,804**	**2,840**
Share capital	B2	1,988	1,955
Retained earnings		813	958
Hedge reserves	E8	(9)	(82)
Share-based compensation reserve	E11	11	8
Shareholders' equity		**2,804**	**2,840**

* Non-current provisions include an onerous contract provision relating to AGS of $116 million.

Statement of changes in equity

For the year ended 30 June 2023

$m	Note	Share capital	Retained earnings	Hedge reserves	Share-based compensation reserves	Shareholders' equity
Balance at 1 July 2021		**1,922**	**1,048**	**(51)**	**8**	**2,927**
Profit		–	182	–	–	182
Change in hedge reserves (net of tax)	E8	–	–	(31)	–	(31)
Change in share capital	B2	33	–	–	–	33
Dividends paid	B3	–	(272)	–	–	(272)
Balance at 30 June 2022		**1,955**	**959**	**(82)**	**8**	**2,840**
Profit		–	127	–	–	127
Change in hedge reserves (net of tax)	E8	–	–	73	–	73
Change in share-based compensation reserve	E11	–	–	–	3	3
Change in share capital	B2	33	–	–	–	33
Dividends paid	B3	–	(273)	–	–	(273)
Balance at 30 June 2023		**1,988**	**813**	**(9)**	**11**	**2,804**

Notes to the financial statements

A. Our performance

A1. Segments

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

The Wholesale segment includes revenue from the sale of electricity to the wholesale electricity market, to Commercial & Industrial (C&I) customers and to the Retail 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 are included in the Wholesale segment. The results of Contact Energy Risk Limited have been allocated across the operating segments based on fixed asset values, revenues, and headcount.

The Retail 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 and distribute electricity to customers.

'Unallocated' includes corporate functions not directly allocated to the operating segments.

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

A2. Earnings

The table on the next page provides a breakdown of Contact's revenue, expenses and earnings before interest, tax, depreciation, 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.

Within the segment results, change in fair value of financial instruments are realised and unrealised fair value gains/losses on financial instruments that are not designated in a hedging relationship, excluding realised gains/losses on those financial instruments that are entered into by Contact for risk management purposes. It also includes hedge accounting ineffectiveness and the effect of credit risk.

The following reclassifications have been made within the segment results to align with previous IFRS Interpretation Committee guidance relating to derivatives not designated into a hedging relationship:

- $27 million (2022: $9 million) of realised losses from market derivatives not in a hedge relationship have been reclassified to 'Change in fair value of financial instruments'. These were previously presented as 'Other market costs'.
- $45 million (2022: $21 million) of realised losses on risk management derivatives not in a hedge relationship have been separated to its own line within EBITDAF. These were previously presented in 'Other market costs' and 'Electricity purchases, net of hedging'.

Change in fair value of financial instruments in the Statement of Comprehensive Income includes both 'realised gains/losses on risk management derivatives not in a hedge relationship' and, change in fair value of financial instruments' from the segment results.

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.
- **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.
- **Steam and broadband**
  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.

Segment results

$m	2023 Wholesale	2023 Retail	2023 Unallocated	2023 Eliminations	2023 Total	2022 Wholesale	2022 Retail	2022 Unallocated	2022 Eliminations	2022 Total
Mass market electricity	–	937	–	(1)	936	–	869	–	(1)	868
C&I electricity – fixed price	243	–	–	–	243	215	–	–	–	215
C&I electricity – pass through	23	–	–	–	23	34	–	–	–	34
Wholesale electricity, net of hedging	685	–	–	–	685	1,071	–	–	–	1,071
Electricity-related services revenue	12	–	–	–	12	8	–	–	–	8
Inter-segment electricity sales	482	–	–	(482)	–	395	–	–	(395)	–
Gas	5	90	–	–	95	7	82	–	–	89
Steam	35	–	–	–	35	33	–	–	–	33
Geothermal services	6	–	–	–	6	3	–	–	–	3
Broadband	–	66	–	–	66	–	53	–	–	53
Other income	8	9	–	–	17	6	7	–	–	13
Total revenue	**1,499**	**1,102**	**–**	**(483)**	**2,118**	**1,772**	**1,011**	**–**	**(396)**	**2,387**
Electricity purchases, net of hedging	(479)	–	–	–	(479)	(788)	–	–	–	(788)
Electricity purchases – pass through	(16)	–	–	–	(16)	(26)	–	–	–	(26)
Electricity-related services cost	(6)	–	–	–	(6)	(8)	–	–	–	(8)
Inter-segment electricity purchases	–	(482)	–	482	–	–	(395)	–	395	–
Gas & diesel purchases	(53)	(26)	–	–	(79)	(95)	(33)	–	–	(128)
Gas storage costs	(139)	–	–	–	*(139)	(24)	–	–	–	(24)
Carbon emissions costs	(26)	(11)	–	–	(37)	(38)	(6)	–	–	(44)
Generation transmission & levies	(27)	–	–	–	(27)	(24)	–	–	–	(24)
Electricity networks, levies & meter costs – fixed price	(59)	(423)	–	–	(482)	(60)	(407)	–	–	(467)
Electricity networks, levies & meter costs – pass through	(2)	–	–	–	(2)	(8)	–	–	–	(8)
Gas networks, transmission & meter costs	(5)	(45)	–	–	(50)	(6)	(40)	–	–	(46)
Geothermal service costs	(3)	–	–	–	(3)	(2)	–	–	–	(2)
Broadband costs	–	(60)	–	–	(60)	–	(45)	–	–	(45)
Other operating expenses	(121)	(69)	(44)	1	(233)	(115)	(68)	(28)	1	(210)
Total operating expenses	**(936)**	**(1,116)**	**(44)**	**483**	**(1,613)**	**(1,194)**	**(994)**	**(28)**	**396**	**(1,820)**
Realised gains/(losses) on risk management derivatives not in a hedge relationship	(45)	–	–	–	(45)	(21)	–	–	–	(21)
EBITDAF	**518**	**(14)**	**(44)**	**–**	**460**	**557**	**17**	**(28)**	**–**	**546**
Depreciation and amortisation					(224)					(262)
Net interest expense					(41)					(36)
Change in fair value of financial instruments					(18)					5
Tax expense					(50)					(71)
Profit					**127**					**182**

* Gas storage costs includes the impact of the onerous contract provision relating to AGS of $113 million.

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	2023	2022
EBITDAF	A2	**460**	**546**
Tax paid		(105)	(89)
Change in working capital, net of investing and financing activities		(55)	(17)
Non-cash items included in EBITDAF		120	(3)
Net interest paid, excluding capitalised interest		(25)	(28)
Operating cash flows	E7	**395**	**409**
Stay-in-business capital expenditure		(113)	(79)
Operating free cash flow		**282**	**330**
Proceeds from sale of assets		16	1
Free cash flow		**298**	**331**
Operating free cash flow per share (cents)	B3	**36.0**	**42.4**

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

30 June 2022 stay-in-business capital expenditure has been restated, increasing by $4 million and therefore also decreasing operating free cash flow and free cash flow by $4 million. This is a reclassification between stay-in-business capital expense and growth capital expense, which has no impact on total capital expenditure.

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 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	2023	2022
Borrowings	B4	1,556	1,099
Shareholders' equity		2,804	2,840
Total capital funding		**4,360**	**3,939**
Gearing ratio		**35.7%**	**27.9%**
Gearing ratio excluding subordinated debt		**32.2%**	**23.5%**

B2. Share capital

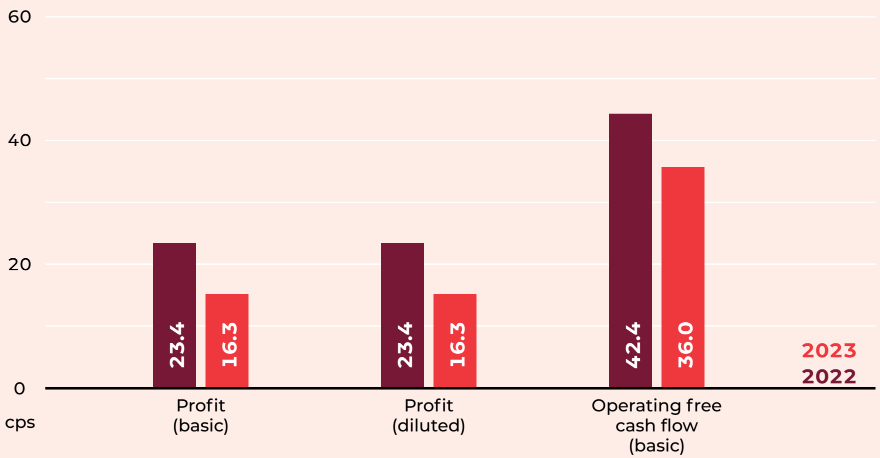
Share capital comprises ordinary shares listed on the NZX and ASX. Certain ordinary shares are held in trust on behalf of employees under the Contact Share scheme (note E11). All shareholders are entitled to receive distributions and to make one vote per share.

$30 million of shares issued during the year were from the dividend reinvestment plan.

	Note	Number	$m
Balance at 30 June 2022		**780,638,303**	**1,955**
Share capital issued		4,325,151	33
Balance at 30 June 2023		**784,963,454**	**1,988**
Comprising:			
Ordinary shares		784,711,129	1,987
Contact Share	E11	252,325	1

B3. Distributions

Earnings and operating free cash flow per share



Weighted average	2023	2022
Number of shares (basic)	783,046,136	778,794,640
Number of shares (diluted)	784,239,991	779,812,908

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 considers the number of performance share rights and deferred share rights that are currently exercisable or will become exercisable depending on likelihood of meeting vesting conditions.

Dividends paid

	Cents per share	$m
2021 Final	21.0	163
2022 Interim	14.0	109
30 June 2022		**272**
2022 Final	21.0	164
2023 Interim	14.0	109
30 June 2023		**273**
Comprising:		
Cash dividends		243
Dividend reinvestment plan		30

Cash dividends was $242 million and dividends reinvestment was $30 million in the prior year.

On 11 August 2023, the Board resolved to pay an 86 percent imputed final dividend of 21 cents per share on 26 September 2023. On 11 August 2023, Contact had $43 million (2022: $41 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 2023 Contact remains compliant with the requirements of the programme. Further information is available on the **Sustainability** section on Contact's website.

$m	Maturity	Coupon	2023	2022
Bank overdraft	< 3 months	Floating	–	2
* Commercial paper	< 3 months	Floating	190	175
* Drawn bank facilities	Various	Floating	–	7
Lease obligations	Various	Various	49	25
* Retail bonds – CEN040	Nov 2022	4.63%	–	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	32	40
* 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
* Capital bonds – CEN060	Nov 2051	4.33%	225	225
* Retail bonds – CEN070	Apr 2028	5.82%	250	–
* Retail bonds – CEN080	Apr 2029	5.62%	300	–
Face value of borrowings			**1,523**	**1,050**
Deferred financing costs			(9)	(6)
Total borrowings at amortised cost			**1,514**	**1,044**
Fair value adjustment on hedged borrowings			43	55
Carrying value of borrowings			**1,556**	**1,099**
Current			384	287
Non-current			1,172	812

Changes in borrowings

$m	2023	2022
Borrowings at the start of the year	1,099	856
Net cash borrowed/(repaid)	442	245
Non-cash change in lease obligations	32	10
Non-cash change in deferred financing costs	(4)	(3)
Non-cash change in fair value adjustment	(12)	(9)
Borrowings at the end of the year	**1,556**	**1,099**

Short-term funding

Contact uses bank facilities for general corporate purposes including to manage its liquidity risk (note **D2**). Whilst 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	2023	2022
Between 1 and 2 years	150	50
Between 2 and 3 years	350	265
More than 3 years	350	115
	850	**430**

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 2023, this collateral was $51 million (2022: $164 million) and is included within total cash and cash equivalents of $140 million (2022: $168 million).

B5. Net interest expense

$m	Note	2023	2022
Interest expense on borrowings		(76)	(48)
Interest expense on finance leases		(1)	(1)
Unwind of discount on provisions	E6	(8)	(5)
Unwind of deferred financing costs		(2)	(1)
Other interest		(2)	–
Capitalised interest	C1	44	19
Interest income		4	–
Net interest expense		**(41)**	**(36)**

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 $145 million (2022: $135 million) and a remaining life of 15 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.

Software as a service contracts are recorded as operating expenditure unless they meet the requirements of an intangible asset or lease asset (i.e. management can demonstrate control of an asset).

Included within additions for the year ended 30 June 2023 is capitalised interest of $44 million (2022: $19 million) in relation to the build of the Tauhara and Te Huka 3 power stations and associated 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 2021	5,718	137	267	42	6,164
Additions	7	5	337	10	359
Transfers from capital work in progress	30	7	(37)	–	–
Transfers to assets held for sale	(17)	–	–	–	(17)
Disposals	(5)	–	–	(1)	(6)
Balance at 30 June 2022	**5,733**	**149**	**567**	**51**	**6,500**
Additions	154	3	537	29	723
Transfers from capital work in progress	24	2	(26)	–	–
Transfers to assets held for sale	(5)	–	–	–	(5)
Disposals	(28)	(54)	–	(4)	(86)
Balance at 30 June 2023	**5,878**	**100**	**1,078**	**76**	**7,132**
Depreciation and impairment					
Balance at 1 July 2021	(2,072)	(113)	–	(18)	(2,203)
Depreciation	(206)	(4)	–	(5)	(215)
Acquisitions	12	–	–	–	12
Disposals	–	–	–	1	1
Balance at 30 June 2022	**(2,266)**	**(117)**	**–**	**(22)**	**(2,405)**
Depreciation	(180)	(5)	–	(4)	(189)
Transfers to assets held for sale	5	–	–	–	5
Disposals	17	53	–	3	73
Balance at 30 June 2023	**(2,424)**	**(69)**	**–**	**(23)**	**(2,516)**
Carrying value					
At 30 June 2022	3,467	32	567	29	4,095
At 30 June 2023	**3,454**	**31**	**1,078**	**53**	**4,615**

Intangible assets $m	Software and capital work in progress	Carbon emission units	Other	Total
Cost				
Balance at 1 July 2021	501	24	17	542
Additions	27	94	1	122
Disposals	(1)	(91)	–	(92)
Transfer to assets held for sale	(1)	–	–	(1)
Balance at 30 June 2022	**526**	**27**	**18**	**571**
Additions	37	78	–	115
Disposals	–	(72)	–	(72)
Balance at 30 June 2023	**563**	**33**	**18**	**614**
Amortisation				
Balance at 1 July 2021	(296)	–	(1)	(297)
Amortisation	(46)	–	(1)	(47)
Balance at 30 June 2022	**(342)**	**–**	**(2)**	**(344)**
Amortisation	(33)	–	(2)	(35)
Balance at 30 June 2023	**(375)**	**–**	**(4)**	**(379)**
Carrying value				
At 30 June 2022	184	27	16	227
At 30 June 2023	**188**	**33**	**14**	**235**
Current	–	33	–	33
Non-current	188	–	14	202

Capital commitments

At 30 June 2023, Contact was committed to $300 million of contracted capital expenditure (2022: $275 million) and $124 million of carbon forward contracts (2022: $150 million), of which $300 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 units are purchased to offset our emissions under the New Zealand Emissions Trading Scheme (ETS). The units are recognised at cost and 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 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 – 50%
Equivalent operating hours	40,000 – 100,000
Other buildings, plant and equipment	**2 – 33%**
Computer software	**5 – 50%**

C2. Goodwill and asset impairment testing

Contact has two cash-generating units (CGUs): Wholesale and Retail. The Retail CGU includes goodwill of $179 million (2022: $179 million). The Wholesale CGU includes goodwill of $35 million (2022: $35 million).

Capital work in progress (CWIP) includes $1,024 million (2022: $493 million) related to future generation developments.

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. An impairment is recognised when the recoverable value 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 7 percent and 8 percent (2022: 6.5 percent and 7.5 percent) to arrive at the present value, or value in use, of each CGU.

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:

Retail 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.
Price per customer	Actual price 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 developments	
Post-tax discount rate and inflation	External WACC report prepared by Cameron Partners, and implicit inflation rate.
Wholesale electricity price path	Modelled forecast wholesale prices based on an analysis of expected market assumptions, including: hydro inflows, gas and carbon prices, demand, plant capacity and HVDC capacity.
Generation volume and mix	Generation strategy based on expected demand, hydro volumes, planned outages and expected market pricing.
Estimated future capital expenditure and operating costs	Budgeted capital and operating expenditure, reflecting historical levels and known differences.
Fuel costs	Contracted gas and carbon 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 several factors that are difficult to predict, in particular weather, which can impact short-term prices. Wholesale electricity prices may also be adversely affected by a reduction in demand, the availability of fuel and generation capacity in the wholesale electricity market, competitor and transmission system availability.

The post-tax discount rate is an estimate of Contact's weighted average cost of capital and is influenced by several 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%	+715 -611
Wholesale electricity price path	+ 10% - 10%	+593 -593

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 Retail 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.

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. 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. Further information on hedging activities and fair value of derivatives is provided in notes **E8** and **E9**.

$m	Fair value hedge	Cash flow and fair value hedge	Cash flow hedge			No hedge relationship	
2023	**IRS**	**CCIRS**	**IRS**	**Electricity price derivatives**	**Foreign exchange contracts**	**Electricity price derivatives**	**Total**
Notional amount of derivatives	875	376	1,585	14,128 GWh	176	1,953 GWh	
Maturity years	2025 – 2029	2024 – 2028	2024 – 2031	2024 – 2039	2024 – 2026	2024 – 2028	
Average rate/price	Pay 7.1%	Pay NZ 7.8%/0.75USD	Pay 3.3%	Fixed $104/MWh	Comment below	Fixed $144/MWh	
	Receive 5.1%	Receive US 4.1%/0.61USD	Receive 5.7%	Spot $122/MWh	Comment below	Spot $134/MWh	
Fair value of derivatives – asset	2	74	55	78	3	26	**239**
Fair value of derivatives – liability	(29)	(7)	(2)	(152)	(4)	(46)	**(242)**
Carrying value of hedged borrowings	(845)	(445)	–	–	–	–	**(1,290)**
Fair value adjustments to borrowings	26	(69)	–	–	–	–	**(43)**
2022							
Notional amount of derivatives	350	376	1,195	13,833 GWh	118	2,456 GWh	
Maturity years	2023 – 2029	2023 – 2028	2023 – 2027	2023 – 2039	2023 – 2026	2023 – 2025	
Average rate/price	Pay 4.5%	Pay NZ 5%/0.75USD	Pay 3.1%	Fixed $90/MWh	Comment below	Fixed $143/MWh	
	Receive 4.1%	Receive US 4.1%/0.62USD	Receive 2.9%	Spot $110/MWh	Comment below	Spot $165/MWh	
Fair value of derivatives – asset	–	75	37	3	3	33	**151**
Fair value of derivatives – liability	(16)	(5)	(4)	(154)	(5)	(42)	**(226)**
Carrying value of hedged borrowings	(331)	(448)	–	–	–	–	**(779)**
Fair value adjustments to borrowings	16	(71)	–	–	–	–	**(55)**

For pay-float swaps (CCIRS and IRS in fair value hedges), the pay rate comprises the floating base rate plus the margin. The CCIRS liability arises from the cash flow hedge component. Notionals, maturities and average prices for electricity price hedges not in hedge relationships do not include options not yet called. The discount rate used for the valuations of electricity price derivatives is a range of 6%–7% (2022: 5%–6%), which is a risk-free rate with credit adjustment.

At 30 June 2023, the average exchange rates were 0.62 USD, 0.56 EUR and 79.51 JPY, while spot rates were 0.61 USD, 0.56 EUR and 88.42 JPY. In the prior year at 30 June 2022, the average exchange rates were 0.68 USD, 0.58 EUR and 76.74 JPY, while spot rates were 0.62 USD, 0.56 EUR and 84.75 JPY.

Change in fair value of derivatives recognised in the statement of comprehensive income

$m	Fair value hedge	Cash flow and fair value hedge	Cash flow hedge			No hedge relationship	
2023	**IRS**	**CCIRS**	**IRS**	**Electricity price derivatives**	**Foreign exchange contracts**	**Electricity price derivatives**	**Total**
Hedge ineffectiveness	(1)	–	8	–	–	–	7
Hedge effectiveness	(9)	(3)	–	–	–	–	(12)
Non-hedge movements	–	–	–	–	–	2	2
Fair value adjustments to hedged borrowings	9	3	–	–	–	–	12
Realised gains/(losses) on market derivatives not in a hedge relationship	–	–	–	–	–	(27)	(27)
Realised gains/(losses) on risk management derivatives not in a hedge relationship	–	–	–	–	–	(45)	(45)
Total change in fair value of financial instruments recognised in profit/(loss)	**(1)**	**–**	**8**	**–**	**–**	**(70)**	**(63)**
Hedge effectiveness recognised in OCI	**–**	**–**	**12**	**14**	**(1)**	**–**	**25**
Initial premium recognised in trade and other receivables	**–**	**–**	**–**	**–**	**–**	**(13)**	**(13)**
Amounts reclassified to profit/(loss) or balance sheet	**–**	**–**	**–**	**61**	**2**	**–**	**63**
2022							
Hedge ineffectiveness	–	–	24	–	–	–	24
Hedge effectiveness	(21)	12	–	–	–	–	(9)
Non-hedge movements	–	–	–	–	–	(10)	(10)
Fair value adjustments to hedged borrowings	21	(12)	–	–	–	–	9
Realised gains/(losses) on market derivatives not in a hedge relationship	–	–	–	–	–	(21)	(21)
Realised gains/(losses) on risk management derivatives not in a hedge relationship	–	–	–	–	–	(9)	(9)
Total change in fair value of financial instruments recognised in profit/(loss)	**–**	**–**	**24**	**–**	**–**	**(40)**	**(16)**
Hedge effectiveness recognised in OCI	**–**	**4**	**52**	**(125)**	**(2)**	**–**	**(71)**
Initial premium recognised in trade and other receivables	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Amounts reclassified to profit/(loss) or balance sheet	**–**	**–**	**5**	**38**	**–**	**–**	**43**

Sensitivities

The table (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. The amounts in the table represent the impact of changes in the market risk factors on the derivative valuations. These movements would be offset elsewhere by an opposite movement on the hedged item.

$m Favourable/(unfavourable)		2023	2022
Hedging impact on hedge reserves			
Forward interest rates	+100bps	28	8
	-25bps	(7)	(7)
Forward electricity prices	+10%	(88)	(76)
	-10%	88	76
Forward foreign exchange rates	+10%	(11)	(8)
	-10%	14	11
Hedging impact on post-tax profit/(loss)			
Forward interest rates	+100bps	–	2
	-25bps	–	2
Forward electricity prices	+10%	3	(6)
	-10%	(3)	6

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 (right) is presented on an undiscounted basis.

CCIRS cash flows are included within Borrowings in the table. 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
2023					
Trade and other payables	(207)	(207)	–	–	–
Borrowings	(1,917)	(429)	(74)	(590)	(824)
Other liabilities	(31)	(4)	(2)	(4)	(21)
Electricity price derivatives – net settled	(147)	10	(28)	(83)	(46)
IRS – net settled	30	3	10	21	(4)
Foreign exchange derivatives – inflow	173	149	22	2	–
Foreign exchange derivatives – outflow	(176)	(151)	(23)	(2)	–
	(2,275)	**(629)**	**(95)**	**(656)**	**(895)**
2022					
Trade and other payables	(177)	(177)	–	–	–
Borrowings	(1,296)	(234)	(198)	(330)	(535)
Other liabilities	(13)	(1)	(2)	(3)	(7)
Electricity price derivatives – net settled	(157)	(67)	(53)	(64)	27
IRS – net settled	16	(6)	2	19	1
Foreign exchange derivatives – inflow	116	104	6	6	–
Foreign exchange derivatives – outflow	(118)	(106)	(6)	(6)	–
	(1,629)	**(487)**	**(251)**	**(378)**	**(514)**

D3. Credit risk

Total credit risk exposure is measured by the financial instruments in an asset position of $602 million (2022: $530 million). To minimise credit risk exposure, Contact has a policy to only transact with creditworthy counterparties and to 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/(loss), except when it relates to items recognised directly in OCI.

$m	2023	2022
Profit before tax	177	253
Tax at 28%	(50)	(71)
Tax expense	**(50)**	**(71)**
Current	(103)	(87)
Deferred	53	16

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 2021	(699)	34	28	(637)
Recognised in profit/(loss)	26	(8)	(2)	16
Recognised in balance sheet	–	–	(2)	(2)
Recognised in OCI	–	8	–	8
Recognised in other reserves	–	–	(1)	(1)
Balance at 30 June 2022	**(673)**	**34**	**23**	**(616)**
Recognised in profit/(loss)	19	1	33	53
Recognised in balance sheet	(35)	–	35	–
Recognised in OCI	–	(26)	–	(26)
Balance at 30 June 2023	**(689)**	**9**	**91**	**(589)**

E2. Operating expenses

Other operating expenses (note A2) include total labour costs of $126 million (2022: $107 million). Labour costs include contributions to KiwiSaver of $4 million (2022: $4 million).

Audit fees paid to Contact's auditor (EY) amounted to $525,000 for review of the interim, audit of the year-end financial statements, audit of subsidiary financial statements and supervisor reporting (2022: $564,500). Other fees paid to the auditor were $151,845 for other assurance work (2022: $100,500) and $102,443 for non-assurance work (2022: nil).

Other assurance work relates to assurance of greenhouse gas emissions reporting, Global Reporting Initiative disclosures, our Green Borrowing Programme, our sustainable finance framework, our sustainability-linked loan and audit of subsidiary financial statements. Non-assurance work relates to R&D tax incentive compliance and remuneration services.

E3. Inventories

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	2023	2022
Inventory gas	67	41
Consumables and spare parts	13	13
Diesel fuel	5	4
	85	**58**
Current	48	58
Non-current	37	–

E4. Trade and other receivables

$m	2023	2022
Trade receivables	157	133
Unbilled receivables	83	83
Provision for impairment	(2)	(2)
Net trade receivables	**238**	**214**
Contract assets	4	7
Prepayments	6	6
Trade and other receivables	**249**	**227**

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.

Ageing of trade receivables past due but not impaired are:

$m	2023	2022
Less than one month	9	11
Greater than one month	3	3
	12	**14**

When Contact has been unable to collect amounts due from customers those debts are written off. Trade receivables, net of recoveries, of $2 million (2022: $2 million) were written off during the reporting period.

E5. Trade and other payables

$m	2023	2022
Trade payables and accruals	225	211
Employee benefits	19	17
Interest payable	9	4
Other liabilities	22	29
Trade and other payables	**275**	**261**

E6. Provisions

Contact recognises restoration and environmental rehabilitation provisions for the expected costs to abandon and restore geothermal wells and generation sites where we can measure these reliably.

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 risk-free rate of 4.7 percent. In the prior reporting period, the discount rate used was based on Contact's WACC of between 6.5 percent and 7.5 percent. The change in discount rate has increased provisions by $59 million this year.

$m	Restoration/ decomm-issioning	Environment rehabilitation	AGS onerous contract	Other	Total
Balance at 1 July 2022	(51)	(12)	–	(9)	(72)
Created	(92)	(16)	(120)	–	(228)
Released	2	1	6	–	9
Utilised	8	1	1	7	17
Unwind of discount	(4)	(1)	(3)	–	(8)
Balance at 30 June 2023	**(137)**	**(27)**	**(116)**	**(2)**	**(282)**
Current	(2)	(3)	–	–	(5)
Non-current	(135)	(24)	(116)	(2)	(277)

In late 2021 Contact was notified of an unexpected and unexplained increase in pressure recorded in the AGS facility by the owner and operator, Flexgas. This suggested that the current storage capacity of the facility was less than previously thought, which may impact the storage capacity available to Contact. Contact and Flexgas formed a joint technical working group to investigate these concerns and assess whether there are actions that could be taken to improve the performance of the facility.

During the year, the technical working group concluded the first stage of studies into the issues and Contact concluded its internal review of the findings using a technical expert. The technical working group found that the estimate of total current available storage is between 10 and 12PJs which is less than originally understood. A third party has firm rights to a portion of this storage capacity. Approximately 4PJs of gas currently stored in AGS ($37 million) and owned by Contact is assumed to be available for extraction at the end of Contact's storage contract in 2033. Contact continues ongoing discussions with Flexgas in relation to this matter.

Contact has assessed the storage contract in line with NZ IAS 37 Provisions, Contingent Liabilities and Contingent Assets and has recognised an onerous contract provision of $116 million at 30 June 2023.

The provision is calculated as the difference between the contract payments and the estimated value received from access to available AGS storage over the remaining term of contract, discounted to present value using a pre-tax discount rate of 4.7 percent.

There is a significant level of judgement involved in estimating the value Contact will obtain from access to AGS storage for the remainder of the contract term. Key drivers include, the total storage capacity of AGS, Contact's gas storage requirements, hydrology, future gas and carbon prices, the level of Contact's contracted sales, the market supply/demand balance. These assumptions are consistent with those made in relation to the future cash flows for goodwill and asset impairment testing as per Note C2.

There is interrelation between these assumptions. Any changes in one of these assumptions would not occur in isolation and would drive other changes which could also impact the estimated value.

Sensitivity – AGS onerous contract

Key input	Sensitivity	Impact on provision $m
Estimated value received	+10%	(16)
	-10%	16
Post-tax discount rate	-0.5%	4
	+0.5%	(4)
Estimated available storage	+0.6PJs	(27)
	–0.6PJs	25

E7. Profit to operating cash flows

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

$m	2023	2022
Profit	**127**	**182**
Depreciation and amortisation	224	262
Amortisation of contract assets	6	8
Change in fair value of financial instruments	18	(5)
Hedge reserve balance to be amortised	–	(10)
Movement in provisions	113	(9)
Non-cash interest expense	16	7
Bad debt expense	3	3
Share-based compensation	5	4
Other	4	2
Changes in assets and liabilities, net of non-cash, investing and financing activities		
Trade and other receivables	(10)	20
Inventories and intangible assets	(30)	8
Trade and other payables	(25)	(45)
Tax payable	(3)	(3)
Deferred tax	(53)	(15)
Operating cash flows	**395**	**409**

E8. 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 $875 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 qualify for cash flow hedge accounting. For cash flow hedges, 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	2023	2022
Opening balance		(82)	(51)
Effective portion of cash flow hedges	D1	25	(71)
Amortisation of hedge reserve		11	(11)
Transferred to revenue or balance sheet	D1	63	43
Transferred to deferred tax	E1	(26)	8
Closing balance		**(9)**	**(82)**

Included in the closing balance at 30 June 2023 is $1 million relating to the cost of hedging reserve (2022: $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.

Cash flow hedge reserve balances relating to discontinued cash flow hedge relationships are amortised to profit/(loss) over the original term if the cash flows are still expected to occur. Otherwise, the balance is transferred to profit/(loss) when the relationship is discontinued.

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).

E9. 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. 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	2023	2022
Sourced from market data	9	(81)
Derived from market data	92	86
Electricity price estimates	(104)	(81)
	(3)	**(76)**

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

$m	2023	2022
Opening balance	(81)	(42)
Gain/(loss) in profit/(loss):		
– wholesale electricity revenue	28	16
Gain/(loss) in OCI	(73)	(21)
Instruments issued	22	(34)
Closing balance	**(104)**	**(81)**

For these derivatives a 10 percent increase in the electricity price would result in an unfavourable movement in fair value of $92 million (2022: $78 million) and a 10 percent decrease would result in a favourable movement in fair value of $92 million (2022: $78 million).

E10. Financial instruments at amortised cost

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

$m	2023	2022
Cash and cash equivalents	140	168
Trade and other receivables	236	211
Trade and other payables	(239)	(177)
Borrowings	(1,514)	(1,044)

The fair value of borrowings is $1,566 million (2022: $1,105 million). This fair value is derived from market data.

E11. Share-based compensation

Equity Scheme

Contact provides an equity award to certain eligible employees made up of performance share rights (PSRs) and deferred share rights (DSRs). Options are no longer issued and all outstanding options were exercised or lapsed during the year. 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.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 or if an employee voluntarily leaves Contact. The scheme continues on redundancy but the entitlements are adjusted.

Outstanding PSRs and DSRs

Number outstanding	PSRs	DSRs
Balance at 1 July 2021	**663,758**	**504,372**
Granted	232,556	497,697
Exercised	(223,869)	(273,197)
Lapsed	(100,305)	(15,671)
Balance at 30 June 2022	**572,140**	**713,201**
Granted	360,281	348,226
Exercised	–	(212,520)
Lapsed	(51,208)	(31,720)
Balance at 30 June 2023	**881,213**	**817,187**

PSRs had a weighted average remaining life of 2 years and 3 months (2022: 2 years and 6 months) and DSRs had 10 months (2022: 1 year and 1 month).

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 issued 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 2021	267,662
Shares purchased	66,172
Transferred to employees	(89,933)
Balance at 30 June 2022	**243,901**
Shares issued	77,212
Transferred to employees	(68,552)
Balance at 30 June 2023	**252,561**

These shares have a weighted average remaining life of 1 year and 3 months (2022: 1 year and 4 months).

Changes in share-based compensation reserve

$m	Note	2023	2022
Opening balance		8	8
Exercised share scheme awards		(2)	(3)
Lapsed share scheme awards		–	(1)
Share-based compensation expense		5	4
Closing balance		**11**	**8**

Share-based compensation expense

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

	Grant date		
$m	Oct 2022	Oct 2021	Oct 2020
PSRs – without internal hurdle	3.97	4.61	4.56
PSRs – with internal hurdle	6.42	7.27	–
DRSs	6.75	7.65	7.52
Contact share	7.64	8.37	8.45

Key inputs in determining the fair values

	Grant date		
	Oct 2022	Oct 2021	Oct 2020
Risk-free interest rate	4%	1%	0.1%
Expected dividend yield	5%	5%	6%
Expected share price volatility	30%	30%	25%

E12. Related parties

Contact group entities

Name of entity	Principal activity	Holding	Country
Subsidiaries			
Simply Energy Limited	Energy solutions	100%	New Zealand
Western Energy Services Limited	Geothermal well services	100%	New Zealand
Contact Energy Solar Limited	Solar activities	100%	New Zealand
Contact Energy Solar Holdings GP Limited	Solar activities	100%	New Zealand
Contact Energy Solar Holdings LP	Solar activities	100%	New Zealand
Contact Energy Trustee Company Limited	Trust for Contact Share	100%	New Zealand
Contact Energy Risk Limited	Captive insurance	100%	Cook Islands
Associates and joint ventures			
Drylandcarbon One Limited Partnership	Investment in forestry	16.5%	New Zealand
Forest Partners Limited Partnership	Investment in forestry	14%	New Zealand
Kōwhai Park I GP Limited*	Solar activities	50%	New Zealand
Kōwhai Park I LP*	Solar activities	50%	New Zealand

*New this financial year.

Drylandcarbon One Limited Partnership and Forest Partners Limited Partnership

Drylandcarbon and Forest Partners invest in afforestation projects on economically marginal land in New Zealand to produce a stable supply of carbon units which will offset Contact's carbon obligations.

Drylandcarbon and Forest Partners are accounted for as associates, as Contact has significant influence over both entities through its participation in financial and operating policy decisions being equivalent to the other investors.

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

Related party transactions

Contact's related parties also include its directors and the Leadership Team (LT).

Received/(paid) $m	2023	2022
Drylandcarbon One Limited Partnership		
Capital contributions	–	(9)
Forest Partners Limited Partnership		
Capital contributions	(12)	(2)
Key management personnel		
Directors' fees	(1)	(1)
LT – salary and other short-term benefits[1]	(7)	(7)
LT – share-based compensation expense	(2)	(1)
Balances payable at end of the year		
Key management personnel	(1)	(1)

1. Salary and other short-term benefits is the cash amount paid in the year.

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

E13. New accounting standards

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

E14. Contingencies

Contact has obligations to a local distribution company for charges associated with construction and anticipated distribution services relating to the substation in Clyde.

Contact are working with the distribution company to determine the final construction costs of the substation, which will be a factor in determining the charges. While Contact has an obligation, it is not yet known what the charges may be and therefore the obligation cannot be measured with sufficient reliability. Consequently, the obligation has not been recognised at 30 June 2023 and is disclosed as a contingent liability.

In the normal course of business, Contact is subject to inquiries, claims and investigations. There are no other material matters to disclose in this respect at 30 June 2023.

Combined Independent Auditor's and Limited Assurance Report

We have performed the following assurance engagements:

- audit of the Consolidated Financial Statements of Contact Energy Limited on pages 88 to 112.
- limited assurance engagement in relation to Contact Energy Limited's Global Reporting Initiative disclosures as referenced on pages 122 to 127 of the Annual Report ("GRI Disclosures"). In relation to these matters, our limited assurance is restricted to the specific elements referred to and unless otherwise stated we provide no assurance on other information on the pages referred to.

Independent Auditor's Report to the shareholders of Contact Energy Limited

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Contact Energy Limited (the "Company") and its subsidiaries (together the "Group") on pages 88 to 112, which comprise the consolidated statement of financial position of the Group as at 30 June 2023, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended of the Group, and the notes to the consolidated financial statements including a summary of significant accounting policies.

In our opinion, the consolidated financial statements on pages 88 to 112 present fairly, in all material respects, the consolidated financial position of the Group as at 30 June 2023 and its consolidated financial performance and cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

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

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report.

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) (New Zealand)* issued by the New Zealand Auditing and Assurance Standards Board, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Please refer to the "Our independence and quality control" section of our combined report below for details of the other services we have provided to the Group.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, but we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the financial statements* section of the audit report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Ahuroa Gas Storage (AGS) Provision

Why significant	How our audit addressed the key audit matter
The Group has a contract to store gas at Ahuroa Gas Storage Facility. During FY23 it was identified that the available gas storage capacity is lower than previously anticipated. A technical working group including the operator of the facility has investigated the actions that could be taken to improve the performance of the facility. They also assessed the estimated total storage capacity which formed the basis of management's assumptions. As at 30 June 2023, the Group has recorded a provision of $116m relating to the contractual obligations it has in respect of the facility. The provision reflects the difference between the future payments the Group is contractually obligated to make and the value expected to be received from access to available gas storage over the remaining term of contract, discounted to present value. Significant judgements in the provision calculation include assessing the available storage capacity over the period of the contract and the estimated value the Group will derive from the storage capacity. The estimated value to the Group is based on forecast hydrology and future gas, electricity and carbon prices which all impact the demand for storage. Disclosures regarding the provision, including key assumptions used and sensitivity of the assessment to certain judgmental inputs are included in note E6 to the consolidated financial statements.	In obtaining sufficient appropriate audit evidence, we: • Understood the contract payment obligations and terms. • Read the technical working group's report. We held direct discussions with a member of the technical working group to confirm our understanding of the report's conclusions. • Assessed the reasonableness of the estimated value to be received by the Group included within the provision calculation model. In doing so, we: · Considered the appropriateness of the expected value received compared to the Board approved 5 year business plan. · Used our power and utilities specialists to assess the appropriateness of key inputs/assumptions included within the model such as hydrology and future gas, electricity and carbon prices. · Assessed the reasonableness of the estimated available storage capacity based on the technical working groups report and current volume levels. · Performed sensitivity analysis for changes in key drivers in the model. • Assessed the appropriateness of the Group's disclosures in accordance with NZ IAS 37 Provisions, Contingent Liabilities and Contingent Assets and whether they appropriately explain the key judgements and estimates used.

Information other than the financial statements and auditor's report

The directors of the Company are responsible for the annual report, which includes information other than the consolidated financial statements and auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon, other than our limited assurance conclusion in relation to the Group's Global Reporting Initiative disclosures as described below.

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 during the audit, or otherwise appears to be materially misstated.

If, based upon the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Directors' responsibilities for the financial statements

The directors are responsible, on behalf of the entity, for the preparation and fair presentation of the consolidated financial statements in accordance with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

A further description of the auditor's responsibilities for the audit of the financial statements is located at the External Reporting Board's website: https://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-1/. This description forms part of our auditor's report.

Independent Limited Assurance report on the Global Reporting Initiative Disclosures

To the Directors of Contact Energy Limited

Conclusion

Based on the procedures we have performed and the evidence we obtained, nothing has come to our attention that suggests the GRI Disclosures as referenced on pages 122 to 127 of the Annual Report for the year ended 30 June 2023 have not been prepared, in all material respects, in accordance with the Global Reporting Initiative Reporting Standards 2021.

Criteria applied by the Company

In preparing the GRI Disclosures, the Group applied the Global Reporting Initiative Reporting Standards 2021 (the "GRI Standards"). As a result, the GRI Disclosures may not be suitable for another purpose.

Information other than the GRI Disclosures and our limited assurance report

The directors of the Company are responsible for the annual report, which includes information other than the GRI Disclosures and the limited assurance report.

Our limited assurance conclusion on the GRI Disclosures does not cover the other information and we do not express any form of assurance conclusion thereon, other than our audit opinion in relation to the Group's financial statements as described above.

In connection with our limited assurance engagement in relation to the GRI Disclosures, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the GRI Disclosures or our knowledge obtained during the engagement, or otherwise appears to be materially misstated.

If, based upon 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.

Management's responsibilities

Contact Energy Limited's management is responsible for selecting the criteria, and for presenting, in all material respects, the GRI Disclosures in accordance with those criteria. This responsibility includes establishing and maintaining internal controls, maintaining adequate records and making estimates that are relevant to the preparation of the subject matter, such that it is free from material misstatement, whether due to fraud or error.

EY's responsibilities

Our responsibility is to express a limited assurance conclusion on the presentation of the GRI Disclosures based on the evidence we have obtained.

We conducted our engagement in accordance with the International Standard for Assurance Engagements Other Than Audits or Reviews of Historical Financial Information ("ISAE (NZ) 3000 (Revised)"') and, in relation to elements of the reporting related to greenhouse gases, International Standard on Assurance Engagements on Greenhouse Gas Statements ("ISAE (NZ) 3410"). These standards require that we plan and perform our engagement to express a conclusion on whether anything has come to our attention that suggests the GRI Disclosures have not been prepared, in all material respects, in accordance with the GRI Standards.

The nature, timing, and extent of the procedures selected depend on our judgment, including an assessment of the risk of material misstatement, whether due to fraud or error.

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

Inherent Limitations

Procedures performed in a limited assurance engagement vary in nature and timing from, and are less in extent than for, a reasonable assurance engagement. Consequently, the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had a reasonable assurance engagement been performed. Our procedures were designed to obtain a limited level of assurance on which to base our conclusion and do not provide all the evidence that would be required to provide a reasonable level of assurance.

A limited assurance engagement consists of making enquiries, primarily of persons responsible for preparing the GRI Disclosures and related information, and applying analytical and other appropriate procedures.

The greenhouse gas ("GHG") quantification process is subject to scientific uncertainty, which arises because of incomplete scientific knowledge about the measurement of GHGs. Additionally, GHG procedures are subject to estimation and measurement uncertainty resulting from the measurement and calculation processes used to quantify emissions within the bounds of existing scientific knowledge.

Description of procedures performed

Our procedures included:

- Inquiries of management to gain an understanding of the Contact Energy Limited's processes for determining the material issues for the Group's key stakeholders;

- Interviews with relevant staff responsible for providing the information in the GRI Disclosures
- Understanding management's processes and controls for collating relevant information.
- Comparing the information presented in the GRI Disclosures 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 Disclosures; and
- Considering whether the disclosures reported align with the GRI Standards.

We also performed such other procedures as we considered necessary in the circumstances.

We have not performed assurance procedures in respect of any information relating to prior reporting periods, including those presented in the GRI Disclosures. Our report does not extend to any disclosures or assertions made by Contact Energy Limited relating to future performance plans and/or strategies disclosed in the 2023 Annual Report and supporting disclosures online.

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

Restricted use

This limited assurance report is intended solely for the information and use of Contact Energy Limited and its Directors and is not intended to be and should not be used by anyone other than Contact Energy Limited and its Directors.

We acknowledge a copy of our limited assurance report is included in Contact Energy Limited's Annual Report for information purposes only. We disclaim all responsibility to any other party for any loss or liability that the other party may suffer or incur arising from or relating to or in any way connected with the contents of our report, the provision of our report to the other party or the reliance upon our report by the other party.

Other Matter

The combined independent audit and assurance report in relation to the Group's financial statements and Company's GRI reporting for the year ended 30 June 2022 was issued by another assurance provider who expressed an unmodified opinion on the consolidated financial statements and an unmodified limited assurance conclusion on the GRI Disclosures on 12 August 2022.

Our Independence and Quality Control for the Combined Assurance Report

We have complied with the independence and other requirements of Professional and Ethical Standard 1 *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)*, 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 *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*, which requires the firm to design, implement and operate a system of quality management including policies or procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Ernst & Young provides services to the Group in relation to trustee reporting, market remuneration surveys, immigration services, research and development tax credit advice and other assurance relating to Greenhouse gas emissions reporting, green borrowings programme reporting and the Group's sustainable linked loan and sustainable finance framework. Partners and employees of our firm may deal with the Group on normal terms within the ordinary course of trading activities of the business of the Group. We have no other relationship with, or interest in, the Group.

The engagement partner on the combined assurance engagement resulting in the independent auditor's report and independent limited assurance report is Grant Taylor.

Ernst + Young

Chartered Accountants
Wellington
14 August 2023

CONTENTS