Contact Energy
Annual Report 2009

contact

Contents

The 2009 Annual Meeting of Contact Energy Limited shareholders will be held at the Michael Fowler Centre, 111 Wakefield Street, Wellington on Thursday 22 October 2009, commencing at 10:30am NZDST.

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

Summary

For the financial year ended 30 June 2009

- Weather extremes, transmission constraints and reduced electricity demand combined to impact on earnings, with underlying earnings after tax of $161 million, down from $233 million for the 12 months to 30 June 2008
- Generators and turbines delivered for the 200 megawatt gas-fired peaking power station under construction at Stratford
- Commenced injection of natural gas into the Ahuroa natural gas storage facility near Stratford
- Continued construction of the 23 megawatt Tauhara phase one geothermal power station at Taupo
- Secured final resource consents for the company's 220 megawatt Te Mihi geothermal power station
- Continued to develop wind, hydro and geothermal generation options
- Completed the installation of more than 42,000 smart meters in Christchurch customers' houses
- Celebrated 50 years of renewable geothermal generation at the Wairakei power station with a community open day and celebration
- Raised $550 million in Contact's first retail bond issue – the most successful issue raising in New Zealand for a non 'A' rated company
- Introduced a profit distribution plan that allows retention of cash for investment in the business
- Total distributions to shareholders equivalent to 28 cents per share, under the profit distribution plan

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

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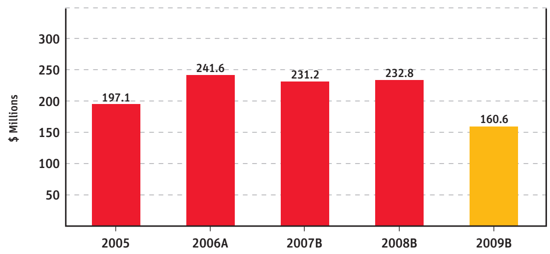
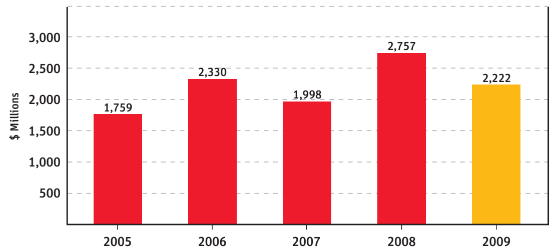
PO Box 10742
Wellington
Phone: 64 4 499 4001
Email: annualreport@contactenergy.co.nz

Performance indicators

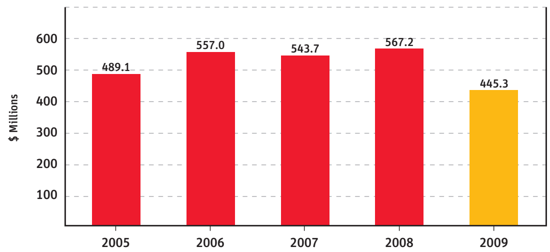
Underlying earnings for the period



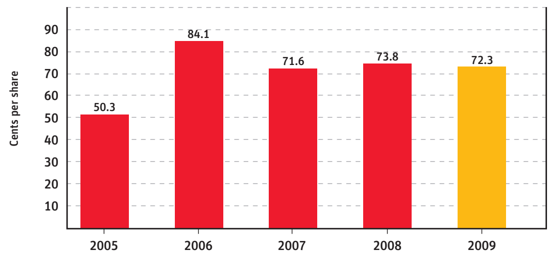
Total operating revenue



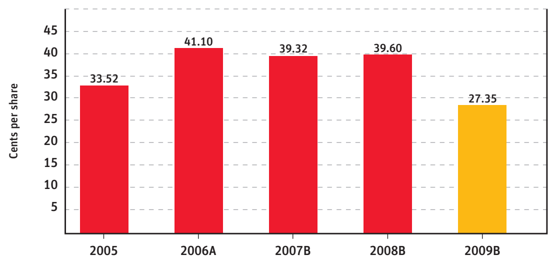
EBITDAF[1]



Operating cash flow per share[2]

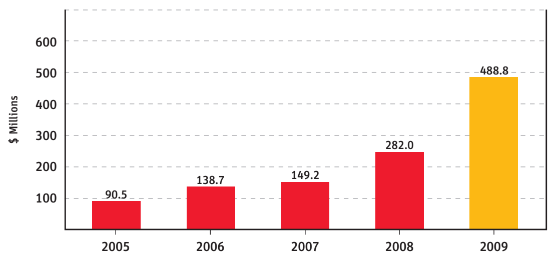


Underlying earnings per share[2]

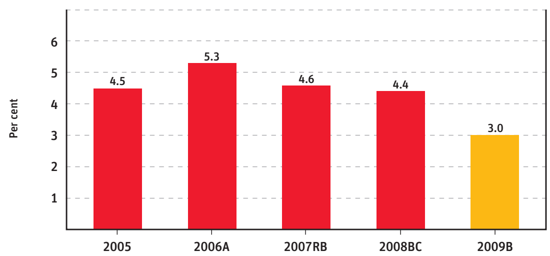


Net debt/debt+equity

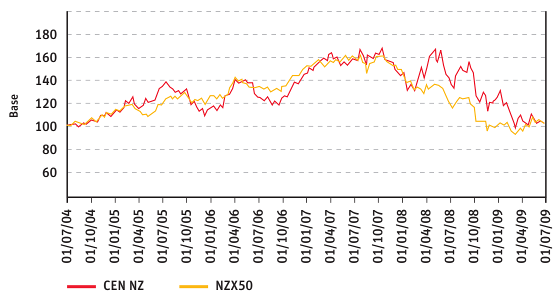
Capital and investment expenditure



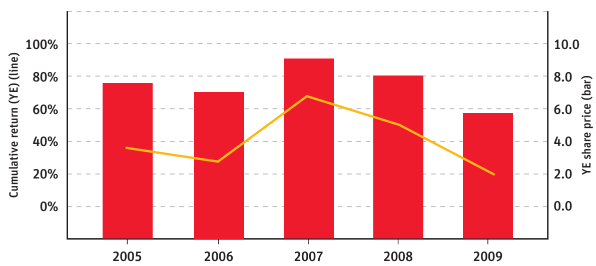
Underlying return on total assets



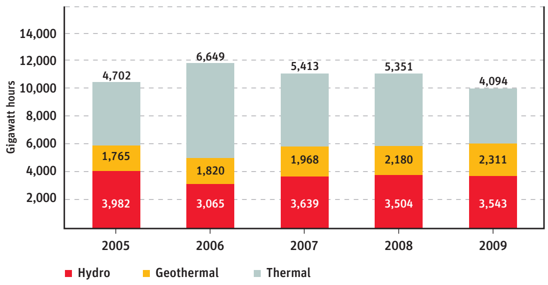
CEN relative to the NZX50



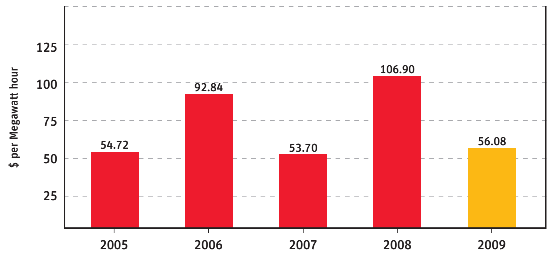
Shareholder return



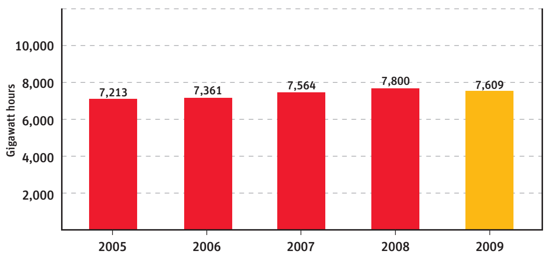
Generation by fuel source



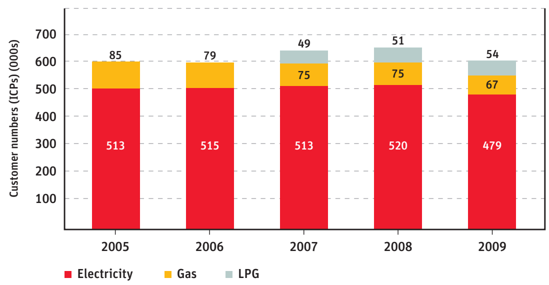
Wholesale electricity price



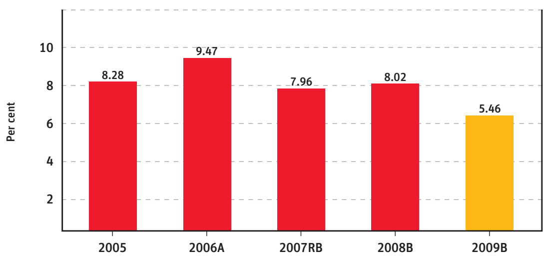
Retail electricity sales



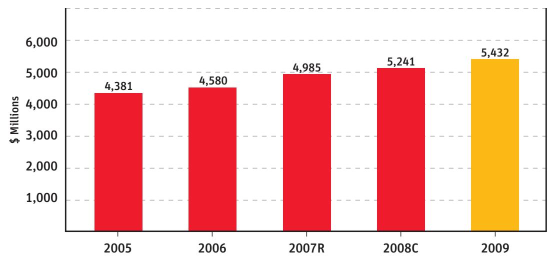
Customer numbers (including LPG franchisees)



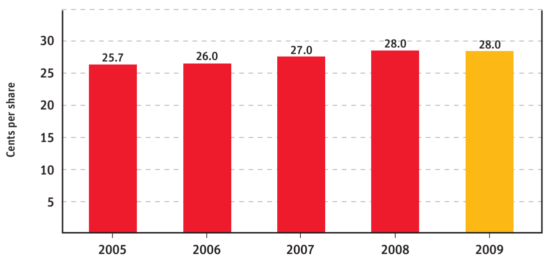
Underlying return on shareholders' equity



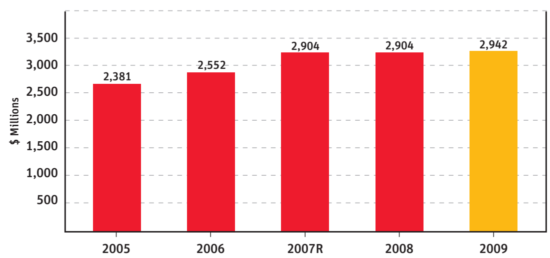
Total assets



Profit distribution and dividends per share[3]



Shareholders' equity



Notes to the graphs

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

- The 2005 reporting period was for the nine months ended 30 June 2005 and the results of that period have been annualised where appropriate for the purposes of the above graphs; for 2006 and subsequent years the reporting period is the year ended 30 June.
- The above financial statistics, returns and ratios are based on Financial Statements prepared in accordance with New Zealand equivalents to International Financial Reporting Standards (NZIFRS).

R Denotes years in which Contact's property, plant and equipment were revalued. The revaluation affects total assets, shareholders' funds and related ratios.
A Excludes gain on disposal of subsidiaries and change in fair value of financial instruments, both net of tax.
B Excludes change in fair value of financial instruments and other significant one-off items both net of tax where appropriate.
C The 2008 total assets have been adjusted to reflect the presentational changes of financial instruments and deferred financing costs.
1 Earnings before net interest expense, income tax, depreciation, amortisation, financial instruments and other significant items. The year ended 30 June 2006 was the first year in which changes in the fair value of financial instruments were recognised within the Income Statement in accordance with NZIFRS.
2 The number of shares used for the current and prior year comparatives in the 'underlying earnings per share' and 'operating cash flow per share' analysis has been adjusted for the impact of the bonus shares issued under the profit distribution plan (PDP).
3 The number of shares used in the 'profit distribution and dividends per share' analysis has not been adjusted for the impact of the bonus shares issued under the PDP and represents the number of ordinary shares on issue at the dividend declaration date less any shares held as treasury stock. The total distribution paid is in respect of each financial year. Prior to 2009, all distributions were fully imputed cash dividends. For the 2009 financial year the PDP operated as a non-taxable bonus issue, with any shares bought back being fully imputed cash dividends.

Chairman's review

Weather and transmission present challenges to performance

The financial year ended 30 June 2009 was challenging for Contact, largely as a result of unusual weather conditions, transmission constraints, and the effects of economic recession on energy demand growth. Despite this, the company has taken important steps to strengthen its financial position and has advanced its strategy of investing for future growth.

The full year result and contributing factors

Contact achieved Earnings Before Net Interest Expense, Income Tax, Depreciation, Amortisation, Financial Instruments and Other Significant Items (EBITDAF) of $445.3 million, down 21 per cent from $567.2 million in the 2008 financial year. Underlying earnings were $160.6 million, down 31 per cent from $232.8 million.

The key drivers of the reduction in EBITDAF were:

- a decrease in net contribution from electricity as a result of high electricity purchase costs to service retail customers in the South Island in the first quarter, and a significant drop in generation revenue over the remainder of the year due to a combination of low wholesale prices, transmission constraints (which limited hydro generation) and some unplanned thermal generation outages
- a 25 per cent per unit increase in gas costs and a loss of gas supply flexibility following the roll-off of gas supply contracts from the Maui field.

While the period was challenging and the full year result disappointing, Contact took a number of significant decisions over the financial year – supported by the company's strong financial position – that will enable us to restore valuable flexibility of fuel supply and generation. This positions the company well to continue to grow and deliver value to shareholders, as well as making a significant contribution to New Zealand's long term energy security.

Distribution to shareholders

Notwithstanding the full year result, Contact's Board of Directors resolved to hold the 2009 final distribution to shareholders at the equivalent of 17 cents per share, made under the company's profit distribution plan, which was introduced during the 2009 year. Under the plan, all shareholders receive distributions in the form of bonus shares, with the option to have those shares, or a portion of them, bought back by Contact for cash as a fully imputed dividend. As a consequence, shareholders have the choice between retaining shares and/or receiving cash.

The decision to maintain the distribution level was based on the expectation that the company's financial performance will return to normal trends. Any reoccurrence of extreme hydrology, transmission constraints, adverse government policy changes or a prolonging of the economic recession could impact Contact's financial performance in the near to medium term. To the extent such impacts do occur, the company would be unlikely to maintain distributions at this year's level.

Financial position

Over the year, Contact undertook a number of steps to enhance the company's financial strength, including issuing $550 million of fixed rate unsecured, unsubordinated retail bonds – after seeking to raise $300 million and closing well oversubscribed – and implementing the profit distribution plan, which enabled $50 million of cash to be retained in the business in respect of the interim distribution. The capital raised by the bond issue and the profit distribution plan are being used to fund investments in new generation projects and the Ahuroa natural gas storage facility.

During the financial year, Contact also increased and extended the terms of its bank facilities, and as at 30 June 2009 had $685 million of undrawn bank facilities.

At the end of the 2009 financial year, Contact's net debt stood at $1,124.2 million. With a gearing of net debt to net debt plus equity of 27 per cent, Contact's financial strength continues to position the company well in terms of navigating the complexity of the current economic circumstances and executing growth options when economic conditions are conducive.

Governance

There have been a number of changes to the Contact Board over the year. In March 2009, highly respected company director Sue Sheldon joined the Board as an independent director, and Contact's Chief Executive, David Baldwin, was appointed to the Board as Managing Director.

At the end of the financial year Tim Saunders retired from the Contact Board as an independent director. With the exception of a two year period, Tim has been involved in Contact's governance since the company was first formed and has made a significant contribution to building the company. On behalf of the Board, I thank Tim for his contribution and commitment and wish him all the best for the future.

Outlook

When the country emerges from recession, increasing demand for energy will require new sources of generation to be built in order to maintain security of supply. This will create upward pressure on electricity prices to support investment in new generation.

Contact is well placed to support New Zealand's requirement for new generation. Over the coming year, Contact's capital expenditure is forecast to exceed the $490 million invested over the last year (almost double the level of capital expenditure in the previous year) as the company continues to execute its strategy of investing in projects that both restore portfolio flexibility and expand geothermal generation.

Grant King
Chairman

Managing Director's review

Navigating complexity

Introduction

While Contact has always faced earnings fluctuations as a result of weather and managed that risk through our geographic and fuel diversity, the confluence of extreme weather conditions and other external factors impacted Contact's result for the financial year ended 30 June 2009.

Key among the factors influencing the result was the loss of pole one of the High Voltage Direct Current (HVDC) transmission system, which constrained the company's ability to manage the volatility associated with fluctuations in hydrology. This occurred in a year that saw both extremes of drought and deluge in the South Island, where Contact's hydro assets are located.

During the severe winter drought in the South Island, transmission constraints north of Wellington and across the HVDC prevented Contact from transmitting thermal generation from the North to the South Island, requiring the company to purchase very high priced power from the market to meet South Island customer demand.

When the situation reversed in the spring and the southern hydro lakes rapidly filled, transmission constraints in the lower South Island, combined with the loss of electricity demand from the Tiwai Point aluminium smelter, forced Contact to spill more than 400 gigawatt hours of potential generation – enough to power more than 40,000 homes for a year – as the transmission system could not take any additional generation.

At the same time, the anticipated changes to Contact's gas supply arrangements also impacted the business. As well as gas being more expensive, current contractual arrangements also limit the company's ability to vary the amount of gas Contact takes throughout the year. During periods of high hydro inflows and low wholesale prices in the year to 30 June 2009, gas supply inflexibility constrained the company's ability to reduce higher-priced thermal generation. This lack of gas supply flexibility is being addressed through Contact's investment in an underground gas storage facility at Ahuroa – a first for New Zealand – which will be operational from mid 2010.

While the financial result for the year to 30 June 2009 was disappointing, significant progress was made in a number of important areas that position Contact well to execute its growth strategy over the coming months and years.

Strategy for growth

Contact's strategy for new generation development is to pursue a range of options across the major fuel types – thermal, geothermal, wind and hydro – that we can execute at the right time to suit the changing operating environment. This way, we can develop the lowest cost generation options first, ensuring the best outcomes for shareholders and New Zealand.

Geothermal

Among those available options in the current environment, Contact's priority is geothermal generation investment, given its current costs relative to other generation options and Contact's expertise in geothermal development. In the year to 30 June 2009, we made pleasing progress on a number of key geothermal developments:

- Construction of Contact's $100 million, 23 megawatt Tauhara phase one geothermal binary plant is on track, with commissioning of the plant expected around mid 2010 (on time and within budget).
- In September 2008, final resource consents were granted for Contact's 220 megawatt Te Mihi geothermal power station.
- Development of Contact's proposed Tauhara phase two power station, a geothermal plant of up to 240 megawatts, was advanced.

The sequencing and timing of both the Te Mihi and Tauhara phase two projects is dependent on a number of factors including electricity demand growth, credit conditions, carbon policies, currency rates and resource consents. Consents exist for the operation of the Wairakei power station until 2026, enabling Contact to appropriately time the Te Mihi development to achieve optimal value.

Gas

Contact's investment in a 200 megawatt fast-start gas-fired peaking power station and a gas storage facility will be key to restoring some of the operational flexibility lost through the end of the Maui gas contract, the increasing exposure to fixed take or pay, high-cost gas supply contracts and the decommissioning of the company's gas-fired New Plymouth power station.

The Ahuroa gas storage project, a $250 million development, will enable Contact to switch off its gas-fired baseload power stations when market conditions do not support them running, and store the gas for later use.

Contact's $250 million gas-fired peaking power station at Stratford will enable us to respond to increasing levels of volatility in electricity demand peaks that result in price volatility.

Wind

As part of Contact's strategy to secure generation development options across the range of key fuel sources, the company continues to advance resource consent applications for two wind farms – one in the Waikato and the other in southern Hawke's Bay – for development when economic conditions support them.

Hydro

In Contact's view, new hydro projects will be required in New Zealand's medium to long term energy future, especially if the country is to meet its climate change obligations and avoid the need to import thermal fuels.

Following a review of plans inherited when Contact was formed, Contact began engaging with local communities in April 2009 on four options for new hydro development on the Clutha River, with a view to selecting a preferred option for further development. The process of community engagement, together with engineering design and review, and the consenting of an eventual option will take some time, but will be in step with the country's need for new large-scale hydro development towards the end of the next decade.

Contact also holds resource consents for the 17 megawatt hydro power station at the Lake Hawea control gates and will continue to review the economic feasibility of this project for development.

Creating an environment that is conducive to investment

The extent to which Contact's generation growth options can be executed, and the benefits for shareholders and New Zealanders realised, is dependent on a number of factors, including transmission investment, regulatory certainty and acceptance of the need for prices to rise appropriately over time to support new generation investment. Contact is committed to working with stakeholders in all these areas to positively contribute to an environment that is conducive for investment.

Transmission

Investment in the national transmission grid is urgently required to ensure the electricity market can operate optimally and play its role in delivering the efficiencies required to meet public expectations around reliability of supply and the prices end-consumers pay for electricity.

As the events of the 2009 financial year have clearly demonstrated, a key priority is the replacement of pole one of the HVDC by April 2012 (by what is known as pole three) to enable electricity to be moved freely between the North and South Islands.

Wider upgrading of the grid – in which there has been no major investment since the 1980s – is also critical to ensuring that the transmission system can deliver electricity from new sources of generation to end-consumers and cope with increased load. Positive advances in this area include Transpower's enhancements to regional transmission capacity in Southland by the end of this calendar year.

I will continue to participate as a member of the HVDC Procurement Advisory Group and to support Transpower's project to replace pole one of the HVDC, in addition to supporting Transpower's efforts to strengthen and hasten transmission investment across the network.

Regulatory certainty

Certainty in key areas of policy is a necessary precondition of any investment decision. Notwithstanding this, Contact continues to support workable improvements to the efficient operation of the electricity market and is participating fully in the Ministerial Taskforce review of the sector. In particular, Contact supports the Government's commitment to streamlining regulatory functions to enable more efficient oversight of the sector and improvements to the transmission investment process.

Securing resource consent for a power station – particularly a renewable wind farm or hydro power station – remains challenging. While there should always be a careful independent consideration of a project's impacts and benefits, Contact supports the focus of the current review of the Resource Management Act and the development of a Government Policy Statement that places greater weight on the benefits of renewable projects.

While the emissions trading scheme has been delayed from a 1 January 2010 implementation date for the stationary energy sector, the introduction of a carbon pricing regime remains highly likely. Contact believes an emissions trading scheme remains the most appropriate way to price carbon and to shift investment decisions in new generation from thermal to renewable technologies.

Contact remains well positioned to capitalise from opportunities in a carbon pricing environment.

Pricing to support investment

Without appropriate investment in new generation, there will likely be greater demand for electricity than available supply from around 2014 onwards. This will have significant impacts on individuals as well as businesses and industries that are the bedrock of New Zealand's economy, particularly in terms of reliability of supply.

However, while electricity is an essential part of our lives, its value is only obvious when it is not there, and it is therefore generally taken for granted. In this context, there is consistently strong resistance from consumers and other stakeholders to electricity price increases. Like others in the industry, we have a role to play in better articulating the rationale for electricity price increases and communicating the value of electricity, so that the retail market is priced not only competitively but also realistically to support new investment.

Our people

Our people's health and safety is of paramount importance in maintaining the highest standards of operational excellence. Contact performed well in the 2008 financial year in terms of health and safety, but this performance has slipped in the 2009 financial year, which is not acceptable to us. In this context, a key priority for the current financial year is new or improved initiatives to foster the company's health and safety culture and rigorous target setting and reporting on all relevant measures. More detailed information on Contact's health and safety performance can be found in Contact's 2009 **Sustainability Report**, available on the company's website.

Our customers

Last year, our customers made it clear they perceived a link between price increases and a proposed increase to the fee pool from which directors are paid, which was not acceptable to them. The result was a loss of retail customers over the course of the year, which was a major disappointment for everyone at Contact that we are working hard to reverse.

We have been focused on rebuilding the trust and confidence of our customers by providing a range of new offers such as fixed price plans and the two winter price freeze for certain areas, in addition to the usual outstanding customer service from our dedicated team across New Zealand.

Our communities

We recognise that like others in this industry, Contact has a relatively large footprint, particularly in terms of our impact on communities where we have generation interests. In this context, we are committed to development and operational excellence, and we give back to national and local communities in ways that are meaningful to them.

A highlight for this financial year was the 50th anniversary celebrations for Contact's Wairakei power station, the first geothermal plant of its kind anywhere in the world. As well as hosting a series of community events, Contact commissioned a large sculpture to be gifted to the Taupo community to mark the 50 year milestone and the special relationship between the people of the Taupo region and geothermal energy. For more detailed information on Contact's social and environmental performance, please see our **Sustainability Report**, available on the company's website.

Conclusion

A number of the factors that contributed to the financial result for the year ended 30 June 2009 – hydrology, wholesale prices and electricity demand – are now moving back towards more normal patterns.

Supported by the important steps taken to strengthen the company's financial position in the year to 30 June 2009, we remain focused on completing and commissioning the Ahuroa gas storage and Stratford peaker projects to restore operational flexibility, continuing to develop other growth options, attracting and retaining retail customers and fostering Contact's health and safety culture.

It's been a tough year for Contact but I'm proud to lead such a talented and committed team, and I would like to thank the Board and everyone at Contact for their considerable efforts in navigating the company through a challenging period. I'm excited about Contact's future and I'm looking forward to working with all of our stakeholders as we work to accomplish our goals.

David Baldwin
Managing Director

Management discussion of financial results

for the financial year ended 30 June 2009

Despite a particularly challenging year, Contact remains well positioned to invest in New Zealand's most important energy projects, and deliver growth for the company's shareholders.

Introduction

New Zealand's electricity system depends on a robust and reliable transmission backbone to transmit electricity from power stations across the country to customers.

New Zealand has a heavy reliance on hydro generation with significant potential for increasing quantities of wind generation, and major load centres geographically isolated from key generation sources. These conditions require a modern transmission grid that accommodates changing electricity generation and demand patterns to ensure efficient operation of the electricity market.

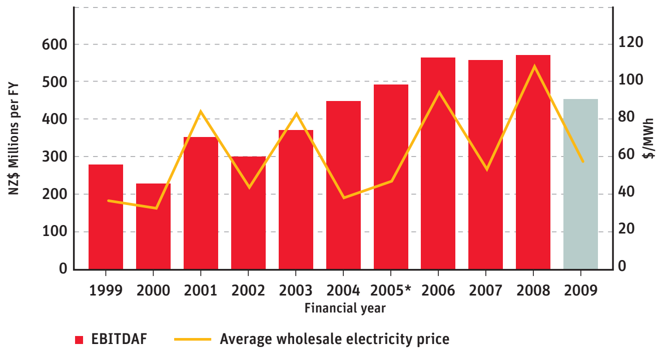
Investments made over the preceding decades, particularly the 1970s and 1980s, were oriented towards strengthening New Zealand's transmission backbone to support the movement of energy between the South and North Islands and within the islands. However, in the last decade there has been very little investment in transmission while electricity demand has continued to grow.

New Zealand has had three reasonably dry winters since 2000. In each of those years the inter-island high voltage cable (the HVDC) has played a critical role in enabling North Island thermal generation to support the South Island during the periods of low hydro generation. In the wetter years, the HVDC has allowed cheaper hydro generation to be transmitted to the north resulting in lower thermal generation.

Contact's financial performance over the past 10 years has reflected this inherent flexibility.

During dry periods such as 2001, 2003 and 2006, Contact was able to access flexible, relatively cheap natural gas from the Maui field to offset the reduction of hydro generation. Equally, during periods of high hydro inflows, the flexibility of legacy Maui gas supply arrangements enabled Contact to reduce gas take to balance generation from its gas-fired stations in order to maximise use of the cheaper hydro generation. Accordingly Contact's financial performance has grown over time despite the volatility in wholesale electricity prices.

EBITDAF and wholesale electricity prices



* 2005 shown as the 12 months to June 2005

In the financial year ending 30 June 2009 we have seen the impact of changes which have undermined this flexibility:

- Demand has continued to rise across both islands while the South Island has seen very little increase in new generation. As a result, in dry conditions there is an increasing dependence on the HVDC to ensure security of supply to the South Island. Transmission constraints across the alternating current (AC) part of the grid are also more prevalent.
- Flexible low-cost legacy Maui gas supply arrangements have now expired (although Contact still retains further ongoing rights to other Maui gas). Current gas supply contracts have relatively flat and fixed daily take requirements, which constrain the ability of gas-fired power stations to adjust their output in response to fluctuating hydro inflows. During the second half of this financial year the impact of inflexible and high priced gas began to impact the operation of Contact's portfolio with the gas-fired plant operating at times when prices were insufficient to cover the variable costs of operation.
- Pole one of the HVDC was unexpectedly decommissioned in November 2007. For the majority of the time, the remaining pole (pole two), together with available generation capacity in each island, is sufficient to ensure North and South Island electricity demand is met at a similar cost. However, during periods of extreme weather, such as the drought last winter and the high inflows over the summer and autumn, the absence of a second Cook Strait cable can result in the islands operating as separate markets, often with a significant loss of system efficiency. During periods of extreme drought in the South Island, the system needs a robust grid, including two poles to move energy from the North Island to the South Island. Equally, when inflows into the southern lakes are very high as we saw in the second half of the financial year, hydro becomes the cheapest source of electricity for the country, and requires two poles to maximise flow to the North Island to minimise both the spilling of water and the use of thermal fuels.

Contact has implemented a series of strategies to help to mitigate the impact of transmission system constraints and gas supply inflexibility. These include:

- In 2008, Contact acquired the rights to the largely depleted Ahuroa gas reservoir to convert the field into an underground gas storage facility. Contact commenced injecting gas into the Ahuroa field in December 2008 and a total of 5.6 petajoules (PJ) (excluding LPG) is now held in the reservoir. Although the gas storage project is not expected to be fully operational until 2010, the storage facility has already provided Contact with a valuable source of fuel flexibility by providing an ability to inject and store 'must-take' gas during the low demand and high hydro inflow summer months. With the addition of a more powerful compressor during September 2009 the daily volume capable of being injected will increase.
- Also in 2008, Contact commenced the development and construction of a 200 megawatt (MW) gas-fired peaking plant near Taranaki, which is on schedule to be completed in mid 2010. As the market experiences increasing volatility due to transmission constraints, and weather-related intermittency, fast-start plant of this nature will enable Contact to respond to those events. Combined with access to gas in storage, this will provide opportunities for Contact to leverage volatile market conditions. Market conditions in the second half of the financial year which exhibited a high degree of intra-day volatility confirm that the peakers combined with storage will be valuable additions to the Contact portfolio.
- Contact is actively supporting Transpower in its efforts to execute transmission upgrades across the country, including participating in a Transpower procurement advisory group in relation to the project to replace pole one of the HVDC. Pole three (the replacement for pole one) is currently expected to be operational by April 2012.
- In September 2008, Contact adjusted tariffs to reflect the significant risk of inter-island price separation during periods of low hydro inflows, arising as a consequence of the decommissioning of pole one. Unsurprisingly, other South Island retailers have adjusted tariffs to similar levels.

In addition, Transpower is implementing a series of transmission upgrades which, when complete, are expected to largely alleviate system constraints. These include a project which, upon completion in the spring of 2009, is expected to increase the amount of hydro power that can be transferred out of the Southland/Otago area by up to an additional 150 MW.

Financial results to 30 June 2009

The events and conditions described above presented Contact with extremely challenging trading conditions and significantly contributed to a disappointing annual result for the period ended 30 June 2009.

EBITDAF

Contact achieved Earnings Before Net Interest Expense, Income Tax, Depreciation, Amortisation, Financial Instruments and Other Significant Items (EBITDAF) of $445.3 million, down 21 per cent from $567.2 million for the financial year ended 30 June 2008.

The key drivers of the $122 million reduction in EBITDAF in the 2009 financial year were:

- a decrease in net contribution from electricity (after electricity purchase cost) of $101 million. The main causes of this were high purchase costs for the retail customers in the South Island in the first quarter and a significant drop in generation revenue in the remainder of the year due to low wholesale prices, transmission constraints, which limited hydro generation, and some unplanned thermal generation outages;
- a 25 per cent per unit increase in gas costs – this added $1.40 to every gigajoule (GJ) which Contact used. This increased cost combined with loss of gas flexibility placed a large burden on the business in a year in which wholesale electricity prices averaged $56 per megawatt hour (MWh); and
- the impact of the recession which dampened demand growth and limited the ability of Contact to reflect the increased costs of generation through appropriate tariff movements.

Depreciation

Depreciation increased by $15.4 million (11 per cent) to $162 million largely due to increases associated with the long term maintenance costs for the gas-fired plants at Otahuhu and Taranaki Combined Cycle (TCC) and the geothermal drilling undertaken to increase output at Wairakei and Ohaaki.

Interest expense

Net interest expense for the period reduced by $7.3 million or 10 per cent to $62.6 million for the financial year ended 30 June 2009. While the total net debt increased, interest costs were lower primarily due to the fact that interest on strategic investment projects such as the Stratford peaker project, the first phase of the Tauhara geothermal project, and the Ahuroa gas storage project, is capitalised until construction is completed. In the financial year ended 30 June 2009, $21.5 million of interest has been capitalised.

Income tax expense

Income tax for the period at $46.5 million is $55.6 million lower than for the financial year ended 30 June 2008. This is due to the reported profit for the period being significantly lower at $117.5 million (compared with $237.1 million) and the lower statutory tax rate of 30 per cent.

Underlying earnings after tax

Underlying earnings after tax for the financial year to 30 June 2009 were $160.6 million, down 31 per cent from $232.8 million for the prior financial year.

Capital expenditure and investments

Contact's capital expenditure and investments for the financial year ended 30 June 2009 were $488.8 million (including capitalised interest). Of this, $103.2 million was 'stay in business' and $385.6 million was growth capital expenditure. This compares with $81.5 million and $200.5 million respectively for the financial year ended 30 June 2008. The increase in growth capital expenditure is primarily due to the previously announced investment in generation projects – the 23 MW Tauhara geothermal binary plant, the 200 MW gas-fired peaking plant at Stratford and gas storage.

The increase in the stay in business capital expenditure is primarily due to a major inspection and plant overhaul undertaken at Otahuhu and TCC during November and December 2008.

Net debt

During the financial year ended 30 June 2009, Contact took steps to strengthen its financial position by extending and increasing its debt facilities and raising capital through a $550 million domestic retail bond issue.

Based on the NZD equivalent of borrowings, after foreign exchange hedging, and net of short term deposits, net debt as at 30 June 2009 was $1,124.2 million, compared with $878.4 million as at 30 June 2008. This is largely due to the significant increase in growth capital expenditure as well as a reduction in cash flows from ongoing operations. Contact's committed credit facilities total $685 million; all were undrawn at 30 June 2009. With a gearing of 27 per cent as at 30 June 2009, Contact's financial strength continues to position the company well in terms of navigating the complexity of the current economic circumstances and executing growth options when economic conditions are conducive.

Profit Distribution Plan

In addition to increasing available liquidity, Contact introduced a Profit Distribution Plan (Plan), effective from (and including) the interim and final distributions for the year ended 30 June 2009.

Under the Plan, all shareholders receive distributions in the form of non-taxable bonus shares, with the option to have those shares, or a portion of them, bought back by Contact for cash to be received on a fully imputed basis. As a consequence, shareholders have the choice between retaining shares and/or receiving cash.

The Plan enabled Contact to retain approximately $49 million in respect of the interim distribution to support the execution of Contact's strategic initiatives, with 77 per cent of the shares issued retained by shareholders.

Notwithstanding the events of the 2009 financial year, Contact's Board of Directors resolved to hold the 2009 final distribution at the equivalent of 17 cents per share. The decision to maintain the distribution level was based on the expectation that the company's financial performance would return to normal trends. Any reoccurrence of extreme hydrology, transmission constraints, adverse government policy changes, or a prolonging of the recession could impact Contact's financial performance in the near to medium term. To the extent such impacts do occur, the company would be unlikely to maintain distributions at this year's level.

Outlook

In respect of the 2010 financial year, the extreme weather events which affected the business in July and August 2008 will not recur given current hydrological conditions. However, wholesale prices are currently below both the variable costs of operating thermal plant, and the price required to support investment in new generation. In addition, current economic conditions are expected to continue to dampen demand growth and, consequently, tariff movements.

While the construction of the Ahuroa gas storage and Stratford peaker projects are on schedule for completion in mid 2010, Contact will have limited ability to manage gas inflexibility during the current financial year (although Contact is continuing to inject gas into Ahuroa to build up the cushion gas). Ahuroa gas storage, together with the Stratford gas-fired peakers, will make a material difference to Contact's ability to manage and leverage wholesale price volatility.

When the country emerges from recession, energy demand will also grow. As demand grows, so will the need for new generation. The lack of certainty of domestic gas resources and prices beyond the second half of next decade means that renewable options remain at the forefront of new generation development. Accordingly, Contact continues to develop its portfolio of renewable generation options (geothermal, wind and hydro), whilst maintaining its existing consented gas-fired generation options at Otahuhu and Taranaki in the scenario that new gas is discovered and new gas-fired generation becomes the preferred choice.

Contact holds consents to construct the 220 MW Te Mihi geothermal station and is preparing resource consent applications to expand the Tauhara geothermal project by an additional 240 MW. The sequencing and timing of the Te Mihi and Tauhara projects is dependent on a number of factors including electricity demand growth, credit conditions, carbon policies, currency rates and resource consents. However, we currently anticipate both projects will be implemented over time.

On the expectation that the market will continue to experience price volatility through intermittency of generation, the construction of Contact's fast-start gas-fired peaking plant and its gas storage project, both located near Stratford, Taranaki, also remain central to the company's renewables strategy, in addition to deriving value from electricity market volatility.

Given that almost all of the market's new generation options are higher cost than current generation, electricity prices will need to rise to meet the cost of that new generation. This is likely to require tariff increases over time, possibly at rates higher than inflation in the years through to the middle of the next decade, to support new generation investment.

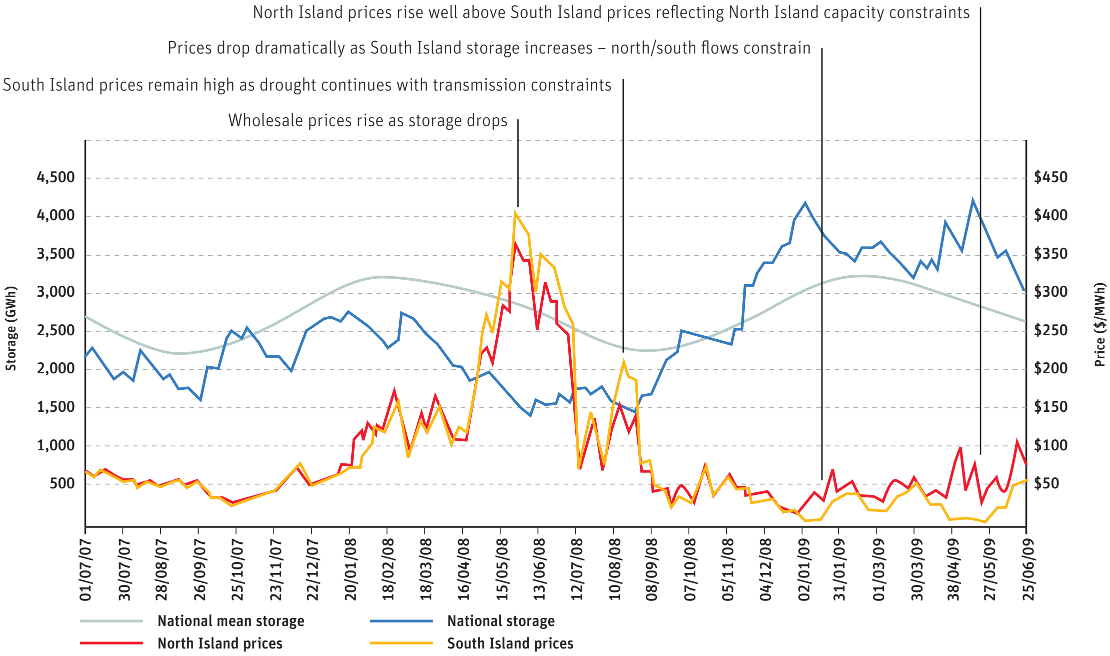
Contact remains well positioned in the longer term. New generation decisions are dependent on a number of economic and market factors, which can change over time. Accordingly Contact's strategy of securing a range of fuel options places it in a great position to grow market share in generation as underlying growth supports new investment and/or as a substitute for existing generation as legacy fuel declines.

Over the next year, Contact will complete the first tranche of its investment to restore fuel and generation flexibility, and will also complete the first new geothermal plant on the large Tauhara geothermal field; an investment across the three projects of $600 million in key infrastructure which will support New Zealand's economic growth and security of supply for decades to come.

Overview of performance for the period

As the following graph illustrates, the extreme movements in hydrology and the loss of pole one of the HVDC led to a number of periods of North and South Island price separation which impacted on Contact's financial performance. For example, in August and September 2008 when the South Island was in drought, Contact was short of generation in the South Island, and this resulted in Contact supplying electricity to its South Island customers at a significant loss.

While wholesale prices dropped towards the end of the first half of the financial year, and were low throughout the second half of the financial year, the transmission constraints continued to limit the ability to move hydro energy to the North Island, resulting in South Island prices being lower than those in the North Island. At times, this led to spilling of water from Contact's and other generators' hydro generation assets in the South Island.

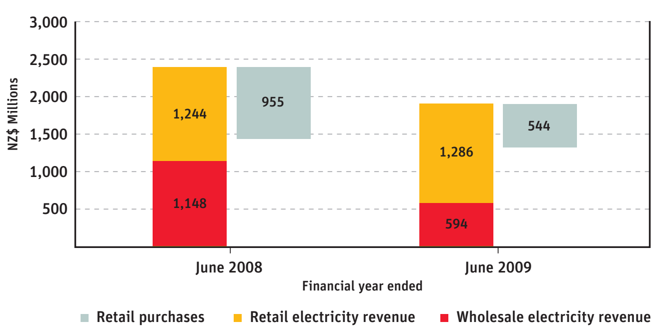


Later in the financial year, the North Island wholesale prices rose well above the South Island as the HVDC continued to constrain and the North Island was also short of capacity at certain times. Given that Contact is generally long generation in the North Island, Contact was able to benefit from such conditions.

Due to the low wholesale electricity prices in the second half of the financial year, total electricity revenue was $1,881 million; $512 million (21 per cent) lower than in the financial year ended 30 June 2008. This was driven by a 48 per cent decrease in wholesale electricity revenue (as a result of a 48 per cent decrease in average wholesale electricity prices and a 10 per cent reduction in generation volume), offset by a three per cent increase in retail electricity revenue. After netting off retail electricity purchases, total retail and wholesale (net) electricity revenue was $101 million lower than for the period ended 30 June 2008, which is largely attributable to wholesale market conditions.

By way of illustration of the impact of hydrology, the average price earned by Contact's generation in the second half of the financial year ended 30 June 2009 was $40 per MWh – compared with an average of $173 per MWh earned in the second half of the financial year ended 30 June 2008. The average wholesale price for the 2009 financial year of $56 per MWh is both well below the long run cost of electricity and the variable operating cost of the gas-fired generation plant.

Total electricity revenue



During the financial year, there were two significant increases in the quarterly producer price index (PPI). The PPI is applied to adjust gas prices in most of Contact's gas purchase contracts. These recent increases, as well as the completion of Contact's low cost Maui 367 gas entitlements, resulted in the company paying about 25 per cent more per GJ for gas over the 2009 financial year. This was significantly higher than expected.

Key financial information

	12 months ended 30 June 2009 $ million	12 months ended 30 June 2008 $ million	Variance $ million	Variance %
Operating revenue	2,222.2	2,756.7	(534.5)	(19%)
Operating expenses [1]	(1,776.9)	(2,189.5)	412.6	19%
EBITDAF [2]	**445.3**	**567.2**	**(121.9)**	**(21%)**
Depreciation and amortisation	(162.0)	(146.6)	(15.4)	(11%)
Equity accounted earnings of associates	3.6	2.8	0.8	29%
Change in fair value of financial instruments	(57.5)	(1.9)	(55.6)	2,926%
Removal of New Plymouth asbestos and related costs	–	(33.7)	33.7	(100%)
Impairment of investments	(2.8)	–	(2.8)	–
Gain on sale of Mokai geothermal land and rights	–	21.3	(21.3)	(100%)
Earnings Before Net Interest Expense and Income Tax (EBIT)	**226.6**	**409.1**	**(182.5)**	**(45%)**
Net interest expense	(62.6)	(69.9)	7.3	10%
Income tax expense	(46.5)	(102.1)	55.6	54%
Profit for the period	**117.5**	**237.1**	**(119.6)**	**(50%)**
Underlying earnings after tax [3]	**160.6**	**232.8**	**(72.2)**	**(31%)**
Underlying earnings per share [3]	**27.35**	**39.60**	**(12.25)**	**(31%)**
Shareholders' equity	**2,942.3**	**2,904.1**	**38.2**	**1%**

1 Includes electricity purchases.
2 Earnings before net interest expense, income tax, depreciation, amortisation, financial instruments and other significant items.
3 Underlying earnings after tax removes significant one-off items and the non cash change in fair value of financial instruments.

Profit for the period ended 30 June 2009 was $117.5 million. This was negatively affected by a non-cash post-tax movement of $40.3 million in the fair value of financial derivatives. With the introduction of International Financial Reporting Standards (IFRS), the accounting standards require that certain changes in the fair value of financial instruments be reflected in the Income Statement. This can introduce significant volatility to the earnings reported for the year. This impact is primarily driven by financial instruments Contact utilises in order to hedge various price and interest rate risks to which it is exposed. The intention of hedging is to reduce these risks and deliver a higher level of certainty to the cash flows of the business. While Contact utilises valid economic risk management instruments to hedge these risks, these instruments must also meet the criteria prescribed under IFRS in order to qualify for hedge accounting where fair value changes are carried in equity. For those instruments which do not qualify for hedge accounting the change in fair value is recognised in the Income Statement.

The most notable instruments in Contact's portfolio that do not qualify for hedge accounting are interest rate swaps. With the significant drop in the forward yield curve over the first six months of the financial year, the fair value of the interest rate book has correspondingly decreased and will fluctuate with movements in interest rates.

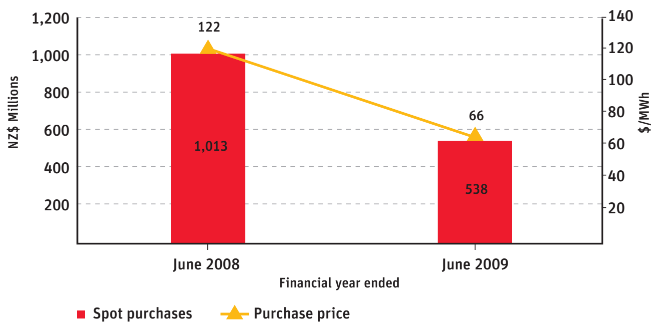
Retail segment

	12 months ended 30 June 2009 $ million	12 months ended 30 June 2008 $ million	Variance $ million	Variance %
Retail electricity revenue	1,286.3	1,244.4	41.9	3%
Gas revenue wholesale	72.8	97.4	(24.6)	(25%)
Gas revenue retail	82.2	84.1	(1.9)	(2%)
LPG revenue	153.8	145.2	8.6	6%
Other retail revenue	15.8	11.9	3.9	33%
Total retail revenue	**1,610.9**	**1,583.0**	**27.9**	**2%**
Retail electricity purchases	(537.9)	(1,012.5)	474.6	47%
Electricity transmission, distribution and levies	(431.8)	(442.1)	10.3	2%
Gas purchases and transmission	(148.2)	(159.4)	11.2	7%
LPG purchases	(112.1)	(105.2)	(6.9)	(7%)
Labour costs and other operating expenses	(144.0)	(142.0)	(2.0)	(1%)
Total operating expenses	**(1,374.0)**	**(1,861.2)**	**487.2**	**26%**
EBITDAF	**236.9**	**(278.2)**	**515.1**	**185%**
Depreciation and amortisation	(19.8)	(20.3)	0.5	2%
Segment result	**217.1**	**(298.5)**	**515.6**	**173%**
Average electricity purchase price ($ per MWh) (1)	(65.79)	(122.07)	56.3	46%
Retail electricity sales (GWh)	7,609	7,800	(191)	(2%)
Electricity customer numbers	479,000	520,000	(41,000)	(8%)
Gas sales wholesale customers (PJ)	11.1	17.0	(5.9)	(35%)
Gas sales retail customers (PJ)	3.9	4.1	(0.2)	(4%)
Gas sales LPG customers (tonnes)	77,228	84,334	(7,106)	(8%)
Gas customer numbers	67,000	75,000	(8,000)	(11%)
LPG customer numbers (including franchisees) (2)	53,700	50,800	2,900	6%

1 This price excludes contracts for differences.
2 LPG customer numbers have been restated down by approximately 1,800 customers. These 1,800 customers are closed or non-active accounts that had been historically recorded as customers.

Contact's retail segment EBITDAF of $236.9 million was $515.1 million higher than the negative $278.2 million for the financial year ended 30 June 2008. This is predominantly due to the change in wholesale conditions which reduced the retail electricity purchase cost from $1,012.5 million to $537.9 million, a 47 per cent decrease.

Retail purchase costs



Set out in the table below are the North and South Island average retail electricity purchase prices by quarter. These prices illustrate the stark changes in hydrology conditions which occurred within the financial year as well as the differences between the North and South Islands.

Average electricity purchase price	12 months ended 30 June 2009 $/MWh	12 months ended 30 June 2008 $/MWh	Variance $/MWh	Variance %
Q1 North Island	102	57	45	79%
Q2 North Island	47	45	2	3%
Q3 North Island	46	124	(78)	(63%)
Q4 North Island	70	228	(158)	(69%)
FY North Island	**68**	**113**	**(45)**	**(40%)**
Q1 South Island	149	60	89	146%
Q2 South Island	38	43	(5)	(12%)
Q3 South Island	25	114	(89)	(78%)
Q4 South Island	25	305	(280)	(92%)
FY South Island	**63**	**133**	**(70)**	**(53%)**
Q1 National	124	59	65	112%
Q2 National	43	45	(2)	(5%)
Q3 National	37	119	(82)	(69%)
Q4 National	49	265	(216)	(81%)
FY National	**66**	**122**	**(56)**	**(46%)**

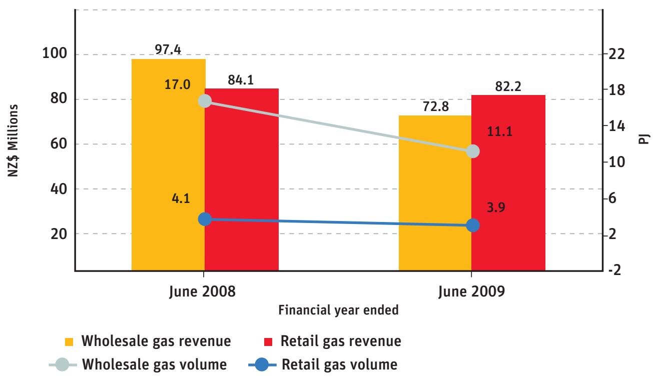
Total retail electricity revenue rose three per cent to $1,286.3 million, with total sales of 7,609 gigawatt hours (GWh) compared with 7,800 GWh in the financial year ended 30 June 2008. This two per cent drop consists of a two per cent decrease in mass market volumes and three per cent reduction in time of use (large commercial/industrial customers) volumes. The time of use reduction is largely due to the economic conditions that have driven a per customer decrease in energy consumption in the second half of the 2009 financial year.

Set out below is a summary of the North and South Island electricity purchase volumes for the financial years ended 30 June 2008 and 2009.

	12 months ended 30 June 2009	12 months ended 30 June 2008	Variance GWh	Variance %
North Island retail electricity purchases (GWh)	4,354	4,447	(93)	(2%)
South Island retail electricity purchases (GWh)	3,755	3,857	(102)	(3%)
Retail GWh purchased	**8,109**	**8,304**	**(195)**	**(2%)**
North Island purchases (GWh) as a percentage of total purchases	54%	54%		0%
South Island purchases (GWh) as a percentage of total purchases	46%	46%		0%

Retail electricity customers reduced to 480,000 compared with 500,000 as at 31 December 2008 and 520,000 as at 30 June 2008. As a result of the marketing activities which Contact has undertaken in the past few months, Contact is once again acquiring customers and, together with LPG gains, the customer base is now growing.

Wholesale and retail gas revenue



Contact's gas revenue from wholesale customers reduced by $24.6 million to $72.8 million in the period ended 30 June 2009. This was largely due to the non recurrence of short term sales which were executed in the second half of the financial year ended 30 June 2008 resulting in a decrease in sales volume of 6 PJ.

Retail gas revenue was slightly lower at $82.2 million, compared with $84.1 million in the financial year ended 30 June 2008. The sales volume was four per cent lower at 3.9 PJ compared with 4.1 PJ in the financial year ended 30 June 2008. Gas customer numbers have decreased to 67,000, compared with 70,000 as at 31 December 2008 and 75,000 as at 30 June 2008.

The average cost of gas (excluding transmission) increased 25 per cent from $5.55 per GJ in the financial year ended 30 June 2008 to $6.94 per GJ in the financial year ended 30 June 2009. This increase has been driven by a change in the underlying mix of gas used, as the use of cheaper Maui 367 legacy gas ceases and is replaced by more expensive gas, and the impact of escalation in gas prices in gas contracts within Contact's portfolio. During the period, the PPI, which is the index used to escalate the prices under most gas contracts, increased significantly more than Contact expected. The average gas transmission and distribution costs for retail also increased by six per cent from $10.43 per GJ to $11.13 per GJ for the financial year ended 30 June 2009.

Revenue from LPG sales grew by six per cent to $153.8 million. This was in part offset by an increase in LPG cost of goods of $7 million or seven per cent. The main driver of this cost increase is the underlying purchase cost of LPG which increased by 16 per cent from $1,248 per tonne to $1,451 per tonne in the financial year ended 30 June 2009. This was largely due to the imported cost of LPG which tends to move with oil prices. LPG volume decreased by eight per cent to 77,228 tonnes, reflecting a drop in the overall market for LPG as increasing costs result in fuel switching by some customers. Contact's market share remains consistent at approximately 50 per cent.

Generation segment

	12 months ended 30 June 2009 $ million	12 months ended 30 June 2008 $ million	Variance $ million	Variance %
Wholesale electricity revenue	594.3	1,148.0	(553.7)	(48%)
Steam revenue	12.9	11.0	1.9	17%
Other wholesale revenue	4.1	14.7	(10.6)	(72%)
Total wholesale revenue	**611.3**	**1,173.7**	**(562.4)**	**(48%)**
Wholesale electricity purchase contracts for differences	(6.3)	57.6	(63.9)	111%
Electricity transmission, distribution and levies	(47.3)	(44.7)	(2.6)	(6%)
Gas purchases and transmission	(251.3)	(253.0)	1.7	1%
Labour costs and other operating expenses	(98.0)	(88.2)	(9.8)	(11%)
Total operating expenses	**(402.9)**	**(328.3)**	**(74.6)**	**(23%)**
EBITDAF	**208.4**	**845.4**	**(637.0)**	**(75%)**
Depreciation	(142.2)	(126.3)	(15.9)	(13%)
Segment result	**66.2**	**719.1**	**(652.9)**	**(91%)**
Average wholesale electricity price ($ per MWh) [1]	56.08	106.90	(50.8)	(48%)
Gas used in internal generation (PJ)	33.4	42.0	(8.6)	(20%)
Thermal generation (GWh)	4,094	5,351	(1,257)	(23%)
Geothermal generation (GWh)	2,311	2,180	131	6%
Hydro generation (GWh)	3,543	3,504	39	1%
Total generation (GWh)	**9,948**	**11,035**	**(1,087)**	**(10%)**

1 This is the price received by Contact for its generation. It excludes contracts for differences.

As discussed earlier, the financial year ended 30 June 2009 saw hydrology extremes which, together with the loss of pole one of the HVDC and a loss of approximately 180 MW of demand at the Tiwai Point aluminium smelter in Southland, resulted in unprecedented volatility in the wholesale electricity market. This led to the EBITDAF contribution of the generation segment decreasing by 75 per cent to $208.4 million, a $637.0 million decrease from the financial year ended 30 June 2008.

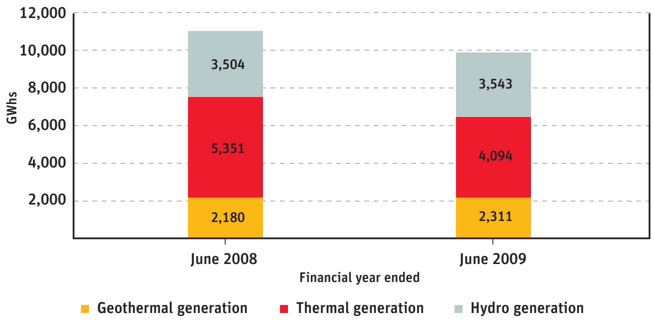
The average wholesale electricity price for the financial year ended 30 June 2009 was $56 per MWh, a 48 per cent decrease over the average wholesale price for the financial year ended 30 June 2008 of $107 per MWh. Within the period the prices were extremely volatile as illustrated in the following table.

Average wholesale electricty price	12 months ended 30 June 2009 $/MWh	12 months ended 30 June 2008 $/MWh	Variance $/MWh	Variance %
Q1 North Island	96	54	42	78%
Q2 North Island	43	44	(1)	(2%)
Q3 North Island	41	110	(69)	(63%)
Q4 North Island	60	212	(152)	(72%)
FY North Island	**64**	**107**	**(43)**	**(40%)**
Q1 South Island	117	56	61	107%
Q2 South Island	34	40	(6)	(16%)
Q3 South Island	20	102	(82)	(80%)
Q4 South Island	21	279	(258)	(93%)
FY South Island	**43**	**107**	**(64)**	**(60%)**
Q1 National	101	55	46	85%
Q2 National	39	42	(3)	(8%)
Q3 National	33	107	(74)	(69%)
Q4 National	45	229	(184)	(80%)
FY National	**56**	**107**	**(51)**	**(48%)**

During the financial year ended 30 June 2009, Contact was, on average, hedged about 90 per cent, compared with 84 per cent for the financial year ended 30 June 2008. In respect of the South Island Contact was about 111 per cent hedged compared with the financial year ended 30 June 2008 where Contact was 116 per cent hedged in the South Island. This reflects the change in hydro conditions after September 2008. Conversely in the North Island Contact was about 79 per cent hedged – this is higher than the North Island hedge level of 71 per cent in the prior financial year due to the significant reduction in thermal generation in the 2009 financial year.

Contact's thermal generation for the financial year ended 30 June 2009 was 4,094 GWh, 1,257 GWh lower than the financial year ended 30 June 2008. This was largely due to a scheduled six week outage at Contact's Otahuhu B gas-fired power station and additional outages of both TCC and Otahuhu B during the second half of the financial year when wholesale prices enabled Contact to take the plants out of service at certain times to undertake preventative maintenance. This activity contributed about $5 million in additional operating costs for the financial year ended 30 June 2009.

Generation by type

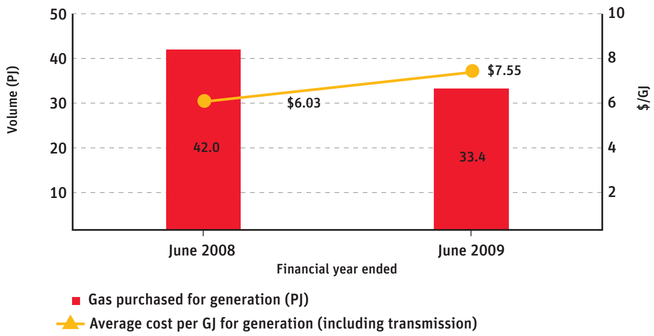


Contact's geothermal generation increased six per cent or 131 GWh in the period ended 30 June 2009 to 2,311 GWh as a result of Contact's geothermal drilling and development programme.

Contact's hydro generation at 3,543 GWh was 39 GWh more than in the financial year ended 30 June 2008. Despite the increase over the prior financial year, hydro generation was well below what might be expected given the hydro conditions. This was due to the fact that Contact was forced to spill in excess of 400 GWh due to transmission constraints.

Contact used 33.4 PJ of gas in generation in the financial year ended 30 June 2009, an 8.6 PJ reduction from the financial year ended 30 June 2008. Despite this, the total gas cost including transmission was relatively flat at $251 million, compared with $253 million in the financial year ended 30 June 2008. Accordingly the average cost of gas used in generation increased from $6.03 per GJ to $7.55 per GJ, a 25 per cent increase.

Gas purchases for generation



Company overview

Contact Energy is one of New Zealand's leading publicly listed companies, with around 83,000 shareholders, a national staff of about 1,000 and the ability to supply electricity and gas products across New Zealand.

Retail

Contact Energy has approximately:

- 479,000 retail electricity customers
- 67,000 reticulated natural gas customers, and
- 54,000 LPG customers.

Generation

- Contact owns and operates nine power stations across the North and South Islands.
- In the 2009 financial year, these power stations provided around 25 per cent of New Zealand's total electricity annual generation.
- Contact is also contracted to operate the Crown-owned reserve generation plant at Whirinaki in Hawke's Bay and holds a minority interest in the Oakey power station in Australia.
- Contact is currently constructing a 200 megawatt gas-fired peaking power station and the country's first underground natural gas storage facility near Stratford, as well as a 23 megawatt geothermal power station at Taupo.
- Contact is also advancing development options in geothermal, wind and hydro generation projects.

Otahuhu B – combined-cycle gas turbine, 400 megawatts

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

Otahuhu A

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

Te Rapa – cogeneration, 44 megawatts

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

Ohaaki – geothermal, 105 megawatts

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

Wairakei – geothermal, 157 megawatts plus 15 megawatt binary plant

Commissioned in 1958, the Wairakei geothermal power station marked its 50th anniversary in the 2009 financial year.

Poihipi Road – geothermal, 50 megawatts

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

Taranaki – combined-cycle gas turbine, 377 megawatts

Commissioned in 1998 and upgraded during 2008, the Taranaki combined-cycle power station is a modern, efficient plant.

Clyde – hydro, 432 megawatts

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

Roxburgh – hydro, 320 megawatts

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

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

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

Whirinaki – distillate-fired peaking station, 155 megawatts

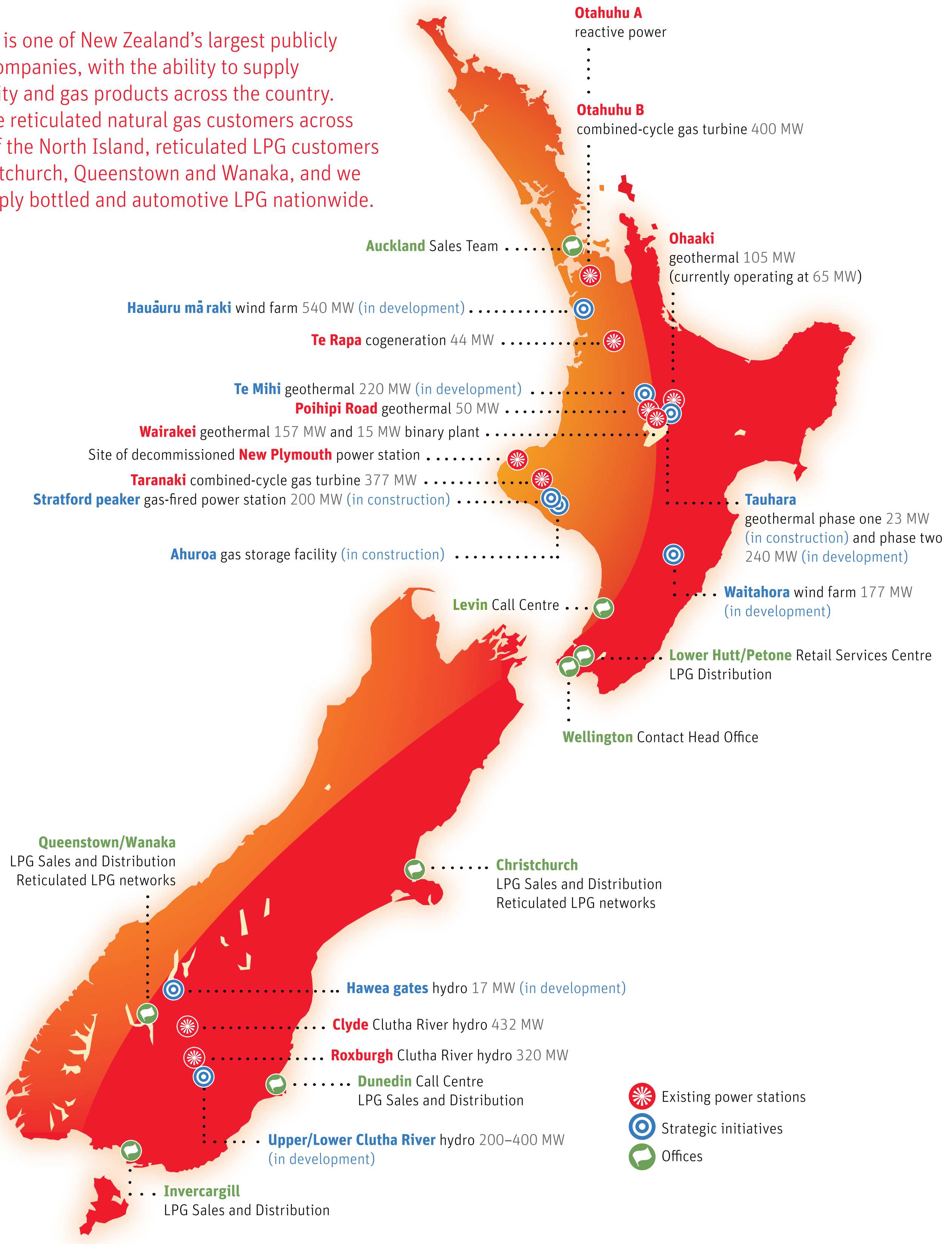
Contact operates the Whirinaki peaking station on behalf of the Crown. Contact owns the land upon which the power station is located in Hawke's Bay.

New Plymouth

Over the 2009 financial year the New Plymouth gas-fired power station was decommissioned, following the discovery of asbestos at the plant. While the plant is decommissioned, the site remains of value to Contact as a potential location for a future gas-fired power station.

National overview

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



Governance

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

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

Contact's **constitution** is available on the company's website.

Distribution Policy

Contact's Distribution Policy is to maintain or grow distributions on a year-to-year basis while targeting an average distribution equivalent to approximately 80 per cent of net surplus over time.

Ethics

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

Contact has established internal procedures to monitor compliance with the Code of Ethics. Every six months, a report is provided to the Board Audit Committee highlighting any matters raised by staff under the Code of Ethics. In the financial year ended 30 June 2009, there were no issues to report in relation to the Code of Ethics.

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

Health, safety and environment

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

For further information on Contact's HSE performance, see the **2009 Sustainability Report**, available on the company's website.

Whistleblowing Policy

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

Role of the Board of Directors

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

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

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

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

Operation of the Board

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

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

Compliance with NZX Best Practice Code and other guidelines

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

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

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

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

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

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

Board composition

The composition of the Board has changed during the financial year. On 16 March 2009, David Baldwin and Sue Sheldon were appointed to the Contact Board, and effective from 30 June 2009, Tim Saunders retired from the Contact Board.

Accordingly, from 30 June 2009, the Board comprises seven members as follows:

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

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

Independence of directors

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

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

The Board has confirmed that, at the end of the financial year, Phillip Pryke, John Milne and Sue Sheldon each held (and still hold) no 'Disqualifying Relationship' in relation to Contact and are therefore each independent directors. The Board also confirmed that until his retirement on 30 June 2009, Tim Saunders held no 'Disqualifying Relationship' in relation to Contact and was therefore an independent director.

This is because none of these directors fall within the definition of 'Disqualifying Relationship' and, in particular, none of these directors is an associated person of a substantial security holder of the company, nor has any relationship with the company or a substantial security holder of the company by virtue of which they derive any revenue from the company, other than their respective Contact directorships and shareholdings.

Grant King, Bruce Beeren and Karen Moses are not considered to be independent directors by virtue of being associated persons of substantial security holder Origin Energy New Zealand Limited. David Baldwin is not considered to be an independent director because he is an executive of Contact and is also an associated person of substantial security holder Origin Energy New Zealand Limited. Grant King, Bruce Beeren, Karen Moses and David Baldwin were therefore not independent directors as at 30 June 2009.

Residence of directors

The NZSX Listing Rules and Contact's constitution require at least two directors to be ordinarily resident in New Zealand. David Baldwin, John Milne and Sue Sheldon satisfy this requirement (as did Tim Saunders up until his retirement on 30 June 2009).

Election and re-election of directors

The NZSX Listing Rules and Contact's constitution require that directors who have been appointed to fill a casual vacancy during a financial year must stand for election at the next Annual Meeting. Accordingly, David Baldwin and Sue Sheldon will stand for election at the 2009 Annual Meeting.

The NZSX Listing Rules and Contact's constitution also require a minimum of one-third of directors (other than one executive director and any directors appointed to fill a casual vacancy) to retire at each Annual Meeting and, if appropriate, stand for re-election. The directors required to resign are those who have been in office longest since their last election. Accordingly, Grant King and Bruce Beeren will retire and stand for re-election at the 2009 Annual Meeting. (Karen Moses and Tim Saunders retired and were re-elected at the October 2007 Annual Meeting, and Phillip Pryke and John Milne retired and were re-elected at the October 2008 Annual Meeting.)

Conflicts of interest

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

Board assessment

Contact's Board follows a practice of reviewing the performance of the Board as a whole and the Board committees every two years, and of reviewing the performance of those directors standing for re-election or standing for election at the next Annual Meeting every year. In accordance with this practice, in July 2009:

- Contact undertook a formal assessment of the Board and the Board committees, and
- the Board reviewed the performance of Grant King, Bruce Beeren, David Baldwin and Sue Sheldon, being those directors required to retire and stand for re-election, or stand for election, at the 2009 Annual Meeting.

Board committees

The Board has four formally constituted committees – the Board Audit Committee, the Health, Safety and Environment Committee, the Nominations Committee and the Remuneration Committee. Copies of the **charters** for these committees are available on the company's website.

Other committees of the Board are formed as and when required. For example, an Independent Directors' Committee comprising Phillip Pryke (Chair), John Milne, Tim Saunders (until 30 June 2009) and Sue Sheldon (from 19 March 2009) meets to evaluate and approve various related party transactions with Origin Energy, which, in the financial year ended 30 June 2009, included gas processing arrangements, LPG prices and the related party transactions process.

In addition, Contact formed a Due Diligence Committee to oversee the due diligence process for the March 2009 retail bond issue. John Milne (Chair) and Bruce Beeren were members of the Due Diligence Committee.

Board Audit Committee

At the end of the financial year, the Board Audit Committee (BAC) comprised John Milne (Chair), Bruce Beeren, Tim Saunders (until 30 June 2009) and Sue Sheldon (from 16 March 2009). John Milne is a qualified Chartered Accountant, Sue Sheldon is a Fellow Chartered Accountant and Bruce Beeren is a fellow of CPA Australia. All members of the committee are non-executive directors.

The BAC's purpose is to oversee Contact's financial policies and to monitor the quality of financial reporting and financial management. The BAC is responsible for approving the annual internal audit work programme, monitoring the roles, responsibilities and performance of external and internal audit, and making recommendations to the Board on matters such as new accounting policies and adopting the financial statements for public release. The **Board Audit Committee Charter** is set out on the company's website.

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

Health, Safety and Environment Committee

At the end of the financial year, the Health, Safety and Environment (HSE) Committee comprised Karen Moses (Chair), Phillip Pryke, John Milne and Tim Saunders (until 30 June 2009). Prior to 31 December 2008, the HSE Committee comprised all members of the Board.

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

Nominations Committee

At the end of the financial year, the Nominations Committee comprised Grant King (Chair), Phillip Pryke, Tim Saunders (until 30 June 2009) and Sue Sheldon (from 19 March 2009). The Nominations Committee's primary purpose is to ensure that the Board is comprised of individuals who are best able to discharge the responsibilities of Directors, and it also attends to other matters put to it, including director performance assessment and Managing Director appointment.

In the 2009 financial year, the Nominations Committee considered the assessment of Phillip Pryke and John Milne's performance as directors ahead of their standing for re-election at the October 2008 Annual Meeting and considered Board composition issues (including processes for the appointment of Sue Sheldon as a director and David Baldwin as Managing Director). In July 2009, the Nominations Committee considered the assessment of Grant King, Bruce Beeren, David Baldwin and Sue Sheldon's performance as directors ahead of their standing for election/re-election at the October 2009 Annual Meeting. The **Nominations Committee Charter** is set out on the company's website.

Remuneration Committee

At the end of the financial year, the Remuneration Committee comprised Phillip Pryke (Chair), Grant King, Tim Saunders (until 30 June 2009) and Bruce Beeren (from 19 March 2009). The Remuneration Committee's primary purposes are to review directors' fees, the Managing Director's remuneration package and performance, and the policy for remuneration of senior management, with a view to ensuring that the interests of employees and shareholders are aligned. These reviews form the basis of recommendations to the Board.

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

Attendance at meetings

During the financial year ending 30 June 2009, the Board met 13 times. The table below sets out attendance at meetings for all directors.

Director	Board attendance (scheduled and special purpose)	Committee attendance					
		BAC	HSE	Remuneration	Nominations	Independent Directors	Due Diligence
Grant King	13	N/A	1	2	1	N/A	N/A
Phillip Pryke	13	N/A	3	2	1	3	N/A
David Baldwin	13	4	3	2	1	3	4
Bruce Beeren	13	4	1	1	N/A	N/A	4
John Milne	13	4	3	N/A	N/A	3	4
Karen Moses	13	N/A	3	N/A	N/A	N/A	N/A
Sue Sheldon	4	1	N/A	N/A	N/A	N/A	N/A
Tim Saunders	13	4	2	1	1	3	N/A

Note: David Baldwin and Sue Sheldon were appointed to the Board on 16 March 2009. In respect of David Baldwin, the above table includes attendances as an observer on all committees, and as an observer on the Board prior to 16 March 2009.

Distribution plans

Profit distribution plan

Contact implemented a profit distribution plan in February 2009, which took effect from the 2009 interim distribution in March 2009.

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

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

Share top up plan

Contact operated a share top up plan until February 2009, when it was terminated following the implementation of the profit distribution plan. The share top up plan provided shareholders holding 5,000 or fewer shares who were resident in New Zealand or Australia and who were not directors or associated persons of directors of Contact with the opportunity to acquire additional shares funded by their regular dividend payments.

During the financial year ended 30 June 2009, Contact provided financial assistance in connection with the ongoing costs associated with the share top up plan until it was terminated. The **disclosure document** which was sent to shareholders in September 2009 sets out the details of the financial assistance provided in connection with the plan and is available on the company's website.

Current NZX waivers

A summary of all **waivers** granted and published by NZX within or relied on by Contact in the 12 month period preceding 22 July 2009 (being two months before the date of publication of this Annual Report) is available on Contact's website. This summary will remain on Contact's website for at least 12 months following publication of this Annual Report.

Exercise of NZX disciplinary powers

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

Financial reporting

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

Contact's **Annual** and **Half Year Reports** are posted on Contact's website. The annual financial statements are audited and this year the 31 December 2008 half year financial statements were also audited. In accordance with the Companies Act 1993, Contact does not automatically mail printed copies of the Annual and Half Year Reports to shareholders. A notice will be posted to shareholders when the Annual Report is available each year, and shareholders can request, free of charge, a hard copy of the Annual Report or the next Half Year Report and subsequent reports within 15 working days of receiving that notice.

The Managing Director and Acting Chief Financial Officer have provided the Board with written confirmation that the company's financial statements for the year ended 30 June 2009 have been prepared in accordance with New Zealand Generally Accepted Accounting Practice and that they comply with New Zealand Equivalents to International Financial Reporting Standards and other appropriate financial reporting standards, as appropriate for profit-oriented entities.

Auditor independence

The Board Audit Committee (BAC) is responsible for considering and making recommendations to the Board regarding any issues relating to the appointment, dismissal or resignation of the external auditor.

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

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

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

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

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

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

Auditors

The amount payable by Contact and its subsidiaries to KPMG as audit fees in respect of the financial year ended 30 June 2009 was $691,000. In addition, Contact paid $186,000 to KPMG for a statutory audit as at 31 December 2008 in relation to the retail bond issue.

Contact also engaged KPMG to perform other assurance services. The amount payable in respect of the additional assurance services was $63,104, comprising work relating to assurance procedures over a commercial model, and due diligence work relating to the retail bond issue.

Credit rating

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

The $550 million unsubordinated, unsecured fixed rate bonds issued by Contact in March 2009 were assigned an initial rating of BBB by Standard & Poor's.

Donations

During the financial year ended 30 June 2009, in addition to the numerous sponsorships detailed in the **Sustainability Report**, Contact made donations amounting to $93,573. No subsidiaries made any donations during the financial year ended 30 June 2009.

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

There were no political donations made during the financial year.

Risk management

Contact's Risk Management Framework aligns with recognised best practice (Australian/New Zealand Standard for Risk Management AS/NZS 4360:2004). An Executive Risk Management Committee is responsible for monitoring the ongoing effectiveness of Contact's risk management activities and provides assurance to the Board and its committees that there is an effective framework in operation over risk-related activities. The Executive Risk Management Committee monitors trends in the company's risk profile and considers papers on how the business manages or mitigates key risk exposures. Regular reports on the company's risks are presented to the Board. Contact recognises the importance of effective risk management to its business success and aims to continually improve its risk profile and risk management capability.

Internal audit

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

The **Internal Audit Charter** is included in the Board Audit Committee Charter available on the company's website. Internal Audit assists Contact to accomplish its objectives by bringing a systematic disciplined approach to evaluate and improve the effectiveness of risk management, internal controls and governance processes. Internal Audit adopts a risk-based audit approach driven from the company's Risk Management Framework.

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

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

Securities Trading Policy

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

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

Entries recorded in the interest register

The following interest register entries were recorded for the company and its subsidiaries during the financial year ended 30 June 2009:

(a) Security dealings of directors

Contact directors disclosed the following transactions in Contact securities in the financial year ended 30 June 2009. Note that all dealings are in ordinary shares unless otherwise specified.

Director	Date of transaction	Consideration per security*	Number of securities acquired (disposed of)	Nature of relevant interest
G King	12/06/09	$5.81	4,781	Restricted shares acquired on trust under the Contact GA King Director Remuneration Share Trust
P Pryke	27/08/08 03/10/08 24/02/09 03/04/09	$8.44 $7.70 $5.86 $6.00	1,935 1,624 2,140 2,083	Restricted shares acquired on trust under the Contact PJ Pryke Director Remuneration Share Trust
	27/08/08 27/08/08 03/10/08 03/10/08 25/02/09 25/02/09 01/04/09 01/04/09	NCBO NCBO NCBO NCBO NCBO NCBO NCBO NCBO	(1,694) 1,694 (1,695) 1,695 (1,547) 1,547 (1,653) 1,653	Transfer of unrestricted shares from Contact PJ Pryke Director Remuneration Share Trust to Pryke Pty Limited, as beneficiary of Contact PJ Pryke Director Remuneration Share Trust
	31/03/09 31/03/09	$5.66 $5.66	894 769	Acquisition of bonus issue shares pursuant to the Profit Distribution Plan (2009 interim distribution)
	02/04/09 02/04/09	NCBO NCBO	(894) 894	Transfer of bonus issue shares acquired pursuant to the Profit Distribution Plan (2009 interim distribution) from Contact PJ Pryke Director Remuneration Share Trust to Pryke Pty Limited, as beneficiary of Contact PJ Pryke Director Remuneration Share Trust
D Baldwin	16/03/09	N/A	88,342 restricted ordinary shares	Initial disclosure on appointment as Managing Director: beneficial interest in, and conditional entitlement to become legal and beneficial owner of, ordinary shares under Contact's employee long term incentive scheme (Restricted Share Plan)
	16/03/09	N/A	525,547 options to acquire ordinary shares	Initial disclosure on appointment as Managing Director: options to acquire ordinary shares under Contact's employee long term incentive scheme (Share Option Plan)

* NCBO means no change in beneficial ownership.

Director	Date of transaction	Consideration per security*	Number of securities acquired (disposed of)	Nature of relevant interest
B Beeren	27/08/08 06/10/08 24/02/09 03/04/09	$8.44 $7.50 $5.86 $6.00	1,291 1,111 1,426 1,389	Restricted shares acquired on trust under the Contact BG Beeren Director Remuneration Share Trust
	25/02/09 25/02/09 01/04/09 01/04/09	NCBO NCBO NCBO NCBO	(1,032) 1,032 (1,102) 1,102	Transfer of unrestricted shares from Contact BG Beeren Director Remuneration Share Trust to Bruce Beeren
	31/03/09 31/03/09	$5.66 $5.66	238 21	Acquisition of bonus issue shares pursuant to the Profit Distribution Plan (2009 interim distribution)
	02/04/09 02/04/09	NCBO NCBO	(238) 238	Transfer of bonus issue shares acquired pursuant to the Profit Distribution Plan (2009 interim distribution) from Contact BG Beeren Director Remuneration Share Trust to Bruce Beeren
J Milne	27/08/08 03/10/08 24/02/09 03/04/09	$8.44 $7.70 $5.86 $6.00	644 + 645 542 + 541 712 + 713 694 + 694	Restricted shares acquired on trust under the Contact JHG Milne Director Remuneration Share Trust
	27/08/08 27/08/08 03/10/08 03/10/08 25/02/09 25/02/09 01/04/09 01/04/09	NCBO NCBO NCBO NCBO NCBO NCBO NCBO NCBO	(564) + (565) 564 + 565 (565) + (565) 565 + 565 (515) + (516) 515 + 516 (551) + (551) 551 + 551	Transfer of unrestricted shares from Contact JHG Milne Director Remuneration Share Trust to John Milne Trust and Maureen Milne Trust, as beneficiaries of Contact JHG Milne Director Remuneration Share Trust
	31/03/09 31/03/09 31/03/09 31/03/09	$5.66 $5.66 $5.66 $5.66	280 + 280 694 378 47	Acquisition of bonus issue shares pursuant to the Profit Distribution Plan (2009 interim distribution)
	02/04/09 02/04/09	NCBO NCBO	(280) + (280) 280 + 280	Transfer of bonus issue shares acquired pursuant to the Profit Distribution Plan (2009 interim distribution) from Contact JHG Milne Director Remuneration Share Trust to John Milne Trust and Maureen Milne Trust, as beneficiaries of Contact JHG Milne Director Remuneration Share Trust
	06/04/09 06/04/09	NCBO NCBO	(47) 47	Transfer of bonus issue shares acquired pursuant to the Profit Distribution Plan (2009 interim distribution) from beneficially held shares into family trust, of which Mr Milne is a trustee
	30/04/09 30/04/09	NCBO NCBO	(2,415) 2,415	Transfer of beneficially held shares into family trust, of which Mr Milne is a trustee
	31/03/09 31/03/09 31/03/09	$1.00 $1.00 $1.00	70,000 bonds 50,000 bonds 30,000 bonds	Acquisition of bonds as trustee and beneficiary of family trusts and as spouse of registered holder

* NCBO means no change in beneficial ownership.

Director	Date of transaction	Consideration per security*	Number of securities acquired (disposed of)	Nature of relevant interest
K Moses	12/06/09	$5.81	2,390	Restricted shares acquired on trust under the Contact KA Moses Director Remuneration Share Trust
S Sheldon	16/03/09	N/A	540	Initial disclosure on appointment as director of shares held in a trust for which Ms Sheldon is an independent trustee
	31/03/09	$1.00	10,000 bonds	Acquisition of bonds by trust for which Ms Sheldon is an independent trustee
T Saunders	27/08/08 03/10/08 24/02/09 03/04/09	$8.44 $7.70 $5.86 $6.00	1,288 1,083 1,425 1,389	Restricted shares acquired on trust under the Contact TEC Saunders Director Remuneration Share Trust
	27/08/08 27/08/08 03/10/08 03/10/08 25/02/09 25/02/09 01/04/09 01/04/09	NCBO NCBO NCBO NCBO NCBO NCBO NCBO NCBO	(1,129) 1,129 (1,130) 1,130 (1,031) 1,031 (1,102) 1,102	Transfer of unrestricted shares from Contact TEC Saunders Director Remuneration Share Trust to TEC Saunders Family Trust as beneficiary of Contact TEC Saunders Director Remuneration Share Trust
	31/03/09 31/03/09 31/03/09	$5.66 $5.66 $5.66	498 239 13	Acquisition of bonus issue shares pursuant to the Profit Distribution Plan (2009 interim distribution)
	02/04/09 02/04/09	NCBO NCBO	(498) 498	Transfer of bonus issue shares acquired pursuant to the Profit Distribution Plan (2009 interim distribution) from Contact TEC Saunders Director Remuneration Share Trust to TEC Saunders Family Trust as beneficiary of Contact TEC Saunders Director Remuneration Share Trust
	11/03/09	$5.56	10,000	On-market disposal of shares

* NCBO means no change in beneficial ownership.

(b) Directors' interests in transactions

General disclosures

As at 30 June 2009, the following directors had made the following general disclosures in the interests register of the company. Notices given or adjusted during the financial year ended 30 June 2009 are marked with an asterisk (*). Each such director will be regarded as interested in all transactions between Contact and the disclosed entity.

G King	
Origin Energy Limited and Group companies	Managing Director/Shareholder/Employee
Energy Supply Association of Australia Limited (resigned in November 2008)*	Director/Chairman
Australian Petroleum Production and Exploration Association	Councillor

P Pryke	
ComTel Corporation Limited*	Director/Chairman
Co-Investor Capital Partners Pty Limited	Director/Shareholder
Frog Hollow Limited	Director/Shareholder
Goodman (NZ) Limited	Director
Goodman Property Aggregated Limited	Director
New Zealand Deer Farms Limited	Director/Shareholder
Novotech Pty Limited (resigned as director in October 2008)*	Director
Pauatahanui Projects Limited	Director/Shareholder
Pryke Pty Limited	Director/Shareholder
Tru-Test Corporation Limited*	Director
Tru-Test Pty Limited	Alternate Director
D Baldwin	
Origin Energy Limited*	Employee
B Beeren	
Origin Energy Limited and Group companies	Director/Shareholder and former Employee/Executive Director
Coal & Allied Industries Limited	Director
Equipsuper Pty Limited	Director
ConnectEast Group*	Director
J Milne	
The New Zealand Wine Company Limited (including various wholly owned subsidiaries) (resigned as a director in October 2008)*	Director/Shareholder
The He Huarahi Tamariki Trust	Chairman/Trustee
Wellington City Council Audit and Risk Management Subcommittee	Independent Member
K Moses	
Origin Energy Limited and Group companies (appointed to Origin Energy Limited directorship March 2009)*	Director/Employee/Shareholder
Australian Energy Market Operator (Transitional) Limited*	Director
CSIRO, Energy and Transport Sector Advisory Council UNSW, Australian School of Business Advisory Council*	Committee Member
Energy and Water Ombudsman (Victoria) Limited	Director
Victorian Energy Networks Corporation (ceased operation in June 2009)*	Director
S Sheldon CNZM	
Christchurch International Airport Limited*	Deputy Chairman
Electronic Transaction Services Limited*	Director
FibreTech New Zealand Limited*	Chairman
Freightways Limited*	Director
National Provident Fund Board of Trustees*	Chairman
Reserve Bank of New Zealand*	Director
Sue Sheldon Advisory Limited*	Director
Smiths City Group Limited and subsidiaries*	Director
Wool Industry Network Limited*	Chairman
Wool Grower Holdings Limited*	Director
T Saunders	
Global Corporate Credit Limited (resigned as a director in February 2009)*	Director
L.E.K. Consulting Australasian Advisory Board	Advisory Board Member

Specific disclosures

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

(c) Use of company information

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

(d) Board-approved remuneration and other benefits

The Board passed resolutions and signed accompanying certificates to confirm the distribution for the year ended 30 June 2009 amongst directors of a portion of the $1,500,000 remuneration pool (that pool having been approved by shareholders at the 2008 Annual Meeting). See page 40 for further details about the distribution approved by the Board.

(e) Directors' and employees' indemnity and insurance

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

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

In March 2009, Contact's Board authorised the renewal of the Directors and Officers and Statutory Liability Insurance covers as at 31 March 2009 until 31 December 2009 and certified, in terms of section 162 of the Companies Act 1993, that this cover is fair to the company.

Remuneration report

Directors' remuneration

Directors' fees

The current total directors' fee pool is $1,500,000 per annum. A total of $852,651 was distributed in respect of the year ended 30 June 2009 as follows:

- Base director fees: $679,445, distributed as follows:
  - Chairman (Grant King) – $200,000 per annum, paid with effect from 1 November 2008.
  - Deputy Chairman (Phillip Pryke) – $150,000 per annum.
  - Other non-executive directors – $100,000 per annum each (note that Karen Moses's fees were paid with effect from 1 November 2008 and Sue Sheldon's fees were paid with effect from 16 March 2009).
  - Managing Director (David Baldwin) – Nil.
- Committee fees: $173,206, distributed as follows:
  - $22,500 and $17,500 was distributed to John Milne and Bruce Beeren respectively for their additional workload as members of the Due Diligence Committee for Contact's March 2009 retail bond issue.
  - $50,000 was distributed to John Milne in his capacity as Chair of the Board Audit Committee.
  - $83,206 was distributed as committee fees.

Directors' restricted share scheme

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

The directors participating in the Directors' Share Scheme during the financial year were Grant King, Phillip Pryke, Bruce Beeren, John Milne, Karen Moses, Sue Sheldon and Tim Saunders. Grant King and Karen Moses joined the Directors' Share Scheme effective from 1 November 2008 (the date they commenced receiving director fees), and Sue Sheldon joined effective from 16 March 2009. Tim Saunders's participation in the Directors' Share Scheme ceased following the final share purchase on 17 August 2009, using his director fees from the quarter ended 30 June 2009.

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

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

During the financial year ended 30 June 2009, Contact provided financial assistance in connection with the ongoing operation of the scheme. A **disclosure document** relating to the financial assistance to be provided over the next 12 months was sent to shareholders in September 2009 and is available on the company's website.

The table below details the restricted shares of each of Contact's directors that became unrestricted under the Directors' Share Scheme during the financial year ended 30 June 2009.

Name	Date of acquisition	Date unrestricted	Number unrestricted	Original acquisition price
Phillip Pryke	16 November 2005	27 August 2008	1,694	$6.67
	16 November 2005	3 October 2008	1,695	$6.67
	21 February 2006	25 February 2009	1,547	$7.29
	28 August 2006	1 April 2009	1,653	$6.84
John Milne	16 November 2005	27 August 2008	1,129	$6.67
	16 November 2005	3 October 2008	1,130	$6.67
	21 February 2006	25 February 2009	1,031	$7.29
	28 August 2006	1 April 2009	1,102	$6.84
Tim Saunders	16 November 2005	27 August 2008	1,129	$6.67
	16 November 2005	3 October 2008	1,130	$6.67
	21 February 2006	25 February 2009	1,031	$7.29
	28 August 2006	1 April 2009	1,102	$6.84
Bruce Beeren	21 February 2006	25 February 2009	1,032	$7.29
	28 August 2006	1 April 2009	1,102	$6.84

Remuneration details of directors

Details of the total remuneration and the value of other benefits received by each director of Contact in their capacity as a director during the financial year ended 30 June 2009 are as follows:

Director	Position		Board fees	Committee fees	Total remuneration[5]
		Cash	Restricted shares	Cash	
G King[1]	Chairman	$88,889	$44,444	–	$133,333
P Pryke	Deputy Chairman	$100,000	$50,000	–	$150,000
D Baldwin[2]	Managing Director	–	–	–	–
B Beeren	Director	$66,667	$33,333	$44,714	$144,714
J Milne	Director	$66,667	$33,333	$77,500	$177,500
K Moses[1]	Director	$44,445	$22,222	$10,000	$76,667
S Sheldon[3]	Director	$19,630	$9,815	$7,842	$37,287
T Saunders	Director	$66,667	$33,333	$33,150	$133,150
Total		**$452,965**	**$226,480[4]**	**$173,206**	**$852,651**

1 Grant King and Karen Moses received director fees with effect from 1 November 2008.
2 As an executive, David Baldwin does not receive fees in his capacity as a director. See page 42 for details of David Baldwin's remuneration.
3 Sue Sheldon became a director on 16 March 2009.
4 Due to trading period restrictions under Contact's Securities Trading Policy, purchases of restricted shares valued at $72,314 of this total amount occurred on 17 August 2009.
5 Pursuant to Contact's constitution, directors are not entitled to any payment in connection with their retirement or cessation of office.

Executive remuneration

There are two components to executive remuneration – fixed remuneration and at-risk/variable remuneration. The determination of fixed remuneration is based on responsibilities, individual performance and experience, and market data. At-risk/variable remuneration comprises short term incentives and, for senior and key employees, long term incentives.

Managing Director remuneration

David Baldwin, Managing Director of Contact, has been seconded to the role by his employer, Origin Energy Limited. During the term of the secondment, Contact will reimburse Origin Energy Limited for the cost of David Baldwin's salary and other employment benefits, except for restricted shares and options, which are provided directly by Contact. David Baldwin does not receive any director fees. The following table details the nature and amount of the remuneration earned by David Baldwin for the year ended 30 June 2009.

	Remuneration paid			Equity rights (options and restricted shares)[1]				
David Baldwin Managing Director	**Fixed remuneration $**	**Variable remuneration[2] $**	**Total $**	**Number of options issued[3]**	**Number of restricted shares issued[3]**	**Value of equity rights issued and amortising during year[4] $**	**Value of equity rights issued in past years amortising during year[4] $**	**Total $**
Year ended 30 June 2009	838,856	246,000	1,084,856	220,652	31,020	143,030	395,642	1,623,528
Year ended 30 June 2008	725,000	431,375	1,156,375	98,485	17,269	81,250	268,333	1,505,958

1 Although options and restricted shares are granted in October each year, they pertain to the at-risk component of the prior financial year's remuneration.
2 Variable remuneration for the financial year is based on achieving personal goals and satisfying specific performance criteria. The short term incentive is for performance during the relevant financial year. The amount was determined following the end of the relevant financial year after performance reviews.
3 Contact Energy Limited equity securities.
4 Options and restricted shares are subject to performance hurdles as described on page 48. The fair value of the options is calculated at the date of grant using a combination of Monte-Carlo simulation and binomial option pricing model. Restricted shares are valued based on the market price at date of grant adjusted for distributions that are not received until the restricted share vests. The value disclosed is the portion of the fair value of the equity rights allocated to the relevant reporting period. Options and restricted shares will only be convertible into ordinary unrestricted shares to the extent that performance hurdles are met. No options or ordinary shares vested in the 2008 or 2009 financial year.

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

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

Restricted shares	Held at 1 July 2008	Granted as compensation	Vested during the year	Held at 30 June 2009
David Baldwin Managing Director	57,322	31,020	–	88,342

Options	Held at 1 July 2008	Granted as compensation	Exercised	Held at 30 June 2009	Vested during the year	Vested and excercisable at 30 June 2009
David Baldwin Managing Director	304,895	220,652	–	525,547	–	–

Short term incentives

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

Contact's short term incentives (STIs) comprise cash payments based on performance measured against key performance indicators (KPIs). For the year ended 30 June 2009, different levels of incentives were determined reflecting the nature of roles in the company. KPIs generally comprise company, team and individual targets. These targets are designed to create goals that will support an achievement and performance-oriented culture. The STI programme is designed to differentiate and reward exceptional, outstanding and good performance.

The Board reserves the right to adjust STI awards if health, safety and environment targets are not met.

Long term incentives

The principal objective of long term incentives is to align executives' performance with shareholder interests and provide equity-based incentives that help retain valuable employees.

Legacy Long Term Incentive Scheme

Up until 30 June 2006, because a review was pending, only a limited number of senior executives participated in the then-existing long term incentive scheme (Legacy LTI Scheme). Upon completion of that review, a new employee long term incentive scheme was introduced for the year ended 30 June 2007 and beyond.

Following the satisfaction of performance hurdle measurements, shares were purchased on-market for the benefit of participants in the Legacy LTI scheme in August 2007 and August 2008. Those share purchases were disclosed in the **2008 Annual Report**. No further shares were purchased during the financial year.

There will be six-monthly reassessments of performance in relation to hurdles not met until 30 June 2010. Therefore, within the next 12 months, Contact may provide financial assistance for both the purchase of the shares on-market and in connection with the ongoing operation of the scheme. A **disclosure document** relating to this financial assistance was sent to shareholders in September 2009 and is available on the company's website.

Employee Long Term Incentive Scheme

In formulating the new employee long term incentive scheme (LTI Scheme) in 2006, Contact determined that a combination of share options and restricted shares was desirable to ensure incentives align senior and key employees' performance with shareholders' interests, both in favourable and unfavourable sharemarket conditions.

Therefore, for the year ended 30 June 2007 and beyond, Contact introduced a new employee long term incentive plan for participating employees – consisting of a Share Option Plan and a Restricted Share Plan (together, the 'Plans'). Details of the Plans are set out below.

The Board determined that long term incentives should be awarded to reflect individual participants' performance in the preceding financial year and potential in future years.

Under the Plans, for the year ended 30 June 2009, the Board allocated long term incentive awards that are, by value, 50 per cent share options and 50 per cent restricted shares. Under the Plans, the share options will only be exercisable, and the restricted shares will only become unrestricted, to the extent that the relevant performance hurdles are satisfied. The performance hurdles for the share options and restricted shares in relation to the year ended 30 June 2009 are set out on page 48. The number of share options and restricted shares awarded are calculated by dividing the value of the long term incentive award (being a percentage of the relevant participant's salary) by the fair value of the share options and restricted shares.

In the year ended 30 June 2009, there were 19 participants in the LTI Scheme. The Board intends to extend participation in the LTI Scheme to approximately 40 additional senior and key employees of the company in the October 2009 allocation of share options and restricted shares. The Board has decided to expand the current LTI Scheme to these additional individuals, in order to acknowledge not only their present worth to the business, but also their potential to add significant future value. This will bring the total number of participants under the LTI Scheme to approximately 60 employees.

Share Option Plan

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

As noted above, the options are exercisable subject to performance hurdles as determined by the Board. The performance hurdles for share options issued in the year ended 30 June 2009 are described on page 48. There is a vesting period of approximately three years from the effective grant date before share options may be exercised. Following the end of that period, the performance hurdles are measured on three annual test dates. There is a two-year, two-month exercise period following the first test date during which share options may be exercised, again, to the extent that the performance hurdles are met.

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

The share options will lapse:

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

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

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

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

The number of options issued and their exercise status as at the date of this report are set out in the table below.

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

1 Due to the cessation of employment of participants, options from this tranche lapsed pursuant to the Share Option Plan Rules on the following dates: 7 September 2007 (14,103 options), 30 June 2008 (20,513 options), 2 July 2008 (13,808 options) and 31 July 2009 (32,821 options).

2 Due to the cessation of employment of participants, all 18,361 options from this tranche lapsed pursuant to the Share Option Plan Rules on 31 December 2008.

3 Due to the cessation of employment of participants, options from this tranche lapsed pursuant to the Share Option Plan Rules on the following dates: 3 December 2007 (6,591 options), 2 April 2008 (18,136 options), 30 June 2008 (20,000 options), 2 July 2008 (33,656 options), 31 December 2008 (47,457 options) and 31 July 2009 (50,455 options).

4 Due to the cessation of employment of participants, 7,698 options from this tranche lapsed pursuant to the Share Option Plan Rules on 24 December 2008.

5 Due to the cessation of employment of participants, options from this tranche lapsed pursuant to the Share Option Plan Rules on the following dates: 24 December 2008 (19,871 options), 31 December 2008 (57,065 options) and 31 July 2009 (133,914 options).

Restricted Share Plan

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

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

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

For restricted shares issued in the year ended 30 June 2009, the market price or allocation price of the restricted shares was the weighted average market price of Contact's ordinary shares traded on the NZSX over the 20 business days prior to the effective grant date. Payment of the allocation price for the restricted shares was funded by an interest-free loan from the company in an amount equal to the allocation price for the shares. **Financial assistance disclosures** were sent to shareholders in September 2009 and are available on the company's website.

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

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

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

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

The rights to the restricted shares will lapse:

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

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

While restricted, the restricted shares are unlisted and are personal to the employee and therefore cannot be traded nor used for security.

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

The number of restricted shares issued and their status as at the date of this report are set out in the table below.

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

Pursuant to the Restricted Share Plan rules, where a participant ceases employment, beneficial ownership of restricted shares is transferred to the trustee to hold on trust in an unallocated pool to be reallocated to a participant at a future date. As at the date of this report, there were 58,200 restricted shares held by the trustee in the unallocated pool. The following table sets out the movements of the unallocated pool to the date of this report.

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

Hurdles

Broadly, the number of unrestricted ordinary shares to which a participant is entitled under the Plans is determined by achievement of a predetermined hurdle or hurdles. For the restricted shares and share options issued in the year ended 30 June 2009, the hurdle is a comparison of Contact's total shareholder return (TSR) against the average TSR of a reference group comprising the NZX50 index over the relevant period, commencing on the effective grant date.

For the restricted shares and share options issued in the year ended 30 June 2009, participants' vesting entitlements will be calculated on three test dates, being 1 October 2011, 1 October 2012 and 1 October 2013.

Contact's TSR will be determined as follows:

(i) The volume weighted average market price of Contact ordinary shares for the three months prior to the effective grant date is subtracted from the price of the shares as determined by measuring the volume weighted average market price of the shares over the three-month period prior to the relevant test date.

(ii) Adjusting the calculation in (i) above to reflect the assumed reinvestment of distributions (excluding imputation credits) over the period from the effective grant date to the relevant test date.

The participant's vesting entitlements will be based on a predetermined formula relative to achievement of the predetermined hurdle or hurdles. For the restricted shares and share options issued in the year ended 30 June 2009, these are:

(i) zero per cent vesting, if Contact's TSR over the performance period does not exceed the 50th percentile of the TSR of those companies that are in the NZX50 at both grant date and the relevant test date

(ii) 50–100 per cent vesting (on a sliding scale, i.e. the percentage of restricted shares released/share options exercisable increases proportionately on a straight-line sliding scale from the 50th up to the 75th percentile), if Contact's TSR is between the 50th percentile and the 75th percentile TSR of those companies that are in the NZX50 at both grant date and the relevant test date

(iii) 100 per cent vesting, if Contact's TSR is at or above the 75th percentile TSR of those companies that are in the NZX50 at both grant date and the relevant test date.

Employee remuneration

The following table shows the number of employees and former employees of Contact who, in their capacity as employees, received remuneration and other benefit entitlements (including redundancy payments) during the year ended 30 June 2009 of at least $100,000. As at 30 June 2009, no Contact subsidiary held any employees.

The remuneration figures analysed include all monetary payments actually paid during the course of the year ended 30 June 2009, including the short term variable remuneration relating to the 30 June 2008 financial year. The figures do not include amounts paid post 30 June 2009 that related to the period ended 30 June 2009.

The value of remuneration benefits analysed includes both fixed, short term and long term variable/risk components of remuneration, and redundancy and other payments made on termination of employment. The value of the equity-based incentives included in the remuneration band analysis represents the portion of the grant date fair value of the equity instruments allocated to the reporting period ended 30 June 2009.

The remuneration (and any other benefits) of the Managing Director, David Baldwin, is disclosed in the Managing Director remuneration section on page 42.

Remuneration bands	Number of employees	
	Parent	Subsidiaries
$100,000–$110,000	45	–
$110,001–$120,000	49	–
$120,001–$130,000	44	–
$130,001–$140,000	18	–
$140,001–$150,000	17	–
$150,001–$160,000	18	–
$160,001–$170,000	11	–
$170,001–$180,000	6	–
$180,001–$190,000	5	–
$190,001–$200,000	7	–
$200,001–$210,000	6	–
$210,001–$220,000	3	–
$220,001–$230,000	2	–
$230,001–$240,000	4	–
$240,001–$250,000	6	–
$250,001–$260,000	2	–
$260,001–$270,000	1	–
$270,001–$280,000	1	–
$280,001–$290,000	1	–
$310,001–$320,000	1	–
$340,001–$350,000	1	–
$360,001–$370,000	1	–
$370,001–$380,000	2	–
$440,001–$450,000	1	–
$450,001–$460,000	1	–
$490,001–$500,000	2	–
$540,001–$550,000	1	–
$550,001–$560,000	1	–
$560,001–$570,000	1	–
$580,001–$590,000	1	–
$620,001–$630,000	1	–
$730,001–$740,000	1	–
Total	**261**	**–**

Contact subsidiaries – directors and remuneration

Other than Paul Smith, who received the Australian dollar equivalent of $57,489 in the year ended 30 June 2009 in his capacity as a consultant to Contact Australia Pty Limited and Contact Operations Australia Pty Limited, no other director of any of Contact's subsidiaries received additional remuneration or benefits in respect of their directorships.

The table below lists the directors of Contact subsidiary companies as at 30 June 2009.

Contact subsidiary	Directors
Contact Aria Limited	David Baldwin Elizabeth Kelly
Contact Australia Pty Limited	David Baldwin Elizabeth Kelly Paul Smith
Contact Operations Australia Pty Limited	David Baldwin Elizabeth Kelly Paul Smith
Contact Wind Limited	David Baldwin Mark Trigg Alistair Yates
Empower Limited[1]	David Baldwin Jason Delamore
Rockgas Limited[2]	David Baldwin Mark Trigg
Rockgas Holdings Limited[2]	David Baldwin Mark Trigg
Stratford Power Limited[3]	Elizabeth Kelly Mark Trigg

1 Kim Josling was a director of Empower Limited until 13 March 2009, when she was replaced by David Baldwin.
2 John Cumming was a director of Rockgas Limited and Rockgas Holdings Limited until 22 December 2008.
3 Kim Josling was a director of Stratford Power Limited until 13 March 2009, when she was replaced by Elizabeth Kelly.

Effective from 31 July 2009, Mark Trigg resigned as a director of Contact Wind Limited, Rockgas Limited, Rockgas Holdings Limited and Stratford Power Limited. Graham Cockroft was appointed as a director of Contact Wind Limited on 31 July 2009.

Security holder information

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

20 largest registered holders of Quoted Equity Securities as at 3 August 2009 (including holdings within New Zealand Central Securities Depository Limited)

Origin Energy Pacific Holdings Limited	296,487,002
HSBC Nominees (New Zealand) Limited A/C State Street	23,451,830
National Nominees New Zealand Limited	23,024,228
New Zealand Superannuation Fund Nominees Limited	15,072,756
Accident Compensation Corporation	9,674,910
Citibank Nominees (New Zealand) Limited	7,999,557
Premier Nominees Limited – ING Wholesale Australasian Share Fund	6,769,380
Custodial Services Limited	5,827,956
NZGT Nominees Limited – AIF Equity Fund	5,793,463
Tea Custodians Limited	5,071,853
HSBC Nominees (New Zealand) Limited	4,669,907
FNZ Custodians Limited	3,724,884
Origin Energy Universal Holdings Limited	3,670,257
AMP Investments Strategic Equity Growth Fund	3,265,154
Asteron Life Limited	3,046,537
ANZ Nominees Limited	2,833,268
Investment Custodial Services Limited	2,783,064
Custody and Investment Nominees Limited	2,681,746
Masfen Securities Limited	2,544,863
Guardian Trust Investment Nominees (RWT) Limited	2,383,476
Total top 20 holders (excluding Treasury Stock)	**430,776,091**
Total other shares (excluding Treasury Stock)	**154,538,533**
Total issued shares[1] (excluding Treasury Stock)	**585,314,624**
Total Treasury Stock (held by Contact Energy Limited)	**2,571,104**
Total issued shares[1]	**587,885,728**

1 Calculations exclude 268,020 restricted ordinary shares issued pursuant to Contact's employee long term incentive scheme.

Distribution of Quoted Security Holders and security holdings as at 3 August 2009

Ordinary Shares

Size of holding	Number of holders	% of holders	Number of shares[1]	% of shares
1 – 99 shares	847	1.02	22,446	0.00
100 – 199 shares	565	0.68	80,430	0.01
200 – 499 shares	14,061	16.90	5,368,663	0.92
500 – 999 shares	37,419	44.97	28,718,069	4.91
1,000 – 1,999 shares	17,703	21.27	21,037,904	3.59
2,000 – 4,999 shares	8,187	9.84	24,393,202	4.17
5,000 – 9,999 shares	2,874	3.45	18,353,359	3.14
10,000 – 49,999 shares	1,403	1.69	22,985,083	3.93
50,000 – 99,999 shares	70	0.08	4,621,363	0.79
100,000 – 499,999 shares	50	0.06	9,616,796	1.64
500,000 – 999,999 shares	7	0.01	5,228,028	0.89
1,000,000 shares and above	29	0.03	444,889,281	76.01
Total	**83,215**	**100.00**	**585,314,624**	**100.00**

1 Calculations are based on the number of ordinary shares quoted and listed on the New Zealand Stock Market as at 3 August 2009 and exclude 2,571,104 ordinary shares held as treasury stock and 268,020 restricted ordinary shares issued pursuant to Contact's employee long term incentive scheme.

Bonds

Size of holding	Number of holders	% of holders	Number of bonds	% of bonds
5,000 – 10,000 bonds	2,974	31.44	25,096,000	4.56
10,001 – 25,000 bonds	2,977	31.47	58,987,000	10.72
25,001 – 50,000 bonds	2,321	24.53	96,001,000	17.46
50,001 – 100,000 bonds	766	8.10	67,988,000	12.36
100,001 – 500,000 bonds	360	3.80	85,353,000	15.52
500,001 – 1,000,000 bonds	32	0.34	28,658,000	5.21
1,000,001 bonds and above	30	0.32	187,917,000	34.17
Total	9,460	100.00	550,000,000	100.00

Substantial security holders

As at 1 August 2009, the following persons had notified the company in accordance with the Securities Markets Act 1988 that they were currently substantial security holders in the company.

Substantial security holder	Nature of relevant interest	Number of listed voting securities	Class
Origin Energy New Zealand Limited and its related bodies corporate (including Origin Energy Limited and Origin Energy Vic Holdings Limited)	Shareholder	300,956,306	Ordinary shares

The total number of shares of Contact as at 1 August 2009 was 588,153,748, consisting of 585,314,624 listed ordinary shares, 2,571,104 ordinary shares held as treasury stock and 268,020 restricted ordinary shares issued pursuant to the Contact Energy employee long term incentive scheme (the treasury stock and restricted ordinary shares are not tradeable and are not listed or quoted on the NZSX). The ordinary shares and restricted ordinary shares are voting securities, except the trustee holding the restricted ordinary shares on behalf of the participants has waived all voting rights in relation to those shares. The shares held as treasury stock are not voting securities. Accordingly, the total number of listed voting securities of Contact as at 1 August 2009 was 585,314,624.

Securities of the company in which each director has a relevant interest as at 30 June 2009

Director	Number of ordinary shares	Number of bonds	Number of restricted ordinary shares	Number of options
G King	4,781	Nil	N/A	N/A
P Pryke	89,282	Nil	N/A	N/A
D Baldwin	Nil	Nil	88,342	525,547
B Beeren	14,881	Nil	N/A	N/A
J Milne	89,379	150,000	N/A	N/A
K Moses	2,390	Nil	N/A	N/A
S Sheldon	540	10,000	N/A	N/A
T Saunders	30,665	Nil	N/A	N/A

Directors' statement

This Annual Report is dated 4 September 2009 and is signed on behalf of the Board by

G King
Chairman

P Pryke
Deputy Chairman

Financial Statements

for the year ended 30 June 2009

Income Statement for the year ended 30 June 2009

	Note	Group 30 June 2009 $000	Group 30 June 2008 $000	Parent 30 June 2009 $000	Parent 30 June 2008 $000
Operating revenue					
Wholesale electricity revenue		594,267	1,147,988	594,267	1,147,988
Retail electricity revenue		1,286,265	1,244,326	1,086,197	1,010,846
Gas revenue		154,962	181,520	154,962	207,319
LPG revenue		153,779	145,233	–	–
Steam revenue		12,927	11,038	12,927	11,038
Other revenue		19,984	26,620	35,280	42,733
		2,222,184	**2,756,725**	**1,883,633**	**2,419,924**
Operating expenses					
Electricity purchases		(544,234)	(954,923)	(477,501)	(792,581)
Electricity transmission, distribution and levies		(479,122)	(486,843)	(412,519)	(407,903)
Gas purchases and transmission		(399,533)	(412,430)	(400,804)	(439,152)
LPG purchases		(112,078)	(105,207)	–	–
Labour costs	7	(80,396)	(82,191)	(73,499)	(70,531)
Other operating expenses	3, 7	(161,562)	(147,967)	(151,411)	(129,694)
		(1,776,925)	**(2,189,561)**	**(1,515,734)**	**(1,839,861)**
Earnings before net interest expense, income tax, depreciation, amortisation, financial instruments and other significant items (EBITDAF)		**445,259**	**567,164**	**367,899**	**580,063**
Depreciation and amortisation	18, 19	(161,954)	(146,540)	(156,811)	(141,400)
Impairment of Gasbridge assets	3	(2,830)	–	–	–
Equity accounted earnings of associates	23	3,624	2,793	–	–
Change in fair value of financial instruments	26	(57,511)	(1,926)	(57,511)	(1,926)
Removal of New Plymouth asbestos and related costs	4	–	(33,747)	–	(33,747)
Gain on sale of Mokai geothermal land and rights	5	–	21,319	–	21,319
		(218,671)	**(158,101)**	**(214,322)**	**(155,754)**
Earnings before net interest expense and income tax (EBIT)		**226,588**	**409,063**	**153,577**	**424,309**
Net interest expense	8	(62,601)	(69,942)	(62,492)	(69,851)
Profit before income tax		**163,987**	**339,121**	**91,085**	**354,458**
Income tax expense	9	(46,451)	(102,055)	(27,497)	(106,142)
Profit for the year		**117,536**	**237,066**	**63,588**	**248,316**
Basic and diluted earnings per share (cents)	11	**20.02**	**40.33**	**10.83**	**42.24**

Supplementary disclosure

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

Underlying earnings after tax	2	**160,624**	**232,798**	**108,991**	**243,980**
Underlying earnings per share (cents)	11	**27.35**	**39.60**	**18.56**	**41.50**

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

Statement of Changes in Equity for the year ended 30 June 2009

	Note	Group 30 June 2009 $000	Group 30 June 2008 $000	Parent 30 June 2009 $000	Parent 30 June 2008 $000
Profit for the year		**117,536**	**237,066**	**63,588**	**248,316**
Change in foreign currency translation reserve	13	(86)	346	–	–
Change in asset revaluation reserve	13	(2,307)	(2,335)	(2,307)	(2,335)
Change in cash flow hedge reserve	13	35,619	(74,572)	35,495	(75,008)
Total recognised revenues and expenses for the year		**150,762**	**160,505**	**96,776**	**170,973**
Distributions and dividends	10	(161,722)	(161,458)	(161,722)	(161,458)
Share-based payments	13	362	467	362	467
Share capital issued	12	48,795	285	48,795	285
Change in business combination of commonly controlled entities	13	–	93	–	93
Changes in equity for the year		**38,197**	**(108)**	**(15,789)**	**10,360**
Equity at start of the year		**2,904,071**	**2,904,179**	**2,878,112**	**2,867,752**
Equity at end of the year		**2,942,268**	**2,904,071**	**2,862,323**	**2,878,112**

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

Contact Energy Limited and Subsidiaries

Balance Sheet as at 30 June 2009

	Note	Group 30 June 2009 $000	Group 30 June 2008 $000	Parent 30 June 2009 $000	Parent 30 June 2008 $000
Shareholders' equity	12, 13	**2,942,268**	**2,904,071**	**2,862,323**	**2,878,112**
Represented by:					
Current assets					
Cash and short term deposits	15	179,220	2,542	177,848	–
Receivables and prepayments	16	253,836	517,365	224,786	488,987
Tax receivable		–	162	–	662
Inventories	17	15,906	21,111	6,600	7,014
Derivative financial instruments	26	14,987	52,940	14,987	52,940
Total current assets		**463,949**	**594,120**	**424,221**	**549,603**
Non-current assets					
Property, plant and equipment	18	4,644,973	4,381,600	4,568,630	4,309,769
Intangible assets	19	252,159	214,552	193,525	155,918
Gas storage – cushion gas	20	46,252	23,622	46,252	23,622
Investment in subsidiaries	22	–	–	132,788	132,788
Investment in associates	23	8,687	8,015	1,579	1,579
Available-for-sale financial assets	24	2,935	2,935	–	–
Derivative financial instruments	26	6,597	13,554	6,597	13,554
Other non-current assets		5,987	2,945	5,987	2,945
Total non-current assets		**4,967,590**	**4,647,223**	**4,955,358**	**4,640,175**
Total assets		**5,431,539**	**5,241,343**	**5,379,579**	**5,189,778**
Current liabilities					
Borrowings	25	4,311	132,811	2,982	130,384
Current portion of term borrowings	25	141,662	–	141,662	–
Derivative financial instruments	26	72,368	139,282	72,317	139,024
Payables and accruals	27	304,235	540,619	338,246	522,949
Tax payable		2,218	–	2,968	–
Provisions	28	8,195	20,954	7,953	20,746
Total current liabilities		**532,989**	**833,666**	**566,128**	**813,103**
Non-current liabilities					
Borrowings	25	1,091,106	554,725	1,091,066	554,695
Derivative financial instruments	26	85,905	194,925	85,905	194,925
Provisions	28	33,750	33,618	32,116	31,701
Deferred tax	29	744,092	718,462	741,238	717,242
Other non-current liabilities		1,429	1,876	803	–
Total non-current liabilities		**1,956,282**	**1,503,606**	**1,951,128**	**1,498,563**
Total liabilities		**2,489,271**	**2,337,272**	**2,517,256**	**2,311,666**
Net assets		**2,942,268**	**2,904,071**	**2,862,323**	**2,878,112**

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

On behalf of the Board

Grant King
Chairman, 13 August 2009

Phillip Pryke
Deputy Chairman, 13 August 2009

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

Contact Energy Limited and Subsidiaries

Statement of Cash Flows for the year ended 30 June 2009

	Note	Group 30 June 2009 $000	Group 30 June 2008 $000	Parent 30 June 2009 $000	Parent 30 June 2008 $000
Cash flows from operating activities					
Cash provided from:					
Receipts from customers		2,492,488	2,469,732	2,157,053	2,135,952
Dividends received		3,842	1,854	2,865	1,794
		2,496,330	2,471,586	2,159,918	2,137,746
Cash applied to:					
Payments to suppliers and employees		(2,035,904)	(1,938,986)	(1,712,259)	(1,619,853)
Supplementary dividends paid to shareholders	10	(10,776)	(16,790)	(10,776)	(16,790)
Tax paid		(25,000)	(81,900)	(25,000)	(81,900)
		(2,071,680)	(2,037,676)	(1,748,035)	(1,718,543)
Net cash inflow from operating activities		**424,650**	**433,910**	**411,883**	**419,203**
Cash flows from investing activities					
Cash provided from:					
Proceeds from sale of Mokai geothermal land and rights	5	–	27,252	–	27,252
Interest received		4,961	5,133	4,961	5,062
Repayment of loan to investee		–	125	–	125
Loan from associate		80	1,051	–	–
		5,041	33,561	4,961	32,439
Cash applied to:					
Purchase of property, plant and equipment		(385,715)	(216,222)	(372,982)	(198,771)
Purchase of intangibles		(25,750)	(1,357)	(25,750)	(1,357)
New Plymouth asbestos removal and related costs	4	(17,280)	(11,147)	(17,280)	(11,147)
Purchase of gas storage rights		–	(28,457)	–	(28,457)
Purchase of cushion gas		(41,271)	–	(41,271)	–
Repayment of loan to associate		(1,317)	–	–	–
		(471,333)	(257,183)	(457,283)	(239,732)
Net cash (outflow) to investing activities		**(466,292)**	**(223,622)**	**(452,322)**	**(207,293)**
Cash flows from financing activities					
Cash provided from:					
Proceeds from other short term loans		11,024	6,846	11,024	6,846
Proceeds from borrowings		550,000	127,500	550,000	127,500
		561,024	134,346	561,024	134,346
Cash applied to:					
Interest paid		(79,019)	(75,057)	(78,909)	(75,036)
Distributions and dividends paid to shareholders		(112,582)	(161,458)	(112,582)	(161,458)
Financing related costs		(11,151)	(150)	(11,151)	(150)
Profit distribution related costs		(432)	–	(432)	–
Repayment of borrowings		–	(277,778)	–	(277,778)
Repayment of other short term loans and finance lease liabilities		(139,443)	(7,349)	(139,438)	(7,338)
		(342,627)	(521,792)	(342,512)	(521,760)
Net cash inflow/(outflow) from/to financing activities		**218,397**	**(387,446)**	**218,512**	**(387,414)**
Net increase/(decrease) in cash and cash equivalents		176,755	(177,158)	178,073	(175,504)
Add: cash and cash equivalents at start of the year		790	177,948	(2,184)	173,320
Cash and cash equivalents at end of the year		**177,545**	**790**	**175,889**	**(2,184)**
Cash and cash equivalents is comprised of:					
Bank overdraft		(1,675)	(1,752)	(1,959)	(2,184)
Cash and short term deposits		179,220	2,542	177,848	–
	15	**177,545**	**790**	**175,889**	**(2,184)**

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

Contact Energy Limited and Subsidiaries

Statement of Cash Flows for the year ended 30 June 2009 (continued)

Reconciliation of profit for the year to cash flows from operating activities	Note	Group 30 June 2009 $000	Group 30 June 2008 $000	Parent 30 June 2009 $000	Parent 30 June 2008 $000
Profit for the year		**117,536**	**237,066**	**63,588**	**248,316**
Items classified as investing/financing					
Removal of New Plymouth asbestos and related costs	4	–	33,747	–	33,747
Proceeds from sale of Mokai geothermal land and rights	5	–	(21,319)	–	(21,319)
Net interest expense	8	62,601	69,942	62,492	69,851
		62,601	**82,370**	**62,492**	**82,279**
Non-cash items					
Bad and doubtful accounts receivable		11,531	5,954	9,431	4,584
Movement in provisions	28	165	917	165	917
Share-based payments	14	868	933	868	933
Write-off of advance to subsidiary	3, 7	–	–	5,145	–
Impairment of Gasbridge assets	3	2,830	–	–	–
Depreciation and amortisation	18, 19	161,954	146,540	156,811	141,400
Equity accounted (earnings) of associates net of dividends received	23	(739)	(939)	–	–
Change in fair value of financial instruments	26	57,511	1,926	57,511	1,926
Increase in deferred tax	9, 29	8,849	5,126	8,590	3,767
Impact of change in corporate income tax rate	9	–	(409)	–	(477)
Other		(2,872)	(723)	(1,601)	200
		240,097	**159,325**	**236,920**	**153,250**
Movement in working capital					
Decrease/(increase) in receivables and prepayments		251,998	(288,044)	249,625	(283,734)
Increase in tax payable		2,567	1,555	3,817	7,061
Decrease in inventories		5,205	227	414	9,332
(Decrease)/increase in payables and accruals		(252,312)	244,356	(201,931)	205,644
(Increase) in other non-current assets		(3,042)	(2,945)	(3,042)	(2,945)
		4,416	**(44,851)**	**48,883**	**(64,642)**
Net cash inflow from operating activities		**424,650**	**433,910**	**411,883**	**419,203**

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

Notes to the financial statements

for the year ended 30 June 2009

1 Statement of accounting policies

Reporting entity

Contact Energy Limited (the Parent) is a profit-oriented company domiciled in New Zealand, registered under the Companies Act 1993 and listed on the New Zealand Stock Exchange (NZSX). It also has bonds listed on the New Zealand Debt Exchange (NZDX). The Parent is an issuer in terms of the Financial Reporting Act 1993. The Group financial statements of Contact Energy Limited as at, and for the year ended, 30 June 2009 comprise the Parent and its subsidiaries, interests in associates and jointly controlled entities (together referred to as Contact or the Group).

Contact is a diversified and integrated energy group, focusing on the wholesale generation of electricity and the retail sale of electricity, natural gas and liquefied petroleum gas (LPG), and related services in New Zealand.

Basis of preparation

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

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

The financial statements were approved by the Board of Directors (the Board) on 13 August 2009.

The measurement basis adopted in the preparation of these financial statements is historical cost modified by the valuation of certain assets and liabilities. The following assets and liabilities are stated at their fair value: derivative financial instruments and property, plant and equipment, as identified in the specific accounting policies below. Recognised assets and liabilities that are hedged in a fair value hedging relationship are stated at fair value in respect of the risk that is hedged.

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

Presentational changes have been made to the Statement of Cash Flows to allow stakeholders to make an assessment of proceeds from and repayments of borrowings and to identify the cash outflow for purchase of intangible assets. These changes, which have been applied retrospectively, relate to:

- reclassification of 'proceeds from other short term loans' from 'proceeds from borrowings',
- reclassification of 'repayment of other short term loans and finance lease liabilities' from 'repayment of borrowings',
- reclassification of 'purchase of intangibles' from 'purchase of property, plant and equipment'.

Certain presentational changes have been made to the Balance Sheet, Income Statement and related notes to ensure consistency with current year treatment. These changes, which have been applied retrospectively, are listed below:

- presentation of derivative financial instruments – individual derivative financial assets and financial liabilities are offset where there is a legally enforceable right to set-off the recognised amounts and there is the intention to settle simultaneously. In addition the current and non-current split of derivative financial instruments has been amended to reflect the timing of the underlying cash flows rather than the contractual maturity dates of the instruments,
- certain deferred financing costs have been reclassified from 'other non-current assets' to 'borrowings',
- reclassification of certain fee income from 'other operating expenses' to 'other income'.

Adoption status of relevant new financial reporting standards and interpretations

Contact has chosen to early adopt the revised *NZIAS 23 Borrowing Costs, NZIAS 27 Consolidated and Separate Financial Statements (amended), NZIFRS 3 Business Combinations* and *Amendments to NZIAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items*.

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

- *NZIFRS 2 Share-Based Payment* – revisions approved February 2008 and effective for annual reporting periods beginning on or after 1 January 2009.
- *NZIFRS 8 Operating Segments* – approved December 2006 and effective for annual reporting periods beginning on or after 1 January 2009.

- *NZIAS 1 Presentation of Financial Statements* – revisions approved September 2007 and effective for annual reporting periods beginning on or after 1 January 2009.
- *NZIAS 27 Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate* – amendment approved June 2008 and effective for annual reporting periods beginning on or after 1 January 2009.
- *NZIFRS 7 Amendment: Financial Instruments Disclosures* – amendment issued March 2009 and effective for annual reporting periods beginning on or after 1 January 2009.
- *NZIAS 39 Amendment: Embedded Derivatives* – amendment issued March 2009 and effective for annual reporting periods beginning on or after 1 January 2009.

Contact does not currently intend to early adopt any of these standards before their effective date. The adoption of these standards is not expected to have a material impact on the recognition and measurement of Contact's assets, liabilities, income and expenses.

Accounting estimates and judgements

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

Financial instruments

Note 26 contains information about the assumptions and the risk factors relating to financial instruments and their valuation. The base future settlement price path for electricity derivatives is derived from the energy hedge market price path overlaid with Contact's financial model for future electricity prices. Accounting judgements have been made in determining the hedge designation for the different types of derivatives employed by Contact to hedge its risk exposures.

Generation plant and equipment

Contact's generation plant and equipment (including land and buildings) and generation capital work in progress are stated at fair value as assessed by an independent valuer. The basis of the valuation is the net present value of the future earnings of the assets, excluding any reduction for costs associated with restoration and environmental rehabilitation. The major inputs and assumptions used in the valuation model that require judgement include the forecast of the future electricity price path, sales volume forecasts, projected operational and capital expenditure profiles, capacity and life assumptions for each generation plant and the relevant discount rates. The key inputs and assumptions are reassessed at each balance sheet date between valuations to ensure there has been no significant change that may impact on the valuation. Refer to note 18.

Intangible assets – gas storage rights

Management has exercised judgement in determining the useful life of the gas storage rights. The useful life has been based on the current assumption of the period over which future economic benefits are expected. This life, however, is subject to the assumption that the contractual agreement under which the rights were acquired continues in existence and that any petroleum mining or other permit that may be required, can be successfully renewed. The useful life is reviewed annually. Refer to note 19.

Intangible assets – goodwill

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

In determining the recoverable amount of goodwill, Contact uses a valuation model to calculate the net present value of the expected future cash flows of the cash-generating units. The major inputs and assumptions that are used in the model that require management judgement include sales forecasts, cost to serve, customer numbers and customer churn, interest rates, discount rates and a forecast of the future electricity price path. Refer to note 19.

Provision – restoration and environmental rehabilitation

Liabilities are estimated for the abandonment and site restoration of areas from which natural resources are extracted. Such estimates are valued at the net present value of the expenditures expected to settle the obligation. Key assumptions have been made as to the expected amount and timing of expenditures to remediate based on the expected life of the assets employed on the sites. Refer to note 28.

Retail revenue

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

Useful life of property, plant and equipment and finite life intangible assets

Management has exercised judgement in determining the useful life of the property, plant and equipment and finite life intangible assets. Useful lives are reviewed and, where appropriate, adjusted at each balance sheet date.

Basis of consolidation

Subsidiaries

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

Business combinations of commonly controlled entities

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

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

Associates

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

Jointly controlled assets and jointly controlled entities

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

Acquisition or disposal during the period

Where an entity becomes or ceases to be part of the Group during the period, the results of that entity are included in the Group results from the date of acquisition or up to the date of disposal.

Transactions and balances eliminated on consolidation

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

Borrowings

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

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

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

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

Cash and cash equivalents

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

Cash and short term deposits exclude bank overdrafts.

Bank overdrafts are shown within borrowings in current liabilities on the Balance Sheet.

Derivative financial instruments and hedging

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

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

Fair value hedge

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

Cash flow hedge

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

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

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

Net investment hedge

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in equity, and the gain or loss relating to the ineffective portion is recognised immediately in the Income Statement. Gains and losses accumulated in equity are included in the Income Statement when the foreign operation is disposed of.

Derivative financial instruments that do not qualify for hedge accounting

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

Employee benefits

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

Long term service benefits

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

Share-based payments

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

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

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

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

Exploration and evaluation expenditure

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

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

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

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

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

Foreign currencies

Foreign currency transactions are recorded at the exchange rates in effect at the date of the transaction. Monetary assets and monetary liabilities denominated in a foreign currency are translated at the rates of exchange ruling at balance sheet date. Non-monetary assets and non-monetary liabilities denominated in a foreign currency that are measured at fair value are translated to the functional currency at the exchange rate at the date that the fair value was determined.

Hedged assets and liabilities are translated at the spot rate with the underlying hedge contract being separately recorded on the Balance Sheet at fair value.

Group entities

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

- income and expenses are translated at average exchange rates,
- assets and liabilities are translated at the closing exchange rate at the date of that Balance Sheet,
- all resulting exchange differences are recognised as a separate component of equity.

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

Gas entitlements

Where Contact has take-or-pay gas sale contracts, such receipts are recorded as current or non-current liabilities respectively, depending on the contracted terms applicable to such tranche quantities. These liabilities are credited to the Income Statement as customers uplift their prepaid gas.

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

Gas storage – cushion gas

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

Generation and other research and development expenditure

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

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

Capital work in progress is reviewed at each balance sheet date to determine whether further work is planned to support the continued carrying value of the capitalised costs.

Upon the commencement of commercial operations, assets are transferred from capital work in progress and depreciated in accordance with the relevant accounting policy for each asset over the period of its expected economic benefit.

Goods and services tax (GST)

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

Impairment

The carrying amounts of Contact's assets, other than inventories and deferred tax assets, are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's net recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the Income Statement unless the asset is recorded at a revalued amount. Impairment losses on revalued assets are first taken to the asset revaluation reserve if there is a revaluation surplus in respect of that asset.

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

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

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

Insurance

Contact has property, plant and equipment, which is predominantly concentrated at power station locations that have the potential to sustain major physical losses through damage to plant with resultant consequential business interruption and other costs.

To minimise the financial impact of such exposures, the major portion of these risks are insured by taking out appropriate insurance policies with appropriate creditworthy counterparties.

Any uninsured loss is charged to the Income Statement in the year in which the loss is incurred.

Intangible assets

Goodwill

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

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

Other intangible assets

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

The amortisation rates are as follows:

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

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

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

Inventories

Inventories are stated at the lower of cost and net realisable value. The cost of materials, consumable supplies and maintenance spares is determined on a weighted average basis. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. Gas reserves in excess of that required for cushion gas are treated as inventory. Refer to the gas storage – cushion gas accounting policy.

Investments – financial instruments

Contact classifies its investments in the following categories:

- financial assets at fair value through the Income Statement,
- held-to-maturity financial assets, or
- available-for-sale financial assets.

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

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

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

Financial assets at fair value through the Income Statement

A financial asset is classified as a financial asset at fair value through the Income Statement if it is acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorised as fair value through the Income Statement unless they are designated as hedges. Assets in this category are classified as current assets if they are either held for trading or are expected to be realised within 12 months of the balance sheet date.

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

Held-to-maturity financial assets

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

Available-for-sale financial assets

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

Operating leases

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

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

Other revenue

Dividend income

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

Interest income

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

Payables

Payables are stated at cost.

Property, plant and equipment

Contact's generation plant and equipment and generation capital work in progress are stated at fair value less accumulated depreciation and accumulated impairment losses. All other property, plant and equipment are carried at historical cost less accumulated depreciation and accumulated impairment losses.

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

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

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

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

Revaluations

Contact's generation plant and equipment (including land and buildings) and capital work in progress are stated at fair value as determined every three years by an independent valuer, with interim revaluations where there is deemed to be a significant change to the valuation of these assets. The basis of the valuation is the net present value of the future earnings of the assets, excluding any reduction for costs associated with restoration and environmental rehabilitation.

Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount and the net carrying amount is restated to the revalued amount of the asset. Any increase in value is recognised directly in equity. Any decrease in value that offsets a previous increase in value of the same asset is charged against reserves in equity and any other decrease in value is charged to the Income Statement.

Leased assets

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

Depreciation

Depreciation is charged to the Income Statement on a straight-line basis so as to allocate the cost of the assets, or the revalued amounts, less estimated residual value, over their expected remaining useful lives. The range of annual depreciation rates for each class of asset is as follows:

Type of asset	Depreciation rate
Land	Not depreciated
Generation plant and equipment (including buildings)	1–33%
Other buildings	1–18%
Other plant and equipment	1–33%

Asset residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Receivables

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

Restoration and environmental rehabilitation

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

Estimations are also made for the expected cost of environmental rehabilitation of commercial sites that require reinstatement of conditions resulting from present obligations. The liability is immediately recognised when exposure is identified and rehabilitation costs can be reasonably estimated.

Revenue

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

Other revenue from meter leases is recognised in the Income Statement on a straight-line basis over the term of the lease.

Share capital

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

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

Statement of Cash Flows

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

- cash and cash equivalents includes cash on hand, deposits held on call with banks and other short term highly liquid investments with original maturities of three months or less, net of outstanding bank overdrafts,
- operating activities include all transactions and other events that are not investing or financing activities,
- investing activities are those activities relating to the acquisition, holding and disposal of property, plant and equipment, intangible assets and investments,
- financing activities are those activities that result in changes in the size and composition of the capital structure of Contact. This includes both equity and debt not falling within the definition of cash. Dividends and interest paid in relation to the capital structure are included in financing activities.

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

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

Tax

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

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

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

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

Changes in accounting policies

There have been no changes in accounting policies in the year other than the addition of a policy on share capital.

2 Underlying earnings after tax

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

	Note	Group 30 June 2009 $000	Group 30 June 2008 $000	Parent 30 June 2009 $000	Parent 30 June 2008 $000
Profit for the year		**117,536**	**237,066**	**63,588**	**248,316**
Change in fair value of financial instruments	26	57,511	1,926	57,511	1,926
Removal of New Plymouth asbestos and related costs	4	–	33,747	–	33,747
Impairment of Gasbridge assets	3	2,830	–	–	–
Write-off of advance to subsidiaries*	3	–	–	5,145	–
Gain on sale of Mokai geothermal land and rights	5	–	(21,319)	–	(21,319)
Gain on disposal of fuel oil reserves**	4	–	(9,613)	–	(9,613)
Adjustments before income tax		**60,341**	**4,741**	**62,656**	**4,741**
Income tax expense***		(17,253)	(9,009)	(17,253)	(9,077)
Adjustments after income tax		**43,088**	**(4,268)**	**45,403**	**(4,336)**
Underlying earnings after tax		**160,624**	**232,798**	**108,991**	**243,980**

* Write-off of advance to subsidiaries is included in other operating expenses, a component of EBITDAF.

** Gain on disposal of fuel oil reserves is included in other revenue, a component of EBITDAF.

*** Tax has been applied at 30 per cent (2008: 33 per cent) on relevant items.

3 Impairment of Gasbridge assets

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

As a result of this decision, the Parent has written off an amount of $5.1 million receivable from its subsidiary Contact Aria Limited in relation to its investment in the Gasbridge Joint Venture.

4 New Plymouth power station

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

The financial impact of the decision to decommission the plant was recorded in the year ended 30 June 2008 and was an expense of $33.7 million. This expense principally represented an estimate of the cost to remove asbestos at the plant and other related costs, including a $1.5 million write-down in inventory. These costs were not impacted by the partial recommissioning and remain consistent with the estimated cost as at 30 June 2009. No impairment of the New Plymouth asset has been recorded on the basis that the recoverable amount of the asset, based on an assessed fair value less cost to sell, exceeds the carrying amount. Following the decommissioning, the New Plymouth asset has been transferred from generation plant and equipment to other land and buildings at 30 June 2009. Refer to note 18.

Contact held reserves of fuel oil at New Plymouth. These reserves were sold for $20.3 million, and a gain on disposal of $9.6 million was recorded in other revenue during the year ended 30 June 2008.

Contact has entered into derivative arrangements in the wholesale electricity market that are expected to provide a broadly equivalent degree of flexibility to that provided by the operation of the New Plymouth power station. These are accounted for as cash flow hedges.

5 Sale of Mokai geothermal land and rights

In November 2007, Contact sold geothermal land and rights relating to the Mokai geothermal field, north of Taupo, to Mighty River Power and the Tuaropaki Trust. Contact received $27.2 million for the sale of the Mokai land and rights, giving rise to a non-taxable gain of $21.3 million.

6 Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services in a particular economic environment, where the risks and returns are different from those of segments operating in other economic environments.

Contact's primary reporting format is business segments. All business segments are fully integrated within New Zealand.

Contact comprises the following main business segments:

Retail

The retail segment encompasses any activity that is associated with Contact's supply of energy and related services to end user customers.

Generation

The generation segment encompasses any activity that is associated with Contact's generation of electricity or steam and Contact's sales to the wholesale electricity market. It includes all activities in relation to the gas storage facility at the Ahuroa reservoir, including the cushion gas required to enable the field to be used for storage.

The segment result includes items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Items not directly attributable to, or those that cannot be allocated on a reasonable basis to, the retail or generation segments are included in the other segment.

Wholesale electricity purchase costs for the retail segment are based on spot prices prevailing in the New Zealand wholesale electricity market at the relevant time and at the relevant grid exit purchase node. Similarly, the revenues received by the generation segment are determined by the spot prices received at the relevant grid injection points.

The cost of gas purchases across the portfolio is allocated between these segments in proportion to consumption.
Gas transmission and distribution charges are allocated to the segments within which they are incurred.

Contact Energy Limited and Subsidiaries
Notes to the financial statements
for the year ended 30 June 2009

Group 2009	Retail $000	Generation $000	Other $000	Total $000
Segment revenue	1,610,926	611,258	–	**2,222,184**
EBITDAF	236,857	208,402	–	**445,259**
Depreciation and amortisation of segment assets	(19,768)	(142,186)	–	**(161,954)**
Segment result	217,089	66,216	–	**283,305**
Change in fair value of financial instruments				(57,511)
Equity accounted earnings of associates				3,624
Impairment of Gasbridge assets				(2,830)
Net interest expense				(62,601)
Income tax expense				(46,451)
Profit for the year				**117,536**
Segment assets	**515,649**	**4,713,575**	**202,315**	**5,431,539**
Segment liabilities	**148,806**	**195,117**	**2,145,348**	**2,489,271**
Capital and investment expenditure	**43,451**	**445,384**	–	**488,835**

Group 2008	Retail $000	Generation $000	Other $000	Total $000
Segment revenue	**1,582,975**	**1,173,750**	–	**2,756,725**
EBITDAF	(278,254)	845,418	–	**567,164**
Depreciation and amortisation of segment assets	(20,264)	(126,276)	–	**(146,540)**
Segment result	(298,518)	719,142	–	**420,624**
Change in fair value of financial instruments				(1,926)
Equity accounted earnings of associates				2,793
Removal of New Plymouth asbestos and related costs				(33,747)
Gain on sale of Mokai geothermal land and rights				21,319
Net interest expense				(69,942)
Income tax expense				(102,055)
Profit for the year				**237,066**
Segment assets	**485,523**	**4,689,120**	**66,700**	**5,241,343**
Segment liabilities	**375,996**	**221,276**	**1,740,000**	**2,337,272**
Capital and investment expenditure	**27,609**	**254,343**	–	**281,952**

7 Operating expenses

Other operating expenses include:	Group 30 June 2009 $000	Group 30 June 2008 $000	Parent 30 June 2009 $000	Parent 30 June 2008 $000
Auditors' remuneration				
– Audit services: KPMG*	691	683	649	612
– Other assurance services: KPMG*	35	–	35	–
Auditors' remuneration: KPMG	726	683	684	612
Donations	94	56	94	56
Write-off of advance to subsidiaries**	–	–	5,145	–
Write-off of accounts receivable	7,568	3,985	5,969	3,005
Provision for impairment of accounts receivable	2,431	304	1,945	280
Rental expense on operating leases	5,969	5,506	4,358	3,903
Labour costs include:				
Contributions to KiwiSaver	1,475	238	1,475	238

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

** During the year, Contact wrote off an advance to a subsidiary in relation to its investment in the Gasbridge Joint Venture, following the decision to put on hold the development of the liquefied natural gas terminal. Refer to note 3.

8 Net interest expense

	Group 30 June 2009 $000	Group 30 June 2008 $000	Parent 30 June 2009 $000	Parent 30 June 2008 $000
Interest expense	89,860	76,687	89,685	76,525
Interest expense capitalised	(21,473)	(1,617)	(21,473)	(1,617)
Interest income	(5,786)	(5,128)	(5,720)	(5,057)
Net interest expense	**62,601**	**69,942**	**62,492**	**69,851**

Contact commenced capitalising interest from 1 July 2007. The weighted average capitalisation rate on funds borrowed is 7.1 per cent per annum (2008: 8.0 per cent).

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9 Income tax

Income tax expense

	Group 30 June 2009 $000	Group 30 June 2008 $000	Parent 30 June 2009 $000	Parent 30 June 2008 $000
Profit before income tax	163,987	339,121	91,085	354,458
Tax thereon at 30% (2008: 33%)	49,196	111,910	27,326	116,971
Plus/(less) tax effect of adjustments:				
Effect of different tax rates of associate operating in other jurisdiction	–	(83)	–	–
Gain on sale of Mokai geothermal land and rights	–	(7,035)	–	(7,035)
Temporary differences no longer expected to reverse	21	47	–	–
Other differences	456	414	1,055	(535)
Change in corporate income tax rate	–	(409)	–	(477)
Income tax (over)/under provided in prior year	(3,222)	(2,789)	(884)	(2,782)
Income tax expense	**46,451**	**102,055**	**27,497**	**106,142**
Comprised of:				
Current tax	37,602	92,673	18,907	98,934
Deferred tax	8,849	9,382	8,590	7,208
	46,451	**102,055**	**27,497**	**106,142**

Imputation credits

	Group 30 June 2009 $000	Group 30 June 2008 $000
Opening balance credit	206,535	190,269
Imputation credits attached to dividends paid	(44,675)	(62,734)
Imputation credits attached to dividends received	1,172	–
New Zealand income tax paid	23,187	79,000
Closing balance credit	**186,219**	**206,535**

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

The imputation credit account balance representing tax paid at 30 per cent amounts to $23.2 million. The remaining imputation credit account balance of $163.0 million represents tax paid at 33 per cent.

10 Distributions and dividends

The Parent declared the following distributions and dividends during the year:

	Distribution/dividend payment date	Parent 30 June 2009 $000	Parent 30 June 2008 $000	Parent 30 June 2009 cents per share	Parent 30 June 2008 cents per share
Dividends					
2007 year final dividend	25 September 2007	–	98,028	–	17
2008 year interim dividend	26 March 2008	–	63,430	–	11
2008 year final dividend	23 September 2008	98,028	–	17	–
Supplementary dividend		10,197	16,790	–	–
Foreign investor tax credit		(10,197)	(16,790)	–	–
Distributions					
2009 year interim distribution (PDP)	31 March 2009	63,694	–	11	–
Supplementary dividend		579	–	–	–
Foreign investor tax credit		(579)	–	–	–
Total distributions and dividends		**161,722**	**161,458**		

On 23 February 2009 the Board approved the introduction of a Profit Distribution Plan (PDP).

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

On 31 March 2009, the Parent allotted 11,251,746 bonus shares under the PDP, at an issue price of $5.6608609 per share. This bonus issue represented a distribution equivalent to 11 cents per share, for shares on issue at 10 March 2009, the record date. Under the buy back facility the Parent completed an off-market buy back of 2,571,104 shares on 31 March 2009. These are held as treasury stock at 30 June 2009. Refer to note 12.

On 13 August 2009, the Board declared a distribution in the form of a non-taxable bonus issue under the PDP equivalent to 17 cents per share, for shares on issue at 28 August 2009, the record date. Refer to note 36.

11 Earnings and net tangible assets per share

	Group 30 June 2009	Group 30 June 2008
Underlying earnings per share (cents)	27.35	39.60
Basic earnings per share (cents)	20.02	40.33
Diluted earnings per share (cents)	20.02	40.33
Net tangible assets per share (cents)	458.10	457.49

The calculation of underlying earnings per share is based on underlying earnings after tax after removing significant one-off items and the non-cash change in fair value of financial instruments attributable to ordinary shareholders. Refer to note 2.

The calculation of basic earnings per share at 30 June 2009 is based on the profit attributable to ordinary shareholders of $117.5 million (2008: $237.1 million) and a weighted average number of ordinary shares outstanding during the year ended 30 June 2009 of 587,237,669 (2008: restated to 587,885,728).

The weighted average number of shares outstanding during the prior year has been restated to reflect the effect of the issue of bonus shares under the PDP, as if the bonus issue had occurred at the beginning of the earliest period presented (2008 as previously reported: 576,633,982).

For the purposes of the earnings per share calculations, the shares issued under the Restricted Share Plan are excluded until shares become unrestricted. Refer to note 14.

The dilutive effect of share options and restricted shares has not been taken into account in the calculation of diluted earnings per share at 30 June 2009 and 30 June 2008 as the relevant performance conditions have not been fulfilled at the balance sheet dates presented.

The calculation of net tangible assets per share for the years ended 30 June 2009 and 30 June 2008 is based on the total net assets less intangible assets. Net tangible assets per share would increase if total net assets were adjusted for the deferred tax on the revaluation of generation plant and equipment and generation capital work in progress, which is unlikely to crystallise under existing income tax legislation. Contact holds its property, plant and equipment on capital account for income tax purposes. Where the generation plant and equipment and generation capital work in progress is revalued, but there is no similar adjustment to the tax base, a taxable temporary difference is created that is recognised in deferred tax. The deferred tax liability ($535.7 million, 2008: $563.5 million) on these revaluations is unlikely to crystallise under existing income tax legislation.

12 Share capital

Parent and Group	30 June 2009		30 June 2008	
	Number	$000	Number	$000
Ordinary shares – unrestricted				
Balance at start of the year	576,633,982	780,037	576,633,982	780,037
Issued	11,251,746	63,694	–	–
Transaction costs	–	(563)	–	–
Balance at end of the year	**587,885,728**	**843,168**	**576,633,982**	**780,037**
Ordinary shares – restricted				
Balance at start of the year	163,308	444	76,975	159
Issued	104,712	219	86,333	285
Balance at end of the year	**268,020**	**663**	**163,308**	**444**
Shares issued and authorised	**588,153,748**	**843,831**	**576,797,290**	**780,481**
Treasury stock from PDP	(2,571,104)	(14,555)	–	–
Total share capital	**585,582,644**	**829,276**	**576,797,290**	**780,481**

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

On 31 March 2009, the Parent issued 11,251,746 new ordinary shares at the per share price of $5.6608609, pursuant to the Parent's PDP. The PDP allowed shareholders to elect to have the Parent buy back the shares issued to them at the issue price. As a result of shareholder elections, the Parent completed an off-market buy back of 2,571,104 shares at an equivalent cost on 31 March 2009, which remain held as treasury stock at 30 June 2009.

Restricted ordinary shares are issued pursuant to Contact's Employee Long Term Incentive Scheme and are held in trust.

While restricted ordinary shares confer the same rights on the holder as unrestricted shares, restricted shares are subject to the terms of the Restricted Share Plan that restrict the right to vote and to receive dividends or distributions. Refer to note 14.

At 30 June 2009, Contact had 585,314,624 (2008: 576,633,982) ordinary shares (excluding shares held as treasury stock and restricted shares) quoted on the NZSX.

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13 Reserves

Group	Note	Foreign currency translation reserve $000	Asset revaluation reserve $000	Cash flow hedge reserve $000	Share-based payment reserve $000	Retained earnings $000	Total $000
Balance as at 1 July 2007		50	1,900,718	293	260	222,662	2,123,983
Profit for the year		–	–	–	–	237,066	237,066
Cash flow hedges:							
Profit/(Loss) taken to equity		–	–	(106,450)	–	–	(106,450)
Translation of foreign operations		606	–	–	–	–	606
Asset revaluation:							
Re-estimate of restoration provision	28	–	(3,272)	–	–	–	(3,272)
Movement in deferred tax liability attributable to equity	29	(260)	1,080	35,129	–	–	35,949
Re-measurement of deferred tax on change in corporate income tax rate	29	–	(143)	(3,251)	–	–	(3,394)
Total recognised revenues and expenses		**346**	**(2,335)**	**(74,572)**	–	**237,066**	**160,505**
Dividends paid to shareholders	10	–	–	–	–	(161,458)	(161,458)
Business combination of commonly controlled entities		–	–	–	–	93	93
Share-based payments	14	–	–	–	467	–	467
Balance as at 30 June 2008		**396**	**1,898,383**	**(74,279)**	**727**	**298,363**	**2,123,590**
Balance as at 1 July 2008		396	1,898,383	(74,279)	727	298,363	2,123,590
Profit for the year		–	–	–	–	117,536	117,536
Cash flow hedges:							
Profit/(Loss) taken to equity		–	–	52,091	–	–	52,091
Translation of foreign operations		(106)	–	–	–	–	(106)
Asset revaluation:							
Re-estimate of restoration provision	28	–	(3,295)	–	–	–	(3,295)
Movement in deferred tax liability attributable to equity	29	20	988	(16,472)	–	–	(15,464)
Total recognised revenues and expenses		**(86)**	**(2,307)**	**35,619**	**–**	**117,536**	**150,762**
Distributions and dividends	10	–	–	–	–	(161,722)	(161,722)
Share-based payments	14	–	–	–	362	–	362
Balance as at 30 June 2009		**310**	**1,896,076**	**(38,660)**	**1,089**	**254,177**	**2,112,992**

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Parent	Note	Foreign currency translation reserve $000	Asset revaluation reserve $000	Cash flow hedge reserve $000	Share-based payment reserve $000	Retained earnings $000	Total $000
Balance as at 1 July 2007		–	1,707,304	905	260	379,087	2,087,556
Profit for the year		–	–	–	–	248,316	248,316
Cash flow hedges:							
Profit/(Loss) taken to equity		–	–	(107,110)	–	–	(107,110)
Asset revaluation:							
Re-estimate of restoration provision	28	–	(3,272)	–	–	–	(3,272)
Movement in deferred tax liability attributable to equity	29	–	1,080	35,345	–	–	36,425
Re-measurement of deferred tax on change in corporate income tax rate	29	–	(143)	(3,243)	–	–	(3,386)
Total recognised revenues and expenses		–	**(2,335)**	**(75,008)**	–	**248,316**	**170,973**
Dividends paid to shareholders	10	–	–	–	–	(161,458)	(161,458)
Business combination of commonly controlled entities		–	–	–	–	93	93
Share-based payments		–	–	–	467	–	467
Balance as at 30 June 2008		–	**1,704,969**	**(74,103)**	**727**	**466,038**	**2,097,631**
Balance as at 1 July 2008		–	1,704,969	(74,103)	727	466,038	2,097,631
Profit for the year		–	–	–	–	63,588	63,588
Cash flow hedges:							
Profit/(Loss) taken to equity		–	–	51,889	–	–	51,889
Asset revaluation:							
Re-estimate of restoration provision	28	–	(3,295)	–	–	–	(3,295)
Movement in deferred tax liability attributable to equity	29	–	988	(16,394)	–	–	(15,406)
Total recognised revenues and expenses		–	**(2,307)**	**35,495**	–	**63,588**	**96,776**
Distributions and dividends	10	–	–	–	–	(161,722)	(161,722)
Share-based payments		–	–	–	362	–	362
Balance as at 30 June 2009		–	**1,702,662**	**(38,608)**	**1,089**	**367,904**	**2,033,047**

14 Share-based payments

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

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

The total expense recognised for share-based payments under the Plans during the year ended 30 June 2009 was $0.9 million (2008: $0.9 million).

(a) Share Option Plan

Under the Share Option Plan, the Board issues share options to executives to acquire ordinary shares in the Parent at the market price determined at the effective grant date. For share options granted in the years ended 30 June 2009 and 30 June 2008, the market price was the weighted average market price of the Parent's ordinary shares traded on the NZSX over the 20 business days prior to the effective grant date.

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

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

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

The share options will lapse:

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

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

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

Group and Parent 2008 **Effective grant date**	**First exercise date**	**Expiry date**	**Exercise price per option**	**Balance at 1 July 2007**	**Granted**	**Lapsed**	**Balance at 30 June 2008**	**Exercisable at 30 June 2008**
1 Jul 2006	1 Oct 2009	30 Nov 2011	$7.35	365,322	–	(34,616)	330,706	–
20 Nov 2006	1 Oct 2009	30 Nov 2011	$7.55	18,361	–	–	18,361	–
15 Jan 2007	1 Oct 2009	30 Nov 2011	$8.28	13,413	–	–	13,413	–
1 Oct 2007	1 Oct 2010	30 Nov 2012	$9.15	–	490,326	(44,727)	445,599	–
1 Feb 2008	1 Oct 2010	30 Nov 2012	$7.63	–	22,706	–	22,706	–
				397,096	**513,032**	**(79,343)**	**830,785**	**–**

A further 217,190 share options lapsed on 31 July 2009.

(b) Restricted Share Plan

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

(i) the restricted shares are issued to an independent trustee to be held on trust for the participant; and

(ii) the trustee will not exercise any voting rights attaching to the restricted shares and has forgone the right to distributions.

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

For restricted shares issued in the years ended 30 June 2009 and 30 June 2008, the market price or allocation price of the restricted shares was the weighted average market price of the Parent's ordinary shares traded on the NZSX over the 20 business days prior to the effective grant date. Payment of the allocation price for the restricted shares is funded by an interest-free loan from the Parent in an amount equal to the allocation price for the shares.

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

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

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

The rights to the restricted shares will lapse:

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

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

Group and Parent 2009 **Effective grant date**	**First test date**	**Final test date**	**Allocation price per share**	**Unvested balance at 1 July 2008 number**	**Granted number**	**Vested number**	**Unvested balance at 30 June 2009 number**
1 Jul 2006	1 Oct 2009	1 Oct 2011	$7.35	70,890	–	–	70,890
20 Nov 2006	1 Oct 2009	1 Oct 2011	$7.55	3,581	–	–	3,581
15 Jan 2007	1 Oct 2009	1 Oct 2011	$8.28	2,504	–	–	2,504
1 Oct 2007	1 Oct 2010	1 Oct 2012	$9.15	83,242	–	–	83,242
1 Feb 2008	1 Oct 2010	1 Oct 2012	$7.63	3,091	–	–	3,091
1 Oct 2008	1 Oct 2011	1 Oct 2013	$8.60	–	104,712	–	104,712
				163,308	**104,712**	–	**268,020**

Group and Parent 2008 Effective grant date	First test date	Final test date	Allocation price per share	Unvested balance at 1 July 2007 number	Granted number	Vested number	Unvested balance at 30 June 2008 number
1 Jul 2006	1 Oct 2009	1 Oct 2011	$7.35	70,890	–	–	70,890
20 Nov 2006	1 Oct 2009	1 Oct 2011	$7.55	3,581	–	–	3,581
15 Jan 2007	1 Oct 2009	1 Oct 2011	$8.28	2,504	–	–	2,504
1 Oct 2007	1 Oct 2010	1 Oct 2012	$9.15	–	83,242	–	83,242
1 Feb 2008	1 Oct 2010	1 Oct 2012	$7.63	–	3,091	–	3,091
				76,975	**86,333**	–	**163,308**

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

As at 30 June 2009, 24,159 (2008: 10,667) restricted shares were held by the trustee in the unallocated pool. A further 34,041 restricted shares were transferred to the unallocated pool on 31 July 2009.

(c) Fair value of share-based payments

The fair value of services received in return for share options granted is based on the fair value of share options granted, measured using a combination of Monte-Carlo simulation and a binomial option pricing model. The valuation of the options granted in the year ended 30 June 2009 was based on the following weighted average assumptions:

	30 June 2009	30 June 2008
Risk free interest rate	5.6%	6.7%
Expected dividend yield	3.9%	3.7%
Expected option life (in years)	5.1	5.1
Expected share price volatility	21.0%	18.5%
Weighted average remaining contractual life (in years)	3.7	4.0

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

15 Cash and cash equivalents

	Group 30 June 2009 $000	Group 30 June 2008 $000	Parent 30 June 2009 $000	Parent 30 June 2008 $000
Unrestricted cash	179,220	2,542	177,848	–
Cash and short term deposits	**179,220**	**2,542**	**177,848**	–
Bank overdrafts (refer to note 25)	(1,675)	(1,752)	(1,959)	(2,184)
Cash and cash equivalents in the Statement of Cash Flows	**177,545**	**790**	**175,889**	**(2,184)**

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16 Receivables and prepayments

	Group 30 June 2009 $000	Group 30 June 2008 $000	Parent 30 June 2009 $000	Parent 30 June 2008 $000
Retail electricity, other receivables and accruals	170,184	188,694	128,031	144,464
Wholesale electricity receivables	70,080	332,024	70,080	332,024
Provision for impairment	(7,192)	(4,761)	(5,321)	(3,376)
Net receivables	**233,072**	**515,957**	**192,790**	**473,112**
Prepayments	1,340	1,408	1,333	1,276
Interest receivable	637	–	637	–
Advances to subsidiaries	–	–	11,239	14,599
Other receivables	18,787	–	18,787	–
Total receivables and prepayments	**253,836**	**517,365**	**224,786**	**488,987**

Included in retail electricity, other receivables and accruals are $29.9 million of receivables (2008: $26.3 million) that are past due but not impaired. These relate to a number of customers who are currently outside normal commercial payment terms and for whom there is no recent history of default.

Included in other operating expenses for the Group are receivables written off during the year totalling $7.6 million (2008: $4.0 million).

Average wholesale electricity sales prices per megawatt hour that the Parent received for its generation in June 2009 were considerably lower than June 2008 prices due to the national hydro shortage conditions during winter 2008. Consequently, wholesale electricity receivables were higher at June 2008.

Provision for impairment

	Group 30 June 2009 $000	Group 30 June 2008 $000	Parent 30 June 2009 $000	Parent 30 June 2008 $000
Provision for impairment at start of year	(4,761)	(4,457)	(3,376)	(3,096)
Charge to Income Statement	(2,431)	(304)	(1,945)	(280)
Provision for impairment at end of year	**(7,192)**	**(4,761)**	**(5,321)**	**(3,376)**

17 Inventories

	Group 30 June 2009 $000	Group 30 June 2008 $000	Parent 30 June 2009 $000	Parent 30 June 2008 $000
LPG	9,004	13,876	–	–
Consumables and spare parts	6,902	7,235	6,600	7,014
Total inventories	**15,906**	**21,111**	**6,600**	**7,014**

18 Property, plant and equipment

Group	Generation plant and equipment (including land and buildings) at fair value $000	Other land and buildings at cost $000	Other plant and equipment at cost $000	Generation capital work in progress at fair value $000	Development capital work in progress at cost $000	Other capital work in progress at cost $000	Total $000
Cost or fair value							
Balance as at 1 July 2007	4,027,138	25,209	272,009	94,286	32,795	21,874	4,473,311
Additions	70,394	13,139	10,718	50,055	60,761	23,343	228,410
Transfers to/(from) capital work in progress	77,731	888	14,914	(64,889)	(11,165)	(17,479)	–
Disposals	–	(2,992)	–	–	(3,038)	–	(6,030)
Balance as at 30 June 2008	**4,175,263**	**36,244**	**297,641**	**79,452**	**79,353**	**27,738**	**4,695,691**
Balance as at 1 July 2008	4,175,263	36,244	297,641	79,452	79,353	27,738	4,695,691
Transfer to intangibles	–	–	(6,467)	–	–	(5,132)	(11,599)
Reclassification of New Plymouth land and buildings	(14,259)	14,259	–	–	–	–	–
Additions	100,876	6,517	9,709	55,307	243,871	16,723	433,003
Transfers to/(from) capital work in progress	64,538	117	15,608	(62,627)	(1,723)	(15,913)	–
Disposals	–	(874)	(52,731)	–	–	–	(53,605)
Balance as at 30 June 2009	**4,326,418**	**56,263**	**263,760**	**72,132**	**321,501**	**23,416**	**5,063,490**
Depreciation and impairment losses							
Balance as at 1 July 2007	–	(2,624)	(168,156)	–	–	(123)	(170,903)
Depreciation charge	(122,461)	(446)	(20,404)	–	–	123	(143,188)
Balance as at 30 June 2008	**(122,461)**	**(3,070)**	**(188,560)**	–	–	–	**(314,091)**
Balance as at 1 July 2008	(122,461)	(3,070)	(188,560)	–	–	–	(314,091)
Transfer to intangibles	–	–	6,085	–	–	–	6,085
Reclassification of New Plymouth land and buildings	1,185	(1,185)	–	–	–	–	–
Depreciation charge	(138,716)	(1,086)	(21,043)	–	–	–	(160,845)
Disposals	–	874	52,290	–	–	–	53,164
Impairment losses recognised in Income Statement*	–	–	–	–	(2,830)	–	(2,830)
Balance as at 30 June 2009	**(259,992)**	**(4,467)**	**(151,228)**	–	**(2,830)**	–	**(418,517)**
Carrying value							
As at 30 June 2008	4,052,802	33,174	109,081	79,452	79,353	27,738	4,381,600
As at 30 June 2009	**4,066,426**	**51,796**	**112,532**	**72,132**	**318,671**	**23,416**	**4,644,973**

* Refer to note 3.

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Parent	Generation plant and equipment (including land and buildings) at fair value $000	Other land and buildings at cost $000	Other plant and equipment at cost $000	Generation capital work in progress at fair value $000	Development capital work in progress at cost $000	Other capital work in progress at cost $000	Total $000
Cost or fair value							
Balance as at 1 July 2007	4,027,138	22,538	163,750	94,286	30,665	13,075	4,351,452
Additions	70,394	13,139	10,712	50,055	54,411	12,690	211,401
Transfers to/(from) capital work in progress	77,731	–	9,522	(64,889)	(11,165)	(11,199)	–
Disposals	–	(2,992)	–	–	(3,038)	–	(6,030)
Balance as at 30 June 2008	**4,175,263**	**32,685**	**183,984**	**79,452**	**70,873**	**14,566**	**4,556,823**
Balance as at 1 July 2008	4,175,263	32,685	183,984	79,452	70,873	14,566	4,556,823
Transfer to intangibles	–	–	(6,467)	–	–	(5,132)	(11,599)
Reclassification of New Plymouth land and buildings	(14,259)	14,259	–	–	–	–	–
Additions	100,876	5,954	2,803	55,307	238,414	16,723	420,077
Transfers to/(from) capital work in progress	64,538	–	7,966	(62,627)	(1,723)	(8,154)	–
Disposals	–	(874)	(52,159)	–	–	–	(53,033)
Balance as at 30 June 2009	**4,326,418**	**52,024**	**136,127**	**72,132**	**307,564**	**18,003**	**4,912,268**
Depreciation and impairment losses							
Balance as at 1 July 2007	–	(2,094)	(106,664)	–	–	–	(108,758)
Depreciation charge	(122,461)	(327)	(15,508)	–	–	–	(138,296)
Balance as at 30 June 2008	**(122,461)**	**(2,421)**	**(122,172)**	**–**	**–**	**–**	**(247,054)**
Balance as at 1 July 2008	(122,461)	(2,421)	(122,172)	–	–	–	(247,054)
Transfer to intangibles	–	–	6,085	–	–	–	6,085
Reclassification of New Plymouth land and buildings	1,185	(1,185)	–	–	–	–	–
Depreciation charge	(138,716)	(945)	(16,041)	–	–	–	(155,702)
Disposals	–	874	52,159	–	–	–	53,033
Balance as at 30 June 2009	**(259,992)**	**(3,677)**	**(79,969)**	**–**	**–**	**–**	**(343,638)**
Carrying value							
As at 30 June 2008	4,052,802	30,264	61,812	79,452	70,873	14,566	4,309,769
As at 30 June 2009	**4,066,426**	**48,347**	**56,158**	**72,132**	**307,564**	**18,003**	**4,568,630**

Generation plant and equipment and capital work in progress carried at fair value

Deloitte revalued Contact's generation plant and equipment and generation capital work in progress at 30 June 2007. Deloitte is an independent valuer.

The key assumptions used in the valuation model include a forecast electricity price path, sales volume forecasts, projected operational and capital expenditure profiles, capacity and life assumptions for each generation plant and a discount rate assumption.

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

The carrying amount of generation plant and equipment and generation capital work in progress, had they been recognised under the cost model, are as follows:

Depreciated cost	Group 30 June 2009 $000	Group 30 June 2008 $000	Parent 30 June 2009 $000	Parent 30 June 2008 $000
Generation plant and equipment	1,612,992	1,562,172	1,612,992	1,562,172
Generation capital work in progress	72,132	79,452	72,132	79,452
	1,685,124	**1,641,624**	**1,685,124**	**1,641,624**

19 Intangible assets

Group	Goodwill $000	Patents $000	Gas storage rights $000	Computer software $000	Total $000
Cost					
Balance as at 1 July 2007	181,941	1,222	–	8,777	191,940
Additions	–	–	28,563	1,357	29,920
Balance as at 30 June 2008	**181,941**	**1,222**	**28,563**	**10,134**	**221,860**
Balance as at 1 July 2008	181,941	1,222	28,563	10,134	221,860
Transfer from property, plant and equipment	–	–	–	11,599	11,599
Additions	–	–	2,305	30,897	33,202
Disposals	–	–	–	(733)	(733)
Balance as at 30 June 2009	**181,941**	**1,222**	**30,868**	**51,897**	**265,928**
Amortisation and impairment losses					
Balance as at 1 July 2007	–	(974)	–	(2,982)	(3,956)
Amortisation charge	–	(248)	–	(3,104)	(3,352)
Balance as at 30 June 2008	–	**(1,222)**	–	**(6,086)**	**(7,308)**
Balance as at 1 July 2008	–	(1,222)	–	(6,086)	(7,308)
Transfer from property, plant and equipment	–	–	–	(6,085)	(6,085)
Amortisation charge	–	–	–	(1,109)	(1,109)
Disposals	–	–	–	733	733
Balance as at 30 June 2009	–	**(1,222)**	–	**(12,547)**	**(13,769)**
Carrying value					
As at 30 June 2008	181,941	–	28,563	4,048	214,552
As at 30 June 2009	**181,941**	–	**30,868**	**39,350**	**252,159**

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Parent	Goodwill $000	Patents $000	Gas storage rights $000	Computer software $000	Total $000
Cost					
Balance as at 1 July 2007	123,307	–	–	8,777	132,084
Additions	–	–	28,563	1,357	29,920
Balance as at 30 June 2008	**123,307**	–	**28,563**	**10,134**	**162,004**
Balance as at 1 July 2008	123,307	–	28,563	10,134	162,004
Transfer from property, plant and equipment	–	–	–	11,599	11,599
Additions	–	–	2,305	30,897	33,202
Disposals	–	–	–	(733)	(733)
Balance as at 30 June 2009	**123,307**	–	**30,868**	**51,897**	**206,072**
Amortisation and impairment losses					
Balance as at 1 July 2007	–	–	–	(2,982)	(2,982)
Amortisation charge	–	–	–	(3,104)	(3,104)
Balance as at 30 June 2008	–	–	–	**(6,086)**	**(6,086)**
Balance as at 1 July 2008	–	–	–	(6,086)	(6,086)
Transfer from property, plant and equipment	–	–	–	(6,085)	(6,085)
Amortisation charge	–	–	–	(1,109)	(1,109)
Disposals	–	–	–	733	733
Balance as at 30 June 2009	–	–	–	**(12,547)**	**(12,547)**
Carrying value					
As at 30 June 2008	123,307	–	28,563	4,048	155,918
As at 30 June 2009	**123,307**	–	**30,868**	**39,350**	**193,525**

Goodwill

For the purpose of impairment testing, all goodwill is allocated to the retail cash-generating unit. The unit's impairment test is based on a value in use discounted cash flow valuation. Cash flow projections are based on a 10 year financial forecast for the underlying retail business and are extrapolated using an average annual growth rate of approximately 1.0 – 3.0 per cent. The cash flow projections are discounted using post tax discount rates of 8.0 – 10.0 per cent.

Key assumptions in the value in use calculation for the retail cash-generating unit are:

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

Gas storage rights

On 12 June 2008, Contact acquired the exclusive right to use the Ahuroa reservoir in order to develop an underground gas storage facility field.

This acquisition was completed in conjunction with Contact's ultimate parent company, Origin Energy Limited (Origin), which acquired certain New Zealand oil and gas assets from Swift Energy New Zealand Limited (Swift). These assets included a petroleum mining licence (PML 38139, the PML) to an area that includes the Ahuroa reservoir. Contact paid $52.0 million of the total purchase price to Origin, subject to the final measurement of gas for reserves in situ at purchase date, in exchange for a beneficial interest in the PML as it relates to the Ahuroa reservoir, the right to develop and undertake gas storage in the Ahuroa reservoir, and the gas and LPG reserves contained therein.

Contact's beneficial right in the PML shall continue until such time as the term of the PML expires and is not renewed or is no longer required in order to undertake gas storage.

As part of the acquisition of the rights, Contact has secured beneficial access to the remaining natural gas and LPG reserves (excluding condensate) in the Ahuroa reservoir. The natural gas reserves, together with additional natural gas injections, represent the investment necessary to enable the field to be used for gas storage and are referred to as cushion gas. Refer to note 20.

Additions to gas storage rights for the year relate to capitalised financing costs on the original acquisition of the rights.

Impairment

No impairment exists for any intangible asset at 30 June 2009 (2008: nil).

20 Gas storage – cushion gas

As part of the acquisition of the gas storage rights (refer to note 19), Contact has secured beneficial access to the remaining natural gas and LPG reserves (excluding condensate) in the Ahuroa reservoir. The natural gas reserves at the date of acquisition, together with additional natural gas injections during the year, are referred to as cushion gas and represent the investment necessary to enable the field to be used for storage of future 'operational' gas.

Gas injected in excess of the cushion gas requirements will be treated as inventory.

Cushion gas is recognised at cost, which includes capitalised interest, and is presented on the Balance Sheet as a separate non-current, non-depreciable asset, referred to as gas storage – cushion gas.

21 Investment in jointly controlled entity

	Interest held by Group		
Name of entity	**30 June 2009**	**30 June 2008**	**Principal activity**
Gasbridge Joint Venture	50%	50%	LNG importation development

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

	Group 30 June 2009 $000	Group 30 June 2008 $000
Assets		
Current assets	42	572
Non–current assets*	–	2,281
Total assets	**42**	**2,853**
Liabilities		
Current liabilities	59	75
Total liabilities	**59**	**75**
Net (liabilities)/assets	**(17)**	**2,778**
Income	4	11
Expenses	(344)	(432)
Loss after income tax	**(340)**	**(421)**
Proportionate interest in joint venture's commitments	–	–

* During the year, Contact wrote off its 50 per cent share of the Gasbridge Joint Venture's non-current assets following the decision to put on hold the development of the liquefied natural gas terminal. These assets have been excluded from the balances above. Refer to note 3.

There are no contingent liabilities relating to Contact's interest in the joint venture and no contingent liabilities in the joint venture itself.

22 Investment in subsidiaries

	Interest held by Parent			
Name of entity	**30 June 2009**	**30 June 2008**	**Principal activity**	**Country of incorporation**
Empower Limited	100%	100%	Electricity retailer	New Zealand
Stratford Power Limited	100%	100%	Gas wholesaler	New Zealand
Contact Aria Limited	100%	100%	Investment holding company	New Zealand
Contact Wind Limited	100%	100%	Wind generation development	New Zealand
Rockgas Holdings Limited	100%	100%	Holding and management company	New Zealand
Rockgas Limited	100%	100%	LPG retailer	New Zealand
Contact Australia Pty Limited	100%	100%	Investment holding company	Australia
Contact Operations Australia Pty Limited	100%	100%	Manages Australian interests relating to operation and maintenance	Australia

All subsidiaries have a balance sheet date of 30 June.

23 Investment in associates

	Interest held by Group			
Name of entity	**30 June 2009**	**30 June 2008**	**Principal activity**	**Country of incorporation**
Oakey Power Holdings Pty Limited	25%	25%	Electricity generation	Australia
Rockgas Timaru Limited	50%	50%	LPG distribution	New Zealand

	Group 30 June 2009 $000	Group 30 June 2008 $000	Parent 30 June 2009 $000	Parent 30 June 2008 $000
Carrying value of associates				
Carrying value at start of the year	8,015	6,210	1,579	1,579
Share of recognised revenue and expenses	3,624	2,793	–	–
Movements taken to foreign currency translation reserve	(67)	866	–	–
Dividends received	(2,885)	(1,854)	–	–
Carrying value at end of the year	**8,687**	**8,015**	**1,579**	**1,579**

Rockgas Timaru Limited has a balance sheet date of 31 March.

Aggregate summary financial information of associates, not adjusted for the percentage held by Contact	Group 30 June 2009 $000	Group 30 June 2008 $000
Total assets	161,644	173,901
Total liabilities	127,416	141,547
Total revenues	42,138	42,889
Profit for the year	13,244	10,934

24 Available-for-sale financial assets

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

	Group 30 June 2009 $000	Group 30 June 2008 $000	Parent 30 June 2009 $000	Parent 30 June 2008 $000
At cost*				
Unlisted shares in Liquigas Limited	2,935	2,935	–	–
	2,935	**2,935**	–	–

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

25 Borrowings

This note provides information about the contractual terms of Contact's borrowings. For more information about Contact's exposure to interest rate and foreign currency risk, refer to note 26.

Carrying value of borrowings

	Borrowing currency denomination	Group 30 June 2009 $000	Group 30 June 2008 $000	Parent 30 June 2009 $000	Parent 30 June 2008 $000
Current borrowings					
Bank overdraft	NZD	1,675	1,752	1,959	2,184
Committed credit facilities	NZD	–	100,000	–	100,000
Other credit facilities	NZD	–	27,500	–	27,500
Loan from associate	AUD	1,580	2,839	–	–
Finance lease liabilities	NZD	1,056	720	1,023	700
Total current borrowings		**4,311**	**132,811**	**2,982**	**130,384**
Current portion of term borrowings					
4.5% March 2010	USD	141,662	–	141,662	–
Total current portion of term borrowings		**141,662**	–	**141,662**	–
Non-current borrowings					
Non-current portion of term borrowings					
4.5% March 2010	USD	–	117,878	–	117,878
6.9% February 2013	USD	130,593	105,716	130,593	105,716
5.3% March 2014	USD	140,867	111,403	140,867	111,403
5.3% March 2015	USD	166,886	131,636	166,886	131,636
5.6% March 2018	USD	65,411	51,276	65,411	51,276
7.1% April 2018	USD	45,595	36,212	45,595	36,212
Fixed rate senior notes		**549,352**	**554,121**	**549,352**	**554,121**
Fixed rate bonds 8.0% coupon	NZD	540,219	–	540,219	–
Total non-current portion of term borrowings		**1,089,571**	**554,121**	**1,089,571**	**554,121**
Finance lease liabilities	NZD	1,535	604	1,495	574
Total non-current borrowings		**1,091,106**	**554,725**	**1,091,066**	**554,695**

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

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

Group and Parent 2008	Fixed rate senior notes $000	Fixed rate bonds $000	Total term borrowings $000
New Zealand dollar equivalent of notional borrowings	747,527	–	747,527
Deferred financing costs	(2,126)	–	(2,126)
Net fair value adjustment	(191,280)	–	(191,280)
Carrying value of term borrowings	**554,121**	–	**554,121**
Current	–	–	–
Non-current	554,121	–	554,121
Carrying value of term borrowings	**554,121**	–	**554,121**

Fixed rate bonds

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

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

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

Security

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

Credit facilities

Contact has total committed but undrawn facilities at 30 June 2009 of $685.0 million (2008: $585.0 million, of which $100.0 million was drawn). As at 30 June 2009 $165.0 million of the facilities mature in May 2010, $270.0 million mature in May 2011, $100.0 million mature in February 2012 and $150.0 million mature in December 2012.

These committed credit facilities also support a $250.0 million commercial paper programme. The commercial paper programme was not utilised at 30 June 2009 and 30 June 2008.

Finance lease liabilities

Future minimum lease payments are as follows:

	Group 30 June 2009 $000	Group 30 June 2008 $000	Parent 30 June 2009 $000	Parent 30 June 2008 $000
Not later than one year	1,205	762	1,173	742
Later than one year and not later than five years	1,758	670	1,717	640
Minimum lease payments	**2,963**	**1,432**	**2,890**	**1,382**
Future finance charges on finance leases	(372)	(108)	(372)	(108)
Present value of finance lease liabilities	**2,591**	**1,324**	**2,518**	**1,274**

The finance leases relate to computer equipment.

The present value of finance lease liabilities are as follows:

	Group 30 June 2009 $000	Group 30 June 2008 $000	Parent 30 June 2009 $000	Parent 30 June 2008 $000
Not later than one year	1,056	720	1,023	700
Later than one year and not later than five years	1,535	604	1,495	574
	2,591	**1,324**	**2,518**	**1,274**

26 Financial instruments

Financial risk management objectives

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

Fair value of derivative financial instruments

The fair values of the significant types of derivative financial instruments outstanding are summarised below:

Group	Fair value assets 30 June 2009 $000	Fair value liabilities 30 June 2009 $000	Fair value assets 30 June 2008 $000	Fair value liabilities 30 June 2008 $000
Cross currency interest rate swaps	4,103	(58,922)	–	(191,255)
Interest rate derivatives	1,809	(38,544)	14,257	(800)
Cross currency interest rate swaps – margin	117	(2,454)	–	(6,591)
Forward foreign exchange derivatives	3,713	(5,940)	4,114	(340)
Electricity price hedges	11,842	(52,413)	48,123	(135,221)
Total derivative financial instruments	**21,584**	**(158,273)**	**66,494**	**(334,207)**
Disclosed as:				
Current	14,987	(72,368)	52,940	(139,282)
Non-current	6,597	(85,905)	13,554	(194,925)
	21,584	**(158,273)**	**66,494**	**(334,207)**

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Parent	Fair value assets 30 June 2009 $000	Fair value liabilities 30 June 2009 $000	Fair value assets 30 June 2008 $000	Fair value liabilities 30 June 2008 $000
Cross currency interest rate swaps	4,103	(58,922)	–	(191,255)
Interest rate derivatives	1,809	(38,544)	14,257	(800)
Cross currency interest rate swaps – margin	117	(2,454)	–	(6,591)
Forward foreign exchange derivatives	3,713	(5,889)	4,114	(82)
Electricity price hedges	11,842	(52,413)	48,123	(135,221)
Total derivative financial instruments	**21,584**	**(158,222)**	**66,494**	**(333,949)**
Disclosed as:				
Current	14,987	(72,317)	52,940	(139,024)
Non-current	6,597	(85,905)	13,554	(194,925)
	21,584	**(158,222)**	**66,494**	**(333,949)**

Changes in fair value of financial instruments

The changes in the fair values of financial instruments recognised in the Income Statement and cash flow hedge reserve are summarised below:

Group Favourable/(unfavourable)	Hedge accounting designation	Income Statement 30 June 2009 $000	Cash flow hedge reserve 30 June 2009 $000	Income Statement 30 June 2008 $000	Cash flow hedge reserve 30 June 2008 $000
Cross currency interest rate swaps	Fair value hedge	136,436	–	124,317	–
Borrowings		(136,444)	–	(124,448)	–
		(8)	–	**(131)**	–
Interest rate derivatives	No hedge	(51,096)	904	(15,767)	802
Cross currency interest rate swaps – margin	Cash flow hedge	2,444	1,810	349	1,778
Forward foreign exchange derivatives	Cash flow hedge	–	(6,058)	–	8,336
Forward foreign exchange derivatives	No hedge	56	–	(56)	–
Electricity price hedges	Cash flow hedge	1,814	55,435	4,807	(117,366)
Electricity price hedges	No hedge	(10,721)	–	8,872	–
Income tax on changes in fair value of financial instruments taken to equity		–	(16,472)	–	31,878
Total change in fair value of financial instruments		**(57,511)**	**35,619**	**(1,926)**	**(74,572)**

Parent Favourable/(unfavourable)	Hedge accounting designation	Income Statement 30 June 2009 $000	Cash flow hedge reserve 30 June 2009 $000	Income Statement 30 June 2008 $000	Cash flow hedge reserve 30 June 2008 $000
Cross currency interest rate swaps	Fair value hedge	136,436	–	124,317	–
Borrowings		(136,444)	–	(124,448)	–
		(8)	–	**(131)**	–
Interest rate derivatives	No hedge	(51,096)	904	(15,767)	802
Cross currency interest rate swaps – margin	Cash flow hedge	2,444	1,810	349	1,778
Forward foreign exchange derivatives	Cash flow hedge	–	(6,260)	–	7,676
Forward foreign exchange derivatives	No hedge	56	–	(56)	–
Electricity price hedges	Cash flow hedge	1,814	55,435	4,807	(117,366)
Electricity price hedges	No hedge	(10,721)	–	8,872	–
Income tax on changes in fair value of financial instruments taken to equity		–	(16,394)	–	32,102
Total change in fair value of financial instruments		**(57,511)**	**35,495**	**(1,926)**	**(75,008)**

The non-cash total change in fair value of financial instruments recorded in the Income Statement of $(57.5) million (2008: $(1.9) million) is principally due to a movement in interest rate derivatives and electricity price hedges that have not been designated in a hedge relationship.

The interest rate derivatives are revalued applying market interest rates. As a result, the change in fair value of interest rate derivatives is a non-cash item that fluctuates over time in accordance with changes in market interest rates.

The movement in the electricity price hedge is due to the volatility in the forecast market price path.

Movement in cash flow hedge reserve

	Group $000	Parent $000
Balance as at 1 July 2007	293	905
Effective portion of cash flow hedges recognised in the cash flow hedge reserve	(88,878)	(88,711)
Amount transferred from the cash flow hedge reserve to operating revenue	21,218	21,218
Amount transferred from the cash flow hedge reserve to operating expenses	1,257	345
Amount transferred from the cash flow hedge reserve to change in fair value of financial instruments	802	802
Amount transferred from the cash flow hedge reserve to property, plant and equipment	2,930	2,930
Amount transferred from the cash flow hedge reserve in relation to deferred tax	(11,901)	(11,592)
Balance as at 30 June 2008	**(74,279)**	**(74,103)**
Balance as at 1 July 2008	(74,279)	(74,103)
Effective portion of cash flow hedges recognised in the cash flow hedge reserve	46,003	46,045
Amount transferred from the cash flow hedge reserve to operating revenue	(10,853)	(10,853)
Amount transferred from the cash flow hedge reserve to operating expenses	(717)	(975)
Amount transferred from the cash flow hedge reserve to change in fair value of financial instruments	904	904
Amount transferred from the cash flow hedge reserve to property, plant and equipment	(2,961)	(2,961)
Amount transferred from the cash flow hedge reserve in relation to deferred tax	3,243	3,335
Balance as at 30 June 2009	**(38,660)**	**(38,608)**

The gain from ineffectiveness recognised in the Income Statement of both the Parent and Group from cash flow hedges is $2.1 million (2008: $0.8 million).

Risk management

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

(a) Market risk

(i) Foreign currency risk

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

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

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

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

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

Forward foreign exchange contracts

The aggregate notional principal amount of the outstanding forward foreign exchange contracts at 30 June 2009 was $120.3 million (2008: $226.4 million). As at 30 June 2009, all foward foreign exchange contracts were designated in a cash flow hedge (2008: $206.3 million).

The hedged anticipated transactions denominated in foreign currency are expected to occur at various dates between one month to one year and three months (2008: two years and three months) from the balance sheet date. Gains and losses recognised in the cash flow hedge reserve in equity on forward foreign exchange contracts as at 30 June 2009 will be released at dates when the cash flow from the underlying anticipated transactions will occur and will be recognised in the Income Statement or included in the cost of any asset or liability acquired. During the year to 30 June 2009, no hedges were de-designated, and all underlying forecast transactions remain highly probable to occur as originally forecast.

Sensitivity analysis

At 30 June 2009, if the New Zealand dollar had weakened/strengthened by 10 per cent against the currencies with which Contact had foreign currency risk with all other variables held constant:

- post-tax profit for the year would not have been materially different,
- the cash flow hedge reserve component of equity would have been $8.7 million higher/lower (2008: $15.5 million), arising from foreign exchange gains/losses on revaluation of forward foreign exchange contracts in a cash flow hedge relationship.

(ii) Price risk

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

Electricity price hedges

The aggregate notional volume of the outstanding fixed volume electricity derivatives at 30 June 2009 was 1,522 GWh (2008: 2,387 GWh). The aggregate notional volume of the outstanding variable volume electricity derivatives at 30 June 2009 was 7,634 GWh (2008: 10,408 GWh).

Electricity derivatives are hedging underlying exposures over various trade periods out to December 2012. As at 30 June 2009 the fair value of the electricity price hedges was $(40.6) million (2008: $(87.1) million), $(38.8) million of which was designated in a cash flow hedge (2008: $(96.1) million).

Gains and losses on hedged electricity derivatives recognised in the cash flow hedge reserve in equity will be continuously released to the Income Statement in the period in which the underlying sale/purchase transactions are recognised in the Income Statement.

Sensitivity analysis

The following table summarises the impact of increases/decreases of the relevant electricity forward prices on Contact's post-tax profit for the year and on other components of equity. The sensitivity analysis is based on the assumption that the relevant market prices have increased/decreased by 10 per cent.

Group and Parent **Favourable/(unfavourable)**	**30 June 2009 +10% $000**	**30 June 2009 -10% $000**	**30 June 2008 +10% $000**	**30 June 2008 -10% $000**
Impact on post-tax profit	251	(786)	8,776	(3,774)
Impact on equity	13,013	(12,335)	1,393	4,676

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

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

Cross currency interest rate swaps

The aggregate notional principal amount of the outstanding cross currency interest rate swap contracts at 30 June 2009 was $747.5 million (2008: $747.5 million). The cross currency interest rate swaps have been split into two components for the purposes of hedge designation. The hedge of the benchmark interest rate is designated as a fair value hedge, and the hedge of the issuance margin is designated as a cash flow hedge.

The hedged anticipated interest payments are expected to occur at various dates between one month to nine years (2008: one month to ten years) from the balance sheet date as a result of the maturities of the underlying borrowings.

Interest rate swaps

The aggregate notional principal amount of the outstanding interest rate swap contracts at 30 June 2009 was $1,016.4 million (2008: $1,041.0 million) including $355.0 million of forward starting swaps (2008: $360.0 million).

The anticipated interest payment transactions are expected to occur at various dates between one month to 10 years (2008: one month to 10 years) from the balance sheet date.

Sensitivity analysis

At 30 June 2009, if interest rates at that date had been 100 basis points higher/lower, with all other variables held constant, post-tax profit for the year would have been $17.0 million higher/lower (2008: $13.6 million). This is mainly as a result of the fair value change in interest rate swaps, which are valid economic hedges but which do not qualify for hedge accounting under NZIAS 39. There would be no effect on other components of equity.

(b) Credit risk

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

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

The carrying amounts of financial assets recognised in the Balance Sheet best represent Contact's maximum exposure to credit risk at the balance sheet date without taking account of the value of any collateral obtained.

Contact does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. Concentration of credit risk with respect to receivables is limited due to Contact's large customer base in a diverse range of industries throughout New Zealand. Contact has no significant concentration of credit risk with any one financial institution.

(c) Liquidity risk

Contact's ability to attract cost-effective funding is largely driven by its credit standing.

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

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

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Contractual maturities of financial liabilities and derivative financial instruments

The amounts disclosed are the contracted undiscounted cash flows, except for the derivative financial instruments that are the undiscounted settlements expected under the contracts. Balances due within 12 months equal their carrying value as the impact of discounting is not significant. As the amounts presented are contracted undiscounted cash flows, the totals will not reconcile with the Balance Sheet.

Group 2009 Outflow/(inflow)	Note	Total contractual cash flows $000	Less than 1 year $000	1–2 years $000	2–5 years $000	More than 5 years $000
Payables and accruals	27	304,235	304,235	–	–	–
Borrowings	25	1,604,451	222,784	73,817	1,014,402	293,448
Finance lease liabilities	25	2,963	1,205	783	975	–
Net settled derivative financial instruments:	26					
Electricity price hedges		44,487	8,789	16,123	19,575	–
Interest rate derivatives		40,623	24,934	11,841	4,288	(440)
Gross settled derivative financial instruments:	26					
Forward foreign exchange derivatives						
– Inflow		(111,637)	(109,654)	(1,983)	–	–
– Outflow		114,684	112,851	1,833	–	–
Cross currency interest rate swaps						
– Inflow		(831,010)	(175,462)	(29,809)	(332,236)	(293,503)
– Outflow		972,957	189,594	32,254	407,596	343,513
Total		**2,141,753**	**579,276**	**104,859**	**1,114,600**	**343,018**

Group 2008 Outflow/(inflow)	Note	Total contractual cash flows $000	Less than 1 year $000	1–2 years $000	2–5 years $000	More than 5 years $000
Payables and accruals	27	540,619	540,619	–	–	–
Borrowings	25	868,756	164,708	148,700	174,179	381,169
Finance lease liabilities	25	1,432	762	565	105	–
Net settled derivative financial instruments:	26					
Electricity price hedges		94,794	47,509	16,981	30,304	–
Interest rate derivatives		(16,554)	(9,899)	(3,401)	(2,733)	(521)
Gross settled derivative financial instruments:	26					
Forward foreign exchange derivatives						
– Inflow		(213,879)	(175,778)	(36,421)	(1,680)	–
– Outflow		215,861	175,289	38,739	1,833	–
Cross currency interest rate swaps						
– Inflow		(734,736)	(30,743)	(148,643)	(174,134)	(381,216)
– Outflow		1,104,101	69,864	222,323	277,900	534,014
Total		**1,860,394**	**782,331**	**238,843**	**305,774**	**533,446**

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Parent 2009 Outflow/(inflow)	Note	Total contractual cash flows $000	Less than 1 year $000	1–2 years $000	2–5 years $000	More than 5 years $000
Payables and accruals	27	338,246	338,246	–	–	–
Borrowings	25	1,603,154	221,487	73,817	1,014,402	293,448
Finance lease liabilities	25	2,890	1,173	742	975	–
Net settled derivative financial instruments:	26					
Electricity price hedges		44,487	8,789	16,123	19,575	–
Interest rate derivatives		40,623	24,934	11,841	4,288	(440)
Gross settled derivative financial instruments:	26					
Forward foreign exchange derivatives						
– Inflow		(106,071)	(104,088)	(1,983)	–	–
– Outflow		109,052	107,219	1,833	–	–
Cross currency interest rate swaps						
– Inflow		(831,010)	(175,462)	(29,809)	(332,236)	(293,503)
– Outflow		972,957	189,594	32,254	407,596	343,513
Total		**2,174,328**	**611,892**	**104,818**	**1,114,600**	**343,018**

Parent 2008 Outflow/(inflow)	Note	Total contractual cash flows $000	Less than 1 year $000	1–2 years $000	2–5 years $000	More than 5 years $000
Payables and accruals	27	522,949	522,949	–	–	–
Borrowings	25	866,349	162,301	148,700	174,179	381,169
Finance lease liabilities	25	1,382	742	535	105	–
Net settled derivative financial instruments:	26					
Electricity price hedges		94,794	47,509	16,981	30,304	–
Interest rate derivatives		(16,554)	(9,899)	(3,401)	(2,733)	(521)
Gross settled derivative financial instruments:	26					
Forward foreign exchange derivatives						
– Inflow		(203,646)	(165,545)	(36,421)	(1,680)	–
– Outflow		205,290	164,718	38,739	1,833	–
Cross currency interest rate swaps						
– Inflow		(734,736)	(30,743)	(148,643)	(174,134)	(381,216)
– Outflow		1,104,101	69,864	222,323	277,900	534,014
Total		**1,839,929**	**761,896**	**238,813**	**305,774**	**533,446**

Fair values

The carrying amount of financial assets and financial liabilities recorded in the financial statements approximates their fair values, with the exception of the fixed rate bonds, which have a fair value of $563.4 million, compared with a carrying value of $540.2 million.

Estimation of fair values

The fair values and net fair values of financial assets and financial liabilities are determined as follows:

- the fair values of financial assets and liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices,
- the fair values of other financial assets and financial liabilities are calculated using market-quoted rates based on discounted cash flow analysis,
- the fair values of derivative financial instruments are calculated using quoted prices. Where such prices are not available, use is made of discounted cash flow analysis using the applicable yield curve or available forward price data for the duration of the instruments,
- the fair value of fixed rate bonds is determined with reference to quoted market prices.

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

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

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

Financial instruments by category

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

Group 2009	Note	Held for trading $000	Loans and receivables $000	Available-for-sale financial assets* $000	Other financial liabilities $000	Derivatives designated as fair value hedging instruments $000	Derivatives designated as cash flow hedging instruments $000	Total $000
Assets								
Cash and short term deposits	15	–	179,220	–	–	–	–	179,220
Receivables and prepayments	16	–	253,836	–	–	–	–	253,836
Derivative financial instruments	26	1,539	–	–	–	4,103	15,942	21,584
Available-for-sale financial assets	24	–	–	2,935	–	–	–	2,935
Total financial assets		**1,539**	**433,056**	**2,935**	–	**4,103**	**15,942**	**457,575**
Total non-financial assets								4,973,964
Total assets								**5,431,539**
Liabilities								
Borrowings	25	–	–	–	1,237,079	–	–	1,237,079
Derivative financial instruments	26	40,013	–	–	–	58,922	59,338	158,273
Payables and accruals	27	–	–	–	304,235	–	–	304,235
Total financial liabilities		**40,013**	–	–	**1,541,314**	**58,922**	**59,338**	**1,699,587**
Total non-financial liabilities								789,684
Total liabilities								**2,489,271**

* Refer to note 24.

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Group 2008	Note	Held for trading $000	Loans and receivables $000	Available-for-sale financial assets* $000	Other financial liabilities $000	Derivatives designated as fair value hedging instruments $000	Derivatives designated as cash flow hedging instruments $000	Total $000
Assets								
Cash and short term deposits	15	–	2,542	–	–	–	–	2,542
Receivables and prepayments	16	–	517,365	–	–	–	–	517,365
Derivative financial instruments	26	21,862	–	–	–	–	44,632	66,494
Available-for-sale financial assets	24	–	–	2,935	–	–	–	2,935
Total financial assets		**21,862**	**519,907**	**2,935**	–	–	**44,632**	**589,336**
Total non-financial assets								4,652,007
Total assets								**5,241,343**
Liabilities								
Borrowings	25	–	–	–	687,536	–	–	687,536
Derivative financial instruments	26	(577)	–	–	–	191,255	143,529	334,207
Payables and accruals	27	–	–	–	540,619	–	–	540,619
Total financial liabilities		**(577)**	–	–	**1,228,155**	**191,255**	**143,529**	**1,562,362**
Total non-financial liabilities								774,910
Total liabilities								**2,337,272**

* Refer to note 24.

Parent 2009	Note	Held for trading $000	Loans and receivables $000	Available-for-sale financial assets* $000	Other financial liabilities $000	Derivatives designated as fair value hedging instruments $000	Derivatives designated as cash flow hedging instruments $000	Total $000
Assets								
Cash and short term deposits	15	–	177,848	–	–	–	–	177,848
Receivables and prepayments	16	–	224,786	–	–	–	–	224,786
Derivative financial instruments	26	1,539	–	–	–	4,103	15,942	21,584
Available-for-sale financial assets	24	–	–	–	–	–	–	–
Total financial assets		**1,539**	**402,634**	–	–	**4,103**	**15,942**	**424,218**
Total non-financial assets								4,955,361
Total assets								**5,379,579**
Liabilities								
Borrowings	25	–	–	–	1,235,710	–	–	1,235,710
Derivative financial instruments	26	40,013	–	–	–	58,922	59,287	158,222
Payables and accruals	27	–	–	–	338,246	–	–	338,246
Total financial liabilities		**40,013**	–	–	**1,573,956**	**58,922**	**59,287**	**1,732,178**
Total non-financial liabilities								785,078
Total liabilities								**2,517,256**

* Refer to note 24.

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Parent 2008	Note	Held for trading $000	Loans and receivables $000	Available-for-sale financial assets* $000	Other financial liabilities $000	Derivatives designated as fair value hedging instruments $000	Derivatives designated as cash flow hedging instruments $000	Total $000
Assets								
Cash and short term deposits	15	–	–	–	–	–	–	–
Receivables and prepayments	16	–	488,987	–	–	–	–	488,987
Derivative financial instruments	26	21,862	–	–	–	–	44,632	66,494
Available-for-sale financial assets	24	–	–	–	–	–	–	–
Total financial assets		**21,862**	**488,987**	–	–	–	**44,632**	**555,481**
Total non-financial assets								4,634,297
Total assets								**5,189,778**
Liabilities								
Borrowings	25	–	–	–	685,079	–	–	685,079
Derivative financial instruments	26	(577)	–	–	–	191,255	143,271	333,949
Payables and accruals	27	–	–	–	522,949	–	–	522,949
Total financial liabilities		**(577)**	–	–	**1,208,028**	**191,255**	**143,271**	**1,541,977**
Total non-financial liabilities								769,689
Total liabilities								**2,311,666**

* Refer to note 24.

Capital risk management objectives

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

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

Contact monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital funding.

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

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

The gearing ratios at 30 June 2009 and 30 June 2008 were as follows:

	Note	Group 30 June 2009 $000	Group 30 June 2008 $000
Net debt			
Current borrowings	25	(4,311)	(132,811)
New Zealand dollar equivalent of term borrowings – after foreign exchange hedging and before deferred financing costs	25	(747,527)	(747,527)
Fixed rate bond before deferred financing costs	25	(550,000)	–
Other non-current borrowings	25	(1,535)	(604)
Cash and short term deposits	15	179,220	2,542
Total net debt		**(1,124,153)**	**(878,400)**
Equity			
Shareholders' equity	12, 13	(2,942,268)	(2,904,071)
Remove net effect of fair value of financial instruments after tax		(57,298)	(51,210)
Adjusted equity		**(2,999,566)**	**(2,955,281)**
Total capital funding		(4,123,719)	(3,833,681)
Gearing ratio		**27%**	**23%**

27 Payables and accruals

	Group 30 June 2009 $000	Group 30 June 2008 $000	Parent 30 June 2009 $000	Parent 30 June 2008 $000
Electricity purchases accrual	46,012	250,163	39,943	205,756
Other trade payables and accruals	230,999	263,828	193,467	235,608
Advances from subsidiaries	–	–	78,250	55,741
Employee benefits	14,723	18,681	14,085	17,897
Interest payable	12,501	7,947	12,501	7,947
Total payables and accruals	**304,235**	**540,619**	**338,246**	**522,949**

The purchase price that Contact paid for electricity to supply its customers was considerably lower in June 2009 than in June 2008 as a result of lower prices in the wholesale market. Consequently, the electricity purchases accrual is lower than at 30 June 2008.

28 Provisions

Group	New Plymouth $000	Restoration/ environmental rehabilitation $000	Other $000	Total $000
Balance at 1 July 2007	–	29,110	295	29,405
Provisions made during the year	31,457	3,272	2,958	37,687
Provisions used during the year	(12,620)	(1,388)	(652)	(14,660)
Provisions reversed during the year	–	(481)	(125)	(606)
Unwind of discount rate	–	2,746	–	2,746
Balance at 30 June 2008	**18,837**	**33,259**	**2,476**	**54,572**
Balance at 1 July 2008	18,837	33,259	2,476	54,572
Provisions made during the year	–	3,295	165	3,460
Provisions used during the year	(15,352)	(3,129)	(390)	(18,871)
Provisions reversed during the year	–	(1,215)	–	(1,215)
Unwind of discount rate	–	3,999	–	3,999
Balance at 30 June 2009	**3,485**	**36,209**	**2,251**	**41,945**
Current	3,485	4,137	573	8,195
Non-current	–	32,072	1,678	33,750
	3,485	**36,209**	**2,251**	**41,945**

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Parent	New Plymouth $000	Restoration/ environmental rehabilitation $000	Other $000	Total $000
Balance at 1 July 2007	–	26,621	295	26,916
Provisions made during the year	31,457	3,272	2,958	37,687
Provisions used during the year	(12,620)	(1,365)	(652)	(14,637)
Provisions reversed during the year	–	–	(125)	(125)
Unwind of discount rate	–	2,606	–	2,606
Balance at 30 June 2008	**18,837**	**31,134**	**2,476**	**52,447**
Balance at 1 July 2008	18,837	31,134	2,476	52,447
Provisions made during the year	–	3,295	165	3,460
Provisions used during the year	(15,352)	(3,068)	(390)	(18,810)
Unwind of discount rate	–	2,972	–	2,972
Balance at 30 June 2009	**3,485**	**34,333**	**2,251**	**40,069**
Current	3,485	3,895	573	7,953
Non-current	–	30,438	1,678	32,116
	3,485	**34,333**	**2,251**	**40,069**

Refer to note 4 for discussion on the provision for removal of asbestos at New Plymouth power station. Cash outflows in relation to this are expected to occur within the next year.

The restoration and environmental rehabilitation provisions include estimates of future expenditures for the abandonment and restoration of areas from which natural resources are extracted and the expected cost of environmental rehabilitation of commercial sites that require remediation of conditions resulting from present operations. Cash outflows are typically expected to coincide with the end of the useful life of the sites.

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

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29 Deferred tax

Recognised deferred tax assets and liabilities

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

Group	Assets 30 June 2009 $000	Assets 30 June 2008 $000	Liabilities 30 June 2009 $000	Liabilities 30 June 2008 $000
Property, plant and equipment	–	–	(783,827)	(763,392)
Investment in associate	–	–	(2,235)	(2,071)
Inventories	2,179	1,759	–	–
Employee benefits	4,241	5,166	–	–
Provisions	15,173	18,007	–	–
Financial instruments	23,889	22,930	–	–
Other	–	–	(3,512)	(861)
Total	**45,482**	**47,862**	**(789,574)**	**(766,324)**

Parent	Assets 30 June 2009 $000	Assets 30 June 2008 $000	Liabilities 30 June 2009 $000	Liabilities 30 June 2008 $000
Property, plant and equipment	–	–	(780,996)	(761,677)
Investment in associate	–	–	(174)	(174)
Inventories	2,179	1,759	–	–
Employee benefits	4,053	4,930	–	–
Provisions	14,048	16,930	–	–
Financial instruments	23,889	22,853	–	–
Other	–	–	(4,237)	(1,863)
Total	**44,169**	**46,472**	**(785,407)**	**(763,714)**

Movement in deferred tax

Group	Balance 1 July 2008 $000	Recognised in income $000	Recognised in equity $000	Change in tax rate* $000	Balance 30 June 2009 $000
Property, plant and equipment**	(763,392)	(20,435)	–	–	(783,827)
Investment in associate	(2,071)	1,133	(1,297)	–	(2,235)
Inventories	1,759	420	–	–	2,179
Employee benefits	5,166	(925)	–	–	4,241
Provisions	18,007	(3,822)	988	–	15,173
Financial instruments	22,930	17,431	(16,472)	–	23,889
Other	(861)	(2,651)	–	–	(3,512)
Total	**(718,462)**	**(8,849)**	**(16,781)**	–	**(744,092)**

Contact Energy Limited and Subsidiaries
Notes to the financial statements
for the year ended 30 June 2009

Group	Balance 1 July 2007 $000	Recognised in income $000	Recognised in equity $000	Change in tax rate* $000	Balance 30 June 2008 $000
Property, plant and equipment**	(749,850)	(15,400)	–	1,858	(763,392)
Investment in associate	(1,516)	(833)	278	–	(2,071)
Inventories	1,614	321	–	(176)	1,759
Employee benefits	4,813	840	–	(487)	5,166
Provisions	10,783	7,168	1,080	(1,024)	18,007
Financial instruments	(9,504)	636	35,129	(3,331)	22,930
Other	1,487	(2,523)	–	175	(861)
Total	**(742,173)**	**(9,791)**	**36,487**	**(2,985)**	**(718,462)**

Parent	Balance 1 July 2008 $000	Recognised in income $000	Recognised in equity $000	Change in tax rate* $000	Balance 30 June 2009 $000
Property, plant and equipment**	(761,677)	(19,319)	–	–	(780,996)
Investment in associate	(174)	–	–	–	(174)
Inventories	1,759	420	–	–	2,179
Employee benefits	4,930	(877)	–	–	4,053
Provisions	16,930	(3,870)	988	–	14,048
Financial instruments	22,853	17,430	(16,394)	–	23,889
Other	(1,863)	(2,374)	–	–	(4,237)
Total	**(717,242)**	**(8,590)**	**(15,406)**	–	**(741,238)**

Parent	Balance 1 July 2007 $000	Recognised in income $000	Recognised in equity $000	Change in tax rate* $000	Balance 30 June 2008 $000
Property, plant and equipment**	(748,815)	(14,715)	–	1,853	(761,677)
Investment in associate	(174)	–	–	–	(174)
Inventories	1,614	321	–	(176)	1,759
Employee benefits	4,472	921	–	(463)	4,930
Provisions	9,458	7,378	1,080	(986)	16,930
Financial instruments	(9,803)	634	35,345	(3,323)	22,853
Other	175	(2,224)	–	186	(1,863)
Total	**(743,073)**	**(7,685)**	**36,425**	**(2,909)**	**(717,242)**

* The change in tax rate column reflects the net change in deferred tax as a result of the reduction in the corporate income tax rate to 30 per cent enacted in May 2007 and effective for Contact's income tax year ending 30 June 2009. The effect of the change was recognised in the Income Statement in 2008 (Group $0.4 million and Parent $0.5 million) and in equity (Group and Parent $3.4 million) consistent with the underlying items that gave rise to the deferred tax.

** Deferred tax on the revaluation increment of generation property, plant and equipment as at 30 June 2007 is recorded against the asset revaluation reserve in equity. Refer to note 13. Contact holds its property, plant and equipment on capital account for income tax purposes. Where the generation plant and equipment and generation capital work in progress is revalued, and there is no similar adjustment to the tax base, a taxable temporary difference is created that is recognised in deferred tax. The deferred tax liability on these revaluations would not crystallise under existing income tax legislation if the assets were to be sold at the balance sheet date. At 30 June 2009, the amount of deferred tax relating to the revaluation of generation plant and equipment and generation capital work in progress was $535.7 million (2008: $563.5 million).

Unrecognised deferred tax assets and liabilities

There are no unrecognised deferred tax assets and liabilities.

30 Commitments

Capital and investment commitments

	Group 30 June 2009 $000	Group 30 June 2008 $000	Parent 30 June 2009 $000	Parent 30 June 2008 $000
Not later than one year	173,612	151,429	173,426	151,429
Later than one year and not later than five years	75,658	108,481	75,658	108,481
Later than five years	551	3,814	551	3,814
Total capital and investment commitments	**249,821**	**263,724**	**249,635**	**263,724**

Operating lease commitments

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

	Group 30 June 2009 $000	Group 30 June 2008 $000	Parent 30 June 2009 $000	Parent 30 June 2008 $000
Not later than one year	6,592	5,780	4,796	4,134
Later than one year and not later than five years	13,395	14,319	10,816	11,381
Later than five years	9,728	11,959	5,114	7,608
Total operating lease commitments	**29,715**	**32,058**	**20,726**	**23,123**

Lease commitments are stated exclusive of GST.

Other operating commitments

Other operating commitments comprise a portion of long term maintenance agreements entered into for generation assets, with the remainder of commitments under these agreements included in capital and investment commitments.

	Group 30 June 2009 $000	Group 30 June 2008 $000	Parent 30 June 2009 $000	Parent 30 June 2008 $000
Not later than one year	6,661	5,172	6,661	5,172
Later than one year and not later than five years	5,703	9,962	5,703	9,962
Total other operating commitments	**12,364**	**15,134**	**12,364**	**15,134**

Gas commitments

Maui contracts with Maui Development Limited

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

Shell New Zealand Limited

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

OMV New Zealand Limited

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

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

Gas transmission contracts

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

31 Resource consents

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

In addition to consents for its existing operational power stations, Contact holds resource consents to construct and operate a new 400 megawatt (MW) combined-cycle power station (Otahuhu C) and has the ability to construct and operate a 120 MW open-cycle power station under its existing consents (Otahuhu A), both at its Otahuhu site. Contact also has consents to construct and operate an up to 500 MW combined-cycle power station at its Stratford site (TCC 2). Lapse dates on the consents for the combined-cycle plants have been extended to 2011 (Otahuhu C) and 2017 (TCC 2).

Contact also has consents to construct and operate a net 220 MW geothermal power station at Te Mihi (near Taupo), a 200 MW gas-fired peaking power station at Stratford and a 20 MW geothermal binary plant at Taupo. Construction of the Stratford gas-fired peaking power station and the geothermal binary plant has started. Contact is applying for a variation of consents to allow the geothermal binary plant at Taupo to operate at 23 MW.

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

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

Contact has filed applications for a 177 MW wind farm at Waitahora, near Dannevirke in the Manawatu. Initial consents have been declined, and Contact has appealed to the Environment Court and is currently awaiting formal court mediation.

Contact has also filed applications for an up to 540 MW wind farm on the west Waikato coast called Hauāuru mā raki. The applications were called in by the Minister for the Environment to be heard by a board of inquiry. The hearing commenced in April 2009 and has been adjourned for 12 months until May 2010.

32 Related party transactions

Parent company

As at 30 June 2009, Origin Energy Pacific Holdings Limited was the major shareholder in the Parent, owning 50.6 per cent (2008: 50.6 per cent) of the ordinary shares of the Parent.

Further shares amounting to 0.8 per cent (2008: 0.8 per cent) of the Parent's ordinary shares are held by Origin Energy Universal Holdings Limited and Origin Energy New Zealand Limited. All three companies are 100 per cent ultimately owned by Origin Energy Limited, an Australian incorporated company.

Identity of related parties with whom material transactions have occurred

Notes 21, 22, and 23 identify group entities, associates and joint ventures in which Contact has an interest. All of these entities are related parties of the Parent.

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

Material related party transactions

Transactions with ultimate parent entity

- David Baldwin, Managing Director of Contact, is seconded to Contact from his employer Origin. Fees incurred or accrued during the year ended 30 June 2009 in relation to David's role as Managing Director totalled $1.0 million (2008: $1.1 million), which includes the cost of his salary and other employment benefits including the 2008/09 short term performance incentive. At 30 June 2009 $0.2 million (2008: $0.5 million) of this amount remained outstanding. In addition, he received share-based payments under the Parent's long term incentive scheme amounting to $0.5 million (2008: $0.3 million), being the fair value of the share-based payments allocated to this reporting period. Refer to note 14.
- In the period ending 30 June 2009, Origin was employed for consulting work on the Stratford Peaker project. Transactions totalled $0.1 million, all of which is outstanding at 30 June 2009.
- During the year Contact and Origin undertook a joint marketing project for renewal of both parties' insurance cover. Contact and Origin are covered under separate policies.
- On 12 June 2008, Contact's ultimate parent company Origin acquired certain New Zealand oil and gas assets from Swift for approximately $110.0 million. Among these assets was a PML to an area that includes the Ahuroa reservoir. Contact paid $52.0 million of the total purchase price to Origin effectively in exchange for a beneficial interest in the PML as it relates to the Ahuroa reservoir and the gas and LPG reserves contained therein. Contact is developing the Ahuroa field as an underground gas storage facility. Refer to notes 19 and 20.
- A further payment relating to the initial gas and LPG reserves acquired as part of the acquisition of the gas storage rights of $2.6 million was made to Origin in April 2009 following an independent reservoir measurement as at the date of acquisition.
- Contact and Origin have entered into a Master Services Agreement for the provision of professional, consulting and/or administrative services between the parties. During the year, Contact had one member of the Senior Management Team on secondment at Origin under this agreement. The reimbursement for the secondment is at arm's length and is outstanding at balance sheet date. There were no other payments for services entered into under this agreement for the year ended 30 June 2009 or 30 June 2008.
  - Contact and Origin are party to a Statement of Work dated 27 April 2007 relating to the provision of transitional services in connection with the sale of the Rockgas Limited business.
  - Contact and Origin are party to a Statement of Work dated 28 August 2007 relating to the acquisition of the New Zealand assets of Swift.

Transactions with other Origin related parties

- During the year ended 30 June 2009, Contact had transactions with Origin Energy Resources NZ Limited, a subsidiary of Origin, in respect to the development and operation of the Ahuroa gas storage facility. During the year, the transactions totalled $3.8 million. At 30 June 2009, there are outstanding fees of $0.6 million relating to management costs.
- Contact and Origin Energy Resources have entered into a LPG Gas Sales Agreement for the supply of LPG from the Rimu Production Station and any LPG produced from the Waihapa Production Station. Transactions for the year totalled $2.9 million (2008: nil), of which $0.2 million (2008: nil) remained outstanding at 30 June 2009.

Transactions with subsidiaries

- Advances to/from subsidiaries and loan from associate are included in notes 16, 25 and 27 respectively. Advances are repayable on demand and are interest free.
- The Parent had transactions with Empower Limited, a 100 per cent owned subsidiary, in respect of electricity charges, network charges and management fees, which are calculated at arm's length. These charges totalled $16.0 million (2008: $16.7 million). All balances are settled through the intercompany account.
- The Parent had transactions with Stratford Power Limited, a 100 per cent owned subsidiary, in respect of gas purchases, which are calculated at arm's length. Purchases from Stratford Power Limited totalled $115.2 million (2008: $104.2 million) of which $11.0 million (2008: $10.1 million) was outstanding at 30 June 2009.
- Contact pays various operating expenses on behalf of its wholly owned subsidiaries, which are passed directly on to those subsidiaries.

Transactions with Directors and key management personnel

- Fees paid or accrued to Directors and Officers of Origin for director services totalled $0.4 million for the year (2008: $0.1 million). Outstanding amounts at 30 June 2009 totalled $0.1 million (2008: $0.1 million).
- New Zealand based Directors and members of the Senior Management Team purchase gas and electricity from the Group for domestic purposes.

Transactions with other related parties

- Rockgas Limited had transactions with Origin Energy LPG Limited, Origin Energy Contracting Limited and Origin Energy Resources Limited, all entities within the Origin Energy Group, in respect of the purchase and shipping of LPG. The transactions are calculated at arm's length. During the year ended 30 June 2009, transactions totalled $45.0 million (2008: $49.5 million). At 30 June 2009, $4.6 million (2008: $6.0 million) remained outstanding.
- Rockgas Limited had transactions with Rockgas Timaru Limited (Rockgas Timaru), an associate, in respect of the supply of LPG to Rockgas Timaru (30 June 2009: $1.1 million (2008: $1.0 million)) and the provision of deliveries by Rockgas Timaru (30 June 2009: $0.3 million (2008: $0.1 million)), which are calculated at arm's length. At 30 June 2009, a receivable of $0.2 million (2008: $0.3 million) remained outstanding.

33 Key management personnel

The table below includes the aggregate remuneration for the Directors, the Managing Director and members of the Senior Management Team.

	Note	Group 30 June 2009 $000	Group 30 June 2008 $000	Parent 30 June 2009 $000	Parent 30 June 2008 $000
Directors' fees		**853**	**770**	**853**	**770**
Managing Director and Senior Management Team					
Salary and other short term benefits		4,911	5,566	4,911	5,566
Share-based payments	14	1,050	933	1,050	933
Total Managing Director and Senior Management Team		**5,961**	**6,499**	**5,961**	**6,499**
Total key management personnel		**6,814**	**7,269**	**6,814**	**7,269**

Details of the total remuneration and the value of other benefits paid to (or accrued for) each Director of Contact are as follows:

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

Group and Parent For the year ended 30 June 2008 Director	Position	Board fees $	Committee fees $	Total remuneration* $
G King	Chairman	–	–	–
P Pryke	Deputy Chairman	150,000	214,815	364,815
B Beeren	Director	100,000	27,000	127,000
J Milne	Director	100,000	50,000	150,000
K Moses	Director	–	–	–
T Saunders	Director	100,000	28,150	128,150
Total		**450,000**	**319,965**	**769,965**

* Pursuant to Contact's constitution, Directors are not entitled to any payment in connection with their retirement or cessation of office.

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

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

34 Whirinaki generation plant

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

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

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

35 Contingent liabilities

There are no known material contingent liabilities (2008: Nil).

36 Subsequent events

On 13 August 2009, the Board declared a distribution in the form of a non-taxable bonus issue for the year ended 30 June 2009 equivalent to 17 cents per share, for shares on issue at 28 August 2009, the record date, with bonus shares allotted and/or cash distributed if elected on 22 September 2009. Refer to note 10.

KPMG

Audit Report

To the shareholders of Contact Energy Limited

We have audited the financial statements on pages 56 to 109. The financial statements provide information about the past financial performance and financial position of the company and the group as at 30 June 2009. This information is stated in accordance with the accounting policies set out on pages 61 to 70.

Directors' responsibilities

The Directors are responsible for the preparation of financial statements which give a true and fair view of the financial position of the company and group as at 30 June 2009 and the results of their operations and cash flows for the year ended on that date.

Auditors' responsibilities

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

Basis of opinion

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

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

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

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

Unqualified opinion

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

In our opinion:

- proper accounting records have been kept by the company as far as appears from our examination of those records;
- the financial statements on pages 56 to 109:
  - comply with New Zealand generally accepted accounting practice;
  - give a true and fair view of the financial position of the company and group as at 30 June 2009 and the results of their operations and cash flows for the year ended on that date.

Our audit was completed on 13 August 2009 and our unqualified opinion is expressed as at that date.

KPMG

Wellington

Corporate directory

Board of Directors

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

Senior management

David Baldwin, Managing Director
Steve Bielby, General Counsel and Company Secretary
Graham Cockroft, Chief Operating Officer
Jason Delamore, General Manager, Retail
Luc Hennekens, Chief Information Officer and General Manager, ICT
Liz Kelly, General Manager, Development and Acquisitions
Nigel Thomson, Acting Chief Financial Officer

Head office

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Website: www.contactenergy.co.nz

NZX trading code: CEN

Company number: 660760

Share registrar

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Auckland 1142
159 Hurstmere Road
Takapuna, North Shore City 0622

Shareholder enquiries

To change your address, add or change your bank account and to view your registered details including transactions, please visit:
www.computershare.co.nz/investorcentre

General enquiries can be directed to:
enquiry@computershare.co.nz
Private Bag 92119, Auckland 1142
Telephone +64 9 488 8777 Facsimile +64 9 488 8787
Please assist our registrar by quoting your CSN or shareholder number.

General enquiries on the company's operating and financial performance should be made to the company at:
General Manager, Development and Acquisitions
Contact Energy Limited
PO Box 10742, The Terrace, Wellington 6143
Email: investor.centre@contactenergy.co.nz

Financial calendar

Final distribution announced	14 August 2009
Record date for final distribution	28 August 2009
Cut-off date for receipt of election notices for buy back of bonus shares under Profit Distribution Plan	Noon, 17 September 2009
Final distribution date	22 September 2009
End of first quarter	30 September 2009
Annual meeting	22 October 2009
Half year end	31 December 2009
Results announcement for the half year ended 31 December 2009	February 2010
End of third quarter	31 March 2010
Financial year end	30 June 2010

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