Contact

here

Annual Report 2013


...is where we do our best work.

At Contact...

We keep the lights burning, the hot water flowing and the BBQ fired up for around 566,000 customers across the country.

We are one of New Zealand's largest listed companies but we operate with the same genuine concern for our customers and communities as the smallest. We are integral to our customers' lives – and our customers are integral to us.

This Annual Report is dated 5 September 2013 and is signed on behalf of the Board by:

Grant King
Chairman

Sue Sheldon
Director

Follow us at facebook.com/contactenergy

"The kids think there's always money on the card – they think nothing of a 30 minute shower."

Contact customer research

Everyone in the family has unique habits when it comes to energy use. That can make it tough for households to manage their energy costs. We've created an easy-to-use online tool, called HEAT, to help our customers manage their energy and identify practical ways to save money on their energy bills.

"I'll come home on a sunny day and she'll have the dryer on for half an hour to do her bra and knickers."

Contact customer research

Household energy costs vary from month to month as energy use fluctuates. With SmoothPay, customers pay a fixed amount each month regardless of season. It's a hassle-free way of smoothing out the highs and lows of energy costs so there are no unexpected surprises with the bill.

"We all pretty much live our own lives here. We cook our own meals and keep our own TVs, laptops and heaters in our rooms."

Contact customer research

Flatties... can't live with them, can't live without them. To help make splitting the bill a little less hair-raising, we offer a range of services and payment options. That includes an online prompt payment discount of up to 22 per cent. Divided five ways of course.

“People just don’t expect power cuts these days – I remember we always had candles in the drawer.”

Contact customer research

In years gone by, tighter electricity supply and a reliance on rain-dependent hydro lakes meant power cuts were much more common. Over the past 5 years, Contact has invested over $2 billion to secure a more stable energy supply for Kiwis into the future, including a number of major renewable geothermal developments.

Who, Where, What.

1,160

We employ around 1,160 people from Auckland to Invercargill.

$1.24m

We invested $1.24 million into community initiatives during the year.

23%

We supply 23 per cent of the New Zealand electricity retail market.

1.3m

Our contact centres took 1.3 million calls and handled 190,000 emails during the year.

73,000

Contact is one of New Zealand's largest listed companies with around 73,000 shareholders.

199,000

We are New Zealand's largest online energy company with 199,000 customers signed up to receive Contact's online services.

$3.5b

Our net assets are worth $3.5 billion.

11

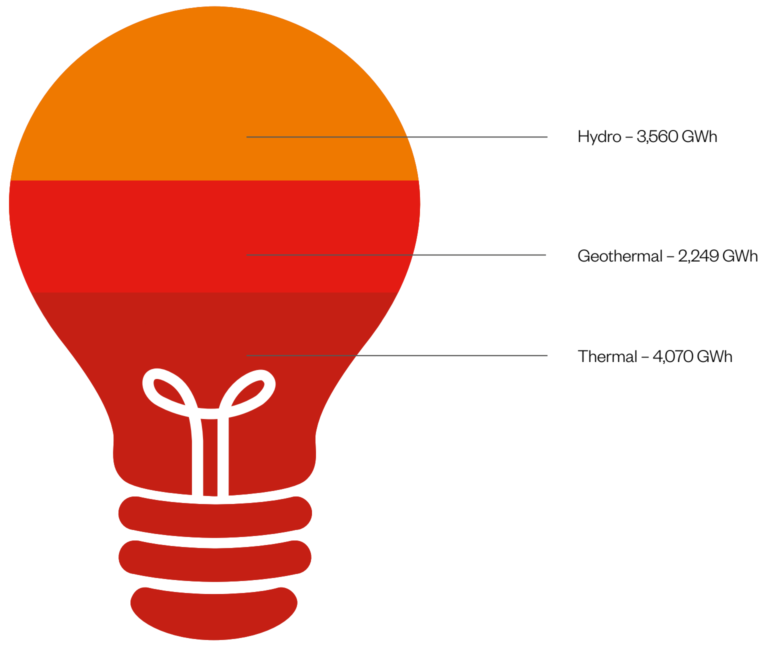
We own and operate 11 power stations across New Zealand and we generate around a quarter of New Zealand's electricity.

We are one of New Zealand's largest electricity generators and retailers.

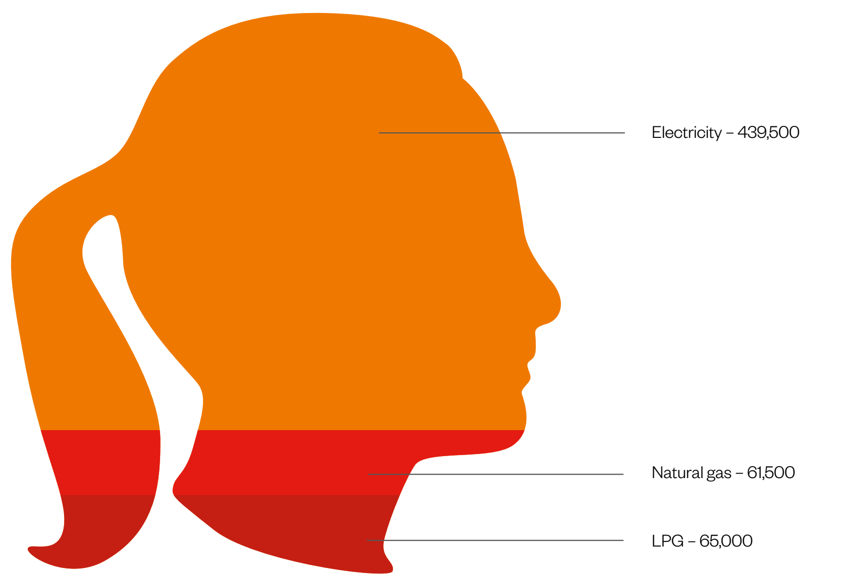
Our focus is on delivering great value, great products and great service to our customers. We supply electricity and natural gas through our Contact Energy brand and bottled LPG through Contact Rockgas LPG.

Our electricity generation business is focused on meeting New Zealand's energy needs in a safe, reliable and efficient manner. Over recent years we have been building a more flexible portfolio by introducing new power generation assets. This diversity has enabled us to respond more efficiently to changing electricity market conditions.

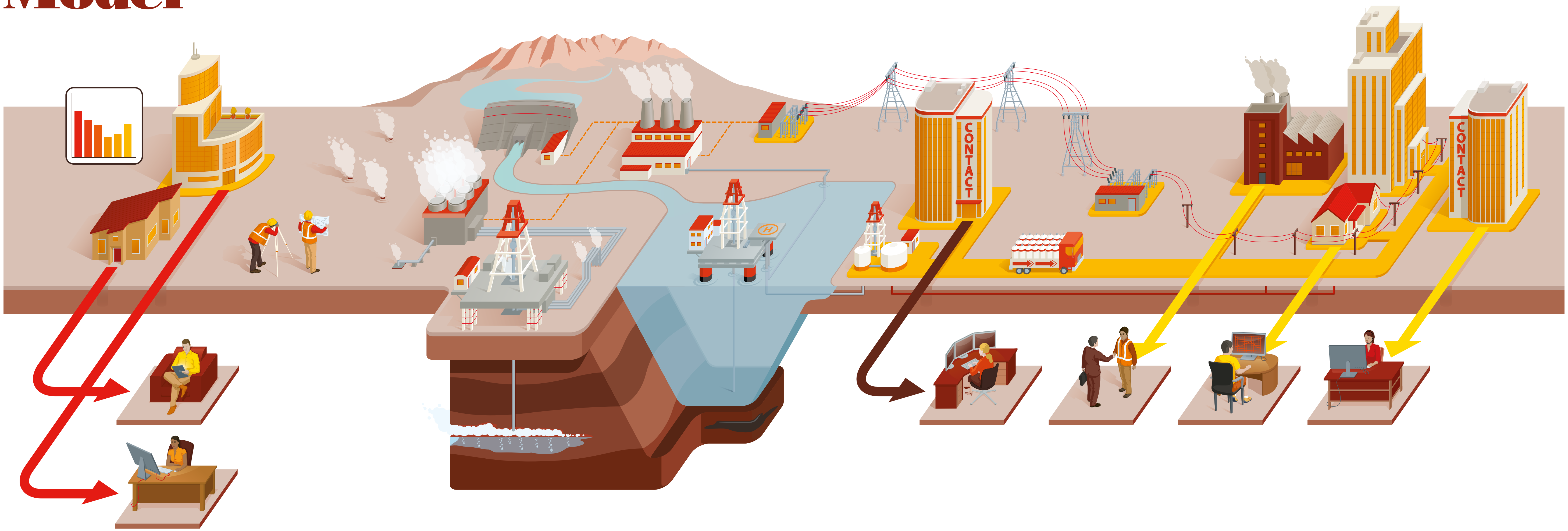
Generation by type for the year ended 30 June 2013
Total – 9,879 GWh



Customers by energy type at 30 June 2013
Total – 566,000



Our Business Model



Insight

First, we assess the future energy needs of customers, as well as the broader economic and local energy market conditions.

Source

We seek the most cost-effective and efficient generation development options to meet future customer needs or to replace existing, less efficient generation. Geothermal developments are our priority – market conditions dictate when we build new or adapt older generation.

Generate

We purchase and source fuel for electricity generation. We buy gas and diesel from producers; rain and snow-melt fills hydro storage lakes; drilling extracts geothermal fluid and steam. We also have the ability to store and use gas from our Ahuroa gas storage facility. We vary the output and combination of plants used to meet energy demand peaks and respond to seasonal/weather factors.

Wholesale

We sell the electricity generated on the wholesale electricity market and also purchase the electricity needed for sales to our customers. We buy and sell futures to manage risk and take market positions.

Distribute

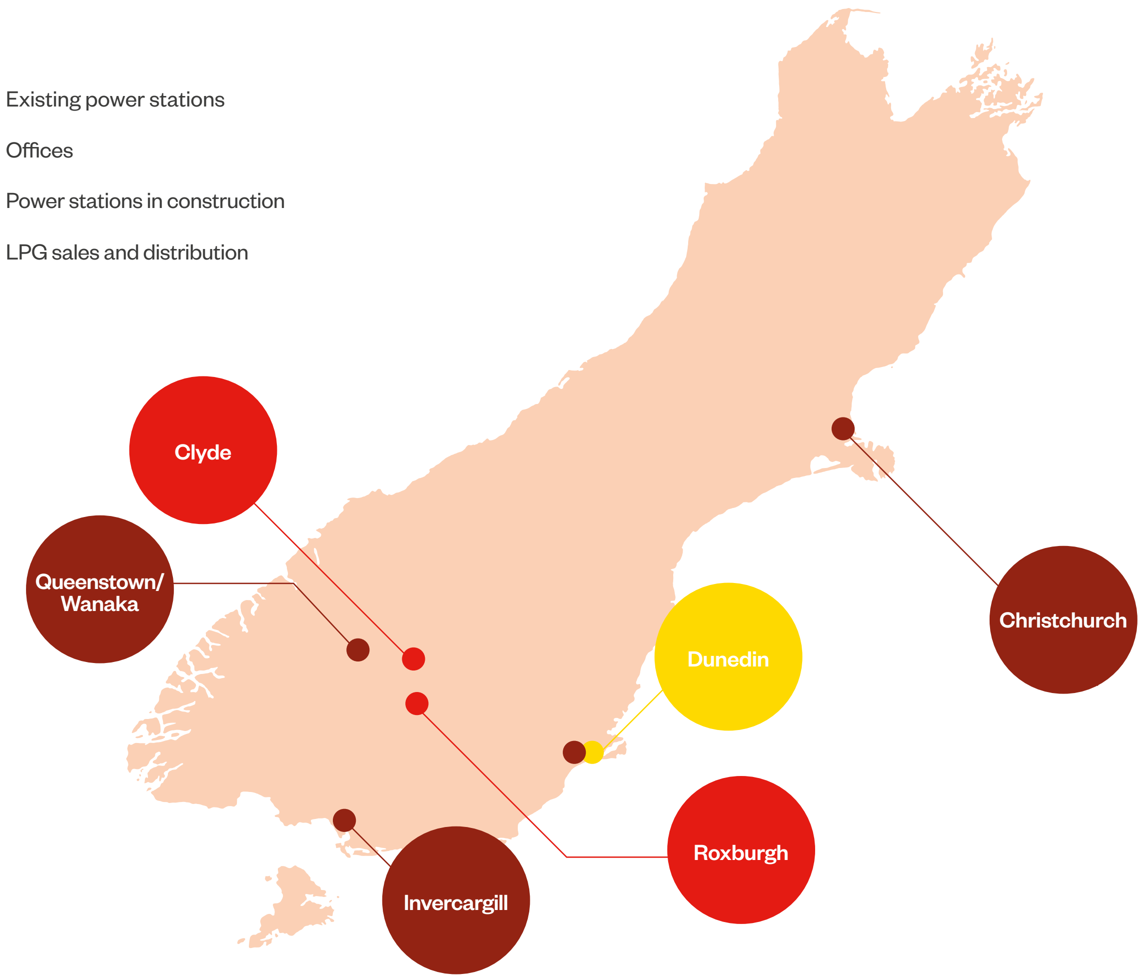
Electricity is transported from generators by Transpower and then by local lines distribution companies to customers. Gas is sourced by producers and transported by Vector, Maui and gas network companies. Contact delivers bottled LPG to customers via our fleet of delivery trucks. Within Christchurch we also supply LPG through the reticulated network.

Sell & Serve

As a retailer, we sell electricity, gas and LPG products and services to residential, small business, commercial and industrial customers to meet their energy needs. We keep in touch with customers, answer queries and provide information on usage through our contact centre team, business account managers, our website, email, social media and post.

Where We Operate

- Existing power stations
- Offices
- Power stations in construction
- LPG sales and distribution



Name	Output	Commissioned	Type	Location	Capacity (MW)	2013 Generation (GWh)[1]
Ahuroa	–	2011	Gas storage facility	Taranaki	10 petajoules (PJ) stored as at 30 June 2013	Ability to store and extract gas as conditions require
Clyde	Hydro	1992	Conventional	Otago	432	1,941
Ohaaki	Geothermal	1989	Flash steam	Waikato	40	330
Ōtāhuhu A	Thermal	1968	Gas, open-cycle turbine	Auckland		This station provides reactive power, supporting the stable operation of the electricity transmission system
Ōtāhuhu B	Thermal	1999	Combined-cycle turbine	Auckland	400	1,684
Poihipi	Geothermal	1996	Flash steam	Waikato	55	416

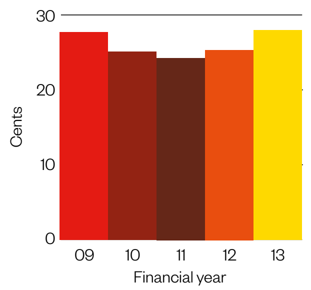
1. For year ended 30 June 2013.

We provide electricity, natural gas and LPG to residential, small business, commercial and industrial customers nationwide. Our head office is centrally located in Wellington, and we have a total of 22 operational sites across the country from Auckland to Invercargill.

Name	Output	Commissioned	Type	Location	Capacity (MW)	2013 Generation (GWh)[1]
Te Huka	Geothermal	2010	Binary cycle	Taupō	23	198
Te Mihi	Geothermal	Under construction	Flash steam	North of Taupō	166 (on completion)	–
Te Rapa	Thermal	1999	Open-cycle turbine cogeneration	Waikato	44	226
Roxburgh	Hydro	1956–1962	Conventional	Otago	320	1,619
Stratford	Thermal	1998	Combined-cycle turbine	Taranaki	377	1,709
Stratford	Thermal	2011	Peaker gas turbine	Taranaki	200	447
Wairākei	Geothermal	1958, 2005	Flash steam/Binary cycle	Waikato	172 (reducing to 114 MW on completion of Te Mihi)	1,305
Whirinaki	Thermal	2004	Diesel fuel, open-cycle turbine	Hawke's Bay	155	4

Key Performance Indicators

This year we have introduced 12 key performance indicators into our reporting. These enable interested stakeholders to more easily assess our performance against a range of measures that are integral to our business success. The measures highlight our 5-year performance across key areas such as finance, operations, customers, our people, safety and the environment. Our Board and Leadership Team use the same measures to assess our performance against strategic priorities.

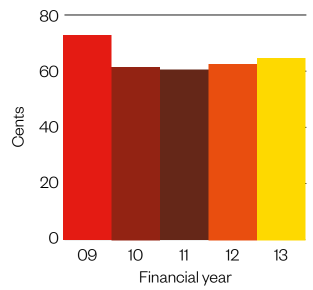


Underlying earnings per share

Measures performance of the underlying business and is calculated by dividing underlying earnings after tax by the weighted average number of shares on issue during the year. Underlying earnings after tax is calculated by adjusting reported profit for the year to remove any significant items that are not related to the ongoing performance of our business.

2013

Improvements over the past 3 years reflect the benefits of the investments made in improving the diversity and flexibility of our generation portfolio and the reduction in gas take-or-pay volumes.

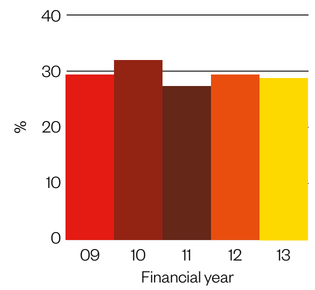


Operating cashflow per share

Measures cash available to fund distributions to shareholders and growth capital expenditure. Operating cash flow per share is calculated as operating cash flow divided by the weighted average number of shares on issue over the year.

2013

Operating cash flows improved by $29 million due to improved earnings from our core operations.

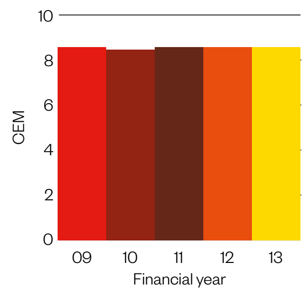


Gearing (net debt ratio)

Gearing is a measure of financial leverage, demonstrating the degree to which a firm's activities are funded by owner's funds versus creditor's funds. The gearing ratio is calculated as net debt divided by net debt plus shareholders' equity adjusted for the net effect of fair value of financial instruments after tax.

2013

Gearing ratio improvement in FY13 was driven by the issue of equity in lieu of dividends in September 2012 and a lower closing net debt position.

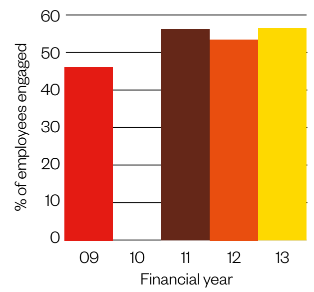


Customer experience

We regularly, independently survey a sample of customers who have contacted us to determine how satisfied they are with their experience. Customers are asked to score their experience from 1 (poor) to 10 (excellent) across a range of questions covering timeliness of response, quality of communication and issue resolution. The results feed into an overall annual Customer Experience Measure (CEM).

2013

Despite heightened competition in the market, our customers still rate their experience when dealing with us as excellent. Our CEM has remained consistent at 8.5 out of 10 for the third straight year. CEM relating to our email customer service channel was 8.1.

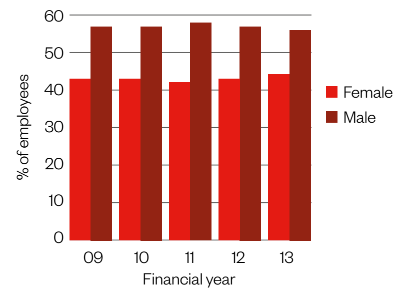


Employee engagement

We aspire to develop and challenge our people and be recognised as a great place to work. Each year we conduct an independent AON Hewitt survey to assess our progress on employee engagement and to identify areas for development. Note: No survey was conducted in 2010.

2013

Our overall engagement score increased to 56 per cent in 2013, up from 53 per cent in 2012. The result is pleasing given the extent of change across Contact over the last 12 months and we remain committed to further improving engagement in the year ahead.

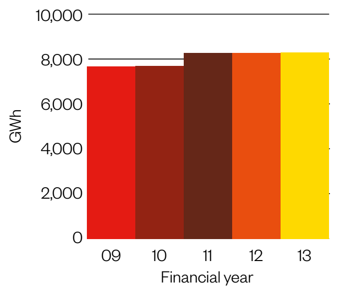


Gender diversity

We believe the inclusion of a diverse range of perspectives and ideas is a key ingredient for success for any business. While acknowledging that true diversity is achieved by a far broader set of measures than gender representation across an organisation alone, it is with this indicator that we begin our diversity KPI reporting.

2013

Continuing the trend from the previous year, male and female representation across Contact moved a further 2 per cent closer to parity. This has been driven for the last 3 years through resourcing and recruitment initiatives.

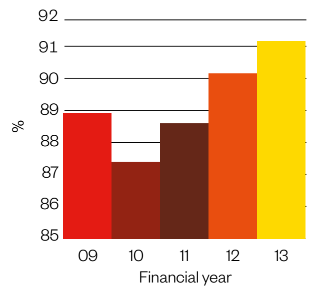


Energy sales volume

In an integrated business like Contact's, the energy volume sold to customers is a key component in ensuring stable earnings. Volume needs to be carefully managed against the risks associated with selling too much load and not being able to cover demand during high price periods.

2013

Energy sales volume was in line with the prior year at 8,277 GWh with a 3 per cent year-on-year decline in mass market to 4,067 GWh being offset by a 3 per cent increase in commercial and industrial sales to 4,210 GWh.

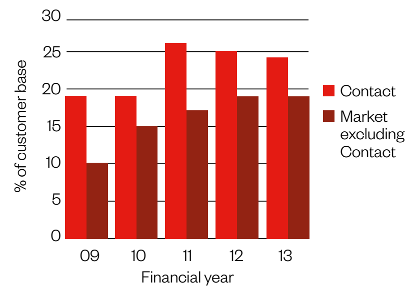


Plant availability

Measures the reliability of our generation plants. The availability factor calculates the total availability of the generation portfolio over a 39-month historical time period. The time period selected removes the effect of seasonality and known standard maintenance cycles to provide a comparable measure of performance across years.

2013

Plant availability has continued to trend upwards over the past 4 years as systems and processes have been enhanced to identify and plan preventative maintenance requirements. This focus has been further enhanced with the implementation of the SAP asset management module in FY12, which has provided greater insight and structure to our maintenance activities.

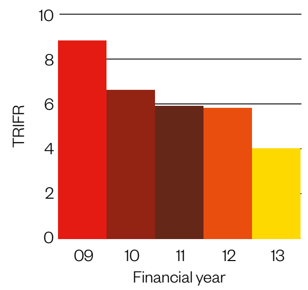


Loyalty & customer switching

Our performance relative to other retailers is shown by comparing the percentage of customers who switch away from Contact each year, compared with the industry (excluding Contact). Around 30,000 residential electricity customers change their supplier every month in New Zealand.

2013

Despite customer retention and acquisition activities reducing customer losses by 1 per cent from FY12, we continue to experience greater levels of switching than the industry average for residential and small to medium business customer segments.

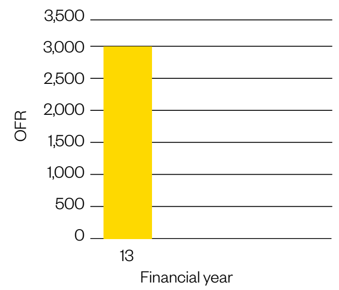


Total Recordable Injury Frequency Rate (TRIFR)

The safety of our people is our number one priority and our goal is Zero Harm. TRIFR is a key indicator of our employee and contractor safety performance and is calculated by taking the number of incidents resulting in lost time, restricted work or medical treatment, dividing this by exposure hours for the period, and then multiplying this by a million.

2013

A significant focus on the safety of our operations has seen consistent improvement in our safety performance over the past 5 years. We met our improvement target in FY13, achieving a 31 per cent decrease on the previous year.

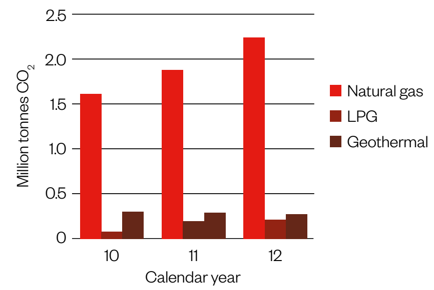


Observation Frequency Rate (OFR)

We strongly encourage our people to observe their working environment, say something when they identify safe or unsafe situations and behaviour, and record these Zero Harm conversations on observation cards. Trends of quality observations enable action to prevent future harm. OFR is calculated by dividing the number of observations by hours worked, and multiplying this by one million.

2013

Observation frequency rate was measured for the first time in FY13, with a target of 1,700 and a result of 2,970, driven by strong participation at operational sites. The target equates to two observations a year for corporate employees and one per month for operations employees.



Greenhouse gas obligations

The majority of our annual CO_2 emissions stem from our natural gas generation operations. However the mix of natural gas, geothermal and hydro generation we use each year is related to weather conditions. During wet years we rely more on our hydro generation, while during dry years our use of natural gas generation increases, along with overall emissions.

2012

Natural gas greenhouse gas emissions trended up during 2011 and 2012 as increased gas was purchased and storage injections were reduced. Emissions from geothermal generation have been trending down due to reduced steam extractions from Ohaaki.

Q & A

Q & A

Grant King

Chairman

Q. How has Contact performed this year for its shareholders?

Contact has continued to benefit from the investments made in improving the flexibility of our generation portfolio, resulting in profit for the financial year 2013 (FY13) of $199 million, a $9 million increase (5 per cent) on the financial year 2012 (FY12). Our earnings before net interest expense, tax, depreciation, amortisation, change in fair value of financial instruments and other significant items (EBITDAF) for FY13 were $541 million, $32 million higher (6 per cent) than the prior year. Underlying earnings after tax (profit for the year adjusted for significant items that do not reflect the ongoing performance of the Group) were $202 million, up $26 million (15 per cent).

Q & A

Dennis Barnes

Chief Executive Officer

Q. What were some of the highlights of the year for Contact?

Three stand out for me. First, we continued to improve our safety performance, with a 31 per cent reduction in our total recordable injury frequency rate compared with the prior year. Second, we saw the positive impacts of improving the flexibility of our generation portfolio and reduced operating expenses. Third, our major projects continued to move towards completion, with both the Te Mihi power station and our upgrade of our retail systems approaching the final stages of completion. Overall, our results in FY13 reflect the progress we are making in all aspects of the business – something that everyone at Contact should be proud of.

Q&A

Q. How would you describe the market conditions over FY13, and how did Contact respond?

Dennis: During FY13 we saw lower average wholesale spot prices compared with FY12. As is typical in the New Zealand electricity market, much of the market conditions were dictated by the weather and FY13 saw periods of both low and high rainfalls, including drought, which meant that thermal generation was required to meet demand and manage hydro lake storage levels.

Contact has the most diverse and flexible fuel portfolio in the New Zealand market. By that I mean we can generate electricity through hydro, geothermal, combined-cycle gas-fired power stations, and gas-fired peakers and also have the ability to store and use gas from our Ahuroa gas storage facility. This gives us the ability to respond quickly and decisively to changing market conditions. We wouldn't be in such a strong position if we hadn't embarked on our $2 billion investment programme 5 years ago.

Q. How has Contact's good performance been reflected in returns to shareholders?

Grant: I'm pleased to say that the Contact Energy Board of Directors declared a final, fully imputed cash distribution to shareholders of 14 cents per share (total cash distribution of 25 cents per share for the year). The distribution represents a pay-out of 91 per cent of underlying earnings after tax for the year and an increase of 2 cents per share from FY12.

Q. TV, radio and newspapers are filled with offers by electricity companies. Has Contact managed to compete?

Dennis: It's fair to say that the retail market continues to be highly competitive and our business worked hard to maintain market share in a market defined by naturally high levels of customer switching activity.

Our online prompt payment discount for customers who receive and pay their bills online continues to be popular, with 24,000 customers taking this up during FY13. With 199,000 customers signed up to online services through our website, Contact is New Zealand's largest online energy company.

The loss of demand we saw in our smaller residential and small business customers (mass market) was offset by sales to larger time-of-use commercial and industrial customers. Our commercial and industrial sales remained strong as a result of new customer contracts being signed in the second half of FY13. Overall, our sales volume in this important segment of the market rose to 4,210 GWh, a 3 per cent rise on FY12, off-setting the lower than previous year demand in our mass market segment.

"Our aspiration of Zero Harm is completely compatible with the Minister's proposed changes to the Health and Safety Act and Contact is very supportive of the 'Working Safer' blueprint's recommendations."

Performance for the year ended 30 June 2013

$199m
Profit for the year, up 5 per cent

$541m
EBITDAF[1], up 6 per cent

25 cps
Total shareholder distributions, up 9 per cent

Q. How does the programme of partial privatisation of the state-owned electricity companies impact Contact?

Grant: As we've said before: we welcome the partial privatisation of the state-owned electricity companies as we believe it improves the competitiveness of the New Zealand electricity market by having all companies compete on a level playing field. The listing of these companies also deepens the capital markets in New Zealand and improves transparency of performance in the energy sector.

Q. What does the recent announcement on the Tiwai aluminium smelter mean for Contact?

Grant: First, it is good for the people and businesses of Southland that there is some certainty on the future of the smelter. For Contact, the announcement provides us with greater clarity on the near-term situation in the electricity market. However, while substantial uncertainty remains around future demand, Contact will not be making any commitment to increase generation capacity.

Q. The Government recently announced a set of reforms as part of its 'Working Safer' blueprint. How does this fit with Contact's view of workplace health and safety in New Zealand?

Dennis: Our aspiration of Zero Harm is completely compatible with the Minister's proposed changes to the Health and Safety Act and Contact is very supportive of the 'Working Safer' blueprint's recommendations.

We believe New Zealand business has to make a step-change in how it manages work-related hazards and safety risks, and the blueprint's recommendations are a significant move in the right direction.

Q. Contact announced that it is reprioritising its wind projects, which includes exiting the Hauāuru mā raki (HMR) project. Does this signal a move away from renewable energy projects for Contact?

Grant: No, not at all. In fact it's the opposite. What it does signal is that Contact is committed to investing in the projects that present the best opportunities for Contact and its shareholders. In response to a lack of recent demand growth and an oversupply of generation, an extensive market review led us to exit our HMR project on the Waikato coast. We also decided not to proceed any further in the foreseeable future with our Waitahora development near Dannevirke. Our focus will remain on our Tauhara geothermal development, which we believe is New Zealand's next best lower cost electricity development option.

1. Earnings before net interest expense, tax, depreciation, amortisation, change in fair value of financial instruments and other significant items. EBITDAF and underlying earnings after tax are non-generally accepted accounting practice (non-GAAP) profit measures. Management and directors monitor EBITDAF as a key indicator of Contact's performance at segment and Group levels, and believe it assists investors in understanding the performance of the core operations of the business. A reconciliation of EBITDAF to profit after tax is provided in the Income Statement on page 70 of Contact's audited financial statements. Management and directors monitor underlying earnings after tax and believe it assists investors in understanding the ongoing performance of the business. Underlying earnings after tax is a non-GAAP profit measure that is not included in Contact's segment reporting disclosures in the financial statements because debt funding and tax expense are managed at a Group level. A reconciliation of underlying earnings to profit after tax is provided below the Income Statement on page 70 and an explanation of the reconciling items in Note 3 of Contact's audited financial statements.

Q&A

Q. How does the sale of Contact's gas meter assets and the sale of the site of the former New Plymouth power station relate to Contact's longer term strategy?

Dennis: During the year we completed approximately $115 million of transactions related to the sale of non-core assets. This included the sale of the gas meter assets to Vector for $60 million, and the sale of the site of the former New Plymouth power station to Methanex New Zealand and Port Taranaki in two separate transactions for a total price of $24 million. In addition to our multi-year programme to sell land assets, these divestments are not core to our operations or future developments. This activity is part of our strategy to drive further efficiencies in our business.

Q. In February 2013 it was reported Contact was restructuring the business with the loss of approximately 100 jobs – why was this necessary?

Dennis: It's well-known that the electricity market in New Zealand is both oversupplied in terms of generation capacity, and is stagnant in terms of demand growth. The Board and the Leadership Team took action to ensure that Contact's costs remain stable and that the organisation is the right shape and size to fit the market.

Restructuring is never easy, both for those that lose their jobs as well as those that remain to see colleagues leave and roles change. Throughout the process we provided support through access to resources for interview preparation, career guidance, job placement assistance as well as confidential counselling services.

We are pleased to see from results of our most recent people engagement survey that engagement has increased despite going through a restructure, which is a testament to the way the restructure was managed.

Q. Contact was active during the financial year in securing debt. What's the importance of this to Contact and its shareholders?

Grant: Contact has $705 million of debt maturing in 2014, which we use to partially fund our operations, and securing refinancing at competitive rates is a priority. During the year we raised $401 million of the $705 million through $100 million of domestic wholesale bonds in May 2013 and $301 million of US Private Placement notes in June 2013. The Board is confident that, due to our forward-planning, the current borrowings will be refinanced at or prior to maturity.

"We will remain vigilant on our costs, ensuring that operational efficiencies introduced in FY13 are retained in the years ahead."

Performance for the year ended 30 June 2013

31%	$401m	$115m
Reduction in the total recordable injury frequency rate	Of maturing debt refinanced	From the sale of non-core assets

Q. When are we likely to see the completion and commissioning of the Contact Te Mihi power station?

Dennis: Since our last report, we have made significant progress on the construction of the Te Mihi power station, with all power station related construction complete and commissioning well advanced. Like any major construction project, final commissioning depends on a number of factors, but we expect first power to the grid in the next few months.

While completion and commissioning of Te Mihi will be a significant milestone, it is one piece of our investment in extending the life of the Wairākei steamfield. In September 2012 we opened the Wairākei bioreactor which significantly reduces its operations impact on the Waikato River.

Q. What's on the horizon for the next financial year and beyond?

Grant: Priority will be given to completing our major capital investment programme, both with the commissioning of Contact's Te Mihi power station and the roll-out of the retail systems upgrade. At the end of this programme, we will be well positioned to remain competitive in the market next year and the years ahead.

Dennis: We will remain vigilant on our costs, ensuring that operational efficiencies introduced in FY13 are retained in the years ahead. The next financial year is an exciting one for Contact as we look to leverage the gains made in FY13.

We would like to thank the people of Contact who have worked hard to deliver this strong result and also thank our shareholders and our customers for their continuing support.

Grant King
Chairman

Dennis Barnes
Dennis Barnes
Chief Executive Officer

Aerial view of the Te Mihi power station.
Photographer: Jeremy Bright.

Our Board

Grant King

Chairman and Non-Executive Director

Term of Office
Appointed director 1 October 2004, last re-elected 2011 annual meeting.

Board committees
Chairman of the Nominations Committee and member of the Risk Committee.

Grant King was appointed to the Board when Origin Energy became Contact's majority shareholder in 2004. He is the managing director of Origin Energy, which he was appointed to at the time of its demerger from Boral Limited in February 2000, and was managing director of Boral Energy from 1994. Prior to joining Boral, he was general manager for AGL Gas Companies. Grant is a councillor of the Australian Petroleum Production and Exploration Association, a director of the Business Council of Australia, and chairman of the Business Council of Australia Infrastructure and Sustainability Growth Committee. Grant has a civil engineering degree from the University of New South Wales and a Master of Management from the University of Wollongong.

Phillip Pryke

Deputy Chairman and Independent Non-Executive Director

Term of Office
Appointed director 8 November 1995, last re-elected 2012 annual meeting.

Board committees
Chairman of the Remuneration Committee and member of the Health, Safety and Environment Committee, Nominations Committee, and Risk Committee.

Phil Pryke has been involved with Contact since its establishment in 1995 and was the chairman of the Board until October 2004. Phil has management and governance experience in a diverse range of industries including the energy sector, fishing, financial services, health, and technology industries. Phil is a director of Co-Investor Group, Tru-Test Corporation Limited, and Goodman (NZ) Limited. His previous roles include vice president, global sales and client solutions – Asia Pacific at Electronic Data Systems (EDS), chief executive of Nextgen Networks and chief executive officer of Lucent Technologies Australia Pty Limited. Phil holds an economics degree.

David Baldwin

Non-Executive Director

Term of Office
Appointed director 16 March 2009, last elected 2011 annual meeting.

Board committees
Chairman of the Health, Safety and Environment Committee, and member of the Risk Committee.

David Baldwin joined Origin in May 2006 and is responsible for Origin's interests in Australia Pacific LNG, including operatorship of the upstream and pipeline components of the joint venture. Prior to being appointed to his current role in April 2011, he was managing director of Contact Energy in New Zealand. Before joining Origin, David held senior roles with MidAmerican Energy Holdings Company in Asia and the United States, and with Shell in New Zealand and the Netherlands. David holds a Master of Business Administration from Victoria University and a Bachelor of Engineering (Chemical) from Canterbury University.

Bruce Beeren

Non-Executive Director

Term of Office
Appointed director 1 October 2004, last re-elected 2012 annual meeting.

Board committees
Member of the Board Audit Committee, Remuneration Committee and Risk Committee.

With over 35 years' experience in the energy industry, Bruce was chief executive officer of VENCorp, the Victorian gas system operator, and held several senior management positions at Origin Energy and AGL, including chief financial officer. He is a director of Origin Energy Limited (since March 2000), Equipsuper Pty Limited (since August 2002) and The Hunger Project Australia Pty Limited (since August 2008). He is a former director of ConnectEast Group (2009–2011), Coal & Allied Industries Limited (2004–2011), Envestra Limited (2000–2007) and Veda Advantage Limited (2004–2007). Bruce has degrees in science and commerce, and a Master of Business Administration. He is a fellow of CPA Australia and the Australian Institute of Company Directors.

Whaimutu Dewes

Independent Non-Executive Director

Term of Office
Appointed director 22 February 2010, last elected 2010 annual meeting.

Board committees
Member of the Board Audit Committee; the Health, Safety and Environment Committee; and the Risk Committee.

Whaimutu Dewes is of Ngāti Porou and Ngāti Rangitihi descent and lives in Rotorua. He is the chairman of Aotearoa Fisheries Limited and Housing New Zealand, and is a non-executive director on the Treasury Board. His former directorships include Television New Zealand Limited and the AMP New Zealand Advisory Board, and he was deputy chairman of Sealord Group between 1992 and 2008. Whaimutu has also held senior management roles at Fletcher Challenge and the Department of Māori Affairs. Whaimutu has a Master's degree in public administration and degrees in arts and law.

Karen Moses

Non-Executive Director

Term of Office
Appointed director 1 October 2004, last re-elected 2010 annual meeting.

Board committees
Chairman of the Risk Committee and member of the Remuneration Committee.

Karen Moses is the executive director, finance and strategy of Origin Energy Limited, and prior to this was Origin Energy's chief operating officer. Before joining Origin, Karen held development and trading roles with Exxon Group (1983–1994). Karen is a director of SAS Trustee Corporation (since March 2012), Sydney Dance Company (since May 2012) and Energia Andina S.A. (since April 2013). She is a former director of Australian Energy Market Operator Limited (July 2009–June 2012), Energy and Water Ombudsman (Victoria) Limited (October 2005–November 2010), Australian Energy Market Operator (Transitional) Limited (September 2008–July 2009) and VENCorp (2007–2009). Karen holds a Bachelor of Economics and a Diploma of Education from the University of Sydney.

Sue Sheldon CNZM

Independent Non-Executive Director

Term of Office
Appointed director 16 March 2009, last re-elected 2011 annual meeting.

Board committees
Chairman of the Board Audit Committee, member of the Nominations Committee and Risk Committee.

Sue Sheldon is a professional company director. She is the chairman of Chorus Limited, Freightways Limited, Paymark Limited and deputy chairman of the Reserve Bank of New Zealand. She is a former deputy chairman of Christchurch International Airport Limited, a former director of Smiths City Group Limited and former chairman of the board of trustees of the National Provident Fund. Prior to moving into a professional director role, Sue practised as a chartered accountant. She is a former president of the New Zealand Institute of Chartered Accountants and was made a Companion of the New Zealand Order of Merit in the Queen's Birthday Honours List in 2007 for services to business.

Our Leadership Team

1 Dennis Barnes

Chief Executive Officer

As a Leadership Team our focus this year has been on progressing major projects, targeting greater operational efficiency and restructuring the company. As part of the reshaping of Contact we made changes to some Leadership Team roles, to integrate customer insight, marketing and communications activity under one role, and company wide sales and customer experience activity under another. To further support our journey towards Zero Harm a new General Manager, Health Safety and Environment role has been created, effective 2 September 2013.

2 Graham Cockroft

Chief Financial Officer

This year we've continued our programme to improve our business efficiency and competitiveness through a wide range of initiatives including a new approach to procurement, the divestment of non-core assets and the simplification of processes. We've also raised over $400 million in the debt capital markets and established new bank credit lines to maintain our strong balance sheet. We improved our financial and performance reporting to help stakeholders better understand the key drivers of our business. In May Contact was named the 'Market leaders best corporate communicator' at the Institute of Finance Professionals New Zealand (INFINZ) annual awards.

3 Peter Kane

General Manager – Operations

Our drive to improve the supply of safe and reliable electricity and to optimise our generation portfolio ensures we can sustain value-adding power station operations in response to changing market conditions. We've also worked closely with the Finance team to put systems and arrangements in place that deliver greater efficiency and value in our procurement activities. Our Zero Harm goal continues to be our number one priority, and our improvement in health and safety performance proves the success of our focused work in this area.

4 Annika Streefland

General Manager – People and Culture

We are committed to getting great results for Contact through our people. To do this, we focus on the whole employee life cycle to recruit, develop and retain high performing people. Last year we initiated a company-wide project focused on productivity and competitiveness. A major piece of this work involved reshaping our organisational structure to simplify our operating model and better support our customers. Our new, flatter structure encourages more direct accountability and ownership, and positions Contact well for the future.

5 Mark Corbitt

General Manager – Information and Communication Technology

This year we've been working to simplify our technological environment and implement world-class infrastructure to ensure the ongoing reliability and security of Contact's services. Successful projects to reduce spend and improve performance have delivered great results, particularly in the telecommunications space. We've also continued to implement support structures ahead of the launch of Contact's new customer service system later this year. This work will enable our team to enhance the service we provide internally within Contact and allow us to better integrate all parts of our business.

6 Nicholas Robinson

General Manager – Customer Insight, Marketing and Communications

Our focus in the past year has been on more deeply integrating our communication and engagement activities by scrutinising and rationalising our activity. We have also consolidated the number of external partners we work with through a rigorous appraisal process. Alongside this activity, we reviewed our community investment and sponsorship portfolio in line with what the communities we operate in and our wider stakeholders expect of a company the size of Contact.

7 Ruth Bound

General Manager – Sales and Customer Experience

In what has continued to be a very competitive market, we're pleased that we have had another year of increased sales to business customers and continued to see consistently strong customer satisfaction levels. A major focus has been the development of, and now preparation for the implementation of, our new customer service system. This will be a major step forward for us in terms of supporting our customer services activities and enriching our relationships with our customers. Alongside our continued roll-out of smart meters to all residential and small business customers, it will enable us to offer enhanced and innovative customer services and products.

8 James Kilty

General Manager – Trading Development and Geothermal Resources

This year we have seen the portfolio benefit from reduced gas purchasing and thermal plant maintenance commitments that, in conjunction with our Ahuroa gas storage facility, have enabled Contact to operate its thermal plant more flexibly in response to market conditions. We have also divested legacy land holdings this year as we seek to reduce our cost base. These activities, together with the growth in our commercial and industrial customer book and the completion of construction on the Wairākei Investment Programme, position Contact well for the new financial year.

9 Paul Ridley-Smith

General Counsel

The Governance team provides legal advice to Contact business groups and manages regulatory affairs and government relations. We work to ensure that Contact's activities are ethical, fair and legal through strong governance, internal compliance, and training and engagement with various external parties and regulators. The redevelopment of our Wellington head office was a major project this year, which enabled us to bring our Wellington employees together in one location and to reduce lease costs.

10 Tania Palmer

General Manager – Health, Safety and Environment (HSE)

For us, Zero Harm is a culture where safety is part of our DNA, where we strive to eliminate the risk of harm to people, our plant, and New Zealand's unique natural environment. Our progress towards Zero Harm is maturing and our new HSE team is focused on consolidating and building on the strong employee engagement and excellent programme of work to date. We are committed to supporting the Government's new Working Safer initiatives, and bringing additional insight, visibility, and simplification to our HSE programme.

Stay safe mate

Health and safety is Contact's number one priority. As part of our commitment to Zero Harm, we have created the 'Stay Safe Mate' and 'Lifesavers' initiatives. All Black great Tana Umaga slipped on some hi-vis overalls, steel cap boots and a hard hat to take a safety message to Contact employees and contractors across New Zealand.

Check out Tana's 'Stay Safe Mate' and 'Lifesavers' videos at youtube.com/contactenergy.

1 Tana packs down a scrum with members of the Wellington office touch rugby team.

2 Neil (right), our Production Supervisor at Clyde power station, chats with Tana during his visit.

3 Tana prepares to film the opening scene of the 'Stay Safe Mate' video.

Tana Umaga's story

Contact health and safety spokesperson. Head Coach, Counties Manukau Steelers

When I was younger I had a bit of a gung-ho attitude to life, where you feel like you're invincible and nothing can stop you. I had an attitude of, 'ah, it'll never happen to me'. Now I always relate health and safety back to family, because that's probably the most important thing to me. It's about looking after yourself so you can be around your loved ones, and take care of those around you.

Being part of the Contact health and safety programme has reminded me that the actions you take do affect others. In my industry, injuries are always around the corner. For me, my body is a tool I need to go to work. Now rugby is just a game. For some it's just fun, and for us it was a job. But for people in an industry like Contact's, if they have an accident it can be major. They're dealing with their lives. If they don't have their wits about them or don't follow protocol, it can be very serious.

I've visited nearly all the sites. Going down to the Clyde dam was incredible – seeing the sheer size of it and the volume of water that comes through. They opened the gates for us. It's all nice and still, and then all of a sudden you see this mad rush of water come out. Visiting the sites really showed me that there are a lot of areas where things can go wrong if you're not careful. It put things in perspective about what I do and the situations these people manage every day when they go to work.

My role in the programme is to be a voice and an image used to promote health and safety to Contact employees and contractors. It's about helping them take a fresh approach to deliver the messages and supporting all the great work people across Contact are already doing on safety.

> **"I HAD AN ATTITUDE OF, 'AH, IT'LL NEVER HAPPEN TO ME'."**

I think Contact has done a really good job with the communications. I can see they've put a lot of resource into it; it's not just a token gesture. I'm the face on some billboards, and I'm in DVDs. You see my ugly mug when you arrive on site and then again when you're leaving. It's really eye catching and I think they've gotten some real engagement from the staff, which is what you need in the end. You can send all the messages you want, but if people aren't engaged, it's not going to catch on.

I've been really impressed with the whole programme. I think it's heightened my awareness of health and safety. In rugby, there are a lot of 'what ifs' that you can't control. But in training, I can control it more and try to make it as safe as possible. For instance, if we're doing team-on-team training and someone kicks the ball up in the air, straight away I'm worried that the two guys chasing the ball are going to collide. So I have a rule that if one team kicks it, the other team has to catch it. If I see an instance like that, where there could be an accident, then I try to avoid it. That way, hopefully, everyone gets through the week unscathed and gets home with no issues. For me, that should always be our goal: to make sure we get home to our loved ones in good nick.

I'm very happy to be part of Contact's programme. For me, seeing my face on a billboard is a bit uncomfortable but for such a good message, I'm proud. Hats off to Contact for what they've done and the way they've implemented it.

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Case Study Two

Farmers Trading Company

Farmers

Contact has had a relationship with The Farmers Trading Company for over a decade. In 2012, we proactively approached Farmers to discuss options to reduce the energy and network charges they incur. We recommended the purchase of power factor correction equipment to reduce their power factor penalty charges for a number of sites. We've also provided recommendations on how to reduce costs and improve the efficiency of in-store lighting, which they are implementing progressively.

Les Tom's story

Corporate Services Manager, Farmers Trading Company

As Corporate Services Manager, I've been involved with procuring the electricity for Farmers. At the moment, energy efficiency is one of my pet projects. I've taken it to heart really. I think that from a corporate perspective it's the right thing to do, to be more energy efficient.

We have 58 stores across New Zealand. Power provides the lighting that creates ambience in our stores while customers are shopping and viewing our merchandise. Power runs the air conditioning for the comfort of staff and customers. And obviously, in this day and age, you need power to drive registers, computers, video equipment and EFTPOS machines. Without power, we can't complete electronic sales. And if we can't sell, we close the doors.

Power makes up about 8 per cent of our expense cost. So it's quite significant and we need to manage it well. As it turns out, we had some sites with poor 'power factor'. Power factor is basically a measure of how efficiently you use electricity. If you're not efficient, the lines companies penalise you.

Recently, our lines company increased their reactive charges for having poor power factor.

My account manager at Contact was proactive in making me aware of these changes. She recommended we install power factor correction equipment to the affected sites, which we've done. It basically makes our power use more efficient, which allows the lines company to waive the penalty charges they'd normally apply. Any cost saving like this is important because it helps improve our bottom line.

The problem with our business is that we have limited opportunity to save power. It's not like we can have half the lights on. You know, 'there's only a few customers in the store, let's turn half the lights off'. That doesn't work with a retailer like us. It's the same with the air conditioning. You can't turn off the air con just because the customer count is down. We have to look after our team. So there's limited opportunity for improvement. That's why something like power factor correction equipment and the savings it provides is important for us.

We have a very trusting relationship with Contact. They've been very helpful whenever we've called upon them.

They were aware of the penalty changes and they took the initiative to look into how it impacted Farmers. They identified four of our sites as being worthwhile to install the correction equipment. They did all the groundwork, sourced it for us and worked out the payback period so we could weigh it up and decide if it was worth pursuing. Which it was. It's all to do with partnership, really. They raise issues with us if they believe something will have an impact on our business.

I like the fact that we've got an account manager who understands our needs and is easily contactable. She's been proactive in informing me about how the electricity market works and very helpful in providing me with information or data I've required to assess our various energy efficiency initiatives. In my view, Contact provides the expertise and knowledge base that we don't have in our own organisation.

I've made a conscious choice to use Contact at home as well. Delving into how the electricity supply works has really opened my eyes. I understand the market a bit better. That knowledge has certainly helped me deal with all those door knockers who want to convert me to all their different retailers. I can turn them away with confidence now.

Te Mihi

The Te Mihi power station is a key part of Contact's Wairākei Investment Programme. Due to deliver electricity to the grid in the next few months, the power station is part of a 5-year, $2 billion investment programme by Contact to increase the flexibility and reduce the cost of our electricity generation.

1 Panoramic view of cooling tower two at Te Mihi. *Photographer: Jeremy Bright.*

2 Aerial view of Te Mihi geothermal power station. *Photographer: Jeremy Bright.*

Wayman Connell's story

Director, Connell Construction Company Limited

Geothermal runs in my family. My father worked in the Wairākei geothermal field back in the '50s and '60s. When I was a baby in 1960, I lived in the Wairākei Village. Now I've got five daughters and four of them have worked on the Te Mihi geothermal project with me. One does a lot of the safety work, another does the financial stuff and a couple of them even drive machines for me.

I've been in the construction industry for over 30 years now. The big civil stuff, probably 15, 20 years. Te Mihi is my third geothermal project. My company, Connell Construction Company Limited, was contracted to do the civil works at Te Mihi. That's all the concrete, the major structural stuff that holds the whole plant together. I think we put something like 18,000 cubic metres of concrete in there, plus another 2,500 tonnes of reinforcing in that.

I enjoy the big jobs. I've built hundreds of houses and it's not really a challenge for me. Big jobs like Te Mihi are pushing the boundaries of engineering. On the turbine tables, we put in over a thousand tonnes of concrete in 24 hours, and it's 10 metres up in the air. It's nerve-wracking but that's part of the challenge. If you can't handle it, you don't do it. That's why you have a limited field of people who do these big jobs.

Safety is a big thing too. It's massive, our safety regime. Every one of my guys has just about every certification ticket that you can think of as far as safety goes. If you're not safe, you're never going to get the job; that's all there is to it.

I swear by geothermal power. I think it's a great thing. It's a natural resource and cleaner for the environment than a lot of other energy sources. It's good for the town, too. At the peak of the project, there were 500 people on the site, and once that's over there will be a continuation of full-time jobs. In my company, I employ about 20 guys full-time. They've been with me for years. On the Te Mihi project, I had probably 70 on the job. And probably 90 per cent of them were local people. I had a few specialised people that I brought in from out of town to help me through some difficult areas, but most of the people on the job were locals.

People in the wider community think Te Mihi is a great thing. They love it. The local Māori have got behind it as well. Contact has always been proactive in keeping up with the community. They sponsor a cycle race that goes around the lake every year. It's the biggest cycle race in New Zealand. And Contact is right behind it. They're always there to help with community projects.

Te Mihi is definitely a good thing. It's a twin turbine station. Each turbine is about 83 megawatts. Together they probably produce enough power to run Wellington city, although most of it will go to Auckland. I think all of New Zealand will benefit from it eventually. It's a project that's going to keep running for a long time. It's a constant energy source. If you want power, that's it – they turn the valve and away it goes.

" THEY'RE ALWAYS THERE TO HELP WITH COMMUNITY PROJECTS."

I'm really proud to have been involved with Te Mihi. For me personally, it's a project that I think we've done well. Hopefully we'll look back on it in 50 years' time and the next generation will say, 'Hey, those guys did a great job'. If Contact ever does another one, just tell them to give me a call.

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Case Study Four

The Apprentice

The Apprentice

Each year, Contact selects up to six apprentices. Their skills are developed and nurtured through on-the-job training supported by classroom study. The programme, run jointly with Mighty River Power, is helping to build a new generation of mechanical and electrical tradespeople, supporting local communities and giving promising New Zealand youth a hands-on head start in their careers.

1 Kurt using an engineering lathe at Wintec's Rotokauri campus in Hamilton.

2 The view from the top of Clyde dam.

3 Operations team members upstream at Roxburgh dam.

Kurt Marquet's story

Apprentice,
Contact Energy

I always wanted to do something where I was working with my hands. When I was at high school, I made a motorised mountain board. We had to learn how to weld and use the lathe. And we had to turn down the housing to hold the bearings and make the axles for it. That project probably set me on the track I'm on at the moment.

I'm a first year mechanical apprentice now. I found out about the Contact programme through my mum. She's a high school teacher and she brought home a brochure. They started off with about 150 applicants, which they took down to 75 from our CVs. Then we went for our first interview. I was pretty nervous but the people were really nice and explained everything in a friendly way. Thirty of us got a second interview, and a couple of weeks later I got a phone call saying that I got in.

Before I started they flew me 1,300 kilometres down to Clyde to have a look around the two dams down there, Clyde and Roxburgh. I got to have a look at the worksite and meet all the guys.

During my first site placement in Roxburgh, I got to be involved in a couple of the bi-annual services on some of the generators. Basically we have to take the machine fully out of service.

We lubricate all the pivot points as well as go down into the scroll case and check gate clearances to make sure there's not too much stuck in them.

At another point they gave me a trolley that was really unstable and said, 'Can you make it more stable, and a bit longer and wider?' So I changed the way the steering worked and put a sheet of metal on it to make the tray bigger. I had to draw it and plan it all out. I learned a lot from doing that. I felt like I had accomplished something. The trolley turned out well and the guys I work with are really pleased with it.

The guys on site are always helping me to learn new stuff. They're happy to pass on their knowledge. It's quite a small community down here, so everyone's quite tight. We go out on the weekends, mountain biking and that. We do a lot together as a staff team.

Working with Contact, I've gotten to learn a wide range of things. I've learnt about the electricity supply industry, how they make and deliver the power to your house. At the moment we're learning how to wire up switches, so one day, when I come to build my own house, I'll be able to wire it up myself. I've learned how to make some parts for my car. I've also had to learn to fend for myself, because I'm living away from home. I have to get up on time, pay my bills and all that sort of stuff.

I come from quite a small community, National Park by Mount Ruapehu. People in smaller communities often don't hear about these sorts of programmes because a lot of the industry 'taster' courses are in the big centres. But there are lots of kids who grow up on farms who are really talented when it comes to doing the sort of stuff that's involved in this apprenticeship. So it's really good that Contact is involved in smaller communities like mine.

This apprenticeship has opened up a lot of doors for me. It's allowed me to come and study in a city where I've never lived before. It's helped me travel around New Zealand, which I've always wanted to do. I've made some good friends, hopefully for life. I'm sort of getting paid to study. They give you all the opportunities and you've just got to grab them.

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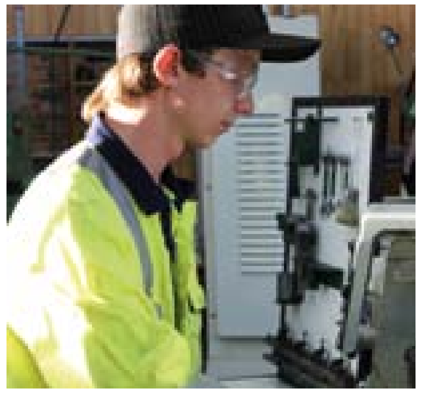

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Case Study Five

Wairākei bioreactor

Wairākei bioreactor

Contact Energy's Wairākei bioreactor is a unique, world-first treatment facility that uses naturally occurring bacteria growing in 378 kilometres of pipes to treat the cooling water from the Wairākei power station before it passes into the Waikato River. This innovative solution is a significant part of our efforts to improve our stewardship of natural resources in the Wairākei region.

1 The completed Wairākei bioreactor facility.

2 Project Engineer Milly (left) reviewing construction drawings at the bioreactor site with Construction Manager Jo, in the early stages of the full-scale bioreactor construction.

Mark Brockelsby's story

Programme Manager, Energy Resource Use Group, Waikato Regional Council

I'm a programme manager in the regulatory part of the Waikato Regional Council. For the better part of 30 years, I've worked in resource management related to the energy industry. Geothermal energy is a particular interest of mine. I see it as a valuable national resource and I think there's a lot more potential there to be obtained. Ninety-five per cent of all of New Zealand's geothermal resources are locked up within two regions – ours and the Bay of Plenty – so I feel a sense of responsibility being involved in the regulatory management of this resource.

At the Council, our goals include improving environmental performance of the industries that utilise natural resources, and improving compliance with their resource consents. We now have co-management responsibilities with all of the Waikato River iwi and we have a new vision and strategy for the river, enshrined in legislation. That vision has a direct impact on how we go about our business in relation to protecting and restoring the Waikato River.

The Wairākei bioreactor is a treatment plant that relies on biological processes to improve the quality of the river. It uses bacteria to remove over 80 per cent of the main contaminant of concern, hydrogen sulphide, which comes from the geothermal fluid itself. If hydrogen sulphide didn't get removed, it would end up in the river where it has an adverse effect, particularly on the fish. The treatment plant uses bacteria to oxidise the hydrogen sulphide, which turns it into a form of sulphur that's harmless.

What I find really staggering about the bioreactor is the amount of water that it treats – 13,000 litres per second. That's one heck of a lot of water. That equates to about 7 to 8 per cent of the flow of the Waikato River being treated more or less instantaneously. For me, the most impressive thing about this system is that it's been designed, tested and built to be able to treat water so effectively and at such a massive rate.

Contact shows a lot of commitment to environmental improvement. I've been dealing with them constantly on all sorts of regulatory matters and my overriding impression is that they want to do the right thing. They put a lot of resource into their environmental management and they comply to a very high level. They take the initiative and come to us before we have to remind them of things they need to do. It's not just a token effort at all.

I've also found Contact to be an extremely well organised company when it comes to internal procedures. They have a lot of very well documented internal processes, which to me is indicative of an organisation with a culture that knows what it's doing and is prepared for the unforeseen.

I believe the bioreactor is benefiting the community in a number of ways. Directly, it's improving fish habitats and the quality of the river. But there's also an indirect benefit: every time a project like this gets put in place, it makes our job easier because it sets a great example and it resets the bar a little bit higher for everyone else.

In general, there's a much more responsible corporate culture now compared with 20 years ago. And I think it's encapsulated by Contact's desire to 'be the neighbour you'd want'. I really like that as a piece of philosophy.

I feel really good about having been involved in the bioreactor project. When you see these sorts of projects come to fruition, it makes you realise that what you do does make a difference. And it relies on organisations like Contact being willing to front up and take responsibility. It's great that those sorts of companies are out there.

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Principles And Commitments

At Contact, we run our business in a way that balances our economic, environmental and social responsibilities. We are committed to ensuring that everything we do is performed with the highest level of integrity, in accordance with our principles of good conduct and the law. We act in the best interests of our business and our stakeholders, including our investors, customers, employees and the communities in which we operate.

Our principles and commitments help guide the choices we make every day:

Principles

- **Due care**
  We conduct ourselves and our business with due care and in accordance with relevant laws and regulations.
- **Add value to resources**
  We have an overriding duty to ensure the health and safety of our employees, and to minimise the health, safety and environmental impacts on our customers and the communities in which we operate.
- **Sustainability**
  We will add value to the resources that come under our control and the value we create will be distributed to stakeholders, recognising the need to ensure the sustainability of our business and its impact on the environment and the communities in which we operate.
- **Subject to scrutiny**
  When faced with choices, we make decisions knowing they will be subject to scrutiny. We should be able to demonstrate the soundness of our decisions to all stakeholders.
- **Encourage diversity**
  We encourage diversity and expression of ideas and opinions but require alignment with the company's commitments, principles and values, and the policies established to implement them.

Commitments

- To deliver market-leading performance for shareholders by identifying, developing and operating value-creating businesses across the energy supply chain.
- To deliver value to customers by developing and procuring competitive sources of energy and related products and services that better meet customers' energy needs.
- To create a rewarding workplace for employees by encouraging personal development, recognising good performance, valuing teamwork and fostering equality of opportunity.
- To respect the rights and interests of our communities in which we operate by working safely and being mindful of, and attentive to, the environmental and social impact of the resources, products and services we use or provide to others.

"WE CONDUCT OURSELVES AND OUR BUSINESS WITH DUE CARE AND IN ACCORDANCE WITH RELEVANT LAWS AND REGULATIONS."

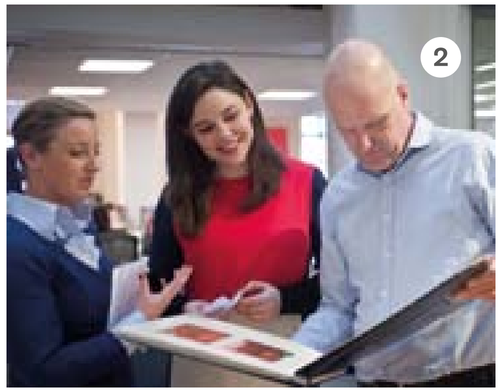
1 Contact's Ahuroa gas storage facility.

2 Lizzie, Rachel and Spencer look through the plans for the recently completed atrium at our office in Wellington. The atrium provides easy access between the floors and encourages employee collaboration. *Photographer: Stephen A'Court.*

3 View of the Ohaaki wetlands looking north. *Photographer: Lizzie Blount.*

4 Denise and Eddie in the Wairākei steamfield.

5 Our wholesale trading team busy at work.



Customers

Knowing what our customers value is important to us. We work hard to understand their energy needs and then strive to surprise and delight them with a great range of competitive products, services and benefits. We also offer a number of payment options and provide additional information about their energy usage via our website. This helps to build a relationship that works well for our customers and for us.

Residential customers

We've seen an increasing number of residential customers switching electricity retailers over the past few years. This has been prompted by the Electricity Authority's 'What's My Number?' campaign as well as strong competition among retailers seeking to attract new customers. Contact has experienced customer switching levels greater than the market in the past year as illustrated by the loyalty and customer switching graph on page 18. We're working hard to change this, and retaining and attracting new customers continues to be a focus for us. Our fixed price, fixed term energy offers for new residential electricity and gas customers introduced during the year have proven popular. These products provide customers with certainty on the price they'll pay for energy over a set period.

Business customers

We understand that running a business can be hectic, which is why we provide account management services to help our larger business customers more easily manage their energy usage. Our dedicated Energy Solutions team specialises in identifying energy efficiency and energy management issues and opportunities for large commercial and industrial businesses. We also have a fixed priced, fixed term offer for natural gas business customers.

Our energy management tool, Energy Challenger, offers a quick way for our business customers to assess their energy use. The tool produces a rating and, based on that score, identifies opportunities for the business to improve its energy use and reduce waste and associated costs.

We are New Zealand's largest online energy company

Contact is proud to be New Zealand's largest online energy company, with over 199,000 customers, or 42 per cent of our residential and business customers, now signed up to our online services.

Through online services, customers can access and manage their account, review energy usage, as well as utilise our Home Energy Assessment Tool (HEAT) to explore how their energy is being used and look for opportunities to save. Around 44 per cent of our residential customers also enjoy a special online prompt payment discount, which rewards them with a 22 per cent discount for choosing to receive their bills online and pay on time by direct debit or internet banking. It's an option that's easier on the environment, as we mail far fewer paper bills as a result.

Rolling out smart meters to our customers

Over 130,000 of our customers are currently enjoying the benefits of having a smart meter and we are on track to provide almost all of our residential and small-to-medium business customers with smart meter services by December 2015.

Our smart meters measure and transmit electricity consumption remotely back to Contact. For our customers, the benefits include:

- a bill based on an actual read every month, so they always know they are paying for what they have actually used (i.e. no more estimates)
- no more meter reader visits to their property
- more detailed information about their electricity use with their own online usage graph (this is really handy because the more customers know about their energy habits, the easier it is for them to manage their energy spend).

1 Sam takes a call at our contact centre in Levin.

2 Our Contact Rockgas LPG team look after 65,000 customers across the country.

Customer experience

Through leading market research company TNS Conversa, we regularly undertake surveys to find out how our customers feel about us. We also ask them how they perceive the value of products and services provided by Contact and other energy retailers.

Each month, we get in touch with around 150 Contact customers, who have interacted with our contact centre over the past month.

We ask them to tell us how they feel about the service they received. We use these insights to focus on improving aspects of our service that are important to customers. Once again, this year our results have been pleasing with an overall rating of 8.5 out of 10.

Twice a year, we also survey 750 to 900 energy customers throughout the country (both Contact and non-Contact customers) to get their perceptions on how they believe we measure up against our competitors in key areas such as prices, products and services, and overall reputation. Our overall rating for the year has remained steady at 6.8 out of 10, after a 10 per cent improvement the year before. We believe this is a good result in the current competitive environment.

Correcting an LPG billing error

In March 2013, we wrote to 2,966 reticulated LPG customers to apologise and advise them of a credit to their account after we discovered a processing error had resulted in us overcharging these customers during the period of January to December 2012. A total of $1.16 million was credited back to customers' accounts and we have made changes to our billing processes to prevent this issue from reoccurring.

Pricing and customer disconnections

Pricing and customer disconnections are two key issues that stakeholders have raised with us during the course of the year.

Our approach involves regularly reviewing our pricing across New Zealand to ensure that we strike a balance between providing a fair, reliable and competitive service, and remaining a profitable business.

We have a range of pricing plans and highly competitive offers along with a number of payment options to help our customers meet their energy needs.

We also take our obligation to assist customers in vulnerable circumstances seriously and act in accordance with industry guidelines when working with medically vulnerable and low income customers. We work with customers who are experiencing real hardship by exploring options such as setting up payment arrangements and seeking Work and Income New Zealand assistance, only stopping supply via disconnection as a last resort.

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Our People

Our people are crucial to the success of our business. We work hard to create a rewarding workplace by encouraging personal development, recognising good performance, valuing teamwork and fostering equal opportunity. We aim to create an inclusive workplace where diversity in all forms is valued and used to its full potential, for the success of our people and our company.

Developing our people

Contact is committed to ongoing personal and professional development. We are building an environment that encourages and supports innovation, learning and critical thinking. This is key to our employee life cycle: to recruit, develop and retain high performing people.

Our vision is for all of our people to be competent and skilled to undertake their roles safely, while meeting internal and external compliance and regulatory requirements. We endeavour to engage and retain our people by helping them to perform and develop in their current and future roles.

Learning opportunities available to our people include on-the-job development opportunities, a wide range of facilitated group courses, self-paced online learning as well as role-specific training identified as part of individual development plans.

Valuing diversity

We strive to create a diverse organisation, and believe diversity creates opportunities and challenges.

Workplaces that tap into the potential of New Zealand's diverse population are better placed to attract and retain talented people and customers, and find innovative solutions to issues – and this is something that we look to be a part of.

We measure our diversity progress annually – on gender, age and ethnicity – and report our progress to the Leadership Team and Board.

This is managed by our People and Culture team, who are also responsible for all policies and strategies that guide our employee relations and diversity practices at Contact.

Employee engagement

Understanding what motivates our people, what they like and value most about working at Contact, and areas where they feel we need to improve is very important to us. We measure employee engagement annually via an all employee survey conducted independently by AON Hewitt. Results are benchmarked against high performing organisations compiled by AON Hewitt into a Best Employer performance range. The results help us to focus on areas where further improvement is needed to ensure we continue to create a rewarding workplace that inspires our people to do great things.

Our changing organisational shape

During the second half of the financial year, we completed a reshape of our organisation to move to a simpler operating model and flatter organisational structure. The aim was to be more customer focused and cost effective. This has enabled us to align roles to strategic objectives and to group similar functions and activities together, removing duplicated effort. The size of our permanent workforce will be reduced by approximately 113 roles as part of the restructure, with most changes taking effect from 1 July 2013. Recognising that this was an unsettling time for many of our people, we worked through the process in an open and transparent manner, communicating regularly and ensuring in-house and independent support was available. It also created new opportunities for our people with the majority of appointments to new roles filled internally.

Employee turnover

In FY13, we had a total of 236 new hires, around 20 per cent of our total headcount. Of these new hires, 49 per cent were female and 51 per cent were male. Our voluntary turnover, reflecting resignations or unplanned departures, was 11.5 per cent for FY13. However, with organisational restructuring, our total turnover climbed to 21.9 per cent including all planned departures.

Apprentice programme

In 2011, we partnered with Mighty River Power to form the Electricity Supply Apprentice Programme to increase the number of qualified technicians and operators in the energy industry. The programme provides young apprentices with the opportunity to kick-start their career in an industry that is vital to our country. We currently have 17 apprentices across our generation sites, with our first intake of apprentices due to graduate from the 3-year programme in 2014.

Total employee numbers

As of 30 June 2013, we had a total of 1,164 employees. This included 995 permanent and 169 fixed term staff. Around 13 per cent of our employees were on collective employment agreements.

Our total headcount, split by gender, is 44 per cent female and 56 per cent male.

We have people from a wide range of ages working at Contact, as demonstrated in the table below.

	Total employees	
Age range (year)	No.	%
68 and over (Traditionalists)	4	0.3%
49 – 67 (Baby Boomers)	361	31.0%
33 – 48 (Generation X)	516	44.3%
32 and under (Generation Y)	233	20.0%
Undisclosed	50	4.3%

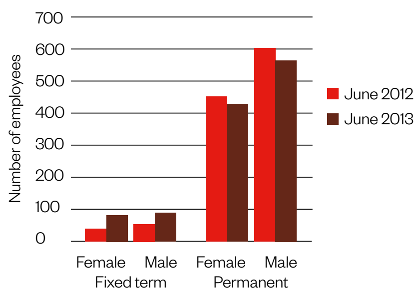
As at 30 June 2013, gender representation on our Board and Leadership Team was as follows:

	Male	Female	Total
Board of directors	5	2	7
Leadership team	7	2	9

1 Personal and professional development is important to us at Contact. We want to make sure our people have the skills to undertake their roles safely.

2 Members of the Wellington team singing the Contact waiata. *Photographer: Stephen A'Court.*

Gender split by status



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Safety

Safety is our number one priority. The well-being of our employees, contractors, customers and the communities in which we operate is front of mind for all business we conduct, and we are committed to working towards our Zero Harm vision. Our people face risk every day, particularly those on our operational sites. Our aim is to have every person return home safely at the end of each day.

Contact's Health, Safety and Environment (HSE) policy and HSE management system outline behavioural expectations and requirements to drive continual improvement. The policy, which was last reviewed in December 2012, applies to all employees and contractors of Contact and is available from our website.

The Board is responsible for establishing and reviewing our commitment to managing HSE in relation to this policy and its implementation. Our CEO Dennis Barnes is responsible for ensuring the commitments to the policy are being met. Our central corporate HSE team, with the support of HSE advisors located at each of our major sites across the country, lead the delivery of our HSE programme.

Taking HSE communication to the next level

In the past year, we have raised awareness of health and safety issues, motivated participation in targeted initiatives, and have seen a positive change in attitude towards health and safety. This was due to a number of new initiatives.

Our 'Stay Safe Mate' initiative was launched in August 2012 with national sports hero Tana Umaga as our spokesperson. Using informal but direct language, Tana helped us to share the message of personal responsibility around safety, which was received very positively by our people.

We continued this work in February 2013 by launching 'Lifesavers'. The 11 Life Saving Rules define our behavioural expectations relating to activities with the greatest potential to result in serious injury or death.

Critical themes in all of our health and safety messaging are personal involvement, individual judgement and empowerment. We have recognised that Zero Harm can only be achieved through personal accountability. With strong and targeted leadership, improved health and safety programmes, and innovative campaigns, we have effectively engaged our people in our Zero Harm vision.

Contact's health and safety programme was the winner of the Excellence in Health & Safety category at the 2013 Deloitte Energy Excellence Awards.

Injury rates and lost days

To measure our safety performance, we report on a company-wide basis and record both employee and contractor data. Gender and region information is not recorded. We use two key indicators to measure safety performance: the number of recordable injuries and lost time injuries per million hours worked. These are recorded from the employees' next scheduled day of work.

Reporting health and safety incidents is mandatory at Contact, with the investigation and tracking of incidents managed via an electronic reporting system.

The outcomes of investigations are shared with senior management and the Board.

Total recordable injury frequency rate (TRIFR)

TRIFR is calculated as the total number of recordable injuries for employees and contractors per million hours worked. A recordable injury is one that results in one day or more off work, restricted duties, or where treatment is provided by a medical professional, but does not include minor first aid incidents.

For the year ended 30 June 2013, we met our improvement target for total combined TRIFR of 4.0 – a 31 per cent reduction from the previous financial year. Our improvement target for the year ahead is 3.2.

Lost time injury frequency rate (LTIFR)

A lost time injury is a work-related injury or illness resulting in the employee or contractor being unable to attend work for one or more full calendar days following the incident. The LTIFR is calculated as the number of lost time injuries per million hours worked. In the year ended 30 June 2013, Contact's total combined LTIFR is 1.0.

Absentee rate

The absentee rate is a measure of actual days lost due to incapacity of any kind, including sick leave but not including holidays, study or maternity leave.

Contact's absentee rate for the year in review is 5.1 days per full-time employee, which is a 7 per cent reduction on last year.

Fatalities

Contact had no fatalities during the year ended 30 June 2013.

Occupational disease rate

Contact's occupational disease rate is calculated as the number of disease cases per million hours worked and was zero for the reporting period.

Health and safety committee representation

At Contact, 100 per cent of our work force is represented by health and safety committees. These committees are responsible for raising HSE issues with management, identifying opportunities for improved HSE performance and promoting HSE initiatives at their sites.

Formal agreements with trade unions

Contact has formal HSE agreements with two trade unions (contained in our four existing collective employment agreements), which stipulate that union members must adhere to Contact's HSE policy and procedures. These trade unions are:

- Engineering, Printing and Manufacturing Union
- Amalgamated Workers' Union New Zealand Southern.

One of the series of 'Stay Safe Mate' billboards and posters displayed at our sites around the country.

Lost time injuries (LTIs)

	LTIs		Hours worked in millions	
	Staff	Contractors	Staff	Contractors
2009	3	7	2.3	1.1
2010	0	2	2.3	1.1
2011	2	3	2.4	1.4
2012	2	2	2.6	1.6
2013	2	3	3.0	2.0

	LTIFR			TRIFR		
	Staff	Contractors	Total LTIFR	Staff	Contractors	Total TRIFR
2009	1.6	6.0	2.9	6.2	13.7	8.8
2010	0.0	1.8	0.6	3.4	13.2	6.6
2011	0.8	2.2	1.3	3.8	9.5	5.9
2012	0.8	1.2	0.9	3.0	10.1	5.8
2013	0.7	1.5	1.0	1.7	7.2	4.0

Environment

It's important to us that we look after the environments in which we operate. We aim to deliver energy to the New Zealand market in a sustainable way that will carry our organisation into tomorrow and beyond. We carefully monitor the impacts our operations have on the environment, and work to reduce and mitigate these.

In September 2012, we officially opened our Wairākei bioreactor, a world-first facility providing an innovative solution to improve the quality of cooling water discharges from the Wairākei geothermal power station to the Waikato River (see more about our bioreactor on page 38). Contact's Wairākei bioreactor was the winner of the Energy Project of the Year and Environmental Excellence categories at the 2013 Deloitte Energy Excellence Awards.

Restoration of natural habitat

The development of the Ohaaki wetland was a 2-year project undertaken by Contact, and designed and managed by Fish & Game NZ. It involved transforming previously unused land impacted by subsidence into a useful natural resource, which will help increase biodiversity in the Ohaaki region.

With the help of a number of our local employees, the wetland was fully planted with 26,000 plants native to the region. The 35 hectares of land beside the Waikato River was transformed into a unique marshland that provides suitable habitat for waterfowl and other bird life, including rare or endangered species.

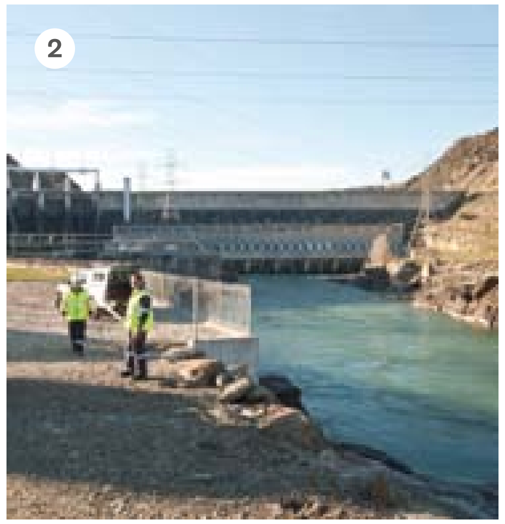
The project was completed in November 2012 with the support of the Department of Conservation and local iwi, Ngāti Tahu. Fish & Game NZ are responsible for the ongoing management of the resource.

Use of water relating to hydro operations

We recognise that water is a valuable resource. Hydro forms a significant part of our generation activity at Contact, and allows us to provide New Zealanders with clean and renewable energy. In the year ended 30 June 2013, hydro made up 36 per cent of our total generation – 3,561 gigawatt hours (GWh).

Contact has resource consent to use water from the following sources:

Water source	Location	Size	Water level fluctuation	Protected area	Biodiversity value
Lake Dunstan	Otago	26 km²	1 m	No	Low
Lake Roxburgh	Otago	6 km²	2.45 m	No	Low
Lake Hāwea	Otago	141 km²	8 m	No	Low



Air emissions

Contact's discharges to air are closely monitored at our thermal sites in accordance with their respective resource consent requirements. Concentrations of nitrogen oxide (NOx) and carbon monoxide (CO) are measured continuously at our Taranaki combined-cycle, Ōtāhuhu and Te Rapa plants. The Whirinaki and Stratford peaker plants have been designed to operate with fixed concentrations of products of combustion, therefore monitoring is not required. However, the Whirinaki plant was formally tested in 2004.

Greenhouse gas (GHG) obligations

In the year January 2012 to December 2012*, our annual emissions return submitted to the Environmental Protection Authority was 2,697,975.8 tonnes of carbon dioxide (CO_2). This was a 16 per cent increase on the previous year. We surrendered a total of 1,348,987 carbon units to meet our obligations under the Emissions Trading Scheme.

Key components of our 2012 emissions return:

- Natural gas sales and operation of gas-fired power stations: 2,230,052 tonnes CO_2
- Sales of LPG to our customer base: 155,400 tonnes CO_2
- Import of LPG product for sales: 48,474 tonnes CO_2
- Geothermal plant operation: 264,048 tonnes CO_2

*GHG emissions are recorded on the calendar year basis in line with Climate Change (Stationary Energy and Industrial Processes) Regulations 2009 annual reporting requirements.

	Parts per million (ppm)			
	NOx (average)	NOx (max. value)	CO (average)	CO (max. value)
Ōtāhuhu [1]	12	121	9.6	2026
Taranaki combined-cycle	10.92	80.1	55.32	407.8
Te Rapa	53.2	93.9	3.8	4.3
Whirinaki [2]	33.6	34.3	11.1	12.7

1. Resource consent limit for CO is 1300ppm. There were nine breaches reported in this financial year.
2. Test results from 2004.

1 Contact employees and volunteers plant some of the 26,000 plants as part of the Ohaaki wetland restoration project.

2 The Roxburgh dam is due to celebrate its 60th birthday in 2016.

3 Wairākei Operations team members undertaking inspections in the Western Borefield area.

Technology

Technology plays a key role in our business. It ensures we manage our operational sites efficiently, gives us customer information at our fingertips to provide great service and enables us to link our people together across the country.

Early in 2013, we began to simplify our technology environment by increasing the use of core assets whilst rationalising non-core and legacy assets. This includes widening the use of our integrated SAP and other off-the-shelf software platforms. The project, which is expected to take 3 years to complete, aims to reduce technology costs by approximately $5.5 million per annum.

Once our new customer service system is completed late in 2013, our core SAP asset will completely replace 35 legacy applications. Its introduction within our Retail business will complement earlier SAP implementation projects within our Finance and Operations areas.

In 2013, we will also complete a substantial upgrade of our infrastructure. This upgrade will enable us to take advantage of modern technology options and assist with the simplification of our technology environment. The focus on core assets will also bring improved technology and data integration across our business and enable us to address current and future business needs.

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1 Amanda works remotely from the Contact library.

2 As part of our infrastructure upgrade, we'll be looking into modern technology options to assist with the simplification of our technology environment.

Key Stakeholders

We believe it's vital that we understand the issues that are important to our key stakeholders. We take a consultative and open approach to working with stakeholders and aim to be a leader in our industry.

To achieve this, we remain engaged with our key stakeholder groups, which include our investors, customers, employees, the communities in which we operate (or where we plan to operate), government, iwi, media, and the wider industry.

While engagement with our stakeholder groups is sometimes driven by regulatory or legislative change, or change to our business strategy, we aim to meet with our local and business stakeholders several times a year to discuss issues that are important to them. These issues have been used as part of the process that has helped shape the content of this year's report. We also maintain regular contact with the wider New Zealand Government and regulatory groups, particularly the Electricity Authority, Gas Industry Company, Commerce Commission and Transpower. As an organisation, we actively participate in submission processes, conferences and industry forums. At times, we work to drive legislative or regulatory change that will allow our business to operate more efficiently or enable us to achieve better outcomes for our customers and shareholders.

Policy

During this reporting period, we have monitored and engaged with policy activity in the following areas:

- Transmission pricing
- Fresh water reform and regulation
- Securities law
- Energy strategy
- Consumer law reform

Memberships

At a corporate or individual level, we are members of the following organisations:

- Business New Zealand
- BusinessNZ Energy Council
- Petroleum Exploration and Production Association of New Zealand (PEPANZ)
- Gas Industry Company (GIC)
- The Electricity and Gas Complaints Commissioner Scheme
- The Hugo Group
- The New Zealand Institute for the Study of Competition and Regulation (ISCR)
- The Sustainability Business Council
- The Electricity Authority's Wholesale Advisory Group and Security and Reliability Council

We are also voluntary members of the Sustainable Business Network, and Land and Water Forum. In 2010, we signed the Department of Labour's Zero Harm pledge.

Community

We live, work and operate in communities throughout New Zealand. Our philosophy is to 'be the neighbour you'd want to have'. That means we engage with and respect the rights of others, and ensure the safe and best practice operation of our sites.

We voluntarily put the 'be the neighbour you'd want to have' philosophy into place in 2007 and it has helped guide us in all our community engagement, both positive and negative, from individual neighbour relations to the wider community. With it, we aim to operate as a valued and welcomed community member, according to our principles of 'due care' and 'sustainability'.

Our priority areas for local community engagement are locations where we have either a significant operational footprint, new generation facilities under development (such as our Te Mihi power station in Wairākei), or a significant number of employees.

We currently have engagement plans in place for seven of a total of 22 operations, equating to 32 per cent of our sites. Community engagement plans were completed this year for our generation operations in Ohaaki, Ōtāhuhu and our contact centre in Levin. These plans were based on face-to-face consultation with a wide range of groups, including community and interest groups, local iwi and councils, as well as our local site management and employees. The aim was to identify key community issues and develop plans to help alleviate or remove these issues where possible.

Recommendations from these processes are now being implemented and, while our focus remains on our generation sites, our goal for the financial year ahead is to complete and implement engagement plans for our Dunedin call centre and Wellington head office.

Supporting community initiatives

Our engagement plans, investments and employee volunteering programmes are developed and managed by our Community Relations team. The team has dedicated resource in both Wellington and in Wairākei, where Contact has significant ongoing generation and development activities. Over the 2013 financial year, we invested over $1.24 million, supporting community initiatives ranging from learn to swim programmes to community festivals and national sporting events.

At site level, each of our operational, contact centres and LPG distribution sites operates a local community sponsorship fund, administered by a committee of local staff and aimed at providing site-specific support to the local community. In addition to our funding support, our engagement plans also enable our employees to take an active part in their local community. From February 2013, our people helped deliver 59 community-based projects across New Zealand, investing over 1,650 hours through our employee volunteering programme, Community Contact.

Monitoring and evaluating our approach

Our community engagement plans are based on an internally developed approach. However, in order to benchmark their effectiveness, in the second half of FY13 we participated in the Sustainable Business Network pilot of the United Kingdom-based Business in the Community (BITC) Footprint programme. The programme is used by a number of large United Kingdom- and European-based companies, and provides a good mix of quantitative and qualitative approaches to community engagement. At the time of writing, the pilot is close to completion and we expect to have a final report in early FY14, which will help us to further evaluate and improve our approach.

Local stakeholder and employee feedback are two other key sources of information we take into account. Feedback and proactive engagement, with neighbours who border our Te Mihi development site for example, has seen a new approach of providing advanced written notice of any upcoming site activity expected to create significant levels of noise. This has led to opportunities for site visits to enable these stakeholders to meet our local team involved in this work and to learn more about the project.

During the year, as part of our new Social Investment strategy, we also reviewed our key sponsor partnerships to assess their fit with our philosophy and future strategic direction.

This review saw us conclude our successful 7-year relationship with Triathlon New Zealand. In the coming year, following the completion of this strategy work, we will be making further announcements about our new approach to community engagement and investment.

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1 David takes on the challenge of the Contact Epic – a 125km circumnavigation of Lake Hāwea. *Photographer: Garrick Cameron.*

2 It's an early start at the Contact Epic, but views like this make it worth it. *Photographer: Garrick Cameron.*

3 Members of our Wellington team baking for families staying at Ronald McDonald House as part of the Community Contact volunteer programme.

4 The Alexandra Blossom Festival is a highlight on the Otago calendar, and Contact looks forward to celebrating with the community each spring. *Photographer: Jayne Fletcher.*

Hāwea Whitewater Park

We're delighted with the creation of Hāwea Whitewater Park, a world-class facility that was jointly developed by Contact, Central Otago Whitewater (COW) and Whitewater NZ. It was part of an agreement with kayak users on the Hāwea River relating to the renewal of our resource consents. COW chairman Gordon Rayner said that it was a great example of a big business working successfully with a recreational group affected by that business's commercial activity.

"Contact's involvement in developing the concept of the park over a number of years and its construction last summer is testament to their efforts to be a good corporate citizen in our local Central Otago community. Contact's support of local kayakers is a responsible approach which recognises the ongoing shared use of the Clutha River and associated waterways," said Mr Rayner.

The park opened in March 2013 and incorporates a range of in-river hydraulic features for use by kayakers, including features designed to create surfing waves, eddies and eddy lines. Designed by one of the world's premier whitewater park designers and three-time Olympian Scott Shipley, and constructed by Fulton Hogan, the park has been a popular spot for local and international kayakers alike and also hosted the National Kayak Freestyle Championships earlier this year.

"The park is a fantastic resource, and a real draw card for kayakers from throughout New Zealand and overseas – there's nothing else like it in New Zealand," summarised Mr Rayner.

"THE PARK OPENED IN MARCH 2013 AND INCORPORATES A RANGE OF IN-RIVER HYDRAULIC FEATURES FOR USE BY KAYAKERS."

1 The Whitewater Park was constructed in 2012 and is a purpose-built community facility for all to enjoy.
Photographer: Tim Pierce.

2 The Park includes two river-waves which can be used by kayakers, bodyboarders, surfers, and rafters to surf, play and train on.
Photographer: Tim Pierce.

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Governance, Remuneration Report & Statutory Disclosures

Governance

Responsible corporate conduct is integral to the way we do business. Our actions are governed by our principles and commitments, which are reinforced at all levels within the company. At Contact, we are committed to doing things the right way, which means making business decisions and acting in a way that is ethical and is in compliance with the applicable legislation.

The Board of Directors (the Board) is responsible for and committed to maintaining the highest standards of corporate governance, ensuring transparency and accountability to investors and stakeholders.

Compliance

Contact seeks to follow best practice recommendations for listed companies to the extent that is appropriate for the size and nature of Contact's operations.

Contact believes that it complies in all material respects with the NZX Corporate Governance Best Practice Code (NZX Code).

The comprehensive Financial Markets Authority Corporate Governance in New Zealand Principles and Guidelines sets out nine fundamental principles of good governance. The structure of this section in the annual report reflects Contact's compliance with those fundamental principles.

Contact's constitution, and the Board and committee charters, codes and policies referred to in this section, are available to view at www.contactenergy.co.nz.

Principle 1 – ethical standards

Directors observe and foster high ethical standards.

Contact expects its directors, officers, employees and contractors to act legally, ethically and with integrity in a manner consistent with Contact's principles, commitments and policies.

Code of Conduct

The Code of Conduct sets out the ethical and behavioural standards expected of Contact's directors, officers, employees and contractors. Contact has established internal procedures to monitor compliance with the Code of Conduct. The reporting serious concerns directive supports the reporting and investigation of breaches of the Code of Conduct and serious wrongdoing in or by Contact.

Securities trading policy

Directors and employees who are likely to have knowledge of, or access to, inside information can only buy or sell Contact securities during permitted periods and with the written consent of the General Counsel. They must not use their position of confidential knowledge of the company or its business to engage in securities trading for personal benefit or to provide benefit to any third party. Short-term trading in Contact securities while in possession of unpublished, price-sensitive information is strictly prohibited. Compliance with this policy is monitored with regular checks across our share register.

Principle 2 – Board composition and performance

There is a balance of independence, skills, knowledge, experience and perspective among directors that allows the Board to work effectively.

Board size and composition

The Board encourages strong individual thinking and rigorous discussion and analysis when making decisions. The current Board comprises directors with a mix of qualifications and skills, and who hold substantial and diverse business, governance and energy-industry experience appropriate to Contact's existing operations and strategic direction.

Contact's Board comprises a balance of independent directors and Origin Energy-associated directors. The Board consists of seven directors, three of whom are independent directors, with at least two being resident in New Zealand.

The chairman of Contact's Board, Grant King, is not an independent director and does not hold a casting vote. The Board regularly assesses its performance to ensure that constructive working relationships are maintained. Qualifications and experience of individual directors are detailed on pages 26 and 27.

Director independence

The NZSX Listing Rules and the company'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 a 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 being 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).

At 30 June 2013, Phillip Pryke, Whaimutu Dewes and Sue Sheldon each held (and still hold) no disqualifying relationship in relation to Contact and are therefore each independent directors. Grant King, David Baldwin, Bruce Beeren and Karen Moses are not considered to be independent directors by virtue of being directors/employees of, and hence associated persons of, substantial security holder Origin Energy.

Board role and responsibility

The Board charter regulates Board procedures and describes its role and responsibilities. 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 its shareholders.

The Board meets regularly on a format schedule basis and otherwise as required. The chairman and the Chief Executive Officer (CEO) establish the agenda for each Board meeting. Each month, as a standing item, the CEO prepares a report to the Board that includes disclosure of performance against key health and safety benchmarks and a summary of the company's operations, together with a detailed financial report. In addition, the Board receives regular briefings on key strategic and operational issues from management, either as part of the regularly scheduled Board meetings or in separate dedicated sessions.

Delegation

The Board has delegated certain aspects of its powers to committees of the Board, and the day-to-day management of the company to the CEO. The CEO in turn delegates authority to his direct reports and senior management. These authorisation levels are subject to internal and external audit review.

Avoiding conflicts of interest

The Board is conscious of its obligations to ensure that directors avoid conflicts of interest between their duty to Contact and their own interests. Contact maintains an interest register in which relevant transactions and matters involving the directors are recorded. See the 'Statutory disclosures' section (page 65) of this annual report for details of directors' interest.

Induction and Board access to information and advice

New directors appointed to the Board receive induction training. This training primarily involves written and oral presentations by the CEO and Leadership Team on the key strategic and operational business issues facing Contact.

Directors have unrestricted access to company information and briefings from senior management. Site visits provide directors with a better understanding of the company and industry issues.

Directors and Board committees have the right, in connection with their duties and responsibilities, to seek independent professional advice at the company's expense, with the approval of the chairman.

Nomination and appointment of directors

Procedures for the appointment and removal of directors are governed by the company's constitution. The Nomination Committee identifies and nominates candidates to fill director vacancies for the approval of the Board.

Recently appointed directors must stand for election at the next annual meeting. All directors are subject to re-election by rotation at least once every three years. Directors who retire each year are those who have been longest in office since their last election or, where there are more than one of equal term, by agreement.

GOVERNANCE

Evaluation of Board performance

Contact's Board follows a practice of reviewing the performance of the Board every 2 years, and of reviewing the performance of those directors standing for re-election at the next annual meeting every year. In accordance with this practice:

- in July 2013 Contact undertook a formal assessment of the Board and the Board Audit Committee, and
- the Board reviewed the performance of Whaimutu Dewes and Karen Moses, being those directors required to retire and stand for re-election at the 2013 annual meeting.

The Board recommends that shareholders vote in favour of the re-election of Whaimutu Dewes and Karen Moses.

Principle 3 – Board committees

The Board uses committees where this enhances effectiveness in key areas while retaining Board responsibility.

Committees established by the Board review and analyse policies and strategies, usually developed by management. They examine proposals and make recommendations to the full Board. They do not take action or make decisions unless specifically mandated by their charter or by prior Board authority to do so.

The Board appoints the chairman of each committee. Members are chosen for skills, experience and other qualities they bring to the relevant committees. Each committee operates under a charter agreed by the Board.

Standing Board committees are:

- Board Audit Committee
- Health, Safety and Environment Committee
- Nominations Committee
- Remuneration Committee
- Risk Committee

In addition, the Board establishes special committees to deal on its behalf with specific issues from time to time. An Independent Directors Committee (IDC) meets to evaluate and approve various related party transactions with Origin Energy. At 30 June 2013, the members of the IDC were:

- Phillip Pryke (chairman)
- Sue Sheldon
- Whaimutu Dewes

Board Audit Committee

Membership is restricted to non-executive directors, with at least three members, and the majority must be independent. The chairman must also be independent and must not be the chairman of the Board. All must have appropriate financial experience and at least one member must have an accounting or financial background. At 30 June 2013, the members of the Board Audit Committee were:

- Sue Sheldon (chairman)
- Bruce Beeren
- Whaimutu Dewes

Sue Sheldon is a Fellow Chartered Accountant and a former President of the New Zealand Institute of Chartered Accountants. Bruce Beeren is a Fellow of CPA Australia and the Australian Institute of Company Directors. Sue Sheldon and Whaimutu Dewes are both independent directors.

The Board Audit Committee meets a minimum of four times each year. The Board Audit Committee's role is to assist the Board to fulfil its responsibilities in relation to the oversight of the:

- quality and integrity of external financial reporting
- independence and performance of the external auditor
- adequacy of the internal control system for financial reporting integrity.

The CEO and the Chief Financial Officer (CFO) attend each Board Audit Committee meeting at the invitation of the Committee. At each meeting, and at any other time the Board Audit Committee requires, it holds private sessions with the Head of Risk and Assurance, Contact's external auditors, the CEO and the CFO.

Health, Safety and Environment Committee

Membership shall comprise at least three members, and the majority must be independent. At 30 June 2013, the members of the Health, Safety and Environment Committee were:

- David Baldwin (chairman)
- Phillip Pryke
- Whaimutu Dewes

The Health, Safety and Environment Committee meets a minimum of three times each year. The Health, Safety and Environment Committee's role is to assist the Board to fulfil its responsibilities in relation to health, safety and environmental 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 Contact operates. The Health, Safety and Environment Committee monitors Contact's compliance with the health, safety and environment policy, reviewing and recommending to the Board targets for health, safety and environment performance, assessing performance against those targets, and reviewing health, safety and environment-related incidents and considering appropriate actions to minimise the risk of recurrence.

Nominations Committee

Membership shall comprise a minimum of three members, and the majority must be independent. The Nominations Committee is chaired by the chairman of the Board. At 30 June 2013, the members of the Nominations Committee were:

- Grant King (chairman)
- Phillip Pryke
- Sue Sheldon

The Nominations Committee meets as required but must meet at least once a year. The Nominations Committee's role is to ensure that the Board comprises individuals who are best able to discharge the responsibilities of directors. The committee also attends to other matters put to it, including directors' performance assessment and appointments, with recommendations to the Board.

Remuneration Committee

Membership is restricted to non-executive directors, with no fewer than three members. At 30 June 2013, the members of the Remuneration Committee were:

- Phillip Pryke (chairman)
- Bruce Beeren
- Karen Moses

The Remuneration Committee meets at least twice a year and more frequently if required. The Remuneration Committee's role is to provide advice and make recommendations to the Board on remuneration policy for employees, remuneration for the CEO and senior management, performance-based components of remuneration, and remuneration for non-executive directors.

Risk Committee

Membership shall comprise at least three members. At 30 June 2013, all directors were members of the Risk Committee, and Karen Moses was chairman. No additional fees are being paid for this membership.

The Risk Committee meets at least three times a year, with additional meetings called as deemed necessary. The role of the Risk Committee is to assist the Board to fulfil its responsibilities in relation to the identification and control of significant risks to Contact. The Risk Committee receives and reviews reports on the risk management framework, risk capacity, tolerance and exposure limits, the enterprise-wide risk profile, significant risks, and selected risk management processes and functions.

Board and committee meetings

The Board normally meets at least 10 times a year or whenever necessary to deal with specific matters. The table below shows the directors' attendance at the board and committee meetings during the year ended 30 June 2013.

	Board	Board Audit Committee	Health, Safety and Environment Committee	Nominations Committee	Remuneration Committee	Risk Committee	Independent Directors Committee
Number of meetings	**10**	**5**	**3**	**1**	**4**	**3**	**2**
Grant King	10			1		2	
Phillip Pryke	10		3	1	3	3	2
David Baldwin	10		3			3	
Bruce Beeren	10	5			4	2	
Whaimutu Dewes	10	5	3			3	2
Karen Moses	10	4*			4	2	
Sue Sheldon	10	5		1		3	2

* Attended as an observer.

GOVERNANCE

Principle 4 – reporting and disclosure

The Board demands integrity both in financial reporting and in the timeliness and balance of disclosures on entity affairs.

The Board has overall responsibility for reporting company results. The directors are committed to preparing financial statements that present a balanced and clear assessment of Contact's financial position and prospects. To assist with this task, the Board Audit Committee monitors the effectiveness of the company's internal financial controls.

Financial reporting

The Board Audit Committee oversees the quality and the integrity of external financial reporting including the accuracy, completeness and timeliness of financial statements. It reviews half-year and annual financial statements, and makes recommendations to the Board concerning accounting policies, areas of judgement, compliance with accounting standards, stock exchange legal requirements and the results of the external audit.

Management accountability for the integrity of Contact's financial reporting is reinforced by certification from the CEO and the CFO. The CEO and CFO provided the Board with written confirmation that Contact's financial report presents a true and fair view, in all material respects, of Contact's financial position for the year ended 30 June 2013, and that operational results are in accordance with relevant accounting standards.

Timely and balanced disclosure

Contact is committed to promoting investor confidence by providing timely, accurate, complete and equal access to information in accordance with the NZSX Listing Rules. To achieve and maintain high standards of disclosure, Contact has adopted a continuous disclosure policy, which is designed to ensure compliance with NZX continuous disclosure requirements. This policy sets guidelines and outlines responsibilities to safeguard employees against inadvertent breaches of continuous disclosure obligations.

The General Counsel has responsibility for overseeing and co-ordinating disclosure to the market.

Principle 5 – remuneration

The remuneration of directors and executives is transparent, fair and reasonable.

Contact's remuneration structure is designed to attract, retain and motivate high calibre directors and senior executives who are able to enhance the company's performance. The 'Remuneration report' on pages 62 to 64 outlines in detail the remuneration framework of Contact.

Principle 6 – risk management

The Board regularly verifies that the entity has appropriate processes that identify and manage potential and relevant risks.

The Board has primary responsibility for ensuring Contact has an appropriate risk management framework. The Risk Committee assesses the systems and procedures that are in place to ensure that all significant risks and issues are reported to the Board.

Contact has an Enterprise Risk Management system, which is aligned to the International Standard ISO 31000 Risk Management – Principles and Guidelines. The implementation and operation of this system demonstrate that Contact is committed to the effective management of risk, which is central to the continued growth and profitability of the company.

The Enterprise Risk Management team and business unit risk specialists ensure risk management practices are applied consistently across the business and are integrated within core processes, including strategic planning, budgeting and forecasting, project delivery, contract management and capital expenditure.

The Head of Risk and Assurance is accountable for monitoring the company's key risks. Regular reporting on risks and their mitigation is provided to the Risk Committee and Board.

Assurance

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

Business Assurance (BA) assists Contact to accomplish its objectives by bringing a disciplined approach to evaluating and improving the effectiveness of risk management, internal controls and governance processes. BA adopts a risk-based assurance approach driven from the company's Enterprise Risk Management system. BA also assists with external audits by making available findings from the internal assurance programme for the external auditors to consider when assessing the degree of reliance they are able to place on the control environment when providing their opinion on the financial statements. Led by the Head of Risk and Assurance, BA has the autonomy to report significant issues directly to the CEO, CFO and the Board Audit Committee or, if considered necessary, the chairman of the Board.

The Risk and Board Audit Committees oversee the assurance programme and provide BA with the mandate to perform the agreed assurance programme. BA has unrestricted 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.

Principle 7 – auditors

The Board ensures the quality and independence of the external audit process.

The independence of the external auditor is of particular importance to shareholders and the Board.

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

The external auditors are prohibited from undertaking any work that compromises, or is seen to compromise, independence and objectivity.

The Board Audit Committee requires the external auditor to confirm on a six-monthly basis that it has:

- remained independent of the Group at all times
- complied with the provisions of all applicable laws and relevant professional guidance in respect of independence, integrity and objectivity, and
- adopted a best practice approach in relation to matters of financial independence and business relationships.

The Board Audit Committee is responsible for pre-approving all other assurance and other services provided by the external auditor. The CFO 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 the provision of timely and accurate information and full access to company records.

Principle 8 – shareholder relations

The Board fosters constructive relationships with shareholders that encourage them to engage with the company.

Contact values its dialogue with institutional and private investors and is committed to giving all shareholders comprehensive, timely and equal access to information about its activities.

Contact currently keeps shareholders informed through:

- periodic and continuous disclosure to NZX
- information provided to analysts and media during regular briefings
- annual and half-year reports
- the annual shareholders' meeting and any other meetings called to obtain approval for Board actions as appropriate
- the company's website.

The Board considers the annual report to be an essential opportunity for communicating with shareholders. Contact publishes its annual and half-year reports electronically on its website. Investors may also request a hard copy of the reports by contacting Contact's share registrar, Link Market Services Limited, whose details appear in the directory section of this report.

The notice of meeting for the annual shareholders' meeting is circulated at least 10 days before the meeting and is also posted on Contact's website. Shareholders are provided with notes on resolutions proposed through the notice of annual meeting. The Board encourages full participation of shareholders to ensure a high level of accountability and identification with Contact's strategies and goals.

Contact's external auditor also attends the annual meeting, and is available to answer questions relating to the conduct of the external audit, and the preparation and content of the auditor's report.

Principle 9 – stakeholder interests

The Board respects the interests of stakeholders within the context of the company's ownership type and its fundamental purpose.

Contact is committed to making, selling and using energy responsibly and sustainably. The company manages its business in a way that balances its economic, environmental and social responsibilities. Contact's approach to social responsibility is based on sharing and listening. A description of the way in which Contact engages with key stakeholders is set out on page 51.

Contact encourages a working environment in which diversity is recognised and where equal employment opportunities are offered to all potential and existing employees on the basis of relevant merit. While Contact has not adopted a formal diversity policy, the company's intent is embedded in its principles and commitments. Gender diversity is outlined in detail on page 45.

Remuneration Report

Directors' remuneration

Directors' fees

The current total directors' fee pool approved by shareholders in 2008 is $1,500,000 per annum. The Board passed resolutions and signed accompanying certificates to confirm the distributions for FY13 among directors of $1,162,500 as detailed below.

Remuneration details of directors

Details of the total remuneration and the value of other benefits received by each Contact director for FY13 are as follows.

Director	Position	Board fees	Committee fees	Total remuneration
Grant King	Chairman	$217,500	–	$217,500
Phillip Pryke	Deputy Chairman	$136,000	$38,000	$174,000
David Baldwin	Director	$119,500	$21,500	$141,000
Bruce Beeren	Director	$119,500	$40,500	$160,000
Whaimutu Dewes	Director	$119,500	$40,500	$160,000
Karen Moses	Director	$119,500	$11,000	$130,500
Sue Sheldon	Director	$119,500	$60,000	$179,500
Total		**$951,000**	**$211,500**	**$1,162,500**

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

Chief Executive Officer remuneration

Employment arrangements

Dennis Barnes is seconded to the role of Chief Executive Officer (CEO) by his employer, Origin Energy Limited.

During the term of his secondment, remuneration paid by Contact to Dennis Barnes is processed by Contact reimbursing Origin Energy for the cost of this remuneration. An exception exists for share options and performance share rights awarded under Contact's Long-Term Incentive (LTI) Scheme, which are provided directly by Contact.

Remuneration

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

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

The following tables detail the nature and amount of the remuneration paid to Dennis Barnes during FY13.

	Cash remuneration paid		
	Fixed remuneration $	Variable remuneration[1] $	Total cash remuneration paid $
Year ended 30 June 2013	936,544	646,380	1,582,924
Year ended 30 June 2012	811,250	492,000	1,303,250

1. Short-term incentive remuneration relates to payment for the financial year noted, is determined following the end of the financial year and is based on the achievement of performance goals and criteria set by the Board.

	Equity rights issued (options and performance share rights)				
	Number of options issued during year	Number of performance share rights issued during year	Value of equity rights issued and amortising during year[1] $	Value of equity rights issued in past years and amortising during year $	Total equity rights vested during year $
Year ended 30 June 2013	715,117	97,620	$153,750	$314,003	–
Year ended 30 June 2012	490,625	106,409	$52,335	$196,251	–

1. The allocation of long-term incentives is determined at the end of each financial year. Each allocation has a total performance period of 5 years from the grant date with exercise hurdles tested on the third, fourth and fifth anniversaries of the grant date. Whether any options and performance share rights vest and become exercisable by or to Dennis Barnes is subject to the achievement of specified exercise hurdles as described on page 64. The value of the long-term incentive disclosed above is the portion of the fair value of options and performance share rights allocated to the relevant reporting period. None of the options or performance share rights allocated to Dennis Barnes vested in the 2012 and 2013 financial years.

Movements during FY13 in the number of options over ordinary shares and performance share rights held in Contact are set out in the following table.

	Held at 1 July 2012	Granted as compensation	Exercised	Held at 30 June 2013	Vested during year	Vested and exercisable at 30 June 2013
Options	596,707	715,117	–	1,311,824	–	–
Performance share rights	129,983	97,620	–	227,603	–	–

Employee remuneration

There are three components to employee remuneration: fixed remuneration, at-risk/variable remuneration and other benefits.

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

We also offer a range of benefits to our people as a way of thanking them for being part of Contact's success. All permanent and fixed term employees are offered discounts for home energy, including electricity, natural gas and LPG. Complimentary health insurance is available to all eligible permanent employees. Additional employee benefits and offers from local retailers and services providers are also offered from time to time.

Short-Term Incentive (STI) Scheme

Contact's variable remuneration recognises and rewards high performing individuals whose contributions support business goals and objectives, while meeting the goals set for the individual. Contact's STI comprises cash payments based on performance measured against key performance indicators (KPIs). KPIs generally comprise company, business unit 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 and good performance.

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

Long-Term Incentive Scheme

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

During FY13, the Board allocated LTI awards that are, by value, 50 per cent share options and 50 per cent performance share rights (options with an exercise price of zero).

At 30 June 2013, there were 87 participants in Contact's LTI Scheme.

Share Option Scheme

Under the Share Option Scheme, the Board issues share options to participants to acquire ordinary shares in Contact at the market price determined at the effective grant date. The Board also issues performance share rights to participants to acquire ordinary shares in Contact at zero cost.

The options and performance share rights will only become exercisable to the extent that exercise hurdles determined by the Board are satisfied. The exercise hurdle is a comparison of Contact's total shareholder return (TSR) against the TSR of a reference group comprising the NZX50 index in the relevant period, commencing on the effective grant date. The exercise hurdle will be measured on three annual test dates, the first being 3 years from the effective grant date.

For the options and performance share rights issued in FY13, participants' vesting entitlements will be:

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

These vesting entitlements will be calculated on three test dates, being 1 October 2015, 1 October 2016 and 1 October 2017.

For full details of the Share Option Scheme and the number of options and performance share rights granted, lapsed and on issue at the end of the reporting period, see note 20 to the financial statements.

Employee remuneration

The table at right shows the number of employees and former employees of Contact who, in their capacity as employees, received remuneration and other benefits (including redundancy payments and the fair value of any options and performance share rights allocated to the relevant reporting period) during FY13 of at least $100,000 in brackets of $10,000. At 30 June 2013, no Contact subsidiary had any employees.

The remuneration figures analysed include all monetary payments actually paid during the course of FY13. The figures do not include amounts paid post 30 June 2013 that related to the year ended 30 June 2013.

The value of remuneration benefits analysed includes fixed remuneration, short-term incentive (including the short-term incentive relating to FY12 and paid in FY13, as well as short-term incentive for FY13 paid prior to 30 June 2013 for employees made redundant during the year), long-term variable 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 year ended 30 June 2013. The remuneration (and any other benefits) of the CEO, Dennis Barnes, is disclosed in the CEO remuneration section on page 62.

Remuneration bands	Number of employees
$100,001–$110,000	52
$110,001–$120,000	54
$120,001–$130,000	64
$130,001–$140,000	56
$140,001–$150,000	34
$150,001–$160,000	21
$160,001–$170,000	21
$170,001–$180,000	17
$180,001–$190,000	18
$190,001–$200,000	11
$200001–$210,000	6
$210,001–$220,000	8
$220,001–$230,000	7
$230,001–$240,000	3
$240,001–$250,000	4
$250,001–$260,000	6
$260,001–$270,000	1
$270,001–$280,000	6
$280,001–$290,000	3
$290,001–$300,000	5
$300,001–$310,000	5
$310,001–$320,000	1
$320,001–$330,000	2
$330,001–$340,000	3
$340,001–$350,000	1
$350,001–$360,000	4
$360001–$370,000	1
$380,001–$390,000	1
$410,001–$420,000	2
$440,001–$450,000	1
$460,001–$470,000	1
$490,001–$500,000	1
$500,001–$510,000	2
$530,001–$540,000	1
$570,001–$580,000	1
$600,001–$610,000	1
$620,001–$630,000	1
$650,001–$660,000	1
$730,001–$740,000	1
$740,001–$750,000	1
$770,001–$780,000	1
$840,001–$850,000	1
$920,001–$930,000	1
$1,510,001–$1,520,000	1
Grand total	**433**

Statutory Disclosures

Disclosures of interests by directors

The following are particulars of general disclosures of interest by directors holding office as at 30 June 2013, pursuant to section 140(2) of the Companies Act 1993. Each such director will be regarded as interested in all transactions between Contact and the disclosed entity.

Grant King	
Origin Energy Limited and Group companies	Managing director/shareholder/employee
Australian Petroleum Production and Exploration Association	Councillor
Phillip Pryke	
Co-Investor Capital Partners Pty Limited	Director/shareholder
Frog Hollow Limited	Director/shareholder
GMT Bond Issuer Limited	Director
GMT Wholesale Bond Issuer Limited	Director
Goodman Funds Management Limited	Director
Goodman Limited	Director
Goodman (NZ) Limited	Director
Goodman Property Aggregated Limited	Director
Pauatahanui Projects Limited	Director/shareholder
Pryke Pty Limited	Director/shareholder
Tru-Test Corporation Limited	Director
Tru-Test Pty Limited	Director
David Baldwin	
Origin Energy Limited	Employee/shareholder
Bruce Beeren	
Origin Energy Limited	Director/shareholder and former employee/executive director
Equipsuper Pty Limited	Director
The Hunger Project Australia Pty Limited	Director
Whaimutu Dewes	
Aotearoa Fisheries Limited	Chairman
Housing New Zealand Board	Chairman
Iwi Rakau Limited	Director
Kura Limited	Chairman
Ngati Porou Fisheries Limited	Director
Ngati Porou Forests Limited	Director
Ngati Porou Holding Company Limited	Chairman
Ngati Porou Seafoods Limited	Director
Ngati Porou Whanui Forests Limited	Director
Pupuri Taonga Limited	Director
Rakaikura Limited	Director
Real Fresh Limited	Director
Whainiho Developments Limited	Managing director/shareholder
The Treasury Board	Director
Karen Moses	
Origin Energy Limited and Group companies	Director/shareholder/employee
Energia Andina S.A.	Director
SAS Trustee Corporation Board	Director
Sydney Dance Company	Director
University of New South Wales, Australian School of Business Advisory Council	Committee member
Sue Sheldon	
Chorus Limited	Chairman
FibreTech New Zealand Limited	Chairman
Freightways Limited	Chairman
Paymark Limited	Chairman
Reserve Bank of New Zealand	Deputy Chairman
Sue Sheldon Advisory Limited	Director

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

Information used by directors

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

Indemnity and insurance

In accordance with section 162 of the Companies Act 1993 and the constitution of the company, Contact has continued to indemnify and insure its directors and officers, including directors of subsidiary and associated companies, against potential liability or costs incurred in any proceeding, excluding actions for gross negligence, criminal liability, breach of fiduciary duty or breach of directors' duties.

Directors' security participation

Directors are requested to hold a minimum of 20,000 shares within 3 years of appointment or within 3 years of the commencement of fees being paid.

Securities of the company in which each director has a relevant interest at 30 June 2013

Director	Number of ordinary shares	Number of options (including PSRs)[1]
Grant King	33,886	N/A
Phillip Pryke	88,401	N/A
David Baldwin	Nil	1,128,107[2]
Bruce Beeren	35,901	N/A
Whaimutu Dewes	20,011	N/A
Karen Moses	21,038	N/A
Sue Sheldon	21,803	N/A

1. Performance share rights.
2. David Baldwin participated in the LTI Scheme during his secondment to Contact. David Baldwin retains these securities subject to exercise hurdles and vesting.

Securities dealings of directors

During the year, the directors disclosed the following transactions in respect of section 148(2) of the Companies Act 1993. 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
Grant King	21/09/12	$4.88	814	Acquisition of bonus issue shares under the Profit Distribution Plan (PDP) by Fabco Investments Pty Limited
Phillip Pryke	21/09/12	$4.88	2,545 (2,545)	Allotment and buyback of bonus issue shares under the PDP by Pryke Pty Limited
	24/10/12	$5.40	(15,000)	On-market sale by Pryke Pty Limited
David Baldwin	30/11/12	Nil	(98,485)	Lapse of options under LTI Scheme
	30/11/12	Nil	(17,508)	Lapse of PSRs under LTI Scheme
Bruce Beeren	21/09/12	$4.88	863	Acquisition of bonus issue shares under the PDP by BG Beeren
Whaimutu Dewes	21/09/12	$4.88	158	Acquisition of bonus issue shares under the PDP by WK Dewes
	21/09/12	$4.88	245	Acquisition of bonus issue shares under the PDP by WK Dewes, JA Baillie and GW David
	29/11/12	$5.14	3,300	On-market purchase by WK Dewes
Karen Moses	21/09/12	$4.88	506	Acquisition of bonus issue shares under the PDP by KA Moses
Sue Sheldon	21/09/12	$4.88	524	Acquisition of bonus issue shares under the PDP by SJ Sheldon, PJ Sheldon and MJ Walker
	21/09/12	$4.88	17 (17)	Allotment and buyback of bonus issue shares under the PDP by Private Nominees Limited
	28/06/13	N/A	(653)	Ceased to have a relevant interest
	28/06/13	N/A	8% Fixed Rate Bonds (10,000)	Ceased to have a relevant interest

Subsidiary company directors

The Australian subsidiaries were deregistered during FY13. Paul Smith received the Australian dollar equivalent of $22,276 in FY13 in his capacity as a consultant to Contact Australia Pty Limited and Contact Operations Australia Pty Limited. No director of any of Contact's subsidiaries received additional remuneration or benefits in respect of their directorships. The following people held office as directors of subsidiary companies at 30 June 2013.

Company	Directors
Contact Aria Limited	Dennis Barnes Paul Ridley-Smith
Contact Wind Limited	Dennis Barnes Graham Cockroft Alistair Yates
Rockgas Limited	Dennis Barnes Graham Cockroft Peter Kane (appointed 31/05/13) Chris Brown (resigned 31/05/13)

Stock exchange listings

Contact's ordinary shares are listed and quoted on the New Zealand Stock Market (NZSX) under the company code 'CEN'. Contact has two issues of retail bonds listed and quoted on the New Zealand Debt Market (NZDX) under the company codes 'CEN010' (2009 series) and 'CENFA' (2011 series).

Shareholder statistics

Twenty largest shareholders as at 20 August 2013

	Number of ordinary shares	% of ordinary shares
Origin Energy Pacific Holdings Limited	383,508,980	52.30
JP Morgan Chase Bank – NZCSD[1]	25,547,472	3.48
HSBC Nominees (New Zealand) Limited – NZCSD[1]	24,793,051	3.38
Accident Compensation Corporation – NZCSD[1]	19,040,108	2.60
Cogent Nominees Limited – NZCSD[1]	18,884,462	2.58
Citibank Nominees (NZ) Limited – NZCSD[1]	14,166,156	1.93
HSBC Nominees (New Zealand) Limited – NZCSD[1]	12,642,868	1.72
National Nominees New Zealand Limited – NZCSD[1]	12,471,785	1.70
New Zealand Superannuation Fund Nominees Limited – NZCSD[1]	11,021,769	1.50
FNZ Custodians Limited	7,777,047	1.06
Tea Custodians Limited – NZCSD[1]	7,673,612	1.05
Custodial Services Limited	6,196,338	0.84
Premier Nominees Limited – NZCSD[1]	5,813,451	0.79
Origin Energy Universal Holdings Limited	4,767,920	0.65
Private Nominees Limited – NZCSD[1]	4,735,816	0.65
Masfen Securities Limited	3,099,331	0.42
Guardian Nominees Limited A/c Westpac NZ Shares 2002 Wholesale Trust – NZCSD[1]	2,433,638	0.33
Custodial Services Limited	2,350,385	0.32
Custodial Services Limited	1,885,210	0.26
Custodial Services Limited	1,714,943	0.23
Total for top 20	**570,524,342**	**77.79**

1. New Zealand Central Securities Depository Limited (NZCSD) is a depository system which allows electronic trading of securities to members. As at 20 August 2013, total holding in NZCSD were 166,361,451 or 22.69 per cent of shares on issue.

Distribution of ordinary shares and shareholders as at 20 August 2013

Size of holding	Number of shareholders	% of shareholders	Number of ordinary shares	% of ordinary shares
1 – 1,000	33,393	45.76	22,070,204	3.01
1,001 – 5,000	34,648	47.48	59,127,069	8.06
5,001 – 10,000	3,213	4.40	22,048,490	3.01
10,001 – 50,000	1,578	2.16	27,954,698	3.81
50,001 – 100,000	87	0.12	5,942,336	0.81
100,001 and over	61	0.08	596,159,024	81.30
Total	**72,980**	**100.00**	**733,301,821**	**100.00**

Substantial security holders

According to notices given under the Securities Markets Act 1988, the following persons were substantial security holders of the company as at 20 August 2013:

Substantial security holder	Number of ordinary shares in which relevant interest is held	Date of notice
Origin Energy New Zealand Limited and its subsidiaries	389,314,921	11 August 2011

The total number of voting securities of Contact at 20 August 2013 was 733,301,821 fully paid ordinary shares.

Bondholder statistics

Retail fixed rate bonds (CEN010) at 20 August 2013

Size of holding	Number of bondholders	% of bondholders	Number of bonds	% of bonds
1,001 – 5,000	812	9.41	4,055,000	0.74
5,001 – 10,000	2,016	23.37	19,281,000	3.51
10,001 – 50,000	4,789	55.51	137,886,327	25.07
50,001 – 100,000	672	7.79	58,602,673	10.65
100,001 and over	338	3.92	330,175,000	60.03
Total	**8,627**	**100.00**	**550,000,000**	**100.00**

Capital bonds (CENFA) at 20 August 2013

Size of holding	Number of bondholders	% of bondholders	Number of bonds	% of bonds
1,001 – 5,000	401	10.23	2,005,000	1.00
5,001 – 10,000	1,042	26.60	10,103,000	5.05
10,001 – 50,000	2,044	52.17	57,415,000	28.71
50,001 – 100,000	272	6.94	23,788,000	11.89
100,001 and over	159	4.06	106,689,000	53.35
Total	**3,918**	**100.00**	**200,000,000**	**100.00**

Auditor fees

KPMG has continued to act as auditors of the company. The amount payable by Contact and its subsidiaries to KPMG as audit fees in respect of FY13 was $570,520. There was no non-audit work undertaken during the year.

Donations

In accordance with section 211(1)(h) of the Companies Act 1993, Contact records that it made no donations (2012: $11,388). No subsidiaries made any donations during FY13. 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. No political contributions were made during the year.

NZX waivers

Details of all waivers granted and published by NZX within or relied upon by Contact in the 12 months immediately preceding the date two months before the date of publication of this annual report are available on the company's website www.contactenergy.co.nz.

Exercise of NZX disciplinary powers

NZX did not exercise any of its powers under Listing Rule 5.4.2 in relation to Contact during FY13.

Credit rating as at 20 August 2013

Contact Energy Limited had a Standard & Poor's long-term credit rating of BBB/stable and short term rating of A-2/stable.

The $550 million unsubordinated, unsecured fixed rate bonds issued in March 2009 were rated BBB by Standard & Poor's.

The $200 million subordinated, unsecured, redeemable, cumulative fixed rate capital bonds issued in December 2011 were rated BB- by Standard & Poor's.

Financial Statements

For the year ended 30 June 2013

Income Statement

For the year ended 30 June 2013

	Note	Group 2013 $m	Group 2012 $m	Parent 2013 $m	Parent 2012 $m
Revenue	3	2,504	2,683	2,324	2,464
Other income		22	18	37	33
Operating expenses	3	(1,985)	(2,192)	(1,846)	(2,007)
Earnings before net interest expense, tax, depreciation, amortisation, change in fair value of financial instruments and other significant items (EBITDAF)		**541**	**509**	**515**	**490**
Depreciation and amortisation	7	(195)	(193)	(190)	(189)
Change in fair value of financial instruments	11	11	(11)	11	(11)
Other significant items	3	(28)	21	(21)	32
Equity accounted earnings of associate		–	2	–	–
Net interest expense	3	(66)	(72)	(66)	(72)
Profit before tax		**263**	**256**	**249**	**250**
Tax expense	17	(64)	(66)	(66)	(64)
Profit for the year		**199**	**190**	**183**	**186**
Basic and diluted earnings per share (cents)	4	**27.2**	**26.9**		

Non-statutory measure: underlying earnings after tax

Underlying earnings after tax is presented to enable stakeholders to make an assessment and comparison of ongoing performance. It is calculated by adjusting profit for the year for significant items that do not reflect the ongoing performance of the Group.

	Note	Group 2013 $m	Group 2012 $m
Profit for the year		**199**	**190**
Underlying adjustments			
Change in fair value of financial instruments	11	(11)	11
Other significant items:	3		
Gas meter assets sale		(26)	–
Decommissioned New Plymouth power station sale and provision release		(17)	–
Clutha asset impairment and land sales		(13)	2
Asset impairments		72	–
Restructuring costs		8	–
Transition costs		4	5
Exit of investment in Oakey Power Holdings Pty Limited		–	(28)
Adjustments before tax		**17**	**(10)**
Tax credit on underlying adjustments		(14)	(4)
Underlying earnings after tax		**202**	**176**
Underlying earnings per share (cents)	4	**27.7**	**25.0**

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

Statement of Comprehensive Income

For the year ended 30 June 2013

	Note	Group 2013 $m	Group 2012 $m	Parent 2013 $m	Parent 2012 $m
Profit for the year		**199**	**190**	**183**	**186**
Other comprehensive income:					
Change in cash flow hedge reserve		16	36	16	36
Total other comprehensive income before tax		**16**	**36**	**16**	**36**
Deferred tax relating to other comprehensive income	17	(4)	(7)	(4)	(7)
Total other comprehensive income after tax		**12**	**29**	**12**	**29**
Total comprehensive income for the year		**211**	**219**	**195**	**215**

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

Statement of Changes in Equity

For the year ended 30 June 2013

Group	Note	Share capital $m	Retained earnings $m	Cash flow hedge reserve $m	Share-based compensation reserve $m	Total shareholders' equity $m
Balance at 1 July 2011		1,413	1,855	(37)	5	3,236
Profit for the year after tax		–	190	–	–	190
Other comprehensive income after tax		–	–	29	–	29
Restricted shares, share options and performance share rights lapsed		–	1	–	(1)	–
Transactions with owners recorded directly in equity:						
Change in share capital	5	121	–	–	–	121
Change in share-based compensation reserve		–	–	–	4	4
Distributions declared	5	–	(162)	–	–	(162)
Total transactions with owners recorded directly in equity		**121**	**(162)**	**–**	**4**	**(37)**
Balance at 30 June 2012		**1,534**	**1,884**	**(8)**	**8**	**3,418**
Balance at 1 July 2012		1,534	1,884	(8)	8	3,418
Profit for the year after tax		–	199	–	–	199
Other comprehensive income after tax		–	–	12	–	12
Share options and performance share rights lapsed		–	1	–	(1)	–
Transactions with owners recorded directly in equity:						
Change in share capital	5	71	–	–	–	71
Change in share-based compensation reserve		–	–	–	4	4
Distributions declared	5	–	(167)	–	–	(167)
Total transactions with owners recorded directly in equity		**71**	**(167)**	**–**	**4**	**(92)**
Balance at 30 June 2013		**1,605**	**1,917**	**4**	**11**	**3,537**

Parent	Note	Share capital $m	Retained earnings $m	Cash flow hedge reserve $m	Share-based compensation reserve $m	Total shareholders' equity $m
Balance at 1 July 2011		1,413	1,764	(37)	5	3,145
Profit for the year after tax		–	186	–	–	186
Other comprehensive income after tax		–	–	29	–	29
Restricted shares, share options and performance share rights lapsed		–	1	–	(1)	–
Transactions with owners recorded directly in equity:						
Change in share capital	5	121	–	–	–	121
Change in share-based compensation reserve		–	–	–	4	4
Distributions declared	5	–	(162)	–	–	(162)
Total transactions with owners recorded directly in equity		**121**	**(162)**	**–**	**4**	**(37)**
Balance at 30 June 2012		**1,534**	**1,789**	**(8)**	**8**	**3,323**
Balance at 1 July 2012		1,534	1,789	(8)	8	3,323
Profit for the year after tax		–	183	–	–	183
Other comprehensive income after tax		–	–	12	–	12
Share options and performance share rights lapsed		–	1	–	(1)	–
Effect of Empower Limited amalgamation	19	–	54	–	–	54
Transactions with owners recorded directly in equity:						
Change in share capital	5	71	–	–	–	71
Change in share-based compensation reserve		–	–	–	4	4
Distributions declared	5	–	(167)	–	–	(167)
Total transactions with owners recorded directly in equity		**71**	**(167)**	**–**	**4**	**(92)**
Balance at 30 June 2013		**1,605**	**1,860**	**4**	**11**	**3,480**

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

Statement of Financial Position

At 30 June 2013

	Note	Group 2013 $m	Group 2012 $m	Parent 2013 $m	Parent 2012 $m
Shareholders' equity		**3,537**	**3,418**	**3,480**	**3,323**
Represented by:					
Current assets					
Cash and cash equivalents		80	6	78	4
Receivables and prepayments	14	343	351	332	361
Inventories	6	45	38	41	33
Carbon emission units	9	18	17	18	17
Derivative financial instruments	11	8	3	8	3
Assets held for sale	7	6	7	6	7
Total current assets		**500**	**422**	**483**	**425**
Non-current assets					
Inventories	6	92	93	92	93
Property, plant and equipment	7	5,116	5,163	5,048	5,062
Intangible assets	7	242	188	242	188
Goodwill	8	182	182	179	123
Gas storage – cushion gas	6	52	52	52	52
Investment in subsidiaries and associate	19	–	–	69	133
Available-for-sale financial assets	11	3	3	–	–
Derivative financial instruments	11	2	1	2	1
Other non-current assets		8	8	8	8
Total non-current assets		**5,697**	**5,690**	**5,692**	**5,660**
Total assets		**6,197**	**6,112**	**6,175**	**6,085**
Current liabilities					
Payables and accruals	15	319	409	356	485
Borrowings	10	671	102	671	102
Derivative financial instruments	11	60	56	60	56
Provisions	16	6	5	5	5
Tax payable		15	28	15	28
Total current liabilities		**1,071**	**600**	**1,107**	**676**
Non-current liabilities					
Borrowings	10	699	1,202	699	1,202
Derivative financial instruments	11	87	128	87	128
Provisions	16	58	64	56	61
Deferred tax	17	735	700	736	695
Other payables		10	–	10	–
Total non-current liabilities		**1,589**	**2,094**	**1,588**	**2,086**
Total liabilities		**2,660**	**2,694**	**2,695**	**2,762**
Net assets		**3,537**	**3,418**	**3,480**	**3,323**

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

Authorised on behalf of the Contact Energy Limited Board of Directors on 19 August 2013:

Grant King
Chairman

Sue Sheldon
Director

Statement of Cash Flows

For the year ended 30 June 2013

	Note	Group 2013 $m	Group 2012 $m	Parent 2013 $m	Parent 2012 $m
Cash flows from operating activities					
Receipts from customers		2,573	2,614	2,437	2,406
Payments to suppliers and employees		(2,058)	(2,154)	(1,928)	(1,952)
Tax paid		(46)	(21)	(46)	(21)
Dividends received		–	1	–	–
Net cash inflow from operating activities	13	**469**	**440**	**463**	**433**
Cash flows from investing activities					
Purchase of property, plant and equipment		(288)	(482)	(282)	(477)
Purchase of intangible assets		(43)	(47)	(43)	(47)
Purchase of Whirinaki generation plant and on-site diesel fuel		–	(36)	–	(36)
Proceeds from sale of property, plant and equipment		55	4	55	3
Interest received		2	3	2	3
Exit of investment in Oakey Power Holdings Pty Limited		–	38	–	38
Net cash (outflow) from investing activities		**(274)**	**(520)**	**(268)**	**(516)**
Cash flows from financing activities					
Proceeds from borrowings		387	324	387	324
Gas sale and repurchase arrangement		27	(10)	27	(10)
Repayment of borrowings		(335)	(122)	(335)	(122)
Interest paid		(103)	(97)	(103)	(96)
Financing costs		(1)	(10)	(1)	(10)
Distributions paid to shareholders	5	(96)	(43)	(96)	(43)
Entitlement offer – related costs		–	(1)	–	(1)
Net cash (outflow)/inflow from financing activities		**(121)**	**41**	**(121)**	**42**
Net increase/(decrease) in cash and cash equivalents		**74**	**(39)**	**74**	**(41)**
Add: cash and cash equivalents at the beginning of the year		6	45	4	45
Cash and cash equivalents at the end of the year		**80**	**6**	**78**	**4**

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

Notes to the Financial Statements

For the year ended 30 June 2013

1. BASIS OF ACCOUNTING

Reporting entity

Contact Energy Limited is registered in New Zealand under the Companies Act 1993 and is an issuer for the purpose of the Financial Reporting Act 1993. Contact Energy Limited is listed on the NZX with its ordinary shares quoted on the NZSX and two series of bonds quoted on the NZDX.

The financial statements presented are for Contact Energy Limited (the Parent) and its subsidiaries and associate (together referred to as Contact or the Group) at, and for the year ended, 30 June 2013.

Contact is a diversified and integrated energy group focusing on electricity generation and the sale of electricity, natural gas and liquefied petroleum gas (LPG) to residential, commercial and industrial customers throughout New Zealand.

Basis of preparation

The financial statements have been prepared in accordance with the Financial Reporting Act 1993, which requires compliance with New Zealand generally accepted accounting practice. They comply with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS), other applicable financial reporting standards as appropriate for profit-oriented entities, and with International Financial Reporting Standards (IFRS).

The financial statements are presented in New Zealand dollars, which is Contact's functional currency. References in these financial statements to '$' and 'NZ$' are to New Zealand dollars, unless otherwise stated. All financial information has been rounded to the nearest million ($m), unless otherwise stated.

The measurement basis adopted in the preparation of these financial statements is historical cost, except for financial instruments measured at fair value, assets held for sale measured at fair value less costs to sell, and generation plant and equipment acquired before 1 October 2004 measured at deemed historical cost.

Accounting estimates and judgements

Application of Contact's accounting policies requires the use of estimates and judgements. The estimates are based on historical experience and other factors that are believed to be reasonable. Actual results may differ from these estimates. The areas of significant estimation and critical judgements are as follows:

- Unbilled retail revenue for unread electricity and gas meters is estimated at the end of each reporting period – refer to notes 3 and 14.
- The net realisable value of inventory gas and its classification between current and non-current are estimated at the end of each reporting period – refer to note 6.
- The useful lives of property, plant and equipment and intangible assets are estimated based on the period over which benefits are expected to be derived from the assets – refer to note 7.
- Cash-generating units including the carrying amount of property, plant and equipment, intangible assets and goodwill are subject to an annual impairment test to ensure the carrying amount does not exceed the estimated recoverable amount at the end of the reporting period – refer to notes 7 and 8.
- The fair value of financial assets and financial liabilities is estimated for recognition and measurement, and for disclosure purposes – refer to note 11.
- Liabilities are estimated for site restoration and environmental rehabilitation – refer to note 16.

Accounting policies and standards

No changes to accounting policies have been made during the year, and policies have been consistently applied to all years presented in these financial statements. Certain comparative amounts have been reclassified to conform to the current year's presentation.

Contact has chosen not to early adopt the following accounting standards that may have a material effect on the financial statements in future years:

- NZ IFRS 10 *Consolidated Financial Statements*, NZ IFRS 11 *Joint Arrangements* and NZ IFRS 12 *Disclosure of Interests in Other Entities* (the consolidation suite of accounting standards) – effective for the year ending 30 June 2014
- NZ IFRS 13 *Fair Value Measurement* – effective for the year ending 30 June 2014
- NZ IFRS 9 *Financial Instruments* – effective for the year ending 30 June 2016.

Contact is in the process of assessing the impact of adopting these accounting standards.

2. SEGMENTS

Contact's operating segments are identified based on the internal reports that are reviewed and used by the Chief Executive Officer in assessing performance and determining the allocation of resources. During the year, the composition of the internally reported segments changed to reflect management's view that retail and wholesale gas are an integral part of the Integrated Energy segment.

Contact has two operating segments; Integrated Energy and Other.

- The Integrated Energy business is a generator of electricity and retailer of electricity and gas to residential, commercial and industrial customers throughout New Zealand.
- The Other business is a combination of other products and services offered by Contact. These include the sale of LPG to residential and commercial customers and the provision of electricity and gas meter services to other retailers and internally to the Integrated Energy business.

Group 2013	Integrated Energy $m	Other $m	Inter-segment[1] $m	Total $m
Revenue and other income	2,385	174	(33)	2,526
Cost of goods sold	(1,653)	(113)	33	(1,733)
Other operating expenses	(230)	(22)	–	(252)
EBITDAF	**502**	**39**	**–**	**541**

Group 2012	Integrated Energy $m	Other $m	Inter-segment[1] $m	Total $m
Revenue and other income	2,565	169	(33)	2,701
Cost of goods sold	(1,857)	(106)	33	(1,930)
Other operating expenses	(239)	(23)	–	(262)
EBITDAF	**469**	**40**	**–**	**509**

1. The inter-segment revenue is a charge for electricity and gas meters between the Integrated Energy and Other segments. The inter-segment charge aims to have the Integrated Energy segment pay the Other segment an equivalent cost for Contact-owned meters as it would for third party owned meters.

3. COMPONENTS OF PROFIT

	Group 2013 $m	Group 2012 $m	Parent 2013 $m	Parent 2012 $m
Revenue				
Retail electricity	1,532	1,490	1,471	1,389
Wholesale electricity	742	963	742	963
LPG	119	118	–	–
Gas	92	92	92	92
Steam	19	20	19	20
	2,504	**2,683**	**2,324**	**2,464**
Other income	22	18	37	33
Total revenue and other income	**2,526**	**2,701**	**2,361**	**2,497**
Operating expenses				
Electricity purchases	(678)	(874)	(657)	(830)
Electricity transmission, distribution and levies	(576)	(544)	(555)	(500)
Gas purchases, transmission and levies	(362)	(391)	(362)	(391)
LPG purchases	(87)	(83)	–	–
Meter costs	(26)	(23)	(24)	(20)
Emission costs	(4)	(15)	(3)	(14)
Labour costs	(105)	(104)	(102)	(100)
Other	(147)	(158)	(143)	(152)
	(1,985)	**(2,192)**	**(1,846)**	**(2,007)**
Other operating expenses and labour costs include:				
Auditor's remuneration – KPMG audit fees	(1)	(1)	(1)	(1)
Rental expense on operating leases	(7)	(8)	(5)	(6)
Contributions to KiwiSaver	(3)	(2)	(2)	(2)
Other significant items				
Gas meter assets sale [1]	26	–	26	–
Decommissioned New Plymouth power station sale and provision release [2]	17	–	17	–
Clutha asset impairment and land sales [3]	13	(2)	13	(2)
Asset impairments [4]	(72)	–	(65)	–
Restructuring costs [5]	(8)	–	(8)	–
Transition costs [6]	(4)	(5)	(4)	(5)
Exit of investment in Oakey Power Holdings Pty Limited [7]	–	28	–	39
	(28)	**21**	**(21)**	**32**
Net interest expense				
Interest expense	(112)	(107)	(112)	(107)
Interest expense capitalised	44	32	44	32
Interest income	2	3	2	3
	(66)	**(72)**	**(66)**	**(72)**

Retail electricity, gas and LPG revenues include an estimate of sales for unread electricity and gas meters at the end of the reporting period – refer to note 14.

Transactions are classified as other significant items when they meet certain criteria approved by Contact's Board of Directors ('the Board'). Other significant items are determined in accordance with the principles of consistency, relevance and clarity. Transactions considered for classification as other significant items include impairment or reversal of impairment of assets; business integration, restructure, acquisition and disposal costs; and transactions or events outside of Contact's ongoing operations that have a significant impact on reported profit.

1. On 30 June 2013 Contact sold its gas meter assets to a wholly owned subsidiary of Vector Limited for $60 million and the cash proceeds were received on 1 July 2013.
2. In June 2013 Contact sold the decommissioned New Plymouth power station land and assets for $24 million. Consequently the provision for the removal of asbestos of $6 million in relation to the site was released.
3. In the 2012 financial year Contact decided not to proceed in the foreseeable future with any of the options being investigated for hydro generation development on the Clutha River. The project development costs were impaired (2013: nil; 2012: $4 million) and some of the associated land has been sold (2013: $13 million; 2012: $2 million).
4. Asset impairments resulted from Contact reviewing the carrying amount of its non-current assets. The asset impairments recognised are in relation to wind generation development projects (Group: $67 million; Parent: $34 million), land held for sale during the year and at the end of the reporting period (other than in relation to the Clutha River hydro development) ($3 million) and other minor projects ($2 million). Contact has decided to exit the Hauāuru mā raki wind generation development on the Waikato coast and not to proceed in the foreseeable future with the Waitahora wind generation development project near Dannevirke in the Tararua district. As a result, the Parent has recognised a $26 million provision for impairment of the advance to the Contact Wind Limited subsidiary.
5. Restructuring costs have been incurred as part of the restructuring programme announced during the year to significantly reshape the operating structure of the business. These costs are employee redundancy costs and related employee support and outplacement service costs.
6. Transition costs are those costs incurred on the Retail Transformation project and associated activities in the Retail business.
7. On 18 January 2012, Contact exited its investment in Oakey Power Holdings Pty Limited through a selective capital reduction and share cancellation for $38 million.

3. COMPONENTS OF PROFIT – CONTINUED

Interest expense and income are recognised using the effective interest method. Net interest expense incurred on the construction or acquisition of qualifying assets is capitalised. Capitalisation ceases once those assets are operating as intended or asset construction is temporarily suspended. The weighted average interest rate used for capitalisation is 6.9 per cent per annum (2012: 7.2 per cent).

4. EARNINGS PER SHARE

Group	2013	2012
Basic and diluted earnings per share (cents)	27.2	26.9
Underlying earnings per share (cents)	27.7	25.0
Weighted average number of shares on issue over the year	730,014,741	706,845,891

Basic and diluted earnings per share are calculated as profit after tax divided by the weighted average number of shares on issue over the year. Performance hurdles for share options and performance share rights have not been met so these equity instruments do not affect the diluted earnings per share calculation.

Underlying earnings per share is calculated by dividing underlying earnings after tax by the weighted average number of shares on issue over the year.

5. SHARE CAPITAL AND DISTRIBUTIONS

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

Group and Parent Ordinary shares	2013 Number	2013 $m	2012 Number	2012 $m
Balance at the beginning of the year	718,670,307	1,534	695,068,288	1,413
Share capital issued	17,728,186	86	31,377,916	162
Share capital repurchased and cancelled	(3,096,672)	(15)	(8,284,377)	(43)
Restricted shares converted to ordinary shares[1]	–	–	508,480	2
Balance at the end of the year	**733,301,821**	**1,605**	**718,670,307**	**1,534**

1. Contact closed its Restricted Share Plan in June 2012 and the restricted shares held in trust were converted to ordinary shares and sold on market.

The 2013 interim distribution was paid in cash. The 2012 interim and final distributions and the 2011 final distribution were made pursuant to the Parent's Profit Distribution Plan (PDP). Under the PDP shareholders received distributions in the form of non-taxable bonus shares and had the option to have the shares, or a portion of them, bought back by the Parent for cash (2013: $15 million, 2012: $43 million). Shareholders who elected to have their bonus shares bought back by the Parent at an equivalent cost under the off-market buy-back facility were treated as having received a fully imputed cash dividend.

Group and Parent	2013 Cents per share	2013 $m	2012 Cents per share	2012 $m
Previous year final distribution	12.0	86	12.0	84
Current year interim distribution	11.0	81	11.0	78
Total distributions		**167**		**162**

6. INVENTORIES AND GAS STORAGE – CUSHION GAS

Inventories

Inventories are stated at the lower of cost and net realisable value. The cost of inventory is determined on a weighted average basis. Net realisable value for inventory gas and diesel fuel is the estimated recoverable amount of the fuel stocks based on their intended use. Net realisable value for consumables, spare parts and LPG is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

	Group 2013 $m	Group 2012 $m	Parent 2013 $m	Parent 2012 $m
Inventory gas	124	116	124	116
Consumables and spare parts	7	7	7	7
LPG	4	5	–	–
Diesel fuel	2	3	2	3
	137	**131**	**133**	**126**
Current	45	38	41	33
Non-current	92	93	92	93
	137	**131**	**133**	**126**

The estimation of the split of inventory gas held in the Ahuroa gas storage facility between current and non-current is on the basis of forecast and actual usage. Contact expects to utilise 20 per cent of the inventory gas held in storage at 30 June 2013 within 1 year from the end of the reporting period (2012: 20 per cent).

Gas storage – cushion gas

Contact has beneficial access to the remaining natural gas and LPG reserves (excluding condensate) in the Ahuroa reservoir. The natural gas reserves at the date of acquisition, together with additional natural gas injections since acquisition, are referred to as cushion gas and represent the investment necessary to enable the field to be used for the storage of operational gas. Gas reserves in excess of that required for cushion gas are treated as inventory gas.

Cushion gas is recognised at cost and is not depreciated on the basis that it is economically recoverable at the end of the life of the Ahuroa gas storage facility. The carrying amount is reviewed at the end of each reporting period for indicators of impairment – refer to note 7 for further detail on impairment reviews.

7. PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

Property, plant and equipment and finite life intangible assets are carried at cost less accumulated depreciation or amortisation and accumulated impairment losses, except for generation plant and equipment acquired before 1 October 2004, which is recognised at deemed historical cost less accumulated depreciation and accumulated impairment losses. Deemed historical cost is the fair value of those assets at 1 October 2004, which was the date of Contact's transition to NZ IFRS and the date on which Origin Energy Limited (Origin) acquired a controlling interest in Contact.

Cost

The cost of assets is the value of the consideration given to acquire the assets and the value of other directly attributable costs incurred in bringing the assets to the location and condition necessary for their intended use.

The cost of assets constructed by Contact includes the cost of all materials and services used in construction, labour costs specifically associated with construction, resource management consent costs (where applicable) and directly attributable variable and fixed overheads. Net revenue attributable to assets that is earned in the period until the assets are operating in the manner intended by management is deducted from the cost of the assets.

The costs of self-constructed assets are recognised as capital work in progress until the assets are operating in the manner intended by management at which time they are transferred to property, plant and equipment or intangible assets.

Subsequent expenditure is capitalised when it relates to asset replacements and improvements, or when laws, regulations or resource consent conditions require it for continued operation of the asset. All other subsequent expenditure is expensed as incurred.

Exploration expenditure in relation to geothermal fields is accounted for on an area of interest basis. Under this method, costs incurred in the exploration phase on an area of interest, within a geothermal field, are expensed as incurred. Costs associated with the preparation of resource consent applications and drilling geothermal exploration wells are capitalised as part of capital work in progress and subsequently expensed only if the entire area of interest is unsuccessful.

7. PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS – CONTINUED

Depreciation and amortisation

Except for certain generation plant and equipment assets, depreciation and amortisation are recognised on a straight-line basis to allocate the cost of the assets, less any estimated residual values, over their expected remaining useful lives. Generation plant and equipment assets where the assets' future economic benefits are expected to be consumed on a usage basis are depreciated on an equivalent operating hours basis.

The range of annual depreciation and amortisation rates for each class of asset is as follows:

Type of asset	Rate
Land	Not depreciated
Generation plant and equipment (including buildings)	1 – 33%
Generation plant and equipment on an equivalent operating hours basis	23,500–100,000 equivalent operating hours
Other buildings	2 – 33%
Other plant and equipment	1 – 33%
Gas storage rights	3%
Computer software	10 – 33%

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

Reconciliation of the carrying amount of property, plant and equipment

Group	Generation plant and equipment (including land and buildings) $m	Other land and buildings $m	Other plant and equipment $m	Capital work in progress $m	Total $m
Cost					
Balance at 1 July 2011	4,940	53	289	509	5,791
Additions	76	3	7	453	539
Transfers from capital work in progress	91	1	5	(97)	–
Transfer to assets held for sale [1]	–	–	–	(7)	(7)
Disposals	(46)	(1)	–	(7)	(54)
Balance at 30 June 2012	**5,061**	**56**	**301**	**851**	**6,269**
Balance at 1 July 2012	5,061	56	301	851	6,269
Additions	78	–	6	183	267
Transfers from capital work in progress	157	1	3	(161)	–
Transfer to assets held for sale [1]	(6)	–	–	–	(6)
Disposals	(42)	(29)	(79)	(5)	(155)
Balance at 30 June 2013	**5,248**	**28**	**231**	**868**	**6,375**
Depreciation and impairment losses					
Balance at 1 July 2011	(796)	(14)	(165)	(3)	(978)
Depreciation charge	(162)	(2)	(13)	–	(177)
Impairment	–	–	–	(4)	(4)
Disposals	46	–	–	7	53
Balance at 30 June 2012	**(912)**	**(16)**	**(178)**	**–**	**(1,106)**
Balance at 1 July 2012	(912)	(16)	(178)	–	(1,106)
Depreciation charge	(162)	(3)	(15)	–	(180)
Impairment	(3)	–	–	(69)	(72)
Disposals	40	9	47	3	99
Balance at 30 June 2013	**(1,037)**	**(10)**	**(146)**	**(66)**	**(1,259)**
Carrying amount					
At 30 June 2012	4,149	40	123	851	5,163
At 30 June 2013	**4,211**	**18**	**85**	**802**	**5,116**

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Parent	Generation plant and equipment (including land and buildings) $m	Other land and buildings $m	Other plant and equipment $m	Capital work in progress $m	Total $m
Cost					
Balance at 1 July 2011	4,940	49	156	471	5,616
Additions	76	3	4	449	532
Transfers from capital work in progress	91	1	3	(94)	1
Transfer to assets held for sale [1]	–	–	–	(7)	(7)
Disposals	(46)	(1)	–	(4)	(51)
Balance at 30 June 2012	**5,061**	**52**	**163**	**815**	**6,091**
Balance at 1 July 2012	5,061	52	163	815	6,091
Additions	78	–	5	180	263
Transfers from capital work in progress	157	–	2	(159)	–
Transfer to assets held for sale [1]	(6)	–	–	–	(6)
Disposals	(42)	(29)	(79)	(5)	(155)
Balance at 30 June 2013	**5,248**	**23**	**91**	**831**	**6,193**
Depreciation and impairment losses					
Balance at 1 July 2011	(796)	(13)	(93)	–	(902)
Depreciation charge	(162)	(2)	(9)	–	(173)
Impairment	–	–	–	(4)	(4)
Disposals	46	–	–	4	50
Balance at 30 June 2012	**(912)**	**(15)**	**(102)**	**–**	**(1,029)**
Balance at 1 July 2012	(912)	(15)	(102)	–	(1,029)
Depreciation charge	(162)	(3)	(10)	–	(175)
Impairment	(3)	–	–	(36)	(39)
Disposals	40	9	46	3	98
Balance at 30 June 2013	**(1,037)**	**(9)**	**(66)**	**(33)**	**(1,145)**
Carrying amount					
At 30 June 2012	4,149	37	61	815	5,062
At 30 June 2013	**4,211**	**14**	**25**	**798**	**5,048**

1. Assets classified as held for sale are either being actively marketed for sale following Board approval to dispose of the assets or are subject to conditional sales agreements. These assets are expected to be sold within 1 year from the end of the reporting period.

Under the Treaty of Waitangi Act 1975, the Waitangi Tribunal has the power to recommend, in appropriate circumstances, that some of the land and interests in land purchased from the Electricity Corporation of New Zealand and now owned by Contact be resumed by the Crown in order that it be returned to the Māori claimants. In the event that the Waitangi 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.

7. PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS – CONTINUED

Reconciliation of the carrying amount of intangible assets

	Group Gas storage rights $m	Group Computer software and capital work in progress $m	Group Total $m	Parent Gas storage rights $m	Parent Computer software and capital work in progress $m	Parent Total $m
Cost						
Balance at 1 July 2011	35	151	186	35	148	183
Additions	–	44	44	–	44	44
Balance at 30 June 2012	**35**	**195**	**230**	**35**	**192**	**227**
Balance at 1 July 2012	35	195	230	35	192	227
Additions	–	69	69	–	69	69
Balance at 30 June 2013	**35**	**264**	**299**	**35**	**261**	**296**
Amortisation						
Balance at 1 July 2011	–	(26)	(26)	–	(23)	(23)
Amortisation charge	(1)	(15)	(16)	(1)	(15)	(16)
Balance at 30 June 2012	**(1)**	**(41)**	**(42)**	**(1)**	**(38)**	**(39)**
Balance at 1 July 2012	(1)	(41)	(42)	(1)	(38)	(39)
Amortisation charge	(1)	(14)	(15)	(1)	(14)	(15)
Balance at 30 June 2013	**(2)**	**(55)**	**(57)**	**(2)**	**(52)**	**(54)**
Carrying amount						
At 30 June 2012	34	154	188	34	154	188
At 30 June 2013	**33**	**209**	**242**	**33**	**209**	**242**

Total computer software additions in the year ended 30 June 2013 include $63 million of internally generated assets (2012: $40 million).

Impairment

The carrying amounts of non-financial assets including property, plant and equipment, intangible assets, inventory gas, and cushion gas are reviewed at the end of each reporting period for any indicators of impairment. If any such indication exists, the asset's recoverable amount or the recoverable amount of its cash-generating unit is estimated. An impairment loss is recognised whenever the carrying amount of an asset, or its cash-generating unit, exceeds its estimated recoverable amount.

The recoverable amount is the greater of an asset's value in use and fair value less costs to sell. In assessing the recoverable amount, 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 inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised in respect of geothermal exploration expenditure when the area of interest to which they relate is no longer considered prospective for economically recoverable geothermal reserves or when the decision to abandon the area of interest is made.

The recoverable amount for all impairments recognised is the assets' fair value less costs to sell based on the best information available at the end of the reporting period. Impairment losses of $72 million for Group and $39 million for Parent were recognised for property, plant and equipment as disclosed in note 3 (Group and Parent 2012: $4 million). No impairment losses were recognised for intangible assets during the year (2012: nil).

Capital commitments

At 30 June 2013, Contact had $51 million (2012: $125 million) committed under contractual arrangements, with substantially all payments due within 1 year of the end of the reporting period. The capital expenditure commitments principally relate to generation and software assets.

8. GOODWILL

Goodwill represents the excess of the consideration transferred over the fair value of Contact's share of the net identifiable assets of an acquired subsidiary. Goodwill is carried at cost less accumulated impairment losses.

For the purpose of annual impairment testing, goodwill is allocated to the cash-generating unit to which it relates. Each cash-generating unit represents the lowest level of assets that generate cash inflows largely independent of each other. Goodwill is allocated to the following cash-generating units:

	Group 2013 $m	Group 2012 $m	Parent 2013 $m	Parent 2012 $m
Retail	179	179	179	123
LPG	3	3	–	–
	182	**182**	**179**	**123**

The amalgamation of Empower Limited into the Parent resulted in the increase in the carrying amount of goodwill held by the Parent – refer to note 19.

The impairment tests for the Retail and LPG cash-generating units are based on value in use discounted cash flow valuations. Cash flow projections are based on a 5-year financial forecast for the underlying business and are extrapolated using an average annual growth rate of 1.0 per cent to 3.0 per cent and discounted using post-tax discount rates of 8.0 per cent to 10.0 per cent.

Key assumptions in the value in use calculations for the Retail and LPG cash-generating units are as follows:

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.
Operating costs	Review of actual operating costs and consideration of expected market movements and impacts.

No impairment losses were recognised for goodwill during the year (2012: nil).

9. CARBON EMISSION UNITS

Carbon emission units are recognised at initial cost (purchase price) less any accumulated impairment losses. For the purpose of impairment testing, carbon emission units are allocated to the cash-generating unit to which they relate – refer to note 7 for further detail on impairment reviews.

Each type of carbon emission unit is surrendered on a first-in first-out basis. Where the units are expected to be surrendered to satisfy Contact's carbon emission obligation at the end of the reporting period and/or surrendered in respect of the obligation expected to be incurred within 1 year from the end of the reporting period, they are classified as current intangible assets and are not amortised.

Contact recognises a liability in respect of its obligation to surrender carbon emission units (within payables and accruals). The liability is measured at the cost of the carbon emission units and forward contracts held by Contact at the end of the reporting period on a first-in first-out basis (according to the expected order of surrender of the units), with any remaining balance recognised at fair value. Any change in the liability is recognised within operating expenses in the Income Statement.

Forward contracts to acquire carbon emission units are entered into and held to meet Contact's compliance obligations and accordingly are recognised on settlement of the contract. The value of these contracts at 30 June 2013 was $3 million (2012: $1 million).

10. BORROWINGS

Contact utilises a mixture of term bonds, US Private Placement (USPP) notes, an export credit agency facility, bank facilities, committed credit facilities and commercial paper to satisfy its funding requirements.

Borrowings are initially recognised at fair value less directly attributable transaction costs. Borrowings are subsequently measured at amortised cost using the effective interest method, with the exception of the USPP notes. The USPP notes, including USPP notes that Contact has committed to issue at a future date, are hedged by cross-currency interest rate swaps and are measured at fair value less deferred financing costs from execution date – refer to note 11 for further detail on how fair value is determined.

Group and Parent	2013 $m	2012 $m
Long-term borrowings maturing within one year	670	98
Committed credit facilities	–	3
Finance lease liabilities	1	1
Total current borrowings	**671**	**102**
Retail bonds	548	545
Wholesale bonds	200	100
Fair value adjustment on wholesale bonds	(3)	–
Capital bonds	196	196
Export credit agency facility	87	–
USPP notes	452	587
Fair value adjustment on USPP notes	(111)	(130)
Total long-term borrowings	1,369	1,298
Finance lease liabilities	–	2
Less: long-term borrowings maturing within 1-year	(670)	(98)
Total non-current borrowings	**699**	**1,202**

Long-term borrowings maturing within 1 year of $670 million are comprised of the retail bonds maturing in March 2014, a tranche of the USPP notes maturing in May 2014 and scheduled repayments on the export credit agency facility commencing in November 2013. In May 2013, Contact issued $100 million of wholesale bonds and in June 2013 executed a total of US$240 million (United States dollars) (NZ$301 million) of USPP notes to be issued in September and December 2013. These new long-term borrowings, available committed credit facilities and the commercial paper programme will assist in refinancing the existing USPP notes and retail bonds maturing in March and May 2014, respectively. A liquidity analysis of total debt is provided in note 12. Total long-term borrowings include deferred financing costs of $12 million (2012: $9 million).

USPP notes

The US$240 million of USPP notes to be issued in 2013 have fixed interest rates ranging between 3.5 per cent and 4.5 per cent and maturities between 7 and 15 years. Cross-currency interest rate swaps were entered into at the same time to swap the United States dollar principal and fixed coupon obligations to New Zealand dollar principal and floating interest rate exposures. Although the USPP notes are undrawn at 30 June 2013, they are committed financial liabilities and therefore the cumulative change in fair value is recognised as a component of borrowings.

Term bonds

The $100 million of wholesale bonds issued in May 2013 have fixed coupons between 4.8 per cent and 5.3 per cent and maturities between 5 and 7 years. Contact entered into interest rate swaps at the same time that the wholesale bonds were issued to convert the fixed coupons to floating interest payments to enable separate interest rate and capital risk management. The interest rate swaps are a fair value hedge of the borrowings and consequently fair value adjustments are recognised as a component of borrowings.

Standard & Poor's revised the criteria used to assign equity content for credit rating purposes to hybrid capital instruments. As a result Contact's capital bonds no longer qualify for full equity content and under the bond's terms and conditions Contact could redeem the bonds at par plus accrued interest on any future interest payment date.

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Facilities

Contact has total committed credit facilities at 30 June 2013 of $450 million, of which nil was drawn (2012: $450 million, $3 million drawn). At 30 June 2013, $90 million of the facilities mature in November 2015; $210 million matures between March 2016 and November 2016; $50 million matures in February 2017; and $100 million matures in November 2017. These committed credit facilities support a $250 million commercial paper programme which is unutilised at 30 June 2013 (2012: $250 million, unutilised).

The total export credit agency facility of $105 million can be drawn as certain milestone payments are made on the Te Mihi geothermal power station development. At 30 June 2013, the milestone payments made until that date resulted in an available facility of $92 million which was fully drawn (2012: $92 million available, nil drawn). The carrying amount of the export credit agency facility is $87 million net of deferred financing costs (2012: nil). Once drawn, borrowings under the facility mature in November 2027 with fixed scheduled repayments commencing in November 2013.

Security

All borrowings rank equally with the exception of the capital bonds which are subordinated to other borrowings. Contact's borrowings are unsecured, except for finance leases. Contact borrows under a Deed of Negative Pledge and Guarantee, which does not permit Contact to grant any security interest over its assets, unless it is an exception permitted within the Deed of Negative Pledge and Guarantee. Contact complied with all borrowings covenants during the year.

11. FINANCIAL INSTRUMENTS

The following table classifies financial instruments by type and measurement basis:

Group	2013 Carried at cost or amortised cost $m	2013 Carried at fair value $m	2012 Carried at cost or amortised cost $m	2012 Carried at fair value $m
Loans and receivables and financial liabilities held at amortised cost				
Cash and cash equivalents	80	–	6	–
Receivables	340	–	339	–
Payables and accruals	(315)	–	(404)	–
Borrowings	(932)	–	(847)	–
Available-for-sale assets				
Investment in Liquigas Limited shares	3	–	3	–
Fair value hedges				
Cross-currency interest rate swaps	–	(111)	–	(130)
Interest rate derivatives	–	(3)	–	–
Borrowings designated in a fair value hedge relationship	–	(438)	–	(457)
Cash flow hedges				
Cross-currency interest rate swaps – margin	–	(2)	–	(4)
Foreign exchange derivatives	–	(1)	–	(3)
Electricity price derivatives	–	9	–	(2)
Derivatives not designated in hedge relationships				
Interest rate derivatives	–	(29)	–	(41)

The carrying amounts of Parent financial instruments that differ to those of the Group, as presented in the above table, are as follows:

Parent	2013 Carried at cost or amortised cost $m	2013 Carried at fair value $m	2012 Carried at cost or amortised cost $m	2012 Carried at fair value $m
Loans and receivables and financial liabilities held at amortised cost				
Cash and cash equivalents	78	–	4	–
Receivables	329	–	349	–
Payables and accruals	(352)	–	(480)	–

Purchases and sales of financial assets in the ordinary course of business are recognised on trade date.

11. FINANCIAL INSTRUMENTS – CONTINUED

Financial instruments carried at cost or amortised cost

Loans and receivables and other financial liabilities are initially recognised at fair value less transaction costs and subsequently carried at amortised cost.

Available-for-sale financial instruments are normally recognised at fair value. Contact's investment in the unlisted shares of Liquigas Limited is Contact's only available-for-sale financial asset and it is held at cost because the fair value of the unlisted shares cannot be reliably determined.

The fair values of the retail, wholesale and capital bonds provided below are different to their carrying amounts. The carrying amounts of all other financial instruments approximate their fair values.

Group and Parent	2013 Carrying amount $m	2013 Fair value $m	2012 Carrying amount $m	2012 Fair value $m
Retail bonds	(548)	(575)	(545)	(589)
Wholesale bonds	(197)	(209)	(100)	(112)
Capital bonds	(196)	(202)	(196)	(210)

Financial instruments carried at fair value

Financial instruments recognised at fair value are categorised based on the level of judgement involved in determining their fair value as described below.

(1) Level 1: fair value is determined using unadjusted quoted prices from an active market for identical assets and liabilities.

(2) Level 2: fair value is derived from inputs other than quoted prices that are observable either directly (i.e. from prices) or indirectly (i.e. derived from prices).

(3) Level 3: fair value is derived from inputs that are not based on observable market data.

At 30 June 2013, all financial instruments carried at fair value were categorised as level 2, except for $1 million of cash flow electricity price derivatives categorised as level 3 financial instruments (2012: $5 million). Contact had no level 1 financial instruments at 30 June 2013 (2012: nil).

All derivatives are recognised at fair value. Changes in fair value of derivatives not designated in a hedge relationship are recognised in the Income Statement. The effective portion of changes in the fair value of derivatives designated as cash flow hedges is recognised in the cash flow hedge reserve. The gain or loss relating to any ineffective portion is recognised immediately in the Income Statement. Amounts recognised in the cash flow hedge reserve are transferred to the Income Statement or Statement of Financial Position according to the nature of the hedged item. Changes in the fair value of derivatives designated as fair value hedges are recorded in the Income Statement together with any changes in the fair value of the underlying hedged borrowings.

The change in the fair value of derivatives and borrowings designated in a fair value hedge relationship is provided below:

Group and Parent Favourable/(unfavourable)	2013 Income statement $m	2013 Cash flow hedge reserve $m	2012 Income statement $m	2012 Cash flow hedge reserve $m
Fair value hedges				
Cross-currency interest rate swaps	19	–	20	–
Interest rate derivatives	(3)	–	–	–
Borrowings designated in a fair value hedge relationship	(16)	–	(20)	–
	–	–	–	–
Cash flow hedges				
Cross-currency interest rate swaps – margin	–	2	–	2
Foreign exchange derivatives	–	2	–	11
Electricity price derivatives	(1)	12	(1)	23
Tax on change in fair value	–	(4)	–	(7)
Derivatives not designated in hedge relationships				
Interest rate derivatives	12	–	(10)	–
	11	**12**	**(11)**	**29**

The cross-currency interest rate swaps have been split into two components for the purpose of hedge designation. The hedge of the benchmark interest rate is designated as a fair value hedge, and the hedge of the margin is designated as a cash flow hedge.

The period over which the cash flow hedges are expected to affect profit matches the period that the cash flows are expected to occur, which for cross-currency interest rate swaps is over a period of 2 months to 15 years, for foreign exchange derivatives is over a period of 1 month to 3 years and for electricity price derivatives is over a period of 1 month to 4 years (2012: 1 month to 5 years, 1 month to 3 years and 1 month to 3 years respectively).

Further detail on the movement in the cash flow hedge reserve is as follows:

Group and Parent	2013 $m	2012 $m
Balance at the beginning of the year	(8)	(37)
Effective portion of cash flow hedges recognised	7	20
Transferred to revenue	2	8
Transferred to change in fair value of financial instruments (ineffectiveness)	1	–
Transferred to property, plant and equipment	3	3
Transferred to deferred tax	(1)	(2)
Balance at the end of the year	**4**	**(8)**

12. FINANCIAL RISK MANAGEMENT

Contact's overall financial risk management system mitigates the exposure to capital, liquidity, market and credit risks by ensuring that material risks are identified, that the financial impact is well understood and reported, that appropriate tools and limits are in place to manage exposures, and that collective and individual responsibilities are assigned and well understood.

The overall financial risk management system is supported by written policies covering specific areas, such as liquidity risk including capital risk, foreign currency risk, price risk, interest rate risk, credit risk, and the use of derivative financial instruments and non-derivative financial instruments. These policies provide a framework for identifying, monitoring and managing financial risks.

Capital risk

Contact's capital includes share capital, reserves, retained earnings and net debt. Contact's objective when managing capital is to safeguard Contact's ability to continue as a going concern so that it can continue to provide returns for shareholders, benefits for other stakeholders and to maintain an optimal capital structure. Contact manages its capital structure to ensure it can continue to attract capital from investors and lenders on reasonable terms.

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

12. FINANCIAL RISK MANAGEMENT – CONTINUED

Contact monitors capital on the basis of the cash flow metrics required to sustain an investment grade credit rating and seeks to retain a gearing ratio suitable to the nature of Contact's business. Contact's gearing ratio is calculated as follows:

Group	2013 $m	2012 $m
Net debt		
Current borrowings (excluding current portion of term borrowings)	(1)	(4)
New Zealand dollar equivalent of notional borrowings – after foreign exchange hedging and before deferred financing costs:		
Retail bonds	(550)	(550)
Wholesale bonds	(200)	(100)
Capital bonds	(200)	(200)
Export credit agency facility	(92)	–
USPP notes	(452)	(587)
Other non-current borrowings	–	(2)
Cash and cash equivalents	80	6
Total net debt	**(1,415)**	**(1,437)**
Equity		
Shareholders' equity	(3,537)	(3,418)
Remove net effect of fair value of financial instruments after tax	(17)	(36)
Adjusted equity	**(3,554)**	**(3,454)**
Total capital funding	**(4,969)**	**(4,891)**
Gearing ratio	**28.5%**	**29.4%**

Liquidity risk

Contact's liquidity risk arises from its need to ensure that it has access to sufficient committed financing to meet its committed expenditure and debt repayment obligations, normal periodic fluctuations and unexpected funding requirements.

Prudent liquidity risk management requires Contact to maintain sufficient liquidity, which can comprise cash, marketable securities and/or the availability of funding through undrawn committed credit facilities. To reduce refinancing risk, debt maturities are spread over a number of years and any new financing or refinancing requirements are addressed with an appropriate lead time. Liquidity risk is monitored by continually forecasting actual cash flows and maintaining a liquidity buffer based on a financial risk capacity analysis.

The liquidity analysis provided below is based on the contractual maturities of all financial liabilities including derivatives, and the USPP notes yet to be issued. As the amounts presented are contracted, undiscounted cash flows and include the USPP notes yet to be issued, the totals will not reconcile to the Statement of Financial Position.

Group 2013 Outflow/(inflow)	Total contractual cash flows $m	Less than 1 year $m	1-2 years $m	2-5 years $m	More than 5 years $m
Payables and accruals	315	315	–	–	–
Borrowings					
– Inflow	(301)	(301)	–	–	–
– Outflow	2,419	768	192	386	1,073
Finance lease liabilities	1	1	–	–	–
Net settled derivative financial instruments:					
Electricity price derivatives	(8)	(7)	(1)	–	–
Interest rate derivatives	(34)	(8)	(9)	(15)	(2)
Gross settled derivative financial instruments:					
Foreign exchange derivatives					
– Inflow	(34)	(29)	(5)	–	–
– Outflow	35	29	6	–	–
Cross-currency interest rate swaps					
– Inflow	(1,113)	(438)	(156)	(136)	(383)
– Outflow	1,333	482	213	192	446
Total	**2,613**	**812**	**240**	**427**	**1,134**

Group 2012 Outflow/(inflow)	Total contractual cash flows $m	Less than 1 year $m	1-2 years $m	2-5 years $m	More than 5 years $m
Payables and accruals	404	404	–	–	–
Borrowings	1,942	190	745	324	683
Finance lease liabilities	3	1	2	–	–
Net settled derivative financial instruments:					
Electricity price derivatives	2	2	–	–	–
Interest rate derivatives	44	9	10	23	2
Gross settled derivative financial instruments:					
Foreign exchange derivatives					
– Inflow	(76)	(70)	(3)	(3)	–
– Outflow	80	74	3	3	–
Cross-currency interest rate swaps					
– Inflow	(486)	(119)	(128)	(152)	(87)
– Outflow	651	156	171	205	119
Total	**2,564**	**647**	**800**	**400**	**717**

The liquidity analysis provided above is the same for both Group and Parent with the exception of payables and accruals. Payables and accruals for the Parent are expected to be paid within 1 year of the end of the reporting period and totalled $352 million at 30 June 2013 (2012: $480 million).

Market risk

Foreign currency risk

Contact is exposed to foreign currency risk arising from:

- future commercial transactions such as the purchase of capital equipment and payments for maintenance denominated in currencies other than the New Zealand dollar (primarily Australian dollar, United States dollar, Japanese yen and Euro)
- future interest and principal payments on the USPP notes.

Contact uses foreign exchange derivatives to manage foreign exchange risk arising from committed future commercial transactions. Cross-currency interest rate swaps are used to manage foreign exchange risk arising from future interest and principal payments relating to the USPP notes.

The exposure to foreign exchange risk arising from future commercial transactions is measured as the New Zealand dollar equivalent notional principal amount of foreign exchange derivatives. These contracts are intended to hedge 100 per cent of known material foreign currency exposures. The notional principal amount of the outstanding foreign exchange derivatives at 30 June 2013 was $36 million (2012: $80 million).

The exposure to foreign exchange risk arising from future interest and principal payments is measured as the New Zealand dollar equivalent of the notional principal amount of outstanding cross-currency interest rate swap contracts which, including forward starting contracts was $759 million at 30 June 2013 (2012: $587 million).

Price risk

Contact is exposed to commodity price risk arising from forecast sales and purchases of electricity from the electricity market. Contact uses electricity price derivatives that effectively fix the price at which it will buy or sell electricity to support the natural hedge provided by the integrated generation and retail business to mitigate its electricity price risk.

The aggregate notional volume of the outstanding fixed volume electricity price derivatives at 30 June 2013 was 1,463 gigawatt hours (GWh) (2012: 731 GWh). The aggregate notional volume of the outstanding variable volume electricity price derivatives at 30 June 2013 was nil (2012: 195 GWh).

12. FINANCIAL RISK MANAGEMENT – CONTINUED

Interest rate risk

Contact is exposed to interest rate risk primarily as a result of floating rate term borrowings either directly or indirectly through the use of interest rate derivatives. Floating rate New Zealand dollar exposures are mitigated by use of New Zealand dollar interest rate derivatives within policy limits set by the Board.

Contact's interest rate risk exposure is measured as the notional value of the floating rate borrowings which was $366 million at 30 June 2013 (2012: $397 million).

Sensitivity analysis

The table below summarises the impact on post-tax profit and the cash flow hedge reserve component of other comprehensive income at 30 June 2013 and 30 June 2012 of possible changes in electricity forward prices, foreign exchange rates and interest rates. The analysis assumes that all variables were held constant except for the relevant market risk factor.

Group and Parent Favourable/(unfavourable)	2013 $m	2013 $m	2012 $m	2012 $m
Electricity forward prices[1]	**+10%**	**-10%**	**+10%**	**-10%**
Impact on post-tax profit	–	–	(1)	1
Impact on other comprehensive income	(5)	5	(4)	2
Foreign currencies[2]	**+10%**	**-10%**	**+10%**	**-10%**
Impact on other comprehensive income	(2)	2	(6)	6
Interest rates[3]	**+100bps**	**-25bps**	**+100bps**	**-25bps**
Impact on post-tax profit	4	(1)	9	(2)

1. Assumes an increase/decrease of 10 per cent in the relevant electricity forward prices. The change arises from the change in fair value of electricity derivatives.
2. Assumes that the New Zealand dollar strengthened/weakened by 10 per cent against the currencies that Contact is exposed to. The change arises from unrealised foreign exchange gains/losses on the revaluation of foreign exchange derivatives.
3. Assumes that interest rates were 100 basis points higher or 25 basis points lower. The change arises from the fair value change in interest rate derivatives that are valid economic hedges but do not qualify for hedge accounting.

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 cash, short-term deposits, trade receivables, other receivables and derivative financial instruments.

Contact minimises its exposure to credit risk of receivables through the adoption of counterparty credit limits, a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral, where appropriate.

Derivative counterparties and cash transactions are limited to high-credit-quality financial institutions and other organisations in the relevant industry. Contact's exposures and the credit ratings of its counterparties are continually monitored, and the aggregate value of transactions is spread amongst approved counterparties.

The carrying amounts of financial assets, as disclosed in note 11, best represent Contact's maximum exposure to credit risk at the end of the reporting period without taking account of the value of any collateral obtained.

Contact does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. Concentration of credit risk with respect to receivables is limited 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 institution, despite there being significant sales to NZX Energy. NZX Energy acts as an electricity market clearing agent and the counterparty risk sits with the market participants. Contact, as a participant in the electricity market, has issued letters of credit to Energy Clearing House Limited under the electricity market's security requirements. These letters of credit are issued as part of normal trading conditions and ensure that there is no significant credit exposure to any one market participant, should another participant default.

CONTACT ENERGY LIMITED AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2013

13. NOTE TO THE STATEMENT OF CASH FLOWS

Cash includes cash on hand, at bank and short-term deposits net of outstanding bank overdrafts. The table below provides a reconciliation of profit for the year to cash flows from operating activities.

	Group 2013 $m	Group 2012 $m	Parent 2013 $m	Parent 2012 $m
Profit for the year	**199**	**190**	**183**	**186**
Adjustments to reconcile profit to net cash inflow from operating activities:				
Depreciation and amortisation	195	193	190	189
Change in fair value of financial instruments	(11)	11	(11)	11
Asset impairments	72	4	65	4
Gain on sale of property, plant and equipment	(50)	(2)	(50)	(2)
Exit of investment in Oakey Power Holdings Pty Limited	–	(26)	–	(36)
Non-cash share of equity accounted earnings of associate	–	(2)	–	–
Net interest expense	66	72	66	72
Bad debt expense	15	13	17	13
Movement in provisions	(6)	2	(6)	2
Movement in deferred tax	31	13	37	15
Share-based compensation	4	3	4	3
Changes in assets and liabilities, net of non-cash, investing and financing activities:				
Receivables and prepayments	49	(104)	77	(110)
Inventories	(7)	(17)	(8)	(19)
Payables and accruals	(74)	69	(87)	84
Tax payable	(13)	29	(13)	29
Other	(1)	(8)	(1)	(8)
Net cash inflow from operating activities	**469**	**440**	**463**	**433**

14. RECEIVABLES AND PREPAYMENTS

	Note	Group 2013 $m	Group 2012 $m	Parent 2013 $m	Parent 2012 $m
Trade receivables		163	232	147	211
Unbilled receivables		115	103	113	98
Less: provision for impairment		(7)	(6)	(6)	(5)
		271	**329**	**254**	**304**
Prepayments		3	12	3	12
Other receivables		69	10	69	10
Advances to subsidiaries	19	–	–	6	35
		343	**351**	**332**	**361**

Unbilled receivables represent Contact's best estimate of retail sales for unread electricity and gas meters at the end of the reporting period. This involves estimating consumption for each unread meter based on the consumption history of the customer's meter.

Contact recognises an impairment loss 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.

For retail receivables that are not significant on an individual basis, collective impairment is assessed on a portfolio basis, based on historical delinquency rates and losses. Bad debts net of recoveries of $12 million for Group and $15 million for Parent (Group and Parent 2012: $10 million) were recognised during the year. This includes write-offs of $3 million of the Parent's advances to subsidiaries as a result of the deregistration of the Australian subsidiaries during the year. Advances to subsidiaries are presented net of a $26 million provision for impairment to the Contact Wind Limited receivable – refer to note 3.

Included in trade receivables are receivables that are past due but not impaired as follows:

	Group 2013 $m	Group 2012 $m	Parent 2013 $m	Parent 2012 $m
0-30 days past due	18	21	16	17
30-90 days past due	7	7	7	6
Over 90 days past due	3	2	3	2
	28	**30**	**26**	**25**

15. PAYABLES AND ACCRUALS

	Note	Group 2013 $m	Group 2012 $m	Parent 2013 $m	Parent 2012 $m
Electricity purchases accrual		54	112	54	107
Other trade payables and accruals		227	261	215	242
Employee benefits		26	24	26	24
Interest payable		12	12	12	12
Advances from subsidiaries	19	–	–	49	100
		319	**409**	**356**	**485**

16. PROVISIONS

	Group Restoration/ environmental rehabilitation $m	Group Other $m	Group Total $m	Parent Restoration/ environmental rehabilitation $m	Parent Other $m	Parent Total $m
Balance at 1 July 2012	60	9	69	57	9	66
Provisions made during the year	–	2	2	–	2	2
Provisions used during the year	(1)	(3)	(4)	(1)	(3)	(4)
Provisions released during the year	(6)	(2)	(8)	(6)	(2)	(8)
Unwind of discount	5	–	5	5	–	5
Balance at 30 June 2013	**58**	**6**	**64**	**55**	**6**	**61**
Current	4	2	6	3	2	5
Non-current	54	4	58	52	4	56

The restoration and environmental rehabilitation provision includes estimates of future expenditure for the abandonment and restoration of areas from which natural resources are extracted, removal of asbestos from generation properties and the expected cost of environmental rehabilitation of commercial sites. Cash outflows are typically expected to coincide with the end of the useful lives of the sites, with the exception of asbestos removal costs, which are expected to be incurred within the next 5 years.

Other provisions cover a range of commercial matters, including the expected cost of restructuring activities in progress at the end of the reporting period.

17. TAXATION

Tax expense comprises current and deferred tax. Income tax is recognised in the Income Statement except when it relates to items recognised directly in the Statement of Comprehensive Income, in which case the income tax is recognised in the Statement of Comprehensive Income.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax is based on the expected manner of realisation of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the end of the reporting period. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

Tax expense is determined as follows:

	Group 2013 $m	Group 2012 $m	Parent 2013 $m	Parent 2012 $m
Profit before tax	263	256	249	250
Tax thereon at 28%	74	72	70	70
Plus/(less) tax effect of adjustments:				
Gas meter assets sale	(7)	–	(7)	–
Decommissioned New Plymouth power station sale	(6)	–	(6)	–
Clutha asset impairment and land sales	(4)	(1)	(4)	(1)
Asset impairments	8	–	13	–
Exit of investment in Oakey Power Holdings Pty Limited	–	(6)	–	(6)
Prior period adjustments	(2)	1	(2)	1
Other differences	1	–	2	–
Tax expense	**64**	**66**	**66**	**64**
Comprising:				
Current tax	33	53	29	49
Deferred tax	31	13	37	15

17. TAXATION – CONTINUED

Deferred tax assets and liabilities are offset on the face of the Statement of Financial Position and presented as a net deferred tax liability. The movement in deferred tax asset and liabilities is provided below:

Group	Property, plant and equipment $m	Inventories $m	Employee benefits $m	Provisions $m	Derivative financial instruments $m	Other $m	Total $m
Balance at 1 July 2011	(716)	3	6	12	17	(2)	(680)
Recognised in the Income Statement	(22)	–	–	2	3	4	(13)
Recognised in other comprehensive income	–	–	–	–	(7)	–	(7)
Balance at 30 June 2012	**(738)**	**3**	**6**	**14**	**13**	**2**	**(700)**
Balance at 1 July 2012	(738)	3	6	14	13	2	(700)
Recognised in the Income Statement	(19)	(3)	–	(2)	(3)	(4)	(31)
Recognised in other comprehensive income	–	–	–	–	(4)	–	(4)
Balance at 30 June 2013	**(757)**	**–**	**6**	**12**	**6**	**(2)**	**(735)**

Parent	Property, plant and equipment $m	Inventories $m	Employee benefits $m	Provisions $m	Derivative financial instruments $m	Other $m	Total $m
Balance at 1 July 2011	(711)	3	6	11	17	1	(673)
Recognised in the Income Statement	(21)	–	–	2	3	1	(15)
Recognised in other comprehensive income	–	–	–	–	(7)	–	(7)
Balance at 30 June 2012	**(732)**	**3**	**6**	**13**	**13**	**2**	**(695)**
Balance at 1 July 2012	(732)	3	6	13	13	2	(695)
Recognised in the Income Statement	(25)	(3)	–	(2)	(3)	(4)	(37)
Recognised in other comprehensive income	–	–	–	–	(4)	–	(4)
Balance at 30 June 2013	**(757)**	**–**	**6**	**11**	**6**	**(2)**	**(736)**

Imputation credits available for use in subsequent reporting periods are 238 million (2012: 246 million). These are available to shareholders through the consolidated imputation group.

18. OPERATING COMMITMENTS

Operating leases

	Group 2013 $m	Group 2012 $m	Parent 2013 $m	Parent 2012 $m
Not later than 1 year	6	6	5	5
Later than 1 year and not later than 5 years	15	13	12	9
Later than 5 years	12	8	8	4
Total operating lease commitments	**33**	**27**	**25**	**18**
Total operating lease income	**(3)**	**(4)**	**(3)**	**(3)**

Operating leases relate to the rental of buildings, plant and equipment and vehicles and are on normal commercial terms and conditions. The lease commitments above are stated exclusive of Goods and Services Tax.

Gas

Maui Development Limited

Contact has contracts with Maui Development Limited giving Contact rights to gas from the Maui gas field until 31 December 2014. Under these contracts, Contact has agreed to make fixed annual payments for the right to take gas. The contracts require Contact to have arrangements in place to transport the gas in the Maui pipeline.

OMV New Zealand Limited

Contact has a contract with OMV New Zealand Limited giving Contact rights to gas from the Pohokura gas field until 31 December 2013. Under the contract, Contact has agreed to make fixed annual payments for the right to take gas. The contract requires 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 transportation of natural gas. Under these contracts, Contact is committed to pay minimum fees for reserved pipeline capacity.

Gas sale and repurchase arrangement

Contact has entered into a sale and repurchase arrangement to deliver a fixed amount of gas between 1 July 2012 and 31 December 2013 and to receive a fixed amount of gas from 1 January 2014 to 31 December 2015. The contract requires Contact to have arrangements in place to transport the gas in the Maui pipeline.

19. RELATED PARTIES

Ultimate parent entity

The ultimate parent entity of Contact is Origin, an Australian incorporated company. At 30 June 2013, Origin Energy Pacific Holdings Limited is the majority shareholder in the Parent, owning 52.3 per cent (2012: 52.2 per cent) of the ordinary shares of the Parent. Further shares amounting to 0.8 per cent (2012: 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 ultimately wholly owned by Origin.

Group related parties

Contact's related parties include subsidiaries of Origin, key management personnel and Rockgas Timaru Limited which is an associate of the Group.

Contact entered into the following material transactions with related parties during the year:

Group	2013 $m	2012 $m
Transactions with related parties – received/(paid)		
Origin and its subsidiaries		
Ahuroa gas storage facility development and operation expenses	(8)	(10)
SAP infrastructure and data services costs	(6)	(4)
Purchase of LPG	(42)	(43)
Sale of electricity	5	1
Key management personnel		
Directors' fees	(1)	(1)
Chief Executive Officer seconded from Origin	(2)	(1)
Leadership team (excluding Chief Executive Officer)		
Salary, other short-term benefits and share-based compensation	(7)	(5)
Termination benefits	(1)	–
Associate of the Group		
Sale of LPG	–	1
Balances receivable/(payable) at the end of the year		
Origin and its subsidiaries	(5)	(8)
Key management personnel	(2)	(1)

The Leadership team, including the Chief Executive Officer, received share-based compensation during the year of $2 million (2012: $1 million), which has been included in the amounts disclosed above.

New Zealand based directors and members of the Leadership team purchase electricity and gas from the Group for domestic purposes on normal commercial terms and conditions with staff discount.

Contact paid a cash dividend to its Origin shareholders of $43 million on 26 March 2013. Contact also issued 9,367,110 ordinary shares to its Origin shareholders under the PDP on 21 September 2012 (2012: 8,201,342 ordinary shares on 27 September 2011 and 8,279,521 ordinary shares on 30 March 2012) and repurchased 641,765 ordinary shares on 21 September 2012 (2012: 644,212 ordinary shares on 27 September 2011 and 631,513 ordinary shares on 30 March 2012).

Contact and Origin have a Master Services Agreement for the provision of professional, consulting and administrative services. During the year ended 30 June 2013, five members of staff were seconded from Origin to Contact, and one staff member was seconded from Contact to Origin. These secondments are undertaken on a cost recovery basis.

CONTACT ENERGY LIMITED AND SUBSIDIARIES
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For the year ended 30 June 2013

Parent related parties

The Parent's related parties are the same as those of the Group with the addition of the following subsidiaries:

Name of entity	Interest held by Parent 2013	Interest held by Parent 2012	Principal activity	Country of incorporation
Contact Aria Limited	100%	100%	Investment holding company	New Zealand
Contact Wind Limited	100%	100%	Wind generation development	New Zealand
Rockgas Limited	100%	100%	LPG retailer	New Zealand
Empower Limited	–	100%	Electricity retailer and gas wholesaler	New Zealand
Contact Australia Pty Limited	–	100%	Investment holding company	Australia
Contact Operations Australia Pty Limited	–	100%	Management company for Australian interests	Australia

All subsidiaries have a balance date of 30 June. The Australian subsidiaries were deregistered during the year.

Empower Limited was amalgamated into the Parent on 30 April 2013. Until the date of amalgamation Empower Limited had been wholly owned by the Parent. Under the amalgamation, the Parent took control of all of the assets of the amalgamated company and assumed responsibility for its liabilities. Empower Limited has been deregistered.

Summary of the effect of Empower Limited amalgamation	2013 $m
Net assets of Empower Limited at 30 April 2013 (including goodwill and intercompany eliminations arising on consolidation)	118
Elimination of investment in Empower Limited	(64)
Balance recognised in the Statement of Changes in Equity	**54**

The assets and liabilities have been brought into the Parent's financial statements at their carrying amounts. The operating results of Empower Limited have been included in the Income Statement of the Parent from and including 1 May 2013. The balance on amalgamation has been recognised in the Statement of Changes in Equity of the Parent.

In addition to the Group related party transactions, the Parent charged its subsidiaries $18 million (2012: $16 million) for management services. The Parent also pays operating expenses on behalf of its subsidiaries, which are on-charged directly to those subsidiaries.

Advances to/from subsidiaries are included in notes 14 and 15, respectively. Advances are repayable on demand and are interest free.

20. SHARE-BASED COMPENSATION

Contact provides a long-term incentive award to certain eligible employees under the Share Option Scheme. The long-term incentive award is comprised of share options and performance share rights granted to eligible employees at nil cost. The share options and performance share rights are unlisted, cannot be traded and do not entitle the employee to distribution or voting rights. On exercise, the performance share rights convert to ordinary shares at no cost to the employee.

Performance hurdles are measured on three annual test dates, the first of which is 3 years after grant date. The share options and performance share rights will only be exercisable to the extent that Contact's total shareholder return (TSR) is in the upper half of the TSR of companies in the NZX50 index over the relevant period from grant date. If they became exercisable, share options and performance share rights must be exercised within 2 years and 2 months of the first test date. The share options and performance share rights may also be exercised if a change of control of the Parent occurs, the Parent's shares cease to be listed on the NZX or at the discretion of the Board.

The share options and performance share rights will lapse if the performance hurdles are not met, if they are not exercised by the lapse date or if an employee ceases to be employed by Contact, other than on redundancy. The Share Option Scheme continues on redundancy but the number of share options and performance share rights the employee is entitled to will be recalculated on a proportionate basis.

20. SHARE-BASED COMPENSATION – CONTINUED

The movement in the number of share options and performance share rights outstanding is summarised below:

Group and Parent	Share Options		Performance Share Rights
	Number outstanding	Weighted average exercise price	Number outstanding
Balance at 1 July 2011	6,515,499	$6.10	872,443
Granted	2,835,114	$5.40	1,010,094
Lapsed	(571,551)	$6.43	(55,341)
Balance at 30 June 2012	**8,779,062**	**$5.85**	**1,827,196**
Balance at 1 July 2012	8,779,062	$5.85	1,827,196
Granted	4,852,273	$5.22	662,408
Lapsed	(1,275,310)	$6.20	(232,538)
Balance at 30 June 2013	**12,356,025**	**$5.57**	**2,257,066**

No share options were exercisable at 30 June 2013 (2012: nil). The range of exercise prices for share options outstanding at 30 June 2013 was $5.22 to $8.53 (2012: $5.40 to $9.07) and these options have a weighted average remaining contractual life of 3.1 years (2012: 3.4 years). A further 167,033 share options have lapsed since 30 June 2013.

No performance share rights were exercisable at 30 June 2013 (2012: nil). Performance share rights outstanding at 30 June 2013 have a weighted average remaining contractual life of 3.0 years (2012: 3.4 years). A further 24,355 performance share rights have lapsed since 30 June 2013.

Fair value of share-based compensation

The fair value of employee services received in exchange for the grant of the share options and performance share rights is recognised as an expense, with a corresponding increase in equity over the vesting period. The fair value of the services received is based on the fair value of the share options and performance share rights granted.

Contact revises the amount to be recognised as an expense to reflect the number of share options and performance share rights that are expected to become exercisable or vest. The total expense recognised under the Share Option Scheme during the year ended 30 June 2013 was $4 million (2012: $3 million).

The fair value of share options and performance share rights granted during the year were $0.43 (2012: $0.80) and $3.15 (2012: $3.70) respectively. The fair values were based on the following assumptions:

Group and Parent	2013	2012
Risk-free interest rate	3%	3%
Expected dividend yield	5%	5%
Expected share price volatility	18%	24%

Volatility is based on the historical volatility in Contact's share price. The performance hurdles noted above are included in the valuation model used in determining the fair value of share options and performance share rights issued during the year.

21. CONTINGENT LIABILITIES

Contact has contingent liabilities in respect of claims and warranties arising in the ordinary course of business and as a result of the gas meter assets sale (refer to note 3). Contact's net exposure to the warranties provided under the gas meter assets sale is $2 million. It is not anticipated that any material liabilities will arise from these claims and warranties.

22. SUBSEQUENT EVENTS

On 19 August 2013, the Board declared a final distribution of 14.0 cents per share, to be paid on 16 September 2013.

Independent Auditor's Report

To the shareholders of Contact Energy Limited

Report on the company and Group financial statements

We have audited the accompanying financial statements of Contact Energy Limited ('the company') and the Group, comprising the company and its subsidiaries, on pages 70 to 98. The financial statements comprise the statements of financial position as at 30 June 2013, the income statements and statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, for both the company and the Group.

Directors' responsibility for the company and Group financial statements

The directors are responsible for the preparation of company and Group financial statements in accordance with generally accepted accounting practice in New Zealand and International Financial Reporting Standards that give a true and fair view of the matters to which they relate, and for such internal control as the directors determine is necessary to enable the preparation of company and Group financial statements that are free from material misstatement whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these company and Group financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the company and Group financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the company and Group financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company and Group's preparation of the financial statements that give a true and fair view of the matters to which they relate in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company and Group's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, as well as evaluating the presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Partners and employees of our firm do also 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 auditor of the company and Group. The firm has no other relationship with, or interest in, the company and Group.

Opinion

In our opinion the financial statements on pages 70 to 98:

- comply with generally accepted accounting practice in New Zealand;
- comply with International Financial Reporting Standards;
- give a true and fair view of the financial position of the company and the Group as at 30 June 2013 and of the financial performance and cash flows of the company and the Group for the year then ended.

Report on other legal and regulatory requirements

In accordance with the requirements of sections 16(1)(d) and 16(1)(e) of the Financial Reporting Act 1993, we report that:

- we have obtained all the information and explanations that we have required; and
- in our opinion, proper accounting records have been kept by Contact Energy Limited as far as appears from our examination of those records.

KPMG

19 August 2013
Wellington

Corporate Directory

Board of Directors

Grant King (Chairman)

Phillip Pryke (Deputy Chairman)

David Baldwin

Bruce Beeren

Whaimutu Dewes

Karen Moses

Sue Sheldon

Leadership Team

Dennis Barnes
Chief Executive Officer

Ruth Bound
General Manager – Sales and Customer Experience

Graham Cockroft
Chief Financial Officer

Mark Corbitt
General Manager – Information and Communication Technology

Peter Kane
General Manager – Operations

James Kilty
General Manager – Trading, Development and Geothermal Resources

Tania Palmer
General Manager – Health, Safety and Environment

Paul Ridley-Smith
General Counsel

Nicholas Robinson
General Manager – Customer Insight, Marketing and Communications

Annika Streefland
General Manager – People and Culture

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Auditor

KPMG

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Wellington 6140

New Zealand

Share registrar

Link Market Services Limited

Level 7, Zurich House

21 Queen Street

Auckland 1010

New Zealand

Website: www.linkmarketservices.co.nz

Shareholder/bondholder enquiries

To view your investment portfolio, supply your email address, change your details, or update your payment instructions relating to Contact, please contact our registry, Link Market Services Limited, by either:

Email: contactenergy@linkmarketservices.co.nz

Mail: Link Market Services, PO Box 91976, Auckland 1142, New Zealand

Fax: +64 9 375 5990, or

Phone: + 64 9 375 5998

Please provide your CSN/holder number on any correspondence with our registry.

Direct crediting of dividends/interest payments

To minimise the risk of fraud and misplacement of dividend/interest payment cheques, shareholders/bondholders are strongly recommended to have all payments made by way of direct credit to their nominated bank account in New Zealand.

Electronic shareholder communication

We encourage investors to elect to receive investor communications electronically as it keeps costs down, delivery of our communication to you is faster and it is better for the environment. Please visit the Link Market Services website www.linkmarketservices.co.nz or contact them directly to update your information.

Investor relations enquiries

Fraser Gardiner

Head of Investor Relations and Strategy

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Phone: +64 4 499 4001

Stock exchange listings

NZSX trading code: CEN

NZDX trading codes: CEN010 and CENFA

Company number

660760

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