

# Financial Statements

for the year ended 30 June 2009

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**Income Statement** for the year ended 30 June 2009

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

**Supplementary disclosure**

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

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

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

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

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

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

**Balance Sheet** as at 30 June 2009

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

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

On behalf of the Board



**Grant King**  
Chairman, 13 August 2009



**Phillip Pryke**  
Deputy Chairman, 13 August 2009

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

**Statement of Cash Flows** for the year ended 30 June 2009

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

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

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

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

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

## Notes to the financial statements

for the year ended 30 June 2009

### 1 Statement of accounting policies

#### Reporting entity

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

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

#### Basis of preparation

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

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

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

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

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

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

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

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

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

#### Adoption status of relevant new financial reporting standards and interpretations

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

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

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

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

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

### Accounting estimates and judgements

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

#### Financial instruments

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

#### Generation plant and equipment

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

#### Intangible assets – gas storage rights

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

#### Intangible assets – goodwill

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

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

#### Provision – restoration and environmental rehabilitation

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

#### Retail revenue

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

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

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

### **Basis of consolidation**

#### **Subsidiaries**

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

#### **Business combinations of commonly controlled entities**

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

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

#### **Associates**

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

#### **Jointly controlled assets and jointly controlled entities**

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

#### **Acquisition or disposal during the period**

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

#### **Transactions and balances eliminated on consolidation**

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

### **Borrowings**

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

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

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

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

### **Cash and cash equivalents**

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

Cash and short term deposits exclude bank overdrafts.

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

### Derivative financial instruments and hedging

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

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

#### Fair value hedge

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

#### Cash flow hedge

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

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

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

#### Net investment hedge

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

#### Derivative financial instruments that do not qualify for hedge accounting

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

### Employee benefits

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

#### Long term service benefits

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

#### Share-based payments

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

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

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

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

### Exploration and evaluation expenditure

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

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

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

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

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

### Foreign currencies

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

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

### Group entities

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

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

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

### Gas entitlements

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

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

### Gas storage – cushion gas

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

### Generation and other research and development expenditure

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

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

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

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

### Goods and services tax (GST)

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

### Impairment

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

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

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

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

### Insurance

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

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

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

### Intangible assets

#### Goodwill

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

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

#### Other intangible assets

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

The amortisation rates are as follows:

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

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

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

### Inventories

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

### Investments – financial instruments

Contact classifies its investments in the following categories:

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

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

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

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

### Financial assets at fair value through the Income Statement

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

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

### Held-to-maturity financial assets

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

### Available-for-sale financial assets

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

### Operating leases

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

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

## Other revenue

### Dividend income

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

### Interest income

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

### Payables

Payables are stated at cost.

## Property, plant and equipment

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

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

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

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

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

### Revaluations

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

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

### Leased assets

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

### Depreciation

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

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

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

### Receivables

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

### Restoration and environmental rehabilitation

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

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

### Revenue

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

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

### Share capital

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

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

### Statement of Cash Flows

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

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

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

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

### Tax

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

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

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

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

### Changes in accounting policies

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

## 2 Underlying earnings after tax

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

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

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

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

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

## 3 Impairment of Gasbridge assets

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

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

#### 4 New Plymouth power station

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

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

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

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

#### 5 Sale of Mokai geothermal land and rights

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

#### 6 Segment reporting

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

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

Contact comprises the following main business segments:

##### **Retail**

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

##### **Generation**

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

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

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

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

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

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

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

## 7 Operating expenses

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

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

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

## 8 Net interest expense

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

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

## 9 Income tax

### Income tax expense

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

### Imputation credits

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

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

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

## 10 Distributions and dividends

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

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

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

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

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

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

## 11 Earnings and net tangible assets per share

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

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

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

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

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

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

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

## 12 Share capital

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

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

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

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

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

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

Contact Energy Limited and Subsidiaries  
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## 13 Reserves

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

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

## 14 Share-based payments

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

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

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

### (a) Share Option Plan

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

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

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

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

The share options will lapse:

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

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

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

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

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

## (b) Restricted Share Plan

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

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

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

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

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

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

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

The rights to the restricted shares will lapse:

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

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

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

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

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

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

### (c) Fair value of share-based payments

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

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

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

## 15 Cash and cash equivalents

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

## 16 Receivables and prepayments

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

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

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

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

### Provision for impairment

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

## 17 Inventories

	Group 30 June 2009 \$000	Group 30 June 2008 \$000	Parent 30 June 2009 \$000	Parent 30 June 2008 \$000
LPG	9,004	13,876	-	-
Consumables and spare parts	6,902	7,235	6,600	7,014
<b>Total inventories</b>	<b>15,906</b>	<b>21,111</b>	<b>6,600</b>	<b>7,014</b>

## 18 Property, plant and equipment

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

\* Refer to note 3.

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

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

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

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

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

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

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

## 19 Intangible assets

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

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

### Goodwill

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

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

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

### Gas storage rights

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

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

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

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

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

### Impairment

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

## 20 Gas storage – cushion gas

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

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

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

## 21 Investment in jointly controlled entity

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

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

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

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

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

## 22 Investment in subsidiaries

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

All subsidiaries have a balance sheet date of 30 June.

## 23 Investment in associates

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

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

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

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

## 24 Available-for-sale financial assets

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

	Group 30 June 2009 \$000	Group 30 June 2008 \$000	Parent 30 June 2009 \$000	Parent 30 June 2008 \$000
<b>At cost*</b>				
Unlisted shares in Liquigas Limited	2,935	2,935	-	-
	<b>2,935</b>	<b>2,935</b>	-	-

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

## 25 Borrowings

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

### Carrying value of borrowings

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

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

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

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

### Fixed rate bonds

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

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

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

### Security

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

### Credit facilities

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

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

### Finance lease liabilities

Future minimum lease payments are as follows:

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

The finance leases relate to computer equipment.

The present value of finance lease liabilities are as follows:

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

## 26 Financial instruments

### Financial risk management objectives

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

### Fair value of derivative financial instruments

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

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

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

### Changes in fair value of financial instruments

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

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

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

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

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

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

### Movement in cash flow hedge reserve

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

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

### Risk management

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

#### (a) Market risk

##### (i) Foreign currency risk

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

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

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

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

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

#### *Forward foreign exchange contracts*

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

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

#### *Sensitivity analysis*

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

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

#### (ii) Price risk

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

#### *Electricity price hedges*

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

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

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

#### *Sensitivity analysis*

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

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

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

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

*Cross currency interest rate swaps*

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

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

*Interest rate swaps*

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

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

*Sensitivity analysis*

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

**(b) Credit risk**

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

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

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

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

**(c) Liquidity risk**

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

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

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

**Contractual maturities of financial liabilities and derivative financial instruments**

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

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

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

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

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

### Fair values

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

### Estimation of fair values

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

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

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

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

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

### Financial instruments by category

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

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

\* Refer to note 24.

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

\* Refer to note 24.

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

\* Refer to note 24.

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

\* Refer to note 24.

### Capital risk management objectives

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

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

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

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

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

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

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

## 27 Payables and accruals

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

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

## 28 Provisions

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

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

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

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

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

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

## 29 Deferred tax

### Recognised deferred tax assets and liabilities

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

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

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

### Movement in deferred tax

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

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

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

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

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

- \* The change in tax rate column reflects the net change in deferred tax as a result of the reduction in the corporate income tax rate to 30 per cent enacted in May 2007 and effective for Contact's income tax year ending 30 June 2009. The effect of the change was recognised in the Income Statement in 2008 (Group \$0.4 million and Parent \$0.5 million) and in equity (Group and Parent \$3.4 million) consistent with the underlying items that gave rise to the deferred tax.
- \*\* Deferred tax on the revaluation increment of generation property, plant and equipment as at 30 June 2007 is recorded against the asset revaluation reserve in equity. Refer to note 13. Contact holds its property, plant and equipment on capital account for income tax purposes. Where the generation plant and equipment and generation capital work in progress is revalued, and there is no similar adjustment to the tax base, a taxable temporary difference is created that is recognised in deferred tax. The deferred tax liability on these revaluations would not crystallise under existing income tax legislation if the assets were to be sold at the balance sheet date. At 30 June 2009, the amount of deferred tax relating to the revaluation of generation plant and equipment and generation capital work in progress was \$535.7 million (2008: \$563.5 million).

#### Unrecognised deferred tax assets and liabilities

There are no unrecognised deferred tax assets and liabilities.

## 30 Commitments

### Capital and investment commitments

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

### Operating lease commitments

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

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

Lease commitments are stated exclusive of GST.

### Other operating commitments

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

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

## Gas commitments

### Maui contracts with Maui Development Limited

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

### Shell New Zealand Limited

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

### OMV New Zealand Limited

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

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

### Gas transmission contracts

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

## 31 Resource consents

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

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

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

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

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

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

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

## 32 Related party transactions

### Parent company

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

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

### Identity of related parties with whom material transactions have occurred

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

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

### Material related party transactions

#### Transactions with ultimate parent entity

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

#### Transactions with other Origin related parties

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

#### Transactions with subsidiaries

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

**Transactions with Directors and key management personnel**

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

**Transactions with other related parties**

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

**33 Key management personnel**

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

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

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

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

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

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

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

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

### 34 Whirinaki generation plant

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

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

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

### 35 Contingent liabilities

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

### 36 Subsequent events

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



# Audit Report

## To the shareholders of Contact Energy Limited

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We have audited the financial statements on pages 1 to 54. The financial statements provide information about the past financial performance and financial position of the company and the group as at 30 June 2009. This information is stated in accordance with the accounting policies set out on pages 6 to 15.

### Directors' responsibilities

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

### Auditors' responsibilities

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

### Basis of opinion

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

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

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

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

### Unqualified opinion

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

In our opinion:

- proper accounting records have been kept by the company as far as appears from our examination of those records;
- the financial statements on pages 1 to 54:
  - comply with New Zealand generally accepted accounting practice;
  - give a true and fair view of the financial position of the company and group as at 30 June 2009 and the results of their operations and cash flows for the year ended on that date.

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

A handwritten signature in blue ink, appearing to be 'KPMG'.

Wellington