

Financial Statements

for the year ended 30 June 2010

Income Statement

Statement of Comprehensive Income

Statement of Changes in Equity

Statement of Financial Position

Statement of Cash Flows

Notes to the financial statements

- 1 Statement of accounting policies
- 2 New Plymouth power station
- 3 Segment reporting
- 4 Revenue
- 5 Operating expenses
- 6 Other significant items
- 7 Net interest expense
- 8 Income tax expense
- 9 Distributions and dividends
- 10 Earnings and net tangible assets per share
- 11 Share capital
- 12 Share-based payments
- 13 Cash and cash equivalents
- 14 Receivables and prepayments
- 15 Inventories
- 16 Property, plant and equipment
- 17 Intangible assets
- 18 Gas storage – cushion gas
- 19 Investment in jointly controlled entity
- 20 Investment in subsidiaries
- 21 Investment in associates
- 22 Available-for-sale financial assets
- 23 Borrowings
- 24 Financial instruments
- 25 Payables and accruals
- 26 Provisions
- 27 Deferred tax
- 28 Commitments
- 29 Resource consents
- 30 Related party transactions
- 31 Key management personnel
- 32 Whirinaki generation plant
- 33 Contingent liabilities
- 34 Subsequent events

Audit report

Income Statement for the year ended 30 June 2010

	Note	Group 30 June 2010 \$000	Group 30 June 2009* \$000	Parent 30 June 2010 \$000	Parent 30 June 2009* \$000
Revenue	4	2,143,017	2,200,081	1,848,978	1,846,234
Other income		21,391	19,984	45,401	35,280
Operating expenses	5	(1,737,426)	(1,774,806)	(1,512,693)	(1,508,470)
Earnings before net interest expense, income tax, depreciation, amortisation, change in fair value of financial instruments and other significant items (EBITDAF)		426,982	445,259	381,686	373,044
Depreciation and amortisation	16, 17	(161,903)	(165,885)	(158,610)	(160,742)
Change in fair value of financial instruments	24	4,531	(57,511)	4,531	(57,511)
Other significant items	6	(8,894)	(2,830)	39,180	(5,145)
Equity accounted earnings of associates	21	3,272	3,624	-	-
Net interest expense	7	(55,980)	(62,601)	(55,845)	(62,492)
Profit before income tax		208,008	160,056	210,942	87,154
Income tax expense	8	(53,340)	(44,417)	(39,793)	(25,463)
Profit for the year		154,668	115,639	171,149	61,691
Basic and diluted earnings per share (cents)	10	25.94	19.98	28.70	10.66

* Comparative numbers have been restated due to a voluntary change in accounting policy. Refer to note 1.

Non-statutory measure: underlying earnings

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

	Note	Group 30 June 2010 \$000	Group 30 June 2009* \$000
Profit for the year		154,668	115,639
Underlying adjustments			
Change in fair value of financial instruments	24	(4,531)	57,511
Other significant items:			
Impairment of Gasbridge assets	6	-	2,830
Retail transaction processing outsourcing costs	6	3,330	-
Removal of New Plymouth asbestos and related costs	6	5,564	-
Adjustments before income tax		4,363	60,341
Income tax expense		(1,309)	(17,253)
Impact of change in corporate income tax rate	8	(42,650)	-
Removal of tax depreciation on buildings	8	34,765	-
Adjustments after income tax		(4,831)	43,088
Underlying earnings after tax		149,837	158,727
Underlying earnings per share (cents)	10	25.13	27.42

* Comparative numbers have been restated due to a voluntary change in accounting policy. Refer to note 1.

Statement of Comprehensive Income for the year ended 30 June 2010

	Note	Group 30 June 2010 \$000	Group 30 June 2009* \$000	Parent 30 June 2010 \$000	Parent 30 June 2009* \$000
Profit for the year		154,668	115,639	171,149	61,691
Other comprehensive income:					
Change in foreign currency translation reserve		(221)	(106)	-	-
Change in cash flow hedge reserve		8,298	52,091	8,206	51,889
Total other comprehensive income before tax		8,077	51,985	8,206	51,889
Deferred tax relating to components of other comprehensive income	27	(2,209)	(16,452)	(2,248)	(16,394)
Re-measurement of deferred tax on change in corporate income tax rate	27	555	-	555	-
Other comprehensive income for the year after tax		6,423	35,533	6,513	35,495
Total comprehensive income for the year		161,091	151,172	177,662	97,186

* Comparative numbers have been restated due to a voluntary change in accounting policy. Refer to note 1.

Statement of Changes in Equity for the year ended 30 June 2010

Group*	Note	Share capital \$000	Foreign currency translation reserve \$000	Asset revaluation reserve \$000	Cash flow hedge reserve \$000	Share- based payment reserve \$000	Retained earnings \$000	Total shareholders' equity \$000
Opening balance as at 1 July 2008		780,037	396	1,898,383	(74,279)	1,171	298,363	2,904,071
Impact of change in accounting policy	1	-	-	(1,898,383)	-	-	1,615,307	(283,076)
Restated opening balance as at 1 July 2008		780,037	396	-	(74,279)	1,171	1,913,670	2,620,995
Total comprehensive income for the year		-	(86)	-	35,619	-	115,639	151,172
Transactions with owners recorded directly in equity:								
Change in share capital	11	48,576	-	-	-	-	-	48,576
Change in share-based payment reserve	12	-	-	-	-	581	-	581
Dividends paid and distributions declared	9	-	-	-	-	-	(161,722)	(161,722)
Total transactions with owners recorded directly in equity		48,576	-	-	-	581	(161,722)	(112,565)
Closing balance as at 30 June 2009		828,613	310	-	(38,660)	1,752	1,867,587	2,659,602
Opening balance as at 1 July 2009		828,613	310	-	(38,660)	1,752	1,867,587	2,659,602
Total comprehensive income for the year		-	(182)	-	6,605	-	154,668	161,091
Restricted shares and options lapsed during the year		-	-	-	-	(36)	36	-
Transactions with owners recorded directly in equity:								
Change in share capital	11	120,374	-	-	-	-	-	120,374
Change in share-based payment reserve	12	-	-	-	-	1,148	-	1,148
Restricted shares vested during the year	11	10	-	-	-	(10)	-	-
Distributions declared	9	-	-	-	-	-	(165,437)	(165,437)
Total transactions with owners recorded directly in equity		120,384	-	-	-	1,138	(165,437)	(43,915)
Closing balance as at 30 June 2010		948,997	128	-	(32,055)	2,854	1,856,854	2,776,778

Parent*	Note	Share capital \$000	Foreign currency translation reserve \$000	Asset revaluation reserve \$000	Cash flow hedge reserve \$000	Share- based payment reserve \$000	Retained earnings \$000	Total shareholders' equity \$000
Opening balance as at 1 July 2008		780,037	-	1,704,969	(74,103)	1,171	466,038	2,878,112
Impact of change in accounting policy	1	-	-	(1,704,969)	-	-	1,421,893	(283,076)
Restated opening balance as at 1 July 2008		780,037	-	-	(74,103)	1,171	1,887,931	2,595,036
Total comprehensive income for the year		-	-	-	35,495	-	61,691	97,186
Transactions with owners recorded directly in equity:								
Change in share capital	11	48,576	-	-	-	-	-	48,576
Change in share-based payment reserve	12	-	-	-	-	581	-	581
Dividends paid and distributions declared	9	-	-	-	-	-	(161,722)	(161,722)
Total transactions with owners recorded directly in equity		48,576	-	-	-	581	(161,722)	(112,565)
Closing balance as at 30 June 2009		828,613	-	-	(38,608)	1,752	1,787,900	2,579,657
Opening balance as at 1 July 2009		828,613	-	-	(38,608)	1,752	1,787,900	2,579,657
Total comprehensive income for the year		-	-	-	6,513	-	171,149	177,662
Restricted shares and options lapsed during the year		-	-	-	-	(36)	36	-
Transactions with owners recorded directly in equity:								
Change in share capital	11	120,374	-	-	-	-	-	120,374
Change in share-based payment reserve	12	-	-	-	-	1,148	-	1,148
Restricted shares vested during the year	11	10	-	-	-	(10)	-	-
Distributions declared	9	-	-	-	-	-	(165,437)	(165,437)
Total transactions with owners recorded directly in equity		120,384	-	-	-	1,138	(165,437)	(43,915)
Closing balance as at 30 June 2010		948,997	-	-	(32,095)	2,854	1,793,648	2,713,404

* Comparative numbers have been restated due to a voluntary change in accounting policy. Refer to note 1.

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

Statement of Financial Position as at 30 June 2010

Note	Group 30 June 2010 \$000	Group 30 June 2009* \$000	Group 30 June 2008* \$000	Parent 30 June 2010 \$000	Parent 30 June 2009* \$000	Parent 30 June 2008* \$000
Shareholders' equity	2,776,778	2,659,602	2,620,995	2,713,404	2,579,657	2,595,036
Represented by:						
Current assets						
Cash and short-term deposits	13 921	179,220	2,542	-	177,848	-
Receivables and prepayments	14 219,148	253,836	517,365	210,415	224,786	488,987
Tax receivable	-	-	162	-	-	662
Inventories	15 58,366	15,906	21,111	53,452	6,600	7,014
Derivative financial instruments	24 4,955	14,987	52,940	4,914	14,987	52,940
Total current assets	283,390	463,949	594,120	268,781	424,221	549,603
Non-current assets						
Property, plant and equipment	16 4,511,314	4,239,601	3,976,864	4,421,033	4,163,258	3,905,033
Intangible assets	17 284,201	252,159	214,552	225,567	193,525	155,918
Gas storage – cushion gas	18 49,022	46,252	23,622	49,022	46,252	23,622
Investment in subsidiaries	20 -	-	-	132,788	132,788	132,788
Investment in associates	21 8,809	8,687	8,015	1,587	1,579	1,579
Available-for-sale financial assets	22 2,935	2,935	2,935	-	-	-
Derivative financial instruments	24 787	6,597	13,554	787	6,597	13,554
Other non-current assets	7,305	5,987	2,945	7,305	5,987	2,945
Total non-current assets	4,864,373	4,562,218	4,242,487	4,838,089	4,549,986	4,235,439
Total assets	5,147,763	5,026,167	4,836,607	5,106,870	4,974,207	4,785,042
Current liabilities						
Borrowings	23 3,180	4,311	132,811	3,453	2,982	130,384
Current portion of term borrowings	23 -	141,662	-	-	141,662	-
Derivative financial instruments	24 31,895	72,368	139,282	31,895	72,317	139,024
Payables and accruals	25 262,430	304,235	540,619	291,328	338,246	522,949
Tax payable	6,046	2,218	-	6,043	2,968	-
Provisions	26 13,146	8,195	20,954	12,907	7,953	20,746
Total current liabilities	316,697	532,989	833,666	345,626	566,128	813,103
Non-current liabilities						
Borrowings	23 1,279,233	1,091,106	554,725	1,279,216	1,091,066	554,695
Derivative financial instruments	24 98,811	85,905	194,925	98,811	85,905	194,925
Provisions	26 43,429	33,750	33,618	41,808	32,116	31,701
Deferred tax	27 632,090	621,386	596,802	627,280	618,532	595,582
Other non-current liabilities	725	1,429	1,876	725	803	-
Total non-current liabilities	2,054,288	1,833,576	1,381,946	2,047,840	1,828,422	1,376,903
Total liabilities	2,370,985	2,366,565	2,215,612	2,393,466	2,394,550	2,190,006
Net assets	2,776,778	2,659,602	2,620,995	2,713,404	2,579,657	2,595,036

* Comparative numbers have been restated due to a voluntary change in accounting policy. Refer to note 1.

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

On behalf of the Board



Grant King
Chairman, 19 August 2010



Phillip Pryke
Deputy Chairman, 19 August 2010

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

Statement of Cash Flows for the year ended 30 June 2010

Note	Group 30 June 2010 \$000	Group 30 June 2009 \$000	Parent 30 June 2010 \$000	Parent 30 June 2009 \$000
Cash flows from operating activities				
Cash provided from:				
Receipts from customers	2,185,718	2,492,488	1,893,401	2,157,053
Associate dividends received	3,862	3,842	2,936	2,865
	2,189,580	2,496,330	1,896,337	2,159,918
Cash applied to:				
Payments to suppliers and employees	(1,779,301)	(2,035,904)	(1,504,921)	(1,712,259)
Retail transaction processing outsourcing costs	26 (427)	-	(427)	-
Supplementary dividend paid to shareholders	9 (1,293)	(10,776)	(1,293)	(10,776)
Tax paid	(40,200)	(25,000)	(40,200)	(25,000)
	(1,821,221)	(2,071,680)	(1,546,841)	(1,748,035)
Net cash inflow from operating activities	368,359	424,650	349,496	411,883
Cash flows from investing activities				
Cash provided from:				
Interest received	4,848	4,961	4,768	4,961
Loan from associate	-	80	-	-
	4,848	5,041	4,768	4,961
Cash applied to:				
Purchase of property, plant and equipment	(411,279)	(385,715)	(394,029)	(372,982)
Purchase of intangible assets	(29,557)	(25,750)	(29,557)	(25,750)
Removal of New Plymouth asbestos and related costs	(2,922)	(17,280)	(2,922)	(17,280)
Purchase of gas storage rights	-	(120)	-	(120)
Purchase of investment in Energyhedge	21 (8)	-	(8)	-
Purchase of cushion gas	18 (1,490)	(41,151)	(1,490)	(41,151)
Repayment of loan to associate	(1,886)	(1,317)	-	-
	(447,142)	(471,333)	(428,006)	(457,283)
Net cash (outflow) to investing activities	(442,294)	(466,292)	(423,238)	(452,322)
Cash flows from financing activities				
Cash provided from:				
Proceeds from borrowings	100,000	550,000	100,000	550,000
Proceeds from other short-term loans	250,258	173,524	250,258	173,524
	350,258	723,524	350,258	723,524
Cash applied to:				
Interest paid	(103,324)	(79,019)	(103,109)	(78,909)
Distributions and dividends paid to shareholders	(44,904)	(112,582)	(44,904)	(112,582)
Financing costs	(923)	(11,151)	(923)	(11,151)
Profit distribution-related costs	(311)	(432)	(311)	(432)
Repayment of borrowings	(160,228)	-	(160,228)	-
Repayment of other short-term loans and finance lease liabilities	(145,296)	(301,943)	(145,263)	(301,938)
	(454,986)	(505,127)	(454,738)	(505,012)
Net cash (outflow)/inflow to/from financing activities	(104,728)	218,397	(104,480)	218,512
Net (decrease)/increase in cash and cash equivalents	(178,663)	176,755	(178,222)	178,073
Add: cash and cash equivalents at the start of the year	177,545	790	175,889	(2,184)
Cash and cash equivalents at the end of the year	(1,118)	177,545	(2,333)	175,889
Cash and cash equivalents comprise:				
Bank overdraft	13, 23 (2,039)	(1,675)	(2,333)	(1,959)
Cash and short-term deposits	13 921	179,220	-	177,848
	13 (1,118)	177,545	(2,333)	175,889

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

Statement of Cash Flows for the year ended 30 June 2010 (continued)

Reconciliation of profit for the year to cash flows from operating activities	Note	Group 30 June 2010 \$000	Group 30 June 2009* \$000	Parent 30 June 2010 \$000	Parent 30 June 2009* \$000
Profit for the year		154,668	115,639	171,149	61,691
Items classified as investing/financing					
Net interest expense	7	55,980	62,601	55,845	62,492
		55,980	62,601	55,845	62,492
Non-cash items					
Write-off of receivables	5	15,046	9,100	11,988	7,486
Movement in provisions		8,023	2,596	8,114	2,110
Share-based payments	12	1,596	868	1,596	868
Impairment of Gasbridge assets	19	-	2,830	-	-
Depreciation and amortisation	16, 17	161,903	165,885	158,610	160,742
Equity accounted (earnings) of associates net of dividends received	21	(261)	(739)	-	-
Change in fair value of financial instruments	24	(4,531)	57,511	(4,531)	57,511
Increase in deferred tax	8	9,050	6,815	7,055	6,556
Write-off of subsidiary advance	6	-	-	26	5,145
Write-back of subsidiary advance	6	-	-	(48,100)	-
Other non-cash items		(1,225)	(2,872)	-	(1,601)
		189,601	241,994	134,758	238,817
Movement in working capital					
Decrease in receivables and prepayments		19,936	251,998	2,587	249,625
(Increase)/decrease in inventories		(42,460)	5,205	(46,852)	414
(Decrease)/increase in payables and accruals		(11,876)	(252,312)	30,252	(201,931)
Increase in tax payable		3,828	2,567	3,075	3,817
(Increase) in other non-current assets		(1,318)	(3,042)	(1,318)	(3,042)
		(31,890)	4,416	(12,256)	48,883
Net cash inflow from operating activities		368,359	424,650	349,496	411,883

* Comparative numbers have been restated due to a voluntary change in accounting policy. Refer to note 1.

Notes to the financial statements

for the year ended 30 June 2010

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 financial statements of Contact Energy Limited (the financial statements) as at, and for the year ended, 30 June 2010 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 generation and retailing of electricity. Other activities include the sale of natural gas and liquefied petroleum gas (LPG) to retail and wholesale customers throughout 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 (NZ GAAP). They comply with the New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) 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 19 August 2010.

The measurement basis adopted in the preparation of these financial statements is historical cost except for:

- derivative financial instruments which are stated at their fair value as identified in the specific accounting policies below;
- recognised assets and liabilities that are hedged in a fair value hedging relationship which are stated at fair value in respect of the risk that is hedged as identified in the specific accounting policies below; and
- generation plant and equipment which are stated at deemed historical cost as identified below.

Changes in accounting policies

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

Contact adopted a policy of revaluing its core generation plant and equipment from the commencement of the Group. Contact has relied upon an independent valuation of such assets for determining a fair value. As there is a limited market for trading comparable generation assets in New Zealand, the valuation has primarily relied upon a discounted cash flow analysis of the estimated long-term cash flows from the generation plant and equipment. Given the long life (up to 100 years) of such assets, the valuation is very sensitive to any variation in assumptions. Events like the global financial crisis have added increased uncertainty to the independent valuation assumptions. The range in the current independent valuation has correspondingly increased compared with prior valuations, such that a single point fair value within the valuation range is difficult to reliably determine.

In the alternative, the cost valuation basis is considered a reliable basis for measurement of generation plant and equipment. Cost also provides relevant information about the long-term cash-generating performance of the core generation plant and equipment, which is the primary objective for Contact in owning the plant and equipment. For example, core metrics such as return on capital invested in plant and equipment can be calculated without adjustment to the return, or the investment, for the impact of asset revaluations. Cost aligns with global industry practice for similar long life core operating assets. Cost also aligns with the policy of Contact's ultimate parent Origin Energy Limited (Origin).

Contact has elected to make a voluntary change in accounting policy in relation to the measurement basis for generation plant and equipment and move to a cost basis as it is reliable and more relevant. The change in accounting policy has been applied retrospectively to 1 October 2004, the date of Contact's transition to NZ IFRS and the date of acquisition of 51.4 per cent of the shares in Contact by Origin. Fair value at 1 October 2004 is considered deemed historical cost owing to the impracticability of determining actual cost back to the original asset purchase date. As a result of the change, the revaluation reserve at 1 October 2004 (\$1,547.6 million) has been transferred to retained earnings. In addition, the revaluation in 2007 (\$401.1 million) and the consequential deferred tax (\$120.3 million) have been reversed.

Contact Energy Limited and Subsidiaries
Notes to the financial statements
for the year ended 30 June 2010

The change in accounting policy has had the following impacts on the current and prior years presented in these financial statements:

	Group 30 June 2010 \$000	Group 30 June 2009 \$000	Group 30 June 2008 \$000	Parent 30 June 2010 \$000	Parent 30 June 2009 \$000	Parent 30 June 2008 \$000
Increase in depreciation and amortisation	3,285	3,931	4,772	3,285	3,931	4,772
Decrease in income tax expense*	(1,001)	(2,034)	(2,412)	(1,001)	(2,034)	(2,412)
Decrease in profit for the year	2,284	1,897	2,360	2,284	1,897	2,360
Decrease in property, plant and equipment	(408,118)	(405,372)	(404,736)	(408,118)	(405,372)	(404,736)
Decrease in deferred tax	(123,546)	(122,706)	(121,660)	(123,546)	(122,706)	(121,660)
Decrease in asset revaluation reserve	(1,895,698)	(1,896,076)	(1,898,383)	(1,702,284)	(1,702,662)	(1,704,969)
Increase in retained earnings	1,611,126	1,613,410	1,615,307	1,417,712	1,419,996	1,421,893

	Group 30 June 2010	Group 30 June 2009	Group 30 June 2008	Parent 30 June 2010	Parent 30 June 2009	Parent 30 June 2008
Decrease in basic and diluted earnings per share (cents)	(0.38)	(0.33)	(0.40)	(0.38)	(0.33)	(0.40)
Decrease in underlying earnings per share (cents)	(0.38)	(0.33)	(0.40)	(0.38)	(0.33)	(0.40)
Decrease in net tangible assets per share (dollars)	(0.47)	(0.49)	(0.49)	(0.47)	(0.49)	(0.49)

- * The decrease in income tax expense is due to the tax benefit from the higher depreciation expense, and the deferred tax asset on restoration provisions previously recognised through the asset revaluation reserve now being recognised through the Income Statement.

As a result of the change in accounting policy, the comparatives in the Income Statement, Statement of Changes in Equity and Statement of Financial Position and the related notes have been restated.

There have been no other changes in accounting policy in the year.

Presentational changes

Certain presentational changes have been made to the comparative Income Statement, Statement of Changes in Equity, Statement of Financial Position, Statement of Cash Flows and the related notes to ensure consistency with the current year treatment. These changes, which have been applied retrospectively to 30 June 2009 and 30 June 2008, relate to the:

- reclassification of restricted share capital from 'share capital' to 'share-based payment reserve',
- reclassification of write-off of subsidiary advance from 'other operating expenses' to 'other significant items',
- presentation of 'proceeds from other short-term loans' and 'repayment of other short-term loans and finance lease liabilities', which has been amended to disclose repayments and drawdowns separately,
- reclassification of certain recoveries from 'retail electricity and gas revenue' to 'other operating expenses',
- reclassification of certain rebates from 'electricity purchases' to 'electricity transmission, distribution and levies',
- reclassification of certain delivery costs from 'other operating expenses' to 'LPG purchases'.

Adoption status of relevant new financial reporting standards and interpretations

The following relevant new standards and amendments to standards are mandatory for the financial year beginning 1 July 2009 and have been adopted by Contact in the preparation of these financial statements:

- *NZ IAS 1 (Revised) Presentation of Financial Statements* – the revised standard prohibits the presentation of items of income and expenses (i.e. 'non-owner changes in equity') in the Statement of Changes in Equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity in a Statement of Comprehensive Income. As a result, Contact presents all transactions with owners in the Statement of Changes in Equity, whereas all movements in reserves are presented in a separate Statement of Comprehensive Income. The standard requires retrospective application and consequently comparative information has been revised.

- *NZ IFRS 7 Financial Instruments – Disclosures (amendment)* – the amendment requires enhanced disclosures about fair value measurement and liquidity risk. In particular, the amendment requires additional disclosure of fair value measurement methodologies according to a fair value measurement hierarchy. Refer to note 24.
- *NZ IFRS 8 Operating Segments* – the standard requires operating segments to reflect the internal management reports of Contact, which are regularly reviewed by the chief operating decision-maker in order to allocate resources and to assess performance. As a result of changing how internal financial information is presented to the chief operating decision-maker, Contact's reportable segments have changed. Refer to note 3.
- *Improvements to NZ IFRS 2009* – these improvements have resulted in minor changes to disclosures but have had no material effect on amounts reported.

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:

- *NZ IFRS 2 Amendment: Share-Based Payment: Group Cash-Settled Share-Based Payment Transactions* – amendment approved August 2009 and effective for annual reporting periods beginning on or after 1 January 2010.
- *NZ IFRS 9 Financial Instruments* – approved November 2009 and effective for annual reporting periods beginning on or after 1 January 2013.
- *NZ IAS 24 Related Party Disclosures (revised 2009)* – amendment approved November 2009 and effective for annual reporting periods beginning on or after 1 January 2011.
- *NZ IAS 32 Amendment: Financial Instruments – Presentation* – amendment approved October 2009 and effective for annual reporting periods beginning on or after 1 February 2010.
- *NZ IAS 36 Amendment: Impairment of Assets* – amendment approved May 2009 and effective for annual reporting periods beginning on or after 1 January 2010.

Contact does not currently intend to early adopt any of these standards or amendments before their effective dates.

The Directors anticipate that the above standards and amendments will have no material impact on the financial statements in the period of initial application.

Accounting estimates and judgements

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

Financial instruments

Note 24 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 derivative financial instruments employed by Contact to hedge its risk exposures.

Intangible assets – gas storage rights

Contact 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 to be derived. 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 or a new permit granted. The useful life is reviewed annually. Refer to note 17.

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 the end of the reporting period. 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 judgement include sales forecasts, cost to serve, customer numbers and customer churn, forecast gas costs, interest rates, discount rates and a forecast of the future electricity price path. Refer to note 17.

Inventory gas

Inventory gas is held at the lower of cost and net realisable value. Contact has exercised judgement in determining the net realisable value of flexible gas contracts.

New Plymouth power station

In calculating the provision for the removal of asbestos and other related costs, estimates have been made as to the expected expenditure based on the status of contractor negotiations at the end of the reporting period.

Property, plant and equipment and finite life intangible assets

Contact has exercised judgement in determining whether expenditure is in relation to bringing an asset to the location and condition necessary for its intended use and is therefore appropriate for capitalisation as part of the cost of the asset.

In assessing the recoverable amount of capital work in progress, Contact has exercised judgement in determining the likely future use or development of the asset.

Contact has also exercised judgement in determining the useful lives of property, plant and equipment and finite life intangible assets. Useful lives are reviewed annually and, where appropriate, adjusted at the end of each reporting period.

Provision – restoration and environmental rehabilitation

Liabilities are estimated for the abandonment and site restoration of areas from which natural resources are extracted and for the removal of asbestos at generation properties. Such estimates are valued at the net present value of the expenditure expected to settle the obligation. Key assumptions have been made as to the expected amount and timing of expenditure to remediate based on the expected lives of the assets employed on the sites. Refer to note 26.

Retail revenue

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

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. Subsidiaries are fully consolidated from the date on which control is transferred to the Group.

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 values 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 financial statements by applying the equity accounting method. The equity accounting method recognises Contact's share of the current year retained surpluses or deficits in the Group Income Statement and its share of post acquisition increases or decreases in net assets in the Group Statement of Financial Position.

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 assets or entities and is consequently entitled to a share of the future economic benefits through its share of the jointly controlled assets or entities. Contact's share of the assets, liabilities, outputs (revenues) and expenses of jointly controlled assets or entities is incorporated into the financial statements on a proportionate line-by-line basis.

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 borrowing 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.

Bank overdrafts are shown within borrowings in current liabilities in the Statement of Financial Position.

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).

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 the Statement of Comprehensive Income. The gain or loss relating to the ineffective portion is recognised immediately in the Income Statement.

Amounts accumulated in other comprehensive income 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 other comprehensive income are transferred from other comprehensive income 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 other comprehensive income 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 other comprehensive income is recognised immediately in the Income Statement.

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 benefits that employees have earned in return for their service in the current and prior years. The obligation is calculated using an actuarial technique.

Share-based payments

Share-based payments are provided to participating employees 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.

The fair value is measured at grant date by reference to the fair values 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 the end of each reporting period, 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 in relation to geothermal sites 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 costs of drilling exploration wells and the costs 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 the 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 end of each reporting period, 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 the end of each reporting period 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 dates of the transactions. Monetary assets and monetary liabilities denominated in foreign currencies are translated at the rates of exchange ruling at the end of each reporting period. Non-monetary assets and non-monetary liabilities denominated in foreign currencies 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 accounted for as cash flow hedges are translated at the hedged rate, with the underlying hedge contract being separately recorded in the Statement of Financial Position at fair value.

Group entities

The results and financial positions of all Group entities (none of which have a currency of a hyperinflationary economy) that have functional currencies 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 end of each reporting period,
- all resulting exchange differences are recognised in other comprehensive income.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities are taken to the foreign currency translation reserve account in other comprehensive income. 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 purchase contracts, such pay obligations are expensed to the Income Statement in the month the payment obligations crystallise, or as Contact uplifts the gas, depending on the contracted terms.

Gas storage – cushion gas

Cushion gas is necessary to develop and maintain the 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 the end of each reporting period 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. Refer to the inventories accounting policy.

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. Revenue earned in the period until the asset is operating in the manner intended by management is deducted from the cost of the asset.

Capitalised work in progress is reviewed at the end of each reporting period to determine whether further work is planned to support the continued carrying value of the capitalised costs.

Assets are transferred from capital work in progress when they are operating in the manner intended by management and depreciated over the period of their 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 Statement of Financial Position are stated exclusive 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 the end of each reporting period to determine whether there is any indication of impairment. If any such indication exists, the asset's 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.

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 historical 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.

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 the investment 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 that generate 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 operating as management intended.

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 intangible asset 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 operating in the manner intended by management 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. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. The cost of materials, consumable supplies and maintenance spares is determined on a weighted average basis.

Gas reserves in excess of the levels required for cushion gas are treated as inventory. The cost of inventory gas is determined on a weighted average basis.

Inventory is classified as a current asset as it is expected to be realised in Contact's normal operating cycle which could extend beyond one year.

Investments – financial instruments

Contact classifies its investments in the following categories:

- financial assets at fair value through profit or loss,
- 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 the end of each reporting period.

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 profit or loss, directly attributable transaction costs.

Financial assets at fair value through profit or loss

A financial asset is classified as a financial asset at fair value through profit or loss 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 profit or loss unless they are designated as hedges. Assets in this category are classified as current where the cash flows associated with the assets are expected to be realised within 12 months of the end of the reporting period.

Subsequent to initial recognition, financial assets at fair value through profit or loss 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 other comprehensive income, 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 other comprehensive income is recognised in the Income Statement.

Operating leases

Contact leases and is a lessor of 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 receipts and payments are representative of the pattern of benefits derived from the leased assets and, accordingly, are recognised in the Income Statement on a straight-line basis.

Other income

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 purchased prior to 1 October 2004 is stated at deemed historical cost less accumulated depreciation and accumulated impairment losses. All other property, plant and equipment is 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 use.

The cost of assets constructed by Contact, including capital work in progress, includes the cost of all materials used in construction, direct labour costs specifically associated with construction, resource management consent costs and an appropriate proportion of directly attributable variable and fixed overheads. It also includes a reduction in respect of any revenue earned by the asset in the period until it is operating in the manner intended by management. 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 when the asset is operating as intended by management 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, the components 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.

Leased assets

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

Depreciation

With the exception of regular major inspections, depreciation is charged to the Income Statement on a straight-line basis so as to allocate the cost of the assets, less any estimated residual value, over their expected remaining useful lives. Regular major inspections are depreciated on an equivalent hours of use basis. 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%
Regular major inspections*	Over 25,000 equivalent hours of use

* Included in generation plant and equipment

Asset residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Receivables

Receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less any 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 expenditure 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. 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 the end of the reporting period 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 have passed from Contact to the customer or when services have been rendered to the customer and collection is reasonably assured.

Share capital

Ordinary 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 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, is included in equity.

Statement of Cash Flows

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

- 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. They include 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 customers 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 other comprehensive income, in which case the income tax is recognised in other comprehensive income.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the end of the reporting period, 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 amounts of assets and liabilities, using tax rates enacted or substantially enacted at the end of the reporting period.

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

2 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 had not been previously recorded on the station's asbestos register. In May 2008, Contact announced the temporary recommissioning of one 100-megawatt (MW) 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. Additional asbestos was identified in the 2010 financial year and the remaining provision was increased by \$5.6 million to cover the cost of removing the asbestos. 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 was transferred from generation plant and equipment to other land and buildings at 30 June 2009. Refer to note 16.

3 Segment reporting

Identification of reportable segments

Contact has identified its operating segments based on the internal reports that are reviewed and used by the Managing Director in assessing performance and in determining the allocation of resources. The Managing Director is Contact's 'chief operating decision-maker' within the meaning of *NZ IFRS 8*.

Contact has identified two operating segments: Electricity and Other.

Products and services from which reportable segments derive their revenues

Electricity

The 'Electricity' business is a generator and retailer of electricity throughout New Zealand. Electricity is generated by means of hydro, geothermal and thermal sources/power stations. Electricity generated is required to be sold to the national grid and then purchased from the relevant node to be retailed to commercial and residential customers.

Other

The 'Other' business is a combination of other services offered by Contact. These include the sale of gas to retail and wholesale customers and the sale of LPG to commercial and residential customers in New Zealand. Individual services within the 'Other' segment do not exceed 10 per cent of revenue, profit or total assets and are therefore not separately disclosed.

Accounting policies and inter-segment transactions

The accounting policies used by Contact in reporting segments internally are the same as those contained in note 1 to the financial statements except as detailed below:

Inter-segment revenue

The inter-segment revenue is a charge for electricity meters between the 'Electricity' and 'Other' segments. The inter-segment charge aims to have the 'Electricity' segment break even on retail customer meter activity.

The following items and associated assets are not allocated to operating segments as they are not reported to the chief operating decision-maker at a segment level:

- change in fair value of financial instruments,
- other significant items,
- equity accounted earnings of associates,
- net interest expense,
- income tax expense.

Geographical segment information

Contact operates predominantly in one geographical location being New Zealand. Contact's operations in Australia are immaterial. Therefore, disclosure of geographical revenue and assets has not been made.

Major customers

Contact has a large number of customers, but no single external customer accounts for more than 10 per cent of revenue.

Segment note

Group 2010	Electricity \$000	Other \$000	Inter-segment \$000	Total \$000
Total segment revenue and other income	1,859,223	334,167	(28,982)	2,164,408
Total segment direct costs	(1,284,531)	(253,540)	28,982	(1,509,089)
Segment operating margin	574,692	80,627	-	655,319
Segment other operating expenses	(187,347)	(40,990)	-	(228,337)
Segment EBITDAF*	387,345	39,637	-	426,982
Depreciation and amortisation	(153,274)	(8,629)	-	(161,903)
Segment result	234,071	31,008	-	265,079
Change in fair value of financial instruments				4,531
Other significant items				(8,894)
Equity accounted earnings of associates				3,272
Net interest expense				(55,980)
Income tax expense				(53,340)
Profit for the year				154,668

Group 2009	Electricity \$000	Other \$000	Inter-segment \$000	Total \$000
Total segment revenue and other income	1,891,723	357,389	(29,047)	2,220,065
Total segment direct costs	(1,304,086)	(284,884)	29,047	(1,559,923)
Segment operating margin	587,637	72,505	-	660,142
Segment other operating expenses	(174,658)	(40,225)	-	(214,883)
Segment EBITDAF*	412,979	32,280	-	445,259
Depreciation and amortisation	(153,760)	(12,125)	-	(165,885)
Segment result	259,219	20,155	-	279,374
Change in fair value of financial instruments				(57,511)
Other significant items				(2,830)
Equity accounted earnings of associates				3,624
Net interest expense				(62,601)
Income tax expense				(44,417)
Profit for the year				115,639

* In addition to the above information, the chief operating decision-maker also considers the following components of EBITDAF within the 'Electricity' segment:

Group	30 June 2010 \$000	30 June 2009 \$000
Hedged generation	318,067	321,221
Exposed generation	39,967	32,296
Retail electricity	29,311	59,462
Electricity segment EBITDAF	387,345	412,979

4 Revenue

	Group 30 June 2010 \$000	Group 30 June 2009 \$000	Parent 30 June 2010 \$000	Parent 30 June 2009 \$000
Wholesale electricity revenue	539,359	594,267	539,359	594,267
Retail electricity revenue	1,301,924	1,284,529	1,138,189	1,084,461
Gas revenue	153,490	154,579	153,490	154,579
LPG revenue	130,304	153,779	-	-
Steam revenue	17,940	12,927	17,940	12,927
Total revenue	2,143,017	2,200,081	1,848,978	1,846,234

5 Operating expenses

	Group 30 June 2010 \$000	Group 30 June 2009 \$000	Parent 30 June 2010 \$000	Parent 30 June 2009 \$000
Electricity purchases	480,790	528,864	429,741	477,501
Electricity transmission, distribution and levies	511,413	494,492	451,405	412,519
Gas purchases and transmission	396,719	399,533	397,944	400,804
LPG purchases	99,175	116,823	-	-
Meter costs	20,992	20,211	16,922	16,140
Labour costs	83,490	80,396	80,532	73,499
Other operating expenses	144,847	134,487	136,149	128,007
Total operating expenses	1,737,426	1,774,806	1,512,693	1,508,470

	Group 30 June 2010 \$000	Group 30 June 2009 \$000	Parent 30 June 2010 \$000	Parent 30 June 2009 \$000
Other operating expenses include:				
Auditors' remuneration				
- Audit services: KPMG*	612	691	612	691
- Other assurance services: KPMG*	-	35	-	35
Total auditors' remuneration	612	726	612	726
Donations	75	94	75	94
Write-off of receivables	15,046	9,100	11,988	7,486
(Decrease)/increase in provision for impairment of receivables	(891)	2,431	(800)	1,945
Rental expense on operating leases	6,583	5,969	5,005	4,358

* In addition, in the year ended 30 June 2009 KPMG charged \$186,000 for 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.

	Group 30 June 2010 \$000	Group 30 June 2009 \$000	Parent 30 June 2010 \$000	Parent 30 June 2009 \$000
Labour costs include:				
Contributions to KiwiSaver	1,624	1,475	1,568	1,405

6 Other significant items

	Note	Group 30 June 2010 \$000	Group 30 June 2009 \$000	Parent 30 June 2010 \$000	Parent 30 June 2009 \$000
Impairment of Gasbridge assets	19	–	2,830	–	–
Retail transaction processing outsourcing costs	26	3,330	–	3,330	–
Removal of New Plymouth asbestos and related costs	2, 26	5,564	–	5,564	–
Write-back of subsidiary advance*		–	–	(48,100)	–
Write-off of subsidiary advance	19	–	–	26	5,145
Total other significant items		8,894	2,830	(39,180)	5,145

- * As a result of the amalgamation of Stratford Power Limited into Empower Limited (refer to note 20), \$48.1 million relating to a subsidiary advance has been written-back. The reversal of this amount is included within 'other significant items' in the Income Statement.

7 Net interest expense

	Group 30 June 2010 \$000	Group 30 June 2009 \$000	Parent 30 June 2010 \$000	Parent 30 June 2009 \$000
Interest expense	108,566	89,860	108,352	89,685
Interest expense capitalised	(48,208)	(21,473)	(48,208)	(21,473)
Interest income	(4,378)	(5,786)	(4,299)	(5,720)
Net interest expense	55,980	62,601	55,845	62,492

The weighted average capitalisation rate on funds borrowed is 7.4 per cent per annum (2009: 7.1 per cent).

8 Income tax expense

	Group 30 June 2010 \$000	Group 30 June 2009 \$000	Parent 30 June 2010 \$000	Parent 30 June 2009 \$000
Profit before income tax	208,008	160,056	210,942	87,154
Tax thereon at 30%	62,402	48,017	63,283	26,146
Plus/(less) tax effect of adjustments:				
Change in corporate income tax rate*	(42,650)	-	(42,335)	-
Removal of tax depreciation on buildings*	34,765	-	34,412	-
Temporary differences no longer expected to reverse	7	21	-	-
Other differences	151	(399)	(297)	201
Research and development tax credit 2009	(669)	-	(669)	-
Income tax over provided in prior year	(666)	(3,222)	(171)	(884)
Non-assessable write-back of subsidiary advance	-	-	(14,430)	-
Income tax expense	53,340	44,417	39,793	25,463
Comprising:				
Current tax	44,290	37,602	32,738	18,907
Deferred tax	9,050	6,815	7,055	6,556
	53,340	44,417	39,793	25,463

- * The 2010 Budget contained two provisions which have had a material effect on the Group and Parent's 2010 tax expense:
- A decrease in the corporate income tax rate from 30 per cent to 28 per cent, effective from Contact's income tax year ending 30 June 2012. As a result of this change, deferred tax which is not expected to crystallise in the next 12 months has been restated to 28 per cent, as deferred tax is required to be recorded at the tax rate that will apply when the future tax liability/asset is expected to crystallise.
 - The removal of tax depreciation on buildings with estimated useful lives of 50 years or more. Contact will no longer be able to claim tax depreciation on buildings from its income tax year ending 30 June 2012. This has resulted in an increased deferred tax liability in respect of buildings completed before May 2010.

Imputation credits

Group	30 June 2010 \$000	30 June 2009 \$000
Opening balance	186,219	206,535
Imputation credits attached to dividends paid	(20,823)	(44,675)
Imputation credits attached to dividends received	694	1,172
New Zealand income tax paid	39,166	23,187
Closing balance	205,256	186,219

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

The imputation credit account balance includes tax paid at both 30 per cent (\$62.4 million) and 33 per cent (\$142.9 million). Under current legislation, imputation credits can only be attached to future dividends at a ratio of 30/70.

9 Distributions and dividends

Group and Parent	Distribution/dividend payment date	Cents per share	30 June 2010 \$000	30 June 2009 \$000
Dividends				
2008 year final dividend	23 September 2008	17.0	-	98,028
Supplementary dividend			-	10,197
Foreign investor tax credit			-	(10,197)
Distributions				
2009 year interim distribution	31 March 2009	11.0	-	63,694
2009 year final distribution	22 September 2009	17.0	99,503	-
2010 year interim distribution	30 March 2010	11.0	65,934	-
Supplementary dividend			1,293	579
Foreign investor tax credit			(1,293)	(579)
Total distributions and dividends			165,437	161,722

The distributions on 31 March 2009, 22 September 2009 and 30 March 2010 were made pursuant to the Parent's 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 an equivalent cost under the off-market buy-back facility are treated as having received a fully imputed cash dividend.

On 19 August 2010, the Board declared a distribution in the form of a non-taxable bonus issue under the PDP equivalent to 14.0 cents per share, for shares on issue at 3 September 2010, the record date, with bonus shares allocated and/or cash distributed, if elected, on 27 September 2010. Refer to note 34.

10 Earnings and net tangible assets per share

Group	30 June 2010	30 June 2009
Underlying earnings per share (cents)*	25.13	27.42
Basic and diluted earnings per share (cents)	25.94	19.98
Weighted average number of shares on issue over the year	596,288,553	578,821,979
Net tangible assets per share (dollars)	4.12	4.11
Number of shares on issue at the end of the year	604,934,976	585,314,624

* Non-statutory measure.

The calculation of underlying earnings per share is based on underlying earnings after tax after adjusting for significant one-off items and the non-cash change in fair value of financial instruments attributable to holders of unrestricted ordinary shares. It is calculated using the weighted average number of shares on issue over the year.

The weighted average number of shares on issue over the year is reflective of the issue and repurchase of ordinary share capital (excluding treasury stock) pursuant to the Parent's PDP.

For the purpose of calculating the weighted average number of shares on issue, the restricted shares issued under Contact's Employee Long-Term Incentive Scheme are excluded until shares become unrestricted.

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 2010 and 30 June 2009, as the relevant performance hurdles have not yet been met.

The calculation of basic and diluted earnings per share is based on profit after tax.

The calculation of net tangible assets per share at 30 June 2010 and 30 June 2009 is based on the total net assets less intangible assets, divided by the number of shares on issue at the end of each year.

11 Share capital

Group and Parent	Ordinary shares – unrestricted	
	Number	\$000
Opening balance as at 1 July 2008	576,633,982	780,037
Share capital issued	11,251,746	63,694
Share capital repurchased and held as treasury stock*	(2,571,104)	(14,555)
Transaction costs	-	(563)
Closing balance as at 30 June 2009	585,314,624	828,613
Opening balance as at 1 July 2009	585,314,624	828,613
Share capital issued	26,907,379	165,437
Share capital repurchased and cancelled during the year	(7,288,507)	(44,904)
Restricted shares vested during the year	1,480	10
Transaction costs	-	(159)
Closing balance as at 30 June 2010	604,934,976	948,997

* Treasury stock cancelled on 23 November 2009.

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.

The Parent issued 16,091,878 and 10,815,501 ordinary shares pursuant to the Parent's PDP on 22 September 2009 and 30 March 2010 respectively. 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 4,554,184 shares on 22 September 2009 and 2,734,323 shares on 30 March 2010. These shares were immediately cancelled upon buy-back.

Contact issues restricted ordinary shares (restricted shares) pursuant to the Employee Long-Term Incentive Scheme. The restricted shares are held in trust, and are recognised as part of the share-based payment reserve until performance hurdles are met. The restricted shares then become unrestricted and are transferred to ordinary share capital.

While restricted shares confer the same rights on the holder as unrestricted ordinary 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 12.

12 Share-based payments

Contact has an Employee Long-Term Incentive Scheme for participating employees 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 met. 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 restricted 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 2010 was \$1.6 million (2009: \$0.9 million).

Share Option Plan

Under the Share Option Plan, the Board issues share options to participating employees to acquire ordinary shares in the Parent at the market price determined at the effective grant date. For share options granted in the year ended 30 June 2010, the market price was the weighted average market price of the Parent's ordinary shares traded on the NZSX over the five business days prior to the effective grant date (30 June 2009: 20 business days).

The share options do not entitle the participating employees to receive dividends or 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 met.

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.

The number of options granted and lapsed during the reporting period and on issue at the end of the reporting period are summarised below:

Group and Parent 2010								
Effective grant date	First exercise date	Expiry date	Exercise price per option	Balance at 1 July 2009	Granted	Lapsed	Balance at 30 June 2010	Exercisable at 30 June 2010
1 Jul 2006	1 Oct 2009	30 Nov 2011	\$7.35	316,898	-	(32,821)	284,077	-
15 Jan 2007	1 Oct 2009	30 Nov 2011	\$8.28	13,413	-	-	13,413	7,927
1 Oct 2007	1 Oct 2010	30 Nov 2012	\$9.15	364,486	-	(50,455)	314,031	-
1 Feb 2008	1 Oct 2010	30 Nov 2012	\$7.63	15,008	-	-	15,008	-
1 Oct 2008	1 Oct 2011	30 Nov 2013	\$8.60	804,833	-	(133,914)	670,919	-
1 Oct 2009	1 Oct 2012	30 Nov 2014	\$5.75	-	1,701,718	(45,515)	1,656,203	-
				1,514,638	1,701,718	(262,705)	2,953,651	7,927

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

A further 198,022 share options, including the 7,927 exercisable at 30 June 2010, lapsed on 6 July 2010.

Restricted Share Plan

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

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

Legal title to the restricted shares 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.

Contact Energy Limited and Subsidiaries
Notes to the financial statements
for the year ended 30 June 2010

For ordinary shares issued in the year ended 30 June 2010, 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 five business days prior to the effective grant date (30 June 2009: 20 business days). 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 successor).

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.

The number of restricted shares granted, lapsed and vested during the reporting period and the unvested number of restricted shares at the end of the reporting period are summarised below:

Group and Parent 2010									
Effective grant date	First test date	Final test date	Shares issued	Allocation price per share	Unvested balance at 1 July 2009	Granted	Returned to unallocated pool	Vested	Unvested balance at 30 June 2010
Unallocated pool					24,159	(58,200)	42,069	-	8,028
1 Jul 2006	1 Oct 2009	1 Oct 2011	70,890	\$7.35	61,494	-	(6,369)	-	55,125
20 Nov 2006	1 Oct 2009	1 Oct 2011	3,581	\$7.55	-	-	-	-	-
15 Jan 2007	1 Oct 2009	1 Oct 2011	2,504	\$8.28	2,504	-	-	(1,480)	1,024
1 Oct 2007	1 Oct 2010	1 Oct 2012	83,242	\$9.15	63,913	-	(8,847)	-	55,066
1 Feb 2008	1 Oct 2010	1 Oct 2012	3,091	\$7.63	2,807	-	-	-	2,807
1 Oct 2008	1 Oct 2011	1 Oct 2013	104,712	\$8.60	113,143	-	(18,825)	-	94,318
1 Oct 2009	1 Oct 2012	1 Oct 2014	241,940	\$5.75	-	300,140	(8,028)	-	292,112
			509,960		268,020	241,940	-	(1,480)	508,480

Group and Parent 2009									
Effective grant date	First test date	Final test date	Shares issued	Allocation price per share	Unvested balance at 1 July 2008	Granted	Returned to unallocated pool	Vested	Unvested balance at 30 June 2009
Unallocated pool					10,667	(19,247)	32,739	-	24,159
1 Jul 2006	1 Oct 2009	1 Oct 2011	70,890	\$7.35	64,173	-	(2,679)	-	61,494
20 Nov 2006	1 Oct 2009	1 Oct 2011	3,581	\$7.55	3,581	-	(3,581)	-	-
15 Jan 2007	1 Oct 2009	1 Oct 2011	2,504	\$8.28	2,504	-	-	-	2,504
1 Oct 2007	1 Oct 2010	1 Oct 2012	83,242	\$9.15	78,136	-	(14,223)	-	63,913
1 Feb 2008	1 Oct 2010	1 Oct 2012	3,091	\$7.63	4,247	-	(1,440)	-	2,807
1 Oct 2008	1 Oct 2011	1 Oct 2013	104,712	\$8.60	-	123,959	(10,816)	-	113,143
			268,020		163,308	104,712	-	-	268,020

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 2010, 8,028 (2009: 24,159) restricted shares were held by the trustee in the unallocated pool. A further 31,413 restricted shares were transferred to the unallocated pool on 6 July 2010.

On 7 December 2009, 1,480 restricted shares issued pursuant to Contact's Employee Long-Term Incentive Scheme became unrestricted ordinary shares as the relevant performance hurdles were met. As such, legal title to these shares transferred to the participant. Refer to note 11.

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 2010 was based on the following weighted average assumptions:

Group and Parent	30 June 2010	30 June 2009
Risk-free interest rate	5.0%	5.6%
Expected dividend yield	5.0%	3.9%
Expected option life (in years)	5.1	5.1
Expected share price volatility	26.0%	21.0%
Weighted average remaining contractual life (in years)	3.7	3.7

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

13 Cash and cash equivalents

	Group 30 June 2010 \$000	Group 30 June 2009 \$000	Parent 30 June 2010 \$000	Parent 30 June 2009 \$000
Unrestricted cash	921	179,220	-	177,848
Cash and short-term deposits	921	179,220	-	177,848
Bank overdrafts (refer to note 23)	(2,039)	(1,675)	(2,333)	(1,959)
Cash and cash equivalents in the Statement of Cash Flows	(1,118)	177,545	(2,333)	175,889

14 Receivables and prepayments

	Group 30 June 2010 \$000	Group 30 June 2009 \$000	Parent 30 June 2010 \$000	Parent 30 June 2009 \$000
Retail electricity, other receivables and accruals	176,308	170,184	141,391	128,031
Less: provision for impairment	(6,301)	(7,192)	(4,521)	(5,321)
Wholesale electricity receivables	47,049	70,080	47,049	70,080
Net receivables	217,056	233,072	183,919	192,790
Prepayments	1,796	1,340	1,796	1,333
Interest receivable	1	637	1	637
Advances to subsidiaries	-	-	24,699	11,239
Advance to associates	295	-	-	-
Other receivables	-	18,787	-	18,787
Total receivables and prepayments	219,148	253,836	210,415	224,786

Receivables past due but not impaired

Included in retail electricity, other receivables and accruals are receivables that are past due but not impaired. These relate to customers who pay outside normal commercial terms and for whom there is no recent history of default.

	Group 30 June 2010 \$000	Group 30 June 2009 \$000	Parent 30 June 2010 \$000	Parent 30 June 2009 \$000
0-30 days past due	20,224	20,734	18,349	18,624
30-90 days past due	7,262	5,997	5,656	5,929
Over 90 days past due	3,877	5,196	3,701	4,979
Total receivables past due but not impaired	31,363	31,927	27,706	29,532

Included in other operating expenses are receivables written-off during the year totalling \$15.0 million (Group) and \$12.0 million (Parent) (2009: \$9.1 million (Group) and \$7.5 million (Parent)). Refer to note 5.

Provision for impairment

	Group 30 June 2010 \$000	Group 30 June 2009 \$000	Parent 30 June 2010 \$000	Parent 30 June 2009 \$000
Provision for impairment at the start of the year	(7,192)	(4,761)	(5,321)	(3,376)
Decrease/(increase) in provision for the year	891	(2,431)	800	(1,945)
Provision for impairment at the end of the year	(6,301)	(7,192)	(4,521)	(5,321)

15 Inventories

	Group 30 June 2010 \$000	Group 30 June 2009 \$000	Parent 30 June 2010 \$000	Parent 30 June 2009 \$000
LPG	4,677	9,004	-	-
Consumables and spare parts	6,774	6,902	6,537	6,600
Inventory gas	46,915	-	46,915	-
Total inventories	58,366	15,906	53,452	6,600

Inventory gas relates to the gas reserves in the Ahuroa reservoir in excess of the reserves required for cushion gas. Refer to note 18.

Contact Energy Limited and Subsidiaries
Notes to the financial statements
for the year ended 30 June 2010

16 Property, plant and equipment

Group	Generation plant and equipment (including land and buildings) at deemed cost \$'000	Other land and buildings at cost \$'000	Other plant and equipment at cost \$'000	Generation capital work in progress at cost \$'000	Development capital work in progress at cost \$'000	Other capital work in progress at cost \$'000	Total \$'000
Cost							
Balance as at 1 July 2007	3,938,799	25,209	272,009	94,286	32,795	21,874	4,384,972
Additions	73,664	13,139	10,718	50,055	60,761	23,343	231,680
Transfers from capital work in progress	77,731	888	14,914	(64,889)	(11,165)	(17,479)	-
Disposals	-	(2,992)	-	-	(3,038)	-	(6,030)
Balance as at 30 June 2008	4,090,194	36,244	297,641	79,452	79,353	27,738	4,610,622
Balance as at 1 July 2008	4,090,194	36,244	297,641	79,452	79,353	27,738	4,610,622
Transfer to intangible assets	-	-	(6,467)	-	-	(5,132)	(11,599)
Reclassification of New Plymouth land and buildings	(19,889)	19,889	-	-	-	-	-
Additions	104,171	6,517	9,709	55,307	243,871	16,723	436,298
Transfers from capital work in progress	64,538	117	15,608	(62,627)	(1,723)	(15,913)	-
Disposals	(1,970)	(874)	(52,731)	-	-	-	(55,575)
Balance as at 30 June 2009	4,237,044	61,893	263,760	72,132	321,501	23,416	4,979,746
Balance as at 1 July 2009	4,237,044	61,893	263,760	72,132	321,501	23,416	4,979,746
Additions	75,282	1,021	4,081	102,946	232,685	11,355	427,370
Transfers from capital work in progress	104,120	117	13,898	(40,572)	(63,548)	(14,015)	-
Disposals	(10)	-	(2,058)	-	-	-	(2,068)
Balance as at 30 June 2010	4,416,436	63,031	279,681	134,506	490,638	20,756	5,405,048
Depreciation and impairment losses							
Balance as at 1 July 2007	(314,908)	(2,624)	(168,156)	-	-	(123)	(485,811)
Depreciation charge	(127,220)	(446)	(20,404)	-	-	123	(147,947)
Balance as at 30 June 2008	(442,128)	(3,070)	(188,560)	-	-	-	(633,758)
Balance as at 1 July 2008	(442,128)	(3,070)	(188,560)	-	-	-	(633,758)
Transfer to intangible assets	-	-	6,085	-	-	-	6,085
Reclassification of New Plymouth land and buildings	8,051	(8,051)	-	-	-	-	-
Depreciation charge	(142,647)	(1,086)	(21,043)	-	-	-	(164,776)
Disposals	1,970	874	52,290	-	-	-	55,134
Impairment losses recognised in Income Statement*	-	-	-	-	(2,830)	-	(2,830)
Balance as at 30 June 2009	(574,754)	(11,333)	(151,228)	-	(2,830)	-	(740,145)
Balance as at 1 July 2009	(574,754)	(11,333)	(151,228)	-	(2,830)	-	(740,145)
Depreciation charge	(139,897)	(2,636)	(12,877)	-	-	-	(155,410)
Disposals	10	-	1,811	-	-	-	1,821
Balance as at 30 June 2010	(714,641)	(13,969)	(162,294)	-	(2,830)	-	(893,734)
Carrying value							
As at 30 June 2008	3,648,066	33,174	109,081	79,452	79,353	27,738	3,976,864
As at 30 June 2009	3,662,290	50,560	112,532	72,132	318,671	23,416	4,239,601
As at 30 June 2010	3,701,795	49,062	117,387	134,506	487,808	20,756	4,511,314

* Refer to note 19.

Contact Energy Limited and Subsidiaries
Notes to the financial statements
for the year ended 30 June 2010

Parent	Generation plant and equipment (including land and buildings) at deemed cost \$'000	Other land and buildings at cost \$'000	Other plant and equipment at cost \$'000	Generation capital work in progress at cost \$'000	Development capital work in progress at cost \$'000	Other capital work in progress at cost \$'000	Total \$'000
Cost							
Balance as at 1 July 2007	3,938,799	22,538	163,750	94,286	30,665	13,075	4,263,113
Additions	73,664	13,139	10,712	50,055	54,411	12,690	214,671
Transfers from capital work in progress	77,731	-	9,522	(64,889)	(11,165)	(11,199)	-
Disposals	-	(2,992)	-	-	(3,038)	-	(6,030)
Balance as at 30 June 2008	4,090,194	32,685	183,984	79,452	70,873	14,566	4,471,754
Balance as at 1 July 2008	4,090,194	32,685	183,984	79,452	70,873	14,566	4,471,754
Transfer to intangible assets	-	-	(6,467)	-	-	(5,132)	(11,599)
Reclassification of New Plymouth land and buildings	(19,889)	19,889	-	-	-	-	-
Additions	104,171	5,954	2,803	55,307	238,414	16,723	423,372
Transfers from capital work in progress	64,538	-	7,966	(62,627)	(1,723)	(8,154)	-
Disposals	(1,970)	(874)	(52,159)	-	-	-	(55,003)
Balance as at 30 June 2009	4,237,044	57,654	136,127	72,132	307,564	18,003	4,828,524
Balance as at 1 July 2009	4,237,044	57,654	136,127	72,132	307,564	18,003	4,828,524
Additions	75,282	865	5,293	102,946	220,742	4,764	409,892
Transfers from capital work in progress	104,120	-	6,256	(40,572)	(63,548)	(6,256)	-
Disposals	(10)	-	(316)	-	-	-	(326)
Balance as at 30 June 2010	4,416,436	58,519	147,360	134,506	464,758	16,511	5,238,090
Depreciation and impairment losses							
Balance as at 1 July 2007	(314,908)	(2,094)	(106,664)	-	-	-	(423,666)
Depreciation charge	(127,220)	(327)	(15,508)	-	-	-	(143,055)
Balance as at 30 June 2008	(442,128)	(2,421)	(122,172)	-	-	-	(566,721)
Balance as at 1 July 2008	(442,128)	(2,421)	(122,172)	-	-	-	(566,721)
Transfer to intangible assets	-	-	6,085	-	-	-	6,085
Reclassification of New Plymouth land and buildings	8,051	(8,051)	-	-	-	-	-
Depreciation charge	(142,647)	(945)	(16,041)	-	-	-	(159,633)
Disposals	1,970	874	52,159	-	-	-	55,003
Balance as at 30 June 2009	(574,754)	(10,543)	(79,969)	-	-	-	(665,266)
Balance as at 1 July 2009	(574,754)	(10,543)	(79,969)	-	-	-	(665,266)
Depreciation charge	(139,897)	(2,550)	(9,670)	-	-	-	(152,117)
Disposals	10	-	316	-	-	-	326
Balance as at 30 June 2010	(714,641)	(13,093)	(89,323)	-	-	-	(817,057)
Carrying value							
As at 30 June 2008	3,648,066	30,264	61,812	79,452	70,873	14,566	3,905,033
As at 30 June 2009	3,662,290	47,111	56,158	72,132	307,564	18,003	4,163,258
As at 30 June 2010	3,701,795	45,426	58,037	134,506	464,758	16,511	4,421,033

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.

Generation plant and equipment and capital work in progress

Deloitte, as an independent valuer, valued the generation plant and equipment and generation capital work in progress as at 30 June 2010.

The carrying amount of generation plant and equipment and generation capital work in progress, had they been recognised at fair value, would be in the range of \$3.9 billion to \$5.0 billion.

Contact Energy Limited and Subsidiaries
Notes to the financial statements
for the year ended 30 June 2010

17 Intangible assets

Group	Goodwill \$000	Patents \$000	Gas storage rights \$000	Computer software \$000	Total \$000
Cost					
Balance as at 1 July 2008	181,941	1,222	28,563	10,134	221,860
Transfer from property, plant and equipment	-	-	-	11,599	11,599
Additions	-	-	2,305	30,897	33,202
Disposals	-	-	-	(733)	(733)
Balance as at 30 June 2009	181,941	1,222	30,868	51,897	265,928
Balance as at 1 July 2009	181,941	1,222	30,868	51,897	265,928
Additions	-	-	2,485	36,050	38,535
Disposals	-	-	-	(135)	(135)
Balance as at 30 June 2010	181,941	1,222	33,353	87,812	304,328
Amortisation and impairment losses					
Balance as at 1 July 2008	-	(1,222)	-	(6,086)	(7,308)
Transfer from property, plant and equipment	-	-	-	(6,085)	(6,085)
Amortisation charge	-	-	-	(1,109)	(1,109)
Disposals	-	-	-	733	733
Balance as at 30 June 2009	-	(1,222)	-	(12,547)	(13,769)
Balance as at 1 July 2009	-	(1,222)	-	(12,547)	(13,769)
Amortisation charge	-	-	-	(6,493)	(6,493)
Disposals	-	-	-	135	135
Balance as at 30 June 2010	-	(1,222)	-	(18,905)	(20,127)
Carrying value					
As at 30 June 2009	181,941	-	30,868	39,350	252,159
As at 30 June 2010	181,941	-	33,353	68,907	284,201

Contact Energy Limited and Subsidiaries
Notes to the financial statements
for the year ended 30 June 2010

Parent	Goodwill \$000	Patents \$000	Gas storage rights \$000	Computer software \$000	Total \$000
Cost					
Balance as at 1 July 2008	123,307	-	28,563	10,134	162,004
Transfer from property, plant and equipment	-	-	-	11,599	11,599
Additions	-	-	2,305	30,897	33,202
Disposals	-	-	-	(733)	(733)
Balance as at 30 June 2009	123,307	-	30,868	51,897	206,072
Balance as at 1 July 2009	123,307	-	30,868	51,897	206,072
Additions	-	-	2,485	36,050	38,535
Disposals	-	-	-	(135)	(135)
Balance as at 30 June 2010	123,307	-	33,353	87,812	244,472
Amortisation and impairment losses					
Balance as at 1 July 2008	-	-	-	(6,086)	(6,086)
Transfer from property, plant and equipment	-	-	-	(6,085)	(6,085)
Amortisation charge	-	-	-	(1,109)	(1,109)
Disposals	-	-	-	733	733
Balance as at 30 June 2009	-	-	-	(12,547)	(12,547)
Balance as at 1 July 2009	-	-	-	(12,547)	(12,547)
Amortisation charge	-	-	-	(6,493)	(6,493)
Disposals	-	-	-	135	135
Balance as at 30 June 2010	-	-	-	(18,905)	(18,905)
Carrying value					
As at 30 June 2009	123,307	-	30,868	39,350	193,525
As at 30 June 2010	123,307	-	33,353	68,907	225,567

Goodwill

For the purpose of impairment testing, all goodwill is allocated to the retail electricity (Group: \$143.0 million; Parent: \$87.6 million), retail gas (Group and Parent: \$35.7 million) and LPG (Group: \$3.2 million; Parent: nil) cash-generating units. The impairment test for each unit 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 business and are extrapolated using an average annual growth rate of approximately 1.0–3.0 per cent. 10-year financial forecasts are considered appropriate because of the long-term nature of the business. 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 calculations for the cash-generating units are:

Assumption	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

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

The acquisition was completed in conjunction with Contact's ultimate parent company, Origin, which acquired certain New Zealand oil and gas assets from Swift Energy New Zealand Limited. These assets included a petroleum mining licence (PML 38139, the PML) to an area that includes the Ahuroa reservoir.

Contact's beneficial right in the PML shall continue until such time as the term of the PML expires or until a new permit is granted.

Additions to gas storage rights since acquisition relate to capitalised interest on the original acquisition of the rights.

Impairment

No impairment exists for any intangible asset at 30 June 2010 (2009: nil).

18 Gas storage – cushion gas

As part of the acquisition of the gas storage rights (refer to note 17), Contact also 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 since acquisition, are referred to as cushion gas and represent the investment necessary to enable the field to be used for the storage of future 'operational' gas.

Cushion gas is recognised at cost, which includes capitalised interest, and is presented in the Statement of Financial Position as a separate non-current, non-depreciable asset, referred to as gas storage – cushion gas.

Gas injected in excess of cushion gas requirements is treated as inventory. Refer to note 15.

19 Investment in jointly controlled entity

Name of entity	Interest held by Group		Principal activity
	30 June 2010	30 June 2009	
Gasbridge Joint Venture	50%	50%	Liquefied natural gas 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, income and results of the joint venture. These are included in the Statement of Financial Position and the Income Statement.

Group	30 June 2010 \$000	30 June 2009 \$000
Assets		
Current assets	7	42
Total assets	7	42
Liabilities		
Current liabilities	2	59
Total liabilities	2	59
Net assets/(liabilities)	5	(17)
Income	3	4
Expenses	(10)	(344)
Loss after income tax	(7)	(340)
Proportionate interest in joint venture's commitments	-	-

During the year ended 30 June 2009 Contact and Genesis Power Limited decided to put on hold the development of the land-based liquefied natural gas (LNG) terminal. As a result of this decision, Contact wrote-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 was taken to the Income Statement relating to this write-off for the year ended 30 June 2009.

As a result of this decision, the Parent wrote-off an amount of \$5.1 million receivable from its subsidiary Contact Aria Limited in relation to its investment in the Gasbridge Joint Venture for the year ended 30 June 2009.

There are no contingent liabilities relating to Contact's interest in the joint venture and no contingent liabilities in the joint venture itself (2009: nil).

20 Investment in subsidiaries

Name of entity	Interest held by Parent		Principal activity	Country of incorporation
	30 June 2010	30 June 2009		
Empower Limited	100%	100%	Electricity retailer and gas wholesaler	New Zealand
Stratford Power Limited*	N/a	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**	N/a	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 of Oakey Power Holdings Pty Limited	Australia

* Effective 7 September 2009 Stratford Power Limited was amalgamated into Empower Limited.

** Effective 7 September 2009 Rockgas Holdings Limited was amalgamated into Rockgas Limited.

All subsidiaries have a 30 June balance date.

21 Investment in associates

Name of entity	Interest held by Group		Principal activity	Country of incorporation
	30 June 2010	30 June 2009		
Oakey Power Holdings Pty Limited	25%	25%	Electricity generation	Australia
Rockgas Timaru Limited	50%	50%	LPG distribution	New Zealand
Energyhedge Limited	20%	N/a	Futures trading	New Zealand

	Group 30 June 2010 \$000	Group 30 June 2009 \$000	Parent 30 June 2010 \$000	Parent 30 June 2009 \$000
Carrying value of associates				
Carrying value at the start of the year	8,687	8,015	1,579	1,579
Purchase of investment in Energyhedge	8	-	8	-
Share of recognised revenue and expenses	3,272	3,624	-	-
Movements taken to foreign currency translation reserve	(147)	(67)	-	-
Dividends received	(3,011)	(2,885)	-	-
Carrying value at the end of the year	8,809	8,687	1,587	1,579

Rockgas Timaru Limited has a balance date of 31 March.

Contact acquired shares in Energyhedge Limited on 1 August 2009.

Contact Energy Limited and Subsidiaries
Notes to the financial statements
 for the year ended 30 June 2010

Group	30 June 2010	30 June 2009
Aggregate summary financial information of associates, not adjusted for the percentage held by Contact	\$000	\$000
Total assets	146,487	161,644
Total liabilities	111,803	127,416
Total revenues	43,791	42,138
Profit for the year	13,334	13,244

22 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 2010 \$000	Group 30 June 2009 \$000	Parent 30 June 2010 \$000	Parent 30 June 2009 \$000
At cost*				
Unlisted shares in Liquigas Limited	2,935	2,935	-	-
Total available-for-sale financial assets	2,935	2,935	-	-

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

23 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 24.

Carrying value of borrowings

	Borrowing currency denomination	Group 30 June 2010 \$000	Group 30 June 2009 \$000	Parent 30 June 2010 \$000	Parent 30 June 2009 \$000
Current borrowings					
Bank overdraft	NZD	2,039	1,675	2,333	1,959
Loan from associate	AUD	–	1,580	–	–
Finance lease liabilities	NZD	1,141	1,056	1,120	1,023
Total current borrowings		3,180	4,311	3,453	2,982
Current portion of term borrowings					
4.5% March 2010	USD	–	141,662	–	141,662
Total current portion of term borrowings		–	141,662	–	141,662
Non-current borrowings					
Non-current portion of term borrowings					
6.9% February 2013	USD	121,094	130,593	121,094	130,593
5.3% March 2014	USD	136,282	140,867	136,282	140,867
5.3% March 2015	USD	163,223	166,886	163,223	166,886
5.6% March 2018	USD	64,913	65,411	64,913	65,411
7.1% April 2018	USD	44,573	45,595	44,573	45,595
Fixed rate senior notes					
Retail fixed rate bonds May 2014	NZD	541,809	540,219	541,809	540,219
Wholesale fixed rate bonds April 2017	NZD	99,795	–	99,795	–
Total non-current portion of term borrowings		1,171,689	1,089,571	1,171,689	1,089,571
Committed credit facilities	NZD	106,200	–	106,200	–
Finance lease liabilities	NZD	1,344	1,535	1,327	1,495
Total non-current borrowings		1,279,233	1,091,106	1,279,216	1,091,066

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 Statement of Financial Position. All other borrowings are held at amortised cost less deferred financing costs. The reconciliation of the New Zealand dollar equivalent of contracted term borrowings to the Statement of Financial Position carrying value is detailed below:

Group and Parent 2010	Fixed rate senior notes \$000	Retail fixed rate bonds \$000	Wholesale fixed rate bonds \$000	Total term borrowings \$000
New Zealand dollar equivalent of notional borrowings	587,299	550,000	100,000	1,237,299
Deferred financing costs	(1,275)	(8,191)	(205)	(9,671)
Net fair value adjustment	(55,939)	–	–	(55,939)
Carrying value of term borrowings	530,085	541,809	99,795	1,171,689
Current	–	–	–	–
Non-current	530,085	541,809	99,795	1,171,689
	530,085	541,809	99,795	1,171,689

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

Wholesale fixed rate bonds

On 13 April 2010, Contact issued \$100.0 million of fixed rate bonds at a coupon rate of 7.86 per cent. Financing costs directly attributable to the bond issue were \$0.2 million.

Interest is payable bi-annually in arrears until the bonds mature on 13 April 2017, at which point Contact will pay the bondholders the face value of the fixed rate bonds.

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

Retail fixed rate bonds

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

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

Contact 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 covenant requirements were met at 30 June 2010 and at 30 June 2009.

Credit facilities

Contact had total committed credit facilities at 30 June 2010 of \$520.0 million, of which \$106.2 million was drawn (2009: \$685.0 million, nil drawn). As at 30 June 2010, \$75.0 million of the facilities mature in May 2011, \$150.0 million mature in December 2012 and \$295.0 million mature in March 2013.

These committed credit facilities also supported a \$250.0 million commercial paper programme. This programme was unutilised at 30 June 2010 (30 June 2009: unutilised).

Finance lease liabilities

Future minimum lease payments are as follows:

	Group 30 June 2010 \$000	Group 30 June 2009 \$000	Parent 30 June 2010 \$000	Parent 30 June 2009 \$000
Not later than one year	1,191	1,205	1,166	1,173
Later than one year and not later than five years	1,655	1,758	1,637	1,717
Minimum lease payments	2,846	2,963	2,803	2,890
Future finance charges on finance leases	(361)	(372)	(356)	(372)
Present value of finance lease liabilities	2,485	2,591	2,447	2,518

The finance leases relate to computer equipment.

The present value of finance lease liabilities are as follows:

	Group 30 June 2010 \$000	Group 30 June 2009 \$000	Parent 30 June 2010 \$000	Parent 30 June 2009 \$000
Not later than one year	1,141	1,056	1,120	1,023
Later than one year and not later than five years	1,344	1,535	1,327	1,495
Present value of finance lease liabilities	2,485	2,591	2,447	2,518

24 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 value of the significant types of derivative financial instruments outstanding is summarised below:

Group	Fair value assets 30 June 2010 \$000	Fair value liabilities 30 June 2010 \$000	Fair value assets 30 June 2009 \$000	Fair value liabilities 30 June 2009 \$000
Cross currency interest rate swaps	724	(56,555)	4,103	(58,922)
Interest rate derivatives	-	(32,405)	1,809	(38,544)
Cross currency interest rate swaps – margin	-	(3,325)	117	(2,454)
Forward foreign exchange derivatives	91	(1,511)	3,713	(5,940)
Electricity price hedges	4,927	(36,910)	11,842	(52,413)
Total derivative financial instruments	5,742	(130,706)	21,584	(158,273)
Current	4,955	(31,895)	14,987	(72,368)
Non-current	787	(98,811)	6,597	(85,905)
	5,742	(130,706)	21,584	(158,273)

Parent	Fair value assets 30 June 2010 \$000	Fair value liabilities 30 June 2010 \$000	Fair value assets 30 June 2009 \$000	Fair value liabilities 30 June 2009 \$000
Cross currency interest rate swaps	724	(56,555)	4,103	(58,922)
Interest rate derivatives	-	(32,405)	1,809	(38,544)
Cross currency interest rate swaps – margin	-	(3,325)	117	(2,454)
Forward foreign exchange derivatives	50	(1,511)	3,713	(5,889)
Electricity price hedges	4,927	(36,910)	11,842	(52,413)
Total derivative financial instruments	5,701	(130,706)	21,584	(158,222)
Current	4,914	(31,895)	14,987	(72,317)
Non-current	787	(98,811)	6,597	(85,905)
	5,701	(130,706)	21,584	(158,222)

Change in fair value of financial instruments

The change in fair value of financial instruments recognised in the Income Statement and cash flow hedge reserve is summarised below:

Group	Hedge accounting designation	Income Statement 30 June 2010 \$000	Cash flow hedge reserve 30 June 2010 \$000	Income Statement 30 June 2009 \$000	Cash flow hedge reserve 30 June 2009 \$000
Favourable/(unfavourable)					
Cross currency interest rate swaps	Fair value hedge	(1,012)	-	136,436	-
Borrowings		1,104	-	(136,444)	-
		92	-	(8)	-
Interest rate derivatives	No hedge	3,683	647	(51,096)	904
Cross currency interest rate swaps – margin	Cash flow hedge	3,135	(4,123)	2,444	1,810
Forward foreign exchange derivatives	Cash flow hedge	-	807	-	(6,058)
Forward foreign exchange derivatives	No hedge	-	-	56	-
Electricity price hedges	Cash flow hedge	(3,097)	10,967	1,814	55,435
Electricity price hedges	No hedge	718	-	(10,721)	-
Income tax on change in fair value of financial instruments taken to other comprehensive income		-	(1,693)	-	(16,472)
Total change in fair value of financial instruments		4,531	6,605	(57,511)	35,619

Parent	Hedge accounting designation	Income Statement 30 June 2010 \$000	Cash flow hedge reserve 30 June 2010 \$000	Income Statement 30 June 2009 \$000	Cash flow hedge reserve 30 June 2009 \$000
Favourable/(unfavourable)					
Cross currency interest rate swaps	Fair value hedge	(1,012)	-	136,436	-
Borrowings		1,104	-	(136,444)	-
		92	-	(8)	-
Interest rate derivatives	No hedge	3,683	647	(51,096)	904
Cross currency interest rate swaps – margin	Cash flow hedge	3,135	(4,123)	2,444	1,810
Forward foreign exchange derivatives	Cash flow hedge	-	715	-	(6,260)
Forward foreign exchange derivatives	No hedge	-	-	56	-
Electricity price hedges	Cash flow hedge	(3,097)	10,967	1,814	55,435
Electricity price hedges	No hedge	718	-	(10,721)	-
Income tax on change in fair value of financial instruments taken to other comprehensive income		-	(1,693)	-	(16,394)
Total change in fair value of financial instruments		4,531	6,513	(57,511)	35,495

Movement in cash flow hedge reserve

	Group \$000	Parent \$000
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 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 to deferred tax	3,243	3,335
Balance as at 30 June 2009	(38,660)	(38,608)
Balance as at 1 July 2009	(38,660)	(38,608)
Effective portion of cash flow hedges recognised in the cash flow hedge reserve	1,680	1,538
Amount transferred from the cash flow hedge reserve to revenue	2,213	2,213
Amount transferred from the cash flow hedge reserve to operating expenses	505	555
Amount transferred from the cash flow hedge reserve to change in fair value of financial instruments	647	647
Amount transferred from the cash flow hedge reserve to property, plant and equipment	1,863	1,863
Amount transferred from the cash flow hedge reserve to deferred tax	(303)	(303)
Balance as at 30 June 2010	(32,055)	(32,095)

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, Japanese yen 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 the 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 2010 was \$44.4 million (2009: \$120.3 million). As at 30 June 2010, all forward foreign exchange contracts were designated in a cash flow hedge relationship.

The hedged anticipated transactions denominated in foreign currency are expected to occur at various dates between one and nine months (2009: between one month and one year and three months) from the end of the reporting period. Gains and losses recognised in the cash flow hedge reserve in other comprehensive income on forward foreign exchange contracts as at 30 June 2010 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 2010, no hedges were de-designated, and all underlying forecast transactions remain highly probable to occur as originally forecast.

Sensitivity analysis

At 30 June 2010, 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; and
- the cash flow hedge reserve component of other comprehensive income would have been \$2.7 million higher/lower (2009: \$8.7 million higher/lower), arising from unrealised foreign exchange gains/losses on the revaluation of forward foreign exchange contracts in a cash flow hedge relationship.

(ii) Price risk

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

Electricity price hedges

The aggregate notional volume of the outstanding fixed volume electricity price hedges at 30 June 2010 was 1,028 gigawatt hours (GWh) (2009: 1,522 GWh). The aggregate notional volume of the outstanding variable volume electricity price hedges at 30 June 2010 was 5,093 GWh (2009: 7,634 GWh).

Electricity price hedges are hedging underlying exposures over various trade periods out to August 2013. As at 30 June 2010 the fair value of the electricity price hedges was \$(32.0) million (2009: \$(40.6) million), \$(30.9) million of which was designated in a cash flow hedge relationship (2009: \$(38.8) million).

Gains and losses on hedged electricity price hedges recognised in the cash flow hedge reserve in other comprehensive income will be continually released to the Income Statement in the year in which the underlying sale/purchase transactions are recognised in the Income Statement.

Sensitivity analysis

The following table summarises the impact of increases/decreases in the relevant wholesale electricity forward prices on Contact's post-tax profit for the year and on the cash flow hedge reserve component of other comprehensive income. The sensitivity analysis is based on the assumption that the relevant market prices had increased/decreased by 10 per cent, with all other variables held constant:

Group and Parent	30 June 2010	30 June 2010	30 June 2009	30 June 2009
Favourable/(unfavourable)	+10%	-10%	+10%	-10%
	\$000	\$000	\$000	\$000
Impact on post-tax profit	(1,535)	(686)	251	(786)
Impact on other comprehensive income	6,518	(7,040)	13,013	(12,335)

(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. In addition, New Zealand dollar interest rate swaps are used to cover domestic interest rate risk.

Cross currency interest rate swaps

The aggregate notional principal amount of the outstanding cross currency interest rate swap contracts at 30 June 2010 was \$587.3 million (2009: \$747.5 million). The cross currency interest rate swaps have been split into two components for the purpose of hedge designation. The hedge of the benchmark interest rate is designated as a fair value hedge, and the hedge of the issuance margin is designated as a cash flow hedge.

The hedged anticipated interest payments are expected to occur at various dates between one month and eight years (2009: one month and nine years) from the end of the reporting period 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 2010 was \$895.0 million (2009: \$1,016.4 million) including \$170.0 million of forward starting swaps (2009: \$355.0 million).

The anticipated interest payment transactions are expected to occur at various dates between one month and nine years (2009: one month and 10 years) from the end of the reporting period.

Sensitivity analysis

The following table summarises the impact on Contact's post-tax profit, if interest rates had been 100 basis points higher or 25 basis points lower (2009: 100 basis points higher/lower), with all other variables held constant. 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 *NZ IAS 39*. There would be no effect on other comprehensive income. The change in the sensitivity rates used on the prior year is driven by Contact's expectation of future interest rate movements.

(b) Credit risk

Group and Parent	30 June 2010 +100bps \$000	30 June 2010 -25bps \$000	30 June 2009 +100bps \$000	30 June 2009 -100bps \$000
Favourable/(unfavourable)				
Impact on post-tax profit	7,207	(2,694)	16,472	(17,563)

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 continually monitored, and the aggregate value of transactions concluded is spread amongst approved counterparties.

The carrying amounts of financial assets recognised in the Statement of Financial Position best represent Contact's maximum exposure to credit risk at the end of the reporting period without taking account of the value of any collateral obtained.

Contact does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. Concentration of credit risk with respect to receivables is limited owing to Contact's large customer base in a diverse range of industries throughout New Zealand. Contact has no significant concentration of credit risk with any one institution, despite there being significant sales to M-co. M-co acts as an electricity market clearing agent and the counterparty risk sits with the market participants. Market participants are required to provide letters of credit to M-co, which would be called upon should any market participant default.

(c) Liquidity risk

Contact's liquidity risk arises from its ability to attract cost-effective funding, which 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 continually forecasting actual cash flows and matching the maturity profiles of financial assets and liabilities.

Contractual maturities of financial liabilities and derivative financial instruments

The contractual maturities disclosed below are the contracted undiscounted cash flows for all financial liabilities, except for the derivative financial instruments which are the undiscounted settlements expected under the contracts. Balances due within 12 months equal their carrying values as the impact of discounting is not significant. As the amounts presented are contracted undiscounted cash flows and include forward starting derivatives, the totals will not reconcile with the Statement of Financial Position.

Group 2010		Total contractual cash flows \$000	Less than 1 year \$000	1–2 years \$000	2–5 years \$000	More than 5 years \$000
Outflow/(inflow)	Note					
Payables and accruals		242,170	242,170	–	–	–
Borrowings		1,600,704	82,486	79,746	1,211,689	226,783
Finance lease liabilities	23	2,846	1,191	969	686	–
Net settled derivative financial instruments:						
Electricity price hedges		30,037	7,411	13,902	8,724	–
Interest rate derivatives		36,761	11,889	7,782	12,725	4,365
Gross settled derivative financial instruments:						
Forward foreign exchange derivatives						
– Inflow		(42,707)	(42,707)	–	–	–
– Outflow		44,127	44,127	–	–	–
Cross currency interest rate swaps						
– Inflow		(610,540)	(27,763)	(27,756)	(449,713)	(105,308)
– Outflow		748,000	27,321	32,200	559,664	128,815
Total		2,051,398	346,125	106,843	1,343,775	254,655

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
Outflow/(inflow)	Note					
Payables and accruals		289,512	289,512	–	–	–
Borrowings		1,604,451	222,784	73,817	1,014,402	293,448
Finance lease liabilities	23	2,963	1,205	783	975	–
Net settled derivative financial instruments:						
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:						
Forward foreign exchange derivatives						
– Inflow		(111,637)	(109,654)	(1,983)	–	–
– Outflow		114,684	112,851	1,833	–	–
Cross currency interest rate swaps						
– Inflow		(831,010)	(175,462)	(29,809)	(332,236)	(293,503)
– Outflow		972,957	189,594	32,254	407,596	343,513
Total		2,127,030	564,553	104,859	1,114,600	343,018

Contact Energy Limited and Subsidiaries
Notes to the financial statements
for the year ended 30 June 2010

Parent 2010		Total contractual cash flows \$000	Less than 1 year \$000	1–2 years \$000	2–5 years \$000	More than 5 years \$000
Outflow/(inflow)	Note					
Payables and accruals		271,536	271,536	–	–	–
Borrowings		1,600,998	82,780	79,746	1,211,689	226,783
Finance lease liabilities	23	2,803	1,166	952	685	–
Net settled derivative financial instruments:						
Electricity price hedges		30,037	7,411	13,902	8,724	–
Interest rate derivatives		36,761	11,889	7,782	12,725	4,365
Gross settled derivative financial instruments:						
Forward foreign exchange derivatives						
– Inflow		(44,691)	(44,691)	–	–	–
– Outflow		46,152	46,152	–	–	–
Cross currency interest rate swaps						
– Inflow		(610,540)	(27,763)	(27,756)	(449,713)	(105,308)
– Outflow		748,000	27,321	32,200	559,664	128,815
Total		2,081,056	375,801	106,826	1,343,774	254,655

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
Outflow/(inflow)	Note					
Payables and accruals		324,161	324,161	–	–	–
Borrowings		1,603,154	221,487	73,817	1,014,402	293,448
Finance lease liabilities	23	2,890	1,173	742	975	–
Net settled derivative financial instruments:						
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:						
Forward foreign exchange derivatives						
– Inflow		(106,071)	(104,088)	(1,983)	–	–
– Outflow		109,052	107,219	1,833	–	–
Cross currency interest rate swaps						
– Inflow		(831,010)	(175,462)	(29,809)	(332,236)	(293,503)
– Outflow		972,957	189,594	32,254	407,596	343,513
Total		2,160,243	597,807	104,818	1,114,600	343,018

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 wholesale and retail fixed rate bonds. The retail fixed rate bonds have a fair value of \$591.6 million (2009: \$563.4 million), compared with a carrying value of \$541.8 million (2009: \$540.2 million). The wholesale fixed rate bonds have a fair value of \$104.3 million (2009: N/a), compared with a carrying value of \$99.8 million (2009: N/a).

Estimation of fair values

The fair value of financial assets and financial liabilities is determined using a hierarchy as follows:

- Level one – the fair value is determined using unadjusted quoted prices from an active market for identical assets and liabilities. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial instruments held by Contact is the current bid price.
- Level two – the fair value is derived from inputs other than quoted prices included within level one that are observable for the asset or liability, either directly (i.e. from prices) or indirectly (i.e. derived from prices). Financial instruments in this level include short-term electricity price hedges, forward foreign exchange derivatives, interest rate derivatives and foreign currency denominated debt.
- Level three – the fair value is derived from inputs that are not based on observable market data. Financial instruments included in this level include certain long-term electricity price hedges, which are valued using internal price paths.

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 variable used by the valuation technique are:

- forward price curves (for the relevant underlying interest rates, foreign exchange rates or electricity prices); and
- 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 values of these derivatives. Maximum use is made of observable market data when selecting variables and developing assumptions for the valuation techniques.

The following table presents the hierarchy of the Group and Parent's financial assets and liabilities that are recognised at fair value:

Group 2010	Level one \$000	Level two \$000	Level three \$000	Total balance \$000
Financial assets at fair value				
Derivatives designated as cash flow hedging instruments	-	5,018	-	5,018
Derivatives designated as fair value hedging instruments	-	724	-	724
Financial liabilities at fair value				
Derivatives designated as cash flow hedging instruments	-	5,191	35,595	40,786
Derivatives designated as fair value hedging instruments	-	56,555	-	56,555
Fixed rate senior notes	-	530,085	-	530,085
Derivatives held for trading	-	33,365	-	33,365

Parent 2010	Level one \$000	Level two \$000	Level three \$000	Total balance \$000
Financial assets at fair value				
Derivatives designated as cash flow hedging instruments	-	4,977	-	4,977
Derivatives designated as fair value hedging instruments	-	724	-	724
Financial liabilities at fair value				
Derivatives designated as cash flow hedging instruments	-	5,191	35,595	40,786
Derivatives designated as fair value hedging instruments	-	56,555	-	56,555
Fixed rate senior notes	-	530,085	-	530,085
Derivatives held for trading	-	33,365	-	33,365

The following table presents the changes in level three instruments:

Group and Parent	Derivatives designated as cash flow hedging instruments \$000	Total balance \$000
Balance as at 1 July 2009	(49,134)	(49,134)
Gains and losses recognised in profit or loss*	(3,022)	(3,022)
Gains and losses recognised in cash flow hedge reserve	16,561	16,561
Balance as at 30 June 2010	(35,595)	(35,595)

* Change in fair value of financial instruments.

Financial instruments by category

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

Group 2010	Note	Held for trading \$000	Loans and receivables \$000	Available-for-sale financial assets \$000	Other financial liabilities \$000	Derivatives designated as fair value hedging instruments \$000	Derivatives designated as cash flow hedging instruments \$000	Total \$000
Assets								
Cash and short-term deposits	13	-	921	-	-	-	-	921
Receivables		-	217,352	-	-	-	-	217,352
Derivative financial instruments		-	-	-	-	724	5,018	5,742
Available-for-sale financial assets	22	-	-	2,935	-	-	-	2,935
Total financial assets		-	218,273	2,935	-	724	5,018	226,950
Total non-financial assets								4,920,813
Total assets								5,147,763
Liabilities								
Borrowings	23	-	-	-	1,282,413	-	-	1,282,413
Derivative financial instruments		33,365	-	-	-	56,555	40,786	130,706
Payables and accruals		-	-	-	242,170	-	-	242,170
Total financial liabilities		33,365	-	-	1,524,583	56,555	40,786	1,655,289
Total non-financial liabilities								715,696
Total liabilities								2,370,985

Group 2009	Note	Held for trading \$000	Loans and receivables \$000	Available-for-sale financial assets \$000	Other financial liabilities \$000	Derivatives designated as fair value hedging instruments \$000	Derivatives designated as cash flow hedging instruments \$000	Total \$000
Assets								
Cash and short-term deposits	13	-	179,220	-	-	-	-	179,220
Receivables		-	233,709	-	-	-	-	233,709
Derivative financial instruments		1,539	-	-	-	4,103	15,942	21,584
Available-for-sale financial assets	22	-	-	2,935	-	-	-	2,935
Total financial assets		1,539	412,929	2,935	-	4,103	15,942	437,448
Total non-financial assets								4,588,719
Total assets								5,026,167
Liabilities								
Borrowings	23	-	-	-	1,237,079	-	-	1,237,079
Derivative financial instruments		40,013	-	-	-	58,922	59,338	158,273
Payables and accruals		-	-	-	289,512	-	-	289,512
Total financial liabilities		40,013	-	-	1,526,591	58,922	59,338	1,684,864
Total non-financial liabilities								681,701
Total liabilities								2,366,565

Contact Energy Limited and Subsidiaries
Notes to the financial statements
for the year ended 30 June 2010

Parent 2010	Note	Held for trading \$000	Loans and receivables \$000	Available- for-sale financial assets \$000	Other financial liabilities \$000	Derivatives designated as fair value hedging instruments \$000	Derivatives designated as cash flow hedging instruments \$000	Total \$000
Assets								
Receivables		-	208,619	-	-	-	-	208,619
Derivative financial instruments		-	-	-	-	724	4,977	5,701
Total financial assets		-	208,619	-	-	724	4,977	214,320
Total non-financial assets								4,892,550
Total assets								5,106,870
Liabilities								
Borrowings	23	-	-	-	1,282,669	-	-	1,282,669
Derivative financial instruments		33,365	-	-	-	56,555	40,786	130,706
Payables and accruals		-	-	-	271,536	-	-	271,536
Total financial liabilities		33,365	-	-	1,554,205	56,555	40,786	1,684,911
Total non-financial liabilities								708,555
Total liabilities								2,393,466

Parent 2009	Note	Held for trading \$000	Loans and receivables \$000	Available- for-sale financial assets \$000	Other financial liabilities \$000	Derivatives designated as fair value hedging instruments \$000	Derivatives designated as cash flow hedging instruments \$000	Total \$000
Assets								
Cash and short-term deposits	13	-	177,848	-	-	-	-	177,848
Receivables		-	204,666	-	-	-	-	204,666
Derivative financial instruments		1,539	-	-	-	4,103	15,942	21,584
Total financial assets		1,539	382,514	-	-	4,103	15,942	404,098
Total non-financial assets								4,570,109
Total assets								4,974,207
Liabilities								
Borrowings	23	-	-	-	1,235,710	-	-	1,235,710
Derivative financial instruments		40,013	-	-	-	58,922	59,287	158,222
Payables and accruals		-	-	-	324,161	-	-	324,161
Total financial liabilities		40,013	-	-	1,559,871	58,922	59,287	1,718,093
Total non-financial liabilities								676,457
Total liabilities								2,394,550

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. The Board reviews the capital structure on a regular basis.

Contact monitors capital on the basis of the cash flow metrics required to sustain a BBB credit rating.

Contact also considers its gearing ratio in monitoring capital structure. 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 the 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 2010 and 30 June 2009 were as follows:

Group	Note	30 June 2010 \$000	30 June 2009 \$000
Net debt			
Current borrowings	23	(3,180)	(4,311)
New Zealand dollar equivalent of term borrowings – after foreign exchange hedging and before deferred financing costs	23	(587,299)	(747,527)
Retail fixed rate bonds – before deferred financing costs	23	(550,000)	(550,000)
Wholesale fixed rate bonds – before deferred financing costs	23	(100,000)	–
Committed credit facilities	23	(106,200)	–
Other non-current borrowings	23	(1,344)	(1,535)
Cash and short-term deposits	13	921	179,220
Total net debt		(1,347,102)	(1,124,153)
Equity			
Shareholders' equity		(2,776,778)	(2,659,602)
Remove net effect of fair value of financial instruments after tax		(48,317)	(57,298)
Adjusted equity		(2,825,095)	(2,716,900)
Total capital funding		(4,172,197)	(3,841,053)
Gearing ratio		32.3%	29.3%

25 Payables and accruals

	Group 30 June 2010 \$000	Group 30 June 2009 \$000	Parent 30 June 2010 \$000	Parent 30 June 2009 \$000
Electricity purchases accrual	34,192	46,012	30,870	39,943
Other trade payables and accruals	199,647	230,999	163,187	193,467
Advances from subsidiaries	–	–	69,148	78,250
Employee benefits	17,029	14,723	16,561	14,085
Interest payable	11,562	12,501	11,562	12,501
Total payables and accruals	262,430	304,235	291,328	338,246

26 Provisions

Group	New Plymouth \$000	Restoration/ environmental rehabilitation \$000	Retail transaction processing outsourcing \$000	Other \$000	Total \$000
Balance as at 1 July 2008	18,837	33,259	-	2,476	54,572
Provisions made during the year	-	3,295	-	165	3,460
Provisions used during the year	(15,352)	(3,129)	-	(390)	(18,871)
Provisions reversed during the year	-	(1,215)	-	-	(1,215)
Unwind of discount rate	-	3,999	-	-	3,999
Balance as at 30 June 2009	3,485	36,209	-	2,251	41,945
Balance as at 1 July 2009	3,485	36,209	-	2,251	41,945
Provisions made during the year	5,564	8,745	3,330	1,215	18,854
Provisions used during the year	(2,661)	(2,845)	(427)	(114)	(6,047)
Provisions reversed during the year	-	(87)	-	(1,147)	(1,234)
Unwind of discount rate	-	3,057	-	-	3,057
Balance as at 30 June 2010	6,388	45,079	2,903	2,205	56,575
Current	6,388	3,313	2,903	542	13,146
Non-current	-	41,766	-	1,663	43,429
	6,388	45,079	2,903	2,205	56,575

Parent	New Plymouth \$000	Restoration/ environmental rehabilitation \$000	Retail transaction processing outsourcing \$000	Other \$000	Total \$000
Balance as at 1 July 2008	18,837	31,134	-	2,476	52,447
Provisions made during the year	-	3,295	-	165	3,460
Provisions used during the year	(15,352)	(3,068)	-	(390)	(18,810)
Unwind of discount rate	-	2,972	-	-	2,972
Balance as at 30 June 2009	3,485	34,333	-	2,251	40,069
Balance as at 1 July 2009	3,485	34,333	-	2,251	40,069
Provisions made during the year	5,564	8,745	3,330	1,215	18,854
Provisions used during the year	(2,661)	(2,702)	(427)	(114)	(5,904)
Provisions reversed during the year	-	-	-	(1,147)	(1,147)
Unwind of discount rate	-	2,843	-	-	2,843
Balance as at 30 June 2010	6,388	43,219	2,903	2,205	54,715
Current	6,388	3,074	2,903	542	12,907
Non-current	-	40,145	-	1,663	41,808
	6,388	43,219	2,903	2,205	54,715

Refer to note 2 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 expenditure for the abandonment and restoration of areas from which natural resources are extracted and the expected cost of environmental rehabilitation of commercial sites. The provision also includes estimates of future expenditure for the removal of asbestos from generation properties. Cash outflows are typically expected to coincide with the end of the useful lives of the sites, with the exception of asbestos removal costs which are expected to be incurred within the next five years.

The retail transaction processing outsourcing provision represents the best estimate of the costs relating directly to the outsourcing of some back-office retail processes. Cash outflows in relation to this are expected to occur within the next year.

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

27 Deferred tax

Recognised deferred tax assets and liabilities

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

Group	Assets	Assets	Liabilities	Liabilities
	30 June 2010 \$000	30 June 2009 \$000	30 June 2010 \$000	30 June 2009 \$000
Property, plant and equipment	-	-	(667,877)	(661,121)
Investment in associate	-	-	(2,270)	(2,235)
Inventories	2,113	2,179	-	-
Employee benefits	5,884	4,241	-	-
Provisions	17,831	15,173	-	-
Financial instruments	19,440	23,889	-	-
Other	-	-	(7,211)	(3,512)
Total	45,268	45,482	(677,358)	(666,868)

Parent	Assets	Assets	Liabilities	Liabilities
	30 June 2010 \$000	30 June 2009 \$000	30 June 2010 \$000	30 June 2009 \$000
Property, plant and equipment	-	-	(663,586)	(658,290)
Investment in associate	-	-	(174)	(174)
Inventories	2,113	2,179	-	-
Employee benefits	5,741	4,053	-	-
Provisions	16,738	14,048	-	-
Financial instruments	19,440	23,889	-	-
Other	-	-	(7,552)	(4,237)
Total	44,032	44,169	(671,312)	(662,701)

Movement in deferred tax

Group	Balance	Recognised in	Recognised	Change in	Balance
	1 July 2009 \$000	income \$000	in other comprehensive income \$000	tax rate* \$000	30 June 2010 \$000
Property, plant and equipment**	(661,121)	(51,221)	-	44,465	(667,877)
Investment in associate	(2,235)	(74)	39	-	(2,270)
Inventories	2,179	85	-	(151)	2,113
Employee benefits	4,241	1,643	-	-	5,884
Provisions	15,173	3,503	-	(845)	17,831
Financial instruments	23,889	(1,359)	(2,248)	(842)	19,440
Other	(3,512)	(4,277)	-	578	(7,211)
Total	(621,386)	(51,700)	(2,209)	43,205	(632,090)

Contact Energy Limited and Subsidiaries
Notes to the financial statements
for the year ended 30 June 2010

Group	Balance 1 July 2008 \$000	Recognised in income \$000	Recognised in other comprehensive income \$000	Change in tax rate* \$000	Balance 30 June 2009 \$000
Property, plant and equipment**	(641,732)	(19,389)	-	-	(661,121)
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	(2,834)	-	-	15,173
Financial instruments	22,930	17,431	(16,472)	-	23,889
Other	(861)	(2,651)	-	-	(3,512)
Total	(596,802)	(6,815)	(17,769)	-	(621,386)

Parent	Balance 1 July 2009 \$000	Recognised in income \$000	Recognised in other comprehensive income \$000	Change in tax rate* \$000	Balance 30 June 2010 \$000
Property, plant and equipment**	(658,290)	(49,446)	-	44,150	(663,586)
Investment in associate	(174)	-	-	-	(174)
Inventories	2,179	85	-	(151)	2,113
Employee benefits	4,053	1,688	-	-	5,741
Provisions	14,048	3,535	-	(845)	16,738
Financial instruments	23,889	(1,359)	(2,248)	(842)	19,440
Other	(4,237)	(3,893)	-	578	(7,552)
Total	(618,532)	(49,390)	(2,248)	42,890	(627,280)

Parent	Balance 1 July 2008 \$000	Recognised in income \$000	Recognised in other comprehensive income \$000	Change in tax rate* \$000	Balance 30 June 2009 \$000
Property, plant and equipment**	(640,017)	(18,273)	-	-	(658,290)
Investment in associate	(174)	-	-	-	(174)
Inventories	1,759	420	-	-	2,179
Employee benefits	4,930	(877)	-	-	4,053
Provisions	16,930	(2,882)	-	-	14,048
Financial instruments	22,853	17,430	(16,394)	-	23,889
Other	(1,863)	(2,374)	-	-	(4,237)
Total	(595,582)	(6,556)	(16,394)	-	(618,532)

* 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 28 per cent effective for Contact's income tax year ending 30 June 2012. The effect of the change was recognised in the Income Statement (Group \$42.7 million and Parent \$42.3 million) and in other comprehensive income (Group and Parent \$0.6 million) consistent with the underlying items that gave rise to the deferred tax.

** Contact holds its property, plant and equipment on capital account for income tax purposes. Where the generation plant and equipment are held at deemed historical cost, and this differs from tax cost, a resulting taxable temporary difference is created that is recognised in deferred tax. Any deferred tax liability on the difference between deemed historical cost and tax cost would not crystallise under existing income tax legislation if the assets were to be sold at the end of the reporting period. At 30 June 2010, this deferred tax liability was \$364.8 million (2009: \$413.0 million).

Unrecognised deferred tax assets and liabilities

There were no unrecognised deferred tax assets and liabilities.

28 Commitments

Capital and investment commitments

	Group 30 June 2010 \$000	Group 30 June 2009 \$000	Parent 30 June 2010 \$000	Parent 30 June 2009 \$000
Not later than one year	86,158	173,612	86,158	173,426
Later than one year and not later than five years	70,390	75,658	70,390	75,658
Later than five years	296	551	296	551
Total capital and investment commitments	156,844	249,821	156,844	249,635

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 buildings and accommodation. The remainder relate to vehicles and plant and equipment.

	Group 30 June 2010 \$000	Group 30 June 2009 \$000	Parent 30 June 2010 \$000	Parent 30 June 2009 \$000
Not later than one year	6,614	6,592	5,119	4,796
Later than one year and not later than five years	14,967	13,395	10,615	10,816
Later than five years	11,540	9,728	6,672	5,114
Total operating lease commitments	33,121	29,715	22,406	20,726

Lease commitments are stated exclusive of GST.

Operating lease income

The operating lease income is of a rental nature and on normal commercial terms and conditions.

	Group 30 June 2010 \$000	Group 30 June 2009 \$000	Parent 30 June 2010 \$000	Parent 30 June 2009 \$000
Not later than one year	1,476	1,015	1,157	770
Later than one year and not later than five years	3,107	2,704	2,525	1,854
Later than five years	177	357	80	208
Total operating lease income	4,760	4,076	3,762	2,832

Operating lease income is stated exclusive of GST.

Other operating commitments

Other operating commitments include a portion of regular major inspections entered into for generation assets, with the remainder of commitments under these agreements included in capital and investment commitments. Other commitments relate to retail transaction processing outsourcing costs.

	Group 30 June 2010 \$000	Group 30 June 2009 \$000	Parent 30 June 2010 \$000	Parent 30 June 2009 \$000
Not later than one year	6,909	6,661	6,909	6,661
Later than one year and not later than five years	11,279	5,703	11,279	5,703
Later than five years	6,837	-	6,837	-
Total other operating commitments	25,025	12,364	25,025	12,364

Gas commitments

Maui contracts with Maui Development Limited

Contact has entered into four contracts to secure Maui gas from 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 from 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.

29 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 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 2015 (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) and a 200 MW gas-fired peaking power station at Stratford. Development of the Stratford gas-fired peaking power station is near completion.

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

In 2008 Contact filed applications for an up to 177 MW wind farm at Waitahora, near Dannevirke in the Tararua District. Initial consents were declined, and Contact appealed to the Environment Court. Following mediation between the parties, the proposal has been refined and consents are being sought for approximately 156 MW. The appeal will be heard in the first half of the 2011 financial year.

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 was adjourned for 12 months to allow Contact to address issues raised by the Board of Inquiry. The hearing is to resume in the first half of the 2011 financial year for a refined wind farm of 507 MW.

Contact has also filed applications with the Environmental Protection Authority for a 250 MW geothermal project (Tauhara II) near Taupo. The consent hearing is scheduled to commence in September 2010 with a decision expected in January 2011.

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

30 Related party transactions

Parent company

As at 30 June 2010, Origin Energy Pacific Holdings Limited was the majority shareholder in the Parent, owning 51.0 per cent (2009: 50.6 per cent) of the ordinary shares of the Parent.

Further shares amounting to 0.8 per cent (2009: 0.8 per cent) of the Parent's ordinary shares were held by Origin Energy Universal Holdings Limited and Origin Energy New Zealand Limited at 30 June 2010. All three companies are 100 per cent owned by Origin Energy Limited (Origin), an Australian incorporated company.

The ultimate parent entity of Contact is Origin.

Identity of related parties with whom material transactions have occurred

Notes 19, 20 and 21 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 Group entities, the Directors and members of the Leadership 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 2010 in relation to David's role as Managing Director totalled \$1.2 million (2009: \$1.0 million), which includes the cost of his salary and other employment benefits including a 2009/2010 short-term incentive payment. At 30 June 2010 \$0.5 million (2009: \$0.2 million) of this amount remained outstanding. In addition, share-based payments under Contact's Employee Long-Term Incentive Scheme amounting to \$0.5 million (2009: \$0.5 million) were accrued for David, being the fair value of the share-based payments relating to this reporting period. Refer to note 12.
- In the year ended 30 June 2010, Origin was employed for consulting work on the Stratford Peaker project. Transactions totalled \$0.5 million (2009: \$0.1 million). At 30 June 2010, no amounts remained outstanding (2009: \$0.1 million).
- Contact and Origin undertook a joint marketing project for the renewal of both parties' insurance cover. Contact and Origin are covered under separate policies. Incentive payments to the insurance brokers to date total \$0.1 million (2009: nil) being Contact's share of the incentive payment. No amounts remained outstanding at 30 June 2010 (2009: nil).
- Contact and Origin have entered into a Master Services Agreement for the provision of professional, consulting and/or administrative services between the parties. There were no material transactions under this agreement during the year.
- A payment of \$2.6 million was made to Origin in April 2009 in relation to the acquisition of natural gas reserves following an independent reservoir measurement relating to the initial gas and LPG reserves acquired as part of the acquisition of the gas storage rights in 2008. No further payments were made in the year ended 30 June 2010.

Transactions with Origin subsidiaries

- Contact and Origin Energy Resources NZ (TAWN) Limited have entered into an agreement in respect of the development and operation of the Ahuroa gas storage facility. During the year ending 30 June 2010, the transactions under this agreement totalled \$7.8 million (2009: \$3.8 million). At 30 June 2010, no amounts remained outstanding (2009: \$0.6 million).
- Gas sales of \$0.1 million to Origin Energy Resources NZ Limited were made in the year ended 30 June 2010 (2009: nil). At 30 June 2010, no amounts remained outstanding (2009: nil).
- Contact entered into an agreement with Origin Energy Services Limited in the current year to provide infrastructure and data centre services for Contact's new SAP system. Transactions for the year amounted to \$1.1 million (2009: nil) of which no amounts were outstanding at year end (2009: nil).
- Contact, Origin Energy Resources NZ (TAWN) Limited and Origin Energy Five Star Holdings Limited entered into an agreement in the current year in respect of drilling and other costs associated with the development of assets for the Ahuroa gas storage facility. During the year ended 30 June 2010, the transactions under this agreement totalled \$24.6 million (2009: nil). At 30 June 2010, \$0.6 million remained outstanding (2009: nil).
- Contact and Origin Energy Resources NZ Limited entered into an electricity supply contract to supply Origin's facilities in Taranaki in the current year. Transactions for the year amounted to \$0.9 million (2009: nil). At 30 June 2010, \$0.5 million remained outstanding (2009: nil).

- Contact and Origin Energy Resources NZ Limited previously entered into an LPG Gas Sales Agreement for the supply of LPG from the Rimu Production Station and any LPG produced from the Waihapa Production Station. There were no transactions for the year as this agreement has now expired (2009: transactions of \$2.9 million, with \$0.2 million outstanding at year end).
- Rockgas Limited and Origin Energy LPG Limited have entered into an LPG Sale and Purchase Agreement for the purchase and shipping of imported LPG. During the year ended 30 June 2010, transactions totalled \$24.8 million (2009: \$45.0 million). At 30 June 2010, \$2.0 million remained outstanding (2009: \$4.6 million).
- Rockgas Limited has entered into an LPG Gas Sale Agreement with Origin Energy Resources NZ (Rimu) Limited and Origin Energy Resources NZ (TAWN) Limited for the supply of LPG from the Rimu Production Station. Transactions for the year totalled \$1.7 million (2009: \$2.9 million). At 30 June 2010, \$0.1 million remained outstanding (2009: \$0.2 million).
- Rockgas Limited has entered into an LPG Sales and Logistics Agreement with Origin Energy Resources (Kupe) Limited and Kupe Mining (No.1) Limited for the supply of LPG from the Kupe Production Station. Transactions for the year totalled \$19.1 million (2009: nil). At 30 June 2010, \$4.4 million remained outstanding (2009: nil).
- Rockgas Limited and Origin Energy Contracting Limited had an agreement in place during the year whereby Origin Energy Contracting Limited provided coastal LPG shipping services to Rockgas Limited. Transactions for the year totalled \$3.3 million (2009: \$0.1 million). At 30 June 2010, no amounts remained outstanding (2009: nil).

Transactions with subsidiaries and associates

- Advances to/from subsidiaries and associates are included in notes 14, 23 and 25 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 \$13.8 million for the year ended 30 June 2010 (2009: \$16.0 million). All balances are settled through the intercompany account.
- The Parent had transactions with Stratford Power Limited and subsequently Empower Limited in respect of gas purchases, which are calculated at arm's length. Stratford Power Limited was a 100 per cent owned subsidiary until it was amalgamated into Empower Limited effective 7 September 2009 (refer to note 20). Purchases from Stratford Power Limited and Empower Limited totalled \$104.2 million for the year ended 30 June 2010 (2009: \$115.2 million). All balances are settled through the intercompany account.
- The Parent charges Rockgas Limited a management fee for various management services. Total fees charged for the year ended 30 June 2010 amounted to \$10.9 million (2009: nil). All balances are settled through the intercompany account.
- Contact pays various operating expenses on behalf of its wholly owned subsidiaries, which are passed on directly to those subsidiaries.
- During the year ended 30 June 2010, Rockgas Limited had transactions with Rockgas Timaru Limited (Rockgas Timaru), an associate, in respect of the supply of LPG to Rockgas Timaru amounting to \$1.1 million (2009: \$1.1 million), and in respect of the provision of deliveries by Rockgas Timaru amounting to \$0.1 million (2009: \$0.3 million), both of which are calculated at arm's length. At 30 June 2010, a receivable of \$0.2 million remained outstanding (2009: \$0.2 million receivable).

Transactions with Directors and key management personnel

- Fees paid or accrued to Directors and Officers of Origin for director services for the year ended 30 June 2010 totalled \$0.5 million (30 June 2009: \$0.4 million). At 30 June 2010 \$0.1 million remained outstanding (30 June 2009: \$0.1 million).
- New Zealand based Directors and members of the Leadership Team purchase gas and electricity from the Group for domestic purposes.

31 Key management personnel

The table below includes the remuneration of Directors, the Managing Director and his Leadership Team.

	Note	Group 30 June 2010 \$000	Group 30 June 2009 \$000	Parent 30 June 2010 \$000	Parent 30 June 2009 \$000
Directors' fees		993	853	993	853
Managing Director and Leadership Team					
Salary and other short-term benefits		4,537	4,911	4,537	4,911
Share-based payments	12	1,065	1,050	1,065	1,050
Total Managing Director and Leadership Team		5,602	5,961	5,602	5,961
Total key management personnel		6,595	6,814	6,595	6,814

Group and Parent For the year ended 30 June 2010		Board fees \$	Committee and special fees \$	Total remuneration \$
Director*	Position			
G King	Chairman	200,000	–	200,000
P Pryke	Deputy Chairman	137,500	17,500	155,000
B Beeren	Director	105,000	37,000	142,000
J Milne (retired 30 June 2010)	Director	105,000	60,000	165,000
K Moses	Director	105,000	20,000	125,000
S Sheldon	Director	105,000	32,000	137,000
W Dewes (appointed 22 February 2010)	Director	38,575	30,710	69,285
D Baldwin**	Managing Director	–	–	–
Total		796,075	197,210	993,285

Group and Parent For the year ended 30 June 2009		Board fees \$	Committee and special fees \$	Total remuneration \$
Director*	Position			
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 (resigned 30 June 2009)	Director	100,000	33,150	133,150
S Sheldon (appointed 16 March 2009)	Director	29,445	7,842	37,287
D Baldwin (appointed 16 March 2009)**	Managing Director	–	–	–
Total		679,445	173,206	852,651

* 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.

*** Grant King and Karen Moses did not receive fees in relation to their role as Contact Directors prior to 1 November 2008.

32 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 receives an annual fee under the Operating and Maintenance Management Services Agreement.

Following the announcement of sector reforms, ownership of the Whirinaki generating plant is anticipated to be transferred from the Crown to Meridian Energy Limited, a State Owned Enterprise.

33 Contingent liabilities

There were no known material contingent liabilities at 30 June 2010 (2009: nil).

34 Subsequent events

On 19 August 2010, the Board declared a distribution pursuant to the PDP in the form of a non-taxable bonus issue for the year ended 30 June 2010 equivalent to 14.0 cents per share, for shares on issue at 3 September 2010, the record date, with bonus shares allocated and/or cash distributed, if elected, on 27 September 2010. Refer to note 9.

From 1 July 2010, Contact is required to participate under the New Zealand Emissions Trading Scheme. Contact will be required to surrender eligible carbon units or pay a fixed price to the Government to offset its carbon emissions at the end of each carbon trading period.



Audit Report

To the shareholders of Contact Energy Limited

We have audited the financial statements on pages 2 to 57. The financial statements provide information about the past financial performance and financial position of the company and group as at 30 June 2010. This information is stated in accordance with the accounting policies set out on pages 8 to 17.

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 2010 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.

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 2 to 57:
 - 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 2010 and the results of their operations and cash flows for the year ended on that date.

Our audit was completed on 19 August 2010 and our unqualified opinion is expressed as at that date.

A handwritten signature of the KPMG firm, written in blue ink.

Wellington