

Contact Energy
Annual Report 2008

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The 2008 Annual Meeting of Contact Energy Limited shareholders will be held at The Hyatt Regency Auckland, corner of Waterloo Quadrant and Princes Street, Auckland Thursday 23 October 2008, commencing at 10:30am NZDST.

The Notice of Annual Meeting and Shareholder Voting/Proxy Form have been provided separately to shareholders.

Highlights

Key accomplishments for the year ended 30 June 2008:

- Earnings Before Net Interest Expense, Income Tax, Depreciation, Amortisation, Financial Instruments and Other Significant Items (EBITDAF) of **\$567.2 million, up four per cent from the 2007 financial year**
- **Underlying earnings after tax of \$232.8 million**, up 0.7 per cent from the previous year
- Total dividend for the year of **28 cents per share**
- Following the calling in of Contact's resource consent application for its 220 megawatt Te Mihi geothermal power station in February 2008, **draft consents were issued in August and at the time of preparing this report, final consents were pending.**
- Announced and filed resource consent applications for **a new 540 megawatt wind farm in the Waikato**. In August 2008, the government announced its intention for this project to be called in under the Resource Management Act
- Announced and commenced construction of a new **200 megawatt gas-fired peaking power station at Stratford**
- **Purchased the right to develop the Ahuroa gas field** as a natural gas storage facility
- **Decommissioned the company's New Plymouth power station** following an asbestos discovery and subsequently recommissioned one generator unit to help the country through a period of tight winter electricity supply
- Commenced the construction of **phase one of the Tauhara geothermal project, a new 23 megawatt geothermal power station**
- Progressed the development of **phase two of the Tauhara geothermal project, a new 240 megawatt geothermal power station**. Contact's application for resource consent for Tauhara phase two will be filed during the course of this financial year
- Secured final resource consents for **a 17 megawatt hydro generation plant at the company's Hawea control gates in Central Otago**
- Added **6,500 retail electricity customers** and **3,500 LPG customers**
- Secured **a 200 megawatt financial hedge to provide risk management cover** for the company following the decommissioning of the New Plymouth power station in December 2007.

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

Corporate Affairs

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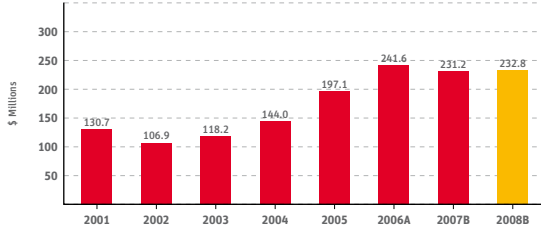
Email: annualreport@contact-energy.co.nz



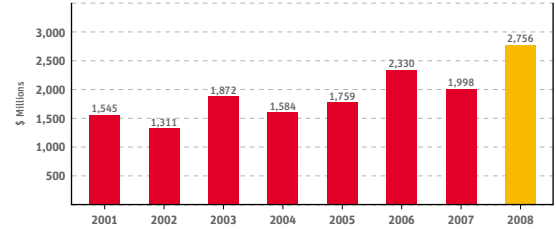
Performance indicators

Financial statistics

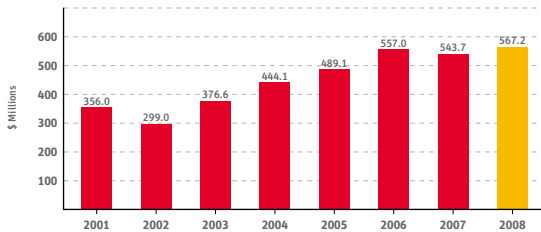
Underlying earnings for the period



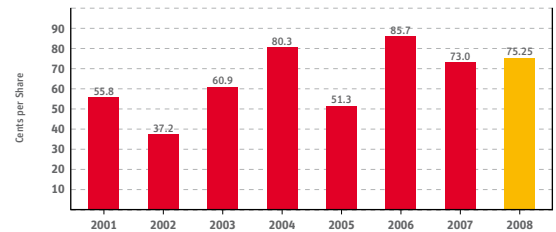
Total operating revenue



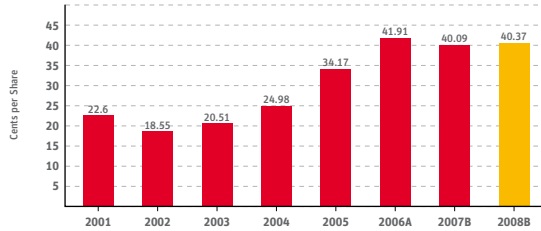
EBITDA¹



Operating cashflow per share



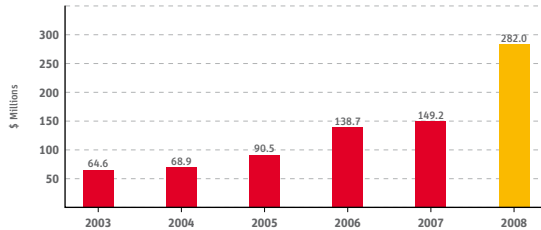
Underlying earnings per share



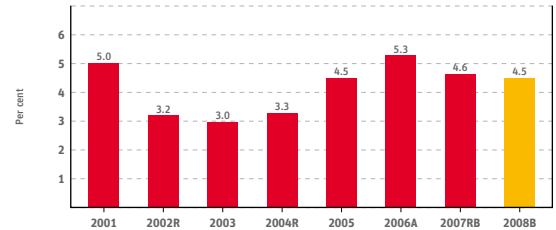
Net debt/debt+equity



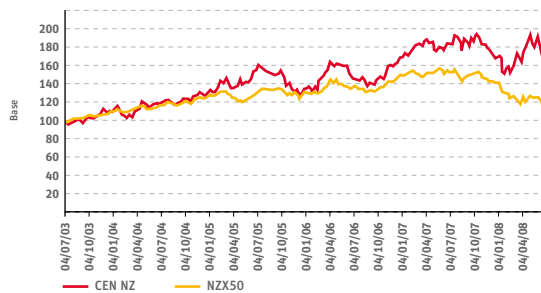
Capital and investment expenditure



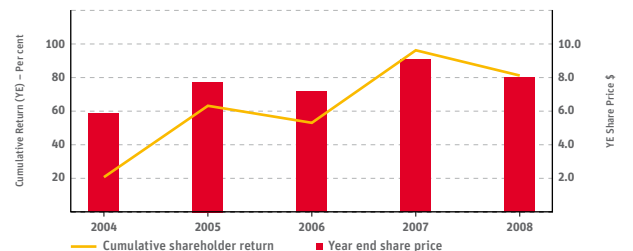
Underlying return on total assets

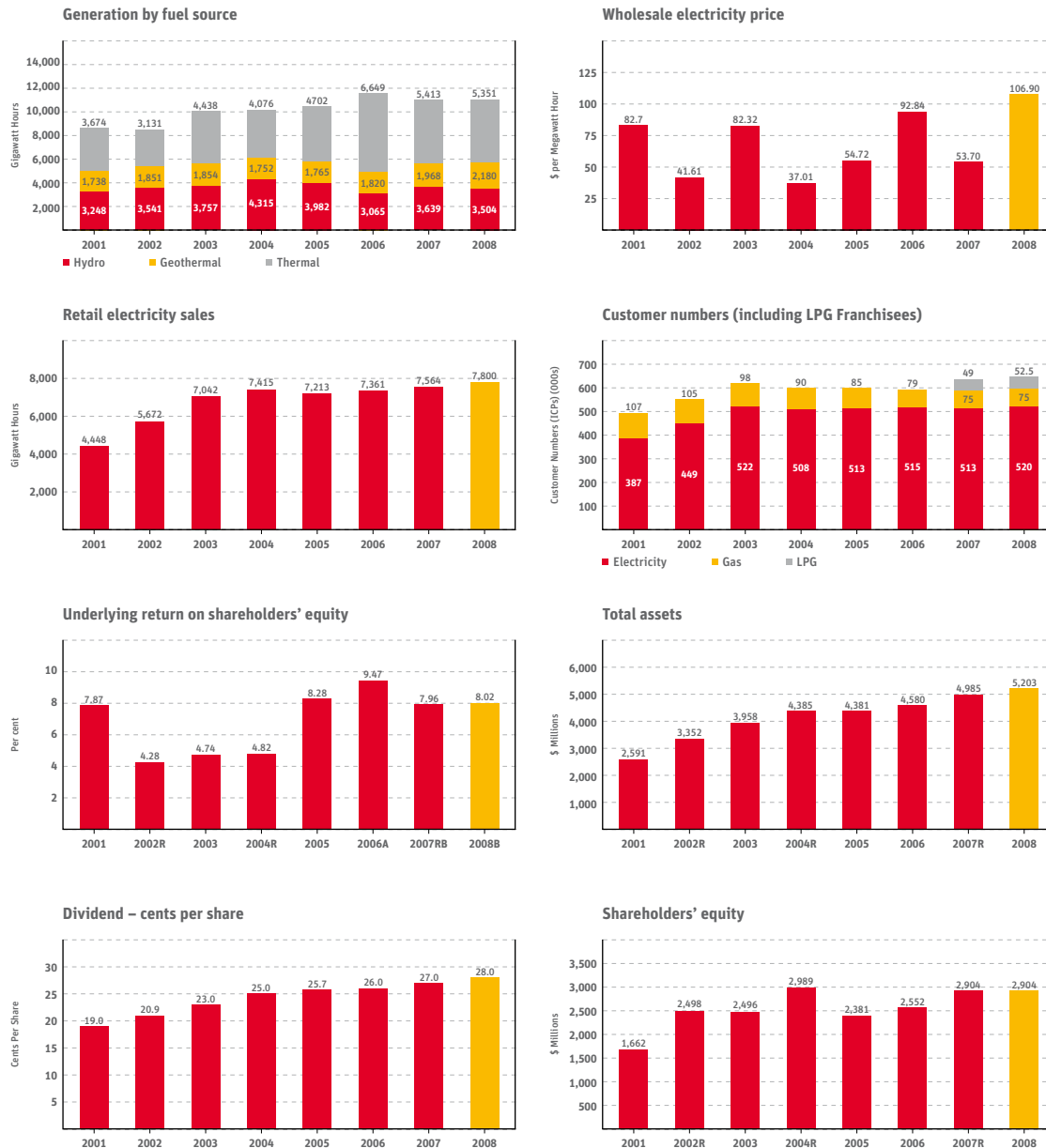


CEN relative to the NZX50



Shareholder return





Notes to the graphs

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

- For years prior to 1 October 2004 the reporting period was the year ended 30 September. For 2005 the reporting period was the nine months ended 30 June 2005, and the results of that period have been annualised where appropriate for the purposes of the above graphs. For 2006 and subsequent years, the reporting period is the year ended 30 June.
- The 2005, 2006, 2007 and 2008 Financial Statistics and Returns and Ratios are based on Financial Statements prepared in accordance with New Zealand equivalents to International Financial Reporting Standards (NZIFRS).
- The significant reduction in Shareholders' Equity in the 2005 financial year was mainly due to previously unrecognised deferred tax on revalued generation plant and equipment and generation capital work in progress. This reduction also resulted in an increase in the Underlying Return on Shareholders' Equity in the 2005 financial year.
- All calculations in this section have been based on the number of ordinary shares quoted and listed on the New Zealand Stock Exchange, and exclude the 163,308 restricted ordinary shares issued pursuant to Contact's long-term incentive scheme for executives.

R Denotes years in which Contact Energy's Property, Plant and Equipment were revalued. The revaluation affects Total Assets, Shareholder Funds and related ratios.

A Excludes Gain on Disposal of Subsidiaries and Change in Fair Value of Financial Instruments, both net of tax.

B Excludes Change in Fair Value of Financial Instruments and other one-off items net of tax.

1 Earnings Before Net Interest Expense, Income Tax, Depreciation, Amortisation, Financial Instruments and Other Significant Items. The year ended 30 June 2006 was the first year in which Changes in the Fair Value of Financial Instruments were recognised within the Income Statement in accordance with NZIFRS.

Chairman's review

In a year of challenging conditions, Contact Energy has delivered another solid result for the company's shareholders.

Contact achieved Earnings Before Net Interest Expense, Income Tax, Depreciation, Amortisation, Financial Instruments and Other Significant Items (EBITDAFI) of \$567.2 million, up four per cent from the 2007 financial year. Underlying earnings after tax for the 12 months to 30 June 2008 were \$232.8 million, up 0.7 per cent from the 2007 financial year. The underlying earnings result excludes three significant one-off items – \$22.6 million after-tax costs associated with the removal of asbestos from the New Plymouth power station, a \$21.3 million gain on the sale of the geothermal land and rights at Mokai and an after-tax gain of \$6.4 million from the sale of fuel oil reserves held at the company's New Plymouth power station.

The year was challenging in light of a series of events that impacted the wholesale electricity markets. In November 2007, one of the two high voltage direct current (HVDC) poles that connect the North and South Islands' grids was decommissioned, reducing the flow of electricity between the islands. In December 2007, Contact's 300 megawatt New Plymouth power station was unexpectedly decommissioned following the discovery of asbestos in areas of the plant not previously registered. In addition, the second half of the financial year was dominated by severe drought across much of New Zealand, which resulted in very low inflows into the country's hydro catchments.

Contact's financial position continues to be strong, with gearing of net debt to net debt plus equity of 22.9 per cent. Net debt stands at \$878.4 million as at 30 June 2008.

As at 30 June 2008, Contact's evergreen committed facilities totalled \$585 million, of which \$485 million is available. Given Contact's forward programme, the company will be seeking to raise debt during the 2009 financial year.

In light of the result, the Contact Board has resolved to pay a fully imputed final dividend of 17 cents per share. This dividend, which will be paid on 23 September 2008, takes the total fully imputed dividends for the 2008 financial year to 28 cents per share, four per cent higher than for the 2007 financial year.

Executing a clear strategy

Contact's strategic initiatives are focused on developing a diverse range of competitive options across all major fuel types, and executing on those options at the right time. Contact's strategy provides the company with the flexibility to adjust to the key drivers of future generation costs, including future fuel costs and the costs of carbon emissions. During the year in review, Contact made significant progress in developing its geothermal and wind projects, in addition to commencing construction of a new gas-fired peaking project to support weather-dependent renewables. David Baldwin discusses the company's generation development plan in more detail in his Chief Executive's review, but I would note that Contact has unrivalled generation development options in terms of both diversity and strategic significance.

In last year's Annual Report, I mentioned that a key challenge for the company would be managing increasing gas prices and a reduction in supply flexibility. The joint purchase of Swift Energy's New Zealand oil and gas assets by Contact and Origin Energy in June 2008 is particularly pleasing in that it will enable the development of an underground gas storage facility in Taranaki for Contact's use and benefit. This is an important strategic development that will enable the company to replace the flexibility that has, to date, been provided in legacy gas supply contracts, but that is now only offered at a significant premium to underlying gas costs. Gas storage will improve the efficiency with which Contact can contract for gas and ensure that the company derives maximum value from each gigajoule (GJ) of gas purchased.

With respect to carbon emissions, Contact has taken a clear and consistent position in support of the introduction of an emissions trading scheme, believing this to represent the most efficient way to price carbon. Regardless of the timing of its introduction, or its final form, Contact's strategic initiatives position the company well to successfully manage the introduction of a carbon pricing system.

Outlook

Over the 2009 financial year, Contact's capital expenditure is projected to more than double to around \$600 million. This is mainly focused on investment in new generation, particularly geothermal, in addition to the development of the Ahuroa gas storage facility and the construction of the Stratford peaking plant.

The 2009 year started with a continuation of the difficult trading conditions experienced during the end of the 2008 year – very low hydro storage in the South Island and transmission constraints leading to higher wholesale prices in the South Island. These unique conditions saw Contact purchasing higher priced electricity to sell to South Island customers. As a result of these conditions, we do not expect Contact to significantly outperform the company's 2008 financial year result.

While seeking to manage these short-term challenges, Contact will also continue to focus on executing its strategy to grow the business across each of the key fuel types by bringing forward and delivering on investment opportunities that build long-term value for Contact's shareholders.



Grant King

Chairman

Chief Executive's review

Introduction

In the financial year ended 30 June 2008, Contact delivered a good result for the company's shareholders, at times under difficult trading conditions, and made significant progress advancing the company's \$3 billion investment programme in renewable generation and gas-fired electricity generation projects.

The company is well positioned with a number of future options that will deliver strong, long-term growth for our shareholders.

Drought conditions over the second half of the financial year placed considerable pressure on national hydro storage, resulting in an average wholesale price for the year for Contact's generation of \$106.9 per megawatt hour (MWh), almost double the average wholesale price for the prior corresponding period. However, in addition to the low hydro conditions, transmission constraints in the lower North Island and across the inter-island HVDC link resulted in periods where Contact was unable to supply its South Island demand and was required to purchase higher priced electricity from the spot market.

This kind of volatility in wholesale trading conditions is again helpful in demonstrating the value of Contact's integrated retail and generation business.

Building the customer base

In Contact's 2007 Annual Report, I mentioned the company's focus on gaining new retail electricity customers. I am very pleased to report that Contact has increased its retail electricity customer base by 6,500 new customers to 520,000 at 30 June 2008, and its LPG customer base by 3,500 new customers, to 52,500, including LPG franchisees. Reticulated natural gas customer numbers remained steady at 75,000.

Contact supplies electricity and gas products to nearly 650,000 customers across the country. Providing outstanding service to these customers will be one of the features that defines Contact going forward.

Contact has recently embarked on a major replacement of the company's information systems, which will enable the company to be even more responsive and innovative in delivering the service our customers seek.

Contact will continue to focus its efforts on demonstrating value, delivering the very best in customer service and attracting new customers over the coming years.

Carbon pricing

The 12 months in review have seen robust debate about the pricing of carbon and the expected introduction of an emissions trading scheme. At the time of preparing this report, it remains unclear whether the emissions trading regime will pass into legislation.

Contact has consistently supported an emissions trading scheme as the most appropriate market-based mechanism through which to price carbon emissions. A market-based price on carbon will stimulate innovative and commercial opportunities for emissions reductions across the economy. Contact's strategy has been developed mindful of the likelihood of a future price on carbon.

Contact sees commercial opportunities in a world where carbon emissions are priced, and the diversity of the company's existing generation assets and future development options positions the company well to continue to build shareholder value under a range of carbon pricing scenarios.

Strategic initiatives

During the financial year ended 30 June 2008, Contact made significant steps in the development and execution of its strategic initiatives.

The company has projects under varying stages of development amounting to more than 1,400 megawatts of new generation and representing up to \$3 billion of investment. These projects are across each of the four key fuel types and represent a diverse and strategically significant portfolio of generation projects. Execution of these

projects will enable Contact to respond to future price and cost signals and deliver the most economically value-adding assets for Contact's shareholders.

Capital expenditure for the period ended 30 June 2008 was \$282 million (compared with \$149.2 million in the 2007 financial year), of which \$200.5 million was growth capital expenditure and investments, applied principally to geothermal development projects, gas storage and the Stratford gas-fired peaking plant. This is an increase of 169 per cent of growth capital expenditure over the period.

Geothermal

Geothermal generation development remains Contact's number one investment priority and is critical to the development of greater levels of renewable generation in New Zealand. Geothermal is the lowest cost source of new generation for New Zealand, and Contact has an unrivalled set of geothermal opportunities to develop and execute.

Geothermal generation is particularly important to New Zealand's energy future in that it is the only form of renewable generation that does not depend on the weather and can produce large volumes of clean, baseload energy.

While Contact is advancing the development of three new geothermal power stations in the Taupo area, the company has also focused on boosting production from its existing plant through an extensive geothermal drilling programme. The success of Contact's drilling programme has enabled output from its Ohaaki power station to increase from 21 megawatts to 65 megawatts. This increase enables the production of enough renewable geothermal generation to power more than 40,000 average homes.

Summarised below is the current status of the company's plans to invest around \$1.2 billion to develop approximately 500 megawatts of new geothermal generation in the Taupo region over the next five years.

Te Mihi

In February 2008, the Minister for the Environment called in resource consent applications for the company's proposed 220 megawatt Te Mihi geothermal power station. This means the project is recognised as nationally significant and the hearings will be progressed under a streamlined consenting process, with the goal being to remove undue delays.

The resource consent hearings for Te Mihi were completed in August 2008 and at the time of preparing this report, final consents were pending. Contact expects to commence construction of Te Mihi in the next few months and have the power station in operation in 2011.

Tauhara

Contact has started development of the Tauhara steamfield, with construction underway for phase one of the project – a new 23 megawatt geothermal plant – that is due to be commissioned in 2010.

In addition to this plant, Contact is preparing to file resource consent applications for phase two of the Tauhara project – a new 240 megawatt geothermal power station. During the course of the year, drilling was undertaken in the Tauhara area to verify the quality of the geothermal resource and to provide information for the resource consent applications. This drilling has confirmed that the steamfield is of high quality.

We expect to have the resource consent applications for the Tauhara project filed during the current financial year, with the plant generating electricity in 2012.

Wind

Contact has very good wind development projects, with the two key projects located in the North Island, close to major demand centres. This minimises transmission losses associated with moving electricity from one end of the country to the other.

Hauāuru mā raki

In May 2008, Contact filed resource consent applications for a 540 megawatt wind farm on isolated pastoral farmland to the south of Port Waikato. In August 2008, the Minister for the Environment announced his intention to call in this project on the grounds of its national significance.

The site has a good wind resource and is located close to the major demand centres of Hamilton and Auckland.

Waitahora

During the 2008 financial year, Contact progressed the development of a 177 megawatt wind farm option, located in the Waitahora Valley near Dannevirke in southern Hawke's Bay. This wind farm location is on remote pastoral farmland and enjoys a particularly strong wind resource. In September 2008, Contact filed resource consent applications for the project.

Hydro

Contact believes there is a role for new large-scale hydro generation projects in New Zealand's electricity generation mix, particularly if the country is to move towards a high renewables future.

During the 2008 financial year, Contact received final resource consents for a small 17 megawatt hydro generation project at the company's control gates at Lake Hawea in Central Otago and is preparing more detailed engineering and costing studies before making a final investment decision on the project.

In addition, the Clutha River is one of the few large rivers in the country already used for hydro generation that has potential for further large-scale hydro development. Contact is reviewing the potential options for possible new hydro generation projects on the Clutha River.

Gas-fired plant

While Contact believes that New Zealand can generate more of its electricity from renewable sources, gas-fired generation will continue to have a pivotal role in ensuring New Zealand's security of supply.

In May 2008, Contact signed contracts relating to the engineering, procurement and construction of two 100 megawatt gas-fired peaking turbines, which will be installed at the site of the company's former Stratford power station in Taranaki. The company already holds resource consents for this plant, which will be commissioned in 2010.

This peaking plant will play an important role in supporting higher levels of renewable generation through operating at times when renewable plant such as wind and hydro are unavailable or insufficient to meet peak demand, thus ensuring a constant supply of electricity.

In addition, Contact continues to hold resource consents for the country's best baseload thermal generation option – a 400 megawatt combined-cycle gas-fired (CCGT) power station at the company's Otahuhu site. In addition to the Otahuhu site, Contact's Taranaki combined-cycle site is also consented for a second CCGT project, and the company is also investigating whether the New Plymouth power station site could be suitable as a CCGT site.

Any development of a new CCGT plant would, however, need to be predicated on long-term natural gas supply arrangements. Based on current information, there is insufficient certainty around the long-term pricing of natural gas, from either domestic sources or from the global liquefied natural gas (LNG) market, to support investment in new CCGT generation.

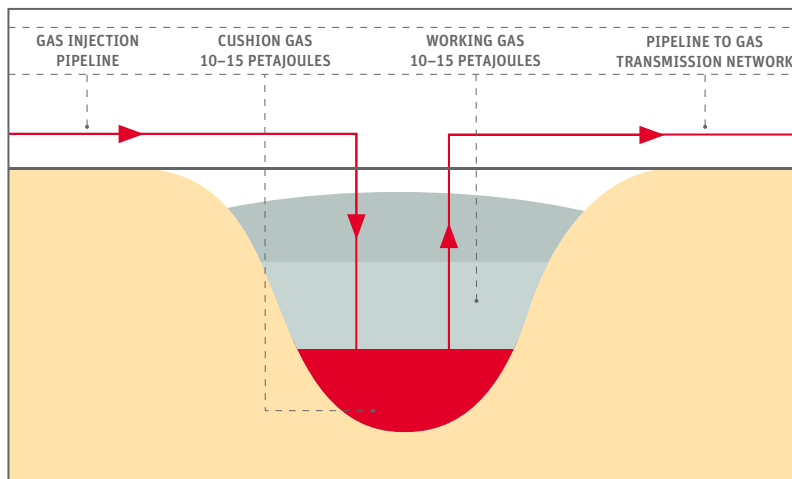
In comparison to a baseload CCGT, Contact's Stratford peaking project will require a relatively small gas supply, and accordingly, we are comfortable in making those commitments.

Gas

A key development during the 12 months to the end of June 2008 was Contact's purchase of rights to use the Ahuroa gas reservoir, which will be developed as an underground gas storage facility.

The Ahuroa gas storage facility will enable Contact to store gas at times when market conditions do not warrant its use in generation or sale and to extract it when market conditions warrant its use. This will give the company valuable supply flexibility and enable the value of the gas to be optimised, allowing Contact to manage more effectively its natural gas costs. The gas storage facility will add further value to the company's new Stratford peaking plant.

Ahuroa gas storage facility



During the year, Contact secured incremental increases to the company's gas supplies. While these extensions to our fuel supply arrangements are welcome, additional increments of gas are largely coming from existing and, in many cases, mature gas fields and are largely being purchased to fuel our existing operations. In the 2007 financial year, Contact incurred a 20 per cent increase in the average cost of natural gas, and this increase was repeated in the 2008 year.

Electricity transmission

The second half of the financial year has illustrated the impact of many years of under-investment in the national transmission system. The loss of one of the poles on the HVDC and an increasing number of constraints impacting the flow of electricity around the country has significantly increased the cost of supplying customers during the year.

The value of electricity generation assets and their ability to deliver electricity to consumers are inextricably linked to the electricity transmission network. A robust transmission network is also a key component of ensuring that New Zealand will continue to have a competitive electricity market.

In the context of new generation development in the South Island, Contact raised the issue of transmission constraints and the potential for these constraints to lead to one form of renewable electricity generation displacing another. These issues, however, apply in a number of areas where generators are being forced to reduce output due to the lack of capacity to enable that generation to be transmitted to demand centres.

Contact is pleased that key organisations such as Transpower and the Electricity Commission have acknowledged these issues and that a process is underway that should accelerate necessary investments in the transmission network. Contact has undertaken to work with Transpower and other generation companies to ensure that, where appropriate, transmission investment is undertaken in step with the addition of new generation projects.

The issues Contact has been dealing with in the lower South Island illustrate broader issues of transmission investment and pricing. Clearly, transmission investment is needed to support the significant investment in generation that is planned over the next decade and beyond. However, it is important that this transmission is efficient. The way in which transmission is priced has an important role in this. Decisions on new generation should be influenced by the relative transmission costs that different projects face. This is one of the reasons why Contact has focused its wind development projects on North Island sites close to major load centres, rather than in the lower South Island, which has excellent wind resources but is distant from the demand centres.

The current approach to transmission pricing deals largely with the allocation of the costs of existing assets. As Transpower enters a new phase of extensive new investments, Contact advocates that it is timely to reconsider whether the existing transmission pricing methodology sends appropriate cost signals for new investment decisions.

New Plymouth

In October 2007, Contact discovered asbestos at its New Plymouth gas-fired power station in areas not previously documented on the site's asbestos register. The decision was made to decommission the plant and remove the asbestos.

Staff were offered a range of medical support services if they believed they may have been exposed to asbestos, and Contact worked hard to redeploy staff into other areas of the company's operations.

During the asbestos stripping process, the opportunity arose to recommission one of the plant's three 100 megawatt generating units to cover the period of tight electricity supply during the winter. This unit was operated by staff in full asbestos protection suits, and the additional 100 megawatts of capacity made a valuable contribution to the country's electricity supply during the dry winter.

The New Plymouth power station generator unit is currently expected to continue to be available to the market over the next 18 months.

Energy prices

Wholesale electricity prices need to continue to increase to support new generation projects – particularly to meet the cost of future wind and hydro generation projects. While there will continue to be upward pressure on wholesale and retail electricity prices over the coming years as a result, based on what we know today, Contact believes that pursuing a largely renewable-based generation development strategy is most likely to deliver the most cost-effective long-term energy generation mix for the country.

Health and safety

Over the year, Contact made pleasing progress in its health and safety performance, including a significant reduction in lost time injuries. Details of the company's health and safety performance is contained in Contact's Sustainability Report (see www.contactenergy.co.nz/sustainabilityreport).

Conclusion

During the 2008 financial year, Contact has made significant progress in executing its plan to build long-term value for Contact's shareholders through growth in renewables, gas storage and gas-fired generation.

The company has delivered a good result for shareholders under some testing market conditions. These conditions have continued into the early part of the 2009 financial year – with the wholesale electricity market being impacted by the combination of low hydro inflows in the South Island, high inflows and storage in the North Island, and transmission constraints limiting the amount of North Island generation flowing to the South Island.

These conditions are resulting in wholesale prices in the North Island being significantly lower than South Island wholesale prices.

With the majority of Contact's generation situated in the North Island and a significant portion of that capacity being unable to flow to the South Island, the company's South Island load (which is about 50 per cent of Contact's total load) is, from time to time, being met through electricity purchases from the spot market. This has resulted in performance for the first two months of the current financial year being well below expectations.

These conditions are likely to continue to some extent until either transmission constraints ease, South Island demand eases as temperatures rise, or South Island hydro inflows and storage levels increase.

Despite the challenging short-term conditions, Contact continues to leverage its comparative advantages, particularly in geothermal energy, and remains tightly focused on executing its unrivalled strategic initiatives to build long-term shareholder value.



David Baldwin
Chief Executive

Key financial information and segment results

Key financial information

	12 months ended 30 June 2008	12 months ended 30 June 2007	Variance	
			\$ million	%
Operating Revenue	2,756.3	1,998.0	758.3	38%
Operating Expenses	(2,189.1)	(1,454.3)	(734.8)	(51%)
EBITDAF¹	567.2	543.7	23.5	4%
Depreciation and Amortisation	(146.6)	(139.3)	(7.3)	(5%)
Change in Fair Value of Financial Instruments	(1.9)	23.3	(25.2)	(108%)
New Plymouth Asbestos Removal and Related Costs	(33.7)		(33.7)	
Gain on Sale of Mokai	21.3		21.3	
Equity Accounted Earnings/(Loss) of Associates	2.8	0.7	2.1	295%
Earnings Before Net Interest Expense and Income Tax (EBIT)	409.1	428.4	(19.3)	(5%)
Net Interest Expense	(69.9)	(62.7)	(7.2)	(12%)
Income Tax Expense	(102.1)	(126.1)	24.0	19%
Profit for the Period	237.1	239.6	(2.6)	(1%)
Underlying Earnings for the Period	232.8	231.2	1.6	1%
Underlying Earnings Per Share	40.4	40.1	0.3	1%
Shareholders' Equity	2,904.1	2,904.2	(0.1)	(0%)
Effective Tax Rate	30.1%	32.5%	(2.4%)	(8%)

1 Earnings Before Net Interest Expense, Income Tax, Depreciation, Amortisation, Financial Instruments and Other Significant Items

Interest, depreciation and tax

Net interest expense in the 2008 financial year was \$7 million (12 per cent) higher than the 2007 financial year, primarily due to higher average net debt and higher interest costs. In September 2007, term debt of \$278 million was repaid utilising funds on hand.

Depreciation increased by \$7.3 million (five per cent) to \$147 million in the financial year. This was lower than expected due to changes in the timing of 2008 financial year capital expenditure and changes resulting from the June 2007 revaluation of Contact's assets.

The company's effective tax rate over the course of the year was 30.1 per cent as a result of the non-taxable gain on the sale of the Mokai assets.

Retail segment

Retail Segment \$ million	12 months ended 30 June 2008	12 months ended 30 June 2007	6 months ended 30 June 2008	6 months ended 30 June 2007
Retail Electricity Revenue	1,244.4	1,170.2	603.3	564.9
Gas Revenue Wholesale	97.4	53.3	60.7	35.5
Gas Revenue Retail	84.1	94.7	37.0	41.5
LPG Revenue ²	145.2	26.1	74.7	26.1
Other Retail Revenue	11.5	7.3	6.0	4.5
Total Retail Revenue	1,582.6	1,351.6	781.7	672.5
Retail Electricity Purchases ¹	(1,012.5)	(455.8)	(787.7)	(223.4)
Electricity Transmission, Distribution and Levies	(427.5)	(404.3)	(205.5)	(190.0)
Gas Purchases and Transmission	(159.4)	(108.1)	(88.9)	(55.2)
LPG Purchases ²	(105.2)	(18.0)	(51.6)	(18.0)
Labour Costs and Other Operating Expenses	(141.5)	(116.2)	(71.5)	(60.9)
Total Operating Expenses	(1,846.1)	(1,102.4)	(1,205.2)	(547.4)
EBITDAF	(263.5)	249.2	(423.5)	125.0
Depreciation and Amortisation	(20.3)	(15.6)	(8.9)	(8.3)
Segment Result	(283.8)	233.6	(432.4)	116.7
Average Electricity Purchase Price (\$ per MWh) ³	(122.07)	(57.11)	(196.65)	(58.68)
Retail Electricity Sales (GWh)	7,800	7,564	3,737	3,614
Electricity Customer Numbers	520,000	513,000	520,000	513,000
Gas Sales Wholesale Customers (PJ)	17.0	9.5	10.4	6.1
Gas Sales Retail Customers (PJ)	4.1	4.7	1.8	2.0
Gas Sales LPG Customers (Tonnes) ²	84,334	17,467	38,421	17,467
Gas Customer Numbers	75,000	75,000	75,000	75,000
LPG Customers (excluding franchisees)	35,000	34,000	35,000	34,000

1 Excludes contracts for differences (CfDs).

2 Rockgas acquired on 30 April 2007.

3 This price excludes CfDs.

Commentary on retail segment results

Retail electricity revenue increased by six per cent to \$1,244.4 million in the financial year. This was due to both an increase in retail sales volume of 236 GWh (three per cent) and an increase in the average retail sales prices of \$156.6 per MWh (three per cent).

Retail electricity purchase costs increased by \$499.1 million to \$954.9 million (110 per cent). This was driven by:

- an increase in retail purchase volumes of 360 GWh (five per cent)
- an increase in the retail average purchase price to \$122.1 per MWh (114 per cent) from \$57.11 per MWh.

Retail electricity purchases exclude a \$57.6 million net benefit from electricity purchase hedges. This is included in the generation segment as wholesale electricity purchase CfDs. The significant increase in retail electricity purchase costs (driven by high average wholesale prices) resulted in the material change in the relative contributions of the retail and generation segments. This highlights the value of Contact's integrated business model.

Contact's load is distributed evenly between the North and South Islands. However, due to dry conditions in the South Island, close to 70 per cent of Contact's generation in the 2008 financial year was generated in the North Island. In a normal hydro year, this would be about 60 per cent. This resulted in Contact being short of generation in the South Island, compared with its customer load, for most of the second half of the financial year. This, combined with transmission constraints resulting from the decommissioning in November 2007 of part of the HVDC transmission link between the North and South Islands, resulted in price separation between the North Island and the South Island. Accordingly, Contact purchased energy for its customers at significantly higher prices than it was able to earn for its generation, and as a result, net revenue during the second half of the 2008 financial year was negatively impacted.

Electricity customer numbers as at 30 June 2008 were 520,000 compared with 513,000 as at 30 June 2007.

Average gas costs continue to increase with a further \$51 million of additional gas cost absorbed by the wholesale and retail gas business, resulting in an average increase in unit gas cost (excluding transmission) of about 20 per cent.

Wholesale gas revenue was 83 per cent higher than in the prior period, driven largely by an increase in sales volume of 79 per cent (7.5 PJ). This increase was largely due to short-term sales in the period to other large wholesale gas users. These are not expected to recur in the 2009 financial year.

The retail gas sales volumes were 14 per cent lower than in the financial year ended 30 June 2007, while revenue reduced by 11 per cent. The average sale price per unit of gas sold increased by approximately three per cent. The number of retail gas customers held at 75,000 during the year.

The results include performance of the LPG business for a full year for the first time. Accordingly, comparisons of financial performance with the prior period are not meaningful. At an EBITDAF level, the LPG business contributed \$19.3 million. LPG revenue for the period was \$147 million, while cost of goods sold (including other operating expenses) was \$128 million.

The average purchase price for LPG increased from \$940 per tonne to \$1,247 per tonne. This is primarily due to the higher exposure to imported LPG costs, which are largely correlated with oil prices. LPG market share is holding constant. LPG customer numbers grew by 1,000 to 35,000 as at 30 June 2008, while the customers within the LPG franchises grew by 2,500 to 17,500 customers.

Labour costs and other operating expenses increased by about \$25 million in the period to 30 June 2008, of which approximately \$19 million is due to an increase in LPG-related operating costs as a result of ownership for a full year.

Generation segment

Generation segment \$ million	12 months ended 30 June 2008	12 months ended 30 June 2007	6 months ended 30 June 2008	6 months ended 30 June 2007
Wholesale electricity revenue	1,148.0	630.4	840.7	323.9
Steam revenue	11.0	12.2	4.0	5.5
Other wholesale revenue	14.7	3.7	12.7	2.0
Total wholesale revenue	1,173.7	646.3	857.4	331.4
Wholesale electricity purchase CfDs	57.6	0.0	58.5	0.0
Electricity transmission, distribution and levies	(59.4)	(48.2)	(36.2)	(26.0)
Gas purchases and transmission	(253.0)	(217.2)	(125.0)	(116.3)
Labour costs and other operating expenses	(88.2)	(86.4)	(45.9)	(44.7)
Total operating expenses	(343.0)	(351.8)	(148.6)	(187.0)
EBITDAF	830.7	294.5	708.8	144.4
Depreciation	(126.3)	(123.1)	(63.3)	(61.5)
Segment result	704.4	171.4	645.5	82.9
Average wholesale electricity price (\$ per MWh) ¹	106.90	53.70	173.1	56.05
Gas used in internal generation (PJ)	42.0	43.2	19.9	22.1
Thermal generation (GWh)	5,351	5,413	2,531	2,720
Geothermal generation (GWh)	2,180	1,968	1,095	971
Hydro generation (GWh)	3,504	3,639	1,536	1,732
Total generation (GWh)	11,035	11,020	5,161	5,423

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

Commentary on generation segment results

Wholesale electricity revenue increased by \$518 million or 82 per cent, caused primarily by the increase in average wholesale prices to \$106.9 per MWh from \$53.7 per MWh.

Total generation volumes increased by 15 GWh in the period ended 30 June 2008. The composition of the generation between financial years was affected by a number of factors:

- Geothermal volumes increased by 212 GWh (11 per cent), as the benefits of the Ohaaki drilling programme started to be realised and Contact made use of the additional steam production permitted under the Wairakei resource consents, which were renewed in May 2007.
- Thermal generation was lower by 62 GWh (one per cent), primarily due to the planned outage of the company's Taranaki combined-cycle power station and decommissioning of the New Plymouth gas-fired station.
- Hydro generation was lower by 135 GWh (four per cent), reflecting the relatively dry conditions.

Total gas used in generation was 1.25 PJ (three per cent) lower than in the prior financial year as a result of the decrease in thermal generation.

The total gas costs for generation were \$253 million, a 16.5 per cent increase from the previous financial year, primarily due to a 20 per cent increase in the underlying unit cost of gas.

Gas transmission costs associated with generation use increased by \$3.1 million (18 per cent) in the period ended 30 June 2008, primarily due to increased absorption of Maui open access charges as Contact's use of legacy low-cost Maui gas continues to drop.

During the period, Contact incurred significant reserve and frequency keeping costs totalling \$34 million, an increase of \$16 million from the previous financial year. Of this, \$21 million was frequency keeping costs and the remainder reserve costs. While reserve costs were not significantly higher than the previous financial year, frequency keeping costs increased materially.

Frequency keeping is required to maintain the transmission system frequency on a second-by-second basis and is provided by increasing or reducing generation as frequency rises or falls. In the period to 30 June 2008, these costs were higher than expected in the North Island, primarily due to the limited availability of sources of frequency keeping supply (mainly from hydro) and the value that could be realised from using that as hydro generation rather than frequency keeping.

Company overview

Contact Energy is one of New Zealand's leading publicly listed companies, with around 84,000 shareholders, a national staff of about 1,000 and the ability to supply electricity and gas products across New Zealand.

Retail

Contact Energy has approximately:

- 520,000 retail electricity customers, 75,000 reticulated natural gas customers and 52,500 LPG customers
- 27 per cent of New Zealand's total retail electricity market share by customer numbers
- 36 per cent of the retail reticulated natural gas market by volume
- 49 per cent of the LPG market by volume.

Generation

- Contact owns and operates 10 power stations across the North and South Islands.
- These power stations provide some 28 per cent of New Zealand's total electricity annual generation.
- Contact is also contracted to operate the Crown-owned reserve generation plant at Whirinaki in Hawke's Bay and holds a minority interest in the Oakey power station in Australia.
- Contact is advancing a \$3 billion investment programme in more than 1,400 megawatts of geothermal, wind, hydro and gas-fired generation projects.

Otahuhu B – combined-cycle gas turbine, 400 megawatts

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

Otahuhu A

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

Te Rapa – cogeneration, 44 megawatts

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

Ohaaki – geothermal, 105 megawatts

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

Wairakei – geothermal, 157 megawatts plus 15 megawatt binary plant

Commissioned in 1958, the Wairakei geothermal power station this year marks its 50th anniversary.

Poihipi Road – geothermal, 50 megawatts

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

New Plymouth – gas-fired power station, 100 megawatts

Commissioned in 1974, the New Plymouth power station was retired in December 2007 following the discovery of asbestos in areas of the plant where it was not expected to be. One of the plant's 100 megawatt generator units was recommissioned on a temporary basis during the 2008 winter to support the country during a time of very low hydro conditions.

Taranaki – combined-cycle gas turbine, 377 megawatts

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

Clyde – hydro, 432 megawatts

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

Roxburgh – hydro, 320 megawatts

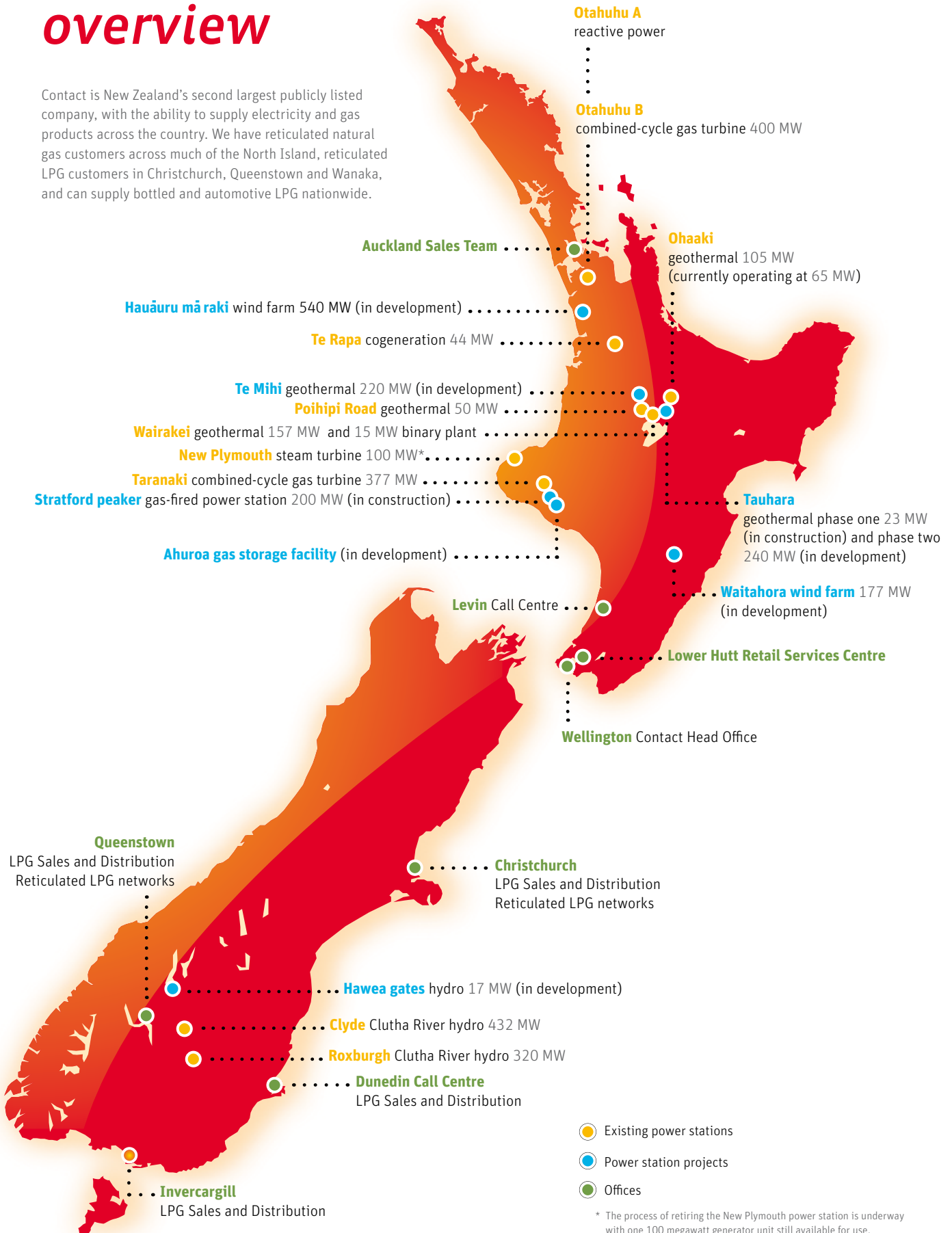
Commissioned in 1956, the Roxburgh dam was the first large-scale hydro dam on the Clutha River.

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

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

National overview

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



Governance

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

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

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

Dividend Policy

Contact's **Dividend Policy** is to maintain or grow dividends on a year-to-year basis while targeting an average net surplus payout of approximately 80 per cent over time.

Further information on Contact's **Dividend Policy** is available on the company's website.

Ethics

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

Contact has established internal procedures to monitor compliance with the Code of Ethics. Every six months, a report is provided to the Board Audit Committee highlighting any matters raised by staff under the Code of Ethics. In the financial year ended 30 June 2008, there were no significant issues to report in relation to the Code of Ethics.

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

Health, safety and environment

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

For further information on Contact's HSE performance, see the **2008 Sustainability Report**, available on the company's website.

Whistleblowing Policy

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

Role of the Board of Directors

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

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

The Board has a statutory obligation to reserve to itself responsibility for certain matters, such as the payments of distributions and the issue of shares. It also reserves responsibility for significant matters, including those described above, such as the approval of business plans and budgets and the incurring of significant obligations.

In addition, under the Companies Act 1993 and the NZSX Listing Rules, Contact is required to seek the approval of its shareholders prior to entering into certain types of transactions.

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

Operation of the Board

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

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

Compliance with NZX Best Practice Code and other guidelines

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

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

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

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

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

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

Board composition

The composition of the Board has remained the same throughout the financial year. As at 30 June 2008, the Board comprises six members as follows:

Grant King	Chairman and Origin Energy Associate
Phillip Pryke	Deputy Chairman and Independent Director
Bruce Beeren	Origin Energy Associate
John Milne	Independent Director
Karen Moses	Origin Energy Associate
Tim Saunders	Independent Director

Biographies of the current directors are set out on the company's website and in the **2008 Sustainability Report**.

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

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

The Board has confirmed that, at the end of the financial year, Phillip Pryke, John Milne and Tim Saunders each held (and still hold) no "Disqualifying Relationship" with Contact, and are therefore each independent directors.

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

Grant King, Bruce Beeren and Karen Moses are not considered to be independent directors by virtue of being associated persons of substantial security holder Origin Energy New Zealand Limited. Grant King, Bruce Beeren and Karen Moses were therefore not independent directors as at 30 June 2008.

The NZSX Listing Rules and Contact's **Constitution** require at least two directors to be ordinarily resident in New Zealand. John Milne and Tim Saunders satisfy this requirement.

The NZSX Listing Rules and Contact's **Constitution** also require a minimum of one-third of directors (other than one executive director and any directors appointed to fill a casual vacancy) to retire at each Annual Meeting and, if appropriate, stand for re-election. The directors required to resign are those who have been in office longest since their last election. Accordingly, Phillip Pryke and John Milne will retire and stand for re-election at the 2008 Annual Meeting. (Grant King and Bruce Beeren retired and were re-elected at the October 2006 Annual Meeting, and Karen Moses and Tim Saunders retired and were re-elected at the October 2007 Annual Meeting.) No directors were appointed to fill a casual vacancy during the financial year.

Conflicts of interest

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

Board assessment

Contact's Board follows a practice of reviewing the performance of the Board as a whole and the Board committees every two years, and of reviewing the performance of those directors standing for re-election at the next Annual Meeting every year. In accordance with this practice, in June 2007, Contact undertook a formal assessment of the Board and the Board committees. In July 2008, the Board reviewed the performance of Phillip Pryke and John Milne, being those directors required to retire and stand for re-election at the 2008 Annual Meeting.

Board committees

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

Other committees of the Board are formed as and when required. For example, an Independent Directors' Committee comprising Phillip Pryke, John Milne and Tim Saunders meets to evaluate and approve all related party transactions with Origin Energy, which, in the financial year ended 30 June 2008, included the acquisition of Swift's New Zealand assets and the potential implications for Contact of BG Group's proposal to acquire Origin Energy.

Remuneration Committee

At the end of the financial year, the Remuneration Committee comprised Phillip Pryke (Chair), Grant King and Tim Saunders. The Remuneration Committee's primary purposes are to review directors' fees, the Chief Executive Officer's remuneration package and performance, and the policy for remuneration of senior management, in order to ensure that they best advance the business objectives of the company. These reviews form the basis of recommendations to the Board. The Remuneration Committee met four times during the financial year, and a further time since the end of the financial year to assess and make recommendations to the Board about a variety of remuneration issues that relate to directors, the Chief Executive Officer and Contact employees, including the level of directors' fees, employee short-term incentives and the employee long-term incentive scheme. Details of director and executive remuneration arrangements are set out in the Remuneration section of this Annual Report. The **Remuneration Committee Charter** is set out on the company's website.

Nominations Committee

At the end of the financial year, the Nominations Committee comprised Grant King (Chair), Phillip Pryke and Tim Saunders. The Nominations Committee's primary purpose is to ensure Contact has formal and transparent processes for the nomination and appointment of directors to the Board, and it also attends to other matters put to it, including director performance assessment and Chief Executive Officer appointment. The Nominations Committee did not meet during the financial year, but met in July 2008 to consider the assessment of Phillip Pryke and John Milne's performance as directors ahead of their standing for re-election at the October 2008 Annual Meeting. The **Nominations Committee Charter** is set out on the company's website.

Board Audit Committee

At the end of the financial year, the Board Audit Committee (BAC) comprised John Milne (Chair), Tim Saunders and Bruce Beeren. John Milne is a qualified Chartered Accountant and Bruce Beeren is a fellow of CPA Australia. All members of the committee are non-executive directors.

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

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

Health, Safety and Environment Committee

The Health, Safety and Environment (HSE) Committee was established in December 2006 and as at 30 June 2008 comprised all members of the Board. Karen Moses is the HSE Committee's Chair.

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

Attendance at meetings

During the financial year ending 30 June 2008, the Board met 13 times. The table below sets out attendance at meetings for all directors.

Director	Board attendance (scheduled and special purpose)	Committee attendance				
		BAC	HSE	Remuneration	Nominations	Independent Directors'
Grant King	13	N/A	3	4	N/A	N/A
Phillip Pryke	12	N/A	3	4	N/A	3
Bruce Beeren	12	4	2	N/A	N/A	N/A
John Milne	12	4	2	N/A	N/A	3
Karen Moses	13	N/A	3	N/A	N/A	N/A
Tim Saunders	11	4	2	4	N/A	3

Share top up plan

The share top up plan provides shareholders holding 5,000 or fewer shares with the opportunity to acquire additional shares funded by their regular dividend payments. Participation in the plan is available to all shareholders who are resident in New Zealand or Australia, who hold 5,000 or fewer shares and who are not directors or associated persons of directors of Contact. The shares required for the share top up plan are purchased on behalf of the participating shareholders by ABN AMRO Craigs. No transaction fee is charged to those shareholders who elect to participate.

The plan first applied to the final dividend paid in respect of the financial year ended 30 September 2003. As at 30 June 2008, around 37,900 shareholders had taken up the opportunity to participate in the plan.

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

During the financial year ended 30 June 2008, Contact provided financial assistance in connection with the ongoing costs associated with the plan. A **disclosure document** relating to the financial assistance to be provided over the next 12 months was sent to shareholders in September 2008 and is available on the company's website.

Current NZX waivers

A summary of all **waivers** granted and published by NZX within or relied on by Contact in the 12-month period preceding 23 July 2008 (being two months before the date of publication of this Annual Report) is available on Contact's website. This summary will remain on Contact's website for at least 12 months following publication of this Annual Report.

Exercise of NZX disciplinary powers

On 29 May 2008, NZX Regulation issued a trading halt on Contact shares, pending the release of an ASX announcement concerning the proposal of BG Group plc to acquire Origin Energy Limited, Contact's major shareholder. The trading halt was lifted on 30 May 2008. Apart from this, NZX did not exercise any of its powers under Listing Rule 5.4.2 in relation to Contact during the financial year.

Financial reporting

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

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

The Chief Executive Officer and Chief Financial Officer have provided the Board with written confirmation that the company's financial statements for the year ended 30 June 2008 have been prepared in accordance with New Zealand Generally Accepted Accounting Practices, and that they comply with New Zealand Equivalents of International Financial Reporting Standards and other appropriate financial reporting standards, as appropriate for profit-oriented entities.

Auditor independence

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

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

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

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

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

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

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

Auditors

The amount payable by Contact and its subsidiaries to KPMG as audit fees in respect of the financial year ended 30 June 2008 was \$683,000. Contact and its subsidiaries did not engage KPMG for any other services during the year ended 30 June 2008.

Credit rating

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

Donations

During the financial year ended 30 June 2008, in addition to the numerous sponsorships detailed in the **Sustainability Report**, Contact made donations amounting to \$56,000. No subsidiaries made any donations during the financial year ended 30 June 2008.

Donations are made on the basis that the recipient is not obliged to provide any service such as promoting Contact's brand and are separate from Contact's sponsorship activity. Contact made no political party donations in the financial year.

Risk management

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

Internal audit

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

The **Internal Audit Charter** is included in the Board Audit Committee Charter available on the company's website. Internal Audit assists Contact to accomplish its objectives by bringing a systematic disciplined approach to evaluate and improve the effectiveness of risk management, internal controls and governance processes. Internal Audit adopts a risk-based audit approach driven from the company's Risk Management Framework. This allows the internal audit process to become more relevant to the business, by directing attention to risks that threaten the achievement of strategic and operational goals.

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

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

Securities Trading Policy

In February 2008, Contact's Board approved an amended securities trading policy following changes to New Zealand securities legislation. The policy applies to all directors, officers, employees and contractors of Contact and its subsidiaries ("directors and employees"). Under the policy, directors and employees must not trade Contact securities, or advise or encourage others to trade or hold Contact securities, if they are in possession of material information that is not publicly available. In addition:

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

Entries recorded in the interest register

The following interest register entries were recorded for the company and its subsidiaries during the financial year ended 30 June 2008:

(a) Share dealings of directors

Contact directors disclosed the following transactions in Contact shares in the financial year ended 30 June 2008:

Director	Date of transaction	Consideration per share*	Number of shares acquired/disposed of	Nature of relevant interest	
P Pryke	29/08/07	\$9.40	1,201	Restricted shares acquired on trust under the Contact PJ Pryke Director Remuneration Share Trust	
	05/10/07	\$9.4190	1,195		
	25/02/08	\$7.69	1,473		
	04/04/08	\$8.47	1,329		
	29/08/07	NCBO	(2,497)	Transfer of unrestricted shares from Contact PJ Pryke Director Remuneration Share Trust to Pryke Pty Limited, as beneficiary of Contact PJ Pryke Director Remuneration Share Trust	
	29/08/07	NCBO	2,497		
	02/10/07	NCBO	(2,400)		
	02/10/07	NCBO	2,400		
	25/02/08	NCBO	(1,611)		
	25/02/08	NCBO	1,611		
	01/04/08	NCBO	(1,631)		
	01/04/08	NCBO	1,631		
	B Beeren	29/08/07	\$9.40	802	Restricted shares acquired on trust under the Contact BG Beeren Director Remuneration Share Trust
		05/10/07	\$9.4190	797	
25/02/08		\$7.69	980		
04/04/08		\$8.47	886		
J Milne	29/08/07	\$9.40	400 + 401	Restricted shares acquired on trust under the Contact JHG Milne Director Remuneration Share Trust	
	05/10/07	\$9.4190	399 + 398		
	25/02/08	\$7.69	489 + 490		
	04/04/08	\$8.47	443 + 442		
	29/08/07	NCBO	(625) + (624)	Transfer of unrestricted shares from Contact JHG Milne Director Remuneration Share Trust to John Milne Trust and Maureen Milne Trust, as beneficiaries of Contact JHG Milne Director Remuneration Share Trust	
	29/08/07	NCBO	625 + 624		
	02/10/07	NCBO	(600) + (600)		
	02/10/07	NCBO	600 + 600		
	25/02/08	NCBO	(548) + (548)		
	25/02/08	NCBO	548 + 548		
	01/04/08	NCBO	(540) + (540)		
	01/04/08	NCBO	540 + 540		
	25/02/08	\$7.69	(6,250)	Transfer of beneficially held shares into family trust, of which Mr Milne is a trustee	
	25/02/08	\$7.69	6,250		
T Saunders	29/08/07	\$9.40	801	Restricted shares acquired on trust under the Contact TEC Saunders Director Remuneration Share Trust	
	05/10/07	\$9.4190	797		
	25/02/08	\$7.69	979		
	04/04/08	\$8.47	886		
	29/08/07	NCBO	(1,248)	Transfer of unrestricted shares from Contact TEC Saunders Director Remuneration Share Trust to TEC Saunders Family Trust as beneficiary of Contact TEC Saunders Director Remuneration Share Trust	
	29/08/07	NCBO	1,248		
	02/10/07	NCBO	(1,200)		
	02/10/07	NCBO	1,200		
	25/02/08	NCBO	(1,097)		
	25/02/08	NCBO	1,097		
	01/04/08	NCBO	(1,079)		
	01/04/08	NCBO	1,079		

* NCBO means no change in beneficial ownership.

(b) Directors' interests in transactions

General disclosures

As at 30 June 2008, the following directors have made the following general disclosures in the interests register of the company. Notices given or adjusted during the financial year ended 30 June 2008 are marked with an asterisk (*). Each such director will be regarded as interested in all transactions between Contact and the disclosed entity.

G King	
Origin Energy Limited and Group companies	Managing Director/Shareholder/Employee
Energy Supply Association of Australia Limited	Director/Chairman
Envestra Limited (resigned as a director in July 2007)*	Director
Australian Petroleum Production and Exploration Association	Councillor
P Pryke	
Co-Investor Capital Partners Pty Limited	Director/Shareholder
Frog Hollow Limited*	Director/Shareholder
New Zealand Deer Farms Limited*	Director/Shareholder
Pauatahanui Projects Limited*	Director/Shareholder
Pryke Pty Limited*	Director/Shareholder
Goodman (NZ) Limited (name changed from Macquarie Goodman (NZ) Limited in June 2007)*	Director
Goodman Property Aggregated Limited (name changed from Macquarie Goodman Property Aggregated Limited in June 2007)*	Director
Novotech Pty Limited*	Director
Travel.com.au Limited (resigned as an alternate director in May 2008)*	Alternate Director
Tru-Test Pty Limited	Alternate Director
Software of Excellence International Limited (resigned as an alternate director in February 2008)*	Alternate Director
B Beeren	
Origin Energy Limited and Group companies	Director/Shareholder and former Employee/Executive Director
Equisuper Pty Limited	Director
Coal & Allied Industries Limited	Director
Veda Advantage Limited (resigned as a director in July 2007)*	Director
J Milne	
The New Zealand Wine Company Limited (including various wholly owned subsidiaries)	Director/Shareholder
The He Huarahi Tamariki Trust	Chairman/Trustee
Wellington City Council Audit and Risk Management Subcommittee	Independent Member
K Moses	
Origin Energy Limited and Group companies	Director/Employee/Shareholder
Victorian Energy Networks Corporation	Director
Energy and Water Ombudsman (Victoria) Limited	Director
Centre for Engineering Leadership and Management (resigned as a director in April 2008)*	Director
T Saunders	
Global Corporate Credit Limited	Director
L.E.K. Consulting Australasian Advisory Board	Advisory Board Member
Northington Partners Limited (ceased December 2007)*	Consultant
Calan Healthcare Properties Limited (manager of Calan Healthcare Properties Trust) (directorship ceased August 2007)*	Director

Specific disclosures

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

(c) Use of company information

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

(d) Board-approved remuneration and other benefits

The Board passed resolutions and signed accompanying certificates to confirm the distribution for the year ended 30 June 2008 amongst directors of the \$770,000 remuneration pool (that pool having been approved by shareholders at the 2004 Annual Meeting). See page 30 for further details about the distribution approved by the Board.

(e) Directors' and employees' indemnity and insurance

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

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

In March 2008, Contact's Board authorised the renewal of the Directors and Officers and Statutory Liability Insurance covers as at 31 March 2008 and have certified, in terms of section 162 of the Companies Act 1993, that this cover is fair to the company.

Remuneration report

Directors' remuneration

Directors' fees

The current total directors' fee pool is \$770,000 per annum. A total of \$769,965 was distributed in the year ended 30 June 2008 as follows:

- Chairman (Grant King) – nil.
- Deputy Chairman (Phillip Pryke) – \$150,000.
- Karen Moses – nil.
- Other Board members – \$100,000 each.
- Committee members – \$319,965 of which \$214,815 was distributed to Phillip Pryke in relation to his extraordinary workload as Chair of the Independent Directors' Committee arising from the proposed merger between Contact and Origin Energy in 2006, \$50,000 to John Milne in his capacity as Chair of the Board Audit Committee, with the balance (\$55,150) being distributed at the Board's discretion, having regard to the extent of committee work undertaken during the year.

Directors' restricted share scheme

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

The directors participating in the Directors' Share Scheme during the financial year were Phillip Pryke, Bruce Beeren, John Milne and Tim Saunders.

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

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

During the financial year ended 30 June 2008, Contact provided financial assistance in connection with the ongoing operation of the scheme. A **disclosure document** relating to the financial assistance to be provided over the next 12 months was sent to shareholders in September 2008 and is available on the company's website.

The table overleaf details the restricted shares of each of Contact's directors that became unrestricted under the Directors' Share Scheme during the period ended 30 June 2008.

Name	Date of acquisition	Date unrestricted	Number unrestricted	Original acquisition price
Phillip Pryke	2 August 2004	29 August 2007	2,497	\$6.0200
	24 November 2004	2 October 2007	2,400	\$6.2700
	25 February 2005	25 February 2008	1,611	\$6.8600
	3 May 2005	1 April 2008	1,631	\$6.9621
John Milne	2 August 2004	29 August 2007	1,249	\$6.0200
	24 November 2004	2 October 2007	1,200	\$6.2700
	25 February 2005	25 February 2008	1,096	\$6.8600
	3 May 2005	1 April 2008	1,080	\$6.9621
Tim Saunders	2 August 2004	29 August 2007	1,248	\$6.0200
	24 November 2004	2 October 2007	1,200	\$6.2700
	25 February 2005	25 February 2008	1,097	\$6.8600
	3 May 2005	1 April 2008	1,079	\$6.9621

Remuneration details of directors

Details of the total remuneration and the value of other benefits received by each director of Contact during the financial year ended 30 June 2008 are as follows:

Director	Position	Board fees		Committee fees	Total remuneration ²
		Cash	Restricted shares	Cash	
G King	Chairman	-	-	-	-
P Pryke	Deputy Chairman	\$100,000	\$50,000	\$214,815	\$364,815
J Milne	Director	\$66,667	\$33,333	\$50,000	\$150,000
T Saunders	Director	\$66,667	\$33,333	\$28,150	\$128,150
K Moses	Director	-	-	-	-
B Beeren	Director	\$66,667	\$33,333	\$27,000	\$127,000
Total		\$300,001	\$149,999¹	\$319,965	\$769,965

1 Due to trading period restrictions under Contact's Securities Trading Policy, purchases of restricted shares valued at \$48,750 of this total amount occurred on 27 August 2008.

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

Executive remuneration

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

Chief Executive remuneration

David Baldwin, Chief Executive of Contact, has been seconded to the role by his employer, Origin Energy. During the term of the secondment, Contact will reimburse Origin Energy for the cost of David Baldwin's salary and other employment benefits, except for restricted shares and options, which are provided directly by Contact. The table following details the nature and amount of the remuneration earned by David Baldwin for the year ended 30 June 2008.

	Short-term benefits			Share-based payments				Total
	Fixed remuneration \$	Variable remuneration ¹ \$	Total \$	Number of options issued during 2007/08 ²	Number of restricted shares issued during 2007/08 ²	Value of share-based payments issued during 2007/08 ³ \$	Value of share-based payments issued in past years amortising during 2007/08 ³ \$	
David Baldwin								
Chief Executive	725,000	431,375	1,156,375	98,485	17,269	81,250	268,333	1,505,958

- 1 Variable remuneration for the financial year is based on achieving personal goals and satisfying specific performance criteria. The short-term incentive is for performance during 2007/08. The amount was determined following the end of the financial year after performance reviews.
- 2 Contact Energy Limited equity securities.
- 3 The fair value of the options is calculated at the date of grant using a combination of Monte-Carlo simulation and binomial option pricing model. Restricted shares are valued based on the market price at date of grant adjusted for dividends that are not received until the restricted share vests. Options and restricted shares are subject to performance hurdles as described on page 38. The value disclosed is the portion of the fair value of the share-based payments allocated to this reporting period.

Movement during the reporting period in the number of options over ordinary shares and restricted shares held in Contact Energy Limited:

Restricted shares	Held at 1 July 2007	Granted as compensation	Vested during the year	Held at 30 June 2008
David Baldwin				
Chief Executive	40,053	17,269	–	57,322

Options	Held at 1 July 2007	Granted as compensation	Exercised	Held at 30 June 2008	Vested during the year	Vested and exercisable at 30 June 2008
David Baldwin						
Chief Executive	206,410	98,485	–	304,895	–	–

Short-term incentives

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

Contact's short-term incentives (STIs), known as the Performance Incentive Programme, comprise cash payments based on performance measured against key performance indicators (KPIs). For the year ended 30 June 2008, different levels of incentives were determined reflecting the nature of roles in the company. KPIs generally comprise company, team and individual targets. These targets are designed to create goals that will support an achievement and performance-oriented culture. The Performance Incentive Programme is designed to differentiate and reward exceptional, outstanding and good performance.

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

Long-term incentives

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

Legacy Long-Term Incentive Scheme

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

The first two performance hurdle measurement periods for the Legacy LTI Scheme commenced on 30 June 2007, and the final performance hurdle measurement period commenced on 30 June 2008. Following these dates, shares were purchased on-market for the benefit of the participants. In addition, there has been a six-monthly reassessment of performance in relation to hurdles that were not met for the first two measurement periods, and following this, shares were purchased on-market for the benefit of the participants.

There will also be a six-monthly reassessment of performance in relation to hurdles that were not met for the third measurement period, and therefore, within the next 12 months, Contact may provide financial assistance for both the purchase of the shares on-market and in connection with the ongoing operation of the scheme. A **disclosure document** relating to this financial assistance was sent to shareholders in September 2008 and is available on the company's website.

The following table details the Contact ordinary shares that were purchased and vested with each participant in the Legacy LTI Scheme in relation to each of the measurement periods.

Name	Date rights acquired	Date shares purchased for participants	Number of shares purchased	Purchase price	Rights remaining for retesting
David Thomas	August 2004	29 August 2007	569	\$9.3500	
		27 August 2008	569	\$8.4500	Nil
	December 2004	29 August 2007	2,219	\$9.3500	
		27 August 2008	2,219	\$8.4500	Nil
February 2006	27 August 2008	1,535	\$8.4500	1,535	
Ross O'Neill	August 2004	29 August 2007	569	\$9.3500	
		27 August 2008	569	\$8.4500	Nil
	December 2004	29 August 2007	2,219	\$9.3500	
		27 August 2008	2,219	\$8.4500	Nil
February 2006	27 August 2008	1,400	\$8.4500	1,400	
John Bole	August 2004	30 July 2007	677	\$9.4996	
		27 August 2008	677	\$8.4500	Nil
	December 2004	30 July 2007	2,639	\$9.4996	
		27 August 2008	2,639	\$8.4500	Nil
February 2006	27 August 2008	1,070	\$8.4500	1,070	
Stephen Cross	August 2004	30 July 2007	696	\$9.4805	
		27 August 2008	697	\$8.4450	Nil
	December 2004	30 July 2007	2,716	\$9.4805	
		27 August 2008	2,716	\$8.4450	Nil
February 2006	27 August 2008	1,114	\$8.4450	1,114	

Employee Long-Term Incentive Scheme

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

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

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

Under the Plans, for the year ended 30 June 2008, the Board allocated long-term incentive awards that are, by value, 50 per cent share options and 50 per cent restricted shares. Under the Plans, the share options will only be exercisable, and the restricted shares will only become unrestricted, to the extent that the relevant performance hurdles are satisfied. The performance hurdles for the share options and restricted shares in relation to the year ended 30 June 2008 are set out on pages 37 to 38. The number of share options and restricted shares awarded are calculated by dividing the value of the long-term incentive award (being a percentage of the relevant executive's salary) by the fair value of the share options and restricted shares.

Share Option Plan

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

As noted above, the options are exercisable subject to performance hurdles as determined by the Board. The performance hurdles for share options issued in the year ended 30 June 2008 are described on pages 37 to 38. There is a vesting period of approximately three years from the effective grant date before share options may be exercised. Following the end of that period, the performance hurdles are measured on three annual test dates. There is a two-year, two-month exercise period following the first test date during which share options may be exercised, again, to the extent that the performance hurdles are met.

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

The share options will lapse:

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

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

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

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

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

Number of options issued	Effective grant date	Exercise price per option	First exercise date	Number lapsed	Final lapse date	Vested	Number exercisable
365,322	1 July 2006	\$7.35	1 October 2009	48,424 ¹	30 November 2011	No	Nil
18,361	20 November 2006	\$7.55	1 October 2009	Nil	30 November 2011	No	Nil
13,413	15 January 2007	\$8.28	1 October 2009	Nil	30 November 2011	No	Nil
490,326	1 October 2007	\$9.15	1 October 2010	78,383 ²	30 November 2012	No	Nil
22,706	1 February 2008	\$7.63	1 October 2010	Nil	30 November 2012	No	Nil

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

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

Restricted Share Plan

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

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

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

For restricted shares issued in the year ended 30 June 2008, the market price or “allocation price” of the restricted shares was the weighted average market price of Contact’s ordinary shares traded on the NZSX over the 20 business days prior to the effective grant date. Payment of the allocation price for the restricted shares was funded by an interest-free loan from the company in an amount equal to the allocation price for the shares. **(Financial assistance disclosures** were sent to shareholders in September 2008 and are available on the company’s website).

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

For restricted shares that a participant becomes entitled to, the company pays a 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.

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

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

The rights to the restricted shares will lapse:

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

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

While restricted, the restricted shares are unlisted and are personal to the employee and therefore cannot be traded.

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

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

Number of restricted shares	Effective grant date	Allocation price per share	First test date	Final test date	Number released
70,890	1 July 2006	\$7.35	1 October 2009	1 October 2011	Nil
3,581	20 November 2006	\$7.55	1 October 2009	1 October 2011	Nil
2,504	15 January 2007	\$8.28	1 October 2009	1 October 2011	Nil
83,242	1 October 2007	\$9.15	1 October 2010	1 October 2012	Nil
3,091	1 February 2008	\$7.63	1 October 2010	1 October 2012	Nil

Pursuant to the Restricted Share Plan rules, where a participant ceases employment, beneficial ownership of restricted shares is transferred to the trustee to hold on trust in an unallocated pool to be reallocated to a participant at a future date. As at the date of this report, there were 19,247 restricted shares held by the trustee in the unallocated pool. The following table sets out the movements of the unallocated pool to the date of this report.

Number of restricted shares transferred to unallocated pool	Original issue date of those shares	Date of transfer to unallocated pool	Number of shares reallocated to a participant	Date of reallocation to participant
2,737	21 June 2007	7 September 2007	2,737	31 October 2007
3,980	21 June 2007	30 June 2008	Nil	N/A
2,679	21 June 2007	2 July 2008	Nil	N/A
1,156	31 October 2007	3 December 2007	1,156	25 February 2008
3,180	31 October 2007	2 April 2008	Nil	N/A
3,507	31 October 2007	30 June 2008	Nil	N/A
5,901	31 October 2007	2 July 2008	Nil	N/A

Hurdles

Broadly, the number of unrestricted ordinary shares to which a participant is entitled under the Plans is determined by achievement of a pre-determined hurdle or hurdles. For the restricted shares and share options issued in the year ended 30 June 2008, the hurdle is a comparison of Contact's total shareholder return (TSR) against the average TSR of a reference group comprising the NZX50 index over the relevant period, commencing on the effective grant date.

For the restricted shares and share options issued in the year ended 30 June 2008, participants' vesting entitlements will be calculated on three test dates, being 1 October 2010, 1 October 2011 and 1 October 2012.

Contact's TSR will be determined as follows:

- (i) The volume weighted average market price of Contact ordinary shares for the three months prior to the effective grant date is subtracted from the price of the shares as determined by measuring the volume weighted average market price of the shares over the three-month period prior to the relevant test date.
- (ii) Adjusting the calculation in (i) above to reflect the assumed reinvestment of distributions (excluding imputation credits) over the period from the effective grant date to the relevant test date.

The participant's vesting entitlements will be based on a pre-determined formula relative to achievement of the pre-determined hurdle or hurdles. For the restricted shares and share options issued in the year ended 30 June 2008, these are:

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

Employee remuneration

The following table shows the number of employees and former employees of Contact and its subsidiaries who, in their capacity as employees, received remuneration and other benefit entitlements (including redundancy payments) during the year ended 30 June 2008 of at least \$100,000.

As at 30 June 2008, no Contact subsidiary held any employees, as all the employees of Rockgas Limited (a wholly-owned subsidiary of Contact) became employees of Contact during the financial year.

The remuneration figures analysed include all monetary payments actually paid during the course of the year ended 30 June 2008. They do not include amounts paid post 30 June 2008 that related to the period ended 30 June 2008.

The value of remuneration benefits analysed includes both fixed, short-term and long-term variable/risk components of remuneration, and redundancy and other payments made on termination of employment. The value of the equity-based incentives included in the remuneration band analysis represents the portion of the grant date fair value of the equity instruments allocated to the reporting period ended 30 June 2008.

The remuneration (and any other benefits) of the current Chief Executive Officer, David Baldwin, is disclosed in the Chief Executive Remuneration section on page 32.

Remuneration bands	Number of employees	
	Parent*	Subsidiaries
\$100,001-\$110,000	40	-
\$110,001-\$120,000	30	-
\$120,001-\$130,000	16	-
\$130,001-\$140,000	14	-
\$140,001-\$150,000	6	-
\$150,001-\$160,000	4	-
\$160,001-\$170,000	5	-
\$170,001-\$180,000	10	-
\$180,001-\$190,000	4	-
\$190,001-\$200,000	3	-
\$200,001-\$210,000	3	-
\$210,001-\$220,000	5	-
\$220,001-\$230,000	4	-
\$240,001-\$250,000	1	-
\$290,001-\$300,000	2	-
\$300,001-\$310,000	2	-
\$320,001-\$330,000	1	-
\$340,001-\$350,000	1	-
\$390,001-\$400,000	1	-
\$400,001-\$410,000	1	-
\$450,001-\$460,000	1	-
\$480,001-\$490,000	1	-
\$490,001-\$500,000	1	-
\$540,001-\$550,000	1	-
\$590,001-\$600,000	2	-
\$910,001-\$920,000	1	-
Total	160	-

* This includes former employees of Rockgas Limited.

Contact subsidiaries – directors and remuneration

Other than Paul Smith, who received \$17,620 in the year ended 30 June 2008 in his capacity as a consultant to Contact Australia Pty Limited and Contact Operations Australia Pty Limited, no other director of any of Contact's subsidiaries received additional remuneration or benefits in respect of their directorships.

The table below lists the directors of Contact subsidiary companies as at 30 June 2008.

Contact subsidiary	Directors
Contact Aria Limited ¹	David Baldwin Elizabeth Kelly
Contact Australia Pty Limited ^{1,2}	David Baldwin Elizabeth Kelly Paul Smith
Contact Operations Australia Pty Limited ^{1,2}	David Baldwin Elizabeth Kelly Paul Smith
Contact Wind Limited ^{1,3}	David Baldwin Mark Trigg Alistair Yates
Empower Limited	Jason Delamore Kim Josling
Rockgas Limited ⁴	John Cumming David Baldwin Mark Trigg
Rockgas Holdings Limited ⁴	John Cumming David Baldwin Mark Trigg
Stratford Power Limited ⁵	Kim Josling Mark Trigg

- 1 Kim Josling was a director of Contact Aria Limited, Contact Australia Pty Limited, Contact Operations Australia Pty Limited and Contact Wind Limited until 17 September 2007, when she was replaced by David Baldwin.
- 2 David Thomas was a director of Contact Australia Pty Limited and Contact Operations Australia Pty Limited until 1 February 2008, when he was replaced by Elizabeth Kelly.
- 3 David Thomas was a director of Contact Wind Limited until 1 February 2008, when he was replaced by Mark Trigg.
- 4 Jason Delamore was a director of Rockgas Holdings Limited and Rockgas Limited until 17 September 2007, when he was replaced by David Baldwin. Ian White was a director of Rockgas Holdings Limited and Rockgas Limited until 11 April 2008.
- 5 David Thomas was a director of Stratford Power Limited until 1 February 2008.

Shareholder information

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

20 Largest Registered holders of Quoted Equity Securities as at 1 August 2008 (including holdings within New Zealand Central Securities Depository Limited)

Origin Energy Pacific Holdings Limited	291,769,031
HSBC Nominees (New Zealand) Limited A/C State Street	22,266,132
National Nominees New Zealand Limited	18,127,340
New Zealand Superannuation Fund Nominees Limited	12,680,329
HSBC Nominees (New Zealand) Limited	12,468,765
Accident Compensation Corporation	8,938,644
Citibank Nominees (New Zealand) Limited	7,942,507
ANZ Nominees Limited	5,604,535
Premier Nominees Ltd – ING Wholesale Australasian Share Fund	5,445,187
Custodial Services Limited	5,006,343
NZGT Nominees Limited – AIF Equity Fund	4,624,728
TEA Custodians Limited	4,506,548
Custody and Investment Nominees Limited	3,998,068
Origin Energy Universal Holdings Limited	3,600,297
ASB Nominees Limited	3,500,000
FNZ Custodians Limited	3,497,930
Asteron Life Limited	3,195,632
NZ Guardian Trust Investment Nominees Limited	2,582,998
Masfen Securities Limited	2,496,354
Guardian Trust Investment Nominees (RWT) Limited	2,364,497
Total top 20 holders	424,615,865
Total other shares	152,018,117
Total issued shares¹	576,633,982

¹ 163,308 restricted ordinary shares (not quoted or listed on the NZSX) have been issued pursuant to Contact's employee long-term incentive scheme for executives, bringing the total number of shares to 576,797,290.

Distribution of Quoted Security Holders and Security Holdings as at 1 August 2008

Size of shareholding	No. of holders	% of holders	No. of shares ¹	% of shares
1 – 99 shares	701	0.84	17,151	0.00
100 – 199 shares	498	0.59	70,659	0.01
200 – 499 shares	14,280	17.04	5,336,545	0.93
500 – 999 shares	48,746	58.17	38,806,481	6.73
1,000 – 1,999 shares	7,834	9.35	11,383,444	1.97
2,000 – 4,999 shares	7,490	8.94	22,530,017	3.91
5,000 – 9,999 shares	2,730	3.25	17,242,547	2.99
10,000 – 49,999 shares	1,367	1.63	21,838,510	3.78
50,000 – 99,999 shares	64	0.08	4,239,845	0.74
100,000 – 499,999 shares	51	0.06	10,048,182	1.74
500,000 – 999,999 shares	7	0.01	4,537,523	0.79
1,000,000 shares and above	30	0.04	440,583,078	76.41
Total	83,798	100.00	576,633,982	100.00

¹ Calculations are based on the number of ordinary shares quoted and listed on the New Zealand Stock Market (NZSX) as at 1 August 2008 and exclude the 163,308 restricted ordinary shares issued pursuant to Contact's employee long-term incentive scheme for executives.

Substantial security holders

As at 1 August 2008, the following persons had notified the company in accordance with the Securities Markets Act 1988 that they were currently substantial security holders in the company.

Substantial security holder	Nature of relevant interest	Number of listed voting securities	Class
Origin Energy New Zealand Limited and its related bodies corporate (including Origin Energy Limited and Origin Energy Vic Holdings Limited)	Shareholder	296,153,144	Ordinary shares

The total number of shares of Contact as at 1 August 2008 was 576,797,290, consisting of 576,633,982 ordinary shares and 163,308 restricted ordinary shares issued pursuant to Contact's employee long-term incentive scheme for executives (these shares are not tradeable and are not listed or quoted on the NZSX). All of these shares are voting securities, except the trustee holding the restricted ordinary shares on behalf of the participants has waived all voting rights and rights to dividends in relation to those shares. Accordingly, the total number of listed voting securities of Contact as at 1 August 2008 was 576,633,982.

Equity securities of the company in which each director has a relevant interest as at 30 June 2008

Director	Number of shares
G King	Nil
P Pryke	79,837
B Beeren	9,405
J Milne	82,515
K Moses	Nil
T Saunders	34,730

Directors' statement

This Annual Report is dated 9 September 2008 and is signed on behalf of the Board by



G King
Chairman



P Pryke
Deputy Chairman

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for the year ended 30 June 2008

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Income statement for the year ended 30 June 2008

	Note	Group 30 June 2008 \$000	Group 30 June 2007 \$000	Parent 30 June 2008 \$000	Parent 30 June 2007 \$000
Operating Revenue					
Wholesale Electricity Revenue		1,147,988	630,363	1,147,988	630,363
Retail Electricity Revenue		1,244,326	1,170,180	1,010,846	915,685
Gas Revenue		181,520	148,016	207,319	240,498
LPG Revenue		145,233	26,064	-	-
Steam Revenue		11,038	12,169	11,038	12,169
Other Revenue	3	26,196	11,174	42,308	33,818
		2,756,301	1,997,966	2,419,499	1,832,533
Operating Expenses					
Electricity Purchases		(954,923)	(455,787)	(792,581)	(373,026)
Electricity Transmission, Distribution and Levies		(486,843)	(452,522)	(407,903)	(344,769)
Gas Purchases and Transmission		(412,430)	(325,341)	(439,152)	(417,823)
LPG Purchases		(105,207)	(17,910)	-	-
Labour Costs		(82,191)	(62,424)	(70,531)	(60,239)
Other Operating Expenses	6	(147,543)	(140,291)	(129,269)	(130,739)
		(2,189,137)	(1,454,275)	(1,839,436)	(1,326,596)
Earnings Before Net Interest Expense, Income Tax, Depreciation, Amortisation, Financial Instruments and Other Significant Items (EBITDAF)					
		567,164	543,691	580,063	505,937
Depreciation and Amortisation	17, 18	(146,540)	(139,280)	(141,400)	(137,953)
Equity Accounted Earnings of Associates	23	2,793	707	-	-
Change in Fair Value of Financial Instruments	26	(1,926)	23,259	(1,926)	23,259
Removal of New Plymouth Asbestos and Related Costs	3	(33,747)	-	(33,747)	-
Gain on Sale of Mokai Geothermal Land and Rights	4	21,319	-	21,319	-
		(158,101)	(115,314)	(155,754)	(114,694)
Earnings Before Net Interest Expense and Income Tax (EBIT)					
		409,063	428,377	424,309	391,243
Net Interest Expense	7	(69,942)	(62,657)	(69,851)	(62,659)
Profit Before Income Tax					
		339,121	365,720	354,458	328,584
Income Tax Expense	8	(102,464)	(118,981)	(106,619)	(105,533)
Change in Corporate Income Tax Rate	8, 29	409	(7,112)	477	(7,120)
Profit for the Year					
		237,066	239,627	248,316	215,931
Basic and Diluted Earnings Per Share (Cents)					
	10	41.11	41.56	43.06	37.45

Supplementary disclosure

Underlying Earnings After Tax is presented to allow stakeholders to make a more accurate assessment and comparison of underlying earnings after removing one-off items and the Change in Fair Value of Financial Instruments.

Underlying Earnings After Tax	2	232,798	231,155	243,980	207,467
Underlying Earnings Per Share (Cents)	10	40.37	40.09	42.31	35.98

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

Statement of changes in equity for the year ended 30 June 2008

	Note	Group 30 June 2008 \$000	Group 30 June 2007 \$000	Parent 30 June 2008 \$000	Parent 30 June 2007 \$000
Profit for the Year		237,066	239,627	248,316	215,931
Change in Foreign Currency Translation Reserve	11	346	(109)	-	-
Change in Asset Revaluation Reserve	11	(2,335)	349,235	(2,335)	349,235
Change in Cash Flow Hedge Reserve	11	(74,572)	5,630	(75,008)	6,242
Total Recognised Revenues and Expenses		160,505	594,383	170,973	571,408
Dividends Paid	9, 11	(161,458)	(149,924)	(161,458)	(149,924)
Share-Based Payments	11	752	419	752	419
Business Combination of Commonly Controlled Entities	11, 22, 32	93	(92,942)	93	(92,942)
Changes in Equity for the Year		(108)	351,936	10,360	328,961
Equity at Start of the Year		2,904,179	2,552,243	2,867,752	2,538,791
Equity at End of the Year		2,904,071	2,904,179	2,878,112	2,867,752

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

Balance sheet as at 30 June 2008

	Note	Group 30 June 2008 \$000	Group 30 June 2007 \$000	Parent 30 June 2008 \$000	Parent 30 June 2007 \$000
SHAREHOLDERS' EQUITY	11	2,904,071	2,904,179	2,878,112	2,867,752
Represented by:					
Current Assets					
Cash and Short Term Deposits	14	2,542	178,984	-	176,456
Receivables and Prepayments	15	517,365	235,357	488,987	201,827
Tax Receivable		162	-	662	-
Inventories	16	21,111	23,289	7,014	18,297
Derivative Financial Instruments	26	10,399	1,989	10,657	1,989
Total Current Assets		551,579	439,619	507,320	398,569
Non-current Assets					
Property, Plant and Equipment	17	4,381,600	4,302,408	4,309,769	4,242,694
Intangible Assets	18	214,552	187,984	155,918	129,102
Gas Storage – Cushion Gas	19	23,622	-	23,622	-
Investment in Subsidiaries	21	-	-	132,788	132,788
Investment in Associates	23	8,015	6,210	1,579	1,579
Available-for-sale Financial Assets	24	2,935	2,935	-	-
Derivative Financial Instruments	26	15,871	43,023	15,871	43,023
Other Non-current Assets		5,071	2,629	5,071	2,629
Total Non-current Assets		4,651,666	4,545,189	4,644,618	4,551,815
TOTAL ASSETS		5,203,245	4,984,808	5,151,938	4,950,384
Current Liabilities					
Borrowings	25	132,811	3,020	130,384	3,625
Current Portion of Term Borrowings	25	-	196,611	-	196,611
Derivative Financial Instruments	26	37,327	85,809	37,327	84,897
Payables and Accruals	27	540,619	261,580	522,949	268,351
Tax Payable		-	2,409	-	2,490
Provisions	28	20,954	3,525	20,746	3,337
Total Current Liabilities		731,711	552,954	711,406	559,311
Non-current Liabilities					
Borrowings	25	556,851	513,683	556,821	513,683
Derivative Financial Instruments	26	256,656	242,986	256,656	242,986
Provisions	28	33,618	25,880	31,701	23,579
Deferred Tax	29	718,462	742,173	717,242	743,073
Other Non-current Liabilities		1,876	2,953	-	-
Total Non-current Liabilities		1,567,463	1,527,675	1,562,420	1,523,321
TOTAL LIABILITIES		2,299,174	2,080,629	2,273,826	2,082,632
NET ASSETS		2,904,071	2,904,179	2,878,112	2,867,752

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

On behalf of the Board



Grant King
Chairman, 25 August 2008



Phillip Pryke
Deputy Chairman, 25 August 2008

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

Statement of cash flows for the year ended 30 June 2008

	Note	Group 30 June 2008 \$000	Group 30 June 2007 \$000	Parent 30 June 2008 \$000	Parent 30 June 2007 \$000
CASH FLOWS FROM OPERATING ACTIVITIES					
Cash Provided from:					
Receipts from Customers		2,469,732	1,996,958	2,135,952	1,855,581
Associate Dividends Received	23	1,854	2,761	1,794	2,761
		2,471,586	1,999,719	2,137,746	1,858,342
Cash Applied to:					
Payments to Suppliers and Employees		(1,938,986)	(1,474,909)	(1,619,853)	(1,353,092)
Supplementary Dividend Paid to Shareholders	9	(16,790)	(15,758)	(16,790)	(15,758)
Tax Paid		(81,900)	(88,300)	(81,900)	(76,030)
		(2,037,676)	(1,578,967)	(1,718,543)	(1,444,880)
Net Cash Inflow from Operating Activities		433,910	420,752	419,203	413,462
CASH FLOWS FROM INVESTING ACTIVITIES					
Cash Provided from:					
Proceeds from Sale of Mokai Geothermal Land and Rights	4	27,252	-	27,252	-
Interest Received		5,133	24,943	5,062	24,913
Repayment of Loan to Investee		125	-	125	-
Loan from Associate		1,051	-	-	-
		33,561	24,943	32,439	24,913
Cash Applied to:					
Purchase of Property, Plant and Equipment		(217,579)	(145,148)	(200,128)	(141,069)
Removal of New Plymouth Asbestos and Related Costs		(11,147)	-	(11,147)	-
Purchase of Subsidiary	22	-	(159,432)	-	(162,263)
Purchase of Gas Storage Rights	18	(28,457)	-	(28,457)	-
Repayment of Loan from Associate		-	(3,035)	-	-
		(257,183)	(307,615)	(239,732)	(303,332)
Net Cash (Outflow) to Investing Activities		(223,622)	(282,672)	(207,293)	(278,419)
CASH FLOWS FROM FINANCING ACTIVITIES					
Cash Provided from:					
Net Proceeds from Borrowings		134,346	-	134,346	-
		134,346	-	134,346	-
Cash Applied to:					
Interest Paid		(75,057)	(82,919)	(75,036)	(82,921)
Ordinary Dividend Paid to Shareholders	9	(161,458)	(149,924)	(161,458)	(149,924)
Repayment of Borrowings		(285,277)	(8,017)	(285,266)	(8,017)
		(521,792)	(240,860)	(521,760)	(240,862)
Net Cash (Outflow) to Financing Activities		(387,446)	(240,860)	(387,414)	(240,862)
Net (Decrease) in Cash and Cash Equivalents		(177,158)	(102,780)	(175,504)	(105,819)
Add: Cash and Cash Equivalents at the Start of the Year		177,948	280,728	173,320	279,139
Cash and Cash Equivalents at the End of the Year		790	177,948	(2,184)	173,320
Cash and Cash Equivalents is comprised of:					
Bank Overdraft	25	(1,752)	(1,036)	(2,184)	(3,136)
Cash and Short Term Deposits	14	2,542	178,984	-	176,456
	14	790	177,948	(2,184)	173,320

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

Statement of cash flows for the year ended 30 June 2008 (continued)

RECONCILIATION OF PROFIT FOR THE YEAR TO CASH FLOWS FROM OPERATING ACTIVITIES	Note	Group 30 June 2008 \$000	Group 30 June 2007 \$000	Parent 30 June 2008 \$000	Parent 30 June 2007 \$000
Profit for the Year		237,066	239,627	248,316	215,931
Items Classified as Investing/Financing					
Removal of New Plymouth Asbestos and Related Costs	3	33,747	-	33,747	-
Gain on Sale of Mokai Geothermal Land and Rights	4	(21,319)	-	(21,319)	-
Net Interest Expense	7	69,942	62,657	69,851	62,659
		82,370	62,657	82,279	62,659
Non-cash Items					
Bad and Doubtful Accounts Receivable		5,954	5,395	4,584	3,581
Movement in Provisions		917	(149)	917	(149)
Share-Based Payments	13	933	550	933	550
Depreciation and Amortisation	17, 18	146,540	139,280	141,400	137,953
Equity Accounted (Earnings)/Loss of Associates net of Dividends Received	23	(939)	2,054	-	-
Change in Fair Value of Financial Instruments	26	1,926	(23,259)	1,926	(23,259)
Increase in Deferred Tax		5,126	7,581	3,767	7,604
Impact of Change in Corporate Income Tax Rate	8	(409)	7,112	(477)	7,120
Other Non-cash Items		(723)	-	200	-
		159,325	138,564	153,250	133,400
Movement in Working Capital					
(Increase)/Decrease in Receivables and Prepayments		(288,044)	(5,586)	(283,734)	20,391
Decrease/(Increase) in Tax Receivable		1,555	7,311	7,061	(6,129)
Decrease/(Increase) in Inventories		227	(3,005)	9,332	(289)
Increase/(Decrease) in Payables and Accruals		244,356	(18,816)	205,644	(12,501)
(Increase) in Other Non-current Assets		(2,945)	-	(2,945)	-
		(44,851)	(20,096)	(64,642)	1,472
Net Cash Inflow from Operating Activities		433,910	420,752	419,203	413,462

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

Notes to the financial statements

for the year ended 30 June 2008

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 Market (NZSX). The Parent is an issuer in terms of the Financial Reporting Act 1993. The Group financial statements of Contact Energy Limited as at and for the year ended 30 June 2008 comprise the Parent, and its subsidiaries, interest in associates and jointly controlled entities (together referred to as Contact or the Group).

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

Basis of preparation

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

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

The financial statements were approved by the Board of Directors (the Board) on 25 August 2008.

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

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

Certain presentational changes have been made to the Statement of Cash Flows to allow stakeholders to make a more accurate assessment of Contact's sustainable operating cash flows before funding costs. These changes, which have been applied retrospectively, are listed below:

- Reclassification of interest paid from operating activities to financing activities.
- Reclassification of interest received from operating activities to investing activities.
- Reclassification of supplementary dividend paid from financing activities to operating activities.
- Reclassification of associate dividends received from investing activities to operating activities.

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

- Reclassification of computer software from plant, property and equipment to intangible assets.
- Reclassification of certain provisions from other to restoration provisions.
- Reclassification of credit balances held by Contact from receivables to payables (where no contractual right of set-off is available).
- Reclassification of intercompany receivable balances in the Parent from Advances from Subsidiaries to Advances to Subsidiaries.

Adoption status of relevant new Financial Reporting Standards and Interpretations

Contact has chosen to early adopt the revised *NZIAS 23 Borrowing Costs*, *NZIAS 27 Consolidated and Separate Financial Statements (amended)* and *NZIFRIC 12 Service Concession Arrangements* with effect from 1 July 2006.

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

- *NZIFRS 2 Share-Based Payments* – revisions approved February 2008 and effective for annual reporting periods beginning on or after 1 July 2009.
- *NZIFRS 8 Operating Segments* – approved December 2006 and effective for annual reporting periods beginning on or after 1 January 2009.
- *NZIAS 1 Presentation of Financial Statements* – revisions approved September 2007 and effective for annual reporting periods beginning on or after 1 January 2009.

- *NZIFRS 3 Business Combination* – revisions approved June 2007 and effective for annual reporting periods beginning on or after 1 July 2009.
- *NZIFRIC 13 Customer Loyalty Programmes* – approved September 2007 and effective for annual reporting periods beginning on or after 1 July 2008.

Contact does not currently intend to early adopt any of these standards before their effective date. The adoption of these standards is not expected to have a material impact on Contact's financial statements.

Accounting estimates and judgements

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

Derivative financial instruments

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

Generation plant and equipment

Contact's generation plant and equipment (including land and buildings) and capital work in progress are stated at fair value as assessed by an independent valuer. The basis of the valuation is the net present value of the future earnings of the assets, excluding any reduction for costs associated with restoration and environmental rehabilitation. The major inputs and assumptions used in the valuation model that require judgement include the forecast of the future electricity price path, sales volume forecasts, projected operational and capital expenditure profiles, capacity and life assumptions for each generation plant and the relevant discount rates. Refer to Note 17.

Intangible assets – gas storage rights

Management has exercised judgement in determining the useful life of the intangible asset – gas storage rights. The useful life has been based on the current assumption of the period over which future economic benefits are expected. This life, however, is subject to the assumption that the contractual agreement under which the rights were acquired continues in existence and that any petroleum mining or other permit which may be required, can be successfully renewed. The useful life is reviewed annually at each balance sheet date. Refer to Note 18.

Intangible assets – goodwill

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

In determining the recoverable amount of goodwill, Contact uses a valuation model to calculate the present value of the expected future cash flows of the cash-generating units. The major inputs and assumptions that are used in the model that require management judgement include sales forecasts, customer numbers and customer churn, interest rates, discount rates and a forecast of the future electricity price path. Refer to Note 18.

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 expenditures based on the status of contractor negotiations at each balance sheet date. Refer to Note 3.

Restoration and environmental rehabilitation

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

Retail revenue

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

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 acquisition over the fair value of the Parent's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the Income Statement.

Business combinations of commonly controlled entities

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

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

Associates

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

Jointly controlled assets and jointly controlled entities

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

Acquisition or disposal during the period

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

Transactions and balances eliminated on consolidation

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

Borrowings

Borrowings are recognised initially at fair value less attributed transaction costs.

Borrowings designated as hedged items are subject to measurement under hedge accounting requirements. Refer to the accounting policy for Derivative financial instruments and hedging.

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

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

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 on the Balance Sheet.

Derivative financial instruments and hedging

Derivatives 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 is designated as a hedging instrument and, if so, the nature of the item being hedged. Contact designates certain derivatives as either:

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

Fair value hedge

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

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

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

Net investment hedge

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

Gains and losses accumulated in equity are included in the Income Statement when the foreign operation is disposed of.

Derivatives that do not qualify for hedge accounting

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

Employee benefits

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

Long term service benefits

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

Share-based payments

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

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

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

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

Foreign currencies

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

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

Group entities

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

- Income and expenses are translated at average exchange rates.
- Assets and liabilities are translated at the closing exchange rate at the date of that Balance Sheet.
- All resulting exchange differences are recognised as a separate component of equity.

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

Gas entitlements

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

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

Gas storage – cushion gas

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

Generation and other research and development expenditure

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

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

Capitalised development costs, including associated capitalised interest, are reviewed at each balance sheet date to determine whether further work is planned to support the continued carry forward of the capitalised costs.

Development assets are depreciated or amortised from the commencement of commercial operations in accordance with the relevant accounting policy for that asset over the period of their expected economic benefit. Capitalised development expenditure is stated at cost less accumulated amortisation and impairment losses.

Goods and services tax (GST)

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

Impairment

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

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

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

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

Insurance

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

To minimise the financial impact of such exposures, the major portion of the risk is insured by taking out appropriate insurance policies with appropriate credit-worthy counterparties.

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

Intangible assets

Goodwill

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

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

Other intangible assets

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

Type of asset	Estimated life	Amortisation rate
Gas storage rights	25 years	4%
Patents	10 years	10%
Computer software	3 years	33%

Inventories

Inventories are stated at the lower of cost and net realisable value. The cost of materials, consumable supplies and maintenance spares is determined on a weighted average basis. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

Investments

Contact classifies its investments in the following categories:

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

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

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

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

Financial assets at fair value through the Income Statement

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

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

Held to maturity

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

Available-for-sale financial assets

Investments in unlisted shares are classified as being available-for-sale and are stated at fair value, with any resultant gain or loss being recognised directly in equity, except for impairment losses and foreign exchange gains and losses, which are recognised in the Income Statement. When these investments are derecognised, the cumulative gain or loss previously recognised directly in equity is recognised in the Income Statement.

Oil and gas assets

Development assets

The costs of oil and gas assets in the development phase are separately accounted for and include transferred exploration and evaluation costs, all development drilling and other subsurface expenditure, surface plant and equipment and any associated land and buildings. When production commences, the accumulated costs are transferred to producing properties.

Producing properties

The costs of oil and gas assets in production are separately accounted for and include transferred exploration and evaluation costs, transferred development costs and the on-going costs of continuing to develop reserves for production and to expand or replace plant and equipment and any associated land and buildings. These costs are subject to depreciation and depletion in accordance with the Property, plant and equipment policy.

Oil and gas exploration expenditure

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

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

Capitalised costs are reviewed at each balance sheet date to determine whether economic quantities of reserves have been found or whether further exploration and evaluation work is underway or planned to support the continued carry forward of the capitalised costs.

Upon approval for the commercial development of a project, the accumulated expenditure is assessed for impairment before it is reclassified to oil and gas development assets.

Operating leases

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

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

Payables

Payables are stated at cost.

Property, plant and equipment

Initial recording

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, which have been incurred in bringing the assets to the location and condition necessary for their intended service.

The cost of assets constructed by Contact, including capital work in progress, includes the cost of all materials used in construction, direct labour specifically associated with construction, resource management consent costs and an appropriate proportion of variable and fixed overheads. Financing 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 financing costs capitalised is determined using a capitalisation rate representing Contact's weighted average borrowing cost applicable to the borrowings that were outstanding during the period. Costs cease to be capitalised as soon as the asset is ready for productive use and do not include any inefficiency costs.

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

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

Revaluations

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

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

Leased assets

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

Depreciation

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

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

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

Receivables

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

Restoration and environmental rehabilitation

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

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

Revenue

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

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

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

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

Statement of cash flows

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

- Cash and cash equivalents includes cash on hand, deposits held on call with banks and other short term highly liquid investments with original maturities of three months or less, net of outstanding bank overdrafts.
- Operating activities include all transactions and other events that are not investing or financing activities.

- Investing activities are those activities relating to the acquisition, holding and disposal of property, plant and equipment and investments.
- Financing activities are those activities that result in changes in the size and composition of the capital structure of Contact. This includes both equity and debt not falling within the definition of cash. Dividends and interest paid in relation to the capital structure are included in financing activities.

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

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

Tax

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

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

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

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

Changes in accounting policies

There have been no changes in accounting policies other than the addition of policies on Gas storage – cushion gas and Payables.

2 Underlying earnings after tax

Underlying Earnings After Tax is presented to allow stakeholders to make a more accurate assessment and comparison of underlying earnings after removing one-off items and the Change in Fair Value of Financial Instruments.

	Note	Group 30 June 2008 \$000	Group 30 June 2007 \$000	Parent 30 June 2008 \$000	Parent 30 June 2007 \$000
Profit for the Year		237,066	239,627	248,316	215,931
Change in Fair Value of Financial Instruments	26	1,926	(23,259)	1,926	(23,259)
Removal of New Plymouth Asbestos and Related Costs	3	33,747	–	33,747	–
Gain on Sale of Mokai Geothermal Land and Rights	4	(21,319)	–	(21,319)	–
Gain on Disposal of Fuel Oil Reserves*	3	(9,613)	–	(9,613)	–
Adjustments Before Income Tax		4,741	(23,259)	4,741	(23,259)
Income Tax Expense**		(8,600)	7,675	(8,600)	7,675
Change in Corporate Income Tax Rate	8	(409)	7,112	(477)	7,120
Adjustments After Income Tax		(4,268)	(8,472)	(4,336)	(8,464)
Underlying Earnings After Tax		232,798	231,155	243,980	207,467

* Gain on Disposal of Fuel Oil Reserves is included in Other Revenue, a component of EBITDAF.

** Tax has been applied at 33 per cent for all adjustments except for the Gain on Sale of Mokai Geothermal Land and Rights, which is non-taxable.

3 New Plymouth power station

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

The financial impact of the decision to decommission the plant is recorded in the year ended 30 June 2008 and is an expense of \$33.7 million. This expense principally represents an estimate (previously \$30.5 million at 31 December 2007) of the cost to remove asbestos at the plant and other related costs, including \$1.5 million write-down in inventory. These costs are not impacted by the recommissioning of the one generator unit. 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 costs to sell, exceeds the carrying amount.

Contact held reserves of fuel oil at New Plymouth. These reserves were sold for \$20.3 million, and a gain on disposal of \$9.6 million is recorded in Other Revenue.

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

4 Sale of Mokai geothermal land and rights

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

5 Segment reporting

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

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

Contact comprises the following main business segments:

Retail

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

Generation

The Generation segment encompasses any activity that is associated with Contact's generation of electricity or steam and Contact's sales to the wholesale electricity market. It also includes all activities in relation to the gas storage facility at the Ahuroa reservoir.

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

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

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

Contact Energy Limited and Subsidiaries
Notes to the financial statements
for the year ended 30 June 2008

2008 Group	Retail \$000	Generation \$000	Other \$000	Total \$000
Segment Revenue	1,582,551	1,173,750	-	2,756,301
EBITDAF	(263,561)	830,725	-	567,164
Depreciation and Amortisation of Segment Assets	(20,264)	(126,276)	-	(146,540)
Segment Result	(283,825)	704,449	-	420,624
Change in Fair Value of Financial Instruments				(1,926)
Equity Accounted Earnings of Associates				2,793
Removal of New Plymouth Asbestos and Related Costs				(33,747)
Gain on Sale of Mokai Geothermal Land and Rights				21,319
Net Interest Expense				(69,942)
Income Tax Expense				(102,464)
Change in Corporate Income Tax Rate				409
Profit for the Year				237,066
Segment Assets	468,947	4,705,695	28,603	5,203,245
Segment Liabilities	375,996	221,276	1,701,902	2,299,174
Capital and Investment Expenditure	20,808	247,541	13,603	281,952

2007 Group	Retail \$000	Generation \$000	Other \$000	Total \$000
Segment Revenue	1,351,657	646,292	17	1,997,966
EBITDAF	249,224	294,450	17	543,691
Depreciation and Amortisation of Segment Assets	(15,621)	(123,089)	(570)	(139,280)
Segment Result	233,603	171,361	(553)	404,411
Change in Fair Value of Financial Instruments				23,259
Equity Accounted Earnings of Associates				707
Net Interest Expense				(62,657)
Income Tax Expense				(118,981)
Change in Corporate Income Tax Rate				(7,112)
Profit for the Year				239,627
Segment Assets	444,678	4,297,227	242,903	4,984,808
Segment Liabilities	131,701	118,108	1,830,820	2,080,629
Capital and Investment Expenditure	10,124	129,102	10,010	149,236

6 Other operating expenses

	Group 30 June 2008 \$000	Group 30 June 2007 \$000	Parent 30 June 2008 \$000	Parent 30 June 2007 \$000
Other Operating Expenses include:				
Auditors' Remuneration				
- Audit Services: KPMG	683	611	612	606
Donations	56	21	56	21
Rental Expense on Operating Leases	5,506	4,223	3,903	3,958

7 Net interest expense

	Group 30 June 2008 \$000	Group 30 June 2007 \$000	Parent 30 June 2008 \$000	Parent 30 June 2007 \$000
Interest Expense	76,687	85,661	76,525	85,633
Interest Expense Capitalised	(1,617)	-	(1,617)	-
Interest Income	(5,128)	(23,004)	(5,057)	(22,974)
Net Interest Expense	69,942	62,657	69,851	62,659

Contact commenced capitalising interest from 1 July 2007, principally in respect of expenditure categorised as development capital work in progress.

The weighted average capitalisation rate on funds borrowed is 8.0% per annum.

8 Income tax

Income tax expense

	Group 30 June 2008 \$000	Group 30 June 2007 \$000	Parent 30 June 2008 \$000	Parent 30 June 2007 \$000
Profit Before Income Tax	339,121	365,720	354,458	328,584
Tax thereon at 33%	111,910	120,688	116,971	108,433
Plus/(Less) Tax Effect of Adjustments:				
Effect of Different Tax Rates of Associate Operating in Other Jurisdiction	(83)	(20)	-	-
Gain on Sale of Mokai Geothermal Land and Rights	(7,035)	-	(7,035)	-
Temporary Differences no Longer Expected to Reverse	47	124	-	-
Other Differences	414	1,286	(535)	190
Change in Corporate Income Tax Rate	(409)	7,112	(477)	7,120
Income Tax (Over) Provided in Prior Year	(2,789)	(3,097)	(2,782)	(3,090)
Income Tax Expense	102,055	126,093	106,142	112,653
Comprised of:				
Current Tax	92,673	114,303	98,934	100,951
Deferred Tax	9,382	11,790	7,208	11,702
	102,055	126,093	106,142	112,653

Imputation credits

	Group 30 June 2008 \$000	Group 30 June 2007 \$000
Opening Balance Credit	190,269	160,656
Imputation Credits Attached to Dividends Paid	(62,734)	(58,086)
New Zealand Income Tax Paid	79,000	87,699
Closing Balance Credit	206,535	190,269

The imputation credits are available to shareholders of the Parent through the Consolidated Imputation Group.

9 Dividends paid

The Parent paid the following fully imputed dividends during the year.

	Dividend Payment Date	Parent 30 June 2008 \$000	Parent 30 June 2007 \$000	Parent 30 June 2008 Cents per Share	Parent 30 June 2007 Cents per Share
2006 Year Final Dividend	21 September 2006	–	92,261	–	16.0
2007 Year Interim Dividend	23 March 2007	–	57,663	–	10.0
2007 Year Final Dividend	25 September 2007	98,028	–	17.0	–
2008 Year Interim Dividend	26 March 2008	63,430	–	11.0	–
Supplementary Dividend		16,790	15,758	–	–
Foreign Investor Tax Credit		(16,790)	(15,758)	–	–
Total Dividends Paid		161,458	149,924		
Current year fully imputed final dividend on ordinary shares, declared subsequent to balance date. Refer to Note 36	23 September 2008	98,028		17.0	

10 Earnings and net tangible assets per share

	Group 30 June 2008	Group 30 June 2007
Underlying Earnings Per Share (Cents)	40.37	40.09
Basic and Diluted Earnings Per Share (Cents)	41.11	41.56
Net Tangible Assets Per Share (Cents)	466.42	471.04

The calculation of Basic Earnings Per Share at 30 June 2008 is based on the profit attributable to ordinary shareholders of \$237.1 million (2007: \$239.6 million) and a weighted average number of ordinary shares outstanding during the year ended 30 June 2008 of 576,633,982 (2007: 576,633,982).

The calculation of Underlying Earnings Per Share for the year ended 30 June 2008 is based on an Underlying Earnings After Tax after removing one-off items and the Change in Fair Value of Financial Instruments attributable to ordinary shareholders. Refer to Note 2.

For the purposes of the earnings per share calculations, the shares issued under the Restricted Share Plan 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 2008 and 30 June 2007, as the relevant performance conditions have not been fulfilled at that date.

The calculation of Net Tangible Assets Per Share for the year ended 30 June 2008 and 30 June 2007 is based on the total net assets less intangible assets. Net Tangible Assets Per Share would increase if total net assets were adjusted for the deferred tax on the revaluation of generation plant and equipment and generation capital work in progress which is unlikely to crystallise under existing income tax legislation. Contact holds its property, plant and equipment on capital account for income tax purposes. Where the generation plant and equipment and generation capital work in progress is revalued, but there is no similar adjustment to the tax base, a taxable temporary difference is created that is recognised in deferred tax. The deferred tax liability on these revaluations is unlikely to crystallise under existing income tax legislation.

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11 Reserves

Group	Note	Share Capital \$000	Foreign Currency Translation Reserve \$000	Asset Re-valuation Reserve \$000	Cash Flow Hedge Reserve \$000	Share-Based Payment Reserve \$000	Retained Earnings \$000	Total \$000
Balance as at 1 July 2006		780,037	159	1,551,483	(5,337)	-	225,901	2,552,243
Profit for the Year		-	-	-	-	-	239,627	239,627
Cash Flow Hedges:								
Gains Taken to Equity		-	-	-	8,054	-	-	8,054
Translation of Foreign Operations		-	(336)	-	-	-	-	(336)
Asset Revaluation:								
Revaluation Increments	17	-	-	401,090	-	-	-	401,090
Re-estimate of Restoration Provision		-	-	(1,489)	-	-	-	(1,489)
Movement in Deferred Tax Liability Attributable to Equity		-	227	(131,868)	(2,658)	-	-	(134,299)
Re-measurement of Deferred Tax on Change in Corporate Income Tax Rate		-	-	81,502	234	-	-	81,736
Total Recognised Revenues and Expenses		-	(109)	349,235	5,630	-	239,627	594,383
Dividends Paid to Shareholders	9	-	-	-	-	-	(149,924)	(149,924)
Business Combination of Commonly Controlled Entities	22	-	-	-	-	-	(92,942)	(92,942)
Share-Based Payments		159	-	-	-	260	-	419
Balance as at 30 June 2007		780,196	50	1,900,718	293	260	222,662	2,904,179
Balance as at 1 July 2007		780,196	50	1,900,718	293	260	222,662	2,904,179
Profit for the Year		-	-	-	-	-	237,066	237,066
Cash Flow Hedges:								
Loss Taken to Equity		-	-	-	(106,450)	-	-	(106,450)
Translation of Foreign Operations		-	606	-	-	-	-	606
Asset Revaluation:								
Re-estimate of Restoration Provision	28	-	-	(3,272)	-	-	-	(3,272)
Movement in Deferred Tax Liability Attributable to Equity		-	(260)	1,080	35,129	-	-	35,949
Re-measurement of Deferred Tax on Change in Corporate Income Tax Rate		-	-	(143)	(3,251)	-	-	(3,394)
Total Recognised Revenues and Expenses		-	346	(2,335)	(74,572)	-	237,066	160,505
Dividends Paid to Shareholders	9	-	-	-	-	-	(161,458)	(161,458)
Business Combination of Commonly Controlled Entities	22	-	-	-	-	-	93	93
Share-Based Payments		285	-	-	-	467	-	752
Balance as at 30 June 2008		780,481	396	1,898,383	(74,279)	727	298,363	2,904,071

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Parent		Share Capital \$000	Foreign Currency Translation Reserve \$000	Asset Re- valuation Reserve \$000	Cash Flow Hedge Reserve \$000	Share- Based Payment Reserve \$000	Retained Earnings \$000	Total \$000
	Note							
Balance as at 1 July 2006		780,037	-	1,358,069	(5,337)	-	406,022	2,538,791
Profit for the Year		-	-	-	-	-	215,931	215,931
Cash Flow Hedges:								
Gains Taken to Equity		-	-	-	8,966	-	-	8,966
Asset Revaluation:								
Revaluation Increments	17	-	-	401,090	-	-	-	401,090
Re-estimate of Restoration Provision		-	-	(1,489)	-	-	-	(1,489)
Movement in Deferred Tax Liability Attributable to Equity		-	-	(131,868)	(2,958)	-	-	(134,826)
Re-measurement of Deferred Tax on Change in Corporate Income Tax Rate		-	-	81,502	234	-	-	81,736
Total Recognised Revenues and Expenses		-	-	349,235	6,242	-	215,931	571,408
Dividends Paid to Shareholders	9	-	-	-	-	-	(149,924)	(149,924)
Business Combination of Commonly Controlled Entities	22	-	-	-	-	-	(92,942)	(92,942)
Share-Based Payments		159	-	-	-	260	-	419
Balance as at 30 June 2007		780,196	-	1,707,304	905	260	379,087	2,867,752
Balance as at 1 July 2007		780,196	-	1,707,304	905	260	379,087	2,867,752
Profit for the Year		-	-	-	-	-	248,316	248,316
Cash Flow Hedges:								
Loss Taken to Equity		-	-	-	(107,110)	-	-	(107,110)
Asset Revaluation:								
Re-estimate of Restoration Provision	28	-	-	(3,272)	-	-	-	(3,272)
Movement in Deferred Tax Liability Attributable to Equity		-	-	1,080	35,345	-	-	36,425
Re-measurement of Deferred Tax on Change in Corporate Income Tax Rate		-	-	(143)	(3,243)	-	-	(3,386)
Total Recognised Revenues and Expenses		-	-	(2,335)	(75,008)	-	248,316	170,973
Dividends Paid to Shareholders	9	-	-	-	-	-	(161,458)	(161,458)
Business Combination of Commonly Controlled Entities	22	-	-	-	-	-	93	93
Share-Based Payments		285	-	-	-	467	-	752
Balance as at 30 June 2008		780,481	-	1,704,969	(74,103)	727	466,038	2,878,112

12 Share capital

	Group 30 June 2008 Number	Group 30 June 2007 Number	Parent 30 June 2008 Number	Parent 30 June 2007 Number
Authorised and Issued Shares				
Ordinary Shares – Unrestricted	576,633,982	576,633,982	576,633,982	576,633,982
Ordinary Shares – Restricted	163,308	76,975	163,308	76,975
Issued Shares	576,797,290	576,710,957	576,797,290	576,710,957

The holders of ordinary shares are entitled to receive dividends 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.

83,242 and 3,091 restricted ordinary shares were issued on 31 October 2007 and 25 February 2008 respectively, pursuant to Contact's Employee Long Term Incentive Scheme and are held in trust.

On 21 June 2007, 76,975 restricted ordinary shares were issued pursuant to Contact's Employee Long Term Incentive Scheme and are held in trust.

While restricted shares confer the same rights on the holder as unrestricted shares, restricted shares are subject to the terms of the Restricted Share Plan that restrict the right to vote and dividends. Refer to Note 13.

13 Share-based payments

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

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

The total expense recognised for share-based payments transactions under the Plans during the year ended 30 June 2008 was \$0.9 million (2007: \$0.5 million).

(a) Share Option Plan

Under the Share Option Plan, the Board issues share options to executives to acquire ordinary shares in the Parent at the market price determined at the effective grant date. For share options granted in the years ended 30 June 2008 and 30 June 2007, the market price was the weighted average market price of the Parent's ordinary shares traded on the NZSX over the 20 business days prior to the effective grant date.

The share options do not entitle the executives to receive dividends or other distributions from, or vote in respect of, the shares subject to the options.

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

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

The share options will lapse:

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

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

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

Effective Grant Date	First Exercise Date	Expiry Date	Exercise Price per Option	Balance at 1 July 2006	Granted	Lapsed	Balance at 30 June 2007	Exercisable at 30 June 2007
1 Jul 2006	1 Oct 2009	30 Nov 2011	\$7.35	-	365,322	-	365,322	-
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	-
				-	397,096	-	397,096	-

A further 47,464 share options lapsed on 2 July 2008.

(b) Restricted Share Plan

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

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

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

For restricted shares issued in the years ended 30 June 2008 and 30 June 2007, the market price or allocation price of the restricted shares was the weighted average market price of the Parent's ordinary shares traded on the NZSX over the 20 business days prior to the effective grant date. Payment of the allocation price for the restricted shares was funded by an interest-free loan from the Parent in an amount equal to the allocation price for the shares.

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

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

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

The rights to the restricted shares will lapse:

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

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

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Effective Grant Date	First Test Date	Final Test Date	Allocation Price Per Share	Unvested Balance at 1 July 2007 Number	Granted Number	Vested Number	Unvested Balance at 30 June 2008 Number
1 Jul 2006	1 Oct 2009	1 Oct 2011	\$7.35	70,890	-	-	70,890
20 Nov 2006	1 Oct 2009	1 Oct 2011	\$7.55	3,581	-	-	3,581
15 Jan 2007	1 Oct 2009	1 Oct 2011	\$8.28	2,504	-	-	2,504
1 Oct 2007	1 Oct 2010	1 Oct 2012	\$9.15	-	83,242	-	83,242
1 Feb 2008	1 Oct 2010	1 Oct 2012	\$7.63	-	3,091	-	3,091
				76,975	86,333	-	163,308

Effective Grant Date	First Test Date	Final Test Date	Allocation Price Per Share	Unvested Balance at 1 July 2006 Number	Granted Number	Vested Number	Unvested Balance at 30 June 2007 Number
1 Jul 2006	1 Oct 2009	1 Oct 2011	\$7.35	-	70,890	-	70,890
20 Nov 2006	1 Oct 2009	1 Oct 2011	\$7.55	-	3,581	-	3,581
15 Jan 2007	1 Oct 2009	1 Oct 2011	\$8.28	-	2,504	-	2,504
				-	76,975	-	76,975

Pursuant to the Restricted Share Plan Rules, where the rights to the restricted shares lapse, beneficial ownership of restricted shares is transferred to the Trustee to hold on trust in an unallocated pool, to be reallocated to a participant at a future date.

As at 30 June 2008, 10,667 (2007: Nil) restricted shares were held by the Trustee in the unallocated pool. A further 8,580 restricted shares were transferred to the unallocated pool on 2 July 2008.

(c) Fair value of share-based payments

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

	30 June 2008	30 June 2007
Risk-free Interest Rate	6.7%	5.9%
Expected Dividend Yield	3.7%	2.9%
Expected Option Life (in Years)	5.1	5.1
Expected Share Price Volatility	18.5%	19.6%
Weighted Average Remaining Contractual Life (in Years)	4.0	4.4

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

14 Cash and cash equivalents

	Group 30 June 2008 \$000	Group 30 June 2007 \$000	Parent 30 June 2008 \$000	Parent 30 June 2007 \$000
Commercial Paper	–	165,956	–	165,956
Cash and Other Short Term Deposits	2,542	13,028	–	10,500
Cash and Short Term Deposits	2,542	178,984	–	176,456
Represented by:				
Unrestricted Cash	2,542	178,984	–	176,456
	2,542	178,984	–	176,456
Bank Overdrafts (Refer to Note 25)	(1,752)	(1,036)	(2,184)	(3,136)
Cash and Cash Equivalents in the Statement of Cash Flows	790	177,948	(2,184)	173,320

Commercial paper has been classified as a held to maturity investment.

15 Receivables and prepayments

	Group 30 June 2008 \$000	Group 30 June 2007 \$000	Parent 30 June 2008 \$000	Parent 30 June 2007 \$000
Retail Electricity, Other Receivables and Accruals	183,933	150,496	141,088	110,654
Wholesale Electricity Receivables	332,024	84,482	332,024	84,482
Prepayments	1,408	374	1,276	177
Interest Receivable	–	5	–	5
Advances to Subsidiaries	–	–	14,599	6,509
Total Receivables and Prepayments	517,365	235,357	488,987	201,827

Included in Retail Electricity, Other Receivables and Accruals are \$26.3 million (2007: \$19.0 million) that are past due but not impaired. These relate to a number of customers who pay outside terms and for whom there is no recent history of default.

As at 30 June 2008, the allowance for impairment in respect of Retail Electricity, Other Receivables and Accruals was \$4.8 million (2007: \$4.5 million).

Wholesale electricity prices that the Parent received for its generation in June 2008 were considerably higher than the June 2007 prices due to national hydro storage conditions. Consequently Wholesale Electricity Receivables are higher than at 30 June 2007.

16 Inventories

	Group 30 June 2008 \$000	Group 30 June 2007 \$000	Parent 30 June 2008 \$000	Parent 30 June 2007 \$000
Fuel Oil	–	10,254	–	10,254
LPG	13,876	4,777	–	–
Consumables and Spare Parts	7,235	8,258	7,014	8,043
Total Inventories	21,111	23,289	7,014	18,297

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17 Property, plant and equipment

Group	Generation Plant and Equipment (including Land and Buildings) at Fair Value \$000	Other Land and Buildings at Cost \$000	Other Plant and Equipment at Cost \$000	Generation Capital Work in Progress at Fair Value \$000	Development Capital Work in Progress at Cost \$000	Other Capital Work in Progress at Cost \$000	Total \$000
Cost or Fair Value							
Balance as at 1 July 2006	3,846,764	22,513	156,494	80,901	4,434	4,716	4,115,822
Acquisition as a Result of Business Combination	-	2,660	102,331	-	-	12,781	117,772
Additions	26,836	36	9,650	71,502	28,361	7,947	144,332
Transfers to/(from) Capital Work in Progress	58,117	-	3,570	(58,117)	-	(3,570)	-
Transfers from Inventories	11,057	-	-	-	-	-	11,057
Disposals	(26)	-	(36)	-	-	-	(62)
Offset of Accumulated Depreciation on Revalued Assets	(316,700)	-	-	-	-	-	(316,700)
Revaluation Increments	401,090	-	-	-	-	-	401,090
Balance as at 30 June 2007	4,027,138	25,209	272,009	94,286	32,795	21,874	4,473,311
Balance as at 1 July 2007	4,027,138	25,209	272,009	94,286	32,795	21,874	4,473,311
Additions	70,394	13,139	10,718	50,055	60,761	23,343	228,410
Transfers to/(from) Capital Work in Progress	77,731	888	14,914	(64,889)	(11,165)	(17,479)	-
Transfers (to)/from Inventories	-	-	-	-	-	-	-
Disposals	-	(2,992)	-	-	(3,038)	-	(6,030)
Offset of Accumulated Depreciation on Revalued Assets	-	-	-	-	-	-	-
Revaluation Increments	-	-	-	-	-	-	-
Balance as at 30 June 2008	4,175,263	36,244	297,641	79,452	79,353	27,738	4,695,691
Depreciation and Impairment Losses							
Balance as at 1 July 2006	(196,764)	(1,877)	(91,249)	-	-	-	(289,890)
Depreciation Charge	(119,957)	(231)	(16,761)	-	-	31	(136,918)
Disposals	21	-	34	-	-	-	55
Acquisition as a Result of Business Combination	-	(516)	(60,180)	-	-	(154)	(60,850)
Offset of Accumulated Depreciation on Revalued Assets	316,700	-	-	-	-	-	316,700
Balance as at 30 June 2007	-	(2,624)	(168,156)	-	-	(123)	(170,903)
Balance as at 1 July 2007	-	(2,624)	(168,156)	-	-	(123)	(170,903)
Depreciation Charge	(122,461)	(446)	(20,404)	-	-	123	(143,188)
Disposals	-	-	-	-	-	-	-
Offset of Accumulated Depreciation on Revalued Assets	-	-	-	-	-	-	-
Balance as at 30 June 2008	(122,461)	(3,070)	(188,560)	-	-	-	(314,091)
Carrying Value							
At 30 June 2007	4,027,138	22,585	103,853	94,286	32,795	21,751	4,302,408
At 30 June 2008	4,052,802	33,174	109,081	79,452	79,353	27,738	4,381,600

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Parent	Generation Plant and Equipment (including Land and Buildings) at Fair Value \$000	Other Land and Buildings at Cost \$000	Other Plant and Equipment at Cost \$000	Generation Capital Work in Progress at Fair Value \$000	Development Capital Work in Progress at Cost \$000	Other Capital Work in Progress at Cost \$000	Total \$000
Cost or Fair Value							
Balance as at 1 July 2006	3,846,764	22,513	156,494	80,901	4,434	4,716	4,115,822
Additions	26,836	25	3,722	71,502	26,231	11,929	140,245
Transfers to/(from) Capital Work in Progress	58,117	-	3,570	(58,117)	-	(3,570)	-
Transfers from Inventories	11,057	-	-	-	-	-	11,057
Disposals	(26)	-	(36)	-	-	-	(62)
Offset of Accumulated Depreciation on Revalued Assets	(316,700)	-	-	-	-	-	(316,700)
Revaluation Increments	401,090	-	-	-	-	-	401,090
Balance as at 30 June 2007	4,027,138	22,538	163,750	94,286	30,665	13,075	4,351,452
Balance as at 1 July 2007	4,027,138	22,538	163,750	94,286	30,665	13,075	4,351,452
Additions	70,394	13,139	10,712	50,055	54,411	12,690	211,401
Transfers to/(from) Capital Work in Progress	77,731	-	9,522	(64,889)	(11,165)	(11,199)	-
Transfers (to)/from Inventories	-	-	-	-	-	-	-
Disposals	-	(2,992)	-	-	(3,038)	-	(6,030)
Offset of Accumulated Depreciation on Revalued Assets	-	-	-	-	-	-	-
Revaluation Increments	-	-	-	-	-	-	-
Balance as at 30 June 2008	4,175,263	32,685	183,984	79,452	70,873	14,566	4,556,823
Depreciation and Impairment Losses							
Balance as at 1 July 2006	(196,764)	(1,877)	(91,250)	-	-	-	(289,891)
Depreciation Charge	(119,957)	(217)	(15,448)	-	-	-	(135,622)
Disposals	21	-	34	-	-	-	55
Offset of Accumulated Depreciation on Revalued Assets	316,700	-	-	-	-	-	316,700
Balance as at 30 June 2007	-	(2,094)	(106,664)	-	-	-	(108,758)
Balance as at 1 July 2007	-	(2,094)	(106,664)	-	-	-	(108,758)
Depreciation Charge	(122,461)	(327)	(15,508)	-	-	-	(138,296)
Disposals	-	-	-	-	-	-	-
Offset of Accumulated Depreciation on Revalued Assets	-	-	-	-	-	-	-
Balance as at 30 June 2008	(122,461)	(2,421)	(122,172)	-	-	-	(247,054)
Carrying Value							
At 30 June 2007	4,027,138	20,444	57,086	94,286	30,665	13,075	4,242,694
At 30 June 2008	4,052,802	30,264	61,812	79,452	70,873	14,566	4,309,769

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

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

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

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 Electricity Corporation of New Zealand (ECNZ) and now owned by Contact be resumed by the Crown in order that it be returned to the Māori claimants. In the event that the Tribunal's initial recommendation is confirmed and the land is to be returned, compensation will be paid to Contact under the provisions of the Public Works Act 1981.

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

Depreciated cost	Group 30 June 2008 \$000	Group 30 June 2007 \$000	Parent 30 June 2008 \$000	Parent 30 June 2007 \$000
Generation Plant and Equipment	1,562,172	1,492,913	1,562,172	1,492,913
Capital Work in Progress	79,452	94,286	79,452	94,286
	1,641,624	1,587,199	1,641,624	1,587,199

18 Intangible assets

	Group 30 June 2008 \$000	Group 30 June 2007 \$000	Parent 30 June 2008 \$000	Parent 30 June 2007 \$000
Patents at Cost	1,222	1,222	-	-
Computer Software at Cost	10,134	8,777	10,134	8,777
Less Accumulated Amortisation	(7,308)	(3,956)	(6,086)	(2,982)
	4,048	6,043	4,048	5,795
Goodwill	181,941	181,941	123,307	123,307
Gas Storage Rights (excluding Cushion Gas)	28,563	-	28,563	-
	214,552	187,984	155,918	129,102

Group	Goodwill \$000	Patents \$000	Gas Storage Rights \$000	Computer Software \$000	Total \$000
Carrying Value					
Carrying Value at 1 July 2006	178,778	-	-	3,222	182,000
Additions	-	-	-	4,904	4,904
Acquisition as a Result of Business Combination	3,163	279	-	-	3,442
Amortisation for the Year	-	(31)	-	(2,331)	(2,362)
Carrying Value at 30 June 2007	181,941	248	-	5,795	187,984
Carrying Value at 1 July 2007	181,941	248	-	5,795	187,984
Additions	-	-	28,563	1,357	29,920
Amortisation for the Year	-	(248)	-	(3,104)	(3,352)
Carrying Value at 30 June 2008	181,941	-	28,563	4,048	214,552

Parent	Goodwill \$000	Patents \$000	Gas Storage Rights \$000	Computer Software \$000	Total \$000
Carrying Value					
Carrying Value at 1 July 2006	123,307	–	–	3,222	126,529
Additions	–	–	–	4,904	4,904
Amortisation for the Year	–	–	–	(2,331)	(2,331)
Carrying Value at 30 June 2007	123,307	–	–	5,795	129,102
Carrying Value at 1 July 2007	123,307	–	–	5,795	129,102
Additions	–	–	28,563	1,357	29,920
Amortisation for the Year	–	–	–	(3,104)	(3,104)
Carrying Value at 30 June 2008	123,307	–	28,563	4,048	155,918

Goodwill

For the purpose of impairment testing, all goodwill is allocated to the cash generating unit of Retail. The unit's impairment test is based on a value in use discounted cash flow valuation. Cash flow projections are based on Contact's five year business plan for the underlying Retail business and are extrapolated using an average growth rate of approximately 2.0 per cent. The cash flow projections are discounted using post-tax discount rate scenarios of 8.0–10.0 per cent.

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

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

Gas storage rights

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

This acquisition was completed in conjunction with Contact's ultimate parent company, Origin Energy Limited (Origin), which acquired certain New Zealand oil and gas assets from Swift Energy New Zealand Limited (Swift). Among these assets was a petroleum mining licence (PML 38139, the PML) to an area which includes the Ahuroa reservoir. Contact paid \$52.0 million of the total purchase price to Origin, effectively in exchange for a beneficial interest in the PML as it relates to the Ahuroa reservoir, the right to develop and undertake gas storage in the Ahuroa reservoir, and the gas and LPG reserves contained therein. At 30 June 2008, \$23.6 million of the purchase price was outstanding.

Contact's beneficial right in the PML shall continue until such time as the term of the PML expires and is not renewed or is no longer required in order to undertake gas storage. As part of the acquisition, it has been agreed that Contact and Origin will use their best endeavours to extend the duration of the PML and the term of the agreement for as long as possible.

As part of the acquisition of the rights, Contact has secured beneficial access to the remaining natural gas and LPG reserves (excluding condensate) in the Ahuroa reservoir. The natural gas reserves (currently estimated at 4 petajoules) together with future additional natural gas injections represent a long term investment necessary to enable the field to be used for gas storage and are referred to as cushion gas. Refer to Note 19.

Impairment

No impairment exists for any intangible asset at 30 June 2008 (2007: Nil).

19 Gas storage – cushion gas

As part of the acquisition of the gas storage rights (refer to Note 18), Contact has secured beneficial access to the remaining natural gas and LPG reserves (excluding condensate) in the Ahuroa reservoir. The natural gas reserves (currently estimated at 4 petajoules) together with future additional natural gas injections represent a long term investment necessary to enable the field to be used for gas storage and are referred to as cushion gas.

It is currently estimated that cushion gas levels will approximate 10–15 petajoules.

Cushion gas is recognised at cost and presented on the Balance Sheet as a separate non-current non-depreciable asset, referred to as Gas Storage – Cushion Gas. Gas injected in excess of cushion gas requirements will be treated as inventory.

20 Investment in jointly controlled entity

Name of Entity	Interest Held by Group		Principal Activity
	30 June 2008	30 June 2007	
Gasbridge Joint Venture	50%	50%	LNG Importation Development

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

	Group 30 June 2008 \$000	Group 30 June 2007 \$000
Assets		
Current Assets	813	816
Non-current Assets	2,281	845
	3,094	1,661
Liabilities		
Current Liabilities	75	254
Non-current Liabilities	-	-
	75	254
Net Assets	3,019	1,407
Income	11	7
Expenses	(432)	(340)
Loss after Income Tax	(421)	(333)
Proportionate Interest in Joint Venture's Commitments	-	-

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

21 Investment in subsidiaries

Name of Entity	Interest Held by Parent		Principal Activity	Country of Incorporation
	30 June 2008	30 June 2007		
Empower Limited	100%	100%	Electricity Retailer	New Zealand
Stratford Power Limited	100%	100%	Gas Wholesaler	New Zealand
Contact Aria Limited	100%	100%	Investment Holding Company	New Zealand
Contact Wind Limited	100%	100%	Wind Generation Development	New Zealand
Rockgas Holdings Limited	100%	100%	Holding and Management Company	New Zealand
Rockgas Limited	100%	100%	LPG Retailer	New Zealand
Contact Australia Pty Limited	100%	100%	Investment Holding Company	Australia
Contact Operations Australia Pty Limited	100%	100%	Manages Australian Interests relating to operation and maintenance	Australia

Effective 31 August 2006, Energy Gas Contracts Limited was amalgamated with its parent entity, Stratford Power Limited. Stratford Power Limited is a wholly owned subsidiary of the Parent.

Effective 29 September 2006, Contact Aria Limited was established. Contact Aria Limited is a 50 per cent partner in the Gasbridge Joint Venture.

Effective 22 December 2006, Contact Wind Limited was established. Contact Wind Limited will be involved in investigating and developing wind generation.

Effective 30 April 2007, the Parent acquired 100 per cent of the shares of Rockgas Holdings Limited and its 100 per cent owned subsidiary, Rockgas Limited. Refer to Note 22.

All subsidiaries have a balance sheet date of 30 June.

22 Business combination of commonly controlled entities

No business combinations of commonly controlled entities took place in the year ended 30 June 2008.

On 30 April 2007, the Parent acquired from its ultimate parent company, Origin Energy Limited, 100 per cent of the shares of Rockgas Holdings Limited and its 100 per cent owned subsidiary, Rockgas Limited, an unlisted company based in New Zealand.

The total cost of the acquisition was \$162.3 million and comprised the payment of cash and costs directly attributable to the acquisition.

The book value of the identifiable assets and liabilities of the Rockgas Holdings Limited Group as at 30 April 2007 was:

Book Value Recognised at 30 April 2007	Group \$000
Current Assets	
Cash	2,831
Receivables and Prepayments	12,799
Taxation Receivable	882
Inventories	2,276
Non-current Assets	
Property, Plant and Equipment	56,922
Intangible Assets	3,442
Investment in Associate	121
Available-for-sale Financial Assets	2,935
Deferred Taxation	222
Current Liabilities	
Payables and Accruals	10,657
Provisions	2,452
Book Value of Identifiable Net Assets	69,321
Premium Over Book Value of Identifiable Net Assets	92,942
Consideration Paid	162,263
Cost of Acquisition	
Cash Paid	161,848
Direct Costs Relating to the Acquisition	415
Total Cost of Acquisition	162,263

Actual direct costs relating to the acquisition were \$0.1 million less than that accrued for at 30 June 2007. This has been reflected in the 2008 financial statements.

Contact Energy Limited and Subsidiaries
Notes to the financial statements
for the year ended 30 June 2008

23 Investment in associates

Name of Entity	Interest Held by Group		Principal Activity	Country of Incorporation
	30 June 2008	30 June 2007		
Oakey Power Holdings Pty Limited	25%	25%	Electricity Generation	Australia
Rockgas Timaru Limited	50%	50%	LPG Distribution	New Zealand

	Group 30 June 2008 \$000	Group 30 June 2007 \$000	Parent 30 June 2008 \$000	Parent 30 June 2007 \$000
Carrying Value of Associates				
Carrying Value at Start of the Year	6,210	8,900	1,579	1,579
Acquisition as a Result of Business Combination	-	121	-	-
Share of Recognised Revenue and Expenses	2,793	2,210	-	-
Share of Prior Period Adjustment Recognised in the Current Year	-	(1,503)	-	-
Movements Taken to Foreign Currency Translation Reserve	866	(757)	-	-
Dividends Received	(1,854)	(2,761)	-	-
Carrying Value at End of the Year	8,015	6,210	1,579	1,579

The interest in Rockgas Timaru Limited was acquired as part of the purchase of Rockgas Holdings Limited. Rockgas Timaru Limited has a balance sheet date of 31 March.

	Group 30 June 2008 \$000	Group 30 June 2007 \$000
Aggregate Summary Financial Information of Associates, not Adjusted for the Percentage Held by Contact		
Total Assets	173,901	158,156
Total Liabilities	141,547	133,643
Total Revenues	42,889	40,579
Profit for the Year	10,934	10,863

24 Available-for-sale financial assets

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

	Group 30 June 2008 \$000	Group 30 June 2007 \$000	Parent 30 June 2008 \$000	Parent 30 June 2007 \$000
At Fair Value				
Unlisted Shares in Liquigas Limited	2,935	2,935	-	-
	2,935	2,935	-	-

25 Borrowings

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

Carrying value of borrowings

	Borrowing Currency Denomination	Group 30 June 2008 \$000	Group 30 June 2007 \$000	Parent 30 June 2008 \$000	Parent 30 June 2007 \$000
Current Borrowings					
Bank Overdraft	NZD	1,752	1,036	2,184	3,136
Committed Credit Facilities	NZD	100,000	-	100,000	-
Other Credit Facilities	NZD	27,500	-	27,500	-
Loan from Associate	AUD	2,839	1,495	-	-
Finance Lease Liabilities	NZD	720	489	700	489
Total Current Borrowings		132,811	3,020	130,384	3,625
Current Portion of Term Borrowings					
Floating Rate Medium Term Note	AUD	-	131,895	-	131,895
Floating Rate Transferable Loan Certificate	USD	-	64,716	-	64,716
Total Current Portion of Term Borrowings		-	196,611	-	196,611
Non-current Borrowings					
Fixed Rate Senior Notes	USD	556,247	512,966	556,247	512,966
Finance Lease Liabilities	NZD	604	717	574	717
Total Non-current Borrowings		556,851	513,683	556,821	513,683

New Zealand dollar equivalent of borrowings

The New Zealand dollar equivalent of borrowings after the effect of the foreign exchange hedging of the borrowings totals \$747.5 million (2007: \$1,025.3 million) and is presented in the table below. Foreign currency denominated term borrowings are hedged by Cross Currency Interest Rate Swaps. Refer to Note 26.

	Borrowing Currency Denomination	Group 30 June 2008 \$000	Group 30 June 2007 \$000	Parent 30 June 2008 \$000	Parent 30 June 2007 \$000
Current Borrowings					
		132,811	3,020	130,384	3,625
Term Borrowings (Current and Non-current)					
Finance Lease Liabilities		604	717	574	717
Floating Rate Medium Term Note	AUD	-	158,730	-	158,730
Floating Rate Transferable Loan Certificate	USD	-	119,048	-	119,048
Fixed Rate Senior Notes	USD	747,527	747,527	747,527	747,527
Total New Zealand Dollar Equivalent of Term Borrowings		748,131	1,026,022	748,101	1,026,022
Total New Zealand Dollar Equivalent of Borrowings		880,942	1,029,042	878,485	1,029,647

Repayment of borrowings

In September 2007, Contact repaid \$277.8 million of term debt representing the AUD Floating Rate Medium Term Note (\$158.7 million) and the USD Floating Rate Transferable Loan Certificate (\$119.1 million).

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 during the year.

Credit facilities

Throughout the year, Contact secured additional committed credit facilities totalling \$285.0 million, increasing its total evergreen committed facilities to \$585.0 million (2007: \$300.0 million). \$360.0 million of the facilities currently mature in May 2010, \$75.0 million currently mature in May 2011 and \$150.0 million currently mature in December 2012.

At 30 June 2008, \$100.0 million (2007: Nil) was drawn against these facilities. These committed credit facilities also support a \$250.0 million commercial paper programme. This programme was unutilised at 30 June 2008 and 30 June 2007.

Finance lease liabilities

Future minimum lease payments are as follows:

	Group 30 June 2008 \$000	Group 30 June 2007 \$000	Parent 30 June 2008 \$000	Parent 30 June 2007 \$000
Not Later Than One Year	762	534	742	534
Later Than One Year and not Later Than Five Years	670	745	640	745
Minimum Lease Payments	1,432	1,279	1,382	1,279
Future Finance Charges on Finance Leases	(108)	(73)	(108)	(73)
Present Value of Finance Lease Liabilities	1,324	1,206	1,274	1,206

The finance leases relate to computer equipment.

The present value of finance lease liabilities are as follows:

	Group 30 June 2008 \$000	Group 30 June 2007 \$000	Parent 30 June 2008 \$000	Parent 30 June 2007 \$000
Not Later Than One Year	720	489	700	489
Later Than One Year and not Later Than Five Years	604	717	574	717
	1,324	1,206	1,274	1,206

26 Derivative 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, fair value interest rate risk and price risk), credit risk, liquidity risk and cash flow interest rate risk. Contact's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on Contact's financial performance. Contact uses derivative financial instruments to hedge these risk exposures.

Fair value of derivative financial instruments

The fair values of the significant types of derivative financial instruments outstanding as at 30 June 2008, together with the designation of their hedging relationship, are summarised below:

	Hedge Accounting Designation	Group Fair Value Assets 30 June 2008 \$000	Group Fair Value Liabilities 30 June 2008 \$000	Parent Fair Value Assets 30 June 2008 \$000	Parent Fair Value Liabilities 30 June 2008 \$000
Cross Currency Interest Rate Swaps	Fair Value Hedge	-	(191,255)	-	(191,255)
Interest Rate Derivatives	No Hedge	13,457	-	13,457	-
Cross Currency Interest Rate Swaps – Margin	Cash Flow Hedge	-	(6,592)	-	(6,592)
Forward Foreign Exchange Derivatives	Cash Flow Hedge	3,830	-	4,088	-
Forward Foreign Exchange Derivatives	No Hedge	-	(56)	-	(56)
Electricity Price Hedges	Cash Flow Hedge	-	(96,080)	-	(96,080)
Electricity Price Hedges	No Hedge	8,983	-	8,983	-
Total Derivative Financial Instruments		26,270	(293,983)	26,528	(293,983)
Disclosed as:					
Current		10,399	(37,327)	10,657	(37,327)
Non-current		15,871	(256,656)	15,871	(256,656)
		26,270	(293,983)	26,528	(293,983)

Contact Energy Limited and Subsidiaries
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	Hedge Accounting Designation	Group Fair Value Assets 30 June 2007 \$000	Group Fair Value Liabilities 30 June 2007 \$000	Parent Fair Value Assets 30 June 2007 \$000	Parent Fair Value Liabilities 30 June 2007 \$000
Cross Currency Interest Rate Swaps	Fair Value Hedge	-	(315,572)	-	(315,572)
Interest Rate Derivatives	No Hedge	28,422	-	28,422	-
Cross Currency Interest Rate Swaps – Margin	Cash Flow Hedge	-	(8,718)	-	(8,718)
Forward Foreign Exchange Derivatives	Cash Flow Hedge	-	(4,505)	-	(3,593)
Electricity Price Hedges	Cash Flow Hedge	16,590	-	16,590	-
Total Derivative Financial Instruments		45,012	(328,795)	45,012	(327,883)
Disclosed as:					
Current		1,989	(85,809)	1,989	(84,897)
Non-current		43,023	(242,986)	43,023	(242,986)
		45,012	(328,795)	45,012	(327,883)

The changes in the fair values of financial instruments recognised in the Income Statement and equity are summarised below:

Favourable/(Unfavourable)	Hedge Accounting Designation	Group Income Statement Year Ended 30 June 2008 \$000	Group Cash Flow Hedge Reserve Year Ended 30 June 2008 \$000	Parent Income Statement Year Ended 30 June 2008 \$000	Parent Cash Flow Hedge Reserve Year Ended 30 June 2008 \$000
Cross Currency Interest Rate Swaps	Fair Value Hedge	124,317	-	124,317	-
Borrowings	Fair Value Hedge	(124,448)	-	(124,448)	-
		(131)	-	(131)	-
Interest Rate Derivatives	No Hedge	(15,767)	802	(15,767)	802
Cross Currency Interest Rate Swaps – Margin	Cash Flow Hedge	349	1,778	349	1,778
Forward Foreign Exchange Derivatives	Cash Flow Hedge	(56)	8,336	(56)	7,676
Electricity Price Hedges	Cash Flow Hedge	13,679	(117,366)	13,679	(117,366)
Income Tax on Changes in Fair Value of Financial Instruments Taken to Equity		-	31,878	-	32,102
Total Change in Fair Value of Financial Instruments		(1,926)	(74,572)	(1,926)	(75,008)

Favourable/(Unfavourable)	Hedge Accounting Designation	Group Income Statement Year Ended 30 June 2007 \$000	Group Cash Flow Hedge Reserve Year Ended 30 June 2007 \$000	Parent Income Statement Year Ended 30 June 2007 \$000	Parent Cash Flow Hedge Reserve Year Ended 30 June 2007 \$000
Cross Currency Interest Rate Swaps	Fair Value Hedge	(159,684)	-	(159,684)	-
Borrowings	Fair Value Hedge	159,848	-	159,848	-
		164	-	164	-
Interest Rate Derivatives	No Hedge	23,210	761	23,210	761
Cross Currency Interest Rate Swaps – Margin	Cash Flow Hedge	358	(6,721)	358	(6,721)
Forward Foreign Exchange Derivatives	Cash Flow Hedge	205	(7,680)	205	(6,767)
Electricity Price Hedges	Cash Flow Hedge	(678)	21,694	(678)	21,694
Income Tax on Changes in Fair Value of Financial Instruments Taken to Equity		-	(2,424)	-	(2,725)
Total Change in Fair Value of Financial Instruments		23,259	5,630	23,259	6,242

The Total Change in Fair Value of Financial Instruments recorded in the Income Statement of \$(1.9) million (2007: \$23.3 million) is principally due to interest rate derivatives, which have not been designated in a hedge relationship and the movement in the electricity price hedge. The interest rate derivatives are revalued applying market interest rates. As a result, the change in fair value of interest rate derivatives is a non-cash item that fluctuates over time in accordance with changes in market interest rates.

The movement in the electricity price hedge is due to the volatility in the forecast market price path. The Income Statement movement represents the fair value of Contact's unhedged market-traded electricity instruments. Movement in the Cash Flow Hedge Reserve represents the fair value movement of the electricity instruments placed in a hedged relationship.

Movement in cash flow hedge reserve

	Group \$000	Parent \$000
Balance as at 1 July 2006	(5,337)	(5,337)
Effective Portion of Cash Flow Hedges Recognised in the Cash Flow Hedge Reserve	(12,191)	(11,579)
Amount Transferred from the Cash Flow Hedge Reserve to Operating Revenue	28,421	28,421
Amount Transferred from the Cash Flow Hedge Reserve to Operating Expenses	(294)	(294)
Amount Transferred from the Cash Flow Hedge Reserve to Change in Fair Value of Financial Instruments	761	761
Amount Transferred from the Cash Flow Hedge Reserve to Property, Plant and Equipment	(2,639)	(2,639)
Amount Transferred from the Cash Flow Hedge Reserve in Relation to Deferred Tax	(8,428)	(8,428)
Balance as at 30 June 2007	293	905
Balance as at 1 July 2007	293	905
Effective Portion of Cash Flow Hedges Recognised in the Cash Flow Hedge Reserve	(88,878)	(88,711)
Amount Transferred from the Cash Flow Hedge Reserve to Operating Revenue	21,218	21,218
Amount Transferred from the Cash Flow Hedge Reserve to Operating Expenses	1,257	345
Amount Transferred from the Cash Flow Hedge Reserve to Change in Fair Value of Financial Instruments	802	802
Amount Transferred from the Cash Flow Hedge Reserve to Property, Plant and Equipment	2,930	2,930
Amount Transferred from the Cash Flow Hedge Reserve in Relation to Deferred Tax	(11,901)	(11,592)
Balance as at 30 June 2008	(74,279)	(74,103)

The gain from ineffectiveness recognised in the Income Statement of both the Parent and Group from cash flow hedges is \$0.8 million (2007: \$0.3 million).

Risk Management

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

(a) Market risk

(i) Foreign currency risk

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

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

Contact uses forward foreign exchange contracts to manage foreign currency 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 (both fixed to floating and floating 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 Board policy parameters.

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 amounts of the outstanding forward foreign exchange contracts at 30 June 2008 was \$226.4 million (2007: \$97.3 million).

The hedged anticipated transactions denominated in foreign currency are expected to occur at various dates between one month to two years and three months from the balance sheet date. Gains and losses recognised in the Cash Flow Hedge Reserve in equity on forward foreign exchange contracts as at 30 June 2008 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 2008, no hedges were de-designated, and all underlying forecast transactions remain highly probable to occur as originally forecast.

Sensitivity analysis

At 30 June 2008, if the New Zealand dollar had weakened/strengthened by 10 per cent against the currencies with which Contact has foreign currency risk with all other variables held constant;

- Post-tax profit for the year would not have been materially different.
- Other components of equity would have been \$15.5 million higher/lower (2007: \$7.4 million), arising from foreign exchange gains/losses on revaluation of foreign exchange contracts in a cash flow hedge relationship.

(ii) Price risk

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

Electricity price hedges

The aggregate notional volume of the outstanding fixed volume electricity derivatives at 30 June 2008 was 2,387 GWh (2007: 3,723 GWh). The aggregate notional volume of the outstanding variable volume electricity derivatives at 30 June 2008 was 10,408 GWh (2007: 1,989 GWh).

The hedged anticipated electricity sale transactions are expected to occur continuously for each half-hour period throughout the next four and a half years from the balance sheet date (2007: three and a half years) consistent with the forecast generation over this period. Gains and losses recognised in the Cash Flow Hedge Reserve in equity on electricity derivatives will be continuously released to the Income Statement in each period in which the underlying sale transactions are recognised in the Income Statement.

Sensitivity analysis

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

	Impact on Post-tax Profit				Impact on Equity	
	Group	Group	Parent	Parent	Group	Parent
	30 June 2008	30 June 2008	30 June 2008	30 June 2008	30 June 2008	30 June 2008
	+10%	-10%	+10%	-10%	+/-10%	+/-10%
Favourable/(Unfavourable)	\$000	\$000	\$000	\$000	\$000	\$000
Electricity Forward Price	8,776	(3,774)	8,776	(3,774)	4,676	4,676

	Impact on Post-tax Profit				Impact on Equity	
	Group	Group	Parent	Parent	Group	Parent
	30 June 2007	30 June 2007	30 June 2007	30 June 2007	30 June 2007	30 June 2007
	+10%	-10%	+10%	-10%	+/-10%	+/-10%
Favourable/(Unfavourable)	\$000	\$000	\$000	\$000	\$000	\$000
Electricity Forward Price	(107)	94	(107)	94	21,214	21,214

Post-tax profit for the year would increase/decrease as a result of Contact's risk management policy requiring hedging of less than 100 per cent of forecast future sales of electricity and some derivative instruments that are valid economic hedges of these electricity price risks not achieving hedge accounting under NZIAS 39 requirements. Other components of equity would increase/decrease as a result of the hedging instruments that do qualify for cash flow hedge accounting under NZIAS 39.

(b) Credit risk

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

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

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

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

(c) Liquidity risk

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

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

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

(d) 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. Borrowings issued at fixed rates expose Contact to fair value interest rate risk. As the majority of Contact's borrowings are issued in foreign currency, Contact manages the combined interest and foreign currency risk by entering into Cross Currency Interest Rate Swaps to convert the proceeds into a floating rate New Zealand dollar exposure. New Zealand dollar Interest Rate Swaps are used to convert floating rate exposure into fixed rate exposure.

Cross Currency Interest Rate Swaps

The aggregate notional principal amounts of the outstanding Cross Currency Interest Rate Swap contracts at 30 June 2008 were \$747.5 million (2007: \$1,025.3 million). The Cross Currency Interest Rate Swaps have been split into two components for the purposes of hedge designation. The hedge of the benchmark interest rate is designated as a fair value hedge, and the hedge of the issuance margin is designated as a cash flow hedge.

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

Interest rate swaps

The aggregate notional principal amounts of the outstanding interest rate swap contracts at 30 June 2008 were \$1,041.0 million (2007: \$1,111.0 million) including \$360.0 million of forward starting swaps (2007: \$310.0 million).

The hedged anticipated interest payment transactions are expected to occur at various dates between one month to ten years from the balance sheet date as a result of the maturities of the underlying borrowings. Gains and losses recognised in the Income Statement on interest rate swap contracts as of 30 June 2008 will be continuously realised in the Income Statement in each period in which interest payments are recognised in the Income Statement until the maturities of the underlying borrowings.

Sensitivity analysis

At 30 June 2008, if interest rates at that date had been 100 basis points higher/lower with all other variables held constant, post-tax profit for the year would have been \$13.6 million higher/lower (2007: \$13.0 million), mainly as a result of the fair value change in interest rate swaps, which are valid economic hedges but which do not qualify for hedge accounting under NZIAS 39. There would be no effect on other components of equity.

Non-current financial liabilities contractual maturities

2008 Group	Note	Carrying Value \$000	1–2 years \$000	2–5 years \$000	More than 5 years \$000
Borrowings	25	556,247	118,193	105,715	332,339
Cross Currency Interest Rate Swaps		191,255	42,035	29,493	119,727
		747,502	160,228	135,208	452,066
Finance Lease Liabilities	25	604	499	105	–
		748,106	160,727	135,313	452,066

2008 Parent	Note	Carrying Value \$000	1–2 years \$000	2–5 years \$000	More than 5 years \$000
Borrowings	25	556,247	118,193	105,715	332,339
Cross Currency Interest Rate Swaps		191,255	42,035	29,493	119,727
		747,502	160,228	135,208	452,066
Finance Lease Liabilities	25	574	499	75	–
		748,076	160,727	135,283	452,066

2007 Group and Parent	Note	Carrying Value \$000	1–2 years \$000	2–5 years \$000	More than 5 years \$000
Borrowings	25	512,966	–	110,709	402,257
Cross Currency Interest Rate Swaps		234,377	–	49,498	184,879
		747,343	–	160,207	587,136
Finance Lease Liabilities	25	717	464	253	–
		748,060	464	160,460	587,136

Given the Cross Currency Interest Rate Swaps have matched terms with the unsecured borrowings, it is appropriate to present the net effective interest rates for the underlying Borrowings, Cross Currency Interest Rate Swaps and overlaid Interest Rate Swaps.

2008 Group and Parent	1–2 years	2–5 years	More than 5 years
Effective Interest Rate	8.4%	8.4%	8.5%

2007 Group and Parent	1–2 years	2–5 years	More than 5 years
Effective Interest Rate	8.3%	8.5%	8.8%

Fair values

The carrying amount of financial assets and financial liabilities recorded in the financial statements approximates their fair values.

Estimation of fair values

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

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

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

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

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

Financial instruments by category

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

2008 Group	Note	Held for Trading \$000	Held to Maturity Investments \$000	Loans and Receivables \$000	Available- for-sale Financial Assets* \$000	Financial Liabilities at Amortised Cost \$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	14	-	-	2,542	-	-	-	-	2,542
Receivables and Prepayments	15	-	-	517,365	-	-	-	-	517,365
Derivative Financial Instruments		22,440	-	-	-	-	-	3,830	26,270
Available-for-sale Financial Assets	24	-	-	-	2,935	-	-	-	2,935
Total Financial Assets		22,440	-	519,907	2,935	-	-	3,830	549,112
Total Non-financial Assets									4,654,133
Total Assets									5,203,245
Liabilities									
Borrowings	25	-	-	-	-	689,662	-	-	689,662
Derivative Financial Instruments		56	-	-	-	-	191,255	102,672	293,983
Payables and Accruals	27	-	-	-	-	540,619	-	-	540,619
Total Financial Liabilities		56	-	-	-	1,230,281	191,255	102,672	1,524,264
Total Non-financial Liabilities									774,910
Total Liabilities									2,299,174

* Refer to Note 24.

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2007 Group	Note	Held for Trading \$000	Held to Maturity Investments \$000	Loans and Receivables \$000	Available- for-sale Financial Assets* \$000	Financial Liabilities at Amortised Cost \$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	14	-	165,956	13,028	-	-	-	-	178,984
Receivables and Prepayments	15	-	-	235,357	-	-	-	-	235,357
Derivative Financial Instruments		28,422	-	-	-	-	-	16,590	45,012
Available-for-sale Financial Assets	24	-	-	-	2,935	-	-	-	2,935
Total Financial Assets		28,422	165,956	248,385	2,935	-	-	16,590	462,288
Total Non-financial Assets									4,522,520
Total Assets									4,984,808
Liabilities									
Borrowings	25	-	-	-	-	713,314	-	-	713,314
Derivative Financial Instruments		-	-	-	-	-	315,572	13,223	328,795
Payables and Accruals	27	-	-	-	-	261,580	-	-	261,580
Total Financial Liabilities		-	-	-	-	974,894	315,572	13,223	1,303,689
Total Non-financial Liabilities									776,940
Total Liabilities									2,080,629

* Refer to Note 24.

2008 Parent	Note	Held for Trading \$000	Held to Maturity Investments \$000	Loans and Receivables \$000	Available- for-sale Financial Assets* \$000	Financial Liabilities at Amortised Cost \$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	14	-	-	-	-	-	-	-	-
Receivables and Prepayments	15	-	-	488,987	-	-	-	-	488,987
Derivative Financial Instruments		22,440	-	-	-	-	-	4,088	26,528
Total Financial Assets		22,440	-	488,987	-	-	-	4,088	515,515
Total Non-financial Assets									4,636,423
Total Assets									5,151,938
Liabilities									
Borrowings	25	-	-	-	-	687,205	-	-	687,205
Derivative Financial Instruments		56	-	-	-	-	191,255	102,672	293,983
Payables and Accruals	27	-	-	-	-	522,949	-	-	522,949
Total Financial Liabilities		56	-	-	-	1,210,154	191,255	102,672	1,504,137
Total Non-financial Liabilities									769,689
Total Liabilities									2,273,826

* Refer to Note 24.

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2007 Parent	Note	Held for Trading \$000	Held to Maturity Investments \$000	Loans and Receivables \$000	Available- for-sale Financial Assets* \$000	Financial Liabilities at Amortised Cost \$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	14	-	165,956	10,500	-	-	-	-	176,456
Receivables and Prepayments	15	-	-	201,827	-	-	-	-	201,827
Derivative Financial Instruments		28,422	-	-	-	-	-	16,590	45,012
Total Financial Assets		28,422	165,956	212,327	-	-	-	16,590	423,295
Total Non-financial Assets									4,527,089
Total Assets									4,950,384
Liabilities									
Borrowings	25	-	-	-	-	713,919	-	-	713,919
Derivative Financial Instruments		-	-	-	-	-	315,572	12,311	327,883
Payables and Accruals	27	-	-	-	-	268,351	-	-	268,351
Total Financial Liabilities		-	-	-	-	982,270	315,572	12,311	1,310,153
Total Non-financial Liabilities									772,479
Total Liabilities									2,082,632

* Refer to Note 24.

Capital risk management objectives

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 of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

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

- Net debt is calculated as total borrowings less short term deposits. Total borrowings are calculated using a value of unsecured loans equivalent to the New Zealand dollar after the effect of foreign exchange hedging of the borrowings.
- Total capital funding is calculated as 'Shareholders' Equity' as shown in the Group Balance Sheet, adjusted for the effect of the fair value of financial instruments, plus net debt.

The gearing ratios at 30 June 2008 and at 30 June 2007 were as follows:

	Note	Group 30 June 2008 \$000	Group 30 June 2007 \$000
Net Debt			
Current Borrowings	25	(132,811)	(3,020)
Borrowings – New Zealand dollar Equivalent Net of Foreign Exchange Hedging	25	(747,527)	(1,025,305)
Other Non-current Borrowings	25	(604)	(717)
Cash and Short Term Deposits	14	2,542	178,984
		(878,400)	(850,058)
Equity			
Shareholders' Equity	11	(2,904,071)	(2,904,179)
Remove Net Effect of Fair Value of Financial Instruments After Tax		(51,210)	21,403
Adjusted Equity		(2,955,281)	(2,882,776)
Total Capital Funding		(3,833,681)	(3,732,834)
Gearing Ratio		22.9%	22.8%

27 Payables and accruals

	Group 30 June 2008 \$000	Group 30 June 2007 \$000	Parent 30 June 2008 \$000	Parent 30 June 2007 \$000
Electricity Purchases Accrual	250,163	53,148	205,756	43,521
Other Trade Payables and Accruals	263,828	183,600	235,608	159,005
Advances from Subsidiaries	-	-	55,741	42,148
Employee Benefits	18,681	15,266	17,897	14,111
Interest Payable	7,947	9,518	7,947	9,518
Other Payables	-	48	-	48
Total Payables and Accruals	540,619	261,580	522,949	268,351

The purchase price that Contact paid for electricity to supply its customers increased considerably in June 2008 as electricity purchase prices averaged \$335.24 per megawatt hour in June 2008. Consequently the Electricity Purchases Accrual is higher than at 30 June 2007 when average electricity purchase prices for the month were \$73.35 per megawatt hour.

28 Provisions

Group	New Plymouth \$000	Restoration/ Environmental Rehabilitation \$000	Other \$000	Total \$000
Balance at 1 July 2007	-	29,110	295	29,405
Provisions Made During the Year	31,457	3,272	2,958	37,687
Provisions Used During the Year	(12,620)	(1,388)	(652)	(14,660)
Provisions Reversed During the Year	-	(481)	(125)	(606)
Unwind of Discount Rate	-	2,746	-	2,746
Balance at 30 June 2008	18,837	33,259	2,476	54,572
Current	18,837	1,308	809	20,954
Non-current	-	31,951	1,667	33,618
	18,837	33,259	2,476	54,572

Parent	New Plymouth \$000	Restoration/ Environmental Rehabilitation \$000	Other \$000	Total \$000
Balance at 1 July 2007	-	26,621	295	26,916
Provisions Made During the Year	31,457	3,272	2,958	37,687
Provisions Used During the Year	(12,620)	(1,365)	(652)	(14,637)
Provisions Reversed During the Year	-	-	(125)	(125)
Unwind of Discount Rate	-	2,606	-	2,606
Balance at 30 June 2008	18,837	31,134	2,476	52,447
Current	18,837	1,100	809	20,746
Non-current	-	30,034	1,667	31,701
	18,837	31,134	2,476	52,447

Refer to Note 3 for discussion on the provision for removal of asbestos at New Plymouth power station. Cash outflows are expected to occur within the next year.

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

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

29 Deferred tax

Recognised deferred tax assets and liabilities

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

Group	Assets	Assets	Liabilities	Liabilities
	30 June 2008	30 June 2007	30 June 2008	30 June 2007
	\$000	\$000	\$000	\$000
Property, Plant and Equipment	-	-	(763,392)	(749,850)
Investment in Associate	-	-	(2,071)	(1,516)
Inventories	1,759	1,614	-	-
Employee Benefits	5,166	4,813	-	-
Provisions	18,007	10,783	-	-
Financial Instruments	22,930	-	-	(9,504)
Other	-	1,487	(861)	-
Total	47,862	18,697	(766,324)	(760,870)

Parent	Assets	Assets	Liabilities	Liabilities
	30 June 2008	30 June 2007	30 June 2008	30 June 2007
	\$000	\$000	\$000	\$000
Property, Plant and Equipment	-	-	(761,677)	(748,815)
Investment in Associate	-	-	(174)	(174)
Inventories	1,759	1,614	-	-
Employee Benefits	4,930	4,472	-	-
Provisions	16,930	9,458	-	-
Financial Instruments	22,853	-	-	(9,803)
Other	-	175	(1,863)	-
Total	46,472	15,719	(763,714)	(758,792)

Unrecognised deferred tax assets and liabilities

There are no unrecognised deferred tax assets or liabilities.

Movement in deferred tax

Group	Balance	Recognised in	Recognised in	Change in	Balance
	1 July 2007	Income	Equity	Tax Rate*	30 June 2008
	\$000	\$000	\$000	\$000	\$000
Property, Plant and Equipment	(749,850)	(15,400)	-	1,858	(763,392)***
Investment in Associate	(1,516)	(833)	278	-	(2,071)
Inventories	1,614	321	-	(176)	1,759
Employee Benefits	4,813	840	-	(487)	5,166
Provisions	10,783	7,168	1,080	(1,024)	18,007
Financial Instruments	(9,504)	636	35,129	(3,331)	22,930
Other	1,487	(2,523)	-	175	(861)
Total	(742,173)	(9,791)	36,487	(2,985)	(718,462)

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Group	Balance 1 July 2006 \$000	Recognised in Income \$000	Recognised in Equity \$000	Change in Tax Rate* \$000	Balance 30 June 2007 \$000
Property, Plant and Equipment	(692,839)	868	(132,360)**	74,481	(749,850)***
Investment in Associate	(2,370)	(201)	1,055	-	(1,516)
Inventories	2,214	(600)	-	-	1,614
Employee Benefits	2,919	1,924	-	(30)	4,813
Provisions	10,485	582	491	(775)	10,783
Financial Instruments	(319)	(7,565)	(2,658)	1,038	(9,504)
Other	1,262	314	-	(89)	1,487
Total	(678,648)	(4,678)	(133,472)	74,625	(742,173)

Parent	Balance 1 July 2007 \$000	Recognised in Income \$000	Recognised in Equity \$000	Change in Tax Rate* \$000	Balance 30 June 2008 \$000
Property, Plant and Equipment	(748,815)	(14,715)	-	1,853	(761,677)***
Investment in Associate	(174)	-	-	-	(174)
Inventories	1,614	321	-	(176)	1,759
Employee Benefits	4,472	921	-	(463)	4,930
Provisions	9,458	7,378	1,080	(986)	16,930
Financial Instruments	(9,803)	634	35,345	(3,323)	22,853
Other	175	(2,224)	-	186	(1,863)
Total	(743,073)	(7,685)	36,425	(2,909)	(717,242)

Parent	Balance 1 July 2006 \$000	Recognised in Income \$000	Recognised in Equity \$000	Change in Tax Rate* \$000	Balance 30 June 2007 \$000
Property, Plant and Equipment	(692,839)	2,069	(132,360)**	74,315	(748,815)***
Investment in Associate	(174)	-	-	-	(174)
Inventories	2,214	(600)	-	-	1,614
Employee Benefits	2,919	1,583	-	(30)	4,472
Provisions	10,091	(417)	491	(707)	9,458
Financial Instruments	(319)	(7,564)	(2,958)	1,038	(9,803)
Other	(172)	347	-	-	175
Total	(678,280)	(4,582)	(134,827)	74,616	(743,073)

* The Change in Tax Rate column reflects the net change in deferred tax as a result of the reduction in the corporate income tax rate to 30 per cent enacted in May 2007 and effective for Contact's income tax year ending 30 June 2009. The effect of the change is recognised in the Income Statement (Group \$0.4 million and Parent \$0.5 million; 2007: Group and Parent \$7.1 million) and in equity (Group and Parent \$3.4 million; 2007: Group and Parent \$81.7 million) consistent with the underlying items that give rise to the deferred tax.

** Deferred tax on the revaluation increment of generation property, plant and equipment as at 30 June 2007 recorded against Asset Revaluation Reserve in equity. Refer to Note 11.

*** Contact holds its property, plant and equipment on capital account for income tax purposes. Where the generation plant and equipment and generation capital work in progress is revalued, but there is no similar adjustment to the tax base, a taxable temporary difference is created that is recognised in deferred tax. The deferred tax liability on these revaluations is unlikely to crystallise under existing income tax legislation.

30 Commitments

Capital and investment commitments

	Group 30 June 2008 \$000	Group 30 June 2007 \$000	Parent 30 June 2008 \$000	Parent 30 June 2007 \$000
Not Later than One Year	151,429	74,399	151,429	73,279
Later Than One Year and not Later Than Five Years	108,481	75,940	108,481	75,940
Later Than Five Years	3,814	2,097	3,814	2,097
Total Capital and Investment Commitments	263,724	152,436	263,724	151,316

Operating lease commitments

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

	Group 30 June 2008 \$000	Group 30 June 2007 \$000	Parent 30 June 2008 \$000	Parent 30 June 2007 \$000
Not Later than One Year	5,780	5,060	4,134	3,615
Later Than One Year and not Later Than Five Years	14,319	12,273	11,381	8,474
Later Than Five Years	11,959	3,432	7,608	2,048
Total Operating Lease Commitments	32,058	20,765	23,123	14,137

Lease commitments are stated exclusive of GST.

Other operating commitments

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

	Group 30 June 2008 \$000	Group 30 June 2007 \$000	Parent 30 June 2008 \$000	Parent 30 June 2007 \$000
Not Later Than One Year	5,172	5,008	5,172	5,008
Later Than One Year and not Later Than Five Years	9,962	15,041	9,962	15,041
Later Than Five Years	-	-	-	-
	15,134	20,049	15,134	20,049

Gas commitments

Maui contract

Following the redetermination of the economically recoverable reserves in the Maui gas field, Contact renegotiated its Maui gas contract with the Crown. As a consequence of that renegotiation, Contact is required to make fixed monthly payments to the Crown to 27 June 2009 for the right to take gas under the contract. At 27 June 2009, the Crown is required to refund those payments to the extent gas take is less than an agreed amount.

Maui contracts with Maui Development Limited

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

Shell New Zealand Limited

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

OMV New Zealand Limited

Contact has a contract with OMV New Zealand Limited giving Contact rights to gas from the Pohokura gas field up to 31 March 2012. Contact is committed to pay fixed fees under the agreement and may have to pay additional fees if the amount of gas actually uplifted is less than a specified amount on each day. The contract requires Contact to have arrangements in place in order to transport the gas in the Maui pipeline.

Refer to Note 36 for commitments entered into post year end.

Gas transmission contracts

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

31 Resource consents

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

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

Contact also has consents to construct and operate a 200 MW gas-fired peaking power station at Stratford and a 20 MW geothermal binary plant at Taupo, both of which are being developed at present. Contact is applying for a variation of consents to allow the geothermal binary plant at Taupo to operate at 23 MW.

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

Contact has a draft decision indicating the intention to grant consents for a 220 MW net geothermal power station at Te Mihi (near Taupo). This decision will be finalised in early September. Contact has filed applications for a 540 MW wind farm on the Waikato coast.

32 Related party transactions

Parent company

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

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

Identity of related parties with whom material transactions have occurred

Notes 20, 21 and 23 identify group entities, associates and joint ventures in which Contact has an interest. All of these entities are related parties of the Parent.

Related parties also include Origin Energy Group entities.

Material related party transactions

- On 12 June 2008, Contact's ultimate parent company, Origin Energy Limited (Origin), acquired certain New Zealand oil and gas assets from Swift Energy New Zealand Limited (Swift) for approximately \$110.0 million. Among these assets was a petroleum mining licence (PML) to an area that includes the Ahuroa reservoir. Contact paid \$52.0 million of the total purchase price to Origin, effectively in exchange for a beneficial interest in the PML as it relates to the Ahuroa reservoir and the gas and LPG reserves contained therein. At 30 June 2008, \$23.6 million of the purchase price was still outstanding. Contact intends to develop the Ahuroa field as an underground gas storage facility. Refer to Note 18.
- Fees paid or accrued to Directors and Officers of Origin for director services total \$0.1 million for the year (2007: \$0.1 million).
- Advances to/from subsidiaries and loan from associate are included in Notes 15, 27 and 25 respectively. Advances are repayable on demand and are interest free.

- David Baldwin, Chief Executive Officer of Contact, is seconded to Contact from his employer Origin. During the year ended 30 June 2008, Contact has reimbursed Origin \$1.1 million (2007: \$0.7 million), which includes the cost of his salary and other employment benefits. At 30 June 2008 \$0.1 million (2007: \$0.1 million) remained outstanding. In addition he received share-based payments under the Parent's long term incentive scheme amounting to \$0.3 million (2007: \$0.3 million), being the fair value of the share-based payment allocated to this reporting period. Refer to Note 13.
- 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.
- The Parent had transactions with Stratford Power Limited, a 100 per cent owned subsidiary, in respect of gas purchases, which are calculated at arm's length.
- Rockgas Limited had transactions with Origin Energy LPG Limited, Origin Energy Contracting Limited and Origin Energy Industries Limited, all entities within the Origin Energy Group, in respect of the purchase and shipping of LPG. The transactions are calculated at arm's length. During the year ended 30 June 2008, transactions totalled \$49.5 million (2007: \$9.3 million). At 30 June 2008, \$6.0 million (2007: \$1.9 million) remained outstanding.
- Rockgas Limited had transactions with Rockgas Timaru Limited (Rockgas Timaru), an associate, in respect of the supply of LPG to Rockgas Timaru (30 June 2008: \$1.0 million (2007: \$0.2 million)) and the provision of deliveries by Rockgas Timaru (30 June 2008: \$0.1 million (2007: Nil)), which are calculated at arm's length. At 30 June 2008, \$0.3 million (2007: \$0.1 million) remained outstanding.
- Contact and Origin have entered into a Master Services Agreement for the provision of professional, consulting and/or administrative services between the parties. There was no payment for services entered into under this agreement for the year ended 30 June 2008 or 30 June 2007.
 - Contact and Origin are party to a Statement of Work dated 27 April 2007 relating to the provision of transitional services in connection with the sale of the Rockgas Limited business.
 - Contact and Origin are party to a Statement of Work dated 28 August 2007 relating to support for the acquisition of the New Zealand assets of Swift Energy.
- Contact and Origin entered into an Upstream Technical Support Agreement, which provides a 12-month contract, which ended in July 2007, for support in managing an exploration permit. There was no payment for services entered into under this agreement for the year ended 30 June 2008 (2007: \$0.1 million), and no amounts remain outstanding at 30 June 2008 or 30 June 2007.
- On 30 April 2007, the Parent acquired from Origin, 100 per cent of the shares of Rockgas Holdings Limited and its 100 per cent subsidiary Rockgas Limited, an unlisted company based in New Zealand. The total cost of the acquisition was \$162.3 million and comprised the payment of cash and costs directly attributable to the acquisition. Refer to Note 22.
- Refer to Note 33 for key management personnel disclosures.

33 Key management personnel

The table below includes the aggregate remuneration for the Directors, the Chief Executive Officer and members of the Senior Management Team.

Note	Group 30 June 2008 \$000	Group 30 June 2007 \$000	Parent 30 June 2008 \$000	Parent 30 June 2007 \$000
Directors' Fees	770	770	770	770
Chief Executive Officer and Senior Management Team				
Salary and Other Short Term Benefits	5,561	4,762	5,561	4,730
Share-based Payments 13	933	472	933	472
Total Chief Executive Officer and Senior Management Team	6,494	5,234	6,494	5,202
Total Key Management Personnel	7,264	6,004	7,264	5,972

34 Whirinaki generation plant

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

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

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

35 Contingent liabilities

There are no known material contingent liabilities (2007: Nil).

36 Subsequent events

On 30 July 2008, Contact entered into a new gas sale agreement with OMV New Zealand Limited for the supply of an additional 32 petajoules of natural gas from the Pohokura gas field. This supply will commence at the completion of the existing arrangement with OMV on 31 March 2012 (refer to Note 30) and will terminate on 31 December 2013.

On 25 August 2008, the Directors declared a final dividend for the year ended 30 June 2008 of approximately \$98.0 million, representing 17.0 cents per share, payable on 23 September 2008. Refer to Note 9. The dividend will carry full imputation credits for resident shareholders. Non-resident shareholders will receive a supplementary dividend of 3.0 cents per share, which equates to the Non-Resident Withholding Tax payable.



Audit Report

To the shareholders of Contact Energy Limited

We have audited the financial statements on pages 46 to 93. The financial statements provide information about the past financial performance and financial position of the company and group as at 30 June 2008. This information is stated in accordance with the accounting policies set out on pages 51 to 59.

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 2008 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 judgments 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. This has 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 46 to 93:
 - 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 2008 and the results of their operations and cash flows for the year ended on that date.

Our audit was completed on 25 August 2008 and our unqualified opinion is expressed as at that date.

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

Wellington

Corporate directory

Board of Directors

Grant King (Chairman)

Phillip Pryke (Deputy Chairman)

Bruce Beeren

John Milne

Karen Moses

Tim Saunders

Senior management

David Baldwin, Chief Executive Officer

Steve Bielby, General Counsel and Company Secretary

Jason Delamore, General Manager, Retail

Luc Hennekens, General Manager, Information and Communication Technology

Kim Josling, Chief Financial Officer

Liz Kelly, General Manager, Development and Acquisitions

Bruce Parkes, General Manager, Corporate Affairs

Ian Scherger, General Manager, Strategic Marketing

Mark Trigg, General Manager, Generation

John Woods, General Manager, Wholesale

Head office

Level 1, Harbour City Tower

29 Brandon Street, Wellington, New Zealand

Postal address

PO Box 10742, The Terrace, Wellington 6143, New Zealand

Telephone 64 4 499 4001 Facsimile 64 4 499 4003

Email: investorcentre@contact-energy.co.nz

Website: www.contactenergy.co.nz

NZX trading code: CEN

Company number: 660760

Share registrar

Computershare Investor Services Limited
 Level 2, 159 Hurstmere Road, Takapuna, North Shore City
 Private Bag 92119, Auckland 1142
 Telephone 64 9 488 8777 Facsimile 64 9 488 8787

Shareholder enquiries

Enquiries on your shareholding (transactions, changes of address or dividend payments) should be made to the Registrar at the following address:

Computershare Investor Services Limited
 Level 2, 159 Hurstmere Road, Takapuna, North Shore City
 Private Bag 92119, Auckland 1142
 Telephone 64 9 488 8777 Facsimile 64 9 488 8787
 Email: enquiry@computershare.co.nz

Changes of address can be advised by email to emailupdate@computershare.co.nz.
 (Please be sure to include your shareholder number.)

General enquiries on the company's operating and financial performance should be made to the company at:

General Manager, Development and Acquisitions
 Contact Energy Limited
 PO Box 10742, The Terrace, Wellington 6143
 Email: investor.centre@contact-energy.co.nz

Financial calendar

Final dividend announced	26 August 2008
Share top up plan participation cut-off date	26 August 2008
Record date for final dividend	9 September 2008
Final dividend paid	23 September 2008
End of first quarter	30 September 2008
Annual meeting	23 October 2008
Operational report for quarter ended 30 September 2008	October 2008
Half year end	31 December 2008
Results announcement for the half year ended 31 December 2008	February 2009
End of third quarter	31 March 2009
Operational report for quarter ended 31 March 2009	April – May 2009
Financial year end	30 June 2009



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