To	Company Announcements Office	Facsimile	1300 135 638
Company	ASX Limited	Date	15 September 2014
From	Helen Hardy	Pages	54
Subject	**CEN - Shareholder Letter & Annual Report 2014**		

Attached herewith is a copy of an announcement released to the NZX by Contact Energy today.

Origin Energy holds 53.09% of quoted ordinary shares in Contact Energy Limited.

Regards



Helen Hardy
Company Secretary

02 8345 5000 – helen.hardy@originenergy.com.au

Dear Shareholder

15 September 2014

We are proud to be writing to you after another successful year at Contact. We have come to the end of a 6-year transformation programme where we greatly increased the flexibility of our generation portfolio, increased our renewable production through investments in geothermal projects, and built a new foundation for better serving our customers through a new customer billing and service system. The skills and expertise our people have developed during this period of transformation will be valuable as we continue to drive efficiencies and explore future opportunities for growth.

Profit for the financial year 2014 (FY14) was $234 million, a $35 million increase (18 per cent) on the financial year 2013 (FY13). Our earnings before net interest expense, tax, depreciation, amortisation, change in fair value of financial instruments and other significant items[1] (EBITDAF) for FY14 was $587 million, $46 million higher (9 per cent) than the prior year. Underlying earnings after tax[1] (profit for the year adjusted for significant items that do not reflect the ongoing performance of the Group) was $227 million, up $25 million (12 per cent). The increase in EBITDAF is primarily due to a reduction in the cost of energy arising from increased hydro generation and the receipt of $43 million of compensation as a result of the delayed start-up of Te Mihi power station. This higher level of EBITDAF is expected to be sustained in FY15 with a full year of Te Mihi operation.

The Contact Board of Directors resolved that the final, fully imputed cash distribution to shareholders would increase by 1 cent per share to the equivalent of 15 cents per share, resulting in a full year dividend of 26 cents per share. The distribution represents a payout ratio of 84 per cent of Contact's underlying earnings after tax.

Our safety performance as measured by Total Recordable Injury Frequency Rate (TRIFR) was flat for FY14 at 4.0, with 17 injuries occurring across four million hours worked on Contact sites. Our focus for FY15 is on continuing to evolve our positive safety culture and helping our team to get comfortable with having safety coaching conversations with other employees and contractors. We are once again targeting a 20 per cent improvement in our safety performance in the new financial year.

We have had a number of other success stories this year. Firstly, our partnership with Ngāti Tahu. After 17 years of discussion we reached agreement in 2013 and are working together on protecting their tāonga (tribal resources) while using leased land as part of our Ohaaki power station generation activities. Reaching agreement was a critical part in enabling us to reconsent the Ohaaki power station for a further 35 years.

Secondly, commissioning the 166 megawatt (MW) Te Mihi geothermal power station in May 2014 was a major milestone for us. It completed this stage of geothermal growth, and demonstrates our geothermal expertise.

Thirdly, continued focus on customer service and competitively priced products saw a 1 per cent increase in retail sales, during a period when we implemented our new customer billing and service system. With the implementation of our new system, we have laid the foundation to improve the service we provide our customers.

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1. EBITDAF and underlying earnings after tax are non-generally accepted accounting practice (non-GAAP) profit measures. EBITDAF is calculated as statutory profit for the year before net interest expense, tax, depreciation, amortisation, change in fair value of financial instruments and other significant items. Underlying earnings after tax is statutory profit excluding significant items that do not reflect the ongoing performance of the Group. The CEO monitors EBITDAF and underlying earnings after tax as key indicators of Contact's performance and believes they assist investors in understanding the performance of the core operations of the business. Reconciliations of EBITDAF to underlying earnings after tax and from underlying earnings after tax to Group statutory profit is provided in Note 2 of Contact's audited financial statements.

Performance for the year ended 30 June 2014

$234m

Profit for the year, up 18 per cent

$587m

EBITDAF, up 9 per cent

26cps

Total shareholder distributions, up 4 per cent



Grant King
Chairman



Dennis Barnes
Chief Executive Officer

Finally, we are also very pleased with the successful raising of $773 million in new funding in the past 14 months, which refinances Contact's $705 million of 2014 maturities and the redemption of the $200 million capital bond in November 2013. Our refinancing programme aimed to increase the term and maintain the diversity of our funding sources. Through the utilisation of bank debt and the issuance of United States Private Placement notes and domestic retail and wholesale bonds we have been able to achieve this objective.

During the year we saw the completion of the partial privatisation of Genesis, Meridian and Mighty River Power, which while increasing scrutiny on the sector has also increased the competition we face for both institutional and private investor capital. The Single Buyer electricity market model proposed by the Labour Party and the Greens has impacted on both ours and our competitors' share prices through the year, and is something that would change the workings of the New Zealand energy market if implemented. We believe that consumers are seeing clear evidence that the current market model is working with high levels of competition. It is important that a stable regulatory environment is maintained in order for participants like Contact to continue to make significant, long term investment decisions with confidence, to ensure the ongoing reliable and secure supply of energy for New Zealanders.

Looking forward, we are continuing to adapt to the reality of no energy demand growth and increasing competition and innovation in the retail market.

In response to this competitive environment we will leverage our existing asset base through integrating Te Mihi into our generation portfolio and increasing the amount of energy we produce from renewable sources. Secondly, we will reduce our cost to serve customers by realising the benefits of the implementation of our new customer billing and service system and by leading the industry to be more efficient. Our customers tell us that we need to make things simple, be more transparent and connected to their needs. Following on from the introduction of our new brand last year, we will also be taking a different approach to how we communicate with potential new customers. You will see and hear more about this within the next year. Finally, we will continue fuel substitution, through balancing thermal generation availability with the requirement to ensure that we maintain renewable energy options for the future.

We have positioned ourselves strongly with the right assets, the right systems and a strong pipeline of new products for the future, which will continue to ensure that we can serve our customers well.

We would like to thank the people of Contact who have worked hard to deliver this strong result and thank you, our shareholders and customers, for your continued support.



1. Te Mihi power station

TAUPŌ GEOTHERMAL RESOURCE

ANOTHER MILESTONE IN THE JOURNEY

Contact is a company committed to the development and use of geothermal energy. Why? It's renewable, it's clean, it's financially secure, and it's always available to power Kiwi homes and businesses – today and into the future.

Our Taupō steamfield operation is large by international standards. Besides the clear environmental benefits, these sustainable assets offer strong cash-flows for investors over the long term.

In 2014, we celebrated the completion of our Wairākei Investment Programme. This significant investment in our geothermal resource included building the $623 million Te Mihi power station and steamfield connections as well as developing the Wairākei Bioreactor, drilling a number of new wells and expanding the Wairākei steamfield.

This investment programme has dramatically grown the breadth of expertise within our organisation. With Te Mihi, we have proven our ability to develop and operate large, world-class geothermal power stations. Our combined gross geothermal generation output is now 431 MW and is globally significant in geothermal terms.

Through the Wairākei Investment Programme we have further increased the flexibility of our generation portfolio and lowered our overall fuel costs for generation. We have improved the resilience of our business, and for investors we have secured a strong, sustainable financial future.

LOCAL STRENGTH, WORLD CLASS

Te Mihi power station is our latest achievement – a brand new, state-of-the-art geothermal power station that maximises generation efficiency and minimises the cost of each megawatt of electricity produced.

Te Mihi carries the pioneering legacy of our Wairākei plant into a new era of efficiency and environmental responsibility.

Flexibility is at the heart of Te Mihi's design. With two 83 MW steam turbines, the plant has been designed to make the best use of steam and maximise capacity. A vast network of pipes connects Te Mihi to the Wairākei steamfield, increasing overall efficiency and generation reliability.

During the decade long development and construction period we have aimed to build a relationship with the local community that is open and responsive.

The design, build and operation of Te Mihi has contributed to an exponential growth of expertise within our company. Earth scientists, chemists, operators, managers and engineers of every kind have contributed to the development of Te Mihi and are now a part of our highly skilled geothermal workforce.

We are incredibly pleased to welcome Te Mihi into Contact's geothermal family. This flexible, fully integrated power station ensures that we can continue to efficiently meet the energy needs of Kiwis into the future.

Keeping it local

500

During the peak of construction there were up to 500 skilled workers on site, of whom, many were locals.

$60m

Around 20 New Zealand contracting companies worked on the project with at least $60 million invested into the local economy through these subcontracts.

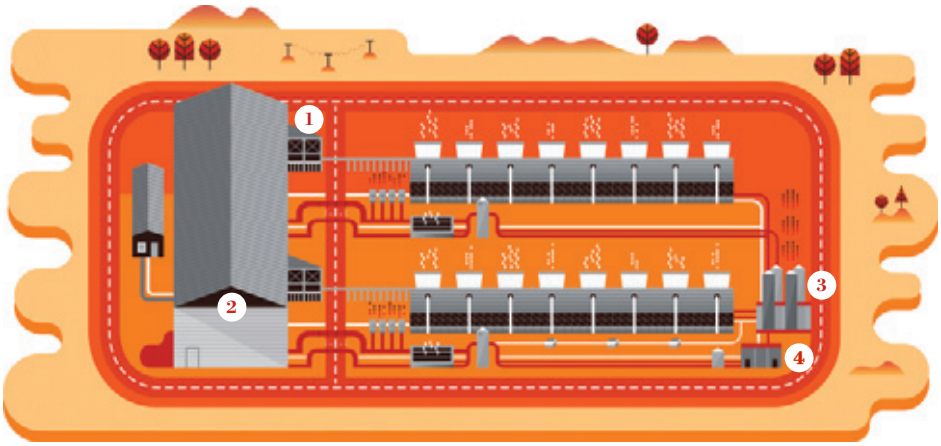
6

Contact has introduced a geothermal schools pilot programme at 6 local Taupō schools to help children learn more about geothermal energy.

5

Contact power stations across the Taupō region.

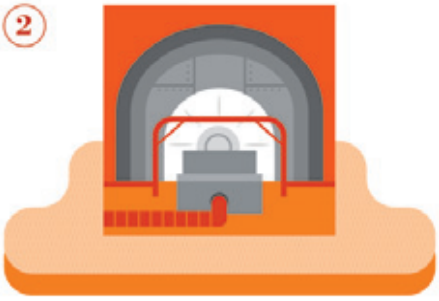
Te Mihi, our state-of-the-art geothermal power station





NON-CONDENSABLE GASES

Approximately 1 per cent of geothermal steam is non-condensable gas (NCG), primarily CO_2 and some H_2S (that uniquely geothermal smell). We remove these to improve plant efficiency.



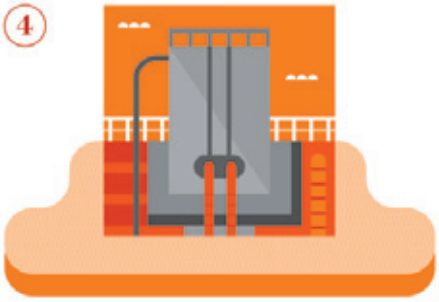
STEAM TURBINES

Pressurised steam is expanded through Te Mihi's two 83 MW turbines into a condenser. The steam turbines consume 173 kg of steam per second.



FLASH PLANT

A number of flash plants separate steam from the geothermal water.



ACID DOSING PLANT

Acid is added to geothermal fluid to lower the pH to 5.5. This delays silica building up and blocking pipes, enabling geothermal water to be safely reinjected back into the ground.

POTENTIAL POWER

With a total capacity of 166 MW, Te Mihi has the potential to power over 160,000 Kiwi homes.

24/7

Two steam turbines, with the ability to generate 83 MW each, allow for maximum generation capacity 24 hours a day, 7 days a week.

LOCAL ENVIRONMENT

Te Mihi has been designed to ensure that geothermal water used by the station is reinjected into the steamfield, reducing its impact on the local environment.

A single view of our customers' relationships with us



On 23 April 2014 we turned on our new customer billing and service system. It marked a major milestone in a multi-year programme to scope, build and introduce a new information technology system that replaces 20 old systems and will enable us to enhance the service we provide to our customers.

We now have a single and consistent system across the finance, generation and customer service parts of our business, better integrating and simplifying our information technology environment.

Working in a single system, rather than the 20 systems it has replaced, gives our team faster access to all of the key information about a customer's relationship with us, further improving the quality of service we will be able to provide over the longer term. It provides the capacity and flexibility for us to significantly grow our customer base and diversify into new or related products and services in the future.

We thank our customers and industry stakeholders for their patience while we have worked to get up to speed with the new system.

1

new customer billing and service system, replacing 20 old systems

1.8m

customer bills sent out in the first 4 months of using the new system

260

processes mapped out step by step within our new system, which capture around 1,500 customer related business procedures

400

people working at the height of the project, in preparation for switching on the new customer billing and service system



HOME SWEET HOME

MERO ROKX

Teacher and mum of two,
Orini (9) and Te Uranga o te Ra (2).

1. Mero and the kids
2. Te Uranga o te Ra at play



CONTACT ENERGY IS WELCOMED INTO THE HOMES OF 567,500 KIWIS, WHERE ENERGY IS AVAILABLE 24/7 AND A RANGE OF CONVENIENT BILLING OPTIONS HELP TO KEEP FAMILIES HAPPY, HEALTHY AND WARM.

We've lived in our home for going on 8 years now, since my daughter was a baby.

We signed up to Contact when we first moved in, on my Mum's recommendation. Contact has been good – otherwise I would've been long gone! They've always offered a lot of support. If I've ever been late with our bill they've called me so I could explain the situation. They've always found ways to get it sorted without charging me any extra fees. I feel like they really listen and take our situation into consideration.

In our family we see energy as precious, but also a necessity. So we prioritise the things we really want versus those we can make do without. For example, we really love our heat pump, so we have it on a lot. We enjoy good hot showers and our kids enjoy their bubble baths. We also use a clothes dryer in the winter because we're so busy.

We try to balance things out. We are very grateful for what we have, and we are conscious of the impact that the level of our comfort has on the planet. But if we were sitting in a cold house we just wouldn't be able to function. Having heat and feeling comfortable is our foundation for living.

Our energy use does fluctuate with the seasons. I think our power bill in winter can be up to $400 a month but then in summer it's only about $100 a month. But everything's smooth and I don't ever recall feeling stressed about the power bill. I have it set up so I always pay $150 per fortnight. If at the end of the month I haven't quite paid the whole bill off, someone from Contact calls to tell me what's owing. In summer I overpay so we're basically covered for the bigger winter bills.

My experience with Contact has been really good. I feel like I've been well looked after.

I don't think a home is a home without energy. None of us would be able to function. I love that if I've been at work late and everyone else has gotten home before me, I just walk in the door and I'm overcome with warmth and the smell of the crockpot. It really heightens my sense of family.



WORKING TOGETHER

AROHA CAMPBELL

Trustee for the Ngāti Tahu Tribal Trust since 1990.

1. Ohaaki Marae
2. Leo Rika and James Kilty hongi at Ohaaki Marae



COMMUNICATION, RESPECT AND COLLECTIVE NEGOTIATION HAVE RESULTED IN THE SIGNING OF THE OHAAKI MITIGATION AGREEMENT, A ROBUST AND MUTUALLY BENEFICIAL FRAMEWORK FOR LAND USE ISSUES SURROUNDING THE OHAAKI POWER STATION.

I'm one of three trustees on the Ngāti Tahu Tribal Trust. We're an ahu whenua trust that looks after the land on six blocks around the Ohaaki power station. I've been a trustee since the early 1990s, after the power station was commissioned.

At that time we were disappointed with the lack of understanding on the part of the company about their effects on the whenua. Over the years, the power station has caused subsidence of up to 3.7 metres. Previous science said that our marae would definitely end up underwater, which would mean relocation. It is the institution of Ngāti Tahu, so the idea of relocation caused a rift.

Contact acquired the power station in 1996 and we've been working steadily with them for 17 years trying to resolve the issues. The real turning point was the reconsenting process, which got underway 18 months ago. We knew Contact would need our support to get consent.

One complication was that there are in fact three separate Ngāti Tahu entities in and around Ohaaki Marae. Owing to historical differences we were working in silos, not speaking to one another. But 18 months ago the three organisations got together to negotiate with Contact. It was the first time we agreed to work through the reconsenting process as one landowner collective, and this has worked out extremely well.

One positive aspect is that although the power station originally had an installed capability of just over 100 MW it has only been producing around 45 MW for the last few years. We have decided in light of the most recent science we have, that we may not have to relocate our marae after all. But if we do, Contact Energy has provided a 9 hectare block of land that we can swap out for it.

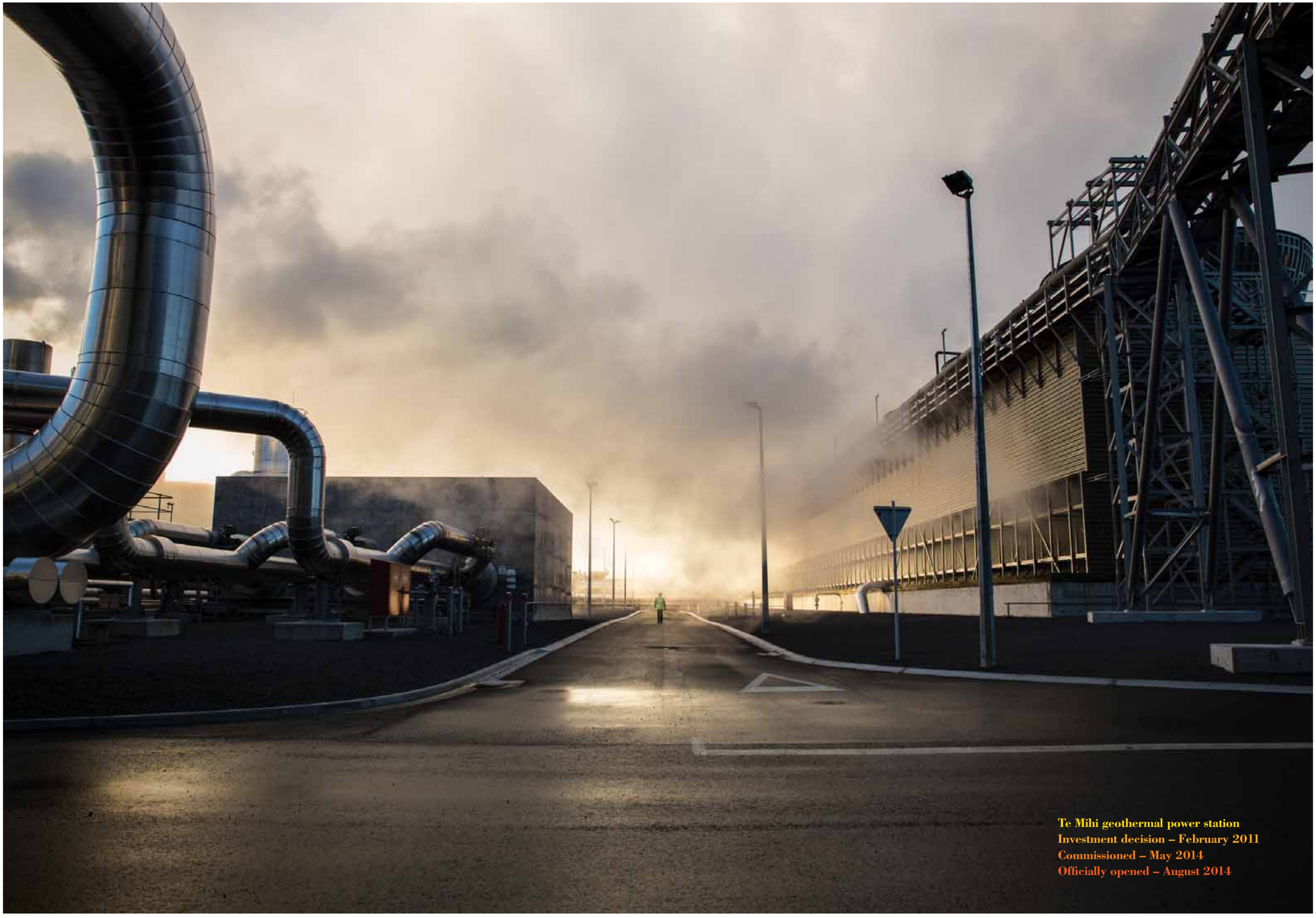
Another positive aspect was having Contact come around the table to identify our culturally significant sites. We now have cultural monitoring so if there is any land disturbance or artefacts found, there are proper protocols in place.

The process in the past 18 months has certainly changed my opinion of Contact. I'm impressed with their culture and I can see that they're listening. Their relationship with Ngāti Tahu is one of best interest for all. They've realised that what's best for them has to be good for us – and vice versa.

Full steam ahead

Annual Report
2014

Contact



Te Mihi geothermal power station
Investment decision – February 2011
Commissioned – May 2014
Officially opened – August 2014

We are…

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

This Annual Report is dated 5 September 2014 and is signed on behalf of the Board by:



Grant King
Chairman



Sue Sheldon
Director

Contents

04 Geothermal Resource
10 New Customer System
14 At a Glance
16 Our Business Model
18 Where We Operate 20 KPIs
22 Q&A 28 Our Board
30 Our Leadership Team
32 Case Studies 40 Our People

Governance	46	Financial Statements	59
Remuneration Report	52	Independent Auditor's Report	87
Statutory Disclosures	55	Corporate Directory	88



Another milestone in the journey

Contact is a company committed to the development and use of geothermal energy. Why? It's renewable, it's clean, it's financially secure, and it's always available to power Kiwi homes and businesses – today and into the future.

Our Taupō steamfield operation is large by international standards. Besides the clear environmental benefits, these sustainable assets offer strong cash-flows for investors over the long term.

In 2014, we celebrated the completion of our Wairākei Investment Programme. This significant investment in our geothermal resource included building the $623 million Te Mihi power station and steamfield connections as well as developing the Wairākei Bioreactor, drilling a number of new wells and expanding the Wairākei steamfield.

This investment programme has dramatically grown the breadth of expertise within our organisation. With Te Mihi, we have proven our ability to develop and operate large, world-class geothermal power stations. Our combined gross geothermal generation output is now 431 megawatts (MW) and is globally significant in geothermal terms.

Through the Wairākei Investment Programme we have further increased the flexibility of our generation portfolio and lowered our overall fuel costs for generation. We have improved the resilience of our business, and for investors we have secured a strong, sustainable financial future.

1. Te Mihi steam supply system and cooling tower
2. Te Mihi turbine hall

90
production and reinjection wells and over 100km of pipes within the Taupō region are used to source and transport the steam and fluid we use to produce geothermal energy

5
Contact power stations across the Taupō region

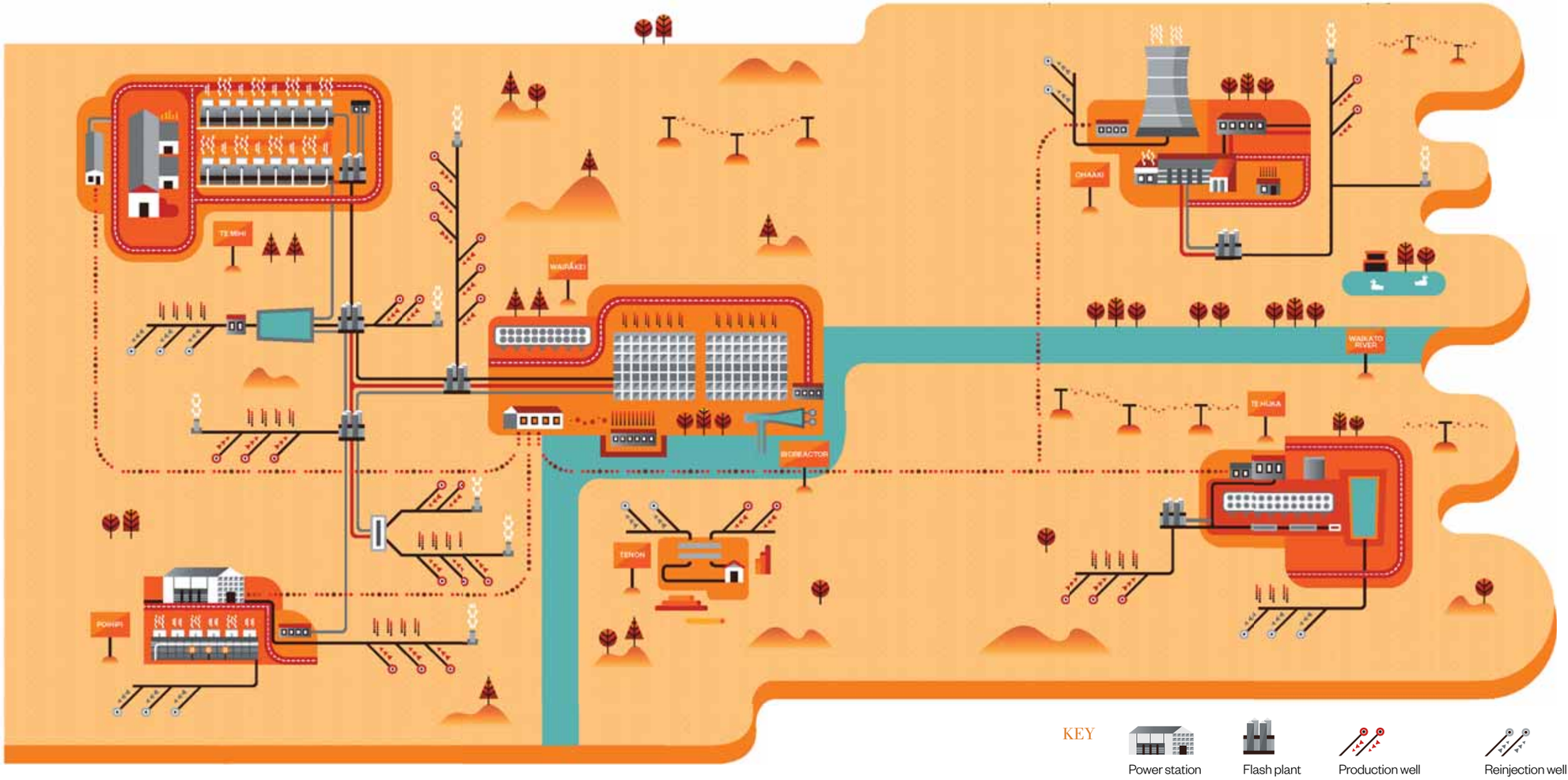
400k
Kiwi homes can be supplied with electricity from Contact's geothermal power stations

1/3
of Contact's average annual generation will come from geothermal energy

7th
largest geothermal field by capacity in the world







KEY

Power station
Flash plant
Production well
Reinjection well
Cooling tower
Bioreactor
Computer controlled
Steam vent

How steam is turned into power

Regardless of the weather, it's always hot underground

Generated from deep within the earth, geothermal energy is New Zealand's most reliable source of clean, renewable energy. Contact is fully committed to further developing this resource in order to ensure a clean, secure energy supply for Kiwis.



Potential well sites are identified though geophysical prospecting, and exploratory wells are drilled.



Production wells are drilled to bring steam and water up to the surface. The steam is separated from the water and piped to the power station.



Inside the power station, the steam spins a turbine which generates electricity via electromagnetic induction.



This electricity is fed into New Zealand's national power grid at 220,000 volts.



Through careful management, separated geothermal water is reinjected into areas underground where it will help maintain pressure while minimising the cooling of the steamfield.

Taupō geothermal resource

The precious geothermal resources of the Taupō region are harnessed by transporting steam and fluid through a complex network of around 90 production and reinjection wells and over 100km of connecting pipes that lead to our 5 geothermal power stations.

TE MIHI POWER STATION

Commissioned: 2014
Gross Output: 166 MW

Located near the Wairākei power station, Te Mihi is our newest geothermal power station. With its efficient double-turbine design, Te Mihi can generate enough electricity to power over 160,000 Kiwi homes – that's the whole of Wellington city.

WAIRĀKEI POWER STATION

Commissioned: 1958
Gross Output: 132 MW

Wairākei has been powering New Zealand homes since a clean load of laundry meant 'boiling the copper'. The second large-scale geothermal power station ever to be built in the world, Wairākei's current consents continue until 2026, when it will be 70 years old.

WAIRĀKEI BIOREACTOR

Commissioned 2012

The award-winning Wairākei Bioreactor uses billions of naturally occurring bacteria to treat cooling water and reduce the amount of hydrogen sulphide contained in the water before it is returned to the Waikato river. This process occurs as the water makes a journey through a network of 378 kilometres of underground pipes. That's equivalent to the distance from Christchurch to Dunedin.

POIHIPI ROAD POWER STATION

Commissioned: 1997
Gross Output: 55 MW

As one of the most reliable units in our geothermal fleet, Poihipi Road provides secure and stable geothermal energy.

OHAAKI POWER STATION

Commissioned: 1989
Gross Output: 50 MW

Since acquiring Ohaaki we have worked to operate the station in a more sustainable manner for the benefit of Contact and our stakeholders. Ohaaki is recognised by its distinctive 105 metre high cooling tower – that's almost on par with Wellington's tallest office building.

TE HUKA POWER STATION

Commissioned: 2010
Gross Output: 28 MW

Te Huka is the first power station to be built on the Tauhara geothermal steamfield. Te Huka was opened three weeks ahead of schedule and was delivered under budget, while producing a greater-than-expected electricity generation performance. The Tenon wood products mill is a Contact electricity customer. We also supply them with process steam directly from wells near Te Huka, supporting the continued operation of this significant local employer.

FUTURE TAUHARA DEVELOPMENT

Contact has gained consents for a 250 MW geothermal development on the Tauhara steamfield in Taupō. We believe this is New Zealand's most attractive new generation option. The development could power homes and businesses or provide direct industrial heat or energy supply. The Tauhara project will be progressed when market conditions allow.

Local strength, world class

Te Mihi power station is our latest achievement – a brand new, state-of-the-art geothermal power station that maximises generation efficiency and minimises the cost of each megawatt of electricity produced.

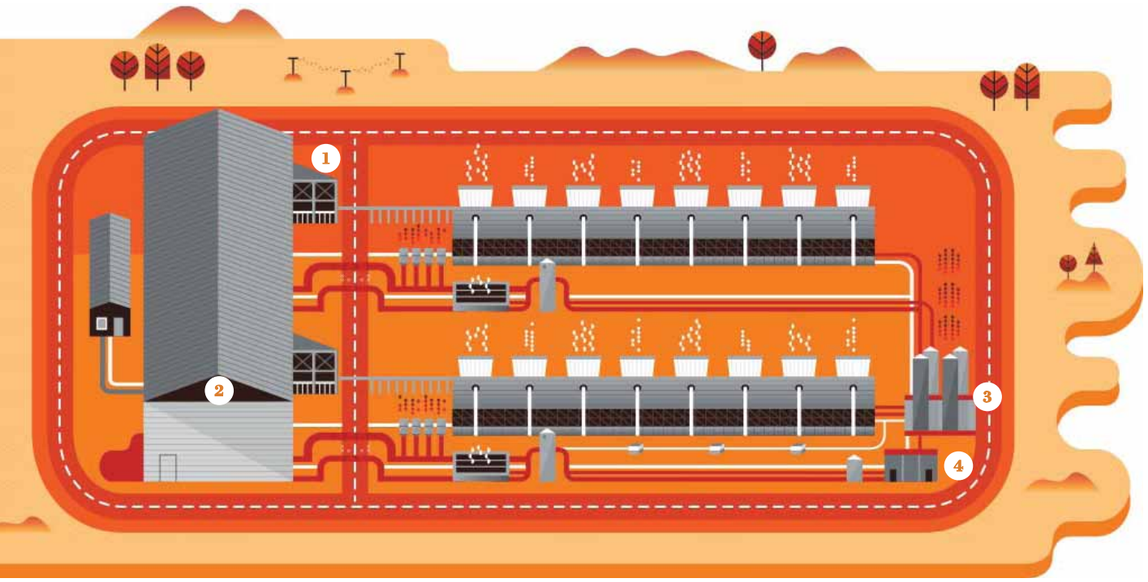
Te Mihi carries the pioneering legacy of our Wairākei plant into a new era of efficiency and environmental responsibility.

Flexibility is at the heart of Te Mihi's design. With two 83 MW steam turbines, the plant has been designed to make the best use of steam and maximise capacity. A vast network of pipes connects Te Mihi to the Wairākei steamfield, increasing overall efficiency and generation reliability.

During the decade long development and construction period we have aimed to build a relationship with the local community that is open and responsive.

The design, build and operation of Te Mihi has contributed to an exponential growth of expertise within our company. Earth scientists, chemists, operators, managers and engineers of every kind have contributed to the development of Te Mihi and are now a part of our highly skilled geothermal workforce.

We are incredibly pleased to welcome Te Mihi into Contact's geothermal family. This flexible, fully integrated power station ensures that we can continue to efficiently meet the energy needs of Kiwis into the future.



POTENTIAL POWER

With a total capacity of 166 MW, Te Mihi has the potential to power over 160,000 Kiwi homes.

LOCAL ENVIRONMENT

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24/7

Two steam turbines, with the ability to generate 83 MW each, allow for maximum generation capacity 24 hours a day, 7 days a week.

CONNECTED

Te Mihi is connected to a vast array of wells, pipes and steam separation plants to enable steam from the geothermal field to be moved to where it's needed most.

Keeping it local

500

During the peak of construction there were up to 500 skilled workers on site, of whom, many were locals.

$60m

Around 20 New Zealand contracting companies worked on the project with at least $60 million invested into the local economy through these subcontracts.

6

Contact has introduced a geothermal schools pilot programme at 6 local Taupō schools to help children learn more about geothermal energy.

NON-CONDENSABLE GASES

Approximately 1 per cent of geothermal steam is non-condensable gas (NCG), primarily CO_2 and some H_2S (that uniquely geothermal smell). We remove these to improve plant efficiency.

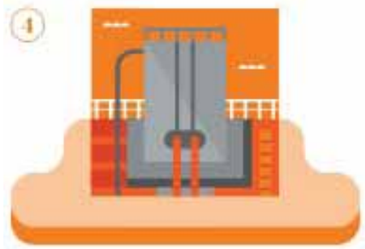
STEAM TURBINES

Pressurised steam is expanded through Te Mihi's two 83 MW turbines into a condenser. The steam turbines consume 173 kg of steam per second.



FLASH PLANT

A number of flash plants separate steam from the geothermal water.



ACID DOSING PLANT

Acid is added to geothermal fluid to lower the pH to 5.5. This delays silica building up and blocking pipes, enabling geothermal water to be safely reinjected back into the ground.

The power of partnership – signing the Ohaaki Mitigation Agreement

After 17 years of discussion, Ngāti Tahu and Contact are working together as a result of an agreement signed in 2013.

The Ohaaki power station is located on land belonging to Ngāti Tahu. Since taking over the power station lease in 1996 from ECNZ, we have been working to resolve issues around the impact of geothermal power generation on the Ngāti Tahu people, their culture and their tāonga (tribal resources).

In 2013, the Ohaaki reconsenting process presented a fresh opportunity for us to come together and develop solutions that were mutually beneficial and met the needs of current and future generations of Ngāti Tahu. Integral to this process is fostering a relationship built on open communication and developing a deep appreciation of the Ngāti Tahu people, culture and aspirations.

One of the foundations of the Ohaaki agreement is the creation of a proactive framework for engagement based on institutionalising our communications with each other. Our agreement with Ngāti Tahu is for 35 years, matching the new Ohaaki power station consent granted by the Waikato Regional Council.

Aroha Campbell, Trustee for the Ngāti Tahu Tribal Trust, shares her story on page 39.



A single view of our customers' relationships with us

A significant investment in the future of Contact

On 23 April 2014 we turned on our new customer billing and service system. It marked a major milestone in a multi-year programme to scope, build and introduce a new information technology system that replaces 20 old systems and will enable us to enhance the service we provide to our customers. It's a journey that began with reviewing around 260 existing customer processes, looking for ways to improve them and then documenting each of them, step by step. Next came the task of building and setting up the SAP customer billing and service system to manage all of the customer processes performed by the Contact team. Extensive testing of the processes and new system followed, along with in-depth training for our people. We have also temporarily added 103 customer service representatives to our Levin, Wellington and Dunedin contact centres to enable this training of our existing team to take place and to boost the number of people available to help customers when the new system was switched on.

Helping us to change the way we do things

Our new customer billing and service system is a significant investment in the future of Contact. It follows earlier phases where we introduced SAP into our finance processes in 2010 and the generation parts of our business in 2011. We now have a single and consistent system across these parts of our business, better integrating and simplifying our information technology environment.

Through a range of research projects and conversations with our existing customers, we have been working to gain a more in-depth understanding of what Kiwis want and expect from a modern energy provider. Our new customer billing and service system provides us with a single view of a customer's relationship with us, details of the products and services we supply to them, their preferences and our correspondence with them. Moving forward it will enable us to more effectively target products, services and offers to specific customer segments that are highly relevant to their needs.

1
new customer billing and service system, replacing 20 old systems

260
processes mapped out step by step within SAP, which capture around 1,500 customer related business procedures

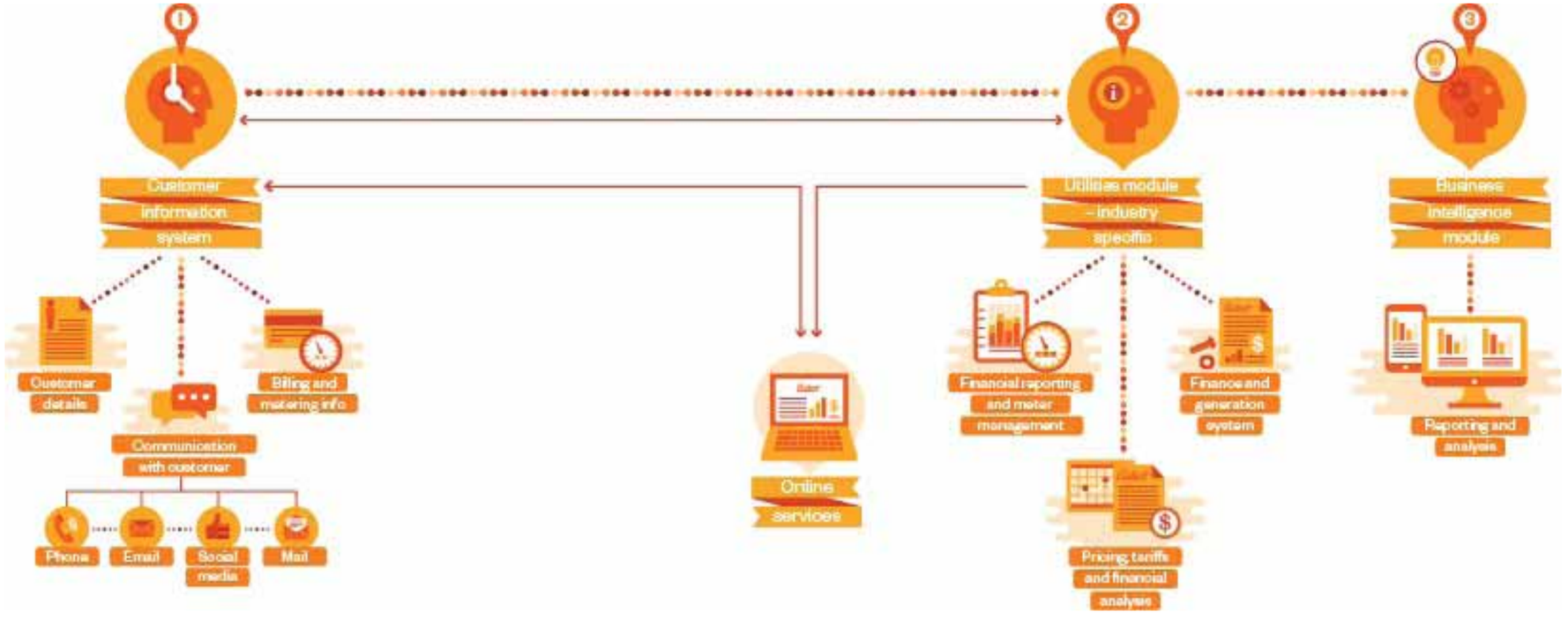
400
people working at the height of the project, in preparation for switching on the new customer billing and service system





Our new customer billing and service system

Moving forward our new customer billing and service system will enable us to more effectively target products, services and offers to specific customer segments that are highly relevant to their needs.



Working in a single system, rather than the 20 systems it has replaced, gives our team faster access to all of the key information about a customer's relationship with us, further improving the quality of service we will be able to provide over the longer term. The core SAP system is the product of choice for many medium and large European energy utilities. It's also used by several other large organisations across New Zealand. It provides the capacity and flexibility for us to significantly grow our customer base and diversify into new or related products and services in the future.

During the implementation of the new system we have taken the opportunity to refine and further standardise our approach to data collection, and the management and analysis of our processes. For customers this enhances the regular quality checks we undertake on bills before they are sent. For our business this allows us to introduce more sophisticated reporting which can be used to monitor both our performance and the evolving preferences of our customers.

Utilising local and international experts

The programme team who have worked to deliver the new system comprises a mix of experts from across Contact, New Zealand, Europe, our major shareholder Origin Energy, as well as WIPRO, an international consultancy who are SAP implementation experts. This mix of resources has brought together the best of international practice, experience, lessons learned from Origin's implementation, as well as detailed knowledge of our business and the operation of the New Zealand energy market.

The programme has provided opportunities for many of our team who work in our contact centres, retail processing and operational teams to gain experience working on a major, large-scale change project. During the height of the project approximately 400 employees and consultants were working full time on the project, with the majority based in Wellington.

Putting our customers first

While most of our customers won't have noticed the changes that we've made, there are a small number who have experienced delays in receiving their bills or faced longer wait times when trying to get in touch with our contact centre. We've been working hard to resolve these issues, ensuring that no one is penalised by any delays on our part. Support for affected customers has included offering extra time to pay, the Smoothpay option which allows our customers to smooth out their bills over the year, and ensuring that our customers retain their prompt payment discounts.

Looking ahead

We thank our customers and industry stakeholders for their patience while we have worked to get up to speed with the new system. As an organisation we look forward to shifting our focus in the coming months from implementation of the new system to leveraging our investment, identifying further efficiencies in the way we use our new system and exploring additional benefits and products that we can introduce to help our customers live more comfortably with energy.

230

extra temporary customer service representatives brought on to support customers following the start up of the new customer billing and service system

6,000

test scenarios successfully completed to ensure the new system worked

1.8m

customer bills sent out in the first 4 months of using the new system

Members of our team at the Levin contact centre

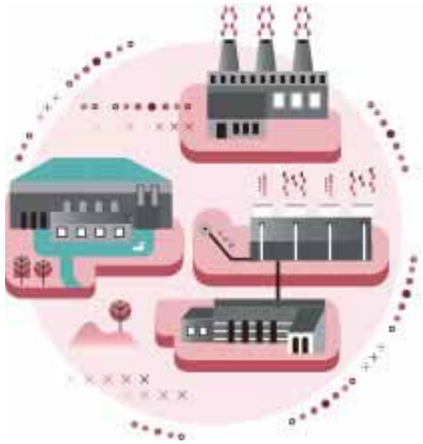




Contact at a glance

We keep the lights burning, the hot water flowing and the BBQs fired up for around 567,500 customers across the country. We are one of New Zealand's largest electricity generators and retailers. We supply electricity, natural gas and LPG to our customers and our focus is on delivering great value, great products and great service.

Our electricity generation business is focused on meeting New Zealand's energy needs in a safe, reliable and efficient manner. We have built a more flexible portfolio by investing in new power generation assets and gas storage in recent years that enable us to respond efficiently to changing electricity market conditions.





Generation by type for the year ended 30 June

Generation type	2014	2013
Hydro (GWh)	4,058	3,561
Geothermal (GWh)	2,332	2,249
Thermal (GWh)	2,865	4,069
Total	**9,255**	**9,879**

Customers by energy type as at 30 June

Energy type	2014	2013
Electricity	437,500	439,500
Natural gas	63,000	61,500
LPG	67,000	65,000
Total	**567,500**	**566,000**

1,066

We employ 1,066 people from Auckland to Invercargill. This includes 977 permanent and 89 fixed-term employees.

$697k

We invested $696,632 into community initiatives during the year.

22%

We supply 22 per cent of the New Zealand electricity retail market.

1.2m

Our contact centres took 1.2 million calls during the year.

243k

Our contact centres handled 243,344 emails during the year.

70,000

Contact is one of New Zealand's largest listed companies, with around 70,000 shareholders.

218k

We are New Zealand's largest online energy company with 218,000 customers signed up to receive Contact's online services.

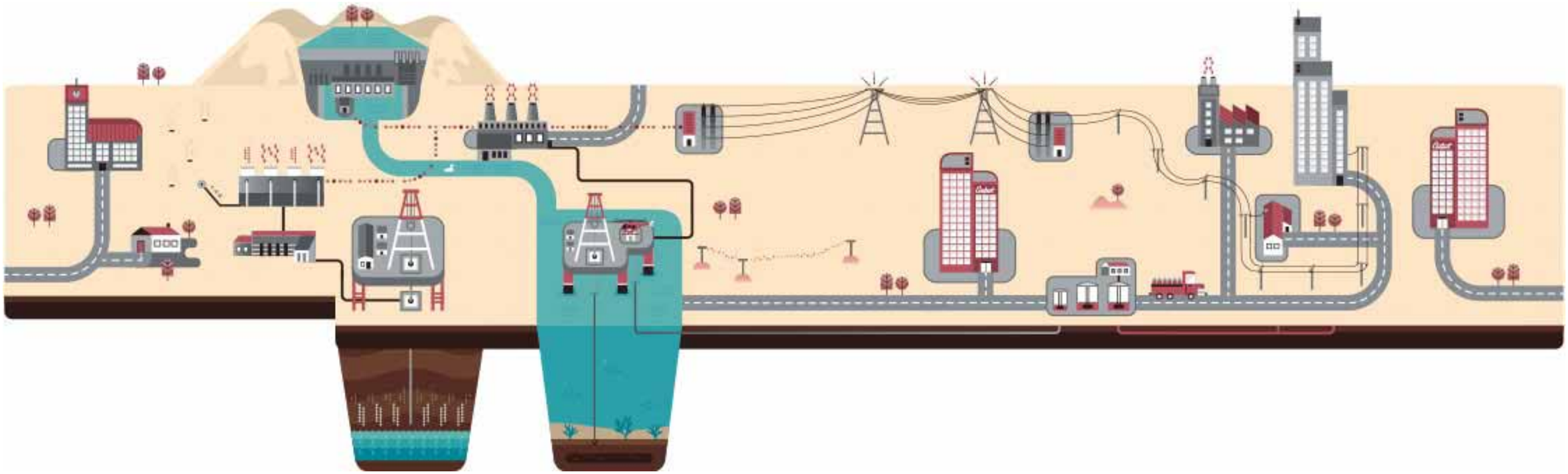
$3.6b

Our net assets are worth $3.6 billion.

12

We own and operate 12 power stations across New Zealand and we generate around a quarter of New Zealand's electricity.

Our business model



INSIGHT

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

SOURCE

We seek the most cost-effective, flexible and efficient generation development options to meet future customer needs or to replace existing, less efficient generation. There are long lead times involved in investigating opportunities and gaining required resource consents. Geothermal developments are our priority – market conditions dictate when we build new or adapt older generation.

GENERATE

We purchase and source fuel for electricity generation and invest in the maintenance of our 12 power stations. We buy gas and diesel from producers; rain and snow-melt fill hydro storage lakes; drilling extracts geothermal fluid and steam. We also have the ability to store and use gas from our Ahuroa gas storage facility. We vary the output and combination of generation plants used to meet energy demand peaks and respond to the weather.

WHOLESALE

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

DISTRIBUTE

Electricity is transported from generators by Transpower and then by local lines distribution companies to customers. Gas is sourced by producers and transported by gas network companies. Transmission and network operation, maintenance and enhancement costs are passed through to customers in their bills. Contact delivers bottled LPG to customers via our fleet of delivery trucks. We also supply some LPG through our pipeline, predominantly in Christchurch.

SELL & SERVE

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

Where we operate



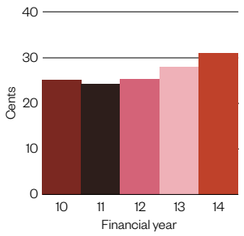


Name	Output	Commissioned	Type	Location	Capacity (MW)	2014 Generation (GWh[1])	2013 Generation (GWh[1])
North Island							
Ahuroa	–	2011	Gas storage facility	Taranaki	Ability to store and extract gas as conditions require	Can store up to 17 PJ[2] of gas – enough to run our Stratford peakers for 12 months at full capacity	
Ohaaki	Geothermal	1989	Flash steam	Waikato	50	269	330
Ōtāhuhu B	Thermal	1999	Combined-cycle turbine	Auckland	400	1,699	1,683
Poihipi	Geothermal	1996	Flash steam	Waikato	55	433	416
Stratford	Thermal	1998	Combined-cycle turbine	Taranaki	377	691	1,709
Stratford	Thermal	2011	Peaker, gas turbine	Taranaki	200	273	447
Te Huka	Geothermal	2010	Binary cycle	Taupō	28	174	198
Te Mihi	Geothermal	2014	Flash steam	Taupō	166	218	–
Te Rapa	Thermal	1999	Open-cycle turbine cogeneration	Waikato	44	201	226
Wairākei	Geothermal	1958, 2005	Flash steam/Binary cycle	Taupō	132	1,238	1,305
Whirinaki	Thermal	2004	Diesel fuel, open-cycle turbine	Hawke's Bay	155	1	4
South Island							
Clyde	Hydro	1992	Conventional	Otago	432	2,246	1,942
Roxburgh	Hydro	1956–1962	Conventional	Otago	320	1,812	1,619

1. Gigawatt hours.
2. Petajoules.

Keeping our performance in check

Our key performance indicators (KPIs) enable interested stakeholders to assess our performance more easily against a range of measures that are integral to our business success. The measures highlight our 5-year performance in key areas such as finance, operations, customers, our people, safety and the environment. Our Board and Leadership Team use the same measures to assess our performance against strategic priorities.

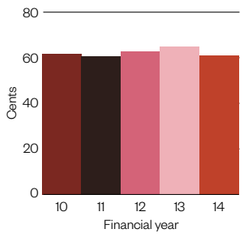


UNDERLYING EARNINGS PER SHARE

Measures performance of the underlying business and is calculated by dividing underlying earnings after tax by the weighted average number of shares on issue during the year. Underlying earnings after tax is calculated by adjusting reported profit for the year to remove any significant items that are not related to the ongoing performance of our business.[1]

2014

FY14 improvement primarily driven by a reduction in the cost of energy arising from increased hydro generation and the receipt of $43 million of compensation as a result of the delayed start-up of the Te Mihi power station.

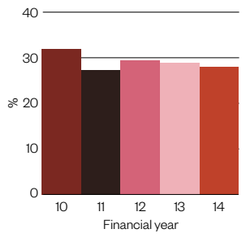


OPERATING CASHFLOW PER SHARE

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

2014

Operating cash flows decreased by $23 million due to improved EBITDAF[1] and lower stay-in-business capital expenditure being offset by increased gas injection into Ahuroa gas storage and higher receivables as a result of the delay in some retail billing as part of the new SAP customer billing and service system stabilisation.

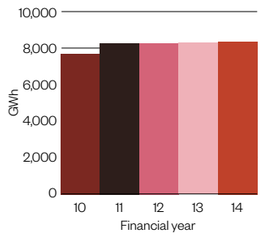


GEARING (NET DEBT RATIO)

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

2014

Contact's gearing ratio remained stable at 28 per cent in FY14 with $773 million of new funding raised in the past 14 months achieving objectives to improve tenure and diversity.



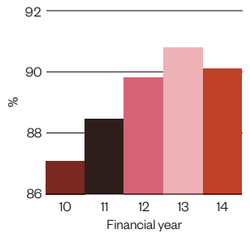
ELECTRICITY SALES VOLUME

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

2014

Electricity sales increased 1 per cent to 8,378 GWh with declines in mass market sales due to warmer weather and home energy efficiency measures being more than offset by increased sales to commercial and industrial customers.

1. EBITDAF and underlying earnings after tax are non-generally accepted accounting practice (non-GAAP) profit measures. EBITDAF is calculated as statutory profit for the year before net interest expense, tax, depreciation, amortisation, change in fair value of financial instruments and other significant items. Underlying earnings after tax is statutory profit excluding significant items that do not reflect the ongoing performance of the Group. The CEO monitors EBITDAF and underlying earnings after tax as key indicators of Contact's performance and believes they assist investors in understanding the performance of the core operations of the business. Reconciliations of EBITDAF to underlying earnings after tax and from underlying earnings after tax to Group statutory profit is provided in Note 2 of Contact's audited financial statements, on page 66.

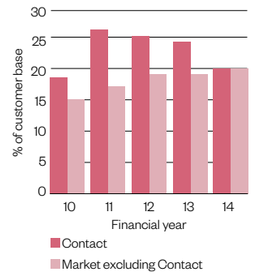


PLANT AVAILABILITY

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

2014

Plant availability has remained relatively stable over the past year as systems and processes were enhanced to identify and plan preventive maintenance requirements. Commissioning work at Te Mihi and the outage at Ohaaki following reconsenting impacted geothermal availability.

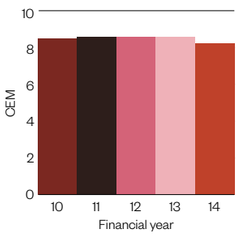


LOYALTY & CUSTOMER SWITCHING

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

2014

The number of customers switching electricity provides in FY14 increased by 10 per cent, driven by the continued growth of smaller competitors, increased innovation and targeted offers from existing retailers and several new retailers entering the market. However, the number of customers switching from Contact to alternative electricity providers dropped by 15 per cent during the same period. Contact's competitive pricing strategy has seen loss rates improve when measured against the market.

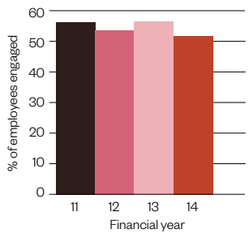


CUSTOMER EXPERIENCE

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

2014

The CEM has decreased slightly to 8.0 however customers still rated us close to excellent. This 0.5 reduction can be attributed to an increase in call waiting times and delayed response to emails, as a result of some small teething issues from the implementation of our new customer system. Our CEM relating to our email customer service channel decreased to 6.9.

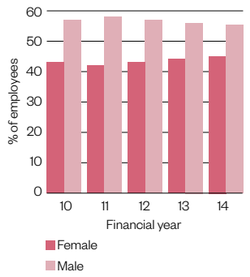


EMPLOYEE ENGAGEMENT

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

2014

Our overall engagement score decreased to 52 per cent in 2014, down from 56 per cent in 2013. This result reflects the bedding in of the organisational restructure of the business and the large scale customer billing and service system implementations that have occurred over the last 12 months. We are poised and committed to improving and increasing our levels of engagement in the year ahead.

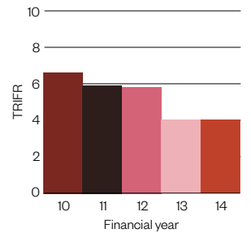


GENDER DIVERSITY

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

2014

We continued our trend of increasing female representation across Contact, including at senior levels. We are working to ensure that our focus extends to diversity more broadly, to be reflective of our stakeholders, customers and the communities that we operate in. Our aim is to develop broader diversity targets and metrics in the year ahead.

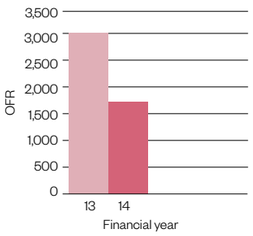


TOTAL RECORDABLE INJURY FREQUENCY RATE (TRIFR)

The health, safety and well-being of our people remains our number one priority. TRIFR is a key indicator of our employee and contractor safety performance and is calculated by taking the number of incidents resulting in lost time, restricted work or medical treatment, dividing hours worked, and multiplying this by one million.

2014

In FY14 we worked over four million hours on Contact sites with 17 injuries – two fractures were our most severe, followed by sprains, strains and bruising. Our TRIFR performance remained flat from the prior year, at 4.0.

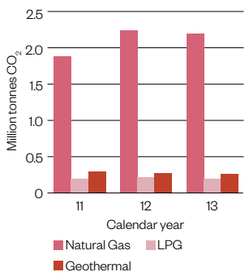


OBSERVATION FREQUENCY RATE (OFR)

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

2014

We had over 7,000 safety conversations during the year and exceeded our OFR target (1,743 against a target of 1,700). A reduction in OFR was expected as we had less construction activity and focussed our observations on quality.

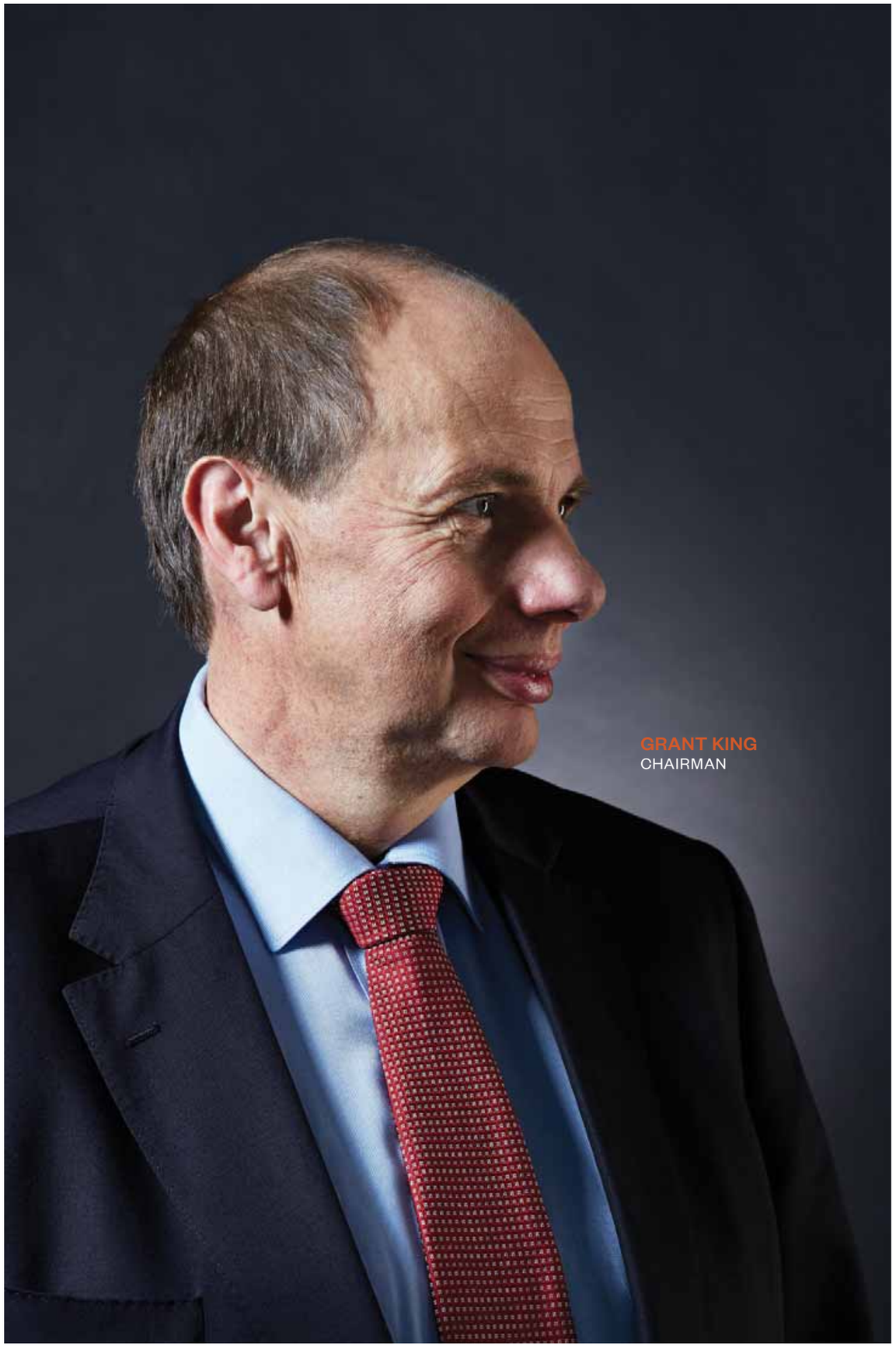


GREENHOUSE GAS OBLIGATIONS

The majority of our annual CO_2 emissions for which we have obligations under the Emissions Trading Scheme (ETS), stem from our natural gas generation operations. However, the mix of natural gas, geothermal and hydro generation we use each year is related to weather conditions. During wet years we rely more on our hydro generation, while during dry years our use of natural gas generation increases, along with overall emissions.

2014

Greenhouse gas emissions from natural gas, LPG and geothermal operations remained relatively constant with 2012. We expect natural gas greenhouse emissions to trend down in 2014 on the basis of reduced thermal operations following the commissioning of Te Mihi power station in May 2014.



Q&A

Grant King, Chairman, and Dennis Barnes, CEO, take us through their views on Contact's key challenges and achievements throughout the 2014 financial year.

"We've come to the end of a six year transformation programme where we greatly increased the flexibility of our generation portfolio with the addition of gas storage and gas fired peaking power plant and increased our renewable production through investments in geothermal projects such as the recently completed Te Mihi. With the implementation of our new customer service and billing system we have laid the foundation to improve the service we provide our customers. The skills and expertise our people have developed during this period of transformation will be valuable as we continue to drive efficiencies and explore future opportunities for growth."

Dennis Barnes

"Process efficiency, mass market segmentation, revised pricing models and improved digital capabilities will all provide opportunities to leverage the new customer billing and service system to reduce cost to serve at the same time as enhancing customer experience."

HOW HAS CONTACT PERFORMED THIS YEAR FOR ITS SHAREHOLDERS?

GRANT. Our flexible generation portfolio has enabled us to respond to market conditions and substitute traditional thermal generation with base load geothermal and hydro generation, lowering our total cost of generation. Profit for the financial year 2014 (FY14) was $234 million, a $35 million increase (18 per cent) on the financial year 2013 (FY13). Our earnings before net interest expense, tax, depreciation, amortisation, change in fair value of financial instruments and other significant items (EBITDAF[1]) for FY14 were $587 million, $46 million higher (9 per cent) than the prior year. Underlying earnings after tax[1] (profit for the year adjusted for significant items that do not reflect the ongoing performance of the Group) were $227 million, up $25 million (12 per cent).

The increase in EBITDAF is primarily due to a reduction in the cost of energy arising from increased hydro generation and the receipt of $43 million of compensation as a result of the delayed start-up of Te Mihi power station. This higher level of EBITDAF is expected to be sustained in FY15 with a full year of Te Mihi operation.

WHAT WERE SOME OF THE HIGHLIGHTS OF THE YEAR?

DENNIS. There have been a number of success stories this year for Contact, but I'll touch on three. Firstly, our partnership with Ngāti Tahu. After 17 years of discussion we reached an agreement in 2013 and are working together on protecting their tāonga while using leased land as part of our Ohaaki power station generation activities, and also on how we can support their tribal aspirations. Reaching agreement was a critical part in enabling us to reconsent the Ohaaki power station for a further 35 years. Secondly, commissioning the 166 MW Te Mihi geothermal power station in May 2014 was a major milestone for us. It completed this stage of geothermal growth, and demonstrates our geothermal expertise. Finally, continued focus on customer service and competitively priced products also saw a 1 per cent increase in retail sales, during a period when we implemented our new customer billing and service system.

Performance for the year ended 30 June 2014

$234m
Profit for the year, up 18 per cent

$587m
EBITDAF[1], up 9 per cent

26 cps
Total shareholder distributions, up 4 per cent

1. EBITDAF and underlying earnings after tax are non-generally accepted accounting practice (non-GAAP) profit measures. EBITDAF is calculated as statutory profit for the year before net interest expense, tax, depreciation, amortisation, change in fair value of financial instruments and other significant items. Underlying earnings after tax is statutory profit excluding significant items that do not reflect the ongoing performance of the Group. The CEO monitors EBITDAF and underlying earnings after tax as key indicators of Contact's performance and believes they assist investors in understanding the performance of the core operations of the business. Reconciliations of EBITDAF to underlying earnings after tax and from underlying earnings after tax to Group statutory profit is provided in Note 2 of Contact's audited financial statements, on page 66.



DENNIS BARNES
CHIEF EXECUTIVE OFFICER

4.0

Total recordable injury frequency rate for the year, no change from FY13

$773m

In new funding raised in the past 14 months

$623m

Cost of building our new Te Mihi power station and connections to the steamfield

1. Dennis Barnes and Whaimutu Dewes at the celebration of the Ngāti Tahu partnership
2. Te Mihi power station





WHAT'S BEEN HAPPENING IN THE MARKET DURING FY14 AND HOW HAS CONTACT RESPONDED?

DENNIS. We are continuing to adapt to the reality of no energy demand growth and increasing competition and innovation in the retail market. During FY14 the number of customers switching electricity providers increased by 10 per cent; however, we continued to hold market share in one of the most competitive retail electricity markets in the world, with our range of product and payment options remaining popular with home and business customers. Retail margins remain under pressure, with price increases only recovering network cost increases. The Statistics New Zealand Survey of Domestic Electricity Prices shows the annual increase in the energy component of tariffs, which energy retailers have control over, was only 0.3 per cent in the past year.

We saw the completion of the partial privatisation of Genesis, Meridian and Mighty River Power, which while increasing scrutiny on the sector has also increased the competition we face for both institutional and private investor capital. The Single Buyer electricity market model proposed by the Labour Party and the Greens has impacted on both ours and our competitors' share prices throughout the year, and is something that would significantly change the workings of the New Zealand energy market if implemented. We believe that consumers are seeing clear evidence that the current market model is working with high levels of competition. It is important that a stable regulatory environment is maintained in order for participants like Contact to continue to make significant, long term investment decisions with confidence, to ensure the ongoing reliable and secure supply of energy for New Zealanders.

We have positioned ourselves strongly with the right assets, the right systems and a strong pipeline of new products for the future, which will continue to ensure that we can serve our customers well.

THE YEAR HAS SEEN THE COMPLETION OF CONTACT'S 5-YEAR INVESTMENT IN GENERATION FLEXIBILITY. HOW HAS AND WILL THAT BENEFIT CONTACT IN YEARS TO COME?

DENNIS. The addition of Te Mihi to our generation fleet and the related steamfield work improve the efficiency of our use of consented volumes of geothermal fluid from the iconic Wairākei field. It has also reduced our generation costs, which, combined with lower future gas take-or-pay constraints and having New Zealand's only gas storage facility, means our thermal power stations will only operate when we can achieve an economic return. These factors help to make our earnings more predictable.

WHAT IS CONTACT'S NEXT MOVE IN GEOTHERMAL GENERATION?

GRANT. In the short term we are focused on integrating Te Mihi into our Wairākei operations and also believe there are opportunities to increase production from our existing renewable assets. The existing consents at Wairākei expire in 2026 and are likely to require further plant retirements at the currently 56 year old Wairākei power station. This process and ensuring we make the right decisions will take a considerable amount of time and expertise.

In addition, if market conditions or the retirement of existing power stations mean replacements are required, we hold consents to develop up to 250 MW of geothermal generation at Tauhara, which we believe is New Zealand's most attractive new generation development opportunity. Through our work at Te Mihi we have further grown our team's expertise in the development and careful management of geothermal resources. These are skills that we will continue to focus on retaining and using to develop new opportunities.

IT SEEMS THAT YOUR SAFETY PERFORMANCE HAS NOT IMPROVED IN FY14. WHAT ARE YOU DOING TO MAKE FURTHER IMPROVEMENTS?

DENNIS. Our safety performance as measured by Total Recordable Injury Frequency Rate (TRIFR) was flat for FY14 at 4.0, with 17 injuries occurring across four million hours worked on Contact sites. Our focus for FY15 is on continuing to evolve our positive safety culture and helping our team to get comfortable with having safety coaching conversations with other employees and contractors. We are continuing our work with Tana Umaga as safety spokesperson having launched a new safety coach initiative with our employees during August. We are once again targeting a 20 per cent improvement in our safety performance in the new financial year.

WHAT'S CONTACT'S FOCUS FOR CUSTOMERS?

DENNIS. Our customers tell us that we need to be more simple, more transparent and connected to their needs. With intense retail competition we need to find ways to reduce our costs to acquire and serve customers and I believe our new customer billing and service system will provide us with an advantage. Process efficiency, mass market segmentation, revised pricing models and improved digital capabilities will all provide opportunities to leverage the new customer billing and service system to reduce cost to serve at the same time as enhancing the customer experience. We will have a new customer website live soon, which will improve the ease with which customers can interact with us online. Following on from the introduction of our new brand last year, we'll also be taking a different approach to how we communicate with potential new customers. You'll see and hear more about this within the next year.

WAS THE CAPITAL REFINANCING PROGRAMME COMPLETED AS PLANNED DURING FY14?

GRANT. Yes, the Board is very pleased with the successful raising of $773 million in new funding in the past 14 months, which refinances Contact's $705 million of 2014 maturities and the redemption of the $200 million capital bond in November 2013. Our refinancing programme aimed to increase the term and maintain the diversity of our funding sources. I am pleased that through the utilisation of bank debt and the issuance of United States Private Placement notes and domestic retail and wholesale bonds we have been able to achieve this objective.

WHAT ARE CONTACT'S PRIORITIES FOR THE YEAR AHEAD?

DENNIS. We have three main areas of focus. Firstly, leveraging our existing asset base through integrating Te Mihi into our generation portfolio and increasing the amount of energy we produce from renewable sources.

Secondly, reducing our cost to serve customers by: realising the benefits of the implementation of our new customer billing and service system, by ensuring that our thermal generation capacity provides security and attracts a fair return, and by leading the industry to be more efficient.

And finally we'll continue fuel substitution, through balancing thermal generation availability with the requirement to ensure that we maintain renewable energy options for the future.

Our Board



Grant King

Chairman and Non-Executive Director

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

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

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



Phillip Pryke

Deputy Chairman and Independent Non-Executive Director

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

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

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



David Baldwin

Non-Executive Director

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

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

David Baldwin was appointed to the Board in 2009 in his role as managing director of Contact. David has been with Origin since May 2006 and is currently responsible for Origin's interest in Australia Pacific LNG, including operatorship of the upstream and pipeline components of the joint venture. Before joining Origin, David held senior roles with MidAmerican Energy Holdings Company in Asia and the United States, and with Shell in New Zealand and the Netherlands. David holds a Master of Business Administration from Victoria University and a Bachelor of Engineering (Chemical) from Canterbury University.



Bruce Beeren

Non-Executive Director

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

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

With over 35 years' experience in the energy industry, Bruce's previous roles include chief executive officer of VENCorp, the Victorian gas system operator, and several senior management positions at Origin Energy and AGL, including chief financial officer. He is a director of Origin Energy Limited, Equipsuper Pty Limited, The Hunger Project Australia Pty Limited and Veda Group Limited. He is also a former director of ConnectEast Group, Coal & Allied Industries Limited, Envestra Limited and Veda Advantage Limited. Bruce has degrees in science and commerce and a Master of Business Administration from the University of New South Wales. He is a fellow of CPA Australia and the Australian Institute of Company Directors.



Whaimutu Dewes

Independent Non-Executive Director

Term of office
Appointed director
22 February 2010, last re-elected 2013 annual meeting.

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

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



Karen Moses

Non-Executive Director

Term of office
Appointed director
1 October 2004, last re-elected 2013 annual meeting.

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

Karen Moses is the executive director, finance and strategy at Origin Energy Limited. Prior to this role, Karen was Origin Energy's chief operating officer, and has also held development and trading roles with Exxon Group. Karen is a director of SAS Trustee Corporation and Sydney Dance Company. She is a former director of Energia Andina S.A., Australian Energy Market Operator Limited, Energy and Water Ombudsman (Victoria) Limited, Australian Energy Market Operator (Transitional) Limited and VENCorp. Karen holds a Bachelor of Economics and a Diploma of Education from the University of Sydney.



Sue Sheldon CNZM

Independent Non-Executive Director

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

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

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

Our Leadership Team



















1.
Dennis Barnes
Chief Executive Officer

FY14 has been a watershed year for Contact. We completed two major projects, improved the way we run our business and significantly improved our funding position. The industry has seen some change as well with the completion of the high voltage transmission system upgrades and the partial privatisation of our major competitors. All this provides a good foundation for Contact to continue to deliver on its promises.

2.
Graham Cockroft
Chief Financial Officer

Our drive for efficiency continued through the divestment of more non-core assets and good progress with our new approach to procurement. We raised $773 million in the debt markets to repay maturing debt and strengthen our balance sheet, and we continued to improve our financial and performance reporting to all stakeholders. These achievements were acknowledged by the New Zealand finance industry when Contact received awards for 'Excellence in Treasury' and 'Market Leaders Best Corporate Communicator' at the 2014 INFINZ awards.

3.
Peter Kane
General Manager – Operations

This year I look forward to the challenge of delivering cost-effective and reliable production from our expanded and versatile portfolio. As always, safety is of paramount importance at Contact and growth in the asset base brings increased complexity and more demanding hazard management.

4.
Annika Streefland
General Manager – People and Culture

In this last year we have recruited 853 people from the communities in which we work in – from one end of the country to the other. Many have come in on fixed terms of about a year to work with our new SAP customer billing and service system and have therefore acquired many new skills – the training support has been intensive. We are transforming and have restructured to be more agile and find ways of lowering the cost to our customers. Our strategy underpinning how we work is embedded in our new behaviours of Stay safe mate, Here to help, Smash complexity, Own it and Play nicely.

5.
Paul Ridley-Smith
General Counsel

I lead the legal, regulatory and government relations functions at Contact. Because electricity and gas are essential for all of us, whether for business or at home, and a significant part of the household budget we are always under scrutiny to make sure that prices are as low as possible. I welcome that and believe that competition, not more government and regulatory intervention, is the surest way to get long term lower prices. Improvements can be made to reduce costs, improve competition and deliver simpler, lower prices. Some of these Contact can do itself and some need the help of Government, regulators and other industry participants. Good challenges for 2015.

6.
Nicholas Robinson
General Manager – Customer Insight, Marketing and Communications

In such a competitive market it was another year of working hard to retain our loyal customers and attract new customers to Contact with competitive offers and service. I'm proud of how the team has done this while also completing what has probably been the largest systems change to be completed in the New Zealand electricity sector. The coming year will be about delivering the benefits of our new system to our customers through new and enhanced products and services and I'm excited about what's in the pipeline.

7.
James Kilty
General Manager – Sales and Customer Experience, Trading, Development and Geothermal Resources

During the year we continued our switch to lower cost fuel with reduced gas commitments and the completion of Te Mihi. The reconsenting of Ohaaki and the extension of our relationship with Fonterra at Te Rapa have secured the future of those assets.

8.
Mark Corbitt
General Manager – Information and Communication Technology

Last year we successfully met the challenge of maintaining technology stability and service availability through the period of high-volume change in introducing new infrastructure and the new SAP customer billing and service system. In the year ahead we'll continue to keep service availability high and simplify our technology to reduce our costs. We're looking forward to introducing new desktop capability to our people and increasing our customer self-service through extending our digital and mobile capabilities.

9.
Tania Palmer
General Manager – Health, Safety and Environment (HSE)

During the past year, we've worked on what New Zealand's new health and safety legislation means for our business and taken a good hard look at our leadership efforts and culture around safety (thanks to some excellent feedback from our people). So that we can continue to improve our safety defences as we journey towards our goal of Zero Harm, this year we will simplify and reduce written safety procedures and instructions to ease the burden on our frontline workers; support our leaders to be pragmatic, fair and more consistent when safety breaches occur; and improve communication and feedback with our people.

HOME SWEET

Home

HOT SHOWERS AND FLUFFY TOWELS KEEP THIS BUSY FAMILY OF FOUR HAPPY AT HOME



MERO ROKX

Teacher and mum of two,
Orini (9) and Te Uranga o te Ra (2)

CONTACT ENERGY IS WELCOMED INTO THE HOMES OF 567,500 KIWIS, WHERE ENERGY IS AVAILABLE 24/7 AND A RANGE OF CONVENIENT BILLING OPTIONS HELP TO KEEP FAMILIES HAPPY, HEALTHY AND WARM.

Our home is in Brooklyn, about 10 minutes' drive from central Wellington. I love its location. I can go to the beach or walk in to town. We're in the valley but we get heaps of sun in the summertime. I live here with my partner, Taniera, our 9 year old daughter, Orini, and our 2 year old son, Te Uranga o te Ra. We've lived in our home for going on 8 years now, since my daughter was a baby.

We signed up to Contact when we first moved in, on my Mum's recommendation. Contact has been good – otherwise I would've been long gone! They've always offered a lot of support. If I've ever been late with our bill they've called me so I could explain the situation. They've always found ways to get it sorted without charging me any extra fees. I feel like they really listen and take our situation into consideration.

In our family we see energy as precious, but also a necessity. So we prioritise the things we really want versus those we can make do without. For example, we really love our heat pump, so we have it on a lot. That's probably at the top of our priority list. The next one down is our hot water. We enjoy good hot showers and our kids enjoy their bubble baths. We also use a clothes dryer in the winter because we're so busy. Both of us are working and our children are at day-care and school, with sports and other activities going on. So being able to use the dryer allows us to attend to our children and enjoy our time with them.

I suppose in those areas we do use a lot of energy, but we cut down on other things. For instance, we only use cold water in our washing machine, all devices are switched off completely before we go to bed, and we use cloth nappies, which I dry on the line. We try to balance things out. We just really like the fact that we can come home, and turn on the heat pump and not worry. We are very grateful for what we have, and we are conscious of the impact that the level of our comfort has on the planet. But if we were sitting in a cold house we just wouldn't be able to function. Having heat and feeling comfortable is our foundation for living.

Our energy use does fluctuate with the seasons. I think our power bill in winter can be up to $400 a month but then in summer it's only about $100 a month. But everything's smooth and I don't ever recall feeling stressed about the power bill. I have it set up so I always pay $150 per fortnight. If at the end of the month I haven't quite paid the whole bill off, someone from Contact calls to tell me what's owing. In summer I overpay so we're basically covered for the bigger winter bills.

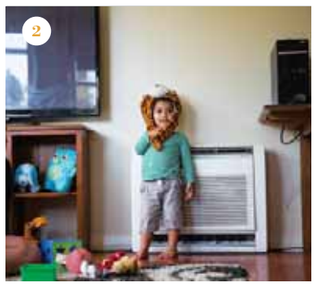
We've had that system since the very start and it's worked for almost 8 years now. We have a regular income so I like having a regular payment. It's the way I deal with everyday things. I don't have to think about it and I'm less stressed out because of that.

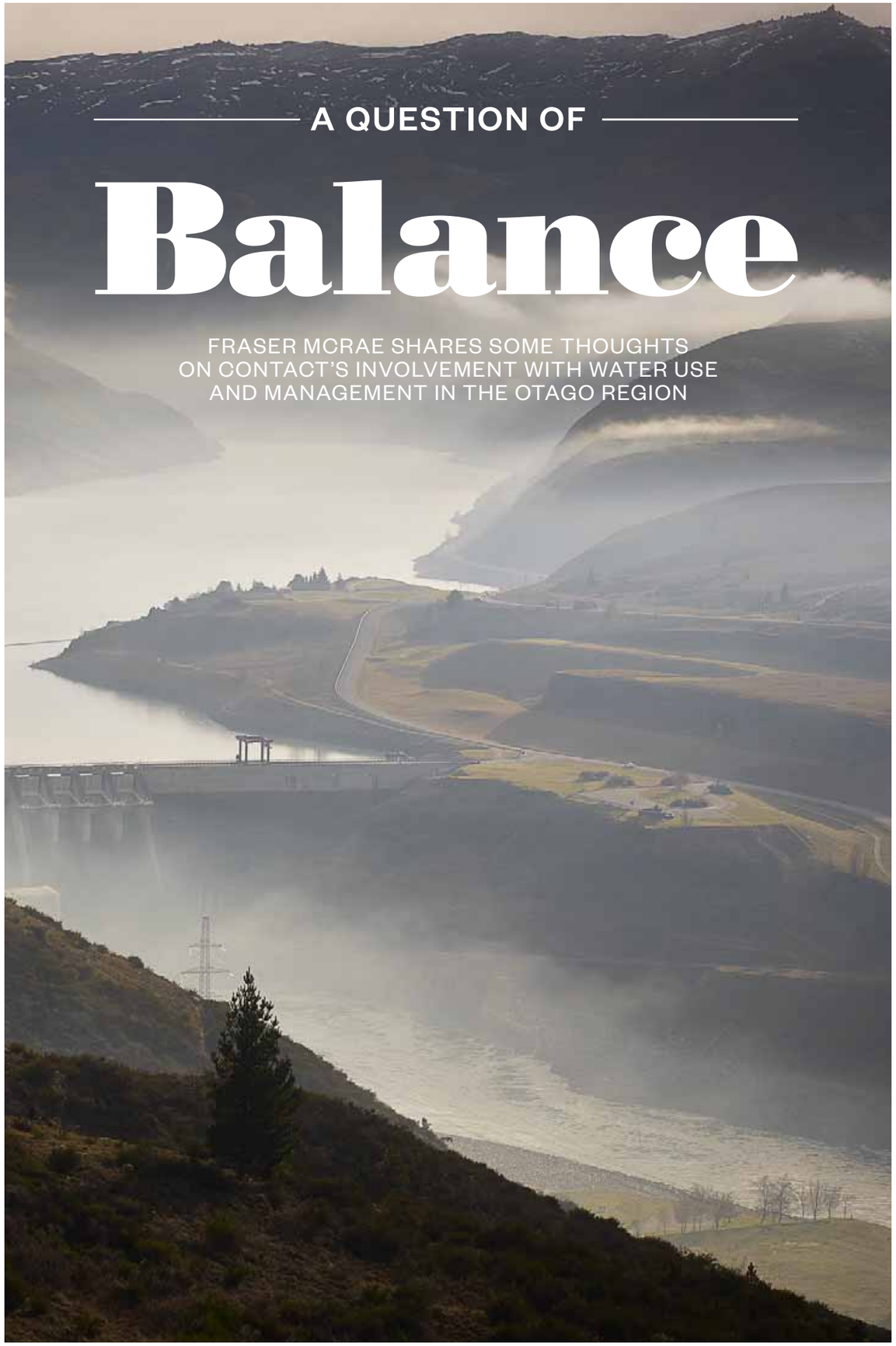
My experience with Contact has been really good. I feel like I've been well looked after. Any issue has been resolved easily with a lot of understanding on their part. I've had so many power companies come to our door and try to convince me to change. But I'm just so happy with Contact. I've never had to call them with a problem. Never. The last time I called them was to give them my Fly Buys number.

I don't think a home is a home without energy. None of us would be able to function. I love that if I've been at work late and everyone else has gotten home before me, I just walk in the door and I'm overcome with warmth and the smell of the crockpot. It really heightens my sense of family.

1. Mero and the kids baking
2. Te Uranga o te Ra at play







A QUESTION OF

Balance

FRASER MCRAE SHARES SOME THOUGHTS ON CONTACT'S INVOLVEMENT WITH WATER USE AND MANAGEMENT IN THE OTAGO REGION

FRASER MCRAE

Career veteran; Director of Policy, Planning and Resource Management at the Otago Regional Council

WITH THREE MAJOR HYDROELECTRIC DAMS AND TWO POWER STATIONS IN OTAGO, CONTACT HAS A SIGNIFICANT IMPACT ON THE REGION'S ENVIRONMENT AND COMMUNITY – AN IMPACT THAT WE WORK HARD TO ENSURE IS POSITIVE FOR ALL.

I started my career way back in 1974. About 8 years ago I took up the position of Director of Policy, Planning and Resource Management at the Otago Regional Council. In the case of Contact, our work is around the management of water and their operations at Roxburgh, Clyde and Hāwea, which are all consented by us.

The size of those structures is sufficient to affect the flow of the entire Clutha catchment. There's a big balancing act that goes on between the river being a source of water for enjoyment, a source of water for power, and a source of water for the towns and farms along it. We're constantly talking with each other around how that balance is working.

From our point of view, Contact's use of water is interesting because essentially they're not consumptive users of water. A farmer who's irrigating takes the water, spreads it out on the land and the water's gone. But Contact takes the water in a penstock, throws it down a concrete slope and through a turbine and then spits it back into the river again. As much water that goes in at the top comes out at the bottom. So they're not consuming that water.

But if they dam the river, that water is not available for people downstream to use for a period of time.

Now for the community that's often a very good thing. For instance, in flood events I have seen from '78 right up to the recent one in July 2013, Contact was able to fill Hāwea up so that water didn't come down the river. That reduced the river flooding all the way down to Balclutha. So Contact actually manages the river to reduce flood effects as best they can. I think that's something the community doesn't necessarily realise.

Contact is very conscientious about their impact on the local community. When they constructed the Clyde dam they provided access to the lake with boat ramps, rowing club buildings, and picnic areas, and they continue to maintain them to a very high standard. They certainly haven't shied away from that sort of community involvement.

They're also a big employer in the local community. Not just their own staff, but all the contractors and trickle down employment. Everybody needs groceries and a haircut. There are a lot of businesses that have customers, thanks to Contact.

Contact is also very cognisant of their impact on the environment. They're part of the Sustainable Business Council's 'Ecosystem Services Review'. It looks at the things we get from nature that we don't normally recognise as assets but in fact play a huge role in our economy. From Contact's point of view that's the supply of water.

Earlier this year I went through an exercise with Contact looking at their use of 'Ecosystem Services'. It was all around the significance of water. Despite the wide variety of people in the room there was a strong sense that we were all interested in the same thing – maintaining good flow in the Clutha River. It became clear that even though our different interests, roles and functions bring about a lot of discussion and sometimes arguments, we're not competing. We all want the same thing. Contact is the only organisation I know that's done an exercise like that.

The relationship between the Otago Regional Council and Contact is a very positive one. They understand the need for balance. They're good to work with and they're very supportive of what we do.

I actually use Contact as my power company at home. Although whether it's their energy that comes out of the plugs in the walls, I'd never know! I'd like to say I chose them because of my dealings with them, but to be honest my wife made that decision. I spend a lot of my workday negotiating, but I would never argue with her.

1. Roxburgh power station
2. Clyde power station

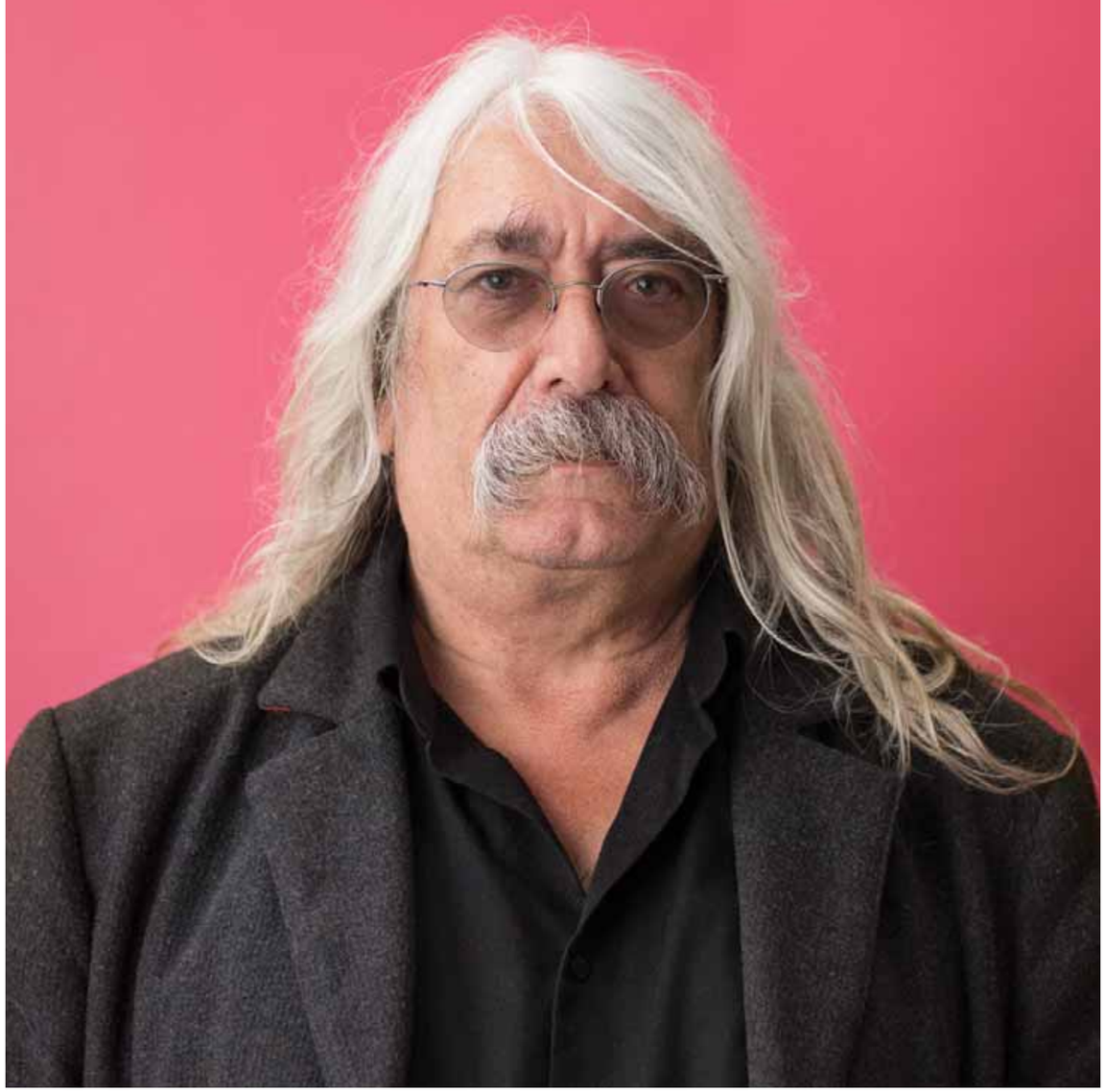




GOOD THINGS

Brewing

ALASDAIR CASSELS, FOUNDER OF THE BREWERY, SHARES A FEW WORDS ABOUT GOOD FOOD, DRAUGHT BEER AND THE JOYS OF COOKIN' WITH RETICULATED GAS



ALASDAIR CASSELS

Major shareholder of
Cassels & Sons and
proud owner of The Tannery

1. The original Cassels & Sons wood fired kettle
2. Zak Cassels serving at the bar





BUILT ON THE SITE OF AN OLD TANNERY IN CHRISTCHURCH'S INDUSTRIAL EAST SIDE, THE BREWERY IS PART OF A LARGER SITE THAT HAS BEEN TRANSFORMED INTO A BOUTIQUE RETAIL EMPORIUM WITH OVER 60 STORES.

The Brewery happened just after the earthquake. I had to get something going because the place was wrecked. So we built a pretty unique business based on a wood fired kettle. We brew our beer with wood and we've got a wood fired pizzeria.

We were up and running a few months after the earthquake and it became very, very popular. It really put this side of town on the map. It made me believe that I could get going with the rest of the project, which was The Tannery itself – a 20,000 square metre site that we had to put back together after the earthquake.

Early on in the piece Scott Kotoul, our account manager from Contact, came and saw us. Friendly, helpful Scott. That was our first contact with Contact. He came in and started to try and develop a business relationship with us.

To start with we had problems with electrical reticulation, and he sorted that out pretty early on. Then he said he could get reticulated gas for us, which we said yes to pretty quickly. The process of getting connected to the gas network was actually quite expensive because they had to run a line all the way down Cumnor Terrace. I'd estimate it cost about $50,000. But Contact spent the money, realising I suppose that in the course of time we would use enough gas to pay it off.

The reason we were so keen on gas is that it's cheaper per kilowatt hour than electricity. And it's a convenient form of heating. Now there are probably four or five businesses that run off that gas line, including our big brewery down the back of the Tannery site. But beyond that, it's better for some types of cooking. Like if you're frying a steak, gas is the way to go because it's nice and hot. Even the Aga oven in our restaurant is run on reticulated gas.

When we got going with the rest of the Tannery site, we talked to Scott about a bulk supply of electricity and Contact gave us some quite good pricing. The original electricity supply was scattered around. There were power cables running in all directions. We had probably 50 different power meters and all sorts of suppliers. Contact was able to come in and simplify it. Now it's cleaned up to just one main power cable and one supplier. That makes it a lot easier to talk price and sort through any issues.

I'd definitely recommend Contact to other small businesses around. For us, our dealing with Contact was really our relationship with Scott. He's the one who gave us ideas about how to get power and reticulated gas inside the property. He's just a really good guy. If we ever needed anything he'd come out straightaway. Even if we ran out of bottled gas at home he'd drop a new one off. He's been really, really helpful. He still pops around probably once a month. After work we always offer him a beer. I can't remember which one he likes, but I know he drinks it!

Overall, I'd say that Contact's advice made a big difference to us. We chose a different boiler in our brewery because of the gas reticulation. We could've had a diesel boiler but we chose gas because it's cheaper and it burns cleaner.

I think there's always a place in New Zealand culture for good food, draught beer and a friendly atmosphere, and that's what we've got. We couldn't have that without power and gas. And then there's the Tannery too, which is totally unique. Every day I get someone saying to me how good it is. They come up to me and say, 'thanks a lot'. I get a kick out of it.

WORKING

Together

A LONGSTANDING TRUSTEE AND DESCENDANT OF NGĀTI TAHU, AROHA CAMPBELL HAS WORKED FOR OVER TWO DECADES TO RESOLVE LAND ISSUES AROUND THE OHAAKI POWER STATION



AROHA CAMPBELL

Trustee for the Ngāti Tahu Tribal Trust since 1990

COMMUNICATION, RESPECT AND COLLECTIVE NEGOTIATION HAVE RESULTED IN THE SIGNING OF THE OHAAKI MITIGATION AGREEMENT, A ROBUST AND MUTUALLY BENEFICIAL FRAMEWORK FOR LAND USE ISSUES SURROUNDING THE OHAAKI POWER STATION.

I'm one of three trustees on the Ngāti Tahu Tribal Trust. We're an ahu whenua trust that looks after the land on six blocks around the Ohaaki power station.

I've been a trustee since the early 1990s, after the power station was commissioned. At that time we were disappointed with the lack of understanding on the part of the company about their effects on the whenua. Over the years, the power station has caused subsidence of up to 3.7 metres. Previous science said that our marae would definitely end up underwater, which would mean relocation. The marae is our iwi marae, named after our oldest ancestor, Tahu Matua. It is the institution of Ngāti Tahu, so the idea of relocation caused a rift. We had whānau who didn't want to move, and we had those who did.

Contact acquired the power station in 1996 and we've been working steadily with them for 17 years trying to resolve the issues. The real turning point was the reconsenting process, which got underway 18 months ago. We knew Contact would need our support to get consent.

One complication was that there are in fact three separate Ngāti Tahu entities in and around Ohaaki Marae – the Ngāti Tahu Tribal Trust, the Marae Reservation Trust and A1 Section 30. These are Māori land trusts that manage the land on behalf of the collective landowners from Ngāti Tahu. Owing to historical differences we were working in silos, not speaking to one another. But 18 months ago the three organisations got together to negotiate with Contact. It was the first time we agreed to work through the reconsenting process as one landowner collective, and this has worked out extremely well.

One positive aspect is that although the power station originally had an installed capability of just over 100 MW it has only been producing around 45 MW for the last few years. We have decided in light of the most recent science we have, that we may not have to relocate our marae after all. But if we do, Contact Energy has provided a 9 hectare block of land that we can swap out for it. So we have options – A, we can try to protect the marae or B, we can relocate. A small working group was established with a specific task of protecting the marae in its current location. The initial surveying was completed on time and reported back to the hui-ā-iwi on the 23rd of August 2014.

Another positive aspect was having Contact come around the table to identify our culturally significant sites. We now have cultural monitoring so if there is any land disturbance or artefacts found, there are proper protocols in place. We never had that before. We have also formalised and confirmed free electricity, gas and water for our marae. That's huge given that neither the Marae Reservation nor the Committee have an income.

The key to future-proofing this agreement is the structure that's been put in place. There is a management group, a geothermal group and a leadership group. Each group keeps an eye on different aspects of the agreement and both Ngāti Tahu and Contact are involved right up to a chair or CEO level.

Personally, I'm thrilled that we got to this point. For the landowner collective, this is a great example of three Māori organisations that are so closely linked by the land and the marae yet didn't talk to each other. The reconsenting brought us together and made us stronger. Now we talk a lot and there are no surprises. When we go to our hui, we go as a group.

This year, the landowner collective and Contact jointly entered the Deloitte Energy Excellence Awards in the Environmental category. We were one of three finalists selected. It really shows the willingness of both sides to work together. That's a great achievement in itself.

The process in the past 18 months has certainly changed my opinion of Contact. I'm impressed with their culture and I can see that they're listening. Their relationship with Ngāti Tahu is one of best interest for all. They've realised that what's best for them has to be good for us – and vice versa.

1. Leo Rika and James Kilty hongi at Ohaaki Marae
2. Ngāti Tahu whānau cooking in the wharekai



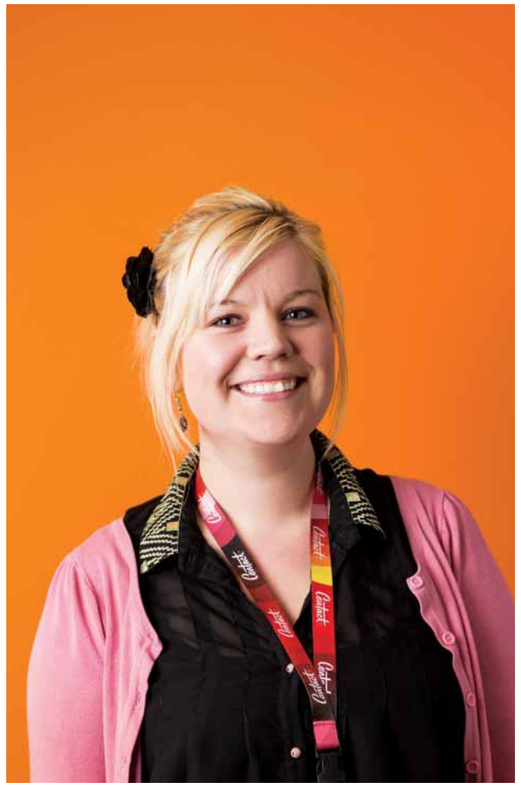




WE HAVE

1,066

EMPLOYEES KEEPING
THE LIGHTS ON EVERY DAY,
HERE ARE THEIR STORIES



I'm lucky enough to work alongside not only talented professionals who are top of their field, but also some of the funniest, most approachable and genuinely kind people. They make coming into work a privilege rather than just a job.

Steph.

STEPHANIE WINDERS
Generation Assistant
Clyde
Employee of 9 months



Working at Contact is dynamic in the truest sense of the word. It's an industry that's always changing, challenging and thought provoking. I work with all fuels, from gas that keeps the hot water flowing, to LPG bottles for summer barbecues, so I see the impact on New Zealanders. That's rewarding.

Prak

PRAKASHAN SRITHARAN
Commercial Analyst, Fuels and Trading
Wellington
Employee of 2 years 6 months



When a customer calls, I really enjoy being able to fix or explain any issue they might be having. It feels great when I know I've given them peace of mind and complete confidence not only in myself, but in Contact as a whole.

Jaimee

JAIMEE BURR
Customer Service Representative
Levin
Employee of 4 months



My role is to 'make the plant work'. I really enjoy the challenge of problem solving and finding creative solutions to issues that arise. Contact is a workplace where people get a lot of encouragement, support and opportunities to strive.

Stefan

STEFAN YUILE
Production Engineer
Te Rapa
Employee of 2 years

I enjoy that my current role gives me the autonomy to make decisions in conjunction with my shift partner. I am responsible for those decisions and the actions that I take, and that motivates me to do my best.

Morry

ALLEN MORRISON (MORRY)
Generation Controller
Ōtāhuhu
Employee of 20 years





My proudest moment has been working with Ngāti Tahu to address the mamae (grievance) created by the Ohaaki Power Station. Our team gained a much deeper understanding of the people, their tāonga (tribal resources) and their special status as tangata whenua (people of the land) and kaitiaki (guardians).

Tina

TINA POROU
Head of Communications and Sustainability
Wellington
Employee of 2 years

Ngāti Porou, Ngāti Tuwharetoa,
Ngāti Kahungunu, Ngai Tāmanuhiri



My greatest achievement at Contact has been my contribution towards getting Te Mihi completed and producing power. The guests at the opening were extremely impressed, and I felt really proud of the work I do and the people I work with.

Doug

DOUG OBERHOLZER
System Technician – Geothermal
Taupō
Employee of 7 years

Governance, Remuneration Report & Statutory Disclosures

46 Governance
52 Remuneration Report
55 Statutory Disclosures

Governance

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

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

Compliance

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

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

Contact's approach to governance is reported against the nine fundamental principles of good governance as set out in the Financial Markets Authority 'Corporate Governance in New Zealand Principles and Guidelines'.

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

Principle 1 – Ethical standards

Directors observe and foster high ethical standards.

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

Code of Conduct

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

Securities trading policy

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

Principle 2 – Board composition and performance

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

Board size and composition

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

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

The Chairman of Contact's Board, Grant King, is not an independent director and does not hold a casting vote. The Board regularly assesses its performance to ensure that constructive working relationships are maintained. Qualifications and experience of individual directors are detailed on pages 28 and 29.

Director independence

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

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

The Board has determined that, for the purposes of NZSX Listing Rule 3.3.2, Phillip Pryke, Whaimutu Dewes and Sue Sheldon are each independent directors. Grant King, David Baldwin, Bruce Beeren and Karen Moses are not considered to be independent directors by virtue of being directors/employees of, and hence associated persons of, substantial security holder Origin Energy.

Board role and responsibility

The Board charter regulates Board procedures and describes its role and responsibilities. The Board is responsible for setting the strategic direction of Contact, with its ultimate goal being to protect and enhance the value of Contact's assets and business in the interests of the company and for all its shareholders.

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

Delegation

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

Avoiding conflicts of interest

The Board is conscious of its obligations to ensure that directors avoid conflicts of interest between their duty to Contact and their own interests. Contact maintains an interest register in which relevant transactions and matters involving the directors are recorded. See the 'Statutory Disclosures' section (pages 55 to 58) of this Annual Report for details of directors' interest.

Induction and Board access to information and advice

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

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

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

Nomination and appointment of directors

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

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

Evaluation of Board performance

Contact's Board follows a practice of reviewing the performance of the Board 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 July 2013, Contact undertook a formal assessment of the Board and the Board Audit Committee, and
- in August 2014, the Board reviewed the performance of Grant King and Sue Sheldon, being those directors required to retire and stand for re-election at the 2014 annual meeting.

The Board recommends that shareholders vote in favour of the re-election of Grant King and Sue Sheldon.

Principle 3 – Board committees

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

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

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

Standing Board committees are:

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

In addition, the Board establishes special committees to deal on its behalf with specific issues from time to time. An Independent Directors Committee (IDC) meets to evaluate and approve various related party transactions with Origin Energy. At 30 June 2014, the members of the IDC were:

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

Board Audit Committee

Membership is restricted to non-executive directors, with at least three members, and the majority must be independent. The chairman must also be independent and must not be the chairman of the Board. All must have appropriate financial experience and at least one member must have an accounting or financial background. At 30 June 2014, the members of the Board Audit Committee were:

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

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

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

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

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

Health, Safety and Environment Committee

Membership shall comprise at least three members, and the majority must be independent. At 30 June 2014, the members of the Health, Safety and Environment Committee were:

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

The Health, Safety and Environment Committee meet a minimum of three times each year. The Health, Safety and Environment Committee's role is to assist the Board to fulfil its responsibilities in relation to health, safety and environment matters arising out of the activities of Contact and its related companies. These matters relate to those activities that affect employees, contractors, communities and the environment in which Contact operates. The Health, Safety and Environment Committee monitors Contact's compliance with the health, safety and environment policy, reviewing and recommending to the Board targets for health, safety and environment performance, assessing performance against those targets, and reviewing health, safety and environment-related incidents and considering appropriate actions to minimise the risk of recurrence.

Nominations Committee

Membership shall comprise a minimum of three members, and the majority must be independent. At 30 June 2014, the members of the Nominations Committee were:

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

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

Remuneration Committee

Membership is restricted to non-executive directors, with no fewer than three members. At 30 June 2014, the members of the Remuneration Committee were:

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

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

Risk Committee

Membership shall comprise of at least three members. At 30 June 2014, all directors were members of the Risk Committee, and Karen Moses was chairman. No additional fees are being paid for this membership except to the chairman.

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

Board and committee meetings

The Board normally meets at least 10 times a year or whenever necessary to deal with specific matters. The table below shows the directors' attendance at the Board and committee meetings during the year ended 30 June 2014.

	Board	Board Audit Committee	Health, Safety and Environment Committee	Nominations Committee	Remuneration Committee	Risk Committee	Independent Directors Committee
Number of meetings	**10**	**5**	**5**	**1**	**4**	**3**	**1**
Grant King	9			1		2	
Phillip Pryke	9		4	0	3	3	0
David Baldwin	9		5			2	
Bruce Beeren	10	5			4	3	
Whaimutu Dewes	10	5	5			3	1
Karen Moses	10	4*			4	3	
Sue Sheldon	10	5	2*	1		3	1

* Attended as an observer.

Principle 4 – Reporting and disclosure

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

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

Financial reporting

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

Management accountability for the integrity of Contact's financial reporting is reinforced by certification from the CEO and the CFO. The CEO and CFO provided the Board with written confirmation that Contact's financial report presents a true and fair view, in all material respects, of Contact's financial position at, and financial performance for the year ended, 30 June 2014, and that operational results are in accordance with relevant accounting standards.

Timely and balanced disclosure

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

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

Principle 5 – Remuneration

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

Contact's remuneration structure is designed to attract, retain and motivate high calibre directors and senior executives who are able to enhance the company's performance. The 'Remuneration Report' on pages 52 to 54 outlines in detail the remuneration framework of Contact.

Principle 6 – Risk management

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

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

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

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

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

Assurance

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

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

The Risk Committee oversees the assurance programme and provides Business Assurance with the mandate to perform the agreed assurance programme. Business Assurance has unrestricted access to all other departments, records and systems of Contact, and to the external auditor and other third parties as it deems necessary.

Principle 7 – Auditors

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

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

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

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

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

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

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

Principle 8 – Shareholder relations

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

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

Contact currently keeps shareholders informed through:

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

The Board encourages full participation of investors to ensure a high level of accountability and identification with Contact's strategies and goals. Contact's external auditor also attends the annual meeting, and is available to answer questions relating to the conduct of the external audit and the preparation and content of the auditor's report.

Principle 9 – Stakeholder interests

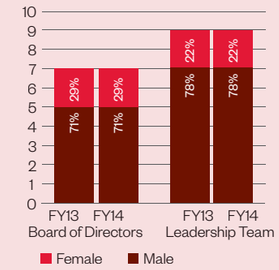
The Board respects the interests of stakeholders within the context of the company's ownership type and its fundamental purpose.

Contact is committed to making, selling and using energy responsibly and sustainably. The company manages its business in a way that balances its economic, environmental and social responsibilities. Contact's approach to social responsibility is based on sharing and listening.

Diversity

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

The gender representation on Contact's Board and Leadership Team at 30 June 2014 is outlined opposite, alongside comparable figures for the past year.



Remuneration Report

Directors' remuneration

The current total directors' fee pool approved by shareholders in 2008 is $1,500,000 per annum. The Board passed resolutions and signed accompanying certificates to confirm the distributions for FY14 among directors of $1,219,000 as detailed below.

Details of the total remuneration and the value of other benefits received by each Contact director for FY14 are as follows:

Directors	Position	Board fees	Committee fees	Special fees	Total remuneration
Grant King	Chairman	$223,000	$0	$0	$223,000
Phillip Pryke	Deputy Chairman	$139,500	$40,000	$0	$179,500
David Baldwin	Director	$122,500	$22,500	$0	$145,000
Bruce Beeren	Director	$122,500	$42,000	$0	$164,500
Whaimutu Dewes	Director	$122,500	$42,000	$0	$164,500
Karen Moses	Director	$122,500	$23,000	$0	$145,500
Sue Sheldon	Director	$122,500	$62,000	$12,500[1]	$197,000
Total		**$975,000**	**$231,500**	**$12,500**	**$1,219,000**

1. Sue Sheldon received special fees in relation to due diligence undertaken for Contact's retail bond issue.

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

Chief Executive Officer remuneration

Employment arrangements

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

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

Remuneration

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

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

The following tables detail the nature and amount of the remuneration paid to Dennis Barnes during FY14.

	Cash remuneration paid		
	Fixed remuneration $	Variable remuneration[1] $	Total cash remuneration paid $
Year ended 30 June 2014	897,750	538,566[2]	1,463,316
Year ended 30 June 2013	936,544	646,380	1,582,924

1. Short-term incentive remuneration relates to payment for the financial year noted, is determined following the end of the financial year and is based on the achievement of performance goals and criteria set by the Board.
2. The short-term incentive has been changed in FY14, with a portion now paid as deferred share rights. These deferred shares which have a value of $269,283 will be awarded in October 2014 and are in addition to the amount shown under variable remuneration.

	Equity rights issued (options and performance share rights)				
	Number of options issued during year	Number of performance share rights issued during year	Value of equity rights issued and amortising during year[1] $	Value of equity rights issued in past years and amortising during year $	Total equity rights vested during year $
Year ended 30 June 2014	590,626	106,876	$168,329	$479,753	–
Year ended 30 June 2013	715,117	97,620	$153,750	$314,003	–

1. The allocation of long-term incentives is determined at the end of each financial year. Each allocation has a total performance period of five years from the grant date with exercise hurdles tested on the third, fourth and fifth anniversaries of the grant date. Whether any options and performance share rights vest and become exercisable by or to Dennis Barnes is subject to the achievement of specified exercise hurdles as described on page 85. The value of the long-term incentive disclosed above is the portion of the fair value of options and performance share rights allocated to the relevant reporting period. None of the options or performance share rights allocated to Dennis Barnes vested FY13 and FY14.

Movements during FY14 in the number of options over ordinary shares and performance share rights held in Contact are set out in the following table.

	Held at 1 July 2013	Granted as compensation	Exercised	Held at 30 June 2014	Vested during year	Vested and exercisable at 30 June 2014
Options	1,311,824	590,626	–	1,902,450	–	–
Performance share rights	227,603	106,876	–	334,479	–	–

Employee remuneration

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

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

We also offer a range of benefits to our people as a way of thanking them for being part of Contact's success. All permanent and fixed term employees are offered discounts for home energy, including electricity, natural gas and LPG. Complimentary health insurance is available to all eligible permanent employees. An Employee Share Ownership Plan, 'Contact Share', is available to eligible permanent employees (details of Contact Share can be found on page 85). Additional employee benefits and offers from local retailers and service providers are also offered from time to time.

Short-Term Incentive (STI) Scheme

Contact's variable remuneration recognises and rewards high-performing individuals whose contributions support business goals and objectives, whilst meeting the goals set for the individual. Contact's STI comprises cash payments and from FY14 onwards for some more senior level roles deferred share rights which will be awarded in October 2014. These awards are based on performance measured against key performance indicators (KPIs). KPIs generally comprise company, business unit and individual targets. These targets are designed to create goals that will support an achievement and performance-oriented culture. The STI programme is designed to differentiate and reward exceptional and good performance.

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

Long-Term Incentive (LTI) Scheme

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

During FY14, the Board allocated LTI awards that are, by value, 50 per cent share options and 50 per cent performance share rights (options with an exercise price of zero).

At 30 June 2014 there were 97 participants in Contact's LTI Scheme.

Share Option Scheme

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

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

For the options and performance share rights issued in FY14, participants' vesting entitlements will be:

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

These vesting entitlements will be calculated on three test dates, being 1 October 2016, 1 October 2017 and 1 October 2018.

The deferred share rights will only become exercisable if the participant remains in ongoing employment at a nominated date.

For further details of the Options and Performance Share Rights including the number granted, lapsed and on issue at the end of the reporting period, see note 19 to the financial statements.

Employee remuneration

The table at right shows the number of employees and former employees of Contact who, in their capacity as employees, received remuneration and other benefits (including redundancy payments and the fair value of any options and performance share rights allocated to the relevant reporting period) during FY14 of at least $100,000 in brackets of $10,000. At 30 June 2014, no Contact subsidiary had any employees.

The remuneration figures analysed include all monetary payments actually paid during the course of FY14. The figures do not include amounts paid post 30 June 2014 that related to the year ended 30 June 2014.

The value of remuneration benefits analysed includes fixed remuneration, short-term incentive (including the short-term incentive relating to FY13 and paid in FY14, as well as short-term incentive for FY14 paid prior to 30 June 2014 for employees made redundant during the year), long-term variable remuneration, Contact Share and redundancy and other payments made on termination of employment. The value of the equity-based incentives included in the remuneration band analysis represents the portion of the grant-date fair value of the equity instruments allocated to the reporting year ended 30 June 2014. The remuneration (and any other benefits) of the CEO, Dennis Barnes, is disclosed in the CEO remuneration section on pages 52 and 53.

Remuneration band	Number of employees
$100,001 – $110,000	56
$110,001 – $120,000	35
$120,001 – $130,000	61
$130,001 – $140,000	54
$140,001 – $150,000	39
$150,001 – $160,000	30
$160,001 – $170,000	21
$170,001 – $180,000	16
$180,001 – $190,000	17
$190,001 – $200,000	7
$200,001 – $210,000	10
$210,001 – $220,000	10
$220,001 – $230,000	8
$230,001 – $240,000	6
$240,001 – $250,000	5
$250,001 – $260,000	1
$260,001 – $270,000	3
$270,001 – $280,000	6
$280,001 – $290,000	2
$290,001 – $300,000	1
$300,001 – $310,000	3
$310,001 – $320,000	6
$320,001 – $330,000	3
$330,001 – $340,000	1
$340,001 – $350,000	3
$350,001 – $360,000	2
$360,001 – $370,000	3
$420,001 – $430,000	1
$430,001 – $440,000	3
$440,001 – $450,000	1
$470,001 – $480,000	1
$490,001 – $500,000	1
$540,001 – $550,000	2
$560,001 – $570,000	1
$630,001 – $640,000	1
$720,001 – $730,000	1
$730,001 – $740,000	1
$740,001 – $750,000	1
$850,001 – $860,000	1
$1,000,001 – $1,010,000	1
Grand total	**425**

Statutory Disclosures

Disclosures of interests by directors

The following are particulars of general disclosures of interest by directors holding office as at 30 June 2014, pursuant to section 140(2) of the Companies Act 1993. Each such director will be regarded as interested in all transactions between Contact and the disclosed entity.

Grant King	
Origin Energy Limited and Group companies	Managing director/shareholder/employee
Business Council of Australia	Director
Australian Petroleum Production and Exploration Association	Councillor
Phillip Pryke	
Co-Investor Capital Partners Pty Limited	Director/shareholder
Frog Hollow Limited	Director/shareholder
GMT Bond Issuer Limited	Director
GMT Wholesale Bond Issuer Limited	Director
Goodman Funds Management Limited	Director
Goodman Limited	Director
Goodman (NZ) Limited	Director
Goodman Property Aggregated Limited	Director
Pauatahanui Projects Limited	Director/shareholder
Pryke Pty Limited	Director/shareholder
Tru-Test Corporation Limited	Director
Tru-Test Pty Limited	Director
David Baldwin	
Origin Energy Limited	Employee/shareholder
Bruce Beeren	
Origin Energy Limited	Director/shareholder and former employee/executive director
Equipsuper Pty Limited	Director
The Hunger Project Australia Pty Limited	Director
Veda Group Limited	Director
Whaimutu Dewes	
Aotearoa Fisheries Limited	Chairman
Housing New Zealand Board	Chairman
Iwi Rakau Limited	Director
Kura Limited	Chairman
Ngati Porou Fisheries Limited	Director
Ngati Porou Forests Limited	Director
Ngati Porou Holding Company Limited	Chairman
Ngati Porou Seafoods Limited	Director
Ngati Porou Whanui Forests Limited	Director
Pupuri Taonga Limited	Director
Rakaikura Limited	Director
Real Fresh Limited	Director
Whainiho Developments Limited	Managing director/shareholder
The Treasury Board	Director

Karen Moses	
Origin Energy Limited and Group companies	Director/shareholder/employee
SAS Trustee Corporation Board	Director
Sydney Dance Company	Director
University of New South Wales, Australian School of Business Advisory Council	Committee member
Sue Sheldon	
Chorus Limited	Chairman
Christchurch City Council	Independent Chair of Audit and Risk Management Committee
FibreTech New Zealand Limited	Chairman
Freightways Limited	Chairman
Paymark Limited	Chairman
Sue Sheldon Advisory Limited	Director

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

Information used by directors

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

Indemnity and insurance

In accordance with section 162 of the Companies Act 1993 and the constitution of the company, Contact has continued to indemnify and insure its directors and officers, including directors of subsidiaries, against potential liability or costs incurred in any proceeding, except to the extent prohibited by law.

Directors' security participation

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

Securities of the company in which each director has a relevant interest at 30 June 2014

Directors	Number of ordinary shares	Number of options (including PSRs)[1]
Grant King	33,886	N/A
Phillip Pryke	88,401	N/A
David Baldwin	1,000	876,006[2]
Bruce Beeren	35,901	N/A
Whaimutu Dewes	20,011	N/A
Karen Moses	21,038	N/A
Sue Sheldon	21,803	N/A

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

Securities dealings of directors

During the year, the directors disclosed in respect of section 148(2) of the Companies Act 1993 that they acquired or disposed of a relevant interest in ordinary shares as follows:

Director	Date of transaction	Consideration per share	Number of ordinary shares acquired (disposed of)	Nature of relevant interest
David Baldwin	02/12/13	Nil	(220,652)	Lapse of options under LTI Scheme
	02/12/13	Nil	(31,449)	Lapse of PSRs under LTI Scheme
	26/05/14	$5.50	1,000	On-market purchase of shares

Subsidiary company directors

The following people held office as directors of subsidiary companies at 30 June 2014. No director of any of Contact's subsidiaries received additional remuneration or benefits in respect of their directorships.

Company	Directors
Contact Aria Limited	Dennis Barnes Paul-Ridley Smith
Contact Wind Limited	Dennis Barnes Graham Cockroft Alistair Yates
Rockgas Limited	Dennis Barnes Graham Cockroft Peter Kane

Stock exchange listings

Contact's ordinary shares are listed and quoted on the New Zealand Stock Market (NZSX) under the company code 'CEN'. Contact's retail bonds are listed and quoted on the New Zealand Debt Market (NZDX) under the company code 'CEN020' (2014 series).

Shareholder statistics

Twenty largest shareholders at 18 August 2014

	Number of ordinary shares	% of ordinary shares
Origin Energy Pacific Holdings Limited	383,508,980	52.30
JP Morgan Chase Bank – NZCSD[1]	29,524,371	4.03
HSBC Nominees (New Zealand) Limited – NZCSD[1]	27,341,241	3.73
Accident Compensation Corporation – NZCSD[1]	21,450,741	2.93
Citibank Nominees (NZ) Limited – NZCSD[1]	16,842,980	2.30
Cogent Nominees Limited – NZCSD[1]	14,887,841	2.03
National Nominees New Zealand Limited – NZCSD[1]	12,398,411	1.69
HSBC Nominees (New Zealand) Limited – NZCSD[1]	11,891,341	1.62
Tea Custodians Limited – NZCSD[1]	10,589,555	1.44
New Zealand Superannuation Fund Nominees Limited – NZCSD[1]	9,638,424	1.31
FNZ Custodians Limited	7,825,140	1.07
Custodial Services Limited	5,900,136	0.80
Origin Energy Universal Holdings Limited	4,767,920	0.65
Premier Nominees Limited – NZCSD[1]	4,711,310	0.64
Private Nominees Limited – NZCSD[1]	4,683,995	0.64
Masfen Securities Limited	3,099,331	0.42
Guardian Nominees Limited A/c Westpac NZ Shares 2002 Wholesale Trust – NZCSD[1]	2,729,138	0.37
Custodial Services Limited	2,267,141	0.31
Forsyth Barr Custodians Limited	1,854,926	0.25
BNP Paribas Nominees NZ Limited – NZCSD[1]	1,735,927	0.24
Total for top 20	**577,648,849**	**78.77**

1. New Zealand Central Securities Depository Limited (NZCSD) is a depository system which allows electronic trading of securities to members. As at 18 August 2014, total holding in NZCSD were 174,862,491 or 23.85% of shares on issue.

Distribution of ordinary shares and shareholders at 18 August 2014

Size of holding	Number of shareholders	% of shareholders	Number of ordinary shares	% of ordinary shares
1 – 1,000	32,137	46.17	21,222,536	2.89
1,001 – 5,000	32,890	47.26	56,001,400	7.64
5,001 – 10,000	2,998	4.31	20,567,008	2.80
10,001 – 50,000	1,451	2.08	26,093,421	3.56
50,001 – 100,000	71	0.10	5,046,902	0.69
100,001 and over	54	0.08	604,377,495	82.42
Total	**69,601**	**100.00**	**733,308,762**	**100.00**

Substantial security holders

According to notices given under the Securities Markets Act 1988, the following persons were substantial security holders of the company as at 18 August 2014:

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

The total number of voting securities of Contact at 18 August 2014 was 733,308,762 fully paid ordinary shares.

Bondholder statistics

Retail fixed rate bonds (CEN020) at 18 August 2014

Size of holding	Number of bondholders	% of bondholders	Number of bonds	% of bonds
1,001 – 5,000	218	8.14	1,088,334	0.49
5,001 – 10,000	559	20.86	5,372,000	2.42
10,001 – 50,000	1,537	57.37	43,777,500	19.72
50,001 – 100,000	233	8.70	19,929,000	8.98
100,001 and over	132	4.93	151,833,166	68.39
Total	**2,679**	**100.00**	**222,000,000**	**100.00**

Auditor fees

KPMG has continued to act as auditors of the company. The amount payable by Contact and its subsidiaries to KPMG as audit fees in respect of FY14 was $675,840. KPMG also provided services in relation to tax compliance ($11,330).

Donations

In accordance with section 211(1)(h) of the Companies Act 1993, Contact records that it donated $16,189 in FY14. Donations are made on the basis that the recipient is not obliged to provide any service such as promoting Contact's brand and are separate from Contact's sponsorship activity. No political contributions were made during the year.

NZX waivers

Details of all waivers granted and published by NZX within or relied upon by Contact during FY14 are available on the company's website www.contactenergy.co.nz.

Exercise of NZX disciplinary powers

NZX did not exercise any of its powers under Listing Rule 5.4.2 in relation to Contact during FY14.

Credit rating at 18 August 2014

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

The $222 million unsubordinated, unsecured fixed rate bonds issued in March 2014 are rated BBB by Standard & Poor's.

Financial Statements

For the year ended 30 June 2014

60 Income Statement
61 Statement of Comprehensive Income
62 Statement of Changes in Equity
63 Statement of Financial Position
64 Statement of Cash Flows

65 Notes to the Financial Statements

1. Basis of accounting 65
2. Segment reporting 66
3. Components of profit 67
4. Earnings per share 68
5. Share capital and distributions 68
6. Inventories 69
7. Property, plant and equipment and intangible assets 69
8. Goodwill 73
9. Borrowings 74
10. Financial instruments 75
11. Financial risk management 78
12. Note to the Statement of Cash Flows 81
13. Receivables and prepayments 81
14. Payables and accruals 82
15. Provisions 82
16. Taxation 82
17. Operating leases 83
18. Related parties 84
19. Share-based compensation 85
20. Contingent liabilities 86
21. Subsequent events 86

87 Independent Auditor's Report

Income Statement

For the year ended 30 June 2014

	Note	Group 2014 $m	Group 2013 $m	Parent 2014 $m	Parent 2013 $m
Revenue and other income	3	2,446	2,526	2,344	2,361
Operating expenses	3	(1,859)	(1,985)	(1,775)	(1,846)
Other significant items	3	1	(28)	1	(21)
Depreciation and amortisation	7	(190)	(195)	(186)	(190)
Change in fair value of financial instruments	10	7	11	7	11
Net interest expense	3	(77)	(66)	(77)	(66)
Profit before tax		**328**	**263**	**314**	**249**
Tax expense	16	(94)	(64)	(90)	(66)
Profit for the year		**234**	**199**	**224**	**183**
Basic and diluted earnings per share (cents)	4	**32.0**	**27.2**		

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

Statement of Comprehensive Income

For the year ended 30 June 2014

	Note	Group 2014 $m	Group 2013 $m	Parent 2014 $m	Parent 2013 $m
Profit for the year		**234**	**199**	**224**	**183**
Other comprehensive income – items that may be subsequently reclassified to the Income Statement:					
Change in cash flow hedge reserve before tax		(12)	16	(12)	16
Deferred tax relating to cash flow hedges	16	3	(4)	3	(4)
Other comprehensive income after tax		**(9)**	**12**	**(9)**	**12**
Total comprehensive income for the year		**225**	**211**	**215**	**195**

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

Statement of Changes in Equity

For the year ended 30 June 2014

Group	Note	Share capital $m	Retained earnings $m	Cash flow hedge reserve $m	Share-based compensation reserve $m	Total shareholders' equity $m
Balance at 1 July 2012		1,534	1,884	(8)	8	3,418
Profit for the year after tax		–	199	–	–	199
Other comprehensive income after tax		–	–	12	–	12
Share options and performance share rights lapsed		–	1	–	(1)	–
Transactions with owners recorded directly in equity:						
Change in share capital	5	71	–	–	–	71
Change in share-based compensation reserve	19	–	–	–	4	4
Distributions paid	5	–	(167)	–	–	(167)
Total transactions with owners recorded directly in equity		**71**	**(167)**	**–**	**4**	**(92)**
Balance at 30 June 2013		**1,605**	**1,917**	**4**	**11**	**3,537**
Balance at 1 July 2013		1,605	1,917	4	11	3,537
Profit for the year after tax		–	234	–	–	234
Other comprehensive income after tax		–	–	(9)	–	(9)
Share options and performance share rights lapsed		–	1	–	(1)	–
Transactions with owners recorded directly in equity:						
Change in share-based compensation reserve	19	–	–	–	4	4
Distributions paid	5	–	(184)	–	–	(184)
Total transactions with owners recorded directly in equity		**–**	**(184)**	**–**	**4**	**(180)**
Balance at 30 June 2014		**1,605**	**1,968**	**(5)**	**14**	**3,582**

Parent	Note	Share capital $m	Retained earnings $m	Cash flow hedge reserve $m	Share-based compensation reserve $m	Total shareholders' equity $m
Balance at 1 July 2012		1,534	1,789	(8)	8	3,323
Profit for the year after tax		–	183	–	–	183
Other comprehensive income after tax		–	–	12	–	12
Share options and performance share rights lapsed		–	1	–	(1)	–
Effect of Empower Limited Amalgamation		–	54	–	–	54
Transactions with owners recorded directly in equity:						
Change in share capital	5	71	–	–	–	71
Change in share-based compensation reserve	19	–	–	–	4	4
Distributions paid	5	–	(167)	–	–	(167)
Total transactions with owners recorded directly in equity		**71**	**(167)**	**–**	**4**	**(92)**
Balance at 30 June 2013		**1,605**	**1,860**	**4**	**11**	**3,480**
Balance at 1 July 2013		1,605	1,860	4	11	3,480
Profit for the year after tax		–	224	–	–	224
Other comprehensive income after tax		–	–	(9)	–	(9)
Share options and performance share rights lapsed		–	1	–	(1)	–
Transactions with owners recorded directly in equity:						
Change in share-based compensation reserve	19	–	–	–	4	4
Distributions paid	5	–	(184)	–	–	(184)
Total transactions with owners recorded directly in equity		**–**	**(184)**	**–**	**4**	**(180)**
Balance at 30 June 2014		**1,605**	**1,901**	**(5)**	**14**	**3,515**

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

Statement of Financial Position

At 30 June 2014

	Note	Group 2014 $m	Group 2013 $m	Parent 2014 $m	Parent 2013 $m
Current assets					
Cash and cash equivalents	12	12	80	11	78
Receivables and prepayments	13	292	343	279	332
Inventories	6	54	45	50	41
Intangible assets	7	17	18	17	18
Derivative financial instruments	10	8	8	8	8
Assets held for sale	7	2	6	2	6
Total current assets		**385**	**500**	**367**	**483**
Non-current assets					
Inventories	6	114	92	114	92
Property, plant and equipment	7	5,180	5,168	5,111	5,100
Intangible assets	7	310	242	310	242
Goodwill	8	182	182	179	179
Investment in subsidiaries		–	–	69	69
Derivative financial instruments	10	1	2	1	2
Other non-current assets		11	11	8	8
Total non-current assets		**5,798**	**5,697**	**5,792**	**5,692**
Total assets		**6,183**	**6,197**	**6,159**	**6,175**
Current liabilities					
Payables and accruals	14	277	319	322	356
Borrowings	9	237	671	237	671
Derivative financial instruments	10	83	60	83	60
Provisions	15	8	6	8	5
Tax payable		19	15	19	15
Total current liabilities		**624**	**1,071**	**669**	**1,107**
Non-current liabilities					
Borrowings	9	1,057	699	1,057	699
Derivative financial instruments	10	79	87	79	87
Provisions	15	47	58	45	56
Deferred tax	16	768	735	768	736
Other non-current liabilities		26	10	26	10
Total non-current liabilities		**1,977**	**1,589**	**1,975**	**1,588**
Total liabilities		**2,601**	**2,660**	**2,644**	**2,695**
Net assets		**3,582**	**3,537**	**3,515**	**3,480**
Equity					
Share capital		1,605	1,605	1,605	1,605
Retained earnings		1,968	1,917	1,901	1,860
Cash flow hedge reserve		(5)	4	(5)	4
Share-based compensation reserve		14	11	14	11
Shareholders' equity		**3,582**	**3,537**	**3,515**	**3,480**

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

Authorised on behalf of the Contact Energy Limited Board of Directors on 15 August 2014:

Grant King
Chairman

Sue Sheldon
Director

Statement of Cash Flows

For the year ended 30 June 2014

	Note	Group 2014 $m	Group 2013 $m	Parent 2014 $m	Parent 2013 $m
Cash flows from operating activities					
Receipts from customers		2,385	2,573	2,286	2,437
Payments to suppliers and employees		(1,930)	(2,058)	(1,834)	(1,928)
Liquidated damages received	3	43	–	43	–
Tax paid		(53)	(46)	(53)	(46)
Dividends received		1	–	–	–
Net cash flow from operating activities	12	**446**	**469**	**442**	**463**
Cash flows from investing activities					
Purchase of property, plant and equipment		(151)	(288)	(146)	(282)
Purchase of computer software assets		(60)	(43)	(60)	(43)
Proceeds from sale of property, plant and equipment		73	55	73	55
Interest received		6	2	6	2
Net cash flow from investing activities		**(132)**	**(274)**	**(127)**	**(268)**
Cash flows from financing activities					
Proceeds from borrowings		670	387	670	387
Proceeds from gas sale and repurchase arrangement		14	27	14	27
Repayment of borrowings		(766)	(335)	(766)	(335)
Interest paid		(113)	(103)	(113)	(103)
Financing costs		(3)	(1)	(3)	(1)
Distributions paid to shareholders	5	(184)	(96)	(184)	(96)
Net cash flow from financing activities		**(382)**	**(121)**	**(382)**	**(121)**
Net cash flow		**(68)**	**74**	**(67)**	**74**
Add: cash and cash equivalents at the beginning of the year		80	6	78	4
Cash and cash equivalents at the end of the year		**12**	**80**	**11**	**78**

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

Notes to the Financial Statements

For the year ended 30 June 2014

1. BASIS OF ACCOUNTING

Reporting entity

Contact Energy Limited is registered in New Zealand under the Companies Act 1993 and is an issuer for the purposes of the Financial Reporting Act 1993 and Financial Markets Conduct Act 2014. Contact Energy Limited is listed on the NZX with its ordinary shares quoted on the NZSX and one series of bonds quoted on the NZDX.

The financial statements presented are for Contact Energy Limited (the Parent) and its subsidiaries, controlled entities and joint arrangements (together referred to as Contact or the Group) at, and for the year ended, 30 June 2014.

Basis of preparation

The financial statements are:

- prepared in accordance with the Financial Reporting Act 1993, which requires compliance with New Zealand generally accepted accounting practice (NZ GAAP).
- in compliance with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS), other applicable financial reporting standards as appropriate for profit-oriented entities, and with International Financial Reporting Standards (IFRS).
- presented in New Zealand dollars, which is Contact's functional currency, with references to '$' and 'NZ$' being to New Zealand dollars, unless otherwise stated.
- rounded to the nearest million ($m), unless otherwise stated.

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

Accounting estimates and judgements

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

- unbilled retail revenue for unread electricity and gas meters (notes 3 and 13)
- liquidated damages and other claims in respect of the delayed commissioning of the Te Mihi Geothermal Power Station (notes 3 and 20)
- inventory gas classification between current and non-current and estimation of net realisable value (note 6)
- useful lives of property, plant and equipment and intangible assets (note 7)
- annual impairment testing of cash-generating units (notes 7 and 8)
- fair value measurement of financial instruments (note 10)
- future expenditure for restoration and environmental rehabilitation provisions (note 15).

Accounting policies and standards

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

Contact has chosen not to early adopt NZ IFRS 9 *Financial Instruments* (effective for the year ending 30 June 2018), which was issued during the year. The standard may have a material effect on the financial statements in future years. The impact of adopting the standard has not yet been assessed.

2. SEGMENT REPORTING

The operating segments and performance measures below are presented on a basis consistent with the information provided to the Chief Executive Officer (CEO) as the chief operating decision maker for Contact. The segments are:

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

Segment results

Earnings before net interest expense, tax, depreciation, amortisation, change in fair value of financial instruments and other significant items (EBITDAF) is the segment performance measure reported to the CEO. The CEO also receives a consolidated performance measure (underlying earnings after tax) which is statutory profit excluding significant items that do not reflect the ongoing performance of the Group.

Group	Note	Integrated Energy 2014 $m	Other 2014 $m	Inter-segment 2014 $m	Total 2014 $m	Integrated Energy 2013 $m	Other 2013 $m	Inter-segment 2013 $m	Total 2013 $m
Revenue and other income		2,321	164	(39)	2,446	2,385	174	(33)	2,526
Cost of sales		(1,535)	(110)	39	(1,606)	(1,653)	(113)	33	(1,733)
Operating expenses		(235)	(18)	–	(253)	(230)	(22)	–	(252)
EBITDAF		**551**	**36**	**–**	**587**	**502**	**39**	**–**	**541**
Depreciation and amortisation					(190)				(195)
Net interest expense					(77)				(66)
Tax on underlying earnings					(93)				(78)
Underlying earnings after tax					**227**				**202**
Underlying earnings per share (cents)	4				**31.0**				**27.7**

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

Reconciliation of underlying earnings after tax to Group statutory profit

The table below reconciles underlying earnings after tax, as reported to the CEO, to the Group statutory profit figure prepared in accordance with NZ GAAP.

Group	Note	2014 $m	2013 $m
Underlying earnings after tax		**227**	**202**
Change in fair value of financial instruments	10	7	11
Other significant items	3	1	(28)
Tax on items excluded from underlying earnings		(1)	14
Profit for the year		**234**	**199**

3. COMPONENTS OF PROFIT

	Group 2014 $m	Group 2013 $m	Parent 2014 $m	Parent 2013 $m
Retail electricity	1,534	1,532	1,534	1,471
Wholesale electricity	641	742	641	742
LPG	116	119	–	–
Gas	83	92	83	92
Steam	20	19	20	19
Total revenue	**2,394**	**2,504**	**2,278**	**2,324**
Liquidated damages	43	–	43	–
Other income	9	22	23	37
Total revenue and other income	**2,446**	**2,526**	**2,344**	**2,361**
Electricity purchases	(624)	(678)	(624)	(657)
Electricity transmission, distribution and levies	(596)	(576)	(596)	(555)
Gas purchases, transmission and levies	(278)	(362)	(278)	(362)
LPG purchases	(77)	(87)	–	–
Meter costs	(32)	(26)	(32)	(24)
Emission costs	1	(4)	1	(3)
Labour costs	(100)	(105)	(99)	(102)
Other	(153)	(147)	(147)	(143)
Total operating expenses	**(1,859)**	**(1,985)**	**(1,775)**	**(1,846)**
Transition costs	(11)	(4)	(11)	(4)
Gain on restructure of gas storage operations	7	–	7	–
Clutha land sales	7	13	7	13
Asset impairments	(2)	(72)	(2)	(65)
Gas meter assets sale	–	26	–	26
New Plymouth power station sale and provision release	–	17	–	17
Restructuring costs	–	(8)	–	(8)
Total other significant items	**1**	**(28)**	**1**	**(21)**
Interest expense	(116)	(107)	(116)	(107)
Unwind of discount on provisions	(4)	(5)	(4)	(5)
Interest expense capitalised	37	44	37	44
Interest income	6	2	6	2
Net interest expense	**(77)**	**(66)**	**(77)**	**(66)**

Revenue and other income

Retail electricity, natural gas and LPG revenue include an estimate of sales for unread electricity and gas meters at the end of the reporting period – refer to note 13.

Liquidated damages were received during the year as a result of the delayed commissioning of the Te Mihi Geothermal Power Station.

Operating expenses

Labour costs include contributions to KiwiSaver of $3 million for the Group and Parent (2013: Group $3 million, Parent $2 million). Other operating expenses include fees payable to Contact's auditors (KPMG) of $675,840 for review of the interim and audit of the year end financial statements, which includes $117,439 for transitional audit procedures on the SAP customer billing and service system (2013: $570,520). KPMG also provided services in relation to tax compliance of $11,330 (2013: nil).

Other significant items

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

3. COMPONENTS OF PROFIT – CONTINUED

Other significant items include:

- transition costs incurred on the Retail Transformation project and associated activities in the Retail business and are comprised primarily of temporary staffing and associated infrastructure costs
- a gain on sale of priority processing rights through the Waihapa production station as a result of the restructure of gas storage operations
- gains arising from a phased programme of land sales in relation to a Clutha River hydro generation development. This development will not proceed in the foreseeable future
- asset impairments related to land held for sale and in 2013 also included impairments for wind generation development and other minor projects.

Net interest expense

Interest expense and income are recognised using the effective interest rate method. Net interest expense incurred on the construction or acquisition of qualifying assets is capitalised, ceasing once those assets are operating as intended or asset construction is temporarily suspended. The weighted average interest rate used for capitalisation is 6.5 per cent per annum (2013: 6.9 per cent).

4. EARNINGS PER SHARE

Group	2014	2013
Basic and diluted earnings per share (cents)	32.0	27.2
Underlying earnings per share (cents)	31.0	27.7
Weighted average number of shares on issue over the year – basic	733,305,814	730,014,741
Weighted average number of shares on issue over the year – diluted	733,377,089	730,014,741

Basic and diluted earnings per share are calculated by dividing profit after tax by the weighted average number of shares on issue over the year. While the diluted number of shares includes exercisable performance share rights and share options (refer note 19), there is no difference in the basic and diluted earnings per share due to the small number of dilutive shares. Underlying earnings per share is calculated by dividing underlying earnings after tax by the weighted average number of shares on issue over the year.

5. SHARE CAPITAL AND DISTRIBUTIONS

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

Group and Parent	Note	2014 Number	2014 $m	2013 Number	2013 $m
Balance at the beginning of the year		733,301,821	1,605	718,670,307	1,534
Share capital issued		6,941	–	17,728,186	86
Share capital repurchased and cancelled		–	–	(3,096,672)	(15)
Balance at the end of the year		**733,308,762**	**1,605**	**733,301,821**	**1,605**
Authorised and issued share capital comprises:					
Ordinary shares		733,151,706	1,605	733,301,821	1,605
Restricted shares – Contact Share	19	157,056	–	–	–
		733,308,762	**1,605**	**733,301,821**	**1,605**

All distributions were paid in cash except the 2012 final distribution which was made pursuant to the Parent's Profit Distribution Plan where shareholders received distributions in the form of non-taxable bonus shares and had the option to have the shares, or a portion of them, bought back by the Parent for cash ($15 million).

Group and Parent	Note	Cents per share	$m
2012 final distribution		12.0	86
2013 interim distribution		11.0	81
Distributions paid during the year ended 30 June 2013			**167**
2013 final distribution		14.0	103
2014 interim distribution		11.0	81
Distributions paid during the year ended 30 June 2014			**184**
2014 final distribution – declared after year end	21	15.0	

6. INVENTORIES

Inventories are stated at the lower of cost and net realisable value. Any writedown to net realisable value is recognised in the Income Statement. The cost of inventory is determined on a weighted average basis. Net realisable value is determined as follows:

- Inventory gas: based on a calculation that uses forecast gas requirements to operate thermal plants and forward wholesale electricity prices.
- Consumables, spare parts and diesel fuel: the estimated recoverable amount based on their intended use.
- LPG: the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

	Group 2014 $m	Group 2013 $m	Parent 2014 $m	Parent 2013 $m
Inventory gas	152	124	152	124
Consumables and spare parts	9	7	9	7
LPG	4	4	–	–
Diesel fuel	3	2	3	2
	168	**137**	**164**	**133**
Current	54	45	50	41
Non-current	114	92	114	92

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

7. PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

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

Cost

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

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

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

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

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

Depreciation and amortisation

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

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

Asset useful lives and residual values are reviewed annually and adjusted if appropriate. The range of annual depreciation and amortisation rates for each class of asset is as follows:

Asset class	Rate
Generation plant and equipment (including buildings)	1–33%
Generation plant and equipment on an equivalent operating hours basis	23,500–100,000 equivalent operating hours
Other buildings	2–33%
Other plant and equipment	2–33%
Gas storage rights	3%
Computer software	6–33%
Land	Not depreciated
Capital work in progress	Not depreciated or amortised
Gas storage – cushion gas	Not depreciated
Carbon emission units	Not amortised

Assets held for sale

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

Gas storage – cushion gas

Contact has beneficial access to the remaining natural gas and LPG reserves (excluding condensate) in the Ahuroa reservoir. The natural gas reserves at the date of acquisition, together with additional natural gas injections since acquisition, are referred to as cushion gas and represent the investment necessary to enable the field to be used for the storage of operational gas. Cushion gas of $52 million (2013: $52 million) is included in generation plant and equipment.

Reconciliation of the carrying amount of property, plant and equipment

Group	Generation plant and equipment (including land and buildings) $m	Other land and buildings $m	Other plant and equipment $m	Capital work in progress $m	Total $m
Cost					
Balance at 1 July 2012	5,113	56	301	851	6,321
Additions	78	–	6	183	267
Transfers from capital work in progress	157	1	3	(161)	–
Transfer to assets held for sale	(6)	–	–	–	(6)
Disposals	(42)	(29)	(79)	(5)	(155)
Balance at 30 June 2013	**5,300**	**28**	**231**	**868**	**6,427**
Balance at 1 July 2013	5,300	28	231	868	6,427
Additions	112	–	2	79	193
Transfers from capital work in progress	565	1	1	(567)	–
Transfer to assets held for sale	(3)	(1)	–	–	(4)
Disposals	(8)	(1)	(1)	–	(10)
Balance at 30 June 2014	**5,966**	**27**	**233**	**380**	**6,606**
Depreciation and impairment losses					
Balance at 1 July 2012	(912)	(16)	(178)	–	(1,106)
Depreciation charge	(162)	(3)	(15)	–	(180)
Impairment	(3)	–	–	(69)	(72)
Disposals	40	9	47	3	99
Balance at 30 June 2013	**(1,037)**	**(10)**	**(146)**	**(66)**	**(1,259)**
Balance at 1 July 2013	(1,037)	(10)	(146)	(66)	(1,259)
Depreciation charge	(161)	(1)	(13)	–	(175)
Impairment	(2)	–	–	–	(2)
Disposals	9	–	1	–	10
Balance at 30 June 2014	**(1,191)**	**(11)**	**(158)**	**(66)**	**(1,426)**
Carrying amount					
At 30 June 2013	4,263	18	85	802	5,168
At 30 June 2014	**4,775**	**16**	**75**	**314**	**5,180**

Parent	Generation plant and equipment (including land and buildings) $m	Other land and buildings $m	Other plant and equipment $m	Capital work in progress $m	Total $m
Cost					
Balance at 1 July 2012	5,113	52	163	815	6,143
Additions	78	–	5	180	263
Transfers from capital work in progress	157	–	2	(159)	–
Transfer to assets held for sale	(6)	–	–	–	(6)
Disposals	(42)	(29)	(79)	(5)	(155)
Balance at 30 June 2013	**5,300**	**23**	**91**	**831**	**6,245**
Balance at 1 July 2013	5,300	23	91	831	6,245
Additions	112	–	1	74	187
Transfers from capital work in progress	565	1	–	(566)	–
Transfer to assets held for sale	(3)	(1)	–	–	(4)
Disposals	(8)	(1)	–	–	(9)
Balance at 30 June 2014	**5,966**	**22**	**92**	**339**	**6,419**
Depreciation and impairment losses					
Balance at 1 July 2012	(912)	(15)	(102)	–	(1,029)
Depreciation charge	(162)	(3)	(10)	–	(175)
Impairment	(3)	–	–	(36)	(39)
Disposals	40	9	46	3	98
Balance at 30 June 2013	**(1,037)**	**(9)**	**(66)**	**(33)**	**(1,145)**
Balance at 1 July 2013	(1,037)	(9)	(66)	(33)	(1,145)
Depreciation charge	(161)	(1)	(9)	–	(171)
Impairment	(2)	–	–	–	(2)
Disposals	9	–	1	–	10
Balance at 30 June 2014	**(1,191)**	**(10)**	**(74)**	**(33)**	**(1,308)**
Carrying amount					
At 30 June 2013	4,263	14	25	798	5,100
At 30 June 2014	**4,775**	**12**	**18**	**306**	**5,111**

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

Reconciliation of the carrying amount of intangible assets

Group	Gas storage rights $m	Computer software and capital work in progress $m	Carbon emission units $m	Total $m
Cost				
Balance at 1 July 2012	35	195	17	247
Additions	–	69	16	85
Disposals	–	–	(15)	(15)
Balance at 30 June 2013	**35**	**264**	**18**	**317**
Balance at 1 July 2013	35	264	18	317
Additions	–	79	4	83
Disposals	–	(2)	(1)	(3)
Balance at 30 June 2014	**35**	**341**	**21**	**397**
Amortisation				
Balance at 1 July 2012	(1)	(41)	–	(42)
Amortisation charge	(1)	(14)	–	(15)
Balance at 30 June 2013	**(2)**	**(55)**	**–**	**(57)**
Balance at 1 July 2013	(2)	(55)	–	(57)
Amortisation charge	(1)	(14)	–	(15)
Disposals	–	2	–	2
Balance at 30 June 2014	**(3)**	**(67)**	**–**	**(70)**
Carrying amount				
At 30 June 2013	33	209	18	260
At 30 June 2014	**32**	**274**	**21**	**327**
Current	–	–	17	17
Non-current	32	274	4	310

The Group includes $3 million of fully depreciated assets not included in the Parent. The carrying amount of computer software and capital work in progress includes $265 million (2013: $200 million) in relation to Contact's integrated SAP system. This has a remaining useful life of 15 years.

Carbon emission units

Carbon emission units are surrendered on a first-in first-out basis by type of unit. Units are classified as current assets when they are expected to be surrendered to satisfy Contact's carbon emission obligation at the end of the reporting period, or the obligation expected to be incurred within 1 year of the end of the reporting period.

Impairment

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

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

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

The recoverable amounts for all impairments recognised (refer to note 3) are the assets' fair value less costs to sell based on the best information available at the end of the reporting periods.

Capital commitments

At 30 June 2014, Contact had $6 million (2013: $51 million) committed under contractual arrangements, with substantially all payments due within 1 year of the end of the reporting period.

Restrictions

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

8. GOODWILL

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

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

	Group 2014 $m	Group 2013 $m	Parent 2014 $m	Parent 2013 $m
Retail	179	179	179	179
LPG	3	3	–	–
	182	**182**	**179**	**179**

The impairment tests for the Retail and LPG cash-generating units are based on value in use discounted cash flow valuations. Cash flow projections are based on a 5-year financial forecast for the underlying business and are extrapolated using an average annual growth rate of 1 per cent to 3 per cent and discounted using post-tax discount rates of 8 per cent to 10 per cent. No impairment losses were recognised for goodwill during the year (2013: nil).

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

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

9. BORROWINGS

Borrowings are initially recognised at fair value less directly attributable transaction costs and subsequently measured at amortised cost using the effective interest rate method. Debt designated in hedge relationships (as discussed in note 10) is adjusted for the change in fair value of the hedged risk.

Group and Parent	Maturity	Coupon	2014 $m	2013 $m
Finance lease liabilities	Various	Various	27	1
Commercial paper	< 3 months	Floating	60	–
Bank facilities	Various	Floating	223	–
USPP notes – US$87 million	Mar 2014	5.3%	–	155
Retail bonds – CEN010	May 2014	8.0%	–	550
USPP notes – US$103 million	Mar 2015	5.3%	183	183
Wholesale bonds	Apr 2017	7.9%	100	100
USPP notes – US$40 million	Mar 2018	5.6%	71	71
USPP notes – US$25 million	Apr 2018	7.1%	43	43
Wholesale bonds	May 2018	4.8%	50	50
Retail bonds – CEN020	May 2019	5.8%	222	–
Wholesale bonds	May 2020	5.3%	50	50
USPP notes – US$56 million	Dec 2020	3.5%	70	–
USPP notes – US$22 million	Dec 2023	4.2%	28	–
USPP notes – US$51 million	Dec 2023	4.1%	64	–
USPP notes – US$58 million	Dec 2025	4.3%	73	–
Export credit agency facility	Dec 2027	Floating	97	92
USPP notes – US$23 million	Dec 2028	4.4%	29	–
USPP notes – US$30 million	Dec 2028	4.5%	38	–
Capital bonds – CENFA	Feb 2042	8.0%	–	200
Total borrowings at face value			**1,428**	**1,495**
Unamortised discount			(9)	(11)
Total borrowings at amortised cost			**1,419**	**1,484**
Fair value adjustment on hedged borrowings			(125)	(114)
Carrying value of borrowings			**1,294**	**1,370**
Current			237	671
Non-current			1,057	699

The carrying value of borrowings approximates its fair value in all cases except for the capital bonds and the retail and wholesale bonds not in hedge relationships. The fair value of borrowings is $1,341 million (2013: $1,414 million), with fair value measurement categorised as level 2 of the fair value hierarchy as described in note 10.

Capital bonds

Contact redeemed the capital bonds at par plus accrued interest in November 2013 after changes to Standard & Poor's criteria for credit rating purposes meant that the bonds no longer qualified for full equity content.

Bank facilities

Group and Parent	2014 Facility $m	2014 Drawn $m	2013 Facility $m	2013 Drawn $m
Maturity				
Less than 1 year	–	–	–	–
Between 1 and 2 years	350	123	–	–
Between 2 and 3 years	75	25	260	–
More than 3 years	175	75	190	–
	600	**223**	**450**	**–**

Bank facilities support a $250 million commercial paper programme which had $60 million issued at 30 June 2014 (2013: $250 million programme was unutilised).

Finance leases

Contact has leased assets in respect of connections to the national grid and computer hardware. The leased assets are included in the carrying values of property, plant and equipment in note 7, with grid connection assets categorised in generation plant and equipment and computer hardware in other plant and equipment.

Security

All borrowings rank equally. Contact's borrowings are unsecured except for finance leases, which are secured over the leased assets. Under Contact's Deed of Negative Pledge and Guarantee and United States Private Placement (USPP) agreements, Contact is restricted from granting any security interest over its assets, subject to certain permitted exceptions. Contact complied with all borrowings covenants during the year.

10. FINANCIAL INSTRUMENTS

Financial instruments carried at amortised cost

Loans and receivables and financial liabilities are initially recognised at fair value less transaction costs and subsequently carried at amortised cost. Purchases and sales of financial assets in the ordinary course of business are recognised on trade date.

	Group 2014 $m	Group 2013 $m	Parent 2014 $m	Parent 2013 $m
Cash and cash equivalents	12	80	11	78
Receivables	289	340	276	329
Payables and accruals	(273)	(315)	(319)	(352)
Borrowings	(1,419)	(1,484)	(1,419)	(1,484)

Fair value measurement of financial instruments

Contact uses discounted cash flow valuations to estimate the fair value of all derivatives (and of borrowings for disclosure purposes). Two key variables used in these fair value measurements are forward prices (for the relevant underlying interest rates, foreign exchange rates or wholesale electricity prices) and discount rates. Effective 1 July 2013, the discount rate is adjusted for Contact's own credit risk for financial liabilities and for counterparty credit risk for financial assets. The sources of key valuation inputs are as follows:

Valuation input	Source
Interest rate forward prices	Published market swap rates
Foreign exchange forward prices	Published market foreign exchange rates
Forward wholesale electricity price	Market (ASX) quoted prices where available otherwise Contact's best estimate based on analysis of expected demand and cost of new supply
Discount rates	Published market rates as applicable to the remaining life of the instrument adjusted for credit risk with credit spreads derived from published market data

Fair value hierarchy

Financial instruments recognised at fair value are categorised according to the fair value hierarchy to show the extent of judgement used in determining their fair value. Where unadjusted quoted prices are used to determine fair value the instruments are categorised as level 1. When fair value is derived from inputs other than quoted prices, but they are observable either directly (i.e. from prices) or indirectly (i.e. derived from prices), the instruments are categorised as level 2. The fair value of level 3 instruments is derived from inputs that are not based on observable market data.

At 30 June 2014, all financial instruments measured at fair value were categorised as level 2, except for $1 million of electricity price derivatives categorised as level 3 financial instruments (2013: $1 million). Contact had no level 1 financial instruments at 30 June 2014 (2013: nil).

10. FINANCIAL INSTRUMENTS – CONTINUED

Derivative financial instruments carried at fair value

The following table classifies derivative financial instruments by type and balance sheet classification:

Group and Parent	2014 Asset $m	2014 Liability $m	2013 Asset $m	2013 Liability $m
Fair value hedges				
Cross-currency interest rate swaps	–	(120)	–	(111)
Interest rate derivatives	1	(5)	–	(2)
Cash flow hedges				
Cross-currency interest rate swaps – margin	–	(10)	–	(2)
Foreign exchange derivatives	–	(1)	–	(1)
Electricity price derivatives	6	(2)	9	(1)
Derivatives not designated in hedge relationships				
Interest rate derivatives	–	(22)	1	(30)
Electricity price derivatives	2	(2)	–	–
	9	**(162)**	**10**	**(147)**
Current	8	(83)	8	(60)
Non-current	1	(79)	2	(87)

Gross fair values

Contact enters into derivative transactions under International Swaps and Derivatives Association (ISDA) master netting agreements. Under these ISDAs Contact currently has a legally enforceable right to set off the recognised amounts and intends to settle on a net basis or to realise the asset and settle the liability simultaneously. All instruments in the table above have been offset in the Statement of Financial Position. The gross fair value before offsetting is shown in the table below:

Group and Parent	2014 Asset $m	2014 Liability $m	2013 Asset $m	2013 Liability $m
Cross-currency interest rate swaps	–	(120)	–	(111)
Cross-currency interest rate swaps – margin	–	(10)	–	(2)
Foreign exchange derivatives	–	(1)	–	(1)
Interest rate derivatives	4	(30)	8	(39)
Electricity price derivatives	8	(4)	12	(4)
	12	**(165)**	**20**	**(157)**

Fair value hedges

The USPP notes, $100 million of wholesale bonds and $111 million of retail bonds are each designated in fair value hedge relationships. Contact entered into cross-currency interest rate swaps to swap the USD principal and fixed coupon obligations related to the USPP notes to NZD floating rate exposure and entered into interest rate swaps to convert the fixed coupons on the domestic bonds to floating rates.

Cash flow hedges

The margin component of the cross-currency interest rate swaps is designated as a cash flow hedge of the margin component of the USPP notes. Foreign currency risk associated with future foreign currency cash flows is hedged using forward exchange derivatives. Contact uses electricity price derivatives to manage electricity price risk associated with its spot market exposure. The period over which the cash flow hedges are expected to impact profit matches the period that the cash flows are expected to occur:

- cross-currency interest rate swaps over a period of 9 months to 15 years (2013: 2 months to 15 years).
- foreign exchange derivatives over a period of 1 month to 1 year (2013: 1 month to 2 years).
- electricity price derivatives over a period of 1 month to 3 years (2013: 1 month to 4 years).

Derivatives not designated in hedge relationships

Contact enters into interest rate derivatives to convert fixed coupons to floating (and vice-versa) to manage interest rate risk in accordance with the treasury risk management policy and purchases a minimum amount of electricity futures as part of a requirement to participate in the ASX futures electricity market.

Change in fair value of financial instruments

The effective portion of changes in the fair value of derivatives designated as cash flow hedges is recognised in the cash flow hedge reserve. The gain or loss relating to any ineffective portion is recognised immediately in the Income Statement. Amounts recognised in the cash flow hedge reserve are subsequently reclassified to the Income Statement or Statement of Financial Position according to the nature of the hedged item.

Changes in the fair value of derivatives designated as fair value hedges are recorded in the Income Statement together with any changes in the fair value of the underlying hedged borrowings. Changes in fair value of derivatives not designated in a hedge relationship are recognised in the Income Statement.

The change in the fair value of derivatives and the fair value adjustments to borrowings is provided below:

Group and Parent Favourable/(unfavourable)	2014 Income statement $m	2014 Cash flow hedge reserve $m	2013 Income statement $m	2013 Cash flow hedge reserve $m
Cross-currency interest rate swaps	(9)	–	19	–
Interest rate derivatives	(2)	–	(3)	–
Fair value adjustment to borrowings	11	–	(16)	–
Fair value hedges	**–**	**–**	**–**	**–**
Cross-currency interest rate swaps – margin	–	(8)	–	2
Foreign exchange derivatives	–	–	–	2
Electricity price derivatives	–	(4)	(1)	12
Tax on change in fair value	–	3	–	(4)
Cash flow hedges	**–**	**(9)**	**(1)**	**12**
Interest rate derivatives	7	–	12	–
Electricity price derivatives	–	–	–	–
Derivatives not designated in hedge relationships	**7**	**–**	**12**	**–**
Total fair value movement	**7**	**(9)**	**11**	**12**

Cash flow hedge reserve movement

Group and Parent	2014 $m	2013 $m
Balance at the beginning of the year	4	(8)
Effective portion of cash flow hedges recognised	(4)	7
Transferred to revenue	(7)	2
Transferred to change in fair value of financial instruments (ineffectiveness)	–	1
Transferred to property, plant and equipment	1	3
Transferred to deferred tax	1	(1)
Balance at the end of the year	**(5)**	**4**

11. FINANCIAL RISK MANAGEMENT

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

The overall financial risk management system is supported by written policies covering each risk, and the use of derivative financial instruments and non-derivative financial instruments. These policies provide a framework for identifying, monitoring and managing financial risks.

Capital risk

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

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

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

Group	2014 $m	2013 $m
Face value of borrowings	(1,428)	(1,495)
Cash and cash equivalents	12	80
Net debt	**(1,416)**	**(1,415)**
Shareholders' equity	(3,582)	(3,537)
Remove net effect of fair value of financial instruments after tax	(21)	(17)
Adjusted equity	**(3,603)**	**(3,554)**
Total capital funding	**(5,019)**	**(4,969)**
Gearing ratio	**28.2%**	**28.5%**

Liquidity risk

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

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

Contact's exposure to liquidity risk is based on the contractual cash flows and maturities of financial liabilities, including derivatives. The tables below summarise net cash flows for instruments that are settled net and gross cash flows for derivatives that have simultaneous gross cash settlement. The amounts presented are contracted, undiscounted cash flows and therefore do not reconcile to the Statement of Financial Position.

Group 2014	Total contractual cash flows $m	Less than 1 year $m	1-2 years $m	2-5 years $m	More than 5 years $m
Payables and accruals	(273)	(273)	–	–	–
Borrowings	(1,564)	(288)	(229)	(582)	(465)
Finance lease liabilities	(27)	(2)	(2)	(4)	(19)
Electricity price derivatives – net settled	4	4	–	–	–
Interest rate derivatives – net settled	(33)	(7)	(5)	(13)	(8)
Foreign exchange derivatives – inflow	10	10	–	–	–
Foreign exchange derivatives – outflow	(10)	(10)	–	–	–
Cross-currency interest rate swaps – inflow	607	140	16	116	335
Cross-currency interest rate swaps – outflow	(848)	(216)	(27)	(189)	(416)
	(2,134)	**(642)**	**(247)**	**(672)**	**(573)**

Group 2013	Total contractual cash flows $m	Less than 1 year $m	1-2 years $m	2-5 years $m	More than 5 years $m
Payables and accruals	(315)	(315)	–	–	–
Borrowings[1]	(2,118)	(467)	(192)	(386)	(1,073)
Finance lease liabilities	(1)	(1)	–	–	–
Electricity price derivatives – net settled	8	7	1	–	–
Interest rate derivatives – net settled	(34)	(8)	(9)	(15)	(2)
Foreign exchange derivatives – inflow	34	29	5	–	–
Foreign exchange derivatives – outflow	(35)	(29)	(6)	–	–
Cross-currency interest rate swaps – inflow	1,113	438	156	136	383
Cross-currency interest rate swaps – outflow	(1,333)	(482)	(213)	(192)	(446)
	(2,681)	**(828)**	**(258)**	**(457)**	**(1,138)**

1. In 2013 borrowings included inflows of $301 million in relation to USPP forward start contracts due to be received within 1 year.

The liquidity analysis provided above is the same for the Parent except for payables and accruals. The carrying amount of payables and accruals in the Parent is $319 million (2013: $352 million), which is equal to the contractual cash flow and is payable in less than 1 year.

Market risk

Foreign currency risk

Contact is exposed to foreign currency risk arising from future commercial transactions, such as the purchase of capital equipment and payments for maintenance denominated in currencies other than the New Zealand dollar (primarily Australian dollar, United States dollar, Japanese yen and Euro), and future interest and principal payments on the USPP notes.

Contact uses forward foreign exchange derivatives to manage foreign exchange risk arising from committed future commercial transactions, with the contracts intended to hedge 100 per cent of known material foreign currency exposures. The exposure is measured as the New Zealand dollar equivalent of the notional principal amount of foreign exchange derivatives, which at 30 June 2014 was $10 million (2013: $36 million).

Cross-currency interest rate swaps are used to manage foreign exchange risk arising from future interest and principal payments relating to the USPP notes. The exposure is measured as the New Zealand dollar equivalent of the notional principal amount of outstanding cross-currency interest rate swaps, which was $599 million at 30 June 2014 (2013: $759 million).

Price risk

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

The aggregate notional volume of the outstanding fixed volume electricity price derivatives at 30 June 2014 was 2,159 gigawatt hours (GWh) (2013: 1,463 GWh).

11. FINANCIAL RISK MANAGEMENT – CONTINUED

Interest rate risk

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

At 30 June 2014, Contact had $209 million (2013: $366 million) of notional debt on a floating rate basis and $1,192 million (2013: $1,128 million) on a fixed rate basis.

Sensitivity analysis

The table below summarised the impact on the cash flow hedge reserve and post-tax profit of possible changes in wholesale electricity forward prices, foreign exchange rates and interest rates as a result of changes in the fair value of recognised derivatives.

The analysis assumes that all variables were held constant except for the relevant market risk factor.

Group and Parent Favourable/(unfavourable)	2014 $m	2014 $m	2013 $m	2013 $m
Impact on cash flow hedge reserve:	**+10%**	**-10%**	**+10%**	**-10%**
Electricity forward prices	(5)	5	(5)	5
Foreign exchange rates	(1)	1	(2)	2
Impact on post-tax profit:	**+100bps**	**-25bps**	**+100bps**	**-25bps**
Interest rates	16	(4)	4	(1)

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations, resulting in financial loss to Contact. Contact is exposed to credit risk in the normal course of business arising from cash and cash equivalents, trade and other receivables and derivative financial instruments.

The carrying amount of financial assets of the Group is $310 million (2013: $430 million) and represents Contact's maximum exposure to credit risk at the end of the reporting period without taking account of the value of any collateral obtained.

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

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

In relation to trade receivables, 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 trade receivables is limited due to Contact's large customer base in a diverse range of industries throughout New Zealand. Contact has no significant concentration of credit risk with any one institution, despite there being significant sales to NZX Energy. NZX Energy acts as an electricity market clearing agent and the counterparty risk sits with the market participants. Contact, as a participant in the electricity market, has issued letters of credit to Energy Clearing House Limited under the electricity market's security requirements applicable to all market participants. These letters of credit are issued as part of normal trading conditions and ensure that there is no significant credit exposure to any one market participant, should another participant default.

12. NOTE TO THE STATEMENT OF CASH FLOWS

Cash includes cash on hand, at bank, short-term deposits and restricted cash, net of outstanding bank overdrafts. Contact trades on the ASX using a broker who holds collateral on deposit for margin calls. At 30 June 2014, this collateral was $6 million (2013: $3 million).

The table below provides a reconciliation of profit for the year to cash flows from operating activities.

	Group 2014 $m	Group 2013 $m	Parent 2014 $m	Parent 2013 $m
Profit for the year	**234**	**199**	**224**	**183**
Adjustments to reconcile profit to net cash flow from operating activities				
Depreciation and amortisation	190	195	186	190
Change in fair value of financial instruments	(7)	(11)	(7)	(11)
Asset impairments	2	72	2	65
Gain on sale of property, plant and equipment	(6)	(50)	(6)	(50)
Net interest expense	77	66	77	66
Bad debt expense	17	15	17	17
Movement in provisions	–	(6)	–	(6)
Movement in deferred tax	33	31	32	37
Share-based compensation	4	4	4	4
Other	(2)	–	(2)	–
Changes in assets and liabilities, net of non-cash, investing and financing activities				
Receivables and prepayments	(25)	49	(23)	77
Inventories	(31)	(7)	(31)	(8)
Payables and accruals	(40)	(74)	(31)	(87)
Tax payable/receivable	7	(13)	7	(13)
Other	(7)	(1)	(7)	(1)
Net cash flow from operating activities	**446**	**469**	**442**	**463**

13. RECEIVABLES AND PREPAYMENTS

	Note	Group 2014 $m	Group 2013 $m	Parent 2014 $m	Parent 2013 $m
Trade receivables		168	165	150	147
Unbilled receivables		131	113	130	113
Provision for impairment		(12)	(7)	(12)	(6)
Net trade receivables		**287**	**271**	**268**	**254**
Prepayments		3	3	3	3
Other receivables		2	69	2	69
Advance to subsidiaries	18	–	–	6	6
Total receivables and prepayments		**292**	**343**	**279**	**332**

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

Contact recognises a provision for impairment when there is objective evidence that Contact will not be able to collect amounts due according to the original terms of the receivable. Receivables which are known to be uncollectable are written off. For retail receivables that are not significant on an individual basis, collective impairment is assessed on a portfolio basis, based on historical delinquency rates and losses. Bad debts net of recoveries of $15 million for Group and Parent (2013: Group $12 million, Parent $15 million) were recognised during the year.

The ageing analysis of net trade receivables not impaired is, as follows:

	Group 2014 $m	Group 2013 $m	Parent 2014 $m	Parent 2013 $m
Not past due	246	243	228	228
0-30 days past due	30	18	29	16
30-90 days past due	9	7	9	7
Over 90 days past due	2	3	2	3
	287	**271**	**268**	**254**

14. PAYABLES AND ACCRUALS

	Note	Group 2014 $m	Group 2013 $m	Parent 2014 $m	Parent 2013 $m
Trade payables and accruals		243	281	232	269
Employee benefits		26	26	26	26
Interest payable		8	12	8	12
Advances from subsidiaries	18	–	–	56	49
		277	**319**	**322**	**356**

15. PROVISIONS

	Group Restoration/ environmental rehabilitation $m	Group Other $m	Group Total $m	Parent Restoration/ environmental rehabilitation $m	Parent Other $m	Parent Total $m
Balance at 1 July 2013	50	14	64	47	14	61
Created	–	2	2	–	2	2
Utilised	(1)	(3)	(4)	–	(3)	(3)
Released	–	(11)	(11)	–	(11)	(11)
Unwind of discount	4	–	4	4	–	4
Balance at 30 June 2014	**53**	**2**	**55**	**51**	**2**	**53**
Current	7	1	8	7	1	8
Non-current	46	1	47	44	1	45

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

16. TAXATION

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

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

	Group 2014 $m	Group 2013 $m	Parent 2014 $m	Parent 2013 $m
Profit before tax	328	263	314	249
Tax thereon at 28%	92	74	88	70
Plus/(less) tax effect of adjustments:				
Clutha asset impairment and land sales	(1)	(4)	(1)	(4)
Gas meter assets sale	–	(7)	–	(7)
Decommissioned New Plymouth power station sale	–	(6)	–	(6)
Asset impairments	–	8	–	13
Prior period adjustments	3	(2)	3	(2)
Other differences	–	1	–	2
Tax expense	**94**	**64**	**90**	**66**
Comprising:				
Current tax	58	33	55	29
Deferred tax	36	31	35	37

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

Group	Property, plant and equipment $m	Inventories $m	Employee benefits $m	Provisions $m	Derivative financial instruments $m	Other $m	Total $m
Balance at 1 July 2012	(738)	3	6	14	13	2	(700)
Recognised in the Income Statement	(19)	(3)	–	(2)	(3)	(4)	(31)
Recognised in other comprehensive income	–	–	–	–	(4)	–	(4)
Balance at 30 June 2013	**(757)**	**–**	**6**	**12**	**6**	**(2)**	**(735)**
Balance at 1 July 2013	(757)	–	6	12	6	(2)	(735)
Recognised in the Income Statement	(34)	–	(1)	2	(2)	(1)	(36)
Recognised in other comprehensive income	–	–	–	–	3	–	3
Balance at 30 June 2014	**(791)**	**–**	**5**	**14**	**7**	**(3)**	**(768)**

Parent	Property, plant and equipment $m	Inventories $m	Employee benefits $m	Provisions $m	Derivative financial instruments $m	Other $m	Total $m
Balance at 1 July 2012	(732)	3	6	13	13	2	(695)
Recognised in the Income Statement	(25)	(3)	–	(2)	(3)	(4)	(37)
Recognised in other comprehensive income	–	–	–	–	(4)	–	(4)
Balance at 30 June 2013	**(757)**	**–**	**6**	**11**	**6**	**(2)**	**(736)**
Balance at 1 July 2013	(757)	–	6	11	6	(2)	(736)
Recognised in the Income Statement	(33)	–	(1)	2	(2)	(1)	(35)
Recognised in other comprehensive income	–	–	–	–	3	–	3
Balance at 30 June 2014	**(790)**	**–**	**5**	**13**	**7**	**(3)**	**(768)**

Imputation credits available for use in subsequent reporting periods are 226 million (2013: 238 million). These are available to shareholders through the consolidated imputation group.

17. OPERATING LEASES

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

	Group 2014 $m	Group 2013 $m	Parent 2014 $m	Parent 2013 $m
Less than 1 year	6	6	4	5
Between 1 and 5 years	15	15	12	12
More than 5 years	9	12	5	8
Total operating lease commitments	**30**	**33**	**21**	**25**

Included in the Income Statement are rental expenses of $7 million (2013: $7 million) for the Group and $5 million (2013: $5 million) for the Parent.

18. RELATED PARTIES

Ultimate parent entity

The ultimate parent entity of Contact is Origin, an Australian incorporated company. At 30 June 2014, Origin Energy Pacific Holdings Limited is the majority shareholder in the Parent, owning 52.3 per cent (2013: 52.3 per cent) of the shares of the Parent. Further shares amounting to 0.8 per cent (2013: 0.8 per cent) of the Parent's shares are held by Origin Energy Universal Holdings Limited and Origin Energy New Zealand Limited. All three companies are ultimately wholly owned by Origin.

Group related parties

Contact's related parties include subsidiaries of Origin, key management personnel and Rockgas Timaru Limited which is a joint arrangement.

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

Group Received/(paid)	2014 $m	2013 $m
Origin and its subsidiaries		
Purchase of LPG	(33)	(42)
SAP infrastructure and data services costs	(6)	(6)
Ahuroa gas storage facility development and operation expenses	(2)	(8)
Sale of electricity	13	5
Sale of gas processing rights and associated assets	3	–
Joint arrangement of the Group		
Sale of LPG	1	–
Key management personnel		
Directors' fees	(1)	(1)
CEO seconded from Origin[1]	(2)	(2)
Leadership team (excluding CEO)		
Salary, other short-term benefits and share-based compensation[1]	(7)	(7)
Termination benefits	–	(1)
Balances payable at end of the year		
Origin and its subsidiaries	(3)	(5)
Key management personnel	(1)	(2)

1. Contact recognised an expense of $2 million (30 June 2013: $2 million) in respect of options and performance share rights granted to the Leadership team and the CEO, which has been included in the amounts disclosed.

Members of the Leadership team purchase electricity and gas from the Group for domestic purposes on normal commercial terms and conditions with staff discount.

Contact paid a cash distribution of $43 million to its Origin shareholders on 27 March 2014 and $55 million on 16 September 2013 (2013: $43 million on 26 March 2013; 9,367,110 ordinary shares under the Profit Distribution Plan on 21 September 2012).

Contact and Origin have a Master Services Agreement for the provision of professional, consulting and/or administrative services. During the year, six members of staff, including the CEO, were seconded from Origin to Contact (2013: five), and one staff member was seconded from Contact to Origin (2013: one). These secondments are undertaken on a cost recovery basis.

Parent related parties

The Parent's related parties are the same as those of the Group with the addition of the following subsidiaries, all of which have a 30 June balance date, are 100% owned, and are incorporated in New Zealand:

Name of entity	Principal activity
Contact Aria Limited	Investment holding company
Contact Wind Limited	Wind generation development
Rockgas Limited	LPG retailer

In addition to the Group related party transactions, the Parent charged its subsidiaries $17 million (2013: $18 million) for management services. The Parent also pays operating expenses on behalf of its subsidiaries, which are on-charged directly to those subsidiaries. Advances to/from subsidiaries are included in notes 13 and 14, respectively. Advances to subsidiaries are stated net of provisions for impairment of $31 million (2013: $31 million), are repayable on demand and are interest free.

During the year Contact launched an employee share ownership plan (Contact Share) administered by Contact Energy Trust Company Limited (CETCL). CETCL is controlled by the Parent for accounting purposes. The sole shareholder of CETCL is a nominee company and the directors of CETCL are appointed by the Parent. The Parent has indemnified CETCL for all expenses and reimburses it for share purchases. All CETCL transactions are included in the Parent's results. Transactions and balances between the Parent and CETCL are eliminated on aggregation in the Parent's results. For further details about Contact Share refer to note 19.

19. SHARE-BASED COMPENSATION

Share Option Scheme

Contact provides a long-term incentive award to certain eligible employees, which is comprised of share options and performance share rights (PSRs). The share options and PSRs are unlisted, cannot be traded and do not entitle the employee to distribution or voting rights. On exercise, the PSRs convert to ordinary shares at no cost to the employee. Share options convert on payment of the agreed exercise price.

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

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

Contact Share

Contact Share is an employee share ownership plan that enables eligible employees to acquire a certain number of Contact's ordinary shares for a consideration amount (determined by Contact). The shares are acquired on market and legally held by CETCL for a restrictive period of 3 years during which time the employee is entitled to receive dividends and direct the exercise of voting rights that attach to shares held on their behalf. The shares cannot be traded during this period.

At the end of the restrictive period (or if the employee leaves Contact due to redundancy, death, accident, sickness or retirement at normal retiring age) the shares are transferred to the employee. If the employee leaves Contact during the restrictive period the shares transfer to an unallocated pool. Shares in the unallocated pool can be used by CETCL for future allocations under Contact Share.

Share scheme movements

Group and Parent	Share Option Scheme			Contact Share
	Share options Number	Share options Weighted average exercise price ($)	PSRs Number	Restricted shares Number
Balance at 1 July 2012	8,779,062	5.85	1,827,196	–
Granted	4,852,273	5.22	662,408	–
Lapsed	(1,275,310)	6.20	(232,538)	–
Balance at 30 June 2013	**12,356,025**	**5.57**	**2,257,066**	**–**
Balance at 1 July 2013	12,356,025	5.57	2,257,066	–
Granted	3,385,967	5.33	612,729	158,208
Exercised	–	–	(6,941)	(1,152)
Lapsed	(989,937)	7.05	(137,938)	–
Balance at 30 June 2014	**14,752,055**	**5.41**	**2,724,916**	**157,056**
Exercisable at 30 June 2014	188,663	5.53	37,652	–

Share options had a weighted average remaining contractual life of 2 years and 9 months (2013: 3 years and 1 month) and PSRs 2 years and 5 months (2013: 3 years).

For the year ended 30 June 2014

19. SHARE-BASED COMPENSATION – CONTINUED

Fair value

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

The amount recognised as an expense is adjusted to reflect the number of share options, PSRs and Contact Share restricted shares that are expected to become exercisable or vest. The total expense recognised under the Share Option Scheme and Contact Share for the year was $4 million (2013: $4 million).

The fair values of share options and PSRs granted during the year were $0.57 (2013: $0.43) and $3.15 (2013: $3.15) respectively. The fair value of Contact Share restricted shares granted during the year was $5.19. These fair values were based on the following assumptions:

Group and Parent	2014	2013
Risk-free interest rate	4%	3%
Expected dividend yield	6%	5%
Expected share price volatility	19%	18%

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

20. CONTINGENT LIABILITIES

Contact has contingent liabilities in respect of claims and warranties arising in the ordinary course of business and as a result of the gas meter assets sale in June 2013. Contact's net exposure to the warranties provided under the gas meter assets sale is $2 million and expires on 30 June 2015. It is not anticipated that any material liabilities will arise from these claims and warranties.

Settlement negotiations in respect of the delayed commissioning of the Te Mihi Geothermal Power Station are ongoing.

21. SUBSEQUENT EVENTS

On 15 August 2014 the Board declared a final distribution of 15.0 cents per share to be paid on 15 September 2014.

KPMG

Independent Auditor's Report

To the shareholders of Contact Energy Limited

Report on the company and Group financial statements

We have audited the accompanying financial statements of Contact Energy Limited ('the company') and the Group, comprising the company and its subsidiaries, on pages 60 to 86. The financial statements comprise the statements of financial position as at 30 June 2014, the income statements and statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, for both the company and the Group.

Directors' responsibility for the company and Group financial statements

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

Auditor's responsibility

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

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

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

Our firm has also provided other services to the company and Group in relation to tax compliance. Subject to certain restrictions, partners and employees of our firm also deal with the company and Group on normal terms within the ordinary course of trading activities of the business of the company and Group. These matters have not impaired our independence as auditor of the company and Group. The firm has no other relationship with, or interest in, the company and Group.

Opinion

In our opinion the financial statements on pages 60 to 86:

- comply with generally accepted accounting practice in New Zealand;
- comply with International Financial Reporting Standards;
- give a true and fair view of the financial position of the company and the Group as at 30 June 2014 and of the financial performance and cash flows of the company and the Group for the year then ended.

Report on other legal and regulatory requirements

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

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

KPMG

15 August 2014
Wellington

Corporate Directory

Board of Directors

Grant King (Chairman)

Phillip Pryke (Deputy Chairman)

David Baldwin

Bruce Beeren

Whaimutu Dewes

Karen Moses

Sue Sheldon

Leadership Team

Dennis Barnes
Chief Executive Officer

Graham Cockroft
Chief Financial Officer

Mark Corbitt
General Manager – Information and Communication Technology

Peter Kane
General Manager – Operations

James Kilty
General Manager – Sales and Customer Experience, Trading, Development and Geothermal Resources

Tania Palmer
General Manager – Health, Safety and Environment

Paul Ridley-Smith
General Counsel

Nicholas Robinson
General Manager – Customer Insight, Marketing and Communications

Annika Streefland
General Manager – People and Culture

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Wellington 6140
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Share Registrar

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Auckland 1010
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Website: www.linkmarketservices.co.nz

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

Email: contactenergy@linkmarketservices.co.nz
Mail: Link Market Services, PO Box 91976, Auckland 1142, New Zealand
Fax: +64 9 375 5990, or
Phone: + 64 9 375 5998

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

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

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

Investor relations enquiries

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Stock exchange listings

NZSX trading code: CEN
NZDX trading code: CEN020

Company number

660760

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