

Contact Energy Limited	
Results for announcement to the market	
Basis of Report	Audited
Reporting Period	12 months to 30 June 2014
Previous Reporting Period	12 months to 30 June 2013

	Amount (\$m)	Percentage change
Operating Revenue and Other Income	2,446	-3.2%
Earnings Before Net Interest Expense, Tax, Depreciation, Amortisation, Change in Fair Value of Financial Instruments and Other Significant Items (EBITDAF)	587	8.5%
Profit for the Year After Tax	234	17.6%
Underlying Earnings After Tax ¹	227	12.4 %
Basic and Diluted Earnings Per Share (Cents)	32.0	17.6%
Underlying Earnings Per Share (Cents) ¹	31.0	11.9%
Net Tangible Assets Per Share (Dollars)	4.19	-0.7%

Distribution	Equivalent amount per security	Imputed amount per security
Cash dividend	\$0.15	\$0.06

Record Date	3 September 2014
Dividend Payment Date	15 September 2014

Comments:	1. Underlying Earnings After Tax and Underlying Earnings Per Share exclude significant items that do not reflect the ongoing performance of the Group. This is a non-statutory measure.
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Attachments:

- Audited Financial Statements for the year ended 30 June 2014
- KPMG Audit Report
- NZX Appendix 7
- Media Release
- Management Discussion and Analysis
- Investor Presentation

Income Statement

For the year ended 30 June 2014

		Group 2014 \$m	Group 2013 \$m	Parent 2014 \$m	Parent 2013 \$m
	Note				
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		

Statement of Comprehensive Income

For the year ended 30 June 2014

		Group 2014 \$m	Group 2013 \$m	Parent 2014 \$m	Parent 2013 \$m
	Note				
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		Share capital \$m	Retained earnings \$m	Cash flow hedge reserve \$m	Share-based compensation reserve \$m	Total shareholders' equity \$m
	Note					
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		Share capital \$m	Retained earnings \$m	Cash flow hedge reserve \$m	Share-based compensation reserve \$m	Total shareholders' equity \$m
	Note					
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

		Group 2014 \$m	Group 2013 \$m	Parent 2014 \$m	Parent 2013 \$m
	Note				
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.

For the year ended 30 June 2014

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	2014				2013			
		Integrated Energy \$m	Other \$m	Inter-segment \$m	Total \$m	Integrated Energy \$m	Other \$m	Inter-segment \$m	Total \$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

CONTACT ENERGY LIMITED
NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2014

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 paid to Contact's auditors (KPMG) of \$675,840 for review of the interim and audit of the year end financial statements (2013: \$570,520) and \$11,330 for services in relation to tax compliance (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. 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).

For the year ended 30 June 2014

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).

For the year ended 30 June 2014

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.

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:

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.

CONTACT ENERGY LIMITED
NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2014

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					
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

For the year ended 30 June 2014

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.

For the year ended 30 June 2014

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	5.1%	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

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For the year ended 30 June 2014

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 hedging 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 Draw n \$m	2013 Facility \$m	2013 Draw n \$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.

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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).

Derivative financial instruments carried at fair value

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

Group and Parent	2014	2014	2013	2013
	Asset	Liability	Asset	Liability
	\$m	\$m	\$m	\$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	2014	2013	2013
	Asset	Liability	Asset	Liability
	\$m	\$m	\$m	\$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 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 are 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.

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

Group and Parent	2014 Income statement	2014 Cash flow hedge reserve	2013 Income statement	2013 Cash flow hedge reserve
Favourable/(unfavourable)	\$m	\$m	\$m	\$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%

For the year ended 30 June 2014

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					
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).

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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).

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 summarises 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	2014	2014	2013	2013
Favourable/(unfavourable)	\$m	\$m	\$m	\$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.

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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

	Group 2014 \$m	Group 2013 \$m	Parent 2014 \$m	Parent 2013 \$m
Note				
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	-	-	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

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14. PAYABLES AND ACCRUALS

		Group 2014 \$m	Group 2013 \$m	Parent 2014 \$m	Parent 2013 \$m
Note					
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			Parent		
	Restoration/ environmental rehabilitation \$m	Other \$m	Total \$m	Restoration/ environmental rehabilitation \$m	Other \$m	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

CONTACT ENERGY LIMITED
NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2014

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 for the Parent (2013: \$5 million).

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 ENERGY LIMITED
NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2014

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

Group	2014	2013
Received/(paid)	\$m	\$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.

CONTACT ENERGY LIMITED
NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2014

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	Share options	PSRs	Restricted shares
	Number	Weighted average exercise price (\$)	Number	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).

Fair value

The fair value of employee services received in exchange for the grant of the share options, PSRs and 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 restricted shares granted.

The amount recognised as an expense is adjusted to reflect the number of share options, PSRs and 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 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.



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 1 to 22. 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 1 to 22:

- 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.

15 August 2014
Wellington

Notice of event affecting securities

NZSX Listing Rule 7.12.2. For rights, NZSX Listing Rules 7.10.9 and 7.10.10.
For change to allotment, NZSX Listing Rule 7.12.1, a separate advice is required.

Number of pages including this one
(Please provide any other relevant
details on additional pages)

Full name of issuer **Contact Energy Limited**

Name of officer authorised to make this notice **Dennis Barnes - Chief Executive Officer** Authority for event, e.g. Directors' resolution **Directors' Resolution**

Contact phone number **+ 64 4 499 4001** Contact fax number **+64 4 499 4003** Date **15 / 08 / 2014**

Nature of event
Tick as appropriate

Bonus Issue ☐	If ticked, state whether: Taxable ☐ / Non Taxable ☐	Conversion ☐	Interest ☐	Rights Issue Renounceable ☐
Rights Issue non-renounceable ☐	Capital change ☐ Call ☐ Dividend ☒	If ticked, state whether: Interim ☐ Full Year ☒	Special ☐	DRP Applies ☐

EXISTING securities affected by this *If more than one security is affected by the event, use a separate form.*

Description of the class of securities **Ordinary Shares (733,308,762)** ISIN **NZCENE0001S6**
If unknown, contact NZX

Details of securities issued pursuant to this event *If more than one class of security is to be issued, use a separate form for each class.*

Description of the class of securities ISIN
If unknown, contact NZX

Number of Securities to be issued following event Minimum Entitlement Ratio, e.g. ① for ② for

Conversion, Maturity, Call Payable or Exercise Date Treatment of Fractions

Strike price per security for any issue in lieu or date Strike Price available. Tick if *pari passu* ☐ OR provide an explanation of the ranking

Monies Associated with Event *Dividend payable, Call payable, Exercise price, Conversion price, Redemption price, Application money.*

<i>In dollars and cents</i>		Source of Payment	
Amount per security (does not include any excluded income)	\$0.15		
Excluded income per security (only applicable to listed PIEs)	Not applicable		
Currency	NZD	Supplementary dividend details - NZSX Listing Rule 7.12.7	Amount per security in dollars and cents \$0.026471
Total monies	\$109,996,314		Date Payable 15 September, 2014

Taxation *Amount per Security in Dollars and cents to six decimal places*

In the case of a taxable bonus issue state strike price	\$	Resident Withholding Tax	\$0.000000/\$0.010417	Imputation Credits (Give details)	\$0.058333
		Foreign Withholding Tax	\$0.000000	FDP Credits (Give details)	\$0.000000

Timing (Refer Appendix 8 in the NZSX Listing Rules)

Record Date 5pm
For calculation of entitlements - **3 September, 2014**

Application Date
Also, Call Payable, Dividend / Interest Payable, Exercise Date, Conversion Date. In the case of applications this must be the last business day of the week. **15 September, 2014**

Notice Date
Entitlement letters, call notices, conversion notices mailed **Not applicable**

Allotment Date
For the issue of new securities. Must be within 5 business days of application closing date. **Not applicable**

OFFICE USE ONLY
Ex Date:
Commence Quoting Rights:
Cease Quoting Rights 5pm:
Commence Quoting New Securities:
Cease Quoting Old Security 5pm:

Security Code:
Security Code:



MEDIA RELEASE

Monday 18 August 2014

Flexible portfolio delivers in highly competitive market

	Year ended 30 June 2014	
EBITDAF ¹	\$587m	up 9% from \$541m
Profit for the period	\$234m	up 18% from \$199m
Earnings per share (cents)	32.0 cps	up 18% from 27.2cps
Net items excluded from underlying earnings after tax	\$7m	up from (\$3m)
Underlying earnings after tax ²	\$227m	up 12% from \$202m
Underlying earnings per share (cents)	31.0 cps	up 12% from 27.7 cps
Full year dividend (cents)	26.0 cps	up 4% from 25.0 cps
Operating cashflow after tax (OCAT)	\$400m	down 3% from \$413m
Capital expenditure	\$274m	down 18% from \$336m

Overview of results

“The completion of Contact’s current investment programme in over \$2 billion of new assets is evident in the strong results our business has delivered in FY14. Our diverse and flexible generation portfolio, supported by a reduction in gas take-or-pay commitments and the upgrade of the inter-island transmission link, allowed Contact to benefit from higher than normal inflows to hydro schemes. The commissioning of the Te Mihi geothermal power station in May 2014 was a major milestone for the company and completes this stage of geothermal growth, and demonstrates Contact’s geothermal expertise. A continued focus on customer service and competitively priced products saw a 1 per cent increase in retail sales, during a period where we implemented our SAP customer billing and service system” said Dennis Barnes, Contact Chief Executive.

Contact reported profit after tax for the year ended 30 June 2014 of \$234 million, up \$35 million (18 per cent) compared with the prior corresponding period (FY13). Earnings before net interest expense, tax, depreciation, amortisation, change in fair value of financial instruments and other significant items (EBITDAF)¹ were \$587 million, \$46 million (9 per cent) higher than FY13. Underlying earnings after tax² (profit for the period

¹ Refer to page 1 and 2 of the Management discussion of financial results for the year ended 30 June 2014 for a definition and reconciliation between Statutory Profit and the non-GAAP profit measure Earnings before net interest expense, tax, depreciation, amortisation, change in fair value of financial instruments and other significant items (EBITDAF).

² Refer to page 3 and 4 of the Management discussion of financial results for the year ended 30 June 2014 for a definition and reconciliation between statutory profit and the non-GAAP profit measure underlying earnings.

adjusted for significant items that do not reflect the ongoing performance of the Group) were \$227 million, \$25 million (12 per cent) above FY13.

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 the 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 increases in underlying earnings after tax and profit for the period were driven by the increase in EBITDAF, partially offset by the inclusion of depreciation and interest costs for Te Mihi and Retail Transformation from the beginning of May 2014.

The Contact Board of Directors resolved that the final 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.

"The business is continuing to adapt to the reality of no demand growth and increasing competition and innovation in the retail market. Culture change is being led by our continued focus on the health, safety and well-being of our people and enhancing the customer experience. I believe a culture that delivers safety and has the customer at the centre of its decisions will deliver stronger outcomes for all stakeholders. While our total recordable injury frequency rate is in-line with FY13, the journey we are on to improve safety through visible and active leadership, encouraging a learning culture and simplifying our management systems will help us achieve our aspiration of zero harm and improve performance across all areas of the business.

We are continuing to hold market share in one of the most competitive retail electricity markets in the world, with our range of products and payment options remaining popular with customers both at home and in business. The number of customers switching electricity provider 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. Retail margins remain under pressure with price increases only recovering network cost increases. As the latest Statistics New Zealand Quarterly Survey of Domestic Electricity Prices shows, the annual rate of increase in the energy component of tariffs was 0.5 per cent over the past three years and was only 0.3 per cent in the past year; in the last quarter of the year the energy component decreased by 0.7 per cent. Warmer weather and home energy efficiency measures resulted in reduced residential demand; however, for Contact this was more than offset by increased sales in the commercial and industrial business, with total electricity sales increasing 1 per cent or 101 GWh.

A 14 per cent increase in our hydro generation in FY14 reduced the need to run more expensive thermal generation and reduced our cost of energy. As expected, with take-or-pay gas no longer such a constraint, utilisation of our combined-cycle gas-fired power stations continued to decrease with third-party supply increasingly used to meet customer demand. Te Mihi has reduced our generation costs which, combined with

lower future gas take-or-pay constraints and New Zealand's only gas storage facility, means our thermal power stations will only operate when we can achieve an economic return. These factors contribute to making Contact's earnings more predictable," said Mr Barnes.

Refinancing programme

Over the past 14 months Contact raised \$773 million in new funding to refinance its \$705 million of 2014 maturities and to redeem 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, issuance of United States Private Placement notes and domestic retail and wholesale bonds we have been able to achieve this objective," Mr Barnes said.

Looking forward

Contact is focussed on enhancing the customer experience, increasing the efficiency of existing operations and managing cashflow. The \$2 billion capital investment programme has positioned the business for current market conditions with no significant capital expenditure required in the immediate future.

"The work we have completed over the past five years sees the business well structured and our employees motivated to deliver. With intense retail competition we need to find ways to reduce our costs to acquire and serve customers and I believe our SAP customer billing and service system will provide us with an advantage. Process efficiency, mass market segmentation, revised pricing models and improved digital capability will all provide opportunities to leverage the new system to reduce cost to serve at the same time as enhancing customer experience. It will take time to fully realise the benefits of the new systems and processes and provide a positive contribution to profits above the increase in interest and depreciation costs.

Our investment in the Ahuroa gas storage facility and the flexibility of our portfolio allows us to take a patient approach to gas contracting beyond 2014 as we manage regulatory and demand uncertainty. In June 2014 we announced a gas supply agreement to support the extension of our Te Rapa co-generation contract. Completing the supporting gas purchase with Genesis Energy was a significant step for Contact as we contemplate our future gas purchase needs," said Mr Barnes.

The 2015 financial year will include a full year of Te Mihi generation, replacing the contribution from the delay compensation, together with a full year of associated depreciation and interest costs.

"It is important that we operate in a stable regulatory environment given the long-term nature of our industry. The current market structure has delivered a significant increase in renewable generation including our \$623 million Te Mihi power station which we were pleased to formally open last week. Consumers are seeing clear evidence that the current market is working with high levels of competition leading to lower energy prices.

Contact has positioned itself strongly with the right assets, the right systems, and a strong pipeline of new products for the future which will continue to ensure we serve our customers well,” Mr Barnes said.

ENDS

Media enquiries: Shaun Jones 021 204 4521

Investor enquiries: Fraser Gardiner 021 228 3688

Management discussion of financial results for the year ended 30 June 2014

Financial results for the year ended 30 June 2014

Key financial information	Year ended 30 June 2014	Year ended 30 June 2013	Variance	
	\$m	\$m	\$m	%
Revenue and other income	2,446	2,526	(80)	(3%)
Operating expenses ⁽¹⁾	(1,859)	(1,985)	126	6%
EBITDAF ⁽²⁾	587	541	46	9%
Depreciation and amortisation	(190)	(195)	5	3%
Change in fair value of financial instruments	7	11	(4)	(36%)
Other significant items	1	(28)	29	104%
Earnings before net interest expense and tax (EBIT)	405	329	76	23%
Net interest expense	(77)	(66)	(11)	(17%)
Tax expense	(94)	(64)	(30)	(47%)
Profit for the period	234	199	35	18%
Earnings per share (cents)	32.0	27.2	4.8	18%
Underlying earnings after tax ⁽³⁾	227	202	25	12%
Underlying earnings per share (cents)	31.0	27.7	3.3	12%
Shareholders' equity	3,582	3,537	45	1%

(1) Includes electricity purchases

(2) EBITDAF is a non-GAAP profit measure calculated as reported profit for the period before net interest expense, tax, depreciation, amortisation, change in fair value of financial instruments and other significant items. The CEO monitors EBITDAF as a key indicator of Contact's performance at segment and Group levels and believes it assists investors in understanding the performance of the core operations of the business

(3) Underlying earnings after tax is statutory profit excluding significant items that do not reflect the ongoing performance of the Group

Profit for the period

The benefits of Contact's investment in improving the diversity and flexibility of its fuel and generation portfolio is evident with profit for the year ended 30 June 2014 (FY14) of \$234 million, up \$35 million (18 per cent) compared with the prior year (FY13). This improvement 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 the Te Mihi power station. The lower cost of energy is partially offset by the inclusion of depreciation and interest costs for Te Mihi and Retail Transformation from the beginning of May 2014.

Distributions to shareholders

The Contact Board of Directors resolved that the final 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.

Cash flow

Free cash flow in FY14 of \$293 million was \$19 million (6 per cent) down on FY13 of \$312 million. A \$46 million improvement in EBITDAF and lower stay in business capital expenditure was offset by an unfavourable working capital movement due to increased gas injection into Ahuroa gas storage and higher receivables as a result of the delay in retail billing as part of the new SAP customer billing and service system stabilisation. Free cash flow including the purchase or sale of fixed assets in FY14 was \$201 million compared with \$92 million in FY13. Cash capital expenditure decreased from \$331 million in FY13 to \$211 million in FY14.

EBITDAF

	Year ended 30 June 2014	Year ended 30 June 2013	Variance (%)
Revenue and other income (\$m)	2,446	2,526	(3%)
EBITDAF (\$m)	587	541	9%
Total generation volume (GWh)	9,255	9,879	(6%)
Retail electricity sales (GWh)	8,378	8,277	1%
Gas sales (retail and wholesale) (PJ)	4.5	4.7	(4%)
LPG sales (kT)	68,438	68,061	1%
Electricity customers ('000)	437.5	439.5	0%
Gas customers ('000)	63.0	61.5	2%
LPG customers (including franchisees) ('000)	67.0	65.0	3%
Total customers ('000)	567.5	566.0	0%
Netback (\$/MWh)	92.10	95.43	(3%)

Contact's EBITDAF increased by 9 per cent, or \$46 million, to \$587 million, 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 the Te Mihi power station. The compensation received reflects the risk allocation contained in the underlying construction contract for Te Mihi.

The Integrated Energy segment grew strongly, with EBITDAF up 10 per cent, or \$49 million, to \$551 million. Cost of energy improved by \$8 per megawatt hour (MWh) with higher than average hydro generation volumes displacing more expensive gas generation and Te Mihi delay compensation. This was supported by the reduction in gas take-or-pay constraints and the completion of the additional HVDC inter-island transmission link and associated upgrades in November 2013 which improved the flow of South Island generation to the North Island.

A continued focus on providing customer service and competitively priced products saw a 1 per cent increase in retail sales at the same time as the new SAP customer billing and service system was implemented in April 2014. Intense retail competition, warmer temperatures and home energy efficiency measures reduced mass market electricity sales by 215 gigawatt hours (GWh) (5 per cent). Lost mass market electricity volume was more

than offset by increased commercial and industrial sales. Netback decreased by \$3 per MWh with lower forward prices reflected in commercial and industrial tariffs and continued discounting of mass market tariffs.

EBITDAF from the Other segment was down 8 per cent, or \$3 million, to \$36 million with reduced meter contribution following the sale of the gas meter assets in July 2013 partially offset by lower LPG purchase and operating costs.

Depreciation and amortisation

Depreciation and amortisation costs of \$190 million were \$5 million lower than FY13 reflecting the lower operating hours of the thermal stations as a result of higher renewable generation. This was partially offset by depreciation incurred since the start of May 2014 for the Te Mihi geothermal power station and Retail Transformation projects.

Change in fair value of financial instruments

The reported profit for FY14 included a favourable non-cash pre-tax movement of \$7 million in the fair value of financial instruments, predominantly driven by favourable movements in interest rates since 30 June 2013. This compares to a favourable pre-tax movement of \$11 million in FY13.

Net interest expense

Net interest expense increased \$11 million (17 per cent) to \$77 million in FY14. Interest costs increased \$14 million due to a loss on redemption of the capital bond, additional finance lease interest costs and a reduction in interest capitalised to the Te Mihi geothermal power station and Retail Transformation projects. The increases were partially offset by higher interest income as short-term deposits were generated from pre-funding activities, and a lower weighted average interest rate due to the 2014 refinancing programme introducing lower priced debt.

Tax expense

Tax expense increased \$30 million to \$94 million in FY14. The increase in tax expense is driven by higher EBITDAF and an increase in the effective tax rate. Tax expense in FY14 represents an effective tax rate of 28.6 per cent. The variance from the statutory rate is a result of non-deductible expenditure including the recognition of impairment in the value of land held for sale, partially offset by non-assessable income derived on the sale of land. The effective tax rate for FY13 was 24 per cent due to gains on the land sales at Clutha, Wairakei and New Plymouth being non-assessable for tax purposes, the goodwill amount received in relation to the sale of the gas meters assets being non-assessable and the release of part of the deferred tax liability recognised in relation to the disposal of the New Plymouth buildings (that arose when the ability to claim tax depreciation on buildings was removed). These were partially offset by non-deductible expenses relating to the impairment of capital projects.

Underlying earnings after tax

The CEO monitors underlying earnings after tax and believes it assists investors in understanding the ongoing performance of the business. Underlying earnings after tax is statutory profit excluding significant items that do not reflect the ongoing performance of the Group¹.

Underlying earnings after tax was \$227 million, up \$25 million (12 per cent) from FY13 driven by increased EBITDAF, partially offset by the inclusion of depreciation and interest costs for Te Mihi and Retail Transformation from the beginning of May.

The underlying adjustments in the current period are the change in fair value of financial instruments, land sales following the FY12 decision to halt the Clutha hydro development, impairment charges on land classified as held for sale, transition costs from the Retail Transformation project and associated activities in the Retail business, and the gain on restructure of gas storage operations, along with the associated tax on these items.

	Year ended 30 June 2014	Year ended 30 June 2013	Variance	
	\$m	\$m	\$m	%
Profit for the period	234	199	35	18%
Change in fair value of financial instruments	(7)	(11)	4	36%
Transition costs	11	4	7	175%
Gain on restructure of gas storage operations	(7)	-	(7)	0%
Clutha land sales	(7)	(13)	6	46%
Asset impairments	2	72	(70)	(97%)
Gas meter assets sale	-	(26)	26	100%
New Plymouth power station sale and provision release	-	(17)	17	100%
Restructuring costs	-	8	(8)	(100%)
Tax on items excluded from underlying earnings	1	(14)	15	107%
Underlying earnings after tax	227	202	25	12%

Gearing ratio and liquidity

Net debt exclusive of fair value adjustments at 30 June 2014 was \$1,416 million, compared with \$1,415 million at 30 June 2013. As part of the 2014 refinancing programme Contact redeemed the \$550 million 2009 retail bond and issued \$222 million of new retail bonds through an exchange offer. At 30 June 2014, Contact had drawn down \$223 million from its available committed bank facilities of \$600 million and had \$60 million of short-term commercial paper on issue. The balance sheet gearing ratio at 30 June 2014 was 28 per cent, in-line with 30 June 2013.

¹ Significant items are determined in accordance with the principles of consistency, relevance and clarity. Transactions considered for classification as significant items include impairment or reversal of impairment of assets, fair value movements in financial instruments, 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.

Existing term debt comprises \$599 million (US\$408 million) of United States Private Placement (USPP) of various maturities, \$222 million of fixed-rate retail bonds maturing in May 2019, \$100 million of fixed-rate wholesale bonds maturing in April 2017, two tranches of \$50 million wholesale bonds maturing in May 2018 and 2020, and \$97 million drawn down from the export credit agency facility. Term debt totalling \$190 million is due to be repaid in the next 12 months and is classified as a current liability. The current portion comprises one tranche of USPP notes (\$183 million) and scheduled repayments of the export credit agency facility (\$7 million).

Looking forward

Contact is focussed on enhancing the customer experience, increasing the efficiency of existing operations and managing cashflow. The \$2 billion capital investment programme has positioned the business for current market conditions with no significant capital expenditure required in the immediate future.

Work completed over the past 5 years sees the business well structured and employees motivated to deliver. With intense retail competition Contact needs to find ways to reduce the cost to acquire and serve customers with the SAP customer billing and service system expected to provide an advantage. Process efficiency, mass market segmentation, revised pricing models and improved digital capability will all provide opportunities to leverage the new system to reduce cost to serve at the same time as enhancing customer experience. It will take time to fully realise the benefits of the new systems and processes and provide a positive contribution to profits above the increase in interest and depreciation costs.

Contact's investment in the Ahuroa gas storage facility and the flexibility of the portfolio allows a patient approach to gas contracting beyond 2014 as the business manages regulatory and demand uncertainty. In June Contact announced a gas supply agreement to support the extension of the Te Rapa co-generation contract. Completing the supporting gas purchase with Genesis Energy was a significant step as the company contemplates its future gas purchase needs.

The 2015 financial year will include a full year of Te Mihi generation, replacing the contribution from the delay compensation, together with a full year of associated depreciation and interest costs.

It is important for the business to operate in a stable regulatory environment given the long-term nature of the industry. The current market structure has delivered a significant increase in renewable generation including the \$623 million Te Mihi geothermal power station. Consumers are seeing clear evidence that the current market is working with high levels of competition leading to lower energy prices. Contact has positioned itself strongly with the right assets, the right systems, and a strong pipeline of new products for the future which will continue to ensure customers are well served.

Overview of performance for the period

National demand

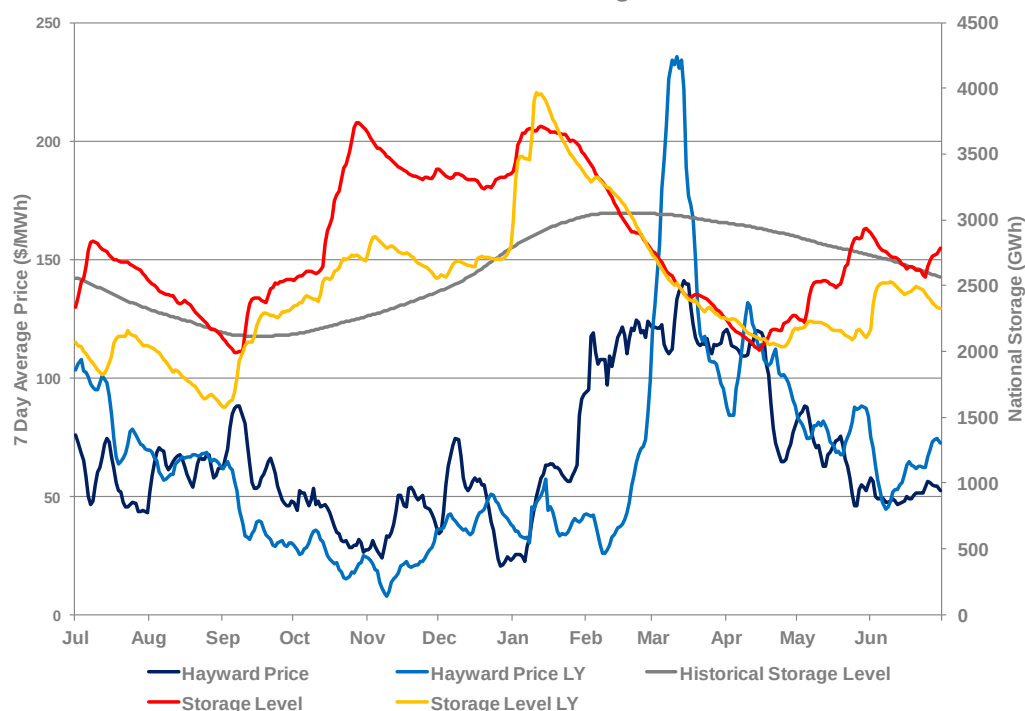
	Year ended 30 June 2014	Year ended 30 June 2013	Variance	
	GWh	GWh	GWh	%
North Island	23,214	23,501	(287)	(1%)
South Island ex Tiwai	8,909	9,015	(106)	(1%)
Tiwai	4,989	4,814	175	4%
Total national demand	37,112	37,330	(218)	(1%)

National demand fell in FY14 with total demand of 37,112 GWh, 218 GWh (1 per cent) below FY13. Norske Skog's closure of a paper machine in January 2013 reduced demand by 50 MW, however, this has been offset by an increase from Tiwai of 175 GWh and other large industrials of 38 GWh. Residential and commercial demand was down 1 per cent, predominantly due to warmer average temperatures during the year and a continuation of home efficiency improvements.

Electricity market conditions

The average wholesale spot price for FY14 was \$65 per MWh compared with \$70 per MWh for FY13. National storage levels remained above mean throughout the majority of FY14, although dry conditions from the middle of January saw lake levels fall well below mean from early March until the start of May.

Price and National Storage Levels



Overall prices remained more stable during FY14, particularly following the completion of the HVDC upgrades in November 2013. During periods of strong hydro generation in the South Island the HVDC operated at up to 950 MW with minimal price separation between the islands. Geothermal generation in the latter part of FY14 was impacted by transmission limitations and outages associated with Transpower's Wairakei ring upgrades, with these issues being resolved permanently in late June.

Integrated Energy segment

EBITDAF contribution from the Integrated Energy segment increased \$49 million (10 per cent) due to the reduction in the cost of energy.

Integrated Energy Segment	Year ended 30 June 2014 \$m	Year ended 30 June 2013 \$m	Variance	
			\$m	%
Mass market electricity	960	974	(14)	(1%)
Commercial and industrial electricity	574	558	16	3%
Retail gas	63	69	(6)	(9%)
Steam	20	19	1	5%
Total Revenue	1,617	1,620	(3)	(0%)
Cost of energy	(336)	(407)	71	17%
Electricity networks, levies & meter costs	(590)	(566)	(24)	(4%)
Gas networks, levies & meter costs	(34)	(41)	7	17%
Total cost of goods sold	(960)	(1,014)	54	5%
Electricity and gas cost to serve	(106)	(104)	(2)	(2%)
EBITDAF	551	502	49	10%
Mass market electricity sales (GWh)	3,852	4,067	(215)	(5%)
Commercial & industrial electricity sales (GWh)	4,526	4,210	316	8%
Retail gas sales (GWh)	611	651	(40)	(6%)
Steam sales (GWh)	628	577	51	9%
Total retail sales (GWh)	9,617	9,505	112	1%
Average electricity sales price (\$/MWh)	183.10	185.02	(1.93)	(1%)
Electricity direct pass through costs (\$/MWh)	(70.45)	(68.34)	(2.11)	(3%)
Electricity and gas cost to serve (\$/MWh)	(11.82)	(11.64)	(0.18)	(2%)
Netback (\$/MWh) ¹	92.10	95.43	(3.33)	(3%)
Actual electricity line losses (%)	4%	5%	(1%)	(18%)
Retail gas sales (PJ)	2.3	2.5	(0.2)	(6%)
Electricity customer numbers (closing)	437,500	439,500	(2,000)	(0%)
Retail gas customer numbers (closing)	63,000	61,500	1,500	2%

Customers

Volume and customer numbers

Total retail electricity sales increased by 1 per cent in FY14 to 8,378 GWh with mass market sales reducing by 215 GWh (5 per cent) and commercial and industrial sales increasing by 316 GWh (8 per cent).

Competition for retail customers among New Zealand's 14 retailers remains intense with New Zealand rated as having one of the most active retail energy markets in the world. Total

installation control points grew by 1 per cent in FY14 to reach over 2 million at 30 June 2014. The number of customers switching electricity provider 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.

Contact's total number of electricity customers was 437,500 at 30 June 2014, down 2,000 from 30 June 2013 as acquisition activity was reduced in the final quarter of the year to allow the new SAP customer billing and service system to be stabilised. Contact's gas customer numbers increased by 1,500.

Commercial and industrial sales volumes increased 8 per cent to 4,526 GWh, predominantly as a result of strong sales in the second half of FY13. Re-sign rates have remained strong reflecting Contact's competitiveness in this market.

Mass market electricity sales for FY14 were 3,852 GWh, 5 per cent lower than FY13. Average usage per customer was 8,849 KWh in FY14, 5 per cent lower than FY13, driven by warmer weather, home energy efficiency measures and mix changes in small and medium sized business customers.

Retail gas volumes were down 6 per cent or 0.2 petajoules (PJ) to 2.3 PJ.

Netback

Performance of the retail channels is measured using a netback calculation. Netback is calculated by deducting the network, meter, levy and cost to serve costs from customer tariffs. This enables the performance of the retail channels to be measured without using an energy cost. The netback is meant to cover, inter alia, the cost of energy, capital return, risk margin and a retail margin.

Netback decreased by 3 per cent from FY13 to \$92 per MWh reflecting the competitiveness of the current retail markets.

Retail margins remain under pressure with limited returns available for the costs and risks of supplying residential and business customers. Mass market netbacks were inline with FY13 with network cost increases being recovered from customers with no increase in the energy or service related costs. Take-up of the higher prompt payment discount for residential customers who receive their bills online and pay on time has slowed although continues to grow with an additional 4,500 customers now utilising the service.

The average commercial and industrial sales revenue decreased by \$6 per MWh (4 per cent) to \$127 per MWh reflecting current wholesale forward contract prices.

Retail gas sales decreased by 6 per cent to 611 GWh with reductions in network costs passed through in customer tariffs.

Cost to serve increased by \$2 million to \$106 million. The combined increase in costs of churn, including debt management, and marketing combined to offset the savings achieved

as a result of the company restructuring completed in FY13. The deployment of smart meters continues with nearly 200,000 customers now using smart meters. Electricity metering costs in FY14 increased by \$2 per MWh, reflecting the higher operating cost of smart meters.

Contact's Retail Transformation project achieved its 'go-live' in April 2014. This completes the SAP transformation of finance, procurement, asset management and retail systems. The stabilisation process has run better than expected. Mass market segmentation, revised pricing models and improved digital capability will all provide Contact with opportunities to leverage the new system to reduce cost to serve and enhance customer experience.

Cost of energy

Cost of energy reflects the total cash operational costs of supplying the energy sold. It is calculated as the sum of the total cost of generation and the trading margin between wholesale electricity sales and purchases. It does not include any capital return.

Cost of energy improved by \$71 million (17 per cent) as increased hydro and geothermal generation and reduced gas take-or-pay contracted volumes allowed Contact to reduce more expensive thermal generation.

Included in the cost of energy is the receipt of \$43 million compensation as a result of the delayed start-up of the Te Mihi geothermal power station.

Cost of Energy	Year ended 30 June 2014	Year ended 30 June 2013	Variance	
	\$m	\$m	\$m	%
Wholesale electricity revenue	641	742	(101)	(14%)
Wholesale gas revenue	20	23	(3)	(13%)
Te Mihi compensation	43	-	43	100%
Total wholesale revenue	704	765	(61)	(8%)
Electricity purchases	(610)	(657)	47	7%
Other purchase costs	(13)	(21)	8	38%
Electricity transmission & levies	(41)	(39)	(2)	(5%)
Gas purchases	(224)	(294)	70	24%
Gas transmission & levies	(24)	(32)	8	25%
Emission costs	1	(4)	5	125%
Total direct costs	(911)	(1,047)	136	13%
Generation operating costs	(129)	(125)	(4)	(3%)
Cost of energy	(336)	(407)	71	17%
Thermal generation (GWh)	2,865	4,069	(1,204)	(30%)
Geothermal generation (GWh)	2,332	2,249	83	4%
Hydro generation (GWh)	4,058	3,561	497	14%
Spot market generation (GWh)	9,255	9,879	(624)	(6%)
Swaption (GWh)	-	198	(198)	(100%)
Spot electricity purchases (GWh)	8,638	8,618	19	0%
CfD sales/(purchases) (GWh)	(122)	713	(835)	(117%)
GWAP (\$/MWh)	64.87	70.29	(5.42)	(8%)
LWAP (\$/MWh)	70.57	76.17	(5.59)	(7%)
LWAP/GWAP (%)	109%	108%	1%	1%
Gas used in internal generation (PJ)	25.2	34.6	(9.4)	(27%)
Wholesale gas sales (PJ)	2.2	2.3	(0.1)	(4%)
Gas storage net movement (PJ)	1.4	(1.9)	3.3	174%
Unit generation cost (\$/MWh)	40.85	45.54	(4.69)	(10%)
Cost of energy (\$/MWh)	34.75	42.59	(7.84)	(18%)

Generation

Contact's total generation in FY14 was 9,255 GWh, 624 GWh less than FY13.

Hydro generation was up 497 GWh (14 per cent) as higher rainfall resulted in increased tributary flows and storage levels. The completion of commissioning of the additional HVDC interconnector between the North and South Islands in November 2013 improved Contact's ability to move the additional generation to customers in the North Island.

Contact's geothermal generation was up 83 GWh to 2,332 GWh. Following the successful re-consenting of the Ohaaki power station, which allows generation operations to continue at the site for a further 35 years, a seven week maintenance outage was undertaken in April and May 2014. This work will allow the plant to continue to operate reliably and is expected to increase plant production going forward. Ohaaki generation in FY14 was down 61 GWh compared to FY13. Te Mihi generation in FY14 totalled 218 GWh. The current capacity at

Te Mihi is lower than the expected 159 MW net generation and the plant manufacturer is working on solutions to be implemented later this year.

Generation from the combined-cycle gas-fired power stations (CCGTs) decreased 1,027 GWh to 2,591 GWh, a capacity factor of 36 per cent. Lower wholesale prices and a reduction in gas take-or-pay constraints meant that it was often cheaper to purchase electricity off the spot market than it was to generate it. The Stratford peaker plant generated 273 GWh during FY14, 174 GWh less than FY13, and had a capacity factor of 16 per cent. With the reduced operation of the CCGTs, the peakers were able to manage higher prices and reserve costs while Contact was a net purchaser from the market. The average price received for generation from the peakers in FY14 was \$87 per MWh, \$15 per MWh lower than FY13. Whirinaki generation totalled 1.3 GWh in FY14.

In June 2014 Contact announced that it had reached agreement to supply Fonterra with steam and electricity from the Te Rapa cogeneration plant for a term of eight years commencing 1 July 2015. Contact has supplied steam and electricity to Fonterra from the Te Rapa cogeneration plant since 1999.

Overall capacity utilisation was down on FY13 with increased national hydro generation reducing the need for Contact's thermal capacity. Pool revenue averaged \$65 per MWh with hydro prices in the first half of the financial year impacted by HVDC constraints and commissioning activity throughout most of the period. Geothermal capacity factors were down on previous periods as a result of outages in relation to Te Mihi commissioning and the outage to improve and sustain production at Ohaaki. Performance of the generation portfolio is summarised below.

	Gross output (MW)	Plant availability ¹ (%)	Capacity factor ² (%)	Electricity output (GWh)	Pool revenue (\$m)	Pool revenue (\$/MWh)
Hydro	752	97%	62%	4,058	221	55
Geothermal	431	93%	89%	2,332	154	66
CCGTs (incl Te Rapa)	821	90%	36%	2,591	202	78
Peakers (incl Whirinaki)	355	89%	9%	274	24	87
Total	2,359	93%	45%	9,255	600	65

¹ Measures the reliability of our generation plants

² Geothermal capacity factor includes 2 months of Te Mihi availability

Wholesale price and volume

In FY14, the volumes used by Contact customers, including contracts for difference (CfDs), decreased by 816 GWh to 8,516 GWh. Purchases for commercial and industrial and mass market customers were up 19 GWh. Contact was a net buyer of CfDs in FY14 as purchases were made on the Australian Securities Exchange to hedge sales positions, manage the impact of delays in Te Mihi commissioning and reduce costs by not having to run the CCGTs. Increased CfD purchases offset the reduction in swaption volumes at a reduced cost.

The average price received for generation was \$65 per MWh, down \$5 per MWh due to increased hydro generation. The average price paid for purchases was \$70 per MWh, \$6 per MWh below FY13. LWAP/GWAP spread reduced by \$2 million.

Unit generation costs

Average unit generation costs for the generation portfolio decreased 10 per cent to \$41 per MWh as increased hydro and geothermal generation displaced more expensive thermal generation.

Gas costs

Gas usage in the thermal power stations reduced to 25.2 PJ, a reduction of 9.4 PJ from FY13 and 13.5 PJ less than was used in FY12. Wholesale and retail gas was largely stable at 2.2 PJ and 2.3 PJ respectively. Natural gas held in the Ahuroa gas storage facility increased by 1.4 PJ in FY14 to 11.3 PJ as injections were made to manage surplus contracted gas and to increase flexibility in the timing of new gas contracting decisions. A combination of gas storage extractions and spot purchases were used extensively during February as Contact's main gas supply field, Maui, completed a planned outage.

The average cost of gas was stable in FY14 predominantly due to gas storage extractions falling from 2.3 PJ in FY13 to 1.4 PJ in FY14 offsetting inflationary increases to existing contracts.

In June 2014 Contact announced that it had agreed to buy 27 PJ of gas from Genesis over a 6 year period commencing 1 January 2015. At this stage no additional gas has been purchased as Contact continues to consider the future requirements of its thermal power stations.

Emission costs

The Integrated Energy segment incurs emission costs based on the amount of gas purchased for generation and for sale to wholesale and retail customers, as well as the amount of steam extracted for use in geothermal power stations. Emission costs in FY14 were a credit of \$1 million compared to a cost of \$4 million in FY13. This was due to the purchase of lower cost units in FY14 to meet Contact's 2013 calendar year obligations and a 26 per cent reduction in emissions.

Other segment

The Other segment includes the LPG and meter businesses. Other segment EBITDAF was down \$3 million to \$36 million.

Other Segment	Year ended 30 June 2014	Year ended 30 June 2013	Variance	
	\$m	\$m	\$m	%
LPG revenue	116	119	(3)	(3%)
Meter leases revenue	5	14	(9)	(64%)
Meter leases revenue - internal	39	33	6	18%
Other revenue	4	8	(4)	(50%)
Total other segment revenue	164	174	(10)	(6%)
LPG purchases	(77)	(87)	10	11%
Meter lease costs	(32)	(26)	(6)	(23%)
Carbon emissions	-	-	-	0%
Total direct costs	(109)	(113)	4	4%
Other operating expenses	(19)	(22)	3	14%
EBITDAF	36	39	(3)	(8%)
LPG sales (tonnes)	68,438	68,061	377	1%
LPG customer numbers (closing)	67,000	65,000	2,000	3%

LPG contributions increased by \$10 million to \$22 million. LPG sales increased 1 per cent compared to FY13. Domestic oversupply has meant prices are set to export parity and has also resulted in Contact exporting 2,738 tonnes of LPG during the second half of FY14. Purchase costs decreased by 11 per cent as Contact's contracts followed wholesale market prices.

Contribution from the metering business was down \$9 million due to the sale of the gas metering assets in FY13 and the continued roll-out of electricity smart meters.



2014 Full Year Results Presentation

18 August 2014

Year ended 30 June 2014

Dennis Barnes, Chief Executive Officer

Graham Cockroft, Chief Financial Officer

Contact®

Disclaimer

This presentation may contain projections or forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties.

Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks.

Although management may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realised.

EBITDAF and underlying earnings after tax are non-GAAP (generally accepted accounting practice) profit measures. Information regarding the usefulness, calculation and reconciliation of EBITDAF and underlying earnings is provided in the supporting material.

Furthermore, while all reasonable care has been taken in compiling this presentation, Contact accepts no responsibility for any errors or omissions.

This presentation does not constitute investment advice.



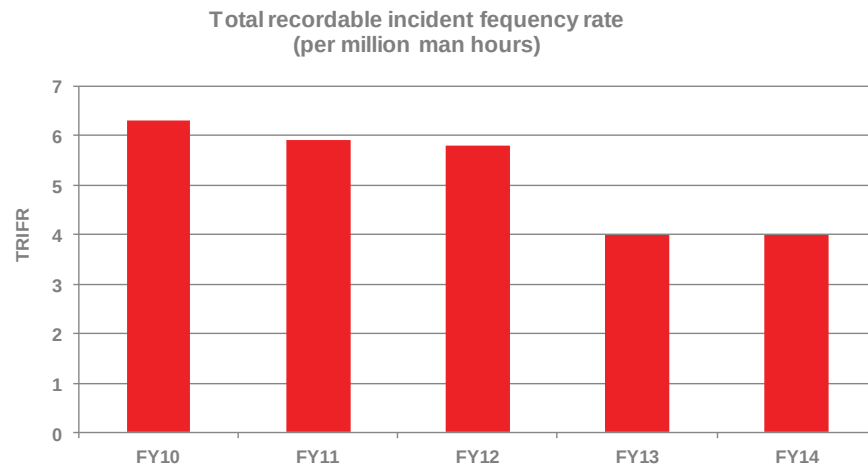
Performance highlights

Safety through visible and active leadership and supporting a learn and improve culture

4

- The health, safety and well-being of our people remains our number one priority
- In FY14 we have worked over four million hours on Contact sites with 17 injuries – two fractures were our most severe injuries, followed by sprains, strains and bruising
- We have had over 7,000 safety conversations
- We continue our journey of improving safety through visible and active leadership, encouraging a learning culture and simplifying our management system

Safety Coach Campaign



Profit for the period up 18% to \$234m

Underlying earnings per share up 12%

5

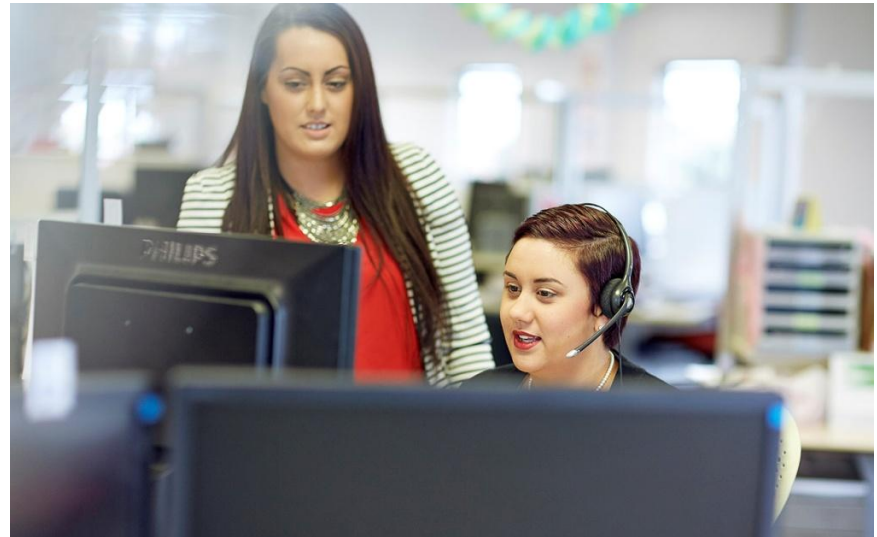
	Year ended 30 June 2014	
EBITDAF ¹	\$587m	up 9% from \$541m
Profit for the period	\$234m	up 18% from \$199m
Earnings per share (cents)	32.0 cps	up 18% from 27.2cps
Net items excluded from underlying earnings after tax	\$7m	up from (\$3m)
Underlying earnings after tax (UEAT) ¹	\$227m	up 12% from \$202m
Underlying earnings per share (cents)	31.0 cps	up 12% from 27.7 cps
Full year dividend (cents)	26.0 cps	up 4% from 25.0 cps
Operating cashflow after tax (OCAT) ¹	\$400m	down 3% from \$413m
Capital expenditure	\$274m	down 18% from \$336m

¹ Refer to slides 32-36 for a definition and reconciliation of EBITDAF, UEAT and OCAT

Key milestones completed in FY14

6

- Te Mihi geothermal power station commissioned May 2014
- Resumption of bi-pole operation of the HVDC supporting increased hydro generation and its flow north
- Final stages of Enterprise Transformation completed with the implementation of SAP customer billing and service system
 - » SAP is now implemented across Finance, Procurement, Asset Management and Customer Sales, Service and Billing
- \$773m new funding raised in the past 14 months

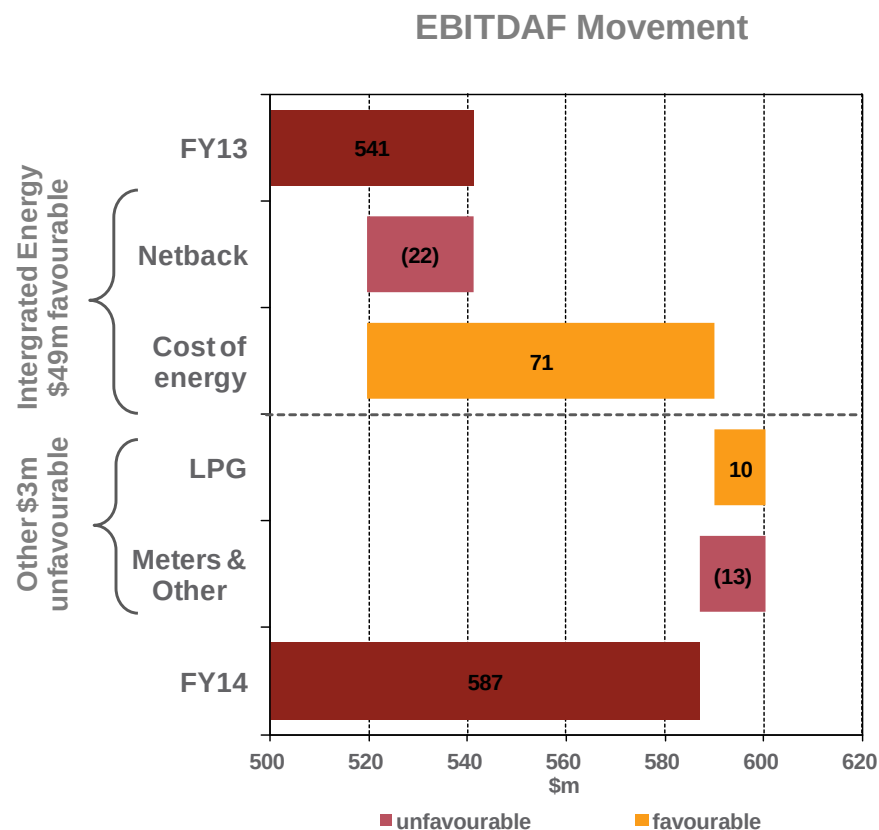


Reduced fuel costs supported by increased electricity sales

7

Integrated Energy segment EBITDAF: up \$49m (11%) to \$551m

- **Netback:** unfavourable \$22m (2%)
 - » Retail competition remains intense; volumes up 1%; netback per MWh down 3%
- **Cost of energy:** favourable \$71m (17%)
 - » 69% renewable – a strong hydro year
 - » Gas used primarily to support portfolio and not exposed to merchant prices
 - » Includes the receipt of \$43m compensation as a result of the delayed start-up of Te Mihi



Other segment EBITDAF: down \$3m

- **LPG:** favourable \$10m due to a reduction in purchase and operating costs
- **Meters & Other:** unfavourable \$13m, reflecting the sale of the gas metering business



Operational Review - Dennis Barnes

National electricity demand down 1 % reflecting lower mass market demand

9

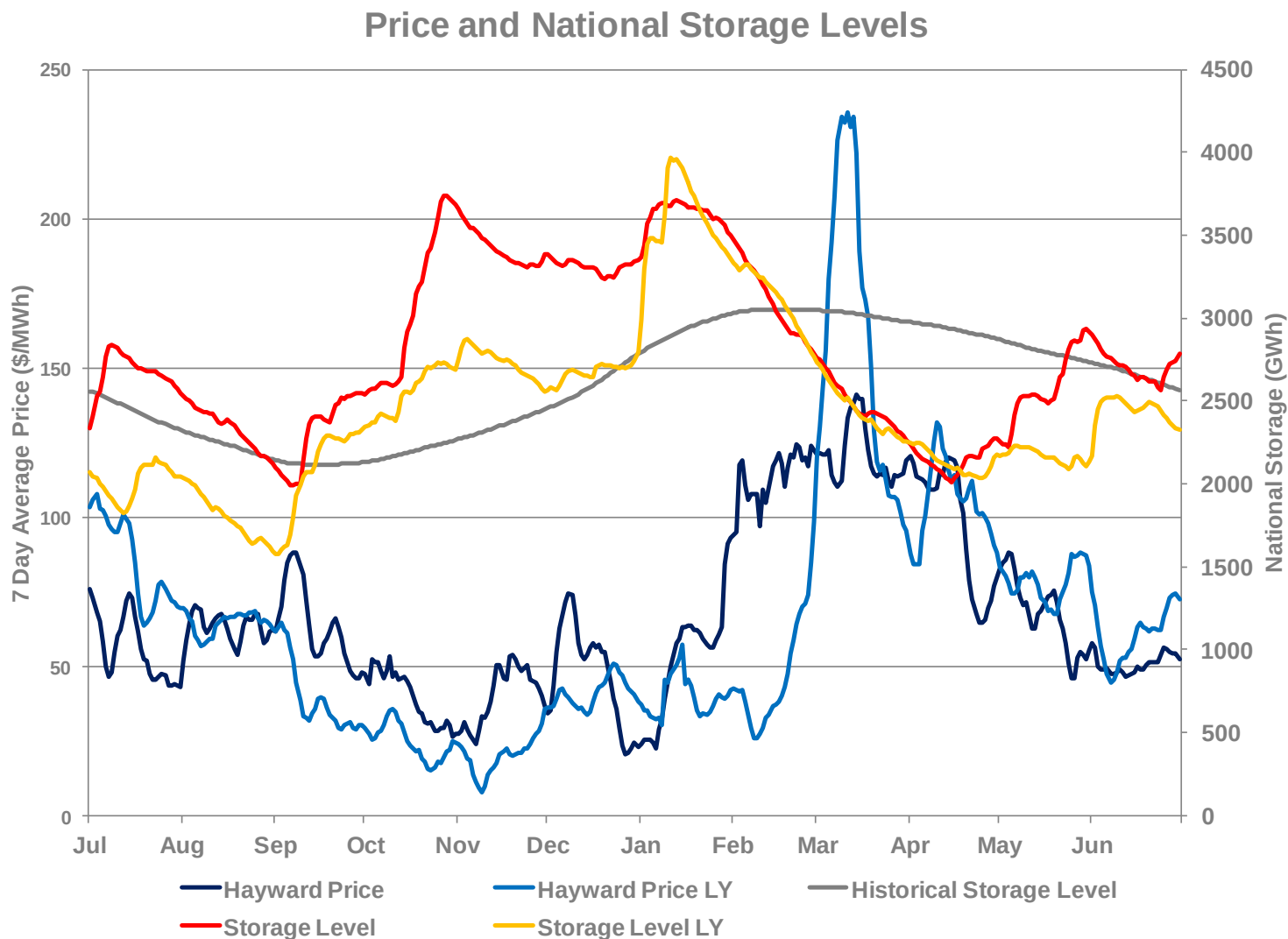
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	GWh	GWh	GWh	%
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South Island ex Tiwai	8,909	9,015	(106)	(1%)
Tiwai	4,989	4,814	175	4%
Total national demand	37,112	37,330	(218)	(1%)

Source: Transpower

- FY14 national electricity demand down 1% on FY13
- Residential and commercial demand down 1%
 - » due to warmer average temperatures during the year and a continuation of home energy efficiency improvements
- Major industrial demand flat
 - » Tiwai demand up 175 GWh
 - » Norske Skog's closure of plant in January 2013 reduced North Island demand by 50MW
 - » Other large industrial demand up 38 GWh

Above mean national storage levels kept wholesale prices suppressed

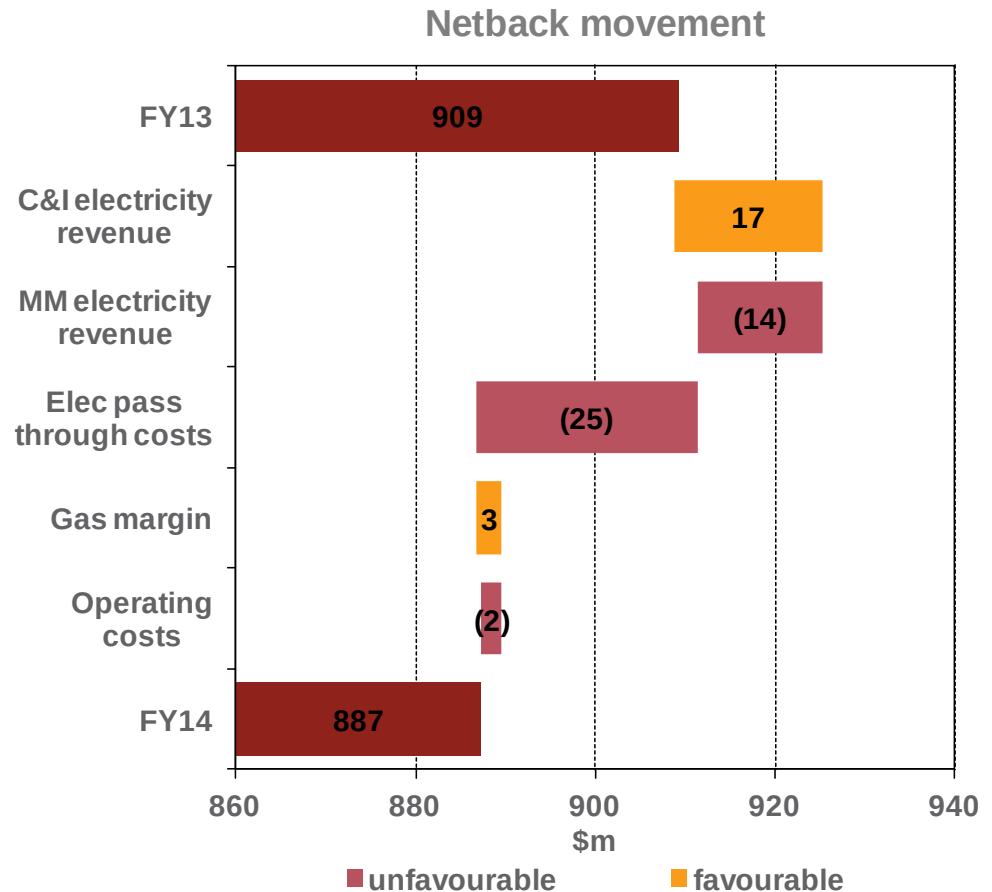
10



Netback – \$22m lower (2%) to \$887m

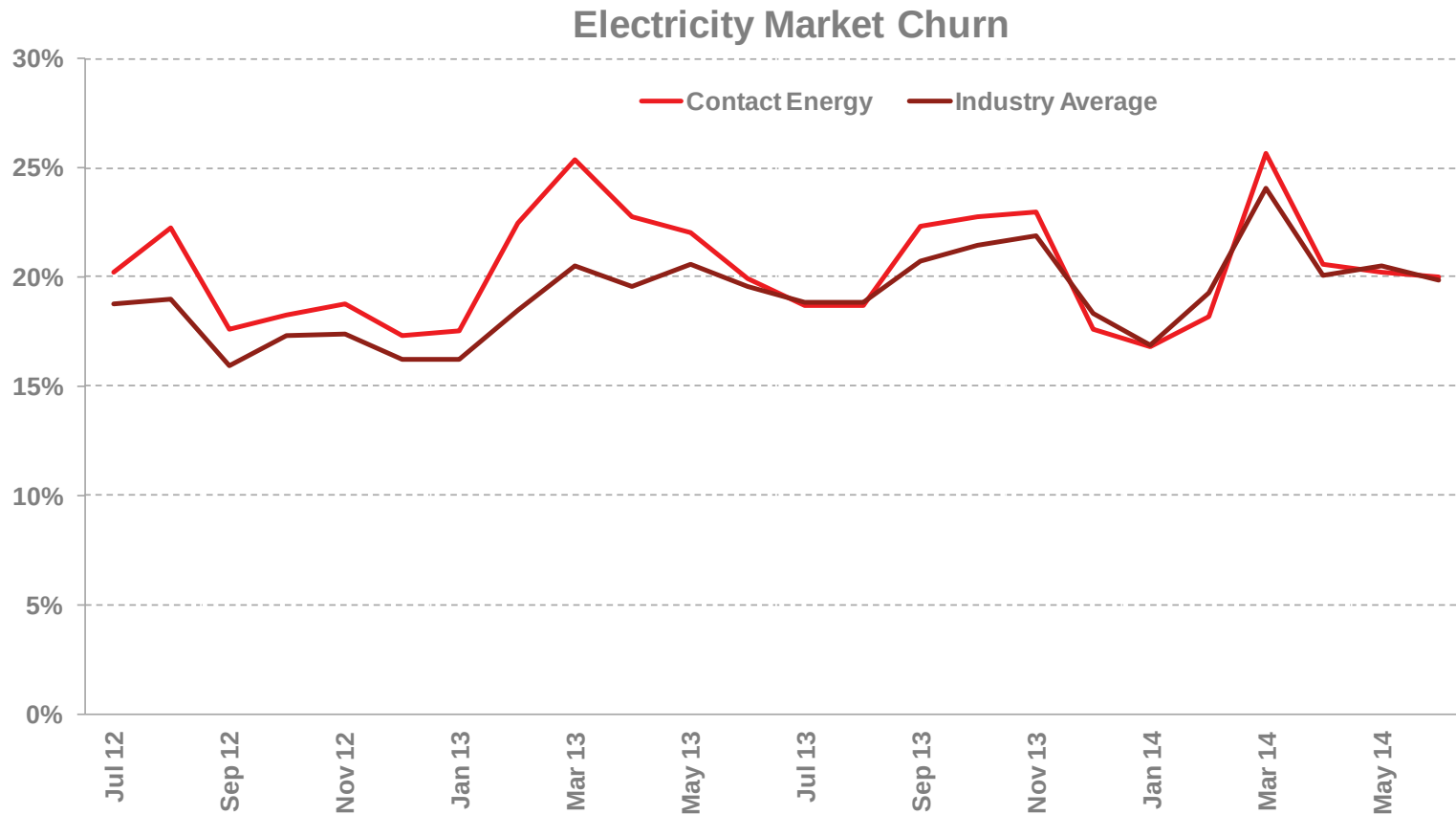
11

- Change in electricity sales mix; volume increased 101 GWh to 8,378 GWh
 - » Mass market consumption down 215 GWh (5%) driven by warmer weather, home energy efficiency measures and mix changes in small and medium sized business customers
 - » C&I sales up 316 GWh (8%)
- Netback unfavourable \$3/MWh at \$92/MWh
 - » Mass market netback stable with network cost increases recovered
 - » C&I netback down \$7/MWh in-line with forward curve movements



Retail market remains highly competitive

12



Source: Electricity Authority

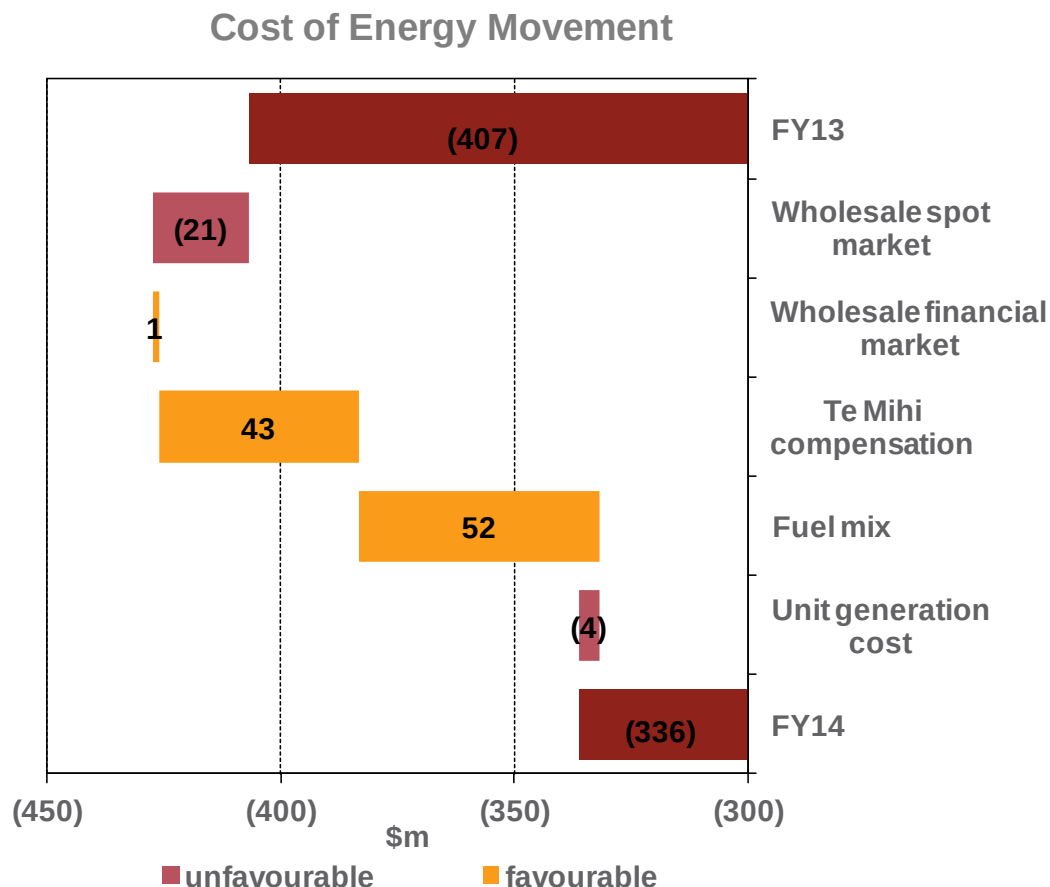
- Contact's competitive pricing strategy has seen loss rates move closer to market
- Final quarter customer losses higher as systems implementation limited acquisition and retention activity

Cost of energy – favourable \$71m (17%) to –\$336m

Increased hydro generation and Te Mihi delay compensation

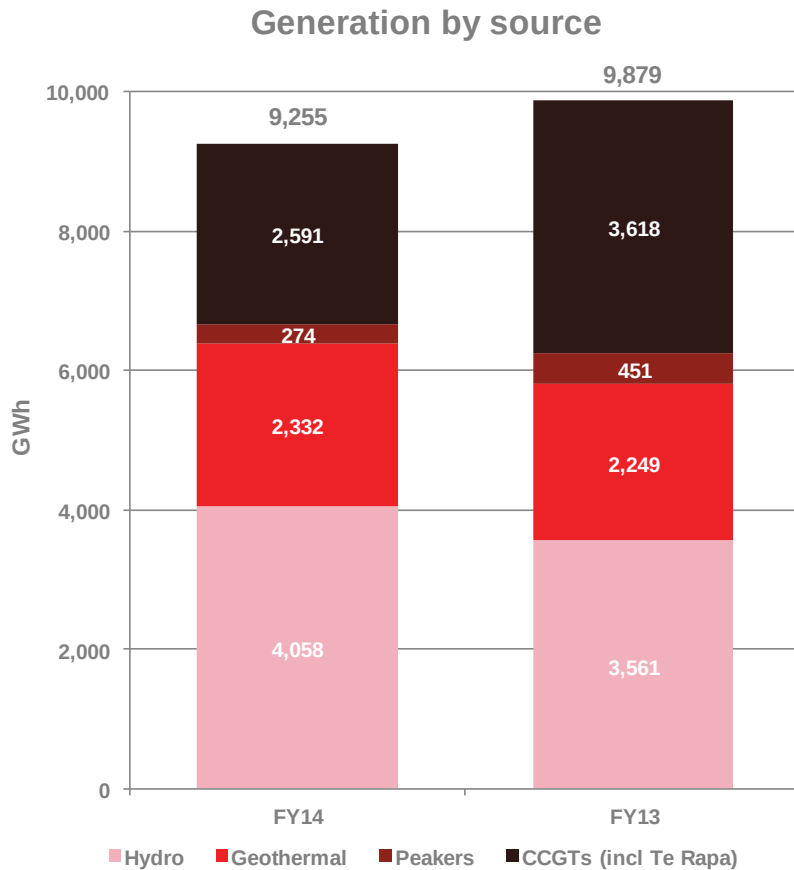
13

- Wholesale spot market down \$21m; generation volumes down 623 GWh
- Wholesale financial market stable
 - » Net purchaser of CfDs reflecting increased use of forward contracts and peakers to manage position
- \$43m compensation from delayed start-up of Te Mihi
- Fuel mix favorable \$52m with renewable generation increasing from 59% to 69%
- Unit generation cost unfavorable \$4m with higher gas unit costs and plant maintenance costs partially offset by lower carbon unit price



Flexibility of portfolio allows management of variable operating conditions

14

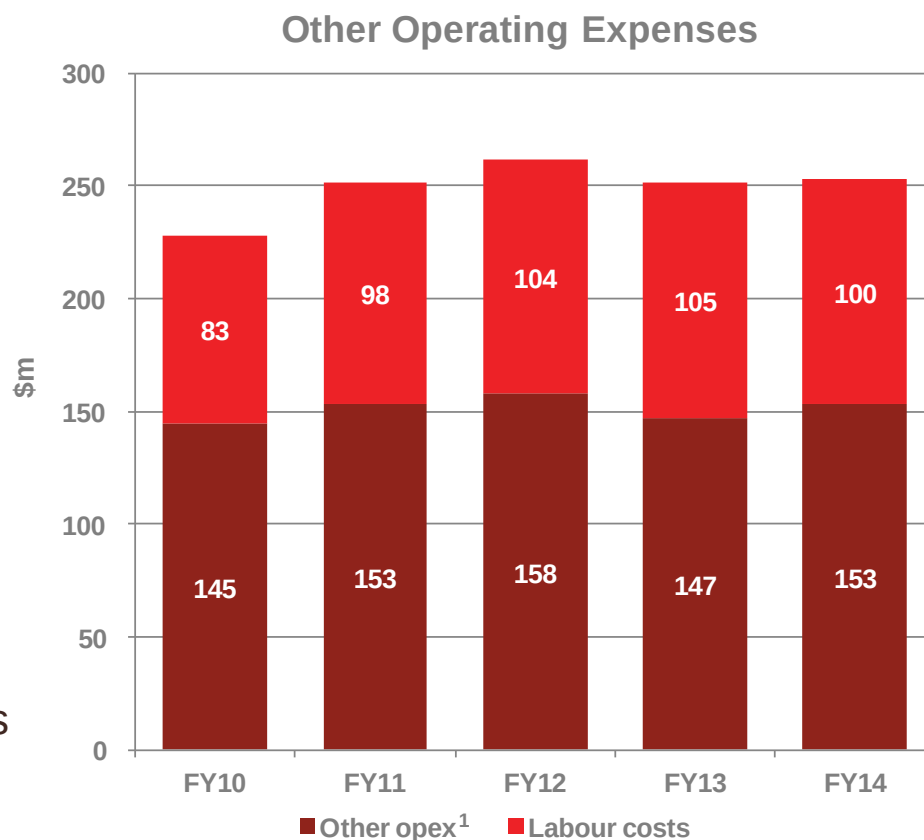


- More flexible fuel allows reduced thermal generation while hydro volumes increase
 - » Hydro generation was up 497GWh (14%)
 - » HVDC completion gives more south to north flow in these conditions
 - » Geothermal generation was up 83 GWh to 2,332 GWh following the commissioning of Te Mihi in May
 - » Generation from the CCGTs decreased 1,027 GWh to 2,591 GWh with excess gas injected in to storage
 - » Lower wholesale prices and reduced gas take-or-pay volumes supported purchasing spot electricity rather than generating it
 - » No CCGT running for 26% of FY14 (4% in FY13)
 - » Stratford Peaker generation decreased 174 GWh to 273 GWh; largely used to manage portfolio position

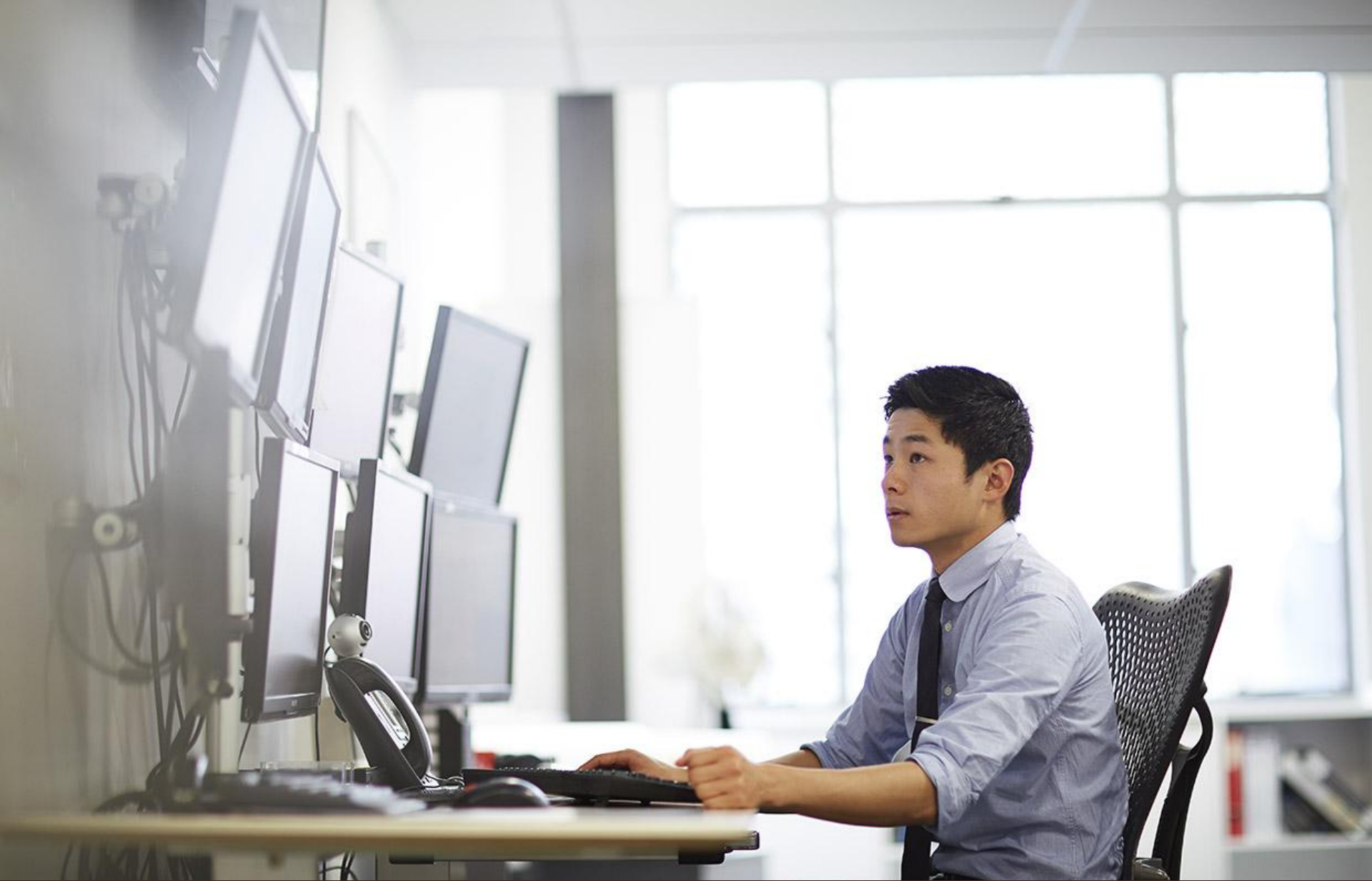
Incremental efficiency gains help absorb cost pressures

15

- Continuing focus on cost
 - » FY13 organisation structure redesign
 - » Procurement and ICT rationalisation programmes continue to deliver benefits
 - » Increase in non-labour costs primarily due to higher generation plant maintenance and bad debt write-offs
- Cost pressures remain
 - » Te Mihi operating costs
 - » Retail transformation SAP-related costs
 - » Salary and other inflationary pressures
- Competitive market demands continued cost absorption
 - » Retail transformation benefits will take time with FY15 a transition year



¹ Repairs and maintenance costs create year-on-year variability



Financial Review — Graham Cockroft

Profit for the period up 18% to \$234m

Underlying earnings per share up 12%

17

	Year ended 30 June 2014 \$m	Year ended 30 June 2013 \$m	Variance	
			\$m	%
Profit for the period	234	199	35	18%
Earnings per share (cents)	32.0	27.2	4.8	18%
Revenue and other income	2,446	2,526	(80)	(3%)
EBITDAF ¹	587	541	46	9%
Underlying EBIT	397	346	51	15%
Underlying earnings after tax ¹	227	202	25	12%
Underlying earnings per share (cents)	31.0	27.7	3.3	12%
OCAT ¹	400	413	(13)	(3%)
Capital expenditure	274	336	62	18%

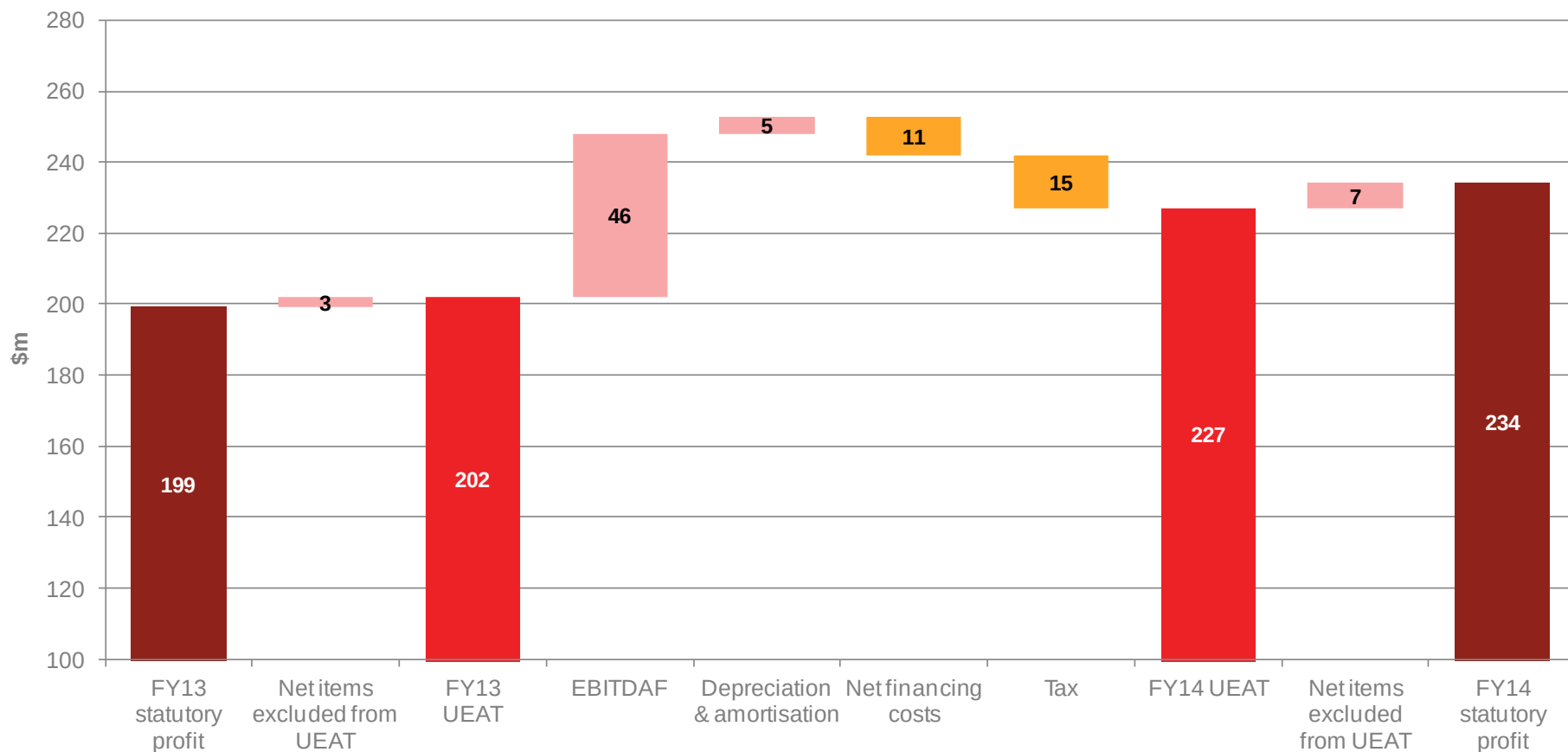
¹ Refer to slides 32-36 for a definition and reconciliation of EBITDAF, UEAT and OCAT

Profit for the period up 18% from \$199m to \$234m

Underlying earnings after tax up 12% from \$202m to \$227m

18

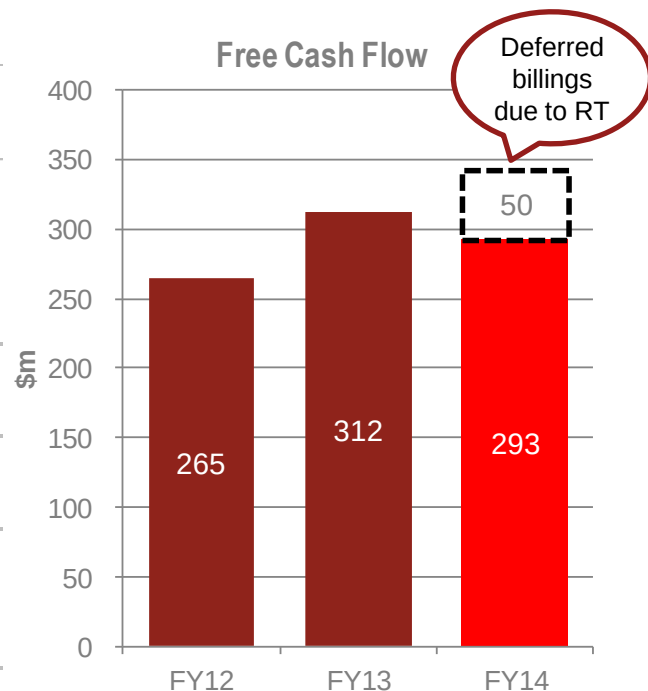
Contact's statutory profit movement



Improved EBITDAF and lower stay in business capex offset by unfavourable working capital movement

19

	Year ended 30 June 2014 \$m	Year ended 30 June 2013 \$m	Variance	
			\$m	%
EBITDAF	587	541	46	9%
Change in working capital	(103)	(32)	(71)	(222%)
Tax paid	(53)	(46)	(7)	(15%)
Other	15	6	9	150%
Operating cash flows	446	469	(23)	(5%)
Stay in business capital expenditure	(46)	(56)	10	18%
OCAT¹	400	413	(13)	(3%)
Net interest paid	(107)	(101)	(6)	(6%)
Free cash flow²	293	312	(19)	(6%)
Average Funds Employed excl. CAPWIP	3,997	3,946	51	1%
OCAT Ratio	9.3%	9.8%	(0.5%)	(6%)



¹ Operating cashflow after tax. Refer to slide 36 for a definition and reconciliation of OCAT

² Cash available to fund distributions to shareholders and growth capital expenditure

- Unfavourable working capital movement due to increased injections into Ahuroa gas storage facility and higher receivables as a result of the delay in retail billing as part of new customer management and billing system stabilisation ('RT').

Financing costs increased by \$11m due to reduction in capitalised interest from the completion of Te Mihi and Retail Transformation projects

	Year ended 30 June 2014 \$m	Year ended 30 June 2013 \$m	Variance	
			\$m	%
Interest income	6	2	4	200%
Interest expense	(120)	(112)	(8)	(7%)
Financing costs	(114)	(110)	(4)	4%
Financing costs capitalised	37	44	(7)	(16%)
Net financing costs	(77)	(66)	(11)	17%
Weighted average interest rate on borrowing ¹	6.5%	6.8%	0.3%	4%

¹ excluding fees, costs

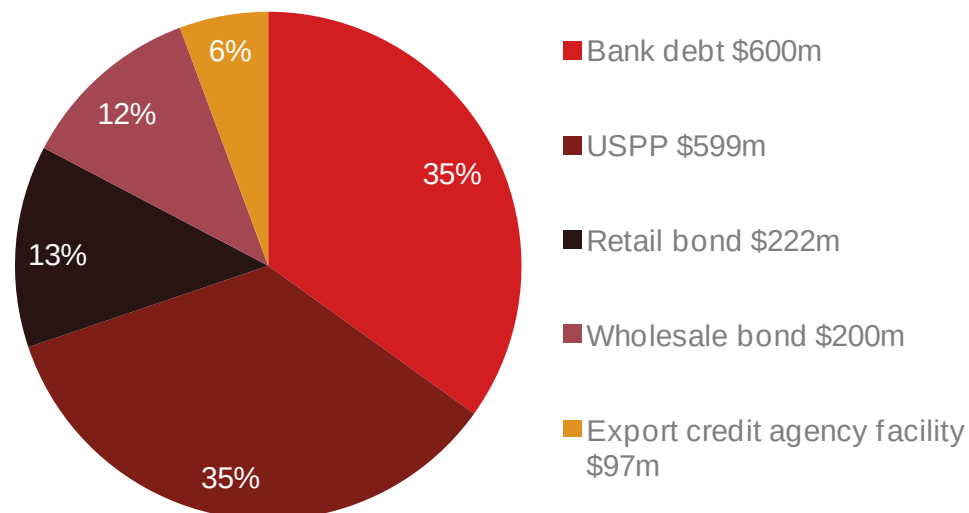
- Lower weighted average interest rate predominantly due to a change in the mix of the borrowings portfolio to include lower-priced debt
- Interest expense \$8m unfavourable due to a loss on redemption of the capital bond and additional finance lease interest costs
- \$7m reduction in capitalised interest from the completion of Te Mihi and Retail Transformation projects
- Higher interest income as increased short-term deposits were generated by prefunding activities

2014 refinancing programme completed, achieving objectives to improve tenor and diversity

- Balance sheet gearing level remains strong at 30 June 2014:

- » Net debt \$1.4bn, in line with June 2013. Gearing ratio 28%
- » \$600m total committed facilities (\$223m drawn)
- » Weighted average tenor of funding facilities 4.5 years

Debt Facilities



- Over the past 14 months, Contact has raised \$773m in new funding to refinance its \$705m 2014 maturities and the \$200m Capital Bond which was redeemed in November 2013
 - » Refinancing was executed through bank debt, issuance of USPP notes and domestic retail and wholesale bonds
 - » At 30 June 2014 Contact had \$60 million of short-term commercial paper on issue

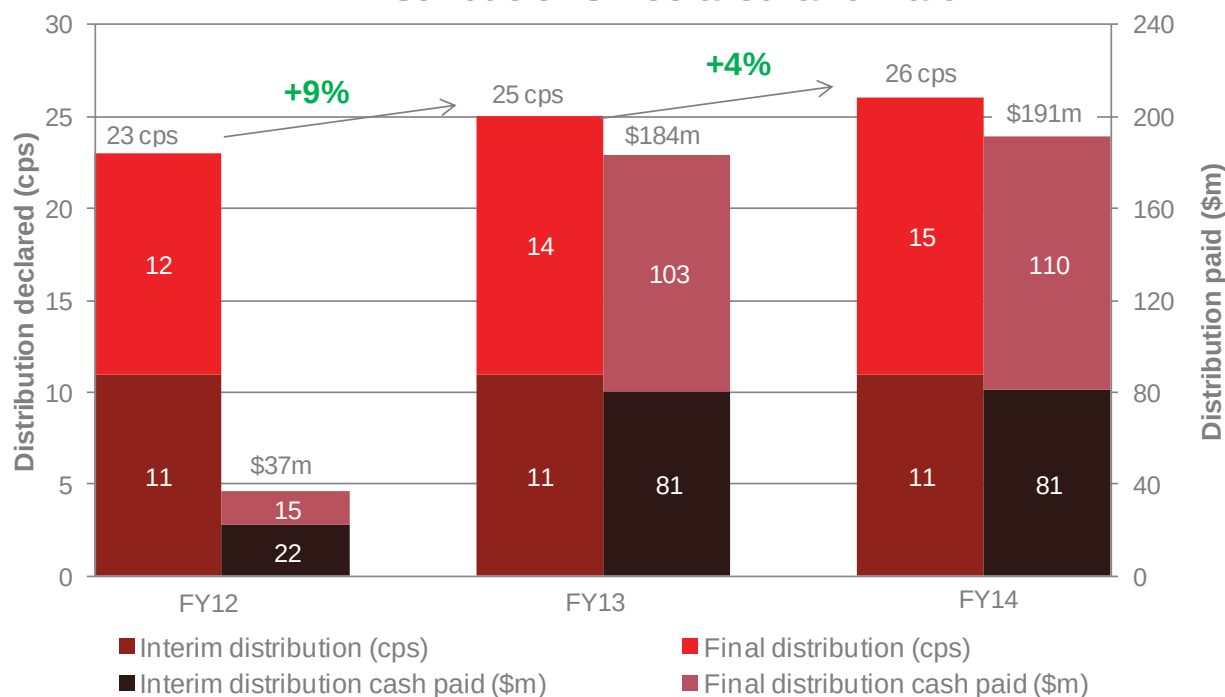
Fully imputed final distribution

Distributions increased 1 cps to 26 cps

22

- Free cash flow including the purchase or sale of fixed assets in FY14 was \$201m compared with \$92m in FY13 due to the sale of gas meters and reduced growth capital expenditure
- Reduction in growth capital expenditure has resulted in a steady increase in distributions
- Discontinuing the profit distribution plan in FY13 has seen cash distributions increase

Distributions Declared and Paid



- Record date:
3 September 2014
- Payment date:
15 September 2014



Prospects

In an environment of low growth and margin pressures Contact will target greater efficiencies

24

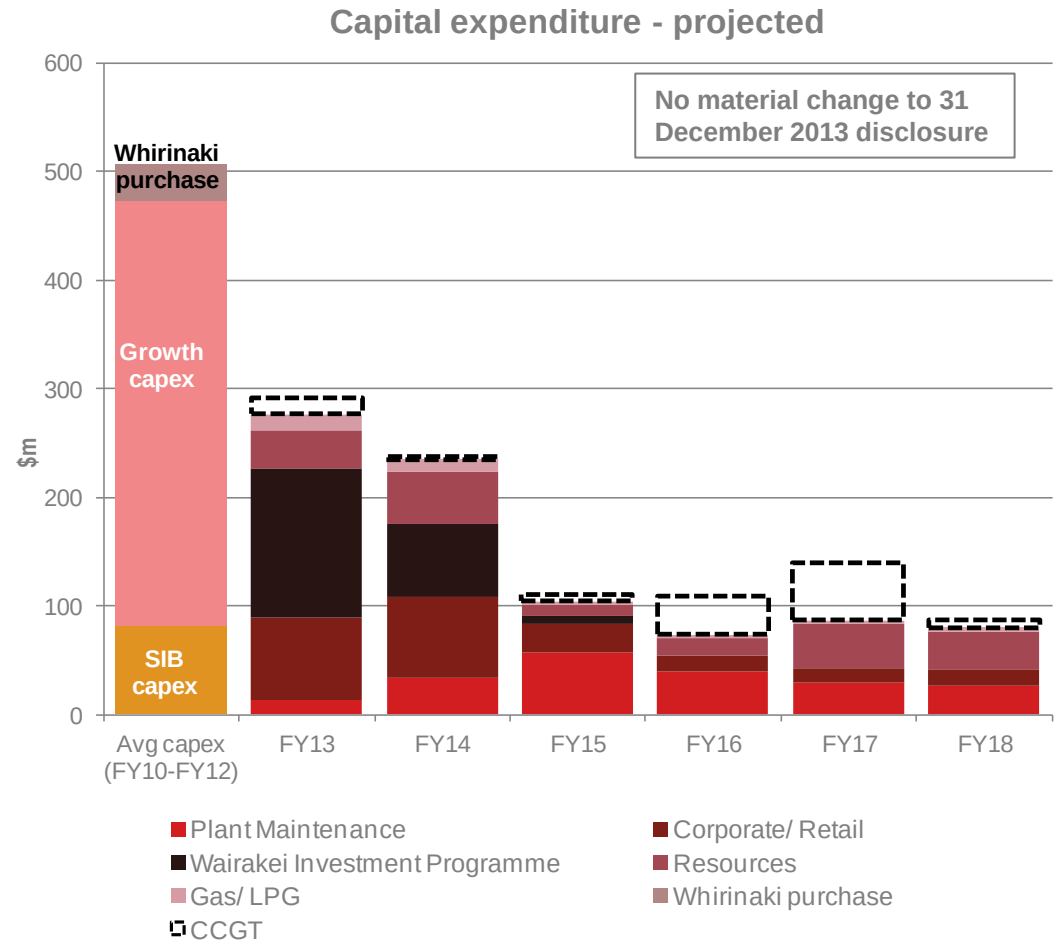
- **Leverage existing asset base**
 - » Integrate Te Mihi into Wairākei operations
 - » Increase production from existing renewable assets
- **Improve efficiency**
 - » Reduce cost to serve with the benefits of SAP implementation
 - » Ensure the supply of thermal capacity provides security and a fair return
 - » Lead industry structure efficiency improvements
- **Continue fuel substitution**
 - » Balance generation gas availability with renewable firming requirements
 - » Tauhara – next most competitive generation development in New Zealand



With the completion of the current capital programme the business is focused on managing for cash flow

25

- Capital investment has positioned the business well for the current market conditions
 - » No significant capital investment required in the immediate future
 - » Business is well structured and employees motivated to deliver
 - » Focus going forward will be on managing for cashflow



Retail Transformation

Operational change will support customer strategy and efficiency

26

- New customer billing and service system live in late April
 - » Progress since 'go-live' remains positive
 - » The transition out of stabilisation and into the future mode of operation has commenced
- Future mode of operation will deliver improved margins without compromising competitiveness
 - » Mass market customer segmentation completed with SAP enabled pricing plans being prepared
 - » Organisation restructured to drive customer focus
 - » New brand 'soft launched'
 - » Digital improvement project underway with the first phase of website redevelopment nearing completion



Geothermal update

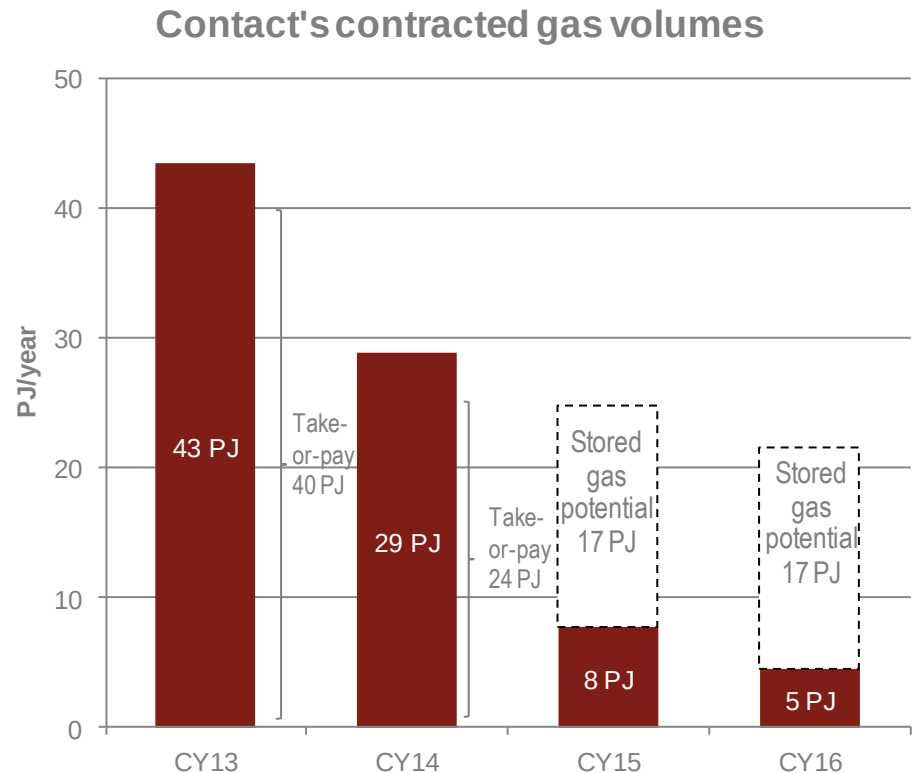
27

- Te Mihi commissioned 1 May
 - » Final megawatts subject to an outage planned for later in the year
 - » Plant, including hot well pumps, running well
- Wairākei resource optimisation will deliver efficiency improvements
- Ohaaki reconsented and capital investment to improve and sustain production underway



Patient approach to gas contracting continues

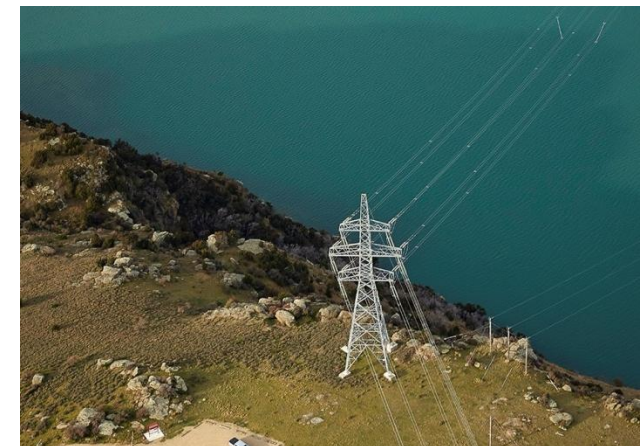
- Gas supply agreement signed for 27 PJ over 6 years – significant step in contracting with a secondary supplier
- A number of options exist to manage our gas position beyond the end of 2014
 - » Gas storage allows patient approach to contracting new gas
- Focus for the CCGTs is on managing remaining operating hours
 - » 22,000 equivalent operating hours remaining between Otahuhu and TCC before major maintenance required
- Completed enhancements of the gas storage infrastructure and flexibility improvements in CCGT operation evidence stronger portfolio position



Stable regulatory environment is important given the long-term nature of our business

29

- **Labour-Green proposed reforms**
 - » Current market structure is delivering competition and security of supply
 - » Charging for water is an issue with broader implications than the electricity generation sector alone and needs careful consideration
 - » Latest MBIE figures show prices up 2.3% driven by a 6.7% increase in distribution charges. Wholesale and retail pricing decreased 0.7%¹
- **Carbon policy**
 - » New Zealand's Emissions Trading Scheme continues to operate
 - » Scheme comprises solely New Zealand units from 2015
- **Transmission pricing**
 - » Originally proposed to be introduced in 2016. Delays in the process makes introduction before 2017/18 seem unlikely



¹ Source: MBIE Quarterly Survey of Domestic Electricity Prices – June 2014 quarter

Summary

30

- Benefits of portfolio flexibility reflected in a solid full year result
 - » Diverse and flexible generation portfolio took advantage of increased hydro generation
 - » Te Mihi reduced cost of energy
 - » Focus on being a competitive retailer increased sales volume
 - » New retail systems implemented and performing to expectations
- Opportunities now being advanced to leverage core competencies and improve market structures





Supporting material

Non-GAAP profit measure - EBITDAF

32

- EBITDAF is Contact's earnings before net interest expense, tax, depreciation, amortisation, change in fair value of financial instruments and other significant items
- The CEO monitors EBITDAF as a key indicator of Contact's performance at segment and group levels, and believes it assists investors to understand the performance of the core operations of the business
- Reconciliation of EBITDAF to reported profit:

	Year ended 30 June 2014 \$m	Year ended 30 June 2013 \$m	Variance	
			\$m	%
EBITDAF	587	541	46	9%
Depreciation and amortisation	(190)	(195)	5	3%
Change in fair value of financial instruments	7	11	(4)	(36%)
Other significant items	1	(28)	29	104%
Net interest expense	(77)	(66)	(11)	(17%)
Tax expense	(94)	(64)	(30)	(47%)
Profit for the period	234	199	35	18%

- Depreciation and amortisation, change in fair value of financial instruments, net interest and tax expense are explained in the following slide.

Explanation of reconciliation between EBITDAF and profit for the period

- The adjustments from EBITDAF to reported profit are as follows:
 - » Depreciation and amortisation: Costs decreased by \$5m (3%) due to lower operating hours of the thermal stations due to higher renewable generation partially offset by higher depreciation from the commissioning of Te Mihi geothermal power station and new customer billing and service system
 - » Change in fair value of financial instruments: the balance of \$7m predominantly driven by favourable movements in interest rates since 30 June 2013
 - » Other significant items: these are detailed on the next two slides
 - » Net interest expense increased \$11m (17%) to \$77m in FY14. The increase was attributable to a loss on redemption of the capital bond, additional finance lease interest and a reduction in capitalised interest after completion of Te Mihi and Retail Transformation projects. This was partially offset by higher interest income as increased short term deposits were generated by prefunding activities
 - » Tax expense for FY14 was \$94m, which represents an effective tax rate of 28.6% (FY13: 24.4%)

Non-GAAP profit measure – underlying earnings

34

- The CEO monitors underlying earnings and believes it assists investors to understand the ongoing performance of the business
- Underlying earnings after tax is calculated by adjusting reported profit for the year for significant items that do not reflect the ongoing performance of the Group
- 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
- Reconciliation of reported profit for the year to underlying earnings after tax:

	Year ended 30 June 2014	Year ended 30 June 2013	Variance	
	\$m	\$m	\$m	%
Profit for the period	234	199	35	18%
Change in fair value of financial instruments	(7)	(11)	4	36%
Transition costs	11	4	7	175%
Gain on restructure of gas storage operations	(7)	-	(7)	(100%)
Clutha land sales	(7)	(13)	6	46%
Asset impairments	2	72	(70)	(97%)
Gas meter assets sale	-	(26)	26	100%
New Plymouth power station sale and provision release	-	(17)	17	100%
Restructuring costs	-	8	(8)	(100%)
Tax on items excluded from underlying earnings	1	(14)	15	107%
Underlying earnings after tax	227	202	25	12%

Results for the year ended 30 June 2014

Explanation of reconciliation from reported profit to underlying earnings

- The adjustments from reported profit to underlying earnings are as follows:
 - » The change in fair value of financial instruments that do not qualify for hedge accounting
 - » Transition costs are those 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
 - » Gain on sale of priority processing rights through the Waihapa production station as a result of the restructure of gas storage operations
 - » 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 impairments for wind generation development and other minor projects.

Operating cashflow after tax (OCAT) and OCAT ratio

36

- Contact uses OCAT and OCAT ratio as internal measures of the cash-generating performance of the business
- Key difference between OCAT and statutory cash flows from operating activities is OCAT includes stay-in-business capex

OCAT ratio

- Measures Contact's cash returns generated from productive funds employed within operations

$$\text{OCAT ratio} = (\text{OCAT} - \text{interest tax shield}) / \text{average funds employed (excl CAPWIP)}$$

- Interest tax shield adjustment accounts for the reduction in tax due to interest paid

Average funds employed

- Measures funds employed by Contact in the operating assets of the business, excluding capital work in progress that is not yet operational
- Calculated on a 12-month weighted average basis to match the operating asset base to operational cash flows

Net assets

Less:

Cash
Derivative financial instruments - assets
Capital work in progress

Add:

Debt (NZD equivalent of notional borrowings - after foreign exchange hedging and before deferred financing fees
Derivative financial instruments - liabilities

Fund employed (12 month weighted average)