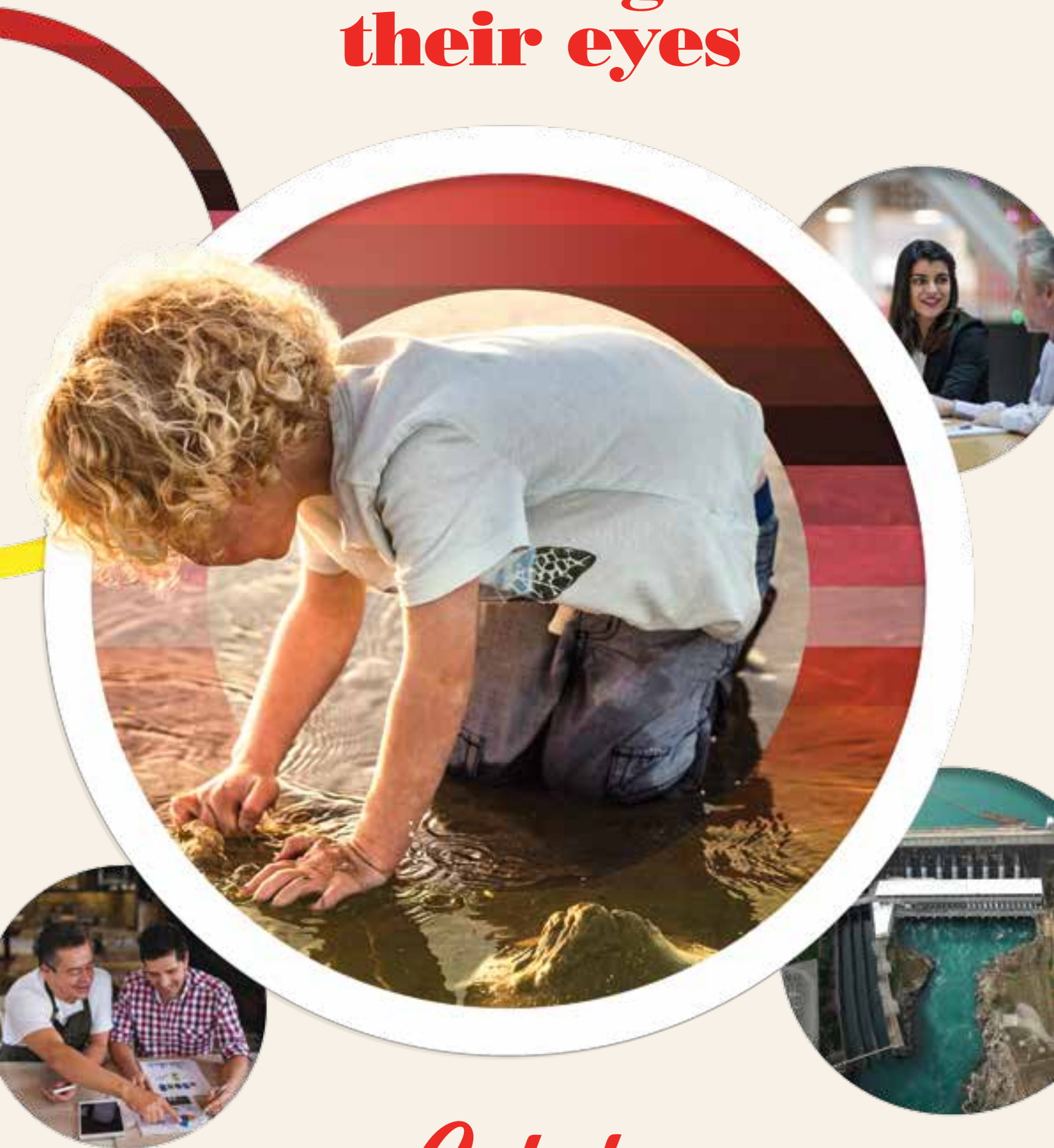


**Through
their eyes**



Contact[®]



**We see the world
through the eyes
of our customers,
our people and our
communities...**



...and as one of New Zealand's largest listed companies we believe it's important to operate our business in a sustainable way, that considers the needs of future generations.

This Annual Report is dated 14 August 2017 and is signed on behalf of the Board by:



Sir Ralph Norris
Chairman



Sue Sheldon
Director

Contents

4

Q&A with Sir Ralph and Dennis

8

Our Board

10

Leadership Team

11

Our Tikanga

14

Contact at a glance

18

Living our Tikanga

- 20 Focusing on what matters most
- 22 Delivering on our core business
- 30 People
- 36 Environment
- 41 Community

43

Disclosures and financials

- 44 Governance
- 47 Remuneration Report
- 51 Statutory Disclosures
- 55 Sustainability Reporting
- 61 Financial Statements
- 80 Independent Auditor's Report
- 83 Corporate Directory



Q&A

Sir Ralph Norris, Chairman, and Dennis Barnes, CEO, take us through their views on Contact's performance in the past year and their outlook for the company.



“Our Customer business is about solving problems for customers within a fast-paced environment.”

Sir Ralph Norris

In a rapidly changing industry, what's Contact's strategy?

As a Board our focus is on ensuring we have the right capabilities within Contact to deliver on our Purpose and we work with the Leadership Team to provide clarity on what's important so that they can focus on what really matters. I expect a high level of performance from Contact, but as a Board we hold ourselves to the same standards, and this year we conducted a fulsome, independent review of the Board's performance, so that we too are clear about areas for improvement.

A good mixture of people and diversity of background, gender and culture are really important to the composition of a board and to the success of a company. During the year Elena Trout joined the Contact Board – a Board which is now one of the most diverse among New Zealand listed companies and which has significant experience across a wide range of key disciplines, equipping us well to navigate times of great change and disruption in the energy sector and deliver for shareholders and customers.

Contact's challenge is to deliver competitively priced products and services to customers that they value, ensuring we have the right amount of safe and reliable energy supply, while managing our business in an environmentally and financially sustainable way.

I have a strong belief that success starts with best-in-class engagement – with customers, employees and stakeholders. For any organisation to be successful it must engender strong people and customer engagement and Contact is no exception. We must clearly communicate our key areas of focus and why we've chosen these, and position ourselves to be agile in all we do as a company.

We have two distinct businesses with different strategic drivers that are in different phases. Our Generation business continues to be about the efficient production of electricity. As market conditions do not require us to build any new plant in the short term the team's focus is on continuous improvement, and looking at opportunities for innovation in order to get even better at what we do, to further reduce the cost of energy and extend the life of our generation assets. Our Customer business is about solving problems for customers within a fast-paced environment. This requires us to leverage new technology and be more agile in delivering a best-in-class customer experience.

To provide greater transparency on the relative performance of these two businesses, both internally and externally, we altered the structure of our reporting approach during the year and we are starting to see an increased focus on the key drivers of profitability.

In terms of the broader industry, we continue to advocate for the right regulatory settings to ensure consumers obtain the maximum benefit and competitive outcomes from new and existing technologies.

How has Contact delivered for shareholders this year?

From a financial point of view we have delivered a dividend of 26 cents per share, in line with the 26 cents per share declared in 2016, while also reducing debt by \$106 million during the year. This comes off the back of a statutory profit of \$150 million, up from a \$66 million statutory loss reported last year, which contained impairments. EBITDAF¹ for the year was \$494 million, down \$29 million as a result of unfavourable hydrology.

We have also changed our distribution policy. This is to target a distribution of between 80% and 90% of operating free cash flow² on average over time once our net debt to EBITDAF ratio is below 2.8x. We will transition to the policy and for financial year 2018 will target an ordinary dividend of 32 cents per share, an increase of 23% on financial year 2017. We were able to make this change after working with management and with the support of respected strategy consultants to confirm the strategy and focus for the company.

1. EBITDAF and underlying profit are non-GAAP profit measures. EBITDAF is earnings before net interest expense, tax, depreciation, amortisation, change in fair value of financial instruments and other significant items. Underlying profit is statutory profit excluding significant items that do not reflect the ongoing performance of the Group. The CEO monitors EBITDAF and underlying profit as key indicators of Contact's performance and believes they assist investors in understanding the performance of the core operations of the business. Reconciliations of EBITDAF to underlying profit and from underlying profit to Group statutory profit is provided in Note A2 of Contact's audited Financial Statements, on page 66.

2. Operating free cash flow is a non-generally accepted accounting practice (non-GAAP) measure of the cash-generating performance of the business and represents cash available to repay debt and to fund distributions to shareholders and growth capital expenditure. Operating free cash flow is equal to cash flows from operating activities less stay in business capital expenditure and interest costs.

I'm most proud of the team's achievements in lifting employee engagement by 12 percentage points and improving the experience we provide for customers. This is evidenced by the 17 basis point improvement in our customer advocacy measure – Net Promoter Score (NPS). Of course, diversity in its broadest sense is also key to strong performance, and so I'm pleased we have introduced a diversity and inclusion policy that signals our intent, as well as adopting greater transparency in reporting relating to diversity. During the year Contact was ranked fifth out of over 5,000 internationally publicly listed companies in the Thomson Reuters Diversity and Inclusion Index, making us one of the most diverse and inclusive workplaces globally.

Dennis Barnes

What were the key events in the market this year?

The year has seen a sudden and significant swing in hydrology with above average hydro storage at the beginning of the year giving way to record low hydro inflows into the key South Island lakes culminating in a 'dry winter'. This clearly illustrated the value of a diverse generation portfolio, powered by a range of fuels, to ensure flexibility and security of supply for our customers.

There was plenty of activity in the regulatory area, with the Commerce Commission, the Electricity Authority and the Ministry of Business, Innovation and Employment all consulting on various aspects of the regulatory framework. In relation to all this activity I urge regulators to put customers at the centre of their world – in my view a customer-centric view of regulation is likely to result in the best market outcomes.

What were the highlights for Contact's Customer business?

We continued a relentless focus on improving our customer experience and value proposition, which is starting to be evidenced in customer retention, advocacy and innovation in the products and rewards we are offering to our customers. I am excited to see customers advocating for us in greater numbers, with our Net Promoter Score now at +14, up from -3 last year. This has been achieved off the back of a refresh of the range of products and services we offer our customers and a new digital experience. We have also introduced new tools and training for our teams who communicate directly with customers and we work with customers on the development of new offerings. We use the feedback customers and our employees provide every day to help us identify where to focus our improvement efforts.

One of the success stories of the year was the change we made to the rewards we offer our customers. We are now proud members of the AA Smartfuel programme and over 50,000 customers are receiving more instant rewards through this partnership. Every day customers tell us stories of their delight with this move and to date our customers have benefited from over \$500,000 worth of savings back into their pockets.

Improving the experience we provide customers has also supported growth, with our overall customer numbers for the year across electricity, natural gas and LPG rising from 562,500 to 567,000, in an extremely competitive market. More customers are choosing to stay with Contact, as we again recorded a level of customer switching below that of the overall market, and our sales volume for the year was up slightly.

This year we also saw the results of further enhancements we've made to the support we provide to customers having difficulty paying their bill. Early intervention and a wider range of payment options have seen the average value of retail customer debt at the stage of disconnection drop.

A focus on working together with customers to find solutions to concerns raised has also seen us this year record an all-time low level of customer complaints about Contact. These now only account for 15% of the market's deadlocked complaints, even though we supply over 20% of customers.

What were the highlights for your Generation business?

Record low inflows to the South Island lakes towards the end of the financial year saw a significant reduction in our hydro generation compared with prior periods, but also demonstrated the importance of our diverse and flexible generation portfolio. During the final quarter of the financial year our gas-powered plants ran hard in order to meet New Zealand's electricity needs during the peak of winter demand. However as a result of this increase our percentage of generation from renewable sources fell to 80% this year, our greenhouse gas emissions increased and our overall cost of energy was higher.

Our focus on continuous improvement has seen us further optimise the way we operate and maintain our portfolio of power stations, and progress our process safety journey. Our Taranaki power station for example, which has been a vital asset during the 'dry winter', is now able to run more flexibly when required by the market. Our safety work has focused on developing greater visibility and focus on our performance in process safety. We are striving for world-class performance and this year have provided our expertise to other energy businesses overseas who recognise the work that we have done.

During the year we also conducted some research and development into uses of new technology that has the potential to provide Contact with sustainable new revenue in the future. Work in this area involved collaborating with several network companies, technology suppliers and local authorities to trial a range of solutions combining home solar generation, battery energy storage and



“At Contact we have a strong focus on people engagement, and creating a culture that embraces diversity.”

hot water diverters, all controlled via a real-time mobile app. The combination of this technology at scale has the ability to avoid the need for large capital investment by network companies that is ultimately paid for by consumers. It will also allow consumers and retailers to be rewarded for time-shifting electricity load, as well as offering resilience to households in the event of natural disasters. We also continue to support the adoption of electric vehicles in New Zealand through our involvement in various industry forums and are on track to meet our target of having 30% of our fleet electric by 2019.

How does Contact embrace the concept of sustainability in its operations?

We recognise the wider context we operate in and consider the environmental, social and economic drivers that impact our business. Our actions are guided by our Tikanga. My personal view is that it's important to truly understand what issues

matter to our stakeholders and to be proactive and deliberate in the way we work with them to address these, considering the short-term factors impacting our business as well as the longer-term intergenerational context.

This year we created New Zealand's first corporate Green Borrowing Programme. This provides our investors with an opportunity to invest in certified green debt issued by a New Zealand corporate for the first time ever.

We have a strong focus on people engagement, and creating a culture that embraces diversity. We are targeting employee engagement of 82% or higher, the AON Hewitt Best Employer level, and this year we took another step towards our target with a 12 percentage point increase to take Contact's overall engagement score to 68%.

An external audit highlighted our continued improvement in our safety culture this year. Our continued focus on empowering frontline workers on safety

also saw our health and safety performance improve. While unfortunately 10 of our people were hurt during the year, most of the injuries were less severe strains or sprains.

In local communities where we operate we continued to invest in initiatives that support issues which they have told us are important. This year we invested \$346,144 across New Zealand and our employees contributed 1,796 volunteer hours to help community organisations.

We will continue to operate sustainably in the year ahead. A key priority is taking the lead in decarbonisation of New Zealand's energy sector and working with industrial companies to find innovative ways for new technology and operational efficiencies to help propel this shift for their businesses and for New Zealand.

Our Board



Sir Ralph Norris KNZM
Chairman and Independent
Non-Executive Director

Term of office
Appointed director 12 November 2015,
last elected 2015 annual meeting.

Board committees
Chairman of the Remuneration and
Nominations Committee.

Sir Ralph Norris has over 40 years of business and banking experience, having led large organisations through transformational change in both New Zealand and Australia. He is the chairman of Fletcher Building Limited and RANQX Holdings Limited, along with holding directorships on the Advisory Boards of New Zealand Treasury, Tax Management NZ and SouthPark Corporation. He is a former director of Fonterra Limited and Origin Energy Limited. He was managing director and chief executive of Commonwealth Bank of Australia for six years until 2011, and prior to that served as chief executive of Air New Zealand and ASB Bank. Sir Ralph was made a Knight Companion of the New Zealand Order of Merit in 2009 and a Distinguished Companion of the New Zealand Order of Merit for services to business in 2006. In 2012 he had conferred on him an Honorary Doctorate of Business by the University of New South Wales.



Victoria Crone
Independent Non-Executive Director

Term of office
Appointed director 12 November 2015,
last elected 2015 annual meeting.

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

Victoria has over 20 years' experience in the communications and IT sectors. Her experience spans from start-ups to mature products across consumer, small business and enterprise sectors. She is chief executive of Callaghan Innovation and chair of Figure.NZ. A former managing director of Xero New Zealand, Victoria also held senior management roles in sales and marketing at Chorus and Telecom. She is a passionate Kiwi and a member of NZ Global Women. Victoria holds a Master's degree in Commerce and Administration (Marketing and Management) from Victoria University.



Sue Sheldon CNZM
Independent Non-Executive Director

Term of office
Appointed director 16 March 2009,
last re-elected 2016 annual meeting.

Board committees
Chairman of the Audit Committee and
member of the Remuneration and
Nominations Committee.

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



Whaimutu Dewes
Independent Non-Executive Director

Term of office
Appointed director 22 February 2010,
last re-elected 2016 annual meeting.

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

Whaimutu Dewes is of Ngati Porou and Ngati Rangitahi descent and lives in Gisborne. He is the chairman of Aotearoa Fisheries Limited and Sealord Group Limited, and is a director on the Treasury Board. His former directorships include the Housing New Zealand Board, Television New Zealand Limited and the AMP New Zealand Advisory Board, and he was deputy chairman of Sealord Group between 1992 and 2008. Whaimutu has also held senior management roles at Fletcher Challenge and the Department of Maori Affairs. Whaimutu has a Master's degree in public administration and degrees in arts and law.



Elena Trout
Independent Non-Executive Director

Term of office
Appointed director 3 November 2016,
last elected 2016 annual meeting.

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

Elena is an experienced company director and a professional engineer who has held a number of leadership positions in the transport, infrastructure and energy sectors. She has over 30 years of experience in the management, planning and delivery of large projects. She is a director of Energy Efficiency and Conservation Authority, Harrison Grierson Holdings Limited and Marsden Maritime Holdings Limited. Her former directorships include Electricity Authority and Transpower New Zealand Limited. She is the immediate Past-President of the Institution of Professional Engineers New Zealand (IPENZ) with membership status of Fellow as well as Fellow of Engineers Australia, and is a chartered member of the Institute of Directors. Elena holds a Master's of Civil Engineering degree from Canterbury University.



Rob McDonald
Independent Non-Executive Director

Term of office
Appointed director 12 November 2015,
last elected 2015 annual meeting.

Board committees
Member of the Audit Committee.

Rob's finance career spans over 30 years, having worked overseas before joining Coopers and Lybrand in the corporate advisory and valuations practice in 1985. He is currently the chief financial officer with Air New Zealand, a position held since 2004, prior to which he was the group treasurer. He is a former board member of the Institute of Finance Professionals New Zealand Inc. and the former vice chairman of the IATA Financial Committee. Rob has a Bachelor of Commerce from Auckland University and in 1999 completed the Program of Management Development at Harvard Business School. He is a Fellow of Chartered Accountants Australia and New Zealand.

Leadership Team



Dennis Barnes
Chief Executive Officer



Tania Palmer
General Manager, People and Safety



James Kilty
Chief Generation and Development Officer



Catherine Thompson
General Manager, External Relations and General Counsel



Graham Cockcroft
Chief Financial Officer



Venasio-Lorenzo Crawley
Chief Customer Officer

Our Tikanga

Our Purpose is to help New Zealanders live more comfortably with energy.

What we believe in, our Tikanga, guides how we bring our Purpose to life. It's our set of beliefs, and values expressed as a series of Principles and Commitments.

Our Principles

These provide guidance for making decisions every day.

- 1** We conduct ourselves and our business with due care and in accordance with relevant laws and regulations. We have an overriding duty to ensure the health and safety of our employees, and to minimise the health, safety and environmental impacts on our customers and the communities in which we operate.
- 2** We will add value to the resources that come under our control.
- 3** The value we create will be distributed to stakeholders, recognising the need to ensure the sustainability of our business, and its impact on the environment and the communities in which we operate.
- 4** We encourage diversity and expression of ideas and opinions but require alignment with Contact's Principles, Commitments and the policies established to implement them.
- 5** When faced with choices, we make decisions knowing they will be subject to scrutiny. We should be able to demonstrate the soundness of our decisions to all stakeholders.

Our Commitments

These define the sustainable outcomes that we always strive to achieve for our key stakeholders.

- 1** Deliver market-leading performance for shareholders by identifying, developing, operating and growing value-creating businesses.
- 2** Create value for our customers by understanding their needs, and delivering relevant and competitive energy solutions to meet these needs, both today and into the future.
- 3** Create a rewarding workplace for our people by valuing everyone's contribution, encouraging personal development, recognising good performance, and fostering equality of opportunity.
- 4** Respect the rights and interests of the communities in which we operate by listening to them, understanding and managing the environmental, economic and social impacts of our activities.
- 5** Respect the rights and interests of our business partners, by working collaboratively to create valued and rewarding partnerships.



**Every day New Zealanders
rely on energy to do the
things they care about as
they live, work and play in
this great country of ours.**

Contact at a glance



Customer connections and volume sold by energy type as at 30 June

Energy type	2017		2016	
	Connections	Volume sold	Connections	Volume sold
Electricity	423,000	7,808 (GWh) ¹	425,000	7,890 (GWh)
Natural gas	64,000	685 (GWh)	62,000	618 (GWh)
LPG	80,000	72,700 (Tonne)	75,500	69,617 (Tonne)
Total	567,000		562,500	

1. GWh = Gigawatt hours.

Customer connections by account type as at 30 June

	2017	2016
Residential	492,000	487,500
Business	74,000	73,500
Other ²	1,000	1,500
Total	567,000	562,500

2. Includes LPG connections where data on account type was unavailable.

Generation by type for the year ended 30 June

Generation type	2017	2016
Hydro (GWh)	3,562	4,091
Geothermal (GWh)	3,233	3,297
Thermal (GWh)	1,742	1,614
Total	8,537	9,002

Generation by station

North Island

Name	Output	Commissioned	Type	Location	Capacity (MW) ³	2017 Generation (GWh)	2016 Generation (GWh)
Ahuroa	–	2011	Gas storage facility	Taranaki	Ability to store and extract gas as conditions require	Can store up to 18 PJ ⁴ of gas – enough to run our Stratford peakers for 12 months at full capacity	
Ohaaki	Geothermal	1989	Flash steam	Waikato	50	336	337
Poihipi	Geothermal	1996	Flash steam	Waikato	55	403	407
Stratford	Thermal	1998	Combined-cycle gas turbine	Taranaki	377	1,020	334
Stratford	Thermal	2011	Peaker, gas turbine	Taranaki	210	495	506
Te Huka	Geothermal	2010	Binary cycle	Taupo	28	189	196
Te Mihi	Geothermal	2014	Flash steam	Taupo	166	1,184	1,282
Te Rapa	Thermal	1999	Open-cycle gas turbine cogeneration	Waikato	44	226	221
Wairakei	Geothermal	1958, 2005	Flash steam/binary cycle	Taupo	132	1,121	1,075
Whirinaki	Thermal	2004	Diesel fuel, open-cycle turbine	Hawke's Bay	155	1	–

South Island

Name	Output	Commissioned	Type	Location	Capacity (MW) ³	2017 Generation (GWh)	2016 Generation (GWh)
Clyde	Hydro	1992	Conventional	Otago	432	1,999	2,289
Roxburgh	Hydro	1956-1962	Conventional	Otago	320	1,563	1,802

3. MW = Megawatts.

4. PJ = Petajoules.

Our business



Inputs

We purchase goods and services from more than 2,000 suppliers. We purchase things like metering services, geothermal engineering and drilling services, office supplies, and machinery. Our biggest purchase is gas which we use to run our thermal power stations. We also buy and on-sell LPG to our customers.

Source

We source fuel for electricity generation. We buy gas and diesel from producers; rain and snow-melt fill hydro storage lakes; drilling extracts geothermal fluid and steam.

Generate

We generate electricity at our 11 power stations. We vary the output and combination of generation plants used to meet energy demand peaks and changing weather conditions. We also have the ability to store and use gas from our Ahuroa gas storage facility.

Wholesale

We sell the electricity we generate on the wholesale electricity market and purchase the electricity needed for sales to our customers. We also trade a range of financial products to manage our risk and generate value.

Distribute

Electricity is transmitted from power stations by Transpower to regional connection points and is then distributed by local lines companies to customers. Gas is sourced from producers and transported by gas network companies to customers. These distribution costs are passed through to our customers in their bills. Contact delivers bottled LPG to customers via our fleet of delivery trucks and pipeline network.

Sell and serve

As a retailer we sell electricity, gas and LPG products and services to residential, small business and commercial and industrial customers to meet their energy needs.

Our activity helps us deliver on our Tikanga



Our Tikanga is all about delivering value to our broad range of stakeholders.

This year we powered the homes and businesses of our 567,000 customers, produced 8,537 GWh of energy, delivered \$346,144 dollars into the community and employed 1,026 people. We have also delivered a dividend of 26 cents per share to our investors.

Living our Tikanga



We strive to operate in a way that balances our economic, environmental, cultural and social responsibilities and each year in this report we talk about our approach to managing these and how we've performed.

As an energy company that runs both a Generation and Customer business, we have a large number of stakeholders who are vital to our company's success.

Focusing on what matters most

To ensure that we're reporting on the things that our stakeholders care about, we ask them what matters most.

We conduct interviews with representatives from our key stakeholder groups, and also hold an annual Stakeholder Council meeting. We also draw on information obtained through our regular stakeholder engagement and consider this alongside global trends and research and Contact's own strategy and risks.

What our stakeholders told us:

Customers

Customers

They've told us they want choice, certainty and control. Customer service, competitive pricing and value for money are also very important to them.

Employees

Our people have told us delivering on our promises and being valued, respected and safe are important.

Tangata whenua

Partnership, protection and participation in the management of natural resources alongside social, cultural and economic development are key issues for them.

Investors

Earnings growth, efficient capital management, and a strong dividend are important to them.

Partners and suppliers

They've told us that maintaining positive relationships and ensuring that they understand our evolving needs are key.

Government

A competitive retail market, secure supply of electricity at reasonable prices, fresh water, and delivering on New Zealand's energy and climate change targets are important to our government stakeholders.

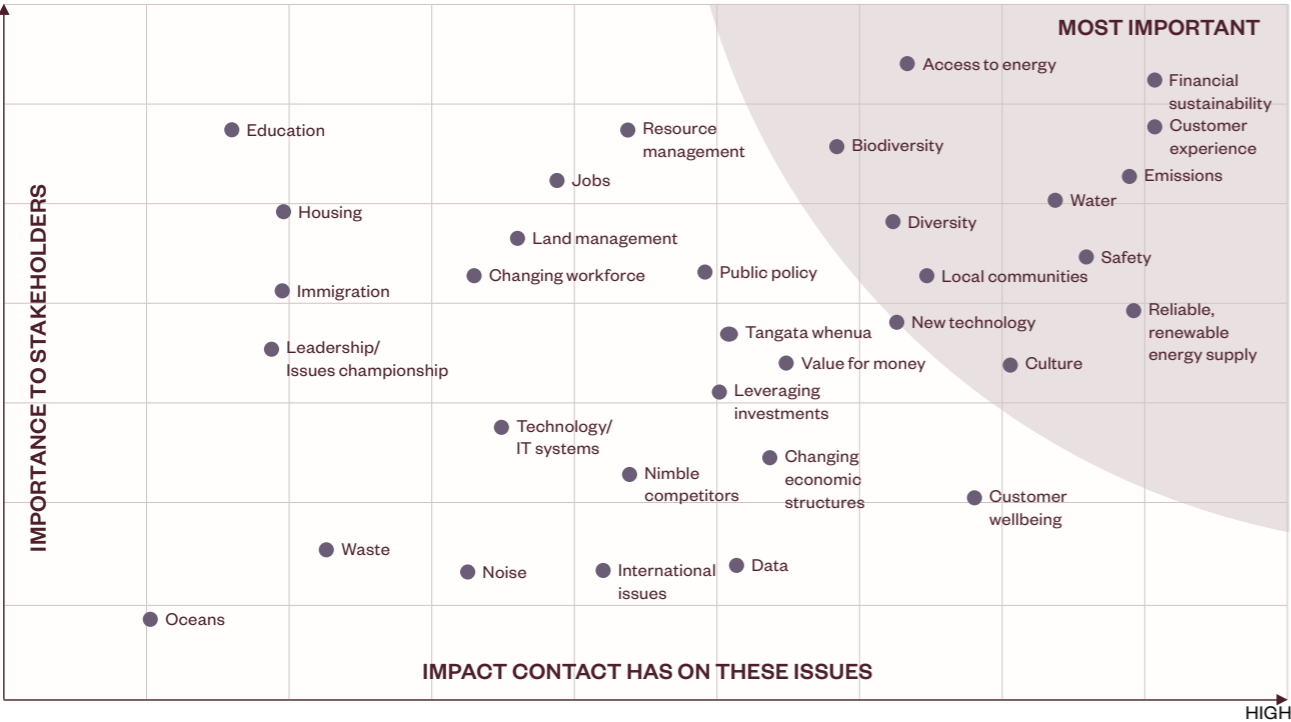
Communities

Our communities want us to be a good neighbour, to look after our natural and shared resources, and to be an active part of the communities in which we operate.

We take this information and use it to identify the issues of highest importance to stakeholders that Contact can influence. We then review it for completeness, sustainability context, materiality and stakeholder inclusiveness – to ensure that we are covering issues across the economic, social, cultural and environmental spectrum.

While all the issues included in the graph are important, our focus is on those that are most important. These issues are all covered in our 2017 Annual Report, which we believe gives you, our stakeholders, a balanced view of our performance.

Most important issues in 2017



Performance highlights



DELIVERING ON OUR CORE BUSINESS

Customer experience

Access to energy

Reliable renewable energy supply

Financial sustainability

- Customer advocacy (Net Promoter Score) up to +14 from - 3
- Total customer numbers up 4,500 to 567,000
- More customers choosing to stay with Contact, with a lower level of switching than the market
- New website, digital experience launched and AA Smartfuel customer rewards introduced
- Earnings (EBITDAF) \$494 million, down 5.5%
- 26 cents per share full year dividend declared
- Cost of energy \$258 million
- 80% of electricity from renewable sources

PEOPLE

Culture

Diversity

Safety

- Employee engagement – up 12%, to 68%
- Safety performance improved, with 10 people hurt, 7 of which were strains or sprains
- Equal gender representation on our Board
- Contact ranked 5th on Thomson Reuters Global Diversity and Inclusion Index
- 98% pay equity ratio between males and females within salary bands



ENVIRONMENT

Emissions

Water

New technology

Biodiversity

- Obtained green certification for our debt portfolio creating New Zealand's first Green Borrowing Programme
- Our emissions from electricity generation were up 3% on prior year, as a 'dry winter' resulted in greater thermal generation use. Overall, emissions from generation are down 53% since 2012
- 14,000 native trees planted across our sites
- 15,231,064 megalitres of water used to generate electricity, 99% of this is returned to rivers and geothermal reservoirs
- 25% of our fleet are electric vehicles

1. Restated. For more information see section 3 on page 56.

COMMUNITY

Local communities

- \$364,144 invested in local communities
- Over 5,000 people attended a community open day at Clyde power station
- 1,796 hours spent by employees volunteering in the community
- Contact's 2017 Reputation score (RepTrak) increased by 3.9 to 64.2 out of 100





Delivering on our core business

Delivering on our core business

Building great relationships with our customers, business partners and investors is crucial to our success.

A great customer experience

We deliver a world-class experience, attract new customers and ensure more of our existing customers choose to remain with Contact by understanding their needs and expectations, offering value through the right products and services at a competitive price, and providing best-in-class customer service.

Customer feedback, combined with a focus on developing and empowering our people to drive change and act in the best interests of our customers, has contributed significantly to the increased performance across our key measures.

Our approach is to provide customers with the right balance of choice, certainty and control. The lack of rainfall near South Island hydro generation storage lakes in the winter of 2017 has increased the cost of purchasing electricity for retailers like Contact, but reinforced the strength of our business and the service we offer.

We provide protection from these higher wholesale market prices by offering customers a fixed retail price as well as a choice of ways to pay.

Greater choice, inspired by our customers

While the everyday conversations we have with customers help to inspire and shape our products and services, the introduction of our customer panel in 2016 has given us the opportunity to gain customer insights on new initiatives before these are fully launched to market.

In response to this insight, in August 2016 we introduced a completely refreshed suite of electricity and gas plans based on what customers told us they value. This included the choice of open or fixed term plans, a range of different rewards and prompt payment discount options, as well as innovative new plans for holiday home



Improving our operational performance

We're constantly looking for ways to improve the experience we offer customers by responsibly managing our costs and refining how we undertake our day-to-day work.

In the past 12 months we reduced the cost of meter reading services by consolidating to one supplier. Our bottled and piped LPG business has also continued to experience strong growth. During the year we reached an agreement to undertake bulk transportation of LPG on behalf of Ogas to introduce additional efficiency into this part of the market and reduce costs. We remain number one in the LPG retail market with 41% market share and annual growth in customer numbers of 7%.

Access to energy

Energy is a critical service that impacts on the quality of life and wellbeing of all New Zealanders. We recognise that a range of issues impact on people's ability to access energy and that as an energy company what we do, and how we do it, can influence this. Our focus on constructively and efficiently resolving customer issues has seen Contact's market share of complaints to Utilities Disputes that reach 'deadlock' fall to a historical low of 15%.

We continue to make improvements in the way we support customers who are having difficulty paying their bill. As part of our Fresh Start initiative we have introduced new processes which, along with a range of flexible payment options recognising their personal situation, help customers to manage their debt and get back on track.

owners, renters or people who have multiple properties. This year we trialed a Contact broadband product with our employees and, following the success of this, are now offering it to selected customer groups. We aim to expand the range of products we offer as we find ways to provide customers with greater choice, certainty and control.

Our customers also told us they wanted a more instant, transparent and generous rewards programme, one that provided compelling discounts and cash back. Responding to this feedback we introduced AA Smartfuel rewards in April 2017, enabling our customers to choose plans that offer between 10 cents and 50 cents per litre off a fuel purchase of up to 50 litres every month, regardless of the level of monthly energy spend. Customer feedback has been overwhelmingly

positive and between launch in April and mid August Contact customers have received over \$500,000 of savings as a result of our involvement in the programme, putting money back into their pockets and helping with the weekly budget.

In June this year we introduced a new customer-inspired Contact website that provides easier access to the most common customer tasks, reduces the time taken to complete them and increases the number of tasks that can be completed online. Visit our website at contact.co.nz to take a look at the new site.

Our market is not standing still. We are investing time and money in working with our customers to understand the benefits for them of new products and services.

communication, we offered customers the choice of selecting a fixed term plan after the change, to provide greater certainty of their future energy costs.

Empowering our people to delight customers

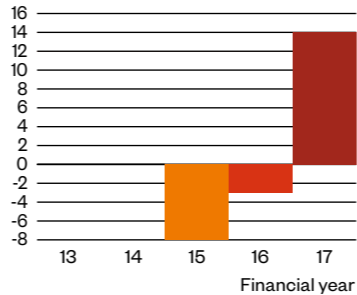
We know that if our team is empowered with the right skills, support and information to help them undertake their roles, they'll be best positioned to meet the needs of our customers in a more responsive manner.

This year we have increased employee engagement within our Customer business by 19 percentage points to 72%. We achieved this by focusing on career development, coaching conversations around our Behaviours, better communication, and refreshing and

enhancing the information tools and processes that help support our team members' conversation with customers.

As an employer the safety of our people and contractors is extremely important for Contact. In our Customer business we transport and deliver 73,000 tonnes of LPG bottles a year, have meter reading and service people out and about every day and a sales team driving across the country. While this provides lots of opportunities for safety incidents, a great deal of focus and hard work have seen our overall safety performance improve 23% in FY17 (TRIFR Monitored) with the safety performance of our LPG cylinder delivery business improving by 53% over the past three years.

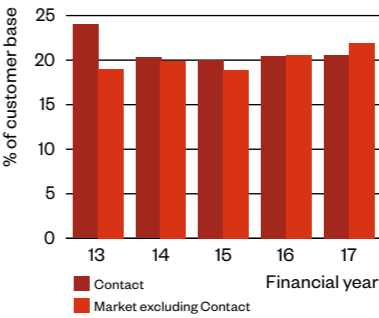
Net Promoter Score



Net Promoter Score (NPS) is an internationally used metric for customer advocacy, meaning we can benchmark our performance against other companies in our industry, as well as other leading sectors across the globe. Measured monthly, NPS reflects the degree to which customers are willing to promote our business to other people.

2017
Customers are advocating for us in greater numbers, with our Net Promoter Score now at +14, up from -3 last year. This result has been achieved off the back of a refresh of the range of products and services we offer our customers and a new digital experience.

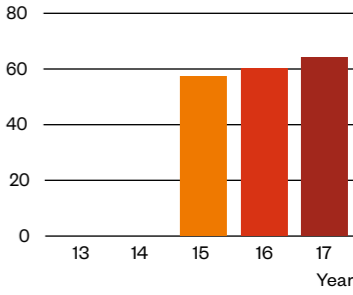
Loyalty and market share



Our performance relative to other retailers is shown by comparing the percentage of customers who switch away from Contact each year against the level of switching for the industry (excluding Contact). On average every month in New Zealand over 30,000 residential electricity customers change their supplier.

2017
More customers are choosing to stay with Contact as we maintain a lower level of customer switching than the market.

Reputation and trust



Each year in the first quarter of the calendar year independent research company AMR calculates a RepTrak reputation score for New Zealand's top corporates out of 100, by asking members of the public a set of questions about the trust, respect and admiration they have for companies they are either somewhat or very familiar with.

2017
Contact's RepTrak score increased by 3.9 this year to 64.2, placing Contact 20th among New Zealand's top corporates.



Reliable renewable energy supply

Contact's diverse generation portfolio delivers a high level of renewable generation backed by thermal plant and stored gas that ensures a sustainable supply of electricity to our customers.

Our generation strategy is centred on maximising production of our renewable hydro and geothermal assets, with our thermal generation and gas storage facility providing daily and seasonal risk management when renewable fuel sources are not available.

Over the year our focus on continuous improvement drove further efficiencies across our renewable assets and increased flexibility in our thermal assets.

The first half of the financial year was marked by favourable hydrological conditions, low electricity use and above average temperatures across the country, meaning that most of our production was renewable. The flexibility in our generation played an important role in the second half of the year, particularly in the final quarter, as historical low inflows in the Clutha/ Mata-Au catchment required us to run our thermal power plants more.

We were able to generate 80% of our electricity from renewable sources but the lower hydro production in the final quarter resulted in our cost of energy increasing to \$258 million. This is up on the prior year due to unfavourable hydrological conditions in the final quarter of the financial year. The variability exhibited in hydro production showed once again the value to New Zealand of maintaining sufficient thermal plant.

Decarbonising energy in New Zealand

We see decarbonising New Zealand's energy sector as an important opportunity for Contact and New Zealand. This is not at odds with our use of thermal plant. Thermal plant is critical to a sustainable shift to a low carbon energy sector as it will be required to support intermittent renewable technologies for a long time yet. The winter of 2017 is a prime example as Contact's thermal plant, backed by stored gas at Ahuroa, supported New Zealand through an exceptionally dry period. The challenge for New Zealand is to ensure that thermal plant is rewarded sufficiently to continue to play that role while lower carbon technologies slowly replace it.

We are well placed with our deep knowledge of energy projects to support industrial fuel conversion activities,

whether to electrical supply or to geothermal heat. Contact has a strong track record of delivering efficient, low carbon industrial energy solutions to large industrial customers including at Fonterra's Te Rapa dairy plant, where Contact provides electricity, steam and energy resilience through a cogeneration facility, and at the Tenon wood processing plant in Taupo, where Contact provides process heat from its renewable geothermal resource. We also have resource consents for the development of the Tauhara geothermal field, which we believe is New Zealand's next most attractive large-scale renewable development.

We continue to trial and learn about new technologies such as electric vehicles, solar panels, batteries and more, which are creating new markets and have the potential to transform the energy sector.

We believe that electric vehicles will, over time, play a material role in the decarbonisation of New Zealand's transport sector. Contact is a key supporter of electric vehicle uptake.

Distributed energy resources like solar PV, battery storage and smart appliances are proliferating as technology costs fall, giving customers greater choice and control over their energy usage. Contact's demand flexibility platform can help maximise the value of these distributed energy resources for the optimisation of the wider electricity system, enabling more rapid electrification of the New Zealand transport and industrial sectors.

The development of competitive markets is key for the efficient uptake of these new technologies – advocating for competitive markets has been a key focus for Contact through the last financial year.

Meeting future demands

We forecast future electricity demand using a range of data sources, including a number of external forecasts. While there are inherent uncertainties in forecasts, there is a consensus that near-term demand growth will be slow. We are well placed with our diverse and flexible fleet to meet future demand in New Zealand.





Members of the wholesale market trading team

Financial sustainability

We have over \$2.7 billion in net assets, more than 66,000 shareholders and 3,600 bondholders around the world who rely on us to deliver sustainable financial returns now, and into the future. These investors include New Zealand families, investment firms, professional investors and superannuation funds that people are relying on for their financial security during retirement. Delivering on the expectations of our investors is vital to our sustainability as a business.

With no large-scale, capital-intensive investments planned in the short term, our business is able to focus on delivering strong cash flows for the benefit of investors. Over the past year we have continued to focus on improving performance for our customers, while seeking to unlock additional value for our shareholders through a focus on cost and efficiency across all of our operations.

Contact has had a BBB Standard and Poor’s (S&P) credit rating since 2002. Following a period of significant investment in building generation assets and updating our systems, our focus has been on reducing debt levels to ensure the rating is maintained. This investment grade credit rating provides a solid foundation for the management of operational and financial risks, allows an efficient capital structure and ensures we can access diverse and cost effective sources of funding markets around the world. Consistent progress has been made on reducing the net debt to EBITDAF ratio since its peak in our 2015 financial year. During the year we reduced debt by a further \$106 million to bring the ratio down to 3.14x as at 30 June 2017.

In February 2017 we issued \$100 million of fixed rate retail bonds to replace wholesale debt maturing in the period. Strong market interest from a broad range of investors saw the bond offer oversubscribed with the debt refinanced at lower interest rates than the maturing debt.

This year we obtained certification from the Climate Bonds Initiative that enables current and future investors the opportunity to invest in certified green debt instruments, recognising our significant level of renewable generation. Achieving this certification will allow green investment funds globally to consider making investments in Contact for the first time.

In August 2017 Contact’s Board approved a change to our distribution policy to provide greater clarity for investors on expected future returns. The revised policy targets distributions to shareholders at the level of between 80% and 90% of operating free cash flow, on average over time once our net debt to EBITDAF ratio, as assessed by S&P, falls below 2.8x. This year the Board declared a full-year ordinary dividend of 26 cents per share (cps), which will be paid in September and is unchanged from the prior period. We will transition to the new distribution policy and for financial year 2018 will target an ordinary dividend of 32 cents per share, an increase of 23% on financial year 2017.

The last five years in review

For the year ended 30 June	Unit	2013	2014	2015	2016	2017
Revenue	\$m	2,526	2,446	2,443	2,163	2,080
Expenses	\$m	1,985	1,859	1,918	1,640	1,586
EBITDAF	\$m	541	587	525	523	494
Profit/(loss)	\$m	199	234	133	(66)	150
Underlying profit	\$m	202	227	161	157	141
Underlying profit per share	cps	27.7	31.0	21.9	21.7	19.7
Operating free cash flow	\$m	312	293	338	352	300
Operating free cash flow per share	cps	42.7	40.0	46.6	48.5	41.9
Dividends declared ¹	cps	25	26	76	26	26
Total assets	\$m	6,197	6,186	6,089	5,652	5,429
Total liabilities	\$m	2,660	2,604	2,918	2,829	2,654
Total equity	\$m	3,537	3,582	3,171	2,823	2,775
Gearing ratio ²	%	28	27	36	38	36

1. FY15 included a special dividend of 50 cents per share.
2. The gearing ratio calculation has changed from prior period to align with the gearing definition in Contact’s Deed of Negative Pledge and Guarantee.

26
Cents per share
TOTAL DIVIDEND
DECLARED

\$494
Million
EBITDAF

“We have more than 66,000 shareholders and 3,600 bondholders around the world who rely on us to deliver sustainable financial returns now, and into the future.”

People

Our people are the lifeblood of our business. Ensuring that they are engaged, happy and safe is important in driving world-class performance.

From customers to employees, business partners, or members of the community, people are vital to the success of our business.

To deliver for our customers, shareholders and communities we do our best to recruit, develop and retain great people who have the right skills and are passionate about helping make Contact a high performing organisation. Diversity and inclusion are a priority for us to ensure we have the right mix of ideas, skills, thinking and perspectives within our organisation in order to succeed.

Engaging our people

So our people can deliver for our customers and stakeholders, we need to build an organisational culture that keeps our people engaged and motivated to do their very best. We strive to clearly communicate our strategy and priorities so our employees feel personally connected to what we're trying to achieve. Team members are required to have key performance indicators and development plans that outline their expected contribution to Contact's success. This is supported by regular performance conversations so people have the coaching and support needed to help them succeed.





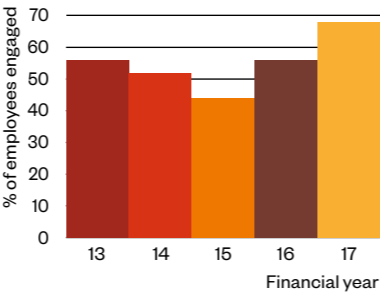
Within the Generation & Development business this year the team has focused on a programme supporting continuous improvement in a range of areas, empowering team members to be involved in identifying problems and creating solutions, as well as progressing operational improvements.

Within our Customer business the team has focused on coaching conversations, better communication and career development, including a specific focus on developing future leaders. Creating a better experience for our people has helped them to be more responsive to our customers with the right products and services.

During the period we reviewed our supporting central corporate functions, in order to enhance the efficiency of work undertaken to support our Generation & Development and Customer businesses to be successful and enable a more agile approach.

In the year ahead our efforts will continue to focus around our Tikanga and building leadership capability to motivate, inspire and develop our people.

Employee engagement



Each year we undertake an employee engagement survey, independently facilitated by AON Hewitt, to pin-point what employees believe we’re doing well and where we need to improve. Contact’s long-term engagement target is a Best Employer level of above 82%.

2017
This year we achieved a substantial 12% point increase, taking overall employee engagement at Contact to 68%.

Embracing diversity

We want to attract and retain the best mix of diverse-thinking employees – including Maori, Asian and Pasifika people, from millennials to those with decades of experience, and the full spectrum of genders. We believe having diverse people and teams and an inclusive culture leads to diversity of thought, fosters better decision making and drives improved business performance, creating a stronger economy and better outcomes for New Zealand. Diversity is also critical to navigating the change and disruption affecting the energy sector.

We are committed to achieving pay equity and enabling flexible working practices to help us attract talented people, retain and develop our existing talent and achieve our business goals.

During the year we have taken positive steps towards becoming a more diverse and inclusive business. In June 2017 our Board approved a new diversity and inclusion policy that embraces our Tikanga and encourages our people to own and lead an inclusive culture. It encourages people to be authentic by ‘bringing their human to work’ and to use flexible work practices. We are developing leadership skills to manage and develop diverse people and teams, and seeking opportunities to lead diversity and inclusion outside of Contact. Our policy is available on our website.

Gender pay ratio by business group

	FY17	FY16
Corporate	97.1%	96.7%
Customer	98.3%	98.5%
Generation & Development	96.8%	96.7%
Overall	98.0%	98.3%

We measure and track pay equity difference within salary bands using the average compa-ratio between males and females.

2017
98% of our female employees are earning the same average salary as males within the same salary band. This is a slight decrease on the prior year.

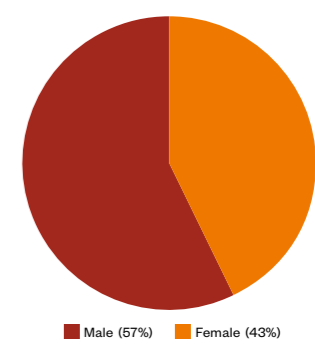
Leadership on this issue starts at the top and our Chief Executive, Dennis Barnes, is part of the Global Women Champions for Change group. And this year we have elected to be part of an initiative to provide greater transparency through more detailed diversity reporting by larger organisations in New Zealand.

Contact’s Board of Directors is one of the most diverse among New Zealand listed companies. Our six person Board comprises a 50% gender split, with two members also of Maori descent. Contact was ranked fifth in the Thomson Reuters Global Diversity and Inclusion Index this year. Thomson Reuters ranks over 5,000 companies, using publicly available environmental, social and governance data to compile the index, focusing on metrics that indicate a diverse and inclusive workplace.

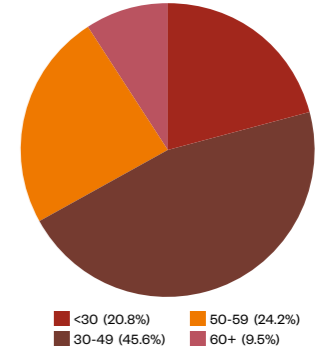
In the year ahead we will continue with our diversity and inclusion initiatives, educate our people about the benefits of diversity, develop inclusive leaders who have the skills to lead diverse individuals and teams, and include diversity goals as a key consideration in recruitment and succession planning.

Contact employee diversity

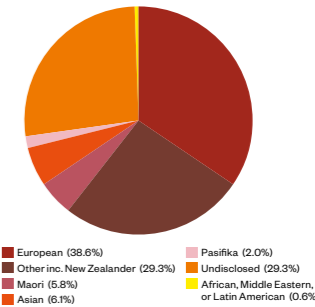
Gender



Age group



Ethnicity



Improved safety performance



Keeping our people safe

Our Tikanga guides us, and our Health, Safety and Environment (HSE) management system sets out our commitments to our people, contractors, customers, communities and the environment we operate in and how we deal with risks and hazards.

Our approach to managing the health, safety and wellbeing of our people, our plant and the environment is more than having policies and procedures. It's about how well we lead and how our people feel – it's broader than compliance alone. We have continued to evolve how we support our people in managing risks every day. Our aspiration of a generative safety culture continues to progress through empowering our frontline workers to solve problems and work safely, simplifying guidance and procedures and trusting our people to make the right decisions for the right reasons. We have used this approach over the past year to refine many of our procedures for high risk activities such as Safe Working at Height and Lift and Load.

Another big step this year involved simplifying our HSE management system – this system describes our goals and commitments. Our people told us our previous HSE management system was overly prescriptive, disengaging and no longer relevant to our current approach. As a result we've moved to a management system that is more aligned with our Tikanga, is integrated into the way our business actually runs and provides helpful guidance rather than just being words on paper. Our people have told us that they have a better understanding of how their roles and activities fit into the management system, as the language connects them and the system and gives them flexibility in the way they approach their tasks.

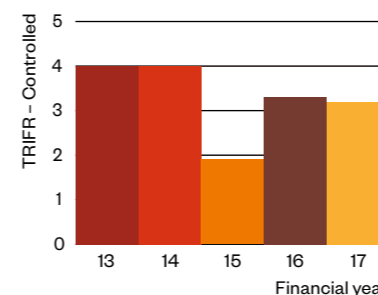
We've been building on the previous years' success with learning teams, where we moved away from traditional incident investigation processes that focused on finding fault to a more collaborative approach focused on how to improve. This year we engaged with a broad group of people across the business to help evolve learning teams – they are now using these

to build on successful work and learn from work that hasn't gone according to plan. Improving how we share and embed learnings across the organisation is a current focus.

We surveyed our progress towards a generative safety culture again this year using an independent company. The HSE culture report showed improvement with respect to empowerment of our people and a noticeable shift towards a 'just culture' enabled by better leadership. The findings highlighted that we've still got work to do but the clear message was to "keep doing what you are doing until the changes become fully embedded".

We are proud of what we have achieved by taking a different approach to health and safety. Our people and our contractors see the benefits first hand and we've also come to the attention of the wider health and safety community – collaborating and participating in a much larger discussion, and sharing our stories and learnings with many other organisations and industry groups.

Total Recordable Injury Frequency Rate – Controlled

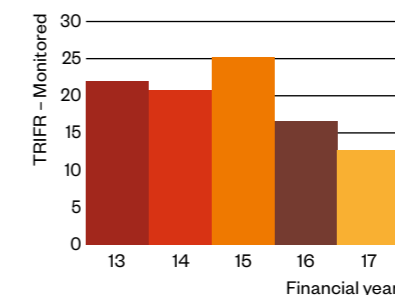


Our controlled TRIFR looks at how many people are hurt when working for us under Contact's HSE management systems, and includes contractors as well as our own people. TRIFR is calculated by dividing the number of incidents that resulted in medical treatment, restricted work or time off work by the hours worked, and multiplying this by 1 million.

2017

Our controlled TRIFR for the year was 3.2, an improvement on 3.3 achieved in the prior period. 10 people were hurt during the year (9 male, 1 female). Our rate per 200,000 hours worked for 2017 is 0.64 and is included to enable comparison with other organisations which calculate performance on this basis.

Total Recordable Injury Frequency Rate – Monitored

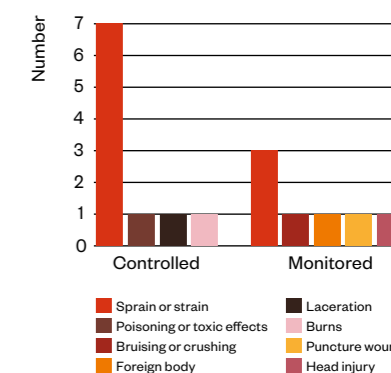


Our monitored TRIFR looks at how many people are hurt in activity where Contact supports the safety outcomes, but the risk and management of these is owned by the supplier of the service (such as meter reading, field services and franchises). TRIFR is calculated by dividing the number of incidents that resulted in medical treatment, restricted work or time off work by the hours worked, and multiplying this by 1 million.

2017

Our monitored TRIFR for the year was 12.7, a significant improvement on 16.6 for the prior period. 7 people were hurt during the year (5 male, 2 female).

Injuries



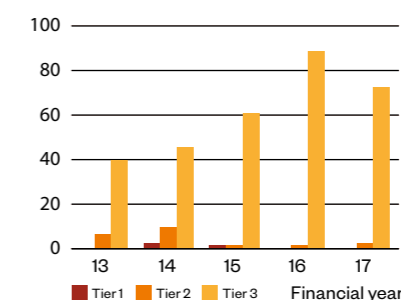
Note: All 3 female injuries were sprains or strains.

Process safety

Keeping our generation assets and LPG business safe and reliable is critical to our ongoing operations, so we constantly look at ways to make our processes and systems as robust as possible.

Our focus this year has been on ensuring continued awareness of process safety, while improving work procedures, such as our 'management of change' process to ensure it meets the needs of our people. We also record process safety incidents and have a dashboard that enables visibility over our process safety barriers. This year we have seen a drop in recorded process safety incidents. This is due to increased awareness and active management of process safety issues to address barriers before an incident occurs.

Process safety incidents



This graph represents the number of process safety incidents recorded across our operations. We use the American Petroleum Institute's Recommended Practice 754 as the basis of our process to identify and then classify process safety incidents. Any incidents resulting in harm to people are also recorded.

2017

In 2017 we saw a drop in Tier 3 process safety incidents across our Generation and LPG business. This is a result of embedded awareness of process safety, which has led to early identification and management of issues. In LPG, for example, most of our Tier 3 incidents are third parties digging up and/or damaging our gas pipes. This was reduced over the year as our teams proactively worked with industry peers to address these issues before they occurred.



Environment

We rely on natural resources to generate electricity, so in line with our Tikanga we aim to be good stewards of these resources.

In harnessing energy from natural resources, our activities impact on the environment around our operational sites. While our resource consents guide us in reducing and mitigating many of these impacts, we aim to be proactive in our stewardship of the resources that we rely on, to ensure they remain for generations to come.

Climate change

Climate change is a significant global issue which has the potential to adversely impact the environment, communities and the economy. Contact is planning to continue to play a big role in decarbonising energy use and production in New Zealand. In line with this we also obtained green certification for a proportion of our debt portfolio recognising the sustainable low carbon nature of our geothermal assets. We have significantly reduced our own emissions over the last six years and we are now looking at supporting industry, vehicle fleets, and the generation market to transition to lower carbon fuels.

Risks and opportunities

Climate-related risks and opportunities are considered through our annual strategy process, which involves a thorough analysis of the external environment in which Contact operates. This analysis identifies trends, risks and opportunities across a range of environmental, economic and social areas. Scenarios of what the future could look like are then created and used by management and the Board to guide decision making.

We have identified a number of climate-related risks including changes in demand for energy, cost of supplying energy, and fuel availability for electricity generation. High levels of adoption of new technologies and/or energy efficient products could impact the demand for energy from Contact's customers. Climate change may also impact on natural resources that Contact uses to generate electricity; for example changes in rainfall patterns may affect Contact's ability to generate electricity from hydro resources and costs to supply electricity to our customers when they need it.

In New Zealand we have the Emissions Trading Scheme (ETS), which requires participants like Contact to purchase carbon emission units and surrender units based on our calendar year emissions. Prices on greenhouse gas emissions, implemented through the ETS, affect the cost of supplying electricity, which creates risk for new and existing thermal generation but also creates opportunities for new and existing renewable generation.

We also see a number of opportunities in the low carbon transition. Using our deep experience of renewable generation we can assist other businesses to transition to lower carbon fuels. The transition may also drive an increase in electricity demand, for which we are well positioned with options to develop the consented Tauhara geothermal power station if an increase in demand or the opportunity to replace existing thermal generation presents itself. The Tauhara geothermal resource also provides an opportunity for a low carbon source of heat for industry, of which a significant portion is currently fuelled by fossil fuels.



Left: Contact branded electric vehicle loaned to commercial and industrial customers.
Below: Te Mihi geothermal power station.



The Wairakei bioreactor

Our emissions

Our geothermal and thermal operations and vehicle use produce greenhouse gas emissions. We also buy and sell LPG and natural gas. We monitor these emissions and other discharges to air in line with resource consents and reporting requirements under the ETS. We also voluntarily report our vehicle emissions in our Annual Reports.

This year our emissions from electricity generation increased by 3% on the prior year as a result of the historically low inflows into the Clutha/Mata-Au catchment in winter, requiring us to run our thermal power stations more in order to maintain a reliable supply of energy to the market.

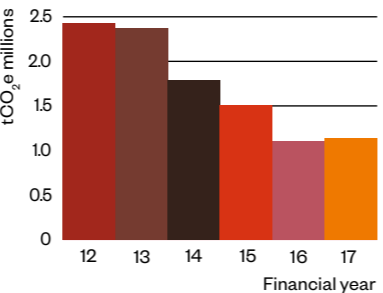
Over the last six years, however, Contact's investment into building a renewable and flexible generation fleet has enabled us to significantly reduce our emissions, and since 2012 we have reduced emissions by 53%¹. Our ability to make further emissions reductions from our generation fleet without increasing market risks is limited.

This is because our thermal generation continues to play an important role in ensuring a reliable supply of electricity at times of high demand or when renewable sources of electricity are unavailable. But we believe that every bit counts. And so we continue to seek emissions reductions across our business by maximising the output of our renewable assets; operating thermal plant efficiently; seeking energy efficiencies in our offices; electrifying our vehicle fleet; and investigating new technologies that support our goals and those of our customers.

We offer an energy solutions service to our commercial and industrial customers to identify energy efficiency opportunities that then help them to reduce both their energy costs and emissions from electricity use. We are also using distributed generation and energy storage in a number of new technology trials to develop and test innovative products for our customers. Electric vehicles (EVs), for example, hold the potential to significantly reduce New Zealand's carbon footprint. We have set a target that 30% of our

vehicle fleet will be electric by 2019. As at 30 June 2017 the proportion of EVs in our fleet sits at 25%.

Emissions from electricity generation



This graph shows the total emissions from our power stations in tonnes of carbon dioxide equivalents.

2017
Our emissions from electricity generation increased by 3% on the prior year due to a dry final quarter of the financial year which saw us running our gas-fired power stations hard in order to meet New Zealand's electricity needs.

Water

We use water in a wide variety of ways in our business. At our geothermal and thermal plants we use fresh water for cooling and air emissions reduction. Hydro power stations on the Clutha/Mata-Au generate renewable electricity from river and stored water at Lake Hawea.

Over the year the link between water use and emissions was very clearly illustrated with the first half of the year marked by favourable hydrological conditions, lower electricity use and above average temperatures across the country. This meant we could make the most of our renewable generation options and reduce thermal operations. The second half of the financial year, and in particular the final quarter, was characterised by historically low inflows in the Clutha/Mata-Au catchment. This required us to run our gas-fired thermal power plants more, resulting in a higher cost of energy and increased greenhouse gas emissions output during this period.

At our geothermal and thermal power stations we have some impacts on water quality, which we manage in accordance with our resource consents. At our Wairakei power station, where we discharge some geothermal water to the Waikato river, we have a bioreactor which biologically treats and removes most of the dissolved Hydrogen Sulphide (H₂S) from our cooling water before the water is returned to the river. In August 2016 our consent limit for the discharge of H₂S to the river reduced from 2,800 kilograms per week to 630 kilograms per week. This was completed successfully by ensuring that all cooling water is treated by the bioreactor before being discharged. Since these changes were made, our average weekly discharge is less than half the allowable limit.

To support our sustainable management of freshwater resources, we created a water dashboard that makes it easier to monitor water use across our operations. We used 15,231,064 megalitres of water over this financial year. 99% of this was water was not consumed, but returned to either rivers or geothermal reservoirs. The remainder was discharged in line with resource consents.

Our Water Commitment, developed in 2015, positions us proactively on issues that matter to stakeholders such as access, quality, quantity and ownership of water. We also participate in local and national stakeholder forums, such as regional plan processes and New Zealand's Land and Water Forum to ensure that the community and policy makers are aware of our interests and the role we will play in ensuring this precious resource remains for generations to come.

Our belief is that water is for all New Zealanders to share, and our access to this resource is a privilege that comes with responsibilities that define our use. We will maximise the efficiency of our water use, enhance water quality, and play our part in ensuring sustainable access to water for cultural, recreational and economic uses. We seek to ensure that every decision we make in relation to water is in accordance with this Commitment.

Water usage for year ended 30 June 2017

Source / Water use	Withdrawal (ML) ¹	Discharge (ML)
Geothermal reservoir	103,547	
River and surface water	3,201	
Water from third parties	316	
Council ²	53	
Discharge from all sources		21,823
Grand total	107,117	21,823

Non-consumptive water usage³ (ML)

Clutha/Mata-Au river water ⁴	14,647,193
Geothermal reservoir	66,236
Geothermal cooling water	410,518
Grand total	15,123,947

1. Megalitres
2. Council water usage is estimated based on a per-person flow allowance.
3. Non-consumptive use refers to water that flows through our dams, or is returned to river or the reservoir that it has been drawn from.
4. Clutha/Mata-Au River water flows through both the Roxburgh and Clyde dams.

Biodiversity

During the year we brought together a diverse range of stakeholders to help us formulate a broader response to biodiversity issues. Their input ultimately guided us towards growing our green business credentials by seeking green certification for our debt portfolio and sharing our progress on environmental issues; developing a biodiversity work programme which includes 'hands-on' activities to address our biodiversity impacts; and adopting practices that enable us to show we are good stewards of the resources that future generations will inherit.

The diverse nature of our operations means that our impacts differ across each of our sites. As such we've adopted local responses to local biodiversity issues. Additionally we set ourselves a target of planting 10,000 native trees during the financial year. We have exceeded this, with over 14,000 trees planted across our sites with the support of our local communities.



Ohaaki wetlands, near Contact's geothermal generation facilities.

Geothermal

Our geothermal operations are undertaken on land we own or occupy and has been largely cleared of native vegetation. The use of geothermal resources can contribute to a decrease in surface heat patterns, which in turn affects the availability of habitat for thermotolerant species. In addition, our discharges can negatively affect water quality.

This year we completed fencing to keep stock away from all permanently flowing watercourses on Contact owned or leased land relating to our geothermal operations. This helps protect freshwater resources from contamination by animals and supports the Waikato Regional Council's implementation of its Healthy Rivers Plan. We undertook thermotolerant vegetation surveys to monitor our impacts, fenced areas around these species, and undertook pest plant removal work. We also completed maintenance works at the Torepatutahi wetland (replanting and clearing of pest species across 28ha), which is an 'offset' site for impacts associated with our Ohaaki power station. This work is assessed by an independent assurer every two years to ensure the work is carried out to a high standard.

In partnership with Greening Taupo and our local community we also planted more than 10,000 native trees around our sites in Taupo. We're the proud sponsor of Kids Greening Taupo, which helps build the next generation of eco-champions in the region. We've also partnered with The Kiwi Trust, to help them nurture kiwi at the neighbouring Wairakei Golf Sanctuary and rehabilitate them back into the wild.

Hydro

The construction of our hydro operations in the 1980s had significant impacts on the aquatic habitat of the Clutha/Mata-Au. We have a Native Fish Management Plan as part of our consent conditions, the implementation of which has been agreed with the Department of Conservation. The plan implements projects such as longfin eel (tuna) and lamprey (kanakana) surveys, whitebait (inanga) population monitoring and habitat enhancement, and fish passage work. We also carry out work under our Sports Fish Management Plan to maintain and improve recreational fishing.

This year we undertook planting, fencing and pest control as part of our Hawea Foreshore and Landscape Plan, and planted a further 2,000 trees around the Lower Clutha/Mata-Au. We also supported the Untouched World Charitable Trust's Waterwise programme, which builds students' understanding of water issues including its uses, availability, quality and economic issues. It also exposes them to a range of water users from industry to farming, cultural and recreational users to support their understanding of sustainable water management.

Thermal

At our thermal power stations our impacts on biodiversity relate to emissions and the management of the land we own. We undertake pest control work in line with the Taranaki Regional Council's pest management plan. We undertook riparian planting along the Kahouri Stream and Patea Rivers, planting 2,000 trees, and removed pest species (both plant and animals including stoats, possums, and willow trees) from these areas.

Community



We work within communities across New Zealand and aim to be a good neighbour, a supportive member of the community and a trusted steward of resources.

Supporting local communities

We live and work in communities throughout the country and we know that our every action impacts on the people and the environment around us. So being a good neighbour and a good corporate citizen is an important part of how we operate. It's also about living our Tikanga, and ensuring that we demonstrate to our stakeholders that we care about New Zealand and its people.

Our approach to community engagement is truly local. We focus on building long-term relationships based on trust with community stakeholders who live and work around our sites. While at times our engagement is driven by operational

resource consents we also work hard to ensure that we're proactively participating in our local communities.

This year we invested \$346,144 into our communities through sponsorships, partnerships and donations. In Levin, Ohaaki and Taupo we have community engagement plans to guide our activities.

In most places, however, our focus is on supporting our local teams to build community relationships and lead our investment in their region through our site sponsorship programme. Some examples of initiatives supported through this programme include Reporoa College's leadership programme, CACTUS; Lake Hawea Community Centre's purchase of an emergency generator; and Cromwell-based Mokihi Trust's native planting programme.

We have regional partnerships around our generation sites, which have enabled us to support some significant outcomes for our communities. In Taupo, for example, we've been partnering with Swim Well for seven years, and over that time we've helped teach 24,672 kids to swim, and delivered 173,452 swimming lessons. In Otago, where we have the Clyde and Roxburgh dams, we're celebrating 13 years as principal partner of the Contact Alexandra Blossom Festival, and 10 years backing the Contact Epic Mountain Bike Challenge around Lake Hawea.

Through 'Community Contact', our employee volunteer programme, we enable our people to draw on a pool of a maximum of 8,000 hours to spend supporting community initiatives.



Left: Dorothy Raroa (Ngati Tahu, Ngati Whaoa, Ngati Wahiao, Ngati Tuwharetoa and Ngati Porou) meets students of RAPland School in Kenya. Below: Swimming instructor takes a lesson as part of the Contact Swim Well Taupo initiative.

Employees across the country this year spent 1,796 hours giving their time and expertise to community organisations.

We're always looking for new ways to engage with communities. This year we held a community open day at the iconic Clyde Dam for the first time since it began operating in 1992. It was a huge success with a turnout of more than 5,000 people. As part of the day our local team partnered with the Lake Dunstan Lions Club to guide the visitors around the site in return for donations. The initiative raised over \$6,000 which will be used to develop a public barbecue area on the lakeshore near the dam.

In June 2017 this year we also held a family day at Wairakei for our people, contractors and business partners. Our teams put on a wide range of activities to showcase the work that goes into producing geothermal energy. This was attended by more than 250 close friends and family, and was a great opportunity for our families to see what we do, and for our people to demonstrate their world-class geothermal skills and knowledge to the community.

The nature of our operations means that our relationships can be tested at times. We keep a register of community issues and develop community engagement

plans on specific operational issues when and if required. We also rely on our values – our Tikanga – and our overarching philosophy to be “the neighbour you’d want” to guide our decision making to ensure we are balancing the needs of our stakeholders. For example, we have had complaints of noise from our Te Mihi power station. While the noise is within consented levels, and we believe that we’ve delivered beyond our compliance requirements, we also want to be a good neighbour and so over the last year have worked with those neighbours affected to find solutions to ensure that we are walking the talk on our Tikanga and being a good neighbour.

Tangata whenua

We recognise the special relationship that hapu and iwi (indigenous communities) have with the land and environment around our operations. We aim to be respectful, open and supportive of tangata whenua aspirations and we work hard to build positive long-term relationships.

We have a number of hapu and iwi agreements in place supported by an overarching tangata whenua strategy. As a result of this strategy we have established programmes such as our Maori internship

programme, now in its third year, which saw us support four interns this year in partnership with our iwi/hapu partners and Waikato University. Our internships are aimed at fostering Maori development, while supporting Contact’s endeavour to build stronger relationships with tangata whenua. We have also provided opportunities for employees to develop their Te Reo Maori skills and have actively worked on improving our relationships and communication with tangata whenua around our operational sites.

This year in partnership with Ngati Tahu, who own the land the Ohaaki power station sits on, Contact participated in an exchange programme funded by the United States Energy Association to support community engagement with an energy company in Kenya. We were humbled to be asked to participate by the iwi, and to share our learnings on how to build positive and empowering relationships with tangata whenua. We were also pleased to contribute to, and learn from, other power companies and indigenous communities to support community empowerment both here at home and globally.

Governance, Remuneration Report, Statutory Disclosures & Sustainability Reporting

44

Governance

47

Remuneration Report

51

Statutory Disclosures

55

Sustainability Reporting

Governance, Remuneration Report, Statutory Disclosures & Sustainability Reporting

44

Governance

47

Remuneration Report

51

Statutory Disclosures

55

Sustainability Reporting

At Contact we believe that good corporate governance is important as it protects the interests of investors and creates and enhances value over the short and long term. We regularly review our corporate governance systems and are always looking for opportunities to improve the way we do things.

We welcome NZX’s recent publication of its Corporate Governance Code (the **NZX Code**), which sets clear standards for effective corporate governance for New Zealand issuers. Although reporting against the NZX Code is not mandatory this year, we have chosen to do so to provide transparency on how our corporate governance practices measure up against what NZX sees as best practice.

Our full reporting against the NZX Code is set out in our Corporate Governance Statement, which is available on our website at www.contact.co.nz/AboutUs/Investor-Centre/Governance. A summary of our corporate governance practices is set out in this section of the Annual Report. We comply with the corporate governance policies, practices and processes of the NZX Code except as noted otherwise in our Corporate Governance Statement.

Unless stated otherwise all of the information in this section is current as at 30 June 2017.

CONTACT’S BOARD

The Board’s role and responsibilities

Our Board is elected by our shareholders and is accountable to them for the performance of Contact. The Board’s primary role is to ensure the long-term prosperity of Contact. Specific responsibilities include:

- setting and approving the strategic direction of Contact
- monitoring financial performance
- ensuring appropriate systems are established to manage risk
- reviewing and approving our compliance systems
- overseeing our commitment to our values, sustainable development, the community and environment, and the health and safety of our people.

Board composition

Our Board consists of six directors, with a wide range of skills, experience and points of view. The Contact Board is one of the most diverse in the top 50 New Zealand listed companies, with 50% female representation and two directors with Maori heritage. Profiles of each director, including length of service, are set out on pages 8-9.

The Board has developed a skills matrix, which sets out the skills that the Board believes are necessary for Contact’s success and measures the key skills of each director against the desired skills. It is not expected that every director will be an expert in every area, but all skills should be represented in the Board as a whole. Candidates for appointment are assessed against the skills matrix with a focus on areas of competence the Board is looking to acquire with any new appointments.

One-third of our directors is required by our constitution to retire by rotation at each annual meeting and is eligible to stand for re-election by shareholders. That means each director is up for re-election at least every three years. Information about candidates for election or re-election is included in the notice of meeting to assist shareholders’ decision as to whether or not to elect or re-elect the candidate.

The Board considers all of the current directors to be independent in that they are not executives of the company and do not have a direct or indirect interest or relationship that could reasonably influence, in a material way, their decisions in relation to Contact.

Board performance

We recognise the value of professional development and the need for directors to remain current in relation to both industry and corporate governance matters. Contact assists directors with their professional development in a number of ways, including an induction programme for new directors and briefings to upskill the Board on new developments, such as changes to relevant law.

Reviews of the performance of the Board and individual directors are carried out regularly to ensure the Board as a whole and individual directors are performing to a high standard. This financial year, the Board commissioned Propero Consulting Limited (**Propero**) to conduct an independent review. The Board received a report including recommendations, and each director received a personalised feedback report on their performance, and a coaching session with Propero. The Board has reviewed the outcome of the evaluation by Propero and collectively discussed and agreed actions. These will be monitored and progress assessed at set milestones.

Board committees

The Board has established Board committees to perform work and provide specialist advice in particular areas. We have three standing committees: the Audit Committee; the Remuneration and Nominations Committee; and the Health, Safety and Environment Committee. Members are chosen for the skills, experience and other qualities they bring to the relevant committee.

The current members of the committees are:

Committee	Members
Audit	Sue Sheldon (chair) Whaimutu Dewes, Rob McDonald
Remuneration and Nominations	Sir Ralph Norris (chair) Victoria Crone and Sue Sheldon
Health, Safety and Environment	Whaimutu Dewes (chair) Victoria Crone and Elena Trout

Each committee operates under a written charter, which is available on our website. Detailed information about the role and responsibilities of each committee is available in our Corporate Governance Statement.

Attendance at Board and committee meetings

Director	Board	Audit Committee	Remuneration and Nominations Committee	Health, Safety and Environment Committee
Number of meetings	10	4	4	3
Sir Ralph Norris	10	2*	4	3*
Victoria Crone	10		4	3
Whaimutu Dewes	10	4		3
Rob McDonald**	10	4		2
Sue Sheldon	10	4	4	2*
Elena Trout***	8	2*		2

* The relevant director is not a member of the committee, but attended as an observer.

** Rob McDonald ceased to be a member of Health, Safety and Environment Committee on 1 April 2017.

*** Elena Trout was appointed to the Board on 3 October 2016 and to the Health, Safety and Environment Committee on 1 April 2017.

OUR CORPORATE POLICIES

Code of Conduct

We are guided by our Tikanga – our set of beliefs, comprising our purpose, commitments, principles and behaviours. These beliefs guide the actions we take, both as individuals and as an organisation, our decision making and the way we treat each other and our customers, shareholders and the communities we are part of.

Our Code of Conduct outlines how Contact people are expected to behave. It applies equally to our directors, employees and contingent workers (such as contractors). Our Tikanga sits at the heart of our Code of Conduct.

Contact people are encouraged to report breaches, or suspected breaches, of the Code of Conduct to their manager, a Leadership Team member or a representative from People and Safety. Breaches of the Code of Conduct or other serious wrongdoing may also be reported via the ‘whistleblowing’ procedures of our Protected Disclosures (Whistleblowing) Policy, which includes an option for people to report an issue or potential issue through an independent reporting service.

Securities Trading

Our Securities Trading Policy sets out Contact’s expectations and requirements for all our people, including directors, when buying, selling or otherwise dealing with Contact shares or bonds.

In addition to the prohibition on insider trading, Contact people must not buy or sell Contact securities during ‘blackout periods’. These blackout periods occur twice per year, before each of the half and full-year results. Certain individuals within Contact, including the directors, all members of the Leadership Team and some others (**‘restricted persons’**) must obtain the written consent of the company before buying or selling Contact securities (which can only occur outside of blackout periods).

We offer our people training on insider trading law and Contact procedures. Anyone who, from time to time, may be in possession of material information about Contact is required to complete this training every year. Through our share registrar, Link Market Services (**Link**), we actively monitor trading in Contact shares by our restricted persons.

Diversity and Inclusion

We believe a diverse workforce and an inclusive culture lead to diversity of thought and better decision making, drive stronger business performance, and create a stronger economy and a better world.

Our Diversity and Inclusion Policy, which was approved by the Board in June 2017, provides the framework for diversity and inclusion initiatives at Contact. Our diversity objectives are set by the Board. Each year the Board reviews the objectives with management and assesses our progress towards meeting them. Although it is too early for us to provide a full evaluation of performance against our Diversity and Inclusion Policy, information about our diversity progress this year is set out on page 33.

Health and Safety

Our commitment to health and safety is outlined in our Health, Safety and Environment Policy. Under this policy, health and safety risk is managed through effective leadership and by engaging our people in health and safety activities. We work with our people to develop robust processes and procedures that lay the foundation for safe and sustainable work. By focusing on learning and improving, and empowering workers at the front line to actively manage safety outcomes, we continually strengthen our capacity to fail safely and reduce our environmental impact.

More information about our health and safety performance is on pages 34-35.

REPORTING AND DISCLOSURE

Continuous disclosure

We are committed to ensuring that all of our investors have timely access to full and accurate material information about Contact. Our Market Disclosure Policy sets out procedures that are in place to make sure all material information is identified, reported for review and, where required, disclosed in a timely manner. It also describes the procedures that have been adopted to prevent the selective disclosure of material, non-public information.

Under the policy, Leadership Team members and other executives are required to escalate any potential ‘material information’ matters to the CEO, CFO and general counsel (the **Disclosure Group**). The Disclosure Group is ultimately responsible for approving the form and content of material information that is disclosed. The company secretary then coordinates disclosure to the market. We also monitor information in the market about Contact and will release information to the extent necessary to prevent development of a false market for Contact shares.

Financial reporting

The Audit Committee oversees the preparation of our financial statements, including materiality guidance and setting policy to ensure the information presented is useful for investors and other stakeholders. We make our financial statements easy to read by using clear, plain language, and structure them so that key information is presented at the beginning. In addition to the full-year audit, our auditors complete a review of the half-year financial statements and we undertake an internal certification process to ensure the information presented is accurate, balanced and objective.

Non-financial reporting

As part of our commitment to providing our investors and other stakeholders with access to all relevant information about Contact, we report on material environmental, social and governance factors and practices in accordance with the Global Reporting Initiative (**GRI**) guidelines in our Annual Report. We’ve chosen to use GRI because it is an internationally recognised framework under which we can present information on the particular matters that are significant for Contact and our stakeholders. While we do not have a policy on the assurance of non-financial or sustainability data, our sustainability reporting data is independently reviewed by Deloitte.

RISK MANAGEMENT AND ASSURANCE

Risk management

Our Board has established a robust risk management framework across the business, which is aligned to the International Standard ISO 31000, Risk Management – Principles and Guidelines. Our framework ensures that there are appropriate systems in place to identify the material risks Contact faces. We make sure that we understand the potential impact of identified risks and that, where applicable, appropriate tolerance limits are set by the Board. Our framework ensures that responsibilities are assigned to individuals to manage identified risks and that any material changes to Contact's risk profile are monitored.

Assurance

Our Business Assurance team fulfils our internal audit function and provides objective assurance of the effectiveness of our internal control framework. The team is based in-house, but draws on external expertise where required.

The team helps us to achieve our objectives by bringing a disciplined approach to evaluating and improving the effectiveness of risk management, internal controls and governance processes. We use a risk-based assurance approach driven from our risk management system. The Business Assurance team also assists external audits by making findings from the internal assurance process available for the external auditor to consider when providing their opinion on the financial statements. The team has unrestricted access to all other departments, records and systems of Contact, and to the external auditor and other third parties as it deems necessary.

AUDITORS

We recognise that the role of our external auditor is critical for the integrity of our financial reporting. KPMG is our external auditor and our audit partner is David Gates. David has been our audit partner for two financial years.

Our External Audit Independence Policy sets out the framework under which we ensure the independence of the external auditors is maintained and that their ability to carry out their statutory audit role is not impaired. Under this policy, the external auditor may not undertake any work for Contact that compromises, or is seen to compromise, the independence and objectivity of the external audit process. In addition, KPMG confirms their continuing independent status to the Board every six months.

Before KPMG undertakes any non-audit work for Contact, specific approval must be given by the Audit Committee or the Audit Committee chairman. Approval will only be given where the performance of such work does not compromise KPMG's independence.

Representatives from KPMG attend Contact's annual shareholder meeting each year, where they are available to answer any questions from shareholders in relation to the audit.

INVESTOR RELATIONS

Investor relations programme

We have designed and implemented an investor relations programme to facilitate effective two-way communication with investors. The investor relations programme provides the context in which shareholders and potential investors can make an informed judgement about the fair value of Contact's shares consistently over time.

A primary aim of our investor relations programme is to allow investors and other financial market participants to gain a greater understanding of Contact's business, governance, financial performance and prospects. It also provides an opportunity for investors and other financial market participants to express their views on matters of concern or interest to them, and for those views to then be distilled and communicated to our Board.

Investor communication and information

The investor section of our website is regularly updated. It contains brief biographies of directors, the CEO and Leadership Team; financial and operational information (including copies of annual reports and financial statements); details of previous annual shareholder meetings; key governance documents; and copies of NZX/ASX announcements. To ensure that our investors and the market are kept up-to-date, we release a regular operating report that sets out key information about Contact's performance. These reports are also available on our website.

Annual shareholder meeting

Our annual shareholder meeting is held around October each year. We hold it in a location and at a time that enables a number of shareholders to attend. There were 167 shareholders at our 2016 meeting in Auckland (117 shareholders in Wellington in 2015). A webcast of the meeting is made available on our website for those shareholders who are unable to attend. Our directors, CEO and members of our Leadership Team attend the meeting and really enjoy the opportunity to meet and talk with our shareholders.

Our notice of meeting is sent to all of our shareholders and posted on our website. Voting at our annual shareholder meeting in October 2016 was by poll (i.e. one vote per share) and we will continue this practice at our shareholder meeting in 2017.

Remuneration Report

Contact is committed to ensuring that the remuneration of Board Directors, the Chief Executive Officer (CEO), Leadership Team and all of our people at Contact is transparent, fair and reasonable.

DIRECTORS' REMUNERATION

The total directors' fee pool is \$1,500,000 per annum. It has not been increased since it was approved by shareholders in 2008. Actual fees paid to directors are determined by the Board on the recommendation of the Remuneration and Nominations Committee.

The remuneration scale for directors at 30 June 2017 is set out below. Between FY16 and FY17, the fees increased by between 2.8% and 4.3%, with no increase to the Board Chairman's fees. The overall increase was 2.2%.

	FY17	
	Chairman per annum	Member per annum
Board of Directors ¹	\$300,000	\$130,000
Audit Committee	\$60,000	\$32,500
Health, Safety and Environment Committee	\$24,500	\$12,500
Remuneration and Nominations Committee	\$24,500	\$12,500

1. No additional fees are paid to the Board Chairman for committee roles.

Directors' fees exclude GST, where appropriate. In addition, Board members are reimbursed for costs directly associated with carrying out their duties, such as travel costs.

Details of the total remuneration received by each Contact director for FY17 are as follows:

Directors	Board fees	Audit Committee	Health, Safety and Environment Committee	Remuneration and Nominations Committee	Total remuneration
Sir Ralph Norris (Chairman) ¹	\$300,000			\$0 (Chair)	\$300,000
Victoria Crone	\$130,000		\$12,500	\$12,500	\$155,000
Whaimutu Dewes	\$130,000	\$32,500	\$24,500 (Chair)		\$187,000
Rob McDonald ²	\$130,000	\$32,500	\$9,375		\$171,875
Sue Sheldon	\$130,000	\$60,000 (Chair)		\$12,500	\$202,500
Elena Trout ³	\$97,500		\$3,125		\$100,625
Total	\$917,500	\$125,000	\$49,500	\$25,000	\$1,117,000

- 1. Inclusive of committee fees.
- 2. Ceased to be a member of the Health, Safety and Environment Committee effective 1 April 2017.
- 3. Appointed to the Board on 3 October 2016 and member of the Health, Safety and Environment Committee effective 1 April 2017.

For more detailed information about our corporate governance practices see our Corporate Governance Statement at: www.contact.co.nz/AboutUs/Investor-Centre/Governance

CHIEF EXECUTIVE OFFICER REMUNERATION

The CEO's remuneration is approved by the Board on the recommendation of the Remuneration and Nominations Committee. The remuneration reflects the breadth and complexity of the role; references market remuneration data benchmarks; is linked to the achievement of performance goals; and aligns with the creation of sustainable shareholder value in the long term. The total remuneration paid includes a fixed remuneration component comprising cash salary and other employment benefits, and pay for performance remuneration comprising short-term incentives (cash and equity awarded through deferred share rights) and long-term incentives (equity awarded through share options and performance share rights).

CEO remuneration for performance periods ended 30 June 2016 and 30 June 2017

	FIXED REMUNERATION			PAY FOR PERFORMANCE REMUNERATION				TOTAL REMUNERATION
	Salary paid \$	Benefits ¹ \$	Subtotal \$	Cash STI \$	Equity STI \$	Equity LTI \$	Subtotal \$	\$
FY17	939,834	42,026	981,860	471,200 ³	157,381 ⁵	471,200 ⁷	1,099,781	2,081,641
FY16	814,223 ²	40,096	854,319	417,825 ⁴	139,554 ⁶	464,250 ⁸	1,021,629	1,875,948

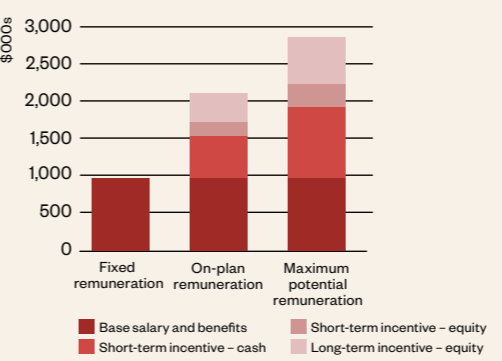
1. Benefits include 3% KiwiSaver contribution and Health Insurance.
2. Payment for partial period as appointed permanently to Contact in August 2015. Figure excludes one-off lump sum of \$200,000 for the benefits relinquished as a result of leaving Origin Energy.
3. STI for FY17 period, paid in FY18.
4. STI for FY16 period, paid in FY17.
5. Equity – based on face value allocation, performance hurdles tested 2019, if met will be paid in shares.
6. Equity – based on face value allocation, performance hurdles tested 2018, if met will be paid in shares.
7. Equity – based on face value allocation, performance hurdles tested 2020 and 2021, if met will be paid in shares.
8. Equity – based on face value allocation, performance hurdles tested 2019 and 2020, if met will be paid in shares.

Pay for performance CEO remuneration breakdown for the year ended 30 June 2017

Scheme	Description	Performance measure	Percentage awarded %
Cash STI	Cash STI is a discretionary scheme based on achievement of KPIs. <i>Maximum potential set at 100% of base salary.</i>	60% based on Corporate shared KPIs: <ul style="list-style-type: none">60% <i>Free cash flow</i>30% <i>Earnings per share</i>10% <i>Total recordable injury frequency rate</i> 40% based on individual KPIs being costs, engagement, customer advocacy and strategy	50% (payable in September 2017)
Equity STI (awarded as deferred share rights)	Equity STI allows the CEO to acquire shares at a \$0 exercise price subject to the time-bound exercise hurdle being achieved. <i>Maximum potential set at 33.4% of base salary.</i>	The CEO's performance influences the Equity STI awarded by the Board. The exercise hurdle to receive these is to remain employed by Contact 2 years from the grant date.	16.7% (to be granted 1 October 2017 and tested October 2019)
Equity LTI (awarded as options and performance share rights)	Equity LTI allows the CEO to acquire shares at the specified exercise price subject to the exercise hurdle being achieved. <i>Maximum potential set at 66.6% of base salary.</i>	The CEO's performance influences the Equity LTI awarded by the Board. The exercise hurdle to receive these is Contact's relative total shareholder return (TSR) ranking within a peer group of other New Zealand NZX50 listed utilities companies. Tested twice over a 4 year period at year 3 and year 4. 50% vesting at 50th percentile and 100% at 75th percentile; pro-rata vesting in between.	50% (to be granted 1 October 2017 and tested October 2020 and 2021)

The scenario chart below demonstrates the elements of the CEO remuneration design for the year ended 30 June 2017.

CEO remuneration

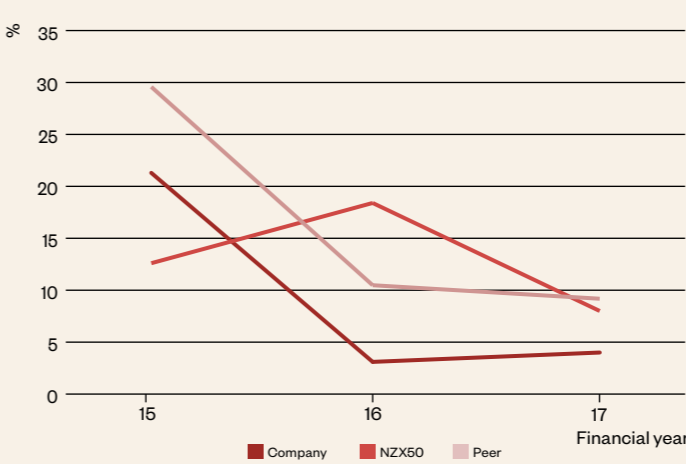


Five year CEO remuneration summary

	Total remuneration paid ¹ \$	Percentage Cash STI awarded against maximum %	Percentage vested Equity STI against maximum %	Span of Equity STI performance period	Percentage vested Equity LTI against maximum %	Span of Equity LTI performance period
FY17	2,081,641	50%	0 %	n/a	0 %	n/a
FY16	1,875,948	45%	100% ²	2014-2016	100%	2010-2013 2011-2014 2012-2015 2013-2016 2014-2017
FY15	1,210,145 ³	35%	0%	n/a	0%	n/a
FY14	1,463,316 ³	69%	0%	n/a	0%	n/a
FY13	1,582,924 ³	72%	0%	n/a	0%	n/a

1. Total remuneration paid includes salary, benefits, Cash STI, and Equity STI and LTI face values which have been allocated but awards are subject to achievement of performance hurdles.
2. 100% of Equity STI and LTI vested in August 2015 as a result of Origin selling its shareholding in Contact triggering vesting of equity due to the change of control.
3. Dennis Barnes was seconded to the role of CEO by his employer Origin Energy Limited from April 2011 until August 2015. During the term of the secondment remuneration paid by Contact to Dennis Barnes was processed by Contact reimbursing Origin Energy for his costs. The figures provided confirm his base salary level and Cash STI for the periods.

Three year summary TSR performance



EMPLOYEE REMUNERATION

There are three components to employee remuneration – fixed remuneration, pay for performance remuneration and other benefits. These are designed to attract, reward and retain high performing employees.

Fixed remuneration

Fixed remuneration is determined based on the role responsibilities, individual performance and experience, and available market remuneration data. Contact targets fixed remuneration at the median of the market range.

Pay for performance remuneration

Pay for performance remuneration recognises and rewards high performing employees and comprises short-term incentives (cash and deferred share rights), and long-term incentives (options and performance share rights).

Short-term incentives (STIs)

STIs are designed to differentiate and reward high performance with cash incentives for eligible employees, and deferred share rights through Contact’s equity scheme for some higher level roles. The STIs are based on employee performance measured against key performance indicators (KPIs), which generally comprise company, business unit and individual objectives. The Board reserves the right to adjust STI awards if company targets are not met.

Long-term incentives (LTIs)

Contact provides awards of options and performance share rights through Contact’s equity scheme to senior and key talent employees. This aims to encourage and reward longer-term decision making and align participants’ interests with those of Contact’s shareholders. These are subject to performance hurdles.

Equity scheme

At 30 June 2017 there were 100 participants in Contact’s equity scheme. For further details on the equity scheme and the number of options, performance share rights and deferred share rights granted, exercised, lapsed and on issue at the end of the reporting period, see note E9 to the financial statements.

Other benefits

Contact also offers a range of benefits. These have varying eligibility criteria and include the following: discounts for home energy, including electricity, natural gas and LPG; employer subsidised health insurance; an employee share ownership plan ‘Contact Share’ (details of Contact Share can be found on page 78); and additional benefits and offers from retailers and services providers.

The table below shows the number of employees and former employees of Contact who received remuneration and other benefits during FY17 of at least \$100,000 for the year ending 30 June 2017.

The value of remuneration benefits analysed includes:

- fixed remuneration including allowance/overtime payments
- employer superannuation contributions
- short-term cash incentives relating to FY16 performance but paid in FY17
- the value of equity-based incentives expensed during FY17
- the value of Contact Share expensed during FY17
- redundancy and other payments made on termination of employment.

The figures do not include amounts paid post 30 June 2017 that relate to the year ended 30 June 2017. The remuneration (and any other benefits) of the CEO, Dennis Barnes, is disclosed in the CEO remuneration section on pages48 and 49.

Remuneration band	Number of employees
\$100,001 – \$110,000	45
\$110,001 – \$120,000	54
\$120,001 – \$130,000	33
\$130,001 – \$140,000	51
\$140,001 – \$150,000	65
\$150,001 – \$160,000	32
\$160,001 – \$170,000	27
\$170,001 – \$180,000	17
\$180,001 – \$190,000	14
\$190,001 – \$200,000	20
\$200,001 – \$210,000	6
\$210,001 – \$220,000	6
\$220,001 – \$230,000	5
\$230,001 – \$240,000	2
\$240,001 – \$250,000	2
\$250,001 – \$260,000	5
\$260,001 – \$270,000	5
\$270,001 – \$280,000	3
\$280,001 – \$290,000	3
\$290,001 – \$300,000	2
\$300,001 – \$310,000	2
\$310,001 – \$320,000	4
\$320,001 – \$330,000	3
\$330,001 – \$340,000	2
\$340,001 – \$350,000	1
\$360,001 – \$370,000	1
\$370,001 – \$380,000	2
\$410,001 – \$420,000	2
\$440,001 – \$450,000	1
\$480,001 – \$490,000	1
\$490,001 – \$500,000	1
\$530,001 – \$540,000	2
\$630,001 – \$640,000	1
\$750,001 – \$760,000	1
\$840,001 – \$850,000	1
\$1,360,001 – \$1,370,000	1
Total	423¹

1. Includes 45 former employees.

Statutory Disclosures

DISCLOSURES OF INTERESTS BY DIRECTORS

The following are particulars of general disclosures of interest by directors holding office as at 30 June 2017, pursuant to section 140(2) of the Companies Act 1993. Each such director will be regarded as interested in all transactions between Contact and the disclosed entity.

Sir Ralph Norris		
Advisory Board Tax Management NZ		Director
Advisory Board SouthPark Corporation		Director
Auckland Grammar School Foundation Trust		Trustee
Fletcher Building Limited		Chairman
RANQX Holdings Limited		Director
The Parenting Place Board		Member
The Treasury Board		Director
University of Auckland		Council Member
Victoria Crone		
Callaghan Innovation		Chief Executive Officer
Figure.NZ		Chair
Whaimutu Dewes		
Aotearoa Fisheries Limited		Chairman
Kura Limited		Chairman
Ngati Porou Berries Limited		Director
Ngati Porou Fisheries Limited		Chairman
Ngati Porou Forests Limited		Chairman
Ngati Porou Holding Company Limited		Director
Ngati Porou Seafoods Limited		Director
Ngati Porou Whanui Forests Limited		Chairman
Pupuri Taonga Limited		Director
Real Fresh Limited		Director
Sealord Group Limited		Chairman
The Treasury Board		Director
Whainiho Developments Limited		Managing director/shareholder
Rob McDonald		
Air New Zealand Limited		Chief Financial Officer
Various Air New Zealand subsidiaries		Director
Pratt & Whitney Air New Zealand Services T/A Christchurch Engine Centre		Director
McDonald Family Trust		Trustee
Sue Sheldon		
Freightways Limited		Chairman
Real Journeys Limited		Director
NZ Global Women		Director
FibreTech New Zealand Limited		Chairman
Christchurch City Council		Independent Chair of Audit and Risk Management Committee
Auckland Council		Independent Chair of Audit and Risk Committee
Sue Sheldon Advisory Limited		Director
Elena Trout		
Defence Capability Management Board		External Advisory Member
Energy Efficiency and Conservation Authority (EECA)		Director
Harrison Grierson Holdings Limited		Director
Institution of Professional Engineers of New Zealand		Immediate Past-President
Low Emission Vehicles Fund (a fund from EECA budget)		Chair
Marsden Maritime Holdings Limited		Director
Motiti Investments Limited		Director
Unitec Institute of Technology		Council Member

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

INFORMATION USED BY DIRECTORS

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

INDEMNITY AND INSURANCE

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

DIRECTORS' SECURITY PARTICIPATION

Directors are required to hold a minimum of 20,000 shares within three years of appointment.

Securities of the company in which each director has a relevant interest at 30 June 2017

Director	Ordinary shares	Bonds
Sir Ralph Norris	20,000	
Whaimutu Dewes	20,011	
Rob McDonald	30,000	35,000
Sue Sheldon	21,803	

Securities dealings of directors

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

Director	Date of allotment	Consideration per bond	Number of bonds allotted	Nature of relevant interest
Rob McDonald	23/02/17	\$1.00	35,000	Beneficial

Subsidiary company directors

The following people held office as directors of Rockgas Limited during the year ended 30 June 2017. No director of Rockgas received additional remuneration or benefits in respect of their directorships.

Company	Directors
Rockgas Limited	Dennis Barnes
	Graham Cockcroft
	Jacqui Nelson

SHAREHOLDER STATISTICS

Twenty largest shareholders at 30 June 2017

	Number of ordinary shares	% of ordinary shares
HSBC Nominees (New Zealand) Limited – NZCSD ¹	78,350,589	10.95
JP Morgan Chase Bank – NZCSD ¹	71,075,009	9.93
HSBC Nominees (New Zealand) Limited – NZCSD ¹	57,740,036	8.07
Citibank Nominees (NZ) Limited – NZCSD ¹	46,923,090	6.56
Accident Compensation Corporation – NZCSD ¹	33,625,769	4.70
National Nominees New Zealand Limited – NZCSD ¹	23,002,609	3.22
HSBC Custody Nominees (Australia) Limited	21,740,544	3.04
FNZ Custodians Limited	20,985,449	2.93
J P Morgan Nominees Australia Limited	19,350,309	2.70
Cogent Nominees Limited – NZCSD ¹	19,326,385	2.70
New Zealand Superannuation Fund Nominees Limited – NZCSD ¹	14,557,197	2.03
Guardian Nominees Limited No.2 Ltd – NZCSD ¹	14,138,931	1.98
BNP Paribas Nominees NZ Limited – NZCSD ¹	12,126,321	1.69
Premier Nominees Limited – NZCSD ¹	10,059,005	1.41
Tea Custodians Limited – NZCSD ¹	9,810,908	1.37
Custodial Services Limited	9,592,190	1.34
JB Were (NZ) Nominees Limited	8,297,382	1.16
Private Nominees Limited – NZCSD ¹	6,557,913	0.92
Investment Custodial Services Limited	6,211,609	0.87
Citicorp Nominees Pty Limited	5,888,631	0.82
Total for top 20	489,359,876	68.39

1. New Zealand Central Securities Depository Limited (NZCSD) is a depository system which allows electronic trading of securities to members. As at 30 June 2017 total holdings in NZCSD were 419,429,120 or 58.62% of shares on issue.

Distribution of ordinary shares and shareholders at 30 June 2017

Size of holding	Number of shareholders	% of shareholders	Number of ordinary shares	% of ordinary shares
1 – 1,000	30,118	45.23	19,728,241	2.76
1,001 – 5,000	30,950	46.48	55,225,100	7.72
5,001 – 10,000	3,355	5.04	23,707,939	3.31
10,001 – 50,000	1,954	2.93	36,301,744	5.07
50,001 – 100,000	126	0.19	8,613,144	1.20
100,001 and over	89	0.13	571,949,588	79.94
Total	66,592	100.00	715,525,756	100.00

Substantial product holders

According to notices given under the Financial Markets Conduct Act 2013, the following persons were substantial product holders of the company as at 30 June 2017:

Substantial product holder	Number of ordinary shares in which relevant interest is held	Date of notice
AustralianSuper Pty Ltd	37,327,277	1 October 2015

The total number of voting securities of Contact at 30 June 2017 was 715,525,756 fully paid ordinary shares.

BONDHOLDER STATISTICS

Retail fixed rate bonds (CEN020) at 30 June 2017

Size of holding	Number of bondholders	% of bondholders	Number of bonds	% of bonds
1,001 – 5,000	200	8.14	998,334	0.45
5,001 – 10,000	520	21.16	4,994,500	2.25
10,001 – 50,000	1,408	57.31	39,924,700	17.99
50,001 – 100,000	204	8.30	17,257,000	7.77
100,001 and over	125	5.09	158,825,466	71.54
Total	2,457	100.00	222,000,000	100.00

Retail fixed rate bonds (CEN030) at 30 June 2017

Size of holding	Number of bondholders	% of bondholders	Number of bonds	% of bonds
1,001 – 5,000	61	7.17	305,000	0.20
5,001 – 10,000	148	17.39	1,401,000	0.94
10,001 – 50,000	451	53.00	12,876,000	8.58
50,001 – 100,000	95	11.16	7,736,000	5.16
100,001 and over	96	11.28	127,682,000	85.12
Total	851	100.00	150,000,000	100.00

Retail fixed rate bonds (CEN040) at 30 June 2017

Size of holding	Number of bondholders	% of bondholders	Number of bonds	% of bonds
1 – 1,000	1	0.28	1,000	0.00
1,001 – 5,000	38	10.83	190,000	0.19
5,001 – 10,000	79	22.50	761,000	0.76
10,001 – 50,000	181	51.57	4,833,000	4.83
50,001 – 100,000	22	6.27	1,705,000	1.71
100,001 and over	30	8.55	92,510,000	92.51
Total	351	100.00	100,000,000	100.00

NZX WAIVER

On 10 February 2017 NZX Regulation granted Contact a waiver from NZX Debt Market Listing Rule 5.2.3 (for a period of six months from 23 February 2017) in respect of Contact’s February 2017 issue of \$100 million of unsecured, unsubordinated, fixed rate debt securities (‘CEN040 Bonds’). NZDX Listing Rule 5.2.3 provides that a class of securities will generally not be considered for quotation unless those securities are held by at least 100 members of the public, holding at least 25% of the number of securities in the class issued, with each member holding at least a minimum holding. The effect of the waiver from NZDX Listing Rule 5.2.3 is that the CEN040 Bonds may not be widely held and there may be reduced liquidity in the CEN040 Bonds.

STOCK EXCHANGE LISTINGS

Contact’s ordinary shares are listed and quoted on the New Zealand Stock Market (NZSX) and the Australian Securities Exchange (ASX) under the company code ‘CEN’. Contact has three issues of retail bonds listed and quoted on the New Zealand Debt Market (NZDX) under the company codes ‘CEN020’ (2014 series), ‘CEN030’ (2015 series) and ‘CEN040’ (2017 series). Contact’s listing on the ASX is as a Foreign Exempt Listing. For the purposes of ASX listing rule 1.15.3, Contact confirms that it continues to comply with the NZX listing rules.

EXERCISE OF NZX DISCIPLINARY POWERS

NZX did not exercise any of its powers under Listing Rule 5.4.2 in relation to Contact during FY17.

AUDITOR FEES

KPMG has continued to act as auditors of the company. The amount payable by Contact and its subsidiaries to KPMG as audit fees in respect of FY17 was \$480,000 and \$2,150 for scrutineering at the annual meeting. There was no non-audit work undertaken by KPMG during the year.

DONATIONS

In accordance with section 211(1)(h) of the Companies Act 1993, Contact records that it donated \$32,238 in FY17. Donations are made on the basis that the recipient is not obliged to provide any service such as promoting Contact’s brand and are separate from Contact’s sponsorship activity. No political contributions were made during the year.

CREDIT RATING

Contact Energy Limited has a Standard & Poor’s long-term credit rating of BBB/stable and short-term rating of A-2. The \$222 million unsubordinated, unsecured fixed rate bonds issued in March 2014 are rated BBB by Standard & Poor’s. The \$150 million unsubordinated, unsecured fixed rate bonds issued in September 2015 are rated BBB by Standard & Poor’s. The \$100 million unsubordinated, unsecured fixed rate bonds issued in February 2017 are rated BBB by Standard & Poor’s.

Sustainability Reporting

1. Our stakeholders

Contact’s stakeholder groups have been identified as the major groups who are impacted by our operations, or who have a stake in how we run. There is regular ongoing dialogue with our stakeholders and we also have a Stakeholder Council, with whom we meet once a year. Our key stakeholder groups, their issues and our responses are outlined in the following table.

Stakeholders	How they talk to us	Key issues	Contact’s response
Customers	<ul style="list-style-type: none">Through our contact centres, email, phone, website, social media and postSurveys and market researchConversations with employees	<ul style="list-style-type: none">Choice, certainty and controlCustomer serviceCompetitive pricingValue for money	Our approach to these issues is outlined on pages 23 to 25.
Investors	<ul style="list-style-type: none">Investor meetingsAGMEmail, phone, website, social media and post enquiriesContact with our registry	<ul style="list-style-type: none">Earnings growthEfficient capital managementDelivering a strong dividend	Our approach to these issues is outlined on pages 28 and 29.
Employees	<ul style="list-style-type: none">Email, meetings, conversations and intranetSurveys such as our annual engagement survey, and regular PING surveys	<ul style="list-style-type: none">Delivering on our promisesBeing valued, respected and safeTraining and development opportunities	Our approach to these issues is outlined on pages 30 to 35.
Partners and suppliers	<ul style="list-style-type: none">Emails, meetings, phone calls and conversations	<ul style="list-style-type: none">Maintaining positive relationships with ContactUnderstanding our needs as a customer	Each business unit manages its external supplier relationships, supported by our team of procurement specialists. We work hard to build enduring relationships with our suppliers and take an honest approach to communication.
Local communities	<ul style="list-style-type: none">Local meetings and huiLetters, emails, social media and phone callsConsultation relating to consentsConversations with our people	<ul style="list-style-type: none">Early, open and clear communicationTo be a good neighbour, and to be accountableBuilding relationships based on trust	Our approach to these issues is outlined on pages 41 and 42.
Tangata whenua (iwi and hapu)	<ul style="list-style-type: none">HuiLetters, emails and phone callsRelationship meetings/conversationsConsultation relating to consents	<ul style="list-style-type: none">Resource management, stewardship and ownershipTreaty of WaitangiSustainability of resourcesRights and relationships recognised	Our approach to these issues is outlined on page 42.
Government, regulatory and political	<ul style="list-style-type: none">Letters, emails and phone callsMeetingsConsultation processesStakeholder sessions	<ul style="list-style-type: none">Competitive retail marketEfficiently operating marketSecure supply of electricity at a reasonable priceAssisting delivering on New Zealand’s energy targetsFreshwater reform and NZETS	Our approach to these issues is outlined on pages 6 to 7, and 23 to 42.

The sustainability aspects reported in this Annual Report cover the operations of Contact Energy Limited and its subsidiaries within New Zealand for the period 1 July 2016 – 30 June 2017. Contact does not have a policy on the assurance of non-financial or sustainability data.

2. Memberships of associations or advocacy organisations

Holds a position on the governance body	Participates in projects or committees
Utilities Disputes Limited	Retailers Working Group Forum
Electricity Retailers' Association of New Zealand	BusinessNZ Energy Council
Gas Industry Company	The Sustainable Business Council
Liquefied Petroleum Gas Association	Land and Water Forum
	Corporate Taxpayers Group

3. Contact's direct (Scope 1) emissions

This table reports on greenhouse gas emissions (tCO₂e) directly emitted through our operations on an operational control basis, and includes emissions from our power stations, vehicles and use of SF₆. This table includes all gases as per the most recent Intergovernmental Panel on Climate Change (IPCC) report. This year we have updated the emissions factors used in our calculations to align with our ETS reporting¹. As a result our emissions data for 2012 and 2016 have been restated. While Contact aims to reduce our emissions year on year, we do not have set targets for emissions reductions.

	Emissions (tCO ₂ e)			Thermal generation emission intensity (tCO ₂ e per MWh)			Total generation emission intensity (tCO ₂ e per MWh)		
	FY17	FY16	FY12 ²	FY17	FY16	FY12	FY17	FY16	FY12
Fuel used for generation	1,141,534	1,110,788	2,425,978	0.509	0.501	0.460	0.134	0.123	0.244
Fuel used in vehicles	911	809							
Fugitive emissions – SF ₆ ³	2	654							
Total	1,142,447	1,112,251	2,425,978						

1. Previous reports have used emissions factors from the Ministry for the Environment (2015) Guidance for Voluntary Corporate Greenhouse Gas Report, and ETS for geothermal.
2. Vehicle emissions were not recorded in FY12.
3. SF₆ is used to insulate high voltage switchgear. The gas is vacuum sealed inside the switchgear and the pressure levels inside are monitored so that leaks can be detected and rectified.

4. Workforce by gender and employment type as at 30 June 2017

FY17	Total Headcount	Female	Male	Fixed term	Permanent	Permanent part-time	Permanent full-time
Officers ¹	6	2	4	–	6	–	6
Corporate	137	75	62	6	131	12	119
Customer	563	314	249	75	488	65	433
Generation	320	55	265	8	312	14	298
Total	1,026	446	580	89	937	81	856

FY16	Total Headcount	Female	Male	Fixed term	Permanent	Permanent part-time	Permanent full-time
Officers	8	3	5	–	8	–	8
Corporate	168	96	72	10	158	13	145
Customer	526	307	219	60	466	52	414
Generation	336	55	281	20	316	12	304
Total	1,038	461	577	90	948	77	871

1. "Officers" means the CEO and members of Contact's Leadership Team.

5. Contact Green Borrowing Programme

In line with our commitment to a low carbon economy Contact has created a green borrowing programme ('Green Borrowing Programme') to finance Contact's past and future renewable energy generation initiatives. This is a progressive approach to financing and provides investors and lenders with an opportunity to access a broad range of certified green debt instruments where proceeds are applied to eligible green assets.

The Green Borrowing Programme is described in Contact's Green Borrowing Programme Framework ('Framework'), which has been developed in alignment with the Green Bond Principles and also certified by the Climate Bonds Initiative (CBI) under Climate Bonds Standard V2.1 with assurance from EY. The Framework, CBI Certification and EY's assurance report are available on contact.co.nz. The Framework articulates which of Contact's debt instruments and assets qualify as green, and provides for a comprehensive compliance and disclosure regime to ensure the Climate Bonds Standard V2.1 is always met, in turn ensuring that the existing CBI certification remains in place. A key compliance indicator is the 'Green Ratio' whereby the total Green Asset value must be at least equal to total Green Debt Instruments (i.e. a ratio of 1.0 minimum). This indicator is to be reported on a half yearly basis.

The following table sets out the total Green Asset value and total Green Debt Instruments for the current reporting period, and confirms that the Green Ratio is met at 1.03. Contact confirms to the best of its knowledge that its Green Borrowing Programme therefore is in compliance with the certification requirements of the Climate Bonds Standard V2.1.

Geothermal assets data for FY17	Book value \$m	Generation (GWh)	Emissions (tCO ₂ e)	Emissions intensity (gCO ₂ e/KWh)	Compliance with CBI standards (<100 gCO ₂ e/KWh)
Poihipi ¹	168	403	15,277	38	Yes
Tauhara ¹	95	–	–	–	Yes
Te Mihi ¹	561	1,184	50,111	42	Yes
Te Huka ¹	115	189	7,029	37	Yes
Wairakei ¹	931	1,121	26,834	24	Yes
Tenon ¹	5	106	1,283	12	Yes
Ohaaki	118	336	154,093	459	No
Geothermal portfolio total/average	1,993	3,339	254,627	76	Yes
Eligible Green Asset total/average	1,875	3,003	100,534	33	Yes
Total Green Debt Instruments	1,819				
Green Asset Ratio	1.03				Yes

1. Eligible Green Asset in relation to Contact's Green Borrowing Programme.

6. Employee diversity

FY17	Gender		Age				Ethnicity ¹						
	Female	Male	<30	30 – 49	50 – 59	60+	European	Other inc. NZer	Maori	Asian	Pasifika	AMELA ²	Undisclosed
Officers	33%	67%	0%	60%	40%	0%	67%	50%	0%	0%	17%	0%	0%
Corporate	55%	45%	10%	66%	20%	4%	38%	34%	7%	9%	1%	1%	25%
Customer	56%	44%	30%	43%	19%	8%	38%	25%	7%	6%	3%	1%	34%
Generation	17%	83%	9%	41%	35%	15%	40%	35%	3%	6%	0%	1%	24%
Total	43%	57%	21%	46%	24%	9%	39%	29%	6%	6%	2%	1%	29%

FY16	Gender		Age				Ethnicity ¹						
	Female	Male	<30	30 – 49	50 – 59	60+	European	Other inc. NZer	Maori	Asian	Pasifika	AMELA ²	Undisclosed
Officers	38%	62%	0%	50%	37%	13%	75%	50%	0%	0%	13%	0%	0%
Corporate	57%	43%	5%	69%	18%	8%	40%	38%	7%	7%	1%	1%	25%
Customer	58%	42%	26%	46%	18%	10%	34%	24%	6%	5%	3%	1%	37%
Generation	16%	84%	8%	45%	32%	15%	41%	35%	4%	7%	0%	1%	23%
Total	44%	56%	17%	49%	23%	11%	38%	30%	5%	5%	2%	1%	30%

1. Employees can indicate more than one ethnic group; therefore percentages do not equal 100%.
2. AMELA: African, Middle Eastern, or Latin American.

7. Board diversity as at 30 June 2017

	FY17			FY16		
	Male	Female	Total	Male	Female	Total
Board of Directors	3	3	6	3	2	5
	50%	50%	100%	60%	40%	100%

	FY17			FY16		
	NZ European /Pakeha	Maori	Total	NZ European /Pakeha	Maori	Total
Board of Directors	4	2	6	3	2	5
	67%	33%	100%	60%	40%	100%

8. Employee absentee rate¹

	FY17			FY16		
	Females	Males	All employees	Females	Males	All employees
Total scheduled days	109,749	148,130	257,878	113,365	148,489	261,854
Total absence days	4,652	2,868	7,520	4,335	3,052	7,387
Lost days as a percentage	4%	2%	3%	4%	2%	3%

1. Measures days lost as a percentage of total scheduled work days for employees.

9. Safety data

	FY17	FY16
Fatalities	–	–
Occupational Disease Rate – Controlled ¹	–	–
Lost Time Injury Frequency Rate – Controlled ²	3.2	1.5
Lost Time Injury Frequency Rate – Monitored ²	12.7	5

1. Measures occupational disease as a rate of hours worked for employees and contractors working under our HSE management systems.
2. Measures the number of lost time injuries occurring in a workplace per 1 million man-hours worked for employees and contractors.

GRI Content Index

General standard disclosures

Disclosure	Description	Page number
Strategy and analysis		
G4-1	Statement from the most senior decision maker	CEO Review, page 7
Organisational profile		
G4-3	Name of the organisation	Contact Energy Limited
G4-4	Brands, products, and/or services	Our business p.16-17
G4-5	Headquarters location	Contact at a glance p.14
G4-6	Countries in operation	Contact operates only in New Zealand
G4-7	Nature of ownership	Listed New Zealand Limited Liability Company
G4-8	Markets served	Contact at a glance p.14
G4-9	Scale of the organisation	Total employees p.56, contractor workforce data not available. Number of operations p.15 Net revenue p.66 GWh sold p.15
G4-10	Employee statistics	Sustainability reporting p.56
G4-11	Employees covered by collective bargaining agreements	11% of total Contact Employees were covered by collective bargaining agreements as at 30 June 2016. Contractor data not collected.
G4-12	Organisation’s supply chain	Our business pp.16-17
G4-13	Significant changes regarding size, structure, or ownership	No significant changes occurred in FY17
G4-14	Precautionary approach	Not specifically addressed. Potentially adverse environmental impacts are addressed through adaptive management including official (often publicly notified) resource consent assessments
G4-15	External charters, principles, or other initiatives	None noted
G4-16	Memberships in associations and advocacy organisations	Sustainability reporting p.56
G4-EU1	Installed capacity	Contact at a glance p.15
G4-EU2	Net energy output broken down by primary energy source and by region	Contact at a glance p.15
G4-EU3	Number of customer accounts	Sustainability reporting p.15
G4-EU4	Length of transmission and distribution lines by region	Not applicable
G4-EU5	Allocation of CO ₂ emissions permits	Zero allocations
Identified material aspects and boundaries		
G4-17	Entities included in the organisation’s consolidated financial statements	Sustainability reporting p.55
G4-18	Process for defining the report content	Living our Tikanga p.20
G4-19	Material aspects identified	Living our Tikanga p.21
G4-20	Aspect boundaries within the organisation	The boundaries of most material topics is within Contact Energy, apart from occupational health and safety where there are impacts created by companies in our supply chain as well as ourselves.
G4-21	Aspect boundaries outside the organisation	
G4-22	Restatements of information	FY16 and FY12 emissions data p.56
G4-23	Significant changes in the scope, and aspect boundaries compared to previous years	No significant changes
Stakeholder engagement		
G4-24	Stakeholder groups	Living our Tikanga p.20
G4-25	Stakeholder identification and selection	Sustainability reporting p.55
G4-26	Approaches to stakeholder engagement	Sustainability reporting p.55
G4-27	Key topics and concerns raised by stakeholders	Living our Tikanga p.20

Financial Statements

Disclosure	Description	Page number
Report profile		
G4-28	Reporting period	Financial year
G4-29	Date of most recent previous report	The previous report was dated 15 August 2016
G4-30	Reporting cycle	Annual
G4-31	Contact point for questions	Corporate Directory p.83
G4-32	Chosen 'In accordance' option, GRI index	This report has been developed in accordance with the core GRI-G4 guidelines. GRI Index pp.59-60
G4-33	External assurance for the report	Annual Report 2017 was not assured by an external assurer.
Governance		
G4-34	Governance structure	Governance, pp.44-45
Ethics and integrity		
G4-56	Organisation's values, principles, standards and norms of behaviour, and codes of ethics	Contact at a Glance p.11

Specific standard disclosures

Material Aspect	Description	Page	Omissions and explanations
Category: Economic			
DMA	Economic performance	pp.28-29, p.37	
G4-EC2	Financial implications of climate change	p.37	
DMA	Availability and Reliability (Sector specific)	pp.26-27	
EU10	Planned capacity against projected electricity demand	p.15, pp.26-27	
Category: Environmental			
DMA	Water	p.39	
G4-EN8	Total water withdrawal by source	p.39	
DMA	Biodiversity	p.40	
G4-EN13	Habitats protected or restored	p.40	
DMA	Emissions	pp.37-38	
G4-EN15	Direct (Scope 1) Greenhouse gas emissions	p.56	
Category: Social			
DMA	Occupational Health and Safety	pp.34-35	
G4-LA6	Workplace injuries	pp.34-35, p.58	Contractor data not available for Absentee Rate, Occupational Disease rate and fatalities
DMA	Diversity and Equal Opportunity	p.33	
G4-LA12	Gender and ethnic diversity	p.33, pp.56-58	
DMA	Equal remuneration for women and men	p.33	
G4-LA13	Gender pay ratio	p.33	
DMA	Local Communities	pp.41-42	
G4-SO1	Community engagement and development	p.60	We have community engagement plans for 23% of our sites by region.
DMA	Product and Service Labelling	pp.23-25	
G4-PR5	Customer satisfaction	p.25	
DMA	Access (Sector specific) – socio-economic	pp.24-25	
Own measure	Reduction of customer debt expressed as a percentage	p.60	There was a 43% reduction in the average debt levels owed by residential and business customers in FY17.

62

About these Financial Statements

63

Statement of Comprehensive Income

63

Statement of Cash Flows

64

Statement of Financial Position

65

Statement of Changes in Equity

66

Notes to the Financial Statements

66 A. OUR PERFORMANCE

66 A1. Segments

66 A2. Earnings

67 A3. Free cash flow

68 B. OUR FUNDING

68 B1. Capital structure

68 B2. Share capital

68 B3. Distributions

69 B4. Borrowings

69 B5. Net interest expense

70 C. OUR ASSETS

70 C1. Property plant & equipment and intangible assets

72 C2. Goodwill and asset impairment testing

73 D. OUR FINANCIAL RISKS

73 D1. Market risk

74 D2. Liquidity risk

74 D3. Credit risk

75 E. OTHER DISCLOSURES

75 E1. Tax

75 E2. Operating expenditure

75 E3. Inventory

75 E4. Trade and other receivables

76 E5. Provisions

76 E6. Profit/(loss) to operating cash flows

76 E7. Financial instruments at fair value

77 E8. Financial instruments at amortised cost

78 E9. Share-based compensation

79 E10. Related parties

79 E11. New accounting standards

80

Independent Auditor's Report

About these Financial Statements

FOR THE YEAR ENDED 30 JUNE 2017

These financial statements are for Contact, a group made up of Contact Energy Limited and the entities over which it has control or joint control.

Contact Energy Limited is registered in New Zealand under the Companies Act 1993. It is listed on the New Zealand Stock Exchange (NZX) and the Australian Securities Exchange (ASX) and has bonds listed on the NZX debt market. Contact is an FMC reporting entity under the Financial Markets Conduct Act 2013.

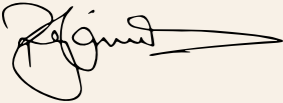
Contact's financial statements are prepared:

- in accordance with New Zealand generally accepted accounting practice (GAAP) and comply with New Zealand equivalents to International Financial Reporting Standards (IFRS) and IFRS as appropriate for profit-oriented entities
- in millions of New Zealand dollars (NZD) unless otherwise noted
- on an historical cost basis except for debt and derivatives held at fair value, and assets held for sale reported at fair value less costs to sell
- using the same accounting policies for all reporting periods presented with no changes in those policies from previous periods.

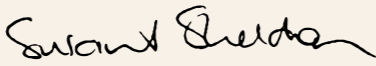
Estimates and judgements are made in applying Contact's accounting policies. Areas that involve a higher level of estimation or judgement are:

- useful lives of property, plant and equipment and intangible assets (note C1)
- impairment testing of cash-generating units (CGUs) and future development capital work in progress (note C2)
- net realisable value of inventory gas and classification between current and non-current (note E3)
- unbilled retail electricity and gas revenue and provision for impairment of receivables (note E4)
- provision for future restoration and rehabilitation obligations (note E5)
- fair value measurement of financial instruments (notes D1 and E7).

The financial statements were authorised on behalf of Contact's Board of Directors on 11 August 2017.



Sir Ralph Norris
Chairman



Sue Sheldon
Director

Statement of Comprehensive Income

FOR THE YEAR ENDED 30 JUNE 2017

\$m	Note	2017	2016
Revenue and other income	A2	2,080	2,163
Operating expenses	A2	(1,586)	(1,640)
Significant items	A2	11	(327)
Depreciation and amortisation	C1	(204)	(201)
Net interest expense	B5	(92)	(101)
Profit/(loss) before tax		209	(106)
Tax (expense)/credit	E1	(59)	40
Profit/(loss)		150	(66)
Items that may be reclassified to profit/(loss):			
Change in cash flow hedge reserve		(21)	5
Deferred tax relating to cash flow hedges	E1	6	(3)
Other comprehensive income	D1	(15)	2
Comprehensive income/(loss)		135	(64)
Profit/(loss) per share (cents)	B3	21.0	(9.1)

Statement of Cash Flows

FOR THE YEAR ENDED 30 JUNE 2017

\$m	Note	2017	2016
Receipts from customers		2,074	2,172
Payments to suppliers and employees		(1,535)	(1,620)
Tax (paid)/received		(37)	1
Liquidated damages received		–	2
Dividends received		–	1
Operating cash flows	E6	502	556
Purchase of assets		(118)	(122)
Proceeds from sale of assets		9	27
Interest received		1	1
Investing cash flows		(108)	(94)
Dividends paid	B3	(186)	(189)
Share buyback	B2	–	(100)
Proceeds from borrowings		115	360
Repayment of borrowings		(221)	(431)
Interest paid		(87)	(94)
Gas sale and repurchase arrangement		(14)	(7)
Financing cash flows		(393)	(461)
Net cash flow		1	1
Add: cash at the beginning of the year		5	4
Cash at the end of the year	B4	6	5

Statement of Financial Position

AT 30 JUNE 2017

\$m	Note	2017	2016
Cash and cash equivalents	B4	6	5
Trade and other receivables	E4	190	201
Inventories	E3	46	58
Intangible assets	C1	11	15
Derivative financial instruments	D1	8	22
Assets held for sale		-	1
Total current assets		261	302
Inventories	E3	24	46
Property, plant and equipment	C1	4,592	4,699
Intangible assets	C1	321	318
Goodwill	C2	182	182
Derivative financial instruments	D1	38	88
Other non-current assets		11	17
Total non-current assets		5,168	5,350
Total assets		5,429	5,652
Trade and other payables		202	223
Tax payable		4	-
Borrowings	B4	386	305
Derivative financial instruments	D1	50	24
Provisions	E5	14	10
Total current liabilities		656	562
Borrowings	B4	1,141	1,391
Derivative financial instruments	D1	52	82
Provisions	E5	50	44
Deferred tax	E1	748	736
Other non-current liabilities		7	14
Total non-current liabilities		1,998	2,267
Total liabilities		2,654	2,829
Net assets		2,775	2,823
Share capital	B2	1,515	1,515
Retained earnings		1,260	1,294
Cash flow hedge reserve	E7	(8)	7
Share-based compensation reserve		8	7
Shareholders' equity		2,775	2,823

Statement of Changes in Equity

FOR THE YEAR ENDED 30 JUNE 2017

\$m	Note	Share capital	Retained earnings	Other reserves	Shareholders' equity
Balance at 1 July 2015		1,605	1,546	20	3,171
Loss		-	(66)	-	(66)
Change in cash flow hedge reserve (net of tax)		-	-	2	2
Lapsed share scheme awards		-	3	(3)	-
Change in share capital	B2	(90)	-	(10)	(100)
Share-based compensation expense	E9	-	-	5	5
Dividends paid	B3	-	(189)	-	(189)
Balance at 30 June 2016		1,515	1,294	14	2,823
Profit		-	150	-	150
Change in cash flow hedge reserve (net of tax)		-	-	(15)	(15)
Lapsed share scheme awards		-	2	(2)	-
Share-based compensation expense	E9	-	-	3	3
Dividends paid	B3	-	(186)	-	(186)
Balance at 30 June 2017		1,515	1,260	-	2,775

A. Our Performance

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

A1. SEGMENTS

Contact's operating segments were changed during the year to the Generation segment and the Customer segment in order to better reflect how the business is managed. All comparative information has been restated accordingly.

The Generation segment includes revenue from the sale of electricity to the wholesale electricity market and to the Customer segment, less the cost to generate and/or purchase the electricity sold.

The Customer segment includes revenue from delivering energy to customers less the cost of purchasing energy, and costs to service and distribute energy to customers.

The Customer segment purchases electricity from the Generation segment at a price fixed in a manner similar to transactions with third parties.

A2. EARNINGS

The table below provides a breakdown of Contact's earnings before interest, tax, depreciation and amortisation, and significant items (EBITDAF) by segment, and a reconciliation from EBITDAF and underlying profit to profit/(loss) reported under NZ GAAP.

		2017				2016			
\$m	Note	Generation	Customer	Eliminations	Total	Generation	Customer	Eliminations	Total
Mass market electricity		–	893	–	893	–	903	–	903
Commercial & Industrial (C&I) electricity ¹		–	510	(37)	473	–	520	(19)	501
Wholesale electricity ¹		483	–	9	492	539	–	4	543
Inter-segment electricity sales		641	–	(641)	–	661	–	(661)	–
Gas		–	66	–	66	1	62	–	63
LPG		–	122	–	122	–	117	–	117
Steam		25	–	–	25	25	–	–	25
Total revenue		1,149	1,591	(669)	2,071	1,226	1,602	(676)	2,152
Other income		6	3	–	9	6	5	–	11
Total revenue and other income		1,155	1,594	(669)	2,080	1,232	1,607	(676)	2,163
Electricity purchases ¹		(494)	–	28	(466)	(528)	–	15	(513)
Inter-segment electricity purchases		–	(641)	641	–	–	(661)	661	–
Gas purchases		(100)	(15)	–	(115)	(108)	(14)	–	(122)
LPG purchases		–	(71)	–	(71)	–	(68)	–	(68)
Electricity networks, transmission, levies & meters		(42)	(590)	–	(632)	(41)	(596)	–	(637)
Gas networks, transmission, levies & meters		(8)	(36)	–	(44)	(12)	(33)	–	(45)
Other operating expenses		(119)	(128)	–	(247)	(121)	(126)	–	(247)
Carbon emissions		(9)	(2)	–	(11)	(7)	(1)	–	(8)
Total operating expenses		(772)	(1,483)	669	(1,586)	(817)	(1,499)	676	(1,640)
EBITDAF		383	111	–	494	415	108	–	523
Depreciation and amortisation					(204)				(201)
Net interest expense					(92)				(101)
Tax on underlying profit					(57)				(64)
Underlying profit					141				157
Significant items									
Change in fair value of financial instruments	D1				23				(21)
Transition costs					(7)				(10)
Remediation for Holidays Act non-compliance					(5)				–
Otahuhu thermal power station closure and sale					–				(217)
Write-down of inventory gas					–				(43)
Asset impairments					–				(36)
Tax on significant items					(2)				100
Reinstatement of tax depreciation on powerhouses					–				4
Profit/(loss)					150				(66)
Underlying profit per share (cents)	B3				19.7				21.7

1. For internal reporting purposes the fixed price agreed for contracts for differences (CfDs) sold to C&I customers is treated as C&I electricity revenue while the spot price component is classified as electricity purchases. The CfDs treatment grosses up revenue and expenses. For financial reporting purposes, these CfDs are settled net within wholesale electricity revenue.

EBITDAF and underlying profit are non-GAAP profit measures that provide a consistent measure of Contact's ongoing performance.

EBITDAF is profit/(loss) before tax excluding interest, depreciation, amortisation and significant items.

Underlying profit excludes the effect of significant items from reported profit/(loss).

Significant items are excluded from EBITDAF and underlying profit when they meet criteria approved by the Board of Directors in our non-GAAP financial information policy. They are determined in accordance with the principles of consistency, relevance and clarity. Transactions considered for classification as significant items include change in fair value of financial instruments; impairment or reversal of impairment of assets; significant 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.

The significant items in this reporting period are:

- Change in fair value of financial instruments:** Movements in the valuation of interest rate and electricity price derivatives that are not accounted for as hedges, hedge accounting ineffectiveness and the effect of credit risk on the valuation of hedged debt and derivatives. Refer note D1 and E7.
- Transition costs:** Incurred as a result of the ICT Change and Transition programme to significantly change Contact's ICT infrastructure and service delivery. The programme was completed during the current reporting period. Included in the cost is \$1 million of depreciation (2016: \$2 million).
- Remediation for Holidays Act non-compliance:** At 30 June 2016 Contact disclosed a contingent liability for non-compliance with aspects of the Holidays Act 2003. A provision representing the best estimate of the cost to resolve the issue, including payments to current and previous employees, was recognised during the year. Refer note E5. Actual payments may differ from the estimate and the cost recognised will be adjusted accordingly.

A3. FREE CASH FLOW

Free cash flow is a non-GAAP cash measure that shows the amount of cash Contact has available to distribute to shareholders, reduce debt or reinvest in growing the business. A reconciliation from EBITDAF to NZ GAAP operating cash flows and to free cash flow is provided below.

\$m	Note	2017	2016
EBITDAF		494	523
Tax (paid)/received		(37)	1
Change in working capital net of non-cash, investing and financing activities	E6	41	22
Non-cash items included in EBITDAF		12	20
Significant items, net of non-cash amounts		(8)	(10)
Operating cash flows		502	556
Net interest paid		(86)	(93)
Stay in business capital expenditure		(116)	(111)
Operating free cash flow		300	352
Proceeds from sale of assets		9	27
Free cash flow		309	379
Operating free cash flow per share (cents)	B3	41.9	48.5

Stay in business capital expenditure is required to maintain our business operations and includes major plant inspections and replacements of existing assets. The composition of stay in business capital expenditure was refined during the year to include costs incurred on restoration provisions. The comparative period was restated accordingly.

B. Our Funding

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

B1. CAPITAL STRUCTURE

Contact’s capital includes equity and net debt. Our objectives when managing capital are to ensure Contact can pay its debts when they are due and to optimise the cost of our capital.

To manage the capital structure, the Board of Directors may adjust the amount and nature of distributions to shareholders, issue new shares and increase or repay debt.

Contact manages its capital structure to support a BBB credit rating and a gearing ratio suitable to the nature of our business.

\$m	2017	2016
Borrowings	1,527	1,696
Shareholders’ equity	2,775	2,823
Total capital funding	4,302	4,519
Gearing ratio	35.5%	37.5%

The gearing ratio calculation has changed from the prior period to align with the gearing ratio defined in Contact’s Deed of Negative Pledge and Guarantee.

B2. SHARE CAPITAL

Share capital is comprised of ordinary shares listed on the NZX and ASX. Certain ordinary shares are held on trust on behalf of employees under the Contact Share scheme (note E9). All shareholders are entitled to receive distributions and to make one vote per share.

	Note	Number	\$m
Balance at 1 July 2015		733,358,872	1,605
Share capital issued		2,871,844	10
Share capital repurchased and cancelled		(20,704,960)	(100)
Balance at 30 June 2016		715,525,756	1,515
Balance at 30 June 2017		715,525,756	1,515
Comprised of:			
Ordinary shares		715,122,383	1,516
Contact Share	E9	403,373	(1)

B3. DISTRIBUTIONS

Earnings and operating free cash flow per share

Cents per share	2017	2016
Profit/(loss) – basic	21.0	(9.1)
Profit/(loss) – diluted	21.0	(9.0)
Underlying profit – basic	19.7	21.7
Operating free cash flow – basic	41.9	48.5
Weighted average		
Number of shares – basic	715,525,756	725,446,379
Number of shares – diluted	715,586,571	736,016,721

The basic calculation uses the weighted average number of shares on issue over the period.

The diluted weighted average number of shares takes into account the number of share options, PSRs and DSRs that are currently exercisable or will become exercisable because vesting depends only on an employee staying with Contact or it is likely vesting conditions will be met.

Dividends

Paid during the year ended	Cents per share	\$m
2015 final	15.0	110
2016 interim	11.0	79
30 June 2016		189
2016 final	15.0	107
2017 interim	11.0	79
30 June 2017		186

On 11 August 2017, the Board resolved to pay a fully imputed final dividend of 15 cents per share on 19 September 2017. On 11 August 2017, Contact held 1.7 million imputation credits.

B4. BORROWINGS

Borrowings are recognised initially at fair value less financing costs and subsequently at amortised cost using the effective interest rate method. Some borrowings are designated in fair value hedge relationships, which means that any changes in market interest and foreign exchange rates result in a change in the fair value adjustment on that debt (note E7).

Borrowings denoted with an asterisk (*) are Green Debt Instruments under Contact’s Green Borrowing Programme, which has been certified by the Climate Bond Initiative.

\$m	Maturity	Coupon	2017	2016
Bank overdraft	< 3 months	Floating	3	5
*Commercial paper	< 3 months	Floating	180	165
*Bank facilities	Various	Floating	113	223
Finance lease liabilities	Various	Various	19	23
Wholesale bonds	Apr 2017	7.86%	–	100
USPP notes – US\$40m	Mar 2018	5.55%	71	71
USPP notes – US\$25m	Apr 2018	7.13%	43	43
Wholesale bonds	May 2018	4.80%	50	50
*Retail bonds – CENO20	May 2019	5.80%	222	222
*Wholesale bonds	May 2020	5.28%	50	50
*USPP notes – US\$56m	Dec 2020	3.46%	70	70
*Retail bonds – CENO30	Nov 2021	4.40%	150	150
*Retail bonds – CENO40	Nov 2022	4.63%	100	–
*USPP notes – US\$22m	Dec 2023	4.19%	28	28
*USPP notes – US\$51m	Dec 2023	4.09%	64	64
*USPP notes – US\$42m	Dec 2023	3.63%	61	61
*USPP notes – US\$58m	Dec 2025	4.33%	73	73
*USPP notes – US\$43m	Dec 2025	3.85%	62	62
*Export credit agency facility	Nov 2027	Floating	75	82
*USPP notes – US\$15m	Dec 2027	3.95%	22	22
*USPP notes – US\$23m	Dec 2028	4.44%	29	29
*USPP notes – US\$30m	Dec 2028	4.50%	38	38
Total borrowings at face value			1,523	1,631
Deferred financing costs			(7)	(8)
Total borrowings at amortised cost			1,516	1,623
Fair value adjustment on hedged borrowings			11	73
Carrying value of borrowings			1,527	1,696
Current			386	305
Non-current			1,141	1,391

A summary of the changes in Contact’s borrowings is provided below:

\$m	2017	2016
Borrowings at the start of the year	1,696	1,750
Net cash borrowed/(repaid)	(106)	(71)
Non-cash change in finance leases	(2)	–
Non-cash change in deferred financing costs	1	–
Non-cash change in fair value adjustment	(62)	17
Borrowings at the end of the year	1,527	1,696

Short-term funding

Contact uses bank facilities for general corporate purposes including to manage its liquidity risk (note D2). While drawings under our bank facilities are typically for periods of three months or less, the amounts drawn down can be rolled for the term of the facility. Drawn facilities are classified as current when the facility will expire or the debt is expected to be repaid within one year of the reporting period end.

Contact’s total bank facilities (including undrawn facilities of \$487 million at 30 June 2017) have a range of maturities:

Maturity \$m	2017	2016
Less than 1 year	150	115
Between 1 and 2 years	265	240
Between 2 and 3 years	30	155
More than 3 years	155	140
	600	650

In July 2017, total facilities reduced by \$75 million to \$525 million. All bank facilities form part of Contact’s Green Borrowing Programme.

Finance lease liabilities

Contact’s finance leases are mostly for connections to the national electricity grid. These assets are included in the carrying values of generation plant and equipment (note C1).

Security

Contact’s Deed of Negative Pledge and Guarantee and its United States Private Placement (USPP) note agreements restrict Contact from granting security interest over its assets, subject to certain permitted exceptions. Because of these restrictions Contact’s borrowings are all unsecured, except for finance leases secured over the leased assets. The Deed of Negative Pledge and Guarantee and the USPP note agreements contain various debt covenants, all of which Contact complied with during the reporting period.

Cash and cash equivalents

Cash and cash equivalents exclude bank overdrafts which are included within borrowings. Contact trades electricity price derivatives on the ASX market using a broker that holds collateral on deposit for margin calls. At 30 June 2017, this collateral was \$6 million (2016: \$3 million) and is included within cash.

B5. NET INTEREST EXPENSE

Interest expense on borrowings is made up of interest on drawn debt and interest rate swaps, and the unwind of deferred financing costs.

\$m	Note	2017	2016
Interest expense on borrowings		(89)	(98)
Unwind of discount on provisions	E5	(5)	(6)
Interest income		2	3
Net interest expense		(92)	(101)

C. Our Assets

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

C1. PROPERTY, PLANT & EQUIPMENT AND INTANGIBLE ASSETS

Contact’s property, plant and equipment (PP&E) and intangible assets include:

- generation plant and equipment: hydro, geothermal and thermal power stations, geothermal wells and pipelines, the Ahuroa gas storage facility and cushion gas in the Ahuroa reservoir
- other plant and equipment: LPG reticulation networks in the South Island, bulk tanks, cylinders and meters used to deliver LPG to our customers
- computer software: our SAP system that is used for customer service and billing, finance functions and generation asset management, which has a value of \$260 million (2016: \$256 million) and a remaining life of 12 years.

All assets are recognised at cost less accumulated depreciation or amortisation and impairments. Generation plant and equipment acquired before 1 October 2004 is recognised at deemed historical cost, which is the fair value of those assets at 1 October 2004, less accumulated depreciation and accumulated impairment losses.

Property, Plant & Equipment \$m	Generation plant and equipment	Other land and buildings	Other plant and equipment	Capital work in progress	Total
Cost					
Balance at 1 July 2015	6,076	33	252	318	6,679
Additions	35	–	6	47	88
Transfers from capital work in progress	43	–	4	(47)	–
Transfers to assets held for sale	–	(3)	–	–	(3)
Disposals	(471)	–	(19)	(102)	(592)
Balance at 30 June 2016	5,683	30	243	216	6,172
Balance at 1 July 2016	5,683	30	243	216	6,172
Additions	28	–	6	31	65
Transfers from capital work in progress	27	–	1	(28)	–
Disposals	(2)	–	(7)	–	(9)
Balance at 30 June 2017	5,736	30	243	219	6,228
Depreciation and impairment					
Balance at 1 July 2015	(1,355)	(13)	(167)	(66)	(1,601)
Depreciation charge ¹	(161)	(2)	(12)	–	(175)
Impairment	(250)	–	–	(37)	(287)
Disposals	470	–	18	102	590
Balance at 30 June 2016	(1,296)	(15)	(161)	(1)	(1,473)
Balance at 1 July 2016	(1,296)	(15)	(161)	(1)	(1,473)
Depreciation charge ¹	(159)	(2)	(10)	–	(171)
Disposals	1	–	7	–	8
Balance at 30 June 2017	(1,454)	(17)	(164)	(1)	(1,636)
Carrying value					
At 30 June 2016	4,387	15	82	215	4,699
At 30 June 2017	4,282	13	79	218	4,592

1. \$1 million of depreciation charge (2016: \$2 million) is classified as a significant item as part of the transition costs for the ICT Change and Transition programme (note A2).

Intangible Assets \$m	Computer software and capital work in progress	Gas storage rights	Carbon emission units	Total
Cost				
Balance at 1 July 2015	370	35	20	425
Additions	36	–	6	42
Disposals	(1)	–	(10)	(11)
Balance at 30 June 2016	405	35	16	456
Balance at 1 July 2016	405	35	16	456
Additions	37	–	3	40
Disposals	–	–	(8)	(8)
Balance at 30 June 2017	442	35	11	488
Amortisation				
Balance at 1 July 2015	(92)	(4)	–	(96)
Amortisation charge	(27)	(1)	–	(28)
Disposals	1	–	–	1
Balance at 30 June 2016	(118)	(5)	–	(123)
Balance at 1 July 2016	(118)	(5)	–	(123)
Amortisation charge	(32)	(1)	–	(33)
Disposals	–	–	–	–
Balance at 30 June 2017	(150)	(6)	–	(156)
Carrying value				
At 30 June 2016	287	30	16	333
At 30 June 2017	292	29	11	332
Current	–	–	11	11
Non-current	292	29	–	321

Cost

Contact capitalises the costs to purchase and bring assets into service. When Contact develops an asset, employee time and other directly attributable costs are capitalised, these are carried as capital work in progress until the asset is commissioned.

Contact capitalises costs to obtain resource consents and to drill geothermal exploration wells. These costs are expensed if the existing area of operations that they relate to is unsuccessful or abandoned. All other geothermal exploration costs are expensed.

Cushion gas is the level of gas required to maintain pressure in the Ahuroa reservoir so that Contact can inject and extract gas to use in its thermal power plants. Cushion gas of \$52 million (2016: \$52 million) is classified as generation plant and equipment.

Carbon emission units are purchased to offset our emissions under the New Zealand Emissions Trading Scheme (ETS). The units are measured at weighted average cost. They are classified as current assets when they will be used to offset our ETS obligations at balance date or obligations expected to be incurred within one year of balance date.

Depreciation and amortisation

The cost of Contact's assets is spread evenly over their useful lives (straight line method) or, for certain thermal assets, over the equivalent operating hours (EOH) those assets are expected to be of benefit to Contact.

Management estimates an asset's useful life or EOH. These estimates are reviewed annually for triggers that may indicate the need for a revised estimate. The useful life changes identified in the current reporting period did not result in a material change in depreciation.

Land, capital work in progress, cushion gas and carbon emission units are not depreciated or amortised. The depreciation and amortisation rates for all other assets are:

Assets	Rate/hours
Generation plant and equipment:	
– Straight line	1 – 33%
– Equivalent operating hours	8,000 – 100,000
Other buildings, plant and equipment	2 – 33%
Computer software	6 – 33%
Gas storage rights	3%

Capital commitments

At 30 June 2017, Contact was committed to \$11 million of capital expenditure, with all payments due within one year of the reporting period end (2016: \$33 million).

D. Our Financial Risks

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

C2. GOODWILL AND ASSET IMPAIRMENT TESTING

Contact has three cash-generating units (CGUs): Generation, Retail and LPG. The Retail and LPG CGUs include goodwill of \$179 million and \$3 million respectively, which is unchanged from the prior reporting period. Capital work in progress (CWIP) includes \$95 million (2016: \$95 million) related to future generation developments not allocated to a CGU.

Every reporting period management estimates the value expected to be recovered from Contact's CGUs and future generation development in CWIP. If this recoverable value is lower than the CGU or asset's carrying value an impairment must be recognised. An impairment is also recognised when an asset is classified as held for sale and the expected net sale proceeds are lower than its carrying value.

Determining value in use involves estimating future cash flows for each CGU. The cash flows are adjusted for future growth based on historical inflation and discounted at a post-tax discount rate of 7 – 8 % to arrive at the present value, or recoverable amount, of each CGU.

The key inputs to each CGU's cash flows are:

Retail and LPG CGUs	
Customer numbers and churn	Actual customer numbers adjusted for historical churn data and expected market trends
Margin per customer	Actual margin per customer adjusted for expected market changes
Cost of purchased energy	ASX future electricity prices adjusted for location and seasonal shape Contracted and/or market LPG prices
Generation CGU	
Generation volume and mix	Generation strategy based on expected demand, hydro volumes and expected market pricing
Amount received for generated electricity	ASX future electricity prices adjusted for location and seasonal shape for periods quoted on the ASX market, or prices estimated based on an analysis of expected demand and cost of new supply for periods not quoted on the ASX market
Gas price	Contracted gas prices otherwise Contact's best estimate of future prices

A change in future wholesale electricity prices used to determine Generation CGU cash flows could affect the amount Contact receives for its generated electricity. A systemic reduction in wholesale electricity prices may result in an impairment of the Generation CGU.

Wholesale electricity prices are influenced by a number of factors that are difficult to predict. In particular weather, which can impact short term prices. Wholesale electricity prices may also be adversely affected by a reduction in demand, the availability of fuel and generation capacity in the wholesale electricity market, competitor and transmission system availability. This could affect both the volume of energy Contact can generate as well as the price it receives for generation. Whether Contact is adversely affected will depend on the specific circumstances and how those circumstances impact Contact's portfolio.

The future generation development valuations use the same key inputs as the Generation CGU plus an estimate of plant commissioning costs.

No impairments were recognised in the current period. During the prior period, an impairment was recognised when the Otahuhu power station was classified as held for sale, and the Taheke geothermal development was fully impaired (note A2).

Contact's financial risk management system mitigates the exposure to market, liquidity and credit risks by ensuring that material risks are identified, the financial impact is understood and tools and limits are in place to manage exposures. Written policies provide the framework for Contact's financial risk management system.

D1. MARKET RISK

Interest rate risk

Contact has issued fixed and floating rate debt so is exposed to movements in interest rates. For fixed rate debt the exposure is to falling interest rates as we could have secured that funding at lower rates, while for floating rate debt there is uncertainty of future cash payments.

Contact manages these risks through the use of interest rate swaps (IRS) and cross currency and interest rate swaps (CCIRS) to ensure that the total debt portfolio has an appropriate amount of fixed and floating rate debt. The risk is monitored by assessing the notional amount of debt on a fixed and floating basis and ensuring this is in accordance with set policies.

Foreign exchange risk

Contact is exposed to movements in foreign exchange rates through its commitments to pay offshore suppliers and USPP note holders.

To mitigate the risk, forward foreign exchange contracts are used to secure a foreign exchange rate and fix future cash flows in NZD terms. Foreign debt is hedged through the use of CCIRS, which converts the foreign currency principal and interest payments to NZD at a fixed foreign exchange rate.

Commodity price risk

Contact is exposed to electricity price risk through the sale and purchase of electricity on the wholesale electricity market. Contact's integrated generation and retail business provides a natural hedge for most of this exposure. Derivatives may be used to fix the price at which Contact buys or sells any residual exposure to electricity price risks. The hedged residual exposure is measured at the aggregate notional volume of outstanding fixed volume electricity price derivatives. In addition, Contact is party to fixed price, variable volume electricity price derivatives to provide cover in extreme price situations.

Contact is also exposed to LPG price risk on its LPG product purchases and may use derivatives to fix the price of LPG.

Summary of hedged exposures

A summary of Contact's notional market risk exposure at the reporting period end is provided below:

Derivative used	Unit	Maturities	2017	2016
CCIRS	\$m	2017 – 2028	560	560
Foreign exchange derivatives	\$m	2017 – 2018	20	35
IRS – floating exposure	\$m	2018 – 2022	521	635
IRS – fixed exposure	\$m	2017 – 2024	979	966
Electricity price derivatives	GWh	2017 – 2030	8,290	8,544

The notional exposure for electricity price derivatives in the table above does not include fixed price, variable volume contracts.

Sensitivities

The table below summarises the impact on derivative valuations of possible changes in forward wholesale electricity prices, forward foreign exchange rates and forward interest rates. The analysis assumes that all variables were held constant except for the relevant market risk factor.

Favourable/(unfavourable) \$m				2017	2016
Hedging impact on cash flow hedge reserve (CFHR)					
Forward electricity prices	+10%	(14)			(16)
	-10%	14			16
Forward foreign exchange rates	+10%	(1)			(2)
	-10%	1			2
Hedging impact on post-tax profit/(loss)					
Forward interest rates	+100bps	20			21
	-25bps	(5)			(6)
Forward electricity prices	+10%	(19)			(8)
	-10%	–			–

Fair value of derivatives

The fair value of derivatives used to hedge risk, categorised by accounting treatment, is provided below:

	2017 Asset	2017 Liability	2016 Asset	2016 Liability
Fair value hedges				
CCIRS	33	(30)	72	(17)
IRS	8	–	14	–
Cash flow hedges				
CCIRS – margin	2	(6)	2	(4)
Foreign exchange derivatives	–	–	–	(4)
Electricity price derivatives	–	(6)	17	–
Derivatives not designated in hedge relationships				
IRS	–	(53)	3	(79)
Electricity price derivatives	3	(7)	2	(2)
	46	(102)	110	(106)
Current	8	(50)	22	(24)
Non-current	38	(52)	88	(82)

The change in fair value of derivatives is provided below:

	2017 Profit/ (loss)	2017 CFHR	2016 Profit/ (loss)	2016 CFHR
\$m				
CCIRS	(52)	–	11	–
IRS	(6)	–	8	–
Fair value adjustment to borrowings	62	–	(17)	–
Fair value hedges	4	–	2	–
CCIRS – margin	–	(2)	–	(3)
Foreign exchange derivatives	–	4	–	(7)
Electricity price derivatives	–	(23)	–	15
Tax on change in fair value	–	6	–	(3)
Cash flow hedges	–	(15)	–	2
IRS	23	–	(22)	–
Electricity price derivatives	(4)	–	(1)	–
Derivatives not designated in hedge relationships	19	–	(23)	–
Total fair value movement	23	(15)	(21)	2

Further information on fair value and accounting for derivatives is provided in note E7.

E. Other Disclosures

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

D2. LIQUIDITY RISK

To reduce liquidity 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. In addition, Contact maintains a buffer of undrawn bank facilities over its forecast funding requirements to enable it to meet any unforeseen cash flows.

Management monitors the available liquidity buffer by comparing forecast cash flows to available facilities to ensure sufficient liquidity is maintained in accordance with internal limits.

Information on contracted cash flows in the table below is presented on an undiscounted basis.

CCIRS cash flows are included within Borrowings in the table below. US dollar inflows on the CCIRS offsets the US dollar outflows on the USPP.

2017 \$m	Total contractual cash flows	Less than 1 year	1 – 2 years	2 – 5 years	More than 5 years
Trade and other payables	(201)	(201)	–	–	–
Borrowings	(1,794)	(465)	(335)	(396)	(598)
Finance lease liabilities	(32)	(3)	(2)	(6)	(21)
Electricity price derivatives – net settled	(40)	(10)	(6)	(12)	(12)
IRS – net settled	(51)	(14)	(11)	(24)	(2)
Foreign exchange derivatives – inflow	25	25	–	–	–
Foreign exchange derivatives – outflow	(25)	(25)	–	–	–
	(2,118)	(693)	(354)	(438)	(633)
2016					
Trade and other payables	(220)	(220)	–	–	–
Borrowings	(2,034)	(368)	(519)	(481)	(666)
Finance lease liabilities	(46)	(4)	(4)	(8)	(30)
Electricity price derivatives – net settled	41	17	10	14	–
IRS – net settled	(134)	(31)	(30)	(63)	(10)
Foreign exchange derivatives – inflow	51	50	1	–	–
Foreign exchange derivatives – outflow	(56)	(55)	(1)	–	–
	(2,398)	(611)	(543)	(538)	(706)

D3. CREDIT RISK

Total credit risk exposure is measured by the notional amount of financial instruments in an asset position of \$239 million (2016: \$314 million).

To minimise credit risk exposure, we have a policy to only transact with credit worthy counterparties and do not exceed internally imposed exposure limits to any one counterparty. Where appropriate, collateral is obtained. Further information on customer related credit risk is provided in note E4.

E1. TAX

Tax expense is made up of current tax expense and deferred tax expense. Current tax expense relates to the current financial reporting period while deferred tax will be payable in future periods.

Tax is recognised in profit, except when it relates to items recognised directly in other comprehensive income (OCI).

\$m	2017	2016
Profit/(loss) before tax	210	(106)
Tax at 28%	(59)	30
Tax effect of adjustments:		
– Non-taxable sale of land	1	9
– Reinstatement of tax depreciation on powerhouses	–	4
– Other	(1)	(3)
Tax (expense)/credit	(59)	40
Current tax expense	(41)	(19)
Deferred tax expense	(18)	59

Contact’s deferred tax liability is calculated as the difference between the carrying value of assets and liabilities for financial reporting purposes and the values used for taxation purposes.

	PP&E and Intangible assets	Derivative financial instruments	Other	Total
\$m				
Balance at 1 July 2015	(822)	16	14	(792)
Recognised in profit/(loss)	44	6	9	59
Recognised in OCI	–	(3)	–	(3)
Balance at 30 June 2016	(778)	19	23	(736)
Recognised in profit/(loss)	(6)	(7)	(5)	(18)
Recognised in OCI	–	6	–	6
Balance at 30 June 2017	(784)	18	18	(748)

E2. OPERATING EXPENSES

Operating leases

Operating leases relate to the rental of buildings, plant and equipment and vehicles on normal commercial terms and conditions. Rental expenses of \$5 million (2016: \$5 million) are included in other operating expenses (note A2).

\$m	2017	2016
Less than 1 year	6	5
Between 1 and 5 years	13	15
More than 5 years	1	3
Total operating lease commitments	20	23

Other operating expenses

Other operating expenses (note A2) include total labour costs of \$103 million (2016: \$104 million) and contributions to KiwiSaver of \$3 million (2016: \$3 million).

Audit fees paid to Contact’s auditors (KPMG) of \$480,000 for review of the interim and audit of the year end financial statements (2016: \$483,000), and \$2,150 for scrutineering at the annual meeting (2016: \$4,500).

E3. INVENTORY

Contact’s inventories include gas in storage at the Ahuroa gas storage facility for use in thermal generation. Inventory gas is carried at the lower of net realisable value (NRV) and cost. NRV is based on the value Contact expects to realise for the gas through electricity production. This is estimated as thermal generation revenue (based on ASX futures prices) less forecast operating, transmission and carbon costs.

Inventory gas is split between current and non-current based on expected future and past actual gas usage. At 30 June 2017, Contact expects to use 50% of the gas held in storage within one year of the end of the reporting period (2016: 40%).

\$m	2017	2016
Inventory gas	54	90
Consumables and spare parts	10	8
LPG	2	3
Diesel fuel	4	3
	70	104
Current	46	58
Non-current	24	46

Consumables and spare parts for power stations, LPG fuel for sale and diesel fuel for use in the Whirinaki power plant are stated at cost and are all classified as current assets.

E4. TRADE AND OTHER RECEIVABLES

\$m	2017	2016
Trade receivables	83	91
Unbilled receivables	100	101
Provision for impairment	(3)	(5)
Net trade receivables	180	187
Prepayments	3	2
Other receivables	7	12
	190	201

Contact recognises a provision for impairment of trade receivables based on historical delinquency rates across the customer base. When Contact has been unable to recover aged debt it is written off.

Ageing of trade receivables not impaired is:

\$m	2017	2016
Not past due	154	161
0 – 30 days past due	18	13
30 – 90 days past due	4	5
Over 90 days past due	4	8
	180	187

Bad debts net of recoveries of \$7 million (2016: \$9 million) were recognised during the reporting period.

E5. PROVISIONS

Contact has restoration and environmental rehabilitation provisions that represent the expected costs to abandon and restore geothermal wells, generation and LPG sites and to remove asbestos from properties.

The other provision includes \$5 million (2016: nil) for remediation of the Holidays Act non-compliance. Refer note A2.

	Restoration/ environmental rehabilitation	Other	Total
\$m			
Balance at 1 July 2016	(51)	(3)	(54)
Created	(3)	(6)	(9)
Utilised	3	1	4
Unwind of discount	(5)	–	(5)
Balance at 30 June 2017	(56)	(8)	(64)
Current	(8)	(6)	(14)
Non-current	(48)	(2)	(50)

These provisions are based on estimates of future cash flows to make good the affected sites at the end of the assets' useful lives. The expected future cash flows are discounted to their present value using a pre-tax discount rate equivalent to a post-tax rate of between 7 and 8%.

E6. PROFIT/(LOSS) TO OPERATING CASH FLOWS

\$m	2017	2016
Profit/(loss)	150	(66)
Depreciation and amortisation	204	201
Change in fair value of financial instruments	(23)	21
Asset impairments	–	36
Write-down of inventory gas	–	43
Otahuhu power station closure and sale	–	217
Movement in provisions	5	–
Net interest expense	92	101
Bad debt expense	10	14
Movement in deferred tax	18	(59)
Share-based compensation	3	5
Other	(2)	2
Changes in assets and liabilities, net of non-cash, investing and financing activities		
Trade and other receivables	(1)	16
Inventories	35	13
Trade and other payables	7	(7)
Tax	4	19
Operating cash flows	502	556

E7. FINANCIAL INSTRUMENTS AT FAIR VALUE

All derivatives are shown gross by instrument in the Statement of Financial Position (and in note D1) because Contact does not have a legally enforceable right to set off its assets and liabilities with the same counterparty, except in the event of default. The fair values of derivatives netted by counterparty are:

\$m	2017 Asset	2017 Liability	2016 Asset	2016 Liability
OCIIRS	26	(23)	67	(12)
OCIIRS – margin	–	(4)	1	(3)
Foreign exchange derivatives	–	–	–	(4)
IRS	8	(53)	14	(76)
Electricity price derivatives	3	(13)	18	(1)
	37	(93)	100	(96)

Fair value

Contact uses discounted cash flow valuations to estimate the fair value of all derivatives and of borrowings for disclosure purposes. The key variables used in these valuations are forward prices (for the relevant underlying interest rates, foreign exchange rates, and wholesale electricity prices) and discount rates.

All inputs are sourced or derived from market information except for forward wholesale electricity prices which are:

- derived from ASX market quoted prices adjusted for Contact's estimate of the effect of location and seasonality, or
- estimated based on an analysis of expected demand and cost of new supply.

The following table provides a breakdown of the fair value of derivatives by the source of key valuation inputs:

\$m	2017	2016
Sourced from market data	(3)	–
Derived from market data	(45)	(5)
Electricity price estimates	(8)	9
	(56)	4

The electricity price derivatives most affected by estimates are reconciled below:

\$m	2017	2016
Opening balance	9	2
Gain/(loss) in profit/(loss):		
– wholesale electricity revenue	(7)	(2)
– change in fair value of financial instruments	(1)	(1)
Gain/(loss) in OCI	(9)	1
Instruments issued	–	9
Closing balance	(8)	9

Initial recognition difference

Contact has an agreement in place with Meridian Energy Limited for the supply of 80MW of electricity, which forms part of the electricity required by New Zealand Aluminium Smelters to operate its Tiwai smelter. This agreement is for a remaining period of up to 13 years and is recognised as an electricity price derivative at fair value.

When quoted prices are not available or relevant (i.e. long dated and large contracts), the key unobservable inputs and management judgement is the cost of new supply. The fair value also takes into account other inputs including forward quoted commodity prices, such as carbon and aluminium prices, and CPI.

An initial recognition difference arises when the fair value of the derivative differs from its transaction price. The difference is accounted for by recalibrating the fair value by a fixed percentage to arrive at a value at inception equal to the transaction price.

The calibration adjustment is applied to future valuations and reflects the estimated future gains or losses yet to be recognised in the Statement of Comprehensive Income (SOCl) over the remaining life of the agreement. The change in calibration adjustment is provided in the table below:

\$m	2017	2016
Opening difference	(17)	2
Initial differences in new hedges	–	(24)
Volumes expired and amortised	(1)	–
Changes for future prices and time	(15)	5
Closing difference	(33)	(17)

Fair value hedges

The interest rate swaps Contact enters into to manage its interest rate risk meet the criteria for hedge accounting where they directly relate to issued debt and the terms of the derivative match the debt. The hedge is against future fair value movements in the debt and can be for a portion of the debt. Contact has designated all its USPP notes, \$100 million of wholesale bonds and \$174 million of retail bonds in fair value hedge relationships.

Both the hedging instrument (IRS) and the hedged risk are recognised at fair value. The change in the fair value of both items offset the change in fair value of financial instruments in the SOCl to the extent the hedging relationship is effective.

Cash flow hedges

The derivatives used to manage commodity price risk and foreign exchange risk usually qualify for cash flow hedge accounting.

Only the derivative is recognised at fair value with the effective portion of all changes in fair value recognised in the cash flow hedge reserve. Any ineffective portion is recognised immediately in profit/(loss). Amounts recognised in the cash flow hedge reserve are reclassified to profit/(loss) or the Statement of Financial Position according to the nature of the hedged item.

Refer below for a reconciliation of the movement in the cash flow hedge reserve.

\$m	2017	2016
Opening balance	7	5
Effective portion of cash flow hedges	(29)	11
Transferred to revenue	11	(6)
Transferred to property, plant and equipment	(3)	–
Transferred to deferred tax	6	(3)
Closing balance	(8)	7

Derivatives not in hedge relationships

These include IRS not attached to specific debt and electricity price derivatives purchased as part of a requirement to participate in the ASX futures electricity market and financial transmission rights. All changes in fair value of these derivatives are recognised directly in profit/(loss).

E8. FINANCIAL INSTRUMENTS AT AMORTISED COST

The value of financial instruments carried at amortised cost is provided in the table below.

\$m	2017	2016
Cash and cash equivalents	6	5
Trade and other receivables	187	199
Trade and other payables	(201)	(220)
Borrowings	(1,516)	(1,623)

For disclosure purposes, the fair value of all borrowings is \$1,550 million (2016: \$1,707 million). This fair value is derived from market data.

E9. SHARE-BASED COMPENSATION

Equity Scheme

Contact provides an equity award made up of options, performance share rights (PSRs) and deferred share rights (DSRs) to certain eligible employees. If performance hurdles are met, the awards vest and become exercisable. On exercise, PSRs and DSRs convert to ordinary shares at no cost to the employee and options convert on payment of the agreed exercise price. The awards lapse if the performance hurdles are not met, if they are not exercised by the lapse date or if an employee voluntarily leaves Contact. The scheme continues on redundancy but the entitlements are adjusted.

The table below provides a reconciliation of the number of outstanding options and their weighted average exercise price.

	Options	
	Number outstanding	Price
Balance at 1 July 2015	13,463,423	\$5.44
Granted	1,012,408	\$4.92
Lapsed	(3,474,844)	\$5.61
Balance at 30 June 2016	11,000,987	\$5.34
Granted	1,157,407	\$4.98
Lapsed	(2,511,733)	\$5.37
Balance at 30 June 2017	9,646,661	\$5.28

The table below provides a reconciliation for the number of outstanding PSRs and DSRs. The exercise price of these awards is nil.

	PSRs	DSRs
Balance at 1 July 2015	2,476,330	395,514
Granted	314,660	341,861
Exeroised	(2,476,330)	(395,514)
Lapsed	(20,344)	(27,691)
Balance at 30 June 2016	294,316	314,170
Granted	285,054	345,720
Lapsed	(43,067)	(64,654)
Balance at 30 June 2017	536,303	595,236

At 30 June 2017, 7,679,533 share options were exercisable. The exercisable share options have a weighted average exercise price of \$5.37.

Share options had a weighted average remaining life of one year and seven months (2016: two years), PSRs had three years and five months (2016: four years, four months) and DSRs had 11 months (2016: one year and five months).

Contact Share

Contact Share is Contact’s employee share ownership plan that enables eligible employees to acquire a set number of Contact’s ordinary shares. The shares are acquired on market and legally held by a trustee company for a restrictive period of three years, during which time the employee is entitled to receive distributions and direct the exercise of voting rights that attach to shares held on their behalf.

At the end of the restrictive period the shares are transferred to the employee. Employees who leave Contact due to redundancy, and in certain other circumstances, have their shares transferred at that time; all other employees who leave Contact have their shares transferred to an unallocated pool. Shares in the unallocated pool can be used by the trustee company for future allocations under Contact Share.

Number outstanding	Contact Share
Balance at 1 July 2015	274,704
Shares purchased and issued	148,277
Transferred to employees	(20,551)
Balance at 30 June 2016	402,430
Shares purchased and issued	139,071
Transferred to employees	(138,128)
Balance at 30 June 2017	403,373

There shares have a weighted average remaining life of one year and four months (2016: one year, three months).

Share-based compensation expense

The current reporting period’s expense was \$3 million (2016: \$5 million).

The share-based compensation expense is based on the fair value of the awards granted adjusted to reflect the number of awards expected to vest. The fair values of awards granted during the reporting period are:

	2017	2016
\$		
Share options	0.44	0.61
PSRs	2.91	3.16
DSRs	4.50	4.51
Contact Share	4.98	4.92

Key inputs in determining the fair values are:

	2017	2016
Risk-free interest rate	2%	3%
Expected dividend yield	6%	5%
Expected share price volatility	21%	22%

E10. RELATED PARTIES

Contact’s related parties include Directors, the Leadership Team (LT) and Rockgas Timaru Limited. Contact wholly owns Rockgas Limited, which holds 50% of Rockgas Timaru Limited. Both entities are LPG retailers.

Related party transactions are disclosed in the table below.

Received/(paid) \$m	2017	2016
Rockgas Timaru Limited		
Sale of LPG	2	1
Key management personnel		
Directors’ fees	(1)	(1)
LT – salary and other short-term benefits	(6)	(5)
LT – share-based compensation expense	(1)	(2)
Balances payable at end of the year		
Key management personnel	(1)	(1)

Members of the Leadership Team purchase goods and services from Contact for domestic purposes on normal commercial terms and conditions which includes staff discount available to all eligible employees.

E11. NEW ACCOUNTING STANDARDS

Contact early adopted the Amendments to NZ IAS 7 *Statement of Cash Flows*, which requires disclosure of changes in liabilities arising from financing activities. The table in note B4 provides the cash and non-cash changes in borrowings.

Contact intends to early adopt NZ IFRS 15 *Revenue from Contracts with Customers* and NZ IFRS 16 *Leases* for the year ending 30 June 2018. Early adoption provides clarity on the ongoing accounting requirements of new transactions.

Both standards will be adopted retrospectively with adjustments to retained earnings on 1 July 2016 to reflect the accounting policy changes.

Contact has chosen not to early adopt NZ IFRS 9 *Financial Instruments* effective for the year ending 30 June 2019. The impact on our Financial Statements has not yet been assessed.

Revenue recognition

The new standard provides detailed revenue recognition guidance, including how to treat cash incentives and discounts given to customers. The standard also requires capitalisation of incremental customer acquisition costs.

Cash incentives will be deferred on balance sheet and recognised against revenue when the related products are delivered to the customer. This is not an accounting policy change as cash incentives are already deferred over the related contract term of up to two years. However, the revised amortisation period will be changed to three years reflecting both average customer life and contract term. There may be some reclassification of cash incentives and discounts between product lines, e.g. retail gas and retail electricity.

Capitalisation of the incremental costs of acquiring customers is an accounting policy change. The costs will be amortised to operating expenses over a period consistent with that applied to cash incentives.

The effect of the changes desoribed above on the year ended 30 June 2017 would be an estimated increase in profit/(loss) of \$2 million and an estimated increase in deferred costs on balance sheet of \$4 million.

Lease accounting

The new standard introduces a single lessee accounting model that brings all leases on balance sheet except low value or short term leases. There is no change to lessor accounting.

Contact will recognise lease assets and lease obligations at inception of a lease that represent, primarily, the present value of lease payments for the minimum lease term and all renewal options that Contact is reasonably certain to exercise.

Rental payments are currently recognised as an operating expense. Under the new standard, they will be treated as a repayment of lease obligations. The lease obligations will result in recognition of interest expense and the lease assets will result in depreciation expense.

The estimated effect of the changes desoribed above on the year ended 30 June 2017 would have been an insignificant impact on profit/(loss), recognition of \$21 million of lease obligations and \$18 million of lease assets.

Independent Auditor's Report



TO THE SHAREHOLDERS OF CONTACT ENERGY LIMITED

REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

Opinion

In our opinion, the accompanying consolidated financial statements of Contact Energy Limited (the Company) and the entities over which it has control or joint control (the Group) on pages 61 to 79:

- i. present fairly in all material respects the Group's financial position as at 30 June 2017 and its financial performance and cash flows for the year ended on that date; and
- ii. comply with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

We have audited the accompanying consolidated financial statements which comprise:

- the consolidated statement of financial position as at 30 June 2017;
- the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended; and
- notes, including a summary of significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) ("ISAs (NZ)") (ISAE. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We are independent of the Group in accordance with Professional and Ethical Standard 1 (Revised) Code of Ethics for Assurance Practitioners issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

Our responsibilities under ISAs (NZ) are further described in the Auditor's Responsibilities for the Audit of the consolidated financial statements section of this report.

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

Scoping

The scope of our audit is designed to ensure that we perform adequate work to be able to give an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the financial reporting systems, processes and controls, and the industry in which it operates.

The context for our audit is set by the Group's major activities in the financial year ended 30 June 2017. The Group had a continued focus on improvements in retail operating performance as it seeks to realise benefits from its investments in its retail customer business. There also remains an ongoing focus on the generation portfolio in light of potential sector developments and overall strategy to increase the proportion of renewable generation in New Zealand.

Materiality

The scope of our audit was influenced by our application of materiality. Materiality helped us to determine the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and on the consolidated financial statements as a whole. The materiality for the consolidated financial statements as a whole was set at \$12 million determined with reference to a benchmark of Group profit before tax adjusted for certain significant non-recurring items. We chose the benchmark because, in our view, this is a key measure of the Group's performance.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements in the current period. We summarise below those matters and our key audit procedures to address those matters in order that the shareholders as a body may better understand the process by which we arrived at our audit opinion. Our procedures were undertaken in the context of and solely for the purpose of our statutory audit opinion on the consolidated financial statements as a whole and we do not express discrete opinions on separate elements of the consolidated financial statements

The key audit matter: Carrying value of cash-generating units

Note C2 of the Financial Statements.

The Group separates its business into three cash-generating units (CGUs) for the purpose of asset impairment testing. The value of each CGU, including any allocated goodwill, is supported by a discounted cash flow model which is inherently subjective.

We focused primarily on the generation assets due to the significance of the assets relative to the Group's financial position, the impact changes in underlying assumptions may have and the sensitivity of the generation portfolio to developments and changes in the electricity generation sector as a whole.

The significant assumptions in that model are forward electricity prices, future generation volumes, forecast operating and asset costs, the terminal growth rate and the discount rate applied to the future cash flows. All these assumptions involve judgement.

How the matter was addressed in our audit

Our work to assess whether the Group should recognise any impairment to the CGUs included ensuring the methodology adopted in the model is consistent with accepted valuation approaches. We also assessed whether the modelled cash flows appropriately reflect the Group's strategy and budget.

We tested the significant judgements in the modelled cash flows supporting the generation CGU, including comparing future prices to external market projections, comparing future volumes to historical volumes and comparing operating costs and asset renewal costs to historical levels, budget and assessing any impact in changes in the cost structure of generation sites. We also compared the model's terminal growth and discount rates to our own independently determined rate.

We challenged the assumptions by performing a sensitivity analysis, considering a range of likely outcomes based on various scenarios.

We are satisfied that the forward electricity prices, future generation volumes, forecast operating and asset costs, terminal growth rate and discount rate assumptions used by Management were within an acceptable ranges and in line with the current market view.

As an overall test we compared the Group's net assets at 30 June 2017 of \$2,775 million to its market capitalisation of \$3,728 million at 30 June 2017 and noted an implied headroom of \$953 million.

The key audit matter: Future development of generation capital work in progress

Note C1 of the Financial Statements.

We considered the recoverability of capital work in progress, with a particular focus on geothermal projects and wells that are being held for future development.

We consider this a key audit matter due to the recoverability assessment being based on Management's intention for continued investment in the project, determining the impact of future developments in the electricity generation sector and the level of judgement involved in the assumptions modelled to determine future economic feasibility of these projects.

How the matter was addressed in our audit

We satisfied ourselves that the recoverability of generation projects held in capital work in progress for future development were supported by appropriate development plans and economic feasibility models.

The minutes of board and executive management meetings, which we reviewed, demonstrated continued support for the future development of the generation projects held in work in progress and that there were no external sector factors which may indicate potential impairment or change in strategy towards these developments.

The key audit matter: Revenue recognition

Note A2 of the Financial Statements

The Group has numerous revenue streams for which there are different price structures and deliverables.

For electricity and gas revenue, customer billing cycles are not aligned to the end of reporting period therefore an estimate for unbilled receivable is required.

The estimation of revenue that has not been billed to customers is considered a key audit matter due to its significance to profit and the judgement involved in estimating each customer's electricity and gas consumption since their last bill.

How the matter was addressed in our audit

Our audit procedures over the key revenue streams included the testing the financial reporting control environment over the Group's capture and recording of revenue. We agreed wholesale electricity LPG and gas revenue streams to third party documentation and compared mass market and Commercial & Industrial electricity revenue to our expectation which was supported by internal and external factors.

Our audit procedures to assess the estimate of unbilled revenue and receivables included assessing the methodology used to calculate the unbilled revenue, recalculating a sample of the unbilled receivables at the individual customer level, performing trend analysis by comparing the unbilled mass market receivable to our forecasted expectation; and verified a sample of Commercial & Industrial unbilled receivables to subsequent invoice.

We found that the estimate of unbilled revenue and receivables to be in line with our expectation.



Other information

The Directors, on behalf of the Group, are responsible for the other information included in the Group's Annual Report. Other information includes the company reporting on pages 4 to 42, Governance Principles, Remuneration Report, Statutory Disclosures and Sustainability Reporting. Our opinion on the consolidated financial statements does not cover any other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Use of this Independent Auditor's Report

This report is made solely to the shareholders as a body. Our audit work has been undertaken so that we might state to the shareholders those matters we are required to state to them in the Independent Auditor's Report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the shareholders as a body for our audit work, this report, or any of the opinions we have formed.

Responsibilities of the Directors for the Consolidated Financial Statements

The Directors, on behalf of the Group, are responsible for:

- the preparation and fair presentation of the consolidated financial statements in accordance with generally accepted accounting practice in New Zealand (being New Zealand Equivalents to International Financial Reporting Standards) and International Financial Reporting Standards;
- implementing necessary internal control to enable the preparation of a consolidated set of financial statements that is fairly presented and free from material misstatement, whether due to fraud or error; and
- assessing the ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objective is:

- to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error; and
- to issue an Independent Auditor's Report that includes our opinion.

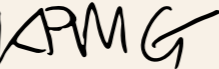
Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (NZ) will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

A further description of our responsibilities for the audit of these consolidated financial statements is located at the External Reporting Board (XRB) website at:

https://www.xrb.govt.nz/Site/Auditing_Assurance_Standards/Current_Standards/Page1.aspx.

This description forms part of our Independent Auditor's Report.



David Gates
For and on behalf of
KPMG
Wellington
11 August 2017

Corporate Directory

BOARD OF DIRECTORS

Sir Ralph Norris (Chairman)
Victoria Crone
Whaimutu Dewes
Rob McDonald
Sue Sheldon
Elena Trout

LEADERSHIP TEAM

Dennis Barnes
Chief Executive Officer
Graham Cockroft
Chief Financial Officer
Venasio-Lorenzo Crawley
Chief Customer Officer
James Kilty
Chief Generation and Development Officer
Tania Palmer
General Manager, People and Safety
Catherine Thompson
General Manager, External Relations and General Counsel

REGISTERED OFFICE

Contact Energy Limited
Harbour City Tower
29 Brandon Street
Wellington 6011
New Zealand
Phone: +64 4 499 4001
Fax: +64 4 499 4003
Find us on Facebook, Twitter, LinkedIn and YouTube
by searching for Contact Energy

POSTAL ADDRESS

PO Box 10742
The Terrace
Wellington 6143
New Zealand

COMPANY NUMBERS

NZ Incorporation 660760
ABN 68 080 480 477

AUDITOR

KPMG
PO Box 996
Wellington 6140
New Zealand

REGISTRY

Link Market Services Limited (Link) is Contact's registrar for shares and bonds and is your first point of contact for any queries regarding your investment in Contact. You can view your investment portfolio, indicate your preference for electronic communications, supply your email address, change your details or update your payment instructions relating to Contact at any time by visiting the Link Investor Centre:
investorcentre.linkmarketservices.co.nz
investorcentre.linkmarketservices.com.au

New Zealand

Email: contactenergy@linkmarketservices.co.nz
Mail: Link Market Services Limited, PO Box 91976, Auckland 1142
Office: Level 11, Deloitte Centre, 80 Queen Street, Auckland 1010
Phone: +64 9 375 5998
Fax: +64 9 375 5990
Web: linkmarketservices.co.nz

Australia

Email: contactenergy@linkmarketservices.com.au
Mail: Link Market Services Limited, Locked Bag A14,
Sydney South, NSW 1235
Office: 680 George Street, Sydney, NSW 2000
Phone: +61 2 8280 7111
Fax: +61 2 9287 0303
Web: linkmarketservices.com.au

INVESTOR RELATIONS ENQUIRIES

Matthew Forbes
Investor Relations Manager
Email: investor.centre@contactenergy.co.nz
Phone: +64 4 462 1323

SUSTAINABILITY ENQUIRIES

Genelle Palmer
Senior Sustainability Advisor
Email: genelle.palmer@contactenergy.co.nz

Assurer

Deloitte
P O Box 1990
Wellington 6140
New Zealand

Contact[®]