

93203R



Scholarship 2007 Accounting

2.00 pm Tuesday 4 December 2007

RESOURCE BOOKLET

Refer to this booklet to answer Question Six from Scholarship Accounting Question Booklet 93203Q.

Check that this booklet has pages 2–6 in the correct order and that none of these pages is blank.

YOU MAY KEEP THIS BOOKLET AT THE END OF THE EXAMINATION.

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RESOURCE ONE – SEGMENT REPORTING

The following information is contained in *Contact Energy Limited's* 2006 Annual Report.

Note 2: Segment reporting

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

Contact's primary reporting format is business segments. All business segments are fully integrated within New Zealand. Contact comprises the following main business segments:

Retail

The retail segment encompasses any activity that is associated with Contact's supply of energy to end-user customers as well as related services. Retail segment disclosures reflect the purchase of electricity at the market spot price.

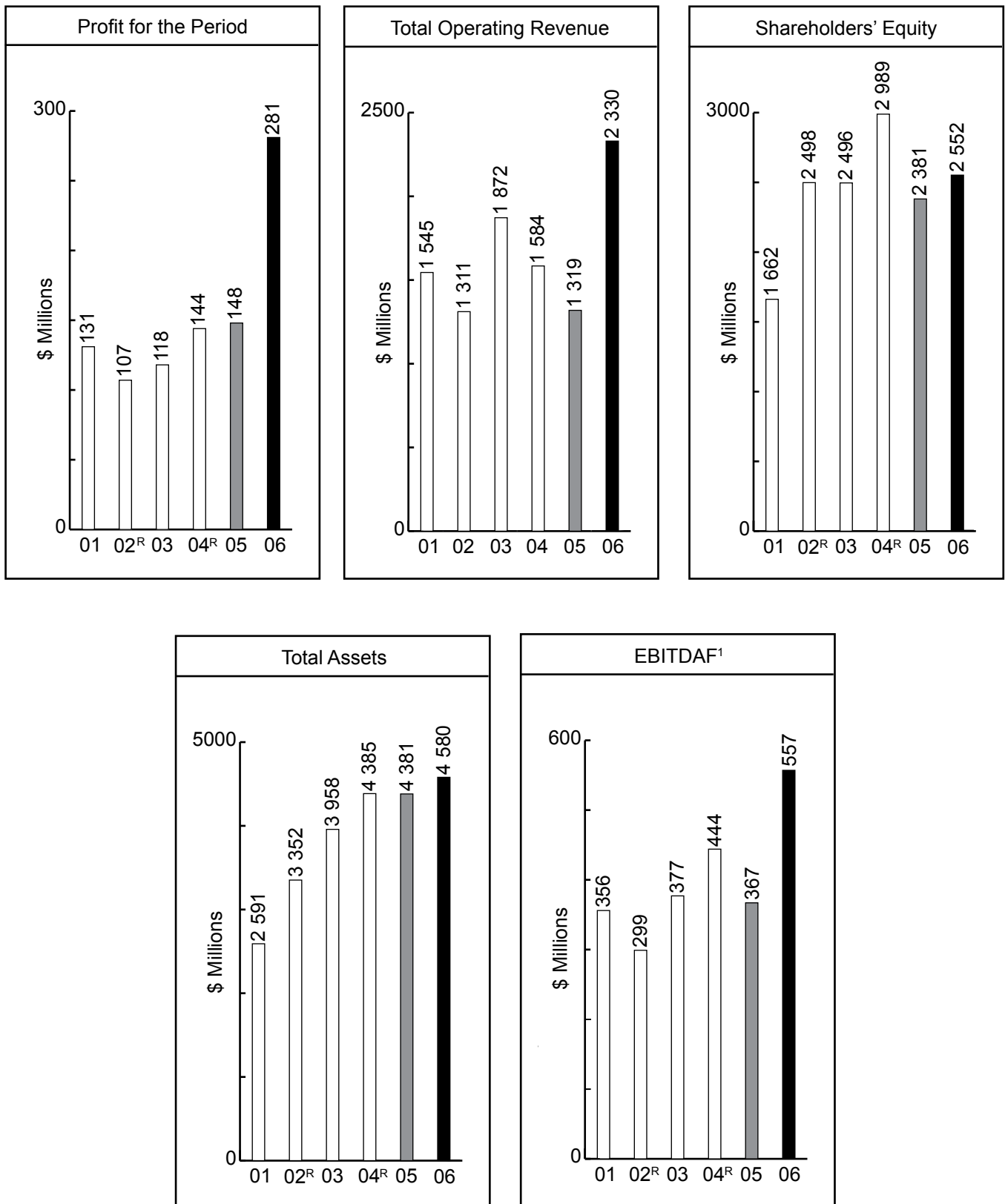
Wholesale

The wholesale segment encompasses any activity that is associated with Contact's generation of electricity or steam and Contact's sales to the wholesale electricity market. Wholesale segment disclosures reflect the sale of electricity at the market spot price and are net of the impact of electricity price hedges.

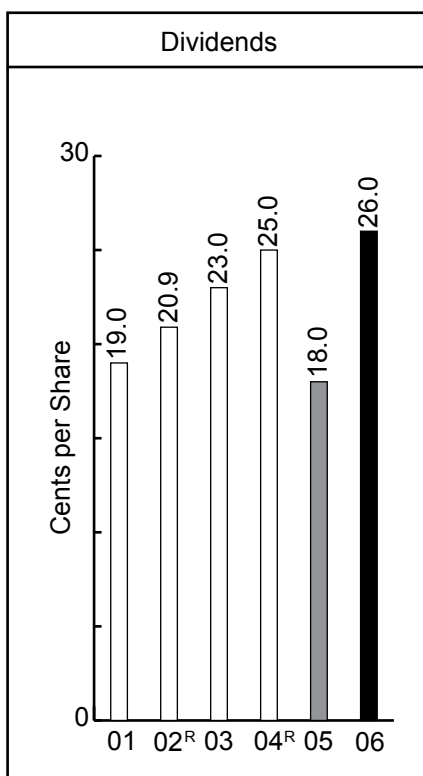
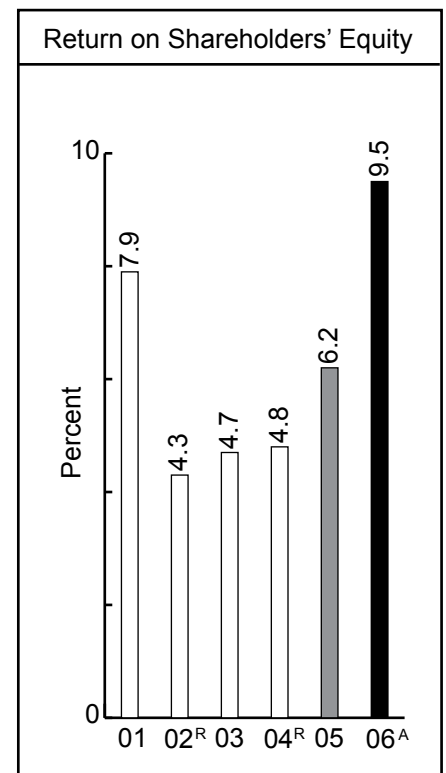
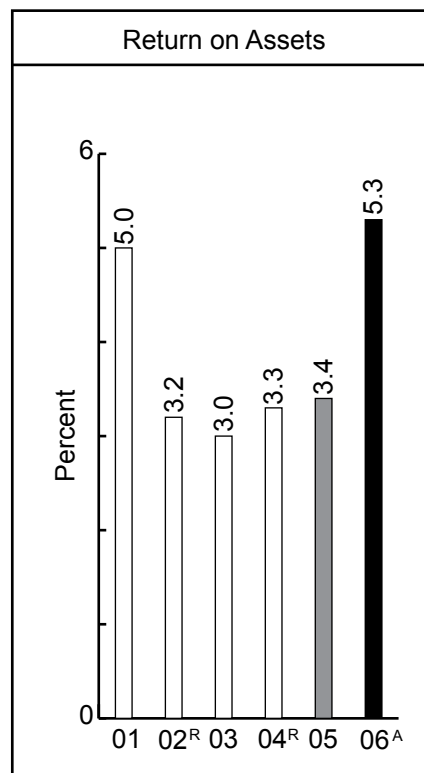
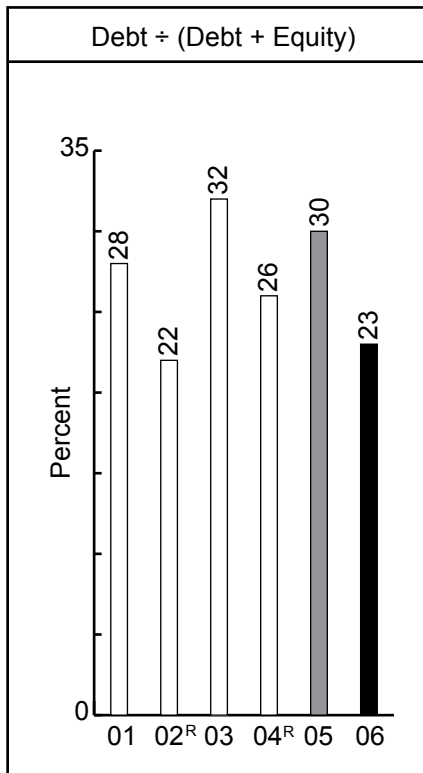
RESOURCE TWO – FINANCIAL STATISTICS AND RATIOS

The following information is contained in *Contact Energy Limited's* 2006 Annual Report.

Financial Statistics



Returns and Ratios



Notes to Graphs on pages 4 and 5:

- For years prior to 1 October 2004 the reporting period was the year ended 30 September; for 2005 the reporting period was the nine months ended 30 June 2005; for 2006 the reporting period is the year ended 30 June.
 - The 2005 and 2006 Financial Statistics and Returns and Ratios are based on financial statements prepared in accordance with New Zealand equivalents to International Financial Reporting Standards (NZIFRS).
- R Denotes years in which *Contact's* Property, Plant & Equipment were revalued. The revaluation affects Total Assets, Shareholders' Equity and related ratios.
- A Excludes Gain on Disposal of Subsidiaries and Change in Fair Value of Financial Instruments.
- 1 Earnings Before Net Interest, Tax, Depreciation, Amortisation and Financial Instruments. The year ended 30 June 2006 was the first year in which Changes in the Fair Value of Financial instruments were recognised within the Income Statement in accordance with NZIFRS.

RESOURCE THREE – REPORTS IN NEWS MEDIA

Contact Energy shares hard hit by anxious investors

Contact Energy shares are continuing to slide because of uncertainty about the leading electricity company's earnings, analysts say.

Contact shares yesterday shed another 8c to close at 675, taking the fall to about 90c since its annual meeting in early October. The stock is 131c down from its peak close of 806 in early July.

ABN Amro analyst James Miller said a combination of factors was impacting on the share price. The company's warning at the annual meeting of a squeeze on its earnings over the next three years had started the selling.

Contact's chairman, Grant King, told shareholders at the meeting its earnings in 2006 would grow but it expected higher gas costs to be a big challenge in the next three to four years.

Miller said analysts had already factored that into their valuations of Contact so it was unclear if Contact was indicating the margin squeeze might be greater.

Also, there was uncertainty about whether a carbon tax would eventuate. Hydro power producers like Contact had been expected to benefit from the rise in wholesale electricity prices a carbon tax would bring.

M. Steeman. THE PRESS, 22 October 2005, Edition 2, Page 2.

Contact share price struggles

Leading energy stock Contact Energy faces uncertain times on several fronts which is knocking the stuffing out of the share price.

Yesterday, the Contact share perked up a little to rise 5c and close at \$6.30. Other large stocks also enjoyed opportunistic pre-Christmas buying.

Contact's price has fallen almost to where it was a year ago.

New Zealand's second biggest sharemarket company climbed almost relentlessly on "aggressive" buying to a high of \$8.06 in July and then edged down over a few months.

But the rout really started in early October after the warning from the company's chairman, Grant King, at the annual meeting that Contact's costs for gas would rise and its earnings would flatten out in a couple of years.

That started more scrutiny of other issues in the electricity industry which had previously not impacted share price-wise on Contact and they also started to take a toll.

Source: M Steeman. THE PRESS, 20 December 2005, Edition 2, Page 1.