Where we do our best work.

Half Year Report 2014

Our Half Year Highlights

$112m

We've had a successful first half of the 2014 financial year, with a 27 per cent increase in profit after tax to $112 million.

11cps

We announced an interim distribution of 11 cents per share. That's 83 per cent of our underlying earnings after tax.

22%

Contact has a 22 per cent market share in one of the most competitive retail electricity markets in the world.

Ongoing progress

Our two key projects – the Te Mihi geothermal power station and the retail transformation system – are expected to be completed by the end of the financial year.

Rain or shine

We've had more predictable earnings, even in wetter conditions when wholesale prices are lower.

Stay safe mate

Improvement in health and safety continues with a strong focus on leadership and engagement.

Chief Executive's Review

Tēna koe

I am pleased to present our financial results for the 6 months ended 31 December 2013.

As our results show, the first half of the 2014 financial year has been successful for Contact. We have maintained market share in one of the most competitive retail electricity markets in the world, with our range of products and payment options remaining popular with customers both at home and in business.

Contact's earnings have become more predictable with the reduction in gas take-or-pay commitments, the upgrade of the inter-island transmission link and investment in thermal plant flexibility. Higher than normal inflows to hydro schemes avoided the need to run more expensive thermal generation and reduced energy procurement costs.

We have announced an interim distribution to shareholders of 11 cents per share. The distribution represents a payout ratio of 83 per cent of Contact's underlying earnings after tax.

Overview of results

	6 months ended 31 December 2013	
EBITDAF[1]	$264m	up 4% from $253m
Profit for the period	$112m	up 27% from $88m
Earnings per share (cents)	15.3 cps	up 25% from 12.2cps
Net items excluded from underlying earnings after tax	$15m	up from ($4m)
Underlying earnings after tax[2]	$97m	up 5% from $92m
Underlying earnings per share (cents)	13.2 cps	up 4% from 12.7 cps
Interim dividend (cents)	11 cps	stable
Operating cash flow after tax (OCAT)	$177m	stable
Capital expenditure	$153m	down 19% from $188m

1. EBITDAF is a non-generally accepted accounting practice (non-GAAP) profit measure. Management and directors monitor EBITDAF as a key indicator of Contact's performance at segment and Group levels and believe it assists investors in understanding the performance of the core operations of the business. A reconciliation of EBITDAF to underlying earnings after tax is provided in note 2 on page 15 of Contact's Half Year Report 2014.

2. Underlying earnings after tax is a non-GAAP profit measure that represents statutory profit excluding significant items that do not reflect the ongoing performance of the Group. A reconciliation of underlying earnings after tax to statutory profit is provided in note 2 on page 16 of Contact's Half Year Report 2014.

Competing strongly in an intense retail market

Strong competition and lower wholesale prices increased the number of electricity and gas customers on discounted products, resulting in reduced margins for Contact. Warmer weather and lower usage per customer meant a reduction in residential demand, but this was more than offset by increased sales to commercial and industrial customers, with total sales increasing 2 per cent.

Health and safety improvement continues

We've seen continued improvement in our health and safety results compared to the same period last year. However, we have still hurt eight of our people, across 2 million hours worked, through incidents such as strains and trips. While this is an improvement on the 12 people hurt over the previous period, it is still eight people too many. We continue to develop our safety leadership, facilitate on-the-job coaching and further improve staff engagement. This will help prevent accidents and injuries as we continue toward our aspiration of zero harm.

Te Mihi and retail transformation projects nearing completion

Our Te Mihi geothermal power station is in the final stages of commissioning and ran successfully at close to full capacity during its four week reliability test in December 2013. During this period, tests revealed an issue with the hot well pumps. Solutions are currently being developed, which should see the plant operating at full capacity before financial year end.

With our new retail transformation system also just around the corner we are ensuring the transition experience for our customers is as seamless as possible. When the project 'goes live' I am comfortable that we will deliver an even better and more consistent experience for our customers.

Refinancing nearing completion

Last month, we registered a 5-year retail bond exchange offer to existing holders of the $534 million retail bond as well as potential new investors. The bond offer will raise up to $250 million with a coupon rate of between 5.80 per cent and 6.00 per cent. We're now almost at the end of our $705 million refinancing programme with new funding secured through a wholesale bond, United States Private Placement and additional bank facilities. One of the goals of our refinancing programme was to increase the duration and maintain the diversity of our funding sources and I am pleased that we have been able to achieve this while also being able to give existing New Zealand bondholders the opportunity to take part in this offer.

Looking forward

In an environment of low demand growth and intense price-led competition, we are working to target further efficiencies to drive earnings growth, while significantly reduced capital expenditure will generate greater free cash flows. For the remainder of the 2014 financial year, Contact's focus will be on commissioning and embedding the Te Mihi geothermal power station and implementing the retail transformation system. These two projects will provide lower cost generation and new capabilities to offer products and solutions that better meet customer needs.

Beyond the delivery of our key projects, we will increase our attention on leveraging the existing asset base including already identified opportunities for increasing production from our renewable assets. With mounting cost pressures and intense competition we need to find ways to reduce our costs to acquire and service customers and I believe our retail transformation programme can assist with this.

We are yet to contract any additional gas beyond 2014 as we manage regulatory and demand uncertainty. We are currently determining Contact's role in providing the capacity the market needs to balance variability in wind and hydro generation.

As a business, it's important that we're able to operate in a stable regulatory environment given the long-term nature of our industry. Customers are seeing clear evidence that the current market is working with high levels of competition leading to lower prices. In the past 6 months alone we have seen customers continue to take up a range of discounted products in the market with savings of up to 22 per cent on their electricity bills. We have committed to not increasing the energy component of our customers' bills over the next year. However, we have had to pass on the increased costs of transmission and distribution. We believe that the existing market structure, with improvement in transparency, will continue to serve New Zealand well.

Overall I believe that we are doing well and I thank you for your ongoing support of our company. I look forward to sharing Contact's full year results with you later in the year.

Dennis Barnes

Dennis Barnes
Chief Executive Officer

The health and safety of our people

We're focused on further improving our health and safety performance by helping our team get more comfortable with having safety coaching conversations. When a person is hurt, the impacts are far-reaching. So in our view, one person hurt is one person too many.

Safety is our number one priority at Contact and we strive for zero harm to our people. Our view is that if it's not safe, it shouldn't happen. Each accident or injury hurts not only one of our people, but also impacts their family and friends – it's simply not OK.

So far this year eight of our people have been hurt, the majority of these occurring in our LPG cylinder delivery business as a result of strains and trips. Our aim is to improve on last financial year's performance where 19 people working across Contact were injured.

To help achieve this result we are focusing on increasing visible and active safety leadership. We're also working to reduce exposure to hazards, enhance our safety engagement with contractors and improve the way we share safety insights to maximise learning from our experiences and drive this continued improvement.

Key initiatives include introducing safety coaching for our leaders in the field who manage Contact teams and contractors. This, along with a focus on safety conversations, forms part of our third phase of our Stay Safe Mate initiative in which we use national sports hero and former All Black captain Tana Umaga as our spokesperson.

Driving is also a big part of our business so we're looking at ways we can improve driver behaviour and how we can help leaders coach their teams on driving. An in-vehicle monitoring system is also being introduced to help with this initiative.

A summer safety campaign was launched at the end of December 2013 to encourage greater safety awareness when returning to work.

Our partnership with Ngāti Tahu

Ngāti Tahu land trusts and Contact have formalised closer relationships and an agreement focused on addressing cultural, environmental and social effects of the Ohaaki power station on the people and taonga of Ngāti Tahu. These agreements have laid a foundation for an enduring, mutually beneficial partnership.

For the tangata whenua of the Ohaaki region, Ngāti Tahu and their respective land owning organisations (the Ohaaki Marae Reservation 338 Trust, the Ngāti Tahu Tribal Lands Trust, the Tahorakuri A130 Trust, and the Ngāti Tahu-Ngāti Whāoa Rūnanga Trust) Ohaaki Marae and its surrounding lands hold deep spiritual and cultural meaning. This is derived from generations of occupation and tribal identity.

However, when Contact was created in 1996 and acquired the Ohaaki power station and lease over Ngāti Tahu lands from the Crown, the Ohaaki Marae and surrounding lands were not in a good state.

With the acquisition, we inherited significant adverse environmental and cultural effects on the lands and people of Ngāti Tahu caused by the establishment and operation of the power station. These included subsidence and potential flooding of the Ohaaki Marae, the loss of geothermal features and impacts on the relationship of Ngāti Tahu with their taonga (inherited tangible and intangible treasures), all which had intergenerational effects on their people.

When Contact took ownership of the station, we began discussions with Ngāti Tahu to try to resolve these issues. However, such complex and significant matters were to take 17 years to resolve. The culmination of those often difficult conversations was the signing of mitigation agreements with the rūnanga and affected landowners in 2013, paving the way for the re-consenting of the Ohaaki power station in 2013 for the maximum period of 35 years.

With these agreements in place, Ngāti Tahu and Contact now have a firm basis to address environmental and cultural effects and to build a long-term relationship alongside the sustainable operation of the Ohaaki power station. The agreements and the work done to enhance our relationship provide a framework to grow our mutual aspirations and enhance the relationship of Ngāti Tahu with their whenua.

1. Tess Kora (L) and Rangimarie Ngamotu (R) of Ngāti Tahu welcome Contact to Ohaaki Marae to mark the signing of the Mitigation Agreement.

2. Gifting of taonga from James Kilty, Contact Energy (R), to Leo Rika, Ngāti Tahu (L).

Financial Statements

For the 6 months ended 31 December 2013

These financial statements have been authorised on behalf of the Contact Energy Limited Board of Directors on 17 February 2014.

Grant King
Chairman

Sue Sheldon
Director

Income Statement

For the 6 months ended 31 December 2013

	Note	Unaudited 6 months ended 31 Dec 2013 $m	Unaudited 6 months ended 31 Dec 2012 $m	Audited 12 months ended 30 June 2013 $m
Revenue and other income	3	1,148	1,213	2,526
Operating expenses	3	(884)	(960)	(1,985)
Other significant items	3	5	(4)	(28)
Depreciation and amortisation		(93)	(95)	(195)
Change in fair value of financial instruments	7	16	(1)	11
Net interest expense		(37)	(33)	(66)
Profit before tax		**155**	**120**	**263**
Tax expense		(43)	(32)	(64)
Profit for the period		**112**	**88**	**199**
Basic and diluted earnings per share (cents)		**15.3**	**12.2**	**27.2**

Statement of Comprehensive Income

For the 6 months ended 31 December 2013

	Unaudited 6 months ended 31 Dec 2013 $m	Unaudited 6 months ended 31 Dec 2012 $m	Audited 12 months ended 30 June 2013 $m
Profit for the period	**112**	**88**	**199**
Other comprehensive income			
Change in cash flow hedge reserve	(12)	6	16
Other comprehensive income before tax	**(12)**	**6**	**16**
Deferred tax relating to other comprehensive income	3	(2)	(4)
Other comprehensive income after tax	**(9)**	**4**	**12**
Total comprehensive income for the period	**103**	**92**	**211**

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

Statement of Changes in Equity

For the 6 months ended 31 December 2013

	Note	Share capital $m	Retained earnings $m	Cash flow hedge reserve $m	Share-based compensation reserve $m	Total shareholders' equity $m
Balance at 1 July 2012		1,534	1,884	(8)	8	3,418
Profit for the period after tax		-	88	-	-	88
Other comprehensive income after tax		-	-	4	-	4
Share options and performance share rights lapsed during the period		-	1	-	(1)	-
Transactions with owners recorded directly in equity:						
Change in share capital		71	-	-	-	71
Change in share-based compensation reserve		-	-	-	2	2
Distributions paid	4	-	(86)	-	-	(86)
Total transactions with owners recorded directly in equity		**71**	**(86)**	**-**	**2**	**(13)**
Unaudited closing balance at 31 December 2012		**1,605**	**1,887**	**(4)**	**9**	**3,497**
Balance at 1 January 2013		1,605	1,887	(4)	9	3,497
Profit for the period after tax		-	111	-	-	111
Other comprehensive income after tax		-	-	8	-	8
Transactions with owners recorded directly in equity:						
Change in share-based compensation reserve		-	-	-	2	2
Distributions paid	4	-	(81)	-	-	(81)
Total transactions with owners recorded directly in equity		**-**	**(81)**	**-**	**2**	**(79)**
Audited closing balance at 30 June 2013		**1,605**	**1,917**	**4**	**11**	**3,537**
Balance at 1 July 2013		1,605	1,917	4	11	3,537
Profit for the period after tax		-	112	-	-	112
Other comprehensive income after tax		-	-	(9)	-	(9)
Share options and performance share rights lapsed during the period		-	1	-	(1)	-
Transactions with owners recorded directly in equity:						
Change in share-based compensation reserve		-	-	-	2	2
Distributions paid	4	-	(103)	-	-	(103)
Total transactions with owners recorded directly in equity		**-**	**(103)**	**-**	**2**	**(101)**
Unaudited closing balance at 31 December 2013		**1,605**	**1,927**	**(5)**	**12**	**3,539**

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

Statement of Financial Position

At 31 December 2013

	Note	Unaudited 31 Dec 2013 $m	Unaudited 31 Dec 2012 $m	Audited 30 June 2013 $m
Shareholders' equity		**3,539**	**3,497**	**3,537**
Represented by:				
Current assets				
Cash and cash equivalents		196	8	80
Receivables and prepayments		211	240	343
Inventories		63	36	45
Carbon emission units		19	28	18
Derivative financial instruments	7	6	2	8
Assets held for sale		4	63	6
Tax receivable		-	1	-
Total current assets		**499**	**378**	**500**
Non-current assets				
Inventories		115	87	92
Property, plant and equipment	5	5,144	5,170	5,116
Intangible assets		268	215	242
Goodwill		182	182	182
Gas storage – cushion gas		52	52	52
Available-for-sale financial assets	7	3	3	3
Derivative financial instruments	7	-	2	2
Other non-current assets		8	8	8
Total non-current assets		**5,772**	**5,719**	**5,697**
Total assets		**6,271**	**6,097**	**6,197**
Current liabilities				
Payables and accruals		303	289	319
Borrowings	6	652	126	671
Derivative financial instruments	7	70	59	60
Provisions		3	3	6
Liabilities held for sale		-	6	-
Tax payable		3	-	15
Total current liabilities		**1,031**	**483**	**1,071**
Non-current liabilities				
Borrowings	6	767	1,184	699
Derivative financial instruments	7	108	145	87
Provisions		52	58	58
Deferred tax		750	725	735
Other non-current liabilities		24	5	10
Total non-current liabilities		**1,701**	**2,117**	**1,589**
Total liabilities		**2,732**	**2,600**	**2,660**
Net assets		**3,539**	**3,497**	**3,537**

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

Statement of Cash Flows

For the 6 months ended 31 December 2013

	Note	Unaudited 6 months ended 31 Dec 2013 $m	Unaudited 6 months ended 31 Dec 2012 $m	Audited 12 months ended 30 June 2013 $m
Cash flows from operating activities				
Receipts from customers		1,226	1,317	2,573
Payments to suppliers and employees		(998)	(1,074)	(2,058)
Tax paid		(38)	(39)	(46)
Net cash inflow from operating activities	9	**190**	**204**	**469**
Cash flows from investing activities				
Purchase of property, plant and equipment		(55)	(163)	(288)
Purchase of intangible assets		(28)	(21)	(43)
Proceeds from sale of property, plant and equipment		68	5	55
Interest received		2	2	2
Net cash (outflow) to investing activities		**(13)**	**(177)**	**(274)**
Cash flows from financing activities				
Proceeds from borrowings		379	69	387
Proceeds from gas sale and repurchase arrangement		15	12	27
Repayment of borrowings		(298)	(40)	(335)
Interest paid		(57)	(51)	(103)
Financing costs		(1)	-	(1)
Distributions paid to shareholders		(103)	(15)	(96)
Net cash (outflow) to financing activities		**(65)**	**(25)**	**(121)**
Net increase in cash and cash equivalents		**112**	**2**	**74**
Add: cash and cash equivalents at the start of the period		80	6	6
Cash and cash equivalents at the end of the period		**192**	**8**	**80**
Cash and cash equivalents comprise:				
Bank overdraft		(4)	-	-
Cash and short-term deposits		196	8	80
		192	**8**	**80**

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

Notes to the Financial Statements

For the 6 months ended 31 December 2013

1. BASIS OF ACCOUNTING

Reporting entity

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

The condensed interim financial statements (the Group financial statements) are presented for Contact Energy Limited and its subsidiaries and associate (together referred to as Contact or the Group) at, and for the 6 months ended, 31 December 2013.

Basis of preparation

The Group financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice (NZ GAAP) and comply with the requirements of NZ IAS 34 *Interim Financial Reporting* and also comply with IAS 34 *Interim Financial Reporting*.

The functional and reporting currency used in the preparation of the Group financial statements is New Zealand dollars, rounded to the nearest million ($m).

These Group financial statements do not include all the information required for full financial statements and consequently should be read in conjunction with the financial statements and related notes included in Contact's Annual Report for the year ended 30 June 2013 (2013 Annual Report).

Accounting policies and standards

The accounting policies set out in the 2013 Annual Report have been applied consistently to all periods presented in these Group financial statements.

NZ IFRS 13 *Fair Value Measurement* was adopted effective 1 July 2013 and has resulted in a change in the inputs used to value Contact's financial instruments. This change has had an immaterial impact on the reported values and resulted in additional disclosures included in note 7.

Critical accounting estimates and judgements

Application of Contact's accounting policies requires the use of estimates. The estimates are based on historical experience and other factors that are believed to be reasonable. Actual results may differ from these estimates. The areas of significant estimation and critical judgements are the same as those disclosed in the 2013 Annual Report.

2. SEGMENTS

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

The segments are:

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

Segment results

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

Unaudited 6 months ended 31 December 2013	Integrated Energy $m	Other $m	Inter-segment $m	Total $m
Revenue and other income	1,082	86	(20)	1,148
Cost of sales	(719)	(56)	20	(755)
Operating expenses	(119)	(10)	-	(129)
EBITDAF	**244**	**20**	**-**	**264**
Depreciation and amortisation				(93)
Net interest expense				(37)
Tax on underlying earnings				(37)
Underlying earnings after tax				**97**
Underlying earnings per share (cents)				**13.2**

Unaudited 6 months ended 31 December 2012	Integrated Energy $m	Other $m	Inter-segment $m	Total $m
Revenue and other income	1,136	94	(17)	1,213
Cost of sales	(786)	(61)	17	(830)
Operating expenses	(119)	(11)	-	(130)
EBITDAF	**231**	**22**	**-**	**253**
Depreciation and amortisation				(95)
Net interest expense				(33)
Tax on underlying earnings				(33)
Underlying earnings after tax				**92**
Underlying earnings per share (cents)				**12.7**

2. SEGMENTS (CONTINUED)

Audited 12 months ended 30 June 2013	Integrated Energy $m	Other $m	Inter-segment $m	Total $m
Revenue and other income	2,385	174	(33)	2,526
Cost of sales	(1,653)	(113)	33	(1,733)
Operating expenses	(230)	(22)	-	(252)
EBITDAF	**502**	**39**	**-**	**541**
Depreciation and amortisation				(195)
Net interest expense				(66)
Tax on underlying earnings				(78)
Underlying earnings after tax				**202**
Underlying earnings per share (cents)				**27.7**

Reconciliation of underlying earnings after tax to Group statutory profit

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

	Note	Unaudited 6 months ended 31 Dec 2013 $m	Unaudited 6 months ended 31 Dec 2012 $m	Audited 12 months ended 30 June 2013 $m
Underlying earnings after tax		**97**	**92**	**202**
Change in fair value of financial instruments	7	16	(1)	11
Other significant items	3	5	(4)	(28)
Tax on items excluded from underlying earnings		(6)	1	14
Profit for the period		**112**	**88**	**199**

3. COMPONENTS OF PROFIT

	Unaudited 6 months ended 31 Dec 2013 $m	Unaudited 6 months ended 31 Dec 2012 $m	Audited 12 months ended 30 June 2013 $m
Revenue			
Retail electricity	775	773	1,532
Wholesale electricity	248	297	742
LPG	61	65	119
Gas	48	54	92
Steam	11	11	19
Other income	5	13	22
Total revenue and other income	**1,148**	**1,213**	**2,526**
Operating expenses			
Electricity purchases	(239)	(289)	(678)
Electricity transmission, distribution and levies	(311)	(301)	(576)
Gas purchases, transmission and levies	(151)	(176)	(362)
LPG purchases	(39)	(48)	(87)
Meter costs	(16)	(13)	(26)
Emission costs	1	(3)	(4)
Labour costs	(49)	(55)	(105)
Other	(80)	(75)	(147)
Total operating expenses	**(884)**	**(960)**	**(1,985)**
Other significant items			
Gain on restructure of gas storage operations	7	-	-
Clutha land sales	3	2	13
Asset impairments	(3)	(3)	(72)
Transition costs	(2)	(3)	(4)
Gas meter assets sale	-	-	26
Decommissioned New Plymouth power station sale and provision release	-	-	17
Restructuring costs	-	-	(8)
Total other significant items	**5**	**(4)**	**(28)**

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

4. SHARE CAPITAL AND DISTRIBUTIONS

	Unaudited 31 Dec 2013		Unaudited 31 Dec 2012		Audited 30 June 2013	
	Number	$m	Number	$m	Number	$m
Ordinary shares	733,150,554	1,604	733,301,821	1,605	733,301,821	1,605
Restricted ordinary shares	158,208	1	-	-	-	-
Total shares	**733,308,762**	**1,605**	**733,301,821**	**1,605**	**733,301,821**	**1,605**

Ordinary shares

During the period, 44,593 performance share rights and 188,663 share options granted pursuant to Contact's Share Option Scheme vested and became exercisable. There were 6,941 performance share rights exercised, resulting in the issue of new shares.

Restricted ordinary shares

Contact launched an employee share ownership plan (Contact Share) during the period. Shares are purchased on market and held by Contact Energy Trust Company Limited (CETCL) on behalf of participating employees for a restrictive period of 3 years. CETCL is consolidated into the Group. During the restrictive period the shares cannot be traded, and employees are entitled to receive dividends and exercise voting rights. The shares are transferred to employees from CETCL at the end of the 3 year restrictive period if the employee remains employed by Contact.

Distributions paid

	Cents per share	Unaudited 31 Dec 2013 $m	Unaudited 31 Dec 2012 $m	Audited 30 June 2013 $m
2012 year final distribution	12.0	-	86	86
2013 year interim distribution	11.0	-	-	81
2013 year final distribution	14.0	103	-	-
Total distributions		**103**	**86**	**167**

5. PROPERTY, PLANT AND EQUIPMENT

	Unaudited 31 Dec 2013 $m	Unaudited 31 Dec 2012 $m	Audited 30 June 2013 $m
Opening balance	5,116	5,163	5,163
Additions	121	153	267
Transfers to assets held for sale [1]	(3)	(56)	(6)
Disposals	-	-	(56)
Depreciation	(87)	(87)	(180)
Impairment	(3)	(3)	(72)
Closing balance	**5,144**	**5,170**	**5,116**

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

Capital commitments

At 31 December 2013 Contact had $27 million (31 December 2012: $104 million, 30 June 2013: $51 million) committed under contractual arrangements, with substantially all payments due within 1 year.

6. BORROWINGS

	Unaudited 31 Dec 2013 $m	Unaudited 31 Dec 2012 $m	Audited 30 June 2013 $m
Long-term borrowings maturing within 1 year	648	92	670
Bank overdraft	4	-	-
Committed credit facilities	-	33	-
Finance lease liabilities	-	1	1
Total current borrowings	**652**	**126**	**671**
Retail bonds	533	546	548
Wholesale bonds	200	100	200
Fair value adjustment on wholesale bonds	(6)	-	(3)
Capital bonds	-	196	196
Export credit agency facility	83	-	87
US Private Placement (USPP) notes	751	587	452
Fair value adjustment on USPP notes	(147)	(154)	(111)
Total long-term borrowings	**1,414**	**1,275**	**1,369**
Finance lease liabilities	1	1	-
Less: long-term borrowings maturing within 1 year	(648)	(92)	(670)
Total non-current borrowings	**767**	**1,184**	**699**

Long-term borrowings maturing within 1 year are comprised of a tranche of the USPP notes maturing in March 2014, retail bonds maturing in May 2014, and scheduled repayments on the export credit agency facility in May and November 2014. During the period Contact issued US$240 million (NZ$301 million) of USPP notes with maturities between 7 and 15 years.

The proposed retail bond offer, cash at bank and the following facilities that will be available to be drawn are sufficient to meet Contact's debt maturing within 1 year:

	Unaudited 31 Dec 2013 $m	Unaudited 31 Dec 2012 $m	Audited 30 June 2013 $m
Committed credit facilities	450	347	450
Committed credit facilities available from May 2014	150	-	-
Export credit agency facility	13	92	-
Total committed facilities	**613**	**439**	**450**

The committed credit facilities support an unutilised $250 million Commercial Paper Programme.

CONTACT ENERGY LIMITED AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS

For the 6 months ended 31 December 2013

7. FINANCIAL INSTRUMENTS

The change in fair value of financial instruments during the period is summarised below:

	Unaudited 6 months ended 31 Dec 2013		Unaudited 6 months ended 31 Dec 2012		Audited 12 months ended 30 June 2013	
Favourable/(unfavourable)	Income Statement $m	Cash flow hedge reserve $m	Income Statement $m	Cash flow hedge reserve $m	Income Statement $m	Cash flow hedge reserve $m
Fair value hedges						
Cross-currency interest rate swaps	(36)	-	(24)	-	19	-
Interest rate derivatives	(3)	-	-	-	(3)	-
Borrowings designated in a fair value hedge relationship	39	-	24	-	(16)	-
Cash flow hedges						
Cross-currency interest rate swaps – margin	-	(4)	-	1	-	2
Foreign exchange derivatives	-	(1)	-	-	-	2
Electricity price derivatives	-	(7)	(1)	5	(1)	12
Tax on change in fair value	-	3	-	(2)	-	(4)
Derivatives not designated in hedge relationships						
Interest rate derivatives	15	-	-	-	12	-
Electricity price derivatives	1	-	-	-	-	-
Total fair value movement	**16**	**(9)**	**(1)**	**4**	**11**	**12**

7. FINANCIAL INSTRUMENTS (CONTINUED)

The following table classifies financial instruments by type and measurement basis. In accordance with the transitional provisions of NZ IFRS 13, comparative information is not required to be disclosed and is not provided at 31 December 2012.

	Unaudited 31 December 2013		Audited 30 June 2013	
	Carried at cost or amortised cost $m	Fair value $m	Carried at cost or amortised cost $m	Fair value $m
Loans and receivables and financial liabilities held at amortised cost				
Cash and cash equivalents	196	-	80	-
Receivables	205	-	340	-
Payables and accruals	(300)	-	(315)	-
Borrowings	(721)	-	(932)	-
Available-for-sale assets				
Investment in Liquigas Limited shares	3	-	3	-
Fair value hedges				
Cross-currency interest rate swaps	-	(147)	-	(111)
Interest rate derivatives	-	(6)	-	(3)
Borrowings designated in a fair value hedge relationship	-	(698)	-	(438)
Cash flow hedges				
Cross-currency interest rate swaps – margin	-	(6)	-	(2)
Foreign exchange derivatives	-	(2)	-	(1)
Electricity price derivatives	-	2	-	9
Derivatives not designated in hedge relationships				
Interest rate derivatives	-	(14)	-	(29)
Electricity price derivatives	-	1	-	-

CONTACT ENERGY LIMITED AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS

For the 6 months ended 31 December 2013

Fair value hierarchy

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

At 31 December 2013 all of Contact's financial instruments carried at fair value were categorised as level 2, except for $2 million (liability) of cash flow electricity price derivatives that were categorised as level 3 (30 June 2013: $1 million asset).

Fair value measurement

Contact uses discounted cash flow analysis to estimate the fair value of all derivatives. Two key types of variables used in the discounted cash flow analysis are forward price curves (for the relevant underlying interest rates, foreign exchange rates or electricity prices) and discount rates. Effective 1 July 2013, the discount rate is adjusted for Contact's own credit risk for financial liabilities and for counterparty credit risk for financial assets.

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

8. RELATED PARTY TRANSACTIONS

Transactions with related parties - received/(paid)	Unaudited 6 months ended 31 Dec 2013 $m	Unaudited 6 months ended 31 Dec 2012 $m	Audited 12 months ended 30 June 2013 $m
Origin and its subsidiaries			
Ahuroa gas storage facility development and operation expenses	(3)	(4)	(8)
SAP infrastructure and data services costs	(3)	(3)	(6)
Purchase of LPG	(21)	(28)	(42)
Sale of electricity	5	3	5
Sale of gas processing rights and associated assets	3	-	-
Key management personnel			
Directors' fees	(1)	(1)	(1)
Chief Executive Officer seconded from Origin [1]	(1)	(1)	(2)
Leadership team (excluding Chief Executive Officer)			
Salary, other short-term benefits and share-based compensation [1]	(4)	(5)	(7)
Termination benefits	-	-	(1)
Associate of the Group			
Sale of LPG	1	1	-
Balances payable at end of the period			
Origin and its subsidiaries	(5)	(8)	(5)
Key management personnel	(1)	(1)	(2)

1. Contact recognised an expense of $1 million (31 December 2012: $1 million, 30 June 2013: $2 million) in respect of options and performance share rights granted to the Leadership team and the Chief Executive Officer, which has been included in the amounts disclosed.

No transactions with new related parties were entered into during the period.

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

Contact paid a cash dividend to its Origin shareholders of $55 million on 16 September 2013. Contact did not issue any ordinary shares to Origin shareholders under the profit distribution plan during the period (31 December 2012 and 30 June 2013: 9,367,110 ordinary shares) and did not repurchase any ordinary shares during the period (31 December 2012 and 30 June 2013: 641,765 ordinary shares).

Contact and Origin have a Master Services Agreement for the provision of professional, consulting and administrative services. During the 6 months ended 31 December 2013 six employees were seconded from Origin to Contact and one employee was seconded from Contact to Origin. These secondments are undertaken on a cost recovery basis.

9. NOTE TO THE STATEMENT OF CASH FLOWS

Cash includes cash on hand, at bank and short-term deposits net of outstanding bank overdrafts. The table below provides a reconciliation of profit for the period to cash flows from operating activities.

	Unaudited 6 months ended 31 Dec 2013 $m	Unaudited 6 months ended 31 Dec 2012 $m	Audited 12 months ended 30 June 2013 $m
Profit for the period	**112**	**88**	**199**
Adjustments to reconcile profit to net cash inflow from operating activities			
Depreciation and amortisation	93	95	195
Change in fair value of financial instruments	(16)	1	(11)
Asset impairments	3	3	72
Gain on sale of property, plant and equipment	(3)	(2)	(50)
Net interest expense	37	33	66
Bad debt expense	8	6	15
Movement in provisions	1	(1)	(6)
Movement in deferred tax	17	22	31
Share-based compensation	2	1	4
Other	(1)	-	-
Changes in assets and liabilities, net of non-cash, investing and financing activities			
Receivables and prepayments	66	98	49
Inventories	(41)	8	(7)
Payables and accruals	(72)	(108)	(74)
Tax payable/receivable	(12)	(29)	(13)
Other	(4)	(11)	(1)
Net cash inflow from operating activities	**190**	**204**	**469**

10. CONTINGENT LIABILITIES

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

The commissioning of the Te Mihi geothermal power station has been extended due to technical issues. The associated commercial matters are in the process of being resolved with the contractor.

11. SUBSEQUENT EVENTS

On 17 February 2014 the Board declared an interim distribution of 11.0 cents per share, to be paid on 27 March 2014.

Auditor's review report

KPMG

To the shareholders of Contact Energy Limited

We have completed a review of the interim financial statements on pages 10 to 25 in accordance with the Review Engagement Standard RS-1 issued by the External Reporting Board. The financial statements provide information about the past financial performance of Contact Energy Limited and its subsidiaries (the Group) and its financial position as at 31 December 2013.

Directors' responsibilities

The Directors of Contact Energy Limited are responsible for the preparation of interim financial statements which give a true and fair view of the financial position of the group as at 31 December 2013 and the results of its operations and cash flows for the six month period ended on that date.

Reviewers' responsibilities

It is our responsibility to express an independent opinion on the interim financial statements presented by the Directors and report our opinion to you.

Basis of opinion

A review is limited primarily to enquiries of company personnel and analytical review procedures applied to the financial data and thus provides less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Our firm has also provided other services to the Group in relation to taxation. Partners and employees of our firm 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 auditors of the Group. The firm has no other relationship with, or interest in, the Group.

Review opinion

Based on our review, nothing has come to our attention that causes us to believe that the interim group financial statements on pages 10 to 25 do not give a true and fair view of the financial position of the Group as at 31 December 2013 and the results of its operations and cash flows for the six month period ended on that date in accordance with NZ IAS 34 *Interim Financial Reporting*.

Our review was completed on 17 February 2014 and our opinion is expressed as at that date.

KPMG

Wellington

Investor Information

Share registrar

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Website: www.linkmarketservices.co.nz

Investor relations enquiries

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Stock exchange listings

NZSX trading code: CEN
NZDX trading codes: CEN010 and CEN020

Company number

660760

Shareholder/bondholder enquiries

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

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

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

Direct crediting of dividends/interest payments

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

Electronic shareholder communication

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

Corporate Directory

Board of Directors

Grant King (Chairman)
Phillip Pryke (Deputy Chairman)
David Baldwin
Bruce Beeren
Whaimutu Dewes
Karen Moses
Sue Sheldon

Leadership Team

Dennis Barnes
Chief Executive Officer

Graham Cockroft
Chief Financial Officer

Mark Corbitt
General Manager – Information and Communication Technology

Peter Kane
General Manager – Operations

James Kilty
General Manager – Sales and Customer Experience

Tania Palmer
General Manager – Health, Safety and Environment

Paul Ridley-Smith
General Counsel

Nicholas Robinson
General Manager – Customer Insight, Marketing and Communications

Annika Streefland
General Manager – People and Culture

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Contact