
# Half Year Report 2017

Contact

# Chief Executive's Review

## $261m

EBITDAF, up 3% from $254m on improved operational performance

## $96m

Profit for the period, $212 million higher than 1H16 due to prior period impairments

## $4m

Or 3% reduction in other operating expenses over 1H16

Financial performance comparisons are against 1H16 unless specifically stated

### Tena koe (Greetings),

The first half of the 2017 financial year (1H17) saw Contact modestly grow earnings with continued improvements in retail operating performance and an increase in the proportion of renewable generation. In a competitive market, delivering strong operational performance and providing value for customers and shareholders remain the focus.

Contact reported a statutory profit for the six months ended 31 December 2016 of $96 million; $212 million higher than the prior corresponding period due to improved operating earnings and no repeat of the prior period impairments. EBITDAF increased by $7 million, or 3%, to $261 million while underlying profit after tax increased by $9 million or 12% to $82 million. Free cash flow for the period remained strong at $141 million, a $62 million reduction over 1H16, which included a tax credit driven by the closure of the Otahuhu power station together with increased extractions from gas storage and the late collection of FY15 debtors favourably impacting working capital movements.

The Board has resolved to maintain the interim dividend at 11 cents per share (1H16 11 cents per share). imputed to 8 cents per share. This represents a pay-out ratio of 96% of Contact's underlying profit. Contact remains committed to maintaining an investment grade credit rating and continued to reduce gearing levels with a $21 million reduction in debt during the period. Continued strong cash flow has Contact on target to return the net debt to EBITDA ratio to the preferred 2.6 to 3 times range.

### Transforming the Customer business

Contact's focus has been on delivering products which provide customers with greater choice, certainty and control as well as utilising data, real-time analytics and customer feedback to drive improvements in customer experience. Pleasingly, this progress has been reflected in an improvement in our key customer advocacy measure, Net Promoter Score, to +12, up from -3 in 1H16. The Customer business recorded a $6 million improvement in EBITDAF on the back of our operational focus.

Mass market electricity sales volumes were down by 110 GWh as average electricity usage decreased due to above average temperatures and newly acquired business customers who are lower users of energy than those replaced. Average customer numbers were down by 1,100 on 1H16 due to the continued elevated level of competition, including price discounting by large competitors and benign wholesale conditions that supported offerings by new entrants. The reduction in mass market sales was largely offset by increased commercial and industrial sales.

We have recently completed the simplification and migration of our core IT systems to the Cloud which, amongst other things, will make it easier for us to deliver services through lower cost mobile and online channels. We have also embedded data and analytics capability to better understand our customers' needs, with real-time customer insight improving the customer experience as well as lowering future operating costs.

Our systems and large customer base provide us with many opportunities to offer more than just our current service. We are continuing to explore opportunities for battery and solar products with customer trials in progress and continue to be a strong voice for the customer in a range of regulatory consultations. Our support of the adoption of electric vehicles in New Zealand continues through the conversion of our own fleet and as a partner of the Electric Highway. However, we operate in a competitive market and it remains our challenge to find products and services which allow us to leverage our investments and scale to offer a unique service.

## Competitive and reliable energy, delivered at a reduced cost

National electricity demand declined by 2% in 1H17 primarily driven by lower consumption in the residential sector and lower irrigation demand. Warmer temperatures and above average rainfall both contributed to the reduced electricity demand and also resulted in higher hydro generation, lower wholesale electricity prices and limited price volatility.

The flexibility of our portfolio and low levels of contracted gas were a real asset over the past six months. With high levels of renewable generation available in the market, we were able to reduce generation from our thermal plants and purchase lower cost energy from wholesale market participants. This trading strategy, combined with reduced electricity purchases and careful management of costs resulted in a $1 million improvement in EBITDAF from our Generation business.

Contact's strong cash flow has us on target to return the net debt to EBITDA ratio to our preferred 2.6–3 times range.

## We take safety seriously

Safety is top of mind in everything we do at Contact and is critical to the ongoing sustainable operation of our business. Done well, it creates value. It helps us perform reliably, is a reflection of business quality, makes us a strong employer brand, enables an engaged workforce, and has a positive effect on the bottom line. Our process safety programme, Safe to Run, helps us monitor and measure how well our systems are performing at keeping hazards away from our people, assets and the environment. At its heart process safety is about engagement and creating a culture that empowers people to play a meaningful role in identifying safety risks and coming up with ways to manage them.

The advance of our journey towards a generative safety culture is a priority for Contact, and the results of our latest people survey showing positive movement across the majority of measures that we track is pleasing. This improvement is also being seen through our lag performance measure, Total Recordable Injury Frequency Rate (TRIFR) which indicates we are on the right track with a strong 1H17 TRIFR result of 1.2 with over 1.6 million hours worked and 2 people unfortunately sustaining low severity injuries, an improvement from 3.1 that was recorded in 1H16.

## Looking forward

Our strategy remains centred on optimising the Customer and Generation businesses to deliver strong cash flows which are ultimately for distribution to shareholders.

In the last six months we have moved to report the performance of our Customer and Generation businesses seperately. The focus this brings will be used to monitor and drive improved performance in both businesses and ultimately deliver value for shareholders.

We expect our operational improvement initiatives to continue to reduce our costs. In time our large customer base and world class systems will provide an attractive opportunity for partners to join us in providing value for our customers beyond energy as we continue our evolution from an essential services business to a broader 'living services' business.

We will continue to focus on the structural efficiency of the electricity supply market. This includes the commencement of the 80MW financial agreement with Meridian Energy to support the continued operation of the Tiwai aluminium smelter. Our portfolio of long life generation assets will continue to lower the cost of energy through fuel substitution, electricity trading and gains realised through the execution of our continuous improvement programme.

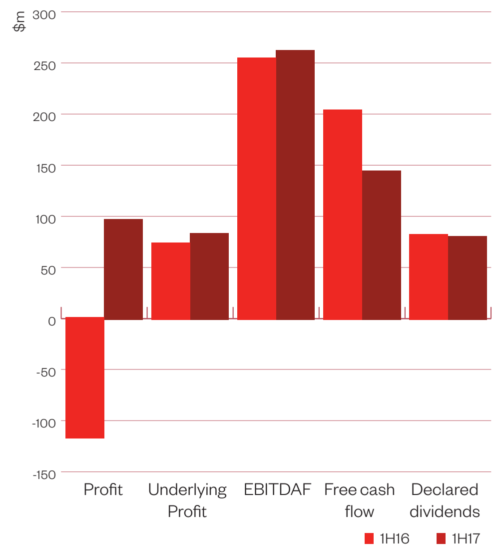
**Thank you for your continued support.**

Dennis Barnes

**Dennis Barnes**
Chief Executive Officer

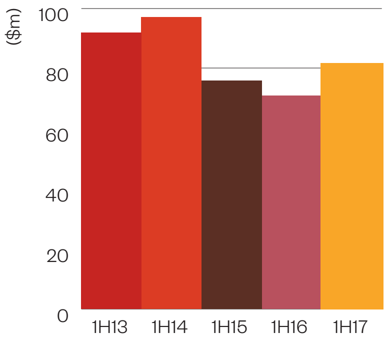
# Our performance for the period

Contact reported a statutory profit for the six months ended 31 December 2016 of $96m; $212m higher than the prior corresponding period. EBITDAF increased by $7m or 3% to $261m while underlying profit after tax increased by $9m or 12% to $82m. Free cash flow for the period remained strong at $141m, with the $62m reduction over 1H16 primarily related to the prior year tax credit and working capital movements. Strong free cash flow enabled Contact to reduce borrowings by $21m while maintaining a stable interim dividend of 11 cents per share.




| THE LAST FIVE YEARS IN REVIEW | Unit | 1H13 | 1H14 | 1H15 | 1H16 | 1H17 |
|---|---|---|---|---|---|---|
| Revenue and other income | $m | 1,213 | 1,148 | 1,240 | 1,120 | 1,039 |
| Expenses | $m | 960 | 884 | 983 | 866 | 778 |
| EBITDAF | $m | 253 | 264 | 257 | 254 | 261 |
| Profit | $m | 88 | 112 | 51 | (116) | 96 |
| Underlying profit | $m | 92 | 97 | 76 | 73 | 82 |
| Underlying profit per share | cps | 12.7 | 13.2 | 10.4 | 10.0 | 11.5 |
| Free cash flow | $m | 128 | 123 | 164 | 203 | 141 |
| Free cash flow per share | cps | 17.6 | 16.8 | 22.2 | 27.7 | 19.7 |
| Dividends declared | cps | 11.0 | 11.0 | 11.0 | 11.0 | 11.0 |
| Total assets | $m | 6,097 | 6,271 | 6,139 | 5,726 | 5,561 |
| Total liabilities | $m | 2,600 | 2,732 | 2,617 | 2,848 | 2,742 |
| Total equity | $m | 3,497 | 3,539 | 3,522 | 2,878 | 2,819 |
| Gearing ratio | % | 29 | 28 | 28 | 37 | 36 |

## UNDERLYING PROFIT

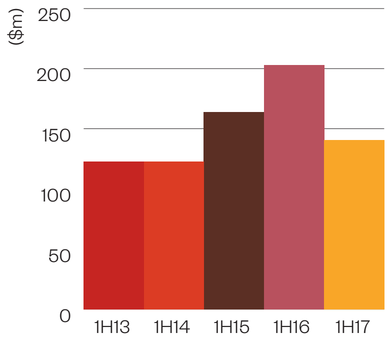



Underlying profit of $82m, was up $9m (12%) from 1H16 reflecting the increase in EBITDAF. Depreciation remained steady as the closure of Otahuhu and lower depreciation from TCC on the back of lower thermal generation was offset by accelerated depreciation on geothermal wells.

Net interest costs reduced by $5m on lower average borrowings and a 0.4% reduction in average interest costs.

Significant items excluded from underlying profit in the current period were the change in the fair value of financial instruments (+$30m), ICT change and transition costs ($7m), an estimate to address historic non-compliance with the Holidays Act ($5m), and $1m on the sale and closure of the Otahuhu power station. The tax expense associated with these significant items was $5m.

## FREE CASH FLOW

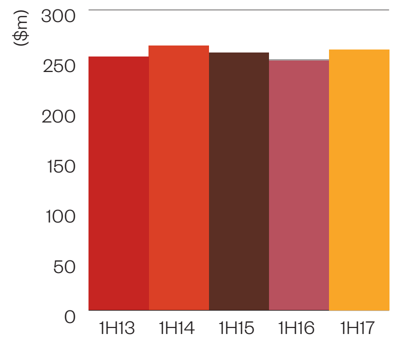



Free cash flow for the period remained strong at $141m, with the $62m reduction over 1H16.

Tax paid was $33m higher in 1H17 due to a tax credit relating to Otahuhu Power Station closure in 1H16.

$22m unfavourable working capital movement due to higher gas extractions in 1H16, late collection of FY15 debtors in 1H16 and payment in 1H17 for Stratford supercore that was accrued at FY16.

## EBITDAF




The Customer segment EBITDAF was up $6m (12%) as lower purchase costs more than offset the decline in mass market sales volumes and reduced netback as a result of selling more electricity to C&I customers which are at a lower margin.

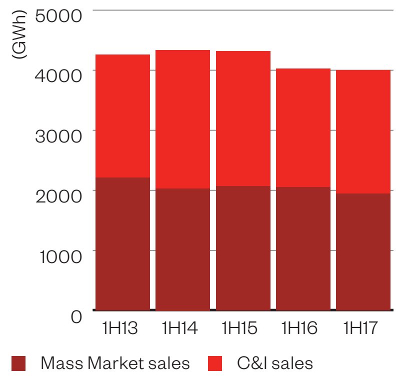
Electricity purchase costs reduced $9m (3%) due to lower sales volumes and a lower electricity transfer price reflecting reductions in ASX settlement prices.

Netback was down $5m (1%) to $371m on lower mass market sales volumes which was partially offset by a higher unit netback for mass market customers and an increase in sales to lower margin C&I customers. LPG EBITDAF was up $3m on the combination of lower product costs and higher sales volumes.

The Generation segment EBITDAF was $1m higher than 1H16 as cost of energy, which reflects the total operational costs of supplying the energy sold, improved by $10m to $125m on lower thermal generation as hydro conditions allowed increased purchases of lower cost CfDs. The improvement in cost of energy was offset by less revenue from electricity purchases from the Customer business on lower volumes and pricing.

Total other operating expenses decreased by $4m in the first half of the financial year due to a reduction in labour costs, reduced bad debt write-offs and lower insurance costs.

### Sales volumes and customer numbers




Total retail electricity sales volumes for 1H17 were down 25 gigawatt hours (GWh) to 4,001 GWh on reduced mass market sales volumes. Mass market sales volumes were 5% lower than 1H16 during a period with higher average temperatures which reduced electricity demand. Customer numbers were 1,100 on average lower in 1H16 on continued price discounting by larger competitors and benign wholesale conditions supporting new entrants. C&I sales volumes were up 85 GWh on higher CfD sales

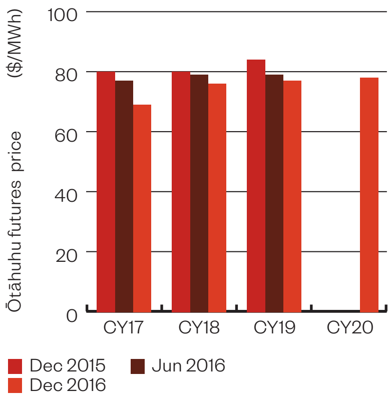
Lower sales volumes and a lower electricity transfer price reflecting reductions in ASX forward prices saw purchase costs reduced $9m (3%).

### Netback margins

Total electricity and gas netback was down by $5m (1%) to $371m on lower mass market sales volumes, partially offset by an increase in sales to lower margin C&I customers and a $4m reduction in operating costs to serve our customers.

Mass market electricity netback was up $1/MWh as Contact increased mass market tariffs by $6/MWh. These increases were able to cover network costs increases which were up by $4/MWh over 1H16. C&I electricity netback was down by $2/MWh with the prices on contracts of new customers tracking the ASX futures prices down. Retail gas netback was up by $2 per MWh on lower operating costs and higher sales volumes. LPG margins increased by $3m on a combination of lower LPG product costs (down 8%) and a 2% increase in sales volume.

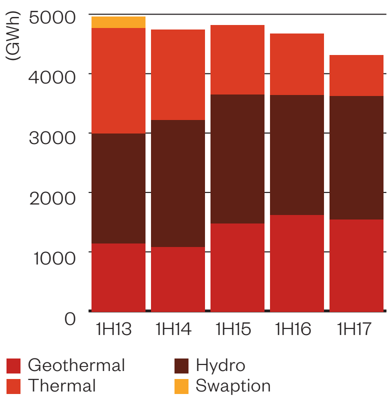
### Wholesale price and volumes




In 1H17, the volume of electricity purchased for Contact customers decreased by 29 GWh in line with the reduction in total electricity sales. The contribution from wholesale financial markets was up $6m on increased CfD sales volumes and lower CfD prices.

The average price received for generation was $47 per MWh, down $11 per MWh. The average price paid for purchases was $53 per MWh, $10 per MWh lower than 1H16.

### Fuel mix and generation costs

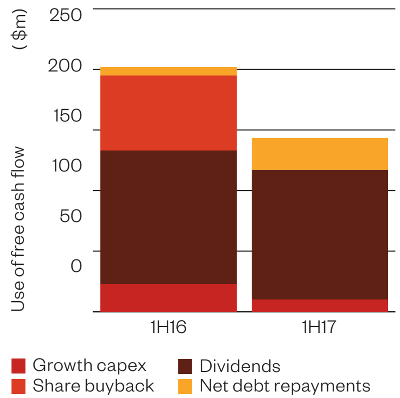



Total renewable generation in 1H17 was flat on the prior corresponding period but increased to 84% of the total generation on the lower generation volumes in the period. Increased hydro generation offset geothermal generation which was lower than 1H16 as a planned outage at Te Mihi extended by a month longer than scheduled. Te Mihi returned to full capacity on 30 November 2016.

Lower national electricity demand (2% lower than 1H16) and high levels of renewable generation saw thermal generation replaced with lower cost CFDs from wholesale market participants with excess generation.

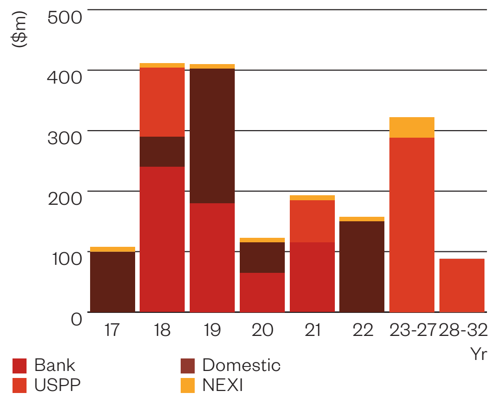
Thermal generation was down 351 GWh to 685 GWh with baseload CCGTs reducing 416 GWh and a 65 GWh increase in the amount of peaking generation as their flexibility was utilised to manage portfolio positions. Total gas used in generation was 7 PJ at an average cost of $6/GJ. This included 1.5 PJ of gas extracted from Ahuroa, enabling Contact to maintain a flexible gas contracting position.

## DISTRIBUTIONS




The Board has resolved to maintain the interim dividend at 11 cents per share (1H16 11 cents per share) with 8 cents per share imputed. With the business continuing to generate strong free cash flows, the Board is balancing the use of free cash flow between distributions to shareholders via dividends, the repayment of debt, and reinvestment in the existing business with the current priority being the reduction of debt.

## FUNDING




Total term debt at 31 December 2016 was $1,610m. Contact continues to benefit from a funding portfolio that is flexible, efficient and diverse with a manageable maturity profile. Average weighted cost of borrowings continued to improve, falling a further 0.45% in 1H17 as competitively priced USPP and retail bond facilities were executed replacing higher cost debt.

The face value of net borrowings reduced from 30 June 2016 as surplus cash was applied to the reduction of debt. Contact remains committed to maintaining an efficient capital structure and an investment grade credit rating, with a current Standard and Poor's rating of BBB since 2002. The attributes of the funding portfolio, along with the investment grade credit rating, places Contact in a strong position to withstand variable market conditions.

# Financial Statements

## For the six months ended 31 December 2016

### About these Financial Statements

These condensed interim 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 condensed interim Financial Statements for the six months ended 31 December 2016 provide a summary of Contact's performance for the period and outline significant changes to information reported in the Financial Statements for the year ended 30 June 2016 (2016 Annual Report). The Financial Statements should be read with the 2016 Annual Report. Certain comparative amounts have been reclassified to conform with the current period's classification.

The Financial Statements have been prepared:

- In accordance with New Zealand generally accepted accounting practice (GAAP) and comply with NZ IAS 34 and with IAS 34 Interim Financial Reporting
- In millions of New Zealand dollars
- Using the same accounting policies and significant estimation and critical judgments disclosed in the 2016 Annual Report.

The Financial Statements were authorised on behalf of the Contact Energy Limited Board of Directors on 10 February 2017.

**Sir Ralph Norris**
Chairman

**Sue Sheldon**
Director

# Statement of Comprehensive Income

## For the six months ended 31 December 2016

| $m | Note | Unaudited six months ended 31 Dec 2016 | Unaudited six months ended 31 Dec 2015 | Audited year ended 30 June 2016 |
|---|---|---|---|---|
| Revenue and other income | A2 | 1,039 | 1,120 | 2,163 |
| Operating expenses | A2 | (778) | (866) | (1,640) |
| Significant items | A2 | 19 | (272) | (327) |
| Depreciation and amortisation | C1 | (99) | (97) | (201) |
| Net interest expense | | (47) | (52) | (101) |
| **Profit/(loss) before tax** | | **134** | **(167)** | **(106)** |
| Tax (expense)/credit | | (38) | 51 | 40 |
| **Profit/(loss)** | | **96** | **(116)** | **(66)** |
| **Items that may be reclassified to profit/(loss):** | | | | |
| Change in cash flow hedge reserve | D1 | 8 | (9) | 5 |
| Deferred tax relating to cash flow hedges | D1 | (2) | 1 | (3) |
| **Other comprehensive income/(loss)** | | **6** | **(8)** | 2 |
| **Comprehensive income/(loss)** | | **102** | **(124)** | **(64)** |
| Profit/(loss) per share (cents) -Basic | | 13.5 | (15.9) | (9.1) |
| Profit/(loss) per share (cents) -Diluted | | 13.3 | (15.6) | (9.0) |

# Statement of Cash Flows

## For the six months ended 31 December 2016

| $m | Note | Unaudited six months ended 31 Dec 2016 | Unaudited six months ended 31 Dec 2015 | Audited year ended 30 June 2016 |
|---|---|---|---|---|
| Receipts from customers | | 1,055 | 1,154 | 2,172 |
| Payments to suppliers and employees | | (790) | (870) | (1,620) |
| Tax received/(paid) | | (25) | 8 | 1 |
| Liquidated damages received | | - | - | 2 |
| Dividends received | | - | - | 1 |
| **Operating cash flows** | | **240** | **292** | **556** |
| Purchase of assets | | (65) | (69) | (122) |
| Proceeds from sale of assets | | 2 | 3 | 27 |
| Interest received | | - | - | 1 |
| **Investing cash flows** | | **(63)** | **(66)** | **(94)** |
| Dividends paid | B2 | (107) | (110) | (189) |
| Share buyback | B1 | - | (62) | (100) |
| Proceeds from borrowings | | 20 | 315 | 360 |
| Repayment of borrowings | | (40) | (303) | (426) |
| Interest paid | | (44) | (46) | (94) |
| Gas sale and repurchase arrangement | | (6) | (4) | (7) |
| **Financing cash flows** | | **(177)** | **(210)** | **(456)** |
| **Net cash flow** | | **-** | **16** | **6** |
| Add: cash at the beginning of the period | | - | (6) | (6) |
| **Cash at the end of the period** | | **-** | **10** | **-** |
| Bank overdraft | B3 | (4) | - | (5) |
| Cash and cash equivalents | | 4 | 10 | 5 |



# Statement of Financial Position

## At 31 December 2016

| $m | Note | Unaudited 31 Dec 2016 | Unaudited 31 Dec 2015 | Audited 30 June 2016 |
|---|---|---|---|---|
| Cash and cash equivalents | | 4 | 10 | 5 |
| Trade and other receivables | | 181 | 180 | 201 |
| Inventories | | 55 | 63 | 58 |
| Intangible assets | C1 | 18 | 21 | 15 |
| Derivative financial instruments | D1 | 29 | 7 | 22 |
| Tax receivable | | - | 10 | - |
| Assets held for sale | | - | 29 | 1 |
| **Total current assets** | | **287** | **320** | **302** |
| Inventories | | 37 | 76 | 46 |
| Property, plant and equipment | C1 | 4,649 | 4,757 | 4,699 |
| Intangible assets | C1 | 331 | 312 | 318 |
| Goodwill | | 182 | 182 | 182 |
| Derivative financial instruments | D1 | 57 | 68 | 88 |
| Other non-current assets | | 18 | 11 | 17 |
| **Total non-current assets** | | **5,274** | **5,406** | **5,350** |
| **Total assets** | | **5,561** | **5,726** | **5,652** |
| Trade and other payables | | 203 | 187 | 223 |
| Borrowings | B3 | 436 | 289 | 305 |
| Derivative financial instruments | D1 | 22 | 21 | 24 |
| Provisions | | 15 | 5 | 10 |
| Tax payable | | 4 | - | - |
| **Total current liabilities** | | **680** | **502** | **562** |
| Borrowings | B3 | 1,209 | 1,471 | 1,391 |
| Derivative financial instruments | D1 | 52 | 61 | 82 |
| Provisions | | 45 | 49 | 44 |
| Deferred tax | | 749 | 739 | 736 |
| Other non-current liabilities | | 7 | 26 | 14 |
| **Total non-current liabilities** | | **2,062** | **2,346** | **2,267** |
| **Total liabilities** | | **2,742** | **2,848** | **2,829** |
| **Net assets** | B1 | **2,819** | **2,878** | **2,823** |
| Share capital | | 1,515 | 1,552 | 1,515 |
| Retained earnings | | 1,284 | 1,322 | 1,294 |
| Cash flow hedge reserve | | 14 | (3) | 7 |
| Share-based compensation reserve | | 6 | 7 | 7 |
| **Shareholders' equity** | | **2,819** | **2,878** | **2,823** |

# Statement of Changes in Equity

For the six months ended 31 December 2016

| $m | Note | Share capital | Retained earnings | Other reserves | Total shareholders' equity |
|---|---|---|---|---|---|
| Balance at 1 July 2015 | | 1,605 | 1,546 | 20 | 3,171 |
| Loss | A2 | - | (116) | - | (116) |
| Change in cash flow hedge reserve (net of tax) | | - | - | (8) | (8) |
| Lapsed share scheme awards | | - | 2 | (2) | - |
| Change in share capital | B1 | (53) | - | (10) | (63) |
| Share-based compensation expense | | - | - | 4 | 4 |
| Dividends paid | B2 | - | (110) | - | (110) |
| **Unaudited balance at 31 December 2015** | | **1,552** | **1,322** | **4** | **2,878** |
| Profit | A2 | - | 50 | - | 50 |
| Change in cash flow hedge reserve (net of tax) | | - | - | 10 | 10 |
| Lapsed share scheme awards | | - | 1 | (1) | - |
| Change in share capital | B1 | (37) | - | - | (37) |
| Share-based compensation expense | | - | - | 1 | 1 |
| Dividends paid | B2 | - | (79) | - | (79) |
| **Audited balance at 30 June 2016** | | **1,515** | **1,294** | **14** | **2,823** |
| Profit | A2 | - | 96 | - | 96 |
| Change in cash flow hedge reserve (net of tax) | | - | - | 6 | 6 |
| Lapsed share scheme awards | | - | 1 | (1) | - |
| Share-based compensation expense | | - | - | 1 | 1 |
| Dividends paid | B2 | - | (107) | - | (107) |
| **Unaudited balance at 31 December 2016** | | **1,515** | **1,284** | **20** | **2,819** |

# A. Our Performance

## A1. SEGMENTS

Contact's operating segments were changed during the reporting period to the Generation segment and the Customer segment to better reflect how the business is now 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 energy, and costs to service and distribute energy to the customer.

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 on the next page provides a breakdown of Contact's revenue and expenses, earnings before interest, tax, depreciation and amortisation, and changes in fair value of financial instruments and significant items (EBITDAF) by segment, and a reconciliation from EBITDAF and underlying profit to profit/(loss) reported under NZ GAAP.

EBITDAF and underlying profit are used to monitor performance and are non-GAAP profit measures.

Significant items are excluded from EBITDAF and underlying profit when they meet criteria approved by the Board of Directors. 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 D1 for a breakdown.
- Transition costs: Incurred as a result of the ICT Change and Transition programme that will significantly change Contact's ICT infrastructure and service delivery. Included in the cost is $1 million of accelerated depreciation (31 December 2015: nil, 30 June 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. At 31 December 2016, a provision representing the best estimate of the cost to resolve the issue, including payments to current and previous employees, was recognised. Actual payments may differ to the estimate and the cost recognised will be adjusted accordingly.
- Otahuhu thermal power station closure and sale: Remaining costs and proceeds from asset sales relating to the Otahuhu power station sale that occurred during the year ended 30 June 2016.

| | Unaudited six months ended 31 Dec 2016 | | | | Unaudited six months ended 31 Dec 2015 | | | | Audited year ended 30 June 2016 | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| $m | Generation | Customer | Eliminations | Total | Generation | Customer | Eliminations | Total | Generation | Customer | Eliminations | Total |
| Mass market electricity | - | 466 | - | 466 | - | 481 | - | 481 | - | 903 | - | 903 |
| Commercial & Industrial (C&I) electricity[1] | - | 251 | (16) | 235 | - | 249 | (6) | 243 | - | 520 | (19) | 501 |
| Wholesale electricity[1] | 217 | - | 6 | 223 | 276 | - | 1 | 277 | 539 | - | 4 | 543 |
| Inter-segment electricity sales | 328 | - | (328) | - | 337 | - | (337) | - | 675 | - | (675) | - |
| Gas | - | 36 | - | 36 | 1 | 35 | - | 36 | 1 | 62 | - | 63 |
| LPG | - | 64 | - | 64 | - | 63 | - | 63 | - | 117 | - | 117 |
| Steam | 14 | - | - | 14 | 16 | - | - | 16 | 25 | - | - | 25 |
| **Total revenue** | **559** | **817** | **(338)** | **1,038** | **630** | **828** | **(342)** | **1,116** | **1,240** | **1,602** | **(690)** | **2,152** |
| Other income (including liquidated damages) | - | 1 | - | 1 | 2 | 2 | - | 4 | 6 | 5 | - | 11 |
| **Total revenue and other income** | **559** | **818** | **(338)** | **1,039** | **632** | **830** | **(342)** | **1,120** | **1,246** | **1,607** | **(690)** | **2,163** |
| Electricity purchases[1] | (219) | - | 10 | (209) | (263) | - | 5 | (258) | (528) | - | 15 | (513) |
| Inter-segment electricity purchases | - | (328) | 328 | - | - | (337) | 337 | - | - | (675) | 675 | - |
| Gas purchases | (45) | (8) | - | (53) | (70) | (8) | - | (78) | (108) | (14) | - | (122) |
| LPG purchases | - | (34) | - | (34) | - | (38) | - | (38) | - | (68) | - | (68) |
| Electricity networks, transmission, levies & meter costs | (21) | (305) | - | (326) | (20) | (310) | - | (330) | (41) | (596) | - | (637) |
| Gas networks, transmission, levies & meter costs | (4) | (19) | - | (23) | (8) | (18) | - | (26) | (12) | (33) | - | (45) |
| Other operating expenses | (62) | (66) | - | (128) | (64) | (68) | - | (132) | (121) | (126) | - | (247) |
| Carbon emissions | (4) | (1) | - | (5) | (4) | - | - | (4) | (7) | (1) | - | (8) |
| **Total operating expenses** | **(355)** | **(761)** | **338** | **(778)** | **(429)** | **(779)** | **342** | **(866)** | **(817)** | **(1,513)** | **690** | **(1,640)** |
| **EBITDAF** | **204** | **57** | **-** | **261** | **203** | **51** | **-** | **254** | **429** | **94** | **-** | **523** |
| Depreciation and amortisation | | | | (99) | | | | (97) | | | | (201) |
| Net interest expense | | | | (47) | | | | (52) | | | | (101) |
| Tax on underlying profit | | | | (33) | | | | (32) | | | | (64) |
| **Underlying profit** | | | | **82** | | | | **73** | | | | **157** |
| **Significant items** | | | | | | | | | | | | |
| Change in fair value of financial instruments | | | | 30 | | | | (9) | | | | (21) |
| Transition costs | | | | (7) | | | | (5) | | | | (10) |
| Remediation for Holidays Act non-compliance | | | | (5) | | | | - | | | | - |
| Otahuhu thermal power station closure and sale | | | | 1 | | | | (223) | | | | (217) |
| Write-down of inventory gas | | | | - | | | | - | | | | (43) |
| Asset impairments | | | | - | | | | (35) | | | | (36) |
| Tax on significant items | | | | (5) | | | | 83 | | | | 100 |
| Reinstatement of tax depreciation on powerhouses | | | | - | | | | - | | | | 4 |
| **Profit/(loss)** | | | | **96** | | | | **(116)** | | | | **(66)** |
| **Underlying profit per share (cents)** | | | | **11.5** | | | | **10.0** | | | | **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 CfD treatment grosses up revenue and expenses. For financial reporting purposes, these CfDs are settled net within wholesale electricity revenue.

## A3. FREE CASH FLOW

| $m | Unaudited six months ended 31 Dec 2016 | Unaudited six months ended 31 Dec 2015 | Audited year ended 30 June 2016 |
|---|---|---|---|
| **EBITDAF** | **261** | **254** | **523** |
| Tax received/(paid) | (25) | 8 | 1 |
| Change in working capital net of non-cash, investing and financing activities | 4 | 26 | 22 |
| Non-cash items included in EBITDAF | 6 | (9) | 20 |
| Significant items, net of non-cash adjustments | (6) | (5) | (10) |
| **Operating cash flows** | **240** | **292** | **556** |
| Net interest paid | (44) | (46) | (93) |
| Stay in business capital expenditure | (57) | (46) | (87) |
| Proceeds from sale of assets | 2 | 3 | 27 |
| **Free cash flow** | **141** | **203** | **403** |
| **Free cash flow per share (cents)** | **19.7** | **27.7** | **55.5** |

## A4. RELATED PARTY TRANSACTIONS

Contact's related parties include Directors, the Leadership Team and Rockgas Timaru Limited. In August 2015, Origin Energy Limited sold its majority shareholding in Contact. Transactions with Origin up to that point, and all other related party transactions are disclosed in the table below.

| $m | Unaudited six months ended 31 Dec 2016 | Unaudited six months ended 31 Dec 2015 | Audited year ended 30 June 2016 |
|---|---|---|---|
| **Key management personnel** | | | |
| Directors' fees | (1) | (1) | (1) |
| Leadership Team -salary and other short-term benefits | (3) | (4) | (5) |
| Leadership Team -share-based compensation expense | - | (2) | (2) |
| **Other related parties** | | | |
| Sale of LPG to Rockgas Timaru | 1 | 1 | 1 |
| Purchase of LPG from Origin | - | (6) | (6) |
| SAP infrastructure and data services costs paid to Origin | - | (1) | (1) |

# B. Our Funding

## B1. SHARE CAPITAL

| | Number | $m |
|---|---|---|
| Balance at 1 July 2015 | 733,358,872 | 1,605 |
| Share capital issued | 2,871,844 | 10 |
| Share capital repurchased and cancelled | (12,525,281) | (63) |
| **Balance at 31 December 2015** | **723,705,435** | **1,552** |
| Share capital repurchased and cancelled | (8,179,679) | (37) |
| **Balance at 30 June 2016** | **715,525,756** | **1,515** |
| **Balance at 31 December 2016** | **715,525,756** | **1,515** |
| Ordinary shares | 715,109,960 | 1,516 |
| Restricted shares -Contact Share | 415,796 | (1) |

During the period Contact granted a new tranche of share awards under the Equity Scheme, comprising 1,157,407 options, 285,054 PSRs and 345,720 DSRs. The share options have an exercise price of $4.98 per share while the PSRs and DSRs have no exercise price.

## B2. DIVIDENDS PAID

| $m | Cents per share | Unaudited six months ended 31 Dec 2016 | Unaudited six months ended 31 Dec 2015 | Audited year ended 30 June 2016 |
|---|---|---|---|---|
| 2015 final dividend | 15 | - | 110 | 110 |
| 2016 interim dividend | 11 | - | - | 79 |
| 2016 final dividend | 15 | 107 | - | - |
| | | **107** | **110** | **188** |

On 10 February 2017 the Board declared an interim dividend of 11 cents per share to be paid on 17 March 2017.

## B3. BORROWINGS

| $m | Unaudited 31 Dec 2016 | Unaudited 31 Dec 2015 | Audited 30 June 2016 |
|---|---|---|---|
| Bank overdraft | 4 | - | 5 |
| Finance lease liabilities | 23 | 24 | 23 |
| Commercial paper | 185 | 120 | 165 |
| Bank facilities | 187 | 342 | 223 |
| Retail bonds | 372 | 372 | 372 |
| Wholesale bonds | 200 | 200 | 200 |
| Export credit agency facility | 79 | 86 | 83 |
| USPP notes | 560 | 560 | 560 |
| **Face value of borrowings** | **1,610** | **1,704** | **1,631** |
| Deferred financing costs | (8) | (8) | (8) |
| Fair value adjustment on hedged debt | 43 | 64 | 73 |
| **Carrying value of borrowings** | **1,645** | **1,760** | **1,696** |
| Current | 436 | 289 | 305 |
| Non-current | 1,209 | 1,471 | 1,391 |

Contact uses bank facilities to manage its liquidity risk and maintains a buffer of undrawn bank facilities over its forecast funding requirements to enable it to meet any unforeseen cashflows.

Contact's bank facilities have a range of maturities:

| $m | Unaudited 31 Dec 2016 | Unaudited 31 Dec 2015 | Audited 30 June 2016 |
|---|---|---|---|
| Less than 1 year | 240 | 275 | 115 |
| Between 1 and 2 years | 215 | 190 | 240 |
| Between 2 and 3 years | 30 | 75 | 155 |
| More than 3 years | 115 | 140 | 140 |
| | **600** | **680** | **650** |

# C. Our Assets

## C1. PROPERTY, PLANT & EQUIPMENT AND INTANGIBLE ASSETS

| Property, plant and equipment<br>$m | Unaudited 31 Dec 2016 | Unaudited 31 Dec 2015 | Audited 30 June 2016 |
|---|---|---|---|
| Opening balance | 4,699 | 5,078 | 5,078 |
| Additions | 35 | 51 | 88 |
| Transfers to assets held for sale | - | (30) | (3) |
| Depreciation[1] | (85) | (85) | (175) |
| Impairment | - | (257) | (287) |
| Disposals | - | - | (2) |
| **Closing balance** | **4,649** | **4,757** | **4,699** |

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

| Intangible assets<br>$m | Unaudited 31 Dec 2016 | Unaudited 31 Dec 2015 | Audited 30 June 2016 |
|---|---|---|---|
| Opening balance | 333 | 329 | 329 |
| Additions | 31 | 16 | 42 |
| Amortisation | (15) | (12) | (28) |
| Disposals | - | - | (10) |
| **Closing balance** | **349** | **333** | **333** |
| Current | 18 | 21 | 15 |
| Non-current | 331 | 312 | 318 |

At 31 December 2016, Contact had capital commitments of $20 million (31 December 2015: $36 million, 30 June 2016: $33 million) committed under contractual arrangements. $20 million is due within one year from the end of the reporting period.

# D. Our Financial Risks

## D1. FAIR VALUE OF DERIVATIVE FINANCIAL INSTRUMENTS

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

| | Unaudited 31 Dec 2016 | | Unaudited 31 Dec 2015 | | Audited 30 June 2016 | |
|---|---|---|---|---|---|---|
| $m | Asset | Liability | Asset | Liability | Asset | Liability |
| **Fair value hedges** | | | | | | |
| CCIRS | 50 | (18) | 60 | (13) | 72 | (17) |
| Interest rate swaps | 8 | - | 8 | (1) | 14 | - |
| **Cash flow hedges** | | | | | | |
| CCIRS - margin | 3 | (1) | 1 | - | 2 | (4) |
| Foreign exchange derivatives | 1 | (4) | - | (3) | - | (4) |
| Electricity and LPG price derivatives | 20 | - | 2 | (3) | 17 | - |
| **Not designated in hedge relationship** | | | | | | |
| Interest rate swaps | 1 | (49) | 3 | (59) | 3 | (79) |
| Electricity price derivatives | 3 | (2) | 1 | (3) | 2 | (2) |
| | **86** | **(74)** | **75** | **(82)** | **110** | **(106)** |
| Current | 29 | (22) | 7 | (21) | 22 | (24) |
| Non-current | 57 | (52) | 68 | (61) | 88 | (82) |

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

| | Unaudited 6 months ended 31 Dec 2016 | | Unaudited 6 months ended 31 Dec 2015 | | Audited year ended 30 June 2016 | |
|---|---|---|---|---|---|---|
| $m | Profit/ (loss) | CFHR | Profit/ (loss) | CFHR | Profit/ (loss) | CFHR |
| CCIRS | (23) | - | 3 | - | 11 | - |
| Interest rate swaps | (6) | - | 1 | - | 8 | - |
| Fair value adjustment to borrowings | 30 | - | (8) | - | (17) | - |
| **Fair value hedges** | **1** | **-** | **(4)** | **-** | **2** | **-** |
| CCIRS - margin | - | 4 | - | - | - | (3) |
| Foreign exchange derivatives | - | 1 | - | (6) | - | (7) |
| Electricity and LPG price derivatives | - | 3 | - | (3) | - | 15 |
| Tax on change in fair value | - | (2) | - | 1 | - | (3) |
| **Cash flow hedges** | **-** | **6** | **-** | **(8)** | **-** | **2** |
| Interest rate swaps | 28 | - | (2) | - | (22) | - |
| Electricity price derivatives | 1 | - | (3) | - | (1) | - |
| **Derivatives not designated in hedge relationships** | **29** | **-** | **(5)** | **-** | **(23)** | **-** |
| **Total fair value movement** | **30** | **6** | **(9)** | **(8)** | **(21)** | **2** |



# Independent Auditor's Review Report

KPMG

## TO THE SHAREHOLDERS OF CONTACT ENERGY LIMITED

We have completed a review of the condensed interim financial statements of Contact Energy Limited, its controlled entities and joint arrangements (Contact) on pages 10 to 22 which comprise the statement of financial position as at 31 December 2016 and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the period ended on that date, and a summary of significant accounting policies and other explanatory information.

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

### Directors' responsibilities

The Directors of Contact are responsible for the preparation and fair presentation of interim financial statements in accordance with NZ IAS 34 Interim Financial Reporting and for such internal control as the directors determine is necessary to enable the preparation and fair presentation of the interim financial statements that are free from material misstatement, whether due to fraud or error.

### Our responsibilities

Our responsibility is to express a conclusion on the interim financial statements based on our review. We conducted our review in accordance with NZ SRE 2410 Review of Financial Statements Performed by the Independent Auditor of the Entity. NZ SRE 2410 requires us to conclude whether anything has come to our attention that causes us to believe that the financial statements are not prepared, in all material respects, in accordance with NZ IAS 34 Interim Financial Reporting. As the auditor of Contact, NZ SRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial statements.

A review of interim financial statements in accordance with NZ SRE 2410 is a limited assurance engagement. The auditor performs procedures, primarily consisting of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with International Standards on Auditing (New Zealand). Accordingly we do not express an audit opinion on those financial statements.

Our firm has also provided other services to Contact in relation to AGM scrutineering. Subject to certain restrictions, partners and employees of our firm may also deal with Contact on normal terms within the ordinary course of trading activities. These matters have not impaired our independence as auditors of Contact. Other than in our capacity as auditors we have no relationship with or interests in Contact.

### Conclusion

Based on our review, nothing has come to our attention that causes us to believe that these interim financial statements of Contact do not present fairly, in all material respects, the financial position of Contact as at 31 December 2016, and of its financial performance and its cash flows for the period ended on that date, in accordance with NZ IAS 34 Interim Financial Reporting.

KPMG

10 February 2017
Wellington

# Glossary

| | |
|---|---|
| **ASX** | Australian Securities Exchange |
| **C&I** | Commercial and industrial |
| **CCGT** | Combined cycle gas turbine |
| **CCIRS** | Cross currency interest rate swaps |
| **CEO** | Chief Executive Officer |
| **CfD** | Contract for Difference |
| **CFHR** | Cash flow hedge reserve |
| **CPI** | Consumer price index |
| **cps** | cents per share |
| **Cost of energy** | The net result of trading electricity on the national market and the associated generation and transmission costs |
| **DSR/PSR** | Deferred share rights / performance share rights |
| **EBITDAF** | A non-GAAP measure equal to earnings before net interest expense, tax, depreciation and amortisation, changes in fair value of financial instruments and other significant items (refer note A2) |
| **Free cash flow** | A non-GAAP measure of the cash generating performance of the business. It represents cash available to fund distributions to shareholders and growth capital expenditure. It is equal to operating cash flows less net interest paid and stay-in-business capital expenditure plus proceeds from asset sales. |
| **GWh** | Gigawatt hour |
| **LPG** | Liquid petroleum gas |
| **MWh** | Megawatt hour |
| **Netback** | The revenue and expenses of delivering energy and servicing customers. |
| **NZ GAAP** | New Zealand generally accepted accounting practice |
| **NZX** | New Zealand Stock Exchange |
| **PJ / GJ** | Petajoule / Gigajoule (measure of gas) |
| **Significant items** | Items excluded from EBITDAF and underlying profit. These items are determined in accordance with the principles of consistency, relevance and clarity (refer to note A2). |
| **Underlying profit** | A non-GAAP measure equal to reported profit/(loss) adjusted for significant items that do not reflect Contact's ongoing performance (refer note A1) |
| **USPP** | United States Private Placement |

# Investor Information

## REGISTRY

Link Market Services Limited (Link) is Contact's registrar for shares and bonds. You can view your investment portfolio, supply your email address, change your details, or update your payment instructions relating to Contact at any time by visiting the Link Investor Centre. For any queries regarding your holding, please contact Link directly or by visiting their website.

### NEW ZEALAND

**Email:**
contactenergy@linkmarketservices.co.nz
**Investor Centre:**
investorcentre.linkmarketservices.co.nz
**Mail:**
Link Market Services Limited
PO Box 91976, Auckland 1142
**Office:**
Level 11, Deloitte House
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
**Investor Centre:**
investorcentre.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

### Electronic investor 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. To receive future investor communication by email, please provide or update your details online by visiting the Link Investor Centre.

### Direct crediting of dividends

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

## INVESTOR RELATIONS ENQUIRIES

Fraser Gardiner
Head of Investor Relations and Communications

**Phone**: +64 4 499 4001
**Email:** investor.centre@contactenergy.co.nz

## STATUTORY NOTICE - FINANCIAL MARKETS CONDUCT ACT 2013

Contact advises that it fully transitioned to the Financial Markets Conduct Act 2013 (FMCA) on 1 December 2016. From that date, all of the requirements of the FMCA apply to Contact. Contact was already governed by the FMCA for its bonds and for financial reporting, fair dealing and other requirements prior to that date.

## 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 two issues of retail bonds listed and quoted on the New Zealand Debt Market (NZDX) under the company code 'CEN020' (2014 series) and 'CEN030' (2015 series).

# 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

Michael Dreyer
General Manager – Information and Communication Technology (Acting)

James Kilty
Chief Generation and Development Officer

Tania Palmer
General Manager – Health, Safety and Environment

Annika Streefland
General Manager – People and Culture

Catherine Thompson
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

contact.co.nz
facebook.com/contactenergy
twitter.com/contactenergy
linkedin.com/company/contact-energy-ltd

## POSTAL ADDRESS

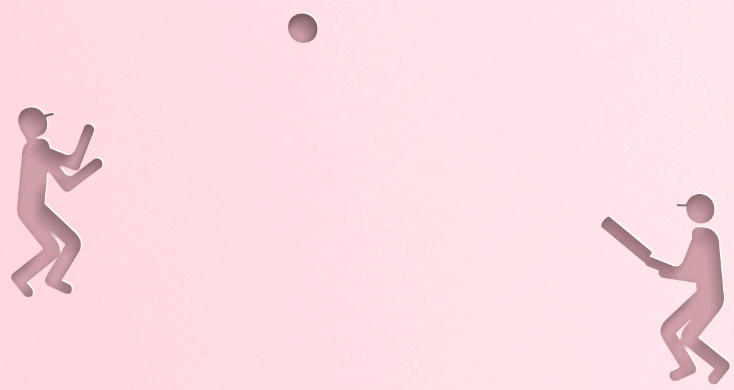
PO Box 10742
The Terrace
Wellington 6143
New Zealand

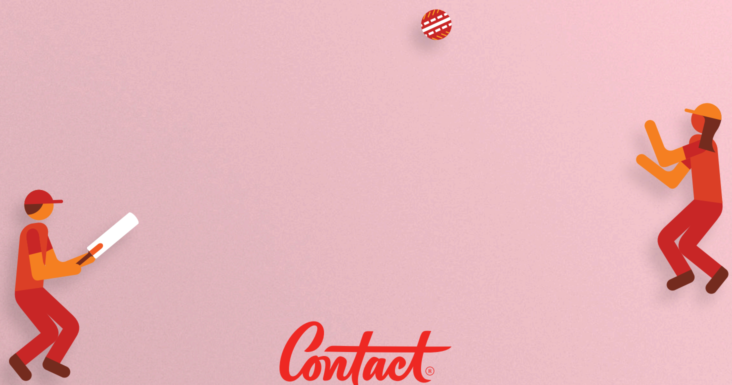
## AUDITOR

KPMG
PO Box 996
Wellington 6140
New Zealand

## COMPANY NUMBERS

NZ Incorporation 660760
ABN 68 080 480 477





Contact