



2019

**Interim
Financial Statements**



The energy that makes the water hot, the milk cold, keeps the warmth in and the darkness out, is nowhere near as vital as the kind we carry within ourselves. Human energy is what makes us different. It's the kind of energy that Contact is built on. And the same energy that sets us apart.

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About these Financial Statements

FOR THE SIX MONTHS ENDED 31 DECEMBER 2018

These 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 interim Financial Statements for the six months ended 31 December 2018 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 2018 (2018 Annual Report). The Financial Statements should be read with the 2018 Annual Report.

The Financial Statements have been prepared:

- » In millions of New Zealand dollars
- » In accordance with New Zealand generally accepted accounting practice (GAAP) and comply with NZ IAS 34 and with IAS 34 *Interim Financial Reporting*
- » Using the same accounting policies and significant estimation and critical judgments disclosed in the 2018 Annual Report, except for those changed with Contact adopting NZ IFRS 9 *Financial Instruments*. The effect of these changes in accounting policies are shown in note D1
- » Certain comparative amounts have been reclassified to conform to the current year's presentation and as a result of the discontinued operation during the previous financial year (note A4).

The Financial Statements were authorised on behalf of the Contact Energy Limited Board of Directors on 8 February 2019:



Rob McDonald
Chair



Dame Therese Walsh
Chair, Audit Committee

Statement of Comprehensive Income

FOR THE SIX MONTHS ENDED 31 DECEMBER 2018

\$m	Note	Unaudited 6 months ended 31 Dec 2018	Unaudited 6 months ended 31 Dec 2017	Audited year ended 30 June 2018
Revenue and other income	A2	1,304	1,126	2,152
Operating expenses	A2	(1,026)	(909)	(1,703)
Significant items	A2	5	(2)	3
Depreciation and amortisation	C1	(102)	(106)	(215)
Net interest expense		(39)	(43)	(84)
Profit before tax		142	66	153
Tax expense		(43)	(19)	(41)
Profit from continuing operations		99	47	112
Discontinued operation				
Profit from discontinued operation after tax	A2	10	11	20
Gain on sale of discontinued operation	A2	167	-	-
Profit		276	58	132
Items that may be reclassified to profit/(loss):				
Change in hedge reserves (net of tax) - continuing operations	D2	(22)	(5)	11
Change in hedge reserves (net of tax) - discontinued operation	D2	(3)	1	3
Comprehensive income		251	54	146
Profit per share (cents) - basic and diluted		38.6	8.1	18.4
Profit per share (cents) from continuing operations		13.8	6.5	15.6
Profit per share (cents) from discontinued operation		24.8	1.6	2.8

Statement of Cash Flows

FOR THE SIX MONTHS ENDED 31 DECEMBER 2018

\$m	Note	Unaudited 6 months ended 31 Dec 2018	Unaudited 6 months ended 31 Dec 2017	Audited year ended 30 June 2018
Receipts from customers		1,396	1,212	2,281
Payments to suppliers and employees		(1,087)	(976)	(1,791)
Tax paid		(41)	(20)	(33)
Operating cash flows		268	216	457
Purchase of assets		(29)	(39)	(82)
Proceeds from sale of assets/operations		438	-	6
Interest received		-	-	1
Investing cash flows		409	(39)	(75)
Dividends paid	B2	(136)	(107)	(201)
Proceeds from issues of shares		-	1	1
Proceeds from borrowings		-	-	118
Repayment of borrowings		(298)	(14)	(217)
Interest paid		(36)	(40)	(79)
Gas sale and repurchase arrangement		-	(7)	(7)
Financing cash flows		(470)	(167)	(385)
Net cash flow		207	10	(3)
Add: cash at the beginning of the year		3	6	6
Cash at the end of the year		210	16	3

Statement of Financial Position

AT 31 DECEMBER 2018

\$m	Note	Unaudited 31 Dec 2018	Unaudited 31 Dec 2017	Audited 30 June 2018
Cash and cash equivalents		210	16	3
Trade and other receivables		153	182	175
Inventories		31	38	35
Intangible assets	C1	37	23	10
Derivative financial instruments	D2	15	9	14
Assets held for sale		-	184	299
Total current assets		446	452	536
Inventories		17	21	23
Property, plant and equipment	C1	4,190	4,402	4,253
Intangible assets	C1	249	275	262
Goodwill		179	182	179
Derivative financial instruments	D2	59	47	51
Other non-current assets		-	11	7
Total non-current assets		4,694	4,938	4,775
Total assets		5,140	5,390	5,311
Trade and other payables		181	182	172
Tax payable		71	10	7
Borrowings	B3	315	442	513
Derivative financial instruments	D2	37	51	17
Provisions		7	12	11
Liabilities held for sale		-	-	42
Total current liabilities		611	697	762
Borrowings	B3	885	1,108	972
Derivative financial instruments	D2	53	54	44
Provisions		51	51	48
Deferred tax		690	746	751
Other non-current liabilities		7	7	7
Total non-current liabilities		1,686	1,966	1,822
Total liabilities		2,297	2,663	2,584
Net assets		2,843	2,727	2,727
Share capital	B1	1,522	1,519	1,520
Retained earnings		1,334	1,214	1,194
Hedge reserves		(18)	(11)	7
Share-based compensation reserve		5	5	6
Shareholders' equity		2,843	2,727	2,727

Statement of Changes in Equity

FOR THE SIX MONTHS ENDED 31 DECEMBER 2018

\$m	Note	Share capital	Retained earnings	Other reserves	Shareholders' equity
Balance at 1 July 2017		1,515	1,263	-	2,778
Profit	A2	-	58	-	58
Change in hedge reserves (net of tax)		-	-	(4)	(4)
Exercised share scheme awards		-	-	(3)	(3)
Share-based compensation expense		-	-	1	1
Change in share capital		4	-	-	4
Dividends paid	B2	-	(107)	-	(107)
Unaudited balance at 31 December 2017		1,519	1,214	(6)	2,727
Profit	A2	-	74	-	74
Change in hedge reserves (net of tax)		-	-	18	18
Exercised share scheme awards		-	-	(1)	(1)
Share-based compensation expense		-	-	2	2
Change in share capital		1	-	-	1
Dividends paid	B2	-	(93)	-	(93)
Audited balance at 30 June 2018		1,520	1,194	13	2,727
Profit	A2	-	276	-	276
Change in hedge reserves (net of tax)		-	-	(25)	(25)
Exercised share scheme awards		-	-	(3)	(3)
Share-based compensation expense		-	-	2	2
Change in share capital		2	-	-	2
Dividends paid	B2	-	(136)	-	(136)
Unaudited balance at 31 December 2018		1,522	1,334	(13)	2,843

A. Our Performance

Notes to the financial statements for the six months ended 31 December 2018

A1. SEGMENTS

Contact changed its operating segments and now reports under the below two operating segments. The new operating segments provide a clearer view of profitability in the operating businesses, as the segments exclude indirect corporate costs. All comparative information has been restated.

The Wholesale segment includes revenue from the sale of electricity to the wholesale electricity market, to Commercial & Industrial (C&I) customers and to the Customer segment, less the cost to generate and/or purchase the electricity and costs to serve and distribute electricity to C&I customers.

The Customer segment includes revenue from delivering electricity, natural gas and other products and services to customers less the cost of purchasing those products and services, and the costs to serve customers. The Customer segment in the following table excludes Rockgas Limited (Rockgas) the discontinued operation – refer note A4.

Unallocated includes corporate functions not directly allocated to the operating segments.

The Customer segment purchases electricity from the Wholesale 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, changes in fair value of financial instruments and significant items (EBITDAF) by segment, and a reconciliation from EBITDAF and underlying profit to profit 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 Electricity Authority (EA) are reviewing a claim of an Undesirable Trading Situation (UTS) from September/October 2018. If the EA finds a UTS existed then under the Electricity Industry Participation Code the EA have a number of remedies available to it including directing that any trades be closed out or settled at a specified price. Contact has made no provision for this outcome as Contact maintains the high spot prices reflect supply-demand conditions during the period.

The revenue and operating expense categories include the below line items:

- » **Wholesale electricity, net of hedging:** Revenue received from electricity generated and sold through the wholesale market and the net settlement of electricity hedges sold on the electricity futures markets, to generators, other retailers and industrial customers.
- » **Electricity purchases, net of hedging:** The cost of electricity purchased from the wholesale market to supply customers and the net settlement of buy-side electricity hedges. Revenue received to manage location risk, including Financial Transmission Rights is also included.
- » **Electricity-related services revenue:** Revenue from the sale of complementary products and services to the wholesale market for the provision of instantaneous reserves, frequency keeping and other ancillary services.
- » **Electricity-related services cost:** This includes reserve costs, constrained on costs, frequency keeping and other ancillary service costs.

The significant items in this reporting period are:

- » **Change in fair value of financial instruments:** Movements in the valuation of 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 to note D2 for a breakdown.
- » **Gain on sale of Rockgas:** Rockgas was sold to Gas Services NZ Midco Limited on 30 November 2018. Refer note A4.
- » **Gain on sale of Ahuroa Gas Storage (AGS) Facility:** The sale of the AGS Facility to GSNZ SPV1 Limited (GSNZ) was completed on 1 October 2018. Cash proceeds from sale received to date are \$190 million resulting in a gain on sale of \$5 million before tax after deducting net assets of \$185 million. Consideration of up to \$10 million remains unrecognised as it is contingent on GSNZ obtaining a favourable binding ruling as to the tax treatment of the main assets it acquired.
- » **Remediation for Holidays Act non-compliance:** During the current period, spend of \$1 million has been incurred in order to resolve non-compliance with aspects of the Holidays Act 2003. The provision has also been reduced by \$2 million as a result of ongoing reassessment. The provision for remediation of the Holidays Act non-compliance is \$1 million at 31 December 2018 (31 December 2017: \$5 million, 30 June 2018: \$4 million).

\$m	Unaudited 6 months ended 31 Dec 2018							Unaudited 6 months ended 31 Dec 2017							Audited year ended 30 June 2018						
	Wholesale	Customer	Unallocated	Eliminations	Total continuing operations	Discontinued operation	Total	Wholesale	Customer	Unallocated	Eliminations	Total continuing operations	Discontinued operation	Total	Wholesale	Customer	Unallocated	Eliminations	Total continuing operations	Discontinued operation	Total
Mass market electricity	-	455	-	-	455	-	455	-	458	-	-	458	-	458	-	884	-	(1)	883	-	883
C&I electricity - Fixed Price	199	-	-	-	199	-	199	217	-	-	-	217	-	217	432	-	-	-	432	-	432
C&I electricity - Spot	16	-	-	-	16	-	16	11	-	-	-	11	-	11	20	-	-	-	20	-	20
Wholesale electricity, net of hedging	560	-	-	-	560	-	560	380	-	-	-	380	-	380	705	-	-	-	705	-	705
Electricity-related services revenue	8	-	-	-	8	-	8	3	-	-	-	3	-	3	7	-	-	-	7	-	7
Inter-segment electricity sales	159	-	-	(159)	-	-	-	159	-	-	(159)	-	-	-	314	-	-	(314)	-	-	-
Gas	2	39	-	-	41	-	41	-	39	-	-	39	-	39	4	71	-	-	75	-	75
LPG	-	-	-	-	-	58	58	-	-	-	-	-	63	63	-	-	-	-	-	121	121
Steam	16	-	-	-	16	-	16	14	-	-	-	14	-	14	25	-	-	-	25	-	25
Total revenue	960	494	-	(159)	1,295	58	1,353	784	497	-	(159)	1,122	63	1,185	1,507	955	-	(315)	2,147	121	2,268
Other income	6	3	-	-	9	1	10	2	2	-	-	4	1	5	-	5	-	-	5	2	7
Total revenue and other income	966	497	-	(159)	1,304	59	1,363	786	499	-	(159)	1,126	64	1,190	1,507	960	-	(315)	2,152	123	2,275
Electricity purchases, net of hedging	(485)	-	-	-	(485)	-	(485)	(367)	-	-	-	(367)	-	(367)	(657)	-	-	-	(657)	-	(657)
Electricity purchases - Spot	(14)	-	-	-	(14)	-	(14)	(9)	-	-	-	(9)	-	(9)	(17)	-	-	-	(17)	-	(17)
Electricity-related services cost	(7)	-	-	-	(7)	-	(7)	(4)	-	-	-	(4)	-	(4)	(7)	-	-	-	(7)	-	(7)
Inter-segment electricity purchases	-	(159)	-	159	-	-	-	-	(159)	-	159	-	-	-	-	(314)	-	314	-	-	-
Gas and diesel purchases	(51)	(10)	-	-	(61)	-	(61)	(57)	(8)	-	-	(65)	-	(65)	(107)	(16)	-	-	(123)	-	(123)
Gas storage costs	(6)	-	-	-	(6)	-	(6)	(1)	-	-	-	(1)	-	(1)	(1)	-	-	-	(1)	-	(1)
LPG purchases	-	-	-	-	-	(37)	(37)	-	-	-	-	-	(36)	(36)	-	-	-	-	-	(73)	(73)
Generation transmission & reserve costs	(21)	-	-	-	(21)	-	(21)	(20)	-	-	-	(20)	-	(20)	(39)	-	-	-	(39)	-	(39)
Electricity networks, levies & meter costs - Fixed Price	(72)	(219)	-	-	(291)	-	(291)	(78)	(225)	-	-	(303)	-	(303)	(152)	(433)	-	-	(585)	-	(585)
Electricity networks, transmission levies & meter costs - Spot	(2)	-	-	-	(2)	-	(2)	(2)	-	-	-	(2)	-	(2)	(3)	-	-	-	(3)	-	(3)
Gas networks, transmission & meter costs	(5)	(20)	-	-	(25)	-	(25)	(5)	(20)	-	-	(25)	-	(25)	(9)	(37)	-	-	(46)	-	(46)
Other operating expenses	(50)	(40)	(13)	-	(103)	(7)	(110)	(52)	(41)	(13)	-	(106)	(8)	(114)	(103)	(82)	(24)	1	(208)	(15)	(223)
Carbon emission costs	(10)	(1)	-	-	(11)	(2)	(13)	(6)	(1)	-	-	(7)	(1)	(8)	(15)	(2)	-	-	(17)	(3)	(20)
Total operating expenses	(723)	(449)	(13)	159	(1,026)	(46)	(1,072)	(601)	(454)	(13)	159	(909)	(45)	(954)	(1,110)	(884)	(24)	315	(1,703)	(91)	(1,794)
EBITDAF	243	48	(13)	-	278	13	291	185	45	(13)	-	217	19	236	397	76	(24)	-	449	32	481
Depreciation and amortisation					(102)	-	(102)					(106)	(3)	(109)					(215)	(5)	(220)
Net interest expense					(39)	-	(39)					(43)	-	(43)					(84)	-	(84)
Tax on underlying profit					(40)	(3)	(43)					(20)	(5)	(25)					(40)	(7)	(47)
Underlying profit					97	10	107					48	11	59					110	20	130
Significant items																					
Change in fair value of financial instruments					(2)	-	(2)					(2)	-	(2)					3	-	3
Gain on sale of Rockgas					-	167	167					-	-	-					-	-	-
Gain on sale of AGS Facility					5	-	5					-	-	-					-	-	-
Remediation for Holidays Act non-compliance					2	-	2					-	-	-					-	-	-
Tax on significant items					(3)	-	(3)					1	-	1					(1)	-	(1)
Profit					99	177	276					47	11	58					112	20	132
Underlying profit per share (cents)					13.6	1.4	15.0					6.6	1.6	8.2					15.4	2.7	18.1

A3. FREE CASH FLOW

\$m	Unaudited 6 months ended 31 Dec 2018	Unaudited 6 months ended 31 Dec 2017	Audited year ended 30 June 2018
EBITDAF	291	236	481
Tax paid	(41)	(20)	(33)
Change in working capital net of non-cash, investing and financing activities	10	(8)	(7)
Non-cash items included in EBITDAF	9	8	17
Significant items, net of non-cash amounts	(1)	-	(1)
Operating cash flows	268	216	457
Net interest paid	(36)	(40)	(78)
Stay in business capital expenditure	(29)	(35)	(78)
Operating free cash flow	203	141	301
Proceeds from sale of assets/operations	438	-	6
Free cash flow	641	141	307
Operating free cash flow per share (cents)	28.3	19.7	42.0

Proceeds from sale of assets/operations, in the table above, does not include the tax payable for the AGS sale (\$44 million) and certain cash flows in relation to the Rockgas sale (refer note A4), as these are expected to occur in the second half of the current financial year.

A4. DISCONTINUED OPERATION

At 30 June 2018 the sale of Rockgas, a wholly owned subsidiary of Contact, was highly probably resulting in the assets and liabilities of Rockgas being classified as held for sale and its operations reported separately as a discontinued operation.

The sale of Rockgas to Gas Services NZ Midco Limited (Purchaser) completed on 30 November 2018. The results for the period up to 30 November 2018 and the gain on sale have been presented as a discontinued operation in the Statement of Comprehensive Income, with a breakdown in note A2. The impact on the Group following the sale is shown below.

Details of sale of Rockgas Limited

\$m	Unaudited 6 months ended 31 Dec 2018
Sales price	260
Initial net debt adjustment	(10)
Sales proceeds received	250
Carrying value of assets disposed	(76)
Costs to sell	(4)
Working capital and final net debt adjustments	9
Settlement of carbon and income tax liabilities	(12)
Provisional gain on sale	167

The working capital and final net debt adjustments in the gain on sale are subject to finalisation with the Purchaser.

The carrying amounts of assets and liabilities as at the date of sale were:

\$m	Unaudited 30 Nov 2018
Cash and cash equivalents	1
Trade and other receivables	23
Inventories	4
Property, plant and equipment and intangible assets	83
Goodwill	3
Other non-current assets	3
Assets	117
Trade and other payables	14
Tax payable	8
Borrowings (lease obligations)	9
Provisions	2
Deferred tax	8
Liabilities	41
Carrying value of assets disposed	76

Net cash flows of the discontinued operation

The cash flows for the discontinued operation up to the date of disposal are presented below.

\$m	Unaudited 6 months ended 31 Dec 2018	Unaudited 6 months ended 31 Dec 2017	Audited year ended 30 June 2018
Net operating cash flows	9	19	35
Net investing cash flows	246	(3)	(6)
Net cash flows from discontinued operation	255	16	29

Net investing cash flows include the cash proceeds from sale of Rockgas being the sales price less the initial net debt adjustment and costs to sell incurred in the current financial period. Cash proceeds from the sale yet to be received/paid include the working capital and final net debt adjustments, settlement of carbon and income tax liabilities, and remaining costs to sell.

Operating free cash flow from the discontinued operation is \$7 million (31 December 2017: \$16 million, 30 June 2018: \$29 million) and free cash flow is \$255 million (31 December 2017: \$16 million, 30 June 2018: \$29 million).

A5. RELATED PARTY TRANSACTIONS

Contact's related parties include Directors and the Leadership Team. Contact sold its 50% interest in Rockgas Timaru Limited as part of the sale of Rockgas on 30 November 2018. Transactions with Rockgas Timaru Limited up to that point and all other related party transactions are disclosed below:

- » Sales of LPG to Rockgas Timaru Limited of \$1 million (31 December 2017: \$1 million, 30 June 2018: \$2 million).
- » Directors' fees of \$1 million (31 December 2017: \$1 million, 30 June 2018: \$1 million).
- » Leadership Team's salary and other short-term benefits of \$4 million (31 December 2017: \$4 million, 30 June 2018: \$6 million), which includes \$1 million of share-based compensation expense (31 December 2017: \$1 million, 30 June 2018: \$1 million).

B. Our Funding

Notes to the financial statements for the six months ended 31 December 2018

B1. SHARE CAPITAL

	Number	\$m
Balance at 1 July 2017	715,525,756	1,515
Share capital issued	750,281	4
Balance at 31 December 2017	716,276,037	1,519
Share capital issued	10,533	1
Balance at 30 June 2018	716,286,570	1,520
Share capital issued	418,002	2
Balance at 31 December 2018	716,704,572	1,522
Comprised of:		
Ordinary shares	716,374,842	1,523
Restricted shares - Contact Share	329,730	(1)

During the period Contact granted a new tranche of share awards under the Equity Scheme, comprising 124,751 PSRs and 859,458 DSRs. PSRs and DSRs have no exercise price.

B2. DIVIDENDS PAID

\$m	Cents per share	Unaudited 6 months ended 31 Dec 2018	Unaudited 6 months ended 31 Dec 2017	Audited Year ended 30 June 2018
2017 final dividend	15	-	107	107
2018 interim dividend	13	-	-	93
2018 final dividend	19	136	-	-
		136	107	201

On 8 February 2019 the Board declared an interim dividend of 16 cents per share to be paid on 9 April 2019.

B3. BORROWINGS

\$m	Unaudited 31 Dec 2018	Unaudited 31 Dec 2017	Audited 30 June 2018
Bank overdraft	1	3	2
*Commercial paper	80	180	140
*Bank facilities	-	106	231
Lease obligations	26	38	38
*Wholesale bonds	50	100	50
*Retail bonds	472	472	472
*Export credit agency facility	65	72	68
*USPP notes	447	560	447
Face value of borrowings	1,141	1,531	1,448
Deferred financing costs	(5)	(7)	(6)
Fair value adjustment on hedged borrowings	64	26	52
Carrying value of borrowings	1,200	1,550	1,494
Current	315	442	513
Non-current	885	1,108	972
Liabilities held for sale - Lease obligations	-	-	9

Borrowings denoted with an asterisk (*) are Green Debt Instruments under Contact's Green Borrowing Programme. At 31 December 2018 Contact remains compliant with the requirements of the programme. Further information is available on the sustainability section on Contact's website.

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 cash flows.

Contact's bank facilities have a range of maturities:

\$m	Unaudited 31 Dec 2018	Unaudited 31 Dec 2017	Audited 30 June 2018
Less than 1 year	85	170	160
Between 1 and 2 years	165	110	160
Between 2 and 3 years	125	80	175
More than 3 years	50	165	100
	425	525	595

C. Our Assets

Notes to the financial statements for the six months ended 31 December 2018

C1. PROPERTY, PLANT & EQUIPMENT AND INTANGIBLE ASSETS

Property, plant and equipment \$m	Unaudited 31 Dec 2018	Unaudited 31 Dec 2017	Audited 30 June 2018
Opening balance	4,253	4,611	4,611
Additions	22	36	61
Transfers to assets held for sale	-	(155)	(237)
Depreciation	(84)	(90)	(182)
Disposals	(1)	-	-
Closing balance	4,190	4,402	4,253

Included within property, plant and equipment is \$29 million (31 December 2017: \$38 million, 30 June 2018: \$32 million), of lease assets with a depreciation charge of \$2 million for the six months ended 31 December 2018 (31 December 2017: \$2 million, 30 June 2018: \$5 million).

Intangible assets \$m	Unaudited 31 Dec 2018	Unaudited 31 Dec 2017	Audited 30 June 2018
Opening balance	272	332	332
Additions	35	15	23
Transfers to assets held for sale	-	(29)	(28)
Amortisation	(18)	(19)	(38)
Disposals	(3)	(1)	(17)
Closing balance	286	298	272
Current	37	23	10
Non-current	249	275	262

At 31 December 2018, Contact was committed to \$8 million of capital expenditure (31 December 2017: \$11 million, 30 June 2018: \$6 million) and \$7 million of carbon forward contracts (31 December 2017: \$2 million, 30 June 2018: \$27 million), with all payments due within one year of the reporting period end.

D. Our Financial Risks

Notes to the financial statements for the six months ended 31 December 2018

D1. TRANSITION TO NZ IFRS 9 FINANCIAL INSTRUMENTS

NZ IFRS 9 *Financial Instruments* (NZ IFRS 9) replaces NZ IAS 39 *Financial Instruments: Recognition and Measurement*. Contact transitioned to NZ IFRS 9 with a date of initial application of 1 July 2018. NZ IFRS 9 addresses the classification and measurement of financial assets and financial liabilities, the impairment of financial assets and hedge accounting. The transition has resulted in two key changes being the recognition of a cost of hedging reserve and the application of hedge accounting to interest rate swaps that were not previously hedge accounted.

Contact now recognises a cost of hedging reserve to record the change in the fair value of the cost to convert foreign currency of Cross Currency Interest Rate Swaps (CCIRS) into New Zealand dollars. Contact has elected to apply NZ IFRS 9 on a retrospective basis, however has not restated comparative information. Instead the impact is reflected in opening equity on 1 July 2018. This resulted in an increase in the cost of hedging reserve of \$1 million, offset by a decrease in the cash flow hedge reserve of \$1 million. The cost of hedging reserve at 31 December 2018 is nil and the cash flow hedge reserve is a debit of \$18 million. These reserves are presented together in the Statement of Financial Position as "Hedge reserves".

Contact has applied the new hedge accounting requirements prospectively and all interest rate swaps now qualify as continuing hedging relationships, which aligns more closely with Contact's interest rate risk management activity. This has resulted in interest rate swaps not previously designated in a hedge relationship being hedge accounted from 1 July 2018 as cash flow hedges.

D2. FAIR VALUE OF DERIVATIVE FINANCIAL INSTRUMENTS

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

\$m	Unaudited 31 Dec 2018		Unaudited 31 Dec 2017		Audited 30 June 2018	
	Asset	Liability	Asset	Liability	Asset	Liability
Fair value hedges						
CCIRS	57	-	44	(26)	47	(2)
Interest rate swaps	5	-	7	-	5	-
Cash flow hedges						
CCIRS - margin	-	(2)	-	(4)	-	(2)
Interest rate swaps*	-	(60)	-	-	-	-
Electricity and LPG price derivatives	6	(24)	-	(12)	9	(1)
Derivatives not designated in hedge relationship						
Interest rate swaps	-	-	1	(55)	2	(54)
Electricity price derivatives	6	(5)	4	(8)	2	(2)
	74	(91)	56	(105)	65	(61)
Current	15	(37)	9	(51)	14	(17)
Non-current	59	(53)	47	(54)	51	(44)

* For interest rate swaps in place on transition to NZ IFRS 9, the hedging relationship for accounting purposes can only commence on 1 July 2018. This means that interest rate swaps will not be exactly matched to the underlying exposure. Any hedge ineffectiveness will continue to be recognised in the Statement of Comprehensive Income.

The change in the fair value of derivatives is provided below. The fair value movements in hedge reserves includes the discontinued operation in all periods.

	Unaudited 6 months ended 31 Dec 2018		Unaudited 6 months ended 31 Dec 2017		Audited year ended 30 June 2018	
	Profit/ (loss)	Hedge reserves	Profit/ (loss)	Hedge reserves	Profit/ (loss)	Hedge reserves
\$m						
CCIRS	12	-	15	-	42	-
Interest rate swaps	-	-	(1)	-	(3)	-
Fair value adjustment to borrowings	(13)	-	(15)	-	(41)	-
Fair value hedges	(1)	-	(1)	-	(2)	-
CCIRS - margin	-	-	-	-	-	2
Interest rate swaps	(1)	(7)	-	-	-	-
Foreign exchange derivatives	-	(1)	-	-	-	1
Electricity and LPG price derivatives	-	(26)	-	(6)	-	16
Tax on change in fair value	-	9	-	2	-	(5)
Cash flow hedges	(1)	(25)	-	(4)	-	14
Interest rate swaps	-	-	(1)	-	1	-
Electricity price derivatives	-	-	-	-	4	-
Derivatives not designated in hedge relationships	-	-	(1)	-	5	-
Total fair value movement	(2)	(25)	(2)	(4)	3	14

Independent Auditor's Review Report

To the shareholders of Contact Energy Limited

REPORT ON THE INTERIM FINANCIAL STATEMENTS

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial statements on pages 4 to 18 do not:

- i. present fairly in all material respects the company's financial position as at 31 December 2018 and its financial performance and cash flows for the six month period ended on that date; and
- ii. comply with NZ IAS 34 Interim Financial Reporting.

We have completed a review of the accompanying interim financial statements which comprise:

- » the statement of financial position as at 31 December 2018;
- » the statements of comprehensive income, changes in equity and cash flows for the six month period then ended; and
- » notes, including a summary of significant accounting policies and other explanatory information.

Basis for conclusion

A review of interim financial statements in accordance with NZ SRE 2410 *Review of Financial Statements Performed by the Independent Auditor of the Entity* ("NZ SRE 2410") is a limited assurance engagement. The auditor performs procedures, consisting of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

As the auditor of Contact Energy Limited, NZ SRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial statements.

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

Use of this Independent Auditor's Review Report

This report is made solely to the shareholders as a body. Our review work has been undertaken so that we might state to the shareholders those matters we are required to state to them in the Independent Auditor's 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 the shareholders as a body for our review work, this report, or any of the opinions we have formed.

Responsibilities of the Directors for the interim financial statements

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

- » the preparation and fair presentation of the interim financial statements in accordance with NZ IAS 34 Interim Financial Reporting;
- » implementing necessary internal control to enable the preparation of interim financial statements that are fairly presented and free from material misstatement, whether due to fraud or error; and
- » assessing the ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the review of the interim financial statements

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. NZ SRE 2410 requires us to conclude whether anything has come to our attention that causes us to believe that the interim financial statements are not prepared, in all material respects, in accordance with NZ IAS 34 Interim Financial Reporting.

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 these interim financial statements.

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

David Gates

For and on behalf of KPMG
Wellington, 8 February 2019

Glossary

AGS	Ahuroa Gas Storage
ASX	Australian Securities Exchange
C&I	Commercial and Industrial
CCIRS	Cross currency interest rate swaps
DSR/PSR	Deferred share rights / performance share rights
EA	Electricity Authority
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
LPG	Liquid petroleum gas
NZ GAAP	New Zealand generally accepted accounting practice
NZX	New Zealand Stock Exchange
Operating free cash flow	A non-GAAP measure equal to Free cash flow less proceeds from asset sales
Significant items	Items excluded from EBITDAF and underlying profit. These items are determined in accordance with the principles of consistency, relevance and clarity (refer 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 A2)
USPP	United States private placement

Corporate directory

BOARD OF DIRECTORS

Rob McDonald (Chair)
Victoria Crone
Whaimutu Dewes
Jon MacDonald
David Smol
Elena Trout
Dame Therese Walsh

LEADERSHIP TEAM

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

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REGISTRY

Change of address, payment instructions and investment portfolios can be viewed and updated online:

investorcentre.linkmarketservices.co.nz
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