



New Zealand Gazette

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POWERCO LIMITED

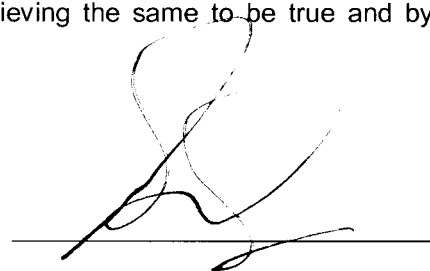
INFORMATION FOR DISCLOSURE

PURSUANT TO THE GAS (INFORMATION
DISCLOSURE) REGULATIONS 1997

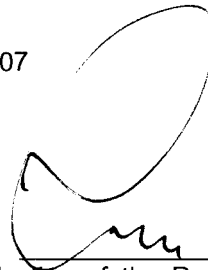
POWERCO LIMITED**GAS (INFORMATION DISCLOSURE) REGULATIONS 1997****STATUTORY DECLARATION IN RESPECT OF STATEMENTS AND INFORMATION
SUPPLIED TO SECRETARY OF COMMERCE**

I, Sriyan Elanga Ekanayake, of Level 2, Civic Centre Building, New Plymouth, being a director of Powerco Limited, solemnly and sincerely declare that having made all reasonably enquiry, to the best of my knowledge, the information attached to this declaration is a true copy of information made available to the public under the Gas (Information Disclosure) Regulations 1997.

And I make this solemn declaration conscientiously believing the same to be true and by virtue of the Oaths and Declarations Act 1957.



Declared at New Plymouth this 27th day of November 2007



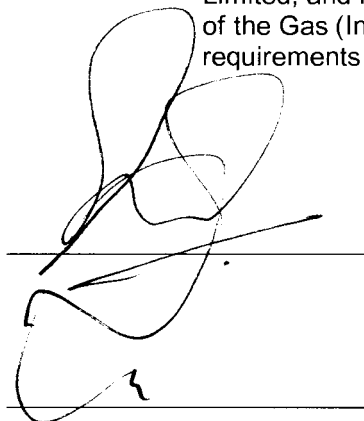
Justice of the Peace (or Solicitor or
other person authorised to take a
statutory declaration)

Nigel Barbour
Solicitor
New Plymouth

POWERCO LIMITED**GAS (INFORMATION DISCLOSURE) REGULATIONS 1997****CERTIFICATION OF FINANCIAL STATEMENTS, PERFORMANCE MEASURES, AND
STATISTICS DISCLOSED BY PIPELINE OWNERS OTHER THAN THE CORPORATION**

We, Sriyan Elanga Ekanayake, director, and Nigel Dickson Barbour, director of Powerco Limited certify that, having made all reasonable enquiry, to the best of our knowledge:

- (a) The attached audited financial statements of Powerco Limited, prepared for the purposes of regulation 6 of the Gas (Information Disclosure) Regulations 1997, comply with the requirements of that regulation; and
- (b) The attached information, being financial performance measures, efficiency performance measures, energy delivery performance measures and statistics, and reliability performance measures in relation to Powerco Limited, and having been prepared for the purposes of regulations 15 to 19 of the Gas (Information Disclosure) Regulations 1997, complies with the requirements of those regulations.

A handwritten signature in black ink, consisting of several loops and a long horizontal stroke, positioned over a horizontal line.

Date: 27th November 2007

Deloitte

POWERCO LIMITED – GAS DIVISION

GAS (INFORMATION DISCLOSURE) REGULATIONS 1997

Certification by Auditor in Relation to Financial Statements

We have examined the attached financial statements prepared by Powerco Limited – Gas Division and dated 27th November 2007 for the purposes of regulation 6 of the Gas (Information Disclosure) Regulations 1997.

We certify that, having made all reasonable enquiries, to the best of our knowledge, those financial statements have been prepared in accordance with the requirements of the Gas (Information Disclosure) Regulations 1997.



Deloitte
Hamilton
27th November 2007

This certification relates to the financial statements of Powerco Limited – Gas Division for the year ended 30 June 2007 included on Powerco Limited's website. Powerco Limited's Board of Directors is responsible for the maintenance and integrity of Powerco Limited's website. We have not been engaged to report on the integrity of Powerco Limited's website. We accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website. The certification refers only to the financial statements named above. It does not provide an opinion on any other information which may have been hyperlinked to/from these financial statements. If readers of this report are concerned with the inherent risks arising from electronic data communication they should refer to the published hard copy of the financial statements and related certification dated 27th November 2007 to confirm the information included in the financial statements presented on this website. Legislation in New Zealand governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.



POWERCO LIMITED – GAS DIVISION

GAS (INFORMATION DISCLOSURE) REGULATIONS 1997

Certification of Performance Measures by Auditor

We have examined the performance measures set out in Note 7 to the attached financial statements being:

- (a) Financial performance measures specified in clause 1 of Part 2 of Schedule 1 of the Gas (Information Disclosure) Regulations 1997; and
- (b) Financial components of the efficiency performance measures specified in clause 2 of Part 2 of that schedule,

and having been prepared by Powerco Limited – Gas Division and dated 27th November 2007 for the purposes of regulations 15 and 16 of those regulations.

We certify that, having made all reasonable enquiries, to the best of our knowledge, that information has been prepared in accordance with the requirements of the Gas (Information Disclosure) Regulations 1997.

A handwritten signature of the Deloitte auditor, written in black ink.

Deloitte
Hamilton
27th November 2007

This certification relates to the financial statements of Powerco Limited – Gas Division for the year ended 30 June 2007 included on Powerco Limited's website. Powerco Limited's Board of Directors is responsible for the maintenance and integrity of Powerco Limited's website. We have not been engaged to report on the integrity of Powerco Limited's website. We accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website. The certification refers only to the financial statements named above. It does not provide an opinion on any other information which may have been hyperlinked to/from these financial statements. If readers of this report are concerned with the inherent risks arising from electronic data communication they should refer to the published hard copy of the financial statements and related certification dated 27th November 2007 to confirm the information included in the financial statements presented on this website. Legislation in New Zealand governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.



GAS DIVISION

Income Statement
For the year ended 30 June 2007

	Notes	30 June 2007 NZ\$000	30 June 2006 NZ\$000
Revenue	1	54,563	50,349
Cost of goods sold		-	-
Gross profit		54,563	50,349
Other income	1	5,350	1,636
Operating expenses	1	(8,158)	(7,002)
Administration expenses	1	(7,584)	(9,181)
Other expenses	1	(11,343)	(9,440)
Earnings before interest and taxation		32,828	26,362
Finance costs	1	(19,660)	(20,701)
Operating Surplus before Taxation		13,168	5,661
Taxation expense / (benefit)	2	(1,073)	1,329
OPERATING SURPLUS AFTER TAXATION		14,241	4,332

The accompanying notes form part of these financial statements.



GAS DIVISION

Statement of Changes in Equity
For the year ended 30 June 2007

		Contributed Capital NZ\$000	Retained Earnings NZ\$000	Hedge Reserve NZ\$000	TOTAL NZ\$000
Balance as at 30 June 2005		119,080	(33,966)	-	85,114
Cashflow hedges - gain/(loss) taken to equity		-	-	(1,618)	(1,618)
Income tax on items taken directly to equity	2	-	-	-	-
Net income recognised directly in equity		-	-	(1,618)	(1,618)
Profit for the period		-	4,332	-	4,332
Total recognised income and expense		-	4,332	(1,618)	2,714
Dividends		-	(5,292)	-	(5,292)
Balance as at 30 June 2006		119,080	(34,926)	(1,618)	82,536
Cashflow hedges - gain/(loss) taken to equity		-	-	3,091	3,091
Income tax on items taken directly to equity	2	-	-	(486)	(486)
Net income recognised directly in equity		-	-	2,605	2,605
Profit for the period		-	14,241	-	14,241
Total recognised income and expense		-	14,241	2,605	16,846
Dividends		-	(12,902)	-	(12,902)
Increase in contributed capital	11	2,322	-	-	2,322
Balance as at 30 June 2007		121,402	(33,587)	987	88,802

The accompanying notes form part of these financial statements.



GAS DIVISION

Balance Sheet
As at 30 June 2007

	Notes	30 June 2007 NZ\$000	30 June 2006 NZ\$000
Equity			
Contributed capital		121,402	119,080
Retained earnings		(33,587)	(34,926)
Reserves		987	(1,618)
		<u>88,802</u>	<u>82,536</u>
Non Current Liabilities			
Borrowings	3	187,032	199,085
Other financial liabilities	4	24,485	13,080
Inter-division account	11	18,496	26,623
Deferred tax liability	2	31,745	26,837
		<u>261,758</u>	<u>265,624</u>
Current Liabilities			
Borrowings	3	42,803	36,909
Provisions	6	264	284
Trade and other payables		3,213	2,768
		<u>46,280</u>	<u>39,961</u>
Total Equity and Liabilities		<u>396,840</u>	<u>388,121</u>
Non Current Assets			
Property, plant and equipment	7	379,105	375,746
Other intangibles	8	471	-
Other financial assets	4	8,634	1,719
		<u>388,210</u>	<u>377,465</u>
Current Assets			
Trade and other receivables		4,678	4,452
Income Tax Receivable		3,952	6,204
		<u>8,630</u>	<u>10,656</u>
Total Assets		<u>396,840</u>	<u>388,121</u>

The accompanying notes form part of these financial statements.

POWERCO LIMITED

Gas Division

Statement of Accounting Policies for the Financial Statements for the Year ended 30 June 2007

Reporting Entity

These financial statements represent the performance and position of Powerco Limited's gas business (Powerco gas division).

The financial statements are presented in accordance with the Gas (Information Disclosure) Regulations 1997.

The financial statements have been derived from the audited financial statements of Powerco Limited, which were prepared in accordance with New Zealand equivalents to financial reporting standards (NZ IFRS), as appropriate for profit-orientated entities.

Due to the absence of a Gas Information Disclosure Handbook, the Electricity Information Disclosure Handbook has been used as a guide in the preparation of these financial statements.

The avoidable cost allocation methodology (ACAM) has been used to allocate costs, assets and liabilities between the gas business and other businesses of Powerco Limited.

The financial statements were approved for issue on 27th November 2007.

Critical accounting estimates and judgements

In the process of applying the division's accounting policies management have made no judgements that have had a significant effect on the amounts recognised in the financial statements.

The key assumptions concerning the future and other key sources of estimation uncertainty at 30 June 2007, that have had a significant risk of causing a material adjustment to the carrying amount of assets and liabilities are discussed below.

Basis of preparation

The financial statements have been prepared on the historical cost basis, except for certain borrowings and financial instruments. Financial derivatives are carried at fair value and borrowings which have effective fair value hedges are carried at amortised cost adjusted for the fair value of interest rate risk covered by the effective hedge. The principal accounting policies adopted are set out below.

a) Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, cash in banks and investments in money market instruments. Bank overdrafts are shown within borrowings in the Balance Sheet.

b) Property, plant and equipment

All items of property, plant and equipment are initially recognised at cost in the Balance Sheet. Cost includes the value of consideration exchanged, or fair value in the case of donated or

subsidised assets, and those costs directly attributable to bringing the item to working condition for its intended use.

Land and buildings are revalued from time to time for insurance purposes only. Any impairment is recognised for accounting purposes and recognised in the Income Statement.

c) Depreciation of property, plant and equipment

Depreciation is calculated on a straight-line basis for Network Systems and on diminishing value basis for all other assets, to write off the cost of the assets (other than land) over the life of the assets.

Depreciation rates based on remaining useful life, for major classes of asset are:

Network assets	10 to 65 years
Plant and equipment	5 to 10 years

d) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

e) Financial assets

Financial assets are recognised and derecognised on trade date where purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, are initially measured at fair value, net of transaction costs.

Other financial assets are classified into one of four categories; financial assets at fair value through the profit or loss, held to maturity investments, available for sale financial assets or loan and receivables. At balance date the Division had the following classes of financial assets:

Loans and receivables

Trade receivables and other receivables are recorded at amortised cost less impairment.

f) Financial liabilities

Financial liabilities are recognised when the Division became party to the contractual provisions of the instrument.

g) Term debt

All loans and borrowings are initially recognised at cost, being the fair value of the consideration received net of issue costs associated with the borrowing. Subsequent to initial recognition, loans and borrowings are carried at amortised cost. Borrowing costs are

recognised as an expense when incurred, except to the extent that they are capitalised in accordance with e) above.

All interest bearing loans and borrowings are measured at amortised cost using the effective interest rate method which allocates the cost through the expected life of the borrowing. Amortised cost is calculated taking account of issue costs, and any discounts or premiums on draw down.

After initial recognition for those interest-bearing loans and borrowings where fair value hedge accounting is applied, the loan balance is adjusted for the change in the hedge risk only. The Division's policy is to hedge the interest/foreign currency risk associated with term debt with financial instruments on matched terms.

Borrowings are classified as current liabilities (either advances and deposits or current portion of term debt) unless the Division has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

h) Trade and other payables

Trade payables and other accounts payable are recognised when the Division becomes obliged to make future payments resulting from the purchase of goods and services. Subsequent to initial recognition, trade payables and other accounts payable are recorded at amortised cost. Given the nature of these liabilities amortised cost equals their notional principal.

i) Derivative financial instruments

Financial derivatives are initially recognised in the Balance Sheet at fair value on the date a derivative contract is entered into and are subsequently measured at their fair value on each balance sheet date, though the method of recognising the resulting gains and losses is dependent on whether hedge accounting is applied. When derivative contracts are entered into, the Division designates them as either;

- Hedges of the fair value of recognised assets or liabilities (fair value hedge); or
- Hedges of forecast transactions or firm commitments (cash flow hedge) which hedge exposures to variability in cash flows; or
- Other derivative financial instruments not meeting hedge accounting criteria.

The fair values of financial derivatives are determined by reference to the market quoted rates input into valuation models for interest and currency swaps, forwards and options. Changes in fair value of derivatives are recognised:

- For fair value hedges which are highly effective, the movements are recorded in the Income Statement alongside any changes in the fair value of the hedged items;
- For cash flow hedges that are determined to be highly effective to the extent the hedges are effective, the movements are recognised in equity with the ineffective portion recognised in the Income Statement; and for those that are ineffective the movements are recognised in the Income Statement;
- All other movements in the fair value of derivative financial instruments are recorded in the Income Statement.

Hedge accounting is discontinued prospectively when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. At that point in time, if the forecast transaction is still expected to occur, any cumulative gain or loss on the hedging instrument is recognised in equity until the forecasted transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to the Income Statement for the period.

j) Employee entitlements

Provision is made for benefits accruing to employees in respect of wages and salaries, annual leave, long service leave and sick leave when it is probable that settlement will be required and they are capable of being measured reliably.

Provisions made in respect of employee benefits expected to be settled within 12 months, are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

Provisions made in respect of employee benefits which are not expected to be settled within 12 months are measured as the present value of the estimated future cash outflows to be made by the Division in respect of services provided by employees up to reporting date.

Defined superannuation plans

For Defined Contribution Superannuation Plans, the Division recognises and expenses the obligation during the period they arise.

There are a small number of employees that are part of a state Defined Benefit Superannuation plan. The Division has no legal or constructive obligation to pay future benefits, the Crown guarantees these benefits, as a result the plans are accounted for as a defined contribution plan.

k) Impairment

A cash generating unit is the lowest group of assets for which there are separately identified cash flows.

At each reporting date, the Division reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Division estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised in the Income Statement immediately, unless the relevant asset is carried at fair value, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised in the Income Statement immediately, unless the relevant asset is carried at fair value, in which case the reversal of the impairment loss is treated as a revaluation increase.

l) Contributed capital

Contributed capital represents the funds provided by Powerco Limited to the Powerco gas division.

m) Dividend distribution

Dividend distribution to the Powerco's shareholders is recognised as a liability in the Division's financial statements in the period in which the dividends are declared.

n) Leases

Operating lease payments, where the lessors effectively retain substantially all the risks and rewards of ownership of the leased items, are included in the determination of profit before taxation in equal instalments over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

o) Revenue recognition

Revenue is recognised at the fair value of sales of goods and services, net of GST, rebates, discounts and capital contributions.

Revenue from the rendering of services is recognised in the accounting period in which the services are rendered based upon usage or volume throughput during that period.

p) Taxation

The amount recognised for current tax is based on the net profit for the period as adjusted for non-assessable and non-deductible items. It is calculated using tax rates that have been enacted or substantively enacted by the reporting date.

Deferred income tax is provided, using the comprehensive balance sheet liability method, on all temporary differences at the balance sheet date between the tax base of the assets and liabilities and their carrying amounts in the financial statements.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax to be utilised.

Deferred income tax assets and liabilities are measured at tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at balance sheet date.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow the manner in which the Division expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the division intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax is recognised as an expense or income in the Income Statement, except when it relates to items credited or debited directly to equity, in which case the deferred tax or current tax is also recognised directly in equity, or where it arises from the initial accounting for a business combination, in which case it is taken into account in the determination of goodwill or excess.

q) Inter-division account

The inter-division account represents the balance due to other Divisions within Powerco Limited. The balance is the result of inter-divisional transactions since the Division was established.

r) Comparative amounts

A change has been made to the Division's comparative numbers in the Balance Sheet in relation to other financial liabilities. Previously financial assets in relation to hedges were disclosed within other financial liabilities, but it was decided that it would provide more clarity if disclosed separately. The effect of this reclassification is as follows (\$'000):

	Original disclosure	Adjustment	Revised disclosure
Other financial liabilities	(11,361)	(1,719)	(13,080)
Other financial assets	-	1,719	1,719

A change has also been made to the Division's comparative numbers in the Balance Sheet in relation to retained earnings and reserves. Previously an adjustment related to the restatement of balances due to the transition to NZ IFRS was taken up against the Reserves figure. The correct treatment should have been to take the adjustment to Retained Earnings as part of the transition to NZ IFRS. The effect of this reclassification is as follows (\$'000):

	Original disclosure	Adjustment	Revised disclosure
Retained earnings	(2,945)	(31,981)	(34,926)
Reserves	(33,599)	31,981	(1,618)

A change has also been made to the Division's comparative numbers in the Balance Sheet in relation to provisions, tax payable and trade and other payables. Previously the amount related to the provision for employee entitlements had been included in the trade and other payables amount. It was decided it would provide more clarity to disclose this provision separately. Previously a payable amount in relation to GST payable was disclosed as tax payable. This balance should have been disclosed in trade and other payables. An adjustment has been made to correct this. The effect of this reclassification is as follows (\$'000):

	Original disclosure	Adjustment	Revised disclosure
Trade and other payables	(2,720)	(48)	(2,768)
Tax payable	(333)	333	-
Provisions	-	(284)	(284)

Changes in Accounting Policies

There have been no changes in accounting policies during the year.

Standards, Amendments and Interpretations issued but not yet effective

At the date of authorisation of the financial report, a number of Standards and Interpretations were in issue but not yet effective.

Initial application of the following Standards will not affect any of the amounts recognised in the financial report, but will change the disclosures presently made in relation to the Division's financial report:

Standard	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
NZ IFRS-7 'Financial Instruments: Disclosures' and consequential amendments to other accounting standards resulting from its issue	1 January 2007	30 June 2008
NZ IFRS-8 'Operating Segments'	1 January 2009	30 June 2010

Initial application of the following Standards and Interpretations is not expected to have any material impact to the financial report of Division:

Standard/Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
NZ IFRIC-10 'Interim Financial Reporting and Impairment'	1 November 2006	30 June 2008
NZ IFRIC -11 'NZ IFRS-2 – Group and Treasury Share Transactions'	1 March 2007	30 June 2008
NZ IFRIC-12 'Service Concession Arrangements'	1 January 2008	30 June 2009
IFRIC-13 'Customer Loyalty Programmes'	1 July 2008	30 June 2009
IFRIC-14 'IAS-19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction'	1 January 2008	30 June 2009
NZ IAS-23 'Borrowing Costs' – revised standard	1 January 2009	30 June 2010

Notes to and Forming Part of the Financial Statements
For the year ended 30 June 2007



GAS DIVISION

1 REVENUE AND EXPENDITURE

	Year to 30 June 2007 NZ\$000	Year to 30 June 2006 NZ\$000
Operating Revenue		
Line charge revenue	54,563	50,349
Interest revenue	-	-
	<u>54,563</u>	<u>50,349</u>
Other Income		
Hedging gain	5,350	1,636
	<u>5,350</u>	<u>1,636</u>
EXPENDITURE		
Operating expenses		
Repairs and maintenance costs	8,158	7,002
Administration expenses		
Human resource costs	160	183
Bad debts	57	6
Corporate & administration	6,547	7,459
Marketing & advertising	205	209
Consulting & legal expenses	615	1,324
	<u>7,584</u>	<u>9,181</u>
Other expenses		
Depreciation on network assets	9,804	9,440
Depreciation on plant and equipment	1,086	-
Amortisation of intangibles	453	-
	<u>11,343</u>	<u>9,440</u>
Finance costs		
Interest expense	19,660	20,701
	<u>19,660</u>	<u>20,701</u>
Total expenditure	<u>46,745</u>	<u>46,324</u>

2 TAXATION

Income tax recognised in the Income Statement

Tax expense / (benefit) comprises:

	Year to 30 June 2007 NZ\$000	Year to 30 June 2006 NZ\$000
Current tax expense / (benefit)	(5,495)	(6,204)
Deferred tax on temporary differences	7,307	7,533
Effect of changes in tax rates and laws	(2,885)	-
	<u>(1,073)</u>	<u>1,329</u>

The total charge for the period can be reconciled to the accounting profit as follows:

Operating surplus before taxation	13,168	5,661
Prima facie taxation @ 33%	4,346	1,868
Tax effect of expenses/(revenue) that are not deductible in determining taxable profit	(2,534)	(539)
Effect of changes in tax rates	(2,885)	-
	<u>(1,073)</u>	<u>1,329</u>

The tax rate used in the above reconciliation is the corporate tax rate of 33% payable by New Zealand corporate entities on taxable profits under New Zealand tax law. The corporate tax rate in New Zealand is to change from 33% to 30% with effect from 1 April 2008. This revised rate has not impacted the current tax payable for the current year but will do so in future periods. However, the impact of the change in tax rate has been taken into account in the measurement of deferred taxes at the end of the reporting period.

All temporary differences have been recorded in the financial statements.

Income tax recognised directly in equity

Deferred tax - revaluation of financial instruments treated as cash flow hedges	486	-
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Deferred tax - temporary differences

	Property, plant & equipment NZ\$000	Cash flow hedges NZ\$000	TOTAL NZ\$000
Balance 30 June 2005	19,304	-	19,304
Charged / (credited) to the Income Statement	7,533	-	7,533
Charged to equity	-	-	-
Balance 30 June 2006	26,837	-	26,837
Charged / (credited) to the Income Statement	5,266	2,041	7,307
Charged to equity	-	486	486
Change in tax rate	(2,885)	-	(2,885)
Balance 30 June 2007	<u>29,218</u>	<u>2,527</u>	<u>31,745</u>

Notes to and Forming Part of the Financial Statements
For the year ended 30 June 2007



GAS DIVISION

3 BORROWINGS

	30 June 2007 NZ\$000	30 June 2006 NZ\$000
Non-current liabilities at amortised cost		
Subordinated bonds	20,446	20,945
Guaranteed bonds	86,916	88,429
US dollar private placement notes	44,981	55,024
Commercial bank debt	34,689	34,687
	<u>187,032</u>	<u>199,085</u>
Current liabilities at amortised cost		
Bank overdraft (note 5)	4,483	4,390
Commercial paper facility	32,521	32,519
Commercial bank debt	5,799	-
	<u>42,803</u>	<u>36,909</u>

(a) Subordinated bonds	30 June 2007 NZ\$000	30 June 2006 NZ\$000
Subordinated bonds	21,680	21,680
Adjustment for the fair value of the interest rate risk	(815)	(116)
	<u>20,865</u>	<u>21,564</u>
Deferred funding costs	(419)	(619)
Carrying value of subordinated bonds	<u>20,446</u>	<u>20,945</u>

\$100 million of subordinated bonds were issued on 15 April 2005 and are unsecured, subordinated debt obligations of Powerco Limited. They have a tenure of 5 years and have an interest rate of 7.64% p.a. fixed until expiry on 15 April 2010. \$21.680 million (2006: \$21.680 million) of subordinated bonds have been allocated to Powerco's gas division.

(b) Guaranteed bonds	30 June 2007 NZ\$000	30 June 2006 NZ\$000
7 year guaranteed bonds	21,679	21,679
Adjustment for the fair value of the interest rate risk	(1,722)	(966)
9 year guaranteed bonds	21,679	21,679
Adjustment for the fair value of the interest rate risk	(1,722)	(966)
11 year guaranteed bonds	10,839	10,839
Adjustment for the fair value of the interest rate risk	(861)	(483)
7 year guaranteed bonds	28,183	28,183
12 year guaranteed bonds	10,839	10,839
	<u>88,914</u>	<u>90,804</u>
Deferred funding costs	(1,998)	(2,375)
Carrying value of guaranteed bonds	<u>86,916</u>	<u>88,429</u>

\$250 million of Guaranteed Bonds were issued on 29 March 2004 as unsecured debt obligations of Powerco Limited, of which \$54.197 million has been allocated to the Powerco gas division (2006: \$54.197 million). The scheduled payments of interest and principal are guaranteed on an unsecured basis by US-based XL Capital Assurance Inc, a specialist financial guaranty organisation. The bonds expire on 29 March 2011 (7 year bonds), 29 March 2013 (9 year bonds) and 29 June 2015 (11 year bonds). The interest rates on the bonds are fixed until maturity.

7 year guaranteed bonds	6.22%
9 year guaranteed bonds	6.39%
11 year guaranteed bonds	6.53%

On 28 September 2005 a \$180 million issue of guaranteed bonds took place, as secured unsubordinated obligations of Powerco Limited, of which \$39.022 million has been allocated to the Powerco gas division (2006: \$39.022 million). The scheduled payments of interest and principal payable by Powerco Limited were again guaranteed on an unsecured basis by XL Capital Assurance. The bonds expire on 28 September 2012 (7 year bonds) and 28 September 2017 (12 year bonds). The interest rates on the bonds are fixed until maturity.

7 year guaranteed bonds	6.59%
12 year guaranteed bonds	6.74%

Under the trust documents constituting the guaranteed bonds, Powerco Limited has covenanted to ensure that, if XLCA defaults on its obligations under the Financial Guaranty, Powerco Limited will procure a sufficient number of its subsidiaries to guarantee its obligations under the guaranteed bonds by signing a subsidiary guarantee so that at all times the total tangible assets of Powerco Limited and all guaranteeing subsidiaries exceeds 85% of the total tangible assets of the Powerco Group. As at 30 June 2007, no Subsidiary Guarantee had been executed.

The guaranteed bonds are secured against the network assets of Powerco Limited through the Security Trust Deed.

Notes to and Forming Part of the Financial Statements
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GAS DIVISION

c) US dollar private placement	30 June 2007 NZ\$000	30 June 2006 NZ\$000
11 year US dollar private placement notes	20,413	20,413
12 year US dollar placement notes	19,776	19,776
13 year US dollar private placement notes	23,604	23,604
Adjustment for fair value of the interest rate risk	(18,381)	(8,301)
Deferred funding costs	(431)	(468)
Carrying value of the US dollar private placement	44,981	55,024

\$294.266 million of US dollar private placement notes were issued on 25 November 2003 to private US investors by Powerco Limited, of which \$63.793 million has been allocated to the Powerco gas division (2006: \$63.793 million). The coupon payments are semi-annual and the note issue expires 25 November 2014 (11 year), 25 November 2015 (12 year), and 25 November 2016 (13 year). The notes are secured against the network assets of Powerco Ltd through the Security Trust Deed.

The interest rates on the notes are fixed until maturity.

11 year US dollar private placement notes	5.47%
12 year US dollar private placement notes	5.57%
13 year US dollar private placement notes	5.67%

d) Commercial paper facility

Powerco Limited has established a commercial paper facility to enable Powerco Limited to borrow money from the capital market. The programme is supported by a cash advance facility of \$200 million with a syndicate of banks made up of the Commonwealth Bank of Australia, Westpac Banking Corporation and ANZ National Bank. This facility was due to expire in August 2007 but has been extended until August 2009. The facility has the benefit of the Security Trust Deed dated 10 March 2005 as a Senior Secured Debtor Facility, and as such the principal is secured against the network assets of Powerco Limited. At 30 June 2007 a sum of \$150,000,000, which includes an interest portion of \$3,017,076 of 90 day bills at a weighted average interest rate of 8.15%, with varying maturity dates, had been drawn down under the commercial paper programme (2006: \$150,000,000 was drawn down under the commercial paper programme which included an interest portion of \$2,759,645 at a weighted average interest rate of 7.52%). No amount has been drawn on the standby facility. As at year end the carrying value approximates the fair value.

At year end the amount of the commercial paper facility allocated to the Powerco gas division was \$32.521 million (2006: \$32.519 million).

e) Commercial bank debt

A \$160 million Term Loan Facility agreed and drawn in August 2004, expiring August 2009, which was used to refinance the remaining tranche of the Asset Purchase Facility used to fund the acquisition by Powerco Limited of United Networks Limited (UNL) assets. The Term Loan Facility is jointly provided through Commonwealth Bank of Australia, Westpac Banking Corporation and ANZ National Bank, each with an equal share. The interest rate on the \$160 million Term Loan Facility is currently 8.71%. The Term Loan Facility has the benefit of the Security Trust Deed, for the purposes of which it is designated as a Senior Secured Debt Facility and thus secured against the network assets of Powerco Limited. As at 30 June 2007 a sum of \$160 million had been drawn (2006: \$160 million with an interest rate of 8.12%).

During the period Powerco Limited added a revolving cash advances tranche of \$30 million to the existing \$200 million standby facility (refer commercial paper note). The purpose of this facility is the short-term funding of development capital expenditure, and the facility will be drawn down and repaid as funding is required. This additional amount of the facility is jointly provided by Westpac, ANZ National Bank and Commonwealth Bank of Australia and is due to expire on 3 August 2009. As at 30 June 2007 the interest on this facility was 8.59%.

At year end the amount of the term liabilities allocated to the gas division was \$34.689 million (2006: \$34.687 million) and current liabilities of \$5.799 million (2006: \$Nil).

As at the reporting date the carrying value approximates the fair value as interest rates are reset each quarter.

	30 June 2007 NZ\$000	30 June 2006 NZ\$000
Comprises:		
Current liabilities	5,799	-
Term liabilities	34,689	34,687
Total commercial bank debt	40,488	34,687

f) Covenants

Powerco Limited has covenanted with all counterparties to ensure certain financial criteria are met throughout the term of the debt agreements. There have been no covenant breaches to date.

g) Financial assets and liabilities

The following tables detail the fair value of financial liabilities

	30 June 2007 NZ\$000		30 June 2006 NZ\$000	
	Carrying Amount NZ\$000	Fair Value NZ\$000	Carrying Amount NZ\$000	Fair Value NZ\$000
<u>Financial assets:</u>				
Interest rate swaps	8,634	8,634	1,719	1,719
	<u>8,634</u>	<u>8,634</u>	<u>1,719</u>	<u>1,719</u>
<u>Financial liabilities:</u>				
Subordinated bonds	20,446	20,446	20,945	20,945
Guaranteed bonds	86,916	84,160	88,429	88,429
US dollar private placement notes	44,981	44,981	55,024	55,024
Commercial paper facilities	32,521	32,521	32,519	32,519
Commercial bank debt	40,488	40,488	34,687	34,687
US cross currency interest rate swap	18,407	18,407	8,305	8,305
Interest rate swaps	6,078	6,078	4,775	4,775
	<u>249,837</u>	<u>247,081</u>	<u>244,684</u>	<u>244,684</u>

The fair value of financial assets and financial liabilities are determined as follows:

- For floating rate debt carrying value approximates fair value due to continuing interest rate reset.
- For fixed rate debt opposing floating rate derivative instruments matching tenor and term are used in offset position to calculate fair values. The movements in these derivatives approximate movements in market values.
- For derivative instruments fair value is based on quoted prices.

Notes to and Forming Part of the Financial Statements
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GAS DIVISION

4 DERIVATIVE FINANCIAL INSTRUMENTS

- a) Powerco Limited enters into New Zealand dollar floating to fixed interest rate swap agreements to reduce the impact of changes in floating interest rates on its borrowings and thus reduce variability in cash flows. Fixed to floating instruments are entered into in order to hedge the changes in fair value of fixed rate New Zealand dollar debt. Powerco Limited also utilises cross currency interest swaps to hedge against the variations in interest costs and fair value of the US dollar private placement debt.

Derivative instruments are initially recognised at fair value on the contract date and subsequently measured at their fair value on each balance sheet. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either (i) hedges of highly probable forecast transactions (cash flow hedges), or (ii) hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedges).

The Group documents, at the inception of the hedge transaction, the relationship between hedging instruments and hedged items, as well as its risk management objective and hedging strategy. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

(i) Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the Income Statement. Amounts accumulated in equity are transferred to the Income Statement in the same period in which the hedged item affects the Income Statement.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the Income Statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss reported in equity is immediately transferred to the Income Statement.

(ii) Fair value hedges

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the Income Statement, together with any changes in the fair value of the hedged risk.

(iii) Derivatives that do not qualify for hedge accounting

Certain derivative instruments are undertaken as hedges of economic exposures but do not qualify for hedge accounting. Changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognised immediately in the Income Statement.

The fair value of financial derivatives and fixed rate debt are determined by reference to the market quoted rates input into valuation models.

All derivative instruments are carried on Balance Sheet at their fair values. Movements in the hedging reserve are shown in the Statement of Changes in Equity.

The Group holds the following financial instruments:

1 Interest rate swaps

The Group receives New Zealand fixed interest rates and pays New Zealand dollar (NZD) floating interest rates. The hedge is a fair value hedge and was entered into on terms matched to the underlying obligation.

The nominal value of the hedge is \$98,000,000 (2006: \$98,000,000)

The fair value of the hedge is -\$5,134,121 (2006: -\$2,497,506)

2 US Cross Currency Interest rate swaps

The Group receives United States dollar (USD) fixed interest and pays NZD floating interest. The hedge is both a fair value hedge and hedges the movements in currency that would affect interest payments and final repayment at maturity, these were entered into at terms to match the underlying obligation.

The nominal value of the hedge is \$82,394,484 (2006: \$82,394,484)

The fair value of the hedge is -\$18,407,123 (2006: -\$8,190,409)

3 Interest rate swaps

The Group receives NZD floating interest rates and pays NZD fixed interest. The hedge is to fix the variable floating obligations efficiently as per the hedge policy and the treasury policy and is on matched terms. The hedge is a cash flow hedge.

The nominal value of the hedge is \$91,000,000 (2006: \$63,000,000)

The fair value of the hedge is \$2,992,483 (2006: -\$778,792)

4 Interest rate swap

To swap back fixed NZD debt converted to floating back to fixed debt. The swap is used to match the interest rate profile in accordance with the Board strategy and is on matched terms. Hedge accounting is not applied to these swaps.

The nominal value of the hedge is \$144,200,000 (2006: \$139,160,000)

The fair value of the hedge is \$1,993,888 (2006: \$360,176)

5 Interest rate swap

To convert floating New Zealand debt from (2) above to fixed NZD debt. The swap is used to modify the debt profile in accordance with the Board strategy and is on matched terms. Hedge accounting is not applied to these swaps.

The nominal value of the hedge is \$133,000,000,00 (2006: \$155,400,000)

The fair value of the hedge is \$2,822,918 (2006: -\$73,404)

6 Interest rate swaps

To unwind floating to fixed swaps which existed when the hedging policy was changed. These are to offset previous interest rate swaps and match the terms of those including termination date and rolls. Hedge accounting is not applied to these swaps.

The nominal value of the swap is \$22,400,000 (2006: \$22,400,000)

The fair value of the swap is -\$943,483 (2006: -\$246,139)

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GAS DIVISION

7 Interest rate swaps

Historical swaps floating to fixed swaps which are cancelled by (6) above on matched term and roll basis. Hedge accounting is not applied to these swaps.

The nominal value of the swap is \$22,400,000 (2006: \$22,400,000)

The fair value of the swap is \$824,853 (2006: \$65,431)

Total notional principal of instruments recognised \$593,394,484 (2006: 582,754,484)

Total fair value of instruments recognised -\$15,850,585 (2006: -\$11,360,643)

All cash flow hedges above are on matched terms. The maturities are the same as the financial liabilities recorded in [note 2]. The Group's policy is to refloat any fixed rate debt, thus giving a totally floating portfolio, then re-hedge as per parameters in the treasury policy. This has the effect that some fixed rate hedges are applied against floating rate hedges. In line with NZ IAS39 these are not able to be designated as hedges for accounting purposes and thus movements in the mark to market value of these is passed through to the Income Statement.

The Group's NZD and foreign currency fixed rate debt is converted to floating NZD debt through the use of derivatives, with these exactly matching the term and nominal value of the debt. At the point of issue the nominal value of the bonds was equivalent to the fair value, and the fair value of the derivative was zero. The marking to market of the derivatives outlines movements in interest rates or currency rates.

Powerco bonds are able to be traded on the NZDX and an active secondary market exists. This valuation method assumes a constant credit rating.

The fair value of financial instruments is disclosed in the financial statements as follows:

	30 June 2007 NZ\$000	30 June 2006 NZ\$000
Other non-current financial assets		
Interest rate swap	8,634	1,719
	<u>8,634</u>	<u>1,719</u>
Other non-current financial liabilities		
US cross currency interest rate swap	18,407	8,305
Interest rate swap	6,078	4,775
	<u>24,485</u>	<u>13,080</u>
Net fair value of assets / (liabilities)	<u>(15,851)</u>	<u>(11,361)</u>

b) Currency swaps

Under currency swap contracts, the consolidated entity agrees to exchange specified principal and interest foreign currency amounts at an agreed future date at a specified exchange rate (fixed for floating). Such contracts enable the consolidated entity to mitigate the risk of adverse movements in foreign exchange rates.

The following table details the currency swaps outstanding as at reporting date.

	Average interest rate NZ\$000	Average exchange rate NZ\$000	Contract Value NZ\$000	Fair Value NZ\$000
Outstanding contracts as at 30 June 2007				
Over five years	BKBM + 88 basis points	0.5947	82,394	(18,407)
Outstanding contracts as at 30 June 2006				
Over five years	BKBM + 88 basis points	0.5947	82,394	(8,305)



c) Interest rate swap contracts

Under interest rate swap contracts, the consolidated entity agrees to exchange the difference between fixed and floating rate interest amounts calculated on agreed notional principal amounts. Such contracts enable the consolidated entity to mitigate the risk of changing interest rates on debt held. The fair value of interest rate swaps are based on market values of equivalent instruments at the reporting date and are disclosed below. The average interest rate is based on the outstanding balances at the start of the financial year.

The following tables details the notional principal amounts and remaining terms of interest rate swap contracts outstanding as at reporting date:

	30 June 2007		30 June 2006	
	Average contracted fixed interest rate	Notional principal amount	Average contracted fixed interest rate	Notional principal amount
	NZ\$000	NZ\$000	NZ\$000	NZ\$000
Floating to fixed contracts:				
Less than 1 year	6.56%	92,400	6.51%	47,880
1 to 2 years	6.51%	39,200	6.38%	81,480
2 to 3 years	6.94%	11,200	6.49%	11,200
3 to 4 years	6.71%	11,200	6.94%	11,200
4 to 5 years	6.99%	23,800	6.71%	11,200
5 years +	6.76%	212,800	6.83%	217,000
				(1,502)
Fixed to floating contracts:				
Less than 1 year	-	-	-	-
1 to 2 years	-	-	-	-
2 to 3 years	7.45%	33,600	-	-
3 to 4 years	6.22%	28,000	-	-
4 to 5 years	6.54%	5,600	7.45%	33,600
5 years +	6.46%	53,200	6.22%	28,000
			6.47%	58,800
				(1,526)
Total interest rate swaps		511,000		500,360
Total cross currency swaps		82,394		82,394
Total swaps		593,394		582,754
				(11,361)
				(3,056)
				(8,305)
				(194)
				(904)
				(1,526)
				(2,188)
				(11,361)
				(2,113)

d) Hedge movements recognised in the Income Statement

Gain on fair value hedges recognised in the Income Statement
Adjustment for the fair value of interest rate risk on borrowings
Net effect on profit for the period

The fair value of cash flow hedges recognised in the Income Statement

No items have been reclassified as measured at cost or amortised cost during the period.

e) **Maturity profile of financial instruments**

The following table details the exposure to interest rate risk as at 30 June 2007:
This table uses repricing dates and as such does not reflect the actual maturity of any floating rate debt or other debt that is repriced prior to maturity.

	Weighted average effective interest rate %	Variable interest rate NZ\$000	Maturity dates					Non- interest bearing NZ\$000	Total NZ\$000
			Less than 1 year NZ\$000	1-2 years NZ\$000	2-3 years NZ\$000	3-4 years NZ\$000	4-5 years NZ\$000		
Financial assets:									
Trade and other receivables	-	-	-	-	-	-	-	4,678	4,678
Income tax receivable	-	-	-	-	-	-	-	3,952	3,952
Interest rate swaps	-	-	-	-	-	-	-	8,634	8,634
			-	-	-	-	-	17,264	17,264
Financial liabilities:									
Trade and other payables	-	-	-	-	-	-	-	3,213	3,213
Provisions	-	-	-	-	-	-	-	264	264
Bank overdraft	8.24%	4,483	-	-	-	-	-	-	4,483
Subordinated bonds	7.64%	-	-	-	20,446	-	-	-	20,446
Guaranteed bonds	6.47%	-	-	-	-	-	-	-	86,916
US dollar private placement notes	5.56%	-	-	-	19,956	-	-	-	44,981
Commercial paper facility	8.15%	-	-	-	-	-	-	-	32,521
Commercial bank debt	7.96%	5,799	34,689	-	-	-	-	-	40,488
Interest rate swaps	-	-	-	-	-	-	-	6,078	6,078
US cross currency interest rate swaps	-	-	-	-	-	-	-	18,407	18,407
		10,282	67,210	20,446	19,956	-	111,941	27,962	257,797

The carrying value of cash and cash equivalents, trade and other receivables, other current assets, trade and other payables, bank overdraft and employee entitlements is equivalent to the fair value of these assets and liabilities.

The following table details the exposure to interest rate risk as at 30 June 2006:

	Weighted average effective interest rate %	Variable interest rate NZ\$000	Maturity dates					Non- interest bearing NZ\$000	Total NZ\$000
			Less than 1 year NZ\$000	1-2 years NZ\$000	2-3 years NZ\$000	3-4 years NZ\$000	4-5 years NZ\$000		
Financial assets:									
Trade and other receivables	-	-	-	-	-	-	-	4,452	4,452
Income tax receivable	-	-	-	-	-	-	-	6,204	6,204
Interest rate swaps	-	-	-	-	-	-	-	1,719	1,719
		-	-	-	-	-	-	12,375	12,375
Financial liabilities:									
Trade and other payables	-	-	-	-	-	-	-	2,768	2,768
Provisions	-	-	-	-	-	-	-	284	284
Bank overdraft	7.40%	4,390	-	-	-	-	-	-	4,390
Subordinated bonds	7.64%	-	-	-	-	-	-	-	20,945
Guaranteed bonds	6.47%	-	-	-	-	20,945	-	-	88,429
US dollar private placement notes	5.56%	-	-	-	-	-	67,716	-	55,024
Commercial paper facility	7.52%	-	-	-	-	-	-	-	32,519
Commercial bank debt	7.41%	-	32,519	-	-	-	-	-	34,687
Interest rate swaps	-	-	34,687	-	-	-	-	-	4,775
US cross currency interest rate swaps	-	-	-	-	-	-	-	8,305	8,305
		4,390	67,206	-	-	20,945	20,713	122,740	252,126

The carrying value of cash and cash equivalents, trade and other receivables, other current assets, trade and other payables, bank overdraft and employee entitlements is equivalent to the fair value of these assets and liabilities.

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(f) Financial Instruments**Risk Management**

The Group engages in business in Australia and New Zealand and has currency expenses relating to the Australian dollar and United States dollar. In the normal course of events the Group is exposed to loss through:

- (a) Market risk
- (b) Credit risk
- (c) Liquidity risk.

The Group's risk programme recognises the unpredictability of financial markets and seeks to minimise the potential adverse effects of market movements. The Group uses derivative financial instruments for this purpose, but does not engage in holding instruments for trading or speculation.

Management of this risk is performed in accordance with the policies approved by the Board of Directors. These cover both detailed policies and specific areas such as foreign exchange risk, interest rate risk, credit risk and liquidity risk as well as the use of derivatives and appropriateness of counter parties.

(a) Market Risk**(i) Foreign Exchange Exposures**

The Group operates in New Zealand and Australia and has foreign exchange exposures arising from US dollar denominated debt and investments in Australian operations. This exposes the Group to potential gains and losses arising from currency movements. The Group policy relating to US dollar denominated debt is to minimise the exchange rate exposure by use of matching hedges taken out at the time the loans were drawn down. With regards to the independent foreign subsidiary, Powerco Australian Group Pty Limited, there is no net investment hedging.

(ii) Interest Rate Exposures

Interest rate risk is the risk that interest rates will change, increasing or decreasing the cost of borrowing or lending. The Company's short-term borrowings are on a floating daily interest rate. Non-current debt is funded by the fixed coupon bonds and Powerco's commercial paper program based on 90 day Bank Bills.

Powerco has entered into interest rate swap agreements to reduce the impact of the changes in interest rates on its borrowings. As at 30 June 2007, Powerco Limited had interest rate swap agreements with registered banks. The weighted average of the interest rate swap agreements (excluding the reverse swap agreements) produce an interest rate of 6.70% p.a.

(b) Credit Risk

Financial instruments which potentially subject the Company to credit risk principally consist of bank balances and accounts receivable. There are no significant concentrations of credit risk. These accounts are subject to a Board Prudential Supervision Policy which is used to manage the exposure to credit risk. As part of this policy, limits on exposures have been set and are monitored on a regular basis. Cash deposits are only made with registered banks. The maximum credit risk is the carrying value.

(c) Liquidity Risk

Liquidity risk is the risk that the Group may be unable to meet its financial obligations as they fall due. This risk is managed by maintaining sufficient cash and deposits together with access to committed credit facilities.

5 CASH & WORKING CAPITAL ADVANCES FACILITY

Powerco Limited operates a wholesale capital advance facility with the Commonwealth Bank of Australia for up to \$30 million. As at 30 June 2007, the full \$30 million was drawn down on the facility (2006: funds drawn of \$28.5 million, offset by unrealised deposits of \$475,643). The facility is based on a revolving credit arrangement and as such does not have set repayment dates. The facility expires on 22 March 2008 but is subject to automatic renewal for a further period. The facility has the benefit of the Security Trust Deed, as a Senior Secured Debt Facility. This facility had interest rates ranging from 7.40% to 8.15%.

At year end the amount of bank overdraft allocated to the gas division was \$4.483 million (2006: \$4.390 million). The overdraft interest rate on this facility at that date was 10.0%.

There is no right of set-off between any of the facilities.

6 PROVISIONS

This provision relates to employee entitlements such as accrued wages, bonuses, holiday pay and long service leave. The provision is affected by a number of estimates including the expected employment period of employees and the timing of employees utilising the benefits.

7 PROPERTY, PLANT AND EQUIPMENT

	Network assets NZ\$000	Plant and equipment NZ\$000	Work in progress NZ\$000	TOTAL NZ\$000
Gross carrying value				
Balance at 30 June 2005	406,943	-	3,014	409,957
Transfers	9,663	-	(9,663)	-
Additions	474	-	7,648	8,122
Disposals	-	-	-	-
Balance at 30 June 2006	417,080	-	999	418,079
Acquisition of plant & equipment assets from inter-division	-	9,287	-	9,287
Transfers	5,460	-	(5,460)	-
Additions	1,219	200	6,610	8,029
Disposals	-	-	-	-
Balance at 30 June 2007	423,759	9,487	2,149	435,395
Accumulated depreciation				
Balance at 30 June 2005	32,893	-	-	32,893
Disposals	-	-	-	-
Depreciation expense	9,440	-	-	9,440
Balance at 30 June 2006	42,333	-	-	42,333
Acquisition of plant & equipment assets from inter-division	-	3,067	-	3,067
Disposals	-	-	-	-
Depreciation expense	9,804	1,086	-	10,890
Balance at 30 June 2007	52,137	4,153	-	56,290
Net book value 30 June 2006	374,747	-	999	375,746
Net book value 30 June 2007	371,622	5,334	2,149	379,105

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8 OTHER INTANGIBLES

Gross carrying value

Balance at 30 June 2005

Additions

Disposals

Balance at 30 June 2006

Acquisition of plant & equipment assets from inter-division

Additions

Disposals

Balance at 30 June 2007

Accumulated amortisation

Balance at 30 June 2005

Disposals

Amortisation expense

Balance at 30 June 2006

Acquisition of plant & equipment assets from inter-division

Disposals

Amortisation expense

Balance at 30 June 2007

Net book value 30 June 2006**Net book value 30 June 2007**

Software NZ\$000	TOTAL NZ\$000
-	-
-	-
-	-
-	-
990	990
251	251
-	-
1,241	1,241
-	-
-	-
-	-
-	-
317	317
-	-
453	453
770	770
-	-
471	471

9 DISCLOSURE OF PERFORMANCE MEASURES PURSUANT TO REGULATION 15 AND PART II OF THE FIRST SCHEDULE OF THE GAS (INFORMATION DISCLOSURE) REGULATIONS 1997

Financial Performance Measures	Notes	2007	2006	2005	2004
(i) Accounting Return on Total Assets	(a), (b)	7.18%	6.43%	7.92%	6.38%
(ii) Accounting Return on Equity		16.98%	4.47%	5.54%	2.81%
(iii) Accounting Rate of Profit including revaluation	(a), (b)	5.49%	4.65%	5.30%	4.28%
(iv) Accounting Rate of Profit excluding revaluation		5.49%	4.65%	5.30%	4.28%
Efficiency Performance Measures					
(v) Direct Line Cost per Kilometre		\$1,408.53	\$1,248.23	\$1,299.10	\$1,268.10
(vi) Indirect Line Cost per Gas Customer		\$73.35	\$88.29	\$93.84	\$74.96

Notes:

(a) This calculation excludes current borrowings from working capital because the borrowings do not relate to operational obligations.

(b) EBIT for the purposes of this calculation excludes the hedging gains of \$5.350 million as shown in the Income Statement as Other Income, and the hedging gain of \$3.091 million recognised in the Statement of Changes In Equity. This is because the hedge gain does not meet the definition of revenue in the Gas (Information Disclosure) Regulations 1997.

10 CONTINGENT LIABILITIES AND COMMITMENTS

As Powerco is an integrated business, this disclosure relates to the business as a whole.

Legal claims

Powerco Limited has been named as a second defendant in a claim issued by Todd Energy Limited against Transpower Limited. The plaintiffs allege various breaches of the Commerce Act 1986 and claim various declarations and injunctions together with damages. The damages amount is presently unquantified. The claim is being defended by Powerco, which contends that it is not in breach of any of its obligations. No provision for the claim has been included in the financial statements.

Taxation risk

The IRD has issued a Notice of Proposed Adjustment dated 27 November 2006 which proposes to disallow depreciation calculated using the market value of former Powerco assets for the 2002, 2003, 2004 and 2005 income tax years. It proposes using the original cost of the former Powerco assets as the basis for calculating the tax depreciation (the 2001 income tax year is statute barred).

Powerco, along with its tax advisors and senior legal counsel disagree with this treatment and has issued a Notice of Response on 26 January 2007, stating that no adjustment is required.

The potential liability arising from the IRD's argument could range from between \$nil to \$22.4 million (including \$5.9 million use of money interest).

In addition, the IRD has raised an issue of whether the proportion of the price paid by Powerco for the purchase of (1) CentralPower and former Powerco's assets in 2000; (2) AGL's Hutt Valley and Porirua Basin gas network in 2001; and (3) certain Bay of Plenty and Thames Valley electricity assets and lower North Island gas assets of United Networks Limited in 2002 attributed to fixed assets and goodwill is correct and as a consequence whether the value of depreciable property and depreciable loss for the 2002, 2003, 2004, 2005 and 2006 tax years are correct.

The Commissioner is currently investigating this issue further. If, following the Commissioner's further investigations, there is a dispute between the Commissioner and Powerco with respect to the foregoing and this dispute is not resolved by agreement, the Commissioner may issue a notice of proposed adjustment. If the Commissioner issues a notice of proposed adjustment, Powerco can challenge the adjustment. The potential total liability arising from this dispute cannot be accurately estimated at this stage.

Contracts

Powerco Limited has a contract with Tenix Alliance New Zealand Limited (Tenix), who provide electricity and gas field services. There is a condition in the contract that states that a payment is made to Tenix for performing better than budgeted and a payment is made to Powerco if performance does not meet budget. The amount of the payment is determined by a predetermined calculation in the contract on an annual basis. At this time, any future payment to or from Powerco cannot be quantified.

Notes to and Forming Part of the Financial Statements
For the year ended 30 June 2007



GAS DIVISION

Commitments

Commitments for future capital expenditure resulting from contracts entered into:

Not longer than 1 year

Longer than 1 year and not longer than 5 years

Longer than 5 years

30 June 2007 NZ\$000	30 June 2006 NZ\$000
6,625	100,413
13,682	146,646
-	-
<u>20,307</u>	<u>247,059</u>

11 RELATED PARTY TRANSACTIONS**Trading Transactions**

For the year ended 30 June 2007, the Powerco gas division was charged management service fees of \$0.342 million from BBI Networks (New Zealand) Limited. The payment terms are: "payment is required when an invoice is provided from BBINZ and the amount is set in recognition of the following services being provided: executive strategic management, corporate development and asset management operational advice and direction, corporate financial advice, strategic treasury management advice, corporate revenue and risk management advice and other corporate policy formulation and advice".

The Powerco gas division has inter-company accounts with the other divisions of Powerco Limited. Notional interest has been recognised on this inter-company balance during the period at the same rate as the division's external debt.

A notional charge for the cost of insurance has been made from the corporate division to the gas division of \$784,991 (2006: \$603,590).

The Powerco gas division acquired \$5.805 million of non-network assets from one of the other divisions of Powerco Limited, of which \$0.471 million was made up of intangible assets. Of these acquired assets, \$2.322 million was funded by equity and \$3.483 million by inter-division debt.

Compensation of key management personnel

The remuneration of directors and other members of key management during the year were as follows:

	Year ended 30 June 2007 NZ\$000	Year ended 30 June 2006 NZ\$000
Short-term benefits	355	2,352
Post employment benefits	5	29
	<u>360</u>	<u>2,381</u>

The remuneration of directors and key executives is determined by the remuneration committee having regard to the performance of individuals and market trends.

12 SUBSEQUENT EVENTS

In October 2007, the NZ Commerce Commission delivered its draft Decision Paper on the Authorisation for the Control of Supply of Natural Gas Distribution Services by Powerco Limited. The draft decision proposes an initial reduction in the price of Powerco's NZ gas distribution services of 42%, with annual allowable price changes thereafter of CPI - 2% to 2016. Powerco is reviewing this draft decision and the Commerce Commission is likely to make its final decision in the first half of 2008.



GAS DIVISION

**13 DISCLOSURE OF PERFORMANCE MEASURES PURSUANT TO REGULATION 17
AND PART III OF THE FIRST SCHEDULE OF THE GAS (INFORMATION
DISCLOSURE) REGULATIONS 1997**

	2007	2006	2005	2004
13.1 Energy delivery efficiency measures				
(a) Load Factor	73.65%	83.32%	66.34%	68.96
(b) Un-accounted for Gas Ratio	2.50%	2.50%	2.50%	2.50%
13.2 Statistics				
(a) System Length	5,792 km	5,609 km	5,415 km	5383 km
(b) Maximum monthly amount entering the system	1,082,107	1,055,459	1,242,515	1,188,378
(c) Total amount of gas conveyed	9,564,363	10,553,384	9,891,000	9,836,591
(d) Total amount of gas conveyed on behalf of other persons	9,564,363	10,553,384	9,891,000	9,836,591
(e) Total customers	103,404	103,986	104,203	107,300

**14 DISCLOSURE OF PERFORMANCE MEASURES PURSUANT TO REGULATION 18
AND PART IV OF THE FIRST SCHEDULE OF THE GAS (INFORMATION
DISCLOSURE) REGULATIONS 1997**

14.1 Un-planned interruptions in transmission systems	0	0	0	0
14.2 Un-planned interruptions in distribution systems				
(a) Un-planned interruptions other than those directly resulting from un-planned interruptions of a transmission system.	0.0146*	0.0036	0.0043	0.0022
(b) Un-planned interruptions directly resulting from un-planned interruptions of a transmission system.	0	0	0	0.143

NOTE * This figure includes the Wellington CBD water inundation outage of August/September 2006. Without that significant event the reported figure would have been 0.0034