SUPPLEMENT TO

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POWERCO LIMITED

INFORMATION FOR DISCLOSURE

PURSUANT TO THE GAS (INFORMATION DISCLOSURE) REGULATIONS 1997

Director's Certificate

Gas (Information Disclosure) Regulations 1997

Certification of Financial Statements, Performance Measures and Statistics Disclosed by Pipeline Owners other than the Corporation

We, Andrew Tracey Nicholas Knight

and Richard Gilbert Bettle

Directors 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

....

Director

....

Director

Statutory Declaration

I, ANDREW TRACEY NICHOLAS KNIGHT of AUCKLAND, being a director of Powerco, solemnly and sincerely declare that, having made all reasonable enquiry, to the best of my knowledge, the information attached to this declaration is a true copy of the 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 24th day of November 2010

....

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

POWERCO

GAS DIVISION

Comprehensive Income Statement
For the year ended 30 June 2010

	Notes	30 June 2010 NZ$000	30 June 2009 NZ$000
Revenue	1	46,433	47,146
Other income	1	39	3
Total income		**46,472**	**47,149**
Operating expenses		7,451	7,143
Employee benefit expenses		6,202	5,059
Other expenses		3,372	4,271
Other losses	1	5,909	12,150
		22,934	**28,623**
Earnings before finance costs, taxation, depreciation and amortisation		**23,538**	**18,526**
Depreciation and amortisation	7,8	10,685	9,920
Earnings before finance costs and taxation		**12,853**	**8,606**
Finance costs	1	19,669	19,275
Operating (loss)/profit before taxation		**(6,816)**	**(10,669)**
Income tax benefit	2	3,855	3,239
(Loss) for the year from continuing operations		**(2,961)**	**(7,430)**
Other comprehensive income			
Gain/(loss) recognised on cashflow hedges		204	(4,224)
Income tax on cashflow hedges		(1,354)	1,267
Cashflow hedges transferred to profit/(loss)		4,338	-
Total comprehensive income for the year		**227**	**(10,387)**

The accompanying notes form part of these financial statements.

POWERCO

GAS DIVISION

Statement of Changes in Equity
For the year ended 30 June 2010

	Notes	Share Capital NZ$000	Retained Earnings NZ$000	Hedge Reserve NZ$000	Total NZ$000
Balance as at 30 June 2008		121,402	(41,982)	(231)	79,189
Profit for the year		-	(7,430)	-	(7,430)
Other comprehensive income:					
Cashflow hedges loss taken to equity		-	-	(4,224)	(4,224)
Income tax relating to components of other comprehensive income	2	-	-	1,267	1,267
Total comprehensive income		-	(7,430)	(2,957)	(10,387)
Transactions with owners					
Dividends		-	(17,962)	-	(17,962)
Balance as at 30 June 2009		121,402	(67,374)	(3,188)	50,840
Profit for the year		-	(2,961)	-	(2,961)
Other comprehensive income:					
Cashflow hedges gain taken to equity		-	-	204	204
Profit transferred to profit/(loss) for the period		-	-	4,338	4,338
Income tax relating to components of other comprehensive income	2	-	-	(1,354)	(1,354)
Total comprehensive income		-	(2,961)	3,188	227
Transactions with owners					
Dividends		-	(3,983)	-	(3,983)
Issue of ordinary shares		21,122	-	-	21,122
Balance as at 30 June 2010		142,524	(74,318)	-	68,206

The accompanying notes form part of these financial statements.

POWERCO

GAS DIVISION

Balance Sheet
As at 30 June 2010

	Notes	30 June 2010 NZ$000	30 June 2009 NZ$000
Equity			
Contributed capital		142,524	121,402
Retained earnings		(74,318)	(67,374)
Reserves		-	(3,188)
		68,206	50,840
Non Current Liabilities			
Borrowings	3	207,889	161,747
Employee entitlements	6	56	40
Other financial liabilities	4	14,919	14,007
Deferred tax liability	2	38,323	36,694
		261,187	212,488
Current Liabilities			
Borrowings	3	28,097	101,016
Employee entitlements	6	330	358
Inter-division account		31,296	26,182
Other financial liabilities	4	489	406
Trade and other payables		3,456	2,833
		63,668	130,795
Total Equity and Liabilities		393,061	394,123
Non Current Assets			
Property, plant and equipment	7	381,650	380,656
Intangible assets	8	322	416
Other financial assets	4	1,649	3,214
		383,621	384,286
Current Assets			
Trade and other receivables		4,918	5,314
Income tax receivable		4,132	3,637
Other financial assets	4	390	886
		9,440	9,837
Total Assets		393,061	394,123

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 2010

Reporting Entity

These financial statements represent the performance and position of Powerco Limited's (Powerco) gas business (Division). These financial statements are special purpose financial statements and were approved for issue on 24 November 2010.

Statutory Base

These financial statements have been prepared in accordance with the Gas (Information Disclosure) Regulations 1997.

Measurement Base

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

The avoidable cost allocation methodology (ACAM) as described in the Electricity Information Disclosure Handbook 31 March 2004 has been adopted, for the allocation of revenues, costs, assets and liabilities between the regulated activities and other activities of the company. Under the Gas (Information Disclosure) Regulation 1997, there is no mandated allocation methodology, thus ACAM as prescribed in the Electricity Information Disclosure Handbook has been applied.

Allocations have been carried out on the following basis:

- Direct allocation of all components of financial statement items which are directly attributable to the activity.
- For any components of financial statement items that are not directly attributable to an activity:
    - By assessing the proportions of those components which are avoidable and non-avoidable; and
    - Allocating those components amongst the activities on the basis of those proportions using an appropriate cost allocator.

The main allocators used are;

- Number of interconnection points,
- Book value of property, plant and equipment,
- Revenue,
- Expenditure, and
- EBITDA

All financial statement items not allocated to the standalone gas division are allocated to other activities within the Powerco group (referred to as other divisions). Other activities are not disclosed within these financial information disclosure statements.

Critical accounting estimates and judgements

In the process of applying the Division's accounting policies management has 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 2010, that have had a significant risk of causing a material adjustment to the carrying amount of assets and liabilities, are discussed below:

ACAM
The Division uses ACAM method to allocate revenues, costs, assets and liabilities between regulated activities. This requires judgement as to the method and basis to be used to derive these values. This judgement affects all the balances disclosed in these financial statements.

Useful lives of property, plant and equipment
The Division reviews the estimated useful lives of property, plant and equipment at the end of each annual reporting period. In this financial year it was deemed that no change to the estimated useful lives was needed. The carrying value of property, plant and equipment is disclosed in note 7 Property, Plant and Equipment.

Impairment of network assets
Determining whether the network assets are impaired requires an estimation of the value in use of the cash-generating units to which the networks have been allocated. The value in use calculation requires the Directors to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value. The total carrying value of network assets is disclosed in note 7 Property, Plant and Equipment.

Fair value of derivatives
The Division uses a yield curve provided by its banks which uses market data as at balance date to determine the fair value of the derivatives. Refer to note 3 Financial instruments for the market rates and fair value techniques used.

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) 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 the profit or loss component of the Statement of Comprehensive Income in the period in which they are incurred.

b) Cash and cash equivalents

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

c) **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 reporting 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
- Hedges of net investments in foreign entities; or
- Other derivative financial instruments not meeting hedge accounting criteria.

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

- For fair value hedges that are highly effective, the movements are recorded in the profit or loss component of the Statement of Comprehensive Income alongside any changes in the fair value of the hedged items;
- The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in other comprehensive income and accumulated as a separate component of equity in the hedge reserve. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss and is included in the "other losses" expenses line;
- For hedges of net investments in foreign entities that are highly effective, the effective portion of the movements is recorded in other comprehensive income (currency translation reserve) and the ineffective portion is recognised in the profit or loss component of the Statement of Comprehensive Income; and
- All other movements in the fair value of derivative financial instruments are recorded in the profit or loss component of the Statement of Comprehensive Income.

Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income and accumulated as a separate component of equity in the hedging reserve. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss and is included in the other losses expenses line.

Amounts recognised in the hedge reserve are reclassified from equity to profit or loss (as a reclassification adjustment) in the periods when the hedged item is recognised in profit or loss, in the same line as the recognised hedged item.

However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the gain or loss previously recognised in the hedge reserve is reclassified from equity and included in the initial measurement of the cost of the asset or liability (as a reclassification adjustment).

Hedge accounting is discontinued when the Division revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. Any cumulative gain or loss recognised in the hedge reserve at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was recognised in the hedge reserve is recognised immediately in profit or loss.

Fair value hedges

Hedge accounting is discontinued when the hedge instrument expires or is sold, terminated or no longer qualifies for hedge accounting. The adjustments to the carrying amount of the hedge item arising from the hedged risk is amortised to the profit or loss component of the Statement of Comprehensive Income.

d) Dividend distribution

Dividend distributions are recognised as a liability in the balance sheet in the period in which the equity holders right to receive payment has been established.

e) 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 that 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 that are guaranteed by the crown. As a result the plans are accounted for as a defined contribution plan.

f) 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. They are initially measured at fair value plus transaction costs, except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value.

Subsequent to initial recognition, investments in subsidiaries are measured at cost less impairment.

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

Financial assets at fair value through profit or loss

Other financial assets relate to derivatives held at year end. All derivative assets are measured at fair value through profit or loss, except for derivatives that are designated effective cash flow hedges. Effective cash flow hedges are measured at fair value with the movement on these assets recorded within other comprehensive income in the Statement of Comprehensive Income. Refer to (c) for the accounting policy on derivative financial instruments.

Loans and receivables

Cash and cash equivalents and trade and other receivables (excluding prepayments) are recorded at amortised cost using the effective interest rate method, less impairment.

g) Financial liabilities

Financial liabilities are recognised when the entity becomes party to the contractual provisions of the instrument.

The Division derecognises financial liabilities when and only when the Division's obligations are discharged, cancelled or expire.

Financial liabilities are classified as either financial liabilities at fair value through profit or loss or other financial liabilities.

Financial liabilities at fair value through profit or loss

Other financial liabilities relate to derivatives held at year end. All derivative liabilities are measured at fair value through profit or loss, except for derivatives that are designated effective cash flow hedges. Effective cash flow hedges are measured at fair value with the movement on these liabilities recorded within other comprehensive income in the Statement of Comprehensive Income. Refer to (c) for the accounting policy on derivative financial instruments.

Other financial liabilities

Trade and other payables, other current liabilities that are financial instruments (unclaimed monies) and borrowings are initially measured at fair value, net of transaction costs. They are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective interest basis.

h) Impairment

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 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. A cash-generating unit is the smallest Division of assets for which there are separately identified cashflows.

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 profit or loss component of the Statement of Comprehensive Income 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 profit or loss component of the Statement of Comprehensive Income 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.

i) Intangible assets

Intangible assets are composed of computer software.

Intangible assets acquired separately (purchased) are reported at cost less accumulated amortisation and accumulated impairment losses. Amortisation is charged on a diminishing value basis over their useful lives. The estimated useful lives, residual value and amortisation methods are reviewed at the end of each reporting period, with the effect of any changes in estimates being accounted for on a prospective basis.

Amortisation

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

Computer software	4 to 65 years

j) 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.

k) 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.

The gain or loss on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the profit or loss component of the Statement of Comprehensive Income.

Depreciation of property, plant and equipment

Depreciation is calculated on a straight-line basis for network systems and on diminishing value for all other assets, to write off the cost of the assets over the useful lives of the assets.

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

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

l) Revenue recognition

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

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

m) Contributed capital

Contributed capital represents the funds allocated by Powerco Limited to the Powerco Gas Division.

n) 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 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 temporary differences relating to investments in subsidiaries where the Division is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future are not provided for.

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 the 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 entity 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 profit or loss component of the Statement of Comprehensive Income, except when it relates to items credited or debited to other comprehensive income, in which case the deferred tax or current tax is also recognised in other comprehensive income, 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.

o) Term debt

All loans and borrowings are initially recognised at 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 (a) 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 hedged risk only.

The Division 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 reporting date.

p) 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. These are initially recognised at fair value. Subsequent to initial recognition, trade payables and other accounts payable are recorded at amortised cost. Given the nature of these liabilities amortised cost approximates their notional principal.

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) Comparatives

During the year a review was performed of the method used to disclose the information in the Statement of Comprehensive Income. From this review it was decided that it is more informative to the readers of the gas disclosure accounts to disclose the information by nature rather than by function. As a result of this the amounts included with the 2009 Income Statement have been reclassified. There was also a change in the way the borrowings were disclosed in 2010, disclosing the interest owing against the loans rather than as a payable, to reflect the costs of the loans, in accordance with GAAP. The comparatives have been restated to reflect this change.

	Original Disclosure NZ$000	Revised Disclosure NZ$000
Revenue	47,149	47,146
Other Income	-	3
	47,149	47,149
Operating expenses	7,143	7,143
Administration expenses	9,330	-
Employee benefit expenses	-	5,059
Other losses	12,150	12,150
Other expenses	9,920	4,271
Depreciation and amortisation	-	9,920
Finance costs	19,275	19,275
	57,818	57,818
Current liabilities		
Trade Payables	4,235	2,833
Borrowings	99,614	101,016
	103,849	103,849
Non-current liabilities		
Borrowings	161,747	161,747
	161,747	161,747

Changes in accounting policies

Accounting policies have been consistently applied unless otherwise stated.

Standards, Amendments and Interpretations effective in the current period

Those with disclosure impact:
The impact of the adoption of the following Standards and Amendments has been to expand the disclosures provided in these financial statements:

Name	Impact
NZ IAS 1 Presentation of Financial Statements (Revised 2007)	This has introduced terminology changes (including revised titles for the financial statements) and changes in the format and content of the financial statements.

Those with no impact:
Adoption of the following Standards, Interpretations and Amendments has not led to any changes in the Division's accounting policies with measurement or recognition impact on the periods presented in these financial statements:

Name	Nature of Amendment
NZ IAS 23 Borrowing Costs (revised 2007)	The principal change to the standard was to eliminate the option to expense all borrowing costs when incurred. The change has led to no impact on these financial statements because the Division does not have any long term construction projects.
NZ Specific Omnibus Amendments 2008-01	These amendments are minor in nature and have no impact on the Division's financial statements.
Amendments to NZ IFRIC 9 and NZ IAS 39 Embedded Derivatives	These amendments clarify the accounting for embedded derivatives in the case of a reclassification of a financial asset out of the Fair Value through Profit or Loss (FVTPL) category. These changes do not have any impact on the Division's financial statements.

All other standards, interpretations and amendments effective in the current period are not applicable to the Division and therefore have been excluded from the table above.

Standards, Amendments and Interpretations issued but not yet effective

At the date of authorisation of the Financial Statements, a number of Standards, Amendments and Interpretations were in issue but not yet effective.

Standards approved but not yet effective

Initial application of the following Standards, Interpretations and Amendments will not have a significant impact on the financial statements:

Standard/Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied ir the financial yeai ending
Improvements to New Zealand Equivalents to International Financial Reporting Standards 2009	*	30 June 2011
Amendments to IAS 24 'Related Party Disclosures'	1 January 2011	30 June 2012
NZ IFRS 9 Financial Instruments	1 January 2013	30 June 2014
Improvements to New Zealand Equivalents International Financial Reporting Standards 2010		
- Improvements to NZ IFRS 3 and NZ IAS 27	1 July 2010	30 June 2011
- Improvements to other standards	1 January 2011	30 June 2012

* The effective date and transitional provisions vary by Standard. Most of the improvements are effective for annual periods beginning on or after 1 January 2010, with earlier adoption permitted.

All other standards and interpretations approved but not yet effective that are not included above are not relevant to the Division.

Notes to and Forming Part of the Financial Statements
For the year ended 30 June 2010

POWERCO
GAS DIVISION

1 REVENUE AND EXPENDITURE

	Year to 30 June 2010 NZ$000	Year to 30 June 2009 NZ$000
Revenue		
Line charge revenue	**46,433**	**47,146**
Other Income		
Interest revenue	**39**	**3**
Other losses/(gains)		
Change in fair value of assets and liabilities classified as held for trading	**5,909**	**12,150**
Finance costs		
Interest on bank overdrafts	94	949
Interest on senior debt	16,806	15,776
Interest on subordinated debt	1,309	1,662
Other finance costs	1,460	888
	19,669	**19,275**

2 TAXATION

	Year to 30 June 2010 NZ$000	Year to 30 June 2009 NZ$000
Income tax recognised in the profit or loss		
Tax expense/(benefit) comprises:		
Current tax expense/(benefit)	(4,130)	(3,639)
Deferred tax on temporary differences	3,018	400
Effect of changes in tax rates and laws	(2,743)	-
	(3,855)	(3,239)

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

	Year to 30 June 2010 NZ$000	Year to 30 June 2009 NZ$000
Operating loss before taxation	(6,816)	(10,669)
Prima facie taxation @ 30%	(2,045)	(3,201)
Tax effect of expenses/(revenue) that are not deductible in determining taxable profit	933	(38)
Adjustment recognised in current year in relation to change in tax rate	(2,743)	-
Taxation expense/(benefit)	(3,855)	(3,239)

The tax rate used in the above reconciliation is the corporate tax rate of 30% payable by New Zealand corporate entities on taxable profits under New Zealand tax law. The corporate tax rate in New Zealand is changing from 30% to 28% effective from 1 July 2011. The impact of the change in tax rate has been taken into account in the measurement of deferred tax liabilities at the end of the reporting period.

Income tax recognised directly in equity

	Year to 30 June 2010 NZ$000	Year to 30 June 2009 NZ$000
Revaluation of financial instruments treated as cash flow hedges	(1,354)	1,267

Deferred tax - temporary differences

	Other NZ$000	Property, plant & equipment NZ$000	Derivatives NZ$000	TOTAL NZ$000
Balance 30 June 2008	-	**36,499**	**1,062**	**37,561**
Charged/(credited) to profit or loss	-	4,043	(3,643)	400
Charged to other comprehensive income	-	-	(1,267)	(1,267)
Balance 30 June 2009	-	**40,542**	**(3,848)**	**36,694**
Charged/(credited) to profit or loss	(24)	4,815	(1,773)	3,018
Changes in tax rate	(2)	(3,023)	282	(2,743)
Charged to other comprehensive income	-	-	1,354	1,354
Balance 30 June 2010	(26)	42,334	(3,985)	38,323

POWERCO

GAS DIVISION

3 BORROWINGS

	30 June 2010 NZ$000	30 June 2009 NZ$000
Non-current liabilities at amortised cost		
Guaranteed bonds (b)	70,913	93,092
US dollar private placement notes (c)	60,941	62,299
Commercial bank debt (e)	76,035	6,356
	207,889	161,747
Current liabilities at amortised cost		
Bank overdraft (note 5)	187	319
Subordinated bonds (a)	-	22,477
Guaranteed bonds (b)	21,587	32
US dollar private placement notes (c)	487	480
Commercial bank debt (e)	5,836	45,374
Commercial paper facility and bank drawn down under the standby facility as part of the commercial paper programme (d)	-	32,334
	28,097	101,016

(a) Subordinated bonds

	30 June 2010 NZ$000	30 June 2009 NZ$000
Subordinated bonds	-	21,438
Adjustment for the fair value of the interest rate risk	-	807
	-	22,245
Deferred funding costs	-	(123)
Accrued interest	-	355
Carrying value of subordinated bonds	-	22,477
Current portion	-	22,477
Non-current portion	-	-
Total	-	22,477

The Subordinated bonds were issued in 15 April 2005 and repaid on 15 April 2010. They were unsecured, subordinated debt obligations of Powerco Limited and had an interest rate of 7.64%p.a fixed throughout their term.

(b) Guaranteed bonds

	30 June 2010 NZ$000	30 June 2009 NZ$000
7 year guaranteed bonds	21,240	21,437
Adjustment for the fair value of the interest rate risk	388	892
Deferred funding costs	(79)	(184)
9 year guaranteed bonds	21,240	21,437
Adjustment for the fair value of the interest rate risk	992	911
Deferred funding costs	(223)	(306)
11 year guaranteed bonds	10,620	10,719
Adjustment for the fair value of the interest rate risk	649	372
Deferred funding costs	(163)	(196)
7 year guaranteed bonds	27,612	27,868
Deferred funding costs	(253)	(367)
12 year guaranteed bonds	10,620	10,718
Deferred funding costs	(182)	(209)
	92,461	93,092
Accrued interest	39	32
Carrying value of guaranteed bonds	92,500	93,124
Current portion	21,587	32
Non-current portion	70,913	93,092
Total	92,500	93,124

POWERCO

GAS DIVISION

$250 million of guaranteed bonds were issued on 29 March 2004 as unsecured debt obligations of Powerco Limited. The scheduled payments by Powerco Limited of interest and principal are guaranteed on an unsecured basis by US-based Syncora Guarantee Inc (Syncora), a specialist financial guarantee 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 and the bonds are now secured obligations of Powerco.
- 7 year guaranteed bonds 6.22%
- 9 year guaranteed bonds 6.39%
- 11 year guaranteed bonds 6.53%

A further $180 million of guaranteed bonds were issued on 28 September 2005, as secured unsubordinated obligations of Powerco Limited. The scheduled payments of interest and principal payable by Powerco Limited were again guaranteed on an unsecured basis by Syncora Guarantee. 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%

$91.3m (2009: $92.2m) of these guaranteed bonds have been allocated to the gas division.

Under the trust documents constituting the guaranteed bonds, Powerco Limited has covenanted to ensure that, if Syncora defaults on its obligations under the Financial Guaranty, Powerco Limited will procure 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 the Company and all guaranteeing subsidiaries exceeds 85% of the total tangible assets of the Company.

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

c) **US dollar private placement**	**30 June 2010 NZ$000**	**30 June 2009 NZ$000**
11 year US dollar private placement notes	20,000	20,186
Adjustment for fair value of the interest rate risk	(591)	(287)
Deferred funding costs	(85)	(101)
12 year US dollar private placement notes	19,286	19,465
Adjustment for fair value of the interest rate risk	(422)	(160)
Deferred funding costs	(81)	(97)
13 year US dollar private placement notes	23,215	23,430
Adjustment for fair value of the interest rate risk	(282)	(20)
Deferred funding costs	(99)	(117)
Accrued interest	487	480
Carrying value of the US dollar private placement	**61,428**	**62,779**
Current portion	487	480
Non-current portion	60,941	62,299
Total	**61,428**	**62,779**

The US dollar private placement note issue took place on 25 November 2003 to private US investors. The US dollar private placement notes are debt obligations of Powerco. 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 Limited 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%

$62.5m (2009: $63.1m) of the US dollars private placement has been allocated to the gas division.

d) **Commercial paper facility and bank debt drawn down under standby facility as part of the commercial paper programme**	**30 June 2010 NZ$000**	**30 June 2009 NZ$000**
Bank debt drawn down under the standby facility as part of the commercial paper programme	-	32,155
Accrued interest	-	179
	-	32,334
Current portion	-	32,334
Non-current portion	-	-
Total	**-**	**32,334**

Powerco Limited had a commercial paper facility to enable Powerco to borrow money from the capital market. The programme was supported by a standby and cash advances facility of $260 million with a syndicate of banks made up of the Commonwealth Bank of Australia, Westpac Banking Corporation and ANZ National Bank. This facility was repaid in November 2009 and thus there are no drawings as at 30 June 2010. At 30 June 2010 no commercial paper was on issue under the commercial paper programme (2009: Nil). The comparative amount relates to the amount allocated to the gas division which was drawn down under the standby facility.

POWERCO

GAS DIVISION

e) **Commercial bank debt**

	30 June 2010 NZ$000	30 June 2009 NZ$000
Term loan facility	52,037	34,299
Deferred funding costs	(202)	-
Revolving cash facility	24,426	10,719
Deferred funding costs	(226)	-
Working capital facility	4,694	6,356
Accrued interest	1,142	356
	81,871	51,730
Current portion	5,836	45,374
Non-current portion	76,035	6,356
Total	81,871	51,730

During the period Powerco entered into new financing agreements consisting of a $245 million Term Loan Facility and a $175 million Revolving Cash Advance Facility. These facilities replaced the $160 million Term Loan (of which $34.4m was allocated to the gas division) and $260 million Standby Cash Advances facilities (of which $10.7m was allocated to the gas division), which matured on 4 November 2009, and have maturity dates of 21 September 2011 and 21 September 2012 respectively. The new facilities were provided jointly and in equal proportion by ANZ National Bank and Westpac Banking Corporation and are granted security under the Security Trust Deed. The applicable rates as at 30 June 2010 were 5.31% on the $245 million facility and 3.88% on the $175 million facility (2009: 4.83% on the $160 million facility). $76.5m of these facilities have been allocated to the gas division.

Powerco operates a working capital advance facility with the Commonwealth Bank of Australia for up to $30 million. The facility is based on a revolving credit arrangement and as such does not have set repayment dates. The facility is due to expire on 22 March 2011 and has the benefit of the Security Trust Deed, as a Senior Secured Debt Facility.
This facility had interest rates during the period ranging from 2.75% to 3.00% (2009: 2.75% to 8.50%). $4.7m of this facility has been allocated to the gas division.

As at 30 June 2009 Powerco operated a revolving cash advances facility of $60 million as part of the $260 million Standby Cash Advances Facility. This facility was at a rate of 3.65% and was a secured facility. This was repaid in November 2009. $6.4m of this facility was allocated to the gas division in 2009.

f) **Covenants**

Powerco has covenanted with all counterparties to ensure certain financial criteria are met throughout the term of the debt agreements. These covenants include minimum Interest Coverage Ratios, minimum Net Worth values and maximum Gearing or Leverage ratios. Covenants also include various comparisons of the Guaranteeing Group earnings and assets under the Security Trust Deed to earnings and assets of the total Group.

There have been no covenant breaches.

g) **Financial assets and liabilities**

The following tables detail the fair value of financial liabilities

	30 June 2010 NZ$000		30 June 2009 NZ$000	
	Carrying Amount NZ$000	Fair Value NZ$000	Carrying Amount NZ$000	Fair Value NZ$000
Financial assets:				
Interest rate swaps	2,039	2,039	4,100	4,100
	2,039	2,039	4,100	4,100
Financial liabilities:				
Subordinated bonds	-	-	22,477	21,087
Guaranteed bonds	92,500	89,664	93,124	83,994
US dollar private placement notes	61,428	61,428	62,779	62,779
Commercial paper facilities	-	-	32,334	32,334
Commercial bank debt	81,871	81,871	51,730	51,730
US cross currency interest rate swap	1,303	1,303	467	467
Interest rate swaps	14,105	14,105	13,946	13,946
	251,207	248,371	276,857	266,337

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

The valuation method takes into account the interest rate curve and foreign exchange rates by calculating the discounted future cash flows on derivatives as at the reporting date. This method assumes a constant credit rating of all parties to the swap. The market rates used as the reporting date are as follows:

Reporting date interest rates	30 June 2010	30 June 2009
NZ 1 year swap rate	3.71%	2.99%
NZ 2 year swap rate	4.08%	3.84%
NZ 3 year swap rate	4.36%	4.59%
NZ 4 year swap rate	4.59%	5.06%
NZ 5 year swap rate	4.77%	5.38%
NZ 7 year swap rate	5.07%	5.72%
NZ 10 year swap rate	5.37%	6.07%
NZD/USD rate	0.6846	0.6457
US 1 year swap rate	0.72%	0.89%
US 2 year swap rate	0.97%	1.54%
US 3 year swap rate	1.33%	2.15%
US 4 year swap rate	1.71%	2.61%
US 5 year swap rate	2.05%	2.96%
US 7 year swap rate	2.57%	3.41%
US 10 year swap rate	3.02%	3.75%
US 30 year swap rate	3.72%	4.17%

The above NZ rates are from IRESS market data and the US swap rates are provided through the Federal Reserve website.

POWERCO

GAS DIVISION

4 OTHER FINANCIAL ASSETS AND LIABILITIES

Powerco 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 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 date. 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 Division 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 Division 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 Division 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 profit or loss component of the Statement of Comprehensive Income. Amounts accumulated in equity are transferred to the profit or loss component of the Statement of Comprehensive Income in the same period in which the hedged item affects the profit or loss.

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 impacts the profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss reported in equity is immediately transferred to the profit or loss component of the Statement of Comprehensive Income.

(ii) Fair value hedges
Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the profit or loss, 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 profit or loss component of the Statement of Comprehensive Income.

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 in the Balance Sheet at their fair values. Movements in the hedging reserve are shown in other comprehensive income.

The Division holds the following financial instruments:

	Notional Principal		Fair Value	
	30 June 2010 NZ$000	30 June 2009 NZ$000	30 June 2010 NZ$000	30 June 2009 NZ$000
Fair Value Hedges				
1 - Interest Rate Swaps	53,099	75,030	2,039	2,981
2 - US Cross Currency Swaps	62,501	63,082	(1,303)	(467)
Cashflow Hedges				
3 - Interest Rate Swaps	-	60.026	-	(3,042)
Derivatives not in hedge relationship				
4 - Interest Rate Swaps	80,711	10,719	(5,720)	(670)
5 - Interest Rate Swaps	64,781	76,104	(2,390)	(2,651)
6 - Interest Rate Swaps	116,818	117,908	(5,489)	(4,437)
7 - Interest Rate Swaps	-	17,150	-	914
8 - Interest Rate Swaps	-	17,150	-	(994)
9 - Interest Rate Options	-	21,438	-	(1,174)
10 - Interest Rate Collars	10,620	10,719	(506)	(773)
	388,530	**469,326**	**(13,369)**	**(10,313)**

1 Interest rate swaps
The Division receives New Zealand fixed interest rates and pays New Zealand dollar floating interest rates. These qualify for hedge accounting as fair value hedges and are entered into on terms matched to the underlying obligation.

2 US cross currency interest rate swaps
The Division receives US dollar fixed interest and pays New Zealand dollar 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.

3 Interest rate swaps
The Division receives New Zealand dollar floating interest rates and pays New Zealand dollar 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. These are cash flow hedges.

4 Interest rate swaps
The Division receives New Zealand dollar floating interest rates and pays New Zealand dollar 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, but not hedge accounted.

Notes to and Forming Part of the Financial Statements
For the year ended 30 June 2010

POWERCO

GAS DIVISION

5 Interest rate swaps
To swap back fixed New Zealand dollar 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.

6 Interest rate swaps
To convert New Zealand dollar floating debt from type 2 above to New Zealand dollar fixed 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.

7 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.

8 Interest rate swaps
Historical floating to fixed swaps which are offset by 7 above on matched term and roll basis. Hedge accounting is not applied to these swaps.

9 Interest rate options
Options granted in favour of a third party requiring Powerco to enter pay fixed swaps if exercised. These have been entered in conjunction with interest rate swaps in type 5 above.

10 Interest rate collars
Interest rate collars used to limit exposure to floating rates on New Zealand fixed rate debt swapped to floating from type 1 above.

All cash flow hedges above are on matched terms. The Division's policy is to refloat any fixed rate debt, thus giving a totally floating portfolio, then re-hedge as per the parameters in the Treasury Policy. This has had the effect that some fixed rate hedges are applied against floating rate hedges. In line with NZ IAS-39 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 profit or loss although they are implemented on matched terms.

The Division's New Zealand dollar and foreign currency fixed rate debt is converted to floating New Zealand dollar 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 allows for the changes due to movements in interest rates or currency rates. This valuation method takes into account the interest rate curve and foreign exchange rates by calculating the discounted future cash flows on derivatives as at the reporting date.

Powerco bonds are able to be traded on the NZDX and an active secondary market exists.

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

	30 June 2010 NZ$000	30 June 2009 NZ$000
Other current financial assets		
Interest rate swap	390	886
	390	**886**
Other non-current financial assets		
Interest rate swap	1,649	3,214
	1,649	**3,214**
Other current financial liabilities		
Interest rate swap	489	406
	489	**406**
Other non-current financial liabilities		
US cross currency interest rate swap	1,303	467
Interest rate swap	13,616	13,540
	14,919	**14,007**
Net fair value of assets/(liabilities)	**(13,369)**	**(10,313)**

b) Currency swaps

Under currency swap contracts, the Division 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 Division to mitigate the risk of adverse movements in foreign exchange rates.
The following table details the currency swaps outstanding as at reporting date.

Outstanding contracts as at 30 June 2010	Average interest rate NZ$000	Average exchange rate NZ$000	Contract Value NZ$000	Fair Value NZ$000
Two to five years	BKBM + 89 basis points	0.5947	20,000	(594)
Over five years	BKBM + 88 basis points	0.5947	42,501	(709)
			62,501	**(1,303)**

Outstanding contracts as at 30 June 2009	Average interest rate NZ$000	Average exchange rate NZ$000	Contract Value NZ$000	Fair Value NZ$000
Over five years	BKBM + 88 basis points	0.5947	63,082	(467)

POWERCO

GAS DIVISION

c) **Interest rate swap contracts**

Under interest rate swap contracts, the Division agrees to exchange the difference between fixed and floating rate interest amounts calculated on agreed notional principal amounts. Such contracts enable the Division to mitigate the risk of changing interest rates on debt held. The fair value of interest rate swaps is determined by discounting the future cash flows using the yield curve at the reporting date. The average interest rate is based on the outstanding balances at the end of the financial year. The interest rate swaps settle on a quarterly basis, with the Division settling the difference between fixed and floating interest rate on a net basis.
The following tables details the notional principal amounts and remaining terms of interest rate swap contracts outstanding as at reporting date:

	30 June 2010 NZ$000			30 June 2009 NZ$000		
	Average contracted fixed interest rate	Notional principal amount	Fair value	Average contracted fixed interest rate	Notional principal amount	Fair value
		NZ$000	NZ$000		NZ$000	NZ$000
Cash flow swaps						
Less than one year	-	-	-	-	-	-
One to two years	-	-	-	-	-	-
Two to five years	-	-	-	7.05%	8,575	(683)
Five years +	-	-	-	6.77%	51,451	(2,359)
Total cash flow interest rate swaps		-	-		60,026	(3,042)
Fair value swaps						
Less than one year	6.22%	21,240	390	-	21,437	807
One to two years	-	-	-	6.22%	21,437	892
Two to five years	6.44%	31,859	1,649	6.39%	21,437	911
Five years +	-	-	-	6.53%	10,719	371
Total fair value interest rate swaps		53,099	2,039		75,030	2,981

d) **Forward foreign currency exchange contracts**

The Division has entered into a cross currency swap to hedge the exchange rate and interest rate risk arising from the US private placement notes.

	Average exchange rate		Foreign currency		Contract value		Fair value	
	2010	2009	2010 Dr / (Cr) 000's	2009 Dr / (Cr) 000's	2010 Dr / (Cr) NZ$000	2009 Dr / (Cr) NZ$000	2010 Dr / (Cr) NZ$000	2009 Dr / (Cr) NZ$000
Two to five years	0.5947	-	11,894	-	(20,000)	-	(594)	-
Five years +	0.5947	0.5947	25,275	37,515	(42,501)	(63,082)	(709)	(467)
			37,169	37,515	(62,501)	(63,082)	(1,303)	(467)

e) **Hedge movements recognised in the profit or loss component of the Statement of Comprehensive Income**

	30 June 2010 NZ$000	30 June 2009 NZ$000
Loss arising on derivatives in a designated fair value hedge relationship	1,745	(19,659)
Gain arising on an adjustment for hedge items in a designated fair value hedge accounting relationship	(1,745)	19,659
Net effect on profit for the period	-	-

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

Notes to and Forming Part of the Financial Statements
For the year ended 30 June 2010

POWERCO

GAS DIVISION

(f) Financial Instruments

Capital Risk Management

The Division manages its levels of debt and equity to ensure an efficient capital structure while maintaining certain internal financial ratios. Powerco's Treasury Policy specifies a long term target for total debt divided by total capital, this is managed both by reviewing debt levels and altering distributions which influence the balance of equity. Total capital includes the non-current and current assets of the Division which is equivalent to the equity and liabilities of the Division, amounting to NZ$0.393 billion (refer to the Balance Sheet for further detail). The Division also complies with financial covenants agreed with lenders as part of financing agreements. These include a capital structure covenant comparing debt to debt plus equity, and also minimum net worth covenant as calculated by adding equity plus subordinated debt. For the year ended, and at 30 June 2010, all external covenants had been complied with.

Risk Management

The Division engages in business in New Zealand and has currency expenses relating to the US dollars. In the normal course of events the Division is exposed to loss through

(1) Market risk
(2) Credit risk
(3) Liquidity risk.

The Division's risk programme recognises the unpredictability of financial markets and seeks to minimise the potential adverse effects of market movements. The Division 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 Powerco's 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.

(1) Market risk

(i) Foreign exchange exposures

The Division operates in New Zealand and has foreign exchange exposures arising from US dollar denominated debt. This exposes the Division to potential gains and losses arising from currency movements. The Division 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.

(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 Division'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 programme is based on 90 day Bank Bills, although no commercial paper is currently on issue.

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 2010, Powerco 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 6.83%p.a. Powerco's Treasury Policy specifies parameters regarding the levels of interest rate hedging which are monitored by the Board on a monthly basis.

(2) Credit risk

Financial instruments with the potential to subject the Division to credit risk principally consist of bank balances and accounts receivable. There are no significant concentrations of credit risk. These accounts are subject to policies which are 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.

(3) Liquidity risk

Liquidity risk is the risk that the Division 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. The Division adheres to a Treasury Policy, approved by the Board of Directors, which specifies certain levels of liquidity which must be maintained for short term requirements and further stipulations regarding the timing of refinancing of upcoming debt maturities. Liquidity levels are forecast and monitored on a continuous basis.

(g) Foreign currency sensitivity analysis

Powerco's foreign currency borrowings are 100% hedged against movements in the NZD/USD exchange rate. Any movements in the value or borrowings or the interest payable due to a movement in the exchange rate is offset by an equal and opposite movement in the value and cash flows applicable to the hedge. As such the sensitivity calculation shows no movement in either the profit or loss or the equity in relation to these borrowings.

(h) Interest rate sensitivity analysis

The following table details the Division's sensitivity to a 100 basis points (BP) increase and decrease in the New Zealand interest rates, with all other variables held constant as at the reporting date. 100 basis points (BP) is Powerco's and the industry accepted sensitivity rate used when analysing volatility through interest rate movements and represents management's assessment of the possible change in interest rates. This analysis includes cash flows on floating rate debt and interest rate derivatives as well as movements in the interest rate swap curve.

	30 June 2010 NZ$000	**30 June 2009 NZ$000**
Net profit before tax +100BP	**6,862**	**5,222**
Net profit before tax -100BP	**(7,291)**	**(5,581)**
Total Equity +100BP	**6,862**	**2,543**
Total Equity -100BP	**(7,291)**	**(2,741)**

5 Bank Overdraft Facility

Powerco operates a $2 million overdraft facility with Westpac Banking Corporation. At 30 June 2010 Powerco's operating bank account was overdrawn to the extent of $0.87 million (2009: $1.49 million). The overdraft interest rate on this facility at that date was 8.75% (2009: 8.75%).

At year end the amount of bank overdraft allocated to the gas division was $0.187 million (2009: $0.319 million). The overdraft interest rate on this facility at that date was 8.75% (2009: 8.75%).

6 EMPLOYEE ENTITLEMENTS

The provision for employee entitlements relates to employee benefits such as accrued wages, bonuses, accrued holiday pay, accumulating sick leave 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. The majority of the provision is expected to be realised within the next two years.

Notes to and Forming Part of the Financial Statements
For the year ended 30 June 2010

POWERCO

GAS DIVISION

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 2008	434,098	10,512	2,539	447,149
Transfers	11,377	-	(11,377)	-
Additions	221	1,091	9,433	10,745
Disposals	(635)	-	-	(635)
Balance at 30 June 2009	445,061	11,603	595	457,259
Transfers	1,082	303	(1,386)	-
Additions	1,169	668	9,586	11,423
Disposals	-	-	-	-
Balance at 30 June 2010	447,312	12,574	8,795	468,682
Accumulated depreciation				
Balance at 30 June 2008	61,851	5,036	-	66,887
Disposals	-	-	-	-
Depreciation expense	9,001	715	-	9,716
Balance at 30 June 2009	70,852	5,751	-	76,603
Disposals	-	-	-	
Depreciation expense	9,523	905	-	10,428
Balance at 30 June 2010	80,375	6,656	-	87,031
Net book value 30 June 2009	**374,209**	**5,852**	**595**	**380,656**
Net book value 30 June 2010	**366,937**	**5,918**	**8,795**	**381,650**

8 OTHER INTANGIBLES

	Software NZ$000	TOTAL NZ$000
Gross carrying value		
Balance at 30 June 2008	1,241	1,241
Additions	428	428
Disposals		
Balance at 30 June 2009	1,669	1,669
Additions	163	163
Disposals	-	-
Balance at 30 June 2010	1,832	1,832
Accumulated amortisation		
Balance at 30 June 2008	1,049	1,049
Disposals	-	-
Amortisation expense	204	204
Balance at 30 June 2009	1,253	1,253
Disposals	-	-
Amortisation expense	257	257
Balance at 30 June 2010	1,510	1,510
Net book value 30 June 2009	**416**	**416**
Net book value 30 June 2010	**322**	**322**

Notes to and Forming Part of the Financial Statements
For the year ended 30 June 2010

POWERCO

GAS DIVISION

9 CONTINGENT LIABILITIES AND COMMITMENTS

CONTINGENT LIABILITIES

Contracts - Powerco Limited has a contract with Tenix Alliance New Zealand (Tenix), which provides electricity and gas field services. There is a condition in the contract that states that a payment is made to Tenix if a range of key performance indicators are achieved and a payment is made to Powerco if performance does not meet the agreed levels. The amount of the payment is determined by a predetermined calculation in the contract on an annual basis. At this time, any payment for future periods to or from Powerco cannot be quantified.

COMMITMENTS

	30 June 2010 NZ$000	30 June 2009 NZ$000
Commitments for future capital expenditure resulting from contracts entered into:		
Not longer than 1 year	7,037	6,876
Longer than 1 year and not longer than 5 years	568	1,201
Longer than 5 years	-	-
	7,605	8,077

	30 June 2010 NZ$000	30 June 2009 NZ$000
Other expenditure commitments resulting from contracts entered into:		
Not longer than 1 year	6,101	5,587
Longer than 1 year and not longer than 5 years	478	1,997
Longer than 5 years	-	-
	6,579	7,584

10 RELATED PARTY TRANSACTIONS

Trading Transactions

For the year ended 30 June 2010, gas division was not charged a quarterly management fee from Powerco (2009: $0.316 million).

Powerco gas division has inter-company accounts with other divisions of Powerco Limited. The inter-company accounts are unsecured and no interest has been charged during the current period.

No expense has been recognised during the period in respect of bad or doubtful debts due from related parties.

Compensation of key management personnel	Year ended 30 June 2010 NZ$000	Year ended 30 June 2009 NZ$000
The remuneration of directors and other members of key management during the year were as follows:		
Short-term benefits	946	561
	946	561

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

11 SUBSEQUENT EVENTS

There were no subsequent events requiring adjustment to the amounts or disclosures in the financial statements.

Statement of Financial and Efficiency Performance Measures
For the Year Ended 30 June 2010

POWERCO

GAS DIVISION

1 **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	2010	2009	2008	2007
(i) Accounting Return on Total Assets	(a), (b)	4.87%	5.08%	6.60%	7.18%
(ii) Accounting Return on Equity		-5.05%	-11.43%	-0.03%	16.98%
(iii) Accounting Rate of Profit including revaluation	(a), (b)	3.39%	3.88%	4.76%	5.49%
(iv) Accounting Rate of Profit excluding revaluation	(a), (b)	3.39%	3.88%	4.76%	5.49%
Efficiency Performance Measures					
(v) Direct Line Cost per Kilometre		$1,207.70	$1,210.47	$981.32	$1,408.53
(vi) Indirect Line Cost per Gas Customer		$92.66	$91.31	$73.35	$73.35

Notes:
(a) This calculation excludes current borrowings, interdivisional account, other financial assets and liabilities from working capital. Borrowings and the interdivisional account are excluded because they do not relate to operational obligations. Other financial assets and liabilities are excluded as they relate to derivatives which have been excluded from EBIT as noted in (b) below.
(b) EBIT for the purposes of this calculation excludes the derivative losses of $5.91 million as shown in the Comprehensive Income Statement as other losses. This is because the derivative loss does not meet the definition of revenue in the Gas (Information Disclosure) Regulations 1997, because it is associated with funding costs which are excluded from EBIT.

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

		2010	2009	2008	2007
2.1	**Energy delivery efficiency measures**				
	(a) Load Factor	71.67%	71.19%	72.50%	73.65%
	(b) Un-accounted for Gas Ratio	1.52%	2.22%	2.50%	2.50%
2.2	**Statistics**				
	(a) System Length	6,170km	5,901km	5,890km	5,792 km
	(b) Maximum monthly amount entering the system	1,077,646	1,090,617	1,057,925	1,082,107
	(c) Total amount of gas conveyed	9,268,755	9,316,465	9,204,033	9,564,363
	(d) Total amount of gas conveyed on behalf of other persons	9,268,755	9,316,465	9,204,033	9,564,363
	(e) Total customers	102,346	102,011	103,602	103,404

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

		2010	2009	2008	2007
3.1	**Un-planned interruptions in transmission systems**	0	0	0	0
3.2	**Un-planned interruptions in distribution systems**				
	(a) Un-planned interruptions other than those directly resulting from un-planned interruptions of a transmission system.	0.01070	0.0861**	0.001889	0.0146*
	(b) Un-planned interruptions directly resulting from un-planned interruptions of a transmission system.	0	0	0	0

NOTE ** This figure includes the Silverstream outage of 743 end users in July 08. Without that significant event the reported figure would have been **0.0030**

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

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 on pages 1 to 23 prepared by Powerco Limited – Gas Division dated 24 November 2010 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

Deloitte
Hamilton
24 November 2010

Deloitte.

POWERCO LIMITED – GAS DIVISION

GAS (INFORMATION DISCLOSURE) REGULATIONS 1997

Certification of Performance Measures by Auditor

We have examined the attached information on page 24 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 24 November 2010 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.

Deloitte

Deloitte
Hamilton
24 November 2010

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