SUPPLEMENT TO

New Zealand Gazette

OF THURSDAY, 3 DECEMBER 2009

WELLINGTON: FRIDAY, 4 DECEMBER 2009 — ISSUE NO. 179

POWERCO LIMITED

INFORMATION FOR DISCLOSURE

PURSUANT TO THE GAS (INFORMATION DISCLOSURE) REGULATIONS 1997

Statutory Declaration

I, RICHARD GILBERT BETTLE ,
of WELLINGTON , 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 AUCKLAND this 25th day November of 2009

.... J. S. AULD

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

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, RICHARD GILBERT BETTLE, and ANDREW TRACEY NICOLAS KNIGHT, 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

.... R C BETTLE

Director

.... A.T.N. KNIGHT

Director

POWERCO

GAS DIVISION

Income Statement
For the year ended 30 June 2009

	Notes	30 June 2009 NZ$000	30 June 2008 NZ$000
Revenue	1	**47,149**	**50,565**
Cost of goods sold		-	-
Gross profit		**47,149**	**50,565**
Other losses	1	(12,150)	(3,040)
Operating expenses	1	(7,143)	(5,780)
Administration expenses	1	(9,330)	(8,549)
Other expenses	1	(9,920)	(10,876)
Earnings before interest and taxation		**8,606**	**22,320**
Finance costs	1	(19,275)	(21,547)
Operating (Deficit)/Surplus before Taxation		**(10,669)**	**773**
Taxation expense / (benefit)	2	(3,239)	795
OPERATING DEFICIT AFTER TAXATION		**(7,430)**	**(22)**

The accompanying notes form part of these financial statements.

POWERCO

GAS DIVISION

Statement of Changes in Equity
For the year ended 30 June 2009

		Contributed Capital NZ$000	Retained Earnings NZ$000	Hedge Reserve NZ$000	TOTAL NZ$000
Balance as at 30 June 2007		121,402	(33,587)	987	88,802
Cashflow hedges - net gain/(loss) taken to equity		-	-	(1,537)	(1,537)
Income tax on items taken directly to equity	2	-	-	319	319
Net income recognised directly in equity		-	-	(1,218)	(1,218)
Profit for the period		-	(22)	-	(22)
Total recognised income and expense		-	(22)	(1,218)	(1,240)
Dividends		-	(8,373)	-	(8,373)
Balance as at 30 June 2008		121,402	(41,982)	(231)	79,189
Cashflow hedges - net gain/(loss) taken to equity		-	-	(4,224)	(4,224)
Income tax on items taken directly to equity	2	-	-	1,267	1,267
Net income recognised directly in equity		-	-	(2,957)	(2,957)
Profit for the period		-	(7,430)	-	(7,430)
Total recognised income and expense		-	(7,430)	(2,957)	(10,386)
Dividends		-	(17,962)	-	(17,962)
Balance as at 30 June 2009		121,402	(67,374)	(3,188)	50,840

The accompanying notes form part of these financial statements.

POWERCO

GAS DIVISION

Balance Sheet
As at 30 June 2009

	Notes	30 June 2009 NZ$000	30 June 2008 NZ$000
Equity			
Contributed capital		121,402	121,402
Retained earnings		(67,374)	(41,982)
Reserves		(3,188)	(231)
		50,840	79,189
Non Current Liabilities			
Borrowings	3	161,747	239,016
Employees entitlements	6	40	-
Other financial liabilities	4	14,007	18,190
Deferred tax liability	2	36,694	37,561
		212,488	294,767
Current Liabilities			
Borrowings	3	99,614	9
Employees entitlements	6	358	259
Inter-division account		26,182	16,896
Other financial liabilities	4	406	-
Trade and other payables		4,235	3,827
		130,794	20,991
Total Equity and Liabilities		394,123	394,947
Non Current Assets			
Property, plant and equipment	7	380,656	380,262
Intangibles assets	8	416	192
Other financial assets	4	3,214	3,895
		384,286	384,349
Current Assets			
Trade and other receivables		5,314	3,990
Income Tax Receivable		3,637	6,000
Other financial assets	4	886	608
		9,837	10,598
Total Assets		394,123	394,947

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 2009

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 and Group, 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 25 November 2009.

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 2009, that have had a significant risk of causing a material adjustment to the carrying amount of assets and liabilities are discussed below:

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.

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.

Fair value of derivatives
Powerco use the bank forward yield curve which uses market data as at balance date to determine the fair value of the derivatives.

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 Income Statement 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 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
- 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 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 that 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;
- For hedges of net investments in foreign entities that are highly effective, the effective portion of the movements is recorded in equity (currency translation reserve) and the ineffective portion is recognised in the Income Statement.
- All other movements in the fair value of derivative financial instruments are recorded in the Income Statement.

Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are deferred in equity. The gain or loss relating to the unrealised ineffective portion is recognised immediately in profit or loss in the "other losses" line in the

Income Statement. The gain or loss relating to the realised ineffective portion is recognised immediately in the financing costs line of the Income Statement. Amounts deferred in equity are recycled in profit or loss in the periods when the hedged item is recognised in profit or loss. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability.

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.

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 Income Statement from that date.

d) Dividend distribution

Dividend distribution to the Division's shareholders is recognised as a liability in the Financial Statements in the period in which the shareholders' 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 in accordance with NZ IAS-27. 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 outstanding derivatives 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 directly in the hedging reserve in the Statement of Changes in Equity. Refer to (c) for the accounting policy on derivative financial instruments.

Loans and receivables

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

g) Financial liabilities

Financial liabilities are recognised when the Division 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 outstanding derivatives 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 directly in the hedging reserve in the Statement of Changes in Equity. Refer to (c) for the accounting policy on derivative financial instruments.

Other financial liabilities

Trade and other payables, other current liabilities 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

Intangible assets that have indefinite useful lives are not subject to amortisation and are assessed for impairment at each reporting date. If the estimated recoverable amount of an asset is less than its carrying amount, the asset is written down to its estimated recoverable amount and an impairment loss is recognised in the Income Statement.

A cash-generating unit is the smallest division 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 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.

Goodwill, intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually and whenever there is an indication that the asset may be impaired. An impairment of goodwill is not subsequently reversed.

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.

i) Intangible assets

Intangible assets are comprised of computer software. Intangible assets are stated at cost less accumulated amortisation and impairment losses.

Amortisation

Amortisation of intangibles is calculated on a diminishing value basis.

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 Income Statement.

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 sales of goods and 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 provided 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 following temporary differences are not provided for: goodwill; the initial recognition of assets or liabilities that affect neither accounting nor taxable profit; and 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.

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 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.

o) 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 (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 Balance Sheet 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. 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.

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.

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 Statements, a number of Standards and Interpretations were in issue but not yet effective.

Standards Approved But Not Yet Effective

The following are the new or revised Standards or Interpretations in issue that are not yet required to be adopted by the division preparing financial statements for periods ending on 30 June 2009:

Standard/Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
NZ IAS 1 'Presentation of Financial Statements' – Revised Standard	1 January 2009	30 June 2010
NZ IFRIC 18 'Transfers of Assets from Customers'	1 July 2009	30 June 2010
NZ IAS 23 'Borrowing Costs' – revised 2007	1 January 2009	30 June 2010
Amendments to NZ IFRS-2 'Share-Based Payment' – Vesting Conditions and Cancellations	1 January 2009	30 June 2010
NZ IFRS 3 'Business Combinations' – revised 2008	1 July 2009	30 June 2010
NZ IAS 27 'Consolidated and Separate Financial Statements' – revised 2008	1 July 2009	30 June 2010
Improvements to New Zealand Equivalents to International Financial Reporting Standards 2008	Various*	30 June 2010
Amendments to NZ IFRS 1 'First-time Adoption of New Zealand Equivalents to International Financial Reporting Standards' and NZ IAS 27 'Consolidated and Separate Financial Statements' – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate	1 January 2009	30 June 2010
Omnibus Amendments (2008)	1 January 2009	30 June 2010
Amendments to NZ IAS 39 'Financial Instruments: Recognition and Measurement' – Eligible Hedged Items	1 July 2009	30 June 2010
IFRS 9 'Financial Instruments'	1 January 2013	30 June 2014
Amendments to IAS 24 'Related Party'	1 January 2011	30 June 2012
Improving Disclosures about Financial Instruments (Amendments to NZ IFRS 7 Financial Instruments: Disclosures)	1 January 2009	30 June 2010
Omnibus Amendments (2009)	1 July 2009	30 June 2010
Improvements to New Zealand Equivalents to International Financial Reporting Standards 2009	**	30 June 2011

* The effective date and transitional provisions vary by Standard. Most of the Standards are effective for annual periods beginning on or after 1 January 2009, with earlier adoption permitted, and they are to be applied retrospectively.
**The effective date and transitional provisions vary by Standard. Most of the Standards are effective for annual periods beginning on or after 1 January 2010, with earlier adoption permitted.

*** Other Standards/Interpretations that are not included above are not relevant to the Division.

**** Initial application of the above Standards and Interpretations is not known. We are unable to determine at this time, the impact on the results or financial position of the Division. There are however reasonable expectations that the initial application of the above Standards and Interpretations will expand the disclosure and presentation of the financial statements of the Division.

Notes to and Forming Part of the Financial Statements
For the year ended 30 June 2009

POWERCO

GAS DIVISION

1 REVENUE AND EXPENDITURE

	Year to 30 June 2009 NZ$000	Year to 30 June 2008 NZ$000
Operating Revenue		
Line charge revenue	47,146	50,565
Interest revenue	3	-
	47,149	50,565
EXPENDITURE		
Other losses/(gains)		
Change in fair value of assets and liabilities classified as held for trading	12,150	3,040
Operating expenses		
Repairs and maintenance costs	7,143	5,780
Administration expenses		
Human resource costs	199	171
Corporate & administration	7,657	7,326
Marketing & advertising	240	228
Consulting & legal expenses	1,234	824
	9,330	8,549
Other expenses		
Depreciation on network assets	9,001	9,714
Depreciation on plant and equipment	715	883
Amortisation of intangibles	204	279
	9,920	10,876
Finance costs		
Interest expense	19,275	21,547
Total expenditure	57,818	49,792

2 TAXATION

	Year to 30 June 2009 NZ$000	Year to 30 June 2008 NZ$000
Income tax recognised in the Income Statement		
Tax expense / (benefit) comprises:		
Current tax expense / (benefit)	(3,639)	(5,340)
Deferred tax on temporary differences	400	6,901
Effect of changes in tax rates and laws		(766)
	(3,239)	795
The total charge for the period can be reconciled to the accounting profit as follows:		
Operating surplus before taxation	(10,669)	773
Prima facie taxation @ 30% (2008: 33%)	(3,201)	255
Tax effect of expenses/(revenue) that are not deductible in determining taxable profit	(38)	1,306
Effect of changes in tax rates	-	(766)
Taxation expense / (benefit)	(3,239)	795

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 changed from 33% to 30% was effective from 1 April 2008. The revised rate has impacted the current tax payable for the prior year but the current tax is calculated on the corporate tax rate of 30%.

All temporary differences have been recorded in the financial statements.

	Year to 30 June 2009 NZ$000	Year to 30 June 2008 NZ$000
Income tax recognised directly in equity		
Revaluation of financial instruments treated as cash flow hedges	(1,267)	(319)

POWERCO

GAS DIVISION

Deferred tax - temporary differences	Property, plant & equipment NZ$000	Cash flow hedges NZ$000	TOTAL NZ$000
Balance 30 June 2007	29,218	2,527	31,745
Charged / (credited) to the Income Statement	7,941	(1,040)	6,901
Charged to equity	-	(319)	(319)
Change in tax rate	(660)	(106)	(766)
Balance 30 June 2008	36,499	1,062	37,561
Charged / (credited) to the Income Statement	4,043	(3,643)	400
Charged to equity	-	(1,267)	(1,267)
Balance 30 June 2009	40,542	(3,848)	36,694

3 BORROWINGS

	30 June 2009 NZ$000	30 June 2008 NZ$000
Subordinated bonds	-	20,796
Guaranteed bonds	93,092	88,332
US dollar private placement notes	62,299	48,920
Commercial bank debt	-	42,980
Commercial paper facility and bank drawn down under the standby facility as part of the CP programme	-	32,311
Working capital advance facility	6,356	5,677
	161,747	239,016
Bank overdraft (note 5)	319	9
Subordinated bonds	22,122	-
Commercial bank debt	45,018	-
Commercial paper facility and bank drawn down under the standby facility as part of the CP programme	32,155	-
	99,614	9

(a) Subordinated bonds	30 June 2009 NZ$000	30 June 2008 NZ$000
Subordinated bonds	21,438	21,540
Adjustment for the fair value of the interest rate risk	807	(465)
	22,245	21,075
Deferred funding costs	(123)	(279)
Carrying value of subordinated bonds	22,122	20,796

$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. $21.438 million (2008: $21.540 million) of subordinated bonds have been allocated to Powerco's gas division.

(b) Guaranteed bonds	30 June 2009 NZ$000	30 June 2008 NZ$000
7 year guaranteed bonds	21,437	21,538
Adjustment for the fair value of the interest rate risk	892	(1,063)
9 year guaranteed bonds	21,437	21,538
Adjustment for the fair value of the interest rate risk	911	(1,063)
11 year guaranteed bonds	10,719	10,769
Adjustment for the fair value of the interest rate risk	372	(532)
7 year guaranteed bonds	27,868	28,003
12 year guaranteed bonds	10,719	10,770
	94,354	89,960
Deferred funding costs	(1,262)	(1,628)
Carrying value of guaranteed bonds	93,092	88,332

$250 million of Guaranteed Bonds were issued on 29 March 2004 as unsecured debt obligations of Powerco Limited, of which $53.593 million has been allocated to the Powerco gas division (2008: $53.845 million). The scheduled payments by Powerco Limited 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 $38.587 million has been allocated to the Powerco gas division (2008: $38.773 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 2009, no Subsidiary Guarantee had been executed.

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c) US dollar private placement

	30 June 2009 NZ$000	30 June 2008 NZ$000
11 year US dollar private placement notes	20,186	20,284
12 year US dollar private placement notes	19,465	19,558
13 year US dollar private placement notes	23,430	23,543
Adjustment for fair value of the interest rate risk	(467)	(14,099)
Deferred funding costs	(315)	(366)
Carrying value of the US dollar private placement	62,299	48,920

$294.266 million of US dollar private placement notes were issued on 25 November 2003 to private US investors by Powerco Limited, of which $63.081 million has been allocated to the Powerco gas division (2008: $63.385 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 advances 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 2009 however the maturity date has been extended to November 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 2009 no commercial paper was on issue under the commercial paper programme (2008: $45 million was drawn down under the programme which included an interest portion of $1.0 million at a weighted average interest rate of 9.15%). An amount of $150 million has been drawn on the standby facility at 30 June 2009, at a weighted average rate of 3.58% (2008: 8.91%). 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 $32.155 million (2008: $32.311 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 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 2009 a sum of $160 million had been drawn at an interest rate of 4.83% (2008: 9.43%).

During the period Powerco also operated a revolving cash advances tranche of $60 million as part of the $260 million Standby Cash Advances Facility. The purpose of this facility is to fund development capital expenditure with the facility being drawn down and repaid as funding is required. This facility is jointly provided by Westpac Banking Corporation, ANZ National Bank and Commonwealth Bank of Australia and was due to expire on 3 August 2009 however has been extended to November 2009 to enable appropriate refinancing to take place. As at 30 June 2009 NZ$50 million was drawn on the facility at a weighted average interest rate of 3.65% (2008: 9.06%).

At year end the amount of the term liabilities allocated to the gas division was nil (2008: $42.980 million) and there was $45.018m current liabilities at year end (2008: $nil).

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

	30 June 2009 NZ$000	30 June 2008 NZ$000
Comprises:		
Current liabilities	45,018	-
Term liabilities	-	42,980
Total commercial bank debt	45,018	42,980

f) Covenants

Powerco Limited 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, miniumum 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 to date.

g) Financial assets and liabilities
The following tables detail the fair value of financial liabilities

	30 June 2009 NZ$000		30 June 2008 NZ$000	
	Carrying Amount NZ$000	Fair Value NZ$000	Carrying Amount NZ$000	Fair Value NZ$000
Financial assets:				
Interest rate swaps	4,100	4,100	4,503	4,503
	4,100	4,100	4,503	4,503
Financial liabilities:				
Subordinated bonds	22,122	21,087	20,796	20,796
Guaranteed bonds	93,092	83,994	88,332	83,051
US dollar private placement notes	62,299	62,299	48,920	48,920
Commercial paper facilitites	32,155	32,155	32,311	32,311
Commerical bank debt	45,018	45,018	42,980	42,980
Working capital advance facility	6,356	6,356	5,677	5,677
US cross currency interest rate swap	467	467	14,124	14,124
Interest rate swaps	13,946	13,946	4,066	4,066
	275,455	265,322	257,206	251,925

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.

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4 DERIVATIVE FINANCIAL INSTRUMENTS

a) Financial Instruments

The Division 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. The Division 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 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 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 Division holds the following financial instruments:

	Notional Principal		Fair Value	
	30 June 2009 NZ$000	30 June 2008 NZ$000	30 June 2009 NZ$000	30 June 2008 NZ$000
Fair Value Hedges				
1 - Interest Rate Swaps	75,030	98,000	2,981	(3,134)
2 - US Cross Currency Swaps	63,082	82,394	(467)	(14,124)
Cashflow Hedges				
3 - Interest Rate Swaps	60,026	84,000	(3,042)	1,201
Derivatives not in hedge relationship				
4 - Interest Rate Swaps	10,719	16,800	(670)	437
5 - Interest Rate Swaps	76,104	95,200	(2,651)	816
6 - Interest Rate Swaps	117,908	161,000	(4,437)	1,556
7 - Interest Rate Swaps	17,150	22,400	914	(538)
8 - Interest Rate Swaps	17,150	22,400	(994)	439
9 - Interest Rate Swaps	-	60,200	-	(340)
10 - Interest Rate Swaps	21,438	-	(1,174)	-
11 - Interest Rate Swaps	10,719	-	(773)	-
	469,326	642,394	(10,313)	(13,687)

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.

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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 swaps
To unwind portions of cash flow hedges. These hedges offset portions of swaps shown in types 3, 4 and 5 above and are not hedge accounted.

10 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.

11 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 Income Statement 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. This method assumes a constant credit rating of all parties to the contract.

This valuation method takes into account the interest rate curve and foreign exchange rates by calculating the discounted future cash flows on derivaties as at the reporting date. This method assumes a constant credit rating of all parties to the contract.

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 2009 NZ$000	30 June 2008 NZ$000
Other current financial assets		
Interest rate swap	886	608
	886	608
Other non-current financial assets		
Interest rate swap	3,214	3,895
	3,214	3,895
Other current financial liabilities		
Interest rate swap	406	-
	406	-
Other non-current financial liabilities		
US cross currency interest rate swap	467	14,124
Interest rate swap	13,540	4,066
	14,007	18,190
Net fair value of assets / (liabilities)	(10,313)	(13,687)

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 Group 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 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)

Outstanding contracts as at 30 June 2008	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	82,394	(14,124)

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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 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:

	Average contracted fixed interest rate	30 June 2009 NZ$000 Notional principal amount	Fair value	Average contracted fixed interest rate	30 June 2008 NZ$000 Notional principal amount	Fair value
		NZ$000	NZ$000		NZ$000	NZ$000
Cash flow swaps						
Less than 1 year	-	-	-	7.32%	5,600	46
1 to 2 years	-	-	-	-	-	-
2 to 5 years	7.05%	8,575	(683)	7.50%	11,200	138
5 years +	6.77%	51,451	(2,359)	6.77%	67,200	1,017
Total cash flow interest rate swaps		60,026	(3,042)		84,000	1,201
Fair value swaps						
Less than 1 year	-	21,437	807	-	-	-
1 to 2 years	6.22%	21,437	892	7.64%	28,000	(466)
2 to 5 years	6.39%	21,437	911	6.31%	56,000	(1,976)
5 years +	6.53%	10,719	371	6.53%	14,000	(692)
Total fair value interest rate swaps		75,030	2,981		98,000	(3,134)

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 2009	2008	Foreign currency 2009 Dr / (Cr)	2008 Dr / (Cr)	Contract value 2009 Dr / (Cr)	2008 Dr / (Cr)	Fair value 2009 Dr / (Cr)	2008 Dr / (Cr)
5 years +	0.5947	0.5947	37,515	49,000	(63,082)	(82,394)	(467)	(14,124)
	0.5947	0.5947	37,515	49,000	(63,082)	(82,394)	(467)	(14,124)

d) Forward foreign currency exchange contracts

	30 June 2009 NZ$000	30 June 2008 NZ$000
Loss arising on dericatives in a designated fair value hedge relationship	(19,659)	(6,139)
Gain arising on an adjustment for hedge items in a designated fair value hedge accounting relationship	19,659	6,139
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 2009

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(e) 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 (refer to the balance sheet). 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. As at 30 June 2009 all external covenants had been complied with.

Risk Management

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

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

(1) Market risk

(i) Foreign exchange exposures

The Division 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 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 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 2009, 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 6.83%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 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.

(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.

(f) 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 Income Statement of the Statement of Changes in Equity in relation to these borrowings.

(g) Interest rate sensitivity analysis

The following table details the Division's sensitivity to a 100BP increase and decrease in the New Zealand interest rates, with all other variables held constant as at the reporting date. 100bp 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-Jun-09 NZ$000	30-Jun-08 NZ$000
Net profit before tax +100BP	5,222	3,328
Net profit before tax -100BP	(5,581)	(3,555)
Total Equity +100BP	2,543	2,443
Total Equity -100BP	(2,741)	(2,653)

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 2009 $29.7 million was drawn down on the facility (2008: funds drawn of $30.0 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. The facility 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 8.50%. (2008: 8.15-8.5%). The amount of working capital advances facility allocated to the gas division was $6.356 million (2008: $5.677 million)

At year end the amount of bank overdraft allocated to the gas division was $0.319 million (2008: $0.009 million). The overdraft interest rate on this facility at that date was 8.75% (2008:10.5%).

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. 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 2009

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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 2007	423,759	9,487	2,149	435,395
Transfers	10,339	-	(10,339)	-
Additions		1,025	10,729	11,754
Disposals	-	-	-	-
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
Accumulated depreciation				
Balance at 30 June 2007	52,137	4,153	-	56,290
Disposals	-	-	-	
Depreciation expense	9,714	883	-	10,597
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
Net book value 30 June 2008	372,247	5,476	2,539	380,262
Net book value 30 June 2009	374,209	5,852	595	380,656

8 OTHER INTANGIBLES

	Software NZ$000	TOTAL NZ$000
Gross carrying value		
Balance at 30 June 2007	1,241	1,241
Additions		
Disposals	-	-
Balance at 30 June 2008	1,241	1,241
Additions	428	428
Disposals	-	-
Balance at 30 June 2009	1,669	1,669
Accumulated amortisation		
Balance at 30 June 2007	770	770
Disposals	-	-
Amortisation expense	279	279
Balance at 30 June 2008	1,049	1,049
Disposals	-	-
Amortisation expense	204	204
Balance at 30 June 2009	1,253	1,253
Net book value 30 June 2008	192	192
Net book value 30 June 2009	416	416

Notes to and Forming Part of the Financial Statements
For the year ended 30 June 2009

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9 CONTINGENT LIABILITIES AND COMMITMENTS

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

CONTINGENT LIABILITIES

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 payment for future periods to or from Powerco cannot be quantified.

Department of labour
The Department of Labour (DOL) is investigating an incident involving a Tenix employee working on a Powerco asset in Palmerston North which resulted in the Tenix employee sustaining burns. The DOL has indicated there is the possibility of charges being laid against Powerco for this matter. The DOL's investigation is continuing.

Contact Energy
Contact has alleged that Powerco has overbilled $533,000 of gas network charges on the Wellington gas network between 2002 and 2006. Powerco does not believe that they have any liability for this amount.

Commitments	**30 June 2009 NZ$000**	**30 June 2008 NZ$000**
Commitments for future capital expenditure resulting from contracts entered into:		
Not longer than 1 year	6,876	6,549
Longer than 1 year and not longer than 5 years	1,201	9,131
Longer than 5 years	-	-
	8,077	15,680

10 RELATED PARTY TRANSACTIONS

Trading Transactions

Powerco Limited was a wholly owned subsidiary of BBI Networks (New Zealand) Limited (BBINNZ). On the 26 February, Powerco was sold to Powerco (NZ) Holdings Limited, of which BBI Networks (NZ) Ltd owns 42%, QIC Infrastructure Management Pty Ltd owns 28% and QPC Investments No.1 Pty Ltd owns 30%.

For the year ended 30 June 2009, gas division was charged quarterly management service fee until the date of sale totalling $0.316 million (2008: $0.398 million) from BBI Networks (New Zealand) Limited.

Powerco gas division has inter-company accounts with other divisions of Powerco Ltd. 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 2009 NZ$000**	**Year ended 30 June 2008 NZ$000**
The remuneration of directors and other members of key management during the year were as follows:		
Short-term benefits	561	477
Post employment benefits	-	3
	561	480

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

As a subsequent event to 30 June 2009 balance date, Powerco executed comimitted term sheets and was expecting to execute facility agreements, for the refinancing of the $420 million of bank facilities which expired on 4 November 2009. The expired facilities were replaced with bank debt facilities of $175 million and $245 million for 3 and 2 years respectively.

On 31 August 2009 a dividend of $3 million was paid from Powerco to Powerco NZ Holdings Limited.

Statement of Financial and Efficiency Performance Measures
For the Year Ended 30 June 2009

POWERco

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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**	**2009**	**2008**	**2007**	**2006**
(i) Accounting Return on Total Assets	(a), (b)	**5.08%**	**6.60%**	**7.18%**	**6.43%**
(ii) Accounting Return on Equity		**-11.43%**	**-0.03%**	**16.98%**	**4.47%**
(iii) Accounting Rate of Profit including revaluation	(a), (b)	**3.88%**	**4.76%**	**5.49%**	**4.65%**
(iv) Accounting Rate of Profit excluding revaluation	(a), (b)	**3.88%**	**4.76%**	**5.49%**	**4.65%**
Efficiency Performance Measures					
(v) Direct Line Cost per Kilometre		**$1,210.47**	**$981.32**	**$1,408.53**	**$1,248.23**
(vi) Indirect Line Cost per Gas Customer		**$91.31**	**$73.35**	**$73.35**	**$88.29**

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 losses of $12.15 million as shown in the Income Statement as Other losses, and the hedging loss of $4.224 million recognised in the Statement of Changes In Equity. This is because the hedge loss does not meet the definition of revenue in the Gas (Information Disclosure) Regulations 1997.

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

		2009	**2008**	**2007**	**2006**
2.1	**Energy delivery efficiency measures**				
	(a) Load Factor	**71.19%**	**72.50%**	**73.65%**	**83.32%**
	(b) Un-accounted for Gas Ratio	**2.22%**	**2.50%**	**2.50%**	**2.50%**
2.2	**Statistics**				
	(a) System Length	**5,901km**	**5,890km**	**5,792 km**	**5,609 km**
	(b) Maximum monthly amount entering the system	**1,090,617**	**1,057,925**	**1,082,107**	**1,055,459**
	(c) Total amount of gas conveyed	**9,316,465**	**9,204,033**	**9,564,363**	**10,553,384**
	(d) Total amount of gas conveyed on behalf of other persons	**9,316,465**	**9,204,033**	**9,564,363**	**10,553,384**
	(e) Total customers	**102,011**	**103,602**	**103,404**	**103,986**

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

		2009	2008	2007	2006
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.	**0.0861****	**0.001889**	**0.0146***	**0.0036**
	(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

PUBLISHED BY THE
DEPARTMENT OF INTERNAL AFFAIRS
PRINTED BY BLUE STAR GROUP

The Department of Internal Affairs
Te Tari Taiwhenua

ISSN 0111-5650
ISSN 1177-8415
Price $5.00 (inc. GST)