



# New Zealand Gazette

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## POWERCO LIMITED

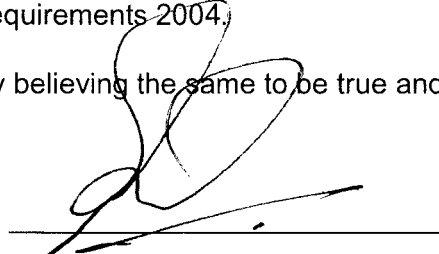
INFORMATION FOR DISCLOSURE

PURSUANT TO  
SECTION 57T OF THE COMMERCE ACT 1986

**POWERCO LIMITED****ELECTRICITY INFORMATION DISCLOSURE REGULATIONS 2004****STATUTORY DECLARATION IN RESPECT OF STATEMENTS AND  
INFORMATION SUPPLIED TO COMMERCE COMMISSION**

I, Sriyan Elanga Ekanayake, of New Plymouth, being a Director of Powerco Limited, solemnly and sincerely declare that having made all reasonable enquiries, to the best of my knowledge, the information attached to this declaration is a true copy of information made available to the public by Powerco Limited under the Commerce Commission's Electricity Information Disclosure Requirements 2004.

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 25<sup>th</sup> day of February 2008



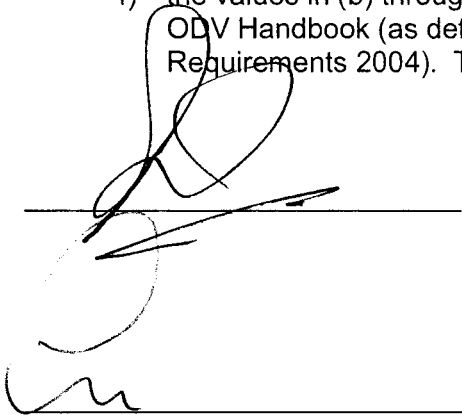
Justice of the Peace (or Solicitor or  
Other person authorised to take a  
Statutory declaration)

**Nigel Barbour  
Solicitor  
New Plymouth**

**POWERCO LIMITED****ELECTRICITY INFORMATION DISCLOSURE REGULATIONS 2004****CERTIFICATION OF VALUATION REPORT OF DISCLOSING ENTITIES**

We, Sriyan Elanga Ekanayake, Director and Nigel Dickson Barbour, Director of Powerco Limited certify that, having made all reasonable enquiries, to the best of our knowledge –

- a) the attached valuation report of Powerco Limited, prepared for the purposes of requirement 19 of the Commerce Commission's Electricity Information Disclosure Requirements 2004 complies with those Requirements; and
- b) the replacement cost of the line business system fixed assets of Powerco Limited is NZ\$ 1,836,353,750
- c) the depreciated replacement cost of the line business system fixed asset of Powerco Limited is NZ\$ 948,127,269; and
- d) the optimised depreciated replacement cost of the line business system fixed assets of Powerco Limited is NZ\$ 948,127,269; and
- e) the optimised deprival valuation of the line business system fixed assets of Powerco Limited is NZ\$ 948,127,269; and
- f) the values in (b) through (e) have been prepared in accordance with the ODV Handbook (as defined in the Electricity Information Disclosure Requirements 2004). These valuations are as at 31 March 2007.



A handwritten signature in black ink, appearing to be 'Sriyan', is written over a horizontal line. Below this line, there is another horizontal line with a smaller, less distinct handwritten mark or signature underneath it.

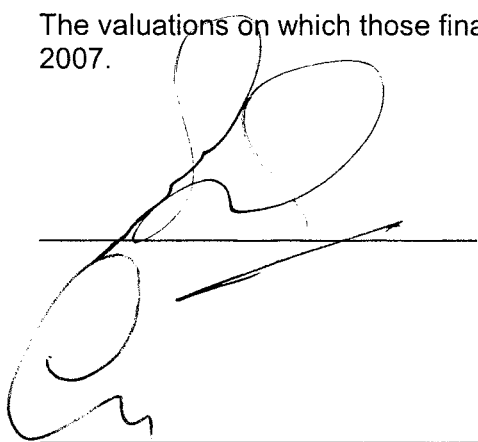
Dated 25 February 2008

**POWERCO LIMITED****ELECTRICITY INFORMATION DISCLOSURE REGULATIONS 2004****CERTIFICATION OF VALUATION REPORT OF DISCLOSING ENTITIES**

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

- a) the attached audited financial statements of Powerco Limited, prepared for the purposes of regulation 6 of the Commerce Commission's Electricity Information Disclosure Requirements 2004 comply with those Requirements; and
- b) the attached information, being the derivation table, financial performance measures, efficiency performance measures, energy delivery efficiency performance measures, statistics, and reliability performance measures in relation to Powerco Limited, and having been prepared for the purposes of requirements 14, 15, 20 and 21 of the Electricity Information Disclosure Regulations 2004, comply with those Requirements.

The valuations on which those financial measures are based are as at 31 March 2007.

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

Dated 25 February 2008



**AUDIT REPORT  
TO THE READERS OF THE FINANCIAL STATEMENTS OF POWERCO LIMITED –  
ELECTRICITY DIVISION**

We have audited the financial statements of Powerco Limited – Electricity Division on pages 1 to 27. The financial statements provide information about the past financial performance of Powerco Limited – Electricity Division and its financial position as at 31 March 2007. This information is stated in accordance with the accounting policies set out on pages 5 to 12.

**Directors' Responsibilities**

The Commerce Commission's Electricity Information Disclosure Requirements 2004 made under section 57T of the Commerce Act 1986 require the Directors to prepare financial statements which give a true and fair view of the financial position of Powerco Limited – Electricity Division as at 31 March 2007, and results of operations and cash flows for the period then ended.

**Auditor's Responsibilities**

It is our responsibility to express an independent opinion on the financial statements presented by the Directors and report our opinion to you.

**Basis of Opinion**

An audit includes examining, on a test basis, evidence relevant to the amounts and disclosures in the financial statements. It also includes assessing-

- the significant estimates and judgments made by the Directors in the preparation of the financial statements; and
- whether the accounting policies are appropriate to Powerco Limited – Electricity Division's circumstances, consistently applied and adequately disclosed.

We conducted our audit in accordance with generally accepted auditing standards in New Zealand. We planned and performed our audit so as to obtain all the information and explanations which we considered necessary. We obtained sufficient evidence to give reasonable assurance that the financial statements are free from material misstatements, whether caused by fraud or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Deloitte has provided taxation and accounting advice to Powerco Limited. Partners and employees of our firm may also deal with Powerco Limited – Electricity Division on normal terms within the ordinary course of trading activities of the business of the Division. We have no other relationship with or interests in Powerco Limited – Electricity Division.

**Unqualified Opinion**

We have obtained all the information and explanations we have required.

In our opinion:

- proper accounting records have been maintained by Powerco Limited – Electricity Division as far as appears from our examination of those records; and

# Deloitte

- the financial statements referred to above -
  - a) comply with generally accepted accounting practice in New Zealand; and
  - b) give a true and fair view of the financial position of Powerco Limited – Electricity Division as at 31 March 2007 and the results of its operations for the twelve months and nine months then ended and cash flows for the nine months then ended; and
  - c) comply with the Electricity Information Disclosure Requirements 2004.

Our audit was completed on 25<sup>th</sup> February 2008 and our unqualified opinion is expressed as at that date.



Chartered Accountants  
Hamilton, New Zealand

**MATTERS RELATING TO THE PUBLICATION OF THE AUDITED FINANCIAL STATEMENTS  
IN THE NEW ZEALAND GAZETTE**

This audit report relates to the financial statements of Powerco Limited – Electricity Division for the period ended 31 March 2007 that have been published in the *New Zealand Gazette*. The *New Zealand Gazette* is required to publish hard copies of audited financial statements and the related audit report of Powerco Limited – Electricity Division for the period ended 31 March 2007, and to include an electronic version of the published *New Zealand Gazette* on the *New Zealand Gazette's* website.

We have not been engaged to report on the integrity of the financial statements of Powerco Limited – Electricity Division that have been published on the *New Zealand Gazette's* website. We accept no responsibility for any changes that may have occurred to the financial statements since they were initially signed and published.

This audit report refers only to the financial statements named above. If readers of this audit report are concerned with the inherent risks arising from electronic data communication, they should refer to the original signed and published hard copy of the audited financial statements and related audit report dated 25 February 2008 to confirm the information included in the audited financial statements published in the *New Zealand Gazette* or on the *New Zealand Gazette's* website.

Legislation in New Zealand governing the preparation and dissemination of financial information may differ from legislation in other jurisdictions.



**AUDITOR'S OPINION ON THE PERFORMANCE MEASURES OF POWERCO LIMITED –  
ELECTRICITY DIVISION**

We have examined the following information, being –

- (a) the derivation table on pages 28 and 29; and
- (b) the annual ODV reconciliation report on page 21 note 5;
- (c) the financial performance measures on page 23 note 9; and
- (d) the financial components of the efficiency performance measures on page 23 note 9,

that were prepared by Powerco Limited – Electricity Division and dated 25<sup>th</sup> February 2008 for the purposes of the Commerce Commission's Electricity Information Disclosure Requirements 2004.

In our opinion, having made all reasonable enquiry, and to the best of our knowledge, that information has been prepared in accordance with those Electricity Information Disclosure Requirements 2004.

A handwritten signature in dark ink, appearing to be "D. H. H.", written over the Deloitte logo.

**Deloitte**  
Hamilton  
25<sup>th</sup> February 2008

**MATTERS RELATING TO THE PUBLICATION OF THE AUDITED PERFORMANCE MEASURES  
IN THE NEW ZEALAND GAZETTE**

This audit report relates to the performance measures of Powerco Limited – Electricity Division for the year ended 31 March 2007 that have been published in the *New Zealand Gazette*. The *New Zealand Gazette* is required to publish hard copies of audited performance measures and the related audit report of Powerco Limited – Electricity Division for the year ended 31 March 2007, and to include an electronic version of the published *New Zealand Gazette* on the *New Zealand Gazette's* website.

We have not been engaged to report on the integrity of the performance information of Powerco Limited – Electricity Division that have been published on the *New Zealand Gazette's* website. We accept no responsibility for any changes that may have occurred to the performance information since they were initially signed and published.

This audit report refers only to the performance information named above. If readers of this audit report are concerned with the inherent risks arising from electronic data communication, they should refer to the original signed and published hard copy of the audited performance information and related audit report dated 25 February 2008 to confirm the information included in the audited performance information published in the *New Zealand Gazette* or on the *New Zealand Gazette's* website.

Legislation in New Zealand governing the preparation and dissemination of financial information may differ from legislation in other jurisdictions.



## ELECTRICITY DIVISION

**Income Statement**  
**For the year ended 31 March 2007**

	Notes	12 months to 31 March 2007 \$000	9 months to 31 March 2007 \$000	12 months to 30 June 2006 \$000
<b>Revenue</b>	<b>14</b>	<b>274,839</b>	<b>200,457</b>	<b>259,680</b>
Cost of goods sold		(75,086)	(51,782)	(69,467)
<b>Gross profit</b>		<b>199,753</b>	<b>148,675</b>	<b>190,213</b>
Other income	<b>14</b>	12,379	8,405	4,210
Operating expenses		(28,802)	(21,467)	(29,061)
Administration expenses		(20,602)	(14,407)	(25,213)
Other expenses		(61,783)	(47,693)	(38,901)
<b>Earnings before interest and taxation</b>		<b>100,945</b>	<b>73,513</b>	<b>101,248</b>
Finance costs		(39,353)	(29,945)	(39,856)
<b>Operating Surplus before taxation</b>	<b>15</b>	<b>61,592</b>	<b>43,568</b>	<b>61,392</b>
Taxation expense	<b>8</b>	(15,698)	(11,050)	(18,870)
<b>Operating Surplus Attributable to the Shareholders</b>		<b>45,894</b>	<b>32,518</b>	<b>42,522</b>

The accompanying notes form part of these financial statements.





## ELECTRICITY DIVISION

**Statement of Movements in Equity  
For the 9 months ended 31 March 2007**

	Notes	Contributed Capital NZ\$000	Retained Earnings NZ\$000	Hedge Reserve NZ\$000	TOTAL NZ\$000
<b>Balance as at 30 June 2005</b>		<b>431,359</b>	<b>(12,460)</b>	<b>-</b>	<b>418,899</b>
Cashflow hedges - gain/(loss) taken to equity		-	-	(4,165)	(4,165)
Income tax on items taken directly to equity	8	-	-	-	-
<b>Net income recognised directly in equity</b>		<b>-</b>	<b>-</b>	<b>(4,165)</b>	<b>(4,165)</b>
Profit for the period (12 months to 30 June 2006)		-	42,522	-	42,522
<b>Total recognised income and expense</b>		<b>-</b>	<b>42,522</b>	<b>(4,165)</b>	<b>38,357</b>
Dividends		-	(51,927)	-	(51,927)
<b>Balance as at 30 June 2006</b>		<b>431,359</b>	<b>(21,865)</b>	<b>(4,165)</b>	<b>405,329</b>
Cashflow hedges - gain/(loss) taken to equity		-	-	3,247	3,247
Income tax on items taken directly to equity	8	-	-	303	303
<b>Net income recognised directly in equity</b>		<b>-</b>	<b>-</b>	<b>3,550</b>	<b>3,550</b>
Profit for the period (9 months to 31 March 2007)		-	32,518	-	32,518
<b>Total recognised income and expense</b>		<b>-</b>	<b>32,518</b>	<b>3,550</b>	<b>36,068</b>
Dividends (9 months to 31 March 2007)		-	(36,341)	-	(36,341)
Increase in contributed capital	11	6,869	-	-	6,869
<b>Balance as at 31 March 2007</b>		<b>438,228</b>	<b>(25,688)</b>	<b>(615)</b>	<b>411,925</b>



## ELECTRICITY DIVISION

**Balance Sheet**  
**As at 31 March 2007**

	Notes	31 March 2007 \$000	30 June 2006 \$000
<b>Equity</b>			
Contributed capital		438,228	431,359
Retained earnings		(25,688)	(21,865)
Reserves		(615)	(4,165)
		<u>411,925</u>	<u>405,329</u>
<b>Non Current Liabilities</b>			
Borrowings	1	501,416	512,293
Other financial liabilities	2	42,653	33,656
Deferred taxation	8	43,305	30,652
		<u>587,374</u>	<u>576,601</u>
<b>Current Liabilities</b>			
Borrowings	1	110,151	99,577
Trade and other payables		18,334	20,671
Provisions	4	1,508	1,810
Tax payable		2,600	5,303
		<u>132,593</u>	<u>127,361</u>
<b>Total Equity and Liabilities</b>		<u>1,131,892</u>	<u>1,109,291</u>
<b>Non Current Assets</b>			
Property, plant and equipment	5	970,337	966,886
Intangibles	6	2,333	-
Other financial assets	2	12,083	3,757
Inter-division account		126,395	115,859
		<u>1,111,148</u>	<u>1,086,502</u>
<b>Current Assets</b>			
Trade and other receivables	7	18,650	22,124
Other financial assets	2	2,094	665
		<u>20,744</u>	<u>22,789</u>
<b>Total Assets</b>		<u>1,131,892</u>	<u>1,109,291</u>

The accompanying notes form part of these financial statements.



## ELECTRICITY DIVISION

**Statement of Cash Flows**  
**For the 9 months ended 31 March 2007**

	Notes	9 months to 31 March 2007 \$000	12 months to 30 June 2006 \$000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Receipts from customers		203,601	250,503
Net movement in GST		(3,436)	2,386
Payments to suppliers and employees		(85,847)	(126,722)
Interest paid		(27,807)	(42,362)
Payments of income tax		(5,304)	(16,382)
<b>Net cash provided by operating activities</b>	<b>12</b>	<b>81,207</b>	<b>67,423</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of property, plant and equipment		(38,987)	(63,102)
<b>Net cash used in investing activities</b>		<b>(38,987)</b>	<b>(63,102)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Issue of bonds		-	131,600
Issue of commercial paper		-	13,875
Issue of US dollar private placement		-	25,078
Issue of bank debt		12,909	-
Repayment of bank debt		-	(71,438)
Dividends paid		(36,341)	(51,928)
Movement in inter-division account		(16,402)	(62,516)
<b>Net cash used in financing activities</b>		<b>(39,834)</b>	<b>(15,329)</b>
<b>NET INCREASE (DECREASE) IN CASH HELD</b>		<b>2,386</b>	<b>(11,008)</b>
<b>Opening cash brought forward</b>		<b>(15,899)</b>	<b>(4,891)</b>
<b>ENDING CASH CARRIED FORWARD</b>	<b>3</b>	<b>(13,513)</b>	<b>(15,899)</b>

# POWERCO LIMITED

## Electricity Division

### Statement of Accounting Policies for the Financial Statements for the Period ended 31 March 2007

#### Reporting Entity

These financial statements represent the performance, position and cash flows of Powerco Limited's electricity business (Powerco electricity division).

The financial statements are presented in accordance with the Electricity Information Disclosure Requirements issued 31 March 2004.

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

The financial statements were approved for issue on 25<sup>th</sup> February 2008.

#### 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, other than the judgements used in the basis of preparation noted below.

There are no key assumptions concerning the future and other key sources of estimation uncertainty at 31 March 2007, that have had a significant risk of causing a material adjustment to the carrying amount of assets and liabilities.

#### Basis of preparation

The financial statements have been prepared on the historical cost basis, except for certain borrowings and financial instruments and certain items of property, plant and equipment as identified in specific accounting policies below. Network assets are carried at Optimised Deprival Value (ODV). 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 Powerco group has adopted a policy to apply the avoidable cost allocation methodology (ACAM) described in the Electricity Information Disclosure Handbook 31 March 2004, for the allocation of revenues, costs, assets and liabilities between the regulated businesses and other activities of the company.

The electricity lines business is treated as separate regulated standalone business.

The costs have been allocated on the following basis:

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

The main allocators used are based on key cost/revenue drivers such as directly allocated revenue, costs, system line length, number of inter connection points (ICPs) and the carrying value of property plant and equipment.

All costs not allocated to the standalone electricity lines business, are allocated to other businesses within the Powerco group. Other businesses are not disclosed within these financial information disclosure statements.

Allocators are also utilised to allocate balance sheet assets and liabilities that are not directly attributable to the standalone business (for instance accounts payable related to allocated cost items). Debt is allocated to the standalone business based on the carrying value of property, plant and equipment and intangibles of the Group.

The Powerco group has undertaken a review of the application of the ACAM methodology in the current year and adjusted some allocators used to ensure that ACAM is applied across the group in a consistent manner. These changes have not had a material impact on the results of the electricity lines business.

The principal accounting policies adopted are set out below.

**a) Cash and cash equivalents**

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

**b) Property, plant and equipment**

All items of property, plant and equipment are initially recognised at cost in the Balance Sheet. Cost includes the value of consideration exchanged, or fair value in the case of donated or subsidised assets, and those costs directly attributable to bringing the item to working condition for its intended use.

Network assets are revalued to Optimised Deprival Value (ODV) every 3 years unless required more regularly under the Regulations. Additions between valuations to network assets are recognised at cost. The latest valuation was 31 March 2004. The valuation was prepared by Powerco in accordance with the ODV handbook and reviewed by KPMG.

**c) Depreciation of property, plant and equipment**

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

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

Network assets	10 to 65 years
Plant and equipment	5 to 10 years
GIS information systems	5 to 10 years

**d) Intangibles**

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

Amortisation of intangible assets is calculated on diminishing value basis over its useful life, being 4 to 65 years.

**e) Borrowing costs**

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

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

**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, and are initially measured at fair value, net of transaction costs.

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

**Loans and receivables**

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

**g) Financial liabilities**

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

**h) Term debt**

All loans and borrowings are initially recognised at cost, being the fair value of the consideration received net of issue costs associated with the borrowing. Subsequent to initial recognition, loans and borrowings are carried at amortised cost. Borrowing costs are recognised as an expense when incurred, except to the extent that they are capitalised in accordance with e) above.

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

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

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

**i) 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.

**j) 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 (cash flow hedge) which hedge exposures to variability in cash flows; or
- Other derivative financial instruments not meeting hedge accounting criteria.

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

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

#### Cash flow hedges

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.

### **k) Employee entitlements**

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

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

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

#### **Defined superannuation plans**

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

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

### **l) Impairment**

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

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

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

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount.

An impairment loss is recognised in the Income Statement immediately, unless the relevant asset is carried at fair value, in which case the impairment loss is treated as a revaluation decrease.

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

**m) Contributed capital**

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

**n) Dividend distribution**

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

Dividends have been allocated to the Electricity Division based on earnings before interest, tax, depreciation and amortisation.

**o) 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.

**p) Revenue recognition**

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

**q) Taxation**

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

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

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

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

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

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

Current and deferred tax is recognised as an expense or income in the Income Statement, except when it relates to items credited or debited directly to equity, in which case the deferred tax or current tax is



also recognised directly in equity, or where it arises from the initial accounting for a business combination, in which case it is taken into account in the determination of goodwill or excess.

**r) 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.

**s) Cash Flow Statement**

The Statement of Cash Flows is prepared exclusive of GST. For the purposes of the Statement of Cash Flows, cash and cash equivalents includes cash on hand, cash in banks and investments in money market instruments, net of outstanding bank overdrafts.

Operating activities include all transactions and other events that are not investing or financing activities.

Investing activities are those activities relating to the acquisition and disposal of current and non-current investments and any other non-current assets.

Financing activities are those activities relating to changes in the equity and debt capital structure of the Division and those activities relating to the cost of servicing the Division's equity capital.

**t) Comparative amounts**

**Change of Balance Date for Reporting Purposes:**

During the previous financial years the reporting period of the Electricity Financial Information Disclosure Statements of Powerco Limited - Electricity Division were for a 12-month period commencing 1 July to 30 June each year.

However, in accordance with new Disclosure Regulations being drafted by the NZ Commerce Commission it is evident that this period would now change to a 12-month period ending 31 March each year with effect from the 2008 year. In view of this proposed change the Directors felt that it would be prudent to adopt the new balance date for the 2007 year as 31 March 2007.

Therefore, the attached financial statements cover a period to 31 March 2007 as follows.

1. Balance Sheet as at 31 March 2007 and comparative Balance Sheet as at 30 June 2006.
2. Income Statement for a 12-month period ending 31 March 2007, Income Statement for a 9 month period ending 31 March 2007 and comparative Income Statement for the 12-month period ending 30 June 2006. The 12 month Income Statement for the year ending 31 March 2007 includes three months of results that have been included in the comparative Income Statement. The reason for this is because the Electricity Information Disclosure Requirements 2004 require a 12-month Income Statement to be disclosed.
3. Statement of Movements in Equity for a 9-month period ending 31 March 2007 and comparative Statement of Movements in Equity for a 12-month period ending 30 June 2006.
4. Cash Flow Statement for a 9-month period ending 31 March 2007 and comparative Cash Flow Statement for a 12-month period ending 30 June 2006.

As a result of this change the comparative amounts for the previous period are not entirely comparable to the previous reporting period.

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

	Original disclosure	Adjustment	Revised disclosure
Other financial liabilities	(29,234)	(4,442)	(33,656)
Other current financial assets	-	665	665
Other non-current financial assets	-	3,757	3,757

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

	Original disclosure	Adjustment	Revised disclosure
Retained earnings	(4,778)	(17,087)	(21,865)
Reserves	(21,252)	17,087	(4,165)

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

	Original disclosure	Adjustment	Revised disclosure
Trade and other payables	(22,480)	1,810	(20,671)
Provisions	-	(1,810)	(1,810)

A change has also been made to the Division's comparative numbers in the Income Statement in relation AC rebates received and passed on. It was decided it would provide more clarity to instead show these rebates separately as revenue, and the forwarding-on as an operating expense. The effect of this reclassification is as follows (\$'000):

	Original disclosure	Adjustment	Revised disclosure
Revenue	250,197	9,483	259,680
Cost of goods sold	(59,984)	(9,483)	(69,467)

### Changes in Accounting Policies

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

### Standards, Amendments and Interpretations issued but not yet effective

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

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

Standard	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
NZ IFRS-7 'Financial Instruments: Disclosures' and consequential amendments to other accounting standards resulting from its issue	1 January 2007	30 June 2008
NZ IFRS-8 'Operating Segments'	1 January 2009	30 June 2010
NZ IAS-1 'Presentation of Financial Statements – Revised Standard'	1 January 2009	31 December 2009

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

Standard/Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
NZ IFRIC-10 'Interim Financial Reporting and Impairment'	1 November 2006	30 June 2008
NZ IFRIC -11 'NZ IFRS-2 – Group and Treasury Share Transactions'	1 March 2007	30 June 2008
NZ IFRIC-12 'Service Concession Arrangements'	1 January 2008	30 June 2009
IFRIC-13 'Customer Loyalty Programmes'	1 July 2008	30 June 2009
IFRIC-14 'IAS-19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction'	1 January 2008	30 June 2009
NZ IAS-23 'Borrowing Costs' – revised standard	1 January 2009	30 June 2010
NZ IFRS 2 'Share Based Payments' – revised standard	1 January 2009	31 December 2009
NZ IFRS 3 'Business Combinations' – revised standard	1 July 2009	31 December 2010
NZ IAS 27 'Consolidated and Separate Financial Statements' – revised standard	1 July 2009	31 December 2010

### Additional company information

#### Registered office and principal place of business:

Level 2, Council Chambers  
84 Liardet Street  
New Plymouth 4310  
New Zealand

Notes to and Forming Part of the Financial Statements  
For the year ended 31 March 2007



# ELECTRICITY DIVISION

## 1 BORROWINGS

### Non-current liabilities at amortised cost

	31 March 2007 NZ\$000	30 June 2006 NZ\$000
Subordinated bonds	52,957	53,896
Guaranteed bonds	225,766	227,550
US dollar private placement notes	133,383	141,591
Commercial bank debt	89,310	89,256
	<u>501,416</u>	<u>512,293</u>

### Current liabilities at amortised cost

Bank overdraft (refer note 3)	13,513	15,899
Commercial paper facility	83,729	83,678
Commercial bank debt	12,909	-
	<u>110,151</u>	<u>99,577</u>

### (a) Subordinated bonds

	31 March 2007 NZ\$000	30 June 2006 NZ\$000
Subordinated bonds	55,819	55,785
Adjustment for the fair value of the interest rate risk	(1,575)	(297)
	<u>54,244</u>	<u>55,488</u>
Deferred funding costs	(1,287)	(1,592)
Carrying value of subordinated bonds	<u>52,957</u>	<u>53,896</u>

\$100 million of subordinated bonds were issued on 15 April 2005 and are unsecured, subordinated debt obligations of Powerco Limited. They have a tenure of 5 years and have an interest rate of 7.64% p.a. fixed until expiry on 15 April 2010. \$55.819 million (30 June 2006: \$55.785 million) of subordinated bonds have been allocated to Powerco's electricity division.

Notes to and Forming Part of the Financial Statements  
For the year ended 31 March 2007



## ELECTRICITY DIVISION

<b>(b) Guaranteed bonds</b>	<b>31 March 2007 NZ\$000</b>	<b>30 June 2006 NZ\$000</b>
7 year guaranteed bonds	55,819	55,785
Adjustment for the fair value of the interest rate risk	(3,538)	(2,486)
9 year guaranteed bonds	55,819	55,785
Adjustment for the fair value of the interest rate risk	(3,538)	(2,486)
11 year guaranteed bonds	27,910	27,893
Adjustment for the fair value of the interest rate risk	(1,769)	(1,243)
7 year guaranteed bonds	72,566	72,520
12 year guaranteed bonds	27,911	27,894
	<b>231,180</b>	<b>233,662</b>
Deferred funding costs	(5,414)	(6,112)
<b>Carrying value of guaranteed bonds</b>	<b>225,766</b>	<b>227,550</b>

\$250 million of guaranteed bonds were issued on 29 March 2004 as unsecured debt obligations of Powerco Limited (of which \$139,548 million was allocated to the electricity division). 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 (of which \$100.477 million was allocated to the electricity division), 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 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 sufficient 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 Group. As at 31 March 2007, no Subsidiary Guarantee had been executed.

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

<b>c) US dollar private placement</b>	<b>31 March 2007 NZ\$000</b>	<b>30 June 2006 NZ\$000</b>
11 year US dollar private placement notes	52,562	52,531
12 year US dollar private placement notes	50,685	50,889
13 year US dollar private placement notes	61,010	60,738
Adjustment for fair value of the interest rate risk	(29,764)	(21,361)
Deferred funding costs	(1,110)	(1,206)
<b>Carrying value of the US dollar private placement</b>	<b>133,383</b>	<b>141,591</b>

\$294.266 million US dollar private placement note issue took place on 25 November 2003 to private US investors (of which \$164.257 million was allocated to the electricity division). The USD Private Placement notes are debt obligations of Powerco Limited. 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 USD private placement notes	5.47%
12 year USD private placement notes	5.57%
13 year USD private placement notes	5.67%

**d) Commercial paper facility**

Powerco Limited has established a commercial paper facility to enable Powerco Limited to borrow money from the capital market. The programme is supported by a cash advance facility of \$200 million with a syndicate of banks made up of the Commonwealth Bank of Australia, Westpac Banking Corporation and ANZ National Bank. This facility was due to expire in August 2007 but has been extended until August 2009. The facility has the benefit of the Security Trust Deed dated 10 March 2005 as a Senior Secured Debtor Facility, and as such the principal is secured against the network assets of Powerco Limited. At 31 March 2007 a sum of \$150,000,000, which includes an interest portion of \$2.811 million of 90 day bills at a weighted average interest rate of 7.67%, with varying maturity dates, had been drawn down under the commercial paper programme (30 June 2006: \$150,000,000 was drawn down under the commercial paper programme which included an interest portion of \$2,759,645 at a weighted average interest rate of 7.52%). No amount has been drawn on the standby facility. As at year end the carrying value approximates the fair value.

At year end the amount of the commercial paper facility allocated to the electricity division was \$83.729 million (30 June 2006: \$83.678 million).

Notes to and Forming Part of the Financial Statements  
For the year ended 31 March 2007



# ELECTRICITY DIVISION

## e) Commercial bank debt

A \$160 million Term Loan Facility agreed and drawn in August 2004, expiring August 2009, which was used to refinance the remaining tranche of the Asset Purchase Facility used to fund the acquisition by Powerco Limited of United Networks Limited (UNL) assets. The Term Loan Facility is jointly provided through Commonwealth Bank of Australia, Westpac Banking Corporation and ANZ National Bank, each with an equal share. The interest rate on the \$160 million Term Loan Facility is currently 8.32%. 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 31 March 2007 a sum of \$160 million had been drawn (30 June 2006: \$160 million with an interest rate of 8.12%).

During the period Powerco Limited added a revolving cash advances tranche of \$30 million to the existing \$200 million standby facility (refer commercial paper note). The purpose of this facility is the short-term funding of development capital expenditure, and the facility will be drawn down and repaid as funding is required. This additional amount of the facility is jointly provided by Westpac, ANZ National Bank and Commonwealth Bank of Australia and is due to expire on 3 August 2009. As at 31 March 2007 \$26 million was drawn on the facility and the interest on this facility was 8.15%.

At year end the amount of the commercial bank debt facility allocated to the electricity division was \$102.219 million (30 June 2006: \$89.256 million).

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

	31 March 2007 NZ\$000	30 June 2006 NZ\$000
Comprises:		
Current liabilities	12,909	-
Term liabilities	89,310	89,256
<b>Total commercial bank debt</b>	<b>102,219</b>	<b>89,256</b>

## f) Covenants

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

## g) Financial assets and liabilities

The following tables detail the fair value of financial assets and liabilities:

	31 March 2007 NZ\$000		30 June 2006 NZ\$000	
	Carrying Amount NZ\$000	Fair Value NZ\$000	Carrying Amount NZ\$000	Fair Value NZ\$000
<u>Financial assets:</u>				
Interest rate swaps	14,177	14,177	4,422	4,422
	14,177	14,177	4,422	4,422
<u>Financial liabilities:</u>				
Subordinated bonds	52,957	52,957	53,896	53,896
Guaranteed bonds	225,766	218,608	227,550	227,550
US dollar private placement notes	133,383	133,383	141,591	141,591
Commercial paper facilities	83,729	83,729	83,678	83,678
Commercial bank debt	102,219	102,219	89,256	89,256
US cross currency interest rate swaps	29,766	29,766	21,361	21,361
Interest rate swaps	12,887	12,887	12,295	12,295
	640,707	633,549	629,627	629,627

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.

Notes to and Forming Part of the Financial Statements  
For the year ended 31 March 2007



ELECTRICITY DIVISION

## 2 FINANCIAL INSTRUMENTS

- a) Powerco Limited enters into NZD 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 NZD debt. Powerco Limited also utilises cross currency interest swaps to hedge against the variations in interest costs and fair value of the US dollar private placement debt.

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

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

### (i) Cash flow hedges

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

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

### (ii) Fair value hedges

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

### (iii) Derivatives that do not qualify for hedge accounting

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

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

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

The Group holds the following financial instruments:

#### 1 Interest rate swaps

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

The notional value of the hedge is \$195,367,769 (30 June 2006: \$252,000,000)

The fair value of the hedge is -\$10,419,295 (30 June 2006: -\$6,426,693)

#### 2 US Cross Currency Interest rate swaps

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

The notional value of the hedge is \$164,257,406 (30 June 2006: \$211,871,532)

The fair value of the hedge is -\$29,764,356 (30 June 2006: -\$21,075,924)

#### 3 Interest rate swaps

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

The notional value of the hedge is \$181,387,595 (30 June 2006: \$162,000,000)

The fair value of the hedge is \$3,190,574 (30 June 2006: -\$2,004,023)

#### 4 Interest rate swap

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

The notional value of the hedge is \$257,849,443 (30 June 2006: \$357,840,000)

The fair value of the hedge is \$4,141,783 (30 June 2006: \$926,822)

#### 5 Interest rate swap

To convert NZD floating debt from (2) above to NZD 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.

The notional value of the hedge is \$295,801,309 (30 June 2006: \$399,600,000)

The fair value of the hedge is \$4,695,250 (30 June 2006: -\$188,886)

#### 6 Interest rate swaps

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

The notional value of the swap is \$44,649,254 (30 June 2006: \$57,600,000)

The fair value of the swap is -\$1,773,066 (30 June 2006: -\$633,376)

Notes to and Forming Part of the Financial Statements  
For the year ended 31 March 2007



# ELECTRICITY DIVISION

## 7 Interest rate swaps

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

The notional value of the swap is \$44,649,254 (30 June 2006: \$57,600,000)

The fair value of the swap is \$1,452,814 (30 June 2006: \$168,372)

**Total notional principal of instruments recognised \$1,183,962,030 (30 June 2006: 1,498,511,532)**

**Total fair value of instruments recognised -\$28,476,296 (30 June 2006: -\$29,233,710)**

All cash flow hedges above are on matched terms. The maturities are the same as the financial assets and liabilities recorded in note 1. The Group's policy is to refloat any fixed rate debt, thus giving a totally floating portfolio, then re hedge as per parameters in the treasury policy. This has the effect that some fixed rate hedges are applied against floating rate hedges. In line with NZ IAS39 these are not hedge accountable and thus movements in the mark to market value of these is passed through to the Income Statement.

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

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

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

	31 March 2007 NZ\$000	30 June 2006 NZ\$000
<b>Other financial assets</b>		
Current interest rate swaps	2,084	665
Non-current interest rate swaps	12,083	3,757
	<u>14,177</u>	<u>4,422</u>
<b>Other financial liabilities</b>		
Non-current US cross currency interest rate swap	29,766	21,361
Non-current interest rate swaps	12,887	12,295
	<u>42,653</u>	<u>33,656</u>
<b>Net fair value of assets / (liabilities)</b>	<u>(28,476)</u>	<u>(29,234)</u>

## b) Currency swaps

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

	Average interest rate NZ\$000	Average exchange rate NZ\$000	Contract Value NZ\$000	Fair Value NZ\$000
<b>Outstanding contracts as at 31 March 2007</b>				
Over five years	BKBM + 88 basis points	0.5947	164,257	(29,766)
<b>Outstanding contracts as at 30 June 2006</b>				
Over five years	BKBM + 88 basis points	0.5947	211,872	(21,361)





#### c) Interest rate swap contracts

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

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

	31 March 2007			30 June 2006		
	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	NZ\$000	NZ\$000
<b>Floating to fixed contracts:</b>						
Less than 1 year	6.39%	176,365	2,095	6.51%	123,120	673
1 to 2 years	6.45%	25,673	453	6.38%	209,520	1,716
2 to 3 years	6.80%	39,068	873	6.49%	28,800	233
3 to 4 years	6.71%	22,325	665	6.94%	28,800	12
4 to 5 years	6.99%	47,440	1,067	6.71%	28,800	116
5 years +	6.70%	488,817	8,330	6.83%	558,000	(3,863)
<b>Fixed to floating contracts:</b>						
Less than 1 year	-	-	-	-	-	-
1 to 2 years	6.48%	11,162	(359)	-	-	-
2 to 3 years	6.93%	111,639	(4,731)	7.45%	86,400	(499)
3 to 4 years	6.54%	11,162	(462)	6.22%	72,000	(2,323)
4 to 5 years	6.46%	106,054	(6,641)	6.47%	151,200	(3,938)
5 years +						
<b>Total interest rate swaps</b>						
Total gross currency swaps		1,019,705	1,290		1,286,640	(7,873)
Total swaps		164,257	(29,766)		211,872	(21,361)
		1,183,962	(28,476)		1,498,512	(29,234)

#### d) Hedge movements recognised in the Income Statement

	9 months to 31 March 2007 NZ\$000	12 months to 30 June 2006 NZ\$000
Gain / (loss) on fair value hedges recognised in the Income Statement	(12,681)	5,992
Adjustment for the fair value of interest rate risk on borrowings	12,681	(5,992)
Net effect on profit for the period	-	-
The fair value of cash flow hedges recognised in the Income Statement (gain/(loss))	(12,379)	(4,210)



ELECTRICITY DIVISION

## e) Maturity profile of financial instruments

The following table details the exposure to interest rate risk as at 31 March 2007:

This table uses repricing dates and as such does not reflect the actual maturity of any floating rate debt or other debt that is repriced prior to maturity.

	Weighted average effective interest rate %	Variable interest rate NZ\$000	Maturity dates					Non- interest bearing NZ\$000	Total NZ\$000
			Less than 1 year NZ\$000	1-2 years NZ\$000	2-3 years NZ\$000	3-4 years NZ\$000	4-5 years NZ\$000		
<b>Financial assets:</b>									
Trade and other receivables		-	-	-	-	-	-	18,650	18,650
Interest rate swaps		-	-	-	-	-	-	14,177	14,177
		-	-	-	-	-	-	32,827	32,827
<b>Financial liabilities:</b>									
Trade and other payables		-	-	-	-	-	-	18,334	18,334
Provisions		-	-	-	-	-	-	1,508	1,508
Bank overdraft	8.31%	13,513	-	-	-	-	-	-	13,513
Subordinated bonds	7.64%	-	-	-	-	52,957	-	-	52,957
Guaranteed bonds	6.47%	-	-	-	-	52,282	-	-	52,282
US dollar private placement notes	5.56%	-	-	-	-	-	173,484	-	225,766
Commercial bank debt	7.67%	-	83,729	-	-	-	133,383	-	217,112
Interest rate swaps	8.30%	12,909	89,310	-	-	-	-	-	102,219
US cross currency interest rate swaps		-	-	-	-	-	-	12,887	12,887
		26,422	173,039	-	-	105,239	-	29,766	29,766
								62,495	62,495
								306,867	306,867
								674,062	674,062

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

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

This table uses repricing dates and as such does not reflect the actual maturity of any floating rate debt or other debt that is repriced prior to maturity.

	Weighted average effective interest rate %	Variable interest rate NZ\$000	Maturity dates					Non- interest bearing NZ\$000	Total NZ\$000
			Less than 1 year NZ\$000	1-2 years NZ\$000	2-3 years NZ\$000	3-4 years NZ\$000	4-5 years NZ\$000		
<b>Financial assets:</b>									
Trade and other receivables		-	-	-	-	-	-	22,124	22,124
Interest rate swaps		-	-	-	-	-	-	4,422	4,422
		-	-	-	-	-	-	26,546	26,546
<b>Financial liabilities:</b>									
Trade and other payables		-	-	-	-	-	-	20,671	20,671
Provisions		-	-	-	-	-	-	1,810	1,810
Bank overdraft	7.40%	15,899	-	-	-	-	-	-	15,899
Subordinated bonds	7.64%	-	-	-	-	53,896	-	-	53,896
Guaranteed bonds	6.47%	-	-	-	-	-	53,299	-	53,299
US dollar private placement notes	5.56%	-	-	-	-	-	174,251	-	174,251
Commercial bank debt	7.52%	-	-	-	-	-	141,591	-	141,591
Interest rate swaps	7.41%	-	83,678	-	-	-	-	-	83,678
US cross currency interest rate swaps		-	89,256	-	-	-	-	-	89,256
		15,899	172,934	-	-	53,896	53,299	12,295	21,361
								56,137	56,137
								315,842	315,842
								668,007	668,007

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

Notes to and Forming Part of the Financial Statements  
For the year ended 31 March 2007



#### (f) Financial Instruments

##### Risk Management

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

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

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

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

##### (a) Market Risk

###### (i) Foreign Exchange Exposures

Powerco has foreign exchange exposures arising from US dollar denominated debt. This exposes the Company to potential gains and losses arising from currency movements. The Company 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 Company's short-term borrowings are on a floating daily interest rate. Non-current debt is funded by the fixed coupon bonds and Powerco's commercial paper program based on 90 day Bank Bills.

Powerco has entered into interest rate swap agreements to reduce the impact of the changes in interest rates on its borrowings. As at 31 March 2007, Powerco Limited had interest rate swap agreements with registered banks. The weighted average of the interest rate swap agreements (excluding the reverse swap agreements) produce an interest rate of 6.70% p.a.

##### (b) Credit Risk

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

##### (c) Liquidity Risk

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

#### (g) Financing facilities

Secured cash advance facilities, reviewed periodically with maturity dates in August 2007 and August 2009:

- Amount used
- Amount unused

31 March 2007 NZ\$000	30 June 2006 NZ\$000
12,909	-
1,986	-
<u>14,895</u>	<u>-</u>

Secured wholesale capital advance facility, based on a revolving credit arrangement with automatic renewal upon expiry in March 2008:

- Amount used
- Amount unused

13,356	15,899
1,539	837
<u>14,895</u>	<u>16,736</u>

Commercial paper programme, supported by a cash advance facility, reviewed quarterly and due to expire in August 2009:

- Amount used
- Amount unused

85,328	85,328
28,443	28,443
<u>113,771</u>	<u>113,771</u>

### 3 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 31 March 2007, \$26.900 million was drawn down on the facility (30 June 2006: funds drawn of \$28.5 million, offset by unrealised deposits of \$475,643). The facility is based on a revolving credit arrangement and as such does not have set repayment dates. The facility expires on 22 March 2008 but is subject to automatic renewal for a further period. The facility has the benefit of the Security Trust Deed, as a Senior Secured Debt Facility. This facility had interest rates ranging from 7.40% to 8.15%.

At 31 March 2007 Powerco's operating bank account was overdrawn to the extent of \$0.316. The overdraft interest rate on this facility at that date was 10.0%.

At year end the amount of bank overdraft and wholesale facility allocated to the electricity division was \$13.513 million (30 June 2006: \$15.899 million).

### 4 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.

Notes to and Forming Part of the Financial Statements  
For the year ended 31 March 2007



# ELECTRICITY DIVISION

## 5 PROPERTY, PLANT AND EQUIPMENT

	Network assets NZ\$000	GIS information system NZ\$000	Plant and equipment NZ\$000	Work in progress NZ\$000	TOTAL NZ\$000
<b>Gross carrying value</b>					
Balance at 30 June 2005	949,223	13,723	-	27,299	990,245
Transfers	25,845	-	-	(25,845)	-
Additions	54,262	1,193	-	7,648	63,103
Disposals	-	-	-	-	-
Balance at 30 June 2006	1,029,330	14,916	-	9,102	1,053,348
Acquisition of plant & equipment assets from inter-division	-	-	23,692	-	23,692
Transfers	39,230	-	-	(39,230)	-
Additions	-	-	761	37,223	37,984
Disposals	(14,028)	-	-	-	(14,028)
Balance at 31 March 2007	1,054,532	14,916	24,453	7,095	1,100,996
<b>Accumulated depreciation</b>					
Balance at 30 June 2005	45,867	1,695	-	-	47,562
Disposals	-	-	-	-	-
Depreciation expense	38,585	316	-	-	38,901
Balance at 30 June 2006	84,452	2,011	-	-	86,463
Acquisition of plant & equipment assets from inter-division	-	-	11,895	-	11,895
Disposals	-	-	-	-	-
Depreciation expense	29,048	246	3,007	-	32,301
Balance at 31 March 2007	113,500	2,257	14,902	-	130,659
<b>Net book value 30 June 2006</b>	<b>944,878</b>	<b>12,905</b>	<b>-</b>	<b>9,102</b>	<b>966,886</b>
<b>Net book value 31 March 2007</b>	<b>941,032</b>	<b>12,659</b>	<b>9,551</b>	<b>7,095</b>	<b>970,337</b>

There is no restrictions in titles relating to property, plant and equipment or items pledged as security for liabilities.

## 6 OTHER INTANGIBLES

	Software NZ\$000	TOTAL NZ\$000
<b>Gross carrying value</b>		
Balance at 30 June 2005	-	-
Additions	-	-
Disposals	-	-
Balance at 30 June 2006	-	-
Acquisition of plant & equipment assets from inter-division	3,961	3,961
Additions	1,004	1,004
Disposals	-	-
Balance at 31 March 2007	4,965	4,965
<b>Accumulated amortisation</b>		
Balance at 30 June 2005	-	-
Disposals	-	-
Amortisation expense	-	-
Balance at 30 June 2006	-	-
Acquisition of plant & equipment assets from inter-division	1,268	1,268
Disposals	-	-
Amortisation expense	1,364	1,364
Balance at 31 March 2007	2,632	2,632
<b>Net book value 30 June 2006</b>	<b>-</b>	<b>-</b>
<b>Net book value 31 March 2007</b>	<b>2,333</b>	<b>2,333</b>

Notes to and Forming Part of the Financial Statements  
For the year ended 31 March 2007



ELECTRICITY DIVISION

## 7 TRADE & OTHER RECEIVABLES

	31 March 2007 NZ\$000	30 June 2006 NZ\$000
Trade receivables	873	954
Provision for doubtful debts	(152)	(136)
Unbilled sales	17,080	19,142
Other	849	2,164
	<u>18,650</u>	<u>22,124</u>

## 8 TAXATION

### Income tax recognised in the Income Statement

Tax expense / (benefit) comprises:

	Year to 31 March 2007 NZ\$000	9 months to 31 March 2007 NZ\$000	Year to 30 June 2006 NZ\$000
Current tax expense / (benefit)	3,665	(1,906)	4,967
Deferred tax on temporary differences	12,033	12,956	13,903
	<u>15,698</u>	<u>11,050</u>	<u>18,870</u>

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

Operating surplus before taxation	61,592	43,568	61,392
Prima facie taxation @ 33%	20,326	14,377	20,259
Tax effect of expenses/(revenue) that are not deductible in determining taxable profit	(4,628)	(3,327)	(1,389)
Taxation expense / (benefit)	<u>15,698</u>	<u>11,050</u>	<u>18,870</u>

All temporary differences have been recorded in the financial statements.

### Income tax recognised directly in equity

Deferred tax - revaluation of financial instruments treated as cash flow hedges	(303)	-
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### Deferred tax - temporary differences

	Property, plant & equipment NZ\$000	Cash flow hedges NZ\$000	TOTAL NZ\$000
Balance 30 June 2005	16,749	-	16,749
Charged / (credited) to the Income Statement	13,903	-	13,903
Charged to equity	-	-	-
Balance 30 June 2006	30,652	-	30,652
Charged / (credited) to the Income Statement (9 months ending 31 March 2007)	8,790	4,166	12,956
Charged to equity (9 months ending 31 March 2007)	-	(303)	(303)
Balance 31 March 2007	<u>39,442</u>	<u>3,863</u>	<u>43,305</u>

Notes to and Forming Part of the Financial Statements  
For the year ended 31 March 2007



ELECTRICITY DIVISION

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

Financial Performance Measures	2007	2006	2005	2004
( i ) Return on Funds	9.47%	10.81%	10.02%	12.50%
( ii ) Return on Equity	11.97%	11.44%	8.51%	10.52%
( iii ) Return on Investment including revaluation	7.72%	8.75%	6.71%	37.94%
( iv ) Return on Investment excluding revaluation	7.72%	8.75%	6.71%	6.77%
<b>Efficiency Performance Measures</b>				
( v ) Direct Line Cost per Kilometre	\$1,056.76	\$1,072.79	\$1,080.45	\$1,117.21
( vi ) Indirect Line Cost per Electricity Customer (including non-recurring costs)	\$67.30	\$82.81	\$95.78	\$65.87
( vii ) Indirect Line Cost per Electricity Customer (excluding non-recurring costs)	\$65.94	\$80.59	\$87.82	\$65.86

## 10 CONTINGENT LIABILITIES AND COMMITMENTS

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

### Legal claims

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

### Taxation risk

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

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

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

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

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

### Contracts

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

Notes to and Forming Part of the Financial Statements  
For the year ended 31 March 2007



## ELECTRICITY DIVISION

**Commitments**

	31 March 2007 NZ\$000	30 June 2006 NZ\$000
Commitments for future capital expenditure resulting from contracts entered into:		
Not longer than 1 year	17,057	16,985
Longer than 1 year and not longer than 5 years	35,197	46,243
Longer than 5 years	-	-
	<u>52,254</u>	<u>63,228</u>

**Lease obligations**

Operating lease obligations payable after balance date on non-cancellable leases are as follows:

Not longer than 1 year	460	1,338
Longer than 1 year and not longer than 5 years	528	527
Longer than 5 years	136	153
	<u>1,124</u>	<u>2,018</u>

**11 RELATED PARTY TRANSACTIONS****Trading Transactions**

For the 12 months ended 31 March 2007, the Powerco electricity division was charged management service fees of \$1.4 million (2006: Nil) from BBI Networks (New Zealand) Limited (BBINN) - the parent company of Powerco Limited. The payment terms are: "payment is required when an invoice is provided from BBINN and the amount is set in recognition of the following services being provided: executive strategic management, corporate development and asset management operational advice and direction, corporate financial advice, strategic treasury management advice, corporate revenue and risk management advice and other corporate policy formulation and advice".

The Powerco electricity division has inter-division accounts with the other divisions of Powerco Limited. Notional interest has been recognised on this inter-company balance during the period at the same rate as the division's external debt. For the 12 months ended 31 March 2007 \$8.9 million in notional interest income was recognised in the Income Statement for the electricity division (2006: \$8.7 million interest income).

A notional charge for the cost of insurance has been made from the corporate division to the electricity division of \$2,295,904 (30 June 2006: \$2,015,670).

The Powerco electricity division acquired \$14.490 million of non-network assets from one of the other divisions of Powerco Limited, of which \$2.693 million was made up of intangible assets. Of these acquired assets, \$6.869 million was funded by equity and \$7.261 million by inter-division debt.

All of the inter-division transactions are transacted via the inter-division account. The outstanding balance of the account at year end has been disclosed on the face of the balance sheet.

Asset maintenance costs of \$28.802 million (2006: \$29.061 million) has been charged by one of Powerco's other divisions to the Electricity Division.

**Compensation of key management personnel**

	Year ended 31 March 2007 NZ\$000	Year ended 30 June 2006 NZ\$000
The remuneration of directors and other members of key management during the year were as follows:		
Short-term benefits	1,418	2,352
Post employment benefits	18	29
	<u>1,436</u>	<u>2,381</u>

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

Notes to and Forming Part of the Financial Statements  
For the year ended 31 March 2007



ELECTRICITY DIVISION

	9 mths ended 31 March 2007 NZ\$000	12 mths ended 30 June 2006 NZ\$000
<b>12 RECONCILIATION OF OPERATING SURPLUS AFTER TAXATION WITH CASH INFLOW FROM OPERATING ACTIVITIES</b>		
Operating surplus after taxation	32,518	42,522
Depreciation and amortisation of non-current assets	33,665	38,901
Loss/(gain) on sale of property, plant and equipment	14,028	-
Non-cash items in relation to investing/financing activities	(1,384)	(2,509)
Loss/(gain) on hedges	(8,405)	(4,210)
Increase/(decrease) in tax payable	(2,704)	(11,076)
Increase/(decrease) in deferred tax liability	12,652	13,564
<b>Changes in net assets and liabilities:</b>		
<b>(Increase)/decrease in assets:</b>		
Trade and other receivables	3,475	697
<b>Increase/(decrease) in liabilities:</b>		
Trade and other payables	(2,337)	(10,466)
Provisions	(301)	-
<b>Net cashflow from operating activities</b>	<b>81,207</b>	<b>67,423</b>

### 13 SUBSEQUENT EVENTS

The corporate tax rate in New Zealand is to change from 33% to 30% with effect from 1 April 2008. This revised rate has not impacted the current tax payable for the current year or been taken into account in the measurement of deferred taxes at the end of the reporting period because the tax change was not substantially enacted at balance date, but will do so in future periods. As at 31 March 2007 this potential impact of this change would be a reduction in deferred tax liabilities of \$3.9 million, which would be result in a corresponding credit to the Income Statement.



Notes to and Forming Part of the Financial Statements  
For the year ended 31 March 2007



ELECTRICITY DIVISION

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REGULATION 6 AND PART II OF THE FIRST SCHEDULE OF THE  
ELECTRICITY INFORMATION DISCLOSURE REGULATIONS 2004

	12 months to 31 March 2007	9 months to 31 March 2007	12 months to 30 June 2006
	\$'000	\$'000	\$'000
<b>Operating revenue</b>			
(a) Revenue from line/access charges:	268,346	196,790	250,197
(b) Revenue from "Other" business for services carried out by the line business (transfer payment):	-	-	-
(c) Interest on cash, bank balances and short term investments:	-	-	-
(d) AC loss-rental rebates:	6,493	3,667	9,483
(e) Other operating revenue not listed in (a) to (d):	-	-	-
<b>Total operating revenue</b>	<b>274,839</b>	<b>200,457</b>	<b>259,680</b>
Other income	12,379	8,405	4,210
<b>Total revenue and other income</b>	<b>287,218</b>	<b>208,862</b>	<b>263,890</b>

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REGULATION 6 AND PART II OF THE FIRST SCHEDULE OF THE  
ELECTRICITY INFORMATION DISCLOSURE REGULATIONS 2004

	12 months to 31 March 2007	9 months to 31 March 2007	12 months to 30 June 2006
	\$'000	\$'000	\$'000
<b>Operating expenditure</b>			
(a) Payment for transmission charges	68,593	48,115	59,984
(b) Transfer payments to the "Other" business for:			
(i) Asset maintenance:	28,802	21,467	29,061
(ii) Consumer disconnection/reconnection services:	-	-	-
(iii) Meter data:	-	-	-
(iv) Consumer-based load control services:	-	-	-
(v) Royalty and patent expenses:	-	-	-
(vi) Avoided transmission charges on account of own generation	-	-	-
(vii) Other goods and services not listed in (i) to (vi) above	-	-	-
(viii) <b>Total transfer payment to the "Other" business</b>	<b>28,802</b>	<b>21,467</b>	<b>29,061</b>
(c) Expense to entities that are not related parties for:			
(i) Asset maintenance:	-	-	-
(ii) Consumer disconnection/reconnection services	-	-	-
(iii) Meter data	-	-	-
(iv) Consumer-based load control services	-	-	-
(v) Royalty and patent expenses	-	-	-
(vi) Total of specified expenses to non-related parties (sum of (i) to (v))	-	-	-
(d) Employee salaries, wages and redundancies (1)	9,051	7,134	2,898
(e) Consumer billing and information system expense	-	-	-
(f) Depreciation on:			
(i) System fixed assets:	38,940	29,048	38,901
(ii) Other assets not listed in (i)	6,912	3,253	-
(iii) <b>Total depreciation</b>	<b>45,852</b>	<b>32,301</b>	<b>38,901</b>
(g) Amortisation of:			
(i) Goodwill:	-	-	-
(ii) Other intangibles:	1,902	1,364	-
(iii) <b>Total amortisation of intangibles</b>	<b>1,902</b>	<b>1,364</b>	<b>-</b>
(h) Corporate and administration:	6,467	3,278	16,230
(i) Human resource expenses:	439	389	535
(j) Marketing/advertising:	627	556	611
(k) Merger and acquisition expenses:	-	-	197
(l) Takeover defence expenses:	-	-	-
(m) Research and development expenses:	-	-	-
(n) Consultancy and legal expenses:	2,368	1,644	3,875
(o) Donations:	-	-	-
(p) Directors' fees:	32	10	114
(q) Auditors' fees:			
(i) Audit fees paid to principal auditors:	195	195	189
(ii) Audit fees paid to other auditors:	-	-	-
(iii) Fees paid for other services provided by principal and other auditors:	534	534	510
(iv) <b>Total auditors' fees:</b>	<b>729</b>	<b>729</b>	<b>699</b>
(r) Costs of offering credit:			
(i) Bad debts written off:	168	126	19
(ii) Increase in estimated doubtful debts:	-	-	-
(iii) <b>Total cost of offering credit:</b>	<b>168</b>	<b>126</b>	<b>19</b>

**Notes to and Forming Part of the Financial Statements**  
For the year ended 31 March 2007



**ELECTRICITY DIVISION**

(s)	Local authority rates expense:	721	541	35
(t)	AC loss-rentals (distribution to retailers/customers) expense:	6,493	3,667	9,483
(u)	Rebates to consumers due to ownership interest:	-	-	-
(v)	Subvention payments:	-	-	-
(w)	Unusual expenses:	-	-	-
(x)	Other expenditure not listed in (a) to (w)	14,028	14,028	-
	<b>Total operating expenditure</b>	<b>186,273</b>	<b>135,349</b>	<b>162,642</b>
	<b>Operating surplus before interest and income tax</b>	<b>100,944</b>	<b>73,513</b>	<b>101,248</b>
	<b>Interest expense</b>			
(a)	Interest expense on borrowings	39,353	29,945	39,856
(b)	Financing charges related to finance leases	-	-	-
(c)	Other interest expense	-	-	-
(d)	<b>Total interest expense</b>	<b>39,353</b>	<b>29,945</b>	<b>39,856</b>
	<b>Operating surplus before income tax</b>	<b>61,592</b>	<b>43,568</b>	<b>61,392</b>
	<b>Income tax</b>	<b>15,698</b>	<b>11,050</b>	<b>18,870</b>
	<b>Net surplus after tax</b>	<b>45,894</b>	<b>32,518</b>	<b>42,522</b>

Note 1 Employee salaries, wages and redundancies  
This expense is an integral part of the disclosures above.

Note 2 Fees paid for other services provided by principal and other auditors relate to taxation services of \$508k (2006: \$257k), audit services of \$26k (2006: \$76k) and other non-audit services (2006: \$176k).

The following types of services were performed for each of these categories:

**Audit services:**

- Audit prospectus;
- Audit of regulatory disclosure statements;
- IFRS assistance (2006);

**Taxation services:**

- Tax returns, depreciation review, due diligence assistance;
- Tax provision review, review of tax calculations, assurance on tax implications.

SCHEDULE 1 - PART 7  
FORM FOR THE DERIVATION OF FINANCIAL PERFORMANCE MEASURES FROM FINANCIAL STATEMENTS

Derivation Table	Input and Calculations	Symbol in formula	ROF	ROE	ROI
Operating surplus before interest and income tax from financial statements	88,566,508 <sup>1</sup>				
Operating surplus before interest and income tax adjusted pursuant to regulation 18 (OSBIT)	88,566,508				
Interest on cash, bank balances, and short-term investments (ISTI)	0				
OSBIT minus ISTI	88,566,508	a	88,566,508		88,566,508
Net surplus after tax from financial statements	45,893,906			45,893,906	
Net surplus after tax adjusted pursuant to regulation 18 (NSAT)	45,893,906	n			
Amortisation of goodwill and amortisation of other intangibles	1,902,040	g	add	add	add
Subvention payment	0	s	add	add	add
Depreciation of SFA at BV (x)	38,940,369				
Depreciation of SFA at ODV (y)	38,940,369				
ODV depreciation adjustment	0	d	add	add	add
Subvention payment tax adjustment	0	s <sup>†</sup>			
Interest tax shield	12,986,577	q	deduct	deduct	deduct
Revaluations		r			
Income tax (excluding deferred tax on temporary differences)	3,665,420 <sup>2</sup>	p			
<b>Numerator</b>			90,468,548	47,795,946	73,816,551
Fixed assets at end of previous financial year (FA <sub>p</sub> )	966,885,501				
Fixed assets at end of current financial year (FA <sub>c</sub> )	970,337,195				
Adjusted net working capital at end of previous financial year (ANWC <sub>p</sub> )	-5,660,253				
Adjusted net working capital at end of current financial year (ANWC <sub>c</sub> )	-3,792,486				
Average total funds employed (ATFE)	963,884,978 (or regulation 33 time-weighted average)	c	963,884,978		963,884,978
Total equity at end of previous financial year (TE <sub>p</sub> )	405,330,286				
Total equity at end of current financial year (TE <sub>c</sub> )	411,924,759				
Average total equity	408,627,523 (or regulation 33 time-weighted average)	k		408,627,523	

WUC at end of previous financial year ( $WUC_0$ )	9,102,958				
WUC at end of current financial year ( $WUC_1$ )	7,095,482				
Average total works under construction	8,099,220 (or regulation 33 time-weighted average)	e	deduct	8,099,220	deduct 8,099,220
Revaluations	0	r			
Half of revaluations	0	r/2			deduct 0
Intangible assets at end of previous financial year ( $IA_0$ )	0				
Intangible assets at end of current financial year ( $IA_1$ )	2,332,836				
Average total intangible asset	1,166,418 (or regulation 33 time-weighted average)	m	deduct	1,166,418	
Subvention payment at end of previous financial year ( $S_0$ )	0				
Subvention payment at end of current financial year ( $S_1$ )	0				
Subvention payment tax adjustment at end of previous financial year	0				
Subvention payment tax adjustment at end of current financial year	0				
Average subvention payment & related tax adjustment	0	v	add	0	
System fixed assets at end of previous financial year at book value ( $SFA_{b,0}$ )	944,877,542				
System fixed assets at end of current financial year at book value ( $SFA_{b,1}$ )	948,127,269				
Average value of system fixed assets at book value	946,502,405 (or regulation 33 time-weighted average)	f	deduct	946,502,405	deduct 946,502,405
System Fixed assets at year beginning at ODV value ( $SFA_{odv,0}$ )	944,877,542				
System Fixed assets at end of current financial year at ODV value ( $SFA_{odv,1}$ )	948,127,269				
Average value of system fixed assets at ODV value	946,502,405 (or regulation 33 time-weighted average)	h	add	946,502,405	add 946,502,405
<b>Denominator</b>				955,785,758	955,785,758
<b>Financial Performance Measure:</b>				9.47	11.97
					7.72

Note 1: Excludes gain on hedges of \$12.379 million.

Note 2: Excludes deferred tax on temporary differences

t = maximum statutory income tax rate applying to corporate entities      bv = book value      ave = average      odv = optimised deprival valuation      subscript '0' = end of the previous financial year  
subscript '1' = end of the current financial year      ROF = return on funds      ROE = return on equity      ROI = return on investment

16 DISCLOSURE OF OPTIMAL DEPRIVAL VALUE (ODV) PURSUANT TO REGULATION 19 OF THE ELECTRICITY INFORMATION DISCLOSURE REGULATIONS 2004

	2007	2006	2005	2004
ODV as per latest valuation	\$948,127,269	\$944,877,982	\$903,355,918	\$905,537,611

17 Disclosure of Energy Delivery Efficiency Performance Measures and Statistics Pursuant to Electricity Information Disclosure Amendment Requirements 2004, Schedule 1, Part 4, Requirement 20.

17.01 ENERGY DELIVERY EFFICIENCY PERFORMANCE MEASURES

	2007 Powerco	2006 Powerco	2005 Powerco	2004 Powerco
(a) Load Factor	67.2%	75.7%	67.4%	67.2%
(b) Loss Ratio	7.42%	6.43%	5.58%	6.82%
(c) Capacity Utilisation	27.75%	25.17%	27.5%	26.8%

17.02 STATISTICS

(a) System Length

	2007 Powerco	2006 Powerco	2005 Powerco	2004 Powerco
Nominal Voltage	Total System Length (km)	Total System Length (km)	Total System Length (km)	Total System Length (km)
110kV	-	-	-	-
66kV	151	151	151	150
33kV	1,451	1,445	1,427	1,445
22kV	107	107	121	107
11kV	15,433	15,399	15,251	15,241
6.6kV	427	434	440	442
230/400V	9,686	9,554	9,421	7,555
Total *	27,255	27,089	26,812	24,940

(b) Overhead Line Length

	2007 Powerco	2006 Powerco	2005 Powerco	2004 Powerco
Nominal Voltage	O/H Line Length (km)	O/H Line Length (km)	O/H Line Length (km)	O/H Line Length (km)
110kV	-	-	-	-
66kV	151	151	150	150
33kV	1,343	1,342	1,334	1,343
22kV	107	107	121	107
11kV	13,856	13,850	13,751	13,763
6.6kV	418	426	432	432
230/400V	6,080	6,050	5,776	4,979
Total *	21,954	21,925	21,564	20,775

(c) Underground Line Length

	2007 Powerco	2006 Powerco	2005 Powerco	2004 Powerco
Nominal Voltage	U/G Line Length (km)	U/G Line Length (km)	U/G Line Length (km)	U/G Line Length (km)
110 kV	-	-	-	-
66kV	0	0	1	0
33kV	108	103	93	102
22kV	0	0	0	0
11kV	1,577	1,549	1,500	1,477
6.6kV	8	8	9	10
230/400V	3,607	3,504	3,645	2,576
Total *	5,301	5,165	5,248	4,165

	2007 Powerco	2006 Powerco	2005 Powerco	2004 Powerco
(d) Transformer Capacity (kVA)	2,714,095	2,691,086	2,641,773	2,580,877
(e) Maximum Demand (kW)	753,034	677,256	727,421	692,249
(f) Total Electricity Entering the System (before losses of electricity), in kilowatt hours	4,435,633,342	4,489,298,340	4,291,991,861	4,073,919,387

(g) The total amount of electricity (in kilowatt hours)				
supplied from the system (after losses of				
electricity) during the financial year on behalf				
of each person that is an electricity generator				
or an electricity retailer, or both:	4,106,427,124	4,200,519,360	4,052,404,352	3,796,233,588

	2007 Powerco 000 kWh	2006 Powerco 000 kWh	2005 Powerco 000 kWh	2004 Powerco 000 kWh
Retailer A	1,815,386	1,891,762	1,892,505	1,730,537
Retailer B	677,972	648,777	989,805	937,591
Retailer C	351,550	366,503	360,548	371,397
Retailer D	343,618	364,588	363,733	297,671
Retailer E	321,984	299,766		
Retailer F	46,719	44,574	39,161	44,169
Retailer G	11,180	10,837		
Retailer H				
Retailer I	538,019	608,477	406,634	414,868
Retailer J				
Retailer K				
Retailer L				
Retailer M			18	
Total	4,106,427	4,235,284	4,052,404	3,796,233

(h) Total Customers

2007 Powerco	2006 Powerco	2005 Powerco	2004 Powerco
306,126	304,471	298,665	296,165

18 **Disclosure of Reliability Performance Measures**  
Pursuant to Electricity Information Disclosure Amendment  
Requirements 2004, Schedule 1, Part 5, Requirement 21.

## 18.01 Total Number Of Interruptions

Interruption Class	2007 Powerco Number of Interruptions	2006 Powerco Number of Interruptions	2005 Powerco Number of Interruptions	2004 Powerco Number of Interruptions
Class A - Transpower Planned	4	9	10	10
Class B - Distributor Planned	800	662	648	799
Class C - Distributor Unplanned	1,762	1,603	1,888	2,344
Class D - Transpower Unplanned	21	18	16	25
Class E - ECNZ Unplanned		0	0	0
Class F - Other Generator Unplanned		0	0	0
Class G - Other Line Owner Unplanned		0	0	0
Class H - Other Line Owner Planned		0	0	0
Class I - Other Owner ( Not in A - H)	96	62	120	20
Total	2,683	2,354	2,682	3,198

## 18.02 Interruption Targets for the Following Financial Year

	2008 Powerco
Class B - Principal Line Owner Planned	831
Class C - Principal Line Owner Unplanned	1830

## 18.03 Average Interruption Targets for the Following Financial Year and Subsequent 4 Financial Years

	2008 Powerco	2009-2012 Powerco
Class B - Principal Line Owner Planned	831	831
Class C - Principal Line Owner Unplanned	1830	1830

**18.04 Proportion of the Total Number of  
Faults Not Restored Within:-**

		2007 Powerco	2006 Powerco	2005 Powerco
	Period			
Class C - Principal Line Owner Unplanned	3 hours	18.1%	26.3%	24.2%
Class C - Principal Line Owner Unplanned	24 hours	0.9%	0.4%	1.8%

**18.05**

**(a) Total Number Of Faults Per 100km  
Of Prescribed Voltage Line**

	2007 Powerco	2006 Powerco	2005 Powerco	2004 Powerco
Nominal Voltage	Number of Faults/100km	Number of Faults/100km	Number of Faults/100km	Number of Faults/100km
110kV			-	-
66kV	5.97	11.95	3.96	3.33
33kV	6.55	5.47	9.46	10.18
22kV	9.35	14.02	18.21	19.61
11kV	16.34	13.85	11.40	14.34
6.6kV	11.02	4.84	5.00	6.33
3.3kV			-	-
Total	15.27	12.92	11.06	13.72

**(b) Total Number Of Faults Per 100km  
Of Prescribed Voltage Line  
(Targeted for the Following Financial Year)**

	2008 Powerco	2007 Powerco	2006 Powerco	2005 Powerco
Nominal Voltage	Number of Faults/100km	Number of Faults/100km	Number of Faults/100km	Number of Faults/100km
110kV		N/A	N/A	-
66kV	5.39	5.39	5.50	5.50
33kV	6.79	6.79	6.90	6.93
22kV	10.75	10.75	11.00	10.98
11kV	11.04	11.04	11.30	11.28
6.6kV	10.63	10.63	10.63	10.86
3.3kV		N/A	N/A	-
Total (Weighted Average)	10.62	10.62	10.62	10.85

**(c) Total Number Of Faults Per 100km  
Of Prescribed Voltage Line  
(Targeted for the Following Financial Year  
and Subsequent 4 Financial Years)**

			2008 Powerco	2009-2012 Powerco
Nominal Voltage			Number of Faults/100km	Number of Faults/100km
110kV				
66kV			5.39	5.39
33kV			6.79	6.79
22kV			10.75	10.75
11kV			11.04	11.04
6.6kV			10.63	10.63
3.3kV				
Total (Weighted Average)			10.62	10.62

**18.06 Total Number Of Faults Per 100km Of  
Prescribed Voltage Underground Line**

	2007 Powerco	2006 Powerco	2005 Powerco	2004 Powerco
Nominal Voltage	Number of Faults/100km	Number of Faults/100km	Number of Faults/100km	Number of Faults/100km
110kV			-	-
66kV		1,250.00	-	-
33kV	1.85	4.84	-	2.95
22kV		555.56	-	-
11kV	7.17	10.53	5.66	6.84
6.6kV	12.03	12.03	-	-
3.3kV			-	-
Total (weighted average)	2.28	10.36	5.30	6.54

**18.07 Total Number Of Faults Per 100km Of  
Prescribed Voltage Overhead Line**

	2007 Powerco	2006 Powerco	2005 Powerco	2004 Powerco
Nominal Voltage	Number of Faults/100km	Number of Faults/100km	Number of Faults/100km	Number of Faults/100km
110kV	-	-	-	-
66kV	3.98	11.29	3.99	3.33
33kV	5.29	5.51	10.12	10.72
22kV	9.38	12.20	18.26	19.68
11kV	14.26	14.22	12.02	15.14
6.6kV	9.56	4.70	5.10	6.48
3.3kV	-	-	-	-
<b>Total (weighted average)</b>	<b>13.25</b>	<b>13.18</b>	<b>11.64</b>	<b>14.45</b>

**18.08 SAIDI for total interruptions**

	2007 SAIDI	2006 SAIDI	2005 SAIDI	2004 SAIDI
Interruption Class				
<b>Total</b>	<b>220.6</b>	<b>235.80</b>	<b>208.32</b>	<b>370.41</b>

**18.09 SAIDI  
Targets for the Following Financial Year**

	2008 Powerco SAIDI	2007 Powerco SAIDI	2006 Powerco SAIDI	2005 Powerco SAIDI
Interruption Class				
Class B - Distributor Planned	20	20	20	20
Class C - Distributor Unplanned	130	130	130	130

**18.10 SAIDI  
Targeted for the Following Financial Year and  
Subsequent 4 Financial Years**

	2008 Powerco SAIDI	2009-2012 Powerco SAIDI
Interruption Class		
Class B - Distributor Planned	20	20
Class C - Distributor Unplanned	130	130

**18.11 SAIDI classified**

	2007 Powerco SAIDI	2006 Powerco SAIDI	2005 Powerco SAIDI	2004 Powerco SAIDI
Interruption Class				
Class A - Transpower Planned	15.59	5.60	3.03	12.86
Class B - Distributor Planned	17.64	10.60	11.12	21.93
Class C - Distributor Unplanned	164.08	203.00	183.43	304.35
Class D - Transpower Unplanned	21.05	16.60	9.21	31.04
Class E - ECNZ Unplanned	-	-	-	-
Class F - Other Generator Unplanned	-	-	-	-
Class G - Other Line Owner Unplanned	-	-	-	-
Class H - Other Line Owner Planned	-	-	-	-
Class I - Other Owner (Not in A - H)	2.24	-	1.53	0.24
<b>Total</b>	<b>220.58</b>	<b>235.80</b>	<b>208.32</b>	<b>370.41</b>

**18.12 SAIFI for total interruptions**

	2007 SAIFI	2006 SAIFI	2005 SAIFI	2004 SAIFI
Interruption Class				
<b>Total</b>	<b>2.800</b>	<b>2.890</b>	<b>2.915</b>	<b>3.787</b>

**18.13 SAIFI  
Targeted for the Following Financial Year**

	2008 Powerco	2007 Powerco	2006 Powerco	2005 Powerco
Interruption Class				
Class B - Distributor Planned	0.14	0.14	0.14	0.14
Class C - Distributor Unplanned	2.36	2.36	2.36	2.36

**18.14 SAIFI  
Targeted for the Following Financial Year and  
Subsequent 4 Financial Years**

	2008 Powerco SAIFI	2009-2012 Powerco SAIFI
Interruption Class		
Class B - Distributor Planned	0.14	0.14
Class C - Distributor Unplanned	2.36	2.36



## 18.15 SAIFI classified

	2007 Powerco SAIFI	2006 Powerco SAIFI	2005 Powerco SAIFI	2004 Powerco SAIFI
<b>Interruption Class</b>				
Class A - Transpower Planned	0.032	0.020	0.010	0.029
Class B - Distributor Planned	0.098	0.070	0.095	0.114
Class C - Distributor Unplanned	2.345	2.510	2.651	3.258
Class D - Transpower Unplanned	0.317	0.290	0.150	0.385
Class E - ECNZ Unplanned			-	-
Class F - Other Generator Unplanned			-	-
Class G - Other Line Owner Unplanned			-	-
Class H - Other Line Owner Planned			-	-
Class I - Other Owner ( Not in A - H)	0.008		0.010	0.001
<b>Total</b>	<b>2.800</b>	<b>2.890</b>	<b>2.915</b>	<b>3.787</b>

## 18.16 CAIDI for total interruptions

	2007 CAIDI	2006 CAIDI	2005 CAIDI	2004 CAIDI
<b>Interruption Class</b>				
<b>Total (Average)</b>	<b>78.8</b>	<b>81.0</b>	<b>71.5</b>	<b>97.8</b>

## 18.17 CAIDI

Targeted for the Following Financial Year

	2008 Powerco CAIDI	2007 Powerco CAIDI	2006 Powerco CAIDI	2005 Powerco CAIDI
<b>Interruption Class</b>				
Class B - Distributor Planned	142.9	142.9	142.9	142.9
Class C - Distributor Unplanned	54.0	54.0	55.0	55.0

## 18.18 CAIDI

Targeted for the Following Financial Year and  
Subsequent 4 Financial Years

	2008 Powerco	2009-2012 Powerco
<b>Interruption Class</b>		
Class B - Distributor Planned	142.9	142.9
Class C - Distributor Unplanned	54.0	54.0

## 18.19 CAIDI classified

	2007 Powerco CAIDI	2006 Powerco CAIDI	2005 Powerco CAIDI	2004 Powerco CAIDI
<b>Interruption Class</b>				
Class A - Transpower Planned	493.8	306.0	302.4	449.0
Class B - Distributor Planned	179.6	144.0	117.4	191.6
Class C - Distributor Unplanned	70.0	81.0	69.2	93.4
Class D - Transpower Unplanned	66.4	57.0	61.3	80.6
Class E - ECNZ Unplanned		-	-	-
Class F - Other Generator Unplanned		-	-	-
Class G - Other Line Owner Unplanned		-	-	-
Class H - Other Line Owner Planned		-	-	-
Class I - Other Owner ( Not in A - H)	269.2		159.1	266.1
<b>Total (Average)</b>	<b>78.8</b>	<b>81.0</b>	<b>71.5</b>	<b>97.8</b>