SUPPLEMENT TO

New Zealand Gazette

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POWERCO LIMITED

INFORMATION FOR DISCLOSURE

PURSUANT TO THE GAS (INFORMATION DISCLOSURE) REGULATIONS 1997

POWERCO LIMITED

GAS (INFORMATION DISCLOSURE) REGULATONS 1997

STATUTORY DECLARATION IN RESPECT OF STATEMENTS AND INFORMATION SUPPLIED TO SECRETARY OF COMMERCE

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

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

Declared at New Plymouth this 6th day of December 2006

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

Nigel Barbour
Solicitor
New Plymouth

POWERCO LIMITED

GAS (INFORMATION DISCLOSURE) REGULATIONS 1997

CERTIFICATION OF FINANCIAL STATEMENTS, PERFORMANCE MEASURES, AND STATISTICS DISCLOSED BY PIPELINE OWNERS OTHER THAN THE CORPORATION

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

(a) The attached audited financial statements of Powerco Limited, prepared for the purposes of regulation 6 of the Gas (Information Disclosure) Regulations 1997, comply with the requirements of that regulation; and

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

Date: 6th December 2006

Deloitte

POWERCO LIMITED – GAS DIVISION

GAS (INFORMATION DISCLOSURE) REGULATIONS 1997

Certification by Auditor in Relation to Financial Statements

We have examined the attached financial statements prepared by Powerco Limited – Gas Division and dated 6th December 2006 for the purposes of regulation 6 of the Gas (Information Disclosure) Regulations 1997.

We certify that, having made all reasonable enquiry, to the best of my knowledge, those financial statements have been prepared in accordance with the requirements of the Gas (Information Disclosure) Regulations 1997 with the exception of one departure from New Zealand Generally Accepted Accounting Practice. New Zealand Equivalent to International Financial Reporting Standards 1 (NZ IFRS 1) *"First-time Adoption of New Zealand Equivalents to International Financial Reporting Standards 1* requires reconciliation of the entity's equity reported under previous New Zealand Generally Accepted Accounting Practice (NZ GAAP) to its equity under New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) at the date of transition to NZ IFRS. This information has not been disclosed in the financial statements.

Deloitte.

Deloitte
Hamilton
6th December 2006

This certification relates to the financial statements of Powerco Limited – Gas Division for the year ended 30 June 2006 included on Powerco Limited's website. Powerco Limited's Board of Directors is responsible for the maintenance and integrity of Powerco Limited's website. We have not been engaged to report on the integrity of Powerco Limited's website. We accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website. The certification refers only to the financial statements named above. It does not provide an opinion on any other information which may have been hyperlinked to/from these financial statements. If readers of this report are concerned with the inherent risks arising from electronic data communication they should refer to the published hard copy of the financial statements and related certification dated 6th December 2006 to confirm the information included in the financial statements presented on this website. Legislation in New Zealand governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Deloitte

POWERCO LIMITED – GAS DIVISION

GAS (INFORMATION DISCLOSURE) REGULATIONS 1997

Certification of Performance Measures by Auditor

We have examined the performance measures set out in Note 11 to the attached financial statements being:

(a) Financial performance measures specified in clause 1 of Part 2 of Schedule 1 of the Gas (Information Disclosure) Regulations 1997; and

(b) Financial components of the efficiency performance measures specified in clause 2 of Part 2 of that schedule,

and having been prepared by Powerco Limited – Gas Division and dated 6th December 2006 for the purposes of regulations 15 and 16 of those regulations.

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

Deloitte

Deloitte
Hamilton
6th December 2006

This certification relates to the financial statements of Powerco Limited – Gas Division for the year ended 30 June 2006 included on Powerco Limited's website. Powerco Limited's Board of Directors is responsible for the maintenance and integrity of Powerco Limited's website. We have not been engaged to report on the integrity of Powerco Limited's website. We accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website. The certification refers only to the financial statements named above. It does not provide an opinion on any other information which may have been hyperlinked to/from these financial statements. If readers of this report are concerned with the inherent risks arising from electronic data communication they should refer to the published hard copy of the financial statements and related certification dated 6th December 2006 to confirm the information included in the financial statements presented on this website. Legislation in New Zealand governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

POWERCO

GAS DIVISION

Income Statement
For the year ended 30 June 2006

	Notes	30 June 2006 $000	30 June 2005 $000
Revenue	1	50,349	57,068
Cost of goods sold		-	-
Gross profit		50,349	57,068
Other income		(1,636)	
Operating expenses		7,002	7,035
Administration expenses		9,181	9,778
Other expenses		9,440	9,079
Earnings before interest and taxation		26,362	31,176
Finance costs		20,701	21,536
Operating Surplus before Taxation	1	5,661	9,640
Taxation expense @ 33%	2	1,329	3,181
OPERATING SURPLUS AFTER TAXATION		4,332	6,459

The accompanying notes form part of these financial statements.

POWERCO

GAS DIVISION

Statement of Changes in Equity
For the year ended 30 June 2006

	30 June 2006 $000	30 June 2005 $000
Opening Equity	85,114	86,724
Profit for the period	4,332	6,459
Total recognised income and expense	4,332	6,459
Dividends	(5,292)	(8,069)
Cashflow hedges - gain/(loss) taken to equity	(1,618)	-
Closing Equity	82,536	85,114

The accompanying notes form part of these financial statements.

POWERCO

GAS DIVISION

Balance Sheet
As at 30 June 2006

	Notes	30 June 2006 $000	30 June 2005 $000
Equity			
Share capital		119,080	119,080
Retained earnings		(2,945)	(1,987)
Reserves		(33,599)	(31,979)
		82,536	85,114
Non Current Liabilities			
Borrowings	3	199,085	158,080
Other financial liabilities	4	11,361	-
Current account		26,623	49,453
Deferred tax liability		26,836	19,304
		263,905	226,837
Current Liabilities			
Borrowings	3	36,909	64,233
Accounts payable & accruals		2,720	4,724
Tax payable		333	171
		39,961	69,128
Total Equity and Liabilities		386,402	381,079
Non Current Assets			
Property, plant and equipment	6	375,746	378,812
		375,746	378,812
Current Assets			
Receivables		10,656	2,267
		10,656	2,267
Total Assets		386,402	381,079

The accompanying notes form part of these financial statements.

POWERCO LIMITED

Gas Division

Statement of Accounting Policies for the Financial Statements for the Year ended 30 June 2006

Reporting Entity

Powerco Limited is a company registered under the Companies Act 1993. The group consists of Powerco Limited and its subsidiaries.

The following activities were the principal activities undertaken by Powerco Limited throughout the period:

- Distribution of electricity and value added services.
- Distribution of gas and value added services.

These financial statements have been prepared to comply with the provisions of Section 44 of the Energy Companies Act 1992, and the Financial Reporting Act 1993 and the Gas (Inforamtion Disclosure) Regulations 1997.

Adoption of new and revised International Financial Reporting Standards

In the current year, the Company had adopted all of the applicable new and revised Standards and Interpretations issued by the International Accounting Standards Board (the IASB) and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB that are relevant to its operations and effective for accounting periods beginning on or after 1 January 2005. The adoption of these new and revised Standards and Interpretations has resulted in changes to the Company's accounting policies in the following areas that have affected the amounts reported for the current or prior years:

- Accounting for Income Tax
- Financial Instruments
- Goodwill

The transition to NZ IFRS is accounted for in accordance with NZ IFRS-1.

Significant accounting policies

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

a) Critical accounting estimates and judgements

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

The key assumptions concerning the future and other key sources of estimation uncertainty at 30 June 2006, that have had a significant risk of causing a material adjustment to the carrying amount of assets and liabilities are discussed below.

b) Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, cash in banks and investments in money market instruments, net of outstanding bank overdrafts. Bank overdrafts are shown within borrowings in the balance sheet.

c) Property, Plant and Equipment

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

Land and buildings are revalued from time to time for insurance purposes only. Optimised Deprival Value (ODV) is obtained from an independent registered valuer. Any impairment is recognised for accounting purposes and recognised in the Statement of Financial Performance.

d) Depreciation of Property, Plant and Equipment

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

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

Land	Not Depreciated
Buildings	50 years
Plant and Equipment	5 to 10 years
Network Systems	10 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, are initially measured at fair value, net of transaction costs.

Subsequent to initial recognition, investments in subsidiaries are measured at cost in accordance with NZ IAS-27. Other financial assets are classified into one of four categories; financial assets at fair value through the profit or loss, held to maturity investments, available for sale financial assets or loan and receivables. At balance date the Company 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 entity 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 Company 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 group 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 consolidated entity 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 group designates them as either;

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

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

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

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.

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 consolidated entity in respect of services provided by employees up to reporting date.

l) Defined Superannuation Plans

For Defined Contribution Superannuation Plans, the Group 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 Group 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.

m) Impairment

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

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

At each reporting date, the consolidated entity 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 consolidated entity estimates the recoverable amount of the cash-generating unit to which the asset belongs.

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

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

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

n) Share Capital

Ordinary shares are classified as equity.

Costs directly attributable to the issue of new shares are shown in equity as a deduction from the proceeds.

o) Dividend distribution

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

p) 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.

q) Revenue Recognition

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

Revenue is recognised as follows:

(a) Rendering of Services
Revenue from services is recognised in the accounting period in which the services are rendered based upon useage or volume throughput during that period.

r) 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 consolidated financial statements.

The following temporary differences are not provided for: goodwill, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit, and the temporary differences relating to investments in subsidiaries, where the consolidated entity is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

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

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

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow the manner in which the consolidated entity 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 company/consolidated entity intends to settle its current tax assets and liabilities on a net basis.

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

Income tax relating to items recognised directly in equity is recognised in equity and not in the income statement.

s) Statement of Cash Flows

The statement of cash flows is prepared exclusive of GST, which is consistent with the method used in the statement of financial performance. 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 company and group and those activities relating to the cost of servicing the company's equity capital.

t) Comparative information – financial instruments

The Company has elected not to restate comparative information for financial instruments within the scope of NZ IAS -32 'Financial Instruments: Disclosure and Presentation' and NZ IAS -39 'Financial Instruments: Recognition and Measurement', as permitted on the first time adoption of NZ IFRS.

The accounting policies applied to accounting for financial instruments in the current financial yare are detailed in notes 1 a) to s). The following accounting policies were applied to accounting for financial instruments in the comparative financial year.

Receivables
Accounts receivable are valued at expected realisable value, after providing for doubtful debts. All known bad debts have been written off during the period under review.

Financial Instruments
The company has various financial instruments with off-balance sheet risk for the primary purpose of reducing its exposure to fluctuations in interest rates. Financial instruments as at 30 June 2005 consisted of interest rate swaps and cross currency swaps. While these financial instruments are subject to risk that market rates may change subsequent to acquisition, such changes would generally be offset by opposite effects on the items being hedged.

For interest rate swap agreements entered into in connection with the management of interest rate exposure, the differential to be paid or received is accrued as interest rates change and is recognised as a component of interest income/expense over the life of the agreement.

u) Comparative information – financial instruments

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For interest rate swap agreements entered into in connection with the management of interest rate exposure, the differential to be paid or received is accrued as interest rates change and is recognised as a component of interest income/expense over the life of the agreement.

	30 June 2005	Effect on Adoption	1 July 2005
	NZ$000	**NZ$000**	**NZ$000**
Equity			
Issued capital	119,080		119,080
Retained earnings	(1,987)		(1,987)
Reserves	(31,979)	(1,920)	(33,899)
Total Equity	**85,114**	**(1,920)**	**83,194**
Non Current Liabilities			
Borrowings	158,080	(10,030)	148,050
Other financial liabilities	-	12,896	12,896
Deferred tax liability	19,304	(946)	18,358
Current account	49,453		49,453
	226,837	**1,920**	**228,757**
Current Liabilities			
Borrowings	64,233		64,233
Trade and other payables	4,724		4,724
Tax payable	171		171
	69,128	**-**	**69,128**
Total Equity and Liabilities	**381,079**	**-**	**381,079**
Non Current Assets			
Property, plant and equipment	378,812		378,812
	378,812	**-**	**378,812**
Current Assets			
Receivables	2,267		2,267
	2,267		**2,267**
Total Assets	**381,079**	**-**	**381,079**

The $1.920 million adjustment shown above in equity represents the recognition of interest rate swaps and cross currency swaps at 30 June 2005 ($12.896m), deferred tax on interest rate swaps ($0.946m) and the adjustment to the carrying value of loans covered by fair value hedges (adjustment for the fair value of interest rate risk on loans hedges by fair value hedges $10.030 m). This adjustment has been made to the hedging reserve as the hedges were effective hedges under the superseded accounting policies.

The $12.896m adjustment above represents the fair value of hedges at 30 June 2005. This adjustment was done to record the derivatives as a separate class of liability. The $10.030m adjustment represents the fair value adjustment to hedged loans. The $0.946m relates to deferred tax on the hedges.

The following transitional provisions have an effect on future profits:

- The effectiveness of hedging relationships are assessed from 1 July 2005, no adjustment is made in relation to hedges under the superseded policies which were not highly effective before 1 July 2005.

The main adjustments necessary that would make the comparative financial statements comply with NZ IAS -32 and NZ IAS -39 are listed below. Similar adjustments were made at 1 July 2005 to restate the opening financial position of the company and consolidated entity to a position consistent with the accounting policies specified in note 1a) to s):

- The recognition and measurement of all derivatives (including any embedded derivatives) at fair value;
- The recognition in profit or loss of the movement in the fair value of derivatives which did not qualify for hedge accounting or were not designated as hedging instruments;
- The transfer of deferred hedging gains and losses recognised as assets and liabilities arising from a cash flow hedge of a forecast transaction to the hedging reserve;
- The deferral in equity of the effective portion of the movement in fair value of derivatives accounted for as a cash flow hedge;
- The recognition in profit or loss of the movement in fair value of derivatives accounted for as a fair value hedge and the fair valuing of hedge items;
- The adjustment to the carrying amount of items that would qualify as a fair value hedge under NZ IFRS and were designated as a hedge under previous GAAP for the lower of the cumulative change in fair value of the hedge item for the designated risk and the cumulative change in fair value of the hedging instrument;
- The recognition of any current or deferred taxes in relation to the adjustments described above.

It is not practicable for the company to detail the amounts of the adjustments to profit and loss and to opening retained earnings for the comparative period had the new accounting policies been applied from the beginning of the comparative period. In addition, it is not practicable for the company to detail for the current period, the amounts of the adjustments resulting to each financial statement line item as a consequence of applying the accounting policies specified elsewhere in note 1.

v) Standards, Amendments and Interpretations Issued But Not Yet Effective

The Company has not applied the following Standards, Amendments and Interpretations that have been issued but are not yet effective.

- Amendments to NZ IFRS 4 and IFRS 4 Appendices C and D
- NZ IFRS 7 and IFRS 7 Financial Instruments: Disclosures and complementary amendments to NZ IAS 1 and IAS 1 Presentation of Financial Statements – Capital Disclosures (effective for annual periods beginning on or after 1 January 2007)
- Amendments to NZ IFRS 7 and IFRS 7 Financial Instruments: Disclosures – Disclosure and Measurement of Day One Profit (effective for annual periods beginning on or after 1 January 2007)
- Amendment to NZ IAS 1 and IAS 1 Presentation of Financial Statements: Added disclosures about an entity's capital (effective for annual periods beginning on or after 1 January 2007)
- Amendment to the scope of NZ IAS 14 Segment Reporting
- Amendments to NZ IAS 19 and IAS 19 Employee Benefits – Actuarial Gains and Losses, Group Plans and Disclosures; Actuarial Assumptions – Allowance for Taxes in Defined Benefit Plans.
- Amendments to NZ IAS 36 Impairment of Assets – Impairment of Non Cash Generating Assets by Public Benefit Entities.
- Amendments to NZ IAS 39 and IAS 39 Financial Instruments: Recognition and Measurement – Cash Flow Hedge Accounting of Forecast Intragroup Transactions; The Fair Value Option

- Amendment to NZ IAS 39 and IAS 39 Financial Instrument: Recognition and Measurement and NZ IFRS 4 and IFRS 4 Insurance Contracts: Financial Guarantee Contracts
- NZ IFRIC 4 and IFRIC 4 Determining Whether an Arrangement Contains a Lease
- NZ IFRIC 5 and IFRIC 5 Rights to Interests Arising From Decommissioning, Restoration Environmental Rehabilitation Funds
- IFRIC 8 Scope of IFRS 2 (effective for annual reporting periods on or after 1 May 2006)
- IFRIC 9 Reassessment of Embedded Derivatives (effective for annual reporting periods on or after 1 June 2006)

All of these Standards, Amendments and Interpretations are effective for annual periods beginning on or after 1 January 2006, except where noted above.

Application of the Standards, Amendments and Interpretations is not expected to have a material impact on the financial statement account balances of the Group, but will require additional financial statement disclosures. In many cases, those relating to measurement that apply to the Group provide further options or restrict options which are not presently in use.

Notes to and Forming Part of the Financial Statements
For the year ended 30 June 2006

POWERCO

GAS DIVISION

1 REVENUE AND EXPENDITURE

Operating Revenue	30 June 2006 $000	30 June 2005 $000
Comprises:		
Line charge revenue	50,349	56,994
Interest revenue	-	74
	50,349	57,068

Expenditure	30 June 2006 $000	30 June 2005 $000
Operating Surplus Before Taxation	5,662	9,640
Specific disclosures		
Repairs and maintenance costs	7,001	7,035
Human resource costs	183	200
Depreciation on system assets	9,440	9,079
Bad debts	6	38
Interest expense	20,701	21,536
Corporate & administration	5,824	3,182
Marketing & advertising	209	129
Consulting & legal expenses	1,324	975
Total expenditure	44,687	47,428

2 TAXATION

Taxation for the year ended 30 June 2006	30 June 2006 $000	30 June 2005 $000
Operating surplus before taxation	5,661	9,640
Prima facie taxation @ 33%	1,868	3,181
Plus/(less) tax effect of permanent timing differences:	(539)	-
Taxation expense	1,329	3,181

3 BORROWINGS

	30 June 2006 NZ$000	30 June 2005 NZ$000
Non-current liabilities at amortised cost	NZ$000	NZ$000
Subordinated bonds	20,945	19,095
Guaranteed bonds	88,429	47,980
US Dollar private placement notes	55,024	57,553
Commercial bank debt	34,687	33,452
	199,085	158,080
Current liabilities at amortised cost		
Bank overdraft (note 4)	4,390	1,638
Commercial paper facility	32,519	29,087
Commercial bank debt	-	33,508
	36,909	64,233

(a) Subordinated bonds	30 June 2006 NZ$000	30 June 2005 NZ$000
Subordinated bonds	21,680	19,695
Adjustment for the fair value of the interest rate risk	(116)	-
	21,564	19,695
Deferred funding costs	(619)	(600)
Carrying value of subordinated bonds	20,945	19,095

The 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.

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(b) Guaranteed Bonds	30 June 2006 NZ$000	30 June 2005 NZ$000
7 year guaranteed bonds	21,679	19,695
Adjustment for the fair value of the interest rate risk	(966)	-
9 year guaranteed bonds	21,679	19,695
Adjustment for the fair value of the interest rate risk	(966)	-
11 year guaranteed bonds	10,839	9,847
Adjustment for the fair value of the interest rate risk	(483)	-
7 year guaranteed bonds	28,183	-
12 year guaranteed bonds	10,839	-
	90,804	49,237
Deferred funding costs	(2,375)	(1,257)
Carrying value of guaranteed bonds	88,429	47,980

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

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

On 28 September 2005 a $180 million issue of guaranteed bonds took place, as secured unsubordinated obligations of Powerco Limited. 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 30 June 2006, no Subsidiary Guarantee had been executed.

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

c) US Dollar Private Placement	30 June 2006 NZ$000	30 June 2005 NZ$000
11 year USD private placement notes	20,413	18,546
12 year USD private placement notes	19,776	17,966
13 year USD private placement notes	23,604	21,443
Adjustment for fair value of the interest rate risk	(8,301)	-
Deferred funding costs	(468)	(402)
Carrying value of the US dollar private placement	55,024	57,553

The USD Private Placement note issue took place on 25 November 2003 to private US investors. 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, which continues until 2 August 2007. The facility has the benefit of the Security Trust Deed dated 10 March 2005 as a Senior Secured debt Facility, and as such the principal is secured against the network assets of Powerco Limited. At 30 June 2006 a sum of $150,000,000, which includes an interest portion of $2,759,645 of 90 day bills at a weighted average interest of 7.52%, with varying maturity dates, had been drawn down under the commercial paper programme (2005: $150,000,000 was drawn down under the commercial paper programme which included an interest portion of $2,310,162 at weighted average interest rate of 7.08%). As at year end the carrying value approximates the fair value.

At year end the amount of the commercial paper facility allocated to the gas division was $32.519 million (2005: $29.087 million).

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e) Commercial Bank Debt

As at 30 June 2006 the balance of Commercial Bank Debt of Powerco Limited was $160 million which relates to a 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 8.12%. The Term Loan Facility has the benefit of the Security Trust Deed, for the purposes of which it is designated as a Senior Secured Debt Facility and thus secured against the Network assets of Powerco Limited. As at 30 June 2005 a sum of $160 million had been drawn. In the previous year the Group had $180 million commercial bank debt which had an interest rate of 7.24%.

At year end the amount of the commercial bank debt facility allocated to the gas division was $34.687 million (2005: $66.960 million).

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

	30 June 2006 NZ$000	30 June 2005 NZ$000
Comprises:		
Current liabilities	-	33,508
Term liabilities	34,687	33,452
Total Commercial Bank debt	34,687	66,960

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 liabilities

The following tables detail the fair value of financial liabilities

	30 June 2006 NZ$000		30 June 2005 NZ$000	
	Carrying Amount NZ$000	Fair Value NZ$000	Carrying Amount NZ$000	Fair Value NZ$000
Subordinated bonds	20,945	20,945	19,095	19,095
Guaranteed bonds	88,429	88,429	47,980	47,980
US Dollar Private Placement Notes	55,024	55,024	57,553	57,553
Commercial Paper Facilitites	32,519	32,519	29,087	29,087
Commerical Bank Debt	34,687	34,687	66,960	66,960
US Cross Currency Interest Rate Swap	8,305	8,305	-	11,265
Interest Rate Swap	3,215	3,215	-	5,484
	243,124	243,124	220,675	237,424

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

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4 DERIVATIVE 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 USD 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 liabilitites 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 are determined by reference to the market quoted rates.

All derivative instruments are carried on balance sheet at their fair values. Movements on the hedging reserve are shown in the Statement of Shareholders' Equity.

The Group holds the following financial instruments:

1 Interest rate swaps
The Group receives New Zealand fixed interest rates and pays New Zealand dollar floating interest rates. The hedge is a fair value hedge and was entered into on terms matched to the underlying obligation.
The nominal value of the hedge is $98,000,000 (2005: $98,000,000)
The fair value of the hedge is -$2,497,506 (2005: -$1,761,066)

2 US Cross Currency Interest rate swaps
The Group receives US dollar fixed interest and pays NZ dollar floating interest. The hedge is both a fair value hedge and hedges the movements in currency that would affect interest payments and final repayment at maturity, these were entered into at terms to match the underlying obligation.
The nominal value of the hedge is $82,394,484 (2005: $82,394,484)
The fair value of the hedge is -$8,190,409 (2005: -$11,264,731)

3 Interest rate swaps
The Group receives NZ dollar floating interest rates and pays NZ dollar fixed interest. The hedge is to fix the variable floating obligations efficiently as per the hedge policy and the treasury policy and is on matched terms. The hedge is a cash flow hedge.
The nominal value of the hedge is $63,000,000 (2005: $70,000,000)
The fair value of the hedge is -$778,792 (2005: -$1,751,315)

4 Interest rate swap
To swap back fixed New Zealand dollar debt converted to floating back to fixed debt. The swap is used to match the interest rate profile in accordance with the Board strategy and is on matched terms. Hedge accounting is not applied to these swaps.
The nominal value of the hedge is $139,160,000 (2005: $175,560,000)
The fair value of the hedge is $360,176 (2005: -$1,409,681)

5 Interest rate swap
To convert floating New Zealand debt from US dollar fixed debt to fixed New Zealand dollar debt. The swap is used to modify the debt profile in accordance with the Board strategy and is on matched terms. Hedge accounting is not applied to these swaps.
The nominal value of the hedge is $155,400,000 (2005: $26,040,000)
The fair value of the hedge is -$73,404 (2005: $90,851)

6 Interest rate swaps
To unwind floating to fixed swaps which existed when the hedging policy was changed. These are to cancel previous interest rate swaps and match the terms of those including termination date and rolls. Hedge accounting is not applied to these swaps.
The nominal value of the swap is $22,400,000 (2005: $65,800,000)
The fair value of the swap is -$246,139 (2005: $556,559)

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7 Interest rate swaps
Historical swaps floating to fixed swaps which are cancelled by number six above on match term and rolls basis. Hedge accounting is not applied to these swaps.
The nominal value of the swap is $22,400,000 (2005: $235,800,000)
The fair value of the swap is $65,431 (2005: -$1,208,840)

Total notional principal of instruments recognised $582,754,484 (2005: 583,594,484)
Total fair value of instruments recognised -$11,360,643 (2005: -$16,748,223)

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

The Group's New Zealand Dollar (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.

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.

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

Outstanding contracts as at 30 June 2005	**Average interest rate NZ$000**	**Average exchange rate NZ$000**	**Contract Value NZ$000**	**Fair Value NZ$000**
Over five years	**BKBM + 88 basis points**	**0.5947**	**82,394**	**(11,265)**

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c) **Interest rate swap contracts**

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

		30 June 2006 NZ$000			30 June 2005 NZ$000		
		Average contracted fixed interest rate NZ$000	Notional principal amount NZ$000	Fair value NZ$000	Average contracted fixed interest rate NZ$000	Notional principal amount NZ$000	Fair value NZ$000
Floating to fixed contracts:							
Less than 1 year		6.51%	47,880	262	6.38%	112,840	(433)
1 to 2 years		6.38%	81,480	668	6.55%	47,880	139
2 to 3 years		6.49%	11,200	90	6.53%	14,280	15
3 to 4 years		6.94%	11,200	5	6.62%	8,400	(47)
4 to 5 years		6.71%	11,200	45	6.94%	11,200	(192)
5 years +		6.83%	217,000	(1,502)	6.87%	142,800	(3,761)
Fixed to floating contracts:							
Less than 1 year		-	-	-	-	-	-
1 to 2 years		-	-	-	-	-	-
2 to 3 years		-	-	-	-	-	-
3 to 4 years		7.45%	33,600	(194)	-	-	-
4 to 5 years		6.22%	28,000	(904)	7.45%	33,600	(362)
5 years +		6.47%	58,800	(1,684)	6.45%	130,200	(843)
Total interest rate swaps	(b)		500,360	(3,215)		501,200	(5,484)
Total cross currency swaps	(a)		82,394	(8,305)		82,394	(11,265)
Total swaps			582,754	(11,519)		583,594	(16,749)

d) **Fair value hedges**

	Group 30 June 2006 NZ$000	Group 30 June 2005 NZ$000
The following fair value hedges have been recorded in the income statement	(2,188)	-
Interest expense on fair value hedge loans	15,772	70,409

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

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e) Maturity profile of financial instruments

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 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	More than 5 years NZ$000	Non interest bearing NZ$000	Total NZ$000
Financial assets:										
Trade and other receivables		-	-	-	-	-	-	-	10,656	10,656
									10,656	10,656
Financial liabilities:										
Trade and other payables		-	-	-	-	-	-	-	2,720	2,720
Bank overdraft	7.40%	4,390	-	-	-	-	-	-	-	4,390
Subordinated bonds	7.64%	-	-	-	-	20,945	-	-	-	20,945
Guaranteed bonds	6.47%	-	-	-	-	-	20,713	67,717	-	88,429
US Dollar private placement notes	5.56%	-	-	-	-	-	-	55,024	-	55,024
Commercial paper facility	7.52%	-	32,519	-	-	-	-	-	-	32,519
Commercial bank debt	7.41%	-	34,687	-	-	-	-	-	-	34,687
Interest rate swaps		-	-	-	-	-	-	-	3,215	3,215
US cross currency interest rate swaps		-	-	-	-	-	-	-	8,305	8,305
		4,390	67,206			20,945	20,713	122,741	14,240	250,234

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 vlaue of these assets and liabilities.

The following table details the exposure to interest rate risk as at 30 June 2005:

	Weighted average effective interest rate %	Variable interest rate NZ$000	Maturity dates 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	More than 5 years NZ$000	Non interest bearing NZ$000	Total NZ$000
Financial assets:										
Trade and other receivables		-	-	-	-	-	-	-	2,267	2,267
		-	-	-	-	-	-	-	2,267	2,267
Financial liabilities:										
Trade and other payables		-	-	-	-	-	-	-	4,724	4,724
Bank overdraft	6.90%	1,638	-	-	-	-	-	-	-	1,638
Subordinated bonds	7.64%	-	-	-	-	-	19,095	-	-	19,095
Guaranteed bonds	6.47%	-	-	-	-	-	-	47,980	-	47,980
US Dollar private placement notes	5.56%	-	-	-	-	-	-	57,553	-	57,553
Commercial paper facility	7.08%	-	29,087	-	-	-	-	-	-	29,087
Commercial bank debt	7.36%	-	66,960	-	-	-	-	-	-	66,960
		1,638	96,047	-	-	-	19,095	105,533	4,724	227,037

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 vlaue of these assets and liabilities.

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(f) Financial Instruments

Risk Management

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

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

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

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

(a) Market Risk

(i) Foreign Exchange Exposures

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

The Group policy relating to US dollar denominated debt is to minimise the exchange rate exposure by use of matching hedges taken out at the time the loans were drawn down. With regards to the independent foreign subsidiary, Powerco Austalian Group Pty Limited, there is no net investment hedging.

(ii) Interest Rate Exposures

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

Powerco has entered into interest rate swap agreements to reduce the impact of the changes in interest rates on its borrowings. As at 30 June 2006, 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 6.68% 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 facilties.

5 WORKING CAPITAL ADVANCES FACILITY

Powerco Limited operates a wholesale capital advance facility with the Commonwealth Bank of Australia for up to $30 million. The facility, dated 22 March 2005, replaced a similar facility held with Bank of New Zealand for up to $15 million. As at 30 June 2006, funds to the amount of $28.5 million were drawn down on the facility, offset by unrealised deposits of $475,643 (2005: funds drawn of $26.2 million, offset by unrealised deposits of $410,894). 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 6.90% to 7.40%.

At year end the amount of bank overdraft allocated to the gas division was $4.392 million (2005$1.638 million).

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

6 PROPERTY, PLANT AND EQUIPMENT

Property, Plant and Equipment as at 30 June 2006	**30 June 2006 $000**	**30 June 2005 $000**
Network Systems		
Capital value	417,080	407,011
less Accumulated depreciation	42,333	32,893
	374,747	374,118
Work in Progress	999	4,694
Total Property, Plant and Equipment	$375,746	$378,812

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7 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	2006	2005	2004	2003
(i) Accounting Return on Total Assets	6.43%	7.92%	6.38%	5.31%
(ii) Accounting Return on Equity	4.47%	5.54%	2.81%	-4.43%
(iii) Accounting Rate of Profit including revaluation	4.65%	5.30%	4.28%	3.56%
(iv) Accounting Rate of Profit excluding revaluation	4.65%	5.30%	4.28%	3.56%
Efficiency Performance Measures				
(v) Direct Line Cost per Kilometre	$1,248.23	$1,299.10	$1,268.10	$1,445.52
(vi) Indirect Line Cost per Gas Customer	$88.29	$93.84	$74.96	$73.27

8 CONTINGENT LIABILITIES AND COMMITMENTS

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

Legal claim
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.

Powerco Energy Services Pty Limited is the respondent in an arbitration commenced by KT Pty Limited, a sub-contractor who was performing work on the Gas Distribution Network in Tasmania. The plaintiffs allege variations to the contract, delay costs and claim damages. The claim is currently being defended by Powerco Energy Services Pty Limited, which contends that it is not in breach of the contract and has brought a counter claim against the plaintiffs for the cost of defective work. The damages amount is presently unquantified and no provision for the claim has been included in the financial statements.

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. At this time, any payment to or from Powerco cannot be quantified.

Contribution from Tasmanian government

In January 2004, prior to the acquisition, Powerco received a contribution from the State Government of Tasmania amounting to AUD $8 million, for the building of a gas distribution network in Tasmania. This payment, known as an establishment contribution, is consideration for taking all necessary steps to incorporate a gas distribution entity and procuring that the gas distribution entity is established with access to the necessary expertise, assets and financial capability to undertake the Stage 1 Development Agreement with the Crown in Right of the State Government of Tasmania dated 30 April 2003. There is a refund mechanism on sale of assets or the shares in the gas distribution entity whereby Powerco must repay the State an amount equal to the lesser of the establishment contribution and the asset/equity profit.

In May 2005, Powerco Limited received a contribution from the State Government of Tasmania amounting to NZD $20.6 million (AUD $18.4 million), as an advance on the commencement of stage II of the gas distribution network built in Tasmania. An amount of NZD $72,000 (AUD $64,000) has been recognised as revenue in this financial period, based on calculating a set percentage of the depreciation charge of the capitalised project costs. There is a refund mechanism whereby Powerco Limited must repay the State if Powerco fails to perform certain obligations under the agreeement. If this occurs Powerco is required to refund a pro rata amount based on uncompleted construction at the time of termination. Refer to notes 11 and 15 for income in advance.

Commitments	30 June 2006 NZ$000	30 June 2005 NZ$000
Commitments for future capital expenditure resulting from contracts entered into:		
Not longer than 1 year	100,413	45,540
Longer than 1 year and not longer than 5 years	146,646	20,261
Longer than 5 years	-	-
	247,059	65,801

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9 RELATED PARTY TRANSACTIONS

Trading Transactions

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

For the year ended 30 June 2006, Powerco Limited paid management fees of $458,334 (30 June 2005: nil) to Babcock & Brown Infrastructure Management Pty Limited (BBIM). BBIM are deemed to be a related party as they provide management services to Babcock & Brown Infrastructure Pty Limited (ultimate parent). Powerco is a wholly owned subsidiary of BBI Networks (New Zealand) Limited. The payment terms are: payment is required when an invoice is provided from BBIM 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 manageement advice, corporate revenue and risk management advice and other coprorate policy formulation and advice. As at 30 June 2006, an amount of $458,334 was payable to BBIM for management fees.

Powerco Network Management Limited is a wholly owned subsidiary of Powerco. The company charges Powerco Limited at rates which reflect the quantity of services provided and the relationships between the parties, which includes the following activities:
- Asset management $15,528,290 (30 June 2005: $15,528,290)
- Information systems $3,908,359 (30 June 2005: $9,905,445)
- Buildings and insurance $8,088,171 (30 June 2005: $993,792)
- Operational finance and billing $457,425 (30 June 2005: $1,554,717)

There are no outstanding balances payable as at 30 June 2006. There are no guarantees or bad debts.

Powerco has intercompany accounts with its subsidaries (2006: $6.735 million, 2005: $29.779 million) and an intercompany loan with Powerco Australia Group Pty Limited (2006: $30 million, 2005: $30 million)

Powerco Energy Services Limited and Powerco Energy Services Eastern Limited were wholly owned subsidiaries of Powerco Limited which provided electrical and gas contracting services for Powerco, until the date of sale of these businesses on 1 November 2005.

During the financial year, Powerco Limited received $78,661 from Energy Brokers New Zealand, which represent their surplus cash distributed.

There were no trading transactions with Powerco Holdings Limited, Powerco Australia Group Pty Limited, Powerco Tasmania Pty Limited, Powerco Energy Services Pty Limited, Option One Pty Limited, and Powerlines Limited during neither the 2005 nor 2006 financial periods.

Compensation of key management personnel	**30 June 2006 NZ$000**	**30 June 2005 NZ$000**
The remuneration of directors and other members of key management during the year were as follows:		
Short-term benefits	2,352	4,011
Post employment benefits	29	42
	2,381	4,053

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 30 June 2006

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10 RECONCILIATION OF NZ IFRS WITH AMOUNTS PREVIOUSLY RECORDED UNDER NZ GAAP

Powerco Limited changed its accounting policies on 1 April 2004 to comply with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS). The transition to NZ IFRS is accounted for in accordance with NZ IFRS 1 First time Adoption of New Zealand equivalents to International Financial Reporting Standards (NZ IFRS 1).

An explanation of how the transition from superseded policiies to NZ IFRS has affected the company and consolidated entity's financial position, financial performance and cash flows is set out in the following tables and the notes that accompany the tables.

(a) Reconciliation of Net Profit/(Loss) after Tax		12 months to 30 June 2005 NZ$000
Total reported under NZ GAAP		6,459
NZ IFRS adjustments:		-
Restated balances under NZ IFRS		6,459

(b) Reconciliation of Equity with NZ GAAP		12 months to 30 June 2005 NZ$000
Total reported under NZ GAAP		117,093
NZ IFRS adjustments:		
Deferred tax on a comprehensive basis	(a)	(19,303)
Fair value of network assets	(b)	(12,676)
Restated balances under NZ IFRS		85,114

(c) Reconciliation of Liabilities with NZ GAAP		12 months to 30 June 2005 NZ$000
Total reported under NZ GAAP		278,920
NZ IFRS adjustments:		
Deferred tax on a comprehensive basis	(a)	19,304
Reclassification of deferred funding	(c)	(2,259)
Restated balances under NZ IFRS		295,965

(d) Reconciliation of Assets with NZ GAAP		12 months to 30 June 2005 NZ$000
Total reported under NZ GAAP		396,014
NZ IFRS adjustments:		
Fair value of network assets	(b)	(12,676)
Reclassification of deferred funding	(c)	(2,259)
Restated balances under NZ IFRS		381,079

Adjustments were made at 1 April 2004 to restate the opening financial position of the company to a position consistent with the accounting policies specified in the Statement of Accounting Policies.

(a) Under superseded policies deferred tax was recognised on a partial basis. Under NZ IFRS deferred tax is detemined using the balance sheet method in respect of temporary differences between the carrying amount of the asset and liabilities in the financial statements and their corresponding tax base. The adjustment represents the shift from one tax base to another.

(b) The Group elected to measure network assets on transition to NZ IFRS at fair value and has used that fair value as the item's deemed cost at that date. The effect of the revalution is to increase the carrying value by $136.9 million (parent $128.4 million).

(c) Under superseded policies deferred funding costs were recognised as non current assets. Under NZ IFRS deferred funding costs are included in borrowing to which they relate.

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

		2006	2005	2004	2003
11.1	**Energy delivery efficiency measures**				
	(a) Load Factor	83.32%	66.34%	68.96	75.05%
	(b) Un-accounted for Gas Ratio	2.50%	2.50%	2.50%	2.50%
11.2	**Statistics**				
	(a) System Length	5,609 km	5,415 km	5383 km	3820 km
	(b) Maximum monthly amount entering the system	1,055,459	1,242,515	1,188,378	630,043GJ
	(c) Total amount of gas conveyed	10,553,384	9,891,000	9,836,591	5,650,470GJ
	(d) Total amount of gas conveyed on behalf of other persons	10,553,384	9,891,000	9,836,591	5,650,470GJ
	(e) Total customers	103,986	104,203	107,300	74,212

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

		2006	2005	2004	2003
12.1	**Un-planned interruptions in transmission systems**	0	0	0	0
12.2	**Un-planned interruptions in distribution systems**				
	(a) Un-planned interruptions other than those directly resulting from un-planned interruptions of a transmission system.	0.0036	0.0043	0.0022	0.026
	(b) Un-planned interruptions directly resulting from un-planned interruptions of a transmission system.	0	0	0.143	0

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