



SECURING
OUR
GAINS

Powerco has consolidated its position as the largest listed energy distribution company in New Zealand and is building its business presence in Australia. Total consumer connections have increased to around 400,000 and exclusive access to the Tasmanian major customer gas distribution market has been secured.

HIGHLIGHTS

Net profit after tax for the half year ended 30 September 2003 was \$30.7million, an increase reflecting the new size of the Company following the successful merger of the UnitedNetworks assets acquired in the previous year

Un-imputed interim dividend of 7.2 cents per share

Earnings per share increase of 15% to 9.71 cents per share

Board confirmation that the financial performance remains on target to achieve a forecast year-end result of \$53.6million net profit after tax

The full year un-imputed dividend forecast remains at 16.0 cents per share

Robust financial position with an affirmation of the credit rating of BBB+ from Standard & Poor's

Raised senior debt of US\$175million from United States institutional investors to refinance debt from the purchase of UnitedNetworks assets

Growth in consumer connections to approximately 400,000, which reflects the outcome of the new assets purchased from UnitedNetworks Limited and ongoing penetration in the marketplace

Further development of Powerco Energy Services' business including establishment of a new branch in Tauranga

Continued growth in Australia with commencement of Stage One construction of the Tasmania gas project, which provides a gas network to major customers

Signing of the Stage Two agreements with the State of Tasmania to construct gas distribution networks to small commercial and residential consumers in various parts of the State

Highlights	1
Letter to Shareholders	2
Consolidated Statement of Financial Performance	12
Consolidated Statement of Movements in Equity	13
Consolidated Statement of Financial Position	14
Consolidated Statement of Cash Flows	15
Reconciliation of Operating Surplus after Taxation with Cash Inflow from Operating Activities	16
Notes to and Forming Part of the Financial Statements	17
Directory	20

On behalf of the Board,
it is our pleasure to
present shareholders with
this interim report
covering the half year to
September 2003.

LETTER TO SHAREHOLDERS

Powerco continues to make sound progress, consolidating past business acquisitions as well as pursuing growth opportunities in Australia. Powerco has also continued to be actively involved in the development of the new regulatory regime for the electricity distribution sector and we remain broadly confident of the outcome for the sector.

For the half year ended 30 September 2003, net profit after tax was \$30.7million, a pleasing increase compared with the same period in the previous year. This improvement reflects the inclusion of the former UnitedNetworks assets acquired in October 2002 and underlying growth in network connections and energy volumes.

Powerco is now on track to meet its forecast of a \$53.6million result for the full year to 31 March 2004. The Company will pay an un-imputed interim dividend of 7.2 cents per share (cps) in line with the forecast. An un-imputed final dividend of 8.8 cps is also on track as per the earlier forecast, making a total un-imputed dividend of 16.0 cps forecast for the year.

Consolidation

Following the successful \$804million acquisition and integration of UnitedNetworks assets, Powerco's focus in New Zealand has been on consolidating its asset and operational base to take full advantage of its increased scale and geographical coverage.

Powerco's New Plymouth-based Network Management Centre (opened in September 2002) was designed to be easily scaled-up to incorporate growth through acquisitions and mergers. Management of the UnitedNetworks assets has been successfully integrated into the existing Network Management architecture, further increasing the efficiency of our operations.

With a strong focus on safety, Network Management is also developing new network procedures and architecture to create a standard methodology for all staff and contractors working on Powerco's electricity networks. The architecture includes the High Voltage Isolation and Access Procedures and the Operating Practices Manual. These documents expand on rules outlined in the New Zealand Safety Rules Electricity Industry and have



*Network controller
Dean Stevenson in Powerco's
Network Management Centre,
New Plymouth*

been created specifically for Powerco. The development of this architecture is another indication of Powerco's commitment to improving systems and ensuring the safety of all staff and contractors working on Powerco assets.

The Company's Asset Management group is focused on maximising economic efficiency, service to consumers and value to shareholders.

These goals are being achieved through implementation of efficient systems, decision techniques and processes. The integration of planning for the new assets, in line with the overall Company strategy, has allowed the Asset Management group to refine its structure further to increase efficiency and improve performance outcomes from the network assets.

Powerco has completed analysis work on the electricity networks in the Bay of Plenty, Coromandel Peninsula and South Waikato areas purchased from UnitedNetworks Limited. It has also embarked on a number of reliability enhancement programmes in the wider Eastern region.

Powerco is currently working through a project to create an integrated financial and asset management information system. The new system will enable Powerco to enhance its network performance and provide flexibility to meet the changing needs of the Company.

Growth in Australia

Powerco Tasmania Gas Project

In April 2003, Powerco and the State of Tasmania signed the Stage One development agreements, which provided Powerco Tasmania Pty Limited with an exclusive franchise for approval to distribute natural gas to certain Tasmanian major industrial and commercial customers.



High-voltage transformer terminations

Powerco is constructing the first natural gas distribution network in Tasmania for commercial and residential customers. Some customers will benefit from connections as early as January 2004.

The State of Tasmania is providing a State funding contribution of A\$8million for the construction of this backbone network, known as the Stage One network.

Duke Energy International has already installed the gas transmission pipeline from Victoria, across Bass Strait into Tasmania and down through the main population centres of the State to Hobart. Powerco's gas distribution network will tee-off this transmission pipeline. Construction is underway in Bell Bay with further activity scheduled to commence in other areas.

Powerco has held in-confidence discussions with a large number of Tasmania's major companies that are likely to find natural gas commercially competitive with their existing fuels. Powerco is currently finalising connection arrangements with a number of these



Powerco's expertise in reticulation development is successfully gaining traction in Australia

customers and anticipates the first connections occurring as early as January 2004 and progressively thereafter as the backbone network rolls out. The customer connections, and Powerco revenue, will grow progressively throughout 2004.

In September 2003, Powerco signed an agreement with the State of Tasmania for the first phase of the Stage Two natural gas network rollout in Tasmania. The rollout will make gas available to approximately 38,500 of the State's smaller commercial and residential consumers. Powerco

will commence construction work on this phase of Stage Two following the completion of Stage One construction works scheduled in December 2004.

Powerco has established a project office in Launceston, in Tasmania's north, with the design work on Stage One having commenced in May 2003. Stage Two construction is scheduled to start before February 2005 and will be completed by April 2007. The agreement with the State of Tasmania for Stage Two includes a State funding contribution of A\$34million.

Revenue flows from this investment for the 2003/04 year will be offset by one-off costs during the initial construction period and therefore should have a neutral effect on the profit forecasts for this year. As a result, the investment will not impact on Powerco's forecast un-imputed dividend for the 2003/04 financial year.

We foresee sustainable returns from this business, along with growth in the value of our gas network assets over time.

Powerco Energy Services – Australia

Powerco Australian Holdings Pty Limited (trading as Powerco Energy Services Australia) undertakes all forms of civil and electrical work on lines networks in south-east Queensland. This region, encompassing the Gold Coast and the Sunshine Coast as well as Brisbane, is one of the fastest growing areas in Australia. Our business is well positioned for growth and is actively pursuing opportunities to increase its market share.

The increasing migration to Queensland is matched by demands to build new housing subdivisions. Powerco Energy Services Australia has almost doubled its staff on the Sunshine Coast to keep up with work demands, primarily in subdivisions.

The outlook for Powerco remains positive as the business continues to build its profile in the region as a reliable and effective operator with the size and capability to deliver high quality energy distribution build and maintenance solutions.

The business maintains a strong 'quality' rating from the major customers. This rating process is generally used by all of the major developers and infrastructure owners as a means of ensuring a quality delivered product, on time and on budget from the services provider.



Powerco Energy Services Australia

Powerco Energy Services – New Zealand

Powerco Energy Services is performing well with a focus on actively pursuing opportunities for growth in New Zealand's evolving energy distribution sector.



A Powerco Energy Services line mechanic restoring supply following a winter storm

A highlight for the business has been the opening of a new operation in Tauranga, the North Island's fastest growing region. The Tauranga contract arm has already secured a number of significant construction contracts in the area and the outlook for the operation is positive.

Our repair crews rose to the challenge of maintaining Powerco's high standard of network reliability in a winter which started with extremely heavy snow across the lower North Island and ended with high winds throughout Taranaki, Wanganui, Manawatu, Wairarapa and the Bay of Plenty. A number of storms with a high degree of lightning activity were also encountered during this busy period. The performance of Powerco staff, in often difficult conditions, is an indication of the calibre of people who make up Powerco Energy Services and their commitment to our business.

Powerco Energy Services is also in the process of developing a new identity, designed to improve its profile as the industry leader in underground reticulation development, overhead lines construction and maintenance.

Gas Market Development

Powerco is focused on growing the retail customer base for gas distribution in New Zealand. Gas is an under-utilised energy source for heating in the domestic and small business markets. Gas is a substitute energy source to electricity and other fuels and it must compete actively against them.

Powerco remains committed to the ongoing, uninterrupted supply of natural gas to domestic consumers.

We see reasonable growth potential in gas distribution to households and small businesses within or near our existing network areas – particularly backfill opportunities. Many connections can be added at low capital cost by focusing on gas penetration in existing geographical areas. Domestic gas consumption represents less than 3% of total gas usage in New Zealand and this sector is seemingly assured of uninterrupted supply over the long-term as smaller fields are brought on-line, regardless of depletion in the Maui field.

Two major Wellington projects to upgrade existing gas networks in Broadmeadows from steel pipes to polyethylene are well underway, with a similar project set to proceed in Churton Park by the end of the year. The upgrades will ensure the reliability of these assets in the long-term and hence add value to our gas networks.

Regulatory Regime

The Government's moves to change the regulatory framework further for the electricity lines and gas pipes industries in New Zealand has created a number of additional costs for consumers and has generally raised concerns across the energy sector.

Powerco's primary concern is that the wrong form of regulation, similar to that seen overseas, will seriously impact on the lines sector's ability to continue both

investment and maintenance of its assets. Unfortunately it seems that economic and regulatory theorists and political populism have largely captured the overseas regulatory regimes. Powerco's position is that a similar regime should not be applied to the New Zealand industry.

Lines companies must retain adequate funds to maintain, replace, make technological



Conversion of overhead networks to underground reticulation systems

An active representative in the regulatory debate, Powerco aims to protect its investment and asset base as well as ensure the industry is safe, technologically advanced and profitable.

improvements and meet new growth demands on their networks. The national economy has moved to the digital age and the demands on electricity networks continue to increase. As the one sector of the electricity industry that has continued to reduce prices in real terms over the past five years, lines companies find themselves having to dedicate a significant amount of time and resources to regulatory processes with no end in sight.

There are also related concerns regarding the general approach to broader business regulation, including all costs of compliance and costs for regulatory submissions.



A Powerco Energy Services line mechanic works with a crane operator to remove power poles from a depot

Powerco considers that the lack of any real upfront national economic cost/benefit analysis or regulatory impact assessment has left the country and its consumers exposed to costly regulatory creep for no identifiable economic benefit. Regulatory imposts are likely to continue to increase with consumers carrying both the increased costs and risks.

A significant risk to the country is the threat to ongoing infrastructure investment, perpetuated by the inappropriate focus on regulations. Building confidence in the energy infrastructure marketplace will be a key challenge for the Government in continuing to attract critically needed funding.

Over the past six months, Powerco has continued to make a number of submissions to the Commerce Commission and it will continue to do so in the hope that a fair and sustainable regulatory framework can be established. Powerco is reasonably confident that the Commerce Commission will find an appropriate balance between long-term investment and consumer needs, which will become the basis for the new regulations.

The Government is also looking at regulating gas pipeline companies. The Commerce Commission is currently working through an inquiry looking into whether price control

is needed in the gas industry. Powerco's position is that specific gas regulation is not needed or warranted. Gas is an elective energy option for consumers and competes with electricity, LPG, diesel fuel oil and wood. New Zealand has a relatively low penetration rate for gas and its usage is contained to specific geographical areas. New investment in gas infrastructure is needed as direct consumption of gas by domestic end users is more efficient than using gas for electricity generation.

Powerco will continue to involve itself actively in these regulatory matters in an effort to influence the decision makers for the benefit of our customers, other stakeholders and the wider communities we serve, with particular focus on the long-term.

Balance Sheet

In September 2003 Powerco worked through a process for raising US\$175 million in a private placement of 11-13 year term senior debt to US institutional investors. The placement, which was issued on attractive terms, was oversubscribed. It reflected the confidence that US investors have in Powerco's strategy and approach to business and management. The US financing is part of the lengthening of Powerco's debt maturity profile following the UnitedNetworks acquisition. The financing has enabled the Company to diversify its funding sources into different markets, which offer longer and flatter maturity profiles.

Total net assets of the Company at 30 September 2003 stood at \$584.2million. Total debt net of cash and deposits, but including \$100million of subordinated capital bonds, at 30 September 2003 was \$1,083.6million.

The capital gearing ratio amounts to only 59% given the subordinated capital bonds are considered to be quasi equity.



Powerco Energy Services Australia crew carry out installation of an underground conduit for electric cabling in a new subdivision in south Queensland

Our credit rating
by Standard & Poor's is
reconfirmed as a strong,
investment grade
rating of BBB+.

Our credit rating by Standard & Poor's has been reconfirmed as a strong, investment grade credit rating of BBB+. The Company

has forecast full year earnings for 2004 of \$53.6million.

Health, Safety and Employee Relations

In June 2003, PricewaterhouseCoopers audited Powerco's health and safety systems against the Accident Compensation Corporation's Workplace Safety Management Practices programme. As a result of the audit, Powerco's rating has been improved from a secondary level grade to a tertiary level. This is an indication the Company's health and safety programme meets the industry's accepted best practice.

Powerco has also reached an agreement with the Engineers, Printing and Manufacturing Union (EPMU) for the ratification of a Collective Employment Agreement for the next two years to the satisfaction of all parties.

The ongoing commitment of the Company is to manage health and safety risks effectively in all areas of the business through development of improved systems, education, communication and training.

The benefits of the improvements in the Company's health and safety processes are already being realised with a reduction in lost time injuries and an increase in staff awareness of health and safety issues.



A Powerco Energy Services line mechanic replaces fuses on an 11kV line

Outlook

Our focus going forward is to continue to grow connections to our networks through our dual fuel strategy. The increase in the number of residential building consents issued throughout New Zealand during the past six months is a positive sign for our business and our staff are committed to ensuring we take full advantage of these opportunities for growth.

On the regulatory front we will continue to campaign actively for fair and equitable outcomes for the benefit of our customers, shareholders and stakeholders. Our commitment to this process is ongoing and it is pleasing to note the Commerce Commission's increasing recognition of the validity of our concerns.

The year to 30 September 2003 has been one of consolidation, while at the same time we have identified and secured opportunities for growth, in both New Zealand and Australia.

We enter the second half of the year with an extremely capable team, committed to innovation, improvement, growth and the delivery of sustainable results for the benefit of our customers, shareholders, other stakeholders and the wider communities we serve.



A Powerco Energy Services crew prepares a helicopter for an aerial line-hanging mission

Barry Upson
Chairman

Steven Boulton
Chief Executive

CONSOLIDATED STATEMENT OF FINANCIAL PERFORMANCE

For the six months ended 30 September 2003 – unaudited

	6 months to 30 Sep 2003 \$000	6 months to 30 Sep 2002 \$000	12 months to 31 Mar 2003 \$000
Revenue			
Electricity and gas line sales revenue	143,959	80,144	196,301
Other revenue	18,902	13,529	32,004
Total Revenue	162,861	93,673	228,305
Operating Surplus before Interest, Tax, Depreciation and Amortisation	99,912	52,016	125,393
Less depreciation	30,548	15,432	42,687
Less goodwill amortisation	685	625	1,616
Operating Surplus before Interest and Tax	68,679	35,959	81,090
Plus interest revenue	(205)	(304)	(945)
Less interest expense	40,815	16,793	54,659
Less Net Interest Expense	40,610	16,489	53,714
Operating Surplus before Taxation	28,069	19,470	27,376
Plus income tax credit	(2,624)	723	(10,678)
Net Operating Surplus after Taxation	30,693	18,747	38,054
Less minority interest	-	(1)	-
Net Operating Surplus Attributable to Shareholders	30,693	18,748	38,054

CONSOLIDATED STATEMENT OF MOVEMENTS IN EQUITY

For the six months ended 30 September 2003 – unaudited

	6 months to 30 Sep 2003 \$000	6 months to 30 Sep 2002 \$000	12 months to 31 Mar 2003 \$000
Opening Balance	578,523	420,956	420,956
Operating surplus attributable to the shareholders	30,693	18,748	38,054
Dividends – paid	(25,295)	(16,015)	(29,361)
Movement in minority interest	(1)	(1)	-
Foreign exchange translation reserve	267	(175)	(986)
Treasury stock	-	-	(140)
Ordinary share issue	-	-	150,000
Closing Balance	584,187	423,513	578,523

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 September 2003 – unaudited

	Notes	As at 30 Sep 2003 \$'000	As at 30 Sep 2002 \$'000	As at 31 Mar 2003 \$'000
Equity				
Total shareholders' equity	2	584,164	423,490	578,499
Minority interest		23	23	24
		584,187	423,513	578,523
Non-Current Liabilities				
Capital bonds	3	100,000	100,000	100,000
Redeemable bonds	3	176,005	176,005	176,005
Commercial paper facility	3	118,471	158,180	123,152
Commercial bank debt	3	707,000	80,922	707,000
Finance leases		288	535	605
		1,101,764	515,642	1,106,762
Current Liabilities				
Bank overdraft		5,196	177	-
Accounts payable		29,909	18,070	31,352
Finance leases		319	84	178
		35,424	18,331	31,530
Total Equity and Liabilities		1,721,375	957,486	1,716,815
Non-Current Assets				
Property, plant and equipment		1,631,776	826,963	1,640,105
Future income tax benefit		19,006	4,549	16,278
Goodwill		7,762	7,887	8,195
Investments		2,843	85,443	2,843
		1,661,387	924,842	1,667,421
Current Assets				
Inventories		1,656	2,512	1,883
Accounts receivable		35,344	24,920	31,812
Deposits on call		22,749	5,060	15,257
Cash and deposits		239	152	442
		59,988	32,644	49,394
Total Assets		1,721,375	957,486	1,716,815

CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 September 2003 – unaudited

	6 months to 30 Sep 2003 \$000	6 months to 30 Sep 2002 \$000	12 months to 31 Mar 2003 \$000
Cash Flows from Operating Activities			
Cash received from operating activities	163,123	94,206	228,465
Cash applied to operating activities	(109,255)	(64,905)	(157,289)
Net Cash Inflow/(Outflow) from Operating Activities	53,868	29,301	71,176
Cash Flows from Investing Activities			
Cash received from investing activities	146	101	6,831
Cash applied to investing activities	(22,238)	(101,014)	(867,020)
Net Cash Inflow/(Outflow) from Investing Activities	(22,092)	(100,913)	(860,189)
Cash Flows from Financing Activities			
Cash received from financing activities	491	221,297	958,133
Cash applied to financing activities	(37,666)	(151,102)	(159,848)
Net Cash Inflow/(Outflow) from Financing Activities	(37,175)	70,195	798,285
Net Increase/(Decrease) in Cash Held	(5,399)	(1,417)	9,272
Opening cash balances (net of deposits)	442	1,392	6,427
Closing Cash Balances (Net of Deposits)	(4,957)	(25)	15,699
Comprises the following:			
Cash and deposits	239	152	15,699
Bank overdraft	(5,196)	(177)	-
	(4,957)	(25)	15,699

RECONCILIATION OF

OPERATING SURPLUS AFTER TAXATION WITH CASH INFLOW FROM OPERATING ACTIVITIES

For the six months ended 30 September 2003 – unaudited

	6 months to 30 Sep 2003 \$000	6 months to 30 Sep 2002 \$000	12 months to 31 Mar 2003 \$000
Operating Surplus after Taxation	30,693	18,747	38,054
Add/(Less) Non-Cash Items			
Depreciation	30,548	15,313	43,595
Goodwill write-off	685	624	1,616
Loss/(Gain) on sale	-	119	(908)
	31,233	16,056	44,303
Movements in Working Capital			
Accounts receivable	(5,786)	(5,123)	(13,039)
Tax refund due/tax payable	(2,153)	857	(10,427)
Inventories	(79)	(158)	2
Accounts payable	(787)	1,394	14,494
Prepayments	747	(2,472)	(2,211)
	(8,058)	(5,502)	(11,181)
Net Cash Flow from Operating Activities	53,868	29,301	71,176

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the six months ended 30 September 2003 – unaudited

1 Statement of Accounting Policies

The accounting policies used are consistent with those in the previously published interim financial statements and previous annual financial report.

2 Share Capital

The total number of fully paid ordinary shares issued as at 30 September 2003 amounted to 316,186,775 (30 September 2002: 222,436,775).

3 Debt Facilities and Financial Instruments

a) Redeemable Bonds

	6 months to 30 Sep 2003 \$000	6 months to 30 Sep 2002 \$000	12 months to 31 Mar 2003 \$000
On 30 September 2003, redeemable fixed coupon bonds on issue were:			
5-year fixed coupon bonds	98,001	98,001	98,001
7-year fixed coupon bonds	78,004	78,004	78,004
	176,005	176,005	176,005

These bonds were issued on 1 September 2000 and expire on 1 September 2005 (5-year bonds) and 1 September 2007 (7-year bonds). Bonds are carried at cost and have fixed interest rate terms. As at 30 September 2003, the interest rate on the redeemable fixed coupon bonds are:

5-year fixed coupon bonds	7.97%
7-year fixed coupon bonds	8.15%

On maturity date, bondholders have a right to require the Company to redeem all of their bonds for cash. If this option is not taken, the Company will redeem the bonds for cash or convert the bonds to ordinary shares. The fair values of the bonds as at 30 September 2003 are:

5-year fixed coupon bonds \$101,594,977
(30 September 2002: \$101,109,773; 31 March 2003: \$101,006,872)

7-year fixed coupon bonds \$82,051,492
(30 September 2002: \$81,455,854; 31 March 2003: \$81,576,604)

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS CONTINUED

For the six months ended 30 September 2003 – unaudited

b) Capital Bonds	6 months to 30 Sep 2003 \$000	6 months to 30 Sep 2002 \$000	12 months to 31 Mar 2003 \$000
On 30 September 2003, capital bonds on issue were:	100,000	100,000	100,000

The capital bonds were issued on 22 May 2002 and are unsecured, subordinated debt obligations of Powerco Limited which are non-cumulative as to interest. The capital bonds have an interest rate of 8.4% p.a. fixed until 22 May 2007. Thereafter, Powerco has the ability to reset the terms and conditions of the capital bonds, including the interest rate, on dates determined by Powerco (election dates). On each election date, Powerco has the right to convert some or all of the capital bonds into Powerco ordinary shares and bondholders can elect to retain their capital bonds or sell some or all of their capital bonds under the resale facility arranged by Powerco. If a bondholder does not complete the sale of any bonds it has elected to sell, the bondholder can elect to convert such bonds to Powerco ordinary shares on the election date. The fair value of the capital bonds as at 30 September 2003 is \$103,766,000 (30 September 2002: \$104,105,700; 31 March 2003: \$101,425,000).

c) **Commercial Paper Facility**

The Company has established a Commercial Paper Facility to enable the Company to borrow money from the capital markets. The programme is supported by a cash advances facility of \$160million with a syndicate of banks made up of Bank of New Zealand, Westpac and ANZ Investment Bank, which continues until 30 October 2004. The facility is unsecured and is subject to a Negative Pledge Deed declared by Deed Poll on August 1997, which has been joined by all subsidiaries (excluding Powerco Australian Holdings Pty Limited and Powerco Holdings Limited) as Guaranteeing Subsidiaries. At 30 September 2003 a sum of \$120,000,000, which includes an interest portion of \$1,529,083 of 90-day bills, with varying maturity dates, had been drawn down under the commercial paper programme (six-month period-end 30 September 2002: \$120,000,000 was drawn down under the commercial paper programme which included an interest portion of \$1,819,689; 12-month period-end 31 March 2003: \$125,000,000 was drawn down and included an interest portion of \$1,848,311).

d) **Commercial Bank Debt**

Powerco Limited established an Asset Purchase Facility in July 2002 for the purpose of acquiring network assets from UnitedNetworks Limited. This Asset Purchase Facility for \$740million is supported by a syndicate of banks made up of Bank of New Zealand, Westpac and ANZ Investment Bank. This facility is made up of three commitments – a Bridge Facility of \$240million (expiring 31 October 2003), Tranche A of \$250million (expiring 1 November 2004) and Tranche B of \$250million (expiring 1 November 2006). The facility is unsecured and is subject to a Negative Pledge Deed declared by Deed Poll on August 1997, which has been joined by all subsidiaries (excluding Powerco Australian Holdings Pty Limited and Powerco Holdings Limited) as Guaranteeing Subsidiaries. At 30 September 2003 a sum of \$707million, which has accrued interest of \$21,581,986, had been drawn down under the Asset Purchase Facility. The remaining \$33million of this facility has since been cancelled. This facility is due for rollover during the next year and will be refinanced on an on-going basis in accordance with normal commercial terms and is therefore of a non-current nature. At 30 September 2002, a sum of \$80,922,100 had been drawn down with an accrued interest portion of \$295,315. At 31 March 2003, Powerco Limited had an amount of \$707million drawn down with accrued interest of \$7,178,571.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS CONTINUED

For the six months ended 30 September 2003 – unaudited

e) **Financial Instruments**

(i) *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.

(ii) *Interest Rate Risk*

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 programme based on 90-day bank bills.

Powerco has entered into interest rate swap agreements to reduce the impact of changes in interest rates on its borrowings. As at 30 September 2003 the Company had interest rate swap agreements with registered banks. The weighted average of the interest rate swap agreements (excluding the reverse swap agreements) produces an interest rate of 6.70% p.a. (30 September 2002: 7.26%; 31 March 2003: 6.74%).

(iii) *Foreign Exchange Risk*

The Company has exposure to foreign exchange risk as a result of the independent foreign subsidiary trading in its local currency. There is currently no hedging against the risk of foreign currency exchange variations.

4 **Contingent Liabilities and Commitments**

Contingent Liabilities

The Company 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.

Commitments

In July 2003, Powerco Tasmania Pty Limited, a fully owned subsidiary of Powerco Limited, entered into gas distribution development agreements (Stage One) with the State of Tasmania to build a A\$35million gas network in Tasmania, Australia. Work on the project commenced in October 2003 and is expected to be completed by December 2004.

On 30 September 2003, Powerco Tasmania Pty Limited signed an additional conditional agreement with the State of Tasmania to build a A\$65-70million extension to the Stage One network. Once this agreement is unconditional work on this phase of the project is anticipated to commence around December 2004 and be complete mid-2007.

5 **Financial Reporting Standard 24**

These financial statements have been prepared under Financial Reporting Standard No. 24 – Interim Financial Statements. These financial statements have not been audited. These statements should be read in conjunction with the previous annual financial statements.

DIRECTORY

Directors of Powerco

Barry Upson (Chairman)
Ian Lobb (Deputy Chairman)
John Auld
James Ogden
Kinsley Sampson
Judith Timpany
Ian Wilson

Chief Executive

Steven Boulton

Registered Office

Level 2, Council Chambers
Liardet Street
New Plymouth
Telephone: +64 6 759 6200
Facsimile: +64 6 758 6818

Auditor

Deloitte Touche Tohmatsu

Bankers

Westpac
Bank of New Zealand
ANZ Investment Bank

Share Registry

Computershare Investor Services Limited
Private Bag 92119
Auckland
Telephone: +64 9 488 8777

