



POWERCO

04 HALF YEAR REPORT

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2004

POWERCO LIMITED

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 September 2004

		Unaudited	Unaudited	Audited
	Notes	As at 30 Sep 2004 \$000	As at 30 Sep 2003 \$000	As at 31 Mar 2004 \$000
Equity				
Total shareholders equity	3	567,151	584,164	558,755
Minority interest		24	23	24
		567,175	584,187	558,779
Non Current Liabilities				
Redeemable bonds	4	176,005	176,005	176,005
Capital bonds	4	100,000	100,000	100,000
Guaranteed bonds	4	250,000	-	250,000
US Dollar private placement notes	4	294,266	-	294,266
Commercial paper facility	4	113,147	118,471	118,271
Commercial bank debt	4	188,462	707,000	165,737
Finance leases		1,614	288	1,345
		1,123,494	1,101,764	1,105,624
Current Liabilities				
Bank overdraft		1,220	5,196	254
Accounts payable		48,225	29,909	40,972
Finance leases		974	319	466
		50,419	35,424	41,692
Total Equity and Liabilities		1,741,088	1,721,375	1,706,095
Non Current Assets				
Property, plant and equipment		1,663,070	1,631,776	1,641,078
Goodwill		3,585	7,762	4,399
Other non-current assets		13,612	19,006	13,665
Investments		-	2,843	-
		1,680,267	1,661,387	1,659,142
Current Assets				
Assets held for resale		44	-	44
Inventories		1,998	1,656	1,568
Accounts receivable		40,717	35,344	33,621
Deposits on call		18,062	22,749	11,720
Cash and deposits		-	239	-
		60,821	59,988	46,953
Total Assets		1,741,088	1,721,375	1,706,095

POWERCO LIMITED

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

For the six months ended 30 September 2004

	Unaudited	Unaudited	Audited
	As at 30 Sep 2004 \$000	As at 30 Sep 2003 \$000	As at 31 Mar 2004 \$000
<i>Revenue</i>			
Electricity & gas line sales revenue	159,830	143,959	278,182
Other revenue	26,758	18,902	46,264
Total Revenue	186,589	162,861	324,446
Operating Surplus before Interest, Tax, Depreciation & Amortisation	109,285	99,912	188,916
Less depreciation	30,722	30,548	61,841
Less goodwill amortisation	666	685	4,605
Operating Surplus before Interest & Tax	77,897	68,679	122,470
Interest revenue	(379)	(205)	(848)
Interest expense	41,275	40,815	80,390
Less Net Interest Expense	40,896	40,610	79,542
Operating Surplus before Taxation	37,001	28,069	42,928
Income Tax Credit	-	(2,624)	15,358
Net Operating Surplus after Taxation	37,001	30,693	27,570
Less minority interest	-	-	-
Net Operating Surplus Attributable to Shareholders	37,001	30,693	27,570

POWERCO LIMITED

CONSOLIDATED STATEMENT OF MOVEMENTS IN EQUITY

For the six months ended 30 September 2004

	Unaudited	Unaudited	Audited
	As at 30 Sep 2004 \$000	As at 30 Sep 2003 \$000	As at 31 Mar 2004 \$000
Opening Balance	558,779	578,523	578,523
Operating surplus attributable to the shareholders	37,001	30,693	27,570
Dividends - paid	(27,824)	(25,295)	(48,060)
Movement in minority interest	-	(1)	-
Foreign exchange translation reserve	(781)	267	606
Treasury stock	-	-	140
Closing Balance	567,175	584,187	558,779

POWERCO LIMITED

STATEMENT OF CASH FLOW

For the six months ended 30 September 2004

	Unaudited	Unaudited	Audited
	As at 30 Sep 2004 \$000	As at 30 Sep 2003 \$000	As at 31 Mar 2004 \$000
Cash Flows from Operating Activities			
Cash received from operating activities	179,809	163,123	323,056
Cash applied to operating activities	111,633	109,255	216,569
Net Cash Inflow/(Outflow) from Operating Activities	68,176	53,868	106,487
Cash Flows from Investing Activities			
Cash received from investing activities	257	146	3,678
Cash applied to investing activities	52,833	22,238	64,460
Net Cash Inflow/(Outflow) from Investing Activities	(52,576)	(22,092)	(60,782)
Cash Flows from Financing Activities			
Cash received from financing activities	22,725	491	550,003
Cash applied to financing activities	32,949	37,666	599,941
Net Cash Inflow/(Outflow) from Financing Activities	(10,224)	(37,175)	(49,938)
Net Increase (Decrease) in Cash Held	5,376	(5,399)	(4,233)
Opening cash balances	11,466	442	15,699
Closing Cash Balances	16,842	(4,957)	11,466
Comprises of the following:			
Cash and deposits	-	239	(254)
Deposits on call	18,062	-	11,720
Bank overdraft	(1,220)	(5,196)	-
	16,842	(4,957)	11,466

POWERCO LIMITED

RECONCILIATION OF OPERATING SURPLUS AFTER TAXATION WITH CASH INFLOW FROM OPERATING ACTIVITIES

For the six months ended 30 September 2004

	Unaudited	Unaudited	Audited
	As at 30 Sep 2004 \$000	As at 30 Sep 2003 \$000	As at 31 Mar 2004 \$000
Operating Surplus after Taxation	37,001	30,693	27,570
Add (Less) Non Cash Items			
Depreciation	31,053	30,548	62,095
Goodwill write off	666	685	4,605
Loss/(Gain) on sale	(332)	-	(254)
Increase/(Decrease) in doubtful debts	-	-	1,311
	31,387	31,233	67,757
Movements in Working Capital			
Receivables	(7,816)	(5,786)	126
Tax refund due/tax payable	(761)	(2,153)	12,851
Inventories	(430)	(79)	315
Payables	8,220	(787)	(1,376)
Prepayments	575	747	(756)
	(212)	(8,058)	11,160
Net Cash Flow from Operating Activities	68,176	53,868	106,487

POWERCO LIMITED

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

2 Statement of accounting policies

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

3 Share Capital

Total number of fully paid ordinary shares issued at 30 September 2004 amounted to 316,186,775. (30 September 2003: 316,186,775).

4 Debt Facilities and Financial Instruments

	Unaudited	Unaudited	Audited
a) Redeemable Bonds	As at 30 Sep 2004 \$000	As at 30 Sep 2003 \$000	As at 31 Mar 2004 \$000
On 30 September 2004, 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 2004, 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 value of the bonds as at 30 September 2004 are:

5 year fixed coupon bonds \$99,251,965 (30 September 2003: \$101,597,977, 31 March 2004: \$100,864,378)
7 year fixed coupon bonds \$79,765,585 (30 September 2003: \$82,051,492, 31 March 2004: \$82,399,937)

	Unaudited	Unaudited	Audited
b) Capital Bonds	As at 30 Sep 2004 \$000	As at 30 Sep 2003 \$000	As at 31 Mar 2004 \$000
On 30 September 2004, 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 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 2004 is \$983,032,000 (30 September 2003: \$103,766,000; 31 March 2004: \$104,685,000)

POWERCO LIMITED

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

	Unaudited	Unaudited	Audited
	As at 30 Sep 2004 \$000	As at 30 Sep 2003 \$000	As at 31 Mar 2004 \$000
c) Guaranteed Bonds			
On 30 September 2004, guaranteed bonds on issue were:			
7 year guaranteed bonds	100,000	-	100,000
9 year guaranteed bonds	100,000	-	100,000
11 year guaranteed bonds	50,000	-	50,000
	250,000	-	250,000

The Guaranteed Bonds were issued on 29 March 2004 and are unsecured debt obligations of Powerco Limited. The scheduled payments by the Company 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). As at 1 October 2004, the interest rates on the guaranteed bonds are:

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

Under the trust documents constituting the Guaranteed Bonds, the Company has covenanted to ensure that, if XLCA defaults on its obligations under the financial guaranty, the Company will procure sufficient of its subsidiaries to guarantee its obligations under the Guaranteed Bonds by signing a Subsidiary Guarantee so that 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 1 April 2004, no Subsidiary Guarantees had been executed.

The fair value of the guaranteed bonds as at 30 September 2004 are:

7 year guaranteed bonds:	\$96,888,800
9 year guaranteed bonds:	\$96,567,700
11 1/4 year guaranteed bonds:	\$48,024,600

	Unaudited	Unaudited	Audited
	As at 30 Sep 2004 \$000	As at 30 Sep 2003 \$000	As at 31 Mar 2004 \$000
d) US Dollar Private Placement			
On 30 September 2004, USD private placement notes on issue were:	294,266	-	294,266

The USD Private Placement note issue took place on 25 November 2003 to private US investors. 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).

As at 1 October 2004, the interest rates on the notes are:

11 year USD private placement notes	5.47%
12 year USD private placement notes	5.57%
13 year USD private placement notes	5.67%

e) 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 \$160 million with a syndicate of banks made up of the 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 Limited and Powerco Holdings Limited) as guaranteeing subsidiaries. At 30 September 2004 a sum of \$115,000,000, which includes an interest portion of \$1,852,758 of 90 day bills, with varying maturity dates, had been drawn down under the commercial paper programme (6 months period-end 30 September 2003: \$120,000,000 was drawn down under the commercial paper programme which included an interest portion of \$1,819,689, 12 months period-end 31 March 2004: \$120,000,000 was drawn down and included an interest portion of \$1,729,029).

POWERCO LIMITED

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

f) Commercial Bank Debt

Powerco Limited established an Asset Purchase Facility in July 2002 for the purpose of acquiring network assets from UNL. This Asset Purchase Facility for \$740 million is supported by a syndicate made up of Bank of New Zealand, Westpac and ANZ Investment Bank. This facility is made up of three commitments - a Bridge Facility of \$240 million (expiring 31 October 2003), Tranche A of \$250 million (expiring 1 November 2004) and Tranche B of \$250 million (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 Limited and Powerco Holdings Limited) as Guaranteeing Subsidiaries. At 30 September 2004 a sum of \$160 million, which has accrued interest of \$1,793,600, had been drawn down under the Asset Purchase Facility. This facility is due for maturity on 2 August 2009. At 30 September 2003, a sum of \$707 million had been drawn down with an accrued interest portion of \$21,581,986. At 31 March 2004, Powerco Limited had an amount of \$160 million drawn down with accrued interest of \$1,665,578.

On 6 November 2003, Powerco Tasmania Pty Limited, a subsidiary of the Company, established a commercial bank borrowing facility from Westpac Banking Corporation for \$30 million. A total of 28.5 million (AUD\$26.5 million) has been drawn-down as at 30 September 2004. This facility expires on 6 November 2005. The facility is also unsecured and has the benefit of the Negative Pledge Deed referred to above.

g) 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 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 September 2004 the Company 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 6.66% p.a. (30 September 2003: 6.70%, 31 March 2004: 6.60%)

(iii) Foreign Exchange Risk

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

5 Income Tax Benefits

As reflected in the 2004 Annual Report, in view of the takeover offer by Prime Infrastructure Networks NZ Limited and the acceptance of this offer by our majority shareholders, holding more than 50% of total shares on issue, the Company continues to not recognise future income tax benefits until the position of the new owners is established.

6 Contingent Liabilities and Commitments

Contingencies

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 September 2003, Powerco Tasmania Pty Limited signed an agreement with the State of Tasmania to build a \$A65-70M extension to the \$A35M gas network currently being built in Tasmania, Australia. This phase of the project is anticipated to commence around January 2005 and be complete mid 2007.

7 Financial Reporting Standard 24

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