Interim Report December 2009

Cover: Project Manager Jeff Plant inspects circuit breaking equipment during construction of Powerco's new Katere Substation in Taranaki.

Inside Cover: Construction crews lay conduit for new underground 33,000 volt cables, which will be connected to the Katere Substation.

Chairman's Letter

On behalf of the Board of Directors, I am pleased to present security holders with this Interim Report covering the six months to 31 December 2009.

Once again, Powerco has demonstrated its ability to deliver consistent results, with a strong operating and net profit for the period. It is worth noting that this performance was delivered at a time when many sectors of the New Zealand economy have experienced difficulties due to fluctuating global economic conditions, and Powerco's result is a reflection of the Company's resilience and stability.

Another positive achievement for the first half of the financial year was the refinancing of $420 million of bank debt.

Powerco's track record of consistent earnings results underpinned the successful refinancing. The turbulent times of the past 24 months resulted in an environment where investors and debt providers became increasingly concerned about the risk profile of the businesses in which they chose to invest. The refinancing, completed in November 2009, reflected the quality of Powerco's business.

With a BBB credit rating from Standard and Poor's, stable cash flows and the diversity that comes with ownership of both electricity and gas infrastructure across a number of regions in the North Island, Powerco is well placed to access debt markets in the future. We are looking to further strengthen Powerco's Balance Sheet this year, with Powerco's shareholders having committed to an equity injection of $100 million in April 2010 to repay the Company's maturing subordinated bonds, (NZX: PWC070).

During 2009, Powerco placed an increasing focus on consulting with customers to ensure their views were properly taken into consideration in preparing the long-term plans for the networks.

As a Board, we are cognisant of the fact that Powerco's assets provide an essential service to more than 415,000 New Zealand homes and businesses, who rely on us to make sound long-term decisions with their interests in mind. It is pleasing to note that almost all consumers Powerco has met with in the past year have been satisfied with the quality of infrastructure we provide. However, we are mindful of society's constantly increasing reliance on technology, and the need for a reliable supply of electricity, and therefore our business continues to strive for improvements in the quality of service to meet this need.

Powerco's regulatory outlook improved in the latter part of 2009 with the Commerce Commission making changes to the electricity revenue threshold, which will start to flow through to the business in the second half of this financial year. We see the change in the threshold's regime as a sign that New Zealand's regulatory environment is maturing, reflecting the need for ongoing investment in our nation's assets.

With that said, we remain very active in the regulatory area and continue to work constructively with the Commerce Commission to develop a new framework for regulated electricity businesses. The aim is to ensure an appropriate balance between the needs of consumers and the needs of infrastructure providers. This will allow Powerco to continue to develop our networks to underpin future growth in New Zealand's economy in a sustainable and predictable manner.

Looking ahead, New Zealand's economic outlook is much brighter than it was a year ago and Powerco is well placed to support future economic growth through its quality energy distribution infrastructure.

In summary, Powerco has performed well in the past six months and the outlook for 2010 is positive. We look forward to making further constructive contributions to the development of the new regulatory regime for electricity distributors and we will continue to work diligently to provide quality energy infrastructure for the customers we serve across the North Island.

Yours sincerely,

Rick Bettle
Chairman

Chief Executive's Review

Powerco has a proven history of producing consistent financial results and in the six months to 31 December 2009 our operations produced a net profit of $15.3 million. The half-year result included a negative mark to market adjustment for financial derivatives of $8.5 million.

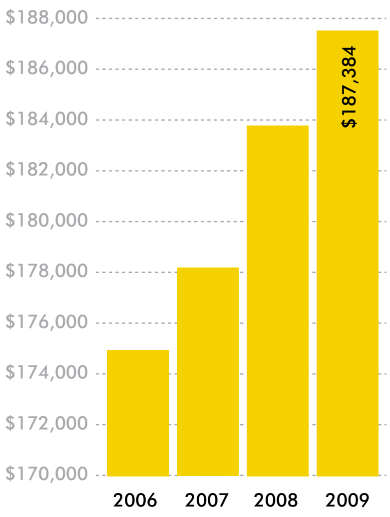
RESILIENT PERFORMANCE

The Company's total revenues, including other income, for the six months to December 2009 of $187.3 million, were 2% up on comparable revenues of $183.8 million for the same period in 2008.

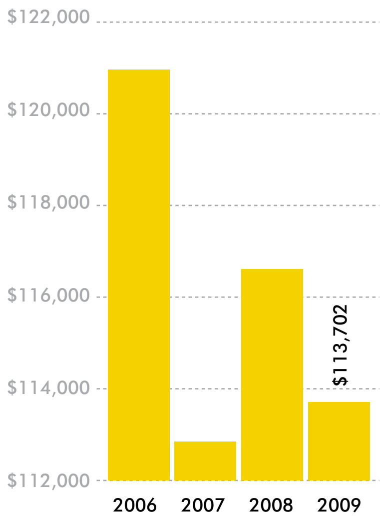
Powerco's earnings before interest, tax, depreciation and amortisation (EBITDA) for the six months ended 31 December 2009 of $113.7 million was 4.5% below the prior corresponding period ($118.0 million), excluding management fees. The decrease was primarily due to the impact of the Commerce Commission's October 2008 decision to reduce gas prices by approximately 11% from January 2009, and increased costs related to regulatory and corporate activities (with a number of these being one-off costs in relation to the completion of the gas control process).

These results have been delivered at a time when many other sectors in New Zealand were experiencing difficulties due to the fluctuating economic conditions. Powerco has been able to demonstrate its resilience due to the stability of our revenue and the ongoing management of the impact of upwards pressure on our costs.

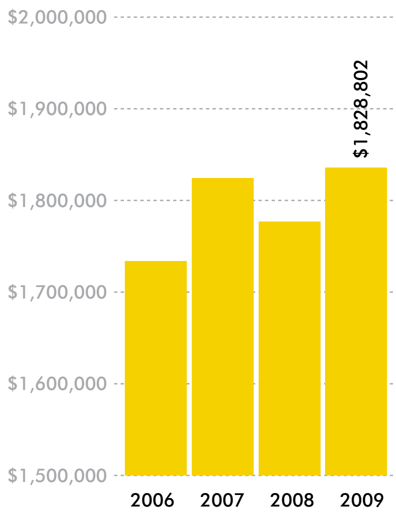
Total revenue (actual) in the six months ending 31 December ($000)



Earnings before interest, tax, depreciation and amortisations (actual) in the six months ending 31 December ($000)



Total assets employed (actual) as at 31 December ($000)



Above graphs are for Powerco Parent only

WORKING WITH OUR CUSTOMERS

During the past six months, Powerco has continued its focus on further developing relationships with customers through increased dialogue, consultation and key account management.

More and more, New Zealanders are becoming aware that the nation's infrastructure requires a sustained period of investment to ensure our economy remains competitive. To support this, our people have been focusing on face-to-face meetings with customers, community groups, business organisations and other interested parties.

As customers come to understand the energy distribution sector and the need for investment, they are becoming increasingly supportive of our business goals and, particularly, the need for changes in the regulatory sector to allow us the certainty we require to meet their need for safe and reliable energy distribution networks.

We will continue to build on our customer consultation programme going forward to ensure our customers' views are heard, their questions answered, and their feedback included in our long-term development plans.

INVESTING IN OUR NETWORKS

Powerco's networks deliver electricity and gas to more than 415,000 customers and over the past 10 years we have significantly increased annual capital and maintenance expenditure.

In the six months to December 2009, we invested $39.8 million in capital projects across the electricity and gas networks, and $15.5 million in maintenance work.

Our customers are seeing our contractors out in the field replacing older assets and building new ones, and have commented that they are pleased to see the investments being made in this essential infrastructure.

The increasing investment generates more activity in the field and, as a result, our exposure to the risk of accidents is also increased. The health and safety of the public, our contractors and our people is our highest priority and we are constantly working to ensure that everybody goes home safely at the end of the day, every day.

We understand that safety around the networks is everybody's responsibility and we continue to develop new programmes, policies and initiatives to ensure safe working practices, build a sense of shared responsibility and encourage our people and contractors to look after each other, identify hazards and to mitigate or remove hazards wherever possible.

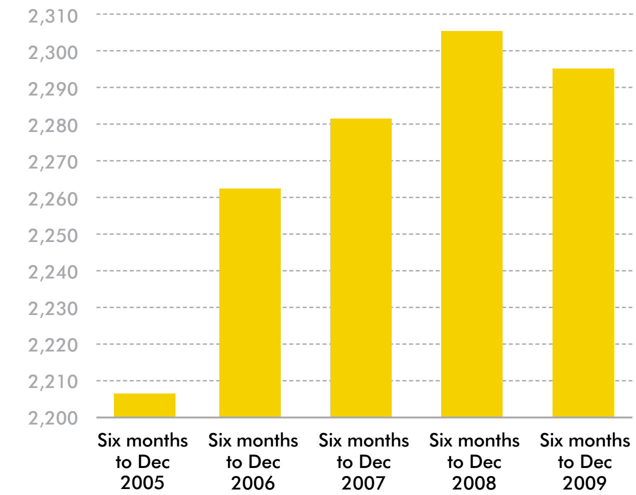
And while we are growing and developing our networks, our customers' consumption of electricity has grown over the past five years and gas consumption is once again increasing following a period of decline.

While the past 24 months have seen significant fluctuations in the economy, Powerco has continued to connect new customers to the networks at a steady pace during the six months to December 2009.

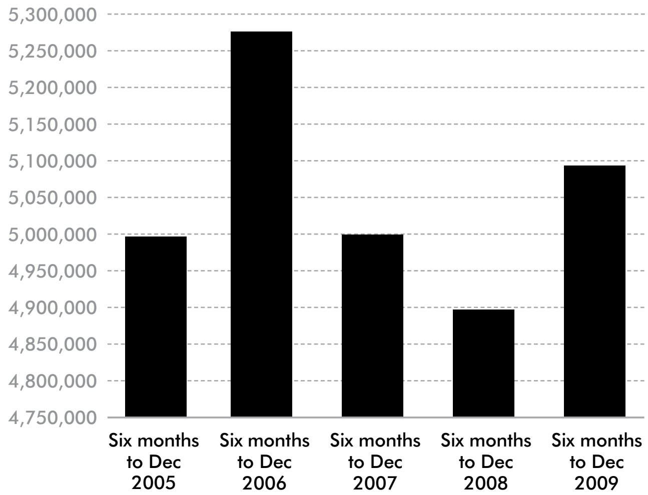
There has been some rationalisation of low-volume gas connections, but we have seen an increase in higher-value connections with increased consumption over the past 18 months.

Households using natural gas for hot water can achieve significant cost savings in their annual energy bills when compared with customers using electricity alone.

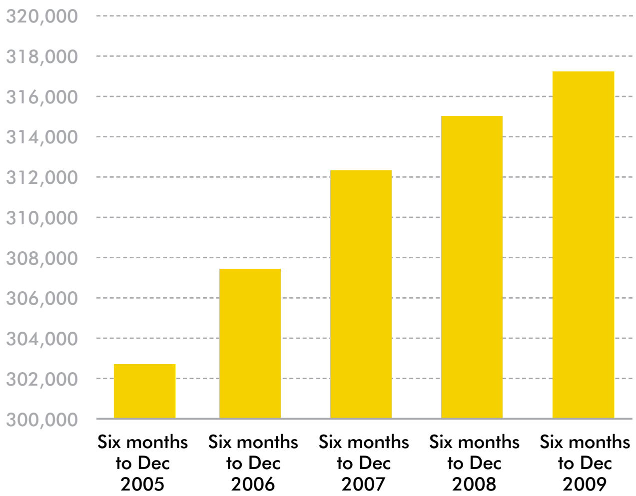
Energy transported in gigawatt hours across Powerco's electricity networks (Gwh) during the past five years



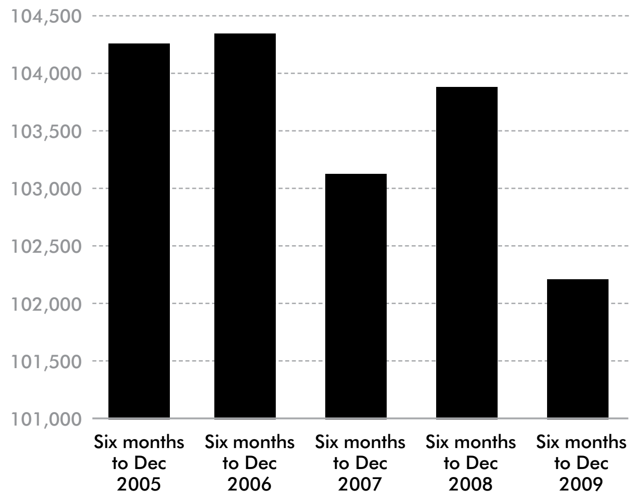
Energy transported in gigawatt hours across Powerco's gas networks (Gj) during the past five years



Electricity customer connections during the past five years



Gas customer connections during the past five years



These savings can be further enhanced when gas heating and cooking is added. Powerco plans to deliver this message to potential customers in its marketing for new gas connections as we approach the winter.

With New Zealand business confidence improving and residential building permit numbers starting to trend up again, we expect to see an increase in the number of electricity and gas connections in 2010 and our recent network developments ensure we are well placed to accommodate future growth in our customer base.

A POSITIVE OUTLOOK

Looking ahead, there are a number of positive developments due to come to fruition in 2010.

Powerco's shareholders have agreed to an equity injection of $100 million in April 2010 to replace our maturing subordinated bonds. The increase in equity will support the Company's goal to strengthen its Balance Sheet through 2010 and enhance the quality of our existing debt securities in the market.

Internally, we are working on a number of projects in 2010 aimed at improving the reliability of our networks, and increasing the flow of information between our assets and our centralised control room. We are also investing in the development of our people to ensure we continue to attract and retain skilled, competent and motivated people and provide an environment where they are challenged to excel and empowered to make good decisions.

As we move into the second half of the financial year, our people are working closely with the Commerce Commission as it develops the new regulatory regime, which will govern New Zealand's electricity distribution sector.

The Commerce Commission has recently changed the default price path of electricity distribution businesses, allowing our notional distribution charges to track at the rate of the Consumer Price Index (CPI), as opposed to the previous price path of CPI -2%.

The upward movement in the electricity price path is a positive development and will start to flow through to the business from 1 April 2010. We are increasing the investment in our electricity network as a result of this change. However, there is a considerable amount of work to be done in developing the details of the new electricity regulatory regime and we have increased our activity in this area to ensure Powerco makes a significant and positive contribution to the process.

At Powerco, we are acutely aware that our business is based on investments in long-term assets, and the decisions we make today will determine the quality of infrastructure that our grandchildren enjoy over the next 40 to 50 years. At Powerco, we are working to ensure that the new regulatory regime is one that protects the long-term interests of consumers while allowing infrastructure providers to plan and invest with certainty, and make a fair return on those investments.

We are confident the new regime will strike the necessary balance and foster an environment of cooperation and understanding between controlled businesses and the regulators tasked with overseeing the sector.

POWERCO LIMITED

Consolidated Statement of Financial Position

AS AT 31 DECEMBER 2009

	NOTES	UNAUDITED AS AT 31 DEC 2009 NZ$000	UNAUDITED AS AT 31 DEC 2008 NZ$000	AUDITED AS AT 30 JUN 2009 NZ$000
EQUITY				
Issued capital		598,165	570,300	570,300
Reserves		(184,930)	(171,529)	(212,083)
Amounts recognised directly in equity relating to assets classified as held for sale		-	4,532	-
		413,235	403,303	358,217
NON-CURRENT LIABILITIES				
Borrowings	9	1,052,135	911,085	754,523
Other financial liabilities		77,615	89,306	65,335
Deferred tax liability		174,485	146,184	157,899
Employee entitlements		306	448	352
		1,304,541	1,147,023	978,109
CURRENT LIABILITIES				
Borrowings	9	101,905	360,000	471,225
Other financial liabilities		5,556	2,535	-
Employee entitlements		2,385	2,030	3,030
Income tax payable		4,097	-	-
Trade and other payables		26,964	27,284	23,773
Other current liabilities		1,331	1,733	1,492
Bank overdraft		156	-	-
Liabilities directly associated with assets classified as held for sale	6	-	215,801	1,895
		142,394	609,383	501,415
Total equity and liabilities		**1,860,170**	**2,159,709**	**1,837,741**
NON-CURRENT ASSETS				
Property, plant and equipment	7	1,780,012	1,749,322	1,767,957
Intangible assets	8	31,278	9,434	9,670
Trade and other receivables		6,722	-	-
Other financial assets		7,256	77,512	14,993
Inter-company accounts and inter-company loan		392	-	-
Deferred tax asset		-	8,664	-
		1,825,660	1,844,932	1,792,620
CURRENT ASSETS				
Inventories		32	26	20
Trade and other receivables		31,191	30,512	39,474
Other current assets		1,330	1,733	1,492
Other financial assets		1,957	311	4,135
Cash and cash equivalents		-	577	-
Assets classified as held for sale	6	-	281,618	-
		34,510	314,777	45,121
Total assets		**1,860,170**	**2,159,709**	**1,837,741**

The accompanying notes form part of these Financial Statements

POWERCO LIMITED

Consolidated Statement of Comprehensive Income

FOR THE SIX MONTHS ENDED 31 DECEMBER 2009

	NOTES	UNAUDITED 6 MONTHS TO 31 DEC 2009 NZ$000	UNAUDITED 6 MONTHS TO 31 DEC 2008 NZ$000
CONTINUING OPERATIONS			
Revenue		175,322	170,665
Cost of sales		(37,265)	(33,718)
Gross profit		**138,057**	**136,947**
Other income		11,945	13,104
Other (losses)		(8,491)	(70,666)
Operating expenses		(21,739)	(20,912)
Administration expenses		(14,555)	(13,637)
Other expenses		(35,652)	(35,314)
Profit/(loss) before finance costs and taxation		**69,565**	**9,522**
Finance costs		(46,653)	(47,824)
Profit/(loss) before taxation		**22,912**	**(38,302)**
Income tax (expense)/benefit		(7,630)	9,893
Profit/(loss) for the period from continuing operations		**15,282**	**(28,409)**
DISCONTINUED OPERATIONS			
Profit/(loss) for the period from discontinuing operations	5	-	(3,057)
Profit/(loss) for the period		**15,282**	**(31,466)**
Attributed to:			
Equity holders of Parent		15,282	(31,466)
Other comprehensive income:			
Effective portion of cashflow hedges		-	(30,715)
Ineffective portion of cashflow hedges transferred to profit/(loss)		20,952	(933)
Income tax on the ineffective and effective portion of the cashflow hedges		(6,081)	9,494
Translation of foreign operations		-	(3,801)
Total comprehensive income for the period		**30,153**	**(57,421)**
Attributed to:			
Equity holders of Parent		30,153	(57,421)

The accompanying notes form part of these Financial Statements

POWERCO LIMITED

Consolidated Statement of Changes in Equity

FOR THE SIX MONTHS ENDED 31 DECEMBER 2009

	NOTES	UNAUDITED SHARE CAPITAL NZ$000	UNAUDITED RETAINED EARNINGS NZ$000	UNAUDITED FOREIGN EXCHANGE RESERVE NZ$000	UNAUDITED HEDGE RESERVE NZ$000	UNAUDITED ASSETS HELD FOR SALE NZ$000	UNAUDITED TOTAL NZ$000
BALANCE AS AT 1 JULY 2008		**570,300**	**(94,625)**	**8,333**	**(1,076)**	**-**	**482,932**
Profit/(loss) for the period		**-**	**(31,466)**	**-**	**-**	**-**	**(31,466)**
Other comprehensive income:							
Cashflow hedge							
(Loss)/gain taken to equity		-	-	-	(30,715)	-	(30,715)
(Gain)/loss transferred to profit/(loss) for the period		-	-	-	(933)	-	(933)
Income tax relating to components of other comprehensive income		-	-	-	9,494	-	9,494
Translation of foreign operations		-	-	(3,801)	-	-	(3,801)
Total other comprehensive income		**-**	**(31,466)**	**(3,801)**	**(22,154)**	**-**	**(57,421)**
Dividends	4	-	(22,208)	-	-	-	(22,208)
Transfer to assets held for sale		-	-	(4,532)	-	4,532	-
BALANCE AS AT 31 DECEMBER 2008		**570,300**	**(148,299)**	**-**	**(23,230)**	**4,532**	**403,303**
BALANCE AS AT 1 JULY 2009		**570,300**	**(197,212)**	**-**	**(14,871)**	**-**	**358,217**
Profit/(loss) for the period		**-**	**15,282**	**-**	**-**	**-**	**15,282**
Other comprehensive income:							
Cashflow hedge							
(Gain)/loss transferred to profit/(loss) for the period		-	-	-	20,952	-	20,952
Income tax relating to components of other comprehensive income		-	-	-	(6,081)	-	(6,081)
Total other comprehensive income		**-**	**15,282**	**-**	**14,871**	**-**	**30,153**
Dividends	4	-	(3,000)	-	-	-	(3,000)
Issue of shares	3	27,865	-	-	-	-	27,865
BALANCE AS AT 31 DECEMBER 2009		**598,165**	**(184,930)**	**-**		**-**	**413,235**

The accompanying notes form part of these Financial Statements

POWERCO LIMITED

Consolidated Statement of Cash Flows

FOR THE SIX MONTHS ENDED 31 DECEMBER 2009

	NOTES	UNAUDITED 6 MONTHS TO 31 DEC 2009 NZ$000	UNAUDITED 6 MONTHS TO 31 DEC 2008 NZ$000
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash receipts from customers		209,621	195,263
Cash paid to suppliers and employees		(85,445)	(74,563)
Interest received		71	17
GST paid		(9,595)	(9,239)
Income taxes paid		-	-
Interest paid		(43,083)	(46,420)
Discontinued operations		-	(2,225)
Net cash provided by operating activities		**71,569**	**62,833**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment		(40,597)	(42,528)
Discontinued operations		-	(7,363)
Acquisition of subsidiaries, net of cash acquired	10	99	-
Net cash used in investing activities		**(40,498)**	**(49,891)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from borrowings		(23,750)	6,004
Establishment costs of borrowings		(2,987)	-
Dividends (paid)/received		(3,000)	(22,208)
Discontinued operations		-	(1,793)
Net cash used in financing activities		**(29,737)**	**(17,997)**
Net increase/(decrease) in cash and cash equivalents		**1,334**	**(5,055)**
Cash and cash equivalents at the beginning of the period		(1,490)	(16,522)
Effects on exchange rate changes on the balance of cash held in foreign currencies		-	(702)
Cash and cash equivalents at the end of the period		**(156)**	**(22,279)**
Comprises the following:			
Cash and bank equivalents		-	577
Bank overdraft		(156)	(24,300)
		(156)	**(23,723)**
Cash and cash equivalents included as assets held for sale	6	-	1,444
		(156)	**(22,279)**

The accompanying notes form part of these Financial Statements

Reconciliation of Consolidated Profit/(loss) for the Period to Net Cash Flows from Operating Activities

FOR THE SIX MONTHS ENDED 31 DECEMBER 2009

	UNAUDITED 6 MONTHS TO 31 DEC 2009 NZ$000	UNAUDITED 6 MONTHS TO 31 DEC 2008 NZ$000
Profit/(loss) after taxation	**15,282**	**(28,409)**
Add(less) non-cash items		
Depreciation and amortisation	30,902	31,816
Loss on disposal of assets	4,749	3,198
Non-cash component of finance costs	1,667	1,322
Unrealised loss/(gain) on hedges	-	70,666
Non-cash items in relation to investing/financing activities	2,619	9,157
Increase/(decrease) in deferred tax balances	9,968	(19,387)
	49,905	96,772
Changes in net assets and liabilities		
(Increase)/decrease in assets		
Trade and other receivables	7,492	1,669
Inventories	(15)	24
Other current assets	162	(46)
Increase/(decrease) in liabilities		
Trade and other payables	(4,501)	(7,258)
Current provisions	(645)	-
Income tax payable	4,097	-
Non-current provisions	(46)	35
Other non-current liabilities	(162)	46
	6,382	(5,530)
Net cash flow from operating activities	**71,569**	**62,833**

The accompanying notes form part of these Financial Statements

1. Basis of Preparation

Powerco Limited (the Company) is a limited liability Company incorporated in New Zealand. The address of its registered office is Level 2, Council Chambers, 84 Liardet St, New Plymouth 4310, New Zealand. The condensed Financial Statements have been prepared in accordance with Generally Accepted Accounting Practices in New Zealand. They comply with the New Zealand Equivalent to International Accounting Standard 34: Interim Financial Reporting (NZ IAS 34), as appropriate for profit-orientated entities. The condensed consolidated interim financial information should be read in conjunction with the annual Financial Statements for the year ended 30 June 2009.

2. Significant Accounting Policies

The condensed Financial Statements have been prepared under the historical cost convention, except for the revaluation of certain borrowings and financial instruments.

The accounting policies adopted are consistent with those followed in the preparation of the Group's annual Financial Statements for the year ended 30 June 2009, except as described below.

Comprehensive Income Statement

In the current year, the Company has adopted the following standards; NZ IAS 1 Presentation of financial statements (which is effective for periods beginning on or after 1 January 2009) and NZ IFRS 3 (Revised) Business Combinations (which is effective for the periods beginning on or after 1 July 2009). The impact of adopting NZ IAS 1 has been to expand the information disclosed in the income statement, renamed the Statement of Comprehensive Income.

Basis of consolidation

On the 1 July 2009, Powerco acquired Powerco Transmission Services (PTS) and Independent Transmission Services (ITS), which are included in the Group numbers for 31 December 2009.

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The acquisition method of accounting is used to account for business combinations by the Group, including business combinations of entities under common control.

The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired, and liabilities and contingent liabilities assumed in a business combination, are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree, and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the group's share of the identifiable net assets acquired, is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the statement of comprehensive income.

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Intangible assets - customer contracts

Customer contracts acquired in a business combination are recognised at fair value at the acquisition date. The acquired customer contracts have a finite useful life and are carried at cost less accumulated amortisation.

Amortisation is calculated using the straight-line method over the relevant contraction terms (being 20 years for PTS and 10 years for ITS).

3. Share Capital

The total number of fully paid ordinary shares issued at 31 December 2009 amounted to 327,912,246 (31 December 2008: 316,186,775).

On 1 July 2009, 11,725,471 ordinary shares were issued as purchase consideration for the acquisition of subsidiaries (refer Note 10).

The shares have no par value.

4. Dividends

	UNAUDITED 31 DEC 2009 NZ$000	UNAUDITED 31 DEC 2008 NZ$000
Dividends paid on ordinary shares	3,000	22,208
Cents per share	0.91	7.02

5. Discontinued Operations

On 26 February 2009, BBI Networks (NZ) Ltd disposed of Powerco Limited to Powerco NZ Holdings Limited, which is 42% owned by BBI Networks (NZ) Ltd, 28% owned by QIC Infrastructure Management Pty Ltd and 30% owned by QPC Investments No 1 Pty Ltd.

After 31 December 2008 and prior to the sale, Powerco sold Australia Group (PAG) to another one of BBIL's subsidiaries. The proceeds from the sale were paid to Powerco's ultimate parent at the time of the sale, BBIL. A dividend in specie was issued in lieu of the cash that would have been received for the sale. The consideration for the sale of PAG and the dividend in specie was $80.65 million. PAG's revenue and expenses for the six months ended 31 December 2008 were classified as "discontinued operations" in the statement of comprehensive income.

	UNAUDITED 31 DEC 2009 NZ$000	UNAUDITED 31 DEC 2008 NZ$000
Profit/(loss) for the period from discontinued operations		
Revenue	-	9,489
Other income	-	1,275
Expenses	-	(15,976)
Profit before tax	-	(5,212)
Income tax expense	-	2,155
	-	(3,057)
Gain/(loss) on remeasurement of fair value less costs to sell	-	-
Gain/(loss) on disposal of operation	-	-
Income tax expense	-	-
Loss for the period from discontinued operations	-	(3,057)

6. Assets Classified as Held For Sale

The assets and liabilities related to PAG were presented as "held for sale" in the statement of financial position at 31 December 2008. The transaction was completed during the six months ended 30 June 2009.

	UNAUDITED 31 DEC 2009 NZ$000	UNAUDITED 31 DEC 2008 NZ$000
Assets held for sale		
Property, plant and equipment	-	243,904
Intangible assets	-	5,684
Inventories	-	3,155
Accounts receivable	-	2,853
Cash and cash equivalents	-	1,444
Deferred tax asset	-	24,578
Total assets held for sale	**-**	**281,618**
Liabilities associated with assets held for sale		
Trade payables	-	6,868
Revenue in advance	-	52,439
Employee entitlements	-	644
Financing liabilities	-	148,840
Other liabilities	-	1,662
Deferred tax liability	-	5,348
Total liabilities associated with assets held for sale	**-**	**215,801**
Net assets of assets held for sale	**-**	**65,817**

7. Property Plant and Equipment

	LAND AND BUILDINGS NZ$000	PLANT AND EQUIPMENT NZ$000	NETWORK SYSTEMS NZ$000	WORK IN PROGRESS NZ$000	TOTAL NZ$000
Gross carrying value					
Balance as at 1 July 2008	10,410	21,649	2,041,839	65,674	2,139,572
Transfers	13	2,297	51,132	(53,442)	-
Additions	32	73	880	39,568	40,553
Disposals	-	(5)	(4,201)	-	(4,206)
Balance as at 31 December 2008	10,455	24,013	2,089,650	51,800	2,175,918
Balance as at 1 July 2009	10,503	24,688	2,121,473	68,435	2,225,099
Acquisition of subsidiaries - Note 10	-	-	2,939	6,404	9,343
Reclassified as Finance Lease	-	-	-	(1,522)	(1,522)
Transfers	-	549	48,940	(49,489)	-
Additions	92	534	-	39,146	39,772
Disposals	-	(15)	(7,137)	-	(7,152)
Balance as at 31 December 2009	10,595	25,756	2,166,215	62,974	2,265,540
Accumulated depreciation					
Balance as at 1 July 2008	2,457	18,066	375,702	-	396,225
Transfers	-	-	-	-	-
Disposals	-	(4)	(1,004)	-	(1,008)
Depreciation expense	176	932	30,273	-	31,380
Net foreign currency exhange differences	-	-	-	-	-
Balance as at 31 December 2008	2,633	18,994	404,971	-	426,597
Balance as at 1 July 2009	2,812	20,891	433,439		457,142
Disposals	-	(11)	(2,163)	-	(2,174)
Depreciation expense	168	1,130	29,262	-	30,560
Balance as at 31 December 2009	2,980	22,010	460,538	-	485,528
Net book value at 31 December 2008	**7,823**	**5,020**	**1,684,679**	**51,800**	**1,749,322**
Net book value at 31 December 2009	**7,615**	**3,746**	**1,705,677**	**62,974**	**1,780,012**

8. Other Intangible Assets at Cost

	PTS - CUSTOMER CONTRACTS NZ$000	ITS - CUSTOMER CONTRACTS NZ$000	SOFTWARE NZ$000	TOTAL NZ$000
Gross carrying value				
Balance as at 1 July 2008	-	-	15,692	15,692
Additions	-	-	1,238	1,238
Balance as at 31 December 2008			16,930	16,930
Balance as at 1 July 2009	-	-	19,112	19,112
Additions	-	-	-	-
Acquisition of subsidiaries - Note 10	17,726	4,338	-	22,064
Disposals	-	-	-	-
Balance as at 31 December 2009	17,726	4,338	19,112	41,176
Accumulated amortisation				
Balance as at 1 July 2008	-	-	7,061	7,061
Amortisation during the period	-	-	435	435
Balance as at 31 December 2008			7,496	7,496
Balance as at 1 July 2009	-	-	9,442	9,442
Amortisation during the period	-	-	456	456
Disposals	-	-	-	-
Balance as at 31 December 2009	-	-	9,898	9,898
Net book value at 31 December 2008	**-**	**-**	**9,434**	**9,434**
Net book value at 31 December 2009	**17,726**	**4,338**	**9,214**	**31,278**

9. Borrowings

During the period, Powerco entered into new financing agreements consisting of a $175 million Revolving Cash Advance facility and $245 million Term Loan facility. These facilities replaced the $160 million Term Loan and $260 million Standby Cash Advance facilities that matured on 4 November 2009. The new facilities were provided jointly and in equal proportion by ANZ National Bank and Westpac Banking Corporation. As at 31 December 2009, $115 million had been drawn on the Revolving Cash Advance facility and $245 million under the new Term Loan facility, which have maturity dates of 21 September 2012 and 21 September 2011 respectively.

10. Acquisition of Subsidiaries

On 1 July 2009, the Group acquired 100% of Powerco Transmission Services (PTS) and 100% of Independent Transmission Services (ITS) from Powerco NZ Holdings Limited (PNZHL). PTS and ITS provide transmission services to generators and lines distribution companies in New Zealand. The acquisition was undertaken to consolidate the Powerco Group and to include the two subsidiaries into the debt guaranteeing group.

In consideration for the 8,000,000 shares in PTS and 1,540,000 shares in ITS, Powerco issued 11,725,471 ordinary shares to PNZHL. The fair value of the shares issued was based on the fair value of the shares acquired.

The fair value of the net assets and liabilities in PTS and ITS totalled $27.865 million. The initial accounting for the fair value of intangible customer contracts and, therefore, deferred tax and consideration given was yet to be finalised at 31 December 2009. Final valuation assumptions in respect of the intangible customer contracts were similarly yet to be finalised. The gross contractual amounts for trade and other receivables due was $5.72 million, none of which was expected to be uncollectable.

The aquired businesses contributed revenues of $423k an net profit of $243k to the Group for the period 1 July 2009 to 31 December 2009.

Purchase consideration

	2009
Shares issued	27,865
Total purchase consideration	**27,865**

	FAIR VALUE - PTS NZ$000	FAIR VALUE - ITS NZ$000	TOTAL NZ$000
Property, plant and equipment	5,488	-	5,488
Work in progress	-	3,740	3,740
Trade and other receivables	5,684	35	5,719
Cash and cash equivalents	30	69	99
Trade and other payables	(935)	(869)	(1,804)
Revenue in advance	-	(763)	(763)
Current tax liability	(3)	-	(3)
Deferred tax (payable)/asset	(5,363)	(1,312)	(6,675)
Intangible assets - customer contracts	17,726	4,338	22,064
Fair value of net assets	**22,627**	**5,238**	**27,865**
Purchase consideration settled in cash			-
Cash and cash equivalents in subsidiaries acquired			99
Cash inflow on acquisition			**99**

11. Contingent Liabilities and Commitments

CONTINGENT LIABILITIES

Contracts

Powerco Limited has a contract with Tenix Alliance New Zealand Limited (Tenix), which provides electricity and gas field services. There is a condition in the contract that states that a payment is made to Tenix if a range of key performance indicators are achieved, and a payment is made to Powerco if performance does not meet the agreed levels. The amount of the payment is determined by a predetermined calculation in the contract on an annual basis. At this time, any payment for future periods to or from Powerco cannot be quantified.

Contact Energy

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

COMMITMENTS

	UNAUDITED TO 31 DEC 2009 NZ$000	UNAUDITED TO 31 DEC 2008 NZ$000	AUDITED TO 30 JUN 2009 NZ$000
Commitments for future capital expenditure resulting from contracts entered into:	**34,728**	**52,211**	**37,518**

12. Seasonality of Interim Operations

Due to climatic conditions, and based on historical data, operating revenue recognised in the six months ending in December each financial year tends to be slightly higher than that recognised for the six months ending in June.

13. Segmental Reporting

For management purposes, the Group is currently organised into three operating divisions:

1) Electricity lines – electricity line distribution

2) Gas lines – gas line distribution

3) Gas reticulation, gas contracting and gas retailing (discontinued in February 2009)

All other revenues and costs (including head office costs) are included in "unallocated".

	UNAUDITED ELECTRICITY LINES NZ$000	UNAUDITED GAS LINES NZ$000	UNAUDITED GAS RETICULATION CONTRACTING RETAILING NZ$000	UNAUDITED UNALLOCATED NZ$000	UNAUDITED ELIMINATIONS NZ$000	UNAUDITED TOTAL NZ$000
For the 6 months ended 31 December 2009						
Revenue						
External sales	158,442	25,252	-	3,573	-	187,267
Inter-segment sales	-	-	-	-	-	-
Total segment revenues	**158,442**	**25,252**	**-**	**3,573**	**-**	**187,267**
Segment result	**74,914**	**19,564**	**-**	**(24,912)**	**-**	**69,566**
Finance costs						(46,653)
Profit before tax						**22,912**
Income tax expense						(7,630)
Net profit for the period						**15,282**
For the 6 months ended 31 December 2008						
Revenue						
External sales	155,433	26,794	-	1,542	-	183,769
Inter-segment sales	-	-	-	1,150	(1,150)	-
Total revenue	**155,433**	**26,794**	**-**	**2,692**	**(1,150)**	**183,769**
Segment result from continuing operations	**73,974**	**22,503**	**-**	**(86,955)**	**-**	**9,522**
Finance costs						(47,824)
Profit/(loss) before tax						**(38,302)**
Income tax expense						9,893
Net loss for the period						**(28,409)**
Segment result from discontinued operations			**(3,057)**			**(3,057)**

14. Transactions with Related Parties

Trading transactions

Powerco Limited has an inter-company loan with Powerco NZ Holdings Limited for $392k (2008:nil). The loan is unsecured and is non-interest-bearing.

Powerco paid a $3 million dividend to Powerco NZ Holdings Limited in August 2009.

Powerco acquired subsidiaries from Powerco NZ Holdings Limited in July 2009 in exchange for ordinary shares (refer Note 10 and Note 3).

No expense has been recognised during the period in respect of bad or doubtful debts due from related parties.

15. Subsequent Events

There have been no subsequent events since 31 December 2009 that require adjustment of, or disclosure in, the financial statements.

Directory

DIRECTORS

R Bettle
(Chairman)

M Cummings

R Israel

J Sellar

A Knight

L Moorhead

EXECUTIVE MANAGEMENT TEAM

E R Krogh
Chief Executive

N D Barbour
General Manager Electricity

S E Ekanayake
Chief Financial Officer

B Evans-Parker
Information Services Manager

A McLeod
General Manager Gas

P H Goodeve
Regulatory and Business Manager

REGISTERED OFFICE

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

AUDITORS

Deloitte

BANKERS

Westpac Banking Corporation
Commonwealth Bank of Australia
ANZ Investment Bank

SHARE REGISTRY

Computershare Investor
Services Limited
Level 2
139 Hurstmere Road
Takapuna
Auckland 1020