



POWERCO
INTERIM REPORT 2009

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Letter To Security-holders For The Powerco Interim Report 2008

On behalf of the Executive Management Team, I am pleased to present security-holders with this interim report covering the half-year to December 2008.

Internally, Powerco continues to focus on the improvement of systems and processes to fully capture the benefits of our scale. Externally, Powerco continues to be actively involved in the development of the new regulatory framework for the gas distribution sector in New Zealand.

Powerco continues to lead the way in the electricity and gas distribution sector, working with industry peers and the Government to ensure New Zealand's energy industry continues to provide a sustainable platform on which the economy can continue to grow.

For the half-year ended 31 December 2008, Powerco returned a net loss after tax of \$31.5 million. This result, however, included a negative mark to market adjustment of \$70.7 million.

At more comparable levels, total revenue for the period (including revenue from discontinuing operations) was NZ\$194.5 million, a 4.2% increase over the previous year, and operational earnings before interest, tax, depreciation and amortisations (EBITDA) of NZ\$119.1 million, an increase of 3.5% over the previous year.

We enter the second half of the year with a highly capable team, focused on innovation, improvement and the delivery of sustainable results for the benefit of our customers, shareholders, other stakeholders and the wider communities we serve.



Richard Krogh
Chief Executive

Powerco Limited
Consolidated Balance Sheet

As at 31 December 2008

	Notes	Unaudited as at 31 Dec 2008 NZ\$000	Unaudited as at 31 Dec 2007 NZ\$000	Audited as at 30 Jun 2008 NZ\$000
EQUITY				
Issued capital		570,300	570,300	570,300
Reserves		(171,529)	(49,158)	(87,368)
Amounts recognised directly in equity relating to assets classified as held for sale		4,532	-	-
Parent equity interest	3	403,303	521,142	482,932
NON-CURRENT LIABILITIES				
Borrowings		911,085	982,336	1,276,606
Other financial liabilities		89,306	96,878	84,298
Deferred tax liability		146,184	159,637	156,908
Provisions		448	451	527
Other non-current liabilities		-	49,811	54,526
		1,147,023	1,289,113	1,572,865
CURRENT LIABILITIES				
Borrowings		360,000	225,643	49
Other financial liabilities		2,535	-	-
Provisions		2,030	2,714	2,378
Income tax payable		-	2,404	-
Trade and other payables		27,284	36,955	41,543
Other current liabilities		1,733	3,010	3,206
Liabilities directly associated with assets classified as held for sale	6	215,801	-	-
		609,383	270,726	47,176
Total equity and liabilities		2,159,709	2,080,981	2,102,973
NON-CURRENT ASSETS				
Property, plant and equipment		1,749,322	1,962,652	1,996,647
Intangible assets		9,434	13,457	13,957
Other financial assets		77,512	36,682	18,052
Deferred tax asset		8,664	27,991	18,022
		1,844,932	2,040,782	2,046,678
CURRENT ASSETS				
Inventories		26	3,017	3,483
Trade and other receivables		30,512	30,224	34,666
Other current assets		1,733	1,691	1,687
Other financial assets		311	3,863	2,817
Income tax receivable		-	-	115
Cash and cash equivalents		577	1,404	13,527
Assets classified as held for sale	6	281,618	-	-
		314,777	40,199	56,295
Total assets		2,159,709	2,080,981	2,102,973

The accompanying notes form part of these Financial Statements

Powerco Limited
Consolidated Income Statement

For the six months ended 31 December 2008

	Notes	Unaudited 6 months to 31 Dec 2008 NZ\$000	Unaudited 6 months to 31 Dec 2007 NZ\$000
CONTINUING OPERATIONS			
Revenue		170,665	166,894
Cost of sales		(33,718)	(32,253)
Gross profit		136,947	134,641
Other income		13,104	10,922
Other losses		(70,666)	(242)
Operating expenses		(20,912)	(21,448)
Administration expenses		(13,637)	(12,527)
Other expenses		(35,314)	(37,888)
Earnings before interest and taxation		9,522	73,458
Finance costs		(47,824)	(44,759)
Operating (deficit)/surplus before tax		(38,302)	28,699
Income tax benefit/(expense)		9,893	(17,843)
(Loss)/Profit for the period from continuing operations		(28,409)	10,856
DISCONTINUING OPERATIONS			
Loss for the period from discontinuing operations	5	(3,057)	(5,072)
(Loss)/Profit for the period		(31,466)	5,784
Attributed to:			
Equity-holders of Parent		(31,466)	5,784

The accompanying notes form part of these Financial Statements

Powerco Limited

Consolidated Statement Of Changes In Equity

For the six months ended 31 December 2008

	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 2007		570,300	(37,040)	(780)	2,093	-	534,573
Exchange differences arising on translation of foreign operations		-	-	3,028	-	-	3,028
Cash flow hedges:							
Gain taken to equity		-	-	-	2,434	-	2,434
Income tax on items taken directly to or transferred from equity		-	-	-	838	-	838
Net income recognised directly in equity		-	-	3,028	3,272	-	6,300
Cash flow hedges:							
Transferred to profit or loss for the period		-	-	-	(1,686)	-	(1,686)
Profit for the period		-	5,784	-	-	-	5,784
Total recognised income and expense		-	5,784	-	(1,686)	-	4,098
Dividends	4	-	(23,829)	-	-	-	(23,829)
Balance as at 31 December 2007		570,300	(55,085)	2,248	3,679	-	521,142
Balance as at 1 July 2008		570,300	(94,625)	8,333	(1,076)	-	482,932
Exchange differences arising on translation of foreign operations		-	-	(3,801)	-	-	(3,801)
Cash flow hedges:							
Loss taken to equity		-	-	-	(30,715)	-	(30,715)
Income tax on items taken directly to or transferred from equity		-	-	-	9,494	-	9,494
Net income recognised directly in equity		-	-	(3,801)	(21,221)	-	(25,022)
Cash flow hedges:							
Transferred to profit or loss for the period		-	-	-	(933)	-	(933)
Loss for the period		-	(31,466)	-	-	-	(31,466)
Total recognised income and expense		-	(31,466)	-	(933)	-	(32,399)
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

The accompanying notes form part of these Financial Statements

Powerco Limited
Consolidated Statement Of Cash Flows
For the six months ended 31 December 2008

	Unaudited 6 months to 31 Dec 2008 NZ\$000	Unaudited 6 months to 31 Dec 2007 NZ\$000
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash receipts from customers	195,263	196,338
Cash paid to suppliers and employees	(74,563)	(69,609)
Interest received	17	56
GST paid	(9,239)	(10,020)
Interest paid	(46,420)	(44,754)
Discontinuing operations	(2,225)	(5,387)
Net cash provided by operating activities	62,833	66,624
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of subsidiaries	-	165
Purchase of property, plant and equipment	(42,528)	(34,817)
Discontinuing operations	(7,363)	(11,199)
Net cash used in investing activities	(49,891)	(45,851)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from borrowings	6,004	-
Dividends paid	(22,208)	(23,829)
Discontinuing operations	(1,793)	16,462
Net cash used in financing activities	(17,997)	(7,367)
Net (decrease)/increase in cash and cash equivalents	(5,055)	13,406
Cash and cash equivalents at the beginning of the period	(16,522)	(30,727)
Effects on exchange rate changes on the balance of cash held in foreign currencies	(702)	25
Cash and cash equivalents at the end of the period	(22,279)	(17,296)
Comprises the following:		
Cash and deposits	577	1,404
Bank overdraft	(24,300)	(18,700)
	(23,723)	(17,296)
Cash and cash equivalents included as assets held for sale	1,444	-
	(22,279)	(17,296)

The accompanying notes form part of these Financial Statements

Powerco Limited

Reconciliation Of Consolidated Profit For The Period To Net Cash Flows From Operating Activities

For the six months ended 31 December 2008

	Unaudited 6 months to 31 Dec 2008 NZ\$000	Unaudited 6 months to 31 Dec 2007 NZ\$000
(Loss)/Profit after taxation	(28,409)	10,856
Add/(Less) non-cash items		
Depreciation and amortisation	31,816	32,120
Loss on disposal of assets	3,198	5,768
Non-cash component of finance costs	1,322	1,321
Unrealised loss on hedges	70,666	242
Non-cash items in relation to investing/financing activities	9,157	(5,975)
(Decrease)/Increase in deferred tax balances	(19,387)	17,004
	96,772	50,480
Changes in net assets and liabilities		
Decrease/(Increase) in assets		
Trade and other receivables	1,669	6,897
Inventories	24	(25)
Other current assets	(46)	138
(Decrease)/Increase in liabilities		
Trade and other payables	(7,258)	(1,585)
Non-current provisions	35	-
Other non-current liabilities	46	(137)
	(5,530)	5,288
Net cash flows from operating activities	62,833	66,624

The accompanying notes form part of these Financial Statements

Powerco Limited

Notes To And Forming Part Of The Financial Statements

1. BASIS OF PREPARATION

The condensed financial statements have been prepared in accordance with International Accounting Standards (IAS) 34, Interim Financial Reporting and New Zealand equivalents to International Accounting Standards (NZ IAS) 34.

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 2008.

3. SHARE CAPITAL

Total number of fully paid ordinary shares issued at 31 December 2008 amounted to 316,186,775 (31 December 2007: 316,186,775).

4. DIVIDENDS

	Unaudited 31 Dec 2008 NZ\$000	Unaudited 31 Dec 2007 NZ\$000
Dividends paid on ordinary shares	22,208	23,829
Cents per share	7.0	7.5

5. DISCONTINUING OPERATIONS

On 3 November 2008, BBI Networks (NZ) Limited (BBINNZ) entered into a sale agreement to dispose of a 50% interest in Powerco Limited to Queensland Investment Corporation (QIC).

Prior to the sale, Powerco will sell Powerco Australia Group (PAG) to another one of Babcock & Brown Infrastructure Limited's (BBIL) subsidiaries. PAG's assets and liabilities have been classified as assets held for sale.

Completion is expected to occur in late February 2009 following receipt of various consents and a new Board of Directors will be formed at the same time. (Refer Note 11 – Subsequent Events.)

The proceeds of the sale exceed the carrying amount of the related assets and, accordingly, no impairment loss was recognised on the reclassification of the operations as held for sale.

	Unaudited 31 Dec 2008 NZ\$000	Unaudited 31 Dec 2007 NZ\$000
Profit/(Loss) for the period from discontinuing operations		
Revenue	9,489	7,424
Other income	1,275	1,507
Expenses	(15,976)	(16,592)
Loss before tax	(5,212)	(7,661)
Income tax benefit	2,155	2,589
Loss for the period from discontinuing operations	(3,057)	(5,072)

6. ASSETS CLASSIFIED AS HELD FOR SALE

The major classes of assets and liabilities comprising the operations classified as held for sale as at 31 December 2008 are as follows:

	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 held for sale	65,817

7. 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 stating that a payment is made to Tenix for performing better than budgeted, and a payment made to Powerco if performance does not meet budget. The amount of the payment is determined by a predetermined calculation in the contract on an annual basis. At this time, any payment for future periods to or from Powerco cannot be quantified.

Contribution From The Tasmanian Government

In January 2004, prior to the acquisition, Powerco received a contribution from the State Government of Tasmania amounting to AU\$8 million, to build a gas distribution network in Tasmania. This payment covers procuring the gas distribution entity, 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 the sale of assets or 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.

Fonterra

Fonterra has raised an issue with Powerco about its charges for the 2008/2009 year. The total amount in dispute is approximately \$1.7 million. No legal proceedings have been issued and the companies continue to explore the issue.

Significant Regulatory Events

Appeal Against Decision By Government To Impose Control On Powerco Gas Distribution Business

On 11 August 2008, the Court of Appeal released its decision on Powerco's appeal against the decision of the High Court, which refused Powerco's application for a judicial review of the decisions by the Commerce Commission and the Minister of Energy to impose control on Powerco's gas distribution business. The Court of Appeal upheld the High Court judgement and so the Commission's decision has been confirmed. Costs have been awarded against Powerco but these have not yet been quantified.

Gas Final Authorisation

The Commerce Commission issued its Final Authorisation for Powerco's gas distribution and metering business on 31 October 2008. The Final Authorisation, which applies until 30 June 2012 requires that Powerco reduce the average gas price by 11.1% from 1 January 2009 and then restrict its annual price increase to the Consumer Price Index (CPI).

Appeal Against Commerce Commission Final Authorisation

On 27 November 2008 Powerco appealed against the Final Authorisation issued by the Commerce Commission decision of 31 October 2008. Powerco alleges that the Commerce Commission's decision is retrospective and therefore contrary to the provisions of the Commerce Act. A hearing is expected in the middle of 2009.

Commerce Amendment Act

Parliament passed the Commerce Amendment Act in September 2008. The Act substantially amends the Commerce Act as it applies to infrastructure businesses. As a result of the amendment, Powerco continues its current electricity threshold until March 2011, from which time it has the option of either a default price path or a customised price path. The customised price path will be based on predetermined input methodologies specified by the Commerce Commission. Gas will be subject to a similar regime from 1 July 2012. The Act is aimed at providing more certainty and investment incentives than existed under the previous regime.

COMMITMENTS

	Unaudited to 31 Dec 2008 NZ\$000	Unaudited to 31 Dec 2007 NZ\$000	Audited to 30 Jun 2008 NZ\$000
Commitments for future capital expenditure resulting from contracts entered into:	52,211	85,965	56,339

8. SEASONALITY OF INTERIM OPERATIONS

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

9. SEGMENTAL REPORTING

For management purposes, the Group is 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 | - gas contracting services
- retailing of gas |

The gas reticulation, gas contracting and gas retailing businesses are currently assets held for sale and, as such, are included in the Financial Statements as discontinuing operations.

	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 six months ended 31 December 2008						
Revenue						
External sales	155,433	26,794	-	1,542	-	183,769
Inter-segment sales	-	-	-	1,150	(1,150)	-
Total segment revenues	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)
Loss before tax						(38,302)
Income tax expense						9,893
Net loss for the period						(28,409)
Segment result from discontinuing operations						
	-	-	(3,057)	-	-	(3,057)
For the six months ended 31 December 2007						
Revenue						
External sales	148,825	27,965	-	1,026	-	177,816
Inter-segment sales	-	-	-	1,140	(1,140)	-
Total revenue	148,825	27,965	-	2,166	(1,140)	177,816
Segment result from continuing operations						
	58,081	17,856	-	(2,479)	-	73,458
Finance costs						(44,759)
Profit before tax						28,699
Income tax expense						(17,843)
Net profit for the period						10,856
Segment result from discontinuing operations						
	-	-	(5,072)	-	-	(5,072)

10. COMPARATIVE FIGURES

Changes have been made to the previous interim period's comparative numbers disclosed in the Income Statement and the Statement of Cash Flows due to the sale of Powerco Australia Group Limited (PAG). These Statements now show PAG as a discontinuing operation.

11. SUBSEQUENT EVENTS

In November 2008, BBI Networks (New Zealand) Limited (BBINNZ), the Parent Company of Powerco Limited, entered in to a Share Sale Agreement with Queensland Investment Corporation (QIC) to sell 50% of its interests in Powerco to a number of QIC managed funds.

On 26 February 2009 BBINNZ announced that a further 8% of its interest in Powerco would be sold proportionately to the same QIC managed funds. This will reduce the total interest in Powerco by BBINNZ to less than 49% of total. Powerco will be unable to carry forward tax losses accumulated to the date that BBINNZ's ownership in Powerco falls below 49%. At 31 December 2008, \$28.9 million (future income tax benefit of \$8.8 million) of tax losses were carried forward.

Subsequent to 31 December 2008, Powerco has declared a dividend of \$5.7 million, to be paid on 24 February 2009 to Parent Company BBINNZ.

Directory

Directors

J W Kendrew (*Chairman*)

N D Barbour (*resigned 28 January 2009*)

S E Ekanayake (*resigned 28 January 2009*)

E R Krogh (*resigned 28 January 2009*)

J M Sellar

A Van Jaarsveldt

M Cummings

Note: Subsequent to 31 December 2008, Babcock & Brown Infrastructure (NZ) Limited sold a 58% share of Powerco to the Queensland Investment Corporation, which led to changes in the Board of Directors.

See Note 11 – Subsequent Events or visit www.powerco.co.nz for more information.

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*

P H Goodeve – *Regulatory and Business Manager*

A McLeod – *General Manager Gas*

(appointed 19 January 2009)

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



