Director's Certificate

Gas (Information Disclosure) Regulations 1997

Certification of Financial Statements, Performance Measures and Statistics Disclosed by Pipeline Owners other than the Corporation

We, Stewart John Upson and Richard Gilbert Bettle, Directors of Powerco Limited certify that, having made all reasonable enquiry, to the best of our knowledge:

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

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

....

Director

....

Director

Statutory Declaration

I, Stewart John Upson, of Sydney, being a director of Powerco, solemnly and sincerely declare that, having made all reasonable enquiry, to the best of my knowledge, the information attached to this declaration is a true copy of the information made available to the public under the Gas (Information Disclosure) Regulations 1997.

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

....

Declared at Sydney this 25th day of October 2012

....

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

POWERco

GAS DIVISION

Comprehensive Income Statement
For the year ended 31 March 2012

	Notes	31 March 2012 NZ$000	30 June 2011 NZ$000
Revenue	1	49,940	47,592
Other income	1	229	159
Total income		50,169	47,751
Operating expenses		6,820	6,595
Employee benefit expenses		6,496	6,065
Other expenses		4,367	4,150
Other losses/(gains)	1	600	(716)
		18,283	16,094
Earnings before finance costs, taxation, depreciation and amortisation and loss on disposals		31,886	31,657
Depreciation and amortisation	7,8	10,739	10,586
Loss on disposals		1,183	340
Earnings before finance costs and taxation		19,964	20,731
Finance costs	1	17,197	18,369
Operating profit before taxation		2,767	2,362
Income tax expense	2	671	562
Profit for the year from continuing operations		2,096	1,800
Other comprehensive income			
Loss recognised on cashflow hedges		(2,510)	(4,909)
Cashflow hedges transferred to profit		2,452	3,247
Income tax (expense)/benefit on cashflow hedges		(16)	466
Total other comprehensive income		(74)	(1,196)
Total comprehensive income for the year		2,022	604

The accompanying notes form part of these financial statements.

POWERCO

GAS DIVISION

Statement of Changes in Equity
For the year ended 31 March 2012

	Note	Share capital NZ$000	Accumulated deficits NZ$000	Hedge reserve NZ$000	Total NZ$000
Balance as at 30 June 2010		142,524	(74,318)	-	68,206
Profit for the year		-	1,800	-	1,800
Other comprehensive income:					
Cashflow hedges loss taken to equity		-	-	(4,909)	(4,909)
Cashflow hedges transferred to profit		-	-	3,247	3,247
Income tax relating to components of other comprehensive income	2	-	-	466	466
Total comprehensive income		-	1,800	(1,196)	604
Transactions with owners					
Dividends		-	(3,990)	-	(3,990)
Balance as at 30 June 2011		142,524	(76,508)	(1,196)	64,820
Balance as at 31 March 2011		142,524	(73,292)	-	69,232
Profit for the year		-	2,096	-	2,096
Other comprehensive income:					
Cashflow hedges loss taken to equity		-	-	(2,510)	(2,510)
Cashflow hedges transferred to profit		-	-	2,452	2,452
Income tax relating to components of other comprehensive income	2	-	-	(16)	(16)
Total comprehensive income		-	2,096	(74)	2,022
Transactions with owners					
Dividends		-	(12,182)	-	(12,182)
Balance as at 31 March 2012		142,524	(83,378)	(74)	59,072

POWERco

GAS DIVISION

Balance Sheet
As at 31 March 2012

	Notes	31 March 2012 NZ$000	30 June 2011 NZ$000
Equity			
Contributed capital		142,524	142,524
Accumulated deficits		(83,378)	(76,508)
Reserves		(74)	(1,196)
		59,072	64,820
Non Current Liabilities			
Borrowings	3	177,616	218,080
Employee entitlements	6	61	58
Other financial liabilities	4	24,319	29,601
Deferred tax liability	2	43,865	41,137
		245,861	288,876
Current Liabilities			
Borrowings	3	50,157	1,428
Employee entitlements	6	295	347
Inter-division account		33,923	32,523
Other financial liabilities	4	1,578	1,655
Trade and other payables		3,351	3,072
		89,304	39,025
Total Equity and Liabilities		394,237	392,721
Non Current Assets			
Property, plant and equipment	7	382,422	382,040
Intangible assets	8	760	649
Other financial assets	4	4,317	1,811
		387,499	384,500
Current Assets			
Cash and cash equivalents		-	505
Trade and other receivables		4,226	4,997
Income tax receivable		1,838	2,719
Other financial assets	4	674	-
		6,738	8,221
Total Assets		394,237	392,721

POWERCO LIMITED

Gas Division

Statement of Accounting Policies for the Financial Statements for the year ended 31 March 2012

Reporting entity

These financial statements represent the performance and position of Powerco Limited's (Powerco) Gas business (the Division). These financial statements are special purpose financial statements and were approved for issue on 25 October 2012.

Statutory base

These financial statements have been prepared in accordance with the Gas (Information Disclosure) Regulations 1997.

Basis for preparation

During the year, Powerco changed its statutory balance date from 30 June to 31 March. As a result, these Powerco Gas Division financial statements have been prepared for the 12 months ended 31 March 2012 in accordance with the Gas (Information Disclosure) Regulations 1997.

The Powerco Gas Division financial statements are derived from the underlying Powerco financial records used in the preparation of the Powerco Limited financial statements for the 9 months ended 31 March 2012 and the year ended 30 June 2011, which were prepared on a going concern basis in accordance with International Financial Reporting Standards (IFRS), as appropriate for profit-orientated entities.

The comparative figures presented in these Powerco Gas Division financial statements are those which have been previously reported for the year ended 30 June 2011. This results in the financial performance for the 3 months to 30 June 2011 being reported in both the current and comparative years.

Measurement Base

The accounting-based allocation approach (ABAA) as described in the Commerce Act (Gas Distribution Services Input Methodologies) Determination 2010 has been adopted, for the allocation of revenues, costs, assets and liabilities between the regulated activities and other activities of Powerco. Under the Gas (Information Disclosure) Regulation 1997, there is no mandated allocation methodology, thus ABAA as prescribed in the Commerce Act (Gas Distribution Services Input Methodologies) Determination 2010 has been applied.

Allocations have been carried out on the following basis:

- Direct allocation of all components of financial statement items which are directly attributable to the activity; and
- For any components of financial statement items that are not directly attributable to an activity:
    - By assessing the proportions of those components which are avoidable and non-avoidable; and
    - Allocating those components amongst the activities on the basis of those proportions using an appropriate cost allocator.

The main allocators used are:

- Book value of property, plant and equipment;
- Revenue;

- Expenditure; and
- EBITDA.

All financial statement items not allocated to the standalone gas division are allocated to other activities within the Powerco group (referred to as other divisions). These other activities are not disclosed within these financial information disclosure statements.

Critical accounting estimates and judgements

In the process of applying the Division's accounting policies, management has made judgements in keeping with the ABAA method to allocate revenues, costs, assets and liabilities between regulated activities. This requires judgement as to the method and basis to be used to derive these values. This judgement affects all the balances disclosed in these financial statements.

The key assumptions concerning the future and other key sources of estimation uncertainty at 31 March 2012, that have had a significant risk of causing a material adjustment to the carrying amount of assets and liabilities, are discussed below:

<u>Useful lives of property, plant and equipment</u>
The Division reviews the estimated useful lives of property, plant and equipment at the end of each annual reporting period. In this financial year it was deemed that no change to the estimated useful lives was needed. The carrying value of property, plant and equipment is disclosed in Note 7: Property, Plant and Equipment.

<u>Impairment of network assets</u>
Determining whether the network assets are impaired requires an estimation of the value in use of the cash-generating units to which the networks have been allocated. The value in use calculation requires the Directors to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value. The total carrying value of network assets is disclosed in Note 7 Property, Plant and Equipment.

Basis of preparation

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

a) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in the profit or loss component of the Comprehensive Income Statement in the period in which they are incurred.

b) Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, cash at banks and investments in overnight money market instruments. Bank overdrafts are shown within borrowings in current liabilities in the Balance Sheet.

c) Derivative financial instruments

Financial derivatives are initially recognised in the Balance Sheet at fair value on the date a derivative contract is entered into and are subsequently measured at their fair value on each reporting date, though the method of recognising the resulting gains and losses is dependent on whether hedge accounting is applied. When derivative contracts are entered into, the Division designates them as either:

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

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

- For fair value hedges that are highly effective, the movements are recorded in the profit or loss component of the Comprehensive Income Statement alongside any changes in the fair value of the hedged items;
- The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in other comprehensive income and accumulated as a separate component of equity in the hedge reserve. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss and is included in the "other losses" expenses line; and
- All other movements in the fair value of derivative financial instruments are recorded in the profit or loss component of the Comprehensive Income Statement.

Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income and accumulated as a separate component of equity in the hedging reserve. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss and is included in the "other losses" expenses line.

Amounts recognised in the hedge reserve are reclassified from equity to profit or loss (as a reclassification adjustment) in the periods when the hedged item is recognised in profit or loss, in the same line as the recognised hedged item.

However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the gain or loss previously recognised in the hedge reserve is reclassified from equity and included in the initial measurement of the cost of the asset or liability (as a reclassification adjustment).

Hedge accounting is discontinued when the Division revokes the hedging relationship, the hedging instrument expires or is sold, terminated, exercised or no longer qualifies for hedge accounting. Any cumulative gain or loss recognised in the hedge reserve at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was recognised in the hedge reserve is recognised immediately in profit or loss.

Fair value hedges

Hedge accounting is discontinued when the hedge instrument expires or is sold, terminated or no longer qualifies for hedge accounting. The adjustments to the carrying amount of the hedge item arising from the hedged risk is amortised to the profit or loss component of the Comprehensive Income Statement.

d) Dividend distribution

Dividend distributions are recognised as a liability in the balance sheet in the period in which the equity holders right to receive payment has been established.

e) Employee entitlements

Provision is made for benefits accruing to employees in respect of wages and salaries, annual leave, long-service leave and sick leave when it is probable that settlement will be required and they are capable of being measured reliably.

Provisions made in respect of employee benefits expected to be settled within 12 months are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

Provisions made in respect of employee benefits that are not expected to be settled within 12 months are measured as the present value of the estimated future cash outflows to be made by the Division in respect of services provided by employees up to reporting date.

Superannuation plans

For defined contribution superannuation plans, the Division recognises and expenses the obligation during the period they arise.

There are a small number of employees that are part of a state-defined benefit superannuation plan. The Division has no legal or constructive obligation to pay future benefits that are guaranteed by the Crown. As a result the plans are accounted for as a defined contribution plan.

f) Financial assets

Financial assets are recognised and derecognised on trade date where purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned. They are initially measured at fair value plus transaction costs, except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value.

Subsequent to initial recognition, investments in subsidiaries are measured at cost less impairment.

Other financial assets are classified into one of four categories; financial assets at fair value through profit or loss; held to maturity investments; available for sale financial assets; or loans and receivables. At balance date the Division had the following classes of financial assets:

Financial assets at fair value through profit or loss

Other financial assets relate to derivatives held at year end. All derivative assets are measured at fair value through profit or loss, except for derivatives that are designated effective cash flow hedges. Effective cash flow hedges are measured at fair value with the movement on these assets recorded within other comprehensive income in the Comprehensive Income Statement. Refer to (c) for the accounting policy on derivative financial instruments.

Loans and receivables

Cash and cash equivalents and trade and other receivables (excluding prepayments) are recorded at amortised cost using the effective interest rate method, less any impairment.

g) Financial liabilities

Financial liabilities are recognised when the Division becomes party to the contractual provisions of the instrument.

The Division derecognises financial liabilities when and only when the Division's obligations are discharged, cancelled or expire.

Financial liabilities are classified as either financial liabilities at fair value through profit or loss or other financial liabilities.

Financial liabilities at fair value through profit or loss

Other financial liabilities relate to derivatives held at year end. All derivative liabilities are measured at fair value through profit or loss, except for derivatives that are designated effective cash flow hedges. Effective cash flow hedges are measured at fair value with the movement on these liabilities recorded within other comprehensive income in the Comprehensive Income Statement. Refer to (c) for the accounting policy on derivative financial instruments

Other financial liabilities

Trade and other payables, other current liabilities that are financial instruments (unclaimed monies) and borrowings are initially measured at fair value, net of transaction costs. They are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective interest basis.

h) Impairment

At each reporting date, the Division reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Division estimates the recoverable amount of the cash-generating unit to which the asset belongs. A cash-generating unit is the smallest Division of assets for which there are separately identified cash flows.

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

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised in the profit or loss component of the Comprehensive Income Statement immediately, unless the relevant asset is carried at fair value, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised in the profit or loss component of the Comprehensive Income Statement immediately, unless the relevant asset is carried at fair value, in which case the reversal of the impairment loss is treated as a revaluation increase.

i) Intangible assets

Intangible assets are composed of computer software.

Intangible assets acquired separately are reported at cost less accumulated amortisation and any accumulated impairment losses. Amortisation is calculated on a diminishing value basis over their useful lives. The estimated useful lives, residual value and amortisation methods are reviewed at the end of each reporting period, with the effect of any changes in estimates being accounted for on a prospective basis.

Amortisation

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

Computer software	4 to 65 years

j) Leases

Operating lease payments, where the lessors effectively retain substantially all the risks and rewards of ownership of the leased items, are included in the determination of profit before taxation in equal instalments over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

k) Property, plant and equipment

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

The gain or loss on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the profit or loss component of the Comprehensive Income Statement.

Depreciation of property, plant and equipment

Depreciation is calculated on a straight-line basis for network systems and on diminishing value for all other assets, to write off the cost of the assets over the useful lives of the assets.

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

Plant and equipment	5 to 10 years
Network systems	10 to 65 years

l) Revenue recognition

Revenue is recognised at the fair value of services, net of GST, rebates, discounts and capital contributions. Revenue balance consists gas distribution charges and gas metering charges.

Revenue from services is recognised in the accounting period in which the services are rendered based upon usage or volume throughput during that period.

m) Contributed capital

Contributed capital represents the funds allocated by Powerco Limited to the Powerco Gas Division.

n) Taxation

The amount recognised for current tax is based on the net profit for the period as adjusted for non-assessable and non-deductible items. It is calculated using tax rates that have been enacted or substantively enacted by the reporting date.

Deferred income tax is provided, using the Balance Sheet liability method, on all temporary differences at the Balance date between the tax base of the assets and liabilities and their carrying amounts in the Financial Statements.

The temporary differences relating to investments in subsidiaries where the Division is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future are not provided for.

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

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

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow the manner in which the Division expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Division entity intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax is recognised as an expense or income in the profit or loss component of the Comprehensive Income Statement, except when it relates to items credited or debited to other comprehensive income, in which case the deferred tax or current tax is also recognised in other comprehensive income, or where it arises from the initial accounting for a business combination, in which case it is taken into account in the determination of goodwill or excess.

o) Term debt

All loans and borrowings are initially recognised at the fair value of the consideration received net of issue costs associated with the borrowing. Subsequent to initial recognition, loans and borrowings are carried at amortised cost. Borrowing costs are recognised as an expense when incurred, except to the extent that they are capitalised in accordance with (a) above.

All interest bearing loans and borrowings are measured at amortised cost using the effective interest rate method which allocates the cost through the expected life of the borrowing. Amortised cost is calculated taking account of issue costs, and any discounts or premiums on draw-down.

After initial recognition for those interest-bearing loans and borrowings where hedge accounting is applied, the loan balance is adjusted for the change in the hedged risk only. The Division policy is to hedge the interest/foreign currency risk associated with term debt with financial instruments on matched terms.

Borrowings are classified as current liabilities (either advances and deposits or current portion of term debt) unless the Division has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

p) Trade and other payables

Trade payables and other accounts payable are recognised when the Division becomes obliged to make future payments resulting from the purchase of goods and services. These are initially recognised at fair value. Subsequent to initial recognition, trade payables and other accounts payable are recorded at amortised cost. Given the nature of these liabilities amortised cost approximates their notional principal.

q) Inter-division account

The inter-division account represents the balance due to other Divisions within Powerco Limited. The balance is the result of inter-divisional transactions since the Division was established.

Changes in accounting policies

Accounting policies have been consistently applied unless otherwise stated.

Standards, Amendments and Interpretations effective in the current period

The following are the new or revised Standards or Interpretations in issue that are not yet required to be adopted by entities preparing financial statements for periods ended on 31 March 2012:

Standard/Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
Amendments to NZ IFRS 7 'Financial Instruments: Disclosures'	1 July 2011	31 March 2013
Amendments to New Zealand Equivalents to International Financial Reporting Standards to Harmonise with International Financial Reporting Standards and Australian Accounting Standards	1 July 2011	31 March 2013
FRS 44 'NZ Additional Disclosures'	1 July 2011	31 March 2013
Amendments to FRS 44 'NZ Additional Disclosures'	1 July 2011	31 March 2013
Amendments to NZ IAS 12 ' Income Taxes' - Deferred Tax: Recovery of Underlying Assets	1 January 2012	31 March 2013
Amendments to NZ IAS 1 'Presentation of Financial Statements' – Presentation of Items of Other Comprehensive Income	1 July 2012	31 March 2014
NZ IFRS 10 'Consolidated Financial Statements'	1 January 2013	31 March 2014
NZ IFRS 11 'Joint Arrangements'	1 January 2013	31 March 2014
NZ IFRS 12 'Disclosure of Interests in Other Entities'	1 January 2013	31 March 2014
NZ IFRS 13 'Fair Value Measurement'	1 January 2013	31 March 2014

NZ IAS 27 'Separate Financial Statements' (revised 2011)	1 January 2013	31 March 2014
NZ IAS 28 'Investments in Associates and Joint Ventures' (revised 2011)	1 January 2013	31 March 2014
Amendments to NZ IAS 19 'Employee Benefits'	1 January 2013	31 March 2014
Amendments to NZ IFRS 7 'Financial Instruments : Disclosures' – Offsetting Financial Assets and Financial Liabilities	1 January 2013	31 March 2014
NZ IFRIC 20 'Stripping Costs in the Production Phase of a Surface Mine'	1 January 2013	31 March 2014
Amendments to NZ IAS 32 'Financial Instruments: Presentation' - Offsetting Financial Assets and Financial Liabilities	1 January 2014	31 March 2015
NZ IFRS 9 'Financial Instruments'	1 January 2015	31 March 2016
Revised NZ IFRS 9 'Financial Instruments' (2010)*	1 January 2015	31 March 2016
Amendments to NZ IFRS 9 and NZ IFRS 7 Mandatory Effective Date and Transition Disclosures	1 January 2015	31 March 2016

* The revised NZ IFRS 9 adds guidance on the classification and measurement of financial liabilities and derecognition of financial instruments. The effective date is the same as the previous version of NZ IFRS 9, with earlier adoption permitted.

Adoption of new and revised Standards and Interpretations

Management has reviewed the Standards and Interpretations that became mandatory in the current year, and has determined that there is no material effect on the results and position of the Division.

POWERco

GAS DIVISION

1 REVENUE AND EXPENDITURE

	Year to 31 March 2012 NZ$000	Year to 30 June 2011 NZ$000
Line charge revenue	46,515	44,265
Gas metering services	3,425	3,327
Total revenue	49,940	47,592
Interest revenue	218	150
Other income	11	9
Total other income	229	159
Change in fair value of assets and liabilities classified as held for trading	427	(1,405)
Hedge ineffectiveness on fair value hedges unrealised	173	689
Total other losses/(gains)	600	(716)
Interest on bank overdrafts	103	83
Interest on senior debt	15,761	16,818
Other finance costs	1,333	1,468
Total finance costs	17,197	18,369

2 TAXATION

Income tax recognised in the profit or loss	Year to 31 March 2012 NZ$000	Year to 30 June 2011 NZ$000
Tax expense comprises:		
Current tax (benefit)	(1,839)	(2,719)
Deferred tax on temporary differences	2,510	3,516
Effect of change in tax rate	-	(235)
	671	562

The total charge for the period can be reconciled to the accounting profit/(loss) as follows:

Profit before taxation	2,767	2,362
Prima facie taxation @ 28% (2011: 30%)	775	709
Tax effect of (revenue)/expenses that are not deductible in determining taxable profit	(104)	88
Adjustment recognised in current year in relation to change in tax rate	-	(235)
Taxation expense	671	562

The tax rate used in the above reconciliation is the corporate tax rate of 28% payable by New Zealand corporate entities on taxable profits under New Zealand tax law. The corporate tax rate in New Zealand changed from 30% to 28% from 1 July 2011. The impact of the change in tax rate has been taken into account in the measurement of deferred tax liabilities.

Deferred tax - temporary differences	Other NZ$000	Property, plant and equipment NZ$000	Derivatives NZ$000	TOTAL NZ$000
Balance 30 June 2010	(26)	42,334	(3,985)	38,323
Charged/(credited) to profit or loss	(76)	3,584	8	3,516
Changes in tax rate	5	(239)	(1)	(235)
Charged to other comprehensive income	-	-	(466)	(466)
Balance 30 June 2011	(97)	45,679	(4,444)	41,137
Balance 31 March 2011	85	45,151	(3,897)	41,339
Charged/(credited) to profit or loss	(52)	2,993	(431)	2,510
Charged to other comprehensive income	-	-	16	16
Balance 31 March 2012	33	48,144	(4,312)	43,865

POWERco

GAS DIVISION

3 BORROWINGS

	31 March 2012 NZ$000	30 June 2011 NZ$000
Non current liabilities at amortised cost		
Guaranteed bonds (a)	21,661	70,602
Wholesale bonds (b)	20,922	
US dollar private placement notes (c)	118,535	110,194
Commercial bank debt (d)	16,498	37,284
	177,616	218,080
Current liabilities at amortised cost		
Bank overdraft (note 5)	241	-
Guaranteed bonds (a)	48,870	31
Wholesale bonds (b)	258	-
US dollar private placement notes (c)	737	993
Commercial bank debt (d)	51	404
	50,157	1,428

(a) Guaranteed bonds

	31 March 2012 NZ$000	30 June 2011 NZ$000
9 year guaranteed bonds	20,997	21,016
Adjustment for the fair value of the interest rate risk	674	1,015
Deferred funding costs	(80)	(140)
11 year guaranteed bonds	10,498	10,508
Adjustment for the fair value of the interest rate risk	905	795
Deferred funding costs	(104)	(128)
7 year guaranteed bonds	27,296	27,321
Deferred funding costs	(55)	(138)
12 year guaranteed bonds	10,498	10,508
Deferred funding costs	(137)	(156)
	70,492	70,601
Accrued interest	39	31
Carrying value of guaranteed bonds	70,531	70,632
Current portion	48,870	31
Non current portion	21,661	70,602
Total	70,531	70,632

$250 million of guaranteed bonds were issued on 29 March 2004 as unsecured debt obligations of Powerco. The scheduled payments by the Company of interest and principal are guaranteed on an unsecured basis by US-based Syncora Guarantee Inc (Syncora), a specialist financial guaranty organisation. The first tranche of bonds matured and were repaid on 29 March 2011 (7 year bonds). The remaining tranches mature on 29 March 2013 (9 year bonds) and 29 June 2015 (11 year bonds). The interest rates on the bonds are fixed until maturity and the bonds are now secured obligations of the Company.

- 9 year guaranteed bonds 6.39%
- 11 year guaranteed bonds 6.53%

A further $180 million of guaranteed bonds were issued on 28 September 2005, as secured unsubordinated obligations of the Company. The scheduled payments of interest and principal payable by the Company were again guaranteed on an unsecured basis by Syncora. The bonds expire on 28 September 2012 (7 year bonds) and 28 September 2017 (12 year bonds). The interest rates on the bonds are fixed until maturity.

- 7 year guaranteed bonds 6.59%
- 12 year guaranteed bonds 6.74%

Under a trust document constituting the guaranteed bonds, the Company has covenanted to ensure that, if Syncora defaults on its obligations under the Financial Guaranty, the Company will procure sufficient number of its subsidiaries to guarantee its obligations under the guaranteed bonds by signing a subsidiary guarantee so that at all times the total tangible assets of the Company and all guaranteeing subsidiaries exceeds 85% of the total tangible assets of the Group. As at 31 March 2012 no default by Syncora had occurred.

The guaranteed bonds are secured against the network assets of the Company through the Security Trust Deed.

POWERCO

GAS DIVISION

(b) Wholesale bonds	31 March 2012 NZ$000	30 June 2011 NZ$000
7 year fixed rate wholesale bonds	13,648	-
Deferred funding costs	(49)	-
7 year floating rate wholesale bonds	7,349	-
Deferred funding costs	(26)	-
	20,922	-
Accrued interest	258	-
Carrying value of wholesale bonds	21,180	-
Current portion	258	-
Non current portion	20,922	-
Total	21,180	-

$100 million of wholesale bonds were issued on 20 December 2011 to institutional investors, as secured debt obligations of Powerco Limited. The bonds consist of a $65 million 7 year fixed rate tranche, and a $35 million 7 year floating rate tranche. Both tranches mature on 20 December 2018. The interest rate on the fixed tranche is 6.31%, paid on a semi-annual basis, while the floating rate bonds pay interest quarterly at the 90 day bank bill rate plus a margin.

The wholesale bonds are secured against the network assets of the Company through the Security Trust Deed.

c) US dollar private placement	31 March 2012 NZ$000	30 June 2011 NZ$000
11 year US dollar private placement notes	19,772	19,790
Adjustment for fair value of the interest rate and currency risk	(4,062)	(4,100)
Deferred funding costs	(43)	(55)
12 year US dollar private placement notes	19,066	19,083
Adjustment for fair value of the interest rate and currency risk	(3,479)	(3,849)
Deferred funding costs	(59)	(71)
13 year US dollar private placement notes	22,949	22,971
Adjustment for fair value of the interest rate and currency risk	(3,747)	(4,490)
Deferred funding costs	(75)	(87)
9 year US dollar private placement notes	19,185	19,203
Adjustment for fair value of the interest rate and currency risk	612	(1,060)
Deferred funding costs	(115)	(126)
12 year US dollar private placement notes	23,981	24,004
Adjustment for fair value of the interest rate and currency risk	1,228	(1,408)
Deferred funding costs	(147)	(158)
15 year US dollar private placement notes	22,116	22,137
Adjustment for fair value of the interest rate and currency risk	1,491	(1,355)
Deferred funding costs	(138)	(145)
Accrued interest	737	993
Carrying value of the US dollar private placement	119,272	111,187
Current portion	737	993
Non current portion	118,535	110,194
Total	119,272	111,187

A US dollar private placement note issue took place on 25 November 2003 to private US investors. The US dollar private placement notes are debt obligations of the Company. The coupon payments are semi-annual and the notes mature on 25 November 2014 (11 year), 25 November 2015 (12 year), and 25 November 2016 (13 year). The notes are secured against the network assets of the Company through the Security Trust Deed.
The interest rates on the notes are fixed until maturity.
- 11 year US dollar private placement notes 5.47%
- 12 year US dollar private placement notes 5.57%
- 13 year US dollar private placement notes 5.67%

A further US dollar private placement note issue took place on 7 June 2011 to private US investors. The US dollar private placement notes are debt obligations of the Company. The coupon payments are semi-annual and the notes mature on 7 June 2020 (9 year), 7 June 2023 (12 year), and 7 June 2026 (15 year). The notes are secured against the network assets of the Company through the Security Trust Deed.
The interest rates on the notes are fixed until maturity.
- 9 year US dollar private placement notes 4.36%
- 12 year US dollar private placement notes 4.56%
- 15 year US dollar private placement notes 4.86%

POWERCO

GAS DIVISION

d) **Commercial bank debt**

	31 March 2012 NZ$000	30 June 2011 NZ$000
Revolving cash facility	11,548	32,576
Deferred funding costs	(137)	(231)
Working capital facility	5,039	4,939
Accrued interest	99	404
	16,549	37,688
Current portion	51	404
Non current portion	16,498	37,284
Total	16,549	37,688

At balance date, the Company had a $125 million Revolving Cash Advance facility provided jointly and in equal proportion by ANZ National Bank and Westpac New Zealand Limited. The facility was in two tranches. Tranche B, for $100 million, was entered in December 2010 and matures in December 2015. At balance date, tranche B was drawn $55 million with an applicable rate of 3.92% (2011: 3.84%).

At balance date, tranche A was a facility of $25 million, with zero drawings. This tranche was due to mature on 21 September 2012, however on 13 April 2012 it was replaced with a $100 million tranche, due to mature on 1 April 2017. Also on 13 April 2012, a $55 million Revolving Cash Advance facility was agreed with Bank of Tokyo-Mitsubishi UFJ Limited. This facility is due to mature on 13 April 2015. The total of $155 million of new facilities agreed in April 2012 refinances the maturing bank facility ($25 million) and bond ($130 million) in September 2012.

The Company operates a Working Capital Advance facility with the Commonwealth Bank of Australia for up to $30 million. The facility is based on a revolving credit arrangement and, as such, does not have set repayment dates. The facility is due to mature on 22 March 2014. This facility had an interest rate during the period of 3.35% (30 June 2011: range of 2.75% to 3.35%).

e) **Covenants**

Powerco has covenanted with all counterparties to ensure certain financial criteria are met throughout the term of the debt agreements. These covenants include minimum Interest Coverage Ratios, minimum Net Worth values and maximum Gearing or Leverage ratios. Covenants also include various comparisons of the Guaranteeing Group earnings and assets under the Security Trust Deed to earnings and assets of the total Group.

There have been no covenant breaches.

f) **Financial assets and liabilities**

The following tables detail the fair value of financial liabilities

	31 March 2012 NZ$000 Carrying Amount NZ$000	31 March 2012 NZ$000 Fair Value NZ$000	30 June 2011 NZ$000 Carrying Amount NZ$000	30 June 2011 NZ$000 Fair Value NZ$000
Financial assets:				
Interest rate swaps	1,718	1,718	1,811	1,811
US cross currency interest rate swap	3,272	3,272	-	-
	4,990	4,990	1,811	1,811
Financial liabilities:				
Guaranteed bonds	70,631	70,320	70,632	70,223
Wholesale bonds	21,180	21,180	-	-
US dollar private placement notes	119,272	119,272	111,187	111,187
Commercial bank debt and working capital advance	16,549	16,549	37,688	37,688
US cross currency interest rate swap	10,426	10,426	17,325	17,325
Interest rate swaps	15,468	15,468	13,919	13,919
Foreign exchange contracts	3	3	12	12
	253,429	253,218	250,763	250,354

The fair value of financial assets and financial liabilities are determined as follows:
- For floating rate debt carrying value approximates fair value due to continuing interest rate reset;
- For fixed rate debt, opposing floating rate derivative instruments matching tenor and term are used in offset position to calculate fair values. The movements in these derivatives approximate movements in market values; and
-The fair value of financial derivatives and fixed rate debt are determined by reference to the market quoted rates input into valuation models.

The valuation method takes into account the interest rate curve and foreign exchange rates by calculating the discounted future cash flows on derivatives as at the reporting date. This method assumes a constant credit rating of all parties to the swap. The market rates used as the reporting date are as follows:

Reporting date interest rates	31 March 2012	30 June 2011
NZ 1 year swap rate	2.81%	2.91%
NZ 2 year swap rate	3.04%	3.37%
NZ 3 year swap rate	3.27%	3.77%
NZ 4 year swap rate	3.51%	4.10%
NZ 5 year swap rate	3.73%	4.39%
NZ 7 year swap rate	4.10%	4.80%
NZ 10 year swap rate	4.44%	5.17%
NZD/USD rate	0.8188	0.8292
US 1 year swap rate	0.49%	0.73%
US 2 year swap rate	0.56%	0.70%
US 3 year swap rate	0.76%	1.15%
US 4 year swap rate	1.00%	1.60%
US 5 year swap rate	1.27%	2.03%
US 7 year swap rate	1.78%	2.69%
US 10 year swap rate	2.29%	3.28%
US 30 year swap rate	3.04%	4.07%

The rates above are from Bloomberg.

POWERco

GAS DIVISION

4 OTHER FINANCIAL ASSETS AND LIABILITIES

The Company enters into New Zealand dollar floating to fixed interest rate swap agreements to reduce the impact of changes in floating interest rates on its borrowings and thus reduce variability in cash flows. Fixed to floating instruments are entered into in order to hedge the changes in fair value of fixed rate New Zealand dollar debt. The Company also utilises cross currency interest swaps to hedge against the variations in interest costs and fair value of the US dollar private placement debt.

Derivative instruments are initially recognised at fair value on the contract date and subsequently measured at their fair value on each balance date. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Company designates certain derivatives as either (i) hedges of highly probable cash flow hedges, or (ii) hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedges).

The Company documents, at the inception of the hedge transaction, the relationship between hedging instruments and hedged items, as well as its risk management objective and hedging strategy. The Company also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

(i) Cash flow hedges
The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the profit or loss component of the Statement of Comprehensive Income. Amounts accumulated in equity are transferred to the profit or loss component of the Statement of Comprehensive Income in the same period in which the hedged item affects the profit or loss.

(ii) Fair value hedges
Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the profit or loss, together with any changes in the fair value of the hedged risk.

(iii) Derivatives that do not qualify for hedge accounting
Certain derivative instruments are undertaken as economic hedges of exposures but the Company chooses not to apply hedge accounting. Changes in the fair value of any derivative instrument that is not hedge accounted is recognised immediately in the profit or loss component of the Statement of Comprehensive Income.

The fair value of financial derivatives and fixed rate debt is determined by independent valuation sources.

All derivative instruments are carried in the Balance Sheet at their fair values. Movements in the hedge reserve are shown in other comprehensive income.

The Division holds the following financial instruments:

	Notional Principal		Fair Value	
	31 March 2012 NZ$000	30 June 2011 NZ$000	31 March 2012 NZ$000	30 June 2011 NZ$000
Derivatives in a hedge relationship				
1 - Interest rate swaps (fair value hedge)	31,495	31,525	1,578	1,811
2 - US cross currency swaps (fair value hedge)	61,787	61,844	(10,426)	(11,839)
3 - Interest rate swaps (combination fair value and cash flow hedge)	65,282	65,343	3,272	(5,486)
Derivatives not in hedge relationship				
4 - Interest rate swaps	198,421	291,079	(15,328)	(13,695)
5 - Interest rate collars	-	10,508	-	(224)
6 - Foreign exchange contracts	50	145	(3)	(12)
	357,036	460,444	(20,906)	(29,445)

1 Interest rate swaps
The Division receives a New Zealand fixed interest rate and pays New Zealand dollar floating interest rates. These qualify for hedge accounting as fair value hedges and are entered into on terms matched to the underlying obligation.
2 US cross currency interest rate swaps
The Division receives a US dollar fixed interest rate and pays New Zealand dollar floating interest rates. The hedge is a fair value hedge and hedges the movements in currency and interest rates that would affect interest payments and final repayment at maturity. These were entered into at terms to match the underlying obligation.
3 US cross currency interest rate swaps
The Division receives a US dollar fixed interest rate and pays New Zealand dollar floating interest rates. For hedge accounting purposes this is split into a fair value and a cash flow hedge relationship. The fair value hedge hedges the changes in the fair value of the debt due to movements in US interest rates. The cash flow hedge hedges the changes in the value of the currency, basis swap and credit margins. The cross currency swap hedges interest payments and the final repayments at maturity. These were entered into at terms to match the underlying obligations.
4 Interest rate swaps
To convert New Zealand dollar floating interest rate exposures to New Zealand dollar fixed debt. The swaps are used to modify the interest rate profile in accordance with the Treasury Policy and are on matched terms. Hedge accounting is not applied to these swaps.

POWERco

GAS DIVISION

5 Interest rate collars
Interest rate collars are used to limit exposure to floating interest rate exposures on New Zealand floating rate debt. The collars are used to modify the interest rate profile in accordance with the Treasury Policy and are on matched terms. Hedge accounting is not applied to these collars.

6 Foreign exchange contracts
The Division enters forward exchange contracts to fix the NZD amount payable on foreign currency purchases

All cash flow hedges above are on matched terms. The Division's policy is to refloat any fixed rate debt, thus giving a totally floating portfolio, then re-hedge as per the parameters in the Treasury Policy. This has had the effect that some fixed rate hedges are applied against floating rate hedges. In line with NZ IAS-39 these are not able to be designated as effective hedges for accounting purposes and thus movements in the mark to market value of these is passed through to the profit or loss. They are all implemented on matched terms.

The Division's New Zealand dollar and foreign currency fixed rate debt is converted to floating New Zealand dollar debt through the use of derivatives, with these exactly matching the term and nominal value of the debt. At the point of issue the nominal value of the bonds was equivalent to the fair value, and the fair value of the derivative was zero. The marking to market of the derivatives allows for the changes due to movements in interest rates or currency rates. This valuation method takes into account the interest rate curve and foreign exchange rates by calculating the discounted future cash flows on derivatives as at the reporting date. This method assumes a constant credit rating of all parties to the contract.

Powerco bonds are able to be traded on the NZDX and an active secondary market exists.

The fair value of financial instruments is disclosed in the financial statements as follows:

	31 March 2012 NZ$000	30 June 2011 NZ$000
Other current financial assets		
Interest rate swap	674	-
	674	-
Other non current financial assets		
US cross currency interest rate swap	3,272	-
Interest rate swap	1,045	1,811
	4,317	1,811
Other current financial liabilities		
Foreign exchange contracts	3	12
Interest rate swap	1,575	1,643
	1,578	1,655
Other non current financial liabilities		
US cross currency interest rate swap	10,426	17,325
Interest rate swap	13,893	12,276
	24,319	29,601
Net fair value of (liabilities)	(20,906)	(29,445)

b) Currency swaps

i) Under currency swap contracts, the Group agrees to exchange specified principal and interest foreign currency amounts at an agreed future date at a specified exchange rate (fixed for floating). Such contracts enable the Group to mitigate the risk of adverse movements in foreign exchange rates.
The following table details the currency swaps outstanding as at reporting date.

Outstanding contracts as at 31 March 2012	Average interest rate	Average exchange rate	Contract Value NZ$000	Fair Value NZ$000
Two to five years	BKBM + 80 basis points	0.5947	61,787	(10,426)
Over five years	BKBM + 165 basis points	0.7880	65,282	3,272
			127,069	(7,154)

Outstanding contracts as at 30 June 2011	Average interest rate	Average exchange rate	Contract Value NZ$000	Fair Value NZ$000
Two to five years	BKBM + 80 basis points	0.5947	38,874	(7,689)
Over five years	BKBM + 88 basis points	0.7377	88,314	(9,636)
			127,188	(17,325)

ii) The Group enters into Forward Exchange Contracts for the purposes of hedging capital expenditure. All contracts are less than one year in duration.
The following table details the contracts swaps outstanding as at reporting date.

Outstanding contracts as at 31 March 2012	Average Contact Rate	Contract Value NZ$000	Fair Value NZ$000
USD contracts less than one year	0.7678	50	(3)
Outstanding contracts as at 30 June 2011			
USD contracts less than one year	0.7562	145	(12)

POWERCO

GAS DIVISION

c) **Interest rate swap contracts**

Under interest rate swap contracts, the Division agrees to exchange the difference between fixed and floating rate interest amounts calculated on agreed notional principal amounts. Such contracts enable the Division to mitigate the risk of changing interest rates on debt held. The fair value of interest rate swaps is determined by discounting the future cash flows using the yield curve at the reporting date. The average interest rate is based on the outstanding balances at the end of the financial year. The interest rate swaps settle on a quarterly basis, with the Division settling the difference between fixed and floating interest rate on a net basis.

The following tables detail the notional principal amounts and remaining terms of interest rate swap contracts outstanding as at reporting date:

	31 March 2012			30 June 2011		
	Average contracted fixed interest rate	Notional principal amount	Fair value	Average contracted fixed interest rate	Notional principal amount	Fair value
		NZ$000	NZ$000		NZ$000	NZ$000
Fair value swaps						
Less than one year	6.39%	20,997	674		-	-
One to two years		-	-	6.39%	21,017	1,015
Two to five years	6.53%	10,498	904	6.53%	10,508	795
Five years +		-	-		-	-
Total fair value interest rate swaps		31,495	1,578		31,525	1,810

d) **Forward foreign currency exchange contracts**

The Division has entered into a cross currency swap to hedge the exchange rate and interest rate risk arising from the US private placement notes.

	Average exchange rate		Foreign currency		Contract value		Fair value	
	2012	2011	2012 Dr / (Cr) 000's	2011 Dr / (Cr) 000's	2012 Dr / (Cr) NZ$000	2011 Dr / (Cr) NZ$000	2012 Dr / (Cr) NZ$000	2011 Dr / (Cr) NZ$000
Two to five years	0.5947	0.5947	36,745	23,118	(61,787)	(38,874)	(10,426)	(7,688)
Five years +	0.7880	0.7377	51,442	65,151	(65,282)	(88,314)	3,272	(9,636)
			88,187	88,269	(127,069)	(127,188)	(7,154)	(17,324)

e) **Hedge movements recognised in the profit or loss component of the Comprehensive Income Statement**

	31 March 2012 NZ$000	30 June 2011 NZ$000
Gain/(loss) arising on derivatives in a designated fair value hedge relationship	7,529	(11,333)
(Loss)/gain arising on an adjustment for hedge items in a designated fair value hedge accounting relationship	(7,356)	12,022
Net effect on profit for the period	173	689

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

POWERCO

GAS DIVISION

(f) Financial Instruments

The Division engages in business in New Zealand and has currency exposures to US dollars. In the normal course of events the Division is exposed to loss through:
(1) Market risk;
(2) Credit risk; and
(3) Liquidity risk.

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

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

(1) Market risk

(i) Foreign exchange exposures
The Division operates in New Zealand and has foreign exchange exposures arising from US dollar denominated debt and the purchase of capital equipment in foreign currencies. This exposes the Division to potential gains and losses arising from currency movements. The Division policy relating to US dollar denominated debt is to eliminate the exchange rate exposure by use of matching hedges taken out at the time the loans were drawn down.

(ii) Interest rate exposures
Interest rate risk is the risk that interest rates will change, increasing or decreasing the cost of borrowing or lending. The Division's short-term borrowings are on a floating interest rate basis.

Powerco has entered into interest rate swap agreements to reduce the impact of the changes in interest rates on its borrowings. As at 31 March 2012, Powerco had interest rate swap agreements with registered banks. Powerco's Treasury Policy specifies parameters regarding the levels of interest rate hedging which are monitored by the Board of Directors on a monthly basis.

(2) Credit risk

Financial instruments with the potential to subject the Division to credit risk principally consist of bank balances and accounts receivable. There are no significant concentrations of credit risk. These accounts are subject to policies which are used to manage the exposure to credit risk. As part of this policy, limits on exposures have been set and are monitored on a regular basis. Cash deposits are only made with registered banks. The maximum credit risk is the carrying value of bank balances and accounts receivable.

(3) Liquidity risk

Liquidity risk is the risk that the Division may be unable to meet its financial obligations as they fall due. This risk is managed by maintaining sufficient cash and deposits together with access to committed credit facilities. The Division adheres to a Treasury Policy, approved by the Board of Directors, which specifies certain levels of liquidity which must be maintained for short term requirements and further stipulations regarding the timing of refinancing of upcoming debt maturities. Liquidity levels are forecast and monitored on a continuous basis.

(g) Foreign currency sensitivity analysis

The Divisions foreign currency borrowings are 100% hedged against movements in the NZD/USD exchange rate. Any movements in the value or borrowings or the interest payable due to a movement in the exchange rate is offset by an equal and opposite movement in the value and cash flows applicable to the hedge. As such the sensitivity calculation shows no movement in either the profit or loss or the equity in relation to these borrowings.

(h) Interest rate sensitivity analysis

The following table details the Division's sensitivity to a 100 basis points (BP) increase and decrease in the New Zealand interest rates, with all other variables held constant as at the reporting date. 100 basis points (BP) is Powerco's and the industry accepted sensitivity rate used when analysing volatility through interest rate movements and represents management's assessment of the possible change in interest rates. This analysis includes cash flows on floating rate debt and interest rate derivatives as well as movements in the interest rate swap curve.

	31 March 2012 NZ$000	30 June 2011 NZ$000
Net profit before tax +100BP	4,140	4,759
Net profit before tax -100BP	(4,453)	(5,112)
Total Equity +100BP	4,140	5,406
Total Equity -100BP	(4,454)	(5,805)

5 BANK OVERDRAFT FACILITY

Powerco operates a $2 million overdraft facility with Westpac Banking Corporation. As at 31 March 2012 Powerco had drawn down $1.15 million on the facility (30 June 2011: Nil). The overdraft interest rate on this facility at that date was 8.45% (30 June 2011: 8.45%).

6 EMPLOYEE ENTITLEMENTS

The provision for employee entitlements relates to employee benefits such as accrued wages, bonuses, accrued holiday pay and long service leave. The provision is affected by a number of estimates including the expected employment period of employees and the timing of employees utilising the benefits. The majority of the provision is expected to be realised within the next two years.

POWERCO

GAS DIVISION

7 PROPERTY, PLANT AND EQUIPMENT

	Network assets NZ$000	Plant and equipment NZ$000	Work in progress NZ$000	TOTAL NZ$000
Gross carrying value				
Balance at 30 June 2010	447,312	12,574	8,795	468,682
Transfers	9,654	-	(9,654)	-
Additions	-	716	10,329	11,045
Disposals	-	-	(340)	(340)
Balance at 30 June 2011	456,966	13,290	9,130	479,386
Accumulated depreciation				
Balance at 30 June 2010	80,375	6,656	-	87,031
Depreciation expense	9,454	861	-	10,315
Balance at 30 June 2011	89,829	7,517	-	97,346
Net book value 30 June 2011	367,137	5,773	9,130	382,040
Gross carrying value				
Balance at 31 March 2011	454,553	13,111	6,787	474,451
Transfers	13,716	-	(13,716)	-
Additions	-	1,287	12,860	14,147
Disposals	-	-	(1,183)	(1,183)
Balance at 31 March 2012	468,269	14,398	4,908	487,415
Accumulated depreciation				
Balance at 31 March 2011	87,694	6,996	-	94,690
Depreciation expense	9,792	511	-	10,303
Balance at 31 March 2012	97,486	7,507	-	104,993
Net book value 31 March 2012	370,783	6,891	4,908	382,422

8 OTHER INTANGIBLES

	Software NZ$000	TOTAL NZ$000
Gross carrying value		
Balance at 30 June 2010	1,832	1,832
Additions	598	598
Balance at 30 June 2011	2,430	2,430
Accumulated amortisation		
Balance at 30 June 2010	1,510	1,510
Amortisation expense	271	271
Balance at 30 June 2011	1,781	1,781
Net book value 30 June 2011	649	649
Gross carrying value		
Balance at 31 March 2011	2,310	2,310
Additions	562	562
Balance at 31 March 2012	2,872	2,872
Accumulated amortisation		
Balance at 31 March 2011	1,676	1,676
Amortisation expense	436	436
Balance at 31 March 2012	2,112	2,112
Net book value 31 March 2012	760	760

POWERCO

GAS DIVISION

9 CONTINGENT LIABILITIES AND COMMITMENTS

CONTINGENT LIABILITIES

Contracts - Powerco has a contract with Tenix Alliance New Zealand (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.

COMMITMENTS

	31 March 2012 NZ$000	30 June 2011 NZ$000
Commitments for future capital expenditure resulting from contracts entered into:		
Not longer than 1 year	1,781	2,271
Longer than 1 year and not longer than 5 years	1,042	1,788
Longer than 5 years	-	-
	2,823	4,059

	31 March 2012 NZ$000	30 June 2011 NZ$000
Other expenditure commitments resulting from contracts entered into:		
Not longer than 1 year	1,837	2,677
Longer than 1 year and not longer than 5 years	740	964
Longer than 5 years	-	-
	2,577	3,641

10 RELATED PARTY TRANSACTIONS

Trading transactions

The Division has inter-company accounts with other divisions of Powerco Limited. The inter-company accounts are unsecured and no interest has been charged during the current period (2011: Nil). No expense has been recognised during the period in respect of bad or doubtful debts due from related parties.

Compensation of key management personnel	Year ended 31 March 2012 NZ$000	Year ended 30 June 2011 NZ$000
The remuneration of directors and other members of key management during the year were as follows:		
Short-term benefits	591	669
	591	669

The remuneration of directors and key executives is determined by the remuneration committee having regard to the performance of individuals and market trends.

11 SUBSEQUENT EVENTS

There were no significant subsequent events since 31 March 2012 requiring adjustment to these financial statements and disclosures, except for the refinancing of the commercial bank debt which is disclosed in Note 3d.

POWERCO

GAS DIVISION

1 DISCLOSURE OF PERFORMANCE MEASURES PURSUANT TO REGULATION 15 AND PART II OF THE FIRST SCHEDULE OF THE GAS (INFORMATION DISCLOSURE) REGULATIONS 1997

Financial Performance Measures	Notes	2012	2011	2010	2009	2008
(i) Accounting Return on Total Assets	(a), (b)	5.37%	5.21%	4.87%	5.08%	6.60%
(ii) Accounting Return on Equity		3.33%	2.77%	-5.05%	-11.43%	-0.03%
(iii) Accounting Rate of Profit including revaluation	(a), (b)	4.17%	3.84%	3.39%	3.88%	4.76%
(iv) Accounting Rate of Profit excluding revaluation	(a), (b)	4.17%	3.84%	3.39%	3.88%	4.76%
Efficiency Performance Measures						
(v) Direct Line Cost per Kilometre		$1,352.77	$1,306.12	$1,207.70	$1,210.47	$981.32
(vi) Indirect Line Cost per Gas Customer		$90.31	$85.30	$92.66	$91.31	$73.35

Notes:
(a) This calculation excludes current borrowings, interdivisional account, other financial assets and liabilities from working capital. Borrowings and the interdivisional account are excluded because they do not relate to operational obligations. Other financial assets and liabilities are excluded as they relate to derivatives which have been excluded from EBIT as noted in (b) below.
(b) EBIT for the purposes of this calculation excludes the derivative losses of $0.60 million as shown in the Comprehensive Income Statement as other losses. This is because the derivative loss does not meet the definition of revenue in the Gas (Information Disclosure) Regulations 1997, because it is associated with funding costs which are excluded from EBIT.

2 DISCLOSURE OF PERFORMANCE MEASURES PURSUANT TO REGULATION 17 AND PART 111 OF THE FIRST SCHEDULE OF THE GAS (INFORMATION DISCLOSURE) REGULATIONS 1997

		2012	2011	2010	2009	2008
2.1	**Energy delivery efficiency measures**					
	(a) Load Factor	71.79%	70.86%	71.67%	71.19%	72.50%
	(b) Un-accounted for Gas Ratio	1.00%	2.65%	1.52%	2.22%	2.50%
2.2	**Statistics**					
	(a) System Length	6,216km	6,177km	6,170km	5,901km	5,890km
	(b) Maximum monthly amount of gas entering the system (in GJ)	1,052,456	1,045,157	1,077,646	1,090,617	1,057,925
	(c) Total amount of gas conveyed (in GJ)	9,067,142	8,887,622	9,268,755	9,316,465	9,204,033
	(d) Total amount of gas conveyed on behalf of other persons (GJ)	9,067,142	8,887,622	9,268,755	9,316,465	9,204,033
	(e) Total customers	102,696	102,482	102,346	102,011	103,602

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

3.1	**Un-planned interruptions in transmission systems**	0	0	0	0	0
3.2	**Un-planned interruptions in distribution systems**					
	(a) Un-planned interruptions other than those directly resulting from un-planned interruptions of a transmission system.	0.02060	0.01080	0.01070	0.0861*	0.001889
	(b) Un-planned interruptions directly resulting from un-planned interruptions of a transmission system.	0	0	0	0	0

NOTE *This figure includes the Silverstream outage of 743 end users in 2008.
Without that significant event the reported figure would have been 0.0030.

Deloitte.

INDEPENDENT AUDITOR'S REPORT TO THE COMMISSIONERS OF THE NEW ZEALAND COMMERCE COMMISSION AND THE DIRECTORS OF POWERCO LIMITED

Report in relation to Financial Statements

We have examined the attached financial statements prepared by Powerco Limited of Powerco Limited – Gas Division dated 25 October 2012 on pages 1 to 22, which comprise the balance sheet as at 31 March 2012, and the income statement and statement of changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory information. The financial statements have been prepared for the purposes of regulation 6 of the Gas (Information Disclosure) Regulations 1997 (the Regulations).

Board of Directors' Responsibility for the Financial Statements

The Board of Directors are responsible for the preparation of these financial statements in accordance with the financial reporting provisions of the Regulations and for such internal control as the Board of Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion that, having made all reasonable enquires, to the best of our knowledge, that the financial statements have been prepared in accordance with the requirements of the Regulations based on our audit.

We conducted our audit in accordance with International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other than in our capacity as auditor we have no relationship with, or interests in Powerco Limited.

Opinion

We have examined the attached financial statements of Powerco Limited – Gas Division for the year ended 31 March 2012, dated 25 October 2012 for the purposes of the Gas (Information Disclosure) Regulations 1997.

We certify that, having made all reasonable enquires, to the best of our knowledge, those financial statements have been prepared in accordance with the requirements the Gas (Information Disclosure) Regulations 1997.

Deloitte.

Basis of Accounting and Restriction on Distribution and Use of Report
Without modifying our opinion, we draw attention to the accounting policies of the financial statements, which describes the basis of accounting. The financial statements are prepared to assist Powerco Limited to comply with the financial reporting provisions of the Regulations. As a result, the financial statements may not be suitable for another purpose. Our report is intended solely for the Directors of Powerco Limited and the Commissioners of the New Zealand Commerce Commission. We disclaim any assumption of responsibility for any reliance on this report to any persons or users other than the Directors of Powerco Limited and the Commissioners, or for any purpose other than that for which it was prepared.

Deloitte

Chartered Accountants
25 October 2012
Wellington

Deloitte.

INDEPENDENT AUDITOR'S REPORT TO THE COMMISSIONERS OF THE NEW ZEALAND COMMERCE COMMISSION AND THE DIRECTORS OF POWERCO LIMITED

Report on Performance Measures

We have been engaged by the Directors of Powerco Limited to conduct a reasonable assurance engagement relating to the compliance of Powerco Limited's Gas Division with regulations 15 and 16 of the Gas (Information Disclosure) Regulations 1997 (the Regulations) for the period from 1 April 2011 to 31 March 2012.

Board of Directors' Responsibility

The Board of Directors are responsible for compliance with the regulations 15 and 16 of Regulations.

Auditor's Responsibility

Our responsibility is to express an opinion on Powerco Limited's compliance with regulations 15 and 16 of the Regulations, in all material respects. Our engagement has been conducted in accordance with the Standard on Assurance Engagements 3100: *Compliance Engagements ("SAE 3100")*, to provide reasonable assurance that the Powerco Limited has complied with regulations 15 and 16 of the Regulations.

Our procedures included:

- Identifying key inputs to financial performance measures and financial components of the efficiency performance measures on page 23 and reconciling or agreeing them to source documents and systems;
- Reviewing the methodologies used in preparing the financial performance measures and financial components of the efficiency performance measures on page 23 and confirming that they are in accordance with the methodologies set out in clause 1 and 2 of Part 2 of Schedule 1 of the Regulation, and providing assurance that the underlying assumptions used are reasonable; and
- Testing whether the calculations are mathematically correct.

These procedures have been undertaken to form an opinion as to whether Powerco Limited has complied, in all material respects, with regulations 15 and 16 of the Regulations for the period from 1 April 2011 to 31 March 2012

Use of Report

This report is provided solely for your use and solely for the purpose of complying with clause 31 of Part 3 of the Regulations. This report is intended solely for the Directors of Powerco Limited and the Commissioners of the New Zealand Commerce Commission. We disclaim any assumption of responsibility for any reliance on this report to any persons or users other than the Directors of Powerco Limited and the Commissioners, or for any purpose other than that for which it was prepared.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other than in our capacity as independent auditor, we have no relationship with, or interests in Powerco Limited.

Deloitte.

Opinion
We have examined the attached information on page 23 being:

- Financial performance measures specified in clause 1 of Part 2 of Schedule 1 of the Gas (Information Disclosure) Regulation 1997; and
- Financial components of the efficiency performance measures specified in clause 2 of Part 2 of that schedule,

and having been prepared by Powerco Limited and dated 25 October 2012 for the purpose of regulations 15 and 16 of the Regulations.

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

Deloitte

Chartered Accountants
25 October 2012
Wellington, New Zealand