Interim Report December 2010

Cover: Visitors of all ages took the opportunity to check out Powerco's new Omanu substation during an open day to showcase the state-of-the-art facility prior to its final commissioning. The substation has been camouflaged to look like a modern suburban home.

Inside cover: Powerco staff hosted a series of open days in Tauranga to meet customers and highlight plans for network developments over the next three to five years.

Chairman's Letter

I am pleased to present security holders with this Interim Report for the six months to 31 December 2010.

Powerco has a track record of consistent financial performance and in the six months to December produced another steady result.

The strong underlying cash flows generated by our electricity and gas businesses have remained solid through three years of sluggish economic growth in New Zealand.

While Powerco continues to demonstrate its resilience through economic fluctuations, our people continue to focus on improvements to Powerco's core businesses to ensure we maintain the strong performances into the future.

A particular focus in the past year has involved dealing with the multitude of government entities tasked with drafting and enforcing the wide range of regulations our business must comply with.

Powerco's regulatory outlook improved in 2010 with the positive change to the X-factor, where Powerco's electricity prices have moved from annual increases at a rate of CPI-2 to CPI-0; hence allowing our prices to keep pace with inflation.

Our people continue to work with the regulators to help them better understand the nature of electricity and gas infrastructure management and the changing needs of customers.

We remain committed to working constructively with regulatory authorities to develop an environment where infrastructure owners continue to invest in New Zealand's energy future whilst also ensuring consumers receive a sustainable and quality service.

Powerco's stable earnings history, credit strength and positive outlook underpinned our debt refinancing activities in the six months to December 2010.

Our track record of consistent results was reflected in the successful arrangement of a $100 million, five-year revolving cash facility, which we will use to repay $100 million in Credit Wrapped Bonds maturing on 29 March 2011.

Safety remains a critical focus for Powerco and both the Board and Management are committed to a safe and productive work environment. I look forward to the results of our continued focus flowing through to our staff and contractors making it home safely at the end of the day, every day during 2011 and beyond.

Following the close of the financial period we announced the appointment of Nigel Barbour as Acting Chief Executive to replace out-going Chief Executive Richard Krogh, who has worked with Powerco and its predecessors for more than 17 years, the last six as Chief Executive. On behalf of the Board I would like to acknowledge Richard's contribution to Powerco over the years and wish him well for the future.

It was pleasing that the appointment has been made from within Powerco and Mr Barbour brings with him extensive experience in the energy industry having previously held the roles of General Manager Electricity and Corporate and Commercial Manager within Powerco. Mr Barbour has an economics and legal background, and has previously held roles with Transpower and the Bank of New Zealand. He was appointed to the role on 21 March 2011.

We head into 2011 confident that Powerco will continue to deliver value for its customers, security holders and shareholders in the years ahead.

Rick Bettle
Chairman

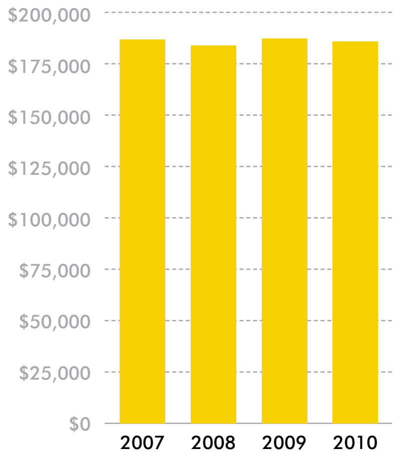
Chief Executive's Review

Year on year, Powerco continues to deliver consistent financial results and in the six months to 31 December 2010 our operations produced a net profit of $25.4 million inclusive of a valuation gain on financial derivatives of $7.4 million.

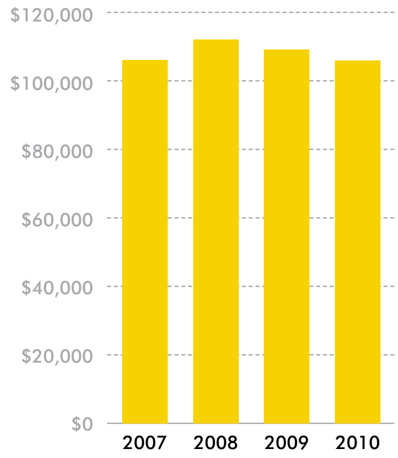
The Company's total revenue, including other income, of $185.9 million for the six months to December 2010 was slightly down on the $187.3 million for the same period in 2009.

Powerco's earnings before interest, tax, depreciation, amortisation and fair value adjustments (EBITDAF) of $105.9 million for the six months ended 31 December 2010 was 2.9% down on the prior corresponding period. Core electricity and gas distribution revenue was slightly up on the comparable period in 2009. Reduction in other income and higher asset disposals relating to the upgrading of the networks affected the result.

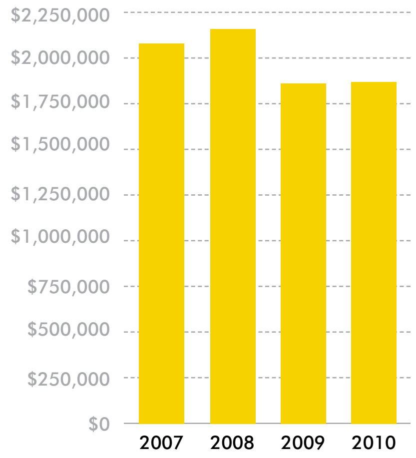
Total revenue (actual) in the six months ending 31 December ($000)



Earnings before interest, tax, depreciation, amortisation and fair value adjustments (actual) in the six months ending 31 December ($000)



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



Note: The Group performance in the six months ended 31 December 2007 and 31 December 2008 include the assets of Powerco Australia Group, which was subsequently disposed of in 2009.

FOCUSING ON OUR CUSTOMERS

Our customers are at the core of our operations and, for the last few years, we have placed an increased focus on developing more meaningful dialogue with them. This has been done through a range of consultation events; meetings, key account management, surveys, and other activities. They have provided customers, both large and small, with the opportunity to meet and talk to our people face to face about issues that they are concerned about.

Price and quality are the two issues the majority of our customers are focused on. We have provided them with useful information about how our industry works, and the cost of the service we provide to them. With a greater understanding, many customers agree with us that continued investment in infrastructure needs to occur to improve reliability, as long as it continues to be delivered at a fair price.

Customers have advised us they are not so concerned about the detail of how the whole energy markets model works. They want to know their gas or electricity supply is safe, reliable and continues to operate at a reasonable price.

Our customers are increasingly becoming aware that the nation's infrastructure will require a period of sustained investment to ensure that our economy remains competitive. They are also aware the required investments will come at a cost.

By the end of this financial year, we will have spoken to more customers than in any of the previous years since Powerco exited energy retailing. We continue to channel our customers' views back to the people in our Company, and into our planning process to ensure that our long term investment plans are aligned with customer and community expectations.

On 17 September 2010 a severe storm hit the North Island, causing widespread electricity outages across the country. Multiple weather fronts, bringing both high winds and heavy rain, rolled in during the following seven days, causing numerous customer outages and creating a significant work load for network operations staff and our field services contractors.

By 24 September Powerco had restored power to more than 87,000 affected customers across our electricity networks. Many customers had supply cut more than once as the storm fronts passed. Pleasingly, the restoration effort was managed safely and efficiently, and we received positive feedback from a number of customers appreciative of our efforts in very difficult conditions.

BUILDING BETTER NETWORKS FOR CURRENT AND FUTURE GENERATIONS

Powerco's networks deliver electricity and gas to more than 420,000 customers across the North Island, in areas from Coromandel to Wellington, Taranaki to Napier and the Hawkes Bay, as well as Western Bay of Plenty, South Waikato, Wanganui, Manawatu and Wairarapa.

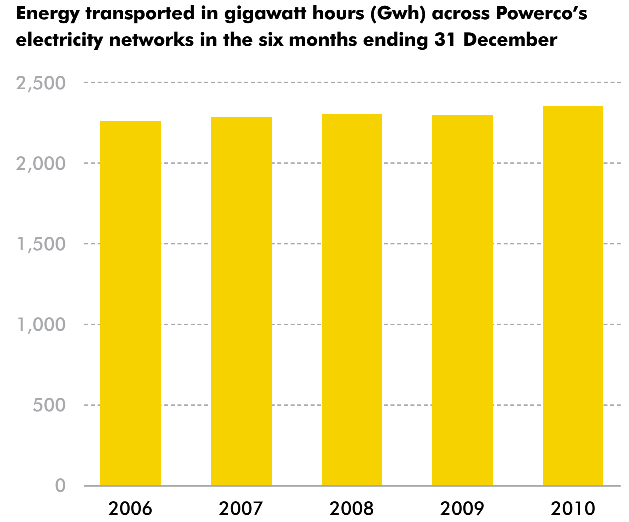
Each network area requires its own distinct plan based on population growth, network design, age and performance. Our team of planning engineers is focused on making smart investments, using modern design and technology, to ensure investments in local infrastructure deliver value and enduring performance.

In the six months to December 2010 we invested $38.1 million in capital expenditure across the electricity and gas networks, and undertook $15.9 million in maintenance projects.

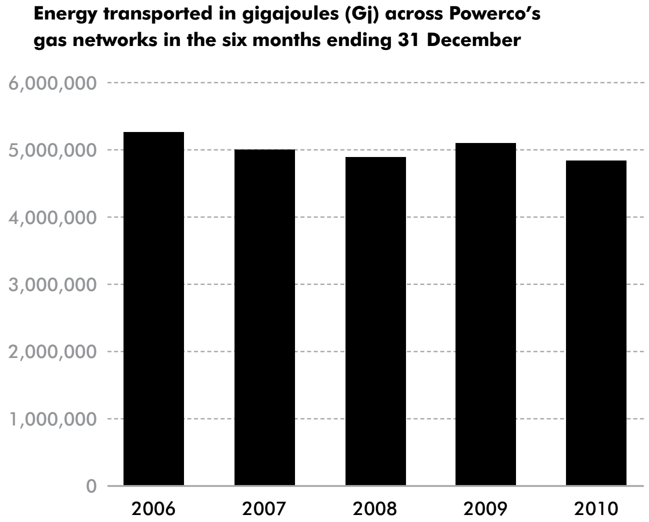
Our contractors were out in the field replacing older assets and building new ones. Customers continue to comment that they are pleased to see these investments being made in this essential infrastructure.

We aim to establish health and safety as an essential part of our culture and as a way of life, encouraging participation and consultation with all. Our goal is to ensure our systems and processes continue to deliver improvements in our health and safety performance.

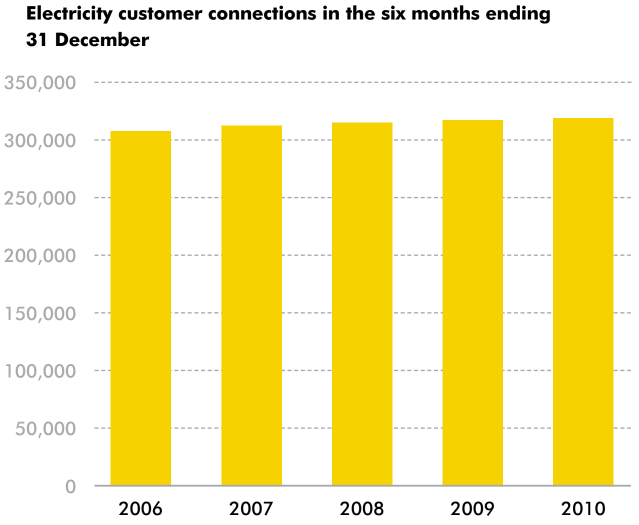
We understand that safety around the networks is everybody's responsibility. We continue to develop new programmes, policies and initiatives to ensure safe working practices, and to build a sense of shared responsibility across all areas of operations. We encourage our people and contractors to look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



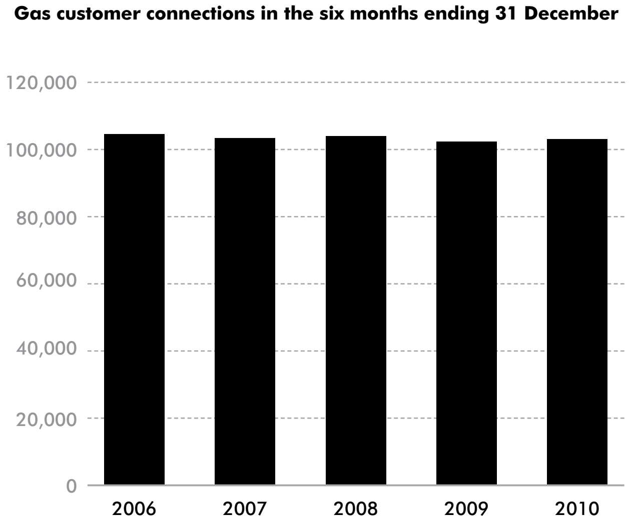
Energy transported in gigawatt hours (Gwh) across Powerco's electricity networks in the six months ending 31 December
2,500
2,000
1,500
1,000
500
0
2006
2007
2008
2009
2010



Energy transported in gigajoules (Gj) across Powerco's gas networks in the six months ending 31 December
6,000,000
5,000,000
4,000,000
3,000,000
2,000,000
1,000,000
0
2006
2007
2008
2009
2010



Electricity customer connections in the six months ending 31 December
350,000
300,000
250,000
200,000
150,000
100,000
50,000
0
2006
2007
2008
2009
2010



Gas customer connections in the six months ending 31 December
120,000
100,000
80,000
60,000
40,000
20,000
0
2006
2007
2008
2009
2010

CAPTURING GROWTH

Over the past 36 months we have witnessed significant volatility in economic activity, but Powerco has continued to connect new customers to the networks at a steady pace.

While the total number of gas customers decreased from 2006 to 2009, due largely to the rationalisation of very low-use consumers, we are now seeing a steady overall increase in gas connections. This increase has been as a result of our efforts to improve the information to customers about the benefits of gas, and by working with other industry players to streamline the connection process.

Households using natural gas for hot water can achieve significant cost savings in their annual energy bills compared with customers using electricity alone. Using gas for heating and cooking enhances their savings even further. Powerco's people are actively out in the community delivering this message to potential customers. As we approach the winter, we will also target existing gas customers, encouraging them to switch more appliances from electricity to gas to achieve increased savings in their energy outgoings.

Despite New Zealand business confidence wavering, and building permits reducing significantly from where they were five years ago, we continued to grow electricity and gas connections in 2010. Our recent network developments ensure that we are well placed to accommodate future growth in our customer base once the economy returns to growth.

And while we have been growing and developing our networks, our customers' consumption of electricity has grown over the past five years, with gas consumption remaining steady following a period of decline.

A POSITIVE OUTLOOK

Our outlook for 2011 is positive.

Powerco's track record of consistent results is reflected in the successful arrangement of a $100 million, five-year revolving cash facility.

We will use this facility to repay $100 million in Credit Wrapped Bonds when they mature on 29 March 2011 (NZDX:PWC 040).

Late in 2010, the Commerce Commission released the Input Methodologies, which will form the basis of the regulatory regime for our gas and electricity businesses. While Powerco and others have been working with the Commission in the development of these Input Methodologies, there are several areas where we feel the Commission has not met the expectations of the legislation. Powerco has filed appeals against the Commission's decisions in these areas. The appeals are likely to be heard in the 2012 financial year. In the meantime, Powerco continues to work closely with Commission staff and our industry peers to make a positive contribution to the implementation of the regime.

We are confident the current process (including the appeals launched by Powerco and other industry participants) will lead to a new era of stability and certainty for regulated businesses in New Zealand, which allow us to get on with the business of developing what is a critical foundation for New Zealand's future economic growth.

Internally, we are working through a range of significant projects to upgrade systems and processes to help us increase our efficiency and empower our people to make better decisions.

Powerco's people are its greatest asset. In 2011, we will continue to invest in their development to build our internal competencies, enhance a culture where people are challenged to excel and empowered to achieve positive outcomes for our customers, security holders and the communities we serve.

Richard Krogh

Financial Statements

POWERCO LIMITED

Consolidated Interim Statement of Comprehensive Income

FOR THE SIX MONTHS ENDED 31 DECEMBER 2010

	NOTES	UNAUDITED 6 MONTHS TO 31 DECEMBER 2010 NZ$000	UNAUDITED 6 MONTHS TO 31 DECEMBER 2009 NZ$000
CONTINUING OPERATIONS			
Revenue		184,802	183,694
Other income		1,063	3,573
Total income		**185,865**	**187,267**
Operating expenses		(53,324)	(54,429)
Employee benefit expenses		(11,385)	(9,529)
Loss on disposal		(6,976)	(4,749)
Other expenses		(8,232)	(9,488)
Other gains/(losses)	3	7,379	(8,491)
		(72,538)	**(86,686)**
Earnings before finance costs, tax, depreciation and amortisation		**113,327**	**100,581**
Depreciation and amortisation	6, 7	(32,412)	(31,016)
Earnings before finance costs and taxation		**80,915**	**69,565**
Finance costs		(44,757)	(46,653)
Operating profit before taxation		**36,158**	**22,912**
Income tax expense		(10,768)	(7,630)
PROFIT FOR THE PERIOD		**25,390**	**15,282**
Other comprehensive income			
Gain recognised on cash flow hedges		-	967
Cashflow hedges transferred to profit		-	20,277
Income tax on cash flow hedges		-	(6,373)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		**25,390**	**30,153**

The accompanying notes form part of these Financial Statements

POWERCO LIMITED

Consolidated Interim Statement of Changes in Equity

FOR THE SIX MONTHS ENDED 31 DECEMBER 2010

	NOTES	UNAUDITED SHARE CAPITAL NZ$000	UNAUDITED RETAINED EARNINGS NZ$000	UNAUDITED HEDGE RESERVE NZ$000	UNAUDITED TOTAL NZ$000
BALANCE AS AT 1 JULY 2009		**570,300**	**(197,212)**	**(14,871)**	**358,217**
Profit for the period		**-**	**15,282**	**-**	**15,282**
Other comprehensive income:					
Gain on cash flow hedges taken to equity		-	-	967	967
Loss on cash flow hedge transferred to profit for the period		-	-	20,277	20,277
Income tax relating to components of other comprehensive income		-	-	(6,373)	(6,373)
Total comprehensive income		**-**	**15,282**	**14,871**	**30,153**
Dividends	5	-	(3,000)	-	(3,000)
Issue of shares	4	27,865	-	-	27,865
BALANCE AS AT 31 DECEMBER 2009		**598,165**	**(184,930)**	**-**	**413,235**
BALANCE AS AT 1 JULY 2010		**698,165**	**(203,427)**	**-**	**494,738**
Profit for the period		**-**	**25,390**	**-**	**25,390**
Other comprehensive income		-	-	-	-
Total comprehensive income		**-**	**25,390**	**-**	**25,390**
BALANCE AS AT 31 DECEMBER 2010		**698,165**	**(178,037)**	**-**	**520,128**

The accompanying notes form part of these Financial Statements

POWERCO LIMITED

Consolidated Interim Statement of Financial Position

AS AT 31 DECEMBER 2010

	NOTES	UNAUDITED 6 MONTHS TO 31 DECEMBER 2010 NZ$000	UNAUDITED 6 MONTHS TO 31 DECEMBER 2009 NZ$000	AUDITED AS AT 30 JUNE 2010 NZ$000
Equity				
Issued capital		698,165	598,165	698,165
Reserves		(178,037)	(184,930)	(203,427)
		520,128	413,235	494,738
Non-current liabilities				
Employee entitlements		507	306	465
Other financial liabilities		92,474	77,615	70,241
Borrowings	8	701,947	1,052,291	978,786
Deferred tax liability		167,597	174,485	163,706
		962,525	1,304,697	1,213,198
Current liabilities				
Trade and other payables		22,045	18,978	28,268
Employee entitlements		2,519	2,385	2,693
Other current liabilities		1,801	1,331	1,313
Other financial liabilities		6,095	5,556	2,302
Bank overdraft		-	156	-
Borrowings	8	348,271	110,202	132,294
Income tax payable		6,892	4,097	-
		387,623	142,705	166,870
TOTAL EQUITY AND LIABILITIES		**1,870,276**	**1,860,637**	**1,874,806**
Non-current assets				
Property, plant and equipment	6	1,794,593	1,779,726	1,795,839
Finance lease receivable		6,951	-	7,042
Other financial assets		8,051	7,256	7,766
Intangible assets	7	22,249	31,565	22,256
Deferred tax asset		14	-	-
Trade and other receivables		-	6,721	-
		1,831,858	1,825,268	1,832,903
Current assets				
Cash and cash equivalents		708	-	111
Trade and other receivables		34,524	31,658	38,009
Finance lease receivable		194	-	179
Inventories		42	32	42
Other current assets		1,801	1,330	1,313
Other financial assets		710	1,957	1,835
Inter-company accounts and inter-company loan		439	392	414
		38,418	35,369	41,903
TOTAL ASSETS		**1,870,276**	**1,860,637**	**1,874,806**

The accompanying notes form part of these Financial Statements

POWERCO LIMITED

Consolidated Interim Statement of Cash Flows

FOR THE SIX MONTHS ENDED 31 DECEMBER 2010

	NOTE	UNAUDITED 6 MONTHS TO 31 DECEMBER 2010 NZ$000	UNAUDITED 6 MONTHS TO 31 DECEMBER 2009 NZ$000
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash receipts from customers		208,488	209,621
Cash paid to suppliers and employees		(86,011)	(85,445)
Dividends received		9	-
Interest received		201	71
GST paid		(9,694)	(9,595)
Interest paid		(43,299)	(43,083)
Net cash provided by operating activities		**69,694**	**71,569**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment		(41,953)	(40,597)
Acquisition of subsidiaries, net of cash acquired	9	-	99
Loan to Parent company		(26)	-
Proceeds from sale of property, plant and equipment		1,065	-
Net cash used in investing activities		**(40,914)**	**(40,498)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of borrowings		(26,900)	(23,750)
Establishment costs of borrowings		(500)	(2,987)
Dividends paid		-	(3,000)
Proceeds from finance leases		91	-
Net cash used in financing activities		**(27,309)**	**(29,737)**
Net increase in cash and cash equivalents		**1,471**	**1,334**
Cash and cash equivalents at the beginning of the period		(763)	(1,490)
Cash and cash equivalents at the end of the period		**708**	**(156)**
Comprises the following:			
Cash and bank equivalents		708	-
Bank overdraft		-	(156)
		708	**(156)**

The accompanying notes form part of these Financial Statements

Reconciliation of Consolidated Profit for the Period to Net Cash Flows from Operating Activities

FOR THE SIX MONTHS ENDED 31 DECEMBER 2010

	UNAUDITED 6 MONTHS TO 31 DECEMBER 2010 NZ$000	UNAUDITED 6 MONTHS TO 31 DECEMBER 2009 NZ$000
Profit after taxation	**25,390**	**15,282**
Add/(less) non-cash items		
Depreciation and amortisation	32,412	31,016
Loss on disposal of assets	6,976	4,749
Non-cash component of finance costs	1,589	1,667
Unrealised (gain)/loss on derivatives	(7,379)	8,491
Non-cash items in relation to investing/financing activities	2,822	(12,637)
Increase in deferred tax balances	3,877	16,586
	40,297	49,872
Changes in net assets and liabilities		
(Increase)/decrease in assets		
Trade and other receivables	3,485	7,816
Finance lease receivable	(15)	-
Inventories	-	(12)
Other current assets	(488)	162
Increase/(decrease) in liabilities		
Trade and other payables	(6,223)	(4,795)
Current provisions	(174)	(645)
Income tax payable	6,892	4,097
Non-current provisions	42	(46)
Other non-current liabilities	488	(162)
	4,007	6,415
Net cash flow from operating activities	**69,694**	**71,569**

The accompanying notes form part of these Financial Statements

Notes To and Forming Part of the Financial Statements

1. Basis of Preparation

Powerco Limited (the 'Company' or 'Powerco') and its subsidiaries (Powerco Transmission Services Limited 'PTS', Independent Transmission Services 'ITS' and Powerco Holdings Limited 'PHL') form the Powerco Group. Powerco Limited is a limited liability company incorporated in New Zealand. The address of its registered office is Level 2, Council Chambers, 84 Liardet St, New Plymouth 4310, New Zealand. The consolidated interim financial statements comply with New Zealand equivalents to International Financial Reporting Standards, NZ IAS 34: Interim Financial Reporting and IAS 34: Interim Financial Reporting. The consolidated interim financial information should be read in conjunction with the annual Financial Statements for the year ended 30 June 2010.

2. Significant Accounting Policies

The consolidated interim 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 Powerco Group annual Financial Statements for the year ended 30 June 2010.

Basis of consolidation

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

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

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

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

Intangible assets – customer contracts

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

Amortisation is calculated using the straight-line method over the relevant contraction terms, being 20 years for PTS.

3. Other Gains/(Losses)

Other gains/(losses) consist of the change in fair value of financial assets and liabilities classified as Held for Trading.

4. Share Capital

The total number of ordinary shares authorised, issued and fully paid at 31 December 2010 was 369,929,053 (2009: 327,912,246). On 1 July 2009, 11,725,471 ordinary shares were issued to Powerco New Zealand Holdings Limited 'PNZHL' at $2.38 per share (totalling $27.865 million) as purchase consideration for the acquisition of subsidiaries (refer to Note 8). On 29 March 2010, 42,016,807 shares were issued to PNZHL at $2.38 per share (totalling $100 million) as an equity contribution.

Each ordinary share in the Company confers on the holder:

(a) The right to one vote on a poll at a meeting of the Company on any resolution;

(b) The right to an equal share in the distributions approved by the Board of Directors; and

(c) The right to an equal share in distribution of the surplus assets of the Company.

The shares have no par value.

Notes To and Forming Part of the Financial Statements

5. Dividends

	UNAUDITED 31 DECEMBER 2010 NZ$000	UNAUDITED 31 DECEMBER 2009 NZ$000
Dividends paid on ordinary shares	-	3,000
Cents per share	-	0.91

6. Property, Plant and Equipment

	UNAUDITED LAND AND BUILDINGS NZ$000	UNAUDITED PLANT AND EQUIPMENT NZ$000	UNAUDITED NETWORK SYSTEMS NZ$000	UNAUDITED WORK IN PROGRESS NZ$000	UNAUDITED TOTAL NZ$000
Gross carrying value					
Balance as at 1 July 2009	10,503	24,688	2,121,473	68,435	2,225,099
Acquisition of subsidiaries - Note 8	-	-	2,939	6,117	9,056
Reclassified as finance lease	-	-	-	(1,521)	(1,521)
Transfers	-	549	48,940	(49,489)	-
Additions	92	534	-	39,146	39,772
Disposals	-	(15)	(7,137)	-	(7,152)
Balance as at 31 December 2009	10,595	25,756	2,166,215	62,688	2,265,254
Balance as at 1 July 2010	10,711	26,490	2,198,758	75,318	2,311,277
Transfers	236	12	48,475	(48,723)	-
Additions	1	954	803	35,581	37,339
Disposals	(937)	(78)	(10,196)	-	(11,211)
Balance as at 31 December 2010	10,011	27,378	2,237,840	62,176	2,337,405
Accumulated depreciation					
Balance as at 1 July 2009	2,812	20,891	433,439	-	457,142
Disposals	-	(11)	(2,163)	-	(2,174)
Depreciation expense	168	1,130	29,262	-	30,560
Balance as at 31 December 2009	2,980	22,010	460,538	-	485,528
Balance as at 1 July 2010	3,161	23,355	488,922	-	515,438
Disposals	(222)	(67)	(4,005)	-	(4,294)
Depreciation expense	146	890	30,632	-	31,668
Balance as at 31 December 2010	3,085	24,178	515,549	-	542,812
Net book value at 31 December 2009	**7,615**	**3,746**	**1,705,677**	**62,688**	**1,779,726**
Net book value at 30 June 2010	**7,550**	**3,135**	**1,709,836**	**75,318**	**1,795,839**
Net book value at 31 December 2010	**6,926**	**3,200**	**1,722,291**	**62,176**	**1,794,593**

Notes To and Forming Part of the Financial Statements

7. Intangible Assets

	UNAUDITED EASEMENTS NZ$000	UNAUDITED CUSTOMER CONTRACTS NZ$000	UNAUDITED SOFTWARE NZ$000	UNAUDITED TOTAL NZ$000
Gross carrying value				
Balance as at 1 July 2009	-	-	19,112	19,112
Additions	-	-	-	-
Acquisition of subsidiaries – Note 8	287	22,064	-	22,351
Balance as at 31 December 2009	287	22,064	19,112	41,463
Balance as at 1 July 2010	558	22,064	19,883	42,505
Additions	570	-	167	737
Disposals	-	-	-	-
Balance as at 31 December 2010	1,128	22,064	20,050	43,242
Accumulated amortisation				
Balance as at 1 July 2009	-	-	9,442	9,442
Amortisation during the period	-	-	456	456
Balance as at 31 December 2009	-	-	9,898	9,898
Balance as at 1 July 2010	-	9,592	10,657	20,249
Amortisation during the period	-	342	402	744
Disposals	-	-	-	-
Balance as at 31 December 2010	-	9,934	11,059	20,993
Net book value at 31 December 2009	**287**	**22,064**	**9,214**	**31,565**
Net book value at 30 June 2010	**558**	**12,472**	**9,225**	**22,256**
Net book value at 31 December 2010	**1,128**	**12,130**	**8,991**	**22,249**

8. Borrowings

During the period, Powerco amended the existing $175 million Revolving Cash Advances facility to include a further $100 million tranche. The new tranche is provided jointly and in equal proportion by ANZ National Bank and Westpac Banking Corporation. The documentation was executed on 6 December 2010 and the new tranche will mature on 1 December 2015, with the funds being used to repay the $100 million Credit Wrapped Bonds, which mature in March 2011. As at 31 December 2010, the drawn amount of the new tranche was zero.

Powerco accepted a committed offer on 9 December 2010 from the Commonwealth Bank of Australia to extend the Working Capital facility by a further three years from its current maturity date of 22 March 2011.

Notes To and Forming Part of the Financial Statements

9. Acquisition of Subsidiaries

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

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

The fair value of the net assets and liabilities in PTS and ITS was $27.865 million. The gross contractual amounts for trade and other receivables due was $5.6 million of which nil was uncollectable.

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

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

	FAIR VALUE - PTS NZ$000	FAIR VALUE - ITS NZ$000	TOTAL NZ$000
Property, plant and equipment	5,316	3,740	9,056
Trade and other receivables	5,569	35	5,604
Cash and cash equivalents	30	69	99
Trade and other payables	(934)	(869)	(1,803)
Revenue in advance	-	(763)	(763)
Current tax liability	(3)	-	(3)
Deferred tax asset	-	229	229
Deferred tax liability	(6,905)	-	(6,905)
Intangible assets - customer contracts	22,351	-	22,351
Fair value of net assets	**25,424**	**2,441**	**27,865**

Purchase consideration settled in cash	-
Cash and cash equivalents in subsidiaries acquired	99
Cash inflow on acquisition	**99**

10. Seasonality of Interim Operations

Due to climatic conditions and based on historical data, operating revenue recognised in the six months ending on 31 December each financial year tends to be slightly higher than that recognised for the six months ending 30 June.

11. Segmental Reporting

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

1) Electricity lines – electricity line distribution

2) Gas lines – gas line distribution

3) Transmission – design and construction of electrical transmission assets

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

FOR THE 6 MONTHS ENDED 31 DECEMBER 2010	UNAUDITED ELECTRICITY LINES NZ$000	UNAUDITED GAS LINES NZ$000	UNAUDITED TRANSMISSION NZ$000	UNAUDITED ALL OTHER SEGMENTS NZ$000	UNAUDITED ELIMINATIONS NZ$000	UNAUDITED TOTAL NZ$000
Revenue						
External sales	158,363	25,776	664	1,062	-	185,865
Inter-segmental income	-	-	-	1,095	(1,095)	-
Total segment revenues	**158,363**	**25,776**	**664**	**2,157**	**(1,095)**	**185,865**
Segment result	**71,852**	**14,374**	**402**	**(5,713)**	**-**	**80,915**
Finance costs						(44,757)
Profit before tax						**36,158**
Income tax expense						(10,768)
Net profit for the period						**25,390**

FOR THE 6 MONTHS ENDED 31 DECEMBER 2009	UNAUDITED ELECTRICITY LINES NZ$000	UNAUDITED GAS LINES NZ$000	UNAUDITED TRANSMISSION NZ$000	UNAUDITED ALL OTHER SEGMENTS NZ$000	UNAUDITED ELIMINATIONS NZ$000	UNAUDITED TOTAL NZ$000
Revenue						
External sales	158,027	25,252	415	3,573	-	187,267
Inter-segmental income	-	-	-	539	(539)	-
Total segment revenues	**158,027**	**25,252**	**415**	**4,112**	**(539)**	**187,267**
Segment result	**74,612**	**19,564**	**302**	**(24,912)**	**-**	**69,565**
Finance costs						(46,653)
Profit before tax						**22,912**
Income tax expense						(7,630)
Net profit for the period						**15,282**

The comparative numbers have been restated to separate out the transmission business to be consistent with Powerco Group's 30 June 2010 published Financial Statements. Previously, the transmission revenue and expenses were included in the electricity lines revenue and expenses.

12. Transactions with Related Parties

Trading transactions

Powerco has an inter-company loan with PNZHL for $439k (2009:$392k). The loan is unsecured and is non interest bearing.

Powerco paid a $3 million dividend to PNZHL in August 2009. There has been no dividend paid by Powerco to PNZHL as at 31 December 2010.

Powerco acquired subsidiaries from PNZHL in July 2009 in exchange for ordinary shares (refer Note 8 and Note 3).

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

13. Contingent Liabilities and Commitments

CONTINGENT LIABILITIES

Contracts

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

14. Subsequent Events

There have been no subsequent events since 31 December 2010 that require adjustment of, or disclosure in, the Financial Statements.

Directory

DIRECTORS

R Bettle
(Chairman)

M Cummings

A Knight

L Moorhead

T Parry

J Sellar

EXECUTIVE MANAGEMENT TEAM

E R Krogh
Chief Executive*

N D Barbour
General Manager Electricity

D Martin
Chief Financial Officer

B Evans-Parker
Information Services Manager

A McLeod
General Manager Gas

P H Goodeve
Regulatory and Business Manager

*Note: Following the close of the financial period Nigel Barbour was appointed Acting Chief Executive to replace out-going chief executive Richard Krogh.

REGISTERED OFFICE

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

AUDITORS

Deloitte

BANKERS

Westpac Banking Corporation
ANZ National Bank Limited
Commonwealth Bank of Australia

SHARE REGISTRY

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

POWERCO