POWERCO

HALF YEAR REPORT 2007

Contents

On behalf of Powerco and the Executive Management Team I am pleased to present security-holders with this interim report covering the half year to December 2006.

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

In Tasmania, progress with stage two of the gas distribution network build is nearing completion and residential consumer connection inquiries are increasing at a steady rate.

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

For the half year ended 31 December 2006, net profit after tax was $27.0 million from total revenues of $179.2 million. Powerco's Ebitda for the six months to December 31 2006 was $119.0 million.

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

Richard Krogh
CHIEF EXECUTIVE

CONSOLIDATED BALANCE SHEET

As at 31 December 2006

	Notes	Unaudited As at 31 Dec 2006 $000	Unaudited As at 31 Dec 2005 $000	Audited As at 30 Jun 2006 $000
Equity				
Issued capital		570,300	570,300	570,300
Reserves		(45,943)	(30,296)	(37,162)
Parent equity interest	3	524,357	540,004	533,138
Minority interest		-	38	-
		524,357	540,042	533,138
Non Current Liabilities				
Borrowings	5	1,012,138	979,264	1,020,176
Other financial liabilities		61,306	61,409	41,143
Deferred tax liability		136,062	119,832	125,940
Provisions		336	-	425
Other non current liabilities		39,098	3,056	34,022
		1,248,940	1,163,561	1,221,706
Current Liabilities				
Borrowings	5	176,059	158,497	175,740
Provisions		1,679	1,876	2,257
Trade and other payable		34,093	45,245	37,245
Other current liabilities		6,400	87	4,824
		218,231	205,705	220,066
Total Equity and Liabilities		**1,991,528**	**1,909,308**	**1,974,910**
Non Current Assets				
Property, plant and equipment		1,933,354	1,857,399	1,906,830
Intangible assets		11,026	-	11,430
Goodwill		-	519	-
Deferred tax asset		10,119	-	5,798
Investments		-	355	-
		1,954,499	1,858,273	1,924,058
Current Assets				
Assets held for resale		-	44	-
Inventories		2,933	21	3,258
Trade and other receivables		29,512	44,955	36,672
Income tax receivable		-	-	3,539
Other current assets		2,733	3,942	2,938
Cash and cash equivalents		1,851	2,073	4,445
		37,029	51,035	50,852
Total Assets		**1,991,528**	**1,909,308**	**1,974,910**

CONSOLIDATED INCOME STATEMENT

For the six months ended 31 December 2006

	Notes	Unaudited 6 months ended 31 Dec 2006 $000	Unaudited 6 months ended 31 Dec 2005 $000
Continuing Operations			
Revenue		179,223	165,932
Cost of sales		36,471	26,326
Gross profit		**142,752**	**139,606**
Other income		8,815	7,350
Operating expenses		17,440	16,018
Administration expenses		15,098	12,426
Other expenses		39,653	36,022
Earnings before interest and taxation		**79,376**	**82,490**
Finance costs		43,070	44,619
Operating surplus before tax		**36,306**	**37,871**
Income tax expense		9,308	9,687
Profit for the period from continuing operations		**26,998**	**28,184**
Discountinued Operations			
Profit for the year from discontinued operations	7	-	(193)
Profit for the period		**26,998**	**27,991**
Attributed to:			
Equity holders of parent		26,998	27,991
Minority interest		-	-
		26,998	**27,991**
Earnings per share		**8.5 cents**	**8.9 cents**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 31 December 2006

	Notes	Unaudited Share Capital NZ$000	Unaudited Retained Earnings NZ$000	Unaudited Foreign Exchange Reserve NZ$000	Unaudited Hedge Reserve NZ$000	Unaudited Minority Interest NZ$000	Unaudited Total NZ$000
Balance as at 1 July 2005		**570,300**	**(31,235)**	**(51)**	**-**	**38**	**539,052**
Exchange differences arising on translation of foreign operations		-	-	(831)	-	-	(831)
Cashflow hedges Gain/(loss) taken to equity		-	-	-	1,228	-	1,228
Net income recognised directly in equity		**-**	**-**	**(831)**	**1,228**	**-**	**397**
Profit for the period		-	27,991	-	-	-	27,991
Total recognised income and expense		**-**	**27,991**	**(831)**	**1,228**	**-**	**28,388**
Dividends	4	-	(37,057)	-	-	-	(37,057)
Balance as at 31 December 2005		**570,300**	**(40,301)**	**(882)**	**1,228**	**38**	**530,383**
Effect of change in accounting policy		-	9,659	-	-	-	9,659
As restated		**570,300**	**(30,642)**	**(882)**	**1,228**	**38**	**540,042**
Balance as at 1 July 2006		**570,300**	**(35,280)**	**4,807**	**(6,689)**	**-**	**533,138**
Exchange differences arising on translation of foreign operations		-	-	(3,826)	-	-	(3,826)
Cashflow hedges Gain/(loss) taken to equity		-	-	-	3,587	-	3,587
Income tax on items taken directly to or transferred from equity		-	-	-	(1,184)	-	(1,184)
Net income recognised directly in equity		**-**	**-**	**(3,826)**	**2,403**	**-**	**(1,423)**
Profit for the period		-	26,998	-	-	-	26,998
Total recognised income and expense		**-**	**26,998**	**(3,826)**	**2,403**		**25,575**
Dividends	4	-	(34,356)	-	-	-	(34,356)
Balance as at 31 December 2006		**570,300**	**(42,638)**	**981**	**(4,286)**	**-**	**524,357**

CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 31 December 2006

	Notes	Unaudited 6 months ended 31 Dec 2006 $000	Unaudited 6 months ended 31 Dec 2005 $000
Cash Flows from Operating Activities			
Cash receipts from customers		209,683	214,450
Cash paid to suppliers and employees		(78,888)	(112,453)
Dividends received		-	9
Interest received		77	130
Tasmanian government contribution		8,876	-
GST received/(paid)		(6,796)	(11,777)
Income taxes received/(paid)		(66)	(82)
Interest paid		(42,806)	(45,387)
Net Cash Inflow/(Outflow) from Operating Activities		**90,080**	**44,890**
Cash Flows from Investing Activities			
Proceeds from sale of investments		-	9,823
Proceeds from sale of subsidiaries		-	18,108
Proceeds from sale of property, plant and equipment		-	144
Purchase of property, plant and equipment		(87,993)	(65,937)
Purchase of investments		-	(138)
Net Cash Inflow/(Outflow) from Investing Activities		**(87,993)**	**(38,000)**
Cash Flows from Financing Activities			
Proceeds from borrowings		29,275	44,813
Repayment of borrowings		-	(492)
Dividends paid	4	(34,356)	(37,057)
Net Cash Inflow/(Outflow) from Financing Activities		**(5,081)**	**7,264**
Net Increase/(Decrease) in Cash Held		**(2,994)**	**14,154**
Opening cash balances		(24,055)	(23,381)
Closing Cash Balances		**(27,049)**	**(9,227)**
Comprises of the following:			
Cash and deposits		1,851	2,073
Bank overdraft		(28,900)	(11,300)
		(27,049)	**(9,227)**

POWERCO LIMITED

RECONCILIATION OF PROFIT FOR THE PERIOD TO NET CASH FLOWS FROM OPERATING ACTIVITIES

For the six months ended 31 December 2006

	Unaudited 6 months ended 31 Dec 2006 $000	Unaudited 6 months ended 31 Dec 2005 $000
Operating Surplus after Taxation	**26,998**	**27,991**
Add/(Less) Non-cash Items		
Depreciation	34,943	36,276
Goodwill write off	-	387
Loss/(gain) on sale of assets	4,709	(36)
Loss/(gain) on sale of investments	-	(11,777)
Non-cash component of interest	1,334	-
Unrealised loss/(gain) on hedges	(7,018)	-
Non-cash items in relation to investing/financing activities	2,336	-
Increase/(decrease) in deferred tax balances	4,159	-
	40,463	24,850
Movements in Working Capital		
Receivables	5,418	34,775
Tax refund due/tax payable	4,842	7,866
Inventories	323	7,266
Payables	12,390	(57,340)
Prepayments	(354)	(518)
	22,619	(7,951)
Net Cash Flow from Operating Activities	**90,080**	**44,890**

1. BASIS OF PREPARATION

The condensed financial statements have been prepared in accordance with International Accounting Standards (IAS) 34, Interim Financial Reporting.

2. SIGNIFICANT ACCOUNTING POLICIES

The condensed financial statements have been prepared under the historical cost convention, except for certain borrowings and financial instruments.

The accounting policies adopted are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 30 June 2006.

3. SHARE CAPITAL

Total number of fully paid ordinary shares issued at 31 December 2006 amounted to 316,186,775 (31 December 2005: 316,186,775).

4. DIVIDENDS

	Unaudited 6 months ended 31 Dec 2006 NZ$000	Unaudited 6 months ended 31 Dec 2005 NZ$000
Dividends paid on ordinary shares	34,356	37,057
Cents per share	10.9	11.7

5. BORROWINGS

During the period Powerco added a revolving cash advances tranche of $30 million to the existing standby facility. This tranche is jointly provided by Westpac, ANZ National Bank and Commonwealth Bank of Australia and is due to expire on 3 August 2009. As at 31 December 2006 no amounts had been drawn on this facility.

In the previous year ended 30 June 2006, during September 2005 Powerco issued $180 million of secured, unsubordinated Credit Wrapped Bonds, guaranteed by XL Capital Assurance. These mature in 2012 and 2017 and have quarterly interest rates fixed at 6.59% and 6.74% respectively. These bonds replaced $180 million of bank debt used to refinance the redemption of the redeemable bonds. Also, in May 2006 the Tasmanian construction facility was increased to AUD$100 million to provide for the completion of the Tasmanian gas network. This is provided by Westpac and expires in August 2007.

6. CONTINGENT LIABILITIES AND COMMITMENTS

Contingencies

Legal claims

Powerco Energy Services Pty Limited is the respondent in an arbitration commenced by KT Pty Limited, a sub-contractor who was performing work on the Gas Distribution Network in Tasmania. The plaintiffs allege variations to the contract, delay costs and claim damages. The claim is currently being defended by Powerco Energy Services Pty Limited, which contends that it is not in breach of the contract and has brought a counter claim against the plaintiffs for the cost of defective work. The directors believe a successful outcome will be achieved as a result of the arbitration. However, there is a potential liability of AUD$3.1 million. No provision for the claim has been included in the financial statements.

Taxation risk

The Inland Revenue Department (IRD) has issued a Notice of Proposed Adjustment dated 27 November 2006 which proposes to disallow depreciation calculated using the market value of former Powerco assets for the 2002, 2003, 2004 and 2005 income tax years. It proposes using the original cost of the former Powerco assets as the basis for calculating the tax depreciation (the 2001 income tax year is statute barred).

Powerco, along with its tax advisors and senior legal counsel disagree with this treatment and has issued a Notice of Response on 26 January 2007, stating that no adjustment is required.

The potential liability arising from the IRD's argument could range from between $nil to $22.4 million (including $5.9 million use of money interest).

Contribution from Tasmanian government

In January 2004, prior to the acquisition, Powerco received a contribution from the State Government of Tasmania amounting to AUD$8 million, for the building of a gas distribution network in Tasmania. This payment, know as an establishment contribution, is consideration for taking all necessary steps to incorporate a gas distribution entity and procuring that the gas distribution entity is established with access to the necessary expertise, assets and financial capability to undertake the Stage 1 Development Agreement with the Crown in Right of the State Government of Tasmania dated 30 April 2003. There is a refund mechanism on sale of assets or the shares in the gas distribution entity whereby Powerco must repay the State an amount equal to the lesser of the establishment contribution and the asset/equity profit.

In May 2005, Powerco Limited received a contribution from the State Government of Tasmania amounting to $20.6 million (AUD$18.4 million), as an advance on the commencement of stage II of the gas distribution network built in Tasmania. An amount of $234,000 (AUD$201,000) has been recognised as revenue in this financial period, based on calculating a set percentage of the depreciation charge of the capitalised project costs. There is a refund mechanism whereby Powerco Limited must repay the State if Powerco fails to perform certain obligations under the agreeement. If this occurs Powerco is required to refund a pro rata amount based on uncompleted construction at the time of termination.

There has been no change in any other contingent liability disclosed in the last annual report.

Commitments

	Unaudited 31 Dec 2006 $000	Unaudited 31 Dec 2005 $000	Audited 30 Jun 2006 $000
Commitments for future capital expenditure resulting from contracts entered into:	219,831	67,314	247,059

7. DISCONTINUED ACTIVITIES

Powerco Energy Services Limited and Powerco Energy Services Eastern Limited were sold on 31 October 2005 to Tenix Alliance New Zealand Limited. These businesses were both fully owned subsidiaries of Powerco Limited and their principal activity is electrical and gas contracting.

	Unaudited to 31 Dec 2006 $000	Unaudited to 31 Dec 2005 $000
The profit/(loss) for the period from the discontinued operation is analysed as follows:		
Revenue	-	15,553
Operating costs	-	19,470
	-	(3,917)
Gain on disposal	-	3,724
	-	**(193)**

	Unaudited to 31 Dec 2006 $000	Unaudited to 31 Dec 2005 $000
The net assets at the date of disposal were as follows:		
Net assets disposed of	-	14,384
Gain on disposal	-	3,724
Total consideration	**-**	**18,108**

8. SEASONALITY OF INTERIM OPERATIONS

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

9. SEGMENTAL REPORTING

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

Electricity lines	– electricity line distribution
Gas lines	– gas line distribution
Management services	– provision of the following management and administration services: corporate management legal counsel corporate finance and debt management asset management information systems pricing and billing operational finance and administration
Gas reticulation, gas contracting and gas retailing	– gas line distribution – gas contracting services – retailing of gas

In prior years, the Group was also involved in electricity and gas field services and contracting. That operation was discontinued with effect from 1 November 2005.

Segment information about the Group's continuing operations is presented below.

For the 6 months ended 31 December 2006	Unaudited Electricity Lines $000	Unaudited Gas Lines $000	Unaudited Management Services $000	Unaudited Gas Reticulation, Contracting & Retailing $000	Unaudited Unallocated $000	Unaudited Eliminations $000	Unaudited Total $000
Revenue	137,337	28,793	-	-	4,313	8,780	179,223
Segment result from continuing operations	**62,514**	**20,611**	**(14,004)**	**(1,774)**	**12,029**	**-**	**79,376**
Finance costs							43,070
Profit before tax							**36,306**
Income tax expense							9,308
Profit for the year from continuing operations							**26,998**

For the 6 months ended 31 December 2005	Unaudited Electricity & Gas Field Services $000	Unaudited Electricity Lines $000	Unaudited Gas Lines $000	Unaudited Management Services $000	Unaudited Gas Reticulation, Contracting & Retailing $000	Unaudited Unallocated $000	Unaudited Eliminations $000	Unaudited Total $000
Revenue	25,576	125,568	28,009	-	2,117	6,515	(6,300)	181,485
Segment result from continuing operations	**-**	**60,312**	**21,653**	**(12,189)**	**(2,107)**	**16,936**	**(2,115)**	**82,490**
Finance costs								44,619
Profit before tax								**37,871**
Income tax expense								9,687
Profit for the year from continuing operations								**28,184**
Segment result from discontinued operations								(3,917)
Gain on disposal								3,724
Profit for the year from discontinued operations								**(193)**
Net profit for the year								**27,991**

10. COMPARATIVE FIGURES

The comparative numbers disclosed in these statements match those published in the interim financial statements for the year ended 31 December 2005. However, they have been reclassified, where necessary, to acheive consistency in disclosure with the current year. They have not been revised for further accounting treatment changes made as part of the transition to NZ IFRS that were included in the last annual accounts.

11. SUBSEQUENT EVENTS

There have been no significant subsequent events since 31 December 2006.

Directory

Directors
S R Boulton (Chairman)
N D Barbour
S E Ekanayake
J W Kendrew
E R Krogh
N J O'Day
J M Sellar

Executive Management Team
E R Krogh – Chief Executive
N D Barbour – General Manager Commercial & Corporate
S E Ekanayake – Chief Financial Officer
B Evans-Parker – Information Services Manager
S J Nicholls – Network Service Delivery Manager
R J Sheather – General Manager Tasmania
M J Whaley – Network Asset Strategy Manager

Registered Office
Level 2, Council Chambers
84 Liardet Street
Private Bag 2061
New Plymouth 4310
New Zealand
Telephone 0800 769 372
Facsimile +64 6 759 6723
www.powerco.co.nz

Auditors
Deloitte

Bankers
Westpac Banking Corporation
Commonwealth Bank of Australia
ANZ Investment Bank

Share Registry
Computershare Investor Services Limited
Private Bag 92 119
Auckland 1020