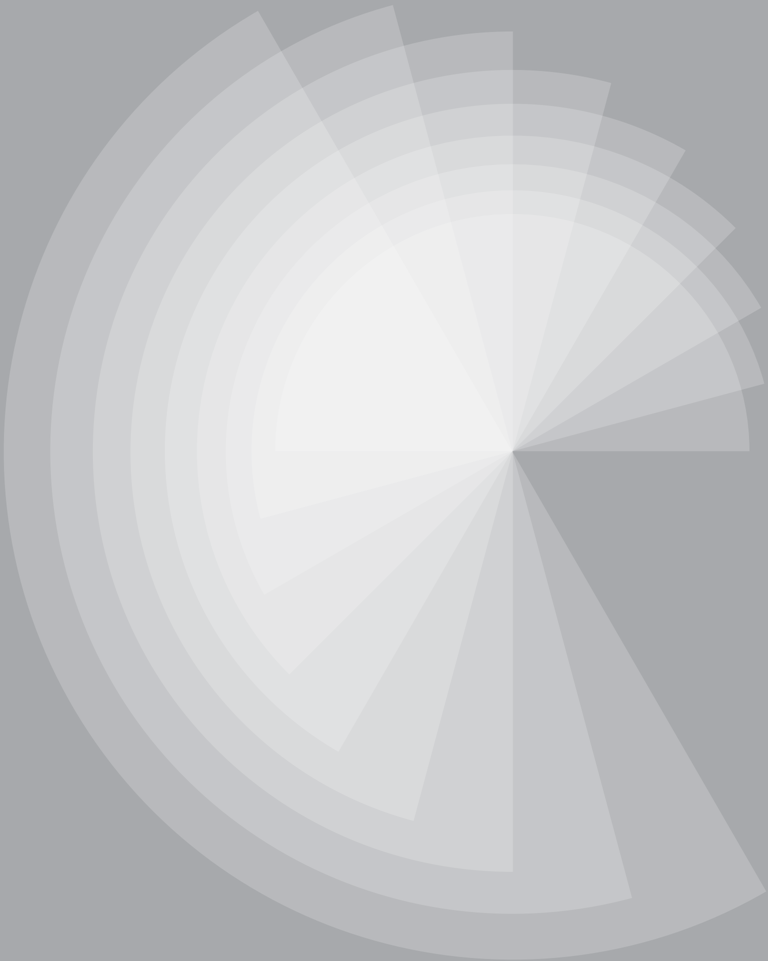

POWERCO

INTERIM REPORT 2008

Contents

Letter to security holders

On behalf of the Powerco Board and Executive Management Team, I am pleased to present security holders with this interim report covering the half year to December 2007.

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 electricity and gas distribution sectors in New Zealand. The review of the Commerce Act, Parts 4 and 4A has the potential to provide greater clarity and balance for New Zealand infrastructure regulation. We also continue to work with the Commerce Commission to finalise the price control arrangements for our gas network and look forward to this being resolved in a manner consistent with good regulatory principles.

In Tasmania, stage two of the gas distribution network build has been completed and residential consumer connections and inquiries are performing well.

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 grow.

For the half year ended 31 December 2007, net profit after tax was $5.8 million. On a direct comparison this is 79% below the previous year's half-year net surplus of $27.0 million. However, the comparative previous year results were positively impacted by mark-to-market gains of financial derivatives amounting to $7 million and reduced interest costs and other operational costs from our Australian operations, which became fully operational from April 2007 after completion of the network construction phase. In addition, the current period's results have been negatively impacted by a one-off adjustment for deferred tax amounting to $10.2 million recognising the non-taxable capital construction costs arising from customer initiated works programmes. On that basis net operating profit after tax does not reflect a meaningful comparison of financial performance from year to year.

At more comparable levels, total revenue for the period was $186.8 million, a 4% increase over the previous year and operational earnings before interest, tax, depreciation and amortizations (EBITDA) of $113.1 million, an increase of 2.6% over the previous year.

We enter the second half of the year with a highly capable team, focused on 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 2007

	Notes	Unaudited as at 31 Dec 2007 NZ$000	Unaudited as at 31 Dec 2006 NZ$000	Audited as at 30 Jun 2007 NZ$000
Equity				
Issued capital		570,300	570,300	570,300
Reserves		(49,158)	(45,943)	(35,727)
Parent equity interest	3	521,142	524,357	534,573
Non-current Liabilities				
Borrowings	5	982,336	1,012,138	975,116
Other financial liabilities		96,878	75,260	112,773
Deferred tax liability		159,637	136,062	128,869
Provisions		451	336	337
Other non-current liabilities		49,811	39,098	49,167
		1,289,113	1,262,894	1,266,262
Current Liabilities				
Borrowings	5	225,643	176,059	208,544
Provisions		2,714	1,679	2,976
Trade and other payables		36,955	34,093	37,000
Income tax payable		2,404	1,302	2,393
Other current liabilities		3,010	5,098	3,134
		270,726	218,231	254,047
Total equity and liabilities		**2,080,981**	**2,005,482**	**2,054,882**
Non-current Assets				
Property, plant and equipment		1,962,652	1,933,354	1,950,829
Intangible assets		13,457	11,026	12,808
Other financial assets		36,682	12,038	39,767
Deferred tax asset		27,991	10,119	11,302
		2,040,782	1,966,537	2,014,706
Current Assets				
Inventories		3,017	2,933	3,166
Trade and other receivables		30,224	29,512	34,272
Other current assets		1,691	2,733	1,904
Other financial assets		3,863	1,916	-
Cash and cash equivalents		1,404	1,851	834
		40,199	38,945	40,176
Total assets		**2,080,981**	**2,005,482**	**2,054,882**

The accompanying notes form part of these financial statements.

Consolidated Income Statement

For the six months ended 31 December 2007

	Notes	Unaudited 6 months to 31 Dec 2007 NZ$000	Unaudited 6 months to 31 Dec 2006 NZ$000
Continuing Operations			
Revenue		174,379	170,209
Cost of sales		(34,935)	(36,471)
Gross profit		**139,444**	**133,738**
Other income		12,377	9,014
Operating expenses		(21,700)	(17,440)
Administration expenses		(18,450)	(15,098)
Other expenses		(41,027)	(39,653)
Earnings before interest and taxation		**70,644**	**70,561**
Finance costs		(49,606)	(34,255)
Operating surplus before tax		**21,038**	**36,306**
Income tax expense	6	(15,254)	(9,308)
Profit for the period from continuing operations		**5,784**	**26,998**
Attributed to:			
Equity holders of parent		5,784	26,998
Earnings per share		1.8 cents	8.5 cents

The accompanying notes form part of these financial statements.

Consolidated Statement of Changes in Equity

For the six months ended 31 December 2007

	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 2006		**570,300**	**(35,280)**	**4,807**	**(6,689)**	**-**	**533,138**
Exchange differences arising on translation of foreign operations		-	-	(3,826)	-	-	(3,826)
Cash flow hedges:							
Gain 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**	**-**	**-**	**-**	**26,998**
Dividends	4	-	(34,356)	-	-	-	(34,356)
Balance as at 31 December 2006		**570,300**	**(42,638)**	**981**	**(4,286)**	**-**	**524,357**
Balance as at 1 July 2007		**570,300**	**(37,040)**	**(780)**	**2,093**	**-**	**534,573**
Exchange differences arising on translation of foreign operations		-	-	3,028	-	-	3,028
Cash flow hedges:							
Gain taken to equity		-	-	-	2,434	-	2,434
Income tax on items taken directly to or transferred from equity		-	-	-	838	-	838
Net income recognised directly in equity		**-**	**-**	**3,028**	**3,272**	**-**	**6,300**
Cash flow hedges:							
Transferred to profit or loss for the period		-	-	-	(1,686)	-	(1,686)
Profit for the period		-	5,784	-	-	-	5,784
Total recognised income and expense		**-**	**5,784**	**-**	**(1,686)**	**-**	**4,098**
Dividends	4	-	(23,829)	-	-	-	(23,829)
Balance as at 31 December 2007		**570,300**	**(55,085)**	**2,248**	**3,679**	**-**	**521,142**

The accompanying notes form part of these financial statements.

Consolidated Statement of Cash Flows

For the six months ended 31 December 2007

	Unaudited 6 months to 31 Dec 2007 NZ$000	Unaudited 6 months to 31 Dec 2006 NZ$000
Cash Flows from Operating Activities		
Cash receipts from customers	202,309	209,683
Cash paid to suppliers and employees	(80,442)	(78,888)
Interest received	90	77
Tasmanian government contribution	-	8,876
GST paid	(9,181)	(6,796)
Income taxes paid	(57)	(66)
Interest paid	(46,095)	(42,806)
Net cash provided by operating activities	**66,624**	**90,080**
Cash Flows from Investing Activities		
Proceeds from sale of property, plant and equipment	8	-
Purchase of property, plant and equipment	(45,859)	(87,993)
Net cash used in investing activities	**(45,851)**	**(87,993)**
Cash Flows from Financing Activities		
Proceeds from borrowings	16,462	29,275
Dividends paid	(23,829)	(34,356)
Net cash used in financing activities	**(7,367)**	**(5,081)**
Net decrease in cash and cash equivalents	13,406	(2,994)
Cash and cash equivalents at the beginning of the period	(30,727)	(24,055)
Effects on exchange rate changes on the balance of cash held in foreign currencies	25	-
Cash and cash equivalents at the end of the period	**(17,296)**	**(27,049)**
Comprises of the following:		
Cash and deposits	1,404	1,851
Bank overdraft	(18,700)	(28,900)
	(17,296)	**(27,049)**

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 2007

	Unaudited 6 months to 31 Dec 2007 NZ$000	Unaudited 6 months to 31 Dec 2006 NZ$000
Profit after taxation	**5,784**	**26,998**
Add (Less) non-cash items		
Depreciation	35,250	34,943
Loss on sale of assets	5,777	4,709
Non-cash component of finance costs	1,321	1,334
Unrealised loss/(gain) on hedges	242	(7,018)
Non-cash items in relation to investing / financing activities	(578)	2,336
Increase in deferred tax balances	14,079	4,159
	56,091	40,463
Changes in net assets and liabilities		
(Increase)/Decrease in assets		
Trade and other receivables	4,048	5,418
Inventories	149	323
Other current assets	214	(354)
Increase/(decrease) in liabilities		
Trade and other payables	(45)	4,386
Current provisions	(262)	(755)
Income tax payable	11	4,842
Non-current provisions	114	89
Other liabilities	520	8,670
	4,749	22,619
Net cash flow from operating activities	**66,624**	**90,080**

The accompanying notes form part of these financial statements.

Notes To and Forming Part of the Financial Statements

1. Basis of Preparation

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

2. Significant Accounting Policies

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

The accounting policies adopted are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 30 June 2007

3. Share Capital

Total number of fully paid ordinary shares issued at 31 December 2007 amounted to 316,186,775 (31 December 2006: 316,186,775).

4. Dividends

	Unaudited 31 Dec 2007 NZ$000	**Unaudited 31 Dec 2006 NZ$000**
Dividends paid on ordinary shares	23,829	34,356
Cents per share	7.5	10.9

5. Borrowings

During the period Powerco increased the revolving cash advances tranche of the existing Standby Facility from NZ$30 million to NZ$60 million. 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 2007 $30 million had been drawn on this facility.

In August 2007 Powerco refinanced its AU$100m bank debt facility into an AU$90 million 5 year Credit Wrapped term loan and AU$40 million 3 year revolving cash advances facility.

6. Taxation Expense

The current period's taxation expense has been impacted by an adjustment to the deferred taxation account amounting to $10.137 million to recognise the effect of non-capitalisation of capital expenditure relating to the customer initiated works programme for tax purposes.

7. Contingent Liabilities and Commitments

Contingent Liabilities

Legal claims

Powerco Limited has been named as a second defendant in a claim issued by Todd Energy Limited against Transpower Limited. The plaintiffs allege various breaches of the Commerce Act 1986 and claim various declarations and injunctions together with damages. The damages amount is presently unquantified. The claim is being defended by Powerco, which contends that it is not in breach of any of its obligations. No provision for the claim has been included in the financial statements.

Taxation risk

The 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).

In addition, the IRD has raised an issue of whether the proportion of the price paid by Powerco for the purchase of (1) CentralPower and former Powerco's assets in 2000; (2) AGL's Hutt Valley and Porirua Basin gas network in 2001; and (3) certain Bay of Plenty and Thames Valley electricity assets and lower North Island gas assets of United Networks Limited in 2002 attributed to fixed assets and goodwill is correct and as a consequence whether the value of depreciable property and depreciable loss for the 2002, 2003, 2004, 2005 and 2006 tax years are correct.

The Commissioner is currently investigating this issue further. If, following the Commissioner's further investigations, there is a dispute between the Commissioner and Powerco with respect to the foregoing and this dispute is not resolved by agreement, the Commissioner may issue a notice of proposed adjustment. If the Commissioner issues a notice of proposed adjustment, Powerco can challenge the adjustment. The potential total liability arising from this dispute cannot be accurately estimated at this stage. Powerco continues to provide additional information as requested by the IRD to facilitate the process.

Contracts

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

Contribution from Tasmanian government

In January 2004, 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 ensuring 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 the 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.

Powerco Tasmania has entered into a Deed of Settlement with the Tasmanian government indemnifying the Government against any losses or damages on the constructed gas network for a period of 10 years. The extent to which an outflow or cash will be required is dependent on any claims being made by the Tasmanian government in relation to this indemnity.

Significant Regulatory Events

Powerco and Vector Limited ('Vector') had their application for a judicial review of the Commerce Commission and Government's decision to impose control over both companies' gas distribution businesses declined in December 2007. Costs have been awarded against Powerco and Vector, Powerco's share of costs has not been quantified and is not expected to exceed $1 million. Powerco is currently considering appealing this decision.

The Commerce Commission issued a draft decision on control of gas distribution services for Powerco and Vector on 5 October 2007. The draft decision proposes reducing Powerco's gas distribution service charges by 42% in 2008, with annual allowable price changes thereafter of CPI -2% until 2011. Powerco and others have submitted responses to the Commission's draft decision and a conference has been scheduled for February 2008. Implementation of the Commission's final decision is not expected until 1 October 2008. The impact of this process cannot be quantified at this stage and in any event the Commission's decision will have no revenue impact on the 2007/08 financial year.

On 19 December 2007, the Commission released its first Discussion Paper on its approach to the 2009 Electricity Threshold/Default price path reset. The Discussion Paper included insufficient detail to allow any conclusions to be drawn about the shape of Powerco's future X factor, other than to indicate that Powerco's position relative to other distribution companies remains similar to that which applied for the 2004 Threshold. The 2009 Threshold reset is expected to be overtaken by the Government's proposed changes to the Commerce Act to ensure additional transparency, consistency and investment incentives for infrastructure companies.

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

Contingent Assets

Legal claims

Powerco has made a claim against the Wellington City Council for damage to its gas network caused by their water mains, and costs incurred as a result of the gas outage. It is estimated the final claim will be in the order of $3 million.

Commitments

	Unaudited to 31 Dec 2007 NZ$000	Unaudited to 31 Dec 2006 NZ$000	Audited to 30 Jun 2007 NZ$000
Commitments for future capital expenditure resulting from contracts entered into:	**85,965**	**219,831**	**72,516**

8. Seasonality of Interim Operations

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

9. Segmental Reporting

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

1) Electricity lines	– electricity line distribution
2) Gas lines	– gas line distribution
3) Gas reticulation, gas contracting and gas retailing	– gas contracting services – retailing of gas

During the second half of the previous financial year the management services provided by Powerco Network Management Limited were amalgamated into the Parent Company. The comparative balances for the management services segment in the six months to December 2006 have been reclassified between electricity lines, gas lines and unallocated to be comparable with the current period balances.

For the 6 months ended 31 December 2007	Unaudited Electricity Lines NZ$000	Unaudited Gas Lines NZ$000	Unaudited Gas Reticulation Contracting Retailing NZ$000	Unaudited Unallocated NZ$000	Unaudited Eliminations NZ$000	Unaudited Total NZ$000
Revenue						
External sales	148,825	32,516	4,389	1,026	-	186,756
Inter-segment sales	-	-	-	1,140	(1,140)	-
Total segment revenues	**148,825**	**32,516**	**4,389**	**2,166**	**(1,140)**	**186,756**
Segment result from continuing operations	**58,081**	**17,955**	**(2,913)**	**(2,479)**	**-**	**70,644**
Finance costs						(49,606)
Profit before tax						**21,038**
Income tax expense						(15,254)
Net profit for the period						**5,784**

For the 6 months ended 31 December 2006	Unaudited Electricity Lines NZ$000	Unaudited Gas Lines NZ$000	Unaudited Gas Reticulation Contracting Retailing NZ$000	Unaudited Unallocated NZ$000	Unaudited Eliminations NZ$000	Unaudited Total NZ$000
Revenue						
External sales	144,857	31,093	2,013	1,260	-	179,223
Inter-segment sales	-	-	-	-	-	-
Total revenue	**144,857**	**31,093**	**2,013**	**1,260**	**-**	**179,223**
Segment result from continuing operations	**54,112**	**15,607**	**(418)**	**1,260**	**-**	**70,561**
Finance costs						(34,255)
Profit before tax						**36,306**
Income tax expense						(9,308)
Net profit for the period						**26,998**

10. Comparative Figures

Changes have been made to the previous interim period's comparative numbers disclosed in the Income Statement, Balance Sheet and Statement of Cash Flows to provide more clarity and to be consistent with the current interim reporting period and the June 07 audited accounts.

11. Subsequent Events

There have been no significant subsequent events since 31 December 2007.

Directory

Directors

J W Kendrew *(Chairman)*
N D Barbour
S E Ekanayake
E R Krogh
J M Sellar
A Van Jaarsveldt

Executive Management Team

E R Krogh
Chief Executive
N D Barbour
General Manager Commercial and Corporate
S E Ekanayake
Chief Financial Officer
B Evans-Parker
IS Manager
S Nicholls
Network Service Delivery Manager
R Sheather
General Manager Tasmania
M Whaley
Network Asset Strategy Manager

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Deloitte

Bankers

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Commonwealth Bank of Australia
ANZ Investment Bank

Share Registry

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