



delivering
the future



HIGHLIGHTS

- Net surplus of NZ\$48 million on a revenue of NZ\$213.5 million
- Interim dividend of 16c per share
- Acquired Orion gas distribution network for NZ\$550 million and integrated into UnitedNetworks in two months
- Announced intention to build, own and manage fibre optic networks in Auckland and Wellington CBD's

Dear Shareholder

It's a great pleasure to report to you UnitedNetworks' results for the six-month period to 30 June 2000.

Eighteen months ago, UnitedNetworks transformed itself into the largest electricity lines network company in New Zealand when Power New Zealand purchased the lines businesses of TransAlta and TrustPower. Combining the three businesses has provided UnitedNetworks with strong economies of scale resulting in synergy gains, a more efficient business and a solid base of earnings.

Taking advantage of a strategic opportunity to enter the natural gas sector, the company successfully acquired the Orion gas distribution network for NZ\$550 million in April 2000. Geographically overlapping UnitedNetworks' electricity networks, this asset provides the opportunity to capture synergies, to obtain significant growth opportunities with small capital requirements and to initiate dual fuel marketing strategies. It also moves UnitedNetworks into a less regulated environment. UnitedNetworks' operating structure, designed to quickly capture and incorporate the benefits of growth initiatives like Orion, has allowed the gas distribution network to be integrated into UnitedNetworks within two months.

In July, UnitedNetworks announced its intention to build, own and manage 'state of the art' fibre optic networks in the Auckland and Wellington CBD's. The company's decision to enter the integrated communications network sector was based upon a combination of critical success factors: gas and electric assets; network management competencies; unique wholesale network model; unique network technology; and speed to market. This progressive move represents a significant investment in New Zealand's technology infrastructure and enables the company to participate in the world-wide technology boom as it secures a stake in this high growth industry sector.

Our Performance

The past six months has been a period of intense activity for UnitedNetworks. The company has reported a net surplus after tax for the six-month period ended

30 June 2000 of NZ\$48 million. This result is consistent with forecast expectations. The operating surplus before tax and non-recurring items was NZ\$50.1 million, up 3.5% from NZ\$48.4 million for the same period last year. Included in the comparative result were the results of the company's 52.3% shareholding in Horizon Energy Distribution Limited. This shareholding was sold in December 1999.

Credit rating agency Standard & Poor's recently endorsed the company's strategy when it assigned its 'BBB+' long-term and 'A-2' short-term ratings to UnitedNetworks. The rating outlook is stable. The ratings reflect the company's low-risk electricity and gas network businesses, strong and stable earnings, and diversified and growing electricity consumption base.

Dividends

The Board of Directors has declared a fully imputed interim dividend of 16 cents per share. This is up from 15 cents per share paid last year. This will be paid on 8 September with those shareholders holding shares on 25 August being eligible. It is anticipated that the final dividend will be at least 16 cents per share and will be paid in April 2001.

Operating Overview

UnitedNetworks is now well on its way to achieving its vision of being New Zealand's premier network company. As New Zealand's 12th largest company by market capitalisation with assets of NZ\$2.2 billion, UnitedNetworks is now the largest network infrastructure company in New Zealand distributing electricity to around 30% of New Zealand's electricity consumers and gas to around 50% of the country's gas consumers.

The electricity network business provides a stable base of earnings that will be enhanced by the company's gas and new telecommunications networks. Diversification into new network sectors enables the company to gain leverage from its current operations and competencies as the company continues to improve its performance by executing its strategy of enhancing operational efficiencies, lowering the company's cost structure and growing the business.

UnitedNetworks commitment to service reliability remains a priority. The company invests over NZ\$80 million annually to maintain and build its networks.

Telecommunications

The company's move into telecommunications networks is predicated upon a world-wide boom in fibre optic broadband installations being driven by growth in the internet and e-commerce. Initially supplying the Auckland and Wellington CBD areas, the company will build the new fibre optic underground network as stage one of a three-stage project to progressively deliver access to ultra high bandwidth to the New Zealand market. The network will initially be capable of delivering bandwidth of up to one gigabit per second. The network is expected to be operational early in 2001.

It is intended that the Auckland CBD network will be directly linked to the Southern Cross cable which links New Zealand with Australia, Fiji and the United States. The Southern Cross cable will increase bandwidth available to New Zealand from 0.5 gigabit to over 40 gigabits. This huge improvement in speed and data capacity is projected to significantly increase the demand for bandwidth in the New Zealand market. The Southern Cross cable is expected to be operational in November 2000.

Initial capital costs will be around NZ\$30 million in the first two years and later capital costs will reflect market demand. This investment will be funded within existing facilities. In the medium term our models indicate a solid contribution to profit.

Regulatory Environment

New Zealand's electricity industry has experienced intense scrutiny and change by Government over the past few years creating chaos and confusion as industry players came to terms with a radically altered operating environment. Earlier this year, Government instituted an Electricity Industry Inquiry whose objective was to provide recommendations to bring stability to the industry while delivering fair prices and high levels of service to consumers. UnitedNetworks has actively participated and contributed to the Inquiry. In June, the Inquiry panel published its recommendations for improving the industry. It contains significant challenges

for the industry and very real incentives to ensure these challenges are met. The recommendation, as detailed in the Inquiry report, should produce fairer electricity prices for consumers and should improve customer service and reliability. We are awaiting Government response to the Inquiry. Based on our analysis of possible outcomes, UnitedNetworks is confident it can maintain its solid earnings base from its electricity networks.

The Future

UnitedNetworks will continue to build on the firm foundation it has created by pursuing further efficiencies, while striving for growth and world class standards across the business. Our focus on reliability will see continued investment in our supply facilities and our pursuit of excellence means increasing investment in our people.

The company expects increased economy of scale gains in future years as the full benefits from its acquisitions and initiatives are realised through an organisation positioned to quickly capture and incorporate the benefits of growth.

UnitedNetworks is now much more than an electricity network company, we are now truly a network infrastructure company.



Bob Green
Chairman



Dan Warnock
Chief Executive Officer/Director



STATEMENT OF FINANCIAL PERFORMANCE

For the six months ended 30 June 2000	CONSOLIDATED			
	30 June 2000 (\$000)	30 June 1999 (\$000)	6 months to 30 September 1999 (\$000)	9 months to 31 December 1999 (\$000)
Revenue	213,509	207,524	231,146	332,833
Non-recurring income (expense)	-	(13,431)	-	15,236
Surplus before taxation	50,127	34,988	72,836	111,355
Taxation	2,290	(758)	11,384	11,826
Surplus after taxation	47,837	35,746	61,452	99,529
Share of associates' profit	158	1,198	-	63
Minority interest	-	(2,168)	(1,982)	(2,764)
Extraordinary item – sale of retail and generation assets	-	(2,547)	-	-
Minority interest in extraordinary item	-	5,529	-	-
Net surplus for period	47,995	37,758	59,470	96,828

These statements are not audited.

STATEMENT OF FINANCIAL POSITION

As at 30 June 2000	CONSOLIDATED			
	As at 30 June 2000 (\$000)	As at 30 June 1999 (\$000)	As at 30 September 1999 (\$000)	As at 31 December 1999 (\$000)
Equity				
Total shareholders equity	798,274	749,982	757,478	774,513
Minority interest	(539)	61,158	62,076	(539)
Total equity	797,735	811,140	819,554	773,974
Current assets				
Cash at bank	7,520	99,681	99,440	-
Accounts receivable	54,640	58,269	59,278	48,582
Lease	55	55	62	55
Inventory	12,670	14,203	14,064	9,165
Tax refund	-	-	915	-
Total current assets	74,885	172,208	173,759	57,802
Current liabilities				
Bank overdraft	-	-	-	1,151
Accounts payable	37,788	48,153	19,514	45,837
Loans	-	11,500	57,000	50,000
Provision for dividend	24,234	22,540	22,720	22,720
Sundry payables	7,299	7,384	24,238	6,342
Total current liabilities	69,321	89,577	123,472	126,050
Non-current assets				
Investments	88	1,151	839	737
Fixed assets	1,396,239	1,154,712	1,157,464	1,105,094
Leases	1,596	1,656	1,641	1,626
Intangibles	781,882	529,328	525,998	523,827
Advance				
- employee share ownership plans	7,111	7,111	7,111	7,111
Prepayment of tax	23,383	3,768	-	14,955
Deferred tax	11,872	19,283	19,213	11,872
Total non-current assets	2,222,171	1,717,009	1,712,266	1,665,222
Non-current liabilities	1,430,000	988,500	942,999	823,000
Net assets	797,735	811,140	819,554	773,974

These statements are not audited.

STATEMENT OF MOVEMENTS IN EQUITY

For the six months ended 30 June 2000	CONSOLIDATED			
	30 June 2000 (\$000)	30 June 1999 (\$000)	6 months to 30 September 1999 (\$000)	9 months to 31 December 1999 (\$000)
Equity at start of period	773,974	798,642	780,823	780,823
Net surplus for the period	47,995	37,758	59,470	96,828
Tax credit on supplementary dividend paid to foreign shareholders	3,164	7,377	4,007	7,170
Dividends returned from employee share ownership plans	-	-	-	2,400
Movements in minority interest	-	(2,720)	1,981	(60,634)
Distributions to owners during the period	(24,234)	(22,540)	(22,720)	(45,443)
Supplementary dividend paid	(3,164)	(7,377)	(4,007)	(7,170)
Equity at end of period	797,735	811,140	819,554	773,974

These statements are not audited.

STATEMENT OF CASH FLOWS

For the six months ended 30 June 2000	CONSOLIDATED			
	30 June 2000 (\$000)	30 June 1999 (\$000)	6 months to 30 September 1999 (\$000)	9 months to 31 December 1999 (\$000)
Cash flows from operating activities				
Cash received from operating activities	210,794	179,759	231,449	341,981
Cash applied to operating activities	(150,837)	(133,801)	(161,125)	(211,476)
Net cash flow from operating activities	59,957	45,958	70,324	130,505
Cash flows from investing activities				
Cash received from investing activities	325	161,985	2,885	32,629
Cash applied to investing activities	(585,891)	(514,152)	(26,190)	(102,713)
Net cash flow from investing activities	(585,566)	(352,167)	(23,305)	(70,084)
Cash flows from financing activities				
Cash received from financing activities	557,000	399,793	-	-
Cash applied to financing activities	(22,720)	-	(55,930)	(169,923)
Net cash flow from financing activities	534,280	399,793	(55,930)	(169,923)
Net increase (decrease) in cash held	8,671	93,584	(8,911)	(109,502)
Opening cash balances	(1,151)	6,097	108,351	108,351
Closing cash balances	7,520	99,681	99,440	(1,151)

These statements are not audited.

For the six months ended 30 June 2000

Statement of accounting policies

The accounting policies used are consistent with those used in the previously published interim financial statements and previous annual financial report.

Changes in accounting policies

There have been no material changes in accounting policies.

Specific disclosures

	June 2000 (\$000)	CONSOLIDATED		
		June 1999 (\$000)	6 months to 30 September 1999 (\$000)	9 months to 31 December 1999 (\$000)
Operating surplus includes:				
Interest income	160	1,989	2,354	2,961
Dividend income	–	137	–	171
Interest expense	42,634	33,483	37,069	54,651
UnitedNetworks Shareholders				
Society Inc dividend	2,955	3,509	5,821	8,276

Financial instruments

The group has the following off balance sheet financial instruments:

i) Energy business – hedge contracts

As part of the sale of its retail business, the company has entered into a back to back contract with TransAlta New Zealand Limited in respect of energy hedge contracts entered into, to hedge the company's retail business. Outstanding face value of contracts hedged were \$102.3 million with a remaining period of three years. Of the hedge contracts, \$12.0 million were entered into with our associate company Pacific Energy Limited. Pacific Energy Limited is disputing the validity of the underlying Electricity Corporation of New Zealand hedge contracts. If Pacific Energy Limited is successful in their claim, the back to back contract commitments will be affected and part of the group's exposure may become unhedged.

ii) Foreign exchange

The group has, in this reporting period, conducted transactions in foreign currencies for the purposes of protecting the NZ\$ value of capital expenditure.

At balance date the group has no significant exposure to foreign currency risk.

iii) Interest rate risk

The group has long term borrowings which are used to fund ongoing activities. The group actively manages interest rate exposures in accordance with Treasury Policy. In this respect, at least 60% of all term debt must be fixed using interest rate swaps, forward rate agreements, options and similar derivative instruments. The notional face value of outstanding derivative instruments at balance date are: Interest rate swaps \$935 million (June 1999: \$853 million, September 1999: \$832 million), cross currency swaps \$560 million (June 1999/September 1999: nil).

Borrowings

The company currently has borrowings of \$760 million financed by two bridge loans which are due to expire in April 2001.

These have been classified as long term borrowings on the basis that the loans are currently in the process of being refinanced in the domestic and international capital markets prior to their expiry.

Comparative information

Due to the change in company balance date from March to December in 1999, the previous half year comparatives have been restated to provide a valid comparison. The previous half year includes the results of subsidiary Horizon Energy Distribution Limited which was disposed of on 20 December 1999. Also included are the costs and gains associated with the sale of generation assets and the sale of the retail, generation and wholesale electricity businesses of Horizon Energy Distribution Limited which were disposed of on 31 March 1999.

The assets of the Orion natural gas distribution network and associated peripheral assets were purchased from Orion New Zealand Limited and Connectics Limited on 1 April 2000.

Reconciliation of operating surplus after taxation to net cash inflow from operating activities

	June 2000 (\$000)	CONSOLIDATED		
		June 1999 (\$000)	6 months to 30 September 1999 (\$000)	9 months to 31 December 1999 (\$000)
Reported surplus after taxation but before share of retained surplus of associate and minority interest	47,837	35,746	61,452	99,529
Add non-cash items:				
Depreciation	27,457	23,680	22,429	34,074
Profit elimination on self constructed assets	839	(54)	651	1,574
Write-down of investment in subsidiary	-	13,431	-	-
Amortisation of goodwill and intangibles	8,610	6,158	6,734	10,075
Decrease in deferred tax payable	-	(31,014)	(2,734)	4,607
Deferred tax liability of subsidiary sold	-	-	-	1,040
Add (less) movements in working capital items:				
Decrease (increase) in accounts receivable	(5,602)	(27,611)	3,226	13,922
Increase in current portion of lease	-	-	-	7
Decrease (increase) in inventory	(3,506)	(4,663)	(3,744)	1,155
Decrease (increase) in tax refund due	(11,768)	2,140	9,560	(4,480)
Increase (decrease) in accounts payable	(6,986)	23,550	(25,990)	(17,563)
Add (less) items classified as investing activities:				
Profit on sale of assets	(88)	(2,499)	(1,259)	(1,271)
Profit on sale of investments	-	-	-	(15,236)
Revenue from subsidiary classified as investing	-	-	(137)	-
Movements in accounts receivable that relate to fixed assets	-	2,000	(2,000)	(2,000)
Movements in accounts receivable that relate to sale of subsidiary	-	-	-	(6,357)
Movements in inventory that relate to sale of subsidiary	-	-	-	(328)
Movements in accounts payable that relate to fixed assets	-	(2,283)	2,136	1,853
Movements in accounts payable that relate to sale of subsidiary	-	-	-	2,822
Movement in tax refund due relating to sale of subsidiary	-	-	-	(88)
Supplementary dividend paid	3,164	7,377	-	7,170
Net cash inflow from operating activities	59,957	45,958	70,324	130,505

Capital commitments

At balance date, estimated capital expenditure contracted for, but not provided, was nil (June 1999/Sept 1999: nil).

Contingent liabilities

The group has provided guarantee in respect of Pacific Energy Limited's liabilities to the Electricity Corporation of New Zealand Limited for entering into hedging contracts.

The total guarantees are for a maximum amount of \$2.1 million (June 1999/September 1999: \$2.1 million).

Performance bonds/letters of credit totalling \$1.9 million (June 1999: \$1.9 million, September 1999: \$1.2 million) to:

- i) ensure completion of contract works; and
- ii) meet board obligations under the New Zealand Stock Exchange listing requirements; and
- iii) letters of credit to guarantee other payments.

The group has issued warranties in favour of TransAlta New Zealand Limited consisting of:

- i) liability capped at \$52.5 million with respect to disposal of generation business expiring 31 March 2001; and
- ii) liability capped at \$140.4 million with respect to disposal of retail business expiring 31 December 2000.

Contingent liabilities exist in relation to on-going disputes which are being defended.

Events occurring after balance date

A revaluation of electricity reticulation assets has been conducted subsequent to balance date which has resulted in a reduction in the value of fixed assets and the revaluation reserve of approximately NZ\$20 million.

FRS 24

These financial statements have been prepared under Financial Reporting Standard No 24 – Interim Financial Statements and should be read in conjunction with the previous annual financial report which contains more extensive disclosure than is required in interim financial statements.

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D G Bacon
R P Perkins
P M Smith
R W Stanic
D W Warnock

Chief Executive Officer

D W Warnock

Company Secretary

S D Whyte

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