



**United Networks**

INTERIM REPORT

TO SHAREHOLDERS  
FOR THE PERIOD  
ENDED 30 JUNE 2002

- *Net surplus of \$64.2m – a 20% increase*
- *Interim dividend of 19 cents per share*
- *Debt gearing reduced to 54%*
- *Strong commercial and industrial gas performance*
- *New connection growth across all three businesses*
- *Approval of 2002 Electricity Asset Management Plan by Ministry of Economic Development*



## Dear Shareholder

It is with pleasure that we report another strong performance by UnitedNetworks for the six months to 30 June 2002. During this half-year we achieved a net surplus of \$64.2 million, an increase of 20% over the same period in 2001. The strength of this result yet again demonstrates the successful execution of our strategy to capture above-normal growth opportunities in our portfolio of assets, to minimise costs through economies of scale, and to extract inter-business synergies available to us as an integrated multi-utility distribution provider.

The Board of Directors has declared a fully imputed interim dividend of 19 cents per share, up from 17 cents per share paid last year. The dividend will be paid on 6 September, with those shareholders holding shares on 30 August being eligible.

In terms of all financial benchmarks, the company is in an extremely strong position, and is very well placed to leverage this strength in pursuing future growth opportunities. During the six months to 30 June 2002, a combination of lower interest rates and reduced funding costs resulted in a \$7 million reduction in interest costs compared to last year, and as a result the company's gearing reduced further to 54%, from 56% in December 2001.

While the total company result is impressive, we are equally pleased with the performance of each of the individual businesses. Connections to our networks increased in all three businesses – electricity, gas and communications – resulting in revenue growth. Our employees continue to focus on opportunities to minimise the costs to generate those revenues (productive efficiency). We also continue to implement innovative practices, processes and systems, and to invest in our networks to drive out even more costs and improve customer service (dynamic efficiency).

## Electricity

For the first half of 2002, several events in the electricity business are worth mentioning. First, connection growth has been trending upwards in all regions as a result of increased building activity. Secondly, the Ministry of Economic Development evaluated and approved our Asset Management Plan noting that "(UnitedNetworks) has produced an excellent plan." The Asset Management Plan lays out our strategy for ensuring the long-term integrity and reliability of our electricity networks. UnitedNetworks invests around \$60 million per year in enhancing and expanding its electricity networks. Thirdly, UnitedNetworks received complaints from less than 0.1% of its total consumers, which we believe is an excellent indicator of our attention to consumer satisfaction as it relates to our lines business. Finally, since 1998 we have reduced prices by an average of 9% in real terms. In short, our electricity business is an efficient distribution operation with the long-term benefit of consumers in mind.

## Gas

Our investment in the rejuvenation of the natural gas sector began to show benefits during the half-year. Residential gas connections grew in both volume and consumption per connection. Natural gas use in commercial and industrial applications provides a superior alternative to other fuels. We have focused on these sectors and realised positive results. Through the Pure Energy natural gas marketing programme, consumer awareness of the benefits of natural gas is now growing at an accumulating rate, providing a strong platform for accelerated growth opportunities for UnitedNetworks and our retail, appliance and service partners.

## Communications

Started as an incubator business in 2001, UnitedNetworks Communications has made good progress in the first half of 2002. We have seen accelerating connections, and significantly increasing utilisation of our network. We now offer a full suite of network services to a growing number of retail partners. Our strategy continues to be based on educating consumers on the capabilities of high bandwidth networks, maintaining a low cost structure, and adding value to our retail partners – the bottom line being to deliver superior high bandwidth product to consumers without any limitation from outdated networks technology. The very high levels of retail partner satisfaction shown in a recent survey, demonstrates that we are well on track with this strategy.

## Regulatory

UnitedNetworks recently presented a detailed submission to the Commerce Commission in response to the Commission's discussion paper on targeted regulation of electricity lines businesses published in late March. Our submission incorporated the latest international and domestic research into the performance of electricity distribution businesses, and presented a compelling case on the significantly superior experience New Zealand consumers have had in respect of distribution pricing and service quality compared with consumers in equivalent jurisdictions overseas. It is critical that the Commerce Commission, as it evaluates a regulatory regime for electricity distribution, develops a fact-based performance-monitoring regime that is focused on enabling the relatively advanced distribution industry in New Zealand to pursue the significant trade opportunities emerging in this sector worldwide. A critical factor in securing these trade opportunities will be to ensure that New Zealand electricity distribution companies continue to have strong incentives to pursue innovation and efficiencies to deliver leading performance to New Zealand consumers.

## The future

You may be aware that in June this year, UnitedNetworks' majority shareholder Aquila Inc. initiated a process for the sale of the company's shares or assets. At the time of writing this report, the potential bidders are carrying out due diligence. When the final decision is made, you can be assured that your directors will achieve the best-value outcome for all shareholders.

UnitedNetworks is far more than just the sum of its parts. The strength of UnitedNetworks lies in the readiness of staff to be creative and to demonstrate entrepreneurial courage and creativity. When we talk about our "assets," we are not just talking about electricity lines, gas pipes and fibre optic cables, we are talking about our people, and the knowledge they apply to the business of owning and managing multiple networks.

With this in mind, we would like to acknowledge the skills, attitude and commitment of the team at UnitedNetworks, particularly during the sale process. We are proud to be handing on a company with an outstanding financial structure, a portfolio of robust network businesses and excellent prospects for growth in the future.



**Keith Stamm**

Chairman



**Dan Warnock**

Chief Executive Officer/Director

## CONSOLIDATED STATEMENT OF FINANCIAL PERFORMANCE

*For the six months ended 30 June 2002*

	6 months to 30 June 2002 (\$000)	6 months to 30 June 2001 (\$000)	12 months to 31 Dec 2001 (\$000)
Revenue	223,513	229,137	454,907
Non-recurring income	–	–	4,019
Surplus before taxation	73,640	56,142	129,879
Less taxation	11,014	2,590	9,356
Surplus after taxation	62,626	53,552	120,523
Share of associates' profit	2,150	–	246
Less minority interest	539	–	–
<b>Net surplus for period</b>	<b>64,237</b>	<b>53,552</b>	<b>120,769</b>

*These statements are not audited.*

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*As at 30 June 2002*

	As at 30 June 2002 (\$'000)	As at 30 June 2001 (\$'000)	As at 31 Dec 2001 (\$'000)
<b>Equity</b>			
<b>Total shareholders equity</b>	<b>946,869</b>	<b>860,286</b>	<b>909,016</b>
Minority interest	–	–	(539)
<b>Total equity</b>	<b>946,869</b>	<b>860,286</b>	<b>908,477</b>
<b>Current assets</b>			
Cash at bank	868	25,691	7,413
Accounts receivable	47,719	67,798	43,351
Lease	13	68	13
Inventory	42	9,797	1,126
<b>Total current assets</b>	<b>48,642</b>	<b>103,354</b>	<b>51,903</b>
<b>Current liabilities</b>			
Bank overdraft	5,141	–	250
Accounts payable	43,191	52,477	59,885
Borrowings	–	–	20,000
Sundry payables	7,308	21,387	13,107
Deferred gain current portion	4,541	–	4,541
<b>Total current liabilities</b>	<b>60,181</b>	<b>73,864</b>	<b>97,783</b>
<b>Non-current assets</b>			
Accounts receivable	11,675	14,082	13,091
Investments	2,202	1,833	302
Fixed assets	1,366,431	1,378,294	1,373,602
Lease	1,500	1,490	1,510
Intangibles	762,852	781,435	771,435
Advance – employee share ownership plans	7,111	7,111	7,111
Taxation assets	64,721	58,568	57,105
<b>Total non-current assets</b>	<b>2,216,492</b>	<b>2,242,813</b>	<b>2,224,156</b>
<b>Non-current liabilities</b>			
Borrowings	1,233,751	1,412,017	1,242,555
Deferred gain	24,333	–	27,244
<b>Total non-current liabilities</b>	<b>1,258,084</b>	<b>1,412,017</b>	<b>1,269,799</b>
<b>Net assets</b>	<b>946,869</b>	<b>860,286</b>	<b>908,477</b>

*These statements are not audited.*

## CONSOLIDATED STATEMENT OF MOVEMENTS IN EQUITY

*For the six months ended 30 June 2002*

	6 months to 30 June 2002 (\$'000)	6 months to 30 June 2001 (\$'000)	12 months to 31 Dec 2001 (\$'000)
Equity at start of period	908,477	806,195	806,195
Net surplus for the period	64,237	53,552	120,769
Tax credit on supplementary dividend paid to foreign shareholders	3,459	3,587	6,462
Dividends returned from employee share ownership plans	880	–	1,390
Increase (decrease) in fixed asset valuation	–	–	5,873
Movements in minority interest	539	539	–
Distributions to owners during the period	(27,264)	–	(25,750)
Supplementary dividend paid	(3,459)	(3,587)	(6,462)
<b>Equity at end of period</b>	<b>946,869</b>	<b>860,286</b>	<b>908,477</b>

*These statements are not audited.*

## CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2002

	6 months to 30 June 2002 (\$000)	6 months to 30 June 2001 (\$000)	12 months to 31 Dec 2001 (\$000)
<b>Cash flows from operating activities</b>			
Cash received from operating activities	209,004	217,083	466,630
Cash applied to operating activities	(143,974)	(171,994)	(297,880)
<b>Net cash flow from operating activities</b>	<b>65,030</b>	<b>45,089</b>	<b>168,750</b>
<b>Cash flows from investing activities</b>			
Cash received from investing activities	1,264	15,392	71,883
Cash applied to investing activities	(22,346)	(43,506)	(69,826)
<b>Net cash flow from investing activities</b>	<b>(21,082)</b>	<b>(28,114)</b>	<b>2,057</b>
<b>Cash flows from financing activities</b>			
Cash received from financing activities	993,000	1,267,018	1,835,018
Cash applied to financing activities	(1,048,384)	(1,250,750)	(1,991,110)
<b>Net cash flow from financing activities</b>	<b>(55,384)</b>	<b>16,268</b>	<b>(156,092)</b>
<b>Net increase (decrease) in cash held</b>	<b>(11,436)</b>	<b>33,243</b>	<b>14,715</b>
Opening cash balances	7,163	(7,552)	(7,552)
<b>Closing cash balances</b>	<b>(4,273)</b>	<b>25,691</b>	<b>7,163</b>

These statements are not audited.

For the six months ended 30 June 2002

#### 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

(Consolidated)

	6 months to 30 June 2002 (\$000)	6 months to 30 June 2001 (\$000)	12 months to 31 Dec 2001 (\$000)
Operating surplus includes:			
Interest income	511	149	696
Interest expense	45,334	51,897	102,561
UnitedNetworks' Shareholders Society Inc. dividend	1,136	1,697	4,239

#### Financial instruments

The group has the following off balance sheet financial instruments:

##### i) Electricity hedge contracts

As part of the sale of its retail business on 31 December 1998, the company entered into a back to back contract with On energy Limited (previously TransAlta New Zealand Limited) in respect of energy hedge contracts entered into, to hedge the company's previously owned retail business. Outstanding face value of contracts hedged were \$10.0 million with a remaining period of nine months.

##### 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) Credit risk

In the normal course of its business, the group incurs credit risk from energy retailers, financial institutions and trade debtors. The group has a credit policy which is used to manage this exposure to credit risk. As part of this policy, the group can only have exposures to financial institutions having at least a long term credit rating of A+ from Standard & Poors (or equivalent rating). In addition, limits on exposures to financial institutions have been set by the board of directors and are monitored on a regular basis. In this respect, the group minimises their credit risk by spreading such

exposures across a range of institutions. The group does not anticipate non-performance by any of these financial institutions. The group has a concentration of credit exposure to a few large energy retailers. To minimise this risk, the group performs credit evaluations on all energy retailers and other electricity customers and requires a bond or other form of security where deemed necessary.

iv) 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:

(Consolidated)

	30 June 2002 (\$000)	30 June 2001 (\$000)	31 Dec 2001 (\$000)
Interest rate swaps	817,500	1,055,000	990,000
Cross currency swaps	569,018	569,017	569,018
Liability swaps	–	175,000	–
	<b>1,386,518</b>	<b>1,799,017</b>	<b>1,559,018</b>

(Consolidated)

Borrowings – carrying value

	30 June 2002 (\$000)	30 June 2001 (\$000)	31 Dec 2001 (\$000)
Bank loans	185,000	425,000	160,000
Commercial paper	281,000	243,000	335,000
Medium term notes – fixed rate NZ\$	198,733	175,000	198,537
Medium term notes – floating rate A\$	569,018	569,017	569,018
	<b>1,233,751</b>	<b>1,412,017</b>	<b>1,262,555</b>

All borrowings are unsecured with all bank loans and medium term notes being subject to negative pledge arrangements. Commercial paper is supported by a two year standby facility made available by a syndicate of banks and is issued for various terms up to 90 days. Borrowings are classified between current and non-current dependent on the directors expectation of repayment dates. Interest rates for all bank loans are floating based on the bank bill rate plus a margin.

(CONTINUED)

(Consolidated)

Reconciliation of operating surplus after taxation to net cash inflow from operating activities	6 months to 30 June 2002 (\$000)	6 months to 30 June 2001 (\$000)	12 months to 31 Dec 2001 (\$000)
Reported surplus after taxation but before share of retained surplus of associate and minority interest	62,626	53,552	120,523
Add non-cash items:			
Depreciation	26,915	27,988	55,669
Profit elimination on self constructed assets	–	1,201	971
Amortisation of goodwill and intangibles	10,376	10,321	20,640
Decrease (increase) in future income tax benefit	10,538	713	6,248
Decrease in deferred tax asset	476	–	3,972
Non-cash investment income	–	–	(274)
Add (less) movements in working capital items:			
Decrease (increase) in accounts receivable	(4,372)	(39,765)	(1,237)
Increase in current portion of lease	–	–	55
Decrease (Increase) in inventory	–	823	9,493
Increase (decrease) in accounts payable	(18,695)	7,235	22,376
Add (less) items classified as investing activities:			
Gain on sale of CFS	(2,270)	–	(3,181)
Loss on sale of assets	44	–	670
Movements in working capital that relate to deferred gain	–	–	(9,974)
Movements in accounts payable that relate to fixed assets	(3,841)	–	(17,524)
Movements in term liabilities that relate to bonds discount	196	–	–
Revenue from subsidiary classified as investing	250	100	–
Movements in account receivables that relate to bonds discount	–	–	(1,463)
Add (less) items classified as financing activities:			
Decrease (increase) in prepaid tax	(18,629)	(17,079)	(25,123)
Movements in term prepayments that relate to deferred financing costs	1,416	–	(13,091)
<b>Net cash inflow from operating activities</b>	<b>65,030</b>	<b>45,089</b>	<b>168,750</b>

#### Capital commitments

At balance date, estimated capital expenditure contracted for, but not provided, was \$8.8 million (June 2001: \$1.4 million).

#### Contingent liabilities

Performance bonds/letters of credit totalling \$1.4 million (June 2001: \$2.0 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.

#### Significant events relevant to these financial statements

On 12 June UnitedNetworks Limited announced that, following an approach made to it by its principal shareholder, UtiliCorp N.Z. Limited (whose ultimate parent company is Aquila Inc.), the company is considering a possible sale of its entire operation by way of share or asset sale. The process has commenced and is expected to be completed early September.

As the final method of the sale has yet to be determined, the directors have presented the financial statements on the basis that the company will continue its existing business. The accounting basis and policies, including the going concern assumption, have therefore been adopted on a consistent basis to the previous full year. This assumption has particular relevance to the continued treatment of borrowings as long-term debt and the company continuing to account for deferred taxation on the partial basis.

As a result of the potential sale the company has not yet entered into a subvention and loss-offset agreement with UtiliCorp N.Z. Limited for the 2002 financial year. This has had the net effect of increasing the tax charge for the half year by approximately \$2.0 million.

#### Events occurring after balance date

The directors are not aware of any significant events occurring subsequent to balance date which, if known at balance date, would have resulted in a different assessment of the amount attributable to an item in the financial statements.

#### 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.

**DIRECTORS**

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