NGC HOLDINGS LIMITED

ANNUAL MEETING

2.30pm, THURSDAY, 30 OCTOBER 2003

- Chairman’s Address

- Chief Executive’s Address

Greg Martin, Chairman

Ladies and gentlemen, it is pleasing to report to you on a particularly successful year for NGC – both in terms of the financial and operational performance, and in the achievement of the Company’s strategic repositioning objectives.

The energy industry dynamics are changing; not the least in the fundamental changes that are occurring in New Zealand’s energy supply mix.

NGC has refocused on its natural gas and LPG infrastructure and sales, and energy metering businesses, and has withdrawn from non-core mass market energy retailing and electricity generation activities.

Your Directors are confident that this is a good strategic choice, which has been well executed and which will create a strong business platform for NGC in the future market environment.

The sales of NGC’s mass market gas retailing and electricity generation interests during the year completed the programme of reconstructing NGC’s business portfolio.

As a result, NGC’s business has been simplified, it is sharply focused, and the cash and earnings strengths of the continuing businesses are able to be harnessed to generate sustainable and predictable returns for you, our shareholders.

In parallel with the divestment of these businesses, NGC has been successfully pursuing growth opportunities to further develop its natural gas, LPG and metering businesses. The Chief Executive will expand on these shortly.

The non-core business sales resulted in cash inflows of some 700 million dollars. This has been a good outcome for NGC, as the sales were settled at a premium to book value.
The proceeds were used initially to extinguish existing bank debt, thus contributing to the year’s net earnings through the avoidance of significant interest costs for part of the year.

The Directors considered this to be a superior option than retaining the bank debt and holding the sale proceeds in a separate capital account.

Part of the sale proceeds were applied to clear historic goodwill from the balance sheet, leaving a net surplus of 78.9 million dollars, which has been recorded as the abnormal profit arising from the disposal of these assets.

**Net Earnings**

Consequently, NGC’s tax-paid earnings for the year totalled 146 million dollars, compared with 34.5 million dollars in the previous year.

The changes to NGC’s business composition over the past two years make comparisons difficult. However, you can take particular satisfaction from the increase in earnings, excluding the abnormal gain, to 69.1 million dollars.

While these were assisted by the reduction in interest costs I mentioned a moment ago, they also reflect a higher contribution, before abnormal items, from all of NGC’s continuing businesses.

**Balance Sheet**

NGC’s balance sheet as at the 30th of June 2003 reflects the asset sales and the treatment of the sale proceeds. Total assets now stand at close to 1.1 billion dollars, compared with 1.7 billion dollars a year previously.

Our sources of funds currently represent a very simple picture. There was no term debt as at balance date, and shareholders’ funds increased from 668 million dollars to 827 million dollars.

Proposed changes to NGC’s capital structure will see the reinstatement of what your Directors believe to be an appropriate level of debt to the balance sheet.

Most changes, of course, are evident on the assets side, notably:

- Customer bases and goodwill declined from just over 100 million dollars to around 6 million dollars following the application of part of the asset sale proceeds to goodwill reduction. The remaining goodwill is associated primarily with NGC’s LPG business;

- As a result of the power station sales, the value of NGC’s generation assets has declined from 547 million dollars to 19 million dollars, representing principally the value of NGC’s 50 percent interest in the 25 megawatt Kapuni cogeneration plant;

- and, finally, as a result of systems expansion and the three-yearly revaluation of NGC’s pipelines and related facilities under the optimised deprival valuation methodology, these assets increased in value from approximately 458 million dollars to 555 million dollars.
Dividend

In view of the strong financial performance of the Company during the year, the Directors declared a higher total dividend of 9 cents per share, compared with 6.5 cents per share in the 2002 year.

The current year total payment comprises interim and final dividends of 4 cents and 5 cents per share respectively.

Both were unimputed, but I am pleased to say that, as we accelerate use of our tax losses and prior year tax prepayments – driven in part by the 12.2 million dollar transfer of gross tax losses to AGL New Zealand Energy Limited in March of this year – the Board expects to return to full dividend imputation for the 2003/2004 interim dividend and thereafter.

The Board, of course, will consider the amount of the interim dividend in February of next year.

Capital Structure

The strategic repositioning, and the related sale of non-core assets, presented an ideal opportunity for NGC to redefine its capital structure.

Having temporarily eliminated debt and closed the books on historic goodwill, there was no better time to thoroughly review the optimal capital structure for NGC’s future needs.

You will recall discussion on this matter at last year’s Annual Meeting when I reported to you on the then proposed repositioning strategy and the approach the Board would take in its consideration of appropriate debt levels, investment opportunities and the prospects for some form of capital return to shareholders.

As a result of the non-core business sales, NGC has surplus cash, and what the Board considers to be a sub-optimal balance sheet structure. The cash surplus of 48.5 million dollars as at balance date has, in fact, now increased to around 70 million dollars, after the payment of the final dividend for 2002/2003.

Simply put, it is highly inefficient for a company like NGC not to have any debt, never mind surplus cash.

The Directors have determined that a more efficient capital structure is both desirable and readily achievable.

As no new major capital investment opportunities have been identified, the Directors concluded that such a capital structure would involve mainly:

- an increase in debt levels, better optimising NGC’s cost of capital;
- a pro rata capital return treating all shareholders equally and not affecting individual shareholder value in NGC;
- and flexibility to allow NGC to meet its ongoing capital requirements and to pursue growth opportunities as they arise.

From these deliberations has evolved the capital return proposal that was initially announced in May this year, and subsequently refined in August to reflect the full financial performance for the 2002/2003 year.

We have consistently kept the market informed of developments, including the receipt of High Court and IRD rulings pertaining to the proposed capital return.

This capital return process is quite lengthy, but its virtues include ensuring fairness to all shareholders. It is now at the stage where shareholder approval is needed, and is on the agenda for your consideration later in this meeting.

Given that an appropriate debt level is an essential element of an efficient capital structure, the Directors have also thoroughly reviewed the composition of borrowings for a company that has the characteristics of NGC.

NGC has existing bank facilities that can be drawn upon to fund the proposed capital return and leave an appropriate level of head room.

However, when considering the financial objectives for NGC, the Directors recognised the benefits of moving beyond traditional bank funding arrangements and of establishing a funding mix that optimises cost, duration and diversity of funding sources.

The Board concluded that an issue into the debt capital markets would achieve the objective of funding flexibility. Accordingly, the Board has approved the issuance later this year of up to 200 million dollars of debt securities in the form of retail bonds with a term of five and a quarter years.

This morning, we advised the financial markets that the bond rate will be 6.81 percent per annum, which is 45 basis points above the five-and-a-quarter year market swap rate. It is our intention to lodge a prospectus with the Companies Office tomorrow.

Quite properly, the law requires that a prospectus speaks for itself and prohibits any activity that could be seen as promoting an issue before a prospectus is registered.

I am therefore constrained in what I can tell you about it today.

It is intended that the bond issue will enable NGC to reduce bank funding it would otherwise have. While it is likely to be open during the same period in which the proposed capital return is being effected, it is a separate and independent initiative that is, itself, not subject to shareholders' approval.

I can also tell you that the Directors are concerned to ensure that NGC's shareholders have the opportunity to participate in the bond issue and that there will be a mechanism for shareholders to invest in them, if they so choose, by way of reinvestment of the capital return payment, should that proposal be approved by shareholders a little later in this meeting.
Further information about the bond issue will be available to you once the prospectus is registered. I expect that to be within the next few days.

It is important to note that, since the capital return proposal was announced, the credit rating agency, Standard & Poor’s, has reaffirmed NGC’s long-term credit rating of ‘A minus’, and our short-term rating of ‘A two’.

More recently, Standard & Poor’s has assigned the same ‘A minus’ rating to the proposed bonds.

I would like to discuss two other subjects before inviting Phil James to speak to you. These are energy supply and its associated regulatory environment, and, secondly, corporate governance.

Energy Supply.

In July this year, I had the pleasure of addressing an energy forum, which was the first of four lectures sponsored by NGC and known as the NGC Winter Lecture Series.

The Lecture Series was created by NGC to promote discussion on energy issues. The 2003 Series carried the theme of “Gas in the New Zealand Economy” and was concluded last night.

NGC has been pleased to lead the public debate on such an important subject. The Series, throughout, has attracted a strong attendance, including many senior politicians and industry leaders.

I would like to take a moment to share with you some of the views I expressed at the opening lecture, as I think they capture the broad strategic issues facing New Zealand, and NGC.

Natural gas currently represents about a third of New Zealand’s primary energy supply. In addition to its direct use, it is an important primary fuel for electricity generation. Future natural gas availability, therefore, has important implications across the energy spectrum, and across the New Zealand economy.

I made the observation that as the energy supply mix in New Zealand changes, with the wind-down of the large Maui gas field, New Zealand must look increasingly to the full range of energy supply resources at its disposal.

We can see this happening already, with proposals for greater coal generation at the Huntly power station, and for the conversion of the New Plymouth power station to dual gas/oil capability.

There has even been talk in recent days about investigating the viability of importing LNG. As a result of these changes, there is potential for growing tension between New Zealand’s aspirations for economic growth, which is currently creating energy demand growth of around 2 percent annually, and this country’s desire to meet environmental performance targets, especially as a signatory to the Kyoto protocol.
The challenge, as I see it, is to find creative solutions to reconcile environmental commitments against the growing need for stable and secure energy supplies.

The importance of natural gas to the New Zealand economy is recognised by the Government in its Policy Statement on the Development of the New Zealand Gas Industry.

It is acknowledged as having a significant role in achieving the Government’s commitment to a sustainable and efficient energy future, and as being critical not only for direct users, but for New Zealand’s electricity supply security.

Demand for gas remains strong, and I have every confidence that natural gas will be contributing to New Zealanders’ energy requirements for many years to come.

However, based on currently known developed and undeveloped discoveries, that contribution in the immediate future will not be as strong as this country has enjoyed with the full flow of the Maui field over the past three decades.

**Gas Reserves**

New Zealand’s gas reserves currently stand at around 2,400 petajoules, divided almost equally between developed and undeveloped fields. This is not an unhealthy reserves position, but new reserves are being added at a rate substantially below consumption.

After many years of supply surplus in the heyday of Maui, we are now seeing a tightening supply/demand balance and consequent expectations for higher prices for gas produced from new discoveries.

In this context, the production capabilities of new fields, and the timing of bringing undeveloped reserves to the market, become of critical concern.

Under the currently known reserves position, the gas market is expected to decline to a sustainable level of 130 to 170 petajoules a year in the decade following the expected Maui depletion around 2007.

Demand reduction is expected to come largely from the cessation of petrochemical production, particularly methanol, and the substitution of gas with other fuels for electricity generation.

The changing gas supply pattern has had at least one upside, and that has been to improve the economic viability of previously uneconomic smaller fields.

Through its gas processing and transportation infrastructure, NGC is particularly well placed to work with smaller exploration companies and bring these reserves to market. Phil James will give you examples of how this is being put into practice.
For the immediate future, I have no doubt that the 130 to 170 petajoules a year supply availability under today’s scenario is sufficient to continue meeting the needs of residential, commercial and many industrial customers for the next decade and beyond.

Although it seems unlikely that New Zealand, and NGC, will be able to replicate the abundant reserves position created by the Maui discovery, the search continues, and it is far too early to completely rule out the prospect of discovering one or more new large gas reserves.

By world standards, New Zealand is under-explored, and it has the proven geological attributes necessary to generate hydrocarbons.

For all of the advantages that Maui brought to New Zealand, it had the countervailing effect of discouraging the search for gas. While Maui was producing up to 80 percent of New Zealand’s gas supply, and with market prices for gas somewhat below international parity, there simply were not the market incentives for explorers to search for, or develop large new gas reserves.

That is now changing. With the market signals for new gas production growing stronger as Maui winds down – and with the right investment climate to attract the discretionary international exploration dollar to New Zealand – I would expect the exploration effort to increase substantially in the near future.

Moreover, I would hope that the market signals become loud enough to attract to New Zealand a greater number of independent mid-sized explorers with the financial and operational resources, and the longer term commitment, to take the search for new gas to a higher level.

It must be appreciated, however, that an investment in exploration and development, like anything else, is about maintaining an ongoing business case.

New Zealand has many of the key requirements to attract explorers – a stable democracy, proven prospectivity and a strong likelihood that it has yet to yield all of its oil and gas reserves.

But it also has the drawbacks of distance, consequently higher exploration costs and a relatively small market.

From this position, it competes for exploration capital against lower cost, lower market risk regions with equivalent or better prospectivity. It is known that some major exploration companies set the bar higher for New Zealand in respect of their capital return and production growth rate requirements.

New Zealand must therefore compete effectively in other important areas that influence exploration investment, including economic and market growth prospects, tax and royalties regimes, compliance costs and impediments to development.

**Regulatory Matters**

I believe that expectations for stable, secure and reasonably priced energy supplies, now and in the future, are achieved most effectively in a light-
handed regulatory environment, which encourages investment in well functioning and efficient markets.

But there is today a trend of regulatory creep that I view with growing concern.

Over the past two years, the regulatory spotlight has shone on other participants in the utilities and infrastructure sectors.

Gas transporters have now also become the subject of a Government-initiated pricing review by the Commerce Commission.

This week, the Government confirmed its earlier indication that governance legislation developed for the electricity sector will be extended to the gas industry if it can’t establish its own arrangements in a timely and satisfactory manner.

I view this as quite unnecessary as the industry for some time has been actively addressing the Government’s policy objectives and making significant progress to design and implement an industry governance regime within the November 2004 deadline.

The danger of this type of regulatory opportunism is that it sends negative signals to potential investors – in this case, gas industry participants – at a time when the country particularly needs them.

NGC is participating fully in all of these processes, but it should be recognised that the constant application of people and financial resources to regulatory compliance and regulatory management is draining on a company’s resources, adversely impacts shareholder value and discourages investment.

**Corporate Governance**

With regards to corporate governance, I spoke on this subject on this occasion last year and further discussed your Board’s governance philosophy in the 2003 Annual Report.

Attention on corporate governance is coming from many quarters, and its intensity is undoubtedly heightened by a number of high profile corporate failures internationally. I think it is important, therefore, that I recount our thinking on corporate governance.

The Board constantly monitors corporate governance best practice trends here and abroad, and implements stronger governance practices where they are appropriate to NGC’s business and the New Zealand environment.

However, the Directors believe that good governance is more than simply embracing trends and being able tick a box that allows them to say “we do that!”

Rather, it runs to the heart of a company’s values and integrity. In NGC’s case, corporate governance is a living practice that is as much part of the continuous improvement ethic as is health, safety and environmental management, operational excellence and customer service standards. In other words, everything we do.
As I comment in the Annual Report, the substance is more important than the form.

That means that the Board is demonstrating to you, the shareholders, and to our many other stakeholders, that it is working effectively in your interests, and that all of NGC’s people are displaying integrity through their conduct.

Good corporate governance has always been a Board touchstone.

But, over the last two years or so it has assumed greater importance, demanding greater time and focus on the part of Directors as, in addition to the internal surveillance of emerging trends, securities regulators and stock exchanges around the world have moved to formally encapsulate governance requirements in legislation and in codes of practice.

In New Zealand, the responsibility for listed company behaviour has moved from the primary oversight of the Stock Exchange to the Securities Commission, which has a strong regulatory mandate to set and enforce governance practices.

For its part, the Stock Exchange, while operating in conjunction with the Securities Commission, has developed its own governance Rules and code, which were introduced only yesterday.

In the meantime, the Securities Commission has circulated a discussion paper and questionnaire on governance principles. These may, or may not eventually manifest themselves in additional regulation.

The formal governance regime in which we operate is taking definite shape, but it might not yet be complete.

This has not stopped the Board from actively adopting governance practices that reinforce the continuous improvement culture and represent real improvements to the sound administration of the Company.

These are apparent in the Corporate Governance section of the Annual Report, which details NGC’s governance structures, policies and practices.

They include, for example, the addition of risk management to the responsibilities of the Board Audit Committee – now the Audit and Risk Committee – to strengthen the proactive identification and management of risk, and the establishment of two new standing committees, HSE and Nominations.

In other initiatives, the Board has introduced an Audit Related Services Protocol relating to external auditor services, appointed an independent risk management adviser, and introduced a performance self-review regime for the Audit and Risk Committee.

Terms of Reference for all Board Committees have been reviewed and amended where appropriate to better reflect today’s practices and investor expectations.
As I mentioned a moment ago, all of these developments have increased the demands on your Directors, both in their Board and Committee responsibilities, and privately in reviewing the welter of publications that have emerged on this subject.

The Board has focused exactly on what it needs to do and, while good governance is more than ticking boxes, NGC can say it is already meeting many of the specific requirements of the draft codes we have sighted.

We have adopted these practices because they do add to assurance quality and, for that reason, make good business sense.

I hope, therefore, that you feel confidence in the standard of corporate governance currently practiced by your Board, and knowing that there is an ongoing quest for improvement.

Thank you ladies and gentlemen. That concludes my remarks about the Company’s financial performance, the capital structure strategy and issues of specific importance to NGC at this time.

I now take pleasure in asking Phil James to talk to you in a little more detail about NGC’s operations.

**Phil James, Chief Executive**

Ladies and gentlemen, this is the second time I have had the pleasure of addressing you at an annual meeting, and I am delighted, also, to reflect on a very successful year for NGC’s operations.

But I am ever conscious that while we can draw satisfaction from what has been achieved in retrospect, we must constantly look ahead and not lose sight of what is required to make past success enduring success.

With the changing energy supply patterns, market consolidation and increasing regulatory pressures, the challenges that lie ahead cannot be overstated. Nor, I must add, can the potential for opportunities that invariably arise in an environment of significant change.

The corporate restructure has prepared NGC operationally for the challenges and for the opportunities.

We have moved to protect our current market competitiveness by targeting competitive edge through cost leadership...

... we have already taken initiatives to further develop our gas portfolio as well as our LPG, gas processing and electricity metering services ...  

... and we have configured our business structures and people skills to ensure emerging opportunities are not only identified, but expertly analysed and, where they can add value, converted to new or expanded business. I will now review the performance and prospects of each of our business activities.

First, Energy Sales.
Natural Gas

Natural gas sales returned another solid performance, with sales volumes increasing by 7.2 percent to 72.6 petajoules.

The increase is due primarily to the acquisition of Kapuni gas sales contracts to Methanex during the year, which lifted our sales to petrochemical customers from 6.5 petajoules to almost 18 petajoules.

However, there was also pleasing growth in natural gas sales to the large industrial customers that were not included in 96,000 gas retail customers sold to Genesis in November last year.

With only a three-month contribution from the gas retailing business before its sale to Genesis, natural gas revenues were below those of 2002.

However, increased gross margin arising from early access to NGC’s prepaid Maui gas entitlements, enabled the Energy Sales business to record a 5.9 percent increase in earnings before interest and tax – or EBIT – of 54.2 million dollars, before abnormals.

During the year, NGC took the opportunity to rationalise its gas contracts portfolio and to pursue new gas entitlements.

The rationalisation included an agreement to settle NGC’s entitlements under what was known as the Gasbank 2 arrangement.

This was initially an arrangement with Fletcher Challenge, but it became an obligation of Shell New Zealand when it acquired Fletcher Challenge’s energy business.

In settlement, Shell transferred to NGC, at no cost, approximately 79 petajoules of gas, which not only partly mitigates the financial effects of the Maui reserves redetermination on NGC, but it resolves an historic uncertainty around a substantial volume of gas.

In recent months, NGC has reached two agreements to acquire gas from smaller fields that have become economic propositions in the changing gas supply environment. In a third agreement, we have acquired a gas purchase option in exchange for a prepayment of 2 million dollars.

Gas Gathering Strategy

These agreements have formed an initial platform for a gas gathering strategy in which NGC can package production from small fields into larger, more marketable parcels for end users.

NGC already holds entitlements to Maui and Kapuni gas. Under the recent arrangements, we also have access to gas from the smaller Surrey and Kahili fields in onshore Taranaki. Surrey is expected to produce about a petajoule of gas over the next two years, while the current single producing well at Kahili is expected to produce about 5 petajoules over its life. In both cases, production could increase if the field owners elect to conduct additional development drilling.
In addition, NGC has an agreement with Indo-Pacific Energy that includes a 10-year entitlement to negotiate first for gas produced by Indo-Pacific, in return for our 2 million dollar prepayment against future gas purchases. This type of arrangement of course has mutual benefits. For Indo-Pacific, the prepayment represents supplementary funding to develop its exploration and production prospects, and it gives NGC inside running to obtain entitlements to any new gas discoveries by Indo-Pacific.

As the Chairman commented, the close proximity of NGC’s gas processing and transportation infrastructure to the onshore Taranaki discoveries positions NGC particularly well to develop these types of arrangements with the smaller explorers and to facilitate the delivery of new sources of gas to the market.

With Kahili, NGC will construct and own pre-treatment facilities and an export pipeline.

Gas from both Kahili and Surrey will be directed into NGC’s pipeline systems for processing at our Kapuni gas treatment plant prior to delivery into the retail market.

You can safely assume that NGC intends to participate in tendering for new gas entitlements as future opportunities arise.

**Maui**

In the meantime, the parties to the Maui gas supply contracts – including NGC – continue to discuss future Maui gas availability.

I am today unable to provide you with any final position on the profiles from the Maui redetermination.

But, as stated in the Annual report, the discussions NGC is participating in about future Maui gas supply are aimed at resolving all of the issues raised in the Independent Expert’s redetermination of reserves, ensuring optimum recovery over the remaining life of the field, and providing as much certainty as possible around the volume of gas to be delivered.

The discussions also include access by NGC to its prepaid gas volumes and opportunities for future reserves developments.

Until these discussions are concluded and any resulting contract variations are finalised, NGC is unable to confirm its future gas supply profiles and position.

While the discussions continue, NGC and the other buyers have been taking reduced deliveries of Maui gas. Consequently, I expect that, on our current customer demand, NGC is likely to utilise its remaining Maui gas entitlements between 2005 and 2007 – some two to four years earlier than originally expected.

Given the Maui supply constraints, I do not expect the level of gas sales achieved by NGC in 2003 to be maintained into the future. The extent of the reduction, however, cannot be fully quantified at this time and will be affected by gas supply developments.
LPG & gas Liquids

NGC's involvement in gas liquids ranges from production and sale of LPG and natural gasoline at the Kapuni gas treatment plant. LPG sales through our On gas retailing activity, and the wholesale and tolling volumes handled by our 60 percent-owned subsidiary, Liquigas.

Overall gas liquids volumes declined by 10% compared with 2002, but that masks significant LPG sales growth in the New Zealand market.

LPG is produced in association with gas and oil production and, due to the reduced Maui gas offtakes, LPG production rates have also been affected.

The domestic market has a priority call on LPG production, so the decline in total volumes handled reflects significantly reduced volumes available for export.

The total LPG market in New Zealand grew by about 12 percent during the year and this is evident in a similar increase in volumes produced and sold through On gas.

There has been particularly strong growth in the 45- kilogram cylinder business across the country, and some of our On gas depots have recorded throughput increases of 30 to 40 percent compared with last year.

On gas continues to expand its national presence, and initiatives have been taken to expand the Christchurch-based South Island cylinder coverage into such areas as Nelson, Blenheim, Wanaka and Dunedin.

We have also formed a channel partner alliance with the nationwide plumbing franchise, Plumbing World, to enhance consumers’ access to LPG and to further develop the residential market.

The New Zealand sales growth is reflected in gas liquids trading EBIT increasing by almost 13 percent to 13.1 million dollars.

I note here that, also as a result of the reduced LPG availability from Maui, LPG imports were required for the first time during 2003 to help meet the peak winter demand.

As imports are acquired at international commodity prices, the imported volumes have applied upward pressure on New Zealand’s prices, which have historically been below international prices.

NGC has been absorbing this increase while it completes a billing system upgrade, and this has had an adverse effect on gross margin from gas liquids trading.

However, in recent weeks we have been consulting with customers regarding a price rise that will take effect next week.

Gas processing & Transportation
NGC's transmission system and gas distribution networks both conveyed greater volumes of gas during 2003.

Transmission throughput increased by around 6 petajoules to 99.6 petajoules, and the networks carried 10.9 petajoules, compared with 10.2 petajoules in 2002.

The transmission system already reaches all major population centres of the North Island and is a mature infrastructure asset.

However, the Auckland market, in particular, continues to grow and gas demand there is expected to increase over time.

To ensure NGC is positioned to increase gas deliverability into Auckland to meet future needs, we have continued to progress the pipeline route designation proposal from Huntly to Auckland to expand the transmission pipeline.

Such a designation will give us a head start to construct a new pipeline if and when the need arises.

It was a relatively busy period for new mains construction. We laid a further 60 kilometres of new distribution pipeline, about 20 kilometres more than last year.

The expansions have been in response to demand for reticulation to new residential subdivisions, particularly in major centres of the Bay of Plenty and Waikato, as well as to ongoing horticultural developments around Auckland.

Over 2,700 additional gas users were connected to NGC's distribution networks, although we experienced about 900 disconnections of small domestic users prompted by changes in retailer tariffs.

Although these disconnections represent only a small loss of throughput, NGC is keen to maximise the use of its pipeline assets and we are talking with the retailers about not only gas customer retention initiatives, but increasing the number of connections to our networks.

In this regard, we also work closely with builders and subdivision developers to ensure gas is available for new housing, and we have a particular focus on residential mainsfronters who are currently not connected to gas.

Research conducted with non-connected mainsfronters during the year has provided us with a good insight into their needs, and has helped us to formulate an awareness programme over the next two years.

The higher systems throughput has been converted into a 3 percent increase in EBIT from our gas transportation business.

The total EBIT of 61.3 million dollars, comprises 47.3 million dollars from transmission and 14 million dollars from distribution.

The result for distribution is slightly down on the 14.1 million dollars in 2002, as the current year operating costs included a one-off cost of 1 million dollars
associated with our feasibility study into the possible acquisition of the network assets of United Networks.

NGC reviews its transportation pricing each year and price increases have been applied from the 1st of October to reflect higher costs, including the recent imposition of local authority rates on utility networks.

Kapuni Operations

The operations of the Kapuni gas treatment plant are a function of our Gas Processing and Transportation business unit. The commercial activities relating to the plant, including the sale of gas liquids and other by-products, is the responsibility of the Energy Sales team.

This plant will play a central role in the gas gathering strategy, by having the ability to process non-Kapuni gas streams to the specification required for the retail market.

Initially it will receive gas from the Kahili and Surrey fields, to add to that from the Kapuni field, but it will also be available to process gas from any future fields that may be included in the strategy.

This plant sits on the Kapuni field and is close to other gas discoveries in Taranaki.

These fields will become increasingly important to the supply of retail market quality gas as the Maui field winds down. Kapuni gas has a particularly high carbon dioxide content, which must be substantially reduced in order to meet the market standard.

To ensure we are equipped to play our full part in meeting the retail market needs, we have embarked on a 14 million dollar project to restore the Kapuni plant to full treatment capacity, and to increase storage capacity to accommodate the consequently higher LPG volumes the plant will produce.

The project involves the replacement of one of the three Bonfield towers that physically removes the carbon dioxide from the raw gas stream, as well as the addition of a 100-tonne LPG storage bullet that will almost double LPG storage capacity to 230 tonnes.

Work on the project began in January this year, and will be essentially completed by the end of December.

Energy Metering

The Energy Metering business was the subject of intensive strategic focus during the year.

Formerly directly linked with our now discontinued electricity retailing business, Metering has been through a period of considerable adjustment following our withdrawal from electricity retailing to establish itself as an independent metering services provider.
This is a substantial business, involving over 800,000 electricity meter installations. It achieved an EBIT contribution of 21.1 million dollars, 3.9 percent higher than in 2002, and I am confident that you will see this contribution increase as a result of the strategic initiatives we have taken in recent months.

**Metering Expansion**

When looking to expand this business, we first needed to ensure we have the basics right to underpin everything that we do in the future.

This required, firstly, establishing the baseline to deliver core services to our customers.

It involved a comprehensive reorganisation of the business to improve service delivery, including engaging specialist skills, upgrading our information systems, and strengthening relationships with our retailer customers.

We were then ready to move into phase two of our metering growth strategy.

Our early initiatives are detailed in the Annual Report.

They comprise the acquisition of additional meters, including Time of Use installations, from TrustPower and, more recently, from Transpower subsidiary, D-Cypha …

… the acquisition of a strategic ownership interest in a Wellington-based technology company, Energy Intellect …

… the purchase Energy Intellect’s Australian data management business …

… a 10-year agreement with Energy Intellect for platform services …

… and a five year agreement to provide the AGL subsidiary, Agility, with interval metering data services in Australia.

These initiatives diversify our customer base, increase our data management capabilities and extend our services beyond New Zealand and into Australia.

In addition we are pursuing international leading edge prepaid metering technology.

We have identified a preferred technology that we are now trialling in conjunction with Genesis Power, one of our retailer customers.

I am excited about all of these initiatives. Our focus in the medium term is to leverage them to their full potential, and, in doing so, to elevate NGC to industry leader status.

There is a third phase to our metering expansion strategy, involving a slightly more distant horizon.

We live in a world of rapidly advancing technology, and this is true also for energy meters.
As a serious metering company with commitments to the needs of our customers, we will maintain an eye to this horizon by constantly monitoring technological improvements.

HSE Management

I would like to finish my address with some comments about health, safety and environmental management.

As part of corporate governance, we report extensively on our HSE policy and practices, and we constantly look at how this reporting can be enhanced.

I regret that our record for 2003 fell below our aspirations, especially in the area of lost time injuries.

It is disappointing to have to report an increase in the lost time injury frequency rate from 1.8 to 7.2 per million hours worked.

We investigate every incident we have and seek to learn from them. But I am the first to acknowledge that the year’s performance was not good enough, especially for a company that has a core value of continuous improvement.

We do set ourselves high targets. In fact, our aim, ultimately, is to have no lost time injuries at all.

I can assure you, therefore, that NGC is committed to the welfare of its staff and of the communities who host our operations.

In conclusion, ladies and gentlemen, NGC’s focus is firmly on the future and, to repeat my comment in the Annual Report, the strategic work never ends – there will be new choices for NGC to make and to effectively execute.

I am very confident that NGC has the expertise, the experience, the structure and the culture to, indeed, make its successes enduring.