+ GAS – A CONTINUING CONTRIBUTION TO NEW ZEALAND'S FUTURE

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OUR ROLE

As the 'industry body' and co-regulator under the Gas Act 1992 (Gas Act), Gas Industry Co is responsible for developing industry arrangements that ensure gas is delivered safely, efficiently and reliably to new and existing gas consumers. Our strategy is to optimise the contribution of gas to New Zealand by:

- ensuring efficient, competitive, and confident gas markets.
- facilitating efficient investment in, and efficient use of, gas infrastructure.
- building the New Zealand Gas Story, including through increased disclosure and information.
- delivering effectively on our accountabilities as the industry body, and in particular on the provisions of the Government Policy Statement on Gas Governance (GPS).

KEY INDUSTRY ARRANGEMENTS

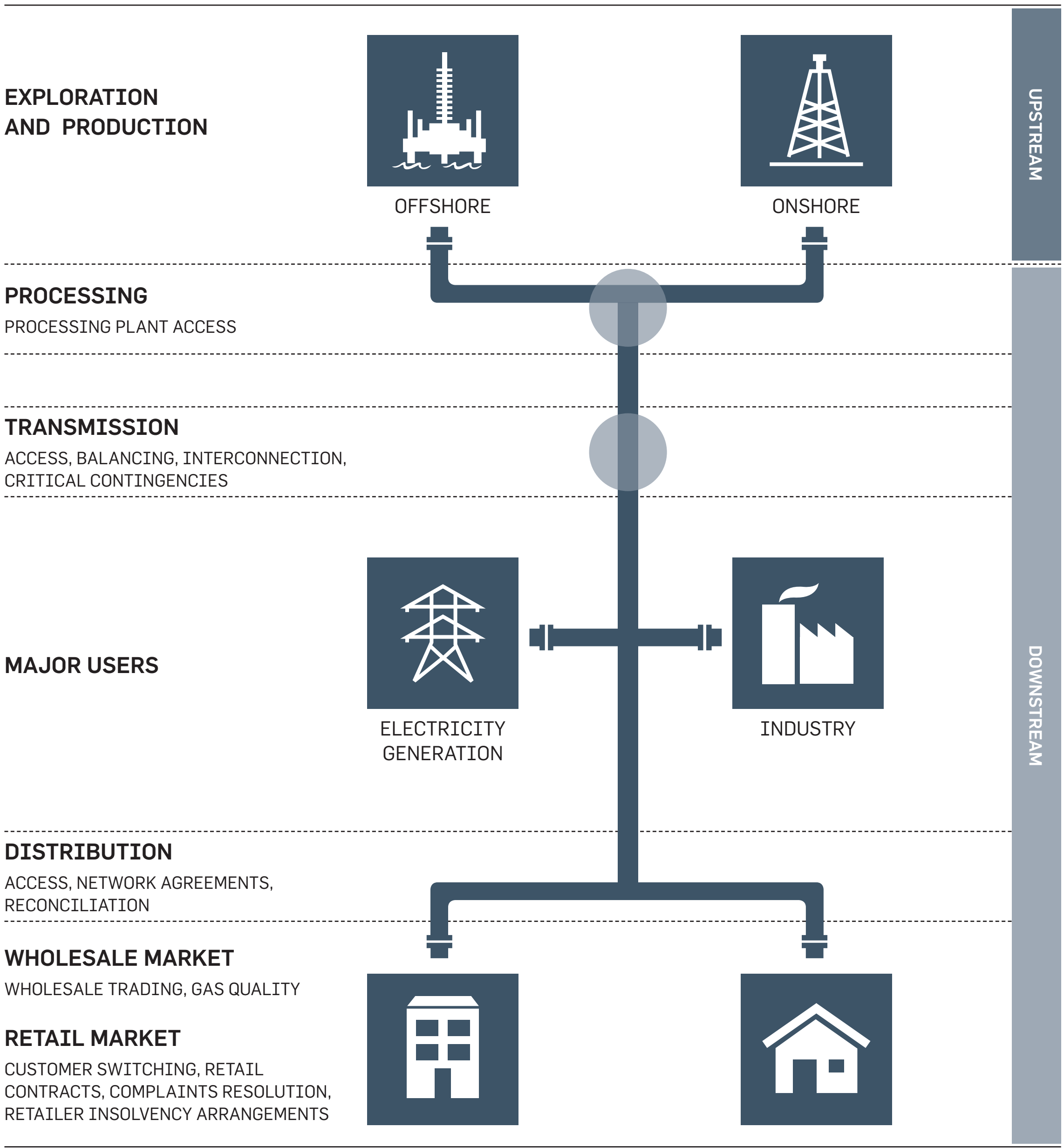
Gas Industry Co currently administers five governance systems for sectors of the gas industry:

1. Gas (Switching Arrangements) Rules 2008 (Switching Rules), which provide for a central registry of ICP data, and facilitate customer switching among retailers.
2. Gas (Downstream Reconciliation) Rules 2008 (Reconciliation Rules), which prescribe the process for volumes of gas consumed to be appropriately attributed to the retailers responsible for them.
3. Gas Governance (Critical Contingency Management) Regulations 2008 (CCM Regulations), which set out how industry participants plan for and respond to a serious incident affecting gas supply via the gas transmission pipelines.
4. Gas (Processing Facilities Information Disclosure) Rules 2008 (Processing Information Disclosure Rules), which detail information to be provided by owners of gas processing facilities.
5. The Gas Governance (Compliance) Regulations 2008 (Compliance Regulations), under which alleged breaches of the rules and regulations are determined and settled efficiently.

Gas Industry Co routinely monitors the ongoing effectiveness of the governance arrangements through a set of industry performance measures. Performance results are published regularly on the Company's website www.gasindustry.co.nz

GAS INDUSTRY STRUCTURE

Gas Industry Co's role covers the gas industry downstream of the exploration and production sector, and includes gas processing, transmission, distribution, and the wholesale and retail markets.



CHAIR'S FOREWORD

'While much of our attention has been directed at high priority issues, behind the scenes we keep a firm hand on existing governance systems and processes that are not widely visible outside the industry, but which ensure the market is effective and operates efficiently.'

The New Zealand gas industry continues to play a crucial and strategic role in our lives and the economy. In October, when the upper half of the North Island lost supply due to a break in the Maui pipeline, consumers were reminded of how important gas is to them, their families and their businesses.

The contribution of gas is far-reaching. It fuels around 11,000 large and small businesses, provides cooking and heating energy in 247,000 homes, underpins electricity supply security and, as a substitute for more harmful fossil fuels, helps New Zealand to manage its environmental footprint.

As the industry body, owned by industry shareholders and administering a unique co-regulatory model in partnership with the Government, Gas Industry Co has a key role in supporting the Government's Energy Strategy, particularly in promoting arrangements for a robust domestic gas market.

In fulfilling this role, we have completed another productive year, in which we have progressed work on a number of priority issues for the industry, and responded positively to unforeseen events that tested our operational agility.

Early in the financial year, we embarked on the Gas Transmission Investment Programme (GTIP), a re-deployment of effort and resources at the request of large consumers and other industry stakeholders concerned about the competition effects of capacity constraints on the North Pipeline. A set of industry commitments was negotiated to address concerns in the short term, while the GTIP work has advanced quickly and creatively, with strong industry input, towards developing longer-term transmission market mechanisms.

A solid framework for that programme was in place when the five-day gas supply disruption on the Maui pipeline presented the industry with the first major challenge to the critical contingency management arrangements introduced under regulation in 2008. These generally worked very well, but, as with any significant incident, the outage provided lessons. We are well advanced with the process of putting in place improvements that will stand us in good stead for any future event.

The Company's response in both of these instances displayed a preparedness to take aboard significant new industry issues that can emerge at any time. In doing so, the Company also demonstrated flexibility in reallocating priorities to accommodate them.

PRIORITIES FOR 2012/13

- Continue to work with the industry to deliver benefits from the Bridge Commitments to address short-term issues arising from the North Pipeline constraint. Maintain a focus on Gas Transmission Exchange trading and free up potential capacity held by electricity generators.
- Progress the GTIP to achieve improved transmission access and capacity pricing arrangements.
- Complete a review of critical contingency management arrangements and make recommendations to improve the industry's emergency response processes.
- Implement the Gas Distribution Contracts Oversight Scheme, using a set of Principles to assess contractual arrangements between distributors and retailers.
- Complete the third annual review of retailers' contracts with small consumers against Benchmarks as part of small consumer protection measures. Publish individual retailers' alignment with those Benchmarks.
- Complete a review of the Downstream Reconciliation Rules and implement appropriate changes, including to initial allocation processes.
- Support enhanced, industry-led, non-regulated transmission pipeline balancing arrangements in the form of changes to the Maui Pipeline Operating Code (MPOC), and parallel changes to other balancing-related arrangements.
- Introduce arrangements to improve Gas Industry Co's access to information to support its policy development process.
- Publish and communicate the New Zealand Gas Story. Establish as a routinely-updated, living document.
- Further develop and implement the Company's broader strategy to optimise gas' contribution to New Zealand, and to increase general awareness of gas' role in the economy.

While much of our attention has been directed at these high priority issues, behind the scenes we keep a firm hand on existing market governance systems and processes that are not widely visible outside the industry, but which ensure the market is effective and operates efficiently.

It is this combination of tackling the new, while maintaining and enhancing the proven, which can help to underscore industry participants' confidence in market integrity – from the upstream explorers/producers, who want to see their substantial investment supported by mature, efficient and effective downstream markets; to the consumers, who seek cost-effective supply, reliable delivery, and confidence around gas availability.

Our overall corporate strategy, to 'optimise the contribution of gas to New Zealand', broadens our view of how we can help the industry achieve its potential, beyond the raw instruments of rules and regulations. An example lies in our commissioning of the first substantial gas supply and demand study as part of the GTIP work. We are confident that this will be a valuable reference point for New Zealand as it contemplates future energy scenarios, and for gas industry participants seeking additional insights to help with their investment and energy decisions.

Also, as we develop and communicate the New Zealand Gas Story, we can enhance New Zealanders' understanding of the contribution gas is making to their country's economic wellbeing.

These themes are at the forefront of the Government's Energy Strategy, which promotes the diverse development of renewable, petroleum (including gas) and mineral resources in a sustainable manner for the benefit of all New Zealanders. The Government's strategy reconfirms the target of 90 percent of electricity generation from renewable sources by 2025, but not at the expense of electricity supply reliability. Accordingly, it acknowledges that some fossil fuel generation will be required to support electricity supply for the foreseeable future.

Consequently gas, which currently contributes around 20 percent of New Zealand's primary energy supply and fuels a fifth of electricity generation, will continue its now 40-year history of delivering direct and indirect energy benefits to consumers well into the future.

The Government is rightly concerned to promote best practice regulation. The Company stands to be judged on the outcomes it delivers, but we continue to see the co-regulatory model as a good fit for the gas industry and a potential exemplar for other industries.

Through our resources, strategic mandate and regulatory support mechanisms, Gas Industry Co is well placed to help the Government achieve its energy strategy aspirations, and, in particular, the overarching policy objective for gas to be delivered in a safe, efficient, fair, reliable and environmentally sustainable manner.

We will continue our work on issues that are important for New Zealand and the industry. Recognising that gas is a discretionary fuel in a highly competitive energy market, we will take care to evolve industry arrangements, both regulatory and non-regulatory, that appropriately reflect the unique characteristics of the New Zealand market.

Acknowledgements

During the year Ron Kelly resigned from the Board to take up a new position with Shell in the United Kingdom. I record the Board's appreciation of Mr Kelly's contribution, and welcome Andrew Knight, who has been appointed as an industry-associated Director to fill the resulting casual vacancy.

The Company's executive and staff continue to fulfil a demanding workload and to achieve the Company's performance objectives. On behalf of the Board, I thank all of Gas Industry Co's team for their diligence and dedication as they successfully absorb new and important workstreams, while maintaining and enhancing the market systems that keep the industry operating efficiently for the benefit of participants and consumers.

Our annual Strategic Plan and associated work programme are developed in close consultation with industry participants. The Board records its appreciation to participants for their contribution to, and support for, our planning and work programme development processes. Participants can be assured that, in seeking to deliver on the Gas Act, GPS, and corporate strategy objectives, we are conscious of the imperative to be financially efficient and to demonstrate value for the levy and market fee dollars that fund our activities.

Rt Hon James B. Bolger, ONZ
CHAIR

CHIEF EXECUTIVE'S REVIEW

'Our consultative processes and ongoing liaison with the industry have found general agreement on the nature of most issues and what needs to be done about them. While there are often competing interests and views, there is also a strong shared interest in healthy and competitive gas markets…'

The New Zealand gas market continues to evolve and challenge us. We are constantly reminded of the substantial investments made in the industry over the past 40 years, and its potential future contribution to the country.

Investment in exploration and production is strong, reflecting an increasing global trend for gas to underwrite a cleaner energy future. A strong indicator of the strength of the gas industry in New Zealand has been an arrangement between Todd Energy and Methanex Limited, which will result in the substantial development of the Mangahewa Field, and the recommissioning of Methanex's second methanol production train at Motunui. This arrangement has elements which both update the industry's traditional supply and demand story, and introduces new thinking that will underpin the industry for years to come.

Evolving performance trends since the introduction of formalised governance arrangements four years ago also confirm the increasingly dynamic and efficient nature of the New Zealand gas market.

From the level of switching by customers in pursuit of the best deal from retailers, to greater accuracy in reconciling downstream gas volumes, the indicators of healthy, competitive markets are positive. The trends point to how improved market efficiency and infrastructure access processes arising from Gas Industry Co's work to date have delivered consumer benefits and helped make Government policy outcomes a reality.

We look to continuously improve the existing rules and regulations, and to build on the market benefits, including through strengthened contract arrangements at the distribution and retail ends of the supply chain.

However, there are still issues to be resolved.

With some issues, like transmission pipeline balancing, we have supported industry initiatives aimed at improving existing arrangements. With others, such as transmission capacity allocation and downstream reconciliation enhancements, we are leading

KEY ACHIEVEMENTS IN 2011/12

ACTIVITY	MEASURE – PRIORITIES SET FOR 2011/12	ACHIEVEMENT
TRANSMISSION CAPACITY	Work with the industry to deliver benefits from the Bridge Commitments to address short-term issues arising from the North Pipeline constraint. Progress the Gas Transmission Investment Programme to provide longer-term solutions to transmission capacity constraints.	Gas Transmission Exchange opens for matching capacity sales/leases with retailer demand. Progress towards freeing up pipeline capacity reserved for power stations, but arrangements not concluded by year-end. Incumbent Shippers are offering capacity in competitive supply tenders. Panels of expert and strategic advisers established to assist Gas Industry Co to identify and assess transmission access and capacity pricing options. Report presented to Gas Industry Co and released for industry discussion shortly after year-end.
DISTRIBUTION CONTRACTS	Improve gas distribution contract arrangements by assessing these against principles and publishing results.	Gas Distribution Contracts Oversight Scheme, incorporating an associated assessment framework, developed, and given Ministerial endorsement shortly after year-end.
CONSUMER ISSUES	Further ensure small customers are protected through an annual review of retail consumer contracts against benchmarks.	Transitional assessment of arrangements confirms overall 'moderate' rating with indications of improved alignment. Third annual assessment is being undertaken in early 2012/13, with individual retailer results to be published.
GAS QUALITY	Protect gas and gas pipeline integrity by evaluating industry arrangements for monitoring gas quality.	Completed review of gas quality control, monitoring and reporting arrangements. Gas quality investigation update paper scheduled for release in 2012/13.
INFORMATION GATHERING	Improve Gas Industry Co's access to information to support its policy development process.	Industry workshops held and Statement of Proposal issued. Commenced development of proposal for industry protocol with possible backstop regulations for implementation in 2012/13.
CORPORATE STRATEGY	Further develop and implement the Company's broader strategy to optimise gas' contribution to New Zealand, and to increase general awareness of gas' role in the economy.	Communication of the Gas Story effected through Gas Industry Co website update, corporate publications, presentations and conferences. Compilation of Gas Story report scheduled for release in 2012/13.

programmes in which the collective wisdom of industry experts and external specialists is harnessed and brought to bear on the problem. And, in the case of critical contingency management, we have engaged assistance as we progress our review of the CCM Regulations to ensure changes incorporate lessons from the Maui pipeline outage, and reflect best practice in the global context.

All of these matters are relevant to Gas Industry Co's core objectives of improving infrastructure access, and building efficient, competitive and confident gas markets. We take a three-pronged approach to the task:

» addressing priority industry issues, specifically more efficient use of existing transmission pipeline capacity, and improving critical contingency management processes.
» maintaining and enhancing existing industry governance systems.
» progressing a multi-year programme of other industry initiatives.

A growing success factor during the year has been aligning and harnessing industry input, which has been reflected in high levels of industry contribution and overall support for priority work. Our consultative processes and ongoing liaison with the industry have found general agreement on the nature of most issues and what needs to be done about them. While there are often competing interests and views, there is also a strong shared interest in healthy and competitive gas markets.

Of all of our activities, the strongest message we are getting from the industry is to press on with a new design for transmission access and capacity allocation. The development of that design is helped by early results from our gas supply and demand study, which indicates there is some breathing space before the industry is faced with crunch investment decisions. Crucially, the work points strongly to more efficient use of available capacity, rather than investment in new pipes, as the most likely immediate solution to capacity congestion.

The design, therefore, will contain elements that allocate capacity efficiently and clearly signal the need for new transmission investment when it arises.

At the same time, the industry must have an eye to the longer-term, with potentially higher gas demand from economic and population growth, and prepare the ground now. Accordingly developing a pathway for investment to be made when needed remains a key element of the GTIP.

Prudent investment at all levels is also founded on information availability and transparency. Gas Industry Co believes strongly that this is vital to building efficient and confident markets and for ensuring participants can make informed investment decisions. This applies as much to general information about the New Zealand gas industry, its market structures and prospects, as it does to specific contractual and technical information that are important to existing and new-entrant gas players.

During the year we progressed the compilation of a comprehensive report on the current state and performance of the gas industry – a publication we also refer to as the 'New Zealand Gas Story'. This will be completed and communicated in the first half of 2012/13.

By its nature, the gas industry is ever changing and subject to a range of influences. As an island nation without cross-border pipelines or gas importation facilities, a significant influencing factor is the success of exploration efforts and consequent perspectives on future gas supplies.

Scenarios range from effective use of new technologies to increase economic recoveries from existing fields, such as Maui and Kapuni, to a major new find in one of New Zealand's many currently under-explored regions. The occurrence, size and location of any future discoveries will have a major bearing on development and utilisation decisions, and consequently on the applicability of current governance arrangements.

Gas Industry Co follows national and international energy planning processes closely and we acknowledge the need to be conscious of the various future possibilities as we develop our work programmes.

Given the timeframe for a new gas discovery to reach production, we are comfortable that the rolling three-year planning timeframe is appropriate to properly assess the near-term governance needs of the industry and to factor in new developments as they occur.

Gas Industry Co has a good grasp of the issues and needs of the industry and we continue to see the co-regulatory model as effective to address these. We look forward to continuing our close work with participants and the Government in further building a market environment that allows gas, and those responsible for producing, transporting, trading and using it, to flourish.

Steve Bielby
CHIEF EXECUTIVE

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GAS FIELDS

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Gas is fed into the New Zealand market from 15 producing fields. Two other offshore fields produce gas, but this is not piped onshore.

3.

BUILDING EFFICIENT, COMPETITIVE, AND CONFIDENT GAS MARKETS

Gas Industry Co develops, administers and monitors industry arrangements designed to ensure that the gas markets are efficient and competitive, and that participants have the confidence they need to maintain their investment in the production, delivery and use of gas.

Our work in this area of our strategic objectives encompasses:

» arrangements between distributors and retailers.
» the reconciliation of downstream gas volumes.
» customer switching arrangements.
» improving consumer outcomes.
» gas quality.

Distribution arrangements

During the year, Gas Industry Co developed a Gas Distribution Contracts Oversight Scheme (Oversight Scheme) setting the structure and assessment framework for distributors' contracts with retailers to be evaluated against a set of Principles. It is a non-regulatory mechanism aimed at ensuring that core terms and conditions in distribution contracts are consistent, clear and reasonable; promote market efficiency; and ultimately enhance consumer outcomes.

Shortly after year-end, the Oversight Scheme was endorsed by the Minister of Energy and Resources, and the first assessment is scheduled for the second half of 2012/13. The assessments, using a qualitative scoring system, will be undertaken by an independent assessor, and the results published.

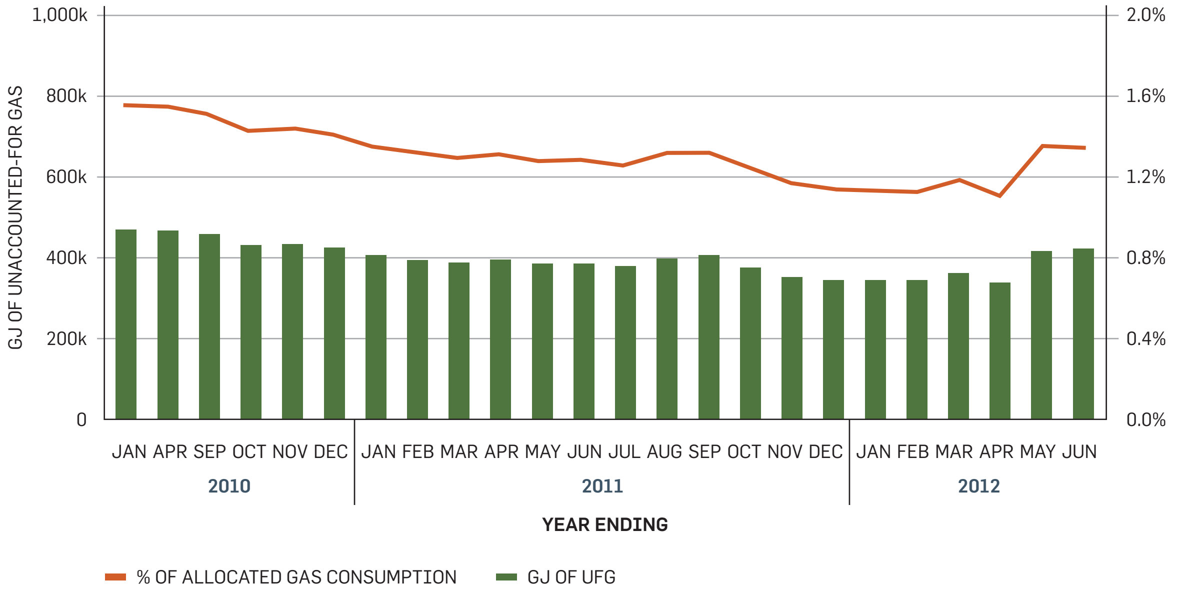
The Oversight Scheme was finalised following comprehensive industry liaison. Industry participants generally support the principles-based approach, and Gas Industry Co is aware that distributors are revising their contracts to align with the Principles in anticipation of the Oversight Scheme's commencement.

The Scheme complements the Retail Gas Contracts Oversight Scheme, which assesses retail gas supply arrangements for small consumers against more prescriptive outcome-based Benchmark terms. The distinction between these Benchmarks and the Oversight Scheme Principles is a recognition that, as commercial entities, parties to distribution service arrangements are better able to negotiate mutually acceptable terms than small consumers can with retailers.

Downstream reconciliation

The Reconciliation Rules improve market efficiency by reconciling volumes of gas leaving the high pressure transmission system with volumes consumed by end-users, and appropriately attributing them to retailers. The difference between the amount of gas that retailers estimate their customers have used and the volume leaving the transmission system is unaccounted-for gas (UFG), which is allocated, and charged, to retailers in proportion with their consumption submissions.

FIGURE 1: UNACCOUNTED-FOR GAS 2010-2012



Since their introduction in 2008, the Reconciliation Rules, and their associated performance and event auditing mechanisms, have been instrumental in reducing UFG from over 2 percent of total annual consumption to approximately 1.3 percent. Figure 1 shows the rolling UFG over the past two years both in volume (gigajoules (GJ)) and as a percentage of gas consumed.

The reduction in UFG, through a combination of retailer compliance and improved reconciliation accuracy, has achieved estimated annual cost savings to the industry of more than $2.5 million.

During the year, Gas Industry Co commenced a review of the Reconciliation Rules in line with its practice to periodically review the ongoing effectiveness of industry arrangements. The review is intended to identify areas for improvement, rather than reassess the Reconciliation Rules' underlying intent and purpose, and is being assisted by an advisory group consisting of industry participant representatives selected for their operational understanding of the downstream reconciliation process.

The work has been divided into two streams: the first involving process enhancements and codifying exemptions, and the second focusing on methodologies for more accurate initial allocations.

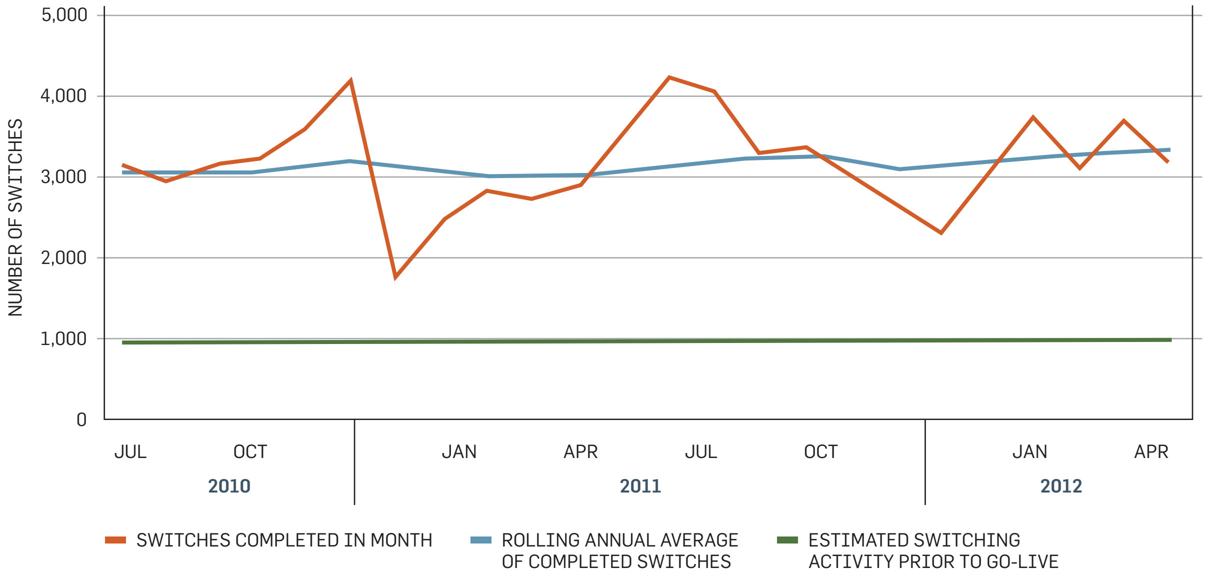
The first workstream is expected to be completed in 2012/13. Proposals arising from the more challenging second workstream, which will involve either refining or replacing existing processes for initial allocations, are likely to be developed later in 2012/13.

Customer switching

The Switching Rules continue to fulfil their purpose of enabling consumers to choose, and efficiently alternate between, competing retailers. The Gas Registry, established under the Switching Rules to maintain customer installation data, and to facilitate and monitor the switching process, again operated to its performance standards.

A high level of contestability in the gas market is evidenced by an increase of 8.5 percent, to 39,927, in the number of gas customer switches in 2011/12 compared with the previous year (see Figure 2). Monthly switching numbers peaked at 4,250 in July 2011, the highest since the Switching Rules went live in 2009. This was due in part to an Electricity Authority campaign aimed at encouraging electricity consumers to seek the best electricity supply price from retailers. It also had the effect of strengthening gas consumers' awareness of potential switching benefits.

FIGURE 2: GAS CUSTOMER SWITCHES 2010-2012



- Includes only switches on open-access distribution networks. Switches from open-access to bypass networks (or vice versa) are not recorded as a switch in the Gas Registry.
- Excludes approximately 6,350 E-Gas customers transferred to Nova Energy in November 2010 as a result of Nova purchasing the customer base from E-Gas' liquidator.
- Excludes 2,243 're-branding' transfers from Auckland Gas to Nova Energy in June 2011, as both retailers are part of the Todd Group.

The annual switching rate among gas consumers increased from 15 percent in 2010/11 to 16.6 percent. This compares with 21 percent in the electricity sector.

The 12-month rolling average switching time also improved, from under seven days in 2010/11, to just under six days in 2011/12 (see Figure 3).

Prior to the commencement of the Switching Rules, gas customer churn was 4.8 percent, with an average of 1,000 switches per month, and a switching time measured in weeks or months.

Improving consumer outcomes

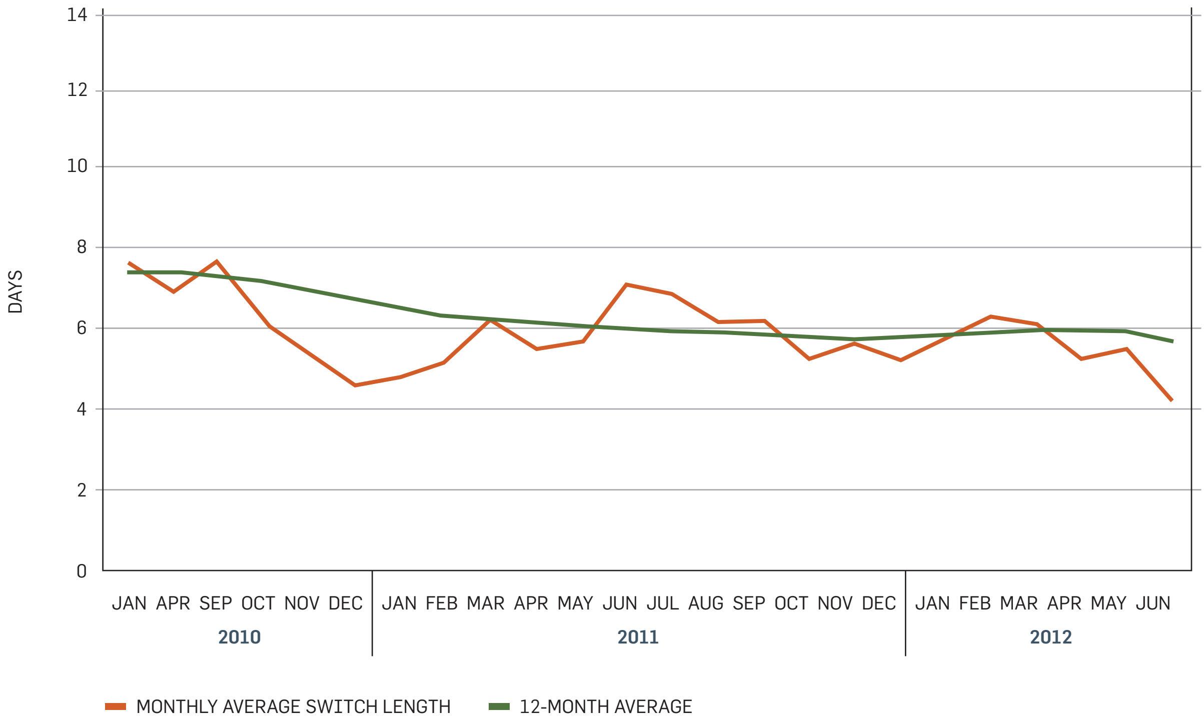
As well as the tailored processes, information disclosure and monitoring regimes surrounding these governance systems, arrangements covering retailer contracts and consumer complaints processes are also delivering benefits to gas users. These apply particularly to promoting and protecting the longer-term interests of smaller consumers, who do not have the resources or market influence of larger commercial enterprises. Similarly, the reinforcement of consumer confidence and the management of potential 'orphaned' customers are major considerations in our current investigation of appropriate arrangements to manage any gas retailer insolvencies.

RETAIL GAS CONTRACTS OVERSIGHT SCHEME

The purpose of the Retail Gas Contracts Oversight Scheme (Retail Scheme) is to compare retail contracts with outcome-based Benchmark objectives to ensure they are in the long-term interests of consumers, clearly set out retailer and consumer obligations, reflect market structures, and support an effective complaints resolution process.

A transitional assessment, the second assessment under the Retail Scheme, was conducted early in the financial year. The results rated retailers' overall alignment with the contract Benchmarks as 'moderate'. This consolidated outcome was unchanged from the baseline assessment conducted a year previously, although the independent assessor reported individual improvements and indications that retailers generally are taking active steps to improve their contracts with small consumers.

FIGURE 3: GAS CUSTOMER SWITCH TIME 2010-2012



The transitional assessment evaluated 10 gas supply arrangements across seven retailers and covered published standard terms and conditions for gas retail supply contracts for residential and business consumers using less than 10 terajoules (TJ) a year. The assessment is based on a qualitative scale of ‘Full’, ‘Substantial’, ‘Moderate’, ‘Low’ and ‘None’. A feature of the third annual assessment, to be undertaken in early 2012/13, will be the publication of the results for individual retailers for the first time.

The Retail Scheme was endorsed by the Government in 2010 and reflects policy objectives for positive consumer outcomes. Given the predominance of ‘dual fuel’ energy supplies to consumers, Gas Industry Co is liaising closely with the Electricity Authority in the development of the Retail Scheme. Where possible, our Scheme is aligned with the Authority’s model retail contract scheme.

CONSUMER COMPLAINTS SCHEME

Gas consumers have an effective, free and independent complaints resolution process through the Electricity and Gas Complaints Commissioner Scheme (Complaints Scheme).

Upon the joint recommendation of Gas Industry Co and the then Electricity Commission, the Electricity and Gas Complaints Commission (EGCC) was approved as the consumer complaints resolution scheme for the electricity and gas industries on 1 April 2010. The EGCC has quickly built itself into an effective avenue for managing the broad range of consumer issues.

Figures published in the EGCC’s Annual Report for 2011/12 show that in the two years since then the total number of cases received annually increased by 480 percent, from 1,285 in 2009/10, to 7,490 in 2011/12. In turn, the total cases received in 2011/12 were 67 percent higher than in the previous year, and EGCC expects cases received in the current 2012/13 year to increase a further 46 percent to almost 11,000.

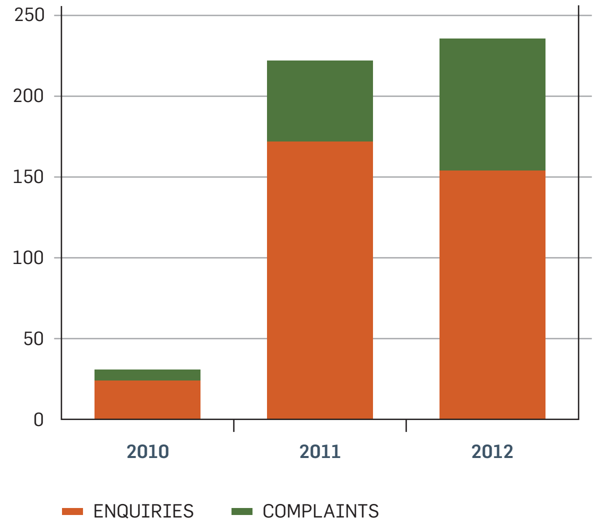
Consumer enquiries relating specifically to gas declined from 173 in 2010/11 to 155. However, gas-related complaints rose by 32, from 50 to 82. Dual fuel (electricity and gas) consumer enquiries also declined, from 46 to 38, but dual fuel complaints increased almost five-fold from 27 to 130. The most common grounds for consumer inquiries and complaints were billing, customer service, metering and disconnection issues.

On a complaints per 10,000 ICPs comparison basis, the gas sector is the subject of proportionately substantially fewer complaints than the electricity sector. During 2011/12, complaints per 10,000 ICPs relating to the gas sector averaged 0.26 per month, compared with an electricity sector monthly average of 0.88.

The Complaints Scheme was expanded in December 2010 to include reticulated LPG. No reticulated LPG cases were reported by EGCC in the year ended 30 June 2012.

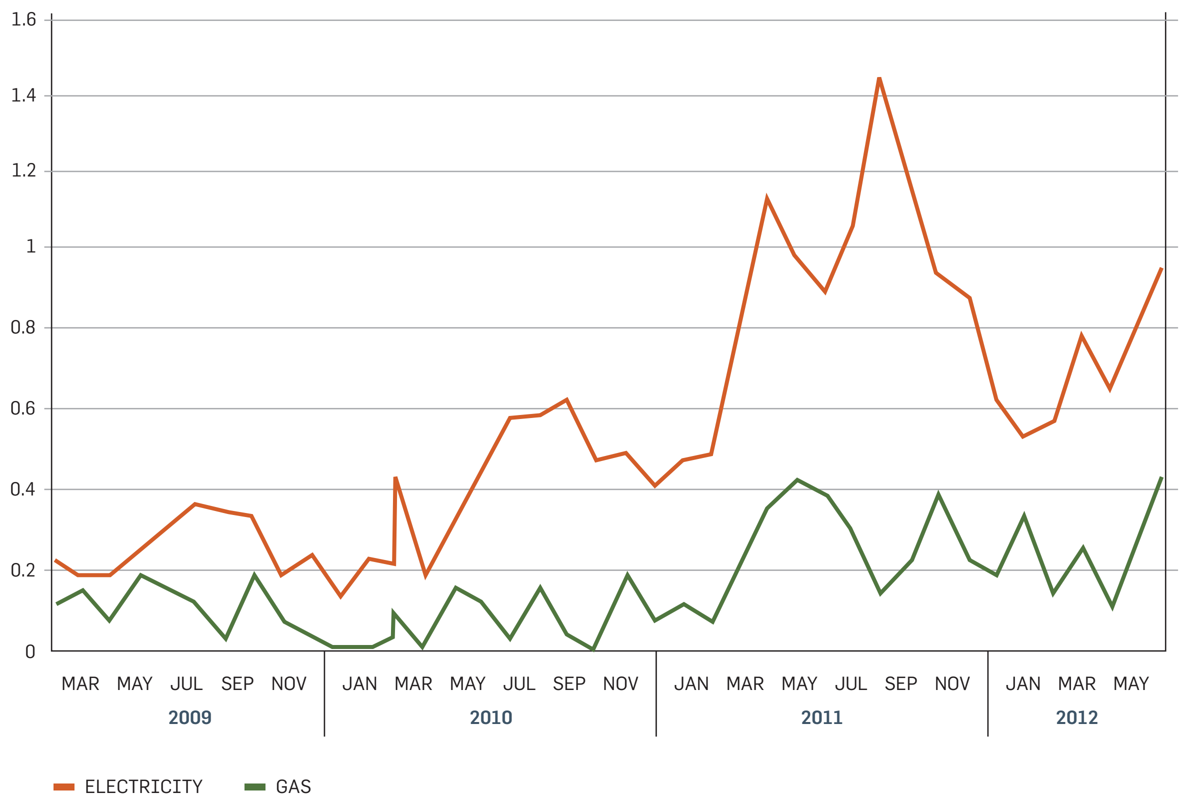
Gas Industry Co continues to liaise closely with EGCC, the Electricity Authority and the Ministry of Business, Innovation and Employment (MBIE) to stay informed of issues relevant to consumers.

FIGURE 4: GAS-RELATED INQUIRIES AND COMPLAINTS



– 2010 covers three months, from the commencement of EGCC as the approved consumer complaint resolution scheme on 1 April 2010, to 30 June 2010.

FIGURE 5: ELECTRICITY AND GAS COMPLAINTS PER 10,000 ICPs



INSOLVENT RETAILER ARRANGEMENTS

Having made a recommendation to the Minister of Energy and Resources in late 2010/11 that the temporary Gas Governance (Insolvent Retailers) Regulations 2010 (Insolvent Retailers Regulations) be allowed to lapse, Gas Industry Co's attention during the year turned to considering whether a generic regulatory solution is required to address retailer insolvency.

Gas Industry Co engaged business and public service specialists, Castalia Strategic Advisers, to prepare an issues paper, with a focus on whether retailer insolvencies raise identifiable market failures that warrant such regulatory intervention, or if normal insolvency processes can be relied upon to produce acceptable outcomes.

Castalia's report was issued for industry comment in late June 2012, and this matter will be progressed to a conclusion during 2012/13.

The report was the latest step in a process initiated with a Statement of Proposal in March 2011 seeking submissions on the Insolvent Retailers Regulations. These were created under the urgent regulation-making provisions of the Gas Act when the E-Gas Group of Companies went into voluntary liquidation in late 2010. They were ultimately not used, as the liquidator sold E-Gas' customers to Nova Energy.

Gas Industry Co is aware that the Electricity Authority is also currently considering retailer insolvency issues, including whether there is a need to regulate. While there are differences between gas and electricity market operations, Gas Industry Co is liaising with the Electricity Authority in recognition that a number of retailers are involved in both electricity and gas sales.

Gas quality

Gas Industry Co has completed its review of industry arrangements for controlling, monitoring and reporting gas quality, and concludes that this is currently being properly managed by parties in the physical supply chain.

Although the possibility of a gas quality incident is small, such an event could cause serious harm, as quality affects combustion performance, safety, the reliability of gas supply, and the long-term integrity of the gas transportation system. The gas standard is established by NZS 5442:2008 Specification for Reticulated Natural Gas (the Gas Specification).

The Gas (Safety and Measurements) Regulations 2010 (Safety Regulations) clarified the responsibility that gas wholesalers and retailers have for gas quality. Gas Industry Co has previously reported participant concerns that the parties with the legislative responsibility for achieving compliance with the Gas Specification may not have sufficient influence over the parties who physically control gas quality. There were concerns also that the costs of a quality-related outage may not be borne by the party that caused the problem.

While concluding that regulation is not required at this time, Gas Industry Co has called for continued work across the supply chain to improve existing arrangements, including monitoring, testing, reporting and auditing practices.

Gas Industry Co's focus has been on issue identification and solution facilitation. As an outcome of its investigations during the year, the Company supports proposals by retailers to introduce a Gas Information Exchange Protocol to verify compliance with the Safety Regulations. Such a protocol would also provide a channel for improving transparency of non-specification gas incidents, and any variations to gas quality monitoring requirements agreed between suppliers.

Gas Industry Co will consider the need for further governance arrangements once the outcome of the protocol development work becomes clearer.

Gas Industry Co does not have direct jurisdiction over gas quality, but is working with industry participants on quality matters given the Company's particular obligations under the Gas Act to ensure that gas is delivered in a safe, efficient and reliable manner, and that risks relating to security of supply are properly and efficiently managed by all parties.

Accordingly, in its gas quality review Gas Industry Co is liaising with MBIE, which is responsible through its Energy Safety unit for administering the Safety Regulations, and adherence to the Gas Specification. Industry consultation on gas quality will continue in 2012/13 following the release of a detailed discussion paper by Gas Industry Co.

2,528km

TRANSMISSION PIPELINES

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High pressure transmission pipelines deliver gas to most of the population centres of the North Island. The main transmission systems are the Maui pipeline (308km) and the Vector system (2,220km).

4.

FACILITATING EFFICIENT USE OF, AND TIMELY INVESTMENT IN, GAS INFRASTRUCTURE

Gas Industry Co's various workstreams on infrastructure issues reflect the importance of infrastructure access to the operation of competitive and efficient markets.

A strong focus on gas transmission issues during 2011/12 has seen the emergence of a broad and constructive platform of action aimed at achieving more efficient use of capacity on the North Pipeline and laying the groundwork for potential future investment. Beyond pipeline capacity, our infrastructure-related work has included pipeline balancing and interconnection, and continued monitoring of gas processing facility operations and access.

Transmission constraints

The GTIP, helped by strong industry support, has made very pleasing progress towards the development of enduring, long-term transmission access and capacity pricing arrangements suited to the New Zealand gas industry.

The GTIP emerged from the introduction in August 2011 of industry-led arrangements, known as the 'Bridge Commitments', to address short-term issues arising from concerns by some large end-users that a capacity constraint on Vector's North Pipeline was inhibiting competition when seeking tenders for gas supply. The seven commitments, supported by the majority of Shippers on the North Pipeline, included an undertaking by them to participate in a project aimed at developing longer-term solutions.

Two advisory panels were established during the year to help execute the GTIP, and to provide advice to Gas Industry Co, which will decide the final recommendations to be put to the industry. A Panel of Expert Advisers (PEA), comprising industry and external specialists across a range of disciplines, is leading detailed technical work. A Panel of Strategic Advisers (PSA), consisting of senior industry participant representatives, provides strategic oversight and will help to resolve any contentious matters.

The objectives of the GTIP are to:

- ensure that existing and future gas transmission assets are used efficiently.
- establish the need for gas transmission investments.
- develop an effective pathway for efficient gas transmission investment to occur.

The PEA is taking account of a wide range of historic, economic, regulatory, and international market practice factors in its deliberations.

Its work culminated shortly after year-end with the presentation of its initial advice to Gas Industry Co. This proposed an evolutionary, rather than revolutionary, approach to change, and presented a 'straw man' proposal to resolve what the PEA perceives are weaknesses in current transmission access and capacity allocation arrangements.

Gas Industry Co believes the PEA's report provides a valuable basis for further, more focused industry consultation and feedback as a precursor to the PEA preparing its final advice to the Company. Gas Industry Co expects to be in a position to make final recommendations in the second half of 2012/13.

Progress with the Bridge Commitment undertakings has been variable. Positive developments have included the commencement of a Gas Trading Exchange (GTX), which is an online bulletin board for matching buyers and sellers of transmission capacity rights on the North Pipeline. The GTX was established in March 2012, although the first 'matched' trade did not occur until after year-end.

While this is an encouraging indication of the potential effectiveness of the platform, use of it needs to develop further.

Gas Industry Co is also encouraged that incumbent Shippers are upholding a primary commitment to offer capacity if requested when a large end-user seeks competitive bids for gas supply. However, with a low number of tenders it has not been possible so far to determine the effects of this Commitment on market competition.

We also continue to see major potential in freeing up capacity currently committed to gas-fired power stations in Auckland. However, a combination of factors, including limited demand-side response, has meant that this potential remains unrealised at this stage.

Transmission access and capacity pricing will continue to be a priority for Gas Industry Co in 2012/13, both through the GTIP and Bridge Commitments package.

Pipeline balancing

Transmission pipeline balancing involves managing the inventory of gas in a pipeline within acceptable limits. Gas Industry Co's objective is to provide an efficient, unified balancing arrangement for managing pipeline imbalances.

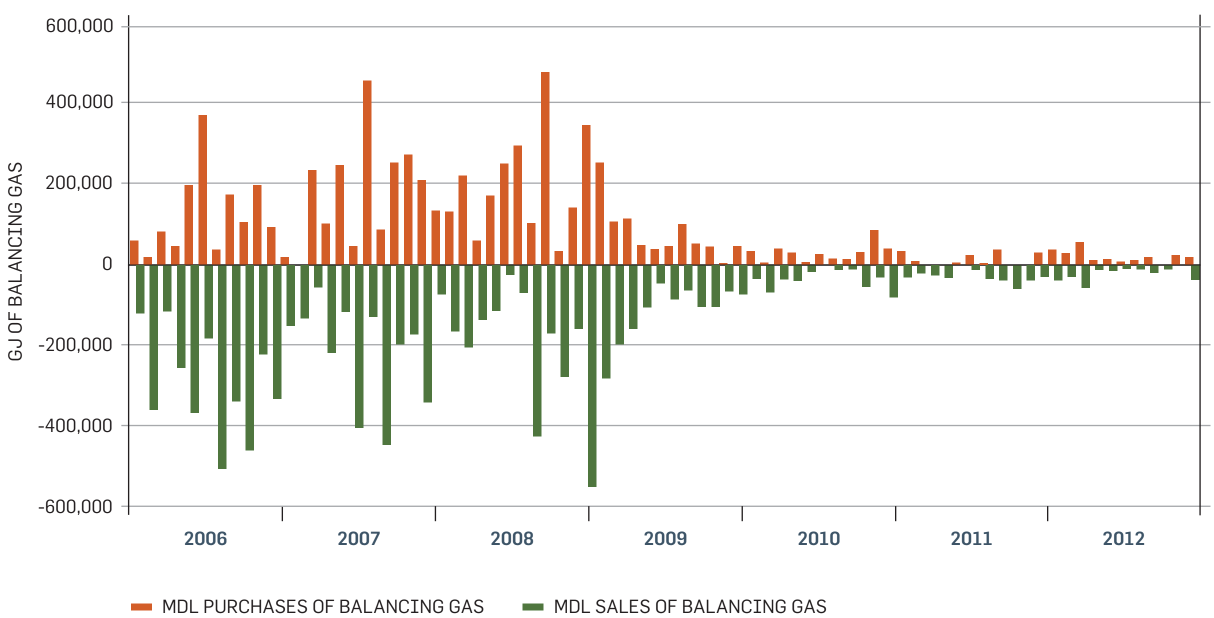
Significant progress was achieved during the year with industry-led improvements to transmission pipeline balancing arrangements. Gas Industry Co supported an MPOC change request designed to make the causers of pipeline imbalances more accountable for the costs incurred in correcting those imbalances. The changes are also expected to put further downward pressure on balancing gas volumes, with savings to end-users through improved balancing efficiency, enhanced transparency, greater certainty for participants over their exposure to balancing charges, and tighter compliance incentives.

Gas Industry Co considered these changes would better meet the objectives of the Gas Act and GPS than current arrangements, but agreed with the view of a number of industry participants that the MPOC changes alone did not offer a complete solution. Consequently, the MPOC changes will not be implemented until 1 June 2013, to allow time for other complementary improvements to be developed and introduced at the same time. These include improved balancing gas trading arrangements, and the implementation of daily allocation and gas flow nominations. Vector and Maui Development Limited (MDL) are also working together to ensure the interface between their respective access regimes continues to be as seamless as possible when the changes are implemented.

Formal advice on these positive developments was provided by Gas Industry Co to the Minister of Energy and Resources on 2 March 2012.

Throughout 2012/13, Gas Industry Co will take a facilitative role to assist in putting the new industry-led arrangements in place, and to determine appeals in relation to any associated changes to the Vector Transmission Code (VTC).

FIGURE 6: BALANCING GAS VOLUMES 2006-2012



Transmission pipeline balancing has proven to be challenging, and has been the subject of industry discussions for over five years. However, incremental improvements in that time, including the introduction of an online Balancing Gas Exchange (BGX) in 2009, have helped participants to self-balance and provided greater information on which to base their balancing decisions.

Consequently, annual volumes of gas required to be purchased by MDL to balance the Maui pipeline has reduced by over 99 percent – from almost 4,800,000 GJ in 2007 to less than 380,000 GJ in 2012 (Refer Figure 6).

Expected enhancements to the BGX did not materialise during the year. Following the discontinuation of a gas wholesale market trial in 2009/10 due to lack of participant interest, a proposed extension to the functionality of the BGX presented a potential industry-led solution to achieving a GPS objective for a short-term wholesale gas market. The proposal was to enable the BGX to accommodate bilateral trades between wholesalers, introduce a form of price signalling, apply market rules similar to those used in the wholesale market trial, and allow title tracking.

Gas Industry Co will continue to liaise with market participants on the potential development of the BGX or, if that proves to be not feasible, on other options.

Interconnection to transmission pipelines

One interconnection with a transmission pipeline occurred during the year. This was evaluated by Gas Industry Co against the Interconnection Guidelines (the Guidelines), the first evaluation to be undertaken pursuant to a Ministerial request, in March 2011, that the Company assess the next two interconnections to each of the Maui and Vector transmission pipelines.

Gas Industry Co found that the arrangements to connect TAG Oil's Sidewinder field to Vector's transmission system were consistent with the Interconnection Policy developed by Vector in response to the Guidelines, which were introduced by Gas Industry Co in 2009.

Gas Industry Co will undertake a formal review of the current interconnection arrangements after the four new interconnections referenced in the Ministerial request, or by the end of 2013, whichever is sooner. Accordingly, Gas Industry Co's 2012/13 work programme includes a review of pipeline interconnections, consultation on any issues, and the publication of its findings.

Prior to the Guidelines taking effect, terms and conditions for connecting to transmission systems to inject or take gas were inconsistent and uncertain. Gas Industry Co considered that standardised interconnection arrangements are integral to infrastructure access and the efficient operation of gas markets, but concluded that a guideline, rather than regulatory, approach would provide an appropriate framework.

Transmission Code changes

Proposed changes to the MPOC require Gas Industry Co's support before they can proceed. In the case of the separate VTC, Gas Industry Co's role is to consider any appeals in respect of code changes.

In addition to the MPOC change request referred to in 'Pipeline balancing' (above), Gas Industry Co considered a VTC change request appeal seeking to alter arrangements relating to peaking, corrections, prudential requirements, Shipper insolvency, and invoicing.

When the proposed change did not receive the required 75 percent support from Shippers necessary for it to be adopted, Vector appealed to Gas Industry Co, as the VTC appeals body, to have the change request allowed. After considering information provided by Vector, as well as industry submissions, Gas Industry Co concluded that detrimental aspects of the proposal outweighed positive or neutral attributes, and it could not support the change request.

Gas processing facilities information disclosure

No gas processing facility access issues have been identified from Gas Industry Co's monitoring of information disclosures by facility owners during the year.

The Processing Information Disclosure Rules require owners to file annual information about the processing capability, capacity availability and use of their facilities, as well as details of any requests for third party access to them. Gas Industry Co receives and publishes the disclosures, and monitors owners' responses to access requests.

The Processing Information Disclosure Rules expire in 2014 and will not be extended as they are intended to help determine whether access to gas processing facilities should be permanently regulated. Gas Industry Co will report to the Minister of Energy and Resources on this matter by 27 June 2013 following consultation with processing facility owners and other industry stakeholders.

258,000

CONSUMERS

+ GAS – A CONTINUING CONTRIBUTION TO NEW ZEALAND'S FUTURE

The number of gas consumers continues to grow, with customers increasing by over 3,000 in the past year. Gas provides users with a clean, fast, efficient and price-competitive form of energy.

5.

DELIVERING EFFECTIVELY ON OUR ACCOUNTABILITIES AS THE INDUSTRY BODY

Gas Industry Co's over-arching responsibility as the industry body is to recommend and administer governance arrangements that fulfil the principal policy objective set by the Gas Act.

That objective is to ensure that gas is delivered to existing and new customers in a safe, efficient and reliable manner. The GPS also requires us to take account of fairness and environmental sustainability in our recommendations.

The Gas Act and GPS together set other objectives and outcomes that we take into account when formulating industry arrangements, either regulated or non-regulated.

Many of the Government's policy objectives have been met through the governance arrangements, regulated and non-regulated, put in place to date. Gas Industry Co monitors these arrangements, and refines them as required, to ensure their ongoing effectiveness. The Company also makes improvements where circumstances, such as retailer insolvency and critical contingency events, demonstrate a need.

Where policy objectives have yet to be met, Gas Industry Co, in liaison with the industry, is progressing initiatives to develop and implement solutions. These are currently in the areas of transmission balancing, the efficient allocation and pricing of transmission capacity, the development of a short-term wholesale gas market, and insolvent retailer arrangements.

To help ensure the timely development of market solutions, during 2011/12 Gas Industry Co initiated a proposal to broaden its information gathering abilities. The initiative arose from previous difficulties experienced by the Company in obtaining certain information. The objective is to ensure the full and timely supply of specified information from industry participants for settling defined issues.

Following industry feedback, we are seeking to establish a formalised protocol for requesting information, and may also develop a backstop regulatory framework to provide certainty and enforceability. This work continues into 2012/13.

Critical contingency management

The CCM Regulations were activated twice during 2011/12. The first event, involving a major five-day outage on the Maui pipeline in October 2011, affected many customers in the upper North Island and represented the first major test of the CCM Regulations. The second, lasting almost 11 hours, resulted from an outage of the Pohokura Production Station in March 2012.

Incident and Performance Reports on both events by the Critical Contingency Operator (CCO) confirmed the general effectiveness of the CCM Regulations in achieving their objective of 'the effective management of critical gas outages and other security of supply contingencies without compromising long-term security of supply'.

However, as is common with any emergency, the post-event assessment identified areas of improvement in the industry's critical contingency response processes. The CCO's Performance Report on the Maui pipeline outage presented 19 recommendations, six of which involved potential regulatory changes and were directed at Gas Industry Co for consideration. The other recommendations generally related to process improvements and have largely been implemented directly by the CCO in conjunction with industry participants.

Gas Industry Co has initiated a review of the CCM Regulations, and associated critical contingency response processes, to make identified improvements. The major areas of focus are:

» changes to the processes for identifying and designating Essential Service Providers and Minimal Load Users.

» the structure of curtailment bands, which set out the nature and order of customers to be issued with gas use cessation and resumption instructions during and after a critical contingency event.

» gas consumers' back-stop arrangements and their preparedness to be resilient against gas outages.

» stakeholder and public communications processes during and after an event.

» consumer and general public awareness of the critical contingency management processes.

Gas Industry Co is being helped in this review by external experts, whose work has included refreshing the New Zealand industry's understanding of international critical contingency management practices, which were last reviewed when the CCM Regulations were developed over four years ago.

The review is continuing and Gas Industry Co expects to make change recommendations during 2012/13.

Following the Maui pipeline outage, the CCO reported three alleged breaches of the CCM Regulations by industry participants. These alleged breaches were referred to Gas Industry Co in its role as the Market Administrator and dealt with in accordance with the Compliance Regulations processes.

Compliance

Gas Industry Co is also delivering effectively on its accountabilities through oversight of existing arrangements that ensure the integrity of key markets. This includes administration of the Compliance Regulations, which provide for the monitoring and enforcement of rules and regulations.

The number of breach allegations considered by Gas Industry Co in its role as the Market Administrator during 2011/12 totalled 2,695, slightly down on the 2,742 alleged breaches referred to it in the previous year. Of the breach allegations considered during the year under review, 2,215 – or 82 percent – were determined not to raise material issues, 241 (9 percent) were referred to the Investigator, and 239 (9 percent) are awaiting determination.

The ratio of breach allegations found to have not raised material issues was significantly higher than in the previous year, when 54 percent of alleged breaches were determined to be not material.

Breach allegations were again predominantly associated with the Reconciliation Rules and Switching Rules. As reported above, three related to the CCM Regulations.

In the first year following the inception of the Switching Rules, nearly 5,500 switching breaches were alleged. Many of these breaches can be attributed to unfamiliarity with the Switching Rules. Since that first year, the number of switching breaches has fallen significantly. The average number of alleged breaches per month has fallen from 450 in the first 12 months to under 30 in the past 12 months.

The increased number of breaches reported in May 2012 (see Figure 7) was atypical, as most of them arose from a minor clerical error by one participant and were determined to be not material.

Over 90 percent of breaches alleged under the Reconciliation Rules relate to rule 37, which requires the accuracy of consumption information provided at the initial allocation stage to be within a specified tolerance level of the information provided at the final allocation stage.

It has proven efficient for the independent Investigator appointed by Gas Industry Co to attempt to reach a settlement on batches of rule 37 breaches. The Investigator is in the process of seeking a settlement of the most recent batch, which represents breaches alleged from January 2011 to April 2012. A review of the Reconciliation Rules that commenced in 2011/12 includes consideration of minimising the number of minor breach allegations.

FIGURE 7: SWITCHING RULES BREACHES 2010-2012

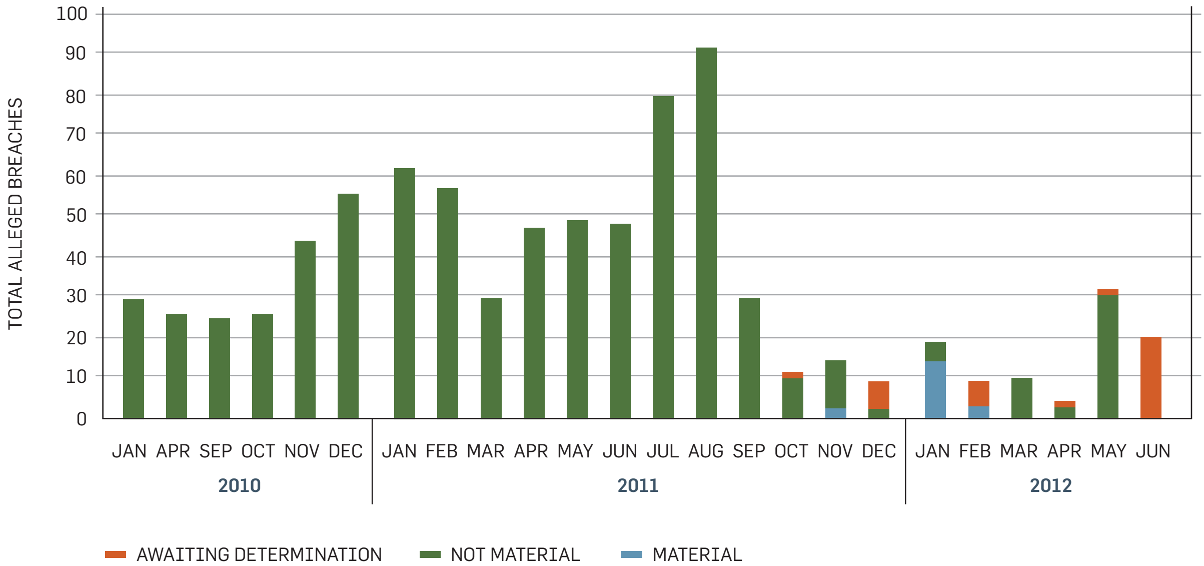
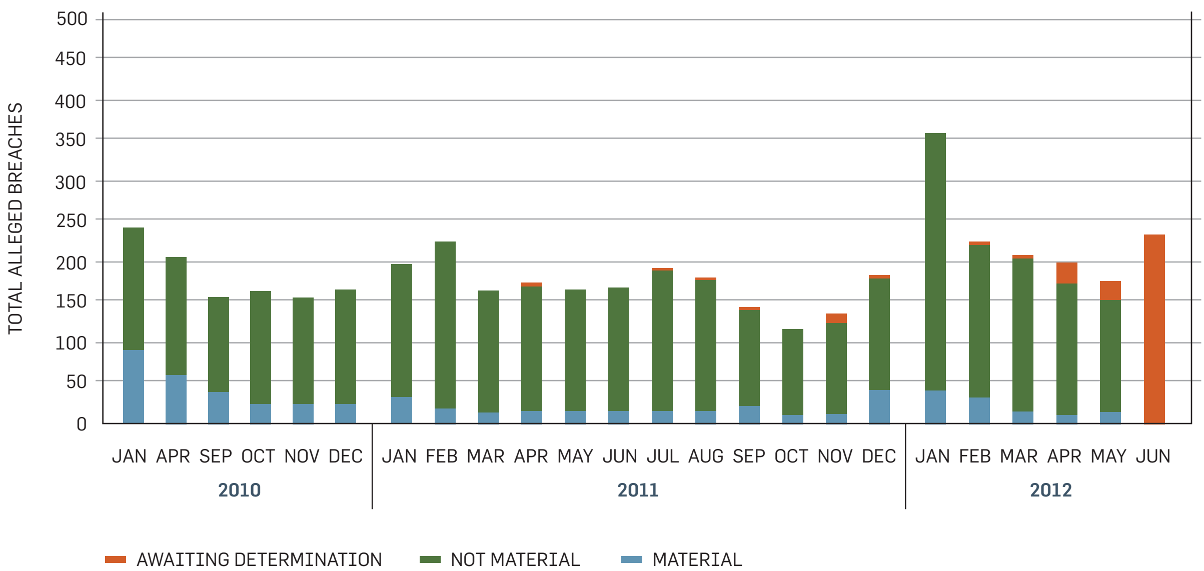


FIGURE 8: RECONCILIATION RULES BREACHES 2010-2012



Investigator and Rulings Panel

In accordance with the Compliance Regulations, Gas Industry Co must appoint one or more persons as investigators to carry out independent investigations of alleged breaches that have been determined by the Market Administrator as raising a material issue.

The Investigator must endeavour to effect settlements of alleged breaches, which must be referred to the Rulings Panel for approval or rejection.

The Rulings Panel is an independent body appointed by the Minister of Energy and Resources under the Compliance Regulations. The current Rulings Panel is the Hon Sir John Hansen, KNZM. The Rulings Panel approves or rejects settlements proposed by the Investigator and, in a quasi-judicial process, determines breach allegations that are unable to be settled, or in respect of which a settlement has not been approved.

Three settlements were approved during 2011/12. No matters were referred to the Rulings Panel for determination.

Compliance Regulations review

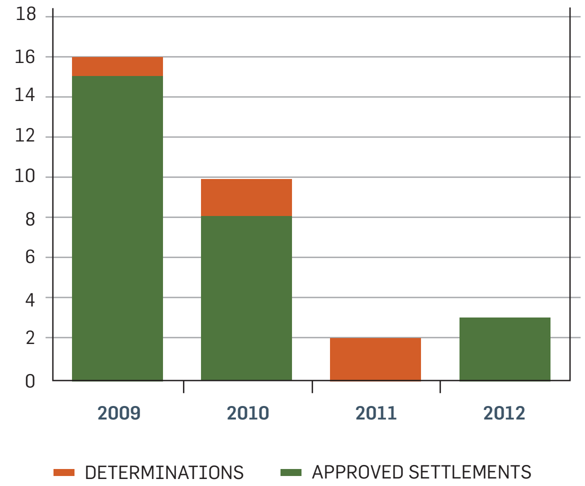
Since their introduction in 2008, the Compliance Regulations have operated well and have encouraged industry participants to take care to comply with gas governance rules and regulations.

Following a review of the Compliance Regulations during the year, Gas Industry Co has proposed a number of minor improvements that have been identified in their first four years of operation. These proposals will be finalised during 2012/13 following industry consultation.

In addition to proposing minor amendments, Gas Industry Co is also proposing the introduction of a threshold regime that would apply to the mandatory reporting of alleged breaches by the Gas Registry Operator and Allocation Agent. The proposal is that the Gas Registry Operator and Allocation Agent would not be required to allege minor breaches of a type unlikely to raise a material issue. These types of alleged breaches create administrative processing costs – ultimately borne by customers – which outweigh their impact and harm caused.

Gas Industry Co will have the ability to issue Guidelines from time to time in respect of a particular rule or regulation where a threshold applies. Gas Industry Co will monitor the regime closely, and may revoke a Guideline at any time, including where de-facto rule change behaviour is detected.

FIGURE 9: RULINGS PANEL APPROVED SETTLEMENTS AND DETERMINATIONS 2009-2012



Building and communicating the New Zealand Gas Story

During the year, Gas Industry Co progressed the preparation of a report on the state and performance of the New Zealand gas industry, as required by the Gas Act. This report also fits well with our corporate strategy to take a wide view of the industry and to promote a broad appreciation and understanding of the benefits of gas, its contribution to New Zealand's energy supply and the economy, and the challenges being faced by the industry.

We call the report the 'New Zealand Gas Story'. It will be released during the first half of 2012/13, and will be regularly updated so that the information remains current.

In the meantime, we have used expanded content on our website, and presentations at a range of energy industry conferences during the year – including the Gas Industry Conference we hosted in August 2011 – to relay the gas story, and inform analysis and debate about its future role.

LPG

Gas Industry Co's jurisdiction covers the bottled LPG markets and gaseous LPG supplied via reticulated networks. It does not extend to bottles themselves, the supply and bulk storage of LPG, or to pipelines carrying LPG in liquid form between transport depots and bulk storage facilities. Gas Industry Co receives reports from the EGCC regarding consumer complaints about LPG supplies. At this time, the Company does not consider there are substantial issues that warrant regulatory intervention. We will continue to monitor these markets.

46%

GAS USED IN ELECTRICITY GENERATION

+ GAS – A CONTINUING CONTRIBUTION TO NEW ZEALAND'S FUTURE

Gas has an important role in supporting electricity supply security. In the past year, 46 percent of gas produced was used in thermal power stations. In turn, these gas-fired generators produced over 18 percent of New Zealand's electricity needs.

6.

EFFECTIVE CO-REGULATION

Gas Industry Co was established in 2004 and that year was approved as the gas industry's co-regulatory body under Part 4A of the Gas Act.

The Company fully commenced operations in 2005 and works with both the Government and the industry to develop recommendations on governance arrangements that meet the objectives of the Gas Act and the GPS.

The Company's oversight encompasses the gas wholesale and retail markets, processing facilities, and the transmission and distribution sectors of the industry.

Gas Industry Co is also progressing a broader corporate strategy, involving closer liaison with all participants in the industry, to optimise the contribution of gas to New Zealand.

Stakeholder relations

Gas Industry Co works closely with other regulatory bodies, including MBIE, and the Commerce Commission, whose responsibilities also encompass the gas industry, and maintains relationships with many other agencies engaged in the energy and related sectors. These include the Electricity Authority, Energy Efficiency and Conservation Authority (EECA), the Petroleum Exploration and Production Association of New Zealand (PEPANZ), the Gas Association, LPG Association, the EGCC, and environmental agencies.

Facilitating industry contributions and debate is an important function for the smooth operation of the co-regulatory model and Gas Industry Co conducts an annual Co-regulatory Forum to discuss matters that will form the forthcoming year's work programme, upon which the levy is calculated. The Company also convenes workshops to engage with the industry and consumers on particular issues arising from ongoing workstream activity.

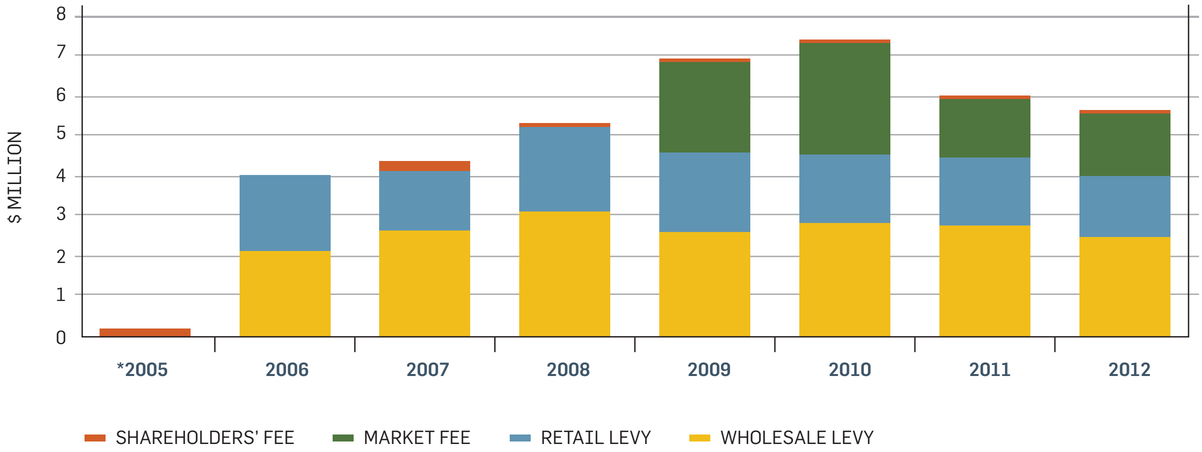
Levy consultation

Between October and March each financial year, Gas Industry Co conducts a detailed consultation programme to establish its strategic priorities for the coming year and, from that, to recommend levies to the Minister of Energy and Resources for approval. The consultation with industry participants overlays with the Company's views, as the industry body, on the overall role of gas in New Zealand and the governance requirements for ensuring efficient and competitive markets.

Gas Industry Co is committed to ensuring that the levies are well justified and used carefully.

The composition of the Company's total levy revenue has changed in recent years as user-targeted market fees have been introduced to fund the administration of certain rules and regulations, including the recovery of the costs of external service providers and consultants. In addition, retail and wholesale levies are applied each year to cover the costs of the Company's policy and market administration work, and the Company's Constitution enables the Board to charge shareholders an annual fee. This is currently set at $10,000 per shareholder per annum, and is set aside as a contingency reserve.

FIGURE 10: LEVY AND FEE REVENUE 2005-2012



* 8 months. 2005 revenue comprised only the annual fee on shareholders.

Financial discussion

Total operating revenue of $5,614,807 for the year ended 30 June 2012 was 6 percent below the $5,971,489 in 2010/11, and 3.3 percent under the FY2012-14 Strategic Plan budgeted figure of $5,806,986. The reduction largely reflects lower Market Fee revenue of $239,618 against budget following a mid-year revision of cost estimates. This variance was partially offset by additional Wholesale Levy Income of $28,646.

Operating expenses of $5,997,725 were little changed from the $5,998,908 in the previous financial year, and slightly below the Strategic Plan budgeted expenses of $6,087,341.

Gas Industry Co's equity reserve as at 30 June 2012 consisted of three components – the Industry Advances Reserve of $287,998, the Industry Amortisation Reserve of $863,848 and Retained Earnings of $430,000.

The Industry Advances Reserve comprises the over-recovery of levy revenue. The Board's policy is to return such over-recoveries, if feasible, as soon as possible after balance date. The Board decided not to return a 2010/11 financial year surplus of $364,210 to the industry to help meet unbudgeted costs associated with the GTIP.

The Industry Amortisation Reserve represents the unexpended amortisation on capital items purchased with Market Fees, including the Gas Registry and Downstream Reconciliation systems. The ongoing annual amortisation costs of $363,814 associated with these assets is met from the Amortisation Reserve and, over time, the value of both the assets and the reserve will reduce to zero.

Retained Earnings are the accumulation of the shareholders' annual fees, and are set aside as a reserve against future contingencies. They do not impact on the levy calculation.

155PJ

NET ANNUAL GAS PRODUCTION

+ GAS – A CONTINUING CONTRIBUTION TO NEW ZEALAND'S FUTURE

Gas accounts for approximately 20 percent of New Zealand's primary energy, and 11 percent of end-use consumer energy. In the past year 155PJ of gas was consumed by electricity generators, petrochemical manufacturers and industrial, commercial and residential users.

7.

CORPORATE GOVERNANCE

Gas Industry Co is owned by industry participant shareholders and is funded by levies on industry participants.

Gas Industry Co is incorporated as a company under the Companies Act 1993, and operates in accordance with the Gas Act 1992, the 2008 Government Policy Statement on Gas Governance (GPS), and the Company's Constitution.

The Company's shareholders represent sectors across the gas industry – production, transmission, distribution, wholesale, retail and consumption. There were eight shareholders as at 30 June 2012:

» Contact Energy Limited
» Genesis Power Limited
» Greymouth Gas New Zealand Limited
» Mighty River Power Limited
» OMV New Zealand Limited
» Powerco Limited
» Shell (Petroleum Mining) Limited
» Vector Limited

Gas Industry Co encourages all industry participants to become shareholders in the Company. Each shareholder holds a $1 share, which is redeemable at the option of the shareholder. Shareholders are entitled to one vote in a poll on resolutions at shareholders' meetings, including those that appoint directors and change the Constitution. Shareholders pay an annual fee set by the Board.

Board of Directors

The Board of Gas Industry Co meets on at least 10 scheduled occasions per year to consider operational reports and recommendations from Gas Industry Co's management. Unscheduled meetings are held from time to time to consider matters requiring immediate attention. Directors will attend either in person or via teleconference.

The Board is a mix of Independent and non-independent Directors, all appointed by the shareholders. Its composition accords with a Gas Act requirement to have a majority of Independent Directors, including the Chair. This reflects the aim of creating a gas industry co-regulatory body, which benefits from industry director participation and experience, balanced by a range of independent expertise. The Company's Constitution limits the Board to no more than seven Directors, four of whom are independent of the gas industry. The number of Independent Directors voting on an issue must exceed the number of non-independent Directors voting on the same matter.

Ron Kelly resigned from the Board on 24 May 2012, and Andrew Knight was appointed as a non-independent Director on 6 June 2012 to fill the resulting casual vacancy. Mr Knight is required to retire at the 2012 Annual Meeting and can stand for re-election.

Directors as at 30 June 2012

RT HON JAMES (JIM) B BOLGER

ONZ

CHAIR AND INDEPENDENT DIRECTOR

+ APPOINTED 4 NOVEMBER 2004

Jim Bolger has had a distinguished career in politics that includes being Prime Minister of New Zealand from October 1990 to December 1997, holding ministerial positions for 16 years, and leading the New Zealand National Party for 12 years. He has been the Chair since the Company's establishment.

INTERESTS REGISTER

Chair: Trustees Executors Limited

Chair: Mt Cook Alpine Salmon Limited

Chancellor: Waikato University

ROBIN G HILL

B COMM, FCA

DEPUTY CHAIR AND INDEPENDENT DIRECTOR

+ APPOINTED 4 NOVEMBER 2004

Robin Hill has an extensive background in financial and business management. He was Chairman and Chief Executive of PricewaterhouseCoopers New Zealand from 1992 to 2003. He has been the Deputy Chair since the Company's establishment.

INTERESTS REGISTER

Director: Public Trust

Advisory Trustee: NZ Defence Force

ANDREW BROWN

LLB

INDEPENDENT DIRECTOR

+ APPOINTED 10 JUNE 2010

Andrew Brown is recognised as one of New Zealand's leading corporate lawyers. He has particular expertise and experience in advising energy sector companies. He is currently General Counsel at KiwiRail.

INTERESTS REGISTER

Senior Executive: KiwiRail

KEITH DAVIS

PGDIPBUS

INDEPENDENT DIRECTOR

+ APPOINTED 31 JULY 2006

Keith Davis has extensive experience in the information technology, telecommunications and venture-funding industries, and has held senior management roles with McDonnell Douglas, Compaq Computers, and BellSouth.

INTERESTS REGISTER

No interests relevant to Gas Industry Co

DENNIS BARNES

NON-INDEPENDENT DIRECTOR

+ APPOINTED 13 MAY 2011

Dennis Barnes is Chief Executive Officer of Contact Energy. His role followed 13 years in Australia with Origin Energy, including in a range of gas-related roles and serving on the boards of two Australian gas regulators. Prior to that, Mr Barnes worked in various international energy markets, including managerial roles with Scottish and English electricity companies.

INTERESTS REGISTER

Chief Executive Officer: Contact Energy Limited

Director: Various Contact Energy subsidiaries

Employee: Origin Energy Limited

ALBERT BRANTLEY

BSC, P GEOL, F AUSIMM

NON-INDEPENDENT DIRECTOR

+ APPOINTED 14 NOVEMBER 2008

Albert Brantley is Chief Executive Officer of Genesis. He also serves as Chairman of the Genesis Oncology Trust. Mr Brantley has had more than 35 years' experience in New Zealand and internationally in technical, operational and senior management positions, concentrated particularly in the power industry over the past decade. He has had considerable experience in leading businesses requiring political, regulatory and environmental management, both in New Zealand and overseas.

INTERESTS REGISTER

Chief Executive Officer: Genesis Energy Limited

Director: Various subsidiaries of Genesis Energy Limited, including those holding Genesis' 31 percent interest in the Kupe project

ANDREW KNIGHT

BMS (HONS), CA

NON-INDEPENDENT DIRECTOR

+ APPOINTED 6 JUNE 2012

Andrew Knight is the Managing Director and Chief Executive of New Zealand Oil & Gas (NZOG). He previously held a range of executive management roles over a 13-year period with Vector Limited, the NGC Holdings Limited Group of Companies, The Australian Gas Light Company and Fletcher Challenge Energy. He is currently a director of Powerco Limited and was a non-executive director of NZOG from 2008 until his appointment as Chief Executive in 2011. Mr Knight's early career was spent as an auditor with Coopers & Lybrand.

INTERESTS REGISTER

Managing Director/Chief Executive: NZOG

Director: Various subsidiaries of NZOG, Powerco Limited, PEPANZ

The following general disclosures were made in respect of other Directors who served on the Board during the year:

RON KELLY PHD

NON-INDEPENDENT DIRECTOR

+ RESIGNED 24 MAY 2012

INTERESTS REGISTER

Upstream International Commercial Lead/Director:
Shell Exploration NZ Limited
Shell Energy Asia Limited

Director: Maui Development Limited

Director: Various subsidiaries of Shell

Board Committee

The Board has one standing committee, the Independent Directors' Committee, comprising the four Independent Directors. The Committee addresses matters where the non-independent Directors have potential or actual conflicts of interest. No meetings of the Committee were held during the year ended 30 June 2012, but some matters were addressed through circulated resolutions.

Attendance

The Board met on 11 occasions during the year ended 30 June 2012.

DIRECTORS	MEETINGS ATTENDED
J BOLGER	11
R HILL	11
A BROWN	11
K DAVIS	11
A BRANTLEY	7
D BARNES	10
A KNIGHT (from June 2012)	1
R KELLY (to May 2012)	10

ALTERNATES	MEETINGS ATTENDED
MALCOLM ALEXANDER (alternate for Mr Brantley)	3
JEREMY STEVENSON-WRIGHT (alternate for Mr Brantley)	1
JOHN WOODS (alternate for Mr Barnes)	1

Directors' remuneration

Directors' remuneration is authorised by ordinary resolution of shareholders and is paid to the Independent Directors only. The current maximum level of Directors' fees, being $275,000, was authorised by shareholders in 2004. Annual fee payments of $93,500 for the Chair, $63,360 for the Deputy Chair, and $52,800 for each other Independent Director were set by the Board in June 2007. Directors' remuneration payments were:

	YEAR ENDED 30 JUNE 2012 $	YEAR ENDED 30 JUNE 2011 $
RT HON JAMES BOLGER, ONZ (Chair)	93,500	93,500
ROBIN HILL (Deputy Chair)	63,360	63,360
ANDREW BROWN[1]	59,010	52,800
KEITH DAVIS	52,800	52,800
DENNIS BARNES	–	–
ALBERT BRANTLEY	–	–
ANDREW KNIGHT	–	–
RON KELLY	–	–

[1] During the year ended 30 June 2012, the Board approved additional payments totalling $6,210 to Mr Brown for additional work undertaken as Chair of the Panel of Strategic Advisers established under the GTIP.

Other than Directors' fees paid, no other transactions with Directors occurred.

Indemnification of Directors

As permitted by the Constitution and the Companies Act 1993, Gas Industry Co has indemnified its Directors, and has provided directors' liability insurance for officers and Directors. This insurance and indemnity is with respect to potential liabilities and costs they may incur for acts or omissions in their capacity as Directors and officers.

During the financial year, Gas Industry Co paid insurance premiums in respect of directors' and officers' liability insurance.

Annual Meeting

The Company's Annual Meeting was held on 24 November 2011. Mr Albert Brantley and Mr Robin Hill retired at the meeting in accordance with the rotation of director provisions of the Company's Constitution, and, being eligible, were re-elected as Directors. Mr Dennis Barnes, having been appointed to fill a casual vacancy, retired at the meeting, stood for election, and was elected as a Director.

In his address to the meeting, the Chair described a busy year for the Company, and noted that it was well positioned to address the key issues facing the industry. In addition to the ongoing administration of market systems and progressing initiatives to meet Government policy objectives, Gas Industry Co had taken on an additional workstream to address transmission issues. The Company had reviewed its strategy, including taking a broader leadership role to optimise the contribution of gas to New Zealand, and he commented that key elements of the Company's strategy had broad support from industry participants.

Delegations

The Board delegates to the Chief Executive the right to exercise all the financial powers of the Board in relation to the operation of Gas Industry Co in accordance with any applicable Board policies and directives, as well as defined financial delegations for business operations. The Board reserves to itself certain powers, including the approval of strategic and business plans, budgets, accounting policies and other financial matters, and transactions or contracts over specified thresholds.

Executive

Gas Industry Co has a small Senior Management Team that leads a total staff of 15 employees to deliver on the Company's strategy.

Steve Bielby commenced as Gas Industry Co's Chief Executive in January 2011. Prior to that he held executive positions in several leading New Zealand energy companies over more than 10 years and spanning most parts of the sector. Mr Bielby began his career as a lawyer and was a partner in a leading national law firm.

STEVE BIELBY

BA LLB (HONS) LLM (LOND)

CHIEF EXECUTIVE

Ian Dempster, a foundation member of Gas Industry Co's Executive since 2005, leads the Operations Group, a team of advisers with responsibilities for access and operation of gas pipelines, switching, downstream reconciliation, the wholesale market, critical contingency management, and compliance and enforcement.

Mr Dempster was previously a consultant for network industries including water, gas, ports and telecommunications. His energy sector experience also includes corporate finance and mergers, acquisitions and divestments arising from legislation-driven industry restructuring. He has a background in electricity generation planning.

IAN DEMPSTER

BE (HONS) M COM (HONS)

GENERAL MANAGER OPERATIONS

Greig Hinds, Principal Legal Counsel, leads the Corporate Services Group, which is responsible for providing legal, financial and administrative support, including human resources, IT and property management.

Mr Hinds joined Gas Industry Co as Legal Adviser (Corporate) in 2009, having previously worked in New Zealand, Hong Kong, and Canada in various professional roles in the energy sector and in university administration. He also performs the role of Company Secretary.

GREIG HINDS

BA LLB (AUCK), POST GRAD CERT IN COMMERCE (LINC)

PRINCIPAL LEGAL COUNSEL

Employee remuneration and benefits

Employees receiving remuneration and related benefits over $100,000 per annum:

	YEAR ENDED 30 JUNE 2012
$110,001 – $120,000	3
$130,001 – $140,000	1
$140,001 – $150,000	1
$150,001 – $160,000	1
$190,001 – $200,000	1
$240,001 – $250,000	1
$400,001 – $410,000	1

Business governance and corporate responsibility

Gas Industry Co maintains a comprehensive suite of policies and procedures to govern behaviour and ensure employee wellbeing. These include:

CONFLICTS OF INTEREST

Employees must inform the Company in writing where they enter into any business arrangement or have personal interests that may conflict with either the Company's business or affect the full, effective, and impartial discharge of the employee's obligations to the Company, as the industry body and co-regulator.

GIFTS AND HOSPITALITY

Gas Industry Co requires that its employees do not solicit, accept or offer money, gifts, favours, or entertainment that might influence, or appear to influence, their business judgment, particularly given the Company's role as the industry body and co-regulator.

HEALTH AND SAFETY

The Company is committed to providing and maintaining a safe and healthy work environment for employees and visitors to its premises.

INFORMATION CONFIDENTIALITY

While Gas Industry Co receives information from industry participants that should be used in an open, accessible, and transparent manner, this policy includes provisions for the treatment of information identified as commercially sensitive by the information provider.

INSIDER TRADING

Employees are informed of their responsibilities should they become aware of inside information about publicly listed companies, including trading in the securities of industry participants that are publicly listed.

REMUNERATION AND PERFORMANCE REVIEW

The Company is committed to providing its employees with fair and appropriate remuneration relative to the energy sector market rate for each position. Employee remuneration is reviewed annually, with any movements reflecting the results of individual performance reviews.

RISK MANAGEMENT

Gas Industry Co operates an enterprise risk management system to record and mitigate strategic, operational, and physical risks that could affect its business. The Company also maintains business continuity and emergency preparedness plans. The Management team reviews the Company's enterprise risk register each month and the register is presented to the Board each quarter.

16,800km

DISTRIBUTION NETWORKS

+ GAS – A CONTINUING CONTRIBUTION TO NEW ZEALAND'S FUTURE

Gas networks receive gas from the transmission system and transport it at reduced pressure to consumers. In the past five years, the total length of networks serving communities has grown by almost 1,000km, or 6 percent.

8.

FINANCIAL STATEMENTS

Directors' Report

The Board of Directors has pleasure in presenting the annual report of Gas Industry Company Limited, incorporating the financial statements and the Auditor's Report, for the year ended 30 June 2012.

The Board of Directors of the Company authorised these financial statements presented on pages 38 to 56 for issue on 23 August 2012.

For and on behalf of the Board.

Rt Hon James B. Bolger, ONZ
CHAIR

19 SEPTEMBER 2012

Robin G Hill
DEPUTY CHAIR

19 SEPTEMBER 2012

Auditor’s Report

To the shareholders of Gas Industry Company Limited

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of Gas Industry Company Limited (‘the Company’) on pages 38 to 56. The financial statements comprise the statement of financial position as at 30 June 2012, the statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS’ RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors are responsible for the preparation of financial statements in accordance with generally accepted accounting practice in New Zealand that give a true and fair view of the matters to which they relate, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement whether due to fraud or error.

AUDITOR’S RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company’s preparation of the financial statements that give a true and fair view of the matters to which they relate in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company’s internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, as well as evaluating the presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Our firm has also provided other assurance services to the company. This matter has not impaired our independence as auditors of the company. The firm has no other relationship with, or interest in, the company.

OPINION

In our opinion the financial statements on pages 38 to 56:

» comply with generally accepted accounting practice in New Zealand;

» give a true and fair view of the financial position of the company as at 30 June 2012 and of its financial performance and cash flows for the year then ended.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In accordance with the requirements of sections 16(1)(d) and 16(1)(e) of the Financial Reporting Act 1993, we report that:

» we have obtained all the information and explanations that we have required; and

» in our opinion, proper accounting records have been kept by Gas Industry Company Limited as far as appears from our examination of those records.

KPMG

Wellington

23 AUGUST 2012

Statement of Comprehensive Income

for the year ended 30 June 2012

	NOTES	ACTUAL 2012 $	BUDGET 2012 $	ACTUAL 2011 $
INCOME				
Operating income	4	5,614,807	5,806,986	5,971,489
Interest income		35,927	27,645	53,029
		5,650,734	5,834,631	6,024,518
Refunded levy income	4	–	–	(1,501,829)
NET INCOME		**5,650,734**	**5,834,631**	**4,522,689**
EXPENDITURE				
Operating expenditure	5	5,997,725	6,087,341	5,998,908
Finance costs	12	2,975	2,959	2,609
		6,000,700	**6,090,300**	**6,001,517**
PROFIT/(LOSS) BEFORE TAX		**(349,966)**	**(255,669)**	**(1,478,828)**
Income tax expense	6	10,060	8,293	14,848
PROFIT/(LOSS) FOR THE YEAR		**(360,026)**	**(263,962)**	**(1,493,676)**
Other comprehensive income		–	–	–
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**(360,026)**	**(263,962)**	**(1,493,676)**

The accompanying notes form an integral part of these financial statements

Statement of Changes in Equity

for the year ended 30 June 2012

	INDUSTRY RESERVES $	RETAINED EARNINGS $	TOTAL EQUITY $	BUDGET $
BALANCE AT 1 JULY 2010	3,165,548	270,000	3,435,548	3,435,547
TOTAL COMPREHENSIVE INCOME FOR THE YEAR				
Profit/(loss) for the year	–	(1,493,676)	(1,493,676)	(1,483,654)
Other comprehensive income	–	–	–	–
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**–**	**(1,493,676)**	**(1,493,676)**	**(1,483,654)**
TRANSFER BETWEEN EQUITY RESERVES				
Industry Advances Reserve transfers	(1,209,862)	1,209,862	–	–
Industry Asset Amortisation Reserve transfers	(363,814)	363,814	–	–
BALANCE AT 30 JUNE 2011	**1,591,872**	**350,000**	**1,941,872**	**1,951,893**
BALANCE AT 1 JULY 2011	1,591,872	350,000	1,941,872	1,951,893
TOTAL COMPREHENSIVE INCOME FOR THE YEAR				
Profit/(loss) for the year	–	(360,026)	(360,026)	(263,962)
Other comprehensive income	–	–	–	–
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**–**	**(360,026)**	**(360,026)**	**(263,962)**
Industry Advances Reserve transfers	(76,212)	76,212	–	–
Industry Asset Amortisation Reserve transfers	(363,814)	363,814	–	–
BALANCE AT 30 JUNE 2012	**1,151,846**	**430,000**	**1,581,846**	**1,687,931**

The accompanying notes form an integral part of these financial statements

Statement of Financial Position

as at 30 June 2012

	NOTES	ACTUAL 2012 $	BUDGET 2012 $	ACTUAL 2011 $
ASSETS				
Current assets				
Cash and cash equivalents	7	1,495,623	1,211,658	1,238,985
Trade and other receivables	8	451,592	69,723	157,595
Prepayments		49,920	39,723	47,234
Income tax receivable	6	–	15,384	872
TOTAL CURRENT ASSETS		**1,997,135**	**1,336,488**	**1,444,686**
Non-current assets				
Property, plant and equipment	10	160,001	201,015	135,017
Intangible Assets	11	896,677	863,878	1,239,052
TOTAL NON-CURRENT ASSETS		**1,056,678**	**1,064,893**	**1,374,069**
TOTAL ASSETS		**3,053,813**	**2,401,381**	**2,818,755**
LIABILITIES				
Current liabilities				
Trade and other payables	9	1,196,909	382,286	643,100
Asset restoration provision	12	27,970	27,980	24,995
Employee entitlements		247,080	303,176	208,780
Redeemable shares	14	8	8	8
TOTAL CURRENT LIABILITIES		**1,471,967**	**713,450**	**876,883**
TOTAL LIABILITIES		**1,471,967**	**713,450**	**876,883**
EQUITY				
Industry Reserves	15	1,151,846	1,257,931	1,591,872
Retained Earnings	15	430,000	430,000	350,000
TOTAL EQUITY		**1,581,846**	**1,687,931**	**1,941,872**

The Board of Directors authorised these financial statements for issue by the signatories below on 23 August 2012.
On behalf of the Board:

Rt Hon James B. Bolger, ONZ
CHAIR

Robin G Hill
DEPUTY CHAIR

The accompanying notes form an integral part of these financial statements

Statement of Cash Flows

for the year ended 30 June 2012

	ACTUAL 2012 $	BUDGET 2012 $	ACTUAL 2011 $
OPERATING ACTIVITIES			
Cash was provided from			
Levy revenue	4,000,392	3,962,614	4,454,855
Market fee revenue	1,543,061	1,764,372	1,412,153
Annual fees	80,000	80,000	80,000
Interest received	35,927	27,645	53,029
Net GST	24,155	–	–
	5,683,535	**5,834,631**	**6,000,037**
Cash was applied to			
Payments to suppliers	(2,881,464)	(3,294,535)	(3,173,385)
Payments to employees	(2,105,337)	(2,106,679)	(2,105,513)
Payments to directors	(267,860)	(262,460)	(253,238)
Refund of levy to industry participants	–	–	(1,441,338)
Taxes paid	(10,060)	–	(15,720)
Net GST	–	–	(21,093)
	(5,264,721)	**(5,663,674)**	**(7,010,287)**
NET CASH INFLOWS FROM OPERATING ACTIVITIES	**418,814**	**170,957**	**(1,010,250)**
INVESTING ACTIVITIES			
Cash was applied to			
Purchase of property, plant and equipment	(125,358)	–	(10,652)
Purchase of intangible assets	(36,818)	–	–
NET CASH OUTFLOWS FROM INVESTING ACTIVITIES	**(162,176)**	–	**(10,652)**
Net increase/(decease) in cash and cash equivalents	256,638	170,957	(1,020,902)
OPENING CASH AND CASH EQUIVALENTS	**1,238,985**	**1,040,701**	**2,259,887**
CLOSING CASH AND CASH EQUIVALENTS	**1,495,623**	**1,211,658**	**1,238,985**

The accompanying notes form an integral part of these financial statements

Notes to the Financial Statements

1. Reporting entity

These financial statements comprise the financial statements of the Gas Industry Company Limited (the 'Company') for the year ended 30 June 2012.

Changes to the Gas Act 1992 (the 'Act') in late 2004 provided for the co-regulation of the gas industry by the Government and an industry body. The Company was established to fulfil the role of the industry body under the Act and was approved by Order in Council on 22 December 2004.

The Company is a limited liability company incorporated and domiciled in New Zealand and is registered under the Companies Act 2003. The address of its registered office is 95 Customhouse Quay, Wellington.

The financial statements have been prepared in accordance with the requirements of the Gas Act 1992, the Financial Reporting Act 1993 and the Companies Act 1993.

The principal activity of the Company is to act as a co-regulatory body for the gas industry in New Zealand. This includes making recommendations to the Minister of Energy and Resources on a wide range of industry matters, including the making of rules and regulations in relation to the wholesaling, processing, transmission, distribution and retailing of gas.

The financial statements were approved for issue by the Board of Directors on 23 August 2012.

2. Basis of preparation

(A) STATEMENT OF COMPLIANCE

The financial statements have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand (NZ GAAP). They comply with the New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and other applicable Financial Reporting Standards, as appropriate for public benefit entities.

(B) BASIS OF MEASUREMENT

The financial statements have been prepared on a historical costs basis. The accrual basis of accounting has been used unless otherwise stated and the financial statements have been prepared on a going concern basis.

(C) PRESENTATION CURRENCY

The financial statements are presented in New Zealand dollars ($), which is the Company's functional currency.

(D) COMPARATIVES

The comparative financial period is 12 months. Comparatives have been reclassified from that reported in the 30 June 2011 financial statements where appropriate to ensure consistency with the presentation of the current year's financial position, performance and cash flows.

(E) BUDGET FIGURES

The budget figures are approved by the Board of Directors in line with the Company's strategic plans. The budget figures have been prepared in accordance with NZ GAAP, using accounting policies that are consistent with those used in preparing these financial statements.

(F) JUDGMENTS AND ESTIMATIONS

The preparation of financial statements in conformity with NZ IFRS requires judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. Where material, information on significant assumptions and estimates is provided in the relevant accounting policy or will be provided in the relevant note.

The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Subsequent actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the year in which the estimates are revised and in any future years affected.

(G) CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

The accounting policies adopted are consistent with those of the previous financial year.

(H) NEW NZ IFRS STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

At the date of authorisation of these financial statements, the following new standards and interpretations to existing standards have been published but are not yet effective, and have not been adopted early by the Company.

NZ IFRS 9 Financial Instruments is effective for periods beginning on or after 1 January 2013 and relates to the classification and measurement of financial instruments.

Management anticipates that all pronouncements will be adopted by the Company for the first year beginning after the effective date of the pronouncement. The new standards and interpretations issued are not expected to have a material impact on the Company's financial statements, given the nature of its operations and financial instruments held.

3. Summary of significant accounting policies

(A) CASH AND CASH EQUIVALENTS

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

(B) TRADE DEBTORS AND OTHER RECEIVABLES

Trade debtors and other receivables are measured at amortised cost using the effective interest method less any impairment losses.

A provision for impairment is established where there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivable.

Receivables with a short duration are not discounted.

(C) PROPERTY, PLANT AND EQUIPMENT

All property, plant and equipment is stated at historical cost less depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items and an estimate of any asset restoration obligations.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged to the profit/(loss) in the Statement of Comprehensive Income in the year in which the expense is incurred.

Depreciation is calculated on the straight-line basis to write-off the cost of the assets to their residual values over their estimated useful lives as follows:

	ESTIMATED USEFUL LIFE
Leasehold improvements	Amortised over period of lease
Furniture and office equipment	4 to 10 years
Computer equipment	4 years

The residual value of property, plant and equipment is reassessed annually.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount of the asset. These are included in the Statement of Comprehensive Income.

(D) INTANGIBLE ASSETS

Intangible assets acquired by the Company, which have a finite useful life, are measured at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised in the Statement of Comprehensive Income on a straight-line basis over the estimated useful life of the asset.

Software costs, which includes those items classified as 'Industry Assets' have a finite useful life. Software costs are capitalised and amortised over an economic useful life of between 4 and 6 years.

'Industry Assets' relate to the databases created and established for the Downstream Reconciliation and Switching and Registry Rules.

Costs associated with developing or maintaining software programs are recognised as an expense as incurred. Costs that are directly associated with the production of identifiable and unique software products controlled by the Company, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Direct costs include the costs of software development employees and an appropriate portion of relevant overheads.

(E) FINANCIAL INSTRUMENTS

Financial instruments are comprised of trade debtors and other receivables, cash and cash equivalents, and trade creditors and other payables. The Company does not hold or issue derivative financial instruments (i.e. hedging instruments).

The Company has no off-balance sheet financial instruments.

RECOGNITION AND DERECOGNITION OF FINANCIAL ASSETS AND LIABILITIES

Financial assets and financial liabilities are recognised when the Company becomes a party to the contractual provisions of the financial instrument.

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and all substantial risks and rewards are transferred.

A financial liability is derecognised when it is extinguished, discharged, cancelled or expires.

Financial assets and financial liabilities are measured initially at fair value plus transaction costs, except for those carried at fair value through profit or loss, which are measured at fair value. Fair value is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date for similar financial instruments of similar maturity and credit risk.

SUBSEQUENT MEASUREMENT OF FINANCIAL ASSETS

All financial assets of the Company are classified as loans and receivables. Loans and receivables are non derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the balance sheet date which are classified as non-current assets. Loans and receivables are initially recognised at fair value plus transaction costs. Loans and receivables are carried at amortised cost using the effective interest method.

IMPAIRMENT OF FINANCIAL ASSETS

All financial assets are subject to review for impairment at least once each reporting year. Accounts receivable are reviewed for impairment when accounts are past due or when other objective evidence is received that a specific counterparty will default. Impairment of trade receivables are presented in the Statement of Comprehensive Income, within expenses.

SUBSEQUENT MEASUREMENT OF FINANCIAL LIABILITIES

Trade payables and other payables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method.

(F) IMPAIRMENT OF NON FINANCIAL ASSETS

Property, plant and equipment and other non-current assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the greater of an asset's net selling price and value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identified cash flows. Where the Company would, if deprived of the asset, replace its remaining future benefits, value in use is determined as the depreciated replacement cost.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indicators exist, the Company estimates the asset's recoverable amount, to measure the reversal of any previous period impairment charges. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Reversals of impairment are recognised in the Statement of Comprehensive Income.

(G) TRADE CREDITORS AND OTHER PAYABLES

These amounts represent liabilities for goods and services provided to the Company prior to the end of the financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

(H) PROVISIONS

A provision is recognised when the Company has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market rates and, where appropriate, the risks specific to the liability. Provisions are not recognised for future operating losses.

A provision for onerous contracts is recognised when the expected benefits from the contract are lower than the unavoidable costs of meeting contract obligations.

(I) EMPLOYEE ENTITLEMENTS

SHORT-TERM BENEFITS

Employee benefits that the Company expects to be settled within 12 months of balance date are measured at nominal value based on accrued entitlements at current rates of pay.

These include salaries and wages accrued up to balance date and annual leave earned, but not yet taken at balance date.

The Company recognises a liability and expense for bonuses where they are contractually obliged or where there is a past practice that has created a constructive obligation.

LONG-TERM BENEFITS

The Company does not provide long service leave to employees or members of the governing body and has not entered into any defined benefit/contribution pension plans.

(J) PREFERENCE SHARES

Preference share capital (disclosed as 'Redeemable Shares') are classified as a liability if it is redeemable on a specific date or at the option of the shareholders.

(K) REVENUE

Revenue is recognised to the extent that it is probable that the economic benefit will flow to the Company and the revenue can be reliably measured. Revenue is measured at the fair value of consideration received. The Company assesses its revenue arrangements against specific criteria to determine if it is acting as the principal or agent in a revenue transaction. In an agency relationship only the portion of revenue earned on the Company's own account is recognised as gross revenue in the Statement of Comprehensive Income.

The following specific recognition criteria must be met before revenue is recognised:

LEVY REVENUE

Levy revenue comprises amounts received or due in accordance with the applicable Gas (Levy of Industry Participants) Regulations. Levy revenue is recognised when the underlying activities upon which the levy is raised have occurred and the amount of levy revenue can be reliably measured.

MARKET FEE REVENUE

Market fees raised to recoup the capital and operating costs of implementing gas governance regulations are recognised in conformance with International Public Sector Board standard 23: Non-reciprocal transfers in the following manner:

» Market fees to recoup operating costs to be recognised as revenue at the time the invoice is raised as a proxy for recognising it at the time the leviable event occurs.

» Market fees to recover capital costs to be recognised as revenue once the expenditure the fees were raised to cover has been incurred.

ANNUAL FEES

Annual fees are recognised when invoiced.

INTEREST INCOME

Interest income is recognised as it accrues, using the effective interest method.

(L) OPERATING LEASES

Leases of assets under which all the risks and benefits of ownership are effectively retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the Statement of Comprehensive Income on a straight-line basis over the period of the lease. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

(M) FOREIGN CURRENCY TRANSLATIONS

Transactions in foreign currencies that are settled in the accounting period are translated at the settlement rate. Transactions in foreign currency that are not settled in the accounting period, resulting in monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to NZD at the foreign exchange rate ruling at that date. Foreign exchange differences arising on their translation are recognised in the Statement of Comprehensive Income.

(N) INCOME TAX

Taxation expense in the Statement of Comprehensive Income comprises current tax charges. Industry participation levies, annual fees and market fees received are not regarded as gross income, in terms of section CB 1 of the Income Tax Act 2007 and therefore are not taxable. Deductions are not available in respect of the costs incurred in providing services.

Current tax charges are based on taxable profits for the year, which differ from the profit before tax reported because it excludes items that are taxable or deductible in other years, and items that are never taxable or deductible.

The Company has no material deferred tax balances as the majority of assets and liabilities are used to provide non-taxable activities.

(O) GOODS AND SERVICES TAX (GST)

All amounts are shown exclusive of Goods and Services Tax (GST), except for receivables and payables that are stated inclusive of GST.

The net amount of GST recoverable from, or payable to, the Inland Revenue Department (IRD) is included as part of receivables or payables in the Statement of Financial Position.

(P) STATEMENT OF CASH FLOWS

The following are the definitions of the terms used in the Cash Flow Statement:

» Operating activities include all transactions and other events that are not investing or financing activities.

» Investing activities are those activities relating to the acquisition, holding and disposal of investments. Investments can include securities not falling within the definition of cash.

» Financing activities are those activities that result in changes in the size and composition of the capital structure. This includes both equity and debt not falling within the definition of cash. Dividends paid in relation to the capital structure are included in financing activities.

(Q) RESERVES / EQUITY POLICY

The Board holds surplus levy income in a dedicated Industry Advance Reserve for the future reduction of levy income.

4. Operating income

	ACTUAL 2012 $	ACTUAL 2011 $
Wholesale levy revenue	2,522,460	2,807,446
Retail levy revenue	1,487,593	1,663,395
Market fee revenue	1,524,754	1,420,648
Annual fees	80,000	80,000
TOTAL OPERATING INCOME	**5,614,807**	**5,971,489**
Refunded levy income	–	(1,501,829)

During the 2011 year a decision was made refund back to the industry participants, over collected levy revenues. No refund has occurred in the financial year ended 2012.

5. Operating expenditure

	ACTUAL 2012 $	ACTUAL 2011 $
Depreciation & Amortisation	418,705	433,229
Operating lease expenses	320,650	311,691
Fees paid to audit firm – financial statement audit	13,850	13,800
Fees paid to audit firm – other services	10,000	–
Accounting and taxation advice	–	–
Directors' fees	267,860	262,460
General expenses	504,094	482,952
Bad debts	–	74,527
Recruitment expenses	–	81,700
Technical, economic, and legal advice	1,061,785	652,323
Service provider fees	1,228,384	1,645,033
Kiwisaver contributions	37,935	39,756
Foreign exchange loss	215	1,923
Employee benefit expense	2,134,247	1,999,514
TOTAL OPERATING EXPENDITURE	**5,997,725**	**5,998,908**

6. Income tax

	ACTUAL 2012 $	ACTUAL 2011 $
(A) INCOME TAX EXPENSE		
Current year income tax expense	10,060	14,848
Deferred tax movement	–	–
TOTAL INCOME TAX EXPENSE	**10,060**	**14,848**
(B) RECONCILIATION OF CURRENT YEAR INCOME TAX EXPENSE		
Profit before tax	(360,026)	(1,493,676)
Income tax expense at 28 percent	(100,807)	(418,229)
Permanent differences	110,867	433,077
Timing differences	–	–
CURRENT YEAR INCOME TAX EXPENSE	**10,060**	**14,848**
(C) INCOME TAX RECEIVABLE		
Opening balance	872	611
Tax refunds received	(872)	(611)
Current year income tax expense	(10,060)	(14,848)
Income tax paid	10,060	15,720
CLOSING BALANCE	**–**	**872**

The Company has no material deferred tax balances on temporary or permanent timing differences.

7. Cash and cash equivalents

	ACTUAL 2012 $	ACTUAL 2011 $
Bank account	95,123	38,485
Money market account	1,400,000	1,200,000
Petty cash	500	500
TOTAL	**1,495,623**	**1,238,985**

The carrying amount of cash and cash equivalents approximates their fair value.

Cash at bank and the money market account earns interest at floating rates based on daily deposit balances.

8. Trade and other receivables

	ACTUAL 2012 $	ACTUAL 2011 $
Levy debtors	434,412	95,718
Other receivables	17,180	61,877
TOTAL	**451,592**	**157,595**

Trade debtors and other receivables are non-interest bearing and receipt is normally on 30-day terms. Therefore, the carrying value of trade debtors and other receivables approximates their fair value.

As at 30 June 2012, all overdue receivables have been assessed for impairment and appropriate allowances applied. All trade receivables are subject to credit risk exposure.

The ageing profile of receivables at year-end is detailed below:

0-30 days	434,412	95,718
31-60 days	–	–
61-90 days	–	–
> 91 days	–	–
TOTAL	**434,412**	**95,718**

No provision for doubtful debts has been required because all significant receivable balances have been subsequently receipted after the reporting date and before authorisation of the financial statements for release.

As a result of a critical contingency incident during the year, the Company has recognised both receivables and payables to market participants for payments due as part of the rebalancing process under the Gas Governance (Critical Contingency Management) Regulations 2008. These payments have no net impact on the financial statements of the Company.

9. Trade and other payables

	ACTUAL 2012 $	ACTUAL 2011 $
Accounts payable	804,820	315,784
Accrued expenses	374,420	319,870
GST payable	17,669	7,446
TOTAL	**1,196,909**	**643,100**

Trade creditors and other payables are non-interest bearing and are normally settled on 30-day terms. Therefore the carrying value of trade creditors and other payables approximates their fair value.

10. Property, plant and equipment

	LEASEHOLD IMPROVEMENTS $	FURNITURE AND OFFICE EQUIPMENT $	COMPUTER EQUIPMENT $	TOTAL $
COST				
Balance at 1 July 2010	115,593	153,095	48,606	317,294
Additions	–	7,911	1,672	9,583
Transfers	–	–	–	–
Disposals	–	(3,758)	(1,932)	(5,690)
BALANCE AT 30 JUNE 2011	**115,593**	**157,248**	**48,346**	**321,187**
Balance at 1 July 2011	115,593	157,248	48,346	321,187
Additions	95,607	28,969	782	125,358
Transfers	–	–	–	–
Disposals	(94,863)	(9,103)	(26,792)	(130,758)
BALANCE AT 30 JUNE 2012	**116,337**	**177,114**	**22,336**	**315,787**
ACCUMULATED DEPRECIATION AND IMPAIRMENT LOSSES				
Balance at 1 July 2010	18,445	92,584	35,093	146,122
Depreciation expense	12,842	26,022	6,297	45,161
Disposals	–	(3,489)	(1,624)	(5,113)
Impairment losses	–	–	–	–
BALANCE AT 30 JUNE 2011	**31,287**	**115,117**	**39,766**	**186,170**
Balance at 1 July 2011	31,287	115,117	39,766	186,170
Depreciation expense	14,923	19,349	5,240	39,512
Disposals	(35,213)	(8,229)	(26,454)	(69,896)
Impairment losses	–	–	–	–
BALANCE AT 30 JUNE 2012	**10,997**	**126,237**	**18,552**	**155,786**
NET BOOK VALUE	**105,340**	**50,877**	**3,784**	**160,001**

11. Intangible Assets

	SOFTWARE $	INDUSTRY ASSETS $	CONSTRUCTION IN PROGRESS $	TOTAL $
COST				
Balance at 1 July 2010	111,414	2,182,448	–	2,293,862
Additions	1,069	–	–	1,069
Transfers	–	–	–	–
Disposals	(57,750)	–	–	(57,750)
BALANCE AT 30 JUNE 2011	**54,733**	**2,182,448**	**–**	**2,237,181**
Balance at 1 July 2011	54,733	2,182,448	–	2,237,181
Additions	36,818	–	–	36,818
Transfers	–	–	–	–
Disposals	(3,791)	–	–	(3,791)
BALANCE AT 30 JUNE 2012	**87,760**	**2,182,448**	**–**	**2,270,208**
ACCUMULATED DEPRECIATION AND IMPAIRMENT LOSSES				
Balance at 1 July 2010	35,213	590,972	–	626,185
Depreciation expense	24,254	363,814	–	388,068
Disposals	(16,124)	–	–	(16,124)
Impairment losses	–	–	–	–
BALANCE AT 30 JUNE 2011	**43,343**	**954,786**	**–**	**998,129**
Balance at 1 July 2011	43,343	954,786	–	998,129
Depreciation expense	15,379	363,814	–	379,193
Disposals	(3,791)	–	–	(3,791)
Impairment losses	–	–	–	–
BALANCE AT 30 JUNE 2012	**54,931**	**1,318,600**	**–**	**1,373,531**
NET BOOK VALUE	**32,829**	**863,848**	**–**	**896,677**

12. Asset restoration provision

	ACTUAL 2012 $	ACTUAL 2011 $
GROSS BALANCE OF PROVISION		
Opening	51,571	51,571
Additions	–	–
Disposals	–	–
CLOSING GROSS PROVISION	**51,571**	**51,571**
DISCOUNT FOR TIME VALUE OF MONEY		
Opening	26,576	29,185
Additions	–	–
Movement due to change in discount rate	–	–
Unwinding of discount	2,975	2,609
CLOSING DISCOUNT	**23,601**	**26,576**
PROVISION NET CARRYING AMOUNT	**27,970**	**24,995**

The asset restoration provision relates to the make good clauses in the lease of the Company's premises. The provision has been accreted to account for the discounting and will be released when the expenditure occurs.

13. Related party transactions

(A) TRANSACTIONS WITH SHAREHOLDERS

Levy payments (which are detailed in note 4) are made by industry participants who, in many cases, are also shareholders of Gas Industry Company.

(B) TRANSACTIONS WITH KEY MANAGEMENT PERSONNEL

	ACTUAL 2012 $	ACTUAL 2011 $
SALARIES AND OTHER SHORT-TERM EMPLOYEE BENEFITS	**786,663**	**1,214,239**

Key management personnel include the Chief Executive and his direct reports.

(C) TERMINATION BENEFITS

No redundancy compensation was paid out during the financial year.

14. Redeemable shares

	ACTUAL 2012 $	ACTUAL 2011 $
Redeemable shares – Value in dollars	8	8
Redeemable shares – Number	8	8

All redeemable shares rank equally with one vote attached to each fully paid share. The shares are redeemable at any time for the consideration of $1 payable on redemption. The redeemable shares confer on the shareholders the rights set out in section 36(1) of the Companies Act 1993.

15. Reserves and retained earnings

	ACTUAL 2012 $	ACTUAL 2011 $
Industry Advances Reserve	287,998	364,210
Industry Asset Amortisation Reserve	863,848	1,227,662
Retained earnings	430,000	350,000
TOTAL EQUITY RESERVES	**1,581,846**	**1,941,872**

(A) INDUSTRY ADVANCES RESERVE

	ACTUAL 2012 $	ACTUAL 2011 $
Opening balance	364,210	1,574,072
Transfer from retained earnings	(76,212)	(1,209,862)
CLOSING BALANCE	**287,998**	**364,210**

To allow for the timely enactment of the levy regulations each financial year, Gas Industry Co must set its budget and work programme nine months prior to the beginning of that year and prior to the completion of the Strategic Plan. In practice, this requires the Company to forecast where it expects to be in the policy development process before it has fully analysed the issues, or engaged with stakeholders on their concerns. This factor, and the fact that the levy is based in part on variable gas sales volumes, means every year there is a risk of over or under recovery of levy funds.

Section 43ZZC(3) of the Gas Act provides that any over or under recoveries can be taken into account in setting the levy in subsequent financial years. However, to ensure transparency around the calculation of each year's levy, the Board has determined that, unless required for unanticipated, ongoing work programme costs, any surplus should be returned to levy payers by way of refund once the year-end accounts have been received by shareholders at the Annual General Meeting.

The Board holds surplus levy income in a dedicated Industry Advance Reserve for the future reduction of levy income.

(B) INDUSTRY ASSET AMORTISATION RESERVE

	ACTUAL 2012 $	ACTUAL 2011 $
Opening balance	1,227,662	1,591,476
Transfer from retained earnings	(363,814)	(363,814)
CLOSING BALANCE	**863,848**	**1,227,662**

The Industry Asset Amortisation Reserve represents capital items purchased with Market Fees recognised as an asset and amortised over their economic life. Its value is equal to the unexpired amortisation balances of the Industry assets.

(C) RETAINED EARNINGS

	ACTUAL 2012 $	ACTUAL 2011 $
Opening balance	350,000	270,000
Profit for the year	(360,026)	(1,493,676)
Transfer to Industry Advances Reserve	76,212	1,209,862
Transfer to Industry Asset Amortisation Reserve	363,814	363,814
CLOSING BALANCE	**430,000**	**350,000**

16. Contingencies

As at 30 June 2012, the Company has no contingent liabilities (2011: nil). There is an arrangement with Westpac Banking Corporation Limited whereby Gas Industry Company has a business facility (limit $100,000) and a payroll Letter of Credit facility (limit $180,000).

17. Commitments

(A) CAPITAL COMMITMENTS

The Company has no material capital commitments (2011: $Nil)

(B) OPERATING LEASE COMMITMENTS

	ACTUAL 2012 $	ACTUAL 2011 $
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:		
Within one year	329,408	280,940
Later than one year but not later than five years	1,257,339	1,343,966
Later than five years	–	111,990
TOTAL	**1,586,747**	**1,736,896**

(C) SERVICE PROVIDER COMMITMENTS

	ACTUAL 2012 $	ACTUAL 2011 $
Service provider agreements for the Downstream Reconciliation, Switching and Registry and Critical Contingency Management Rules payable as follows:		
Within one year	1,351,709	1,351,709
Later than one year but not later than five years	870,705	2,222,414
Later than five years	–	–
TOTAL	**2,222,414**	**3,574,123**

18. Financial risk management

The Company's activities expose it to a variety of financial risks: currency risk, interest rate risk, credit risk and liquidity risk.

To manage and limit the effects of those financial risks, the Board of Directors has approved policy guidelines. The policies approved at balance date are outlined below:

CURRENCY RISK

During the normal course of business the Company contracts overseas consultants to provide services which are denominated in foreign currencies. The currency risk attached to these contracts (which are normally denominated in Australian dollars) is not actively managed by the Company and there is a resultant risk that creditors due in foreign currency will fluctuate because of changes in foreign exchange rates. No significant monetary assets were denominated in foreign currencies at year-end.

INTEREST RATE RISK

The Company is exposed to interest rate risk through the return on any funds it has invested and the cost of borrowed funds which will fluctuate due to changes in market interest rates. All cash and cash equivalents are held on floating interest rates and all shareholder liabilities attract floating interest rates. The Company does not hold any significant interest bearing liabilities, and therefore is not subject to interest rate risk on borrowings.

CREDIT RISK

Credit risk is the risk that a third party defaults on its obligation to the Company, causing the Company to incur losses. The Company has no significant concentration of credit risk in relation to accounts receivable. The Company does not expect the non-performance of any obligations at balance date. The carrying value of trade debtors, other receivables, cash and cash equivalents and short-term bank deposits represents the Company's maximum exposure to credit risk at balance date.

LIQUIDITY RISK

Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities. Management holds sufficient liquid assets in the form of cash and cash equivalents to meet expected outflows. All trade payables are expected to be settled within 30 days.

FAIR VALUES

The fair value of all financial instruments is equivalent to the carrying amount disclosed in the Statement of Financial Position.

19. Reconciliation of profit to net cash inflows from operating activities

	ACTUAL 2012 $	ACTUAL 2011 $
Profit/(loss) for the year	(360,026)	(1,493,676)
Non cash items		
Depreciation and amortisation expense	418,705	433,229
Unwind of discount factor on restoration provision	2,975	2,631
Impact of changes in working capital items		
Prepayments	(2,686)	(11,589)
Trade and other payables	645,229	10,352
Employee entitlements	38,300	(8,075)
Trade and other receivables	(338,694)	58,453
GST payable	10,223	290
Income tax receivable	4,788	(1,865)
NET CASH FLOWS FROM OPERATING ACTIVITIES	**418,814**	**(1,010,250)**

20. Capital management

The Company's capital is its total equity, being the net assets of the Company, represented by retained earnings and other equity reserves. The primary objective of the Company's capital management policy is to ensure working capital is maintained in order to support its activities. The Company manages its capital structure and makes adjustments to it, in light of changes to funding requirements. To maintain or adjust the capital structure, budgeted discretionary expenditure is reduced to avoid the need for external borrowings.

21. Subsequent events

No significant events, which would materially affect the financial statements, have occurred subsequent to year-end that require disclosure or adjustment to the carrying value of assets or liabilities in these financial statements.

GLOSSARY

ALLOCATION AGENT	Appointed pursuant to the Reconciliation Rules to apportion downstream gas quantities and allocate daily gas quantities to retailers. The Allocation Agent is currently NZX Limited
BGX	Balancing Gas Exchange
CCM REGULATIONS	Gas Governance (Critical Contingency Management) Regulations 2008
CCO	Critical Contingency Operator
COMPLIANCE REGULATIONS	Gas Governance (Compliance) Regulations 2008
EECA	Energy Efficiency and Conservation Authority
EGCC	Electricity and Gas Complaints Commission
GAS ACT	Gas Act 1992
GAS REGISTRY	The customer switching platform which facilitates switching of retailers by customers and provides an authoritative database of information about consumer installations. The Gas Registry Operator is currently Jade Software Corporation (NZ) Limited
GJ	Gigajoule (10^9 joules). The average residential gas consumption is 23 GJ/year
GPS	Government Policy Statement on Gas Governance (April 2008)
GTIP	Gas Transmission Investment Programme
GTX	Gas Transmission Exchange
ICP	Installation Control Point
MBIE	Ministry of Business, Innovation and Employment
MPOC	Maui Pipeline Operating Code
NORTH PIPELINE	The section of the Vector transmission system from Huntly to Whangarei, via Auckland
OATIS	Open Access Transmission Information System
PEPANZ	Petroleum Exploration and Production Association of New Zealand
PEA	Panel of Expert Advisers
PSA	Panel of Strategic Advisers
PJ	Petajoule (10^{15} joules, or 1 million GJ). 1 PJ is equivalent to the average annual gas use of approximately 43,000 households
PROCESSING INFORMATION DISCLOSURE RULES	Gas (Processing Facilities Information Disclosure) Rules 2008
RECONCILIATION RULES	Gas (Downstream Reconciliation) Rules 2008
SWITCHING RULES	Gas (Switching Arrangements) Rules 2008
TRANSMISSION SYSTEM	A system of pipelines transporting gas at high pressure from production and processing facilities to delivery points supplying end users and lower pressure local area gas distribution networks
VTC	Vector Transmission Code
UFG	Unaccounted-for gas

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