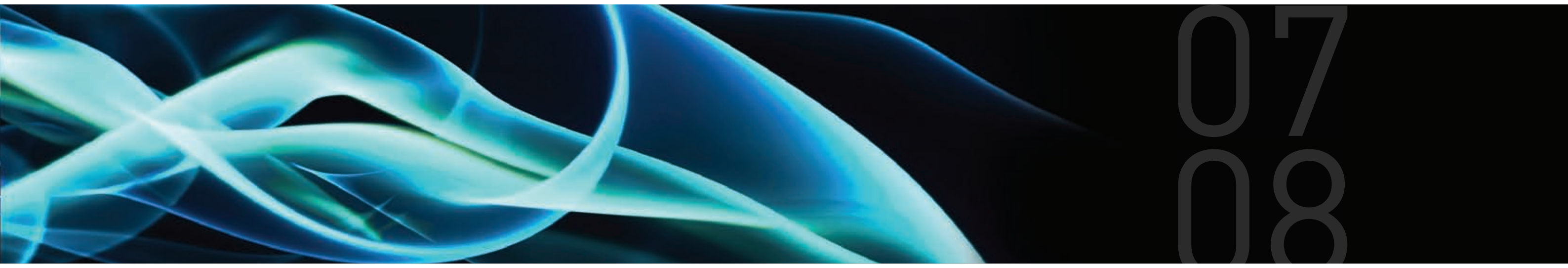
Annual Report



GAS INDUSTRY COMPANY LIMITED

Residential

Industry

Business

Restaurants

Hotels

Presented to the House of Representatives
pursuant to section 43ZY of the Gas Act 1992.

Hospitals

Small Business

Factories

Farming

Schools

About Gas Industry Co

Gas Industry Co was formed to be the co-regulator under the Gas Act.

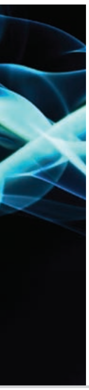
As such, its role is to:

- recommend arrangements, including rules and regulations where appropriate, which improve:
  - the operation of gas markets;
  - access to infrastructure; and
  - consumer outcomes;
- administer, oversee compliance with, and review such arrangements; and
- report regularly to the Minister of Energy on the performance and present state of the New Zealand gas industry, and the achievement of Government's policy objectives for the gas sector.

Rt Hon James Bolger ONZ
Chair

Robin Hill
Deputy Chair

18 September 2008



1 Chair's foreword

Over the past year, we have experienced continually increasing global awareness of climate change concerns, energy price rises, and nationwide energy conservation efforts. Worldwide we are seeing the introduction of emissions trading schemes and proposed amendments to regulatory frameworks which create preferences for the construction of renewable generation.

The direction of New Zealand's energy policy has been set. We must acknowledge that future energy needs are likely to be met largely from low-emission sources. However, it is clear that gas will have an important ongoing role – albeit a changed role.

This role will require gas to be available when and where it is needed. Flexibility and innovation is required. Already the industry has responded as evidenced by the decision to develop gas storage facilities to provide greater supply flexibility, and plans for new and efficient gas-fired generators to meet peak-load demand on call. These are important developments in the gas market and are examples of how the gas industry can continue to play a key role in meeting the energy needs of New Zealand.

Though the sector faces significant change, the core objectives of Gas Industry Co remain the same. In April 2008, the Government released a new Government Policy Statement on Gas Governance (April 2008 GPS). This reconfirmed the objectives and required outcomes set out in the earlier October 2004 GPS. It also provided further endorsement of the policy programme that Gas Industry Co has been working through since establishment.

The April 2008 GPS sets out the minimum set of arrangements that need to be implemented and operational to improve market outcomes – these remain substantially unchanged from those contained in the October 2004 GPS. Over the past year we have made steady progress in establishing these arrangements. In brief form they are:

- A set of switching rules and a functioning gas registry.
- Clear rules and arrangements for downstream reconciliation and allocation of gas.
- Retail, distribution and metering arrangements that provide efficient and fair outcomes for consumers.
- A transparent, functioning, short-term wholesale gas trading market.
- Sound arrangements for the management of critical gas contingencies.
- Effective access to core infrastructure assets.

Progress has been made over the past year on each of these. The Chief Executive in her year in review, and the operations review section of this report, will outline this progress in greater detail. It is sufficient to say at this stage that though progress in some cases may not have reached the point of meeting a stated milestone, I am pleased that across each of these key sets of arrangements we have either moved into implementation phase, are in the final stages of policy development, or have revised our approach and set a very clear forward path. This is considerable progress.

Rt Hon James Bolger

Minister of Energy David Parker

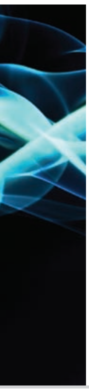
With these arrangements in place, together with mechanisms to measure effectiveness, we will assess the state of competition and infrastructure access. This is a required statutory role. It also suggests that market regulation is an ongoing activity. Indeed, experience would indicate this to be the case.

Accordingly, we will continue to seek a better understanding of the effect of regulation on competition and access, and we will make improvements along the way. This is core to the commitment to fit for purpose regulation. It is also core to meeting the principal objective of ensuring all customers can access gas in a safe, efficient, fair, reliable and environmentally sustainable manner.

Industry input and engagement is vital to the success of the co-regulatory model. We rely on the experience and expertise of the industry in the development of policy and implementation plans. I thank those from the industry who have participated and provided their time during the year.

I would also like to thank the staff and individual Board members of Gas Industry Co. You have each made important contributions to the Company, for which I am grateful. Finally, I would like to thank Murray Jackson who recently retired as Chief Executive of Genesis Energy and from his role with us as a director. I wish him well for the future.

Right Honourable James B Bolger, ONZ
Chairman



2 Chief Executive's review

The Chair in his foreword outlined the minimum set of arrangements needed to improve market outcomes. These formed the core of Gas Industry Co's work programme over the 2007/08 year. We have made steady advances in these areas.

During the 2007/08 financial year, Gas Industry Co exercised its powers to recommend gas governance arrangements to the Minister of Energy under the following sections:

- 43G rules on gas processing facilities information disclosure;
- 43F rules for the reconciliation and allocation of downstream gas quantities;
- 43F regulations for the management of critical contingency events;
- 43G associated amendments to the compliance regulations; and
- 43ZZB Gas Industry Co's levy for the 2008/09 financial year.

Minimum set of arrangements to improve market outcomes:

- A set of switching rules and a functioning gas registry.
- Clear rules and arrangements for downstream reconciliation and allocation of gas.
- Retail, distribution and metering arrangements that provide efficient and fair outcomes for consumers.
- A transparent, functioning, short-term wholesale gas trading market.
- Sound arrangements for the management of critical gas contingencies.
- Effective access to core infrastructure assets.

The Minister of Energy approved the recommended rules on gas processing facilities information disclosure, reconciliation and allocation of downstream gas quantities, switching (a 2006/07 year recommendation), compliance regulations, and regulations for the 2008/09 financial year levy.

The switching and reconciliation rules are now in the process of being implemented and are on track to achieve their respective go-live dates. These rules are essential to improving market outcomes – especially at the retail level. We are also collecting information on spare capacity and monitoring information on third party requests for access to gas processing facilities. This will enable us, over time, to assess the state of access and recommend further action if necessary. The completed recommendation on new contingency management regulations represents the culmination of a significant body of work and is an important milestone for the Company.

Although we have made substantial progress against stated milestones this year, the industry is complex, unforeseen circumstances arise and we need to listen to and understand industry concerns. This process inevitably impacts on the timely delivery of our work programme. The work we have been doing on establishing a transparent wholesale market for gas is one such example, as trading-hub design issues were unable to be finalised within the

Christine Southey, CE

reporting period. Although disappointing, given the expected size of the market and its voluntary nature, it was considered desirable to work towards achieving consensus on hub design even though this meant missing the target delivery date.

We are confident our commitment to always seeking a high degree of industry support will lead to more enduring arrangements and higher levels of compliance over the longer term.

During the year, where revision to timings or approach have been necessary, we have ensured we kept all interested parties informed of the revised targets and underlying reasons for revision. In the transmission access work stream, we have revised our approach following significant engagement with industry participants, legal advisers, and Ministry of Economic Development officials. The revised approach involves seeking an amendment to the Gas Act to provide the powers to enable framework regulation. At the same time we will be working on targeted solutions to priority areas such as balancing and interconnection.

We have also revised our approach to work on consumer outcomes following a review of our work programme. The new approach goes back to first principles in the form of consumer expectations of their gas supply. The review assesses current arrangements against those expectations. At the time of preparing this report, consultation was under way on our revised approach. In addition, we had by the end of the 2007/08 financial year released a joint consultation paper with the Electricity Commission on a complaints resolution scheme for all gas and electricity consumers. Work in this area recognises that the primary mechanism of market competition may not always result in better outcomes for consumers.

A further impact of the revised approaches taken on transmission access and consumer issues is we have had to defer work on distribution contracts. This was simply a case of weighing up competing priorities. However, work on both transmission access and consumer issues will be useful in developing policy on distribution contracts.

Increasingly, we are taking on a facilitative role in a number of industry issues by suggesting change or encouraging constructive dialogue. This includes our role in making recommendations on change requests to the Maui Pipeline Operating Code (MPOC). Provided the boundaries are clear, this is an important role for Gas Industry Co to undertake for the industry.

As our first gas governance recommendations have moved into implementation, Gas Industry Co has had to address its capability to deliver market services to the industry. Over the year, we have increased our staff numbers from nine fulltime equivalents to 14. This reflects the growing and complex nature of the Company's work programme and the dual role of the Company in market design and operations.

The move into the implementation phase is having financial consequences for both the industry and Gas Industry Co. These have become evident in the 2008/09 financial year. Substantial software platforms, to support the separate implementation of switching and downstream reconciliation, will be brought into operation in that period, with total one-off development and establishment costs of about $2 million and ongoing annual operating costs at about the same level. These costs will need to be recovered from the industry from either market fees or the annual levy. There is expected to be some temporary pressure on operating budgets while the Company transitions to this new level of activity.

Total expenditure for Gas Industry Co for the 2007/08 financial year was $4.6m. During the financial year, Gas Industry Co decided to present its financial statements for the year ending 30 June 2008 in accordance with the New Zealand International Financial Reporting Standards (NZ IFRS). One issue arising out of the adoption of the NZ IFRS is the treatment of Retained Earnings.

The Board of Gas Industry Co decided to reclassify part of the Company's Retained Earnings into an "Industry Advances Reserve". The reserve will clearly denote that the use of its funds is restricted to the future reduction of levy payments. As previously disclosed, the Board of Gas Industry Co authorised the creation of a reserve fund to enable the Company to meet any short-term potential threat to the Company's financial viability.

Progress made over the past year has been considerable. As I have highlighted, a number of work streams have already moved into the implementation phase. In other work streams, the results of work during the 2007/08 financial year will be realised in the 2008/09 year. This progress has been possible only because of the continuing commitment of the executive team and staff. I would also like to thank industry participants, officials and external advisers for their support during the year.

CB Southey

Christine Southey
Chief Executive

Residential

Reticulated natural gas is used by around 250,000 homes in the North Island for cooking, space and water heating.

3 Key achievements 2007/08

Quarter one

- Statement of Proposal Gas Outage and Contingency Management Arrangements
- Statement of Proposal Information Disclosure by Owners of Gas Processing Facilities
- Statement of Proposal Allocation and Reconciliation of Downstream Gas Quantities
- Discussion Paper Transmission Access Framework - Towards a Statement of Proposal
- Gas Industry Co's Annual Report 2006/07
- Selected preferred supplier for wholesale market platform

Quarter two

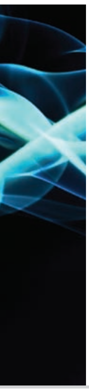
- Consultation Paper Levy for Gas Industry Co for the 2008/2009 Financial Year
- Request for Proposals sought for the Development and Establishment of the Gas Registry
- Updated Proposal for Industry Information: Allocation and Reconciliation of Downstream Gas Quantities
- Statement of Proposal Transmission Access Framework
- Supplementary Consultation Paper on Gas Outage and Contingency Management Arrangements

Quarter three

- Recommendations to the Minister on Information Disclosure by Owners of Gas Processing Facilities and associated amendments to Gas Compliance Regulations
- Recommendations to the Minister on Arrangements for the Allocation and Reconciliation of Downstream Gas Quantities and associated amendments to Gas Compliance Regulations
- Recommendation to the Minister on the Levy for Gas Industry Co for the 2008/2009 Financial Year
- Supplementary Submissions Analysis on Gas Outage and Contingency Management Arrangements
- Joint Consultation Paper with Electricity Commission on Approval of a Joint Electricity and Gas Complaints Resolution Scheme
- Development and testing of wholesale market platform

Quarter four

- Request for Proposals sought for Appointment of an Allocation Agent for the Provision of Services for Downstream Reconciliation and Allocation of Gas
- Recommendations to the Minister on Arrangements for the Effective Management of Critical Contingencies and associated amendments to Gas Compliance Regulations
- Information papers were released on: gas storage; pipeline balancing; and Gas Industry Co's policy development process
- Consultation Paper on proposed Determinations and other matters under the Gas (Downstream Reconciliation) Rules 2008
- Short-form Consultation Paper on Gas Critical Contingency Management Arrangements



4 Operations review

4.1 Overview

Gas Industry Co's strategic plan for 2008-2010 set out six areas of strategic priority for the Company. Flowing from these strategic priority areas, Gas Industry Co developed a work programme focused on 10 work streams. The following table sets out the six areas of strategic priority for the Company and shows how these relate to the 10 work streams.

Strategic Priorities	Work Streams
Effective operation of the co-regulatory model	• Corporate
Improvement of consumer outcomes	• Consumer issues • Distribution access review • Switching and registry • Compliance and enforcement
Improvements to the retail market	• Distribution access review • Switching and registry • Reconciliation • Compliance and enforcement
Development of wholesale market trading arrangements	• Wholesale market • Reconciliation • Compliance and enforcement
Review of infrastructure access arrangements	• Open access review • Access to gas processing facilities • Distribution access review • Compliance and enforcement
Development of sound critical contingency management systems	• Critical contingency management • Compliance and enforcement

The following sections outline the progress Gas Industry Co has made during the 2007/08 financial year on meeting the Strategic Plan 2008-2010 milestones and the GPS objectives and outcomes. In April 2008, the Government released a new GPS which replaced the previous October 2004 GPS. The objectives and outcomes in the Strategic Plan 2008-2010 against which this Annual Report is reporting relate to the October 2004 GPS. For the sake of completeness, the April 2008 GPS objectives and outcomes have also been included for each work stream.

4.2 Corporate

The corporate work stream includes a number of Gas Industry Co's 'back office' functions, together with the Company's statutory reporting requirements. The GPS requirements promote accountability and are a ready measure for stakeholders to assess performance. Gas Industry Co achieved all set milestones for the financial year within timeframe.

During the year, Gas Industry Co also released a number of information papers, including a paper on Gas Industry Co's policy development process. This paper will help with future consultation on policy projects, focus industry submissions, and reduce the need for submissions to comment on general and process issues.

Work Stream	October 2004 GPS objectives & outcomes	Activity	Milestone	Comment
Corporate	Effective operation of the co-regulatory model	Quarterly reports	Provide quarterly reports to the Minister within 60 days of each quarter	Achieved
		2008/09 levy	2008/09 Levy Recommendation to the Minister by 31 March 2008	Achieved
		Annual Report	Annual report to Minister by 30 September 2007	Achieved
		AGM	Hold AGM by 31 December 2007	Achieved
		Strategic Plan	Draft Strategic Plan to Minister by 31 May 2008	Achieved
		Strategic Advice	As required, provide advice to Minister on strategic issues affecting the gas industry	No specific advice sought

4.3 Consumer Issues

Following the stalling of efforts to establish a complaints resolution scheme for gas customers, and standard retail contract terms including disconnection and reconnection arrangements, Gas Industry Co recommended to the Minister of Energy in December 2007 a revised approach to dealing with consumer issues, namely a:

- Co-ordinated approach with the Electricity Commission to the approval of a complaints resolution scheme for all electricity and gas consumers; and
- Wider review of consumer contract arrangements, with a view to establishing minimum terms and/or codes of practice.

April 2008 GPS objectives & outcomes
• Domestic and small business gas consumers have effective access to a complaints resolution scheme. • Contractual arrangements adequately protect the long-term interests of domestic and small business consumers. • The respective roles of gas metering, pipeline and gas retail participants are able to be clearly understood.

The Minister of Energy approved this approach and set out in the April 2008 GPS the specific outcomes that the Government expects Gas Industry Co to achieve in respect of consumer issues. Progress has been made on this revised approach.

After consideration of various options and consultation with Government, a joint consultation paper with the Electricity Commission on a proposal for a single joint consumer complaints resolution scheme was released in March 2008. This proposed a governance structure and set out a number of requirements for consultation.

Twenty-nine submissions were received. A number of issues were raised by submitters in respect of the powers in the Gas and Electricity Acts to approve a complaints resolution scheme. These issues have been worked through and it is likely that a joint electricity and gas complaints resolution scheme will be operational in the latter part of 2009.

Progress has also been made on the review of consumer contract arrangements. Input from consumer representatives in attendance at the third annual consumer forum in May 2008 has been incorporated into the consumer issues discussion paper which was released in August 2008.

Work Stream	October 2004 GPS objectives & outcomes	Activity	Milestone	Comment
Consumer issues	Gas is delivered to new and existing customers in a safe, efficient, fair, reliable and environmentally sustainable manner	Develop new disconnection / reconnection arrangements	If required, provide recommendation to Minister on disconnection arrangements by April 2008	Not applicable – approach revised, now undertaking wide-ranging review of consumer issues
		Consumer issues investigation	If required, provide recommendation to Minister on consumer issues investigation within nine months of request. Hold consumer forum by June 2008	Not applicable – approach revised, now undertaking wide-ranging review of consumer issues

Commercial

Natural gas is an instant fuel for chefs, and is highly energy efficient.

The White House Restaurant
Oriental Bay, Wellington

4.4 Switching and registry

April 2008 GPS objectives & outcomes
Effective and efficient customer switching arrangements that minimise barriers to customer switching.

In May 2007, Gas Industry Co recommended to the Minister of Energy that the efficiency of the existing switching arrangements would be improved through the development of a central gas registry system with associated rules for switching of customers. For the proposed switching rules to operate, an amendment to the Gas Act was required. The necessary amendment was enacted in September 2007.

Once the Gas Act was amended, the Minister of Energy approved the Gas (Switching Arrangements) Rules 2008 which came into effect in part on 13 March 2008. In parallel, Gas Industry Co published a Request for Proposals in November 2007 inviting proposals for the development, establishment and operation of the gas registry to support customer switching. Following evaluation of proposals from two prospective suppliers, the evaluation team, comprised of industry representatives and facilitated by Gas Industry Co, selected Jade Software as the preferred candidate for the gas registry operator.

In May 2008, Jade Software agreed to develop detailed registry specifications and new costings. Though this does not meet the targeted milestone date of appointing the registry service provider, it still represents substantial progress. Ultimately, the delay means that Gas Industry Co will better know exactly what it will get and at what cost, than if it had proceeded to final agreement simply to meet the milestone. The registry is on track to meet the 1 March 2009 go-live date.

Work Stream	October 2004 GPS objectives & outcomes	Activity	Milestone	Comment
Switching and registry	The standardisation and upgrading of protocols relating to customer switching, so that barriers to customer switching are minimised	Implement switching arrangements	Appoint Registry Service Provider within three months of Switching Rules being gazetted	Not achieved within three months

4.5 Reconciliation

April 2008 GPS objectives & outcomes
Accurate, efficient and timely arrangements for the allocation and reconciliation of downstream gas quantities.

Efficient arrangements for the accurate allocation and reconciliation of downstream gas quantities are a key component of an efficient gas market. In September 2007, Gas Industry Co released for consultation a Statement of Proposal for rules to govern the allocation and reconciliation of downstream gas quantities.

Following feedback from industry through submissions on the Statement of Proposal, an Updated Proposal was issued in December 2007. It set out the results of consultation, described Gas Industry Co's response to issues raised, and included amended draft rules. The most significant changes included in the Updated Proposal were:

- Provision for retailers to use their own forecast seasonal shape values or other methodology for applying to historic estimates of consumption (previously the allocation agent provided the shape values), but with the entire package of consumption information now subject to the required level of accuracy; and
- In regard to the determination of deemed profiles by the allocation agent, provision for Gas Industry Co to develop guidelines on methodology and to consider disputed determinations, and compulsory ongoing review of the determinations.

A recommendation largely reflecting the amendments included in the Updated Proposal was made to the Minister of Energy in March 2008. The Minister of Energy approved the recommendation and the Gas (Downstream Reconciliation) Rules 2008 came into effect in part on 27 June 2008. While waiting on Ministerial approval of the rules, Gas Industry Co ran a Request For Proposals process to select an allocation agent. Two competitive proposals were received. M-co was selected as the preferred candidate and negotiations were still ongoing by the end of the 2007/08 year.

The rules set a go-live date of 1 October 2008 to coincide with the start of the gas year. Although challenging, both the prospective allocation agent and industry participants have indicated that the go-live date can be achieved.

Work Stream	October 2004 GPS objectives & outcomes	Activity	Milestone	Comment
Reconciliation	The establishment of gas flow measurement arrangements to enable effective control and management of gas	Development of new downstream reconciliation arrangements	Provide recommendation to Minister on downstream reconciliation arrangements by December 2007	Achieved at a later date
		Implement new downstream reconciliation arrangements	Implementation of new downstream reconciliation arrangements by October 2008	On track

4.6 Compliance and enforcement

April 2008 GPS objectives & outcomes

Gas governance arrangements are supported by appropriate compliance and dispute resolution processes.

Initially, it was considered most efficient to design a generic compliance regime that would cover the compliance needs of all the gas governance arrangements proposed by Gas Industry Co. However, following industry submissions on this approach, Gas Industry Co has taken an incremental approach to compliance – considering the compliance needs of each set of proposed arrangements and tailoring the compliance regime as required.

In May 2007, Gas Industry Co recommended regulations to establish a compliance regime to support the switching rules. Since then, Gas Industry Co has recommended amendments to these regulations to support each set of gas governance arrangements subsequently recommended to the Minister of Energy: the gas processing information disclosure rules; downstream reconciliation rules; and critical contingency management regulations. Each amendment has been specifically designed for the particular gas governance arrangement.

The compliance regime will be made up of three key elements:

- A Market Administrator which has responsibility for receiving notices of reported breaches of the rules, attending to administrative tasks, determining the materiality of breaches, and attempting to resolve any immaterial breach with the agreement of the parties.
- An Investigator who investigates material or unresolved immaterial breaches, endeavours to settle the matter, and refers settlements and unresolved breaches to the Rulings Panel.
- A one-member Rulings Panel which approves or rejects settlements, determines unresolved breaches and orders remedies.

The Gas Governance (Compliance) Regulations 2008 came into effect on 11 September 2008.

Work Stream	October 2004 GPS objectives & outcomes	Activity	Milestone	Comment
Compliance and enforcement	To provide a high degree of confidence that proposed arrangements will be adhered to, and thereby contribute to the better achievement of Government's policy objectives for the gas industry	Investigate compliance and enforcement requirements of new gas governance arrangements	As required, compliance and enforcement requirements for new gas governance arrangements investigated	Recommendations made to Minister for compliance regulations to cover all gas governance arrangements recommended during the year
		Implement compliance regime to support new switching arrangements	Compliance regime in place within three months of central gas registry "Go-Live" date	Registry delayed but regime in place for other gas governance regulations

Industrial

Natural gas is used in a range of industrial processes including the dairy sector.

Fonterra Dairy Factory
Taranaki

4.7 Wholesale market

April 2008 GPS objectives & outcomes
Efficient arrangements for the short-term trading of gas.

In the 2006/2007 financial year, Gas Industry Co's Board requested an assessment of the feasibility of running a trial of an electronic platform for gas trading. The purpose of holding such a trial would be twofold:

- First, to bring forward the time at which platform trading could begin; and
- Second, to provide a "hands-on" consultation process.

Gas Industry Co developed a functional specification for the platform and identified M-co as the preferred platform provider through a Request for Proposals process. In February 2008, a service provider agreement for the provision of a trading platform to facilitate short-term trading of gas was entered into with M-co. In early March, M-co completed work on implementing a bulletin-board version of its standard trading engine. The platform was tested by Gas Industry Co with assistance from industry participants. The platform performed well.

However, consensus could not be reached on the issue of trading hub design by the end of the year and therefore, the platform go-live milestone could not be met. As the market is a voluntary one and wide participation is desirable, Gas Industry Co felt obliged to seek a consensus view on the hub design.

Gas Industry Co sought further feedback from industry participants and identified a preferred solution. This solution would rely on securing the services of a Market Balancing Party (MBP) to maintain the flow through the trading hub at a level matching gas purchases. The MBP would be remunerated for this service through the prices charged to those traders with variances (i.e. the amount by which their net traded quantities differed from their supporting nominations to or from the hub). By the end of the year, Gas Industry Co was in negotiations with a major market player to perform the MBP role. The party concerned decided that the role was too extensive and it could not meet the requirement to ring-fence the operation. Gas Industry Co is currently developing an alternative solution.

Work Stream	October 2004 GPS objectives & outcomes	Activity	Milestone	Comment
Wholesale market	The development of protocols and standards applying to wholesale gas trading, including quality standards, balancing and reconciliation The development of a secondary market for the trading of excess and shortfall quantities of gas The development of capacity trading arrangements	Implement wholesale market arrangements	Appoint platform provider by 30 November 2007 Platform 'Go-Live' by June 2008	Achieved at a later date – February 2008 Not achieved – due to difficulties getting industry consensus on hub design

4.8 Open access review

April 2008 GPS objectives & outcomes

Gas industry participants and new entrants are able to access transmission pipelines on reasonable terms and conditions.

In August 2007, Gas Industry Co released a paper titled Transmission Access Framework – Towards a Statement of Proposal. This paper built on previous work in the transmission access area, introduced the major components of a framework approach to regulation, and provided examples to explain how the framework approach would operate in practice.

Gas Industry Co's Transmission Access Framework Statement of Proposal followed in October 2007. It described in detail the proposed future arrangements for gas transmission access including draft transmission access regulations. The proposed access framework would provide for regulations to be made under the Gas Act requiring each transmission system owner to describe its service offerings in a set of "standard terms" contained in its "operating code" and published on its website. Compliance arrangements for monitoring and enforcing these requirements would also be established.

Following analysis of submissions, an extensive internal review of the work stream was undertaken to consider the best way forward. The outcome of this review suggested that a revised approach to the work stream was necessary. The revised approach includes targeted solutions to problem areas combined with a request to amend the Gas Act to permit access framework regulation.

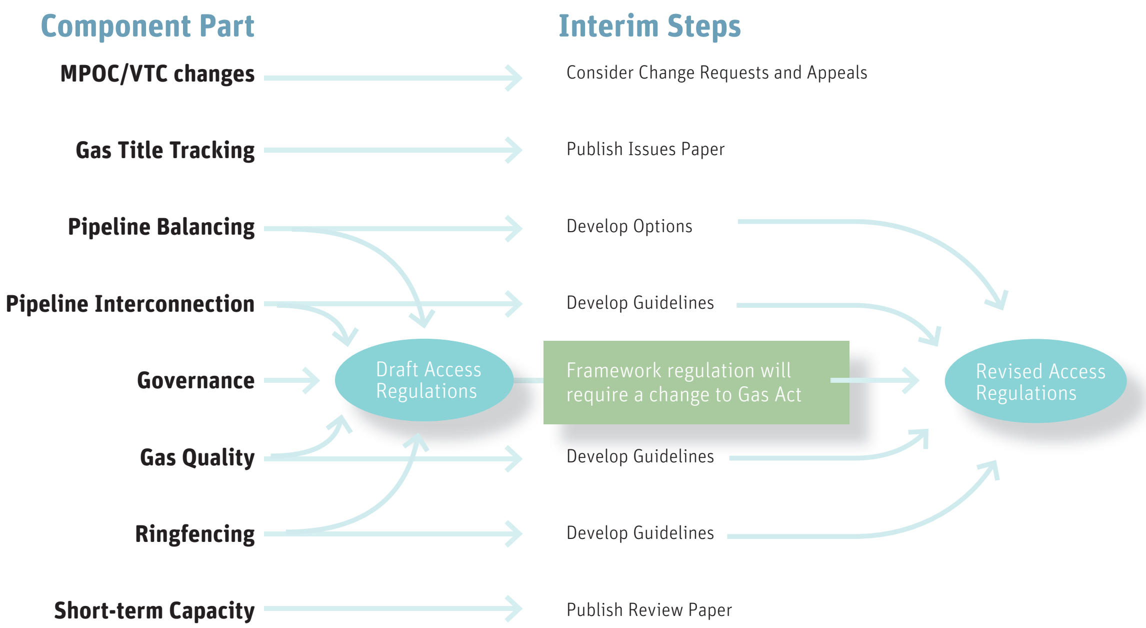
Gas Industry Co has made progress on pipeline balancing issues. Effective balancing arrangements are a necessary component of open access. Accordingly, Gas Industry Co released a research paper in April 2008 which assessed New Zealand's balancing arrangements against best practice gas balancing guidelines for Europe.

Given the ongoing balancing issues being experienced by the sector, Gas Industry Co developed a separate work stream and formed a Transmission Pipeline Balancing Advisory Group (TPBAG) to help work through the balancing issues and options. The TPBAG has a broad membership including gas pipeline operators, gas traders, and a gas producer, and was formed in order to advise Gas Industry Co on the technical and commercial aspects of transmission pipeline balancing. Good progress has been made and an issues paper was released in August 2008.

During the year, Gas Industry Co received two requests from Maui Development Limited (MDL) to consider and make recommendations on two Maui Pipeline Operating Code ("MPOC") change requests. Following the consultation processes laid out in the Memorandum of Understanding with MDL, Gas Industry Co expects to make recommendations on both requests by November 2008. Gas Industry Co also has a role in considering appeals in respect of Vector Transmission Code (VTC) changes. Progress on these and related open access matters is illustrated on the following page.

Work Stream	October 2004 GPS objectives & outcomes	Activity	Milestone	Comment
Open Access Review	The establishment of an open access regime across transmission pipelines so that gas market participants can access transmission pipelines on reasonable terms and conditions	Balancing	Release balancing review issues paper for industry consultation by 31 October 2007 Release balancing review options paper for industry consultation by 31 January 2008	Achieved at later date
		Legal Framework	Report to Minister on preferred access framework by 31 August 2007 Recommendation to Minister on access framework for transmission governance by 30 April 2008	Not achieved as a result of revised approach to work stream
		MPOC	Timely processing of MPOC rule change requests	Achieved

Evolution of Open Access Work Stream



Manufacturing

Reticulated natural gas is piped through 10,940 kilometres of lines to more than 50 towns and cities in the North Island, where it is largely the fuel of choice.

4.9 Distribution contracts

An important aspect of the efficiency of the retail and distribution sectors is the interface between retailers and distributors. In most cases, retailers do not have a choice about which distributor they use. This creates the potential for inefficient terms and conditions or prices between distributors and retailers, which may be passed on to consumers.

April 2008 GPS objectives & outcomes

- Gas industry participants and new entrants are able to access distribution pipelines on reasonable terms and conditions.
- Consistent standards and protocols apply to the operations relating to access to all distribution pipelines.

Preliminary work in this area has been undertaken. However, major work has been deferred while other key work streams are being progressed. Work on consumer issues and transmission access will impact on the direction taken on distribution contracts. Gas Industry Co has outlined in its Strategic Plan 2009/2011 further work in this area.

Work Stream	October 2004 GPS objectives & outcomes	Activity	Milestone	Comment
Distribution contracts	The establishment of consistent standards and protocols across distribution pipelines so that gas market participants can access distribution pipelines on reasonable terms and conditions	Review current distribution contract arrangements	Release distribution contracts issues discussion paper for industry consultation by April 2008	Not Achieved

4.10 Access to gas processing facilities

In January 2008, Gas Industry Co recommended to the Minister of Energy rules to establish a limited information disclosure regime to settle the issue of whether further regulation of access to gas processing facilities is required. The recommended rules would require gas processing facility owners to:

April 2008 GPS objectives & outcomes

Gas industry participants and new entrants are able to access third-party gas processing facilities on reasonable terms and conditions.

- Make information available to Gas Industry Co, which Gas Industry Co will publish on its website, on the capability and availability of capacity at gas processing facilities; and
- Provide information to Gas Industry Co on the gas processing facility owner's responses to requests for third-party access.

Public sector

Gas can heat water twice as quickly as electricity at almost one-third of the cost.

Gas Industry Co also recommended that the rules expire after six years unless the Minister of Energy decides to extend them. Gas Industry Co's recommendation was approved by the Minister and the Gas (Processing Facilities Information Disclosure) Rules 2008 came into effect on 27 June 2008.

Information supplied about surplus capacity under the new rules will be collated and published on Gas Industry Co's website for the benefit of access seekers on an ongoing basis from August 2008.

Work Stream	October 2004 GPS objectives & outcomes	Activity	Milestone	Comment
Access to gas processing	Protocols that set out reasonable terms and conditions for access to gas processing facilities	Implement voluntary arrangements (industry agreement) or Investigate regulatory disclosure	Publish collated information disclosure by November 2007 or Recommendation to Minister by November 2007	Achieved at later date

4.11 Critical contingency management

April 2008 GPS objectives & outcomes
Sound arrangements exist for the management of critical gas contingencies.

In June 2008, Gas Industry Co made a recommendation to the Minister of Energy for new regulations to effectively manage critical gas contingency events. The recommendation represented the culmination of a comprehensive consultation process with stakeholders.

Overall, it is anticipated that the introduction of the proposed regulations to manage critical gas contingency events will provide two main benefits:

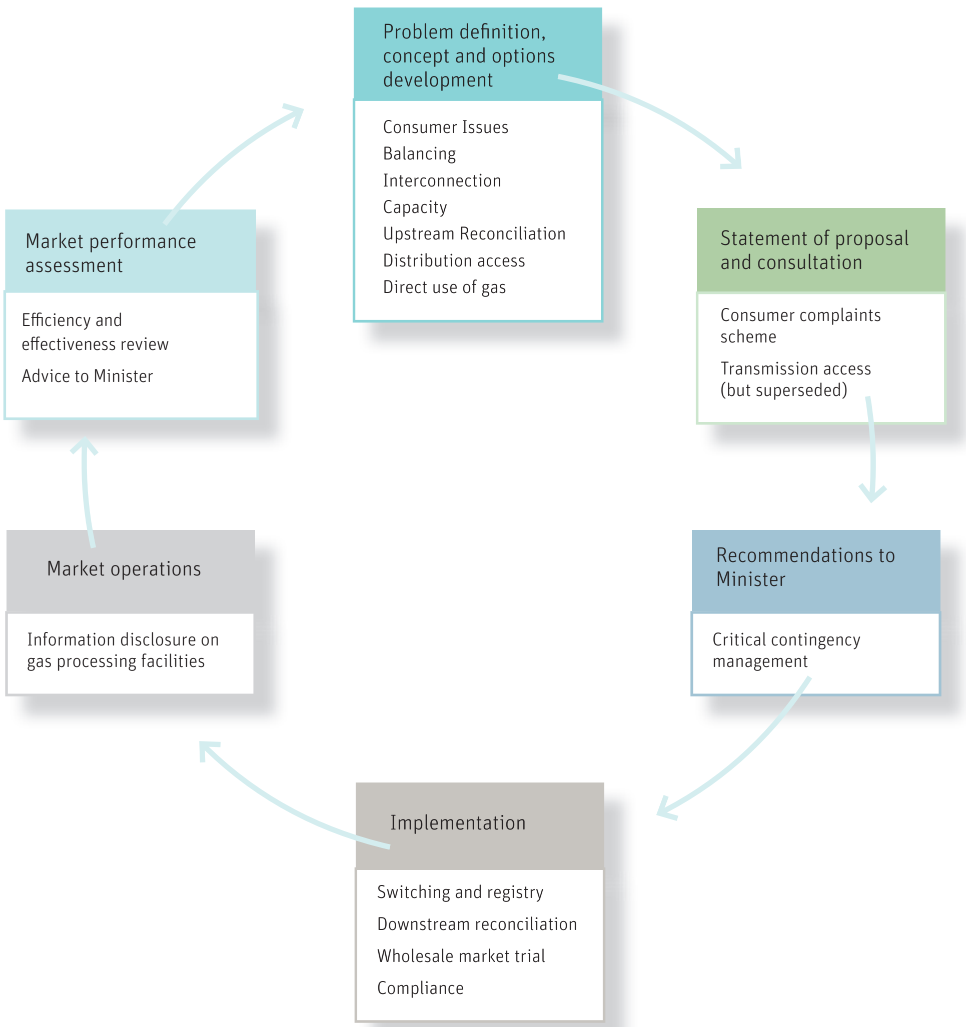
- More effective management of critical contingencies; and
- The provision of commercial incentives for the industry to manage outages more efficiently and, thereby, lessen the likelihood of a critical contingency being triggered.

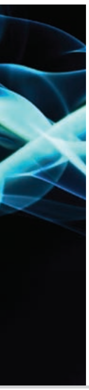
The proposed regulations will:

- Identify the onset of a critical contingency;
- Establish procedures for effective management of a critical contingency;
- Provide for the appointment of a Critical Contingency Operator whose primary role is to restore the supply/demand balance by targeted curtailment of load; and
- Establish a price that is used to settle inadvertent trading between those parties whose supplies have failed, and those parties who have access to supplies but whose customers have been curtailed.

Work Stream	October 2004 GPS objectives & outcomes	Activity	Milestone	Comment
Critical contingency management	A review of the existing voluntary National Gas Outage Contingency Plan was requested by industry participants	Develop new critical contingency management arrangements Implement new critical contingency management arrangements	Recommendation to Minister on new critical contingency management arrangements by November 2007 Implement industry arrangements, including Rules and/or Regulations where required to create sound critical contingency management arrangements by June 2008	Achieved at a later date

Summary of work stream progress





5 Gas Industry Co: role, objectives and governance

The combination of the Gas Act, the Government Policy Statement on Gas Governance, and Gas Industry Co's constitution sets out the co-regulatory framework within which Gas Industry Co is required to operate. This framework clearly sets out Gas Industry Co's role and objectives.

Gas Industry Co's role and principal objective

Gas Industry Co is a special purpose company owned by gas industry participants, which was formed to fulfil the role of the industry body under the Gas Act.

The Gas Act requires the industry body to develop, in conjunction with industry participants and other stakeholders, new market arrangements that meet Government's policy objectives and outcomes for the gas sector. These policy objectives and outcomes are set out in the Gas Act and in the Government Policy Statement on Gas Governance.

Gas Industry Co's principal objective, in recommending gas governance arrangements, is to ensure gas is delivered to existing and new customers in a safe, efficient, fair, reliable and environmentally sustainable manner.

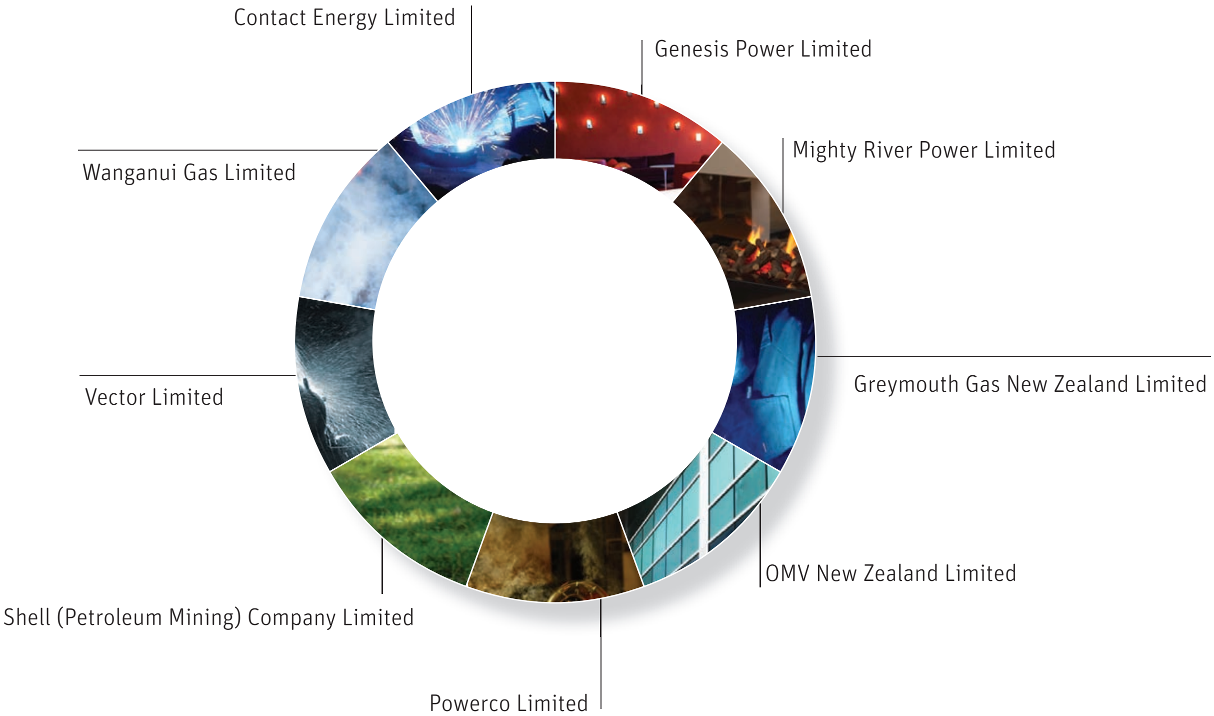
5.1 Company shareholders

Gas Industry Co encourages all industry participants to become shareholders in the Company. Gas Industry Co's shareholders are listed in the diagram following. The current shareholding is diverse, representing all sectors of the gas industry – production, transmission, distribution, wholesaling, retailing and consumption.

Every shareholder holds a $1 share, which is redeemable at the option of the shareholder. Shareholders are entitled to one vote on resolutions at shareholders' meetings, including those that appoint directors and change the constitution.

During the year there were two changes to the shareholding of Gas Industry Co. Greymouth Gas New Zealand Limited was issued a share in October 2007. In March 2008, Swift Energy New Zealand Limited redeemed its shareholding following the sale of its New Zealand-based assets.

Gas Industry Co Shareholders (as at 31 August 2008)



5.2 Board of directors

The Board of Gas Industry Co is a mix of independent and non-independent directors appointed by shareholders. The Company's constitution limits the Board to no more than seven directors, four of whom (including the Chair) must be independent of the gas industry. When voting on a matter, the number of independent directors voting must exceed the number of non-independent directors voting on the same matter. The Board meets monthly to consider operational reports and recommendations from Gas Industry Co's executive.

At every annual meeting, the Company's constitution requires that at least one third of directors (to the nearest whole number) must retire from office. In October 2007, Gas Industry Co received notice of the intention of Mark Franklin (non-independent director) to retire at the annual meeting. By this point, in accordance with the constitution, nominations for the two independent and one non-independent director positions available prior to Mr Franklin's retirement had been sought and received. Mr Franklin's resignation meant that there would be an additional non-independent director position available to be voted on at the annual meeting. However, sufficient notice of the availability of the additional non-independent director position had not been provided to all shareholders before nominations closed.

In view of these circumstances, shareholders resolved at the annual meeting that the two non-independent director positions would be voted upon at a special meeting of shareholders to be held in November 2007. David Baldwin and Simon Mackenzie were elected to the Board at this special meeting. A further effect of Mr Franklin's retirement was that only one independent director needed to retire at the annual meeting. The Chairman retired and was re-elected by shareholders at the annual meeting.

Board of Directors

Rt Hon James Bolger

Robin Hill

Keith Davis

Mark Verbiest

Rt Hon James (Jim) B Bolger

ONZ

Chair

Independent director

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 was New Zealand's Ambassador to the United States of America from June 1998 to January 2002 and is currently chairman of several organisations in addition to Gas Industry Co. He is also a trustee of the Rutherford Trust, President of the NZ/US Council, a patron of the Institute of Rural Health, and Chancellor of the University of Waikato.

Robin G Hill

B Comm, FCA

Deputy Chair

Independent director

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 was also a member of the firm's Global Board from 1992 to 1995 and its Executive Advisory Group from 1999 to 2000. He has provided a wide range of advisory services to a number of large corporates including several energy companies. He is currently a director of the Public Trust.

Keith Davis

PGDipBus

Independent director

Keith Davis has extensive experience in the information technology, telecommunications and venture-funding industries, including having held senior management roles with McDonnell Douglas, Compaq Computers, and BellSouth. He has worked in several countries in addition to New Zealand, including the UK, South Africa, Singapore, Japan and, more recently, Australia. He was previously Chairman of the Electricity Retailers' Forum during the time the industry was deregulated and was also a director of Prime Television Limited.

Mark J Verbiest

LLB

Independent director

Mark Verbiest has extensive experience of regulatory structures and competition law, as well as involvement in the energy sector. Until 30 June 2008, he was Group General Counsel for Telecom Corporation of New Zealand Limited and a member of the Telecom Senior Executive Committee. Prior to joining Telecom in 2000, he was a senior partner at Simpson Grierson specialising in corporate, securities, competition, and energy law. He is currently a director of AMP Haumi Management Ltd - manager of AMP NZ Office Trust, the chairman of Aptimise Limited and a consultant to Simpson Grierson.

David Baldwin

Murray Jackson

Simon Mackenzie

David Baldwin

BE (Chemical), MBA

David Baldwin was appointed as Chief Executive of Contact Energy Limited in May 2006. Prior to that, he was based in Asia and the United States overseeing the energy asset interests of a US-based investment fund. He has held senior roles in Asia and the United States with Mid-American Energy Holdings Company, a US-based global energy company, and with Shell in New Zealand and the Netherlands.

Murray E Jackson

BEc, MBA, FTSE, FIEAust

Murray Jackson is Chief Executive of Genesis Energy. His engineering career has included the commissioning of 200 MW, 500 MW, and 660 MW coal-fired power plants in Victoria and New South Wales. Prior to establishing Genesis Energy in 1999, he was the Commissioner of the Snowy Mountains Hydro-Electric Authority — a 3,600 MW dual electricity generation and irrigation scheme located within Australia's high-alpine Kosciusko National Park. He is a guarantor member of the Mt Eliza Business School in Melbourne, Chairman of the Genesis Oncology Trust, and Chairman of Energy Online — a wholly-owned subsidiary of Genesis Energy. [Murray Jackson retired as Chief Executive of Genesis and Gas Industry Co director in August 2008].

Simon Mackenzie

Grad Dip BS (Dist) Dip Fin NZCE

Simon Mackenzie is Group Chief Executive for Vector. He has extensive experience in the energy sector, including strategy, regulation, network management, information technology, and the energy market, as well as telecommunications. During his time at Vector, he has been heavily involved in many of the industry reforms, both at a policy and a business level. He has experience in construction and consultancy environments both in New Zealand and offshore. He was previously chief operating officer with Vector which incorporated strategy, regulation, pricing and performance as well as responsibility for the core operating divisions of electricity, gas and a number of subsidiary companies.

5.3 Executive

Gas Industry Co has a small senior management team that works closely with Company staff, external advisers and industry project teams to deliver on its work programme.

Christine Southey

Peter Davies

Ian Dempster

Nicole MacFarlane

Christine Southey
LLB BA (Hons)
Chief Executive

Christine Southey was appointed as Chief Executive in May 2005. She has an extensive background in the energy sector. Before joining Gas Industry Co she was an Electricity Commissioner from 2003, and a consultant to the energy sector between 1999 and 2003. Christine was a partner in a national law firm, the Legal Services Director at Contact Energy, and General Manager Corporate Services for Genesis Power during its establishment. Ms Southey was also a Director of Solid Energy from 1999 to 2004.

Peter Davies
BBS MBA CA
Corporate Services Manager

Peter Davies is responsible for Gas Industry Co's corporate functions. He has a strong background in finance and strategic planning, acting as an adviser to both public and private sector organisations in New Zealand and internationally.

Ian Dempster
BE (Hons) M.Com (Hons)
Senior Adviser - Wholesale Markets

Ian Dempster has responsibilities for work streams in the wholesale markets and contingency planning areas. Before joining Gas Industry Co in 2005 he was a consultant focusing on network industries such as water, gas, ports and telecommunications.

Nicole MacFarlane
LLB (Hons) BA
General Counsel

Nicole MacFarlane is Gas Industry Co's General Counsel with responsibility for legal and regulatory issues across all work streams. Prior to joining Gas Industry Co she was a principal in Chapman Tripp's Wellington litigation team where she had a significant practice in the gas sector. She is also the Company Secretary.

Bas Walker

Ian Wilson

Bas Walker

BE (Hons) PhD (Cantab)
DistFIPENZ MIChemE
Senior Adviser - Retail

Bas Walker has responsibilities for work streams in the retail area. He is a Distinguished Fellow and the 2008/09 President of the Institute of Professional Engineers New Zealand. He has been a leading figure in New Zealand state sector management for at least the past three decades, including in the energy, research and development, and environmental risk management fields.

Ian Wilson

BSc (Hons) BBS MNZIGE
Senior Adviser - Pipelines

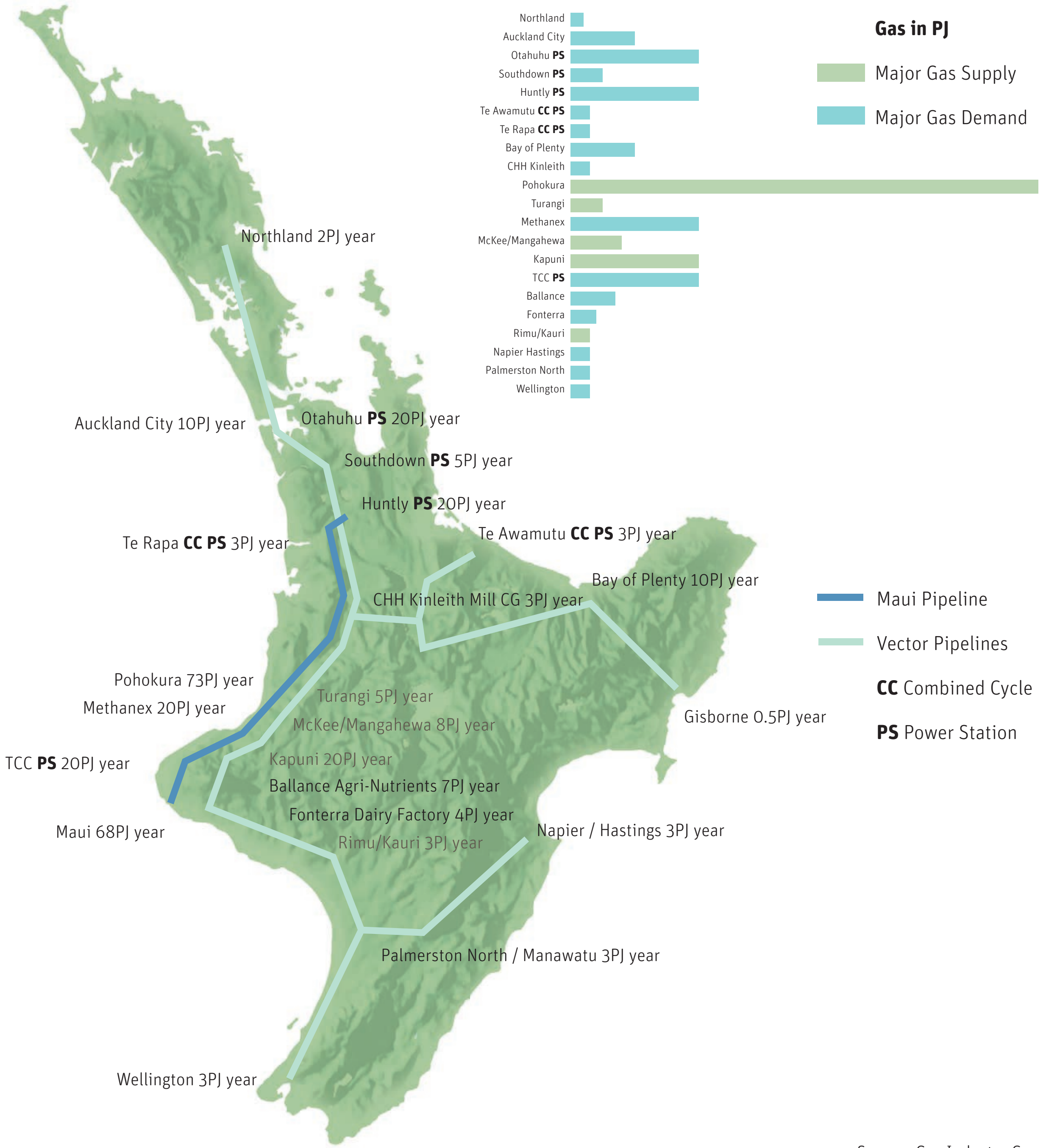
Ian Wilson currently has responsibility for work streams related to infrastructure access. He is an experienced gas industry senior executive. Ian joined Gas Industry Co in 2005 from NGC where he worked for 16 years.

Principal Objective

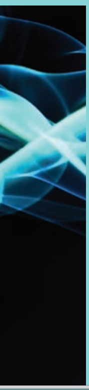
"To ensure that gas is delivered to existing and new customers in a safe, efficient, fair, reliable and environmentally sustainable manner."

Objectives	The facilitation and promotion of the ongoing supply of gas to meet New Zealand's energy needs, by providing access to essential infrastructure and competitive market arrangements	Energy and other resources used to deliver gas to consumers are used efficiently	Barriers to competition in the gas industry are minimised	Incentives for investment in gas processing facilities, transmission and distribution, energy efficiency and demand-side management are maintained or enhanced	The full costs of producing and transporting gas are signalled to consumers	Delivered gas costs and prices are subject to sustained downward pressure	Competition is facilitated in upstream and downstream gas markets by minimising barriers to access to essential infrastructure to the long-term benefit of end users	The quality of gas services and in particular trade-offs between quality and price, as far as possible, reflects customers' preferences	Risks relating to security of supply, including transport arrangements, are properly and efficiently managed by all parties	Consistency with Government's gas safety regime is maintained	The gas sector contributes to achieving Government's climate change objectives as set out in the NZES, by minimising gas losses and promoting demand-side management and energy efficiency
Specific Outcomes	All small gas consumers have effective access to a complaints resolution system	Contractual arrangements between gas retailers and small consumers adequately protect the long-term interests of small consumers	Effective and efficient customer switching arrangements that minimise barriers to customer switching	Accurate, efficient and timely arrangements for the allocation and reconciliation of downstream gas quantities	An efficient market structure for the provision of gas metering, pipeline and energy services	The respective roles of gas metering, pipeline and gas retail participants are able to be clearly understood	Efficient arrangements for the short-term trading of gas	Accurate, efficient and timely arrangements for the allocation and reconciliation of upstream gas quantities	Access to third party gas processing facilities, transmission pipelines and distribution pipelines on reasonable terms and conditions	Consistent standards and protocols apply to operations relating to access to all distribution pipelines	Sound arrangements for the management of critical gas contingencies
	Gas governance arrangements are supported by appropriate compliance and dispute resolution processes	Gas governance arrangements approved by the Minister of Energy are monitored by Gas Industry Co for ongoing relevance and effectiveness	Good information is publicly available on the performance and present state of the gas sector	Provide advice on the extent to which policies to enhance the direct use of gas would mitigate greenhouse gas emissions and the likely costs of implementing those policies							

Projected 2008 Gas Supply and Demand



Source: Gas Industry Co



6 Financial statements

Directors of Gas Industry Co	Directors' fees 2008 $	2007 $
Rt Hon. James Bolger (Chair)	93500	85708
Robin Hill (Deputy Chair)	63360	58080
Mark Verbiest	52800	48400
Keith Davis	52800	44400
Simon Mackenzie	-	-
Murray Jackson	-	-
David Baldwin	-	-
Mark Franklin (Ret Oct 07)	-	-

Directors' report

Gas Industry Co is required to maintain an interests register, in which the particulars of certain transactions and matters involving the directors must be recorded. The Company's interests register is available for inspection at its registered office at Level 9, State Insurance Tower, 1 Willis Street, Wellington. The following entries were made in the interests register about the directors who held office during the past financial year.

- Mark Franklin – that he is an officer of Vector Limited and subsidiaries.
- Simon Mackenzie – that he is an officer of Vector Limited and subsidiaries.
- Murray Jackson – that he is an officer of Genesis Energy Limited.
- David Baldwin – that he is an officer of Contact Energy Limited.
- Mark Verbiest - that he was an officer of Telecom Corporation of New Zealand Limited, and is a director of AMP Haumi Management Limited - manager of AMP NZ Office Trust.
- Messrs Bolger, Hill, Verbiest and Davis—their interest with respect to their remuneration.

All directors noted their interest with respect to the Directors and Officers Insurance purchased by the Company.
Where a director has declared an interest in a particular entity, as a shareholder and/or director, the declaration serves as notice that the director may benefit from any transactions between the Company and the identified entities.

Information used by directors

No member of the Board of Gas Industry Co issued a notice requesting to use information received in their capacity as directors which would not otherwise have been available to them.

Indemnification and insurance of current officers and directors

Gas Industry Co indemnifies all current directors named in this report and officers of the Company against all liabilities (other than that to Gas Industry Co) which arise out of the performance of their normal duties as director or executive officer, unless the liability relates to conduct involving lack of good faith. To manage this risk, Gas Industry Co has indemnity insurance. The total cost of this insurance within the financial period was $27,900 (2007: $27,700). The annual cost of this insurance is $27,900.

The fees and remuneration have been entered into the interests register. In accordance with the shareholders' resolution dated 22 December 2004, independent directors only have been remunerated.

Auditors

The auditor for the Company is Grant Thornton. Grant Thornton did not provide any additional services to the Company other than audit services.

Donations

The Company did not make any donations during the period covered by this report.
The Annual Report and financial statements presented on pages 46-51 are signed for and on behalf of the Board and were authorised for issue on the date below.

Directors' responsibility statement

The directors are responsible for ensuring the financial statements give a true and fair view of the Company's financial position as at 30 June 2008 and its financial performance and cash flows for the period ended on that date.
The directors consider the Company's financial statements have been prepared using appropriate accounting policies, consistently applied and supported by reasonable judgments and estimates, and all relevant financial reporting and accounting standards have been followed. The directors believe proper accounting records have been kept that enable, with reasonable accuracy, the determination of the Company's financial position and that facilitate the compliance of the financial statements with the Financial Reporting Act 1993 and the Companies Act 1993. The directors consider they have taken adequate steps to safeguard the Company's assets and to prevent and detect fraud and other irregularities.

For and on behalf of the Board

Rt Hon James Bolger ONZ
Chair

Robin Hill
Deputy Chair

18 September 2008

Audit report

To the Shareholders of Gas Industry Company Limited

We have audited the financial report on pages 38 to 51. The financial report provides information about the past financial performance of Gas Industry Company Limited and its financial position as at 30 June 2008. This information is stated in accordance with the accounting policies set out on pages 42 to 45.

Board of Directors' Responsibilities
The Directors are responsible for the preparation of a financial report which gives a true and fair view of the financial position of Gas Industry Company Limited as at 30 June 2008 and the results of its operations and cashflow for the year ended on that date.

Auditors' Responsibilities
It is our responsibility to express to you an independent opinion on the financial report presented by the Directors.

Basis of Opinion
An audit includes examining, on a test basis, evidence relevant to the amounts and disclosures in the financial report. It also includes assessing:

- the significant estimates and judgments made by the Directors in the preparation of the financial report, and
- whether the accounting policies are appropriate to Gas Industry Company Limited's circumstances, consistently applied and adequately disclosed.

We conducted our audit in accordance with New Zealand Auditing Standards. We planned and performed our audit so as to obtain all the information and explanations that we considered necessary in order to provide us with sufficient evidence to obtain reasonable assurance that the financial report is free from material misstatements, whether caused by fraud or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial report. We have not audited the budget information and therefore pass no opinion on it.

Other than in our capacity as auditors we have no relationship with or interests in Gas Industry Company Limited.

Unqualified Opinion
We have obtained all the information and explanations that we have required.

In our opinion:

- proper accounting records have been kept by Gas Industry Company Limited as far as appears from our examination of those records; and
- the financial report on pages 38 to 51:
  - complies with generally accepted accounting practice in New Zealand;
  - complies with International Financial Reporting Standards; and
  - gives a true and fair view of the financial position of Gas Industry Company Limited as at 30 June 2008 and the results of its operations and cashflow for the year ended on that date.

Our audit was completed on 18 September 2008 and our unqualified opinion is expressed as at that date.

Grant Thornton

Grant Thornton
Wellington

Statement of financial performance

For the year ended 30 June 2008

	Notes	Actual 2008 $	Actual 2007 $	Budget 2008 $
Revenue	2	5,277,651	4,304,598	4,843,500
Other income	3	108,628	63,226	108,634
Expenses	4	4,559,392	3,639,657	4,643,812
Profit before tax		**826,887**	**728,167**	**308,322**
Income tax expense	5	35,847	20,865	-
Profit after tax		**791,040**	**707,302**	**308,322**

The accompanying notes form an integral part of these financial statements

Statement of changes in equity

For the year ended 30 June 2008

	Industry Advances Reserve	Retained Earnings	Total Equity	Budget
	$	$	$	$
Equity as at 1 July 2006	**-**	**(332,485)**	**(332,485)**	**(331,786)**
Profit for the period	-	707,302	707,302	113,454
Total recognised income and expense for the period	-	707,302	707,302	(218,332)
Transfer to Industry Advances Reserve	374,817	(374,817)	-	-
Equity as at 30 June 2007	**374,817**	**-**	**374,817**	**(218,332)**
Profit for the period	-	791,040	791,040	308,322
Total recognised income and expense for the period	-	791,040	791,040	89,990
Transfer to Industry Advances Reserve	691,040	691,040	-	-
Equity as at 30 June 2008	**1,065,857**	**100,000**	**1,165,857**	**89,990**

The accompanying notes form an integral part of these financial statements

Statement of financial position

As at 30 June 2008

	Notes	Actual 2008 $	Actual 2007 $	Budget 2008 $
ASSETS				
Current assets				
Cash and cash equivalents	6	1,345,609	977,956	613,226
Trade and other receivables	7	150,098	11,366	2,468
Taxation receivable	5	7	8	-
Total current assets		**1,495,714**	**989,330**	**615,694**
Non-current assets				
Property, plant and equipment	8	178,401	213,989	196,993
Total non-current assets		**178,401**	**213,989**	**196,993**
Total assets		**1,674,115**	**1,203,319**	**812,687**
LIABILITIES				
Current liabilities				
Trade and other payables	9	508,250	428,493	385,187
Unsecured shareholder loan	10	-	62,500	-
Redeemable shares	11	9	9	10
Total current liabilities		**508,259**	**491,002**	**385,197**
Non-current liabilities				
Unsecured shareholder loans	10	-	337,500	337,500
Total non-current liabilities		**-**	**337,500**	**337,500**
Total liabilities		**508,259**	**828,502**	**722,697**
EQUITY				
Industry Advances Reserve	12	1,065,857	374,817	89,990
Retained Earnings	12	100,000	-	
Total equity		**1,165,857**	**374,817**	**89,990**

On behalf of the board

Rt Hon James Bolger ONZ Chair
18 September 2008

Robin Hill Deputy Chair

The accompanying notes form an integral part of these financial statements

Statement of cash flows

For the year ended 30 June 2008

	Notes	Actual 2008 $	Actual 2007 $	Budget 2008 $
Operating Activities				
Cash was provided from				
Levy revenue		5,160,193	4,202,007	4,843,500
Shareholder annual fees		100,000	100,000	90,000
Interest received		108,628	66,185	27,812
Net GST		(7,811)	20,501	-
		5,361,010	**4,388,693**	**4,961,312**
Cash was applied to				
Payment to suppliers		(2,280,777)	(2,128,255)	(2,500,592)
Payment to employees		(1,942,580)	(1,331,478)	(1,789,336)
Payments to directors		(265,111)	(237,453)	(250,100)
Taxes paid		(35,847)	(21,841)	(9,178)
Interest paid		-	(4,793)	-
		(4,524,315)	**(3,723,820)**	**(4,549,206)**
Net cash inflows from operating activities		**836,695**	**664,873**	**412,106**
Investing Activities				
Cash was applied to				
Purchase of property, plant and equipment		(69,042)	(30,558)	(56,276)
Net cash outflows from investing activities		**(69,042)**	**(30,558)**	**(56,276)**
Financing Activities				
Cash was applied to				
Repay shareholder loans		(400,000)	(400,000)	-
Shares redeemed		-	(1)	-
Net cash inflows (outflows) from financing activities		**(400,000)**	**(400,001)**	**-**
Net cash inflows		**367,653**	**234,314**	**355,830**
Opening cash and cash equivalents		977,956	743,642	257,396
Closing cash and cash equivalents		1,345,609	977,956	613,226

The accompanying notes form an integral part of these financial statements

Statements of significant accounting policies

For the year ended 30 June 2008

General Information

Changes to the Gas Act 1992 (Act) in late 2004 provided for the co-regulation of the gas industry by the Government and an industry body. Gas Industry Company Limited (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. The address of its registered office is 1 Willis Street, Wellington.

These financial statements have been approved for issue by the Board of Directors on 18 September 2008.

Summary of significant accounting policies

These financial statements have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand. 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.

(a) Basis of preparation

The principal accounting policies adopted in the preparation of the financial statements are set out below. These policies have been consistently applied to all periods presented, unless otherwise stated.

Statutory base

The Gas Industry Company Limited is a company registered under the Companies Act 1993.

The financial statements have been prepared in accordance with the requirements of sections 43ZW to 43ZY of the Gas Act 1992, the Financial Reporting Act 1993 and the Companies Act 1993.

Historical cost convention

These financial statements have been prepared under the historical cost convention.

Application of NZ IFRS 1 First-time Adoption of New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS 1)

Until 30 June 2007, financial statements of the Company had been prepared in accordance with previous New Zealand Financial Reporting Standards (NZ FRS). NZ FRS differ in certain respects from NZ IFRS. When preparing the Company financial statements for the year ended 30 June 2008, management has amended certain accounting and valuation methods applied in the previous NZ FRS financial statements to comply with NZ IFRS. The comparative figures for the year ended 30 June 2007 were restated to reflect these adjustments.

Reconciliations and descriptions of the effect of the transition from previous NZ FRS to NZ IFRS on the Company's equity and its net income are provided in Note 19.

(b) Revenue recognition

(i) Levy revenue

Levy revenue comprises amounts received or due in accordance with the Gas (Levy of Industry Participants) Regulations 2007. 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.

(ii) Annual fees

Annual fees are recognised when invoiced.

(iii) Interest income

Interest income is recognised on a time-proportionate basis using the effective interest method.

(c) Income taxes

Taxation expense in the profit and loss account comprises current and deferred 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's liability for current tax is calculated at tax rates that have been enacted at balance sheet date.

Deferred tax is the tax expected to be paid or recovered on differences between the carrying amounts of assets and liabilities and the corresponding tax bases. Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Currently enacted tax rates are used in the determination of deferred income tax.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Current and deferred tax assets and liabilities are offset when they arise from the same taxable entity, relate to the same tax authority and when the legal right of offset exists.

Deferred tax is charged or credited in the income statement, except where it relates to items charged or credited to equity, in which case, deferred tax is also dealt with in equity.

(d) Goods and Services Tax (GST)

The income statement has been prepared so that all components are stated exclusive of GST. All items in the balance sheet are stated net of GST, with the exception of receivables and payables, which include GST invoiced.

(e) 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 income statement 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.

(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.

(g) 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 that are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

(h) Trade receivables

Trade receivables are carried at original invoice amount less provision made for impairment of these receivables. A provision for impairment of these receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, discounted at the market rate of interest for similar borrowers.

(i) 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 are charged to the income statement during the financial period in which they are 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:

Category	Estimated useful life
Leasehold improvements	Amortised over period of lease
Furniture and fittings	6 years
Office equipment	4 to 10 years
Computer equipment	Up to 3 years

In determining the depreciation charge for the year, the Company estimates the useful life of items of property plant and equipment based on management's judgment.

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 carrying amount. These are included in the income statement.

(j) Intangible assets

Software costs

Software costs have a finite useful life. Software costs are capitalised and written off over the useful economic life of 4 years.

Costs associated with developing or maintaining computer 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 or relevant overheads.

(k) Trade and other payables

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

(l) Share capital

Ordinary shares are classified as equity.
Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

(m) Employee benefits

Liabilities for wages and salaries, including non-monetary benefits, annual leave, and accumulating sick leave expected to be settled within 12 months of the reporting date are recognised in other payables in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating sick leave are recognised when the leave is taken and measured at the rates paid or payable.

The liability for employee entitlements is carried at the present value of the estimated future cash flows.

(n) 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.

(o) Investments in subsidiaries

Investments in subsidiaries are carried in the balance sheet of the Company at historical cost less any provision for impairment.

(p) Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

(q) 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.

(r) Foreign currency translation

(i) Functional and presentation currency

The financial statements are presented in New Zealand dollars, which is the Company's functional and presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

(s) Changes in accounting policies

Uniform accounting policies have been applied by the Company on a consistent basis throughout the period.

(t) Other approved financial standards

Other approved financial reporting standards endorsed by the International Accounting Standards Board that will be applicable to the Company but that are not yet effective in New Zealand are:

- NZ IAS 1 – Amendments (effective from 1 January 2008)
- NZ IAS 23 – Borrowing Costs (revised 2007) (effective from 1 January 2009)
- NZ IFRS 8 – Operating Segments (effective from 1 January 2009).

Though the Company has not early adopted these standards, it is not expected that their adoption will have any material effect on the Company's financial statements, although it will result in certain presentational changes in the accounts.

(u) Critical accounting estimates and judgments

The Company makes estimates and assumptions regarding the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial period are outlined below.

Notes to the financial statements

For the year ended 30 June 2008

1 Transition to New Zealand equivalents to International Financial Reporting Standards

Application of NZ IFRS 1 *First-time Adoption of New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS 1)*

The Company's financial statements for the year ended 30 June 2008 are the first annual financial statements that comply with NZ IFRS, and NZ IFRS 1 has been applied in their preparation. These financial statements have been prepared as described in the summary of significant accounting policies.

The Company's transition date is 1 July 2006. The Company prepared its opening NZ IFRS balance sheet at that date. The reporting date of these financial statements is 30 June 2008. The Company's NZ IFRS adoption date is 1 July 2007.

In preparing these financial statements in accordance with NZ IFRS 1, the Company has applied the mandatory exceptions and has not applied any of the optional exemptions from the retrospective application of NZ IFRS.

The following mandatory exceptions from retrospective application have been applied:

a) Derecognition of financial assets and liabilities exception

Financial assets and liabilities derecognised before 1 July 2006 are not re-recognised under NZ IFRS.

b) Estimates exception

Estimates under NZ IFRS at 1 July 2006 are required to be consistent with estimates made for the same date under previous NZ FRS, unless there is evidence that those estimates were in error. No adjustments to previous estimates have been made by the directors.

The reconciliations in note 19 provide a quantification of the effect of the transition to NZ IFRS. The three reconciliations provide details of the impact of the transition on:

Profit for the year ended 30 June 2007.

Equity at 1 July 2006.

Equity at 30 June 2007.

2 Revenue

	Actual 2008 $	Actual 2007 $
Operating income		
Wholesale levy revenue	3,107,049	2,634,208
Retail levy revenue	2,070,602	1,570,390
Annual shareholder fees	100,000	100,000
	5,277,651	**4,304,598**

In December 2006 the Board resolved that annual shareholder fees would be utilised to build up a capital base rather than for operating funding.

3 Other income

	Actual 2008 $	Actual 2007 $
Interest income	**108,628**	**63,226**

4 Expenses

	Actual 2008 $	Actual 2007 $
Depreciation	104,630	70,612
Lease expense	89,967	95,866
Audit fees paid to auditors	7,000	5,535
Accounting and taxation advice	1,300	26,250
Directors' fees	264,644	236,588
General expenses	392,255	243,385
Recruitment expenses	213,732	40,496
Technical, economic, and legal advice	1,773,682	1,589,447
Kiwisaver contributions	10,728	-
Foreign exchange loss	804	-
Employee benefit expense	1,700,650	1,331,478
Total expenses	**4,559,392**	**3,639,657**

5 Taxation

	Actual 2008 $	Actual 2007 $
a) Income tax recognised in the income statement		
Current tax expense	35,847	20,865
Deferred tax credit	-	-
Income tax expense	**35,847**	**20,865**
Profit before tax	736,499	732,415
Income tax expense at 33 percent	243,045	241,697
Permanent differences	(207,198)	(220,832)
Timing differences	-	-
	35,847	**20,865**
b) Current tax receivable		
Opening balance	7	1,990
Charge during the period	(35,847)	(20,865)
Tax payments	35,847	18,882
Closing balance	**7**	**7**

c) The Company has no recognised or unrecognised deferred tax balances as at 30 June 2008, 30 June 2007 and 30 June 2006. The Company has no imputation credits available for distribution.

6 Cash and cash equivalents

	Actual 2008 $	Actual 2007 $
Cash at bank and in hand	**1,345,609**	**977,956**

7 Trade and other receivables

	Actual 2008 $	Actual 2007 $
Levy debtors	29,142	10,053
Other receivables	-	607
Prepayments	120,956	706
	150,098	**11,366**

8 Property, plant and equipment

	Leasehold improvements $	Furniture and fittings $	Office equipment $	Computer equipment $	Computer software $	Total $
As at 1 July 2006						
Cost	144,366	79,193	28,327	45,669	4,644	302,199
Accumulated depreciation	24,824	8,984	4,824	7,609	451	46,692
Net book amount	**119,542**	**70,209**	**23,503**	**38,060**	**4,193**	**255,507**
Additions	-	7,879	9,064	7,128	5,016	29,087
Depreciation charge	36,272	13,773	6,820	12,310	1,437	70,612
Cost	144,366	87,072	37,391	52,797	9,660	331,286
Accumulated depreciation	61,096	22,757	11,644	19,919	1,888	117,304
Net book amount	**83,270**	**64,315**	**25,747**	**32,878**	**7,772**	**213,982**
Additions	-	12,281	10,960	18,124	27,677	69,042
Transfers	-	-	(28,201)	18,748	9,452	-
Impairment charge	-	-	-	20,770		20,770
Depreciation charge	36,904	15,342	(3,306)	28,759	6,153	83,851
Cost	144,366	99,353	20,150	89,668	46,789	400,326
Accumulated depreciation	98,000	38,099	8,337	69,447	8,041	221,925
Net book amount	**46,366**	**61,253**	**11,813**	**20,222**	**38,748**	**178,401**

Computer equipment has been impaired through a depreciation charge to its estimated market value.

9 Trade and other payables

	Actual 2008 $	Actual 2007 $
Accounts payable	342,645	272,466
Employee entitlements	137,625	23,020
Operating lease liability	333	2,634
GST Payable	924	8,735
Accrued expenses	26,723	121,638
	508,250	**428,493**

10 Related party transactions

a) Transactions with shareholders

	Actual 2008 $	Actual 2007 $
NGC Holdings Limited	-	62,500
Total current shareholder loans	**-**	**62,500**
NGC Holdings Limited	-	-
Contact Energy Limited	-	62,500
Genesis Power Limited	-	62,500
Vector Limited	-	62,500
Energy Finance NZ Limited	-	62,500
Mighty River Power Limited	-	37,500
Powerco Limited	-	37,500
Wanganui Gas Limited	-	12,500
Total non-current shareholder loans	**-**	**337,500**

Shareholder loans provide for interest to be paid on those loans if requested by the lender. The interest rate applicable is determined by reference to the deposit rates of registered banks for a deposit equivalent to the value of the loan amount for an 18-month duration. As at 30 June 2008, no shareholder requested interest be paid on their loan to Gas Industry Co and consequently, no interest expense has been recognised (2007: nil).

All shareholder loans were repaid in full in the year ended 30 June 2008.

Various shareholders have, from time to time, provided administrative assistance to Gas Industry Co at no cost. Levy payments (which are detailed in note 2) are made by industry participants who, in many cases, are also shareholders of Gas Industry Co.

b) Transactions with directors

Directors' fees are disclosed in note 4

c) Transactions with key management personnel

	Actual 2008 $	Actual 2007 $
Short-Term Employee Benefits	**1,700,650**	**1,331,478**

d) Remuneration

	Actual 2008 $	Actual 2007 $
Salary band		
$110,001 - $120,000	-	1
$150,001 - $160,000	-	1
$160,001 - $170,000	1	-
$170,001 - $180,000	1	-
$190,001 - $200,000	1	1
$200,001 - $210,000	1	1
$350,001 - $360,000	-	1
$370,001 - $380,000	1	-

11 Redeemable shares

	Actual 2008 $	Actual 2007 $
Redeemable shares - Value in dollars	9	9
Redeemable shares - Number	9	9

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.

12 Reserves and retained earnings

	Actual 2008 $	Actual 2007 $
Industry advances reserve		
Opening balance	374,817	-
Transfer from retained earnings	691,040	274,817
Closing balance	**1,065,857**	**274,817**

To allow for the timely enactment of the levy regulations each financial year, Gas Industry Co must plan its work programme nine months prior to the beginning of that year. 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.

This prospect is anticipated by section 43ZZC(3) of the Act, which provides for any over or under-recoveries to be taken into account in subsequent levies. The Company considers any over or under-recovery for a particular financial year should be attributed to the levy segment from which it has been gathered. For example, if there was an over-recovery as a result of an increase in estimated wholesale gas volumes, or because of an over-estimation of the costs of a work stream paid by the wholesale gas levy, this over-recovery should be offset against the wholesale levy requirements of subsequent years.
The Board holds surplus levy income in a dedicated industry advance reserve for the future reduction of levy income.

	Actual 2008 $	Actual 2007 $
Retained earnings		
Opening balance	-	(332,485)
Profit for the period	791,040	707,302
Transfer to Industry advances reserve	(691,040)	(374,817)
Closing balance	**100,000**	**-**

The Board has resolved that shareholders' annual fees will be set aside to establish cash reserves, rather than using them to defray operational costs. FY2008 is the first year this policy has been implemented.

13 Contingencies

As at 30 June 2008, the Company has no contingent liabilities (2007: nil). There is an arrangement with Westpac Banking Corporation Limited whereby Gas Industry Co has a liability (limit $100,000) and a payroll Letter of Credit facility (limit $100,000).

14 Commitments

a) Capital commitments

The Company has no material capital commitments.

b) Operating lease commitments

Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:

	Actual 2008 $	Actual 2007 $
Within one year	85,531	107,151
Later than one year but not later than five years	15,162	81,017
Later than five years	-	-
Total	**100,693**	**188,168**

15 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 this set of financial statements.

16 Major budget variances

Wholesale levy revenue was $308,547 higher than budget due to higher than expected gas volumes. It was assumed in the budget that the wholesale gas volume would be 145PJ. The actual wholesale gas volume was 161PJ.

17 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.
At 30 June 2008, had the Australian dollar weakened/strengthened by 10% against the New Zealand dollar, the pre-tax profit for the year would have been higher/lower by $19,829 (2007: $15,921).

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 effect on interest costs, had the floating interest rate been 0.5% higher/lower, would be an increase/decrease profit before tax of $6,956 (2007: $4,590). The Company considers a 0.5% change in interest rates to be reasonable based on historic movements.

Credit risk

Credit risk arises from cash and cash equivalents as well as credit exposures to industry participants, including outstanding receivables and committed transactions. All cash and cash equivalents are held only with the Board of Directors' approved counterparty, being Westpac Bank.
The Company has no other significant concentrations of credit risk. Amounts owed as accounts receivable are unsecured and expected to settle within 30 days.

Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities. Management hold 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 balance sheet.

18 Reconciliation of profit to net cash inflows from operating activities

	Actual 2008 $	Actual 2007 $
Reported profit after tax	791,040	707,302
Items not involving cash flows		
Amortisation expense	-	-
Depreciation expense	104,630	70,612
Unwind of discount factor on restoration provision	1,094	992
Impact of changes in working capital items		
Prepayments	(120,250)	(318)
Accounts payable	70,179	(202,931)
Accruals	(98,312)	66,075
Employee entitlements	114,605	3,768
Debtors	(19,089)	(2,591)
GST payable	(7,811)	20,501
Other receivables	609	(520)
Tax provision	-	1,983
Net cash flows from operating activities	**836,695**	**664,873**

19 Implementation of NZ IFRS

a) Reconciliation of equity at 1 July 2006

		As reported under NZ FRS	Effect of transition	As reported under NZ IFRS
ASSETS				
Cash and cash equivalents		743,642	-	743,642
Trade and other receivables		21,694	-	21,694
Property, plant and equipment	e	246,282	9,224	255,506
Intangible assets		-	-	-
Total assets		**1,011,618**	**9,224**	**1,020,842**
LIABILITIES				
Trade and other payables	e	543,405	9,921	553,326
Unsecured loan		-	-	-
Redeemable shares	d	-	10	10
Unsecured shareholder loans		800,000	-	800,000
Total liabilities		**1,343,405**	**9,931**	**1,353,336**
EQUITY				
Share capital	d	10	(10)	-
Retained earnings	e	(331,796)	(689)	(332,485)
Total equity		**(331,786)**	**(699)**	**(332,485)**

b) Reconciliation of equity at 30 June 2007

		As reported under NZ FRS	Effect of transition	As reported under NZ IFRS
ASSETS				
Cash and cash equivalents		977,956	-	977,956
Trade and other receivables		11,374	-	11,374
Property, plant and equipment	e	208,013	5,976	213,989
Intangible assets		-	-	-
Total assets		**1,197,343**	**5,976**	**1,203,319**
LIABILITIES				
Trade and other payables	e	417,580	10,913	428,493
Unsecured loan		62,500	-	62,500
Redeemable shares	d	-	9	9
Unsecured shareholder loans		337,500	-	337,500
Total liabilities		**817,580**	**10,922**	**828,502**
EQUITY				
Share capital	d	9	(9)	-
Industry advances reserve	f	-	374,817	-
Retained earnings	e,f	379,754	(379,754)	374,817
Total equity		**379,763**	**(4,946)**	**374,817**

c) Reconciliation of profit for the year ended 30 June 2007

		As reported under NZ FRS	Effect of transition	As reported under NZ IFRS
Revenue		4,304,598	-	4,304,598
Other income		63,226	-	63,226
Expenses	e	3,635,409	4,248	3,639,657
Profit before tax		**732,415**	**(4,248)**	**728,167**
Income tax expense		20,865	-	20,865
Profit after tax		**711,550**	**(4,248)**	**707,302**

d) Reclassification of redeemable preference shares

As redeemable preference shares are redeemable at the option of the holder, they are classified as liabilities under NZ IFRS.

e) Asset restoration obligations

Asset restoration provisions are considered part of the cost of an asset under NZ IFRS. A discounted estimate of the cost of removing leasehold improvements has been capitalised as part of the initial cost of these assets and as a provision on the liability side. This amount capitalised as an asset ($9,767) has been depreciated over the life of the leasehold improvements while the provision has been accreted as the effect of discounting unwinds.

f) Industry advances reserve

Upon transition to NZ IFRS, the Company has separated its industry advances reserve out from earnings retained to establish cash reserves.

Abbreviations

Act	Gas Act 1992
Company	Gas Industry Company Limited
Gas Industry Co	Gas Industry Company Limited
GPS	Government Policy Statement on Gas Governance October 2004
GST	Goods and Services Tax
MBP	Marketing Balancing Party
MDL	Maui Development Limited
Minister	Minister of Energy
MPOC	Maui Pipeline Operating Code
NZES	Draft New Zealand Energy Strategy to 2050
NZ FRS	New Zealand Financial Reporting Standards
NZ IFRS	New Zealand Equivalents to International Financial Reporting Standards
PJ	Petajoule
TPBAG	Transmission Pipeline Balancing Advisory Group
VTC	Vector Transmission Code

Directory

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Gas Industry Company Directors
as at 31 March 2008

Right Honourable James (Jim) Bolger ONZ
Chairman

Robin Hill B Comm FCA
Deputy Chairman, Independent Director

Mark Verbiest LLB

Independent Director

Keith Davis PGDipBus
Independent Director

Murray E Jackson BEc MBA FTSE FIEAust

David Baldwin BE MBA (Chemical)

Simon Mackenzie Grad Dip BS (Dist) Dip Fin NZCE

Gas Industry Company Executive

Christine Southey LLB BA (Hons)
Chief Executive

Nicole MacFarlane LLB (Hons) BA
General Counsel

Bas Walker BE (Hons) PhD (Cantab) DistFIPENZ MIChemE
Senior Adviser - Retail & Projects

Ian Dempster BE (Hons) M.Com (Hons)
Senior Adviser - Wholesale Markets

Ian Wilson BSc (Hons) BBS MNZIGE
Senior Adviser - Pipelines

Peter Davies BBS MBA CA
Corporate Services Manager

Auditors:

Grant Thornton, Wellington

Bankers:

Westpac Banking Corporation Limited

Gas Industry Company Shareholders
as at 31 March 2008

Contact Energy Limited

Genesis Power Limited

Mighty River Power Limited

Greymouth Gas New Zealand Limited

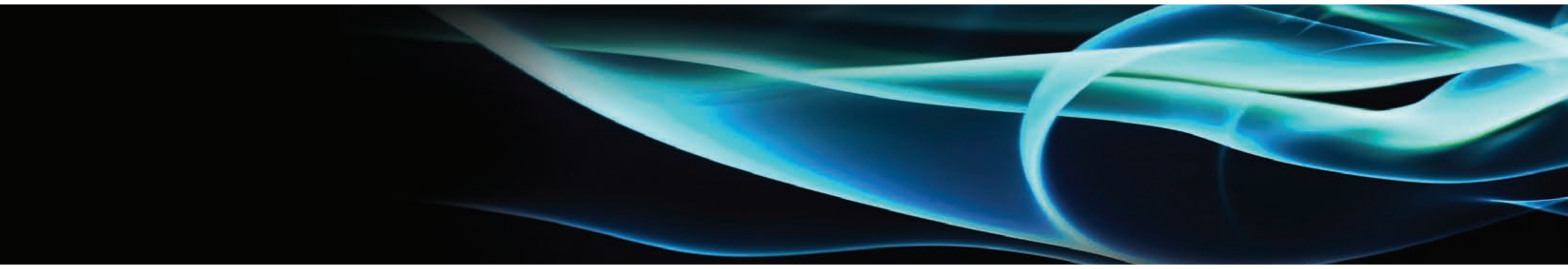
OMV New Zealand Limited

Powerco Limited

Shell (Petroleum Mining) Limited

Vector Limited

Wanganui Gas Limited



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