

GASNET LIMITED

STATEMENT OF CORPORATE INTENT

For the year commencing 1 July 2026

This statement is submitted by the Directors of GasNet Limited (the **Company**) in accordance with Section 39 of the Energy Companies Act 1992 while acknowledging the Shareholder's obligations to comply with the Local Government Act 2002. It sets out the overall intentions and objectives of the Company.

1 Intentions and Objectives

- 1.1 The Directors intend that the Company operates as a successful business commensurate with the long-term asset investment decisions made.
- 1.2 The Company aims to maximise its long-term value and provide a commercial rate of return to the Shareholder subject to maintaining adequate equity reserves for future business requirements.
- 1.3 To achieve this, the Company intends to:
 - 1.3.1 Meet customers' demand for network and metering services in terms of quality of service and price whilst at all times complying with all applicable legislation, regulations and codes of compliance including the Gas Act, the Commerce Act, the Gas (Information Disclosure) Regulations, the Climate Change Response (Zero Carbon) Amendment Act 2019, the Te Awa Tupua (Whanganui River Claims Settlement) Act 2017 and their amendments.
 - 1.3.2 Plan, design, construct, commission, operate, maintain and decommission network and metering systems which result in increased utilisation, while ensuring the provision of a safe and reliable supply to our customers' consumers today and over time.
 - 1.3.3 Wherever possible promote the conveyance and measurement of energy today and over time and the use of energy efficient products and services.
 - 1.3.4 Undertake new investments, which over their life are:
 - 1.3.4.1 able to provide a reasonable return consistent at aggregate level with the Company's target return,
 - 1.3.4.2 compatible with the Company's core business,
 - 1.3.4.3 considered to be in the best interests of the Company.
 - 1.3.5 Strive to improve operational efficiency where possible.
 - 1.3.6 Manage business and commercial risk on a prudent basis in line with each business activity's risk/return profile.
 - 1.3.7 Provide and maintain a safe environment for employees, contractors, customers and others using the Company's facilities, striving to achieve a zero-harm workplace.
 - 1.3.8 Be both socially responsible and a good employer, committed to:
 - 1.3.8.1 the principle of equal employment opportunity in the recruitment, employment, training and promotion of its employees
 - 1.3.8.2 acknowledging employee contributions through appropriate individual or collective remuneration.
 - 1.3.8.3 providing job satisfaction by defining corporate and individual performance objectives and assessment, and developing employee potential by delegating authority and accountability to the lowest appropriate level.
 - 1.3.8.4 ensuring that personnel are trained and competent to provide appropriate cover for all key roles/tasks and that, where practical, there is succession planning in place.
 - 1.3.8.5 being a good corporate citizen by:
 - having regard to the desirability of ensuring the efficient use of energy in seeking to attain its objective set out in clause 1.1
 - exploring ways to reduce the carbon footprint of its activities
 - exercising the appropriate level of social responsibility towards the communities in which it operates, the environment and climate change, consistent with sustainable business practices.
 - 1.3.8.6 GasNet will be environmentally responsible and is committed to reaching net zero emissions of long-lived greenhouse gases by 2050.
 - 1.3.8.7 Engage with the Shareholder and meet any subsequent expectations as the Shareholder establishes how its activities and those of any subsidiaries will be

informed by Tupua te Kawa, the guiding values of the Te Awa Tupua (Whanganui River Claims Settlement) Act 2017.

2. Nature and Scope of Activities

2.1 The Company has two business activities:

- regulated gas network
- non-regulated gas metering,

which together constitute a distribution system defined in the Gas Act 1992 and thus in the Gas (Safety and Measurement) Regulations 2010.

2.2 Over time core activities may change regarding the conveyance and measurement of energy and/or be extended to other services.

2.3 Complementary core-related activities undertaken may include technical advisory services and advisory services focussed on energy utilisation and efficiency.

2.4 Strategic Initiatives

- Enter the reticulated gas smart metering market by liaising with a Retailer and installing 1,500 meters on the GasNet network by 30 June 2027, managing data and the production of read files for the Retailer. Review of read data to assess its potential to further help inform leak detection and system diagnostics.
- Assist WDC, if required, with any initiatives associated with a solar photovoltaic farm including potential investment and management.
- Monitor the status of the importation of LNG, the construction of a government underwritten LNG terminal, and its impact on the gas industry and wider energy sector.
- Biogas – gauge the extent of the available feedstock for a biogas plant in the wider Whanganui/Manawatu/Taranaki regions as a first step of a biogas feasibility study by 30 June 2027.
- Green Hydrogen- once the hydrogen blending trial has been completed with the release of the final report, monitor the financial feasibility of green hydrogen.
- Adapt to climate change through improved understanding, ensuring planning, design, maintenance and operations minimise any impact on the environment
- Consider solar for GasNet's own electricity consumption.
- Vehicles – continue to ensure any future vehicle replacements will be made with the desire to purchase low carbon alternatives, where possible and practical.

3. Business Planning and Reporting

The Company will provide sufficient information to enable its Shareholder to assess the value of its shareholding, together with any information required to be disclosed in relevant legislation, or reasonably requested by the Shareholder, including activity reports prior to the Shareholder's Board meetings. To achieve this the Company will conform to the following planning and reporting guidelines.

Planning is fluid and thus impacts such as the Climate Change Commission's recommendations as adopted by Government will result in planning changes across the planning horizon discussed below. The way GasNet's planning will evolve is first developing a long term asset plan (10 years) to deliver the best value to the owner. The long term plan complements NZ Commerce Commission Asset Management Plan disclosure requirements for the Regulatory Asset Base. The Three Year Plan will incorporate company-wide matters aligned to support the higher order planning and in particular mitigate operational challenges, secure and maintain positive cash flow and dividend flow for the next 3 years, and provide strategic detail in order to demonstrate how GasNet will meet these objectives. Finally the Annual Plan will be based off the first year of the Three Year Plan, covering in detail business activities in support the higher order planning

3.1 Business Asset Planning

The business will undertake the 10 year planning range subject to the nature of the assets, emerging challenges and applied regulation.

Process

Business Asset Planning is reviewed annually looking for identification of trends, emerging challenges and possible solution options and assessing risk management planning implications.

3.2 Three Year Plan

The Three Year Plan will include the following:

3.3.1 three-year financial forecast in summary

3.3.2 Risk Management Plan

Process

The Three Year Plan is reviewed annually looking for emerging challenges and possible solution options and assessing risk management planning implications.

3.3 Annual Plan

The Annual Plan will include the following:

3.3.1 Activities Plan for the next financial year

3.3.2 Key Performance Indicators for the next financial year

3.3.3 One-year Operating Budget

3.3.4 One-year Capital Budget

Process

3.3.5 The Draft Annual Plan will be considered by the Directors during the month of May.

3.3.6 The Final Annual Plan will be adopted by the Company by 30 June.

3.3.7 The Annual Plan may be reviewed and, where appropriate, updated to take into account any material changes to the business by 30 October.

3.3.8 Any revised Annual Plan will be provided to the Shareholder by 20 November.

3.4 Statement of Corporate Intent

The Company will produce a Statement of Corporate Intent (**SoCI**) that meets the requirements of the Energy Companies Act 1992 and the Companies Act 1993, while accommodating the Shareholder's requirement to comply with the Local Government Act 2002 and the expectations of the Shareholder.

NOTE: SoCI may need to be modified once Annual Plan finalised.

3.5 Unaudited Six Months Financial Report

This activity report, which will be provided to the Shareholder by the last day of February, will contain an unaudited Income Statement, a Balance Sheet and a Cash Flow Statement. This report will include such details as are necessary to permit an informed assessment of the Company's performance during the reporting period compared to the Annual Plan.

3.6 Annual Report

3.6.1 An Annual Report, which will be produced each year, will contain:

3.6.1.1 A report on the operations of the Company for the year under review.

3.6.1.2 An audited set of financial statements for the financial year containing an Income Statement, a Balance Sheet, a Cash Flow Statement and other statements as may be necessary to fairly reflect the financial position of the Company.

3.6.2 The process for the production of the Annual Report will be:

3.6.2.1 Management accounts sufficient to allow for consolidation purposes will be provided to the Shareholder as soon as they have been reviewed by the Board of Directors.

3.6.2.2 A draft report will be provided to Directors 5 business days prior to their August meeting.

3.6.2.3 The report will be approved by Directors at their August meeting.

3.6.2.4 The report will be provided to the Shareholder by 30 September.

3.7 Quarterly Activity Reporting to Shareholder

3.7.1 The Company will provide a written summary of key matters ahead of each Shareholder's board/committee meeting, including a summary of financial information.

3.7.2 The Company will also report at appropriate frequency, as reasonably requested by the Shareholder on:

3.7.2.1 its Performance Targets set out in section 6 of this SoCI

- 3.7.2.2 its commitment to the principle of equal employment opportunity in the recruitment, employment, training and promotion of its employees
- 3.7.2.3 how it is exploring ways to reduce the carbon footprint of its activities.

4. **Capital Structure**

The Company will maintain Consolidated Shareholders' Funds at a level as determined by the Company's Board of Directors.

Capital expenditure is a matter to be considered by the Company's Board in establishing its Annual and longer-term Plans. However it is recognised that the level of Capital expenditure and how it is financed has an impact on the short and long-term ability of the Company to pay dividends.

Capital spending will be evaluated against the Company's target commercial rate of return, the Company's available free cash flows, and its capital structure. A detailed capital plan will be included in the financial projections for the next three years.

Renewal of assets will be included in the financial projections with investment decisions based on relevant policy guidance issued by Regulators and the Government, any relevant legislation and recognised best practice. There will be times when significant Capital spending outside the budgeted projections will be required. When circumstances such as these arise, the Company will advise the Shareholder of the event and request a response, including the implications for dividend and capital structure as soon as is reasonably practicable.

New capital investment that is not included in the Company's Plans, as notified to the Shareholder and which is greater than \$250,000 in any one financial year, must have the prior written approval of the Shareholder. The Board must give the Shareholder at least 21 days to consider the proposal and respond to the Company.

Given the nature of the business and operational impacts of third party damage, scale component failure such as in 2020 water ingress, environmental events such as cyclones, earthquakes etc., and GasNet's self-insurance to at least \$500,000 for any one or series of events in a year, GasNet will maintain an events reserves fund (Event Reserves) of \$500,000.

5. **Accounting Policies**

The Company's accounting policies are provided in Appendix 1.

6. **Performance Targets**

The Company's forecast performance targets for the short term (next three years) are as follows;

	<u>Target</u>			
	<u>2026/27</u>	<u>2027/28</u>	<u>2028/29</u>	
6.1 <u>Health and Safety</u>				
6.1.1 Lost Time Incidents (LTI)	0	0	0	
6.1.2 Lost Time Rate (Days Lost/Number LTI's)	0	0	0	
6.2 <u>Financial Performance</u>				
6.2.1 EBITDA (estimate)	\$3.9m	\$3.9m	\$4.1m	
6.2.2 Weighted Rate of Return – minimum (EBITDA before subvention by Total Assets) (estimate)	10.3%	10.2%	10.7%	
6.2.3 Ratio of Consolidated Shareholders Funds to Total Assets % -Total assets are all the recorded tangible and intangible assets of the Company at their current book value as defined in the Company's Statement of Accounting Policies. Consolidated Shareholders Funds is the total issued capital, the balance of undistributed profits and all revenue and capital reserves.	78.8%	79.6%	82.0%	
6.2.4 Accumulated profits and capital reserves distributed to Shareholder assuming group tax benefit (estimate)	\$1.6m	\$1.7m	\$1.8m	

6.3	<u>Network Throughput</u>			
6.3.1	Total Throughput (PJ)	1.2PJ	1.2PJ	1.2PJ
6.3.2	Non-ToU Throughput (PJ)	0.34	0.34	0.34
6.3.3	UFG	1%	1%	1%
6.4	<u>Operational Financial Performance</u>			
6.4.1	Direct & Indirect Costs per consumer	\$418	\$452	\$458
6.4.2	Direct & Indirect Costs per GJ conveyed	\$3.36	\$3.59	\$3.59
6.5	<u>Network Reliability</u>			
6.5.1	<u>Planned Interruptions (Class B)</u> Consumer Hours Lost	580	580	580
6.5.2	<u>Unplanned Interruptions (Class C)</u> Consumer Hours Lost	80	80	80
6.5.3	<u>Unplanned Third Party Interruptions (Class I)</u> Consumer Hours Lost	90	90	90
6.5.4	<u>Total Interruptions</u> Consumer Hours Lost	750	750	750
6.5.5	Third Party Interference Damage (No.)	30	30	30
6.5.6	Public Reported Gas Escapes (No.)	50	50	50
6.6	<u>Metering</u>			
6.6.1	Total on-network (,000)	9.5	9.2	9.0
6.6.2	Total off-network (,000)	0.2	0.2	0.2

7. **Shareholder Funds Distribution and Company Dividend Policy**

Taking into account GasNet's current and forward capital programme needs, working capital needs, including the appropriate provision for its operations and maintenance programme; the Shareholder requests a payment of \$2,000,000 to be paid as either a dividend, subvention payment authorised by the Shareholder and made by GasNet to other group entities, or a combination of both. Where appropriate, any additional surpluses should also be returned to the Shareholder through an appropriate mechanism.

The Directors are committed to meeting the requirements of the Companies Act 1993 and its amendments when approving funds distribution to the Shareholder. The Directors in accordance with the Company's Dividend Policy will determine the amount of the Company's distribution after consultation with management's forecast of EBITDA and cash flow and with the Shareholder.

The Directors will distribute to the Shareholder, funds surplus to required capital reserves, investment decisions and operating requirements of the Company, subject to satisfying solvency and other requirements specified in the Company's Dividend Policy.

8. **Share Acquisition**

The Company other than in the normal course of business as specifically included in its Plans as notified to the Shareholder, will not subscribe for, purchase, or otherwise acquire shares in any company or other organisation without prior written Shareholder approval.

9. **No Surprises Policy**

The Company acknowledges its legislative responsibilities to the Shareholder and undertakes to make the Shareholder aware of any issues that are controversial or likely to be discussed in the public arena or might otherwise impact on the accountabilities and responsibilities of the Shareholder. GasNet will comply with the Shareholder's No Surprises Policy.

10. **External Transactions Requiring Disclosure**

10.1 For part or all of the year ended 30 June 2027 it is intended to maintain the arrangement with Whanganui District Council (WDC) to provide services in relation to communications by radio-telephone.

10.2 The Company rents its offices, inventory & operations facility at 8-10 Cooks Street, Whanganui from the Whanganui Port Limited Partnership which uses the Property Group of WDC as its agent and this is unlikely to change during the financial year ending 30 June 2027.

- 10.3 The Company has an agreement in principle with WDC for the provision of IT support. There is no agreement in regard to the hosting of servers.
- 10.4 The Company has an arrangement with WDC for payroll services.
- 10.5 Other services that may be transacted with WDC during the year ended 30 June 2027 include maintenance and improvements to leasehold property.
- 10.6 WDC may during the year ended 30 June 2027 provide offset losses directly to GasNet.

A handwritten signature in blue ink that reads "Peter Hazledine". The signature is written in a cursive style and is underlined with a single horizontal stroke.

C P Hazledine

Chairman 9 June 2026

Statement of accounting policies

REPORTING ENTITY

GasNet Limited (the Company) is a company formed in accordance with and registered under the Companies Act 1993. The Company is incorporated in New Zealand and is domiciled in Whanganui, New Zealand.

BASIS OF PREPARATION

Statement of compliance

The financial statements of GasNet Limited are prepared in accordance with NZ GAAP. They comply with NZ IFRS RDR, and other applicable Financial Reporting Standards, as appropriate and the requirements of the Companies Act 1993 and the Energy Companies Act 1992.

For the purposes of complying with NZ GAAP, the Company is eligible to apply Tier 2 For-profit Accounting Standards (New Zealand equivalents to International Financial Reporting Standards – Reduced Disclosure Regime ('NZ IFRS RDR')) on the basis that it does not have public accountability and is not a large for-profit public entity. The Company has elected to report in accordance with NZ IFRS RDR and has applied disclosure concessions.

The Directors have a legal duty to exercise their power to amend financial statements if required to do so.

For this purpose the Company has designated itself as a for profit entity.

Measurement base

The financial statements are prepared using the historical cost basis, modified by the revaluation of certain assets which are recorded at fair value. These are detailed in the specific policies below.

Functional and presentation currency

The financial statements are presented in New Zealand dollars and rounded to the nearest thousand dollars. The Company's functional currency is New Zealand dollars.

Changes to Accounting Policies

None

SIGNIFICANT ACCOUNTING POLICIES

Revenue Recognition

Revenue is measured at the fair value of consideration received or receivable. GasNet Limited satisfies its performance obligations of IFRS 15 and recognises revenue over time.

Revenue is derived from gas network and metering services. Such revenue is recognised when earned and is reported in the financial period to which it relates.

Interest income is accrued on a time basis, by reference to the principal outstanding and the effective interest rate applicable.

Borrowing costs

Borrowing costs are recognised as an expense in the period in which they are incurred.

Income Tax

Income tax expense comprises both current and deferred tax, and is calculated using tax rates that have been enacted or substantively enacted by balance date.

Current tax is the amount of income tax payable based on the taxable profit for the current year, plus any adjustments to income tax payable in respect to prior years.

Deferred tax is the amount of income tax payable or recoverable in future periods in respect of temporary differences and unused tax losses. Temporary differences are differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit.

The measurement of deferred tax reflects the tax consequences that would follow from the manner in which the entity expects to recover or settle the carrying amount of its assets and liabilities.

Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which the deductible temporary differences or tax losses can be utilised.

Deferred tax is not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition of an asset and liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit.

Deferred tax is recognised on taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the company can control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Current tax and deferred tax is charged or credited to the statement of comprehensive income, except when it relates to items charged or credited directly to equity, in which case the tax is dealt with in equity.

Leases

Operating leases

GasNet has applied IFRS 16, for all operating leases (except as noted below):

- a) Recognises right-of-use assets and leases liabilities in the consolidated statements of financial position, initially measured at the present value of future lease payments;
- b) Recognises depreciation of right-of-use assets and interest on liabilities in the consolidated statements of profit or loss; and
- c) Separates the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within operating activities) in the consolidated statements of cash flows.

Lease incentives (e.g. free rent period) are recognised as part of the measurement of the right-of-use assets and lease liabilities whereas under IAS 17 they resulted in the recognition of a lease incentive liability, amortised as a reduction of rental expense on a straight-line basis.

Under IFRS 16, right-of-use assets are tested for impairment in accordance with IAS 36 Impairment of Assets.

For short term leases (lease terms of 12 months or less) and leases of low value assets (such as personal computers and office furniture), the Company has opted to recognise a lease expense on a straight-line basis as permitted by IFRS 16. This expense is presented within other expenses in the consolidated statements of profit or loss

Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts.

Bank overdrafts are shown within borrowings in current liabilities in the statement of financial position.

Debtors and other receivables

Debtors and other receivables are initially measured at fair value and subsequently measured at amortised cost using the effective interest method, less any provision for impairment.

A provision for impairment of a receivable is established when there is objective evidence that the Company will not be able to collect amounts due according to the original terms of the receivable. Significant financial difficulties of the debtor, probability that the debtor will enter into bankruptcy, receivership or liquidation, and default in payments are considered indicators that the debt is impaired. The amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted using the original effective interest rate. The carrying amount of an impaired receivable is reduced through the use of an allowance account, and the amount of the loss is recognised in the surplus or deficit. When the receivable is uncollectible, it is written-off against the allowance account for receivables. Overdue receivables that have been renegotiated are reclassified as current (that is, not past due).

Financial Instruments

Financial instruments that potentially subject the Company to credit risk are cash and bank balances, debtors and investments. The Company is exposed to interest rate risk through the issuance of debt instruments. The Company is not subject to currency risk. Financial instruments are recognised in the Statement of Financial Position. Revenues and expenses in relation to financial instruments are recognised in the Statement of comprehensive income. Unless covered by a separate policy, all financial instruments are shown at their fair value. Therefore, as per the new standard IFRS 9 GasNet Limited meets its requirements.

Financial Assets

All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

All recognised financial assets are measured subsequently in their entirety at either amortised cost or fair value, depending on the classification of the financial assets.

Classification of Financial Assets

Debt instruments that meet the following conditions are measured subsequently at amortised cost:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

Amortised cost and effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period.

For financial assets other than purchased or originated credit-impaired financial assets (i.e. assets that are credit-impaired on initial recognition), the effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) excluding expected credit losses, through the expected life of the debt instrument, or, where appropriate, a shorter period, to the gross carrying amount of the debt instrument on initial recognition. For purchased or originated credit-impaired financial assets, a credit-adjusted effective interest rate is calculated by discounting the estimated future cash flows, including expected credit losses, to the amortised cost of the debt instrument on initial recognition.

The amortised cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance. The gross carrying amount of a financial asset is the amortised cost of a financial asset before adjusting for any loss allowance.

Financial Liabilities

Financial liabilities (creditors, income in advance, loans, bonds and deposits) are initially recognised at fair value. These are subsequently recognised at amortised cost.

Impairment of Financial Assets

The Company recognises a loss allowance for expected credit losses trade receivables. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument. The Company always recognises lifetime expected credit losses (ECL) for trade receivables. The expected credit losses on these financial assets are estimated using a provision matrix based on the Company's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date. Including time value of money where appropriate.

The Company recognises an impairment gain or loss in profit or loss for all its current financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

Inventories

Inventories (such as spare parts and other items) held for distribution or consumption in the provision of services that are not supplied on a commercial basis are measured at the lower of cost or net realisable value. Where inventories are acquired at no cost or for nominal consideration, the cost is the current replacement cost at the date of acquisition.

The cost of purchased inventory is determined using the Weighted Average Cost method.

The amount of any write-down for the loss of service potential or from cost to net realisable value is recognised in the statement of comprehensive income in the period of the write-down.

Capital contributions

Where the Company constructs assets at its own cost and receives a cash payment from a third party as part, or full payment for the development of such assets, the Company recognises the asset at the cost incurred to construct the asset and recognises the cash received as revenue.

Impairment of assets

At each balance date GasNet Limited assesses whether there is any objective evidence that any asset has been impaired. Any impairment losses are recognised in the statement of comprehensive income.

Property, plant and equipment

Property, plant and equipment consists of:

Operational assets – these include motor vehicles and plant and equipment.

Infrastructure assets – these include the fixed utility systems comprising the network and metering assets. Each asset type includes all items that are required for the network and metering to function.

Property, plant and equipment is shown at cost or valuation, less accumulated depreciation and impairment losses.

Revaluation

Infrastructural assets are revalued with sufficient regularity to ensure that their carrying amount does not differ materially from fair value and at least every five years. All other asset classes are carried at depreciated historical cost.

GasNet Limited assesses the carrying values of its revalued assets annually to ensure that they do not differ materially from the assets' fair values. If there is a material difference, then the off-cycle asset classes are revalued.

GasNet Limited accounts for revaluation of infrastructural assets on a discounted cash flow basis that is pro-rata'd to the asset classes.

The results of revaluing are credited or debited to an asset revaluation reserve for that class of asset. Where this results in a debit balance in the asset revaluation reserve, this balance is expensed in the statement of comprehensive income. Any subsequent increase on revaluation that off-sets a previous decrease in value recognised in the statement of comprehensive income will be recognised first in the statement of comprehensive income up to the amount previously expensed, and then credited to the revaluation reserve for that class of asset.

Additions

The cost of an item of property, plant and equipment is recognised as an asset if, and only if, it is probable that future economic benefits or service potential associated with the item will flow to GasNet Limited and the cost of the item can be measured reliably.

In most instances, an item of property, plant and equipment is recognised at its cost. Where an asset is acquired at no cost, or for a nominal cost, it is recognised at fair value as at the date of acquisition.

Disposals

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount of the asset. Gains and losses on disposals are included in the statement of comprehensive income. When revalued assets are sold, the amounts included in asset revaluation reserves in respect of those assets are transferred to retained earnings.

Depreciation

Depreciation is provided on all property, plant and equipment. Depreciation is calculated on a straight-line basis to allocate the cost or value of the asset (less any residual value) over its useful life.

The useful lives and associated depreciation rates of major classes of assets have been estimated as follows:

Asset Type	Depreciation Rate
Distribution Network Mains and Services	1-15% SL
Distribution Network Condition Renewals	2% SL
Gas Measurement Systems and Distribution Network Customer Stations	1-10% SL
Leasehold Improvements	2-20% SL
Vehicles	5-20% SL

Office Equipment	10-33% SL
Computer Hardware	20-33% SL
Furniture and Fittings	20% SL
Plant and Equipment	5-20% SL

The residual value and useful life of an asset is reviewed, and adjusted if applicable, at each financial year-end.

Intangible assets

Software acquisition and development

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software.

Costs that are directly associated with the development of software for internal use by GasNet Limited, are recognised as an intangible asset. Direct costs include the software development employee costs and an appropriate portion of relevant overheads. Staff training costs are recognised as an expense when incurred.

Costs associated with maintaining computer software are recognised as an expense when incurred.

Amortisation

The carrying value of an intangible asset with a finite life is amortised on a straight-line basis over its useful life. Amortisation begins when the asset is available for use and ceases at the date that the asset is derecognised. The amortisation charge for each period is recognised in the statement of comprehensive income.

The useful lives and associated amortisation rates of major classes of intangible assets have been estimated as follows:

Computer software	3 years	33%
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Impairment of property, plant and equipment and intangible assets

Intangible assets that have an indefinite useful life, or not yet available for use, are not subject to amortization and are tested annually for impairment. Assets that have a finite useful life are reviewed for indicators of impairment at each balance date. When there is an indicator of impairment the asset's recoverable amount is estimated. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

Value in use is depreciated, replacement cost for an asset where the future economic benefits or service potential of the asset are not primarily dependent on the asset's ability to generate net cash inflows and where the entity would, if deprived of the asset, replace its remaining future economic benefits or service potential.

The value in use for cash-generating assets and cash generating units is the present value of expected future cash flows. In assessing value in use the estimated cash flows are discounted to their present value using a pretax discount rate that reflects current market assessments of the time value of money and risks to the specific asset.

If an asset's carrying amount exceeds its recoverable amount, the asset is impaired and the carrying amount is written down to the recoverable amount. For revalued assets the impairment loss is recognized against the revaluation reserve for that class of asset. Where that results in a debit balance in the revaluation reserve, the balance is recognised in the statement of comprehensive income.

For assets not carried at a revalued amount, the total impairment loss is recognised in the statement of comprehensive income.

The reversal of an impairment loss on a revalued asset is credited to the revaluation reserve. However, to the extent that an impairment loss for that class of asset was previously recognised in statement of comprehensive income, a reversal of the impairment loss is also recognised in the statement of comprehensive income.

For assets not carried at a revalued amount (other than goodwill) the reversal of an impairment loss is recognized in the statement of comprehensive income.

Creditors and other payables

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

Borrowings

Borrowings are initially recognised at their fair value net of transaction costs incurred. After initial recognition, all borrowings are measured at amortised cost using the effective interest method.

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

Employee entitlements

Short-term employee entitlements

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

These include salaries and wages accrued up to balance date, annual leave earned to, but not yet taken at, balance date, retiring and long service leave entitlements expected to be settled within 12 months, and sick leave.

GasNet Limited recognises a liability and an expense for bonuses where contractually obliged or where there is a past practice that has created a constructive obligation.

Equity

Equity is the Shareholders interest in GasNet Limited and is measured as the difference between total assets and total liabilities. Equity is disaggregated and classified into a number of reserves.

The components of equity are:

- retained earnings

- property, plant and equipment reserves
- fair value through equity reserves

Goods and Service Tax (GST)

All items in the financial statements are stated exclusive of GST, except for receivables and payables, which are stated on a GST inclusive basis. Where GST is not recoverable as input tax then it is recognised as part of the related asset or expense.

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

The net GST paid to, or received from the IRD, including the GST relating to investing and financing activities, is classified as an operating cash flow in the Statement of Cash Flows.

Commitments and contingencies are disclosed exclusive of GST.

Critical accounting estimates and assumptions

GasNet Limited makes estimates and assumptions concerning the future which may differ from the subsequent actual results. Estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations or future events that are believed to be reasonable under the circumstances. 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 year are discussed below:

Property, plant and equipment useful lives and residual values

At each balance date GasNet Limited reviews the useful lives and residual values of its property, plant and equipment. Assessing the appropriateness of useful life and residual value estimates of property, plant and equipment requires GasNet Limited to consider a number of factors such as the physical condition of the asset, expected period of use of the asset by GasNet Limited, and expected disposal proceeds from the sale of the asset.

An incorrect estimate of the useful life or residual value will impact on the depreciable amount of an asset, therefore impacting on the depreciation expense recognized in the statement of comprehensive income, and carrying amount of the asset in the statement of financial position. GasNet Limited minimises the risk of this estimation uncertainty by:

- an annual review of the value of the infrastructure assets
- physical inspection of assets
- asset replacement programmes
- review of second hand market prices for similar assets
- analysis of prior assets sales; and
- completing a revaluation of the infrastructure assets at least every fifth year

GasNet Limited has not made significant changes to past assumptions concerning useful lives and residual values.