

KING COUNTRY ELECTRIC POWER TRUST



ANNUAL REPORT 2006

The Trustees of the King Country Electric Power Trust have pleasure in presenting the twelfth Annual Report to consumer beneficiaries.

ADMINISTRATION

Trust elections in early 2006 resulted in Messrs Gurney and Turner being returned unopposed and administration therefore continued with the same personnel throughout this reporting period. With no postal vote necessary at elections the revised trust deed which changed the election process was not fully tested.

Trustees re-elected Mr B.J.Gurney as Chairman for a further two year period until 2008, and Mr Ian Dougherty's contract as Secretary does not conclude until December 2006.

Our Ohakune representative, Mr. Douglas Sanders, has unfortunately suffered ill health during the year and is recuperating from major surgery. We all wish him a full and speedy recovery. Despite this setback, trustees have shown remarkable commitment to their duties and a quorum of four members has always been present at meetings. Minutes show attendance at trust meetings as follows;

Mr B.Gurney	(Omori)	14	meetings.
Mr G.Cosford	(Taumarunui)	12	"
Mr N Sanders	(Taumarunui)	13	"
Mr D Sanders	(Ohakune)	8	"
Mr M Turner	(Owhango)	15	"

In addition, nominated trustees attended additional electoral college, sub-committee and appointment meetings, and conferences, maintaining participation in and knowledge of the energy industry.

Trustees recently adopted a set of Guidelines for Access to Information by Beneficiaries. These Guidelines, adopted by all Trusts affiliated to the Energy Trusts of New Zealand, have taken years to develop, and its was only a few weeks ago that the Arbitrators and Mediators Institute of New Zealand accepted the role of national reviewer. The Guidelines are attached to this report.

As the year progressed more data was loaded on to the trust website to develop it further and it is very close to going live online. This progressive approach to development has been taken rather than convert old information at some cost to workable files to achieve an earlier launch of the site.

At the end of 2005 trustees resolved that, as neither of the companies in which the trust holds shares required further investment capital, a distribution

to beneficiaries of surplus funds would be made. Additionally, in order to further assist all consumers, it was decided that the promotion and subsidising of energy efficient light bulbs would be made at the time of the surplus funds distribution.

The distribution and promotion was set for July at a time when electricity consumption was at its maximum and our consumers would receive benefit from extra funds and reduced electricity costs. The Lines Company would also be assisted by a reduced peak load when some equipment was at maximum demand.

Following discussions with King Country Energy Ltd it was considered by trustees that a complaints scheme independent from the retailing companies would be established so that customers could have their cases adjudicated upon by an independent arbitrator. This scheme, free to consumers, is ready for launching and with adjudicators appointed it will be operational in the near future.

Communication with consumers has not been as effective as trustees would have hoped but a direct mailing of a news letter is expensive and local papers have not published three of the press releases prepared and submitted.

FINANCIAL RESULTS.

The Trust reports an operating surplus of \$446,845 for the year to 31st March 2006

Dividends.

The Trust received dividends of \$450,000 from King Country Energy Ltd, and of \$32,908 from The Lines Co Ltd,

Investment income. Trustees continued their policy of placing all funds, other than a reserve for working expenses, into term deposits with its bankers. Deposits of \$1,264,327 were held at Balance Date. Interest of \$69,914 from investments was received or accrued during the year.

Trust costs

Trust costs, at \$105,977, were \$6778 below the \$112,755 budgeted for the same items. \$16000 was budgeted to conduct the two-yearly election of two trustees, but, as only two nominations for the two vacancies were received, an election was not necessary, and total costs were \$7446. The cost of reviewing the Trust Deed was \$11922, mostly the cost of legal review and advertising. Trustee fees and secretarial costs remained close to budget.

The Lines Co Ltd financial results

To comply with Financial Reporting Standards, the Trust's 25% share of the net profit of The Lines Company Ltd has been included in income. The share, \$428,842, is a matter of record only and does not provide funding for the Trust. But the profit inclusion, plus the inclusion of an increase in the value of assets, does serve to increase the Trust's share of the net worth of the company, now recorded at \$17,763,819. Following the adoption of International Financial Reporting Standards, the company was required to restate its asset and liability values as at 31st March 2005, resulting in a reduction in its net worth of \$3,755,262.

Shareholdings: The Trust's shareholding investments remain unchanged at 25% of The Lines Company Ltd , and 10% of King Country Energy Ltd. The value of the shareholding in King Country Energy Ltd was increased from \$6,375,000 to \$6,937,500 to reflect the increase in the value of its shares on the share market from \$3.40 last year to \$3.70 at 31st March 2006. At the time this report was prepared, the share market value has risen to \$4.25.

THE LINES COMPANY Ltd.

Major features for the year have been the company operating under profit control for the full period, and is reporting for the first time its annual results under International reporting standards (IFRS). The latter resulted in a delay in producing annual results, which unavoidably delayed the completion of this Trust's annual accounts, and in the holding of the annual meeting.

Trading results declared a 4.75% increase in revenue and a profit of \$1.715 million, up 4% on the previous year after paying a \$6.2 million discount to customers. Overall a satisfying result, given the restriction to operations of profit control, and the accounting changes.

Shareholding trustees have exercised strong governance, with a director review focused on strategy to take the company forward in spite of government regulation. This resulted in the reappointment of one director and the appointment of a new director Mr. Arthur Muldoon who has wide experience in the electricity industry both in New Zealand and overseas. As a result a new chairman of directors, Mr. Malcolm Don, now heads the company.

A longer term strategic plan has been approved in the 2006/07 Statement of Corporate Intent which is hoped will bring growth and improved profits in the future in spite of regulatory constraints.

Quality of service, both in number of faults and duration, has improved significantly, due in large part to an on-going vigorous tree pruning policy, but the company fell short of acceptable customer service standards with the introduction of its own invoicing system, which has continued to produce erroneous bills particularly in the southern region.

A sound, if not spectacular year, for the network company in which this Trust holds a 25% shareholding.

The company's Statement of Corporate Intent for the year to 31st March 2007 is attached to this report

KING COUNTRY ENERGY LTD.

King Country Energy Ltd, in which this Trust holds a 10% shareholding, has had another year of good returns.

Revenue increased 22% and profit was \$3.865 million, a fraction ahead of the previous year. Its dividend payments over the last three years have enabled this Trust to make the distribution to beneficiaries.

The application for resource consent to construct a hydro generation scheme on the Mokau River is progressing. If constructed, the scheme's generation output will significantly improve the King Country's self sufficiency from 55% to 70% in home produced electricity.

The company's cash flow is strong, providing for the 36cents per share dividend, a little ahead of profits, and giving for the first time the ability to comfortably raise the capital to fund the previously mentioned Mokau project.

In spite of weather fluctuations that affect generation outcomes the policy of providing outstanding service to customers has countered competition for customers and has allowed a very sound financial performance.

CONCLUSION.

Trustees have had a busy year developing;

- A distribution plan together with a energy efficiency programme for it's consumer beneficiaries.
- Completing the guidelines for beneficiaries access to information.
- Furthering work on the trust website.
- Exercising sound governance and organizing board changes in conjunction with the Waitomo Energy Services Customer Trust.
- Preparing in co operation with King Country Energy Ltd a soon to be announced independent complaints adjudication scheme.
- Progressing other projects to early development stages.

All this has meant a greater effort by all trustees and in particular our secretary, who has worked beyond his normal line of duty to ensure the trust efficiency and standards have not been compromised in the face of increased activity.

My sincere thanks to Mr. Ian Dougherty for his dedication to the trust on your behalf.

(B.J.Gurney,Chairman)