

KING COUNTRY ELECTRIC POWER TRUST



ANNUAL REPORT 2008

The Trustees of the King Country Electric Power Trust have pleasure in presenting the fourteenth annual report to its consumer beneficiaries.

Administration

The past twelve months has been demanding on time and energy particularly in the first nine months.

Having completed the ownership review supported by 90% of the beneficiaries who responded, Trustees then implemented the recommendations; this has created considerable activity.

Meeting attendances by Trustees were recorded in the minutes as follows:

Mr B Gurney	Omori	16	meetings
Mr G Cosford	Taumarunui	18	meetings
Mr N Sanders	Taumarunui	3	meetings
Mr D Sanders	Ohakune	10	meetings
Mr M Turner	Owhango	20	meetings
Mr I Dougherty	alternate for N Sanders	17	meetings
Mr B Needham	" for B Gurney	7	meetings
Mr U Kroll	" for D Sanders	5	meetings

Attendance at two Energy Trusts of NZ conferences were made by a number of Trustees.

Mrs Tessa Stewart has now completed a full years service as the Trust's Secretary.

The loss of Neville Sanders in May, followed by the death of Douglas Sanders in December, brought to an end an era where the Sander's family has been involved in the electricity industry of the King Country.

These untimely losses account for the use of alternates and we are grateful such experienced people are available and willing to serve on the Trust.

The Trust conducted an election as required under the Trust Deed in January 2008; Mr Uwe Kroll was confirmed as the Ohakune representative elected unopposed and Mr Norman Annand and Mr Graeme Cosford were successful in the election for the other two vacancies.

Ownership of Companies

Trustees reported on the changes in a letter appended to the 2007 annual report, but for the record key dates are recorded this year as well.

- Ownership review mailed to all beneficiaries in early March 2008.
- Submissions on the recommendations made by Trustees were heard on 20th April 2008.
- Trustees adopted the review on 16th May 2008.
- Agreements to settle the sale of 15% of The Lines Company Ltd and the purchase of 8% of King Country Energy Ltd were signed with the Waitomo Energy Consumer Services Trust on 31st May 2008.
- Trustees resolved to offer to purchase up to 2% of issued shares at this time.
- By the 31st July, these transactions had been completed in full leaving KCEPT 20% owners of King Country Energy Ltd and 10% owners of The Lines Company Ltd.

No further significant ownership changes have occurred since that date.

Financial Results

The restructuring of KCEPT's shareholding as signaled to beneficiaries last year has changed the income and expenditure accounts markedly.

Income

Dividends & Special Dividend:

Receipts from King Country Energy Ltd totaled \$ 1,392,686

Receipts from The Lines Company Ltd totaled \$ 1,208,257

Interest on Investments:

Received in total \$ 581,061

A total of \$ 3,182,005

Expenditure

Trust operating expenses for the year \$ 200,350

Surplus from operations \$ 2,981,655

There are a number of key points to be considered in the above summary that are detailed in the financial statements:

1. The TLC special dividend is a one off payment made to provide WECST with funds to purchase shares from KCEPT; as a 10% shareholder we received 10% of the dividend.
2. All dividends received had tax credits attached; this is income but is not freely available cash.
3. KCEPT applied these credits to offset some of the tax liability.
4. Operating expenses in 2008 included approximately \$90,700 of the remaining costs associated with the ownership review and share transaction costs; excluding these leaves the normal running costs at around \$110,000.

The Lines Company Ltd

The Company distributed \$6.2 million as discounts to its customers in 2007; the KCEPT beneficiaries received a full year allocation even though the shareholding reduced in July.

The pre tax and discounts performance for year ending 31st March 2008 was \$9.311 million which compares with \$9.984 million the previous year; a -7.8% change.

Commerce Commission price control still applies to the network division and directors have pursued other business options in an effort to provide adequate commercial returns to share holders.

Your Trustees as a minority share holder have endeavoured to ensure this strategy does not in any way compromise the quality and cost of service to its connected customers.

The quality of service has improved significantly with supply interruptions reducing from 3.6 to 2.9 on average, continuing the downward trend from 6.7 power failures on average per customer five years ago.

Trustees have expressed their disappointment to Directors over the Company's inability to install a new load based tariff system without creating confusion and annoyance amongst many customers.

The public outcry has frustrated your Trustees as Management seem incapable of making changes that engage their customers in a positive manner.

King Country Energy Ltd

The disruption created at board level by Messrs Palmer and Stubbs not being re elected as Directors by share holders at the August Annual General meeting, was resolved in October when the two KCEPT nominees Messrs Needham and Gurney were appointed by the remaining Directors; at the same meeting they elected Gurney to chair the board

The Company has traded in a difficult environment with low wholesale electricity prices in the first half and an extended dry period reducing generation output in the second half of the year.

The pre tax profit of \$8.581 million compared to \$7.165 million last year shows a 19.8% increase.

When adjusted for IFRS accounting the outcome is similar to the 2007 results.

One of the key strategies for KCE Ltd is to develop expansion of its own generation capacity.

KCEPT Website

The Trust now has its own website www.kcpowertrust.co.nz; you will find all relevant trust information posted on the pages which are updated by the Secretary.

Further development of this facility is planned to make it more interactive between the Trustees and beneficiaries making it easier to keep you more up to date on Trust activities.

Any suggestions for improvements should be passed to the Secretary.

Recording the History of King Country Power

Trustees have commenced a project to publish a book recording the history of the development of the electricity industry in our region.

A sub-committee chaired by Mr Michael Turner have commissioned Mrs Helen Reilly a public historian to prepare the manuscript.

The Trust would be interested in receiving information or photographs that relate to our district and the progress of power development and so assist in the research.

Complaints Scheme

Since the schemes launch in December 2006, only one complaint has been referred to the adjudicator which gives a strong indication that King Country Energy Ltd has a robust process for handling complaints internally and can resolve most issues in house.

The Electricity Commission is reviewing the introduction of a national scheme and your Trustees have made a submission to them.

Our submission argued that in the interest of affordability, accessibility, promptness and efficiency complaints should be heard locally.

From our Trusts experience there was absolutely no need for a national scheme centralized in Wellington which would not meet the above principles; we await the outcome.

Access to Information Guidelines

No requests for information under the guidelines have been received any information informally requested has been freely supplied where it was available.

The Trust, under section 10.1 of its guidelines for access to information by beneficiaries, is required to include in this report the outcomes of requests made under the Guidelines. Trustees report:

○ Number of requests for information	NIL
○ Costs incurred to process requests	NIL
○ Number of Trust decisions subject to review	NIL
○ A summary of the outcome of reviews	NOT REQD
○ Costs incurred in respect to reviews	NIL

Conclusion

A year devoted to concluding the ownership review and implementing the strategy of maintaining King Country Energy Ltd as a local company with a majority community share holding.

The outcome was a greater representation in KCE than originally planned but one which will allow KCEPT to add value to its development for our beneficiaries benefit.

At the same time the Trustees input into the governance of TLC as a minority share holder has been continued.

The Trust has advocated for the company to improve its understanding of customers concerns and address these by improved communications; Trustees believe the appointment of a

locally domiciled Director would bring a better balance to the board.

On a positive note the reliability of the network continues to improve and financial results are encouraging.

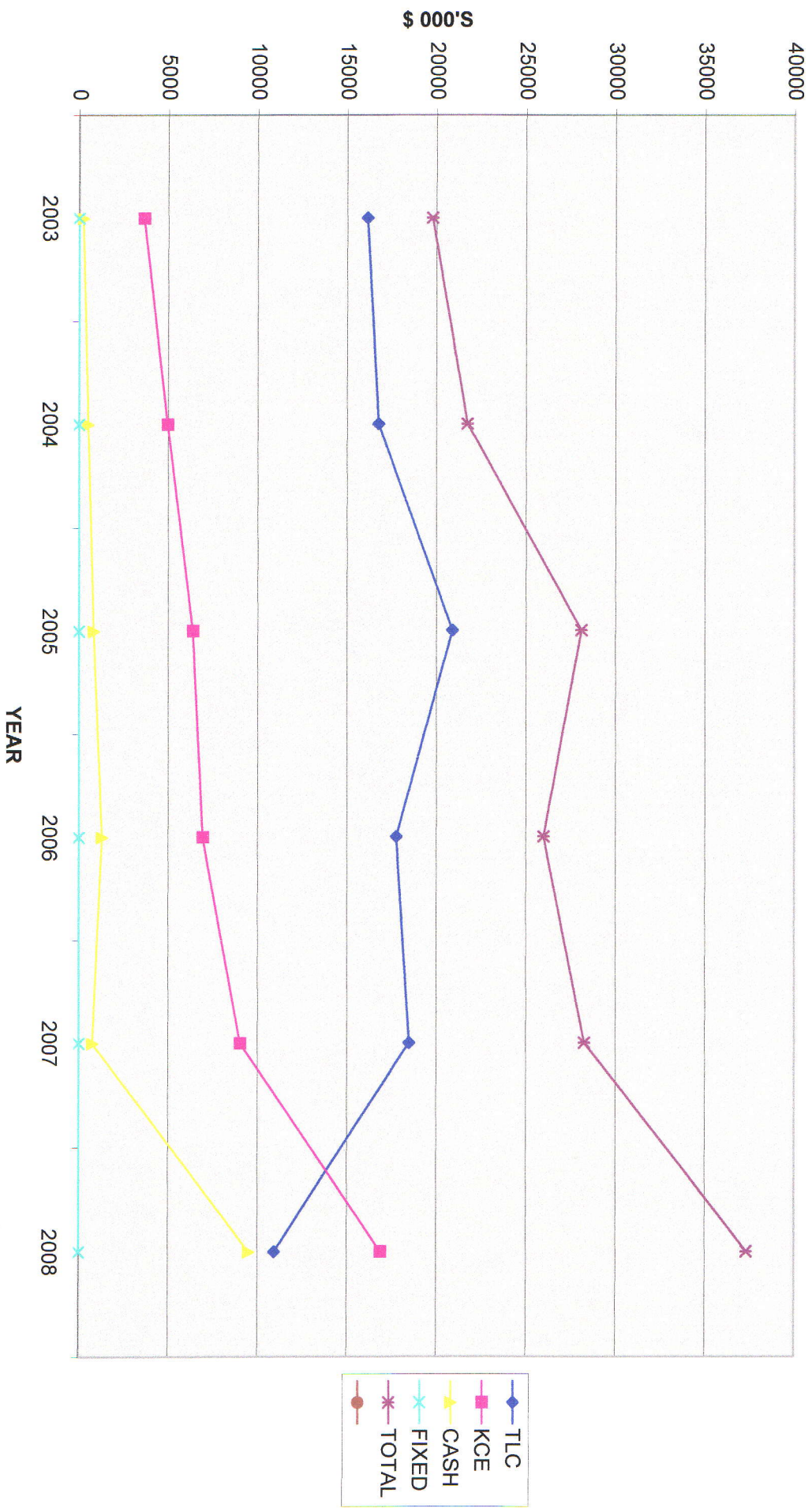
The Trustees strategy for enhancing your assets is showing significant progress rising to \$34.7 million see progress chart that follows.

Finally I would like to sincerely thank you all for the support and interest during a challenging 18 months; also to my fellow Trustees and Tessa for the dedicated service to the Trusts progress.

On behalf of Trustees
Brian J Gurney
Chairman

A handwritten signature in black ink, appearing to read 'B. J. Gurney', with a stylized flourish at the end.

KCEPT INVESTMENTS OVER 5 YEARS



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