

KING COUNTRY ELECTRIC POWER TRUST



ANNUAL REPORT 2009

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

Administration

The year ending March 2009 although an active year, can be regarded as business as usual compared with the 2007 and 2008 restructuring of the shareholding in The Lines Company Ltd and King Country Energy Ltd.

This report will deal with each of the activities under their respective sections.

Meeting attendances by Trustees from the minutes record a more usual timetable as follows:

Mr B Gurney	Omori	16	meetings
Mr G Cosford	Taumarunui	15	meetings
Mr M Turner	Owhango	15	meetings
Mr U Kroll	Ohakune	14	meetings
Mr I Dougherty	Taumarunui	12	meetings
Mr N Annand	Taumarunui	10	meetings

Mr N Annand was overseas for two months of 2008.

Mr M Turner has moved to Wanganui; this has not hindered him from discharging his Trustee responsibilities fully and he will continue as a Trustee until the 2010 election.

Mr I Dougherty was appointed a Trustee to replace the late Mr N Sanders until the 2008 election and has since been contracted part time to manage the distributions to beneficiaries.

The Trustees all continue to show commitment in discharging their community responsibilities.

Distribution to Beneficiaries

Trustees have continued with two distributions per year with a total of \$1.585 million being approved for distribution in 2009, please note because of timing difficulties approximately half of this amount only is recorded in this years accounts.

Financial Results

Income for the year at \$2.687 million was down slightly on 2008, that year contained a one-off special dividend from The Lines Company Ltd.

Expenses have also reduced from \$219,633 to \$155,959 as the need for engaging legal and commercial advisors has diminished.

Profit from the Trust's operations were \$1.696 million after tax.

Investments

King Country Energy Ltd

Trustees through their Board representatives are kept informed on the Company's progress and it continues to provide sound performance and returns.

The business has declared a final, fully imputed dividend of 12 cents per share returning the Trust \$900,000 for the year.

KCE achieved an after tax profit of \$3.409 million down from \$6.854 in 2008. However, removing the effect of interest, financial instruments and electricity derivatives, the profit at that level is \$8.52 million and \$6.56 million respectively.

The revaluation each year of hedge contracts based on a calculated forward price path for energy which must be

accounted for annually creates this significant volatility in declared profits.

Cash flow balance at year end was \$3.45 million after declaring an annual dividend of \$0.24 per share fully imputed for tax. Operating cash flow was \$5.92 million for the year more than sufficient to cover the \$4.5 million dividend to share holders.

In general terms the company had a solid result in spite of the recession and owes no debt.

The value of share holder funds has reduced by 11% as the share price reduced on the trading market.

The under lying value of the shares would still be considerably higher than this value if the asset was ever sold.

The Lines Company Ltd

The Company continues to provide an improving standard of network reliability with outages at 290 minutes per customer compared with a standard of 527 minutes per year.

The number of supply interruptions per customer is 4.68 against a standard of 6.3.

TLC continues to expand its operations outside of its core network business in order that it can earn more than the government regulated financial return.

To fund this it is increasing debt that reached \$45 million at 31st March 2009.

The network and metering divisions have made reasonable returns although \$1.6 less than their combined 2008 result and the other investments are not yet contributing to profits. Overall profit after tax fell from \$8.095 million to \$4.03 million. Cash flow generated was \$11.187 million with \$1.089 million closing balance.

Generally a disappointing result which has seen the dividend to the Trust reduced to \$150,000 from \$400,000 in 2008.

Customer tariffs are being progressively increased to cover the cost of asset renewals that are required as their age increases.

Trustees have had a vigorous debate with the Board over the level of increases, the rate at which renewals must be progressed and why some of the cost of long life assets can not be debt funded rather than paid 100% from network revenue.

Note: Both Companies results in summary are appended to this report and full reports are on their websites: www.kce.co.nz and www.thelinescompany.co.nz.

Interest

The Trust policy of placing unallocated funds into term deposits and spreading the risk between two banks provided an interest income of \$799,653 with no loss of capital value.

Trust Costs

The cost of running the Trust at \$152,206 was 30% less than the previous year reflecting the elimination of costs associated with the ownership review and share purchase and sale.

Increases are recorded but the three significant changes being the need to employ accounting expertise to prepare accounts for audit, the cost of distributing surplus funds to beneficiaries and the impact of the remuneration policy for Trustees adopted in 2008.

Recording the History of Energy in the King Country

The manuscript written by Helen Reilly is completed and under Michael Turner's supervision, the research phase compiled a huge volume of information that required a revised target upwards for the size of the publication.

Trustees have authorized a larger budget to accommodate this realizing that this is once in a lifetime opportunity to record the history.

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

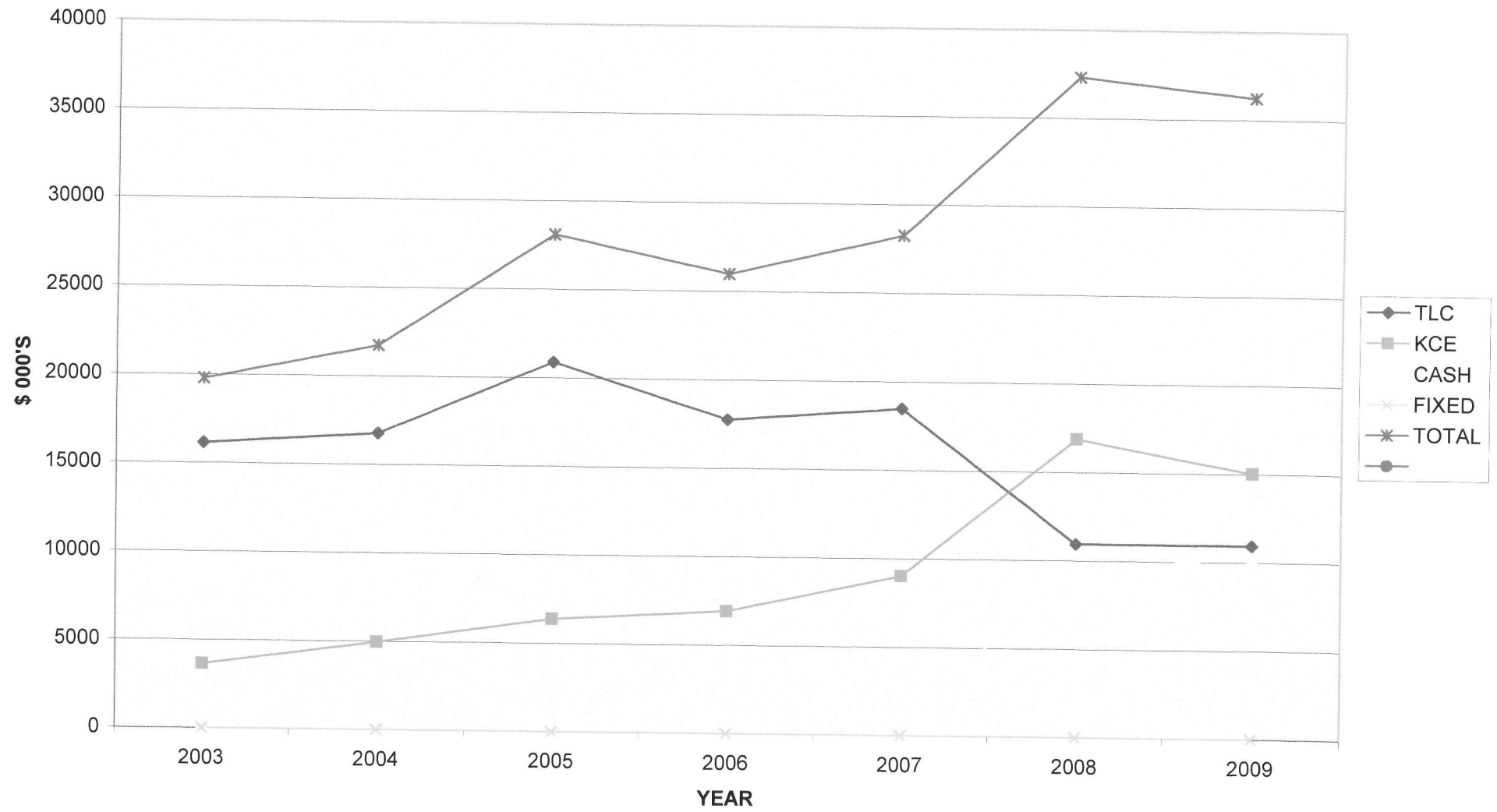
The 2009 year has been one where the focus has been on managing the Trust's investments to a professional standard and representing beneficiaries interests to the two companies who constitute the majority 72% of the funds value.

As Chairman I would like to acknowledge the effort and support of the Trustees and the highly professional secretarial service provided by Tessa Stewart without which your Trust would not operate so efficiently.

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



INCOME STATEMENT

FOR THE YEAR ENDED 31 MARCH 2009

	Notes	Group		Parent	
		31.03.09	31.03.08	31.03.09	31.03.08
		\$'000	\$'000	\$'000	\$'000
Operating Revenue	1	32,849	30,192	6,927	1,366
Operating Expenses	2	(24,275)	(23,594)	(2,285)	(2,153)
Mokau Consent Costs	2	(54)	(33)	-	-
Financing Costs		(561)	(111)	(135)	(111)
		(24,890)	(23,738)	(2,420)	(2,264)
Profit /(Loss) before Financial Instruments		7,959	6,454	4,507	(898)
Fair Value movement on Electricity Derivatives	9	(2,940)	2,127	-	-
Profit /(Loss) Before Tax		5,019	8,581	4,507	(898)
Income Tax	3	(1,610)	(1,727)	445	295
Profit/(Loss) After Tax		3,409	6,854	4,952	(603)

All reported Revenues, Expenses and Profit After Tax are attributable to the owners of King Country Energy Ltd.

Earnings per share (Basic and Diluted) from continuing operations attributable to the ordinary equity holders of the company.

17	\$0.18	\$0.37	-	-
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STATEMENT OF RECOGNISED INCOME & EXPENSES

FOR THE YEAR ENDED 31 MARCH 2009

	Notes	Group		Parent	
		31.03.09	31.03.08	31.03.09	31.03.08
		\$'000	\$'000	\$'000	\$'000
Net Surplus/(Deficit) for the Period		3,409	6,854	4,952	(603)
Income Recognised Directly in Equity					
Deferred Tax on Revaluation Depreciation	3	104	117	2	4
Change in Income Tax Rate	3	-	(22)	-	(2)
		104	95	2	2
Total Recognised Revenue & Expenses		3,513	6,949	4,954	(601)
Ordinary Dividends Paid		(4,500)	(4,500)	(4,500)	(4,500)
Change in Equity for the Year		(987)	2,449	454	(5,101)
Opening Equity		65,840	63,391	30,743	35,844
Closing Equity		65,853	65,840	31,197	30,743

Results in brief

Financial performance

	2009 \$'000	2008 \$'000	2007 \$'000	2006 \$'000	2005 \$'000	2004 \$'000
Revenue	37,540	32,689	29,128	26,727	25,510	22,739
EBITDA	15,504	17,730	16,783	15,145	14,151	12,495
EBIT	8,508	11,600	11,144	9,746	9,600	8,380
Profit before discount and tax	5,741	9,311	9,984	8,660	8,798	7,542
Profit after tax*	4,014	7,037	2,940	1,715	1,804	5,041
Operating cash flow before discounts	11,187	13,063	15,491	12,647	14,460	11,297
Dividends paid	4,033	8,095	132	132	0	132
Special discount	-	-	6,200	6,200	6,200	6,000
Total assets	174,044	136,084	120,809	117,528	114,912	97,043
Shareholder funds	92,888	77,425	76,918	74,055	71,581	70,061
Shareholder equity	89,888	74,425	73,918	71,055	68,581	67,061
Debt to assets ratio	31.3%	28.9%	19.0%	19.3%	20.0%	23.6%
Capital ratio	51.6%	54.7%	61.2%	60.0%	59.7%	69.1%
Return on average equity	4.9%	9.5%	9.8%	8.4%	8.7%	7.7%
Earnings per share before discount net of tax (cents)	33	53	54	45	46	38

* Results of 2004 are prepared under accounting policies before the introduction of New Zealand equivalents to International Financial Reporting Standards. From 2005 on Profit after Tax is also after the discount, whereas previously this was calculated before the discount net of tax was deducted. From 2008 surplus funds are distributed as dividends. The discount for 2008 and 2009 is therefore nil.

Operating performance

	2009	2008	2007	2006	2005	2004
Outage minutes per customer						
Planned	58	81	101	98	93	89
Unplanned	237	167	233	180	172	325
Total	295	248	334	278	265	414
Outage per customer						
Planned	0.81	0.34	0.52	0.60	0.50	0.52
Unplanned	3.87	2.58	2.73	3.20	2.97	4.31
Total	4.68	2.92	3.25	3.80	3.47	4.83