

KING COUNTRY ELECTRIC POWER TRUST



ANNUAL REPORT 2012

The Trustees have pleasure in presenting the eighteenth annual report to the consumer beneficiaries.

ADMINISTRATION

The year ending 31st March 2012 has been one of variable outcomes for the Trust as will be commented on later in this report and financial accounts.

An election for three Trustees was conducted early in our 2012 calendar year and there were no challengers to Messrs Annand, Cosford and Kroll. Their re-election has provided continuity and security to the functioning of Trust affairs and I look forward to working with them for at least another two years and progressing the growth of the Trust's equity and benefits for its beneficiaries.

The Trust's Deed was reviewed and updated to maintain its relevance to the current era and it was subject to examination and comment by you as beneficiaries and finally adopted by Trustees on 19th October 2011.

Our thanks to Mr Norman Annand for leading the review process and Tessa Stewart for handling the administration involved.

Mr Graeme Cosford has overseen the implementation of a programme to encourage King Country citizens to move to "clean air" space heating by subsidising the installation of heat pumps with a \$500 grant from your Trust for each qualifying unit installed.

The project has been highly successful with the installation of 120 heat pumps by the time we hold this year's AGM, today.

Trustees continue to support the Energy Trusts of NZ, the national organisation for electricity company owners, by attending conferences, contributing to discussions and Brian Gurney has been re-elected as the organisations Vice Chairman for a further term commencing May 2012.

As a continued effort to resolve difficulties with The Lines Company demand charging tariff, Trustees followed up the jointly funded independent NZIER report on the system by making a written submission to the company in August 2011 and presented their views direct to Directors on 12th March 2012.

As a result of these exchanges, Trustees are of the view that the board will continue with the unpopular regime, that it will not be an equitable system until all consumers are metered by the same method and a transparent, consistent charging profile is adopted. It is depressing to think that it may take the company at least another three years to get metering in place to achieve this without any guarantee of performance.

An intransigent approach by the company supported by the Waitomo Trust (the major share holder at 90%) who are willing to support the unsatisfactory state of affairs leaves your Trustees frustrated at the unprofessional management of the company resulting in many disgruntled consumers.

The Trust's Director Representatives Messrs Needham and Gurney on King Country Energy's board work diligently to progress the company's performance and growth.

The announced acquisition of the 50% remaining share of Mangahao Hydro Station will remove many of the supply constraints the company has had and this project was enthusiastically supported by your Trustees.

Trustees have continued their contribution to Trust affairs and attended meetings as follows;

Brian Gurney	Omori	15 meetings
Graeme Cosford	Taumarunui	12 meetings
Robert Carter	Taumarunui	15 meetings
Uwe Kroll	Ohakune	11 meetings
Norman Annand	Taumarunui	14 meetings

We record the passing of retired Secretary Mr Ian Dougherty who acted as Secretary and alternate Trustee and advisor for many years and express our condolences to Norma and Craig on their loss.

The Lines Company Ltd

The company has had a disappointing result for the year with net profit after tax (NPAT) achieved being \$6.733million (2011; \$7.744million), a 13% reduction on 2011 while revenue was relatively constant at \$22.3million. Assets have been increased by \$52million to \$233.2million and as a result return on equity has fallen to 4.9% (2011; 7.8%).

Generally costs are escalating and new business developments are not reaching the 8.4% return on investment target set in the 2011 statement of corporate intent.

Dividends from TLC received totalled \$356,000 (2011; \$325,000).

King Country Energy Ltd

The investment has shown an improvement with NPAT \$5.264million (2011; \$4.433million), a 19% increase against a relatively constant revenue of \$32.355million. Equity in the business has also increased to \$100.7million due to the revaluation of generation assets resulting in a return on equity of 5.22% (2011; 5.2%).

For many years KCE has been constrained by being unable to generate sufficient electricity to support retail expansion relying on 40% of its supply from other companies.

Subsequent to this reporting period, it has been widely published that KCE has acquired the 50% of Mangahao generation plant owned by Todd Energy and will now be able to expand its retail business supported by this increased generation capacity.

Dividends have been maintained at 2011 levels of \$900,000 but as these are not fully tax imputed has reduced the tax paid income for the Trust.

King Country Electric Power Trust

In addition to the above results, the Trust's cash investments have been impacted slightly by lower interest rates with cash investment income at \$433,300 (2011; \$435,300).

Overall the Trust's income was \$1.843million (2011; \$2.24million) and expenses aided by not running a full election process reduced to \$228,580 (2011; \$320,000).

Distributions to beneficiaries were similar to last year with \$1.119million being paid out via electricity accounts (2011; \$1.195million).

Trust equity increased from \$30.987million to \$35.393million with a revaluation of KCEPT's holding in TLC being required by auditors every five years.

Trustees continue to seek prudent investments in the energy industry that will enhance beneficiary's Trust funds and for instance have resolved to rebuild to at least 20% its shareholding in KCE over time.

During the 2013 financial year, Trustees are required to undertake an ownership review for the Trust and will be consulting with beneficiaries regarding the Trustee recommendations resulting from the study.

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:

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|---|---|----------|
| ○ | 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 |

Summary


In concluding this report on what has been an eventful year, I would like to thank my Trustee colleagues for their service, support and dedication to pursuing opportunities that will continue to build value and long term benefits for those who are current beneficiaries as well as those of future generations.

Without the administration support provided by Tessa Stewart, much of the progress made would not be possible and Trustees thank her for the professional services she provides.

2013 will be no less challenging than 2012 and I look forward to presenting an even more optimistic review on KCEPT's progress next year.

Signed on Trustees behalf,

Brian J Gurney
Chairman

A handwritten signature in black ink, appearing to read "B. J. Gurney". The signature is stylized with a large, sweeping initial "B" and a horizontal line extending to the right.