

Generating results



King Country Energy

The power behind our community

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For generations to come...

This year, the team at King Country Energy has focused on tightening up our processes and systems to enhance our operations.

It's not the sort of company business that generates headlines in the papers, but it certainly is the sort of thing that matters to our shareholders.

Operational excellence is important to King Country Energy because we know that by improving internally, we'll create positive outcomes that make a huge difference externally.

For instance, by monitoring our compliance with resource consents, we generate positive results for the environment and our neighbours. By tightening up our health and safety policies, we keep our employees and our community safe. And, by supporting key community initiatives, we contribute positively to the health and wellbeing of the people of our region.

This year has been a strengthening one for the company and we hope you agree that because of the progress we're making in the business, King Country Energy is generating results – results that matter to our shareholders, our customers, our staff and our community.



THE NUMBERS

12c
DIVIDEND

Unimputed final dividend to be paid on
5 August 2011

12c fully imputed final dividend to
31 March 2010, paid on 6 August 2010

\$8.5m
EBITDAF

\$6.2m for the year ended 31 March 2010

\$4.4m
NPAT

\$1.6m for the year ended 31 March 2010

\$6.1m
NET OPERATING CASH FLOW

\$7.1 for the year ended 31 March 2010

229 GWh
RETAIL LOAD

239 GWh for the year ended 31 March 2010

117 GWh
GENERATION VOLUME

120 GWh for the year ended 31 March 2010

Generating security

The Electricity Authority, the Electricity & Gas Complaints Commission, the Resource Management Act, workplace health and safety guidelines . . . regulatory management has become an increasingly important function for King Country Energy.

Ensuring we protect our staff, our environment and our assets, while complying with ever-changing regulations and legislation, has been a top priority for King Country Energy this year.

Part of our strategy to prioritise these issues saw us appoint Sande Jansen in 2010 as our new Compliance Administrator.

“Staying ahead of rules, regulations and laws is becoming increasingly important for every company in New Zealand – this isn’t a unique phenomenon to King Country Energy.

“The purpose of my role is to work with the management and operations teams, to achieve the highest standards in regulatory management. By centralising this function, King Country Energy can ensure it remains abreast of the latest updates. This also allows us to focus on implementing effective systems and reporting to ensure health, safety, environmental and regulatory standards are an integral part of King Country Energy’s daily operations. In a short time, we’ve already achieved some great results,” explains Sande.

One of the team’s first priorities was to implement a major review of King Country Energy’s health and safety policies and procedures to ensure staff safety, while also meeting the needs of the generation side of our business. This is particularly important because generation is influenced by regulations specific to the electricity sector, which are continually reviewed and improved as the industry changes.

“The revamp of the health and safety manual for our generation team will ensure we keep pace with industry changes. The end result will be that we can continue to protect our staff, the community and the company,” says Sande.

Our generation sites also have a large number of resource consent requirements to meet in their daily operations. An independent audit in 2010 showed that, while our compliance was good, our monitoring systems needed improvement, particularly in tracking the reporting of results. A new monitoring program has been put in place to ensure that we reduce our risk of consent breaches, thereby protecting the environment in which we operate.

Part of King Country Energy’s focus on compliance has seen us enhance processes and systems in line with world-leading International Standardisation Organisation (ISO) standards for data administration and reporting, as required by the Electricity Authority.

“We are also working to analyse our current systems and implement change to ensure we meet ISO standards. As we put these measures in place, our customers, staff and shareholders can be certain King Country Energy is striving toward operational excellence.

“And, in the end that means our staff, our community and our environment are protected and we’re therefore generating security for our assets and shareholders,” says Sande.



The Generation Team and our Compliance Administrator have worked to make improvements in our health & safety policies and procedures this year and has achieved excellent results.

Strengthening the fundamentals

The financial year to 31 March 2011 has been a successful one for King Country Energy. The year produced solid results following the changes the company undertook in the 2009/10 year.

“

The board is very pleased with the sound results achieved this year, highlighting the business has successfully refocused its strategy.

”



Brian Gurney – Chairman

The 2010/11 financial result is sound and highlights the strength of the underlying fundamentals of the business.

The following is a summary of the year's financial performance.

Financial Performance

King Country Energy's consolidated net profit after tax was \$4.4 million for the year ending 31 March 2011. This represents an exceptional increase of 175% compared with \$1.6 million recorded last year. This result includes the positive impact of the fair value adjustments for financial instruments of \$1.5 million.

Reported earnings before interest, tax, depreciation, amortisation and fair value movements on financial instruments (EBITDAF) was \$8.5 million, an increase of 37% on the previous year.

Operating revenue remained steady at \$33.1 million compared to \$33.2 million last year.

Total operating expenses of \$27.1 million decreased 3% on the previous year. This was primarily driven by two factors:

1. A 7% reduction in electricity volumes purchased during the year; and
2. The prior year's operating expenses including a \$0.5 million adjustment for the impairment of some assets, resulting from the revaluation of generation assets.

Operating cash flow was \$6.1 million for the year – down 14% from last year.

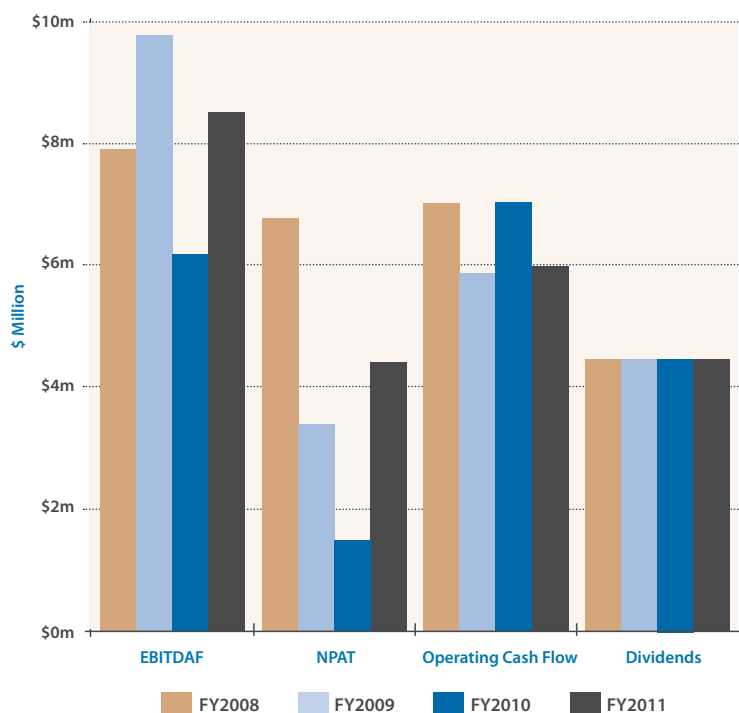
Total electricity volume sold was 229 GWh – a decrease of 4% on last year. This decrease was mainly due to the loss of large contract customers as a result of the strategic shift from volume based growth to a focus on margin.

King Country Energy's total customer numbers remained steady with approximately 19,000 connections supplied this year.

The New Zealand wholesale electricity spot market will always be volatile. Yet, King Country Energy's hedge policy significantly reduces our exposure to this market. There are times, however, when the company has net electricity to sell or buy at spot prices as a result of our risk management strategy. Additionally, a thorough review of our pricing strategies has provided further resilience to this spot price volatility in the current year.

The key financial measures of EBITDAF, net profit after tax (NPAT) and operating cash flow are summarised in the following chart (see over page), together with dividend distributions.

Key Financial Measures



Financial Position

King Country Energy's balance sheet as of 31 March 2011 remains in good shape. Shareholders' funds have increased to \$85.2 million from \$83.9 million last year.

A positive net cash balance at 31 March 2011 of \$6.1 million was recorded, in the balance sheet, compared to \$5.2 million as of 31 March 2010.

Strategic Review

During the year, the board and senior management participated in a strategy review day where we reassessed the business's medium and long-term plans.

Part of this day was attributed to reviewing the proposed Mokau hydro-generation development.

Regulatory Issues

As we outlined in our 2010 annual report, regulatory regimes in the industry continue to create delays and costs for all energy companies.

During the 2011 financial year, King Country Energy appointed a Compliance Administrator to manage on-going regulatory requirements. This role provides a dedicated regulatory resource for our business and allows operational staff to focus more time on growth and efficiency improvements.

Governance

Richard Tweedie retired from the board in December

2010 after 13 years as a director. The board would like to thank Richard for his significant contribution to King Country Energy over the years.

Following Richard's retirement, Stephen Armstrong was appointed to the board in December 2010. Stephen is the Chief Financial Officer of The Todd Corporation and, for the past two years, had acted as alternate director for Richard.

This year, Brian Needham and Toby Stevenson are due for re-election to the board by rotation. Also, with Stephen Armstrong being appointed to the board in December, he stands for election at the 2011 annual general meeting.

Dividends

Directors are pleased to recommend a final dividend of 12 cents per share (with no imputation credits attached), payable on 5 August 2011 (record date of 1 August 2011). This, together with the interim dividend of 12 cents per share (fully imputed), provides a total payout of 24 cents per share for the financial year to 31 March 2011.

The final dividend provides shareholders with a gross return of 29.14 cents per share – a 9% return based on the share price of \$3.25 at year end.

The company confirms that, following payment of the final dividend, there is sufficient cash flow and working capital available for current funding requirements.

Change to Dividend Payments

The board and management team have reviewed the ability of King Country Energy to continue paying fully imputed dividends.

Historically the company prepaid a significant portion of its income tax to continue to provide fully imputed dividends. This is an inefficient use of capital and, accordingly, the board has decided to discontinue the previous practice of prepayment of tax.

Therefore, future dividends will not be imputed until the timing of tax payments aligns with the tax liability falling due. It is, therefore, unlikely that dividend payments made during the financial year ending 31 March 2012 will have imputation credits attached.

“ The company has the strong foundation required to maintain its position as the number one electricity retailer in the King Country region. ”

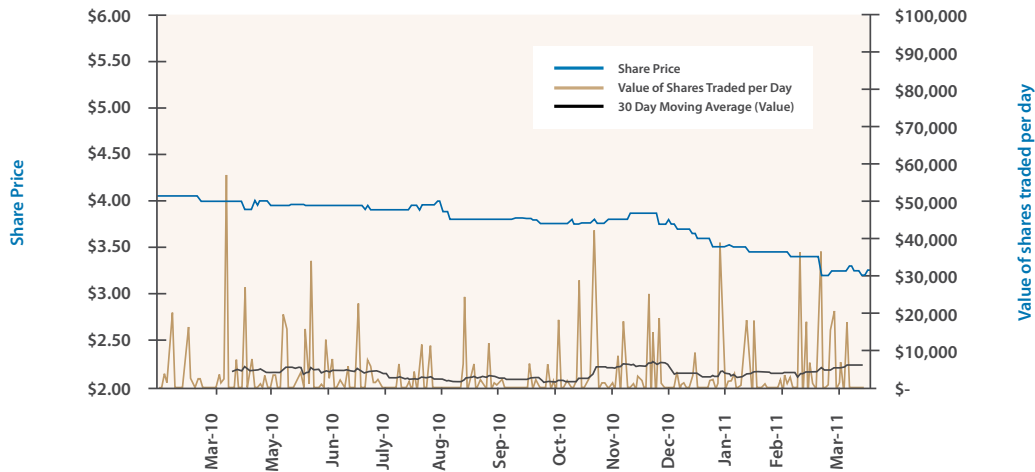
Auditors

Ernst & Young has notified King Country Energy it wishes to continue in the audit role for the current financial year.

Share Price

The share price over the 12 months traded in the range of \$3.20 to \$4.00 and closed at \$3.25. The following chart shows the historic trading pattern.

Share Price and Value Traded for last 12 months



Future Outlook

The board is very pleased with the sound result achieved this year, which highlights the business has successfully refocused its strategy. Directors and management are extremely optimistic about the year ahead and the opportunities in front of us.

Even though many factors – such as future wholesale electricity hedge market prices and the impact of Government energy policy – continue to create uncertainty in the electricity market, the board remains ever-certain that King Country Energy is well-equipped to meet these challenges head-on. The company has the strong foundation required to maintain its position as the number one electricity retailer in the King Country region.

The board would like to thank King Country Energy staff for their dedication and perseverance this year. The result highlights the depth and breadth of our people's

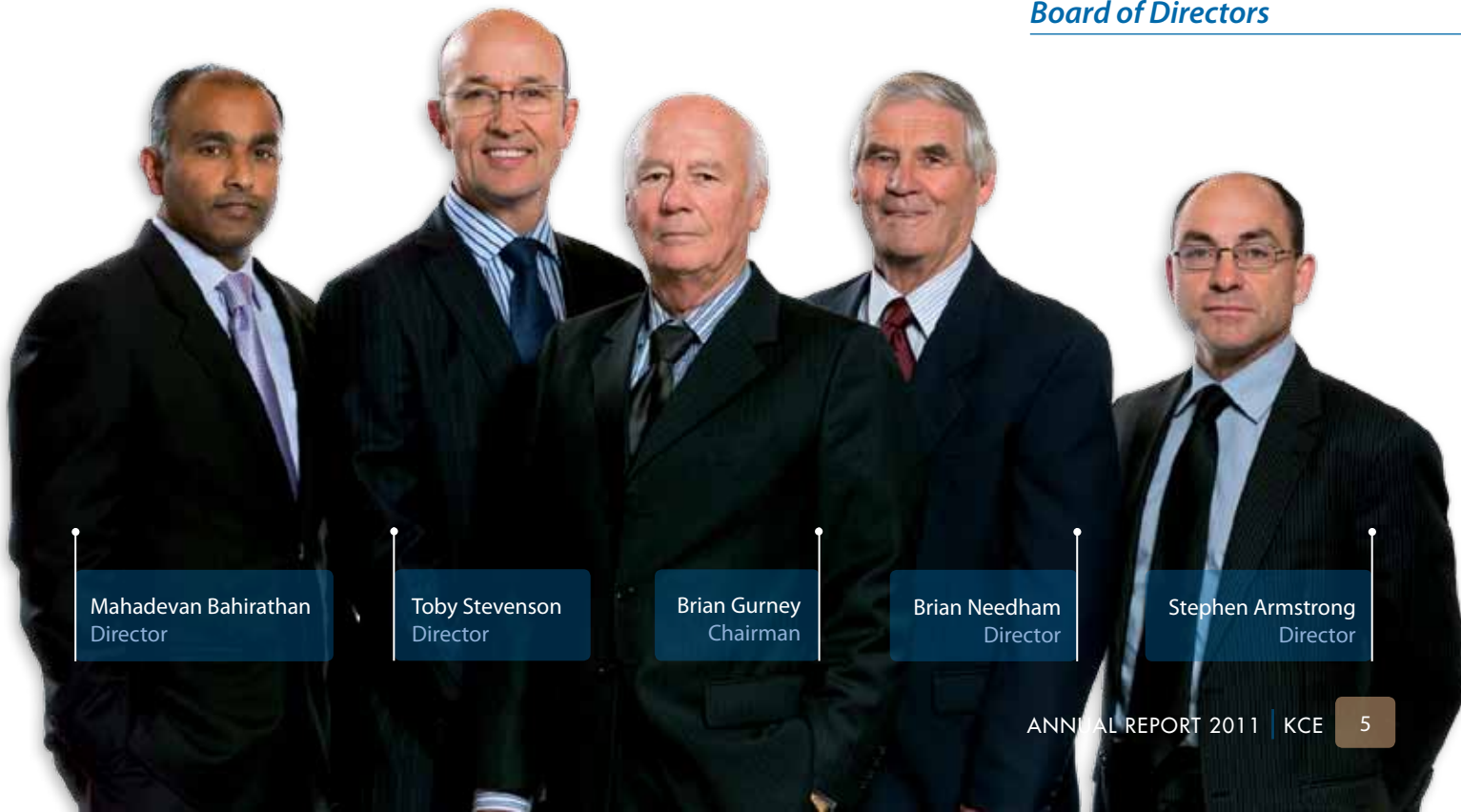
experience and we remain confident our staff can lead the company into the next phase of growth and development.

I would like to thank my fellow directors for their continued cooperation and professional judgement.

And finally, I would like to thank you, our shareholders, for your continued support and loyalty as we move forward together into the future.

Brian Gurney
Chairman

Board of Directors



Mahadevan Bahirathan
Director

Toby Stevenson
Director

Brian Gurney
Chairman

Brian Needham
Director

Stephen Armstrong
Director

Reaching goals together

During 2010, King Country Energy was proud to announce we are now the official sponsor of Netball Waikato.

Our support is helping provide netball programmes and initiatives to over 1400 players in our King Country region. We've also secured naming rights to three netball centres at Taumarunui, Maniapoto and Otorohanga.

It is our hope that our support will result in the sport of netball being strengthened throughout our region, with more sporting opportunities opening up for players of all ages and abilities over the coming year.

KCE Taumarunui Netball Centre administrator, Julie Gilbert, recently shared with us that our sponsorship will make a big difference for her centre this year.

"KCE's support means we can subsidise fees for Rep Team players. We have around 50 boys and girls on our five teams and each has been required to pay \$10 each time we travel out of town. Being able to halve this fee means more children can afford to get involved and the financial burden is lessened for our many families with multiple children. It's a major benefit we can offer.

"We'll also use some of KCE's support funds to buy a large tent, which we can erect at both home and away games in poor weather. This will make a huge difference by keeping people as comfortable and dry as possible on rainy, wintery days," says Julie.

The KCE Taumarunui Netball Centre has 400 players participating in the sport and an additional 100 helpers, including umpires, coaches, managers and other volunteers. "The number of local people participating in netball is a substantial cross-section of our community. That means KCE is making a big impact on the health and wellbeing of many people in the wider community," says Julie.

For many years, King Country Energy has been committed to supporting initiatives that help create

a healthy community while providing safe, fun and educational activities for our region's young people.

It's great to hear from Julie and our other centre managers that our partnership with Netball Waikato can play a part in helping to generate a strong and healthy community.

Netball Waikato has a strong track record of delivering quality programmes throughout the Waikato while using corporate support wisely, which was a major consideration when evaluating our potential sponsorship. Netball Waikato's reputation as an organisation and its passion and commitment to furthering the game were important factors in our decision.

Netball Waikato Chair, Lynette Flowers says, "Having KCE in our family of official sponsors of Netball Waikato Region has been wonderful. The players, umpires, coaches, administrators and volunteers who work so hard in a rural environment to provide netball, have really appreciated the support of KCE.

"To have such a major business acknowledging the need and the worth of netball is very empowering. It means that this community is given another choice for enjoyment, competitiveness and keeping fit. The netball centres in Otorohanga, Maniapoto and Taumarunui are extremely grateful as KCE is the Naming Rights Sponsor of these three centres. Netball Waikato is thrilled that KCE is the power behind our netball community."

Netball Waikato has over 14,000 registered players, 1,150 coaches and 300 qualified umpires.

Netball Waikato and KCE are looking forward to an ongoing relationship to benefit the netball community in the King Country and throughout the Waikato.



“

Netball Waikato is thrilled that KCE is the power behind our netball community.

”

*Lynette Flowers
Netball Waikato Chair*



Maintaining our strong position

For King Country Energy, this financial year was a strong one for both the retail and generation sides of the business.

In retail we maintained our strong position within King Country Energy's traditional trading area with total retail revenue slightly exceeding budget expectations. Generation output was 7.9% below the long-term average, primarily due to fluctuating hydrology, particularly during November where inflows were over 50% below historical November averages. However plant availability was good, allowing us to take advantage of price spikes in early 2011.

Nationally, the hydrology situation had some variability with high inflow periods occurring in the lead up to winter 2010, during early spring and throughout most of the summer period. The resulting movements in wholesale electricity spot prices saw periods that both favoured and adversely affected the company. However, on balance, the overall impact of spot price variability over the course of the year was neutral.



Rob Foster – Chief Executive Officer

“

Our strategic commitment to maintaining a high standard of customer service continues to achieve low customer turnover rates and the embedded nature of our operations further enhances our position in the region.

”

National Market Situation

Nationally, hydro storage levels were above average for the entire financial year, except for a brief period in August 2010. Inflows for the full 12 month period were also above average. However there were periods where inflows were below average, particularly in winter and late spring. This highlights that the large hydro generators continue to hold back more water than in the past, reflecting the higher value placed on stored water.

The following charts (top right) highlight the hydrology situation relative to previous years.

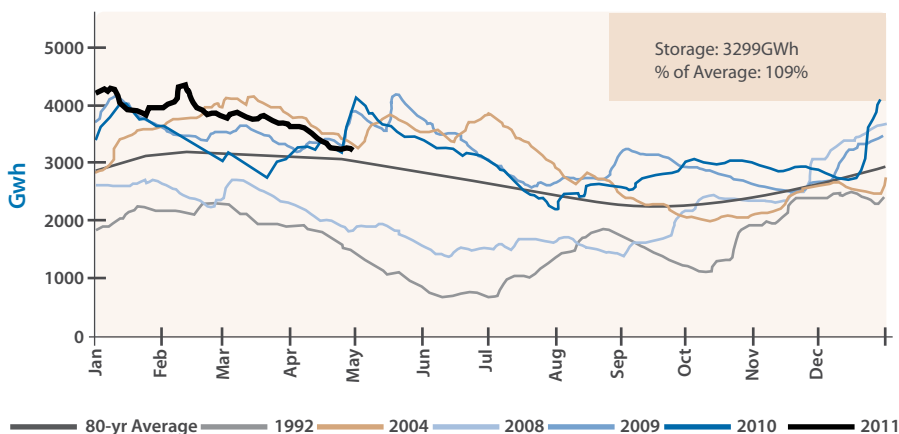
Generation

Total internal generation was 117 GWh for the year with 57 GWh being generated at our King Country sites and 60 GWh being generated at Mangahao hydro station in Manawatu – our joint venture interest. The total volume generated was below our projection of 125 GWh due to low hydrology in our catchment areas during late spring.

The average price achieved by our generation stations was \$56 per MWh for spot market sales, as compared to a market average of \$58 per MWh. As in previous years, the spot price profile was considerably different than projected, with lower prices in winter and higher prices in summer. This anomaly occurred despite the higher than average national storage levels.

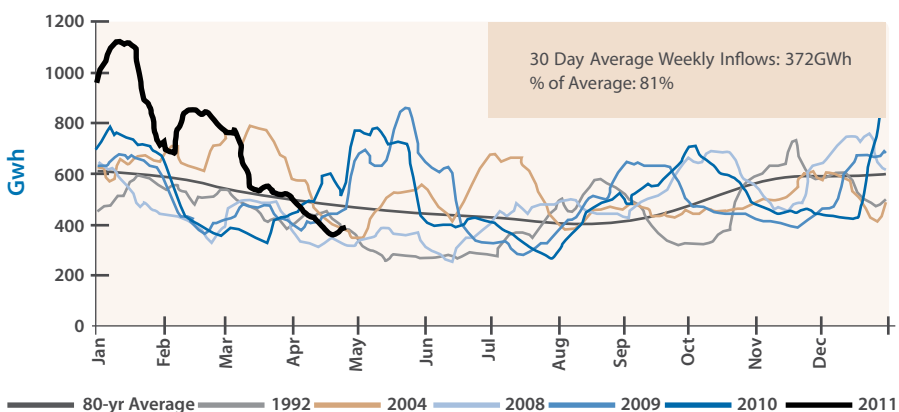
The following chart (page 9, bottom right) highlights the effect of actual spot price compared to projected price, as well as the monthly output of our generation assets relative to demand.

New Zealand Daily Storage



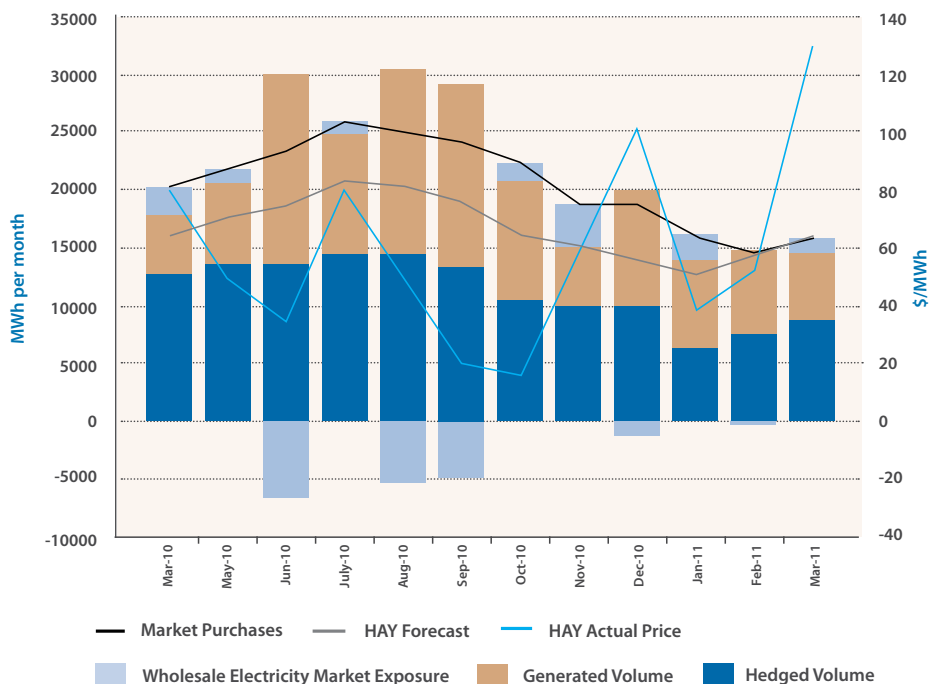
Source: NIWA

New Zealand Weekly Inflows – 30 Day Average



Source: NIWA

Supply and Demand Volumes



Our generation team actively manages King Country Energy's asset base to preserve value for the future. Generation maintenance works for the year included:

- Runner maintenance at Mangahao's 28 MW primary unit
- Kuratau dam maintenance and re-armouring of the dam wall
- Kuratau canal de-silting and vegetation management
- Piriaka gearbox overhaul
- Mokauiti substation upgrade

Additionally, Mangahao's main unit runner upgrade is progressing well. The new unit design was completed this year and the manufacturing process will begin in late 2011. Installation of the new unit is proposed to occur in summer 2013.

Hedging

King Country Energy continues its hedging strategy to cover expected exposure to the wholesale electricity market under dry-year conditions – which is the time when we expect lower output from our own hydro stations.

Therefore, King Country Energy's exposure to the hedge market continues to be a major long-term risk for the business. This on-going risk underpins one of the key strategic goals for King Country Energy, which is to reduce exposure to the medium-term hedge market.

We continue to aspire to become more self-sufficient in energy supply in the long-term to eliminate this risk from our business.

Additionally, as the electricity market reforms announced in 2009 continue evolving, King Country Energy will continue to support a more active and liquid hedge market.

Retail Operations

King Country Energy maintained its strong retail position in its traditional trading area across all market segments.

Our strategic commitment to maintaining a high standard of customer service continues to achieve low customer turnover rates and the embedded nature of our operations further enhances our position in the region.

Retail sales volumes for the year were 229 GWh, a decrease of 4.6%, mainly as a result of the loss of large industrial contracts during the year.

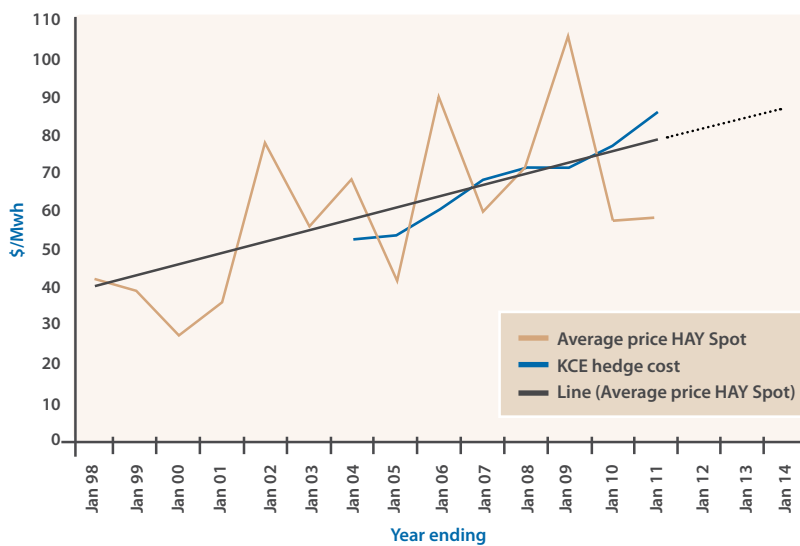
Last year King Country Energy signalled a major re-focus of our retail strategy and moved from a volume-based growth strategy to a margin-based strategy. We have successfully implemented this strategy with customer losses effectively limited to four customers totalling 35 GWh of annual load.

Although wholesale electricity hedge costs continue to increase by over 6% per year, aligning our retail pricing strategies to accommodate these increases has better positioned us for the future.

As reported last year, a 6% general price rise to retail mass market customers was implemented on 1 April 2010, with a price freeze introduced until at least 1 October 2011. This has provided our retail mass market customers with certainty of electricity prices for two winter seasons.

During the year we commissioned call centre operator Datacom to perform an independent review of our customer service centre and benchmark KCE against best practice operations in the industry. The review highlights our customer service centre people and processes are very good and that KCE rates very well against our peers and particularly highlights our "personalised service ethos".

Average Wholesale Electricity Price



During the year, some of the company's hedge contracts expired and were replaced with new contracts. The chart above shows the average, annual wholesale spot price since 1998. The linear trend line tracks the long-term wholesale electricity price. This chart highlights that, over the long-term, the wholesale electricity price has increased at approximately 5.3% per year since 1998.

King Country Energy generally buys hedges two years in advance of usage. Our hedging policy reduces our exposure to volatility from year to year. The above chart highlights that King Country Energy has historically been able to hedge its forward market exposure at prices equivalent to the long-term spot price trend line. Of concern is the on-going increase in hedge prices (6.8% per year, on average) relative to the long-term trend line.



The friendly Retail Business Team

Going forward, King Country Energy will continue improving its market position within its traditional trading area. In adjacent areas, we will continue providing competitive offers to customers who can contribute favourably to the company's marginal earnings.

Community Support

As the leading electricity retailer in our region, King Country Energy is literally the power behind our community and we take this responsibility seriously. The health and wellbeing of our customers and providing support to our young people remain important values to us.

During the year, the company signed a partnership agreement with Sport Waikato to become a premier sponsor of Netball Waikato from October 2010. Our sponsorship means the sport of netball is being strengthened throughout our region, with more sporting opportunities opening up for players over the coming year. The sponsorship provides the company with naming rights for the netball centres located in Taumarunui, Maniapoto and Otorohanga.

King Country Energy will work hard to leverage the Netball Waikato sponsorship and our other initiatives, to ensure our brand recognition is further enhanced within our trading area.

Generating Results

The results for the 2011 financial year highlight that King Country Energy is able to perform very well as a regional retailer in an increasingly challenging market environment. Our combination of appropriate pricing strategies, customer care, community focus, risk-averse management

policies and competent and well trained staff gives us the ability to outperform our competitors and remain the retailer of choice in our region.

Strategically, we remain over-exposed to the hedge market and continue to be influenced by increasing hedge market costs. The past year has seen this risk increase, especially as increasing volatility in the spot market continues to impact on the hedge market. However, we continue to mitigate these risks and are working to become self-sufficient in energy supply in the long-term. To that end, we have actively pursued two opportunities.

Finally, I would like to acknowledge and thank our dedicated staff for their hard work during the past year. Our people make up a genuinely top-quality team and remain the greatest asset in our business who our shareholders can be proud to support.

We are very excited about the coming year which is already showing new challenges for our business. With so many positive achievements under our belts in 2010/11, our team is spurred on to well and truly meet and overcome these challenges. My team and I remain focused on building on what we have achieved and generating on-going results and value for you, our shareholders.

“ King Country Energy is literally the power behind our community and we take this responsibility seriously. ”



Rob Foster
Chief Executive Officer

Management Team



Pamela Walklin
Chief Financial Officer

Helen Peacock
Retail Business Manager

Rob Foster
Chief Executive Officer

Chris Fincham
Energy Supply Manager

Statement of Corporate Governance and Statutory Information

King Country Energy Limited is a limited liability company, registered under the New Zealand Companies Act 1993. A copy of the company's constitution can be obtained from the company's registered office.

Directors are also directors of the subsidiary companies of King Country Energy Limited. Unless otherwise stated, their appointment is for the period covered by this report.

The composition of the board changed during the year, with Richard Graham Tweedie retiring and Stephen Robert Armstrong being appointed by the board, on the 23rd of December 2010. Prior to his appointment, Stephen Armstrong was the alternate director for Richard Tweedie.

Role of the Board of Directors

The directors of King Country Energy are elected by the shareholders and are responsible for the strategic direction of the group, with a focus being to protect and enhance the value of King Country Energy's business, in the interests of the company and for all its shareholders and key stakeholders.

The board draws on the skills, knowledge and experience of directors, using accepted corporate governance principles, to contribute to the performance of the group.

The board's role includes monitoring management's implementation of the company strategy, approving the annual budget, reviewing the financial performance to that budget and ensuring the integrity of reporting. The board is responsible for ensuring there are effective audit,

risk management and compliance policies and systems, to protect the assets of King Country Energy and minimise the risk of operating outside legal requirements and acceptable risk parameters. This includes monitoring compliance with regulatory requirements and ensuring effective delegations are operating. The board monitors and manages the performance of the chief executive officer.

Operations of the Board

The King Country Energy board has six full meetings including a strategic planning session each year. As required, the board holds meetings to discuss substantial projects or material changes in circumstances that may arise.

The board operate a hedge working group, consisting of two directors, Babu Bahirathan and Toby Stevenson. This group works in conjunction with management, to review King Country Energy's spot market exposure and hedge market options and determine the hedge acquisitions required to manage King Country Energy's exposure to wholesale electricity market volatility.

The board is implementing a remuneration committee, which has three directors as members, Brian Gurney, Stephen Armstrong and Toby Stevenson. The role of this sub-committee will be to review and recommend to the board, the overall remuneration policy and annual review process for directors and senior executives of the company, to ensure King Country Energy can attract, motivate and retain directors and executives who will create shareholder value and to undertake the bi-annual performance review of the chief executive officer.

Directors Attendance at Scheduled Meetings

	For year to 31 March 2011	For year to 31 March 2010
B J Gurney – Chairman	7	6
S R Armstrong (appointed in December 2010)	1	-
M Bahirathan	7	6
G R H Gower (retired in July 2009)	-	2
B L Needham	7	6
T W Stevenson (appointed in July 2009)	7	3
R G Tweedie (retired in December 2010)/ S R Armstrong (as alternate)	5	6
Meetings scheduled	7	6

Directors Remuneration

	For year to 31 March 2011	For year to 31 March 2010
B J Gurney	\$40,333	\$38,200
S R Armstrong	\$7,158	-
M Bahirathan	\$28,633	\$27,100
G R H Gower	-	\$ 9,033
B L Needham	\$28,633	\$27,100
T W Stevenson	\$28,633	\$13,550
R G Tweedie	\$21,475	\$27,100
	\$154,865	\$142,083

Director Benefits

No director of the company has, since the end of the previous financial year, received or become entitled to receive a benefit (other than a benefit included in the total emoluments received or due and receivable by directors as shown on page 12).

Directors and Officers Insurance

The company has arranged comprehensive policies of insurance which indemnify directors and officers against

specific legal liabilities which may arise as a result of actions undertaken by them in the course of their duties, provided they operate in good faith and within the law. The directors and officers insurance cover during the year was \$15 million. During the year, the company paid insurance premiums totaling \$10,235 (2010: \$10,125) in respect of directors and officers liability insurance. The policies do not specify the premiums for individual directors and officers.

Director Shareholdings

	Number Held at 31 March 2011	Number Held at 31 March 2010
B J Gurney	4,730	4,140
B L Needham - beneficial interest	4,262	3,672
R G Tweedie	29,000	29,000

Other Directorships

Brian John Gurney (Chairman)

King Country Electric Power Trust – Trustee and Chairman

Mahadevan Bahirathan

BMG Group Ltd, Crest Energy Ltd

Brian Leslie Needham

Toby William Stevenson

Lulu Holdings Ltd, TWS Consulting Ltd

Stephen Robert Armstrong

Todd Carbon Ltd, Solar Heating Solutions Ltd, Rabjaks Ltd, Moody Creek Ltd, Nova Energy Solar Ltd, Todd Petroleum Australia Ltd, Makara Wind Farms Ltd, Todd Exploration Ltd, Todd Tasman Oil Ltd, Independent Energy Ltd, GXL Royalties Ltd, Todd Shipping Ltd, Viking Holdings Ltd, Todd Taranaki Ltd, Todd Petrogas Ltd, Todd Coal Ltd, Nova Gas Ltd, Todd Maari Ltd, Viking Mining Company Ltd, Todd Pohokura Ltd, Viking Investments Ltd, Todd Mangahao Ltd, The Wellington Gas Company Ltd, Bay of Plenty Energy Ltd, Todd Energy Ltd, Shell Todd Oil Services Ltd, Hydro West New Zealand Ltd, The Auckland Gas Company Ltd.

Interests Register

The company and its subsidiaries are required to maintain an interests register in which the particulars of certain transactions and matters involving the directors must be recorded. The interests register for the company is available for inspection at the head office of the company.

Use of Company Information

No director issued a notice requesting to use information received in their capacity as a director which would not otherwise be available to the director.

Twenty Largest Shareholders

The names of the twenty largest shareholders as at 31 March 2011 are listed below:

Name

	Number Held	%
Todd Energy Limited	6,633,046	35.4
King Country Electric Power Trust	3,749,990	20.0
Hedged Custodians Limited	249,044	1.3
Custodial Services Ltd No. 3 Account	135,830	0.7
JBWere (NZ) Nominees Limited	112,454	0.6
A E & P K Guy & J E C Anderson	109,590	0.6
Leveraged Equities Finance Limited	101,105	0.5
L M Fitness	100,000	0.5
B A Hart & L M Fitness & K J Gilligan	100,000	0.5
A P Thomas & G E Thomas	82,000	0.4
Custodial Services Ltd No. 2 Account	79,712	0.4
A D Maxwell	76,456	0.4
ASB Nominees Ltd	69,500	0.4
R E Buckley	62,804	0.3
P R Muir	57,500	0.3
Custodial Services Ltd No. 18 Account	48,704	0.3
A J Nation & S C Nation & P G Brown	48,315	0.3
A J Nation & J D Hammond & T A Nation	42,164	0.2
S C Nation & J A Nation & K J Young	42,163	0.2
L J Christie	42,000	0.2
	11,942,377	63.5

The distribution of the shareholdings as at 31 March 2011 is as follows:

Holdings Ranges

	Holders	Total Units	%
1-1,000	6,254	2,751,745	14.68
1,001-5,000	1,612	2,770,860	14.78
5,001-10,000	62	478,806	2.55
10,001-100,000	57	1,657,530	8.84
100,001-10,000,000	7	11,091,059	59.15
	7,992	18,750,000	100.0

Employee Remuneration

Employees who received remuneration and other benefits during the year ended 31 March 2011 exceeding \$100,000 were:

Continuing Employees	Number of Employees	
	2011	2010
\$100,000 - \$110,000	1	-
\$110,000 - \$120,000	1	1
\$130,000 - \$140,000	1	1
\$140,000 - \$150,000	1	1
\$280,000 - \$290,000	1	-
Discontinuing Employees		
\$140,000 - \$150,000	-	1

Auditors

The remuneration for services provided by auditors for the current year is set out in Note 2 to the Financial Statements. The principal auditor for the group is Ernst & Young. During the current year, no services other than audit services were provided by Ernst & Young.

Donations

The company donated \$10,000 to the New Zealand Red Cross 2011 Christchurch earthquake appeal during the year (2010: Nil).

Notice of Meeting

Notice is hereby given that the nineteenth Annual General Meeting of shareholders of King Country Energy Limited will be held at Powderhorn Chateau, Bottom of Mountain Road, Ohakune, on the 28th of July 2011, at 1:00pm.

Ordinary Resolutions

1. To receive and adopt the enclosed Financial Statements together with the Reports of the directors and auditors for the 12 months ended 31 March 2011.
2. To confirm the final dividend authorised by the board, being the payment of twelve cents per share (with no imputation credits attached), out of retained earnings and amounting to \$2,250,000 to be paid on the 5th August 2011.
3. To elect one director on the retirement of Mr Brian Needham who, being eligible under Clause 16.4 of the Constitution offers himself for re-election.
4. To elect one director on the retirement of Mr Toby Stevenson who, being eligible under Clause 16.4 of the Constitution offers himself for re-election.
5. To elect Mr. Stephen Armstrong who was appointed to the board on the 23rd of December 2010 and being eligible under Clause 16.5 of the Constitution offers himself for election.
6. To approve the remuneration of the directors pursuant to Clause 16.7.1 of the Constitution. The directors recommend that their remuneration remain at the current level of \$159,000 for the year ending 31 March 2012 to be divided amongst them in such manner as they determine.
7. To appoint Ernst & Young as auditor of the company pursuant to section 200(1) of the Companies Act 1993.
8. To authorise the directors to fix the remuneration for the ensuing year of the auditors.
9. To transact any other business which may be brought forward, in conformity with the Constitution.

General Note

1. All shareholders entitled to vote at the meeting may appoint a proxy to attend and vote on their behalf. A postage paid proxy form has been enclosed in this pack. The proxy need not be a shareholder of the company but proxy forms must be deposited at the registered office of the company at least 48 hours before the time of the meeting.
2. In the case of joint shareholders, the vote of the senior who tenders a vote, whether in person or by proxy, will be accepted to the exclusion of the votes of the other joint holders and for this purpose, seniority will be determined by the order in which the names stand in the share register.
3. Shareholders attending the meeting are requested to allow sufficient time for formalities at entry to permit the meeting to commence promptly at 1.00 pm.

**The Directors are pleased to present the financial statements of
King Country Energy Limited and Group for the year ended 31 March 2011.**

The Directors are responsible for ensuring that the financial statements give a true and fair view of the financial position of the Group as at 31 March 2011 and its financial performance and cash flows for the year ended on that date.

The Directors consider that the financial statements of the Group have been prepared using appropriate accounting policies, consistently applied and supported by reasonable judgements and estimates and that all relevant financial reporting and accounting standards have been followed.

The Directors believe that proper accounting records have been kept that enable, with reasonable accuracy, the determination of the financial position of the Group and facilitate compliance of the financial statements with the Financial Reporting Act 1993.

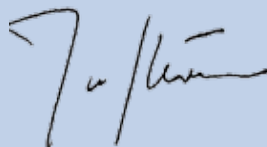
The Directors consider they have taken adequate steps to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

The Board of Directors of King Country Energy Limited authorised these financial statements, set out on pages 18 to 47, for issue on 2 June 2011.

For and on behalf of the Board



Brian Gurney
Chairman



Toby Stevenson
Director

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 MARCH 2011

	Note	Group		Parent	
		31.03.11 \$'000	31.03.10 \$'000	31.03.11 \$'000	31.03.10 \$'000
Operating Revenue	1	33,108	33,280	6,360	6,355
Operating Expenses	2	(27,051)	(27,898)	(2,687)	(2,503)
Mokau Consent Costs	2	(175)	(1,578)	-	-
Financing Costs		(130)	(153)	(130)	(154)
		(27,356)	(29,629)	(2,817)	(2,657)
Profit before Financial Instruments		5,752	3,651	3,543	3,698
Fair Value Movement on Electricity Derivatives	9	1,474	(1,291)	-	-
Profit Before Tax Expense		7,226	2,360	3,543	3,698
Income Tax Expense	3	(2,793)	(800)	784	697
Profit After Tax Expense		4,433	1,560	4,327	4,395
Other Comprehensive Income:					
Revaluation Gain on Land, Buildings and Generation Plant		-	30,133	-	384
Income Tax Expense on Items of Other Comprehensive Income	3	1,316	(8,103)	9	(105)
Other Comprehensive Income for the Period Net of Tax		1,316	22,030	9	279
Total Comprehensive Income for the Period		5,749	23,590	4,336	4,674

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	\$0.24	\$0.08	-	-
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The above Statement of Comprehensive Income should be read in conjunction with the Notes to the Financial Statements on pages 27 to 47.

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 MARCH 2011

	Group		Parent	
	31.03.11	31.03.10	31.03.11	31.03.10
	\$'000	\$'000	\$'000	\$'000
Opening Equity	83,943	64,853	31,371	31,197
Total Comprehensive Income Attributable to Owners	5,749	23,590	4,336	4,674
Dividends Paid to Shareholders	(4,500)	(4,500)	(4,500)	(4,500)
Closing Equity	85,192	83,943	31,207	31,371
Reconciliation of Movement in Equity				
Ordinary Shares				
Opening & Closing Balance	26,267	26,267	26,267	26,267
Asset Revaluation Reserve				
Opening Balance	50,110	28,080	321	42
Portion of Other Comprehensive Income	1,316	22,030	9	279
Portion of Total Comprehensive Income	1,316	22,030	9	279
Closing Asset Revaluation Reserve	51,426	50,110	330	321
Retained Earnings				
Opening Balance	7,566	10,506	4,783	4,888
Profit for the Period	4,433	1,560	4,327	4,395
Portion of Total Comprehensive Income	4,433	1,560	4,327	4,395
Ordinary Dividends Paid	(4,500)	(4,500)	(4,500)	(4,500)
Closing Retained Earnings	7,499	7,566	4,610	4,783
Closing Equity	85,192	83,943	31,207	31,371

Note

The above Statement of Changes in Equity should be read in conjunction with the Notes to the Financial Statements on pages 27 to 47.

BALANCE SHEET

AS AT 31 MARCH 2011

	Note	Group		Parent	
		31.03.11	31.03.10	31.03.11	31.03.10
		\$'000	\$'000	\$'000	\$'000
Shareholders' Equity					
Share Capital	4	26,267	26,267	26,267	26,267
Reserves	5	51,426	50,110	330	321
Retained Earnings	6	7,499	7,566	4,610	4,783
Total Equity		85,192	83,943	31,207	31,371
Represented by:					
Current Assets:					
Cash & Bank Balances		6,092	5,169	6,080	5,148
Trade & Other Receivables	7	2,764	3,360	31	349
Income Tax Receivable		1,814	1,716	4,516	3,959
Derivative Financial Instruments	9	430	150	-	-
Intercompany Balances	15	-	-	6,601	8,849
Total Current Assets		11,100	10,395	17,228	18,305
Non Current Assets:					
Plant, Property & Equipment	8	93,519	95,577	1,067	1,149
Derivative Financial Instruments	9	768	1,121	-	-
Investment in Subsidiaries	10	-	-	14,300	14,300
Intangible Assets	11	2,260	2,439	655	821
Total Non Current Assets		96,547	99,137	16,022	16,270
Total Assets		107,647	109,532	33,250	34,575
Current Liabilities:					
Trade & Other Creditors		2,173	3,413	1,551	2,791
Customer Credit Balances		452	445	-	-
Borrowings (Lease Obligations)	12	52	69	52	69
Employee Entitlements		222	195	93	77
Derivative Financial Instruments	9	936	1,717	-	-
Total Current Liabilities		3,835	5,839	1,696	2,937
Non Current Liabilities:					
Borrowings (Lease Obligations)	12	26	68	26	68
Derivative Financial Instruments	9	429	1,195	-	-
Deferred Tax	3	18,165	18,487	321	199
Total Non Current Liabilities		18,620	19,750	347	267
Total Liabilities		22,455	25,589	2,043	3,204
Net Assets		85,192	83,943	31,207	31,371

The above Balance Sheet should be read in conjunction with the Notes to the Financial Statements on pages 27 to 47.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 MARCH 2011

Note

Cash Flows from Operating Activities

Cash was Received From:

Electricity Receipts from Customers	29,717	30,595	-	-
Interest Received	191	131	348	355
Other Receipts from Customers	2,799	2,484	-	6
Settlement of Derivatives	610	(109)	-	-

Cash was Applied to:

Payment for Electricity	(12,539)	(11,974)	-	-
Settlement of Derivatives	(3,593)	(3,147)	-	-
Payment for Line Charges	(1,789)	(1,589)	-	-
Payment to Other Suppliers	(5,004)	(5,151)	(1,258)	(1,157)
Payments to Employees	(2,271)	(2,285)	(1,086)	(963)
Income Tax Paid	(1,896)	(1,750)	(1,896)	(1,750)
Interest on Borrowings	(130)	(153)	(130)	(154)

Net Cash Inflow/(Outflow) from Operating Activities

Cash Flows from Investing Activities

Cash was Received From:

Net Advances from Subsidiaries	-	-	9,596	10,139
Sale of Fixed Assets	10	-	-	-

Cash was Applied to:

Purchase of Fixed Assets	(622)	(789)	(82)	(231)
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Net Cash Inflow/(Outflow) from Investing Activities

Cash Flows from Financing Activities

Cash was applied to:

Borrowings	(60)	(51)	(60)	(51)
Dividend Paid	(4,500)	(4,500)	(4,500)	(4,500)

Net Cash Inflow/(Outflow) from Financing Activities

Total Net Cash Movement

Opening Cash & Bank Balances	5,169	3,457	5,148	3,454
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Closing Cash & Bank Balances

	Group		Parent	
	31.03.11	31.03.10	31.03.11	31.03.10
	\$'000	\$'000	\$'000	\$'000
Cash Flows from Operating Activities				
Cash was Received From:				
Electricity Receipts from Customers	29,717	30,595	-	-
Interest Received	191	131	348	355
Other Receipts from Customers	2,799	2,484	-	6
Settlement of Derivatives	610	(109)	-	-
	33,317	33,101	348	361
Cash was Applied to:				
Payment for Electricity	(12,539)	(11,974)	-	-
Settlement of Derivatives	(3,593)	(3,147)	-	-
Payment for Line Charges	(1,789)	(1,589)	-	-
Payment to Other Suppliers	(5,004)	(5,151)	(1,258)	(1,157)
Payments to Employees	(2,271)	(2,285)	(1,086)	(963)
Income Tax Paid	(1,896)	(1,750)	(1,896)	(1,750)
Interest on Borrowings	(130)	(153)	(130)	(154)
	(27,222)	(26,049)	(4,370)	(4,024)
Net Cash Inflow/(Outflow) from Operating Activities	6,095	7,052	(4,022)	(3,663)
Cash Flows from Investing Activities				
Cash was Received From:				
Net Advances from Subsidiaries	-	-	9,596	10,139
Sale of Fixed Assets	10	-	-	-
	10	-	9,596	10,139
Cash was Applied to:				
Purchase of Fixed Assets	(622)	(789)	(82)	(231)
	(622)	(789)	(82)	(231)
Net Cash Inflow/(Outflow) from Investing Activities	(612)	(789)	9,514	9,908
Cash Flows from Financing Activities				
Cash was applied to:				
Borrowings	(60)	(51)	(60)	(51)
Dividend Paid	(4,500)	(4,500)	(4,500)	(4,500)
	(4,560)	(4,551)	(4,560)	(4,551)
Net Cash Inflow/(Outflow) from Financing Activities	(4,560)	(4,551)	(4,560)	(4,551)
Total Net Cash Movement	923	1,712	932	1,694
Opening Cash & Bank Balances	5,169	3,457	5,148	3,454
Closing Cash & Bank Balances	6,092	5,169	6,080	5,148

The above Statement of Cash Flows should be read in conjunction with the Notes to the Financial Statements on pages 27 to 47.

ACCOUNTING POLICIES

for the Year Ended 31 March 2011

REPORTING ENTITY

King Country Energy Limited is a profit-oriented company domiciled in New Zealand, registered under the Companies Act 1993 and whose shares are traded on Unlisted. King Country Energy Limited is an issuer in terms of the Securities Act 1978. These financial statements are for the parent company King Country Energy Limited (the Parent) and the Group (the Group) comprising King Country Energy Limited, KCE Mangahao Limited, KCE Retail Limited and KCE Generation Limited.

The Group owns and operates several hydro electric generation stations and is an electricity retailer under the Electricity Act 1992. The nature of the business operated by the Group has not changed during the accounting period.

BASIS OF PREPARATION

The financial statements have been prepared in accordance with generally accepted accounting practice in New Zealand (NZ GAAP). They comply with the New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) and the requirements of the Companies Act 1993 and the Financial Reporting Act 1993.

The financial statements have been prepared on the basis of historical cost modified by the fair valuation of certain assets and liabilities. The following assets and liabilities are stated at their fair value: financial instruments and certain fixed assets as identified in the specific accounting policies below.

The reporting and functional currency used in the preparation of these financial statements is New Zealand dollars and all values are rounded to the nearest thousand dollars (\$'000).

The accounting policies set out below have been applied consistently to all periods presented in these financial statements, unless otherwise stated or where new standards have been adopted, as indicated below.

STATEMENT OF COMPLIANCE

The Financial Statements have been prepared in accordance with New Zealand equivalents to International Financial Reporting Standards and comply with International Financial Reporting Standards.

BASIS OF CONSOLIDATION

Subsidiaries

Subsidiaries are all those entities over which the Group has the power to govern the financial and operating policies so as to obtain benefits from their activities. Subsidiaries are fully consolidated from the date on which control is obtained by the Group and cease to be consolidated from the date on which control is transferred out of the Group.

The financial statements of the subsidiaries are prepared for the same reporting period as the Parent using consistent accounting policies. In preparing the consolidated financial statements all material inter-company transactions, dividends, balances and unrealised surpluses and deficits on transactions between Group companies have been eliminated on consolidation.

Investments in subsidiaries held by the Parent are accounted for at cost in the separate financial statements of the Parent less any impairment charges. Dividends received from subsidiaries are recorded as a component of Other Income in the separate Statement of Comprehensive Income of the Parent and do not

adjust the recorded cost of the investment. Upon receipt of dividend payments from subsidiaries the Parent will assess if the dividend has impaired the carrying value of the investment. To the extent that the carrying value of the investment exceeds the recoverable amount of the investment an impairment loss is recognised.

The acquisition of subsidiaries is accounted for using the acquisition method of accounting. This method of accounting involves recognising at acquisition date, separately from goodwill the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the subsidiary. Identifiable assets acquired and liabilities assumed are measured initially at their fair values at acquisition date. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill.

JOINT VENTURES

Jointly controlled entities are joint arrangements with other parties in which the Group jointly controls one or more entities and is consequently entitled to a share of their future economic benefits. The Group's interest in joint ventures comprises jointly controlled assets used to obtain benefits for the venturers. The Group takes an agreed share of the output from the assets and bears an agreed share of the expenses incurred.

The Group's interest in joint ventures is incorporated into the Group's financial statements and has been accounted for in the Balance Sheet on the basis of the Group's proportionate interest in each of the assets and liabilities of the joint ventures, and in the Statement of Comprehensive Income on the basis of the Group's proportionate interest in the income and expenses incurred in relation to the joint venture. In determining the fair value of its share of the net assets and its share of net income of the joint venture, the Group applies the accounting policies set out in these financial statements. This may result in a fair value of net assets and a net income that is different from that shown by other parties to the joint venture.

ACCOUNTING ESTIMATES AND JUDGEMENTS

The Group's significant areas of estimation and critical judgments in these financial statements are as follows:

Land, Buildings and Generation Plant and Equipment

The Group's land, buildings and generation plant and equipment are stated at fair value, less accumulated depreciation and impairment since date of valuation. Additions subsequent to the most recent value are shown at cost which is considered to be their fair value. The basis of the valuation is the net present value of the future earnings of the assets, excluding any reduction for costs associated with restoration and environmental rehabilitation. The significant inputs and assumptions that are used in the valuation model that require judgment include future electricity prices, projected operational and capital expenditure to maintain generation capacity, generation volumes, plant life and discount rates.

Goodwill

The carrying value of goodwill is subject to an annual impairment test to ensure the carrying value does not exceed the recoverable amount at balance date. For the purposes of impairment testing, goodwill is allocated to the cash generating unit to which it relates. Details of the assumptions made in valuing goodwill are contained in Note 11.

Retail Revenue

Retail revenue contains an estimate of the value of electricity consumed by customers from the date of their last meter reading until balance date. This estimate is made for each individual

meter and is based upon the customer's historic consumption, recognising consumption varies with the time of year.

Restoration and Environmental Rehabilitation

No allowance has been made for restoration and rehabilitation, as the Group has no requirement under its Resource Management Act consents to undertake such work. The Group maintains and refurbishes its generation assets and expects they will be available for use for an extended period of time. The Group expects Resource Management Act consents will continue to be renewed on similar terms and conditions upon expiry.

Financial Instruments

The Group uses derivative financial instruments to manage the cost of electricity purchased on the spot market. The fair value of such derivatives is calculated by reference to anticipated future electricity prices at the Grid Exit Point used to determine settlement of the instrument. Accounting judgment has been applied to determine future electricity prices, the Group's discount rate and the credit risk of the counter party when determining fair values.

REVENUE

Revenue comprises the amounts received and receivable at balance date for electricity and related services supplied to customers in the ordinary course of business. Electricity revenue includes an accrual for estimated units sold but not billed at balance date. Electricity meters are read on the basis of constant cycles each year. Prompt payment discounts are deducted from revenue.

The Group may also receive revenue from network charges. Where the use of system agreement is an interposed agreement, the revenue from network charges is included within revenue, while under a conveyancing agreement the revenue will exclude those amounts relating to network charges.

Interest income is recognised in the profit or loss, in the Statement of Comprehensive Income, as it accrues using the effective interest rate method.

TAXATION

The income tax charged to the profit or loss, in the Statement of Comprehensive Income, includes both current and deferred tax and is calculated after allowing for non-taxable income and non-deductible expenditure. Income tax is recognised in the profit or loss, in the Statement of Comprehensive Income, except to the extent that it relates to items recognised in Other Comprehensive Income, in which case the income tax is recognised in Other Comprehensive Income.

Current tax assets and liabilities for the current and prior periods are recorded at the amount expected to be recovered or paid to the taxation authorities based on the current period's taxable income/loss. The tax rates used to compute the amount are those that are enacted or substantively enacted at the Balance Sheet date.

Deferred tax is calculated using the balance sheet method which provides for temporary differences between the carrying values of assets and liabilities for financial reporting purposes and the values used for taxation purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences except for;

- The initial recognition of goodwill;
- The initial recognition of an asset or 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 or loss;

- Taxable temporary differences associated with investments in subsidiaries when the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

A deferred tax asset is recognised only to the extent that it is probable that sufficient future taxable profits will be earned so as to utilise the asset. Deferred tax assets are reduced when it is deemed that future taxable profits will be insufficient to utilise the asset.

GOODS AND SERVICES TAX

The Statement of Comprehensive Income and Statement of Cash Flows are stated exclusive of GST. All items in the Balance Sheet are stated net of GST, with the exception of receivables and payables which include GST invoiced.

DERIVATIVE FINANCIAL INSTRUMENTS

Group companies use derivative financial instruments (derivatives) to manage the price risk associated with purchasing and selling electricity on the spot market. The volume of derivatives is a function of the difference between generation volume over time and retail electricity sales over the same time period. The Group does not acquire derivatives for the purpose of trade or speculation. Derivatives are initially recognised at their fair value on the date on which the Group makes a binding commitment to accept the derivative (trade date). The fair value of each derivative is calculated at the end of each half year and full year. The fair value is deemed to be either the then market price for the derivative, if it is an instrument freely traded on an open market, or the net present value of the difference between prices set by the derivative and the expected spot electricity price over the life of the derivative. Changes in the fair value of derivatives are reflected in the profit or loss, in the Statement of Comprehensive Income. Derivatives are carried as assets when their fair value is positive and liabilities when their fair value is negative.

ACCOUNTS RECEIVABLE

Accounts receivable comprise electricity receivables and other receivables. Electricity receivables which generally have 30 day terms are stated initially at invoice value plus an estimate of consumption between the date of the customers last bill and year end, less an allowance for prompt payment discount. The allowance for prompt payment discount is calculated using historic experience of discounts applied. Allowance is made for any uncollectible amounts when there is objective evidence that the Group will not be able to collect the debt. Bad debts are written off during the period in which they are identified. Movements in the allowance for uncollectible amounts, prompt payment discounts and bad debts are recognised in the profit or loss, in the Statement of Comprehensive Income.

Other receivables are stated at amortised cost, where amortised cost represents either invoiced revenue, where the group expects to receive payment in full, within the specified credit terms, or invoiced revenue less impairment, where the Group expects to receive only a portion of the debt, or settlement of all the debt but more than 180 days after due date. The amount of the impairment loss is the difference between the carrying value of the receivable and the net present value of estimated future cash flows, discounted at the effective interest rate. The amount of the impairment loss is recognised in the profit or loss, in the Statement of Comprehensive Income.

INVESTMENTS

Investments including investments in subsidiaries are stated at cost in the Balance Sheet of the Parent.

PROPERTY, PLANT AND EQUIPMENT

Capital expenditure is all expenditure on the creation of a new asset and any expenditure which results in a significant improvement of the original function of an existing asset.

Revenue expenditure is expenditure which restores an asset to its original condition and all expenditure incurred in maintaining and operating the Group's business.

As a part of the formation of the Group, land, building and generation assets in existence at 31 March 1999 were revalued at the time by independent valuers on the basis of open market value for existing use.

Certain assets transferred from the Parent to Group companies in March 1999 (when the Group was required by industry regulations to restructure its activities) were transferred at fair values and the uplifts in value are shown in the Group financial statements as revaluations.

Property, plant and equipment, acquired after 31 March 1999 were initially recorded at cost. The cost of acquisition includes all costs directly attributable to the acquisition, including the costs of obtaining Resource Management Act consents and if applicable financing costs incurred directly on self constructed assets.

Generation assets including land, buildings, plant and equipment are periodically revalued by an independent valuer. These assets were last revalued at 31 March 2010. Revaluations of these assets are conducted when directors are of the opinion that either market values or the future cash flow from these assets or the Group discount rate has materially changed, thereby giving rise to a change in asset values. Where values change the movement is taken to other comprehensive income, in the Statement of Comprehensive Income. Where no or insufficient revaluation is held for an asset, the impairment is charged to the profit or loss, in the Statement of Comprehensive Income.

Capital works under construction are valued at cost, less any assessed impairment. Project values are assessed at least annually to identify if any impairment in value is likely to have occurred. Impairment is the difference between the net present value of future cash flows from the project and the current project costs, plus the expected costs to complete the project. Any impairment is charged to the profit or loss, in the Statement of Comprehensive Income. Once the construction is completed, depreciation on these assets will begin.

Expenditure incurred on the investigation of prospective generation opportunities is stated at cost and is accumulated in respect of each identifiable generation opportunity. Expenditure is only carried forward to the extent that it is expected to be recouped through the successful development of a generation station or where activities on the project have not reached a stage which permits a reasonable assessment of the prospect of a successful development. Accumulated costs in relation to an abandoned or deferred development are written off in full in the profit or loss, in the Statement of Comprehensive Income, in the period in which the decision is made to abandon or defer the project. A regular periodic review is undertaken of each development to determine the appropriateness of continuing to carry forward costs in relation to the development.

DEPRECIATION

Depreciation of property, plant and equipment, other than freehold land is calculated so as to expense the cost of the assets, or their revalued amounts to their residual values over their useful lives as follows:

Estimated Useful Lives

Land Improvements	80 years
Buildings	50 – 80 years
Generation Plant & Equipment	5 – 80 years
Motor Vehicles	4 years
Office Equipment & Furniture	3 – 20 years

Asset lives are reviewed annually.

LEASES

The determination of whether an arrangement is or contains a lease is based upon the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset, or assets and the arrangement conveys a right to use the asset.

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the lower of the fair value of the lease asset or the present value of the minimum lease payments. A corresponding lease liability is established and each lease payment is allocated between the liability and finance charge, so as to achieve a constant rate of interest on the remaining balance of the liability.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term, if there is no reasonable certainty the Group will obtain ownership by the end of the lease.

Leases that are not finance leases are operating leases, with lease payments recognised as an expense in the profit or loss, in the Statement of Comprehensive Income, in the periods the lease installments are payable.

IMPAIRMENT

The carrying values of receivables, goodwill and intangible assets are reviewed at each Balance Sheet date to determine whether there is any indication of impairment. If such an indication exists, the assets' net recoverable value is estimated.

An impairment of an asset's value is recognised whenever its carrying amount exceeds its recovery amount. In assessing impairment, the Group may combine assets generating a separate identifiable cash flow (cash generating unit) and value these assets as if they were a single asset. Where the estimated recoverable amount of the asset is less than its carrying amount, the asset is written down. The impairment loss is recognised in the profit or loss in the Statement of Comprehensive Income, except to the extent that the asset or group of assets have been recorded at a revalued amount. Impairment losses on revalued assets are first taken to Other Comprehensive Income if there is a surplus in respect of that asset.

The recoverable amount of an asset is the greater of their net disposal price and their value in use. Value in use is determined by discounting expected future net cash flow generated by the asset or cash generating unit. A pre-tax discount rate that recognises the current market time value of money and risks specific to the asset is used in the calculation.

GOODWILL AND INTANGIBLE ASSETS

Goodwill

After initial recognition, goodwill acquired in a business combination is measured at cost less any accumulated impairment losses. Goodwill is not amortised but is subject to impairment testing at balance date to determine whether there has been any impairment to its value. Details of the test and its outcome are shown in Note 11. Any impairment

loss is recognised in the profit or loss, in the Statement of Comprehensive Income.

Computer Software

Acquired computer software licences are capitalised on the basis of costs incurred to acquire and bring to use the specific software. These assets are amortised over up to five years on a straight line basis.

Costs associated with developing or maintaining computer programmes are recognised as an expense as incurred.

TRADE AND OTHER CREDITORS

Trade and other creditors are carried at amortised cost and are not discounted because they are usually paid within 30 days of recognition. They represent liabilities for goods and services provided to the Group prior to the end of the financial year that have not been settled at balance date. Included in Trade and Other Creditors are estimated amounts for work completed prior to balance date on projects that span balance date. Amounts are unsecured though the Group is required to provide undertakings from its bankers to the electricity market that it has sufficient funding to meet anticipated future spot market electricity purchases.

EMPLOYEE ENTITLEMENTS

Employee entitlements to salaries and wages, non-monetary benefits, annual leave, long service leave and other benefits are recognised when they accrue to employees. This includes the estimated liability for salaries and wages, annual leave and long service leave as a result of services rendered by employees up to balance date. They are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non accumulating sick leave are recognised when the leave is taken and are recognised at the rates paid or payable.

DIVIDENDS

Dividends are only recognised as distributions in the period they are declared. Dividends proposed or paid after balance date are not recognised in the Financial Statements, but are disclosed in the Notes to the Financial Statements.

STATEMENT OF CASH FLOWS

The following are the definitions of the terms used in the Statement of Cash Flows:

- (a) Operating activities include all transactions and other events that are not investing or financing activities.
- (b) Investing activities are those activities relating to the acquisition, holding and disposal of property, plant and equipment and of investments. Investments can include securities not falling within the definition of cash.
- (c) Financing activities are those activities that result in changes in the size and composition of the capital structure. This includes both equity and debt not falling within the definition of cash. Dividends paid in relation to the capital structure are included in financing activities.
- (d) Cash is considered to be cash on hand and current accounts in banks, net of bank overdrafts.

SEGMENT REPORTING

A business segment is a component of the Group that engages in business activities that earns revenues and incurs expenses and whose operating results are regularly reviewed by the Chief Executive Officer and Executive Management Team to make

decisions about resources to be allocated to the segment and assess its financial performance. In determining if a business segment exists management will also consider the management structure within the Group and the information presented to the Board of Directors. The Group aggregates two or more operating segments offering like products and services when they have similar operational and economic characteristics.

APPLICATION OF ACCOUNTING STANDARDS

The following new standards and amendments to standards are mandatory for the first time for the financial year beginning 1 April 2010.

NZIFRS 1 (Amendment) – *First-time Adoption of New Zealand Equivalents to International Financial Reporting Standards*.

NZIFRS 2 (Amendment) – *Share Based Payment*

NZIFRS 3 – *Business Combinations*

IAS 27 (Amendment) – *Consolidated and Separate Financial Statements*

IAS 39 (Amendment) – *Financial Instruments: Recognition and Measurement*

NZ IFRIC 17 – *Distributions of Non-cash Assets to Owners*
2009 Improvements to IFRS

Application of the new standards or amendments to existing standards has not resulted in any changes to either the presentation of financial information or the financial information itself as the Group is either currently compliant with the standard or the standard is not applicable to the Group.

The Group has adopted the following new or amended standards before the date of their mandatory application.

NZ IFRS 1 (Amendment) – *First-time Adoption of New Zealand Equivalents to International Financial Reporting Standards*

NZ IAS 32 (Amendment) – *Financial Instruments: Presentation*

Application of the new standards or amendments to existing standards has not resulted in any changes to either the presentation of financial information or the financial information itself as the Group is either currently compliant with the standard or the standard is not applicable to the Group.

The Group has elected not to early adopt the following applicable standards, which have been issued but are not yet effective:

IFRS 9 – *Financial Instruments* – effective for periods beginning on or after 1 January 2013. This standard replaces part of IAS 39 and establishes two primary measurement categories for financial assets; amortised cost and fair value, with classification depending on an entity's business model and the contractual cashflow characteristics of the financial asset. The Group is currently in the process of evaluating the potential effect of this standard.

2010 Various Improvements to IFRS – Effective from various times. The improvements remedy various issues arising from the application of the standards.

The adoption of these amendments is not expected to have a material impact on the Group's or Parent's financial statements.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2011

1 REVENUE

Included in Operating Revenue are the following items:

Sales of Electricity

Derivative Income on Electricity Sales

Network Charges Recovered

Discount Allowed - Prompt Payment

Interest Received

Other Income

Total Operating Revenue

2 EXPENSES

Included in Operating Expenses are the following items:

Purchase of Electricity

Derivative Expense on Electricity Purchases

Network Charges

Transpower Charges

Depreciation - Property, Plant & Equipment

Buildings

Generation Plant

Land Improvements

Motor Vehicles

Furniture, Plant & Equipment

Computer Software

Impairment - Property, Plant & Equipment

Generation Plant

Land, Roads, Bridges

Operating Lease Payments

Bad Debts Written Off

(Decrease) in Estimated Doubtful Debts

Audit Fees

Repairs & Maintenance

Employee Benefits

Directors' Fees & Expenses

Loss on Sale of Fixed Assets

Other Operating Expenses

Total Operating Expenses

	Group		Parent	
	31.03.11	31.03.10	31.03.11	31.03.10
	\$'000	\$'000	\$'000	\$'000
Sales of Electricity	32,299	32,562	-	-
Derivative Income on Electricity Sales	579	463	-	-
Network Charges Recovered	1,191	1,210	-	-
Discount Allowed - Prompt Payment	(1,585)	(1,392)	-	-
Interest Received	202	131	360	355
Other Income	422	306	6,000	6,000
Total Operating Revenue	33,108	33,280	6,360	6,355
Purchase of Electricity	11,724	13,919	-	-
Derivative Expense on Electricity Purchases	4,061	3,147	-	-
Network Charges	1,660	1,399	-	-
Transpower Charges	116	128	-	-
Depreciation - Property, Plant & Equipment				
Buildings	90	60	14	5
Generation Plant	2,349	1,613	-	-
Land Improvements	1	1	-	-
Motor Vehicles	54	30	13	11
Furniture, Plant & Equipment	163	143	138	115
Computer Software	178	192	165	176
	2,835	2,039	330	307
Impairment - Property, Plant & Equipment				
Generation Plant	-	465	-	-
Land, Roads, Bridges	-	5	-	-
	-	470	-	-
Operating Lease Payments	10	58	-	-
Bad Debts Written Off	215	345	9	-
(Decrease) in Estimated Doubtful Debts	(60)	(148)	-	-
Audit Fees	61	57	61	57
Repairs & Maintenance	969	1,028	188	127
Employee Benefits	2,315	2,175	1,107	944
Directors' Fees & Expenses	170	168	170	168
Loss on Sale of Fixed Assets	15	62	1	34
Other Operating Expenses	2,960	3,051	821	866
Total Operating Expenses	27,051	27,898	2,687	2,503

Mokau consent costs shown on the face of the Statement of Comprehensive Income represent costs incurred by the Group in relation to obtaining Resource Management Act consents, for the proposed Mokau hydro scheme, that do not qualify to be carried forward as part of capital work in progress. For the 2010 year they also include previously accumulated costs charged to capital work in progress.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2011

3 INCOME TAX

Income Tax Expense

The major components of income tax expense are:

Amounts Charged/(Credited) to Profit and Loss

Current Income Tax

Current Income Tax Charge

Prior Period Adjustment

Deferred Income Tax

Temporary Differences in Current Year

Temporary Differences in Prior Years

Removal of Tax Deduction for Building Depreciation

Change in Income Tax Rate

Reported Income Tax Expense

Amounts Charged/(Credited) to Other Comprehensive Income

Deferred Income Tax Related to Items in Other Comprehensive Income

Revaluation of Property, Plant and Equipment

Depreciation of Revaluations

Change in Income Tax Rate

	Group		Parent	
	31.03.11	31.03.10	31.03.11	31.03.10
	\$'000	\$'000	\$'000	\$'000
Current Income Tax Charge	1,877	1,510	(824)	(732)
Prior Period Adjustment	(78)	-	(91)	-
	1,799	1,510	(915)	(732)
Deferred Income Tax				
Temporary Differences in Current Year	589	(710)	91	35
Temporary Differences in Prior Years	32	-	-	-
Removal of Tax Deduction for Building Depreciation	605	-	47	-
Change in Income Tax Rate	(232)	-	(7)	-
	994	(710)	131	35
Reported Income Tax Expense	2,793	800	(784)	(697)
Deferred Income Tax Related to Items in Other Comprehensive Income				
Revaluation of Property, Plant and Equipment	-	8,193	-	96
Depreciation of Revaluations	(318)	(90)	(2)	9
Change in Income Tax Rate	(998)	-	(7)	-
	(1,316)	8,103	(9)	105

The amount of Income Tax attributable to the Operating Profit for the financial period differs from the prima facie tax payable on the Operating Profit Before Tax. The difference is reconciled as follows:

INCOME TAX ATTRIBUTABLE TO PROFIT

Profit before Taxation

Taxation thereon at 30%

Non Assessable Dividend

Non Deductible Expenditure

Non Deductible Depreciation

Prior Period Adjustment

Deferred Tax Provided at 28%

Removal of Tax Deduction for Building Depreciation

Change in Income Tax Rate

Income Tax Expense

Profit before Taxation	7,226	2,360	3,543	3,698
Taxation thereon at 30%	2,168	708	1,063	1,110
Non Assessable Dividend	-	-	(1,800)	(1,800)
Non Deductible Expenditure	1	2	1	2
Non Deductible Depreciation	318	90	2	(9)
Prior Period Adjustment	(46)	-	(84)	-
Deferred Tax Provided at 28%	(21)	-	(6)	-
Removal of Tax Deduction for Building Depreciation	605	-	47	-
Change in Income Tax Rate	(232)	-	(7)	-
Income Tax Expense	2,793	800	(784)	(697)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2011

Total

Opening Balance	(18,487)	(11,033)
Current Year Temporary Differences - Through Income	(589)	120
Current Year Temporary Differences - Through Equity	318	90
Change in Tax Rate - Through Income	232	-
Change in Tax Rate - Through Equity	998	-
Removal of Tax Deduction for Building Depreciation - Through Income	(605)	-
Asset Revaluation	-	(8,193)
Asset Impairment	-	590
Correction to Prior Year	(32)	(61)
Closing Balance	(18,165)	(18,487)

Group		Parent	
31.03.11	31.03.10	31.03.11	31.03.10
\$'000	\$'000	\$'000	\$'000
(18,487)	(11,033)	(199)	2
(589)	120	(91)	(35)
318	90	2	(9)
232	-	7	-
998	-	7	-
(605)	-	(47)	-
-	(8,193)	-	(96)
-	590	-	-
(32)	(61)	-	(61)
(18,165)	(18,487)	(321)	(199)

All the companies comprising the Group are part of the same Consolidated Income Tax Group. Therefore deferred tax assets and liabilities have been offset within the Balance Sheet.

IMPUTATION CREDIT ACCOUNT

Balance at Beginning of the Year	40	219
Imputation Credits Attached to Dividends Paid	(1,929)	(1,929)
Taxation Payments	1,896	1,750
Balance at End of Year	7	40

40	219
(1,929)	(1,929)
1,896	1,750
7	40

The Group has a single Imputation Credit Account that includes imputation credits earned by the Parent and its subsidiaries.

4 SHARE CAPITAL

Issued and paid up capital

Ordinary Shares

26,267	26,267	26,267	26,267
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As at 31 March 2011 there were 18,750,000 ordinary shares authorised, issued and fully paid (2010: 18,750,000). All shares have no par value. All ordinary shares issued rank equally with one vote attached to each fully paid ordinary share.

5 RESERVES

Asset Revaluation Reserve

Balance at Beginning of the Year	50,110	28,080
Change in Tax Rate - Deferred Tax	998	-
Asset Revaluation	-	30,133
Deferred Tax on Revalued Assets	318	(8,103)

Balance at the End of the Year

50,110	28,080	321	42
998	-	7	-
-	30,133	-	384
318	(8,103)	2	(105)
51,426	50,110	330	321

The Asset Revaluation Reserve holds the uplift to the value of fixed assets subject to periodic revaluation. An asset write-down in value following a revaluation is charged to the Reserve provided the Reserve contains a prior valuation uplift at least equal to the impairment suffered by the asset. An appropriate portion of the Reserve is released to Retaining Earnings upon the sale of revalued assets. Also charged to the Revaluation Reserve are the deferred tax implications of revaluations and the depreciation thereon.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2011

6 RETAINED EARNINGS

Balance at Beginning of the Year

Net Surplus

Distributions

Balance at End of the Year

7 ACCOUNTS RECEIVABLE

Electricity Receivables

Other Receivables

Prepayments

	Group		Parent	
	31.03.11	31.03.10	31.03.11	31.03.10
	\$'000	\$'000	\$'000	\$'000
Balance at Beginning of the Year	7,566	10,506	4,783	4,888
Net Surplus	4,433	1,560	4,327	4,395
Distributions	(4,500)	(4,500)	(4,500)	(4,500)
Balance at End of the Year	7,499	7,566	4,610	4,783
Electricity Receivables	2,440	2,700	-	-
Other Receivables	180	550	12	324
Prepayments	144	110	19	25
	2,764	3,360	31	349

Accounts Receivable are subject to impairment due to credit losses. Such impairment is recorded in a collective provision for uncollectable amounts. Amounts are deemed uncollectable when either they are placed in the hands of a collection agency, which is generally 90 days after payment is due, or no payment has been received from a customer for 90 days. Supply is normally stopped to customers more than 65 days overdue and is not re-commenced until payment in full is received. Customers with a poor credit history are required to either provide a deposit or are supplied meters that require advanced payment for electricity consumed.

Where a customer's account is overdue but the customer has entered a payment arrangement with the Group and is maintaining the payment arrangement, the account is deemed to be current and no allowance is made for impairment. At balance date the Group has no customers who are medically dependent on electricity and who are overdue.

The movement in the provision is as follows:

Balance at Beginning of the Year	90	286	-	-
Additions/(Reductions) to the Provision	(60)	(196)	-	-
Balance at End of the Year	30	90	-	-

At Balance Date the aging analysis of Electricity Receivables is as follows:

Current	2,459	3,168	31	349
Over due but not Impaired	163	82	-	-
Over due and Impaired	28	90	-	-
Provision for Doubtful Debts	(30)	(90)	-	-
	2,620	3,250	31	349

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2011

8 PROPERTY, PLANT AND EQUIPMENT

Generation Plant & Equipment

Fair Value	96,999	97,006	-	-
Accumulated Depreciation and Impairment	(14,643)	(12,355)	-	-

Net Carrying Amount

Net Carrying Amount Beginning of Year	84,651	57,996	-	-
Additions	54	1,915	-	-
Disposals	-	(11)	-	-
Revaluation Gain	-	26,826	-	-
Depreciation Charge for the Year	(2,349)	(1,613)	-	-
Impairment	-	(462)	-	-

Net Carrying Amount End of Year

Carrying Amount at Historical Cost	38,601	38,311	-	-
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Land, and Land Improvements

Fair Value	3,770	3,770	114	114
Accumulated Depreciation and Impairment	(7)	(6)	-	-

Net Carrying Amount

Net Carrying Amount Beginning of Year	3,764	2,426	114	50
Revaluation Gain	-	1,344	-	64
Depreciation Charge for the Year	(1)	(1)	-	-
Impairment	-	(5)	-	-

Net Carrying Amount End of Year

Carrying Amount at Historical Cost	912	912	50	50
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Buildings

Fair Value	6,727	6,738	691	691
Accumulated Depreciation and Impairment	(664)	(584)	(189)	(175)

Net Carrying Amount

Net Carrying Amount Beginning of Year	6,154	4,251	516	202
Additions	(1)	-	-	-
Revaluation Gain	-	1,963	-	319
Depreciation Charge for the Year	(90)	(60)	(14)	(5)
Net Carrying Amount End of Year	6,063	6,154	502	516

	Group		Parent	
	31.03.11	31.03.10	31.03.11	31.03.10
	\$'000	\$'000	\$'000	\$'000
Fair Value	96,999	97,006	-	-
Accumulated Depreciation and Impairment	(14,643)	(12,355)	-	-
Net Carrying Amount	82,356	84,651	-	-
Net Carrying Amount Beginning of Year	84,651	57,996	-	-
Additions	54	1,915	-	-
Disposals	-	(11)	-	-
Revaluation Gain	-	26,826	-	-
Depreciation Charge for the Year	(2,349)	(1,613)	-	-
Impairment	-	(462)	-	-
Net Carrying Amount End of Year	82,356	84,651	-	-
Carrying Amount at Historical Cost	38,601	38,311	-	-
Fair Value	3,770	3,770	114	114
Accumulated Depreciation and Impairment	(7)	(6)	-	-
Net Carrying Amount	3,763	3,764	114	114
Net Carrying Amount Beginning of Year	3,764	2,426	114	50
Revaluation Gain	-	1,344	-	64
Depreciation Charge for the Year	(1)	(1)	-	-
Impairment	-	(5)	-	-
Net Carrying Amount End of Year	3,763	3,764	114	114
Carrying Amount at Historical Cost	912	912	50	50
Fair Value	6,727	6,738	691	691
Accumulated Depreciation and Impairment	(664)	(584)	(189)	(175)
Net Carrying Amount	6,063	6,154	502	516
Net Carrying Amount Beginning of Year	6,154	4,251	516	202
Additions	(1)	-	-	-
Revaluation Gain	-	1,963	-	319
Depreciation Charge for the Year	(90)	(60)	(14)	(5)
Net Carrying Amount End of Year	6,063	6,154	502	516

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2011

Carrying Amount at Historical Cost

Motor Vehicles

Cost

Accumulated Depreciation and Impairment

Net Carrying Amount

Net Carrying Amount Beginning of Year

Additions

Disposals

Depreciation Charge for the Year

Net Carrying Amount End of Year

Office Equipment & Furniture

Cost

Accumulated Depreciation and Impairment

Net Carrying Amount

Net Carrying Amount Beginning of Year

Additions

Disposals

Depreciation Charge for the Year

Net Carrying Amount End of Year

Leased Office Equipment & Furniture

Cost

Accumulated Depreciation and Impairment

Net Carrying Amount

Net Carrying Amount Beginning of Year

Depreciation Charge for the Year

Net Carrying Amount End of Year

Development and Construction Projects

Development Projects at Fair Value

Development Projects at Cost

Net Carrying Amount

	Group		Parent	
	31.03.11	31.03.10	31.03.11	31.03.10
	\$'000	\$'000	\$'000	\$'000
Carrying Amount at Historical Cost	2,829	2,809	191	191
Motor Vehicles				
Cost	401	292	87	87
Accumulated Depreciation and Impairment	(98)	(49)	(22)	(9)
Net Carrying Amount	303	243	65	78
Net Carrying Amount Beginning of Year	243	73	78	33
Additions	133	231	-	87
Disposals	(19)	(31)	-	(31)
Depreciation Charge for the Year	(54)	(30)	(13)	(11)
Net Carrying Amount End of Year	303	243	65	78
Office Equipment & Furniture				
Cost	1,125	977	665	612
Accumulated Depreciation and Impairment	(696)	(541)	(390)	(295)
Net Carrying Amount	429	436	275	317
Net Carrying Amount Beginning of Year	436	343	317	178
Additions	114	272	54	243
Disposals	(2)	(69)	(1)	(22)
Depreciation Charge for the Year	(119)	(110)	(95)	(82)
Net Carrying Amount End of Year	429	436	275	317
Leased Office Equipment & Furniture				
Cost	265	265	265	265
Accumulated Depreciation and Impairment	(177)	(148)	(177)	(148)
Net Carrying Amount	88	117	88	117
Net Carrying Amount Beginning of Year	117	150	117	150
Depreciation Charge for the Year	(29)	(33)	(29)	(33)
Net Carrying Amount End of Year	88	117	88	117
Development and Construction Projects				
Development Projects at Fair Value	-	-	-	-
Development Projects at Cost	517	212	23	7
Net Carrying Amount	517	212	23	7

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2011

Net Carrying Amount Beginning of the Year
Additions
Transfers
Impairment
Net Carrying Amount End of the Year

Total Property, Plant & Equipment

	Group		Parent	
	31.03.11	31.03.10	31.03.11	31.03.10
	\$'000	\$'000	\$'000	\$'000
Net Carrying Amount Beginning of the Year	212	4,326	7	1,059
Additions	392	212	23	7
Transfers	(87)	(2,838)	(7)	(1,059)
Impairment	-	(1,488)	-	-
Net Carrying Amount End of the Year	517	212	23	7
Total Property, Plant & Equipment	93,519	95,577	1,067	1,149

All land and land improvements, buildings and generation plant, property and equipment was revalued as at 31 March 2010 to fair value for financial reporting purposes. The fair value of land and land improvements and buildings was assessed by reference to market information for the relevant geographic area. The fair value for generation plant property and equipment was assessed using economic value methodology based on the discounted cash flows able to be generated by the relevant plant, property and equipment. A discount rate of 8.5% being applied. Furniture plant and equipment integral to the operation of generation stations was also included in the valuation. The value of generation plant was determined by independent valuers, PriceWaterhouseCoopers, Chartered Accountants on 30 September 2009. Non-generation land and buildings were valued by independent registered valuers, Quotable Value New Zealand. Directors consider the carrying values of fixed assets at 31 March 2011 to be their fair value.

9 DERIVATIVE FINANCIAL INSTRUMENTS

Movements in the asset/(liability) value of Electricity Price Derivatives over the period have been:

Opening Carrying Value	(1,641)	(350)	-	-
Derivatives Acquired at Fair Value	(168)	(284)	-	-
Revaluation of Derivatives	(507)	(2,916)	-	-
Portion of Fair Value Consumed on Maturity	2,149	1,909	-	-
Closing Carrying Value	(167)	(1,641)	-	-

Reported gain/(loss) on Electricity Price Derivatives comprises the following:

Settlement Included in Operating Revenue	579	463	-	-
Settlement Included in Operating Expenses	(4,061)	(3,147)	-	-
Total (Loss)/Gain Settled in Cash	(3,482)	(2,684)	-	-
Acquisition of Derivatives at Fair Value	(168)	(284)	-	-
Revaluation of Derivatives	(507)	(2,916)	-	-
Portion of Fair Value Consumed on Maturity	2,149	1,909	-	-
Total (Loss)/Gain on Valuation	1,474	(1,291)	-	-
Total (Loss)/Gain on Derivatives	(2,008)	(3,975)	-	-

Instruments Used by the Group

Derivative financial instruments comprise contracts for difference and are used by the Group in the normal course of business in order to manage exposure to fluctuations in spot market electricity prices. All derivatives are held to maturity and are specific to the Group. The Group holds sufficient derivatives to cover its generation shortfall in a dry year. The Group does not hold derivative financial instruments for the purposes of trading those instruments for a profit.

At balance date the Group had derivative contracts that had commencement and finishing date running to 31/01/13 (2010: 31/12/2012). The total nominal volume of derivatives is 206.4 GWh (2010: 293.4 GWh).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2011

10 INVESTMENTS

Shares in Subsidiary Companies at Cost

Group		Parent	
31.03.11	31.03.10	31.03.11	31.03.10
\$'000	\$'000	\$'000	\$'000
-	-	14,300	14,300

Subsidiaries Comprise	% Holding	Activities	Incorporated
KCE Generation Limited	100	Energy Generation	New Zealand
KCE Mangahao Limited	100	Energy Generation	New Zealand
KCE Retail Limited	100	Energy Retailing	New Zealand

All Companies have 31 March balance dates.

KCE Mangahao Ltd was incorporated on 3 December 1997 and commenced operations on 23 December 1997 when it purchased the Mangahao power station in conjunction with Todd Mangahao Ltd. These two organisations have an unincorporated joint venture in which KCE Mangahao Ltd has a contributory and participating interest of 50%.

KCE Generation Ltd and KCE Retail Ltd were incorporated by the Parent on 7 January 1999 and commenced operation on 1 March 1999 when they acquired certain assets and business operations from the Parent.

11 INTANGIBLE ASSETS

Goodwill - Opening & Closing Balance

Computer Software

Cost

Accumulated Amortisation and Impairment

Net Carrying Amount

Net Carrying Amount Beginning of Year

Additions

Disposals

Amortisation Charge for the Year

Net Carrying Amount End of Year

Total Intangible Assets

	1,560	1,560	-	-
	1,165	1,150	1,039	1,026
	(465)	(271)	(384)	(205)
	700	879	655	821
	879	38	821	25
	15	1,039	13	972
	-	(6)	-	-
	(194)	(192)	(179)	(176)
	700	879	655	821
	2,260	2,439	655	821

The total value of Goodwill is allocated to the business of KCE Retail. KCE Retail is considered to be a single cash generating unit as defined by accounting standards. Goodwill is assumed to have an indefinite life and its value has been determined as carrying value at the time of adoption of IFRS, less any subsequent impairment calculated using the "value in use" methodology prescribed by NZ IAS 36. Directors believe there has been no impairment to the value of goodwill.

Goodwill's value in use has been determined with reference to the five year business plan for the Group for the period commencing on 1 April 2011 and ending on 31 March 2016. Anticipated cash flows beyond 31 March 2016 are excluded from the calculation of value in use. The key factors determining value in use are electricity sale and purchase prices and sales volumes.

A small decline in sales volumes is predicted in the first year of the plan with volumes assumed to be constant thereafter. Price increases are assumed to run at the rate of inflation. Other than for the 2011 year, when a strategy to re-price certain low margin customers was implemented, with subsequent customer loss, volume and price assumptions are consistent with recent actual experience of Retail.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2011

The purchase price of electricity will increase over the period following recent market increases in the price of derivatives. Derivative contracts and own generation are already in place that cover a significant portion of the required electricity purchases during the first two years of the 5 year plan period. Where spot market purchases occur, prices are based upon external forecasts prepared by an independent expert organisation. None of our derivative contracts contain a provision for price adjustment following the introduction of emissions trading and as all our generation is from renewable sources there will be no requirement for the Group to purchase carbon credits.

In determining goodwill's value in use, the Group has applied a discount rate of 8.5% (2010: 8.5%) to the pre-tax and pre interest cash flow of the retail operations.

12 BORROWINGS

Current Borrowings

Capitalised Lease Obligations

Non Current Borrowings

Capitalised Lease Obligations

Capitalised Lease Minimum Lease Payment Obligations

Within One Year

One to Two Years

Two to Five Years

Capitalised Lease Present Value Payment Obligations

Within One Year

One to Two Years

Two to Five Years

	Group		Parent	
	31.03.11	31.03.10	31.03.11	31.03.10
	\$'000	\$'000	\$'000	\$'000
Capitalised Lease Obligations	52	69	52	69
Capitalised Lease Obligations	26	68	26	68
Capitalised Lease Minimum Lease Payment Obligations				
Within One Year	55	75	55	75
One to Two Years	30	55	30	55
Two to Five Years	-	30	-	30
	85	160	85	160
Capitalised Lease Present Value Payment Obligations				
Within One Year	52	69	52	69
One to Two Years	26	45	26	45
Two to Five Years	-	23	-	23
	78	137	78	137

The difference between the minimum lease payment obligation and the present value of lease payment obligations for all periods is the interest content of the monthly lease payments.

Security

The Group has a number of standby letters of credit guaranteeing payment of certain trade liabilities of the Group. At balance date there was no liability for letters of credit (2010: nil). These financing facilities are secured by a first ranking debenture over the assets and undertakings of the Group. No assets (2010: nil) have been pledged in respect of the contingent liabilities of the Group.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2011

13 CAPITAL COMMITMENTS

The following amounts have been committed to by the Group but not recognised in the financial statements:

Capital Expenditure

Replacement Runner Mangahao
Replacement Governor Mangahao
Replacement Motor Vehicles

Group		Parent	
31.03.11	31.03.10	31.03.11	31.03.10
\$'000	\$'000	\$'000	\$'000
426	727	-	-
13	-	-	-
43	-	32	-
482	727	32	-

14 SUMMARY OF INTEREST IN JOINT VENTURES

Mangahao Joint Venture

Subsidiary Company, KCE Mangahao Ltd is the participant in the unincorporated joint venture, Mangahao Joint Venture, for the generation of electricity at an established hydro electric power station at Mangahao. KCE Mangahao Ltd has a 50% interest in this joint venture.

The Group's Share of Operating Revenues and Expenses

Revenue	4,793	5,235
Expenses	(2,391)	(1,975)
	2,402	3,260

The Group's Share of Assets and Liabilities

Current Assets	685	594
Long Term Assets	51,762	52,835
Current Liabilities	(6,140)	(6,153)
Non-Current Liabilities	(11,337)	(12,340)
	34,970	34,936

15 RELATED PARTY TRANSACTIONS

Group Companies are parties to a number of transactions with the following related parties:

- Todd Energy Limited, a 35% shareholder in King Country Energy Limited (hereafter referred to as Todd Energy)
- Bay of Plenty Energy Limited (a wholly owned subsidiary of Todd Energy)
- Mangahao Joint Venture, in which the joint venture partners are KCE Mangahao Ltd 50% and Todd Mangahao Ltd 50%

All related party transactions are conducted on an arms length basis and provide benefits to both parties through the sharing of costs. All related party transactions are part of the ordinary on-going business operations of the Group. No related party debts were written off or forgiven during the year (2010: nil).

Todd Energy holds the management contract for the Mangahao Joint Venture under which Todd Energy manages the Joint Venture on a no profit / no loss basis and both parties to the Joint Venture are required to fund the operating expenditure of the Joint Venture in proportion to their participating interests. As part of this arrangement Todd Energy submits generation volumes to the market Reconciliation Manager on behalf of the Joint Venture and receives and then disburses the payment to the Joint Venture parties. The Group is exposed to the credit risk of Todd Energy during the settlement process but does not sell its share of the output from Mangahao to Todd Energy.

Bay of Plenty Energy Limited provides administrative services to the Joint Venture for a fixed monthly fee of \$5,250 (2010: \$5,250 per month)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2011

KCE Generation Ltd and the Mangahao Joint Venture are parties to a long term electricity derivative contract. This derivative contract is a contract for differences under which the parties agree to settle in cash the difference between a fixed price, at a fixed future point in time and the relevant spot price in relation to an agreed volume of electricity. The derivative contract expires in December 2012. The fair value of the derivative at 31 March 2011 is a liability of \$599,180 (2010: liability of \$554,270). The realised loss on the derivative for the year was \$579,388 (2010: loss of \$462,536).

The Parent acts as a funder for its subsidiaries and provides accounting and certain other administrative services for them. Advances within the Group are repayable on demand and interest is charged on the outstanding balances at market interest rates on a monthly basis.

KCE Retail Ltd purchases electricity from KCE Generation Ltd. Purchases are carried out at an agreed transfer price based upon anticipated market prices over the year.

Transactions with related parties

Purchases

Bay of Plenty Energy Ltd
Mangahao Joint Venture

Sales

Mangahao Joint Venture

Receivables

Mangahao Joint Venture

Balances with Group Companies

KCE Retail Limited
KCE Generation Limited
KCE Mangahao Limited

	Group		Parent	
	31.03.11	31.03.10	31.03.11	31.03.10
	\$'000	\$'000	\$'000	\$'000
	1	-	-	-
	1,862	1,591	-	-
	1,283	1,129	-	-
	38	152	-	-
			(2,989)	(3,723)
			4,662	7,427
			4,928	5,145
			6,601	8,849

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2011

Compensation for Key Management Personnel

Short-term Employee Benefits
Termination Benefits
Total Compensation

Group		Parent	
31.03.11	31.03.10	31.03.11	31.03.10
\$'000	\$'000	\$'000	\$'000
793	856	793	856
-	5	-	5
793	861	793	861

Key Management Personnel comprise the directors, the chief executive and the management team reporting to the chief executive.

16 FINANCIAL INSTRUMENTS

The Group holds the following classes of financial instrument:

Financial Assets Held for Trading Through Profit and Loss

Derivative Financial instruments

Loans and Receivables

Cash & Cash Equivalents

Accounts Receivable

Intercompany Balances

Financial Liabilities Held for Trading Through Profit and Loss

Derivative Financial instruments

Other Liabilities at Amortised Cost

Payables

Borrowings

Intercompany Balances

1,198	1,271	-	-
1,198	1,271	-	-
6,092	5,169	6,080	5,148
2,620	3,250	12	324
-	-	9,590	12,572
8,712	8,419	15,682	18,044
1,365	2,912	-	-
1,365	2,912	-	-
2,847	4,053	1,644	2,868
78	137	78	137
-	-	2,989	3,723
2,925	4,190	4,711	6,728

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2011

Fair Values

The carrying amounts of cash and cash equivalents are equivalent to their fair value. The carrying amounts of receivables and creditors are invoiced amounts, taking account of any amounts considered irrecoverable and are equivalent to their fair value. The fair value of electricity price derivative contracts can vary day to day as the spot market price for electricity varies. The fair value of an electricity derivative is deemed to be the net present value of its future cash flows which is the forecast difference between future spot prices and the derivative price.

The future spot prices used to calculate the value of derivatives are supplied by EnergyLink Ltd, a specialist forecasting consulting practice that use a combination of historic price trends, forecast growth in consumption, planned construction of new generation plant and expected construction costs to predict future prices. EnergyLink provide prices under various assumptions of hydrological conditions. The Group uses the price assumption for long run average hydrological conditions. The price assumption used by the Group also contains a component which reflects the anticipated cost of carbon credits required by thermal generators. The price model assumes that over the forecast period the price of carbon is \$12.50 per tonne (2010: \$12.50). During the forecast period the minimum spot price is assumed to be \$58.81 per MWh (2010: \$51.25) and the maximum price \$106.28 per MWh (2010: \$102.63).

The spot price supplied by EnergyLink is based upon supply at the Haywards grid exit point. This price is adjusted to the expected price at the grid exit points on which the Group trades by the application of location factors. Location factors are supplied by Energylink and are calculated by reference to historic differences from Hayward's prices adjusted for expected changes in supply and demand at the respective grid exit points. Location factors range from 0.933 to 1.052 (2010: 0.928 to 1.028) over the forecast period.

The following tables present the Group's (Parent is nil) financial assets and liabilities that are measured at fair value.

GROUP

31 March 2011

Assets

Electricity Price Derivatives

Liabilities

Electricity Price Derivatives

31 March 2010

Assets

Electricity Price Derivatives

Liabilities

Electricity Price Derivatives

	Level 1	Level 2	Level 3	Total
	\$'000	\$'000	\$'000	\$'000
31 March 2011				
Assets				
Electricity Price Derivatives	-	-	1,198	1,198
Liabilities				
Electricity Price Derivatives	-	-	1,365	1,365
31 March 2010				
Assets				
Electricity Price Derivatives	-	-	1,271	1,271
Liabilities				
Electricity Price Derivatives	-	-	2,912	2,912

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2011

Credit Risk

Financial instruments which potentially subject the Company to concentration of credit risk consist principally of cash, trade receivables and derivative financial instruments. The maximum credit risk as defined by NZ IFRS 7 is the carrying value of these financial instruments, however Directors consider the risk of non recovery of these amounts as being minimal. The Group places its cash deposits with high-credit-quality financial institutions. Concentrations of credit risk with respect to receivables are limited due to a large number of customers included in the Company's customer base. The Group requires a deposit for certain high credit risk customers if no credit references are received from other energy companies. The Group faces the risk that a party to a derivative financial instrument will default on a payment. Instruments are spread over a number of substantial New Zealand energy companies with generation that allows them to offset adverse settlements on financial derivatives against gains from spot market electricity sales. No other form of security or collateral is required to support financial instruments with credit risk.

Market Risk

The Group is exposed to market risk in respect of spot market electricity purchases. The Group is exposed to the spot market to the extent its own generation is insufficient to meet sales to its customers. On an annual basis the Group purchases approximately 52% of its sales volume on the spot market. It is the Group's current policy to use derivatives to meet its estimated net electricity demand after allowing for periods of low water flows in its hydro catchment areas. At 31 March 2011 the Group has a fully balanced energy derivative book for the next financial year. The Group negotiates its purchases of derivatives, generally at least a year in advance of requirements, giving it the option to shed customer load if it is unable to achieve derivative cover that allows profitable sale of electricity to end consumers.

Under these contracts Group Companies agree a fixed price (strike price) for their estimated electricity needs with various counterparties. On maturity of these agreements any difference between the strike price and the spot market price is settled between the parties. Settlement occurs irrespective of the amount of electricity actually supplied. If the spot market price is greater than the strike price, the counterparty must settle the difference with the Group. Conversely if the spot market price is less than the strike price, the Group must settle the difference with the counter party. The group deems that there is no market risk if it has to settle derivatives because the spot price is below the strike price. Retail selling prices are such that the Group is able to pay the strike price for its electricity purchases and still make an adequate return.

The Group is not exposed to any significant interest rate or foreign currency risk.

Sensitivity Analysis

The following table summarises the effect of a 10% increase or decrease in the projected forward price of electricity used to value derivative contracts on the Groups tax paid profit and equity. The analysis assumes that all other variables are held constant as a result of the change in the value of the derivative contracts.

	Group		Parent	
	31.03.11	31.03.10	31.03.11	31.03.10
	\$'000	\$'000	\$'000	\$'000
Increase/(Decrease) in Profit of a 10% Increase in electricity price	996	1,176	-	-
Increase/(Decrease) in Profit of a 10% Decrease in electricity price	(996)	(1,176)	-	-
Increase/(Decrease) in Equity of a 10% Increase in electricity price	996	1,176	-	-
Increase/(Decrease) in Equity of a 10% Decrease in electricity price	(996)	(1,176)	-	-

Liquidity Risk

Liquidity risk is managed by holding bank deposits and managing the timing of cash flows. Credit terms extended to our customers are similar to those we receive from our suppliers. Cash flows from our customers largely match our payments to our suppliers. Cash is held to bridge any timing differences. Settlement of derivative contracts and electricity purchases occur on the same day. Because the volume of derivatives is linked to third party sales volumes and own generation volumes, net cash flow on settlement does not vary significantly from plan on each settlement date. Funding facilities are adequate to meet our operating plan.

The tables below show the Group and Parent's financial liabilities by relevant maturity based upon the remaining period to the earliest possible contractual maturity date as at the relevant balance date. Amounts have not been discounted and where the settlement amount is based upon a future estimated price, the price used is consistent with that used for all other estimates included in these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2011

GROUP

At 31 March 2011

Net Settled Electricity price Derivatives	206	77	692	62
Accounts Payable and Accruals	1,967	-	-	-
Lease Obligations	6	26	22	30

At 31 March 2010

Net Settled Electricity price Derivatives	142	565	934	85
Accounts Payable and Accruals	3,413	-	-	-
Lease Obligations	6	31	37	85

PARENT

At 31 March 2011

Accounts Payable and Accruals	1,551	-	-	-
Lease Obligations	6	26	22	30

At 31 March 2010

Accounts Payable and Accruals	2,791	-	-	-
Lease Obligations	6	31	37	85

	Less than 1 Month \$'000	1 – 6 Months \$'000	6 – 12 Months \$'000	Over 1 Year \$'000
	206	77	692	62
	1,967	-	-	-
	6	26	22	30
	2,179	103	714	92
	-			
	142	565	934	85
	3,413	-	-	-
	6	31	37	85
	3,561	596	971	170
	1,551	-	-	-
	6	26	22	30
	1,557	26	22	30
	2,791	-	-	-
	6	31	37	85
	2,797	31	37	85

Sensitivity Analysis

The Group considers its most significant risk to be generation volume risk. It uses financial derivatives to manage the spot price risk for the production shortfall between anticipated generation and sales. Derivatives are put in place prior to expanding the volume of sales, limiting the risk of sales volume growth outstripping market price protection. The Group manages its volume risk by varying the operating hours of its generation plant and varying the relationships between contracted volumes and times in its derivative contracts so that production and derivative contract volumes match demand over a day. The policy of the Group is to have sufficient derivatives in place to allow own generation based on long run average outputs plus derivatives to exceed forecast sales volumes by 10%.

The following table summarises the impact of generation volumes either increasing by 20% or falling by 20% from those achieved in the reporting periods shown. Generation volumes achieved in 2011 were 92% of long run average while those achieved in 2010 were 94%.

	Group		Parent	
	31.03.11 \$'000	31.03.10 \$'000	31.03.11 \$'000	31.03.10 \$'000
Impact of a 20% reduction in generation on Post Tax Profit	(738)	(739)	-	-
Impact of a 20% increase in generation on Post Tax Profit	1,837	1,942	-	-

The effect on Equity is limited to the change in Post Tax Profit

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2011

Capital Management Objectives

The Directors' consider the capital of the company to comprise issued capital, revaluation reserves and retained earnings, excluding the components of reserves and retained earnings that have arisen from the valuation of derivative financial instruments. These amounts are excluded because they involve significant estimates and any effect reverses and is replaced by actual earnings over the life of the financial instrument. The value of capital under management is disclosed in the following calculation of the gearing ratio.

A Group objective when managing capital is to safeguard its ability to continue as a going concern, so that it can continue to provide returns to shareholders and benefits for other stakeholders and to maintain an optimal long term capital structure designed to reduce the cost of capital. In the short term the Group may move from an optimal capital structure to allow it to complete its capital works programme.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt comprises total borrowings less short term deposits. Total capital is Shareholders' Equity as shown in the consolidated Balance Sheet adjusted for the effect of the fair value of financial instruments plus net debt.

It is the policy of the Board to maintain the current gearing ratio pending the final outcome of a number of significant capital projects involving the construction of new generation facilities. While Directors believe the company has excess capital for its current operations, all current capital would be required to support these new construction projects should they proceed.

The gearing ratios were as follows:

Net Debt

Current Borrowing
Non Current Borrowing
Short Term Deposits

Equity

Shareholders Equity
Remove Net Effect of Financial Instruments After Tax
Adjusted Equity

Total Capital Funding

Gearing Ratio

	Group		Parent	
	31.03.11	31.03.10	31.03.11	31.03.10
	\$'000	\$'000	\$'000	\$'000
Current Borrowing	(52)	(69)	(52)	(69)
Non Current Borrowing	(26)	(68)	(26)	(68)
Short Term Deposits	6,092	5,169	6,080	5,148
	6,014	5,032	6,002	5,011
Shareholders Equity	85,192	83,943	31,207	31,371
Remove Net Effect of Financial Instruments After Tax	117	1,149	-	-
Adjusted Equity	85,309	85,092	31,207	31,371
Total Capital Funding	91,323	90,124	37,209	36,382
Gearing Ratio	(7%)	(6%)	(16%)	(14%)

The equity adjustment is the profit or loss charge in Retained Earnings relating to the recognition of the fair value of financial instruments. This adjustment is net of tax (at 30% in both years as tax is deferred).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2011

17 EARNINGS PER SHARE

Earnings used in calculating basic and diluted earnings per share attributable to equity holders:

	Group	
	31.03.11	31.03.10
	\$'000	\$'000
Net Profit from Operations	4,433	1,560
Net Profit Attributable to Equity Holders of Parent	4,433	1,560
Weighted Average Number of Ordinary Shares for Basic and Diluted Earnings Per Share (thousands)	18,750	18,750

There are no instruments on issue that could potentially dilute basic earnings per share in the future. There have been no share transactions or potential share transactions since balance date.

18 DIVIDENDS

The Board of Directors recommended and shareholders resolved to pay a final dividend of 12 cents per ordinary share (plus full imputation credits) on the 6th of August 2010. Directors resolved to pay an interim dividend of 12 cents per ordinary share (plus full imputation credits) on the 26th of November 2010 for a total cash distribution to shareholders during the year of \$4,500,000 (2010: \$4,500,000).

Subsequent to year end, the Board of Directors resolved to pay a final dividend of 12 cents per ordinary share (without imputation credits), a total cash distribution of \$2,250,000. Subject to approval of shareholders at the Annual General Meeting the dividend will be paid on 5 August 2011. This amount has not been recognised as a liability in 2011 but will be brought to account in 2012.

19 SEGMENT REPORTING

The Group operates within the electricity generation and retail industry in the central North Island of New Zealand. The retail and generation segments of the business are managed separately but both segments have access to shared corporate services.

The retail segment sells electricity to final consumers which are classified as mass market or contract.

The generation segment of the business owns and operates the generation stations used to supply both the spot electricity market and customers using The Lines Company Ltd distribution network. Generation also purchases spot market electricity for supply to the retail operation at an agreed transfer price. Generation manages spot market price risk through the acquisition of contracts for difference with other electricity generators.

Unallocated revenue, expenses, assets and liabilities represent the revenue, expenses assets and liabilities of the Parent. As they provide benefits to all segments they have not been apportioned to the operating segments.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2011

	Retail		Generation		Total	
	31.03.11	31.03.10	31.03.11	31.03.10	31.03.11	31.03.10
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Revenue						
Sales to External Customers	27,695	27,648	3,618	4,533	31,313	32,181
Other Revenue from External Customers	159	138	1,434	830	1,593	968
Inter-segment Sales	15	43	21,245	16,540	21,260	16,583
Total Segment Revenues	27,869	27,829	26,297	21,903	54,166	49,732
Unallocated Revenue	-	-	-	-	202	131
Total Segment Revenue	27,869	27,829	26,297	21,903	54,368	49,863
Results						
Segment Results before tax	3,170	7,811	6,512	(3,149)	9,682	4,662
Unallocated Expenses	-	-	-	-	(2,326)	(2,149)
	3,170	7,811	6,512	(3,149)	7,356	2,513
Financing Costs	-	-	-	1	-	1
Unallocated Financing Costs	-	-	-	-	(130)	(154)
	-	-	-	1	(130)	(153)
Income Tax	(976)	(2,343)	(2,601)	846	(3,577)	(1,497)
Unallocated Income Tax	-	-	-	-	784	697
	(976)	(2,343)	(2,601)	846	(2,793)	(800)
Segment Net Operating Profit After Tax	2,194	5,468	3,911	(2,302)	4,433	1,560

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2011

	Retail		Generation		Total	
	31.03.11	31.03.10	31.03.11	31.03.10	31.03.11	31.03.10
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Assets and Liabilities						
Segment Assets	2,688	1,737	92,610	96,369	95,298	98,106
Unallocated Assets	-	-	-	-	12,349	11,426
Total Assets	2,688	1,737	92,610	96,369	107,647	109,532
Segment Liabilities	775	752	19,637	22,462	20,412	23,214
Unallocated Liabilities	-	-	-	-	2,043	3,222
	775	752	19,637	22,462	22,455	26,436
Other Segment Information						
Capital Expenditure	20	85	520	586	540	671
Unallocated Capital Expenditure	-	-	-	-	82	249
	20	85	520	586	622	920
Depreciation and Amortisation	28	34	2,477	1,698	2,505	1,732
Unallocated Depreciation & Amortisation	-	-	-	-	330	307
	28	34	2,477	1,698	2,835	2,039
Impairment of Fixed Assets	-	-	-	1,968	-	1,968
Other Non-cash Expenses	157	224	-	1,291	157	1,515
Cash Flow Information						
Net Cash Inflow From Operating Activities	3,574	8,422	7,450	2,941	11,024	11,363
Unallocated Net Cash Outflow From Operating Activities	-	-	-	-	(4,929)	(3,663)
	3,574	8,422	7,450	2,941	6,095	7,700
Net Cash Outflow From Investing Activities	(1,574)	(5,422)	(3,459)	(2,926)	(5,033)	(8,348)
Unallocated Net Cash Outflow From Investing Activities	-	-	-	-	4,421	9,908
	(1,574)	(5,422)	(3,459)	(2,926)	(612)	1,560
Net Cash Flow From Financing Activities	-	-	-	-	-	-
Unallocated Net Cash Flow From Financing Activities	-	-	-	-	(4,560)	(4,551)
	-	-	-	-	(4,560)	(4,551)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2011

20 EVENTS SUBSEQUENT TO BALANCE DATE

Dividend

Subsequent to balance date, the Board have declared a cash dividend (without imputation credits) of 12 cents per ordinary share, a total of \$2,250,000. The dividend will be paid on 5 August 2011.

Unfavourable Trading Situation

The Electricity Authority (EA) has ruled there was an unfavourable trading situation (UTS), which led to interim prices in the wholesale electricity market at the Huntly grid exit point (GXP) exceeding \$19,000 per megawatt hour (MWh), for the periods between 10:30am and 5:30pm, on the 26th of March 2011.

In its draft decision of the 6th of May 2011 the EA proposes that the prices for the Huntly GXP for these periods, be re-set to between \$1,500 MWh and \$3,000 MWh, with consequent re-pricing for other GXP's. A final pricing decision is not expected until mid-June 2011.

As a result of this decision, the company has re-set electricity sales and purchases for the UTS period based upon the Huntly GXP price of \$1,500 MWh. Any final price above \$1,500 MWh would increase the profit result, with an increase of \$74,000 to profit before tax, at a price of \$3,000 MWh.



Chartered Accountants

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of King Country Energy Limited Report on the Financial Statements

Report on the Financial Statements

We have audited the financial statements of King Country Energy Limited and its subsidiaries on pages 18 - 47 which comprise the balance sheet of King Country Energy Limited and the group as at 31 March 2011, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, of the company and group and a summary of significant accounting policies and other explanatory information.

This report is made solely to the company's shareholders, as a body, in accordance with section 205(1) of the Companies Act 1993. Our audit has been undertaken so that we might state to the company's shareholders those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's shareholders as a body, for our audit work, for this report, or for the opinions we have formed.

Directors' Responsibility for the Financial Statements

The directors are responsible for the preparation of the financial statements in accordance with generally accepted accounting practice in New Zealand and that give a true and fair view of the matters to which they relate, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (New Zealand). These auditing standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected, depend on our judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we have considered the internal control relevant to the entity's preparation of the financial statements that give a true and fair

view of the matters to which they relate in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, as well as evaluating the overall presentation of the financial statements.

We believe we have obtained sufficient and appropriate audit evidence to provide a basis for our audit opinion.

Other than in our capacity as auditor we have no relationship with, or interest in King Country Energy Limited or any of its subsidiaries.

Partners and employees of our firm may deal with the group on normal terms within the ordinary course of trading activities of the business of the group.

Opinion

In our opinion, the financial statements on pages 18 - 47:

- comply with generally accepted accounting practice in New Zealand;
- comply with International Financial Reporting Standards; and
- give a true and fair view of the financial position of King Country Energy Limited and the group as at 31 March 2011 and the financial performance and cash flows, of the company and group for the year then ended.

Report on Other Legal and Regulatory Requirements

In accordance with the Financial Reporting Act 1993, we report that:

- We have obtained all the information and explanations that we have required.
- In our opinion proper accounting records have been kept by King Country Energy Limited as far as appears from our examination of those records.

02 June 2011
Wellington



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King Country Energy

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