

King Country Energy

Interim Report

For the six months ending 30 September 2004



The power behind our community

HIGHLIGHTS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2004

NPAT

\$1.89m

(30 September 2003, \$2.36m)

EBITDA

\$3.43m

(30 September 2003, \$4.19m)

DIVIDEND

8c per share

Fully imputed interim cash dividend to be paid on 1 December 2004

(1 December 2003, 8c per share, unimputed)

SHARE PRICE

33%

Increase in share price over the six months to 30 September 2004

RETAIL LOAD

109 GWh

(30 September 2003, 120 GWh)

GENERATION VOLUME

74 GWh

(30 September 2003, 62 GWh)

REVALUATION

\$69.6m

Valuation of generation assets

(an increase in the book value of \$23m)

OPERATING CASHFLOW

\$3.90m

(30 September 2003, \$2.38m)

MANGAHAO

4 MW

Mini hydro project commissioning commenced

RESTRUCTURE

Customer Services restructured as a result of the termination of the BOPE service centre

MESSAGE TO SHAREHOLDERS

On behalf of the Board, we are pleased to present the interim report for the six months ending 30 September 2004.

Dividend

The Board have pleasure in announcing an interim cash dividend of 8c per share. This dividend will be fully imputed (approximately equivalent to a gross taxable dividend of 12c per share) and will have a record date of 19 November 2004 and a payment date of 1 December 2004. This compares to last years unimputed interim dividend of 8c per share.

Overview of financial performance

The net profit after tax (NPAT) for the first six months of the year was \$1.89 million. This is \$0.5 million behind our forecasts at the beginning of the year and is 20% down on NPAT for the first six months of last year of \$2.36 million.

The earnings before interest, tax, depreciation and amortisation (EBITDA) for the first six months of the year was \$3.43 million. This is \$0.8 million behind our half year forecast and is 18% down on EBITDA for the first six months of last year of \$4.19 million.

These lower profitability results for the first half of the year have arisen primarily as a result of our risk management policy of ensuring that our retail load is fully hedged in the event of a dry year, record high rainfall causing high generation from our own stations and low spot prices. The resulting increased financial cost of our hedge contracts has adversely affected the financial results in a period of otherwise sound financial performance.

The Board would like to emphasise that this situation is preferable to being under-hedged in a dry year when our generation is low and spot prices spike to high levels. It is also worthy of note that this year New Zealand has experienced lake inflows of 15% higher than the historical average. Average spot prices (at Haywards reference node) were \$36.55 per MWh compared to \$95.40 per MWh for the first six months of last year.

“The Board believe your company is presently in sound shape both financially and operationally”

Cashflow for the first six months of the year has remained strong with operating cashflows at \$3.90 million compared with \$2.38 million for the same period last year.

In our annual report we noted that King Country Energy had instigated an audit of its incumbent GXP's through the electricity market to recover what we believe are over-charges of wholesale electricity paid due to inaccurate electricity reconciliation by other retailers and in particular, one State Owned Enterprise (SOE).

Unfortunately, the progress of this audit is being delayed by the poor response of the above-mentioned SOE. While this audit relates to historical reconciliations, King Country Energy has reason to believe that this under-reporting (resulting in overcharging to King Country Energy) by other retailers is ongoing. King Country Energy is currently determining the appropriate action to address these ongoing issues. We believe these practices amount to theft and contribute to the ability of our competitors to offer significantly lower retail prices.

In our 2003/4 annual report we signalled our intention to have the generation assets revalued for financial reporting purposes. Consequently an independent valuation, carried out by Deloitte, has valued our electricity generation assets at \$69.6 million as at 30 September 2004. This represents an increase in value of some \$23 million that has been included in our financial accounts and brings the net tangible assets per share to \$3.52 as at 30 September 2004. The higher asset value reflects the increased earning potential of our generation assets in a market that will be impacted by the increasing demand and higher prices following the rundown of gas supply from the Maui field. The central North Island location of our generation stations and the fact that

they are based on a renewable resource provide a strong competitive advantage over generation that relies on dwindling fossil fuel supplies and the accompanying environmental impact. The impact of a carbon tax will further increase costs for non renewable generation.

The Board intends to complete three yearly asset revaluations in line with Financial Reporting Standards.

Retail

Retail load for the first six months of the year was 109 GWh. This was down from 120 GWh for the first six months of last year primarily due to the inclusion of 3 months of the FreshStart Energy joint venture load in last years figures and the relatively warmer winter experienced in the King Country this year.

Early in April, Bay of Plenty Electricity Limited decided that because of competitive pressures they wished to resume running their own back office operations. Consequently from mid-June King Country Energy has concentrated its focus solely on its own business with a significant increase in the performance statistics measured by regular independent customer surveys.

With the dropping of the service contract with Bay of Plenty Electricity, we have taken the opportunity to rework our internal structure. The new management team was highlighted in the Annual Report and is developing into an effective unit.

Generation

Our generation assets performed well over the first six months of the year helped by the high rainfall. Generation volumes were 73.5 GWh compared to 62.4 GWh for the six months to Sept 2003. However, the returns were offset by the extremely low spot prices over the same period resulting in gross revenue of \$2.68 million compared to \$4.82 million for the same period last year.

The mini-hydro development at Mangahao has commenced commissioning. There have been some delays but regular generation is expected to commence by December of this year.

Resource consent applications for the Wairere and Mokauti stations are still ongoing.

Considerable progress has been made in resolving Wairere issues. As part of our Kuratau station resource consent requirements, we have completed a successful test in conjunction with the Department of Conservation on the passage of young trout through the turbines with satisfactory survival rates.

“The higher asset value reflects the increased earning potential of our generation assets”

Share Price

The Board has been pleased with the performance of the company's shares over the last six months. The share price increased from \$2.67 at 1 April 2004 to \$3.55 at 30 September 2004, an increase of 33%.

Outlook

We are forecasting an EBITDA for the full year ending 31 March 2005 of \$6.7 million, down on our forecast at the beginning of the year of \$7.6 million primarily due to the lower electricity prices. Forecast NPAT for the full year is now \$3.4 million, down similarly on our forecast at the beginning of the year of \$4.2 million due to the factors identified above and also the increased depreciation charge resulting from the revalued asset base.

The Board believe your company is presently in sound shape both financially and operationally in and we have every confidence that your company is well positioned maintain this into the future.



Anthony J Palmer
Chairman



Kit Wilson
General Manager



FINANCIAL STATEMENTS

STATEMENT OF FINANCIAL PERFORMANCE

FOR KING COUNTRY ENERGY LTD CONSOLIDATED GROUP

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2004

Audited 31.03.04 \$'000			Unaudited 30.09.04 \$'000	Unaudited 30.09.03 \$'000
28,157	Operating Revenue	3	11,484	16,602
(25,003)	Operating Expenses	4	(7,297)	(17,248)
3,154	Operating Surplus Before Hedge Adjustments		4,187	(646)
3,640	Net Gain on Electricity Hedges		(1,329)	4,175
6,794	Operating Surplus Before Tax		2,858	3,529
(2,241)	Tax Expense	5	(964)	(1,165)
4,553	Operating Surplus After Tax		1,894	2,364
	Comprising:			
8,038	Operating Surplus Before Tax from Continuing Activities		2,820	4,773
(1,244)	Operating Surplus Before Tax from Discontinued Activities		38	(1,244)
6,794			2,858	3,529

STATEMENT OF MOVEMENTS IN EQUITY

FOR KING COUNTRY ENERGY LTD CONSOLIDATED GROUP

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2004

Audited 31.03.04 \$'000			Unaudited 30.09.04 \$'000	Unaudited 30.09.03 \$'000
46,071	Equity at beginning of the year		47,624	46,071
	Surplus & Distributions			
4,553	Net Surplus for the period		1,894	2,364
-	Revaluation of Plant Property & Equipment	6	20,420	-
4,553	Total recognised revenues and expenses		22,314	2,364
(3,000)	Distributions to Owners		(2,250)	(1,500)
47,624	Equity at end of the year		67,688	46,935

The accompanying notes form an integral part of these financial statements.

STATEMENT OF FINANCIAL POSITION

FOR KING COUNTRY ENERGY LTD CONSOLIDATED GROUP
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2004

Audited 31.03.04 \$'000		Unaudited 30.09.04 \$'000	Unaudited 30.09.03 \$'000
Shareholders' Equity			
(26,267)	Share Capital	(26,267)	(26,267)
(12,208)	Reserves	(32,628)	(12,208)
(9,149)	Retained Earnings	(8,793)	(8,460)
(47,624)	Total Shareholders' Equity	(67,688)	(46,935)
Represented by:			
Current Assets:			
21	Cash & Bank Balances	975	504
4,379	Trade & Other Receivables	4,626	4,265
535	Tax Receivable	270	696
4,935	Total Current Assets	5,871	5,465
Non Current Assets:			
47,642	Property, Plant & Equipment	70,901	47,762
1,800	Intangible Assets	1,740	1,860
49,442	Total Non-Current Assets	72,641	49,622
54,377	Total Assets	78,512	55,087
Current Liabilities:			
(3,063)	Trade & Other creditors	(4,152)	(3,583)
(171)	Customer Credit Balances	(120)	(298)
-	Borrowings	-	(1,800)
(114)	Employee Entitlements	(110)	(97)
(3,348)	Total Current Liabilities	(4,382)	(5,778)
Non Current Liabilities:			
-	Employee Entitlements	-	(62)
(3,405)	Deferred Tax	(6,442)	(2,312)
(3,405)	Total Non Current Liabilities	(6,442)	(2,374)
(6,753)	Total Liabilities	(10,824)	(8,152)
47,624	Net Assets	67,688	46,935

The accompanying notes form an integral part of these financial statements.

STATEMENT OF CASH FLOWS

FOR KING COUNTRY ENERGY LTD CONSOLIDATED GROUP
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2004

Audited 31.03.04 \$'000		Unaudited 30.09.04 \$'000	Unaudited 30.09.03 \$'000
Cash Flows from Operating Activities			
Cash received from:			
38,555	Electricity Receipts from Customers	17,109	23,007
29	Interest Received	34	17
5,328	Other Receipts from Customers	1,114	2,966
5,675	Net Receipts from Settlement of Hedges	(1,223)	6,293
49,587		17,034	32,283
Cash applied to:			
(18,735)	Payments for Electricity	(2,827)	(14,715)
(14,125)	Payments for Line Charges	(7,108)	(7,985)
(8,477)	Payments to Other Suppliers	(1,850)	(5,848)
(2,478)	Payments to Employees	(1,038)	(1,285)
-	Income Tax Paid	(300)	-
(90)	Interest Paid	(16)	(69)
(43,905)		(13,139)	(29,902)
5,682	Net Cash Inflow/(Outflow) from Operating Activities	3,895	2,381
Cash Flows from Investing Activities			
Cash applied to:			
(889)	Fixed Assets Purchases (net)	(691)	(405)
(889)	Net Cash Inflow/(Outflow) from Investing Activities	(691)	(405)
Cash Flows from Financing Activities			
Cash applied to:			
(2,300)	Borrowings	-	(500)
(3,000)	Dividends Paid	(2,250)	(1,500)
(5,300)	Net Cash Inflow/(Outflow) from Financing Activities	(2,250)	(2,000)
(507)	Total Net Cash Movement	954	(24)
528	Opening Cash & Bank Balances	21	528
21	Closing Cash & Bank Balances	975	504

The accompanying notes form an integral part of these financial statements.

STATEMENT OF CASH FLOWS

FOR KING COUNTRY ENERGY LTD CONSOLIDATED GROUP
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2004

Audited 31.03.04 \$'000		Unaudited 30.09.04 \$'000	Unaudited 30.09.03 \$'000
Reconciliation with Operating Surplus			
4,553	Operating Surplus After Tax per Statement of Financial Performance	1,894	2,364
Non Cash Items			
62	Loss / (Gain) on Disposal of Fixed Assets	(9)	(3)
1,067	Depreciation	499	528
<u>120</u>	Goodwill Amortised	<u>60</u>	<u>60</u>
1,249		550	585
Changes in Working Capital			
(72)	Increase / (Decrease) in Employee Provisions	(4)	(27)
2,240	Increase in Deferred Tax	664	986
3,766	(Increase) / Decrease in Receivables	(247)	3,880
<u>(6,054)</u>	Increase / (Decrease) in Payables	<u>1,038</u>	<u>(5,407)</u>
(120)		1,451	(568)
<u>5,682</u>	Net Cash Inflow/(Outflow) from Operating Activities per Statement of Cash Flows	<u>3,895</u>	<u>2,381</u>

The accompanying notes form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

FOR KING COUNTRY ENERGY LTD CONSOLIDATED GROUP

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2004

1. ACCOUNTING PERIOD

These unaudited financial statements cover the six month period ended 30 September 2004. They have been prepared in accordance with FRS-24 Interim Financial Statements and should be read in conjunction with our Annual Report for the year ended 31 March 2004.

2. ACCOUNTING POLICIES

During the period the Group changed its policy on revaluation of generation plant, property & equipment. Under the new policy, the Group is to revalue its generation plant, property & equipment every three years. Formerly, generation plant, property & equipment along with other property, plant & equipment were not regularly revalued. The Board has adopted this change in accounting policy to the present significant assets of the Group in a manner envisaged under Financial Reporting Standard No. 3 Accounting for Property Plant and Equipment.

This change in policy has resulted in an additional \$23.1 million of value being ascribed as property, plant & equipment, an additional deferred tax liability of \$2.7 million and an increase in shareholder equity of \$20.4 million.

There have been no other changes in accounting policies from those applied in our annual report for the year ended 31 March 2004.

3. REVENUE

Audited 31.03.04 \$'000		Unaudited 30.09.04 \$'000	Unaudited 30.09.03 \$'000
Continuing Activities			
24,627	Sales Revenue	11,354	14,167
(1,112)	Discount Allowed - Prompt Payment	(573)	(590)
28	Interest Received	34	16
3,136	Other Income	631	1,531
26,679	Total Revenue from Continuing Activities	11,446	15,124
Discontinued Activities - FreshStart Energy			
1,387	Sales Revenue	-	1,387
(96)	Discount Allowed - Prompt Payment	-	(96)
1	Interest Received	-	1
186	Other Income	38	186
1,478	Total Revenue from Discontinued Activities	38	1,478
<u>28,157</u>	Total Operating Revenue	<u>11,484</u>	<u>16,602</u>

NOTES TO THE FINANCIAL STATEMENTS

FOR KING COUNTRY ENERGY LTD CONSOLIDATED GROUP

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2004

4. EXPENSES

Audited 31.03.04 \$'000		Unaudited 30.09.04 \$'000	Unaudited 30.09.03 \$'000
	Continuing Activities		
13,652	Purchase of Electricity	3,357	10,532
261	Transpower Charges	138	130
	Depreciation - Property, Plant & Equipment		
32	Buildings	16	16
840	Generation Plant	394	420
1	Land, Road, Bridges	-	1
8	Motor Vehicles	1	4
186	Furniture, Plant and Equipment	88	87
1,067		499	528
120	Goodwill Amortised	60	60
184	Operating Lease Payments	100	94
113	Bad Debts Written Off	70	47
89	Interest Paid	16	68
52	Audit fees - Pricewaterhouse Coopers	2	-
-	Audit fees - Other Firms	-	(4)
54	Fees Paid to Auditors for Other Services	24	-
133	Directors' Fees	66	66
62	Loss / (Gain) on Sale of Fixed Assets	(9)	(3)
6,494	Other Operating Expenses	2,974	3,008
22,281	Total Expenses From Continuing Activities	7,297	14,526
	Discontinued Activities - FreshStart Energy		
1,577	Purchase of Electricity	-	1,577
19	Bad Debts Written Off	-	19
14	Audit Fees - Other Auditors	-	14
1	Interest Paid	-	1
1,111	Other Operating Expenses	-	1,111
2,722	Total Expenses from Discontinued Activities	-	2,722
25,003	Total Operating Expenses	7,297	17,248

NOTES TO THE FINANCIAL STATEMENTS

FOR KING COUNTRY ENERGY LTD CONSOLIDATED GROUP
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2004

5. INCOME TAX

Income Tax Attributable To Operating Surplus

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

Audited 31.03.04 \$'000		Unaudited 30.09.04 \$'000	Unaudited 30.09.03 \$'000
6,794	Net Operating Surplus Before Tax	2,858	3,529
2,242	Tax thereon at 33%	943	1,165
(6)	Permanent Differences	21	-
5	Under / (Over) Provision in Prior Year	-	-
2,241	Tax Expense	964	1,165
	Comprising:		
1,640	Current Tax Provision	686	1,165
596	Deferred Tax Provision	278	-
5	Under / (Over) Provision in Prior Year	-	-
2,241		964	1,165
	Deferred Tax Liability		
(1,164)	Balance at beginning of period	(3,405)	(1,164)
(596)	Current Period Timing Differences	(278)	-
(5)	Prior Period Adjustment	(6)	-
(1,640)	Transfer Between Current Tax and Deferred Tax	(116)	(1,148)
-	Deferred Tax on Revalued Assets	(2,637)	-
(3,405)	Balance at end of period	(6,442)	(2,312)
	Imputation Credit Account		
151	Balance at beginning of period	257	151
105	Prior Period Adjustment	-	105
-	Imputation Credits attached to Dividends	(1,108)	-
1	Tax Payments	300	1
257	Balance at end of period	(551)	257

NOTES TO THE FINANCIAL STATEMENTS

FOR KING COUNTRY ENERGY LTD CONSOLIDATED GROUP
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2004

6. RESERVES

Audited 31.03.04 \$'000		Unaudited 30.09.04 \$'000	Unaudited 30.09.03 \$'000
	Asset Revaluation Reserve		
12,208	Balance at beginning of period	12,208	12,208
-	Revaluation of Plant, Property & Equipment	23,057	-
-	Deferred tax adjustment on revaluation	(2,637)	-
<u>12,208</u>	Balance at end of period	<u>32,628</u>	<u>12,208</u>

7. RETAINED EARNINGS

Audited 31.03.04 \$'000		Unaudited 30.09.04 \$'000	Unaudited 30.09.03 \$'000
7,596	Balance at beginning of period	9,149	7,596
4,553	Net Surplus	1,894	2,364
(3,000)	Distributions to Owners	(2,250)	(1,500)
<u>9,149</u>	Balance at end of period	<u>8,793</u>	<u>8,460</u>

8. PROPERTY, PLANT, EQUIPMENT

Audited 31.03.04 \$'000		Unaudited 30.09.04 \$'000	Unaudited 30.09.03 \$'000
	Generation Assets		
42,479	- Cost	560	42,871
<u>11,748</u>	- Valuation	<u>69,256</u>	<u>10,875</u>
54,227		69,816	53,746
(7,612)	- Less Accumulated Depreciation	-	(7,096)
<u>46,615</u>	- Book Value	<u>69,816</u>	<u>46,650</u>
	Non Generation Assets		
1,825	- Cost	1,954	1,850
<u>38</u>	- Valuation	<u>38</u>	<u>38</u>
1,863		1,992	1,888
(836)	Less Accumulated Depreciation	(907)	(776)
<u>1,027</u>	Book Value	<u>1,085</u>	<u>1,112</u>
<u>47,642</u>		<u>70,901</u>	<u>47,762</u>

All generation plant, property and equipment was revalued as at 30 September 2004 to fair value for financial reporting purposes. This represents a change in Accounting Policies (refer Note 2). The fair value was assessed using economic value methodology based on the discounted cash flows able to be generated by the relevant plant property and equipment. The values were determined by independent valuers, Deloitte, Chartered Accountants.

Non-generation land and buildings was revalued in 1999 by independent registered valuers, Valuation New Zealand.

NOTES TO THE FINANCIAL STATEMENTS

FOR KING COUNTRY ENERGY LTD CONSOLIDATED GROUP
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2004

9. INTANGIBLE ASSETS

Audited 31.03.04 \$'000		Unaudited 30.09.04 \$'000	Unaudited 30.09.03 \$'000
2,400	Goodwill Arising on Acquisition of Business	2,400	2,400
(600)	Accumulated Amortisation	(660)	(540)
1,800		1,740	1,860

10. 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.

Audited 31.03.04 \$'000		Unaudited 30.09.04 \$'000	Unaudited 30.09.03 \$'000
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The Group's Share of Operating Revenues & Expenses

3,595	Revenue	918	2,239
(1,794)	Expenses	(92)	(1,363)
1,801		826	876

The Group's Share of Assets & Liabilities

250	Current Assets	393	298
24,178	Plant, Property & Equipment	37,649	24,231
(2,636)	Current & Non-Current Liabilities	(2,850)	(1,641)
21,792		35,192	22,888

NOTES TO THE FINANCIAL STATEMENTS

FOR KING COUNTRY ENERGY LTD CONSOLIDATED GROUP
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2004

FreshStart Energy Joint Venture

Subsidiary company, KCE Retail Ltd was a participant in an unincorporated joint venture, FreshStart Energy, for the retail of electricity in the Taranaki, Manawatu, Wairarapa, and Wellington areas. The subsidiary company had a 33% interest in this joint venture. The joint venture ceased trading in June 2003 when its business operations were sold to Genesis.

Audited 31.03.04 \$'000		Unaudited 30.09.04 \$'000	Unaudited 30.09.03 \$'000
The Group's Share of Operating Revenues & Expenses			
1,478	Revenue	38	1,300
<u>(1,167)</u>	Expenses	<u>-</u>	<u>(1,369)</u>
311		38	(69)
The Group's Share of Assets & Liabilities			
14	Current Assets	41	1,361
-	Plant, Property & Equipment	-	-
<u>(54)</u>	Current Liabilities	<u>(44)</u>	<u>(2,879)</u>
(40)		(3)	(1,518)

11. SUBSEQUENT EVENTS

Subsequent to 30 September 2004, the Board have declared a fully imputed dividend of 8 cents per share, a total of \$1,500,000. This is equivalent to a 12 cents per share taxable dividend. The dividend will be paid on 1 December 2004.

The directors are not aware of any other material events occurring subsequent to 30 September 2004

12. CONTINGENT GAINS & LOSSES

The status of matters reported in our annual report for the year ended 31 March 2004 remain unchanged.

CONTACT DETAILS:

PHONE

0800 523 637

FAX NUMBER

(07) 896 6036

EMAIL ADDRESS

enquiry@kcenergy.co.nz

WEBSITE

www.kcenergy.co.nz

POSTAL ADDRESS

P.O. Box 363
Taumarunui

PHYSICAL ADDRESS

Cnr Manuaute & Miriama St
Taumarunui



The power behind our community