

# KING COUNTRY ENERGY - INTERIM REPORT

(FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2005)



The power behind our community



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# MESSAGE TO SHAREHOLDERS

King Country Energy continues to perform strongly in the competitive electricity market and this is reflected in the positive half-year results outlined in this report.

## Dividend

The Board is pleased to announce an interim cash dividend of 12 cents per share which is equivalent to a gross taxable dividend of approximately 18 cents per share. The dividend will have a record date of 25 November 2005 and a payment date of 2 December 2005.

The 2005 interim dividend compares favourably with the fully imputed 2004 interim dividend of 8 cents per share (equivalent to a gross taxable dividend of 12 cents per share) and maintains our steady growth in dividend payments over the last five years.

## Overview of financial performance

Both NPAT of \$2.19 million and EBITDA of \$4.16 million were up on last year's comparative period figures by 16% and 21% respectively, although both results were slightly behind our forecasts at the beginning of the year. This was primarily due to lower generation volumes, particularly at Mangahao and to a lesser extent from our embedded stations. The resulting increased financial cost of replacing generation with high priced purchases from the electricity spot market has impacted on the financial results in a period of otherwise sound financial performance.

As previously signalled, the revaluation of the generation asset base on 1 October 2004 has resulted in increased depreciation of \$0.3 million in the first half of this financial year compared to the first half of last year. This increase in depreciation has impacted on the NPAT result.

The first six months of this year has been a period in which lake storage levels around the country have been below average. This has led to higher spot prices with the average spot price (at the Haywards reference node) of \$72.37 per MWh compared to \$36.55 per MWh for the first six months of last year.

## Retail

Retail sales volume for the first six months of the year was 117 GWh, an increase of 7% on the 109 GWh sold during the first six months of last year. Increased sales have resulted from the steady recovery of customers from our competitors.

In September, after two and a half years of holding retail electricity tariffs constant, King Country Energy announced tariff increases that averaged 6% in order to maintain retail margins as wholesale electricity prices increase. Tariff structures were also reviewed to ensure they more accurately reflect the cost drivers and remain competitive.

Independent customer surveys continue to see best-in-class results from our customer service centre. We believe the personal service provided by our locally based team is a key competitive advantage for the company.

The Lines Company Ltd has decided to invoice customers directly for delivering energy over its transmission network. This means that from 1 October 2005, King Country Energy will no longer include charges for The Lines Company Ltd on our invoices and all customers will receive a separate invoice for energy and line charges. King Country Energy staff are working hard to ensure minimal impact to the business and our customers.

## Generation

Below average rainfall resulted in lower generation over the first six months of the year. Generation volumes were 63.5 GWh compared to 73.5 GWh for the six months to September 2004 which was a particularly wet period. This comparison demonstrates the inherent variability in rainfall from year to year.

The proposed Mokau hydro electric power scheme is scheduled to go to a resource consent hearing in early 2006. We are hopeful that we will be able to have the new plant in operation by the end of 2008 unless there are extensive delays in the resource consent process.

The mini hydro development at Mangahao has operated with high reliability and the output of electricity has been consistent throughout the period. We are now investigating opportunities to further improve the performance of this asset.

Re-consenting the existing hydro stations is now complete with the exception of the Mokauiti resource consent, which is progressing through the appeal process. This process should conclude in early 2006.

## Share Price

The Board has been pleased with the continued strong performance of the company's shares over the last six months. The share price increased from \$3.40 at 1 April 2005 to \$4.10 at 30 September 2005, representing a capital increase of 21%.

The Board believes that the share price reflects the strong overall performance of the company in the last few years as well as the ability to continue to provide consistent returns to shareholders into the future.

## Outlook

We are forecasting an EBITDA for the full year ending 31 March 2006 of \$7.6 million. This is slightly below our forecast at the beginning of the year of \$7.7 million due to the lower hydro generation in the first half of the year.

Forecast NPAT for the full year is \$3.7 million. This is in line with our forecast at the beginning of the year.

The Board believes that King Country Energy is in sound shape both financially and operationally and that the company is well positioned to maintain current dividend levels and continue performing strongly into the future.

On behalf of the Board and Management Team



Anthony J Palmer  
Chairman



Kit Wilson  
General Manager

# THE NUMBERS

## 12c

### DIVIDEND

Fully imputed interim cash dividend to be paid on 2 December 2005 (8c fully imputed for the six months to 30 September 2004, paid on 1 December 2004)

## \$4.16m

### EBITDA

(\$3.43m for the six months ending 30 September 2004)

## \$2.19m

### NPAT

(\$1.89m for the six months ending 30 September 2004)

## \$3.88m

### NET OPERATING CASHFLOW

(\$3.90m for the six months ending 30 September 2004)

## \$4.10

### SHARE PRICE

21% increase in share price over six months to 30 September 2005

## 117 GWh

### RETAIL LOAD

(109 GWh for the six months ending 30 September 2004)

## 63.3 GWh

### GENERATION VOLUME

(73.5 GWh for the six months ending 30 September 2004)

# STATEMENT OF FINANCIAL PERFORMANCE

FOR THE KING COUNTRY ENERGY CONSOLIDATED GROUP  
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2005

Audited 31.03.05 \$'000	Note	Unaudited 30.09.05 \$'000	Unaudited 30.09.04 \$'000
22,005	3	13,374	11,484
(14,620)	4	(11,066)	(7,297)
7,385		2,308	4,187
(1,408)		947	(1,329)
<u>5,977</u>	<b>Operating Surplus Before Tax</b>	<u>3,255</u>	<u>2,858</u>
(2,120)	5	(1,069)	(964)
<u>3,857</u>	<b>Operating Surplus After Tax</b>	<u>2,186</u>	<u>1,894</u>
5,896	Comprising:	3,255	2,820
81	Operating Surplus Before Tax from Continuing Activities	-	38
<u>5,977</u>	Operating Surplus Before Tax from Discontinued Activities	<u>3,255</u>	<u>2,858</u>

# STATEMENT OF MOVEMENTS OF EQUITY

FOR THE KING COUNTRY ENERGY CONSOLIDATED GROUP  
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2005

Audited 31.03.05 \$'000		Unaudited 30.09.05 \$'000	Unaudited 30.09.04 \$'000
47,624	<b>Equity at Beginning of the Period</b>	68,151	47,624
3,857	<b>Surplus &amp; Distributions</b>	2,186	1,894
20,420	Net Surplus for the Period	-	20,420
24,277	Revaluation of Plant, Property & Equipment	2,186	22,314
(3,750)	Total Recognised Revenues and Expenses	(2,250)	(2,250)
<u>68,151</u>	<b>Equity at End of the Period</b>	<u>68,087</u>	<u>67,688</u>

# STATEMENT OF FINANCIAL POSITION

FOR THE KING COUNTRY ENERGY CONSOLIDATED GROUP

AS AT 30 SEPTEMBER 2005

Audited 31.03.05 \$'000	Note	Unaudited 30.09.05 \$'000	Unaudited 30.09.04 \$'000
<b>Shareholders' Equity</b>			
(26,267)		(26,267)	(26,267)
(32,628)	6	(32,628)	(32,628)
(9,256)	7	(9,192)	(8,793)
<u>(68,151)</u>		<u>(68,087)</u>	<u>(67,688)</u>
<b>Represented by:</b>			
<b>Current Assets:</b>			
2,299		3,227	975
3,941		4,455	4,626
677		101	270
<u>6,917</u>		<u>7,783</u>	<u>5,871</u>
<b>Non Current Assets:</b>			
70,529	8	70,341	70,901
1,680	9	1,620	1,740
<u>72,209</u>		<u>71,961</u>	<u>72,641</u>
<u>79,126</u>		<u>79,744</u>	<u>78,512</u>
<b>Current Liabilities:</b>			
(3,951)		(4,335)	(4,013)
(95)		(79)	(120)
(31)		(79)	(40)
(98)		(119)	(110)
<u>(4,175)</u>		<u>(4,612)</u>	<u>(4,283)</u>
<b>Non Current Liabilities:</b>			
(96)		(249)	(99)
(6,704)	5	(6,796)	(6,442)
<u>(6,800)</u>		<u>(7,045)</u>	<u>(6,541)</u>
<u>(10,975)</u>		<u>(11,657)</u>	<u>(10,824)</u>
<u>68,151</u>		<u>68,087</u>	<u>67,688</u>

# STATEMENT OF CASH FLOWS

FOR THE KING COUNTRY ENERGY CONSOLIDATED GROUP  
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2005

Audited 31.03.05 \$'000		Unaudited 30.09.05 \$'000	Unaudited 30.09.04 \$'000
	<b>Cash Flows from Operating Activities</b>		
	<b>Cash received from:</b>		
34,159	Electricity Receipts from Customers	19,500	17,109
143	Interest Received	152	34
1,492	Other Receipts from Customers	712	1,114
(1,696)	Net Receipts from Settlement of Hedges	877	(1,223)
<u>34,098</u>		<u>21,241</u>	<u>17,034</u>
	<b>Cash applied to:</b>		
(5,709)	Payments for Electricity	(6,375)	(2,827)
(13,866)	Payments for Line Charges	(7,213)	(7,108)
(3,789)	Payments to Other Suppliers	(2,429)	(1,850)
(1,914)	Payments to Employees	(921)	(1,038)
(1,600)	Income Tax Paid	(401)	300
(25)	Interest Paid	(20)	(16)
<u>(26,903)</u>		<u>(17,359)</u>	<u>(13,139)</u>
7,195	<b>Net Cash Inflow/(Outflow) from Operating Activities</b>	3,882	3,895
	<b>Cash Flows from Investing Activities</b>		
	<b>Cash applied to:</b>		
(1,167)	Fixed Assets Purchases (net)	(704)	(691)
<u>(1,167)</u>	<b>Net Cash Inflow/(Outflow) from Investing Activities</b>	<u>(704)</u>	<u>(691)</u>
	<b>Cash Flows from Financing Activities</b>		
	<b>Cash applied to:</b>		
(3,750)	Dividends Paid	(2,250)	(2,250)
<u>(3,750)</u>	<b>Net Cash Inflow/(Outflow) from Financing Activities</b>	<u>(2,250)</u>	<u>(2,250)</u>
2,278	<b>Total Net Cash Movement</b>	928	954
<u>21</u>	<b>Opening Cash &amp; Bank Balances</b>	<u>2,299</u>	<u>21</u>
<u>2,299</u>	<b>Closing Cash &amp; Bank Balances</b>	<u>3,227</u>	<u>975</u>



# STATEMENT OF CASHFLOWS

FOR THE KING COUNTRY ENERGY CONSOLIDATED GROUP  
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2005  
(CONT.)

Audited 31.03.05 \$'000		Note	Unaudited 30.09.05 \$'000	Unaudited 30.09.04 \$'000
	<b>Reconciliation with Operating Surplus</b>			
3,857	<b>Operating Surplus After Tax per Statement of Financial Performance</b>		2,186	1,894
	<b>Non Cash Items</b>			
(5)	Loss / (Gain) on Disposal of Fixed Assets	4	65	(9)
1,342	Depreciation	4	827	499
120	Goodwill Amortised	4	60	60
662	Increase / (Decrease) in Deferred Taxation	5	92	399
2,119			1,044	949
	<b>Changes in Working Capital</b>			
(16)	Increase / (Decrease) in Employee Provisions		21	(4)
(142)	(Increase) / Decrease in Tax Receivable		576	265
438	(Increase) / Decrease in Receivables		(514)	(247)
939	Increase / (Decrease) in Payables		569	(1,038)
1,219			652	1,052
7,195	<b>Net Cash Inflow/(Outflow) from Operating Activities per Statement of Cash Flows</b>		3,882	3,895



# NOTES

## TO THE FINANCIAL STATEMENTS

FOR THE KING COUNTRY ENERGY CONSOLIDATED GROUP

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2005

### 1. ACCOUNTING PERIOD

These unaudited financial statements cover the six month period ended 30 September 2005. 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 2005.

### 2. ACCOUNTING POLICIES

There have been no changes in accounting policies from those applied in our annual report for the year ended 31 March 2005 and in our interim report for the period ended 30 September 2004.

### 3. REVENUE

Audited 31.03.05 \$'000		Unaudited 30.09.05 \$'000	Unaudited 30.09.04 \$'000
	<b>Continuing Activities</b>		
21,876	Sales Revenue	13,341	11,354
(1,093)	Discount Allowed - Prompt Payment	(580)	(573)
143	Interest Received	152	34
998	Other Income	461	669
<u>21,924</u>	<b>Total Revenue from Continuing Activities</b>	<u>13,374</u>	<u>11,484</u>
	<b>Discontinued Activities - FreshStart Energy</b>		
81	Other Income	-	38
<u>81</u>	<b>Total Revenue from Discontinued Activities</b>	<u>-</u>	<u>38</u>
<u>22,005</u>	<b>Total Operating Revenue</b>	<u>13,374</u>	<u>11,484</u>

### 4. EXPENSES

Audited 31.03.05 \$'000		Unaudited 30.09.05 \$'000	Unaudited 30.09.04 \$'000
	<b>Continuing Activities</b>		
6,942	Purchase of Electricity	7,065	3,357
294	Transpower Charges	132	138
71	Depreciation of Property, Plant & Equipment		
	- Buildings	25	16
1,084	- Plant & Equipment	719	394
1	- Land	1	-
2	- Motor Vehicles	1	1
184	- Office Equipment & Furniture	81	88
<u>1,342</u>		<u>827</u>	<u>499</u>
120	Goodwill Amortised	60	60
166	Operating Lease Payments	80	100
125	Bad Debts Written Off	67	70
25	Interest Paid	20	16
52	Audit Fees - PricewaterhouseCoopers	-	2
37	Fees Paid to Auditors for Other Services	-	24
133	Directors' Fees	67	66
(5)	Loss / (Gain) on Sale of Fixed Assets	65	(9)
5,389	Other Operating Expenses	2,683	2,974
<u>14,620</u>	<b>Total Expenses From Continuing Activities</b>	<u>11,066</u>	<u>7,297</u>
<u>14,620</u>	<b>Total Operating Expenses</b>	<u>11,066</u>	<u>7,297</u>



# NOTES

## TO THE FINANCIAL STATEMENTS

FOR THE KING COUNTRY ENERGY CONSOLIDATED GROUP  
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2005  
(CONT.)

### 5. INCOME TAX

Audited 31.03.05 \$'000	<b>Income Tax Attributable To Operating Surplus</b> 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:	Unaudited 30.09.05 \$'000	Unaudited 30.09.04 \$'000
5,977	Net Operating Surplus Before Tax	3,255	2,858
1,973	Prima facie tax at 33%	1,074	943
147	Permanent Differences	69	21
-	Under / (Over) Provision in Prior Year	(74)	-
<u>2,120</u>	<b>Tax Expense</b>	<u>1,069</u>	<u>964</u>
	<b>Comprising:</b>		
1,579	Current Tax Provision	977	686
541	Deferred Tax Provision	166	278
-	Under / (Over) Provision in Prior Year	(74)	-
<u>2,120</u>		<u>1,069</u>	<u>964</u>
	<b>Deferred Tax Liability</b>		
(3,405)	Balance at Beginning of Period	(6,704)	(3,405)
(541)	Current Period Timing Differences	(161)	(278)
(5)	Prior Period Adjustment	69	(6)
(116)	Transfer Between Current Tax and Deferred Tax	-	(116)
(2,637)	Deferred Tax on Revalued Assets	-	(2,637)
<u>(6,704)</u>	Balance at End of Period	<u>(6,796)</u>	<u>(6,442)</u>
	<b>Imputation Credit Account</b>		
257	Balance at Beginning of Period	10	257
(1,847)	Imputation Credits attached to Dividends	(1,108)	(1,108)
1,600	Tax Payments	400	300
<u>10</u>	Balance at End of Period	<u>(698)</u>	<u>551</u>

### 6. RESERVES

Audited 31.03.05 \$'000	<b>Asset Revaluation Reserve</b>	Unaudited 30.09.05 \$'000	Unaudited 30.09.04 \$'000
12,208	Balance at Beginning of Period	32,628	12,208
23,057	Revaluation of Plant, Property & Equipment	-	23,057
(2,637)	Deferred Tax Adjustment on Revaluation of Assets	-	(2,637)
<u>32,628</u>	Balance at End of Period	<u>32,628</u>	<u>32,628</u>

### 7. RETAINED EARNINGS

Audited 31.03.05 \$'000	<b>Balance at Beginning of Period</b>	Unaudited 30.09.05 \$'000	Unaudited 30.09.04 \$'000
9,149	Balance at Beginning of Period	9,256	9,149
3,857	Net Surplus	2,186	1,894
(3,750)	Distributions to Owners	(2,250)	(2,250)
<u>9,256</u>	<b>Balance at End of Period</b>	<u>9,192</u>	<u>8,793</u>

# NOTES

## TO THE FINANCIAL STATEMENTS

FOR THE KING COUNTRY ENERGY CONSOLIDATED GROUP

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2005

(CONT.)

### 8. PROPERTY, PLANT & EQUIPMENT

Audited 31.03.05 \$'000		Unaudited 30.09.05 \$'000	Unaudited 30.09.04 \$'000
-	<b>Plant &amp; Equipment</b>	23	-
-	- Cost	-	-
59,716	- Valuation	59,716	59,716
59,716		59,739	59,716
(719)	- Less Accumulated Depreciation	(1,438)	-
58,997	- <b>Book Value</b>	58,301	59,716
	<b>Land</b>		
-	- Cost	-	-
2,431	- Valuation	2,431	2,431
2,431		2,431	2,431
(1)	- Less Accumulated Depreciation	(1)	-
2,430	- <b>Book Value</b>	2,430	2,431
	<b>Buildings</b>		
-	- Cost	3	-
3,837	- Valuation	3,837	3,837
3,837		3,840	3,837
(64)	- Less Accumulated Depreciation	(88)	(38)
3,773	- <b>Book Value</b>	3,752	3,799
	<b>Motor Vehicles</b>		
11	- Valuation	11	11
(3)	- Less Accumulated Depreciation	(4)	-
8	- <b>Book Value</b>	7	11
	<b>Office Equipment &amp; Furniture</b>		
1,461	- Cost	1,237	1,480
117	- Capitalised Finance Lease Assets	284	212
54	- Valuation	53	60
1,632		1,574	1,752
(926)	- Less Accumulated Depreciation	(788)	(846)
(16)	- Less Accumulated Depreciation on Finance Lease Assets	(43)	(23)
690	- <b>Book Value</b>	743	883
	<b>Capital Works under Construction</b>		
727	- Cost	1,204	157
3,904	- Valuation	3,904	3,904
4,631		5,108	4,061
70,529	<b>Total Property, Plant &amp; Equipment</b>	70,341	70,901

All generation plant, property and equipment was revalued as at 30 September 2004 to fair value for financial reporting purposes. 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 THE KING COUNTRY ENERGY CONSOLIDATED GROUP  
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2005  
(CONT.)

### 9. INTANGIBLE ASSETS

Audited 31.03.05 \$'000		Unaudited 30.09.05 \$'000	Unaudited 30.09.04 \$'000
2,400	Goodwill Arising on Acquisition of Business	2,400	2,400
(720)	Accumulated Amortisation	(780)	(660)
<u>1,680</u>		<u>1,620</u>	<u>1,740</u>

The Directors do not believe there has been any impairment in the value of goodwill.

### 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 31.03.05 \$'000		Unaudited 30.09.05 \$'000	Unaudited 30.09.04 \$'000
<b>The Group's Share of Operating Revenues &amp; Expenses</b>			
1,876	Revenue	1,871	918
(852)	Expenses	(1,096)	(92)
<u>1,024</u>		<u>775</u>	<u>826</u>
<b>The Group's Share of Assets &amp; Liabilities</b>			
264	Current Assets	(57)	393
37,569	Plant, Property & Equipment	37,231	37,649
(4,751)	Current & Non-Current Liabilities	(4,875)	(4,478)
<u>33,082</u>		<u>32,299</u>	<u>33,564</u>

#### Fresh Start 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 the joint venture. The joint venture ceased trading in June 2003 when its business operations were sold to Genesis.

Audited 31.03.05 \$'000		Unaudited 30.09.05 \$'000	Unaudited 30.09.04 \$'000
<b>The Group's Share of Operating Revenues and Expenses</b>			
81	Revenues	-	38
-	Expenses	-	-
<u>81</u>		<u>-</u>	<u>38</u>
<b>The Group's Share of Assets &amp; Liabilities</b>			
-	Current Assets	-	41
-	Current Liabilities	-	(44)
<u>-</u>		<u>-</u>	<u>(3)</u>

# NOTES

## TO THE FINANCIAL STATEMENTS

FOR THE KING COUNTRY ENERGY CONSOLIDATED GROUP

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2005

(CONT.)

### 11. SUBSEQUENT EVENTS

Subsequent to 30 September 2005, the Board have declared a fully imputed cash dividend of 12 cents per ordinary share, a total of \$2,250,000. This is equivalent to a 18 cents per share gross taxable dividend. The dividend will be paid on 2 December 2005, with a record date of 25 November 2005.

The Directors are not aware of any other material events occurring subsequent to balance date.

### 12. CONTINGENT GAINS & LOSSES

The status of matters reported in our annual report for the year ended 31 March 2005 remain unchanged.

### 13. INTERNATIONAL FINANCIAL REPORTING STANDARDS

In December 2002 the New Zealand Accounting Standards Review Board (ASRB) announced that New Zealand entities required to comply with New Zealand Financial Reporting Standards (NZ FRS) under Financial Reporting Act 1993 would be required to apply International Financial Reporting Standards (IFRS) for financial periods commencing on or after 1 January 2007 with earlier adoption permitted from 1 January 2005. The new standards that have been approved by the ASRB for application in New Zealand are referred to as New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) as certain adaptations have been made to reflect New Zealand circumstances.

The Group has commenced reviewing its accounting policies and financial reporting to comply with NZ IFRS. The Group has allocated internal resources and is carrying out impact assessments to isolate key areas that will be impacted by the transition to NZ IFRS and to facilitate adoption of NZ IFRS across the Group. The Group has yet to determine its transition date to NZ IFRS, however the Group must publish its first set of annual financial statements prepared under NZ IFRS for the year ending 31 March 2008 at the latest.

The Group has yet to finalise its accounting policies under NZ IFRS and as a consequence is yet to quantify with any degree of certainty the adjustments that will be required in the consolidated statement of financial position on adoption of NZ IFRS and the impact on financial performance thereafter.

The key differences between current NZ FRS and NZ IFRS identified to date as potentially having a significant effect on the Group's financial statements are summarised below.

#### FINANCIAL INSTRUMENTS

All electricity hedge contracts will be recorded in the statement of financial position at fair value under NZ IFRS and be adjusted against opening equity. Any movements of the fair value of these instruments from year to year will have the potential to affect the statement of financial performance and the statement of financial position, the extent to which will depend on whether hedge accounting is adopted. The financial impact of the change is not yet reliably estimable.

#### DEFERRED TAXATION

The NZ IFRS basis of accounting for deferred tax is conceptually different to current NZ FRS. Under current NZ FRS deferred taxation is calculated using the income statement approach whereas under NZ IFRS deferred taxation will be based on a balance sheet approach. This method recognises deferred tax balances where there is a difference between the carrying value of an asset or liability and its tax base. The most significant impact for King Country Energy will be in recognition of a deferred tax liability in relation to the revaluation of generation assets. The financial impact of this change is not yet reliably estimable.

#### GOODWILL

The group currently amortises goodwill over a period of 20 years. Under NZ IFRS the remaining balance of goodwill will not be subject to amortisation, but will be subjected to an annual impairment test, which may give rise to an impairment expense if the recoverable amount is assessed to be lower than its carrying value.

This summary should not be taken as an exhaustive list of all the differences between NZ FRS and NZ IFRS. Further, the effects of these differences have not yet been quantified by the Group. Accordingly there can be no assurances that the financial performance and financial position as disclosed in these financial statements would not be significantly different if determined in accordance with NZ IFRS.



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