

KING COUNTRY ENERGY - INTERIM REPORT

(FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2006)



The power behind our community

CONTENTS

Message to Shareholders	2
The Numbers	3
Generation Update - The Mokau Hydro Project	4
Statement of Financial Performance	8
Statement of Movements of Equity	8
Statement of Financial Position	9
Statement of Cash Flows	10
Notes to the Financial Statements	12

“We continue to explore generation opportunities that will enable us to bridge the gap between our retail sales and our generation capacity”

MESSAGE TO SHAREHOLDERS

King Country Energy has made a very strong start to the year continuing its steady growth in the competitive electricity market. All the key indicators are ahead of budget for the first half.

Dividend

The Board is pleased to announce an interim cash dividend of 12 cents per share which is fully imputed. This is equivalent to a gross taxable dividend of some 18 cents per share. The dividend will have a record date of 20 November 2006 and a payment date of 29 November 2006.

This interim dividend maintains the level distributed in the last financial year.

Overview of financial performance

Both NPAT of \$3.14 million and EBITDA of \$5.76 million are up on last years comparative period by 44% and 38% respectively. These are also ahead of our budget at the beginning of the year which incorporated a significant growth element. This has been due to strong generation from our own plant and excellent snow conditions that have increased demand in the ski areas with an early season start this year.

The low South Island hydro storage levels of the last financial year continued for the first few months but conditions ameliorated and electricity market pricing levels reduced to more normal values in May. With the high snow fall the lakes should fill substantially with the thaw. Average pricing was \$79.9/MWh compared to \$72.4/MWh in the same period last year.

Retail

Retail sales volume for the first six months of the year was 127GWh, an increase of 9% on the 117GWh sold in the same period last year. The growth has come from the early ski season and continued growth in our contracted customers.

Independent customer surveys continue to show steady improvements in the performance of our customer service centre. This best in class performance is a key competitive advantage for the company.

The Lines Company moved to invoice its customers directly for the lines charges on its network from October last year. King Country Energy staff have worked very hard over the past year to help minimise the impact on our customers from this move to double billing.

We have worked closely with the King Country Electric Power Trust to create an independent complaints resolution process that will provide a better forum for consumers in the King Country area. Two high quality local adjudicators have been appointed by the Trust who will investigate any complaint at no cost to the consumer, providing they have taken the complaint to the company first. We have lodged scheme details with the Electricity Commission and are seeking “approved scheme” status. Several other companies have shown interest in this proposal and may seek to join the scheme.

Generation

Rainfall in the North Island has been above average in the first six months in contrast to the low levels in the South Island lakes. Generation volumes were 80.7GWh compared to 63.3GWh for the same period last year.

The proposed Mokau hydro electric power scheme went to a combined hearing of Waitomo District Council and Environment Waikato in early August. Our application was declined. Following legal advice that the prospects of a successful appeal were good, the company has filed an appeal with the Environment Court. It is expected that the project will be delayed a further year.

The Mokauiti resource consent was approved by the Environment Court on 10 April this year which means that all our existing stations are now fully reconsented.

We continue to explore generation opportunities that will enable us to bridge the gap between our retail sales and our generation capacity at a cost close to current long-term hedge prices. A number of proposals are under active consideration. The company has the financial capacity to invest in significant new generation that will limit the effect of increasing hedge costs and provide security of supply to our customers.

Share price

The share price closed at the end of September at \$4.01, 8% higher than its March close of \$3.70. Within that time the share price traded at a peak of \$4.30 falling after the payment of the final dividend and the announcement on Mokau. Trading volumes were low with most shareholders being content to hold their shares. The 31 cent increase in share price plus the final dividend of 12 per share fully imputed will have provided most shareholders with a tax paid return of 12% for the half year or an annualised return of 23%.

Outlook

The very favourable weather conditions that contributed to the excellent first half result will not continue into the second half of the year. Already we have seen reduced rainfall in the last two months which indicates total rainfall for the year could be about average. Generation volumes will trend to normal under these circumstances. With the shortfall in generation hedged the company has no exposure to unpredictable spot market prices so should be able to perform at or near budget for the balance of the year. Hedges give pricing certainty but at a cost higher than our own generation.

The company has been able to achieve the growth it has forecast for the year. While some of this growth has come from weather effects, good growth has been achieved from commercial customers. The company is signing new, out of area commercial customers using a combination of good prices and high levels of personal service to interest commercial customers whose size does not attract attention from larger electricity retailers. These are small town New Zealand values that find ready acceptance and provide a loyal customer base.

King Country Energy's strong balance sheet, excellent customer service, and focus on containing its own costs, mean it is well placed to take advantage of future developments and opportunities in the electricity industry.

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 29 November 2006 (12c fully imputed for the six months to 30 September 2005, paid on 2 December 2005)

\$5.76m

EBITDA

(\$4.16m for the six months ending 30 September 2005)

\$3.14m

NPAT

(\$2.19m for the six months ending 30 September 2005)

\$5.71m

NET OPERATING CASHFLOW

(\$3.88m for the six months ending 30 September 2005)

\$4.01

SHARE PRICE

(8% increase in share price over six months to 30 September 2006)

127 GWh

RETAIL LOAD

(117 GWh for the six months ending 30 September 2005)

80.7 GWh

GENERATION VOLUME

(63.3 GWh for the six months ending 30 September 2005)

“In addition to regional benefits, distributed generation such as this project are a good fit with Government policy as they provide a range of national benefits”

Generation Update - The Mokau Hydro Project

Project overview

King Country Energy's new 9.6MW hydro generation station planned for the Mokau River will provide a range of benefits for the company, shareholders, our customers and the region.

Situated some 4.3km downstream of the existing King Country Energy Wairere Falls Power Station on the upper Mokau River, the site is on private property and is not visible from the road. The project includes the construction of a 44m high earth dam that will be 160m across at its widest point. When full, the storage lake created behind the dam will have a surface area of approximately 50ha.

Existing King Country Energy hydro generation produces enough electricity to meet approximately 55% of our customers electricity needs with the remainder purchased as hedges. This project will increase King Country Energy's generation to around 75% of our requirements.

In addition to regional benefits, distributed generation (smaller local power stations) such as this project are also a good fit with Government policy as they provide a range of national benefits. These include additional security of supply, lower transmission losses and a reduced need for costly transmission capacity upgrades or new transmission lines to transport electricity between regions.

River impact

The affected section of river flows through private farmland and is difficult to access. The area cannot be seen from any public land and is used by very few people.

There will be no affects upstream of the storage lake and downstream effects towards the Mokau River mouth would be negligible with only small variations in water flows likely to be observed. The amount that King Country Energy is able to vary water flows will be determined as part of the consent for the scheme.

Below the proposed dam, the Mangaotaki River contributes the majority of the Mokau's flow and joins downstream from the proposed site. This will all but cancel out any impact of variation in river levels.

King Country Energy has completed exhaustive studies of the potential impact of the scheme on the aquatic life in the river above and below the scheme with the impact also shown to be minimal.

Opposite: Artist's impression of the foot of new lake (top); Aerial view including artist's impression of proposed lake and dam (middle); Artist's impression of public access car park at head of new lake (bottom).

Recreational asset

The lake resulting from the proposed scheme would provide approximately three and a half kilometres of flat water suitable for recreation activities surrounded by a public access reserve. The proposal includes public access to this lake, providing a valuable recreational asset for the region. The new lake would be freely available for non-motorised water sports such as rowing, kayaking and waka racing and it would provide an ideal training ground for local teams or individuals.

Regeneration of vegetation on the surrounding public access reserve will also provide additional scenic value that will further enhance the lake as a recreational area.

The proximity of the proposed new lake to towns in the northern King Country will mean additional facilities on our doorstep. Schools have expressed particular interest in having this asset readily available.

Current status

As the first stage of the consenting process, a case was presented to a joint district and regional council hearing committee in August together with submissions in favour and against the project. The committee ruled against the development.

King Country Energy believes that these low-level hearings that rely on elected local government representatives to rule on complex projects such as this are fundamentally flawed. This process has added delays of 18 months to the project and an estimated \$250,000 in costs.

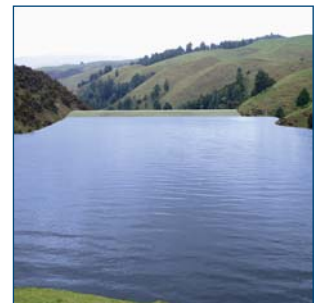
King Country Energy is now appealing to the Environment Court and believe that this is where the hearing should have been held initially. This is a forum that is much better equipped and resourced to evaluate expert opinions on key environmental, legal and engineering aspects of such projects.

A high level of unsolicited community support for the Mokau project has been received since the Environment Waikato decision was handed down. Such support from people from within the region is greatly appreciated and may also assist with the Environment Court hearing.

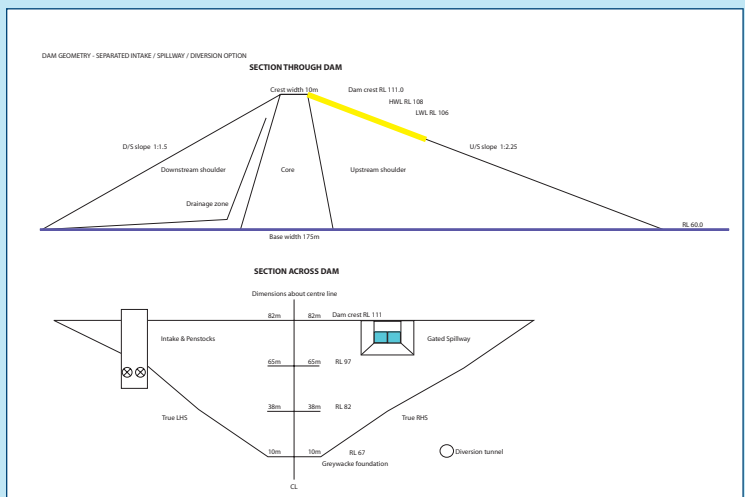
It is anticipated that the Environment Court hearing will take place sometime after mid-2007.



Above: The proposed Mokau Hydro Electric Power Scheme will create a 4.3km lake with a surface area of 50 hectares.



“The lake resulting from the proposed scheme would provide approximately three and a half kilometres of flat water suitable for recreation activities”



From top: Artist's impression of the foot of new lake; Aerial view including artist's impression of proposed lake and dam; Artist's impression of public access car park at head of new lake; Diagram showing a typical cross section of an earth dam.

FINANCIAL STATEMENTS



STATEMENT OF FINANCIAL PERFORMANCE

FOR THE KING COUNTRY ENERGY CONSOLIDATED GROUP FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2006

	Note	Unaudited 30.09.06 \$'000	Unaudited 30.09.05 \$'000	Audited 31.03.06 \$'000
Operating Revenue	3	15,698	13,374	27,001
Operating Expenses	4	(11,631)	(11,066)	(24,784)
Operating Surplus Before Hedge Adjustments		4,067	2,308	2,217
Net Gain on Electricity Hedges		733	947	3,649
Operating Surplus Before Tax		4,800	3,255	5,866
Tax Expense	5	(1,659)	(1,069)	(2,001)
Operating Surplus After Tax		3,141	2,186	3,865

The notes on the accompanying pages form part of these financial statements

STATEMENT OF MOVEMENTS OF EQUITY

FOR THE KING COUNTRY ENERGY CONSOLIDATED GROUP FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2006

	Note	Unaudited 30.09.06 \$'000	Unaudited 30.09.05 \$'000	Audited 31.03.06 \$'000
Equity at Beginning of the Year		67,516	68,151	68,151
Surplus & Distributions				
Net Surplus for the Period		3,141	2,186	3,865
Total Recognised Revenues and Expenses		3,141	2,186	3,865
Distributions to Owners	12	(2,250)	(2,250)	(4,500)
Equity at End of the Period		68,407	68,087	67,516

The notes on the accompanying pages form part of these financial statements

STATEMENT OF FINANCIAL POSITION

FOR THE KING COUNTRY ENERGY CONSOLIDATED GROUP AS AT 30 SEPTEMBER 2006

	Note	Unaudited 30.09.06 \$'000	Unaudited 30.09.05 \$'000	Audited 31.03.06 \$'000
Shareholders' Equity				
Share Capital		26,267	26,267	26,267
Reserves	6	32,628	32,628	32,628
Retained Earnings	7	9,512	9,192	8,621
Total Equity		<u>68,407</u>	<u>68,087</u>	<u>67,516</u>
Represented by:				
Current Assets:				
Cash & Bank Balances		4,297	3,227	2,045
Trade & Other Receivables		2,980	4,455	5,473
Income Tax Receivable		(207)	101	1,264
Total Current Assets		<u>7,070</u>	<u>7,783</u>	<u>8,782</u>
Non Current Assets:				
Plant, Property & Equipment	8	70,638	70,341	70,374
Intangible Assets	9	1,500	1,620	1,560
Total Non-Current Assets		<u>72,138</u>	<u>71,961</u>	<u>71,934</u>
Total Assets		<u>79,208</u>	<u>79,744</u>	<u>80,716</u>
Current Liabilities:				
Trade & Other Creditors		3,156	4,335	5,703
Customer Credit Balances		75	79	75
Borrowings		79	79	78
Employee Entitlements		107	119	113
Total Current Liabilities		<u>3,417</u>	<u>4,612</u>	<u>5,969</u>
Non Current Liabilities:				
Borrowings		171	249	211
Deferred Tax	5	7,213	6,796	7,020
Total Non Current Liabilities		<u>7,384</u>	<u>7,045</u>	<u>7,231</u>
Total Liabilities		<u>10,801</u>	<u>11,657</u>	<u>13,200</u>
Net Assets		<u>68,407</u>	<u>68,087</u>	<u>67,516</u>

The notes on the accompanying pages form part of these financial statements

STATEMENT OF CASH FLOWS

FOR THE KING COUNTRY ENERGY CONSOLIDATED GROUP FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2006

Cash Flows from Operating Activities	Note	Unaudited 30.09.06	Unaudited 30.09.05	Audited 31.03.06
		\$'000	\$'000	\$'000
Cash received from:				
Electricity Receipts from Customers		16,358	19,500	33,383
Interest Received		119	152	319
Other Receipts from Customers		581	712	911
Net Receipts from Settlement of Hedges		2,069	877	2,562
		<u>19,127</u>	<u>21,241</u>	<u>37,175</u>
Cash applied to:				
Payments for Electricity		(9,877)	(6,375)	14,236
Payments for Line Charges		(355)	(7,213)	(8,916)
Payments to Other Suppliers		(2,284)	(2,429)	(4,247)
Payments to Employees		(891)	(921)	(1,780)
Income Tax Paid		5	(401)	(2,272)
Interest on Borrowings		(15)	(20)	(56)
		<u>(13,417)</u>	<u>(17,359)</u>	<u>(31,507)</u>
Net Cash Inflow from Operating Activities		5,710	3,882	5,668
Cash Flows from Investing Activities				
Cash applied to:				
Fixed Assets Purchases (net)		(1,169)	(704)	(1,584)
Net Cash (Outflow) from Investing Activities		<u>(1,169)</u>	<u>(704)</u>	<u>(1,584)</u>
Cash Flows from Financing Activities				
Cash applied to:				
Borrowings		(39)	-	162
Dividends Paid		(2,250)	(2,250)	(4,500)
Net Cash (Outflow) from Financing Activities		<u>(2,289)</u>	<u>(2,250)</u>	<u>(4,338)</u>
Total Net Cash Movement		2,252	928	(254)
Opening Cash & Bank Balances		2,045	2,299	2,299
Closing Cash & Bank Balances		<u>4,297</u>	<u>3,227</u>	<u>2,045</u>

The notes on the accompanying pages form part of these financial statements

STATEMENT OF CASH FLOWS

FOR THE KING COUNTRY ENERGY CONSOLIDATED GROUP FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2006

	Note	Unaudited 30.09.06 \$'000	Unaudited 30.09.05 \$'000	Audited 31.03.06 \$'000
Reconciliation with Operating Surplus				
Operating Surplus After Tax per Statement of Financial Performance		3,141	2,186	3,865
Non Cash Items				
Loss on Disposal of Fixed Assets	4	21	65	65
Depreciation	4	884	827	1,674
Goodwill Amortised	4	60	60	120
Increase in Deferred Taxation	5	193	92	316
		<u>1,158</u>	<u>1,044</u>	<u>2,175</u>
Changes in Working Capital				
Increase / (Decrease) in Employee Entitlements		(6)	21	15
(Increase) / Decrease in Income Tax Receivable		1,471	576	(587)
(Increase) / Decrease in Trade and Other Receivables		2,493	(514)	(1,532)
Increase / (Decrease) in Trade and Other Creditors and Customer Deposits		(2,547)	569	1,732
		<u>1,411</u>	<u>652</u>	<u>(372)</u>
Net Cash Inflow from Operating Activities per Statement of Cash Flows		<u>5,710</u>	<u>3,882</u>	<u>5,668</u>

The notes on the accompanying pages form part of these financial statements

NOTES TO THE FINANCIAL STATEMENTS

FOR THE KING COUNTRY ENERGY CONSOLIDATED GROUP FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2006

1. ACCOUNTING PERIOD

These unaudited financial statements cover the six month period ended 30 September 2006. 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 2006.

2. ACCOUNTING POLICIES

There have been no changes in accounting policies from those applied in our annual report for the year ended 31 March 2006 and in our interim report for the period ended 30 September 2005.

3. REVENUE

	Unaudited 30.09.06 \$'000	Unaudited 30.09.05 \$'000	Audited 31.03.06 \$'000
Sales Revenue	15,884	13,341	27,030
Discount Allowed - Prompt Payment	(709)	(580)	(1,205)
Interest Received	119	152	319
Other Income	404	461	857
Total Operating Revenue	15,698	13,374	27,001

4. EXPENSES

	Unaudited 30.09.06 \$'000	Unaudited 30.09.05 \$'000	Audited 31.03.06 \$'000
Included in Operating Expenses are the following items:			
Purchase of Electricity	7,458	7,065	16,905
Transpower Charges	51	132	260
Depreciation			
- Buildings	30	25	53
- Generation Plant & Equipment	773	719	1,457
- Land & Improvements	1	1	1
- Motor Vehicles	1	1	2
- Office Equipment & Furniture	79	81	161
- Total Depreciation Property, Plant & Equipment	884	827	1,674
Goodwill Amortised	60	60	120
Operating Lease Payments	92	80	151
Bad Debts Written Off	36	67	103
Increase / (Decrease) in Estimated Doubtful Debts	-	-	(37)
Interest Paid	15	20	56
Audit Fees - PricewaterhouseCoopers	-	-	50
Directors' Fees	67	67	133
Loss on Sale of Fixed Assets	21	65	65
Other Operating Expenses	2,947	2,683	5,304
Total Operating Expenses	11,631	11,066	24,784

NOTES TO THE FINANCIAL STATEMENTS

FOR THE KING COUNTRY ENERGY CONSOLIDATED GROUP FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2006

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:

	Unaudited 30.09.06 \$'000	Unaudited 30.09.05 \$'000	Audited 31.03.06 \$'000
Net Operating Surplus Before Tax	4,800	3,255	5,866
Tax thereon at 33%	1,584	1,074	1,936
Permanent Differences	75	69	140
Under / (Over) Provision in Prior Year	-	(74)	(75)
Tax Expense	1,659	1,069	2,001
Comprising:			
Current Tax Provision	1,488	977	1,690
Deferred Tax Provision	171	166	386
Under / (Over) Provision in Prior Year	-	(74)	(75)
	1,659	1,069	2,001
Deferred Tax Liability			
Balance at Beginning of Year	(7,020)	(6,704)	(6,704)
Current Year Timing Differences	(171)	(161)	(386)
Prior Period Adjustment	(22)	69	70
Balance at End of Period	(7,213)	(6,796)	(7,020)
Imputation Credit Account			
Balance at Beginning of Year			
Imputation Credits attached to Dividends	7	10	-
Transfers to Imputation Group	(1,108)	(1,108)	(2,216)
Tax Payments	-	400	2,223
Balance at End of Period	(1,101)	(698)	7

6. RESERVES

Asset Revaluation Reserve

Balance at Beginning of Period

	Unaudited 30.09.06 \$'000	Unaudited 30.09.05 \$'000	Audited 31.03.06 \$'000
Balance at Beginning of Period	32,628	32,628	32,628
	32,628	32,628	32,628

7. RETAINED EARNINGS

Balance at Beginning of Year
Net Surplus
Distributions to Owners
Balance at End of Period

	Unaudited 30.09.06 \$'000	Unaudited 30.09.05 \$'000	Audited 31.03.06 \$'000
Balance at Beginning of Year	8,621	9,256	9,256
Net Surplus	3,141	2,186	3,865
Distributions to Owners	(2,250)	(2,250)	(4,500)
Balance at End of Period	9,512	9,192	8,621

NOTES TO THE FINANCIAL STATEMENTS

FOR THE KING COUNTRY ENERGY CONSOLIDATED GROUP FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2006

8. PROPERTY, PLANT & EQUIPMENT

	Unaudited 30.09.06 \$'000	Unaudited 30.09.05 \$'000	Audited 31.03.06 \$'000
Generation Plant & Equipment			
- Cost	882	23	598
- Valuation	63,227	59,716	63,227
	64,109	59,739	63,825
- Less Accumulated Depreciation	(2,980)	(1,438)	(2,176)
- Book Value	61,129	58,301	61,649
Land & Improvements			
- Cost	-	-	-
- Valuation	2,431	2,431	2,431
	2,431	2,431	2,431
- Less Accumulated Depreciation	(1)	(1)	(2)
- Book Value	2,430	2,430	2,429
Buildings			
- Cost	13	3	2
- Valuation	4,525	3,837	4,525
	4,538	3,840	4,527
- Less Accumulated Depreciation	(118)	(88)	(116)
- Book Value	4,420	3,752	4,411
Motor Vehicles			
- Cost	-	-	1
- Valuation	11	11	11
	11	11	12
- Less Accumulated Depreciation	(4)	(4)	(5)
- Book Value	7	7	7
Office Equipment & Furniture			
- Cost	1,322	1,237	1,341
- Capitalised Finance Lease Assets	284	284	284
- Valuation	46	53	46
	1,652	1,574	1,671
- Less Accumulated Depreciation	(788)	(788)	(835)
- Less Accumulated Depreciation on Finance Lease Assets	(91)	(43)	(70)
- Book Value	773	743	766
Capital Works under Construction			
- Cost	1,879	1,204	1,112
- Valuation	-	3,904	-
	1,879	5,108	1,112
Total Property, Plant & Equipment	70,638	70,341	70,374

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 were 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 2006

9. INTANGIBLE ASSETS

Goodwill Arising on Acquisition of Business
Accumulated Amortisation

Unaudited 30.09.06 \$'000	Unaudited 30.09.05 \$'000	Audited 31.03.06 \$'000
2,400	2,400	2,400
(900)	(780)	(840)
<u>1,500</u>	<u>1,620</u>	<u>1,560</u>

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

10. CAPITAL COMMITMENTS

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

Capital Expenditure

Wairere Station Flap Gate
Wairere Station Unit 4 Overhaul
4 MW Mini-hydro Scheme at Mangahao
Mangahao Station Guide Vane Replacement
Mangahao Station Transformer Replacement

Unaudited 30.09.06 \$'000	Unaudited 30.09.05 \$'000	Audited 31.03.06 \$'000
-	293	345
680	-	-
-	185	423
80	-	-
70	-	-
<u>830</u>	<u>478</u>	<u>768</u>

Operating Leases

Non-cancellable operating lease commitments:

Within One Year
One to Two Years
Two to Five Years
Beyond Five Years

119	130	105
57	80	47
60	95	52
-	-	-
<u>236</u>	<u>305</u>	<u>204</u>

11. 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 & Expenses

Revenue
Expenses

Unaudited 30.09.06 \$'000	Unaudited 30.09.05 \$'000	Audited 31.03.06 \$'000
2,535	1,871	4,613
(1,294)	(1,096)	(2,764)
<u>1,241</u>	<u>775</u>	<u>1,849</u>

The Group's Share of Assets & Liabilities

Current Assets
Plant, Property & Equipment
Current & Non-Current Liabilities

475	(57)	388
36,829	37,231	36,987
(6,164)	(4,875)	(5,405)
<u>31,140</u>	<u>32,299</u>	<u>31,970</u>

NOTES TO THE FINANCIAL STATEMENTS

FOR THE KING COUNTRY ENERGY CONSOLIDATED GROUP FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2006

12. SUBSEQUENT EVENTS

Subsequent to 30 September 2006, 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 29 November 2006.

Subsequent to 30 September 2006 an appeal against the refusal of Resource Management Act consents for the Mokau Hydro Scheme was filed with the Environment Court. It is anticipated the appeal will cost in the order of \$0.5 million. Pending the outcome of the appeal the accumulated costs in respect to the Mokau project amounting to \$1.2 million continue form part of capital work in progress. The Board has proceeded with the appeal based on favourable legal opinion on a successful outcome.

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 the 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.

KING COUNTRY ENERGY

PHONE

0800 523 637

FAX NUMBER

(07) 896 6036

EMAIL ADDRESS

enquiry@kceenergy.co.nz

WEB SITE

www.kce.co.nz

POSTAL ADDRESS

P.O. Box 363
Taumarunui

REGISTERED OFFICE

Cnr Manu aute & Miriama St
Taumarunui

SHARE REGISTRY

Link Market Services
PO Box 384
Ashburton
Ph: (03) 308 8887
Fax: (03) 308 1311