

KING COUNTRY ELECTRIC POWER TRUST



ANNUAL REPORT 2013

The Trustees present this nineteenth annual report to the consumer beneficiaries.

INTRODUCTION

In concluding the 2012 report we predicted that 2013 would be an active and challenging year and so it has proven to be;

- In May the Trust was involved in supporting King Country Energy's acquisition of the 50% of Mangahao power station owned by Todd Energy and reviewing the Trust's position following the resulting dilution of our shareholding in KCE to 14.2%.
- KCEPT's Trust Deed requires Trustees to conduct an ownership review every five years this was undertaken in November 2012 and published for beneficiary comment and submission. Some 33 copies were uplifted from community libraries but did not result in any submissions being submitted for consideration. We have to assume that the independent report prepared by PricewaterhouseCoopers and the Trustee recommendations contained in the review met with your approval and Trustees have commenced implementing the strategy outlined.
- Part of the revised strategy was to rebuild KCEPT's share holding in KCE to 20% and through media advertising, share purchasing commenced in October 2012. The Trust also entered the unlisted market via a broker to purchase shares as they were offered.
- Todd Energy as a result of the company buying back shares became over subscribed and sold their surplus shares to the Trust in December 2012.
- Subsequent to the reporting year the Trust has commenced writing to share holders offering to purchase their shares if they were interested in selling, to date this has been very successful programme.
- Another of the ownership review recommendations was to consider selling the Trust's 10% holding in The Lines Company as it was not strategic to the future of the Trust and is not a strong performing investment. Trustees are considering the best process to achieve a favourable sale.

- Now that the financial markets are more stable Trustees will seek better performing investments for some of the funds that have been held as secure term investments during the global crisis. This shift in investment policy will be exercised with prudence and in areas associated with the energy industry, with a cash fund retained for operating and unforeseen expenses.

The above activities have required additional effort from Trustees, Tessa Stewart, our Secretary and Brenda Grace who has been employed on a temporary contract to administer share purchasing via the letter writing campaign.

The impact of the above policies will be commented in the appropriate section of this report.

Trustees' contribution to Trust affairs via meetings are recorded as;

Brian Gurney	Omori	15 meetings
Norman Annand	Taumarunui	13 meetings
Robert Carter	Taumarunui	11 meetings
Graeme Cosford	Taumarunui	15 meetings
Uwe Kroll	Ohakune	10 meetings

INVESTMENT PERFORMANCE

THE LINES COMPANY

Financial results showed a decline with net profit after tax (NPAT) of \$5.84 million (2012: \$6.733 million) on an increased revenue of \$45.77 million (\$2012: \$42.21 million). Asset values remained constant at \$233.3 million giving a return on equity of 4.2% (2012: 4.9%). Operating cash flow of \$19.22 million showed a healthy increase of 10.6% on 2012 (\$17.37 million) but profit results had the negative impact of one off costs, impairments, bad debts and depreciation.

Earnings before interest & tax (EBIT) by division were reported as follows;

	2013	2012
Network;	\$14.757	\$13.396
Meters & Relays;	\$1.013	\$0.819
Contracting;	\$0.968	\$1.484
Generation;	\$(0.611)	\$0.008

Most alarming is the continued growth in corporate service costs up to \$4.51 million from \$3.05 million in 2012, a 48% increase.

The resignation of both the CEO AND CFO has seen a new senior management team in place and it is hoped this will provide a catalyst for the implementation of policies that focus on the core network business providing a cost effective delivery of electricity to customers. The venture in to non regulated business in the hope of increasing profitability beyond regulatory constraints has been disappointing, it has destroyed share holder value and had a negative impact on profitability, the reverse of what was intended.

Dividends received by the Trust totalled \$493,200 (2012: \$350,000)

KING COUNTRY ENERGY LTD

Financial results were disappointing with two major events contributing to results less than expectation. Profit after tax (NPAT) was \$ 2.2 million (2012: \$5.3 million) whilst revenue increased to \$42.4 million (2012: \$32.3 million). Earnings before tax, depreciation and financial instrument adjustment (EBITDAF) were \$13.5 million (2012: \$11.1 million) and cash flow \$11 million (2012: \$10.6 million) reflecting the impact of the severe drought suppressing generation output and requiring electricity to be purchased on the open market at a time of high spot prices.

The second significant event relates to the KCE policy of protecting itself from such dry weather events by purchasing electricity up to two years in advance (hedge contracts) and placing a value on these contracts at the time of financial reporting e.g. year end.

The forward forecast is for electricity prices to be subdued resulting in KCE forward contracts being valued down by \$3.2 million which is recorded as a theoretical loss in the year end accounts. This explains why the EBITDAF and cash flow are up on 2012 but the net profit is down.

Neither of the above events impact on the long term strength of the business which has been enhanced by full ownership of the Mangahao generation station.

The Trust received \$1,197,151 in dividends for the year (2012: \$900,000).

Part of this increase was a consequence of the share purchasing programme which increased the KCEPT holding from 3.75 million to 4.48 million shares as at 31st March 2013 and increased dividends.

At the time of printing this report the holding has increased to 4,835,916 million shares or 18.33% of the company.

CASH INVESTMENTS

As the Trust invests more funds in the energy industry and less in the financial sector, the cash funds will diminish and at 31st March 2013 the cash funds were \$6.27 million compared with \$9.32 million at 31st March 2012. Interest received for the year as a result reduced from \$433,372 to \$334,008.

ACCESS TO INFORMATION GUIDELINES

No requests for information under the guidelines have been received. Any information informally requested has been freely supplied where it was available.

The Trust, under section 10.1 of its guidelines for access to information by beneficiaries, is required to include in this report the outcomes of requests made under the Guidelines. Trustees report:

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|---|---|----------|
| o | Number of requests for information | NIL |
| o | Costs incurred to process requests | NIL |
| o | Number of Trust decisions subject to review | NIL |
| o | A summary of the outcome of reviews | NOT REQD |
| o | Costs incurred in respect to reviews | NIL |

KING COUNTRY ELECTRIC POWER TRUST

IN SUMMARY

Trust income increased from \$1.842 million to \$2.024 million – 9.8%.

Trust expenses increased from \$227,000 to \$232,000 – 2%.

Trust equity increased from \$35.39 million to \$38.17 million – 7.8%

Trustees are diligent in containing expenses but there is a necessary cost to seeking sound independent advice when investing trust funds on beneficiaries' behalf.

The Trustee's objective is to increase distributions progressively by prudent and astute investment of the Trust's funds.

As your chairman I thank on your behalf the dedication, effort and collective wisdom of the elected Trustees, Tessa Stewart our Secretary and Brenda Grace for providing the excellent administration support without which the Trust could not function and progress.

Signed on Trustees behalf,

Brian J Gurney
Chairman

