

KING COUNTRY ELECTRIC POWER TRUST (KCEPT)



ANNUAL REPORT 2019

The Trustees present this twenty fifth annual report to the consumer beneficiaries.

In April, Chris Fincham from King Country Energy (KCE) gave the Trustees a briefing regarding the pros and cons of a hedging strategy.

KCEPT decided to purchase an extra 5% of KCE shares available to us. According to our expert advice, these shares were worth \$5.90, which KCEPT could purchase at \$5.00. With a special dividend @ 3c per share, this equated to \$5.93 per share, a 16% discount to market. The vote was 3:2 and a division was called for. Adie / Graeme / Robert voted in favour, Sandra / Uwe voted against.

In June/July/August, KCEPT updated its website. Chris Mardon from Energy Mad and Roger Sutton visited Taumarunui and explained the Ecobulb project as a way of circulating energy efficient lightbulbs. The initial investment for five bulbs would be \$170,000; the power saving would be \$900 per consumer over the next ten years or around \$6.5 million in energy savings for our district. The Ecobulb giveaway was conducted in January and was well received by all concerned. In March, surplus Ecobulbs were distributed to community groups, surplus unpopular bulbs were exchanged for popular ones and some were sold through our retail partners who supported the project post distribution day.

In September, Trustees fine-tuned the Investment Policy Statement (IPS) and amended performance expectations to the "Official Cash Rate plus 4.25% - 5.25%".

Trustees undertook a strategic plan review. Pertinent questions were:

- What do we want the Trust fund to do? It was agreed that growing organically is the best option.
- Do we want seek greater risk or to be more conservative? It was agreed that our current risk profile is preferred.
- What are the funding opportunities for growth? It was agreed that all opportunities are an option depending on the project but debt funding through KCE is preferred.
- What should our distributions be? It was agreed that increasing dividends with some smoothing would be preferable.

- How to distribute? It was agreed that through Trustpower (TPW), The Lines Company (TLC) and energy initiatives is the preferred selection at present.

Sandra Greenslade was appointed as a Trustee to the Maru Charitable Trust, a Trust established by The Lines Company to improve insulation and energy efficiency in King Country homes.

Trustees also visited the Mangahao Power Station near Shannon. This was an invaluable site visit of our biggest asset, with Trustees now having an understanding of the challenges faced with its maintenance.

In a cost saving measure, KCEPT trialed its first bi-monthly telephone conference in October whilst November saw the resignation of Steivan Juvalta from the BNZ. The Investment Policy Statement and the Strategic Plan were confirmed.

In February, KCEPT undertook a portfolio review with Harry McLernon from the BNZ. On a long term basis, the portfolio achieves a 7% return. KCEPT decided to exit alternative investments.

As part of our due diligence, KCEPT sought proposals from a number of alternative financial advisers. After consideration of those proposals, KCEPT decided to remain with the BNZ until the next review.

KCEPT distributed \$1,300,000 to its consumer beneficiaries.

ACCESS TO INFORMATION GUIDELINES

One request for information under the guidelines has 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:

o	Number of requests for information	ONE
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

FINANCIAL PERFORMANCE DETAIL

Key information at a glance:

- Trust funds have decreased by \$181k this year.
- The KCE investment is now treated as an investment in associate, meaning that the dividends are not reflected in income but in the value of the investment. A 24.98% share of the associate net surplus was reflected by \$2,026K, offset by a reduction in revaluation reserves of \$1,138K.
- Gross dividends of \$2.532m were received by the Trust from KCE during the year (not reflected as income).
- Operational expenses reverted to more normal levels this year with the completion of strategic and ownership reviews in 2017.
- \$192k was spent on community projects (primarily the eco-bulb project).
- Finance costs were incurred relating to the arrangement to purchase the additional KCE shares.

Information in detail is set out in the audited set of accounts.

The auditor has issued a qualified audit report due to the unaudited accounts of King Country Energy Limited (an explanation is provided in the audit report). An agreed upon procedures has been undertaken on the information which gives the Directors confidence in the results presented to their shareholders. This does not, however, meet the threshold that enables the auditor (under audit standards) to issue an unqualified report.

	2019	2018	2017	2016
Trust Funds	\$46.30m	\$46.48m	\$42.19m	\$41.53m
Operational expenses (exc finance costs and community projects)	\$255k	\$340k	\$1,010k	\$307k
Cash distributions to beneficiaries	\$1,300K	\$1,000K	\$1,000K	\$1,314k
Beneficiary distributions including community projects	\$1,492K	\$1,000K	\$1,000K	\$1,353K
Dividend and interest income (accounting) ①	\$710K	\$3,206K	\$2,444K	\$2,562K
Total dividend and interest income received ①	\$3,242K	\$3,206K	\$3,444K	\$2,562K
Share of surplus in associate	\$2,026K	n/a	n/a	n/a

- ① 2019 financial statements dividend and interest income excludes gross KCE dividends of \$2,531K due to the change in accounting treatment.

Signed on Trustees behalf,

A handwritten signature in blue ink, appearing to read 'Adie Doyle', with a long horizontal flourish extending to the right.

Adie Doyle
Chairman