



Whakarato Te Rohe Pōtae

KING COUNTRY TRUST (KCT)

ANNUAL REPORT 2023

The Trustees have great pleasure in presenting this twenty ninth annual report to the consumer beneficiaries of KCT.

THE TRUST

The 2022 AGM for the Trust was held at Oreti Village Pukawa, with an excellent turnout and discussion occurring.

Fifteen (15) Trust meetings were held in the year, either via zoom or in person and only three apologies were received for all meetings. Trustee fees are adjusted for inflation annually in accordance with the CPI.

KCT has rejoined the Energy Trusts of New Zealand as there has been a significant improvement in that organization over the last 12 months.

Trustees have updated the Trust Deed, to bring it into line with the Trusts Act 2019 and present it in plain English. Trustees have worked closely with legal advisors Simpson & Grierson. An updated Trust Deed was adopted.

Trustees are seeking a High Court review on five outstanding amendments to the Trust Deed. These include:

- amendments to enable the Trust to continue to benefit its beneficiaries through management of other investments even if its current shares in King Country Energy Limited (KCE) are sold;
- new powers for the Trustees to alter the Deed without requiring a prescribed public consultative procedure where the amendment is minor, corrective in nature or necessary to comply with statute or regulation;
- a new definition of “Consumers” to clarify that persons who pay for line services from the Lines Company Limited (Lines Company) but who do not necessarily own the connected premises are Consumers;

- clarifying the powers of Trustees to pay or apply income for the benefit of Consumers indirectly by making a donation or grant to a local charity; and
- amendments to the definitions of key dates to change the maximum duration of the Trust.

This High Court review is an expensive and time-consuming process and has not been entered into lightly. Trustees believe that these amendments could and should future proof the Trust over the long term and could offer alternative distribution arrangements in order to best serve our consumers. Trustees agreed that, until the outcome of the High Court Review is received, that the bulk of distributions should be suspended.

2022 saw an Ownership Review which is required every five years as per the Trust Deed. Northington Partners provided that report, which can be found on the Trust's website. Trustees unanimously agreed to retain the existing Trust ownership structure.

The Trust has worked closely with The Lines Company in updating the Data Services Agreement. This was required as a result of The Lines Company moving away from direct billing.

Sandra Greenslade is the KCT representative on the Maru Energy Trust, a Trust which provides insulation and energy saving initiatives within the KCT district. Since Maru Energy Trust began in September 2019, it has helped fund the insulation of 463 homes in the King Country Trust area and installed 186 heat pumps. In the past financial year, 90 homes were insulated and 57 heat pumps installed.

Trustees constantly review costs of the Trust in order to maximize distributions. This year, there was a \$9,207 (5.3%) increase in regular administration expenses. Strategic and consultancy expenses include continuing legal fees as we need to go to the High Court to work through making our Trust Deed fit for the future.

WHERE THE INCOME IS GENERATED

The Trust received reports from the Trust appointed director of King Country Energy, Robert Carter, each month and a KCE General Manager's presentation every six months.

KCE's profit is reflected in the accounts rather than the dividends. Underlying operating performance was solid. Underlying generation sales were down but hedge revenue provided a smoothing effect. Expenditure on the generation operations was up. Electricity derivatives contributed significantly to the net profit before and after tax.

As part of Manawa's accounting practice revaluations occurred in the 2023 accounts. This resulted in positive revaluations which are reflected in the accounts as part of operating profit – this will continue to be the case until positive revaluations exceed the cumulative negative revaluations recognized previously.

Trustees remain confident in the ongoing financial performance of KCE and the dividends that will result.

The BNZ portfolio account is reviewed monthly, with our adviser visiting in July, October, January and February to review the portfolio in person. The annual return of -2.22% after tax and fees was recorded, the second negative year in a row. Whilst this level of return is not desirable, Trustees are cognizant of the fact that returns in previous years have been spectacular, investing in equities is subject to volatility and given the long term view of the Trust, no significant change in direction is necessary. Trustees have decided however to canvas the market in 2023/2024 to ascertain whether we are receiving the best financial advice available.

The recent announcement by the government in the budget that income tax rates applied to Trusts will increase from 33% to 39% from 1 April 2024 is of significant concern to the Trustees.

HOW THE INCOME IS DISTRIBUTED

The Trust continues with a distribution guideline.

The vision and goal of the distribution guideline remains:

Vision - To Make a Significant Difference to the Lives of Our Consumer Beneficiaries

Goal - To increase distributions on \$1.3M by 5% p.a. from 2019 and for the foreseeable future

The Trust made no distributions directly to beneficiaries last financial year. Donations were made directly to community organisations of \$217,443, to the Maru Energy Trust and the Ruapehu Emergency Services Charitable Trust.

ACCESS TO INFORMATION GUIDELINES

No requests for information under the guidelines have been received.

FINANCIAL PERFORMANCE

Key information at a glance;

	2023	2022	2021	2020
Trust Funds	\$50.75m	\$44.38m	\$44.70m	\$47.60m
Operational expenses (exc finance costs and community projects)	\$383k	\$389k	\$291k	\$261k
Beneficiary distributions (direct)	\$ -	\$1,218k	\$1,383k	(\$14k)
Beneficiary distributions (indirect)	\$217k	\$304k	\$847k	\$95k
Dividend, PIE and interest income (accounting)	\$132k	\$26k	\$525k	\$768k
KCE dividend received not reflected in above (gross)	\$1,260k	\$3,779k	\$3,910k	\$4,365k

Share of surplus (deficit) in associate (excludes OCI/reval)	\$4,532k	\$2,606k	(\$5,308k)	\$2,538k
Share of OCI in associate	\$2,929k	-	\$1,922k	(\$659k)
Investments	\$48,544k	\$42,639k	\$37,233k	\$42,933k

Trust funds have increased by \$6,369k this year. The drivers of this are:

Reason	Amount (\$000's)
Decrease in investment portfolio value (revaluations)	(\$548)
Interest / PIE earnings less operating expenses	(\$235k)
Increase in value of KCE (after tax)	\$7,462
Income tax expense	(\$78k)
Distributions to community & beneficiaries	(\$232)

The investment portfolio suffered from volatility in the markets.

The investment in associate (King Country Energy Limited) reflected in the financial statements increased in value by \$6,389k.

As at 31st March 2023, KCT's share of the unaudited balance sheet of KCE is \$27,127k (2022 \$20,739k). An asset revaluation was performed in 2022/2023.

The financial statements are subject to a qualified audit. This will continue to be the case as King Country Energy Limited is a significant component of KCT's financial position and their accounts are unaudited. An agreed upon procedures engagement has been undertaken on the information provided which gives the Directors confidence in the results presented to their shareholders.

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

Signed on behalf of the Trustees:



Adie Doyle
Chairman