

ANNUAL REPORT

FOR 12 MONTHS ENDED
31 MARCH 2017



kce 
The power behind our community

Contents

1	Message to Shareholders
5	Statement of Corporate Governance and Statutory Information
9	Directors Responsibility Statement
10	Statement of Comprehensive Income
11	Statement of Changes in Equity
12	Statement of Financial Position
13	Statement of Cashflows
14	Reconciliation with Operating Profit
15	Accounting Policies
22	Notes to the Financial Statements
43	Independent Auditor's Report

Message to Shareholders

Chairman and Chief Executive Officer's Report

Health, Safety and Environment

During the period KCE made good progress with our Health and Safety Environment (HSE) practices ahead of the introduction of the Health and Safety at Work Act 2016. These initiatives remain ongoing and are aimed at achieving best practice governance in what is a critically important part of our business.

KCE won a category award at the 2017 Safeguard New Zealand Health and Safety Awards for initiatives undertaken through the year, a pleasing endorsement of the focus on health, safety and welfare initiatives.

There were three Lost Time Injuries (LTIs) occurring during the period, and two medical treatment injuries. These incidents were minor in nature and did not give rise to serious harm to our employees.

“KCE won a category award at the 2017 Safeguard New Zealand Health and Safety Awards....”

Financial Performance

The following is a summary of the performance for the financial year to 31 March 2017.

EBITDAF Reconciliation (\$000)	12 month Period End 31 March 2017 (Audited)	15 month Period End 31 March 2016 (Audited)
Total Comprehensive Income for the Year	\$3,874	\$8,057
Income Tax Expense	\$1,451	\$2,598
Fair Value Movement on Derivatives (Gain)/Loss	\$3,528	(\$3,798)
Net Interest Cost	\$947	\$1,645
Depreciation, Amortisation & Impairment	\$4,691	\$7,410
EBITDAF	\$14,491	\$15,912

Financial Performance

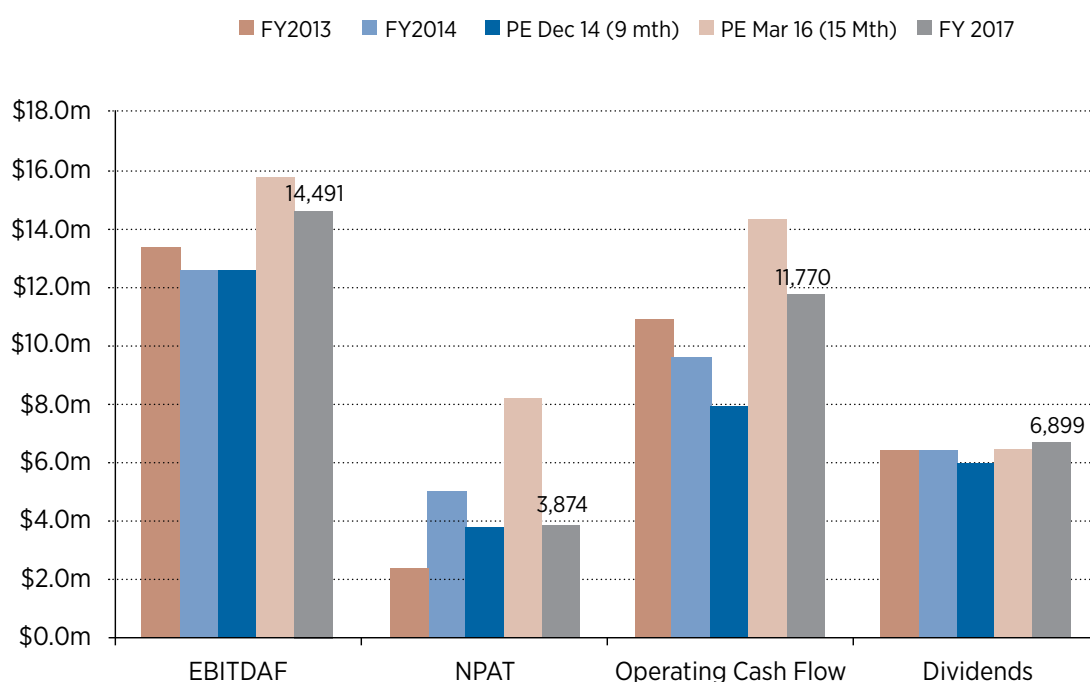
The company's consolidated profit after tax was \$3.9 million for the period to 31 March 2017, and earnings before interest, tax, depreciation, amortisation, fair value movements of financial instruments and asset impairments (EBITDAF) was \$14.5 million.

This positive result is due largely to the company experiencing very favourable conditions for hydrology, throughout all seasons. Retail margins continue to come under pressure from the competitive retail market during the period, however these are offset by a favourable generation business result.

KCE's operating revenue was \$45.9 million and operating cashflow \$11.8 million for the period to 31 March 2017. The year end net debt position was \$16.9 million.

The key performance measures of EBITDAF, net profit after tax (NPAT) and operating cash flow are summarised in the following chart together with dividend distributions. This chart highlights historic performance.

Message to Shareholders



Generation

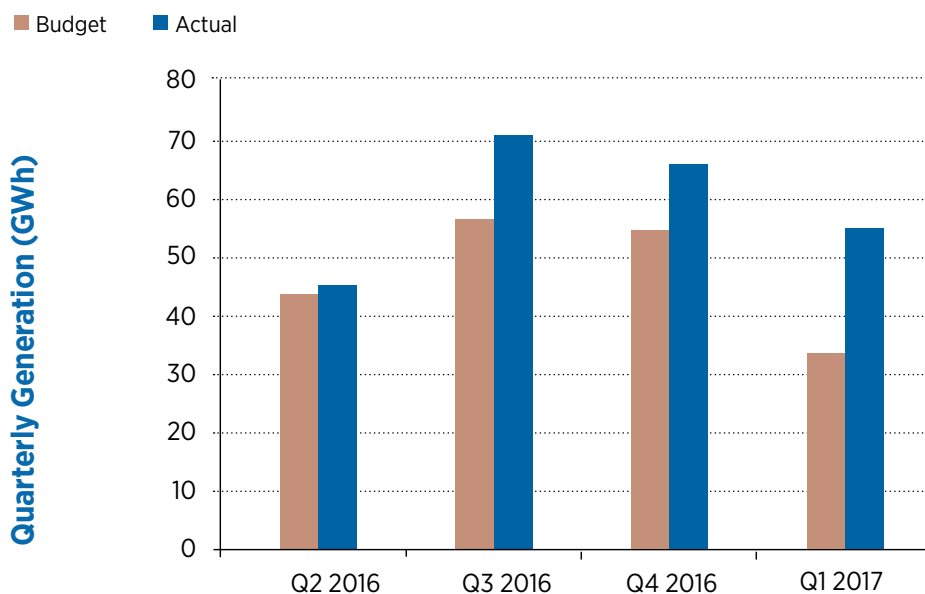
KCE's generation revenue for the year to 31 March 2017 was the highest on record. All quarters throughout the year featured strong generation production due to excellent hydrology. See page 3 for the generation performance chart.

In total for the period, KCE produced 237 GWh, 125% of the mean average production for our schemes.

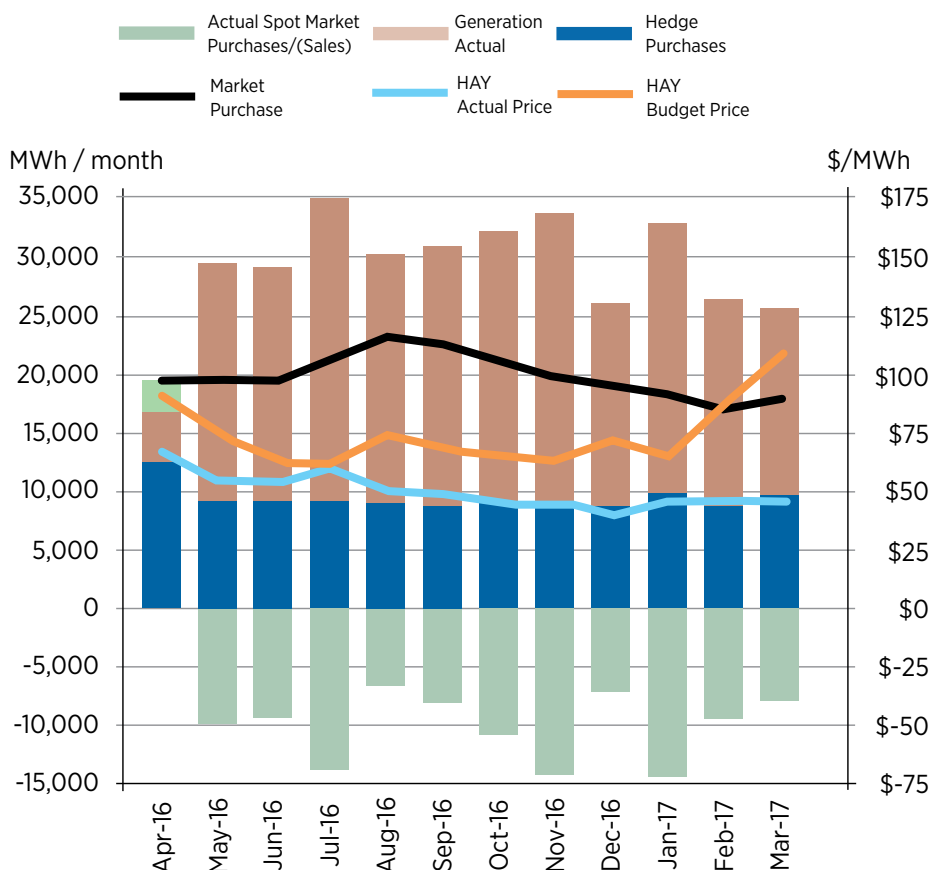
Wholesale electricity spot prices were weaker than forecast throughout the period, due to higher than average inflow patterns across all New Zealand hydro catchments. The average price achieved by our generation stations was \$52.66 per MWh for spot market sales, compared to a market average of \$51.77 per MWh at the nodes where KCE trades its electricity. The revenue from increased generation volume has offset lower than expected spot prices.

The supply and demand volumes chart on page 3 highlights the effect of the actual spot price compared to the forecast price. It shows the monthly output of our generation assets relative to demand.

Generation Performance



Supply and Demand Volumes



Message to Shareholders

Hedging

KCE uses a hedging strategy targeted at covering expected exposure to the wholesale electricity market under dry conditions.

The level of hedge cover maintained through the period was within board policy guidelines.

Retail Operations

KCE maintained its dominant retail position across all market segments in its traditional trading area and currently holds 65% of the market share in the King Country region.

Additionally, our commercial team continued targeted, sustainable initiatives into adjacent geographic markets to diversify our customer base and increase opportunities to market our specialized market offerings.

Retail sales volumes were 234 GWh for the year to 31 March 2017, an annualised decrease of 5.3%, mainly due the loss of a large low margin industrial customer and the ending of a retail alliance with Switch Utilities, who purchased wholesale electricity from KCE.

Exemplary service delivery and strong customer relationships remain at the heart of KCE's customer value proposition. Customer churn was 5.6% for the period, significantly below the national average churn rate of 20.1% and a pleasing endorsement of performance.

Community Support

We continue to contribute to the success and prosperity of a range of organisations that contribute to our communities, through our sponsorship and charitable initiatives.

During the year KCE launched another Tree of Light campaign, this time in the Otorohanga community, following up on

the Te Kuiti Tree of Light launched the previous year. The Tree of Light initiatives have increased awareness on a wide array of special occasions and important events throughout the community and has received significant positive feedback.

Governance

At the 2016 ASM the shareholders passed a resolution adopting a new constitution for KCE. Under the new constitution one third of Directors are required to retire by rotation, and are eligible for re-election.

At the 2016 ASM, Brian Gurney, previously chairman of KCE, retired as a director after nine years of valued service. The board and staff of KCE thank Brian for his leadership and dedication during a period of significant change, both within the electricity industry and within the operations and shareholding of KCE.

Robert Carter, Linda Robertson, Vincent Hawksorth and Paul Ridley-Smith were elected to the Board at the AGM in 2016.

Toby Stevenson and Brian Needham are due for retirement by rotation at the 2017 AGM. Toby Stevenson and Brian Needham will seek re-election to the board by shareholder vote.

Auditors

Ernst & Young has notified KCE it wishes to continue in the Audit role for the current financial year.

Dividends

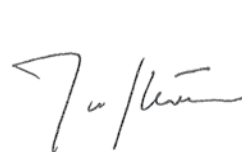
Directors approved a partially imputed final gross dividend of 24.7 cents per share (comprised of 19.5 cents cash and 5.2 cents imputation credits), payable on 6 June 2017 (record date of 1 June 2017). Together with the interim dividend of 15.90 cents per share (includes 2.80 cents imputation credits), this provides a total payment of 40.60 cents per share.

The final dividend is a 28% increase on the previous year and provides shareholders with a gross dividend yield of 9.2% based on the share price of \$4.40 on 31 March 2017.

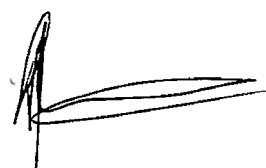
The company confirms that, following payment of the final dividend, there is sufficient cash flow and working capital available for current funding requirements.

The board and executive are pleased that the business performed to meet its financial targets for the period.

We would like to thank staff, management and Directors for their ongoing commitment, teamwork and dedication to the company.



Toby Stevenson,
Chairman



Rob Foster,
Chief Executive Officer

STATEMENT OF CORPORATE GOVERNANCE AND STATUTORY INFORMATION



King Country Energy Limited (KCE) is a limited liability company, registered under the New Zealand Companies Act 1993. A copy of the company's constitution can be obtained from the company's registered office.

Directors are also directors of the subsidiary companies of KCE. Unless otherwise stated, their appointment is for the period covered by this report.

Role Of The Board Of Directors

The directors of KCE are elected by the shareholders and are responsible for the strategic direction of the group, with a focus being on protecting and enhancing the value of KCE's business in the interests of the company and for all its shareholders and key stakeholders.

The board draws on the skills, knowledge and experience of directors, using accepted corporate governance principles to contribute to the performance of the group.

The board's role includes monitoring management's implementation of the company strategy, approving the annual budget, reviewing the financial performance to that budget and ensuring the integrity of reporting.

The board is responsible for ensuring there are effective audit, risk management and compliance policies and systems in place to protect the assets of KCE and minimise the risk of operating outside legal requirements and acceptable risk parameters. This includes monitoring compliance with regulatory requirements and ensuring effective delegations are operating. The board monitors and manages the performance of the chief executive officer.

Operations Of The Board

The KCE board had seven full meetings during the period. As required, the board holds other meetings to discuss substantial projects or material changes in circumstances that may arise.

The board operates a hedging committee consisting of two directors: Vince Hawksworth and Toby Stevenson. This committee works in conjunction with

management to evaluate the risk management strategies required to manage KCE's exposure to the wholesale electricity spot market.

The board has a remuneration committee, which has three directors as members: Brian Needham, Paul Ridley-Smith and Toby Stevenson. The role of this committee is to:

- Review and recommend to the board the overall remuneration policy
- Review and recommend to the board appropriate remuneration for directors and the chief executive
- Monitor remuneration paid to senior executives to determine that it is within policy and that the policy has been correctly applied
- Ensure KCE can attract, motivate and retain directors and executives who will create shareholder value
- Undertake the performance review of the Chief Executive Officer

Directors' Attendance At Scheduled Meetings

	For 12 months to 31 March 2017	For 15 months to 31 March 2016
T W Stevenson – Chairman	7	13
M Bahirathan (resigned 7 December 2015)	N/A	8
T J Cosgrove (resigned 7 December 2015)	N/A	9
B J Gurney (resigned 27 July 2016)	3	13
V J Hawksworth (appointed 7 December 2015)	7	4
B L Needham	5	13
P M Ridley-Smith (appointed 7 December 2015)	6	4
L M Robertson (appointed 31 July 2015)	7	7
R W Carter (appointed 27 July 2016)	4	N/A
Meetings scheduled	7	13

STATEMENT OF CORPORATE GOVERNANCE AND STATUTORY INFORMATION

Directors' Remuneration

	For 12 months to 31 March 2017	For 15 months to 31 March 2016
T W Stevenson – Chairman	\$48,084	\$58,717
M Bahirathan (resigned 7 December 2015)	N/A	\$30,944
T J Cosgrove (resigned 7 December 2015)	N/A	\$30,944
B J Gurney (resigned 27 July 2016)	\$11,408	\$41,792
V J Hawksworth (appointed 7 December 2015)	\$34,224	\$10,764
B L Needham	\$34,224	\$41,792
P M Ridley-Smith (appointed 7 December 2015)	\$34,224	\$10,764
L M Robertson (appointed 31 July 2015)	\$34,224	\$22,816
R W Carter (appointed 27 July 2016)	\$22,816	N/A
	\$219,204	\$248,533

Directors' Shareholdings

	Number Held at 31 March 2017	Number Held at 31 March 2016
B J Gurney (resigned 27 July 2016)	N/A	4,730
B L Needham - beneficial interest	4,852	4,852

Director Benefits

No director of the company has, since the end of the previous financial year, received or become entitled to receive a benefit (other than a benefit included in the total emoluments received or due and receivable by directors as shown above).

Directors' & Officers' Insurance

The company has arranged comprehensive policies of insurance which indemnify directors and officers against specific legal liabilities which may arise as a result of actions undertaken by them in the course of their duties, provided they operate in good faith and within the law. The directors' and officers' insurance cover during the year was \$20 million. During the year the company moved its insurance to the Trustpower captive where directors and officers' cover is included within the liability policy and its cost is not separately identified. (March 2016: \$25,465). The policies do not specify the premiums for individual directors and officers.

Other Directorships

Robert Welsford Carter

Vincent James Hawksworth

King Country Energy Holdings Ltd, Trustpower Metering Ltd, Trustpower Insurance Ltd, Hopsta Ltd, Ngati Tuwharetoa Electricity Ltd, GSP Energy Pty Ltd.

Brian Leslie Needham

Paul Morton Ridley-Smith

Trustpower Ltd (chairman), Arvida Group Limited, Wallace Productions Ltd

Linda May Robertson

RML Consulting Ltd, Dunedin City Holdings Ltd, Dunedin City Treasury Ltd, NZRS Ltd, NZPM Group Ltd, Auckland Council Investments Ltd, Crown Irrigation Investments Ltd, NZ Local Government Funding Agency Ltd

Toby William Stevenson

Lulu Holdings Ltd, TWS Consulting Ltd, Sapere Research Group Ltd

Interests Register

The company and its subsidiaries are required to maintain an interests register in which the particulars of certain transactions and matters involving the directors must be recorded. The interests register for the company is available for inspection at the head office of the company.

Use of Company Information

No director issued a notice requesting to use information received in their capacity as a director which would not otherwise be available to the director.

Twenty Largest Shareholders

The names of the twenty largest shareholders as at 31 March 2017 are listed below:

	Number Held	%
King Country Energy Holdings Ltd	16,339,846	64.93
King Country Electric Power Trust	5,057,142	20.10
A J Nation & S C Nation & P G Brown	59,733	0.24
General Finance Holdings Limited	59,626	0.24
A J Nation, J D Hammond and T A Nation	42,164	0.17
S C Nation, J A Nation and K J Young	42,163	0.17
L D Cherry	30,000	0.12
L K Falkner	25,000	0.10
Crusader Meats NZ Limited	21,869	0.09
M A & E L Kandziora	20,555	0.08
B A Hart	19,180	0.08
R J Gillatt	17,705	0.07
Rorisons RMD Ltd	16,170	0.06
S R Thompson, C M Thompson & M N Frost	16,023	0.06
J G O Stubbs Ltd	14,425	0.06
A J & P J Till	14,210	0.06
Est W J Peach	10,885	0.04
Whenuatupu Ohinemoa	10,365	0.04
Otorohanga District Council	10,300	0.04
D R Madill	10,000	0.04
Total	21,837,361	86.79

The distribution of the shareholdings as at 31 March 2017 is as follows:

Holdings Ranges	Holders	Total Shares	%
1-1,000	3,740	1,594,760	6.34
1,001-5,000	931	1,545,491	6.14
5,001-10,000	25	196,400	0.78
10,001-100,000	17	430,413	1.71
100,001-10,000,000	2	21,396,988	85.03
	4,715	25,164,052	100.0

Donations

No donations were made during the period ending 31 March 2017 (March 2016: \$Nil).

Auditors

The remuneration for services provided by auditors for the current year is set out in Note 2 to the Financial Statements.

The principal auditor for the group is Ernst & Young. During the current year, no services other than audit services were provided by Ernst & Young.

Employee Remuneration

Employees who received remuneration and other benefits during the year ended 31 March 2017 exceeding \$100,000 were:

Continuing Employees:

Remuneration Range	Number of Employees	
	Year to 31 March 2017	15 Months to 31 March 2016
\$100,000 - \$110,000	1	1
\$110,000 - \$120,000	-	3
\$140,000 - \$150,000	1	-
\$160,000 - \$170,000	-	1
\$180,000 - \$190,000	1	1
\$210,000 - \$220,000	1	-
\$220,000 - \$230,000	-	1
\$250,000 - \$260,000	1	-
\$280,000 - \$290,000	-	1
\$480,000 - \$490,000	-	1
\$540,000 - \$550,000	1	-

Dis-Continued Employees:

Remuneration Range	Number of Employees	
	Year to 31 March 2017	15 Months to 31 March 2016
\$110,000 - \$120,000	1	-
\$150,000 - \$160,000	-	1

DIRECTORS RESPONSIBILITY STATEMENT

FOR THE PERIOD ENDED 31 MARCH 2017

The Directors are pleased to present the financial statements of King Country Energy Limited and Group for the year ended 31 March 2017

The Directors are responsible for ensuring that the financial statements present fairly, in all material respects the financial position of the Group as at 31 March 2017 and its financial performance and cash flows for the year ended on that date.

The Directors consider that the financial statements of the Group have been prepared using appropriate accounting policies, consistently applied and supported by reasonable judgements and estimates and that all relevant financial reporting and accounting standards have been followed.

The Directors believe that proper accounting records have been kept that enable, with reasonable accuracy, the determination of the financial position of the Group and facilitate compliance of the financial statements with the Financial Reporting Act 2013.

The Directors consider they have taken adequate steps to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

The Board of Directors of King Country Energy Limited authorised these financial statements, set out on pages 10 to 42, for issue on 16 June 2017.

For and on behalf of the Board



Toby Stevenson,
Chairman



Brian Needham,
Director

STATEMENT OF COMPREHENSIVE INCOME

FOR THE TWELVE MONTHS ENDED 31 MARCH 2017

		Group		Parent	
	Note	12 Months 31.03.17 \$'000	15 Months 31.03.16 \$'000	12 Months 31.03.17 \$'000	15 Months 31.03.16 \$'000
Operating Income					
Operating Revenue	1	45,866	57,247	13,487	14,671
Operating Expenses	2	(35,819)	(48,640)	(2,913)	(3,523)
Financing Costs		(1,194)	(1,750)	(1,194)	(1,750)
Total Operating and Financing Costs		(37,013)	(50,390)	(4,107)	(5,273)
Profit before Financial Instruments Gains and Losses		8,853	6,857	9,380	9,398
Fair Value Movement on Derivatives (Loss) / Gain	9	(3,528)	3,798	353	(849)
Profit Before Tax Expense		5,325	10,655	9,733	8,549
Income Tax (Expense)/Benefit	3	(1,451)	(2,598)	602	891
Profit after Tax Expense		3,874	8,057	10,335	9,440
Total Comprehensive Income for the Period		3,874	8,057	10,335	9,440
Earnings per share (Basic and Diluted) from continuing operations attributable to the ordinary equity holders of the company	16	\$0.15	\$0.32	-	-

The above Statement of Comprehensive Income should be read in conjunction with Notes to the Financial Statements on pages 22 to 42.



STATEMENT OF CHANGES IN EQUITY

FOR THE TWELVE MONTHS ENDED 31 MARCH 2017

	Note	Group		Parent	
		12 Months 31.03.17 \$'000	15 Months 31.03.16 \$'000	12 Months 31.03.17 \$'000	15 Months 31.03.16 \$'000
Total Equity					
Opening Equity		132,222	130,752	55,746	52,893
Purchase of Issued Capital		(708)	-	(708)	-
Total Comprehensive Income Attributable to Owners		3,874	8,057	10,335	9,440
Dividends Paid to Shareholders	17	(6,899)	(6,587)	(6,899)	(6,587)
Balance at the End of the Period		128,489	132,222	58,474	55,746
Reconciliation of Movements in Equity					
Share Capital					
Opening Balance		55,306	55,306	55,306	55,306
Purchase of Issued Capital		(708)	-	(708)	-
Balance at the End of the Period	4	54,598	55,306	54,598	55,306
Asset Revaluation Reserve					
Opening and Closing Balance		73,557	73,557	102	102
Retained Earnings					
Opening Balance		3,359	1,889	338	(2,515)
Profit for the Period		3,874	8,057	10,335	9,440
Ordinary Dividends Paid	17	(6,899)	(6,587)	(6,899)	(6,587)
Balance at the End of the Period	6	334	3,359	3,774	338
Closing Equity		128,489	132,222	58,474	55,746

The above Statement of Changes in Equity should be read in conjunction with Notes to the Financial Statements on pages 22 to 42 .

STATEMENT OF FINANCIAL POSITION

AS AT 31 MARCH 2017

	Note	Group		Parent	
		12 Months	15 Months	12 Months	15 Months
		31.03.17 \$'000	31.03.16 \$'000	31.03.17 \$'000	31.03.16 \$'000
Shareholders' Equity					
Share Capital	4	54,598	55,306	54,598	55,306
Asset Revaluation Reserve	5	73,557	73,557	102	102
Retained Earnings	6	334	3,359	3,774	338
Total Equity		128,489	132,222	58,474	55,746
Represented by:					
Current Assets:					
Cash & Bank Balances		2,081	2,225	2,081	2,225
Trade & Other Receivables	7	3,831	4,079	97	136
Stock Held for Resale		3	1	-	-
Income Tax Receivable		-	115	2,191	2,714
Derivatives	9	1,036	-	-	-
Intercompany Balances	15	-	-	60,139	61,398
Total Current Assets		6,951	6,420	64,508	66,473
Non Current Assets:					
Plant, Property & Equipment	8	173,688	177,607	546	750
Derivatives	9	206	2,186	16	-
Investment in Subsidiaries	10	-	-	14,300	14,300
Intangible Assets	11	1,666	1,684	101	124
Total Non Current Assets:		175,560	181,477	14,963	15,174
Total Assets		182,511	187,897	79,471	81,647
Current Liabilities:					
Trade & Other Creditors		2,441	3,117	1,365	2,508
Customer Credit Balances		542	600	-	-
Borrowings	12	4,012	459	4,012	459
Employee Entitlements		376	253	179	67
Income Tax Payable		705	-	-	-
Derivatives	9	2,717	831	338	299
Total Current Liabilities		10,793	5,260	5,894	3,333
Non Current Liabilities:					
Borrowings	12	15,016	22,200	15,016	22,200
Derivatives	9	1,341	644	248	623
Deferred Tax	3	26,872	27,571	(161)	(255)
Total Non Current Liabilities		43,229	50,415	15,103	22,568
Total Liabilities		54,022	55,675	20,997	25,901
Net Assets		128,489	132,222	58,474	55,746

The above Balance Sheet should be read in conjunction with Notes to the Financial Statements on pages 22 to 42.

STATEMENT OF CASH FLOWS

FOR THE TWELVE MONTHS ENDED 31 MARCH 2017

Note	Group		Parent	
	12 Months 31.03.17 \$'000	15 Months 31.03.16 \$'000	12 Months 31.03.17 \$'000	15 Months 31.03.16 \$'000
Cash Flows from Operating Activities				
Cash was Received from:				
Electricity Receipts from Customers	38,060	49,419	-	-
Interest Received	8	64	1,487	2,671
Other Receipts from Customers	7,623	9,709	-	-
	45,691	59,192	1,487	2,671
Cash was Applied to:				
Payment for Electricity	(15,124)	(21,662)	-	-
Settlement of Derivatives	(2,858)	(1,021)	-	-
Payment for Line Charges	(4,894)	(5,672)	-	-
Payment to Other Suppliers	(4,765)	(6,969)	(1,259)	(1,619)
Payment to Employees	(4,027)	(4,915)	(1,083)	(1,358)
Income Tax Paid	(1,327)	(2,743)	(1,327)	(2,750)
Interest on Borrowings	(926)	(1,736)	(926)	(1,736)
	(33,921)	(44,718)	(4,595)	(7,463)
Net Cash Inflow/(Outflow) from Operating Activities	11,770	14,474	(3,108)	(4,792)
Cash Flows from Investing Activities				
Cash was Received From:				
Net Advances From Subsidiaries	-	-	14,161	17,387
Sale of Fixed Assets	28	70	8	22
	28	70	14,169	17,409
Cash was applied to:				
Purchase of Fixed Assets	(784)	(2,347)	(47)	(420)
	(784)	(2,347)	(47)	(420)
Net Cash Inflow/(Outflow) from Investing Activities	(756)	(2,277)	14,122	16,989
Cash Flows from Financing Activities				
Cash was Received From:				
Borrowings	28	-	28	-
	28	-	28	-
Cash was applied to:				
Purchase of Issued Share Capital	(708)	-	(708)	-
Borrowings	(3,659)	(5,727)	(3,659)	(5,727)
Dividends Paid	(6,819)	(6,587)	(6,819)	(6,587)
	(11,186)	(12,314)	(11,186)	(12,314)
Net Cash (Outflow) from Financing Activities	(11,158)	(12,314)	(11,158)	(12,314)
Total Net Cash Movement	(144)	(117)	(144)	(117)
Opening Cash & Bank Balances	2,225	2,342	2,225	2,342
Closing Cash & Bank Balances	2,081	2,225	2,081	2,225

4

RECONCILIATION WITH OPERATING PROFIT

FOR THE TWELVE MONTHS ENDED 31 MARCH 2017

Note	Group		Parent	
	12 Months 31.03.17 \$'000	15 Months 31.03.16 \$'000	12 Months 31.03.17 \$'000	12 Months 31.03.16 \$'000
Profit after Tax per Statement of Comprehensive Income	3,874	8,057	10,335	9,440
Non Cash Items				
Loss on Disposal of Fixed Assets	2	33	35	13
Depreciation & Impairment	2	4,691	7,410	254
Change in Fair Value of Financial Instruments		3,528	(3,798)	(353)
Transfer of Tax from Subsidiaries		-	-	(2,546)
Increase / (Decrease) in Deferred Taxation Through Profit	3	(699)	751	94
Dividend from Subsidiaries		-	-	(12,000)
	7,553	4,398	(14,538)	(15,073)
Changes in Working Capital				
Increase / (Decrease) in Employee Entitlements		123	(55)	112
Increase / (Decrease) in Tax Payable		705	(779)	-
(Increase) / Decrease in Tax Receivable		115	(115)	523
(Increase) / Decrease in Receivables		248	1,278	39
Increase / (Decrease) in Payables		(848)	1,690	421
	343	2,019	1,095	841
Net Cash Inflow / (Outflow) from Operating Activities per Statement of Cash Flows	11,770	14,474	(3,108)	(4,792)

The above Statement of Cash Flows should be read in conjunction with Notes to the Financial Statements on pages 22 to 42.

All cash and deposits are denominated in New Zealand Dollars

The Group operates a single bank account in the name of the Parent. The net advances to subsidiaries shown in the cash flow represents the net effect of subsidiary company transactions, passing through the single bank account, operated by the Parent.

Assets acquired through finance leases are included as part of asset purchases. The associated lease obligation is included as part of the movement in borrowings during the reporting period.

Reporting Entity

King Country Energy Limited is a profit-oriented company domiciled in New Zealand and whose shares are traded on Unlisted. These financial statements are for the parent company King Country Energy Limited (the Parent) and the Group (the Group) comprising King Country Energy Limited, KCE Mangahao Limited, KCE Retail Limited and KCE Generation Limited.

The Group is not an FMC reporting entity under the Financial Markets Conduct Act.

The Group has elected to present Financial Statements that comply with Tier One reporting requirements and include the financial statements of both the Parent and the Group.

The Group owns and operates several hydro electric generation stations and is an electricity retailer under the Electricity Act 1992. The nature of the business operated by the Group has not changed during the accounting period.

Basis Of Preparation

The financial statements have been prepared in accordance with generally accepted accounting practice in New Zealand (NZ GAAP). They comply with the New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and the requirements of the Companies Act 1993 and the Financial Reporting Act 2013.

The accounts presented are for the twelve month period commencing on 1 April 2016 and ending on 31 March 2017. Comparative figures are for the fifteen month period commencing on 1 January 2015 and ending 31 March 2016. Because of the shorter reporting period current period figures are not wholly comparable to prior period figures.

The financial statements have been prepared on the basis of historical cost modified by the fair valuation of certain assets and liabilities. The following assets and liabilities are stated at their fair value: financial instruments and certain fixed assets as identified in the specific accounting policies below.

The reporting and functional currency used in the preparation of these financial statements is New Zealand dollars and all values are rounded to the nearest thousand dollars (\$'000).

The accounting policies set out below have been applied consistently to all periods presented in these financial statements, unless otherwise stated or where new standards have been adopted, as indicated below.

Basis Of Consolidation

Subsidiaries

Subsidiaries are entities controlled by the Group. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Subsidiaries are fully consolidated from the date on which control is obtained by the Group and cease to be consolidated from the date on which control is transferred out of the Group.

The financial statements of the subsidiaries are prepared for the same reporting period as the parent company using consistent accounting policies. In preparing the consolidated financial statements all material inter-company transactions, dividends, balances and unrealised surpluses and deficits on transactions between Group Companies have been eliminated on consolidation.

Investments in subsidiaries held by the parent are accounted for at cost in the separate financial statements of the parent entity less any impairment charges. Dividend received from subsidiaries are recorded as a component of Other Income in the separate Statement of Comprehensive Income of the parent entity and do not adjust the recorded cost of the investment. Upon receipt of dividend payments from subsidiaries the parent will assess if the dividend has impaired the carrying value of the investment. To the extent that the carrying value of the investment exceeds the recoverable amount of the investment an impairment loss is recognised.

The acquisition of subsidiaries is accounted for using the acquisition method of accounting. This method of accounting involves recognising at acquisition date, separately from goodwill the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the subsidiary. Identifiable assets acquired and liabilities assumed are measured initially at their fair values at acquisition date. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill.

ACCOUNTING POLICIES

FOR THE PERIOD ENDED 31 MARCH 2017

Accounting Estimates And Judgements

The Group's significant areas of estimation and critical judgments in these financial statements are as follows:

Land, Buildings and Generation Plant and Equipment

The Group's land, buildings and generation plant and equipment are stated at fair value, less accumulated depreciation and impairment since date of valuation. Additions subsequent to the most recent valuation are shown at cost which is considered to be their fair value. The basis of the valuation is the net present value of the future earnings of the assets, excluding any reduction for costs associated with restoration and environmental rehabilitation. The significant inputs and assumptions that are used in the valuation model that require judgment include future electricity prices, projected operational and capital expenditure to maintain generation capacity, generation volumes, plant life and discount rates.

Goodwill

The carrying value of goodwill is subject to an annual impairment test to ensure the carrying value does not exceed the recoverable amount at balance date. For the purposes of impairment testing, goodwill is allocated to the cash generating unit to which it relates. Details of the assumptions made in valuing goodwill are contained in Note 11.

Retail Revenue

Retail revenue contains an estimate of the value of electricity consumed by customers from the date of their last meter reading until balance date. This estimate is made for each individual meter and is based upon the customer's historic consumption, recognising consumption varies with the time of year.

Restoration and Environmental Rehabilitation

No provision has been made for restoration and rehabilitation, as the Group has no requirement under its Resource Management Act consents to undertake such work. The Group maintains and refurbishes its generation assets and expects they will be available for use for an extended period of time. The Group expects Resource Management Act consents will continue to be renewed on similar terms and conditions upon expiry.

Financial Instruments

The Group uses derivative financial instruments to manage the cost of electricity purchased on the spot market. The fair value of such derivatives is calculated by reference to anticipated future electricity prices at the Grid Exit Point used to determine settlement of the instrument. Accounting judgment has been applied to determine future electricity prices, the Groups' discount rate and the credit risk of the counter party when determining fair values.

Revenue

Revenue comprises the amounts received and receivable at balance date for electricity and related services supplied to customers in the ordinary course of business. Electricity revenue includes an accrual for estimated units sold but not billed at balance date. Electricity meters are read on the basis of constant cycles each year. Prompt payment discounts are deducted from revenue.

The Group may also receive revenue from network charges. Where the use of system agreement is an interposed agreement, the revenue from network charges is included within revenue, while under a conveyancing agreement the revenue will exclude those amounts relating to network charges.

Interest income is recognised in the profit or loss, in the Statement of Comprehensive Income, as it accrues using the effective interest rate method.

Dividends

Dividends are only recognised as distributions in the period they are declared. Dividends proposed or paid after balance date are not recognised in the Financial Statements, but are disclosed in the Notes to the Financial Statements.

Taxation

The income tax charged to the profit or loss, in the Statement of Comprehensive Income, includes both current and deferred tax and is calculated after allowing for non-taxable income and non-deductible expenditure. Income tax is recognised in the profit or loss, in the Statement of Comprehensive Income, except to the extent that it relates to items recognised in Other Comprehensive Income, in which case the income tax is recognised in Other Comprehensive Income.

Current tax assets and liabilities for the current and prior periods are recorded at the amount expected to be recovered or paid to the taxation authorities based on the current period's taxable income/loss. The tax rates used to compute the amount are those that are enacted or substantively enacted at the Balance Sheet date.

Deferred tax is calculated using the balance sheet method which provides for temporary differences between the carrying values of assets and liabilities for financial reporting purposes and the values used for taxation purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences except for;

- The initial recognition of goodwill;
- The initial recognition of an asset or liability in a transaction that is not a business combination and at the time of the transaction affects neither the accounting profit nor taxable profit or loss;
- Taxable temporary differences associated with investments in subsidiaries and the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

A deferred tax asset is recognised only to the extent that it is probable that sufficient future taxable profits will be earned so as to utilize the asset. Deferred tax assets are reduced when it is deemed that future taxable profits will be insufficient to utilise the asset.

Goods And Services Tax

The Statement of Comprehensive Income and Statement of Cash Flows are stated exclusive of GST. All items in the Balance Sheet are stated net of GST, with the exception of receivables and payables which include GST invoiced.

Derivative Financial Instruments

Group companies use derivative financial instruments (derivatives) to manage the price risk associated with their purchase costs denominated in foreign currencies, variable interest rates on borrowings and purchasing and selling electricity on the spot market. The Group does not acquire derivatives for the purpose of trade or speculation. Such derivatives are initially recognised at their fair value on the date on which the Group makes a binding commitment to accept the derivative (trade date). The fair value of each derivative is calculated at the end of each month. The fair value is deemed to be either the then market price for the derivative, if it is an instrument freely traded on an open market, or the net present value of the difference between prices set by the derivative and the expected cash flows generated by the derivative over its remaining contract life. Changes in the fair value of derivatives are reflected in the profit or loss, in the Statement of Comprehensive Income. Derivatives are carried as assets when their fair value is positive and liabilities when their fair value is negative.

Accounts Receivable

Accounts receivable comprise electricity receivables and other receivables. Electricity receivables which generally have 30 day terms are stated initially at invoice value plus an estimate of consumption between the date of the customers last bill and year end, less an allowance for prompt payment discount. The allowance for prompt payment discount is calculated using historic experience of discounts applied. Allowance is made for any uncollectible amounts when there is objective evidence that the Group will not be able to collect the debt. Bad debts are written off during the period in which they are identified. Movements in the allowance for uncollectible amounts, prompt payment discounts and bad debts are recognised in the profit or loss, in the Statement of Comprehensive Income.

ACCOUNTING POLICIES

FOR THE PERIOD ENDED 31 MARCH 2017

Other receivables are stated at amortised cost, where amortised cost represents either invoiced revenue, where the Group expects to receive payment in full, within the specified credit terms, or invoiced revenue less impairment, where the Group expects to receive only a portion of the debt, or settlement of all the debt but more than 180 days after due date. The amount of the impairment loss is the difference between the carrying value of the receivable and the net present value of estimated future cash flows, discounted at the effective interest rate. The amount of the impairment loss is recognised in the profit or loss, in the Statement of Comprehensive Income.

Investments

Investments including investments in subsidiaries are stated at cost in the Balance Sheet of the Parent.

Property, Plant And Equipment

As a part of the formation of the Group, land, building and generation assets in existence at 31 March 1999 were revalued at the time by independent valuers on the basis of open market value for existing use.

Certain assets transferred from the Parent to subsidiary companies in March 1999 (when the Group was required by industry regulations to restructure its activities) were transferred at fair values and the uplifts in value are shown in the Group financial statements as revaluations.

Property, plant and equipment, and land, buildings and generation assets acquired after 31 March 1999 are initially recorded at cost. The cost of acquisition includes all costs directly attributable to the acquisition, including the costs of obtaining Resource Management Act consents and if applicable financing costs incurred directly on self constructed assets.

Capital expenditure is all expenditure on the creation of a new asset and any expenditure which results in a significant improvement of the original function of an existing asset.

Revenue expenditure is expenditure which restores an asset to its original condition and all expenditure incurred in maintaining and operating the Group's business.

Generation assets including land, buildings, plant and equipment are periodically revalued either by an independent valuer or by applying recent market evidence of asset values. Revaluations of these assets are conducted when directors are of the opinion that either market values or the future cash flow from these assets or the Group discount rate has materially changed, thereby giving rise to a change in asset values. These assets were last revalued on 31 March 2016. Where values change the movement is taken to Other Comprehensive Income, in the Statement of Comprehensive Income. Where no or insufficient revaluation is held for an asset, the impairment is charged to the profit or loss, in the Statement of Comprehensive Income.

Capital works under construction are valued at cost less any assessed impairment. Project values are assessed at least annually to identify if any impairment in value is likely to have occurred. Impairment is the difference between the net present value of future cash flows from the project and the current project costs, plus the expected costs to complete the project. Any impairment is charged to the profit or loss, in the Statement of Comprehensive Income. Once the construction is completed, depreciation on these assets will begin.

Expenditure incurred on the investigation of prospective generation opportunities is stated at cost and is accumulated in respect of each identifiable generation opportunity. Expenditure is only carried forward to the extent that it is expected to be recouped through the successful development of a generation station or where activities on the project have not reached a stage which permits a reasonable assessment of the prospect of a successful development. Accumulated costs in relation to an abandoned or deferred development are written off in full in the profit or loss, in the Statement of Comprehensive Income, in the period in which the decision is made to abandon or defer the project. A regular periodic review is undertaken of each development to determine the appropriateness of continuing to carry forward costs in relation to the development.

Depreciation

Depreciation of property, plant and equipment, other than freehold land is calculated so as to expense the cost of the assets, or their revalued amounts to their residual values over their useful lives as follows:

Estimated Useful Lives

Land Improvements	80 years
Buildings	50 – 80 years
Generation Plant & Equipment	5 – 80 years
Motor Vehicles	4 years
Office Equipment & Furniture	3 – 20 years

Asset lives are reviewed annually.

Leases

The determination of whether an arrangement is or contains a lease is based upon the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset, or assets and the arrangement conveys a right to use the asset.

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the lower of the fair value of the lease asset or the present value of the minimum lease payments. A corresponding lease liability is established and each lease payment is allocated between the liability and finance charge, so as to achieve a constant rate of interest on the remaining balance of the liability.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term, if there is no reasonable certainty the Group will obtain ownership by the end of the lease.

Leases that are not finance leases are operating leases, with lease payments recognised as an expense in the profit or loss, in the Statement of Comprehensive Income, in the periods the lease installments are payable.

Impairment

The carrying value of goodwill is subject to impairment testing at each Balance Sheet date. The carrying values of other intangible assets are reviewed at each Balance Sheet date to determine whether there is any indication of impairment. If such an indication exists, the assets net recoverable value is estimated.

An impairment of an asset's value is recognised whenever its carrying amount exceeds its recovery amount. In assessing impairment, the Group may combine assets generating a separate identifiable cash flow (cash generating unit) and value these assets as if they were a single asset. Where the estimated recoverable amount of the asset is less than its carrying amount, the asset is written down. The impairment loss is recognised in the profit or loss in the Statement of Comprehensive Income, except to the extent that the asset or group of assets have been recorded at a revalued amount. Impairment losses on revalued assets are first taken to Other Comprehensive Income if there is a surplus in respect of that asset.

The recoverable amount of an asset is the greater of their net disposal price and their value in use. Value in use is determined by discounting expected future net cash flow generated by the asset or cash generating unit. A pre-tax discount rate that recognises the current market time value of money and risks specific to the asset is used in the calculation.

ACCOUNTING POLICIES

FOR THE PERIOD ENDED 31 MARCH 2017

Goodwill And Intangible Assets

Goodwill

After initial recognition, goodwill acquired in a business combination is measured at cost less any accumulated impairment losses. Goodwill is not amortised but is subject to impairment testing at balance date to determine whether there has been any impairment to its value. Details of the test and its outcome are shown in Note 11. Any impairment loss is recognised in the profit or loss, in the Statement of Comprehensive Income.

Computer Software

Acquired computer software licences are capitalised on the basis of costs incurred to acquire and bring to use the specific software. These assets are amortised over up to five years on a straight line basis.

Costs associated with developing or maintaining computer programmes are recognised as an expense as incurred.

Borrowings

All borrowings are recognised initially at fair value net of directly attributable transaction costs. The Group's financial liabilities include finance leases and bank borrowing.

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the Effective Interest Rate (EIR) method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in profit or loss.

Trade And Other Creditors

Trade and other creditors are carried at amortised cost and are not discounted because they are usually paid within 30 days of recognition. They represent liabilities for goods and services provided to the Group prior to the end of the financial year that have not been settled at balance date. Included in Trade and Other Creditors are estimated amounts for work completed prior to balance date on projects that span balance date. Amounts are unsecured though the Group is required to provide undertakings from its bankers to the electricity market that it has sufficient funding to meet anticipated future spot market electricity purchases.

Employee Entitlements

Employee entitlements to salaries and wages, non-monetary benefits, annual leave, long service leave and other benefits are recognised when they accrue to employees. This includes the estimated liability for salaries and wages, annual leave and long service leave as a result of services rendered by employees up to balance date. They are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non accumulating sick leave are recognised when the leave is taken and are recognised at the rates paid or payable.

Statement Of Cash Flows

The following are the definitions of the terms used in the Statement of Cash Flows:

- (a) Operating activities include all transactions and other events that are not investing or financing activities.
- (b) Investing activities are those activities relating to the acquisition, holding and disposal of property, plant and equipment and of investments. Investments can include securities not falling within the definition of cash.
- (c) Financing activities are those activities that result in changes in the size and composition of the capital structure. This includes both equity and debt not falling within the definition of cash. Dividends paid in relation to the capital structure are included in financing activities.
- (d) Cash is considered to be cash on hand and current accounts in banks, net of bank overdrafts.

Segment Reporting

A business segment is a component of the Group that engages in business activities that earns revenues and incurs expenses and whose operating results are regularly reviewed by the Chief Executive Officer and executive management team to make decisions about resources to be allocated to the segment and assess its financial performance. In determining if a business segment exists, management will also consider the management structure within the Group and the information presented to the Board of Directors. The Group aggregates two or more operating segments offering like products and services when they have similar operational and economic characteristics.

Application Of Accounting Standards

The new standards and amendments to standards that became mandatory for the first time for the financial year beginning 1 April 2016 had been either early adopted by the Group or have no effect on presentation or content and therefore have not resulted in any changes to either the presentation of financial information or the financial information itself.

The Group has adopted the following new or amended standards and interpretations as of 1 January 2016.

Amendments to NZ IFRSs arising from the Annual Improvements Project (2012-2014) effective for periods beginning on or after 1 January 2016. These amendments have not and are not expected to have any impact on the financial statements.

Amendments to NZ IFRS as a consequence External Reporting Board standard A1 effective for periods beginning on or after 1 January 2016. These amendments have not and are not expected to have any impact on the financial statements.

NZ IAS 1 clarifying existing requirements relating to materiality, order of the notes, subtotals, accounting policies and disaggregation. These amendments have not altered the content or presentation of financial information.

NZ IAS 16 and NZ IAS 36 clarifying acceptable methods of depreciation and amortization. These amendments have not changed current methods for depreciation and amortisation.

Application of the new standards or amendments to existing standards has not resulted in any changes to either the presentation of financial information or the financial information itself as the Group is either currently compliant with the standard or the standard is not applicable to the Group.

The Group has elected not to early adopt the following applicable standards, which have been issued but are not yet effective:

NZ IFRS 15 – Revenue from Contracts with Customers – establishes principles for reporting additional information on revenue from contracts with customers effective from 1 January 2017. Limited additional disclosure is expected.

NZ IFRS 9 – Financial Instruments – effective for periods beginning on or after 1 January 2018. This standard replaces part of IAS 39 and establishes two primary measurement categories for financial assets; amortised cost and fair value, with classification depending on an entity's business model and the contractual cash flow characteristics of the financial asset. The implementation date for this Standard continues to change so the Group will evaluate the potential effect of this standard closer to its final implementation date.

NZ IFRS 16 – Leases - effective for periods beginning on or after 1 January 2019. This standard replaces NZ IFRS 17 and applies the financing lease methodology to most leases. The impact will be minimal do to the small value of leases and the current disclosure regime.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE TWELVE MONTHS ENDED 31 MARCH 2017

1. Revenue

Included in Operating Revenue are the following items:

	Group		Parent	
	12 Months 31.03.17 \$'000	15 Months 31.03.16 \$'000	12 Months 31.03.17 \$'000	15 Months 31.03.16 \$'000
Sales of Electricity	43,251	54,986	-	-
Network Charges Recovered	4,330	5,361	-	-
Discount Allowed - Prompt Payment	(2,675)	(3,545)	-	-
Derivative income	444	-	-	-
Interest Received	10	64	1,487	2,671
Other Income	506	381	-	-
Dividends from Subsidiaries	-	-	12,000	12,000
Total Operating Revenue	45,866	57,247	13,487	14,671

2. Expenses

Included in Operating Expenses are the following items:

Purchase of Electricity	13,744	21,877	-	-
Derivative Expense on Electricity Purchases	3,058	1,258	-	-
Network Charges	4,843	6,008	-	-
Depreciation - Property, Plant, Equipment				
Buildings	130	167	-	-
Generation Plant	4,162	6,871	-	-
Land Improvements	2	3	-	-
Motor Vehicles	113	134	20	23
Furniture, Plant & Equipment	162	176	114	116
Computer Software	25	59	23	58
	4,594	7,410	157	197
Impairment - Property, Plant, Equipment				
Furniture, Plant & Equipment	15	-	15	-
Capital Work in Progress	82	-	82	-
	97	-	97	-
Bad Debts Written Off	146	212	-	-
Increase/(Decrease) in Estimated Doubtful Debts	10	(15)	-	-
Audit Fees	78	83	78	83
Repairs & Maintenance	1,125	1,563	259	304
Employee Benefits	4,102	4,894	1,109	1,342
Directors Fees & Expenses	281	298	281	298
Loss on Sale of Fixed Assets	33	35	13	23
Insurance	698	1,252	51	88
Other Operating Expenses	3,010	3,765	868	1,188
Total Operating Expenses	35,819	48,640	2,913	3,523

NOTES TO THE FINANCIAL STATEMENTS

FOR THE TWELVE MONTHS ENDED 31 MARCH 2017

3. Income Tax

Income Tax Expense

The major components of income tax expense are:

Income Statement

Current Income Tax

Current Income Tax Charge

Prior Period Adjustment

Deferred Income Tax

Temporary Differences in Current Period

Temporary Differences in Prior Periods

Group		Parent	
12 Months 31.03.17 \$'000	15 Months 31.03.16 \$'000	12 Months 31.03.17 \$'000	15 Months 31.03.16 \$'000
2,229	1,964	(702)	(667)
(79)	(117)	6	6
2,150	1,847	(696)	(661)
(710)	1,080	94	(239)
11	(329)	-	9
(699)	751	94	(230)
1,451	2,598	(602)	(891)

Reported Income Tax Expense

The amount of Income Tax attributable to the Operating Profit for the financial period differs from the prima facie tax payable on the Operating Profit Before Tax. The difference is reconciled as follows:

Income Tax Attributable To Profit

Profit before Taxation

Taxation thereon at 28%

Non Assessable Income

Non Deductible Expenditure

Prior Period Adjustment

Reported Income Tax Expense

5,325	10,655	9,733	8,549
1,491	2,983	2,725	2,394
-	-	(3,360)	(3,360)
28	61	27	60
(68)	(446)	6	15
1,451	2,598	(602)	(891)

Deferred Taxation

The major components together with their movements of the deferred tax balances are as follows:

Property Plant and Equipment

Opening Balance

Current Period Temporary Differences - Through Income

Correction to Prior Period

Balance at the End of the Period

(27,453)	(27,769)	(20)	(12)
(295)	(22)	(3)	1
(6)	338	-	(9)
(27,754)	(27,453)	(23)	(20)

FOR THE TWELVE MONTHS ENDED 31 MARCH 2017

Employee Benefits

Opening Balance
Current Period Temporary Differences - Through
Income
Correction to Prior Period

Balance at the End of the Period

Financial Instruments

Opening Balance

Current Period Temporary Differences - Through
Income

Balance at the End of the Period

Other Provisions

Opening Balance
Current Period Temporary Differences - Through
Income
Correction to Prior Period

Balance at the End of the Period

Total

Opening Balance

Current Period Temporary Differences - Through Income

Correction to Prior Period

Balance at the End of the Period

Imputation Credit Account

Balance at the End of the Period

Group		Parent	
12 Months 31.03.17 \$'000	15 Months 31.03.16 \$'000	12 Months 31.03.17 \$'000	15 Months 31.03.16 \$'000
64	63	17	16
15	13	8	1
(6)	(12)	-	-
73	64	25	17
(200)	864	258	21
988	(1,064)	(99)	237
788	(200)	159	258
18	22	-	-
2	(7)	-	-
1	3	-	-
21	18	-	-
(27,571)	(26,820)	255	25
710	(1,080)	(94)	239
(11)	329	-	(9)
(26,872)	(27,571)	161	255
1,519	400	-	-

The Group has a single Imputation Credit Account that includes imputation credits earned by the Parent and its subsidiaries.

4. Share Capital

Issued and paid up capital

Balance at Beginning of the Period	Ordinary Shares
Purchase of Issued Capital	

Balance at the End of the Period

55,306 (708)	55,306 -	55,306 (708)	55,306 -
54,598	55,306	54,598	55,306

As at 31 March 2017 there were 25,164,052 ordinary shares authorised, and fully paid (31 March 2016: 25,312,277). All shares have no par value.

All ordinary shares issued rank equally with one vote attached to each fully paid ordinary share.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE TWELVE MONTHS ENDED 31 MARCH 2017

5. Reserves

Asset Revaluation Reserve

Opening and Closing Balance

Group		Parent	
12 Months 31.03.17 \$'000	15 Months 31.03.16 \$'000	12 Months 31.03.17 \$'000	15 Months 31.03.16 \$'000
73,557	73,557	102	102

The Asset Revaluation Reserve holds the uplift to the value of fixed assets subject to periodic revaluation. An asset disposal or write-down in value following a revaluation is charged to the Reserve provided the Reserve contains a prior valuation uplift at least equal to the impairment suffered by the asset. An appropriate portion of the Reserve is released to Retained Earnings upon the sale of revalued assets. Also charged to the Revaluation Reserve are the deferred tax implications of revaluations and disposals.

6. Retained Earnings

Balance at Beginning of the Period

Profit after Tax Expense

Dividends

Balance at the End of the Period

3,359	1,889	338	(2,515)
3,874	8,057	10,335	9,440
(6,899)	(6,587)	(6,899)	(6,587)
334	3,359	3,774	338

7. Accounts Receivable

Electricity Receivables

Other Receivables

Prepayments

Balance at the End of the Period

1,897	1,744	-	-
1,675	1,751	1	1
259	584	96	135
3,831	4,079	97	136

Accounts Receivable are subject to impairment due to credit losses. Such impairment is recorded in a collective provision for uncollectable amounts. Amounts are deemed uncollectable when either they are placed in the hands of a collection agency, which is generally 90 days after payment is due, or no payment has been received from a customer for 90 days. Supply is normally stopped to customers more than 65 days overdue and is not re-commenced until payment in full is received. Customers with a poor credit history are required to provide a deposit prior to the commencement of supply.

Where a customer's account is overdue but the customer has entered a payment arrangement with the Group and is maintaining the payment arrangement, the account is deemed to be current and no allowance is made for impairment. At balance date the Group has 13 (March 2016: 8) customers who are medically dependent on electricity and who are overdue.

The movement in the impairment allowance is as follows:

Balance at Beginning of the Period

Additions/(Reductions) to the Impairment Allowance

Balance at End of the Period

65	80	-	-
10	(15)	-	-
75	65	-	-

NOTES TO THE FINANCIAL STATEMENTS

FOR THE TWELVE MONTHS ENDED 31 MARCH 2017

At Balance Date the aging analysis of electricity receivables and other receivables is as follows:

Current	3,339
Overdue but not Impaired	233
Overdue and Impaired	75
Impairment Allowance	(75)

Group		Parent	
12 Months 31.03.17 \$'000	15 Months 31.03.16 \$'000	12 Months 31.03.17 \$'000	15 Months 31.03.16 \$'000
3,339	3,253	1	1
233	244	-	-
75	63	-	-
(75)	(65)	-	-
3,572	3,495	1	1

8. Property, Plant And Equipment

Generation Plant & Equipment

Fair Value	161,328
Accumulated Depreciation and Impairment	(4,161)
Net Carrying Amount	157,167

Net Carrying Amount Beginning of Period	160,043
Additions	1,290
Impairment Through Profit or Loss	(4)
Depreciation Charge for the Period	(4,162)
Balance at the End of the Period	157,167

Carrying Amount at Historical Cost

Land, and Land Improvements

Fair Value	5,175
Accumulated Depreciation and Impairment	(2)
Net Carrying Amount	5,173

Net Carrying Amount Beginning of Period	5,165
Additions	10
Disposals	-
Depreciation Charge for the Period	(2)
Balance at the End of the Period	5,173

Carrying Amount at Historical Cost

Buildings

Fair Value	10,230
Accumulated Depreciation and Impairment	(357)
Net Carrying Amount	9,873

Net Carrying Amount Beginning of Period	9,964
Additions	39
Depreciation Charge for the Period	(130)
Balance at the End of the Period	9,873

161,328	160,043	-	-
(4,161)	-	-	-
157,167	160,043	-	-
160,043	163,121	-	-
1,290	3,793	-	-
(4)	-	-	-
(4,162)	(6,871)	-	-
157,167	160,043	-	-
92,246	95,765	-	-
5,175	5,165	116	116
(2)	-	-	-
5,173	5,165	116	116
5,165	5,169	116	116
10	-	-	-
-	(1)	-	-
(2)	(3)	-	-
5,173	5,165	116	116
1,872	1,863	51	51
10,230	10,659	695	695
(357)	(695)	(695)	(695)
9,873	9,964	-	-
9,964	9,319	-	-
39	812	-	-
(130)	(167)	-	-
9,873	9,964	-	-

NOTES TO THE FINANCIAL STATEMENTS

FOR THE TWELVE MONTHS ENDED 31 MARCH 2017

Motor Vehicles

Cost
Accumulated Depreciation and Impairment

Net Carrying Amount

Net Carrying Amount Beginning of Period
Additions
Disposals
Depreciation Charge for the Period

Balance at the End of the Period

Office Equipment & Furniture

Cost
Accumulated Depreciation and Impairment

Net Carrying Amount

Net Carrying Amount Beginning of Period
Additions
Disposals
Depreciation Charge for the Period

Balance at the End of the Period

Leased Office Equipment & Furniture

Cost
Accumulated Depreciation and Impairment

Net Carrying Amount

Net Carrying Amount Beginning of Period
Additions
Disposals
Impairment Through Profit & Loss
Depreciation Charge for the Period

Balance at the End of the Period

Development and Construction Projects

Development Projects at Cost

Net Carrying Amount

Net Carrying Amount Beginning of Period
Additions
Impairment
Transfers

Balance at the End of the Period

Total Property, Plant & Equipment

	Group		Parent	
	12 Months 31.03.17 \$'000	15 Months 31.03.16 \$'000	12 Months 31.03.17 \$'000	15 Months 31.03.16 \$'000
Motor Vehicles				
Cost	847	810	131	135
Accumulated Depreciation and Impairment	(257)	(215)	(31)	(30)
Net Carrying Amount	590	595	100	105
Net Carrying Amount Beginning of Period	595	554	105	91
Additions	157	270	30	71
Disposals	(49)	(95)	(15)	(34)
Depreciation Charge for the Period	(113)	(134)	(20)	(23)
Balance at the End of the Period	590	595	100	105
Office Equipment & Furniture				
Cost	1,684	1,415	950	700
Accumulated Depreciation and Impairment	(1,180)	(1,057)	(649)	(564)
Net Carrying Amount	504	358	301	136
Net Carrying Amount Beginning of Period	358	438	136	184
Additions	291	80	261	52
Disposals	(2)	(10)	(1)	(10)
Depreciation Charge for the Period	(143)	(150)	(95)	(90)
Balance at the End of the Period	504	358	301	136
Leased Office Equipment & Furniture				
Cost	28	104	28	104
Accumulated Depreciation and Impairment	-	(66)	-	(66)
Net Carrying Amount	28	38	28	38
Net Carrying Amount Beginning of Period	38	64	38	64
Additions	28	-	28	-
Disposals	(4)	-	(4)	-
Impairment Through Profit & Loss	(15)	-	(15)	-
Depreciation Charge for the Period	(19)	(26)	(19)	(26)
Balance at the End of the Period	28	38	28	38
Development and Construction Projects	353	1,444	1	355
Development Projects at Cost	353	1,444	1	355
Net Carrying Amount				
Net Carrying Amount Beginning of Period	1,444	4,053	355	61
Additions	44	1,261	1	328
Impairment	(82)	-	(82)	-
Transfers	(1,053)	(3,870)	(273)	(34)
Balance at the End of the Period	353	1,444	1	355
Total Property, Plant & Equipment	173,688	177,607	546	750

NOTES TO THE FINANCIAL STATEMENTS

FOR THE TWELVE MONTHS ENDED 31 MARCH 2017

Land and land improvements at generation sites, buildings at generation sites and generation plant, property and equipment owned by the Group was revalued as at 31 March 2016 to fair value for financial reporting purposes. The fair value for land and land improvements at generation sites, buildings at generation sites and generation plant, property and equipment was assessed using economic value methodology based on the discounted cash flows able to be generated by the relevant land, buildings plant, property and equipment. A discount rate of 8.5% (March 2016 8.0%) was applied. Furniture, plant and equipment integral to the operation of generation stations was also included in the valuation. The value of generation plant was determined by independent valuers, Deloitte, Chartered Accountants on 31 March 2016. Non-generation land and buildings were not valued as it is represented by an earthquake prone building deemed to have no commercial value and has been written off in the Group's financial statements.

The valuation range provided by Deloitte was between \$157.4m and \$188.2m with directors adopting a mid-point valuation of \$172.8m as at 31 March 2016. Directors are of the opinion that there has been no material change in the major factors affecting the value of property plant and equipment and therefore their carrying value is their fair value.

The factors having the greatest influence on value are future electricity prices, generation volumes and the weighted average cost of capital applied to cash flows. Deloitte have derived their own electricity price path but it is similar to that used by the Group in its financial modelling. The price path accounts for expected changes in supply and demand for electricity, the cost of new generation capacity and in the short term prices for future supply set in the derivatives market.

Generation output is based on long run (15 year) historical average output by plant. Output in any one year will be affected by hydrology and plant availability. Resource consents are assumed to continue under their existing terms and conditions.

The cost of capital has been calculated by Deloitte and is based upon market information for companies with a similar risk profile to the Group. Changes to the risk free rate of return (sovereign debt) will change the cost of capital as will a change in the perception of the risk associated with electricity generation.

In preparing their valuation Deloitte have made assumptions in relation to future income from Avoided Cost of Transmission receipts. Such receipts form a significant portion of generation revenue and their method of calculation is currently subject to review by the Electricity Authority who are still consulting with the industry but favour ending these payments. Deloitte has assumed ACOT receipts will remain at their average of the last five years until 2021 then drop by 50% for the remaining modelled period.

Assumptions	Electricity price path	Generation Output	Cost of Capital
	\$72.09 / MWh to \$92.50/ MWh (nominal 2026)	191.2GWh	8.5%

NOTES TO THE FINANCIAL STATEMENTS

FOR THE TWELVE MONTHS ENDED 31 MARCH 2017

The table below shows the impact on the mid point valuation adopted by the directors of changes to the key valuation assumptions described above and the effect of those changes on the financial statements. The liability movement is deferred tax which has been calculated at a rate of 28%. Sufficient revaluation reserves are available to offset reductions in value so no profit or loss impact is assumed.

Sensitivity	Value Change	Financial Statement Impact			
		Profit & Loss	Non Current Assets	Non Current Liabilities	Equity
	\$'000	\$'000	\$'000	\$'000	\$'000
Increase Electricity Price 10.0%	21,700	-	21,700	6,076	15,624
Decrease Electricity Price 10.0%	(22,200)	-	(22,200)	(6,216)	(15,984)
Increase Cost of Capital 0.5%	(13,000)	-	(13,000)	(3,640)	(9,360)
Decrease Cost of Capital 0.5%	13,500	-	13,500	3,780	9,720
Increase Generation Output 5.0%	10,000	-	10,000	2,800	7,200
Decrease Generation Output 5.0%	(11,500)	-	(11,500)	(3,220)	(8,280)

9. Derivative Financial Instruments

Movements in the asset/(liability) value of Derivative Financial Instruments over the period have been:

Level Two Derivatives

Opening Carrying Value
Revaluation of Derivatives

Balance at the End of the Period Level Two

Level Three Derivatives

Opening Carrying Value
Derivatives Acquired at Fair Value
Revaluation of Derivatives

Balance at the End of the Period Level Three

Balance at the End of the Period All Levels

Group		Parent	
12 Months 31.03.17 \$'000	15 Months 31.03.16 \$'000	12 Months 31.03.17 \$'000	15 Months 31.03.16 \$'000
(923)	(74)	(923)	(74)
353	(849)	353	(849)
(570)	(923)	(570)	(923)

1,634	(3,013)	-	-
1,075	109	-	-
(4,955)	4,538	-	-
(2,246)	1,634	-	-
(2,816)	711	(570)	(923)

Instruments Used by the Group

Derivative financial instruments comprise electricity contracts for difference and interest rate swaps. Contracts for difference are used by the Group in the normal course of business in order to manage exposure to fluctuations in spot market electricity prices. Interest rate swaps are used to fix the Group's exposure to the floating interest rate in its loan facility. All derivatives are held to maturity and are specific to the Group. The Group holds sufficient derivatives to cover its generation shortfall in a dry year and its core debt floating interest rate. The Group does not hold derivative financial instruments for the purposes of trading those instruments for a profit.

At balance date the Group had electricity contracts for difference that had commencement and finishing dates running to 30/4/2020 (March 2016: 30/04/2020). The total nominal volume of such contracts is 487.4 GWh (March 2016: 564.1 GWh). At balance date the Group have interest rate swaps with finishing dates running to 31/5/2022 (March 16: 17/12/2021).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE TWELVE MONTHS ENDED 31 MARCH 2017

10. Investments

Shares in Subsidiary Companies at Cost

Group		Parent	
12 Months 31.03.17 \$'000	15 Months 31.03.16 \$'000	12 Months 31.03.17 \$'000	15 Months 31.03.16 \$'000
-	-	14,300	14,300

Subsidiaries Comprise

	% Holding
KCE Generation Limited	100
KCE Mangahao Limited	100
KCE Retail Limited	100

Activities

Energy Generation
Energy Generation
Energy Retailing

Incorporated

New Zealand
New Zealand
New Zealand

All Companies have 31 March balance dates and the directors of the Parent are also the directors of the subsidiaries. The Parent has held 100% control of the subsidiaries for both the current and prior reporting periods.

KCE Mangahao Ltd was incorporated on 3 December 1997 and commenced operations on 23 December 1997 when it purchased the Mangahao power station in conjunction with Todd Mangahao Ltd. These two organisations participated in an unincorporated joint arrangement until its dissolution on 1 June 2012, when KCE Mangahao Ltd acquired the Todd Mangahao Ltd assets.

KCE Generation Ltd and KCE Retail Ltd were incorporated by the Company on 7 January 1999 and commenced operation on 1 March 1999 when they acquired certain assets and business operations from the Company.

11. Intangible Assets

Goodwill - Opening & Closing Balance

Computer Software

Cost	1,307	1,300	1,171	1,171
Accumulated Amortisation and Impairment	(1,201)	(1,176)	(1,070)	(1,047)

Net Carrying Amount

Net Carrying Amount Beginning of Period	124	181	124	179
Additions	7	2	-	3
Amortisation Charge for the Period	(25)	(59)	(23)	(58)
Balance at the End of the Period	106	124	101	124

Total Intangible Assets

1,560	1,560	-	-
1,307	1,300	1,171	1,171
(1,201)	(1,176)	(1,070)	(1,047)
106	124	101	124
124	181	124	179
7	2	-	3
(25)	(59)	(23)	(58)
106	124	101	124
1,666	1,684	101	124

The total value of Goodwill is allocated to the business of KCE Retail Ltd. KCE Retail Ltd is considered to be a single cash generating unit as defined by accounting standards. Goodwill is assumed to have an indefinite life and its value has been determined as carrying value at the time of adoption of IFRS, less any subsequent impairment calculated using the "value in use" methodology prescribed by NZ IAS 36. Directors believe there has been no impairment to the value of goodwill.

Goodwill's value in use has been determined with reference to the ten year business plan for the Group for the period commencing on 1 April 2017 and ending on 31 March 2027. Anticipated cash flows beyond 31 March 2022 are excluded from the calculation of value in use. The key factors determining value in use are electricity sale and purchase prices and sales volumes.

A small decline in domestic customer numbers, consistent with the experience of recent years is assumed over the forecast period as a consequence of increased competition in our incumbent market. Growth is assumed in some key out of traditional trading area target markets building on growth achieved in these markets during the current period and prior periods. Consumption per customer is assumed to remain at its current level. Modelled prices are either stable or declining slightly and reduce in real terms reflecting the competition being experience in the retail electricity market.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE TWELVE MONTHS ENDED 31 MARCH 2017

The purchase price of electricity will remain stable over the plan period. Sufficient derivative cover and generation capacity is in place for this period to provide reasonable certainty on purchase price. Additional derivative cover will be required upon the expiry of existing contracts and this cover will be the subject of market price risk. Prices used in this period are based upon ASX hedging costs adjusted for any short term anomalies resulting from speculative trading activities caused by short run hydrological conditions. None of our derivative contracts contain a provision for price adjustments for carbon and as all our generation is from renewable sources there will be no requirement for the Group to purchase carbon credits.

The margin between the Cash Generating Unit's recoverable amount and its carrying amount is substantial and a reasonably possible change in key inputs will not result in an impairment to the carrying value of goodwill. In determining goodwill's value in use, the Group has applied a discount rate of 10.0% (March 2016 10.0%) to the pre-tax and pre interest cash flow of the retail operations.

12. Borrowings

Current Borrowings

Capitalised Lease Obligations	12	30	12	30
Current Portion of Term Borrowing	4,000	429	4,000	429

	4,012	459	4,012	459
--	--------------	------------	--------------	------------

Non Current Borrowings

Capitalised Lease Obligations	16	-	16	-
Non Current Portion of Term Borrowing	15,000	22,200	15,000	22,200

	15,016	22,200	15,016	22,200
--	---------------	---------------	---------------	---------------

Capitalised Lease Minimum Lease Payment Obligations

Within One Year	14	32	14	32
One to Two Years	14	-	14	-
Two to Five Years	13	-	13	-
	41	32	41	32

Capitalised Lease Present Value Payment Obligations

Within One Year	12	30	12	30
One to Two Years	9	-	9	-
Two to Five Years	7	-	7	-
	28	30	28	30

The difference between the minimum lease payment obligation and the present value of lease payment obligations for all periods is the interest content of the monthly lease payments.

Term Loan

The Group has a \$45 million unsecured term loan facility with \$30 million expiring on 17 December 2017, \$5 million expiring on 30 April 2018 and \$10 million expiring on 17 December 2019. Of the total facility \$35m is available for borrowing and \$10m is available to provide letters of credit and other bank guarantees. Interest is calculated as bank bill rate plus a margin and facility fees are payable. The facility is subject to negative pledges in respect to interest cover, gearing ratio, and total tangible assets held by the guaranteeing group. As at balance date the Group complied with all bank imposed ratios and had met all other obligations imposed upon it by the loan document.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE TWELVE MONTHS ENDED 31 MARCH 2017

13. Capital Commitments

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

Capital Expenditure

Mokauiti Transformer
Controls Upgrade Wairere
Surge Chamber Head Gate Mangahao
Auxiliary Transformers Mangahao

Group		Parent	
12 Months 31.03.17 \$'000	15 Months 31.03.16 \$'000	12 Months 31.03.17 \$'000	15 Months 31.03.16 \$'000
-	78	-	-
-	36	-	-
-	85	-	-
-	39	-	-
-	238	-	-

14. Related Party Transactions

The Parent (and its subsidiaries) is a subsidiary of Trustpower Ltd, (Trustpower) a partially owned subsidiary of Infratil Ltd (the Ultimate Parent). Group Companies are parties to a number of transactions with Trustpower.

All related party transactions are conducted on an arms length basis and provide benefits to both parties. All related party transactions, are part of the ordinary on-going business operations of the Group. No related party debts were written off or forgiven during the period (March 2016: nil).

Trustpower holds the management contract for the Mangahao power station under which it manages the operation of the station, employs station staff and despatches the plant to market. For this service Trustpower is paid a fixed monthly management fee and reimbursed for expenditure incurred on behalf of the Group.

Insurance cover for the Group is provided through Trustpower's captive insurance company. The Group is allocated a portion of the total premium paid by the captive to external providers plus its administrative costs based upon the cover provided.

The Parent acts as a funder for its subsidiaries and provides accounting and certain other administrative services for them. Advances within the Group are repayable on demand and interest is charged on the outstanding balances at market interest rates on a monthly basis.

KCE Retail Ltd purchases electricity from KCE Generation Ltd. Purchases are carried out at an agreed transfer price based upon anticipated market prices over the period.

FOR THE TWELVE MONTHS ENDED 31 MARCH 2017

Transactions with related parties

Purchases

Nova Energy Ltd (excluding cost reimbursements)
Trustpower Ltd (excluding cost reimbursements)

Payables

Trustpower Ltd

Balances with Group Companies

KCE Retail Limited	-	-	46	(450)
KCE Generation Limited	-	-	4,885	4,470
KCE Mangahao Limited	-	-	55,208	57,378
	-	-	60,139	61,398

Compensation for Key Management Personnel

Short-term Employee Benefits	1,663	1,751	1,032	1,068
------------------------------	-------	-------	-------	-------

Total Compensation

Group		Parent	
12 Months 31.03.17 \$'000	15 Months 31.03.16 \$'000	12 Months 31.03.17 \$'000	15 Months 31.03.16 \$'000
-	167	-	-
126	54	-	-
61	59	-	-
-	-	46	(450)
-	-	4,885	4,470
-	-	55,208	57,378
-	-	60,139	61,398
1,663	1,751	1,032	1,068
1,663	1,751	1,032	1,068

Key Management Personnel comprise the Directors, the chief executive and the management team reporting to the chief executive.

15. Financial Instruments

The Group holds the following classes of financial instrument

Financial Assets Held for Trading Through Profit and Loss

Derivative Financial instruments

Loans and Receivables

Cash & Cash Equivalents

Trade Receivables

Intercompany Balances

Financial Liabilities Held for Trading Through Profit and Loss

Derivative Financial instruments

Other Liabilities at Amortised Cost

Trade & Other Creditors

Borrowings

1,242	2,186	16	-
1,242	2,186	16	-
2,081	2,225	2,081	2,225
3,572	3,495	1	1
-	-	60,139	61,398
5,653	5,720	62,221	63,624
4,058	1,475	586	922
4,058	1,475	586	922
3,359	3,970	1,544	2,575
19,000	22,629	19,000	22,629
22,359	26,599	20,544	25,204

NOTES TO THE FINANCIAL STATEMENTS

FOR THE TWELVE MONTHS ENDED 31 MARCH 2017

Fair Values

The carrying amounts of cash and cash equivalents are equivalent to their fair value. The carrying amounts of receivables and creditors are invoiced amounts, taking account of any amounts considered irrecoverable and are equivalent to their fair value. The fair value of interest rate swaps is the market value of such contracts as determined by their counter party. The fair value of electricity price derivative contracts can vary day to day as the spot market price for electricity varies. The fair value of an electricity derivative is deemed to be the net present value of its future cash flows which is the forecast difference between future spot prices and the derivative price.

The future price curve used to calculate the value of derivatives is derived from prices quoted for electricity derivatives on the Australian Stock Exchange energy futures market at the close of business on 31 March 2017. In prior years the price curve used prices calculated by EnergyLink Ltd. Directors determined during the year that the market for New Zealand electricity derivatives had developed to the point where duration, trading volumes and participant numbers were sufficient to be considered to be a reliable indicator of future spot prices.

The spot prices for ASX hedges are based upon supply at the Otahuhu grid exit point. These prices are adjusted to the expected price at the grid exit points on which the Group trades by the application of location factors. Location factors are supplied by Energy link and are calculated by reference to historical differences from Otahuhu prices adjusted for expected changes in supply and demand at the respective grid exit points. Location factors range from 0.981 to 1.084 (March 2016: 0.964 to 1.062) over the forecast period.

The following tables present the Group's and Parent's financial assets and liabilities that are measured at fair value.

	Level 1	Level 2	Level 3	Total
	\$'000	\$'000	\$'000	\$'000
GROUP				
31 March 2017				
Assets				
Electricity Price Derivatives	-	-	1,226	1,226
Interest Rate Swaps	-	16	-	-
Liabilities				
Electricity Price Derivatives	-	-	3,473	3,473
Interest Rate Swaps	-	586	-	586
31 March 2016				
Liabilities				
Electricity Price Derivatives	-	-	2,186	2,186
PARENT				
31 March 2017				
Assets				
Interest Rate Swaps	-	16	-	16
Liabilities				
Interest Rate Swaps	-	586	-	586
31 March 2016				
Liabilities				
Interest Rate Swaps	-	923	-	923

NOTES TO THE FINANCIAL STATEMENTS

FOR THE TWELVE MONTHS ENDED 31 MARCH 2017

Level One is for fair values obtained from a quoted price in an active market for identical assets or liabilities. Level Two is for fair values obtained from inputs other than quoted prices included within Level One that are observable for the asset or liability either directly or indirectly. Level Three is for fair values obtained from inputs for the asset or liability that are not based on observable market data.

The Group's Level Three financial assets and liabilities comprise the derivative financial instruments disclosed in Note 9. The movement in the fair value of Level Three financial assets and liabilities is disclosed in Note 9 as is the reporting of the components that comprise the movement in fair value. The other assets held by the Group at fair value Level Three comprise Generation Plant & Equipment, Land & Land Improvements and Buildings. The movement in the values of these asset classes, their valuation assumptions and sensitivity to changes in key assumptions is disclosed in Note 8.

Credit Risk

Financial instruments which potentially subject the Group to concentration of credit risk consist principally of cash, trade receivables and derivative financial instruments. The maximum credit risk as defined by NZ IFRS 7 is the carrying value of these financial instruments, however Directors consider the risk of non recovery of these amounts as being minimal. The Group places its cash deposits with high-credit-quality financial institutions. Concentrations of credit risk with respect to receivables are limited due to a large number of customers included in the Group's customer base. The Group requires a deposit for certain high credit risk customers if no credit references are received from other energy companies. The Group faces the risk that a party to a derivative financial instrument will default on a payment. The Group has derivative contracts with several generators which will be settled through the reconciliation manager eliminating settlement risk except in circumstances where the generator produces less electricity volume than is hedged. No other form of security or collateral is required to support financial instruments with credit risk.

Market Risk

The Group is exposed to market risk in respect of spot market electricity purchases. The Group is exposed to the spot market to the extent its own generation is insufficient to meet sales to its customers. Group generation exceeded retail sales by approximately 1% (March 2016: purchases exceeded generation by 26%) of its sales volume on the spot market. It is the Group's current policy to use derivatives to meet its estimated net electricity demand after allowing for periods of low water flows in its hydro catchment areas. At 31 March 2017 the Group has a derivative book for the next financial year that meets this policy objective. The Group negotiates its purchases of derivatives, generally at least a year in advance of requirements, giving it the option to shed customer load if it is unable to achieve derivative cover that allows profitable sale of electricity to end consumers.

Under these contracts Group Companies agree a fixed price (strike price) for their estimated electricity needs with various counterparties. On maturity of these agreements any difference between the strike price and the spot market price is settled between the parties. Settlement occurs irrespective of the amount of electricity actually supplied. If the spot market price is greater than the strike price, the counterparty must settle the difference with the Group. Conversely if the spot market price is less than the strike price, the Group must settle the difference with the counter party. The group deems that there is no market risk if it has to settle derivatives because the spot price is below the strike price. Retail selling prices are such that the Group is able to pay the strike price for its electricity purchases and still make an adequate return.

Movements in the expected future prices of electricity have the effect of changing the fair value of electricity derivatives. Such movements have no impact on the cash position of the Group but do affect the reported profit after tax as valuation movements. Increasing future prices increase the value of derivatives while falling future prices decrease the value of derivatives.

The Group is exposed to interest rate price risk on its borrowing. The Group's core debt (the portion of the debt not used to manage the timing of cash flows) is the subject of interest rate swaps that converts the floating interest rate on the loan to a fixed interest rate over the life of the loan. The Group holds interest rate swaps whose maturity date extends beyond the maturity of current borrowing facilities, in anticipation of renewal of those facilities. Debt subject to interest rate fluctuations represents 5% (March 2016 19%) of total borrowing.

The Group holds interest rates swaps whose maturity date extends beyond the maturity of current borrowing facilities, in anticipation of renewal of those facilities.

From time to time the Group is exposed to foreign currency price risk when purchasing capital items from offshore suppliers. The Group enters into forward currency contracts for the full value of such purchases at the time the contract to purchase is signed.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE TWELVE MONTHS ENDED 31 MARCH 2017

Sensitivity Analysis

The following table summarises the effect of a 10% increase or decrease in the projected forward price of electricity used to value derivative contracts on the Groups assets, liabilities, tax paid profit and equity. The analysis assumes that all other variables are held constant as a result of the change in the value of the derivative contracts.

	Group		Parent	
	15 Months 31.03.17 \$'000	9 Months 31.12.15 \$'000	15 Months 31.03.17 \$'000	9 Months 31.12.15 \$'000
Increase/(Decrease) in Profit of a 10% Increase in electricity price	1,562	2,183	-	-
Increase/(Decrease) in Assets of a 10% Increase in electricity price	-	2,813	-	-
Increase/(Decrease) in Liabilities of a 10% Increase in electricity price	(1,562)	-	-	-
Increase/(Decrease) in Profit of a 10% Decrease in electricity price	(1,562)	(2,813)	-	-
Increase/(Decrease) in Assets of a 10% Decrease in electricity price	-	(1,177)	-	-
Increase/(Decrease) in Liabilities of a 10% Decrease in electricity price	1,562	1,636	-	-

The effect on Equity is limited to the change in after tax profit.

Liquidity Risk

Liquidity risk is managed by holding bank deposits and managing the timing of cash flows. Credit terms extended to our customers are similar to those we receive from our suppliers. Cash flows from our customers largely match our payments to our suppliers. Cash is held to bridge any timing differences. Settlement of derivative contracts and electricity purchases occur on the same day. Because the volume of derivatives is linked to third party sales volumes and own generation volumes, net cash flow on settlement does not vary significantly from plan on each settlement date. Funding facilities are adequate to meet our operating plan.

The tables below show the Group and Parent's financial liabilities by relevant maturity based upon the remaining period to the earliest possible contractual maturity date as at the relevant balance date. Amounts have not been discounted and where the settlement amount is based upon a future estimated price, the price used is consistent with that used for all other estimates included in these financial statements.



NOTES TO THE FINANCIAL STATEMENTS

FOR THE TWELVE MONTHS ENDED 31 MARCH 2017

	Less than 1 month	1-6 Months	6-12 Months	Over 1 Year
GROUP	\$'000	\$'000	\$'000	\$'000
At 31 March 2017				
Net Settled Electricity Price Derivatives	273	532	590	1,223
Accounts Payable and Accruals	4,064	-	-	-
Borrowings	1	430	4,424	16,100
	4,338	962	5,014	17,323
At 31 March 2016				
Net Settled Electricity Price Derivatives	125	20	635	1,231
Accounts Payable and Accruals	3,970	-	-	-
Borrowings	191	737	482	23,071
	4,286	757	1,117	24,302
PARENT				
At 31 March 2017				
Accounts Payable and Accruals	1,544	-	-	-
Borrowings	191	737	482	23,071
	1,735	737	482	23,071
At 31 March 2016				
Accounts Payable and Accruals	2,575	-	-	-
Borrowings	191	737	482	23,071
Intercompany Borrowing	-	-	-	450
	2,766	737	482	23,521

At balance date borrowings are from a single tranche of the Group's loan facility which expires on 17 December 2017. On that date this borrowing will be transferred to the remaining loan facilities though \$4 million will be repaid due to facility limits.

The Group intends to re-negotiate its facilities prior to the December expiry and is confident of a successful outcome.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE TWELVE MONTHS ENDED 31 MARCH 2017

Sensitivity Analysis

The Group considers its most significant risk to be generation volume risk. It uses financial derivatives to manage the spot price risk for the production shortfall between anticipated generation and sales. Derivatives are put in place prior to expanding the volume of sales, limiting the risk of sales volume growth outstripping market price protection. The Group manages its volume risk by varying the operating hours of its generation plant and varying the relationships between contracted volumes and times in its derivative contracts so that production and derivative contract volumes match demand over a day. The policy of the Group is to have sufficient derivatives in place to allow own generation based on long run average outputs plus derivatives to exceed forecast sales volumes by 20% of long run average generation volume.

The following table summarises the impact of generation volumes either increasing by 20% or falling by 20% from those achieved in the reporting periods shown. Generation volumes achieved in the twelve months ended 31 March 2017 were 125% of long run average while those achieved in the fifteen months ended 31 March 2016 were 103%.

	Group		Parent	
	12 Months 31.03.17 \$'000	15 Months 31.03.16 \$'000	12 Months 31.03.17 \$'000	15 Months 31.03.16 \$'000
Impact of a 20% reduction in generation on Post Tax Profit	(1,767)	(2,084)	-	-
Impact of a 20% increase in generation on Post Tax Profit	1,767	2,084	-	-

Capital Management Objectives

The Directors' consider the capital of the company to comprise issued capital, revaluation reserves and retained earnings. The value of capital under management is disclosed in the following calculation of the gearing ratio.

A Group objective when managing capital is to safeguard its ability to continue as a going concern, so that it can continue to provide returns to shareholders and benefits for other stakeholders and to maintain an optimal long term capital structure designed to reduce the cost of capital. In the short term the Group may move from an optimal capital structure to allow it to complete its capital programme. As part of its borrowing facility the Group is not permitted to exceed a predetermined debt to equity ratio.

In order to maintain or adjust the capital structure or comply with its gearing ratio, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt comprises total borrowings less short term deposits. Total capital is "Shareholders' Equity" as shown in the consolidated Balance Sheet plus net debt.

It is the policy of the Board to maintain the current gearing ratio and review this should the construction or acquisition of new generation facilities require this. While Directors believe the company has excess capital for its current operations, all current capital would be required to support these new projects should they proceed. The Group's debt to equity ratio is well within the 40% required by its bankers.

Net Debt

Current Borrowing
Non Current Borrowing
Short Term Deposits

Equity

Shareholders Equity

Total Capital Funding

Debt to Equity Ratio

	Group		Parent	
	12 Months 31.03.17 \$'000	15 Months 31.03.16 \$'000	12 Months 31.03.17 \$'000	15 Months 31.03.16 \$'000
Current Borrowing	4,012	459	4,012	459
Non Current Borrowing	15,016	22,200	15,016	22,200
Short Term Deposits	(2,081)	(2,225)	(2,081)	(2,225)
	16,947	20,434	16,947	20,434
Shareholders Equity	128,489	132,222	58,474	55,746
	145,436	152,656	75,421	76,180
	11.7%	13.4%	22.5%	26.8%

NOTES TO THE FINANCIAL STATEMENTS

FOR THE TWELVE MONTHS ENDED 31 MARCH 2017

16. Earnings Per Share

Earnings used in calculating basic and diluted earnings per share attributable to equity holders:

	Group	
	12 Months 31.03.17 \$'000	15 Months 31.03.16 \$'000
Profit After Tax Expense	3,874	8,057
Net Profit After Tax Attributable to Equity Holders of Parent	3,874	8,057
Weighted Average Number of Ordinary Shares for Basic and Diluted Earnings Per Share (thousands)	25,232	25,312

There are no instruments on issue that could potentially dilute basic earnings per share in the future.

17. Dividends

The Board of Directors resolved to pay a final dividend of 14.20 cents together with an imputation credit of 1.60 cents per ordinary share on the 30th of June 2016. Directors resolved to pay an interim dividend of 13.10 cents per ordinary share together with an imputation credit of 2.80 cents per ordinary share on the 12th of December 2016 for a total cash distribution to shareholders during the twelve months of \$6,890,841 (March 2016: \$6,581,211).

During the twelve months a total of \$8,639 (March 2016 \$5,485) of previously unclaimed dividends that had been returned to the Parent were claimed by and returned to shareholders.

Subsequent to the period end, the Board of Directors resolved to pay a final dividend of 19.5 cents per ordinary share plus imputation credits of 5.2 cents per ordinary share, a total cash distribution of \$4,906,990. The dividend will be paid on 6th June 2017. This amount has not been recognised as a liability in 2017 but will be brought to account in 2018.

18. Segment Reporting

The Group operates within the electricity generation and retail industry in the central North Island of New Zealand. The retail and generation segments of the business are managed separately but both segments have access to shared corporate services.

The retail segment sells electricity to final consumers which are classified as either domestic, commercial, farming or contract.

The generation segment of the business owns and operates the generation stations used to supply both the spot electricity market and customers using The Lines Company Ltd distribution network. Generation also purchases spot market electricity for supply to the retail operation at an agreed transfer price. Generation manages spot market price risk through the acquisition of contracts for difference with other electricity generators.

Unallocated revenue, expenses, assets and liabilities represent the revenue, expenses assets and liabilities of the parent company. As they provide benefits to all segments they have not been apportioned to the operating segments.

	Retail		Generation		Total	
	12 Months 31.03.17 \$'000	15 Months 31.03.16 \$'000	12 Months 31.03.17 \$'000	15 Months 31.03.16 \$'000	12 Months 31.03.17 \$'000	15 Months 31.03.16 \$'000
Revenue						
Sales to External Customers	29,719	38,739	12,721	14,482	42,440	53,221
Other Revenue from External Customers	82	166	3,336	3,806	3,418	3,972
Inter-segment Sales	-	-	14,048	25,104	14,048	25,104
Total Segment Revenues	29,801	38,905	30,105	43,392	59,906	82,297
Unallocated Revenue	-	-	-	-	7	54
Total Segment Revenue	29,801	38,905	30,105	43,392	59,913	82,351

The difference between total segment revenue and Group Operating Revenue in the Statement of Comprehensive income is Inter-Segment Sales

NOTES TO THE FINANCIAL STATEMENTS

FOR THE TWELVE MONTHS ENDED 31 MARCH 2017

Results

Segment Results before Tax and
Financing Costs

Unallocated Expenses

Financing Costs

Unallocated Financing Costs

Income Tax

Unallocated Income Tax

**Segment Net Operating Profit After
Tax**

Retail		Generation		Total	
12 Months 31.03.17 \$'000	15 Months 31.03.16 \$'000	12 Months 31.03.17 \$'000	15 Months 31.03.16 \$'000	12 Months 31.03.17 \$'000	15 Months 31.03.16 \$'000
3,414	4,503	4,178	9,603	7,592	14,106
-	-	-	-	(1,073)	(1,701)
3,414	4,503	4,178	9,603	6,519	12,405
-	-	-	-	-	-
-	-	-	-	(1,194)	(1,750)
-	-	-	-	(1,194)	(1,750)
(957)	(1,261)	(1,096)	(2,228)	(2,053)	(3,489)
-	-	-	-	602	891
(957)	(1,261)	(1,096)	(2,228)	(1,451)	(2,598)
2,457	3,242	3,082	7,375	3,874	8,057



NOTES TO THE FINANCIAL STATEMENTS

FOR THE TWELVE MONTHS ENDED 31 MARCH 2017

	Retail		Generation		Total	
	12 Months 31.03.17 \$'000	15 Months 31.03.16 \$'000	12 Months 31.03.17 \$'000	15 Months 31.03.16 \$'000	12 Months 31.03.17 \$'000	15 Months 31.03.16 \$'000
Assets and Liabilities						
Segment Assets	5,271	3,926	174,403	178,023	179,674	181,949
Unallocated Assets	-	-	-	-	2,839	5,948
Total Assets	5,271	3,926	174,403	178,023	182,513	187,897
Segment Liabilities	2,521	1,128	32,698	28,645	35,219	29,773
Unallocated Liabilities	-	-	-	-	18,805	25,902
Total Liabilities	2,521	1,128	32,698	28,645	54,024	55,675
Other Segment Information						
Capital Expenditure	22	167	643	1,746	665	1,913
Unallocated Capital Expenditure	-	-	-	-	-	433
Total Capital Expenditure	22	167	643	1,746	665	2,346
Depreciation and Amortisation	80	95	4,356	7,118	4,436	7,213
Unallocated Depreciation & Amortisation	-	-	-	-	158	197
Total Depreciation and Amortisation	80	95	4,356	7,118	4,594	7,410
Impairment of Fixed Assets	-	-	-	-	-	-
Unallocated Impairment of Fixed Assets	-	-	-	-	72	-
Total Impairment of Fixed Assets	-	-	-	-	72	-
Other Non-cash Expenses	171	219	3,886	-	4,057	219
Unallocated Other Non-cash Expenses	-	-	-	-	-	1,067
Total Other Non-cash Expenses	171	219	3,886	-	4,057	1,286
Cash Flow Information						
Net Cash Inflow From Operating Activities	3,768	4,881	11,110	14,385	14,878	19,266
Unallocated Net Cash Outflow From Operating Activities	-	-	-	-	(3,108)	(4,792)
Total Operating Cash Flow	3,768	4,881	11,110	14,385	11,770	14,474
Net Cash inflow/(Outflow) From Investing Activities	(768)	(1,881)	(2,110)	(5,385)	(2,878)	(7,266)
Unallocated Net Cash Outflow From Investing Activities	-	-	-	-	2,122	4,989
Total Investing Cash Flow	(768)	(1,881)	(2,110)	(5,385)	(756)	(2,277)
Net Cash Flow From Financing Activities	-	-	-	-	-	-
Unallocated Net Cash Flow From Financing Activities	-	-	-	-	(11,158)	(12,314)
Total Financing Cash Flow	-	-	-	-	(11,158)	(12,314)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE TWELVE MONTHS ENDED 31 MARCH 2017

19. Events Subsequent To Balance Date

Dividend

Subsequent to balance date, the Board have declared a cash dividend of 19.5 cents per ordinary share plus imputation credits of 5.2 cents per share, a total cash distribution of \$4,906,990. The dividend was paid on 6th June 2017.

Operations and Management Contract

Subsequent to balance date the Group signed a contract with Trustpower to manage its generation operations other than for Mangahao (this station is already managed by Trustpower under a separate contract). The contract commenced on 22 May 2017 and on that date KCE Generation employees transferred to Trustpower. The Group pays a fixed annual fee for defined routine maintenance tasks and pays for other maintenance on a time and materials basis. It is anticipated that the cost of the new regime will be very similar to current costs but it will bring the advantage of access to a sophisticated asset management system and a greater depth of specialist engineering knowledge. The small size of the Generation operation limited internal expertise and systems and created a significant dependence on external consultants and contractors.

Shareholder Arrangements

The Group has been advised that its two largest shareholders, Trustpower and The King Country Electric Power Trust have commenced discussion between themselves as to the future of the Group. These discussions refer to the ongoing shareholding structure of the Group and don't cover its day to day operations. However if a new ownership structure is agreed a decision flowing from such an arrangement could be an agreement to alter the nature and extent of the operations undertaken by the Group. Certain directors of the Parent are party to these shareholder discussions and have kept the independent directors informed of progress. The possible financial impact remains unknown.





Chartered Accountants

Independent Auditor's Report to the Shareholders of King Country Energy Limited

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of King Country Energy Limited (the "Company") and its subsidiaries (together, the "Group") on pages 10 to 42, which comprise the consolidated statement of financial position of the Company and Group as at 31 March 2017 and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended of the Company and Group, and the notes to the consolidated financial statements including a summary of significant accounting policies.

In our opinion, the consolidated financial statements on pages 10 to 42 present fairly, in all material respects, the consolidated financial position of the Company and Group as at 31 March 2017 and its consolidated financial performance and cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

This report is made solely to the company's shareholders, as a body. Our audit has been undertaken so that we might state to the company's shareholders those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's shareholders as a body, for our audit work, for this report, or for the opinions we have formed.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report.

We are independent of the Company and Group in accordance with Professional and Ethical Standard 1 (revised) Code of Ethics for Assurance Practitioners issued by the New Zealand Auditing and Assurance Standards Board, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other than in our capacity as auditor we have no relationship with, or interest in, the company or any of its subsidiaries. Partners and employees of our firm may deal with the Company and Group on normal terms within the ordinary course of trading activities of the business of the Company and Group.

Information Other than the Financial Statements and Auditor's Report

The directors of the company are responsible for the Annual Report, which includes information other than the consolidated financial statements and auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained during the audit, or otherwise appears to be materially misstated.

If, based upon the work we have performed on the other information obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.



Directors' Responsibilities for the Financial Statements

The directors are responsible, on behalf of the entity, for the preparation and fair presentation of the consolidated financial statements in accordance with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing on behalf of the entity the Company and Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company and Group or cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (New Zealand) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

A further description of our responsibilities for the audit of the consolidated financial statements is located at the External Reporting Board website: <https://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities>. This description forms part of our auditor's report.

A stylized, handwritten-style signature of 'Ernst & Young' in black ink.

Wellington
16 June 2017



King Country Energy

Phone 0800 523 637 | **Email** enquiry@kce.co.nz | **Web** www.kce.co.nz

Fax 07 896 6036 | **Postal Address** PO Box 363, Taumarunui 3946

Registered Office Corner Manuaute & Miriama Streets, Taumarunui 3946

Share Registry Link Market Services, PO Box 91976, Victoria Street West, Auckland 1142 | **Phone** 09 375 5998 | **Fax** 09 375 5990