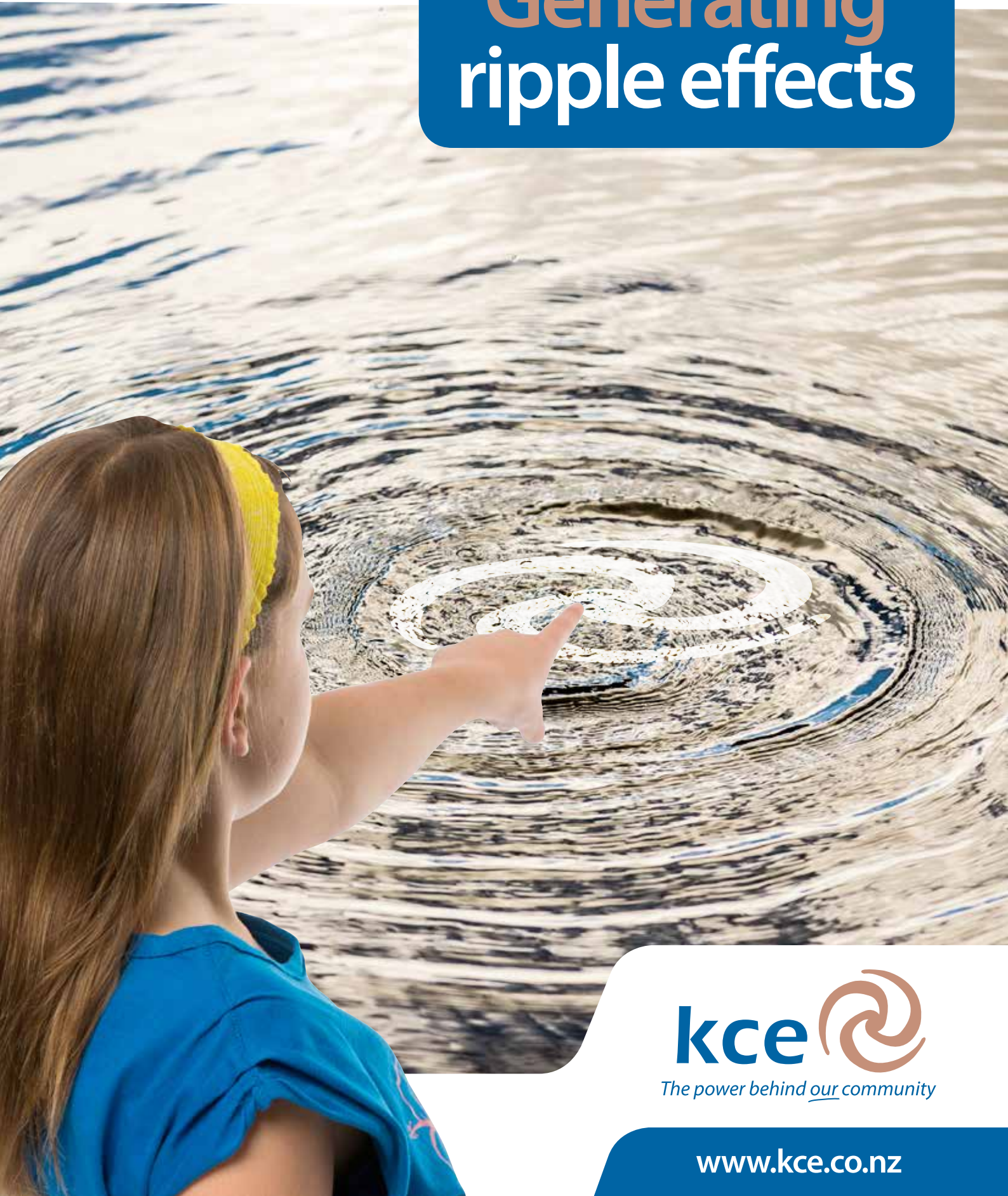


ANNUAL REPORT 2013

Generating ripple effects



The power behind our community

www.kce.co.nz

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We would like to extend a special thank you to our KCE customers and their children who provided us with their lovely images for this annual report. Notably, young Brie Donovan of Taumarunui who is on our front cover, and Natasha Robertson, also of Taumarunui, and her son on page one.

Creating a Ripple Effect

rip·ple [rip-uhl]

verb

(of a liquid surface) to form small waves or undulations, as water agitated by a breeze.

ef·fect [ih-fekt]

noun

1. power to produce results; efficacy; force; validity; influence.
3. the state of being operative or functional; operation or execution; accomplishment or fulfillment: to bring a plan into effect.

A 'Ripple Effect' can be defined as a spreading effect, or series of effects, caused by a single action or event.

And at KCE, we consider 2012/13 to be a 'ripple effect year'.

What do we mean by that? Well, we believe this year has been an historically significant one for KCE. Most notably, our single biggest event was the acquisition of the remaining 50% of the Mangahao power scheme.

Because of this purchase, we trust that future generations will look back on the 2012/13 financial year as one where actions were taken that created positive ripple effects for many years to come.

We've included a few short stories throughout this year's annual report that show many different ways KCE is creating positive ripple effects – in our company and in our community – that will be felt by many future generations.

the numbers

13c

DIVIDEND

Partly imputed (to 2.7c per share) final dividend to be paid on 5 August 2013. 12c unimputed final dividend to 31 March 2012 paid on 5 August 2012.

\$13.5
MILLION

EBITDAF*

\$11.1m for the year ended 31 March 2012.

\$2.2
MILLION

NPAT

\$5.3m for the year ended 31 March 2012.

\$11.0
MILLION

NET OPERATING CASHFLOW

\$10.6m for the year ended 31 March 2012.

207
GWh

RETAIL SALES

201 GWh for the year ended 31 March 2012.

164
GWh

GENERATION VOLUME

131 GWh for the year ended 31 March 2012.

* **EBITDAF** - Earnings before Interest, Tax, Depreciation, Amortisation and Fair Value adjustments. EBITDAF is considered a better measure of the underlying operating performance of the business as it represents earnings of the business before non-cash accounting adjustments.

Calculation (\$000):

Net Profit After Tax	2,185
Income Tax	1,543
Net Interest	1,051
Depreciation and amortisation	5,475
Fair Value adjustments	3,269
EBITDAF	13,523

Generating for the Future

KCE is now the 100% owner of the Mangahao power scheme, located near Shannon in the Manawatu.

This purchase was hugely significant for our company because our increased generation capacity helps us narrow the gap between the volume of electricity we generate and the volume of electricity required to meet our retail customers' commitments.

Historically, we've managed this shortfall by entering into hedge contracts. The illiquid nature of the hedge market introduces uncertainty regarding the cost of future supply for a significant proportion of our existing business.

The acquisition of the remaining half of Mangahao decreases our reliance on hedges from approximately

50% to around 30%. The expected benefits that will help improve KCE's performance over time include:

1. The 65GWh of additional electricity generation provides a solid platform for our retail business to grow. This year we've already started a targeted, sustainable sales strategy to reach new customers in new markets.
2. The acquisition provides increased pricing certainty and allows for more stable profitability.
3. The purchase creates a more efficient balance sheet and provides KCE with the ability to maximise future shareholder value.

The Mangahao purchase . . . it was a significant event that our shareholders, our customers and our community will see the ripple effects of for many years to come.



Chairman's Report 2013

The financial year to 31 March 2013 has been a mixed one for KCE.

The year marked the successful acquisition of the Mangahao power station and, overall, produced very good results until the last quarter when the biggest drought in the North Island for 75 years impacted our hydro station's production.

The 2013 financial result is below expectations due to the drought; setting this event aside however the underlying fundamentals of the business remain strong.

The following is a summary of the year's financial performance.

Mangahao Acquisition

During the year, KCE completed the purchase of the remaining 50% share of the Mangahao power station from Todd Energy Limited for \$70 million.

This acquisition was a significant milestone for KCE in its objective to reduce reliance on the wholesale electricity market as a source of wholesale supply. The acquisition enhances our generation portfolio and provides a more stable supply base to grow our retail business.

Health and Safety

KCE strives to achieve a high standard in Health and Safety Environment (HSE) practice, and has an excellent track record to date.

The Ministry of Business, Innovation and Employment (MBIE) and the Institute of Directors in New Zealand (IOD) have recently published the Good Governance Practices Guideline for Managing Health and Safety Risks. These are guidelines for directors and companies on managing HSE risks ahead of planned changes to New Zealand's HSE legislation, following the report of the Royal Commission on the Pike River Coal Mine Tragedy and other significant HSE failings in New Zealand.

KCE's board and management have made a commitment to best practice governance of HSE for our employees and stakeholders. This will start with a review of the KCE Health and Safety

Policy and Procedures to ensure that KCE has appropriate systems and reporting measures in place.

Financial Performance

KCE's consolidated net profit after tax and before revaluations was \$2.2 million for the year ending 31 March 2013. This represents a decrease of 58% compared with \$5.3 million recorded last year. During the year the forecast energy price path has trended down from previous levels resulting in the negative impact of the fair value adjustments for financial instruments of \$3.3m

Reported earnings before interest, tax, depreciation, amortisation and fair value movements on financial instruments (EBITDAF) was \$13.5 million, an increase of 22% on last year.

Operating revenue increased to \$42.4 million compared to \$32.4 million last year, a 31% increase, mainly due to the Mangahao acquisition.

Operating expenses, including wholesale electricity purchase costs of \$34.2 million, increased 43% compared to last year. This increase was primarily driven by increased electricity market settlements for the year and operating costs and depreciation associated with the full ownership of Mangahao.

Operating cash flow was \$11.0 million for the year – an increase of 3% from last year.

Total electricity volume sold was 207 GWh – a 3% increase on last year's volume of 201 GWh. Although competitor activity significantly increased in the past 12 months, KCE has been able to maintain its overall net sales volumes.

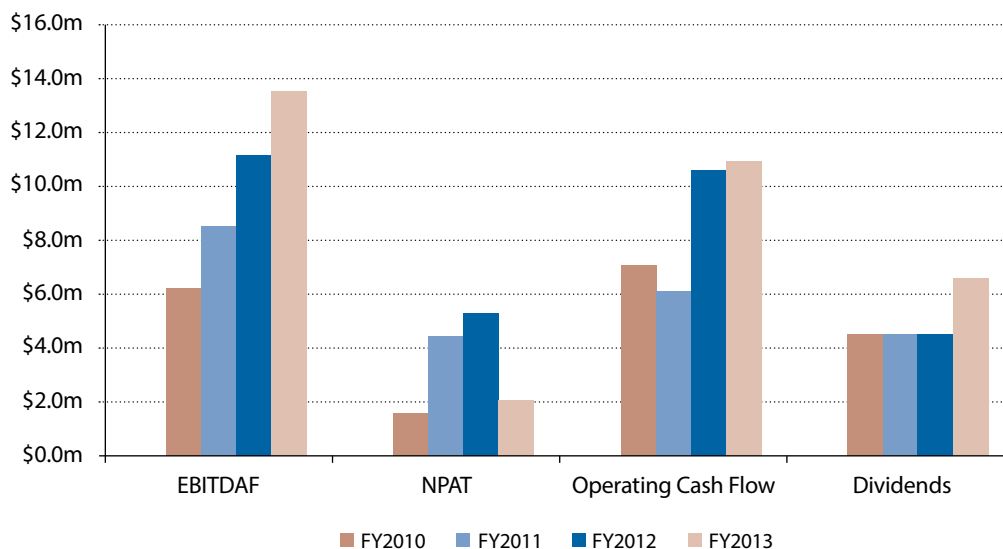
KCE's total customer numbers reduced in the period to approximately 17,500 connections, mainly as a result of increased competition in the region for our smaller domestic customers. The loss of margin contribution from these customers was not significant.

The key performance measures of EBITDAF, net profit after tax (NPAT) and operating cash flow are summarised in the chart below, together with dividend distributions:



Brian Gurney,
Chairman

Key Financial Measures



Financial Position

KCE's balance sheet as at 31 March 2013 remains strong. Shareholders' funds have increased to \$134.8 million from \$100.7 million last year. This increase is mainly due to the equity funding portion of the Mangahao power station acquisition.

Net debt at 31 March 2013 was \$25.0m, this increase is due to the debt funding portion of the Mangahao acquisition.

Governance

During the current year, Brian Needham and Toby Stevenson are due for re-election to the board by rotation. For succession planning purposes, directors will appoint Toby Stevenson as deputy chairman of the company during 2013.

Dividends

In line with the dividend policy of paying 80% of free cashflow as dividends the Directors have approved a partially imputed, final gross dividend of 15.7 cents per

share payable on 5 August 2013 (record date of the 29 July 2013). This, together with the interim, gross dividend of 14 cents per share, provides a total payment of 29.7 cents per share for the financial year to 31 March 2013.

The final dividend provides shareholders with a gross return of 29.7 cents per share - a 6.9% return based on the share price of \$4.30 at year-end.

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

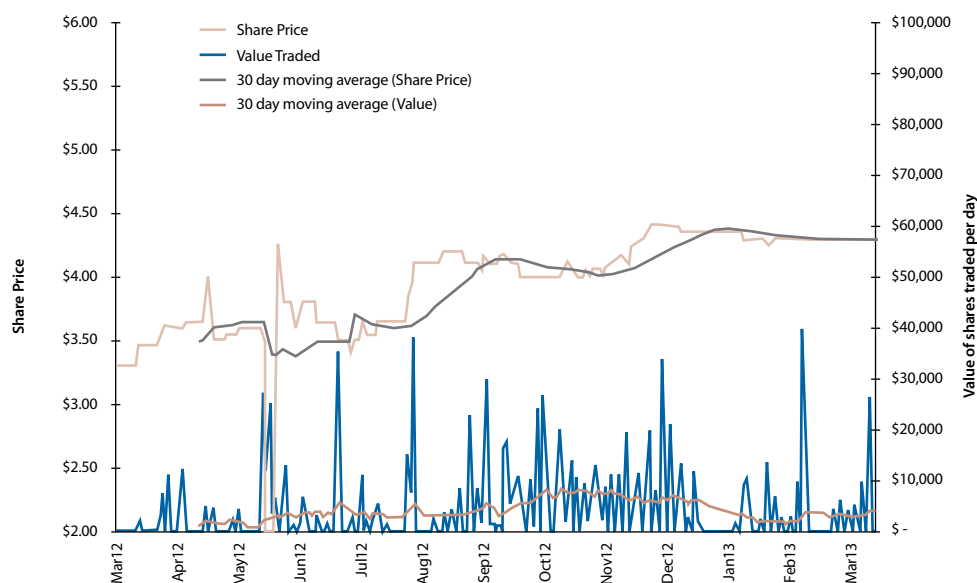
Auditors

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

Share Price

The share price over the 12 months traded in the range of \$3.61 to \$4.41 and closed at \$4.30. The following chart shows the historic trading pattern.

Share Price and Value Traded for the past 12 months



Future Outlook

Moving to full ownership of the Mangahao power station was an important milestone for the company in its growth ambitions. The benefits of the acquisition will continue to positively impact KCE as it is able to expand its retail base without sole reliance on the wholesale electricity market for expansion supply.

The industry continues to evolve and is currently in an oversupply position, which coupled with increased regulatory uncertainty following the recent Labour / Greens energy policy announcement, creates a challenging commercial environment to achieve our growth aspirations. The Board and management remain dedicated to keeping ahead of these challenges and generating positive returns for shareholders.

The directors are pleased with the progress of the company, that has delivered on the planned strategy communicated to shareholders in previous reports. The Board and management team are optimistic about the year ahead and the opportunities in front of us.

The board would like to thank KCE staff for their dedication and perseverance this year, especially the successful completion of the Mangahao acquisition. The results highlight the depth and breadth of our peoples' experiences and we remain confident our staff can lead the company into the next phase of growth and development.

I would like to thank my fellow directors for their continued cooperation and professional judgement and all the company staff for their service and dedication to the company.

And finally, I would like to thank you, our shareholders, for your continued support and loyalty as we strive to develop and grow our business.

Brian Gurney
Chairman

Board of Directors

Mahadevan Bahirathan
Director

Toby Stevenson
Director

Brian Gurney
Chairman

Brian Needham
Director

Stephen Armstrong
Director

Building Foundations

Our retail team spent this financial year building solid foundations that will allow us to maximise future growth opportunities the additional generation capacity from Mangahao provides.

We've grown our sales team, including staff appointments outside our traditional trading area, to allow us to enter new markets with people who have local knowledge.

We've also grown our customer service team and one of our most exciting initiatives has been the establishment of a new initiative: a Customer Service Advocate.

KCE has always had a unique, personalised approach to our customer service model. And, our new Customer Service Advocate adds a whole new level. This person assists customers, primarily elderly consumers and disadvantaged families, to explain invoice concerns and answer queries about power. In fact, handling these customer queries often involves visiting customers in their homes.

Our Customer Service Advocate has been extremely well-received with around 600 customers assisted last year, resolving 100% of their concerns.

Meanwhile, our core customer service team continues doing a great job. Here are some key facts about their achievements this year:

- 30,000 calls were answered.
- 3.3 minutes was our average call time.
- 90% of calls were answered within 5 rings.
- On average, calls were answered within 8 seconds.
- 96% of all calls were answered this year, up from 94% last year. This 4% 'lost call rate' is comparable to some of New Zealand's best calls centres.
- KCE does not have an IVR (interactive voice response) phone system, which means each call is answered personally.
- A high proportion of our customers, 64%, recently surveyed said they are likely to recommend KCE to their friends.

For our retail team, our number one focus continues to be excellent customer service. Our team is creating positive ripple effects that continually improves our brand perception and builds customer loyalty.

Retail Team



Chief Executive Officer's Report

Mangahao Acquisition

On 1 June 2012 KCE completed the purchase of the remaining 50% share of the Mangahao power station from Todd Energy Limited for \$70 million. This acquisition and its resulting benefits positively impacted the business during the current financial year.

The four key benefits the acquisition provides KCE are:

1. Giving our retail business a solid growth platform

- KCE's objective is to grow its retail customer base and the acquisition provides an additional energy source to enable expansion.

2. Reducing electricity supply price risk

- The acquisition reduced KCE's proportional exposure to the electricity hedge market, providing increased pricing certainty and allowing for more stable profitability.

3. Creating a more efficient balance sheet

- Introducing a conservative amount of debt provides KCE with balance sheet efficiency (15.8% of Debt : Debt plus Equity), while still retaining additional debt capacity for future acquisitions.

4. Increasing our ability to maximise future shareholder value

- KCE aims to increase returns to shareholders and the acquisition provides a projected increase in free cash flow per share to existing shareholders over and above expected levels pre-acquisition.

See 'Generating for the Future', page 2 for more on the benefits of acquiring 100% of Mangahao.

National Market Situation

Nationally, hydro storage levels were below average for the financial year, except for a period in spring 2012 and the early part of summer. Inflows for the twelve month period were variable.

The charts on page 8 highlight the hydrology situation relative to previous years.

Generation

Generation this financial year was impacted significantly by low inflows in the third quarter and by the drought in the last quarter, which was the worst on record for the past 75 years. In total, KCE's output was 11% lower than the long-term average, the effect and seasonality of KCE generation production is demonstrated on the Generation Performance chart on page 9.

The low inflow patterns in the second half of the year resulted in an extended period of elevated wholesale electricity spot prices in late summer, which was unfavourable to KCE.

In total for the year, KCE produced 164 GWh - our King Country sites generated 55 GWh and Mangahao generated 109 GWh.

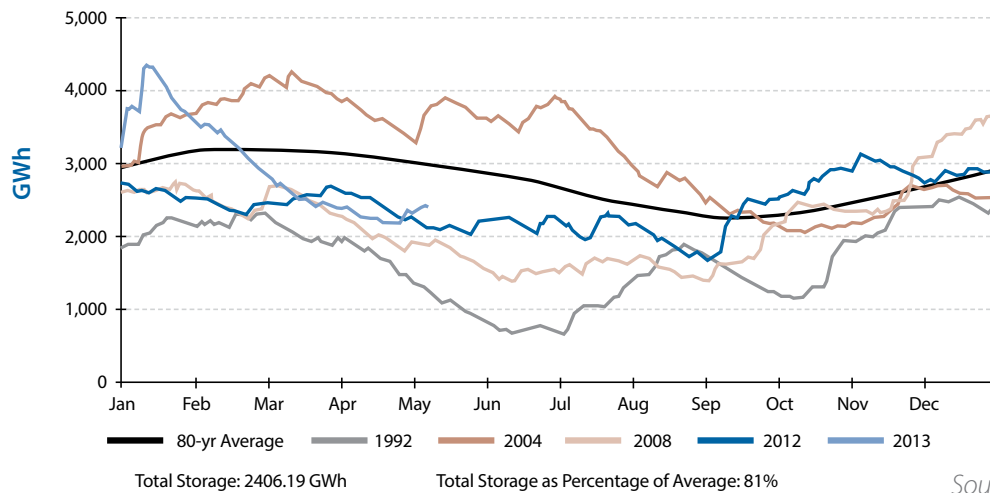
The average price achieved by our generation stations was \$76.54 per MWh for spot market sales, compared to a market average of \$71.51 per MWh. As in previous years, the spot price profile was considerably different than projected with lower prices in winter and significantly higher prices in March 2013.

The chart on page 9, titled 'Supply and Demand Volumes' highlights the effect of the actual spot price compared to the projected price, as well as the monthly output of our generation assets relative to demand.

*Rob Foster,
Chief Executive
Officer*

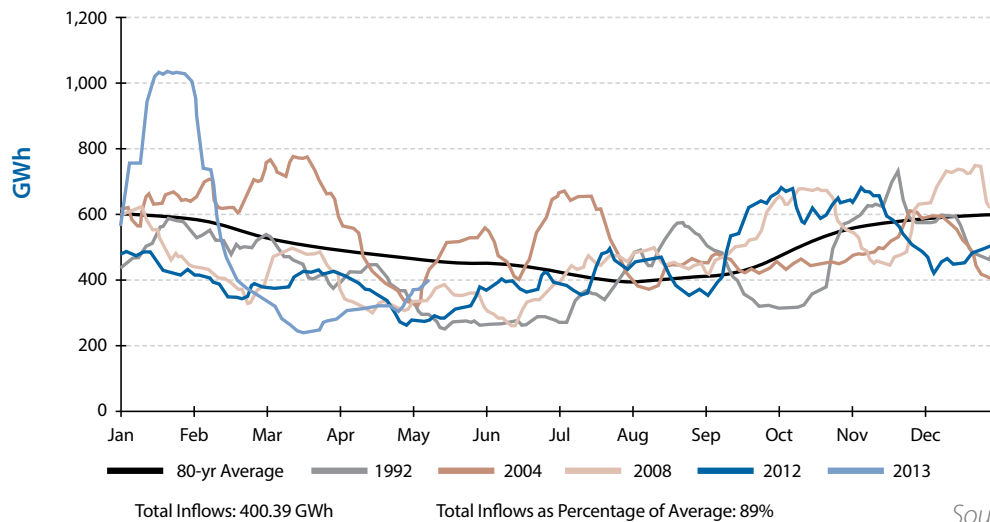


New Zealand Daily Storage



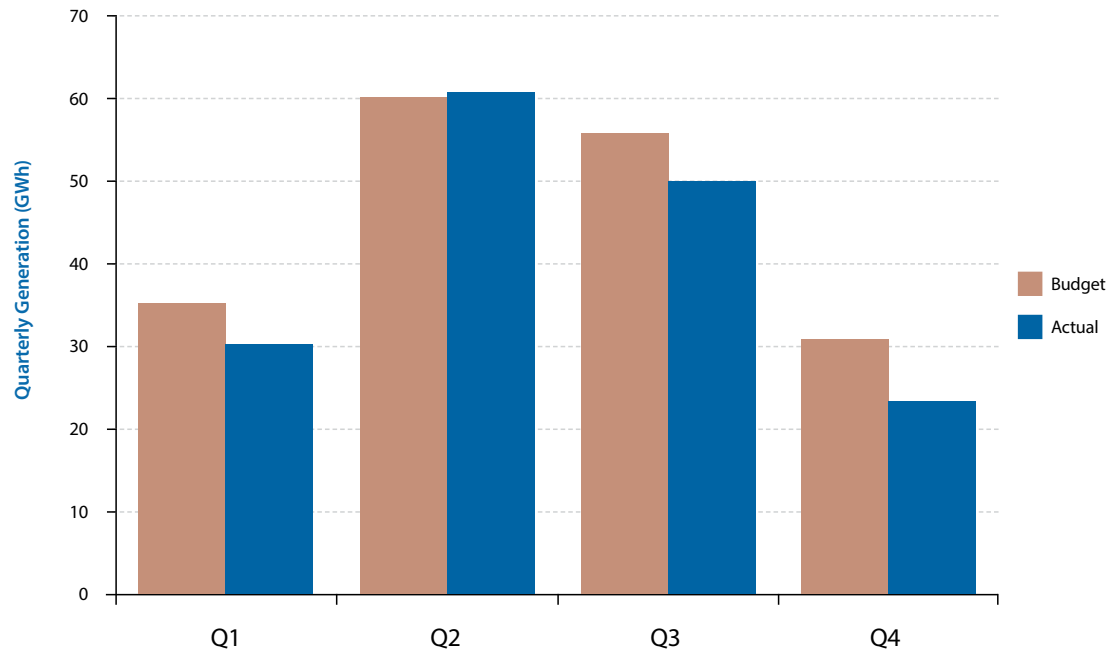
Source: NIWA

New Zealand Weekly Inflows - 30 day average

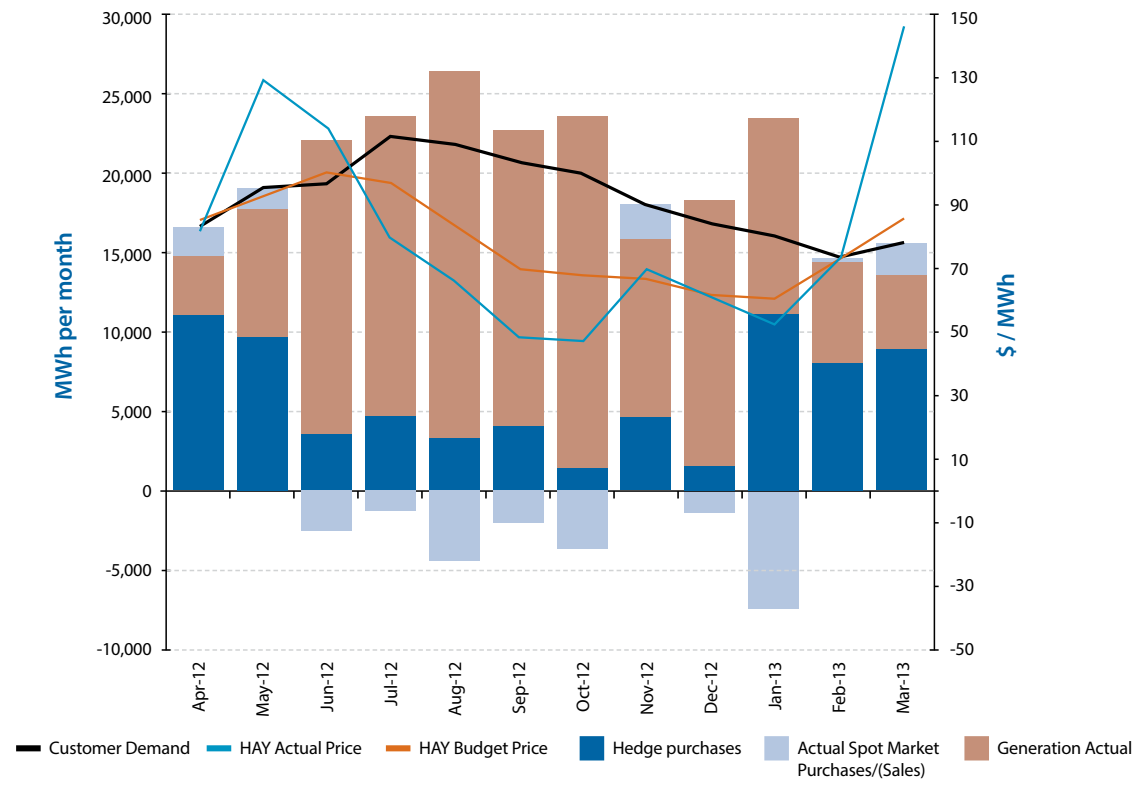


Source: NIWA

FY 2013 Generation Performance



Supply and Demand Volumes



Our generation team continues to actively manage KCE's asset base to preserve value for the future, and took advantage of the low hydrology period to complete maintenance works that require dewatering of the schemes. Generation maintenance works for the year included:

- Mangahao number 2 dam bypass gate
- Kuratau canal screen cleaner upgrade
- Piriaka canal weir maintenance
- Kuratau surge chamber seismic strengthening
- Wairere head gates overhaul

Additionally, Mangahao's main unit runner manufacture is now complete, following some delays to the original timetable. Installation of the new unit is expected to occur later in 2013.

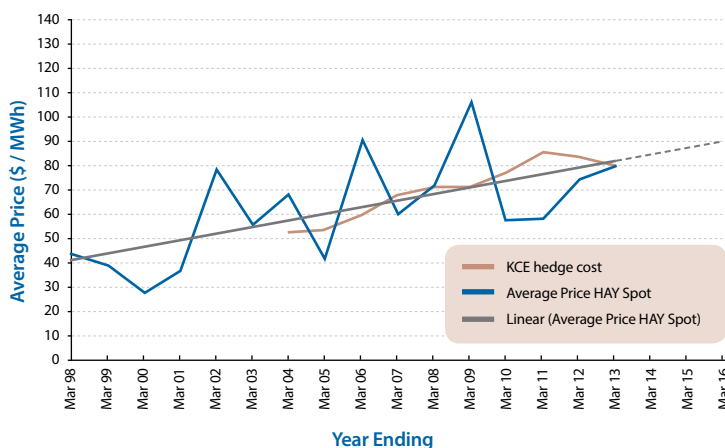
This year our Generation team took time out, for the second year in a row, to provide local school children with a behind-the-scenes look at a few of our generation assets. See 'Paying it Forward' on page 13 for more information.

Hedging

KCE continues to hedge expected exposure to the wholesale electricity market under dry-year conditions.

During the year, some of the company's hedge contracts expired and were replaced with new ones. The chart below shows the average, annual wholesale spot price since 1998. The linear trend line tracks the long-term wholesale electricity price. This chart highlights that, over the long-term, the wholesale electricity price has increased at approximately 5% per year since 1998.

Average Wholesale Electricity Price



KCE generally buys hedges two years in advance of usage and this policy reduces our exposure to volatility from year to year. The previous chart also shows that KCE has historically hedged its forward market exposure at prices equivalent to the long-term spot price trend line.

KCE's exposure to the hedge market continues to be a risk for the business. One of our strategic goals is to reduce this exposure, which the Mangahao acquisition is helping us to achieve.

Retail Operations

KCE maintained its strong retail position in its traditional trading area across all market segments. Additionally, our team began a targeted, sustainable entry into adjacent geographic markets.

Retail sales volumes increased to 207 GWh for the year from 201 GWh in the previous period.

Our commitment to maintaining a high standard of customer service continues to keep customer churn rates to minimal levels at just 12%, significantly below the national average churn rate of 35%. We've also had an active win back programme which achieved a return rate of 49% of all customers who requested to switch suppliers this year.

Going forward, KCE will continue protecting our market position within our traditional trading area while increasing our focus on providing competitive offers to new customers who can contribute favourably to the company's marginal earnings.

Community Support

As the leading electricity retailer in our region, KCE is literally the power behind our community and we take this responsibility seriously. The health and wellbeing of our customers and providing support to our young people remain important values to us.

All in all, KCE provided financial support to 39 organisations throughout our region this year. Some received small donations, while others received larger grants. KCE is the only electricity retailer that supports local community initiatives in the King Country at a significant level, and local sponsorship continues to be a successful marketing strategy for us.

This year we renewed our sponsorship of the KCE Taumarunui, Otorohanga and Maniapoto Netball Centres. This key sponsorship continues to strengthen the sport of netball throughout our region, while raising KCE's profile in those districts.

See 'Building Community' on page 14 for more about our community support this year.

Looking Forward

The results for the 2013 financial year were disappointing due to the impact of the extreme drought conditions.

However, despite this negative weather impact, KCE performed well in an increasingly challenging market environment.

Our combination of:

- appropriate pricing strategies,
- attention to customer care,
- community focus,
- risk-averse management policies, and
- competent and well trained staff

provides us with the ability to continue outperforming our competitors and maintain our position as 'retailer of choice' in our region.

Finally, I would like to acknowledge and thank our dedicated staff for their hard work during the past year. KCE has a top-quality team who remains the greatest asset for our business, and our shareholders can be proud to support them.

My team and I look forward to the coming year and remain focused on building upon what we have achieved to date and delivering results and value for you, our shareholders.



Rob Foster
Chief Executive Officer

Management Team



Chris Fincham
Energy Supply Manager

Jeremy King
Chief Financial Officer

Rob Foster
Chief Executive Officer

Helen Peacock
Retail Business Manager

Vladimir Kabanov
Generation Operations Manager



Wairere power station

Paying it Forward

For the second year running, KCE's generation team took some time out of their busy schedules to 'pay it forward' through our school education programme.

Every November, KCE invites local schools to tour one of our power stations, where our generation team provides information about power generation.

This year, around 110 students from King Country schools toured KCE's Piriaka and Wairere power stations. The children learned everything from how KCE turns water into electricity to how elvers (baby eels) swim upstream safely through some of our power schemes.

And it's not just the kids who enjoy the tours – the KCE generation team does too. It was great for us to take time out to educate school children about the basics around electricity generation - including safety to environmental issues.

We send them away with a bit more understanding about what happens behind the scenes in order to turn a light bulb on at the flick of a switch.

And this year, we even had some children saying they thought it would 'be cool' to work at KCE someday. It's good to know there are some young recruits in the local community eager to fill the shoes of our generation team!

KCE's school education programme – it's just one more way we are creating positive ripple effects for future generations.



Building Community

KCE's company purpose is to 'make life easier for our community.'

Flowing on from this purpose, KCE believes it is our corporate responsibility to support a wide range of organisations to enhance the health and well-being of local people.

This past year, KCE supported 39 community groups through our sponsorship fund. We are the only electricity retailer that supports local community initiatives to this level in the King Country region.

And our support takes many different forms . . . from providing a few hundred dollars to local events like the Kakahi Rodeo or Turangi Churches Christmas lunch, to providing more significant support to our three local Netball centres to which we have naming rights.

However, no matter what the level of support, we know our sponsorship is making a real difference. Each and every one of the 39 organisations we supported this year positively impacted the lives of many – and that's important to us.

That means our sponsorship dollar is multiplying - like a ripple effect - and working in partnership with great organisations to do good things that effect the health and well-being of people throughout our region.



Marea Hickling



Dy Smith

Anna Goskova

“...no matter what the level of support, we know our sponsorship is making a real difference.”

Volunteers at the Taumarunui Community Christian Food Bank, a recipient of KCE sponsorship funding.

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 13 full meetings during the year. As required, the board holds other meetings to discuss substantial projects or material changes in circumstances that may arise.

The board operates a hedging sub-committee consisting of two directors: Babu Bahirathan and Toby Stevenson. This sub-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 sub-committee, which has three directors as members: Brian Gurney, Steve Armstrong and Toby Stevenson. The role of this sub-committee is to:

- review and recommend to the board the overall remuneration policy and annual review process for directors and senior executives of the company.
- 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 year to 31 March 2013	For year to 31 March 2012
B J Gurney –Chairman	13	7
S R Armstrong	13	7
M Bahirathan	12	6
B L Needham	12	7
T W Stevenson	13	7
Meetings scheduled	13	7

Directors' Remuneration

	For year ended 31 March 2013	For year ended 31 March 2012
B J Gurney	\$43,080	\$41,400
S R Armstrong	\$30,640	\$29,400
M Bahirathan	\$30,640	\$29,400
B L Needham	\$35,640	\$29,400
T W Stevenson	\$40,640	\$29,400
	\$180,640	\$159,000

Directors fees for 2013 include recognition of the additional input of Directors in relation to the Mangahao acquisition.

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 Policies

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 paid insurance premiums totaling \$24,250 (2012: \$15,000) relating to directors and officers liability insurance policies. The policies do not specify the premiums for individual directors and officers.

Directors' Shareholdings

	Number Held at 31 March 2013	Number Held at 31 March 2012
B J Gurney beneficial interest	4,730	4,730
B J Gurney non-beneficial	4,482,398	3,749,990
B L Needham - beneficial interest	4,262	4,262

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.

Other Directorships

Brian John Gurney (Chairman)

Chairman – King Country Electric Power Trust

Mahadevan Bahirathan

Nova Energy Ltd, Crest Energy Ltd, BMG Group Ltd,
Nova Energy Solar Ltd, Solar Heating Solutions Ltd

Brian Leslie Needham

No Other Directorships

Toby William Stevenson

Lulu Holdings Ltd, TWS Consulting Ltd

Stephen Robert Armstrong

Todd Carbon Ltd, Solar Heating Solutions Ltd,
Rabjaks Ltd, Moody Creek Ltd, Nova Energy Solar
Ltd, Todd Petroleum Australia Ltd, Todd Exploration
Ltd, Todd Tasman Oil Ltd, GXL Royalties Ltd,
Todd Shipping Ltd, Viking Holdings Ltd, Todd
Energy Ltd, Todd Coal Ltd, Todd Maari Ltd, Viking
Mining Company Ltd, Todd Pohokura Ltd, Viking
Investments Ltd, Shell Todd Oil Services Ltd,
Liquigas Ltd, Todd Services Ltd, Todd LC Holdings
Ltd, Todd Property Group Ltd, Todd Winegrowers
Ltd, Tio (NZ) Ltd, Todd Capital Ltd, Todd Petroleum
Mining Company Ltd, Todd Minerals Ltd, CM
Platform Ltd, Todd Central Ltd, Tio (NZ) Ltd, Todd
Energy International Ltd, Todd LHS Ltd, TTI (NZ)
Ltd, Heriot Nominees Ltd, Nova Energy Ltd, TSL
Methanol Ltd, Marokopa Drilling Ltd.

Twenty Largest Shareholders

The names of the twenty largest shareholders as at 31 March 2013 are listed below:

Name	Number Held	% (of total shares on issue)
Nova Energy Limited	13,685,521	51.9
King Country Electric Power Trust	3,749,990	14.2
King Country Energy Limited	1,067,197	4.1
N J Annand & B J Gurney & G S Cosford	732,408	2.8
H & G Limited	288,264	1.1
JBWere (NZ) Nominees Limited	199,730	0.8
Leveraged Equities Finance Limited	164,774	0.6
P K Guy & A E Guy & J E C Anderson	114,000	0.4
A D Maxwell	76,456	0.3
ASB Nominees Ltd	74,000	0.3
A J Nation & S C Nation & P G Brown	56,870	0.2
A J Nation & J D Hammond & T A Nation	42,164	0.2
S C Nation & J A Nation & K J Young	42,163	0.2
R J Gillatt	35,917	0.1
Custodial Services Limited 1 – 3	32,497	0.1
Orange Nominees Limited	29,170	0.1
West Coast Capital	27,929	0.1
Forsyth Barr Custodians	27,668	0.1
J M Clark & A R Gough	25,000	0.1
JBWere (NZ) Nominees Ltd	25,000	0.1
	20,496,718	77.7

The distribution of the shareholdings as at 31 March 2013 is as follows:

Holdings Ranges	Holders	Total Shares	%
1-1,000	5,553	2,439,779	9.3
1,001-5,000	1,505	2,554,431	9.7
5,001-10,000	55	434,302	1.7
10,001-100,000	41	949,078	3.6
100,001-10,000,000	8	20,001,884	75.8
	7,690	26,379,474	100.0

Employee Remuneration

Employees who received remuneration and other benefits during the year ended 31 March 2013 exceeding \$100,000 were:

Continuing Employees:

Remuneration Range	Number of Employees	
	2013	2012
\$100,000 - \$110,000		
\$110,000 - \$120,000		
\$120,000 - \$130,000	1	2
\$130,000 - \$140,000		1
\$140,000 - \$150,000	2	
\$160,000 - \$170,000		1
\$190,000 - \$200,000	1	
\$280,000 - \$290,000		
\$320,000 - \$330,000		1
\$350,000 - \$360,000	1	

Donations

Donations of \$3,817 were made during the year ended 31 March 2013 (2012: 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.

The Directors are pleased to present the financial statements of King Country Energy Limited and Group for the year ended 31 March 2013

The Directors are responsible for ensuring that the financial statements give a true and fair view of the financial position of the Group as at 31 March 2013 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 1993.

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 21 to 54, for issue on 14 June 2013.

For and on behalf of the Board



Brian Gurney
Chairman



Toby Stevenson
Director

KCE Financial Statements

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Statement of Comprehensive Income

FOR THE YEAR ENDED 31 MARCH 2013

	Note	Group		Parent	
		31.03.13 \$'000	31.03.12 \$'000	31.03.13 \$'000	31.03.12 \$'000
Operating Revenue	1	42,416	32,355	6,100	7,331
Operating Expenses	2	(34,236)	(23,964)	(3,477)	(2,867)
Mokau Consent Costs		-	85	-	-
Financing Costs		(1,183)	(77)	(1,183)	(104)
Total Expenses		(35,419)	(23,956)	(4,660)	(2,971)
Profit Before Financial Instruments Gains & Losses		6,997	8,399	1,440	4,360
Fair Value Movement on Derivatives	9	(3,269)	(646)	105	-
Profit Before Tax Expense		3,728	7,753	1,545	4,360
Income Tax Expense	3	(1,543)	(2,489)	759	722
Profit After Tax Expense		2,185	5,264	2,304	5,082
Other Comprehensive Income:					
Revaluation Gain on Land, Buildings and Generation Plant		12,352	20,029	4	-
Income Tax Expense on Items of Other Comprehensive Income	3	(2,851)	(5,309)	1	1
Other Comprehensive Income for the Period Net of Tax		9,501	14,720	5	1
Total Comprehensive Income for the Period		11,686	19,984	2,309	5,083

All reported Revenues, Expenses and Profit After Tax are attributable to the owners of King Country Energy Ltd.

Earnings per share (Basic and Diluted) from continuing operations attributable to the ordinary equity holders of the company	17	\$0.09	\$0.28	-	-
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The above Statement of Comprehensive Income should be read in conjunction with Notes to the Financial Statements on pages 32 to 54.

Statement of Changes in Equity

FOR THE YEAR ENDED 31 MARCH 2013

	Note	Group		Parent	
		31.03.13 \$'000	31.03.12 \$'000	31.03.13 \$'000	31.03.12 \$'000
Opening Equity		100,676	85,192	31,790	31,207
Total Comprehensive Income Attributable to Owners		11,686	19,984	2,309	5,083
Issue of Ordinary Shares Mangahao Purchase	4	36,240	-	36,240	-
Purchase of Treasury Stock	5	(7,190)	-	(7,190)	-
Dividends Paid to Shareholders	18	(6,581)	(4,500)	(6,581)	(4,500)
Balance at the End of the Year		134,831	100,676	56,568	31,790
Reconciliation of Movement in Equity					
Share Capital					
Opening Balance		26,267	26,267	26,267	26,267
Issue of Shares Mangahao Purchase		36,240	-	36,240	-
Balance at the End of the Year	4	62,507	26,267	62,507	26,267
Treasury Stock Reserve					
Purchase of Shares		(5,069)	-	(5,069)	-
Transaction Costs		(2,121)	-	(2,121)	-
Balance at the End of the Year	5	(7,190)	-	(7,190)	-
Asset Revaluation Reserve					
Opening Balance		66,146	51,426	331	330
Other Comprehensive Income		9,501	14,720	5	1
Balance at the End of the Year	5	75,647	66,146	336	331
Retained Earnings					
Opening Balance		8,263	7,499	5,192	4,610
Profit/(Loss) for the Year		2,185	5,264	2,304	5,082
Ordinary Dividends Paid	18	(6,581)	(4,500)	(6,581)	(4,500)
Balance at the End of the Year	6	3,867	8,263	915	5,192
Closing Equity		134,831	100,676	56,568	31,790

Balance Sheet

FOR THE YEAR ENDED 31 MARCH 2013

		Group		Parent	
	Note	31.03.13	31.03.12	31.03.13	31.03.12
		\$'000	\$'000	\$'000	\$'000
Shareholders' Equity:					
Share Capital	4	62,507	26,267	62,507	26,267
Reserves	5	68,457	66,146	(6,854)	331
Retained Earnings	6	3,867	8,263	915	5,192
Total Equity		134,831	100,676	56,568	31,790
Represented by:					
Current Assets:					
Cash & Bank Balances		360	11,180	360	11,163
Trade & Other Receivables	7	3,584	3,852	187	53
Income Tax Receivable		-	-	2,206	2,465
Derivative Financial Instruments	9	-	423	-	-
Intercompany Balances	15	-	-	67,464	3,772
Total Current Assets		3,944	15,455	70,217	17,453
Non-Current Assets:					
Plant, Property & Equipment	8	190,053	111,612	1,169	1,343
Derivative Financial Instruments	9	111	-	111	-
Investment in Subsidiaries	10	-	-	14,300	14,300
Intangible Assets	11	1,965	2,132	387	542
Total Non-Current Assets		192,129	113,744	15,967	16,185
Total Assets		196,073	129,199	86,184	33,638
Current Liabilities:					
Trade & Other Creditors		4,244	2,408	3,867	1,440
Customer Credit Balances		491	473	-	-
Borrowings	12	52	29	52	29
Employee Entitlements		270	227	126	106
Income Tax Payable		251	367	-	-
Derivative Financial Instruments	9	2,163	756	6	-
Total Current Liabilities		7,471	4,260	4,051	1,575
Non-Current Liabilities:					
Borrowings	12	25,307	-	25,307	-
Derivative Financial Instruments	9	2,030	480	1	-
Deferred Tax	3	26,434	23,783	257	273
Total Non-Current Liabilities		53,771	24,263	25,565	273
Total Liabilities		61,242	28,523	29,616	1,848
Net Assets		134,831	100,676	56,568	31,790

The above Balance Sheet should be read in conjunction with Notes to the Financial Statements on pages 32 to 54.

Statement of Cash Flows

FOR THE YEAR ENDED 31 MARCH 2013

Note	Group		Parent	
	31.03.13 \$'000	31.03.12 \$'000	31.03.13 \$'000	31.03.12 \$'000
Cash Flows from Operating Activities				
Cash was Received from:				
Electricity Receipts from Customers	37,785	29,273	-	-
Interest Received	144	262	1,711	331
Other Receipts from Customers	3,451	1,813	-	2
Settlement of Derivatives	97	(28)	-	-
	41,477	31,320	1,711	333
Cash was Applied to:				
Payment for Electricity	(16,591)	(11,912)	-	-
Settlement of Derivatives	(93)	(669)	-	-
Payment for Line Charges	(1,961)	(1,384)	-	-
Payment to Other Suppliers	(5,847)	(4,117)	(2,038)	(1,005)
Payments to Employees	(2,920)	(2,561)	(1,309)	(1,261)
Income Tax Paid	(1,858)	-	(1,858)	-
Interest on Borrowings	(1,257)	(77)	(1,257)	(104)
	(30,527)	(20,720)	(6,462)	(2,370)
Net Cash Inflow/(Outflow) from Operating Activities	10,950	10,600	(4,751)	(2,037)
Cash Flows from Investing Activities				
Cash was Received from:				
Net Advances from Subsidiaries	-	-	(19,382)	12,346
Sale of Fixed Assets	26	11	20	3
	26	11	(19,362)	12,349
Cash was Applied to:				
Mangahao Assets Purchase	(33,963)	-	-	-
Fixed Assets Purchases	(1,284)	(974)	(141)	(680)
	(35,247)	(974)	(141)	(680)
Net Cash Inflow/(Outflow) from Investing Activities	(35,221)	(963)	(19,503)	11,669
Cash Flows from Financing Activities				
Cash was Received from:				
Borrowings	25,200	-	25,200	-
Finance Leases	131	-	131	-
	25,331	-	25,331	-
Cash was Applied to:				
Purchase of Issued Share Capital	(5,299)	-	(5,299)	-
Borrowings	-	(49)	-	(49)
Dividend Paid	(6,581)	(4,500)	(6,581)	(4,500)
	(11,880)	(4,549)	(11,880)	(4,549)
Net Cash Inflow/(Outflow) from Financing Activities	13,451	(4,549)	13,451	(4,549)
Total Net Cash Movement	(10,820)	5,088	(10,803)	5,083
Opening Cash & Bank Balances	11,180	6,092	11,163	6,080
Closing Cash & Bank Balances	360	11,180	360	11,163

Statement of Cash Flows

FOR THE YEAR ENDED 31 MARCH 2013

	Note	Group		Parent	
		31.03.13 \$'000	31.03.12 \$'000	31.03.13 \$'000	31.03.12 \$'000
Reconciliation with Operating Profit					
Profit after Tax per Statement of Comprehensive Income		2,185	5,264	2,304	5,082
Non Cash Items					
Loss/(Gain) on Disposal of Fixed Assets	2	63	107	51	104
Depreciation & Impairment	2	5,475	2,919	401	409
Change in Fair Value of Financial Instruments		3,269	646	(105)	-
Transfer of Tax from Subsidiaries		-	-	(2,861)	(2,725)
Increase / (Decrease) in Deferred Taxation Through Profit	3	(200)	309	(15)	(47)
Dividend from Subsidiaries		-	-	(4,400)	(7,000)
		8,607	3,981	(6,929)	(9,259)
Changes in Working Capital					
Increase / (Decrease) in Employee Entitlements		43	5	20	13
Increase / (Decrease) in Tax Payable		(116)	-	-	-
(Increase) / Decrease in Tax Receivable		-	2,181	259	2,051
(Increase) / Decrease in Receivables		268	(1,088)	(134)	(22)
Increase / (Decrease) in Payables		(37)	257	(271)	98
		158	1,355	(126)	2,140
Net Cash Inflow / (Outflow) from Operating Activities per Statement of Cash Flows		10,950	10,600	(4,751)	(2,037)

The above Statement of Cash Flows should be read in conjunction with Notes to the Financial Statements on pages 32 to 54.

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.

The Group's accounting software consolidates all Accounts Payable and their payment in the Parent Company. In calculating the components of cash flows for the Parent Trade and Other Creditors balances have been notionally allocated to the Group companies incurring the liability. An amount of \$1,872,000 (2012 \$1,063,00) has been reallocated in the Increase/(Decrease) in Payables with the Reconciliation of Operating Surplus adjusted by the same amount.

REPORTING ENTITY

King Country Energy Limited is a profit-oriented company domiciled in New Zealand, registered under the Companies Act 1993 and whose shares are traded on Unlisted. King Country Energy Limited is an issuer in terms of the Securities Act 1978. 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 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 Equivalent to International Financial Reporting Standards (NZ IFRS) and the requirements of the Companies Act 1993 and the Financial Reporting Act 1993.

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 all those entities over which the Group has the power to govern the financial and operating policies so as to obtain benefits from their activities. The tests of control are the power of the Parent to appoint the majority of directors to the board of the subsidiary and determine the rights to its variable returns. 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. Dividends 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.

JOINT VENTURES

Jointly controlled entities are joint arrangements with other parties in which the Group jointly controls one or more entities and is consequently entitled to a share of their future economic benefits. The Group's interest in joint ventures comprises jointly controlled assets used to obtain benefits for the venturers. The Group takes an agreed share of the output from the assets and assumes an agreed share of the expenses incurred.

The Group's interest in joint ventures is incorporated into the Group's financial statements and has been accounted for in the Balance Sheet on the basis of the Group's proportionate interest in the fair value of each of the assets and liabilities of the joint ventures, and in the Statement of Comprehensive Income on the basis of the Group's proportionate interest in the income and expenses incurred in relation to the joint

venture. In determining the fair value of its share of the net assets and its share of net income of the joint venture, the Group applies the accounting policies set out in these financial statements. This may result in a fair value of net assets and a net income that is different from that shown by other parties to the joint venture.

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 value 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 half year and full year. 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.

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 December 2012. 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 or 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 values of goodwill and 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.

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

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.

TREASURY STOCK

Shares in the Parent acquired by any Group company are recognised at cost, including any costs of acquisition in the Treasury Stock Reserve in the Statement of Changes in Equity. The Reserve is not adjusted to reflect changes in the market value of shares held as treasury stock.

Treasury stock has been excluded from the payment and receipt of dividends.

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 2013 had been early adopted by the Group 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 before the date of their mandatory application.

NZIFRS 11 – *Joint Arrangements* – effective for periods beginning on or after 1 January 2013. This standard which potentially changes accounting for joint ventures has no effect because the purchase of the Mangahao assets from Todd Energy Ltd will bring to an end our joint venture arrangement.

NZIFRS 12 – *Disclosure of Interests in Other Entities* – effective for periods beginning on or after 1 January 2013. This standard establishes disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. Some additional disclosure has been made on adoption.

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:

NZIFRS 7 – *Financial Instruments: Disclosures* – effective for periods beginning on or after 1 January 2013. This standard introduces new disclosure requirements and will be considered as part of the review of NZIFRS 9

NZIFRS 9 – *Financial Instruments* – effective for periods beginning on or after 1 January 2015. This standard replaces part of NZIAS 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 cashflow characteristics of the financial asset. The Group is currently in the process of evaluating the potential effect of this standard.

Notes to the Financial Statements

FOR THE YEAR ENDED 31 MARCH 2013

1 REVENUE

Included in Operating Revenue are the following items:

Sales of Electricity

Derivative Income/(Expense) on Electricity Sales

Network Charges Recovered

Discount Allowed - Prompt Payment

Interest Received

Other Income

Dividends from Subsidiaries

Total Operating Revenue

2 EXPENSES

Included in Operating Expenses are the following items:

Purchase of Electricity

Derivative Expense/(Income) on Electricity Purchases

Network Charges

Transpower Charges

Depreciation - Property, Plant, Equipment

Buildings

Generation Plant

Land Improvements

Motor Vehicles

Furniture, Plant & Equipment

Computer Software

Impairment - Property, Plant, Equipment

Buildings

Generation Plant

Land Improvements

Bad Debts Written Off

Increase/(Decrease) in Estimated Doubtful Debts

Audit Fees

Repairs & Maintenance

Employee Benefits

Directors Fees & Expenses

Loss on Sale of Fixed Assets

Insurance

Other Operating Expenses

Total Operating Expenses

Group		Parent	
31.03.13	31.03.12	31.03.13	31.03.12
\$'000	\$'000	\$'000	\$'000
43,161	33,309	-	-
159	(60)	-	-
1,445	1,126	-	-
(2,653)	(2,549)	-	-
132	263	1,699	331
172	266	1	-
-	-	4,400	7,000
42,416	32,355	6,100	7,331
18,289	12,446	-	-
101	705	-	-
1,949	1,375	-	-
33	37	-	-
130	89	14	14
4,664	2,348	-	-
1	1	-	-
82	64	18	16
191	206	162	183
222	211	207	196
5,290	2,919	401	409
6	-	-	-
173	-	-	-
6	-	-	-
185	-	-	-
107	156	-	-
-	(10)	-	-
55	55	55	55
1,279	843	273	229
2,980	2,589	1,333	1,279
212	177	212	177
63	107	51	104
882	472	65	92
2,811	2,093	1,087	522
34,236	23,964	3,477	2,867

FOR THE YEAR ENDED 31 MARCH 2013

Income Tax Expense

Income Statement

Prior Period Adjustment

Temporary Differences in Current Year

Temporary Differences in Prior Years

Reported Income Tax Expense

Amounts Charged/(Credited) to Other Comprehensive Income

Deferred Income Tax Related to Items in Other Comprehensive Income

Revaluation of Property, Plant and Equipment

Depreciation of Revaluations

Reported Tax Expense on Other Comprehensive Income

Group		Parent	
31.03.13	31.03.12	31.03.13	31.03.12
\$'000	\$'000	\$'000	\$'000
1,761	2,144	(744)	(688)
(18)	36	-	13
1,743	2,180	(744)	(675)
(198)	325	(16)	(50)
(2)	(16)	1	3
(200)	309	(15)	(47)
1,543	2,489	(759)	(722)
3,331	5,607	1	-
(480)	(298)	(2)	(1)
2,851	5,309	(1)	(1)

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

Non Deductible Depreciation & Impairment

Prior Period Adjustment

Income Tax Expense

3,728	7,753	1,545	4,360
1,044	2,170	432	1,220
-	-	(1,232)	(1,960)
39	1	38	1
480	298	2	1
(20)	20	1	16
1,543	2,489	(759)	(722)

Notes to the Financial Statements

FOR THE YEAR ENDED 31 MARCH 2013

DEFERRED TAXATION

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

Property Plant and Equipment

	Group		Parent	
	31.03.13	31.03.12	31.03.13	31.03.12
	\$'000	\$'000	\$'000	\$'000
Opening Balance	(24,056)	(18,263)	(293)	(338)
Current Year Temporary Differences - Through Income	(733)	(508)	37	45
Current Year Temporary Differences - Through Equity	480	298	2	1
Asset Revaluation	(3,331)	(5,607)	(1)	-
Correction to Prior Year	7	24	2	(1)
Balance at the End of the Year	(27,633)	(24,056)	(253)	(293)

Employee Benefits

Opening Balance	39	42	20	17
Current Year Temporary Differences - Through Income	19	5	8	5
Correction to Prior Year	(8)	(8)	(3)	(2)
Balance at the End of the Year	50	39	25	20

Financial Instruments

Opening Balance	228	47	-	-
Current Year Temporary Differences - Through Income	915	181	(29)	-
Balance at the End of the Year	1,143	228	(29)	-

Other Provisions

Opening Balance	6	9	-	-
Current Year Temporary Differences - Through Income	(3)	(3)	-	-
Correction to Prior Year	3	-	-	-
Balance at the End of the Year	6	6	-	-

Total

Opening Balance	(23,783)	(18,165)	(273)	(321)
Current Year Temporary Differences - Through Income	198	(325)	16	50
Current Year Temporary Differences - Through Equity	480	298	2	1
Asset Revaluation	(3,331)	(5,607)	(1)	-
Correction to Prior Year	2	16	(1)	(3)
Balance at the End of the Year	(26,434)	(23,783)	(257)	(273)

All the companies comprising the Group are part of the same Consolidated Income Tax Group. Therefore deferred tax assets and liabilities have been offset within the Balance Sheet.

Notes to the Financial Statements

FOR THE YEAR ENDED 31 MARCH 2013

IMPUTATION CREDIT ACCOUNT

Balance at the End of the Year

Group		Parent	
31.03.13	31.03.12	31.03.13	31.03.12
\$'000	\$'000	\$'000	\$'000
1,592	(168)		

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 Year Ordinary Shares

Issue of Ordinary Shares Mangahao Purchase

Balance at the End of the Year

26,267	26,267	26,267	26,267
36,240	-	36,240	-
62,507	26,267	62,507	26,267

On 1 June 2012 7,629,474 fully paid ordinary shares were issued to Todd Energy Ltd in partial settlement of the acquisition of the Mangahao power station. As at 31 March 2013 there were 26,379,474 ordinary shares authorised, and fully paid (2012: 18,750,000). At the same date 1,067,197 fully paid shares (2012: nil) were held by the Group as Treasury Stock. All Treasury Stock was acquired during the year. All shares have no par value.

All ordinary shares issued rank equally with one vote attached to each fully paid ordinary share except for Treasury Stock which is not voted.

5 RESERVES

Treasury Stock Reserve

Purchase of Treasury Stock

Transaction Costs

Balance at the End of the Year

(5,069)	-	(5,069)	-
(2,121)	-	(2,121)	-
(7,190)	-	(7,190)	-

The 1,067,197 shares that form the pool of Treasury Stock were acquired pursuant to section 110 of the Companies Act from shareholders who voted against the resolution to acquire the assets of the Mangahao power station owned by Todd Mangahao Ltd. The price offered by the Group to shareholders was disputed by some of the shareholders eligible to have their shares acquired and a purchase price was determined by arbitration held in March in accordance with the provisions of the Companies Act and the Arbitration Act. The terms of that determination remain confidential. The remaining shares were acquired at \$4.75 per share.

The Directors have yet to determine the final disposition of Treasury Stock. This decision will be made in accordance with the capital management objectives set out in Note 16.

Asset Revaluation Reserve

Balance at Beginning of the Year

Asset Revaluation

Deferred Tax on Revalued Assets

Balance at the End of the Year

66,146	51,426	331	330
12,352	14,422	4	-
(2,851)	298	1	1
75,647	66,146	336	331

The Asset Revaluation Reserve holds the uplift to the value of fixed assets subject to periodic revaluation. An asset 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 Retaining Earnings upon the sale of revalued assets. Also charged to the Revaluation Reserve are the deferred tax implications of revaluations and the depreciation thereon.

Notes to the Financial Statements

FOR THE YEAR ENDED 31 MARCH 2013

6 RETAINED EARNINGS

Balance at Beginning of the Year
Profit after Tax Expense
Dividends
Balance at the End of the Year

Group		Parent	
31.03.13	31.03.12	31.03.13	31.03.12
\$'000	\$'000	\$'000	\$'000
8,263	7,499	5,192	4,610
2,185	5,264	2,304	5,082
(6,581)	(4,500)	(6,581)	(4,500)
3,867	8,263	915	5,192
1,268	2,988	-	-
1,691	565	-	12
625	299	187	41
3,584	3,852	187	53

7 ACCOUNTS RECEIVABLE

Electricity Receivables
Other Receivables
Prepayments
Balance at the End of the Year

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 either provide a deposit or are supplied meters that require advanced payment for electricity consumed.

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 19 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 Year
Additions/(Reductions) to the Impairment Allowance
Balance at End of the Year

20	30	-	-
-	(10)	-	-
20	20	-	-
2,215	2,923	-	12
746	635	-	-
18	15	-	-
(20)	(20)	-	-
2,959	3,553	-	12

At Balance Date the aging analysis of Accounts Receivable is as follows:

Current
Overdue But Not Impaired
Overdue and Impaired
Provision for Doubtful Debts

FOR THE YEAR ENDED 31 MARCH 2013

8 PROPERTY, PLANT AND EQUIPMENT

Generation Plant & Equipment

Fair Value

Accumulated Depreciation and Impairment

Net Carrying Amount

Net Carrying Amount Beginning of Year

Additions

Revaluation Uplift

Impairment Through Profit & Loss

Depreciation Charge for the Year

Balance at the End of the Year

Carrying Amount at Historical Cost

Land, and Land Improvements

Fair Value

Accumulated Depreciation and Impairment

Net Carrying Amount

Net Carrying Amount Beginning of Year

Additions

Revaluation Uplift

Impairment Through Profit & Loss

Depreciation Charge for the Year

Balance at the End of the Year

Carrying Amount at Historical Cost

Buildings

Fair Value

Accumulated Depreciation and Impairment

Net Carrying Amount

Net Carrying Amount Beginning of Year

Additions

Revaluation Uplift

Impairment Through Profit & Loss

Depreciation Charge for the Year

Balance at the End of the Year

Carrying Amount at Historical Cost

Group		Parent	
31.03.13	31.03.12	31.03.13	31.03.12
\$'000	\$'000	\$'000	\$'000
200,438	121,338	-	-
(28,210)	(21,316)	-	-
172,228	100,022	-	-
100,022	82,356	-	-
66,047	6	-	-
10,996	20,008	-	-
(173)			
(4,664)	(2,348)	-	-
172,228	100,022	-	-
100,330	37,280	-	-
5,181	3,774	115	114
(11)	(8)	-	-
5,170	3,766	115	114
3,766	3,763	114	114
939	-	-	-
472	4	1	-
(6)	-	-	-
(1)	(1)	-	-
5,170	3,766	115	114
1,850	911	50	50
11,022	6,746	695	691
(979)	(755)	(218)	(203)
10,043	5,991	477	488
5,991	6,063	488	502
3,304	-	-	-
884	17	3	-
(6)			
(130)	(89)	(14)	(14)
10,043	5,991	477	488
6,009	2,785	181	186

Notes to the Financial Statements

FOR THE YEAR ENDED 31 MARCH 2013

Motor Vehicles

Cost	601	461
Accumulated Depreciation and Impairment	(170)	(155)

Net Carrying Amount

Net Carrying Amount Beginning of Year	306	303
Additions	251	81
Disposals	(44)	(14)
Depreciation Charge for the Year	(82)	(64)

Balance at the End of the Year

Office Equipment & Furniture

Cost	1,352	1,267
Accumulated Depreciation and Impairment	(839)	(670)

Net Carrying Amount

Net Carrying Amount Beginning of Year	597	429
Additions	87	430
Disposals	(1)	(81)
Depreciation Charge for the Year	(170)	(181)

Balance at the End of the Year

Leased Office Equipment & Furniture

Cost	104	265
Accumulated Depreciation and Impairment	(3)	(202)

Net Carrying Amount

Net Carrying Amount Beginning of Year	63	88
Additions	104	-
Disposals	(45)	-
Depreciation Charge for the Year	(21)	(25)

Balance at the End of the Year

Development and Construction Projects

Development Projects at Cost	1,567	867
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Net Carrying Amount

Net Carrying Amount Beginning of the Year	867	517
Additions	968	379
Transfers	(268)	(29)

Balance at the End of the Year

Total Property, Plant & Equipment

Group		Parent	
31.03.13	31.03.12	31.03.13	31.03.12
\$'000	\$'000	\$'000	\$'000
601	461	124	115
(170)	(155)	(29)	(35)
431	306	95	80
306	303	80	65
251	81	60	34
(44)	(14)	(27)	(3)
(82)	(64)	(18)	(16)
431	306	95	80
1,352	1,267	843	797
(839)	(670)	(480)	(340)
513	597	363	457
597	429	457	275
87	430	48	420
(1)	(81)	(1)	(80)
(170)	(181)	(141)	(158)
513	597	363	457
104	265	104	265
(3)	(202)	(3)	(202)
101	63	101	63
63	88	63	88
104	-	104	-
(45)	-	(45)	-
(21)	(25)	(21)	(25)
101	63	101	63
1,567	867	18	141
1,567	867	18	141
867	517	141	23
968	379	12	141
(268)	(29)	(135)	(23)
1,567	867	18	141
190,053	111,612	1,169	1,343

Notes to the Financial Statements

FOR THE YEAR ENDED 31 MARCH 2013

Land and land improvements, buildings and generation plant, property and equipment owned by the Group was revalued as at 31 December 2012 to fair value for financial reporting purposes. The fair value of land and land improvements and buildings was assessed by reference to market information for the relevant geographic area. The fair value for generation plant property and equipment was assessed using economic value methodology based on the discounted cash flows able to be generated by the relevant plant, property and equipment. A discount rate of 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, PwC, Chartered Accountants on 31 December 2012. Non-generation land and buildings were valued by independent registered valuers, Quotable Value New Zealand. Directors consider the carrying values of fixed assets at 31 March 2013 to be their fair value.

The valuation range provided by PwC was between \$179.9m and \$196.2m with directors adopting a mid-point valuation of \$188.0m. 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.

PwC 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 historic 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 PwC 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.

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 \$000	Financial Statement Impact			
		Profit & Loss \$000	Non Current Assets \$000	Non Current Liabilities \$000	Equity \$000
Increase Electricity Price 10.0%	21,000	-	21,000	5,880	15,120
Decrease Electricity Price 10.0%	(21,000)	-	(21,000)	(5,880)	(15,120)
Increase Cost of Capital 0.5%	(14,000)	-	(14,000)	(3,920)	(10,080)
Decrease Cost of Capital 0.5%	18,000	-	18,000	5,040	12,960
Increase Generation Output 5.0%	10,000	-	10,000	2,800	7,200
Decrease Generation Output 5.0%	(11,000)	-	(11,000)	(3,080)	(7,920)

FOR THE YEAR ENDED 31 MARCH 2013

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

Opening Carrying Value

Revaluation of Derivatives

Balance at the End of the Year Level Two

Opening Carrying Value

Derivatives Acquired at 1

Termination of Derivatives

Revaluation of Derivatives

Portion of Fair Value Consumed

Balance at the End of the Year Level Three

Balance at the End of the Year All Levels

Reported gain/(loss) on Derivative Financial Instruments comprises the following:

Revaluation of Derivatives

Settlement Included in Operating Revenue

Settlement Included in Operating Expenses

Total (Loss)/Gain Settled in Cash

Acquisition of Derivatives at Fair Value

Termination of Derivatives

Revaluation of Derivatives

Portion of Fair Value Consumed on Maturity

Total (Loss)/Gain on Valuation

Total (Loss)/Gain on Derivatives

Total (Loss)/Gain on Derivative Levels

Group		Parent	
31.03.13	31.03.12	31.03.13	31.03.12
\$'000	\$'000	\$'000	\$'000
-	-	-	-
105	-	105	-
105	-	105	-
(813)	(167)	-	-
463	380	-	-
(149)	-	-	-
(4,559)	(1,739)	-	-
871	713	-	-
(4,187)	(813)	-	-
(4,082)	(813)	105	-
105	-	105	-
159	(60)	-	-
(101)	(705)	-	-
58	(765)	-	-
463	380	-	-
(149)	-	-	-
(4,559)	(1,739)	-	-
871	713	-	-
(3,374)	(646)	-	-
(3,316)	(1,411)	-	-
(3,211)	(1,411)	105	-

The electricity derivative between the Group and the Mangahao Joint Venture was terminated on 31 May 2012 when the Group acquired the assets in the Joint Venture owned by Todd Mangahao Ltd. No consideration was exchanged between the parties for the termination and the termination value is the write-off of the unamortised fair market value at 31 May 2012.

Notes to the Financial Statements

FOR THE YEAR ENDED 31 MARCH 2013

Instruments Used by the Group

Derivative financial instruments comprise electricity contracts for difference, interest rate swaps and forward currency contracts. 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 Groups exposure to the floating interest rate in its loan facility. Forward currency contracts are used to fix the Group's exposure to currency fluctuations on contracted capital expenditure denominated in a foreign currency. 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 and foreign currency exposures. 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 derivative contracts that had commencement and finishing date running to 31/12/16 (2012: 31/12/2014). The total nominal volume of derivatives is 394.8 GWh (2012 364.4 GWh).

10 INVESTMENTS

Shares in Subsidiary Companies at Cost

Subsidiaries Comprise

% Holding

KCE Generation Limited	100
KCE Mangahao Limited	100
KCE Retail Limited	100

Group		Parent	
31.03.13	31.03.12	31.03.13	31.03.12
\$'000	\$'000	\$'000	\$'000
-	-	14,300	14,300

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 directors of the subsidiaries. The Parent has had control of the subsidiaries for the entire reporting period.

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 venture until its dissolution on 1 June 2012, in which KCE Mangahao Ltd had a contributory and participating interest of 50%.

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

Accumulated Amortisation and Impairment

Net Carrying Amount

Net Carrying Amount Beginning of Year

Additions

Disposals

Amortisation Charge for the Year

Balance at the End of the Year

Total Intangible Assets

1,560	1,560	-	-
1,253	1,198	1,123	1,071
(848)	(626)	(736)	(529)
405	572	387	542
572	700	542	655
55	107	52	106
-	(24)	-	(23)
(222)	(211)	(207)	(196)
405	572	387	542
1,965	2,132	387	542

Notes to the Financial Statements

FOR THE YEAR ENDED 31 MARCH 2013

The total value of Goodwill is allocated to the business of KCE Retail. KCE Retail 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 five year business plan for the Group for the period commencing on 1 April 2013 and ending on 31 March 2018. Anticipated cash flows beyond 31 March 2018 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.

An increase in sales volumes is predicted over the life of the plan because of the increased generation available for sale following the purchase of the remaining 50% of the Mangahao power station. Price increases are assumed to run at the rate of inflation. Growth is assumed to be at higher levels than has been achieved in the past but additional staff and resources have been employed so as to achieve projected growth targets.

The purchase price of electricity will remain stable over the first half of 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 external forecasts prepared by an independent expert organisation. 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.

In determining goodwill's value in use, the Group has applied a discount rate of 10.0% (2012 10.0%) to the pre-tax and pre interest cash flow of the retail operations.

12 BORROWINGS

Current Borrowings

Capitalised Lease Obligations
Current Portion of Term Borrowing

Non Current Borrowings

Capitalised Lease Obligations
Non Current Portion of Term Borrowing

Capitalised Lease Minimum Lease Payment Obligations

Within One Year
One to Two Years
Two to Five Years

Capitalised Lease Present Value Payment Obligations

Within One Year
One to Two Years
Two to Five Years

Group		Parent	
31.03.13	31.03.12	31.03.13	31.03.12
\$'000	\$'000	\$'000	\$'000
52	29	52	29
-	-	-	-
52	29	52	29
107	-	107	-
25,200	-	25,200	-
25,307	-	25,307	-
56	30	56	30
56	-	56	-
88	-	88	-
200	30	200	30
52	29	52	29
44	-	44	-
63	-	63	-
159	29	159	29

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.

FOR THE YEAR ENDED 31 MARCH 2013

The Group has a \$40 million unsecured loan facility with an expiry date of 31 May 2015. Of the total facility \$30 million 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 fee are payable. The facility is subject to negative pledges in respect to interest cover, gearing ratio, leverage and distributions to owners. At balance date the Group complied with all bank imposed ratios and had met all other obligations imposed upon it by the loan document. The loan facility was put into place in the current year so there is no comparative information.

LPG Project

-	964
-	70,598
-	(4,572)
-	(16,494)
-	50,496

15 RELATED PARTY TRANSACTIONS

The Parent (and its subsidiaries) is a subsidiary of Nova Energy Ltd, a wholly owned subsidiary of The Todd Corporation Ltd (the Ultimate Parent). During the year a number of the Todd Group companies transacting business with the Group were merged into the single entity Nova Energy Ltd. For disclosure purposes transactions with Todd Group companies that occurred prior to the merger have been shown as if they were with Nova Energy Limited. Group Companies are parties to a number of transactions with the following related parties:

- Nova Energy Limited, a 51.9% shareholder in King Country Energy Limited (hereafter referred to as Nova Energy)
- Mangahao Joint Venture, in which the joint venture partners are KCE Mangahao Ltd 50% and Todd Mangahao Ltd 50%

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 year (2012: nil).

On 31 May 2012 the Group acquired the 50% of the Mangahao power station it did not own from Todd Mangahao Ltd a subsidiary of Nova Energy Ltd. The Group paid \$70.00 million by way of cash of \$33.76m and the issue of 7,629,474 ordinary fully paid shares ranking equally with all other shares at \$4.75 each. The value of the transaction was supported by an independent valuation and approved by shareholders at a special meeting held on 31 May 2012.

Nova Energy holds the management contract for the Mangahao power station under which it manages the operation of the station, employs station staff and despatched the plant to market. For this service Nova Energy is paid a fixed monthly management fee and reimbursed for expenditure incurred on behalf of the Group. The management fee is intended to replicate the fee an external organisation would be paid for providing the same service.

The Group has entered into a contract with Nova Energy for the supply of LPG and related 45kg LPG cylinders for the purpose of the Group retailing bottled LPG to its electricity customers. LPG is supplied at current market price. At balance date the Group had not yet commenced taking LPG under this contract.

KCE Generation Ltd and the Mangahao Joint Venture were parties to a long term electricity derivative contract. The contract was terminated when the Group acquired the remaining assets of the joint venture on 31 May 2012. At the date of termination the carrying value of the derivative was a liability Of \$148,721 and no payment was made to extinguish this liability. From 1 June 2012 to 31 December 2012 the group provided a contract for difference electricity hedge to Todd Energy Ltd at a price consistent with trade market prices for instruments of similar terms and duration. The derivative required Todd Energy Ltd to pay a fixed price varying by month for a portion of the output from the Mangahao power station.

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 year.

FOR THE YEAR ENDED 31 MARCH 2013

	Group		Parent	
	31.03.13	31.03.12	31.03.13	31.03.12
	\$'000	\$'000	\$'000	\$'000
Transactions with Related Parties				
Purchases				
Nova Energy Ltd (excluding cost reimbursements)	172	1	-	-
Mangahao Joint Venture	317	2,465	-	-
Sales				
Nova Energy Ltd	456	-	-	-
Mangahao Joint Venture	456	1,700	-	-
Payables				
Nova Energy Ltd	45	-		
Receivables				
Mangahao Joint Venture	-	68	-	-
Balances with Group Companies				
KCE Retail Limited	-	-	(1,147)	(2,619)
KCE Generation Limited	-	-	(1,305)	3,149
KCE Mangahao Limited	-	-	69,916	3,242
			67,464	3,772

The increase in the intercompany advance to KCE Mangahao Ltd was for the purchase of assets of the Mangahao power station previously owned by Todd Mangahao Ltd.

Compensation for Key Management Personnel

Short-term Employee Benefits

Total Compensation

1,028	880	1,028	880
1,028	880	1,028	880

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

Notes to the Financial Statements

FOR THE YEAR ENDED 31 MARCH 2013

16 FINANCIAL INSTRUMENTS

The Group holds the following classes of financial instruments

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

Group		Parent	
31.03.13	31.03.12	31.03.13	31.03.12
\$'000	\$'000	\$'000	\$'000
111	423	111	-
111	423	111	-
360	11,180	360	11,163
2,959	3,553	-	12
-	-	67,464	3,772
3,319	14,733	67,824	14,947
4,193	1,236	6	-
4,193	1,236	6	-
5,004	3,108	3,994	1,546
25,359	29	25,359	29
30,363	3,137	29,353	1,575

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 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. For the current year actual spot prices for the months of April and May 2013 were applied due to the effect of the drought they have been experienced on the accuracy of projected prices.

The future spot prices used to calculate the value of derivatives are supplied by EnergyLink Ltd, a specialist forecasting consulting practice that use a combination of historic price trends, forecast growth in consumption, planned construction of new generation plant and expected construction costs to predict future prices. EnergyLink provide prices under various assumptions of hydrological conditions. The Group uses the price assumption for long run average hydrological conditions. The price assumption used by the Group also contains a component which reflects the anticipated cost of carbon credits required by thermal generators. The price model assumes that over the forecast period the average price of carbon is \$4.56 per tonne (2012: \$10.75). During the forecast period the minimum spot price is assumed to be \$43.22 per Mwh (2012: \$57.67) and the maximum price \$111.50 per Mwh (2012: \$114.93).

The spot price supplied by EnergyLink is based upon supply at the Haywards grid exit point. This price is 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 Energylink and are calculated by reference to historic differences from Hayward's prices adjusted for expected changes in supply and demand at the respective grid exit points. Location factors range from 0.903 to 1.047 (2012: 0.889 to 1.049) over the forecast period.

Notes to the Financial Statements

FOR THE YEAR ENDED 31 MARCH 2013

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

GROUP	Level 1 \$000	Level 2 \$000	Level 3 \$000	Total \$000
31 March 2013				
Assets				
Interest Rate Swaps	-	111	-	111
Liabilities				
Electricity Price Derivatives	-	-	4,411	4,411
Forward Currency Contracts	-	6	-	6
31 March 2012				
Assets				
Electricity Price Derivatives	-	-	423	423
Liabilities				
Electricity Price Derivatives	-	-	1,236	1,236
PARENT				
31 March 2013				
Assets				
Interest Rate Swaps	-	111	-	111
Liabilities				
Forward Currency Contracts	-	6	-	6
31 March 2012				
Assets				
Electricity Price Derivatives	-	-	-	-
Liabilities				
Electricity Price Derivatives	-	-	-	-

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 3 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.

Notes to the Financial Statements

FOR THE YEAR ENDED 31 MARCH 2013

Credit Risk

Financial instruments which potentially subject the Company 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 Company'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 a single derivative contract with a single generator which will be settled through the reconciliation manager eliminating settlement risk except in circumstances where the generator produces less electricity volume than is hedged. The derivative is backed by geothermal generation eliminating weather related risk. 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. On an annual basis the Group purchases approximately 72% (2012 39%) 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 2013 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 an interest rate swap that converts the floating interest rate on the loan to a fixed interest rate over the life of the loan.

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 YEAR ENDED 31 MARCH 2013

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 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	
	31.03.13 \$'000	31.03.12 \$'000	31.03.13 \$'000	31.03.12 \$'000
Increase/(Decrease) in Profit of a 10% Increase in electricity price	1,675	1,558	-	-
Increase/(Decrease) in Assets of a 10% Increase in electricity price	966	1,833	-	-
Increase/(Decrease) in Liabilities of a 10% Increase in electricity price	(709)	275	-	-
Increase/(Decrease) in Profit of a 10% Decrease in electricity price	(1,675)	(1,558)	-	-
Increase/(Decrease) in Assets of a 10% Decrease in electricity price	-	648	-	-
Increase/(Decrease) in Liabilities of a 10% Decrease in electricity price	1,675	2,206	-	-

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

Notes to the Financial Statements

FOR THE YEAR ENDED 31 MARCH 2013

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 including the purchase of the Mangahao assets. Additional funding facilities which are effective after balance date will be used for this purchase.

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.

GROUP

At 31 March 2013

Net Settled Electricity Price Derivatives
Accounts Payable and Accruals
Borrowings

	Less than 1 month	1-6 Months	6-12 Months	Over 1 Year
	\$000	\$000	\$000	\$000
Net Settled Electricity Price Derivatives	-	454	1,877	3,589
Accounts Payable and Accruals	3,080	2,176	-	-
Borrowings	5	832	629	26,581
	3,085	3,462	2,506	30,170
At 31 March 2012				
Net Settled Electricity Price Derivatives	-	146	581	1,624
Accounts Payable and Accruals	2,881	-	-	-
Lease Obligations	4	19	7	-
	2,885	165	588	1,624
PARENT				
At 31 March 2013				
Accounts Payable and Accruals	2,068	1,925	-	-
Borrowings	5	832	629	26,581
Intercompany Borrowing	-	-	-	2,452
	2,073	2,757	629	29,033
At 31 March 2012				
Accounts Payable and Accruals	1,440	-	-	-
Lease Obligations	4	19	7	-
Intercompany Borrowing	-	-	-	2,619
	1,444	19	7	2,619

Notes to the Financial Statements

FOR THE YEAR ENDED 31 MARCH 2013

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 10%.

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 2013 were 91% of long run average while those achieved in 2012 were 104%.

	Group		Parent	
	31.03.13	31.03.12	31.03.13	31.03.12
	\$'000	\$'000	\$'000	\$'000
Impact of a 20% reduction in generation on Post Tax Profit	(481)	(261)	-	-
Impact of a 20% increase in generation on Post Tax Profit	3,625	2,940	-	-
The effect on Equity is limited to the change in Post Tax Profit				

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.

Notes to the Financial Statements

FOR THE YEAR ENDED 31 MARCH 2013

The gearing ratios were as follows:

Net Debt

Current Borrowing

Non Current Borrowing

Short Term Deposits

Equity

Shareholders Equity

Total Capital Funding

Gearing Ratio

Group		Parent	
31.03.13	31.03.12	31.03.13	31.03.12
\$'000	\$'000	\$'000	\$'000
52	29	52	29
25,307	-	25,307	-
(360)	(11,180)	(360)	(11,163)
24,999	(11,151)	24,999	(11,134)
134,831	100,676	56,568	31,790
159,830	89,525	81,567	20,656
16%	-12%	31%	-54%

17 EARNINGS PER SHARE

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

Profit After Tax Expense

Net Profit After Tax Attributable to Equity Holders of Parent

Weighted Average Number of Ordinary Shares for Basic and Diluted Earnings Per Share (thousands)

2,185	5,264
2,185	5,264
24,371	18,750

The weighted average number of shares takes into account the weighted average effect of changes in treasury stock transactions during the year. There are no instruments on issue that could potentially dilute basic earnings per share in the future. There have been no share transactions or potential share transactions since balance date.

18 DIVIDENDS

The Board of Directors recommended and shareholders resolved to pay a final dividend of 12 cents per ordinary share on the 10th of August 2012. Directors resolved to pay an interim dividend of 14 cents per ordinary share on the 7th of December 2012 for a total cash distribution to shareholders during the year of \$6,581,192 (2012: \$4,500,000).

Subsequent to year end, the Board of Directors resolved to pay a final dividend of 13 cents per ordinary share, a total cash distribution of \$3,290,596. Imputation credits of 2.7 cents per share are to be attached to the dividend making the gross dividend equivalent to 15.7 cents per share. Subject to confirmation by shareholders at the Annual General Meeting the dividend will be paid on 5 August 2013. This amount has not been recognised as a liability in 2013 but will be brought to account in 2014.

Notes to the Financial Statements

FOR THE YEAR ENDED 31 MARCH 2013

19 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	
	31.03.13	31.03.12	31.03.13	31.03.12	31.03.13	31.03.12
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Revenue						
Sales to External Customers	27,412	26,216	12,692	4,883	40,104	31,099
Other Revenue from External Customers	127	155	2,090	809	2,217	964
Inter-segment Sales	-	-	20,747	19,483	20,747	19,483
Total Segment Revenues	27,539	26,371	35,529	25,175	63,068	51,546
Unallocated Revenue	-	-	-	-	95	263
Total Segment Revenue	27,539	26,371	35,529	25,175	63,163	51,809
Results						
Segment Results before Tax and Financing Costs						
Costs	3,226	3,790	3,357	6,644	6,583	10,434
Unallocated Expenses	-	-	-	-	(1,672)	(2,604)
	3,226	3,790	3,357	6,644	4,911	7,830
Financing Costs	-	-	-	-	-	-
Unallocated Financing Costs	-	-	-	-	(1,183)	(77)
	-	-	-	-	(1,183)	(77)
Income Tax	(883)	(1,098)	(1,419)	(2,113)	(2,302)	(3,211)
Unallocated Income Tax	-	-	-	-	759	722
	(883)	(1,098)	(1,419)	(2,113)	(1,543)	(2,489)
Segment Net Operating Profit After Tax	2,343	2,692	1,938	4,531	2,185	5,264

Notes to the Financial Statements

FOR THE YEAR ENDED 31 MARCH 2013

	Retail		Generation		Total	
	31.03.13	31.03.12	31.03.13	31.03.12	31.03.13	31.03.12
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Assets and Liabilities						
Segment Assets	4,335	3,998	189,524	112,100	193,859	116,098
Unallocated Assets	-	-	-	-	2,214	13,101
Total Assets	4,335	3,998	189,524	112,100	196,073	129,199
Segment Liabilities	1,818	942	32,013	25,367	33,831	26,309
Unallocated Liabilities	-	-	-	-	27,411	2,214
Total Liabilities	1,818	942	32,013	25,367	61,242	28,523
Other Segment Information						
Capital Expenditure	218	47	71,128	247	71,346	294
Unallocated Capital Expenditure	-	-	-	-	141	680
Total Capital Expenditure	218	47	71,128	247	71,487	974
Depreciation and Amortisation	35	28	4,855	2,482	4,890	2,510
Unallocated Depreciation & Amortisation	-	-	-	-	400	409
Total Depreciation and Amortisation	35	28	4,855	2,482	5,290	2,919
Impairment of Fixed Assets	-	-	185	-	185	-
Other Non-cash Expenses	119	149	3,585	646	3,704	795
Unallocated Other Non-cash Expenses	-	-	-	-	70	-
Total Other Non-cash Expenses	119	149	3,585	646	3,774	795
Cash Flow Information						
Net Cash Inflow From Operating Activities	3,204	3,761	12,497	8,876	15,701	12,637
Unallocated Net Cash Outflow From Operating Activities	-	-	-	-	(4,751)	(2,037)
Total Operating Cash Flow	3,204	3,761	12,497	8,876	10,950	10,600
Net Cash Outflow From Investing Activities	(3,204)	(3,761)	(12,514)	(8,870)	(15,718)	(12,631)
Unallocated Net Cash Outflow From Investing Activities	-	-	-	-	(19,503)	11,669
Total Investing Cash Flow	(3,204)	(3,761)	(12,514)	(8,870)	(35,221)	(963)
Net Cash Flow From Financing Activities	-	-	-	-	-	-
Unallocated Net Cash Flow From Financing Activities	-	-	-	-	13,451	(4,594)
Total Financing Cash Flow	-	-	-	-	13,451	(4,549)

Cash either paid to or drawn from the Parent, who funds the operations of the Group, is treated as an investing cash flow in both the Statement of Cash Flows and the segment cash flow.

20 EVENTS SUBSEQUENT TO BALANCE DATE

Dividend

Subsequent to balance date, the Board have declared a cash dividend (with imputation credits of 2.7 cents per share attached) of 13 cents per ordinary share, a total cash distribution of \$3,290,596. The dividend will be paid on 5 August 2013.



Chartered Accountants

Independent Auditor's Report

To the Shareholders of King Country Energy Limited

Report on the Financial Statements

We have audited the financial statements of King Country Energy Limited and its subsidiaries on pages 21 to 54, which comprise the statement of financial position of King Country Energy Limited and the group as at 31 March 2013, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended of the company and group, and a summary of significant accounting policies and other explanatory information.

This report is made solely to the company's shareholders, as a body, in accordance with section 205(1) of the Companies Act 1993. 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.

Directors' Responsibility for the Financial Statements

The directors are responsible for the preparation of the financial statements in accordance with generally accepted accounting practice in New Zealand and that give a true and fair view of the matters to which they relate, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (New Zealand). These auditing standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we have considered the internal control relevant to the entity's preparation of the financial statements that give a true and fair view of the matters to which they relate in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, as well as evaluating the overall presentation of the financial statements.

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

Other than in our capacity as auditor we have no relationship with, or interest in King Country Energy Limited or any of its subsidiaries.

Partners and employees of our firm may deal with the Group on normal terms within the ordinary course of trading activities of the business of the Group.

Opinion

In our opinion, the financial statements on pages 21 to 54:

- ▶ comply with generally accepted accounting practice in New Zealand;
- ▶ comply with International Financial Reporting Standards; and
- ▶ give a true and fair view of the financial position of King Country Energy Limited and the group as at 31 March 2013 and the financial performance and cash flows of the company and group for the year then ended.

Report on Other Legal and Regulatory Requirements

In accordance with the Financial Reporting Act 1993, we report that:

- ▶ We have obtained all the information and explanations that we have required.
- ▶ In our opinion proper accounting records have been kept by King Country Energy Limited as far as appears from our examination of those records.

14 June 2013
Wellington



Mangahao Power Scheme

The power behind our community

King Country Energy

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