

ANNUAL REPORT 2014

Power of community



The power behind our community

www.kce.co.nz

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the numbers

12c

DIVIDEND

Partly imputed (to 4.7c per share) final dividend to be paid on 27 June 2014. 13c partially imputed (to 2.7c per share) final dividend to 31 March 2013 paid on 5 August 2013.

\$12.6
MILLION

EBITDAF*

\$13.5m for the year ended 31 March 2013.

\$5.1
MILLION

NPAT

\$2.7m for the year ended 31 March 2013.

\$9.6
MILLION

NET OPERATING CASHFLOW

\$11.0m for the year ended 31 March 2013.

207
GWh

RETAIL SALES

207 GWh for the year ended 31 March 2013.

185
GWh

GENERATION VOLUME

164 GWh for the year ended 31 March 2013.

* 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):

	13/14	12/13
Net Profit After Tax	5,070	2,665
Income Tax	2,115	1,063
Net Interest	1,367	1,051
Depreciation and amortisation	6,571	5,475
Fair Value adjustments	(2,527)	3,269
EBITDAF	12,596	13,523

Heartland

COMMUNITY FUND

is launched

At KCE we want to ensure that our community support is spread as widely as possible throughout our operating areas. So, to help us better reach this goal, we launched the KCE Heartland Community Fund this financial year.

Our Heartland fund provides financial support to King Country community groups and organisations working to improve life for people in the King Country region. Small grants are offered three times a year, and in total, will inject around up to \$20,000 annually into the communities we care so much about.

We were thrilled to open the inaugural Heartland funding round in March 2014 and even more thrilled at the large number of applications received. The first grants will be awarded during the next financial year.

Funds will help groups that do work in the areas of community safety, education, environmental improvement and health promotion and align with Heartland's core values of keeping the community safe, healthy, beautiful and connected.

KCE has been the power behind our community for more than 50 years and the Heartland Community Fund is a key way for us to give back. Our aim is that with each funding round and passing year we will be able to spread our support more widely and help more and more groups that are doing great work in our communities.



Westpac Rescue Helicopter

sponsorship takes flight

In January 2014 KCE officially entered into a major associate sponsorship with charitable organisation Philips Search & Rescue Trust, which provides dedicated air ambulance and rescue services throughout the Central North Island of New Zealand.

Our sponsorship contributes specifically to the operational costs of the Hamilton-based Westpac Rescue Helicopter that diligently serves the Waikato and King Country Region. We recognise that the chopper provides a fundamental 24/7 emergency response link to our more geographically isolated region. We couldn't be more proud to support a service that promotes the health, wellbeing and safety of our customers and the wider King Country population.

To mark the sponsorship we worked together with the Westpac Rescue Helicopter team, local emergency services and community groups to run a Community Fun Day event in Taumarunui and Te Kuiti in April 2014. This day provided opportunities for our local people to get up close and personal with the Westpac Rescue Helicopter and pilots, and see for themselves the relationship we are building with this vital service.

The feedback about the sponsorship and the Community Fun Day has been positive from staff and community members alike, and we look forward to continuing on with this sponsorship arrangement through until December 2016.



Chairman's Report 2014

The financial year to 31 March 2014 has been a challenging one for KCE. The year was impacted by significant variations in hydrology and wholesale electricity market prices, especially in the summer months.

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

Health and Safety

During the year the company progressed a review of its health and safety governance systems, ahead of changing legislation in the health and safety environment. The results of this review have enabled Directors and management to progress initiatives aimed at achieving best practice governance health and safety systems for KCE.

Pleasingly there were no lost time injuries incurred during the year, and a reduction on medical treatment injuries from 2013 levels, with 3 reported.

Financial Performance

The company's consolidated profit after tax was \$5.1 million for the year, an 90% increase on the \$2.7 million 2013 result due to a favourable movement in the fair value of electricity hedges.

Earnings before interest, tax, depreciation, amortisation, fair value movements of financial instruments and asset impairments (EBITDAF) [1] were \$12.6 million, a reduction of 7% on the \$13.5 million result for the previous financial year.

KCE Chairman, Brian Gurney, said the year ending 31 March 2014 was a challenging one.

The company experienced a repeat of the low summer rainfall as in 2013 which resulted in a

significant reduction in the inflows to our hydro stations impacting generation revenue in February and March.

Strong competition has led to KCE realising lower retail margins.

Both of these factors contributed to a 1.5 % reduction in revenue, he explained.

KCE's operating revenue was \$41.8 million and operating cashflow \$9.6 million for the year to 31 March 2014. The year end net debt position was \$26.5 million.

Operating expenses, including wholesale electricity costs, increased 4.3% on the previous year. This was primarily due to higher depreciation charges reflective of a full year's ownership of the Mangahao power station, compared with just 10 months ownership in the previous year.

The Board's decision to write off the company's head office building in Taumarunui due to its low seismic rating is accounted for in the results.

During the financial year, KCE's total electricity retail sales volume increased by 3.5% to 214.3 GWh.

Of the Company's total retail volume, 184.6 GWh was generated through its own hydro generation assets, this was 12.6% higher than last financial year, highlighting the benefit of acquiring the 50% interest in Mangahao from Todd Energy in May 2012.

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

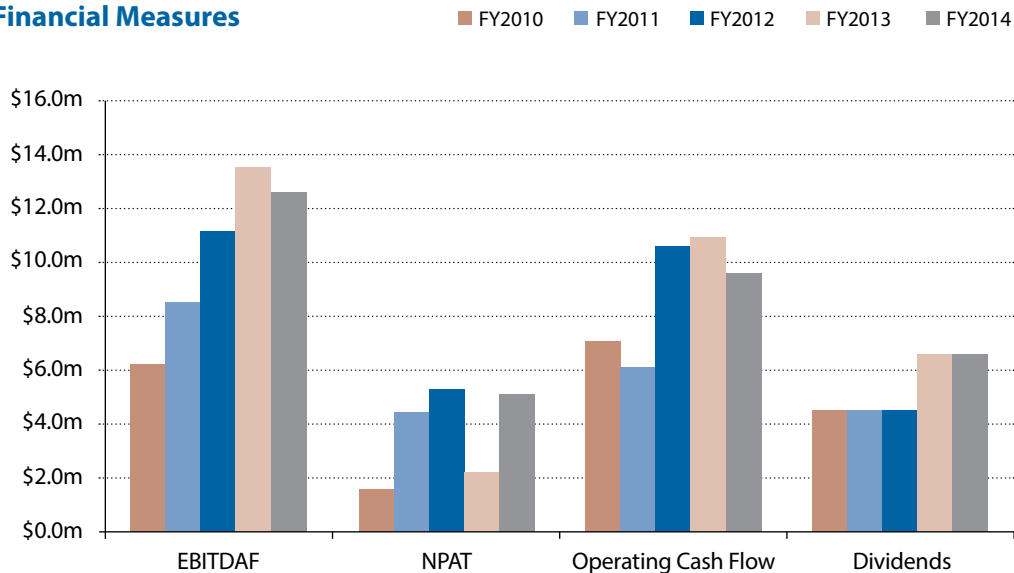
Financial Position

KCE's balance sheet as at 31 March 2014 remains strong. Shareholders' funds represent 83% of total asset with the remain 17% finance by net bank debt of \$26.5m.

Brian Gurney,
Chairman



Key Financial Measures



Governance

During the year Mr Stephen Armstrong resigned as a Director and was replaced by Mr Timothy Cosgrove. During the current year, Babu Bahirathan and Brian Gurney are due for re-election to the board by rotation. Tim Cosgrove will also seek election.

In implementing our board's succession plan, it is intended that directors will appoint Toby Stevenson as chairman of the company during 2014.

Dividends

Directors have approved a fully imputed, final gross dividend of 16.7 cents per share payable on 27 June 2014 (record date of the 20 June 2014). This, together with the interim, gross dividend of 18 cents per share, provides a total payment of 34.7 cents per share for the financial year to 31 March 2014.

The final dividend is a 16.8% increase on the previous year and provides shareholders with a gross return of 8.9% return based on the share price of \$[3.90] 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

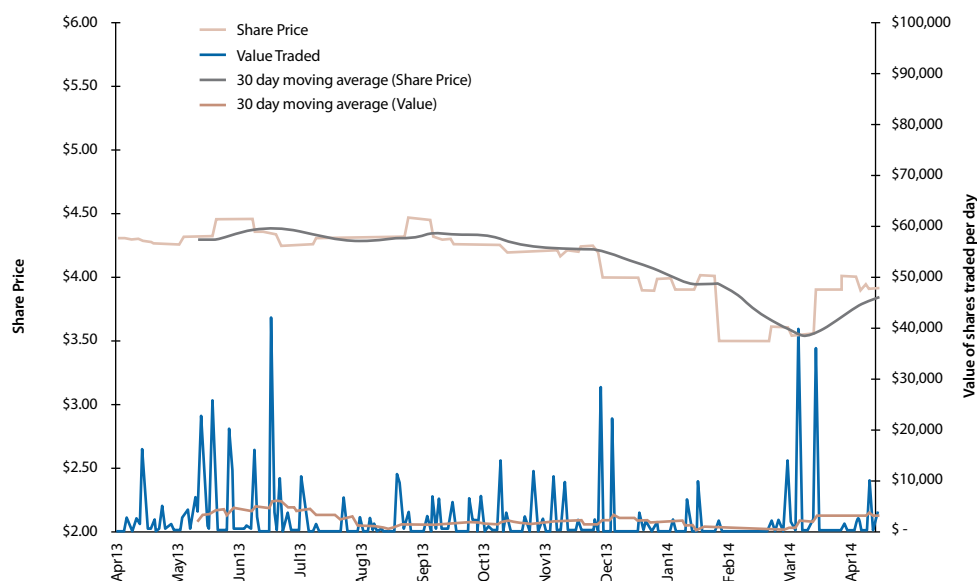
The share price over the 12 months traded in the range of \$3.90 to \$4.45 and closed at \$3.90. The following chart shows the historic trading pattern.

Future Outlook

The board is disappointed that the business did not achieve its targets.

Full ownership of the Mangahao power station is proving to be a significant advantage to KCE operations during dry periods. The increased hydro diversification and storage capacity has allowed KCE to better manage its exposure

Share Price and Value Traded for the past 12 months



and expand its retail base without sole reliance on the wholesale electricity market for securing supply.

The industry currently remains in an oversupply position, which coupled with increased regulatory uncertainty, creates a challenging commercial environment to achieve our growth aspirations. The Board and management remain dedicated to dealing with these challenges and generating positive returns for shareholders going forward.

The directors are pleased with the operational progress of the company, initiating a number of capital upgrade projects through the year and improving governance and management processes

The directors have made the decision to adjust the reporting period to a calendar year in order to improve efficiency by aligning with our major share holder. As part of the on-going management of the company's capital structure, the Board resolved to cancel 1,067,197 shares held as Treasury Stock.

The Board and management team are optimistic about meeting the challenges of a dynamic market and creating opportunities to develop the business in the future.

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

Tim Cosgrove
Director

Brian Gurney
Chairman

Toby Stevenson
Director

Brian Needham
Director

Netball sponsorship

goes from strength to strength

As the leading electricity retailer in our region, KCE is literally the power behind our community and we take this role seriously. That's why we have continued with our sponsorship of the Taumarunui, Otorohanga and Maniapoto Netball Centres, which began last financial year.

The sponsorship, which sees KCE maintain naming rights to three netball centres, will continue to help each centre develop programmes for young players, promote the sport of netball in the community, and contribute to the health and well-being of people in our local communities.

The reputation of the three centres and their passion and commitment to furthering the sport of netball were important factors in our decision to continue our sponsorship. We believe each centre is doing a fantastic job of helping to keep local people active and healthy; something that we are more than happy to get behind and support.

We look forward to continue working hand-in-hand with the centres to see more sporting opportunities open up for players of all ages and abilities.



Chief Executive Officer's Report

A new beginning

On XX December 2013, for the last time KCE switched off three generation units of the Wairere power station. This date marked the start of a renewal process at the scheme.

The decommissioning of these units, originally installed between 1924-1953, paved the way for installation of a modern 1.2MW Turab turbine.

This development is a significant milestone in the current financial year. In June 2014 when the Turab unit is commissioned, it (along with the relatively modern 1989 G4 3MW unit) will position the Wairere scheme for another 50+ years of service.

This upgrade will significantly enhance the operations of the scheme, increase efficiency and bring the scheme up to modern seismic and operational standards.

National Market Situation

Nationally, hydro storage levels were above average for the financial year, except for a period in autumn 2013 and late summer in 2014. Inflows for the twelve month period were variable.

The charts on page 9 highlight the hydrology situation relative to previous years.

Generation

Generation this financial year was overall on budget. A strong first quarter generation production period was partially offset by weaker production in the rest of the year including the drought in the final quarter. See page 10 for the FY 2014 Generation Performance chart.

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 for KCE.

In total for the year, KCE produced 185 GWh - our King Country sites generated 52 GWh and Mangahao generated 133 GWh.

The average price achieved by our generation stations was \$66.34 per MWh for spot market sales, compared to a market average of \$64.35 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 2014.

The Supply and Demand Volumes chart on page 10 highlights the effect of the actual spot price compared to the projected price. It shows the monthly output of our generation assets relative to demand.

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

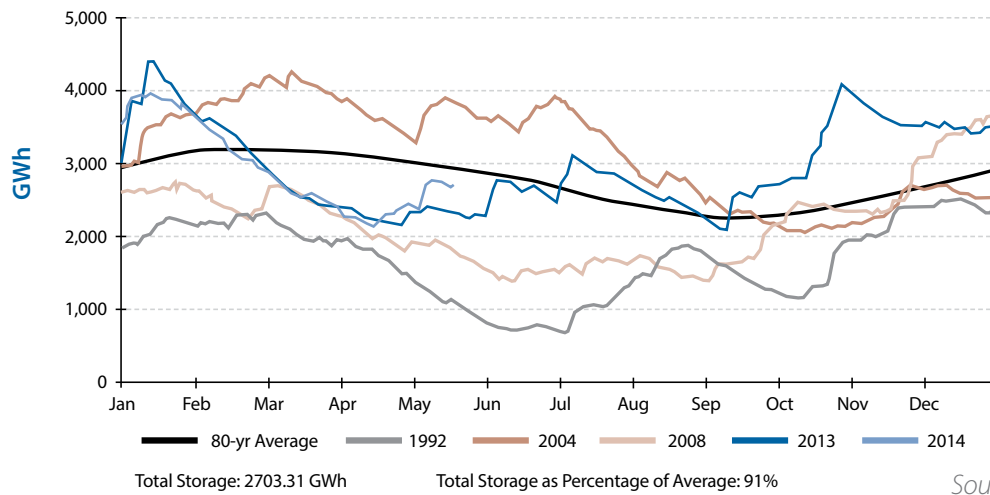
- Seismic review of all station buildings
- Mangahao No 1 dam de-silting project
- Lake Kuratau canal pontoon barrier replacement
- Mokauti head gate upgrade
- Wairere G123 decommissioning in preparation for installation of the new Turab turbine

Post the result period, KCE successfully installed the new runner in Mangahao 26MW G1 turbine, and progressed the Wairere Turab turbine to commissioning phase as discussed above.

Rob Foster,
Chief Executive Officer

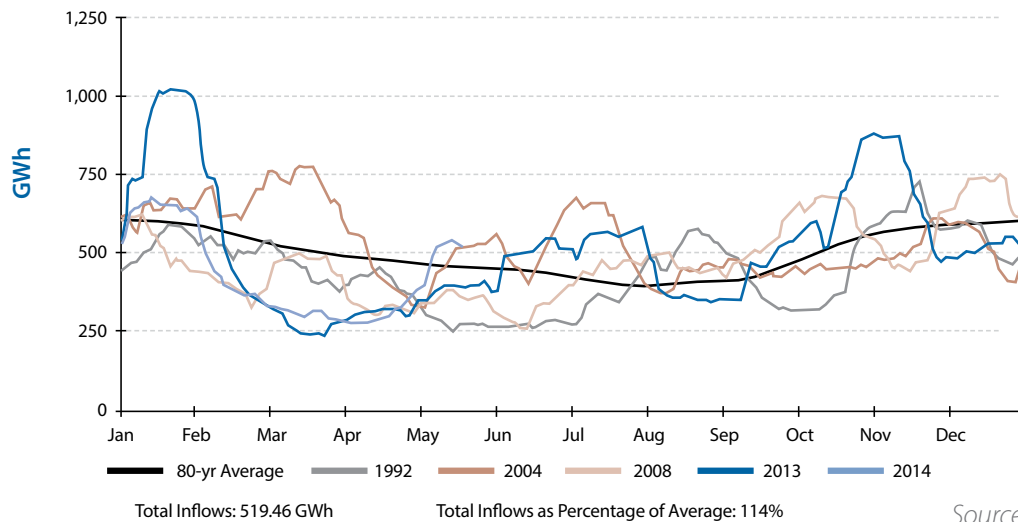


New Zealand Daily Storage



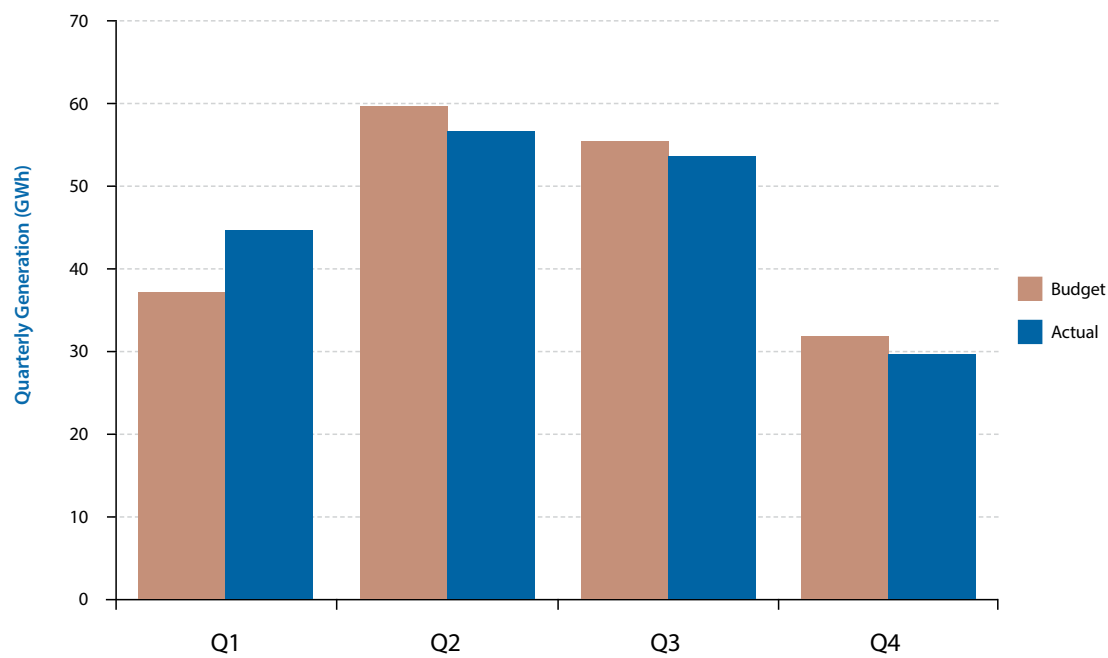
Source: NIWA

New Zealand Weekly Inflows - 30 day average

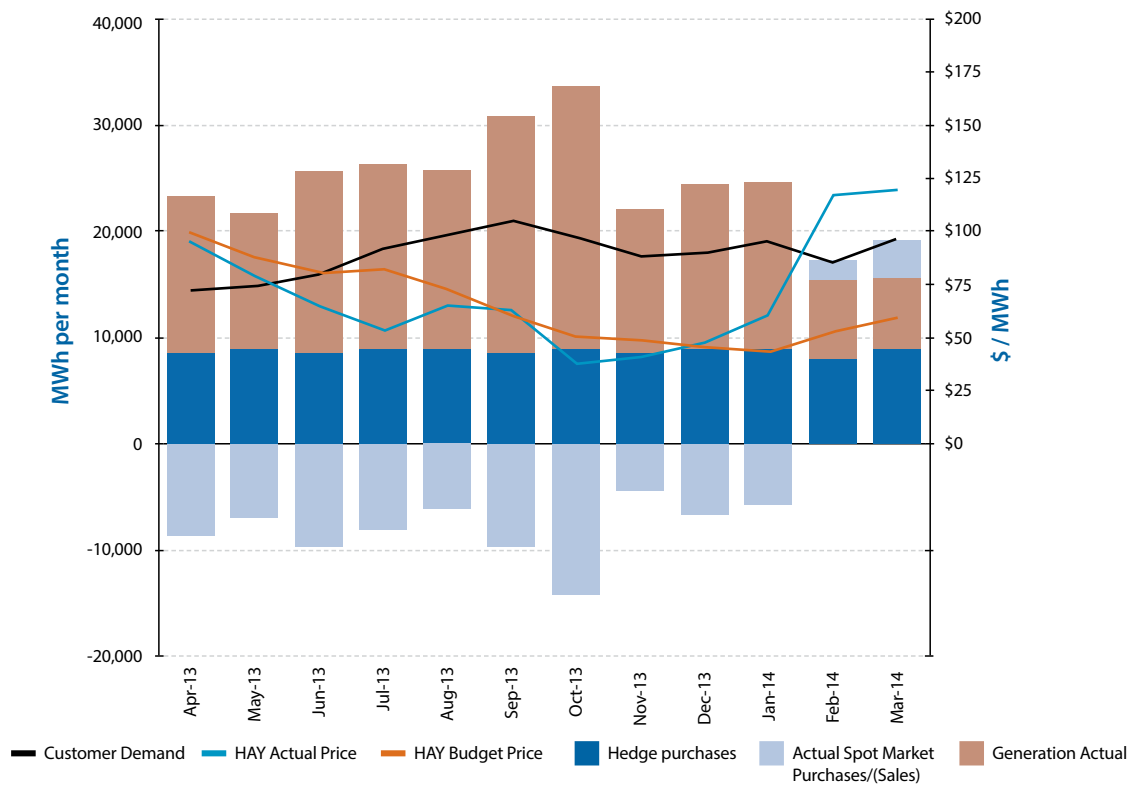


Source: NIWA

FY 2014 Generation Performance



Supply and Demand Volumes

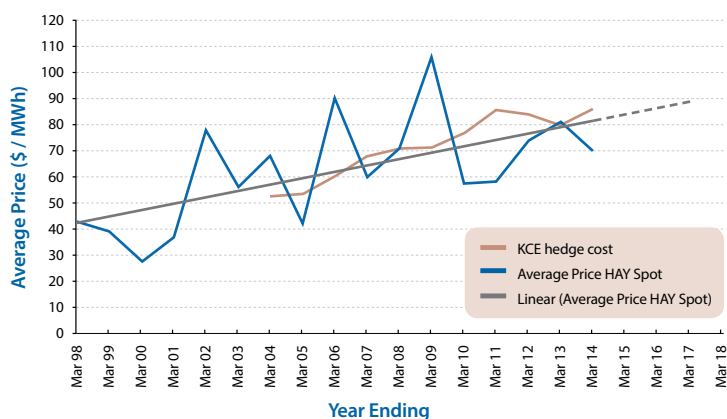


Hedging

KCE continues its hedging strategy to cover 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 contracts. 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 further reduces our exposure to volatility from year to year. The above chart 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, and KCE continues to seek new opportunities to invest in new generation.

Retail Operations

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

Retail sales volumes increased to 214 GWh for the year from 207 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 XX%, 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. {check these numbers}

Going forward, KCE will continue to defend our market position within its 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 continue to take this responsibility seriously. The health and wellbeing of our customers and providing support to our young people remain important values to us.

Two new initiatives in this community support have been introduced during the financial year.

In January, KCE entered into a major associate sponsorship with charitable organisation Philips Search & Rescue Trust. The trust provides dedicated air ambulance and rescue services throughout the Central North Island of New Zealand.

KCE's sponsorship will specifically contribute to operational costs of the Hamilton-based Westpac Rescue Helicopter that services the Waikato and King Country Region. The Waikato rescue helicopter responded to 45 missions in the King Country region in 2013.

Also in January, KCE launched a new fund which will provide financial support in the form of small grants to community groups and organisations working to improve life for people in the King Country region.

The KCE Heartland Community Fund will be offered three times a year, and will inject up to \$20,000 into the region annually. Groups and organisations undertaking community projects that meet the fund's criteria can apply for grants.

Our people

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 of employees who remain 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 on 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



Chris Fincham, Energy Supply Manager, oversees Wairere upgrade

Building Foundations

Since its implementation last financial year, our Customer Service Advocacy initiative has been extremely well received. This financial year we continued building solid relationships with our customers by going the extra mile.

The Customer Service Advocacy initiative involves our staff visiting customers in their homes, or taking calls over the phone, to answer any queries they may have about power accounts. We primarily assist elderly people and families going through tough times, talking with them to understand the nature of their issue so we can find a practical solution.

At KCE we have always taken a unique, personalised approach with customers, and our Customer Service Advocacy programme adds a whole new level.

In total, we assisted around [###] customers through this initiative this year and resolved 100% of customer concerns. Our number one focus continues to be excellent customer service and we know that this initiative helps us achieve this goal.



Tribute to Sport Awards

2013 marked the final year of KCE's sponsorship of the Otorohanga, Taumarunui and Turangi sport awards. KCE has sponsored the awards for 14 years and we've enjoyed being a part of these amazing annual tributes that recognise our region's sports men and women, their coaches and supporters. These awards have gone from strength-to-strength over the years and we wish the organisers continued success!



More than 6,500 books sponsored

through Books in Homes

As part of our ongoing commitment to empowering the young people of our region reach their full potential, KCE continues to support the Duffy Books in Homes programme, now for the twelfth year running.

As of this financial year, we are honoured to announce that we have sponsored more than 6500 books for children in six low decile King Country schools since first supporting the programme in 2002.

Turaki School in Taumarunui was our first sponsorship twelve years ago, and based on the outstanding feedback from schools and communities about the value of the programme, we extended our sponsorship in 2003 to include Centennial Park School in Te Kuiti, Te Kura Kaupapa Maori o Oparure in Te Kuiti, Whakamaru School in Mangakino and Kuratau School. At the beginning of 2014 we took on Ngakonui Valley School in Taumarunui.

The Duffy Books in Homes programme is inspired by author Alan Duff and aims to break the cycle of children who can't read and who later become adults who can't communicate well. Our sponsorship empowers children from low decile schools to select a book, which is theirs to take home and keep. Each child receives a minimum of five books per year. KCE's sponsorship covers more than 1000 children throughout the King Country region.

We feel strongly that the Duffy Books in Homes programme enhances the desire for children to read through book ownership, and we look forward to seeing many more children reap the rewards of reading in the years to come.



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 11 meetings during the year.

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 two directors as members: Brian Gurney 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 2014	For year to 31 March 2013
B J Gurney – Chairman	11	13
S R Armstrong (resigned: 25 October 2013)	6	13
M Bahirathan	11	12
B L Needham	11	12
T W Stevenson	11	13
D Abernathy (appointed: 3 September 2013, resigned: 5 February 2014)	4	
T Cosgrove (appointed: 4 April 2014)		
Meetings scheduled	11	13

Directors' Remuneration

	For year ended 31 March 2014	For year ended 31 March 2013
B J Gurney	\$43,920	\$43,080
S R Armstrong (resigned: 25 October 2013)	\$17,814	\$30,640
M Bahirathan	\$31,260	\$30,640
B L Needham	\$31,260	\$35,640
T W Stevenson	\$35,420	\$40,640
D Abernathy (appointed: 3 September 2013, resigned: 5 February 2014)	\$13,446	Nil
T Cosgrove (appointed: 4 April 2014)	Nil	Nil
	\$173,120	\$180,640

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 \$24,465 (2013: \$24,250) relating to directors and officers liability insurance. The policies do not specify the premiums for individual directors and officers.

Directors' Shareholdings

	Number Held at 31 March 2014	Number Held at 31 March 2013
B J Gurney beneficial interest	4,730	4,730
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.
(Note: update new entries during the year).

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
(retired: 26 March 2014)

Mahadevan Bahirathan

Nova Energy Ltd, NEL Farms Ltd and Crest Energy Ltd

BMG Group Ltd

Brian Leslie Needham

No Other Directorships

Toby William Stevenson

Lulu Holdings Ltd, TWS Consulting Ltd

Stephen Robert Armstrong (resigned: 25 October 2013)

Todd Carbon Ltd, Rabjaks Ltd, Moody Creek Ltd, Nova Energy Ltd, Todd Petroleum Australia Ltd, Todd Exploration Ltd, Todd Tasman Oil Ltd, GXL Royalties Ltd, Todd Shipping Ltd, Viking Holdings Ltd, Todd Taranaki Ltd, Todd Coal Ltd, Todd Maari Ltd, Viking Mining Company Ltd, Todd Pohokura Ltd, Viking Investments Ltd, Todd Mangahao Ltd, Todd Energy Ltd, Shell Todd Oil Services 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, Marokopa Drilling Ltd, Todd LHS Ltd, TSL Methanol Ltd, Todd Mangahewa Farm Ltd, NEL Farms Ltd, TTI (NZ) Ltd, Todd Energy International Ltd and Todd Sisson (NZ) Ltd.

Duncan Abernety (appointed: 3 September 2013, resigned: 5 February 2014)

Todd Technologies Limited, TUV Limited, Todd Wireless Limited, Todd International Investments Limited, Todd Industries Limited, Todd Communications Limited, TUV Holdings Limited, TII Management Limited, Balla Balla Magnetite Project (Joint venture)

Timothy Cosgrove (appointed: 4 April 2014)

Nova Energy limited, Concept Developments (2009) Limited, Crest Energy Limited, T & L Limited

Twenty Largest Shareholders

The names of the twenty largest shareholders as at 31 March 2014 are listed below:

Name	Number Held	% (of total shares on issue)
Nova Energy Limited	13,685,521	51.9
King Country Electric Power Trust	4,944,762	18.7
King Country Energy Limited*	1,067,197	4.1
H & G Limited	288,264	1.1
JBWere (NZ) Nominees Limited	231,357	0.9
Leveraged Equities Finance Limited	175,174	0.7
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	58,345	0.2
Paradise Finance Ltd	54,800	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
Cairns Lockie Holdings Ltd	29,256	0.1
West Coast Capital	27,929	0.1
Forsyth Barr Custodians	27,668	0.1
OMYA New Zealand Ltd	25,251	0.1
J M Clark & A R Gough	25,000	0.1
J B Were (NZ) Nominees Ltd	25,000	0.1
A P Thomas & G E Thomas	25,000	0.1
	21,039,307	79.8

* These shares were cancelled on 10 April 2014.

The distribution of the shareholdings as at 31 March 2014 is as follows:

Holdings Ranges	Holders	Total Shares	%
1-1,000	5,020	2,173,230	8.2
1,001-5,000	1,368	2,347,048	8.9
5,001-10,000	53	417,068	1.6
10,001-100,000	40	935,853	3.5
100,001-10,000,000	7	20,506,275	77.7
	6,488	26,379,474	100.0

Employee Remuneration

Employees who received remuneration and other benefits during the year ended 31 March 2014 exceeding \$100,000 were:

Continuing Employees:

Remuneration Range	Number of Employees	
	2014	2013
\$100,000 - \$110,000		
\$110,000 - \$120,000	1	
\$120,000 - \$130,000		1
\$130,000 - \$140,000		
\$140,000 - \$150,000	2	2
\$160,000 - \$170,000	1	
\$180,000 - \$190,000	1	
\$190,000 - \$200,000		1
\$280,000 - \$290,000		
\$320,000 - \$330,000		1
\$370,000 - \$380,000	1	

Donations

No donations were made during the year ending 31 March 2014 (2013: \$3,817).

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 2014

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 2014 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 19 to 54, for issue on 30 May 2014.

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 2014

	Note	Group		Parent	
		31.03.14 \$'000	31.03.13 \$'000	31.03.14 \$'000	31.03.13 \$'000
Operating Revenue	1	41,781	42,416	9,158	6,100
Operating Expenses	2	(35,704)	(34,236)	(3,442)	(3,477)
Financing Costs		(1,419)	(1,183)	(1,419)	(1,183)
Total Expenses		(37,123)	(35,419)	(4,861)	(4,660)
Profit Before Financial Instruments Gains & Losses		4,658	6,997	4,297	1,440
Fair Value Movement on Derivatives Gain/(Loss)	9	2,527	(3,269)	121	105
Profit Before Tax Expense		7,185	3,728	4,418	1,545
Income Tax Expense	3	(2,115)	(1,063)	620	759
Profit After Tax Expense		5,070	2,665	5,038	2,304
Other Comprehensive Income:					
Revaluation Gain on Land, Buildings and Generation Plant		-	12,352	-	4
Reverse Revaluation on Asset Impairment		(952)	-	(322)	-
Income Tax Expense on Items of Other Comprehensive Income	3	267	(3,331)	90	1
Other Comprehensive Income for the Year Net of Tax		(685)	9,021	(232)	5
Total Comprehensive Income for the Period		4,385	11,686	4,806	2,309

No items disclosed in Other Comprehensive Income are to be reclassified to Profit or Loss in subsequent periods.

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	16	\$0.20	\$0.11	-	-
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The above Statement of Comprehensive Income should be read in conjunction with Notes to the Financial Statements on pages **xx to xx**.

Statement of Changes in Equity

FOR THE YEAR ENDED 31 MARCH 2014

	Note	Group		Parent	
		31.03.14 \$'000	31.03.13 \$'000	31.03.14 \$'000	31.03.13 \$'000
Opening Equity		134,831	100,676	56,568	31,790
Total Comprehensive Income Attributable to Owners		4,385	11,686	4,806	2,309
Issue of Ordinary Shares Mangahao Purchase	4	-	36,240	-	36,240
Purchase of Treasury Stock	5	(11)	(7,190)	(11)	(7,190)
Dividends Paid to Shareholders	17	(6,135)	(6,581)	(6,135)	(6,581)
Balance at the End of the Year		133,070	134,831	55,228	56,568
Reconciliation of Movement in Equity					
Share Capital					
Opening Balance		62,507	26,267	62,507	26,267
Issue of Shares Mangahao Purchase		-	36,240	-	36,240
Balance at the End of the Year	4	62,507	62,507	62,507	62,507
Treasury Stock Reserve					
Opening Balance		(7,190)	-	(7,190)	-
Purchase of Treasury Stock		-	(5,069)	-	(5,069)
Transaction Costs		(11)	(2,121)	(11)	(2,121)
Balance at the End of the Year	5	(7,201)	(7,190)	(7,201)	(7,190)
Asset Revaluation Reserve					
Opening Balance as Previously Reported		74,242	66,146	336	331
Prior Period Adjustment		-	(925)	-	-
Opening Balance as Restated		74,242	65,221	336	331
Other Comprehensive Income		(685)	9,021	(232)	5
Balance at the End of the Year	5	73,557	74,242	104	336
Retained Earnings					
Opening Balance as Previously Reported		5,272	8,263	915	5,192
Prior Period Adjustment		-	925	-	-
Opening Balance as Restated		5,272	9,188	915	5,192
Profit/(Loss) for the Year		5,070	2,665	5,038	2,304
Ordinary Dividends Paid	17	(6,135)	(6,581)	(6,135)	(6,581)
Balance at the End of the Year	6	4,207	5,272	(182)	915
Closing Equity		133,070	134,831	55,228	56,568

In the prior year the deferred tax effect of depreciation on the revalued portion of assets was recognised directly in the revaluation reserve rather than tax expense. This error has been corrected by restatement of the prior period and the opening equity position of the prior period. This has meant that NPAT for the year ended 31 March 2013 has been increased by \$480k to \$2,665k, previously \$2,185k and the revaluation reserve reduced by the same amount resulting in an increase in reported earnings per share of \$0.02. This change is non-cash and does not change shareholders equity. There is also a prior period increase in opening retained earnings at 1 April 2012 of \$925k representing deferred tax on depreciation of the revalued portion for the financial years ended 31 March 2008 – 2012, i.e. since the adoption of IFRS by KCE. As this adjustment increases retained earnings and reduces the revaluation reserve there is no change to total equity.

The above Statement of Changes in Equity should be read in conjunction with Notes to the Financial Statements on [pages xx to xx](#).

Balance Sheet

FOR THE YEAR ENDED 31 MARCH 2014

		Group		Parent	
	Note	31.03.14	31.03.13	31.03.14	31.03.13
		\$'000	\$'000	\$'000	\$'000
Shareholders' Equity:					
Share Capital	4	62,507	62,507	62,507	62,507
Reserves	5	66,356	67,052	(7,097)	(6,854)
Retained Earnings	6	4,207	5,272	(182)	915
Total Equity		133,070	134,831	55,228	56,568
Represented by:					
Current Assets:					
Cash & Bank Balances		1,501	360	1,501	360
Trade & Other Receivables	7	3,627	3,584	163	187
Income Tax Receivable		-	-	1,584	2,206
Derivative Financial Instruments	9	68	-	68	-
Intercompany Balances	15	-	-	65,329	67,464
Total Current Assets		5,196	3,944	68,645	70,217
Non-Current Assets:					
Plant, Property & Equipment	8	185,773	190,053	531	1,169
Derivative Financial Instruments	9	165	111	165	111
Investment in Subsidiaries	10	-	-	14,300	14,300
Intangible Assets	11	1,781	1,965	218	387
Total Non-Current Assets		187,719	192,129	15,214	15,967
Total Assets		192,915	196,073	83,859	86,184
Current Liabilities:					
Trade & Other Creditors		2,003	4,244	388	3,867
Customer Credit Balances		523	491	-	-
Borrowings	12	548	52	548	52
Employee Entitlements		333	270	151	126
Income Tax Payable		327	251	-	-
Derivative Financial Instruments	9	965	2,163	7	6
Total Current Liabilities		4,699	7,471	1,094	4,051
Non-Current Liabilities:					
Borrowings	12	27,469	25,307	27,469	25,307
Derivative Financial Instruments	9	823	2,030	-	1
Deferred Tax	3	26,854	26,434	68	257
Total Non-Current Liabilities		55,146	53,771	27,537	25,565
Total Liabilities		59,845	61,242	28,631	29,616
Net Assets		133,070	134,831	55,228	56,568

The above Balance Sheet should be read in conjunction with Notes to the Financial Statements on [pages xx to xx](#).

Statement of Cash Flows

FOR THE YEAR ENDED 31 MARCH 2014

Note	Group		Parent	
	31.03.14 \$'000	31.03.13 \$'000	31.03.14 \$'000	31.03.13 \$'000
Cash Flows from Operating Activities				
Cash was Received from:				
Electricity Receipts from Customers	38,188	37,785	-	-
Interest Received	52	144	2,158	1,711
Other Receipts from Customers	4,623	3,451	-	-
Settlement of Derivatives	-	97	-	-
	42,863	41,477	2,158	1,711
Cash was Applied to:				
Payment for Electricity	(17,514)	(16,591)	-	-
Settlement of Derivatives	(1,841)	(93)	-	-
Payment for Line Charges	(2,674)	(1,961)	-	-
Payment to Other Suppliers	(5,152)	(5,847)	(1,084)	(2,038)
Payments to Employees	(3,343)	(2,920)	(1,498)	(1,309)
Income Tax Paid	(1,353)	(1,858)	(1,353)	(1,858)
Interest on Borrowings	(1,406)	(1,257)	(1,406)	(1,257)
	(33,283)	(30,527)	(5,341)	(6,462)
Net Cash Inflow/(Outflow) from Operating Activities	9,580	10,950	(3,183)	(4,751)
Cash Flows from Investing Activities				
Cash was Received from:				
Net Advances from Subsidiaries	-	-	9,759	(19,382)
Sale of Fixed Assets	67	26	-	20
	67	26	9,759	(19,362)
Cash was Applied to:				
Mangahao Assets Purchase	-	(33,963)	-	-
Fixed Assets Purchases	(3,126)	(1,284)	(55)	(141)
	(3,126)	(35,247)	(55)	(141)
Net Cash Inflow/(Outflow) from Investing Activities	(3,059)	(35,221)	9,704	(19,503)
Cash Flows from Financing Activities				
Cash was Received from:				
Borrowings	2,696	25,200	2,696	25,200
Finance Leases	-	131	-	131
	2,696	25,331	2,696	25,331
Cash was Applied to:				
Purchase of Issued Share Capital	(1,903)	(5,299)	(1,903)	(5,299)
Borrowings	(38)	-	(38)	-
Dividend Paid	(6,135)	(6,581)	(6,135)	(6,581)
	(8,076)	(11,880)	(8,076)	(11,880)
Net Cash Inflow/(Outflow) from Financing Activities	(5,380)	13,451	(5,380)	13,451
Total Net Cash Movement	1,141	(10,820)	1,141	(10,803)
Opening Cash & Bank Balances	360	11,180	360	11,163
Closing Cash & Bank Balances	1,501	360	1,501	360

Statement of Cash Flows

FOR THE YEAR ENDED 31 MARCH 2013

	Note	Group		Parent	
		31.03.14 \$'000	31.03.13 \$'000	31.03.14 \$'000	31.03.13 \$'000
Reconciliation with Operating Profit					
Profit after Tax per Statement of Comprehensive Income		5,070	2,665	5,038	2,304
Non Cash Items					
Loss/(Gain) on Disposal of Fixed Assets	2	513	63	-	51
Depreciation & Impairment	2	6,058	5,475	540	401
Change in Fair Value of Financial Instruments		(2,527)	3,269	(121)	(105)
Transfer of Tax from Subsidiaries		-	-	(2,496)	(2,861)
Increase / (Decrease) in Deferred Taxation Through Profit	3	687	(680)	(99)	(15)
Dividend from Subsidiaries		-	-	(7,000)	(4,400)
		4,731	8,127	(9,176)	(6,929)
Changes in Working Capital					
Increase / (Decrease) in Employee Entitlements		63	43	25	20
Increase / (Decrease) in Tax Payable		76	(116)	-	-
(Increase) / Decrease in Tax Receivable		-	-	622	259
(Increase) / Decrease in Receivables		(43)	268	24	(134)
Increase / (Decrease) in Payables		(317)	(37)	284	(271)
		(221)	158	955	(126)
Net Cash Inflow / (Outflow) from Operating Activities per Statement of Cash Flows		9,580	10,950	(3,183)	(4,751)

The above Statement of Cash Flows should be read in conjunction with Notes to the Financial Statements on [pages xx to xx](#).

All cash and deposits are denominated in New Zealand Dollars

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

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

REPORTING ENTITY

King Country Energy Limited is a profit-oriented company domiciled in New Zealand, 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 Equivalents 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 control 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 bears 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 recognised initially at fair value net of directly attributable transaction costs. The Group's financial liabilities include finance leases and bank borrowing.

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

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

TRADE AND OTHER CREDITORS

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

EMPLOYEE ENTITLEMENTS

Employee entitlements to salaries and wages, non-monetary benefits, annual leave, long service leave and other benefits

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

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.

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

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

NZ IFRS 9 – *Financial Instruments* – effective for periods beginning on or after 1 January 2015. This standard replaces part of IAS 39 and establishes two primary measurement categories for financial assets; amortised cost and fair value, with classification depending on an entity's business model and the contractual cashflow characteristics of the financial asset. The Group is currently in the process of evaluating the potential effect of this standard.

FOR THE YEAR ENDED 31 MARCH 2014

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	
31.03.14	31.03.13	31.03.14	31.03.13
\$'000	\$'000	\$'000	\$'000
42,066	43,161	-	-
-	159	-	-
1,888	1,445	-	-
(2,508)	(2,653)	-	-
52	132	2,158	1,699
283	172	-	1
-	-	7,000	4,400
41,781	42,416	9,158	6,100
16,113	18,289	-	-
1,578	101	-	-
2,759	1,949	-	-
-	33	-	-
143	130	9	14
5,241	4,664	-	-
1	1	-	-
100	82	15	18
201	191	159	162
226	222	211	207
5,912	5,290	394	401
146	6	146	-
-	173	-	-
-	6	-	-
146	185	146	-
118	107	-	-
5	-	-	-
59	55	64	55
1,313	1,279	322	273
3,407	2,980	1,511	1,333
200	212	200	212
513	63	-	51
1,038	882	66	65
2,543	2,811	739	1,087
35,704	34,236	3,442	3,477

FOR THE YEAR ENDED 31 MARCH 2014

Income Tax Expense

Income Statement

Current Income Tax

Current Income Tax

Prior Period Adjustment

Deferred Income Tax

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

Reversal on Impairment of Property Plant & Equipment

Reported Tax Expense on Other Comprehensive Income

Group		Parent	
31.03.14	31.03.13	31.03.14	31.03.13
\$'000	\$'000	\$'000	\$'000
1,244	1,761	(666)	(744)
184	(18)	145	-
1,428	1,743	(521)	(744)
771	(678)	(54)	(16)
(84)	(2)	(45)	1
687	(680)	(99)	(15)
2,115	1,063	(620)	(759)
-	3,331	-	1
-	-	-	(2)
(267)	-	(90)	-
(267)	3,331	(90)	(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

Prior Period Adjustment

Income Tax Expense

7,185	3,728	4,418	1,545
2,012	1,044	1,237	432
-	-	(1,960)	(1,232)
3	37	3	38
-	-	-	2
100	(20)	100	1
2,115	1,061	(620)	(759)

Notes to the Financial Statements

FOR THE YEAR ENDED 31 MARCH 2014

DEFERRED TAXATION

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

Property Plant and Equipment

	Group		Parent	
	31.03.14	31.03.13	31.03.14	31.03.13
	\$'000	\$'000	\$'000	\$'000
Opening Balance	(27,633)	(24,056)	(253)	(293)
Current Year Temporary Differences - Through Income	(73)	(253)	83	37
Current Year Temporary Differences - Through Equity	-	-	-	2
Asset Revaluation	-	(3,331)	-	(1)
Reversal on Impairment of Assets - Through Equity	267	-	90	-
Correction to Prior Year	89	7	49	2
Balance at the End of the Year	(27,350)	(27,633)	(31)	(253)

Employee Benefits

Opening Balance	50	39	25	20
Current Year Temporary Differences - Through Income	13	19	6	8
Correction to Prior Year	(7)	(8)	(2)	(3)
Balance at the End of the Year	56	50	29	25

Financial Instruments

Opening Balance	1,143	228	(29)	-
Current Year Temporary Differences - Through Income	(708)	915	(35)	(29)
Correction to Prior Year	(2)	-	(2)	-
Balance at the End of the Year	433	1,143	(66)	(29)

Other Provisions

Opening Balance	6	6	-	-
Current Year Temporary Differences - Through Income	(3)	(3)	-	-
Correction to Prior Year	4	3	-	-
Balance at the End of the Year	7	6	-	-

Total

Opening Balance	(26,434)	(23,783)	(257)	(273)
Current Year Temporary Differences - Through Income	(771)	678	54	16
Current Year Temporary Differences - Through Equity	-	-	-	2
Asset Revaluation	-	(3,331)	-	(1)
Reversal on Impairment of Assets - Through Equity	267	-	90	-
Correction to Prior Year	84	2	45	(1)
Balance at the End of the Year	(26,854)	(26,434)	(68)	(257)

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 2014

IMPUTATION CREDIT ACCOUNT

Balance at the End of the Year

Group		Parent	
31.03.14	31.03.13	31.03.14	31.03.13
\$'000	\$'000	\$'000	\$'000
956	1,592		

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

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

As at 31 March 2014 there were 26,379,474 ordinary shares authorised, and fully paid (2013: 26,379,474). At the same date 1,067,197 fully paid shares (2013 1,067,197) were held by the Group as Treasury stock. 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 and does not receive a dividend.

5 RESERVES

Treasury Stock Reserve

Balance at Beginning of the Year

Purchase of Treasury Stock

Transaction Costs

Balance at the End of the Year

(7,190)	-	(7,190)	-
-	(5,069)	-	(5,069)
(11)	(2,121)	(11)	(2,121)
(7,201)	(7,190)	(7,201)	(7,190)

As at 31 March 2014 there were 1,067,197 shares in the pool of Treasury Stock (2013 1,067,197).

Subsequent to year end the Directors determined that the shares held as treasury stock shall be cancelled and the Stock written off against the value of the Treasury Stock Reserve giving no effect on Shareholders Equity.

Asset Revaluation Reserve

Balance at Beginning of the Year as Previously Reported

Prior Period Adjustment

Balance at Beginning of the Year as Restated

Asset Revaluation

Reversal of revaluation on Impairment

Deferred Tax on Revalued Assets

Balance at the End of the Year

74,722	66,146	336	331
-	(925)	-	-
74,722	65,221	336	331
-	12,352	-	4
(952)	-	(322)	-
267	(2,851)	90	1
74,037	74,722	104	336

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

Notes to the Financial Statements

FOR THE YEAR ENDED 31 MARCH 2014

6 RETAINED EARNINGS

Balance at Beginning of the Year as Previously Reported	5,272	8,263
Prior Period Adjustment	-	925
Balance at Beginning of the Year as Restated	5,272	9,188
Profit after Tax Expense	5,070	2,665
Dividends	(6,135)	(6,581)
Balance at the End of the Year	4,207	5,272

7 ACCOUNTS RECEIVABLE

Electricity Receivables	1,099	1,268
Other Receivables	1,825	1,691
Prepayments	703	625
Balance at the End of the Year	3,627	3,584

Group		Parent	
31.03.14	31.03.13	31.03.14	31.03.13
\$'000	\$'000	\$'000	\$'000
5,272	8,263	915	5,192
-	925	-	-
5,272	9,188	915	5,192
5,070	2,665	5,038	2,304
(6,135)	(6,581)	(6,135)	(6,581)
4,207	5,272	(182)	915
1,099	1,268	-	-
1,825	1,691	-	-
703	625	163	187
3,627	3,584	163	187

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 advance 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 2 (2013 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	20	20
Additions/(Reductions) to the Impairment Allowance	5	-
Balance at End of the Year	25	20

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

Current	2,565	2,215
Overdue but not Impaired	359	746
Overdue and Impaired	25	18
Impairment Allowance	(25)	(20)
	2,924	2,959

FOR THE YEAR ENDED 31 MARCH 2014

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 or Loss

Impairment Through Other Comprehensive Income

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

Disposals

Revaluation Uplift

Impairment Through Profit or 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

Disposals

Revaluation Uplift

Impairment Through Profit or Loss

Impairment Through Other Comprehensive Income

Depreciation Charge for the Year

Balance at the End of the Year

Carrying Amount at Historical Cost

Group		Parent	
31.03.14	31.03.13	31.03.14	31.03.13
\$'000	\$'000	\$'000	\$'000
198,921	200,438	-	-
(33,039)	(28,210)	-	-
165,882	172,228	-	-
172,228	100,022	-	-
38	66,047	-	-
-	10,996	-	-
(513)	(173)	-	-
(630)	-	-	-
(5,241)	(4,664)	-	-
165,882	172,228	-	-
96,534	100,330	-	-
5,166	5,181	115	115
(12)	(11)	-	-
5,154	5,170	115	115
5,170	3,766	115	114
-	939	-	-
(15)	-	-	-
-	472	-	1
-	(6)	-	-
(1)	(1)	-	-
5,154	5,170	115	115
1,847	1,850	50	50
10,312	11,022	695	695
(893)	(979)	(695)	(218)
9,419	10,043	-	477
10,043	5,991	477	488
-	3,304	-	-
(13)	-	-	-
-	884	-	3
(146)	(6)	(146)	-
(322)	-	(322)	-
(143)	(130)	(9)	(14)
9,419	10,043	-	477
5,738	6,009	-	181

Notes to the Financial Statements

FOR THE YEAR ENDED 31 MARCH 2014

Motor Vehicles

Cost	732	601
Accumulated Depreciation and Impairment	(211)	(170)

Net Carrying Amount

Net Carrying Amount Beginning of Year	431	306
Additions	229	251
Disposals	(39)	(44)
Depreciation Charge for the Year	(100)	(82)

Balance at the End of the Year

Office Equipment & Furniture

Cost	1,502	1,352
Accumulated Depreciation and Impairment	(1,015)	(839)

Net Carrying Amount

Net Carrying Amount Beginning of Year	513	597
Additions	154	87
Disposals	-	(1)
Depreciation Charge for the Year	(180)	(170)

Balance at the End of the Year

Leased Office Equipment & Furniture

Cost	104	104
Accumulated Depreciation and Impairment	(24)	(3)

Net Carrying Amount

Net Carrying Amount Beginning of Year	101	63
Additions	-	104
Disposals	-	(45)
Depreciation Charge for the Year	(21)	(21)

Balance at the End of the Year

Development and Construction Projects

Development Projects at Cost	4,230	1,567
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Net Carrying Amount

Net Carrying Amount Beginning of the Year	1,567	867
Additions	2,736	968
Transfers	(73)	(268)

Balance at the End of the Year

Total Property, Plant & Equipment

Group		Parent	
31.03.14	31.03.13	31.03.14	31.03.13
\$'000	\$'000	\$'000	\$'000
732	601	124	124
(211)	(170)	(44)	(29)
521	431	80	95
431	306	95	80
229	251	-	60
(39)	(44)	-	(27)
(100)	(82)	(15)	(18)
521	431	80	95
1,502	1,352	865	843
(1,015)	(839)	(615)	(480)
487	513	250	363
513	597	363	457
154	87	25	48
-	(1)	-	(1)
(180)	(170)	(138)	(141)
487	513	250	363
104	104	104	104
(24)	(3)	(24)	(3)
80	101	80	101
101	63	101	63
-	104	-	104
-	(45)	-	(45)
(21)	(21)	(21)	(21)
80	101	80	101
4,230	1,567	6	18
4,230	1,567	6	18
1,567	867	18	141
2,736	968	-	12
(73)	(268)	(12)	(135)
4,230	1,567	6	18
185,773	190,053	531	1,169

Notes to the Financial Statements

FOR THE YEAR ENDED 31 MARCH 2014

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 2014 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

9 DERIVATIVE FINANCIAL INSTRUMENTS

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

Level Two Derivatives

Opening Carrying Value

Revaluation of Derivatives

Portion of Fair Value Consumed on Maturity

Balance at the End of the Year Level Two

Level Three Derivatives

Opening Carrying Value

Derivatives Acquired at Fair Value

Termination of Derivatives

Revaluation of Derivatives

Portion of Fair Value Consumed on Maturity

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:

Level Two Derivatives

Revaluation of Derivatives

Portion of Fair Value Consumed on Maturity

Total (Loss)/Gain on Valuation

Level Three 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 Gain/(Loss) on Valuation

Total Gain/(Loss) on Derivatives

Total Gain/(Loss) on All Derivative Levels

Group		Parent	
31.03.14	31.03.13	31.03.14	31.03.13
\$'000	\$'000	\$'000	\$'000
105	-	105	-
171	105	171	105
(50)	-	(50)	-
226	105	226	105
(4,187)	(813)	-	-
(191)	463	-	-
-	(149)	-	-
403	(4,559)	-	-
2,194	871	-	-
(1,781)	(4,187)	-	-
(1,555)	(4,082)	226	105
171	105	171	105
(50)	-	(50)	-
121	105	121	105
-	159	-	-
(1,578)	(101)	-	-
(1,578)	58	-	-
(191)	463	-	-
-	(149)	-	-
403	(4,559)	-	-
2,194	871	-	-
2,406	(3,374)	-	-
828	(3,316)	-	-
949	(3,211)	121	105

Notes to the Financial Statements

FOR THE YEAR ENDED 31 MARCH 2014

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 dates running to 31/12/16 (2013: 31/12/2016). The total nominal volume of derivatives is 304.1 GWh (2013 394.8 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	
31.03.14	31.03.13	31.03.14	31.03.13
\$'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 the 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, when KCE Mangahao Ltd acquired the Todd Mangahao Ltd assets.

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

11 INTANGIBLE ASSETS

Goodwill - Opening & Closing Balance

Computer Software

Cost

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	-	-
1,294	1,253	1,165	1,123
(1,073)	(848)	(947)	(736)
221	405	218	387
405	572	387	542
42	55	42	52
(226)	(222)	(211)	(207)
221	405	218	387
405	572	387	542
1,781	1,965	218	387

Notes to the Financial Statements

FOR THE YEAR ENDED 31 MARCH 2014

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

Goodwill's value in use has been determined with reference to the five year business plan for the Group for the period commencing on 1 April 2014 and ending on 31 March 2019. Anticipated cash flows beyond 31 March 2019 are excluded from the calculation of value in use. The key factors determining value in use are electricity sale and purchase prices and sales volumes.

A small decline in customer numbers is assumed over the forecast period as a consequence of increased competition in our incumbent market. Growth is assumed in some key target markets building on growth achieved in these markets during the current year. Consumption per customer is assumed to remain at its current level. Modelled prices are either stable or declining slightly and reduce in real terms.

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% (2013 10.0%) to the pre-tax and pre interest cash flow of the retail operations. The terminal growth rate is assumed to be 1.5% (2013 1.5%)

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	
	31.03.14 \$'000	31.03.13 \$'000	31.03.14 \$'000	31.03.13 \$'000
	52	52	52	52
	496	-	496	-
	548	52	548	52
	69	107	69	107
	27,400	25,200	27,400	25,200
	27,469	25,307	27,469	25,307
	56	56	56	56
	56	56	56	56
	32	88	32	88
	144	200	144	200
	52	52	52	52
	46	44	46	44
	23	63	23	63
	121	159	121	159

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.

Notes to the Financial Statements

FOR THE YEAR ENDED 31 MARCH 2014

Term Loan

The Group has a \$40 million unsecured term loan facility with an expiry date of 31 May 2015. Of the total facility \$30m is available for borrowing and \$10m is available to provide letters of credit and other bank guarantees. Interest is calculated as bank bill rate plus a margin and facility fees are payable. The facility is subject to negative pledges in respect to interest cover, gearing ratio, leverage and distributions to owners. As at balance date the Group complied with all bank imposed ratios and had met all other obligations imposed upon it by the loan document.

13 CAPITAL COMMITMENTS

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

Capital Expenditure

Replacement Runner Mangahao
New Generator Wairere
Wairere Needle Gate
LPG Project

Group		Parent	
31.03.14	31.03.13	31.03.14	31.03.13
\$'000	\$'000	\$'000	\$'000
-	131	-	-
580	1,923	-	-
5	-	-	-
-	56	-	-
585	2,110	-	-

14 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). Group Companies are parties to a number of transactions with the following related parties:

Nova Energy Limited, a 51.9% (2013 51.9%) before excluding treasury stock, 54.1% (2013 54.1%) excluding treasury stock shareholder in King Country Energy Limited (hereafter referred to as Nova Energy).

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 (2013: nil).

Nova Energy holds the management contract for the Mangahao power station under which it manages the operation of the station, employs station staff and despatches the plant to market. For this service 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.

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 2014

	Group		Parent	
	31.03.14	31.03.13	31.03.14	31.03.13
	\$'000	\$'000	\$'000	\$'000
Transactions with Related Parties				
Purchases				
Nova Energy Ltd (excluding cost reimbursements)	167	172	-	-
Mangahao Joint Venture	-	317	-	-
Sales				
Nova Energy Ltd	-	456	-	-
Mangahao Joint Venture	-	456	-	-
Payables				
Nova Energy Ltd	58	45	-	-
Receivables				
Mangahao Joint Venture	-	68	-	-
Balances with Group Companies				
KCE Retail Limited	-	-	(810)	(1,147)
KCE Generation Limited	-	-	866	(1,305)
KCE Mangahao Limited	-	-	65,273	69,916
			65,329	67,464
Compensation for Key Management Personnel				
Short-term Employee Benefits	1,139	1,028	1,139	1,028
Total Compensation	1,139	1,028	1,139	1,028

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 2014

15 FINANCIAL INSTRUMENTS

The Group holds the following classes of financial instrument

Financial Assets Held for Trading Through Profit and Loss

Derivative Financial instruments

Loans and Receivables

Cash & Cash Equivalents

Trade Receivables

Intercompany Balances

Financial Liabilities Held for Trading Through Profit and Loss

Derivative Financial instruments

Other Liabilities at Amortised Cost

Trade & Other Creditors

Borrowings

Group		Parent	
31.03.14	31.03.13	31.03.14	31.03.13
\$'000	\$'000	\$'000	\$'000
233	111	233	111
233	111	233	111
1,501	360	1,501	360
2,924	2,959	-	-
-	-	65,329	67,464
4,425	3,319	66,830	67,824
1,788	4,193	7	6
1,788	4,193	7	6
2,526	5,004	539	3,994
27,896	25,359	27,896	25,359
30,422	30,363	28,435	29,353

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.

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 historical 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 \$5.37 per tonne (2013: \$4.56). During the forecast period the minimum spot price is assumed to be \$51.40 per Mwh (2013: \$43.22) and the maximum price \$120.04 per Mwh (2013: \$111.50).

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 historical differences from Hayward's prices adjusted for expected changes in supply and demand at the respective grid exit points. Location factors range from 0.911 to 1.039 (2013: 0.903 to 1.047) over the forecast period.

Notes to the Financial Statements

FOR THE YEAR ENDED 31 MARCH 2014

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

GROUP

31 March 2014

Assets

Interest Rate Swaps

Liabilities

Electricity Price Derivatives

Forward Currency Contracts

31 March 2013

Assets

Interest Rate Swaps

Liabilities

Electricity Price Derivatives

Forward Currency Contracts

PARENT

31 March 2014

Assets

Interest Rate Swaps

Liabilities

Forward Currency Contracts

31 March 2013

Assets

Interest Rate Swaps

Liabilities

Forward Currency Contracts

Level 1	Level 2	Level 3	Total
\$000	\$000	\$000	\$000
-	233	-	233
-	-	1,781	1,781
-	7	-	7
-	111	-	111
-	-	4,411	4,411
-	6	-	6
-	233	-	233
-	7	-	7
-	111	-	111
-	6	-	6

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 2014

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 derivative contracts 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 88% (2013: 72%) 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 2014 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 Groups 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. Debt subject to interest rate fluctuations represents 9% (2013 1%) of total borrowing.

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 2014

Sensitivity Analysis

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

	Group		Parent	
	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	1,423	1,675	-	-
Increase/(Decrease) in Assets of a 10% Increase in electricity price	-	966	-	-
Increase/(Decrease) in Liabilities of a 10% Increase in electricity price	(1,423)	(709)	-	-
Increase/(Decrease) in Profit of a 10% Decrease in electricity price	(1,423)	(1,675)	-	-
Increase/(Decrease) in Assets of a 10% Decrease in electricity price	-	-	-	-
Increase/(Decrease) in Liabilities of a 10% Decrease in electricity price	1,423	1,675	-	-

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

Notes to the Financial Statements

FOR THE YEAR ENDED 31 MARCH 2014

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 2014

Net Settled Electricity Price Derivatives
Accounts Payable and Accruals
Borrowings

At 31 March 2013

Net Settled Electricity Price Derivatives
Accounts Payable and Accruals
Borrowings

PARENT

At 31 March 2014

Accounts Payable and Accruals
Borrowings
Intercompany Borrowing

At 31 March 2013

Accounts Payable and Accruals
Borrowings
Intercompany Borrowing

	Less than 1 month	1-6 Months	6-12 Months	Over 1 Year
	\$000	\$000	\$000	\$000
At 31 March 2014				
Net Settled Electricity Price Derivatives	-	211	1,414	1,338
Accounts Payable and Accruals	3,186	-	-	-
Borrowings	137	1,132	781	27,760
	3,323	1,343	2,195	29,098
At 31 March 2013				
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 2014				
Accounts Payable and Accruals	539	-	-	-
Borrowings	137	1,132	781	27,760
Intercompany Borrowing	-	-	-	810
	676	1,132	781	28,570
At 31 March 2013				
Accounts Payable and Accruals	2,068	1,925	-	-
Borrowings	5	832	629	26,581
Intercompany Borrowing	-	-	-	2,619
	2,073	2,757	629	29,200

Notes to the Financial Statements

FOR THE YEAR ENDED 31 MARCH 2014

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 2014 were 98% of long run average while those achieved in 2013 were 91%.

	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	(1,796)	(481)	-	-
Impact of a 20% increase in generation on Post Tax Profit	1,796	3,625	-	-

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 2014

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	
31.03.14	31.03.13	31.03.14	31.03.13
\$'000	\$'000	\$'000	\$'000
548	52	548	52
27,469	25,307	27,469	25,307
(1,501)	(360)	(1,501)	(360)
26,516	24,999	26,516	24,999
133,070	134,831	55,228	56,568
159,586	159,830	81,744	81,567
16.6%	15.6%	32.4%	30.6%

16 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)

5,070	2,665
5,070	2,665
25,312	24,371

There are no instruments on issue that could potentially dilute basic earnings per share in the future. Since balance date directors have cancelled the 1,067,197 shares of Treasury Stock leaving 25,312,277 shares on issue.

17 DIVIDENDS

The Board of Directors recommended and shareholders resolved to pay a final dividend of 13 cents together with an imputation credit of 2.7 cents per ordinary share on the 5th of August 2013. Directors resolved to pay an interim dividend of 13 cents together with an imputation credit per ordinary share on the 9th of December 2013 for a total cash distribution to shareholders during the year of \$6,581,192 (2013: \$6,581,192).

During the year directors resolved in accordance with the Constitution to repay to the Group all unclaimed dividends outstanding for more than five years subject to such dividends being paid to their owners should they claim them. A total of \$446,000 was returned to the Group and credited against dividend payments.

Subsequent to year end, the Board of Directors resolved to pay a final dividend of xx cents per ordinary share, a total cash distribution of \$xx. Imputation credits of x.x cents per share are to be attached to the dividend making the gross dividend equivalent to xx.x cents per share. The dividend will be paid on xxx. This amount has not been recognised as a liability in 2014 but will be brought to account in 2015.

Notes to the Financial Statements

FOR THE YEAR ENDED 31 MARCH 2014

18 SEGMENT REPORTING

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

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

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

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

	Retail		Generation		Total	
	31.03.14	31.03.13	31.03.14	31.03.13	31.03.14	31.03.13
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Revenue						
Sales to External Customers	26,561	27,412	12,479	12,692	39,040	40,104
Other Revenue from External Customers	186	127	2,516	2,090	2,702	2,217
Inter-segment Sales	-	-	19,898	20,747	19,898	20,747
Total Segment Revenues	26,747	27,539	34,893	35,529	61,640	63,068
Unallocated Revenue	-	-	-	-	39	95
Total Segment Revenue	26,747	27,539	34,893	35,529	61,679	63,163

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

Results

Segment Results before Tax and Financing Costs	2,458	3,226	7,310	3,357	9,768	6,583
Unallocated Expenses	-	-	-	-	(1,164)	(1,672)
	2,458	3,226	7,310	3,357	8,604	4,911
Financing Costs	-	-	-	-	-	-
Unallocated Financing Costs	-	-	-	-	(1,419)	(1,183)
	-	-	-	-	(1,419)	(1,183)
Income Tax	(688)	(883)	(2,047)	(939)	(2,735)	(1,822)
Unallocated Income Tax	-	-	-	-	620	759
	(688)	(883)	(2,047)	(939)	(2,115)	(1,063)
Segment Net Operating Profit After Tax	1,770	2,343	5,263	2,418	5,070	2,665

Notes to the Financial Statements

FOR THE YEAR ENDED 31 MARCH 2014

	Retail		Generation		Total	
	31.03.14	31.03.13	31.03.14	31.03.13	31.03.14	31.03.13
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Assets and Liabilities						
Segment Assets	4,608	4,335	185,662	189,524	190,270	193,859
Unallocated Assets	-	-	-	-	2,645	2,214
Total Assets	4,608	4,335	185,662	189,524	192,915	196,073
Segment Liabilities	1,984	1,818	30,814	32,013	32,798	33,831
Unallocated Liabilities	-	-	-	-	27,047	27,411
Total Liabilities	1,984	1,818	30,814	32,013	59,845	61,242
Other Segment Information						
Capital Expenditure	173	218	2,898	71,128	3,071	71,346
Unallocated Capital Expenditure	-	-	-	-	55	141
Total Capital Expenditure	173	218	2,898	71,128	3,126	71,487
Depreciation and Amortisation	66	35	5,452	4,855	5,518	4,890
Unallocated Depreciation & Amortisation	-	-	-	-	395	400
Total Depreciation and Amortisation	66	35	5,452	4,855	5,913	5,290
Impairment of Fixed Assets	-	-	-	185	-	185
Unallocated Impairment of Fixed Assets	-	-	-	-	146	-
	-	-	-	185	146	185
Other Non-cash Expenses	120	119	512	3,585	632	3,704
Unallocated Other Non-cash Expenses	-	-	-	-	52	70
Total Other Non-cash Expenses	120	119	512	3,585	684	3,774
Cash Flow Information						
Net Cash Inflow From Operating Activities	2,526	3,204	10,237	12,497	12,763	15,701
Unallocated Net Cash Outflow From Operating Activities	-	-	-	-	(3,183)	(4,751)
Total Operating Cash Flow	2,526	3,204	10,237	12,497	9,580	10,950
Net Cash Outflow From Investing Activities	(526)	(3,204)	(5,237)	(12,514)	(5,763)	(15,718)
Unallocated Net Cash Outflow From Investing Activities	-	-	-	-	2,704	(19,503)
Total Investing Cash Flow	(526)	(3,204)	(5,237)	(12,514)	(3,059)	(35,221)
Net Cash Flow From Financing Activities	-	-	-	-	-	-
Unallocated Net Cash Flow From Financing Activities	-	-	-	-	(5,380)	13,451
Total Financing Cash Flow	-	-	-	-	(5,380)	13,451

Notes to the Financial Statements

FOR THE YEAR ENDED 31 MARCH 2014

19 EVENTS SUBSEQUENT TO BALANCE DATE

Dividend

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

Treasury Stock

At their meeting held on 10 April 2014 the Directors determined that the 1,067,197 shares comprising Treasury Stock are to be cancelled with immediate effect. There is no financial impact from this decision as the Treasury Stock Reserve fully provides for the financial effect of this decision.

Balance Date

At their meeting held on 10 April 2014 the directors determined that the balance dates of all companies in the group would change to 31 December. The first set of accounts prepared for the new balance date will be for the nine months ending 31 December 2014.

Independent Auditor's Report



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 judgment, 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.

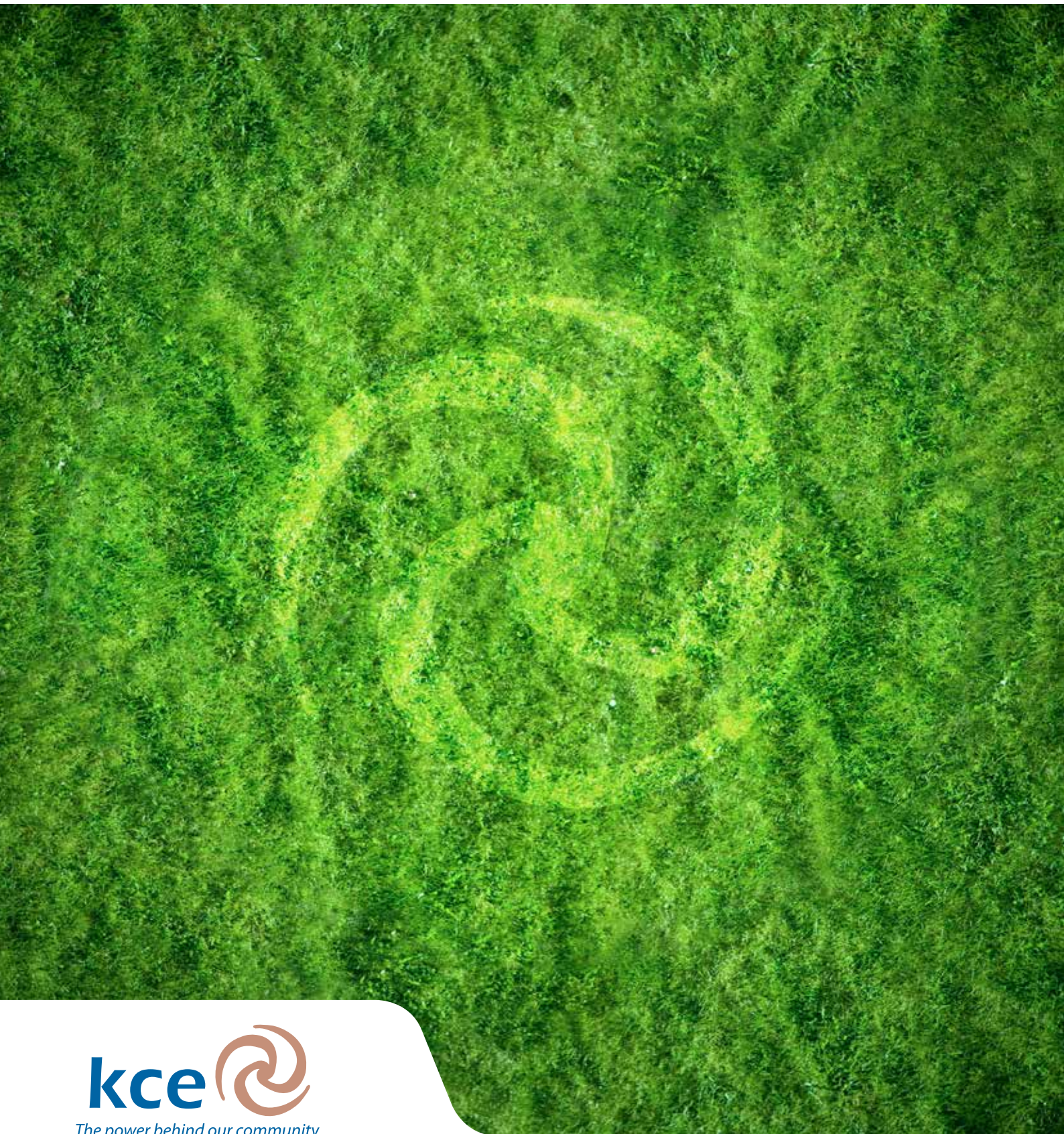
Ernst & Young

14 June 2013
Wellington

King Country Energy

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

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



Registered Office Corner Manuaute & Miriama Streets, Taumarunui 3946

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