



KING COUNTRY ENERGY LIMITED

TARGET COMPANY STATEMENT

**IN RESPONSE TO A FULL TAKEOVER OFFER FROM
KING COUNTRY ENERGY HOLDINGS LIMITED**

30 NOVEMBER 2015

This is an important document and requires your urgent attention. If you have any questions in respect of this document or the offer, you should seek advice from your financial or legal adviser.

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LETTER FROM THE CHAIRMAN OF THE INDEPENDENT COMMITTEE

30 November 2015

Dear King Country Energy Limited shareholder

THE INDEPENDENT COMMITTEE OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT YOU SHOULD NOT ACCEPT THE TAKEOVER OFFER BY KING COUNTRY ENERGY HOLDINGS LIMITED

Introduction

Trustpower Limited, through its wholly owned subsidiary King Country Energy Holdings Limited, is making a full takeover offer to acquire all of the shares in King Country Energy Limited. Trustpower Limited is listed on the NZX Main Board. Nova Energy Limited, which owns 54.07% of KCE's shares, has agreed to accept the offer.

This letter forms part of KCE's Target Company Statement in response to Trustpower's offer. The Target Company Statement is required by the Takeovers Code and includes the Independent Committee's recommendation on the offer, as well as an Independent Adviser's Report, prepared by Simmons Corporate Finance Limited. You should read the Target Company Statement, including the Independent Adviser's Report, carefully and in full when considering whether to accept the offer.

Independent Committee of Directors

Your Board has formed an Independent Committee of Directors, comprising Toby Stevenson and Linda Robertson, to consider the offer, and to oversee preparation of this Target Company Statement. The Independent Committee sought advice from West Coast Capital Limited as financial adviser and Harnos Horton Lusk Limited as legal adviser, and carefully considered Simmons Corporate Finance Limited's report.

Offer price

Trustpower's offer has a two-tier offer price:

- If Trustpower receives acceptances to its offer for between 50.1% and 70.2% of KCE's shares, the offer price will be **\$4.78** per share.
- If Trustpower receives acceptances to its offer for 70.2% or more of KCE's shares, the offer price will be **\$5.00** per share.

Trustpower will not count any acceptances received from the King Country Electric Power Trust, which holds 19.98% of KCE's shares, in calculating the level of acceptances it has received for the purposes of determining the offer price.

Recommendation of the Independent Committee

The Independent Committee notes the following:

- The offer is, in effect, an offer of \$4.78 per KCE share. There is no guarantee that the offer price will increase to \$5.00. No individual shareholder can ensure that this offer price is achieved.
- The Independent Committee believes that the offer price of \$4.78 per share does not adequately compensate you for the current and potential future benefits of ownership of KCE shares.
- The Independent Committee expects that the significance of the 70.02% acceptance threshold Trustpower has set for the \$5.00 offer price is that this is the percentage shareholding that ensures that, if achieved, Trustpower would subsequently reach a 90% shareholding (the level that would allow Trustpower to be able to compulsorily acquire the remaining KCE shares) if the KCEP Trust (which owns 19.98% of KCE's shares) was to accept the offer. However, a 70.02% shareholding in KCE does not provide Trustpower with any more legal control over KCE than a 54.07% shareholding.¹
- The Independent Committee requested that Trustpower remove the two-tier offer price structure and, instead, make the offer at a single price of \$5.00 per share regardless of the level of acceptances. Trustpower did not agree to this.
- As noted above, Nova has agreed to accept the offer at \$4.78 per share for its 54.07% shareholding in KCE. However, Nova made that decision based on its own investment objectives, investment horizon and circumstances – which may differ from yours.

The Independent Committee unanimously recommends that you SHOULD NOT accept the offer, unless the offer price is increased to \$5.00 per share regardless of the level of acceptances.

The key factors which influenced the Independent Committee's considerations and recommendation to KCE shareholders are addressed in more detail in the Assessment of the Offer section of this Target Company Statement and in the Independent Adviser's Report. **You are encouraged to read those factors carefully and in full.**

Ultimately, it is your decision whether or not to accept the offer. When making this decision you should consider your own individual circumstances, views on value and the merits of the offer, and investment time horizon. You are encouraged to consider taking your own separate professional advice (e.g. from your lawyer or financial adviser) tailored to your circumstances.

Key features of the offer

The full terms and conditions of Trustpower's offer are set out in Trustpower's Offer Document, which accompanies this Target Company Statement. Other than the offer price, which is set out above, the key features of the offer are as follows:

- The offer is a full offer to acquire all of the fully paid ordinary shares in KCE.

¹ On the acquisition of Nova's 54.07% shareholding in KCE, Trustpower will be able to pass an ordinary resolution of shareholders (a resolution which requires a bare majority of the votes cast on the resolution) by itself. As a 70.02% shareholder Trustpower will still be able to pass an ordinary resolution but will not hold the 75% shareholding necessary to pass a special resolution of shareholders. For more information on the effective control that Trustpower may have, see "Control of KCE will pass to Trustpower" on page 7.

- The offer is conditional on Trustpower receiving acceptances to the offer for at least 50.1% of KCE's shares. Trustpower cannot waive this minimum acceptance condition. This condition will be satisfied because Nova has agreed to accept the offer for its 54.07% shareholding in KCE.
- The offer is also conditional on certain other matters, including that KCE's business is carried on in the ordinary course. Importantly, on satisfaction of the minimum acceptance condition, Trustpower must declare the offer unconditional in all respects (provided that there has been no condition breach prior to that time). In other words, Trustpower must declare the offer unconditional when Nova has accepted the offer.

Acceptance of the offer

If you do not wish to accept the offer, you do not need to take any action.

If you wish to accept the offer, please use the Acceptance Form that accompanies Trustpower's Offer Document. Complete and return your acceptance in accordance with the instructions on that form. **Acceptances, once given, cannot be withdrawn** unless Trustpower fails to pay you for your KCE shares in accordance with the Takeovers Code.

If you wish to accept the offer for only some of your shareholding, you should follow the instructions in the Offer Document and the Acceptance Form.

Timing

The offer will close at 11.59pm on 29 January 2016, unless extended by Trustpower in accordance with the Takeovers Code. Trustpower will write to you to advise you if it extends the offer.

If you accept the offer, Trustpower must pay you for your KCE shares within seven days after the later of:

- the date on which Trustpower receives your acceptance of the offer; and
- the date on which the offer becomes unconditional.

As noted above, unless a condition has been breached, Trustpower must declare the offer unconditional in all respects on the minimum acceptance condition being satisfied. As Nova has agreed to accept the offer within three business days after the offer is made, there is a good chance that the offer will be unconditional by 8 December 2015 (if not earlier). This means that early acceptance of Trustpower's offer may result in payment to you early in the offer period. However, you have until the end of the offer period to decide whether to accept the offer and holding out until near the time the offer is due to close could provide you with additional information on which you can base your decision on whether or not to accept the offer.

Conclusion

As noted above, the Independent Committee unanimously recommends that you should not accept the offer, unless the offer price is increased to \$5.00 per share regardless of the level of acceptances. The Independent Committee will, where it considers it appropriate, advise shareholders of any material new information or changes in circumstance that arise relevant to the offer, by announcements to the Unlisted trading platform. You can check those announcements at: www.unlisted.co.nz under the "KCE" code.

On behalf of the Independent Committee and the Board, I thank you for your support of KCE.

Yours faithfully

A handwritten signature in black ink, appearing to read 'Toby Stevenson', with a stylized flourish at the end.

Toby Stevenson

Chairman of the Board and of the Independent Committee
King Country Energy Limited

ASSESSMENT OF THE OFFER

Set out below in this Assessment of the Offer section are key factors that the Independent Committee of Directors has considered in forming its recommendation.

The Independent Committee strongly encourages you to take these factors, and the merits of the offer addressed in the Independent Adviser's Report, into account when considering your response to Trustpower's offer.

Assessment of the offer price

Comparison of the offer price to the Independent Adviser's assessed value range

The Independent Adviser assesses the value of KCE's shares in the range of \$4.62 to \$5.90 per share.

Trustpower's offer has a two-tier offer price:

- If Trustpower receives acceptances to its offer for between 50.1% and 70.2% of KCE's shares, the offer price will be **\$4.78** per share. This price is at the bottom end of the Independent Adviser's assessed valuation range.
- If Trustpower receives acceptances to its offer for 70.2% or more of KCE's shares, the offer price will be **\$5.00** per share. This price is within the Independent Adviser's assessed valuation range.

Trustpower will not count any acceptances received from the KCEP Trust in calculating the level of acceptances it has received for the purposes of determining the offer price.

Independent Committee's assessment of value

In forming its own view on KCE's value, and the merits of the offer, the Independent Committee has sought financial advice and has considered:

- KCE's stand-alone value (i.e. the likely value to KCE shareholders if the Board of KCE was to continue to implement its existing strategic plan, having regard to implementation risks).
- Its own assessment of the value of KCE to Trustpower, as a new owner (in other words, the value and opportunities that selling shareholders would be providing to Trustpower, including cost savings and other synergies).
- The trading multiples of comparable New Zealand electricity companies which have shares quoted on the NZX Main Board.
- The key assumptions that affect KCE's underlying value.
- That a 70.02% shareholding in KCE does not provide Trustpower with any more legal control over KCE than a 54.07% shareholding.²

² See footnote 1.

The Independent Committee believes that Trustpower's willingness to pay \$5.00 per share if acceptances to the offer reach 70.2% (excluding acceptances from the KCEP Trust) indicates that Trustpower considers \$5.00 per share to be a fair price and reflective of KCE's underlying value. However, there is no guarantee that the offer price will increase to \$5.00. Accordingly, the offer is, in effect, an offer of \$4.78 per KCE share.

On balance, having regard to the matters set out above, the Independent Committee believes that Trustpower's offer price of \$4.78 per share does not adequately compensate you for the current and potential future benefits of ownership of KCE shares.

Liquidity

KCE shares are quoted on the Unlisted online trading platform. Historically, there has been low volumes of trading of KCE shares on Unlisted. In other words, there has been low share trading liquidity - meaning a limited supply and demand for shares, which affects both the market price of KCE shares and the ability to buy and sell shares in KCE in reasonable parcel sizes. Nova's 54.07% shareholding and KCEP Trust's 19.98% shareholding have been a factor in this, as these two holdings (representing 74.05% of KCE's shares together) have significantly restricted the free float of shares (the number of shares available for buying and selling on the market). From, and including 1 January 2015 to 19 November 2015, a total of 175,500 KCE shares have traded through Unlisted, representing just 0.69% of the total number of KCE shares.

Limited liquidity can have important consequences. It may hamper your ability to buy or sell KCE shares on Unlisted at the time that you wish at a price that you consider acceptable.

Trustpower's offer provides you with a certain opportunity to sell all of your shares in KCE at a cash price per share above recent historical levels on Unlisted, in one transaction and free of brokerage.

Unlikely to be competing offers

The Independent Committee considers that it is very unlikely that a competing offer will be made during the Trustpower offer period.

Consequences for shareholders: Trustpower receives acceptances to the offer for 90% or more of KCE's shares

If Trustpower receives acceptances to the offer for 90% or more of KCE's shares, Trustpower will become entitled to, and intends to, compulsorily acquire the remaining shares in KCE in accordance with the Takeovers Code. If this occurs:

- The compulsory acquisition price will be the \$5.00 per share offer price.
- KCE shares will cease to be quoted on Unlisted.

Consequences for shareholders: Trustpower does not receive acceptances to the offer for 90% or more of KCE's shares

Trustpower's offer is not conditional on 90% acceptance. Rather, Trustpower must declare the offer unconditional following Nova's acceptance to the offer for Nova's 54.07% shareholding. This means that Trustpower's offer may not result in Trustpower owning 90% of KCE shares. If Trustpower does not achieve 90% ownership, it will not be entitled to compulsorily acquire the remaining KCE shares.

Importantly, the KCEP Trust, which owns 19.98% of KCE's shares, may block Trustpower from achieving 90% acceptance. That is, if the KCEP Trust does not accept Trustpower's offer, the offer will not result in 90% acceptance. On 19 November 2015, the KCEP Trust advised the Independent Committee that it had discussed the offer with its commercial and legal advisers and was yet to make a decision on whether it would accept the offer.

Set out below is the Independent Committee's assessment of certain factors that are likely to be relevant to shareholders if Trustpower acquires Nova's shareholding, but does not receive 90% acceptance to its offer.

Control of KCE will pass to Trustpower

When Trustpower acquires Nova's 54.07% shareholding in KCE, Trustpower will have effective control of KCE. From that point:

- No change of control transaction, such as a takeover offer from a third party, can be successful, unless that transaction is supported by Trustpower.
- Trustpower has the ability to control the composition of KCE's Board of Directors.

The KCE Board currently is comprised of six Directors. KCE, Trustpower and Nova have agreed that, on Nova's shareholding in KCE transferring to Trustpower, the two Directors who currently represent Nova will resign from the KCE Board and two Trustpower representatives will be appointed as Directors of KCE. It is possible that in the future Trustpower will use its control position as majority shareholder to increase the level of its representation on the KCE Board.

- If Trustpower receives acceptances to the offer for 75% or more of KCE's shares, Trustpower will be able to pass a special resolution without reference to other shareholders. This means Trustpower will be able to change KCE's constitution at its discretion (subject to certain limited restrictions in the Companies Act). In addition, even if Trustpower holds less than 75% of KCE's shares, as majority shareholder Trustpower will have significant influence on a special resolution and, depending on the extent to which other shareholders vote, may be able to determine the outcome of a special resolution by itself.

Possibility of a follow-on offer

Trustpower can make another takeover offer for KCE after the current offer is completed (often called a "follow-on offer"), unless Trustpower announces that it will not do so. There are no timing restrictions on when Trustpower can make a follow-on offer. Trustpower can make a follow-on offer at a higher (or lower) price in comparison to the current offer price.

If Trustpower makes a follow-on offer in the future at a higher price, Trustpower is not required to pay that higher price to KCE shareholders who accept the current offer. Accordingly, if you

accept the current offer for all of your KCE shares, you will not receive any uplift if Trustpower subsequently makes a higher price follow-on offer.

Post offer share price

Following completion of Trustpower's offer, it is possible that KCE's share price will decline to levels more closely in line with the historical prices before Trustpower gave notice of its intention to make the offer

Liquidity may decline

Following completion of Trustpower's offer, the low volumes of trading of KCE shares on Unlisted is likely to continue and, depending on the level of acceptance to the offer, may decline.

This may affect the market price for KCE shares and could also adversely affect your ability to buy or sell KCE shares.

Continuing quotation on Unlisted

KCE's shares may continue to be quoted on Unlisted. It is also possible that KCE may be delisted from, and KCE shares will cease quotation on, Unlisted. Shareholder approval is not required for delisting.

At KCE's 2015 annual meeting KCE shareholders approved a new form of constitution as a first step towards a potential NZX listing of KCE. However, following that meeting, the KCE Board resolved to put the proposed NZX listing on hold. Trustpower supports the KCE Board's decision to put the NZX listing on hold.

Future intentions, including future dividends

The strategy pursued by a Trustpower controlled KCE will be a key influence on KCE's future value. Of particular importance to KCE shareholders will be KCE's future dividend policy.

Trustpower has said that, following completion of the offer, it intends to undertake a thorough review of KCE's operations and that, until the conclusion of that review, it is not able to determinate if any material changes will be made to KCE's business activities, material assets or capital structure.

The Independent Committee cannot know the outcome of Trustpower's review until it is completed, and notes the following:

- KCE's current dividend policy is to pay out 80% of free cashflow per annum. It is possible that KCE's dividend policy may change following the offer, which would affect the level of future dividends paid by the company to shareholders.
- The value and/or risk profile of KCE may increase or decrease under Trustpower control. However, in light of the uncertainties associated with Trustpower's proposed operational review, the Independent Committee is unable to make an accurate assessment of these factors.
- It is likely that all remaining shareholders will, through their shareholding in KCE, enjoy any financial and/or operational benefits that result from Trustpower's operational review.

Protections for minority shareholders

Shareholders will continue to enjoy the protections contained in KCE's constitution, including restrictions on KCE entering into certain transactions with related parties (such as Trustpower).

You should, however, be aware that KCE's constitution can (subject to limited restrictions) be changed by a special resolution of KCE shareholders (being a resolution passed by a 75% or more majority of the votes of KCE shareholders cast on the resolution). Trustpower will be entitled to vote on that resolution and will have a significant influence on the outcome of the vote (or may even be able to determine the outcome of the vote itself, depending on its shareholding and the extent to which other shareholders vote on the resolution).

TARGET COMPANY STATEMENT (TAKEOVERS CODE DISCLOSURES)
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This Target Company Statement has been prepared by King Country Energy Limited ("**KCE**") pursuant to Rule 46 and Schedule 2 of the Takeovers Code in relation to a full takeover offer made by King Country Energy Holdings Limited ("**Trustpower**"). Where any information required by Schedule 2 to the Takeovers Code is not applicable, no statement is made regarding that information. The following matters are stated as at the date of this Target Company Statement.

1. DATE

- 1.1 This Target Company Statement is dated 30 November 2015.

2. OFFER

- 2.1 This Target Company Statement relates to a full takeover offer by Trustpower ("**Offer**") to purchase all of the fully paid ordinary shares in KCE ("**KCE Shares**").
- 2.2 Trustpower is, at the date of this Target Company Statement, a wholly owned subsidiary of NZX Main Board listed Trustpower Limited. Trustpower has entered into arrangements with Nova Energy Limited ("**Nova**"), the owner of 54.07% of the KCE Shares, which requires Nova to accept the Offer for all of its KCE Shares within three business days after the Offer is made.
- 2.3 The full terms of the Offer are set out in Trustpower's Offer Document dated 30 November 2015 ("**Offer Document**").

3. TARGET COMPANY

- 3.1 The name of the target company is King Country Energy Limited.

4. DIRECTORS OF KCE

- 4.1 The names of the Directors of KCE are:

- (a) Toby Stevenson (Chairman);
- (b) Linda Robertson;
- (c) Brian Needham;
- (d) Brian Gurney;
- (e) Timothy Cosgrove; and
- (f) Mahadevan Bahirathan.

5. OWNERSHIP OF EQUITY SECURITIES OF KCE

- 5.1 The only class of equity securities on issue in KCE is KCE Shares. The number and the percentage of KCE Shares held or controlled by each Director or Senior Officer³ of KCE, or their associates, is set out in the following table:

³ For the purposes of this Target Company Statement, KCE's Independent Committee has determined that the Senior Officers of KCE are Robert Foster (Chief Executive Officer) and Geoffrey Bell (Acting Chief Financial Officer).

Director, Senior Officer or associate	Description	Number of KCE Shares held or controlled by Director, Senior Officer or associate	Designation of KCE Shares	Percentage of total number of KCE Shares
Brian Gurney, Joy Gurney and Jeremy Gresson as trustees of the B.J. & M.J. Gurney Family Trust ⁴	Associate of Brian Gurney	4,730	Ordinary	0.02%
Brian Needham as sole trustee of the Needham Family Trust ⁵	Associate of Brian Needham	4,852	Ordinary	0.02%
Robert Carter, Graeme Cosford, Uwe Kroll, Norman Annand and Niel Groombridge as trustees of the King Country Electric Power Trust ("KCEP Trust")	Associate of Brian Gurney ⁶	5,057,142	Ordinary	19.98%
Alison Boon	Associate of Robert Foster ⁷	13,830	Ordinary	0.06%

The information in the above table was provided by or on behalf of the persons named in that table in response to questionnaires circulated by KCE after receipt of Trustpower's Takeover Notice.

5.2 Except as set out in paragraph 5.1, no Director or Senior Officer of KCE, or their associates, holds or controls any KCE Shares.

5.3 The number and the percentage of KCE Shares held or controlled by the persons known by KCE to hold or control 5% or more of the KCE Shares is set out in the following table:

Holder or controller of 5% or more of the KCE Shares	Number of KCE Shares held or controlled	Designation of KCE Shares	Percentage of total number of KCE Shares
Nova Energy Limited	13,685,521	Ordinary	54.07%
KCEP Trust	5,057,142	Ordinary	19.98%

The information in the above table was provided by or on behalf of the persons named in that table in response to questionnaires circulated by KCE after receipt of Trustpower's Takeover Notice.

5.4 Except as set out in paragraph 5.3, no other person is known by KCE to hold or control 5% or more of the KCE Shares.

5.5 No Director or Senior Officer of KCE, or their associates, have, in the two year period ending on the date of this Target Company Statement:

(a) been issued with any KCE Shares; or

⁴ Brian Gurney is a beneficiary of the B.J & M.J. Gurney Family Trust.

⁵ Brian Needham is a beneficiary of the Needham Family Trust.

⁶ Brian Gurney may be an associate of the KCEP Trust as (1) he is a former chairman and trustee of the KCEP Trust; and (2) he represents the KCEP Trust on the KCE Board.

⁷ Alison Boon is the partner of Robert Foster, KCE's Chief Executive Officer.

- (b) obtained a beneficial interest in any KCE Shares under any KCE employee share scheme or other remuneration arrangement.

6. TRADING IN KCE EQUITY SHARES

- 6.1 No Director or Senior Officer of KCE, or any of their associates, has during the six month period before 19 November 2015 (being the latest practicable date before the date of this Target Company Statement) acquired or disposed of KCE Shares.
- 6.2 No person known by KCE to hold or control 5% or more of the KCE Shares has during the six month period before 19 November 2015 (being the latest practicable date before the date of this Target Company Statement) acquired or disposed of KCE Shares.

7. ACCEPTANCE OF OFFER

- 7.1 No Director or Senior Officer of KCE, or associate, has an interest in KCE Shares, except as set out in paragraphs 7.2 to 7.5.
- 7.2 Brian Gurney and others are the joint holders of 4,730 KCE Shares as trustees of a trust. As at the date of this Target Company Statement, the trustees have not decided whether or not to accept the Offer.
- 7.3 Brian Needham holds 4,852 KCE shares as sole trustee of a trust. As at the date of this Target Company Statement, Mr Needham has not decided whether or not to accept the Offer.
- 7.4 Brian Gurney may be an associate of the KCEP Trust, which holds 5,057,142 KCE Shares. As at the date of this Target Company Statement, the KCEP Trust has not decided whether or not to accept the Offer.
- 7.5 Alison Boon, an associate of Robert Foster, holds 13,830 KCE Shares. As at the date of this Target Company Statement, Ms Boon has not decided whether or not to accept the Offer.

8. OWNERSHIP OF EQUITY SECURITIES OF TRUSTPOWER

- 8.1 KCE does not hold or control any class of equity security of Trustpower (“**Trustpower Shares**”).
- 8.2 No Director or Senior Officer of KCE, or any of their associates, holds or controls any Trustpower Shares.

9. TRADING IN EQUITY SECURITIES OF TRUSTPOWER

- 9.1 KCE has neither acquired nor disposed of any Trustpower Shares during the six month period before 19 November 2015 (being the latest practicable date before the date of this Target Company Statement).
- 9.2 No Director or Senior Officer of KCE, or any of their associates, has acquired or disposed of any Trustpower Shares during the six month period before 19 November 2015 (being the latest practicable date before the date of this Target Company Statement).

10. ARRANGEMENTS BETWEEN TRUSTPOWER OR ITS ASSOCIATES AND KCE OR ITS RELATED COMPANIES

- 10.1 KCE and Nova, which is an associate of Trustpower,⁸ have entered into a Process Agreement dated 7 July 2015 under which:
- (a) KCE agreed to assist Nova with the sale process commenced by Nova to seek expressions of interest for the acquisition of Nova's KCE Shares (the "**Process**"), acting in the interests of KCE's Shareholders;
 - (b) it was expected that the Process would result in a full takeover offer under the Takeovers Code;
 - (c) KCE agreed to facilitate due diligence for the purposes of the Process and Nova agreed to put in place specific protections of the information provided by KCE for the purpose of due diligence;
 - (d) Nova agreed to reimburse KCE for 50% of reasonable external costs incurred by KCE in respect of the Process (and any transaction resulting from the Process) which are not recovered from Trustpower under Rule 49 of the Takeovers Code, provided that Nova's cost reimbursement obligations are capped at \$100,000.⁹
- 10.2 KCE and Nova have entered into a Confidentiality Agreement dated 8 July 2015 under which Nova agreed to keep confidential information disclosed by KCE to Nova in connection with the Process.
- 10.3 Trustpower Limited, which is a related company and associate of Trustpower, and Nova, which is a related company of KCE, have entered into a Confidentiality Agreement dated 20 July 2015 under which Trustpower Limited agreed to keep confidential information disclosed by Nova to Trustpower Limited in connection with the potential acquisition of all the KCE Shares held by Nova. Although KCE is not a party to this Confidentiality Agreement, the terms of the Confidentiality Agreement provide KCE with the right to enforce the Confidentiality Agreement under the Contracts (Privity) Act 1982.
- 10.4 Nova and KCE Mangahao Limited, which is a related company of KCE, are party to a Services Agreement relating to KCE's Mangahao power station. This Services Agreement is expressed to terminate on Nova disposing of its KCE Shares. Nova has confirmed to KCE that Nova will continue to provide services under the Services Agreement on a transitional basis following the sale of its KCE Shares. In connection with this, KCE intends to undertake an operational review of the services provided under the Services Agreement. It is likely that the operational review will result in KCE either internalising the Nova services or consenting to the assignment or novation of the Services Agreement from Nova to Trustpower or a related company of Trustpower (which would result in Trustpower replacing Nova as the service provider under the Services Agreement).
- 10.5 On 1 November 2015, Trustpower and Nova entered into a Lock Up Agreement under which Trustpower agreed to make the Offer and Nova agreed to accept the Offer in respect of all its 13,685,521 KCE Shares (representing 54.07% of the KCE Shares on issue) ("**Lock Up Agreement**"). The Lock Up Agreement is summarised in paragraph 6 of Schedule 1 to the Offer Document.

⁸ Trustpower considers Nova to be an associate of Trustpower for the purposes of the Takeovers Code due to certain features of the Lock Up Agreement entered into between Trustpower and Nova described in paragraph 10.5.

⁹ This cost cap has been reached.

10.6 Trustpower, Nova and KCE have agreed that, with immediate effect following confirmation to KCE by Link Market Services Limited of the registration of the transfer of Nova's shareholding to Trustpower:

- (a) Timothy Cosgrove and Mahadevan Bahirathan, who represent Nova on the KCE Board, will resign as Directors of KCE and all of KCE's subsidiaries; and
- (b) Vincent James Hawksworth and Paul Ridley-Smith be appointed as Directors of KCE, as representatives of Trustpower.

The Independent Committee believes this could potentially occur as early as 4 December 2015.

10.7 Trustpower has also requested that, following the registration of the transfer of Nova's shareholding to Trustpower, KCE take steps to amend its balance date to 31 March so that KCE's balance date is aligned with Trustpower Limited and its subsidiaries.

10.8 As at the date of this Target Company Statement, except as set out in paragraphs 10.1 to 10.7, no agreement or arrangement (whether legally enforceable or not) has been made, or is proposed to be made, between Trustpower or any of its associates and KCE or any related company of KCE, in connection with, in anticipation of, or in response to, the Offer.

11. RELATIONSHIP BETWEEN TRUSTPOWER, AND DIRECTORS AND SENIOR OFFICERS OF KCE

11.1 On 9 November 2015, KCE requested that, if the Offer results in Trustpower acquiring full ownership of KCE, Trustpower ensures that KCE maintains directors' and officers' insurance (substantially equivalent to existing cover) for a period of seven years for any Directors or Senior Officers of KCE who leave office/employment after conclusion of the Offer. Trustpower has indicated that, subject to review of the specific terms of KCE's existing insurance, Trustpower is happy in principle with this request.

11.2 Except as set out in paragraph 11.1, no agreement or arrangement (whether legally enforceable or not) has been made, or is proposed to be made, between Trustpower or any associate of Trustpower and any of the Directors or Senior Officers of KCE or any related company of KCE in connection with, or in anticipation of, or in response to, the Offer.

11.3 None of the Directors or Senior Officers of KCE are also Directors or Senior Officers of Trustpower, or any related company of Trustpower.

12. AGREEMENTS BETWEEN KCE, AND DIRECTORS AND SENIOR OFFICERS

12.1 No agreement or arrangement (whether legally enforceable or not) has been made, or is proposed to be made, between KCE or any related company of KCE, and any of the Directors or Senior Officers or their associates of KCE or any related company of KCE, under which a payment or other benefit may be made or given by way of compensation for loss of office, or as to their remaining in or retiring from office in connection with, or in anticipation of, or in response to, the Offer.

13. INTERESTS OF DIRECTORS AND SENIOR OFFICERS OF KCE IN CONTRACTS OF TRUSTPOWER OR RELATED COMPANY

13.1 No Director or Senior Officer of KCE, or their associates, has an interest in any contract to which Trustpower, or any related company of Trustpower, is a party.

13A INTERESTS OF KCE'S SUBSTANTIAL SECURITY HOLDERS IN MATERIAL CONTRACTS OF TRUSTPOWER OR RELATED COMPANY

- 13A.1 The persons who, to the knowledge of the Directors or the Senior Officers of KCE, hold or control 5% or more of the KCE Shares and who have an interest in any material contract to which Trustpower, or any related company of Trustpower, is a party, and the nature, extent and monetary value of that interest, are set out in the following table:

Party to the material contract to which Trustpower or a related company of Trustpower is a party	Particulars of the nature and extent of the interest	Monetary value of the interest (if quantifiable)
Nova	On 1 November 2015, Trustpower and Nova entered into the Lock Up Agreement under which Trustpower agreed to make the Offer and Nova agreed to accept the Offer in respect of all 13,685,521 KCE Shares (representing 54.07% of the KCE Shares on issue) held by Nova.	The monetary value of the acceptance of the Offer to Nova would be either \$65,416,790 (at an Offer price of \$4.78 per KCE Share) or \$68,427,605 (at an Offer price of \$5.00 per KCE Share).
Nova	Prudent Discount Agreement between Transpower Limited, Nova and Trustpower Limited.	Not disclosed by Nova, as Nova considers this agreement was entered into in the ordinary course of the business of Trustpower Limited and on usual terms and conditions. ¹⁰
Nova	Avoided Cost of Transmission Benefit Allocation Agreement between Horizon Energy Distribution Limited and Trustpower Limited.	Not disclosed by Nova, as Nova considers this agreement was entered into in the ordinary course of the business of Trustpower Limited and on usual terms and conditions. ¹¹

- 13A.2 Except as set out in paragraph 13A.1 above, no person, who, to the knowledge of the Directors or the Senior Officers of KCE, holds or controls 5% or more of KCE Shares, has an interest in any material contract to which Trustpower, or any related company of Trustpower, is a party.

14. ADDITIONAL INFORMATION

- 14.1 In the opinion of the Directors of KCE, no additional information, to the knowledge of KCE, is required to make the information in Trustpower's Takeover Offer Document correct or not misleading.

15. RECOMMENDATION

Independent Committee

- 15.1 The KCE Board formed an Independent Committee of Directors to consider, and oversee KCE's response to, the Offer. The members of the Independent Committee are Toby Stevenson and Linda Robertson.

¹⁰ Clause 13A(4) of Schedule 2 to the Takeovers Code provides that a quantification of monetary value is not required for a contract which is entered into in the ordinary course of the business of the bidder (or its related company) and on usual terms and conditions.

¹¹ See footnote 10.

Unanimous Recommendation

- 15.2 The Independent Committee's recommendation is set out in the letter from the Chairman of the Independent Committee section of this Target Company Statement. In summary, **the Independent Committee unanimously recommends that you SHOULD NOT accept the Offer, unless the Offer price is increased to \$5.00 per KCE Share regardless of the level of acceptances.**
- 15.3 The factors which influenced the Independent Committee's considerations and recommendation to KCE Shareholders are addressed in more detail in the Assessment of the Offer section of this Target Company Statement and in the Independent Adviser's Report. You are encouraged to read those factors carefully and in full.

Abstentions

- 15.4 Timothy Cosgrove and Mahadevan Bahirathan represent Nova on the KCE Board. Accordingly, they are not members of the Independent Committee and abstain from making a recommendation in respect of the Offer.
- 15.5 Brian Gurney represents the KCEP Trust on the KCE Board. Accordingly, he is not a member of the Independent Committee and abstains from making a recommendation in respect of the Offer.
- 15.6 Brian Needham considers that he is an independent Director. However, due to a historical relationship with the KCEP Trust, he volunteered to the KCE Board that he would not be a member of the Independent Committee and would abstain from making a recommendation in respect of the Offer.

16. ACTIONS OF KCE

No material arrangements

- 16.1 Except as set out in paragraph 10, there are no material agreements or arrangements (whether legally enforceable or not) of KCE and its related companies entered into as a consequence of, in response to, or in connection with, the Offer.

No material negotiations

- 16.2 Except as set out in paragraph 10.4, there are no negotiations underway to which KCE is a party as a consequence of, or in response to, or in connection with, the offer that relate to or could result in:
- (a) an extraordinary event such as a merger, amalgamation, or reorganisation involving KCE or any of its related companies; or
 - (b) the acquisition or disposition of material assets of KCE or any of its related companies; or
 - (c) an acquisition of equity securities by, or of KCE or any related company of KCE; or
 - (d) any material change in the equity securities on issue, or policy relating to distributions, of KCE.

The Process

- 16.3 The Offer resulted from the Process run by Nova (see paragraph 10.1 for a brief summary of the Process Agreement).
- 16.4 The Independent Committee has been informed by Nova that the Process involved the following key aspects:
- (a) Nova appointed Goldman Sachs to manage the Process.
 - (b) Goldman Sachs sought expressions of interest for Nova's KCE Shares.
 - (c) Goldman Sachs received indicative proposals from a number of interested parties.
 - (d) At Nova's request, KCE agreed to allow a number of interested parties to undertake due diligence to allow those parties to submit final proposals.
 - (e) Nova accepted Trustpower's final proposal and entered into the Lock Up Agreement. Pursuant to the Lock Up Agreement, Trustpower gave a Takeover Notice to KCE on 3 November 2015.
- 16.5 Nova has confirmed to the Independent Committee that it accepted Trustpower's proposal as Nova considered that proposal to be the best proposal that it received as a result of the Process.
- 16.6 As at the date of this Target Company Statement, there are no discussions or negotiations underway between KCE and any other party in respect of a takeover offer (other than engagement between KCE and Trustpower in respect of the Offer) or any other similar transaction. The Independent Committee does not anticipate any discussions or negotiations of this nature during the Offer period.

17. EQUITY SECURITIES OF KCE

- 17.1 KCE has 25,312,277 ordinary shares on issue. The rights of KCE Shareholders in respect of capital, distributions and voting are as follows:
- (a) the right to an equal share with other KCE Shareholders in dividends authorised by the Board of KCE;
 - (b) the right to an equal share with other KCE Shareholders in the distribution of surplus assets on liquidation of KCE; and
 - (c) subject to the restrictions and prohibitions contained in KCE's constitution, the right to cast one vote on a show of hands, or by voice, or the right to cast one vote for each share held on a poll, in each case at a meeting of KCE Shareholders on any resolution, including a resolution to:
 - (i) appoint or remove a Director or auditor;
 - (ii) alter KCE's constitution;
 - (iii) approve a major transaction;
 - (iv) approve an amalgamation of KCE; and
 - (v) put KCE into liquidation.

- 17.2 As at the date of this Target Company Statement, KCE has not issued any options, or rights to acquire, KCE Shares or other KCE equity securities.

18. FINANCIAL INFORMATION

2014 Annual Report

- 18.1 Every person to whom the Offer is made is entitled to obtain from KCE a copy of KCE's most recent annual report (being the annual report for the nine months ended 31 December 2014) from KCE's website: <http://www.kce.co.nz/investor-information/publications/>, or by making a written request to:

King Country Energy Limited
PO Box 363
Taumarunui 3946
NEW ZEALAND

Fax: +64-7 896 6036
Email: enquiry@kce.co.nz

- 18.2 A copy of KCE's most recent half-year report (for the six months ended 30 June 2015) accompanies this Target Company Statement.

Changes in the financial position, trading position or prospects of KCE since the 2014 Annual Report

- 18.3 The Independent Committee is not aware of any changes in the financial or trading position or prospects of KCE since the annual report referred to in paragraph 18.1 which the Independent Committee considers to be material.
- 18.4 Other than as set out in this Target Company Statement and the Independent Adviser's Report, there is no other information about the assets, liabilities, profitability and financial affairs of KCE that could reasonably be expected to be material to the making of a decision by KCE Shareholders to accept or reject the Offer.
- 18.5 The Independent Committee notes that, under applicable accounting standards, KCE is required to revalue the derivative instruments that it holds (electricity hedges and interest rate swaps) periodically. This can affect KCE's financial position and financial performance for accounting purposes. However, the revaluation of derivative instruments does not affect KCE's underlying trading performance and has no cash impact. For this reason:
- (a) KCE, like all similar New Zealand electricity companies, uses EBITDAF (earnings before interest, tax, depreciation, amortisation and fair value movements in derivatives) as its primary measure of earnings, as EBITDAF is not affected by the revaluation of derivative instruments; and
 - (b) the Independent Committee does not consider the revaluation of derivative instruments to be a material consideration for KCE Shareholders in the context of the Offer.

19. INDEPENDENT ADVICE ON MERITS OF OFFER

- 19.1 Simmons Corporate Finance Limited, as Independent Adviser, has prepared a report on the merits of the Offer under Rule 21 of the Takeovers Code ("**Independent Adviser's**

Report”). A full copy of the Independent Adviser’s Report is set out in the Appendix to this Target Company Statement.

19.2 The Independent Adviser’s Report includes:

- (a) a statement of the qualifications and expertise of Simmons Corporate Finance Limited; and
- (b) a statement that Simmons Corporate Finance Limited has no conflict of interest that could affect its ability to provide an unbiased report.

20. ASSET VALUATION

- 20.1 No information provided in this Target Company Statement refers to a valuation of any asset of KCE.
- 20.2 The Independent Adviser’s Report refers to the valuation of KCE. The basis of computation and key assumptions on which that valuation is based is set out in the Independent Adviser’s Report.

21. PROSPECTIVE FINANCIAL INFORMATION

- 21.1 None of the information provided in this Target Company Statement refers to prospective financial information of KCE.
- 21.2 The Independent Adviser’s Report refers to prospective financial information of KCE. The principal assumptions on which the prospective financial information is based are set out in that report.
- 21.3 While it is not KCE’s normal practice to provide guidance on forecast earnings, the Independent Adviser’s Report sets out certain details of KCE’s forecasts for the financial year ended 31 December 2015 (FY15) and the financial year ended 31 December 2016 (FY16). The FY15 forecast has been approved by the KCE Board. In contrast, the FY16 forecast is a management forecast, and has not been approved by the KCE Board. In considering forecast information, shareholders should note that both forecasts (including the Board-approved FY15 forecast) were prepared for internal management purposes only and were not prepared for, or with the intention of giving, public guidance as to KCE’s expected future financial performance. Accordingly, the basis of preparation of the forecasts, while appropriate for internal management purposes, may differ from the basis which would be adopted when preparing prospective financial information for external reporting purposes.

22. SALES OF UNQUOTED EQUITY SECURITIES UNDER OFFER

- 22.1 The KCE Shares that are the subject of the Offer are quoted on the Unlisted trading platform with ticker code “KCE”. The Unlisted trading platform is not a stock exchange.
- 22.2 All of the information that KCE has as to the number of KCE Shares that have been disposed of in the 12 months ending on 19 November 2015, being the latest practicable working day before the date on which this Target Company Statement is sent to KCE Shareholders and the consideration of those dispositions, is set out in the following table:

Date of disposition	Number of Shares	Consideration (gross)	Consideration (per share)
21 November 2014	2,655	\$10,885.50	\$4.10
24 November 2014	2,625	\$10,762.50	\$4.10
26 November 2014	5,957	\$24,423.70	\$4.10
1 December 2014	10,000	\$41,000.00	\$4.10
2 December 2014	5,015	\$20,561.50	\$4.10
4 December 2014	3,000	\$12,300.00	\$4.10
11 December 2014	500	\$2,025.00	\$4.05
18 December 2014	1,410	\$5,640.00	\$4.00
19 December 2014	4,745	\$18,705.50	\$3.94
31 December 2014	640	\$2,560.00	\$4.00
5 January 2015	2,920	\$11,680.00	\$4.00
12 January 2015	7,360	\$29,440.00	\$4.00
16 January 2015	8,000	\$32,000.00	\$4.00
23 January 2015	3,540	\$14,337.00	\$4.05
2 February 2015	2,744	\$10,976.00	\$4.00
3 February 2015	2,154	\$8,723.70	\$4.05
4 February 2015	590	\$2,389.50	\$4.05
19 February 2015	25,000	\$101,323.50	\$4.05
23 February 2015	340	\$1,377.00	\$4.05
24 February 2015	6,490	\$26,284.50	\$4.05
2 March 2015	590	\$2,389.50	\$4.05
19 March 2015	340	\$1,377.00	\$4.05
23 March 2015	885	\$3,584.25	\$4.05
24 March 2015	1,475	\$5,973.75	\$4.05
26 March 2015	20,000	\$81,000.00	\$4.05
7 April 2015	2,130	\$8,626.50	\$4.05
9 April 2015	2,745	\$11,117.25	\$4.05
13 April 2015	2,000	\$8,200.00	\$4.10
17 April 2015	885	\$3,628.50	\$4.10
20 April 2015	2,500	\$10,250.00	\$4.10
23 April 2015	488	\$2,025.20	\$4.15
24 April 2015	112	\$464.80	\$4.15
1 May 2015	2,873	\$12,002.30	\$4.18
4 May 2015	340	\$1,428.00	\$4.20

Date of disposition	Number of Shares	Consideration (gross)	Consideration (per share)
5 May 2015	590	\$2,478.00	\$4.20
8 May 2015	590	\$2,478.00	\$4.20
11 May 2015	3,835	\$15,622.80	\$4.07
22 May 2015	1,180	\$4,838.00	\$4.10
25 May 2015	1,545	\$6,334.50	\$4.10
26 May 2015	500	\$2,050.00	\$4.10
2 June 2015	1,775	\$7,277.50	\$4.10
3 June 2015	1,884	\$7,724.40	\$4.10
10 June 2015	236	\$967.60	\$4.10
17 June 2015	820	\$3,362.00	\$4.10
23 June 2015	2,060	\$8,446.00	\$4.10
1 July 2015	1,185	\$4,799.25	\$4.05
3 July 2015	3,090	\$12,514.50	\$4.05
8 July 2015	307	\$1,243.35	\$4.05
10 July 2015	1,225	\$4,961.25	\$4.05
20 July 2015	885	\$5,965.65	\$6.74
24 July 2015	3,294	\$15,722.10	\$4.77
28 July 2015	7,721	\$31,270.05	\$4.05
3 August 2015	3,600	\$14,580.00	\$4.05
4 August 2015	6,400	\$25,920.00	\$4.05
19 August 2015	3,728	\$15,098.40	\$4.05
27 August 2015	340	\$1,394.00	\$4.10
28 August 2015	5,630	\$23,083.00	\$4.10
31 August 2015	340	\$1,377.00	\$4.05
1 September 2015	6,037	\$24,751.70	\$4.10
2 September 2015	4,000	\$16,200.00	\$4.05
3 September 2015	885	\$3,540.00	\$4.00
4 September 2015	1,475	\$5,900.00	\$4.00
8 September 2015	3,349	\$13,396.00	\$4.00
9 September 2015	393	\$1,572.00	\$4.00
10 September 2015	650	\$2,600.00	\$4.00
14 September 2015	1,000	\$4,000.00	\$4.00
21 September 2015	1,500	\$6,150.00	\$4.10
24 September 2015	90	\$364.50	\$4.05

Date of disposition	Number of Shares	Consideration (gross)	Consideration (per share)
25 September 2015	2,000	\$8,100.00	\$4.05
28 September 2015	230	\$931.50	\$4.05
29 September 2015	2,180	\$8,938.00	\$4.10
20 October 2015	340	\$1,411.00	\$4.15
28 October 2015	1,770	\$7,398.60	\$4.18
9 November 2015	340	\$1,465.40	\$4.31

23. MARKET PRICES OF QUOTED EQUITY SECURITIES UNDER OFFER

- 23.1 The KCE Shares that are the subject of the Offer are quoted on the Unlisted trading platform with ticker code "KCE". The Unlisted trading platform is not a stock exchange.
- 23.2 The closing price on the Unlisted trading platform of the KCE Shares on:
- (a) 19 November 2015, being the latest practicable working day before the date on which this Target Company Statement is sent to KCE shareholders, was \$4.31 per KCE Share; and
 - (b) 2 November 2015, being the last day the Unlisted trading platform was open for business before KCE received Trustpower's Takeover Notice, was \$4.18 per KCE Share.
- 23.3 The highest and lowest closing market price of the KCE Shares on the Unlisted trading platform (and the relevant dates) during the 6 months before the date on which KCE received Trustpower's Takeover Notice were as follows:
- (a) highest closing market price was \$4.20 per share (on 4 May 2015, 5 May 2015, 6 May 2015, 7 May 2015 and 8 May 2015); and
 - (b) lowest closing market price was \$4.00 per share (on 3 September 2015, 4 September 2015, 7 September 2015, 8 September 2015, 9 September 2015, 10 September 2015, 11 September 2015, 14 September 2015, 15 September 2015, 16 September 2015, 17 September 2015 and 18 September 2015).
- 23.4 A number of off market trades occurred during the 6 months before the date on which KCE received Trustpower's Takeover Notice. During this period the highest value off market trade was \$5,965.65 for 885 KCE Shares (being \$6.74 per share) on 20 July 2015, which is higher than the highest closing market price on the Unlisted trading platform during the same period.
- 23.5 There were, in the six month period prior to the date of this Target Company Statement, no issues of equity securities of KCE or changes in the equity securities on issue that could have affected the market prices referred to in this paragraph 23.
- 23.6 On 9 September 2015, KCE paid a partially imputed dividend of 13.5 cents per KCE Share, attaching imputation credits of 2.45 cents per KCE Share. The record date for the dividend was 4 September 2015.

24. OTHER INFORMATION

Rounding

- 24.1 All shareholding percentages in this Target Company Statement are rounded to two decimal places.

Reliance on information

- 24.2 In preparing this Target Company Statement, KCE has relied on the completeness and accuracy of information provided to it by or on behalf of various persons, including Simmons Corporate Finance Limited, KCE Directors, KCE Senior Officers, Trustpower, Trustpower Limited, KCEP Trust and Nova.

25. APPROVAL OF THIS STATEMENT

- 25.1 This Target Company Statement has been unanimously approved by the Independent Committee under delegated authority from the KCE Board.
- 25.2 Brian Needham, Brian Gurney, Timothy Cosgrove and Mahadevan Bahirathan are not members of the Independent Committee, for the reasons stated in paragraphs 15.4 to 15.6. They have not participated in the preparation of, and abstain from approving, this Target Company Statement.

26. CERTIFICATE

- 26.1 To the best of our knowledge and belief, after making proper enquiry, the information contained in or accompanying this Target Company Statement is, in all material respects, true and correct and not misleading, whether by omission of any information or otherwise and includes all the information required to be disclosed by the target company under the Takeovers Code.



Toby Stevenson
Director and Chairman of the
Independent Committee



Linda Robertson
Director and member of the
Independent Committee



Robert Foster
Chief Executive Officer



Geoffrey Bell
Acting Chief Financial Officer

APPENDIX: INDEPENDENT ADVISER'S REPORT

King Country Energy Limited

Independent Adviser's Report

In Respect of the Full Takeover Offer by King Country Energy Holdings Limited

November 2015

Statement of Independence

Simmons Corporate Finance Limited confirms that it:

- has no conflict of interest that could affect its ability to provide an unbiased report
- has no direct or indirect pecuniary or other interest in the proposed transaction considered in this report, including any success or contingency fee or remuneration, other than to receive the cash fee for providing this report.

Simmons Corporate Finance Limited has satisfied the Takeovers Panel, on the basis of the material provided to the Takeovers Panel, that it is independent under the Takeovers Code for the purposes of preparing this Independent Adviser's Report.

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1. Introduction

1.1 King Country Energy Limited

King Country Energy Limited (**King Country Energy** or the **Company**) is the leading electricity generator and retailer in the King Country, Waitomo and Ruapehu regions of the North Island. The Company owns and operates 5 hydro generation stations with a combined capacity of 54 megawatts (**MW**) which together generate an average of 190 gigawatt hours (**GWh**) of electricity per annum. The Company supplies approximately 248 GWh of electricity per annum to around 17,700 retail customers.

King Country Energy currently has 25,312,277 ordinary shares on issue held by 6,208 shareholders. Its 2 largest shareholders are:

- Nova Energy Limited (**Nova**), which holds 13,685,521 shares (54.07%)
- King Country Electric Power Trust (**KCEP Trust**), which holds 5,057,142 shares (19.98%).

The remaining 6,569,614 shares (25.95%) (the **Free Float**) are held by the other 6,206 shareholders.

The Company's shares are quoted on the Unlisted securities trading facility (**Unlisted**). King Country Energy's market capitalisation was \$109 million as at 20 November 2015 and its unaudited total equity was \$129 million as at 30 September 2015.

A profile of King Country Energy is set out in section 4.

1.2 Trustpower Limited

Trustpower Limited (**Trustpower**) generates and retails electricity in regions throughout New Zealand. It contributes approximately 6% of New Zealand's national electricity generation production and its share of the New Zealand retail market is approximately 12% (by number of customers).

Trustpower owns and operates 38 hydro power stations and 2 wind farms in New Zealand with a combined capacity of 634 MW, as well as a diesel power station. It also owns 3 hydro power stations and 3 wind farms in Australia with a combined capacity of 476 MW.

Trustpower supplies electricity to approximately 252,000 customers, gas to approximately 28,000 customers and retails telephone and internet services to approximately 51,000 customers throughout New Zealand.

Trustpower's shares are listed on the main equities securities market (the **NZX Main Board**) operated by NZX Limited (**NZX**). Trustpower's market capitalisation was \$2.4 billion as at 20 November 2015 and its unaudited total equity was \$1.8 billion as at 30 September 2015.

A profile of Trustpower is set out in section 5.

1.3 Trustpower Offer

On 3 November 2015 King Country Energy Holdings Limited (**KCEHL**), a wholly owned subsidiary of Trustpower, issued a notice of intention to make a full takeover offer (a **Takeover Notice**) under the Takeovers Code (the **Code**) for all of the shares in King Country Energy (the **Trustpower Offer**).

Trustpower announced that KCEHL and Nova have entered into a lock up agreement dated 1 November 2015 (the **Lock Up Agreement**) whereby Nova will accept the Trustpower Offer no later than 3 business days after the despatch of the Offer Document.

Trustpower intends to send its Offer Document to King Country Energy's shareholders on or about 2 December 2015.

Number of Shares Sought

The Trustpower Offer is for all of the ordinary shares in King Country Energy.

Neither Trustpower nor KCEHL currently hold any ordinary shares in King Country Energy.

Consideration

Trustpower is offering cash of:

- \$4.78 for each King Country Energy ordinary share, if acceptances are received for more than 50.1%, but less than 70.2%, of the Company's shares (excluding any acceptances received in respect of shares held by the KCEP Trust as at 31 October 2015 or thereafter)
- \$5.00 for each King Country Energy ordinary share, if acceptances are received for 70.2% or more of the Company's shares (excluding any acceptances received in respect of shares held by the KCEP Trust as at 31 October 2015 or thereafter).

Conditions

The Trustpower Offer is conditional on KCEHL receiving sufficient acceptances such that KCEHL will hold or control not less than 50.1% of the voting rights in King Country Energy (the **Minimum Acceptance Condition**). The Minimum Acceptance Condition will be satisfied upon Nova accepting the Trustpower Offer in accordance with the Lock Up Agreement.

The Trustpower Offer is also subject to the satisfaction of the following conditions:

- King Country Energy not declaring or paying any dividends, bonuses or other payments or distributions
- no changes being made to the capital structure of the Company
- no material proceedings against the Company arise
- the business of the Company is carried on, in all material respects, in the normal and ordinary course
- there is no alteration to King Country Energy's constitution
- no liquidator, receiver, manager, administrator, statutory manager or similar official is appointed

- the Company does not merge or amalgamate with any third party or be liquidated
- no material amounts are payable to the Company's directors or employees arising from the takeover offer
- no material adverse events occur.

Any of the conditions, other than the Minimum Acceptance Condition, may be waived by KCEHL at its discretion.

KCEHL must declare the Trustpower Offer unconditional in all respects on the satisfaction of the Minimum Acceptance Condition, unless one of the other conditions is breached prior to that time. Accordingly, it is likely that the Trustpower Offer will be declared unconditional when Nova accepts the Trustpower Offer. As noted above, Nova has agreed under the Lock Up Agreement to accept the Trustpower Offer within 3 business days after despatch of the Offer Document.

Offer Dates

The Trustpower Offer is to be dated 30 November 2015.

The offer closes at 11.59pm on 29 January 2016 (unless extended by KCEHL in accordance with the provisions of the Code).

Agreement to Accept the Trustpower Offer

No shareholder has agreed conditionally or unconditionally to accept the Trustpower Offer other than Nova under the Lock Up Agreement.

1.4 Nova Energy Limited

Nova is the largest shareholder in the Company, holding 13,685,521 shares (54.07%). Nova's shareholding was transferred to it from its related entity Todd Energy Limited (**Todd Energy**).

Nova was incorporated on 11 December 2012. Its ultimate parent company is Todd Corporation Limited.

Nova retails electricity, natural gas and LPG through New Zealand. It generates electricity through a range of renewable hydro, geothermal energy and clean-burning natural gas facilities and sources natural gas and LPG from Todd Energy.

Todd Energy was a founding shareholder in King Country Energy and managed the King Country Energy business under contract between 2001 and 2003.

In June 2012, King Country Energy acquired Todd Energy's 50% interest in the Mangahao Power Station for \$70 million (the **Mangahao Acquisition**). Consideration was in the form of \$33.76 million of cash and \$36.24 million of shares (7,629,474 shares issued at \$4.75 per share).

1.5 Regulatory Requirements

Rule 6 of the Code prohibits:

- a person who holds or controls less than 20% of the voting rights in a code company from increasing its control of voting rights (together with its associates) beyond 20% and
- a person holding or controlling 20% or more of the voting rights in a code company from increasing its holding or control of voting rights

unless the person complies with exceptions to this fundamental rule.

One of the exceptions, set out in Rule 7(a) of the Code, enables a person to increase the control of voting rights beyond 20% by making a full offer for all of the shares of the target company.

Rule 21 of the Code requires the directors of a target company to obtain an Independent Adviser's Report on the merits of the offer. This Independent Adviser's Report is to accompany the Target Company Statement required to be sent to the target's shareholders pursuant to Rule 46 and Schedule 2 of the Code.

1.6 Purpose of the Report

The board of King Country Energy has formed an independent committee of directors (the **Committee**) with responsibility for overseeing the Company's response to the Trustpower Offer.

The Committee has engaged Simmons Corporate Finance to prepare an Independent Adviser's Report on the Trustpower Offer in accordance with Rule 21 of the Code.

Simmons Corporate Finance was approved by the Takeovers Panel on 4 November 2015 to prepare the Independent Adviser's Report.

Simmons Corporate Finance issues this Independent Adviser's Report to assist the Company's shareholders in forming their own opinion on whether or not to accept the Trustpower Offer. We note that each shareholder's circumstances and objectives are unique. Accordingly, it is not possible to report on the merits of the Trustpower Offer in relation to each shareholder. This report on the merits of the Trustpower Offer is therefore necessarily general in nature.

The Independent Adviser's Report is not to be used for any other purpose without our prior written consent.

2. Evaluation of the Merits of the Trustpower Offer

2.1 Basis of Evaluation

Rule 21 of the Code requires an evaluation of the merits of the Trustpower Offer.

There is no legal definition of the term *merits* in New Zealand in either the Code or in any statute dealing with securities or commercial law.

In the absence of an explicit definition of *merits*, guidance can be taken from:

- the Takeovers Panel *Guidance Note on Independent Advisers and the Takeovers Code* dated 7 September 2015
- definitions designed to address similar issues within New Zealand regulations which are relevant to the proposed transaction
- overseas precedents
- the ordinary meaning of the term *merits*.

We are of the view that an assessment of the merits of the Trustpower Offer should focus on:

- the background to the Trustpower Offer
- the assessed value of King Country Energy's shares and the value of the consideration to be received by shareholders
- the implications of the conditions attached to the offer
- the likelihood of alternative offers or alternative transactions
- the advantages and disadvantages for shareholders of accepting the Trustpower Offer
- the implications for shareholders of not accepting the Trustpower Offer.

Our opinion should be considered as a whole. Selecting portions of the evaluation without considering all the factors and analyses together could create a misleading view of the process underlying the opinion.

2.2 Background to the Trustpower Offer

The Trustpower Offer has arisen following a contestable sale process undertaken by Nova in respect of its 54.07% shareholding in the Company (the **Sale Process**).

Goldman Sachs was engaged by Nova to manage the Sale Process. King Country Energy agreed to assist Nova with the Sale Process by providing information relating to the Company. It was expected that the Sale Process would result in a full takeover offer for King Country Energy under the Code.

The Sale Process involved a number of interested parties being provided with information regarding the Company and being invited to submit indicative proposals. A number of prospective purchasers were then permitted to undertake an extensive due diligence review of the Company's operations, following which they submitted their final proposal.

Final proposals were received by Nova by 30 October 2015. Nova accepted Trustpower's final proposal and entered into the Lock Up Agreement on 1 November 2015. KCEHL issued a Takeover Notice on 3 November 2015

In announcing the Trustpower Offer, Trustpower emphasised the strategic fit between the 2 companies. Trustpower stated that King Country Energy's small / medium sized North Island hydro power stations and provincial customer base fit well with Trustpower's New Zealand business and core operational competencies.

If the Trustpower Offer is declared unconditional, Trustpower intends to seek representation on the Company's board.

Trustpower has stated that it will undertake a thorough review of King Country Energy's operations once the offer is completed to determine if all of the Company's operations are being undertaken efficiently. Trustpower has not publicly stated whether it will make any material changes to King Country Energy's business activities.

Trustpower has stated that it intends to fund the acquisition cost of up to \$126.5 million from its committed bank facilities.

2.3 Offer Price of \$4.78 or \$5.00 Depending on Acceptance Levels

Two-Tier Offer Price

The consideration offered under the Trustpower Offer is a two-tiered price:

- \$4.78 per share if acceptances are received for more than 50.1%, but less than 70.2%, of the Company's shares (excluding any acceptances received in respect of shares held by the KCEP Trust) or
- \$5.00 per share if acceptances are received for 70.2% or more of the Company's shares (excluding any acceptances received in respect of shares held by the KCEP Trust).

We view the use of the two-tiered consideration structure as a means to entice acceptances of the offer. The use of variable consideration (as used in the Trustpower Offer) is permissible under the Code.

Rationale for Two-Tier Offer Price

The rationale for setting the price escalation level at 70.2% would appear to be based on the compulsory acquisition provisions within the Code. If KCEHL secures 90% or more of the shares in King Country Energy, then KCEHL will have the right to compulsorily acquire the remaining shares.

A 70.20% shareholding in the Company, when combined with the KCEP Trust's 19.98% shareholding, would represent 90.18% of the Company's shares. Accordingly, the maximum shareholding that any other shareholder could hold would be 2,485,917 shares (9.82%). A shareholding of this size would not be able to block Trustpower from compulsorily acquiring all of the Company's remaining shares if it were to acquire the KCEP Trust's 19.98% shareholding in the Company.

Level of Acceptances Required to Reach 70.2% Threshold

The 70.2% acceptance threshold in the Trustpower Offer specifically excludes any shares held by the KCEP Trust. It only relates to the shares held by Nova and in the Free Float.

The Lock Up Agreement ensures that KCEHL will acquire Nova's 54.07% shareholding. Accordingly, a total of 4,083,697 shares from the Free Float pool of 6,569,614 shares need to be accepted into the Trustpower Offer in order for the 70.2% acceptance threshold to be met and thereby increase the offer price to \$5.00 per share. This represents 62.16% of the Free Float.

70.2% Acceptance Level				
	Current		To Meet 70.2% Threshold	
	No. of Shares	%	No. of Shares	%
Nova	13,685,521	54.07%	13,685,521	54.07%
KCEP Trust	5,057,142	19.98%	n/a	n/a
Free Float ¹	6,569,614	25.95%	4,083,697	16.13%
Total	<u>25,312,277</u>	<u>100.00%</u>	<u>17,769,218</u>	<u>70.20%</u>

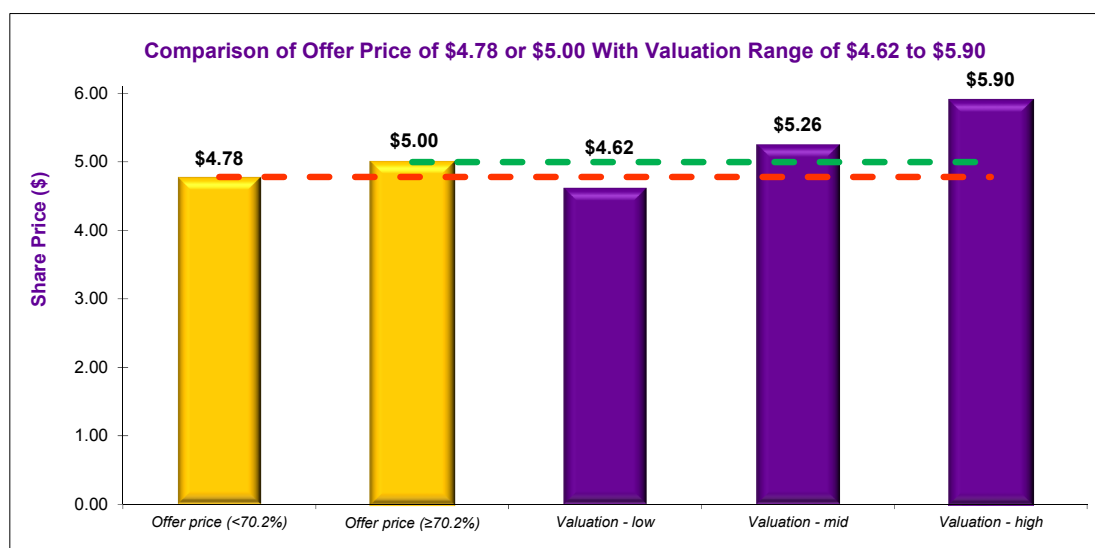
¹ Held by 6,206 shareholders

2.4 Value of King Country Energy's Shares Compared with the Offer Price of \$4.78 or \$5.00

In our opinion, the full underlying value of King Country Energy is in the range of \$4.62 to \$5.90 per share, as set out in section 6.

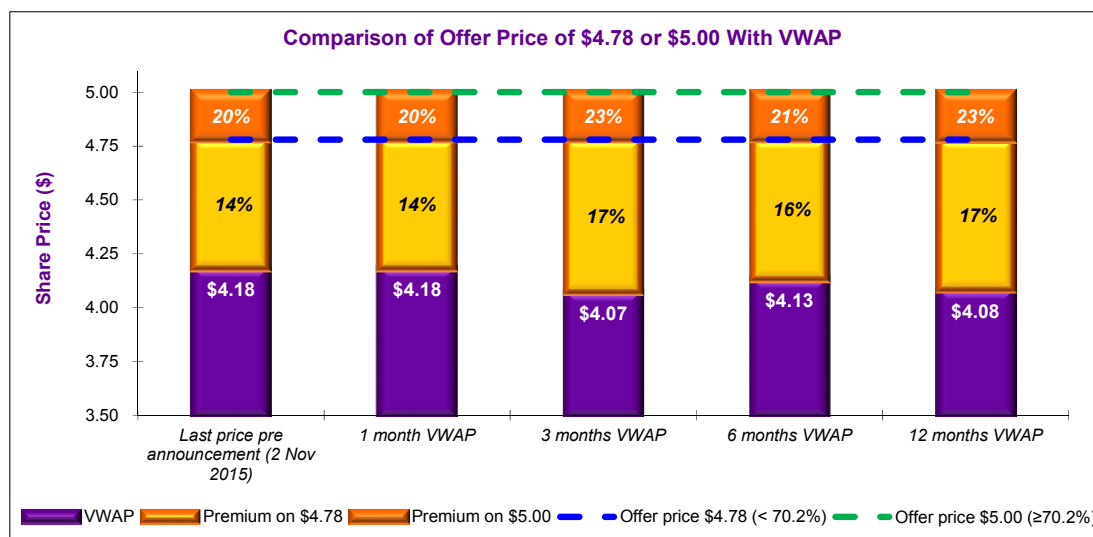
This value is for 100% of King Country Energy based on its current strategic and operational initiatives and therefore reflects the value of control. However, it excludes the value of any synergies that an acquirer may derive from acquiring full control of King Country Energy.

The Trustpower Offer consideration of \$4.78 or \$5.00 per share (depending on acceptance levels) is within our assessed valuation range. Both prices are below the \$5.26 midpoint of our valuation range.



2.5 King Country Energy's Share Price Compared with the Offer Price of \$4.78 or \$5.00

The Trustpower Offer of \$4.78 or \$5.00 per share (depending on acceptance levels) represents a premium of 14% or 20% over \$4.18 (being the last trading price before the Trustpower Offer was announced on 3 November 2015) and premia ranging from 14% to 23% over the Company's volume weighted average share price (**VWAP**) measured over one to 12 months prior to the announcement of the Trustpower Offer.



The premia (especially based on the \$5.00 offer price) are generally in line with the majority of premia observed in successful takeovers of other listed companies.

We note that trading in the Company's shares is extremely thin with only 3.5% of the Free Float traded in the year prior to the announcement of the Trustpower Offer. In our view, the combination of an illiquid share and limited earnings guidance provided by the Company means that the observed share prices may not be a totally reliable indicator of the fair market value of King Country Energy's shares.

Since the announcement of the Trustpower Offer on 3 November 2015, only 340 King Country Energy shares have traded on one day at \$4.31 per share.

2.6 Potential Synergies

The obvious immediate synergies available to Trustpower arising from a successful takeover of King Country Energy would be a reduction in the level of administration costs that would be incurred if the Company's shares were no longer quoted on Unlisted. The Company would not incur Unlisted listing fees and would face reduced share registry costs. The Company could also choose not to have any independent directors on its board. This could lead to approximately \$0.4 million of cost savings per annum, which equates to approximately \$0.02 per share.

If Trustpower were to acquire 100% of the Company, it could decide to manage King Country Energy itself and reduce or disband the Company's senior management team and corporate development activities. This could lead to approximately \$1.0 million of cost savings per annum, which equates to approximately \$0.04 per share.

Operational synergies may also arise if Trustpower wholly owned the Company in areas such as electricity market exposure and cross-selling retail offerings. These potential synergies are difficult to quantify at this point in time.

The Trustpower Offer may result in dis-synergies (ie negative synergies) for the Company. The Mangahao hydro scheme is currently operated by Nova under a management services agreement. Nova is paid a management fee of \$0.12 million per annum. King Country Energy pays for all direct operating costs of the station and administers the accounting function. The management services agreement is expressed to terminate on Nova disposing of its shareholding in the Company. Nova has confirmed to King Country Energy that it will continue to provide services under the management services agreement on a transitional basis following the sale of its shareholding. Unless Trustpower elects to provide those equivalent services on the same basis as Nova, then King Country Energy will need to appoint an executive at general manager level and another at manager level to undertake the services currently provided by Nova. This could amount to costs of approximately \$0.5 million per annum, which equates to approximately \$0.02 per share.

2.7 Conditions of the Trustpower Offer

Minimum Acceptance Condition

The Trustpower Offer is conditional on KCEHL receiving acceptances for 50.1% or more of King Country Energy's shares by the end of the offer period, being 29 January 2016 (unless extended by KCEHL).

The Lock Up Agreement ensures that the Minimum Acceptance Condition will be met, as Nova is obliged to accept its 13,685,521 shares (54.07%) into the Trustpower Offer no later than 3 business days after the Offer Document is sent to the Company's shareholders. Accordingly, Nova must accept the Trustpower Offer by 8 December 2015.

Other Conditions

The other conditions of the Trustpower Offer relate to distributions, capital structure and business operations.

Conditions of this nature are common in takeover offers. We do not consider any of these conditions represent a major impediment to the offer being declared unconditional.

Likely Date of the Trustpower Offer Being Declared Unconditional

The Trustpower Offer states that upon the Minimum Acceptance Condition being satisfied, KCEHL will declare the offer unconditional provided none of the other conditions have been breached on or prior to that time.

Accordingly, it is probable that the Trustpower Offer will be declared unconditional by 8 December 2015.

KCEHL will then be obliged to pay the consideration price of either \$4.78 or \$5.00 per share (depending on the level of acceptances) to accepting shareholders no later than 7 days after the later of:

- the date on which the shareholder's acceptance of the offer is received by KCEHL
- the date on which the Trustpower Offer is declared unconditional (which is expected to be by 8 December 2015).

If an accepting shareholder receives consideration of \$4.78 per share and subsequent to this KCEHL receives sufficient acceptances such that the consideration payable increases to \$5.00 per share, then the additional consideration of \$0.22 per share will be paid to the shareholders no later than 7 days after the shareholders are entitled to the additional consideration.

2.8 Potential Outcomes

KCEP Trust's Intentions are not Known

We understand that at the time of the Sale Process, KCEP Trust informed Nova that its objective is to remain a shareholder in King Country Energy.

The KCEP Trust has not publicly stated its intentions since the Trustpower Offer was announced on 3 November 2015. We understand that the KCEP Trust informed the Committee on 19 November 2015 that it had discussed the Trustpower Offer with its commercial and legal advisers and had yet to make a decision on whether it would accept the offer.

With respect to the KCEP Trust's possible response to the Trustpower Offer, we note the following:

- the KCEP Trust's mission statement is:

To own shares in King Country Energy and other investments and make distributions for the benefit of the consumer / beneficiaries. To maintain, grow and enhance these investments / distributions. To maintain integrity regarding moral obligation to the consumer / beneficiaries.

(emphasis added)

- the KCEP Trust states that one of its purposes and reasons for being is to own and manage shares in King Country Energy
- its 19.98% shareholding in the Company represented 52% of its total assets as at 31 March 2015.

If the KCEP Trust decided not to accept the Trustpower Offer, then the maximum shareholding in the Company that Trustpower (through KCEHL) could hold at the completion of the Trustpower Offer is 80.02%, assuming all 6,569,614 Free Float shares were accepted into the offer.

If the KCEP Trust fully accepts the Trustpower Offer, it will receive either \$24.2 million or \$25.3 million for its shares (depending on whether the consideration paid was \$4.78 or \$5.00 per share). The KCEP Trust could reinvest the funds in Trustpower or other listed electricity generation and retailing companies to maintain its exposure to the sector.

KCEHL Secures 90% or More of the Shares

If, as a result of the Trustpower Offer, KCEHL secures 90% or more of the shares in King Country Energy, KCEHL will have the right to, and has advised the Company that it intends to, compulsorily acquire the remaining shares under Part 7 of the Code.

The compulsory acquisition price will be \$5.00 per share.

In order for KCEHL to secure 90% or more of the shares under the Trustpower Offer, it would need to receive acceptances of at least 9,095,528 shares (35.93%) in addition to Nova's 54.07% shareholding. Given that the Free Float only accounts for 25.95% of the total shares on issue, KCEHL would need the KCEP Trust to accept some or all of its shares into the offer in order to reach the 90% acceptance level.

KCEHL Secures 70.2% or More but Less Than 90% of the Shares

If KCEHL receives acceptances for 70.2% or more of the Company's shares (excluding any acceptances in respect of shares held by the KCEP Trust) but less than 90% of the shares, then KCEHL will pay \$5.00 cash per share to all accepting shareholders.

KCEHL will not be able to compulsorily acquire the remaining shares in the Company.

Shareholders who retain their shareholding in the Company should note that:

- Trustpower (through KCEHL) will be able to control appointments to the Company's board of directors
- Trustpower (through KCEHL) will be able to control the outcome of any ordinary resolution (greater than 50% of votes cast acceptance level) and most likely any special resolution (75% of votes cast acceptance level) put to shareholders. Any transactions between Trustpower and King Country Energy will be required to satisfy the requirements of the Company's constitution with respect to transactions with related parties (to the extent those requirements are applicable)
- Trustpower has not made any public announcement as to whether King Country Energy's shares would remain quoted on Unlisted. Even if the Company's shares continued to be quoted on Unlisted, if KCEHL acquires any Free Float shares under the Trustpower Offer, then the size of the Free Float will decrease, which will likely lead to a further reduction in the liquidity of the Company's shares which in turn may suppress the price at which King Country Energy's shares trade in the future
- the attraction of King Country Energy as a takeover target will diminish
- Trustpower (through KCEHL) will be permitted to *creep* towards the 90% threshold over time by buying up to a further 5% per annum commencing 12 months after the current offer closes in accordance with Rule 7(e) of the Code. However, Trustpower does not have to wait 12 months to make another takeover offer after the current offer closes
- if *creeping* results in KCEHL holding 90% or more of the Company's shares, it could then invoke the compulsory acquisition provisions of the Code. KCEHL would be required to offer a price certified as fair and reasonable by an independent adviser

- depending on KCEHL's level of shareholding after the Trustpower Offer has closed, Trustpower may decide to make another takeover offer at a later date (often referred to as a "mop up" offer). However, there is no certainty that such a mop up offer would occur and it is possible that such an offer could be at a discount to the current offer if King Country Energy's share price dropped significantly. It is also possible that a mop up offer could be at a premium to the current offer prices
- unless a mop up offer is anticipated by the market, King Country Energy's shares are likely to trade at levels below the Trustpower Offer price of \$4.78 or \$5.00 following the close of the Trustpower Offer (assuming they continue to be quoted on Unlisted)
- non-accepting shareholders are unlikely to face any material change in business risk as the Company's operating policies are unlikely to be changed (positively or negatively) due to Trustpower's shareholding in the Company
- non-accepting shareholders may face a change in the Company's dividend policy. King Country Energy has paid virtually all of its after tax profits as dividends. However, there is no certainty that the Company will maintain this practice.

KCEHL Secures More Than 50.1% but Less Than 70.2% of the Shares

KCEHL is certain to achieve the Minimum Acceptance Condition due to the Lock Up Agreement, whereby it will hold at least 54.07% of the Company's shares.

If KCEHL receives acceptances for less than 70.2% of the Company's shares (excluding any acceptances in respect of shares held by the KCEP Trust), then KCEHL will pay \$4.78 cash per share to all accepting shareholders.

The matters raised in the section entitled *KCEHL Secures 70.2% or More but Less Than 90% of the Shares* would apply equally under this scenario, other than Trustpower (through KCEHL) would not technically be able to singlehandedly pass any special resolution. However, depending on its shareholding level, it could possibly control the outcome of a special resolution as not all shareholders tend to vote at shareholder meetings and therefore the relative weight of Trustpower's voting rights would increase.

2.9 Likelihood of Alternative Takeover Offers is Remote

We are advised by the Committee that as at the date of this report, they are not aware of any alternative takeover offers or alternative transactions impacting on the control of the Company.

The Lock Up Agreement creates a significant impediment to an alternative takeover offer. Any bidder looking to take over King Country Energy would need to ensure that Trustpower would accept its offer. We consider this to be highly unlikely given that Trustpower has participated in the Sale Process, entered into the Lock Up Agreement and launched a full takeover offer.

For the sake of completeness, we note that in the (unlikely) event that an alternative takeover offer was made and Trustpower decided not to match it, then those shareholders who had already accepted the Trustpower Offer would not be able to accept those shares into the alternative takeover offer.

Given that we consider the likelihood of an alternative takeover offer to be remote, we are of the view that this should not be a factor for shareholders when determining whether to accept the Trustpower Offer.

2.10 Likelihood of KCEHL Increasing the Offer Price is Limited

Given that the Trustpower Offer will most likely be declared unconditional by 8 December 2015 and that the likelihood of an alternative takeover offer is considered to be remote, we consider it unlikely that KCEHL will increase its offer price of \$4.78 or \$5.00 (depending on acceptance levels).

In the event that KCEHL did not receive sufficient acceptances to trigger the \$5.00 per share offer price, we are of the view that rather than increase the offer price, Trustpower is more likely to let the offer close and evaluate whether it makes a mop up offer sometime in the future to acquire the remaining shares in the Company. Prior to undertaking a mop up offer, we would expect Trustpower to engage in discussions with the KCEP Trust regarding its 19.98% shareholding (assuming the KCEP Trust has not accepted the current Trustpower Offer). Any mop up offer would likely be in conjunction with a lock up agreement with the KCEP Trust.

For the sake of completeness, we note that in the (unlikely) event that KCEHL does increase its price under this offer, the increased price will be available to all shareholders, including those who have already accepted the Trustpower Offer at \$4.78 or \$5.00 per share (depending on acceptance levels).

2.11 Advantages of Accepting the Trustpower Offer

The Trustpower Offer provides an opportunity for shareholders to realise cash for their investment in a thinly traded share.

On the basis that the Trustpower Offer will most likely be declared unconditional by 8 December 2015, acceptance of the offer will enable shareholders to realise cash of \$4.78 or \$5.00 per share (depending on the level of acceptances) within 7 days of acceptance and not incur any brokerage costs.

The offer price of \$4.78 per share is a premium of up to 17% on the levels that the shares have traded in the past year prior to the announcement of the Trustpower Offer and the offer price of \$5.00 per share is a premium of up to 23%.

Those shareholders wishing to continue to invest in the New Zealand electricity generating and retailing industry will be able to invest in Trustpower, Contact Energy Limited (**Contact**), Genesis Energy Limited (**Genesis**), Meridian Energy Limited (**Meridian**) and Mighty River Power Limited (**MRP**), all of whose shares are listed on the NZX Main Board. An investment in Trustpower will provide an indirect ongoing interest in King Country Energy.

2.12 Disadvantages of Accepting the Trustpower Offer

Forego Possible Future Uplift in King Country Energy Share Price

By accepting the Trustpower Offer, shareholders will forgo the possibility that the value of the Company's operations may increase in time and may be reflected in an increase in King Country Energy's share price.

The Company is focussed on growing its retail operations through securing customers that contribute to positive earnings growth and improving retail margins through appropriate customer pricing initiatives. King Country Energy forecasts that its future earnings growth will predominantly be driven by an expected increase in wholesale electricity prices, which will benefit its generation business and (to the extent that increased wholesale prices can be passed on) its retail business.

Enhanced earnings or enhanced market recognition of current financial performance may lead to a re-rating of King Country Energy's share price. However, shareholders should bear in mind that King Country Energy faces considerable competition in the retail sector (as discussed in section 4.4) and industry and business risks (as discussed in section 4.5) which may impact on the Company's ability to achieve its forecasts.

Inability to Transact Accepting Shares

We note for the sake of completeness that if a shareholder accepts the Trustpower Offer, then, until the expiry of the offer period, they will be unable to dispose of the shares which they have accepted into the Trustpower Offer, whether by selling them on-market or by accepting them into an alternative takeover offer.

However, we do not view the inability to transact accepting shares to be a major disadvantage for shareholders as:

- we consider the possibility of an alternative takeover offer to be remote
- the Trustpower Offer will probably be declared unconditional by 8 December 2015 and KCEHL will then be obliged to pay the consideration price of either \$4.78 or \$5.00 per share no later than 7 days thereafter
- since the announcement of the Trustpower Offer, only 340 shares have traded on Unlisted on one day at \$4.31 per share (ie well below the Trustpower Offer prices).

2.13 Implications of Not Accepting the Trustpower Offer

If KCEHL receives acceptances which result in it holding 90% or more of the Company's shares, it will be able to, and intends to, compulsorily acquire the remaining shares. Non-accepting shareholders will be required to sell their shares to KCEHL.

If KCEHL does not reach the 90% acceptance level, then shareholders who do not accept the Trustpower Offer will continue as shareholders in a company whose shares may or may not be quoted on Unlisted and will be subject to the issues set out in section 2.8 *KCEHL Secures 70.2% or More but Less Than 90% of the Shares*.

2.14 Impact on King Country Energy Share Price if the Trustpower Offer is not Successful

King Country Energy's shares have traded between \$3.90 and \$4.20 in the year prior to the announcement of the Trustpower Offer on 3 November 2015 and at \$4.31 since the announcement.

Following the conclusion of the Trustpower Offer, we are of the view that the Company's share price will likely revert closer to its trading range prior to the announcement of the Trustpower Offer if the Company's shares remain quoted on Unlisted.

While the Trustpower Offer has provided the market with greater information upon which to evaluate the Company's prospects and its value, trading in the Company's shares is minimal due to the small Free Float and limited demand and these factors may lead to a decrease in the share price.

However, there may be an expectation of a further mop up offer and this expectation may keep the share price at levels close to the Trustpower Offer price of \$4.78 or \$5.00.

2.15 Summary of Evaluation of the Merits of the Trustpower Offer

The Trustpower Offer is a full offer for all of the shares in the Company. Factors that shareholders should consider when deciding whether to accept or reject the Trustpower Offer include:

- KCEHL is assured of holding at least 54.07% of the Company's shares through the Lock Up Agreement and the Trustpower Offer will likely be declared unconditional by 8 December 2015
- the offer price is either \$4.78 or \$5.00 per share, depending on the level of acceptances. The use of a two-tiered offer price is to entice acceptances of the offer. All shareholders who accept the Trustpower Offer will receive \$5.00 per share if the 70.2% acceptance level is met
- Trustpower will have significant control over the Company in that it will be able to singlehandedly control the outcome of any ordinary resolution and block any special resolution and control appointments to the Company's board of directors
- we assess the full underlying value of King Country Energy's shares to be in the range of \$4.62 to \$5.90 per share. The Trustpower Offer price of \$4.78 or \$5.00 per share (depending on acceptance levels) is within our assessed valuation range, albeit towards the lower end of the range
- the Trustpower Offer of \$4.78 or \$5.00 per share (depending on acceptance levels) represents premia ranging from 14% to 23% over the Company's VWAP for the past year up to the announcement of the Trustpower Offer. However, trading in the Company's shares is extremely thin and therefore does not necessarily represent a strong indication of the fair market value of King Country Energy's shares
- the likelihood of an alternative takeover offer or Trustpower increasing its offer price is remote
- following the completion of the Trustpower Offer, there is no guarantee that King Country Energy's shares will remain quoted on Unlisted.

The main advantage for shareholders of accepting the Trustpower Offer is that they will be able to realise cash of \$4.78 or \$5.00 per share (depending on acceptance levels) for their shares. This represents an exit opportunity for all shareholders which is not readily available on Unlisted (particularly for larger parcels of King Country Energy shares) as the shares are thinly traded and is at a premium price.

The main disadvantage of accepting the Trustpower Offer is that shareholders will not participate in any potential appreciation in the value of the Company's shares from enhanced market recognition of the Company's existing financial performance or as a result of improved performance. Shareholders should however take into consideration that the Company faces considerable risks in its operations and there is no guarantee that King Country Energy will successfully execute its business strategy or that the achievement of the targeted operational improvements will result in an appreciation in the Company's share price.

In our view, the fact that Nova has accepted the Trustpower Offer following the open and contestable Sale Process is a compelling indicator of the market value of a controlling interest in the Company. The offer prices also align with our assessment of the value of King Country Energy's shares.

On the basis that the Trustpower Offer will be declared unconditional (most likely by 8 December 2015), those shareholders who wish to accept the Trustpower Offer should do so as soon as it is declared unconditional and thereby receive cash of \$4.78 or \$5.00 per share (depending on acceptance levels) within 7 days of the acceptance.

Shareholders who do not wish to accept the Trustpower Offer (as they may consider the offer price to be too low and / or they may wish to participate in a possible uplift in share price) should be mindful of a number of key issues:

- following the Trustpower Offer, Trustpower will control King Country Energy as it will hold at least 54.07% of the Company's shares and it will immediately appoint 2 out of the Company's 6 directors
- there is no certainty that the Company's current dividend policy of paying out most of its after tax profits will continue
- it is uncertain as at the date of this report whether the KCEP Trust will accept the Trustpower Offer. Trustpower (through KCEHL) will be able to *creep* over time towards the 90% shareholding threshold to enable it to invoke the compulsory acquisition provisions of the Code. However, assuming the KCEP Trust does not accept the Trustpower Offer, KCEHL will need to acquire shares from the KCEP Trust in order to reach the 90% threshold. There is no guarantee that the KCEP Trust will sell any shares to KCEHL
- trading in the shares is currently extremely thin and liquidity will likely diminish following the completion of the Trustpower Offer. Furthermore, there is no guarantee that the Company's shares will remain quoted on Unlisted.

2.16 Acceptance or Rejection of the Trustpower Offer

Acceptance or rejection of the Trustpower Offer is a matter for individual shareholders based on their own views as to value and future market conditions, risk profile, liquidity preference, tax position and other factors. In particular, taxation consequences will vary widely across shareholders. Shareholders will need to consider these consequences and consult their own professional adviser if appropriate.

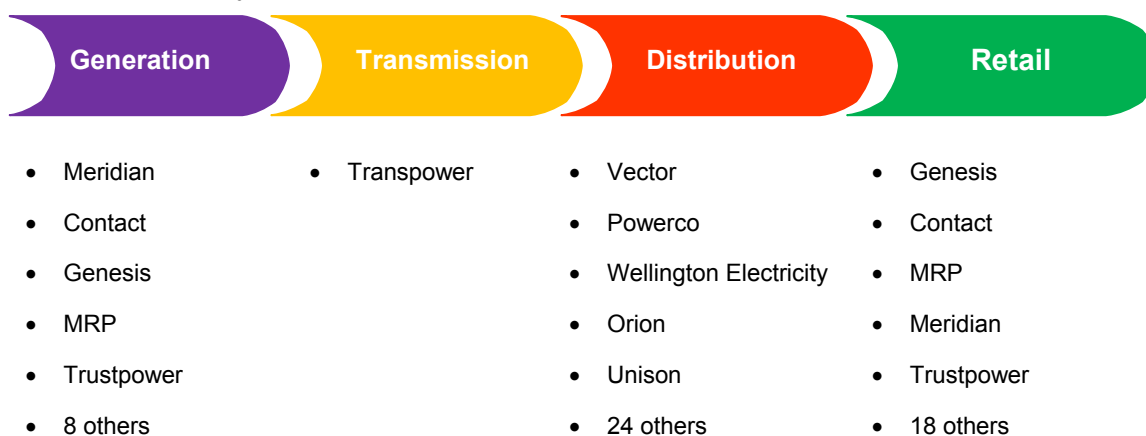
3. Overview of the Electricity Industry

3.1 Industry Structure

The New Zealand electricity industry comprises 4 main activities:

- generation
- transmission
- distribution
- retail.

The main industry participants are set out below.



Generation

New Zealand's electricity is generated by hydro-electric, thermal, geothermal and wind power stations. New Zealand's current generation capacity is approximately 10,000 megawatts (**MW**). Approximately 57% of current generation capacity is hydro-electric.

Of the main generation companies, Meridian, Genesis and MRP are former state-owned enterprises (**SOEs**) who, with Contact and Trustpower are all listed on the NZX Main Board. These 5 companies produced approximately 94% of New Zealand's electricity in 2014.

In addition to electricity generation, generation companies retail electricity to end-user consumers.

Transmission

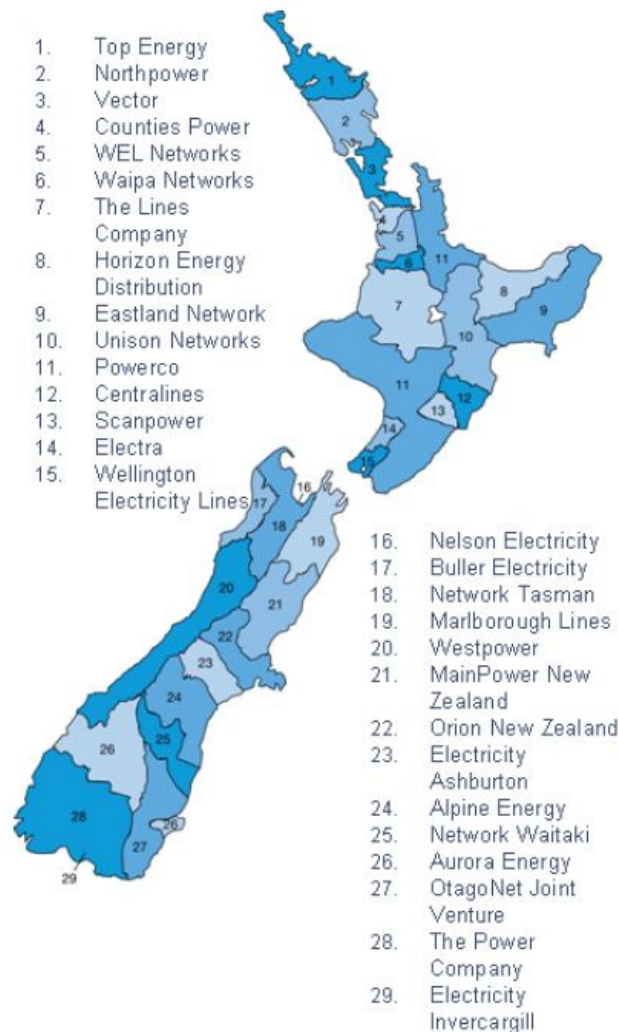
Transpower New Zealand Limited (**Transpower**) owns and operates New Zealand's high-voltage electricity grid, comprising more than 12,000 km of lines, over 170 substations, pylons and high voltage cables. Transpower is responsible for transmitting electricity produced by generators from over 50 power stations to around 200 grid exit points (**GXP**s) around New Zealand. The GXP's are the points of supply from the national grid to local distribution networks.

Transpower's customers are generators, electricity distribution businesses (**EDB**s) and a small number of high volume consumers who take electricity directly from the national grid. Transpower's costs are passed through to end-customers through the EDB tariffs.

Distribution

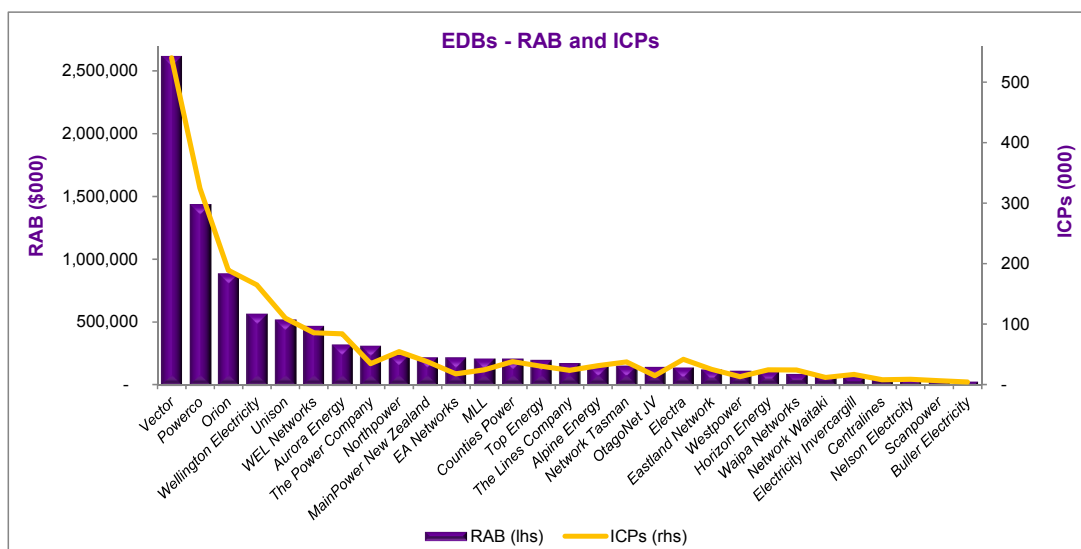
Distribution is the service of transporting electricity from GXP's through to industrial, commercial and residential consumers. There are 149,481 km of distribution lines in New Zealand. The distribution networks also include substations which convert electricity to lower voltages.

There are currently 29 EDBs operating in New Zealand.



Source: Electricity Networks Association

The 5 largest EDBs – Vector Limited, Powerco Limited, Orion New Zealand Limited, Wellington Electricity Lines Limited and Unison Networks Limited – account for around 65% of all connections (as measured by installation control points (**ICPs**)) and over 60% of the total value of the distribution networks fixed assets (as measured by their regulatory asset base (**RAB**)).



Source: PricewaterhouseCoopers Electricity Line Business 2014 Information Disclosure Compendium

21 of the EDBs have some community trust ownership with 18 having full trust ownership.

Under the Electricity Industry Reform Act 1998 (the **1998 Reform Act**), EDBs were required to separate from companies that generated and retailed electricity (although limited levels of cross-ownership are permitted).

The Electricity Industry Reform Amendment Act 2008 (the **Reform Amendment Act 2008**) came into force in October 2008 and amended the 1998 Reform Act. It amended the ability of EDBs to invest in electricity generation, with the key amendments being:

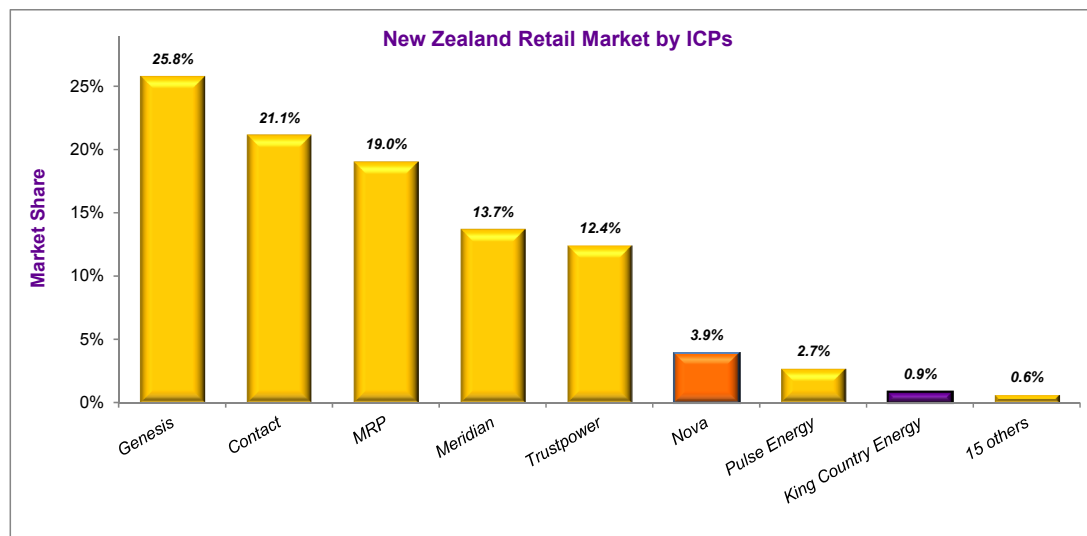
- EDBs are able to sell up to 100% of nominal output capacity of permitted generation
- EDBs are able to trade in financial hedges to manage spot market risk
- corporate separation and compliance with arms-length rules were relaxed to:
 - permit investment in up to 10 MW without having to comply with corporate separation rules
 - permit common directors in lines and supply businesses as long as at least one independent director exists
 - allow the same manager to manage both supply and distribution businesses up to a threshold generation capacity of 30 MW
- owners of EDBs may have unlimited involvement in generation from renewables (including hydro and geothermal generation using traditional technologies).

Retail

Electricity generation companies are also the main electricity retailers, principally due to the natural hedge between the 2 activities. Electricity retailing is a competitive industry and consumers are able to switch between electricity providers.

There are currently 23 electricity retailers in New Zealand.

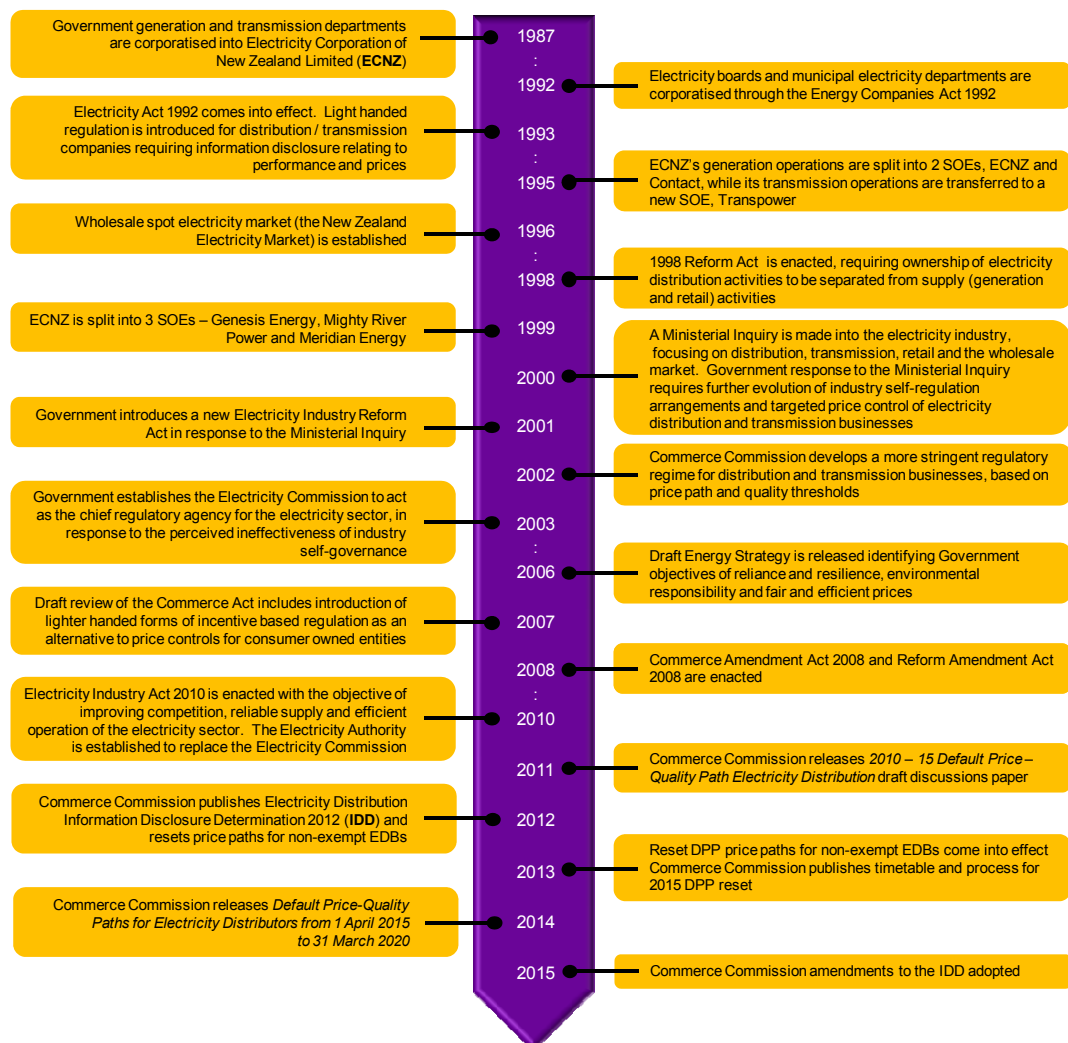
The market share of electricity retailers as at September 2015 is set out below.



Source: Electricity Authority, data as at September 2015

3.2 Industry Development

The electricity industry has undergone extensive reform over the last 3 decades. Key events in the reform process are summarised below.



Source: Electricity Authority, media coverage, independent adviser's reports, brokers' reports

3.3 Regulatory Environment

Electricity Authority

The Electricity Authority is an independent Crown entity responsible for the efficient operation of the New Zealand electricity market. It succeeded the Electricity Commission on 1 November 2010 as one of a number of sector changes introduced under the Electricity Industry Act 2010.

The objective of the Electricity Authority is to promote competition in, reliable supply by and the efficient operation of the electricity industry for the long term benefit of consumers.

The Electricity Authority is focused on addressing key questions that affect the long term benefit of consumers:

- are prices reasonable?
- will the lights stay on?
- do consumers have choices?
- is innovation occurring?

To answer these questions the Electricity Authority:

- develops, administers and enforces the Electricity Industry Participation Code 2010 (the **Participation Code**), which is a set of rules that govern nearly every aspect of New Zealand's electricity industry including generation, transmission, system operation, security of supply, market arrangements, metering, distribution and retail
- supports the development of the industry through education, guidelines, information and model arrangements
- monitors the industry and makes information available through the EMI website
- contracts a range of service providers to operate the electricity market and system as set out in the Participation Code.

Although operating as an independent regulator, the Electricity Authority is required to give regard to Government policy statements presented in Parliament by the Minister of Energy and Resources. It also undertakes reviews of specific electricity industry issues at the request of the Minister.

Market Administration

The Electricity Authority contracts out most of the services required to operate the retail and wholesale electricity markets, apart from the market administration function which it performs itself.

The Market Administrator functions are of an oversight nature rather than active processing of market data or provision of real-time market services as performed by most other service providers. Examples include appointing auditors of test houses and metering installations, maintaining a register of incumbent retailers, collating System Operator and Pricing Manager reports and specifying back-up procedures for use in the event of a failure of the market systems.

In the retail market, the key services of registration and reconciliation are contracted to Jade Software Corporation Limited (**Jade**) and NZX respectively.

The Registry is a national database containing information on nearly two million ICPs and is managed by Jade.

NZX, as the contracted Reconciliation Manager, receives and processes approximately 50 million metering data points on a monthly basis, reconciles them against a register of contracts and passes the data to participants. Reconciliation information is used in the electricity market settlement function performed by the Clearing Manager.

Competition

The Participation Code promotes retail competition by specifying efficient switching processes and by allowing any party to be an electricity retailer provided minimum standards are met.

Although the extent of retail competition varies across the country, all customers have a choice of retailers. In some parts of New Zealand there are 5 or more competing retailers. By improving the flow of information through the system, switching has become faster and now generally can be done conveniently over the phone with a new retailer.

3.4 Wholesale Electricity Market

Spot Market

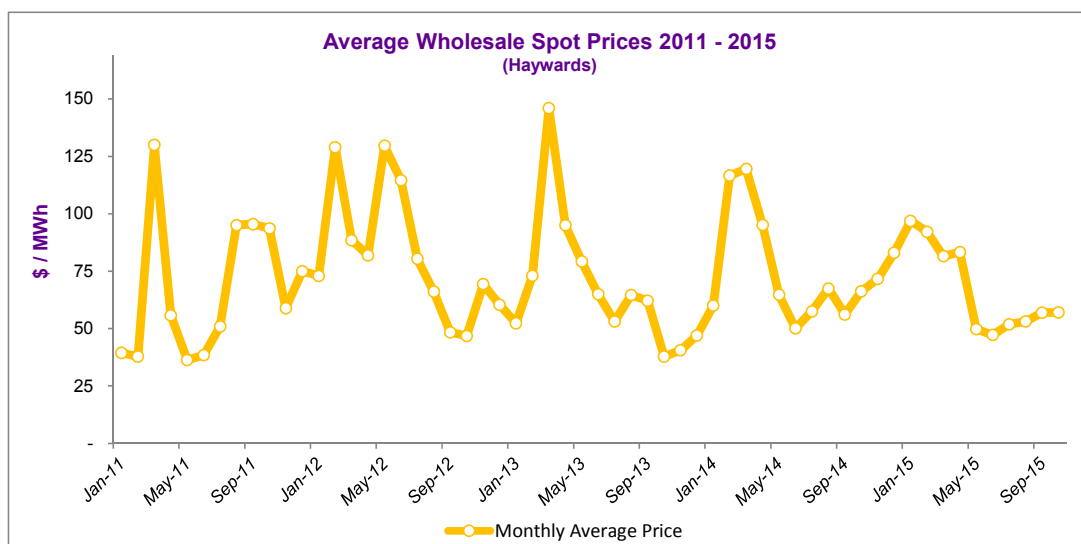
Retailers and a small number of large industrial users buy electricity directly from the spot market. These parties will typically also enter into financial contracts (hedges) which smooth out some or all of the volatility in spot prices. Jointly, the spot and hedge markets are the major components of the wholesale electricity market, which also includes the instantaneous reserves market and the ancillary services market.

Generators that are bigger than 10 MW or are grid-connected compete in the electricity spot market for the right to generate electricity to satisfy demand, subject to transmission capacity. They do this by submitting offers through the Wholesale Information and Trading System (**WITS**).

The System Operator (Transpower) ranks the offers in order of price and selects the lowest cost combination of resources to satisfy demand. The highest priced generator actually required for a given half hour sets the spot price for that trading period.

Electricity spot prices can vary significantly across trading periods, reflecting factors such as changing demand (e.g. lower prices in summer when demand is subdued) and supply (e.g. higher prices when hydro lakes and inflows are below average). Spot prices can also vary significantly across locations, reflecting electrical losses and constraints on the transmission system (eg higher prices in locations further from generating stations).

Prices are established half hourly at approximately 248 different points of connection (nodes) to the national grid located across the country. One of the most common wholesale prices quoted is that at Haywards (near Wellington). The graph below shows that the average monthly Haywards spot prices have varied considerably in the past 5 years, ranging from a low of \$36.31 per MWh in May 2011 to a high of \$146.05 per MWh in March 2013.



Source: Electricity Authority

Hedge Market

The wholesale hedge market allows parties to agree contracts to partially or fully offset prices paid on the spot market.

Traditionally, the hedge market in New Zealand has operated through over-the-counter contracts, where buyers negotiate directly with sellers to agree on a price. These contracts can be customised and offer flexibility for both parties.

Buyers and sellers of electricity now are able to contract on the New Zealand Electricity Futures & Options market operated by the Australian Securities Exchange (**ASX**). ASX New Zealand Electricity Futures & Options are standardised and centrally cleared financial contracts structured as cash-settled Contracts for Difference (**CFD**) against 2 grid reference points – Otahuhu (in the North Island) and Benmore (in the South Island).

Market Administration

The Electricity Authority undertakes the function of Market Administrator and contracts service providers to perform the core wholesale market and system operation services. NZX is contracted to provide 3 services:

- Pricing Manager - calculating and publishing the spot prices at which electricity market transactions are settled
- Clearing Manager – ensuring that wholesale market participants are paid, or pay, the correct amount for the electricity they generated or consumed during the previous month. The Clearing Manager also has the role of administering prudential requirements in the form of acceptable credit ratings or securities for the purpose of ensuring purchasers of electricity or ancillary services can meet their payment obligations
- WITS Manager – operating the electricity market wholesale information and trading platform used by electricity market participants to upload their bids and offers.

Settlement and Prudentials

Settlement of wholesale market transactions for a calendar month occurs on the 20th day of the following month. Wholesale electricity purchasers must pay the Clearing Manager for those purchases in cleared funds by 2pm on settlement day. The Clearing Manager then pays generators in cleared funds by 4:30pm on the same day.

The Clearing Manager determines the required level of prudential security that each participant must provide. The Clearing Manager determines that level by estimating its net exposure to a participant over a period of 55 to 60 days. If the Clearing Manager determines that its exposure to a participant is more than the amount of security the participant has already provided, the Clearing Manager will issue a call for additional security, which must be satisfied within 3 business days.

Prudential security may take the form of a cash deposit, a bank guarantee, a third party guarantee from a party with an acceptable credit rating, a bond from a surety with an acceptable credit rating and / or a hedge contract lodged with and settled by the Clearing Manager. Parties with an acceptable credit rating (A- Standard & Poors or equivalent) do not need to provide prudential security.

4. Profile of King Country Energy

4.1 Background

King Country Energy was incorporated on 4 January 1991 and took over the King Country Electric Power Board's (**KCPB**) electricity operations.

The Company was restructured in 1999 following the requirement of the 1998 Reform Act for energy companies to separate retail and generation from their distribution or lines businesses.

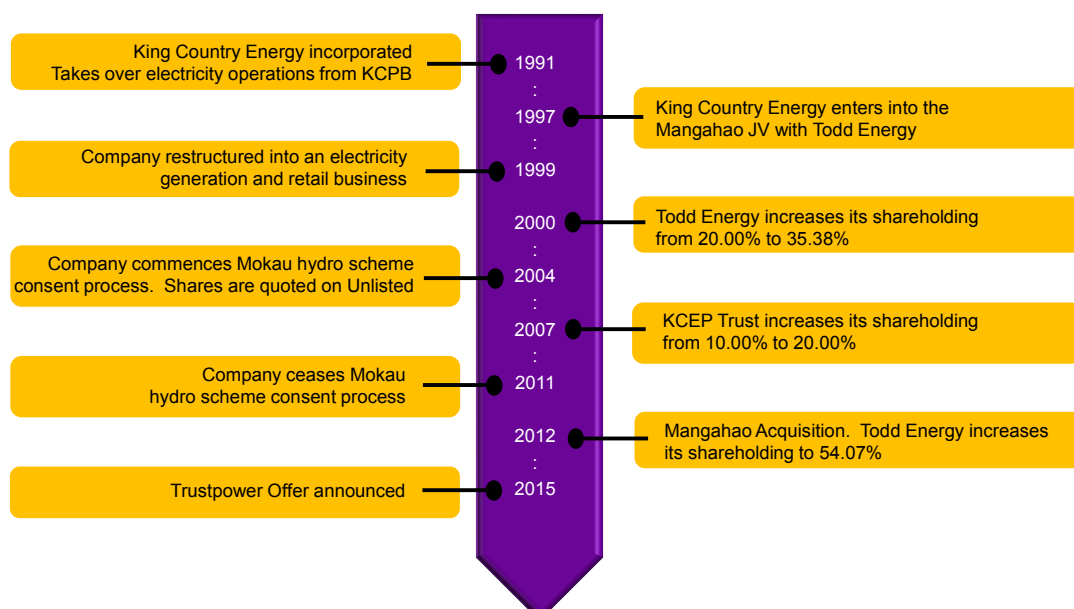
King Country Energy and Waitomo Energy Services Limited (now known as The Lines Company) combined their assets and then split the assets as follows:

- King Country Energy acquired the generation and retail businesses
- The Lines Company acquired the electricity distribution business.

Waitomo Energy Services Customer Trust (the **WESC Trust**) took an 8% shareholding in King Country Energy and retained 75% of The Lines Company. The KCEP Trust retained 10% of King Country Energy and acquired a 25% shareholding in The Lines Company. At around the same time, Todd Energy acquired a 20% cornerstone shareholding in the Company for \$10.8 million and the remainder of the shares in King Country Energy were distributed to customers.

Todd Energy increased its shareholding in the Company to 35.38% in 2000. Following the Mangahao Acquisition, Todd Energy's shareholding increased to 54.07% in 2012 and was transferred to Nova.

Key events in the Company's history are set out below.

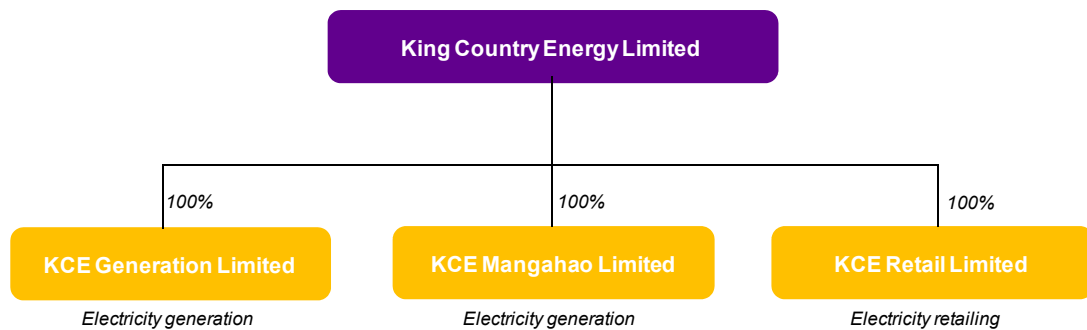


4.2 Nature of Operations

Group Structure

King Country Energy operates 2 business streams:

- electricity generation
- electricity retailing.



Generation

KCE Generation Limited (**KCE Generation**) owns and operates the hydro system incorporating 4 power stations located within the King Country region.

KCE Mangahao Limited (**KCE Mangahao**) owns the Mangahao Power Station located near Palmerston North. The Mangahao hydro scheme is operated by Nova under a management services agreement. This will terminate when Nova sells its shareholding in the Company.

King Country Energy's total generation capacity is approximately 54 MW and average production is approximately 190 GWh per annum.

Generation Portfolio					
Power Station	Commissioned	Location	Head (metres)	Installed Capacity (MW)	Average Production (GWh pa)
Wairere Falls	1925	Aria Road, Wairere	19.6	4.5	17.0
Mokauiti	1963	Totara Road, Aria	42.7	1.9	6.9
Piriaka	1924	SH4, Piriaka	8.2	1.5	7.4
Kuratau	1962	Kuratau Hydro Road, Omori	64.0	6.0	27.7
Mangahao	1924	East Road, Shannon	271.0	39.8	130.9
				<u>53.7</u>	<u>189.9</u>

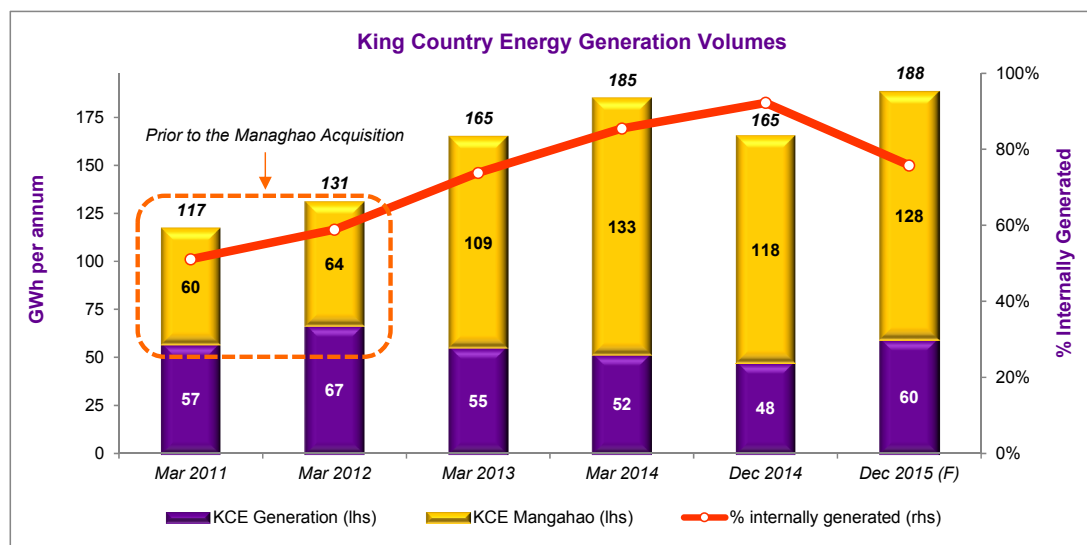
Source: King Country Energy

All 4 of the KCE Generation plants are embedded in The Lines Company supply network and provide King Country Energy with the added benefit of receiving Transpower avoided cost of transmission (**ACOT**) revenues whereby The Lines Company compensates KCE Generation for its reduced charges to Transpower. The method by which ACOT is allocated is currently being reviewed by the Electricity Authority, which may result in a change to the Company's ACOT revenue stream.

The Mangahao Power Station is embedded within the Electra network and also receives compensation from Electra for ACOT.

The Company is of the view that its generation plants have been well maintained and there are no capital expenditure requirements which are significantly above historic levels. However, the generation plants are relatively old and can be expected to have a higher level of maintenance and capital expenditure than newer generation plants.

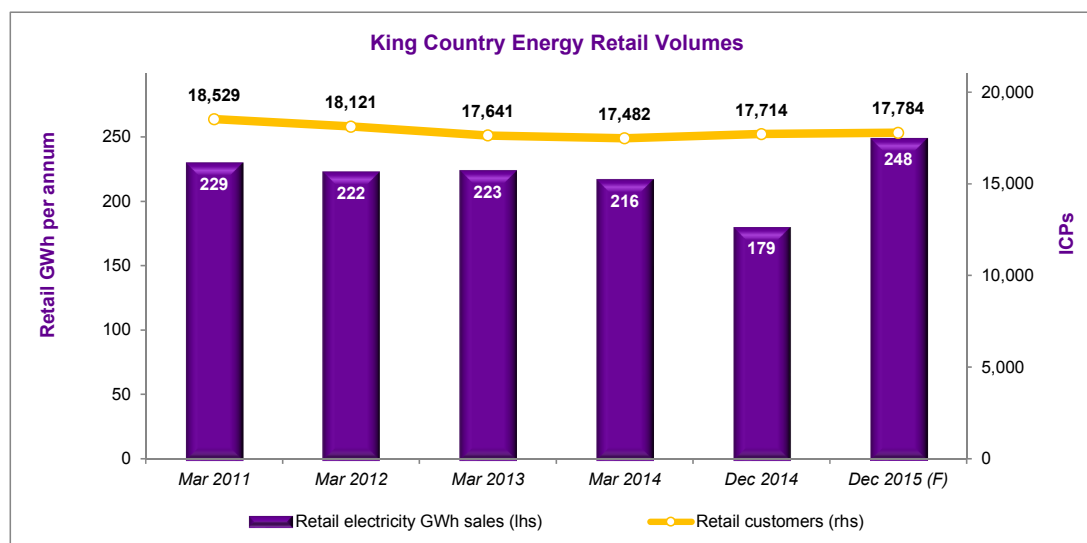
The Company's recent generation volumes have ranged between 117 GWh and 188 GWh. Fluctuations in generation volumes are primarily due to hydrological factors such as rainfall levels. KCE Mangahao volumes prior to June 2012 represented the Company's 50% share of volumes generated by the Mangahao Power Station (ie prior to the Mangahao Acquisition). The period to 31 December 2014 was a 9 month period.



Retail Operations

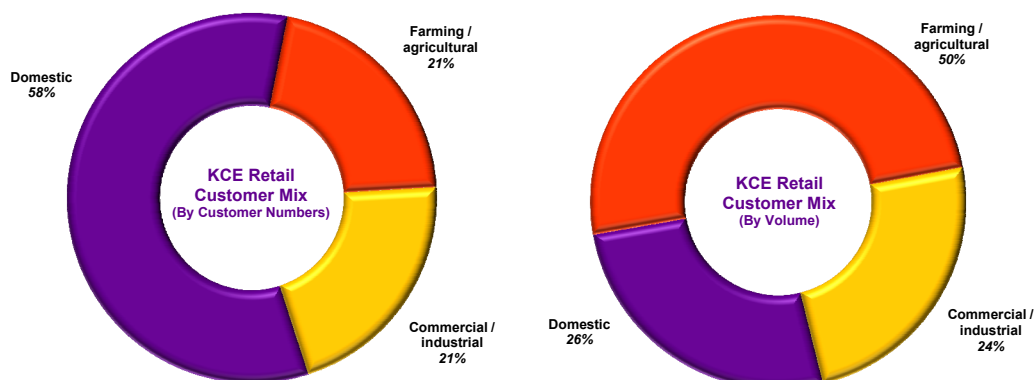
KCE Retail Limited (**KCE Retail**) is the largest electricity retailer in the Waitomo, King Country and Ruapehu / Waimarino districts with over 17,700 customer sites. This represents approximately 0.9% of the New Zealand retail electricity market.

The Company's recent annual retail sales volumes have ranged between 216 GWh and 248 GWh. The period to 31 December 2014 was a 9 month period.



The slight reduction in retail sales volumes since the 2011 financial year mainly reflects reducing market share in the domestic market in the Company's traditional trading area as retail competition has increased. This has been offset to a large degree by targeting growth in commercial customers in the periphery of the Company's traditional trading area. King Country Energy has identified niche commercial customer segments where it can successfully win customers at acceptable margins. A key part of this success has been the Company's local and regional presence, support for community initiatives and an ability to provide personalised customer service.

KCE Retail's current customer mix (by number and volume) is set out below.



Source: King Country Energy

In addition to supplying customers in its traditional trading area, KCE Retail supplies, on fixed term contracts, some medium sized industrial customers and a small number of domestic customers concentrated in the central North Island.

Most customers are charged fixed prices because generally customers do not wish to manage market price risk. Furthermore, some of the electricity meters in use do not allow charging that reflects rapid movements in wholesale prices.

Interaction Between Generation and Retail

KCE Retail currently has a fixed price variable volume hedge with KCE Generation which eliminates its exposure to the wholesale electricity market. The Company's exposure to spot market prices is taken by KCE Generation and managed within that entity. KCE Generation charges KCE Retail for the electricity it sells at the agreed hedge rate. As discussed in section 3.4, wholesale electricity prices fluctuate significantly and monthly averages have ranged from \$36.31 per MWh to \$146.05 per MWh over the last 5 years.

KCE Generation sells the output from the Company's generation plants on the spot market. It also purchases the electricity requirements of KCE Retail on the spot market. To the extent that supply and demand coincide in time and place, the selling and purchasing prices are the same and there is no price risk.

Price risk occurs where supply and demand are not in balance. As electricity sales volumes are greater than generation production, KCE Generation is exposed to spot price on this shortfall.

The shortfall in its electricity production is covered by hedge arrangements, predominantly with other electricity generators. King Country Energy holds sufficient hedges to cover its generation shortfall in a dry year. It generally buys hedges 2 years in advance of usage, thus reducing exposure to volatility from year to year. The Company uses derivative financial instruments in the form of CFDs in order to manage its exposure to fluctuations in spot market electricity prices. The CFDs are held to maturity and are specific to the Company. Financial derivatives are not held for the purposes of trading those instruments for profit. Hedges manage the Company's volume exposure but have only limited effect in managing its location exposure where electricity is sold in locations away from its generation.

By using hedge arrangements in conjunction with its own generation, King Country Energy is able to derive greater certainty as to the margin between the purchase price and selling price of electricity.

4.3 Corporate Strategy

King Country Energy's corporate strategy is based on 3 key objectives:

- *Retail Customer Growth*
- *Retail Margin Growth*
- *Wholesale Supply Growth*.

Retail Customer Growth is a targeted retail growth strategy, focussing on securing customers that contribute to positive earnings growth.

The objective of *Retail Margin Growth* is to ensure appropriate customer pricing. By leveraging off its low cost to serve, its stable work force and strong regional community presence, the Company's pricing initiatives are aimed primarily at improving overall retail margins.

The objective of *Wholesale Supply Growth* is to ensure the Company achieves long term security of supply to support its retail volumes and facilitate retail customer growth. This involves:

- actively pursuing generation development and acquisition opportunities
- developing long term hedge opportunities
- reducing peak exposure and outperforming the hedge market.

4.4 Competition

KCE Retail is the largest retailer (by customer numbers) within the King Country and Waitomo districts.

It faces competition primarily from:

- Energy Online (owned by Genesis)
- Genesis
- Trustpower
- Meridian
- Pulse Energy
- Bosco Connect (owned by MRP).

4.5 Key Issues Affecting King Country Energy

The main industry and specific business factors and risks that King Country Energy faces include:

- hydrological factors such as low rainfall levels may result in a reduction in generation volumes
- the Company is exposed to spot price fluctuations on the wholesale electricity market to the extent that its own generation and hedge portfolio is insufficient to meet sales to its customers
- the Company may not be able to obtain electricity hedges at a price which allows it to operate profitably
- the Company faces competition as an electricity retailer. A number of its competitors are significant businesses potentially able to undercut King Country Energy's pricing
- the retail electricity market price that the Company may offer could be above what other electricity retailers are offering
- the Company may be adversely affected by regulatory changes
- the loss of key staff.

4.6 Directors and Senior Management

The directors of King Country Energy are:

- Mahadevan (Babu) Bahirathan, Nova representative
- Timothy Cosgrove, Nova representative
- Brian Gurney, KCEP Trust representative
- Brian Needham, independent
- Linda Robertson, independent
- Toby Stevenson, independent chair.

We understand that upon KCEHL's acquisition of Nova's shareholding, Mr Bahirathan and Mr Cosgrove will resign as directors and 2 representatives of Trustpower will be appointed as directors.

Mr Gurney is the former chair of the KCEP Trust.

The Company's senior management team comprises:

- Rob Foster, chief executive officer
- Chris Fincham, energy supply manager
- Vladimir Kabanov, generation operations manager
- Alex Polaschek, general manager sales and marketing
- Geoff Bell, acting chief financial officer.

The role of chief financial officer is currently vacant. Mr Bell, the Company's financial controller, is performing the function on an acting basis.

4.7 Capital Structure and Shareholders

King Country Energy currently has 25,312,277 ordinary shares on issue held by 6,208 shareholders.

The names, number of shares and percentage holding of the 10 largest shareholders as at 3 November 2015 are set out below.

King Country Energy's 10 Largest Shareholders		
Shareholder	No. of Shares Held	%
Nova	13,685,521	54.07%
KCEP Trust	5,057,142	19.98%
H&G Limited	288,264	1.14%
JBWere (NZ) Nominees Limited	269,157	1.06%
Leveraged Equities Finance Limited	213,364	0.84%
Peter Guy, Anne Guy and John Anderson	124,000	0.49%
Paradise Finance Limited	97,157	0.38%
ASB Nominees Limited	74,000	0.29%
General Finance Holdings Limited	59,626	0.24%
Allan Nation, Steven National and Paul Brown	58,740	0.23%
Subtotal	19,926,971	78.72%
Others (6,198 shareholders)	5,385,306	21.28%
Total	25,312,277	100.00%

Source: King Country Energy

Nova acquired its shareholding in King Country Energy via a transfer from Todd Energy after the Mangahao Acquisition was completed. Todd Energy took a 20% cornerstone shareholding in the Company at the time of its restructuring in 1999. It increased its shareholding to 35.38% in 2000 prior to the introduction of the Code. It further increased its shareholding to 54.07% via the Mangahao Acquisition in June 2012.

The KCEP Trust retained a 10% shareholding in the Company at the time of its restructuring in 1999. It increased its shareholding to 20% in 2007 by acquiring the WESC Trust's 8% shareholding and a further 2% from other shareholders.

4.8 Financial Performance

A summary of King Country Energy's recent financial performance is set out below.

Summary of King Country Energy Financial Performance					
	Year to 31 Mar 12 (Audited) \$000	Year to 31 Mar 13 (Audited) ¹ \$000	Year to 31 Mar 14 (Audited) \$000	9 Mths to 31 Dec 14 (Audited) \$000	Year to 31 Dec 15 (Forecast) \$000
Operating revenue	32,355	42,416	41,781	37,732	46,348
EBITDAF	11,239	13,586	12,596	12,808	14,146
EBITDA	10,593	10,317	15,123	11,276	16,362
EBIT	7,567	4,779	8,552	6,675	10,567
Profit before income tax	7,753	3,728	7,185	5,321	9,218
Profit after tax expense	5,264	2,665	5,070	3,838	6,626
EPS	\$0.28	\$0.11	\$0.20	\$0.15	\$0.26
DPS	\$0.24	\$0.26	\$0.24	\$0.24	\$0.33

EBITDAF: Earnings before interest, tax, depreciation, amortisation and fair value movements in derivative financial instruments
EBITDA: Earnings before interest, tax, depreciation and amortisation
EBIT: Earnings before interest and tax
EPS: Earnings per share
DPS: Dividends per share

¹ Restated

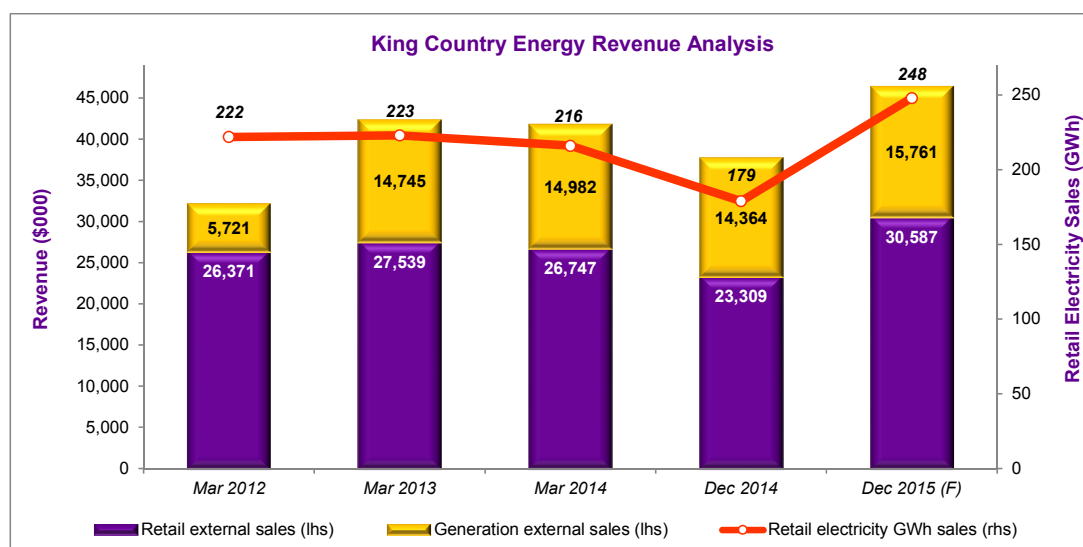
Source: King Country Energy audited financial statements and forecast for the 2015 financial year

The Mangahao Acquisition on June 2012 had a significant impact on the size of King Country Energy's operations and its earnings.

Fluctuations in the Company's profitability since then have been driven primarily by generation volumes, wholesale electricity spot prices and the Company's hedge positions.

Revenue

The Company's annual revenue has ranged between \$32 million and \$42 million over the past 3 full financial years to 31 March 2014 and is forecast to be \$46 million in the 2015 financial year.



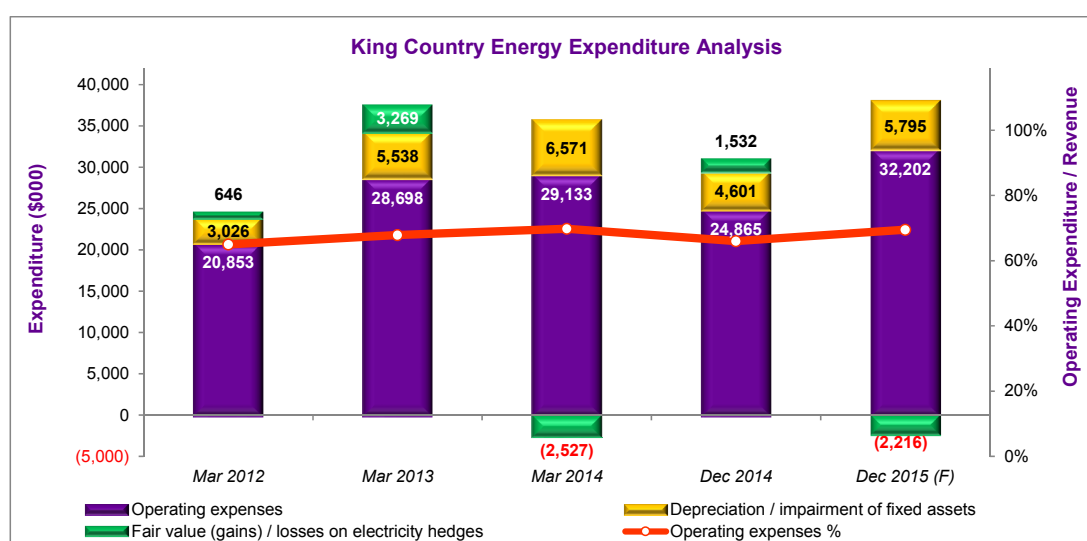
The \$10.1 million (31%) increase in revenue in the 2013 financial year was mainly due to the Mangahao Acquisition.

The \$0.6 million (2%) decrease in revenue in the 2014 financial year was mainly due to increased retail competition resulting in lower retail margins and reduced hydro inflows impacting generation revenue in February and March 2014.

Revenue of \$37.7 million for the 9 months ended 31 December 2014 represented an 18% increase over the corresponding prior 9 month period, due mainly to favourable conditions for hydrology and spot prices. Retail margins continued to come under pressure from the competitive retail market but these were offset by a favourable generation business result.

Revenue for the 2015 financial year is forecast to be \$46.3 million, based on higher than (long term) average inflows into the 5 hydro catchments and generation output during the year and higher retail sales due to the successes of the Company's sales initiatives.

Operating Expenses



Operating expenses in the 2013 financial year increased by \$7.8 million due mainly to the Mangahao Acquisition. During the year the forecast energy price path trended downwards, resulting in a \$3.3 million negative impact on the fair value of derivative financial instruments.

Operating expenses in the 2014 financial year increased by \$0.4 million and depreciation increased by \$0.6 million, reflecting a full year's charge in respect of the Mangahao Power Station. A \$2.5 million gain was recorded in respect of the movement in the fair value of derivative financial instruments.

Operating expenses in the 9 months ended 31 December 2014 increased by 9% over the corresponding prior period, due mainly to increased investment in health and safety initiatives, new environmental and human resources management initiatives and investment in the retail business to position it for further growth.

2015 Forecast

The forecast for the 2015 financial year is based on actual results for the 9 months ended 30 September 2015 and forecast results for the 3 months ended 31 December 2015. The forecast is based on the following principal assumptions:

- generation of 188 GWh for the year
- retail sales of 248 GWh for the year
- operating expenses totalling \$32.2 million for the year
- a \$2.2 million gain over the year in respect of the movement in the fair value of derivative financial instruments.

4.9 Financial Position

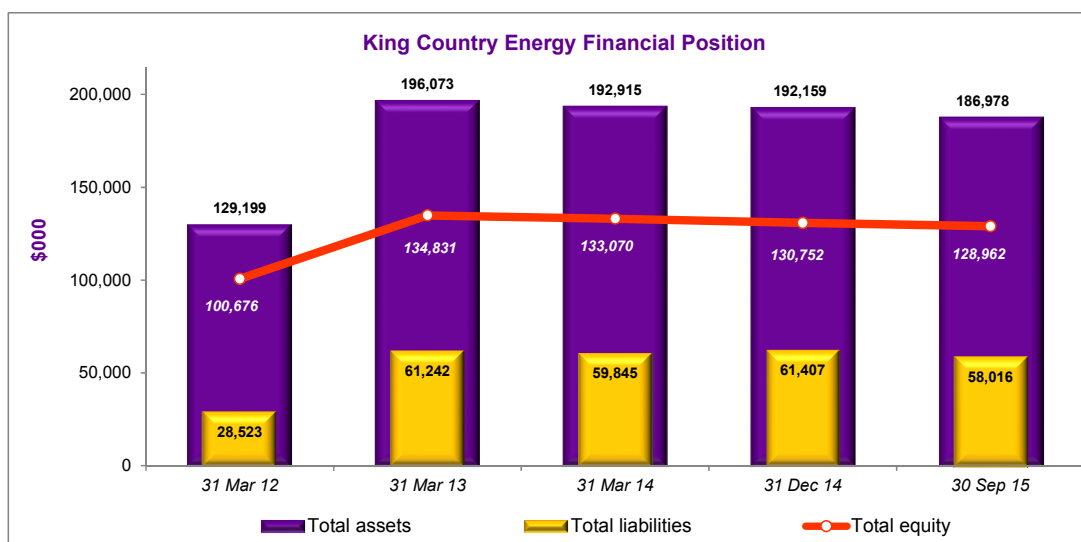
A summary of King Country Energy's recent financial position is set out below.

Summary of King Country Energy Financial Position					
	As at 31 Mar 12 (Audited) \$000	As at 31 Mar 13 (Audited) ¹ \$000	As at 31 Mar 14 (Audited) \$000	As at 31 Dec 14 (Audited) \$000	As at 30 Sep 15 (Unaudited) \$000
Current assets	15,455	3,944	5,196	7,700	6,121
Non current assets	113,744	192,129	187,719	184,459	180,857
Total assets	129,199	196,073	192,915	192,159	186,978
Current liabilities	(4,260)	(7,471)	(4,699)	(5,153)	(2,311)
Non current liabilities	(24,263)	(53,771)	(55,146)	(56,254)	(55,705)
Total liabilities	(28,523)	(61,242)	(59,845)	(61,407)	(58,016)
Total equity	100,676	134,831	133,070	130,752	128,962
Net assets per share	\$5.37	\$5.33	\$5.26	\$5.17	\$5.09

¹ Restated

Source: King Country Energy audited financial statements and September 2015 management accounts

King Country Energy's financial position changed significantly in the 2013 financial year due to the \$70 million Mangahao Acquisition in June 2012. Consideration was in the form of the issue of \$36.2 million of new shares and \$33.8 million of cash (funded in part by a new bank loan facility of \$30 million).



The Company's current assets consist mainly of trade and other receivables and cash at bank.

Non current assets consist mainly of fixed assets. The carrying value of fixed assets was \$179.3 million as at 30 September 2015, of which \$159.2 million represented generation plant and equipment and \$14.4 million represented land and buildings. All land and land improvements, buildings and generation plant, property and equipment were revalued as at 31 December 2012 to fair value.

Non current assets as at 30 September 2015 also included \$1.6 million of goodwill attributable to KCE Retail.

The Company's main current liabilities are trade and other payables.

Non current liabilities consist mainly of:

- borrowings in the form of a \$45 million unsecured term loan facility, of which \$5 million expires on 17 January 2016, \$30 million expires on 17 January 2017 and \$10 million expires on 17 January 2018. \$27.0 million of the facility had been drawn down as at 30 September 2015
- deferred tax, arising primarily from timing differences on the depreciation of fixed assets due to their periodic revaluation to fair value for accounting purposes.

The Company's net interest bearing debt (**IBD**) as at 30 September 2015 amounted to \$25.5 million:

- cash at bank - \$1.5 million
- borrowings - \$27.0 million.

Financial derivatives (in the form of wholesale electricity CFDs, interest rate swaps and forward currency contracts) are recorded at their fair value. The net fair value of the financial derivatives as at 30 September 2015 was a liability of \$1.2 million, compared with a liability of \$3.1 million as at 31 December 2014.

Total equity of \$129.0 million as at 30 September 2015 consisted of:

- \$55.3 million of issued and paid up capital
- \$73.6 million of asset revaluation reserve, arising from the periodic revaluation of fixed assets
- \$0.1 million of retained earnings.

Approximately 96% of total assets are attributable to the generation operations.

4.10 Cash Flows

A summary of King Country Energy's recent cash flows is set out below.

Summary of King Country Energy Cash Flows				
	Year to 31 Mar 13 (Audited) ¹ \$000	Year to 31 Mar 14 (Audited) \$000	9 Mths to 31 Dec 14 (Audited) \$000	Year to 31 Dec 15 (Forecast) \$000
Net cash flow from operating activities	10,950	9,580	8,135	9,806
Net cash used in investing activities	(35,221)	(3,059)	(1,506)	(1,537)
Net cash from / (used in) financing activities	13,451	(5,380)	(5,788)	(9,794)
Net increase / (decrease) in cash held	(10,820)	1,141	841	(1,525)
Opening cash balance	11,180	360	1,501	2,342
Closing cash balance	360	1,501	2,342	817

¹ Restated

Source: King Country Energy audited financial statements and forecast for the 2015 financial year

The Company generates significant levels of cash flows from its operations each year.

\$34.0 million of cash was paid in respect of the Mangahao Acquisition in the 2013 financial year. Since then, capital expenditure has averaged approximately \$2 million each year compared with annual depreciation in excess of \$5 million.

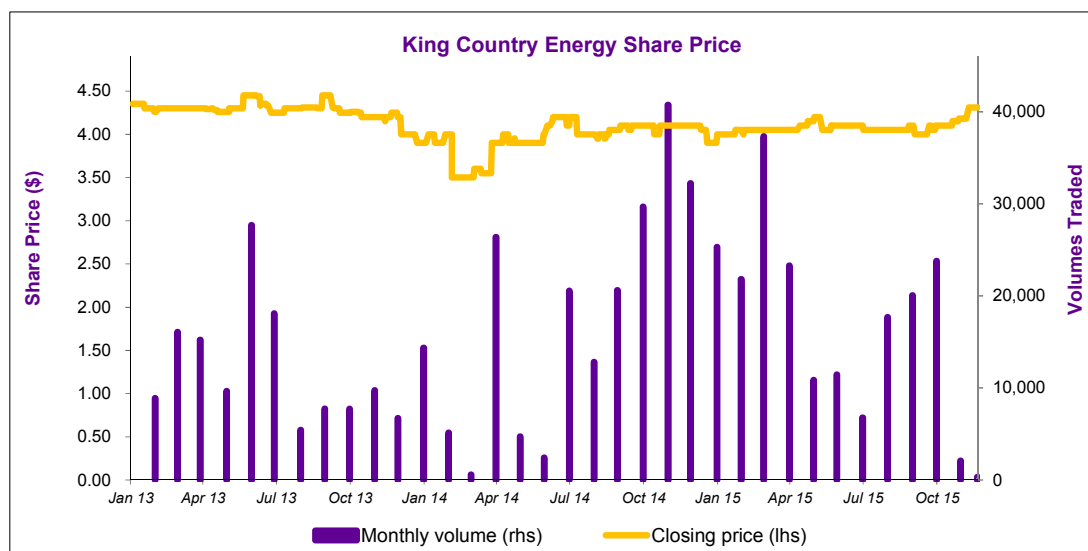
\$25.2 million of IBD was drawn down in the 2013 financial year to part fund the Mangahao Acquisition.

The main use of cash for financing activities has been the payment of dividends each year, ranging from \$4.5 million in the 2013 financial year to a forecast of \$8.5 million in the 2015 financial year.

4.11 Share Price History

The Company's shares were first quoted on Unlisted on 6 July 2004.

Set out below is a summary of King Country Energy's daily closing share price and monthly volumes of shares traded from 3 January 2013 to 20 November 2015.



Source: Unlisted

During the period, King Country Energy's shares have traded between \$3.50 and \$4.45 at a VWAP of \$4.11.

Trading in the Company's shares is extremely thin, reflecting in part that 74.05% of the shares are held by Nova and the KCEP Trust.

An analysis of VWAP, traded volumes and liquidity (measured as traded volumes as a percentage of shares outstanding) up to the announcement of the Trustpower Offer is set out below.

King Country Energy Share Trading					
Period	Low ¹	High ¹	VWAP ¹	Volume Traded ¹ (000)	Liquidity
1 month	4.15	4.18	4.18	2	0.0%
3 months	4.00	4.18	4.07	42	0.2%
6 months	4.00	4.20	4.13	79	0.3%
12 months	3.90	4.20	4.08	233	0.9%
¹ To 2 November 2015					
Source: Unlisted					

The Company's shares traded on 80 days in the year up to the announcement at a VWAP of \$4.08.

Since the announcement, 340 shares have traded on one day at \$4.31 per share.

5. Profile of Trustpower

5.1 Background

Trustpower originated from the Tauranga Electric Power Board, which was corporatised in January 1994 under the Energy Companies Act 1992.

Trustpower generates and retails electricity in regions throughout New Zealand. Its share of the New Zealand retail market is approximately 12% (by number of customers) and it contributes approximately 6% of New Zealand's national electricity generation production.

Trustpower produces electricity exclusively from renewable sources. It owns and operates 38 hydro power stations and 2 wind farms in New Zealand with a combined capacity of 634 MW producing an average of approximately 2,406 GWh per annum. It also owns one diesel power station which is only run when needed.

Trustpower also owns 3 hydro power stations and 3 wind farms in Australia with a combined capacity of 476 MW producing an average of approximately 1,624 GWh per annum.

Trustpower supplies electricity to approximately 252,000 customers and gas to approximately 28,000 customers. In the North Island, Trustpower's customer base is concentrated around the central North Island, supplying areas such as Bay of Plenty, Rotorua, Taupo, Taranaki and Wanganui. Its South Island customer base covers a larger geographical area, with customers in areas such as Buller and Nelson through to the West Coast, Central Otago, Dunedin and Southland.

Trustpower retails telephone services and internet (including ultra fast broadband in some areas) to approximately 51,000 customers throughout New Zealand.

Trustpower has long term contracts in place with Barrhill Chertsey Irrigation Limited and Central Plains Water Limited to supply up to 50 million cubic metres of water with the potential to irrigate 40,000 hectares in the Canterbury region.

Trustpower's shares were listed on the NZX Main Board on 18 April 1994. It had a market capitalisation of \$2.4 billion as at 20 November 2015 and unaudited total equity of \$1.8 billion as at 30 September 2015.

5.2 Directors and Senior Management

The directors of Trustpower are:

- Richard Aitken
- Alan Bickers
- Marco Bogoevski
- Bruce Harker, chair
- Sam Knowles
- Susan Peterson
- Geoff Swier.

Trustpower's senior management team comprises:

- Vince Hawksworth, chief executive officer
- Robert Farron, chief financial officer
- Chris O'Hara, general manager commercial operations
- Deion Campbell, general manager generation
- Craig Neustroski, general manager trading
- Peter Calderwood, general manager strategy and growth
- Simon Clarke, general manager business solutions and technology
- Melanie Dyer, general manager people and culture.

5.3 Capital Structure and Shareholders

Trustpower currently has 315,751,872 fully paid ordinary shares on issue held by 12,408 shareholders.

The names, number of shares and percentage holding of the 10 largest shareholders as at 20 November 2015 are set out below.

Trustpower's 10 Largest Shareholders		
Shareholder	No. of Shares Held	%
Infratil Limited (Infratil)	159,742,389	50.59%
TECT Holdings Limited (TECT)	83,878,838	26.56%
Custodial Services Limited	7,116,890	2.25%
NZ Superannuation Fund Nominees Limited	5,805,890	1.84%
Accident Compensation Corporation	4,710,978	1.49%
Cogent Nominees (NZ) Limited	3,037,087	0.96%
Trustpower (treasury stock)	2,819,465	0.89%
The New Zealand Guardian Trust Company	2,012,771	0.64%
Citibank Nominees (New Zealand) Limited	1,924,282	0.61%
National Nominees Limited	1,851,392	0.59%
Subtotal	272,899,982	86.42%
Others (12,398 shareholders)	42,865,686	13.58%
Total	315,751,872	100.00%

Source: NZX Company Research

Infratil is an owner and operator of businesses in the energy, transport and social infrastructure sectors. Its energy operations are predominantly in New Zealand (including Trustpower) and Australia (Perth Energy). Infratil owns 66% of Wellington Airport and its public transport services are in Auckland and Wellington. Its social infrastructure investments include interests in Metlifecare Limited, Australia Social Infrastructure Partners and RetireAustralia. Infratil's shares are listed on the NZX Main Board with a market capitalisation of \$1.8 billion as at 20 November 2015.

Infratil's 50.59% shareholding is held in 3 parcels by its wholly owned subsidiaries Renew Nominees Limited, Infratil Energy New Zealand Limited and Infratil Investments Limited.

TECT is wholly owned by the Tauranga Energy Consumer Trust, which was established in 1993 and is now one of New Zealand's largest energy trusts. Its income and capital is used to provide benefits to consumers – approximately 56,000 Trustpower account holders in Tauranga City and the Western Bay of Plenty District.

The shares held by Trustpower as treasury stock are non-voting with no entitlement to dividends.

5.4 Financial Profile

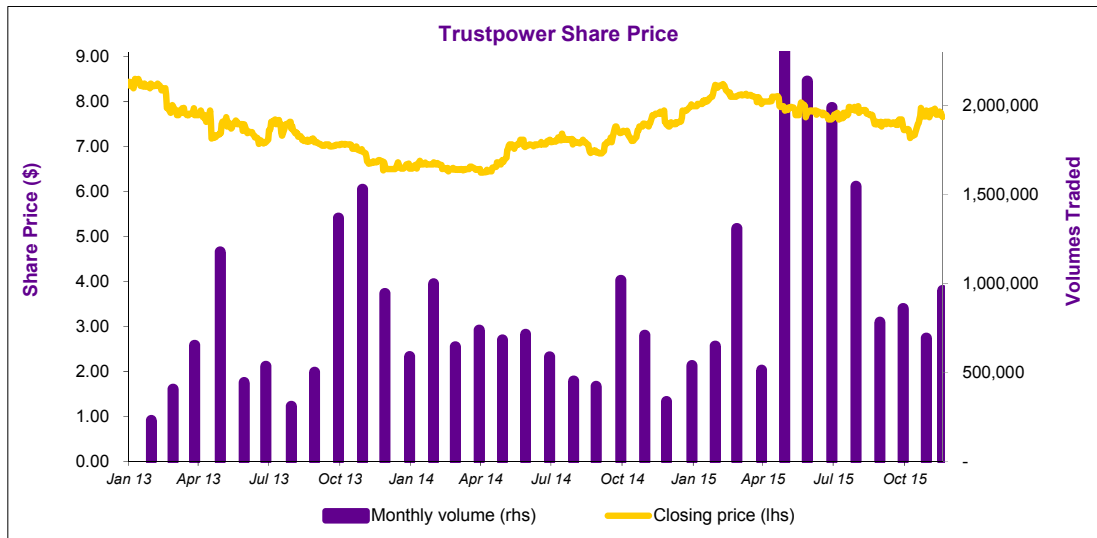
A summary of Trustpower's recent financial performance, financial position and cash flows is set out below.

Summary of Trustpower Financial Performance				
	Year to 31 Mar 12 (Audited) \$m	Year to 31 Mar 13 (Audited) \$m	Year to 31 Mar 14 (Audited) \$m	Year to 31 Mar 15 (Audited) \$m
Operating revenue	807	806	812	993
EBITDAF	300	295	277	331
Operating profit	234	223	215	243
Profit before income tax	171	160	153	165
Profit after tax	132	123	115	144
Dividends paid	126	125	125	125
EPS (\$)	\$0.42	\$0.39	\$0.37	\$0.46
DPS (\$)	\$0.40	\$0.40	\$0.40	\$0.40
	As at 31 Mar 12 (Audited) \$m	As at 31 Mar 13 (Audited) \$m	As at 31 Mar 14 (Audited) \$m	As at 31 Mar 15 (Audited) \$m
Current assets	157	202	181	149
Non current assets	2,639	2,774	2,966	3,433
Total assets	2,796	2,976	3,147	3,582
Current liabilities	(228)	(206)	(399)	(236)
Non current liabilities	(996)	(1,218)	(1,233)	(1,536)
Total liabilities	(1,224)	(1,424)	(1,632)	(1,772)
Total equity	1,572	1,552	1,515	1,810
	Year to 31 Mar 12 (Audited) \$m	Year to 31 Mar 13 (Audited) \$m	Year to 31 Mar 14 (Audited) \$m	Year to 31 Mar 15 (Audited) \$m
Net cash from operating activities	268	241	257	270
Net cash used in investing activities	(50)	(210)	(357)	(158)
Net cash (used in) / from financing activities	(209)	1	85	(127)
Net increase / (decrease) in cash	9	32	(15)	(15)
Opening cash balance	15	23	54	32
Exchange losses	(1)	(1)	(7)	(3)
Closing cash balance	23	54	32	14

Source: Trustpower audited financial statements

5.5 Share Price History

Set out below is a summary of Trustpower's daily closing share price and monthly volumes of shares traded from 2 January 2013 to 20 November 2015.



Source: NZX Company Research

During the period, Trustpower's shares have traded between \$6.42 and \$8.50 at a VWAP of \$7.54.

6. Valuation of King Country Energy

6.1 Introduction

The Trustpower Offer is a full takeover offer and is conditional upon, amongst other things, KCEHL receiving acceptances in respect of at least 50.1% of the Company's shares. In such circumstances, we are of the view that the appropriate basis upon which to evaluate the fairness of the Trustpower Offer is to compare the offer price of \$4.78 or \$5.00 per share (depending on the level of acceptances) with the full underlying value of King Country Energy on a standalone basis, pro-rated across all shares.

Such an approach attributes full control value to King Country Energy under its current strategic and operational initiatives, but excludes the value of any synergies that may accrue to a specific acquirer. The resulting value exceeds the price at which we would expect minority interests in King Country Energy to trade in the absence of the Trustpower Offer.

This approach is in line with one of the Code's core foundations that all shareholders be treated equally and is consistent with Rule 57(4) of the Code (which deals with specific circumstances when an expert determination is required in respect of compulsory acquisition), which seeks to avoid issues of premia or discounts for minority shareholdings.

6.2 Standard of Value

We have assessed the fair market value of 100% of the shares in King Country Energy.

Fair market value is defined as the price that a willing but not anxious buyer, with access to all relevant information and acting on an arm's length basis, would be prepared to pay to a willing but not anxious seller in an open, unrestricted and stable market.

6.3 Basis of Valuation

In general terms it is recognised that the value of a share represents the present value of the net cash flows expected therefrom. Cash flows can be in the form of either dividends and share sale proceeds or a residual sum derived from the liquidation of the business.

There are a number of methodologies used in valuing shares and businesses. The most commonly applied methodologies include:

- discounted cash flow (**DCF**)
- capitalisation of earnings
- net assets or estimated proceeds from an orderly realisation of assets.

Each of these valuation methodologies is applicable in different circumstances. The appropriate methodology is determined by a number of factors including the future prospects of the business, the stage of development of the business and the valuation practice or benchmark usually adopted by purchasers of the type of business involved.

The DCF method is the fundamental valuation approach used to assess the present value of future cash flows, recognising the time value of money and risk. The value of an investment is equal to the value of future free cash flows (**FCF**) arising from the investment, discounted at the investor's required rate of return.

The capitalisation of earnings method is an adaptation of the DCF method. It requires an assessment of the maintainable earnings of the business and a selection of a capitalisation rate (or earnings multiple) appropriate to that particular business for the purpose of capitalising the earnings figure.

An assets based methodology is often used in circumstances where the assets of a company have a market value independent of the profitability of the company that owns them. A valuation based on an orderly realisation of assets is normally restricted to instances where the investor holds sufficient control to effect a sale of the assets and / or there is some indication that an orderly realisation is contemplated.

6.4 Valuation Approach

We have assessed the fair market value of King Country Energy using the DCF method.

The DCF method that we have applied derives an assessment of the value of the core operating business, prior to considering how the business is financed or whether it has any significant surplus assets. This ungeared business value is commonly referred to as the enterprise value and represents the market value of the operating assets (i.e. operating working capital, fixed assets and intangible assets such as brand names, software, licences, know-how and general business goodwill) that generate the operating income of the business.

In order to assess the value of King Country Energy's shares, we have deducted the Company's net IBD and taken into account the market value of its financial derivatives.

We have assessed the reasonableness of the valuation outcomes from the DCF valuation by comparing the implied valuation multiples with observed multiples for comparable listed companies.

6.5 Discounted Cash Flow Valuation

Methodology

The DCF methodology assesses value in 2 stages:

- first, the FCF of the business are forecast over a given time frame and a forecast of maintainable FCF beyond then is used to determine a perpetuity value
- then the FCF are adjusted to reflect their value at a certain point in time. Present values are calculated by discounting the FCF at an appropriate discount rate.

FCF represent the surplus cash associated with the business after deducting operating expenses, tax, movements in working capital and capital expenditure. They represent the cash which is available to pay returns to providers of debt and equity capital.

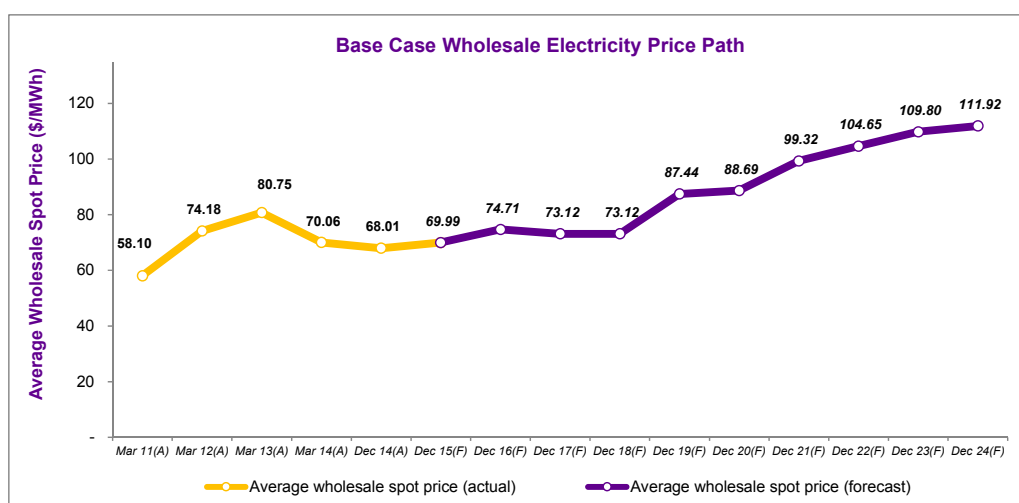
The discount rate used to determine the present values of the FCF is the estimated weighted average cost of capital (**WACC**). The WACC is a blend of the cost of debt and the cost of equity, weighted in accordance with the target capital structure of an entity owning the business. The WACC represents the rate of return required by investors to compensate them for the business risks they bear by investing in the business.

Free Cash Flows

King Country Energy maintains a financial model which forecasts FCF for a 10 year period to 31 December 2024 (the **KCE Financial Model**). It was updated in November 2015.

We have used the KCE Financial Model for valuation purposes and have adopted the following principal assumptions in our base case DCF assessment:

- average annual generation output of approximately 191 GWh
- the generation assets have perpetual lives, on the basis that appropriate asset management and maintenance policies are in place
- an average electricity wholesale price path of approximately \$75 / MWh at Haywards during the 2016 financial year, approximately \$73 / MWh during 2017 and 2018, approximately \$87 / MWh during 2019 and rising to approximately \$112 / MWh in 2024



Sources: Electricity Authority (actual prices), KCE Financial Model (forecast prices)

- a retail base of approximately 17,800 ICPs per annum (ie nil growth beyond the 2016 financial year)
- annual retail sales of approximately 258 GWh per annum (ie nil growth beyond the 2016 financial year)
- retail tariffs increase annually at the rate of inflation
- the Company maintains its current hedge program
- operating and maintenance costs remain constant in real terms
- capital expenditure of approximately \$2.1 million per annum remains constant in real terms
- working capital based on receivables equating to 2 months of electricity sales revenue and payables equating to one month of operating expenses
- average annual inflation of 2.0%

- a corporate tax rate of 28%.

Weighted Average Cost of Capital

The calculation of the WACC, while being derived from detailed formula, is fundamentally a matter of professional judgement. We have used the Capital Asset Pricing Model to assess the WACC for the Company.

We have assessed the WACC for King Country Energy to be in the vicinity of 7.8%. Key inputs in the WACC assessment are:

- a risk free rate of 4.5%
- an asset beta of 0.6
- a debt risk premium of 1.0%
- a post investor tax market risk premium of 7.5%
- target financial leverage of 30%
- a corporate tax rate of 28%.

The above inputs result in a cost of equity in the vicinity of 9.4% and a cost of debt (before tax) in the vicinity of 5.5%.

Sensitivity Analysis

We have evaluated the sensitivity of the base case valuation outcome to changes to key value drivers. The DCF assessment is particularly sensitive to the following factors:

- wholesale electricity price path assumptions
- generation output assumptions
- retail volume assumptions
- operating costs assumptions
- capital expenditure assumptions
- discount rate assumptions
- terminal growth assumptions.

Valuation Conclusion

Based on the above, we assess King Country Energy's enterprise value to be in the range of \$143.7 million to \$176.0 million as at the present date using the DCF approach.

We note that the values are highly dependent upon the assumptions adopted – particularly those in respect of the wholesale electricity price path.

6.6 Value of King Country Energy Shares

To derive the value of the King Country Energy shares, the Company's net IBD is deducted from the enterprise value and the fair value of the Company's financial derivatives is taken into account.

The Company's net IBD amounted to \$25.5 million as at 30 September 2015.

The fair value of the Company's financial derivatives amounted to a liability of \$1.2 million as at 30 September 2015.

We assess the fair market value of all the shares in King Country Energy to be in the vicinity of \$117.0 million to \$149.3 million as at the present date. This equates to a value of \$4.62 to \$5.90 per share.

Value of King Country Energy Shares		
	Low \$m	High \$m
Enterprise value	143.7	176.0
Net IBD	(25.5)	(25.5)
Financial derivatives	(1.2)	(1.2)
Value of King Country Energy shares	<u>117.0</u>	<u>149.3</u>
Number of shares currently on issue	25,312,277	25,312,277
Value per share	<u>\$4.62</u>	<u>\$5.90</u>

6.7 Implied Valuation Multiples

The assessed value range implies EBITDAF, EBIT and price earnings (PE) multiples as set out below. The multiples are based on King Country Energy's forecast for the 2015 financial year (based on 9 months' actual results) and its forecast for the 2016 financial year.

Implied Valuation Multiples				
	31 December 2015 (Forecast) ¹		31 December 2016 (Forecast)	
	Low	High	Low	High
Value per share	\$4.62	\$5.90	\$4.62	\$5.90
EBITDAF multiple	10.2x	12.4x	9.3x	11.5x
EBIT multiple	13.6x	16.7x	14.8x	18.1x
PE multiple	17.6x	22.5x	18.0x	23.0x

¹ Forecast based on 9 months' actual results to 30 September 2015

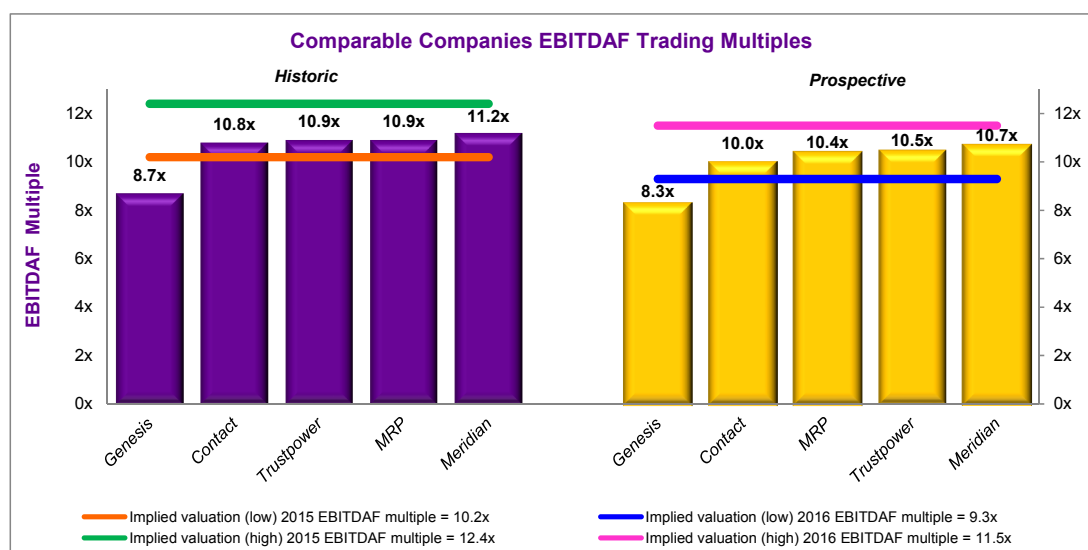
The forecast for the 2016 financial year is a management forecast and has yet to be approved by the Company's board. The forecast is based on the following principal assumptions:

- generation of 191 GWh for the year
- retail sales of 258 GWh for the year
- operating expenses totalling \$32.4 million for the year.

In the absence of publicly available data in respect of recent transactions involving companies that are truly comparable with King Country Energy, we have compared the implied valuation multiples with observed multiples for comparable listed New Zealand companies. However, this analysis can only provide an indication of reasonableness as the companies listed on the NZX Main Board are not directly comparable with King Country Energy due to their size and / or the diversity of their operations.

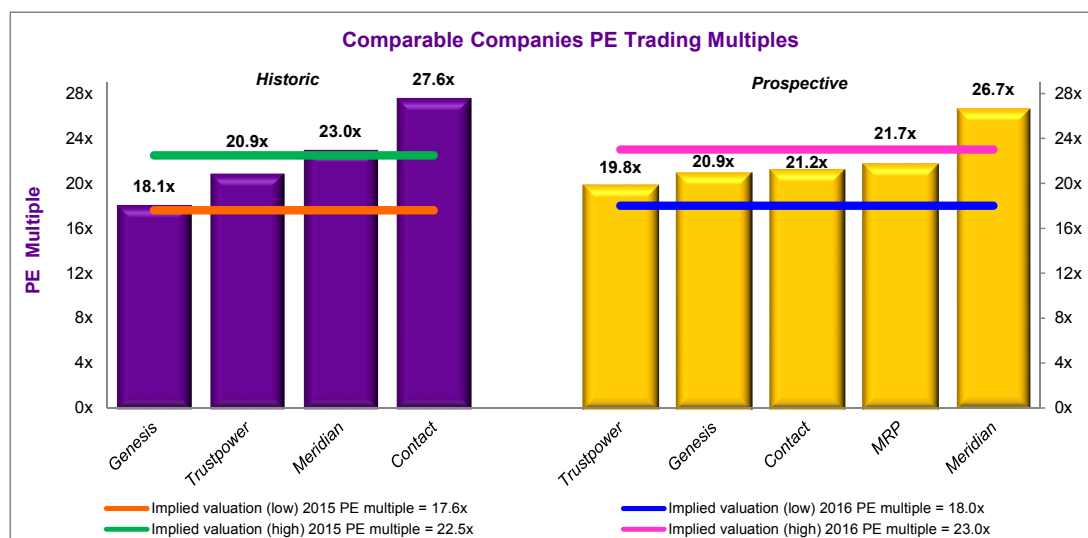
Set out at Appendix I is an analysis of historic and prospective EBITDAF and PE multiples for the 5 electricity generators and retailers listed on the NZX Main Board. The companies are considerably larger than King Country Energy and have more diverse operations.

The observed EBITDA and PE multiples are based on trading prices for minority parcels and as such do not include any premium for control.



Source: Capital IQ, data as at 20 November 2015

The historic EBITDAF multiples range from 8.7x to 11.2x at an average of 10.5x and the prospective EBITDAF multiples range from 8.3x to 10.7x at an average of 10.0x.



Source: Capital IQ, data as at 20 November 2015

The historic PE multiples range from 18.1x to 27.6x at an average of 22.4x (excluding the MRP PE multiple of 81.4x which we treat as an outlier) and the prospective PE multiples range from 19.8x to 26.7x at an average of 22.1x.

Given the comparative size of King Country Energy to the comparable companies and taking into account that we are valuing 100% of the Company, whereas the observed multiples are based on trading prices for minority parcels, we consider the implied valuation multiples to be reasonable.

6.8 Conclusion

We assess the fair market value of 100% of the ordinary shares in King Country Energy to be in the range of \$117.0 million to \$149.3 million as at the present date. This equates to a value of \$4.62 to \$5.90 per share.

The valuation represents the full underlying standalone value of King Country Energy based on its current strategic and operational initiatives. The value range exceeds the prices at which we would expect minority interests in King Country Energy to trade at the present time in the absence of a takeover offer.

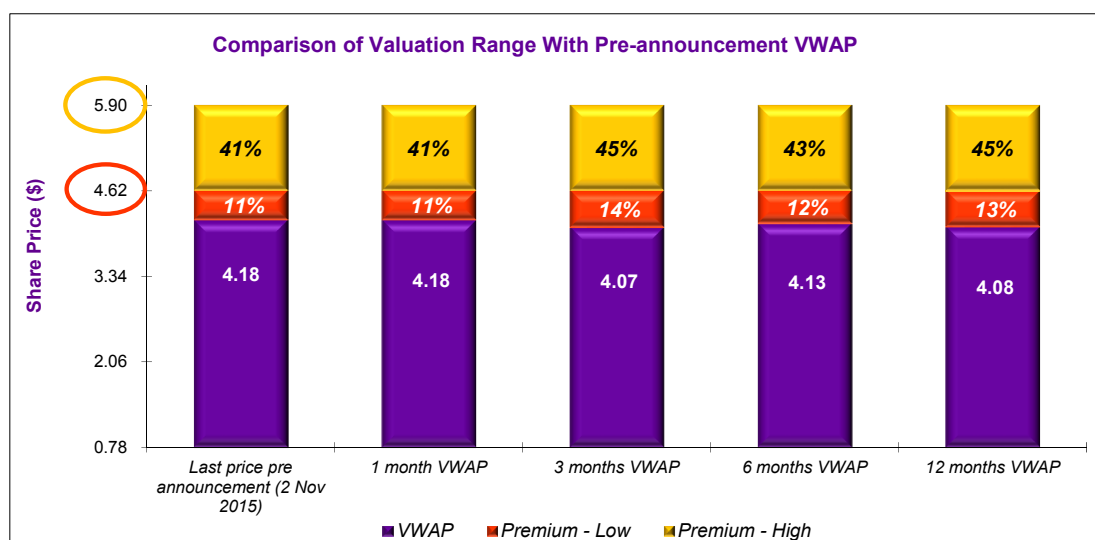
6.9 Implied Premium for Control

Purchasers may be prepared to pay a premium in an acquisition that will give them control of a company. Frequently, purchasers will pay more for control of a business where they perceive they can add substantial value to the business operations through synergies with other operations, changed management practices, reduced or eliminated competition, ensured sources of material supply or sales or other means.

Gaining control in itself does not create value - real value enhancement can only flow from factors that either increase future cash flows or reduce the risk of the combined entity. All rational bidders will have made some assessment of the value of the synergies that are available and the proportion of that value that they are prepared to pay away in order to complete the acquisition.

In this instance Trustpower has participated in the contestable Sale Process, has undertaken an extensive due diligence review of King Country Energy and Nova has accepted its final proposal. Trustpower has been able to fully evaluate the value of King Country Energy to its existing business and has submitted a purchase price which Nova has considered to be the most compelling proposal.

Our valuation range of \$4.62 to \$5.90 represents premia ranging from 11% to 45% over recent share prices.



As noted in section 4.11, trading in the Company's shares is extremely thin with only 3.5% of the Free Float traded in the year up to the announcement of the Trustpower Offer. The share price graph in section 4.11 and the various VWAP show that the Company's share price has remained relatively steady. In our view, the combination of an illiquid share and limited earnings guidance provided by the Company means that the observed share prices may not be a totally reliable indicator of the market value of King Country Energy's shares.

7. Sources of Information, Reliance on Information, Disclaimer and Indemnity

7.1 Sources of Information

The statements and opinions expressed in this report are based on the following main sources of information:

- the Trustpower Takeover Notice dated 3 November 2015, including a draft of the Trustpower Offer Document which will be dated 30 November 2015
- the draft King Country Energy Target Company Statement
- the King Country Energy board minutes from February 2014 to August 2015
- the King Country Energy annual reports for the years ended 31 March, 2012 to 2014 and the 9 months ended 31 December 2014 and interim report for the 6 months ended 30 June 2015
- the King Country Energy management accounts for the 9 months ended 30 September 2015
- the King Country Energy forecast for the year ended 31 December 2015
- the KCE Financial Model, updated in November 2015
- the Trustpower annual reports for the years ended 31 March, 2012 to 2015
- share price data and shareholder data from Unlisted, NZX Company Research and Capital IQ
- publicly available information regarding the New Zealand electricity industry.

During the course of preparing this report, we have had discussions with and / or received information from the executive management and directors of King Country Energy and King Country Energy's financial and legal advisers.

The Committee has confirmed that we have been provided for the purpose of this Independent Adviser's Report with all information relevant to the Trustpower Offer that is known to them and that all the factual information provided by Company contained in this report is true and accurate in all material aspects and is not misleading by reason of omission or otherwise.

Including this confirmation, we have obtained all the information that we believe is necessary for the purpose of preparing this Independent Adviser's Report.

In our opinion, the information set out in this Independent Adviser's Report is sufficient to enable the Committee and shareholders to understand all the relevant factors and to make an informed decision in respect of the Trustpower Offer.

7.2 Reliance on Information

In preparing this report we have relied upon and assumed, without independent verification, the accuracy and completeness of all information that was available from public sources and all information that was furnished to us by King Country Energy and its advisers.

We have evaluated that information through analysis, enquiry and examination for the purposes of preparing this report but we have not verified the accuracy or completeness of any such information or conducted an appraisal of any assets. We have not carried out any form of due diligence or audit on the accounting or other records of King Country Energy. We do not warrant that our enquiries would reveal any matter which an audit, due diligence review or extensive examination might disclose.

7.3 Disclaimer

We have prepared this report with care and diligence and the statements in the report are given in good faith and in the belief, on reasonable grounds, that such statements are not false or misleading. However, in no way do we guarantee or otherwise warrant that any forecasts of future profits, cash flows or financial position of King Country Energy will be achieved. Forecasts are inherently uncertain. They are predictions of future events that cannot be assured. They are based upon assumptions, many of which are beyond the control of King Country Energy and its directors and management. Actual results will vary from the forecasts and these variations may be significantly more or less favourable.

We assume no responsibility arising in any way whatsoever for errors or omissions (including responsibility to any person for negligence) for the preparation of the report to the extent that such errors or omissions result from our reasonable reliance on information provided by others or assumptions disclosed in the report or assumptions reasonably taken as implicit.

Our evaluation has been arrived at based on economic, exchange rate, market and other conditions prevailing at the date of this report. Such conditions may change significantly over relatively short periods of time. We have no obligation or undertaking to advise any person of any change in circumstances which comes to our attention after the date of this report or to review, revise or update this report.

We have had no involvement in the preparation of the Target Company Statement issued by King Country Energy and have not verified or approved the contents of the Target Company Statement. We do not accept any responsibility for the contents of the Target Company Statement except for this report.

7.4 Indemnity

King Country Energy has agreed that, to the extent permitted by law, it will indemnify Simmons Corporate Finance and its directors and employees in respect of any liability suffered or incurred as a result of or in connection with the preparation of this report. This indemnity does not apply in respect of any negligence, wilful misconduct or breach of law. King Country Energy has also agreed to indemnify Simmons Corporate Finance and its directors and employees for time incurred and any costs in relation to any inquiry or proceeding initiated by any person. Where Simmons Corporate Finance or its directors and employees are found liable for or guilty of negligence, wilful misconduct or breach of law, Simmons Corporate Finance shall reimburse such costs.

8. Qualifications and Expertise, Independence, Declarations and Consents

8.1 Qualifications and Expertise

Simmons Corporate Finance is a New Zealand owned specialist corporate finance advisory practice. It advises on mergers and acquisitions, prepares independent expert's reports and provides valuation advice.

The person in the company responsible for issuing this report is Peter Simmons, B.Com, DipBus (Finance), INFINZ (Cert).

Simmons Corporate Finance and Mr Simmons have significant experience in the independent investigation of transactions and issuing opinions on the merits and fairness of the terms and financial conditions of the transactions.

8.2 Independence

Simmons Corporate Finance does not have at the date of this report, and has not had, any shareholding in or other relationship with King Country Energy or Trustpower or KCEHL or any conflicts of interest that could affect our ability to provide an unbiased opinion in relation to the Trustpower Offer.

Simmons Corporate Finance has not had any part in the formulation of the Trustpower Offer or any aspects thereof. Our sole involvement has been the preparation of this report.

Simmons Corporate Finance will receive a fixed fee for the preparation of this report. This fee is not contingent on the conclusions of this report or the outcome of the Trustpower Offer. We will receive no other benefit from the preparation of this report.

8.3 Declarations

An advance draft of this report was provided to the Committee for its comments as to factual accuracy of the contents of the report. Changes made to the report as a result of the circulation of the draft have not changed the methodology or our conclusions.

Our terms of reference for this engagement did not contain any term which materially restricted the scope of the report.

8.4 Consents

We consent to the issuing of this report in the form and context in which it is to be included in the Target Company Statement to be sent to King Country Energy's shareholders. Neither the whole nor any part of this report, nor any reference thereto may be included in any other document without our prior written consent as to the form and context in which it appears.



Peter Simmons
Director

Simmons Corporate Finance Limited
23 November 2015

Appendix I

Comparable Companies Trading Multiples

Trading Multiples						
Company	Market Capitalisation (\$m)	Enterprise Value (\$m)	EBITDAF Multiple		PE Multiple	
			Historic	Prospective	Historic	Prospective
Contact	3,646	5,392	10.8x	10.0x	27.6x	21.2x
Genesis	1,909	2,846	8.7x	8.3x	18.1x	20.9x
Meridian	5,673	6,684	11.2x	10.7x	23.0x	26.7x
MRP	3,842	5,146	10.9x	10.4x	81.4x	21.7x
Trustpower	2,407	3,645	10.9x	10.5x	20.9x	19.8x
Minimum	1,909	2,846	8.7x	8.3x	18.1x	19.8x
Average	3,495	4,743	10.5x	10.0x	34.2x	22.1x
Average (excl outlier) ¹					22.4x	
Maximum	5,673	6,684	11.2x	10.7x	81.4x	26.7x

¹ MRP historic PE multiple treated as an outlier

Source: Capital IQ, data as at 20 November 2015

Contact

Contact generates and retails electricity and natural gas in New Zealand. It contributes approximately 23% of New Zealand's national electricity generation production and its share of the New Zealand retail market is approximately 21% (by number of customers).

Contact owns and operates 2 hydro power stations, 5 geothermal power stations and 5 thermal power stations in New Zealand with a combined capacity of 2,369 MW.

Contact supplies electricity to approximately 430,000 customers, natural gas to approximately 61,000 customers and LPG to approximately 71,000 customers throughout New Zealand.

The company was incorporated in 1995 and is based in Wellington.

Genesis

Genesis generates and retails electricity in New Zealand. It contributes approximately 14% of New Zealand's national electricity generation production and its share of the New Zealand retail market is approximately 26% (by number of customers).

Genesis owns and operates 3 hydro schemes, the Huntly thermal power station and one wind farm in New Zealand with a combined capacity of 1,639 MW. It also holds a 31% equity interest in the Kupe oil and gas fields located in Taranaki.

Genesis supplies electricity to approximately 517,000 customers, gas to approximately 106,000 customers and LPG to approximately 14,000 customers throughout New Zealand.

The company was incorporated in 1998 and is based in Auckland.

Meridian

Meridian generates and retails electricity in New Zealand and Australia. It contributes approximately 35% of New Zealand's national electricity generation production and its share of the New Zealand retail market is approximately 14% (by number of customers).

Meridian operates 7 hydro power stations and 5 wind farms in New Zealand with a combined capacity of 2,754 MW. It also owns 2 wind farms in Australia with a combined capacity of 201 MW. The company also operates a solar farm in Tonga.

Meridian supplies electricity to approximately 276,000 customers in New Zealand and approximately 48,000 customers in Australia.

The company was incorporated in 1998 and is based in Wellington.

MRP

MRP produces electricity from renewable sources primarily in New Zealand. It contributes approximately 16% of New Zealand's national electricity generation production and its share of the New Zealand retail market is approximately 19% (by number of customers).

MRP operates 9 hydro power stations, 5 geothermal power and a multi-unit gas-fired power station with a combined capacity of 1,518 MW.

MRP supplies electricity to approximately 382,000 customers.

MRP was incorporated in 1998 and is based in Auckland.

Trustpower

Trustpower generates and retails electricity in regions throughout New Zealand. It contributes approximately 6% of New Zealand's national electricity generation production and its share of the New Zealand retail market is approximately 12% (by number of customers).

Trustpower owns and operates 38 hydro power stations and 2 wind farms in New Zealand with a combined capacity of 634 MW, as well as a diesel power station. It also owns 3 hydro power stations and 3 wind farms in Australia with a combined capacity of 476 MW.

Trustpower supplies electricity to approximately 252,000 customers, gas to approximately 28,000 customers and retails telephone and internet services to approximately 51,000 customers throughout New Zealand.

The company was incorporated in 1993 and is based in Tauranga.

GLOSSARY

“Independent Adviser” means Simmons Corporate Finance Limited;

“Independent Adviser’s Report” means the report prepared by the Independent Adviser on the merits of the Offer under Rule 21 of the Takeovers Code;

“Independent Committee” means the Independent Committee of Directors, comprising Toby Stevenson and Linda Robertson;

“KCE” means King Country Energy Limited;

“KCE Shares” means the fully paid ordinary shares in KCE;

“KCEP Trust” means Robert Carter, Graeme Cosford, Uwe Kroll, Norman Annand and Niel Groombridge as trustees of the King Country Electric Power Trust;

“Lock Up Agreement” means the lock up agreement dated 1 November 2015 between Nova and Trustpower under which Trustpower agreed to make the Offer and Nova agreed to accept the Offer in respect of all its 13,685,521 KCE Shares;

“Nova” means Nova Energy Limited;

“Offer” means the full takeover offer made by Trustpower under the Takeovers Code for all of the KCE Shares;

“Offer Document” means Trustpower’s Offer Document dated 30 November 2015 which sets out the full terms and conditions of the Offer;

“Trustpower” means King Country Energy Holdings Limited, a wholly owned subsidiary of NZX Main Board listed Trustpower Limited; and

“Trustpower Shares” means any class of equity security of Trustpower.

DIRECTORY

Board of Directors	Toby Stevenson (Chairman) Linda Robertson Brian Needham Brian Gurney Timothy Cosgrove Mahadevan Bahirathan
Independent Adviser	Simmons Corporate Finance Limited
Financial Adviser	West Coast Capital Limited
Legal Adviser	Harmos Horton Lusk Limited
Share Registry	Link Market Services Limited
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