MAY 2012

Notice of special meeting and explanatory statement

ACQUISITION OF TODD ENERGY'S 50% OWNERSHIP IN MANGAHAO POWER STATION

kce
King Country Energy
The power behind our community

MANGAHAO ACQUISITION

On 16 March 2012 King Country Energy Limited (the Company/KCE) announced its intention to purchase Todd Energy Limited's (TEL) 50% share in the Mangahao Power Station for $70 million. The Mangahao Power Station is a 38MW hydro-generation plant that produces an average annual output of 130GWh and is situated near Shannon in the Manawatu.

A Special Meeting has been called for shareholders to consider and vote on the proposed acquisition. The independent directors of KCE have recommended that shareholders approve the transaction, including the Share Issuance. Twenty percent shareholder King Country Electric Power Trust (KCEP Trust), has indicated that it will support the transaction. Further details are set out from page five.

PROXY FORM

Accompanying this document is a Proxy Form that enables Shareholders to vote on the Resolutions either by:

- Attending the Special Meeting; or
- Appointing a proxy to vote at the Special Meeting.

Shareholders are urged to complete and return the Proxy Form as soon as possible if they do not plan to attend the Special Meeting.

Completion guidelines are included on the reverse side of the Proxy Form

IMPORTANT DATES

Record date for the determination of voting entitlements for the Special Meeting	**10 May 2012**
Latest time for receipt of Proxy Forms for the Special Meeting	10am on **29 May 2012**
Special Meeting of Shareholders of King Country Energy	10am on **31 May 2012**
Proposed settlement date for the Transaction	**31 May 2012**

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Independent Adviser's Report

Dear Shareholder,

The independent directors of KCE are pleased to invite our shareholders to vote on an important acquisition.

On 16 March 2012, KCE announced it had signed a Heads of Agreement with TEL to acquire its 50% share of the Mangahao Power Station for $70 million.

Subsequently KCE and TEL have entered into a conditional Sale and Purchase Agreement for the acquisition which, if approved by shareholders, will result in KCE owning 100% of the Mangahao Power Station.

The acquisition will be funded by $33.76 million in cash and the issue of 7.629 million new shares to TEL at an issue price of $4.75 per share.

The cash component will be funded from available cash and a new debt facility provided by the Bank of New Zealand Limited (BNZ).

The issue of new shares to TEL is subject to shareholder approval and if obtained would result in TEL owning 54.1% of the KCE shares on issue.

The KCE Board passed a resolution to establish an independent board subcommittee for the purpose of evaluating the proposed transaction. The members of that subcommittee are independent directors Toby Stevenson (Chair) and Brian Needham.

The members of the subcommittee recommend shareholders vote in support of the transaction and the issue of shares to TEL.

Brian Gurney as an independent director, but not on the subcommittee, also recommends shareholders vote in support of the transaction and the issue of shares to TEL.

The members of the subcommittee believe:

- The transaction, including the issue of shares, is fair and equitable and would benefit all shareholders;
- The forecast transaction cashflows are positive;
- The transaction facilitates growth;
- KCE is constrained by its scale and reliance on purchasing electricity from competitors to grow its retail base. This transaction will reduce that constraint; and
- The proposed financial arrangements are conservative and manageable.

The independent directors have appointed an independent adviser to advise on the merits of the transaction to shareholders not associated with TEL. The Independent Adviser's Report is included in this document. The Independent Adviser concludes that the rationale for the Mangahao Acquisition is sound. The Independent Adviser concludes that the rationale for the TEL Share Issuance is sound.

The independent directors commissioned independent engineering, technical and resource consent reviews of Mangahao Power Station from Tonkin & Taylor, PB Power and Ryder Consultancy Ltd respectively. These reviews support the KCE view that the assets are in good condition for their age and resource consent risks are manageable. They highlight known upgrades and replacements that may be required in the future.

As a shareholder you are being asked to approve the acquisition and the issue of new shares at a Special Meeting to be held at 10am on Thursday 31 May 2012, at Hilton Lake Taupo.

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The document you have received includes:

- This Independent Directors' letter;
- The Notice of Special Meeting containing comprehensive information about the resolutions required to approve the acquisition and issue of new shares;
- A section on the detailed impact on KCE of the transaction;
- The Independent Adviser's Report; and
- A Proxy Form.

Shareholders attending the Special Meeting will need to bring with them their Proxy Form.

Please read the documentation carefully and seek professional advice or contact KCE if you have any queries regarding the transaction.

Yours sincerely

Toby Stevenson **Brian Needham**

11 May 2012

NOTICE OF SPECIAL MEETING OF SHAREHOLDERS

Notice is hereby given that a Special Meeting of the Shareholders of King Country Energy Limited (the Company) will be held at the Hilton Lake Taupo (80-100 Napier Taupo Highway) on Thursday 31 May 2012 commencing at 10:00am (Registration to commence at 9:30am)

The Explanatory Statement which is attached to and forms part of this Notice (Explanatory Statement) provides additional information on matters to be considered at the Special Meeting.

BUSINESS OF THE MEETING

The business of the meeting is to consider and, if thought fit, pass the following resolutions **(Resolutions)** relating to the proposed acquisition by the Company, through its wholly owned subsidiary KCE Mangahao Limited **(KCE Mangahao)**, of Todd Mangahao Limited's **(Todd Mangahao)** 50% interest in the assets comprising the Mangahao Power Station, pursuant to the transaction documents and the terms and conditions more particularly set out in the Explanatory Statement **(Proposed Transaction)**:

Resolution 1 - Approval of major transaction

"That, subject to all of the other Resolutions being passed, for the purposes of section 129 of the Companies Act 1993 ***(Section 129)*** *and clause 21.9 of the Constitution adopted by the Company on 1 April 1999* ***(Constitution)****, approval is given for the Company to draw down funds under the Facility Agreement between the Company and the Bank of New Zealand dated on or about 11 May 2012* ***(Facility Agreement)****, pursuant to which the Company will incur liabilities the value of which are or may be more than half of the value of the company's assets before it enters into the Facility Agreement".*

Resolution 2 - Approval of acquisition where gross value exceeds 50% of Shareholders' funds

"That, subject to all of the other Resolutions being passed, for the purposes of clause 21.6 of the Constitution, approval is given for the Company to permit its subsidiary, KCE Mangahao, to enter into the Proposed Transaction, being a transaction in respect of which the gross value is an amount that is more than 50% of the amount of "Shareholders' Funds" of the Company (as defined in the Constitution)."

Resolution 3 - Approval of related party transaction

"That, subject to all of the other Resolutions being passed, for the purposes of clause 21.10 of the Constitution, approval is given for the Company to permit KCE Mangahao, to enter into the Proposed Transaction, as a transaction which is a "material transaction" (as defined in clause 21.10.3 of the Constitution) and in respect of which a party, being Todd Energy Limited, is a "related party" (as defined in clause 21.10.4 of the Constitution)."

Resolution 4 - Approval of non-pro-rata issue of shares

"That, subject to all of the other Resolutions being passed, for the purposes of clause 3.1.1 of the Constitution, approval is given for the issue by the Company to Todd Energy Limited of 7,629,474 fully paid ordinary shares of the Company, ranking equally with all existing ordinary shares of the Company on issue, for an issue price of $4.75 per share and on the terms more particularly described in the Explanatory Statement ***(Proposed Share Issuance)****."*

Resolution 5 - Approval of issue of shares increasing shareholder's ability to control

"That, subject to all of the other Resolutions being passed, for the purposes of clause 3.7 of the Constitution, approval is given for the Proposed Share Issuance, being an issue of shares of the Company which will result in Todd Energy Limited materially increasing its ability to exercise effective control of the Company."

Resolution 6 - Approval of allotment of shares

"That, subject to all of the other Resolutions being passed, for the purposes of rule 6(1)(b) and rule 7(d) of the Takeovers Code Approval Order 2000, ***(Takeovers Code)*** *approval is given for the Proposed Share Issuance."*

NOTES

1. Entitlement to Vote

The Board has determined that persons who are registered holders of shares of the Company as at 5pm on 10 May 2012 (Shareholders) will be entitled to attend and vote at the Special Meeting as Shareholders.

2. Voting

Resolution 1 is a special resolution and therefore is required to be passed by a majority of 75% or more of the votes of Shareholders entitled to vote and voting on such resolution.

Resolutions 2 to 6 (inclusive) are ordinary resolutions and therefore are required to be passed by a simple majority of more than 50% of the votes of Shareholders entitled to vote and voting on each such resolution.

3. Voting Restrictions

All Shareholders are entitled to vote their shares in the Company on resolutions 1 and 2.

Todd Energy Limited (and any Shareholders associated with it) are not permitted to vote their shares in the Company on resolutions 3 to 6 (inclusive), pursuant to clause 15.1.8 of the Constitution and rule 17 of the Takeovers Code.

4. Interdependent Resolutions

All of the Resolutions are interdependent. Therefore, all of the Resolutions must be passed in order for the Proposed Transaction, Facility Agreement and Proposed Share Issuance to be implemented.

5. Proxies and Corporate Representatives

All Shareholders may vote in person, by proxy or by representative:

- by attending the Special Meeting and voting in person or, if you are a Corporate Shareholder, by having a corporate representative attend and vote for you; or
- by appointing a proxy to vote for you, by completing the Proxy Form enclosed with this Notice **(Proxy Form)**.

A Shareholder entitled to attend and vote is entitled to appoint a proxy or, in the case of a Corporate Shareholder, a representative to attend and vote instead of him/her and that proxy or representative need not also be a Shareholder. The proxy must provide proof of identity, when registering at the Special Meeting.

If you return the Proxy Form without directing the proxy how to vote on any particular matter, the proxy may vote as he/she thinks fit or abstain from voting. However, the TEL nominated directors (Stephen Armstrong and Mahadevan Bahirathan) are prohibited from voting any discretionary proxies in respect of resolutions 3 to 6 (inclusive). If you return the Proxy Form without appointing a proxy, your Proxy Form will be invalid. If you appoint a proxy and also attend the meeting, the proxy's authority to speak and vote at the meeting will be suspended while you are present at the meeting.

The Proxy Form must be signed by the Shareholder or his/her/its attorney duly authorised in writing. In the case of a joint shareholding, the Proxy Form must be signed by each of the joint Shareholders (or their duly authorised attorney). In the case of a Corporate Shareholder, the Proxy Form must be signed by a director or a duly authorised officer, acting under the express or implied authority of the Shareholder, or an attorney duly authorised by the Shareholder.

The Proxy Form and the power of attorney or other authority, if any, under which it is signed, or a copy of that power or authority certified by a Solicitor, Justice of the Peace or Notary Public must be lodged, to be received at the office of Link Market Services Limited, in any manner as per the instructions below, not later than 10am on Tuesday 29 May 2012 (being no later than 48 hours before the time of the Special Meeting).

By post:	If mailing the Proxy Form from within New Zealand, please use the form as a reply paid envelope. If mailing the Proxy Form from outside New Zealand, place in an envelope, and affix the necessary postage from the country of mailing, addressed to: Link Market Services Limited, PO Box 91976, Auckland 1142, New Zealand
By facsimile:	+64 9 375 5990 or +64 3 308 1311
By delivery:	Link Market Services Limited, Level 16, Brookfields House, 19 Victoria Street West, Auckland
Scan and email:	enquiries@linkmarketservices.com

6. Explanatory Statement

The Shareholders should read the Explanatory Statement for more details on the resolutions to be voted at the Special Meeting.

By order of the Board

Brian Gurney
Chairman

EXPLANATORY STATEMENT

This Explanatory Statement has been prepared for the information of Shareholders of the Company in relation to the business to be conducted at the Special Meeting. The purpose of this Explanatory Statement is to provide Shareholders with information that is reasonably required by Shareholders to decide how to vote upon the resolutions. The Board of Directors of the Company (Directors) recommend that Shareholders read this Explanatory Statement before determining whether or not to support the resolutions.

BUSINESS OF THE MEETING

The Company, KCE Mangahao, TEL and Todd Mangahao are parties to a joint venture deed dated 22 December 1997 in relation to the assets that comprise the Mangahao Power Station (the Joint Venture). Each of KCE Mangahao and Todd Mangahao currently owns a 50% interest in the Joint Venture.

It is proposed that the Company, through its wholly owned subsidiary KCE Mangahao, acquires Todd Mangahao's 50% interest in the Joint Venture on the terms and conditions more particularly set below, (the Proposed Transaction). Upon completion of the Proposed Transaction, KCE Mangahao will have 100% ownership of the assets that comprise the Mangahao Power Station.

The Proposed Transaction will be in accordance with the Sale and Purchase Agreement executed by the Company, KCE Mangahao, TEL and Todd Mangahao on or about 7 May 2012 (SPA). Under the terms of the SPA, the Proposed Transaction is conditional on approval of the Proposed Transaction by the Shareholders of the Company (as set out herein) and of the Company as the sole shareholder of KCE Mangahao.

The Special Meeting has therefore been convened for the purpose of the Shareholders of the Company approving the Proposed Transaction, Facility Agreement and Proposed Share Issuance.

RATIONALE FOR PROPOSED TRANSACTION

Power generation business background

KCE is the leading electricity retailer and generator in the King Country Region with over 18,000 customer connections. Electricity generation is a key part of KCE's business with around 125GWh generated every year. In addition to generating electricity at Mangahao Power Station, electricity generation is undertaken at four local sites within the King Country region, Kuratau, Mokauiti, Piriaka and Wairere power stations.

The Mangahao Power Station has been a major part of KCE's generation business for the last 15 years. KCE and TEL formed a joint venture in 1997 and purchased the Mangahao Power Station. The hydro-generation plant produces an average annual output of 130GWh and is situated near Shannon in the Manawatu. The hydro plant was built in 1924 and has a capacity of 38MW.

KCE has indicated for some time that it has been looking to invest further in electricity generation. The desire to invest is driven by a shortfall between the volume of electricity generated by its power stations, and the volume of electricity required to meet its commitments to its retail customers. Historically, this shortfall has been managed by entering into hedge contracts to fix the price of electricity purchases and mitigate spot price risk. The market for hedge contracts is relatively illiquid, with a limited number of counterparties available and willing to supply KCE with the volumes it requires.

This means the Company is constrained by the hedge market, where pricing can exceed KCE's competitors' equivalent wholesale costs. These market dynamics put KCE at a disadvantage when competing for new customers and growing its business. It also introduces uncertainty regarding the cost of future supply for a significant proportion of its existing business.

KCE has investigated a number of electricity generation developments and acquisition opportunities in the previous three years, including development of the Mokau hydro-generation scheme. In June 2011 KCE announced it was no longer pursuing the resource consents required for the proposed 9.6MW hydro-generation scheme along the Mokau River. However the Company indicated it would actively pursue other generation options with an aim, in the medium-term, to increase its generation capacity and reduce its exposure to the electricity hedge market.

TRANSACTION BENEFITS

After investing considerable time and expertise, KCE has concluded that the acquisition of Todd Mangahao's share of the Mangahao Power Station is an excellent opportunity to meet its structural and strategic requirements. The transaction is viewed as a significant growth opportunity for the Company. The expected key benefits include:

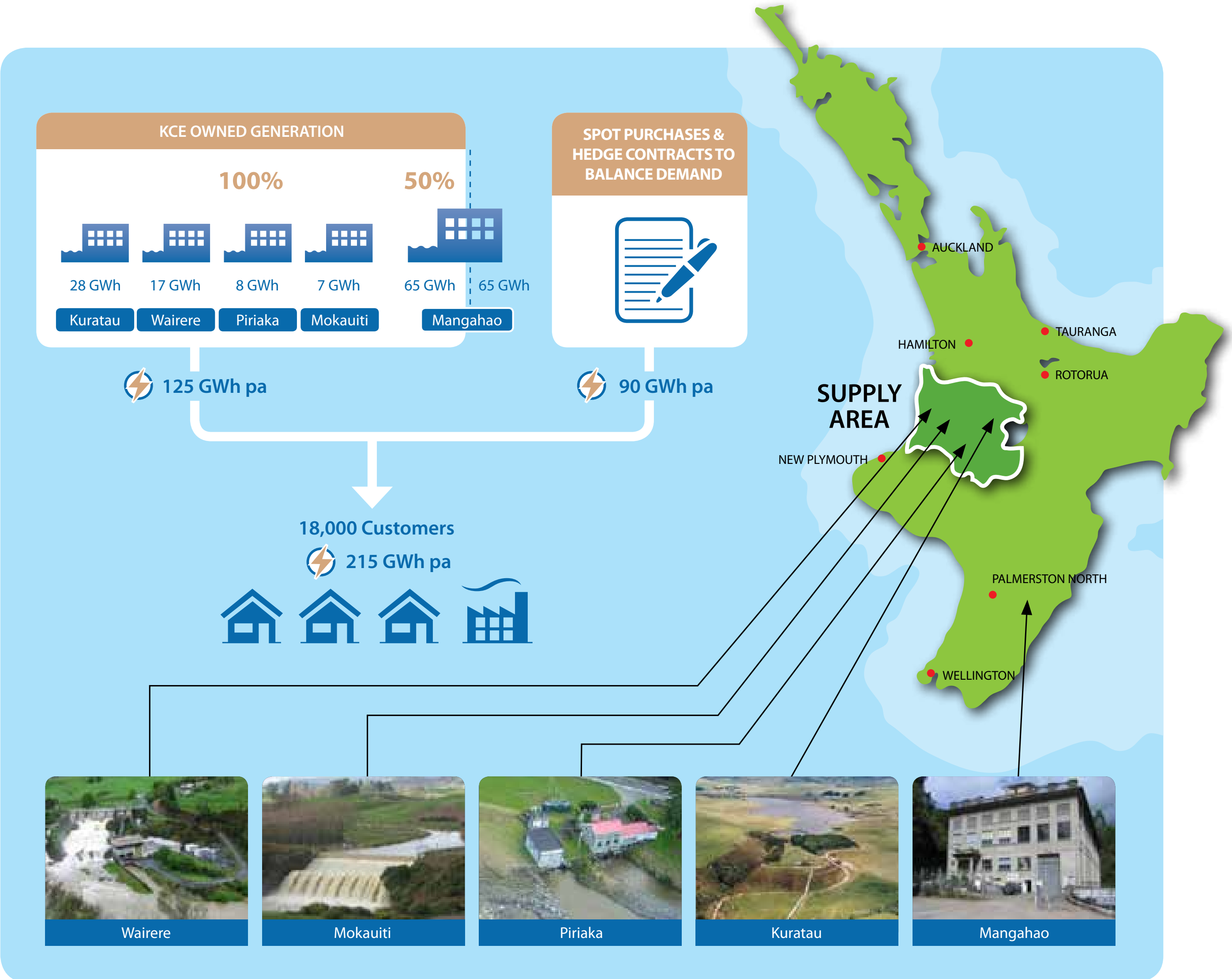
(a) providing the Company's retail business with a solid growth platform;

(b) reducing electricity supply price risk;

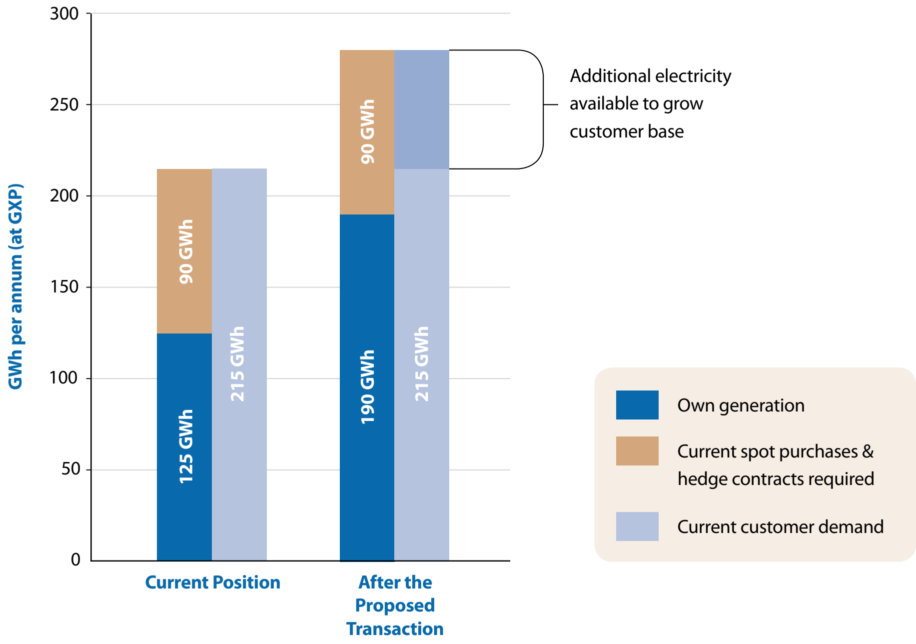
(c) creating a more efficient balance sheet and providing KCE with the ability to maximise future shareholder value.

Retail growth

As an electricity retailer KCE has an objective to grow its retail customer base. The acquisition of the TEL share of the Mangahao Power Station would provide 65GWh of additional energy, enabling the retail business to grow.



KCE ANNUAL SUPPLY DEMAND MIX



Electricity supply price risk

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

Balance sheet efficiency

KCE currently has very low debt levels with a net cash balance of approximately $10 million. While it is good to have low debt levels it can limit returns to shareholders.

Through leveraging the business by financing part of the transaction through a bank loan, KCE aims to increase returns to Shareholders. The $25 million debt draw down would move net debt to total assets to 12.7%.

Introducing a conservative amount of debt provides KCE with balance sheet efficiency, while still retaining additional debt capacity for future acquisitions.

The proposed transaction provides a projected increase in free cash flow per share to existing shareholders. This growth would be over and above expectations for KCE in its current structure.

FORECAST CONSOLIDATED BALANCE SHEET

AS AT 31 MAY 2012

	KCE Status Quo Forecast	Revaluation of Existing Assets	Proposed Transaction	Post-acquisition Forecast
	31-May-12			31-May-12
ASSETS	$000's	$000's	$000's	$000's
Current Assets				
Bank	10,835		(8,760)	2,075
Other Current Assets	4,252			4,252
Total Current Assets	**15,087**		**(8,760)**	**6,327**
INVESTMENTS				
Fair Value Hedges	304			304
Goodwill	1,560			1,560
Total Investments	**1,864**			**1,864**
FIXED ASSETS				
Fixed Assets	92,173	20,029	70,000	182,202
Total Fixed Assets	**92,173**	**20,029**	**70,000**	**182,202**
TOTAL ASSETS	**109,124**	**20,029**	**61,240**	**190,393**
LIABILITIES				
Current Liabilities				
Trade & Other Payables	2,907			2,907
Other Current Liabilities	395			395
Total Current Liabilities	**3,302**			**3,302**
Term Liabilities				
Borrowing	-		25,000	25,000
Deferred Tax	18,555	5,602		24,157
Total Long Term Liabilities	**18,555**	**5,602**	**25,000**	**49,157**
TOTAL LIABILITIES	**21,857**	**5,602**	**25,000**	**52,459**
NET ASSETS	**87,267**	**14,427**	**36,240**	**137,934**
SHAREHOLDERS' FUNDS				
Issued & Paid Up Capital	26,267		36,240	62,507
Revaluation Reserve	39,406	14,427		53,833
Retained Earnings	21,594			21,594
TOTAL SHAREHOLDERS' FUNDS	**87,267**	**14,427**	**36,240**	**137,934**

* Please note this includes the impact of estimated transaction costs of $953,000

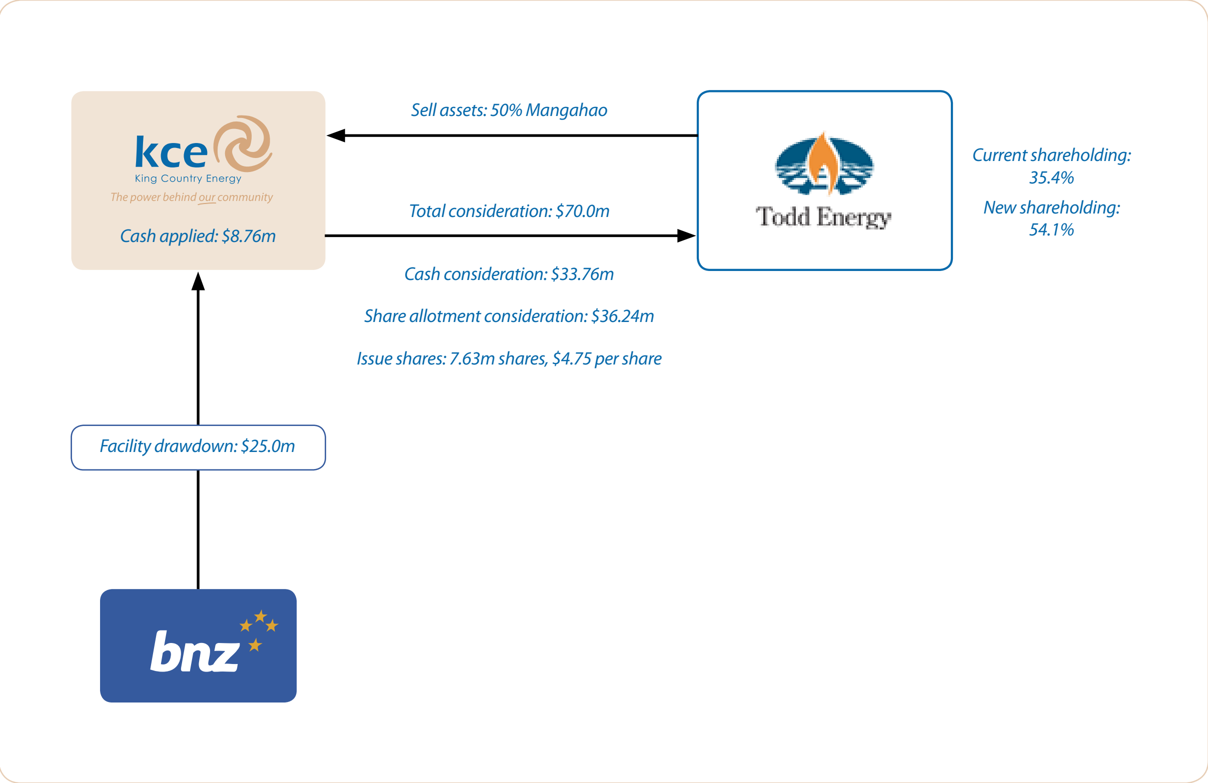
TRANSACTION STRUCTURE

KCE will fund the acquisition through a combination of a new debt facility, existing cash balances, and new equity issued to TEL.

On settlement date, KCE will draw down $25.0 million of a new debt facility and pay this, plus a further $8.76 million of existing cash balances, to TEL, making a total cash payment of $33.76 million.

KCE will satisfy the remaining $36.24 million of consideration by issuing 7.629 million shares to TEL. This is equivalent to TEL purchasing shares at a price of $4.75 per share, which is a 44% premium, to the average price of $3.30 per share[1] prior to the announcement of the transaction.

The diagram below illustrates the Proposed Transaction structure.



[1] Three month volume weighted average price

PRINCIPAL TERMS OF THE PROPOSED TRANSACTION

Set out below are the principal terms of the Proposed Transaction.

Parties	Todd Mangahao (Vendor), KCE Mangahao (Purchaser), KCE and TEL.
Acquisition	Todd Mangahao's 50% interest in the assets that comprise the Mangahao Power Station.
Price	$70 million, to be satisfied by: (a) $36.24 million – payable by the Proposed Share Issuance (as detailed below). (b) $33.76 million - cash payment (to be financed by the Facility Agreement, as detailed below, and existing cash balances).
Proposed Share Issuance	The terms of the Proposed Share Issuance, as set out in the Subscription Agreement between the Company and TEL on or about 7 May 2012, are as follows: (a) on completion of the Proposed Transaction, the Company will issue to TEL 7.629 million fully paid ordinary shares in the Company for an issue price of $4.75 per share; (b) the new shares to be issued to TEL will rank equally and have the same rights as all existing ordinary shares on issue; (c) following the issue of the shares, TEL's total holding in the Company will increase from 35.38% to 54.07% of the total number of ordinary shares on issue in the capital of the Company.
Transaction Documents	The following transaction documents were executed in connection with the Proposed Transaction on or about 7 May 2012 (each of these transaction documents is conditional on shareholder approval as set out herein): (a) Sale and Purchase Agreement; (b) Facility Agreement; (c) Subscription Agreement; (d) Services Agreement (under which TEL will continue to provide the services to KCE which are currently provided to the Joint Venture); (e) Short Term Hedge Contract; (f) Ancillary agreements relating to the Proposed Transaction (including an Access Agreement relating to TEL's wind farm generation project and assignment of current contracts).

Facility Agreement	Amount: $35 million total facility. $25 million will be used as core debt to fund the acquisition, and $10 million for prudential reasons and working capital. Term: 3 years Security: Negative Pledge
Target Completion Date	On or about 31 May 2012.
Conditions To Completion	All consents and approvals required under the Company's and KCE Mangahao's respective Constitutions, the Companies Act and Takeovers Code.
Guarantors	TEL guarantees Todd Mangahao's obligations under the SPA and transaction documents. The Company guarantees KCE Mangahao's obligations under the SPA and transaction documents.
Recommendation	The Independent Board Subcommittee recommends Shareholders vote in support of the Proposed Transaction and the Proposed Share Issuance to TEL. Brian Gurney, as an Independent Director and Chairman of the KCEP Trust, which has expressed its support of the Proposed Transaction, also recommends that Shareholders vote in favour of the resolutions. Stephen Armstrong and Mahadevan Bahirathan are both appointees of TEL and accordingly are not making a recommendation.

DIRECTORS' RECOMMENDATIONS

The KCE Board passed a resolution to establish an independent board subcommittee for the purpose of evaluating the Proposed Transaction, the members of that subcommittee are independent directors Toby Stevenson (Chair) and Brian Needham. The independent board subcommittee recommend approval of the Proposed Share Issuance for the purposes of rule 7(d) and rule 19 of the Takeovers Code on the basis that:

(i) The transaction, including the allotment of shares, is fair and equitable and would benefit all shareholders;

(ii) The forecast transaction cashflows are earnings positive;

(iii) The transaction facilitates growth;

(iv) KCE is constrained by its scale and is reliant on purchasing electricity from competitors to grow its retail base. This transaction will reduce that constraint;

(v) The proposed financial arrangements are conservative and manageable.

Brian Gurney is Chairman of both KCE and KCEP Trust and while he is an independent director for the purpose of this transaction he has elected not to be a member of the independent board subcommittee. This is due to his role as Chairman of the KCEP Trust, which has already expressed its support for the Proposed Transaction after receiving its own independent advice. Brian Gurney also recommends approval of the Proposed Share Issuance.

Mahadevan Bahirathan and Stephen Armstrong are executives of the Todd Corporation Limited (the parent company of TEL and Todd Mangahao) and are not making any recommendation as to the Proposed Share Issuance.

LEGAL AND REGULATORY REQUIREMENTS

The Company is a New Zealand incorporated company and, accordingly, is subject to the Companies Act 1993. It is also subject to the Constitution adopted by the Company on 1 April 1999.

The Company is also a "code company" as defined in section 3(1)(c) of the Takeovers Code, as it has more than 50 shareholders. It is therefore also subject to the Takeovers Code.

All of the Resolutions are interdependent. Therefore, all of the Resolutions must be passed in order for the Proposed Transaction, Facility Agreement and Proposed Share Issuance to be implemented.

Requirement for Resolution 1

Resolution 1 is proposed for the purposes of section 129 of the Companies Act 1993 (Section 129) and clause 21.9 of the Constitution (which mirrors Section 129).

Section 129 requires shareholder approval, as a special resolution, where a company proposes to enter into a "major transaction". A "major transaction" includes a transaction that has, or is likely to have, the effect of the Company acquiring rights or interests, or incurring obligations or liabilities, the value of which is more than half the value of the Company's assets before the transaction.

The total assets of the Company as at 31 March 2011 were $33.2 million. The Proposed Transaction will include the Company borrowing up to $35 million from the BNZ. Shareholders should note that the assets of the KCE group as at 31 March 2011 were $107.6 million.

Accordingly, the Facility Agreement, constitutes a "major transaction" for the purposes of Section 129 and clause 21.9 of the Constitution and requires approval by way of a special resolution.

All Shareholders are entitled to vote on Resolution 1.

Section 110 of the Companies Act 1993 gives certain minority buy-out rights to Shareholders who vote all of their shares against a special resolution required by

Section 129 (e.g., Resolution 1) if the special resolution is approved by the requisite majority of Shareholders. Any Shareholder who casts all votes attached to shares registered in that Shareholder's name (and having the same beneficial owner) against such special resolution, is entitled to require the Company to purchase those shares.

The right to have shares purchased in this way must be exercised within 10 working days of the passing of Resolution 1 at the Special Meeting of Shareholders, by a Shareholder giving written notice to the Company that such Shareholder requires the Company to purchase their shares. Within 20 working days of receipt of the notice, the Board of the Company must agree to purchase the shares, or arrange for another person to purchase the shares. The Board of the Company may also apply to the Court to exempt it from this requirement. Within 5 working days after agreeing to purchase or arrange for the purchase of the shares, the Company or the other purchaser must nominate a price for the shares and inform the Shareholder of that price. If the Shareholder considers that the price is not fair and reasonable, the Shareholder must object immediately by giving notice to the Company, in which case the price will be determined by an arbitrator.

Requirement for Resolution 2

Resolution 2 is proposed for the purposes of clause 21.6 of the Constitution.

Clause 21.6.2 of the Constitution provides that the Company must not permit any of its subsidiaries to enter in any transaction to acquire assets of, or to be held by, the relevant company in respect of which the gross value is an amount that is more than 50% of the amount of "Shareholders' Funds" (as defined in the Constitution), without the prior approval of the Company by ordinary resolution.

The total "Shareholders' Funds" (as defined in the Constitution) as at 31 March 2011 was $31.2 million and the Proposed Transaction has a gross value of $70 million. Accordingly, clause 21.6 of the Constitution requires approval of Proposed Transaction by way of an ordinary resolution.

All Shareholders are entitled to vote on Resolution 2.

Requirement for Resolution 3

Resolution 3 is proposed for the purposes of clause 21.10 of the Constitution.

Clause 21.10 of the Constitution provides that the Company must not permit any of its subsidiaries to enter into a "material transaction" (as defined in clause 21.10.3 of the Constitution) if a "related party" (as defined in clause 21.10.4 of the Constitution) is, or is likely to become, a direct or indirect party to the material transaction, unless the transaction has first been approved by an ordinary resolution.

TEL is a "related party" of the Company, as defined in clause 21.10.4 of the Constitution, as it currently holds 35.38% of the total number of ordinary shares on issue in the capital of the Company. Accordingly clause 21.10 of the Constitution requires approval of the Proposed Transaction by way of an ordinary resolution.

TEL, and any Shareholders associated with it, are not permitted to vote their shares in the Company on Resolution 3.

Requirement for Resolution 4

Resolution 4 is proposed for the purposes of clause 3.1.1 of the Constitution.

Clause 3.1.1 of the Constitution requires that the precise terms and conditions of a non pro-rata issue of shares be approved by way of an ordinary resolution (subject to certain exceptions which are not applicable to the Proposed Share Issuance).

The Proposed Share Issuance will be made to TEL only and therefore constitutes a non pro-rata issue of shares. Clause 3.1.1 of the Constitution therefore requires shareholder approval of the Proposed Share Issuance by way of ordinary resolution.

TEL, and any Shareholders associated with it, are not permitted to vote their shares in the Company on Resolution 4.

Requirement for Resolution 5

Resolution 5 is proposed for the purposes of clause 3.7 of the Constitution.

Clause 3.7 of the Constitution prohibits any issue of shares by the Company, if there is a significant likelihood that the issue will result in any person materially increasing their ability to exercise, or direct the exercise of (either then or at any future time) effective control of the Company, where that person is already entitled to exercise not less than 1% of the total votes attaching to the Company's securities, unless the precise terms and conditions of the issue have first been approved by an ordinary resolution.

Pursuant to the Proposed Share Issuance, TEL's holding in the Company will increase from 35.38% to 54.07% of the total number of ordinary shares on issue in the capital of the Company. Accordingly, the Proposed Share Issuance will materially increase TEL's ability to exercise effective control of the Company. Clause 3.7 of the Constitution therefore requires shareholder approval of the Proposed Share Issuance by way of ordinary resolution.

TEL, and any Shareholders associated with it, are not permitted to vote their shares in the Company on Resolution 5.

Requirement for Resolution 6

Resolution 6 is proposed for the purposes of rule 6(1)(b) and rule 7(d) of the Takeovers Code.

Rule 6(1)(b) of the Takeovers Code provides that, except as provided in rule 7 of the Takeovers Code, a person who holds or controls 20% or more of the voting rights in a code company may not become the holder or controller of an increased percentage of the voting rights in the code company. Rule 7(d) of the Takeovers Code allows a person to take an issuance of voting securities which increases their voting rights in a code company if the issuance of voting securities is approved by an ordinary resolution.

The Proposed Share Issuance will increase TEL's holding in the Company from 35.38% to 54.07% of the total number of ordinary shares on issue in the capital of the Company. Accordingly rule 6(1)(b) and rule 7(d) of the Takeovers Code require shareholder approval of the Proposed Share Issuance by way of ordinary resolution.

TEL, and any Shareholders associated with it, are not permitted to vote their shares in the Company on Resolution 6.

INFORMATION REQUIRED BY THE TAKEOVERS CODE

Rule 16 of the Takeovers Code

The following information is provided in accordance with Rule 16 of the Takeovers Code in connection with the Proposed Share Issuance:

(a) TEL will be the allottee of the Proposed Share Issuance.

(b) The particulars of the voting securities to be allotted are as follows:

(i) the number of voting securities being allotted is 7,629,474 new ordinary shares;

(ii) that number of new shares represents 28.921% of the aggregate of all existing voting securities and all voting securities being allotted;

(iii) after completion of the allotment TEL will hold or control 54.07% of all voting securities of the Company;

(iv) after completion of the allotment TEL and TEL's associates will hold or control 54.07% of all voting securities of the Company.

(c) The voting securities being allotted are voting securities in the Company.

(d) The issue price for the shares is $36,240,001 in aggregate, being $4.75 per share. The issue price will be satisfied in full upon completion of the Proposed Transaction on or around 1 June 2012.

(e) The allotment is part of the consideration payable by the Company to the allottee under the terms of the Proposed Transaction.

(f) The allotment, if approved, will be permitted under rule 7(d) of the Takeovers Code as an exception to rule 6 of the Takeovers Code.

(g) The allottee has not, and does not intend to, enter into any agreement or arrangement (whether or not legally enforceable), other than with the Company, relating to the allotment, holding, or control of the voting securities to be allotted, or to the exercise of the voting rights in the Company.

(h) The report from an independent adviser that complies with rule 18 of the Takeovers Code accompanies this Notice of Meeting.

(i) The Statement by the Directors of the Company required by rule 19 of the Takeovers Code is set out above under the section headed "Directors' Recommendations".

GLOSSARY

Board	Board of Directors of KCE
Facility Agreement	The Facility Agreement between KCE and the BNZ consists of a committed cash advance facility agreement, a negative pledge deed and an ISDA (International Swaps and Derivatives Association) 2002 Master Agreement.
Independent Board Subcommittee	The KCE Board passed a resolution to establish an independent board subcommittee for the purpose of evaluating the Proposed Transaction. The members of that subcommittee are Toby Stevenson (Chair) and Brian Needham, both being independent directors.
KCE or the "Company"	King Country Energy Limited
KCE Mangahao	KCE Mangahao Limited is a KCE subsidiary and owner of a 50% stake in Mangahao Power Station through joint venture with Todd Mangahao
KCEP Trust	King County Electric Power Trust
Notice of Meeting	This notice of meeting and explanatory statement issued by KCE for the purpose of convening the Special Meeting
Proposed Transaction	KCE's intention to purchase TEL's 50% share in the Mangahao Power Station
Purchaser	KCE Mangahao
Shareholders	A registered holder of shares in KCE
Special Meeting	The Special Meeting of Shareholders, and any adjournments or postponements thereof, to be held at 10am on 31 May 2012
TEL	Todd Energy Limited
Todd Corporation Limited	The parent company of TEL and Todd Mangahao
Todd Mangahao	Todd Mangahao Limited is a TEL subsidiary and owner of a 50% stake in Mangahao Power Station through joint venture with KCE Mangahao
Vendor	Todd Mangahao

King Country Energy Limited

Independent Adviser's Report

In Respect of the Allotment of Shares to Todd Energy Limited

May 2012

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1. Introduction

1.1 Background

King Country Energy Limited (**King Country Energy** or the **Company**) is the leading electricity retailer and generator in the King Country. It generates approximately 125 gigawatt hours (**GWh**) of electricity per annum from its 4 generation plants based in the King Country and its 50% interest in the Mangahao Power Station and retails approximately 216 GWh of electricity per annum to over 18,000 customers.

The Company is deemed to be a code company under the Takeovers Code (the **Code**) as it has approximately 7,700 shareholders.

The Company's shares are traded on the Unlisted securities trading facility. King Country Energy's market capitalisation was $67 million as at 1 May 2012 and its unaudited total equity was $106 million as at 31 March 2012.

A profile of the Company is set out in section 4.

1.2 Todd Energy Limited

Todd Energy Limited (**Todd Energy**) is the largest shareholder in the Company. It currently holds 6,633,046 shares, representing 35.38% of the shares on issue.

Todd Energy is a wholly owned subsidiary of the family owned Todd Corporation. It is a vertically integrated energy company that owns and operates its own natural gas, oil, LPG, electricity, cogeneration and solar hot water heating assets, enabling it to manage the entire flow of energy from gas field to customer or from hydro generation to household.

Todd Energy holds interests in producing fields that account for approximately 90% of New Zealand's annual hydrocarbon production and it is one of New Zealand's leading energy producers. It has interests in major oil and gas fields including Maui, Kapuni, McKee, Mangahewa, Pohokura and Maari.

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

1.3 Mangahao Power Station

King Country Energy, KCE Mangahao Limited (**KCE Mangahao**), Todd Energy and Todd Mangahao Limited (**Todd Mangahao**) are parties to a joint venture deed dated 22 December 1997 in relation to the assets that comprise the Mangahao Power Station (the **Mangahao JV**).

KCE Mangahao and Todd Mangahao each have a 50% interest in the Mangahao JV.

Todd Energy currently manages the operations of the Mangahao Power Station on behalf of the Mangahao JV.

A profile of the Mangahao JV is set out in section 6.

1.4 Mangahao Acquisition

King Country Energy announced on 16 March 2012 that it had signed a heads of agreement with Todd Energy (the **Mangahao HoA**) whereby KCE Mangahao will acquire Todd Mangahao's 50% interest in the Mangahao JV for $70 million (the **Mangahao Acquisition**).

The consideration for the acquisition will be in the form of $33.76 million of cash and the allotment of 7,629,474 new King Country Energy shares issued to Todd Energy at $4.75 per share (the **Todd Energy Allotment**).

The Mangahao Acquisition will result in King Country Energy owning 100% of the Mangahao Power Station and the Todd Energy Allotment will result in Todd Energy holding 54.07% of the shares in King Country Energy.

1.5 Special Meeting of Shareholders

The Company's shareholders will vote on 6 resolutions in respect of matters associated with the Mangahao Acquisition and the Todd Energy Allotment at the Company's special meeting of shareholders on 31 May 2012:

- resolution 1 – *approval of major transaction*
- resolution 2 – *approval of acquisition where gross value exceeds 50% of shareholders' funds*
- resolution 3 – *approval of related party transaction*
- resolution 4 – *approval of non pro rata issue of shares*
- resolution 5 – *approval of issue of shares increasing shareholder's ability to control*
- resolution 6 – *approval of allotment of shares*.

Resolution 1 is a special resolution and is required under section 129 of the Companies Act 1993 (the **Companies Act**).

Resolutions 2, 3, 4 and 5 are ordinary resolutions and are required under the Company's constitution.

Resolution 6 is an ordinary resolution and is required under the Code.

All shareholders may vote in respect of resolutions 1 and 2. Todd Energy and any shareholders associated with it may not vote on resolutions 3, 4, 5 and 6.

We refer to the Company's shareholders other than Todd Energy and its associates as the **Non-associated Shareholders**.

All the resolutions are interdependent and require sequential approval. This means that resolution 2 can only be voted on if resolution 1 is approved, resolution 3 can only be voted on if resolution 2 is approved and so on. All 6 resolutions in respect of the Mangahao Acquisition and the Todd Energy Allotment must be approved in order for the transaction to proceed. If any one of the 6 resolutions is not approved, then the Mangahao Acquisition and the Todd Energy Allotment cannot proceed.

1.6 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 holding or control of voting rights beyond 20%
- 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 and that person's associates comply with exceptions to this fundamental rule.

One of the exceptions, set out in Rule 7(d) of the Code, enables a person and its associates to increase their holding or control of voting rights by an allotment of shares if the allotment is approved by an ordinary resolution of the code company.

The Todd Energy Allotment will result in Todd Energy increasing its control of the voting rights in King Country Energy from 35.38% to 54.07%.

Accordingly, the Non-associated Shareholders will vote at the Company's special meeting of shareholders on ordinary resolution 6 in respect of the Todd Energy Allotment in accordance with the Code.

Rule 18 of the Code requires the directors of a code company to obtain an Independent Adviser's Report on the merits of an allotment under Rule 7(d).

This Independent Adviser's Report is to be included in the notice of meeting pursuant to Rule 16(h).

1.7 Purpose of the Report

The directors of King Country Energy not associated with Todd Energy or the King Country Electric Power Trust (the **KCEP Trust**) (the **Independent Directors**) have engaged Simmons Corporate Finance Limited (**Simmons Corporate Finance**) to prepare an Independent Adviser's Report on the merits of the allotment of shares under the Todd Energy Allotment in accordance with Rule 18 of the Code.

Simmons Corporate Finance was approved by the Takeovers Panel on 23 March 2012 to prepare the Independent Adviser's Report.

Simmons Corporate Finance issues this Independent Adviser's Report to the Independent Directors for the benefit of the Non-associated Shareholders to assist them in forming their own opinion on whether to vote for or against resolution 6 in respect of the Todd Energy Allotment.

We note that each shareholder's circumstances and objectives are unique. Accordingly, it is not possible to report on the merits of the allotment of shares for each shareholder's circumstances under the Todd Energy Allotment. This report on the merits of the allotment of shares under the Todd Energy Allotment is therefore necessarily general in nature.

This 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 Allotment of Shares to Todd Energy

2.1 Basis of Evaluation

Rule 18 of the Code requires an evaluation of the merits of the allotment of shares to Todd Energy under the Todd Energy Allotment.

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 the role of independent advisers dated August 2007
- 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 allotment of shares to Todd Energy under the Todd Energy Allotment should focus on:

- the rationale for the Mangahao Acquisition
- the rationale for the Todd Energy Allotment
- the alternatives to the Todd Energy Allotment
- the terms and conditions of the Mangahao Acquisition
- the terms and conditions of the Todd Energy Allotment
- the impact of the Mangahao Acquisition (including the Todd Energy Allotment) on King Country Energy's financial position
- the impact of the Todd Energy Allotment on the control of the Company
- the impact of the Todd Energy Allotment on King Country Energy's share price
- other benefits and disadvantages to Todd Energy of the Todd Energy Allotment
- the benefits and disadvantages to the Non-associated Shareholders of the Todd Energy Allotment
- the implications if the resolution in respect of the Todd Energy Allotment are not approved.

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 Summary of the Evaluation of the Merits of the Allotment of Shares to Todd Energy

In our opinion, after having regard to all relevant factors, the positive aspects of the Todd Energy Allotment outweigh the negative aspects from the perspective of the Non-associated Shareholders.

Our evaluation of the merits of the allotment of shares to Todd Energy under the Todd Energy Allotment is set out in detail in sections 2.3 to 2.17. In summary, the key factors leading to our opinion are:

- the rationale for the Mangahao Acquisition is sound. It will increase the volume of electricity that King Country Energy generates by approximately 50%, thereby:
  - reducing the Company's reliance on purchasing externally-generated electricity on the wholesale market to meet its retail sales volumes
  - positioning the Company to grow its retail customer base
- the rationale for the Todd Energy Allotment is sound. It will ensure that Company's financial position remains fiscally prudent by restricting the level of debt raised to fund the Mangahao Acquisition
- we do not consider the possible alternatives to the Todd Energy Allotment to be as creditable or as beneficial to the Company
- we consider the Mangahao Acquisition price of $70.0 million to be reasonable. We are of the view that the value to King Country Energy of the Mangahao Power Station assets that KCE Mangahao will acquire from Todd Mangahao is in the range of $79.4 million to $94.8 million. This value range includes revenue enhancement opportunities and tax benefits that the Company expects to realise from wholly owning the Mangahao Power Station
- we consider the issue price of $4.75 per share under the Todd Energy Allotment to be reasonable:
  - it is at a discount of 12% to 26% to our assessment of the full underlying value of the Company's shares of $5.41 to $6.39 per share
  - it is at a premium of 38% to 46% to the Company's volume weighted average share price (**VWAP**) measured at different periods over the past year up to the announcement of the Mangahao Acquisition
- the Mangahao Acquisition will have a material impact on the Company's financial position:
  - total assets will increase by approximately $61 million
  - approximately $25 million of debt will be drawn down
  - equity will increase by approximately $36 million
- the Todd Energy Allotment will significantly increase Todd Energy's ability to influence the outcome of shareholding voting as it will increase its control of the voting rights in the Company from 35.38% to 54.07%, thereby enabling it to singlehandedly determine the outcome of ordinary resolutions
- the Todd Energy Allotment is unlikely to change Todd Energy's influence over the Company's board of directors (the **Board**) and operations in the near term

- the Todd Energy Allotment will see Non-associated Shareholders' voting interests in the Company diluted by approximately 29%
- the Todd Energy Allotment could potentially have a positive impact on the Company's share price. The shares last traded at $3.45 prior to the announcement of the Mangahao Acquisition. The Todd Energy Allotment issue price of $4.75 per share is at a premium of 38% to that share price
- the Todd Energy Allotment is unlikely to have any material impact on the liquidity of King Country Energy's shares
- the Todd Energy Allotment will likely reduce the attraction of King Country Energy as a takeover target
- the implications of the Todd Energy Allotment not being approved by the Non-associated Shareholders are that the Mangahao Acquisition will not proceed.

2.3 Rationale for the Mangahao Acquisition

We are advised by the Independent Directors that they view the Mangahao Acquisition as a significant growth opportunity for the Company. The expected key benefits include:

- providing earnings and potential dividend growth for shareholders
- providing the Company's retail business with a solid growth platform and increasing the Company's generation output by approximately 50% to around 191 GWh per annum
- reducing electricity supply price risk
- creating a more efficient balance sheet and allowing the Company to introduce a modest debt facility, providing flexibility for pursuing additional growth options.

In our view, the rationale for the Mangahao Acquisition is sound. A key strategic objective of the Company is to achieve greater security of supply to enable the Company to grow its retail volumes. The Company's generation plants (including its 50% interest in the Mangahao JV) currently produce approximately half of the electricity that King Country Energy retails in an average year. Accordingly, the Company must acquire the balance of its electricity requirements for its retail sales on the wholesale electricity market and thus is exposed to fluctuations in wholesale electricity prices. The Company is able to reduce its exposure to fluctuating prices through the use of hedge contracts to fix the price for purchases on the wholesale market. However, the market for hedge contracts is relatively illiquid. There are a limited number of counterparties available and willing to supply the Company with the volumes of electricity that it requires. This means that King Country Energy is constrained by the hedge market where pricing can exceed competitors' equivalent wholesale costs. These market dynamics place the Company at a disadvantage when competing for new customers and growing its retail business.

The Mangahao Acquisition will increase the volume of electricity generated from the Company's generation plants by 65 GWh, being an increase of approximately 50%. Following the Mangahao Acquisition, King Country Energy's generation plants will produce approximately three quarters of the electricity that the Company currently sells to its retail customers in an average year. In the short term, the Company will be less reliant on the hedge market. However, of greater strategic benefit is that in the longer term, the additional 65 GWh of generation will better position King Country Energy to grow its retail customer base and thereby potentially increase its profitability.

2.4 Rationale for the Todd Energy Allotment

We are advised by the Independent Directors that the decision to issue Company scrip as part consideration for the Mangahao Acquisition was determined by the Board's views as to the appropriate level of debt that the Company should take on. This was determined by the Board after taking into account factors such as the required level of debt headroom for potential future acquisitions, appropriate financial leverage levels for comparable companies and the dilutionary impact of the Todd Energy Allotment on the Non-associated Shareholders.

In our view, the rationale for the Todd Energy Allotment is sound. The quantum of the Mangahao Acquisition is such that it would be imprudent for the Company to fully fund it with debt. Issuing scrip to Todd Energy as part consideration will ensure that the Company's financial position remains fiscally prudent.

2.5 Alternatives to the Todd Energy Allotment

As an alternative to the combination of cash and scrip, King Country Energy could have structured the consideration to be paid fully in cash. This would have required the Company to raise additional cash of $36.24 million (net of costs) to pay to Todd Energy. This could potentially have been achieved by:

- seeking additional debt funding
- raising equity from other shareholders
- asset sales.

We do not consider that any of these alternatives would be as creditable as the Todd Energy Allotment.

An additional $36.24 million of debt (net of costs) would significantly increase the Company's level of financial leverage and place considerable financial pressure on the Company to meet the increased debt servicing requirements. Furthermore, it is arguable as to whether any debt providers would agree to fully fund the $70 million purchase price for the Mangahao Acquisition.

We consider it unlikely in the current economic environment that King Country Energy could place over $36 million of fresh equity to new or existing shareholders (other than Todd Energy) within the required (relatively short) timeframe and without incurring significant costs. Furthermore, given the Company's recent share price history, we consider it unlikely that any such share placement could be made at an issue price of $4.75 per share.

The Company's main assets are its generation plants, representing approximately 75% of total assets. Given that one of the Company's key strategic objectives is to increase the volume of electricity generated from its own generation plants, the sale of any generation plant assets would be contrary to this objective and therefore would not be a viable option to part fund the Mangahao Acquisition.

2.6 Terms of the Mangahao Acquisition

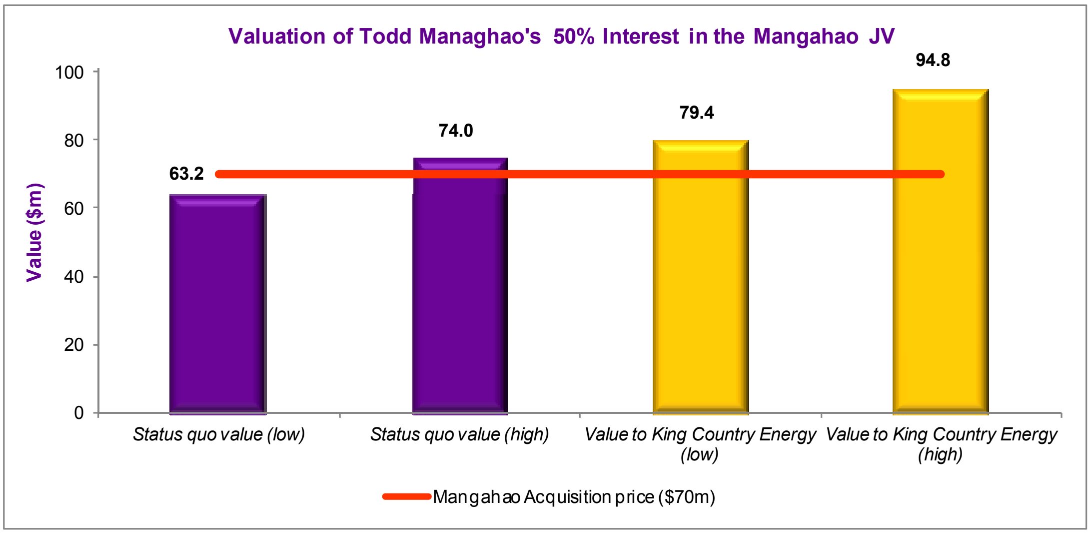
The key terms of the Mangahao Acquisition as set out in the draft sale and purchase agreement between King Country Energy, KCE Mangahao, Todd Energy and Todd Mangahao (the **Mangahao SPA**) are:

- KCE Mangahao will acquire Todd Mangahao's 50% interest in the Mangahao JV for $70.0 million
- consideration will be in the form of:
  - $33.76 million of cash
  - the allotment of 7,629,474 new King Country Energy shares issued to Todd Energy at $4.75 per share
- Todd Energy will continue to provide the services to KCE Mangahao which it currently provides to the Mangahao JV (via Todd Mangahao), except for accounting services which are to be undertaken by King Country Energy. These services are set out in the draft services agreement between KCE Mangahao, Todd Energy and Todd Mangahao (the **Services Agreement**)
- King Country Energy, KCE Mangahao and Todd Energy will enter into a short term hedge facility to manage Todd Energy's exposures to fluctuations in electricity prices up to 31 December 2012
- the Mangahao SPA is conditional on King Country Energy and KCE Mangahao obtaining all consents and approvals required under their respective constitutions, the Companies Act and the Code.

We have undertaken an assessment of the value of Todd Mangahao's 50% interest in the Mangahao JV in section 6.

In our opinion, the value to King Country Energy of the Mangahao JV assets that KCE Mangahao will acquire from Todd Mangahao is in the range of $79.4 million to $94.8 million as at the present date. This value range includes revenue enhancement opportunities and tax benefits that the Company expects to realise from wholly owing the Mangahao Power Station.

The value range exceeds the fair market value of Todd Mangahao's 50% interest in the Mangahao JV based on the current ownership structure, which we assess to be in the range of $63.2 million to $74.0 million as at the present date.



As the acquisition price of $70.0 million is below the assessed value of the assets to King Country Energy and falls within our assessed status quo valuation range, we are of the opinion that the acquisition price is reasonable.

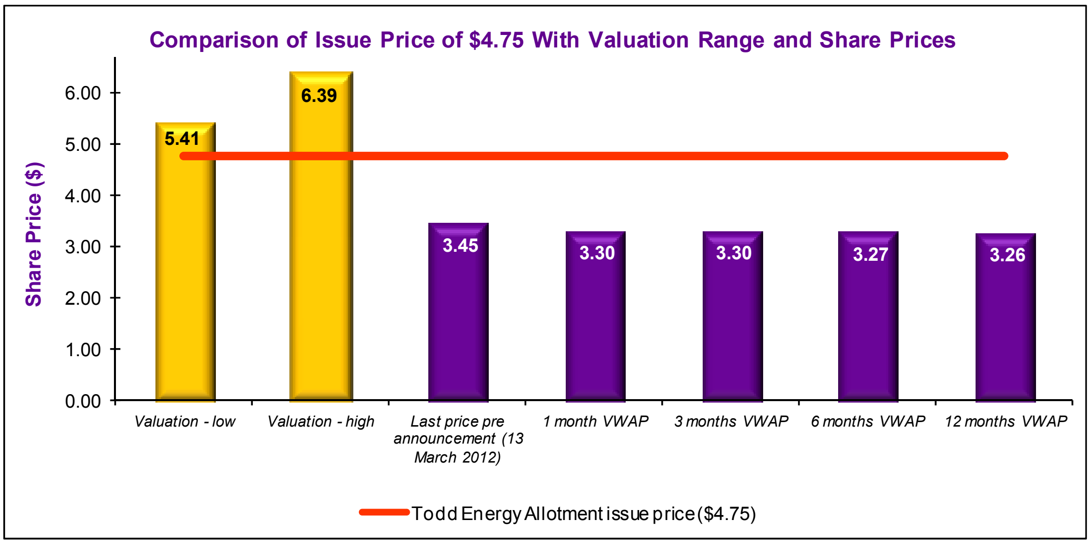
2.7 Terms of the Todd Energy Allotment

The key terms of the Todd Energy Allotment as set out in the draft subscription agreement between King Country Energy and Todd Energy (the **Subscription Agreement**) are:

- King Country Energy will issue Todd Energy 7,629,474 new ordinary shares at an issue price of $4.75 per share in part consideration for the Mangahao Acquisition
- the new ordinary shares will rank equally in all respects with the existing ordinary shares
- the Todd Energy Allotment is conditional on the completion of the Mangahao SPA.

The issue price is at a significant premium to the Company's share price. The issue price of $4.75 per share is at a premium of 38% to 46% to the Company's VWAP measured at different periods over the past year up to the announcement of the Mangahao Acquisition on 16 March 2012.

We have undertaken an assessment of the value of King Country Energy's shares in section 5. We assess the full underlying value of the Company's shares to be in the range of $5.41 to $6.39 per share as at the present date, based on its current strategic and operational initiatives. The issue price of $4.75 per share is at a discount of 12% to 26% to the assessed values.



Todd Energy currently holds 35.38% of the Company's shares. The Todd Energy Allotment will increase its shareholding to 54.07%, thereby increasing its control over the Company. Given this, when assessing the reasonableness of the Todd Energy Allotment issue price, greater weight should be given to the full underlying value of the Company rather than observed trading prices for minority parcels of shares. However, the assessed valuation range of $5.41 to $6.39 reflects the full underlying value of 100% of the shares in King Country Energy. As discussed in section 2.9, although the Todd Energy Allotment will increase Todd Energy's ability to influence the outcome of shareholding voting, it may not increase Todd Energy's influence over the Board or the Company's operations to any significant degree in the near term. In such circumstances, we would consider an issue price below the full underlying value of the Company to be reasonable.

On the basis that the issue price of $4.75 per share is at a 19% discount to the midpoint of our assessment of the full underlying value of the Company and is at a 44% premium to the one month VWAP prior to the announcement of the Mangahao Acquisition, we consider the issue price to be reasonable.

2.8 Impact on Financial Position

King Country Energy's unaudited total equity as at 31 March 2012 was $106.1 million. Total equity per share equated to $5.66 per share.

The Mangahao Acquisition will be funded by:

- cash paid to Todd Energy of $33.76 million, funded by available cash reserves and a new debt facility provided by Bank of New Zealand Limited (**BNZ**)
- $36.24 million of new equity issued via the Todd Energy Allotment.

Transaction costs are estimated to be approximately $1 million and will be funded from cash reserves.

The key terms of the BNZ facility are:

- a total facility of $35 million
- $25 million will be used to fund the Mangahao Acquisition
- $10 million will be available for prudential purposes and to fund working capital requirements
- a term of 3 years
- security is provided in the form of a negative pledge.

The Mangahao Acquisition will increase the Company's total assets by approximately $61 million (approximately 48%) and bring approximately $25 million of interest bearing debt (**IBD**) onto the balance sheet.

The Todd Energy Allotment will increase the Company's equity by approximately $36 million (approximately 34%).

For illustrative purposes, if the Mangahao Acquisition (including the Todd Energy Allotment) was to have been completed on 31 March 2012, King Country Energy's equity per share would decrease from $5.66 to $5.40 and its level of financial leverage would be approximately 14%.

Illustrative Effect of the Mangahao Acquisition	31 Mar 2012 (Unaudited) $m	Mangahao Acquisition $m	Post Mangahao Acquisition $m
Current assets	14.6	(9.8) [1]	4.8
Non current assets	112.8	71.0 [2]	183.8
Total assets	127.4	61.2	188.6
Current liabilities	(2.9)		(2.9)
Non current liabilities	(18.4)	(25.0) [1]	(43.4)
Total liabilities	(21.3)	(25.0)	(46.3)
Total equity	106.1	36.2 [3]	142.3
Net (cash) / IBD	(11.2)	34.8	23.6
Financial leverage [4]	n/a		14.2%
No. of shares (m)	18.75	7.63	26.38
Total equity / share ($)	$5.66	$4.75	$5.40

1 Assumes $9.8 million of cash on hand is used as part of the cash consideration
2 Includes approximately $1 million of capitalised transaction costs
3 7,629,474 shares at $4.75
4 Net IBD / (Net IBD + Total equity)

The Mangahao Acquisition is projected to increase free cash flow per share (**FCFPS**) in the 2013 financial year and each year thereafter relative to the Company's status quo expectations. However, earnings per share (**EPS**) are projected to initially decrease in the 2013, 2014 and 2015 financial years due to the impact of the additional depreciation levels and interest on the BNZ debt facility. EPS is projected to increase beyond 2015 through the combination of increased operating earnings and reduced levels of depreciation and interest.

2.9 Impact on Control

Share Capital and Shareholders

King Country Energy currently has 18,750,000 ordinary fully paid shares on issue. The names, number of shares and percentage holding of the Company's 10 largest shareholders as at 17 April 2012 are set out in section 4.7.

King Country Energy currently has 2 cornerstone shareholders:

- Todd Energy – holding 35.38% of the Company's shares
- the KCEP Trust – 20.00%.

The 2 shareholders collectively control 55.38% of the voting rights in the Company at present.

The allotment of shares under the Todd Energy Allotment will increase Todd Energy's shareholding in King Country Energy from 35.38% to 54.07% without having to make a formal offer to all shareholders in accordance with Rules 7(a) or 7(b) of the Code.

This is the principal reason why the Non-associated Shareholders have the opportunity to vote for or against the Todd Energy Allotment under resolution 6.

Shareholding Levels				
	Current		Post Todd Energy Allotment	
	No. of Shares	%	No. of Shares	%
Todd Energy	6,633,046	35.38%	14,262,520	54.07%
KCEP Trust	3,749,990	20.00%	3,749,990	14.22%
Other Non-associated Shareholders	8,366,964	44.62%	8,366,964	31.71%
Total	18,750,000	100.00%	26,379,474	100.00%

Shareholding Voting

We are of the view that the Todd Energy Allotment will significantly increase Todd Energy's ability to exert shareholder control over King Country Energy.

Todd Energy currently has the ability to singlehandedly block special resolutions (which require the approval of 75% of the votes cast by shareholders). Following the Todd Energy Allotment, it will have the ability to influence the outcome of all shareholder voting (where it is entitled to vote) as it will be able to singlehandedly pass or block ordinary resolutions (which require the approval of more than 50% of the votes cast by shareholders) and block special resolutions. However, its 54.07% shareholding will not be sufficient to singlehandedly pass special resolutions.

The ability for any shareholder to influence the outcome of voting on the Company's ordinary resolutions or special resolutions may be reduced by external factors such as the Company's constitution and the Companies Act.

Board Control

We are advised by the Independent Directors that at this point in time, no agreements have been made with Todd Energy as to future Board representation following the Todd Energy Allotment.

While there will be no change in Todd Energy's level of Board representation in the near term following the Todd Energy Allotment, we are of the view that it would not be unreasonable to expect that Todd Energy may seek Board representation at a level proportionate to its increased shareholding sometime in the future.

Operations

We are advised by the Independent Directors that Todd Energy currently does not have any direct influence over the operations of the Company other than through its Board representation and as a joint venture partner on operational matters associated with the Mangahao JV.

In our view, Todd Energy's level of influence over the Company's operations is unlikely to change to any significant degree in the near term following the Todd Energy Allotment.

2.10 Dilutionary Impact

The Todd Energy Allotment will result in the Non-associated Shareholders' proportionate shareholdings in the Company being significantly diluted by approximately 29%.

Dilutionary Impact of the Todd Energy Allotment				
	Current		Post Todd Energy Allotment	
	No. of Shares	%	No. of Shares	%
Todd Energy	6,633,046	35.38%	14,262,520	54.07%
Non-associated Shareholders	12,116,954	64.62%	12,116,954	45.93%
Total	18,750,000	100.00%	26,379,474	100.00%
Dilutionary impact				28.9%

While the dilutionary impact on shareholding levels is significant, we are of the view that the prime focus on dilution from a minority shareholder's perspective should be on whether there is any dilution in the value of their interest in the Company. As previously stated, we consider the $4.75 per share issue price of the Todd Energy Allotment to be reasonable. Accordingly, there is unlikely to be any material dilution in the value of the Non-associated Shareholders' interests in King Country Energy arising from the Todd Energy Allotment.

2.11 Impact on Share Price and Liquidity

Share Price

A summary of King Country Energy's daily closing share price and daily volume of shares traded from 8 January 2008 is set out in section 4.11.

Details of the Todd Energy Allotment were announced on 16 March 2012. King Country Energy's closing share price immediately prior to that date was $3.45 (based on a last trade on 13 March 2012). Since then, 14,249 shares have traded on 10 days at prices between $3.45 and $4.00 at a VWAP of $3.63.

We consider the Todd Energy Allotment is likely to have a positive impact on the Company's share price as the Todd Energy Allotment issue price is at a significant premium to the prevailing market price. However, the degree of the impact is likely to be restricted due to the limited liquidity of the Company's shares.

Liquidity

A summary of the trading in King Country Energy's shares over the past year is set out in section 4.11. Trading in the Company's shares is extremely thin, reflecting that Todd Energy and the KCEP Trust together hold 55.38% of the Company's shares and the remaining 44.62% of the shares are held by 7,685 shareholders. Only 1.7% of the Company's shares have traded in the past year on 103 days.

The size of the pool of shares held by the Non-associated Shareholders will not increase under the Todd Energy Allotment.

In our view, the Todd Energy Allotment on its own is unlikely to have a positive or negative effect on the liquidity of King Country Energy's shares.

2.12 Benefits to Todd Energy

The key benefit of the Todd Energy Allotment is that it provides Todd Energy with the opportunity to significantly increase its shareholding (and level of control) in King Country Energy at an issue price of $4.75 per share.

By increasing its shareholding to 54.07%, Todd Energy will be able to utilise the *creep* provisions of Rule 7(e) of the Code. The *creep* provisions enable entities that hold between 50% and 90% of the voting securities in a code company to buy up to a further 5% of the code company's shares per annum. Todd Energy would be able to acquire up to a further 5% of King Country Energy's shares commencing 12 months after the Todd Energy Allotment is completed. Todd Energy could use the *creep* provisions to increase its shareholding to 90%, at which point it could compulsorily acquire the remaining shares in the Company.

2.13 Disadvantages to Todd Energy

Increased Exposure to the Risks of King Country Energy

The key issues and risks that are likely to impact upon the business operations of King Country Energy are set out in section 4.5. As Todd Energy's ownership in King Country Energy increases, so does its exposure to these risks.

2.14 Benefits for the Non-associated Shareholders

Benefits to King Country Energy of Todd Energy as a Cornerstone Shareholder

The Todd Energy Allotment will enhance Todd Energy's position as an important cornerstone investor in the Company. King Country Energy will be able to continue to leverage off Todd Energy's industry knowledge, expertise and relationships.

The Todd Energy Allotment also signals Todd Energy's confidence in the future prospects of King Country Energy.

Potential Increase in Dividends

The Company has paid $4.5 million in dividends each year for the past 5 years, equating to $0.24 per share.

The Mangahao Acquisition is projected to enhance the Company's FCFPS from the 2013 financial year onwards and EPS in the longer term relative to the Company's status quo expectations. This could potentially lead to higher levels of dividends. However, the Company's future dividend levels are subject to the Board's policy on the matter and there is no guarantee that future dividend levels will be the same or higher than the current levels.

Non-associated Shareholder Approval is Required

Pursuant to Rule 7(d) of the Code, the Non-associated Shareholders must approve by ordinary resolution the Todd Energy Allotment.

The Todd Energy Allotment will not proceed unless the Non-associated Shareholders approve resolution 6.

2.15 Disadvantages to the Non-associated Shareholders

Non-associated Shareholders will be Diluted

Non-associated Shareholders' proportionate interests in the Company will be significantly diluted by approximately 29% under the Todd Energy Allotment.

Will Reduce the Likelihood of a Takeover Offer from Todd Energy

Todd Energy previously made a full takeover offer for King Country Energy in December 2006 at a price of $4.40 per share and a partial takeover offer to increase its shareholding to 50.1% in February 2007 at a price of $5.00 per share. Neither offer was successful.

In our view, an increase in Todd Energy's shareholding from 35.38% to 54.07% by way of the Todd Energy Allotment will reduce the likelihood of a future takeover offer from Todd Energy as it may consider that it has sufficient control over the Company.

It is possible that if Todd Energy did make a takeover offer for further shares in the Company, it may offer a control premium that is lower than would otherwise be expected as it may value its offer on the basis that it already has significant control of the Company and hence does not need to pay a control premium of any significance.

Following the Todd Energy Allotment, Todd Energy will not be able to increase the level of its shareholding in King Country Energy unless it complies with the provisions of the Code. It will only be able to acquire more shares in the Company if:

- it makes a full or partial takeover offer or
- the acquisition is approved by way of an ordinary resolution of the Non-associated Shareholders or
- the Company makes an allotment of shares which is approved by way of an ordinary resolution of the Non-associated Shareholders or
- it complies with the *creep* provisions of Rule 7(e) of the Code.

Todd Energy could also increase its level of shareholding in the Company if King Country Energy undertook a share buyback that was approved by the Company's shareholders and Todd Energy did not accept the offer of the buyback.

Likelihood of Other Takeover Offers Will Reduce

In our view, the increase in Todd Energy's shareholding from 35.38% to 54.07% under the Todd Energy Allotment will reduce the attraction of King Country Energy as a takeover target to other parties.

Currently, any bidder looking to fully take over the Company would need to ensure that Todd Energy would accept its offer. This will not change following the Todd Energy Allotment.

However, in the event that a bidder made a partial takeover offer for the Company, it would need to ensure that Todd Energy would accept its offer to ensure the success of its offer.

2.16 Implications of the Resolution not Being Approved

As the 6 resolutions are interdependent and require sequential approval, if any one of the resolutions is not approved, then the Mangahao Acquisition and the Todd Energy Allotment will not proceed. Therefore if resolution 6 in respect of the Todd Energy Allotment is not approved, then the Mangahao Acquisition will not proceed.

If the Mangahao Acquisition does not proceed, the Board may seek to renegotiate the terms of the transaction with Todd Energy and revert to the Non-associated Shareholders for their approval of the revised transaction (at additional cost to the Company).

Alternatively, the Board may decide to cease pursuing the Mangahao Acquisition, in which case the Company will continue to operate in its current manner, which includes a 50% interest in the Mangahao JV. The Board could potentially pursue other acquisition opportunities. We note that the completion of the Mangahao Acquisition would not preclude the Company from undertaking other acquisitions in the future.

2.17 Likelihood of the Resolution Being Approved

Resolution 6 is an ordinary resolution and requires the approval of more than 50% of the votes cast by shareholders entitled to vote for it to be passed. Todd Energy and its associates may not vote on the resolution. Therefore the maximum number of shares that may vote on the resolution is 12,116,954. We are advised that the KCEP Trust has indicated that it will support the Mangahao Acquisition and the Todd Allotment. On the basis that the KCEP Trust votes its 3,749,990 shares in favour of the resolution, the means at least 30.95% of the votes cast will be in favour of the resolution. This percentage will increase to the extent of any votes not cast by other Non-associated Shareholders. For example, if the holders of 2,000,000 shares do not cast votes on the resolution, then the KCEP Trust's shares will represent 37.07% of the votes cast.

2.18 Voting For or Against the Todd Energy Allotment Resolution

Voting for or against resolution 6 in respect of the Todd Energy Allotment is a matter for individual shareholders based on their own views as to value and future market conditions, risk profile and other factors. 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	Transmission	Distribution	Retail
• Meridian Energy	• Transpower	• Vector	• Contact
• Genesis Energy		• Powerco	• Genesis Energy
• Mighty River Power		• Wellington Electricity	• Mercury Energy
• Contact		• Orion	• Meridian Energy
• TrustPower		• Unison	• TrustPower
• 8 others		• 24 others	• 15 others

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 54% of current generation capacity is hydro-electric.

Of the main generation companies, Meridian Energy Limited (**Meridian Energy**), Genesis Power Limited (trading as **Genesis Energy**) and Mighty River Power Limited (**Mighty River Power**) are all state-owned enterprises (**SOEs**) and Contact Energy Limited (**Contact**) and TrustPower Limited (**TrustPower**) are listed on the main board equity security market (**NZSX**) operated by NZX Limited (**NZX**). These 5 companies produce approximately 97% of New Zealand's electricity.

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 (**GXPs**) around New Zealand. The GXPs are the points of supply from the national grid to local distribution networks.

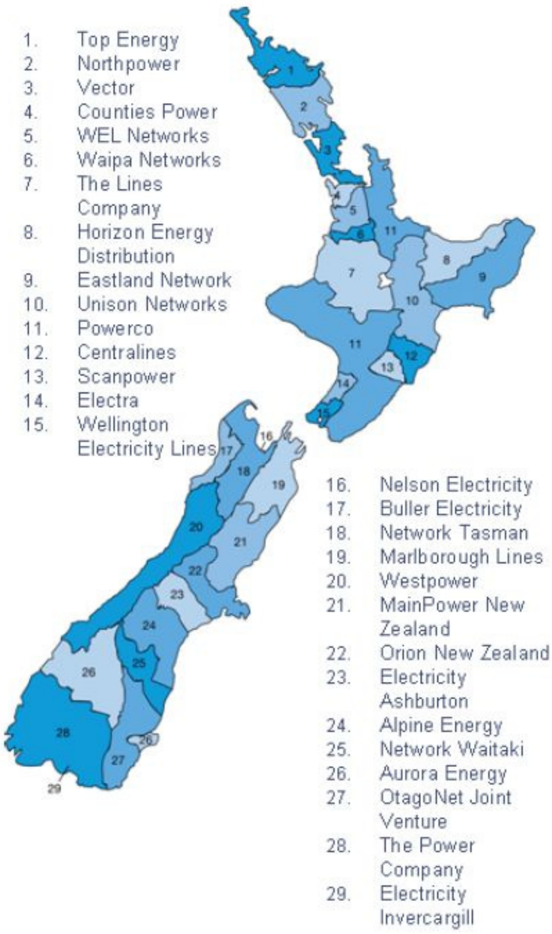
Transpower's customers are generators, energy distribution businesses (**EDBs**) and a small number of high volume consumers who take electricity directly from the national grid. Transpower's costs are passed through to end-customers through the EDB tariffs.

Distribution

Distribution is the service of transporting electricity from GXPs through to industrial, commercial and residential consumers. There are over 150,000 km of distribution lines in New Zealand. The distribution networks also include substations which convert electricity to lower voltages.

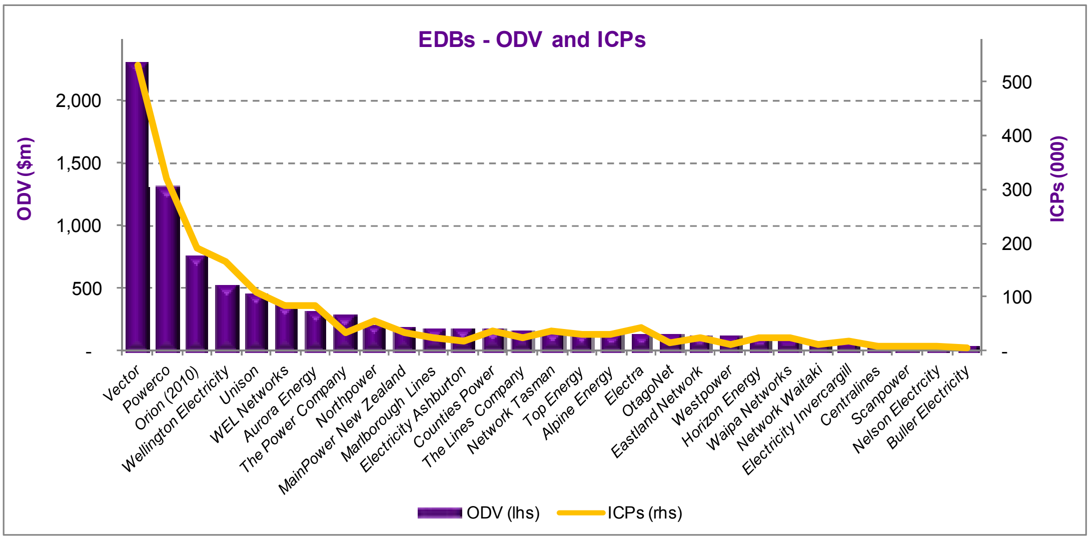
Under the Electricity Industry Reform Act 1998 (the **1998 Reform Act**), EDBs were required to separate from companies that generated and retailed electricity (although limited levels of cross-ownership are permitted).

There are currently 29 EDBs operating in New Zealand.



Source: Electricity Networks Association

The 5 largest EDBs – Vector Limited (**Vector**), Powerco Limited (**Powerco**), Wellington Electricity Lines Limited (**Wellington Electricity**), Orion New Zealand Limited (**Orion**) and Unison Networks Limited (**Unison**) – account for around 66% 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 optimised deprival values (**ODV**)).



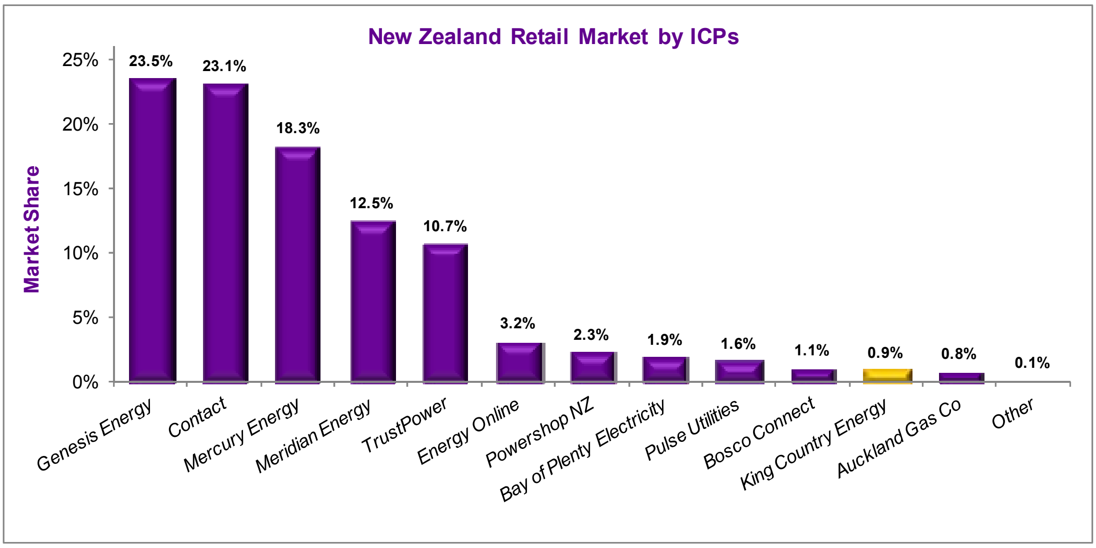
Source: PricewaterhouseCoopers Electricity Line Business 2011 Information Disclosure Compendium

21 of the EDBs have some community trust ownership with 18 having full trust ownership. 2 EDBs are listed on the NZSX – Horizon Energy Distribution Limited and Vector.

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 20 electricity retailers in New Zealand. The market share of electricity retailers as at February 2012 is set out below.



Source: Electricity Authority, February 2012

3.2 Industry Development

The electricity industry has undergone extensive reform over the last 2 and a half decades. Key events in the reform process are summarised below.

New Zealand Electricity Reform Process	
Year	**Event**
1987	Government generation and transmission departments are corporatised into Electricity Corporation of New Zealand Limited (**ECNZ**)
1992	Electricity boards and municipal electricity departments are corporatised through the Energy Companies Act 1992
1993	Electricity Act 1992 comes into effect. Light handed regulation is introduced for distribution / transmission companies requiring information disclosure relating to performance and prices
1995	ECNZ's generation operations are split into 2 SOEs, ECNZ and Contact, while its transmission operations are transferred to a new SOE, Transpower
1996	Wholesale spot electricity market (the New Zealand Electricity Market) is established
1998	1998 Reform Act is enacted, requiring ownership of electricity distribution activities to be separated from supply (generation and retail) activities
1999	ECNZ is split into 3 SOEs – Genesis Energy, Mighty River Power and Meridian Energy
2000	A Ministerial Inquiry is made into the electricity industry, focusing on distribution, transmission, retail and the wholesale market. Government response to the Ministerial Inquiry requires further evolution of industry self-regulation arrangements and targeted price control of electricity distribution and transmission businesses
2001	Government introduces a new Electricity Industry Reform Act in response to the Ministerial Inquiry
2002	Commerce Commission develops a more stringent regulatory regime for distribution and transmission businesses, based on price path and quality thresholds
2003	Government establishes the Electricity Commission to act as the chief regulatory agency for the electricity sector, in response to the perceived ineffectiveness of industry self-governance
2006	Draft Energy Strategy is released identifying Government objectives of reliance and resilience, environmental responsibility and fair and efficient prices
2007	Draft review of the Commerce Act includes introduction of lighter handed forms of incentive based regulation as an alternative to price controls for consumer owned entities
2008	Commerce Amendment Act 2008 and Electricity Industry Reform Amendment Act 2008 are enacted
2010	Electricity Industry Act 2010 is enacted with the objective of improving competition, reliable supply and efficient operation of the electricity sector. The Electricity Authority is established to replace the Electricity Commission

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.

The Electricity Authority 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.

In pursuing this objective, the key functions performed by the Electricity Authority are:

- registering industry participants
- developing and administering the Electricity Industry Participation Code 2010 (the **Participation Code**)
- monitoring and enforcing compliance
- facilitating market performance through information, best-practice guidelines and related services
- undertaking sector reviews
- acting as Market Administrator and contracting market operation service providers
- promoting consumer switching
- monitoring sector performance against the Electricity Authority's statutory objective.

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 the 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

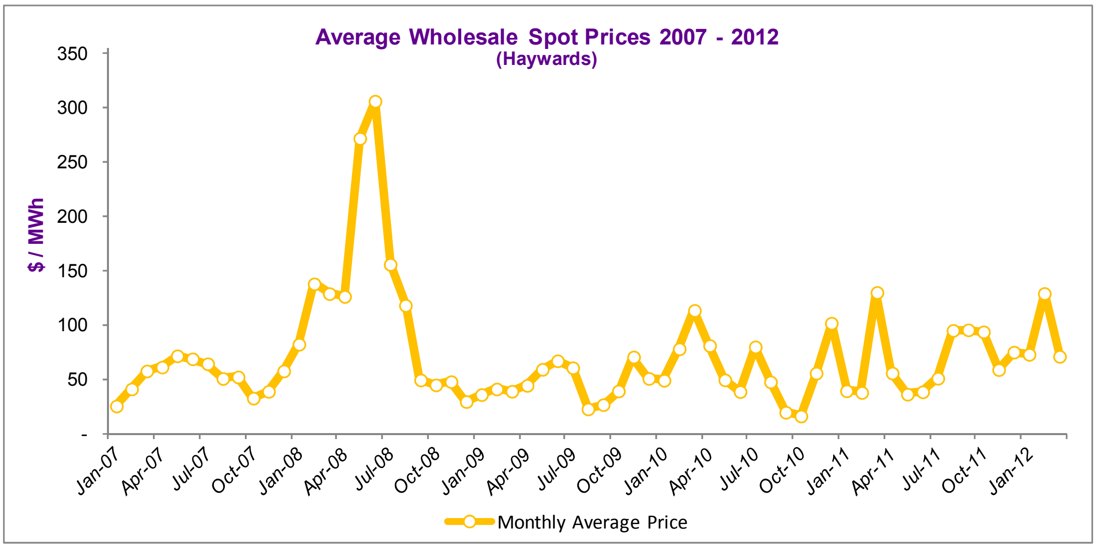
Retailers and a small number of large industrial users buy electricity directly from the spot market. These parties will typically also enter into financial contracts (hedges) which smooth out some or all of the volatility in spot prices. Jointly, the spot and hedge markets are the major components of 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 (e.g. 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 price 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 $16.21 per MWh in October 2010 to a high of $305.95 per MWh in June 2008.



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.

Recently, buyers and sellers of electricity have been able to contract on the New Zealand Electricity Futures & Options market operated by the Australian Securities Exchange (**ASX**).

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.

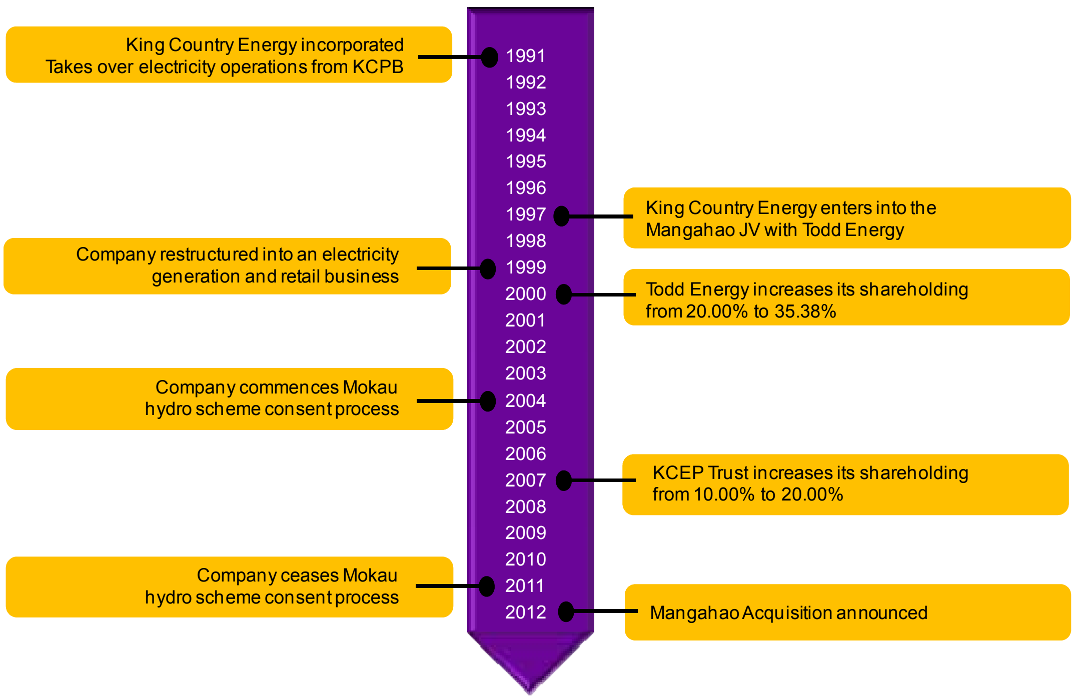
The Company was restructured in 1999 following the requirement of the 1998 Reform Act for energy companies to separate retail and generation from their distribution or lines businesses.

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.

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

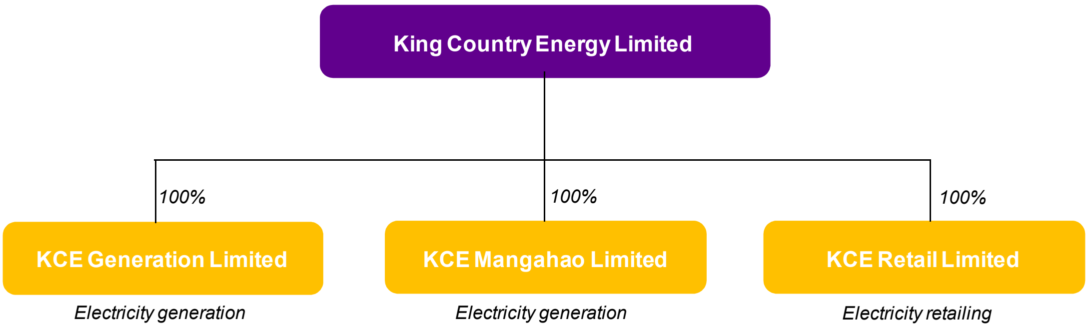


4.2 Nature of Operations

Group Structure

King Country Energy operates 2 businesses:

- electricity generation
- electricity retailing.



Generation

KCE Generation Limited (**KCE Generation**) owns and operates a hydro system incorporating 4 power stations located within the King Country region. KCE Mangahao holds a 50% interest in the Mangahao Power Station through the Mangahao JV.

King Country Energy's total generation capacity is approximately 33 MW and average production is approximately 125 GWh per annum.

Generation Portfolio

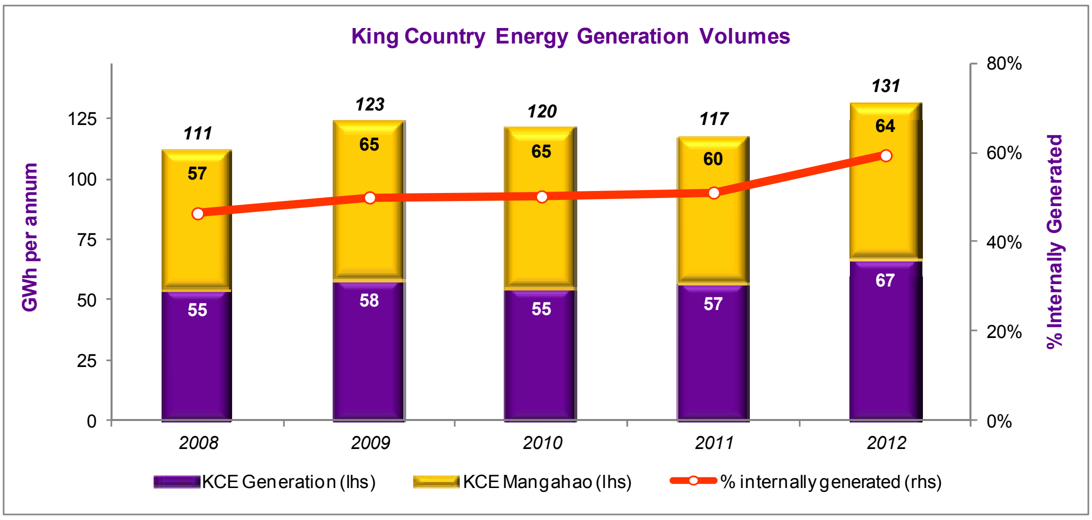
Power Station	Commissioned	Location	Head (metres)	Installed Capacity (MW)	Average Production (GWh pa)
Wairere	1925	Aria Road, Wairere	19.6	4.6	17.5
Mokauiti	1963	Totara Road, Aria	42.7	1.9	6.8
Piriaka	1924	SH4, Piriaka	8.2	1.5	7.5
Kuratau	1962	Kuratau Hydro Road, Omori	64.0	6.0	28.0
Mangahao[1]	1924	East Road, Shannon	271.0	19.0 [2]	65.4[2]
				33.0	125.2

1 50% interest through the Mangahao JV
2 50% of Mangahao Power Station's total capacity / average production

All 4 of the KCE Generation plants are embedded in the King Country Energy supply network and provide King Country Energy with the added benefit of avoiding Transpower charges which are paid to Transpower for carrying the electricity to the King Country Energy supply network.

The Company is of the view that its generation plants have been well maintained and do not require any significant capital expenditure in the near term. 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 generation volumes have ranged between 111 GWh and 131 GWh in the past 5 years. Fluctuations in generation volumes are primarily due to hydrological factors such as rainfall levels.

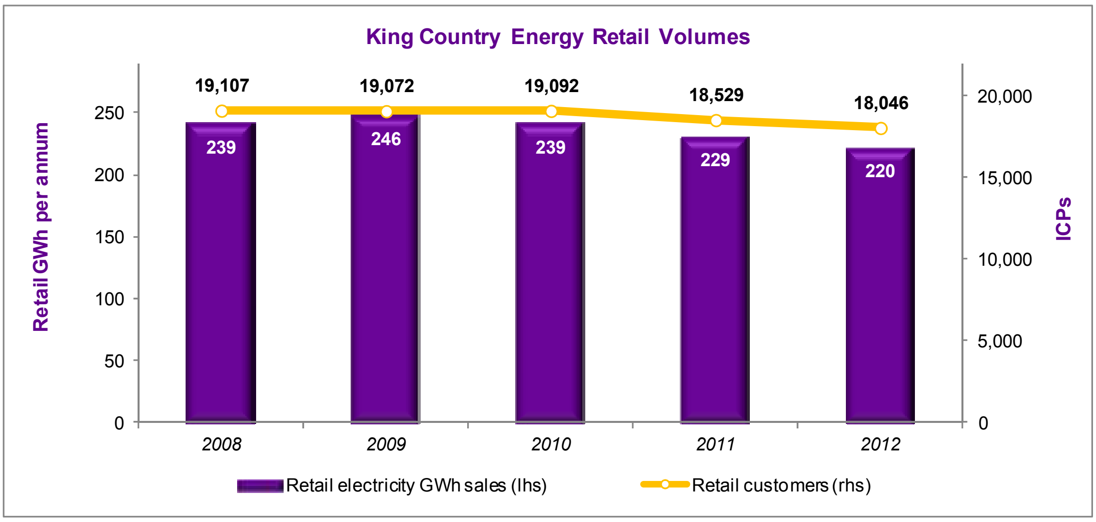


King Country Energy had sought to increase its generation capacity by building a new hydro generation scheme along the Mokau River, which was anticipated to generate approximately 44 GWh per annum. The Company began the resource consent process on the project in 2004. The estimated capital cost in September 2004 was $28 million. Following consenting delays, mounting costs and significant increases in the expected capital cost, the Company decided in June 2011 to no longer pursue the resource consents required. The Company incurred approximately $2.5 million on the consenting process.

Retail Operations

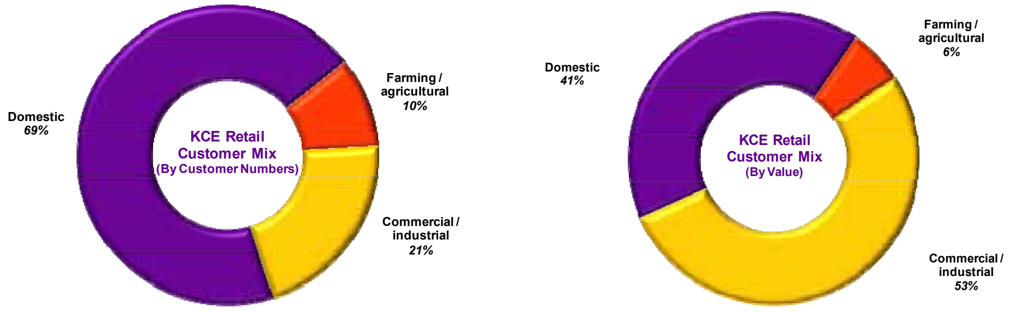
KCE Retail Limited (**KCE Retail**) is the largest electricity retailer in the Waitomo, King Country and Ruapehu / Waimarino districts with over 18,000 customer sites. This represents approximately 0.9% of the New Zealand retail electricity market.

The Company's retail sales volumes have ranged between 220 GWh and 246 GWh in the past 5 years.



The reduction in retail sales volumes since the 2009 financial year mainly reflects the loss of large industrial contracts following the introduction of a margin-focussed strategy.

KCE Retail's current customer mix (by number and value) 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 throughout the central North Island.

Most customers are charged fixed prices because the electricity meters in use do not allow charging that reflects rapid movements in wholesale prices. KCE Retail is therefore exposed to a fixed selling price but a variable cost for electricity purchases. As discussed in section 3.4, wholesale electricity prices fluctuate significantly and monthly averages have ranged from $16.21 per MWh to $305.95 per MWh over the last 5 years.

KCE Retail purchases approximately half of the electricity that it sells in an average year from the Company's generation plants (including its 50% interest in the Mangahao JV). The balance of its electricity purchases is covered by hedge arrangements. 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 contracts for difference in order to manage its exposure to fluctuations in spot market electricity prices. The financial derivatives are held to maturity and are specific to the Company. Financial derivatives are not held for the purposes of trading those instruments for profit.

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 and therefore its profitability.

4.3 Corporate Strategy

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

- *Retail Customer Growth*
- *Retail Margin Growth*
- *Close the Generation-Retail Gap.*

Retail Customer Growth is a targeted retail growth strategy, focussing on mid-sized contract customer outside of the Company's traditional trading area. However, the Company is constrained by the hedge market where pricing can exceed competitors' equivalent wholesale costs. Therefore increasing the Company's generation output is fundamental to King Country Energy achieving profitable retail customer growth.

The objective of *Retail Margin Growth* is to ensure appropriate customer pricing. The Company has historically lagged the market in implementing price rises. It has recently completed a repricing program for its contract customers which resulted in the loss of a few large customers on uneconomic contracts. By leveraging off its low cost to serve, its stable work focus and strong regional community presence, the Company's pricing initiatives are aimed primarily at improving overall retail margins. Following recent price increases, the Company's pricing relative to other electricity retailers now sits broadly in the middle of the price ranges.

The objective of *Close the Generation-Retail Gap* is to ensure the Company achieves 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 its 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
- Genesis Energy
- Just Energy
- Meridian Energy.

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 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:

- Stephen Armstrong
- Mahadevan Bahirathan
- Brian Gurney, chair
- Brian Needham
- Toby Stevenson.

Mr Gurney is the chair of the KCEP Trust.

Mr Armstrong and Mr Bahirathan are deemed to be associates of Todd Energy, as defined in the Code.

The Company's senior management team comprises:

- Rob Foster, chief executive officer
- Pamela Walklin, chief financial officer
- Chris Fincham, energy supply manager
- Helen Peacock, retail business manager.

4.7 Capital Structure and Shareholders

King Country Energy currently has 18,750,000 ordinary shares on issue held by 7,687 shareholders.

The names, number of shares and percentage holding of the 10 largest shareholders as at 17 April 2012 are set out below.

King Country Energy's 10 Largest Shareholders

Shareholder	No. of Shares Held	%
Todd Energy	6,633,046	35.38%
KCEP Trust	3,749,990	20.00%
Hedged Custodians Limited	249,044	1.33%
JBWere (NZ) Nominees Limited	155,691	0.83%
Leveraged Equities Finance Limited	134,679	0.72%
Lynn Fitness	120,000	0.64%
Custodial Services Limited	116,690	0.62%
Peter Guy, Anne Guy and John Anderson	114,000	0.61%
Brett Hart, Lynn Fitness and Judith Burney	100,000	0.53%
Alan Thomas and Gary Thomas	82,000	0.44%
Subtotal	11,455,140	61.09%
Others (7,677 shareholders)	7,294,860	38.91%
Total	18,750,000	100.00%

Source: King Country Energy

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% prior to the introduction of the Code in 2000.

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.

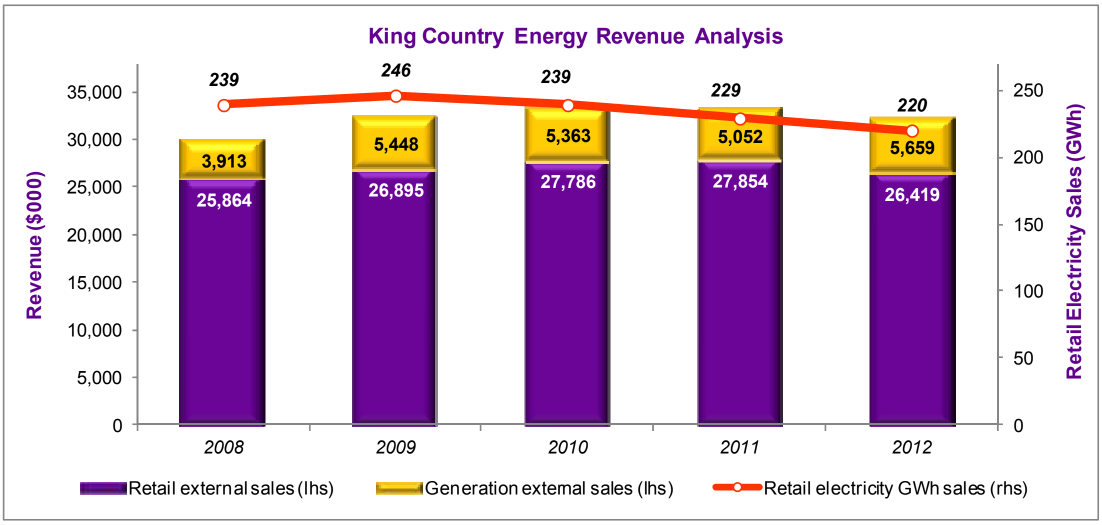
Summary of King Country Energy Financial Performance

	Year to 31 Mar 08 (Audited) $000	Year to 31 Mar 09 (Audited) $000	Year to 31 Mar 10 (Audited) $000	Year to 31 Mar 11 (Audited) $000	Year to 31 Mar 12 (Unaudited) $000
Operating revenue	29,777	32,344	33,149	32,906	32,078
EBITDAF	7,979	9,986	6,244	8,530	11,246
EBITDA	10,106	7,046	4,953	10,004	10,600
EBIT	8,277	5,075	2,382	7,154	7,579
Profit after tax expense	6,854	3,409	1,560	4,433	5,267
EPS	$0.37	$0.18	$0.08	$0.24	$0.28
DPS	$0.24	$0.24	$0.24	$0.24	$0.24

EBITDAF: Earnings before interest, tax, depreciation, amortisation and financial instruments
EBITDA: Earnings before interest, tax, depreciation and amortisation
EBIT: Earnings before interest and tax
DPS: Dividends per share

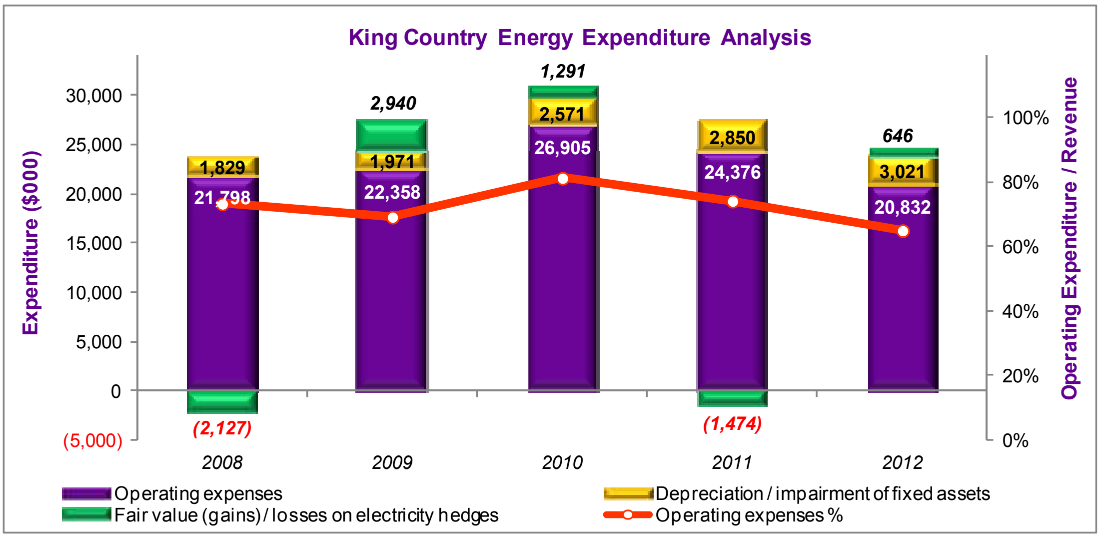
Source: King Country Energy audited financial statements and March 2012 management accounts

King Country Energy's revenue has remained relatively steady over the past 5 years. Fluctuations in its profitability have been driven primarily by generation volumes, wholesale electricity spot prices and the Company's hedge positions.



The Company's revenue has ranged between $30 million and $33 million over the past 5 years.

Retail sales volumes have gradually decreased as King Country Energy has focussed on improving margins rather than seeking volume growth. The Company held its domestic pricing constant for 3 years until October 2008, when it implemented a general price increase of 3%. It subsequently implemented general price increases of 4% in October 2009, 6% in April 2010 and 6% in October 2011.



Operating expenses in the 2010 financial year increased by $4.5 million, due mainly to higher wholesale electricity costs and $1.6 million of Mokau consent costs. An impairment charge of $0.5 million against generation assets was recorded in the year.

Operating expenses in the 2011 financial year decreased by $2.5 million, due mainly to a 7% reduction in electricity volumes purchased during the year and Mokau consent costs reducing from $1.6 million to $0.2 million. Depreciation expense increased by $0.8 million following the revaluation of fixed assets on 31 March 2010.

Operating expenses in the 2012 financial year decreased by $3.6 million, due mainly to a reduction in electricity volumes purchased during the year and a more favourable hedge position.

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 09 (Audited) $000	As at 31 Mar 10 (Audited) $000	As at 31 Mar 11 (Audited) $000	As at 31 Mar 12 (Unaudited) $000
Current assets	8,207	10,395	11,100	14,629
Non current assets	74,243	99,137	96,547	112,801
Total assets	82,450	109,532	107,647	127,430
Current liabilities	(4,688)	(5,839)	(3,835)	(2,858)
Non current liabilities	(12,909)	(19,750)	(18,620)	(18,435)
Total liabilities	(17,597)	(25,589)	(22,455)	(21,293)
Total equity	64,853	83,943	85,192	106,137

Source: King Country Energy audited financial statements and March 2012 management accounts

The Company's current assets as at 31 March 2012 consisted of:

- $11.2 million of cash at bank
- $3.4 million of trade and other receivables.

Non current assets consist mainly of fixed assets. The carrying value of fixed assets was $112.1 million as at 31 March 2012, of which $100.0 million represented generation plant and equipment and $9.8 million represented land and buildings. All land and land improvements, buildings and generation plant, property and equipment were revalued as at 31 March 2010 to fair value. KCE Mangahao's generation plant, property and equipment were revalued as at 31 March 2012 to fair value.

Non current assets also include $1.6 million of goodwill attributable to KCE Retail.

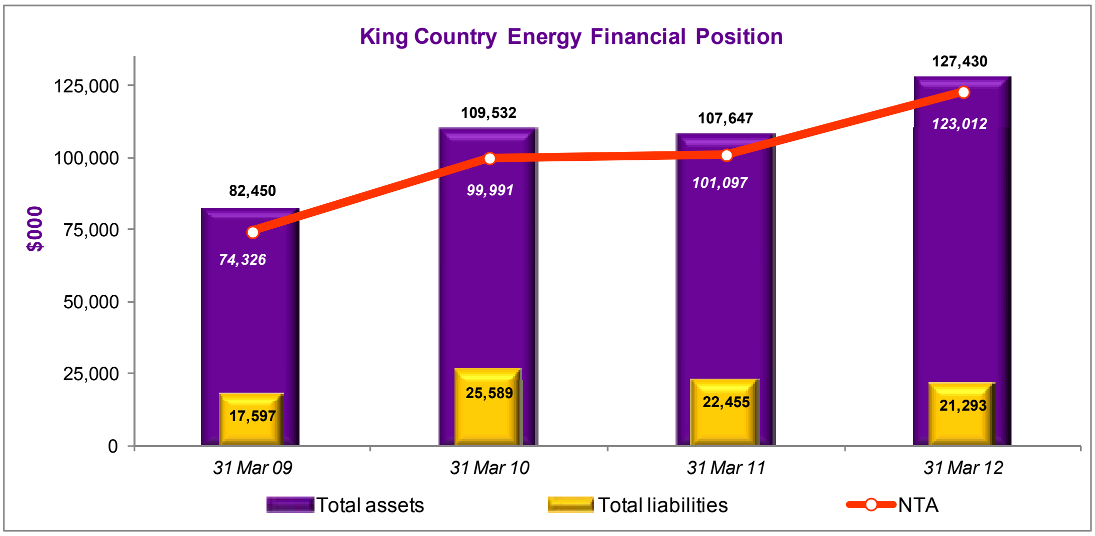
The Company's main current liabilities are trade and other payables.

Non current liabilities represent deferred tax, arising primarily from timing differences on the depreciation of fixed assets due to their periodic revaluation to fair value for accounting purposes.

Financial derivatives (in the form of wholesale electricity spot price hedge contracts) are recorded at their fair value. The net fair value of the financial derivatives as at 31 March 2012 was a liability of $0.8 million, compared with a liability of $0.2 million as at 31 March 2011.

Total equity of $106.1 million as at 31 March 2012 consisted of:

- $26.3 million of issued and paid up capital
- $71.6 million of asset revaluation reserve, arising from the periodic revaluation of fixed assets
- $8.2 million of retained earnings.



NTA: Net tangible assets (the Company's deferred tax liability is treated as an intangible liability in the calculations)

The increase in the Company's total assets as at 31 March 2010 was largely due to a $30 million revaluation of the Company's generation plant and equipment as at that date. The increase as at 31 March 2012 was largely due to a $20 million revaluation of KCE Mangahao's generation plant and equipment as at that date.

Almost 90% 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 09 (Audited) $000	Year to 31 Mar 10 (Audited) $000	Year to 31 Mar 11 (Audited) $000	Year to 31 Mar 12 (Unaudited) $000
Net cash flow from / (used in) operating activities	5,918	7,052	6,095	10,464
Net cash from / (used in) investing activities	(2,032)	(789)	(612)	(827)
Net cash from / (used in) financing activities	(4,540)	(4,551)	(4,560)	(4,549)
Net increase / (decrease) in cash held	(654)	1,712	923	5,088
Opening cash balance	4,111	3,457	5,169	6,092
Closing cash balance	3,457	5,169	6,092	11,180

Source: King Country Energy audited financial statements and March 2012 management accounts

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

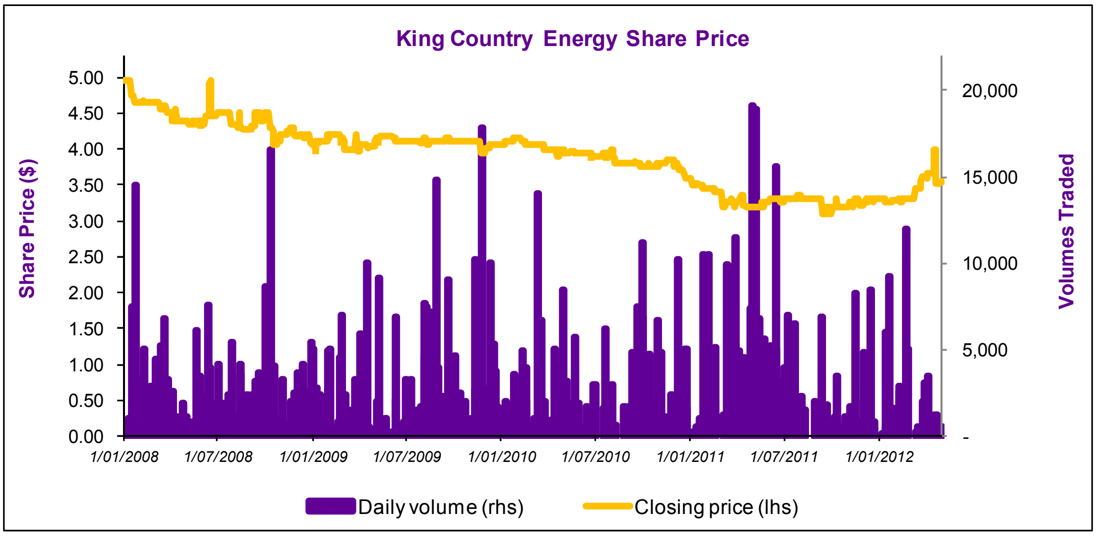
$2.0 million of capital expenditure on generation plant and equipment was incurred in the 2009 financial year. Since then, capital expenditure has been less than $1 million each year compared with annual depreciation in excess of $2 million.

The main use of cash for financing activities has been the payment of $4.5 million of dividends each year.

4.11 Share Price History

The Company commenced trading its shares on Unlisted on 6 July 2004.

Set out below is a summary of King Country Energy's daily closing share price and daily volumes of shares traded from 8 January 2008 to 1 May 2012.



During the period, King Country Energy's shares have traded between $3.10 and $4.95 at a VWAP of $3.88.

Trading in the Company's shares is extremely thin. An analysis of VWAP, traded volumes and liquidity (measured as traded volumes as a percentage of shares outstanding) up to the announcement of the Mangahao Acquisition is set out below.

Share Trading					
Period	**Low [1]**	**High [1]**	**VWAP [1]**	**Volume Traded [1] (000)**	**Liquidity**
1 month	3.30	3.45	3.30	28	0.1%
3 months	3.27	3.45	3.30	59	0.3%
6 months	3.10	3.45	3.27	111	0.6%
12 months	3.10	3.35	3.26	324	1.7%

1 To 16 March 2012

The Company's shares traded on 103 days in the year up to the announcement at a VWAP of $3.26.

Since the announcement, 14,249 shares have traded on 10 days in the range of $3.45 to $4.00 at a VWAP of $3.63.

5. Valuation of King Country Energy

5.1 Introduction

The Todd Energy Allotment will increase Todd Energy's shareholding in King Country Energy from 35.38% to 54.07%. In such circumstances, we are of the view that the appropriate basis upon which to evaluate the Todd Energy Allotment issue price is to compare the issue price of $4.75 per share with:

- the full underlying value of King Country Energy on a standalone basis, pro-rated across all shares
- the prices at which the Company's shares have recently traded on Unlisted.

5.2 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.

5.3 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.

5.4 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 (**EV**) and represents the market value of the operating assets (i.e. operating working capital, fixed assets and intangible assets such as brand names, 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 added the Company's net cash and bank balances 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 multiples derived from transactions involving comparable companies and observed multiples for comparable listed companies.

5.5 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.

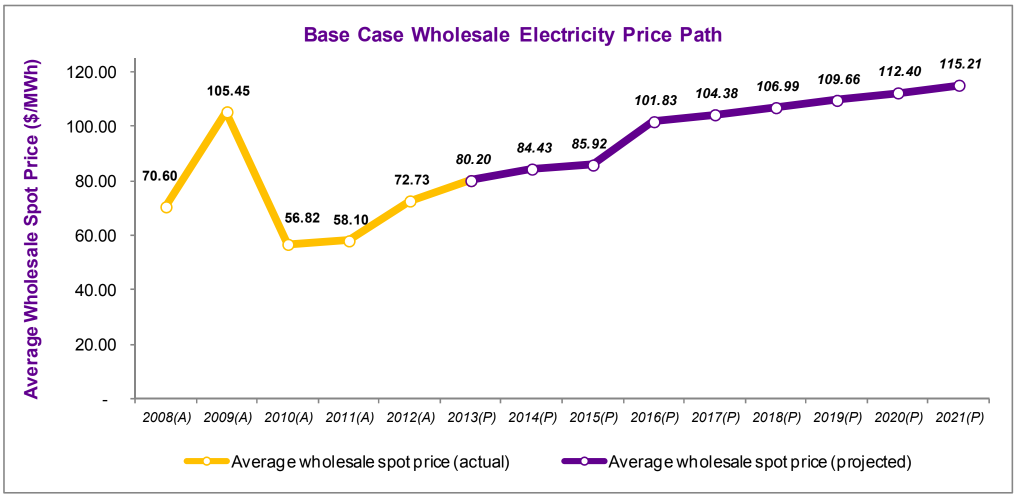
The discount rate used to determine the present values of the FCF is the estimated weighted average cost of capital (**WACC**). The WACC is a blend of the cost of debt and the cost of equity, weighted in accordance with the target capital structure of an entity owning the business. The WACC represents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

Free Cash Flows

The base case FCF adopted in the DCF valuation are based on the King Country Energy financial projections for the 9 years to 2021.

The key assumptions adopted in the base case FCF projections are:

- average annual generation output of 125 GWh (including 50% of the Mangahao JV's generation output)
- 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 $80 / MWh at Haywards during the 2013 financial year, approximately $84 / MWh during 2014, approximately $86 / MWh during 2015, approximately $102 / MWh during 2016 and then remaining constant on a real basis over the longer term



Sources: Electricity Authority (actual prices) King Country Energy / Energy Link Limited (projected prices)

- a retail base of approximately 18,000 ICPs per annum (ie nil growth)
- annual retail sales of approximately 216 GWh (ie nil growth)
- retail tariffs increase annually at the rate of inflation following a price increase in 2013
- the Company maintains its current hedge program
- operating and maintenance costs remain constant in real terms
- capital expenditure averaging approximately $1.3 million per annum
- working capital based on receivables equating to one month of electricity sales revenue and payables equating to one month of operating expenses
- average annual inflation of 2.5%
- 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 8.5%. Key inputs in the WACC assessment are:

- a risk free rate of 5.5% (based on an average yield of the 10 year New Zealand Government bond)
- an asset beta of 0.6
- a debt risk premium of 2.0%
- a post investor tax market risk premium of 7.5%
- target financial leverage of 20%
- a corporate tax rate of 28%.

The above inputs result in a cost of equity in the vicinity of 9.2% and a cost of debt (before tax) in the vicinity of 7.5%.

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, King Country Energy's enterprise value is in the range of $91.0 million to $109.5 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.

5.6 Value of King Country Energy Shares

To derive the value of the King Country Energy shares, the Company's net cash and bank balances is added and the fair value of the Company's financial derivatives is taken into account.

The Company's net cash and bank balances amounted to $11.2 million as at 31 March 2012.

The fair value of the Company's financial derivatives amounted to a liability of $0.8 million as at 31 March 2012.

We assess the fair market value of all the shares in King Country Energy to be in the vicinity of $101.4 million to $119.9 million as at the present date. This equates to a value of $5.41 to $6.39 per share.

Value of King Country Energy Shares		
	Low $m	High $m
Enterprise value	91.0	109.5
Net cash and bank balances	11.2	11.2
Financial derivatives	(0.8)	(0.8)
Value of King Country Energy shares	101.4	119.9
Number of shares currently on issue	18,750,000	18,750,000
Value per share	$5.41	$6.39

5.7 Implied Valuation Multiples

The assessed value range implies EBITDA, EBIT and price earnings (**PE**) as set out below. The multiples are based on King Country Energy's unaudited results for the 2012 financial year and its budget for the 2013 financial year.

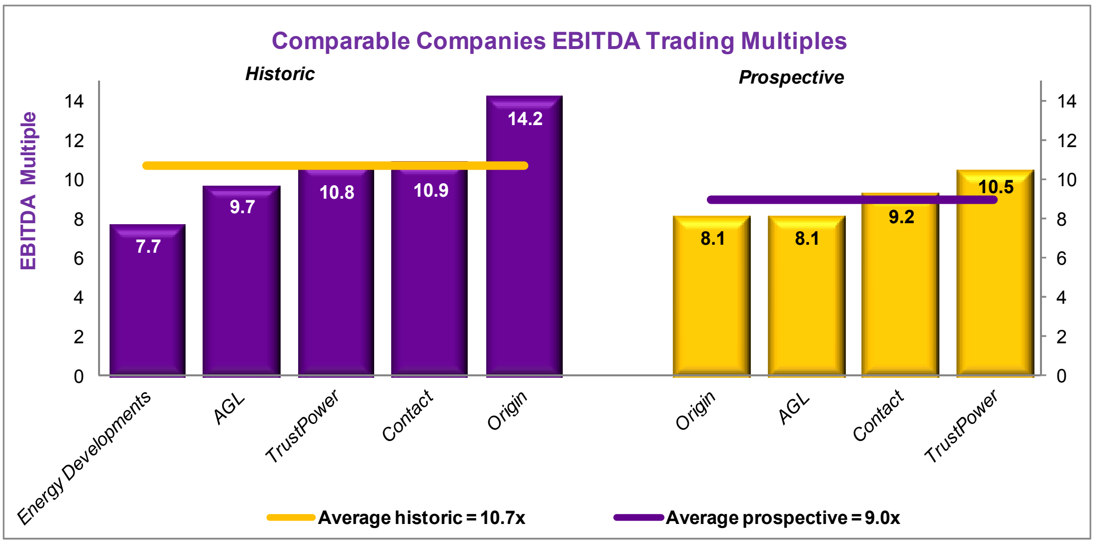
Implied Valuation Multiples				
	31 March 2012 (Unaudited)		31 March 2013 (Budget)	
	Low	High	Low	High
Value per share	$5.41	$6.39	$5.41	$6.39
EBITDAF multiple	8.1x	9.7x	8.4x	10.2x
EBIT multiple	12.0x	14.5x	11.6x	14.0x
PE multiple	19.2x	22.8x	17.2x	15.3x

We have compared the implied valuation multiples with multiples derived from transactions involving comparable companies and observed multiples for comparable listed companies. However, this analysis can only provide an indication of reasonableness as the companies involved in the transactions or listed on the NZSX and ASX are not directly comparable with King Country Energy due to their size and / or the diversity of their operations.

A review of 22 transactions involving electricity generation and retail businesses in New Zealand and Australia in the past 10 years shows that historic EBITDA multiples ranged from 7.2x to 19.7x at an average of 12.3x and prospective EBITDA multiples ranged from 7.4x to 19.5x at an average of 11.2x.

The most comparable listed companies are Contact and TrustPower (listed on the NZSX) and AGL Energy Limited (**AGL**), Origin Energy Limited (**Origin**) and Energy Developments Limited (**Energy Developments**) listed on the ASX. However, these 5 companies are considerably larger than King Country Energy and have more diverse operations.

Their observed EBITDA multiples based on trading prices for minority parcels of shares are set out below. The average historic EBITDA multiple is 10.7x and the average prospective EBITDA multiple is 9.0x.



Source: Capital IQ, data as at 1 May 2012

Given the comparative size of King Country Energy to the comparable companies, we consider the implied valuation multiples to be reasonable.

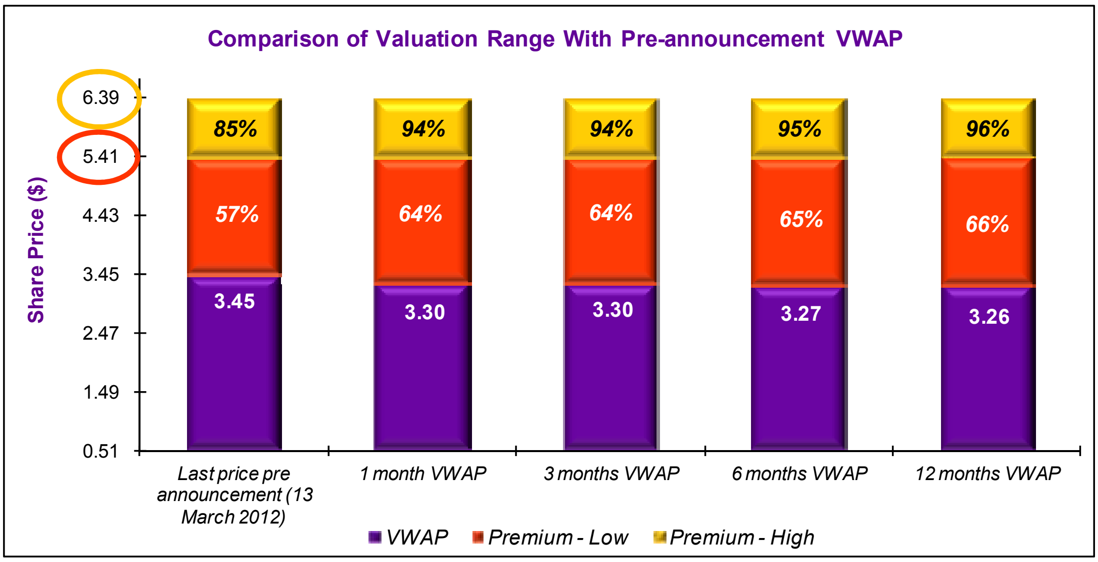
5.8 Conclusion

We assess the fair market value of 100% of the ordinary shares in King Country Energy to be in the range of $101.4 million to $119.9 million as at the present date. This equates to a value of $5.41 to $6.39 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 (given that the Company is not subject to a takeover offer).

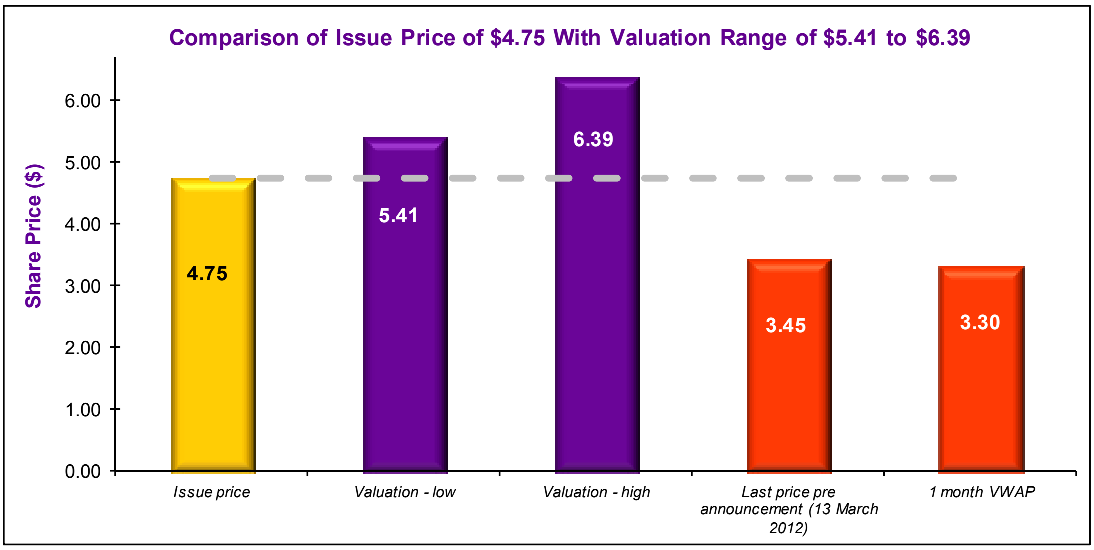
5.9 Implied Premium for Control

Our valuation range of $5.41 to $6.39 represents premia ranging from 57% to 96% over recent share prices.



As noted in section 4.11, trading in the Company's shares is extremely thin with only 1.7% of the Company's shares traded in the past year and the Company's share price has remained relatively steady over the past year.

Todd Energy currently holds 35.38% of the Company's shares. The Todd Energy Allotment will increase its shareholding to 54.07%, thereby increasing its control over the Company. Given this, we consider the appropriate benchmarks for determining the reasonableness of the issue price of the shares under the Todd Energy Allotment are firstly the full underlying value of the Company and secondly the observed trading prices for minority parcels of shares.



The Todd Energy Allotment issue price of $4.75 per share is at a discount of 12% to 26% to the assessed full underlying value of the Company's shares and a premium of 38% to 44% to the prices that the shares last traded at prior to the announcement of the Mangahao Acquisition.

6. Valuation of Todd Mangahao's 50% Interest in the Mangahao JV

6.1 Mangahao Power Station

The Mangahao Power Station is a hydro electric power station situated at East Road, Shannon on the Mangahao River. It was commissioned by the Government and opened in November 1924.

The Mangahao Power Station's installed generation capacity is 38 MW through one 26 MW generator and two 6 MW generators. Its annual generation volume has ranged from 120 GWh to 130 GWh in the past 5 years.

6.2 Mangahao JV

The Mangahao JV was established in December 1997 to acquire the Mangahao Power Station from ECNZ.

KCE Mangahao and Todd Mangahao each have a 50% interest in the Mangahao JV.

Todd Mangahao manages the Mangahao JV under a management contract on a no profit / no loss basis and both parties are required to fund the operating expenditure of the joint venture in proportion to their participating interests. Todd Mangahao submits generation volumes to the Reconciliation Manager on behalf of the Mangahao JV and receives and then disburses the payment to the joint venture parties. Bay of Plenty Energy Limited (a wholly owned subsidiary of Todd Energy) provides administrative services to the Mangahao JV for a fixed monthly fee of $5,250.

Following the completion of the Mangahao Acquisition, Todd Energy will continue to provide these services to KCE Mangahao under the Services Agreement, except for accounting services which will be assumed by King Country Energy.

KCE Generation and the Mangahao JV are parties to an electricity derivative contract – a contract for differences under which the parties agree to settle in cash the difference between a fixed price, at a fixed future point in time and the relevant spot price in relation to an agreed volume of electricity. The derivative contract currently is due to expire in December 2012 but following the Mangahao Acquisition, it will expire on completion of the transaction.

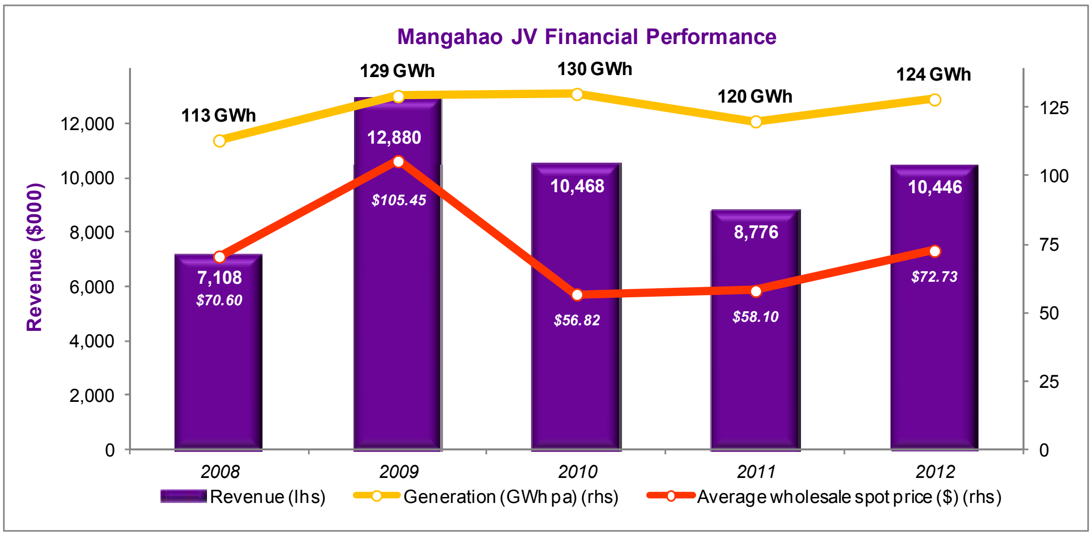
6.3 Financial Performance

A summary of the Mangahao JV's recent financial performance is set out below.

Summary of Mangahao JV Financial Performance					
	Year to 31 Mar 08 (Actual) $000	Year to 31 Mar 09 (Actual) $000	Year to 31 Mar 10 (Actual) $000	Year to 31 Mar 11 (Actual) $000	Year to 31 Mar 12 (Unaudited) $000
Operating revenue	7,108	12,880	10,468	8,776	10,446
EBITDAF	4,936	12,610	8,592	7,032	8,804
EBIT	3,124	10,800	6,782	4,210	5,986
Profit after tax expense	1,774	6,218	4,434	2,108	4,090

Source: King Country Energy

The Mangahao JV's revenue levels are a function of generation volumes and wholesale electricity prices. A combination of above average generation volumes of 129 GWh and a very high annual average wholesale spot price of $105.45 per GWh in the 2009 financial year resulted in revenue of $12.9 million.



The Mangahao JV's largest expenses are depreciation and repairs and maintenance. Its annual levels of operating expenses are relatively stable, resulting in revenue fluctuations flowing straight through to bottom line earnings.

6.4 Financial Position

A summary of the Mangahao JV's recent financial position is set out below.

Summary of Mangahao JV Financial Position				
	As at 31 Mar 09 (Actual) $000	As at 31 Mar 10 (Actual) $000	As at 31 Mar 11 (Actual) $000	As at 31 Mar 12 (Actual) $000
Current assets	854	1,174	490	1,834
Non current assets	69,458	105,670	102,750	141,196
Total assets	70,312	106,844	103,240	143,030
Current liabilities	(10,860)	(13,414)	(9,822)	(8,806)
Non current liabilities	(14,526)	(23,232)	(21,904)	(33,158)
Total liabilities	(25,386)	(36,646)	(31,726)	(41,964)
Total equity	44,926	70,198	71,514	101,066

Source: King Country Energy

Current assets consist of trade and other receivables.

Non current assets consist mainly of fixed assets in the form of generation plant and equipment. The fixed assets were revalued as at 31 March 2010 and 31 March 2012 to fair value.

Current liabilities consist mainly of amounts owing to KCE Mangahao and Todd Mangahao, trade and other payables and income tax payable. The net fair value of financial derivatives as at 31 March 2012 was a liability of $0.4 million.

Non current liabilities represent deferred tax.

6.5 Cash Flows

A summary of the Mangahao JV's recent cash flows is set out below.

Summary of Mangahao JV Cash Flows				
	Year to 31 Mar 09 (Actual) $000	Year to 31 Mar 10 (Actual) $000	Year to 31 Mar 11 (Actual) $000	Year to 31 Mar 12 (Actual) $000
Net cash flow from operating activities	5,674	6,708	6,604	7,376
Net cash used in investing activities	(5,678)	(6,678)	(6,624)	(7,364)
Net cash from financing activities	-	-	-	-
Net increase / (decrease) in cash held	(4)	30	(20)	12
Opening cash balance	14	10	40	20
Closing cash balance	10	40	20	32

Source: King Country Energy

Cash used in investing activities represents purchases of fixed assets and distributions to KCE Mangahao and Todd Mangahao. Capital expenditure has averaged $0.5 million in the past 3 years. The residual cash after capital expenditure is distributed to the 2 joint venture partners each year.

6.6 Valuation of the Mangahao JV

Methodology

We have assessed the fair market value of the Mangahao JV using the DCF method and have reviewed the implied valuation multiples for reasonableness.

Free Cash Flows

The base case FCF adopted in the DCF valuation are based on the Mangahao JV financial projections for the 9 years to 2021.

The key assumptions adopted in the FCF projections are:

- average annual generation output of 131 GWh
- the Mangahao Power Station has a perpetual life, on the basis that appropriate asset management and maintenance policies are in place
- an average electricity wholesale price path as detailed in section 5.5
- operating costs remain constant in real terms
- tax depreciation based on current tax book values
- capital expenditure averaging approximately $0.4 million per annum
- working capital based on receivables equating to one month of electricity sales revenue and payables equating to one month of operating expenses
- average annual inflation of 2.5%
- a corporate tax rate of 28%.

Weighted Average Cost of Capital

We have assessed the WACC for the Mangahao JV to be in the vicinity of 8.5% as per section 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
- operating costs assumptions
- capital expenditure assumptions
- discount rate assumptions
- terminal growth assumptions.

Valuation Conclusion

Based on the above, the value of the Mangahao JV is in the range of $126.5 million to $147.9 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.

Implied Valuation Multiples

The above value range implies EBITDA and EBIT multiples as set out below. The multiples are based on the Mangahao JV's actual results for the 2012 financial year and its budget for the 2013 financial year.

Implied Valuation Multiples				
	31 March 2012 (Actual) Low	31 March 2012 (Actual) High	31 March 2013 (Budget) Low	31 March 2013 (Budget) High
EBITDAF multiple	14.4x	16.8x	12.4x	14.4x
EBIT multiple	21.1x	24.7x	17.1x	19.9x

We consider the prospective multiples based on the 2013 budget to be reasonable.

6.7 Status Quo Value of Todd Mangahao's 50% Interest in the Mangahao JV

The Mangahao SPA excludes the value of accounts receivable and accounts payable in determining the acquisition price for Todd Mangahao's 50% interest in the Mangahao JV.

On the assumption that the excluded assets and liabilities by and large net off against each other, the assessed value of the Mangahao JV of $126.5 million to $147.9 million can be attributed wholly to the Mangahao Power Station fixed assets and represents the value of the assets under the current ownership structure (referred to as the status quo value).

Accordingly, we assess the status quo value of Todd Mangahao's 50% interest in the Mangahao JV assets to be in the vicinity of $63.2 million to $74.0 million as at the present date, being the pro rata value.

Status Quo Value of Todd Mangahao's 50% Interest		
	Low $m	High $m
Status quo value of Mangahao JV	126.5	147.9
Status quo value of Todd Mangahao's 50% interest	63.2	74.0

6.8 Value of Todd Mangahao's 50% Interest in the Mangahao JV to King Country Energy

Todd Mangahao's 50% interest in the Mangahao JV has greater value to King Country Energy than the status quo value due to:

- revenue enhancement opportunities that the Company can achieve through 100% ownership of the Mangahao Power Station
- lower levels of tax will be paid on the earnings currently distributed to Todd Mangahao due to higher tax depreciation levels that will be able to be deducted post acquisition.

Revenue Enhancement Opportunities

The Company has identified revenue enhancement opportunities of approximately $0.2 million (post tax) in 2014 increasing to approximately $0.8 million (post tax) per annum by 2016 that will likely be available following the Mangahao Acquisition. These revenue enhancement opportunities relate primarily to additional retail volumes and the incremental retail margin that the Company expects to be able to achieve from the additional generation volumes attributable to Todd Mangahao's 50% interest, less the additional operating costs incurred in selling the increased retail volumes. The status quo valuation is on the basis that the generation volumes are sold at wholesale spot rates.

The value of the revenue enhancement opportunities is potentially in the vicinity of $10.6 million. In order to achieve these revenue enhancement opportunities, transaction costs of approximately $1.0 million and associated integration costs of approximately $0.4 million will need to be incurred, thus reducing the potential value of the revenue enhancement opportunities to approximately $9.2 million.

For the purposes of our valuation assessment, we have assessed the value of the revenue enhancement opportunities to be in the range of $4.6 million to $9.2 million. The lower end of the range is 50% of the value of the expected revenue enhancement opportunities, reflecting the difficulties that acquirers often experience in actually achieving projected revenue enhancement opportunities post acquisition.

Tax Shield on Depreciation

The tax book value of the Mangahao Power Station is assumed to be approximately $24 million as at 31 March 2012 in the standalone valuation of the Mangahao JV, with approximately $12 million attributable to Todd Mangahao's 50% interest.

The tax and accounting book values of the 50% of the Mangahao Power Station acquired from Todd Mangahao will be recorded in the Company's financial statements at the acquisition price of approximately $71 million (including capitalised acquisition costs) upon completion of the Mangahao Acquisition.

Accordingly, the tax book value of the 50% of the Mangahao Power Station acquired from Todd Mangahao will increase by approximately $59 million post acquisition. This will result in tax depreciation increasing by approximately $4.6 million to $5.4 million in 2013, resulting in a reduction in cash taxes of approximately $1.2 million in that year. Because the tax depreciation is calculated on a diminishing value basis, the average increase in tax depreciation between 2013 and 2021 will approximate $3.3 million per annum, which translates to an average reduction in cash taxes of approximately $0.9 million per annum.

We assess the value of the tax shield on the increase in the tax book value of the fixed assets to be acquired from Todd Mangahao to be in the vicinity of $11.6 million as at the present date. We note that the benefit of the tax shield would be available to any purchaser of Todd Mangahao's 50% interest in the Mangahao JV and thus is not unique to King Country Energy.

We assess the value to King Country Energy of Todd Mangahao's 50% interest in the Mangahao JV to be in the vicinity of $79.4 million to $94.8 million as at the present date.

Value of Todd Mangahao's 50% Interest to King Country Energy		
	Low $m	**High $m**
Status quo value	63.2	74.0
Value of revenue enhancement opportunities (net of transaction costs)	4.6	9.2
Value of tax shield on asset write-up	11.6	11.6
Value to King Country Energy	79.4	94.8

6.9 Valuation Summary

We assess the status quo value of Todd Mangahao's 50% interest in the Mangahao JV to be in the range of $63.2 million to $74.0 million and its value to King Country Energy to be in the range of $79.4 million to $94.8 million.

In general terms, 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.

The amount that a rational purchaser will pay for an acquisition will be influenced by the proportion of the value of synergies that they are prepared to pay away in order to complete the acquisition and their bargaining strength relative to the seller's bargaining strength.

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 draft notice of special meeting
- the draft Mangahao HoA
- the draft Mangahao SPA
- the draft Services Agreement
- the draft Subscription Agreement
- the Mangahao JV deed
- the King Country Energy annual reports for the years ended 31 March, 2009 to 2011
- the King Country Energy interim report for the 6 months ended 30 September 2011
- the King Country Energy management accounts for the 12 months to 31 March 2012
- the King Country Energy budget for the year ended 31 March 2013
- the King Country Energy financial projections for the 9 years for the 2013 to 2021 financial years
- the Mangahao JV financial projections for the 9 years for the 2013 to 2021 financial years
- internal King Country Energy documents such as strategic plans and Board minutes
- publicly available information in respect of the New Zealand electricity industry
- data in respect of comparable companies from NZX Data and Capital IQ.

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

The Independent Directors have confirmed that we have been provided for the purpose of this Independent Adviser's Report with all information relevant to the Mangahao Acquisition and the Todd Energy Allotment that is known to them and that all the information 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 desirable for the purpose of preparing this Independent Adviser's Report.

In our opinion, the information to be provided by King Country Energy to the Non-associated Shareholders is sufficient to enable the Independent Directors and the Non-associated Shareholders to understand all the relevant factors and to make an informed decision in respect of the Mangahao Acquisition and the Todd Energy Allotment.

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 or the Mangahao JV. 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 or the Mangahao JV 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 our report.

We have had no involvement in the preparation of the notice of special meeting issued by King Country Energy and have not verified or approved the contents of the notice of special meeting. We do not accept any responsibility for the contents of the notice of special meeting 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 the 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 or term of reference, 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), CFIP.

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 Todd Energy or any conflicts of interest that could affect our ability to provide an unbiased opinion in relation to these transactions.

Simmons Corporate Finance has not had any part in the formulation of the Mangahao Acquisition or the Todd Energy Allotment 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 voting in respect of the Mangahao Acquisition or the Todd Energy Allotment. 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 Independent Directors for their comments as to the 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 notice of special meeting 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
2 May 2012

The power behind our community

King Country Energy

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