Simmons Corporate Finance

Trustpower Limited

Independent Adviser's Report

In Respect of the Continuation of the Buyback Programme

May 2014

Statement of Independence

Simmons Corporate Finance Limited confirms that it:

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

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

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1. Introduction

1.1 Background

Trustpower Limited (**Trustpower** or the **Company**) originated from the Tauranga Electric Power Board, which was corporatised in January 1994 under the Energy Companies Act 1992.

Trustpower generates and retails electricity in regions throughout New Zealand. The Company's share of the New Zealand retail market is approximately 11% (by number of customers) and it contributes approximately 5% of New Zealand's national electricity generation production.

Trustpower produces electricity exclusively from renewable sources. The Company owns and operates 34 hydro power stations and 2 wind farms in New Zealand with a combined capacity of 634 MW. Trustpower also owns 2 wind farms in Australia.

The Company recently commissioned the 3.8 MW Esk Valley hydro project in Hawke's Bay. It is currently constructing the 270 MW Snowtown Stage 2 wind farm in South Australia and is actively progressing other wind development options in Australia.

Trustpower supplies electricity to approximately 224,000 customers and gas to approximately 14,000 customers. In the North Island, Trustpower's customer base is concentrated around the central North Island, supplying areas such as Bay of Plenty, Rotorua, Taupo, Taranaki and Wanganui. The Company's South Island customer base covers a larger geographical area, with customers in areas such as Buller and Nelson through to the West Coast, Central Otago, Dunedin and Southland.

The Company retails telephone services and internet (including ultra fast broadband in some areas) to approximately 31,000 customers throughout New Zealand.

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

Trustpower's shares were listed on the main equities security market (**NZX Main Board**) operated by NZX Limited (**NZX**) on 18 April 1994. It had a market capitalisation of $2.2 billion as at 27 May 2014 and audited total equity of $1.5 billion as at 31 March 2014.

Trustpower has 2 shareholders holding more than 20% of its ordinary shares:

- Infratil Limited (**Infratil**) – 159,742,389 shares (representing 50.59% of the total number of shares on issue)
- TECT Holdings Limited (**TECT**) – 103,878,838 shares (32.90%).

Trustpower currently holds 2,869,477 of its own shares as treasury stock. The treasury stock shares are non-voting. Accordingly, Infratil currently holds 51.06% of the voting rights in the Company and TECT holds 33.20% of the voting rights.

Infratil is an owner and operator of businesses in the energy, transport and social infrastructure sectors. Its energy operations are predominantly in New Zealand (including Trustpower and Z Energy Limited) and Lumo Energy in Australia. Infratil owns 66% of Wellington Airport and its public transport services are in Auckland and Wellington. Its social infrastructure investments include interests in Metlifecare Limited and Australia Social Infrastructure Partners. Infratil's shares are listed on the NZX Main Board with a market capitalisation of $1.3 billion as at 27 May 2014.

TECT is wholly owned by the Tauranga Energy Consumer Trust (the **Trust**). The Trust was formed in 1993 and is now one of New Zealand's largest energy trusts. The Trust's income and capital is used to provide benefits to consumers – approximately 58,000 Trustpower account holders in Tauranga City and the Western Bay of Plenty District.

1.2 Buyback Programme

On 15 May 2008, Trustpower announced a resolution for the Company to buy back up to 5,000,000 of its own shares by way of offers made through NZX's order matching market (the **Buyback Programme**).

On 31 July 2008, Trustpower received shareholder approval of a similar Buyback Programme for a period of 3 years from 31 July 2008 and also for TECT to passively increase its voting rights in the Company from 32.93% up to a maximum of 33.46%. This approval was required as TECT and Infratil indicated to the Company that they were unlikely to participate in the Buyback Programme.

Trustpower received shareholder approval on 28 July 2011 for the continuation of the Buyback Programme (the **2011 Buyback Approval**), enabling the Company to buy back on-market up to 5,000,000 of its shares over a period not exceeding 3 years from 28 July 2011 and allowing TECT to passively increase its voting rights in the Company from 33.01% up to a maximum of 33.55% (as TECT and Infratil again indicated to the Company that they were unlikely to participate in the Buyback Programme).

Trustpower has purchased 1,802,351 shares between 5 August 2011 and 27 May 2014 at a volume weighted average share price (**VWAP**) of $6.91. Over the same period of time, a total of 21,015,233 shares have been traded at a VWAP of $7.20. The volume purchased by the Company since the 2011 Buyback Approval represents 8.6% of the total Trustpower shares traded on the NZX Main Board.

The 2011 Buyback Approval terminates on 27 July 2014. Trustpower wishes to retain the flexibility to buy back shares when it is in the Company's interests to do so and not require TECT to sell down as a consequence. Accordingly, Trustpower is seeking a new approval from shareholders to continue the Buyback Programme for another 3 years up to 25 July 2017:

- permitting the Company to buy back up to 5,000,000 shares on-market (representing up to 1.58% of the Company's shares on issue)
- permitting TECT to retain any increase in its voting rights in the Company as a result of the continuation of the Buyback Programme from 33.20% up to a maximum of 33.74% (an increase of up to 0.54%).

1.3 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 (together with its associates) 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.

When a company buys back and cancels its shares, the percentage holding of any shareholder that does not participate in the buyback will increase. Consequently, if a company with a shareholder controlling in excess of 20% wishes to undertake a share buyback, it needs to rely upon an exemption to the Code.

The Takeovers Code (Class Exemptions) Notice (No 2) 2001, as amended by the Takeovers Code (Class Exemptions – Buybacks and Rule 16(b)) Amendment Notice 2010 (the **Class Exemptions**), sets out a general exemption for share buybacks.

Clause 4 of the Class Exemptions provides an exemption for a shareholder controlling (alone or with their associates) in excess of 20% of the voting rights in a code company to increase its voting control via a share buyback, provided the buyback has been approved by an ordinary resolution of shareholders (excluding shareholders who will rely on clause 4 of the Class Exemptions (and their associates)).

Clause 5 of the Class Exemptions provides an exemption that does not require shareholder approval, provided the shareholder reduces its percentage holding to pre-buyback levels within 6 months.

The continuation of the Buyback Programme may result in Infratil increasing its voting rights in the Company from 51.06% to up to 51.88% and TECT increasing its voting rights from 33.20% to up to 33.74% if neither participate in the Buyback Programme. Both Infratil and TECT have advised Trustpower that they are unlikely to be sellers into the Buyback Programme.

Infratil will be able to utilise Rule 7(e) of the Code (known as the creep provisions) for increases in its shareholding arising from the continuation of the Buyback Programme. However, the creep provisions are not available to TECT as it does not hold more than 50% of the voting rights in Trustpower.

Accordingly, the Company's shareholders who are not associated with TECT (the **Non-associated Shareholders**) will vote on an ordinary resolution at the Company's annual meeting on 25 July 2014 in respect of the continuation of the Buyback Programme for a further 3 years and permitting TECT to retain any increase in its voting rights in the Company as a result of the continuation of the Buyback Programme up to a maximum of 33.74% (resolution 4) (the **Buyback Programme Resolution**).

In accordance with Clause 2(2) of Schedule 1 of the Class Exemptions, TECT and its associates are not permitted to vote on the Buyback Programme Resolution.

Clause 3(g) of Schedule 1 of the Class Exemptions requires that the notice of meeting containing the resolution in respect of the continuation of the Buyback Programme must include or be accompanied by an Independent Adviser's Report that complies with Rule 18 of the Code.

1.4 Purpose of the Report

The directors of Trustpower not associated with TECT, being the Company's directors other than Michael Cooney (the **Non-associated Directors**), have engaged Simmons Corporate Finance Limited (**Simmons Corporate Finance**) to prepare an Independent Adviser's Report on the merits of the continuation of the Buyback Programme and of TECT retaining any increase in its voting rights in the Company.

Simmons Corporate Finance was approved by the Takeovers Panel on 27 March 2014 to prepare the Independent Adviser's Report.

Simmons Corporate Finance issues this Independent Adviser's Report to the Non-associated Directors for the benefit of the Non-associated Shareholders and to assist them in forming their own opinion on voting on the Buyback Programme Resolution.

We note that each shareholder's circumstances and objectives are unique. Accordingly, it is not possible to report on the merits of the continuation of the Buyback Programme and of TECT retaining any increase in its voting rights in relation to each shareholder. Our advice and opinions are 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 Continuation of the Buyback Programme

2.1 Basis of Evaluation

Clause 3(g) of Schedule 1 of the Class Exemptions requires an evaluation of the merits of the continuation of the Buyback Programme and of TECT retaining any increase in its voting rights in the Company, having regard to the interests of the Non-associated Shareholders.

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

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

- the Takeovers Panel *Guidance Note on Independent Advisers and the Takeovers Code* dated May 2014
- 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 continuation of the Buyback Programme and of TECT retaining any increase in its voting rights in the Company should focus on:

- the rationale for the continuation of the Buyback Programme
- the terms and conditions of the Buyback Programme
- the financial impact of the continuation of the Buyback Programme
- the impact of the continuation of the Buyback Programme on the control of the Company
- the impact of the continuation of the Buyback Programme on Trustpower's share price
- the benefits and disadvantages to the Non-associated Shareholders of the continuation of the Buyback Programme
- the implications if the Buyback Programme Resolution is 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 Continuation of the Buyback Programme

In our opinion, after having regard to all relevant factors, the positive aspects of the continuation of the Buyback Programme outweigh the negative aspects of TECT retaining any increase in its voting rights as a result of the continuation of the Buyback Programme from the perspective of the Non-associated Shareholders.

Our evaluation of the merits is set out in detail in sections 2.3 to 2.9. In summary, the key factors leading to our opinion are:

- the rationale for the continuation of the Buyback Programme is sound. It continues the Buyback Programme that commenced in May 2008 and which shareholders approved in July 2008 and July 2011
- the terms of the Buyback Programme are reasonable. The Buyback Programme is undertaken on-market and shares are purchased at the prevailing market price at the date of purchase
- the financial impact of the Buyback Programme is relatively minor. Based on the current share price, total equity will reduce by approximately $34 million if the maximum 5,000,000 shares are bought back, with a corresponding increase in debt
- the continuation of the Buyback Programme will not increase TECT's ability to influence the outcome of shareholder voting to any significant degree. At most, its voting rights will increase by 0.54% to 33.74%
- the continuation of the Buyback Programme should provide support for Trustpower's share price
- the continuation of the Buyback Programme will improve the liquidity of the shares held by Non-associated Shareholders over the period of the Buyback Programme but may reduce liquidity after the Buyback Programme is completed
- the continuation of the Buyback Programme is unlikely to reduce the attraction of Trustpower as a takeover target
- Infratil has advised the Company that it will vote in favour of the Buyback Programme Resolution and therefore the resolution will be approved irrespective of how the other Non-associated Shareholders vote
- in the unlikely event of the Buyback Programme Resolution not being approved, the continuation of the Buyback Programme would not proceed. The Company's board of directors (the **Board**) could subsequently decide to continue the Buyback Programme without seeking shareholder approval but TECT would be required to sell down its shareholding to return its percentage holding to the pre-buyback level within 6 months of the increase. This may place downward pressure on the Company's share price and / or may reduce the Company's inclination to undertake buybacks.

2.3 Rationale for the Continuation of the Buyback Programme

Board's Rationale

The Board's key reasons for continuing the Buyback Programme are:

- the Board considers the Buyback Programme to be a positive way of improving shareholder value for remaining shareholders in circumstances where the Company's shares can be purchased at levels substantially below their assessed long term value
- the Company's willingness to buy back shares when it considers that they are undervalued by the market would be viewed positively by shareholders and share market analysts.

Finance Theory

The benefits of share buybacks have long been the focus of academic research and practitioners' debate. It is generally accepted that share buybacks can affect value as follows:

- by supporting the share price
- by being an efficient use of capital
- by creating a more efficient capital structure.

In reality however the impacts can be difficult to quantify.

Supporting the Share Price

There is some evidence to suggest that a share buyback has a signalling effect to the market. A share buyback could indicate to the market that a company's management is so confident of the company's prospects that it believes the best investment the company can make is in its own shares. On the other hand, the announcement of a share buyback has in instances been deemed an admission that the company cannot identify any other value creating opportunities in which to invest its capital.

A share buyback can also act to support a company's share price by creating buy-side demand.

Efficient use of Capital

Companies often undertake share buybacks when they are of the view that the market is undervaluing their shares, therefore buying back those shares at the market price is an efficient use of the companies' capital.

Capital Structure

The share buyback is effectively an exchange of equity for debt, thereby increasing a company's leverage. In finance theory, increasing leverage can provide several benefits, such as:

- interest payments on debt are tax deductible, which means that the after-tax cost of debt is generally below shareholders' expected return on equity, hence reducing the company's average cost of capital
- debt supposedly serves as a discipline for a company's managers. Unlike equity, the need to pay cash to bondholders and banks prevents managers from investing in projects that earn returns below the company's cost of capital.

Conclusion

Having considered all of the above, we are of the view that the rationale for the continuation of the Buyback Programme is sound. It is being undertaken primarily for shareholder value improvement purposes on the basis that the Board considers Trustpower's shares to be undervalued from time to time.

2.4 Terms of the Buyback Programme

The terms of the new Buyback Programme are identical to those of the Buyback Programme that terminates on 27 July 2014. The key terms are:

- the Company proposes to acquire up to 5,000,000 shares on-market
- purchases may be made in the 3 year period following 25 July 2014
- the Company will pay the prevailing market price for the shares at the time of the purchase
- the Company is not obliged to make offers and reserves the right to cease making offers at any time
- the Company intends to hold the shares acquired as treasury stock.

The Company is not committing to buy back any shares. The Buyback Programme simply provides the Board with the ability to buy back shares should the price drop to levels below which the Board believes a buyback would add value to all shareholders and is in the interests of the Company.

The Company will be required to disclose daily the number of shares purchased and the price paid.

2.5 Financial Impact of the Continuation of the Buyback Programme

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

Summary of Trustpower Financial Performance

	Year to 31 Mar 11 (Audited) $m	Year to 31 Mar 12 (Audited) $m	Year to 31 Mar 13 (Audited) $m	Year to 31 Mar 14 (Audited) $m
Operating revenue	766	807	806	812
EBITDAF	274	300	295	277
Operating profit	220	234	223	215
Profit before income tax	158	171	160	153
Profit after tax	112	132	123	115
Dividends paid	120	126	125	125
EPS ($)	$0.36	$0.42	$0.39	$0.37
DPS ($)	$0.38	$0.40	$0.40	$0.40
	As at 31 Mar 11 (Audited) $m	**As at 31 Mar 12 (Audited) $m**	**As at 31 Mar 13 (Audited) $m**	**As at 31 Mar 14 (Audited) $m**
Current assets	125	157	202	181
Non current assets	2,480	2,639	2,774	2,966
Total assets	2,605	2,796	2,976	3,147
Current liabilities	(96)	(228)	(206)	(399)
Non current liabilities	(1,091)	(996)	(1,218)	(1,233)
Total liabilities	(1,187)	(1,224)	(1,424)	(1,632)
Total equity	1,418	1,572	1,552	1,515
NTA per share ($)	$4.40	$4.86	$4.79	$4.61
Financial leverage	36%	33%	38%	43%

EBITDAF: Earnings before interest, tax, depreciation, amortisation and fair value movements of financial instruments
EPS: Earnings per share
DPS: Dividend per share
NTA: Net tangible assets
*Financial leverage: Net interest bearing debt (**IBD**) / (Net IBD + total equity)*

Source: Trustpower audited financial statements

The illustrative financial impact of the continuation of the Buyback Programme on the Company's financial results for the year ended 31 March 2014 is set out below, based on the following assumptions:

- Trustpower repurchases the maximum 5,000,000 shares at a price of $6.86 per share, being the one year VWAP to 27 May 2014, at a total cost of $34 million
- the Buyback Programme is funded by IBD
- the buy back effectively occurred on 1 April 2013, so that Trustpower carried the additional debt burden for the full year ended 31 March 2014
- an interest rate of 4.0% on the additional IBD, resulting in additional annual interest of $1 million (post-tax).

Illustrative Financial Impact of Buyback Programme			
	Year to 31 Mar 14 (Audited) $m	Buyback Programme $m	Illustrative Post Buyback Programme $m
EBITDAF	277	-	277
Profit after tax	115	(1)	114
EPS ($)	$0.367		$0.370
Total equity	1,515	(34)	1,481
NTA per share ($)	$4.61		$4.57
Financial leverage	43%		44%

The continuation of the Buyback Programme will have a relatively minor financial impact on Trustpower. The illustrative analysis shows:

- EPS would increase by 0.7% to $0.370
- NTA would reduce by 0.8% to $4.57
- financial leverage would increase from 43% to 44%.

Trustpower does not have a formal dividend policy specifying a particular payout rate, so the Buyback Programme is not expected to impact the level of future dividends.

2.6 Impact on Control

Capital Structure and Shareholders

Trustpower currently has 315,751,872 fully paid ordinary shares on issue held by 12,555 shareholders.

The names, number of shares and percentage holding of the 10 largest shareholders as at 23 May 2014 are set out below.

Trustpower's 10 Largest Shareholders		
Shareholder	**No. of Shares Held**	**%**
Infratil	159,742,389	50.59%
TECT	103,878,838	32.90%
Custodial Services Limited	3,818,318	1.21%
Trustpower (treasury stock)	2,869,477	0.91%
NZ Superannuation Fund Nominees Limited	2,722,358	0.86%
BNP Paribas Nominees (NZ) Limited	2,193,968	0.69%
Accident Compensation Corporation	1,950,705	0.62%
Citibank Nominees (New Zealand) Limited	1,234,104	0.39%
National Nominees NZ Limited	872,274	0.28%
T.E.A. Custodians Limited	463,709	0.15%
Subtotal	279,746,140	88.60%
Others (12,545 shareholders)	36,005,732	11.40%
Total	315,751,872	100.00%

Source: Trustpower

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

The shares purchased by Trustpower under the Buyback Programme are held as treasury stock and are non-voting with no entitlement to dividends.

Shareholder Voting

Any shareholder that does not participate in the Buyback Programme will see an increase in their respective percentage of votes held or controlled, even though they will not increase the actual number of shares they hold.

Infratil and TECT have indicated to the Company that they are unlikely to participate in the Buyback Programme. On this basis, the continuation of the Buyback Programme will result in Infratil controlling between 51.06% and up to 51.88% of the voting rights in the Company and TECT controlling between 33.20% and up to 33.74% of the voting rights, depending on the number of shares bought back and assuming no other shares are issued during this time.

Infratil and TECT each currently hold strategic shareholdings. They each hold the ability to singlehandedly block special resolutions (which require the approval of 75% of the votes cast by shareholders). Infratil can singlehandedly determine the outcome of ordinary resolutions (which require the approval of more than 50% of the votes cast by shareholders) whereas TECT does not have this ability.

The potential 0.82% increase in voting rights for Infratil and 0.54% increase for TECT will not change their respective ability to block a special resolution or control the outcome of an ordinary resolution to any significant degree.

Board of Directors

The directors of Trustpower are:

- Richard Aitken – independent
- Marko Bogoievski – non-executive, Infratil representative
- Michael Cooney – non-executive, TECT representative
- Bruce Harker – chair, non-executive, associated with Infratil
- Sam Knowles – independent
- Geoff Swier - independent.

We are advised by the Non-associated Directors that the continuation of the Buyback Programme will not have any impact on the composition of the Board.

Operations

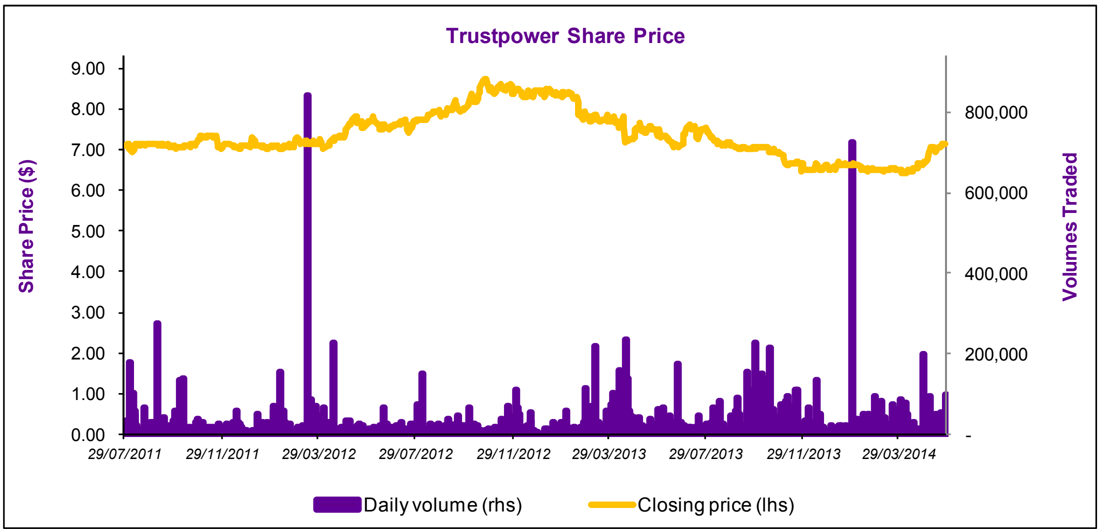
We are advised by the Non-associated Directors that the continuation of the Buyback Programme will not have any impact on the level of influence of Infratil or TECT over the Company's operations.

2.7 Impact on Share Price and Liquidity

Share Price

On the basis that the Board will undertake purchases when it considers the Company's shares to be undervalued, we are of the view that the continuation of the Buyback Programme should provide support for the Company's share price.

Set out below is a summary of Trustpower's daily closing share price and daily volumes of shares traded from 29 July 2011 to 27 May 2014.



Source: NZX Data

During the period, Trustpower's shares have traded between $6.42 and $8.75 at a VWAP of $7.20.

Following the 2011 Buyback Approval, Trustpower has brought back 1,802,351 shares between 5 August 2011 and 27 May 2014 at a VWAP of $6.91, representing a total cost of $12.5 million.

Current Buyback Programme				
	No. of Shares[1] (000)	**Low[1] $**	**High[1] $**	**VWAP[1] $**
Buyback Programme	1,802	6.42	7.58	6.91
Total traded on NZX Main Board	21,015	6.42	8.75	7.20
-% of total traded	*8.6%*			

1 5 August 2011 to 27 May 2014

The volume purchased by the Company since the 2011 Buyback Approval represents 8.6% of the total number of shares traded on the NZX Main Board and 36.0% of the maximum 5,000,000 shares that the Company may buy back.

The prices paid by the Company for the purchases have ranged between $6.42 and $7.58 at a VWAP of $6.91, which is 4% below the VWAP of $7.20 for all of the shares traded on the NZX Main Board for the period.

Recent research papers by equity analysts have assessed target prices for Trustpower's shares ranging from $6.85 to $8.00. The average of the equity analysts' target prices of $7.42 is 7% above Trustpower's one month VWAP to 27 May 2014 of $6.91.

Equity Analysts' Valuations			
Analyst	**Date**	**Recommendation**	**Target Price**
UBS	19 Nov 2013	Buy	$7.45
Deutsche Bank	27 Feb 2014	Buy	$7.39
Morningstar	2 Apr 2014	Hold	$7.50
Credit Suisse	8 Apr 2014	Neutral	$6.85
Goldman Sachs	8 Apr 2014	Buy	$7.85
Forsyth Barr	7 May 2014	Outperform	$7.45
Consensus mean			$7.42

Source: Equity analysts research reports

Liquidity

Trading in the Company's shares is relatively thin, reflecting that 83.49% of the shares are held by Infratil and TECT and the top 10 shareholders collectively hold 88.60% of the shares. An analysis of VWAP, traded volumes and liquidity (measured as traded volumes as a percentage of total shares outstanding) is set out below.

Trustpower Share Trading					
Period	**Low [1] $**	**High [1] $**	**VWAP [1] $**	**Volume Traded [1] (000)**	**Liquidity [1]**
1 month	6.60	7.20	6.91	908	0.3%
3 months	6.42	7.20	6.66	2,153	0.7%
6 months	6.42	7.20	6.65	4,395	1.4%
12 months	6.42	7.65	6.86	9,643	3.1%

1 To 27 May 2014

Source: NZX Data

The continuation of the Buyback Programme will have a positive impact on the liquidity of the shares held by the Non-associated Shareholders over the period of the Buyback Programme.

However, the Buyback Programme will reduce the free float (ie those shares that are available to be freely traded) by up to 5,000,000 shares and therefore, in the longer term, the liquidity of Trustpower's shares may reduce to a degree.

2.8 Benefits and Disadvantages to Non-associated Shareholders

Key Benefits

The key benefit of the continuation of the Buyback Programme to the Non-associated Shareholders is that it will provide buy-side demand for the Company's shares, thereby improving liquidity over the term of the Buyback Programme. The Board also considers that the Buyback Programme is a positive way of improving shareholder value.

Main Disadvantage

The main disadvantage is that the continuation of the Buyback Programme may increase Infratil's voting rights in the Company from 51.06% to up to 51.88% and TECT's voting rights from 33.20% to up to 33.74%, thereby marginally increasing their respective ability to control the outcome of shareholder voting. However, we do not consider the increased levels of control to be of any significance.

Unlikely to Change the Likelihood of a Takeover Offer from Infratil or TECT

We are not aware of any intention on Infratil's or TECT's part to make a takeover offer. However, if either party did have such intent, an increase in Infratil's voting rights in the Company from 51.06% to up to 51.88% and TECT's voting rights from 33.20% to up to 33.74% is unlikely to change the likelihood of a takeover offer from either shareholder as the increase in their respective level of voting rights is not significant.

Likelihood of Other Takeover Offers Does not Change

Any bidder looking to fully take over the Company would need to ensure that both Infratil and TECT would accept its offer. In addition, any bidder looking to make a partial takeover offer for (say) 50.1% of the Company would need to ensure that Infratil would accept its offer. We are of the view that the increase in Infratil's voting rights in the Company from 51.06% to up to 51.88% and TECT's voting rights from 33.20% to up to 33.74% is unlikely to reduce the attraction of Trustpower as a takeover target to other parties.

2.9 Implications of the Buyback Programme Resolution not Being Approved

Infratil has advised the Company that it intends to vote in favour of the Buyback Programme Resolution. On this basis, the resolution will be approved, irrespective of how the other Non-associated Shareholders vote.

In the unlikely event that the Buyback Programme Resolution is not approved, then the Buyback Programme will not proceed. The Board could decide to return capital to shareholders via alternative mechanisms (such as a special dividend) or decide at a later date to continue with the Buyback Programme without seeking shareholder approval, in which case TECT would be required to sell down its shareholding to return its percentage holding to the pre-buyback level within 6 months in accordance with clause 5 of the Class Exemptions.

The latter scenario is potentially disadvantageous to Non-associated Shareholders as:

- it may lead the Company to reconsider the degree to which it undertakes buybacks and hence reduce the ability for Non-associated Shareholders to sell their shares
- the forced sale of shares by TECT may place downward pressure on the Company's share price.

2.10 Voting For or Against the Buyback Programme Resolution

Voting for or against the Buyback Programme Resolution 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. Sources of Information, Reliance on Information, Disclaimer and Indemnity

3.1 Sources of Information

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

- the draft Trustpower notice of 2014 annual meeting
- the Trustpower annual report for the years ended 31 March, 2011 to 2014
- Trustpower shareholder data from the Company and NZX Data
- Trustpower share price data from NZX Data
- equity analysts research reports in respect of Trustpower.

During the course of preparing this report, we have had discussions with and / or received information from the Non-associated Directors and executive management of Trustpower and Trustpower's legal advisers.

The Non-associated Directors have confirmed that we have been provided for the purpose of this Independent Adviser's Report with all information relevant to the continuation of the Buyback Programme 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 Trustpower to the Non-associated Shareholders is sufficient to enable the Non-associated Directors and the Non-associated Shareholders to understand all the relevant factors and to make an informed decision in respect of the continuation of the Buyback Programme.

3.2 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 Trustpower 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 Trustpower. We do not warrant that our enquiries would reveal any matter which an audit, due diligence review or extensive examination might disclose.

3.3 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 Trustpower 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 Trustpower and its directors and management. Actual results will vary from the forecasts and these variations may be significantly more or less favourable.

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

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

We have had no involvement in the preparation of the notice of annual meeting issued by Trustpower and have not verified or approved the contents of the notice of annual meeting. We do not accept any responsibility for the contents of the notice of annual meeting except for this report.

3.4 Indemnity

Trustpower 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. Trustpower 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.

4. Qualifications and Expertise, Independence, Declarations and Consents

4.1 Qualifications and Expertise

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

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

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

4.2 Independence

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

Simmons Corporate Finance has not had any part in the formulation of the continuation of the Buyback Programme 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 continuation of the Buyback Programme. We will receive no other benefit from the preparation of this report.

4.3 Declarations

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

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

4.4 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 annual meeting to be sent to Trustpower'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
28 May 2014