



KING COUNTRY ENERGY LIMITED

TARGET COMPANY STATEMENT

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

30 NOVEMBER 2015

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

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LETTER FROM THE CHAIRMAN OF THE INDEPENDENT COMMITTEE

30 November 2015

Dear King Country Energy Limited shareholder

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

Introduction

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

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

Independent Committee of Directors

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

Offer price

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

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

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

Recommendation of the Independent Committee

The Independent Committee notes the following:

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

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

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

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

Key features of the offer

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

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

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

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

Acceptance of the offer

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

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

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

Timing

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

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

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

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

Conclusion

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

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

Yours faithfully

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

Toby Stevenson

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

ASSESSMENT OF THE OFFER

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

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

Assessment of the offer price

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

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

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

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

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

Independent Committee's assessment of value

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

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

² See footnote 1.

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

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

Liquidity

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

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

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

Unlikely to be competing offers

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

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

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

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

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

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

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

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

Control of KCE will pass to Trustpower

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

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

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

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

Possibility of a follow-on offer

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

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

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

Post offer share price

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

Liquidity may decline

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

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

Continuing quotation on Unlisted

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

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

Future intentions, including future dividends

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

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

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

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

Protections for minority shareholders

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

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

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

1. DATE

1.1 This Target Company Statement is dated 30 November 2015.

2. OFFER

2.1 This Target Company Statement relates to a full takeover offer by Trustpower (“**Offer**”) to purchase all of the fully paid ordinary shares in KCE (“**KCE Shares**”).

2.2 Trustpower is, at the date of this Target Company Statement, a wholly owned subsidiary of NZX Main Board listed Trustpower Limited. Trustpower has entered into arrangements with Nova Energy Limited (“**Nova**”), the owner of 54.07% of the KCE Shares, which requires Nova to accept the Offer for all of its KCE Shares within three business days after the Offer is made.

2.3 The full terms of the Offer are set out in Trustpower’s Offer Document dated 30 November 2015 (“**Offer Document**”).

3. TARGET COMPANY

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

4. DIRECTORS OF KCE

4.1 The names of the Directors of KCE are:

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

5. OWNERSHIP OF EQUITY SECURITIES OF KCE

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

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

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

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

- 5.2 Except as set out in paragraph 5.1, no Director or Senior Officer of KCE, or their associates, holds or controls any KCE Shares.
- 5.3 The number and the percentage of KCE Shares held or controlled by the persons known by KCE to hold or control 5% or more of the KCE Shares is set out in the following table:

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

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

- 5.4 Except as set out in paragraph 5.3, no other person is known by KCE to hold or control 5% or more of the KCE Shares.
- 5.5 No Director or Senior Officer of KCE, or their associates, have, in the two year period ending on the date of this Target Company Statement:
- (a) been issued with any KCE Shares; or

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

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

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

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

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

6. TRADING IN KCE EQUITY SHARES

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

7. ACCEPTANCE OF OFFER

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

8. OWNERSHIP OF EQUITY SECURITIES OF TRUSTPOWER

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

9. TRADING IN EQUITY SECURITIES OF TRUSTPOWER

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

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

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

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

⁹ This cost cap has been reached.

- 10.6 Trustpower, Nova and KCE have agreed that, with immediate effect following confirmation to KCE by Link Market Services Limited of the registration of the transfer of Nova's shareholding to Trustpower:
- (a) Timothy Cosgrove and Mahadevan Bahirathan, who represent Nova on the KCE Board, will resign as Directors of KCE and all of KCE's subsidiaries; and
 - (b) Vincent James Hawksworth and Paul Ridley-Smith be appointed as Directors of KCE, as representatives of Trustpower.

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

- 10.7 Trustpower has also requested that, following the registration of the transfer of Nova's shareholding to Trustpower, KCE take steps to amend its balance date to 31 March so that KCE's balance date is aligned with Trustpower Limited and its subsidiaries.
- 10.8 As at the date of this Target Company Statement, except as set out in paragraphs 10.1 to 10.7, no agreement or arrangement (whether legally enforceable or not) has been made, or is proposed to be made, between Trustpower or any of its associates and KCE or any related company of KCE, in connection with, in anticipation of, or in response to, the Offer.

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

- 11.1 On 9 November 2015, KCE requested that, if the Offer results in Trustpower acquiring full ownership of KCE, Trustpower ensures that KCE maintains directors' and officers' insurance (substantially equivalent to existing cover) for a period of seven years for any Directors or Senior Officers of KCE who leave office/employment after conclusion of the Offer. Trustpower has indicated that, subject to review of the specific terms of KCE's existing insurance, Trustpower is happy in principle with this request.
- 11.2 Except as set out in paragraph 11.1, no agreement or arrangement (whether legally enforceable or not) has been made, or is proposed to be made, between Trustpower or any associate of Trustpower and any of the Directors or Senior Officers of KCE or any related company of KCE in connection with, or in anticipation of, or in response to, the Offer.
- 11.3 None of the Directors or Senior Officers of KCE are also Directors or Senior Officers of Trustpower, or any related company of Trustpower.

12. AGREEMENTS BETWEEN KCE, AND DIRECTORS AND SENIOR OFFICERS

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

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

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

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

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

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

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

14. ADDITIONAL INFORMATION

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

15. RECOMMENDATION

Independent Committee

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

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

¹¹ See footnote 10.

Unanimous Recommendation

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

Abstentions

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

16. ACTIONS OF KCE

No material arrangements

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

No material negotiations

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

The Process

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

17. EQUITY SECURITIES OF KCE

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

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

18. FINANCIAL INFORMATION

2014 Annual Report

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

King Country Energy Limited
PO Box 363
Taumarunui 3946
NEW ZEALAND

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

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

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

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

19. INDEPENDENT ADVICE ON MERITS OF OFFER

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

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

19.2 The Independent Adviser's Report includes:

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

20. ASSET VALUATION

20.1 No information provided in this Target Company Statement refers to a valuation of any asset of KCE.

20.2 The Independent Adviser's Report refers to the valuation of KCE. The basis of computation and key assumptions on which that valuation is based is set out in the Independent Adviser's Report.

21. PROSPECTIVE FINANCIAL INFORMATION

21.1 None of the information provided in this Target Company Statement refers to prospective financial information of KCE.

21.2 The Independent Adviser's Report refers to prospective financial information of KCE. The principal assumptions on which the prospective financial information is based are set out in that report.

21.3 While it is not KCE's normal practice to provide guidance on forecast earnings, the Independent Adviser's Report sets out certain details of KCE's forecasts for the financial year ended 31 December 2015 (FY15) and the financial year ended 31 December 2016 (FY16). The FY15 forecast has been approved by the KCE Board. In contrast, the FY16 forecast is a management forecast, and has not been approved by the KCE Board. In considering forecast information, shareholders should note that both forecasts (including the Board-approved FY15 forecast) were prepared for internal management purposes only and were not prepared for, or with the intention of giving, public guidance as to KCE's expected future financial performance. Accordingly, the basis of preparation of the forecasts, while appropriate for internal management purposes, may differ from the basis which would be adopted when preparing prospective financial information for external reporting purposes.

22. SALES OF UNQUOTED EQUITY SECURITIES UNDER OFFER

22.1 The KCE Shares that are the subject of the Offer are quoted on the Unlisted trading platform with ticker code "KCE". The Unlisted trading platform is not a stock exchange.

22.2 All of the information that KCE has as to the number of KCE Shares that have been disposed of in the 12 months ending on 19 November 2015, being the latest practicable working day before the date on which this Target Company Statement is sent to KCE Shareholders and the consideration of those dispositions, is set out in the following table:

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

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

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

23. MARKET PRICES OF QUOTED EQUITY SECURITIES UNDER OFFER

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

24. OTHER INFORMATION

Rounding

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

Reliance on information

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

25. APPROVAL OF THIS STATEMENT

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

26. CERTIFICATE

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



Toby Stevenson
Director and Chairman of the
Independent Committee



Linda Robertson
Director and member of the
Independent Committee



Robert Foster
Chief Executive Officer



Geoffrey Bell
Acting Chief Financial Officer

APPENDIX: INDEPENDENT ADVISER'S REPORT