



KING COUNTRY ENERGY LIMITED

TARGET COMPANY STATEMENT

**IN RESPONSE TO A FULL TAKEOVER OFFER
FROM KCE JV**

5 JANUARY 2018

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

5 January 2018

Dear King Country Energy Limited shareholder,

Introduction

KCE JV is making a full takeover offer under the Takeovers Code for all of the shares in King Country Energy Limited (“KCE”).

KCE JV is an unincorporated joint venture between King Country Energy Holdings Limited (“**Trustpower**”) and the trustees of the King Country Electric Power Trust (“**KCEP Trust**”). King Country Energy Holdings Limited, which is a wholly owned subsidiary of NZX listed Trustpower Limited, currently holds 65.07% of KCE’s shares. KCEP Trust currently holds 19.98% of KCE’s shares. Trustpower and KCEP Trust have both agreed to accept KCE JV’s offer. Together they hold 85.05% of KCE’s shares.

This letter forms part of KCE’s Target Company Statement in response to KCE JV’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, Linda Robertson and Brian Needham, 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.

Recommendation of the Independent Committee

**The Independent Committee unanimously recommends that you
SHOULD ACCEPT the offer.¹**

The key factors which influenced the Independent Committee’s considerations and recommendation to KCE shareholders are addressed in more detail in the Why You Should Accept the Offer sections and the Other Factors

¹ The Independent Committee may change its recommendation if a higher value alternative proposal emerges. However, the Independent Committee considers that it is very unlikely that such a proposal will emerge during the offer period.

for You to Consider 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.

Independent Committee intentions

The only member of the Independent Committee who holds shares in KCE is Brian Needham, who holds 4,852 shares as sole trustee of a trust. Absent a higher value alternative proposal emerging, Mr Needham intends to accept the offer for all of those shares.

Key terms of KCE JV's offer

The full terms and conditions of KCE JV's offer are set out in KCE JV's Offer Document, which will be sent to you separately by KCE JV.

The key terms of KCE JV's offer are as follows:

- The offer price is **\$5.00** per share. The offer price is payable in cash.
- Although the Offer Document contains conditions, those conditions no longer apply, as KCE JV has declared the offer unconditional in all respects.

Acceptance of the offer

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

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

Timing

The offer will close at 5.00pm on 16 February 2018, unless extended by KCE JV in accordance with the Takeovers Code. KCE JV will write to you to advise you if it extends the offer.

KCE JV has confirmed to KCE in writing that if you accept the offer, KCE JV will pay you for your shares within seven days after your acceptance. Accordingly, if you intend to accept the offer, then the Independent Committee recommends that **you should accept the offer as soon as possible.**

Conclusion

As noted above, the Independent Committee unanimously recommends that you should accept the offer.

If new material information arises, or if there is a material change in circumstances, the Independent Committee will update shareholders by way of 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 'T. Stevenson', with a stylized flourish at the end.

Toby Stevenson

Chairman of the Board and of the Independent Committee

King Country Energy Limited

WHY YOU SHOULD ACCEPT THE OFFER - SUMMARY

1.	THE OFFER PRICE OF \$5.00 PER SHARE IS COMFORTABLY ABOVE THE MIDPOINT OF THE INDEPENDENT ADVISER'S VALUE RANGE AND REPRESENTS A PREMIUM TO KCE SHARE TRADING PRICES ON UNLISTED
2.	THE OFFER PRICE IS EQUAL TO THE RECOMMENDED PRICE FOR TRUSTPOWER'S 2015 TAKEOVER OFFER
3.	THE OFFER PRICE IS EQUAL TO KCE'S NET ASSETS PER SHARE
4.	THE INDEPENDENT COMMITTEE BELIEVES THAT THE OFFER PRICE ADEQUATELY COMPENSATES YOU FOR THE CURRENT AND POTENTIAL FUTURE BENEFITS OF OWNERSHIP OF KCE SHARES, HAVING REGARD TO THE RISKS OF FUTURE SHARE OWNERSHIP (INCLUDING THE LIKELY REDUCTION IN, OR LOSS OF, ACOT REVENUE)
5.	KCE JV'S OFFER PROVIDES YOU WITH A CERTAIN OPPORTUNITY TO SELL ALL OF YOUR SHARES IN KCE AT A CASH PRICE IN ONE TRANSACTION AND FREE OF BROKERAGE

Further details are set out on the following pages. 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 KCE JV's offer.

WHY YOU SHOULD ACCEPT THE OFFER - THE DETAIL

The offer price of \$5.00 per share is comfortably above the midpoint of the Independent Adviser's value range and represents a premium to KCE share trading prices on Unlisted

The Independent Adviser assesses the value of KCE's shares in the range of \$4.37 to \$5.47 per share, with a midpoint of \$4.92 per share. KCE JV's offer price is \$5.00 per share. Accordingly, the offer price is comfortably above the midpoint of the Independent Adviser's value range.

KCE's shares were first quoted on Unlisted on 6 July 2004. Since that time and before announcement of KCE JV's offer, KCE's shares have traded in a range between \$2.71 and \$4.80 per share. Accordingly, the offer price of \$5.00 per share is greater than any price at which KCE shares have traded on Unlisted in that period.

In addition, the offer price represents a:

- 11% premium to the last traded price on Unlisted prior to the announcement of KCE JV's offer.
- 14% premium to the one month volume weighted average price ("VWAP") for KCE shares on Unlisted prior to the announcement of KCE JV's offer.
- 13% premium to the three month VWAP for KCE shares on Unlisted prior to the announcement of KCE JV's offer.
- 13% premium to the six month VWAP for KCE shares on Unlisted prior to the announcement of KCE JV's offer.

Further comparison of the offer price to Unlisted share prices set out in section 2.4 of the Independent Adviser's Report.

The offer price is equal to the recommended price for Trustpower's 2015 takeover offer

On 2 December 2015, Trustpower (which is a member of KCE JV) made a full takeover offer for KCE (the "**2015 Offer**"). Under the 2015 Offer, Trustpower offered:

- \$4.78 per KCE share, if acceptances were received for more than 50.1%, but less than 70.2%, of KCE's shares.
- \$5.00 per KCE share, if acceptances were received for 70.2% or more of KCE's shares.

The Board of KCE appointed an independent committee, comprising Toby Stevenson and Linda Robertson ("**the 2015 Independent Committee**"), to consider and respond to the 2015 Offer.

The 2015 Independent Committee recommended to shareholders that they should not accept the 2015 Offer at a price of \$4.78 per KCE share, but recommended that they should accept the 2015 Offer if the price was increased to \$5.00 per KCE. Trustpower did not increase the offer price for the 2015 Offer to \$5.00 per share, and the 2015 Offer closed with Trustpower acquiring 64.55% of KCE's shares.

KCE JV's offer price of \$5.00 per share is equal to the price at which the 2015 Independent Committee recommended acceptance of the 2015 Offer.

Importantly, after the KCE JV gave notice of its intention to make the current offer, KCE paid a cash dividend of 20 cents per share (being a gross dividend of 22.2 cents per share). This dividend represents additional value to all shareholders, above the offer price. The offer price, together with the cash dividend, amounts to \$5.20 per share.

The offer price is equal to KCE's net assets per share

After payment of the cash dividend of 20 cents per share on 12 December 2017, KCE has net assets of \$5.00 per share. This is equal to the offer price of \$5.00 per share.

In contrast, the offer price of \$4.78 per share under the 2015 Offer was a discount to net assets per share at the time of the 2015 Offer.

The Independent Committee believes that the offer price adequately compensates you for the current and potential future benefits of ownership of KCE shares, having regard to the risks of future share ownership (including the likely reduction in, or loss of, ACOT revenue)

In forming its own view on KCE's value, and the merits of the offer, the Independent Committee has sought financial advice and has, amongst other things, 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 and KCEP Trust, as owners and controllers (in other words, the value and opportunities that selling shareholders would be providing to Trustpower and KCEP Trust, as the members of the KCE JV, including cost savings and other synergies).
- The key assumptions that affect KCE's underlying value.

The Independent Committee has also considered the trading multiples of comparable New Zealand electricity companies which have shares quoted on the NZX Main Board.

KCE's stand-alone value

KCE has for some time identified a number of strategic challenges to the achievement of its long-term goals and business plan, as follows:

- The ability to identify and acquire retail customers at positive margin contribution.
- Ongoing 'churn' of retail customers and reduction in margins in the retail market.
- The ability to grow generation capacity at acceptable returns.

- The threat of larger competitors, who can extract costs savings through economies of scale and pass those savings on to consumers through reduced prices.
- The announced discontinuation of ACOT payments and the replacement of ACOT with a scheme that will likely see reductions in this revenue source.²

These factors represent risks to the future profitability of KCE's business, and the Board's ability to maintain and increase shareholder value in the medium to long term. By accepting the offer, you transfer these risks to KCE JV.

Synergies

KCE JV may be able to extract cost savings and synergies if it acquires full ownership of KCE, including reduction in corporate overhead costs and, potentially, retail business synergies. These cost savings and synergies are not available to KCE or its shareholders while KCE remains a 'stand alone' company. Despite this, the Independent Committee's assessment is that the offer price includes a payment to shareholders for some of these cost savings and synergies (i.e. KCE JV is transferring some of the benefit of their cost savings and synergies to you, if you accept the offer).

Key valuation assumptions

The Independent Adviser has assessed the value of KCE using the discounted cash flow ("DCF") valuation method (see section 6 of the Independent Adviser's Report).

A DCF valuation of KCE is very sensitive to two key assumptions – being the wholesale energy price path, and the extent to which KCE receives future payments for what is currently referred to as ACOT.³ These sensitivities are acknowledged (amongst others) in section 6.5 of the Independent Adviser's Report.

Higher wholesale energy prices and the maintenance of ACOT payments at current levels translate into higher DCF values for KCE's shares. Conversely, lower wholesale energy prices and lower (or no) future ACOT payments translate into reduced DCF values for KCE's shares. The Independent Committee considers the latter scenario (i.e. lower wholesale energy prices and lower future ACOT equivalent payments) is much more likely to occur.⁴ Accordingly, the Independent Committee considers that the lower end of the Independent Adviser's value range is a more accurate assessment of the underlying value of KCE's shares than the upper end of the range.

Conclusion

Having regard to the matters set out above, the Independent Committee believes that KCE JV's offer price of \$5.00 per share adequately compensates you for the current and potential future benefits of ownership of KCE shares, having regard to the risks of future share ownership.

² ACOT payments are payments for the avoided cost of transmission. More information regarding ACOT payments (and risks associated with future ACOT equivalent payments) is set out in section 4.2 of the Independent Adviser's Report. Also see footnote 4.

³ See footnote 2.

⁴ KCE received \$2.9 million of ACOT revenue in the financial year ended March 2017, and KCE's revenue forecast for the financial year ended March 2018 ("FY18") (which is referred to in section 4.8 of the Independent Adviser's Report) assumes ACOT payments of \$3 million. The Independent Committee considers a significant reduction in ACOT equivalent revenue is likely to occur within the next two-three financial years and, therefore, that the FY18 forecast ACOT revenue assumption does not reflect future maintainable ACOT equivalent revenue.

KCE JV's offer provides you with a certain opportunity to sell all of your shares in KCE at a cash price in one transaction and free of brokerage

KCE shares are quoted on the Unlisted online trading platform.

Historically, there have been low volumes of trading of, and persons seeking to trade, KCE shares on Unlisted (often called share trading liquidity). This affects both the market price of KCE shares and the ability to buy and sell shares in KCE in reasonable parcel sizes. Trustpower's 65.07% shareholding and KCEP Trust's 19.98% shareholding have been a factor in this, as these two holdings (representing 85.05% 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). In the 12 months prior to 30 November 2017, a total of 42,388 KCE shares traded through Unlisted, representing just 0.17% of the total number of KCE shares.

Limited liquidity can have important consequences. It may hamper your ability to sell your KCE shares on Unlisted at the time that you wish at a price that you consider acceptable. Accordingly, a key benefit of KCE JV's offer is that it provides you with a certain opportunity to sell all of your shares in KCE at a cash price per share above historical levels on Unlisted, in one transaction and free of brokerage.

OTHER FACTORS FOR YOU TO CONSIDER

Competing offers are very unlikely

The members of KCE JV, Trustpower and KCEP Trust, together hold 85.05% of KCE's shares. Trustpower and KCEP Trust have agreed to accept KCE JV's offer.

As a result, the Independent Committee considers that it is very unlikely that a competing offer will be made during the KCE JV offer period.

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

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

Importantly, as Trustpower and KCEP Trust in aggregate hold 85.05% of KCE's shares and have agreed to accept KCE JV offer, KCE JV only requires acceptances in respect of a further 4.95% of KCE's shares to achieve the 90% compulsory acquisition threshold.

If KCE JV achieves 90% or more ownership of KCE, then KCE shares will cease to be quoted on Unlisted.

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

KCE JV's offer is not conditional on 90% acceptance. This means that KCE JV's offer may not result in KCE JV owning 90% of KCE shares. If KCE JV does not achieve 90% ownership (i.e. if it receives acceptances to the offer for less than 4.95% of KCE's shares), it will not be entitled to compulsorily acquire the remaining KCE shares.

Set out below is the Independent Committee's assessment of certain factors that are likely to be relevant to shareholders if KCE JV does not receive 90% acceptance to its offer.

Control of KCE

Trustpower and KCEP Trust have entered into an implementation agreement in respect of the offer. Under the implementation agreement, if the offer does not result in KCE JV achieving 90% ownership of KCE, all of the shares acquired under the offer will be acquired by Trustpower.

Accordingly, if the offer does not result in KCE JV achieving 90% ownership of KCE, Trustpower will maintain effective control of KCE. This means that:

- 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 will continue to have the ability to control the composition of KCE's Board of Directors. The KCE Board currently is comprised of six Directors, including two representatives of Trustpower and one representative of KCEP Trust. It is possible that in the future Trustpower will use its control position as majority shareholder to change the composition of the KCE Board.
- Trustpower will continue to 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

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

If KCE JV or Trustpower makes a follow-on offer in the future at a higher price, it 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 a higher price follow-on offer is made.

Post offer share price

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

Liquidity may decline

Following completion of KCE JV'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 sell your 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.

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. A key factor that influences the dividend policy is KCE's future earnings.

In this regard, if the offer does not result in KCE JV achieving 90% ownership of KCE, then Trustpower and KCEP Trust have agreed that they will assess whether KCE should sell KCE's electricity retail business to Trustpower.⁵ If this was to occur, KCE would receive a capital payment for the electricity retail business, but would not have the benefit of the earnings of that business after the sale.

⁵ For completeness, if the offer does result in KCE JV achieving 90% ownership of KCE JV, Trustpower will assess whether to buy KCE's electricity retail business from KCE. If Trustpower decides, within a prescribed timeframe, that it wishes to buy that business, then Trustpower and KCEP Trust will procure that KCE sells the electricity retail business to Trustpower on terms which have already been pre-agreed between Trustpower and KCEP Trust.

TARGET COMPANY STATEMENT (TAKEOVERS CODE DISCLOSURES)

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 an unincorporated joint venture (“**KCE JV**”) between King Country Energy Holdings Limited (“**Trustpower**”) and the trustees of the King Country Electric Power Trust (being Robert Carter, Graeme Cosford, Uwe Kroll, Adrian Doyle and Niel Groombridge) (“**KCEP Trust**”). 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 5 January 2018.

2. OFFER

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

2.2 At the date of this Target Company Statement:

- (a) Trustpower is a wholly owned subsidiary of NZX Main Board listed Trustpower Limited and the current holder of 65.07% of the KCE Shares; and
- (b) KCEP Trust is, at the date of this Target Company Statement, the current holder of 19.98% of the KCE Shares.

2.3 The full terms of the Offer are set out in KCE JV’s Offer Document dated 1 January 2018 (“**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) Robert Carter;
- (e) Vincent Hawksworth; and
- (f) Paul Ridley-Smith.

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 Officer⁶ of KCE, or their associates, is set out in the following table:

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
Robert Carter, Graeme Cosford, Uwe Kroll, Adie Doyle and Niel Groombridge as trustees of the King Country Electric Power Trust	Director / Associate of Robert Carter ⁷	5,027,778	Ordinary	19.98%
Brian Needham as sole trustee of the Needham Family Trust ⁸	Director	4,852	Ordinary	0.02%
Robert Carter	Director	1,770	Ordinary	0.00%

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 KCE JV'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
Trustpower	16,375,000	Ordinary	65.07%

⁶ 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 Heather Holland (Financial Controller and person fulfilling the role of Chief Financial Officer).

⁷ Robert Carter may be an associate of the other trustees of the KCEP Trust.

⁸ Brian Needham is a beneficiary of the Needham Family Trust.

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
KCEP Trust	5,027,778	Ordinary	19.98%

The information in the above table was provided in Schedule 1 to Offer Document or on behalf of KCEP Trust in response to a questionnaire circulated by KCE to KCEP Trust after receipt of KCE JV'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
- (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 2 January 2018 (being the latest practicable date before the date of this Target Company Statement) acquired or disposed of KCE Shares.

6.2 During the six month period before 2 January 2018 (being the latest practicable date before the date of this Target Company Statement) Trustpower acquired KCE Shares as set out in the table below.

Aggregate number of KCE Shares acquired or disposed of	Week commencing of acquisition or disposal	Consideration per KCE Share / weighted average consideration per KCE Share	Designation of KCE Shares	Acquisition or disposal
2,000	3 July 2017	\$4.45	Ordinary	Acquisition
340	10 July 2017	\$4.45	Ordinary	Acquisition

6.3 Except as set out in paragraph 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 2 January 2018 (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 their associates, has an interest in KCE Shares, except as set out in paragraphs 7.2 to 7.5.

7.2 Brian Needham holds 4,852 KCE Shares as sole trustee of a trust. Unless a higher value alternative proposal emerges, Mr Needham intends to accept the Offer for all of those KCE Shares.

- 7.3 Robert Carter is a trustee of KCEP Trust, which holds 5,027,778 KCE Shares. On 5 December 2017, Trustpower and KCEP Trust entered into an implementation agreement relating to KCE ("**Implementation Agreement**") under which Trustpower and KCEP Trust (a) established an unincorporated joint venture to undertake the Offer, (b) Trustpower agreed to accept the Offer in respect of all of its KCE Shares, and (c) KCEP Trust agreed to accept the Offer in respect of all of its KCE Shares.
- 7.4 Pursuant to the Implementation Agreement, KCEP Trust agreed that as soon as acceptances have been received in respect of the Offer (excluding any acceptance from Trustpower) that, when aggregated with the KCE Shares owned by Trustpower and KCEP Trust respectively, would result in Trustpower and KCEP Trust being (in aggregate) Dominant Owners (as defined in the Takeovers Code),⁹ KCEP Trust will accept the Offer for half of the KCE Shares owned by it, which will be registered into the name of KCEP Trust. Immediately upon such KCE Shares being registered into the name of KCEP Trust, KCEP Trust will accept the Offer for the balance of its KCE Shares, which will also be registered into the name of KCEP Trust.
- 7.5 Robert Carter holds 1,770 KCE Shares. As at the date of this Target Company Statement, Mr. Carter intends 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 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 2 January 2018 (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 2 January 2018 (being the latest practicable date before the date of this Target Company Statement).

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

- 10.1 On 5 December 2017, Trustpower and KCEP Trust entered into the Implementation Agreement. The Implementation Agreement is summarised in paragraphs 6.1, 8.1 and 8.3 of Schedule 1 to the Offer Document.
- 10.2 As at the date of this Target Company Statement, except as set out in paragraph 10.1, KCE is not aware of any agreement or arrangement (whether legally enforceable or not) that has been made, or is proposed to be made, between KCE JV 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.

⁹ Under the Takeovers Code, Trustpower and KCEP Trust will become the Dominant Owner of KCE when they become the holder or controller of 90% or more of the KCE Shares.

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

11.1 On 22 December 2017, KCE requested that, if the Offer results in KCE 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 confirmed it will do so.

11.2 Robert Carter is a director of KCE and is also a trustee of KCEP Trust. In his capacity as a trustee of KCEP Trust he has entered into the Implementation Agreement.

11.3 Except as set out in paragraphs 11.1 and 11.2, KCE is not aware of any agreement or arrangement (whether legally enforceable or not) that has been made, or is proposed to be made, between KCE JV or any associate of KCE JV 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.

11.4 Each Director of KCE is also a Director of each of KCE Mangahao Limited, KCE Retail Limited and KCE Generation Limited (the "**KCE Subsidiaries**"). KCE and the KCE Subsidiaries are related companies of Trustpower.

11.5 Vincent Hawksworth is a Director of each of KCE and King Country Energy Holdings Limited. Mr. Hawksworth is also:

- (a) the Chief Executive Officer of Trustpower Limited, the owner of all of the shares in King Country Energy Holdings Limited; and
- (b) a Director of Trustpower Metering Limited, Trustpower Insurance Limited, Hopsta Limited and GSP Energy Pty Limited, which are subsidiaries of Trustpower Limited.¹⁰

11.6 Paul Ridley-Smith is a Director of each of KCE and Trustpower Limited, the owner of all of the shares in KCE Holdings.

11.7 Robert Carter is a Director of KCE and is a trustee of KCEP Trust.

11.8 Except as set out in paragraphs 11.4 to 11.7, no Director or Senior Officer of KCE is also a Director or Senior Officer of KCE JV, or any related company of KCE JV.

12. AGREEMENTS BETWEEN KCE, AND DIRECTORS AND SENIOR OFFICERS

12.1 KCE is party to an individual employment agreement with Robert Foster, KCE's Chief Executive Officer. That agreement provides for the termination of Mr Foster's employment in certain circumstances, including in connection with a change of control of KCE.

12.2 KCE and Mr Foster have agreed that if KCE JV becomes the Dominant Owner of KCE, those termination provisions will apply, unless suitable redeployment opportunities are identified and mutually agreed.

12.3 KCE's and Mr Foster's current expectation is that if KCE JV becomes the Dominant Owner of KCE, Mr Foster's employment will be terminated and Mr Foster will serve out a three month period of 'gardening leave' (i.e. KCE will not require Mr Foster to work during that period, although Mr Foster may provide some transitional assistance to KCE and Trustpower). On termination, Mr Foster will be

¹⁰ This information is taken from Trustpower Limited's 2017 Annual Report.

entitled to certain payment entitlements under his individual employment agreement. Those entitlements were not agreed between Mr Foster and KCE in connection with, or in anticipation of, or in response to, the Offer.

- 12.4 Except as set out in paragraphs 12.1 to 12.3, KCE is not aware of any agreement or arrangement (whether legally enforceable or not) that 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 KCE JV OR RELATED COMPANY

- 13.1 The Directors or Senior Officers of KCE, or their associates, with an interest in any contract to which KCE JV, or any related company of KCE JV, is a party are set out in the table below.

Director, Senior Officer or associate	Particulars of the nature and extent of the interest	Monetary value of the interest (if quantifiable)
Robert Carter	On 5 December 2017, Trustpower and KCEP Trust (Robert Carter is a trustee of KCEP Trust) entered into the Implementation Agreement. The particulars of the Implementation Agreement are summarised in paragraphs 6.1, 8.1 and 8.3 of Schedule 1 to the Offer Document.	Not quantified by KCEP Trust.
Robert Foster	Party to an individual employment agreement with KCE.	Not required to be disclosed. ¹¹
Heather Holland	Party to a contractor agreement with KCE.	Not required to be disclosed. ¹²
Each Director of KCE	Beneficiary of a Director Deed of Indemnity under which KCE has agreed to indemnify each Director for acts and omissions in that capacity.	Not required to be disclosed. ¹³
Robert Foster and Heather Holland	Beneficiary of an Officer Deed of Indemnity under which KCE has agreed to indemnify each of the Senior Officers for acts and omissions in that capacity.	Not required to be disclosed. ¹⁴

¹¹ Clause 13(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.

¹² See footnote 11.

¹³ See footnote 11.

¹⁴ See footnote 11.

- 13.2 Except as set out in paragraph 13.1, KCE is not aware that any Director or Senior Officer of KCE, or their associates, has an interest in any contract to which KCE JV, or any related company of KCE JV, is a party.

13A INTERESTS OF KCE'S SUBSTANTIAL SECURITY HOLDERS IN MATERIAL CONTRACTS OF KCE JV 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 KCE JV, or any related company of KCE JV, 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 KCE JV or a related company of KCE JV is a party	Particulars of the nature and extent of the interest	Monetary value of the interest (if quantifiable)
Trustpower and KCEP Trust	On 5 December 2017, Trustpower and KCEP Trust entered into the Implementation Agreement. The particulars of the Implementation Agreement are summarised in paragraphs 6.1, 8.1 and 8.3 of Schedule 1 to the Offer Document.	Not quantified by Trustpower or KCEP Trust.
KCEP Trust	As KCEP Trust is both an offeror and a greater than 5% shareholder in KCE, KCEP Trust will have an interest in each of its own material contracts. KCEP Trust has not provided KCE with a list of those contracts (if any).	
Trustpower	As Trustpower is both an offeror and a greater than 5% shareholder in KCE, Trustpower will have an interest in each of its own material contracts. Trustpower has not provided KCE with a list of those contracts (if any).	
Trustpower Limited	Trustpower Limited, a related company of Trustpower, and KCE Mangahao Limited, which is a related company of KCE, are party to a Services Agreement relating to KCE's Mangahao power station.	Not required to be disclosed. ¹⁵
Trustpower Limited	Trustpower Limited, a related company of Trustpower, and KCE are party to a Wairere Falls, Mokauiti, Piriaka and Kuratau Hydro Electric Power	Not required to be disclosed. ¹⁶

¹⁵ 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.

¹⁶ See footnote 15.

Party to the material contract to which KCE JV or a related company of KCE JV is a party	Particulars of the nature and extent of the interest	Monetary value of the interest (if quantifiable)
	Stations Operations and Maintenance Services Agreement.	

- 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 KCE JV, or any related company of KCE JV, 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 KCE JV's 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, Linda Robertson and Brian Needham.

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 ACCEPT the Offer.**¹⁷
- 15.3 The factors which influenced the Independent Committee's considerations and recommendation to KCE Shareholders are addressed in more detail in the Why You Should Accept the Offer sections and the Other Factors for You to Consider 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 Vincent Hawksworth and Paul Ridley-Smith represent Trustpower 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 Robert Carter represents 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.

¹⁷ The Independent Committee may change its recommendation if a higher value alternative proposal emerges. However, the Independent Committee considers that it is very unlikely that such a proposal will emerge during the offer period.

16. ACTIONS OF KCE

No material arrangements

- 16.1 Except as set out in paragraph 10.1, KCE is not aware of any 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 paragraphs 10.1 and 16.3 of this Target Company Statement, and as disclosed in clauses 8 and 11 of Schedule 1 to the Offer Document, KCE is not aware of any negotiations underway 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.

- 16.3 The Board of KCE has resolved that, having used reasonable endeavours to do so, it cannot locate or contact certain holders of KCE Shares (“**No Address Shareholders**”). As at the date of this Target Company Statement, a list of the No Address Shareholders can be found on KCE’s website at <http://www.kce.co.nz/about-us/our-news/article/68/hundreds-of-missing-kce-shareholders-sought-nearly-680000-in-dividends-owed->. 334,235 KCE Shares are held by No Address Shareholders.

- 16.4 KCE has commenced a process, in accordance with clause 2.8 of KCE’s constitution, under which it is able, but not required, to:

- (a) acquire and cancel the KCE Shares of No Address Shareholders; or
- (b) arrange the sale of the KCE Shares of No Address Shareholders, including by accepting the Offer on behalf of the No Address Shareholders.

- 16.5 The earliest date on which KCE could take the steps set out in paragraph 16.4 is 17 January 2018.

- 16.6 If KCE acquires and cancels the KCE Shares, or arranges the sale of the KCE Shares (including by accepting the Offer), of No Address Shareholders, KCE would hold proceeds of acquisition or sale (less reasonable costs) on trust for No Address Shareholders, subject to the requirements of the Unclaimed Money Act 1971.

- 16.7 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 competing takeover 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 As at the date of this Target Company Statement KCE has 25,164,052 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

2017 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 15 months ended 31 March 2017) 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 half-year financial statements for the six months ended 30 September 2017 accompanies this Target Company Statement.

Changes in the financial position, trading position or prospects of KCE since the 2017 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 March 2018. In considering forecast information, shareholders should note that both forecasts 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 2 January 2018 (being the latest practicable date 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 KCE Shares	Consideration (gross)	Consideration (per share)
23 January 2017	1,475	\$6,490.00	\$4.40
30 January 2017	590	\$2,596.00	\$4.40
31 January 2017	410	\$1,804.00	\$4.40
1 February 2017	3,425	\$15,011.00	\$4.38 ¹⁸
22 February 2017	5,975	\$26,290.00	\$4.40
7 March 2017	230	\$1,012.00	\$4.40
16 March 2017	230	\$1,012.00	\$4.40
20 March 2017	230	\$1,012.00	\$4.40
10 April 2017	590	\$2,596.00	\$4.40
2 May 2017	1,000	\$4,400.00	\$4.40
19 May 2017	590	\$2,596.00	\$4.40
26 May 2017	590	\$2,596.00	\$4.40
29 May 2017	320	\$1,408.00	\$4.40
30 May 2017	8,635	\$37,994.00	\$4.40

¹⁸ There were two trades on this date at a high of \$4.40 and a low of \$4.35. The consideration per share was calculated by dividing the aggregate gross consideration by the aggregate number of KCE Shares.

Date of disposition	Number of KCE Shares	Consideration (gross)	Consideration (per share)
12 June 2017	590	\$2,596.00	\$4.40
13 June 2017	100	\$440.00	\$4.40
28 June 2017	2,065	\$9,189.25	\$4.45
29 June 2017	1,015	\$4,516.75	\$4.45
3 July 2017	1,770	\$7,876.50	\$4.45
7 July 2017	230	\$1,023.50	\$4.45
14 July 2017	340	\$1,513.00	\$4.45
3 August 2017	400	\$1,760.00	\$4.40
4 August 2017	2,065	\$9,086.00	\$4.40
10 August 2017	525	\$2,310.00	\$4.40
23 August 2017	1,815	\$7,986.00	\$4.40
4 September 2017	340	\$1,496.00	\$4.40
12 September 2017	590	\$2,596.00	\$4.40
25 September 2017	85	\$374.00	\$4.40
3 October 2017	845	\$3,718.00	\$4.40
4 October 2017	340	\$1,496.00	\$4.40
9 October 2017	590	\$2,596.00	\$4.40
13 November 2017	1,475	\$6,466.40	\$4.39 ¹⁹
22 November 2017	98	\$436.10	\$4.45

¹⁹ There were two trades on this date at a high of \$4.39 and a low of \$4.38. The consideration per share was calculated by dividing the aggregate gross consideration by the aggregate number of KCE Shares.

Date of disposition	Number of KCE Shares	Consideration (gross)	Consideration (per share)
28 November 2017	885	\$3,982.50	\$4.50
18 December 2017	1,015	\$5,024.25	\$4.95

23. MARKET PRICES OF QUOTED EQUITY SECURITIES UNDER OFFER

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

23.2 The closing price on the Unlisted trading platform of the KCE Shares on:

- (a) 22 December 2017, being the latest practicable working day before the date on which this Target Company Statement is sent to KCE shareholders, was \$4.95 per KCE Share; and
- (b) 5 December 2017, being the last day the Unlisted trading platform was open for business before KCE received KCE JV's Takeover Notice, was \$4.50 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 six months before the date on which KCE received KCE JV's Takeover Notice were as follows:

- (a) highest closing market price was \$4.50 per KCE share (from 28 November 2017 to 5 December 2017 inclusive); and
- (b) lowest closing market price was \$4.39 per KCE share (from 13 November 2017 to 21 November 2017 inclusive).

23.4 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.

23.5 On 6 June 2017, KCE paid a partially imputed dividend of 24.7 cents per KCE Share (comprised of 19.5 cents cash and 5.2 cents imputation credits per KCE Share). The record date for the dividend was 1 June 2017.

23.6 On 12 December 2017, KCE paid a partially imputed dividend of 22.2 cents per KCE Share (comprised of 20.0 cents cash and 2.2 cents imputation credits per KCE Share). The record date for the dividend was 4 December 2017.

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 the information in Schedule 1 to the Offer Document and the information provided to it by or on behalf of various persons, including Simmons Corporate Finance Limited, KCE Directors, KCE Senior Officers, Trustpower, Trustpower Limited and KCEP Trust.

Dominant Ownership

- 24.3 Under the Takeovers Code, if KCE JV becomes the holder or controller of 90% or more of the voting rights in KCE then it will become a 'Dominant Owner' and be entitled to compulsorily acquire the then outstanding KCE Shares in accordance with the Takeovers Code. KCE JV has indicated its intention to implement the right to compulsorily acquire the then outstanding KCE Shares should KCE JV become a dominant owner.


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 Vincent Hawksworth, Paul Ridley-Smith and Robert Carter are not members of the Independent Committee, for the reasons stated in paragraphs 15.4 and 15.5. 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 KCE under the Takeovers Code.

Signed by:



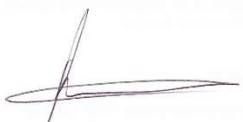
Toby Stevenson

Director and Chairman of the Independent Committee



Linda Robertson

Director and member of the Independent Committee



Robert Foster

Chief Executive Officer



Heather Holland

Financial Controller (fulfilling the role of Chief Financial Officer)

GLOSSARY

TERM	DEFINITION
Implementation Agreement	The implementation agreement dated 5 December 2017 between KCEP Trust and Trustpower
Independent Adviser	Simmons Corporate Finance Limited
Independent Adviser's Report	The report prepared by the Independent Adviser on the merits of the Offer under Rule 21 of the Takeovers Code
Independent Committee	The Independent Committee of Directors, comprising Toby Stevenson, Linda Robertson and Brian Needham
KCE	King Country Energy Limited
KCE JV	Means the unincorporated joint venture between Trustpower and KCEP Trust
KCE Shares	The fully paid ordinary shares in KCE
KCEP Trust	Robert Carter, Graeme Cosford, Uwe Kroll, Adie Doyle and Niel Groombridge as trustees of the King Country Electric Power Trust
Offer	The full takeover offer made by KCE JV under the Takeovers Code for all of the KCE Shares
Offer Document	KCE JV's Offer Document dated 5 January 2018 which sets out the full terms and conditions of the Offer
Trustpower	King Country Energy Holdings Limited, a wholly owned subsidiary of NZX Main Board listed Trustpower Limited
Trustpower Shares	Any class of equity security of Trustpower

DIRECTORY

Board of Directors	Toby Stevenson (Chairman) Linda Robertson Brian Needham Robert Carter Vincent Hawksworth Paul Ridley-Smith
Independent Adviser	Simmons Corporate Finance Limited
Financial Adviser	West Coast Capital Limited
Legal Adviser	Harmos Horton Lusk Limited
Share Registry	Link Market Services Limited
Postal Address	King Country Energy Limited PO Box 363 Taumarunui 3946
Contact Phone Number	0800 523 637 or (07) 896 0100
Website	www.kce.co.nz

APPENDIX

Independent Adviser's Report

King Country Energy Limited

Independent Adviser's Report

In Respect of the Full Takeover Offer by the King Country Energy Joint Venture

December 2017

Statement of Independence

Simmons Corporate Finance Limited confirms that it:

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

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

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1. Introduction

1.1 King Country Energy Limited

King Country Energy Limited (**King Country Energy** or the **Company**) is the leading electricity generator and retailer in the King Country, Waitomo and Ruapehu regions of the North Island. The Company owns and operates 5 hydro generation stations with a combined capacity of 54 megawatts (**MW**) which together generate an average of 194 gigawatt hours (**GWh**) of electricity per annum. The Company supplies approximately 234 GWh of electricity per annum to around 16,400 retail customers.

King Country Energy currently has 25,164,052 ordinary shares on issue held by 4,681 shareholders. Its 2 largest shareholders are:

- King Country Energy Holdings Limited (**KCEHL**), which holds 16,375,000 shares (65.07%). KCEHL is a wholly-owned subsidiary of Trustpower Limited (**Trustpower**)
- King Country Electric Power Trust (**KCEP Trust**), which holds 5,027,778 shares (19.98%).

The remaining 3,761,274 shares (14.95%) are held by the other 4,679 shareholders.

The Company's shares are quoted on the Unlisted securities trading facility (**Unlisted**). King Country Energy's market capitalisation was \$125 million as at 29 December 2017 and its unaudited total equity was \$131 million as at 30 November 2017.

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

1.2 KCE JV Offer

On 5 December 2017, KCEHL and the trustees of the KCEP Trust entered into an implementation agreement relating to King Country Energy (the **Implementation Agreement**), under which:

- they established an unincorporated joint venture King Country Energy Joint Venture (**KCE JV**) to make a full takeover offer for King Country Energy (the **KCE JV Offer**)
- KCEHL agreed to accept the KCE JV Offer in respect of all of its King Country Energy ordinary shares
- the KCEP Trust agreed to accept the KCE JV Offer in respect of all of its King Country Energy ordinary shares.

On 6 December 2017 KCE JV issued a notice of intention to make a full takeover offer (the **KCE JV Takeover Notice**) under the Takeovers Code (the **Code**) for all of the ordinary shares in King Country Energy.

KCE JV intends to send its Offer Document to King Country Energy's shareholders on or about 5 January 2018.

Number of Shares Sought

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

KCE JV does not currently hold any ordinary shares in King Country Energy.

Collectively, KCEHL and the KCEP Trust currently hold 21,402,778 ordinary shares, representing 85.05% of the Company's shares.

Consideration

KCE JV is offering cash of \$5.00 for each King Country Energy ordinary share.

Conditions

The KCE JV Offer is subject to the satisfaction of the following conditions:

- King Country Energy not declaring or paying any dividends, bonuses or other payments or distributions (other than the interim gross dividend of \$0.222 per share paid on 12 December 2017)
- no changes being made to the capital structure of the Company
- no changes being made to the rights, privileges, benefits, entitlements or restrictions attaching to the Company's shares
- no material proceedings against the Company arise
- the business of the Company is carried on, in all material respects, in the normal and ordinary course
- there is no alteration to King Country Energy's constitution
- no liquidator, receiver, manager, administrator, statutory manager or similar official is appointed
- the Company does not merge or amalgamate with any third party or be liquidated
- no material adverse events occur.

Any of the conditions may be waived by KCE JV at its discretion.

Offer Dates

The KCE JV Offer is to be dated 5 January 2018.

The offer closes at 11.59pm on 16 February 2018 (unless extended by KCE JV in accordance with the provisions of the Code).

Agreement to Accept the KCE JV Offer

No shareholder has agreed conditionally or unconditionally to accept the KCE JV Offer other than KCEHL and the KCEP Trust under the Implementation Agreement.

Previous Takeover Offer

KCEHL made a full takeover offer for all of the shares in King Country Energy on 2 December 2015 (the **2015 Offer**).

The 2015 Offer arose following a contestable sale process undertaken by Nova Energy Limited (**Nova**) in respect of Nova's (then) 54.07% shareholding in the Company.

Nova accepted Trustpower's final proposal to acquire Nova's shareholding in the Company and entered into a lock up agreement on 1 November 2015 to accept the 2015 Offer. Under the 2015 Offer, KCEHL offered cash of:

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

The 2015 Offer closed on 12 February 2016, with KCEHL acquiring 16,339,846 shares (64.55%) at \$4.78 each, including 13,685,521 shares from Nova.

1.3 Trustpower Limited

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

Trustpower owns and operates 29 hydro power stations in New Zealand as well as a diesel power station and 3 hydro power stations in Australia with a combined capacity of 532 MW.

Trustpower supplies electricity to approximately 258,000 customers, gas to approximately 37,000 customers and retails telephone and internet services to approximately 80,000 customers throughout New Zealand.

Trustpower's shares are listed on the main equities securities market (the **NZX Main Board**) operated by NZX Limited (**NZX**). Trustpower's market capitalisation was \$1.9 billion as at 29 December 2017 and its unaudited total equity was \$1.4 billion as at 30 September 2017.

A profile of Trustpower is set out in section 5.

1.4 King Country Electric Power Trust

The KCEP Trust is a consumer trust that was established in 1993 by the King Country Electric Power Board (**KCPB**). Its beneficiaries are the electricity customers connected to the lines network within the area where the KCPB was licensed to supply.

The KCEP Trust's 19.98% shareholding in King Country Energy represented 53% of its trust funds as at 31 March 2017.

A profile of the KCEP Trust is set out in section 5.

1.5 Regulatory Requirements

Rule 6 of the Code prohibits:

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

unless the person complies with exceptions to this fundamental rule.

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

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

1.6 Purpose of the Report

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

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

Simmons Corporate Finance was approved by the Takeovers Panel on 8 December 2017 to prepare the Independent Adviser's Report.

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

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

2. Evaluation of the Merits of the KCE JV Offer

2.1 Basis of Evaluation

Rule 21 of the Code requires an evaluation of the merits of the KCE JV Offer.

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

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 20 June 2017
- 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 KCE JV Offer should focus on:

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

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

2.2 Background to the KCE JV Offer

2015 Offer

KCEHL acquired its shareholding in King Country Energy following the contestable sale process undertaken by Nova in 2015 which resulted in KCEHL making the 2015 Offer.

The 2015 Offer closed on 12 February 2016, with KCEHL acquiring 16,339,846 shares at \$4.78 per share, of which 13,685,521 shares were acquired from Nova. KCEHL held 64.55% of the Company's shares at the completion of the 2015 Offer.

The KCEP Trust did not accept any of its shares into the 2015 Offer.

KCEHL subsequently acquired 35,154 shares between 5 April 2017 and 14 July 2017 at prices ranging from \$4.40 to \$4.78 at a volume weighted average share price (**VWAP**) of \$4.73.

Upon the 2015 Offer being declared unconditional, the 2 Nova appointees to the Board resigned and were replaced with 2 Trustpower appointees.

In announcing the 2015 Offer, Trustpower emphasised the strategic fit between the 2 companies. Trustpower stated that King Country Energy's small / medium sized North Island hydro power stations and provincial customer base fit well with Trustpower's New Zealand business and core operational competencies.

Trustpower now operates the Company's 5 power stations under management services agreements.

Implementation Agreement

KCEHL and the KCEP Trust have entered into the Implementation Agreement, which established KCE JV and governs the terms upon which the KCE JV Offer is to be made.

The material terms of the Implementation Agreement are:

- KCEHL and the KCEP Trust formed KCE JV (an unincorporated joint venture) to make the KCE JV Offer and, if applicable, to implement the compulsory acquisition procedures in Part 7 of the Code (the **Compulsory Acquisition**)
- KCEHL and the KCEP Trust agreed to form a steering committee for KCE JV (the **Steering Committee**) which has the power and authority to govern and control KCE JV in relation to all matters in respect of the KCE JV Offer and the Compulsory Acquisition
- the Steering Committee will seek to work with the Board to finalise the terms of the KCE JV Offer, based on the draft offer terms attached to the Implementation Agreement
- KCEHL and the KCEP Trust agreed that the Steering Committee would seek to work with the Company to agree timelines so as to seek to undertake the KCE JV Offer in a co-operative manner, in particular so that:
 - the Offer Document could be sent to King Country Energy shareholders together with the Company's Target Company Statement
 - the Board unanimously recommends to the Company's shareholders to accept the KCE JV Offer
- each of KCEHL and the KCEP Trust agreed to use its reasonable endeavours to implement the KCE JV Offer and, if applicable, the Compulsory Acquisition in accordance with the timetable attached to the Implementation Agreement
- KCEHL agreed that:
 - as soon as reasonably practicable following the making of the KCE JV Offer, KCEHL will accept the offer for all of its 16,375,000 shares
 - KCEHL will pay the offer price in respect of all shares acquired by KCE JV pursuant to the KCE JV Offer (other than the shares owned by the KCEP Trust) and all shares acquired pursuant to the KCE JV Offer will be registered into the name of KCEHL (other than the shares owned by the KCEP Trust which will be registered into the name of the KCEP Trust)

- the KCEP Trust agreed that:
 - as soon as acceptances have been received in respect of the KCE JV Offer (excluding any acceptance from KCEHL) that, when aggregated with the shares owned by KCEHL and the KCEP Trust respectively, would result in KCEHL and the KCEP Trust being (in aggregate) a dominant owner (which is defined in the Code as holding or controlling 90% or more of the voting rights in a code company), the KCEP Trust will accept the offer for half of the shares it owns, which will be registered into the name of the KCEP Trust. Immediately upon such shares being registered into the name of the KCEP Trust, the KCEP Trust will accept the KCE JV Offer for the balance of its shares, which will also be registered into the name of the KCEP Trust
 - it will pay the offer price in respect of the shares in respect of which it accepts the KCE JV Offer
- if KCEHL and the KCEP Trust have not (in aggregate) become the dominant owner by the date that is 20 days before the scheduled closing date of the KCE JV Offer, the representatives of KCEHL on the Steering Committee will determine if the offer period should be extended and whether any other variations to the offer which are permissible pursuant to the Code should be made
- KCEHL and the KCEP Trust each agree that, unless the Implementation Agreement is terminated in accordance with its terms or the KCE JV Offer lapses in accordance with its terms or is withdrawn in accordance with the Code, it will not dispose of, encumber or deal in any way with any of its shares (except as contemplated above or following entry into the shareholders' agreement contemplated below)
- each of KCEHL and the KCEP Trust agrees that, except as expressly set out in the Implementation Agreement, it will not acquire any further legal or beneficial interests in any shares in the Company, increase its holding or control of voting rights in King Country Energy, or otherwise take any action if it would result in a breach of the Code
- immediately following the close of the KCE JV Offer, if KCEHL and the KCEP Trust have become (in aggregate) the dominant owner, KCE JV will implement the Compulsory Acquisition and the consideration payable under such sale will be paid by KCEHL and all shares acquired under such sale will be registered into the name of KCEHL
- if KCEHL and the KCEP Trust do not become (in aggregate) the dominant owner in relation to King Country Energy by reason of acceptances of the KCE JV Offer and do not, therefore, implement the Compulsory Acquisition, then, upon the close of the KCE JV Offer, KCEHL and the KCEP Trust will not be obligated to take the steps contemplated below
- on completion of the Compulsory Acquisition:
 - KCEHL and the KCEP Trust will enter into a shareholders' agreement in the form appended to the Implementation Agreement relating to their respective rights and obligations as shareholders of the Company (which agreement, amongst other things, contains a call option allowing the KCEP Trust to acquire from KCEHL such number of shares as represents 5% of the total shares on issue on the date such acquisition is completed)
 - KCEHL and the KCEP Trust will each have the right to appoint directors to the Company and its subsidiaries in accordance with the shareholders' agreement and the Implementation Agreement

- KCEHL will assess whether King Country Energy and KCE Retail Limited (**KCE Retail**) should dispose of their electricity retail business and, if KCEHL determines that such sale is appropriate before the date that is 6 months after completion of the Compulsory Acquisition, then KCEHL and the KCEP Trust will procure that King Country Energy and KCE Retail enter into a retail business sale and purchase agreement with Trustpower, which agreement will be in the form appended to the implementation Agreement, with such changes to that agreement as may be reasonably requested by KCEHL and approved by the KCEP Trust (such approval not to be unreasonably withheld, conditioned or delayed, other than in respect of changes to price or value approval of which may be withheld by the KCEP Trust, at its discretion).

In summary, the implications of the Implementation Agreement in respect of the KCE JV Offer are:

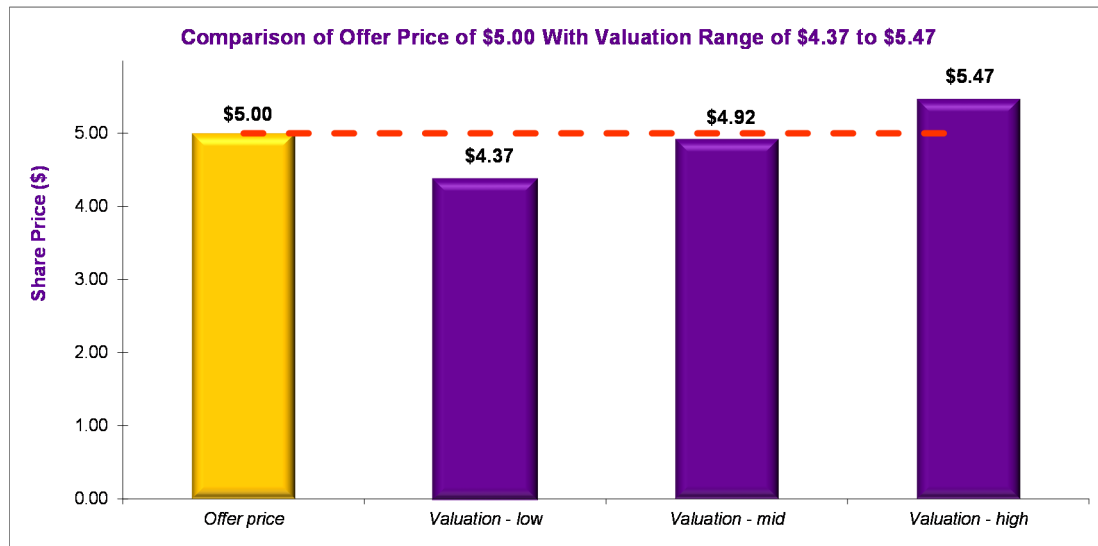
- KCEHL will immediately accept its 65.07% shareholding into the KCE JV Offer
- the KCEP Trust will only accept its 19.98% shareholding into the KCE JV Offer if at least 4.95% of the shares held by shareholders other than KCEHL or the KCEP Trust (the **Free Float**) are accepted into the offer, thereby reaching the 90% dominant owner threshold
- if Free Float acceptances are of a sufficient level that KCEHL and the KCEP Trust become the dominant owner, KCE JV will compulsorily acquire the remaining shares in the Company
- following the Compulsory Acquisition:
 - KCEHL will hold 80.02% of the Company's shares
 - the KCEP Trust will hold 19.98% of the Company's shares (ie its current level) with a call option over 5.0% of the Company's shares held by KCEHL.

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

In our opinion, the full underlying value of King Country Energy is in the range of \$4.37 to \$5.47 per share, as set out in section 6.

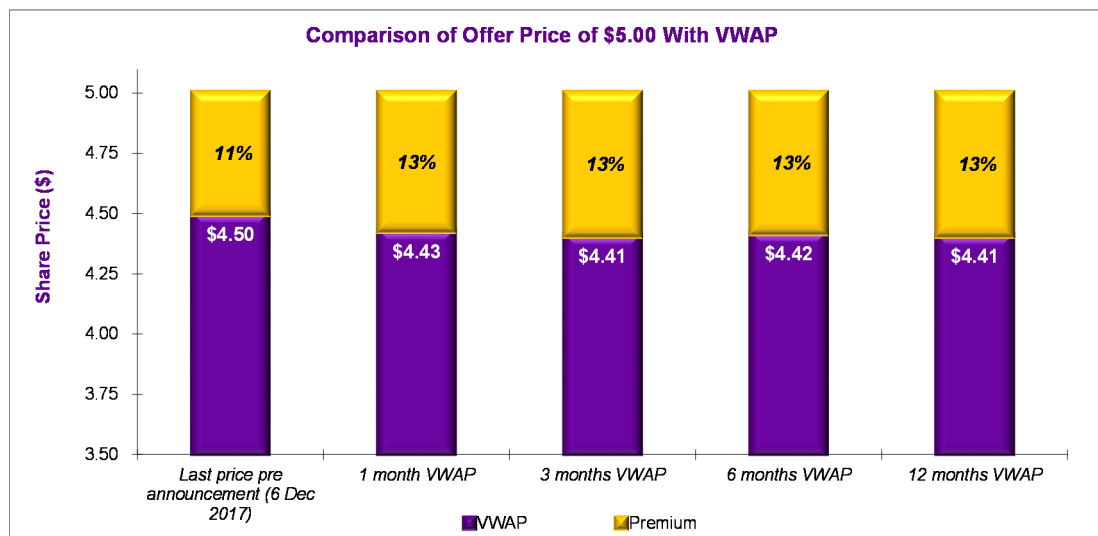
This value is for 100% of King Country Energy based on its current strategic and operational initiatives and therefore reflects the value of control. However, it excludes the value of any synergies that an acquirer may derive from acquiring full control of King Country Energy.

The KCE JV Offer consideration of \$5.00 per share is within our assessed valuation range. The price is just above the \$4.92 midpoint of our valuation range.



2.4 King Country Energy's Share Price Compared with the Offer Price of \$5.00

The KCE JV Offer of \$5.00 per share represents a premium of 11% over \$4.50 (being the last trading price before the KCE JV Offer was announced on 7 December 2017) and a premium of 13% over the Company's VWAP measured over one to 12 months prior to the announcement of the KCE JV Offer.



The premia are towards the lower end of the range of premia observed in successful takeovers of listed companies.

We note that trading in the Company's shares is extremely thin with only 1.1% of the Free Float traded in the year prior to the announcement of the KCE JV Offer. In our view, the combination of an illiquid share and limited earnings guidance provided by the Company means that the observed share prices may not be a totally reliable indicator of the fair market value of King Country Energy's shares.

Since the announcement of the KCE JV Offer on 7 December 2017, 1,015 King Country Energy shares have traded on one day at \$4.95 per share.

2.5 Potential Synergies

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

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

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

It is not anticipated that any significant additional synergies would be achieved from the generation business. Trustpower currently performs operational management for King Country Energy's generation business under 2 management services agreements:

- under the Mangahao management services agreement, Trustpower is paid a management fee of \$0.12 million per annum and King Country Energy pays for all direct operating costs of the station and administers the accounting function
- under the management services agreement for the 4 King Country hydro schemes, Trustpower pays all the direct operating costs of the scheme and invoices the Company a monthly amount.

2.6 Conditions of the KCE JV Offer

The conditions of the KCE JV Offer relate to distributions, capital structure and business operations.

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

The KCE JV Offer is not conditional on KCE JV receiving a certain level of acceptances. The Implementation Agreement ensures that KCEHL will accept its 65.07% shareholding into the KCE JV Offer and that the KCEP Trust will accept its 19.98% shareholding into the offer if, collectively, all acceptances (ie KCEHL, the KCEP Trust and the Free Float) total at least 90%.

KCE JV will be obliged to pay the consideration price of \$5.00 per share to accepting shareholders no later than 7 days after the later of:

- the date on which the KCE JV Offer is declared unconditional
- the date on which the shareholder's acceptance of the offer is received by KCE JV
- 16 February 2018.

2.7 Potential Outcomes

KCE JV Secures 90% or More of the Shares

If, as a result of the KCE JV Offer, KCE JV secures 90% or more of the shares in King Country Energy, KCE JV will have the right to, and is obligated under the Implementation Agreement to, compulsorily acquire the remaining shares under Part 7 of the Code.

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

In order for KCE JV to secure 90% or more of the shares under the KCE JV Offer, it would need to receive acceptances of at least 1,244,869 shares (4.95%) from the Free Float in addition to KCEHL's 65.07% shareholding and the KCEP Trust's 19.98% shareholding.

The Free Float accounts for 14.95% of the total shares on issue. The 1,244,869 shares needed by KCE JV in order to reach the 90% acceptance level represents 33.10% of the Free Float.

Under the Implementation Agreement, following the Compulsory Acquisition:

- KCEHL will hold 80.02% of the Company's shares
- the KCEP Trust will hold 19.98% of the Company's shares (ie its current level) with a call option over 5.0% of the Company's shares held by KCEHL.

KCE JV Secures Less Than 90% of the Shares

KCE JV is guaranteed to receive acceptances of at least 65.07%, being KCEHL's shareholding.

If KCE JV receives acceptances for at least 65.07% but less than 90% of the shares, then KCE JV will not be able to implement the Compulsory Acquisition and the KCEP Trust will retain its 19.98% shareholding in the Company. Therefore the shareholding position will be similar to that which exists at present:

- Trustpower (through KCEHL) is able to control appointments to the Board
- Trustpower (through KCEHL) is able to control the outcome of any ordinary resolution (greater than 50% of votes cast acceptance level) and most likely any special resolution (75% of votes cast acceptance level) put to shareholders
- Trustpower has not made any public announcement as to whether King Country Energy's shares would remain quoted on Unlisted. Even if the Company's shares continued to be quoted on Unlisted, if KCE JV acquires any Free Float shares under the KCE JV Offer, then the size of the Free Float will decrease, which will likely lead to a further reduction in the liquidity of the Company's shares which in turn may suppress the price at which King Country Energy's shares trade in the future
- the attraction of King Country Energy as a takeover target is limited
- Trustpower (through KCEHL) is permitted to *creep* towards the 90% threshold over time by buying up to a further 5% per annum in accordance with Rule 7(e) of the Code. KCEHL's ability to *creep* in the first 12 months after the KCE JV Offer closes will depend on the level of acceptances into the offer. However, Trustpower does not have to wait 12 months to make another takeover offer after the current offer closes

- if *creeping* results in KCEHL holding or controlling 90% or more of the Company's shares, it could then invoke the compulsory acquisition provisions of the Code. The compulsory acquisition price would be a price certified as fair and reasonable by an independent adviser
- depending on KCEHL's level of shareholding after the KCE JV Offer has closed, Trustpower may decide to make another takeover offer at a later date (often referred to as a "mop up" offer). However, there is no certainty that such a mop up offer would occur and it is possible that such an offer could be at a discount to the current offer if King Country Energy's share price dropped significantly. It is also possible that a mop up offer could be at a premium to the current offer prices. The KCE JV Offer is effectively a mop up offer to the 2015 Offer and is at a premium to the price paid under the 2015 Offer
- unless a mop up offer is anticipated by the market, King Country Energy's shares are likely to trade at levels below the KCE JV Offer price of \$5.00 following the close of the KCE JV Offer (assuming they continue to be quoted on Unlisted). This was the case after the 2015 Offer, where the Company's shares have traded between \$4.30 and \$4.80 at a VWAP of \$4.40
- non-accepting shareholders are unlikely to face any material change in business risk as the Company's operating policies are unlikely to be changed (positively or negatively) due to Trustpower's possible increased shareholding in the Company, other than possibly in respect of KCE Retail (as discussed in section 2.2 on page 8)
- non-accepting shareholders may face a change in the Company's dividend policy. King Country Energy has paid virtually all of its after tax profits as dividends. However, there is no certainty that the Company will maintain this practice.

2.8 Likelihood of Alternative Takeover Offers is Remote

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

The Implementation Agreement creates a significant impediment to an alternative takeover offer as the KCEP Trust has agreed to accept the KCE JV Offer if total acceptances (including the trust's) reach 90%.

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

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

2.9 Likelihood of KCE JV Increasing the Offer Price is Limited

Given that the likelihood of an alternative takeover offer is considered to be remote, we consider it unlikely that KCE JV will increase its offer price of \$5.00.

In the event that KCE JV did not receive sufficient acceptances to reach the 90.0% compulsory acquisition threshold, we are of the view that rather than increase the offer price, KCE JV is more likely to let the offer close and evaluate whether it (or KCEHL) makes a mop up offer sometime in the future to acquire the remaining shares in the Company. Prior to undertaking a mop up offer, we would expect Trustpower to once again engage in discussions with KCEP Trust regarding its 19.98% shareholding. Any mop up offer would likely be in conjunction with a lock up agreement with KCEP Trust similar to the Implementation Agreement.

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

2.10 Advantages of Accepting the KCE JV Offer

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

Acceptance of the offer will enable shareholders to realise cash of \$5.00 per share and not incur any brokerage costs.

The offer price of \$5.00 per share is a premium of 13% on the levels that the shares have traded in the past year prior to the announcement of the KCE JV Offer.

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

2.11 Disadvantages of Accepting the KCE JV Offer

Forego Possible Future Uplift in King Country Energy Share Price

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

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

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

Inability to Transact Accepting Shares

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

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

- we consider the possibility of an alternative takeover offer to be remote
- since the announcement of the KCE JV Offer, only 1,015 shares have traded on Unlisted on one day at \$4.95 per share.

2.12 Implications of Not Accepting the KCE JV Offer

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

If KCE JV does not reach the 90% acceptance level, then shareholders who do not accept the KCE JV Offer will continue as shareholders in a company whose shares may or may not be quoted on Unlisted and will be subject to the issues set out in section 2.7 *KCE JV Secures Less Than 90% of the Shares*.

2.13 Impact on King Country Energy Share Price if the KCE JV Offer is not Successful

King Country Energy's shares have traded between \$4.39 and \$4.50 in the year prior to the announcement of the KCE JV Offer on 7 December 2017. 1,015 shares have traded since then, at \$4.95 per share.

Following the conclusion of the KCE JV Offer, we are of the view that the Company's share price will likely revert closer to its trading range prior to the announcement of the KCE JV Offer if the Company's shares remain quoted on Unlisted. This is what happened after the 2015 Offer closed.

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

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

2.14 Summary of Evaluation of the Merits of the KCE JV Offer

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

- KCE JV is assured of holding at least 65.07% of the Company's shares through the Implementation Agreement (being the KCEHL shareholding)
- under the Implementation Agreement, the KCEP Trust will accept its 19.98% shareholding into the offer if total acceptances (including the trust's) reach 90%. KCE JV will then be the dominant owner and will compulsorily acquire the remaining shares in the Company

- in order for KCE JV to reach the 90% dominant owner threshold, it will require 4.95% of the Company's shares to be accepted into the offer from the Free Float
- we assess the full underlying value of King Country Energy's shares to be in the range of \$4.37 to \$5.47 per share. The KCE JV Offer price of \$5.00 per share is within our assessed valuation range, just above the \$4.92 midpoint of the range
- the KCE JV Offer of \$5.00 per share represents a premium of 13% over the Company's VWAP for the past year up to the announcement of the KCE JV Offer. However, trading in the Company's shares is extremely thin and therefore does not necessarily represent a strong indication of the fair market value of King Country Energy's shares
- Trustpower (through KCEHL) already has significant control over the Company in that it is able to singlehandedly control the outcome of any ordinary resolution and block any special resolution and control appointments to the Board
- the likelihood of an alternative takeover offer or KCE JV increasing its offer price is remote
- assuming the KCE JV Offer does not lead to the Compulsory Acquisition, there is no guarantee that King Country Energy's shares will remain quoted on Unlisted.

The main advantage for shareholders of accepting the KCE JV Offer is that they will be able to realise cash of \$5.00 per share for their shares without having to pay brokerage. This represents an exit opportunity for all shareholders which is not readily available on Unlisted (particularly for larger parcels of King Country Energy shares) as the shares are thinly traded and is at a premium price.

The offer price aligns with our assessment of the value of King Country Energy's shares.

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

Those shareholders who wish to accept the KCE JV Offer should do so as soon as it is declared unconditional and thereby receive cash of \$5.00 per share within 7 days of either the acceptance or 16 February 2018.

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

- following the KCE JV Offer, Trustpower (through KCEHL) will continue to control King Country Energy as it will hold at least 65.07% of the Company's shares and it already has 2 appointees on the Board
- there is no certainty that the Company's current dividend policy of paying out most of its after tax profits will continue

- Trustpower (through KCEHL) will be able to continue to *creep* over time towards the 90% shareholding threshold to enable it to invoke the compulsory acquisition provisions of the Code
- trading in the shares is currently extremely thin and liquidity will likely diminish following the completion of the KCE JV Offer. Furthermore, there is no guarantee that the Company's shares will remain quoted on Unlisted.

2.15 Acceptance or Rejection of the KCE JV Offer

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

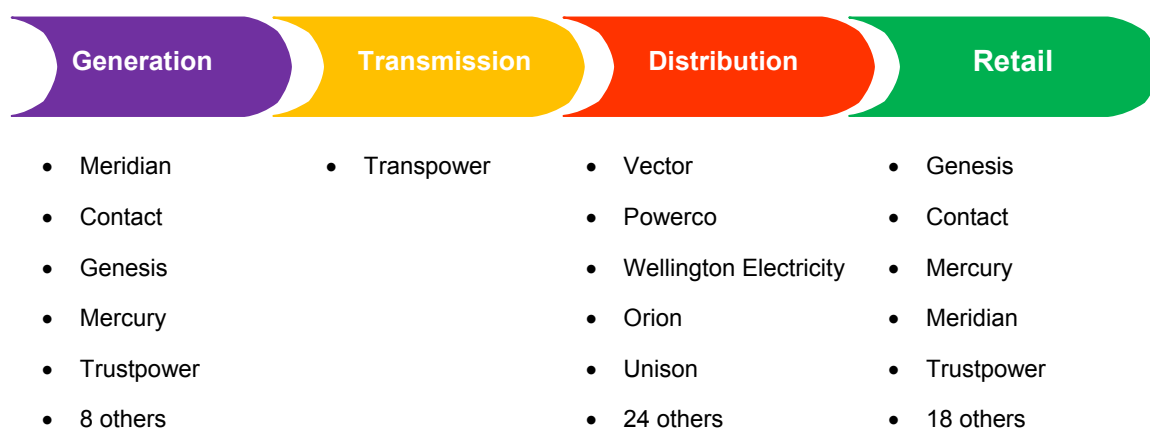
3. Overview of the Electricity Industry

3.1 Industry Structure

The New Zealand electricity industry comprises 4 main activities:

- generation
- transmission
- distribution
- retail.

The main industry participants are set out below.



Generation

New Zealand's electricity is generated by hydro-electric, thermal, geothermal and wind power stations. New Zealand's current generation capacity is approximately 10,000 megawatts (**MW**). Approximately 60% of current generation capacity is hydro-electric.

Of the main generation companies, Meridian, Genesis and Mercury (formerly Mighty River Power Limited) are former state-owned enterprises (**SOEs**) who, with Contact and Trustpower are all listed on the NZX Main Board. These 5 companies produced approximately 91% of New Zealand's electricity in 2017.

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

Transmission

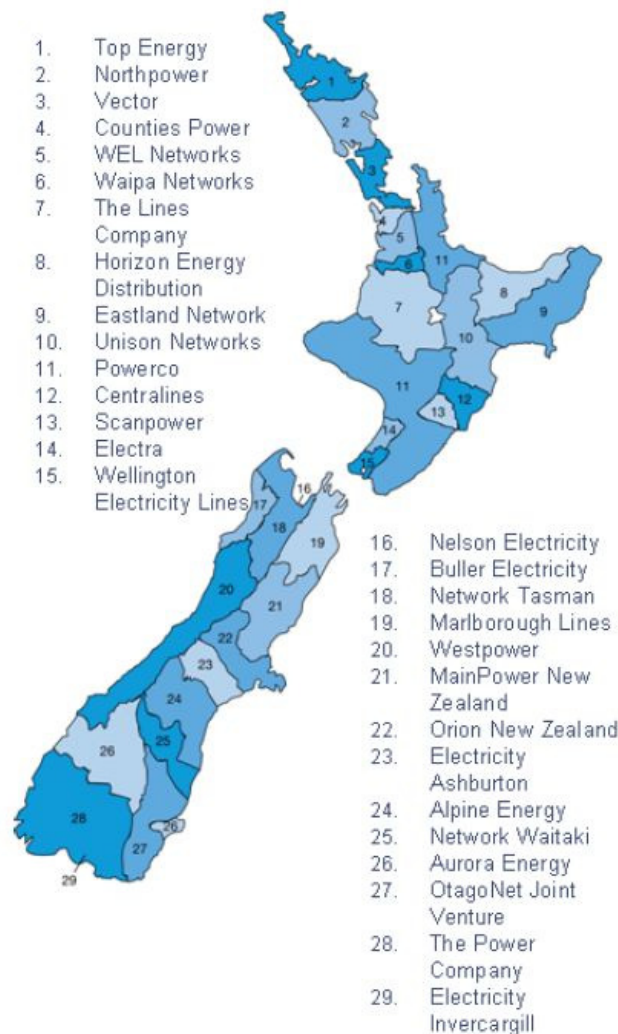
Transpower New Zealand Limited (**Transpower**) owns and operates New Zealand's high-voltage electricity grid, comprising 11,599 km of high voltage transmission lines, 175 substations, pylons and high voltage cables. Transpower is responsible for transmitting electricity produced by generators from over 50 power stations to around 200 grid exit points (**GXPs**) around New Zealand. The GXPs are the points of supply from the national grid to local distribution networks.

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

Distribution

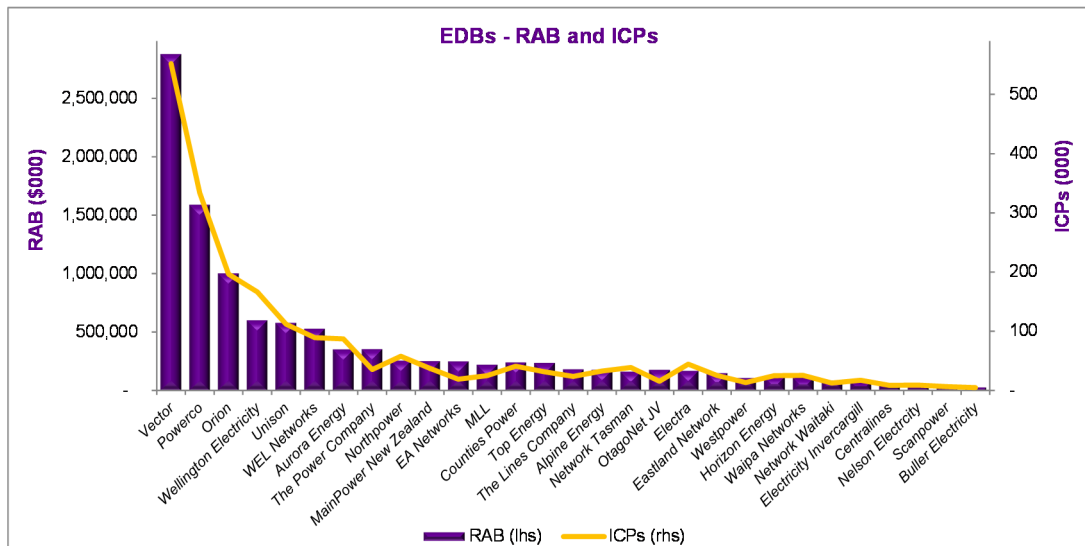
Distribution is the service of transporting electricity from GXP's through to industrial, commercial and residential consumers. There are 153,044 km of distribution lines in New Zealand. The distribution networks also include substations which convert electricity to lower voltages.

There are currently 29 EDBs operating in New Zealand.



Source: Electricity Networks Association

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



Source: PricewaterhouseCoopers Electricity Line Business 2017 Information Disclosure Compendium

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

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

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

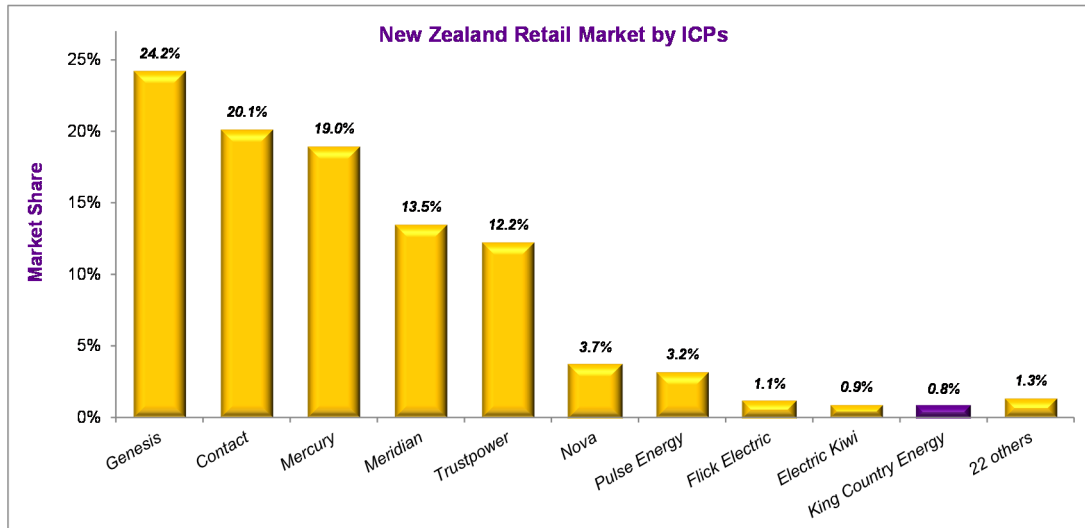
- EDBs are able to sell up to 100% of nominal output capacity of permitted generation
- EDBs are able to trade in financial hedges to manage spot market risk
- corporate separation and compliance with arms-length rules were relaxed to:
 - permit investment in up to 10 MW without having to comply with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

Retail

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

There are currently 32 electricity retailers in New Zealand and over 2.1 billion customers.

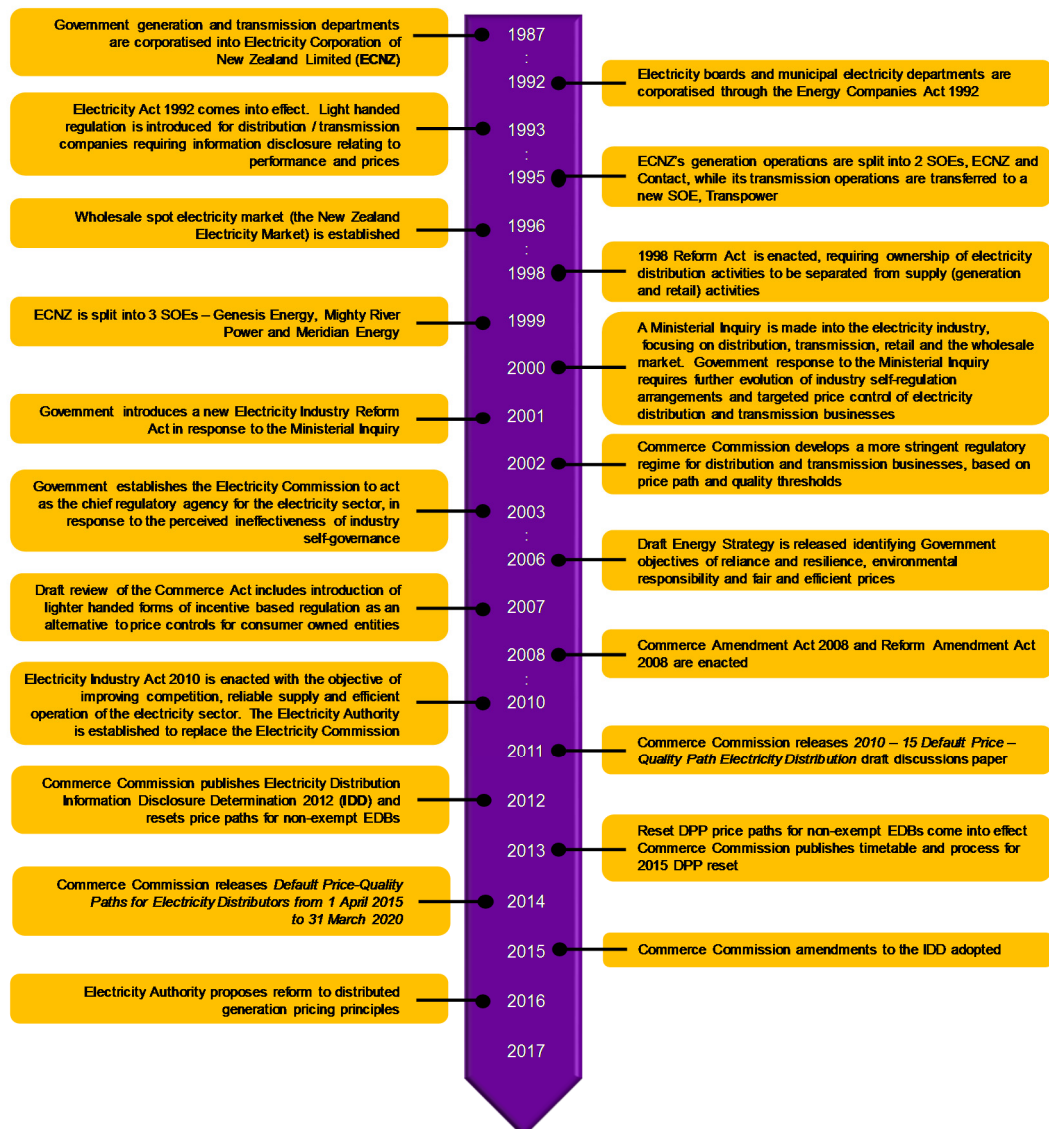
The market share of electricity retailers as at November 2017 is set out below.



Source: Electricity Authority, data as at November 2017

3.2 Industry Development

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



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

3.3 Regulatory Environment

Electricity Authority

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

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

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

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

To answer these questions the Electricity Authority:

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

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

Market Administration

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

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

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

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

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

Competition

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

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

3.4 Wholesale Electricity Market

Spot Market

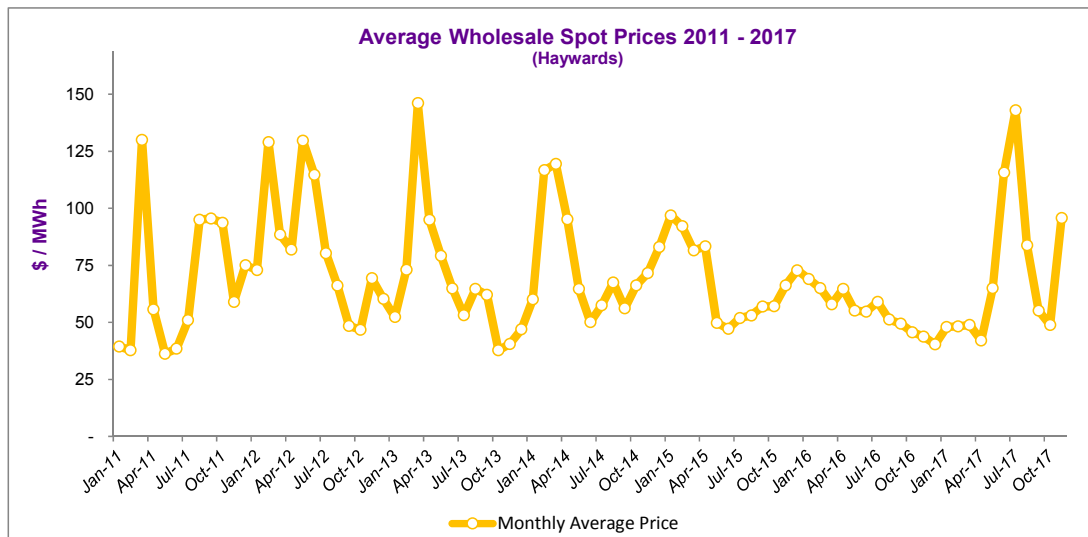
Retailers and a small number of large industrial users buy electricity directly from the spot market. These parties will typically also enter into financial contracts (hedges) which smooth out some or all of the volatility in spot prices. Jointly, the spot and hedge markets are the major components of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

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

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

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

Prices are established half hourly at approximately 248 different points of connection (nodes) to the national grid located across the country. One of the most common wholesale prices quoted is that at Haywards (near Wellington). The graph below shows that the average monthly Haywards spot prices have varied considerably in the past 7 years, ranging from a low of \$36.31 per MWh in May 2011 to a high of \$146.05 per MWh in March 2013.



Source: Electricity Authority

Hedge Market

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

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

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

Market Administration

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

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

Settlement and Prudentials

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

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

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

4. Profile of King Country Energy

4.1 Background

King Country Energy was incorporated on 4 January 1991 and took over the KCPB electricity operations.

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

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

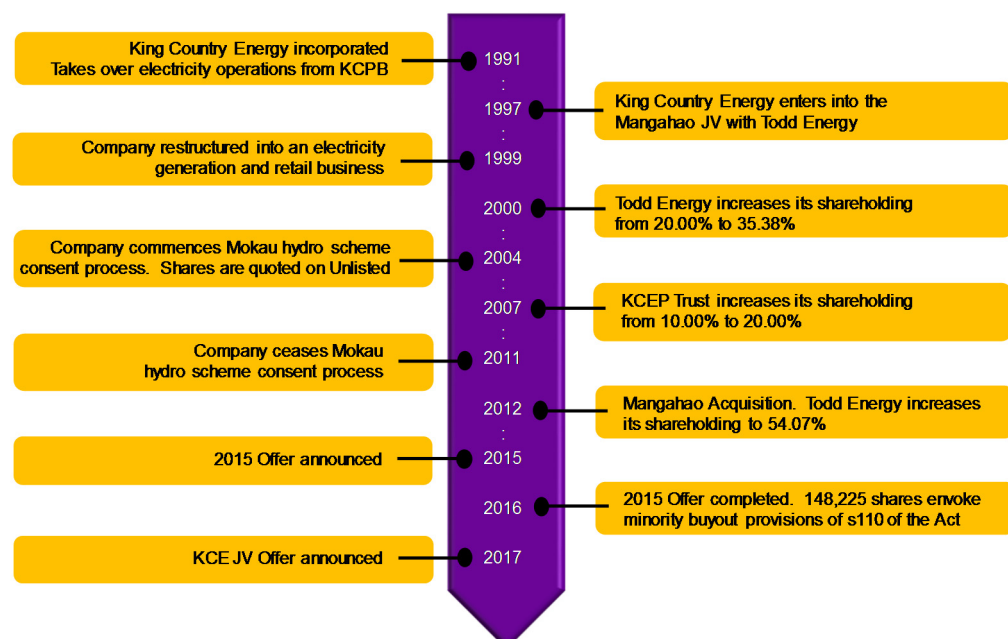
- King Country Energy acquired the generation and retail businesses
- The Lines Company acquired the electricity distribution business.

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

Todd Energy increased its shareholding in the Company to 35.38% in 2000. In June 2012, King Country Energy acquired Todd Energy's 50% interest in the Mangahao Power Station for \$70 million (the **Mangahao Acquisition**). Consideration was in the form of \$33.76 million of cash and \$36.24 million of shares (7,629,474 shares issued at \$4.75 per share). Following the Mangahao Acquisition, Todd Energy's shareholding increased to 54.07%.

On 3 November 2015 KCEHL issued a notice of intention to make the 2015 Offer. KCEHL acquired 16,339,846 ordinary shares (64.55%) at \$4.78 per share when the 2015 Offer closed, including Nova's 54.07% shareholding.

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

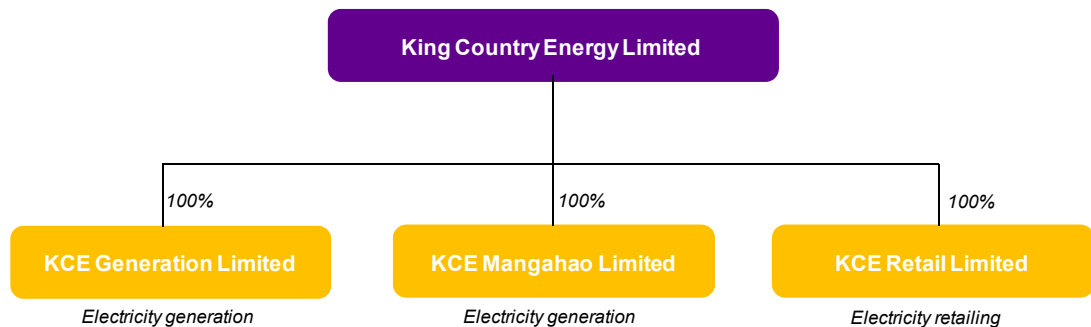


4.2 Nature of Operations

Group Structure

King Country Energy operates 2 business streams:

- electricity generation
- electricity retailing.



Generation

KCE Generation Limited (**KCE Generation**) owns the hydro system incorporating 4 power stations located within the King Country region. These hydro schemes are operated by Trustpower under a management services agreement.

KCE Mangahao Limited (**KCE Mangahao**) owns the Mangahao Power Station located near Palmerston North. The Mangahao hydro scheme is also operated by Trustpower under a management services agreement.

King Country Energy's total generation capacity is approximately 54 MW and average production is approximately 194 GWh per annum.

Generation Portfolio					
Power Station	Commissioned	Location	Head (metres)	Installed Capacity (MW)	Average Production (GWh pa)
Wairere Falls	1925	Aria Road, Wairere	19.6	4.5	17.1
Mokauiti	1963	Totara Road, Aria	42.7	1.9	7.0
Piriaka	1924	SH4, Piriaka	8.2	1.5	7.5
Kuratau	1962	Kuratau Hydro Road, Omori	64.0	6.0	27.9
Mangahao	1924	East Road, Shannon	271.0	39.8	135.0
				<u>53.7</u>	<u>194.5</u>

Source: King Country Energy

All 4 of the KCE Generation plants are embedded in The Lines Company supply network and currently provide King Country Energy with the added benefit of receiving Transpower avoided cost of transmission (**ACOT**) revenues whereby The Lines Company compensates KCE Generation for its reduced charges to Transpower.

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

The Electricity Authority proposed in May 2017 to remove the distributed generation pricing principles (**DGPPs**) from the Participation Code and to shift responsibility for determining ACOT payments from distributors to Transpower. The Electricity Authority has decided not to remove the DGPPs from the Participation Code. Instead, the Electricity Authority is amending the Participation Code so that distributed generation that does not efficiently defer or avoid transmission costs will no longer receive ACOT payments under the regulated terms.

Transpower will assess which existing distributed generators in each region are required for Transpower to meet the grid reliability standards and advise the Electricity Authority of its findings. The Electricity Authority will decide, based on Transpower's advice, which existing distributed generation should receive ACOT payments under the regulated terms. Transpower can contract with new distributed generation where this would provide additional grid support and it should only do so when it is the lowest cost option for meeting grid reliability standards. Distributors will no longer make ACOT payments to new distributed generation.

This is an important risk to King Country Energy's future ACOT revenue. The ACOT benefits are a significant part of the Company's revenue, being \$2.4 million in the 2014 financial year, \$2.2 million in the 9 months ended 31 December 2014, \$3.6 million in the 15 months ended 31 March 2016 and \$2.9 million in the 2017 financial year.

King Country Energy is of the view that at least a portion of the ACOT payments will be lost in the future. The Company stated in a media release on 26 May 2016:

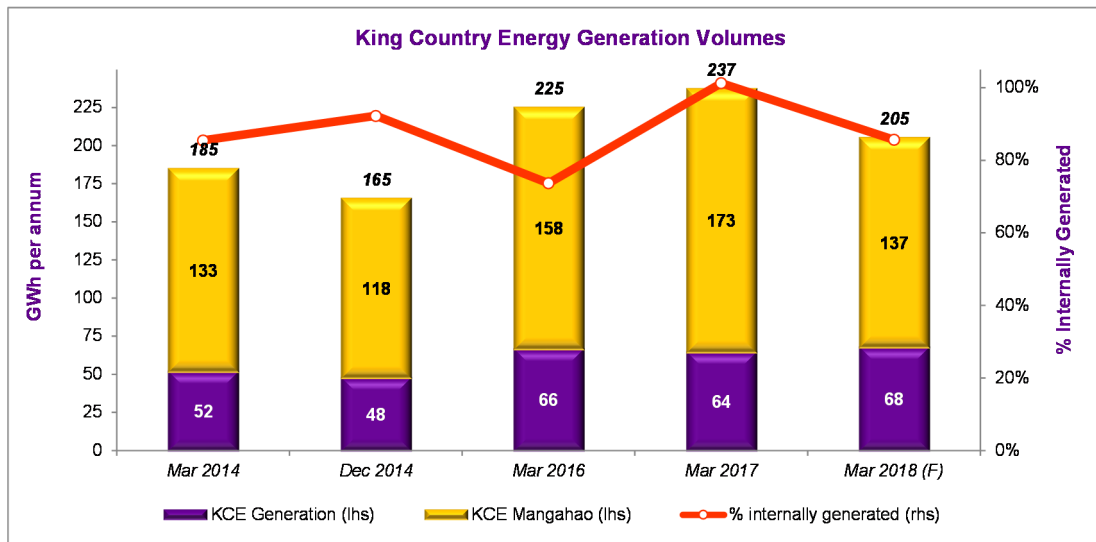
"in 2015, the equivalent of \$158 per KCE customer was derived from ACOT payments. If the proposed changes are adopted by the Electricity Authority, this would be virtually eliminated, and ultimately would lead to increased prices to customers."

\$158 per customer approximates \$2.7 million per annum.

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

Trustpower operates all of King Country Energy's generation assets through service contracts. This includes the long term asset condition monitoring and planning and project management.

The Company's generation volumes average approximately 194 GWh per annum. Fluctuations in generation volumes are primarily due to hydrological factors such as rainfall levels. The period to 31 December 2014 was a 9 month period and the period to 31 March 2016 was a 15 month period.

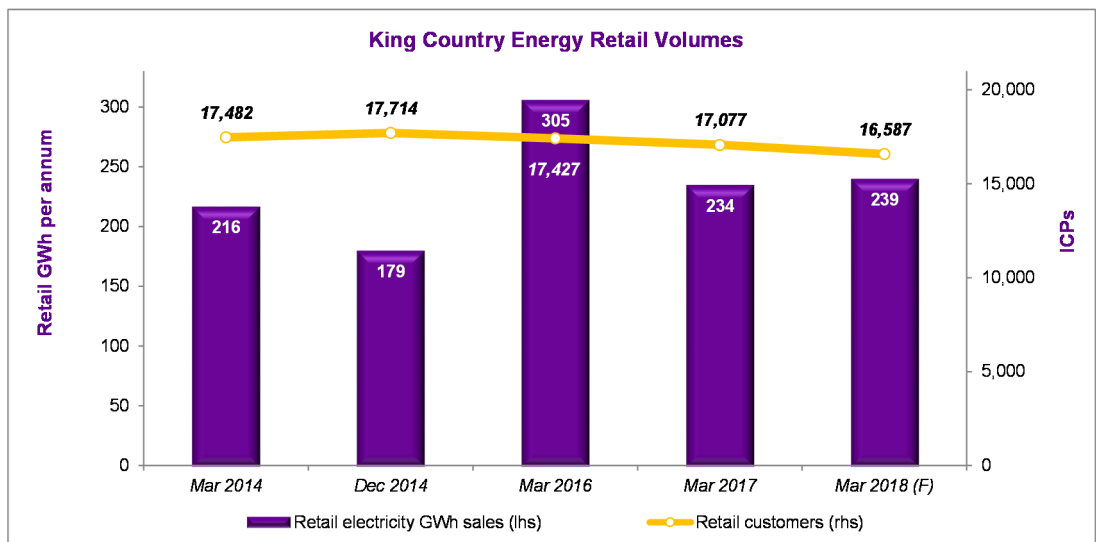


Source: King Country Energy

Retail Operations

KCE Retail is the largest electricity retailer in the Waitomo, King Country and Ruapehu / Waimarino districts. KCE Retail currently services approximately 16,400 customer sites in these areas and other regions of New Zealand, representing 0.8% of the New Zealand retail electricity market.

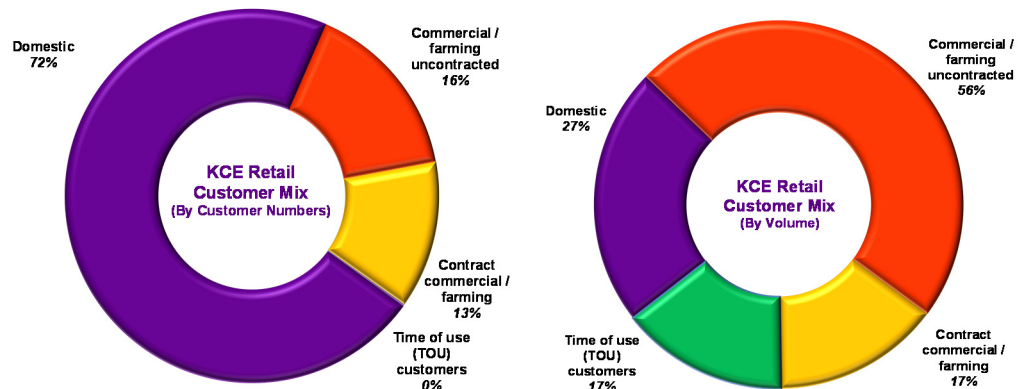
The Company's recent annual retail sales volumes have ranged between 216 GWh and 234 GWh. The period to 31 December 2014 was a 9 month period and the period to 31 March 2016 was a 15 month period.



Source: King Country Energy

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

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



Source: King Country Energy

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

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

Interaction Between Generation and Retail

KCE Retail currently has a fixed price variable volume hedge with KCE Generation which eliminates its exposure to the wholesale electricity market. The Company's exposure to spot market prices is taken by KCE Generation and managed within that entity. KCE Generation charges KCE Retail for the electricity it sells at the agreed hedge rate. As discussed in section 3.4, wholesale electricity prices fluctuate significantly and monthly averages have ranged from \$36.31 per MWh to \$146.05 per MWh over the last 7 years.

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

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

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

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

4.3 Corporate Strategy

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

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

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

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

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

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

4.4 Competition

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

It faces competition primarily from:

- Energy Online (owned by Genesis)
- Genesis
- Trustpower
- Meridian
- Pulse Energy
- Mercury.

4.5 Key Issues Affecting King Country Energy

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

- regulatory risk, especially removal of ACOT payments under the proposed changes to the pricing principles for distributed generation
- hydrological factors such as low rainfall levels may result in a reduction in generation volumes
- the Company is exposed to spot price fluctuations on the wholesale electricity market to the extent that its own generation and hedge portfolio is insufficient to meet sales to its customers
- the Company may not be able to obtain electricity hedges at a price which allows it to operate profitably

- the Company faces competition as an electricity retailer. A number of its competitors are significant businesses potentially able to undercut King Country Energy's pricing
- the retail electricity market price that the Company may offer could be above what other electricity retailers are offering
- the Company may be adversely affected by regulatory changes
- the loss of key staff.

4.6 Directors and Senior Management

The directors of King Country Energy are:

- Robert Carter, KCEP Trust representative
- Vince Hawksworth, Trustpower representative
- Brian Needham, independent
- Paul Ridley-Smith, Trustpower representative
- Linda Robertson, independent
- Toby Stevenson, independent chair.

The Company's senior management team comprises:

- Rob Foster, chief executive officer
- Chris Fincham, energy supply manager
- Alex Polaschek, general manager sales and marketing
- Heather Holland, financial controller
- Sande Jansen, business support and compliance manager.

4.7 Capital Structure and Shareholders

King Country Energy currently has 25,164,052 ordinary shares on issue held by 4,681 shareholders.

The names, number of shares and percentage holding of the 10 largest shareholders as at 7 December 2017 are set out below.

King Country Energy's 10 Largest Shareholders		
Shareholder	No. of Shares Held	%
KCEHL	16,375,000	65.07%
KCEP Trust	5,027,778	19.98%
John Laurence Nation Fam Account	59,773	0.24%
General Finance Holdings Limited	59,626	0.24%
Allan Nation, John Hammond and Terril Nation	42,164	0.17%
Steven Nation, Julie Nation and Kenneth Young	42,163	0.17%
Leon Cherry	30,000	0.12%
Louis Falkner	25,000	0.10%
Brett Hart	25,000	0.10%
Crusader Meats New Zealand Limited	21,869	0.09%
Subtotal	21,708,373	86.27%
Others (4,671 shareholders)	3,455,679	13.73%
Total	25,164,052	100.00%

Source: King Country Energy

KCEHL acquired 16,339,846 shares (64.55%) through the 2015 Offer which closed on 12 February 2016. It has subsequently acquired 35,154 shares via trades on Unlisted using the *creep provisions* of the Code.

Between 29 August 2016 and 16 September 2016, the Company repurchased 148,225 ordinary shares at \$4.78 per share from 11 shareholders who exercised their minority buyout rights following the Company's 2016 annual meeting of shareholders.

4.8 Financial Performance

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

Summary of King Country Energy Financial Performance					
	Year to 31 Mar 14 (Audited) \$000	9 Mths to 31 Dec 14 (Audited) \$000	15 Mths to 31 Mar 16 (Audited) \$000	Year to 31 Mar 17 (Audited) \$000	Year to 31 Mar 18 (Forecast) \$000
Operating revenue	41,781	37,732	57,247	45,866	45,707
EBITDAF	12,596	12,808	15,988	14,761	14,611
EBITDA	15,123	11,276	19,786	11,233	17,053
EBIT	8,552	6,675	12,341	6,509	12,454
Profit before income tax	7,185	5,321	10,655	5,325	11,569
Profit after tax expense	5,070	3,838	8,057	3,874	8,260
EPS	\$0.20	\$0.15	\$0.32	\$0.15	\$0.33
DPS	\$0.24	\$0.24	\$0.26	\$0.27	\$0.35

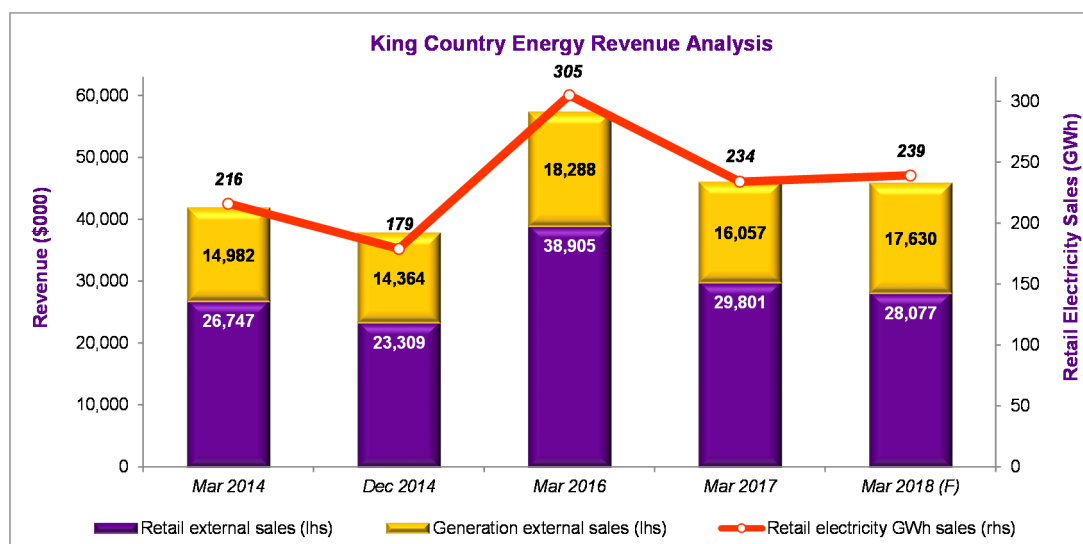
EBITDAF: Earnings before interest, tax, depreciation, amortisation and fair value movements in derivative financial instruments
EBITDA: Earnings before interest, tax, depreciation and amortisation
EBIT: Earnings before interest and tax
EPS: Earnings per share
DPS: Dividends per share

Source: King Country Energy audited financial statements and forecast for the 2018 financial year

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

Revenue

The Company's annual revenue was in the vicinity of \$42 million in the 2014 financial year, increasing to \$46 million by the 2017 financial year and is forecast to remain in the vicinity of \$46 million in the 2018 financial year.



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

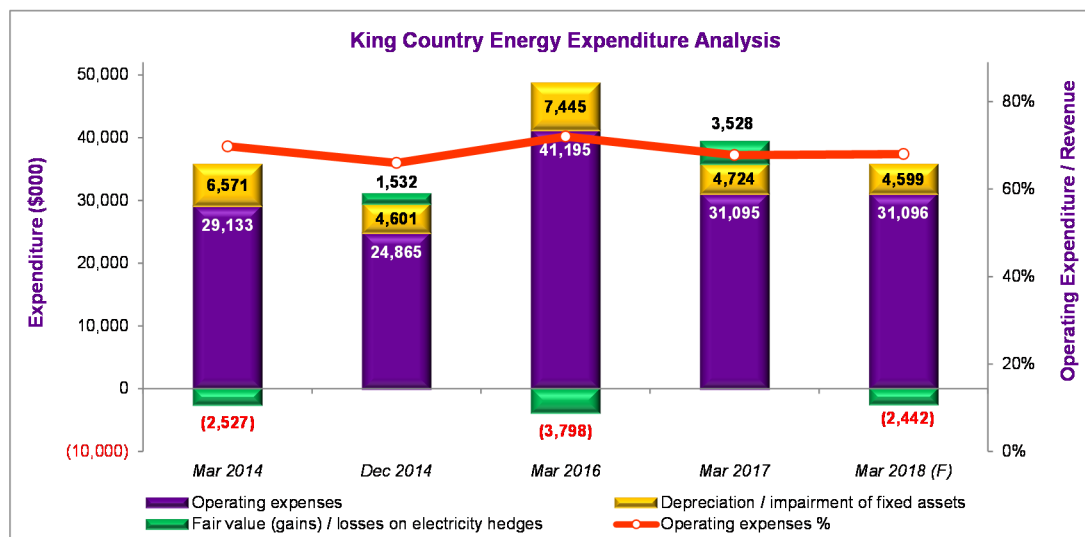
Revenue of \$37.7 million for the 9 months ended 31 December 2014 represented an 18% increase over the corresponding prior 9 month period, due mainly to favourable conditions for hydrology and spot prices. Retail margins continued to come under pressure from the competitive retail market but these were offset by a favourable generation business result. We note that revenue for the year ended 31 March 2015 was \$47.4 million.

Revenue for the 15 months ended 31 March 2016 amounted to \$57.2 million. The Company again experienced favourable conditions for hydrology, particularly in the autumn and winter seasons. As per the previous financial period, retail margins continued to come under pressure from the competitive retail market but these were offset by a favourable generation business result. We note that revenue for the year ended 31 March 2016 was \$47.5 million.

Revenue of \$45.9 million for the 2017 financial year was a similar level to the previous 12 month period. Generation revenue was above the corresponding previous period due to favourable conditions for hydrology. However, the competitive retail market continued to impact retail margins.

Revenue for the 2018 financial year is forecast to be \$45.7 million, which is similar to the levels of revenue for the 2017 financial year and the 12 months prior to that financial year.

Operating Expenses



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

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

Operating expenses have remained relatively steady since then, at approximately \$33 million for the years ended 31 March, 2015 and 2016 and approximately \$31 million for the 2017 financial year and the forecast 2018 financial year.

2018 Forecast

The forecast for the 2018 financial year is based on actual results for the 8 months ended 30 November 2017 and forecast results for the 4 months ended 31 March 2018. The forecast is based on the following principal assumptions:

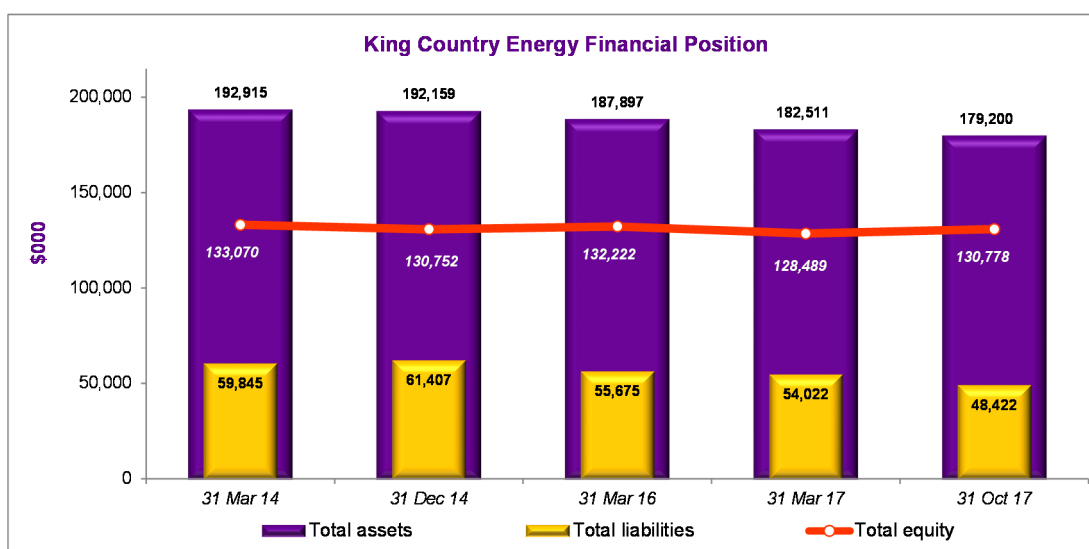
- generation of 205 GWh for the year
- retail sales of 239 GWh for the year
- ACOT payments of \$3.0 million for the year
- operating expenses totalling \$31.1 million for the year.

4.9 Financial Position

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

Summary of King Country Energy Financial Position					
	As at 31 Mar 14 (Audited) \$000	As at 31 Dec 14 (Audited) \$000	As at 31 Mar 16 (Audited) \$000	As at 31 Mar 17 (Audited) \$000	As at 30 Nov 17 (Unaudited) \$000
Current assets	5,196	7,700	6,420	6,951	6,858
Non current assets	187,719	184,459	181,477	175,560	172,342
Total assets	192,915	192,159	187,897	182,511	179,200
Current liabilities	(4,699)	(5,153)	(5,260)	(10,793)	(6,358)
Non current liabilities	(55,146)	(56,254)	(50,415)	(43,229)	(42,064)
Total liabilities	(59,845)	(61,407)	(55,675)	(54,022)	(48,422)
Total equity	133,070	130,752	132,222	128,489	130,778
Net assets per share	\$4.93	\$5.17	\$5.22	\$5.08	\$5.20

Source: King Country Energy audited financial statements and 30 November 2017 management accounts



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

Non current assets consist mainly of fixed assets. The carrying value of fixed assets was \$170.8 million as at 30 November 2017, of which \$154.4 million represented generation plant and equipment and \$15.0 million represented land and buildings. All land and land improvements, buildings and generation plant, property and equipment were revalued as at 31 March 2016 to fair value.

Non current assets as at 30 November 2017 also included \$1.6 million of goodwill attributable to KCE Retail.

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

Non current liabilities consist mainly of:

- borrowings in the form of a \$15 million unsecured term loan facility, of which \$5 million expires on 30 April 2018 and \$10 million expires on 17 January 2019. The full \$15.0 million of the facility had been drawn down as at 30 November 2017
- deferred tax, arising primarily from timing differences on the depreciation of fixed assets due to their periodic revaluation to fair value for accounting purposes.

The Company's net interest bearing debt (**IBD**) as at 30 November 2017 amounted to \$12.7 million:

- cash at bank - \$2.3 million
- borrowings - \$15.0 million.

King Country Energy paid an interim net dividend of \$0.20 per share on 12 December 2017, totalling \$5.0 million.

Financial derivatives (in the form of wholesale electricity CFDs, interest rate swaps and forward currency contracts) are recorded at their fair value. The net fair value of the financial derivatives as at 30 November 2017 was a liability of \$0.3 million.

Total equity of \$130.8 million as at 30 November 2017 consisted of:

- \$54.6 million of issued and paid up capital
- \$73.6 million of asset revaluation reserve, arising from the periodic revaluation of fixed assets
- \$2.6 million of retained earnings.

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

4.10 Cash Flows

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

Summary of King Country Energy Cash Flows				
	9 Mths to 31 Dec 14 (Audited) \$000	15 Mths to 31 Mar 16 (Audited) \$000	Year to 31 Mar 17 (Audited) \$000	Year to 31 Mar 18 (Forecast) \$000
Net cash flow from operating activities	8,135	14,474	11,770	12,443
Net cash used in investing activities	(1,506)	(2,277)	(756)	(522)
Net cash used in financing activities	(5,788)	(12,314)	(11,158)	(11,925)
Net increase / (decrease) in cash held	841	(117)	(144)	(4)
Opening cash balance	1,501	2,342	2,225	2,081
Closing cash balance	<u>2,342</u>	<u>2,225</u>	<u>2,081</u>	<u>2,077</u>

Source: King Country Energy audited financial statements and forecast for the 2018 financial year

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

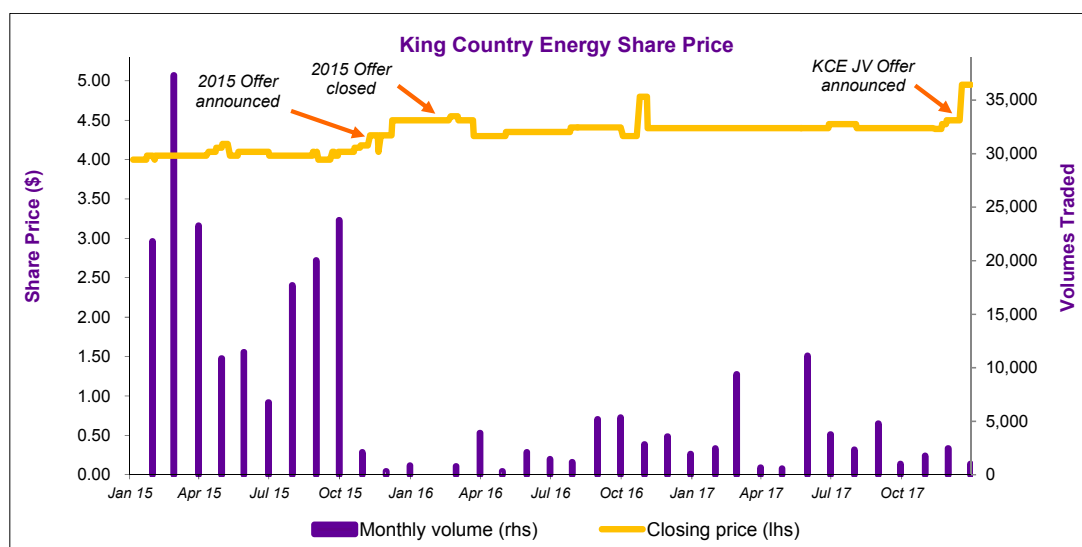
Capital expenditure has averaged \$1.3 million each year compared with annual depreciation of \$5.2 million.

The main use of cash for financing activities has been the payment of dividends each year (ranging from \$6.2 million in the 2014 financial year to a forecast of \$8.9 million in the 2018 financial year) and the repayment of borrowings.

4.11 Share Price History

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

Set out below is a summary of King Country Energy's daily closing share price and monthly volumes of shares traded from 5 January 2015 to 29 December 2017.



Source: Unlisted

During the period, King Country Energy's shares have traded between \$4.00 and \$4.95 at a VWAP of \$4.18.

Trading in the Company's shares is extremely thin, reflecting to a large degree that 85.05% of the shares are held by KCEHL and the KCEP Trust.

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

King Country Energy Share Trading to 6 December 2017					
Period	Low	High	VWAP	Volume Traded (000)	Liquidity
1 month	4.39	4.50	4.43	2	0.0%
3 months	4.39	4.50	4.41	5	0.0%
6 months	4.39	4.50	4.42	16	0.1%
12 months	4.39	4.50	4.41	41	0.2%

Source: Unlisted

The Company's shares traded on 43 days in the year up to 6 December 2017 at a VWAP of \$4.41.

Of the 16,163 shares traded in the 6 months to 6 December 2017, KCEHL acquired 5,790 shares at a VWAP of \$4.45.

5. Profile of King Country Energy Joint Venture

5.1 King Country Energy Joint Venture

KCE JV was formed on 5 December 2017 when KCEHL and the trustees of the KCEP Trust entered into the Implementation Agreement.

The KCE JV is an unincorporated joint venture specifically formed to make the KCE JV Offer.

The KCE JV steering committee consists of:

- Robert Carter (KCEP Trust representative)
- Adie Doyle (KCEP Trust representative)
- Craig Neustroski (KCEHL representative)
- Kevin Palmer (KCEHL representative).

5.2 King Country Energy Holdings Limited

KCEHL was incorporated on 2 November 2015 as a vehicle to undertake the 2015 Offer.

It is wholly owned by Trustpower. Its sole director is Vince Hawksworth.

5.3 Trustpower Limited

Background

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

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

Trustpower produces electricity exclusively from renewable sources. It owns and operates 29 hydro power stations in New Zealand and 3 hydro power stations in Australia, with a combined capacity of 532 MW. It also owns one diesel power station which is only run when needed.

Trustpower supplies electricity to approximately 258,000 customers, gas to approximately 37,000 customers and retails telephone services and internet (including ultra fast broadband in some areas) to approximately 80,000 customers throughout New Zealand.

Trustpower's shares were listed on the NZX Main Board on 18 April 1994. It had a market capitalisation of \$1.9 billion as at 29 December 2017 and unaudited total equity of \$1.4 billion as at 30 September 2017.

Trustpower demerged its wind generation assets and wind and solar development options from its hydro generation assets and New Zealand retail business on 26 October 2016.

Directors and Senior Management

The directors of Trustpower are:

- Richard Aitken
- Alan Bickers
- Steven Fitzgerald
- Sam Knowles
- Susan Peterson
- Paul Ridley-Smith, chair
- Geoff Swier.

Trustpower's senior management team comprises:

- Vince Hawksworth, chief executive officer
- Kevin Palmer, chief financial officer
- Fiona Smith, general manager customer operations
- Stephen Fraser, general manager generation
- Craig Neustroski, general manager markets
- Peter Calderwood, general manager strategy and growth
- Simon Clarke, general manager business solutions and technology
- Melanie Dyer, general manager people and culture.

Capital Structure and Shareholders

Trustpower currently has 312,973,000 fully paid ordinary shares on issue held by 12,507 shareholders.

The names, number of shares and percentage holding of the 10 largest shareholders as at 15 December 2017 are set out below.

Trustpower's 10 Largest Shareholders		
Shareholder	No. of Shares Held	%
Infratil Limited (Infratil)	159,742,389	51.04%
TECT Holdings Limited (TECT)	83,878,838	26.80%
Custodial Services Limited	7,992,169	2.55%
NZ Superannuation Fund Nominees Limited	5,805,890	1.86%
Accident Compensation Corporation	4,710,978	1.51%
Cogent Nominees (NZ) Limited	3,037,087	0.97%
The New Zealand Guardian Trust Company	2,012,771	0.64%
Trustpower (treasury stock)	1,973,195	0.63%
Citibank Nominees (New Zealand) Limited	1,924,282	0.61%
National Nominees Limited	1,851,392	0.59%
Subtotal	272,928,991	87.21%
Others (12,497 shareholders)	40,044,009	12.79%
Total	312,973,000	100.00%

Source: NZX Company Research

Infratil is an owner and operator of businesses in the energy, transport and social infrastructure sectors. Its energy operations are predominantly in New Zealand (including Trustpower) and Australia (Perth Energy). Infratil owns 66% of Wellington Airport and its public transport services are in Auckland and Wellington. Its social infrastructure investments include interests in Australia Social Infrastructure Partners and RetireAustralia. Infratil's shares are listed on the NZX Main Board with a market capitalisation of \$1.9 billion as at 29 December 2017.

Infratil's 51.04% shareholding is held in 3 parcels by its wholly owned subsidiaries Renew Nominees Limited, Infratil Energy New Zealand Limited and Infratil Investments Limited.

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

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

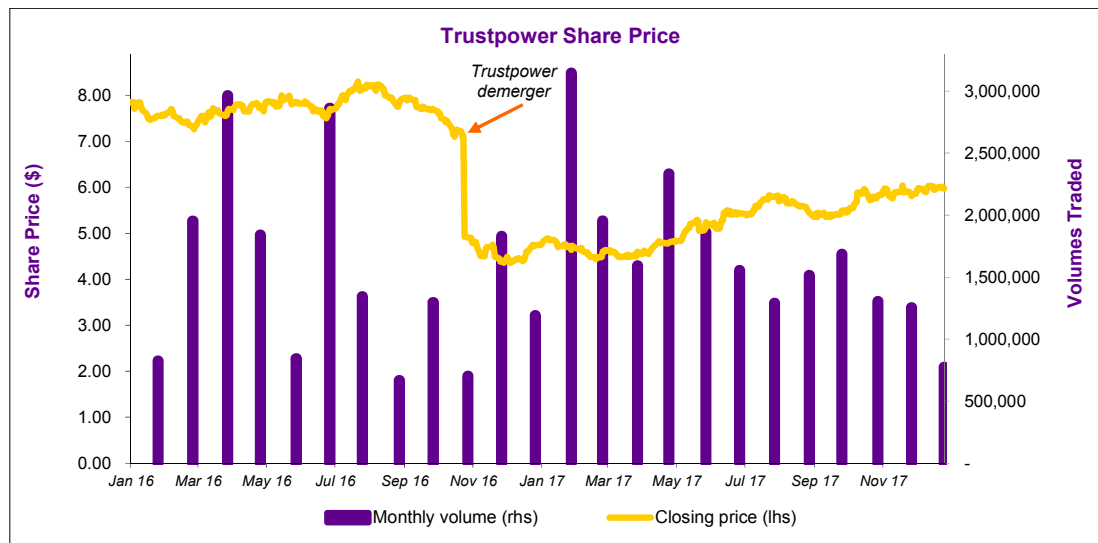
Financial Profile

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

Summary of Trustpower Financials				
	Year to 31 Mar 14 (Audited) \$m	Year to 31 Mar 15 (Audited) \$m	Year to 31 Mar 16' (Audited) \$m	Year to 31 Mar 17 (Audited) \$m
Operating revenue	812	993	905	940
EBITDAF	277	331	208	218
Operating profit	215	243	153	172
Profit before income tax	153	165	109	131
Profit after tax	115	144	68	94
Dividends paid	125	125	107	104
EPS (\$)	\$0.37	\$0.46	\$0.22	\$0.30
DPS (\$)	\$0.40	\$0.40	\$0.34	\$0.33
	As at 31 Mar 14 (Audited) \$m	As at 31 Mar 15' (Audited) \$m	As at 31 Mar 16' (Audited) \$m	As at 31 Mar 17 (Audited) \$m
Current assets	181	199	248	161
Non current assets	2,966	2,160	2,366	2,344
Total assets	3,147	2,359	2,614	2,505
Current liabilities	(399)	(193)	(365)	(246)
Non current liabilities	(1,233)	(772)	(812)	(841)
Total liabilities	(1,632)	(965)	(1,177)	(1,087)
Total equity	1,515	1,394	1,437	1,418
	Year to 31 Mar 14 (Audited) \$m	Year to 31 Mar 15 (Audited) \$m	Year to 31 Mar 16' (Audited) \$m	Year to 31 Mar 17 (Audited) \$m
Net cash from operating activities	257	270	159	181
Net cash used in investing activities	(357)	(158)	(106)	54
Net cash (used in) / from financing activities	85	(127)	(50)	(235)
Net increase / (decrease) in cash	(15)	(15)	3	-
Opening cash balance	54	32	5'	8
Exchange losses	(7)	(3)	-	-
Closing cash balance	32	14	8	8
1 Restated				
Source: Trustpower audited financial statements				

Share Price History

Set out below is a summary of Trustpower's daily closing share price and monthly volumes of shares traded from 5 January 2016 to 29 December 2017.



Source: NZX Company Research

5.4 King Country Energy Power Trust

Overview

The KCEP Trust is a consumer trust that was established in 1993 by the KCPB. It is based in Taumarunui.

The beneficiaries of the KCEP Trust are the electricity consumers connected to the lines network within the area where the KCPB was licensed to supply.

The beneficiaries elect the trustees, with elections taking place every 2 years. The trustees interface with the Board.

The dividends received from King Country Energy support distributions for the benefit of consumer / beneficiaries.

Mission and Purpose

The KCEP Trust's mission statement is:

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

The KCEP Trust states that one of its purposes and reasons for being is to own and manage shares in King Country Energy.

Trustees

The trustees of the KCEP Trust are:

- Robert Carter
- Graeme Cosford
- Adie Doyle
- Niel Groombridge
- Uwe Kroll.

Financial Position

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

Summary of the KCEP Trust Financials				
	Year to 31 Mar 14 (Audited) \$m	Year to 31 Mar 15 (Audited) \$m	Year to 31 Mar 16 (Audited) \$m	Year to 31 Mar 17 (Audited) \$m
Investment income	14.2	3.2	3.0	2.6
Profit before income tax	13.9	3.0	2.6	1.6
Net profit	13.1	2.3	1.9	1.2
Current assets	18.1	8.6	4.8	4.6
Non current assets	19.8	31.1	36.8	37.6
Trust funds	<u>37.9</u>	<u>39.7</u>	<u>41.6</u>	<u>42.2</u>
Cash from operating activities	1.5	1.7	1.5	0.8
Cash from / (used in) investing activities	1.4	4.6	(7.4)	1.0
Cash (used in) financing activities	(1.0)	(1.2)	(1.3)	(1.0)
Net increase / (decrease) in cash	1.9	5.1	(7.2)	0.8
Opening cash balance	1.1	3.0	8.1	0.9
Closing cash balance	<u>3.0</u>	<u>8.1</u>	<u>0.9</u>	<u>1.7</u>

Source: KCEP Trust audited financial statements

The KCEP Trust's 19.98% shareholding in King Country Energy represented 53% of its trust funds as at 31 March 2017.

6. Valuation of King Country Energy

6.1 Introduction

The KCE JV Offer is a full takeover offer. We are of the view that the appropriate basis upon which to evaluate the fairness of the KCE JV Offer is to compare the offer price of \$5.00 per share (depending on the level of acceptances) with the full underlying value of King Country Energy on a standalone basis, pro-rated across all shares.

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

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

6.2 Standard of Value

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

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

6.3 Basis of Valuation

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

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

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

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

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

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

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

6.4 Valuation Approach

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

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

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

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

6.5 Discounted Cash Flow Valuation

Methodology

The DCF methodology assesses value in 2 stages:

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

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

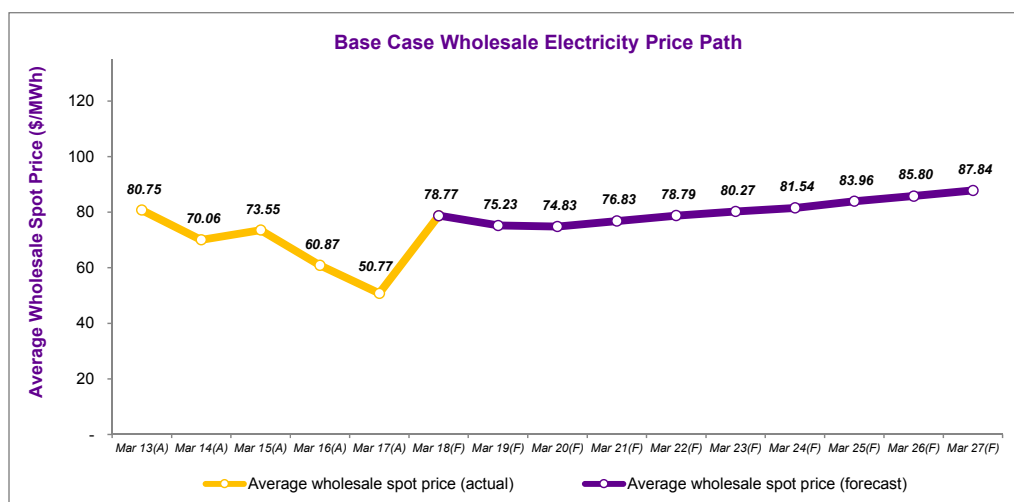
The discount rate used to determine the present values of the FCF is the estimated weighted average cost of capital (**WACC**). The WACC is a blend of the cost of debt and the cost of equity, weighted in accordance with the target capital structure of an entity owning the business. The WACC represents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

Free Cash Flows

King Country Energy maintains a financial model which forecasts FCF for a 10 year period to 31 March 2027 (the **KCE Financial Model**). It was updated in December 2017.

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

- average annual generation output of approximately 194 GWh
- the generation assets have perpetual lives, on the basis that appropriate asset management and maintenance policies are in place
- an average electricity wholesale price path of approximately \$79 / MWh at Haywards during the 2018 financial year, approximately \$75 / MWh during 2019 and 2020 and rising to approximately \$88 / MWh by 2027



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

- a retail base of approximately 16,600 ICPs as at 31 March 2018 increasing to approximately 18,800 as at 31 March 2027
- annual retail sales of approximately 239 GWh in the 2018 financial year increasing to approximately 341 GWh in the 2027 financial year
- retail tariffs increase annually at the rate of inflation
- the Company maintains its current hedge program
- ACOT reducing from \$3.0 million in the 2018 financial year to \$1.6 million in the 2021 financial year and remains constant in real terms thereafter
- operating and maintenance costs remain constant in real terms
- capital expenditure of approximately \$2.0 million per annum remains constant in real terms
- working capital based on receivables equating to 45 days of electricity sales revenue and payables equating to 45 days of operating expenses
- average annual inflation of 2.0% over the 10 year period
- a corporate tax rate of 28%.

Weighted Average Cost of Capital

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

We have assessed the WACC for King Country Energy to be in the vicinity of 7.7%. Key inputs in the WACC assessment are:

- a risk free rate of 4.0%
- an asset beta of 0.6
- a debt risk premium of 1.4%
- a post investor tax market risk premium of 7.5%
- target financial leverage of 30%
- a corporate tax rate of 28%.

The above inputs result in a cost of equity in the vicinity of 9.3% and a cost of debt (before tax) in the vicinity of 5.4%.

Sensitivity Analysis

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

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

Valuation Conclusion

Based on the above, we assess King Country Energy's enterprise value to be in the range of \$128.0 million to \$155.7 million using the DCF approach.

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

6.6 Value of King Country Energy Shares

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

The Company's net IBD amounted to \$12.7 million as at 30 November 2017.

The Company paid \$5.0 million in respect of the interim dividend on 12 December 2017.

The fair value of the Company's financial derivatives amounted to a liability of \$0.3 million as at 30 November 2017.

We assess the fair market value of all the shares in King Country Energy to be in the vicinity of \$109.9 million to \$137.7 million as at the present date. This equates to a value of \$4.37 to \$5.47 per share.

Value of King Country Energy Shares		
	Low \$m	High \$m
Enterprise value	128.0	155.7
Net IBD as at 30 November 2017	(12.7)	(12.7)
Interim dividend paid on 12 December 2017	(5.0)	(5.0)
Financial derivatives	(0.3)	(0.3)
Value of King Country Energy shares	<u>109.9</u>	<u>137.7</u>
Number of shares currently on issue	25,164,052	25,164,052
Value per share	<u>\$4.37</u>	<u>\$5.47</u>

6.7 Implied Valuation Multiples

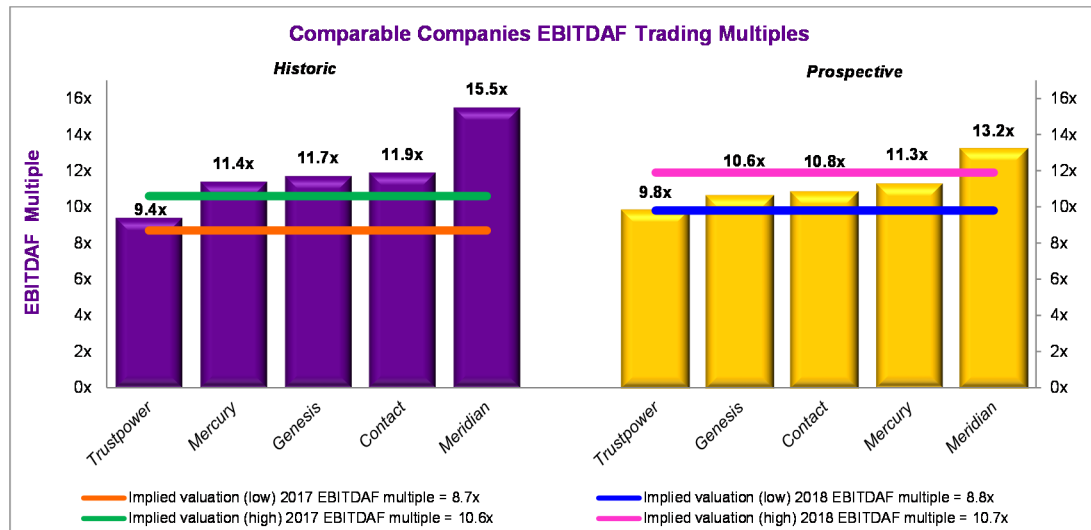
The assessed value range implies EBITDAF, EBIT and price earnings (**PE**) multiples as set out below. The multiples are based on King Country Energy's actual results for the year ended 31 March 2017 and its forecast for the 2018 financial year.

Implied Valuation Multiples				
	31 March 2017 (Actual)		31 March 2018 (Forecast)	
	Low	High	Low	High
Value per share	\$4.37	\$5.47	\$4.37	\$5.47
EBITDAF multiple	8.7x	10.6x	8.8x	10.7x
EBIT multiple	19.7x	23.9x	10.3x	12.5x
PE multiple	28.4x	35.5x	13.3x	16.7x

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

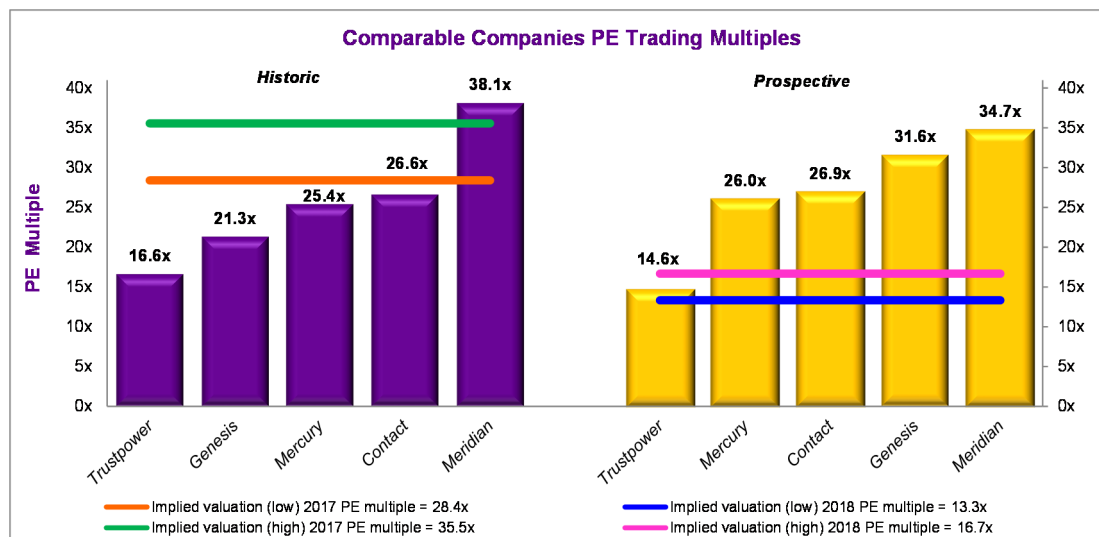
Set out at Appendix I is an analysis of historic and prospective EBITDAF and PE multiples for the 5 electricity generators and retailers listed on the NZX Main Board. The companies are considerably larger than King Country Energy and have more diverse operations.

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



Source: S&P Capital IQ, data as at 29 December 2017

The historic EBITDAF multiples range from 9.4x to 15.5x at an average of 12.0x and the prospective EBITDAF multiples range from 9.8x to 13.2x at an average of 11.1x.



Source: S&P Capital IQ, data as at 29 December 2017

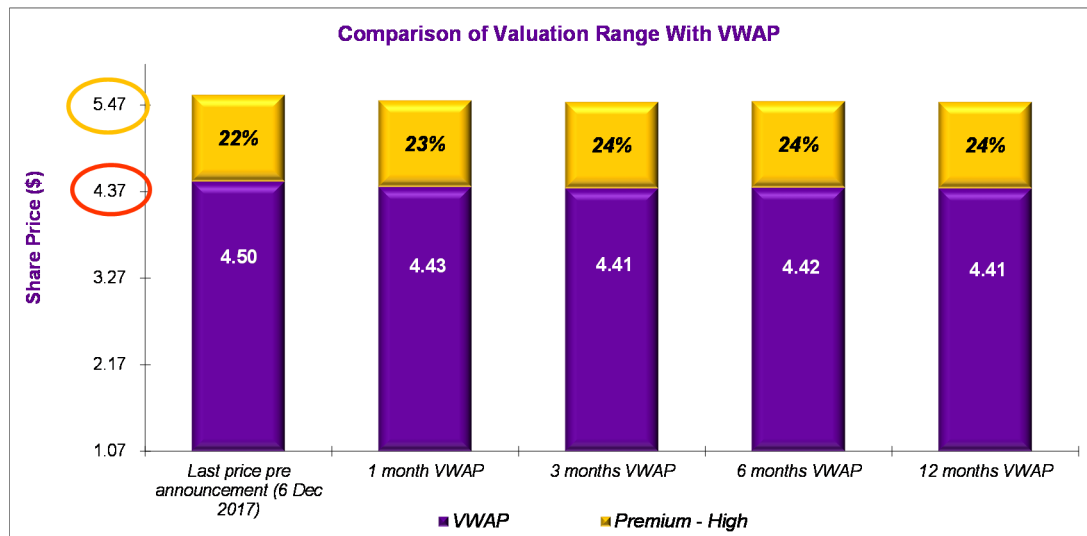
The historic PE multiples range from 16.6x to 38.1x at an average of 25.6x and the prospective PE multiples range from 14.6x to 34.7x at an average of 26.8x.

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

The Company's implied 2017 PE multiples are skewed by \$3.5 million of fair value losses on derivatives recorded in the 2017 financial year.

6.8 Implied Premium for Control

Our valuation range of \$4.37 to \$5.47 represents premia ranging up to 24% over recent share prices.



As noted in section 4.11, trading in the Company's shares is extremely thin as KCEHL and the KCEP Trust control 85.05% of the Company's shares. The share price graph in section 4.11 and the various VWAP show that the Company's share price has remained relatively steady.

In our view, the combination of an illiquid share and limited earnings guidance provided by the Company means that the observed share prices may not be a totally reliable indicator of the market value of King Country Energy's shares.

This was perhaps best illustrated when the Company announced on 26 May 2016 the potential material adverse implications of the proposed changes to the ACOT payments. The Company's share price at that time was \$4.35. Rather than dropping in price, the shares continued to trade at \$4.35 (albeit infrequently) up to 27 July 2016, whereupon they have since traded (again albeit infrequently) at between \$4.30 and \$4.80.

6.9 Conclusion

We assess the fair market value of 100% of the ordinary shares in King Country Energy to be in the range of \$109.9 million to \$137.7 million as at the present date. This equates to a value of \$4.37 to \$5.47 per share.

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

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

7.1 Sources of Information

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

- the KCE JV Takeover Notice dated 6 December 2017, including a draft of the KCE JV Offer Document which will be dated 5 January 2018
- the draft King Country Energy Target Company Statement
- the King Country Energy board minutes from February 2014 to November 2017
- the King Country Energy annual reports for the 9 months ended 31 December 2014, the 15 months ended 31 March 2016 and the year ended 31 March 2017
- the King Country Energy management accounts for the 8 months ended 30 November 2017
- the King Country Energy forecast for the year ended 31 March 2018
- the KCE Financial Model, updated in December 2017
- the Trustpower annual reports for the years ended 31 March, 2015 to 2017
- the KCEP Trust annual reports and financial statements for the years ended 31 March, 2015 to 2017
- share price data and shareholder data from Unlisted, NZX Company Research and S&P Capital IQ
- publicly available information regarding the New Zealand electricity industry.

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

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

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

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

7.2 Reliance on Information

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

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

7.3 Disclaimer

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

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

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

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

7.4 Indemnity

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

8. Qualifications and Expertise, Independence, Declarations and Consents

8.1 Qualifications and Expertise

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

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

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

8.2 Independence

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

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

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

8.3 Declarations

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

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

8.4 Consents

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



Peter Simmons
Director

Simmons Corporate Finance Limited
29 December 2017

Appendix I

Comparable Companies Trading Multiples

Trading Multiples						
Company	Market Capitalisation (\$m)	Enterprise Value (\$m)	EBITDAF Multiple		PE Multiple	
			Historic	Prospective	Historic	Prospective
Contact	3,982	5,496	11.9x	10.8x	26.6x	26.9x
Genesis	2,520	3,751	11.7x	10.6x	21.3x	31.6x
Mercury	4,643	5,837	11.4x	11.3x	25.4x	26.0x
Meridian	7,497	8,653	15.5x	13.2x	38.1x	34.7x
Trustpower	1,872	2,554	9.4x	9.8x	16.6x	14.6x
Minimum	1,872	2,554	9.4x	9.8x	16.6x	14.6x
Average	4,103	5,258	12.0x	11.1x	25.6x	26.8x
Maximum	7,497	8,653	15.5x	13.2x	38.1x	34.7x

Source: S&P Capital IQ, data as at 29 December 2017

Contact

Contact generates and retails electricity and natural gas in New Zealand. It contributes approximately 21% of New Zealand's national electricity generation production and its share of the New Zealand retail market is approximately 20% (by number of customers).

Contact owns and operates 2 hydro power stations, 5 geothermal power stations and 4 thermal power stations in New Zealand with a combined capacity of 1,970 MW.

Contact supplies electricity to approximately 424,000 customers, natural gas to approximately 64,000 customers and LPG to approximately 80,000 customers throughout New Zealand.

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

Genesis

Genesis generates and retails electricity in New Zealand. It contributes approximately 13% of New Zealand's national electricity generation production and its share of the New Zealand retail market is approximately 24% (by number of customers).

Genesis owns and operates 3 hydro schemes, the Huntly thermal power station and one wind farm in New Zealand with a combined capacity of 1,639 MW. It also holds a 46% equity interest in the Kupe oil and gas fields located in Taranaki.

Genesis supplies electricity and gas to approximately 451,000 customers and LPG to approximately 56,000 customers throughout New Zealand.

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

Mercury

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

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

Mercury supplies electricity to approximately 399,000 customers.

Mercury was incorporated in 1998 and is based in Auckland.

Meridian

Meridian generates and retails electricity in New Zealand and Australia. It contributes approximately 35% of New Zealand's national electricity generation production and its share of the New Zealand retail market is approximately 13% (by number of customers).

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

Meridian supplies electricity to approximately 284,000 customers in New Zealand and approximately 101,000 customers in Australia.

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

Trustpower

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

Trustpower owns and operates 29 hydro power stations in New Zealand as well as a diesel power station and 3 hydro power stations in Australia with a combined capacity of 532 MW.

Trustpower supplies electricity to approximately 258,000 customers, gas to approximately 37,000 customers and retails telephone and internet services to approximately 80,000 customers throughout New Zealand.

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