Horizon Energy Distribution Limited

Independent Adviser's Report

In Respect of the Full Takeover Offer by Eastern Bay Energy Trust

June 2015

Statement of Independence

Simmons Corporate Finance Limited confirms that it:

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

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

Index

1. Introduction

1.1 Horizon Energy Distribution Limited

Horizon Energy Distribution Limited (**Horizon Energy** or the **Company**) is an electricity distribution business (**EDB**) whose principal activity is conveying electricity to consumers in the Eastern Bay of Plenty region. The Company distributes electricity to over 24,700 residential, commercial and industrial customers in the Whakatane, Kawerau and Opotiki districts. Its network has a system length of 2,381 km over an area of some 8,400 km^2.

Horizon Energy also operates an electrical contracting and services business (branded as Horizon Services) and a heating, ventilation and air conditioning (**HVAC**) building and infrastructure solutions business (branded as Aquaheat).

Horizon Energy is listed on the main equities security market (**NZX Main Board**) operated by NZX Limited (**NZX**) with a market capitalisation of $105 million as at 18 June 2015 and audited total equity of $67 million as at 31 March 2015.

A profile of Horizon Energy is set out in section 4.

1.2 Eastern Bay Energy Trust

Eastern Bay Energy Trust (the **Trust**) is Horizon Energy's largest shareholder. The Trust currently holds 19,316,130 ordinary shares, representing 77.29% of the Company's ordinary shares on issue.

The beneficiaries of the Trust are the current and future electricity consumers living in the Eastern Bay of Plenty districts to whom electricity is distributed by Horizon Energy. The beneficiaries are represented by 6 trustees, 4 of whom are elected and 2 of whom are appointed.

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

1.3 The Trust Offer

On 4 May 2015 the Trust and Marlborough Lines Limited (**MLL**) announced that they had entered into a pre-bid agreement (the **Pre-bid Agreement**) whereby the Trust agreed that it would make a full takeover offer for the ordinary shares in the Company that it does not already own (the **Trust Offer**) and MLL would accept the Trust Offer.

The Trust sent Horizon Energy a notice of intention to make the Trust Offer on 5 June 2015.

The Trust intends to send its Offer Document to Horizon Energy's shareholders on 29 June 2015.

Number of Shares Sought

The Trust Offer is for all of the ordinary shares in Horizon Energy not already held by the Trust.

The Trust currently holds 19,316,130 ordinary shares (77.29%). Accordingly, the Trust Offer is for the remaining 5,675,255 ordinary shares (22.71%), of which:

- MLL holds 3,472,059 ordinary shares (13.89%)
- the Company's other 1,717 shareholders collectively hold 2,203,196 ordinary shares (8.82%).

Consideration

The Trust is offering cash of $4.41 for each Horizon Energy ordinary share.

Conditions

The Trust Offer is conditional on the Trust receiving sufficient acceptances such that, when taken together with the Horizon Energy shares it already holds, the Trust holds or controls 90% or more of the voting rights in Horizon Energy (the **Minimum Acceptance Condition**).

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

- Horizon Energy not declaring or paying any dividends, bonuses or other payments or distributions
- no changes being made to the capital structure of the Company
- no material proceedings against the Company arise
- no material adverse events occur
- the NZX 50 Gross Index (the **Index**) does not decline for 3 or more consecutive trading days during the offer period to a level that is 10% or more below the closing Index on 3 May 2015
- no material assets are purchased or sold, no material contracts are entered into and no material investment or business is purchased or sold
- there is no change to the terms and conditions of employment and / or appointment of directors or officers and no new employees are employed at a rate of remuneration in excess of $200,000 per annum
- there is no alteration to Horizon 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
- the Company does not enter into any material transactions with related parties
- no changes in significant accounting practice or policy
- the business of the Company is carried on, in all material respects, in the normal and ordinary course

- nothing occurs that would entitle the Trust's bankers not to make available funding in respect of the Trust Offer.

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

Offer Dates

The Trust Offer is to be dated 29 June 2015.

The offer closes at 5pm on 28 July 2015 (unless extended by the Trust in accordance with the provisions of the Takeovers Code (the **Code**)).

Agreement to Accept the Trust Offer

No shareholder has agreed conditionally or unconditionally to accept the Trust Offer other than MLL under the Pre-bid Agreement.

1.4 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.

1.5 Purpose of the Report

The directors of Horizon Energy have engaged Simmons Corporate Finance to prepare an Independent Adviser's Report on the Trust Offer in accordance with Rule 21 of the Code.

Simmons Corporate Finance was approved by the Takeovers Panel on 22 May 2015 to prepare the Independent Adviser's Report.

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

2.1 Basis of Evaluation

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

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

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

- the Takeovers Panel guidance note on the role of independent advisers dated 3 March 2015
- definitions designed to address similar issues within New Zealand regulations which are relevant to the proposed transaction
- overseas precedents
- the ordinary meaning of the term *merits*.

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

- the rationale for the Trust Offer
- the assessed value of Horizon 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 Trust Offer
- the implications for shareholders of not accepting the Trust 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 Rationale for the Trust Offer

The rationale for the Trust Offer dates back to 2009.

During the 2009 financial year, the Trust undertook an in-depth strategic review of its shareholding in Horizon Energy. Following a market testing process it received a number of non-binding amalgamation proposals from interested parties, including MLL.

The evaluation of the proposals was managed by Horizon Energy. Following a thorough assessment of the business case and subsequent consideration by the Trust, the Company was advised that the Trust would not support any proposal for amalgamation. The reasons put forward by the Trust were that the Company is a strategic local asset and any amalgamation could result in loss of control in the area and a loss of employment. The trustees felt strongly that the projected cost savings were not significant enough to proceed and resolved not to take the matter any further.

On 14 September 2009, MLL sent Horizon Energy a notice of intention to make a partial takeover offer for 12,745,606 shares, representing 51% of the shares in Horizon Energy (the **MLL Offer**). MLL offered $3.96 cash per Horizon Energy share.

MLL sent its Offer Document to Horizon Energy's shareholders on 29 September 2009. The MLL Offer did not succeed as MLL did not receive sufficient acceptances when the offer closed on 30 October 2009. MLL announced on 12 October 2009 that it had only received acceptances for 1.03% of the shares.

The Trust announced on 19 October 2009 that it would not accept the MLL Offer, stating that "*its preference was to retain control of what is a strategic local asset*".

The Trust entered into a confidentiality agreement with the Company on 4 December 2009 for the purpose of the Trust evaluating a proposal to make a full takeover offer for Horizon Energy.

When announcing the proposed takeover offer on 13 January 2010, the chair of the Trust stated:

> *"To protect Horizon Energy for the future of the Eastern Bay of Plenty power consumers, the trustees of the Trust believe it is in the best interests of both Horizon Energy and its beneficiaries for the Trust to purchase the remaining shares in Horizon Energy that is does not already own. The trustees have made this decision for the following reasons:*
>
> - *our local power lines network is a strategic local infrastructure asset and it is important to the Eastern Bay of Plenty that ownership and control remain local*
> - *it is important to protect local jobs rather than having jobs and control go outside the area*
> - *it is important to ensure the profits generated by Horizon Energy are able to be reinvested in the Eastern Bay of Plenty*
> - *having full control will stop unsolicited takeover offers for Horizon Energy occurring. Dealing with these offers is very costly and takes valuable time, resulting in the focus being taken away from running the business*
> - *Horizon Energy is currently listed on the New Zealand Stock Exchange. If the Trust is successful in buying the remaining shares, Horizon Energy can be delisted, resulting in significant annual cost savings."*

The trustees were required to undertake a consumer poll of the Trust's beneficiaries. However, Matata-based Te Mana o Ngati Rangitihi Trust (**TMoNRT**) sought an interim injunction to stop the counting of votes in the poll of consumers, claiming that the trustees had not consulted properly. TMoNRT also claimed that the Trust did not have the power to own more than 25% of Horizon Energy's shares and that the Trust had not been properly constituted. The action by TMoNRT was financed by MLL.

The trustees were advised that the trust deed was ambiguous on this point and the correct course of action was to apply to the High Court for a declaratory judgement.

The Trust's application to the High Court was opposed by TMoNRT, which wanted the trustees blocked from purchasing any additional shares and to force the Trust to sell down its current shareholding.

On 14 June 2010, MLL made a stand in the market to acquire a 10.1% shareholding in the Company at $4.15 per share (inclusive of a dividend of $0.09 per share). The stand was successful and by 6 August 2010, MLL had acquired 13.89% of the Company's shares.

In April 2012 the High Court ruled that the trust deed did empower the trustees to own more than 25% of Horizon Energy's shares and that the Trust's purchase of an additional 52.29% shareholding in the Company from UnitedNetworks Limited (**UnitedNetworks**) in November 1999 was lawful. The Court also declared that the original vesting in the Trust of 5,000,000 Horizon Energy shares provided in the establishment plan was lawful.

TMoNRT lodged an appeal against the judgment, which was heard in the Court of Appeal on 13 August 2013.

On 14 November 2013 the Court of Appeal declared the appeal was dismissed and confirmed that the Trust was entitled under the terms of its trust deed to acquire more than 25% of the shares in Horizon Energy.

The Court also ruled that while the poll of consumers conducted by the Trust under its trust deed in September 1998 did not authorise it to acquire further shares in Horizon Energy (because it was general in nature and did not appear to relate to a specific transaction), the Court was entitled to make an order under section 64(1) of the Trustee Act 1956 permitting the Trust to retain the additional 52.29% shareholding in Horizon Energy. Costs were awarded to the Trust.

On 9 June 2014, the Trust announced that it had fully settled its legal dispute with TMoNRT and the 2 parties had come to an agreement on costs.

On 4 May 2015, the Trust and MLL announced that they had entered into the Pre-bid Agreement whereby the Trust agreed that it would make the Trust Offer and MLL would accept the Trust Offer.

We note that the Trust could have achieved its objective of full ownership of Horizon Energy by more than one method. As an alternative to a full takeover offer, the Trust could buy up to an additional 5% of the Company's shares each year under the *creep* provisions of Rule 7(e) of the Code. The earliest that the Trust could reach a 90% shareholding under the *creep* provisions would be after 2 years. Upon reaching the 90% threshold, the compulsory acquisition provisions of the Code would apply. In such circumstances, the price at which compulsory acquisition would occur would be a cash sum certified by an independent adviser as being fair and reasonable. However, outstanding shareholders would have a right to object and if sufficient objections were received, the price would be determined by an independent expert.

The advantage to the Trust of acquiring 100% ownership through the *creep* provisions of the Code is that it would acquire shares at the prevailing market prices and therefore would not necessarily have to pay prices above what the shares are trading at to acquire absolute control. The disadvantage to the Trust is that it could not achieve 100% ownership until at least 2 years' time.

However, even if the Trust elected to increase its shareholding in the Company using the *creep* provisions, it would still need to first undertake a consumer poll of the Trust's beneficiaries. Furthermore, it would need to acquire at least 972,921 shares from MLL in order to meet the 90% threshold.

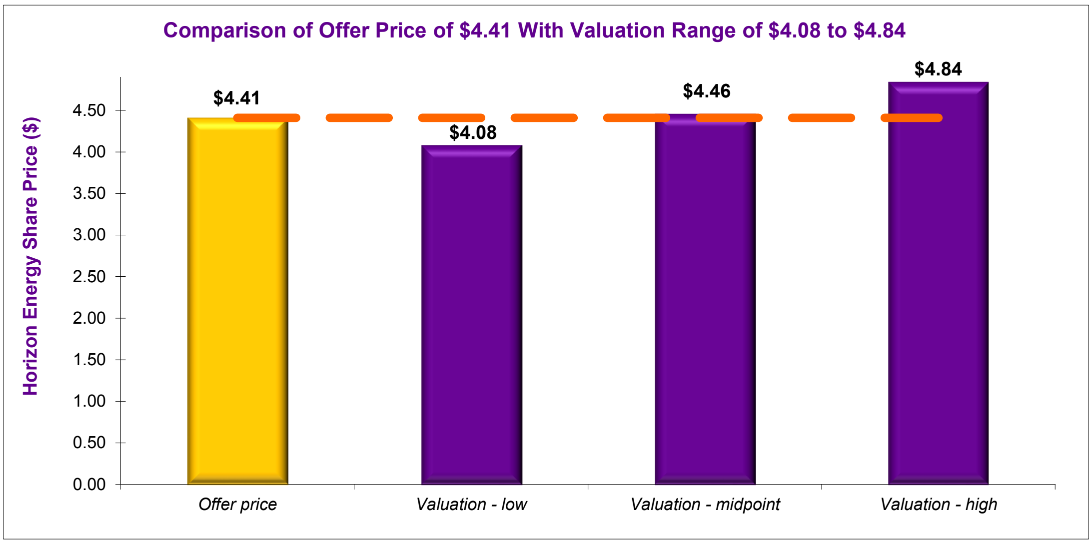
2.3 Value of Horizon Energy's Shares Compared with Offer Price of $4.41

In our opinion, the full underlying value of Horizon Energy is in the range of $4.08 to $4.84 per share, as set out in section 6.

This value is for 100% of Horizon 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 Horizon Energy.

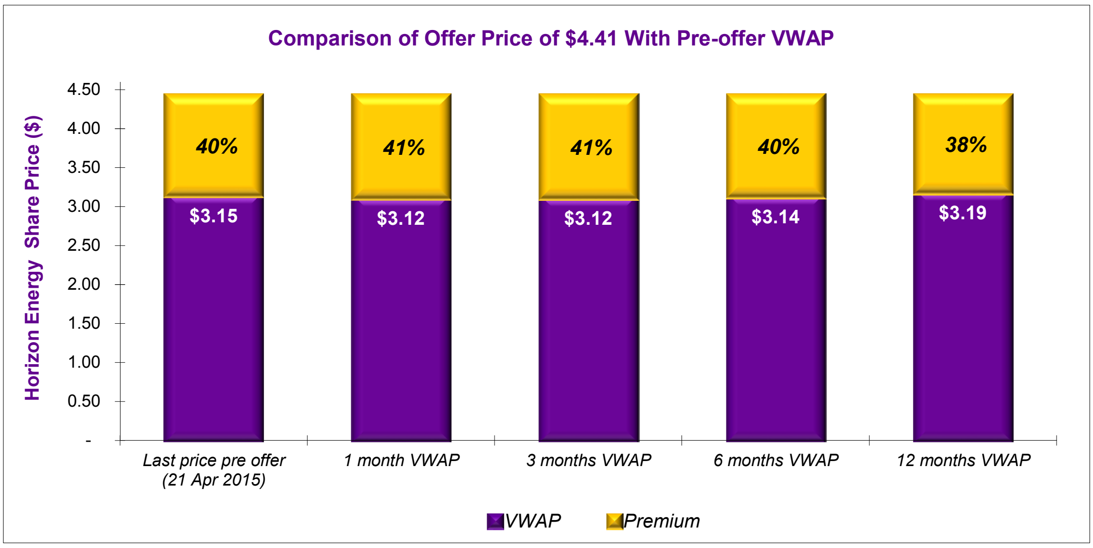
The Trust Offer consideration is cash of $4.41 per share.

The Trust Offer consideration of $4.41 is within our assessed valuation range. It is marginally below the midpoint of the range.



2.4 Horizon Energy Share Price Compared with Offer Price of $4.41

The Trust Offer of $4.41 per share represents a premium of 40% over $3.15 (being the last trading price before the Pre-bid Agreement was announced on 4 May 2015) and premia ranging from 38% to 41% over the volume weighted average share price (**VWAP**) measured over one to 12 months prior to the announcement of the Pre-bid Agreement.



The premia are in line with the majority of premia observed in successful takeovers of other listed companies.

The Trust's 77.29% shareholding enables it to singlehandedly control the outcome of any ordinary resolution and any special resolution. Accordingly, the Trust already has significant control over the affairs of Horizon Energy. In such circumstances, it may be reasonable to expect that a rational bidder would not pay a significant premium for control.

We note that trading in the Company's shares is extremely thin with only 3.3% of the free float (or public pool) traded in the year prior to the announcement of the Pre-bid Agreement. 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 Horizon Energy's shares.

Since the announcement of the Pre-bid Agreement on 4 May 2015, only 41,244 Horizon Energy shares have traded in a price range of $4.12 to $4.21 at a VWAP of $4.16.

2.5 Potential Synergies

The Trust's 77.29% shareholding in Horizon Energy is its main investment.

There are no obvious significant synergies available to the Trust arising from its full ownership of Horizon Energy other than a reduction in the level of administration costs that would be incurred once the Company was delisted from the NZX Main Board and it had only one shareholder to report to. This could potentially lead to approximately $0.2 million of cost savings per annum (less than $0.01 per share).

There will be no regulatory benefit to the Company being 100% owned by the Trust as the Trust does not currently meet all the criteria that would enable Horizon Energy to be subject only to information disclosure and not be subject to the EDB price-path and quality regulatory regime under the Commerce Act 1986 (as discussed on pages 17 and 18).

2.6 Conditions of the Trust Offer

Minimum Acceptance Condition

The Trust Offer is conditional on the Trust receiving acceptances for 90% or more of Horizon Energy's shares by the end of the offer period being 28 July 2015 (unless extended by the Trust).

The Trust currently holds 77.29% of the Company's shares currently on issue. The Trust will require acceptances from shareholders holding a further 12.71% of the shares on issue (3,176,117 shares) to meet the Minimum Acceptance Condition.

The Pre-bid Agreement ensures that the Minimum Acceptance Condition will be met, as MLL is obliged to accept its 3,472,059 shares (13.89%) into the Trust Offer within 2 business days of the Offer Document being sent to the Company's shareholders. Accordingly, MLL must accept the Trust Offer by 1 July 2015.

Other Conditions

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

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

Likely Date of the Trust Offer Being Declared Unconditional

Based on the above, we expect that the Trust Offer will be declared unconditional by 1 July 2015.

The Trust will then be obliged to pay the consideration price of $4.41 per share to accepting shareholders no later than 7 days after the later of:

- the date on which the shareholder's acceptance of the offer is received by the Trust
- the date on which the Trust Offer is declared unconditional (which is expected to be by 1 July 2015).

2.7 Compulsory Acquisition

On the basis that the Trust Offer will be declared unconditional by 1 July 2015, the Trust will have the right to, and has stated that it intends to, compulsorily acquire the remaining shares in the Company. Following the completion of the compulsory acquisition process, Horizon Energy will apply to be delisted from the NZX Main Board.

Even if certain shareholders choose not to initially accept the Trust Offer, once the offer is declared unconditional, the Trust will be able to compulsorily acquire the remaining shares and those shareholders will be compelled to sell their shares to the Trust at $4.41 per share. Under the Code, the Company's shareholders cannot challenge the compulsory acquisition price of $4.41 per share in this instance. This is because MLL's acceptance of its 3,472,059 ordinary shares into the offer represents more than 50% of the total shares for which the offer is made (5,675,255 ordinary shares). In such circumstances, the Code stipulates that the compulsory acquisition price will be the same price as the Trust Offer price and the remaining shareholders have no rights to challenge the price.

The above analysis presupposes that the Trust and MLL are not deemed to be associates for the purposes of the Code. We have no reason to believe that the Trust and MLL would be deemed to be associates for the purposes of the Code.

2.8 Likelihood of Alternative Takeover Offers is Negligible

We are advised by the Company's directors 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 Trust's current 77.29% shareholding and the Pre-bid Agreement create a significant impediment to an alternative takeover offer. Any bidder looking to take over Horizon Energy would need to ensure that the Trust would accept its offer. We consider this to be highly unlikely given that the Trust has launched a full takeover offer and MLL is obliged to accept the Trust Offer under the Pre-bid Agreement, thereby enabling the Trust to compulsorily acquire the remaining shares in the Company.

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

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

2.9 Likelihood of the Trust Increasing the Offer Price is Negligible

Given that the Trust Offer will most likely be declared unconditional by 1 July 2015 and the Trust will then proceed to compulsorily acquire the remaining shares, we consider it highly improbable that the Trust will increase its offer price.

For the sake of completeness, we note that in the (unlikely) event that the Trust does increase its price under this offer, the increased price will be available to all shareholders, including those who have already accepted the Trust Offer at $4.41 per share.

2.10 Advantages of Accepting the Trust Offer

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

On the basis that the Trust Offer will most likely be declared unconditional by 1 July 2015, acceptance of the offer will enable shareholders to realise cash of $4.41 per share within 7 days of acceptance.

The offer price of $4.41 per share is a premium of up to 41% on the levels that the shares have traded in the past year prior to the announcement of the Pre-bid Agreement.

Those shareholders wishing to continue to invest in the New Zealand EDB industry will be able to invest in Vector Limited (**Vector**).

2.11 Disadvantages of Accepting the Trust Offer

We are of the view that there are no disadvantages to accepting the Trust Offer as shareholders cannot stop the Trust from compulsorily acquiring all of the shares in Horizon Energy at a price of $4.41 per share.

2.12 Implications of Not Accepting the Trust Offer

The Pre-bid Agreement ensures that the Trust will receive sufficient acceptances allowing it to compulsorily acquire the remaining shares in the Company at $4.41 per share.

Shareholders who choose not to accept the Trust Offer will be compelled to sell their shares to the Trust and they will not be able to dispute the purchase price of $4.41 per share.

2.13 Summary of Evaluation of the Merits of the Trust Offer

The Trust 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 Trust Offer includes:

- the Trust is assured of holding at least 91.18% of the Company's shares through the Pre-bid Agreement and the Trust Offer will likely be declared unconditional by 1 July 2015. The Trust will therefore compulsorily acquire the remainder of the shares at a price of $4.41 per share and shareholders will not be able to challenge the purchase price
- we assess the full underlying value of Horizon Energy's shares to be in the range of $4.08 to $4.84 per share. The Trust Offer price of $4.41 per share is marginally below the midpoint of our range
- the Trust Offer of $4.41 per share represents premia ranging from 38% to 41% over the Company's VWAP for the past year up to the announcement of the Pre-bid Agreement. 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 Horizon Energy's shares
- the likelihood of an alternative takeover offer or the Trust increasing its offer price is negligible
- following the completion of the Trust Offer, the Trust will wholly own Horizon Energy and the Company will apply to be delisted from the NZX Main Board.

In our view, on the basis that the Trust Offer will be declared unconditional (most likely by 1 July 2015), there is no benefit to shareholders not accepting the Trust Offer. Therefore shareholders should consider accepting the Trust Offer as soon as it is declared unconditional and thereby receive cash of $4.41 per share within 7 days of the acceptance.

2.14 Acceptance or Rejection of the Trust Offer

Acceptance or rejection of the Trust 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	Transmission	Distribution	Retail
• Meridian Energy	• Transpower	• Vector	• Genesis Energy
• Genesis Energy		• Powerco	• Contact
• Mighty River Power		• Wellington Electricity	• Mercury Energy
• Contact		• Orion	• Trustpower
• Trustpower		• Unison	• Meridian Energy
• 8 others		• 24 others	• 21 others

Generation

New Zealand's electricity is generated by hydro-electric, thermal, geothermal and wind power stations. New Zealand's current generation capacity is approximately 10,000 megawatts (**MW**). Approximately 54% of current generation capacity is hydro-electric.

Of the main generation companies, Meridian Energy Limited (**Meridian Energy**), Genesis Power Limited (trading as **Genesis Energy**) and Mighty River Power Limited (**Mighty River Power**) are former state-owned enterprises (**SOEs**) who, with Contact Energy Limited (**Contact**) and Trustpower Limited (**Trustpower**) are all listed on the NZX Main Board. These 5 companies produced approximately 97% of New Zealand's electricity in 2013.

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

Transmission

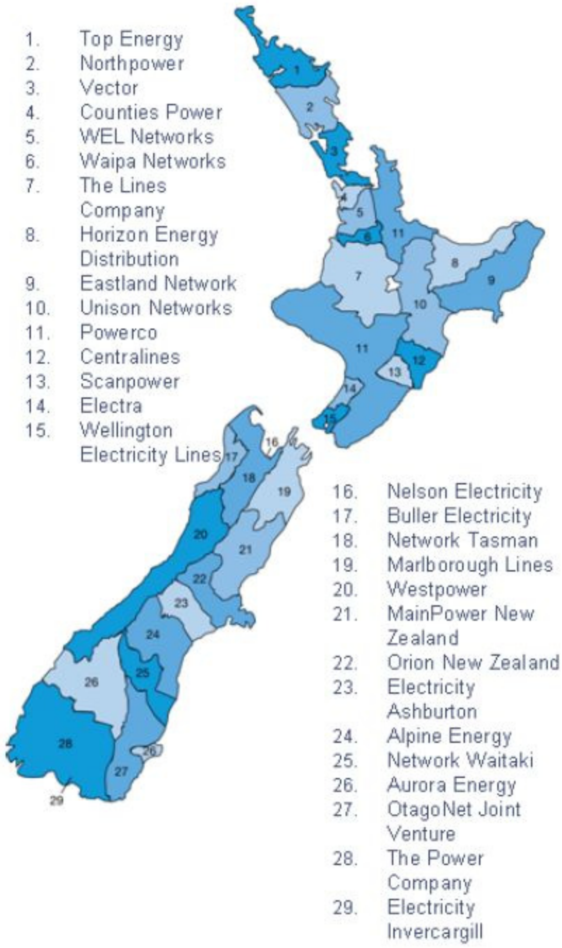
Transpower New Zealand Limited (**Transpower**) owns and operates New Zealand's high-voltage electricity grid, comprising more than 12,000 km of lines, over 170 substations, pylons and high voltage cables. Transpower is responsible for transmitting electricity produced by generators from over 50 power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

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

Distribution

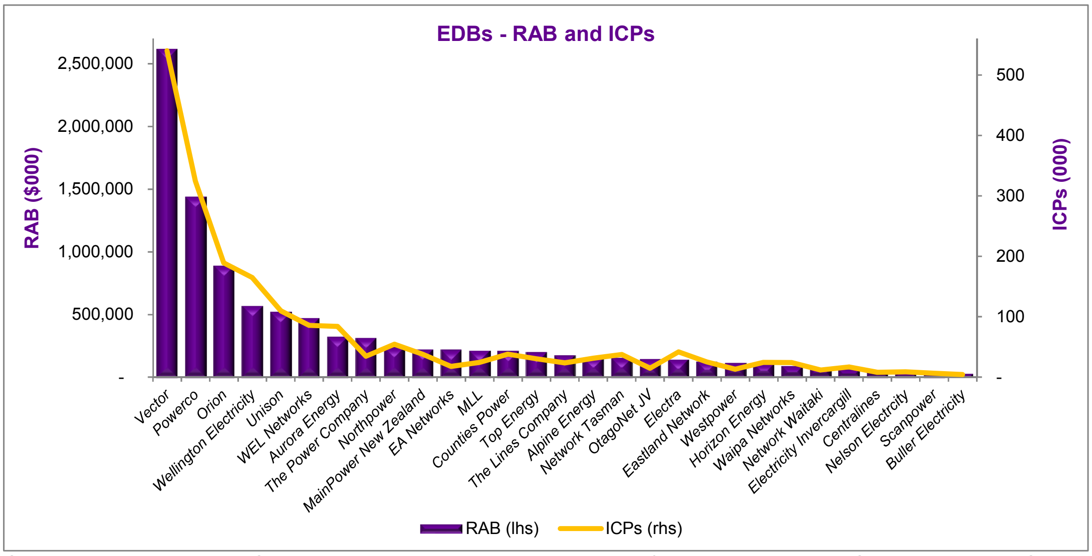
Distribution is the service of transporting electricity from GXPs through to industrial, commercial and residential consumers. There are 149,481 km of distribution lines in New Zealand. The distribution networks also include substations which convert electricity to lower voltages.

There are currently 29 EDBs operating in New Zealand.



Source: Electricity Networks Association

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



*Source: PricewaterhouseCoopers Electricity Line Business 2014 Information Disclosure Compendium (**PwC 2014 EDB Compendium**)*

An analysis of the key information disclosures for the EDB industry is set out in Appendix I.

21 of the EDBs have some community trust ownership with 18 having full trust ownership. Two EDBs are listed on the NZX Main Board – Horizon Energy and Vector.

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).

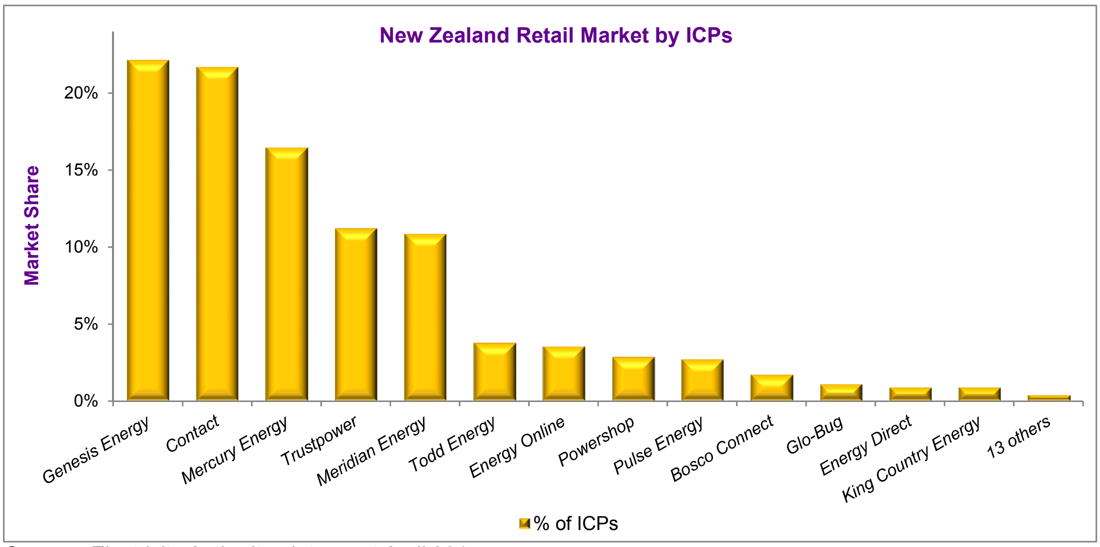
The Electricity Industry Reform Amendment Act 2008 (the **Reform Amendment Act 2008**) came into force in October 2008 and amended the 1998 Reform Act. It amended the ability of EDBs to invest in electricity generation, with the key amendments being:

- 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.

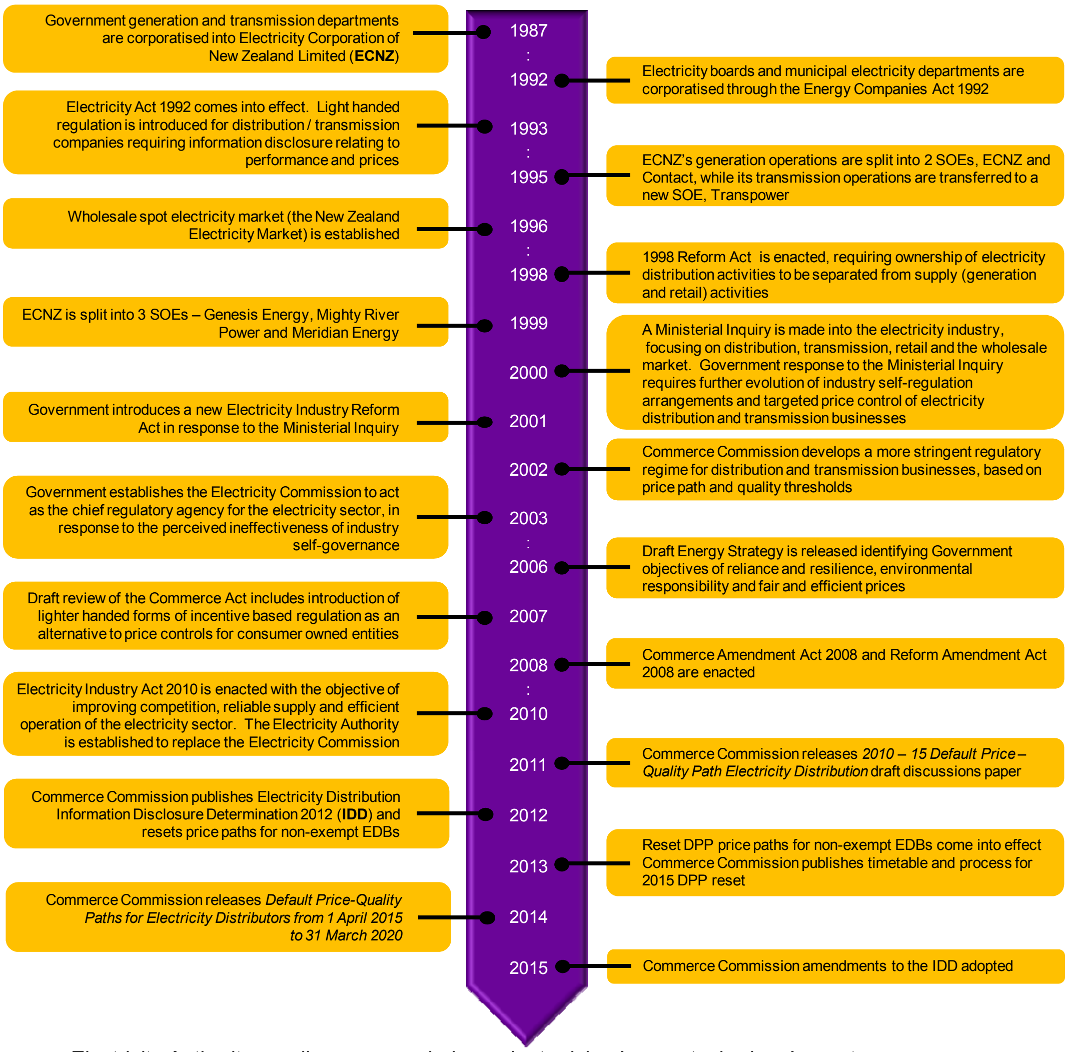
The market share of electricity retailers as at April 2015 is set out below.



Source: Electricity Authority, data as at April 2015

3.2 Industry Development

The electricity industry has undergone extensive reform over the last 2 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.

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

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

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

EDB Regulation

Overview

EDBs are subject to the thresholds regulatory regime under Part 4 of the Commerce Act 1986 administered by the Commerce Commission, which regulates pricing and quality of supply of electricity distribution for the long term benefit of consumers.

EDBs are obliged under the IDD to publicly disclose financial and service information on an annual basis.

EDBs are also regulated by the Electricity Authority under section 42 of the Electricity Industry Act 2010. The Electricity Authority has particular responsibility for monitoring tariff structures and approaches.

Input Methodologies

Input methodologies involve setting upfront regulatory methodologies, rules, processes, requirements and evaluation criteria that are directly relevant to regulated businesses under Part 4.

Input methodologies relate to cost allocation, asset valuation, treatment of taxation, cost of capital, pricing methodologies and rules and processes that will apply under customised price-quality path (**CPP**) regulation as well as default price-quality path (**DPP**) regulation.

Input methodology determinations were initially made in December 2010 following intensive consultation and applied to all regulated parties. The Commerce Commission must review each input methodology no later than 7 years after its date of publication and, after that, at intervals of no more than 7 years.

There were several updates made by the Commerce Commission in November 2014 to introduce changes applicable to the price-quality path regulation as of 1 April 2015.

Regulatory Valuations

In accordance with the information disclosure requirements of Part 4 of the Commerce Act 1986 and relevant Financial Reporting Standards, EDBs must complete annual disclosure of RAB information and complete financial reporting asset valuations.

One of the predominant purposes for information disclosure is to assist interested parties to compare EDBs operating in the same industry. There is some flexibility for EDBs to tailor the standard asset values to their own specific circumstances (eg application of location specific cost multipliers).

Default Price-Quality Path

The Commerce Commission published its determination on the reset of the initial DPP on 30 November 2009. This DPP for EDBs came into effect on 1 April 2010.

The determination set out that for the period from 1 April 2010 to 31 March 2015, all EDBs (other than 12 exempt consumer-owned EDBs) would:

- be subject to a weighted average price cap in the form of *CPI – X*
- have starting prices equal to actual prices that were in place on 31 March 2010
- be subject to an *X* factor of 0% per annum
- allow full recovery of transmission charges, avoided transmission charges, local body rates, Electricity Commission levies and Commerce Act levies
- have quality standards based on reliability.

The effect was that non-exempt EDBs were allowed to increase prices by the rate of inflation, after allowing for pass through costs, whilst maintaining quality of supply to consumers.

On 30 November 2012, the Commerce Commission reset the price paths applying to non-exempt EDBs (including Horizon Energy), with effect from 1 April 2013. The reset price paths applied up to 31 March 2015. The primary purpose of the reset was to ensure the DPP was consistent with the relevant input methodologies and to reset the price path such that each non-exempt EDB was projected to earn a normal return between the 2013 and 2015 financial years.

On 28 November 2014, the Commerce Commission published its determination on the reset of the DPP for the period from 1 April 2015 to 31 March 2020. New features of the current DPP include:

- a financial incentive mechanism to compensate for revenue foregone as a result of energy efficiency and demand side management initiatives
- a quality incentive scheme to provide financial rewards / penalties for annual reliability performance which exceeds / falls below target levels
- an expenditure efficiency incentive scheme which is intended to equalise incentives over time, and between capital expenditure and operating expenditure, for expenditure efficiencies
- applying a lower cost of capital percentile in the DPP and CPP price paths.

4. Profile of Horizon Energy

4.1 Company Background

The Bay of Plenty Electric Power Board (**BOPEPB**) was established in 1925.

Following the corporatisation of electricity boards and municipal electricity departments in 1992, Horizon Energy was incorporated on 29 October 1993 as Bay of Plenty Electricity Limited (**BOP Electricity**) and the Trust was granted 25% of the Company's shares in August 1994 under the establishment plan.

Horizon Energy's shares were listed on the NZX Main Board in March 1995.

In April 1999, the Company's distribution, retail and generation functions were separated as part of Government restructuring of the industry:

- the retail and generation assets, together with the BOP Electricity brand, were sold to a consortium led by Todd Energy Limited (**Todd Energy**)
- the network assets were retained by the Company, which changed its name to Horizon Energy Distribution Limited on 1 April 1999.

Cash proceeds of over $100 million from the sale of the retail and generation assets were returned to the Company's shareholders by way of a share buyback scheme.

In November 1999, the Trust purchased the Horizon Energy shares held by UnitedNetworks for $32 million, taking its shareholding from 25% to its current level of 77.29%.

On 29 September 2009, MLL sent the MLL Offer to the Company's shareholders. The MLL Offer was not successful as MLL did not receive sufficient acceptances when the offer closed on 30 October 2009.

On 13 January 2010, the Trust announced its intention to make a full takeover offer for the 22.71% of the shares in the Company that it didn't own for $4.00 cash per Horizon Energy share. For reasons detailed in section 2.2 involving TMoNRT, the takeover offer was not made.

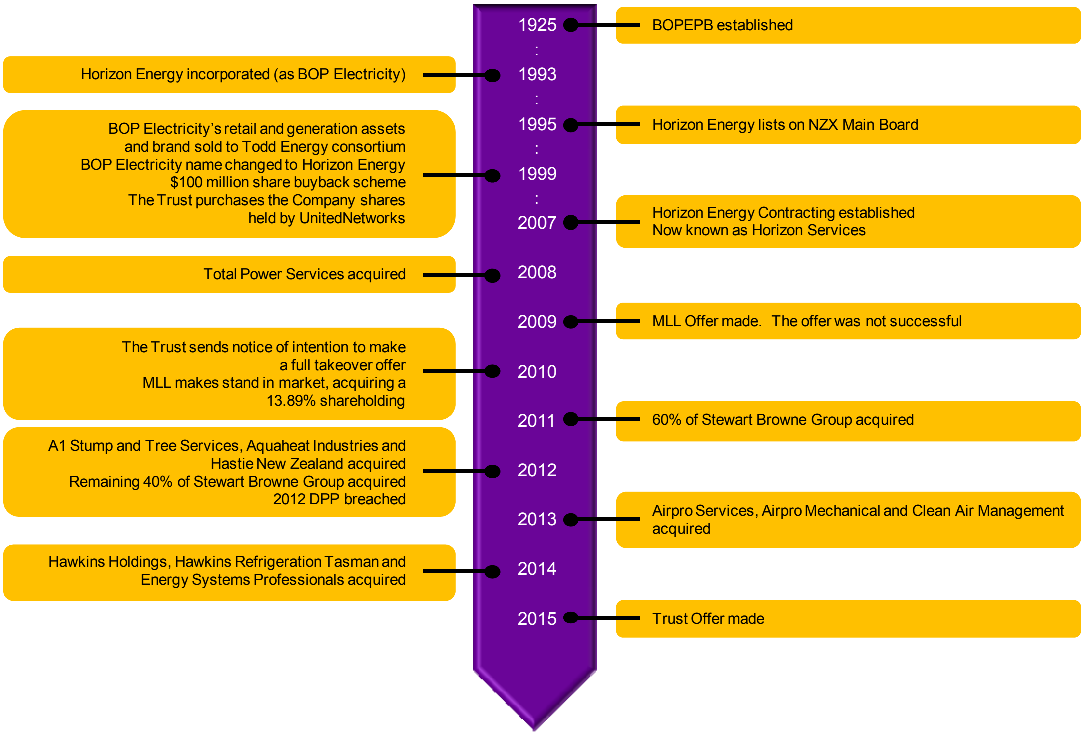
Following the unsuccessful MLL Offer, MLL raised a number of allegations against Horizon Energy with the Takeovers Panel. On 10 May 2010, the Takeovers Panel dismissed the allegations other than one in respect of a breach of the Code by the Company omitting to disclose that a material part of the increased profit outlook had come about from a change to the accounting treatment of internally constructed assets. No orders were made against Horizon Energy because the MLL Offer had already closed and was unsuccessful.

On 14 June 2010, MLL made a stand in the market to acquire a 10.1% shareholding in the Company at $4.15 per share (inclusive of a dividend of $0.09 per share). The stand was successful and by 6 August 2010, MLL had acquired 13.89% of the Company's shares.

The Company breached section 87(1)(a) of the Commerce Act 1986 by contravening a DPP requirement for the 2012 assessment period. The breach of the DPP (by 3.16%) has been resolved by settlement which requires the Company to reduce its prices in the 2016 financial year by $0.7 million.

On 4 May 2015, the Trust announced that it had entered into the Pre-bid Agreement with MLL and it intended to make the Trust Offer. The Trust gave notice of its intention to make the Trust Offer on 5 June 2015.

A summary of the Company's key events is set out below.



4.2 Nature of Operations

Since regulation commenced in 1999, Horizon Energy has focussed on managing and operating its network business efficiently. The Company has also sought to expand its non-regulated revenue base through the expansion of its contracting operations.

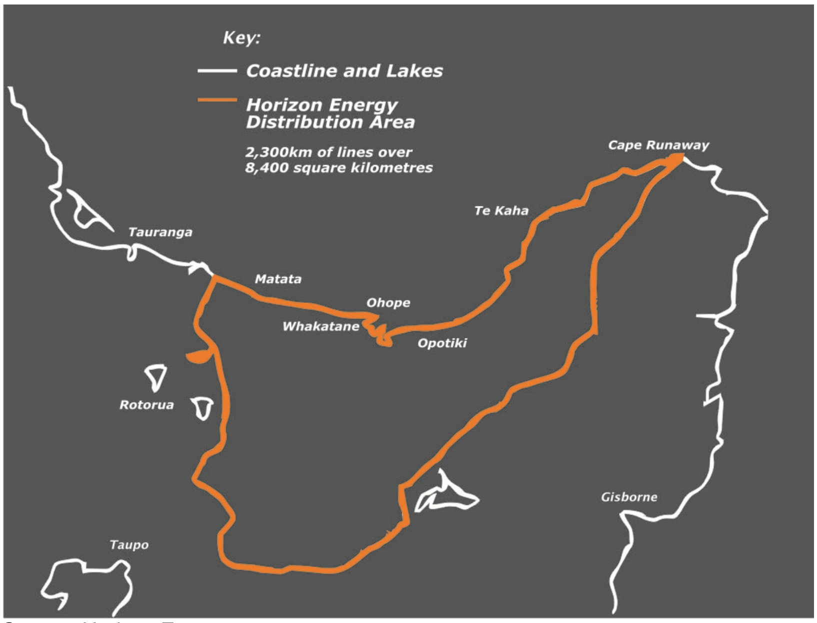
The Company's operations consist of 3 businesses:

Horizon Energy	Horizon Services	Aquaheat
EDB	Maintains the Horizon Energy network Provides specialised electrical and vegetation services	Provides HVAC construction, servicing and infrastructure solutions

Electricity Network

Overview

The Horizon Energy network encompasses the Whakatane, Kawerau and Opotiki districts in the Eastern Bay of Plenty, covering an area of 8,400 km^2.



Source: Horizon Energy

The network's key statistics as at 31 March 2014 are set out below.

Horizon Energy Key Network Statistics	
RAB	$110.6m
Total circuit length	2,381 km
Circuit length underground	19.7%
Connection points	24,732 ICPs
Electricity entering system for supply	513 GWh
Maximum distribution transformer demand	84 MW
Total distribution transformer capacity	301 MVA
Load factor	73.0%
Zone substation transformer capacity utilisation	95.1%
Loss ratio	4.1%

GWh: Gigawatt hour
MVA: Megavolt ampere

Source: Horizon Energy Information Disclosure Reports for the year ended 31 March 2014

An analysis of Horizon Energy's key information disclosures, along with those of the EDB industry, is set out in Appendix I.

Supply

The network is supplied by Transpower from 4 GXPs:

- Edgecumbe substation (33 kV)
- Kawerau substation (11 kV)
- Waiotahi substation (11 kV)
- Te Kaha substation (11 kV).

These systems are in turn fed by 220 kV, 110 kV and 50 kV systems throughout the region.

At present, approximately 4 MW of Horizon Energy's electricity supply is sourced from small generation plants connected directly to the network, including the following stations:

- 24 MW Aniwhenua hydro station
- 5.2 MW Kawerau binary geothermal station. This is not currently supplying the Horizon Energy network but it is capable of doing so
- 10 MW Edgecumbe gas fired co-generation station.

Network Infrastructure

The network consists mainly of overhead lines, but also has significant lengths of underground cable in the urban areas of Whakatane, Opotiki and Kawerau. Horizon Energy's network assets consist of:

- 178 km of 33 kV lines and cables
- 1,635 km of 11 kV and SWER lines and cables
- 506 km of 400 V lines and cables
- 11 zone substation transformers
- 3,213 distribution transformers.

Asset Management

Horizon Energy's asset management plan provides a detailed description of the Company's assets, their condition, target performance levels, network development, risk management and performance reviews for a ten year period.

The asset management plan was last updated in March 2015 and covers the period 1 April 2015 to 31 March 2025.

Customers

Horizon Energy's direct customers are predominantly electricity retailers who provide the direct interface with electricity consumers and billing and reporting of faults.

The Company's largest electricity customer is Nova Energy Limited, a subsidiary of Todd Energy, which provides the majority of Horizon Energy's electricity revenue. Horizon Energy therefore bills only a handful of parties, while serving over 24,700 connected customers:

- over 75% are domestic customers
- approximately 20% are small commercial customers
- the remainder are large commercial and industrial customers.

Pricing

In determining customer prices, Horizon Energy identifies the total costs associated with the distribution business and then allocates the revenue requirement based on customer groups. The proportion allocated to each group is determined by after-diversity maximum demand, measured maximum demand and the percentage of costs for assets employed to effect supply. Non-network costs are allocated by the number of connections. Line charges are adjusted to reflect legislated, regulatory and commercial requirements.

Customer capital contributions represent the portion of costs paid by customers for installation of new dedicated network assets. Customer capital contributions are sought from third parties who undertake new development or asset relocation works that impact on the Company's network.

Contracting Businesses

Horizon Energy Contracting was established in April 2007 to enable Horizon Energy to expand its non-regulated revenue business, secure labour resources and ensure shorter outage periods. The contracting division has now been expanded into 2 businesses – Horizon Services and Aquaheat.

Horizon Services

Horizon Services undertakes the bulk of the Company's electricity network development and maintenance work. It also provides electrical services, data and security systems, air conditioning, street light maintenance and vegetation management services across the Eastern and Western Bay of Plenty region.

Horizon Services has grown through acquisition, including:

- Total Power Services in 2008
- Stewart Browne Group in 2011 (60%) and 2012 (the remaining 40%)
- A1 Stump and Tree Services in 2012
- Energy Systems Professionals in 2014.

Aquaheat

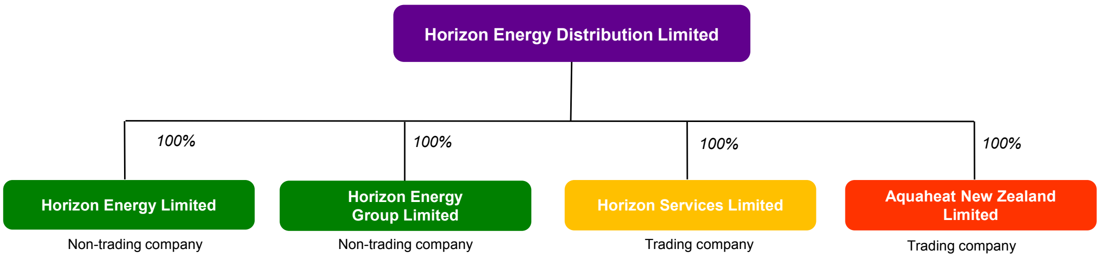
Aquaheat operates in Auckland, Wellington and Christchurch and is a national provider of HVAC building and infrastructure solutions.

Aquaheat acquired the Auckland-based business of Airpro Services in 2013, strengthening the Company's HVAC servicing capacity in the Auckland region.

In 2014, the Company acquired the businesses of Hawkins Holdings and Hawkins Refrigeration Tasman, expanding into the industrial refrigeration contracting and servicing sector.

4.3 Corporate Structure

The Company's corporate structure is set out below.



The EDB operates under the parent company (Horizon Energy Distribution Limited).

Aquaheat New Zealand Limited wholly owns Aquaheat South Pacific Limited.

4.4 Directors and Senior Management

The directors of Horizon Energy are:

- Christopher Boyle, independent director
- Anthony de Farias, independent director
- Chris Ellis, independent director
- John McDonald, independent director
- Robert Tait, independent director and chair.

Horizon Energy's senior management team comprises:

- Ajay Anand, chief executive officer
- John Anderson, chief financial officer / company secretary
- Derek Caudwell, general manager network
- Kiran Watkins, general manager commercial
- Karla Meharry, general manager contracting
- Gary Diggs, chief operating officer, Aquaheat
- Oloff Visser, general manager people and performance.

4.5 Capital Structure and Shareholders

Horizon Energy currently has 24,991,385 ordinary shares on issue held by 1,719 shareholders.

The names, number of shares and percentage holding of the 10 largest shareholders as at 5 June 2015 are set out below.

Horizon Energy's 10 Largest Shareholders

Shareholder	No. of Shares Held	%
The Trust	19,316,130	77.29%
MLL	3,472,059	13.89%
Ronald White and Jennifer White	76,764	0.31%
Key Group Limited	45,255	0.18%
Alexander Herdman	34,131	0.14%
Bluefield Holdings Limited	34,050	0.14%
UBS New Zealand Limited	26,009	0.10%
Custodial Services Limited	22,602	0.09%
Peter Knyvett	20,000	0.08%
New Zealand Central Securities Depository Limited	18,295	0.07%
Subtotal	23,065,295	92.29%
Others (1,709 shareholders)	1,926,090	7.71%
Total	24,991,385	100.00%

Source: NZX Company Research

4.6 Corporate Objectives and Strategy

Horizon Energy's vision is to be a nationally recognised infrastructure services provider that generates long term value for its shareholders.

The Company's mission statement is to be the service provider of choice in all market segments that it operates in.

The key elements of Horizon Energy's corporate strategy are:

- become more efficient as an asset owner
- optimise regulatory incentives
- drive and deliver a safety culture
- create an adaptive and responsive network
- enhance the financial performance of the Horizon Services and Aquaheat businesses
- grow and diversify the Horizon Services and Aquaheat businesses.

4.7 Financial Performance

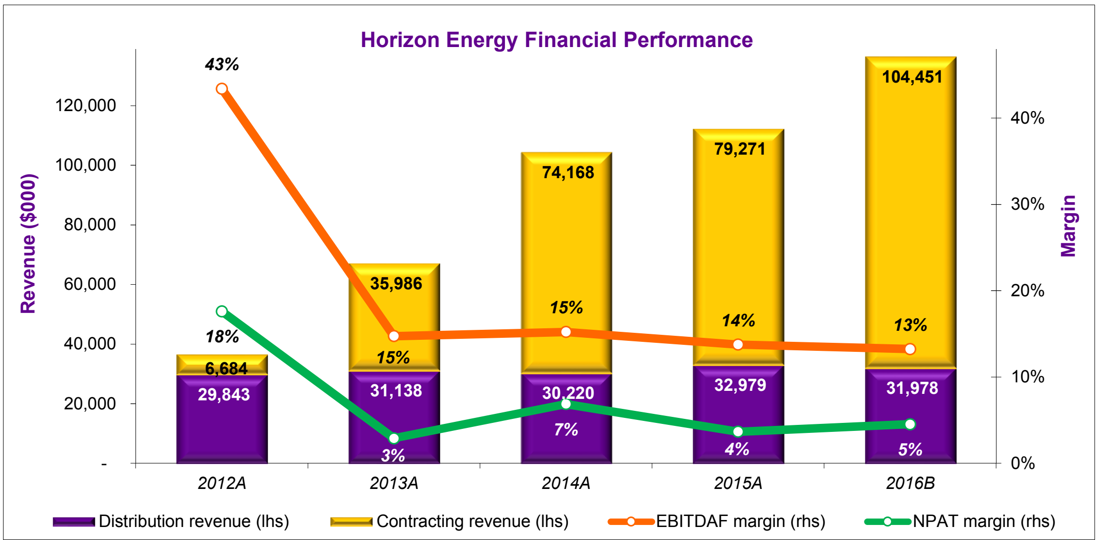
A summary of Horizon Energy's recent financial performance is set out below.

Summary of Horizon Energy Financial Performance

	Year to 31 Mar 12 (Audited) $000	Year to 31 Mar 13 (Audited) $000	Year to 31 Mar 14 (Audited) $000	Year to 31 Mar 15 (Audited) $000	Year to 31 Mar 16 (Budget) $000
Operating revenue	36,527	67,124	104,388	112,250	136,429
EBITDAF	15,858	9,896	15,892	15,454	18,065
EBITF	11,223	4,685	10,295	9,413	11,427
NPBT	8,939	2,743	9,868	5,468	8,663
NPAT	6,432	1,942	7,169	4,101	6,195
EPS ($)	$0.26	$0.08	$0.29	$0.16	$0.25
DPS ($)	$0.18	$0.15	$0.10	$0.15	$0.15
Revenue growth p.a.	18%	84%	56%	8%	22%
EBITDAF margin	43%	15%	15%	14%	13%
EBITF margin	31%	7%	10%	8%	8%
NPAT margin	18%	3%	7%	4%	5%

EBITDAF: Earnings before interest, tax, depreciation, amortisation and fair value revaluations of financial derivatives
EBITF: Earnings before interest, tax and fair value revaluations of financial derivatives
NPBT: Net profit before tax
NPAT: Net profit after tax
EPS: Earnings per share
DPS: Dividends per share

Source: Horizon Energy audited financial statements and 2016 budget



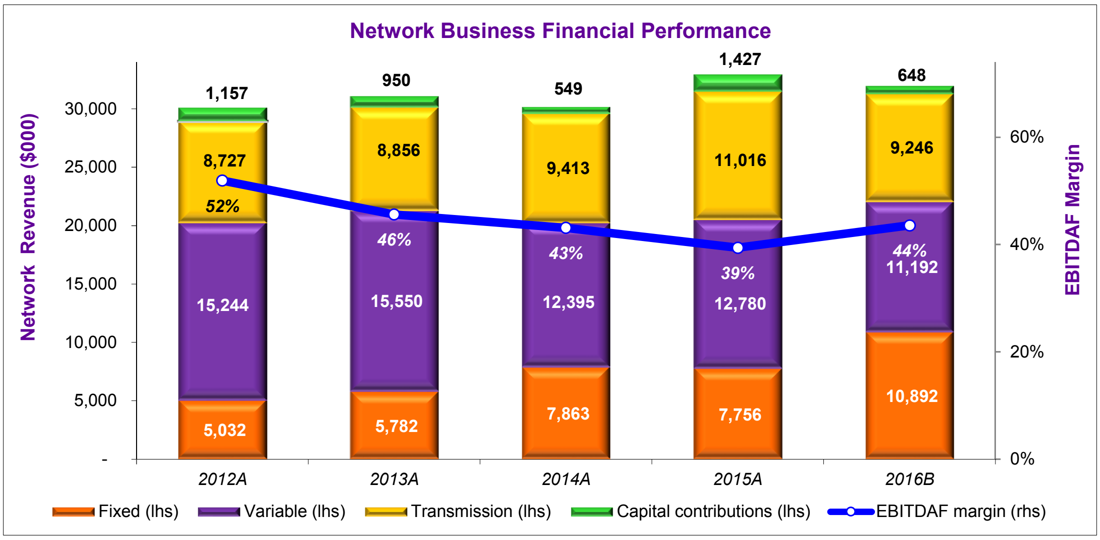
Total revenue has increased at a cumulative annual growth rate (**CAGR**) of 45% between the 2012 and 2015 financial years. Regulated revenue from the network business has remained relatively steady in real terms. Revenue growth has been driven by non-regulated contracting revenue, primarily from the acquisition of a number of contracting businesses.

The change over time in the Company's revenue composition from network revenue to contracting revenue has resulted in Horizon Energy's overall profitability margins decreasing significantly due to the growing proportionate impact of the lower profitability margins generated by the contracting businesses.

The significant decrease in earnings in the 2013 financial year was mainly due to issues associated with the acquisition of the Aquaheat Industries and Hastie New Zealand businesses in September 2012. This is discussed in greater detail on page 28.

Network Business

An analysis of the network business' revenue streams and EBITDAF margin for the 2012 to 2015 financial years (actual) and the 2016 financial year (budget) is set out below.



The network business' key value drivers are growth in connections and volume of electricity distributed. Approximately 40% of Horizon Energy's revenue is variable in nature. More extreme seasonality (hot summers and cold winters) increases network revenue as a result of the variable tariff component. Adverse weather (such as flooding) can have negative financial side-effects due to increased operating expenditure.

Network revenue has increased at a CAGR of 2.9% between the 2012 and 2015 financial years. The Company's regulated price path to 31 March 2015 has been *CPI – 0%*.

Network revenue decreased by $0.5 million in the 2014 financial year due to:

- the Commerce Commission price reset announced in November 2012, which reduced allowable revenue by 2.9%, resulting in a claw-back price adjustment of $0.8 million (after tax)
- a provision of $0.4 million made for a refund as a result of the 2012 DPP breach.

A further provision of $0.3 million was made in the 2015 financial year in respect of the 2012 DPP breach.

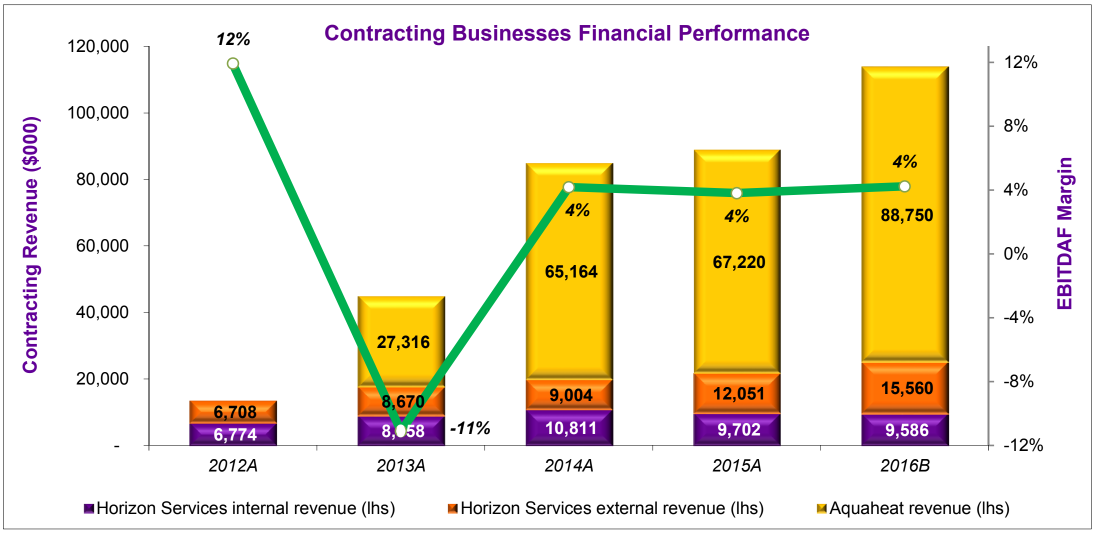
Horizon Energy's regulated price path from 1 April 2015 has been reset for the 2016 financial year and thereafter will be *CPI – 0%*.

EBITDAF margin has steadily decreased from 52% in the 2012 financial year to 39% in the 2015 financial year, due mainly to:

- increased staffing for the management of the network
- the initial impact of the negative 2.9% price reset
- the provisions of $0.4 million and $0.3 million in the 2014 and 2015 financial years in respect of the 2012 DPP breach
- regulatory revenue claw-back of $0.7 million in the 2015 financial year.

Contracting Businesses

An analysis of the contracting businesses' revenue streams and EBITDAF margin for the 2012 to 2015 financial years (actual) and the 2016 financial year (budget) is set out below.



Revenue has increased significantly over the last 3 years at a CAGR of 88% due to the acquisition of a number of businesses including:

- 60% of Stewart Browne Group in the 2012 financial year
- the remaining 40% of Stewart Browne Group, Aquaheat Industries and Hastie New Zealand in the 2013 financial year
- Airpro Services and Clean Air Management in the 2014 financial year
- Hawkins Holdings, Hawkins Refrigeration Tasman and Energy Systems Professionals in the 2015 financial year.

EBITDAF margin on external revenue was 12% in the 2012 financial year. This included margin on internally constructed works. EBITDAF margin reduced to negative 11% in the 2013 financial year and has since stabilised at around 4% per annum (excluding margin on internally constructed works).

The loss incurred in the 2013 financial year was mainly associated with the newly acquired Aquaheat Industries and Hastie New Zealand businesses which incurred a net loss after tax of $3.8 million. Included in this result was a loss of $2.1 million arising as a result of the receivership of Mainzeal Property and Construction Limited. In addition, acquisition costs of $0.4 million were written off.

Finance Expenses

Horizon Energy's net interest cost has steadily risen from $1.7 million in the 2012 financial year to $2.5 million in the 2015 financial year as its levels of interest bearing debt (**IBD**) have increased over the period from $25.0 million as at 31 March 2012 to $44.8 million as at 31 March 2015.

The Company has entered into interest rate swaps to fix its interest rate exposure. The fair value of the interest rate swaps is assessed each month and accounted for in the Company's financial statements. A gain of $1.8 million (before tax) was recorded in the 2014 financial year in respect of an advantageous movement in the fair value of the financial derivatives and a cost of $1.5 million (before tax) was recorded in the 2015 financial year in respect of an adverse movement in the fair value of the financial derivatives.

2016 Budget

The Company's directors approved the 2016 budget in February 2015. The budget is based on the following key assumptions:

- network revenue is 1% lower than 2015 due mainly to the price reset relating to the 2015 to 2020 DPP period
- contracting businesses' revenue is $24.9 million higher than 2015 (up 28%) due mainly to the full year impact of acquisitions and a buoyant construction industry
- an overall EBITDAF margin of 13%
- depreciation and amortisation of $6.6 million
- net interest of $2.8 million
- no allowance for fair value revaluations of financial derivatives.

Budget EBITDAF for the network business is $13.7 million and $4.4 million for the contracting businesses.

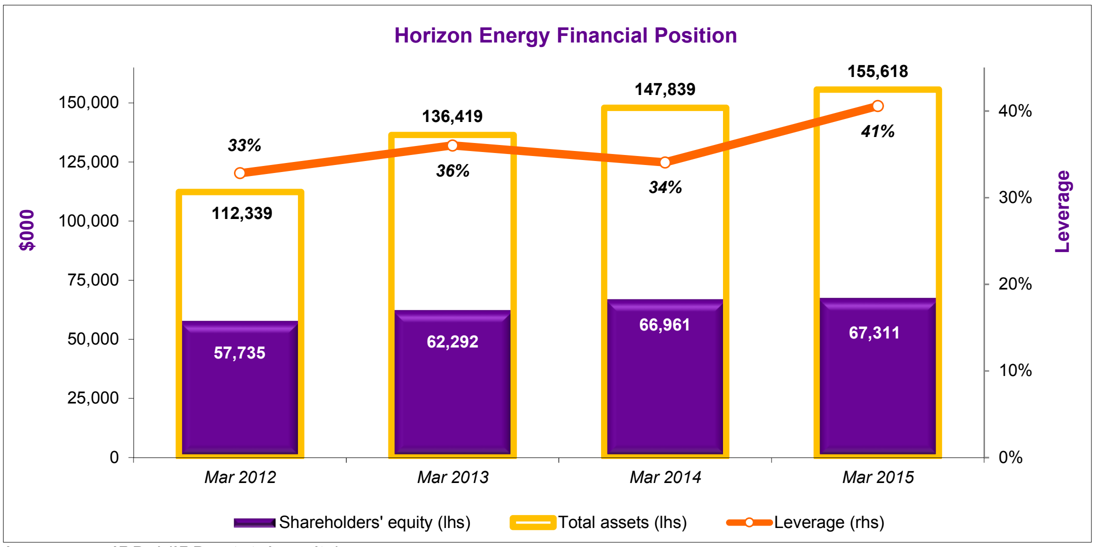
4.8 Financial Position

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

Summary of Horizon Energy Financial Position

	As at 31 Mar 12 (Audited) $000	As at 31 Mar 13 (Audited) $000	As at 31 Mar 14 (Audited) $000	As at 31 Mar 15 (Audited) $000
Current assets	6,838	16,551	23,214	25,038
Non-current assets	105,501	119,868	124,625	130,580
Total assets	112,339	136,419	147,839	155,618
Current liabilities	(6,456)	(19,245)	(21,559)	(18,970)
Non-current liabilities	(48,148)	(54,882)	(59,319)	(69,337)
Total liabilities	(54,604)	(74,127)	(80,878)	(88,307)
Total equity	57,735	62,292	66,961	67,311

Source: Horizon Energy audited financial statements



Leverage: IBD / (IBD + total equity)

Horizon Energy's net assets position has increased marginally between 31 March 2012 and 31 March 2015, reflecting the Company's dividend policy of distributing the majority of its profits.

During the period, the Company's asset base has increased by $43.3 million, due mainly to a $30.1 million increase in the value of the network and $9.5 million of acquisitions of contracting businesses.

IBD has risen by $19.8 million over the same period, with leverage increasing from 33% as at 31 March 2012 to 41% as at 31 March 2015.

Horizon Energy's main current assets are trade and other receivables, representing 71% of current assets as at 31 March 2015.

Non-current assets consist mainly of property, plant and equipment. The network distribution system represented 94% of the value of property, plant and equipment, with a carrying value of $116.4 million as at 31 March 2015. The system was revalued on 31 March 2013 on a discounted cash flow (**DCF**) basis. The RAB value for regulatory reporting purposes was $110.6 million as at 31 March 2014.

Current liabilities consist mainly of trade and other payables and provisions.

Non-current liabilities consist mainly of bank loans and a deferred tax liability:

- the Company had drawn down $44.8 million of bank loans as at 31 March 2015 from its $60 million of available debt facilities
- the fair value of interest rate swaps held by the Company amounted to a liability of $1.7 million as at 31 March 2015
- the deferred tax liability amounted to $22.3 million as at 31 March 2015, arising primarily from the revaluation uplift on the network distribution system. This tax liability is not expected to crystallise.

Net tangible assets (**NTA**) amounted to $60.3 million as at 31 March 2015. This equated to $2.41 per share.

4.9 Cash Flows

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

Summary of Horizon Energy Cash Flows

	Year to 31 Mar 12 (Audited) $000	Year to 31 Mar 13 (Audited) $000	Year to 31 Mar 14 (Audited) $000	Year to 31 Mar 15 (Audited) $000
Net cash flow from operating activities	10,379	9,460	12,085	7,338
Net cash used in investing activities	(7,350)	(13,551)	(9,846)	(13,475)
Net cash from financing activities	(3,190)	4,700	(2,234)	5,921
Net increase / (decrease) in cash held	(161)	609	5	(216)
Opening cash balance	259	98	707	712
Closing cash balance	98	707	712	496

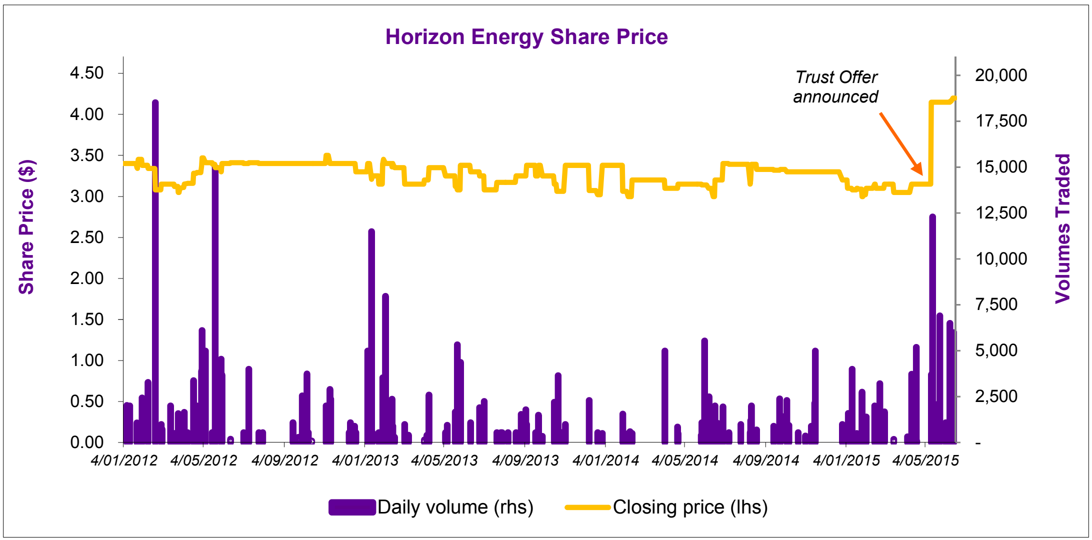
Source: Horizon Energy audited financial statements

There have been minimal changes in the Company's cash position over the past 4 years:

- fluctuations in cash flows from operating activities have largely mirrored fluctuations in earnings
- capital expenditure on fixed assets and intangible assets has totalled $35.0 million over the period
- business acquisitions have totalled $9.5 million over the period
- a total of $19.8 million of additional IBD has been drawn down over the period
- total dividends paid of $14.6 million represent 74% of cumulative NPAT over the period.

4.10 Share Price History

Set out below is a summary of Horizon Energy's daily closing share price and daily volumes of shares traded from 4 January 2012 to 18 June 2015.



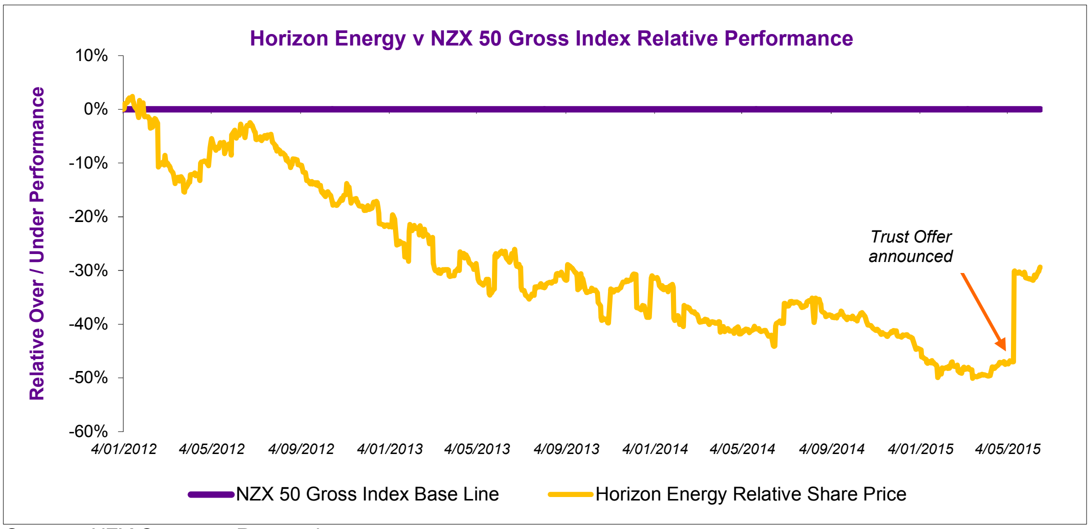
Source: NZX Company Research

During the period, Horizon Energy's shares have traded between $3.00 and $4.21 at a VWAP of $3.37.

The Horizon Energy shares traded at $3.15 on 21 April 2015 (being the last day that they traded before the Pre-bid Agreement was announced on 4 May 2015).

Following the announcement of the Pre-bid Agreement, only 41,244 shares have traded (1.9% of the free float) in the range of $4.12 to $4.21 at a VWAP of $4.16.

Horizon Energy's share price relative to the Index is set out below.



Source: NZX Company Research

Overall, Horizon Energy has significantly underperformed the Index between 4 January 2012 and the current date. This is likely to be attributable to thin trading in the Company's shares resulting in comparatively small changes in the Company's share price during a period when the equity markets have risen by approximately 75%.

Horizon Energy's shares are not regularly traded, reflecting that 77.29% of the shares are held by the Trust and 13.89% are held by MLL. The free float represents 8.82% of the shares on issue and is currently held by 1,717 shareholders.

An analysis of VWAP, traded volumes and liquidity (measured as traded volumes as a percentage of total shares outstanding and the free float) up to 3 May 2015 (the date before the Pre-bid Agreement was announced) is set out below.

Horizon Energy Share Trading up to 3 May 2015

	Low	High	VWAP	Volume Traded (000)	Liquidity	
					Total	Free Float
1 month	3.05	3.15	3.12	9	0.0%	0.4%
3 months	3.02	3.15	3.12	19	0.1%	0.9%
6 months	3.00	3.30	3.14	41	0.2%	1.9%
12 months	3.00	3.40	3.19	72	0.3%	3.3%

Source: NZX Company Research

The analysis shows that only 3.3% of the free float (0.3% of the total shares on issue) traded in the year to 3 May 2015 on 49 trading days.

5. Profile of the Trust

5.1 Background

The Bay of Plenty Electricity Consumer Trust (**BOPEC Trust**) was set up on 1 August 1994 by BOP Electricity to comply with the Government establishment plan to corporatise the former BOPEPB. The establishment plan gave 25% of BOP Electricity's shares to the BOPEC Trust as its initial trust fund.

The further restructuring of the electricity industry in 1999 resulted in the sale of BOP Electricity's retail and generation assets, with the BOPEC Trust retaining its 25% shareholding in Horizon Energy, which held the network assets.

The sale of the generation and retail assets resulted in a return of capital to Horizon Energy's shareholders, with the BOPEC Trust receiving $25.4 million. Following a review of its investment options, the BOPEC Trust decided to purchase the Horizon Energy shares held by UnitedNetworks, lifting its shareholding in Horizon Energy to 77.29% in November 1999.

In October 2000, the BOPEC Trust was renamed the Eastern Bay Energy Trust to more properly reflect the Trust's investment, its area of operation and its focus on a wide range of energy related projects and issues of interest to the community.

5.2 Purpose of the Trust

The purpose of the Trust as dictated by its trust deed is *"to enable the Trustees to apply the Trust Fund for or towards energy related purposes for consumers"*.

The Trust's income is primarily distributed for energy related projects such as:

- improvements to the safety of the general public by removing road and overhead hazards caused by above ground electricity supply support systems
- improvements to the supply of electricity to the general public in rural or remote areas in the district by replacing inadequate or unreliable supply systems
- avoiding, remedying or mitigating any adverse effects of energy related activities on the environment in the district
- promoting research into more efficient ways of producing and distributing electrical energy for the benefit of the general public in the district, including the awarding of research scholarships or prizes and the funding of research and development projects
- the provision of financial assistance to persons in the district to enable them to make better use of energy resources available to them or to subsidise the cost to such persons of existing supplies of energy.

5.3 Beneficiaries

The beneficiaries of the Trust are the current and future electricity consumers living in the Eastern Bay of Plenty districts to whom electricity is distributed by Horizon Energy.

5.4 Trustees

The beneficiaries are represented by 6 trustees, 4 of whom are elected and 2 of whom are appointed:

- Wade Brown - elected
- David Bulley - elected
- Don Lewell, chair - appointed
- Kevin Hennessy, deputy chair - elected
- Edwina O'Brien - elected
- Donna Smit - appointed.

The trustees must manage the trust fund in accordance with the purpose of the Trust as set out in the trust deed.

5.5 Financial Profile

A summary of the Trust's recent financial performance and financial position is set out below. The financial results are on a non-consolidated basis (ie for the Trust alone, excluding the results of its subsidiaries such as Horizon Energy).

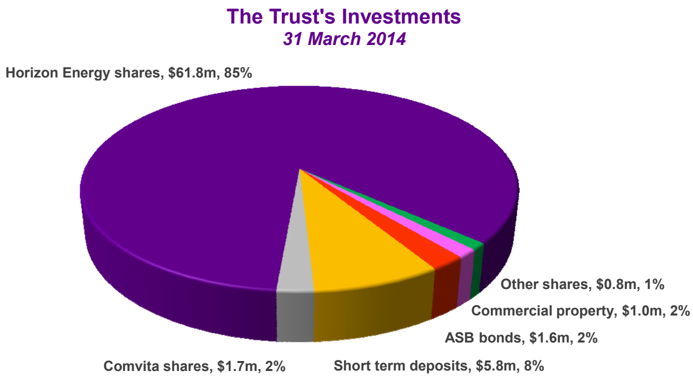
Trust Financial Profile

	Year to 31 Mar 11 (Audited) $000	Year to 31 Mar 12 (Audited) $000	Year to 31 Mar 13 (Audited) $000	Year to 31 Mar 14 (Audited) $000
Income	3,335	3,749	3,215	2,221
Profit for the year	2,258	1,818	2,601	1,408
Total assets	81,839	69,614	72,125	73,637
Total liabilities	(1,116)	(1,545)	(634)	(642)
Total equity	80,723	68,069	71,491	72,995

Source: Trust audited financial statements

The majority of the Trust's income is derived from dividends from Horizon Energy.

The Trust's assets consist mainly of investments in shares. It also has investments in short term deposits, bonds and commercial property.



Liabilities consist mainly of grant payments owing.

6. Valuation of Horizon Energy

6.1 Introduction

The Trust Offer is a full takeover offer and is conditional upon, amongst other things, the Trust receiving acceptances in respect of 90% of the Company's shares. In such circumstances, we are of the view that the appropriate basis upon which to evaluate the fairness of the Trust Offer is to compare the offer price of $4.41 per share with the full underlying value of Horizon Energy on a standalone basis, pro-rated across all shares.

Such an approach attributes full control value to Horizon 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 Horizon Energy to trade in the absence of the Trust 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 Horizon 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:

- 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 Horizon Energy using the DCF and capitalisation of earnings methods.

The DCF and capitalisation of earnings methods that we have applied derive 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.

Given their different risk profiles and growth opportunities, we have valued the network business and the contracting businesses separately.

A multiple of enterprise value to RAB (the **RAB multiple**) is an important benchmark in the EDB sector. We have reviewed the RAB multiples implied by our valuation assessment when considering the reasonableness of the valuation outcomes.

In order to assess the value of Horizon Energy's shares, we have aggregated the enterprise values of the network business and the contracting businesses and deducted the Company's net IBD and the market value of its financial derivatives.

6.5 Network Business Enterprise Value

Discounted Cash Flow Valuation

The DCF methodology assesses value in 2 stages:

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

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

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

Free Cash Flows

The FCF adopted in the DCF valuation are based on the Horizon Energy financial projections for the 9 years to 2024. These projections were approved by the Company's directors in May 2015.

The key assumptions adopted in the FCF projections are:

- regulatory revenue is based on the 1 April 2015 starting price path for the 2016 financial year and then increased annually under a price path of *CPI – 0%*
- *CPI* averaging 2.0% per annum
- real revenue growth of 0%
- transmission charges increasing in line with load growth
- other operating costs increasing at the rate of inflation
- capital expenditure averaging $6.5 million per annum based on the Company's asset management plan
- working capital requirements moving in line with revenue movements
- 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 network business.

We have assessed the WACC for the network business to be in the vicinity of 6.2%. Key inputs in the WACC assessment are:

- a risk free rate of 4.0%
- an asset beta of 0.4
- a debt risk premium of 1.7%
- a post investor tax market risk premium of 7.0%
- financial leverage of 40%
- average investor tax rate of 28%.

The above inputs result in a cost of equity in the vicinity of 7.6% and a cost of debt (before tax) in the vicinity of 5.7%.

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:

- network growth assumptions
- price path assumptions
- *CPI* assumptions
- discount rate assumptions
- terminal growth assumptions.

DCF Valuation Conclusion

Based on the above, the enterprise value of the network business is in the range of \$121.3 million to \$146.6 million as at the present date using the DCF approach.

We note that the values derived from the DCF approach are highly dependent upon the assumptions adopted.

Capitalisation of Earnings Valuation

We have assessed the network business' future maintainable earnings and have reviewed the market valuation and operational performance of comparable companies to derive a range of earnings multiples to apply to our assessed level of maintainable earnings.

Future Maintainable Earnings

The evaluation of maintainable earnings involves an assessment of the level of profitability which (on average) the business can expect to generate in the future, notwithstanding the vagaries of the economic cycle.

The assessment of maintainable earnings is made after considering such factors as the risk profile of the business, the characteristics of the market in which it operates, its historical and forecast performance, non-recurring items of income and expenditure and known factors likely to impact on future operating performance.

We have used EBITDAF as the measure of earnings. The use of EBITDAF and EBITDAF multiples is common in valuing businesses for acquisition purposes as it eliminates the effect of financial leverage which is ultimately in the control of the acquirer and also eliminates any distortions from the tax position of the business and differing accounting policies in respect of depreciation and the amortisation of intangible assets.

The analysis of the financial performance of the network business in section 4.7 shows that EBITDAF of \$12.4 million was recorded in the 2015 financial year and EBITDAF of \$13.7 million is budgeted for the 2016 financial year.

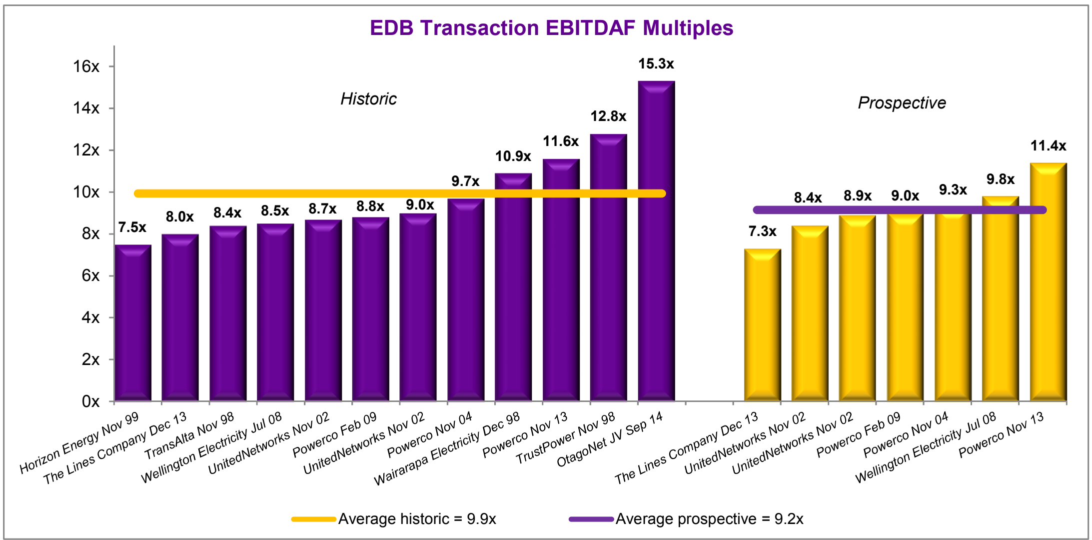
We consider the budgeted EBITDAF of \$13.7 million for the 2016 financial year to be an appropriate basis for assessing future maintainable EBITDAF.

Earnings Multiple

Actual sales of comparable businesses can provide reliable support for the selection of an appropriate earnings multiple. In addition, we can infer multiples from other evidence such as minority shareholding trades for listed companies in New Zealand and overseas with similar characteristics to Horizon Energy or transactions involving businesses in the same industry. However, given the particular regulatory regime applied to EDBs in New Zealand, we consider multiples for overseas companies to be less relevant in this instance.

Given that future maintainable EBITDAF represents prospective earnings, the EBITDAF multiple applied must be a prospective multiple.

Set out at Appendix II is an analysis of 16 transactions involving EDBs since 1998, showing historic and prospective EBITDAF multiples and RAB multiples.



Source: Capital IQ, brokers reports, independent adviser's reports, media releases, Commerce Commission

The analysis shows that the 5 most recent transactions (between 2008 and 2014) have been in an EBITDAF multiple range of 8.0x to 15.3x (historic) and 7.3x to 11.4x (prospective) at an average of 10.4x (historic) and 9.4x (prospective).

There are only 2 EDBs listed on the NZX Main Board – Horizon Energy and Vector. Their observed EBITDAF multiples are set out below.

EDB NZX Main Board Trading EBITDAF Multiples

		EBITDAF Multiple	
		Historic	**Prospective**
Horizon Energy	- current	9.7x	8.3x
	- pre the Pre-bid Agreement	8.1x	6.9x
Vector		10.5x	10.0x

Source: Capital IQ

Data as at 18 June 2015, Horizon Energy pre the Pre-bid Agreement as at 3 May 2015

The observed EBITDAF multiples are based on trading prices for minority parcels of shares. It is common for a premium for control to be paid when acquiring a controlling interest in a company. In such circumstances, a higher earnings multiple is commonly applied against the assessed maintainable earnings figure.

We consider an appropriate prospective EBITDAF multiple for the network business to be in the range of 9.0x to 10.0x.

Capitalisation of EBITDAF Valuation

Based on the above, the enterprise value of the network business is in the range of $123.3 million to $137.0 million as at the present date using the capitalisation of earnings approach.

Capitalisation of EBITDAF Valuation - Network Business		
	Low $m	**High $m**
Future maintainable EBITDAF	13.7	13.7
EBITDAF multiple	9.0x	10.0x
Enterprise value	123.3	137.0

Network Business Enterprise Value

The outcomes of the DCF and capitalisation of earnings valuation assessments are set out below.

Network Business Enterprise Value Range		
	Low $m	**High $m**
DCF	121.3	146.6
Capitalisation of earnings	123.3	137.0

We assess the enterprise value of the network business to be in the range of $125 million to $140 million as at the present date.

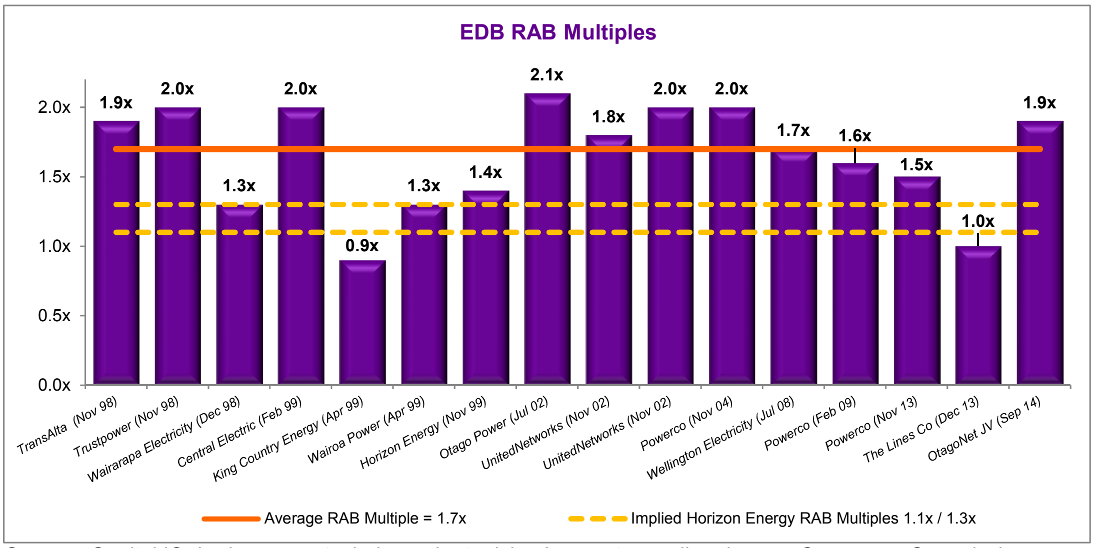
Implied RAB Multiples

The network business enterprise value of $125 million to $140 million implies an RAB multiple of 1.1x to 1.3x, based on the Company's RAB value of $110.6 million as at 31 March 2014.

Implied RAB Multiple		
	Low $m	**High $m**
Network business enterprise value	125.0	140.0
RAB value as at 31 March 2014	110.6	110.6
Implied RAB multiple	1.1x	1.3x

An analysis of RAB multiples for 16 EDB transactions between 1998 and 2014 is set out in Appendix II. The RAB multiples range from 0.9x to 2.1x with an average of 1.7x. The 5 most recent transactions between 2008 and 2014 have been at implied RAB multiples of between 1.0x and 1.9x at an average of 1.5x.

The graph below shows that the implied RAB multiples for Horizon Energy of 1.1x to 1.3x are broadly in line with the industry multiples, albeit below the average. We consider the implied RAB multiples to be reasonable.



Source: Capital IQ, brokers reports, independent adviser's reports, media releases, Commerce Commission

6.6 Contracting Businesses Enterprise Value

Discounted Cash Flow Valuation

The FCF adopted in the DCF valuation are based on the Horizon Energy financial projections for the 9 years to 2024 approved by the Company's directors in May 2015.

The key assumptions adopted in the FCF projections are:

- a CAGR of 1.7% for revenue over the 9 year period
- gross margins remaining relatively constant over the period between 15% and 17%
- other operating costs increasing at the rate of inflation
- EBITDAF margins ranging from 4% to 6% over the period
- capital expenditure averaging $1.1 million per annum
- working capital requirements moving in line with revenue growth
- a corporate tax rate of 28%
- a WACC of 15%, reflecting the greater uncertainty (and hence risk) associated with the contracting businesses.

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:

- revenue growth assumptions
- gross margin assumptions
- discount rate assumptions
- terminal growth assumptions.

Based on the above, the enterprise value of the contracting businesses is in the range of \$24.1 million to \$27.9 million as at the present date using the DCF approach.

Capitalisation of Earnings Valuation

The analysis of the financial performance of the contracting businesses in section 4.7 shows that EBITDAF of \$3.0 million was recorded in the 2015 financial year and EBITDAF of \$4.4 million is budgeted for the 2016 financial year.

We consider the budgeted EBITDAF of \$4.4 million for the 2016 financial year to be an appropriate basis for assessing future maintainable EBITDAF as it reflects the expected full year's earnings impact of recent acquisitions.

Based on our analysis of trading multiples and transaction multiples for comparable companies, we consider an appropriate prospective EBITDAF multiple for the contracting businesses to be in the range of 5.0x to 6.0x.

Based on the above, the enterprise value of the contracting businesses is in the range of \$22.0 million to \$26.4 million as at the present date using the capitalisation of earnings approach.

Capitalisation of EBITDAF Valuation – Contracting Businesses

	Low \$m	High \$m
Future maintainable EBITDAF	4.4	4.4
EBITDAF multiple	5.0x	6.0x
Enterprise value	22.0	26.4

Contracting Businesses Enterprise Value

The outcomes of the DCF and capitalisation of earnings valuation assessments are set out below.

Contracting Businesses Enterprise Value Range

	Low \$m	High \$m
DCF	24.1	27.9
Capitalisation of earnings	22.0	26.4

We assess the enterprise value of the contracting businesses to be in the range of \$23 million to \$27 million as at the present date.

6.7 Value of Horizon Energy Shares

To derive the value of the Horizon Energy shares, the network business and contracting businesses enterprise values are aggregated, the Company's net IBD is deducted and the fair value of the Company's interest rate swaps is taken into account.

The Company's net IBD and the fair value of its financial derivatives amounted to $46 million as at 31 March 2015.

We assess the fair market value of all the shares in Horizon Energy to be in the vicinity of $102 million to $121 million as at the present date. This equates to a value of $4.08 to $4.84 per share.

Value of Horizon Energy Shares		
	Low $m	High $m
Network business enterprise value	125	140
Contracting businesses enterprise value	23	27
Net IBD and financial derivatives	(46)	(46)
Value of Horizon Energy shares	102	121
Number of shares currently on issue	24,991,385	24,991,385
Value per share	$4.08	$4.84

Implied Multiples

The above value range implies EBITDAF, EBITF, price earnings (**PE**) and NTA multiples as set out below. The earnings multiples are based on Horizon Energy's actual results for the 2015 financial year and its budget for the 2016 financial year. The NTA multiples are based on the Company's financial position as at 31 March 2015.

Implied Multiples				
	31 Mar 15 (Actual)		31 Mar 16 (Budget)	
	Low	High	Low	High
Value per share	$4.08	$4.84	$4.08	$4.84
EBITDAF multiple	9.6x	10.8x	8.2x	9.2x
EBITF multiple	15.7x	17.7x	13.0x	14.6x
PE multiple	24.9x	29.5x	16.5x	19.5x
NTA multiple	1.7x	2.0x		

We consider these implied multiples to be reasonable.

6.8 Conclusion

We assess the fair market value of 100% of the ordinary shares in Horizon Energy to be in the range of $102 million to $121 million as at the present date. This equates to a value of $4.08 to $4.84 per share.

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

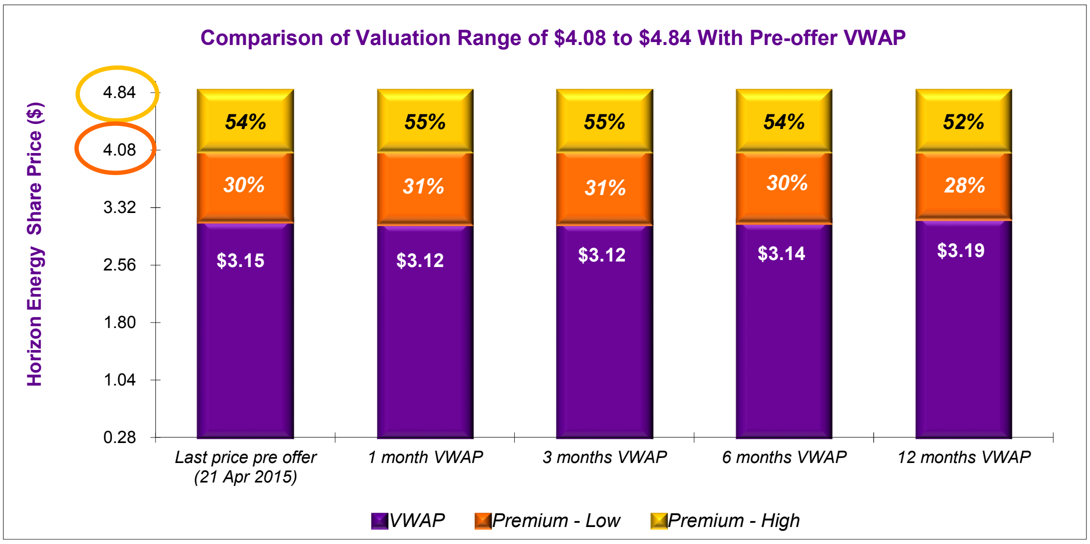
6.9 Implied Premium for Control

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

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

In this instance, the Trust currently holds 77.29% of the Company's shares and is seeking a 100% shareholding. The Trust already has significant control over the affairs of the Company as it can singlehandedly control the outcome of any ordinary resolution and any special resolution. In such circumstances, we would expect a rational bidder would not be inclined to pay a premium for control of any significance as it would consider that it already had significant control.

Our valuation range of $4.08 to $4.84 represents premia ranging from 28% to 55% over recent share prices.



As noted in section 4.10, trading in the Company's shares is extremely thin with only 3.3% of the free float traded in the year up to the announcement of the Pre-bid Agreement. The share price graph in section 4.10 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 Horizon Energy's shares.

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

7.1 Sources of Information

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

- the Pre-bid Agreement
- the Trust takeover notice dated 5 June 2015, including a draft of the Trust Offer Document which will be dated 29 June 2015
- the draft Horizon Energy Target Company Statement
- the Horizon Energy *2015 - 2017 Strategic Plan*
- the Horizon Energy board minutes from March 2012 to March 2015
- the Horizon Energy *Asset Management Plan 2015 - 2025*
- the Horizon Energy annual reports for the years ended 31 March, 2012 to 2015
- the Horizon Energy budget for the year ended 31 March 2016
- the Horizon Energy financial projections for the 9 years to 31 March 2024, prepared in May 2015
- the Horizon Energy Information Disclosure Reports for the year ended 31 March 2014
- the Trust's *Trust Deed* (version dated 2 August 2002)
- the Trust's *Strategic Plan 2014 - 2019*
- the Trust's *Annual Plan 2014 - 2015*
- the Trust annual reports and financial statements for the years ended 31 March, 2012 to 2014
- the PwC 2014 EDB Compendium
- share price data and shareholder data from NZX Company Research and Capital IQ
- publicly available information regarding the New Zealand electricity industry.

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

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

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

In our opinion, the information set out in this Independent Adviser's Report is sufficient to enable the Company's directors and shareholders to understand all the relevant factors and to make an informed decision in respect of the Trust 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 Horizon 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 Horizon 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 Horizon 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 Horizon 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 Horizon 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

Horizon 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. Horizon Energy has also agreed to indemnify Simmons Corporate Finance and its directors and employees for time incurred and any costs in relation to any inquiry or proceeding initiated by any person. Where Simmons Corporate Finance or its directors and employees are found liable for or guilty of negligence, wilful misconduct or breach of law, Simmons Corporate Finance shall reimburse such costs.

8. Qualifications and Expertise, Independence, Declarations and Consents

8.1 Qualifications and Expertise

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

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

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

8.2 Independence

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

Simmons Corporate Finance has not had any part in the formulation of the Trust 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 Trust 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 Company's directors for their comments as to factual accuracy of the contents of the report. Changes made to the report as a result of the circulation of the draft have not changed the methodology or our conclusions.

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

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 Horizon 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
19 June 2015

Appendix I

Horizon Energy and EDBs Information Disclosures

2014 Information Disclosures				
	Horizon Energy	29 EDBs		
		Minimum	Average	Maximum
Network Statistics				
RAB ($m)	110.6	28.3	344.3	2,618.9
Average age of network assets (years)	30	22	32	41
Circuit length (km)	2,381	266	5,155	27,731
Connection points (ICPs)	24,732	4,598	70,086	540,125
Electricity entering system for supply (GWh)	513	59	1,057	8,260
Maximum distribution transformer demand (MW)	84	11	221	1,746
Total distribution transformer capacity (MVA)	301	45	697	4,547
Load factor	73.0%	41.6%	59.7%	78.6%
Zone substation transformer capacity utilisation	95.1%	20.7%	45.6%	95.1%
Loss ratio	4.1%	2.4%	5.6%	9.8%
Demand density (kW/km)	35	10	40	126
Volume density (MWh/km)	215	52	188	534
Connection point density (ICP/km)	10	3	12	36
Energy intensity (kWh/ICP)	20,735	9,572	15,962	28,900
Financial Performance				
Gross line charge revenue				
• $m	30.0	7.6	78.9	592.4
• c/kWh	5.9	5.9	8.1	13.0
Adjusted regulatory profit pre discretionary discounts and customer rebates				
• $m	7.5	1.0	20.5	184.3
• c/kWh	1.5	0.5	1.7	3.2
Adjusted return on investment	6.6%	1.6%	4.7%	7.7%
Network Reliability (Class B and Class C)				
SAIDI (minutes)	228.4	25.1	284.0	951.3
SAIFI (interruptions per connection)	2.1	0.5	2.5	6.5
CAIDI (minutes)	108.0	38.7	117.6	359.9

SAIDI: System average interruption duration index
SAIFI: System average interruption frequency index
CAIDI: Customer average interruption duration index

Source: PwC 2014 EDB Compendium

Appendix II

EDB Transaction Multiples

EDB Transaction Multiples						
Date	Target	Bidder	Implied Enterprise Value ($m)	EBITDA Multiple Historic	EBITDA Multiple Prospective	RAB Multiple
Sep 2014	OtagoNet Joint Venture	Electricity Invercargill / The Power Company	282	15.3x	*n/a*	1.9x
Dec 2013	The Lines Company	Waitomo Energy Services Customer Trust	179	8.0x	7.3x	1.0x
Nov 2013	Powerco	AMP Capital Investors	2,591	11.6x	11.4x	1.5x
Feb 2009	Powerco	QIC Infrastructure	1,950	8.8x	9.0x	1.6x
Jul 2008	Wellington Electricity	Cheung Kong Infrastructure	785	8.5x	9.8x	1.7x
Nov 2004	Powerco	Prime Infrastructure Networks	1,832	9.7x	9.3x	2.0x
Nov 2002	UnitedNetworks	Vector	2,632	8.7x	8.4x	2.0x
Nov 2002	UnitedNetworks	Powerco	810	9.0x	8.9x	1.8x
Jul 2002	Otago Power	OtagoNet Joint Venture	109	17.6x	17.9x	2.1x
Nov 1999	Horizon Energy	Eastern Bay Energy Trust	52	7.5x	*n/d*	1.4x
Apr 1999	Wairoa Power	Eastland Energy	*n/d*	*n/d*	*n/d*	1.3x
Apr 1999	King Country Energy	Waitomo Energy Services	*n/d*	*n/d*	*n/d*	0.9x
Feb 1999	Central Electric	Dunedin Electricity	127	21.9x	*n/d*	2.0x
Dec 1998	Wairarapa Electricity	Powerco	83	10.9x	*n/d*	1.3x
Nov 1998	Trustpower	UnitedNetworks	485	12.8x	*n/d*	2.0x
Nov 1998	TransAlta	UnitedNetworks	590	8.4x	*n/d*	1.9x
		Minimum		7.5x	7.3x	0.9x
		Average		11.3x	10.2x	1.7x
		Average excl outliers [1]		9.9x	9.2x	
		Maximum		21.9x	17.9x	2.1x

n/d: Not disclosed

1 Excluding Otago Power and Central Electric transactions

Source: Capital IQ, brokers reports, independent adviser's reports, media releases, Commerce Commission

OtagoNet Joint Venture – Electricity Invercargill and The Power Company

In September 2014, MLL sold its 51% interest in OtagoNet Joint Venture to minority shareholders Electricity Invercargill and The Power Company for $152.82 million, implying an enterprise value of $282 million for OtagoNet Joint Venture.

The Lines Company – Waitomo Energy Services Customer Trust

In December 2013, King Country Electric Power Trust sold its 10% interest in The Lines Company to majority shareholder Waitomo Energy Services Customer Trust for $13.5 million, implying an enterprise value of $179 million for The Lines Company.

Powerco – AMP Capital Investors

In November 2013, AMP Capital Investors acquired 42% of Powerco for $525.3 million, implying an enterprise value of $2.59 billion for Powerco's New Zealand operations.

Powerco – QIC Infrastructure

In February 2009, QIC Infrastructure acquired 58% of Powerco for $423 million, implying an enterprise value of $1.95 billion for Powerco's New Zealand operations.

Wellington Electricity – Cheung Kong Infrastructure Holdings

In July 2008, Vector sold Wellington Electricity to Cheung Kong Infrastructure Holdings for $785 million, following a formal sale process.

Powerco – Prime Infrastructure Networks

In November 2004, Prime Infrastructure Networks acquired 100% of the shares in Powerco at a price of $2.15 per share via a full takeover offer.

UnitedNetworks – Vector, UnitedNetworks – Powerco

In November 2002, Vector purchased all of the shares in UnitedNetworks at a price of $9.90 per share. The offer was a result of a formal sale process involving a number of competing bidders. Soon after, Powerco acquired UnitedNetworks' eastern electricity network and central gas network from Vector.

Otago Power – OtagoNet Joint Venture

In July 2002, OtagoNet Joint Venture (MLL, Electricity Invercargill and The Power Company) purchased the assets of Otago Power for $109 million. The asset purchase was the result of a formal sale process.

Horizon Energy – Eastern Bay Energy Trust

In November 1999, UnitedNetworks sold its 52.3% shareholding in Horizon Energy to the Trust (then the BOPEC Trust) for $27.4 million.

Wairoa Power – Eastland Energy

In April 1999, Wairoa Power sold its lines business to Eastland Energy. The purchase price was not disclosed.

King Country Energy – Waitomo Energy Services

In April 1999, King Country Energy sold its electricity lines network to Waitomo Energy Services (now known as The Lines Company). As part of the process, Waitomo Energy Services also sold its energy and generation assets to King Country Energy. The shareholding trusts took a 10% shareholding in the other company.

Central Electric – Dunedin Electricity

In February 1999, Central Electric sold its electricity lines network to Dunedin Electricity for a consideration of $127 million.

Wairarapa Electricity – Powerco

In December 1998, South Eastern Utilities announced the sale of Wairarapa Electricity's electricity lines network to Powerco for $82.5 million. At the same time, South Eastern Utilities sold its electricity retail customers and electricity generation assets.

Trustpower – UnitedNetworks

In November 1998, Trustpower sold its electricity lines network to UnitedNetworks for $485 million.

TransAlta – UnitedNetworks

In November 1998, TransAlta sold its electricity lines network to UnitedNetworks for $590 million and contemporaneously purchased UnitedNetworks' energy retail business and subsequently its 52% shareholding in the Rotokawa Geothermal Generation Project.