King Country Electric Power Trust

Ownership Review

November 2012

Ownership review of the King Country Electric Power Trust

pwc

Mr Brian Gurney
Chairman
King Country Electric Power Trust
PO Box 421
Taumarunui 3946

7 November 2012

Dear Brian,

Ownership review

We are pleased to provide our report on the following:

- the performance of King Country Electric Power Trust, including a review of the performance of King Country Energy Limited and The Lines Company Limited, since the last review
- the advantages and disadvantages of trust ownership
- a review of the share ownership options in respect of King Country Energy Limited and The Lines Company Limited.

Our report will contribute to the five yearly ownership review, as required of the Trustees by Clause 4 of the Trust Deed of King Country Electric Power Trust. This report is provided in accordance with the terms of our Engagement Letter dated 30 August 2012.

Our key findings are contained in the Executive Summary of the report.

Yours sincerely

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1. Introduction

1.1. Background

King Country Electric Power Trust (KCEPT or the Trust) was established in 1993 by the King Country Electric Power Board as a consumer trust. Initially, KCEPT was the sole shareholder of King Country Energy Limited (KCE), which took over all of the assets and operations of the King Country Electric Power Board. Subsequently, regulatory changes required the ownership of distribution (lines) assets to be separated from the ownership of generation and retailing activities, and The Lines Company (TLC) was formed to hold the electricity distribution business.

At the date of the last ownership review in March 2007, the Trust owned the following stakes in KCE and TLC (the Companies):

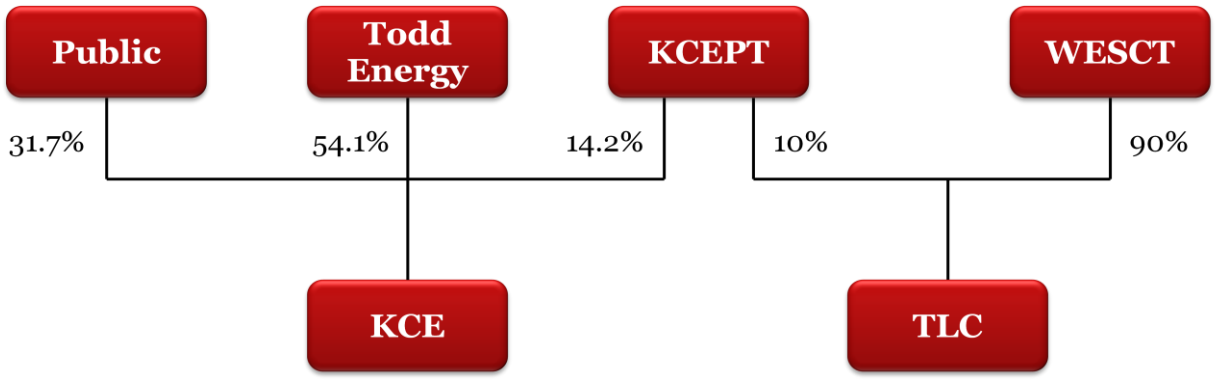
- ***10% of KCE:*** the remainder held by Todd Energy Limited (Todd Energy) (35.4%), Waitomo Energy Services Customer Trust (WESCT) (8%) and public shareholders; and
- ***25% of TLC:*** the remaining 75% owned by WESCT.

Since the last ownership review, there have been additional changes in the shareholdings of the Companies, as reported on by the Trustees in the annual reports and other communications. At 31 March 2012[1] KCEPT owned:

- ***20% of KCE:*** the remainder held by Todd Energy (35.4%) and public shareholders; and
- ***10% of TLC:*** the remaining 90% owned by WESCT.

On 1 June 2012, KCE purchased Todd Energy's 50% stake in the Mangahao Power Station, taking its ownership to 100%. This acquisition was funded by a combination of cash and an issue of new shares to Todd Energy, at an issue price of $4.75 per share. As a result of this transaction, Todd Energy has become the controlling shareholder of KCE, with a 54.1% holding, whilst the Trust's holding was reduced to 14.2%.

The shareholder structure following this transaction is set out below:



The shares of KCE and TLC are referred to in the Trust Deed as the Review Shares, and we have adopted this nomenclature in this report. The Review Shares are held in trust by KCEPT for the benefit of consumers, who are broadly speaking the customers of KCE's legacy electricity distribution business. Consumers are by definition also the beneficiaries of the Trust, and we have used the terms Consumer and Beneficiary interchangeably.

[1] The balance date of the Trust

1.2. The ownership review

The Trust is required to prepare a report every five years considering proposals and available options for the future ownership of its shareholdings in KCE and TLC, being the shares that it holds in trust on behalf of its beneficiaries.

The report must comply with the requirements of Clause 4 of the KCEPT Trust Deed[2], which are as follows:

a. an analysis of the performance of the Trust to the date of the report together with a discussion of the advantages and disadvantages of trust ownership;

b. an analysis of the various ownership options considered including, without limitation:

   i. a distribution of the Review Shares to Consumers or Electors;

   ii. a sale of the Review Shares to the public or institutional investors; and

   iii. retention by the Trust;

c. a comparison of the performance of KCE and TLC with the performance of other similar energy companies covered by the Energy Companies Act 1992 and subsequent legislation;

d. the conclusions of the Trustees as to the most appropriate form of ownership together with an indication whether the conclusions are unanimous and if the decision is not unanimous, a summary of the conclusions of the dissenting Trustees;

e. the matters contained in Clause 4.5 (being a Distribution Plan) if a distribution of shares is recommended;

f. a summary of the professional advice (if any) obtained in respect of the preparation of the report; and

g. a statement as to whether or not the Trustees have had regard to any views expressed by the public with respect to ownership.

1.3. Scope of work

PricewaterhouseCoopers (PwC) has been engaged to provide professional advice in respect of items a, b and c for input into the Ownership Review. It is not within the scope of this Report to consider the implications of KCEPT making investments other than in KCE and TLC.

The last PwC report was issued in March 2007, and covered the financial reporting periods ended March 2002-2006. The financial results for KCEPT, KCE and TLC for the financial year ended March 2007 had not yet been issued at that time. Since this Report is being issued later in the year relative to the last PwC report, it will include the 2007-2012 financial reporting periods, and therefore this current review covers six reporting periods.

Our Report has been structured as follows:

Section 1: Introduction

Section 2: Executive summary

Section 3: KCEPT performance review

Section 4: KCE performance review

Section 5: TLC performance review

[2] As amended on 19 October 2011

Section 6: Advantages and disadvantages of trust ownership

Section 7: Ownership options for the Review Shares.

This Report is subject to the Restrictions in **Appendix A**.

The sources of information we have had access to and relied upon in preparing this Report are listed in **Appendix B**.

2. Executive summary

The key findings of our review are summarised below.

2.1. KCEPT performance review

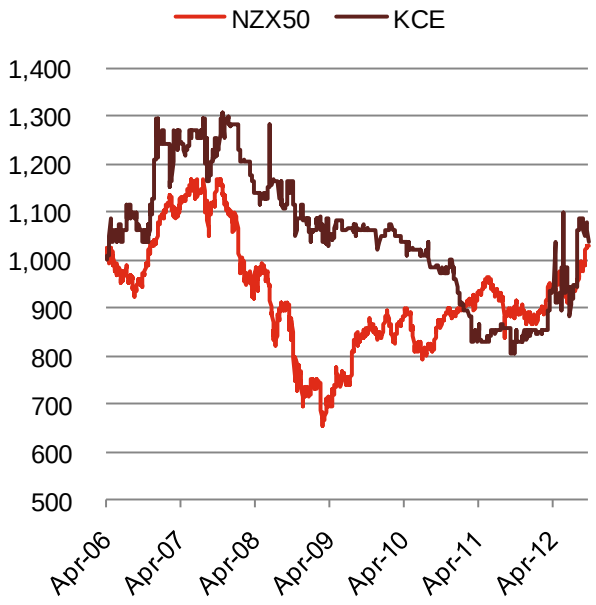
Over the review period, the Trust made an average annual distribution to beneficiaries of approximately $1m, representing a payout of 83%. We benchmarked KCEPT's expenses and trustee fees against other selected energy consumer trusts. KCEPT's expenses were lower than the peer group average. Trustee fees were lower than the peer group average per trustee, and slightly higher than average per ICP.

2.2. KCE performance review

On 31 May 2012 KCE purchased Todd Energy's 50% interest in the Mangahao hydro electricity generation assets for $70m, through a cash payment and issue of new shares in KCE to Todd Energy at $4.75 per share. This transaction increased Todd Energy's shareholding in KCE from 35.4% to 54.1% and diluted KCEPT's shareholding from 20.0% to 14.2%. This was the main change to KCE's business over the review period.

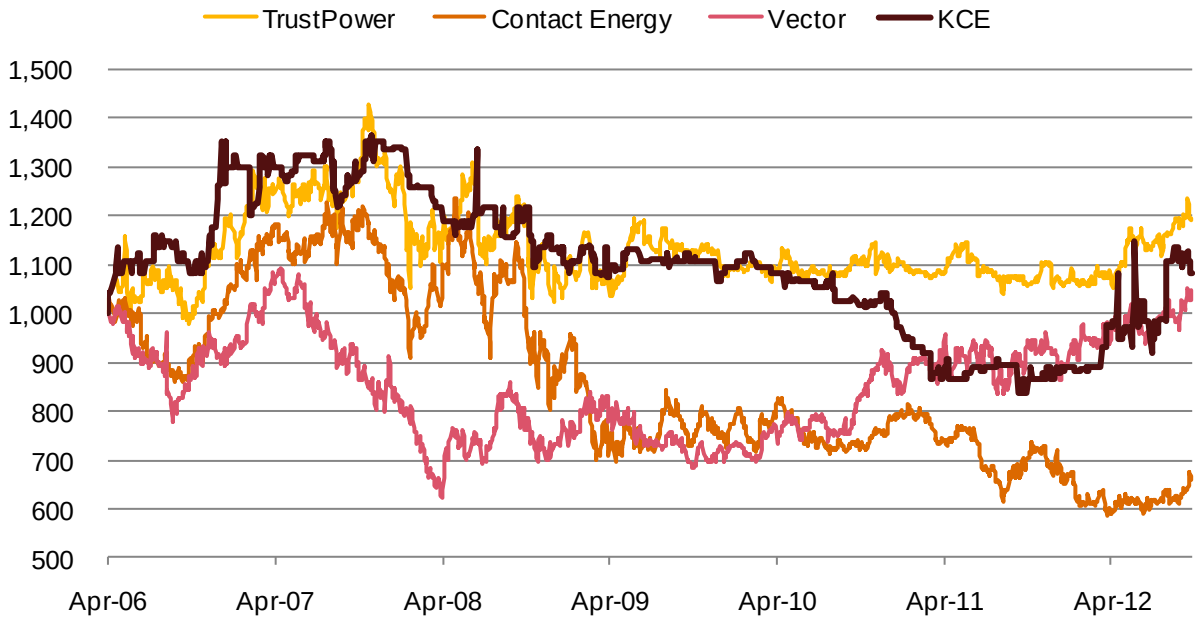
The key points from our review of KCE's performance are as follows:

- KCE has generated consistent operating revenues, despite losing customers over the review period. After the abandonment of the Mokau hydro development, earnings have stabilised and the Company appears well positioned to grow its retail operation with new generation capacity coming online after the Mangahao acquisition.
- The KCE balance sheet demonstrates particularly strong robustness with extremely low levels of gearing and correspondingly high interest coverage ratios. The Company is unlikely to encounter issues accommodating the new debt taken on to fund the Mangahao acquisition.
- During the review period, the GFC and the recession provided challenging conditions for the wider market. Despite this, KCE was able to perform strongly relative to the wider New Zealand equity market.



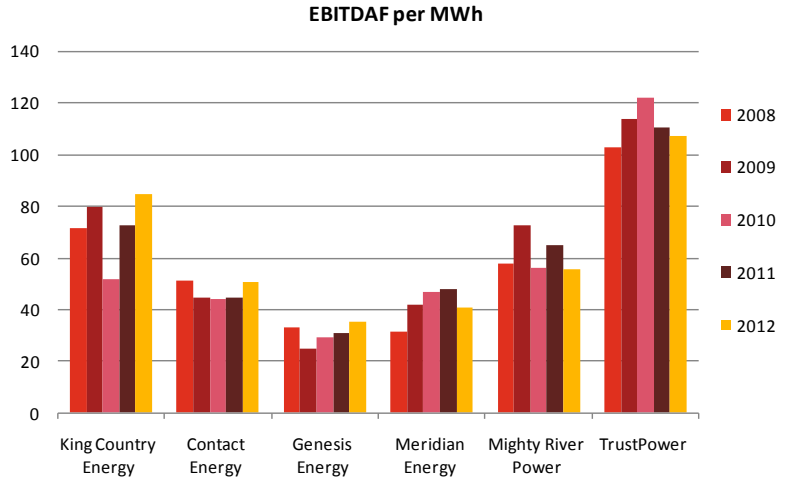
Source: Capital IQ, www.unlisted.co.nz

- When compared to the share price performance of the listed electricity companies, KCE performed better than Contact Energy but not as strongly as TrustPower.



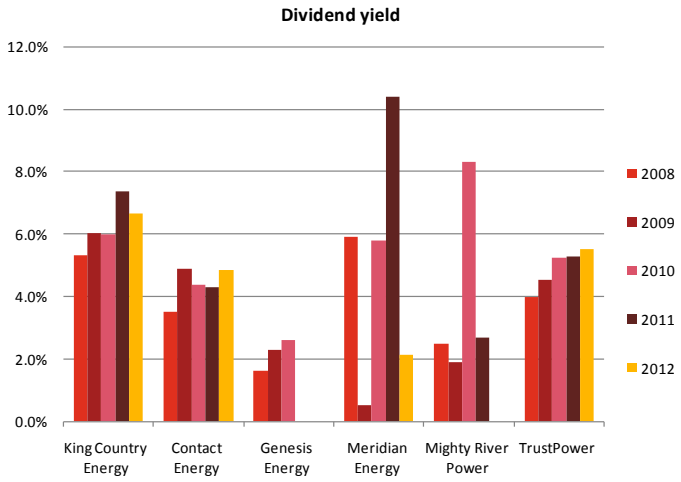
Source: Capital IQ, www.unlisted.co.nz

- KCE's cash flow (proxied by EBITDAF) compares favourably with the large generator/retailers, despite a large difference in the scale of operations. Given the scale-oriented nature of this infrastructure industry, this is a particularly commendable result.



Source: Company annual reports (2008-2012), Electricity Authority

- The dividend yield of KCE is generally higher than other traded electricity companies.



*Note: Mighty River Power's latest valuation not available, Genesis Energy paid no dividend in 2011 or 2012
Source: www.unlisted.co.nz, Capital IQ, Crown Ownership Monitoring Unit "Annual Portfolio Report 2011", Genesis Energy Statement of Corporate Intent 2013-2015, Meridian Energy Statement of Corporate Intent 2013-2015, Meridian Energy results press release

2.3. TLC performance review

The key points from our review of TLC's performance are as follows:

- The lines segment has performed relatively well, although growth in profitability has been driven largely by revenue growth on the back of aggressive price increases. Revenue growth slowed markedly in 2102, a trend that is likely to continue as the scope to increase tariffs is constrained by a combination of disgruntled consumers and regulatory limits.
- The performance of the contracting business has been mixed, although recent results are positive. Revenue and profitability have been volatile over the review period and the market is likely to remain challenging going forward.
- Revenue in the meters and relays segment has been reasonably steady over the period, with a notable uptick in the 2012 year. However, EBIT has declined steadily over the period and the outlook for the metering business as the switch to smart meters occurs is uncertain.
- The generation segment has performed poorly over the review period and is impacting negatively on shareholder returns.
- Centralised costs are growing at double the rate of revenue, with no sign of abating, undermining profitability from the operating units and reducing shareholder returns.
- The performance of TLC against its peers has been mixed, with positive performance in terms of operating and maintenance expenditure, improving ROI, and average performance in the network reliability and revenue based metrics.
- TLC has progressively improved its performance against the SCI targets, although the 2012 results are not necessarily comparable to prior years.
- On a consolidated basis TLC has performed reasonably well over the period, with positive results in the lines business – driven mainly by price increases – offsetting declining profits in meters and relays and losses in generation.
- The performance of TLC going forward will be largely dependent on the ability of management to extract value from the unregulated business segments and manage head office costs.

2.4. Advantages and disadvantages of trust ownership

In our view, the benefits and advantages of Trust ownership:

- outweigh the costs and disadvantages in the case of KCE; and
- are marginal in the case of TLC.

2.5. Ownership options for the Review Shares

In relation to the KCE shares our views are as follows:

- KCE has performed well against its peers, continues to deliver an above average dividend return, and has reasonable prospects for growth in the medium to long term.
- Given the $9.4m in cash that KCEPT has accumulated, and recognising KCE's strong historical performance and prospects, we support KCEPT buying additional KCE shares with the intent of rebuilding its shareholding back to 20%.

In relation to the TLC shares our views are as follows:

- Given KCEPT's minority 10% shareholding in TLC, the investment is no longer strategic. Proceeds from disposal of the TLC shares would provide the Trust with capital to be deployed either in new investments or for the acquisition of additional shares in KCE.
- If KCEPT decided that it wished to sell its TLC shares, we would recommend that a market sounding process be initiated to test potential investors' interest in this opportunity.
- The sale of the TLC shares would mean that the link to the legacy King Country network would be lost, and Trustees would lose their (limited) influence over the affairs of TLC. Consumers do however have substantial protection of their interests as a result of the Commerce Commission's regulatory oversight.

3. KCEPT performance review

3.1. Introduction

In this section, we consider the Trust's objectives, recent achievements and financial performance over the review period.

3.2. Trust objectives

The primary objective of the Trust is to hold the Review Shares on behalf of the Consumers, and in relation to these shares, the Trustees are *inter alia* responsible to:

- act as a diligent shareholder and monitor the performance of the directors of the respective Companies;
- exercise shareholder rights, such as voting on shareholder matters and considering offers for the shares;
- assist the Companies, to the extent possible, to meet their respective objectives, including optimising the return on assets;
- receive and distribute dividends and/or other distributions received from the Companies;
- conduct ownership reviews; and
- take any action necessary or desirable to protect, maintain or promote the best interests of the Consumers.

In short, the Trustees must ensure that KCEPT's investments are appropriately managed in order to maximise value, and above all that the interests of the Beneficiaries are protected. To this end, the Trustees have wide powers, including authority to dispose of existing investments, make new investments, borrow funds, and appoint directors to the boards of the investee companies (where permissible).

3.3. Recent achievements

KCEPT's recent achievements are set out below:

- An investment policy has been developed to ensure efficient investment of cash resources.
- The Trust Deed has been reviewed and was amended on 19 October 2011.
- The book "Switching on the King Country", a record of the development of electricity supply in the district, was successfully launched. The book was well received by local residents and its quality commended by the Rt Honourable Jim Bolger when he addressed the audience at the official launch of the book.
- Trustees have initiated a joint programme with the Energy Efficiency Conservation Agency and Easy Insulation, whereby eligible customers receive assistance to purchase a heat pump, in the amount of $500 per household. This initiative is being undertaken to encourage clean air heating and warm homes.
- In 2011 KCEPT initiated a joint review with the Ruapehu District Council of NZIER's report on TLC's demand charging regime. This led to the Trustees making a submission on the regime to TLC's Directors.

3.4. Review of financial reports: 2007-2012

Set out in the table below are summary statements of financial performance for the Trust for the past six years:

King Country Electric Power Trust *31 March ($000)*	2007	2008	2009	2010	2011	2012
Dividend income	721	2,601	1,888	1,719	1,750	1,409
Interest income	58	581	800	438	435	433
Income from sale of books	-	-	-	-	54	1
Total Revenue	**779**	**3,182**	**2,687**	**2,157**	**2,239**	**1,843**
General operating expenditure	(391)	(219)	(156)	(168)	(179)	(225)
Purchase and production costs of books	-	-	-	-	(138)	(1)
EBITDA	**388**	**2,963**	**2,532**	**1,990**	**1,922**	**1,617**
Depreciation	(1)	(1)	(0)	(1)	(3)	(3)
EBIT	**387**	**2,962**	**2,531**	**1,989**	**1,919**	**1,615**
Tax Expense	(148)	(994)	(835)	(656)	(633)	(533)
Net Surplus	**239**	**1,968**	**1,696**	**1,332**	**1,286**	**1,082**
Distributions	**900**	**1**	**800**	**2,284**	**1,195**	**1,119**
Coverage ratio						
Distributions / Net Surplus	376.6%	0.0%	47.2%	171.4%	92.9%	103.5%

Source: Annual Reports (2006-2012), PwC Analysis

The Trust primarily receives dividend income from its equity investments in KCE and TLC which is supplemented by interest income from its cash investments. Over the review period, the Trust made an average annual distribution to beneficiaries of approximately $1m, representing a payout of approximately 83% of the aggregate net surplus.

The table below sets out the dividend income received from KCE and TLC during the review period:

Dividend income *$000*	2007	2008	2009	2010	2011	2012
KCE	672	1,393	1,286	1,286	1,286	900
TLC	49	1,208	602	433	464	509
Total	**721**	**2,601**	**1,888**	**1,719**	**1,750**	**1,409**

Source: Annual Reports (2007-2012), KCEPT

In 2008, the unusually large dividend from TLC was due to a special dividend paid to assist WESCT to acquire an additional 15% stake in TLC from KCEPT. The amount of the special dividend received by KCEPT was $808,258, accounting for 67% of the dividend received from TLC in the 2008 financial year.

The table below benchmarks KCEPT's expenses and trustee fees against other selected energy consumer trusts. The trust expenses have been measured relative to the number of network customers, as measured by installation control points (ICPs), and as a percentage of trust assets. The trustee fees are measured as average fees per trustee, and trustee fees per ICP. The numbers are based on the most recent disclosures available from each of the respective trusts.

Consumer Trusts	Expenses		Trustee fees	
	Per Customer $/ICP	Over Assets %	Per Trustee $000/T	Per Customer $/ICP
Counties Power Consumer Trust	8.89	6.9%	19.2	2.57
Electra Trust	6.74	1.6%	11.7	1.64
MainPower Trust	10.02	0.2%	12.1	2.48
Northpower Electric Power Trust	5.83	0.1%	28.5	3.66
WEL Energy Trust	9.20	0.1%	29.9	2.49
West Coast Electric Power Trust	16.00	0.7%	16.8	6.52
King Country Electric Power Trust	**9.30**	**0.6%**	**16.8**	**3.42**
Average	**9.42**	**1.5%**	**19.3**	**3.26**

Source: Information Disclosures, Trust Annual Reports

We note that there is a significant level of variation between the consumer trusts due to their individual circumstances and investment portfolios. Across each of the ratios set out in the table above, KCEPT is broadly consistent with the average of the comparison group, performing slightly better than the average in each case, except for trustee fees per ICP, where the Trust is slightly higher than the average.

Set out in the table below are summary statements of financial position for the Trust for the past six years:

King Country Electric Power Trust *31 March ($000)*	2007	2008	2009	2010	2011	2012
Current Assets						
Cash and cash equivalents	174	2,835	870	127	134	97
Accrued interest / debtors	10	10	14	1	-	2
Provisions for income tax refund	-	-	45	60	80	58
Inventories	-	8	54	81	8	7
Investments	511	6,676	9,396	9,182	9,276	9,323
Total	**695**	**9,530**	**10,380**	**9,450**	**9,498**	**9,487**
Non-Current Assets						
Available-for-sale financial assets	27,498	27,814	25,976	23,989	21,495	25,937
Property, plant and equipment	1	1	0	2	5	3
Income tax benefit	90	-	-	-	-	-
Total	**27,589**	**27,814**	**25,976**	**23,991**	**21,500**	**25,940**
Total Assets	**28,285**	**37,344**	**36,357**	**33,441**	**30,998**	**35,427**
Current Liabilities						
Creditors	172	28	24	47	4	33
Provisions	-	46	4	3	6	1
Total	**172**	**73**	**28**	**51**	**10**	**35**
Equity						
Trustee Capital	6,675	6,675	6,675	6,675	6,675	6,675
Retained Earnings	14,294	16,102	16,999	16,047	16,138	16,101
Reserves	7,144	14,493	12,656	10,668	8,174	12,617
Total	**28,113**	**37,270**	**36,329**	**33,391**	**30,988**	**35,393**
Total Liabilities & Equity	**28,285**	**37,344**	**36,357**	**33,441**	**30,998**	**35,427**

Source: Annual Reports (2006-2012)

The primary assets of the Trust are equity interests in KCE and TLC, held at fair value as available-for-sale securities, as set out in the table below:

Available-for-sale securities *$000*	2007	2008	2009	2010	2011	2012
KCE	9,019	16,875	15,037	15,000	12,187	13,537
TLC	18,480	10,939	10,939	8,989	9,307	12,400
Total	**27,498**	**27,814**	**25,976**	**23,989**	**21,495**	**25,937**

Source: Annual Reports (2007-2012)

Since 2008, the Trust has held a 20% interest in KCE and a 10% interest in TLC. The recent Mangahao transaction conducted by KCE, and the issuance of new shares to complete the deal, has diluted the Trust's interest in KCE from 20.0% to 14.2%.

4. KCE performance review

4.1. Company overview

KCE (the Company) is an integrated electricity generator and retailer based in Taumarunui, King Country, in the North Island. The Company took over the electricity retail operations of the King Country Electric Power Board in 1991 and evolved to its present form (no longer including electricity distribution services) after the 1998 electricity industry reforms.

Given the history and ownership of the Company, KCE has a strong regional focus in its operations. Electricity retail services are offered primarily in the 'greater King Country region', with limited services offered in towns outside this area such as Hamilton, Rotorua and Taupo. With four of KCE's five generation sites located within this geographic area, having a regional focus allows the Company to reduce its lines losses and contributes to a low average cost to serve. This allows KCE to remain competitive in its chosen market in a sector dominated nationally by the much larger state-owned and listed generator/retailers, namely Mighty River Power, Meridian Energy, Genesis Energy, Contact Energy and TrustPower.

Recent acquisition

On 16 March 2012, KCE signed a Heads of Agreement with Todd Energy to purchase their 50% ownership interest in the Mangahao hydro electricity generation assets. The deal was ratified by shareholders at a Special Meeting on 31 May 2012.

In exchange for Todd Energy's 50% shareholding in Mangahao, the deal included consideration valued at approximately $70m comprising a cash payment of $33.76m and an issue of 7.629 million new shares in KCE at an issue price of $4.75 per share. This increased the Todd Energy shareholding in KCE from 35.4% to 54.1%. To fund the cash component of the transaction, KCE drew down $25m on a facility provided by the Bank of New Zealand ("BNZ") and the existing shareholders were diluted by the issue of new shares.

Ownership

To settle the recent acquisition of the remaining shares in the Mangahao hydro electric scheme, new shares were issued to Todd Energy. As a result, the remaining shareholders have had their ownership interests diluted, including the KCEPT interest which has decreased from 20.0% to 14.2%. The nine largest shareholders as at 25 September 2012 are set out in the table below:

King Country Energy Major shareholdings	Number of shares	%
Total shares on issue	26,379,474	
Todd Energy Limited	14,262,520	54.1%
King Country Electric Power Trust	3,749,990	14.2%
Hedged Custodians Limited	223,887	0.8%
JBWere (NZ) Nominees Limtied	155,691	0.6%
Leveraged Equities Finance Limited	134,679	0.5%
Lyn Marion Fitness	120,000	0.5%
Anne Elizabeth Guy and Peter Kerry Guy	114,000	0.4%
Brett Anthony Hart, Lynn Marion Fitness and Kevin John Giligan	100,000	0.4%
A&G Thomas Family Partnership	82,000	0.3%

Source: www.business.govt.nz

It is our understanding that there has been a request by approximately 35 shareholders that KCE repurchase their shares (970,000 in total) at a price to be determined by arbitration. This may force Todd Energy to sell down its shareholding in order to comply with takeover code requirements to remain at or under the 54.1% interest approved at the special meeting on 31 May 2012. If this is the case, there may be an opportunity for KCEPT to progress its programme of rebuilding towards a 20% interest in KCE.

Generation

With the completion of the Mangahao acquisition, KCE now owns four hydro electric power plants in the King Country region and the Mangahao plant in Manawatu. All of the plants owned by KCE are renewable, hydro generation technologies with a mix of run-of-the-river and dammed installations. A summary of the plants owned by KCE and their expected output is set out in the table below:

Plant	Location	Opened / commissioned	Installed capacity	Mean annual output
Kuratau	Omori	1962	6.0 MW	29 GWh
Mangahao	Shannon	1924	42.0 MW	126 GWh
Mokauiti	Aria	1963	1.7 MW	7 GWh
Piriaka	Piriaka	1924	1.3 MW	7 GWh
Wairere	Wairere	1925	4.6 MW	18 GWh
Total			**55.6 MW**	**187 GWh**

Source: www.kce.co.nz

While the Mangahao acquisition represents a significant expansion of generation capability for KCE, it is worth noting that in the context of the national supply system, KCE remains a very small player. In 2012, TrustPower, the smallest of the 'big' companies, generated 2,582 GWh of electricity (approximately 14 times KCE's expanded generation) and Meridian Energy, the largest generator in the market, generated 10,996 GWh of electricity (approximately 59 times KCE's expanded generation). Together, the 'big five' generators produced over 39,000 GWh of electricity in 2012.

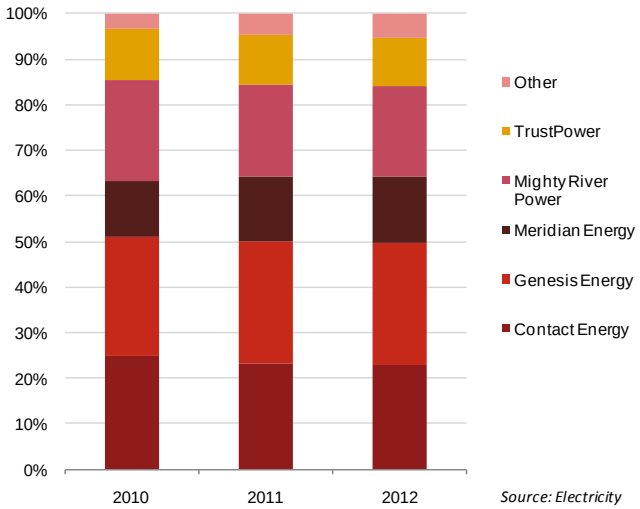
Retail

As an integrated retailer and generator, KCE offers retail electricity services to commercial and residential customers in the King Country region and some surrounding towns.

KCE's share of the whole retail market, based on energised ICPs is approximately 0.9%; however this is highly geographically concentrated in the targeted service area of the wider King Country region.

Set out opposite is a chart that summarises the approximate market shares of the national retail electricity market and illustrates the relatively small size of KCE, which is included in "Other" due to its small size.

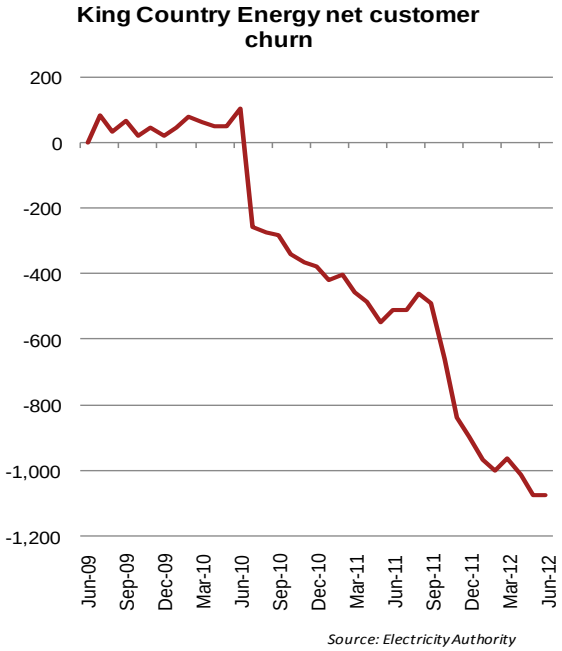
Market share ICPs



Source: Electricity Commission

Since the introduction of the "What's my number?" campaign, the volume of customers switching electricity retailer each month, commonly referred to as 'customer churn', has been consistently higher than prior levels. This has impacted different retailers in different ways, with some retailers being net gainers of customers, and some being net losers of customers. As set out in the chart opposite, since July 2009, KCE has shed approximately 1,000 (approximately 5%) of its retail customers.

KCE holds a retail customer portfolio that consistently demands a volume of electricity in excess of the electricity its generation portfolio supplies to the network, a state that is referred to as being 'long' on retail or 'short' on generation. This gap between generation supply capability and retail demand obligation requires KCE to either purchase electricity at spot rates from competitors in the wholesale market or to enter into supply agreements known as 'hedges'. KCE typically employs a combination of hedging supply shortfalls in advance and purchasing at the spot rate as required.



Source: Electricity Authority

Set out in the table below is a summary of the generation and retail load of KCE for the past six years:

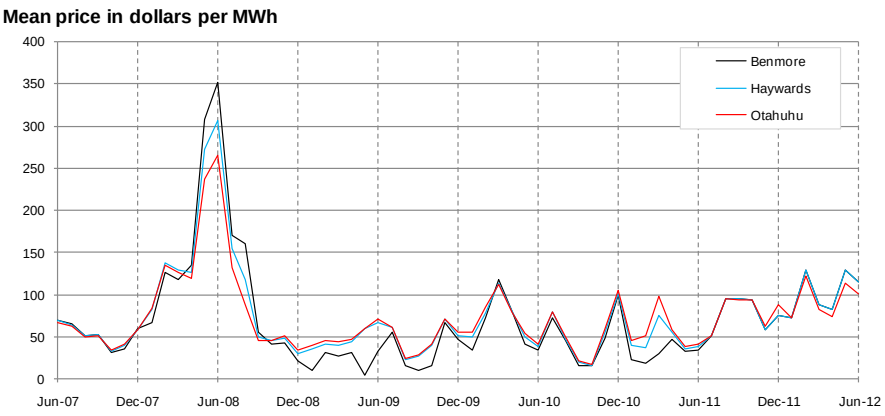
GWh	2007	2008	2009	2010	2011	2012
Retail load	239	239	246	239	229	201
Generation	114	111	123	120	117	131
Difference	125	128	123	119	112	70

Source: Annual reports (2007 to 2012)

The average retail load over this period was 232 GWh which, when compared to the average generation of 119 GWh, represents an average net exposure of 113 GWh that KCE has been required to purchase from the wholesale spot market or enter into hedge agreements to cover. The recent acquisition of additional generation capacity at Mangahao (available from January 2013) will reduce KCE's net exposure by approximately 65 GWh per year.

Given the volatility in the wholesale spot price, as set out in the chart below, failure to successfully hedge the Company's net exposure at a reasonable price can have a material impact on KCE's financial results.

Conversely, astute and prudent management of a long-retail strategy can potentially generate superior returns on a long term basis such as those achieved by TrustPower. A company's ability to convert a long-retail strategy into value will depend on their ability to manage the increased risks associated with that operating model.



Note: 26 March 2011 prices based on EA's final decision (subject to appeal)
Source: www.electricityinfo.co.nz

4.2. Review of financial reports: 2007-2012

Historical financial performance

Set out in the table below are summary income statements for the past six years:

King Country Energy Limited *31 March ($000)*	2007	2008	2009	2010	2011	2012	
Revenue from Operations	28,727	30,192	32,849	33,280	33,108	32,355	
Total Revenue	**28,727**	**30,192**	**32,849**	**33,280**	**33,108**	**32,355**	
Net purchased power and other costs	(18,094)	(20,820)	(20,907)	(25,929)	(23,026)	(19,739)	
Ops. and Maintenance	-	(846)	(850)	(1,028)	(969)	(843)	
Selling General & Admin Exp.	(316)	(446)	(299)	(283)	(241)	(232)	
Provision for Bad Debts	(30)	(83)	(487)	(197)	(155)	(146)	
EBITDAF	**10,287**	**7,997**	**10,306**	**5,843**	**8,717**	**11,395**	
Fair value movement on electricity derivatives	(1,318)	2,480	(2,940)	(1,291)	1,474	(646)	
Depreciation and Amortisation	(1,776)	(1,785)	(1,774)	(1,847)	(2,657)	(2,708)	
Amortisation of Goodwill and Intangibles	-	-	(12)	(192)	(178)	(211)	
EBIT	**7,193**	**8,692**	**5,580**	**2,513**	**7,356**	**7,830**	
Interest Expense	(28)	(111)	(561)	(153)	(130)	(77)	
Tax Expense	(2,496)	(1,727)	(1,610)	(800)	(2,793)	(2,489)	
Net Profit	**4,669**	**6,854**	**3,409**	**1,560**	**4,433**	**5,264**	
Dividends	**4,500**	**4,500**	**4,500**	**4,500**	**4,500**	**4,500**	
Ratio analysis							**CAGR**
Growth Rates							
Revenue	n/a	5.1%	8.8%	1.3%	-0.5%	-2.3%	2.4%
EBITDAF	n/a	-22.3%	28.9%	-43.3%	49.2%	30.7%	2.1%
EBIT	n/a	20.8%	-35.8%	-55.0%	192.7%	6.4%	1.7%
Net Profit	n/a	46.8%	-50.3%	-54.2%	184.2%	18.7%	2.4%
Margins							
EBITDAF	35.8%	26.5%	31.4%	17.6%	26.3%	35.2%	
EBIT	25.0%	28.8%	17.0%	7.6%	22.2%	24.2%	
Net Profit	16.3%	22.7%	10.4%	4.7%	13.4%	16.3%	
Coverage ratios							
EBIT / Interest coverage	257x	78x	10x	16x	57x	102x	
Dividends / Net Profit	96.4%	65.7%	132.0%	288.5%	101.5%	85.5%	

Source: Capital IQ, Annual Reports (2006-2012), PwC Analysis

During the review period, KCE's revenue from operations grew from approximately $28.7m in 2007 to approximately $32.8m in 2009 and has remained relatively flat over the 2010 to 2012 period. Noting that since July 2009 KCE has shed approximately 1,000 (approximately 5%) of their retail customers, flat gross revenue over that period is a relatively strong result. While being faced with tougher competition from much larger national competitors, KCE has performed better than most at retaining its customer base and has generally only shed low-margin customers.

Due to its long-retail strategy, KCE is by necessity an active participant in the electricity derivative contract market. The movements in the fair value of these contracts are accounted for and, depending on the conditions of the market, can swing net profit significantly in any given year. Moreover, the derivative income or expense on electricity sales and purchases in the market can result in net cash gains or costs with potentially material impacts. An example of this is the net gain of $6.0m recorded in the 2009 financial year prior to a net cost of $2.7m in the 2010 financial year.

Earnings and margins were negatively affected through the 2009 and 2010 financial years due to a combination of factors. Significant costs were incurred towards consenting and developing the Mokau hydro plant project that was ultimately abandoned due to unfavourable changes to project economics. In addition, particularly during the 2010 financial year, KCE was in a net electricity supplier position when wholesale prices were depressed in wet winter months and was a net electricity purchaser when prices were elevated in dry summer months.

The combined effect of the above factors on earnings during the period was significantly negative. However, in the subsequent two financial years to 2012, earnings have recovered strongly.

The interest coverage ratio, expressed as how many times earnings before interest and tax ("EBIT") will cover the interest expense, largely reflects KCE's low level of debt. As KCE has paid out the same dividend every year in the review period, there is some variation in how well payments are covered by EBIT.

Historical financial position

Set out in the table below are summary balance sheets for the past six years for KCE:

King Country Energy Limited *31 March ($000)*	2007	2008	2009	2010	2011	2012
Current Assets						
Cash and cash equivalents	3,406	4,111	3,457	5,169	6,092	11,180
Trade and other receivables	4,680	4,528	4,512	4,966	4,434	3,553
Prepaid expenses	127	136	119	110	144	299
Other current assets	203	361	119	150	430	423
Total	**8,416**	**9,136**	**8,207**	**10,395**	**11,100**	**15,455**
Non-Current Assets						
Property, plant and equipment	69,467	69,543	69,565	95,577	93,519	111,612
Goodwill	1,560	1,560	1,560	1,560	1,560	1,560
Other intangible assets	-	-	38	879	700	572
Other non-current assets	3,821	5,036	3,080	1,121	768	-
Total	**74,848**	**76,139**	**74,243**	**99,137**	**96,547**	**113,744**
Total Assets	**83,264**	**85,275**	**82,450**	**109,532**	**107,647**	**129,199**
Current Liabilities						
Trade and Other Payables	3,714	4,308	2,607	3,413	2,173	2,408
Accrued expenses	87	123	185	195	222	227
Current portion of borrowings (leases)	59	66	69	69	52	29
Current tax liability	-	-	-	-	-	367
Other current liabilities	1,849	526	1,827	2,162	1,388	1,229
Total	**5,709**	**5,023**	**4,688**	**5,839**	**3,835**	**4,260**
Non-Current Liabilities						
Derivative financial instruments	1,784	2,326	1,757	1,195	429	480
Borrowing (leases)	118	162	119	68	26	-
Deferred tax	12,262	11,924	11,033	18,487	18,165	23,783
Total	**14,164**	**14,412**	**12,909**	**19,750**	**18,620**	**24,263**
Total Liabilities	**19,873**	**19,435**	**17,597**	**25,589**	**22,455**	**28,523**
Equity						
Share Capital	26,267	26,267	26,267	26,267	26,267	26,267
Retained Earnings	9,199	11,553	10,506	7,566	7,499	8,263
Reserves	27,925	28,020	28,080	50,110	51,426	66,146
Total	**63,391**	**65,840**	**64,853**	**83,943**	**85,192**	**100,676**
Total Liabilities & Equity	**83,264**	**85,275**	**82,450**	**109,532**	**107,647**	**129,199**

Source: Capital IQ, Annual Reports (2006-2012)

Set out in the table below are several key balance sheet ratios based on the above summary statements:

Financial Ratios	2007	2008	2009	2010	2011	2012
Liquidity and Solvency						
Current Ratio	1.47	1.82	1.75	1.78	2.89	3.63
Debt / Equity	0.00	0.00	0.00	0.00	0.00	0.00
Assets / Equity	1.25	1.30	1.28	1.29	1.28	1.27
Profitability and Efficiency						
Asset Turnover	0.35	0.36	0.39	0.35	0.30	0.27
Return on Equity	7.1%	10.6%	5.2%	2.1%	5.2%	5.7%
Return on Assets	5.7%	8.1%	4.1%	1.6%	4.1%	4.4%
Return on Equity (excluding revaluations*)	7.1%	10.6%	5.2%	1.8%	6.3%	7.0%
Return on Assets (excluding revaluations*)	5.7%	8.1%	4.1%	1.4%	5.1%	5.7%

Source: Annual Reports (2006-2012), PwC Analysis

**Assuming simple average depreciation of 2%, tax at 28% and no material asset disposals or impairments*

The liquidity ratios indicate that the Company is well positioned to pay its current obligations as they fall due.

The solvency ratios, especially when considered in conjunction with the interest coverage ratio, indicate that the Company has surplus capacity to take on debt funding. Upon the completion of the Mangahao deal, KCE will have $25m of long term borrowings on its balance sheet, and the company is well positioned to manage this increase in debt.

During the review period there have been two revaluations of the fixed assets of KCE, in the 2010 and 2012 financial years. The asset turnover ratio has decreased over time as the value of the assets has increased at a faster pace than operating revenue which has remained relatively flat. As the asset balances have been increasing with revaluations (as opposed to being funded by debt), the leverage of the Company has not been affected. However, as discussed above, the next financial result will contain an increase in debt funding and gearing as a result of the Mangahao transaction.

The return on assets and return on equity, due to the lack of any meaningful gearing, have been strongly correlated over the review period. Company returns have primarily been driven by the changes to net profit margin achieved from operations and have been diluted by the upwards revaluation of assets in 2010 and 2012. After making high level adjustments for the impact of these revaluations, adjusted return on equity and return on assets are both higher.

KCE can be roughly divided into retail and generation operating segments. A brief review of the performance of each segment is set out in the following section.

Retail segment

The table below sets out summary financial statement disclosures for the retail operating segment of KCE for the past six years:

King Country Energy Limited - Retail *31 March ($000)*	2007	2008	2009	2010	2011	2012
External Revenue	23,763	24,893	26,895	27,786	27,854	26,371
Internal Revenue	-	-	272	43	15	-
Total Revenue	**23,763**	**24,893**	**27,167**	**27,829**	**27,869**	**26,371**
Purchases from Generation Segment	(4,129)	(16,701)	(21,690)	(16,540)	(21,245)	(19,483)
Operating costs	(15,274)	(1,733)	(3,185)	(3,444)	(3,426)	(3,070)
EBITDA	**4,360**	**6,459**	**2,292**	**7,845**	**3,198**	**3,818**
Depreciation and Amortisation	(52)	(39)	(34)	(34)	(28)	(28)
Tax Expense	-	-	(677)	(2,343)	(976)	(1,098)
Net Profit	**4,308**	**6,420**	**1,581**	**5,468**	**2,194**	**2,692**

Ratio analysis	2007	2008	2009	2010	2011	2012	CAGR
Growth Rates							
External Revenue	n/a	4.8%	8.0%	3.3%	0.2%	-5.3%	2.1%
EBITDA	n/a	48.1%	-64.5%	242.3%	-59.2%	19.4%	-2.6%
Net Profit	n/a	49.0%	-75.4%	245.9%	-59.9%	22.7%	-9.0%
Margins							
EBITDA	18.3%	25.9%	8.4%	28.2%	11.5%	14.5%	
Net Profit	18.1%	25.8%	5.8%	19.6%	7.9%	10.2%	
Balance sheet - Retail ($000)							
Assets	1,774	1,741	3,919	1,737	2,688	3,998	
Liabilities	1,914	652	713	752	775	942	
Liabilities/Assets	108%	37%	18%	43%	29%	24%	
Capital expenditure	57	111	1	85	20	47	

Source: Annual Reports (2006-2012), PwC Analysis

The retail operating segment of KCE is the primary source of external revenue for the company and so the external sales growth of the retail segment is similar to that of the overall company. The ability of the retail segment to convert sales revenue into strong earnings is dependent upon the average margin that the Company can achieve given their demand load and prevailing hydrology conditions. In some periods, when the average wholesale electricity price rises above average, KCE can be left exposed to purchasing at market rates due to their short-generation operating strategy.

The retail segment does not require a high level of assets or liabilities to operate, mainly requiring working capital items such as debtors and creditors. As such, there is a very low level of capital expenditure required to maintain the earning capacity of this segment.

Generation segment

The table below sets out summary financial statement disclosures for the generation operating segment of KCE for the past six years:

King Country Energy Limited - Generation *31 March ($000)*	2007	2008	2009	2010	2011	2012
External Revenue	4,683	4,104	5,448	5,363	5,052	5,692
Internal Revenue	4,129	16,701	21,690	16,540	21,245	19,483
Total Revenue	**8,812**	**20,805**	**27,138**	**21,903**	**26,297**	**25,175**
Operating costs	(4,168)	(16,108)	(20,807)	(23,354)	(17,308)	(16,049)
EBITDA	**4,644**	**4,697**	**6,331**	**(1,451)**	**8,989**	**9,126**
Depreciation and Amortisation	(1,616)	(1,638)	(1,650)	(1,698)	(2,477)	(2,482)
Interest Expense	-	-	(426)	1	-	-
Tax Expense	-	-	(1,378)	846	(2,601)	(2,113)
Net Profit	**3,028**	**3,059**	**2,877**	**(2,302)**	**3,911**	**4,531**

Ratio analysis							CAGR
Growth Rates							
External Revenue	n/a	-12.4%	32.7%	-1.6%	-5.8%	12.7%	4.0%
Internal Revenue	n/a	304.5%	29.9%	-23.7%	28.4%	-8.3%	36.4%
EBITDA	n/a	1.1%	34.8%	-122.9%	-719.5%	1.5%	14.5%
Net Profit	n/a	1.0%	-5.9%	-180.0%	-269.9%	15.9%	8.4%
Margins							
EBITDA	52.7%	22.6%	23.3%	-6.6%	34.2%	36.3%	
Net Profit	34.4%	14.7%	10.6%	-10.5%	14.9%	18.0%	

Balance sheet - Generation ($000)	2007	2008	2009	2010	2011	2012
Assets	73,025	74,622	69,099	96,369	92,610	112,100
Liabilities	18,015	18,443	14,863	22,462	19,637	25,367
Liabilities/Assets	25%	25%	22%	23%	21%	23%
Capital expenditure	1,722	2,105	1,266	586	520	247

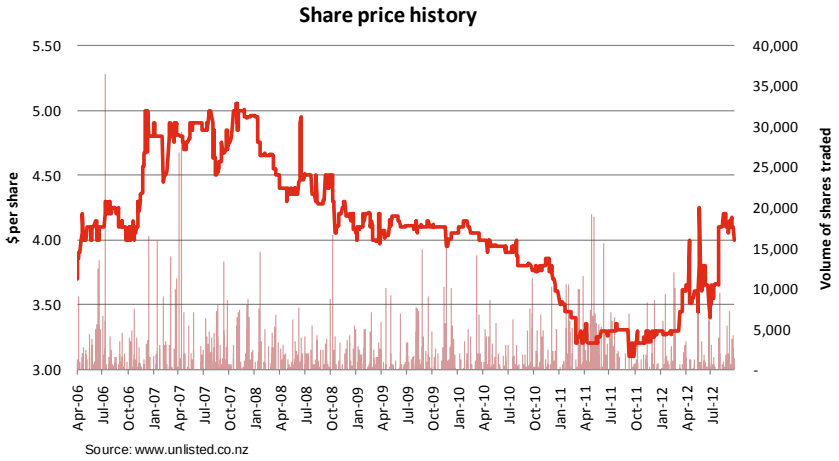
Source: Annual Reports (2006-2012), PwC Analysis

The generation segment of KCE is able to earn both internal and external revenue. Internally, the generation segment sells wholesale electricity to the retail segment. Externally, the generation segment is able to take advantage of periods when the local production is high (relative to the local demand) and electricity can be sold into the national wholesale market. In periods where the retail segment is able to leverage off low wholesale electricity prices, such as in 2010, the generation segment will suffer a drop in earnings. This is an example of the natural hedge between the retail and generating activities of the electricity market.

The majority of the fixed assets of KCE sit within the generation segment, namely the hydro electric power stations. Consistent with the Company financial statements, the generation segment reflects revaluations of the generation assets in 2010 and 2012. The capital expenditure during the review period is consistent with a capital maintenance programme for assets of this nature where there are periodic large items (such as turbine refurbishments) and otherwise lower levels for regular minor maintenance.

Historical share price

The daily trading price of KCE during the review period, sourced from the share trading platform 'Unlisted', is set out in the chart below. During the period KCE shares were traded at prices ranging between $3.10 per share and $5.05 per share with a simple average price of $4.06 per share



KCE is traded on the Unlisted share trading platform which has relatively low levels of trading activity with KCE averaging 1 trade of approximately 1,270 shares per day. By contrast, over the same period, TrustPower had an average of 13 trades, or approximately 36,560 shares per day, and Contact Energy had an average of 104 trades, or approximately 442,490 shares per day. Compared to the trading activity levels of the NZX listed companies, the KCE shares can be considered relatively illiquid.

In the next section, we compare how the performance and returns of KCE have compared to other energy companies and the wider New Zealand market.

4.3. Comparative returns

KCE share price performance and the wider market

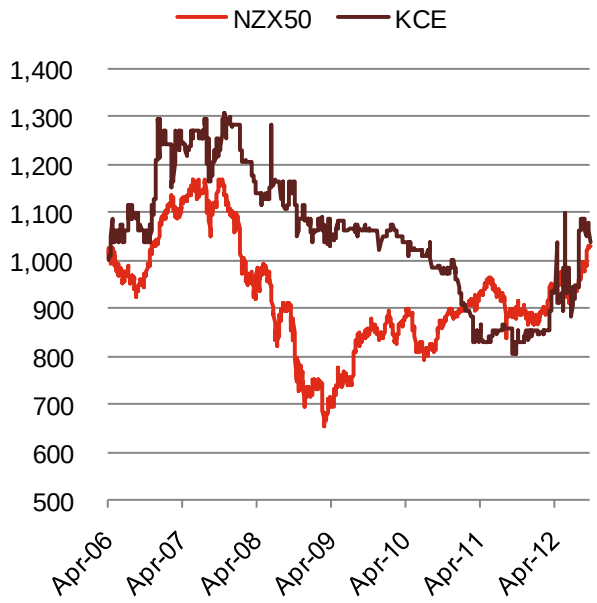
During the review period from 2006 to 2012, there have been challenging conditions for the performance of any investment. The 'Global Financial Crisis' (GFC) of 2008 and the ensuing recession have had strong negative impacts on markets, investment performance and investor wealth around the world. Given the prevailing market and economic conditions for the period under review, comparisons to prior period investment performance or conventional objective benchmarks may be misleading.

To more fairly assess the performance of KCE in this context, it is appropriate to measure the Company's performance relative to the domestic market as a whole and to other comparable companies.

As a proxy for a comparison to the performance of the broader market in New Zealand, the chart opposite sets out the relative changes in the NZX50 equity index and the relative changes in the share price of KCE on the Unlisted exchange.

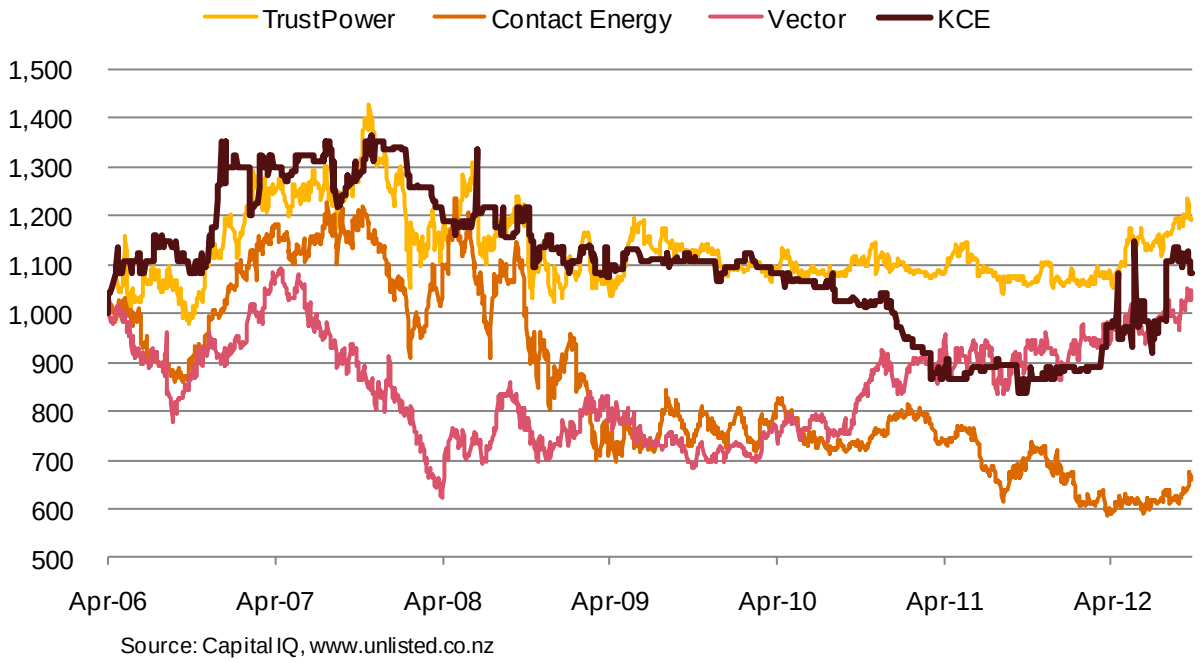
Both KCE and the market experienced positive price growth leading up to the GFC in early 2008 after which the market suffered a strong downturn. Until mid-2010, KCE demonstrated greater resilience to the recessionary environment than the overall market by decreasing in value but at a slower rate.

The KCE share price declined through late 2010 to mid-2011, coinciding with the abandonment of the Mokau hydro development. With the announcement of the Mangahao acquisition in March 2012 and subsequent ratification of the deal in May 2012, the share price has strongly recovered.



Source: Capital IQ, www.unlisted.co.nz

The chart on the next page sets out the relative changes in share price of KCE compared to the listed electricity companies TrustPower, Contact Energy and Vector. TrustPower and Contact Energy are both electricity generator/retailers and so provide a sound basis for comparison to KCE. On the other hand, Vector is an electricity distribution business and so while a part of the wider electricity network industry, is less directly comparable to KCE.



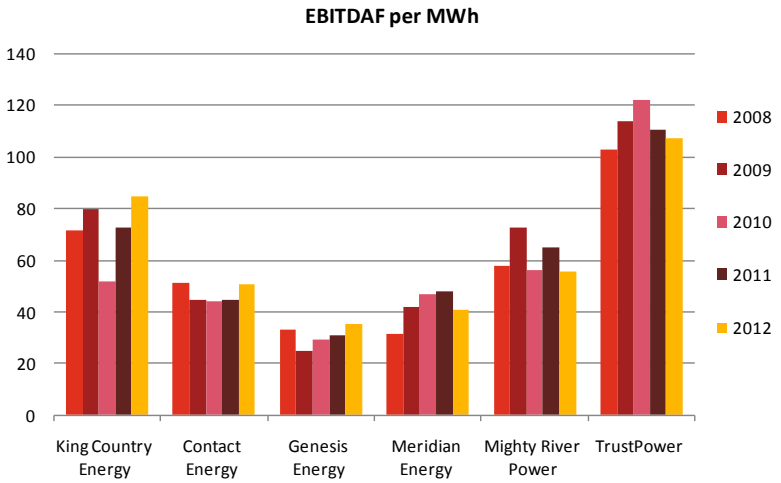
Source: Capital IQ, www.unlisted.co.nz

As illustrated by the data summarised in the chart above, the historical returns of KCE, TrustPower and Contact Energy are relatively strongly correlated until late 2008 when Contact Energy's returns begin to diverge. Subsequent to the downwards shift in the share price of Contact Energy in 2008, KCE and Contact Energy have had similar performances, both being outperformed by TrustPower. Overall, the performance of KCE is broadly consistent with the listed company peer group, being between that of Contact Energy and TrustPower.

4.4. KCE performance against comparable companies

Set out in the charts below are three metrics comparing KCE to the 'big five' generator/retailers in the national electricity market. Each measure is relative in nature, allowing a meaningful comparison between the companies irrespective of their scale differences.

The chart opposite sets out the earnings before interest, tax, depreciation, amortisation and fair value adjustments (EBITDAF) per MWh for the last five years for each company. EBTIDAF per MWh is a proxy measure that can be used to approximate the operating cash flow each company achieves based on its generation base. TrustPower has an operating model that is short on generation (long on retail) and, due to the excellent management of their supply agreements, is able to consistently generate higher cash flows, relative to its generation base, when compared to the other major generator/retailers.



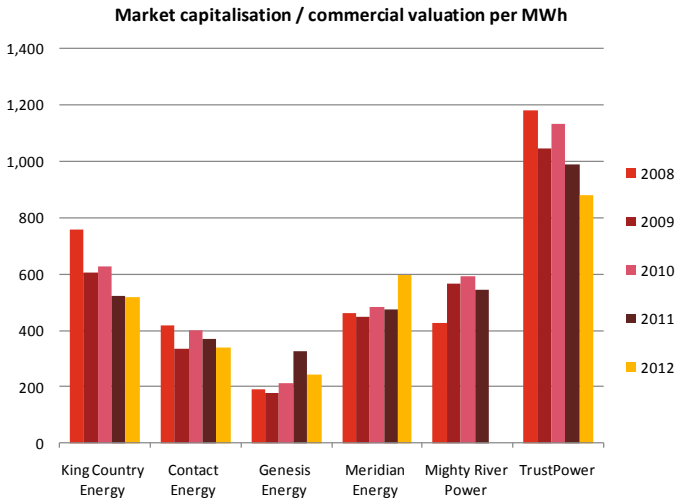
Source: Company annual reports (2008-2012), Electricity Authority

It should be noted that this strategy is relatively high risk and makes TrustPower vulnerable to adverse movements in the wholesale electricity price without the natural hedge of balanced generation and retail portfolios.

The EBITDAF per MWh for KCE during the review period has been consistent with the levels achieved by the other major generators in the market. On a per MWh basis, KCE is outperforming Contact Energy, Genesis Energy and Meridian Energy and is overall on par with Mighty River Power. This indicates that KCE is able to compete on a per unit basis with its competitors despite its significant scale disadvantage.

The chart below sets out estimates of the value of equity per MWh for each of the major generator/retailers for the past five years.

The values for state-owned Genesis Energy, Meridian Energy and Mighty River Power have been taken as their commercial valuations as prepared for the Crown Ownership Monitoring Unit (COMU) while for KCE, Contact Energy and TrustPower, we have used the market capitalisation. The traded share prices may theoretically include an implicit minority discount that may not be fully reflected in the commercial valuations undertaken for COMU by the state-owned firms. As KCE is traded on the Unlisted platform, compared to Contact Energy and TrustPower shares which trade on the NZX, the KCE share price will be further depressed by the much lower trading volume (liquidity) on the Unlisted exchange. We have not made any adjustment for this.



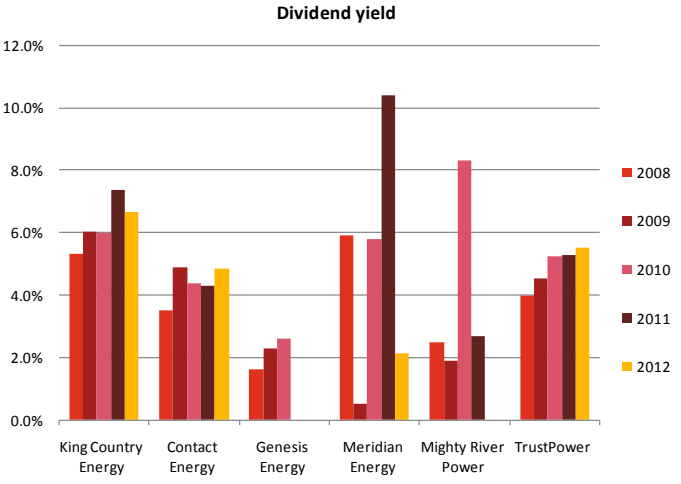
*Note: Mighty River Power's latest valuation not available

Source: www.unlisted.co.nz, Capital IQ, Crown Ownership Monitoring Unit "Annual Portfolio Report 2011", Genesis Energy Statement of Corporate Intent 2013-2015, Meridian Energy Statement of Corporate Intent 2013-2015, Meridian Energy results press release

Irrespective of any adjustment for implied minority or liquidity discounts, the chart above broadly demonstrates the same characteristics as the EBITDAF per MWh chart. TrustPower is again the market leader in value per MWh of generation due to their successful operation of a long-retail strategy. The remaining firms are broadly consistent with each other, with the exception of Genesis Energy which lags the group average.

This once again illustrates that KCE has been able to consistently generate per unit shareholder value comparable to its much larger competitors despite a significant scale difference. In an infrastructure industry where economies of scale are important, this is a highly credible achievement.

The final chart opposite sets out a comparison of the dividend yields of the large generator/retailers over the past five years. During this period, KCE has consistently paid out $4.5m in dividends every year so the variations in yield year-on-year are due to changes in the KCE traded share price. In contrast, the state-owned companies demonstrate an irregular dividend payment policy that is dependent on the discretion of their shareholder. For example, due to the mandated asset transfer of the Tekapo A and B stations from Meridian Energy to Genesis Energy in early 2011, Genesis Energy has suspended dividend payments and Meridian Energy paid a large special dividend in 2011.



*Note: Mighty River Power's latest valuation not available, Genesis Energy paid no dividend in 2011 or 2012

Source: www.unlisted.co.nz, Capital IQ, Crown Ownership Monitoring Unit "Annual Portfolio Report 2011", Genesis Energy Statement of Corporate Intent 2013-2015, Meridian Energy Statement of Corporate Intent 2013-2015, Meridian Energy results press release

4.5. Conclusion

The key points of this review of KCE's performance are as follows:

- KCE has generated consistent operating revenues, despite losing customers over the review period. After the abandonment of the Mokau hydro development, earnings have stabilised and the Company appears well positioned to grow its retail operation with new generation capacity coming online after the Mangahao acquisition.
- The KCE balance sheet demonstrates particularly strong robustness with extremely low levels of gearing and correspondingly high interest coverage ratios. The Company is unlikely to encounter issues accommodating the new debt taken on to fund the Mangahao acquisition.
- During the review period, the GFC and the recession provided challenging conditions for the wider market. Despite this, KCE was able to perform strongly relative to the wider New Zealand equity market.
- When compared to the share price performance of the listed electricity companies, KCE performed better than Contact Energy but not as strongly as TrustPower.
- KCE's cash flow (proxied by EBITDAF) and equity value per WMh compare favourably with the large generator/retailers, despite a large difference in the scale of operations. Given the scale-oriented nature of this infrastructure industry, this is a particularly commendable result.
- The dividend yield of KCE is generally higher than other traded electricity companies.

5. TLC performance review

5.1. Overview

The Lines Company was established on 1 April 1999 and is owned by WESCT and KCEPT, as outlined in the introduction to this Report. TLC's operations comprise three key business units:

- electricity lines business (approximately 76% of revenues in 2012)
- contracting business
- meters and relays business.

There are also two other revenue generating segments, namely revenue collection and generation, but these are not significant.

TLC's distribution network covers approximately 13,700km^2 in the central North Island area and is the largest in New Zealand without a major urban centre. The situated area is of low density and has historically experienced low population growth, and TLC serves domestic consumers, large industrials, ski fields and holiday home owners. The network assets are amongst the oldest in New Zealand and require continual reinvestment by TLC.

There has been positive growth in TLC's distribution network and financial performance, as summarised in the table below. In the following sections, we will more thoroughly review the performance of each of TLC's business units, with a particular focus on the lines business.

The Lines Company	2007	2008	2009	2010	2011	2012
System Lengh (km)	4,381	4,360	4,417	4,491	5,001	-
Consumers (ICPs)	23,359	23,228	24,185	24,435	24,474	-
Revenue ($m)	29.1	32.7	37.6	40.5	41.0	42.2
EBITDA ($m)	16.8	17.7	15.8	19.5	22.9	22.5
Total Assets ($m)	120.8	136.1	174.0	177.4	181.4	233.2

Note: 2012 ELB Information Disclosures were not available at the time of this ownership review

Source: Annual Reports (2007-2012), PwC ELB Compendiums (2007-2011)

5.2. Review of financial reports: 2007-2012

Historical financial performance

Set out below are the income statements for the past six years and some key growth rates and margins:

The Lines Company Limited *31 March ($000)*	2007	2008	2009	2010	2011	2012	
Revenue from Operations	29,129	32,689	37,540	40,492	40,962	42,207	
Investment Income	16	18	70	31	14	4	
Total Revenue	**29,145**	**32,707**	**37,610**	**40,523**	**40,976**	**42,211**	
Transmission Charges	(4,066)	(4,588)	(4,984)	(5,300)	(5,624)	(5,495)	
Staff Expenses	(3,925)	(6,119)	(9,353)	(10,147)	(8,717)	(9,372)	
Cost of Inventories	(2,136)	(2,136)	(5,577)	(2,294)	(3,957)	(3,618)	
Other Expenses	(2,219)	(2,117)	(1,870)	(3,283)	218	(1,261)	
EBITDA	**16,799**	**17,747**	**15,826**	**19,499**	**22,896**	**22,465**	
Depreciation and Amortisation	(5,639)	(6,129)	(6,996)	(8,339)	(8,612)	(9,764)	
Impairment Losses	-	-	(252)	(512)	(170)	(129)	
EBIT	**11,160**	**11,618**	**8,578**	**10,648**	**14,114**	**12,572**	
Interest Expense	(1,176)	(2,307)	(2,837)	(2,252)	(3,110)	(3,220)	
Tax Expense	(844)	(2,274)	(1,727)	(2,336)	(3,260)	(2,619)	
Net Profit (before discounts)	**9,140**	**7,037**	**4,014**	**6,060**	**7,744**	**6,733**	
Discounts	(6,200)	-	-	-	-	-	
Dividends	(132)	(8,095)	(4,033)	(3,000)	(3,250)	(3,560)	
Total Distributions	**(6,332)**	**(8,095)**	**(4,033)**	**(3,000)**	**(3,250)**	**(3,560)**	
Ratio Analysis							***CAGR***
Growth Rates							
Revenue	n/a	12.2%	15.0%	7.7%	1.1%	3.0%	7.7%
EBITDA	n/a	5.6%	-10.8%	23.2%	17.4%	-1.9%	6.0%
EBIT	n/a	4.1%	-26.2%	24.1%	32.6%	-10.9%	2.4%
Net Profit	n/a	-23.0%	-43.0%	51.0%	27.8%	-13.1%	*-5.9%*
Margins							
EBITDA	57.6%	54.3%	42.1%	48.1%	55.9%	53.2%	
EBIT	38.3%	35.5%	22.8%	26.3%	34.4%	29.8%	
Net Profit	31.4%	21.5%	10.7%	15.0%	18.9%	16.0%	
Coverage Ratios							
EBIT / Interest	9.5x	5.0x	3.0x	4.7x	4.5x	3.9x	
Distributions / Net Profit	69%	115%	100%	50%	42%	53%	

Note: Net profit before discounts has been used in our ratio analysis

Source: Annual Reports (2007-2012), PwC Analysis

The compound average growth rate (CAGR) in net profit has been negative over the review period, while the CAGRs of revenue, EBITDA and EBIT have all been positive. EBITDA margin has been relatively constant, but EBIT and net profit have been volatile. Overall, EBIT / Interest coverage has declined while Distributions / Net Profit has improved. Generally, all metrics have been volatile and have been influenced by the following:

- strong revenue growth from the electricity lines business, driven by substantial price increases in 2010 and 2011
- the decline in the profitability of the contracting business in 2009 and 2012
- staff expenses have grown significantly over the review period[3]
- revaluation of the TLC's distribution network to its regulatory value as at 31 March 2009, which caused a significant increase in depreciation and amortisation since 2010
- accelerated depreciation practices have been adopted in recent years in the metering business

[3] There has been scant commentary in the annual reports regarding the reasons for the growth in staff expenses

- increased interest expense since 2008 as a result of increased debt levels (see balance sheet commentary for more information)

- increased taxation expense since 2008, due to distributions being made via dividends instead of indirectly via discounts[4]; the discounts resulted in lower taxable income, and the discontinuance thereof has resulted in increased tax expense.

Although there has been growth in dividends since 2010, we note that the level of distributions has fallen, even if the special dividend in 2008 is excluded. This suggests that TLC is funding its large asset renewals programme internally by reducing dividends distributions and increasing its pricing as a substitute to debt financing.

We would expect that an electricity lines business, a regulated natural monopoly, would produce stable cash flows and a stable return on investment because of its inherently low systematic risk. The overall decrease in distributions and the general themes from the ratio analysis suggests that the business has increased its diversification and business activities into unregulated businesses.

The Trustees believe that TLC's diversification has eroded the value of KCEPT's investment in the company, which is reinforced by the results of the contracting and generation businesses. The results of the contracting business have been more cyclical while the generation business has not been profitable due to its relatively small scale.

[4] Customer discounts were discontinued in 2008 and dividends have become the standard practice

Historical financial position

Set out in the table below are balance sheets for the past six years, together with key ratios:

The Lines Company Limited *31 March ($000)*	2007	2008	2009	2010	2011	2012
Current Assets						
Cash and Cash Equivalents	1,067	412	1,089	1,068	808	654
Trade and Other Receivables	1,042	3,063	4,095	3,052	1,828	2,869
Construction Contracts	-	-	1,097	12	131	120
Inventories	1,200	2,728	2,028	1,558	1,667	1,793
Curerent Tax Asset	454	-	1,020	367	497	-
Other Financial Assets	77	57	-	-	-	-
Total	**3,840**	**6,260**	**9,329**	**6,057**	**4,931**	**5,436**
Non-Current Assets						
Property, Plant and Equipment	116,009	128,541	161,489	168,292	173,250	224,221
Goodwill	-	-	1,701	1,701	1,640	1,640
Intangible Assets	960	1,283	1,525	1,392	1,517	1,793
Other Financial Assets	-	-	-	-	100	100
Total	**116,969**	**129,824**	**164,715**	**171,385**	**176,507**	**227,754**
Total Assets	**120,809**	**136,084**	**174,044**	**177,442**	**181,438**	**233,190**
Current Liabilities						
Trade and Other Payables	2,180	3,856	5,172	2,963	3,940	3,734
Customer Discount Payable	3,606	-	-	-	-	-
Borrowings	1,000	-	905	61	-	-
Other Financial Liabilities	-	-	1,182	1,293	1,450	1,695
Current Tax Liability	-	988	1,345	1,179	-	280
Provision for Staff Entitlements	891	15	-	-	1,163	1,234
Total	**7,677**	**4,859**	**8,604**	**5,496**	**6,553**	**6,943**
Non-Current Liabilities						
Provision for Staff Entitlements	54	71	19	95	72	33
Other Financial Liabilities	-	-	578	-	-	-
Borrowings	12,200	31,400	42,250	44,450	41,450	40,900
Subordinated Debentures	3,000	3,000	3,000	3,000	3,000	3,000
Deferred Tax Liabilities	23,960	22,330	29,705	31,327	31,393	44,825
Total	**39,214**	**56,801**	**75,552**	**78,872**	**75,915**	**88,758**
Total Liabilities	**46,891**	**61,660**	**84,156**	**84,368**	**82,468**	**95,701**
Net Assets	**73,918**	**74,425**	**89,888**	**93,074**	**98,970**	**137,489**
Equity						
Share Capital	8,013	8,013	8,013	8,013	8,013	8,013
Minority Interest	-	-	-	200	200	206
Retained Earnings	30,474	29,416	42,837	45,946	50,457	53,653
Hedging Reserves	(87)	(98)	(809)	(905)	(1,015)	(1,220)
Revaluation Reserves	35,518	37,094	39,847	39,820	41,315	76,837
Total	**73,918**	**74,425**	**89,888**	**93,074**	**98,970**	**137,489**
Total Equity	**73,918**	**74,425**	**89,888**	**93,074**	**98,970**	**137,489**
Total Liabilities & Equity	**120,809**	**136,085**	**174,044**	**177,442**	**181,438**	**233,190**

Source: Annual Reports (2007-2012), PwC Analysis

Financial Ratios	2007	2008	2009	2010	2011	2012
Liquidity and Solvency						
Current Ratio	0.50	1.29	1.08	1.10	0.75	0.78
Debt / Equity	0.22	0.46	0.51	0.51	0.45	0.32
Assets / Equity	1.64	1.73	1.89	1.92	1.87	1.75
Profitability and Efficiency						
Asset Turnover	0.24	0.25	0.24	0.23	0.23	0.20
Return on Equity	12.6%	9.5%	4.9%	6.6%	8.1%	5.7%
Return on Assets	7.7%	5.5%	2.6%	3.4%	4.3%	3.2%
Distributions (% of Equity)	8.7%	10.9%	4.9%	3.3%	3.4%	3.0%

Note: Net profit before discounts has been used in our ratio analysis

Source: Annual Reports (2007-2012), PwC Analysis

Large borrowings were made in 2008 and 2009, which were used to pay for a special dividend of $8.0m and capital expenditure of $16.0m in 2008, and the acquisition of John Deere Electrical Limited (John Deere) in 2009. Gearing has reduced thereafter, resulting from network renewals being funded through revenues and delays in network investment. The movements in gearing are reflected by the debt/equity ratio, which peaked in 2010 and 2011 but has subsequently fallen.

TLC's has experienced major changes in its contracting business, with the acquisition of John Deere and the discontinuation of Scope Infrastructure Limited (Scope) in 2010. These events have contributed to the movements of assets and liabilities in the balance sheet (although not immediately apparent in the TLC's income statement, the effects are more apparent in the business segment analysis below).

TLC's liquidity has fluctuated during the review period, with the current ratio experiencing large movements. The liquidity ratios have improved overall, but it is concerning that net working capital has recently been negative.

Large increases in non-current assets in 2009 and 2012 are due to asset revaluations, which have also increased the deferred tax liability in those years. These revaluations will negatively affect asset turnover, a measure of revenue generated for every dollar of assets, unless revenues grows at a similar rate. The asset turnover remained fairly constant until 2012, suggesting that the acquisition of John Deere increased revenue sufficiently from 2009 to offset the effects of the revaluation.

The return on assets and the return on equity are affected by the events listed above, as well as the revaluations occurring in 2009 and 2012. Each revaluation caused a fall in these metrics, as it significantly increased total assets and equity.

Electricity lines business

The electricity lines business comprises electricity distribution infrastructure in the central North Island which conveys electricity from the national grid to network customers. A summary of the historical financial performance of the electricity lines business is provided below:

Electricity Lines Business *31 March ($000)*	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	
Operating Revenue	**23,235**	**24,859**	**24,825**	**28,581**	**31,516**	**32,226**	
Transmission Charges	(4,066)	(4,588)	(4,984)	(5,132)	(5,356)	(5,230)	
Operating Expenses	(4,664)	(4,783)	(5,955)	(6,066)	(6,087)	(7,192)	
EBITDA	**14,505**	**15,488**	**13,886**	**17,383**	**20,073**	**19,804**	
Depreciation and Amortisation	(4,373)	(4,526)	(4,750)	(6,112)	(6,174)	(6,408)	
EBIT	**10,132**	**10,962**	**9,136**	**11,271**	**13,899**	**13,396**	
Growth Rates							***CAGR***
Revenue	n/a	7.0%	-0.1%	15.1%	10.3%	2.3%	*6.8%*
EBITDA	n/a	6.8%	-10.3%	25.2%	15.5%	-1.3%	*6.4%*
EBIT	n/a	8.2%	-16.7%	23.4%	23.3%	-3.6%	*5.7%*
Margins							
EBITDA	62.4%	62.3%	55.9%	60.8%	63.7%	61.5%	
EBIT	43.6%	44.1%	36.8%	39.4%	44.1%	41.6%	

Source: Annual Reports (2007-2012), PwC Analysis

Revenue over the period of the review has increased at a CAGR of 6.8% per annum:

- the electricity lines business has experienced positive revenue growth in all years except for 2009, which was impacted by a change in accounting policies
- prior to 2009, capital contributions from subdivisions were recognised immediately as revenue but TLC has now adopted a more conservative policy in revenue recognition over time. This means that the results of 2007 and 2008 are not directly comparable to the latter years

- the large increases in revenue in 2010 and 2011 were due to substantial price increases, which has caused dissatisfaction and concerns among customers and Trustees.

Depreciation and amortisation increased significantly in 2010 as a result of the revaluation of TLC's network to its regulatory value as at 31 March 2009. The increased depreciation charge in 2010 was also influenced by new asset data systems that affected depreciation calculations and write-offs of assets that have been renewed.

Although EBITDA and EBIT growth rates appear to be influenced by the accounting policy change and price increases, margins have remained relatively constant over the review period. Commentary in the 2012 annual report suggests that limited price increases in 2012 contributed to the reduction in EBITDA and EBIT growth.

Regulation

The regulation affecting the electricity distribution industry in which TLC operates has evolved greatly since the last ownership review in 2007. The Commerce Commission (Commission) has developed a new regulatory framework underpinned by a set of input methodologies which specify the detailed regulation of electricity distribution businesses (EDBs).

The Commission has undertaken significant consultations on the development of new Default Price-Quality Path (DPP) regulation. TLC, as a non-exempt business, will be subject to this new price regulation from 1 April 2013. The Commission's draft DPP decision sets a maximum allowable revenue (excluding pass-through and transmission charges) of $30.4m for the 2013/2014 pricing year.

This is to be followed by a 15% price increase in the 2014/2015 pricing year, representing a significant increase in revenue on the $26m-$28m that TLC would likely have charged in these years (net of pass-through and transmission charges). The Commission is set to finalise the details of its DPP decision over the next few months

Network quality

The provision of a high quality of service by TLC is not only of interest to the Trust which is charged with monitoring TLC on behalf of its Beneficiaries, but also to the Commission which is concerned with the interests of consumers in general. The standard industry measures of supply quality are:

- SAIDI – System Average Interruption Duration Index (measure of duration of supply interruptions)
- SAIFI – System Average Interruption Frequency Index (measure of annual frequency of supply interruptions).

TLC annually discloses its performance against a quality path set by the Commerce Commission as required by the Electricity Distribution Services default Price-Quality Path Determination 2010 and the Commerce Act (Electricity Distribution Thresholds) Notice 2004 prior to the 2012 disclosure year. The table below shows the historical performance of the TLC network in relation to the quality thresholds.

The Lines Company	2007	2008	2009	2010	2011	2012
SAIDI	✓	✓	✓	✓	✓	✓
SAIFI	✓	✓	✓	✓	✓	✓

Source: Electricity Threshold Compliance Statement (2007-2011), 2012 Default Price-Quality Path Annual Compliance Statement

All of these targets are monitored and assessed by the Trust to ensure that TLC provides a high quality service throughout its network. The table below shows the actual system quality performance.

The Lines Company	2007	2008	2009	2010	2011
SAIDI (minutes)	343.3	267.1	285.1	293.3	296.9
SAIFI (number)	3.3	3.7	4.3	2.6	3.7

Source: Pwc ELB Compendiums (2007-2011)

TLC covers a diverse range of topographies from the Turoa and Whakapapa ski fields on Mount Ruapehu to the dairy farms in the Waitomo and Whakamaru areas. The network typically faces severe weather events that fall short of the significant adverse event threshold, and is therefore particularly susceptible to weather conditions.

The annual duration of supply interruptions (as measured by SAIDI) has reduced overall during the review period, although there has been an upward trend since 2008. This has been caused by the large asset renewals programme which increased planned outages and outages caused by adverse weather. The annual frequency of supply interruptions (as measured by SAIFI) has been volatile over the review period.

Although TLC has complied with the quality thresholds set by the Commission during the review period, there has been mixed success with achieving SCI network reliability targets (refer to Section 5.3 for more detail). We also consider the issue of network quality again in Section 5.4 where TLC's relative performance against a comparable peer group is reviewed.

Contracting business

The contracting business undertakes electrical maintenance and electrical asset construction services both to external customers and internal work on TLC's network. A summary of the historical financial performance of TLC's contracting business is provided below:

Contracting Business *31 March ($000)*	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	
Operating Revenue	**8,965**	**14,981**	**18,833**	**13,192**	**11,757**	**13,553**	
Operating Expenses	(6,934)	(12,020)	(17,404)	(10,085)	(8,717)	(10,887)	
EBITDA	**2,031**	**2,961**	**1,429**	**3,107**	**3,040**	**2,666**	
Depreciation and Amortisation	(480)	(584)	(969)	(943)	(732)	(735)	
Adjustment on Internal Capital Works	(834)	(709)	(372)	(1,445)	(393)	(480)	
EBIT	**717**	**1,668**	**88**	**719**	**1,915**	**1,451**	
Ratio Analysis							***CAGR***
Growth Rates							
Revenue	n/a	67.1%	25.7%	-30.0%	-10.9%	15.3%	*8.6%*
EBITDA	n/a	45.8%	-51.7%	117.4%	-2.2%	-12.3%	*5.6%*
EBIT	n/a	132.6%	-94.7%	717.0%	166.3%	-24.2%	*15.1%*
Margins							
EBITDA	22.7%	19.8%	7.6%	23.6%	25.9%	19.7%	
EBIT	8.0%	11.1%	0.5%	5.5%	16.3%	10.7%	

Note: The "Adjustment on Internal Capital Works" is to remove internal revenue derived from within the TLC Group

Source: Annual Reports (2007-2012), PwC Analysis

There have been major changes during the review period which have impacted the financial results, including the acquisition of John Deere in 2009 and the discontinuation of operations in Scope in 2010. As such, the results are not directly comparable over the entire review period.

Commentary in TLC's 2010 annual report also stated that fraud was discovered in 2010 within the contracting business. The nature and extent of the fraud was not detailed, but the fraud resulted in work in progress being overstated in 2009 and a subsequent loss in 2010.

The revenue of the contracting business reflects a CAGR of 8.6% through the review period, but this apparently good result must be seen in context:

- there was strong growth in the contracting business in 2008, resulting in large increases in revenue, EBITDA and EBIT, and the CAGR reflects a low base in 2007; accordingly, the business segment has not shown overall growth if we change the base year to 2008
- the growth in revenues was boosted by the acquisition of John Deere in 2009

- annual growth rates have been highly volatile, reflecting the cyclical nature and the greater competitive pressures of contracting.

Although the acquisition of John Deere provided strong revenue growth in 2009, the business suffered declining EBITDA and EBIT margins in 2009 due to deteriorating market conditions and increasing competitive pressures from local contractors and reducing contracting margins.

We note that although this business segment has not shown overall revenue growth since 2008, it appears that the restructuring of the contracting business has had positive effects on productivity and profitability in the contracting business. EBITDA and EBIT margins have improved since 2009, although they remain volatile.

Meters and relays business

The meters and relays business owns and supplies meter relay equipment to TLC's network as well as other networks in New Zealand. A summary of the historical financial performance of TLC's meter and relay business is provided below:

Meters and Relays Business *31 March ($000)*	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	
Operating Revenue	**2,234**	**2,526**	**2,755**	**2,511**	**2,538**	**2,986**	
Operating Expenses	(238)	(209)	(173)	(328)	(362)	(351)	
EBITDA	**1,996**	**2,317**	**2,582**	**2,183**	**2,176**	**2,635**	
Depreciation and Amortisation	(637)	(834)	(927)	(778)	(1,099)	(1,816)	
EBIT	**1,359**	**1,483**	**1,655**	**1,405**	**1,077**	**819**	
Ratio Analysis							***CAGR***
Growth Rates							
Revenue	n/a	13.1%	9.1%	-8.9%	1.1%	17.7%	*6.0%*
EBITDA	n/a	16.1%	11.4%	-15.5%	-0.3%	21.1%	*5.7%*
EBIT	n/a	9.1%	11.6%	-15.1%	-23.3%	-24.0%	*-9.6%*
Margins							
EBITDA	89.3%	91.7%	93.7%	86.9%	85.7%	88.2%	
EBIT	60.8%	58.7%	60.1%	56.0%	42.4%	27.4%	

Source: Annual Reports (2007-2012), PwC Analysis

The meters and relays business revenues have experienced a CAGR of 6.0% over the review period and have achieved steady annual growth in all years except for 2010 because of a decrease in meter charges. Meter charges were decreased because they had been increased temporarily during a smart meter roll out programme in the Orion Network to cover asset write offs. The programme was completed in 2009, so meter charges returned to a lower base in 2010.

EBITDA has exhibited the same movements as revenues during the review period, with margins remaining high in the range of 85.7% to 93.7% of revenue. This reflects the low operating cost nature of the meters and relays business.

EBIT has been negatively affected by the expected rollout of advanced smart metering in the short to medium term. This has led to accelerated depreciation in recent years, as existing legacy meters are expected to be displaced, negatively affecting EBIT. Prior to 2010, EBIT had roughly exhibited the same movement as revenue and EBITDA.

TLC has been investigating smart metering technology and is a member of SmartCo Limited (SmartCo), a group of 14 electricity lines businesses committed to investing in smart metering and other radio infrastructure. Despite this, it is still unclear whether the SmartCo venture will proceed or not. Further, whilst we would expect this venture to achieve its cost of capital, returns are likely to be pedestrian. This creates some uncertainty over TLC's ongoing involvement in metering. Increased competition from retailers and other metering companies has also changed the status quo and may increase the risk of meter displacement going forward.

Other business segments

In addition to the major business segments presented above, there are two other revenue generating segments and a centralised services segment:

- ***Revenue collection:*** administers customer accounts and provides account services
- ***Generation***: engaged in the development and operation of hydro-generation assets
- ***Corporate services***: provides management support to other business segments.

We have not provided detailed commentary on these segments, as the first two are relatively small in terms of revenue and contribution, and the third reflects centralised head office and corporate costs.

The revenues, expenses and EBIT for each of these segments are as follows:

Other Business Segments *31 March ($000)*	2007	2008	2009	2010	2011	2012
Revenue						
Revenue Collection	1,420	1,183	1,169	1,221	1,186	1,135
Generation	-	-	23	452	814	1,353
Corporate Services	13	8	39	27	92	70
Expenses						
Revenue Collection	(960)	(954)	(1,279)	(1,194)	(1,214)	(1,262)
Generation	(83)	(512)	(336)	(728)	(982)	(1,345)
Corporate Services	(1,454)	(2,238)	(1,987)	(2,590)	(2,687)	(3,049)
EBIT						
Revenue Collection	460	229	(110)	27	(28)	(127)
Generation	(83)	(512)	(313)	(276)	(168)	8
Corporate Services	(1,441)	(2,230)	(1,948)	(2,563)	(2,595)	(2,979)

Source: Annual Reports (2007-2012), PwC Analysis

Balance sheet information is not provided in the TLC annual reports for the segments and therefore the returns for the revenue collection and generation segments are not quantifiable.

What is evident is that the ROE and ROA for the generation segment is negative, given the cumulative *negative* EBIT over the period of $1.35 million. We understand that approximately $23m has been invested into the hydro-generation assets.

Revenue collection produced a positive cumulative EBIT of $451,000 but on closer analysis this is attributable to the performance in 2007. When the 2007 result is excluded, the cumulative EBIT over the last five years has been negative $9,000, again pointing to negative returns on capital invested.

The six year CAGR for the corporate services EBIT is 15.6%, indicating that centralised costs[5] have grown by *double* the rate of TLC's revenue growth, which grew at 7.7% for the same period.

[5] Assuming the corporate services EBIT is a proxy for central costs

5.3. Performance against SCI targets

Each year the trustees of KCEPT and WESCT and the directors of TLC agree on the SCI for the coming year. The SCI sets out certain financial and quality of supply targets in order for the trustees to ensure that the best interests of the trust beneficiaries and TLC customers are being served. The table overleaf displays TLC's performance against SCI targets for the period 2007 to 2012. A more detailed analysis of TLC's performance is found in Appendix D. We have not defined the targets and the reader is referred to the SCI reports for more detail.

In 2012, the SCI was changed significantly with the introduction of various new targets. This has included increasing the number of targets focused on safety and health, and introducing new targets relating to phone responsiveness, company development, generation and metering. Targets used to measure customer satisfaction have historically been difficult to implement, mainly due to external problems in obtaining results from the National Business Review survey.

During the review period, the financial targets have generally been met but there has been mixed success with network reliability measures. TLC performed poorly in reliability targets in 2007 and 2009, highlighting the network's susceptibility to its topography and adverse weather.

The table below shows the targets that have been achieved and not achieved. Caution should be exercised in drawing conclusions from the table below because the analysis is affected by the introduction of new targets in 2012 and no consideration has been made regarding the relative weightings of each target to overall success of the SCI targets. Notwithstanding this, what the table reflects is that TLC has improved its performance of achieving SCI targets over the last 3 years.

Achievement of SCI targets	2007	2008	2009	2010	2011	2012
Achieved	9	11	8	11	11	23
Not achieved	8	5	8	5	5	8
Total	**17**	**16**	**16**	**16**	**16**	**31**
% Achieved	**52.9%**	**68.8%**	**50.0%**	**68.8%**	**68.8%**	**74.2%**

Source: Annual Reports (2007-2012), PwC Analysis

Achievement of SCI targets	2007	2008	2009	2010	2011	2012
Financial Measures						
Return on Average Net Assets	n/a	n/a	n/a	n/a	n/a	✓
Return on Equity						
Average Equity	✓	×	✓	×	✓	✓
Return on Equity	✓	✓	×	✓	✓	×
Revaluations of Assets	×	×	✓	×	×	✓
Gross Return	×	×	✓	×	✓	✓
Term Debt	✓	×	×	✓	✓	✓
Debt to Asset ratio	✓	✓	✓	✓	✓	n/a
Equity to Asset ratio	n/a	n/a	n/a	n/a	n/a	✓
Discount level	✓	n/a	n/a	n/a	n/a	n/a
Dividends	✓	×	✓	✓	×	✓
Network Reliability						
Average minutes off per customer						
Planned	×	✓	✓	✓	✓	n/a
Unplanned	×	✓	×	×	×	n/a
Total	×	✓	×	✓	×	n/a
Supply interruptions per customer						
Planned	×	✓	×	×	✓	n/a
Unplanned	×	✓	×	✓	✓	n/a
Total	×	✓	×	✓	✓	n/a
No more than 10 proven long term voltage complaints	n/a	n/a	n/a	n/a	n/a	✓
No more than 80 logged voltage "surge complaints"	n/a	n/a	n/a	n/a	n/a	✓
Completion of 2011/12 line renewal and voltage remedial programme	n/a	n/a	n/a	n/a	n/a	✓
Not to breach DPP SAIDI and SAFI reliability limits	n/a	n/a	n/a	n/a	n/a	✓
Safety & Health						
Average man hours lost through accident	✓	✓	×	✓	×	✓
To complete the follow through actions from October 2010 surveys	n/a	n/a	n/a	n/a	n/a	✓
Staff Turnover less than 15%	n/a	n/a	n/a	n/a	n/a	✓
Days lost per employee for sick periods less than 5 days	n/a	n/a	n/a	n/a	n/a	✓
Customer Satisfaction						
Company performance rating as measured by customer surveys	n/a	n/a	n/a	n/a	n/a	n/a
Have at least 80% of customers satisfied with general customer service	n/a	n/a	n/a	n/a	n/a	×
Have at least 90% of customers satisfied with TLC's service centre	n/a	n/a	n/a	n/a	n/a	×
Increase customer understanding of lines and load charges to at least 60%	n/a	n/a	n/a	n/a	n/a	✓
Have an average time to settle complaints of less than 20 days	n/a	n/a	n/a	n/a	n/a	n/a
No more than 6 unsettled complaints taking longer than 3 months to settle	n/a	n/a	n/a	n/a	n/a	✓
Have at least 5 focus group meetings	n/a	n/a	n/a	n/a	n/a	✓
Have at least 12 customer clinics	n/a	n/a	n/a	n/a	n/a	✓
Increase understanding of demand charges	n/a	n/a	n/a	n/a	n/a	n/a
Pricing						
Rank of domestic prices						
Waitomo	✓	✓	✓	✓	✓	✓
King Country	✓	✓	✓	✓	✓	✓
Phone Calls						
Non answer (including to answer message) rate below 5%	n/a	n/a	n/a	n/a	n/a	×
Development						
To have at least 3 electrical or lines trainees	n/a	n/a	n/a	n/a	n/a	✓
To expend $60,000 in supporting community projects	n/a	n/a	n/a	n/a	n/a	×
Generation						
The plant is available for at least 90% of time	n/a	n/a	n/a	n/a	n/a	×
To conform to safety and resource management requirements	n/a	n/a	n/a	n/a	n/a	✓
Metering						
To adopt a programme for on-network meter changes to advance meters	n/a	n/a	n/a	n/a	n/a	×
To commence rollout in Ohakune - completion by winter 2012	n/a	n/a	n/a	n/a	n/a	×

Note that n/a represents the target was not applicable in the relevant year

Source: Annual Reports (2007-2012)

5.4. Industry performance benchmarking

Overview

We have examined the relative performance of TLC, its peers and other network groups, using the information disclosure framework supplemented with information from the asset management plans and other network characteristics. It is important to note that distribution networks are complex and these complexities cannot be fully represented by the information and indicators available through the Information Disclosure Requirements.

Topography, climate, population trends, historical design practices and network configuration are all factors which can significantly impact network performance, and none of these are well represented in the information disclosure data. The disclosure data therefore provides a high level indication of performance that should be subject to further consideration and investigation.

For the purpose of this Report we have grouped TLC with seven comparable EDBs with similar density characteristics and of a similar size, as these are key drivers of network performance, cost and efficiency. We have considered network reliability, profitability, revenue and operating expenditure in our assessment of performance.

The most recent comparative information available is from the 31 March 2011 Information Disclosures. This data and its 2010 equivalent are used for the purposes of this analysis and summarised in the charts. In addition, where possible we have considered qualitative information available about each network, its strategies, objectives and plans.

Grouping networks for comparison purposes

We have undertaken many exercises comparing the performance of EDBs using available disclosure data. It is our experience that when comparing the performance of the EDBs in New Zealand, it is appropriate to group networks for the purpose of assessing relative performance, on the basis of the following indicators:

- network density (indicated by the ratio of ICPs per circuit kilometre) (ICP Density)
- total size of the network (indicated by the total number of ICPs).

For the purposes of this Report therefore we have selected a peer group (the Selected Peers) for TLC as follows:

1. We excluded Orion New Zealand from the peer group because recent performance information is not available due to reporting exemptions granted for the Canterbury earthquakes in 2010 and 2011;
2. TLC has a low ICP Density of 4.9 ICPs per kilometre, so only EDBs with a low ICP Density (defined as <9 ICPs per circuit kilometre) were selected from the peer group:
    - this resulted in Nelson Electricity, Wellington Electricity Lines, Vector, Electricity Invercargill, WEL Networks, Electra, Aurora Energy, Unison Networks, Counties Power, Waipa Networks, Network Tasman, Powerco and Horizon Energy Distribution being eliminated;
3. We eliminated EDBs where the number of ICPs exceeded 30,000 in order ensure comparability to TLC, which had 24,474 ICPs at 31 March 2011:
    - this resulted in Northpower, The Power Company, MainPower New Zealand, Top Energy and Alpine Energy being eliminated;

4. Lastly, we eliminated or reinstated EDBs based on qualitative characteristics, which included:

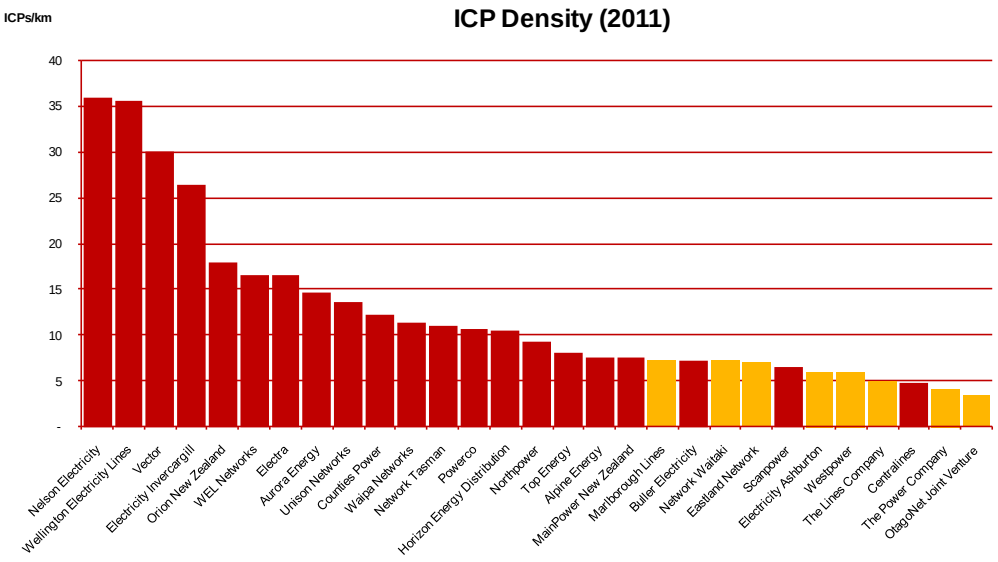
   - eliminating Scanpower because of its unique 11kV distribution system;
   - eliminating Buller Electricity because its network size (4,471 ICPs) is considerably smaller than TLC and the other peers;
   - eliminating Centralines because it is operated under a management contract with Unison Networks; and
   - although The Power Company has 34,431 ICPs, we included it because of its similarity to TLC in terms of ICP Density and its makeup of rural and urban connections.

As a result, for the purpose of our industry performance benchmarking, we have grouped TLC with the following EDBs:

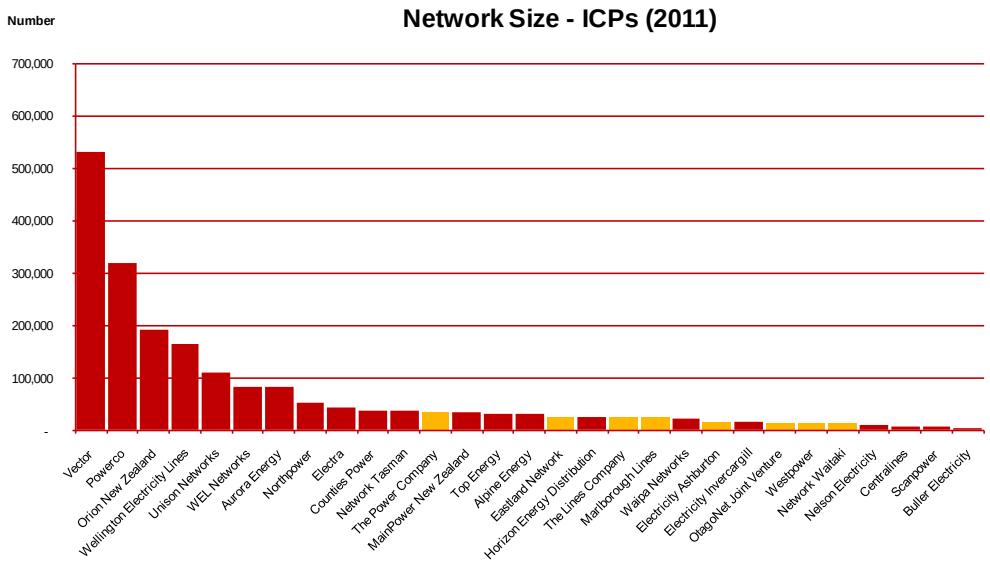
Peer Group	ICPs/km	ICPs
Marlborough Lines	7.2	24,270
Network Waitaki	7.1	12,318
Eastland Network	7.0	25,514
Electricity Ashburton	6.0	17,804
Westpower	6.0	12,876
The Lines Company	**4.9**	**24,474**
The Power Company	4.0	34,431
OtagoNet Joint Venture	3.4	14,801
Peer Group Average	**5.7**	**20,811**
Peer Group Median	**6.0**	**21,037**

Source: PwC ELB Compendiums 2011

The ICP Density for the full peer group, as well as the Selected Peers (highlighted in yellow), is as follows



The network size (number of ICPs) for the full peer group, as well as the Selected Peers (highlighted in yellow), is as follows:



Network Reliability

The key service performance indicator for a distribution network is the level of reliability, measured by SAIDI and SAIFI. Any consideration of reliability should be undertaken over the medium to long term, as investment or under-investment in reliability improvements are unlikely to affect short term reliability statistics. Generally, networks with higher ICP density are more reliable because linesmen can respond more quickly and it is more economic to invest in automation and network redundancy.

SAIDI *(Class B & Class C)*	2010	2011
The Lines Company	293.3	296.9
Peer Group Average	238.3	262.0
Peer Group Median	279.3	262.7
Rank	**6 of 8**	**5 of 8**

Note: Rank 1 = Lowest Interruptions

Source: PwC ELB Compendiums (2010-2011), PwC Analysis

SAIFI *(Class B & Class C)*	2010	2011
The Lines Company	2.6	3.7
Peer Group Average	2.5	2.5
Peer Group Median	2.8	2.6
Rank	**4 of 8**	**8 of 8**

Note: Rank 1 = Lowest Interruptions

Source: PwC ELB Compendiums (2010-2011), PwC Analysis

In 2010 and 2011, TLC's SAIDI and SAIFI exceeded the averages and the medians of the peer group. TLC has ranked near the middle of the peer group except for 2011, suggesting there is dispersion among the sample data. As noted previously, TLC has a comparatively old network and is particularly susceptible to adverse weather conditions as a result of its topography and weather exposure. TLC's ICP density is the fourth lowest in the industry. These metrics suggest average performance relative to the peer group, which is positive due to the characteristics of TLC's network.

Profitability

We have chosen the return on investment (ROI) as a metric to assess profitability. We note that there has been a general increase in the ROI of the peer group in 2011 due to the effects of increasing the index revaluation rates to account for the rise in GST. TLC's ROI was below the peer group average and median in 2010, but has shown positive signs by rising above the peer group average and median in 2011.

ROI *(%)*	2010	2011
The Lines Company	6.0	9.3
Peer Group Average	6.7	9.1
Peer Group Median	7.3	8.7
Rank	**5 of 8**	**3 of 8**

Note: Rank 1 = Highest Return

Source: PwC ELB Compendiums (2010-2011), PwC Analysis

Looking forward, a positive increase in the regulatory price path under the new DPP is likely to increase revenues. If TLC can hold its operating costs in line with current levels, this should translate to increased profitability.

Revenue

The ability of an electricity lines business to produce revenue is the fundamental driver in being able to generate the economic profit that allows for network renewal, debt servicing, expansion and distributions to be made to owners. Gross distribution revenue has been estimated as:

$$\textit{Net line charge revenue} + \textit{discretionary discounts and customer rebates} + \textit{net AC loss rental income} - \textit{transmission charges} - \textit{avoided transmission charges}$$

We have standardised gross distribution revenue as revenue per unit of electricity delivered (c/kWh), revenue per unit of installed capacity ($/kVA), revenue per kilometre of circuit ($/km) and revenue per connection point ($/ICP). There is no single indicator which provides a definitive comparison of costs across networks, but these metrics will provide a basis for a high level analysis.

Gross Distribution Revenue (c/kWh)	2010	2011
The Lines Company	7.2	8.5
Peer Group Average	5.1	5.4
Peer Group Median	5.0	5.2
Rank	**1 of 8**	**1 of 8**

Note: Rank 1 = Highest Revenue
Source: PwC ELB Compendiums (2010-2011), PwC Analysis

Gross Distribution Revenue ($/kVA)	2010	2011
The Lines Company	102.1	111.7
Peer Group Average	82.9	85.6
Peer Group Median	89.9	90.8
Rank	**2 of 8**	**2 of 8**

Note: Rank 1 = Highest Revenue
Source: PwC ELB Compendiums (2010-2011), PwC Analysis

Gross Distribution Revenue ($/km)	2010	2011
The Lines Company	4,955	5,069
Peer Group Average	5,636	5,913
Peer Group Median	5,178	5,565
Rank	**6 of 8**	**6 of 8**

Note: Rank 1 = Highest Revenue
Source: PwC ELB Compendiums (2010-2011), PwC Analysis

Gross Distribution Revenue ($/ICP)	2010	2011
The Lines Company	911	1,036
Peer Group Average	1,011	1,065
Peer Group Median	982	1,010
Rank	**5 of 8**	**4 of 8**

Note: Rank 1 = Highest Revenue
Source: PwC ELB Compendiums (2010-2011), PwC Analysis

In both 2010 and 2011, revenues per unit of electricity delivered and per unit of installed capacity were highly ranked and were higher than both the average and the median of the peer group. This indicates that TLC has relatively high prices compared to its peers. This makes sense for a low density network as its cost as a proportion of consumption and installed capacity are likely to be high. As mentioned previously, TLC has funded renewals through price increases in recent years.

In both 2010 and 2011, revenues per unit of electricity delivered, per kilometre of circuit and connection point were ranked near the middle and performed closer to the average and median of the peer group. TLC's low density and lack of urban connections appear to have offset its higher prices.

Operating Expenditure

We have broken down operating expenditure into operations and maintenance (which relate to the network) and administration and overheads (which relate to non-network functions). We have broken operating expenditure down in this manner to better assess the efficiency of the network.

We have standardised operating expenditure as expenditure per unit of installed capacity ($/kVA), expenditure per kilometre of circuit ($/km) and expenditure per connection point ($/ICP). There is no single indicator which provides a definitive comparison of costs across networks, even once networks of similar connection densities and size are grouped together.

Operations & Maintenance ($/kVA)	2010	2011
The Lines Company	22.9	25.8
Peer Group Average	22.7	21.9
Peer Group Median	22.8	21.9
Rank	**5 of 8**	**6 of 8**

Note: Rank 1 = Lowest Expenditure

Source: PwC ELB Compendiums (2010-2011), PwC Analysis

Operations & Maintenance ($/km)	2010	2011
The Lines Company	1,110	1,169
Peer Group Average	1,581	1,551
Peer Group Median	1,299	1,134
Rank	**4 of 8**	**5 of 8**

Note: Rank 1 = Lowest Expenditure

Source: PwC ELB Compendiums (2010-2011), PwC Analysis

Operations & Maintenance ($/ICP)	2010	2011
The Lines Company	204	239
Peer Group Average	272	267
Peer Group Median	238	238
Rank	**2 of 8**	**5 of 8**

Note: Rank 1 = Lowest Expenditure

Source: PwC ELB Compendiums (2010-2011), PwC Analysis

Operations and maintenance expenditure per unit of installed capacity performed close to the peer group average and median in 2010, but had exceeded the average and median in 2011. Operations and maintenance expenditure per kilometre of circuit and per connection point were below the average and median in 2010 but performed close to the peer group median in 2011. TLC's rankings have generally been around the middle which suggests average efficiency. This is positive for TLC, considering the age of its network.

Administration & Overheads (c/kWh)	2010	2011
The Lines Company	0.6	0.4
Peer Group Average	0.7	0.7
Peer Group Median	0.4	0.5
Rank	**6 of 8**	**4 of 8**

Note: Rank 1 = Lowest Expenditure

Source: PwC ELB Compendiums (2010-2011), PwC Analysis

Administration & Overheads ($/ICP)	2010	2011
The Lines Company	77	53
Peer Group Average	119	130
Peer Group Median	86	103
Rank	**3 of 8**	**2 of 8**

Note: Rank 1 = Lowest Expenditure

Source: PwC ELB Compendiums (2010-2011), PwC Analysis

Administration and overheads expenditure per unit of electricity delivered and per connection point have both shown improving trends. TLC performed better on the per connection metric than the per unit of electricity delivered metric, which is consistent with the composition of network customers as TLC services a significant number of holiday home owners and ski fields that are likely to have relatively low usage.

Given this lower throughput consumption per consumer, costs per unit of electricity delivered are likely to be high. Similarly, the relatively higher number of ICPs (albeit it with relatively low consumption) are likely to make costs per ICP look high. On balance, it appears that TLC's administration costs fall within the middle of the peer group.

Detailed peer group rankings can be found in **Appendix D**.

5.5. Conclusion

The key points of this review of TLC's performance are as follows:

- The lines segment has performed relatively well, although growth in profitability has been driven largely by revenue growth on the back of aggressive price increases. Revenue growth slowed markedly in 2102, a trend that is likely to continue as the scope to increase tariffs is constrained by a combination of disgruntled consumers and regulatory limits.
- The performance of the contracting business has been mixed, although recent results are positive. Revenue and profitability have been volatile over the review period and the market is likely to remain challenging going forward.
- Revenue in the meters and relays segment has been reasonably steady over the period, with a notable uptick in the 2012 year. However, EBIT has declined steadily over the period and the outlook for the metering business as the switch to smart meters occurs is uncertain.

- The generation segment has performed poorly over the review period and is impacting negatively on shareholder returns.
- Centralised costs are growing at double the rate of revenue, undermining profitability from the operating units and reducing shareholder returns.
- The performance of TLC against its peers has been mixed, with positive performance in terms of operating and maintenance expenditure, improving ROI, and average performance in the network reliability and revenue based metrics.
- Performance against the SCI targets reflects improving performance, although the 2012 results are not necessarily comparable to prior years.
- On a consolidated basis TLC has performed reasonably well over the period, with positive results in the lines business – driven mainly by price increases – offsetting declining profits in meters and relays and losses in generation.
- The performance of TLC going forward will be largely dependent on the ability of management to extract value from the unregulated business segments and manage head office costs.

6. Advantages and disadvantages of trust ownership

6.1. Introduction

KCEPT holds 14.2% of KCE and 10% of TLC on behalf of current and future Consumers, and the Consumers of the day are the Beneficiaries of the Trust. In this section, we consider the advantages and disadvantages of trust ownership vis-à-vis direct ownership by the Beneficiaries, which would be achieved by a distribution of the Review Shares.

We note that trust ownership is very common among New Zealand EDBs, with 21 of 29 companies having some trust ownership and 12 meeting the Commerce Act criteria of being "community owned".

The advantages of trust ownership arise primarily from the Review Shares being held in a common pool by the Trust, allowing for a 'shareholding block' that provides benefits through:

1. Shareholders agreements
2. Voting thresholds
3. Relative shareholding

These factors, taken together, allow a shareholding block to wield influence and extract shareholder value which cannot otherwise be extracted by a shareholder with a negligible minority holding.

Shareholders agreements

Shareholder agreements allow for additional rights and obligations between the shareholders, typically in respect of events which could affect the positions of the respective shareholders, such as a takeover or merger of the company or an issue or buyback of shares by the company. Additionally, when one shareholder wishes to dispose of its shares in the company, these agreements also usually allow for pre-emptive rights in favour of the other shareholder(s).

In respect of TLC, there is a shareholders agreement between KCEPT and WESCT, which does provide some rights and protections to KCEPT.

Voting thresholds

There are various common thresholds that are important from a valuation and corporate governance perspective:

100%	Absolute control and unfettered access to cash flows
75% + 1 share	Ability to pass resolutions requiring a special majority
50% + 1 share	Often referred to as a controlling stake, ability to pass resolutions requiring an ordinary majority and control the board of directors
25% + 1 share	Often referred to as negative control, ability to block special resolutions
10% + 1 share	Ability to prevent compulsory acquisition of minority shareholdings

In addition, there are certain other thresholds that may become relevant for KCEPT under certain circumstances:

- In terms of the Takeovers Code[6], a shareholder that crosses the 20% ownership threshold is required to make an offer (either partial or full); this may become a consideration if KCEPT were to increase its holding in KCE to over 20%, but this seems unlikely in the near to medium term

- Under the Electricity Industry Reform Act and subsequent amendments KCEPT cannot hold more than 10% of TLC (or any other EDB) while it owns more than 10% of a generation business.

Relative shareholding

Aside from these absolute thresholds, there are also issues of relative shareholding. For example, in the case of KCE, although the Trust does not have negative control (>25%), it is the second largest shareholder with 14.2% and holds a significant block of shares in a thinly traded market. By contrast, consider for the following alternative scenario: Shareholder "X" owns 14.2% of the shares in Company "Y", which is a heavily traded share with no majority shareholder but two other notable shareholders, with (say) between 15-20% each. Whilst Shareholder X owns the *same* absolute percentage shareholding in Company Y as the Trust holds in KCE, the position *relative* to other shareholdings is different. In the case of the scenario, Shareholder X has no special advantage, since there are other shareholders with similar sized holdings; furthermore, the shares are well traded and a similar stake can be acquired by a patient buyer on the market.

While there are no set rules to assess these dynamics, they play an important role in corporate governance and shareholder value.

Given this background, we now consider the advantages and disadvantages of Trust ownership.

6.2. Advantages and disadvantages of trust ownership: KCE

	Advantages		**Disadvantages**
1	With a holding of c.14.2%, the Trust has the ability to prevent the controlling shareholder from triggering a compulsory acquisition of the remaining 10%.	1	The Trust incurs administration, compliance and accounting costs, as well as Trustee fees; these are the costs of providing many of the advantages outlined.
2	With its current stake in the company, the Trust may be able to block a special resolution if it were supported by other shareholders holding c.10.8%.	2	Substantial capital projects or acquisitions undertaken by the company may require significant equity; whilst the Trust does have cash resources ($9.4 million), the ability to support a substantial equity raising is limited, and may expose the Trust's holding to dilution.
3	As the second largest shareholder, with board representation, the Trust has some influence over: • Corporate governance • Strategy • Investment in long term assets • Non-commercial and environmental objectives, including Consumers' interests This is likely to enhance long term shareholder value for the benefit of both current and future Beneficiaries.	3	The Trustees must balance shareholder/commercial objectives with those of the Consumers, and at times these may not be aligned.

[6] Takeovers Code Approval Order 2000

4	Enhanced opportunity to extract value from corporate action: a notable holding of this nature has value for which a strategic buyer or significant shareholder may pay a premium, particularly since a buyer cannot accumulate a stake of this size on the Unlisted share exchange due to very limited liquidity.	4	Trustee rotation (via election cycles) can result in some loss of stability, although this has not been an issue for KCEPT.
5	Avoids inter-generational issues: if the shares were distributed, then the current Beneficiaries would receive a benefit that should accrue to current and future Beneficiaries.	5	Beneficiaries are not able to vote directly on company resolutions and are reliant on the Trustees to vote as they see fit.
6	Consumers retain some control over their shares via election of trustees.		

Taking all the above factors into consideration, in our view the benefits and advantages of Trust ownership outweigh the costs and disadvantages in the case of KCE.

6.3. Advantages and disadvantages of trust ownership: TLC

	Advantages		**Disadvantages**
1	The Trust has very limited influence over: • Corporate governance • Strategy • Investment in long term assets • Non-commercial and environmental objectives, including Consumers interests This may provide some enhancement to long term shareholder value, but it is unlikely the Trust will be able influence major issues of strategy and governance.	1	The Trust incurs administration, compliance and accounting costs, as well as Trustee fees.
2	Advantages 5-6 for KCE are applicable.	2	Since both shareholders of TLC are Trusts with limited financial resources, opportunities to pursue substantial capital projects or acquisitions requiring equity are limited.
		3	The electricity distribution sector is well regulated and the need for Consumers to be protected through Trust ownership of shares is diminished.
		4	Disadvantages 3-5 for KCE are applicable.

Taking all the above factors into consideration, in our view the benefits and advantages of Trust ownership are marginal in the case of TLC.

7. Ownership options in relation to the Review Shares

7.1. Background

Clause 4 of the KCEPT Trust Deed directs that the Trustees should 'prepare a report considering proposals and available options for future ownership of the Review shares', considering various issues which we noted in Section 1 of this Report. The wording in the Trust Deed appears to anticipate the need to consider specific proposals (if any), as well as a more general review of the options in relation to ownership of the Review Shares.

7.2. Changes since the last review

The offer from Todd Energy in February 2007 to acquire a majority stake in KCE prompted a specific review of the Trust's investment in KCE, which was included in PwC's 2007 ownership review report. The 2007 report considered the following options with respect to the shareholding in KCE:

- Option 1: Continue to hold the KCE shares
- Option 2: Sell the KCE shares and reinvest the proceeds
- Option 3: Acquire additional KCE shares

Based on an analysis of the historical performance, relative risks, and the future prospects of the Review Shares, the 2007 report recommended that the Trust increase its holding in KCE to 20% combined with a partial sell-down of its holding in TLC. The report also recommended that, should the Trust pursue this strategy, the Trustees should more actively manage the investment in KCE, given the Trust's greater level of influence.

Subsequent to the publication of the March 2007 report, the Trust entered into transactions which resulted in the Trust holding 10% of TLC and 20% of KCE.

These shareholdings remained unchanged until June this year, when KCE purchased Todd Energy's 50% stake in Mangahao Power Station through a combination of cash and an issue of new shares to Todd Energy. As a result of this transaction, the Trust's holding was reduced to 14.2%, with Todd Energy now holding a majority 54.1% stake in KCE.

7.3. Trust objectives

The objective of the Trust is to hold the Review Shares on behalf of the Consumers. We noted that the Trustees are required to take any action necessary or desirable to protect, maintain or promote the best interests of the Consumers, and further that the Trustees have wide ranging powers, including authority to dispose of existing investments, make new investments, borrow funds, appoint directors to the boards of the investee companies (where permissible), and exercise shareholder rights. More specifically, we note that the Trust can invest in:

- additional equity or debt securities in the Companies
- other equity securities (of any company)
- NZ Government securities
- interest bearing accounts
- any investment the Trustees consider to be proper and expedient.

The Trustees must follow the requirements of the Trust Deed if they wish to sell or distribute any of the Review Shares, which includes public consultation.

7.4. Generic ownership options

With respect to ownership options, the Trust Deed outlines four general options in respect of the Review Shares:

1. Distribution to the Beneficiaries;
2. Sale to the public;
3. Sale to institutional investors; and/or
4. Retention by the Trust.

The first option – to distribute the Review Shares to the Beneficiaries – is dealt with under Section 6 "Advantages and disadvantages of trust ownership".

The second and third options achieve the same outcome by differing means: under both options, the Review Shares are disposed of, but the buyer and the sale process differ.

The fourth option is the default option, since the primary objective of the Trust is to hold the Review Shares. However, the requirement placed upon the Trustees to conduct regular review and consider proposals for the ownership of the Review Shares suggests the Trustees should not be entirely passive investors.

There is a fifth option which is implicit in the powers given to the Trustees, which is the option to purchase additional Review Shares and/or other investments, using the cash resources of the Trust and/or debt funding.

7.5. Performance of the Review Shares

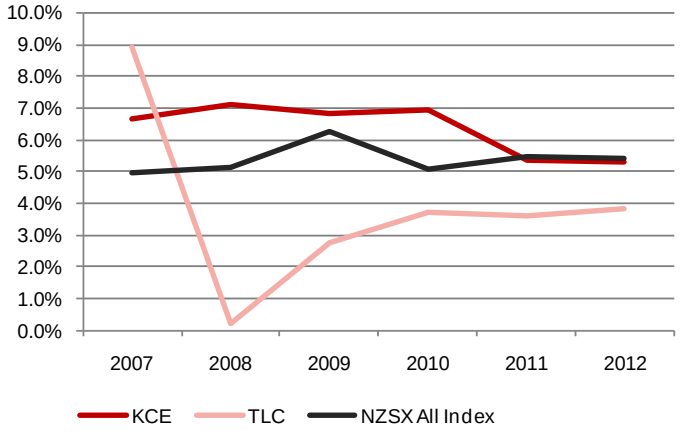
The review of KCE in Section 4 is a review of the *company's performance*, including analysis of its financial statements and its performance against its peers. Likewise, in Section 5, we review TLC on a similar basis. By contrast, in this section we consider the *performance of the Review Shares as investments*, from the perspective of the Trust being a shareholder and an investor.

Whilst the performance of a company is important to its shareholders, the critical issue for shareholders is the return received on the capital invested. Accordingly, we consider the performance of KCE and TLC relative to each other, based on the following metrics which are relevant from a shareholder perspective:

1. Return from dividends (Dividend Returns)
2. Return from asset appreciation (Equity Returns)
3. Return on assets (ROA) and return on equity (ROE).

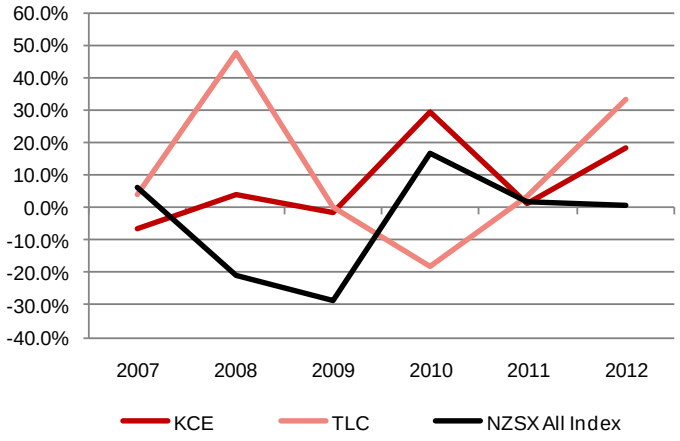
We also consider the performance of the NZX All Share Index for the first two metrics, in order to provide a context for the returns achieved by KCE and TLC.

Dividend Returns



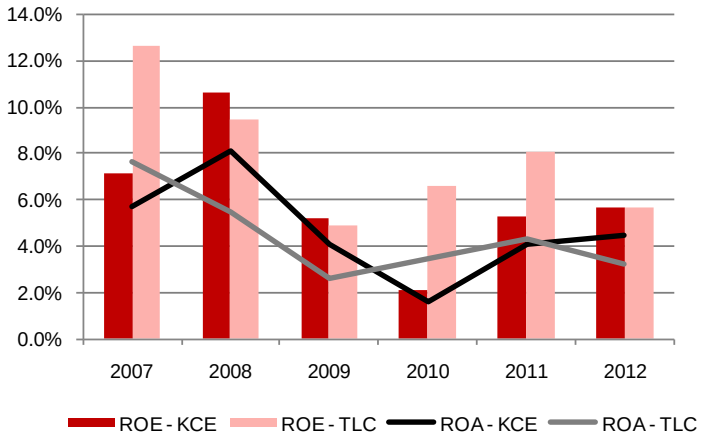
- For minority shareholders with limited or no influence on the company, **Dividend Returns are the most important metric**, as these are realised (cash) returns
- KCE's Dividend Return averaged **6.4%,** consistently exceeding TLC's, which averaged **3.8%** over the same period
- The NZSX All Share Index's return from dividends was **5.4%** per annum over the comparable period.

Equity Returns



- Since these returns are unrealised, **less emphasis is placed on Equity Returns**; the actual return (based on the price realised on disposal) may differ materially from the estimated return (based on fair value)
- TLC achieved an annualised capital return of **9.7%** (based on fair value[7]) compared to KCE's **6.8%** (based on book value[6])
- Both companies substantially outperformed the NZX All Share Index which returned an average **-5.2%** per annum capital return over the six years to 31 March 2012.

Return on Assets & Return on Equity



- TLC and KCE achieved very similar average ROA's over the period, with returns of **4.5%** versus **4.7%**
- The ROEs diverged as a result of TLC's higher leverage, with TLC achieving a ROE of **7.9%** compared with KCE's **6.0%**
- All else being equal, we would expect an uplift in KCE's ROE as a result of the increased gearing from the Mangahao acquisition, assuming the acquisition assets earn a return exceeding the cost of debt.

The detailed information used to calculate the returns is set out in **Appendix C**.

7 Refer to Appendix C for an explanation of why fair value was used for TLC and book value for KCE

7.6. Additional considerations

Outlook and risks: KCE

The key issues facing the electricity generation sector in New Zealand are as follows:

- implementation of the Electricity Industry Act 2010
- balancing new generating capacity with growth in electricity demand (averaging 1.7% per annum over the last 20 years) and the impact of excess capacity on wholesale prices
- the long-term carbon pricing arrangements for stationary energy post-2012
- the ability of generators to gain consent for the construction of new facilities
- fuel price inflation
- transmission grid constraints
- preparation for transition to a mixed ownership model for the government-owned energy generators.

Following the Mangahao transaction, KCE has reasonable growth prospects over the medium to long term, supported by the fact it operates in a less regulated environment than TLC and is well placed as a second tier energy generator/retailer to expand its business.

Outlook and risks: TLC

TLC operates in an increasingly regulated environment and its capacity for excess shareholder returns in the lines business is limited. While there are opportunities outside the regulated business, the company has struggled to achieve growth in the non-lines segments of its business.

Remarks by the Trustees regarding KCE and TLC

We note the dissatisfaction of the Trustees, and indeed Consumers, with the demand charging tariff implemented by TLC in 2009. The Trustees are of the view that this tariff system is inequitable in the absence of a transparent, consistent approach to charging consumers. Despite commissioning an independent report on this issue, and extensive engagement with the directors of TLC following the publication of the report, there has been no response from the directors of TLC to implement an equitable basis for these charges. This has caused frustration on the part of the Trustees.

This issue highlights the fact that the Trust exerts limited influence over the affairs of TLC, especially considering the extent to which the Trustees have engaged with TLC's directors and WESCT on this issue.

The Trustees have also expressed their concern with the expansion of TLC's activities outside of the lines business:

"The Directors' strategy of diversifying into unregulated businesses through subsidiaries has not yet provided adequate returns for the business risk assumed and Trustees are concerned that some of these business activities may be destroying the Trust's share value in this business" (Annual Report 2011).

In contrast, the Trustees have reported meaningful and active participation on the board of KCE, and are highly supportive of KCE's Mangahao transaction. The Trustees have *"resolved to rebuild to at least 20% its shareholding in KCE"* (Annual Report 2012).

7.7. Review of ownership options

Taking into account the issues and context outlined in the preceding sections of this Section, and against the wider context of this entire Report, the review has been undertaken on the following basis:

Option	KCE shares	TLC shares
Sell	*Considered*	*Considered*
Purchase	*Considered*	*Not considered*[8]
Distribute	*Considered*	*Considered*
Retain	*Considered*	*Considered*

Options for the KCE shares

Sell KCE shares

KCE has performed well against its peers, continues to deliver an above average dividend return to the Trust, and has reasonable prospects for growth in the medium to long term. The Trustees have reported meaningful participation on the board of directors of the company, providing the Trust with an opportunity to positively influence the affairs of the company.

A disposal of KCE shares would diminish or extinguish the Trust's influence and leave the Trust with additional funds to invest (it already holds liquid investments of c$9.4m). It would be challenging in the current economic environment to find an investment yielding a stable dividend return in excess of 6%, especially one that also has the prospect of capital gains. In the absence of a more attractive alternative investment opportunity, it makes little sense to dispose of the KCE shares.

Purchase additional KCE shares

As noted above, the Trustees have indicated their intention to rebuild a holding of at least 20% in KCE. By restoring the Trust's holding in KCE to 20%, the Trust would have the influence over the company that it has enjoyed historically. A larger stake in KCE would also provide exposure to the upside arising from the Mangahao transaction (e.g. potential synergies), as well as to other growth opportunities that KCE may pursue.

Depending on the price paid for the additional stake, this option will require the following cash outlay:

KCE share acquisition	No shares	% holding	Acquisition at 30 day VWAP[1] ±$0.50:		
			$ 3.53	$ 4.03	$ 4.53
Total shares in issue	**26,379,474**				
Owned by KCEPT at 31 March 2012	3,749,990	14.22%			
Purchased up to 27 August 2012	11,339	0.04%			
Required to reach 20%	1,514,566	5.74%	$5.4m	$6.1m	$6.9m
	5,275,895	20.00%			

[1] *VWAP (Volume Weighted Average Price) of $4.03, as at 27 September 2012*

At 31 March 2012 the Trust had $9.4m in cash (including liquid investments) and an additional holding could comfortably be purchased by the Trust.

[8] As noted previously, under the Electricity Industry Reform Act and subsequent amendments, KCEPT cannot hold more than 10% of TLC while it owns more than 10% of a generation business, and accordingly the option of purchasing additional TLC shares has not been considered

The additional shares could be acquired on the open market and/or directly from other shareholders:

- accumulating a stake of c.5.7% on the open market will be extremely difficult given the lack of liquidity in the trading of KCE's shares on Unlisted
- the Trust will need to consider approaching other shareholders, preferably those with 'sizeable' holdings, to test the appetite for a block trade
- the next largest shareholder (after KCEPT) holds c.1%, and therefore engagement with a number of the smaller but significant shareholders may be required

Following the Mangahao transaction, certain dissenting shareholders have requested that KCE repurchases their shares under the relevant provisions in the Companies Act. If this request is successful, Todd Energy may be required to sell down a portion of its shareholding in order to remain at or under the 54.1% shareholding threshold approved at the special meeting of KCE shareholders on 31 May 2012. Accordingly, there may be an opportunity for KCEPT to acquire additional shares from Todd Energy, should they become available at a price considered market related by the Trustees.

Acquiring more shares in KCE will reduce the free float from c.31.7% to c.26.0%, which is likely to exacerbate the lack of liquidity in KCE's shares.

Distribute KCE shares

The details of this option are dealt with under Section 6. Our conclusion in that section regarding trust ownership was that, in respect of the KCE shares owned by KCEPT, the benefits and advantages of Trust ownership outweigh the costs and disadvantages of trust ownership.

In addition, we note that should the Trust cease to hold any KCE shares, it is required to be wound up.

Retain KCE shares

In the absence of an opportunity to meaningfully extend its holding, KCEPT can retain its investment in KCE, thereby preserving its cash reserves. Under this option, KCEPT has less influence over KCE than it has enjoyed historically and risks losing the ability to appoint directors to the board of KCE. Further, Todd Energy may be able to pass special resolutions without the support of KCEPT, depending on how the minority shareholders vote.

Notwithstanding this, with its current shareholding in KCE above 10%, KCEPT can prevent compulsory acquisition of KCE, even if Todd Energy secures all of the minority shares, and therefore KCEPT continues to hold a strategic position from a shareholder perspective.

Options for the TLC shares

Sell TLC shares

Given KCEPT's minority 10% shareholding in TLC, the investment is no longer strategic. Proceeds from disposal of the TLC shares would provide the Trust with capital to be deployed either in new investments or for the acquisition of additional shares in KCE.

If KCEPT decided that it wished to sell its TLC shares, we would recommend that a market sounding process be initiated to test potential investors' interest in this opportunity.

The sale of the TLC shares would mean that the link to the legacy King Country network would be lost, and Trustees would lose their (limited) influence over the affairs of TLC. Consumers do however have substantial protection of their interests as a result of the Commerce Commission's regulatory oversight.

Distribute TLC shares

The details of this option are dealt with under Section 6. Our conclusion in that section regarding trust ownership was that the benefits and advantages of Trust ownership appear to be marginal in respect of the TLC shares. Furthermore, there is no requirement to wind up the Trust should it cease to hold any TLC shares.

However, if the TLC shares are distributed, then the current Beneficiaries receive a benefit that should ideally accrue to both current and future Beneficiaries. If the Trustees were to resolve to no longer retain the investment in TLC, it would perhaps be more equitable to dispose of the TLC shares and reinvest the proceeds for the benefit of current and future Beneficiaries. Distributing the shares would be appropriate where an offer at fair value cannot be procured for the TLC shares and the cost of retaining the shares outweighs the benefit thereof.

Retain TLC shares

The benefit of retaining the TLC shares within the Trust, when compared to distributing the shares to the Consumers, appears to be marginal.

Other investments

In KCEPT's Annual Report for 2012, it was noted that*, "the Trustees continue to seek prudent investments in the energy industry that will enhance beneficiaries' Trust funds".* Given the potential listing of the government owned power generators/retails, we recommend the Trustees monitor these opportunities as they arise, as these may present ideal opportunities to deploy Trust funds and achieve further investment diversification.

Appendix A: Restrictions

This Report has been prepared for King Country Electric Power Trust to support the Trust's requirements to carry out an ownership review every five years, consistent with the Trust Deed. This Report has been prepared solely for this purpose and should not be relied upon for any other purpose.

This Report (or extracts from it) can be made available for public inspection in accordance with the requirements of the King Country Electric Power Trust Deed. Apart from this noted exception, our Report is not intended for general circulation, distribution or publication nor is it to be reproduced or used for any purpose without our written permission in each specific instance.

To the fullest extent permitted by law, PwC accepts no duty of care to any third party in connection with the provision of this Report and/or any related information or explanation (together, the Information). Accordingly, regardless of the form of action, whether in contract, tort (including without limitation, negligence) or otherwise, and to the extent permitted by applicable law, PwC accepts no liability of any kind to any third party and disclaims all responsibility for the consequences of any third party acting or refraining to act in reliance on the Information.

Our Report has been prepared with care and diligence and the statements and opinions in the Report are given in good faith and in the belief on reasonable grounds that such statements and opinions are not false or misleading. In performing our review, we have relied on the data and information provided by King Country Electric Power Trust, King Country Energy Limited and The Lines Company Limited as being complete and accurate at the time it was given. The views expressed in this Report represent our independent consideration and assessment of the information provided.

No responsibility arising in any way for errors or omissions (including responsibility to any person for negligence) is assumed by us or any of our partners or employees 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.

We reserve the right, but are under no obligation, to revise or amend our Report if any additional information (particularly as regards the assumptions we have relied upon) which exists at the date of our Report, but was not drawn to our attention during its preparation, subsequently comes to light.

This Report is issued pursuant to the terms and conditions set out in our Engagement Letter dated 30 August 2012.

Appendix B: Sources of information

In preparing this Report, PwC has relied upon the following sources of information:

Internal

- Electricity Line Business (ELB) Compendiums, PwC, 2007-2011

External

- Annual Reports, King Country Electric Power Trust, 2006-2012
- Annual Reports, King Country Energy Limited, 2006-2012
- Annual Reports, The Lines Company Limited, 2006-2012
- Annual Report: Counties Power Consumer Trust, 2012
- Annual Report: Electra Trust, 2012
- Annual Report: Electra Limited, 2012
- Annual Report: Mainpower Trust, 2011
- Annual Report: Mainpower New Zealand Limited, 2011
- Annual Report: Northpower Electric Trust, 2012
- Annual Review: Northpower, 2012
- Annual Report: WEL Energy Trust, 2012
- Disclosure of Pricing Methodologies pursuant to Regulations Part 5, Section 22-23 (1 April 2012 to 31 March 2013): Counties Power Limited
- WEL Networks website (www.wel.co.nz)
- Independent Auditor's Report: West Coast Electric Power Trust, 2012
- ICP report: The Lines Company
- Annual Reports, Contact Energy Limited, 2008-2012
- Annual Reports, Genesis Power Limited, 2008-2012
- Annual Reports, Meridian Energy Limited, 2008-2012
- Annual Reports, Mighty River Power Limited, 2008-2012
- Annual Reports, TrustPower Limited, 2008-2012
- Electricity Authority (www.ea.govt.nz)
- Crown Ownership Monitoring Unit (www.comu.govt.nz)
- Statement of Corporate Intent 2013-2015: Genesis Power Limited
- Statement of Corporate Intent 2013-2015: Meridian Energy Limited
- Capital IQ (www.capitaliq.com)
- Unlisted (www.unlisted.co.nz)
- Business.govt.nz (www.business.govt.nz)

Appendix C: Detailed returns analysis for the Review Shares

The table below sets out the returns analysis in more detail:

King Country Electric Power Trust *31 March ($000)*	2007	2008	2009	2010	2011	2012	Mean	CAGR / IRR
King Country Energy Limited								
Cash dividend	4,500	4,500	4,500	4,500	4,500	4,500		
Equity value	63,391	65,840	64,853	83,943	85,192	100,676		
Return from dividend[1]	6.6%	7.1%	6.8%	6.9%	5.4%	5.3%	**6.4%**	
Return from capital appreciation	(6.3%)	3.9%	(1.5%)	29.4%	1.5%	18.2%		**6.8%**
IRR - capital plus dividend								**12.6%**
Price / Earnings Multiple	13.6x	9.6x	19.0x	53.8x	19.2x	19.1x		
Return on assets (ROA)	5.7%	8.1%	4.1%	1.6%	4.1%	4.4%	4.7%	
Return on equity (ROE)	7.1%	10.6%	5.2%	2.1%	5.2%	5.7%	6.0%	
The Lines Company Limited								
Cash dividend	132	132	3,000	4,033	3,250	3,560		
Customer discount	6,200	0	0	0	0	0		
Total dividend[2]	6,332	132	3,000	4,033	3,250	3,560		
Equity value	73,918	109,386	109,386	89,880	93,070	124,000		
Return from dividend	8.9%	0.2%	2.7%	3.7%	3.6%	3.8%	**3.8%**	
Return from capital appreciation	4.0%	48.0%	0.0%	(17.8%)	3.5%	33.2%		**9.7%**
IRR - capital plus dividend								**13.6%**
Price / Earnings Multiple	25.1x	15.5x	27.3x	14.8x	12.0x	18.4x		
Return on assets (ROA)	7.7%	5.5%	2.6%	3.4%	4.3%	3.2%	4.5%	
Return on equity (ROE)	12.6%	9.5%	4.9%	6.6%	8.1%	5.7%	7.9%	

Source: The Lines Company Limited, King Country Energy Limited and King Country Electric Power Trust Limited annual reports and financial statements

Notes:

1 Cash dividends is calculated using one year prior's equity value, to express it on the same basis as the return from capital appreciation.

2. Excludes the special dividend paid in FY08.

Measurement of dividends

We used cash dividends (i.e. post-tax dividends) paid by the Companies, to ensure comparability with the NZSX All Share Index dividend return. All dividends paid by the Companies during the review period were fully imputed, except the final KCE dividend in FY12, so KCEPT's income tax liability on the dividend is approximately offset by the imputation credits received.

TLC's special dividend of $8.1 million in FY08 has been excluded from this analysis. It was paid to provide WESCT with funds to acquire a 15% stake in TLC from KCEPT in May 2007 (the WESCT/KCEPT Transaction).

Measurement of equity values

TLC's returns have been calculated based on the equity value reflected in KCEPT's annual financial statements[9], where TLC is fair valued. The basis for determining fair value in KCEPT's records varies from year to year, and in the review period has been based on book values, the valuation implied by the WESCT/KCEPT Transaction, and in FY2012, an external independent valuation. Since TLC periodically restates its network assets at fair value, its book value should be relatively market related. We note that KCEPT's auditors accepted the book values as fair values.

Although KCEPT annual financial statements record its investment in KCE at fair value, the fair value in this case is based on the trading price of the share on the Unlisted share trading platform. As highlighted elsewhere in this Report, the KCE share is illiquid, being infrequently and thinly traded, and in our view does not necessarily represent fair value. Accordingly, we have based KCE's equity values on the value reflected in KCE's financial statements. We note that KCE's generation assets are periodically restated at market value, which would reflect in the book value of equity, although its retail assets are not carried at market value. Accordingly, the book value of equity may be understated.

Returns from dividends

Dividend returns are measured as the cash dividends paid, divided by the equity value at the beginning of the year (which is equal to the equity value at the end of the prior year).

Returns from capital appreciation

The capital return to shareholders is calculated as the growth in equity over the period under review. It is a time-weighted return i.e. the return on an initial investment of $1, excluding dividends. There were no share issues, repurchases or splits over the period at the investee company level, and consequently no adjustment to equity values was necessary.

We note that the annual average capital return based on KCE's traded share price was -0.4% p.a. over the six years to 31 March 2012, highlighting the lack of liquidity in the trading of the share.

Price earnings multiples

TLC and KCE had trailing price earnings multiples of 18.4x and 19.1x respectively at 31 March 2012 (using earnings for the 12 months to that date). We note that both are quite high relative to typical multiples in their respective segments of the electricity industry.

Return on assets

Return on assets is measured as the net profit divided by the average total assets, based on the book value of assets as disclosed in the financial statements of the relevant company.

Return on equity

Return on equity is measured as the net profit divided by the average total equity, based on the book value of equity as disclosed in the financial statements of the relevant company.

[9] Adjusted to 100%, as this analysis is done on the assumption of 100% in order to standardise the calculations

Appendix D: Detailed EDB performance rankings

SAIDI
(Class B & Class C)

		2010
1	Network Waitaki	64.3
2	Electricity Ashburton	186.1
3	The Power Company	209.5
4	Westpower	279.3
5	Marlborough Lines	283.8
6	**The Lines Company**	**293.3**
7	Eastland Network	312.3
8	OtagoNet Joint Venture	332.6
	Industry Average	170.6
	Industry Median	139.9
	Peer Group Average	**238.3**
	Peer Group Median	**279.3**

		2011
1	Network Waitaki	61.3
2	The Power Company	209.1
3	OtagoNet Joint Venture	247.1
4	Electricity Ashburton	262.7
5	**The Lines Company**	**296.9**
6	Westpower	297.3
7	Eastland Network	334.0
8	Marlborough Lines	422.9
	Industry Average	187.9
	Industry Median	177.4
	Peer Group Average	**262.0**
	Peer Group Median	**262.7**

Source: PwC ELB Compendiums 2011, PwC Analysis

SAIFI
(Class B & Class C)

		2010
1	Network Waitaki	1.5
2	Electricity Ashburton	1.5
3	Westpower	2.0
4	**The Lines Company**	**2.6**
5	Marlborough Lines	2.8
6	The Power Company	2.9
7	OtagoNet Joint Venture	3.3
8	Eastland Network	3.5
	Industry Average	2.0
	Industry Median	2.0
	Peer Group Average	**2.5**
	Peer Group Median	**2.8**

		2011
1	Network Waitaki	0.8
2	Electricity Ashburton	2.1
3	OtagoNet Joint Venture	2.3
4	Westpower	2.6
5	Marlborough Lines	2.8
6	The Power Company	3.2
7	Eastland Network	3.5
8	**The Lines Company**	**3.7**
	Industry Average	2.1
	Industry Median	2.1
	Peer Group Average	**2.5**
	Peer Group Median	**2.6**

Source: PwC ELB Compendiums 2011, PwC Analysis

ROI
(%)

		2010
1	OtagoNet Joint Venture	9.4
2	Eastland Network	8.2
3	Network Waitaki	8.1
4	Electricity Ashburton	7.3
5	**The Lines Company**	**6.0**
6	The Power Company	5.6
7	Westpower	5.3
8	Marlborough Lines	3.4
	Industry Average	7.6
	Industry Median	8.0
	Peer Group Average	**6.7**
	Peer Group Median	**7.3**

		2011
1	OtagoNet Joint Venture	12.7
2	Eastland Network	11.0
3	**The Lines Company**	**9.3**
4	Electricity Ashburton	9.2
5	Network Waitaki	8.7
6	The Power Company	7.9
7	Westpower	7.5
8	Marlborough Lines	6.4
	Industry Average	9.2
	Industry Median	9.6
	Peer Group Average	**9.1**
	Peer Group Median	**8.7**

Source: PwC ELB Compendiums 2011, PwC Analysis

Gross Distribution Revenue
(c/kWh)

		2010
1	**The Lines Company**	**7.2**
2	Eastland Network	6.8
3	Marlborough Lines	5.8
4	OtagoNet Joint Venture	5.1
5	The Power Company	5.0
6	Westpower	4.7
7	Electricity Ashburton	4.4
8	Network Waitaki	3.6
	Industry Average	4.9
	Industry Median	4.7
	Peer Group Average	**5.1**
	Peer Group Median	**5.0**

		2011
1	**The Lines Company**	**8.5**
2	Eastland Network	7.2
3	Marlborough Lines	6.1
4	OtagoNet Joint Venture	6.0
5	The Power Company	5.2
6	Westpower	5.0
7	Electricity Ashburton	4.5
8	Network Waitaki	3.9
	Industry Average	5.1
	Industry Median	5.0
	Peer Group Average	**5.4**
	Peer Group Median	**5.2**

Source: PwC ELB Compendiums 2011, PwC Analysis

Gross Distribution Revenue
($/kVA)

		2010
1	OtagoNet Joint Venture	128.5
2	**The Lines Company**	**102.1**
3	Westpower	94.7
4	The Power Company	91.9
5	Eastland Network	89.9
6	Marlborough Lines	71.0
7	Network Waitaki	52.9
8	Electricity Ashburton	51.5
	Industry Average	79.4
	Industry Median	77.4
	Peer Group Average	**82.9**
	Peer Group Median	**89.9**

		2011
1	OtagoNet Joint Venture	141.3
2	**The Lines Company**	**111.7**
3	Eastland Network	96.4
4	Westpower	94.9
5	The Power Company	90.8
6	Marlborough Lines	74.2
7	Electricity Ashburton	51.2
8	Network Waitaki	50.3
	Industry Average	80.7
	Industry Median	76.3
	Peer Group Average	**85.6**
	Peer Group Median	**90.8**

Source: PwC ELB Compendiums 2011, PwC Analysis

Gross Distribution Revenue
($/km)

		2010
1	Electricity Ashburton	7,847
2	Westpower	6,535
3	Marlborough Lines	6,367
4	Eastland Network	5,178
5	Network Waitaki	5,122
6	**The Lines Company**	**4,955**
7	OtagoNet Joint Venture	4,513
8	The Power Company	3,888
	Industry Average	8,730
	Industry Median	6,661
	Peer Group Average	**5,636**
	Peer Group Median	**5,178**

		2011
1	Electricity Ashburton	8,200
2	Westpower	6,748
3	Marlborough Lines	6,667
4	Eastland Network	5,565
5	OtagoNet Joint Venture	5,178
6	**The Lines Company**	**5,069**
7	Network Waitaki	5,002
8	The Power Company	4,029
	Industry Average	8,776
	Industry Median	6,910
	Peer Group Average	**5,913**
	Peer Group Median	**5,565**

Source: PwC ELB Compendiums 2011, PwC Analysis

Gross Distribution Revenue
($/ICP)

		2010
1	OtagoNet Joint Venture	1,340
2	Electricity Ashburton	1,319
3	Westpower	1,089
4	The Power Company	982
5	**The Lines Company**	**911**
6	Marlborough Lines	882
7	Eastland Network	746
8	Network Waitaki	716
	Industry Average	776
	Industry Median	715
	Peer Group Average	**1,011**
	Peer Group Median	**982**

		2011
1	OtagoNet Joint Venture	1,537
2	Electricity Ashburton	1,364
3	Westpower	1,127
4	**The Lines Company**	**1,036**
5	The Power Company	1,010
6	Marlborough Lines	920
7	Eastland Network	797
8	Network Waitaki	703
	Industry Average	799
	Industry Median	729
	Peer Group Average	**1,065**
	Peer Group Median	**1,010**

Source: PwC ELB Compendiums 2011, PwC Analysis

Operations & Maintenance
($/kVA)

		2010
1	Electricity Ashburton	8.5
2	Network Waitaki	16.5
3	Eastland Network	17.6
4	OtagoNet Joint Venture	22.8
5	**The Lines Company**	**22.9**
6	The Power Company	24.6
7	Marlborough Lines	26.3
8	Westpower	42.8
	Industry Average	19.9
	Industry Median	17.6
	Peer Group Average	**22.7**
	Peer Group Median	**22.8**

		2011
1	Electricity Ashburton	7.1
2	Network Waitaki	14.9
3	Eastland Network	17.2
4	OtagoNet Joint Venture	21.9
5	The Power Company	23.5
6	**The Lines Company**	**25.8**
7	Marlborough Lines	27.9
8	Westpower	40.6
	Industry Average	18.8
	Industry Median	17.8
	Peer Group Average	**21.9**
	Peer Group Median	**21.9**

Source: PwC ELB Compendiums 2011, PwC Analysis

Operations & Maintenance
($/km)

		2010
1	OtagoNet Joint Venture	800
2	Eastland Network	1,015
3	The Power Company	1,043
4	**The Lines Company**	**1,110**
5	Electricity Ashburton	1,299
6	Network Waitaki	1,594
7	Marlborough Lines	2,362
8	Westpower	2,952
	Industry Average	2,035
	Industry Median	1,728
	Peer Group Average	**1,581**
	Peer Group Median	**1,299**

		2011
1	OtagoNet Joint Venture	803
2	Eastland Network	995
3	The Power Company	1,042
4	Electricity Ashburton	1,134
5	**The Lines Company**	**1,169**
6	Network Waitaki	1,485
7	Marlborough Lines	2,508
8	Westpower	2,889
	Industry Average	1,907
	Industry Median	1,770
	Peer Group Average	**1,551**
	Peer Group Median	**1,134**

Source: PwC ELB Compendiums 2011, PwC Analysis

Operations & Maintenance
($/ICP)

		2010
1	Eastland Network	146
2	**The Lines Company**	**204**
3	Electricity Ashburton	218
4	Network Waitaki	223
5	OtagoNet Joint Venture	238
6	The Power Company	263
7	Marlborough Lines	327
8	Westpower	492
	Industry Average	193
	Industry Median	161
	Peer Group Average	**272**
	Peer Group Median	**238**

		2011
1	Eastland Network	142
2	Electricity Ashburton	189
3	Network Waitaki	209
4	OtagoNet Joint Venture	238
5	**The Lines Company**	**239**
6	The Power Company	261
7	Marlborough Lines	346
8	Westpower	483
	Industry Average	186
	Industry Median	163
	Peer Group Average	**267**
	Peer Group Median	**238**

Source: PwC ELB Compendiums 2011, PwC Analysis

Administration & Overheads
(c/kWh)

		2010
1	Network Waitaki	0.2
2	The Power Company	0.4
3	Westpower	0.4
4	OtagoNet Joint Venture	0.4
5	Electricity Ashburton	0.5
6	**The Lines Company**	**0.6**
7	Eastland Network	0.8
8	Marlborough Lines	2.1
	Industry Average	0.7
	Industry Median	0.6
	Peer Group Average	**0.7**
	Peer Group Median	**0.4**

		2011
1	Network Waitaki	0.2
2	The Power Company	0.3
3	OtagoNet Joint Venture	0.4
4	**The Lines Company**	**0.4**
5	Westpower	0.5
6	Electricity Ashburton	0.6
7	Eastland Network	0.8
8	Marlborough Lines	2.3
	Industry Average	0.7
	Industry Median	0.5
	Peer Group Average	**0.7**
	Peer Group Median	**0.5**

Source: PwC ELB Compendiums 2011, PwC Analysis

Administration & Overheads
($/ICP)

		2010
1	Network Waitaki	32
2	The Power Company	71
3	**The Lines Company**	**77**
4	Eastland Network	83
5	Westpower	86
6	OtagoNet Joint Venture	102
7	Electricity Ashburton	137
8	Marlborough Lines	323
	Industry Average	102
	Industry Median	86
	Peer Group Average	**119**
	Peer Group Median	**86**

		2011
1	Network Waitaki	34
2	**The Lines Company**	**53**
3	The Power Company	67
4	Eastland Network	86
5	Westpower	103
6	OtagoNet Joint Venture	109
7	Electricity Ashburton	170
8	Marlborough Lines	341
	Industry Average	113
	Industry Median	103
	Peer Group Average	**130**
	Peer Group Median	**103**

Source: PwC ELB Compendiums 2011, PwC Analysis