King Country Trust

Ownership Review

1 April 2022

Northington Partners

Contents

Section 1

Executive Summary

Executive Summary

In line with KCT's Trust Deed, Northington Partners has been engaged to review KCT's investments, assess advantages and disadvantages of its KCE ownership, and assess the appropriateness of its Investment Portfolio.

Introduction

King Country Trust ("**KCT**" or "**the Trust**"), previously known as the King Country Electric Power Trust, is an energy consumer trust created under the Electricity Industry Reform Act.

KCT's Trust Deed requires that it conducts a review of proposals and available options for the future ownership of its shareholding in King Country Energy ("**KCE**") every five years ("**Ownership Review**").

KCT engaged Northington Partners Limited ("**Northington Partners**", "**we**" or "**us**") to conduct the Ownership Review for the five-year period ended 31 March 2021 ("**Review Period**"). This report documents our findings in relation to the Ownership Review.

KCT at a Glance

KCT's investments as at 31 March 2021 include:

- A 25% shareholding in KCE, the owner and operator of five hydropower stations. Four of these generation assets are located near Taumaranui and the fifth is on the Mangahao River. The estimated market value of the KCT shareholding is $51.6m[1].
- Fully managed diversified investment portfolio with BNZ Private Banking, valued at approximately $21.1m ("**Investment Portfolio**").
- Term deposits of $1.9m and cash of $2.8m.

KCT receives dividends and distributions from its investments and makes distributions to its more than 9,000 beneficiaries, defined as those who are connected to the lines network within the legacy King Country Electric Power Board supply area ("**Beneficiaries**").

[1]KCE market value as estimated by Northington Partners (as at 31 March 2021).

Table 1: KCT Financial Summary over Review Period

Year Ending 31 March ($000)	FY17	FY18	FY19	FY20	FY21
Financial Performance					
Adjusted Revenue[2]	2,448	3,211	3,242	5,136	4,435
Adjusted EBITDA[2]	1,477	2,871	2,987	4,874	4,141
Total Distributions to Beneficiaries	1,039	1,000	1,492	80	2,231
Financial Position					
Total Assets	42,212	46,499	46,307	47,611	44,714
Total Liabilities	19	17	5	5	10
Equity	42,193	46,483	46,302	47,606	44,705
Trustee Expenses	97	96	96	96	97
Trustee Expenses / Average Assets	0.2%	0.2%	0.2%	0.2%	0.2%

[2]Adjusted to best depict historic operational financial performance as calculated on page 13.

Significant events during the Review Period include:

- In March 2018, KCE agreed to sell its retail operations to Trustpower and the transfer of approximately 17,000 customers was completed in July 2019. During the same process, KCT purchased an additional 1.26m KCE shares from Trustpower for $5.00 per share, taking KCT's shareholding from 20% to 25%.
- King Country Energy Holdings Limited (an entity owned by Trustpower) increased its KCE shareholding to 80% in March 2018.
- In April 2018, KCE delisted from the Unlisted Security Exchange ("**USX**"), a share trading platform for companies which is designed to provide some level of shareholder liquidity.

Executive Summary (Continued)

KCT's performance over the Review Period has been satisfactory, driven by the underlying performance of KCE and its Investment Portfolio, both of which have performed in line with their key benchmarks.

KCT Performance Review

During the latest Review Period, KCT has:

- Distributed an annual average Total Distribution of $1.2m. This represented an average payout of 74% of net surplus.
- Increased Adjusted Revenue and Adjusted EBITDA year-on-year, increasing from $2.5m and $1.5m in FY17 to $4.4m and $4.1m respectively in FY21.
- Completed a significant KCE ownership and operational restructure which increased KCT's shareholding in KCE from 20% to 25% and resulted in KCE being delisted from the USX.

Overall, it appears KCT has performed well over the Review Period. It has increased its shareholding in its core asset and diversified into other investments. Distributions to Beneficiaries have increased and KCT's performance compares well against similar energy trusts in terms of its expenses and trustee fees.

KCE Performance Review

A summary of key developments and highlights over the Review Period is as follows::

- The company completed a successful sale of KCE's retail business which resulted in KCE becoming a pure generation business. KCE performed well through the latter half of the Review Period as a generation only business, despite low hydro inflows and volatile market prices.
- We believe that KCE has benefitted from the sale of its retail operations. With elevated market prices, KCE was able to sell electricity into the wholesale market at prices comparable to retail, without the burden of managing the retail operations.
- KCE's performance, both operationally and as an investment, compares favorably against the larger gentailers. The consistently high earnings (EBITDAF) through FY19-FY21 indicates that KCE has good quality hydro assets, a prudent hedging strategy, and reasonable cost management.
- Current market dynamics have resulted in elevated wholesale electricity prices which are expected to continue over the medium-term until new generation comes onboard and while plans for the Tiwai Aluminum Smelter are confirmed. KCE should therefore continue to perform well while these market factors persist.
- We estimate KCE's total shareholder returns, incorporating both dividends and share price appreciation, at an annualized level of 21% over the Review Period. This compares to an average of 19% for the listed gentailers and demonstrates KCE's performance is consistent with that of its significantly larger peers. KCE also benchmarks well against its peers on other performance measures over the Review Period.
- Wholesale electricity prices are now the key driver of KCE's performance and while the immediate outlook for prices is positive, risks remain. These include:
  - hydrology conditions (i.e. wet or dry years);
  - future posturing around Tiwai and the large amount of newly consented or renewable generation projects under construction; and
  - the potential for more rapid technology change (e.g. solar, pumped hydro storage).

On the basis of our analysis and benchmarking exercise, we conclude that KCE has performed well over the Review Period.

Investment Portfolio Review

The Investment Portfolio performance and fee structures appear in line with comparable New Zealand balanced funds. Over the Review Period we note the following changes and outcomes:

- A shift from direct investment (~50% equities) to fully managed fund holdings under a "balanced" strategy, which targets 60% equities.
- A 39% increase in portfolio value from $15.2m at the start of the Review Period to $21.1m at the end. This represents a 6.2% CAGR[1], in line with other New Zealand balanced funds over the same period.
- Ongoing portfolio fees that are at or possibly below market benchmarks for balanced fund strategies.

1. Adjusted to reflect capital injections / withdrawals

Executive Summary (Continued)

Ownership Options Review

We have reviewed the four ownership options as described in the Trust Deed, and have considered the advantages, disadvantages and overall assessment for each option. Our views are summarised in Table 2. We note that any sale or distribution of the KCE shares is now subject to pre-emptive rights in favour of Trustpower, and we would expect Trustpower to exercise those rights. As such, we suggest that the sale options to parties other than Trustpower are unlikely to be practically available to KCT.

Table 2: Ownership Options Summary

	Option	Assessment
1	**Status Quo** No change, with the Trust continuing to own 25% of KCE.	▪ KCE has performed reasonably well in the Review Period, capitalising on shareholder and operational changes over the FY18/19 period. These changes included the sale of KCE's retail operations, which faced declining retail market share and margins. ▪ Opportunities for KCE to add new generation assets to its existing portfolio are dependent on mutual agreement between KCT and Trustpower. We understand that KCE is open to considering growth opportunities.
2	**Distribution** The Trust is wound up, with all proceeds distributed to the relevant Beneficiaries.	▪ Winding up KCT (or distributing the KCE shares in specie) would deliver a short-term benefit to today's Beneficiaries, enabling them to make their own investment decisions. However this approach may disadvantage both: ○ The local community as capital and returns may be diverted elsewhere; and ○ Future Beneficiaries who would no longer receive distributions.
3	**Sale to the Public** Sell a minority or majority stake to the public.	▪ Selling a portion of KCE shares may provide additional funds to KCT, however it may be difficult to find a more appropriate investment. ▪ Any sale to the public would require an offer to Trustpower first and would also reintroduce a range of operational complexities and costs to KCE. ▪ Distribution to Beneficiaries may have short term benefits but has the same inter-generational disadvantages to the local community and future Beneficiaries as option 2.
4	**Sale to Institutional Investors** Sell a minority, majority or all of KCT's stake to institutional investors.	▪ Selling a portion of KCE shares may provide additional funds to KCT, however it may be difficult to find a more appropriate investment. ▪ Apart from a sale to Trustpower, institutional appetite for KCT's stake is likely to be limited.

Based on our assessment of the KCT and its investment in KCE, we believe:

- The status quo is the most appropriate option for KCT.
- Although the remaining options arguably offer some advantages when compared to the status quo, they are all unlikely to deliver long-term benefits for KCT's Beneficiaries. Such an outcome is contrary to the Trust's overall mission to maintain, grow and enhance these investments / distributions.

The decision on which option to pursue rests on the relative risks and opportunities between the status quo and KCT's desire to:

- Diversify KCT's investment holdings into other sectors.
- Provide short-term benefits to its Beneficiaries.

Executive Summary (Continued)

KCT Investment Policy Review

We believe the investment policy objectives as detailed in the Trust documents are being met at the time of review:

- All assigned responsibilities and requirements of the Trust, Custodian and Adviser are understood to be fulfilled.
- The current portfolio asset allocation is within specified ranges for each respective asset class.
- Recent portfolio performance is considered above or in line with the long-term risk / return expectations of a balanced strategy.

Agreed Upon Audit Procedures Review

Based on our assessment of the AUP and considering the positions of both KCE and its majority shareholder Trustpower, we conclude that an annual audit is not necessary and of no meaningful benefit to KCT, given that:

- KCE's Board of Directors consists of 3 individuals, one of whom (Robert Carter), is a Trustee of KCT and acts as its representative.
- KCE is 75% owned by Trustpower, which has significant influence over the KCE. This means it operates under an environment where Trustpower's auditors may require to perform its own audit procedures on KCE accounts / information as part of their consolidation procedures.
- The valuation / classification of derivative instruments is one of the focus areas we would expect an auditor to cover, and this is already reviewed as part of the AUP.

KCT may however consider the following in order to gain additional comfort over KCE's reported information:

- A limited review assurance engagement in relation to KCE's annual financial statements. While this is less stringent compared to an audit, it would offer more assurance than the current AUP.
- An independent valuation assessment of KCE's largest generation plant, Mangahao, determining whether any impairment is required. This would be in addition to the existing AUP, with an additional procedure added to AUP to comment on the valuation and any material variance to the amount reported by KCE.

Section 2

Background and Overview

Background

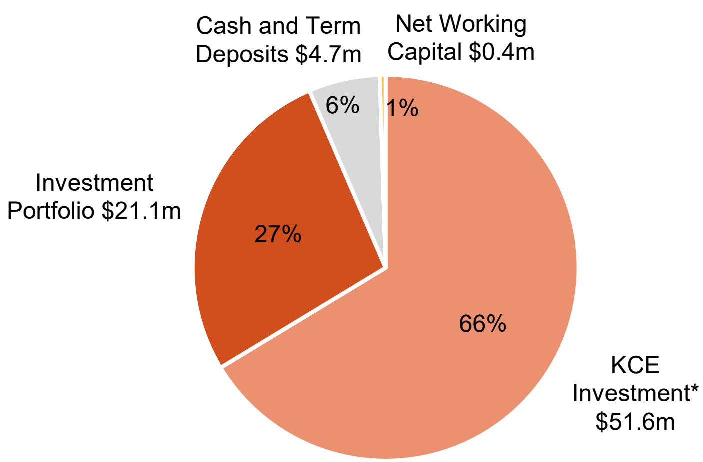
Overview of KCT

KCT (formerly King Country Energy Trust) was established in 1993 as the sole shareholder of King Country Energy Limited. At the time, KCE owned distribution (lines) assets as well as generation and retailing assets. In 1998, electricity sector reform required the separation of its lines network operations from the retailing and generation assets. This led to the merger with Waitomo Energy Company and subsequent splitting of the lines network (The Lines Company) and generation / retail operations (KCE).

Ownership of the Trust is attributed to over 9,000 Beneficiaries, defined as those households connected to the lines network within the legacy King Country Electric Power Board supply area (i.e. The Lines Company).

KCT's current holdings, valued at $77.8m as of 31 March 2021, are shown below in Figure 1.

Figure 1: KCT Net Assets at Market Value



*Based on Northington Partners' estimate of market value

FY17	▪ Completed Project Utopia, where the Trustees sought future investment opportunity advice from professional consultants and legal parties. ▪ KCT retains 19.98% shareholding in KCE.
FY18	▪ In a joint takeover bid, Trustpower and KCT purchased all shares in KCE owned by minority shareholders. Approximately 3.76m shares were purchased at $5.00 a share. This took Trustpower's shareholding from 65% to 80%, with KCT remaining at 20%. ▪ KCT and Trustpower agree to delist KCE from the USX, removing the requirement for KCE to prepare audited financial statements. ▪ Operation and maintenance contract agreed, with Trustpower operating all KCE power stations.
FY19	▪ Completed $15m sale of KCE's retail operations to Trustpower, providing additional capital to KCT's of $3.7m. ▪ Using proceeds from the KCE retail operation sale and other capital, KCT acquires an additional 1.26m KCE shares from Trustpower at $5.00 per share, increasing KCT's shareholding from 20% to 25%. ▪ Investment Policy Statement and the Strategic Plan were confirmed.
FY20	▪ KCT moved its Investment Portfolio from individual shareholdings to actively managed funds in order to be more responsive to markets.
FY21	• Investment Portfolio switched to a Balanced Fund Strategy in March 2021.

Requirement for an Ownership Review

Ownership Review Requirements

As set out in the KCT Trust Deed, the Ownership Review must include the following:

- An analysis of the performance of KCT to the date of the report together with a discussion of the advantages and disadvantages of trust ownership.
- An analysis of the various ownership options considered including without limitation, a distribution of the Trust's KCE shares to its Beneficiaries, a sale of the Trust's KCE shares to the public, a sale of the Trust's KCE shares to institutional investors and retention by the Trust.
- Comparison of the performance by KCE with the performance of other similar energy companies covered by the Energy Companies Act 1992 and subsequent legislation.
- 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 shall be included.
- The matters contained in Clause 4.5 if a distribution of the Trusts KCE shares is recommended.
- A summary of the professional advice (if any) obtained in respect of the preparation of the report.
- A statement as to whether or not the Trustees have had regard to any views expressed by the public with respect to ownership.

Scope of Northington Partners' Review

Northington Partners' engagement includes the following:

- Assessment of the performance of the Trust and a discussion of the advantages and disadvantages of the Trust's ownership of its shareholding in KCE.
- A review of alternative ownership options, including a distribution of its KCE shares to Beneficiaries, sale of its KCE shareholding to an institutional investor or sale to the public.
- Comparison of KCE's performance with similar generation businesses around New Zealand.
- Comparison of the BNZ Investment Portfolio performance with similar other balanced funds.
- A review of the Trust's investment policy statement covering the appropriateness of the Trust's Investment Portfolio and approach outside of its shareholding in KCE.
- A review of the agreed upon audit procedures performed and provide comment on whether an external audit would be prudent for the Trust.

Section 3:

KCT Review

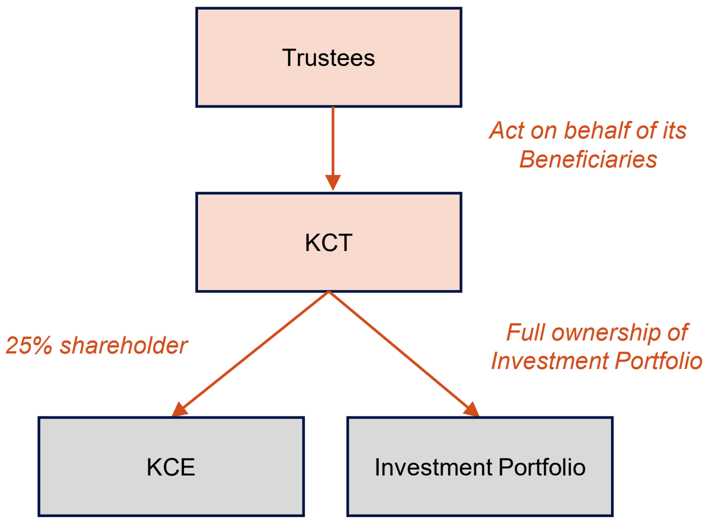
Overview of KCT

KCT is an energy consumer trust with a mission to provide distributions to its current Beneficiaries while maintaining growth in its capital base to enhance future distributional potential.

Overview of KCT

KCT is an energy consumer trust with assets of approximately $71m[1], serving Beneficiaries in the King Country region. Figure 2 summarises the structure of KCT and its material investments.

Figure 2: KCT Structure



The advantages and disadvantages of the KCT's ownership of KCE is set out in Appendix 2.

Trustee Responsibilities

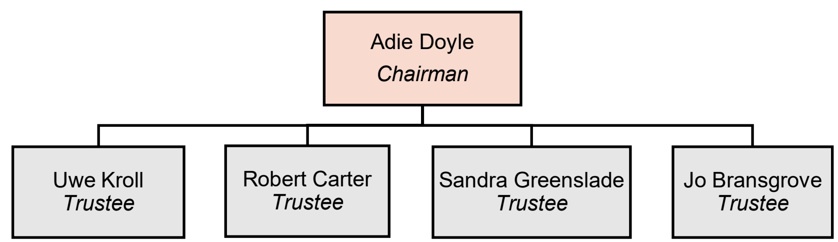
The Trust Deed enables the Trustees to invest all or any of the funds held by KCT, either alone or in common with any other person or persons, in all or any of the following investments:

- Shares or other equity securities or debt securities of KCE and Other Shares.
- The stock, funds or other securities of the New Zealand Government.
- Interest bearing deposit accounts with any Bank.
- Any other investments the Trustees think proper or expedient.

Trustees

KCT has five elected trustees, with two to three Trustees elected every two years by the Beneficiaries. Successful Trustees serve a four-year term.

Figure 3: Trustee Representatives



1. Northington Partners' analysis using KCE estimated market value

Financial Performance

KCT has performed consistently well over the Review Period, with Adjusted Revenue and Adjusted EBITDA increasing from $2.5m and $1.5m in FY17 to $4.4m and $4.1m in FY21.

Table 3: KCT Historic Financial Performance

Financial Year Ending 31 March NZD '000's unless otherwise stated	FY17	FY18	FY19	FY20	FY21
Dividend Income	1,880	2,507	108	106	-
PIE Income	115	391	407	561	491
Gain on Investments	170	8,429	296	(517)	2,633
Interest and Other Income	453	313	196	103	34
Total Revenue	**2,618**	**11,640**	**1,006**	**253**	**3,158**
General Operating Expenses	(971)	(340)	(255)	(262)	(294)
Beneficiary and Community Contributions	(39)	-	(192)	(95)	(847)
EBITDA	**1,608**	**11,301**	**559**	**(103)**	**2,017**
Interest Expense	-	-	(41)	-	-
Share of Total Comprehensive Income from KCE recognised in net surplus	-	-	889	1,878	(3,386)
Tax Expense	(447)	(840)	(287)	(486)	(148)
NPAT	**1,160**	**10,461**	**1,119**	**1,289**	**(1,518)**
ASF Financial Asset Revaluation	506	(5,171)	-	-	-
Total Comprehensive Income	**1,666**	**5,290**	**1,119**	**1,289**	**(1,518)**
Beneficiary Distributions (Direct)	1,000	1,000	1,300	(15)	1,383
Beneficiary Distributions (Indirect)[1]	39	-	192	95	847
Total Beneficiary Distributions	**1,039**	**1,000**	**1,492**	**80**	**2,231**
Adjustments: As adjusted by Northington Partners to best depict historic operational financial performance (as discussed on the following page).					
KCE Dividend Income (not reported as income)	-	-	2,532	4,365	3,910
Gain on Investments	(170)	(8,429)	(296)	517	(2,633)
Adjusted Revenue	**2,448**	**3,211**	**3,242**	**5,136**	**4,435**
Beneficiary and Community Contributions	39	-	192	95	847
Adjusted EBITDA	**1,477**	**2,871**	**2,987**	**4,874**	**4,141**

[1] These include Beneficiary and Community Contributions recognised as an expense in the profit & loss for reporting purposes.

Financial Performance (Continued)

Adjusting for changes in accounting policy and non-cash items, KCT has performed well over the Review Period. It has grown its Adjusted EBITDA whilst keeping Trust operating costs in line with similar trusts.

Dividend Income

Following KCT's increase in its KCE shareholding to 25%, the investment is now recognised in the financial statements under the equity method for reporting purposes. This has resulted in dividend income no longer being recognised in KCT's P&L. Dividend, interest and PIE Income currently reported in Trust income is in relation to existing term deposits and the Investment Portfolio. To better represent KCT earnings, we have adjusted Revenue and EBITDA to include cash dividends from KCE.

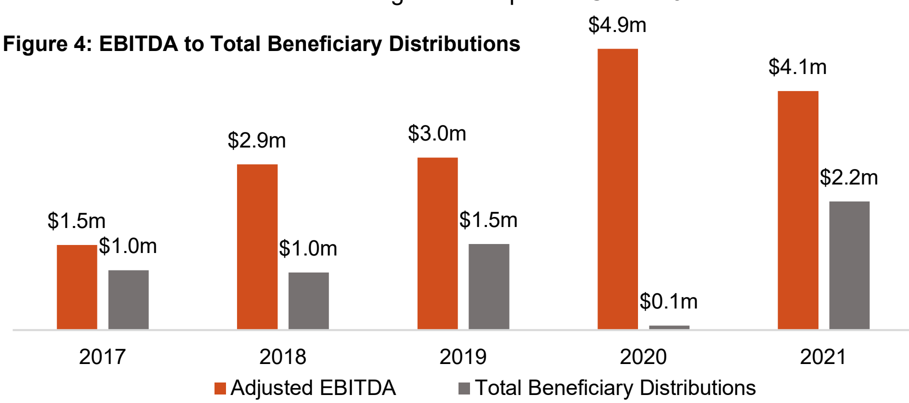
Gain on Investments

This mainly reflects the movement in valuation of the Investment Portfolio. There is an exception in FY18 which includes a non-cash reclassification of KCE shares ($8.2m adjustment) due to an accounting policy change. Whilst investment valuation appreciation has been favourable over the Review Period, it is subject to prevailing market conditions, as evident in FY20 and the market rebound in FY21. To better represent the KCT earnings, we have adjusted Revenue and EBITDA to exclude these gains.

Total Beneficiary Distributions

Figure 4 below illustrates generally increasing Beneficiary distributions across the Review Period, in line with increased EBITDA. While FY20 distributions were withheld due to Covid-19, this was addressed in FY21 with a one-off $1.0m distribution to its Beneficiaries to mitigate the impact of Covid-19.

Figure 4: EBITDA to Total Beneficiary Distributions



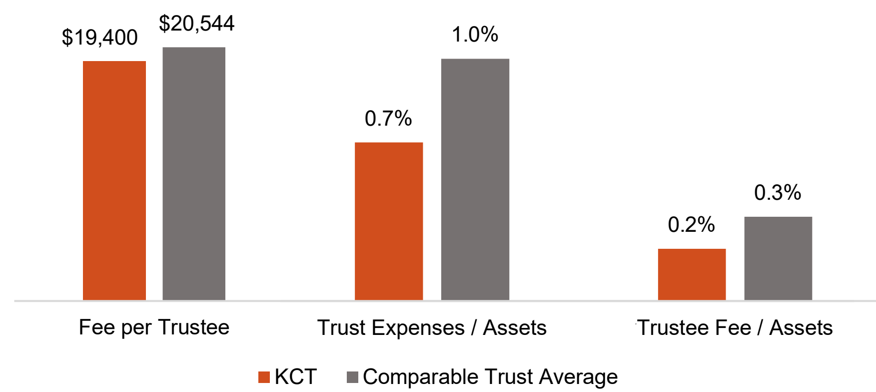
Total Beneficiary Distributions includes all donations, grants, community projects, contributions and distributions. While some of these contributions are expensed (Indirect Beneficiary Distributions), we have excluded these from Adjusted EBITDA and aggregated them to illustrate the total distributions received by Beneficiaries.

General Operating Expenses

General operating expenses have been relatively consistent, excluding FY17. This included expenses relating to Project Utopia ($624k), an engagement where the Trustees sought future investment opportunity guidance. A breakdown of expenses is publicly available on KCT's website, however most of the expenses were attributed to professional consultants (PWC) and legal advice (Simpson Grierson). While expenditure relating to Project Utopia is high when compared to KCT's other expenses, this was deemed necessary by the Trustees to better prepare the Trust in advance of the previous Ownership Review and to aid investment decision making.

In order to assess whether regular KCT operating expenses are appropriate, we have compared KCT's FY21 expenses to other trusts of a similar nature and size (Appendix 3). As illustrated in Figure 5 below, KCT is in line with other comparable energy trusts.

Figure 5: KCT Expense Comparison



Source: Northington Partners analysis

Financial Position

KCT has no term debt and shareholder's equity therefore closely mirrors total assets. Apart from the impact of the change in accounting policy in FY21, shareholder's equity has increased marginally over the Review Period.

Table 4: KCT Historic Financial Position

Financial Year Ending 31 March NZD '000's	**FY17**	**FY18**	**FY19**	**FY20**	**FY21**
Cash and Cash Equivalents	1,707	952	261	529	2,791
Income Tax receivable	293	86	111	88	377
Other assets	66	73	21	45	10
Term Deposits	1,987	3,536	1,302	3,821	1,862
Current Investment Portfolio	597	856	999	196	2,451
Total Current Assets	**4,650**	**5,502**	**2,694**	**4,679**	**7,492**
Non-Current Investment Portfolio	15,310	15,858	17,022	17,897	18,697
KCE Investment	22,251	25,139	26,591	25,035	18,526
Total Non-Current Assets	**37,562**	**40,997**	**43,613**	**42,932**	**37,223**
Total Assets	**42,212**	**46,499**	**46,307**	**47,611**	**44,714**
Payables and Accruals	19	17	5	5	10
Total Liabilities	**19**	**17**	**5**	**5**	**10**
Equity	**42,193**	**46,483**	**46,302**	**47,606**	**44,705**
Equity and Liabilities	**42,212**	**46,499**	**46,307**	**47,611**	**44,714**

Financial Position (Continued)

The primary assets of KCT are non-current financial assets relating to its equity interests in KCE, the Investment Portfolio managed by BNZ covering both equity and fixed interest investments, and some term deposits.

Investment Portfolio

A diversified Investment Portfolio managed by BNZ comprises equity and fixed interest investments. This portfolio is recognised at market value within the financial statements.

KCE Investment

During FY18, KCT agreed to increase its shareholding in KCE to 25%. The investment was previously recognised as available-for-sale ("**AFS**") for reporting purposes but, after the increase in shareholding, was deemed an investment in an associate and reclassified using the equity method. AFS assets are valued on the balance sheet at market value, with movements in value between each reporting period recognised in other comprehensive income. Assets recognised under the equity method are initially recorded at its market / transaction value and then adjusted for retained earnings (percentage share of the associate's profits or losses less dividends).

There have been significant movements in the book value of the KCE investment due to these factors, as summarised in Figure 6 below.

As shown in Figure 6, changes in the book value of the KCE investment as recorded in the balance sheet have been caused by the following:

- FY17-18 Revaluations: Based on deemed market value for each period.
- KCT Share Purchase: Based on consideration paid by KCT for additional KCE shares.
- KCE Sale Proceeds: Based on capital returned following the sale of KCE's retail book.
- FY19-21 KCE Profits / Net Dividends: Based on the reported profits in the period and dividends received by KCT from KCE (reflecting the change in accounting policy).

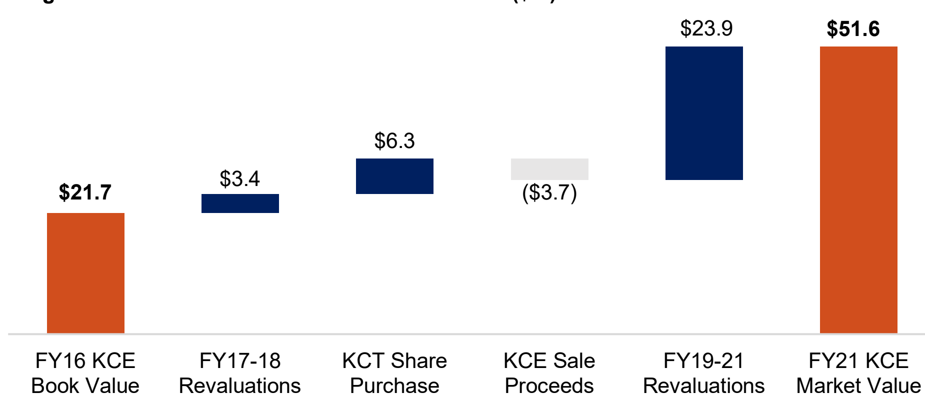
Had KCT's investment in KCE been recognised as AFS throughout the Review Period, movements within the balance sheet would only relate to the market value of KCE, additional shares purchased by KCT and the KCE share buyback.

These changes are shown below in Figure 7. Please note, FY19-21 revaluations have been based on our calculated KCE market value as described in Appendix 5.

Figure 6: Net Movement of KCE Book Value ($m)

* Gains on generation assets are excluded from share of associate profit

Figure 7: Net Movement of KCE at Market Value ($m)



KCT Conclusion

Since the last Ownership Review, KCT has:

- Distributed an annual average Total Distribution of $1.2m. This represented an average payout of 74% of net surplus.
- Increased Adjusted Revenue and Adjusted EBITDA year-on-year, increasing from $2.5m and $1.5m in FY17 to $4.4m and $4.1m respectively in FY21.
- Completed a significant KCE ownership and operational restructure which increased KCT's shareholding in KCE from 20% to 25% and resulted in KCE being delisted from the USX.

Overall, it appears KCT has performed well over the Review Period. It has increased its shareholding in its core asset and diversified into other investments. Distributions to Beneficiaries have increased and KCT's performance compares well against similar energy trusts in terms of the efficiency of its expenses and trustee fees.

KCT has performed well over the Review Period.

Section 4

KCE Review

Overview of KCE

KCE is the owner of five hydropower stations in the King Country region, four located near Taumarunui and the fifth on the Mangahao River.

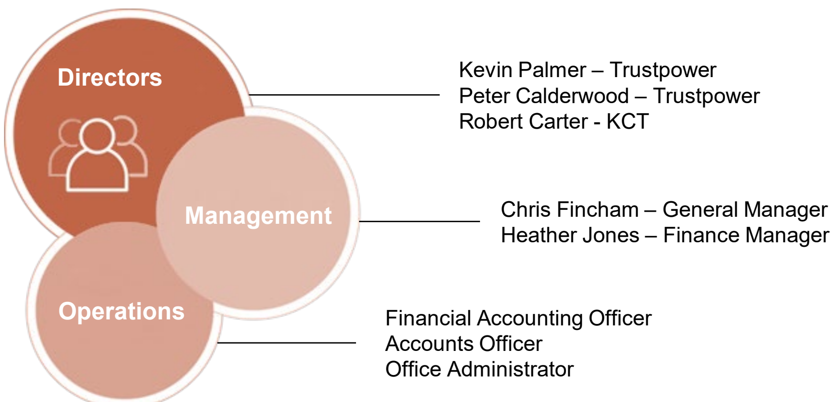
Overview of KCE

KCE is the owner of five hydroelectric power stations, all of which are operated under contract by Trustpower.

Originally formed in 1991, KCE entered into a joint venture with Todd Mangahao Ltd in 1997 to purchase the Mangahao hydro generation assets near Shannon from the government. In 1998, the Electricity Reform Act required the separation of lines network operations from retail and generation functions, resulting in KCE and Waitomo Energy Company merging and then separating the lines network (The Lines Company) from the retail/generation operations (KCE).

In 2012, KCE bought out Todd Energy's share of Mangahao and became the sole owner. In 2015, Trustpower purchased Todd Energy's 54.1% shareholding and additional shares to become a majority shareholder of KCE.

Figure 8: KCE Organisational Summary



Ownership and Other Changes during the Review Period

There were significant changes in KCE ownership during the Review Period.

In March 2018, Trustpower and KCT made a joint takeover for KCE. Trustpower successfully purchased all minority shares for $18.8m bringing their shareholding to 80%.

In April 2018, KCE was delisted from the USX, resulting in related cost savings of $400,000 per annum.

In July 2018, KCE sold its retail book to Trustpower for $15m. As a result, KCE now operates as a standalone generator (similar to Trustpower following the sale of its retail book to Mercury in 2021).

In the same process, KCT purchased 5% of KCE from Trustpower for $6.3m. This resulted in Trustpower's ownership of KCE decreasing from 80% to 75% with KCT's shareholding of KCE increasing by 5% to 25%.

Table 5: KCE Ownership Breakdown

Shareholder	Number of shares	%
King Country Energy Holdings Limited (aka Trustpower)	16,627,471	75.02
King Country Trust	5,536,581	24.98

Source: Northington Partners analysis, KCT and Trustpower website

Retail Operations

KCE sold its retail operations to Trustpower during the Review Period.

Retail Operations

Prior to the sale of KCE's retail customers, KCE served approximately 17,000 customers with a total annual load of approximately 220GWh. This added $27m to KCE's revenue in FY18 but generated negligible EBITDA margins (as per Table 6 below).

Table 6: KCE Business Operations FY18

Business Operations	Retail Operations	Generation Operations
Revenue	$27.0m	$17.2m
Operating Expenses	($27.1m)	($4.2m)
EBITDAF	**($0.0m)**	**$12.9m**
EBITDAF %	**(0.3%)**	**75.0%**

Source: Northington Partners analysis

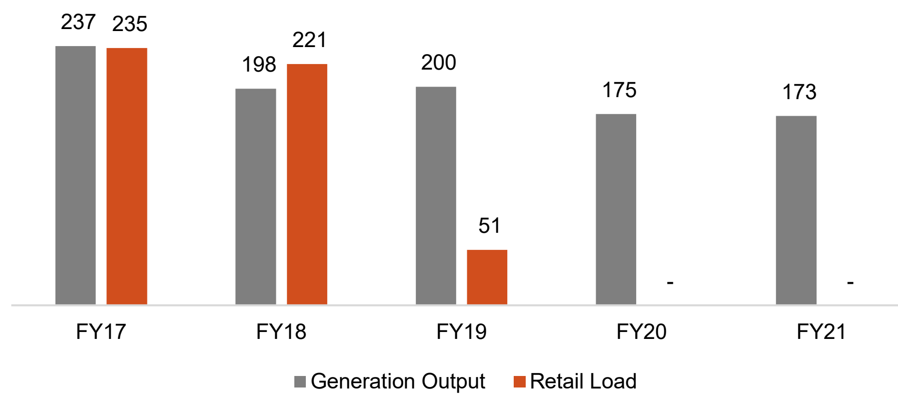
Having agreed to sell retail operations in March 2018, KCE's retail customers were transferred to Trustpower in July 2019, with KCE retaining ownership of the generation assets.

The retail operation had two significant impacts on the operations and financial performance of KCE.

- The retail operation increased company revenue and, in normal hydrological conditions, slightly increased earnings and net profit. The sale of the retail operation's impact on KCE's profit & loss can be clearly seen in the FY18 to FY19 step change in revenue, COS and overheads. The impact on EBITDAF and net profit is complicated due to an increase in wholesale electricity prices coinciding with the sale of the retail business.
- The retail operation also provided an internal hedge for KCE's generation operations. Electricity price volatility can have a significant impact on the performance of a standalone generation business. A common strategy employed to manage electricity price risk is internal hedging where a generator "sells" electricity to its retail arm (gentailer).

Figure 9 below demonstrates generation volumes were almost entirely hedged by the retail load in FY17 and FY18 . Following the sale of the retail operations, KCE's generation volumes do not have a natural retail hedge and are therefore more exposed to wholesale electricity prices. However, the retail hedge has largely been replaced with financial hedges with other counterparties.

Figure 9: KCE Generation and Retail Load FY17-F21 (GWh)



Source: Northington Partners analysis, KCP and Trustpower website, KCE Management, Electric Authority

Generation Operations

Following the sale of KCE’s retail operations, performance is entirely reliant on the wholesale electricity market environment and the company’s hedging position.

General Operations

KCE owns four hydro power stations located within the King Country region, and one hydro power station near Shannon. During FY17, KCE signed an operation and maintenance contract with Trustpower whereby Trustpower operates all KCE power stations.

Table 7: Generation Assets

Plant	Location	Commissioned	Install Capacity	Mean Annual Output
Kuratau	Omori	1962	6.0 MW	28 GWh
Wairere	Piopio	1925	4.5 MW	17 GWh
Mangahao	Shannon	1924	39.8 MW	135 GWh
Mokauiti	Aria	1963	1.9 MW	7 GWh
Piriaka	Piriaka	1924	1.5 MW	7 GWh
Total			**53.7 MW**	**194 GWh**

Source: Northington Partners analysis, KCP and Trustpower website

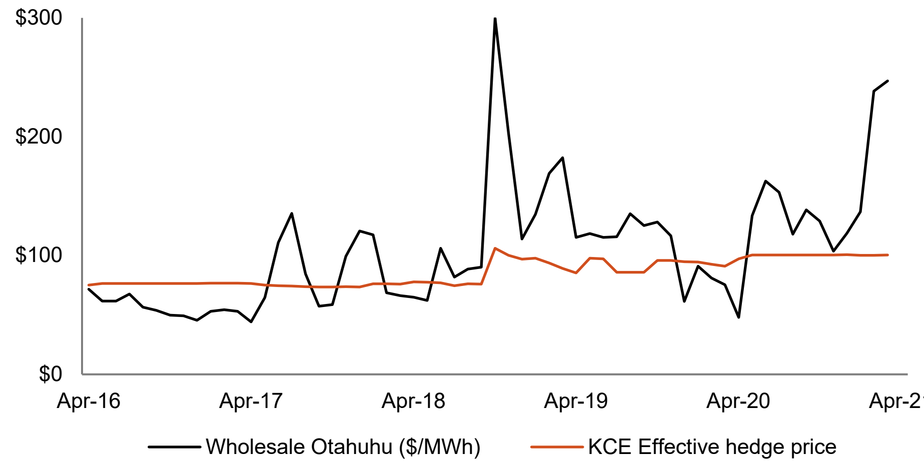
FY20 and FY21 generation volumes were below average due to drier than average hydrology regionally and nationally. Lower generation volumes reduced revenue and earnings in FY20 and FY21, but this was more than offset by elevated market prices.

Wholesale Prices

Having disposed of the retail operation, KCE now manages electricity price risk by entering into financial contracts (“**Hedges**”) which effectively provide the company with a fixed price. Hedges are contracted forward (months and years ahead) which results in an average hedge price that lags and smooths the underlying market price volatility. This relationship is shown in Figure 10.

With the sale of the retail operations, KCE’s only revenue source is the sale of electricity generated into the wholesale market. As such, KCE’s performance is largely dependent on wholesale electricity prices, hedging execution, generation volumes, and management of operating costs.

Figure 10: Monthly Average Wholesale Spot Price (Otahuhu - $MWh)



Source: Northington Partners analysis, KCE and Electric Authority

From mid FY19 through to the end of FY21, the New Zealand electricity market experienced low hydro inflows and constrained gas supply. This resulted in elevated market prices as shown in Figure 10. The chart also shows that electricity market prices can be highly volatile.

Because generation volumes are also variable, it is prudent to hedge less than 100% of forecast generation volume. This mix of hedged and unhedged volumes leaves KCE’s generation volume and revenue only partly dependent on market prices. In effect, much of the annual revenue is locked in with only a portion of generation being sold at the volatile spot prices. This effect can be seen in the total revenue (excluding FY19 retail) for FY19 to FY21 remaining relatively stable despite volume and price variances.

Financial Performance

A summary of KCE's Financial performance during the Review Period is set out in Table 8 below.

Table 8: KCE Historical Financial Performance

Financial Year Ending 31 March NZD '000's unless otherwise stated	**FY17**	**FY18**	**FY19**	**FY20**	**FY21**
Generation Revenue*	16,049	17,181	21,619	20,436	21,700
Retail Revenue	28,087	27,019	6,044	-	-
Other Income	10	33	188	21	11
Total Revenue	**44,146**	**44,233**	**27,851**	**20,457**	**21,711**
Cost of Sales and General Operating Expenses	(29,612)	(31,343)	(10,956)	(5,923)	(6,670)
EBITDAF	**14,534**	**12,890**	**16,895**	**14,534**	**15,041**
Derivatives Movement	(3,528)	913	(212)	3,984	(29,513)
Depreciation	(4,723)	(4,590)	(4,457)	(3,503)	(3,655)
Profit on sale of Retail Business	-	13,440	-	-	-
EBIT	**6,283**	**22,653**	**12,226**	**15,015**	**(18,127)**
Interest Expense	(957)	(1,150)	(1,016)	(856)	(917)
Tax Expense	(1,451)	(2,261)	(3,099)	(3,998)	5,488
NPAT	**3,875**	**19,242**	**8,111**	**10,161**	**(13,556)**
Dividends	**6,899**	**9,973**	**7,940**	**13,751**	**12,500**
Financial ratios					
Generation Volume (MWh)	237,021	198,134	199,980	174,894	173,131
EBITDAF Margin	32.9%	29.1%	60.7%	71.0%	69.3%
EBIT / Interest Coverage	6.6x	19.7x	12.0x	17.5x	(19.8x)
Dividends / Net Profit	178.0%	51.8%	97.9%	135.3%	(92.2%)

* Net of hedge adjustment

Financial Performance (Continued)

KCE's financial performance over the Review Period has largely been driven by increased wholesale electricity prices. EBITDAF has been maintained at approximately $15m despite the sale of KCE's retail business and lower generation volumes.

Retail Revenue

The sale of the retail operation has had a material impact on some elements of the P&L since FY19, particularly Revenue and Cost of Sales.

Generation Revenue

Generation Revenue increased from FY17 to FY19 with approximately steady volumes and increasing market prices. Generation Revenue corrected slightly in FY20 due to reduced volumes and a slight easing of prices before rebounding in FY21 on the back of higher market prices.

Generation Revenue reported is net of hedge revenue / expense, which reflects the net settlement on hedges (this is distinct from the movement in fair value). Well executed hedging should offset variances in generation revenue (and cash). This can be seen in FY19 to FY21. Effective hedging has ensured net Generation Revenue of circa $21m despite variances in generation volumes.

Cost of Sales and General Operating Expenses

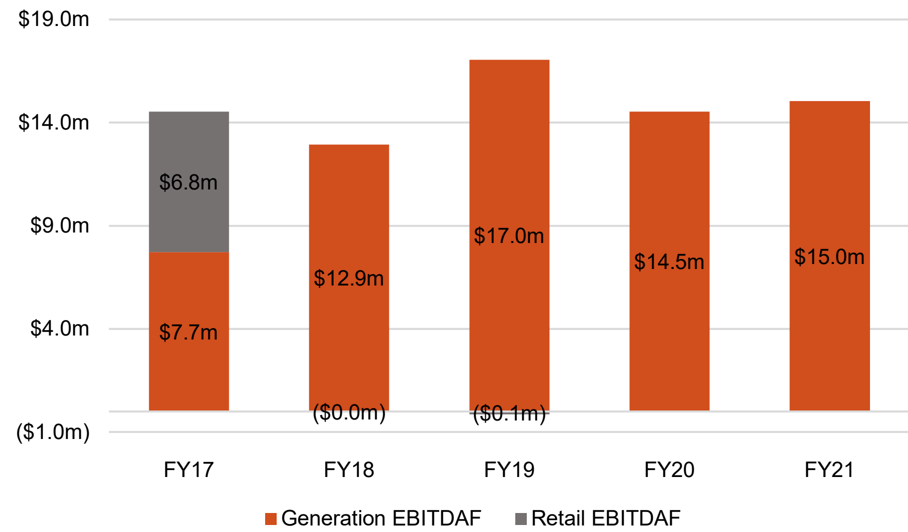
Cost of sales in FY17 to FY19 includes the cost of supplying electricity to the retail operation. General operating expenses for the underlying generation business have been relatively stable and well managed over the Review Period.

EBITDAF

EBITDAF includes contributions from the retail business in FY17, FY18 and part of FY19. In order to demonstrate KCE's relative performance, Figure 11 splits out the EBITDAF contribution from both retail and generation demonstrating:

- Following a strong contribution from retail in FY17, earnings declined significantly in FY18 due to increases in wholesale electricity prices and the cost of servicing retail customers. Retail EBITDAF varies significantly year on year based on KCE's hedging policy, wholesale energy prices and KCE's own generation cost;
- Despite the sale of the retail business, overall EBITDAF has been maintained at between $13m - $17m due to increased wholesale electricity prices;
- In the long-term it will be difficult for KCE to grow earnings in the absence of new generation projects or continued wholesale price increases.

Figure 11: KCE EBITDAF Performance



Source: Northington Partners analysis, KCE Management

Derivatives Movement

Movements in the fair value of derivatives had a significant impact on earnings and profit over the Review Period. This is discussed more comprehensively on the following page.

Net Profit After Tax

Net profit is significantly impacted by the movement in fair value of derivatives. Adjusting net profit for the retail operation and hedge movement, net profit was relatively flat through FY19 to FY21 at approximately $7.3m.

Financial Hedging

The adopted hedging policy plays an important role in the financial performance of KCE's generation operations.

Fair Value of Derivatives and Movement in Fair Value

As a standalone generator, KCE's revenue and earnings would ordinarily be exposed to wholesale market prices. The company therefore enters into a range of hedging arrangements in order to reduce the volatility of revenue and earnings.

A hedge is a financial contract between two parties, either traded on an exchange or transacted as a bespoke "over-the-counter" contract between two parties. The contract will specify a future time period over which the hedge applies (the settlement period) – typically one month or one quarter. One party agrees to pay a fixed price per MWh and receive the floating market price (buyer), the other party pays the floating market price and receives a fixed price (seller). This arrangement transfers risk between the two parties. Typically, an independent retailer will buy hedges and an independent generator (such as KCE) will sell hedges.

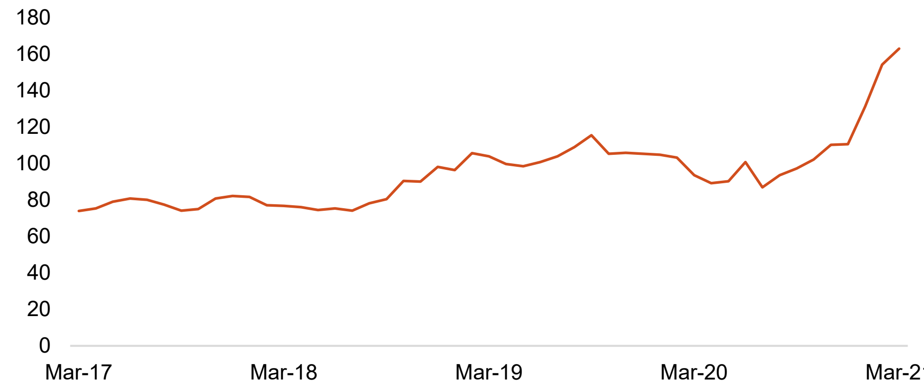
These hedges are effective at managing earnings and cashflow risk in the settlement period. For example, if market prices decrease, KCE as a generator will have decreased earnings from electricity sales at spot prices, but this will be offset by settlement of the hedge in favor of KCE (the floating price is less than fixed price).

Prior to the settlement period, the hedge is held on the balance sheet at fair value. Fair value is determined by forecasting the market price (or observed futures pricing) for the settlement period: as the forecast price moves up or down the fair value of the hedge will change. Any movement in the fair value of the hedge is recognized in profit & loss below EBITDAF. Movement in fair value does not impact cash flow (except through any margin requirements). As a seller of hedges, KCE's hedges increase in value as the forecast price decreases.

Performance and Impacts

Figure 12 plots the trend in average futures prices for all settlement periods since 2017 – these prices represent the market's forecast of future prices at any point in time. Forward prices decreased slightly through FY20 and as result the fair value of hedges increased slightly. Forward prices then increased significantly through FY21 and the fair value of hedges decreased significantly. The impact of this movement is clearly shown in KCE's P&L and balance sheet.

Figure 12: Futures pricing (Otahuhu - $MWh)



Source: Electricity Authority

KCE executes most of its hedging on the ASX (via Jarden). ASX futures trading requires initial margin to be posted to cover credit risk. As the value of hedges decline, margin calls will be made to ensure there is sufficient collateral to cover the negative balance in addition to the initial margin required. This margin posted is reflected in the Jarden Funds current asset shown in the balance sheet. Posting margin increases borrowings / decreases capital that could be productively deployed elsewhere in the business.

An alternative to futures trades made on the ASX is over-the-counter (OTC) trades with a willing counterparty. OTC trades typically require little or no collateral and as such may appear to present a cheaper hedging solution. However, the counterparties will typically seek a price discount to account for the cost of carry and execution.

Financial Position

A summary of KCE's Financial position during the Review Period is set out in Table 9.

Table 9: KCE Historical Financial Position

Financial Year Ending 31 March NZD '000's unless otherwise stated	**FY17**	**FY18**	**FY19**	**FY20**	**FY21**
Cash and Cash Equivalents	2,081	348	166	134	26
Jarden Funds	-	(57)	3,546	640	15,081
Fair Value Hedges	(2,817)	-	(2,115)	2,869	-
Other current assets	5,395	18,921	2,053	1,305	2,622
Current Assets	**4,659**	**19,212**	**3,650**	**4,948**	**17,729**
Property, Plant and Equipment	173,794	169,518	159,155	152,582	149,008
Non Current Assets	**173,794**	**169,518**	**159,155**	**152,582**	**149,008**
Total Assets	**178,453**	**188,730**	**162,805**	**157,530**	**166,737**
Payables and Accruals	2,556	2,910	1,650	1,579	1,362
Fair Value Hedges	-	-	-	317	15,785
Other Current Liabilities	1,538	1,643	1,498	1,656	1,401
Current Liabilities	**4,094**	**4,553**	**3,148**	**3,552**	**18,548**
Borrowing	19,000	17,200	15,500	15,000	32,368
Fair Value Hedges	-	1,904	-	683	11,859
Deferred Tax	26,871	27,315	25,786	26,151	17,874
Non-Current Liabilities	**45,871**	**46,419**	**41,286**	**41,834**	**62,101**
Equity	**128,488**	**137,756**	**118,373**	**112,144**	**86,088**
Equity and Liabilities	**178,453**	**188,728**	**162,807**	**157,530**	**166,737**
Financial Ratios					
Current ratio	1.14	4.22	1.16	1.39	0.96
Debt / Equity	0.15	0.12	0.13	0.13	0.38
Assets / Equity	1.39	1.37	1.38	1.40	1.94
Asset turnover	0.24	0.25	0.18	0.14	0.15

Financial Position (Continued)

Material items in KCE's financial position during the Review Period are discussed below.

Jarden Funds

The balance has increased through the period to provide additional margin for a larger hedge book and to cover recent loses on the hedge book.

Fair Value Hedges (current and non-current)

Includes all financial hedge instruments, but it is primarily made up of interest rate swaps and electricity derivatives.

Electricity derivatives are accounted for on an aggregate basis. The net current position is a large liability due to significant upward price movement for settlement periods within 12 months.

The size of hedge items on the balance sheet increased significantly over the period. This is due to significant price movements in the past three years and a much larger volume of hedges being entered into and held following the sale of the retail operation.

Working Capital

Generally stable over the Review Period with the only material movement caused by FY18 results, including receivable from Trustpower in relation to KCE's sale of its retail operations.

Property Plant and Equipment

No generation plants were purchased or sold by KCE during the Review Period. Other than FY19, which included an additional $5.9m decrease in value due to asset revaluations performed, assets decreased in line with depreciation of ~$4.2m on average each year.

Borrowing

The large increase in FY21 was to fund the margin account. This increase caused debt/equity to increase from 0.13 to 0.38 and net debt / equity to increase from 0.1 to 0.2.

Equity

Movements in the fair value of derivatives, a non-cash adjustment, has had a significant impact on equity. The $30m loss in FY21 is the main driver of the $26m decrease in equity through FY21. Following the sale of the retail operations for $15m, KCE completes a $15m share re-purchase in FY19 in order to distribute the proceeds to its shareholders, contributing to a $15m decrease in equity. The remaining movement in FY19 is due to profit for the period, dividends paid and asset revaluation decrease previously mentioned.

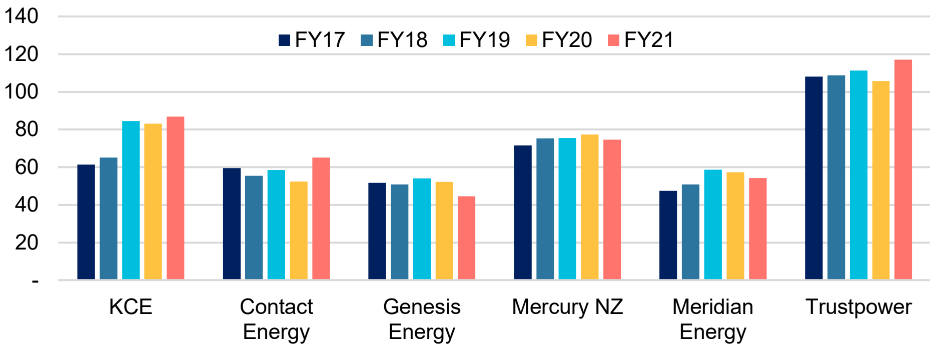
Comparable Performance

We have benchmarked KCE to similar listed energy companies on both an operational and financial basis.

Operational

Competitors within the industry are general compared on an EBITDAF level, which is generally accepted as the best proxy for cash returns. Figure 13 summarises EBITDAF per MWh for KCE and a range of gentailers.

Figure 13: EBITDAF per MWh ($/MWh)



Source: Northington Partners analysis, Capital IQ and other publicly available information

This analysis shows KCE's earnings per MWh are generally in line or higher than other similar comparable companies, except for Trustpower. However, we note that a comparison of earnings between companies is complicated for a range of reasons, including but not limited to:

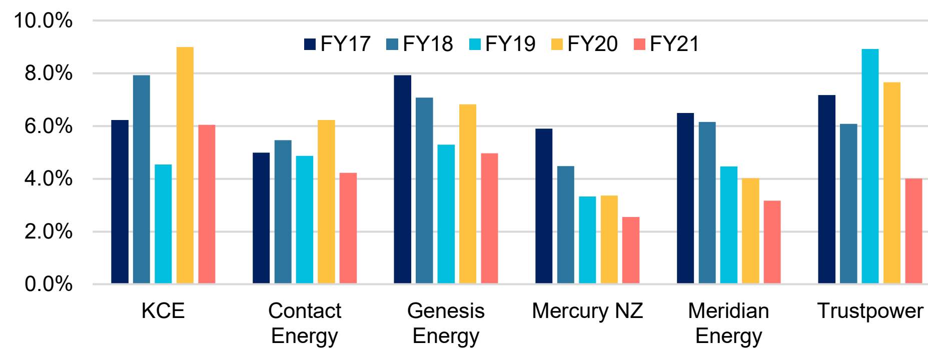
- Type of generation assets: Renewable generation assets such as hydro and wind have very low cost of sales. They therefore achieve higher EBITDAF / MWh than assets such as coal or gas fired thermal stations.
- Location of generation assets: North Island located assets generally receive a higher market price and therefore EBITDAF / MWh than South Island generation assets. This partially explains the apparent underperformance by Meridian and Contact (which generally own South Island generation assets), and most of Mercury and KCE's strong performance (generally North Island generation assets).
- Other operations: All comparable companies include at least some additional operations such as retail electricity, gas, LPG, or broadband. Inclusion of these additional operations will generally increase earnings and increase EBITDAF / MWh.
- Other market factors: For example, Trustpower's pricing in the Tauranga region is supported by the Tauranga Energy Consumer Trust's policy of paying rebates only to Trustpower customers in the region. This policy allows Trustpower to price significantly higher in the region.

Financial

In order to assess KCE's relative financial return performance, we have estimated the equity value of KCE through time based on an EV / EBITDAF multiple valuation approach (as set out in Appendix 5). Comparable company data is summarised in Appendix 4.

This allows us to estimate KCE's dividend yield (Figure 14 below) and total shareholder returns ("**TSR**", overleaf) which are common performance benchmarks. As illustrated in Figure 14, with the exception of FY19, KCE's dividend yield is consistent with that of its peers.

Figure 14: Comparable Company Dividend Yield



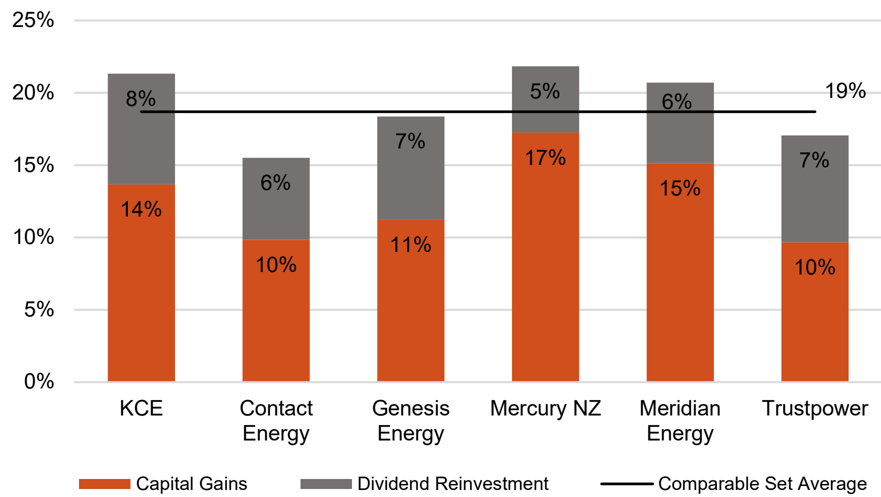
Source: Northington Partners analysis, Capital IQ and other publicly available information

Comparable Performance (Continued)

Total Shareholder Returns for KCE have been consistent with its significantly larger peers, demonstrating both a strong dividend yield and capital price appreciation over the Review Period.

TSR is a common measure of performance to illustrate the total returns from an investment including both dividends and any capital appreciation. While a market price for KCE shares is not available, assessing its value on a valuation basis consistent with its takeover price in 2018 (Appendix 5) allows us to establish a proxy for its TSR relative to its listed peers. Figure 15 depicts the annualized TSR over the Review Period for KCE and its peers.

Figure 15: Annualised TSR over the Review Period



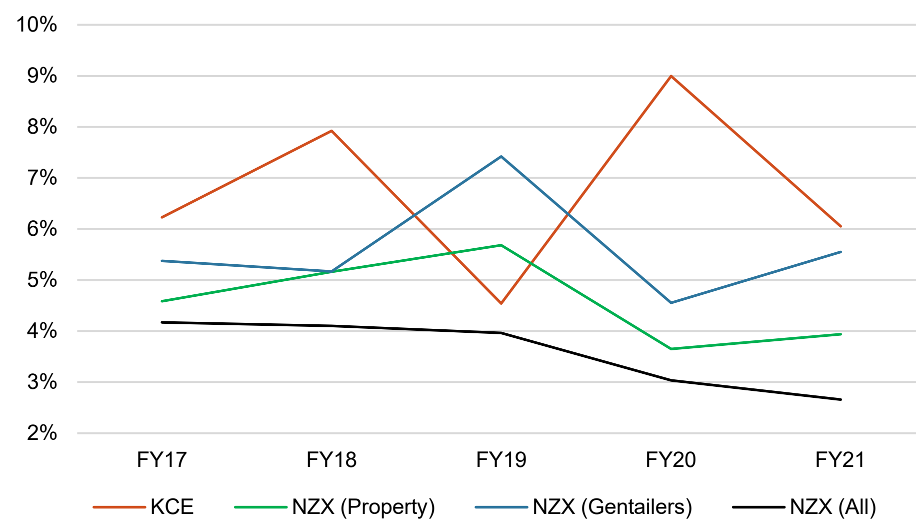
Source: Northington Partners analysis assuming dividend reinvestment, Capital IQ and other publicly available information

This demonstrates that KCE's TSR performance is at the upper end relative to its peers. KCE generated both a high annualized dividend yield (8%) and capital growth (14%), with resulting TSR of 21% per annum. We note that much of the capital appreciation has occurred as a result of increased asset prices (EBITDAF multiples) under the low interest rate environment that persisted for the majority of the Review Period. It is unlikely this will persist, with KCE's peers already witnessing declining share prices since the end of the Review Period.

Other Industries

As KCE is the main source of income for KCT, we have also compared its income returns to other defensive asset classes such as property and the broader NZX (Figure 16). KCE distributed a total dividend of $51.1m over the Review Period at an average of $10.2m per year, with annual dividends ranging from $6.9m to $13.8m. This is significantly higher than the pervious Review Period average ($6.6m) due to KCE's improved financial performance and a change to its dividend policy in FY20.

Figure 16: Listed Equity Dividend Yields



Source: Northington Partners analysis, IRESS, Capital IQ and other publicly available information

Figure 16 demonstrates that KCE has generally outperformed its peers as well as the property sector and broader NZX from an income (dividend) perspective over the Review Period.

Industry Factors

While performance over the Review Period have been strong, there are long-term risks and opportunities in the New Zealand electricity market which will drive future performance.

Future Outlook

- More than 80% of New Zealand's electricity is generated from renewable sources, with approximately 75% of this renewable generation from hydro power stations. In New Zealand, the highest demand for electricity coincides with the lowest inflows to the significant hydro catchments, and the management and storage of water in the main hydro schemes is therefore critical to the security of New Zealand's electricity supply.
- Hydrological variability has historically been backed up by thermal (gas and coal) generation in the North Island. Thermal generation also helps the electricity system manage daily demand and supply variability. This thermal generation acts to cap the overall price level and reduce the price volatility.
- Over the past decade, near zero demand growth, stable gas and coal prices, and excess supply has resulted in moderate and stable market prices.
- The past two years have seen elevated market prices driven by the following market trends:
  - Rising gas and coal prices.
  - Rising carbon prices.
  - The return of demand growth.
- This trend is likely to continue due to regulatory and economic drivers to decarbonize energy and electricity in New Zealand.
- The New Zealand Government has announced policy to achieve 90% renewable electricity generation by 2025 and 100% by 2030. There are numerous headwinds to achieve this target – the most significant of which are seasonal hydrology (dry / wet years) and intermittent renewables (wind and solar) causing intra-day supply issues.
- Many industry participants and commentators believe that circa 95% renewable is a more achievable target without compromising the security of supply.

Risks

A number of risks and opportunities to the KCE investment have arisen along side the increasing investment in renewable generation and the retirement of some thermal generation plants:

- Electricity market prices are likely to remain elevated for the medium term while thermal generation remains a necessity for electricity security.
- Rising interest rates increase the cost of new electricity generation projects and as such will have an inflationary impact on long-term electricity prices.
- There is a risk of market intervention to support the uptake of renewables. The impact of any intervention is unknown but is likely to give rise to downward price pressures.
- Uncertainty around the New Zealand Battery Project, the government's favored option being Onslow Pumped Hydro Storage.
- Uncertainty around operation of the Tiwai Aluminum Smelter (New Zealand's largest electricity consumer) beyond 2024.
- Risk of lower long-term prices if the cost of new renewable generation projects returns to its long-term downward trend.
- Increased seasonal and daily market volatility as more intermittent renewable generation is built. While this is not a risk to the long-term value of KCE's generation, it would make hedging an even more important risk management tool for KCE.

KCE Conclusion

A summary of key developments and highlights over the Review Period is as follows:

- The company completed a successful sale of KCE's retail business which resulted in KCE becoming a pure generation business. KCE performed well through the latter half of the Review Period as a generation only business, despite low hydro inflows and volatile market prices.
- We believe that KCE benefitted from the sale of its retail operations. With elevated market prices, KCE was able to sell electricity into the wholesale market at prices comparable to retail, without the burden of managing the retail operations.
- KCE's performance, both operationally and as an investment, compares favorably against the larger gentailers. The consistently high earnings (EBITDAF) through FY19-FY21 indicates that KCE has good quality hydro assets, a prudent hedging strategy, and reasonable cost management.
- Current market dynamics have resulted in elevated wholesale electricity prices which are expected to continue over the medium-term until new generation comes onboard and while plans for the Tiwai Aluminum Smelter are confirmed. KCE should therefore expect to continue to perform well while these market factors persist.
- We estimate KCE's total shareholder returns, incorporating both dividends and share price appreciation, at an annualized level of 21% over the Review Period. This compares to an average of 19% for the listed gentailers and demonstrates KCE's performance is consistent with that of its significantly larger peers. KCE also benchmarks well against its peers on other performance measures over the Review Period.
- Wholesale electricity prices are now the key driver of KCE's performance and while the immediate outlook for prices is positive, risks remain. These include:
    - hydrology conditions (i.e. wet or dry years);
    - future posturing around Tiwai and the large amount of newly consented or new renewable generation projects under way; and
    - the potential for more rapid technology change (e.g. solar, pumped hydro storage).

On the basis of our analysis and benchmarking exercise, we conclude that KCE has performed well over the Review Period.

KCE has performed well over the Review Period.

Section 5

Investment Portfolio Review

Investment Portfolio Overview

KCT's investment portfolio comprises ~27% of its assets (in market value terms). This provides significant diversification and liquidity benefits to the investment in KCE.

KCT holds a diversified investment portfolio comprising of equities and fixed interest investments both domestically and overseas. The Investment Portfolio, managed by BNZ since its inception is valued at $21.1m as of 31 March 2021 and has a 5 year annualised return of 6.2% post-tax. Since the last Ownership Review in 2017, the Investment Portfolio has shifted from a mixture of direct investments and managed funds to a fully managed fund under a balanced strategy. This transition was managed in two stages as follows:

- In September 2019, Australasian equities and New Zealand Bonds held directly by the Trust were moved to holdings in private wealth funds comprising the same asset classes (i.e. BNZ Australasian equities & BNZ New Zealand fixed interest funds). Other asset classes were already held in the equivalent fund, together known as the BNZ Private Wealth Series.
- In March 2021, the Investment Portfolio reallocated fund holdings in line with a 'Balanced' Strategy' (see below Table 10 for target asset allocation). In order to maintain this allocation strategy, the Investment Portfolio now auto-balances if a specific asset class moves outside minimum / maximum levels.

Figure 17: Investment Portfolio Breakdown as of 31 March 2021

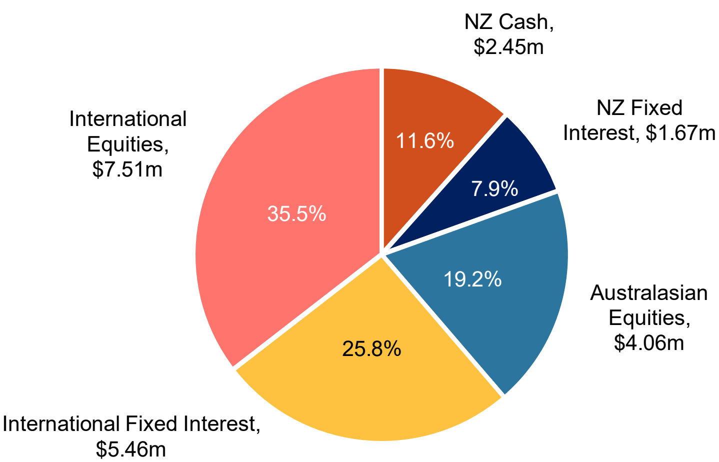


Table 10: Asset Class Allocation as of 31 March 2021

Asset Class	Allocation at FY21	Target Allocation	Variance
NZ Cash	11.6%	5.0%	6.6%
NZ Fixed Interest	7.9%	9.0%	(1.1%)
Australasian Equities	19.2%	20.0%	(0.8%)
International Fixed Interest	25.8%	26.0%	(0.2%)
International Equities	35.5%	40.0%	(4.5%)
Total	**100.0%**	**100.0%**	

Note: Following FY21, portfolio rebalancing occurred to reduce variance from target investment strategy
Source: BNZ, Product Disclosure Statements

Portfolio Performance

KCT's investment portfolio has delivered annualised post-tax returns of 6.2% over the Review Period.

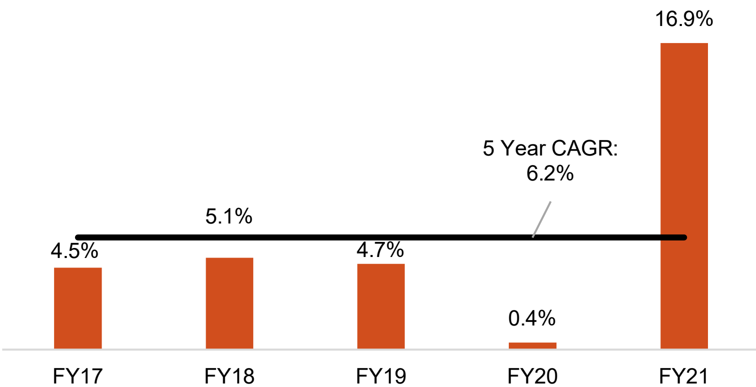
Portfolio Returns

The KCT portfolio generated a 6.2% CAGR on a post-tax and fees basis (7.4% pre-tax)[1], and a 39% increase in portfolio value over the Review Period.

Abnormal returns are seen in FY20 & FY21, a reflection of the covid-related market slump of March 2020 followed by the subsequent recovery and strong performance of both equities and fixed interest instruments during FY21.

It is hard to assess performance over a relatively short period and given the recent change to a more aggressive Balanced strategy.

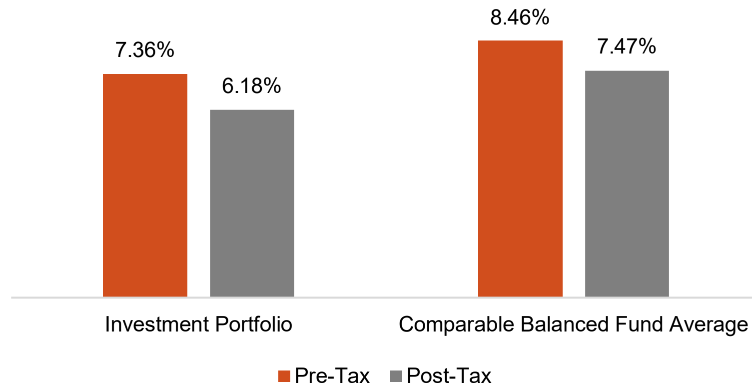
Figure 18: KCT Portfolio Returns (Post-tax, YE March 31)



Comparable Performance

Based on data presented in Figure 19, KCT portfolio appears to have underperformed benchmark performance for other balanced funds over the Review Period. However, we note that assessment against other balanced funds is difficult given the differences in portfolio composition.

Figure 19: Comparable Fund Returns: 5 Year CAGR (% p.a.)



Source: Northington Partners analysis, BNZ, Product Disclosure Statements, Fund Updates and other publicly available information

1. Adjusted to reflect capital injections / withdrawals

Portfolio Performance (Continued)

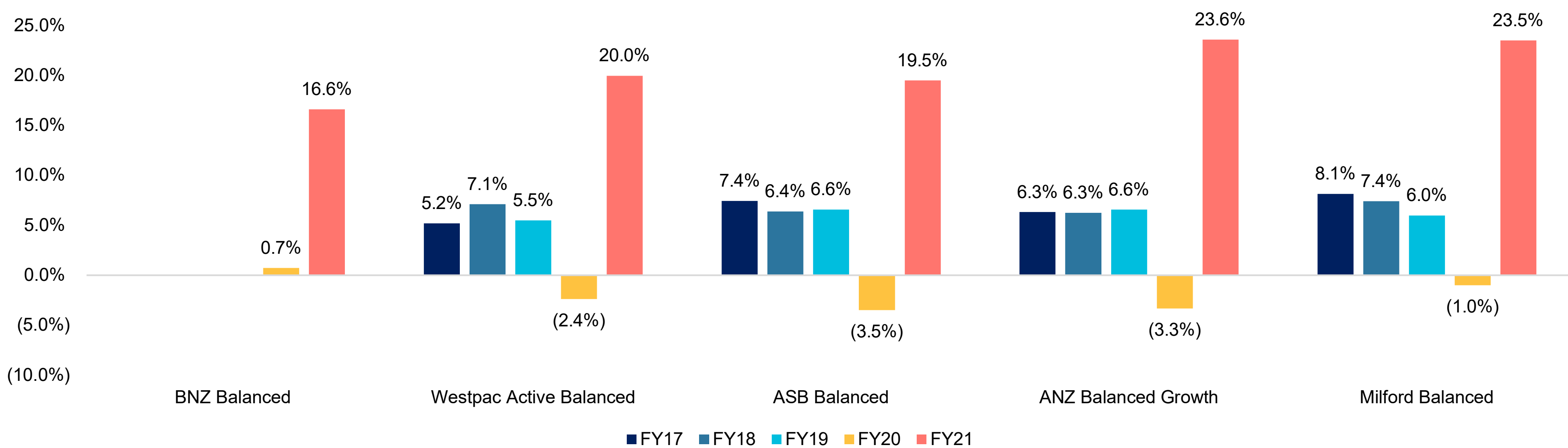
The change in structure of the BNZ portfolio makes direct comparison with other funds difficult.

The Investment Portfolio is managed by BNZ Private Wealth, and with the move to the new fund structure which started in FY20 it is difficult to directly compare its performance against other balanced funds. However, the BNZ Balanced Fund provides a reasonable proxy of performance for the structure that is now in place. Returns from both the BNZ Balanced Fund since its inception and a set of comparable New Zealand funds are summarised in Figure 20.

The BNZ Balanced fund does not have a 5-year history and has seen mixed levels of performance in comparison to other balanced funds over its 2-year existence. In FY20, the BNZ Balanced Fund was the only balanced fund with positive returns (0.7%) where other balanced funds were all negative. However, in the subsequent 2021-year BNZ underperformed the sample set which experienced stronger recoveries.

Given the lack of comparable data, it is difficult to forma definitive view on the relative performance of KCT's Investment Portfolio over the Review Period.

Figure 20: New Zealand Balanced Fund Performance (Post-tax, 31 March)



Source: BNZ, Product Disclosure Statements, Fund Updates and other publicly available information. Returns net of fees and prior to tax

Management Fees

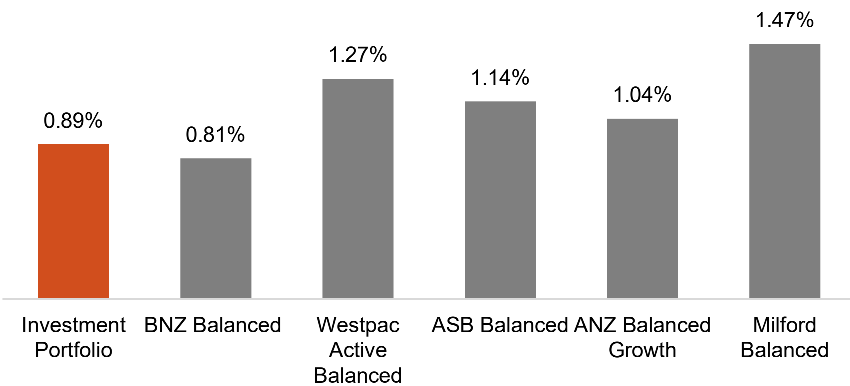
The Investment Portfolio fees are generally lower than its peers.

KCT Fund Charges

Figure 21 identifies the estimated annual fund charges associated with KCT's Investment Portfolio, the BNZ Balanced Fund for the year to March 2021 and the other benchmarked Balanced Funds. The annual fees shown in KCT quarterly reports only reflect those charges by BNZ at a portfolio level and excludes charges of underlying funds that are held 'in fund'. In order to estimate the true level and allow comparison to comparable funds, BNZ has provided an estimate which has been used below.

Based on the current asset allocation and associated fees within each fund held in the Investment Portfolio, annual fund charges are estimated at 0.89% of asset value. This is significantly below the comparable retail fee average of 1.23% p.a.

Figure 21: Annual Fund Charges (% of NAV, March 2021)



Source: BNZ, Product Disclosure Statements, Fund Updates and other publicly available information

While the Investment Portfolio fees are slightly above those of the BNZ Balanced fund, this is likely a reflection of the additional services provided by BNZ to the Trust under the Private Bank Portfolio Service. These services include:

- Advice and direct contact with an experienced banker in the investment space.
- More detailed reporting across each asset class.
- Active management and greater style diversification due to the larger number of underlying funds.

We note that BNZ charges no performance fee. This is similar to other comparable funds apart from the Milford Balanced fund which has averaged a 0.36% performance fee over the last 5 years (included in Figure 21).

While other specific private portfolio fund data is not available, given the premium between BNZ private portfolio fees and the BNZ fund fees we can reasonably assume that the Trust's fees are likely below or in line with other private wealth equivalents under a balanced strategy.

Portfolio Conclusion

On face value, the Investment Portfolio performance is below its benchmark average but the fee structure is more competitive. However, we note the following:

- Over the Review Period, the Investment Portfolio shifted from some direct investments (~50% equities) to fully managed fund holdings under a "balanced" strategy, which targets 60% equities.
- The change in structure of the Investment Portfolio over the Review Period makes a meaningful comparison difficult. However, nothing has come to our attention to suggest that BNZ is not an appropriate provider for the Trust.
- We believe that a single investment advisor is appropriate for KCT's Investment Portfolio. While it may appear prudent to engage multiple providers for perceived diversification benefits, BNZ already outsources the underlying management of each of the five portfolio sub-components (NZ Cash, NZ Fixed Interest, Australian Equities, International Fixed Interest and International Equities) to a wide range of external asset managers. This structure therefore provides KCT with some level of implicit manager diversification. Our view is that the additional costs and complexities from obtaining multiple Investment Portfolio providers currently outweighs any potential diversification gains.

As a matter of good practice and in order to more appropriately assess BNZ's performance in managing the Investment Portfolio, we would suggest that KCT consider tendering for fund management services on a periodic basis. This would ensure that the Trust regularly reviews performance and maintains a competitive fee basis.

The Investment Portfolio performance and fee structures appear to be in line with comparable New Zealand balanced funds.

Section 6

Review of Ownership Options

Ownership Options of KCE

In line with KCT's Trust Deed, the Trust is required to consider ownership options regarding its KCE investment and other investment opportunities.

KCT Objectives

As stated in the Trust Deed, the objective of the Trust is to hold the KCE shares on behalf of the Beneficiaries and to exercise the rights attaching to the ownership of the KCE shares and distribute to the Beneficiaries in their capacity as owners, the benefits of ownership of the KCE shares.

Given KCT's role as acting on behalf of the Beneficiaries, KCT is required to act in the best interest of the Beneficiaries and to take any necessary action to protect the interests of the Beneficiaries. Therefore, KCT holds significant power in making investment decisions in relation to its KCE shares or any other investment.

KCT Investment Powers

The Trustees may invest all or any of KCT's funds, either alone or in common with any other person or persons, in all or any of the following investments:

- Shares or other equity securities or debt securities of KCE and any other company.
- The stock, funds or other securities of the New Zealand Government.
- Interest bearing deposit accounts with any Bank.
- Any other investments the Trustees think proper or expedient.

KCE Ownership Options

Because KCE is the Trust's most significant investment and reflecting that KCT is required to protect the interests of its Beneficiaries, the Trust Deed requires KCT to carry out Ownership Reviews involving public consultation in accordance with the terms of the Trust Deed.

As set out in the Trust Deed, KCE share ownership options include but are not limited to:

- Retention of the KCE shares by the Trust (Status Quo).
- Distribution of the KCE shares to the Beneficiaries.
- Sale of the KCE shares to the public.
- Sale of the KCE shares to institutional investors.

Ownership Options of KCE

As set out in Table 11 below, we have reviewed the four ownership options as described in the Trust Deed, considering their advantages, disadvantages and overall assessment for each option. We note that any sale or distribution of the KCE shares is now subject to pre-emptive rights in favour of Trustpower, and we would expect Trustpower to exercise those rights. As such, we suggest that the sale options to parties other than Trustpower are unlikely to be practically available to KCT.

Table 11: KCE Ownership Option Summary

	Option	Advantages	Disadvantages	Assessment
1	**Status Quo** No change, with the Trust continuing to own 25% of KCE.	▪ KCT ownership is an efficient vehicle through which to manage the Beneficiaries' interests in KCE. It provides a level of governance and oversight that may not be available if the shares are sold or distributed to the Beneficiaries. ▪ Avoids transaction costs of the other options, as experienced with Project Utopia.	▪ KCT remains heavily reliant on the energy market, with only its Investment Portfolio diversifying its trust portfolio.	▪ KCE has performed reasonably well in the Review Period, capitalising on shareholder and operational changes over the FY18/19 period. These changes included the sale of KCE's retail operations, which faced declining retail market share and margins. ▪ Opportunities for KCE to add new generation assets to its existing portfolio are dependent on mutual agreement between KCT and Trustpower. We understand that KCE is open to considering growth opportunities.
2	**Distribution** The Trust is wound up, with all proceeds distributed to the relevant Beneficiaries.	▪ Direct benefit by Beneficiaries. ▪ Enables Beneficiaries to make their own investment decisions.	▪ Favours current Beneficiaries, with future Beneficiaries not benefiting from the distribution of KCT's investments.	▪ Winding up KCT (or distributing the KCE shares in specie) would deliver a short-term benefit to today's Beneficiaries, enabling them to make their own investment decisions. However this approach may disadvantage both: o The local community as capital and returns may be diverted elsewhere; and o Future Beneficiaries who would no longer receive distributions.
3	**Sale to the Public** Sell a minority or majority stake to the public	▪ Increases capital available for KCT to invest in other opportunities, further diversifying the Trust's investment from the energy sector and into more liquid offerings. ▪ Enables shareholders (potentially also Beneficiaries), to take a more direct engagement in KCE's decision making via shareholder votes on material transactions.	▪ If a majority stake is sold, KCT may lose its influence over KCE, which may include losing its board seat. ▪ If 100% of KCE shares are sold by the KCT the Trust be wound up.	▪ Selling a portion of KCE shares may provide additional funds to KCT, however it may be difficult to find a more appropriate investment. ▪ Any sale to the public would require it to be offered to Trustpower first and would also reintroduce a range of operational complexities and costs to KCE. ▪ Distribution to Beneficiaries may have short term benefits but has the same inter-generational disadvantages to the local community and future Beneficiaries as option 2.
4	**Sale to Institutional Investors** Sell a minority, majority or 100% stake to institutional investors.	▪ Increases capital available for KCT to invest in other opportunities, further diversifying the Trust's investment from the energy sector and into more liquid offerings. ▪ Enables shareholders (potentially also Beneficiaries), to take a more direct engagement in KCE's decision making via shareholder votes on material transactions.	▪ If a majority stake is sold, KCT may lose its influence over KCE, which may include losing its board seat. ▪ If 100% of KCE shares are sold by KCT the Trust be wound up.	▪ Selling a portion of KCE shares may provide additional funds to KCT, however it may be difficult to find a more appropriate investment. ▪ Apart from a sale to Trustpower, institutional appetite for KCT's stake is likely to be limited.

Ownership Options Conclusion

Based on our assessment of KCT and its investment in KCE, we believe:

- The status quo is the most appropriate option for KCT.
- Although the remaining options arguably offer some advantages when compared to the status quo, they are all unlikely to deliver long-term benefits for KCT's Beneficiaries (existing and future). Such an outcome is contrary to the Trust's overall mission to maintain, grow and enhance these investments / distributions.
- If a divestment option was to be pursued, a sale to Trustpower is the most viable alternative.

The decision on which option to pursue rests on the relative risks and opportunities between the status quo and KCT's desire to:

- Diversify KCT's investment holdings into other sectors.
- Provide short-term benefits to its Beneficiaries.

Based on our assessment, we believe the status quo is the most appropriate option for KCT.

Section 7

KCT Investment Policy Review

Investment Policy Statement

The Trust's Investment Policy Statement ("**IPS**") is a policy framework designed to supervise, monitor and evaluate the management of KCT's investment activities.

Objectives of the IPS

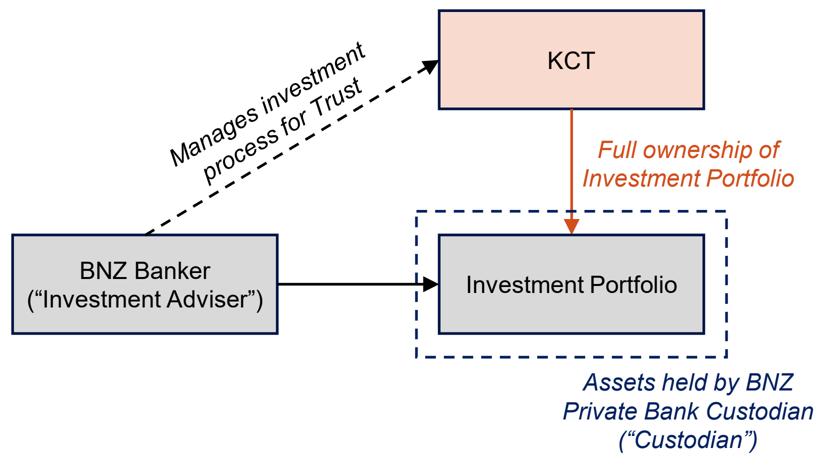
While the primary purpose of the Investment Portfolio is to preserve and increase capital funds on behalf of the Beneficiaries, the following objectives as identified in the IPS should also be considered:

- To protect and maintain the purchasing power of the current investment assets and all future contributions.
- To maximise investment returns within reasonable and prudent levels of risk.
- Maintain an appropriate asset allocation based on a total return policy that is compatible with a flexible spending policy while still having the potential to produce real (after inflation) positive returns.
- Annual distributions in the short to intermediate term are funded from the Trust's investment in KCE. Whilst not required at the present time, the ability to draw down annually for distributions or to invest in the trust's other major asset is essential.
- The investment in KCE is seen as having a risk profile higher than shares in New Zealand's larger companies. As such, the retention of capital is more important than the return on capital. Given the long-term nature of the Trust, a risk/return profile slightly more conservative than would otherwise be the case is preferred.
- To meet the Trust's other objectives as outlined in its Trust Deed.

Investment Portfolio Structure

The Investment Portfolio structure is outlined in the IPS and involves three main parties with interactions and ownership as shown below in Figure 22.

Figure 22: Investment Portfolio Structure



Duties & Responsibilities

Table 12 below summarises the key responsibilities and requirements for each party, as set out in the Trust's IPS. We consider these duties to be in-line with typical investment policy documentation and with currently available information, believe that all key responsibilities and requirements are being met at the time of this Review.

Table 12: KCT Duties & Responsibility Summary

Relevant Party	Key Responsibilities / Requirements
KCT Duties	▪ To state in a document the Trust's. attitude, objectives and guidelines for the investment of it's assets. ▪ Prepare and review the IPS every two years at minimum. ▪ Control and account for general investment, record keeping and administrative expenses associated with the investment fund. ▪ Monitor and evaluate the investment performance against the agreed risk/return profile and benchmarks on a regular basis.
Custodian Duties (BNZ)	▪ Valuation of assets, collection of all income owed to the portfolio and settlement of all transactions initiated by the Investment Adviser. ▪ Provide detailed monthly reports containing cash flows and relative changes in the valuation of security / fund holdings.
Investment Adviser	▪ Manage and provide advice in accordance with the objectives and appropriate asset allocation agreed. ▪ Periodically monitor both the appropriateness of the IPS and custodian arrangements, making recommendations where necessary. ▪ General portfolio reporting services and trust communication, including a biannual review (or more frequently if requested). ▪ Act in the capacity of an experienced investment professional, abiding by all applicable laws, rules and obligations. ▪ Record and ensure portfolio delivery costs are fair and reasonable, comprising a fee-only service with all commissions returned to KCT.

Investment Implementation & Monitoring

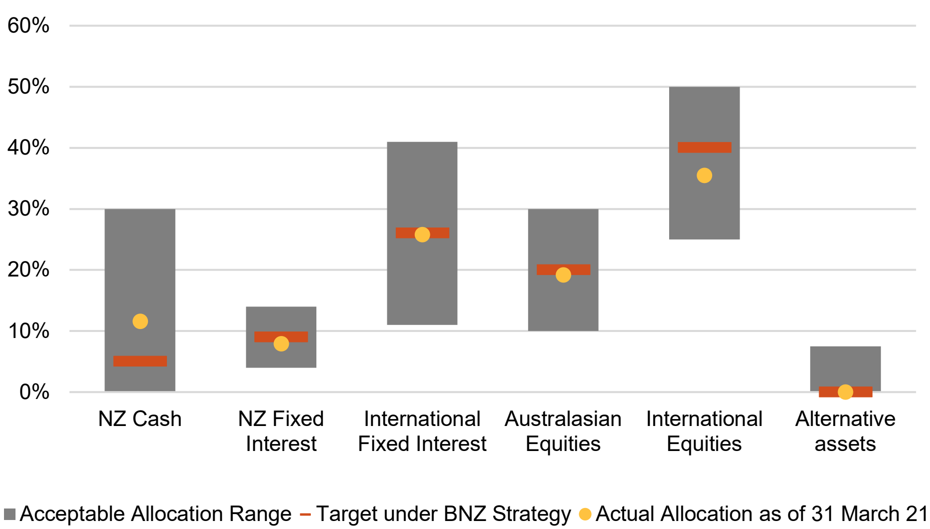
We have compared the Investment Portfolio's asset allocation and historical return against the expected asset allocation and returns as documented in the IPS.

Asset Allocation

In order to support the objectives of the IPS outlined previously, a specific asset allocation benchmark has been presented. Although these assets class types can be held both in fund form or directly, importance has been placed on the asset allocation itself rather than an attempt on security selection.

As shown below in Figure 23, both the current BNZ strategy and actual holdings of the portfolio as of 31 March 2021 are within the acceptable asset allocation range.

Figure 23: IPS Asset Allocation Range

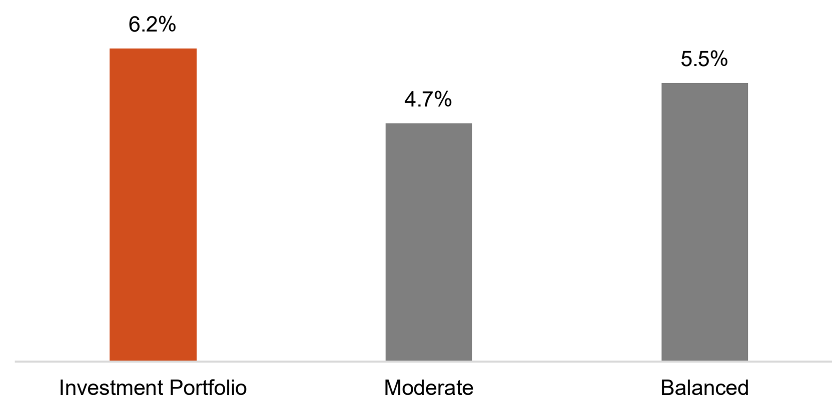


Performance Expectations

In conjunction with the desired asset allocation, the IPS also describes performance expectations and the balance between risk and return of various portfolios/asset classes. As expected there is a positive relationship between the two, driven by an increasing equities allocation providing both greater returns and higher volatility / risk.

We consider that on average over the Review Period, the Investment Portfolio carries a risk profile similar to that of a Moderate or Balanced fund strategy. The expected annualised return of Moderate and Balanced strategy portfolios as specified in the Trust IPS is shown below in comparison to the actual 5-year CAGR of 6.2%. Although there is clear outperformance of the Investment Portfolio on strategy expectations, we note that the Moderate and Balanced fund returns are estimated long-term returns and do not reflect the actual average return over the Review Period.

Figure 24: Investment Portfolio Returns Compared to Strategy Expectations (% p.a.)



Investment Policy Conclusion

We believe the investment policy objectives as detailed in the Trust documents are being met at the time of review:

- All assigned responsibilities and requirements of the Trust, Custodian and Adviser are understood to be fulfilled.
- Current portfolio asset allocation is within specified ranges for each respective asset class.
- Recent portfolio performance is considered above or in line with the long-term risk / return expectations of a balanced strategy.

We believe the investment policy objectives as detailed in the Trust documents are being met at the time of review.

Section 8

Agreed Upon Audit Procedures Review

AUP Review

As part of KCT's Ownership Review, KCT has requested Northington Partners to review the agreed upon audit procedures performed by PwC and provide comment on whether an external audit would be prudent for KCT.

Agreed Upon Audit Procedures

Following KCE's delisting from the USX and Trustpower and KCT being the only shareholders, there is no statutory requirement for KCE to have its annual financial statements audited. This meant KCE's last audited financial statements were its FY17 accounts.

In place of an annual financial audit, PwC has been engaged to perform an Agreed Upon Audit Procedure engagement ("**AUP**") in relation to the KCE accounts. Each procedure of KCE's FY21 AUP has been listed in Appendix 6. In summary, the AUP's focus has been placed on the following:

- The collation and consistency of the reported financial results, agreeing the figures to KCE board reports, KCE trial balance and the Trustpower Group consolidation pack. The Trustpower Group is an audited company and may require audit procedures on KCE's accounts dependent on its auditor's requirements.
- The confirmation of cash, loans and interest rate swaps, agreeing these amounts directly to the bank.
- The derivative hedge position of KCE, obtaining the largest contract for differences ("**CFD**") contract, testing its reported valuation and its compliance with KCE's Electricity Hedging Policy.

Whilst the AUP is not up to the assurance level of an audit, its procedures do analyse some of the key risks which may be identified by an auditor during a financial audit.

Table 13 summarises the valuation duties of auditors for KCE's peers, with the appointed auditors identifying the valuation of the company's generation assets and the valuation / classification of its derivative instruments as a key area in their audit engagements.

Table 13: Comparable Audit Procedures

Key Audit Matter	Valuation of Generation Assets	Valuation / classification of Derivative Instruments
Contact Energy Limited	✓	-
Genesis Energy Limited	✓	✓
Mercury NZ Limited	✓	✓
Meridian Energy Limited	✓	✓
Trustpower Limited	✓	✓
Total	**5**	**4**

Source: Publicly available FY21 annual reports

KCE's AUP heavily focuses on KCE's derivative instruments, reviewing the valuation of KCE's largest CFD whilst also reviewing its compliance with KCE's Electricity Hedging Policy.

The AUP does not directly mention valuation of KCE's generation assets, however procedure 7 of the AUP does review movements greater than $0.8m, which may highlight unexpected movements in these accounts.

AUP Conclusion

Based on our assessment of the AUP and considering the positions of both KCE and its majority shareholder Trustpower, we conclude that an annual audit is not necessary and is unlikely to provide meaningful benefit to KCT. This conclusion reflects:

- KCE's Board of Directors consists of 3 individuals, one of whom (Robert Carter), is a Trustee of KCT and acts as its representative.
- KCE is 75% owned by Trustpower, which has significant influence over the KCE. This means it operates under an environment where Trustpower's auditors may require to perform its own audit procedures on KCE accounts / information as part of their consolidation procedures.
- The valuation / classification of derivative instruments is one of the focus areas we would expect an auditor to cover, and this is already reviewed as part of the AUP.

KCT may consider the following in order to gain additional comfort over KCE reported information:

- A limited review assurance engagement in relation to KCE's annual financial statements. While this is less stringent compared to an audit, it would offer more assurance than the current AUP.
- A periodic independent valuation assessment of KCE's largest generation plant, Mangahao, determining whether any impairment is required. This would be in addition to the existing AUP, with an additional procedure added to AUP to comment on the valuation, review frequency and any material variance to the amount reported by KCE.

We conclude that an annual audit is not necessary and of no meaningful benefit.

KCT may consider less stringent options to provide additional comfort over KCE's reported information.

Appendices

Appendix 1: Disclaimer

Declarations

This report is dated 1 April 2022 and has been prepared by Northington Partners at the request of King Country Trust (“**KCT**”). This report, or any part of it, should not be reproduced or used for any other purpose. Northington Partners specifically disclaims any obligation or liability to any party whatsoever in the event that this report is supplied or applied for any purpose other than that for which it is intended.

Qualifications

Northington Partners provides an independent corporate advisory service to companies operating throughout New Zealand. The company specialises in mergers and acquisitions, capital raising support, expert opinions, financial instrument valuations, and business and share valuations. Northington Partners is retained by a mix of publicly listed companies, substantial privately held companies, and state-owned enterprises.

The individuals responsible for preparing this report are Greg Anderson B.Com, M.Com (Hons) and Ph.D, Toby Martin BAppSc, BSc and CFA, Mathew Rooza B.Com and CPA and Fletcher Edmond BSc. Each individual has a wealth of experience in providing independent corporate finance advice to a wide range of clients.

Disclaimer and Restrictions on the Scope of our Work

In preparing this report, Northington Partners has relied on information provided by KCT and its affiliates and advisors. Northington Partners has not performed anything in the nature of an audit of that information, and does not express any opinion on the reliability, accuracy, or completeness of the information provided to us and upon which we have relied.

Northington Partners has used the provided information on the basis that it is true and accurate in material respects and not misleading by reason of omission or otherwise. Accordingly, neither Northington Partners nor its Directors, employees or agents, accept any responsibility or liability for any such information being inaccurate, incomplete, unreliable or not soundly based or for any errors in the analysis, statements and opinions provided in this report resulting directly or indirectly from any such circumstances or from any assumptions upon which this report is based proving unjustified.

We reserve the right, but will be under no obligation, to review or amend our report if any additional information which was in existence on the date of this report was not brought to our attention, or subsequently comes to light.

Furthermore, our assessment is reliant on a number of key assumptions that have been outlined in this report. Should any of these assumptions not be accurate, our assessment and our conclusions could be materially affected.

Indemnity

KCT has agreed to indemnify Northington Partners (to the maximum extent permitted by law) for all claims, proceedings, damages, losses (including consequential losses), fines, penalties, costs, charges and expenses (including legal fees and disbursements) suffered or incurred by Northington Partners in relation to the preparation of this report; except to the extent resulting from any act or omission of Northington Partners finally determined by a New Zealand Court of competent jurisdiction to constitute negligence or bad faith by Northington Partners.

KCT has also agreed to promptly fund Northington Partners for its reasonable costs and expenses (including legal fees and expenses) in dealing with such claims or proceedings upon presentation by Northington Partners of the relevant invoices.

Appendix 2: Trust Ownership of KCE

KCT is a consumer trust which operates for the benefit of its Beneficiaries and acts as the collective voice of all its Beneficiaries.

Advantages of KCT's Ownership

- KCT's combined 25% KCE shareholding and board seat carries significant influence, with KCT being able to:
  - Prevent Trustpower from triggering a compulsory acquisition.
  - Prevent/discourage excessive profits being extracted from consumers within the community. We note that this was more relevant when KCE maintained a retail book and consumers were direct Beneficiaries.
  - Maximise the potential of receiving a control premium in the event of a potential takeover request. We note this was more relevant prior to Trustpower's 75% shareholding of KCE.
- KCE's long term ownership partly remains within the community, enabling the associated benefits to be provided to all current and future Beneficiaries.
- Allows benefits to be passed to Beneficiaries in an efficient form via distributions, grants and donations.
- Allows valuable advisory and legal services to be split over a larger investment base, resulting in a comparably smaller expense as a percentage of total investment.
- Provides the ability to attract better skilled decision makers (both the Trustees and Trust employees), aiding in potentially significant and complicated options/transactions.
- Provides a clear duty of care to the KCT's Beneficiaries given their power to select the Trustees via elections.
- Provides the ability to be a trusted and local group, working together, for the best of the community.

Disadvantages of KCT's Ownership

- Expenses required to maintain the Trust. These includes:
  - Trustee Fees.
  - Administrative expenses.
  - Accounting and audit fees.
- The Trust is limited in its ability to support a substantial KCE equity raising based on its immediate funds available. This means that if significant acquisitions are undertaken by the KCE, KCT's shareholding is at risk of dilution.
- Beneficiaries have no right to vote directly on KCE resolutions, relying on the Trustees to act on their behalf.

Appendix 3: Comparable Energy Trusts

The following table presents details for comparable trusts of a similar size to KCT based on FY21 reported information.

Trust	Number of Trustees	Average Fee per Trustee	Trust expense per Asset	Trustee Fee per Asset
Line Trust South Canterbury	6	$14,667	0.2%	0.1%
Hawke’s Bay Power Consumers’ Trust	5	$28,800	1.3%	0.2%
Waitaki Power Trust	5	$15,600	0.8%	0.5%
Electra Trust	6	$15,000	2.0%	0.5%
West Cost Electric Power Trust	5	$22,400	0.5%	0.4%
Counties Power Consumer Trust	5	$26,800	1.1%	0.4%
Average	**5**	**$20,544**	**1.0%**	**0.3%**

Source: Northington Partners analysis and publicly available information.

Appendix 4: Comparable Energy Companies

Comparable listed NZX company information over the Review Period is summarised in the table below.

Company Name	Enterprise Value (NZD, in m)					EBITDAF (NZD, in m)					EV / EBITDAF				
	FY17	FY18	FY19	FY20	FY21	FY17	FY18	FY19	FY20	FY21	FY17	FY18	FY19	FY20	FY21
Contact Energy Limited	5,134	5,294	5,964	5,290	6,147	501	481	518	446	553	10.2x	11.0x	11.5x	11.9x	11.1x
Genesis Energy Limited	3,311	3,580	4,562	3,941	4,962	332	361	369	356	358	10.0x	9.9x	12.4x	11.1x	13.9x
Mercury NZ Limited	5,528	5,739	6,541	7,029	10,271	523	566	506	490	463	10.6x	10.1x	12.9x	14.3x	22.2x
Meridian Energy Limited	8,331	8,776	12,149	11,968	15,434	657	666	838	853	729	12.7x	13.2x	14.5x	14.0x	21.2x
Trustpower Limited	2,110	2,229	2,648	2,684	3,359	218	243	222	186	200	9.7x	9.2x	11.9x	14.4x	16.8x
Average											**10.6x**	**10.7x**	**12.6x**	**13.1x**	**17.0x**

Source: Northington Partners analysis, Capital IQ and other publicly available information. EBITDAF based on last-twelve-month at financial year end.

Appendix 5: KCE Valuation

In order to best compare KCE to the comparable set, we have estimated the market equity value of KCE based on an Enterprise Value / LTM EBITDAF multiple approach.

Valuation Approach

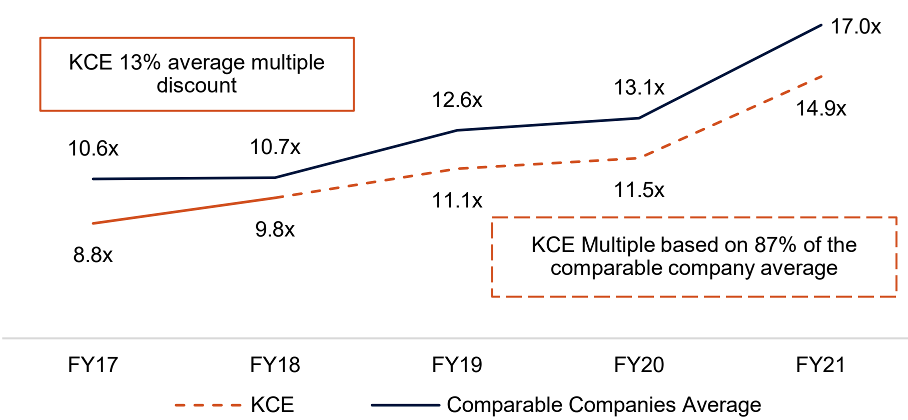
As KCE is a mature business with stable earnings, we have valued the business using a capitalisation of earnings approach.

The capitalised earnings method requires professional judgement in determining the level of earnings or cash flows the business can generate on a maintainable basis, as well as an appropriate capitalisation multiple that reflects the risks and growth prospects associated with the earnings or cash flows being capitalised.

We have selected a multiple of last-twelve-month ("**LTM**") EBITDAF as a suitable earnings measure. As shown in Figure 25, whilst listed on the USX and based on the FY18 takeover price, KCE traded at an average discount to its comparable companies set by 13%.

Using this historic discount and the historic comparable companies' trading multiples, we have derived an expected KCE Enterprise Value / LTM EBITDAF multiple for each financial period.

Figure 25: Enterprise Value / LTM EBITDAF Multiple



KCE FY17 based on last USX trading price, FY18 based on takeover offer value.

Based on KCE's estimated Enterprise Value / LTM EBITDAF multiple, we have estimated KCE's Equity Value as shown in Table 14.

Table 14: KCE Equity Value

	Item	FY17	FY18	FY19	FY20	FY21
	EBITDAF	$15m	$15m	$17m	$15m	$15m
x	LTM EBITDAF Multiple	8.8x	9.8x	11.1x	11.5x	14.9x
=	**Enterprise Value**	**$128m**	**$144m**	**$187m**	**$167m**	**$224m**
-	Net Debt	($17m)	($18m)	($12m)	($14m)	($17m)
=	**Equity Value**	**$111m**	**$126m**	**$175m**	**$153m**	**$207m**

Our valuation approach is a high-level estimate and has not taken into account the following:

- Sale of KCE's retail operations.
- Generation asset type / location of the comparable company set.
- Any surplus assets held by the comparable company set.
- Retail operations of the comparable company set.
- IFRS 16 impacts on reported EBITDAF of the comparable company set.

Appendix 6: KCE AUP Procedures

#	Procedures Performed (PwC FY21 Engagement)
1	Obtain the KCE board reporting pack for the year ended 31 March 2021 from management consisting of the consolidated income statement, balance sheet and statement of cash flows.
2	Obtain the KCE trial balance for the balances included in the board reporting pack for the year ended 31 March 2021.
3	Agree the balances in the board reporting pack for the year ended 31 March 2021to the trial balance obtained in procedure 2.
4	Agree the following balances in the KCE trial balance to the audited Trustpower Group consolidation pack. ▪ Total Income ▪ Total Cost of sales ▪ Total Expenditure ▪ Net Profit after tax ▪ Total Assets ▪ Total Liabilities ▪ Total Shareholders' funds
5	Obtain the KCE board reporting pack for the year ended 31 March 2020 and agree the following comparative balances included in the board reporting pack for the year ended 31 March 2021 to the balances included in the board reporting pack for the year ended 31 March 2020. ▪ Total Income ▪ Total Cost of sales ▪ Total Expenditure ▪ Net Profit after tax ▪ Total Assets ▪ Total Liabilities ▪ Total Shareholders' funds ▪ Cash Surplus/(Deficit) ▪ Opening Cash
6	Cast and cross-cast the board reporting pack for the year ended 31 March 2021.
7	Identify movements greater than NZD800,000 in the board reporting pack between balances for the year ended 31March 2021 and 31 March 2020.
8	For movements noted in procedure 7 above, obtain management's explanations for the movements through inquiry with management or review of the recent board minutes.
9	Obtain confirmations of the values of cash, loans and interest rate swaps directly from the bank and compare them to their respective balances in the board reporting pack.
10	Obtain the highest value contract for differences (CFD) contract that has a counterparty other than Trustpower and corresponding valuation report from the PwC valuation specialists and compare the value of the CFD contract to the value in the valuation report. For any difference noted, obtain management's explanation for the difference through inquiry with management.
11	Obtain the term sheet for the CFD contract noted in procedure 10 above and agree the inputs on the term sheet to the CFD contract.
12	Obtain the KCE Electricity Hedging Policy that was effective during the year up to 29 March 2021. For the most recent CFD contract entered into under this policy, confirm compliance with the KCE Electricity Hedging Policy: ▪ Agree the CFD contract counter party is an approved counterparty per the "Policy: Trading Partner" section of the KCE Electricity Hedging Policy. ▪ Based on the counterparty agree the CFD meets with the Tier requirements per the "Policy: Trading Partner" section of the KCE Electricity Hedging Policy. ▪ Obtain evidence of approval by the Hedge Committee or Board per the "Approval of Hedges" section of the KCE Electricity Hedging Policy.
13	Obtain the KCE Electricity Hedging Policy effective as at 31 March 2021. For the most recent, if any, CFD contract entered into during the year ended 31 March 2021, confirm compliance with the KCE Electricity Hedging Policy: ▪ Agree the CFD contract counter party is an approved counterparty per the "Policy: Trading Partner" section of the KCE Electricity Hedging Policy. ▪ Based on the counterparty agree the CFD meets with the Tier requirements per the "Policy: Trading Partner" section of the KCE Electricity Hedging Policy. ▪ Obtain evidence of approval by Hedge Committee or Board per the "Approval of Hedges" section of the KCE Electricity Hedging Policy.

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