HORIZON ENERGY

our network, our community

# Target Company Statement

## Statement by the Directors of Horizon Energy Distribution Limited to Shareholders

including an Independent Adviser's Report
by Simmons Corporate Finance Limited

## in Response to the Partial Takeover Offer by Marlborough Lines Limited

prepared pursuant to rule 46 of the Takeovers Code

**Date** 13 October 2009

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### Independent Adviser's Report

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# Directors' Report and Statutory Information

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# Statutory Information

## 1. Date

This target company statement (**Target Company Statement**) is dated 13 October 2009.

## 2. Offer

2.1 This Target Company Statement relates to a partial takeover offer (the **Offer**) by Marlborough Lines Limited (**Offeror**) for 51% of the fully paid ordinary shares in Horizon Energy Distribution Limited (**Horizon Energy**) for a purchase price of $3.96 per share, payable in cash. The acquisition of these shares would result in the Offeror holding 51% of the total number of Horizon Energy shares on issue.

2.2 The Offeror gave notice (**Takeover Notice**) pursuant to rule 41 of the Takeovers Code of its intention to make the Offer on 14 September 2009 (the **Notice Date**). The Offeror is an electricity lines business based in Blenheim.

2.3 The terms of the Offer are set out in an offer document (the **Offer Document**), which was sent to holders of Horizon Energy's shares on 29 September 2009.

## 3. Target Company

The name of the target company is Horizon Energy Distribution Limited.

## 4. Directors of Horizon Energy

The directors of Horizon Energy are:

(a) Robert Bertram Tait (Chairman);

(b) Christopher Patrick Boyle;

(c) Anthony Edward de Farias; and

(d) John McDonald.

## 5. Ownership of equity securities of Horizon Energy

5.1 Schedule 1 to this Target Company Statement sets out the number, designation and the percentage of equity securities of any class of Horizon Energy held or controlled by:

(a) each director or senior officer of Horizon Energy (a **Director** or **Senior Officer**, respectively) and their associates; and

(b) any other person holding or controlling 5% or more of the class of equity securities, to the knowledge of Horizon Energy.

5.2 Except as set out in Schedule 1 to this Target Company Statement, no other person of the type referred to in paragraphs 5.1(a) or 5.1(b) above holds or controls equity securities of Horizon Energy.

5.3 No Director or Senior Officer or any of their associates have, within the two year period that ends with the date of this Target Company Statement, been issued with equity securities of Horizon Energy or obtained a beneficial interest in any equity securities of Horizon Energy under any employee share scheme or other remuneration arrangement.

## 6. Trading in equity securities of Horizon Energy

No Director or Senior Officer, or any of their associates, or any other person holding or controlling 5% or more of any class of equity securities in Horizon Energy has, during the six month period prior to 8 October 2009 (being the latest practical date before the date of this Target Company Statement), acquired or disposed of equity securities of Horizon Energy.

## 7. Acceptance of Offer

As at the date of this Target Company Statement, no Director or Senior Officer, nor any of their associates, have advised that they have accepted, or intend to accept, the Offer.

## 8. Ownership of equity securities of Offeror

8.1 Horizon Energy understands that the Offeror is wholly-owned by the trustees of the Marlborough Electric Power Trust on behalf of the Marlborough Electric Power Trust.

8.2 Neither Horizon Energy, nor any Director, Senior Officer or any of their associates holds or controls any equity securities of the Offeror.

## 9. Trading in equity securities of Offeror

Neither Horizon Energy, nor any Director, Senior Officer or any of their associates has acquired or disposed of any equity securities of the Offeror during the six-month period before 8 October 2009 (being the latest practicable date before the date of this Target Company Statement).

## 10. Arrangements between Offeror and Horizon Energy

No agreements or arrangements (whether legally enforceable or not) have been made, or are proposed to be made, between the Offeror or any associates of the Offeror, and Horizon Energy or any related company of Horizon Energy, in connection with, in anticipation of, or in response to, the Offer.

## 11. Relationship between the Offeror and directors and officers of Horizon Energy

11.1 No agreement or arrangement (whether legally enforceable or not) has been made, or is proposed to be made, between the Offeror or any associates of the Offeror, and any of the directors or senior officers of Horizon Energy or any related company of Horizon Energy in connection with, in anticipation of, or in response to, the Offer.

11.2 None of the Directors or Senior Officers are also directors or senior officers of the Offeror (or any related company of the Offeror).

## 12. Agreement between Horizon Energy, directors and officers

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

12.2 In accordance with NZSX Listing Rule 3.5.2, a Director or former Director, or his or her dependents, may receive a lump sum payment or pension in connection with the retirement or cessation of office of that Director, only if:

(a) the amount of the payment, or the method of calculation of the payment is authorised by an ordinary resolution of Horizon Energy; or

(b) the Director or former Director was in office before 1 May 2004 and has continued to hold office since that date, provided that the total amount of the payment (or the base for the pension) does not exceed the total remuneration of that Director in his or her capacity as a Director in any three years chosen by Horizon Energy.

No Director was in office before 1 May 2004.

## 13. Interests of directors and officers of Horizon Energy in contracts of the Offeror or related company

No Director or Senior Officer or any of their associates, has any interest in any contract to which the Offeror, or any related company of the Offeror, is a party.

## 13A. Interests of Horizon Energy's substantial security holders in material contracts of Offeror or related company

To the knowledge of Horizon Energy, no person who, to the knowledge of the Directors or the Senior Officers, holds or controls 5% or more of any class of equity securities of Horizon Energy has an interest in any material contract to which the Offeror, or any related company of the Offeror, is a party.

## 14. Additional information

In the opinion of the Directors of Horizon Energy, no additional information, to the knowledge of Horizon Energy, is required to make the information in the Offer Document correct or not misleading.

# 15. Recommendation

15.1 **The Directors of Horizon Energy have considered the merits of the Offer and unanimously recommend that shareholders DO NOT ACCEPT the Offer.**

In reaching their conclusions in relation to the Offer, the Directors have taken advice and considered a wide range of issues in relation to the Offer.

15.2 The principal reasons for this recommendation are as follows:

(a) The Independent Adviser (Simmons Corporate Finance Limited) assesses the value of Horizon Energy shares to be in the range of $3.96 to $4.68. The Offer is at the **BOTTOM END OF THIS RANGE**. At this level, the Directors do not believe that the Offer represents adequate value for Horizon Energy shareholders.

(b) The Directors assess that the Independent Adviser's valuation range does not adequately reflect the Board's view of the full value of Horizon Energy.

(c) As well as being at an inadequate level, the Offer is only for 51% of the shares, meaning that accepting shareholders will only receive the $3.96 price **FOR SOME OF THEIR SHARES**. Shareholders may be left with a significant proportion of their existing shareholding and may face reduced liquidity and potentially a lower share price should they wish to sell their remaining shares in the future. This means that shareholders may not benefit in the future from a control premium for their remaining shares.

(d) The Offeror has not outlined any plans about how it might add value to Horizon Energy such that its acquisition of a 51% shareholding would enhance the value of the shares that will continue to be held by Horizon Energy's existing shareholders.

(e) If the Offer is successful, the Offeror will have control of Horizon Energy, including its strategy and future direction. The Offer Document does not provide information on the Offeror's plans for the business other than to state that the Offeror does not currently propose to make any material changes in respect of the business activities of Horizon Energy. Because this is a partial offer, and shareholders will not be able to sell all of their shares, the Directors believe that the future direction of Horizon Energy is a relevant consideration for shareholders, should the Offer be successful.

The Directors consider that if Eastern Bay Energy Trust (**EBET**) wishes to sell its shares, it should initiate a competitive process to sell those shares rather than accept the Offer. The Directors believe that a competitive sale process of Horizon Energy's business may produce a higher value outcome for all shareholders than the Offer. In this respect, the Directors note that EBET owns 77.29% of the shares in Horizon Energy and that EBET would need to agree to any such sale process, or alternative merger or takeover proposal, before it could succeed.

The discussion below sets out the views of the Directors in relation to the Offer in greater detail.

15.3 **Value**

(a) The Independent Adviser, Simmons Corporate Finance Limited, has assessed the value of Horizon Energy shares to be in the range of $3.96 to $4.68. The Offer price is therefore at the bottom end of the value range assessed by the Independent Adviser.

(b) Further, the Directors believe that the value range of $3.96 to $4.68 per share does not reflect the full value of Horizon Energy and does not justify acceptance. Horizon Energy has re-developed its strategic plan in the last 12 months and is focused on growing the business over the next three to five years. Over the last year, Horizon Energy has:

(i) reorganised and refocused the total business;

(ii) completed key employee appointments across the business;

(iii) expanded the existing range of services provided by its contracting services to include glove and barrier, technical services, refrigeration and data and security cabling services; and

(iv) been actively searching for value-adding acquisition opportunities in line with its stated strategy.

(c) The ODV/RAB valuation multiple implied in the valuation prepared by the Independent Adviser for Horizon Energy's network business is conservative when compared to historic sale transactions of other electricity lines businesses.

(d) Furthermore, the Directors believe the Offer price does not reflect the value of any possible synergies that may be achieved if the Offer is successful.

(e) The change of control of Horizon Energy that would occur under a successful Offer would also result in the loss of the current balance of imputation credits that would be attached to dividends in the future for the benefit of tax paying shareholders.

## 15.4 Partial Offer and the Role of Eastern Bay Energy Trust

The Offer is a partial offer. The Offeror is not seeking to acquire all of the shares in Horizon Energy. It is seeking to acquire 51% of the shares but shareholders can accept for more than 51% of their shares subject to scaling. This means:

(a) The Offeror cannot acquire more than 51% of the shares in Horizon Energy.

(b) The Offeror cannot acquire any shares under the Offer unless it gets acceptances for at least 51% of the shares.

If the Offeror is successful, there is no assurance of any future offer and therefore no assurance that shareholders will receive $3.96 per share across their entire shareholding.

Shareholders should note that EBET owns 77.29% of the shares in Horizon Energy. This means the Offer cannot be successful unless EBET accepts the Offer to some extent because the Offeror cannot reach its target level of 51% without acquiring at least some shares from EBET.

It is for this reason that the Directors urge EBET to declare its intentions in relation to the Offer well before the closing date so that other shareholders can take appropriate action prior to the closing date.

## 15.5 Continuing Shareholding if the Offer is Successful

If the Offer is successful, shareholders will continue to have a shareholding in Horizon Energy. Therefore, in considering the value of the Offer, shareholders should consider the future performance and the likely share price of Horizon Energy in the event that the Offer is successful.

In this regard, the Directors note that the Offeror states that:

*"MLL does not currently propose to make any material changes in respect of the business activities of Horizon."*

The Directors of Horizon Energy consider that this statement gives existing shareholders no assurance with respect to the Offeror's longer term plans for Horizon Energy.

If the Offeror does acquire 51%, it will have the ability to change the business plans of Horizon Energy and to change the capital structure and dividend policy. It will also have the ability to control the composition of the Board of Horizon Energy, subject to NZSX Listing Rule requirements. Shareholders need to consider possible impacts of the Offeror's control. These could include impacts in the following areas:

(a) a change in dividend policy;

(b) a change in the business plan;

(c) a change in management arrangements;

(d) a change in the strategic direction; and

(e) a change in the NZ stock exchange listing status of Horizon Energy.

The Directors of Horizon Energy wrote to the Offeror on 30 September 2009 requesting additional information regarding the Offeror's intentions. The response from the Offeror indicated support for Horizon's strategy, with no current plans to make material changes to that general direction of the Company.

If the Offer is successful the Directors do not believe the tradability of shares in Horizon Energy will be enhanced as the Company will have two large shareholders holding a high proportion of the shares.

In addition, a future takeover offer for Horizon Energy that may provide the shareholders with the opportunity to receive a higher share price may be less likely because such a takeover will require the co-operation of the Offeror as the controlling shareholder. The Directors note that this is similar to the present situation where no takeover offer can succeed without the co-operation of EBET.

## 15.6 Contestable Process

The Directors of Horizon Energy are unaware of any other potential offers for Horizon Energy at the time of this Target Company Statement. No other proposals have been received or solicited by the Directors during the course of the Offer.

In the Directors view, it is unlikely that there will be any such offers or proposals until such time that EBET indicates it is willing to consider offers or proposals. Since the announcement of the Offer, the Directors have received no indication from EBET as to whether or not it is willing to entertain such proposals or offers.

Notwithstanding the above, the Directors of Horizon Energy believe it is likely that there are other parties that could make offers or proposals that are more valuable to Horizon Energy shareholders.

If EBET wished to pursue the sale of its shares, the Directors consider that an open, competitive process would achieve the highest value outcome for all shareholders.

## 15.7 Specific Recommendation to All Shareholders Other Than Eastern Bay Energy Trust

The Directors of Horizon Energy have no knowledge of EBET's intentions with respect to the Offer.

The Directors urge EBET, which owns 77.29% of the Company (and therefore will determine whether the Offer succeeds or fails), to advise its intentions well before the closing date so that other shareholders can take appropriate action before that date.

The Directors believe that if EBET accepts the Offer and control of Horizon Energy passes to Marlborough Lines, minority shareholders will maximise value for their shareholding by also accepting the Offer rather than continuing to hold all of their shares in Horizon Energy as minority shareholders.

While the Directors do not believe that the Offer represents adequate value for Horizon Energy shares, they also are of the opinion that if the Offer is successful as a result of EBET accepting the Offer, shareholders may face reduced liquidity and potentially a lower share price should they wish to sell their shares in the future.

**It is the Directors' specific recommendation to all shareholders other than EBET that IF EBET accepts the Offer, minorities should also accept the Offer.**

**In addition, should EBET not advise its intentions with respect to the Offer prior to the closing date, then the Directors recommend that all minority shareholders accept the Offer. If EBET subsequently accepts, minorities will sell alongside EBET. If EBET does not accept for any of its shares the Offer will fail. In these circumstances, acceptance by minorities will have no impact on the success of the Offer and minority shares will not be purchased.**

This specific recommendation is made to ensure that all shareholders maximise the value for their shares from the Offer.

## 16. Actions of Horizon Energy

16.1 There are no material agreements or arrangements (whether legally enforceable or not) of Horizon Energy or any related company of Horizon Energy entered into as a consequence of, in response to, or in connection with, the Offer.

16.2 There are no negotiations underway as a consequence of, in response to, or in connection with, the Offer that relate to, or could result in:

(a) an extraordinary transaction, such as a merger, amalgamation or reorganisation, involving Horizon Energy or any of its related companies; or

(b) the acquisition or disposition of material assets by Horizon Energy or any of its related companies; or

(c) an acquisition of equity securities by, or of, Horizon Energy or any related company of Horizon Energy; or

(d) any material change in the issued equity securities of Horizon Energy, or the policy of the board of directors of Horizon Energy relating to distributions, of Horizon Energy.

## 17. Equity securities of Horizon Energy

17.1 Horizon Energy has 24,991,385 ordinary shares on issue. These are all fully paid. Shareholders have in respect of each Horizon Energy ordinary share:

(a) the right to an equal share in dividends authorised by the board of directors of Horizon Energy;

(b) the right to an equal share in the distribution of surplus assets on liquidation of Horizon Energy;

(c) subject to certain conditions in the constitution of Horizon Energy, the right to participate in any further issues of equity securities by Horizon Energy; and

(d) subject to certain conditions in the constitution of Horizon Energy, the right to cast one vote on a show of hands or the right to cast one vote on a poll (for each share held), at a meeting of shareholders on any resolution, including a resolution to:

(i) appoint or remove a director or auditor;

(ii) alter Horizon Energy's constitution;

(iii) approve a major transaction (as that term is defined in the Companies Act 1993) by Horizon Energy;

(iv) approve an amalgamation involving Horizon Energy (other than an amalgamation of a wholly owned subsidiary); and

(v) put Horizon Energy into liquidation.

17.2 Horizon Energy has not issued any equity securities other than its ordinary shares nor has it issued or granted any options or rights to acquire any equity securities in Horizon Energy.

## 18. Financial information

18.1 Each person to whom the Offer is made is entitled to obtain from Horizon Energy a copy of Horizon Energy's most recent annual report (being the annual report for the period ended 31 March 2009) by making a written request to Horizon Energy at 52 Commerce Street, Whakatane. A copy of the annual report is also available on Horizon Energy's website at www.horizonenergy.net.nz.

18.2 No half-year report or interim report has been sent by Horizon Energy to its shareholders since the annual report referred to in paragraph 18.1 above was sent to shareholders.

18.3 A copy of Horizon Energy's most recent profit outlook (being the profit outlook dated 28 September 2009) was announced to the market and posted on the NZX website at www.nzx.com on 28 September 2009. This profit outlook and the principal assumptions on which it is based are reflected in the Independent Adviser's Report.

18.4 Other than as set out in this paragraph 18, or as contained in the Independent Adviser's Report:

(a) there have been no known material changes in the financial or trading position, or prospects, of Horizon Energy since the 2009 annual report was prepared and sent to Horizon Energy's shareholders; and

(b) there is no other information about the assets, liabilities, profitability and financial affairs of Horizon Energy that could reasonably be expected to be material to the making of a decision by shareholders to accept or reject the Offer.

## 19. Independent advice on merits of Offer

Simmons Corporate Finance Limited, as Independent Adviser, has provided a report under Rule 21 of the Takeovers Code. A copy of the full report is attached to this Target Company Statement.

## 20. Asset valuation

20.1 The Independent Adviser's Report prepared by Simmons Corporate Finance Limited contains valuations of Horizon Energy and in those valuations refers to an optimised deprival valuation (**ODV**) of certain of Horizon Energy's electricity distribution assets and a regulatory asset base valuation (**RAB**) of those assets. ODV is a valuation required under Horizon Energy's regulatory obligations as at 31 March 2004 and RAB is an update to that ODV valuation as at 31 March 2009. Details of the ODV and RAB valuations referred to in the Independent Adviser's Report are:

(a) The ODV valuation is prepared as at 31 March 2004 and is dated 2 December 2004. This valuation was prepared by PricewaterhouseCoopers pursuant to the Commerce Act 1986.

(b) The RAB valuation is prepared as at 31 March 2009. The RAB valuation was prepared by Horizon Energy pursuant to the Commerce Act 1986 and is an update to the ODV valuation based on movements in audited values. The RAB valuation was subject to an Independent Assurance Report on Disclosure Information prepared by PricewaterhouseCoopers dated 24 August 2009.

The ODV methodology seeks to value Horizon Energy's electricity distribution assets. The ODV methodology incorporates a valuation based on the engineering optimisation of the network and its components after allowing for depreciation and includes a component based on the value of Horizon Energy being deprived of that asset. The detailed valuation methodology is set out in the handbook for Optimised Deprival Valuation of System Fixed Assets of Electricity Lines Businesses dated 30 August 2004 (**Electricity Handbook**) and is too complex to set out in this Target Company Statement and cannot be easily summarised.

Copies of the ODV and RAB valuations and the Electricity Handbook are available for inspection at Horizon Energy's offices at Level 4, Commerce Plaza, 52 Commerce Street, Whakatane and will be sent to any shareholder making a request to receive such copy to Horizon Energy at the address above. A copy of these documents are also available on Horizon Energy's website at www.horizonenergy.net.nz.

20.2 Other than as set out in paragraph 20.1 and the reference to the ODV and RAB valuations contained in paragraph 15.3 (the details of which are described in paragraph 20.1 above), no information provided in this Target Company Statement refers to a valuation of any asset of Horizon Energy.

## 21. Prospective financial information

The Independent Adviser's Report contains prospective financial information in relation to Horizon Energy. The principal assumptions on which the prospective financial information is based are set out in the Independent Adviser's Report.

## 22. Sales of unquoted equity securities under Offer

There are no unquoted equity securities that are the subject of the Offer.

## 23. Market prices for quoted equity securities under Offer

23.1 Horizon Energy ordinary shares are quoted on NZSX (symbol: HED).

23.2 The closing price on the NZSX of Horizon Energy ordinary shares on:

(a) 8 October 2009, being the latest practicable working day before the date on which this Target Company Statement is sent to shareholders, was NZ$3.40; and

(b) 11 September 2009, being the last day on which the NZSX was open for business before the date on which Horizon Energy received the Offeror's Takeover Notice, was NZ$2.95.

23.3 The highest and lowest closing market prices of Horizon Energy ordinary shares on the NZSX (and the relevant dates) during the six months before the Notice Date, were as follows:

(a) the highest closing market price was NZ$3.25 (on 5, 7, 11 and 29 May 2009); and

(b) the lowest closing market price was NZ$2.80 (on 20 and 21 July 2009).

23.4 During the six month period before the Notice Date, Horizon Energy did not issue any equity securities or make any changes to any equity securities on issue which could have affected the market prices referred to above.

## 24. Other information

The following information is considered by the Directors to be information that could reasonably be expected to be material to the making of a decision by the Shareholders of Horizon Energy as to whether to accept or reject the Offer, and the timing of the giving of any acceptance:

(a) the terms of the Offer state that, once given, acceptances will be released if the Offer lapses or is withdrawn by the Offeror with the consent of the Takeovers Panel but acceptances may not be withdrawn by acceptors unless the Offeror fails to pay acceptors in accordance with the Takeovers Code; and

(b) If the Offeror increases the price of the Offer, it must provide the increased price to all Shareholders whose shares are acquired under the Offer, whether or not a Shareholder accepted the Offer before or after the price was increased.

## 25. Approval of this Target Company Statement

The contents of this Target Company Statement have been approved by the Board of Directors of Horizon Energy.

## 26. Interpretation

26.1 In this Target Company Statement:

**Company** means Horizon Energy Distribution Limited;

**Directors** means the directors of Horizon Energy;

**Horizon Energy** means Horizon Energy Distribution Limited;

**Independent Adviser** means Simmons Corporate Finance Limited;

**Independent Adviser's Report** means the report referred to in paragraph 19, a copy of which is attached to this Target Company Statement;

**Notice Date** means 14 September 2009;

**NZ$** means New Zealand dollars;

**NZSX** means the New Zealand Stock Market operated by NZX;

**NZX** means NZX Limited;

**Offeror** means Marlborough Lines Limited;

**Shareholders** means the holders of shares which are the subject of the Offer by the Offeror;

**Takeovers Act** means the Takeovers Act 1993; and

**Takeovers Code** means the Takeovers Code approved by the Takeovers Code Approval Order 2000.

26.2 Words and expressions defined in the Takeovers Act or the Takeovers Code and not otherwise defined in this Target Company Statement have the same meaning when used in this Target Company Statement.

## 27. Certificate

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

**SIGNED** by:

Robert Tait
Director of Horizon Energy Distribution Limited

John McDonald
Director of Horizon Energy Distribution Limited

Anthony de Farias
Director of Horizon Energy Distribution Limited

Christopher Boyle
Director of Horizon Energy Distribution Limited

Ajay Anand
Chief Executive Officer of Horizon Energy Distribution Limited

Todd Campbell
Chief Financial Officer of Horizon Energy Distribution Limited

## Schedule 1: Ownership of equity securities in Horizon Energy (paragraph 5.1)

| Name | Number of equity securities held or controlled | Designation of equity security | Percentage of total number of equity securities of class |
|---|---|---|---|
| **Directors** | | | |
| Nil | - | - | - |
| **Senior Officers** | | | |
| Donald George Lewell[1] | 550 | Ordinary Shares | .0022% |
| Thomas Harry Lowndes[2] | 550 | Ordinary Shares | .0022% |
| **Associates of Directors** | | | |
| Nil | - | - | - |
| **Associates of Senior Officers** | | | |
| Karen Vida Lewell[3] | 550 | Ordinary Shares | .0022% |
| Jennifer Elizabeth Lowndes[4] | 550 | Ordinary Shares | .0022% |
| **Holders or controllers of more than 5% of any class of equity securities** | | | |
| Eastern Bay Energy Trust | 19,316,130 | Ordinary Shares | 77.291% |
| David Bulley[5] | 19,316,130 | Ordinary Shares | 77.291% |
| Kevin Hennessey[5] | 19,316,130 | Ordinary Shares | 77.291% |
| Brian Ponting[5] | 19,316,130 | Ordinary Shares | 77.291% |
| Peter Patterson[5] | 19,316,130 | Ordinary Shares | 77.291% |
| Donna Smit[5] | 19,316,130 | Ordinary Shares | 77.291% |
| Wade Brown[5] | 19,316,130 | Ordinary Shares | 77.291% |

[1] Held jointly with Karen Vida Lewell.

[2] Held jointly with Jennifer Elizabeth Lowndes.

[3] Held jointly with Donald George Lewell.

[4] Held jointly with Thomas Harry Lowndes.

[5] As trustee of the Eastern Bay Energy Trust.

# Horizon Energy Distribution Limited

## Independent Adviser's Report

# In Respect of the Partial Takeover Offer by Marlborough Lines Limited

*October 2009*

www.simmonscf.co.nz

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# 1. Introduction

## 1.1 Horizon Energy Distribution Limited

Horizon Energy Distribution Limited (**Horizon Energy** or the **Company**) is listed on the main board equity security market (**NZSX**) operated by NZX Limited (**NZX**) with a market capitalisation of $85.0 million as at 6 October 2009 and audited total equity of $48.8 million as at 31 March 2009.

Horizon Energy is an electricity distribution business (**EDB**) whose principal activity is conveying electricity to consumers in the Eastern Bay of Plenty region. The Company distributes electricity to over 24,400 residential, commercial and industrial customers in the Whakatane, Kawerau and Opotiki districts. Its network has a system length of 2,341 km over an area of some 8,400 km$^2$. Horizon Energy also operates a contracting division.

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

## 1.2 Marlborough Lines Limited

Marlborough Lines Limited (**MLL**) is an EDB conveying electricity to over 23,800 consumers in and around the Marlborough region. Its network has a system length of 3,320 km over an area of some 11,300 km$^2$. MLL also has investments in two EDBs which distribute electricity in Nelson city and eastern non-metropolitan Otago region. It also operates a contracting business.

MLL is wholly owned by the Marlborough Electric Power Trust.

A profile of MLL is set out in section 5.

## 1.3 MLL Offer

MLL sent Horizon Energy a notice of intention to make a partial takeover offer for 51% of the shares in Horizon Energy on 14 September 2009 (the **MLL Offer**).

MLL sent its Offer Document to Horizon Energy's shareholders on 29 September 2009.

### *Number of Shares Sought*

The MLL Offer is for 51% of the shares in Horizon Energy (the **Specified Percentage**), which equates to 12,745,606 shares.

In accordance with the Takeovers Code (the **Code**), each Horizon Energy shareholder is entitled to accept the MLL Offer in respect of all or any of its Horizon Energy shares, but shareholders who accept the MLL Offer for more than 51% of their shares may have their acceptances scaled down. However, their acceptances cannot be scaled down to less than 51% of their shares.

To the extent that Horizon Energy shareholders do not accept the MLL Offer for 51% of their shares, MLL is entitled to accept acceptances from Horizon Energy shareholders who wish to sell more than 51% of their Horizon Energy shares (**Surplus Shares**).

If MLL receives acceptances from shareholders in excess of their Specified Percentage, then MLL will take up from each accepting Horizon Energy shareholder a sufficient number of Surplus Shares to enable it to reach its target level of 12,745,606 shares. The number of Surplus Shares acquired from each such Horizon Energy shareholder will be proportionate to the total number of Surplus Shares offered to MLL.

MLL cannot accept more or less than 12,745,606 Horizon Energy shares under the MLL Offer.

### *Consideration*

MLL is offering $3.96 cash per Horizon Energy share.

### *Conditions*

The MLL Offer is subject to the satisfaction of the following conditions:

- that MLL receives sufficient acceptances for 12,745,606 Horizon Energy shares, representing 51% of the Horizon Energy voting rights. MLL cannot waive this condition. It cannot take up any Horizon Energy shares under the MLL Offer unless this condition is satisfied by the date the offer closes
- Horizon Energy not declaring or paying any dividends, bonuses or other payments or distributions
- no changes being made to the capital structure of the Company
- the Horizon Energy business is carried on in the normal and ordinary course
- no material assets are purchased or sold, no material contracts are entered into and no material investment or business is purchased or sold
- there is no change to the terms and conditions of employment and / or appointment of directors or officers
- there is no alteration to Horizon Energy's constitution
- no liquidator, receiver, manager, statutory manager or similar official is appointed
- the Company does not merge or amalgamate with any third party or be liquidated
- the Company does not enter into any material transactions with related parties
- no material adverse events occur
- no material proceedings against the Company arise
- no changes in significant accounting practice or policy.

Any of the conditions may be waived by MLL at its discretion, other than the condition in respect of receiving sufficient acceptances for 12,745,606 shares.

### *Offer Dates*

The offer is open from 29 September 2009 and closes at 5pm on 30 October 2009 (unless extended by MLL in accordance with the provisions of the Code).

## 1.4 Regulatory Requirements

Rule 6 of the Code prohibits:

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

unless the person complies with exceptions to this fundamental rule.

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

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

## 1.5 Purpose of the Report

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

Simmons Corporate Finance was approved by the Takeovers Panel on 18 September 2009 to prepare the Independent Adviser's Report.

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

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

# 2. Evaluation of the Merits of the MLL Offer

## 2.1 Basis of Evaluation

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

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

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

- the Takeover Panel guidance note on the role of independent advisers dated August 2007
- definitions designed to address similar issues within New Zealand regulations which are relevant to the proposed transaction
- overseas precedents
- the ordinary meaning of the term *merits*.

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

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

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

## 2.2 Rationale for the MLL Offer

MLL has stated in its Offer Document that it has long held the view that growth opportunities for the owners of provincial EDBs such as MLL and Horizon Energy lie in aggregation of their similar businesses. MLL has formed relationships with regional EDBs in Nelson city and the Otago region. MLL states that it understands the challenges facing regional EDBs and understands how to meet those challenges as a co-investor.

MLL is of the view that it is highly compatible with Horizon Energy:

- they are both EDBs which serve provincial New Zealand communities
- they are both critical infrastructure providers to their communities
- they both have trust ownership – in the case of MLL as to 100% and in the case of Horizon Energy as to 77.29%.

The Offer Document also states that MLL does not currently propose to make any material changes in respect of the Company's business activities.

Other than these comments in the Offer Document, there is little else upon which to evaluate MLL's motivations and rationale for making the MLL Offer other than the MLL chairman's quote in the media saying that an investment in Horizon Energy would establish MLL in the North Island, from where it would seek to expand Horizon Energy's contracting services further afield.

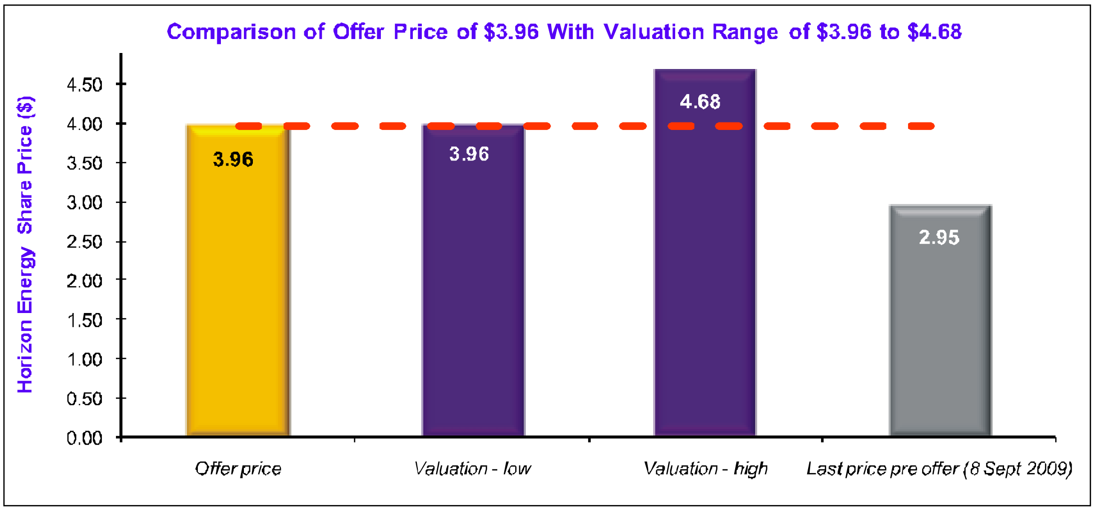
### 2.3 Value of Horizon Energy's Shares Compared with Offer Price

In our opinion, the full underlying value of Horizon Energy is in the range of $3.96 to $4.68 per share, as set out in section 6.

This value is for 100% of Horizon Energy based on its current strategic and operational initiatives and therefore reflects the value of control. However, it excludes the value of any synergies that an acquirer may derive from acquiring full control of Horizon Energy. In this instance, the MLL Offer is a partial offer for 51% of the shares in Horizon Energy and the synergies that might be captured at this level of control are likely to be less than they might be at 100% ownership control. If the MLL Offer is successful, Horizon Energy is likely to remain listed on the NZSX and 49% of its shares will be held by shareholders other than MLL.

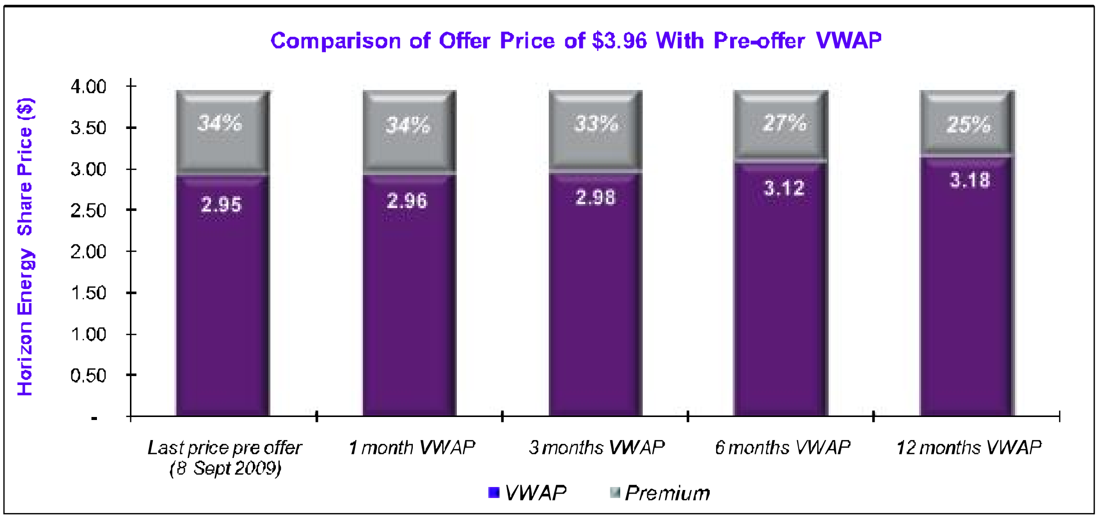
The MLL Offer consideration is cash of $3.96 per share.

The MLL Offer consideration of $3.96 is at the bottom end of our assessed valuation range and is 15% below the top end of the range.



## 2.4 Horizon Energy Share Price Compared with Offer Price

The MLL Offer of $3.96 per share represents a premium of 34% over $2.95 (being the last trading price before the MLL Offer was announced) and premia ranging from 25% to 34% over the volume weighted average share price (**VWAP**) measured over one to 12 months.




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

We note that trading in the Company's shares is extremely thin with only approximately 0.8% of the free float traded on average each month. In our view, the combination of an illiquid share and limited earnings guidance provided by the Company means that the observed share prices may not be a totally reliable indicator of the market value of Horizon Energy's shares.

Since the announcement of the MLL Offer on 14 September 2009, only 13,660 Horizon Energy shares have traded in a price range of $2.95 to $3.40 at a VWAP of $3.30.

## 2.5 The MLL Offer is a Partial Offer

### *Partial Offer for 51% of Horizon Energy's Shares*

The MLL Offer is a partial offer and is conditional on MLL receiving acceptances for 12,745,606 shares, representing 51% of the shares in Horizon Energy.

MLL cannot accept more or less than 12,745,606 shares under the MLL Offer.

If MLL does not receive acceptances in respect of at least 12,745,606 shares, then the MLL Offer will fail and MLL will not be able to purchase any shares under the MLL Offer.

### *Shareholders May Accept the MLL Offer for all or Some of Their Shares*

Each Horizon Energy shareholder may accept the MLL Offer in respect of all or some of the shares they hold.

Assuming the MLL Offer is declared unconditional, any shareholder who wishes to accept the MLL Offer is guaranteed to sell to MLL at least the lesser of:

- 51% of its shares or
- the number of shares it accepts into the MLL Offer.

If a shareholder accepts more than 51% of their shares into the MLL Offer, (ie it accepts Surplus Shares into the offer), then there is a possibility that the number of Surplus Shares accepted by MLL from that shareholder will be scaled down. The degree to which the Surplus Shares will be scaled down depends on the total number of shares accepted into the offer.

The calculation of the scaling of Surplus Shares is as follows:

- firstly, MLL must accept the lesser of 51% of each accepting shareholder's shares or the actual number of shares accepted into the MLL Offer. We refer to the total number of these shares as the *First Acceptance Level*
- the difference between the number of shares that MLL seeks in its offer (12,745,606 shares) and the *First Acceptance Level* represents the additional shares that MLL will accept out of the Surplus Shares. We refer to the total number of these shares as the *Second Acceptance Level*
- the number of Surplus Shares that MLL will accept from each shareholder is calculated on a pro-rata basis across all the Surplus Shares.

An example of how the scaling may work is shown below for illustrative purposes.

**Illustrative Example of Scaling**

| | | No. of Shares |
|---|---|---|
| Total acceptances into the MLL Offer | *(1)* | 19,000,000 |
| Shares sought under the MLL Offer | *(2)* | 12,745,606 |
| *First Acceptance Level* | *(3)* | 10,000,000 |
| *Second Acceptance Level* | *(4) = (2) – (3)* | 2,745,606 |
| Surplus Shares | *(5) = (1) – (3)* | 9,000,000 |
| Percentage of Surplus Shares to be accepted by MLL | *(4) / (5)* | 30.51% |

Under this example, MLL would acquire 30.51% of each accepting shareholder's Surplus Shares.

## 2.6 Potential Outcomes

### *Only 2 Possible Outcomes*

As the MLL Offer is a partial offer for 51% of the Company's shares, there are only two possible outcomes:

- the offer succeeds – MLL receives acceptances in respect of at least 12,745,606 shares (and assuming the offer is declared unconditional), MLL will hold 51% of the shares in the Company or
- the offer fails – MLL receives acceptances in respect of less than 12,745,606 shares, in which case the MLL Offer will fail and MLL cannot purchase any shares in the Company under the MLL Offer.

### *The Likelihood of the MLL Offer Succeeding Depends on Eastern Bay Energy Trust's Response*

Eastern Bay Energy Trust is Horizon Energy's largest shareholder, holding 19,316,130 shares (77.29%). The likelihood of the MLL Offer succeeding is totally dependent on how Eastern Bay Energy Trust responds to the offer.

We have been advised by the Eastern Bay Energy Trust that as at 30 September 2009 it had yet to reach a decision as to how it would respond to the MLL Offer. The trust plans to evaluate the Target Company Statement (including this report) before deciding whether to accept or reject the offer.

We note that during the 2009 financial year, the trust undertook an in-depth strategic review of its shareholding in Horizon Energy. Following a market testing process it received a number of non-binding amalgamation proposals from interested parties, including MLL. The evaluation of the proposals was managed by the Company. Following a thorough assessment of the business case and subsequent consideration by the trust, the Company was advised that the trust would not support any proposal for amalgamation. The reasons put forward by the trust were that the Company is a strategic local asset and any amalgamation could result in loss of control in the area and a loss of employment. The trustees felt strongly that the projected cost savings were not significant enough to proceed and resolved not to take the matter any further.

The table below shows that the Eastern Bay Energy Trust would need to accept at least 7,070,351 of its shares into the MLL Offer in order for the offer to have any possibility of succeeding. At this level, all other shareholders would need to accept 100% of their shares in order for the offer to succeed. Therefore if the Eastern Bay Energy Trust accepts less than 7,070,351 shares into the MLL Offer, the offer cannot possibly succeed.

The Eastern Bay Energy Trust would need to accept at least 12,745,606 of its shares into the MLL Offer in order for the offer to be certain of succeeding. This will ensure that the MLL Offer will succeed even if no other shareholders accepted the offer.

| Eastern Bay Energy Trust Minimum Acceptance Levels | | |
|---|---|---|
| | No. of Shares | % |
| Minimum number of shares required for MLL Offer to succeed | 12,745,606 | 51.00% |
| Minimum acceptance required by Eastern Bay Energy Trust | 7,070,351 | 28.29% |
| 100% acceptance by other shareholders | 5,675,255 | 22.71% |
| | 12,745,606 | 51.00% |
| Minimum acceptance required by Eastern Bay Energy Trust | 12,745,606 | 51.00% |
| 0% acceptance by other shareholders | - | - |
| | 12,745,606 | 51.00% |

Until such time as the Eastern Bay Energy Trust decides how it will respond to the MLL Offer, we see no advantage in other shareholders responding to the offer. If the Eastern Bay Energy Trust accepts the MLL Offer in respect of at least 12,745,606 of its shares (65.98% of the shares that it holds), then the offer will be successful (assuming the other conditions of the offer are satisfied or waived), irrespective of whether any other shareholders accept the offer. Conversely, if the Eastern Bay Energy Trust states that it will not accept the MLL Offer, then the offer cannot succeed. However, we note that there is no requirement for the Eastern Bay Energy Trust to publicly announce whether it will accept or reject the offer and hence shareholders who decide to accept the offer should ensure that they submit their acceptance prior to the close of the offer on 30 October 2009 (unless extended in accordance with the provisions of the Code).

### *If the MLL Offer Succeeds, the Acceptance Level is Uncertain*

Assuming that MLL receives acceptances for more than 12,745,606 shares, then shareholders accepting for more than 51% of their shares will face uncertainty as to the number of shares they can sell to MLL until the MLL Offer is completed and the total number of acceptances can be determined.

If a shareholder accepts the MLL Offer, they will be unable to sell the shares subject to the acceptance until the MLL Offer is completed. This will be of particular importance if a competing takeover offer is made or if a shareholder accepts Surplus Shares into the MLL Offer.

Payment for the shares accepted under the MLL Offer will be made not later than seven days after the later of:

- the date on which the offer becomes unconditional
- the date on which the acceptance is received or
- 30 October 2009 (although this date may change if the MLL Offer is extended).

As we have stated, there is no advantage to shareholders to accept the MLL Offer early. We recommend that in order to maintain flexibility, if shareholders decide to accept the MLL Offer, they do not submit their acceptance forms until either the Eastern Bay Energy Trust announces its intentions as to whether it will accept or reject the offer or close to the offer closing date.

## 2.7 Conditions of the MLL Offer

The Specified Percentage acceptance condition is discussed in section 2.5.

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

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

## 2.8 Implications of the MLL Offer Succeeding

### *MLL will Control Horizon Energy*

In the event that the MLL Offer is successful, Horizon Energy is likely to remain a listed company on the NZSX controlled by MLL.

MLL will control 51% of the voting rights in Horizon Energy. It will control appointments to the Company's board of directors. As an NZSX listed company, Horizon Energy is required to have a minimum of two independent directors.

With the Eastern Bay Energy Trust currently holding 77.29% of the shares in Horizon Energy, the Company is under the control of one major shareholder (at least from a shareholder voting perspective). The trust can singlehandedly control the outcome of any ordinary resolution (more than 50% of votes cast acceptance level) and any special resolution (75% of votes cast acceptance level) put to shareholders. However, the trust is effectively a benign owner for the 24,000 plus consumers or a proxy for the community and would be expected to act in the interests of the community as distinct from the self-interest of an individual or organisation.

With MLL holding 51% of the shares in the Company, it will be able to singlehandedly pass ordinary resolutions and block special resolutions. The Eastern Bay Energy Trust will still hold at least 26.29% of the shares in the Company and will be able to singlehandedly block any special resolution. Therefore MLL will probably not be able to control the outcome of special resolutions.

The key outcome of the MLL Offer from a control perspective will be a change in the identity of the major shareholder whose interests and objectives may differ from those of the current major shareholder.

While MLL will have control over Horizon Energy, it cannot act in an oppressive manner against minority shareholders. The Companies Act 1993 provides a level of protection to minority shareholders. Any transactions between MLL and Horizon Energy will be required to satisfy the requirements of the NZSX Listing Rules with respect to transactions with related parties.

### *MLL can Increase its Shareholding Under the Creep Provisions of the Code*

MLL will be permitted to *creep* towards the 90% threshold over time by buying up to a further 5% per annum commencing twelve months after the current offer closes. However it does not have to wait twelve months to make another partial or full takeover offer after the current offer closes.

### *Liquidity of Horizon Energy Shares Likely to Decrease*

The current public pool of 22.71% of the shares is thinly traded, with approximately 0.8% of the public pool (0.2% of the total number of shares) traded each month on average.

If the MLL Offer is successful, the size of the pool of shares held by shareholders other than MLL or Eastern Bay Energy Trust will most probably decrease. This will likely lead to a further reduction in the liquidity of the Company's shares, resulting in only smaller parcels of Horizon Energy's shares being able to be sold on-market over a reasonable period of time at the prevailing market price. This may suppress the price at which Horizon Energy's shares trade in the future.

### *Likelihood of Further Takeover Offer from MLL Reduces*

MLL's 51% shareholding level will provide it with a significant level of control over Horizon Energy. This could reduce MLL's inclination to further increase its shareholding in Horizon Energy via another takeover offer. MLL has held a 50% investment in Nelson Electricity Limited (**NEL**) since June 1996 and a 51% investment in the OtagoNet Joint Venture since July 2002. Its past investment record shows that it is comfortable sitting at a 51% shareholding level.

If MLL did make a takeover offer for further shares in Horizon Energy, it may not offer a control premium as MLL may value its offer on the basis that it already has significant control of Horizon Energy and hence does not need to pay a control premium.

MLL has not provided any indication (and nor does it have to) as to whether it may seek to increase its shareholding above 51%.

### *Likelihood of Other Takeover Offers Diminishes*

With MLL controlling 51% of the voting rights in Horizon Energy and the Eastern Bay Energy Trust holding at least 26.29%, the attraction of Horizon Energy as a takeover target will be reduced. Any bidder looking to take over Horizon Energy would need to ensure that both MLL and the Eastern Bay Energy Trust would accept its offer. This creates a greater difficulty than if the majority of the shares in Horizon Energy were held just by the trust. Accordingly, this may reduce the likelihood of other takeover offers.

### *No Significant Change in Business Risk*

If the MLL Offer succeeds, shareholders will still retain an interest in Horizon Energy. Shareholders are unlikely to face any material change in business risk unless operating policies are changed (positively or negatively). If successful with its offer, MLL will have the opportunity to make changes to the Company's operating policies if it so wished. MLL has stated in its Offer Document that it does not currently propose to make any material changes in respect of the Company's business activities, though no references to the future have been provided by MLL.

### *Potential Synergies*

Potential synergies may arise from combining the MLL business with MLL's majority ownership interests in the Horizon Energy, OtagoNet Joint Venture and NEL. Such synergies may arise in the areas of:

- network planning and management
- administrative and compliance efficiency
- operating costs
- regulatory and pricing management
- scale benefits for capital spend
- leverage with financiers.

We note however that Horizon Energy's shareholders may not receive the benefits of the synergistic gains depending on how they are captured and accounted for.

### *Dividend Policy*

If the MLL Offer succeeds, MLL will have the ability to control the Company's board of directors and thereby influence decisions such as the Company's debt levels and its dividend policy. This may result in changes to the levels of tax paid profits earned by the Company and dividends paid to shareholders.

## 2.9 Likelihood of Alternative Takeover Offers

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

If an alternative takeover offer was made and MLL decided not to match it, then those shareholders who had already accepted the MLL Offer would not be able to accept those shares into the alternative takeover offer until the MLL Offer lapsed.

Given this, if shareholders believe that there is a possibility that an alternative takeover offer will be made, they would be prudent to hold off deciding whether to accept their shares into the MLL Offer until near the closing of the offer on 30 October 2009 (unless the MLL Offer is extended).

## 2.10 Likelihood of MLL Increasing the Offer Price

We are not aware of any intention on MLL's part to increase its offer price. However, if MLL does increase its price under this offer, the increased price will be available to all shareholders, including those who have already accepted the MLL Offer at $3.96 per share.

## 2.11 Advantages of Accepting the MLL Offer

Assuming the MLL Offer is declared unconditional, acceptance of the offer will enable shareholders to realise cash of $3.96 per share for at least the Specified Percentage of their shares, or potentially more shares depending on the level of scaling of the Surplus Shares. $3.96 is a premium of between 25% to 34% to the VWAP that the shares have traded at in the year up to the announcement of the MLL Offer.

Depending on the size of each shareholder's parcel of shares, the ability to dispose of at least the Specified Percentage of shares may represent an exit opportunity not currently available on the NZSX for Horizon Energy's shares as they are thinly traded.

## 2.12 Disadvantages of Accepting the MLL Offer

### *Reduction in Shareholding in Horizon Energy*

If the MLL Offer is successful, accepting shareholders will hold smaller shareholdings in a company whose shares will likely be traded less regularly. As stated in section 2.8, a further reduction in the liquidity of the Company's shares may suppress the price at which the shares trade in the future.

Accepting shareholders will receive a control premium for a portion of their shares but may not receive a control premium for the remainder of their shares as MLL will be able to *creep* towards the 90% threshold over time and the likelihood of further takeovers offers from MLL or other bidders will reduce if the MLL Offer is successful.

By reducing their proportionate interest in Horizon Energy, accepting shareholders will not participate to the same extent in any appreciation in the value of the Horizon Energy shares as a result of improved performance or new takeover offers at a higher price following the completion of the MLL Offer.

The proposed regulatory changes will enable Horizon Energy to increase its regulated prices in its network business by an additional 1% effective 1 April 2010. This will have a positive impact on the financial performance of the Company's network business in the 2011 financial year and beyond.

Horizon Energy has invested considerable effort and expenditure in building up its contracting business. It is currently in negotiations to acquire a business that will significantly increase the size of its contracting business and broaden its skill base and geographical coverage. The Company expects to see significant benefits from the growth of its contracting business in the 2011 financial year and beyond.

Enhanced earnings from both the network business and the contracting business may lead to increases in the Horizon Energy share price and / or other potential takeover bidders taking an interest in the Company.

### *Inability to Transact Accepting Shares*

If a shareholder accepts the MLL Offer, then, until the expiry of the offer period, they will be unable to dispose of the shares for which they have accepted into the MLL Offer, whether by selling them on-market or by accepting them into an alternative takeover offer.

## 2.13 Implications of Not Accepting the MLL Offer

If certain shareholders choose not to accept the MLL Offer, then they will hold a proportionately greater percentage of the shares not owned by MLL or the Eastern Bay Energy Trust. A successful offer by MLL will reduce the public pool of shares in Horizon Energy which will likely reduce the overall liquidity of the Company's shares further.

It is unlikely that a takeover offer will be received from another bidder in the near term if the MLL Offer is successful and there is no certainty that MLL will pursue a subsequent full takeover offer given its level of control following a successful partial takeover offer. While the share price may remain at levels consistent with the current offer in anticipation of a full takeover offer, the likely reduced liquidity following the completion of the MLL Offer may impact negatively on this price.

## 2.14 Summary of Evaluation of the Merits of the MLL Offer

The MLL Offer is a partial offer for 51% of the shares in the Company and therefore there can only be two possible outcomes – either MLL receives acceptances in respect of at least 12,745,606 shares and the offer succeeds or the offer fails because MLL does not receive sufficient acceptances.

As the Eastern Bay Energy Trust holds 77.29% of the Company's shares, the likelihood of the MLL Offer succeeding is totally dependent on how the trust responds to the offer.

We are advised that the trust plans to evaluate the Target Company Statement (including this report) before deciding whether to accept or reject the offer.

Until such time as the Eastern Bay Energy Trust decides how it will respond to the MLL Offer, we see no advantage in other shareholders responding to the offer. If the trust accepts the MLL Offer in respect of at least 12,745,606 of its shares (65.98% of the shares that it holds), then the offer will be successful (assuming the other conditions of the offer are satisfied or waived), irrespective of whether any other shareholders accept the offer. Conversely, if the Eastern Bay Energy Trust states that it will not accept the MLL Offer, then the offer cannot succeed. However, we note that there is no requirement for the trust to publicly announce whether it will accept or reject the offer and hence shareholders who decide to accept the offer should ensure that they submit their acceptance prior to the close of the offer on 30 October 2009 (unless extended in accordance with the provisions of the Code).

Factors that shareholders should consider when deciding whether to accept or reject the MLL Offer include:

- the rationale for MLL making the MLL Offer and MLL's intentions for the future of the Company have not been clearly articulated
- we assess the full underlying value of Horizon Energy to be in the range of \$3.96 to \$4.68 per share. The MLL Offer consideration of \$3.96 is at the bottom end of our range and is 15% below the top end of the range
- the MLL Offer of \$3.96 per share represents premia ranging from 25% to 34% over the Company's VWAP for the past year. However, we note that trading in the Company's shares is extremely thin and that the observed share prices may not be a totally reliable indicator of the market value of the shares

- assuming that the MLL Offer is successful:
    - shareholders accepting for more than 51% of their shares will face uncertainty as to the number of shares they can sell to MLL until the MLL Offer is completed and the total number of acceptances can be determined
    - MLL will control Horizon Energy
    - MLL will be able to increase its shareholding in the Company under the *creep* provisions of the Code
    - the liquidity of Horizon Energy's shares is likely to decrease, which may suppress the price at which they trade in the future
    - the likelihood of takeover offers for the remaining shares in the Company will reduce
    - synergies may arise from combining the businesses but there is no certainty that the benefit of the synergies will accrue to Horizon Energy's shareholders
    - MLL will have the ability to control the Company's board of directors and influence decisions such as the Company's debt levels and dividend policy

The main advantage of accepting the MLL Offer is that shareholders will be able to realise cash of $3.96 per share for at least the Specified Percentage of their shares, or potentially more shares depending on the level of scaling of the Surplus Shares if the MLL Offer is successful. This may represent an exit opportunity not currently available on the NZSX for Horizon Energy's shares as they are thinly traded.

The key disadvantages of accepting the MLL Offer are:

- accepting shareholders will receive a control premium for a portion of their shares but may not receive a control premium for the remainder of their shares in the future
- by reducing their proportionate interest in Horizon Energy, accepting shareholders will not participate to the same extent in any appreciation in the value of the Company's shares as a result of improved performance or new takeover offers at a higher price following the completion of the MLL Offer
- accepting shareholders will be unable to dispose of the shares which they have accepted into the MLL Offer until the expiry of the offer period, whether by selling them on-market or by accepting them into an alternative takeover offer.

## 2.15 Acceptance or Rejection of the MLL Offer

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

# 3. Overview of the Electricity Industry

## 3.1 Industry Structure

The New Zealand electricity industry comprises four main activities:

- generation
- transmission
- distribution
- retail.

The main industry participants are set out below.

| Generation | Transmission | Distribution | Retail |
|---|---|---|---|
| • Meridian Energy | • Transpower | • Vector | • Contact |
| • Genesis Energy | | • Powerco | • Genesis Energy |
| • Mighty River Power | | • Wellington Electricity | • Mercury Energy |
| • Contact | | • Orion | • Meridian Energy |
| • TrustPower | | • Unison | • TrustPower |
| • Others | | • 24 Others | • Other retailers |

### *Generation*

New Zealand's electricity is generated by hydro-electric, thermal, geothermal and wind power stations. New Zealand's current generation capacity is approximately 9,000 megawatts (**MW**). Approximately 60% of current generation capacity is hydro-electric.

Of the main generation companies, Meridian Energy Limited (**Meridian Energy**), Genesis Power Limited (trading as **Genesis Energy**) and Mighty River Power Limited (**Mighty River Power**) are all state-owned enterprises (**SOEs**) and Contact Energy Limited (**Contact**) and TrustPower Limited (**TrustPower**) are listed on the NZSX. These five companies produce over 90% of New Zealand's electricity.

In addition to electricity generation, generation companies retail electricity to end-user consumers. As a result of the Electricity Industry Reform Act 1998, electricity generation companies are not allowed to distribute electricity (although limited levels of cross-ownership are permitted).

### *Transmission*

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

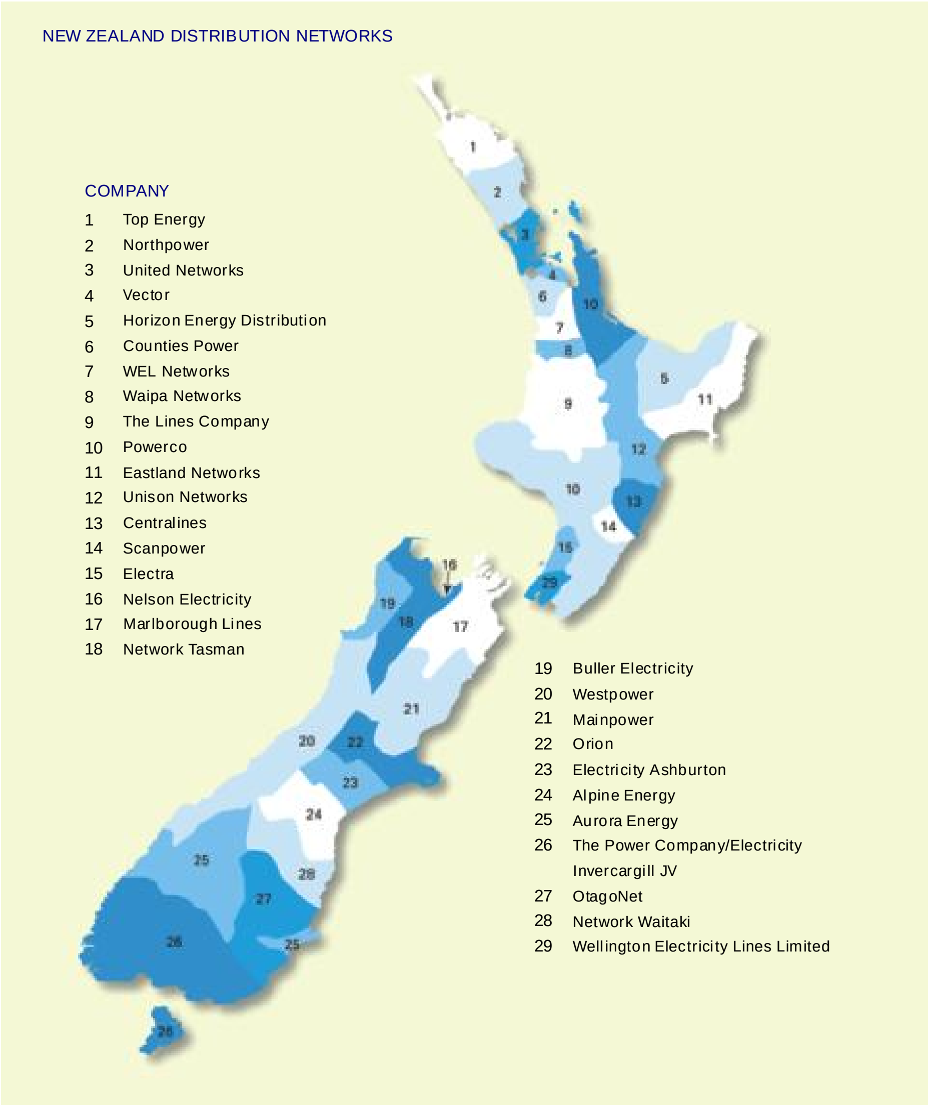
Transpower's customers are generators, EDBs and a small number of high volume consumers who take electricity directly from the national grid. Transpower's costs are passed through to end-customers through the EDB tariffs.

## *Distribution*

Distribution is the service of transporting electricity from GXPs through to industrial, commercial and residential consumers. There are over 150,000 km of distribution lines in New Zealand. The distribution networks also include substations which convert electricity to lower voltages.

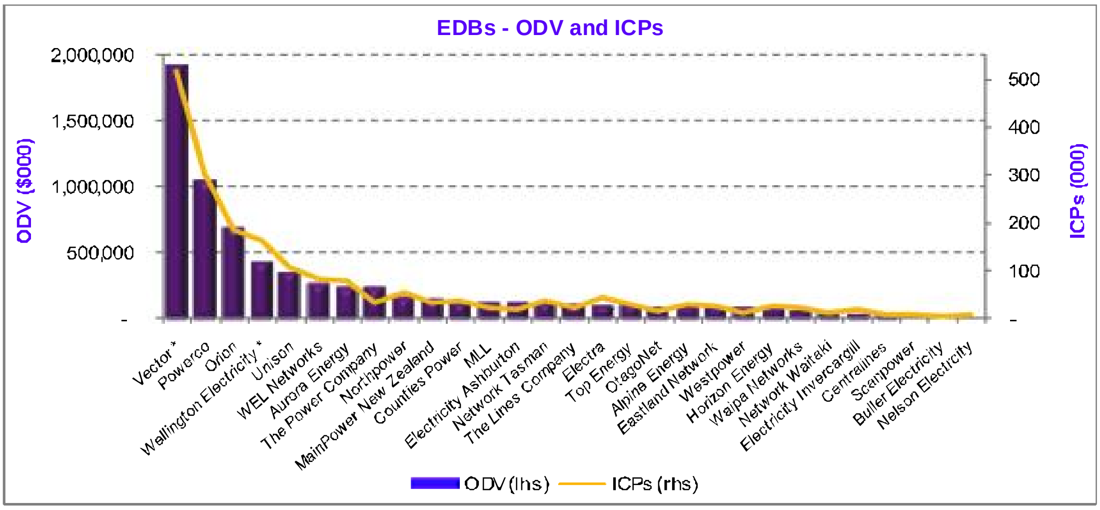
Under the Electricity Industry Reform Act 1998, EDBs were required to separate from companies that generated and retailed electricity (although limited levels of cross-ownership are permitted).

There are currently 29 EDBs operating in New Zealand.




*Source: Electricity Commission*

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




*Source: PricewaterhouseCoopers (**PwC**) Electricity Line Business and Gas Pipeline Business 2008 Information Disclosure Compendium*

* *Wellington Electricity data based on 31 March 2009 disclosure*

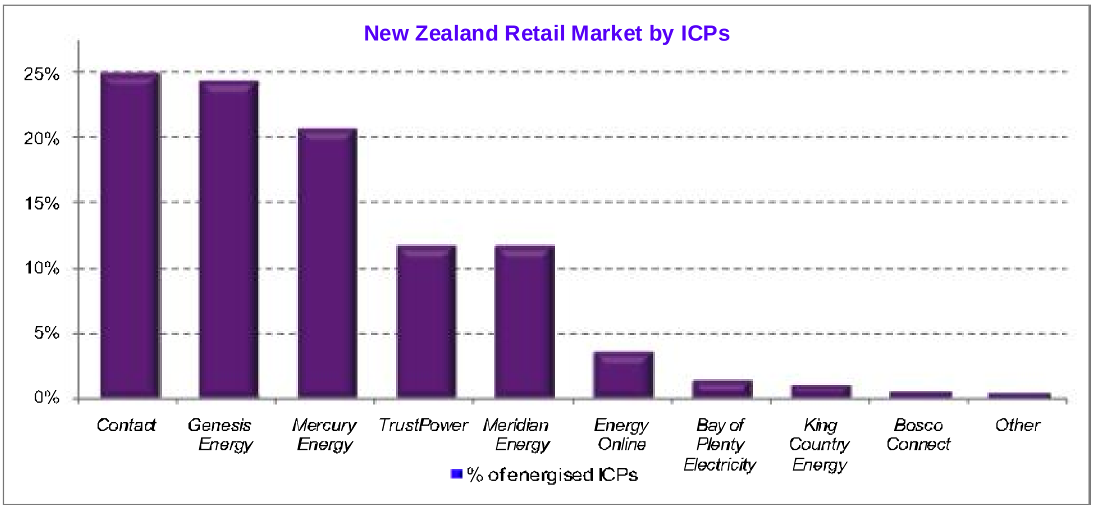
An analysis of the key information disclosures for the EDB industry is set out in Appendix I.

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

### *Retail*

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

The market share of electricity retailers as at August 2009 is set out below.




*Source: Electricity Commission Statistics, August 2009*

## 3.2 Industry Development

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

**New Zealand Electricity Reform Process**

| Year | Event |
|---|---|
| 1986 | Government generation and transmission departments are corporatised into Electricity Corporation of New Zealand (**ECNZ**) |
| 1992 | Electricity boards and municipal electricity departments are corporatised through the Energy Companies Act 1992 |
| 1993 | Electricity Act 1992 comes into effect. Light handed regulation is introduced for distribution / transmission companies requiring information disclosure relating to performance and prices |
| 1995 | ECNZ's generation operations are split into two SOEs, ECNZ and Contact, while its transmission operations are transferred to a new SOE, Transpower |
| 1998 | Electricity Industry Reform Act 1998 is enacted, requiring ownership of electricity distribution activities to be separated from supply (generation and retail) activities |
| 1999 | Information disclosure requirements are revised, resulting in an increase in the required level of disclosure. ECNZ is split into three SOEs – Genesis Energy, Mighty River Power and Meridian Energy |
| 2000 | A Ministerial Inquiry is made into the electricity industry, focusing on distribution, transmission, retail and the wholesale market. Government response to the Ministerial Inquiry requires further evolution of industry self-regulation arrangements and targeted price control of electricity distribution and transmission businesses |
| 2001 | Government introduces a new Electricity Industry Reform Act in response to the Ministerial Inquiry |
| 2002 | Commerce Commission develops a more stringent regulatory regime for distribution and transmission businesses, based on price path and quality thresholds |
| 2003 | Government establishes the Electricity Commission to act as the chief regulatory agency for the electricity sector, in response to the perceived ineffectiveness of industry self-governance |
| 2004 | Electricity Commission releases a new electricity industry ODV Handbook |
| 2006 | Draft Energy Strategy is released identifying Government objectives of reliance and resilience, environmental responsibility and fair and efficient prices |
| 2007 | Draft review of the Commerce Act includes introduction of lighter handed forms of incentive based regulation as an alternative to price controls for consumer owned entities |
| 2008 | Commerce Amendment Act 2008 and Electricity Industry Reform Amendment Act 2008 are enacted and Commerce Commission completes first phase of its information disclosure review for EDBs |
| 2009 | Commerce Commission publishes discussion papers on default price and quality regulations and input methodologies |

*Source: Electricity Commission, media coverage, independent adviser's reports, brokers' reports, Information Memorandum Prepared on Behalf of the Eastern Bay Energy Trust by PwC dated 4 June 2008*

## 3.3 Regulatory Environment

### *Electricity Commission*

The Electricity Commission is a Crown entity set up under the Electricity Act 1992 to oversee New Zealand's electricity industry and markets. It began operating in September 2003.

The Electricity Commission oversees and regulates the operation of the electricity industry and the wholesale and retail electricity markets in accordance with the Electricity Act 1992 and Government energy policy.

The Electricity Commission's principal objective is to ensure that electricity is produced and delivered to all classes of consumers in an efficient, fair, reliable and environmentally sustainable manner. It is also required to promote and facilitate the efficient use of electricity.

## EDB Regulation

### Price and Quality Thresholds

EDBs are subject to the thresholds regulatory regime under Part 4A of the Commerce Act 1986 administered by the Commerce Commission. The thresholds currently in place are applicable for the period 1 April 2004 to 31 March 2010 (having been extended from 31 March 2009) and include the following:

- a price-path threshold, governing annual average price changes (in the form of a *CPI-X* price path)
- quality thresholds, including reliability criteria and consumer communication criteria.

Each EDB has been attributed an *X* factor (-1%, 0%, 1%, 2%) depending on its historical relative productivity and profitability performance achieved over the five year period from 1999 to 2003 inclusive, combined with expected total industry productivity gains.

The Commerce Commission expects EDBs to make efficiency improvements each year to avoid breaching the price-path thresholds. In principle, the Commerce Commission's objective in attributing different price paths is to ensure businesses with below-average productivity, or with relatively high profits, face a higher price path than more productive businesses, or those which have been achieving lower profits.

### Regulatory Valuations

In accordance with the information disclosure requirements of Part 4A of the Commerce Act 1986 and relevant Financial Reporting Standards (adopting IFRS from 31 March 2008), EDBs must complete periodic ODV and financial reporting asset valuations. These valuation methodologies are both replacement cost based (distinct from historical cost accounting based) and value the assets using asset material and installation costs and technology available at the time of the valuation.

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

## *Commerce Act Review and Amendment*

During 2007, the Ministry of Economic Development undertook a review of the regulatory control provision of the Commerce Act. In September 2008, the Commerce Amendment Act 2008 was enacted. The key amendments for EDBs include:

- a more conventional qualitative test for when regulation may be imposed
- provision for alternative forms of regulation in addition to conventional price control including information disclosure, negotiation / arbitration and default / customised price and quality paths. Default price / quality regulation applies to EDBs with the provision for EDBs to seek a customised path where desired
- trust owned businesses meeting certain criteria are subject only to information disclosure. The criteria includes:
  - 100% co-operative, community or consumer trust ownership
  - at least 90% of consumers are eligible to vote in elections and all trustees must be elected
  - all consumers benefit from income distributions
  - the EDB must have fewer than 150,000 connected consumers
- a requirement that input methodologies (such as the cost of capital, the valuation of assets, the treatment of taxation and the allocation of common costs) are set up front to improve certainty and predictability
- pecuniary penalties may apply for contravention of price / quality regulation.

Certain transitional provisions apply to EDBs. The existing price and quality thresholds, which have applied since 1 April 2004 and were to expire on 31 March 2009 have been rolled over for an additional 12 months to 31 March 2010.

## *Threshold Reset*

In parallel to the Commerce Act review, the Commerce Commission has initiated its consultation process for the threshold reset for EDBs. A series of discussion papers have been published between December 2007 and September 2009 outlining issues for consideration for the reset of the price and quality thresholds.

The draft decisions propose allowing EDBs to increase prices for inflation (ie *CPI – 0%*) whilst ensuring that the current quality of supply to consumers will at least be maintained. This is intended to provide EDBs with incentives for efficiency gains. The price paths and quality standards will apply from 1 April 2010.

## *Input Methodologies*

In May 2008, the Commerce Commission also released its proposed process for consultation and determination of the key input methodologies to be used for regulated gas and electricity businesses. These are to include cost of capital, valuation of assets, allocation of common costs, taxation, regulatory specifications and pricing. The objective of the review is to provide enhanced transparency and certainty to the regulatory regimes administered under the Commerce Act. The Commerce Commission is required to make determinations on input methodologies by 30 June 2010.

### *Electricity Industry Reform Amendment Act 2008*

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

- EDBs will be able to sell up to 100% of nominal output capacity of permitted generation
- EDBs will be able to trade in financial hedges to manage spot market risk
- corporate separation and compliance with arms-length rules have been relaxed to:
    - permit investment in up to 10 MW (previously limited to the maximum of 2 MW or 5% of maximum demand) without having to comply with corporate separation rules
    - corporate separation now permits common directors in lines and supply businesses as long as at least one independent director exists
    - the same manager may manage both supply and distribution businesses up to a threshold generation capacity of 30 MW
- owners of EDBs may have unlimited involvement in generation from renewables where the definition of renewables has been amended to now include hydro and geothermal generation using traditional technologies. This is consistent with Government policy which encourages the development of renewable energy.

# 4. Profile of Horizon Energy

## 4.1 Company Background

The Bay of Plenty Electric Power Board (**BOPEPB**) was established in 1925. Following the corporatisation of electricity boards and municipal electricity departments in 1992, Horizon Energy was incorporated on 29 October 1993 as Bay of Plenty Electricity Limited (**BOP Electricity**).

The Company listed on the NZSX in March 1995.

In 1999, the Company's distribution, retail and generation functions were separated as part of Government restructuring of the industry. The retail and generation assets, together with the BOP Electricity brand, were sold to a consortium led by Todd Energy Limited (**Todd Energy**). The network assets were retained by the Company, which changed its name to Horizon Energy Distribution Limited on 1 April 1999.

In November 1999, Eastern Bay Energy Trust purchased the shares held by UnitedNetworks Limited (**UnitedNetworks**) in the Company, taking its shareholding from 25% to the 77.29% it currently holds.

## 4.2 Nature of Operations

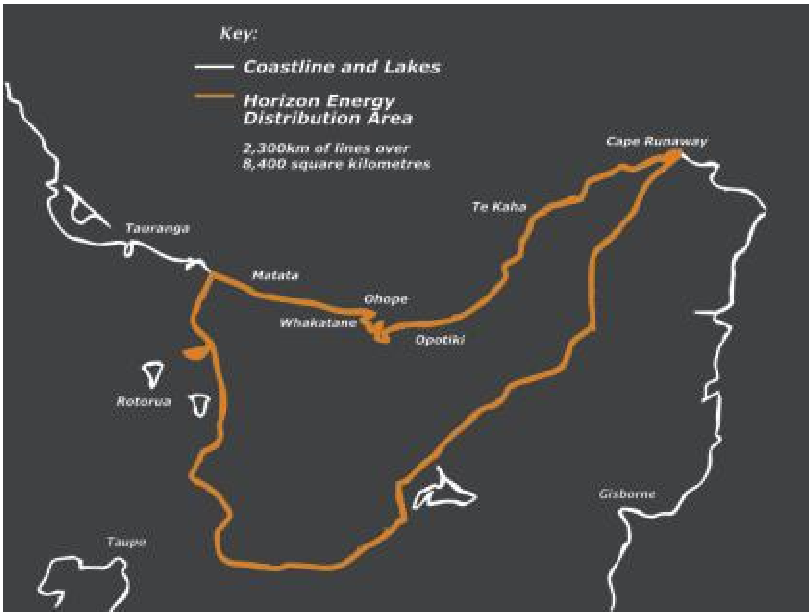
Since regulation commenced in 1999, Horizon Energy has focussed on managing and operating its network business efficiently. The Company has sought to expand its non-regulated revenue base, through the expansion of its contracting division.

The Company employs 65 people based predominantly in Whakatane.

### *Electricity Network*

*Overview*

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




*Source: Horizon Energy*

The network's key statistics as at 31 March 2009 are set out below.

| Horizon Energy Key Network Statistics | |
|---|---|
| System fixed assets at ODV roll forward | $87.2 m |
| Total circuit length | 2,341 km |
| Circuit length underground | 18.5% |
| Connection points | 24,254 ICPs |
| Electricity entering system for supply | 532 GWh |
| Maximum distribution transformer demand | 67 MW |
| Total distribution transformer capacity | 293 MVA |
| Load factor | 72% |
| Distribution transformer capacity utilisation | 22.8% |
| Loss ratio | 3.7% |

*ICPs: Installation control points (denoting an electricity consumer connected to the network)*
*GWh: Gigawatt hour*
*MVA: Megavolt ampere*

*Source: Horizon Energy Electricity Distribution (Information Disclosure) Requirements Report Schedules 31 March 2009*

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

### *Supply*

The network is supplied by Transpower from four GXPs:

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

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

At present, approximately 40 MW of Horizon Energy's electricity supply is sourced from small generation plants connected directly to the network, including the following stations:

- 25 MW Aniwhenua hydro station
- 5.2 MW Kawerau binary geothermal station
- 10 MW Edgecumbe gas fired co-generation station.

### *Network Infrastructure*

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

- 178 km of 33 kV lines and cables
- 1,680 km of 11 kV and SWER lines and cables
- 484 km of 400 V lines and cables
- 13 zone substation transformers
- 3,148 distribution transformers.

### *Asset Management*

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

The asset management plan was last updated in April 2009 and covers the period 1 April 2009 to 31 March 2019.

### *Customers*

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

The Company's largest electricity customer is Bay of Plenty Energy Limited, a subsidiary of Todd Energy, which provides the majority of Horizon Energy's electricity revenue. Horizon Energy therefore bills only a handful of parties, while serving over 24,200 connected customers:

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

### *Pricing*

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

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

### *Horizon Energy Contracting*

Horizon Energy Contracting was established in April 2007 to enable Horizon Energy to expand its non-regulated revenue business, secure labour resources and ensure shorter outage periods.

It is responsible for managing the network poles and wires and provides a wide range of electrical services across the Eastern and Western Bay of Plenty from general electrical works to large scale dairy sheds.

Horizon Energy expanded its contracting business in March 2008 through the acquisition of the Company's main contractor Total Power Services Limited (**Total Power**).

Over half of Horizon Energy Contracting's revenue comes from the network business at present. Horizon Energy Contracting has commenced a strategy of differentiating itself from its competitors by providing a wide range of services and forming strong alliances with customers. Growth is projected via acquisitions and organic expansion.

## 4.3 Corporate Objectives and Strategy

Horizon Energy's primary objectives are to:

- ensure that it is an efficient infrastructure owner and the provider of choice for infrastructure services
- maximise the value of its business in the long term for the benefit of its stakeholders in an environmentally and socially responsible manner through its dedication and committed staff
- provide a safe, efficient, sustainable and reliable network service to the Eastern Bay of Plenty.

The key elements of Horizon Energy's corporate strategy are set out below.

**Horizon Energy Corporate Strategy**

| Network Business | Horizon Energy Contracting |
|---|---|
| • maximise earnings under the current regulatory regime | • revenue growth through acquisitions aligned to core competencies and organic expansion |
| • manage operational costs | • facilities management of infrastructural assets |
| • enhance service levels through better management of the network | • develop capabilities to provide an integrated service to Horizon Energy's network and other customers |
| • potential ownership of the Transpower East Coast line from Waiotahi to Te Kaha | |

*Source: Horizon Energy Strategic Plan dated 16 February 2009*

Horizon Energy envisages itself over the next five years as a business:

- with enhanced management and operating systems
- which has consolidated its premises
- that is a major service provider for infrastructure services
- that has undertaken advanced evaluation of generation projects
- that continues to improve its reliability
- which is an owner of transmission assets
- that has enhanced profit expectations
- that is a major electrical contractor in the Bay of Plenty.

## 4.4 Directors and Senior Management

The directors of Horizon Energy are:

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

Horizon's senior management team comprises:

- Ajay Anand, chief executive officer
- Todd Campbell, chief financial officer / company secretary
- Alastair McAra, network manager
- Don Lewell, engineering manager
- Trevor McLellan, construction supervisor
- John Cox, business development manager
- David Smith, finance manager.

## 4.5 Financial Performance

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

**Summary of Horizon Energy Financial Performance**

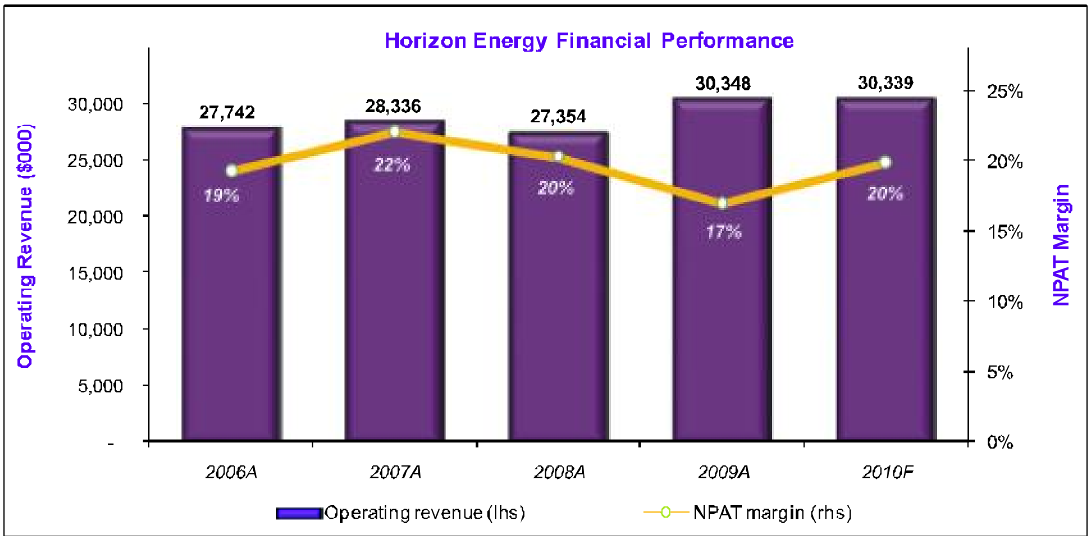
| | Year to 31 Mar 06 (Audited) $000 | Year to 31 Mar 07 [1] (Audited) $000 | Year to 31 Mar 08 [1] (Audited) $000 | Year to 31 Mar 09 [1] (Audited) $000 | Year to 31 Mar 10 [1] (Forecast) $000 |
|---|---|---|---|---|---|
| Operating revenue | 27,742 | 28,336 | 27,354 | 30,348 | 30,339 |
| Operating EBITDA | 13,679 | 12,709 | 12,555 | 12,899 | 14,234 |
| Operating EBIT | 10,644 | 9,634 | 8,717 | 8,766 | 9,858 |
| Other income | - | 660 | 715 | 1,560 | - |
| NPBT | 8,545 | 8,850 | 7,558 | 7,125 | 8,371 |
| NPAT | 5,343 | 6,250 | 5,548 | 5,154 | 6,029 |
| EPS ($) | $0.214 | $0.250 | $0.222 | $0.206 | $0.241 |
| DPS ($) | $0.19 | $0.175 | $0.165 | $0.17 | |
| Revenue growth p.a. | 3% | 2% | (3%) | 11% | 0% |
| Operating EBITDA margin | 49% | 45% | 46% | 43% | 47% |
| Operating EBIT margin | 38% | 34% | 32% | 29% | 32% |
| NPAT margin | 19% | 22% | 20% | 17% | 20% |

*EBITDA: Earnings before interest, tax, depreciation and amortisation*
*EBIT: Earnings before interest and tax*
*NPBT: Net profit before tax*
*NPAT: Net profit after tax*
*EPS: Earnings per share*
*DPS: Dividends per share*

*1 Prepared in accordance with NZ IFRS*
*Source: Horizon Energy audited financial statements and 2010 forecast*

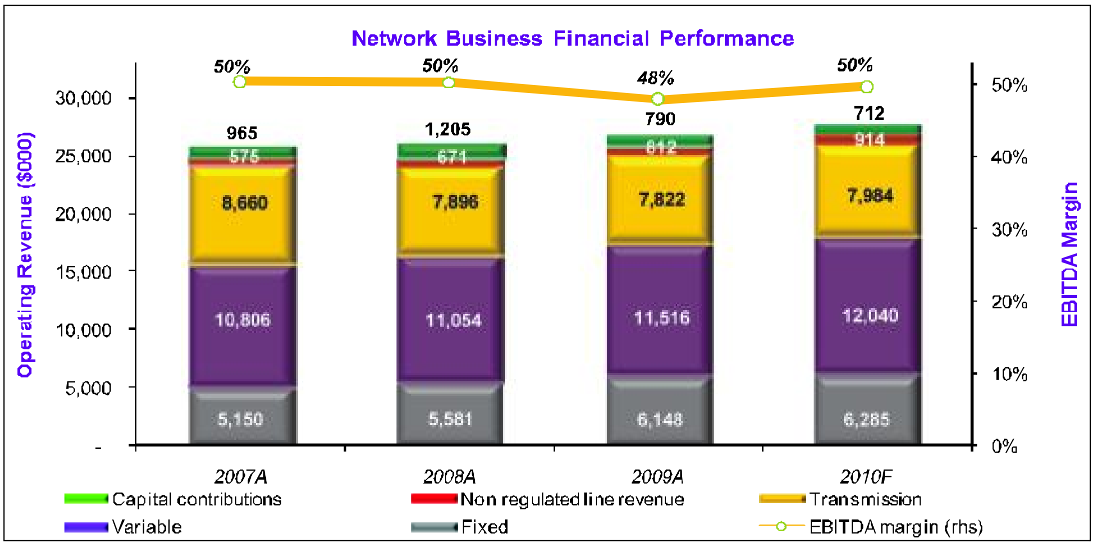
Total revenue has increased at a cumulative annual growth rate (**CAGR**) of 2.3% between the 2006 and 2010 financial years, with regulated revenue from the network business remaining relatively steady in real terms and growth being achieved in non regulated revenue, principally representing contracting revenue.

While operating margins have been steady, NPAT has fluctuated due to material items of other income in respect of favourable outcomes from legal disputes and accounting losses on financial derivatives.



## *Network Business*

An analysis of the network business' revenue streams and EBITDA margin for the 2007 to 2009 financial years (actual) and the 2010 financial year (forecast) is set out below.

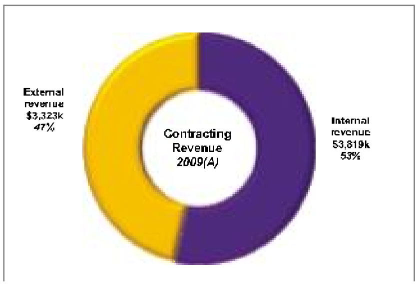


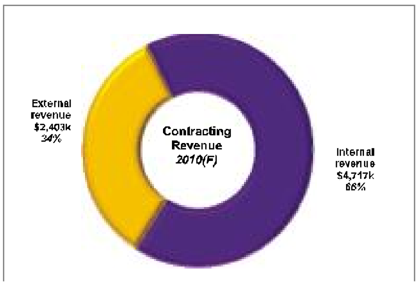

The network business' key value drivers are growth in connections and volume of electricity distributed. Over 60% of Horizon Energy's revenue is variable in nature. More extreme seasonality (hot summers and cold winters) increases network revenue as a result of the variable tariff component. Extreme weather patterns (such as flooding and snow storms) can have negative financial side-effects due to increased operating expenditure.

Network revenue has increased at a CAGR of 2.6% over the period. The Company's regulated price path to 31 March 2010 has been CPI – 1%. Its regulated price path from 1 April 2010 is expected to be CPI – 0%. EBITDA margin has remained relatively steady in the vicinity of 50%, other than in the 2009 financial year, where higher line maintenance costs and corporate expenses reduced EBITDA margin to 48%.

## *Contracting Business*

Horizon Energy Contracting was established in April 2007 to capitalise on a sector with significant growth potential, principally due to the age and capacity limitations of the sector's infrastructure. Horizon Energy has subsequently expanded its contracting business with the purchase of Total Power in March 2008. The 2009 financial year was the first full year of the expanded business.




Over 50% of the contracting business' revenue is currently from the network business. Gross margins have not been disclosed as they are considered by the Company to be commercially sensitive information.

### *Other Income*

Other income in the 2007 to 2009 financial years represent income recognised from long running legal disputes related to electricity supply which were resolved in favour of the Company.

### *Finance Expenses*

The Company has entered into interest rate swaps to fix its interest rate exposure. The fair value of the interest rate swaps is assessed each month and accounted for in the Company's financial statements. Costs of $1.3 million were recorded in the 2009 financial year in respect of the adverse movement in the fair value of the financial derivatives.

### *2010 Forecast*

Horizon Energy provided a revised profit outlook to the market on 28 September 2009, stating that its forecast NPAT for the 2010 financial year was around $6 million.

The 2010 forecast is based on five months actual results to 31 August 2009. The forecast is based on the following key assumptions:

- network revenue is 3.5% higher than 2009 due mainly to a colder winter
- contracting revenue is $0.9 million lower than 2009 due mainly to the depressed economic environment
- an overall EBITDA margin of 47%
- interest rate swaps mark to market gains of $0.4 million.

Forecast EBITDA for the network business is $13.4 million and $0.9 million for the contracting business.

## 4.6 Financial Position

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

**Summary of Horizon Energy Financial Position**

| | As at 31 Mar 06 (Audited) $000 | As at 31 Mar 07 [1] (Audited) $000 | As at 31 Mar 08 [1] (Audited) $000 | As at 31 Mar 09 [1] (Audited) $000 | As at 31 Aug 09 [1] (Unaudited) $000 |
|---|---|---|---|---|---|
| Current assets | 4,709 | 4,817 | 4,559 | 4,389 | 5,155 |
| Non-current assets | 77,170 | 97,797 | 98,911 | 98,012 | 97,176 |
| Total assets | 81,879 | 102,614 | 103,470 | 102,401 | 102,331 |
| Current liabilities | (4,286) | (5,877) | (5,550) | (5,609) | (4,500) |
| Non-current liabilities | (31,089) | (51,204) | (49,023) | (47,986) | (46,994) |
| Total liabilities | (35,375) | (57,081) | (54,573) | (53,595) | (51,494) |
| Total equity | 46,504 | 45,533 | 48,897 | 48,806 | 50,837 |

*1 Prepared in accordance with NZ IFRS*

*Source: Horizon Energy audited financial statements and 31 August 2009 management accounts*

Horizon Energy's financial position has remained relatively steady reflecting the nature of its business and its dividend policy of distributing the majority of its profits.

Horizon Energy's main current assets are trade and other receivables, representing approximately 80% of current assets.

Non-current assets consist mainly of property, plant and equipment. The network distribution system represents 97% of the value of property, plant and equipment, with a carrying value of $94.4 million as at 31 August 2009. The system was revalued on 31 March 2007 on a depreciated replacement cost basis. The regulatory asset base (**RAB**) value for regulatory reporting purposes was $88.0 million on a 2004 ODV roll forward basis as at 31 March 2009.

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

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

- the Company had $25.1 million of bank loans outstanding as at 31 August 2009
- the fair value of the interest rate swaps amounted to a liability of $0.5 million as at 31 August 2009
- the deferred tax liability amounted to $21.2 million as at 31 August 2009, arising primarily from the revaluation uplift on the network distribution system. This tax liability is not expected to crystalise.

## 4.7 Cash Flows

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

**Summary of Horizon Energy Cash Flows**

| | Year to 31 Mar 06 (Audited) $000 | Year to 31 Mar 07 [1] (Audited) $000 | Year to 31 Mar 08 [1] (Audited) $000 | Year to 31 Mar 09 [1] (Audited) $000 |
|---|---|---|---|---|
| Net cash flow from operating activities | 9,133 | 10,372 | 7,523 | 9,769 |
| Net cash used in investing activities | (3,332) | (3,913) | (4,061) | (3,213) |
| Net cash from financing activities | (5,003) | (6,443) | (3,684) | (6,311) |
| Net increase / (decrease) in cash held | 798 | 16 | (222) | 245 |
| Opening cash balance | (752) | 46 | 62 | (160) |
| Closing cash balance | 46 | 62 | (160) | 85 |

*1 Prepared in accordance with NZ IFRS*
*Source: Horizon Energy audited financial statements*

There have been minimal changes in the Company's cash position over the past four years. The Company has paid out the majority of its NPAT as dividends, capital expenditure has approximated depreciation each year and there has been a slight reduction in bank loans over the period.

## 4.8 Capital Structure and Shareholders

Horizon Energy currently has 24,991,385 ordinary shares on issue held by 2,900 shareholders.

The names, number of shares and percentage holding of the ten largest shareholders as at 2 October 2009 are set out below.

**Horizon Energy's Ten Largest Shareholders**

| Shareholder | No. of Shares Held | % |
|---|---|---|
| Eastern Bay Energy Trust | 19,316,130 | 77.29% |
| Robert Famularo, Kerry Famularo and KM Trustee Services Limited | 431,225 | 1.73% |
| Accident Compensation Corporation | 220,146 | 0.88% |
| Ace Finance Limited | 153,650 | 0.61% |
| Paradise Finance Limited | 117,270 | 0.47% |
| Ronald Gillatt | 105,000 | 0.42% |
| Penmaen Limited | 70,000 | 0.28% |
| FNZ Custodians Limited | 67,315 | 0.27% |
| J T Maxwell & Company Limited | 57,100 | 0.23% |
| PHP Bayly Limited | 50,000 | 0.20% |
| Subtotal | 20,587,836 | 82.38% |
| Others (2,890 shareholders) | 4,403,549 | 17.62% |
| Total | 24,991,385 | 100.00% |

*Source: NZX Data*

### *Eastern Bay Energy Trust*

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

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

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

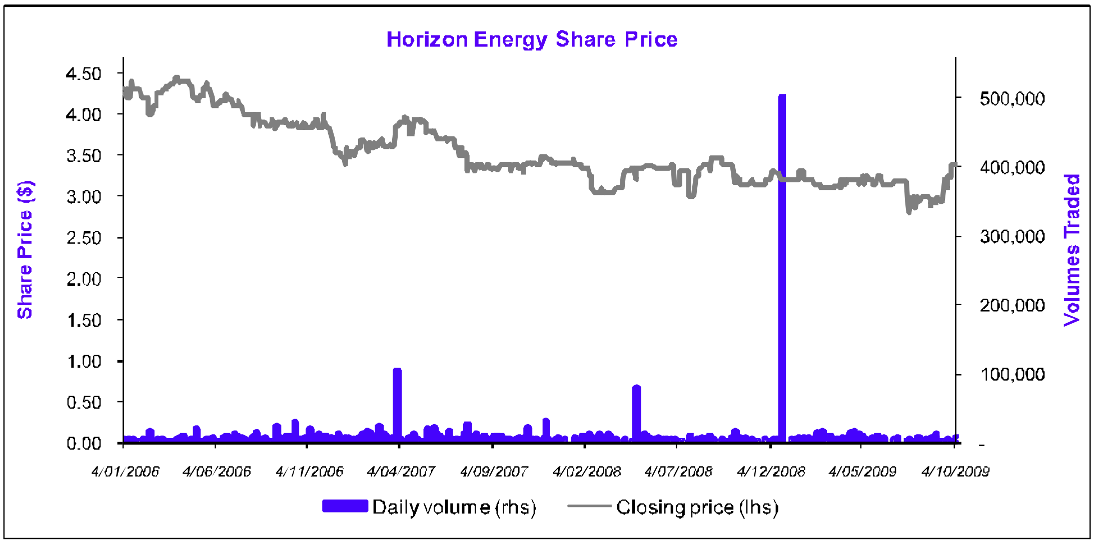
In October 2000, BOPEC Trust was renamed the Eastern Bay Energy Trust to better reflect both the area of operation and the trust's focus on making distributions of its funds for a wide range of energy related projects and issues of interest to the communities of the Eastern Bay of Plenty.

The beneficiaries of the trust are the current and future electricity consumers living in the Eastern Bay of Plenty districts, to whom electricity is distributed by Horizon Energy. The beneficiaries are represented by six trustees, four of whom are elected and two of whom are appointed.

Horizon Energy's listing on the NZSX impacts on the Eastern Bay Energy Trust's governance rules prohibiting the interference of trustees in the management of Horizon Energy. As the majority owner, the Eastern Bay Energy Trust's only role is in the nomination and election of Horizon Energy directors. Once elected, the directors of Horizon Energy are required to act in the best interests of the Company and all shareholders.

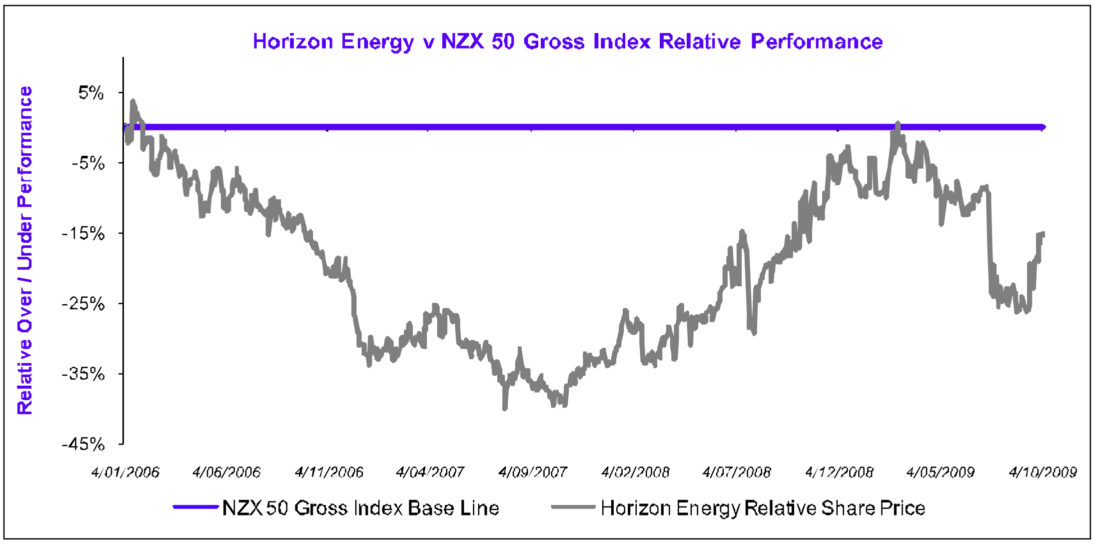
## 4.9 Share Price History

Set out below is a summary of Horizon Energy's daily closing share price and daily volumes of shares traded from 4 January 2006 to 6 October 2009.




During the period, Horizon Energy's shares have traded between $2.80 (on 20 and 21 July 2009) and $4.45 (on 30 March 2006) at a VWAP of $3.48.

Horizon Energy's share price relative to the NZX 50 Gross Index is set out below.




Overall, Horizon Energy has underperformed the NZX 50 Gross Index (the **Index**) between 4 January 2006 and the current date. However, when viewed in shorter time periods, the Company's shares have underperformed the Index in 2006 and 2007 and outperformed the Index in 2008 and 2009. This is likely to be attributable to a combination of the relatively low risk nature of the Company's business and its stable cash flows, coupled with thin trading in the Company's shares resulting in comparatively small changes in the Company's share price during a period when the equity markets rose in 2006 and 2007 and significantly decreased in 2008.

Horizon Energy's shares are not regularly traded, reflecting that 77.29% of the shares are held by cornerstone shareholder the Eastern Bay Energy Trust. The public pool (or free float) of shares represents 22.71% of the shares on issue and is currently held by 2,899 shareholders.

The average volume of shares traded each month since 4 January 2006 represented approximately 0.8% of the public pool (0.2% of the total shares on issue).

The Company's second largest shareholder, Robert Famularo, Kerry Famularo and KM Trustee Services Limited, acquired 500,000 shares from ANZ Nominees Limited on 22 December 2008 at $3.20 per share. They currently hold 431,225 shares (1.73%).

An analysis of VWAP, traded volumes and liquidity (measured as traded volumes as a percentage of total shares outstanding and the free float) up to 14 September 2009 (the date the MLL Offer was announced) is set out below.

**Horizon Energy Share Trading up to 14 September 2009**

| | Low | High | VWAP | Volume Traded (000) | Liquidity | |
|---|---|---|---|---|---|---|
| | | | | | Total | Free Float |
| 1 month | 2.91 | 3.00 | 2.96 | 30 | 0.1% | 0.5% |
| 3 months | 2.80 | 3.19 | 2.98 | 56 | 0.2% | 1.0% |
| 6 months | 2.80 | 3.25 | 3.12 | 177 | 0.7% | 3.1% |
| 12 months | 2.80 | 3.40 | 3.18 | 835 | 3.3% | 14.7% |

The Horizon Energy shares traded at $2.95 on 8 September 2009 (being the last day that they traded before the MLL Offer was announced).

Following the announcement of the MLL Offer on 14 September 2009, 13,660 shares have traded (0.2% of the free float) in the range of $2.95 to $3.40 at a VWAP of $3.30.

# 5. Profile of MLL

## 5.1 Company Background

MLL was incorporated on 22 April 1993 as Marlborough Electric Limited (**MEL**). It changed its name to Marlborough Lines Limited on 30 March 1999.

MLL is an EDB whose principal activity is conveying electricity in and around the Marlborough region.

Its network has provided the Marlborough region with electricity since 1923, originally as the Marlborough Electric Power Board and then as MEL in 1993.

The company sold its generation and retail businesses to TrustPower in March 1999 and became MLL, focussing on the operation and maintenance of its lines network.

## 5.2 Nature of Operations

### *Electricity Network*

The MLL distribution network covers an area of some 11,300 $km^2$ in the Marlborough region.

The MLL network's key statistics as at 31 March 2009 are set out below.

| MLL Key Network Statistics | |
|---|---|
| System fixed assets at ODV roll forward | $155.8 m |
| Total circuit length | 3,320 km |
| Circuit length underground | 13.2% |
| Connection points | 23,870 ICPs |
| Electricity entering system for supply | 372 GWh |
| Maximum distribution transformer demand | 70 MW |
| Total distribution transformer capacity | 299 MVA |
| Load factor | 61% |
| Distribution transformer capacity utilisation | 23.4% |
| Loss ratio | 5.1% |

*Source: MLL Electricity Distribution (Information Disclosure) Requirements Report Schedules 31 March 2009*

The company has 14 zone substations which convert 33 kV electricity to 11 kV and 3,365 distribution transformers which convert the 11 kV electricity into 400/230 V.

An analysis of MLL's key information disclosures is set out in Appendix I.

### *EDB Investments*

MLL has investments in two EDBs:

- 50% of NEL, the EDB which delivers electricity to the central city area of Nelson. MLL acquired its 50% shareholding in June 1996. The other 50% is held by Network Tasman Limited
- 51% of the OtagoNet Joint Venture, the EDB which delivers electricity to the eastern non-metropolitan Otago region. MLL entered into the OtagoNet Joint Venture in July 2002 with Electricity Invercargill Limited and The Power Company Limited.

### *Contracting*

MLL operates a contracting division, Marlborough Lines Contracting (**MLC**), which specialises in substation and line construction, cable installation and the maintenance and operation of generation and electricity networks.

MLL also owns a 51% interest in Otago Power Services Limited, a network contracting company based in Balclutha with branches in Gore, Palmerston and Ranfurly.

## 5.3 Corporate Objectives

The key themes in MLL's 2007/08 Statement of Corporate Intent are:

- enhancing shareholder value by expansion both within and outside of core business activities
- excellence in performance including safety, cost efficiency, network reliability, productivity, environmental sustainability, customer servicing and employee satisfaction
- achieving commercial rates of return
- prudent investment in lines business assets.

The company intends to continue operating in the following core business areas:

- network operation
- contracting
- property investment
- EDB / contracting relating investments.

## 5.4 Directors and Senior Management

The directors of MLL are:

- Des Ashton
- Ross Butler
- David Dew, chair
- Ken Forrest, managing director
- Terry Shagin.

MLL's senior management team comprises:

- Ken Forrest, managing director
- David Waters, deputy chief executive
- Brian Tapp, operations manager
- Steve McLauchlan, manager, MLC
- Wayne Stronach, engineering manager
- Geoff Hoare, company secretary.

## 5.5 Financial Performance

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

**Summary of MLL Financial Performance**

| | Year to 31 Mar 06 (Audited) $000 | Year to 31 Mar 07 [1] (Audited) $000 | Year to 31 Mar 08 [1] (Audited) $000 | Year to 31 Mar 09 [1] (Audited) $000 |
|---|---|---|---|---|
| Total revenue | 41,867 | 35,085 | 44,400 | 48,465 |
| Operating EBITDA | 18,759 | 13,832 | 19,110 | 19,592 |
| Operating EBIT | 10,931 | 7,876 | 12,633 | 12,766 |
| Share of associates' profits / (losses) | (690) | 1,222 | 1,816 | 808 |
| NPBT | 9,093 | 7,811 | 12,826 | 12,006 |
| NPAT | 7,105 | 5,687 | 13,534 | 9,076 |
| EPS ($) | $0.254 | $0.203 | $0.483 | $0.324 |
| DPS ($) | $0.005 | $0.009 | $0.009 | $0.009 |
| Revenue growth p.a. | 26% | (16%) | 27% | 9% |
| Operating EBITDA margin | 45% | 39% | 43% | 40% |
| Operating EBIT margin | 26% | 22% | 28% | 26% |
| NPAT margin | 17% | 16% | 30% | 19% |

*1 Prepared in accordance with NZ IFRS*
*Source: MLL audited financial statements*

All surpluses of the company are either returned to Marlborough customers as a discount or reinvested in the company's assets. The discount for the year ended 31 March 2009 was $5.8 million.

The significant growth in revenue in the 2008 financial year included an increase of $3.8 million in vested assets treated as income. Tax for the year was a credit of $0.7 million, which included a deferred tax credit of $1.9 million.

The decrease in NPAT in the 2009 financial year was due to lower levels of vested assets and lower associates' profits.

## 5.6 Financial Position

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

**Summary of MLL Financial Position**

| | As at 31 Mar 06 (Audited) $000 | As at 31 Mar 07 [1] (Audited) $000 | As at 31 Mar 08 [1] (Audited) $000 | As at 31 Mar 09 [1] (Audited) $000 |
|---|---|---|---|---|
| Current assets | 9,205 | 7,772 | 8,909 | 9,543 |
| Non-current assets | 192,645 | 239,469 | 255,019 | 260,722 |
| Total assets | 201,850 | 247,241 | 263,928 | 270,265 |
| Current liabilities | (3,820) | (3,852) | (4,668) | (4,032) |
| Non-current liabilities | (27,914) | (65,519) | (65,905) | (64,052) |
| Total liabilities | (31,734) | (69,371) | (70,573) | (68,084) |
| Total equity | 170,116 | 177,870 | 193,355 | 202,181 |

*1 Prepared in accordance with NZ IFRS*

*Source: MLL audited financial statements*

Non-current assets consist mainly of property, plant and equipment ($179.6 million as at 31 March 2009) and investments in associates ($78.1 million).

The RAB ODV roll forward value of the MLL network as at 31 March 2009 was $165.4 million.

## 5.7 Cash Flows

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

**Summary of MLL Cash Flows**

| | Year to 31 Mar 06 (Audited) $000 | Year to 31 Mar 07 [1] (Audited) $000 | Year to 31 Mar 08 [1] (Audited) $000 | Year to 31 Mar 09 [1] (Audited) $000 |
|---|---|---|---|---|
| Net cash flow from operating activities | 13,640 | 9,807 | 10,575 | 13,698 |
| Net cash used in investing activities | (12,600) | (11,782) | (12,918) | (10,925) |
| Net cash from financing activities | (1,350) | 1,450 | 2,600 | (2,500) |
| Net increase / (decrease) in cash held | (310) | (525) | 257 | 273 |
| Opening cash balance | 682 | 290 [2] | (235) | 22 |
| Closing cash balance | 372 [2] | (235) | 22 | 295 |

*1 Prepared in accordance with NZ IFRS*
*2 Difference due to NZ IFRS*

*Source: MLL audited financial statements*

## 5.8 Capital Structure and Shareholders

MLL currently has 28,000,000 ordinary shares on issue.

MLL is wholly owned by the Marlborough Electric Power Trust, which holds the shares on behalf of its beneficiaries – the current and future electricity users in the Marlborough region.

# 6. Valuation of Horizon Energy

## 6.1 Introduction

The MLL Offer is a partial takeover offer and is conditional upon, amongst other things, MLL receiving acceptances in respect of 51% of the Company's shares. In such circumstances, we are of the view that the appropriate basis upon which to evaluate the fairness of the MLL Offer is to compare the offer price of $3.96 per share with the full underlying value of Horizon Energy on a standalone basis, pro-rated across all shares.

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

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

## 6.2 Standard of Value

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

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

## 6.3 Basis of Valuation

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

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

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

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

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

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

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

## 6.4 Valuation Approach

We have assessed the fair market value of Horizon Energy using the DCF and capitalisation of earnings methods.

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

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

A multiple of enterprise value to ODV (the **ODV multiple**) is an important benchmark in the EDB sector. However, ODV valuations were last undertaken by EDBs in 2004. EDBs have since been reporting RAB values based on a roll forward of 2004 ODV for regulatory purposes. Accordingly, recent transactions are more meaningfully analysed as RAB multiples. We have reviewed the ODV / RAB multiples implied by our valuation assessment when considering the reasonableness of the valuation outcomes.

In order to assess the value of Horizon Energy's shares, we have aggregated the network business and contract business enterprise values and deducted the Company's net interest bearing debt (**IBD**) and the market value of its financial derivatives.

## 6.5 Network Business Enterprise Value

### *Discounted Cash Flow Valuation*

The DCF methodology assesses value in two stages:

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

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

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

### *Free Cash Flows*

The FCF adopted in the DCF valuation are based on the Horizon Energy financial projections for the five years to 2015. These projections have been approved by the Company's directors.

The key assumptions adopted in the FCF projections are:

- network growth of 200 new ICPs per annum and load growth of 1% per annum for urban and domestic tariff users
- a price path of CPI – 0%
- CPI averaging 2.5% over the long run
- transmission charges increasing in line with load growth
- other operating costs increasing at the rate of inflation
- capital expenditure averaging $4.3 million per annum based on the Company's asset management plan
- working capital requirements moving in line with revenue growth
- a corporate tax rate of 30%.

### *Weighted Average Cost of Capital*

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

We have assessed the WACC for the network business to be in the vicinity of 7.7%. Key inputs in the WACC assessment are:

- a risk free rate of 5.9%
- an asset beta of 0.4
- a debt risk premium of 2.0%
- a post investor tax market risk premium of 7.5%
- financial leverage of 40%
- a corporate tax rate of 30%.

The above inputs result in a cost of equity in the vicinity of 9.2% and a cost of debt (before tax) in the vicinity of 7.9%.

#### *Sensitivity Analysis*

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

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

#### *DCF Valuation Conclusion*

Based on the above, the enterprise value of the network business is in the range of $120.3 million to $138.7 million as at the present date using the DCF approach.

We note that the values derived from the DCF approach are highly dependent upon the assumptions adopted – particularly those in respect of the long term regulatory environment.

### ***Capitalisation of Earnings Valuation***

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

#### *Future Maintainable Earnings*

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

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

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

The analysis of the financial performance of the operating business in section 4.5 shows that EBITDA of $12.6 million was recorded in the 2009 financial year and EBITDA of $13.4 million is forecast for the 2010 financial year.

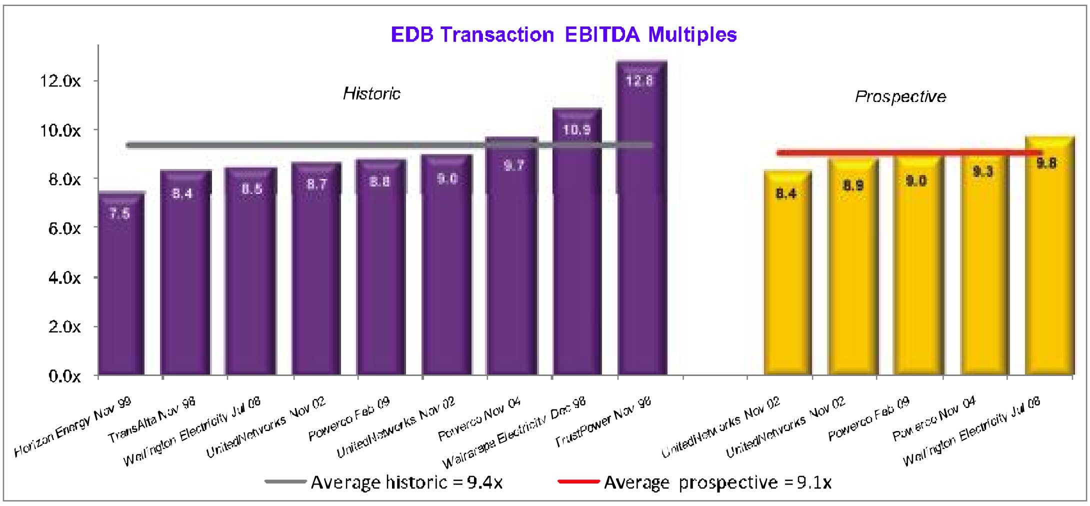
We consider the forecast EBITDA of $13.4 million for the 2010 financial year to be an appropriate basis for assessing future maintainable EBITDA.

*Earnings Multiple*

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

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

Set out at Appendix II is an analysis of 13 transactions involving EDBs since 1998, showing historic and prospective EBITDA multiples and ODV / RAB multiples.




The analysis shows that the five most recent transactions (between 2002 and 2009) have been in a relatively narrow EBITDA multiple range of 8.5x to 9.7x (historic) and 8.4x to 9.8x (prospective) at an average of 8.9x (historic) and 9.1x (prospective).

There are only two EDBs listed on the NZSX – Horizon Energy and Vector. Their observed EBITDA multiples are set out below.

| EDB NZSX Trading EBITDA Multiples | | | |
|---|---|---|---|
| | | EBITDA Multiple | |
| | | Historic | Prospective |
| Horizon Energy | - current | 8.6x | 7.8x |
| | - pre MLL Offer | 7.7x | 7.0x |
| Vector | | 7.8x | 7.7x |

*Source: Capital IQ*

*Data as at 6 October 2009, Horizon Energy pre MLL Offer as at 11 September 2009*

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

We consider an appropriate prospective EBITDA multiple for the network business to be in the range of 8.5x to 9.5x.

### *Capitalisation of EBITDA Valuation*

Based on the above, the enterprise value of the network business is in the range of $113.9 million to $127.3 million as at the present date using the capitalisation of earnings approach.

| Capitalisation of EBITDA Valuation Network Business | Low $m | High $m |
|---|---|---|
| Future maintainable EBITDA | 13.4 | 13.4 |
| EBITDA multiple | 8.5x | 9.5x |
| Enterprise value | 113.9 | 127.3 |

### ***Network Business Enterprise Value***

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

| Network Business Enterprise Value Range | Low $m | High $m |
|---|---|---|
| DCF | 120.3 | 138.7 |
| Capitalisation of earnings | 113.9 | 127.3 |

We assess the enterprise value of the network business to be in the range of $120 million to $135 million as at the present date.

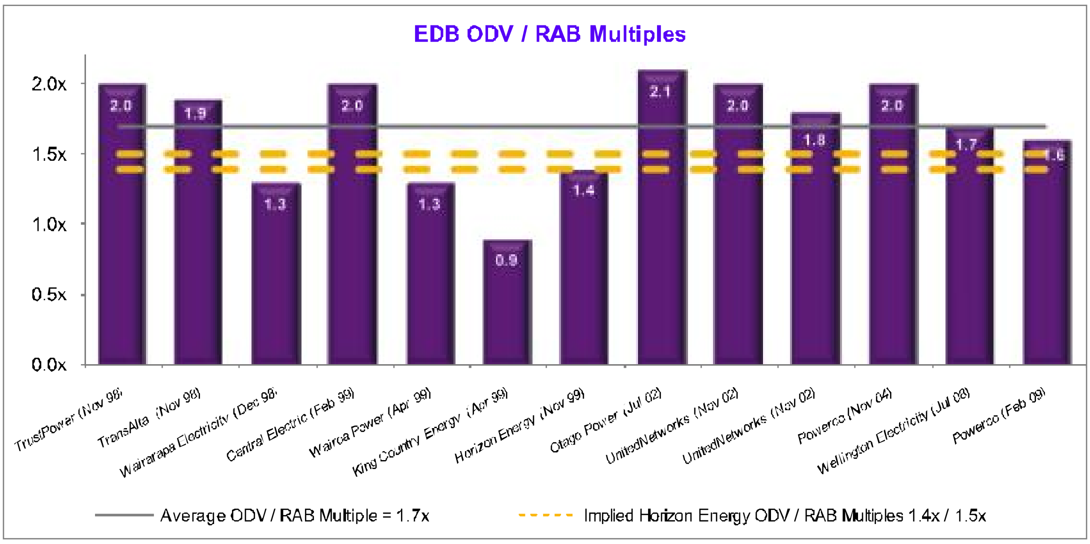
### *Implied ODV / RAB Multiples*

The network business enterprise value of $120 million to $135 million implies an ODV / RAB multiple of 1.4x to 1.5x, based on the Company's RAB value of $88.0 million as at 31 March 2009.

| Implied ODV / RAB Multiple | | |
|---|---|---|
| | **Low<br>$m** | **High<br>$m** |
| Network business enterprise value | 120.0 | 135.0 |
| RAB value as at 31 March 2009 | 88.0 | 88.0 |
| Implied ODV / RAB multiple | 1.4x | 1.5x |

An analysis of ODV / RAB multiples for 13 EDB transactions between 1998 and 2009 is set out in Appendix II. The ODV / RAB multiples range from 0.9x to 2.1x with an average of 1.7x. The two most recent transactions in 2008 and 2009 have been at implied ODV / RAB multiples of 1.7x and 1.6x. We note that care needs to be taken when reviewing ODV / RAB multiples over a wide time period due to the fact that ODV valuations were last undertaken in 2004.

The graph below shows that the implied ODV / RAB multiples for Horizon Energy of 1.4x to 1.5x are broadly in line with the industry multiples, albeit slightly below the average. We consider the implied ODV / RAB multiples to be reasonable.



## 6.6 Contracting Business Enterprise Value

### *Discounted Cash Flow Valuation*

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

The key assumptions adopted in the FCF projections are:

- a CAGR of 5.4% for revenue over the five year period, driven primarily by growth in external contracting revenue
- gross margins remaining constant over the period
- other operating costs increasing at the rate of inflation
- EBITDA margins ranging from 12% to 15% over the period
- capital expenditure averaging $0.5 million per annum
- working capital requirements moving in line with revenue growth
- a corporate tax rate of 30%
- a WACC of 12%.

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

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

Based on the above, the enterprise value of the contracting business is in the range of $4.5 million to $8.8 million as at the present date using the DCF approach.

### *Capitalisation of Earnings Valuation*

The analysis of the financial performance of the contracting business in section 4.5 shows that EBITDA of $0.8 million was recorded in the 2009 financial year and EBITDA of $0.9 million is forecast for the 2010 financial year.

We consider the forecast EBITDA of $0.9 million for the 2010 financial year to be an appropriate basis for assessing future maintainable EBITDA.

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

Based on the above, the enterprise value of the contracting business is in the range of $4.5 million to $5.4 million as at the present date using the capitalisation of earnings approach.

| Capitalisation of EBITDA Valuation Contracting Business | | |
|---|---|---|
| | **Low $m** | **High $m** |
| Future maintainable EBITDA | 0.9 | 0.9 |
| EBITDA multiple | 5.0x | 6.0x |
| Enterprise value | 4.5 | 5.4 |

### *Contracting Business Enterprise Value*

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

| Contracting Business Enterprise Value Range | | |
|---|---|---|
| | **Low $m** | **High $m** |
| DCF | 4.5 | 8.8 |
| Capitalisation of earnings | 4.5 | 5.4 |

We assess the enterprise value of the contracting business to be in the range of $5 million to $8 million as at the present date.

## 6.7 Value of Horizon Energy Shares

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

The Company's net IBD and the fair value of the financial derivatives amounted to $26 million as at 31 August 2009.

We assess the fair market value of all the shares in Horizon Energy to be in the vicinity of $99 million to $117 million as at the present date. This equates to a value of $3.96 to $4.68 per share.

| Value of Horizon Energy Shares | | |
|---|---|---|
| | **Low $m** | **High $m** |
| Network business enterprise value | 120 | 135 |
| Contracting business enterprise value | 5 | 8 |
| Net IBD and financial derivatives | (26) | (26) |
| Value of Horizon Energy shares | 99 | 117 |
| Number of shares currently on issue | 24,991,385 | 24,991,385 |
| Value per share | $3.96 | $4.68 |

### *Implied Multiples*

The above value range implies EBITDA, EBIT, price earnings (**PE**) and NTA multiples as set out below. The earnings multiples are based on Horizon Energy's actual results for the 2009 financial year and its forecast for the 2010 financial year. The NTA multiples are based on the Company's financial position as at 31 August 2009.

| Implied Multiples | | | | |
|---|---|---|---|---|
| | 31 Mar 09 (Actual) | | 31 Mar 10 (Forecast) | |
| | Low | High | Low | High |
| Value per share | $3.96 | $4.68 | $3.96 | $4.68 |
| EBITDA multiple | 9.7x | 11.1x | 8.8x | 10.0x |
| EBIT multiple | 14.3x | 16.3x | 12.7x | 14.5x |
| PE multiple | 19.2x | 22.7x | 16.4x | 19.4x |
| NTA multiple | 2.0x | 2.3x | 2.0x | 2.3x |

We consider these implied multiples to be reasonable.

## 6.8 Conclusion

We assess the fair market value of 100% of the ordinary shares in Horizon Energy to be in the range of $99 million to $117 million as at the present date. This equates to a value of $3.96 to $4.68 per share.

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

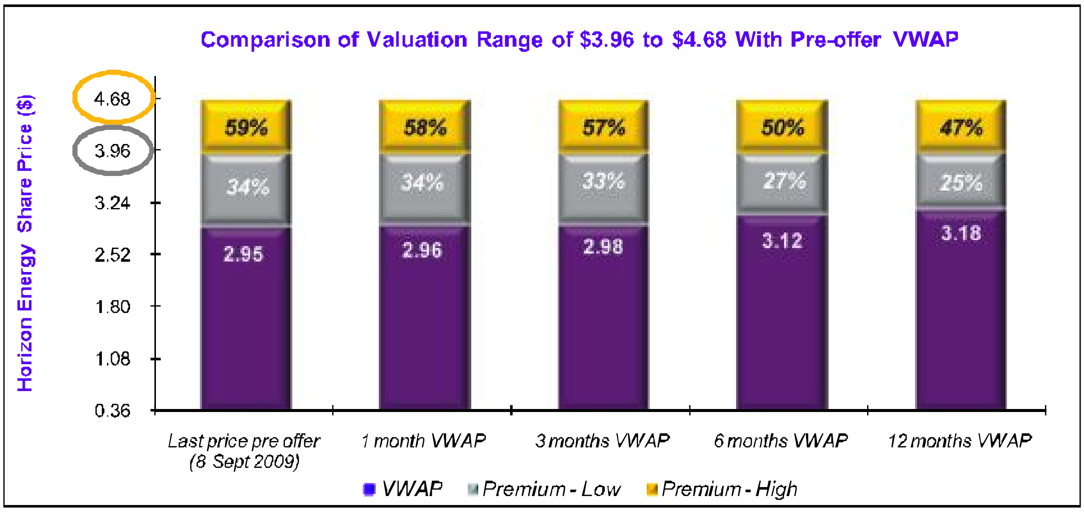
## 6.9 Implied Premium for Control

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

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

In this instance, MLL is seeking a 51% shareholding. While a 51% shareholding will provide a degree of control over the Company, MLL will not have absolute control over Horizon Energy's affairs. In such circumstances, we would expect a rational bidder to pay a premium for control but the quantum of the premium may not be as large as if the bidder was seeking absolute control.

Our valuation range of $3.96 to $4.68 represents premia ranging from 25% to 59% over recent share prices.




As noted in section 4.9, trading in the Company's shares is extremely thin with only approximately 0.8% of the free float traded on average each month. The share price graph in section 4.9 and the various VWAP show that the Company's share price has been gradually declining. In our view, the combination of an illiquid share and limited earnings guidance provided by the Company means that the observed share prices may not be a totally reliable indicator of the market value of Horizon Energy's shares. By way of example, the announcement on 28 September 2009 that the Company had increased its forecast NPAT for the 2010 financial year to $6 million (from current underlying NPAT of $4.5 million announced on 6 August 2009) had little impact on trading, with only 7,550 shares traded since the announcement at a VWAP of $3.40, being 5.3% higher than the pre-announcement price of $3.23.

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

## 7.1 Sources of Information

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

- the MLL takeover notice dated 14 September 2009
- the MLL takeover offer dated 29 September 2009
- the draft Horizon Energy Target Company Statement
- the Horizon Energy strategic plan dated 16 February 2009
- the Horizon Energy asset management plan dated April 2009
- the Horizon Energy annual reports for the years ended 31 March, 2006 to 2009
- the Horizon Energy management accounts for the five months ended 31 August 2009
- the Horizon Energy budget for the year ended 31 March 2010
- the Horizon Energy financial projections for the five years to 31 March 2015
- the Horizon Energy Electricity Distribution (Information Disclosure) Requirements Report Schedules 31 March 2009
- the *Information Memorandum Prepared on Behalf of the Eastern Bay Energy Trust* dated 4 June 2008 prepared by PwC
- the MLL annual reports for the years ended 31 March, 2006 to 2009
- the MLL Electricity Distribution (Information Disclosure) Requirements Report Schedules for 2008 and 2009
- the MLL asset management plan dated March 2009
- the MLL *Ownership Review* dated 14 October 2008 prepared by PwC
- the MLL *Directors Ownership Report* dated October 2008
- the *Electricity Line Business and Gas Pipeline Business 2008 Information Disclosure Compendium* dated May 2009 prepared by PwC
- share price data and shareholder data from NZX Data and Capital IQ
- publicly available information regarding the New Zealand electricity industry.

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

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

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

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

### 7.2 Reliance on Information

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

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

### 7.3 Disclaimer

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

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

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

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

## 7.4 Indemnity

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

# 8. Qualifications and Expertise, Independence, Declarations and Consents

## 8.1 Qualifications and Expertise

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

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

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

## 8.2 Independence

Simmons Corporate Finance does not have at the date of this report, and has not had, any shareholding in or other relationship with Horizon Energy or MLL that could reasonably be regarded as capable of affecting our ability to provide an unbiased opinion in relation to this transaction.

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

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

## 8.3 Declarations

An advance draft of this report was provided to the Company's directors for their comments as to factual accuracy, as opposed to opinions, which are the responsibility of Simmons Corporate Finance alone. Changes made to the report as a result of the circulation of the draft have not changed the methodology or our conclusions.

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

## 8.4 Consents

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

Peter Simmons
Director
**Simmons Corporate Finance Limited**

*7 October 2009*

# Appendix I

## Horizon Energy and EDBs Information Disclosures

**2008 Information Disclosures**

| | Horizon Energy | MLL | 28 EDBs [1] | | |
|---|---|---|---|---|---|
| | | | Minimum | Average | Maximum |
| **Network Statistics** | | | | | |
| System fixed assets at ODV roll forward ($m) | 85.7 | 141.7 | 22.7 | 262.6 | 2,389.4 |
| Average age of system fixed assets (years) | 25 | 24 | 16 | 25 | 39 |
| Circuit length (km) | 2,342 | 3,464 | 246 | 5,218 | 27,361 |
| Connection points (ICPs) | 24,220 | 23,584 | 4,320 | 69,659 | 679,612 |
| Electricity entering system for supply (GWh) | 565 | 373 | 47 | 1,145 | 11,208 |
| Maximum distribution transformer demand (MW) | 78 | 70 | 8 | 212 | 2,176 |
| Total distribution transformer capacity (MVA) | 284 | 290 | 34 | 652 | 5,643 |
| Load factor | 67.1% | 60.8% | 47.9% | 60.0% | 79.1% |
| Distribution transformer capacity utilisation | 27.5% | 24.1% | 20.6% | 32.6% | 44.8% |
| Loss ratio | 4.3% | 6.6% | 3.1% | 5.3% | 8.0% |
| Demand density (kW/km) | 33 | 20 | 12 | 41 | 139 |
| Volume density (MWh/km) | 231 | 101 | 62 | 208 | 609 |
| Connection point density (ICP/km) | 10 | 7 | 3 | 13 | 36 |
| Energy density (kWh/ICP) | 22,318 | 14,762 | 9,693 | 15,561 | 28,552 |
| **Financial Performance** | | | | | |
| Gross line charge revenue | | | | | |
| • $m | 25.2 | 20.9 | 5.6 | 61.0 | 599.2 |
| • c/kWh | 4.7 | 6.0 | 4.3 | 5.6 | 12.8 |
| Regulatory profit pre discretionary discounts and customer rebates | | | | | |
| • $m | 8.8 | 10.3 | 1.5 | 30.8 | 304.4 |
| • c/kWh | 1.6 | 2.9 | 1.5 | 2.8 | 4.3 |
| Return on investment | 9.2% | 6.0% | 3.8% | 10.6% | 13.8% |
| **Network Reliability (Class B and Class C)** | | | | | |
| SAIDI (minutes) | 143.1 | 265.3 | 10.0 | 210.7 | 818.3 |
| SAIFI (interruptions per connection) | 1.6 | 3.0 | 0.2 | 2.2 | 6.4 |
| CAIDI (minutes) | 91.4 | 89.9 | 5.3 | 95.2 | 169.1 |

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

*1 There were 28 EDBs as at 31 March 2008 (prior to the sale of Wellington Electricity by Vector)*

*Source: PwC Electricity Line Business and Gas Pipeline Business 2008 Information Disclosure Compendium*

## Appendix II

# EDB Transaction Multiples

| EDB Transaction Multiples | | | | | | |
|---|---|---|---|---|---|---|
| Date | Target | Bidder | Implied Enterprise Value ($m) | EBITDA Multiple Historic | EBITDA Multiple Prospective | ODV / RAB Multiple |
| Feb 2009 | Powerco | QIC Infrastructure | 1,950 | 8.8x | 9.0x | 1.6x |
| Jul 2008 | Wellington Electricity | Cheung Kong Infrastructure | 785 | 8.5x | 9.8x | 1.7x |
| Nov 2004 | Powerco | Prime Infrastructure Networks | 1,832 | 9.7x | 9.3x | 2.0x |
| Nov 2002 | UnitedNetworks | Vector | 2,632 | 8.7x | 8.4x | 2.0x |
| Nov 2002 | UnitedNetworks | Powerco | 810 | 9.0x | 8.9x | 1.8x |
| Jul 2002 | Otago Power | OtagoNet Joint Venture | 109 | 17.6x | 17.9x | 2.1x |
| Nov 1999 | Horizon Energy | Eastern Bay Energy Trust | 52 | 7.5x | *n/d* | 1.4x |
| Apr 1999 | Wairoa Power | Eastland Energy | *n/d* | *n/d* | *n/d* | 1.3x |
| Apr 1999 | King Country Energy | Waitomo Energy Services | *n/d* | *n/d* | *n/d* | 0.9x |
| Feb 1999 | Central Electric | Dunedin Electricity | 127 | 21.9x | *n/d* | 2.0x |
| Dec 1998 | Wairarapa Electricity | Powerco | 83 | 10.9x | *n/d* | 1.3x |
| Nov 1998 | TrustPower | UnitedNetworks | 485 | 12.8x | *n/d* | 2.0x |
| Nov 1998 | TransAlta | UnitedNetworks | 590 | 8.4x | *n/d* | 1.9x |
| | | Minimum | | 7.5x | 8.4x | 0.9x |
| | | Average | | 11.3x | 10.6x | 1.7x |
| | | Average excl outliers [1] | | 9.4x | 9.1x | |
| | | Maximum | | 21.9x | 17.9x | 2.1x |

*n/d: Not disclosed*

*1 Excluding Otago Power and Central Electric transactions*

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

### *Powerco – QIC Infrastructure*

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

### *Vector – Cheung Kong Infrastructure Holdings*

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

### *Powerco – Prime Infrastructure Networks*

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

### *UnitedNetworks – Vector, UnitedNetworks – Powerco*

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

### *Otago Power – OtagoNet Joint Venture*

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

### *Horizon Energy – Eastern Bay Energy Trust*

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

### *Wairoa Power – Eastland Energy*

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

### *King Country Energy – Waitomo Energy Services*

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

### *Central Electric – Dunedin Electricity*

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

### *Wairarapa Electricity – Powerco*

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

### *TrustPower – UnitedNetworks*

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

### *TransAlta – UnitedNetworks*

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

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