

18 February 2021

Dear TECT beneficiary

TRUSTPOWER IS CHANGING, SO TECT MUST CHANGE TOO.

5 things you need to know:

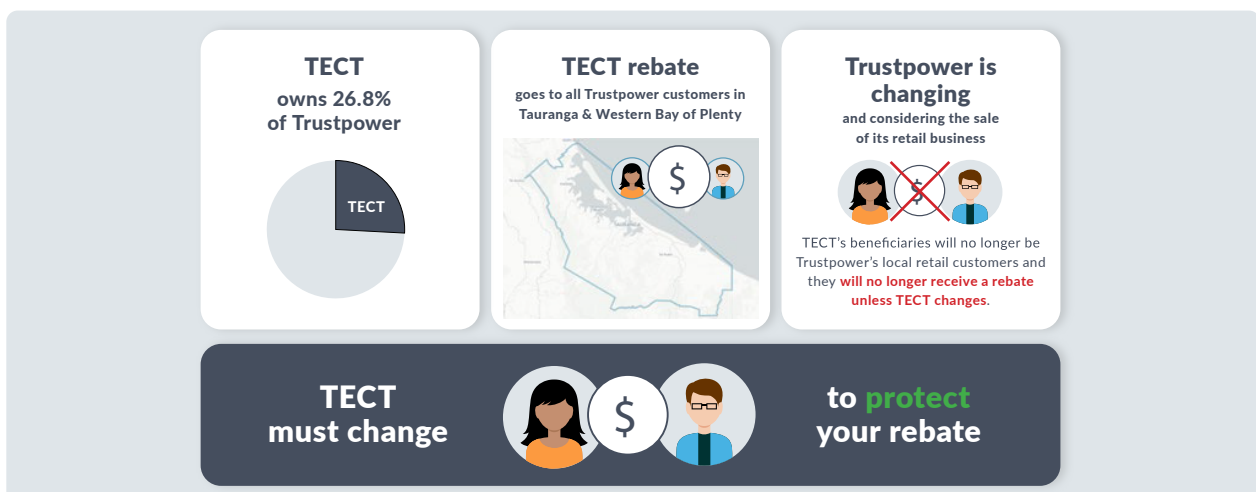
1. Trustpower is undertaking a strategic review of its Retail Business that includes a potential sale. This means that TECT also needs to review its structure and any changes required to it.
2. If a sale does take place, unless TECT changes its structure, the status of you - its beneficiaries - will be under threat.
3. The TECT rebate is protected under the proposed new structure for approximately 30 years. Based on current financial projections you will continue to receive it until the end of 2050.
4. As a beneficiary of TECT you do not need to do anything further.
5. If you'd like to know more, read on or go to www.tect.org.nz

What is happening and why is TECT putting forward this proposal?

We know that many of you will be wondering why TECT is again considering changes to its structure. The simple answer is because we have to.

Trustpower's decision to conduct a strategic review and potentially sell its Retail Business means that TECT must also consider changes to its structure and the way it operates.

This is because a sale of Trustpower's Retail Business to a third party means that, under the TECT Trust Deed, TECT's beneficiaries will no longer be you - Trustpower's local retail customers. This means that you would no longer be entitled to receive a rebate.



The infographic is divided into three main sections:

- TECT owns 26.8% of Trustpower:** A pie chart shows a small slice representing TECT's ownership.
- TECT rebate goes to all Trustpower customers in Tauranga & Western Bay of Plenty:** A map of the region is shown with icons of people and a dollar sign, indicating the rebate's reach.
- Trustpower is changing and considering the sale of its retail business:** This section features a crossed-out icon of a person and a dollar sign, with text stating: "TECT's beneficiaries will no longer be Trustpower's local retail customers and they will no longer receive a rebate unless TECT changes."

At the bottom, a dark blue banner contains the text: "TECT must change" followed by icons of a person, a dollar sign, and another person, and finally "to protect your rebate".

Instead, the beneficiaries after a sale would be only a small number of larger commercial and industrial electricity users in the Tauranga and Western Bay of Plenty region who will remain customers of the Trustpower Generation business if the Retail Business is sold.

As such, if and when a sale occurs TECT will not be able to fulfil its purpose, which is to benefit the broad base of electricity customers of Trustpower in Tauranga and the Western Bay District.

In practice, this means that the Trustees will not be able to distribute rebates to local retail customers and TECT will effectively be frozen. The direct TECT rebate to you will stop.

Even if the current strategic review by Trustpower does not lead to a sale in the short term, it demonstrates the ongoing uncertainty of the ownership of the Retail Business and the Trustees believe that the structure of TECT needs to change to future-proof the Trust and the rebate.

Following Trustpower's announcement, the Trustees are therefore required to act now to consider updating the structure of TECT in order to meet their obligations under the TECT Trust Deed. The Trustees note that they wish to proceed with a restructure of TECT irrespective of whether Trustpower is ultimately successful in selling the Retail Business.

We are now seeking your views on this proposed new structure for TECT.

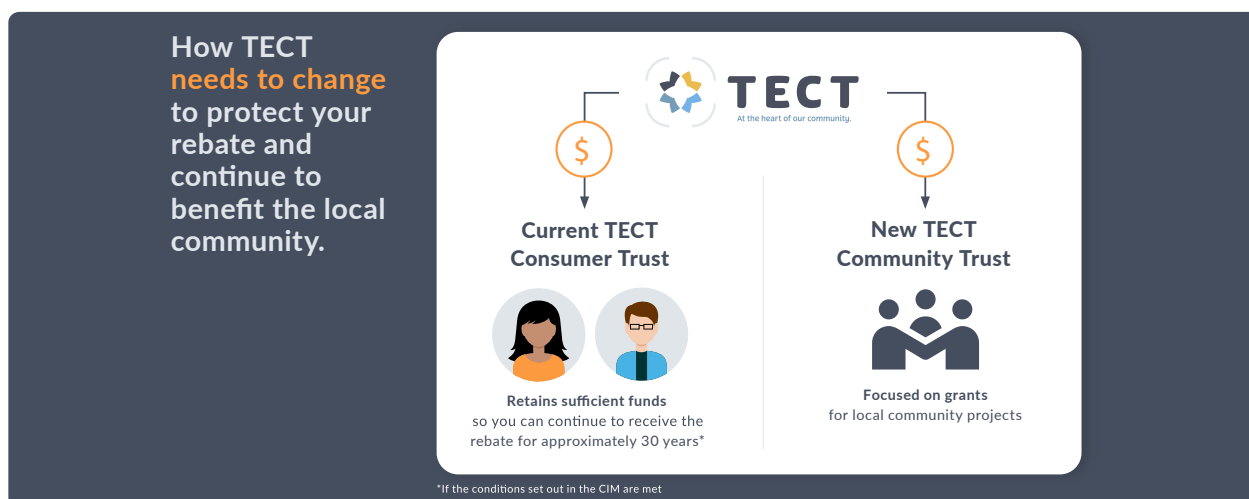
How is TECT changing?

In considering options for a new structure for TECT and the transition to it, the Trustees have been guided by four key principles:

1. **TECT's purpose** – the purpose and intent for which TECT was created.
2. **Maintaining TECT's capital** – so that a trust can continue for future generations.
3. **Legal obligations and Trustee duties** – doing nothing is not an option.
4. **Fairness** – current beneficiaries and future generations all benefit.

We also heard your feedback in 2018 loud and clear and know how important the TECT rebate is to you.

The proposal therefore ensures that the rebate will continue to be paid for approximately 30 years, to every existing retail customer who remains an electricity customer of Trustpower or a buyer of Trustpower's Retail Business.



The steps for change include:

Step 1:

TECT would retain funds which are sufficient to pay a yearly rebate to all existing beneficiaries (as of Thursday 28 January 2021) for approximately 30 years (i.e., the intention is to retain enough funds to pay, based on current financial projections, rebates until 31 December 2050). The amount and structure of that retention has

been developed using independent customer information from Trustpower to determine an appropriate churn assumption, and financial modelling from KPMG. The range is in the order of \$291 million to \$413 million. The Trustees have yet to finalise the retention, but intend to focus towards the high end of the range.

An existing beneficiary is essentially a customer of Trustpower in the defined Tauranga and Western Bay of Plenty District who currently is eligible to receive a rebate.

- The rebate will be \$500 a year for the first ten years, will increase to \$600 in 2030 and increase further to \$700 in 2040, to take account of inflation. \$500 was the averaged median rebate payment over the five previous years.
- Rebates will be paid on the usual six monthly TECT cycle.
- To receive a rebate a beneficiary must remain a customer of Trustpower or the buyer of the Retail Business (or a subsequent buyer), in the district - subject to limited exceptions. If you leave, the rebate stops¹.
- New customers and the current customers of the new business do not become beneficiaries.
- At 31 December 2050, TECT must be wound up (if it has not been wound up earlier for example, due to the trust fund all having been paid out as rebates), and its remaining assets will go to the new TECT Community Trust described below.

There is no guarantee that rebates will be paid out until the end of 2050, but that is the current projection based on financial modelling. If the trust fund has been paid out in full earlier, TECT will be wound up and rebates will end.

The changes will be implemented by changing the TECT Trust Deed as summarised in the Consumer Information Memorandum dated 18 February 2021, such as changes to the definition of Consumer, the distribution clauses to lock in the rebates, the removal of the restrictions on selling Trustpower Shares, the provisions regarding trustees and the provisions about winding up.

Step 2:

The balance of TECT's funds (including its shareholding in Trustpower) would be transferred to a new long-term community trust focused on grants for local community projects.

Why is TECT proposing to change this way?

The decision by Trustpower to conduct a strategic review and potentially sell its Retail Business means the Trustees must act now to futureproof the structure of TECT and protect the rebate for existing beneficiaries.

The proposed new structure will also resolve several important issues with the existing structure that have developed in recent years and pose ongoing risks to TECT.

1. **A shrinking beneficiary base** – when TECT was formed in 1993, 100% of electricity consumers in the Tauranga and Western Bay of Plenty region were beneficiaries. Today it's around 59% and decreasing by the day as more consumers choose to move to other electricity providers.
2. **Structural issues** – concern has been expressed previously about matters such as the relationship between the TECT rebate and Trustpower and there is a risk that this could be raised again.
3. **Trust law changes** – Trustees need to balance current and future beneficiaries, and to provide in effect intergenerational benefits. The new Trusts Act, which came into force in January 2021, changes TECT so that it has a total life of 125 years, placing more emphasis on future beneficiaries.

The changes to TECT's structure we are proposing will help resolve all these challenges and make sure that Trustees are meeting their obligation to maximise the benefit of the Trust for all beneficiaries.

What can't we do?

In considering options for the future of TECT, the Trustees have also carefully considered and ruled out the following:

1. **Stop Trustpower selling the Retail Business** – TECT is a minority shareholder in Trustpower with only a 26.8% stake and therefore could not stop Trustpower from undertaking any proposed sale of the Retail Business.

¹ Some exemptions apply. See the Consumer Information Memorandum for more information.

2. **Continue with the status quo** – any potential sale of the Trustpower Retail Business would mean that only those customers of the remaining Trustpower generation business (commercial and industrial customers) would be beneficiaries of TECT. The previous retail customers would no longer be beneficiaries. This is unfair, which is why it is proposed that rebates continue for those who were beneficiaries on Thursday 28 January 2021. In addition, the other issues with the structure noted above would become even more pronounced.
3. **TECT remains unchanged and simply makes the customers of the new company the beneficiaries of TECT** – this would be against the scheme and purpose of TECT, as at that point TECT would not own any shares in the new company.
4. **Wind up TECT and pay out beneficiaries** – winding up TECT would be against the scheme and purpose of TECT.

What now?

The strategic review and potential sale of Trustpower’s Retail Business means that TECT must act to safeguard its future - we have no choice.

As Trustees, we believe that the new structure set out for TECT in this Consumer Information Memorandum will ensure the success of TECT for the Tauranga and Western Bay community for current and future generations, while protecting the rebate for existing beneficiaries for approximately 30 years.

We are particularly excited about the ability the proposed new structure will deliver to TECT in the future to fund more community projects, like the local rescue helicopter service and St John’s, which serve and benefit everyone in our community.

We urge you to read the Consumer Information Memorandum carefully, to visit www.tect.org.nz for more information, and to come along to the consumer information sessions being held over the next month. You have the ability to make a submission in writing, and you will also have the opportunity to talk to your submission should you wish to.

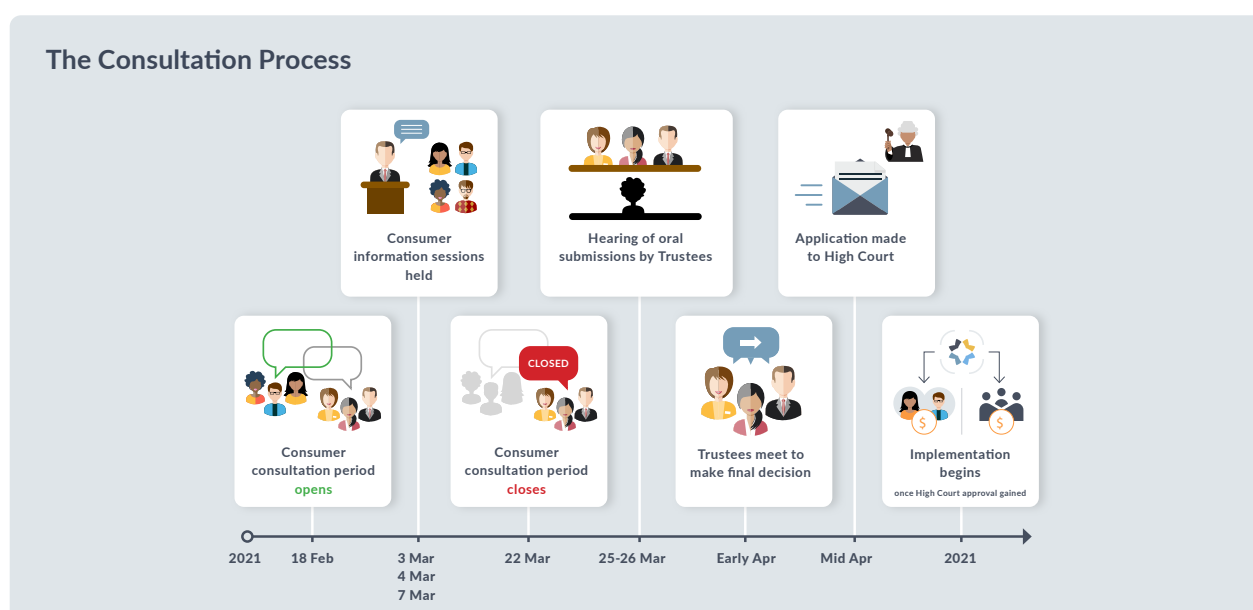
Once the public consultation process is complete, Trustees will make a decision on how to proceed.

As a final independent step, any changes the Trustees then propose will be reviewed by the High Court which will be asked to endorse the proposal and process. Consumers will be given an opportunity to make submissions to the High Court if they wish.

Please see the Consumer Information Memorandum for further important information.

Yours sincerely,

The Trustees of TECT



Formal Notice of Proposal

This document is a formal notice of proposal under the TECT Trust Deed.

Notice is hereby given by the Trustees of TECT in accordance with clause 11 of the TECT Trust Deed dated 21 December 1993 (as amended from time to time) to all of its Consumer beneficiaries of the proposal set out in this notice.

The following proposal is required to be disclosed pursuant to the Consumer Consultative Procedure set out in Schedule III to the TECT Trust Deed and therefore this Notice of Proposal is being given for that purpose.

The Trustees propose the following:

“That TECT restructures in the manner set out in the Notice of Proposal dated 18 February 2021 and as referred to in the Consumer Information Memorandum dated 18 February 2021, including by amending the TECT Trust Deed, establishing the TECT Community Trust, causing TECT’s indirectly held shares in Trustpower to be transferred into that new trust, and making the distributions and rebate payments referred to in those documents.”

TECT beneficiaries who would like to give feedback on the proposal are invited to make a written submission by **4pm 22 March 2021**. Please see the TECT Beneficiary Feedback Form available for download at www.tect.org.nz.

Consumer Information Sessions

For more information visit www.tect.org.nz or join us at one of the below information sessions.

WED
3
MARCH
6.30pm
Club Mount Maunganui,
45 Kawaka Street,
Mount Maunganui.

THUR
4
MARCH
2.30pm
Tauranga Yacht Club,
90 Keith Allen Drive,
Tauranga.

SUN
7
MARCH
12pm
Te Manawaroa,
Level 1 University of Waikato,
101 Durham Street, Tauranga.