



Grant Thornton

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Tilt Renewables Limited

Review of Northington Partners' Independent Adviser's Report and
Financial Services Guide

25 September 2018

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25 September 2018

Dear Directors

Introduction

On 15 August 2018, Infratil Limited (“Infratil”) and Mercury NZ Limited (“Mercury”), through their joint venture (“TLT JV”) announced their intention to make a full takeover offer of Tilt Renewables Limited (“Tilt” or the “Company”) at a cash offer price of NZ\$2.30 per ordinary share (“Offer Price”). On 2 September 2018, the TLT JV issued the offer documents to Tilt shareholders, with the offer being declared unconditional on 6 September 2018. On 14 September 2018, Shareholders of Tilt were advised by the Independent Directors of the Company not to accept the offer on the basis of it being too low and not factoring in the significant benefits expected to flow from prospective projects. The Independent Directors have based their recommendation on an Independent Adviser’s Report (“IAR”) provided by Northington Partners (“Northington”) on 17 September 2018.

Infratil owns and operates infrastructure and utility businesses and investments in New Zealand, Australia, and the United States through its investments in Trustpower, Tilt Renewables, Wellington International Airport, NZ Bus, Perth Energy, Canberra Data Centres, Retire Australia and other associated companies. Infratil held a 51% interest in Tilt Renewables following the demerger from Trustpower in October 2016.

In May 2018, Mercury acquired a 19.99% interest in Tilt from TECT Holdings Limited (“TECT”), a wholly owned subsidiary of the Tauranga Energy Consumer Trust, at a price of NZ\$2.30 per share. As part of the transaction, TECT also issued an option to Mercury to acquire an additional 6.81% of shares in Tilt. Following the offer becoming unconditional, Mercury exercised the option to accept the remaining shares held by TECT into the takeover offer, bringing the TLT JV’s collective interest to 78% of the ordinary shares of Tilt.

Purpose of the report

Infratil has engaged Grant Thornton Corporate Finance Pty Ltd (“Grant Thornton Corporate Finance”) to provide an independent review of the IAR provided by Northington. Specifically, Grant Thornton Corporate Finance have reviewed the valuation assumptions and scenarios employed by the Independent Adviser, and have commented on the impact of these assumptions on the Northington assessed valuation range for Tilt shares.

In preparing our report, we have relied on information contained in the offer document dated 2 September 2018 prepared by the TLT JV and the Target Company Statement dated 17 September 2018 prepared by Tilt, including the Northington IAR.

We have not been privy to the financial model used by Northington in the preparation of the IAR. Instead, we have relied on a model provided to us by Infratil and prepared by H.R.L Morrison & Co., which provides Infratil's best estimates of the cash flows arising from the Company's assets. Our adjustments have been applied to these best estimates, and we have assessed the impact of our inputs on Northington's assessed valuation range.

We have not been engaged to, nor have we attempted to assess, an independent valuation of Tilt. We have only been engaged to undertake a review of the valuation assumptions and scenarios employed by Northington in the IAR and comment on their impact on the valuation range determined by Northington. Although the impact of our assumptions on Northington's assessed value has been stated in the form of value per share, this does not reflect a valuation assessment. Accordingly, our Report should not be considered as a substitute for the IAR and should be read together with the IAR.

Overview of Tilt

Tilt is a developer, owner and manager of renewable energy generation assets in Australia and New Zealand. Currently Tilt owns and operates the following wind farms:

Assets	Location	Capacity	Date commissioned
Snowtown 1	SA, Australia	101 MW	2008
Snowtown 2	SA, Australia	270 MW	2014
Blayney	NSW, Australia	10 MW	2000
Crookwell	NSW, Australia	5 MW	1998
Salt Creek	Vic, Australia	54 MW	2018
Taurana 1 & 2	NZ	68 MW	1999,2004
Taurana 3	NZ	93 MW	2007
Mahinerangi	NZ	36 MW	2011

Source: Northington IAR

In addition to the operating assets, Tilt currently has a pipeline of approximately 3,114 MW of capacity in solar and wind projects across Australia and an additional 540 MW of wind projects in New Zealand.

Included in the development pipeline of assets is the Dundonnell wind farm, a proposed 336 MW wind farm in Victoria. The estimated cost to develop Dundonnell is A\$560 million, with key contracts (Engineering, Procurement and Construction ("EPC"), Operations and Maintenance ("O&M") and connection agreements) close to being executed. On 11 September 2018, Tilt announced it was successful in the recent Victorian Government renewable energy auction, whereby it has received an offer from the Government to enter into a Support Agreement in relation to 37% of the generation output of the Dundonnell wind farm. Under the Support Agreement, Tilt will enter into a 15-year contract for difference with the Government, at a fixed real price (electricity and Large Scale Generation Certificates ("LGCs") of approximately \$57/MWh.

Tilt has secured a fully committed debt package from National Australia Bank Limited ("NAB") and MUFG Bank Ltd ("MUFG") which, following completion of standard conditions, will be available to fund approximately A\$300 million of Dundonnell's construction costs.

Summary of Northington Valuation

The following table provides a summary of the Valuation conclusions of Northington as presented in the IAR:

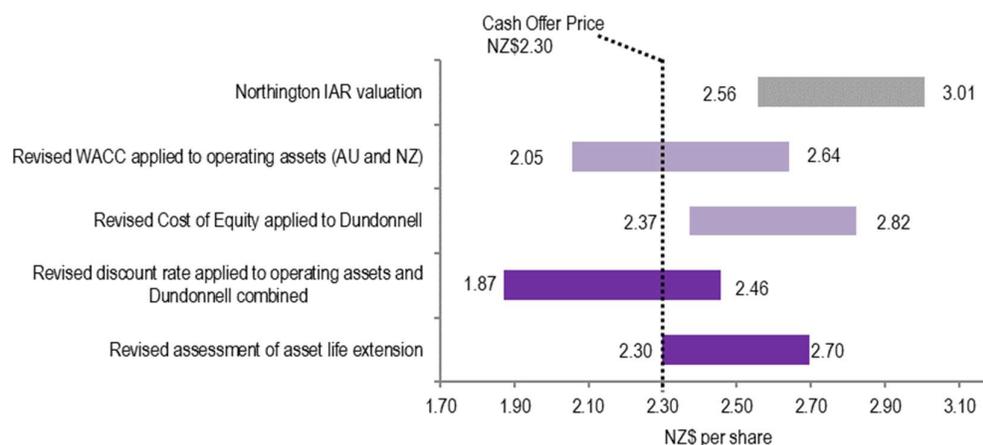
Summary of Tilt valuation	Low	High
A\$m		
Australian assets	920	978
New Zealand assets	238	254
Enterprise Value of operational assets	1,158	1,232
Dundonnell project	94	124
Remaining development	47	71
Total Enterprise Value	1,299	1,427
Net debt*	(571)	(571)
Equity value (control basis)	728	856
Number of outstanding shares (millions) (fully diluted)	312.97	312.97
Assessed fair market value per share (control basis) (A\$/share)	2.33	2.74
Assessed fair market value per share (control basis) (NZ\$/share)	2.56	3.01

Source: Northington IAR

*Net debt is based on the estimated 30 September 2018 determined by Northington

Summary of our assessment of the impact on value

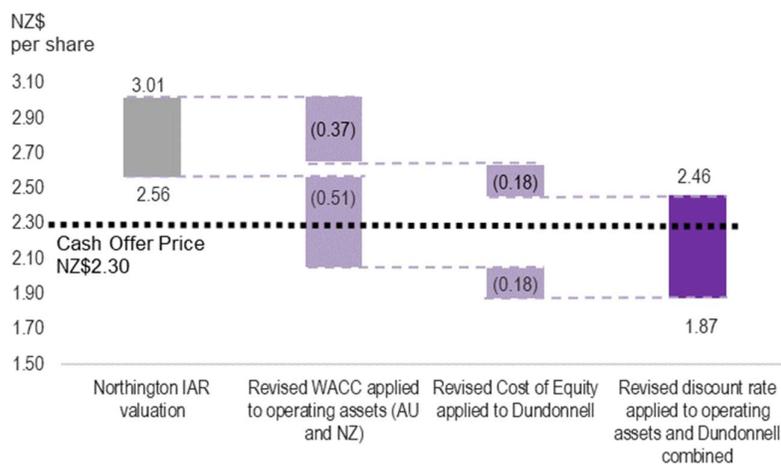
The valuation prepared by Northington is based on a number of assumptions that we consider are optimistic and not fully addressing the risks of the Tilt operating portfolio. The following presents our indicative view on the impact of key assumptions on Northington's assessed value per share:



Note: The sensitivity on asset life extension shown above has been assessed on the mid-point of Northington's assessed valuation range. This shows the reduction in value by changing only the assumptions on extended asset life, and does not reflect a change to the discount rate. The same should not be considered in conjunction with the sensitivities on discount rates above.

Refer to Section 2 and Section 3 for a discussion on Revised WACC and Revised Cost of Equity respectively.

The effects of our revised assumptions are outlined in the graph below.



It is our view that certain assumptions adopted by Northington lead to a value for the shares that is higher than the fair market value:

- The weighted average cost of capital (“WACC”) range assumed by Northington for the operating assets of 5.8% to 6.4% for Australia and 6.1% to 6.8% for New Zealand is too low. We would expect a WACC range of 6.7% to 8.0% for Australia and 7.2% to 8.6% for New Zealand, which would adequately reflect the market and specific risks of the operating portfolio, particularly with regard to current market uncertainty and potential merchant price exposure following PPA expiry. In particular, the 101 MW Snowtown 1 wind farm PPA expires in December 2018 and it will be exposed to merchant pricing for the remainder of the asset life, estimated to 2033.
- The cost of equity range utilised for the valuation of the Dundonnell project assumed by Northington of 9.5% to 10.5% is lower than expected and implies an enterprise value/MW of A\$0.28 million to A\$0.37 million. This is materially above the price paid in transactions of comparable assets. We would expect a cost of equity in the range of 11.1% to 12.2%, which would imply an EV/MW for the Dundonnell project to be between A\$0.11 million to A\$0.21 million, which is supported by comparable transactions.
- Northington has assumed that it is likely that the life of operating assets could be extended for a period of 5 years beyond their useful life, with increased O&M costs but no degradation in generation output. As there is no proven ability for the life to be extended, we considered the impact on value assuming that the capacity factor would reduce by 25% during the asset life extension. If only this revised assumption were applied to the Northington valuation, it would reduce the implied value per share, by NZ\$0.08 for the reduced capacity factor and NZ\$0.48 if no extension is assumed.

If our revised discount rates for the operating assets and the Dundonnell project were applied, Northington’s implied valuation of the Company would decline to between **NZ\$1.87 to NZ\$2.46** per share with the mid-point **NZ\$2.17**. The Offer Price is within this range of values.

The above chart reflects movements in value from the Northington expected valuation range, which we have based on our assessment of the Northington assumptions applied to a financial model developed by Infratil. While there may be differences in cash flow assumptions contained in the

financial model developed by Infracore and those utilised by Northington, we have been able to reconcile the values derived by Northington as the base for our scenario analysis.

In preparing this report, we also considered the other assumptions contained in the Northington IAR. Unless otherwise stated in this report, we do not consider any other assumption adopted by Northington to be particularly conservative, a revision to which would result in a higher value. This report only covers the assumptions that we consider to be unreasonable or inappropriate and where we have not provided commentary on any assumption, then we have considered that assumption to be not unreasonable in the circumstances.

This report is an analysis of certain inputs assumed in the Northington IAR and does not constitute a valuation. We note we did not have access to the financial model utilised by Northington therefore any illustrative impact on value described in this report is indicative only, and based on Infracore's best estimates of the assumptions underpinning the Northington valuation.

We note that we have not been provided with access to Management of Tilt, and limited information relating to the Proposed Transaction has been made available by Infracore. With the exception of the financial model provided by Infracore, we have relied on publicly available information in undertaking this assessment.

Grant Thornton, for the purposes of this Report, has made a number of independent judgements including for example, assumptions around the operational life of the assets and capacity factors. The judgements made are for the specific purposes of this Report, and as at the date of this Report, and may vary, materially or otherwise, with the intentions or expectations currently held by Tilt, Infracore or Mercury.

Other matters

Grant Thornton Corporate Finance has prepared a Financial Services Guide in accordance with the Corporations Act. The Financial Services Guide is set out in the following section.

The decision of whether or not to accept the takeover offer is a matter for each Tilt Shareholder to decide based on their own views of value of Tilt and expectations about future market conditions, Tilt's performance, risk profile and investment strategy. If Tilt Shareholders are in doubt about the action they should take in relation to the takeover offer, they should seek their own professional advice.

Yours faithfully

GRANT THORNTON CORPORATE FINANCE PTY LTD



JANNAYA JAMES
Director



ANDREA DE CIAN
Director

25 September 2018

Financial Services Guide

1 Grant Thornton Corporate Finance Pty Ltd

Grant Thornton Corporate Finance carries on a business, and has a registered office, at Level 17, 383 Kent Street, Sydney NSW 2000. Grant Thornton Corporate Finance holds Australian Financial Services Licence No 247140 authorising it to provide financial product advice in relation to securities and superannuation funds to wholesale and retail clients.

Grant Thornton Corporate Finance has been engaged by Infratil Limited to provide general financial product advice in the form of a review of an Independent Adviser's Report in relation to the Proposed Transaction. This report is included in Infratil's market announcement.

2 Financial Services Guide

This Financial Services Guide ("FSG") has been prepared in accordance with the Corporations Act, 2001 and provides important information to help retail investors make a decision as to their use of general financial product advice in a report, the services we offer, information about us, our dispute resolution process and how we are remunerated.

3 General financial product advice

In our report we provide general financial product advice. The advice in a report does not take into account your personal objectives, financial situation or needs.

Grant Thornton Corporate Finance does not accept instructions from retail clients. Grant Thornton Corporate Finance provides no financial services directly to retail clients and receives no remuneration from retail clients for financial services. Grant Thornton Corporate Finance does not provide any personal retail financial product advice directly to retail investors nor does it provide market-related advice directly to retail investors.

4 Remuneration

When providing the Report, Grant Thornton Corporate Finance's client is Infratil. Grant Thornton Corporate Finance receives its remuneration from Infratil. In respect of the Report, Grant Thornton Corporate Finance has received from Infratil a fixed fee of A\$80,000 plus GST, which is based on a commercial rate plus reimbursement of out-of-pocket expenses for the preparation of the report. Our directors and employees providing financial services receive an annual salary, a performance bonus or profit share depending on their level of seniority.

Except for the fees referred to above, no related body corporate of Grant Thornton Corporate Finance, or any of the directors or employees of Grant Thornton Corporate Finance or any of those related bodies or any associate receives any other remuneration or other benefit attributable to the preparation of and provision of this report.

5 Independence

Grant Thornton Corporate Finance is required to be independent of Infratil in order to provide this report. The guidelines for independence in the preparation of independent expert's reports are set out in Regulatory Guide 112 *Independence of expert* issued by the Australian Securities and Investments Commission ("ASIC"). The following information in relation to the independence of Grant Thornton Corporate Finance is stated below.

"Grant Thornton Corporate Finance and its related entities do not have at the date of this report, and have not had within the previous two years, any shareholding in or other relationship with Infratil (and associated entities) that could reasonably be regarded as capable of affecting its ability to provide an unbiased opinion in relation the Proposed Transaction.

Grant Thornton Corporate Finance has no involvement with, or interest in the outcome of the transaction, other than the preparation of this report.

Grant Thornton Corporate Finance will receive a fee based on commercial rates for the preparation of this report. This fee is not contingent on the outcome of the transaction. Grant Thornton Corporate Finance's out of pocket expenses in relation to the preparation of the report will be reimbursed. Grant Thornton Corporate Finance will receive no other benefit for the preparation of this report.

Grant Thornton Corporate Finance considers itself to be independent in terms of Regulatory Guide 112 "Independence of expert" issued by the ASIC."

Notwithstanding the above, we note that the New Zealand Takeovers Panel has not approved Grant Thornton Corporate Finance as being independent. No such approval was sought or required because this report is not required by the Takeovers Code.

6 Complaints process

Grant Thornton Corporate Finance has an internal complaint handling mechanism and is a member of the Financial Ombudsman Service (membership no. 11800). All complaints must be in writing and addressed to the Chief Executive Officer at Grant Thornton Corporate Finance. We will endeavour to resolve all complaints within 30 days of receiving the complaint. If the complaint has not been satisfactorily dealt with, the complaint can be referred to the Financial Ombudsman Service who can be contacted at:

Financial Ombudsman Service Limited
GPO Box 3
Melbourne, VIC 3001
Telephone: 1800 367 287

Grant Thornton Corporate Finance is only responsible for this report and FSG. Complaints or questions about the takeover should not be directed to Grant Thornton Corporate Finance. Grant Thornton Corporate Finance will not respond in any way that might involve any provision of financial product advice to any retail investor.

Compensation arrangements

Grant Thornton Corporate Finance has professional indemnity insurance cover under its professional indemnity insurance policy. This policy meets the compensation arrangement requirements of section 912B of the Corporations Act, 2001.

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1 Introduction

Northington in its IAR derived a valuation range for Tilt of NZ\$2.56 to NZ\$3.01 per share which is materially above the price of NZ\$2.30 per share offered by the TLT JV. It is our opinion that certain assumptions derived by Northington are overly optimistic and not reflective of the risks inherent in the assets and the renewables market in which they operate.

The following sections provide a summary of certain Northington assumptions and our opinion on alternative assumptions.

2 Discount rate - Operating assets

The following table provides a summary of the Weighted Average Cost of Capital range developed by Northington for the Australian and New Zealand operating assets:

Tilt Renewables Limited	Northington assessment			
	Australia		New Zealand	
WACC calculation	Low	High	Low	High
Cost of equity				
Risk free rate	2.6%	2.6%	2.5%	2.5%
Asset Beta	0.50	0.60	0.50	0.60
Regearing ratio (D/E)	82.0%	82.0%	82.0%	82.0%
Equity beta	0.79	0.94	0.91	1.09
Market risk premium	6.5%	6.5%	7.0%	7.0%
Specific risk premium	0.0%	0.0%	0.0%	0.0%
Cost of equity	7.7%	8.7%	8.2%	9.4%
Cost of debt				
Cost of debt (pre tax)	5.0%	5.0%	4.9%	4.9%
Tax	30%	30%	28%	28%
Cost of debt (post tax)	3.5%	3.5%	3.5%	3.5%
Capital structure				
Proportion of debt	45%	45%	45%	45%
Proportion of equity	55%	55%	55%	55%
	100%	100%	100%	100%
WACC (post tax)	5.8%	6.4%	6.1%	6.8%

Source: Capital IQ and GTCF calculations

While there are certain assumptions in the WACC calculations prepared by Northington with which we agree, we highlight below certain inputs into Northington's WACC calculations where we have an alternative point of view.

2.1 Risk free rate assumptions

Northington has assumed a risk free rate of 2.6% for Australia and 2.5% for New Zealand based on the observed spot rates of the 10-year Government bond rates in each jurisdiction. However, given the volatility in Government bond rates and the sustained historically low rates being observed in the bond

markets, we consider a longer term view to be more appropriate. Based on the analysis outlined below, we consider a risk free rate of approximately 3.5% to 4.0% for both Australia and New Zealand to be more appropriate.

In the absence of an official risk free rate, the yield on the government bonds (in an appropriate jurisdiction) is commonly used as a proxy. For the purposes of assessing a long term cost of equity, it is important to have regard to both the current and expected risk free rates over a longer period of time. Our adopted risk-free rate of 3.5% to 4.0% for Australia and New Zealand is based on the long-term yield on the respective 10-year Government bonds.

Long-term yield in Australia and New Zealand

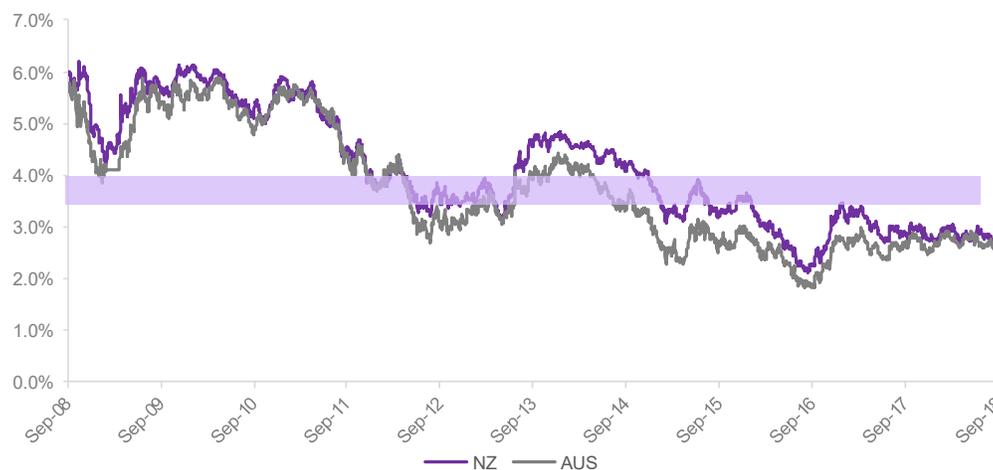
We have observed the yield on the 10-year Australian and New Zealand Government Bonds over several intervals from a period of 5 trading days to 10 trading years as set out in the below:

10-yr Government bond yields as at 18 September 2018	Australia		New Zealand	
	Range	Daily average	Range	Daily average
Previous 5 trading days	2.59% - 2.61%	2.60%	2.55% - 2.59%	2.57%
Previous 10 trading days	2.53% - 2.61%	2.58%	2.55% - 2.59%	2.57%
Previous 20 trading days	2.53% - 2.61%	2.57%	2.52% - 2.61%	2.56%
Previous 30 trading days	2.53% - 2.92%	2.68%	2.52% - 2.61%	2.57%
Previous 60 trading days	2.53% - 2.92%	2.69%	2.52% - 2.84%	2.64%
Previous 1 year trading	2.48% - 2.92%	2.71%	2.52% - 3.08%	2.83%
Previous 2 years trading	1.91% - 2.99%	2.64%	2.30% - 3.47%	2.91%
Previous 3 years trading	1.82% - 3.03%	2.58%	2.12% - 3.65%	2.91%
Previous 5 years trading	1.82% - 4.44%	2.90%	2.12% - 4.84%	3.36%
Previous 10 years trading	1.82% - 5.88%	3.85%	2.12% - 6.18%	4.09%

Source: S&P Global, RBNZ and GTCF calculations

The following graph shows the historical trend in risk free rate over last 10 years and our assumption for risk free rate.

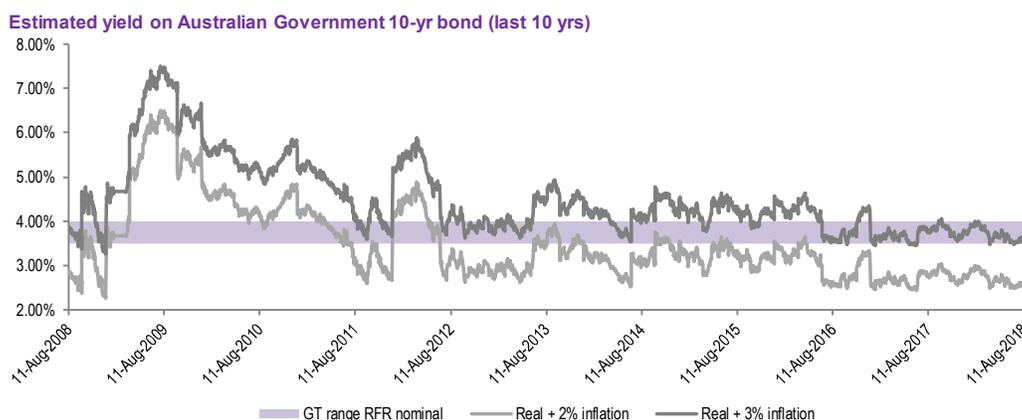
10-yr Government bond yields - previous 10 years



Source: S&P Global and GTCF calculations

Cross-check with real yield in Australia

Additionally, given that the bulk of value of the operational assets comes from Australia, we have calculated the long-term real yield on the Australian 10-year Government bonds adjusted for the RBA's target inflation of between 2%-3%. In calculating the real yield, we have observed the nominal yield on the 10-year Australian Government bond, which we have adjusted for historical inflation. We have set out below the movement in the real Australian Government bond yield with 2% to 3% inflation applied. We note the adopted risk free rate of 3.5% to 4.0% falls within the range of the real bond yield plus RBA's 2% to 3% inflation target band as shown below:



Source: S&P Global, GTCF analysis

Conclusion on risk-free rate

While the low bond yields are not sustainable, they ultimately depend on the federal banks being able to achieve their inflation targets, and growth levels in the economy returning to normal. Historically, low bond yields have tended to persist for long periods of time before reversing, and as such we could expect yields to remain low in the short to medium term.

Furthermore, given the volatility in the global financial markets, longer investment period on infrastructure assets and recent quantitative easing, we have placed more emphasis to the average risk free rate observed over a longer period. Accordingly, we have adopted the risk free rate of 3.5% to 4.0% for both Australia and New Zealand.

2.2 Equity Market Risk Premium

The market risk premium represents the additional return an investor expects to receive to compensate for additional risk associated with investing in equities as opposed to assets on which a risk free rate of return is earned.

Empirical studies of the historical risk premium in Australia and New Zealand over periods of up to 100 years suggest the premium is between 6% and 8%. For the purpose of the valuation, Grant Thornton Corporate Finance has adopted a market risk premium of 6% for Australia and 7.5% for New Zealand.

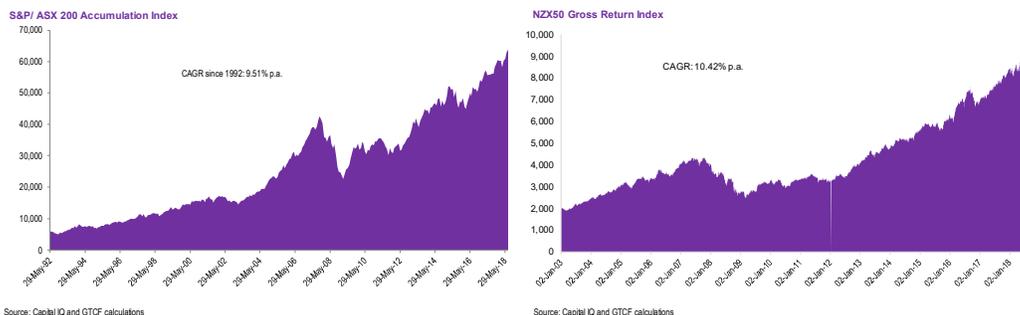
We note that our adopted premium is consistent with the market risk premium used by regulatory authorities in Australia (such as the Australian Competition and Consumer Commission and all other state

based regulators). While the New Zealand Commerce Commission uses a market risk premium of 7.0%, the Commission notes that several practitioners apply a premium of 7.5%, which is not unreasonable.

Observed market return

We have performed an analysis of the S&P ASX 200 accumulation index and the NZX50 Gross Return (“NZX50GR”) index, which measures total returns generated by the respective indices, and compared this to our adopted risk-free rate and market risk premium.

- Total returns generated by the ASX 200 since 1992¹ equate to a CAGR of 9.51% which approximates the 9.5% implied by our adopted risk free rate of 3.5% and market risk premium of 6%.
- Total returns generated by the NZX50GR (gross return) since 2003^{2 3} equate to a CAGR of 10.41% which approximates to the 11% implied by our adopted risk free rate of 3.5% and market risk premium of 7.5%.
- This provides support for our adopted risk-free rate and market risk premium. Below is a graph of the S&P ASX 200 accumulation index and the NZX50GR index.



Simplified Brennan-Lally approach

In computing the WACC for the operational assets located in New Zealand, we have adopted the simplified Brennan-Lally approach, as used by the New Zealand Commerce Commission. The simplified Brennan-Lally approach advocates the use of a tax-adjusted market risk premium (“TAMRP”), which is calculated using the total market return less the after-tax risk-free rate.

Using the total market return recorded by the NZX50GR, a risk-free rate of 3.5% - 4.0% and a corporate tax rate of 28%, the implied TAMRP is between 7.5% to 7.9%, which is in line with our adopted market risk premium of 7.5%.

2.3 Gearing

Northington has assumed a gearing level in the calculation of the WACC of 45% based on Tilt’s target gearing. This is consistent with the current gearing levels of Tilt as indicated by their current market capitalisation of c 46%⁴.

¹ Furthest available data

² Furthest available data

³ Total returns generated by the ASX 200 since 2003 equate to a CAGR of 9.68%.

⁴ Based on market capitalisation of NZ\$729.2 million, NZ\$627.5 million net debt (A\$571) as at 30 September 2018 per Northington report

Whilst Northington has utilised the target gearing of Tilt of 45%, it is our view that, over time, gearing levels are likely to decline as projects near the end of their contracted period and funding on new developments tightens. Project financing of many renewable developments is based on the term of the PPA and the credit worthiness of the counterparty. In the current environment, it is observed that PPA contract terms are shortening, necessitating reduction in the level of gearing available to owners and developers of renewable assets over the asset life. Furthermore, on a portfolio basis, as assets near the end of their operational life there is a necessity to further de-gear the assets, resulting in a portfolio debt balance, which is likely to be lower than the target.

The following table provides a summary of the gearing levels of comparable companies:

Company	Country	Gearing Ratio ¹
Beta analysis		
Tilt Renewables Limited	Australia	43.9%
Australasian Comparable Renewable Energy Companies		
NZ Windfarms Limited	New Zealand	21.2%
Infigen Energy Limited	Australia	48.1%
Windlab Limited	Australia	-6.1%
Genex Power Limited	Australia	53.1%
Average		29.1%
Median		34.7%
Australasian Comparable Gentaier Companies		
Trustpower Limited	New Zealand	20.1%
Meridian Energy Limited	New Zealand	14.5%
Mercury NZ Limited	New Zealand	23.5%
Contact Energy Limited	New Zealand	26.4%
Genesis Energy Limited	New Zealand	31.9%
AGL Energy Limited	Australia	16.1%
Origin Energy Limited	Australia	32.6%
ERM Power Limited	Australia	27.8%
Average		24.1%
Median		24.9%
Listed Australasia Utility Companies		
APA Group	Australia	45.6%
AusNet Services Ltd	Australia	55.0%
Spark Infrastructure Group	Australia	19.7%
Vector Limited	New Zealand	40.6%
Average		40.2%
Median		43.1%

Source: S&P Global and GTCF calculations

Note (1): Gearing ratio calculated at net debt to EV over the LTM

As illustrated by the above table, gearing levels for renewable energy companies reflected a mean of 29% and a median of 35% and comparable gentailer companies mean and median gearing of 24% to 25%. Higher gearing levels were observed for regulated utility companies, with a mean of 40% and a median of 43%.

The gearing level adopted by Northington is in line with those observed for the utilities, which included lower risk, longer life regulated assets, with a substantially different risk profile to those of Tilt. We would expect to see gearing levels at approximately 35% for Tilt, which is more indicative of the long-term optimal gearing structure for Tilt based on the profile of its current operating portfolio and pipeline of projects and long term average gearing over the life of the assets.

2.4 Specific equity risk premium

Northington has assumed that there is not additional systematic risk associated with the operating assets of Tilt on the basis of their size, liquidity and asset diversification. We do not consider this assumption to be reasonable for the following reasons:

- The operating portfolio of Tilt includes assets at various stages of life, with approximately 75% of generation of the Australian portfolio contracted under PPA's until 2030, beyond which Tilt will be exposed to wholesale electricity prices. Accordingly, Northington has procured independent long term pricing forecasts. In relation to the New Zealand assets, the prices are fixed until 2023, after which a new price will be set based on ASX Futures prices.

There is considerable uncertainty surrounding long term pricing, with particular regard to the regulatory environment and recent volatility of electricity prices. With increasing pressure on electricity prices by government, uncertainty surrounding the future of the National Energy Guarantee and a potential Royal Commission into the electricity market, we consider there is risk in the cash flows not adequately addressed by Northington's WACC calculation. Northington's sensitivity analysis suggests a movement in the forecast power prices of +/- 10% can have a NZ\$0.23 impact in their estimated value.

- A portion of Tilt's revenue is based on merchant LGC prices, with Tilt becoming materially exposed to LGC's beyond 2020. With current Australian regulatory uncertainty in the market and the level of renewable energy investment, the outlook for LGCs is uncertain to 2030. Northington has acknowledged that some forecasters have assumed an LGC price trending to nil by 2030, however they have assumed a real LGC price of approximately A\$10 to 2030.
- Northington has extended the asset life of each site for a further 5 years beyond the design life, taking into account a higher level of O&M expenditure. Northington has not, however considered any degradation in performance over the extended period. Whilst Stage 1 of the Tararua windfarm is expected to be extended for a new 5-year term, it has not been demonstrated whether the wind farm will be able to generate at historical capacity factors without degradation. Based on our desktop assessment, the extension of the asset life has a NZ\$0.48 impact on the value per share for the operating assets.

The factors outlined above demonstrate that Tilt is somewhat exposed to uncertainty and risks that have not been captured in either the beta estimate or the equity market risk premium. Northington has made assumptions within the cash flow forecasts which increases the risk profile and therefore should attract a specific risk premium in the order of 0.5% to 1%.

2.5 Recalculated WACC

The following table presents our recalculated WACC for the operating assets, compared with that prepared by Northington:

Tilt Renewables Limited	Grant Thornton assessment				Northington assessment			
	Australia		New Zealand		Australia		New Zealand	
WACC calculation	Low	High	Low	High	Low	High	Low	High
Cost of equity								
Risk free rate	3.5%	4.0%	3.5%	4.0%	2.6%	2.6%	2.5%	2.5%
Asset Beta	0.50	0.60	0.50	0.60	0.50	0.60	0.50	0.60
Regearing ratio (D/E)	53.8%	53.8%	53.8%	53.8%	82.0%	82.0%	82.0%	82.0%
Equity beta	0.69	0.83	0.77	0.92	0.79	0.94	0.91	1.09
Market risk premium	6.0%	6.0%	7.5%	7.5%	6.5%	6.5%	7.0%	7.0%
Specific risk premium	0.5%	1.0%	0.5%	1.0%	0.0%	0.0%	0.0%	0.0%
Cost of equity	8.1%	10.0%	8.8%	10.8%	7.7%	8.7%	8.2%	9.4%
Cost of debt								
Cost of debt (pre tax)	5.9%	6.4%	5.9%	6.4%	5.0%	5.0%	4.9%	4.9%
Tax	30%	30%	28%	28%	30%	30%	28%	28%
Cost of debt (post tax)	4.1%	4.5%	4.2%	4.6%	3.5%	3.5%	3.5%	3.5%
Capital structure								
Proportion of debt	35%	35%	35%	35%	45%	45%	45%	45%
Proportion of equity	65%	65%	65%	65%	55%	55%	55%	55%
	100%	100%	100%	100%	100%	100%	100%	100%
WACC (post tax)	6.7%	8.0%	7.2%	8.6%	5.8%	6.4%	6.1%	6.8%

Source: Capital IQ and GTCF calculations

We make the following observations:

- The WACC ranges of 5.8% - 6.4% for Australia and 6.1% - 6.8% for New Zealand is substantially lower than our estimated ranges of 6.7% to 8.0% and 7.2% to 8.6% respectively.
- Observed research analysts have assumed the following WACCs for the Tilt portfolio:

Analyst	Date	Australia	New Zealand
Credit Suisse	12 September 2018	6.85%	7.61%
Forsyth Barr	6 July 2018		8.3%
Deutsche Bank	11 May 2018		7.3%
Cannacord Genuity	6 June 2018		8.9%

- Tilt has published in its annual report as at 31 March 2018 the discount rates used for their impairment testing fair value calculations, a range of 7.1% to 8.1% for the Australian operations and 7.4% to 8.4% for the NZ Assets. These discount rates were audited by PricewaterhouseCoopers.
- Whilst there is limited publicly available data in relation to the WACCs applied to other renewable assets, the following table provides a summary of certain observed WACCs of comparable companies:

Company/Source	Date	Low	High
DUET – Energy Developments Limited IER	3 September 2015	Post Tax WACC: 8.75%	Post Tax WACC: 9.25%
Infigen Energy Limited – Annual Report, impairment testing	30 June 2018	11.7% (pre-tax) ~ c 8.2% post tax	

Company/Source	Date	Low	High
Powercor – Final distribution determination 2016-2020	May 2016	6.11% - nominal vanilla WACC	
New Zealand Commerce Commission – WACC estimates for Transpower	31 July 2018	5.22% vanilla WACC, 4.72% post-tax WACC	
Grant Thornton Renewable Energy Discount Rate Survey	January 2018	Mean WACC for Australian wind: 7.5%	

The Energy Developments Limited (“EDL”) acquisition by DUET consisted of a portfolio of small scale remote and clean energy power generation assets in Australia, Europe and the US. Clean energy comprised approximately 59% of EDL’s revenue and generates power from waste coalmine gas or landfill gas, with the energy being sold to the grid under PPAs or contracts for difference. The remaining revenue was related to energy being sold to remote sites, including mine sites. As a significant proportion of EDL’s revenue is derived from providing power to the resources sector, they are somewhat exposed to the market fluctuations of that sector. Further, the generation facilities are of a small scale individually and therefore reflects a higher risk profile to Tilt.

As discussed in section 5 below, Infigen is considered the most comparable listed company, albeit a smaller proportion of its generation capacity is contracted when compared with Tilt. With a comparable portfolio in terms of size, we consider the slightly higher premium on the WACC for Infigen is not unreasonable compared with Tilt.

The Australian Energy Regulator has determined a regulatory vanilla WACC for Powercor of 6.11% for the regulatory period 2016 – 2020 and the New Zealand Commerce Commission determined a vanilla WACC for Transpower of 5.22%. Both Powercor and Transpower are regulated assets with significant certainty around future pricing, with long term funding over assets with lives in excess of those for the windfarms, we would expect that the WACC range for Tilt operating assets to be materially higher than that for these regulated assets.

In January 2018, Grant Thornton released a Renewable Energy Discount Rate Survey, which gathered secondary market transaction discount rate data across the globe. The average observed WACC in the Australian market for wind assets was 7.5% and the average cost of equity was 10.0%.

Utilising the model prepared by Infratil, and our assessed WACC range for the operating assets (all else remaining equal), the value per share determined by Northington would reduce by between NZ\$0.37 and NZ\$0.51.

3 Discount rate - Dundonnell

Northington has valued the Dundonnell development project using a cost of equity of 9.5% to 10.5%, representing a 2% premium on the cost of equity underpinning the Australian WACC calculation for the operating assets. The premium is representative of Northington’s assessment of the remaining development risk associated with the project.

Relative to the operating portfolio of Tilt, we do not consider that cost of equity allocated to the Dundonnell project adequately reflects the risks of the project as follows:

- Based on the analysis provided above, we consider the base cost of equity (prior to any additional specific risk premium relating to the Dundonnell project) to be in the range 8.1% to 10.0%;

- Whilst well advanced, the project is yet to reach financial close and therefore reflects a level of development risk, as well as other material risks such as generation performance and pricing risk;
- The cost of equity estimated by Northington takes into account only development risk and does not consider any additional risks from expected generation performance and the exposure to merchant prices. Unlike the remainder of the Tilt portfolio of operating assets, only 37% of capacity has been contracted by the Victorian Government on a contract for difference basis, with the remaining 63% yet to be contracted. This is likely to further increase the discount rate assessment;
- The value derived by Northington is based on their expectations around long term power pricing and LGC prices, the forecasts for which are uncertain based on current government energy policy ambiguity, limited future for LGCs beyond 2030 and the profile of Victoria's energy mix over the asset life.
- Northington has assumed a capacity factor of 42% for the Dundonnell development which is above the average capacity factor for the Tilt portfolio of 38%.

We would therefore expect a materially higher cost of equity than that determined by Northington, based on an additional specific risk premium of 2% to 3% above the cost of equity calculated for the operating portfolio. The cost of equity range from 11.1% to 12.2% would result in a reduction in the value per share of the Dundonnell project of approximately NZ\$0.18.

If we utilise our assessment of WACC for the operating assets as well as the cost of equity we have calculated for Dundonnell, the overall Northington valuation range would reduce to between NZ\$1.87 to NZ\$2.46, which supports the Offer Price.

We do not consider this to be unreasonable given that Dundonnell is a development project which has not yet gone to financial close (although it is at an advanced stage) and is susceptible to material exposure of merchant prices.

The additional specific risk premium is supported by our analysis of the implied EV/MW multiples for Dundonnell. The valuation of the Dundonnell project as prepared by Northington implies a value of A\$0.28 million to A\$0.37 million per MW. Comparing this to transactions of other similar stage wind farm developments, the resultant value appears to be materially higher. Refer to Section 5.3 for details.

4 Asset life assumptions

The following table provides a summary of the asset life and contracted period for each of the Tilt wind farms:

Asset life and contracted period for Tilt Wind Farms					
	Location	Commission date	End of life	Production sold under PPA	LGCs sold under PPA
Australian assets					
Snowtown (stage I)	SA	Oct-08	Mar-33	89% contracted to Dec 2018	89% contracted to Dec 2018
Snowtown (stage II North and South)	SA	Nov-14	Mar-40	100% contracted to Dec 2030	100% contracted to Oct 2030
Blayney	NSW	Oct-00	Jun-25	100% contracted to Oct 2020	100% contracted to Oct 2020
Crookwell	NSW	Jun-98	Jun-23	100% contracted to July 2023	Uncontracted
Salt Creek	VIC	Aug-18	Jul-43	50% contracted to Dec 2018, then 100% contracted to Dec 2030	Uncontracted
New Zealand assets					
Tararua I	HAY	Dec-99	Dec-24	100% contracted for asset life	NA
Tararua II	HAY	Dec-04	Dec-29	100% contracted for asset life	NA
Tararua III	HAY	Dec-07	Dec-32	100% contracted for asset life	NA
Mahinerangi	BEN	Dec-11	Dec-36	100% contracted for asset life	NA

Source: IAR Northington, Infratil

Northington has assumed that beyond the useful life of the asset, there is an expectation that the assets could continue to operate for a further 5 years. In making this assumption, Northington has acknowledged that it is likely that O&M costs would increase during this period, however they have not considered any degradation in performance over that period, with the capacity factor remaining the same as over the useful life. Tararua 1 is nearing the end of its useful life and is currently subject to an extension of the operations for a further 5 year period, however there is no evidence as to the success or otherwise of this extension.

We have considered an alternate scenario where the operating life is extended for 5 years beyond the useful life, however at a lower average capacity factor of c. 29% as against 38% over the useful life. This represents a reduction in capacity by 25%. Research has found that wind turbines lose 1.6% of output p.a., with an average loss of output over 20 years ranging from 22% to 60% of capacity, with a median of 33%⁵.

All else remaining equal this would result in a reduction in the value of the Tilt shares from approximately NZ\$0.08 (for the scenario with 5 years extension with reduced capacity) to NZ\$0.48 (for the scenario without useful life extension).

5 Implied market multiples

We have considered the reasonableness of Northington's assessed valuation having regard to the implied EV/ MW and EV/ EBITDA multiples, and have benchmarked these with peer companies' trading multiples as well as multiples observed in closely comparable transactions.

⁵ This is based on research done by a number of sources including Renewable Energy Foundation (The Performance of Wind Farms in the United Kingdom and Denmark, Gordon Hughes (2012)) and Imperial College London (How does wind farm performance decline with age? Iain Staffell & Richard Green (2013))

5.1 Summary

Our opinion on the implied market multiples is summarised below:

- The EV/ EBITDA multiple of 10.2x-11.2x implied by Northington's assessed valuation range does not appear to be reasonable in light of the multiple implied by the investment by Mercury as well as the trading multiples for the basket of comparable companies selected by Northington.
- The assessed equity value for the Dundonnell project of A\$0.28 – A\$0.37 million per MW does not appear to be reasonable given the substantially lower value per MW implied by comparable transactions like the Stockyard Hill acquisition in May 2017 and the Mt Emerald acquisition in June 2016 of between A\$0.11-A\$0.21 million per MW.

5.2 Comparable company multiples

Northington has benchmarked their implied EV/ EBITDA multiple against Mercury's prior investment in Tilt as well as traded multiples for a large basket of companies operating in the broader electricity generation and distribution sector. Further, Northington has considered their assessed valuation to be reasonable given the proximity to most of these benchmarks. In this regard, we note as follows:

- We have benchmarked the operating metrics of listed peers in the Australian and New Zealand market with those of Tilt. Our analysis is summarised below:

Company	Country	Market cap (A\$m)	EV (A\$m)	Installed generation capacity (MW)	Generation volume (GWh)	Implied capacity factor (%)	Contracted electricity production (%)	Development pipeline (MW)
Tilt Renewables Limited	Australia	666.1	1,247.31	636	2094	38%	98% FY18, 84% (from FY20)	3114 MW (AU), 540 MW (NZ)
NZ Windfarms Limited	New Zealand	31.84	40.40	49	103	24%	NA	NA
Infigen Energy Limited	Australia	550.02	1,060.56	670	1910	33%	21% FY18, 32% (FY19e)	879.5
Windlab Limited	Australia	93.32	87.95	NA	NA	NA	NA	7500
Genex Power Limited	Australia	82.06	174.84	50	145	33%	100%	720

Source: S&P Global, GTCF analysis

Note: Market capitalisation and Enterprise value as at 18 September 2018

We note the following in regard to the comparable company multiples:

- Infigen is considered the most comparable peer to Tilt. Infigen's installed generation capacity and development pipeline is similar to that of Tilt's. However, Infigen is considerably more exposed to wholesale electricity prices as the majority of its revenue is uncontracted, whereas most of Tilt's assets have 100% revenue contracted under a PPA. This is reflected in Infigen's consensus multiple vis-à-vis Tilt (6.4x FY19 EBITDA as against 9.8x for Tilt⁶).

However, we note that:

- Infigen is developing the Bodangora wind farm, which is currently in the commissioning process. This project has already delivered electricity to the National Electricity Grid, and is undergoing the addition of more turbines at present. The wind farm has a nameplate capacity of 113.2MW, and 60% of its production has been contracted with EnergyAustralia.
- Although Infigen's total revenue contracted under a PPA is relatively low compared with Tilt, the company also provides electricity under wholesale contracts to Commercial and Industrial users ("C&I"). Together, the revenues under PPA contracts and C&I contracts reflects an increasing

⁶ As at 18 September 2018, sourced from S&P Global

proportion of revenue (43% in FY17, 66% in FY18 and expected to be 72% in FY19). Conversely, while Tilt's current contracts are covered by PPAs, the proportion of uncontracted revenue is expected to increase in the long term as the PPA contracts expire⁷. All else remaining equal, the inclusion of the Dundonnell project with 37% of contracted revenue will add to Tilt's uncontracted revenue.

- While there is a possibility that Tilt's existing PPAs may be extended, there is a significant risk to the extension as well as the term of the same.
 - Although Tilt's development pipeline is larger than Infigen, a large number of Tilt's development pipeline are in the early to mid-stages. Of the 3,114 MW of planned installed capacity in Australia, only 1,600 MW has been consented. In New Zealand, out of the 540 MW of consented developments, only the Waverley development (130 MW) is likely to be proceed in the near term. If these developments were to proceed, Tilt would need to raise substantial additional equity in addition to project debt to fund its development pipeline, as the total development cost of projects in Australia and New Zealand, as disclosed in the Northington IAR is expected to be NZ\$2 billion and NZ\$1 billion respectively.
 - Given the above, we do not believe that the implied EV/ EBITDA multiple for Tilt should be significantly greater than that for Infigen.
- Northington has also assessed their implied EV/ EBITDA multiple to be reasonable given that they are in line with Australian electricity generation companies/ retailers as well as international renewable energy companies, and lower than regulated utility companies. However, we believe that it is not unreasonable for these companies to trade at a premium to Tilt's EV/ EBITDA multiple, given the following:
 - Electricity generation and retailing companies like Origin or AGL are large, diversified operators having an exposure to both conventional and unconventional sources of electricity production. These companies have portfolios including generation assets with longer asset lives such as hydro, gas and geothermal generation. Given their large retail base, these companies also have significant exposure to retail electricity prices, and their risk profile is arguably different to Tilt on account of the benefits of vertical integration enjoyed by these companies. Accordingly, we do not consider these companies to be comparable to Tilt and would expect Tilt to trade at a significant discount to these companies, on account of their scale and their risk profile.
 - International renewable energy companies while undertaking a similar business to Tilt, are significantly larger and more acquisitive, and are sometimes spread out across geographies. These companies face different regulations and may face different operating conditions, resulting in a limited degree of comparability with Tilt, which operates only in Australia and New Zealand.
 - Contracted/ regulated utility companies have assets with a longer life and have relatively secure cash flows. These companies are also highly scrutinised by the market and other regulatory authorities and face a high degree of investor interest. Accordingly, we would expect these companies to trade at a significant premium to Tilt.
 - In addition, Northington has benchmarked their assessed valuation against the multiple paid by Mercury.

In May 2018, Mercury paid NZ\$2.30 per share for the 27% stake in Tilt held by TECT, which represented a 24% premium to the trading price before the acquisition⁸ and implied an EV/EBITDA multiple of 10.3x. The TECT stake was the largest and only significant minority stake in Tilt and it was

⁷ Snowtown 1 expires in December 2018 and others in 2020/ 2023, resulting in 20% of electricity revenue and under 60% of LGC revenue expected to be uncontracted by 2023

⁸ NZ\$1.85 on 11 May 2018

acquired through a competitive sale process. The underlying share price at the time implied an EV/EBITDA multiple of 8.5x.

We believe that the EV/EBITDA multiple offered by Mercury of 10.3x represents a ceiling to the value that should be attributed to the c. 22% stake being acquired by the consortium, on account of the following:

- The c 22% stake is of a similar size and the consortium already had a controlling interest in Tilt before the offer.
- The time gap between the 2 offers was about 3 months, during which there was no fundamental change to the Company's operations.
- Tilt's share price increased immediately following the acquisition. This can partly be attributed to the Company's announcements on the commissioning of the Salt Creek wind farm, which was known and anticipated by the market; and a positive first quarter result, which was driven by wind speeds. However, these announcements are in the nature of either expected or temporary developments, which should not indicate a permanent/ fundamental shift in the share price.
- Based on market commentary following Mercury's acquisition of the TECT stake and the movement in Tilt's trading multiple, it is reasonable to conclude that the market was factoring into the share price, and therefore into the implied multiples, an expectation of a future offer for the remaining shares in Tilt, thereby trading at a higher earnings multiple.
- In light of the above, we do not believe that the assessed valuation of Tilt shares should imply a multiple higher than the multiple paid by Mercury in May 2018.

Conclusion on comparable company multiples

Taking into account the above, we would expect Tilt to trade at multiples that represent a discount to most peers assessed by Northington, and believe that the takeover price of NZ\$2.30 represents a ceiling on the Offer Price for the minority stake.

5.3 Comparable transaction multiples

In addition to the above, we have also compared Northington's implied EV/ MW multiple of Dundonnell to those observed in comparable transactions in Australia and New Zealand. Northington's implied EV/ MW of A\$0.28-A\$0.37 million per MW for the Dundonnell project is at a substantial premium to acquisitions of wind farms under development in Australia.

In our view, the Dundonnell project should not be valued at greater than A\$0.21 million per MW, which was paid for the acquisition of Stockyard Hill.

Our analysis is presented below:

- *Stockyard Hill acquisition*
 - The Stockyard Hill transaction involves Goldwind's acquisition of the Stockyard Hill development from Origin Energy for A\$110 million. The 530 MW wind farm is expected to be the largest wind farm in Australia post construction. This wind farm has 100% of its revenue contracted under a PPA with Origin for both electricity and LGCs up to 2030.
 - Furthermore, as Goldwind is a strategic acquirer and has established projects in place including White Rock Wind Farm (377 MW⁹), Gullen Range Wind Farm (165.5 MW), Mortons Lane Wind

⁹ Total include 202 MW of capacity for which construction will start in late 2018.

Farm (19.5 MW) and Gullen Solar Farm (10 MW). This acquisition also forms a part of a larger portfolio of assets.

- As against this, the Dundonnell project is a 336 MW wind farm with only 37% of its revenue under a PPA, and similar to the Stockyard Hill wind farm also forms part of a larger portfolio. In our opinion, both acquisitions enjoy the benefits of being part of a larger portfolio of assets. Further, the certainty surrounding the PPA materially de-risked the Stockyard Hill development.
 - Accordingly, we do not believe that the Dundonnell project should be valued at a premium to the Stockyard Hill project.
- *Mt Emerald acquisition*
 - The Mt Emerald transaction involves Ratch Australia's A\$10 million acquisition of 50% interest in Mount Emerald Wind Farm Pty. Mount Emerald is a 180 MW wind farm and is currently at the final stages of construction. The project has 100% PPA offtake with Ergon Energy until 2030.
 - Mt Emerald Wind Farm is located in Queensland and will be operational by the end of 2018. Once the project is operational, it is expected to supply 1/3 of the power needs of Far North Queensland.
 - Given the size of the project relative to the Dundonnell project, we would expect the Dundonnell project to be valued at a premium to the Mt Emerald acquisition. However, we note that at the time of the acquisition, the Mt Emerald project was well advanced in its development phase and had already secured the PPA before commencing construction of the wind farm. The project was added to Ratch's portfolio of wind farms and renewable pipeline. We consider that these factors lower the risk from the project and attributes a higher value to the same.
 - Considering the above factors, the Mt Emerald acquisition multiple represents a floor for the implied valuation multiple of the Dundonnell project.

Given the above, we would expect the implied multiple for the Dundonnell transaction should be between the Mt. Emerald transaction and the Stockyard Hill transaction, given the similar characteristics of the projects.

Northington's implied price per MW for the Dundonnell project is materially above these comparable transactions, whilst at the same time being a higher risk asset in terms of merchant exposure and higher capacity factor.

6 Share price analysis

6.1 Liquidity analysis

We have assessed the liquidity of the Tilt shares in order to assess whether these shares are representative of the fair market value of the Company. In this regard, we note the following:

- The free float of the Company's shares is highly limited at 28.8%¹⁰, as the majority of the outstanding shares are closely held by Infratil and Mercury and are not traded. The free float of Tilt is lower than most peers in Australia/ New Zealand, as set out below:

Liquidity assessment	Free Float as at 19 Sep 2018	Median volume traded as a % of total shares ¹
Tilt Renewables Limited	28.79%	0.52%
NZ Windfarms Limited	52.67%	1.05%
Infigen Energy Limited	72.67%	3.52%
Windlab Limited	48.73%	2.45%
Genex Power Limited	58.11%	2.58%
Trustpower Limited	21.90%	0.42%
Meridian Energy Limited	48.86%	0.92%
Mercury NZ Limited	46.06%	1.35%
Contact Energy Limited	99.79%	2.33%
Genesis Energy Limited	48.31%	1.08%
AGL Energy Limited	99.51%	5.92%
Origin Energy Limited	99.50%	5.47%
ERM Power Limited	76.82%	3.28%

Note 1: Between September 2017 and August 2018

Source: S&P Global, GTCF calculations

- From September 2017 to August 2018, 25.5% of the Company's total shares and 28.78% of the free float shares were traded with a median monthly volume of 0.52%¹¹ of total shares. However in May 2018, c. 20% of the total shares were traded, excluding which would reduce the median monthly volume to 0.44%. This implies that the liquidity of the stock is relatively low, and is not traded by large segments of the market.
- Tilt complies with the full disclosure regime required by the ASX and NZX, and is covered by several investment analysts in Australia and New Zealand who provide updates to the market on a regular basis. As a result, the market is fully informed about the performance of Tilt.
- In the absence of a takeover or alternate transactions, the trading prices represent the value at which minority shareholders could realise their portfolio investment. However despite being a publicly listed company, in a low liquidity environment, an investor may find it difficult to dispose of a sizeable shareholding in a short span of time at a fixed price.

6.2 Premium for control is not applicable to a minority stake

We note that Northington's assessed valuation of the Company has been undertaken on a control basis. A control value is typically higher than the equivalent value for a minority stake as a controlling shareholding would give rise to benefits such as:

- the ability to make strategic decisions;
- the ability to make dividend payment decisions;
- the ability to realise synergistic benefits;

¹⁰ We understand that post the exercise of options by Mercury, the free float has reduced to c. 22%.

¹¹ Excluding May 2018, the median volume traded is 0.44%

- access to cash flows;
- access to tax benefits; and
- control of the board of directors of the company.

However, in the case of Tilt, Infratil and Mercury control 78% of the share capital of the Company (as a result of the exercise of the option by Mercury as part of offer), and together can influence the activities and strategic direction of the Company or pass special resolutions. In such a situation, we do not expect that the seller of a <25% stake in a closely held company would receive a substantial premium over the trading price for the stake to be sold.

6.3 Premia indicated by the May 2018 TECT offer and the TLT JV takeover offer in August 2018

In May 2018, Mercury obtained a 19.99% stake in the Company from TECT Holdings Limited, with an option to acquire an additional 6.8% stake. This offer was made at a price of NZ\$2.30, implying a premium of 24% to the trading price before the offer¹².

Evidence from Australian studies (Officer, Bishop and Dodd for example) indicates that premiums for control on successful takeovers have frequently been in the range of 20% to 40% and that the premiums vary significantly between transactions.

We would not expect a substantial premium to be paid to acquire a minority stake in the Company. Accordingly, we do not consider the premium paid by Mercury in May 2018 to be unreasonable.

While Mercury offered a premium to acquire the TECT stake in May 2018, there was no further premium included in the TLT JV takeover offer in August 2018. We do not consider this to be unreasonable owing to the following:

- The Mercury acquisition of the TECT stake in May 2018 was part of a competitive process. In a press release at the time of the transaction (15 May 2018), Infratil had confirmed its bid for this stake: *“Infratil tabled a proposal to acquire the 26.7% stake held by TECT in Tilt as part of an expedited process run by TECT and its advisors.”*
- The trading price before the offer in August 2018 (NZ\$2.13 as at 14 August 2018) was higher than the trading price before the offer in May 2018 (NZ\$1.85 as at 11 May 2018). Following Mercury’s acquisition of the TECT stake, the share price increased to levels in line with the price just prior to the TLT JV takeover offer. During the period between the offers in May and August 2018, there was ongoing takeover speculation for the remaining shares in the media and in broker research. In the absence of any other material company announcements during that period, it is likely that the traded price prior to the TLT JV takeover offer already incorporated a certain premium for control on the basis that the market expected an imminent takeover offer by either Infratil or Mercury.

6.4 Conclusion on premium over share price

Based on the circumstances surrounding the Mercury acquisition of the TECT stake and the subsequent takeover offer, when considering the implied premium for control paid by the TLT JV, it is reasonable to utilise the price just prior to Mercury acquisition of the TECT stake as the reference price. Based on the reference price as at 11 May 2018, the implied premium for control for the 22% stake is 24%.

¹² NZ\$1.85 on 11 May 2018



Considering that a minority stake is to be acquired in a closely held business with the TLT JV partners collectively controlling c. 78%, and with a price benchmark available for the acquisition of a similar stake, we do not believe that the seller of a 22% stake would receive a premium over and above the Offer Price. We therefore believe that the TLT JV partners' NZ\$2.30 represents a reasonable premium to the trading price of Tilt shares prior to the announcement of the offer.

7 Sources of information, disclaimer and consents

7.1 Sources of information

In preparing this report Grant Thornton Corporate Finance has used various sources of information, including:

- TLT JV Offer Document
- Northington Partners Independent Adviser's Report dated 17 September 2018
- Annual reports/ consolidated accounts of Tilt for FY18
- Press releases and announcements by Tilt on the ASX
- Financial model prepared by Infratil
- CEO and CFO reports for the last 6 months before the announcement of the Proposed Transaction
- S&P Global
- Various industry and broker reports
- Other publicly available information

In preparing this report, Grant Thornton Corporate Finance has also held discussions with, and obtained information from, Management of Infratil and its advisers.

7.2 Limitations and reliance on information

This report and opinion is based on economic, market and other conditions prevailing at the date of this report. Such conditions can change significantly over relatively short periods of time.

Grant Thornton Corporate Finance has prepared this report on the basis of financial and other information made publicly available by the Company, and other publicly available information. Grant Thornton Corporate Finance has considered and relied upon this information. Grant Thornton Corporate Finance has no reason to believe that any such information is false or that any material information has been withheld. Grant Thornton Corporate Finance has evaluated the information published by the Company through inquiry, analysis and review, and nothing has come to our attention to indicate the information published is materially misstated or would not afford reasonable grounds upon which to base our report. Nothing in this report should be taken to imply that Grant Thornton Corporate Finance has audited any information used by us, or has in any way carried out an audit on the books of accounts or other records of the Company.

This report has been prepared to assist the Directors of Infratil and Mercury in communicating with the Tilt Shareholders in relation to the Proposed Transaction. This report should not be used for any other purpose. In particular, it is not intended that this report should be used for any purpose other than as an expression of Grant Thornton Corporate Finance's opinion as to whether the Proposed Transaction is in the best interest of the Company's shareholders.

Infratil has indemnified Grant Thornton Corporate Finance, its affiliated companies and their respective officers and employees, who may be involved in or in any way associated with the performance of services contemplated by our engagement letter, against any and all losses, claims, damages and liabilities arising



out of or related to the performance of those services whether by reason of their negligence or otherwise, excepting gross negligence and wilful misconduct, and which arise from reliance on information made available by the Company, which the Company knew or should have known to be false and/or reliance on information, which was material information the Company had in its possession and which the Company knew or should have known to be material and which it did not provide to Northington Partners for the purpose of the Independent Advisor's Report. Infratil will reimburse any indemnified party for all expenses (including without limitation, legal expenses) on a full indemnity basis as they are incurred.

7.3 Consents

Grant Thornton Corporate Finance consents to the issuing of this report in the form and context in which it is included in statements by the TLT JV or any member of the TLT JV to Tilt Shareholders in connection with the Proposed Transaction. Neither the whole nor part of this report nor any reference thereto may be included in or with or attached to any other document, resolution, letter or statement without the prior written consent of Grant Thornton Corporate Finance as to the form and content in which it appears.

Appendix – Glossary

\$ or A\$	Australian Dollar
ASIC	Australian Securities Investment Commission
ASX	Australian Securities Exchange
CAGR	Compounded Annual Growth Rate
C&I	Commercial and Industrial users
Company	Tilt Renewables Limited
Corporations Act	Corporations Act 2001
DCF	Discounted Cash Flow
EBITDA	Earnings before interest, tax, depreciation and amortisation
EDL	Energy Developments Limited
EPC	Engineering, procurement and construction
EV	Enterprise Value
FSG	Financial Services Guide
FYXX	Financial year ended 30 June 20XX
GTAL	Grant Thornton Australia Limited
GTCF, Grant Thornton, or Grant Thornton Corporate Finance	Grant Thornton Corporate Finance Pty Ltd
GWh	Gigawatt hour
Infratil	Infratil Limited
Independent Adviser's Report	Report prepared by Northington Partners, issued on 17 September 2018
LGC	Large-scale generation certificates
Mercury	Mercury NZ Limited
MW	Megawatt
MUFG	MUFG Bank Ltd
MWg	Megawatt hour
Northington Partners	Independent Adviser/Expert
NAB	National Australia Bank Limited
NSW	New South Wales
NZ	New Zealand
NZ\$	New Zealand dollars
NZX	New Zealand Stock Exchange
O&M	Operating and maintenance
Offer Price	NZ\$2.30 per Tilt share
pa	Per annum
PPA	Power Purchase Agreement
Proposed Transaction	Takeover offer by whereby Infratil and Mercury, through their joint venture seek to acquire all outstanding shares of Tilt
QLD	Queensland
SA	South Australia
TAMRP	tax-adjusted market risk premium
TECT	TECT Holdings Limited
Tilt or the Company	Tilt Renewables Limited
TLT JV	Unincorporated Joint venture between Infratil and Mercury
Trustpower	Trustpower Limited
WACC	Weighted Average Cost of Capital