26 September 2018

The Tilt Renewables Independent Adviser Report is overly optimistic and not supported by market benchmarks

On 17 September 2018, Tilt Renewables Limited ("**Tilt Renewables**") released its Target Company Statement and Independent Adviser Report. These documents included a valuation range for Tilt Renewables shares of between NZ$2.56 and NZ$3.01 per share.

Infratil believes there are a number of areas where the independent adviser's assumptions are significantly more favourable than market comparatives. As such, Infratil has commissioned an independent report from Grant Thornton Corporate Finance Pty Ltd ("**Grant Thornton**") to review the assumptions underlying the Northington Partners ("**Northington**") valuation. Grant Thornton has extensive experience in preparing independent expert reports with strong credentials in valuing renewable energy businesses. Grant Thornton has concluded that a number of assumptions adopted by Northington are overly optimistic and do not fully allow for the risks of the Tilt Renewables operating portfolio, leading to a valuation range that is higher than fair market value.

The assumptions that Grant Thornton considered overly optimistic include:

- The market required rate of return, or weighted average cost of capital ("**WACC**"), assumed by Northington for Tilt Renewables' operating wind farms is too low. The current uncertainty in the Australian political environment and energy market is not adequately reflected in the Northington assessment of WACC, nor is the future exposure to merchant energy prices that Tilt Renewables faces following the expiry of its existing revenue contracts (revenue contracts in respect of approximately 10% of annual output are expected to expire from December 2018). Northington's assumption is also materially lower than the WACC Tilt Renewables itself used to test the fair value of its operating wind farms for impairment in its 2018 annual report and the WACCs used by all independent research analysts who publish analysis on Tilt Renewables. The mid-point Grant Thornton WACC for New Zealand and Australian cash flows is 7.90% and 7.35% respectively, and if applied would decrease the Tilt valuation by 44 cents per share.

- The market required rate of return on equity used for the valuation of the Dundonnell wind farm development project is too low and leads to a value that is not supported by comparable transactions. The Dundonnell project, which is yet to be finally approved, is exposed to development risk and merchant price risk with more than 60% of its output currently uncontracted. Further, it appears Northington do not allow for sufficient debt repayment from the project cash flows. These factors justify a materially higher required rate of return than Northington has assumed. If applied, the mid-point Grant Thornton Dundonnell cost of equity would further reduce the Tilt valuation by 18 cents per share.

- Northington has assumed that it is likely the life of operating wind farms could be extended for a period of 5 years beyond their useful life, with increased operating and maintenance costs but no degradation in generation output. Tilt Renewables has no proven ability to operate assets beyond their design life, and Grant Thornton refers to international research which indicates that the generation performance of wind farms can degrade by a third over their useful lives.

If Grant Thornton's revised market required rates of return for the operating and Dundonnell wind farms were applied in aggregate, Northington's implied valuation of Tilt Renewables would reduce to between NZ$1.87 to NZ$2.46 per share.

The Northington report acknowledges there are risks surrounding their assessment of the valuation upside, concluding that:

> "there are a wide range of factors that will affect the potential timing and quantum of any value upside. Shareholders who do not accept the Offer may also not realise any upside at all."

As a result, Infratil continues to believe that the NZ$2.30 offer price is attractive and fair. The Target Company Statement acknowledges that there is a risk that minority shareholders will not receive full value for their entitlements in the upcoming equity raising for the Dundonnell wind farm, if they choose not to participate themselves. The Target Company Statement also assumes that shareholders are indifferent to the future Tilt Renewables dividend yield. Infratil strongly encourages shareholders who are unlikely to participate in future equity raising, or who invest primarily for dividend yield, to consider whether accepting the Offer is appropriate for them.

The Offer is scheduled to close on 15 October 2018 (unless extended in accordance with the Takeovers Code). Tilt Renewables shareholders that accept the Offer will be sent NZ$2.30 cash per share within seven days of receipt of their acceptance. The Offer can be accepted online at www.TiltTakeover.co.nz.

A copy of the Grant Thornton report is attached.

Any enquiries should be directed to:

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