Northington Partners

Trustpower Limited

Independent Adviser's Report Prepared in Relation to the Proposed Demerger of Trustpower Limited

August 2016

Statement of Independence

Northington Partners Limited confirms that it:

- Has no conflict of interest that could affect its ability to provide an unbiased report; and
- Has no direct or indirect pecuniary or other interest in the proposed transaction considered in this report, including any success or contingency fee or remuneration, other than to receive the cash fee for providing this report.

Northington Partners Limited has satisfied the Takeovers Panel, on the basis of the material provided to the Panel, that it is independent under the Takeovers Code and the Panel's requirements for schemes of arrangements involving Code companies for the purposes of preparing this report.

Table of Contents

Abbreviations and Definitions

A$	Australian dollars
ASX	ASX Limited, or the financial market operated by the ASX Limited as the context requires
BEL	Bay Energy Limited
CAGR	Compound average growth rate
Code	The Takeovers Code
EBITDA	Earnings before interest, tax, depreciation and amortisation
EBITDAF	Earnings before interest, tax, depreciation, amortisation and fair value adjustments
EV	Enterprise Value
FY	Financial year ending 31 March
GWh	Gigawatt hour, a measurement of electrical energy being 1,000 MW of electrical energy used continuously for one hour
GSP	GSP Energy Pty Limited
Independent Adviser's Report	This report prepared by Northington Partners
Infigen	Infigen Energy Limited
Infratil	Infratil Limited
KCE	King Country Energy Limited
LGC	Large-scale generation certificates created under Australia's RET scheme, with one LGC representing one MWh of renewable electricity
MW	Megawatt, a unit of power being one million watts
MWh	Megawatt hour, a measurement of electrical energy being one million watts of electrical energy used continuously for one hour
Northington Partners	Northington Partners Limited
NPAT	Net Profit After Tax
NZ$	New Zealand dollars
NZX	NZX Limited
NZX Main Board	The main board equity securities market operated by NZX
PPA	Power purchase agreement, being an agreement for the purchase of electricity and LGCs (if applicable)
Origin	Origin Energy Limited
Proposed Demerger	The proposal to divide Trustpower into two separate entities, being Tilt Renewables and New Trustpower, as described in the Scheme Booklet
RET	Australia's Renewable Energy Target, a scheme to incentivise investment in renewable energy
Scheme of Arrangement	The scheme of arrangement being contemplated by Trustpower under Part 15 of the Companies Act 1993
Scheme Booklet	Trustpower's Notice of Meeting and Scheme Booklet in relation to the Proposed Demerger including the procedural notes and this Independent Adviser's Report
Separation Deed	A Deed entered into between Trustpower, BEL and TANZL which governs the Proposed Demerger
Tilt Renewables	Tilt Renewables Limited, previously named Australasian Renewables Limited (and Trustpower Australia (New Zealand) Limited prior to 8 July 2016), which under the Proposed Demerger will (together with its subsidiaries) hold Trustpower's Australian and New Zealand wind farm assets and wind farm and solar development projects.
TECT	Tauranga Energy Consumer Trust
Trustpower or Company	Trustpower Limited
New Trustpower	BEL, which under the Proposed Demerger will (together with its subsidiaries) retain ownership of the assets of Trustpower not transferred to Tilt Renewables
TWP	Tararua Wind Power Limited

1.0 Assessment of the Merits of the Proposed Demerger

1.1. Introduction

Trustpower Limited ("**Trustpower**" or "**Company**") is listed on the NZX Main Board, being the main board equity securities market operated by NZX Limited ("**NZX**"). Trustpower is a renewable energy generator with hydro power stations and wind farms in New Zealand and Australia and an electricity and multi-product retailer in New Zealand.

On 18 December 2015, Trustpower announced it was considering a demerger into two, separate standalone listed companies ("**Proposed Demerger**"):

1. "Tilt Renewables", comprising Trustpower's Australian and New Zealand wind farm assets as well as wind and solar development projects; and
2. "New Trustpower", which will retain ownership of Trustpower's remaining assets, being primarily its New Zealand and Australian hydro power generation and New Zealand multi-product retailing business.

Table 1 summarises the key generation and operating statistics for each of New Trustpower and Tilt Renewables following the Proposed Demerger relative to Trustpower currently.

Table 1: Summary Operating Statistics

	New Trustpower	Tilt Renewables	Trustpower
Installed New Zealand Capacity (MW)	478	197	675
Installed Australian Capacity (MW)	92	386	478
Total Installed Capacity	572	582	1,153
New Zealand Average Generation (GWh)	1,929	664	2,593
Australia Average Generation (GWh)	244	1,258	1,502
Total Average Generation	2,173	1,922	4,095
FY16 Actual Generation	2,047	1,921	3,968
Total Utility Connections (as of 31 March 2016)	370,000	0	370,000

Source: Trustpower and Northington Partner's analysis. For further generation asset details, see Section 3.3 and Section 3.4 of this report and the Scheme Booklet.

Table 2 provides a summary of the key pro forma financial information for the year end 31 March 2016 for each of New Trustpower and Tilt Renewables relative to Trustpower's actual recently reported financial results.

Table 2: Summary Financial Information (FY16 Pro Forma)

NZ$m	Trustpower Core	Tilt Renewables	Pro Forma Adjustments	Trustpower FY16 Actual
Revenue				
Generation NZ	229	45	(31)	242
Generation Australia	16	125	(1)	140
Retail	842	0	0	842
Other[1]	(140)	0	(48)	(188)
Total Revenue	947	170	(81)	1,037
EBITDAF				
Generation NZ	159	37	(3)	194
Generation Australia	12	84	9	105
Retail	42	0	(0)	42
Other[1]	0	0	(12)	(12)
Total EBITDAF	213	121	(6)	329

NZ$m	Trustpower Core	Tilt Renewables	Pro Forma Adjustments	Trustpower FY16 Actual
Current Assets	118	29	0	147
Non-current Assets	2,368	1,288	0	3,656
Current Liabilities	(102)	(13)	0	(116)
Net Debt	(730)	(674)	81	(1,323)
Other Non-current Liabilities	(300)	(176)	0	(476)
Net Assets	**1,353**	**454**	**81**	**1,889**
Net Debt / EBITDAF	3.4x	5.4x		4.0x
Net Debt / (Net Debt + Equity)	35%	60%		41%

Source: Trustpower and Northington Partner's analysis. For more detailed financial information, see Section 3.3 and Section 3.4 of this Independent Adviser's Report and the Scheme Booklet. Tilt Renewables figures based on average NZD/AUD exchange rate of $0.92 for FY16 revenue and EBITDAF and at a rate of $0.90 for 31 March balance sheet items.

[1] Other includes unallocated revenue and expenses (mainly related to unallocated corporate functions) and, in the case of revenue, inter-company eliminations between segments.

Further details on Trustpower are set out in Section 2, while profiles of Tilt Renewables and New Trustpower are set out in Section 3.3 and Section 3.4, respectively.

The Proposed Demerger is being implemented by way of a Court approved scheme of arrangement under Part 15 of the Companies Act 1993 ("**Scheme of Arrangement**"). This will essentially involve:

- The assets and liabilities of Trustpower being transferred to each of Tilt Renewables and New Trustpower (and their subsidiaries), the key elements of which are described in the Scheme Booklet and Section 3.1 of this report.
- The liquidation of Trustpower.
- The liquidator of Trustpower making an in-specie distribution of New Trustpower and Tilt Renewables shares to those persons who hold shares in Trustpower on the date at which the entitlement of Trustpower shareholders to participate in the Proposed Demerger is determined (the "**Record Date**"), which date is shown in the timetable set out in Section 1.3 below. Each Trustpower shareholder holding Trustpower shares on the Record Date will receive one Tilt Renewables share and one New Trustpower share for every one Trustpower share they own.
- Shareholders of Trustpower will continue to own Trustpower shares but these will be of no value and Trustpower will be liquidated.
- New Trustpower will be listed on the NZX Main Board and Tilt Renewables on the NZX Main Board and Tilt Renewables may also be listed as a foreign exempt issuer on the ASX.

1.2. Key Conditions

The Scheme of Arrangement is subject to a number of conditions before it will become binding, the full details of which are set out in the Notice of Meeting to be sent to Trustpower shareholders contained within the Scheme Booklet. A summary of the key conditions is as follows:

- Trustpower's shareholders must approve the Scheme of Arrangement at a special meeting of shareholders. The voting thresholds under the Companies Act 1993 for approval of the Scheme of Arrangement are:
  - a majority of 75% of the votes of the Trustpower shareholders in each interest class entitled to vote and voting on the demerger resolution; and
  - a simple majority of the votes of all Trustpower shareholders entitled to vote on the demerger resolution. (This threshold applies on the total number of Trustpower shares rather than by each interest class separately).
- Trustpower shareholder approval is also required under NZX Listing Rule 9.1.1, which will be achieved if Trustpower's shareholders approve the Scheme of Arrangement.
- The High Court must approve the Scheme of Arrangement and order its implementation.

1.3. Proposed Demerger Timetable

Table 3 provides a summary of the key events for the Proposed Demerger.

Table 3: Transaction Timetable

Event	Date
Date for determining eligibility to vote	5pm on 6 September 2016
Shareholder Meeting	9 September 2016
Anticipated receipt of Final Court Orders	6 October 2016
Last date on which Trustpower shares will trade on the NZX Main Board	13 October 2016
Record Date for entitlements to receive Tilt Renewables and New Trustpower shares	5pm on 13 October 2016
Anticipated Demerger Date	17 October 2016
New Trustpower shares begin trading on the NZX Main Board on a conditional settlement basis	13 October 2016
Tilt Renewables shares being trading on the NZX Main Board and ASX on a conditional settlement basis	13 October 2016
Mailing of shareholder statements	18 October 2016

Source: Trustpower. Events have the same meaning as defined in the Scheme Booklet and are subject to change.

1.4. Regulatory Requirements and Scope of this Report

The Proposed Demerger is to be implemented by way of Scheme of Arrangement under the Companies Act 1993 and is required to be approved by the High Court. The NZX Listing Rules (as well as general law) specifies that the Notice of Meeting must state the nature of the business to be transacted at the meeting in sufficient detail to enable shareholders to form a reasoned judgement in relation to it.

Trustpower has requested that the Takeovers Panel issue a "no-objection statement" in relation to the Scheme of Arrangement to present to the High Court to assist with its deliberations. The practice of the Takeovers Panel (except in very limited circumstances) is to require the preparation of an independent adviser's report before it will consider issuing a no-objection statement. It is also customary practice in New Zealand for an independent report to be provided to shareholders when considering a transaction of the nature of the Proposed Demerger.

Accordingly, Trustpower requested Northington Partners Limited ("**Northington Partners**") to prepare an independent adviser's report setting out our view of the merits of the Proposed Demerger. We have also been requested to give our opinion as to whether the Proposed Demerger materially prejudices Trustpower's creditors. Our appointment was approved by the Takeovers Panel on 22 March 2016. Further details on the regulatory requirements and scope of this report are set out in Appendix 1.

This report will accompany the Notice of Meeting to be sent to all Trustpower shareholders and sets out our opinion on the merits of the Proposed Demerger. This report will also be provided to the Court considering the Scheme of Arrangement in respect of the Proposed Demerger. Being part of the Scheme Booklet which will enter the public domain, we understand that the report may also be viewed by creditors of Trustpower potentially affected by the Proposed Demerger. This report should not be used for any other purpose and should be read in conjunction with the declarations, qualifications and consents set out in Appendix 7.

1.5. Basis of Evaluation

Appendix 1 sets out details of the matters we have taken into account in our assessment of the Proposed Demerger from the perspective of Trustpower's shareholders and creditors.

1.6. Summary of Our Assessment of the Proposed Demerger for Trustpower Shareholders

Our full assessment of the merits of the Proposed Demerger for Trustpower shareholders is set out in Section 4.0, and summarised below in Table 4.

Table 4: Summary of Merits for Trustpower Shareholders

Item	Key Conclusions	Further Information
Advantages and Benefits	▪ The Proposed Demerger will allow both New Trustpower and Tilt Renewables to focus on separate strategies appropriate for each entity. ▪ Tilt Renewables will provide a better platform for raising the capital required to fund the significant wind development opportunities currently under consideration. ▪ Given the separate listing arrangements for New Trustpower and Tilt Renewables, shareholders will have the opportunity to make an explicit choice regarding their continued exposure to either company.	Section 4.1
Potential Value Impacts of the Proposed Demerger	▪ We believe that the immediate impacts on share values are highly uncertain, and could be driven as much by market supply and demand factors as fundamental value drivers. ▪ There is potential for uplift in the value attributed to the development opportunities held by Tilt Renewables following the Proposed Demerger. If this is realised, the aggregate value of the New Trustpower and Tilt Renewables shares may exceed the current value attributed to Trustpower. The eventual outcome is uncertain and ultimately dependent on a myriad of market and performance factors in the medium term.	Section 4.2
Risks, Disadvantages and Costs	▪ All of the risks faced by New Trustpower and Tilt Renewables following the Proposed Demerger are already faced by Trustpower today. However, the two new entities will be smaller and less diversified and will arguably be more affected by any adverse event. We believe that the practical impact of this change is limited. ▪ All else being equal, the liquidity in New Trustpower and Tilt Renewables may be lower than Trustpower because of the smaller size of each entity. Liquidity in Trustpower is already low, largely because over 77% of the shares are owned by only two shareholders. If this position changes after the Proposed Demerger, liquidity in one or both of the new entities may improve. ▪ Based on information provided by Trustpower, we estimate the total economic costs of the Proposed Demerger at \$75 – \$90 million (\$0.24 – \$0.29 per share). This includes both the one-off transaction costs and an estimate of the incremental present value of higher on-going operating costs from running two separate companies relative to the costs which would have been incurred under the status quo. This will represent a direct loss in shareholder value if the potential benefits of the Proposed Demerger are not realised.	Section 4.3
Impact on Initial Capital Structure and Funding Costs	▪ New Trustpower and Tilt Renewables must be recapitalised as part of the Proposed Demerger. The gearing level for New Trustpower will be lower than Trustpower's current position, while Tilt Renewables will be more highly geared (supported by its high level of contracted revenue). ▪ We expect that both entities will have suitable facilities and funding sources in place, and on comparable terms, when the Proposed Demerger is implemented.	Section 4.4
Dividend Consequences	▪ Based on pro-forma financial information for FY2016 and the proposed dividend policies of New Trustpower and Tilt Renewables, we estimate that the aggregate dividend from the two companies would be approximately \$0.03 - \$0.04 lower than the \$0.42 dividend paid by Trustpower in FY2016 (based on the upper end of the proposed dividend pay-out ratios). ▪ However, we note that most of this reduction should not be directly attributed to the Proposed Demerger. If the Australian wind development opportunities were pursued under the status quo structure, it is very likely	Section 4.5

Item	Key Conclusions	Further Information
	that Trustpower would decrease its dividend pay-out to help fund the capital expenditure or require new equity from shareholders.	
Tax Considerations	▪ The Proposed Demerger should have no material tax consequences for New Trustpower, Tilt Renewables, or New Zealand resident or Australian resident shareholders in Trustpower.	Section 4.6

A summary of our conclusions is set out in Section 4.8. On balance, we believe that the potential benefits of the Proposed Demerger outweigh the costs and potential disadvantages.

1.7. Summary of Our Assessment of the Proposed Demerger for Trustpower Creditors

Our full assessment of whether the Proposed Demerger is likely to materially prejudice Trustpower's creditors is set out in Section 5.0. A summary of our key conclusions is as follows:

- The Proposed Demerger should have no material impacts on the key terms of creditors' existing arrangements with Trustpower.
- The Proposed Demerger is unlikely to impact creditors' ability to receive payment of their debts when due:
    - We do not believe New Trustpower or Tilt Renewables will be materially more likely than Trustpower today to suffer an insolvency or liquidation event before existing creditors have been paid; and
    - Even if such an insolvency or liquidation event were to occur to New Trustpower or Tilt Renewables, there should be no material impact on the practical and legal implications for affected creditors compared to the situation they would face if such an event were to occur to Trustpower today in the absence of the Proposed Demerger.

1.8. Approval or Rejection of the Scheme of Arrangement

This report represents one source of information that Trustpower shareholders may wish to consider when forming their own view on whether to approve the Proposed Demerger. It is not possible to contemplate all shareholders' personal circumstances or investment objectives and our assessment is therefore general in nature. The appropriate course of action for each shareholder is dependent on their own unique situation. Shareholders should read the Scheme Booklet and if appropriate, consult their own professional adviser(s).

2.0 Profile of Trustpower and Rationale for the Proposed Demerger

2.1. Overview

Trustpower traces its origins back to 1915 and the construction of Tauranga's first power station. Today, the Company remains headquartered in Tauranga and is listed on the NZX Main Board. Trustpower's principal business activities comprise electricity generation and the retailing of energy and telecommunication services.

Trustpower's generation activities have a strong focus on sustainable generation using hydroelectric power stations and, increasingly, wind farms. The Company currently owns hydro and wind generation assets at 41 generation sites in New Zealand and 6 generation sites in two states of Australia (New South Wales and South Australia). A number of wind farm projects are currently in development or at the planning stages, predominantly in Australia.

Figure 1: Map of Trustpower's Generation Assets

Source: Trustpower

The retail side of the business operates in New Zealand only, where Trustpower supplies electricity to approximately 280,000 customers (including King Country Energy Limited ("**KCE**") customers), gas to 31,500 customers and telecommunications services (including Ultra-Fast Broadband internet) to 65,000 customers. Other ancillary operations include the leasing of legacy meters to other energy retailers and a number of irrigation projects (operational and planned) that are linked to the Company's hydroelectric assets.

As set out in Figure 2 below, the majority of Trustpower's revenue is derived from its retail division. However, low margins in this division (consistent with other generator-retailer businesses in the New Zealand market) results in a disproportionality low level of profitability compared to other divisions. Figure 3 shows that the majority of EBITDAF is derived from the Company's generation activities. Although Generation New Zealand is the single largest contributor to EBITDAF, the contribution from Generation Australia has increased significantly, particularly following the commissioning of the 270MW Snowtown Stage 2 Wind Farm in South Australia ("**Snowtown Stage 2"**).

Figure 2: Revenue by Business Division

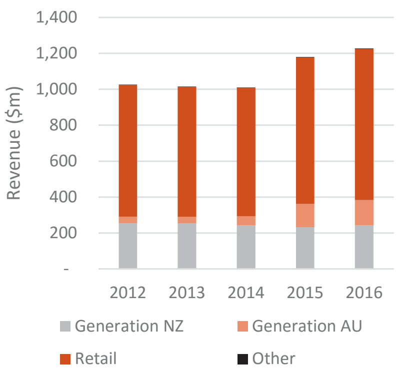
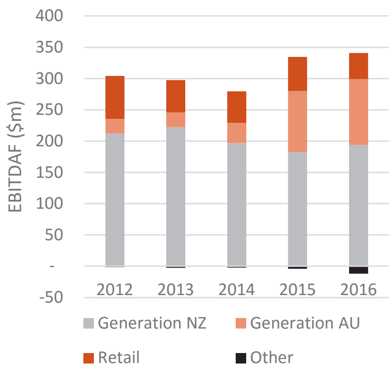


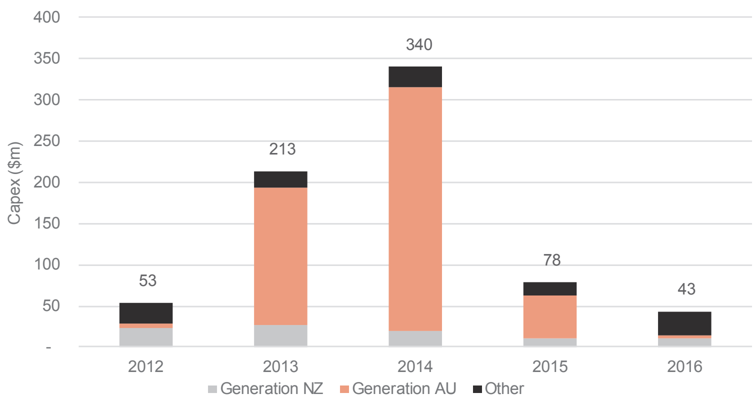
Figure 3: EBITDAF by Business Division



Source: Trustpower audited financial statements (FY2012 - FY2016). Note: Revenue figures include inter division trading.

In recent years, Trustpower has invested heavily in the development of its Australian wind generation assets. The extent of this investment can be seen in Figure 4 below, which highlights capital expenditure by segment over the last five years.

Figure 4: Capital Expenditure FY2012 – FY2016



Source: Based on Northington Partners' estimates of capital expenditure excluding acquisitions (sourced from Trustpower financial statements FY2012 – FY2016).

2.2. Significant Historical Events

Key milestones in Trustpower's history are summarised below:

Date	Event
1915	Tauranga's first power station begins operation.
1923	The first Tauranga Electric Power Board is elected to serve the greater Tauranga area.
1994	Tauranga Electric Power Board becomes Trustpower and is listed on the New Zealand Stock Exchange. Infratil and TECT become major shareholders in Trustpower.
1994	Acquisition of a 67% interest in Rotorua Electricity Limited.
1995	Acquisition of Taupo Electricity Limited and Taupo Generation Limited.

1996	Acquisition of the remaining 33% stake in Rotorua Electricity Limited.
1997	Trustpower merges with Tauranga Electricity Limited and Kaimai Hydropower Limited.
1998	Trustpower sells its lines network and invests in the retail business and generation assets of eight power boards.
1999	Acquisition of Coleridge, Matahina and Highbank stations from Electricity Corporation of New Zealand.
2004	Trustpower starts to offer telecommunication services to its customers.
2007	Acquisition of CallSouth, a provider of fixed line, tolls, internet and broadband services.
2008	Stage 1 of Trustpower's Snowtown wind farm in South Australia opens.
2012	Trustpower starts to offer Ultra-Fast Broadband over New Zealand's growing fibre network.
2013	Acquisition of Energy Direct NZ, a provider of gas and electricity services.
2014	Snowtown Stage 2 is commissioned.
2014	Acquisition of 105MW of Australian hydro and wind assets previously owned by Green State Power (New South Wales).
2016	Acquisition of an approximately 65% stake in KCE.

Source: Trustpower

2.3. Capital Structure and Ownership

As at 29 April 2016, Trustpower had 315,751,872 ordinary shares on issue. The Company is very closely held, with the top five shareholders holding approximately 81% of the shares on issue; the remaining 19% is held by approximately 12,300 shareholders. Trustpower's substantial security holders and cornerstone shareholders are Infratil Limited ("**Infratil**") and the Tauranga Energy Consumer Trust ("**TECT**"), which own 51.0% and 26.8% of Trustpower respectively (excluding treasury stock which is anticipated to be cancelled prior to the Proposed Demerger). Infratil is a specialist investor in infrastructure and utility assets. TECT has been a cornerstone shareholder in Trustpower since its formation, with its beneficiaries being Trustpower electricity customers in the Tauranga area.

Table 5: Top 5 Shareholders

Shareholder	Holding Balance	Shareholding Percentage
Renew Nominees[1]	110,399,170	34.28%
TECT	83,878,838	26.80%
Infratil Energy New Zealand[1]	48,470,446	15.49%
New Zealand Superannuation Fund	6,124,780	1.96%
ACC	3,507,603	1.12%
Top 5 Shareholders	**252,380,837**	**80.65%**
Remaining Shareholders	60,571,685	19.35%
Total Shares on Issue	**312,952,522**	**100.00%**

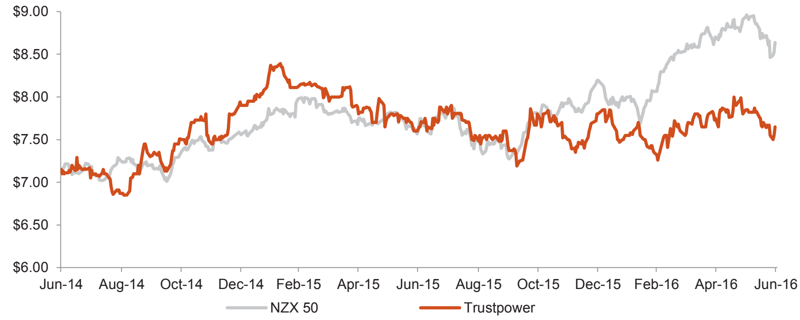
Source: Trustpower share register as of 29 April 2016 excluding treasury stock of 2,799,350 shares.
[1] Represents interests of Infratil.

2.4. Share Price Performance and Liquidity

Figure 5 summarises Trustpower's share price performance over the last two years to 29 June 2016 relative to the NZX50 Capital Index (which excludes dividend payments)[1]. We note that Trustpower has traded in a reasonably wide range, from $7.03 at the beginning of the period to a high of $8.39 in February 2015. Including dividend payments, total annualised shareholder returns for Trustpower have been approximately 9% since June 2014, well below the 15% return on the Gross NZX50 Index (also including dividends) over the same period.

[1] Figure 11 in Appendix 2 summarises the relative share price performance from 18 December 2015 (the announcement date of the Proposed Demerger).

Figure 5: Trustpower Share Price Performance Relative to NZX50 Capital Index

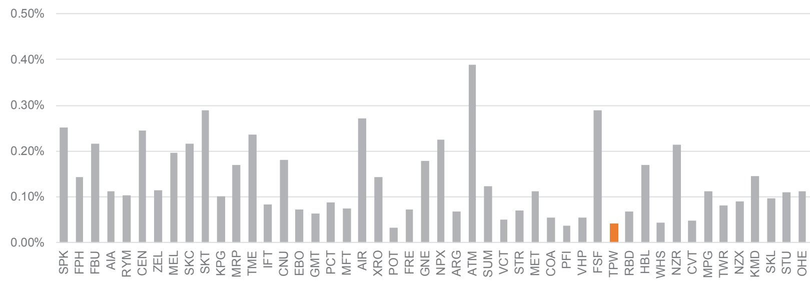


Source: Capital IQ. NZX50 Capital Index rebased.

Figure 6 and Table 6 present some basic data in relation to the trading liquidity of Trustpower shares. Figure 6 shows the daily trading volume for each of the New Zealand companies included in the NZX50 Index, relative to the level of free float shares for each company (and ordered by the free-float market capitalisation). Free float represents the number of shares freely available to trade, and generally excludes strategic shareholdings in each Company. For Trustpower, the free float excludes the Infratil and TECT shareholdings, collectively representing about 78% of the total shares on issue.

This measure shows that Trustpower is one of the least liquid shares in the NZX50 Index.

Figure 6: Median Daily Trading Volume Relative to Free Float



Source: Capital IQ

Table 6 illustrates the relative liquidity of Trustpower shares by comparing the number of times an average shareholding parcel in Trustpower can be traded in a day. This metric again illustrates the relative illiquidity of Trustpower shares in that only approximately 5.1 average shareholder parcels can be traded in Trustpower shares per day, compared to approximately 52 times for the same parcel value relative to the median daily trading value for shares in the broader NZX50 index.

Table 6: Liquidity Analysis

	Trustpower	NZX50 Average
Free Float Market Capitalisation	$545m	$1,580m
Average Trustpower Shareholder Parcel Value	$43,000	-
Median Daily Value Traded	$220,000	$2,250,000
Median Daily Turnover / Average Trustpower Shareholder Parcel Value	5.1x	52.3x

Source: Capital IQ, Northington Partners' estimates based on median trading value over 12 months to 31 May 2016 and 12,300 Trustpower shareholders.

2.5. Historic Financial Results

2.5.1. Financial Performance

A summary of Trustpower's financial performance for the five year period between FY2012 and FY2016 is set out in Table 7 below.

Table 7: Trustpower Historical Financial Performance

Year ended 31 March ($000)	FY2012	FY2013	FY2014	FY2015	FY2016
Operating revenue	807,060	805,504	811,699	993,467	1,036,540
Operating expenses	(506,923)	(510,748)	(534,293)	(662,736)	(707,526)
EBITDAF	**300,137**	**294,756**	**277,406**	**330,731**	**329,014**
Impairment of assets	(428)	-	(226)	(141)	(3,610)
Discount on acquisition	-	-	-	24,986	2,114
Net fair value gains / losses on financial instruments	(7,544)	(5,593)	9,448	(14,219)	(6,327)
Depreciation & amortisation	(58,237)	(65,987)	(72,013)	(98,125)	(117,038)
Operating Profit	**233,928**	**223,176**	**214,615**	**243,232**	**204,153**
Net finance costs	(62,985)	(62,747)	(61,728)	(78,563)	(81,078)
Income tax expense	(39,291)	(37,078)	(37,766)	(20,655)	(33,230)
Profit after tax	**131,652**	**123,351**	**115,121**	**144,014**	**89,845**

Sources: Trustpower Audited Financial Statements (FY2012-FY2016).

The main features of Trustpower's historical financial performance can be summarised as follows:

- Operating revenue was relatively flat in the three year period FY2012 to FY2014. However, revenue increased significantly in FY2015 (up 22.4% on FY2014 levels) following the acquisition in July 2014 of 105MW of Australian hydro and wind assets from Green State Power and the commissioning of Snowtown Stage 2.
- Revenue in FY2016 increased around 4% compared to FY2015 as a result of increased revenue from the New Zealand retail division (following significant investment in the Company's retail growth strategy) and the full-year effect of revenue from the Green State Power assets and Snowtown Stage 2.
- EBITDAF decreased marginally in FY2013 compared to FY2012 levels. This trend continued into FY2014, with EBITDAF around 6% lower than FY2013 primarily as a result of lower New Zealand generation production, a challenging retail environment which reduced retail margins, and the strength of the NZD/AUD exchange rate which negatively impacted Australian based earnings when translated into New Zealand dollars.
- EBITADF increased around 19% in FY2015 compared to FY2014 levels, largely on the back of the increase in Australian generation assets following the acquisition of the Green State Power assets and the commissioning of Snowtown Stage 2. Although EBITDAF in FY2016 changed little compared to FY2015, EBITDAF as a percentage of revenue decreased from 33.3% in FY2015 to 31.7% in FY2016. This represented a continuation of the trend observed in previous financial years, caused in large part by the competitive retail environment which reduced margins in the Company's largest revenue generating division.
- Net finance costs reduced marginally over the period FY2012 to FY2014, but increased materially in FY2015 and FY2016 as debt levels increased to fund the completion of Snowtown Stage 2 and the acquisitions of the Green State Power assets and KCE.
- Depreciation in FY2015 and FY2016 was significantly higher than in previous periods. This reflected the significant investment in Australian generation assets and an upwards revaluation of those assets that took place as at 31 March 2015.

2.5.2. Financial Position

A summary of Trustpower's financial position for the five year period between FY2012 and FY2016 is set out in Table 8 below.

Table 8: Trustpower Historical Financial Position

As at 31 March ($000)	FY2012	FY2013	FY2014	FY2015	FY2016
Assets					
Cash and liquid assets	24,933	54,967	34,322	16,797	16,991
Accounts receivable and prepayments	115,963	139,465	132,279	123,003	132,792
Property, plant and equipment	2,584,985	2,716,588	2,886,619	3,348,382	3,586,094
Land and Buildings held for sale	-	-	-	-	7,189
Derivative financial instruments	16,268	9,171	9,639	14,173	7,821
Taxation receivable	5,159	6,362	9,913	5,145	-
Other investments	2,431	2,420	1,892	1,892	8
Intangible assets	45,895	47,298	72,239	72,207	65,566
Liabilities					
Accounts payable and accruals	114,085	124,527	126,285	99,919	109,619
Unsecured subordinated bonds	262,277	292,375	238,211	238,671	139,069
Unsecured senior bonds	212,178	212,838	213,498	243,140	243,704
Unsecured bank loans	308,440	460,192	722,520	734,803	953,689
Derivative financial Instruments	21,406	39,727	16,873	28,925	39,565
Taxation payable	5,702	2,726	5,222	4,821	3,152
Deferred tax liability	300,215	292,123	309,762	421,084	439,017
Net Assets	**1,571,331**	**1,551,763**	**1,514,532**	**1,810,236**	**1,888,644**
Equity					
Share capital	166,078	166,108	159,034	158,586	158,896
Revaluation reserve	1,026,513	1,025,063	1,009,212	1,298,494	1,357,033
Retained earnings	361,350	359,317	349,428	368,287	326,520
Cash flow hedge reserve	5,198	(9,390)	614	4,806	(1,494)
Foreign currency translation reserve	12,192	10,665	(3,756)	(19,937)	2,310
Non-controlling interests	-	-	-	-	45,379
Total Equity	**1,571,331**	**1,551,763**	**1,514,532**	**1,810,236**	**1,888,644**

Sources: Trustpower Audited Financial Statements (FY2012-FY2016).

The main features of Trustpower's historical financial position can be summarised as follows:

- The recorded value of property, plant & equipment increased from $2,585 million at the end of FY2012 to $3,586 million at the end of FY2016. The increase was primarily attributable to the significant investment in Australian generation assets (the Green State Power assets and Snowtown Stage 2), and an upwards revaluation of the Company's generation assets that took place as at 31 March 2015 as part of a three yearly cycle required under Trustpower's accounting policies.
- Unsecured bank loans increased from $308.4 million as at 31 March 2012 to $953.7 million as at 31 March 2016. The increase is directly attributable to the Company's increase in property, plant & equipment, which was primarily funded by bank debt.

2.5.3. Cash Flows

Table 9 below summarises Trustpower's historical cash flows for the five year period FY2012 to FY2016.

Table 9: Trustpower Statement of Historical Cash Flows

Year ended 31 March ($000)	FY2012	FY2013	FY2014	FY2015	FY2016
Receipts from customers	816,396	802,716	839,741	998,971	1,043,448
Payments to suppliers and employees	(501,742)	(517,867)	(548,999)	(688,938)	(715,652)
Taxation paid	(46,402)	(43,741)	(33,979)	(40,229)	(46,667)
Cash flow from operating activities	**268,252**	**241,108**	**256,763**	**269,804**	**281,129**
Sale of property, plant & equipment and other investments	21	377	861	251	1,941
Net cash flows from electricity market and other bonds and interest received	2,347	2,292	(117)	926	(477)
Capitalised interest	(27)	(4,780)	(15,146)	(2,087)	-
Purchase of property, plant & equipment	(35,863)	(198,603)	(308,803)	(63,202)	(36,903)
Purchase of investments, businesses and intangibles	(17,552)	(9,333)	(33,531)	(94,247)	(69,742)
Purchase of minority interests	-	-	-	-	(12,687)
Net cash from investing activities	**(51,074)**	**(210,047)**	**(356,736)**	**(158,359)**	**(117,868)**
Net increase / (repayment) of bank loans and bonds	(15,251)	188,246	278,837	73,947	41,355
Net share issuance / (repurchase)	(4,672)	30	(7,125)	(448)	310
Interest paid	(63,082)	(61,404)	(61,796)	(74,906)	(75,625)
Dividends paid	(125,671)	(125,447)	(125,275)	(125,155)	(131,002)
Net cash from financing activities	**(208,676)**	**1,425**	**84,641**	**(126,562)**	**(164,962)**
Net change in cash	**8,502**	**32,486**	**(15,332)**	**(15,117)**	**(1,701)**

Source: Trustpower Audited Financial Statements (FY2012-FY2016).

The main features of Trustpower's historical cash flows can be summarised as follows:

- Cash flows from operating activities have generally increased commensurately with EBITDAF over the five year period. However, cash tax paid has typically been higher than taxation expensed in the statement of financial performance due to deferred taxation.
- Capital expenditure as recognised in the purchase of property, plant and equipment increased significantly in FY2013 and FY2014, collectively totalling $507 million, due largely to the development of Snowtown Stage 2. Excluding new development capital expenditure, remaining maintenance capital expenditure (largely for Trustpower's generation assets) has generally been lower than depreciation recognised in the statement of financial performance.
- Over FY2014 to FY2016, Trustpower has spent approximately $162 million on business acquisitions including the acquisition of Energy Direct in FY2014 (approximately $17 million), Green State Power in FY2015 (approximately $81 million) and an approximate 65% stake in KCE in FY2016 (approximately $65 million excluding minority interests).
- Capital expenditure and business acquisitions not funded through the free cash flows of Trustpower resulted in a net increase in debt of approximately $582 million in the period FY2013 to FY2016.

2.6. Key Issues and Outlook

2.6.1. Wind Developments and Capital Requirements

Trustpower has successfully pursued a strategy of acquiring and developing wind generation in Australasia, with over 535MW of development across 5 projects since first acquiring the Tararua I wind farm in 1999. Over this period, Trustpower has built up significant development and project execution expertise with respect to its understanding of wind technology and performance. The Company has also developed strong supplier relationships and an experienced management team.

Following a period of review, in June 2015 the Australian Government settled on reforms to the Renewable Energy Target ("**RET**") scheme (see Appendix 6 for further details), which requires approximately 20% of Australia's electricity to be generated by renewable sources by 2020. Improved political consensus in relation to the RET scheme has led to greater investment certainty in Australia's renewable energy industry, providing greater confidence for new large scale renewable energy projects. Trustpower estimates the new RET targets will require approximately 5,000MW of new renewable energy capacity to be built by 2020, positioning the Company to utilise its expertise and pursue a number of wind development projects with a greater degree of confidence.

Trustpower currently has development application approvals in progress for five wind development projects in Australia in addition to two resource-consented wind projects in New Zealand (see Section 3.3 for an overview of Trustpower's development projects). These projects have the potential to provide up to 1,699MW of additional renewable energy capacity in Australia and up to 530MW in New Zealand. This compares to the 270MW Snowtown Stage 2 wind farm development in South Australia (which Trustpower completed at a development cost, excluding capitalised interest, of A$424 million in 2014) and Trustpower's total current wind generation capacity of 582MW. Trustpower estimates the total cost to develop all of these projects would exceed A$2 billion and potentially require significant new equity funding (although we note that not all of the projects will necessarily be developed). Consideration of funding alternatives to fund these developments was a key factor in deciding to proceed with the Proposed Demerger.

2.6.2. Regulatory Risks

Trustpower is currently facing a number of regulatory risks, primarily relating to the New Zealand Electricity Authority's current review of the Transmission Pricing Methodology. This process includes a review of Avoided Cost of Transmission ("**ACOT**") payments. A significant portion of Trustpower's generation capacity is imbedded into local electricity distribution networks, which means that Trustpower is currently compensated for the reduced charges the electricity distribution business would otherwise have to pay Transpower New Zealand Limited ("**Transpower**") to obtain electricity from the National Grid. In FY2016, Trustpower's ACOT revenue was approximately $27 million.

The Electricity Authority has recently proposed to progressively phase out ACOT payments by 1 April 2018 under which distributed generators (including Trustpower) would no longer receive ACOT payments unless commercial arrangements are made with Transpower (where distributed generators can demonstrate they reduce transmission costs). Any reduction or removal of ACOT payments as currently proposed may have a material impact on Trustpower's earnings and the value of its New Zealand wind farm assets.

2.6.3. New Zealand Wholesale Electricity Prices

New Zealand has recently suffered from a flat electricity demand outlook, which could be exacerbated by the potential closure of the Tiwai Aluminium smelter. There is also on-going uncertainty in relation to the potential closure of Genesis' Huntly coal and gas fired steam units beyond 2022, which provide a vital role in providing back-up electricity supply. The dynamics between the closure of aging thermal capacity and the potential closure of Tiwai have a strong bearing on New Zealand's overall wholesale electricity market, which in turn creates a high level of uncertainty around medium to long-term electricity prices and new generation development.

2.6.4. New Zealand Retail Competition

Since 2008, New Zealand's five large generator-retailers (Meridian, Mighty River Power, Contact, Genesis and Trustpower) have seen their collective market share of the mass market decline from 98% to 92%. The number of customers changing from one electricity provider to another, known colloquially as "churn", has also increased from approximately 9% per annum to over 20% over this period, while the number of retailers in the market has increased from 7 to 20. The rate of churn has been caused by a number of factors, including the Electricity Authority's "What's my number?" campaign and technology improvements in smart metering which has allowed new entrants to offer more competitive pricing terms over the traditional fixed price, variable volume price plans offered by the larger generator-retailers.

The increased competition and churn has resulted in greater operating costs for the retail component of the New Zealand market and has generally led to reduced retail margins. Trustpower's retail strategy is based on a bundled utility offering (electricity, gas and telecommunications), designed in part to lower churn levels and support growth in market share.

2.6.5. Australian Electricity Prices and PPA Market

Trustpower has utilised off-take agreements known as power purchase agreements ("**PPAs**") for its wind developments in order to mitigate its development risks and assist with the process of raising development funding. Wholesale electricity prices and the Australian market for renewable energy certificates (known as LGCs – see Appendix 6 for further details on the RET scheme and LGCs) can be volatile, and renewable energy developers therefore often utilise long-term fixed price PPAs to counter this risk. In the case of Trustpower's Snowtown Stage 1 and Snowtown Stage 2 projects, Trustpower has PPA contracts with Origin Energy Limited ("**Origin**"), one of Australia's leading integrated energy companies. The price paid under the PPA represents the "bundled" price for electricity and LGCs on a fixed price per MWh basis. The other key terms of the PPAs are detailed below:

- Snowtown Stage 1: Covers approximately 90% of annual volume (equating to circa 330GWh) through until December 2018 at a fixed escalating price. The balance of output beyond December 2018 is (or will be) exposed to spot electricity and LGC prices.
- Snowtown Stage 2: Covers 100% of electricity (892GWh) through until 2030 with an option (in favour of both Trustpower and Origin on different price terms) to extend for a further five years for electricity only (not LGCs) at a fixed escalating price. Beyond 2030, or 2035 if the extension option is not exercised, output electricity pricing will be based on prevailing wholesale prices.

Currently LGCs make up a significant portion of the bundled price for Trustpower's PPAs and are therefore a material component of revenue. Australia's RET scheme is designed to incentivise renewable energy development by making it cheaper relative to fossil fuel generated supply. We also note that current spot LGC prices have averaged approximately A$80 per MWh over the last six months, while average monthly wholesale electricity prices in South Australia (the key market supplied by Snowtown Stage 1 and 2) have generally traded between A$50-70 per MWh over the same period. This illustrates the importance of the renewable energy credit component to any future bundled price PPAs.

The dynamic between wholesale electricity prices and LGCs is effectively driven by the long-run marginal cost of renewable energy (the cost to produce renewable energy over the life of the project) and the current shortage of renewable energy generation capacity to meet Australia's RET. Consequently, the availability of LGCs is critical to ensure that PPA pricing is at a level that will support the economics of capital-intensive wind development projects.

The outlook for electricity prices in Australia is uncertain and will be impacted by several key factors. Australia's current RET scheme expires in 2030 and the price for LGCs is therefore expected to converge to zero in the absence of a new scheme. In addition, long-run electricity prices will be impacted by the retirement of Australia's aging fleet of coal powered stations and the long-run marginal cost of new, largely renewable, generation capacity that replaces them.

As the RET expiry in 2030 draws closer, the term for fixed price PPAs has condensed with shorter contract terms anticipated. It is therefore unlikely that Trustpower will commence new wind developments unless it can obtain PPA terms supportive of investment and financing or greater confidence around market pricing beyond PPA expiry. There is no certainty that Trustpower will be able to obtain suitable PPA contract terms to support new wind developments, although it may be prepared to take more market risk for its development pipeline which will impact the nature and risk profile of future developments.

2.7. Rationale for the Proposed Demerger

The strategic direction of Trustpower over the last several years has changed materially. The Company has evolved from a New Zealand focussed hydro-electric generator and electricity retailer into a business with two distinct areas of focus:

- Wind farm development in Australia, taking advantage of increasing demand for renewable energy and Trustpower's expertise in developing, maintaining and operating wind farms; and
- A New Zealand based retailer offering bundled electricity, gas and telecommunication products. This integrated retail strategy is expected to underpin electricity demand and customer loyalty for Trustpower's New Zealand electricity generation assets.

Each of these business components has a number of different characteristics in relation to geographic focus, growth outlook, capital requirements and management expertise.

One of the key reasons for pursuing the Proposed Demerger is due to Trustpower's assessment of the most efficient way to fund the next phase of its wind development pipeline while maximising overall shareholder value. Trustpower has funded its growth to date primarily using additional debt, but the Company is now at a point where it believes new equity is required. Trustpower's Board of Directors reviewed a number of options for raising new equity, with key consideration given to the following factors:

- **Capacity and appetite of existing shareholders**: The scale of the investment opportunity is such that the capital requirements are larger than the likely funding capacity and appetite of existing shareholders.
- **Source of capital**: The Company could potentially raise capital through Trustpower itself (as the parent company) or directly from the Australian subsidiary responsible for the wind farm development. Consideration was also given to potentially recycling capital out of completed developments (i.e. sell completed wind farms and use the proceeds to develop new ones) or the sale of the Australian business comprising the majority of the wind development projects.
- **Investment profile**: The New Zealand and Australian businesses have significantly different growth and risk profiles, each capable of supporting different capital structures and dividend policies which will have different levels of appeal to investors.
- **Market for capital**: As most of the growth opportunities are located in Australia, it may be more feasible to raise the required equity capital in that market.

After due consideration, Trustpower's Board of Directors selected the Proposed Demerger as the best available alternative on the basis that it:

- Enables the pursuit of targeted business strategies to capitalise on specific investment opportunities related to the two distinct businesses;
- Allows Tilt Renewables to raise capital from investors who have an appetite that is most aligned with the type of opportunities expected to be available from Tilt Renewables' development pipeline;
- Allows each business to adopt independent capital structures and dividend policies appropriate for their respective operational and strategic objectives;
- Provides Trustpower shareholders with greater investment choice in relation to capital allocation, giving all shareholders the flexibility to determine their investment levels in each company; and
- Increases transparency for the Tilt Renewables and New Trustpower businesses, providing investors with greater ability to independently assess underlying performance and separately value each business.

After taking into account certainty of outcome, benefits, risks, associated costs and time to implement, Trustpower considered that the Proposed Demerger achieves the desired outcomes in a manner that is likely to realise more value for Trustpower shareholders compared to the other options that were considered (Section 4.7 details other considered alternatives).

3.0 Effect of the Proposed Demerger

3.1. Separation Process

Trustpower, Bay Energy Limited ("**BEL**") and Australasian Renewables Limited (known as Trustpower Australia (New Zealand) Limited prior to 8 July 2016) ("**TANZL**") have entered into a Separation Deed ("**Separation Deed**") which governs the Proposed Demerger process. BEL is currently a non-operating wholly-owned subsidiary of Trustpower that will become New Trustpower following the Proposed Demerger. TANZL is currently a wholly-owned holding company for Trustpower's existing Australian investments, and will become Tilt Renewables following the Proposed Demerger.

Among other things, the Separation Deed sets out the conditions that must be satisfied before the Proposed Demerger can proceed and the steps to implement the Proposed Demerger, including in respect of the transfer of assets and liabilities and the offering of employment to Trustpower's employees.

3.1.1. Demerger Conditions

Key conditions required to be met before the Proposed Demerger can be implemented include:

- Approval of the Proposed Demerger by Trustpower's shareholders.
- Obtaining all required approvals, waivers or consents in respect of the refinancing of bank funding and financial and electricity derivative arrangements.
- Approval of the conditional listing of BEL on the NZX Main Board.
- Approval of the conditional listing of TANZL on the NZX Main Board.
- Final Court approval to give effect to the Proposed Demerger.

3.1.2. Transfer of Assets and Liabilities

Prior to the Proposed Demerger taking effect, all of Trustpower's assets and liabilities will be identified. An assessment will then be made as to whether those assets and liabilities should appropriately transfer to New Trustpower or Tilt Renewables. In the majority of cases, that assessment should be relatively straightforward: assets and liabilities associated with hydro-electric generation and Trustpower's multi-product retail business will transfer to New Trustpower, whilst assets and liabilities (including development opportunities) associated with wind farm or solar generation will transfer to Tilt Renewables.

Other key points relevant to the transfer of assets and liabilities are as follows:

- If it is not possible to identify whether a Trustpower asset or liability should appropriately be transferred to New Trustpower or Tilt Renewables, the asset or liability will be transferred to New Trustpower.
- To the extent that assets or liabilities are mistakenly transferred to New Trustpower instead of Tilt Renewables or to Tilt Renewables instead of New Trustpower, the parties have agreed a mechanism post the Proposed Demerger for such misplaced assets and liabilities to be transferred (wherever possible) to the appropriate entity.
- Each of BEL and TANZL will provide an indemnity to the other in respect of misplaced liabilities. If a liability is identified as having been misplaced but it is not possible to transfer that liability to the appropriate entity (e.g. consents for a novation cannot be obtained), the entity to whom the liability was initially transferred will assume that liability but with an indemnity from the other entity.
- The Trustpower name and logo will transfer to New Trustpower, with Tilt Renewables retaining the ability to use the name and logo on existing assets until it is practical to remove them.

3.1.3. Employees

Prior to the Proposed Demerger taking effect, Trustpower's employees will be identified and offered employment by either BEL or TANZL. From the date the Proposed Demerger is implemented, BEL will assume (and indemnify Trustpower against):

- The obligation of Trustpower to pay any accrued obligations in respect of such employees that accept employment with BEL;
- The obligation to meet any employee entitlement to redundancy compensation upon termination of their employment with Trustpower; and

Trustpower will pay all employee entitlements to those employees of Trustpower who will transfer to TANZL.

3.1.4. Liquidation of Trustpower

Once the assets and liabilities of Trustpower have been transferred to New Trustpower or Tilt Renewables, Trustpower will be placed into liquidation. The shares which Trustpower holds in BEL (which will become New Trustpower) and TANZL (which will become Tilt Renewables) will be subdivided so that Trustpower will hold the same number of shares in each of those companies as it has on issue immediately prior to the Proposed Demerger. The liquidator of Trustpower will then make an in specie distribution of these shares to Trustpower's shareholders, with each Trustpower shareholder receiving one share in New Trustpower and one share in New Co for each Trustpower share which they hold on the Record Date.

Summary details on the ownership and structure of Trustpower prior to the Proposed Demerger and New Trustpower and Tilt Renewables following the Proposed Demerger are set out in Section 3.2 below.

3.1.5. Transitional Arrangements

Certain services and functions currently provided centrally within the Trustpower group will not be able to be divided and "shared" between New Trustpower and Tilt Renewables upon the Proposed Demerger taking effect. Such services and functions will reside within New Trustpower following the Proposed Demerger.

BEL (New Trustpower) and TANZL (Tilt Renewables) have entered into a transitional services agreement to deal with Tilt Renewables' requirement for access to these corporate services whilst it develops its own capabilities or engages third parties for the provision of the required services. BEL has agreed to provide these services and functions to TANZL to the same level as those services were provided immediately prior to the Proposed Demerger.

Unless otherwise agreed, the transitional arrangements are expected to last until 30 June 2017.

3.1.6. Power Purchase Agreements

Under the Proposed Demerger, Tilt Renewables will enter into a PPA with New Trustpower in respect of each of the New Zealand wind farm assets that are to be transferred to Tilt Renewables or a Tilt Renewables subsidiary - i.e. Tararua Stage I and II, Tararua Stage III and Mahinerangi. The PPAs for the New Zealand wind farm assets will sit alongside the PPAs that currently exist in respect of Trustpower's Australian wind farms (and which are owned by various wholly-owned subsidiaries of TANZL, being the entity that will become Tilt Renewables).

Currently, the electricity generated by the New Zealand wind farms is sold by Trustpower into the New Zealand electricity market in its capacity as an electricity retailer. Consequently, there is no present need for PPAs. However, following the Proposed Demerger Tilt Renewables will not have the infrastructure to sell the electricity from these wind farms into the market. Long-term PPAs between Tilt Renewables (as the owner of the New Zealand wind farms) and New Trustpower (which will own the electricity retail business of Trustpower) are required, pursuant to which New Trustpower will acquire the electricity generated by the New Zealand wind assets and sell this into the market.

Due to the geographic location of the wind farms relative to the connections to New Zealand's National Grid, there will be three separate PPAs – one for Tararua Stages I and II and separate PPAs for each of Tararua Stage III and Mahinerangi.

The PPAs have been negotiated on an arms' length commercial basis. Key terms include:

- The "base" pricing for the first five years of the PPAs has been set with reference to the ASX Futures Otahuhu or Benmore base load prices. At the end of each contract year, the price for the fifth year forward will be established with reference to ASX Futures prices at the time, essentially ensuring the PPA always has five years of price visibility.
- The base prices are then adjusted for each pricing period for specific location and peaking factors, but are subject to a floor price providing Tilt Renewables with revenue protection against low spot prices. The floor mechanism terminates five years prior to the expiry of the term of the PPA.
- The PPAs are for the expected remaining life of the New Zealand wind farms, with limited termination rights (primarily force majeure or default by one of the parties).

These terms compare to the existing PPAs for the Australian wind farms (with Origin as the counterparty), which have been set at fixed, but escalating prices, for the life of the wind farm (with the exception of Snowtown Stage 1 which expires in 2018).

A summary of the existing Australian PPAs and the proposed New Zealand PPAs resulting from the Proposed Demerger are set out in Table 10 below.

Table 10: Existing and Proposed PPAs

Project	Counterparty	Volume Contracted	Term	Pricing
Snowtown Stage 1	Origin Energy	89%	2018	Fixed + Escalator
Snowtown Stage 2	Origin Energy	100%	2030	Fixed + Escalator
Blayney	Origin Energy	100%	2021	Fixed + Escalator
Crookwell	Origin Energy	100%	2019	Fixed + Escalator
Tararua (Stage I & II)	New Trustpower	100%	2029[1]	Fixed (5 years), then ASX referenced. Includes floor price which is in place until 5 years prior to end of the term (asset year 20) and indexed to CPI from year 6 of the contract.
Tararua (Stage III)	New Trustpower	100%	2033	Fixed (5 years), then ASX referenced. Includes floor price which is in place until 5 years prior to end of the term (asset year 20) and indexed to CPI from year 6 of the contract.
Mahinerangi	New Trustpower	100%	2036	Fixed (5 years), then ASX referenced. Includes floor price which is in place until 5 years prior to end of the term (asset year 20) and indexed to CPI from year 6 of the contract.

Source: Trustpower.
[1] Includes rights to extend term on mutually agreed terms.

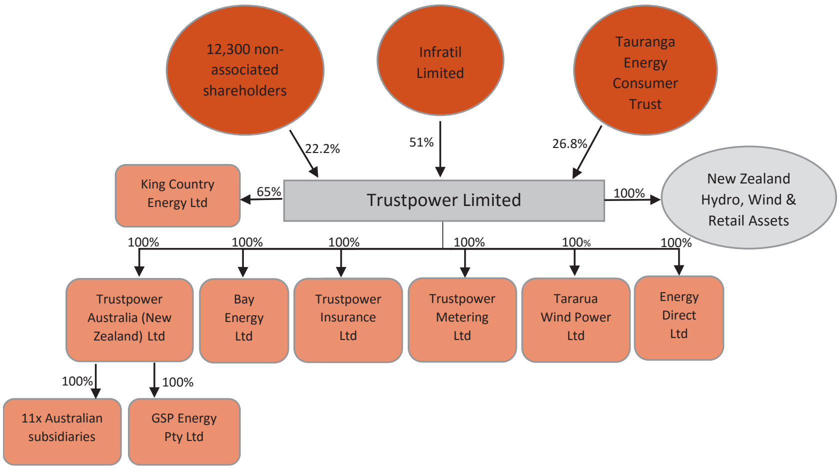
3.2. Ownership and Structure

A summary of the ownership and structure of Trustpower before the Proposed Demerger is shown in Figure 7 below. In respect of Trustpower's various wholly-owned subsidiary companies:

- TANZL is a non-trading holding company for Trustpower's existing Australian investments and has 12 wholly-owned subsidiaries. TANZL will become Tilt Renewables following the Proposed Demerger.

- BEL is a non-trading company and will become New Trustpower following the Proposed Demerger.
- Trustpower Insurance Limited is a captive insurance company, established with the specific purpose of insuring risks emanating from within the Trustpower group.
- Trustpower Metering Limited is a non-operating subsidiary.
- Tararua Wind Power Limited ("**TWP**") owns significant wind farm assets located in Tararua, New Zealand.
- Energy Direct Limited was incorporated following Trustpower's purchase of Energy Direct New Zealand Limited in 2014. It exists to protect the "Energy Direct" brand name and enable the Trustpower group to trade directly with customers using that name.

Figure 7: Pre-Demerger Ownership and Structure



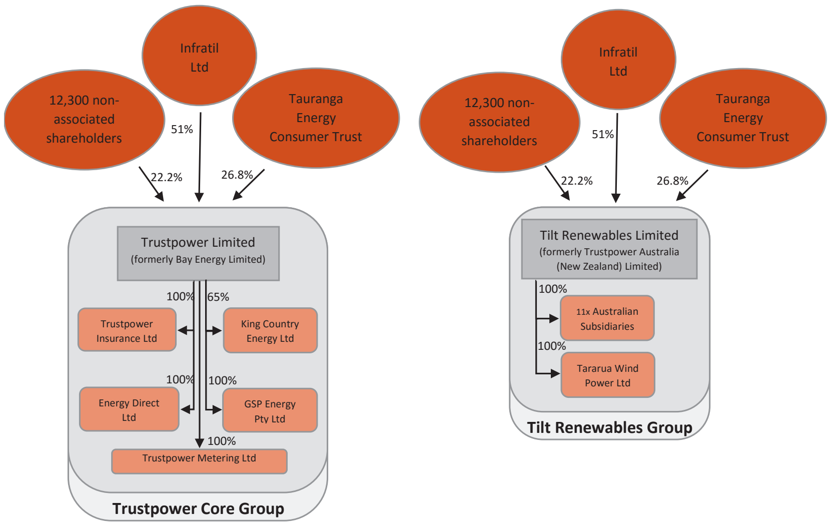
Source: Trustpower, Northington Partners' analysis

If the Proposed Demerger takes effect, the immediate post-demerger ownership and structure of New Trustpower and Tilt Renewables will be as set out in Figure 8 below. Key points to note in relation to ownership and structure following the Proposed Demerger are as follows:

- Both New Trustpower and Tilt Renewables will have the same number of shares on issue as there were shares on issue in Trustpower immediately prior to the Proposed Demerger. Accordingly, the relative ownership interests held by each current Trustpower shareholder in each of New Trustpower and Tilt Renewables will be equal to their ownership interest in Trustpower immediately prior to implementation of the Proposed Demerger.
- Currently, Trustpower directly owns the 36MW Mahinerangi wind farm in Otago, New Zealand. This asset will be transferred to TWP and the shares in TWP will then be transferred from Trustpower to Tilt Renewables (i.e. TANZL).
- The shares in GSP Energy Pty Limited ("**GSP**") will be transferred from TANZL to New Trustpower (i.e. BEL). At the time of transfer, GSP will own various hydro assets in Australia. Wind assets that were also owned by GSP immediately prior to the Proposed Demerger will be transferred to another Australian wholly-owned subsidiary of Tilt Renewables.
- BEL will change its name to Trustpower Limited (i.e. the Trustpower name transfers to New Trustpower as part of the Proposed Demerger process).

Apart from the transitional arrangements noted in Section 3.1.5 above, New Trustpower and Tilt Renewables will be independent groups that will deal with each other on an arms' length commercial basis. There will be no cross shareholdings or common management between New Trustpower and Tilt Renewables, although there will be at least one shared director (Geoff Swier).

Figure 8: Post-Demerger Ownership and Structure



Source: Trustpower, Northington Partners' analysis

3.3. Profile of Tilt Renewables

3.3.1. Overview

Immediately following the Proposed Demerger, Tilt Renewables will own and operate seven wind farms across five sites in Australia and New Zealand, as set out in Table 11 below. With a total installed capacity of 582MW, the wind farm portfolio represents approximately 11% of the installed wind farm capacity in the combined Australian and New Zealand markets.

Table 11: Tilt Renewables' Generation Assets Immediately Post-Demerger

Asset	Location	Type	Commission Date	Capacity (MW)	Expected Average Annual Generation (GWh)
Tararua (Stage I & II)	New Zealand	Wind	1999 & 2004	68	245
Tararua (Stage III)	New Zealand	Wind	2007	93	318
Mahinerangi	New Zealand	Wind	2011	36	101
Snowtown Stage 1	Australia	Wind	2008	101	357
Snowtown Stage 2	Australia	Wind	2014	270	875
Blayney	Australia	Wind	2000	10	18
Crookwell	Australia	Wind	1998	5	8
Total				**582**	**1,922**

Source: Trustpower

Tilt Renewables will also possess a development pipeline consisting of projects that could provide up to 2,229MW of additional capacity. The development pipeline comprises 832MW of projects in respect of which development approvals have been obtained in Australia (with 375MW subject to appeal) and projects granted environment approval that could deliver 400MW in New Zealand.

Table 12: Tilt Renewables' Development Pipeline Immediately Post-Demerger

Tilt Renewables Project	Type	Location	Status	Proposed Generation Capacity (MW)
Salt Creek	Wind	Victoria, Australia	Environmental approvals obtained	Up to 52
Dundonnell	Wind	Victoria, Australia	Environmental approvals obtained	Up to 300
Waddi Wind	Wind & Solar	Western Australia	Environmental approvals obtained in respect of wind development. Progressing environmental approvals in respect of solar	Up to 105 wind Up to 40 solar
Rye Park	Wind	NSW, Australia	Progressing environmental approvals	Up to 327
Palmer	Wind	South Australia	Environmental approval under appeal	Up to 375
NSW Project	Wind	NSW, Australia	Progressing environmental approval	Up to 500
Kaiwera Downs	Wind	Southland, New Zealand	Environmental approval obtained	Up to 240
Waverley	Wind	Taranaki, New Zealand	Progressing environmental approval	Up to 130
Mahinerangi	Wind	Southland, New Zealand	Environmental approval obtained	Up to 160
Total				**Up to 2,229**

Source: Trustpower

3.3.2. Strategy and Outlook

Tilt Renewables' primary strategy is expected to involve building on Trustpower's existing wind portfolio and development pipeline. The principal focus for Tilt Renewables will be the Australian market given the positive dynamics offered by the RET scheme (a summary of which was discussed in Section 2.6.1 above, with further information set out in Appendix 6 and the Scheme Booklet).

A summary of Tilt Renewables' strategic priorities (as currently envisaged) is set out in Table 13 below.

Table 13: Tilt Renewables' Current Strategic Priorities

Geography	Strategic Priorities
Australia	▪ Complete consenting and preparation of the best sites in the development pipeline. ▪ Consider further acquisitions of consented wind / solar sites to bolster pipeline. ▪ Maintenance of long-dated development options, as appropriate. ▪ Achieve financial close on at least one major project by the first half of 2017. ▪ Determine contracted revenue options for Snowtown Stage 1 following the maturity of the PPA for this site in December 2018.
New Zealand	▪ Consent North Island wind option and maintain existing consented options. ▪ Evaluate NZ wholesale price levels, off take arrangements and progress projects if returns are adequate. ▪ Repower opportunity at Tararua I and Tararua II over the medium term.

Source: Trustpower

Following the Proposed Demerger, Tilt Renewables will have a high level of contracted earnings, with approximately 98% of its generation output contracted through long-term PPAs with Origin and New Trustpower (although the PPA for Snowtown Stage 1 representing approximately 17% of contracted output expires in 2018). If Tilt Renewables wishes to develop and commercialise a reasonable proportion of the projects within its development pipeline, significant amounts of new equity capital will likely need to be raised to finance those opportunities.

3.3.3. Directors, Management and Staff

Following the Proposed Demerger, Tilt Renewables' Board of Directors will comprise six members: Bruce Harker (Chairman), Paul Newfield, Geoff Swier, Vimal Vallabh, Fiona Oliver and Phillip Strachan. Bruce Harker, Paul Newfield and Vimal Vallabh will be appointees of Infratil, while Geoff Swier, Fiona Oliver and Phillip Strachan will be independent directors.

The senior management team of Tilt Renewables will be sourced from senior management personnel within Trustpower, including Robert Farron as Chief Executive Officer Designate (previously Chief Financial Officer and Company Secretary of Trustpower), Deion Campbell as General Manager Generation and Trading Designate (previously General Manager Generation at Trustpower) and Clayton Delmarter as General Manager Renewable Development Designate (previously Engineering Manager at Trustpower).

Tilt Renewables is expected to have around 35 employees, approximately 7 of whom are expected to transfer from Trustpower with the remainder to be recruited. The majority of Tilt Renewables' employees will be based in Australia, with Melbourne expected to be the location of Tilt Renewables' headquarters. Although most of the senior management team of Tilt Renewables will initially be based in Tauranga, they are also expected to transfer to Melbourne by 31 March 2017.

Further details (including biographies) on Tilt Renewables' directors and senior management team are set out in the Scheme Booklet.

3.3.4. Dividend Policy

Tilt Renewables' dividend policy will be set by the new Board of Directors following the Proposed Demerger, having regard (among other things) to Tilt Renewables' working capital needs, strategy and potential future capital requirements. Although the payment of dividends cannot be guaranteed, the current expectation is that Tilt Renewables will pay dividends semi-annually (typically in June and December each year) in the range of 25 – 50% of operating free cash flow after debt servicing (defined by Trustpower as EBITDAF less interest, tax, maintenance capital expenditure, changes in working capital and compulsory debt repayments).

In the near-term, it is unlikely that Tilt Renewables will look to grow the level of its dividend payments, with a more realistic scenario being the retention of a large proportion of earnings to invest in advancing its numerous development opportunities.

Any dividends declared by Tilt Renewables will be paid in Australian dollars. The Board intends to distribute available New Zealand imputation credits or Australian franking credits to shareholders with dividend payments when it is considered practicable and appropriate. However, it is unlikely Tilt Renewables will generate sufficient New Zealand imputation credits to fully impute dividends as the majority of its earnings and corporate tax paid will not be New Zealand based.

The first dividend following the Proposed Demerger is expected to be paid in December 2016.

3.3.5. Pro-forma Financial Performance

Set out in Table 14 below is a summary of Tilt Renewables' generation output and pro-forma financial performance during the three year period FY2014 to FY2016, based on various assumptions and adjustments. The purpose of this information is to demonstrate what Tilt Renewables' financial performance would have been had Tilt Renewables existed during this period (i.e. if the Proposed Demerger had taken place prior to the commencement of FY2014). Tilt Renewables' financial information is presented in Australian dollars, which will be the functional currency of Tilt Renewables post the Proposed Demerger.

Table 14: Tilt Renewables Pro-forma Historical Operating Statistics and Financial Performance (FY2014-FY2016)

Operating Statistics (Generation Output)	FY2014	FY2015	FY2016
Generation New Zealand Production (GWh)	673	650	724
Generation Australia Production (GWh)	536	1,187	1,197
Total Generation Production (GWh)	**1,209**	**1,837**	**1,921**

Income Statement for Year Ending 31 March (A$000)	FY2014	FY2015	FY2016
Generation New Zealand Revenue	36,569	37,270	41,196
Generation Australia Revenue	50,705	110,898	115,237
Total Revenue	**87,274**	**148,168**	**156,433**
Generation New Zealand EBITDA	29,028	28,324	34,450
Generation Australia EBITDA	24,173	75,244	77,160
Total EBITDA	**53,201**	**103,568**	**111,610**
Depreciation and amortisation	(37,937)	(54,128)	(68,507)
Net financing costs			(28,553)
Other			3,696
Net Profit Before Taxation			**18,246**

Source: Trustpower

The main features of Tilt Renewables' pro forma financial performance can be summarised as follows:

- The increase in revenue from A$87.3 million to A$148.2 million (and EBITDA from $53.2 million to A$103.6 million) between FY2014 and FY2015 is largely due to the commissioning of Snowtown Stage 2. This resulted in Tilt Renewables' generation output increasing from 1,209GWh in FY2014 to 1,837GWh in FY2015. FY2016 represents the first full year of production from Snowtown Stage 2, with generation output increasing to 1,921GWh, in line with expectations of 1,922GWh based on average wind conditions.
- Implied revenue per MWh for New Zealand wind generation has been between approximately A$54/MWh in FY2014 and approximately A$50/MWh in FY2016. The implied Australian wind generation revenue has generally been between approximately A$94 per MWh for the FY2014 and FY2015 periods and about A$96 per MWh for FY2016. The average Australian revenue includes the bundled price of electricity and LGCs. This illustrates the importance of LGC prices in Australia relative to New Zealand PPA prices, with LGCs comprising a significant portion of the bundled PPA prices in Australia.
- Operating costs per MWh have decreased from approximately A$28/MWh to A$23/MWh between FY2014 and FY2016 largely as a result of scale economies, with fixed costs being spread over a larger generation base. Operating and maintenance expenses (which accounted for approximately 52% of the operating costs in FY2016) are however generally variable costs based on output.

3.3.6. Pro-forma Financial Position

Set out in Table 15 below is a summary of Tilt Renewables' pro-forma financial position at the end of FY2016. Based on various assumptions and adjustments, the purpose of this information is to demonstrate what Tilt Renewables' financial position would have been like had Tilt Renewables existed at this time (i.e. if the Proposed Demerger had taken place prior to the end of FY2016).

Table 15: Tilt Renewables Pro-forma Financial Position (FY2016)

Balance Sheet as at 31 March (A$000)	FY2016
Cash	5,136
Other current assets	26,392
Non-current assets	1,160,202
Total Assets	**1,191,730**

Current liabilities	12,055
Bank debt	612,231
Non-current liabilities	158,147
Total Liabilities	**782,433**
Net Assets	**409,297**

Source: Trustpower.

Tilt Renewables' pro forma balance sheet for FY2016 illustrates what the financial position would have been had the Proposed Demerger occurred on 31 March 2016; it is not necessarily reflective of what the actual financial position will look like at the time of the Proposed Demerger becoming effective. However, the pro forma information does provide an indicative snapshot of Tilt Renewables' leverage ratios, with implied pro forma net debt to FY2016 EBITDA, net debt to net debt plus equity and EBITDA interest cover ratios of approximately 5.4x, 60% and 3.9x respectively (see Section 4.4 and Section 5.3.1 for further information).

3.3.7. Pro-forma Cash Flows

Set out in Table 16 below is a summary of Tilt Renewables' pro-forma cash flows prior to any financing and taxation costs but after capital expenditure. Tilt Renewables' cash flows following the Proposed Demerger will reflect the revised capital structure and subsequent net financing cash flows, taxation (which will depend on the taxable earnings) and adopted dividend policy.

Table 16: Tilt Renewables Pro-forma Cash Flow Statement (FY2014 - FY2016)

Cash Flow Statement as at 31 March (A$000)	FY2014	FY2015	FY2016
Pro Forma EBITDA	53,201	103,568	111,610
Change in Working Capital and other	(1,982)	(522)	55
Capital Expenditure	(264,027)	(47,856)	(4,301)
Pro forma net operating cash flows before net financing costs and tax expense but after capital expenditure	**(212,808)**	**55,190**	**107,364**

Source: Trustpower.

While Tilt Renewables' capital expenditure was high in FY2014 and FY2015 due to the development of Snowtown Stage 2, FY2016 capital expenditure of A$4.3 million represents maintenance capital expenditure only. Consequently, free cash flows are strong and should support new developments, debt servicing costs and Tilt Renewables' intended dividend policy.

3.4. Profile of New Trustpower

3.4.1. Overview

Immediately following the Proposed Demerger, New Trustpower will be similar to Trustpower today, but with the exclusion of the existing New Zealand and Australian wind farm assets and wind and solar development portfolio (which will become the property of Tilt Renewables).

New Trustpower's business assets will comprise the following post the Proposed Demerger:

- A portfolio of geographically diverse, predominantly hydro-electric, New Zealand based generation schemes. With a total of 488MW of installed capacity (478MW excluding Bream Bay), New Trustpower will be New Zealand's fifth largest electricity generator, generating approximately 5% of New Zealand's total annual electricity output.
- Three hydro generation schemes in NSW, Australia comprising 92MW of installed capacity. These assets were part of the GSP assets acquired by Trustpower (via one of its wholly-owned Australian subsidiaries) in 2014.
- The current retail business of Trustpower, which will continue to be New Zealand's fourth largest electricity retailer with an estimated 13% market share.

A summary of New Trustpower's generation assets immediately following the Proposed Demerger is set out in Table 17 below.

Table 17: New Trustpower's Generation Assets Immediately post-Demerger

New Trustpower Australia Assets	Type	Commission Date	Generation Capacity (MW)	Average Output (GWh)
Burrinjuck	Hydro	1928	27	40
Hume	Hydro	1957	58	194
Keepit	Hydro	1960	7	10
Total			**92**	**244**
New Trustpower New Zealand Assets	**Type**	**Commission Date**	**Generation Capacity (MW)**	**Average Output (GWh)**
Matahina	Hydro	1967	80	290
Kaimai	Hydro	1972	41	167
Wheao and Flaxy	Hydro	1982	26	111
Esk	Hydro	2013	4	15
Hinemaiaia	Hydro	1952	6	30
Mangorei	Hydro	1931	5	21
Motukawa	Hydro	1927	5	22
Patea	Hydro	1984	32	108
Cobb	Hydro	1944	32	192
Branch River	Hydro	1983	11	54
Waihopai	Hydro	1927	2	11
Arnold	Hydro	1932	3	25
Dillmans	Hydro	1928	10	48
Kaniere Forks	Hydro	1911	1	8
Wahapo	Hydro	1960	3	15
Coleridge	Hydro	1914	39	270
Highbank	Hydro	1982	29	98
Paerau / Patearoa	Hydro	1984	12	62
Waipori	Hydro	1907	83	192
Bream Bay	Diesel	2011	9	Peaker
Wairere Falls (KCE)	Hydro	1925	5	17
Mokauiti (KCE)	Hydro	1963	2	7
Piriaka (KCE)	Hydro	1924	2	7
Kuratua (KCE)	Hydro	1962	6	28
Mangahao (KCE)	Hydro	1924	40	131
Total			**488**	**1,929**

Source: Trustpower. Note: Total installed capacity of 488MW includes Bream Bay peak generation – excluding Bream Bay, installed capacity is 478MW.

3.4.2. Strategy and Outlook

The strategy of New Trustpower is expected to remain largely unchanged from that adopted by Trustpower today in respect of its hydro-electric assets and retail business. Key features of New Trustpower's strategy are therefore likely to include:

- Building on Trustpower's existing premium multi-product retail brand by adding additional retail services.
- Using new technology to improve customer experience and develop new products and services.
- Optimising the value created by existing hydro generation assets in Australia and New Zealand and the water rights they control, including in respect of using water for irrigation of agricultural land.
- Making acquisitions which are aligned with New Trustpower's existing business and where value can be added.

3.4.3. Directors, Management and Staff

Following the Proposed Demerger, New Trustpower's corporate governance arrangements will be consistent with those of Trustpower prior to the Proposed Demerger. New Trustpower's Board of Directors will initially comprise Paul Ridley-Smith (Chairman), Richard Aitken, Alan Bickers, Marko Bogoievski, Sam Knowles, Susan Peterson and Geoff Swier. These directors represent all of the current directors of Trustpower. Paul Ridley-Smith and Marko Bogoievski will be representatives of Infratil, while Alan Bickers is associated with TECT. Richard Aitken, Sam Knowles, Susan Peterson and Geoff Swier will be independent directors of New Trustpower.

The senior management team of New Trustpower will retain the Trustpower executive team with the exception of Robert Farron and Deion Campbell who will transfer to Tilt Renewables. Robert and Deion will be replaced by Kevin Palmer (as acting Chief Financial Officer) and Peter Lilley (as acting General Manager – Generation), respectively.

The senior management team of New Trustpower will continue to be based in Tauranga at the current head office of Trustpower. New Trustpower is expected to have a workforce of approximately 750 employees.

Further details (including biographies) on New Trustpower's directors and senior management team are set out in the Scheme Booklet.

3.4.4. Dividend Policy

New Trustpower's dividend policy will be set by its Board of Directors following the Proposed Demerger, having regard (among other things) to New Trustpower's earnings and cash flow performance in any given period, working capital needs, the risks from predicted short and medium term economic and hydrological conditions and potential future capital requirements. Although the payment of dividends cannot be guaranteed, the current expectation is that New Trustpower will pay dividends semi-annually (typically in June and December each year) in the range of 70 – 90% of free cash flow (defined by Trustpower as EBITDAF less interest, tax and maintenance capex plus adjustments for non-100% owned entities) on average over time.

Quite distinct from Tilt Renewables (which is likely to want to restrict growth in the level of dividends in order to invest in its numerous development opportunities), the objective of New Trustpower will be to seek to pay a dividend that provides shareholders with a consistent, reliable and attractive dividend.

New Trustpower intends to attach imputation credits to dividends to the extent they are available, with the first dividend following the Proposed Demerger expected to be paid in December 2016.

3.4.5. Pro-forma Financial Performance

Set out in Table 18 below is a summary of New Trustpower's pro-forma financial performance during the three year period FY2014 to FY2016. Based on various assumptions and adjustments, the purpose of this information is to demonstrate what New Trustpower's financial performance would have been had New Trustpower existed during this period (i.e. if the Proposed Demerger had taken place prior to the commencement of FY2014).

Table 18: New Trustpower Pro-forma Financial Performance (FY2014-FY2016)

Operating Statistics (Generation Output)	FY2014	FY2015	FY2016
Generation New Zealand Production (GWh)	1,721	1,751	1,793
Generation Australia Production (GWh)	325	284	254
Total Generation Production (GWh)	**2,046**	**2,035**	**2,047**
New Zealand Wholesale Electricity Prices ($/MWh)	67	71	60
Total Retail Utility Connections	**286,000**	**322,000**	**370,000**

Income Statement for Year Ending 31 March ($000)	FY2014	FY2015	FY2016
Retail Revenue	714,313	815,143	842,079
Generation New Zealand Revenue	241,989	233,798	229,023
Generation Australia Revenue	12,897	11,380	16,347

Inter-segment Revenue	(148,365)	(140,371)	(140,395)
Total Revenue	**820,834**	**919,950**	**947,054**
Retail EBITDAF	50,274	54,535	41,956
Generation New Zealand EBITDAF	174,432	162,769	159,063
Generation Australia EBITDAF	9,002	6,490	12,325
Total EBITDAF	**233,708**	**223,794**	**213,344**
Depreciation and Amortisation	(40,635)	(47,016)	(47,096)
Net Financing Costs			(37,916)
Other			(11,915)
Net Profit Before Taxation			**116,417**

Source: Trustpower. Inter-segment revenue represents revenue between the Retail and Generation New Zealand segments.

The main features of New Trustpower's pro forma financial performance can be summarised as follows:

- Retail revenues grew approximately 18% relative to customer increases of approximately 29% over the FY2014 to FY2016 period. The increase in revenue was not commensurate with customer numbers largely as a result of lower revenue per customer, which dropped from an average of approximately $208 per month in FY2014 to $190 month in FY2016.
- Retail margins have decreased from approximately 7% in FY2014 to 5% in FY2016 as a result of increased competition, as well as the costs to service existing customers and acquire new customers.
- Generation New Zealand revenues are characterised by low wholesale prices and below average generation volumes, largely driven by below average rainfall and low hydrology levels. However, EBITDA margins have largely been maintained at between 70% – 72% over the three year period.
- Generation Australia operates three small hydro schemes and does not have any retail presence. The electricity generated is therefore sold into the wholesale market at spot prices. While revenue has generally fluctuated with generation over the period (due to hydrology conditions), higher spot prices in FY2016 resulted in significantly increased revenue and EBITDAF relative to FY2014 and FY2015.

3.4.6. Pro-forma Financial Position

Set out in Table 19 below is a summary of Tilt Renewables' pro-forma financial position at the end of FY2016. Further information regarding the capital structure and leverage ratios for New Trustpower relative to Trustpower and Tilt Renewables are set out in Section 4.4 and Section 5.3.1.

Table 19: New Trustpower Pro-forma Financial Position (FY2016)

Balance Sheet as at 31 March ($000)	FY2016
Cash	7,642
Other Current Assets	117,843
Non-current Assets	2,367,917
Total Assets	**2,493,402**
Current Liabilities	102,298
Bank Debt	287,564
Retail Bonds	450,000
Other Non-current liabilities	300,097
Total Liabilities	**1,139,959**
Net Assets	**1,353,443**

Source: Trustpower.

3.4.7. Pro-forma Cash Flows

Table 20 provides a summary of New Trustpower's pro-forma cash flows prior to any financing and taxation costs but after capital expenditure. Cash flows following the Proposed Demerger will reflect the revised capital structure and subsequent net financing cash flows, taxation (which will depend on the taxable earnings) and adopted dividend policy.

Table 20: New Trustpower Pro-forma Cash Flow Statement (FY2014-FY2016)

Cash Flow Statement as at 31 March ($000)	FY2014	FY2015	FY2016
Pro Forma EBITDA	233,708	223,794	213,344
Change in Working Capital and other	15,535	(20,135)	(1,279)
Capital Expenditure	(32,141)	(24,581)	(38,101)
Pro forma net operating cash flows before net financing costs and tax expense but after capital expenditure	**217,102**	**179,078**	**173,964**

Source: Trustpower.

New Trustpower's capital expenditure largely reflects maintenance capital, and has averaged approximately $32 million over the last three years relative to FY2016 depreciation of $47.1 million. With no large new developments anticipated, the free cash flows (even after adjusting for likely net finance and tax expenses) support its intended dividend pay-out ratio of between 70 – 90% of free cash flow.

4.0 Assessment of the Merits of the Proposed Demerger for Trustpower Shareholders

Trustpower shareholders are being asked to split their current investment into two parts: a shareholding in New Trustpower and a separate shareholding in Tilt Renewables. The effective ownership interest held by each Trustpower shareholder in each of New Trustpower and Tilt Renewables will be equal to their ownership interest in Trustpower immediately prior to the Proposed Demerger. On the face of it, the Proposed Demerger does not therefore result in a diminution of ownership or economic interest for existing Trustpower shareholders as there is:

- No issue of new equity in either New Trustpower or Tilt Renewables;
- No value transfers between the separate entities if ongoing arrangements between New Trustpower and Tilt Renewables, including the PPA contracts, are on arm's length market based terms; and
- No value leakage to third parties from either entity.

However, the Proposed Demerger does result in a number of costs, risks and potential disadvantages. Consequently, an evaluation of the merits of the Proposed Demerger involves weighing up the advantages and disadvantages of the proposal and taking a view as to whether the potential benefits of the Proposed Demerger outweigh these costs, risks and potential disadvantages.

In forming our opinion on the merits of the Proposed Demerger, we have considered the following:

- The financial implications of the Proposed Demerger on the operations and earnings of both New Trustpower and Tilt Renewables and the effect on future dividend payments to existing Trustpower shareholders;
- The proposed management and Board structures, and associated change in management focus on the business operations of both New Trustpower and Tilt Renewables;
- Any possible share market re-rating following the Proposed Demerger;
- The transitional and PPA arrangements between New Trustpower and Tilt Renewables following implementation of the Proposed Demerger;
- The potential taxation risks and/or consequences for both businesses and existing Trustpower shareholders;
- Any other benefits or advantages of the Proposed Demerger;
- The disadvantages, costs and risks of the Proposed Demerger; and
- The implications for Trustpower shareholders if the Proposed Demerger does not proceed.

4.1. Advantages and Benefits

4.1.1. Focussed Strategy and Objectives after Separation

As summarised in Section 2, in its current form Trustpower already effectively comprises two separate business units:

- A hydro-electricity generator (predominantly New Zealand focussed but with some Australian based hydro assets) with a business that supplies electricity, gas and telecommunications services to a growing New Zealand retail customer base (i.e. "New Trustpower"); and
- A wind farm operator (predominantly Australian based but with some New Zealand assets) that has significant wind and solar development opportunities mainly in Australia (i.e. "Tilt Renewables").

These two business units are quite distinct, and have different growth and risk profiles. Formally demerging the businesses will allow separate Boards of Directors and management teams to focus specifically on their respective businesses. In doing so, it will be possible to refine strategies, objectives and business processes to best suit the current circumstances and future opportunities facing each business. Additionally, management incentive schemes can potentially be introduced that better reflect the objectives of each business and which will be more easily measurable against the performance of the separate companies.

4.1.2. Better Platform for Capital Raising

If the Proposed Demerger proceeds, we believe that the ability of both Tilt Renewables and New Trustpower to pursue growth opportunities will be improved as standalone entities. In addition to not having to effectively compete with each other for growth capital, the Board of Directors of each business will be able to adopt capital structures and dividend policies that best suit the growth profiles and investment opportunities available to both businesses.

Trustpower's Board of Directors believes the Company's current ability to raise new equity capital is constrained by virtue of it comprising two distinct businesses within the same corporate group. A reasonable proportion of the Trustpower shareholder base may be attracted to the lower-risk profile of New Trustpower, and less attracted to the higher growth, higher risk profile of Tilt Renewables (or vice versa). Accordingly, attempting a capital raise for the group as a whole may not be supported by those shareholders who have a preference for one business over the other.

By separating New Trustpower and Tilt Renewables, the ability to raise new equity capital should be enhanced. Shareholders that elect to retain their investment in either or both of New Trustpower or Tilt Renewables will presumably do so because they like the growth and risk profile presented by the respective businesses. Any planned capital raise should therefore be better supported by those shareholders who have consciously decided to remain on the share register. Additionally, the ability to attract new shareholders should also be enhanced given the distinct investment proposition that will be represented by the separated businesses. For example, institutional investors with a specific preference for wind generation developments would be more likely to invest in Tilt Renewables than in Trustpower as a whole.

4.1.3. Shareholders have Clearer Investment Choices

As mentioned above, the growth opportunities, risk profile and capital structure of New Trustpower and Tilt Renewables will be quite different and we expect that these different profiles will appeal to different types of investors. The Proposed Demerger will therefore provide investors with the opportunity to specifically choose which of the two Trustpower businesses they prefer. Investors will be able to maintain or increase their investment in the business they favour and decrease their investment in the business they may find less attractive.

The Proposed Demerger should also allow investors (and investment analysts) to better evaluate New Trustpower and Tilt Renewables as distinct businesses. In time, enhanced transparency around their respective outlooks, performance, strategies and other business characteristics will facilitate a better understanding of how each business should be assessed.

4.1.4. Enhanced Takeover Potential

In some circumstances, takeovers can provide shareholders with the ability to realise value for their investment in excess of market traded values. The additional value arising from a successful takeover is often attributed to a premium for control. While Trustpower is arguably already a potential takeover prospect, the current composition of the business may not appeal to potential bidders looking for a more focussed investment. The current shareholding structure is also clearly a deterrent to any possible takeover interest: Infratil holds a controlling interest (51%) and TECT holds a blocking stake (27%) which could prevent a bidder from reaching the 90% threshold needed to eventually achieve a 100% control position.

In the short term at least, the shareholding structure of Tilt Renewables and New Trustpower will mirror that of Trustpower and on the face of it, prospects for a takeover are also unchanged in this respect. However, we note that:

- Both of the major shareholders may be more open to selling their shareholding in the demerged entities compared to a sale of Trustpower shares. Based on the nature of the two shareholders and their various public disclosures, we would expect that TECT is likely to have a higher level of long term interest in New Trustpower, while Infratil may be more focused on the growth opportunities offered by Tilt Renewables; and

- The smaller size of New Trustpower and Tilt Renewables (relative to the current business) may be of more appeal and more digestible to a broader range of potential acquirers following the Proposed Demerger.

4.2. Potential Value Impacts of the Demerger

One of the benefits often associated with a demerger is the potential for uplift in the aggregate market value of the demerged entities. These improvements are typically attributed to greater investor transparency in relation to each entity's operations, strategy and future prospects compared to when the demerged business operations were part of a broader group. This benefit is often more pronounced where one of the demerged entities is a small part of a larger group or operates in an industry which attracts higher valuation multiples compared to the broader group.

In Trustpower's case, we believe that the potential for value gains is less clear:

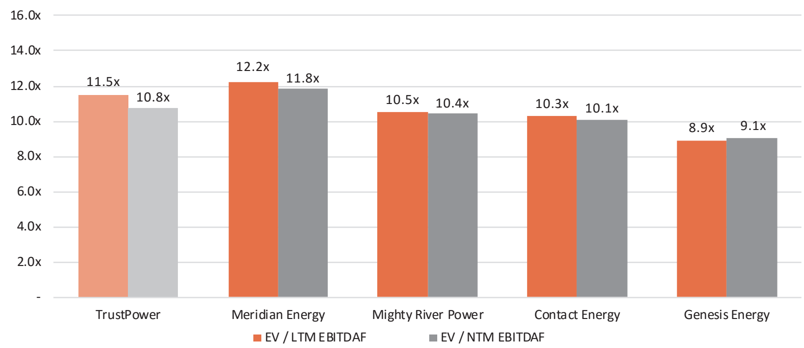
- While international markets often apply different multiples to renewable versus non-renewable or thermal electricity generators, there is no compelling evidence to support pure-play wind generation companies trading at higher multiples than other renewable energy companies. In the case of New Trustpower and Tilt Renewables, both will remain 100% renewable focussed electricity generators.
- Trustpower is currently capitalised at approximately $2.5 billion and is ranked amongst the top 50 companies listed on the NZX Main Board by free float market capitalisation. The Company therefore receives a relatively high level of scrutiny from investment analysts and fund managers.
- There is already a significant level of disclosure in relation to Trustpower and its underlying businesses units, with segmented financial performance for New Zealand Generation, Australia Generation and Retail.
- There is no compelling evidence to suggest that Trustpower's current market capitalisation does not reasonably reflect the fair market value of the Trustpower business. In addition, there has been no discernible evidence of over or under performance relative to the market and Trustpower's key peers since announcing it was considering the Proposed Demerger in December 2015. It is therefore not possible to conclusively assess whether and to what extent the current share price of Trustpower incorporates any anticipation of the benefits of the Proposed Demerger; this uncertainty adds to the complexity of assessing the prospects of a potential market re-rating following the Proposed Demerger.

Notwithstanding these comments, it is possible that the aggregate value of the separate companies could exceed the value of the Trustpower business in its current structure. We suggest that:

- New Trustpower and Tilt Renewables will have a higher level of scrutiny as two distinct businesses. Tilt Renewables will be one of only two listed Australasian pure-play wind focussed electricity generators while New Trustpower will be broadly similar to its New Zealand "gentailer" peers.
- With greater management focus and increased capital structure flexibility, Tilt Renewables should be better positioned to pursue its growth strategy in wind development projects, potentially providing greater visibility to the earnings and valuation upside.
- Over time there may be a degree of share register realignment as New Trustpower and Tilt Renewables are likely to attract investors with different objectives. Tilt Renewables in particular may attract institutional and international investors seeking unique exposure to Australia's growing requirement for renewable energy.

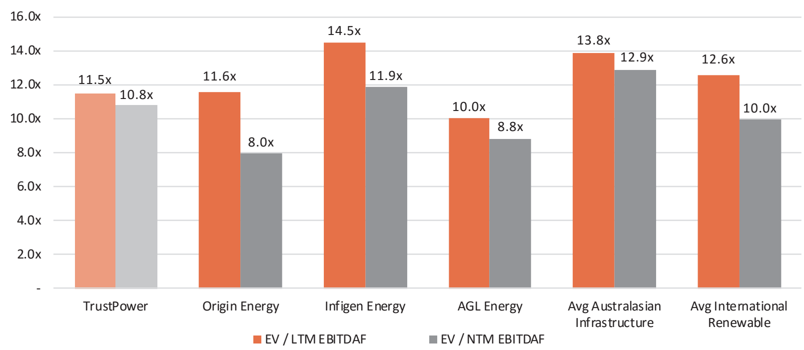
Figure 9 and Figure 10 summarise some valuation metrics for a range of peers against which New Trustpower and Tilt Renewables are likely to be rated following the Proposed Demerger (see Appendix 3 for further details). These include comparable New Zealand, Australian and international listed renewable electricity generators and retailers. Given the contracted nature of Tilt Renewables' earnings, Australasian contracted or regulated infrastructure businesses are also included.

Figure 9: EV/EBITDAF Multiples for New Zealand Gentailers



Source: Capital IQ, as of 29 June 2016. "LTM" represents last 12 months calendarised to 31 March 2016 (being a mixture of actual reported results and forecast results) and "NTM" represents the next 12 months calendarised to 31 March 2017 (representing consensus broker research forecasts).

Figure 10: EV/EBITDAF Multiples for International Comparable Companies



Source: Capital IQ, as of 29 June 2016. "LTM" represents last 12 months calendarised to 31 March 2016 (being a mixture of actual reported results and forecast results) and "NTM" represents the next 12 months calendarised to 31 March 2017 (representing consensus broker research forecasts).

The evidence suggests that on an enterprise value to EBITDAF basis, Trustpower is currently trading in line with its key New Zealand gentailer peers, and broadly in line with its Australian and international peers. However, Australasian regulated infrastructure companies or companies with a high level of contracted revenue appear to trade at a premium.

While we would expect New Trustpower to continue to trade broadly in line with its key New Zealand peers following the Proposed Demerger (assuming no significant changes in relative performance), the value outlook for Tilt Renewables is more uncertain. Tilt Renewables will become an Australasian pure-play wind electricity generation business with largely contracted cash flows and fewer directly comparable companies.

Infigen Energy Limited ("**Infigen**"), an Australian ASX-listed wind farm owner, operator and developer is arguably the most comparable listed company to Tilt Renewables, with a broadly similar asset base and development exposure. Infigen does however offer a different risk/return profile because it has a higher portion of its electricity generation and LGC output that is un-contracted, and its revenues are therefore more exposed to spot market price fluctuations. Infigen has also recently experienced an extended period of market volatility due to performance issues unique to the business, partly exacerbated by relatively high debt levels and more recently, speculation around potential takeover activity.

Table 21 compares some of the key operational and valuation parameters of Infigen relative to Tilt Renewables.

Table 21: Operational and Financial Comparison of Tilt Renewables relative to Infigen Energy

	Infigen (ASX:IFN) (12 months ending 31 December 2015)	Tilt Renewables (period ending 31 March 2016)
Operational (Based on FY2015)		
Generation Facilities	6 wind, 1 demonstration solar facility	7 wind (4 Australia, 3 NZ)
Installed Generation Capacity	557MW	582MW
Generation Volume	1,477GWh	1,921GWh
Implied Capacity Factor	30%	38%
Annual Production Contracted under PPAs[1]	40-50%	98%
Development Pipeline	1,200MW	2,229MW Australia (832MW consented) 530MW NZ (400MW consented)
Financial (A$m)		
Revenue	$152	$156
EBITDA	$100	$112
EBITDA Margin	66%	71%
Valuation Parameters (as of 29 June 2016, A$m)		
Market Capitalisation	$800	NA
Net Debt	$740	NA
Enterprise Value	$1,540	NA
EV / NTM EBITDA[2]	11.9x	NA
EV / Installed capacity (A$m/MW)	$2.8m/MW	NA

Source: Company reports, Northington Partners analysis. Tilt Renewables values reflect the pro forma results for the financial year ending 31 March 2016.
[1] Represents contracted annual production as a percentage of P50 annual electricity production (P50 being the best estimate of electricity production in an average year). Tilt Renewables' contracted production under PPA's represents the position immediately post the Proposed Demerger following Tilt Renewables entering into new PPA terms with New Trustpower.
[2] NTM EBITDA based on consensus forecast estimates calendarised to 31 March 2017.

In the absence of more companies directly comparable to Tilt Renewables, we have also considered recent transaction value multiples. There have been few transactions involving businesses that are directly comparable to Tilt Renewables, with most of the recent activity relating to individual wind farms backed by PPAs. However, the recent sale of Pacific Hydro, a portfolio of wind and hydro assets and projects in Australia, Brazil and Chile, to China's State Power Investment Corporation for A$3 billion does illustrate market interest in renewable energy portfolio opportunities.

Appendix 4 provides a summary of the recent transaction evidence, with key elements summarised as follows:

- In the absence of EBITDA multiples, the enterprise value to installed generation capacity (expressed in MW) is a common valuation benchmark multiple for renewable energy transactions. Multiples will vary depending on a number of factors including the type of asset involved (hydro or wind), specific availability and capacity factors, expected remaining asset life with respect to wind, as well as operating and maintenance costs.
- The recent Taralga Wind Farm and Macarthur Wind Farm transactions reflect values of A$2.8 million per MW and A$2.5 million per MW respectively. Individual Australian wind

farm transactions for a selection of recent acquisitions suggest an average value of A$2.7 million per MW of installed generation capacity.

- The Pacific Hydro transaction in December 2015 took place at an implied value of A$3.3 million per MW, while the implied EV / EBITDAF multiple was approximately 17.1x (based on calendar year 2015 forecast EBITDAF[2]).

For illustrative purposes we note that if Tilt Renewables was valued on the same basis as the transaction evidence (at A$2.5 – A$2.8 million per MW of currently installed generation capacity), the implied enterprise valuation range would be A$1,455 million – A$1,630 million. This results in an implied EV / EBITDAF multiple of approximately 13.0x – 14.6x (based on FY2016 pro-forma EBITDAF), a materially higher multiple than the current trading range for Trustpower.

Although this evidence may support an argument for some upside in Tilt Renewables value following the Proposed Demerger, we suggest there is a high level of uncertainty in relation to the likely trading range of the shares, particularly in the short term. Depending on investor appetite, market prices for an extended period may be impacted by imbalances in supply and demand for Tilt Renewables shares if a significant number of shareholders decide to exit their investment.

On balance, we believe it is unlikely that the aggregate value of the New Trustpower and Tilt Renewables shares will materially differ from the current value of a Trustpower share in the short term. In terms of our general valuation considerations, we note:

- Any potential market re-rating of both companies (but especially Tilt Renewables) will likely take some time to be realised, with the market waiting to see evidence that the promoted benefits of the Proposed Demerger are being achieved.
- All else being equal, the transaction will give rise to a value loss equal to the aggregate value of the costs associated with the Proposed Demerger, which we estimate in the order of $75 - $90 million[3] ($0.24 - $0.29 per share). While this loss in value only represents about 3% – 4% of Trustpower's current market capitalisation, it effectively needs to be recovered via other value enhancements before shareholders will realise any net value gain.
- Based on current market evidence, we would expect Tilt Renewables to trade at a higher valuation multiple than New Trustpower in the medium term. However, the time period required to reach this outcome is uncertain and is obviously dependent on the market conditions that prevail in the distinct market sectors in which New Trustpower and Tilt Renewables will operate.

4.3. Risks, Disadvantages and Costs

4.3.1. Overview

The majority of the potential issues and risks faced by New Trustpower and Tilt Renewables following the Proposed Demerger are already faced by Trustpower today (see Section 2.6 and the "Risk Factors" Section of the Scheme Booklet). Our assessment has therefore focussed on the potential risks, disadvantages and costs that are a direct consequence of the Proposed Demerger.

4.3.2. Impact on Risk Profile

Both of the demerged entities will be smaller and less diversified than the current Trustpower business. As a result, each of New Trustpower and Tilt Renewables will be less able to absorb the financial and business impacts of any significant adverse events that may occur after the Proposed Demerger. Particular risk factors include:

- Increased levels of competition for new and existing business or project development. For example, sustained high levels of customer churn due to retail competition in the New Zealand market will have a greater impact on the New Trustpower business, with retail

[2] Estimated calendar year EBITDA of $175 million based on media reports.

[3] This is based on an estimate of the $15 million one-off "economic" costs that are still to be incurred, plus the capitalised value of the net $6 million – $7 million additional overhead costs that will be incurred if the Proposed Demerger proceeds (see Sections 4.3.4 and 4.3.5 for further details). At a multiple range of 10.0x – 11.0x, this translates to a range of approximately $60 million - $77 million.

EBITDAF expected to contribute 25% on a FY2016 pro forma basis (relative to 16% for Trustpower currently).

- Changes to regulatory or climate policies including changes to ACOT charges in the case of New Trustpower and Australia's RET Scheme in the case of Tilt Renewables.
- Development risk associated with new wind farm opportunities. Clearly these risks will have a proportionately greater impact on Tilt Renewables than they would on the existing Trustpower business.
- Tilt Renewables' PPA counterparty exposure to two parties - Origin and New Trustpower. This creates a more concentrated exposure to the economic stability and credit quality of these two counterparties relative to Trustpower status quo.
- Tilt Renewables' initial high degree of asset concentration risk across two wind farms. Snowtown in Australia (371MW) and Tararua in New Zealand (161MW) represent 91% of the total installed capacity of 582MW across Tilt Renewables' five wind farms. Any performance issue at these wind farms will have a materially higher relative impact on Tilt Renewables' financial performance.

While the potential impact of these key risks is clearly amplified for New Trustpower and Tilt Renewables, we do not believe that the change in risk profile is material. We note that:

- Given the relative size and ownership of well-established operations, the incremental impact of the Proposed Demerger is likely to be lower for New Trustpower.
- In Tilt Renewables' case, any new developments will likely only proceed once comprehensive due diligence has been undertaken and the company can obtain suitable PPA contract terms or comfort around future wholesale electricity prices. In addition, any new developments will likely reduce counterparty and asset concentration risk (assuming new PPA counterparties other than Origin and New Trustpower are obtained).
- Both entities will operate in markets and industries with relatively defensive characteristics that are less prone, but not immune, to business volatility.
- Both entities will continue to be substantial entities with continued access to equity markets to raise additional equity if necessary.

4.3.3. Tilt Renewables Exposed to Establishment Risks

While New Trustpower will continue with established management and operations, Tilt Renewables has some exposure to a number of establishment risks relating to the implementation of the Proposed Demerger. It will take some time to work through a process to establish a new corporate identity and brand, as well as the management and operational structures that will be needed to run the Tilt Renewables business.

However, we believe that these risks are relatively immaterial: as set out in Section 3.3, Tilt Renewables will have an experienced senior management team and key Board members in place at inception, all of whom have a strong track record with the wind farm component of the existing Trustpower business.

4.3.4. Liquidity and Share Registry Realignment

As set out in Section 2.4, Trustpower is amongst the least liquid stocks in the NZX50. The Proposed Demerger could exacerbate this further:

- Whilst Trustpower is currently in the NZX50 with a market capitalisation and free float market capitalisation of $2.5 billion and $0.6 billion respectively, the free float of New Trustpower and Tilt Renewables will be materially lower.
- We expect the free float of New Trustpower will be sufficient to maintain inclusion in the NZX50. New Trustpower will however have a smaller NZX50 index weighting and that may have a small impact on trading volumes driven by institutional investors looking to retain index weighting relativities.

- Tilt Renewables will not be large enough to initially be included in the NZX50 index, and will arguably be subject to a lower level of institutional interest as a result. The planned ASX listing should however support interest from Australian investors.

On balance, we conclude that because the current free float in Trustpower is small and liquidity is already low, the net impact on the liquidity of shares in New Trustpower and Tilt Renewables may be negligible. In the medium term, liquidity in both companies will be dependent on any changes to the shareholder registers and whether either Infratil or TECT reduce their shareholdings, thereby allowing a more broad-based ownership structure and a higher level of free float.

4.3.5. One-off Transaction Costs

Trustpower has estimated that the total transaction and implementation costs associated with the Proposed Demerger will be between approximately $68 million – $82 million on a pre-tax basis. These costs include debt facility break fees and establishment fees, advisers' fees, restructuring costs, the costs of establishing standalone entities and support services, fees associated with the ASX listing of Tilt Renewables, marketing and rebranding and other costs. Approximately $12 million ($15 million - $18 million if consent for the EKF Facilities is not obtained as detailed in Section 4.4) of these costs will have been incurred prior to the Trustpower shareholders' meeting to approve the Proposed Demerger, with the remaining costs to be incurred if the Proposed Demerger goes ahead.

A high level breakdown of the costs is set out in Table 22.

Table 22: Summary of One-Off Transaction Costs

NZ$ million	Low	High
Bank establishment fees[1]	$16	$16
Bond redemption costs	$27	$27
EKF Facility break fees	-	$7
Depreciation recovery on the sale of Mahinerangi	$11	$11
Advisory fees	$12	$16
Other	$2	$5
Total	**$68**	**$82**

[1] Includes bond issue expenses
Source: Trustpower.

Some of these costs would have been incurred in the short to medium term in the absence of the Proposed Demerger, or represent the present value of costs that would otherwise be incurred by Trustpower under the status quo.

- The bank establishment fees represent the upfront costs of establishing New Trustpower's $805 million banking facilities (including headroom available to redeem Trustpower's listed bonds) and Tilt Renewables' A$715 million banking facilities. These costs will amortise over the term of the facilities and allow each of New Trustpower and Tilt Renewables to refinance existing facilities (as well as provide additional headroom) at currently favourable interest rates. Trustpower would have incurred these costs in the establishment of any new facilities (for instance the A$100 million expansion facility for Tilt Renewables to finance future developments or acquisitions) or the refinancing of existing facilities as they expire in the ordinary course of business.
- The bond redemption costs of $27 million represent the accrued interest and current secondary market price premium over the $385 million face value of Trustpower's existing listed bonds. This price premium reflects the weighted average coupon interest cost of the bonds (6.7%) relative to a weighted average yield to maturity of 4.0% in the secondary market. Trustpower intends to redeem each series of bonds in accordance with their terms. This may include an offer to existing bond holders to exchange their existing bonds for new bonds on effectively the same terms (including the maturity and coupon rate) with bond holders not participating in the exchange offer being redeemed for cash at the prevailing market price in accordance with the bond terms. Whether Trustpower redeems the bonds at a premium to face value or exchanges them into new bonds with the same coupon and maturity is broadly value neutral to Trustpower (and New Trustpower who will refinance the

bonds post the Proposed Demerger), assuming New Trustpower can either obtain new financing terms consistent with current Trustpower secondary market yields; or rollover the existing bonds into new bonds on the same terms. The company is effectively paying a premium today in order to lock in lower interest rates for the future or maintaining its current bond coupon rates.

- The EKF Facility break fees will only materialise if EKF does not consent to novate its current facilities to Tilt Renewables (as detailed in Section 4.4). If consent is obtained, no break fees will be incurred.
- Depreciation recovery represents the tax cost in respect of Trustpower transferring Mahinerangi to Tilt Renewables (see Section 4.6 for further detail), which cost is to be borne by New Trustpower. While this represents an upfront cost to New Trustpower, TWP (which will become part of Tilt Renewables) will be able to depreciate Mahinerangi over the remaining life of the wind farm. Consequently, this cost will be partially recovered (in present value terms) by Tilt Renewables in future years.

The total one-off transaction costs of the Proposed Demerger, whilst material in absolute terms, are not overly significant relative to the scale of Trustpower: the aggregate costs of $68 million - $82 million represent approximately 1.7% – 2.1% of Trustpower's current enterprise value. Furthermore, excluding costs already incurred and the costs for which New Trustpower and Tilt Renewables will receive future benefit or would have otherwise ordinarily incurred at a later date (as discussed above), the "net" costs of the Proposed Demerger are significantly less - we estimate a value of approximately $15 million. If the objectives of the Proposed Demerger are realised in line with current expectations, we suggest that the medium term impact of the one-off costs will be relatively low.

However, there is a risk that the potential advantages and benefits of the Proposed Demerger do not materialise, in which case Trustpower would have incurred these costs unnecessarily. For example, future market conditions may mean that Tilt Renewables is not in a position to develop any new wind farm operations over the medium term and is therefore left with its current wind farm portfolio. If this outcome did arise, the net transaction costs will effectively represent a direct loss of shareholder value.

4.3.6. Additional Corporate and Operating Costs

The Proposed Demerger will result in the loss of financial benefits of operating New Trustpower and Tilt Renewables under a single corporate structure. These benefits are largely derived from operating a single corporate head office with central administrative functions which will effectively be duplicated after the Proposed Demerger or lost through diminished scale economies. The costs relate primarily to information technology, human resources, marketing and financial service functions, as well as NZX and ASX listing and compliance costs.

While New Trustpower will utilise the current business structure, Tilt Renewables will need to establish its own resources. The incremental corporate and operational costs that Tilt Renewables will incur following the Proposed Demerger include:

- Costs associated with a separate Board of Directors. In terms of Directors' fees, Tilt Renewables will have a Director remuneration pool of A$685,000 per annum after the Proposed Demerger.
- Costs associated with a separate listing on the NZX Main Board and ASX. These include share registry, annual reporting, shareholder communication and legal/regulatory costs.
- Administrative costs such as finance, human resources, legal, insurance and marketing.
- Staff costs for new roles established at Tilt Renewables, including the CEO and CFO positions. We note that Tilt Renewables expects to have a total of approximately 35 full-time equivalent employees with 28 new full-time equivalents and the remainder transferring from Trustpower.

Trustpower estimates that the total incremental costs to Tilt Renewables will be $9.3 million per annum. However, a significant portion of this cost results from the employment of new staff to accelerate Tilt Renewables' development opportunities which would have otherwise been required by Trustpower if it were to pursue the same opportunities. Consequently, we estimate the net impact of additional corporate costs of Tilt Renewables relative to Trustpower executing the same strategy under the status quo structure would be approximately $6 – $7 million. While there is some risk that the level of incremental costs will be higher, we believe that the risk is limited and the potential quantum of any cost increase will be relatively small.

4.4. Impact on Initial Capital Structure and Funding Costs

New Trustpower and Tilt Renewables must be recapitalised as part of the Proposed Demerger to ensure each business has a funding structure which appropriately reflects their respective business and credit characteristics, as well as future funding requirements. Trustpower had total net debt (including derivatives) of approximately NZ$1.3 billion as at 31 March 2016. The proposed refinancing and debt allocation under the Proposed Demerger would result in New Trustpower and Tilt Renewables having FY2016 pro forma opening net debt of NZ$730 million and NZ$674 million respectively[4], an aggregate increase of approximately $80 million relative to Trustpower at 31 March 2016 (largely reflecting adjustments for transaction costs).

The proposed facilities and key gearing ratios are summarised in Table 23 below.

Table 23: Initial Capital Structure of New Trustpower and Tilt Renewables

	New Trustpower	Tilt Renewables
Key Business Characteristics	▪ Defensive earnings while operating in a competitive market place ▪ Modest growth outlook ▪ Relatively low future capital requirements	▪ Strong, reliable earnings under-pinned by off-take PPAs with Origin and New Trustpower ▪ Strong growth outlook supported by Australian RET scheme and development project pipeline ▪ High capital requirements to execute growth strategy but likely to be financed on a project by project basis
Pro forma FY2016 Net Debt	NZ$730 million	A$607 million
Total Debt Facilities in Place After the Proposed Demerger	NZ$805 million	A$715 million
Pro forma FY2016 Net Debt / EBITDAF	3.4x	5.4x

Source: Trustpower and Northington Partners analysis.

We note the following in relation to the initial and future capital structure of New Trustpower and Tilt Renewables:

- New Trustpower will retain a similar funding structure to Trustpower, with a diversified mix of unsecured senior bank debt and unsecured bonds (subject to refinancing):
  - While not rated, we anticipate New Trustpower will have credit ratios in-line with Trustpower's current position and consistent with its investment grade peers.
  - Trustpower is intending to redeem all of the currently outstanding senior and subordinated bonds on issue; these bonds have a face value of $385 million and maturity dates between December 2016 and December 2021. Under the terms of the bonds, they will be redeemed at the higher of face and market value. New Trustpower has committed bank bridge facilities to fund the redemption of the bonds.

[4] Based on the pro-forma values for 31 March 2016. Actual debt levels for each business in the event that the Proposed Demerger is implemented are expected to differ slightly from these values.

- There are four series of bonds outstanding, with coupon interest rates between 5.63% and 8.00%. Reflecting the current low interest rate environment, the bonds are trading at yields around 4.0% and therefore have current market values above par. That means that Trustpower will need to pay more than face value to redeem each series of bonds.
- While it is New Trustpower's intention to undertake a new issue of bonds following the Proposed Demerger to refinance the bridge facilities, the bond terms will depend on market conditions at the time and may include an exchange offer for new bonds on similar terms to the existing bonds (including maturity and coupon), or an offer of new bonds at prevailing market coupon rates. However, assuming that any offer of new bonds (other than any issued in exchange for existing bonds on the same pricing terms) can be issued at coupon interest rates close to the observed secondary market yields on the existing bonds, it is likely the new bonds will carry a lower interest cost than the existing bonds.

- Tilt Renewables is establishing a new multi-tranche funding structure with a syndicate of banks:
  - The new facilities will include sufficient headroom to refinance the A$167 million and $80 million of funding provided by EFK Danmarks Eksportkredit ("**EKF Facilities**") if those facilities are not able to be novated to Tilt Renewables.
  - If consent for the novation is not obtained, the EKF Facilities will incur break fees. The break fees for the EKF Facilities total approximately $7 million.
  - The Tilt Renewables bank facilities will be a mixture of amortising and revolving facilities with terms between three and seven years. The new facilities are expected to include A$100 million of headroom for future developments, acquisitions or expansion.
  - Tilt Renewables' leverage ratios will be higher than those for Trustpower, but Tilt Renewables' contracted PPA revenues provide greater income certainty supporting relatively higher debt levels.

The agreed terms for New Trustpower's new facilities are generally in line with the existing Trustpower facilities. However, Tilt Renewables' facilities are different. Aside from the differences in terms, the funding costs for both New Trustpower and Tilt Renewables will not be materially impacted. One of the key differences for Tilt Renewables relative to the existing Trustpower financing arrangements, which are unsecured, is that Tilt Renewables and each of its material subsidiaries will be required to provide security over all of their assets in support of Tilt Renewables Group's obligations under those syndicated facilities and the EKF Facilities. Despite this change, we consider that the overall funding arrangements will not be adversely impacted by the implementation of the Proposed Demerger.

4.5. Dividend Consequences

While Trustpower currently has no formal dividend policy, Table 24 shows that Trustpower has historically paid an average of 108% of underlying earnings over the last five years. On an adjusted cash profit basis (which excludes non-cash depreciation and amortisation), the pay-out has averaged 63%.

Table 24: Trustpower's Dividend History

Financial year ending 31 March (NZD)	2012	2013	2014	2015	2016
Underlying earnings per share (cents per share)	43	41	35	39	32
Dividends declared during the year (cents per share)	40	40	40	41	42
Adjusted cash profit per share (cents per share)[1]	62	62	58	70	69
Dividend as % of underlying earnings	**93%**	**98%**	**114%**	**105%**	**131%**
Dividend as % of adjusted cash profit	**65%**	**64%**	**69%**	**58%**	**61%**

Source: Company annual reports.
[1] Adjusted cash profit represents underlying earnings plus depreciation and amortisation.

Based on the proposed dividend policies for Tilt Renewables and New Trustpower (outlined in Sections 3.3.4 and 3.4.4), the aggregate dividends of the two companies are expected to be lower than the dividends declared by Trustpower in FY2016.

Applying the intended dividend policies of New Trustpower (70% – 90% of free cash flows) and Tilt Renewables (25% – 50% of pro forma operating free cash flow) to their respective pro forma FY2016 earnings and cash flows, we estimate New Trustpower would have paid a FY2016 pro-forma cash dividend of $0.24 – $0.31 and Tilt Renewables $0.033 – $0.067. The aggregate dividend of $0.27 – $0.38 compares to Trustpower's FY2016 declared dividend of $0.42, representing a decline of between approximately 11% and 35% on a pro forma FY2016 basis. However, given the nature of Trustpower's current shareholder base and Trustpower's recent high dividend pay-out levels, we would expect New Trustpower and Tilt Renewables to initially target dividend pay-out ratios towards the top of the intended policy ranges, at least in the short-term. On this basis, the pro forma impact of the Proposed Demerger on FY2016 dividends would have been relatively modest, with a $0.03 – $0.04 reduction in overall dividends.

Although the aggregate dividends from New Trustpower and Tilt Renewables are expected to decline in the short term at least, most of the reduction is not a direct consequence of the Proposed Demerger. If the Australian wind development opportunities were pursued under the status quo structure, it is very likely that Trustpower would decrease its dividend pay-out to help fund the capital expenditure or require new equity from shareholders. Only about $0.03 of the expected reduction reflects the additional ongoing corporate and operating costs of operating two separate businesses.

4.6. Tax Considerations

4.6.1. New Zealand Tax

In order to confirm the New Zealand tax implications of certain aspects of the Proposed Demerger, Trustpower sought and obtained a binding ruling from the New Zealand Inland Revenue. Additional advice was also obtained from Trustpower's New Zealand tax advisers.

A summary of the main New Zealand tax considerations is set out in Table 25 below. A fuller analysis of the New Zealand tax consequences of the Proposed Demerger is set out in the Scheme Booklet.

Table 25: Summary of New Zealand Tax Considerations

Entity / Shareholder	Comment
New Trustpower	▪ Trustpower and New Trustpower are currently members of a consolidated group for New Zealand tax purposes. New Trustpower will remain a member of the consolidated tax group following the Proposed Demerger. ▪ The transfer of assets from Trustpower to New Trustpower will occur within the consolidated tax group so should not have any income tax consequences at the time of transfer. ▪ The transfer of wind assets from Trustpower to TWP will occur whilst TWP is part of the consolidated tax group so should not have any income tax consequences at the time of transfer. However, once TWP leaves the consolidated tax group to become part of Tilt Renewables, the consolidated group will have a tax liability in respect of certain depreciable assets transferred to TWP (which will be borne by the New Trustpower group in accordance with the Separation Deed). TWP will be able to claim future depreciation in relation to these assets. ▪ Existing imputation credits within the consolidated tax group will remain and be accessible by the consolidated tax group to attach to dividends following the Proposed Demerger.
Tilt Renewables	▪ TWP (which will become part of Tilt Renewables) is currently a member of the same consolidated tax group referred to above. TWP will leave the consolidated tax group as a result of the Proposed Demerger, but will remain jointly and severally liable for tax liabilities of the consolidated tax group relating to the period during which it was a member. ▪ Tilt Renewables will not be able to access imputation credits in the imputation credit account available to the Trustpower consolidated tax group. The ability of Tilt Renewables to attach imputation credits to dividends will therefore depend on the level of tax paid by Tilt Renewables in New Zealand.

Distribution of New Trustpower and Tilt Renewables shares (resident and non-resident shareholders)	▪	The distribution of New Trustpower shares and Tilt Renewables shares to Trustpower shareholders pursuant to the Proposed Demerger will not constitute a dividend for New Zealand tax purposes.
	▪	The liquidation of Trustpower pursuant to the Proposed Demerger will result in Trustpower shareholders disposing of their Trustpower shares. On disposal, the tax consequences will depend on the basis upon which particular shareholders hold their shares. For shareholders that hold their shares on "revenue account" (e.g. they bought their shares with the dominant intention of selling them, or they are in the business of dealing in shares), any gain is likely to be taxable and any loss likely to be deductible. Certain non-resident shareholders may be relieved from New Zealand taxation under an applicable tax treaty.
	▪	Any gain or loss on disposal would be calculated as the difference between the shareholder's cost base for its Trustpower shares and the combined market value of the New Trustpower and Tilt Renewables shares on the date they are distributed to a shareholder.

Source: Scheme Booklet

Based on the binding ruling and the separate tax advice received, our understanding is that:

- Overall, the Proposed Demerger should have no material adverse New Zealand tax consequences for New Trustpower or Tilt Renewables.
- Although the tax consolidated group is expected to incur a tax liability of approximately $11 million (associated with depreciation recovery upon the transfer of certain wind assets from Trustpower to TWP) and such tax cost will be borne by the New Trustpower group, in our view that sum is relatively immaterial in relation to the size of New Trustpower following the Proposed Demerger. We also note that TWP will be able to claim future depreciation in respect of the transferred assets which gave rise to the tax liability (although a small time-value-of-money disadvantage will exist when this "benefit" is compared to the "disadvantage" of incurring the liability upfront).
- The impact on Trustpower shareholders disposing of their Trustpower shares will depend principally on the basis upon which those shareholders hold their shares in the Company. Shareholders holding on "revenue account" are likely to be required to recognise a gain or loss on the disposal of their Trustpower shares upon the liquidation of Trustpower. However, we note that the impact is only one of timing (i.e. the same result would arise at whichever point in time such shareholders may otherwise have sold those shares in the absence of the Proposed Demerger).
- As both New Trustpower and Tilt Renewables will continue to be New Zealand incorporated and tax resident companies after the implementation of the Proposed Demerger, the tax rules applying to dividends paid by each of those companies are the same as the rules applying to dividends paid by Trustpower. However, the overall outcome of applying those rules will differ based on New Trustpower's and Tilt Renewables' respective ability to generate imputation credits and attach them to dividends. Tilt Renewables is unlikely to generate material imputation credits, which will impact the rate at which withholding taxes are imposed in respect of dividends paid to shareholders.

4.6.2. Australian Tax

Advice was obtained from Trustpower's Australian tax advisers in respect of the Australian tax implications of certain aspects of the Proposed Demerger.

A summary of the main Australian tax considerations is set out in Table 26 below. A fuller analysis of the Australian tax consequences of the Proposed Demerger is set out in the Scheme Booklet.

Table 26: Summary of Australian Tax Considerations

Entity / Shareholder	Comment
New Trustpower	▪ Shares in GSP held by Tilt Renewables will be transferred to New Trustpower as part of the Proposed Demerger. This should have no

	Australian income tax consequences as capital gains tax roll-over relief will be available. ▪ No stamp duty liability should arise to New Trustpower as a result of the GSP transfer due to the availability of corporate reconstruction relief.
Tilt Renewables	▪ The transfer of shares in TWP to Tilt Renewables will not give rise to any Australian income tax consequences. ▪ The transfer of shares in GSP to New Trustpower should not give rise to Australian income tax consequences as capital gains tax rollover relief is available.
New Zealand Resident Shareholders	▪ Generally, the Australian capital gains tax provisions will not apply to the disposal of Trustpower shares under the Scheme of Arrangement by New Zealand resident shareholders. Any capital gain or capital loss made upon the disposal must be disregarded. ▪ Any dividend component arising upon the distribution of Tilt Renewables and New Trustpower shares to New Zealand resident shareholders will be disregarded for Australian tax purposes.
Australian Resident Shareholders	▪ Australian tax resident shareholders who hold their interests in Trustpower on capital account will realise a capital gain or capital loss, depending on whether the market value of the shares in Tilt Renewables and New Trustpower exceeds or is less than the historical tax cost base of their shares in Trustpower at the time of liquidation. However, such shareholders should be entitled to elect to apply demerger roll-over relief to disregard any capital gains arising on the cancellation of Trustpower shares and to treat any dividend component of the distribution as non-assessable. ▪ There should be no adverse stamp duty implications arising from the Proposed Demerger for Australian resident shareholders. ▪ Any future dividends paid by Tilt Renewables or New Trustpower following the Proposed Demerger will be taxable in the hands of Australian tax residents. An offset will be available to the extent of any franking credits attached to those dividends. ▪ Australian tax resident shareholders will recognise capital gains or capital losses upon any future disposal of Tilt Renewables shares or New Trustpower shares following the Proposed Demerger. The taxable gain or loss will be the difference between the cost base for the shares in Tilt Renewables and New Trustpower and the amount received for their disposal.

Source: Scheme Booklet

Based on our reading of the binding ruling and the separate tax advice received, the Proposed Demerger should have no material Australian tax consequences for New Trustpower, Tilt Renewables, or New Zealand resident or Australian resident shareholders in Trustpower.

4.7. Alternatives to Proposed Demerger

In deciding to implement the Proposed Demerger, the Board of Trustpower considered a range of alternatives including:

- Maintaining the status quo;
- An outright or partial sale of Tilt Renewables; and
- Recycling capital by selling individual wind assets.

The Board determined the Proposed Demerger was the preferred option and the one most likely to deliver the best value outcome for shareholders over time. In particular, there was a view that the alternatives could be suboptimal given the current market context and time to execute.

Key factors that influenced Trustpower's decision to proceed with the Proposed Demerger over the alternatives included:

- An outright or partial sale of Tilt Renewables in the immediate future was considered to be unlikely to realise a price that fully captured the future value benefits of Tilt Renewables' considerable development pipeline. Conversely, waiting until these projects had commenced or completed would not necessarily be in shareholders' best interests having consideration to other factors including the equity capital required to complete them, market conditions and possible tax implications.

- A sale process would likely involve a high degree of transaction uncertainty and would also likely involve no less transactional complexity or separation costs than the Proposed Demerger.
- A sale would not provide the additional investment choice and flexibility that will be provided to shareholders by the Proposed Demerger.
- Recycling capital by selling individual wind assets to fund future development would also create high transaction uncertainty and considerable periodic management distraction and would also involve significant transaction costs.

4.8. Conclusion

Trustpower currently has a significant portfolio of wind farm development opportunities. As set out in Section 3.3, the development pipeline includes projects with up to 1,700MW of capacity in Australia and 530MW capacity in New Zealand. This development potential compares to a total of 582MW of existing wind farm capacity (of which about 58% is based in Australia). The aggregate capital costs for all of the potential developments is estimated at over $2.0 billion.

Development opportunities in the Australian market have become a particular focus following recent improvements in regulatory certainty, particularly in relation to the RET scheme. Market conditions and pricing for the output from renewable energy projects are now more supportive of the level of returns on investment that are needed for economically viable development.

Under the current ownership structure, it will be difficult to aggressively pursue those options through the existing Trustpower vehicle. Raising the level of capital needed to develop the new wind farms will ultimately require support from both Infratil and TECT, and may not suit all shareholders given the impacts that the growth strategy would have on Trustpower's business profile and capital structure. Given its structure and objectives, TECT in particular is likely to favour a more conservative strategy which preserves a high and stable level of dividends. If a significant amount of new capital needs to be introduced to Trustpower to fund the developments, TECT is unlikely to be in a position to contribute the level of equity required to maintain its current shareholding position.

The Proposed Demerger definitely provides a better platform for pursuing the wind development opportunities. We believe that Tilt Renewables will be appropriately capitalised and will have the level of governance and management needed to successfully implement any new projects which meet relevant investment hurdles. As discussed above in Section 4.1, the separation of Trustpower into two entities also provides shareholders with:

- The ability to make a choice regarding their exposure to the wind developments. If existing shareholders would prefer to focus their investment in New Trustpower (with the expectation of a lower risk profile and higher dividend pay-out), then there will be an opportunity to sell the shares in Tilt Renewables. The ability to exit will of course be subject to market liquidity for the shares after the Proposed Demerger, but we expect there will be improved opportunities for shareholders to sell their shares at fair value in the medium term;
- The potential for uplift in the aggregate value of their investment, generated both from the greater ability of Tilt Renewables to pursue attractive investment opportunities, and the better investor clarity and improved strategy focus that the separation into two entities will provide. New Trustpower and Tilt Renewables may also be subject to a higher level of takeover scrutiny than Trustpower, which may add to shareholders' ability to realise greater value from their investment.

The Proposed Demerger does have a number of costs and risks. One-off transaction costs are projected to be approximately $68 million – $82 million (pre-tax), although we estimate the "net" one-off costs (excluding costs for which there is future benefit) to be about $15 million. We also estimate the present value of incremental future operating costs in a range between $60 million– $77 million. While we suggest that these transaction costs are relatively immaterial if the benefits of the Proposed Demerger are realised, the aggregate net cost of $75 – $90 million ($0.24 - $0.29 per share) will represent a loss in shareholder value if Tilt Renewables is unable to proceed with the development opportunities for any reason.

We understand that the tax implications are relatively benign for both the Company and existing shareholders.

We believe that the additional risks arising as a direct consequence of the Proposed Demerger are relatively minor. The split into two smaller entities with less diversified asset portfolios will on the face of it mean that New Trustpower and Tilt Renewables are more exposed to the effects of existing risk factors, but we suggest that the practical impact on both companies is low. Both companies will continue to operate in a defensive sector, New Trustpower's operations are largely unaffected and Tilt Renewables' development risks are partially offset by a high level of contracted revenue.

In summary, we suggest that a useful way to characterise the Proposed Demerger is that it puts Trustpower in a much better position to exercise the potentially valuable growth options it currently holds in wind generation developments, particularly in Australia. While there remains considerable uncertainty over the number and scale of the projects that will be developed, we believe that the potential value creation from exercising these development options is significant and outweighs the costs of the Proposed Demerger.

5.0 Assessment of the Merits of the Proposed Demerger for Trustpower's Creditors

5.1. Background

As set out in Section 3.1, Trustpower, BEL and TANZL have entered into the Separation Deed, which sets out their respective rights and obligations in respect of, and the mechanics to give effect to, the Proposed Demerger. A key aspect of the Proposed Demerger mechanics is the transfer of assets and liabilities (including creditors) from Trustpower to either New Trustpower or Tilt Renewables. As previously noted, generally, creditors associated with Trustpower's hydro-electric generation and retail business will transfer to New Trustpower, whilst creditors associated with Trustpower's wind farm or solar generation activities will transfer to Tilt Renewables. A mechanism has been agreed in respect of any creditors who are "misplaced".

Trustpower's creditors are likely to be interested in two key matters in respect of the Proposed Demerger:

- Whether it will result in changes to any of the key terms of their existing arrangement with Trustpower; and
- Whether it will have any likely impact on their ability to receive payment of their debts when due.

5.2. Impact on Creditors' Terms

If the Proposed Demerger is implemented, many (but not all) creditors will need to deal with, and have ultimate recourse against, a different legal entity than they did prior to the Proposed Demerger (see Section 5.3 below). However, apart from this change, our understanding (based on discussions with Trustpower and its legal advisers) is that creditors' terms will generally not be impacted by the Proposed Demerger.

Unless otherwise specifically agreed with a creditor during negotiations associated with the Proposed Demerger:

- The dates and terms upon which creditors will be paid will not change.
- A creditor's security status will not be impacted – i.e. secured creditors will remain secured and unsecured creditors will remain unsecured.
- The priority of a particular creditor's security position in New Trustpower will not be impacted. However, Tilt Renewables will grant security to its banking syndicate, which may or may not impact the priority of an unsecured creditor's ranking depending on their existing priority position.

On this basis, we conclude that the Proposed Demerger should have no material impacts on creditors' terms.

5.3. Likely Impact on Payment of Debts When Due

The likely impact of the Proposed Demerger on the ability of creditors to receive payment of their debts when due requires an analysis of two key matters:

- The financial position for the entity which has assumed the debts of creditors compared to the financial position for Trustpower as it exists before the Proposed Demerger. In a pragmatic sense, this comparison requires a qualitative assessment of the likelihood of either entity (i.e. Trustpower before the Proposed Demerger or the debt assuming entity post the Proposed Demerger) becoming subject to an insolvency or liquidation event in the short-term.
- The legal and practical implications for creditors in the event of an insolvency event for Trustpower before the Proposed Demerger compared to the debt assuming entity following the Proposed Demerger.

5.3.1. Financial Position

If the Proposed Demerger is implemented, many trade creditors will have their debts assumed by a legal entity that is different from that which currently bears the obligation to make payment ("**Affected Creditors**"). For example, Affected Creditors will include those who have debts currently legally owed by:

- Trustpower - which will have its debts transferred to either BEL (New Trustpower) or TWP (before TWP's shares are then transferred to TANZL (Tilt Renewables));
- TWP - which will have its shares transferred from Trustpower to TANZL (Tilt Renewables); and
- GSP – which will have its shares transferred from TANZL (Tilt Renewables) to BEL (New Trustpower).

We note that a large number of trade creditors will not be Affected Creditors, in particular:

- With the exception of creditors with exposure to GSP, Australian based trade creditors that currently have debts owing by TANZL or any of TANZL's wholly-owned subsidiaries. This category of creditors will continue to have recourse to the same entity for payment of their debts as they do today. Importantly, we also understand that TANZL (or its subsidiaries) has never had any of its trade obligations guaranteed by Trustpower or other members of the Trustpower group, so the Proposed Demerger will not have any impact on TANZL's credit quality as a result of the withdrawal of credit support.
- Creditors who currently have credit exposure to TWP, who will remain exposed to TWP credit risk following the Proposed Demerger. Although the ownership of TWP will change (i.e. TWP's shares will transfer from Trustpower to TANZL (Tilt Renewables)), there is no current guarantee of TWP's obligations by Trustpower and there will be no guarantee of TWP's obligations by TANZL (Tilt Renewables) following the Proposed Demerger. Thus, trade creditors in this category will largely be unaffected by the Proposed Demerger (although it is arguable TWP's financial position will be slightly enhanced as a result of the transfer to it of the Mahinerangi wind farm).

Creditors who previously had recourse to Trustpower will constitute the vast majority of Affected Creditors. A small proportion of such Affected Creditors will be those who have debts owing in respect of the Mahinerangi wind farm. Creditors in this category currently have recourse to Trustpower for payment of their debts but will need to look to TWP for payment following the Proposed Demerger. Although TWP's shares will be transferred to TANZL (Tilt Renewables), TANZL will not explicitly guarantee TWP's obligations to trade creditors. Given TWP is a far smaller and less diversified entity than Trustpower, creditors associated with the Mahinerangi wind farm will on the face of it assume a greater level of credit risk following the Proposed Demerger. However, based on our understanding of TWP's likely financial position when the Proposed Demerger will be implemented (considering both revenue and operating costs), we do not believe that the Mahinerangi creditors will, in a practical sense, be exposed to a greater level of risk.

The vast majority of Affected Creditors will comprise those who have debts currently owed by Trustpower and will have to look to either New Trustpower or Tilt Renewables for payment of those debts following the Proposed Demerger. To this end, a comparison of key pro-forma financial and credit parameters between Trustpower, New Trustpower and Tilt Renewables for FY2016 (showing the position that would have existed had the Proposed Demerger taken place before the commencement of FY2016) is set out in Table 27 and Table 28 below.

In relation to the key financial and credit parameters set out below, we note the following:

- Both New Trustpower and Tilt Renewables will be substantial entities following the Proposed Demerger. New Trustpower will have total assets and EBITDAF of approximately $2.5 billion and $213 million, respectively. Tilt Renewables will have total assets and EBITDAF of approximately A$1.2 billion and A$112 million, respectively.
- Key credit parameters for New Trustpower are better than Trustpower today, as debt associated with recent wind farm developments in Australia will be transferred from Trustpower to Tilt Renewables. On a pro-forma basis, New Trustpower's ratio of net debt to

EBITDAF is 3.4x, compared to 4.0x for Trustpower. Other key credit metrics are also improved, as set out in Table 28.

- Conversely, key credit parameters for Tilt Renewables are inferior to those of Trustpower today, reflecting the higher level of debt assumed by Tilt Renewables relative to its asset base and main earnings measures (i.e. EBITDAF and EBIT).

Table 27: Impact of Proposed Demerger on Key Financial Parameters

Pro forma FY2016 ($000's)	Trustpower NZ$	New Trustpower NZ$	Tilt Renewables A$
Revenue	1,036,540	947,054	156,433
EBITDAF	329,014	213,344	111,610
EBIT	208,374	166,248	43,103
Total assets	3,816,461	2,493,402	1,191,730
Net borrowings	1,336,462	729,922	607,095
Net assets	1,888,644	1,353,443	409,297
Capital expenditure	(36,903)	(38,101)	(4,301)

Source: Trustpower, Northington Partners' Analysis. The aggregate of New Trustpower and Tilt Renewables does not sum to the figures for Trustpower due to pro forma adjustments.

Table 28: Impact of Proposed Demerger on Key Credit Parameters

Pro forma FY2016 ($000's)	Trustpower	New Trustpower	Tilt Renewables
Net Debt / EBITDAF	4.0x	3.4x	5.4x
Net debt/(net debt + equity)	41%	35%	60%
EBITDA / Interest cover	4.1x	5.6x	3.9x

Source: Trustpower, Northington Partners' Analysis

For Affected Creditors that currently have credit exposure to Trustpower and who will be required to look to New Trustpower for payment of their debts following the Proposed Demerger, arguably they will end up in a slightly better position given the stronger credit profile of New Trustpower. Similarly, a slightly improved position should result for Affected Creditors that currently have exposure to TANZL (with no guarantee from Trustpower) and who will have recourse to New Trustpower following the Proposed Demerger.

For Affected Creditors that have a current credit exposure to Trustpower and who will need to look to Tilt Renewables for payment of their debts following the Proposed Demerger (which we understand is only a small number of creditors), arguably they will be in a worse position given the weaker credit profile of Tilt Renewables compared to Trustpower. However, we do not believe this category of Affected Creditors will be materially impacted as a result of the Proposed Demerger for the following reasons:

- Although Tilt Renewables will have relatively higher debt ratios than Trustpower, its debt levels will be in line with other industry peers. For example, the net debt to EBITDA levels for the international comparable companies listed in Appendix 3 average greater than 5 times, while Infigen's current net debt to forecast EBITDA for the 12 months to 30 June 2016 is approximately 5.7 times).
- Tilt Renewables will have a high level of contracted revenues with good credit quality counterparties (i.e. Origin and New Trustpower) from which it can meet its debt servicing and other payment obligations.
- The Proposed Demerger should provide a better platform than exists with Trustpower today to raise additional equity capital to strengthen Tilt Renewables' balance sheet and fund future development opportunities.

We also note that Affected Creditors' credit exposure exists for a short duration until their current debts have been paid (e.g. 30-60 days, depending on their current payment terms). Following the Proposed Demerger and payment of their existing debts, Affected Creditors without term contracts (and any other future creditors) are free to make their own assessment of the credit quality of the counterparty they are dealing with and determine whether they wish to continue doing (or start doing) business with that party.

In conclusion, we do not believe New Trustpower or Tilt Renewables will be materially more likely than Trustpower today to suffer an insolvency or liquidation event before existing creditors have been paid. However, the small number of creditors in relation to the Mahinerangi scheme who have a current exposure to Trustpower (and who will need to look to TWP for payment of their debts following the Proposed Demerger) will, in the absence of a guarantee from Tilt Renewables, assume a greater level of credit risk.

5.3.2. Implications Upon an Insolvency Event

As noted in Section 5.2 above, the Proposed Demerger should have no material impacts on creditors' terms, including in respect of creditors' security status (secured versus unsecured) and the priority of a particular creditor's security position.

On this basis, we conclude that there should be no material impact on the practical and legal implications for Affected Creditors in circumstances where an insolvency event was to eventuate in respect of BEL, TANZL or one of their respective subsidiary companies.

Appendix 1. Regulatory Requirements and Scope of this Report

Introduction

The Proposed Demerger is to be implemented by way of Scheme of Arrangement under the Companies Act 1993 and is required to be approved by the High Court. An explanation of the role of the High Court is set out in the Notice of Meeting sent to Trustpower's shareholders.

As Trustpower is listed on the NZX Main Board, the NZX Listing Rules (as well as general law) specifies that the Notice of Meeting must state the nature of the business to be transacted at the meeting in sufficient detail to enable shareholders to form a reasoned judgement in relation to it.

Role of Takeovers Panel

Trustpower has requested that the Takeovers Panel issue a "no-objection statement" in relation to the Scheme of Arrangement to present to the High Court to assist with its deliberations. The primary role of the Takeovers Panel is to assist the High Court by:

- Reviewing scheme documents to ensure that appropriate information is placed before shareholders; and
- Helping to ensure that matters that are relevant to the High Court's decision are properly brought to the High Court's attention.

Although there is no legal requirement under the Companies Act 1993 or the Takeovers Code for an independent adviser's report as a result of the Scheme of Arrangement, the practice of the Takeovers Panel (except in very limited circumstances) is to require the preparation of an independent adviser's report before it will consider issuing a no-objection statement.

Trustpower requested Northington Partners to prepare an independent adviser's report setting out, in its opinion, the merits of the Proposed Demerger. Northington Partners has also been requested to give its opinion as to whether the Proposed Demerger materially prejudices Trustpower's creditors. Our appointment was approved by the Takeovers Panel on 22 March 2016.

Basis of Assessment

The exact meaning of the word "merits" is not prescribed in the Takeovers Code and there is no well accepted, authoritative New Zealand reference that clearly establishes what should be considered when assessing the merits of a transaction. Although the Takeovers Panel has published a guidance note about the role of an Independent Adviser, it has been careful not to limit the scope of the assessment and states that the relevant factors that should be taken into consideration will depend on the features of the proposed transaction as well as the prevailing circumstances of the parties involved. However, the Takeovers Panel suggests that a merits assessment is broader than a valuation assessment and will include other positive and negative aspects of a transaction.

Northington Partners has assessed the merits of the Proposed Demerger for Trustpower's shareholders by taking into account the following matters:

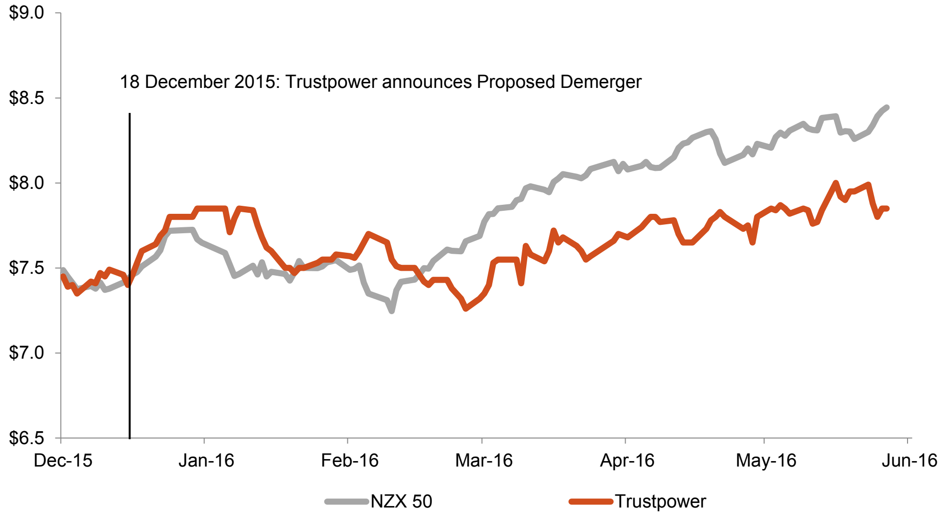
- The impact on business operations if the Proposed Demerger proceeds;
- The impact on earnings and dividends attributable to existing shareholders under the Proposed Demerger;
- The impact of the Proposed Demerger on the financial position of the demerged companies;
- The likely impact of the market value of shareholders' interests and the market for shares in the demerged companies;
- Any other advantages and benefits from the Proposed Demerger; and
- The costs, disadvantages and risks of the Proposed Demerger.

In forming our opinion as to whether the Proposed Demerger materially prejudices Trustpower's creditors, Northington Partners has considered the following matters:

- The effect of the Proposed Demerger on the financial position and size of New Trustpower and Tilt Renewables;
- Creditors' security positions before and post the Proposed Demerger;
- The impact of the Proposed Demerger on the credit profile of New Trustpower and Tilt Renewables;
- The debt facilities available to New Trustpower and Tilt Renewables post the Proposed Demerger; and
- Any other issues considered relevant relating to creditors associated with the Proposed Demerger.

Appendix 2. Trustpower Share Price Performance Since Announcement of the Proposed Demerger

Figure 11: Relative Share Price Performance



Source: Capital IQ. NZX50 Capital Index rebased to the Trustpower share price on 18 December.

Appendix 3. Comparable Company Information

The tables below summarise selected valuation trading multiples of listed companies that are broadly comparable to Trustpower, New Trustpower and Tilt Renewables.

Table 29 summarises the current valuation trading multiples of Trustpower's key New Zealand gentailer peers which are likely to continue to be key benchmarks for New Trustpower post the Proposed Demerger.

Table 29: Listed New Zealand Gentailers

Company	Country	EV ($m)	Market Cap ($m)	EV / LTM EBITDA	EV / NTM EBITDA	EV / LTM EBIT	EV / NTM EBIT	Price / Book
Trustpower	**NZ**	**3,789**	**2,394**	**11.5x**	**10.8x**	**17.8x**	**16.1x**	**1.3x**
Meridian Energy	NZ	7,839	6,659	12.2x	11.8x	19.3x	18.2x	1.5x
Mighty River Power	NZ	5,101	3,964	10.5x	10.4x	16.5x	16.3x	1.2x
Contact Energy	NZ	5,449	3,699	10.3x	10.1x	16.5x	15.7x	1.3x
Genesis Energy	NZ	3,010	2,109	8.9x	9.1x	16.0x	16.3x	1.2x
Average (ex-Trustpower)				**10.5x**	**10.3x**	**17.1x**	**16.6x**	**1.3x**

Source: Capital IQ as at 29 June 2016. "LTM" represents last 12 months calendarised to 31 March 2016 (being a mixture of actual reported results and forecast results) and "NTM" represents the next 12 months calendarised to 31 March 2017 (representing consensus broker research forecasts).

Comparable listed Australian generation and retail companies as detailed below in Table 30 also trade broadly in line with the New Zealand gentailers. While less comparable than New Trustpower's New Zealand gentailer peers, Infigen is more comparable to Tilt Renewables, as detailed in Section 4.2.

Table 30: Listed Australian Integrated Energy Companies and Renewable Generators (in NZ$)

Company	Country	EV ($m)	Market Cap ($m)	EV / LTM EBITDA	EV / NTM EBITDA	EV / LTM EBIT	EV / NTM EBIT	Price / Book
Infigen Energy	Australia	1,609	836	14.5x	11.9x	33.8x	20.5x	3.0x
AGL Energy Limited	Australia	16,540	13,370	10.0x	8.8x	13.8x	11.7x	1.6x
Origin Energy Limited	Australia	19,388	10,133	11.6x	8.0x	22.5x	16.1x	0.6x
Average				**12.0x**	**9.5x**	**23.4x**	**16.1x**	**1.7x**

Source: Capital IQ as at 29 June 2016. "LTM" represents last 12 months calendarised to 31 March 2016 (being a mixture of actual reported results and forecast results) and "NTM" represents the next 12 months calendarised to 31 March 2017 (representing consensus broker research forecasts).

In the absence of directly comparable Australian and New Zealand wind farm business with a high proportion of contracted revenues, the Australasian infrastructure businesses in Table 31 also provide a useful comparison for Tilt Renewables.

Table 31: Listed Australasian Contracted/Regulated Infrastructure (in NZ$)

Company	Country	EV ($m)	Market Cap ($m)	EV / LTM EBITDA	EV / NTM EBITDA	EV / LTM EBIT	EV / NTM EBIT	Price / Book
APA Group	Australia	20,118	10,400	15.8x	13.8x	24.5x	21.8x	2.5x
DUET Group	Australia	12,575	6,205	13.2x	12.1x	20.7x	19.7x	1.7x
AusNet Services	Australia	12,886	5,944	10.7x	11.3x	16.3x	18.2x	1.6x
Spark Infrastructure	Australia	5,575	4,272	18.9x	15.9x	20.0x	18.9x	1.9x
Vector	NZ	6,028	3,216	10.4x	11.3x	15.6x	17.5x	1.4x
Average				**13.8x**	**12.9x**	**19.4x**	**19.2x**	**1.8x**

Source: Capital IQ as at 29 June 2016. "LTM" represents last 12 months calendarised to 31 March 2016 (being a mixture of actual reported results and forecast results) and "NTM" represents the next 12 months calendarised to 31 March 2017 (representing consensus broker research forecasts).

Table 32 provides a broader peer group of international renewable businesses with a focus on wind generation (although many also have hydro and other business components). While these provide useful cross-check benchmarks for Tilt Renewables (and to a lesser extent, New Trustpower), the renewable energy regulatory policies, market dynamics and growth prospects in each market will differ making direct comparison more difficult.

Table 32: Listed International Renewable Energy (Wind Focused) (in NZ$)

Company	Country	EV ($m)	Market Cap ($m)	EV / LTM EBITDA	EV / NTM EBITDA	EV / LTM EBIT	EV / NTM EBIT	Price / Book
Brookfield Renewable Energy Partners	Canada	37,997	11,318	20.8x	15.3x	42.9x	28.4x	2.7x
NRG Yield	United States	9,963	2,117	10.8x	8.4x	21.5x	14.3x	0.8x
EDP Renováveis	Spain	16,291	9,197	10.9x	8.5x	27.1x	16.6x	1.0x
Huaneng Renewables Corporation	China	14,872	4,455	9.8x	8.1x	16.6x	13.7x	1.2x
TransAlta Renewables	Canada	4,313	3,206	NM	10.1x	NM	46.5x	1.3x
CPFL Energias Renováveis	Brazil	4,714	2,347	10.3x	8.6x	21.0x	15.0x	1.3x
Pattern Energy Group	United States	6,147	2,370	NM	12.9x	NM	64.7x	2.2x
Innergex Renewable Energy	Canada	4,430	1,675	21.2x	16.9x	35.0x	25.7x	5.0x
China Datang Corporation Renewable Power Co.	China	10,070	961	10.0x	8.5x	22.0x	18.1x	0.4x
Boralex	Canada	2,979	1,363	NM	10.1x	NM	24.7x	2.4x
TerraForm Power	United States	5,698	1,162	10.2x	6.9x	25.4x	12.8x	0.7x
Saeta Yield	Spain	3,307	1,123	12.8x	10.3x	25.7x	21.0x	1.3x
Falck Renewables	Italy	1,377	320	6.5x	6.5x	12.8x	14.1x	0.4x
Chorus Clean Energy	Germany	827	392	11.3x	7.8x	21.9x	13.5x	1.1x
Voltalia	France	897	394	16.1x	10.4x	24.0x	15.6x	1.6x
Average				**12.6x**	**10.0x**	**24.7x**	**23.0x**	**1.6x**

Source: Capital IQ as at 29 June 2016. "LTM" represents last 12 months calendarised to 31 March 2016 (being a mixture of actual reported results and forecast results) and "NTM" represents the next 12 months calendarised to 31 March 2017 (representing consensus broker research forecasts).

Table 33 provides a description of the comparable companies.

Table 33: Detailed Listed Company Descriptions

Company	Country	Description
Meridian Energy	New Zealand	Meridian Energy Limited engages in the generation, trading, and retailing of electricity in New Zealand and Australia. It generates electricity from water and wind resources. It operates seven hydro stations and five wind farms in New Zealand; and owns and operates wind farms in Australia. The company provides electricity to approximately 276,000 customers, including homes, businesses, and farms in New Zealand; and approximately 48,000 residential and commercial customers in Australia. It operates under the Meridian and Powershop brand names. The company also operates a solar farm in Tongatapu, Tonga. In addition, it offers management, insurance, financing, and trustee services.
Mighty River Power	New Zealand	Mighty River Power Limited produces electricity from renewable sources primarily in New Zealand. It operates nine hydro stations on the Waikato River; five geothermal power stations in the Central North Island; and a multi-unit gas-fired station in Southdown, Auckland. The company sells electricity to homes and businesses under the Mercury Energy, GLOBUG, Bosco Connect, and Tiny Mighty Power brands. It also provides metering equipment to residential and commercial customers through electricity retailers under the METRIX brand.
Contact Energy	New Zealand	Contact Energy Limited generates and retails electricity in New Zealand. It operates through two segments, Integrated Energy and Other. The company generates, purchases, and retails electricity and natural gas. It generates electricity through hydro, geothermal, and thermal sources, as well as through wind. The company is also involved in the sale of LPG. It serves approximately 562,000 customers, such as residential, small business, commercial, and industrial.
Genesis Energy	New Zealand	Genesis Energy Limited generates, trades in, and sells electricity to homes and businesses primarily in New Zealand. The company generates electricity from thermal, hydro, and wind sources. Its Customer Experience segment supplies energy, including electricity, gas, and LPG to end-user customers, as well as provides related services. The company's Energy Management segment generates and trades in electricity and related products. This segment sells electricity to the wholesale electricity market, derivatives entered into to fix the price of

Company	Country	Description
		electricity, and wholesale of gas and coal. Its Oil and Gas segment explores, develops, produces, and sells gas, LPG, and light oil. The company's generation asset portfolio includes the Huntly power station with a generation capacity of 953 MW that comprises 1 gas fired, 2 gas/coal fired, and a gas/diesel generating units; and 3 Tongariro hydro power scheme with a generation capacity of 361.8 MW; Waikaremoana hydro power scheme comprising 3 power stations with a generation capacity of 36 MW, 60 MW, and 42 MW respectively; Tekapo power scheme with a 179 MW generation capacity; and Hau Nui wind farm with 15 wind turbines. It supplies electricity, natural gas, and LPG to approximately 650,000 customers; and holds a 31% equity interest in the Kupe oil and gas fields located in Taranaki.
Infigen Energy	Australia	Infigen Energy develops, owns, and operates renewable energy generation assets in Australia. It owns six wind farms and a solar farm with a combined installed capacity of 557 megawatts operating in New South Wales, South Australia, and Western Australia. The company's development pipeline comprises approximately 1,200 megawatts of large-scale wind and solar projects spread across five states in Australia.
AGL Energy Limited	Australia	AGL Energy Limited operates as an integrated renewable energy company in Australia. It operates through Energy Markets, Group Operations, New Energy, and Investments segments. It buys and sells natural gas, electricity, and energy-related products and services; constructs and/or operates power generation and energy processing infrastructure; develops and operates natural gas storage facilities; and explores, extracts, produces, and sells natural gas. The company markets and sells natural gas, electricity, and energy related products and services to approximately 3.7 million residential and small business customers in New South Wales, Victoria, South Australia, and Queensland. Its power generation portfolio includes thermal generation, as well as renewable sources, such as hydro, wind, solar, landfill gas, and biomass. The company is also involved in the design, manufacture, and distribution of new and reconditioned steam boilers, commercial and industrial hot and warm water boilers, condensing heaters, and thermal oil boilers; and design, manufacture, installation, and service of power factor correction equipment, as well as provides lighting consultancy services that reduces consumption and save energy bill; operational energy management services; and a range of gas infrastructure solutions. In addition, it installs solar panels for businesses.
Origin Energy Limited	Australia	Origin Energy Limited, an integrated energy company, engages in oil and gas exploration and production, and electricity business primarily in Australia and New Zealand. The company operates through Energy Markets, Exploration & Production, and LNG segments. It owns interests in the Surat and Bowen basins in Queensland; BassGas and Otway Gas projects in Victoria and Tasmania; Kupe Gas project in New Zealand; Taranaki basin in New Zealand; Canterbury basin in New Zealand; and Song Hong basin block in Vietnam. The company is also involved in the generation of electricity using natural gas, coal, wind, pumped water storage, solar, geothermal, and hydropower sources; and wholesale and retail sale of electricity and gas. In addition, it offers electricity and natural gas, LPG, and solar plans; hot water systems; and heating and cooling products comprising split system air conditioners, space heating, ducted evaporative cooling, ducted heating, and ducted reverse cycle air conditioning products, as well as cogeneration and tri-generation solutions. The company serves approximately 4.3 million electricity, natural gas, LPG, and green energy customers in Australia; and has generation portfolios with approximately 6,000 megawatts of capacity.
APA Group	Australia	APA Group owns and operates energy infrastructure assets and businesses in Australia. The company operates through three segments: Energy Infrastructure, Asset Management, and Energy Investments. It operates natural gas pipelines, gas storage facilities, and a wind farm. The company has interests in approximately 14,700 kilometres of gas transmission pipelines; approximately 27,700 kilometres of gas mains and pipelines; and approximately 1.3 million gas consumer connections. It also owns the Mondarra gas storage facility in Western Australia; the Dandenong LNG storage facility in Victoria; and has an 80 MW Emu Downs wind farm in Western Australia. In addition, the company provides asset management, operation, and maintenance services to its energy investments and third parties; and corporate, financial, and accounting services, as well as invests in various listed and unlisted energy entities.
DUET Group	Australia	DUET Group, through its subsidiaries, owns and operates energy utility assets in Australia. The company operates in Dampier Bunbury Pipeline, United Energy, Multinet Gas, and DBP Development Group segments. The company's asset portfolio includes 80% interest in the Dampier Bunbury natural gas pipeline connecting the natural gas reserves of the Carnarvon and Browse basins on Western Australia's North West Shelf with customers in Perth and the surrounding regions; and 66% interest in United Energy Distribution that operates electricity distribution network covering approximately 1,472 square kilometres of south-east Melbourne and the Mornington Peninsula. Its asset portfolio also comprises a 100% interest in the Multinet Gas Group Holdings, a gas distribution company with a network covering approximately 1,860 square kilometres of the eastern and south-eastern suburbs of Melbourne; and DBP

Company	Country	Description
		Development Group, which owns and operates the Wheatstone Ashburton West Pipeline that connects the onshore Wheatstone LNG complex to the DBNGP. The company serves industrial, commercial, and residential customers.
AusNet Services	Australia	AusNet Services Ltd engages in the electricity distribution and transmission, and gas distribution businesses in Australia. The company operates in Electricity Distribution, Gas Distribution, Electricity Transmission, and Select Solutions segments. As of September 30, 2015, it had an electricity distribution network of approximately 51,598 kilometres serving 685,435 customers in Eastern Victoria; and operated approximately 6,573 kilometres of transmission lines and 13,000 towers in Victoria. It also had a 10,721 kilometres of gas distribution network serving 654,587 customers across Central and Western Victoria. The company is involved in the transmission of electricity from power stations to electricity distributors through its high voltage towers and transmission lines. Further, the company provides utility related metering, data, and asset management services to businesses operating in the infrastructure sector, such as electricity, water, and gas utility owners, as well as telecommunications companies.
Spark Infrastructure Group	Australia	Spark Infrastructure Group invests in regulated electricity distribution and transmission businesses in Australia. The company operates in four segments: Victoria Power Networks, SA Power Networks, TransGrid, and Other. It owns interests in the SA Power Networks that operates and maintains an electricity distribution network serving approximately 847,000 customers in South Australia. The company also has interest in CitiPower, which owns and operates a distribution network that supplies electricity to approximately 323,000 customers in Melbourne's CBD and inner suburbs; and Powercor Australia, which owns and manages an electricity distribution network that serves approximately 757,000 customers in Victoria. In addition, it has interests in TransGrid, which owns and operates a high voltage electricity network connecting approximately 3 million homes and businesses across New South Wales and the ACT to the electricity grid.
Vector	New Zealand	Vector Limited provides integrated infrastructure services in New Zealand. The company owns and operates the electricity distribution network in the Auckland region; and delivers power to approximately 543,000 homes and businesses. It also owns and operates gas processing facilities at Kapuni in South Taranaki that produces and sells propane and butane (LPGs), natural gasoline, and carbon dioxide. In addition, the company supplies piped and bottled gas under the OnGas brand; sells natural gas to gas retailers, electricity generators, and other commercial and industrial customers; and offers pipeline and related services, such as cathodic protection, instrumentation, maintenance, and pipeline defect repair services. Further, it provides data communication solutions to wholesale and corporate customers; and offers connectivity solutions in Auckland, Wellington, Christchurch, Hamilton, Tauranga, Napier/Hasting, and New Plymouth. Additionally, the company owns and operates energy meters and metering services for approximately 800,000 homes and businesses; and provides gas meters and gas metering services to approximately 220,000 residential, commercial, and industrial customers, as well as is engaged in the tolling, storage, and distribution of bulk LPG. It also offers solar power solutions, which combines solar cells with battery storage to produce electricity; and operates a cogeneration plant situated at the Kapuni that produces electricity and steam for the gas treatment plant and other customers.
Brookfield Renewable Energy Partners	Canada	Brookfield Renewable Energy Partners L.P. owns a portfolio of renewable power generating facilities. It owns and manages 207 hydroelectric generating stations, 37 wind facilities, 3 biomass facilities, and 2 natural gas-fired plants with 7,284 megawatts of generating capacity in the United States, Canada, Brazil, and Europe. The company sells its generation output primarily to public power authorities, load-serving utilities, and industrial users. Brookfield Renewable Partners Limited operates as the general partner of Brookfield Renewable Energy Partners L.P.
NRG Yield	United States	NRG Yield, Inc., through its subsidiaries, acquires, owns, and operates contracted renewable and conventional generation, and thermal infrastructure assets in the United States. As of December 31, 2015, it had contracted renewable and conventional generation portfolio of 4,435 net megawatt (MW). The company also owns thermal infrastructure assets with an aggregate steam and chilled water capacity of 1,315 net MW thermal equivalents, and electric generation capacity of 124 net MW. Its thermal infrastructure assets provide steam, hot water and/or chilled water, and electricity to commercial businesses, universities, hospitals, and governmental units.
EDP Renováveis	Spain	EDP Renováveis, S.A., together with its subsidiaries, engages in the planning, construction, operation, and maintenance of electricity production facilities generating power stations through renewable energy sources, primarily wind and solar. It manages a portfolio of projects in Spain, France, Poland, Italy, Portugal, Belgium, Romania, the United States, Canada, and Brazil; and is developing projects in the United Kingdom and Mexico.
Huaneng Renewables Corporation	China	Huaneng Renewables Corporation Limited, together with its subsidiaries, generates and sells wind power and solar power in the People's Republic of China. As of December 31, 2014, it had an installed capacity of 8,011.4 megawatts.

Company	Country	Description
TransAlta Renewables	Canada	TransAlta Renewables Inc. develops, owns, and operates renewable power generation facilities. The company's portfolio consists of wind, hydro, and gas facilities. As of February, 11, 2016, it owned 18 wind facilities, 13 hydroelectric facilities, 8 natural gas generation facilities, and 1 natural gas pipeline comprising an ownership interest of 2,441 MW of net generating capacity located in the provinces of British Columbia, Alberta, Ontario, Quebec, and New Brunswick, Canada; the State of Wyoming; and the State of Western Australia.
CPFL Energias Renováveis	Brazil	CPFL Energias Renováveis S.A. engages in the development, construction, and operation of a portfolio of small and medium scale power plants primarily in Brazil. The company operates small hydroelectric plants, wind power plants, biomass-fired power plants, and solar power plants. Its portfolio of projects totals 5,875 MW comprising 38 SHPPs, 36 wind farms, and 8 UTEs in operation, as well as 1 solar power plant with capacity of 1,773 MW; 1 SHPP and 12 wind farms consisting of 335.5 MW under construction; and 3,767 MW in preparation for construction and development in the four renewable sources.
Pattern Energy Group	United States	Pattern Energy Group Inc. operates as an independent power company that owns and operates power projects in the United States, Canada, and Chile. The company holds interests in 16 wind power projects that have a total owned capacity of 2,282 MW. It sells electricity and renewable energy credits primarily to local utilities and local liquid independent system organizations markets.
Innergex Renewable Energy	Canada	Innergex Renewable Energy Inc. operates as an independent renewable power producer in North America. It develops, owns, and operates run-of-river hydroelectric facilities, wind farms, and solar photovoltaic farms. The company operates through four segments: Hydroelectric Generation, Wind Power Generation, Solar Power Generation, and Site Development. It holds interests in 35 operating facilities with an aggregate net installed capacity of 716 MW; 4 projects under development with an aggregate net installed capacity of 187 MW; and prospective projects with an aggregate net capacity totalling 3,280 MW. The company has operations in Quebec, Ontario, and British Columbia, Canada, as well as in Idaho, the United States.
China Datang Corporation Renewable Power Co.	China	China Datang Corporation Renewable Power Co., Limited, together with its subsidiaries, generates and sells wind and other renewable power in the People's Republic of China. It also develops, invests, constructs, and manages wind power; and other renewable energy sources, including solar power, biomass, and coal bed methane. As of December 31, 2014, the company had 6,038 megawatt (MW) of installed capacity, including 5,916 MW of wind power installed capacity, 117 MW of solar energy installed capacity, and 5 MW installed capacity of other clean energy. It is also involved in the research and development, application, and promotion of low carbon technology; research, sale, testing, and maintenance of renewable energy-related equipment; engineering; import and export of renewable energy equipment and technologies; design, construction and installation, repair and maintenance of domestic and international power projects; foreign investments; provision of renewable energy-related consulting services; and leasing of property. The company was formerly known as Datang Chifeng Saihanba Wind Power Generation Co., Ltd. and changed its name to China Datang Corporation Renewable Power Co., Limited in March 2009.
Boralex	Canada	Boralex Inc., together with its subsidiaries, develops, constructs, and operates renewable energy power facilities primarily in Canada, France, and the United States. As at December 31, 2015, the company had interests in 45 wind power stations with an installed capacity of 874 megawatts (MW); 15 hydroelectric power stations with a capacity of 158 MW; 2 thermal power stations with an installed capacity of 47 MW; and 2 solar power facilities with a capacity of 15 MW, as well as operated two hydroelectric power stations.
TerraForm Power	United States	TerraForm Power, Inc. owns and operates solar and wind generation assets serving utility, commercial, and residential customers. As of February 20, 2015, its portfolio consisted of solar and wind projects located in the United States, Canada, the United Kingdom, and Chile with an aggregate nameplate capacity of 1,507.3 megawatt.
Saeta Yield	Spain	Saeta Yield, S.A. generates and distributes electricity to the wholesale market/electricity system in Spain. It operates 16 wind farms with a total capacity of 539 MW and 3 solar thermal plants with a total capacity of 150 MW. The company was formerly known as El Recuenco Eólica, S.A. and changed its name to Saeta Yield, S.A. in 2014.
Falck Renewables	Italy	Falck Renewables SpA develops, designs, constructs, and manages energy production plants in Italy, the United Kingdom, France, Spain, Japan, Canada, Mexico, and Bulgaria. It operates wind energy, solar energy, biomass energy, waste-to-energy, photovoltaic energy, and waste treatment plants. The company also provides renewable energy plant management services; and engineering and consulting services to develop projects for electricity generation primarily solar and wind energy. It has an installed capacity of approximately 762 MW.
Chorus Clean Energy	Germany	CHORUS Clean Energy AG owns and operates solar and wind energy plants in Germany, Italy, France, Austria, and Finland. The company generates and distributes electricity to energy

Company	Country	Description
		suppliers and governments. It operates 70 wind and solar parks with a total installed capacity of approximately 250 megawatts. The company also provides investment opportunities in renewable energy plants for institutional investors, such as insurance companies, pension funds, banks, and foundations. In addition, it offers a range of services, including asset sourcing, transaction processing/due diligence, operational management, documentation/reporting, and realizing exit opportunities.
Voltalia	France	Voltalia SA engages in the production of electricity from renewable energy sources in France, Brazil, Greece, and French Guiana. It develops, constructs, operates, and maintains wind, solar, hydro, and biomass power plants.

Source: Capital IQ as at 29 June 2016.

Appendix 4. Australian Renewable Energy Transactions

Date	Target	Acquirer	Installed Capacity (MW)	Implied EV (A$m)	Economic Interest	Implied EV / MW
Mar-16	Taralga Wind Farm	State Power Investment Corporation	107	300	100%	$2.8
Dec-15	Pacific Hydro	State Power Investment Corporation	900	3,000	100%	$3.3
Sep-15	MacArthur Wind Farm	HRL Morrison & Co	420	532	50%	$2.5
Jun-13	MacArthur Wind Farm	Malakoff International	420	659	50%	$3.1
May-13	Clare Valley Wind Farm	Palisade Investment Partners	111	228	75%	$2.7
Sep-12	Musselroe Wind Farm	Shenhua Clean Energy Holdings	168	299	75%	$2.4
May-12	Hallett 5 Wind Farm	Eurus Energy Holdings	53	174	100%	$3.3
Dec-11	Woolnorth Wind Farm	Guohua Energy Investment	140	297	75%	$2.1
Jun-11	Emu Downs Wind Farm	APA Group	80	171	100%	$2.1
May-10	Mt Millar Wind Farm	Meridian Energy	70	191	100%	$2.7
Apr-07	Wattle Point Wind Farm	ANZ Energy Infrastructure Trust	91	225	100%	$2.5
Average						**A$2.7m/ MW**

Source: Capital IQ, publicly available company announcements, Northington Partners' analysis.

Appendix 5. Sources of Information Used in this Report

Other than the information sources referenced directly in the body of the report, this assessment is also reliant on the following sources of information:

- Annual reports for Trustpower for 2012, 2013, 2014 and 2015
- Audited financial statements for Trustpower for the period FY2012 to FY2016
- Discussions with senior management personnel of Trustpower
- The Trustpower website
- A final Draft Scheme Booklet to be sent to Trustpower shareholders, containing details of the Proposed Demerger
- A final draft Separation Deed
- Various other documents that we considered necessary for the purposes of our analysis

Appendix 6. Australian RET Scheme Overview

In February 2014 the Australian Federal Government announced the review of the Renewable Energy Target (RET) scheme which had been in place since 2001. Australia's RET is a Federal Government policy designed to ensure that at least 20% of Australia's electricity comes from renewable sources by 2020. The RET review was completed in June 2015 with a final target agreed by both the Coalition and Labor of 33,000GWh, reduced from 41,000GWh. Australia is currently approximately half way to meeting this target.

The RET creates a financial incentive for the establishment or expansion of renewable energy power stations, such as wind and solar farms or hydro-electric power stations. It does this by legislating demand for Large-scale Generation Certificates (LGCs). One LGC can be created for each megawatt-hour of eligible renewable electricity produced by an accredited renewable power station. LGCs can be sold to entities (mainly electricity retailers) who surrender them annually to the Clean Energy Regulator to demonstrate their compliance with the RET scheme's annual targets. The revenue earned by the power station for the sale of LGCs is additional to that received for the sale of the electricity generated. LGCs are traded at a rate determined by supply and demand of the market, and certificate revenues contribute to the commercial viability of renewable generation. Failure to surrender adequate LGCs results in a shortfall charge of $65 per MWh (non tax-deductible). LGC's trade in the wholesale market and have generally traded at between A$60 – 80 per MWh over the last 6 months.

Based on the expected mix of wind, hydro-electric, solar and other renewable generation sources, the 33,000GWh target is expected to require up to approximately 6,000MW of new large-scale renewable energy generation capacity to be built by 2020. The target is enough electricity to power the equivalent of at least five million average homes for a year.

Appendix 7. Declarations, Qualifications and Consents

Declarations

This report is dated 12 August 2016 and has been prepared by Northington Partners at the request of the independent directors of Trustpower to fulfil the requirements of the Takeovers Panel in relation to the Proposed Demerger and to be used for the purposes of the Court application to approve the Scheme of Arrangement to implement the Proposed Demerger. This report, or any part of it, should not be reproduced or used for any other purpose. Northington Partners specifically disclaims any obligation or liability to any party whatsoever in the event that this report is supplied or applied for any purpose other than that for which it is intended.

Prior drafts of this report were provided to Trustpower for review and discussion. Although minor factual changes to the report were made after the release of the first draft, there were no changes to our methodology, analysis, or conclusions.

This report is provided for the benefit of all of the shareholders of Trustpower that are being asked to consider the proposed Scheme of Arrangement, and Northington Partners consents to the distribution of this report to those people. Being part of the Scheme Booklet which will enter the public domain, this report may also be viewed by creditors potentially affected by the Proposed Demerger. Given the analysis conducted by Northington Partners in relation to creditors is general in nature, this report may not be relied upon by any particular creditor of Trustpower. Creditors should take their own advice in relation to how the Proposed Demerger may affect their particular situation.

Our engagement terms did not contain any term which materially restricted the scope of our work.

Qualifications

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

The individuals responsible for preparing this report are Greg Anderson B.Com, M.Com (Hons) and Ph.D, Steven Grant B.Com, LLB (Hons). Each individual has a wealth of experience in providing independent advice to clients relating to the value of business assets and equity instruments, as well as the choice of appropriate financial structures and governance issues.

Northington Partners has been responsible for the preparation of numerous independent reports in relation to takeovers, mergers, and a range of other transactions subject to the Takeovers Code and NZX Listing Rules.

Independence

Northington Partners has not been previously engaged on any matter by Trustpower or (to the best of our knowledge) by any other party to the proposed Scheme of Arrangement that could affect our independence. None of the Directors or employees of Northington Partners have any other relationship with any of the directors or substantial security holders of the parties involved in the proposed Scheme of Arrangement.

The preparation of this independent report will be Northington Partners' only involvement in relation to the proposed Scheme of Arrangement. Northington Partners will be paid a fixed fee for its services which is in no way contingent on the outcome of our analysis or the content of our report.

Northington Partners does not have any conflict of interest that could affect its ability to provide an unbiased report.

Disclaimer and Restrictions on the Scope of Our Work

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

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

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

Indemnity

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

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