# INFRATIL 2013
# REPORT TO SHAREHOLDERS
# HALF YEAR RESULT – 30 SEPTEMBER 2013

## 12 November 2013


Infratil

# Half Year Overview

## Capital recycling delivers significant value gains

- Results in line with guidance despite softness in NZ and Australian energy markets
- Significant lift in net surplus from gain on partial sale of Z Energy and derivative realisations
- Long-term EBITDAF growth profile driven by well executed ongoing investment programme
- Good progress on construction of Snowtown II wind farm
- New investments announced in Metlifecare and commitment to Australian PPP projects
- Confidence in outlook, and strength of cashflows enables increase of interim dividend to 3.75 cps (+15%)

# Financial Highlights

## Significant increase in reported earnings and net surplus

| Half Year Ended 30 September ($Millions) | 2013 | 2012 | Variance | % Change |
|---|---|---|---|---|
| EBITDAF (continuing activities)[(1)] | 285.1 | 295.1 | (10.0) | (3.3%) |
| Operating Earnings (continuing activities) [(1)] | 156.8 | 102.7 | 54.1 | 52.7% |
| Net Surplus after Tax (continuing activities) [(1)] | 306.1 | 70.0 | 236.1 | 337.3% |
| Net Operating Cashflow | 274.6 | 106.2 | 168.4 | 158.6% |
| Capital Expenditure/Investment | 228.1 | 148.1 | 80.0 | 54.0% |

(1) Continuing operations in FY13 and FY12 exclude Infratil Airports Europe Limited which is held for sale at 30 September 2013

# Result Summary

## Adjusted EBITDAF -7% on PY on softer trading conditions

- $21.9 m decrease in adjusted EBITDAF[(1)] of $284.3m (-7%), reflects slightly softer trading conditions vs prior period
- Low NZ generation volume and strengthening NZD reduced TPW EBITDAF
- Mild winter, higher wholesale costs and strengthening NZD reduced IEA EBITDAF
- Steady performance from Z Energy, WIAL and NZ Bus
- Associate earnings from Z Energy reflect the historic cost result rather than the replacement cost (RC) result

| Half Year Ended 30 September ($Millions) | 2013 | 2012 | % Change |
|---|---|---|---|
| **EBITDAF[(1)]** | **285.1** | **295.1** | **(3.4%)** |
| Z Energy equity earnings adjustment[(2)] | (0.8) | 11.1 | (107%) |
| **Adjusted EBITDAF** | **284.3** | **306.2** | **(7.2%)** |
| Depreciation & Amortisation | (73.4) | (72.7) | (1.0%) |
| **Adjusted EBIT** | **210.9** | **233.5** | **(9.7%)** |

(1) EBITDAF from continuing operations
(2) Z Energy adjustments detailed in Appendix II

# Results Summary

## Active management has delivered strong cash flows

### OPERATING CASHFLOW

- $274.6m for the 6 months ended 30 September driven by distributions on the ZEL IPO of $101.0m, derivative realisations of $37.5m and reduced working capital requirements

### MARK TO MARKET FAIR VALUES

- Energy, FX and interest rate swap mark to market gains of $36.3m
- Impairment of the remainder of European Airports net assets to expected disposal proceeds (-$20.0m)
- Gain on sale of North Bus business of $1.7m and New Lynn property development rights of $2.5m

### Z IPO

- IPO of 60% of ZEL holding at $3.50 per share
- Realised net proceeds on Z IPO of $398.0m, achieving a net reported gain on IPO of $182.5m

**1st Half Dividend(1)**

Final dividend of **3.75 cps** fully imputed payable on **13 December 2013** to shareholders recorded as owners by the registry as at **29 November** (last year 3.25 cps)

1) The DRP will continue to operate for this dividend. The price of the DRP shares will be the weighted average price recorded on the NZX over 2 December – 6 December inclusive. Shares will be issued 13 December.

# EBITDAF Breakdown

## Solid operating earnings despite soft trading conditions

| HY 30 September ($Millions) | 2013 | 2012 |
|---|---|---|
| Trustpower | 153.2 | 166.1 |
| Infratil Energy Australia | 57.4 | 71.2 |
| Wellington Airport | 42.4 | 39.5 |
| NZ Bus | 21.5 | 21.8 |
| Other, eliminations, etc. | (11.2) | (11.4) |
| **EBITDAF pre-associates** | **263.3** | **287.2** |
| Associates – Z Energy | 21.8 | 7.9 |
| **EBITDAF – continuing** | **285.1** | **295.1** |
| EBITDAF – discontinued | (6.3) | (4.2) |
| **Total EBITDAF** | **278.8** | **290.9** |

- **Trustpower** – EBITDAF decrease of 8% a result of lower generation volumes (9%) and significant strengthening of NZD/AUD exchange rate
- **IEA** – Mild winter and strengthening of NZD/AUD exchange rate decreasing EBITDAF against prior period
- **Wellington Airport** – PAX growth of 5.8% driven by increase in domestic of 5.9% and increase in international of 5.1%
- **NZ Bus** – EBITDAF -1.4%. Relatively flat PAX and revenue growth offset by higher maintenance and fleet compliance costs and sale of North Bus
- **Z Energy** – Growth in RC operating earnings through the IPO and highly competitive trading conditions

# Z IPO

## Significant gain from capital recycling

**Z Energy IPO**

- On 21 August 2013, Z Energy Limited was listed on the NZX and ASX. Infratil and NZ Super sold 60% of their holding (240 million shares), at $3.50 per share
- Gross proceeds from the IPO were $840m. Net gain on IPO and revaluations achieved by Infratil as follows:

| Reported Gain on Z partial sale (IFT Share) | $millions |
|---|---|
| Gross IPO proceeds | 420.0 |
| *less:* IPO costs | (22.0) |
| **Net IPO proceeds** | **398.0** |
| Carrying value of net assets sold | (215.5) |
| **Net book gain on IPO** | **182.5** |
| | |
| **Remaining IFT shareholding (shares million)** | **80.0** |
| 30 September share price | $3.84 |
| **Value of remaining IFT shareholding** | **307.2** |

| Economic value gain | $millions |
|---|---|
| IFT carrying value 31 March 2013 | $324.0 |
| | |
| Net proceeds received | $398.0 |
| Market value of residual 20% holding | $307.2 |
| | **$705.2** |
| | |
| **Infratil value gain** | **$381.2** |

# Capital Market Overview

## Secure capital position with flexibility to undertake growth

| | |
|---|---|
| **Comfortable gearing and strong support from senior lenders** | • Infratil bank capacity retained with **$809m** of total facilities and **~$734m** of head room at 30 September 2013<br>• Infratil gearing 40**%** (net debt / total net debt + equity capitalisation) including Piibs (improvement from 48% at 31 March 2013)<br>• Renewal of maturing Infratil wholly owned borrowings of **$168m** in next 6 months progressing (represents undrawn facility capacity) |
| **Active in IPO and bond market across the group** | • Z Energy IPO completed<br>• Wellington Airport fully subscribed $75m issue of wholesale bonds<br>• IFT issued $93.7m bonds maturing 15 June 2022 bond at 6.85% (financed maturing $85.3m)<br>• IFT considering new bond issue of up to $100m |
| **Share buyback** | • Share buyback tender offer of 24.8m shares announced for 22 October postponed due to pending Metlifecare and ASIP investment decisions<br>• Tender offer will now take place on 5 December 2013, terms as previously disclosed – maximum price $2.60 per share |

# Debt Profile

## Maturity profile matches underlying assets

- Infratil debt issuance is very well supported and capacity includes parent level bonds and bank term facilities, wholly owned subsidiaries working capital and bus finance facilities
- Senior borrowing facilities have duration up to 4.5 years and bus finance facilities up to 8.5 years
- Infratil will continue to target duration of its borrowings consistent with the profile of its assets and long-term ownership
- Fixed rate bonds and hedging of floating interest rate debt limits downside risk from rising interest rates

| As at 30 September(1) ($Millions) | 2014 | 2015 | 2016 | 2017 | >4 yrs | >10 yrs |
|---|---|---|---|---|---|---|
| Bonds | - | - | 152.8 | 100.0 | 433.0 | 234.9 |
| Infratil bank facilities(2) | 168.0 | 113.0 | 118.0 | 77.0 | 140.0 | - |
| Vendor finance(3) | 8.1 | 1.4 | - | - | - | - |
| 100% Subsidiaries bank facilities | 6.4(4)<br>4.9(5) | 78.8(6)<br>12.7(4) | 12.7(4) | 12.7(4) | 54.9(4) | - |

(1) Maturity profile based on 31 March financial year ends
(2) Infratil and wholly-owned subs excludes Trustpower, WIAL, Perth Energy and Z Energy
(3) Vendor finance used for Port Stanvac generation development funding
(4) NZ Bus export credit guarantee fleet procurement facility
(5) IAE overdraft facility
(6) IEA working capital and guarantee facility which is on automatic renewal

# Net asset values

## Recent market transactions imply higher values for infra assets

| Investment[1,2] ($Millions) | 30 September 2013 | 31 March 2013 |
|---|---|---|
| Trustpower | 1,120.9 | 1,226.0 |
| Infratil Energy Australia | 394.7 | 434.8 |
| Wellington Airport | 336.9 | 342.2 |
| Z Energy | 307.2 | 324.0 |
| Infratil Airports Europe | - | 21.2 |
| NZ Bus | 284.5 | 269.6 |
| Other | 219.7 | 64.8 |
| **Total** | **2,663.9** | **2,682.6** |

1) Book values represent accounting based measures of value, other than for listed investments (Trustpower and Z Energy)
2) Values exclude 100% subsidiaries' cash balances and deferred tax where CGT does not apply

- **Trustpower** – market value softness reflects regulatory uncertainty
- **IEA** (Lumo and Perth Energy) – recent customer acquisition multiples in Australia imply +$160m - $300m uplift over book values
- **WIAL** implied EV/EBITDA multiple of 9.2x compares to recent international airport comparatives transactions of 14 – 17x
- **Z Energy** – share price growth of 9% since listing and +214% above March 2013 Infratil book value (including cash proceeds from IPO)
- **NZ Bus** book value implies 6.5 times multiple
- **Glasgow Prestwick** and **Manston** airports value impaired to $0
- Other investments include **iSite, Snapper and Property** and **$153m** of undistributed proceeds held in Aotea Energy from the Z IPO

# NZ Energy - Trustpower

## Snowtown II construction on target

- **EBITDAF decreased 8% over prior period**
  - NZ generation volume decreased 9% versus pcp and was below long-term averages
  - Very soft prices in the ASX and spot markets during Q2
  - Snowtown I produced 193GWh, up 3% on pcp
  - NZD/AUD exchange rate moved significantly reducing AUD earnings when reported in NZD
- **Electricity customer numbers increased to 218k from 206k at 31 March**
  - Mainly due to acquisition of Energy Direct
  - Retail competition remained intense during the period
  - Commenced gas retailing through Energy Direct
- **Snowtown II construction on target**
  - Final commissioning on schedule for Nov 2014
  - 23 of 90 3MW turbines erected and 14 have completed commission tests and now generating
  - Approximately 2/3rds of capex now spent

# NZ Fuel Distribution – Z Energy

## 7% growth in replacement cost pro forma EBITDAF

- On-track to deliver IPO forecasts
- Growth in RC operating earnings through the IPO and highly competitive trading conditions
  - Pro Forma RC Operating EBITDAF $104m vs $97m (+7%)
  - Pro Forma RC NPAT $51m vs $46m (+11%)
- Tight management of the volume/margin mix across the entire supply chain and sales portfolio
  - Industry volumes petrol -1.2%, diesel +3.6%
  - Growth in fuel and non-fuel margins
- Strategy projects support earnings momentum
  - Product procurement gains
  - Tier 2 store refits completed in July with sales tracking at +5.0% versus pcp
  - Retail and commercial customer satisfaction
- Interim dividend 7.7cps

# NZ Airports – Wellington Airport

## Strong period of PAX and earnings growth

- **EBITDAF +7.3% to $42.4m**
  - PAX growth expected to flatten out in the second half year (YTD Int'l +5.0%, Domestic +5.9%)
  - Scheduling changes for Jetstar and Air NZ will result in lowered seating capacity on some routes
  - Commercial revenue +5.9% driven by strong first half pax traffic, continued growth in car parking revenue and development of leasehold properties
- **WIAL re-consulting aeronautical charges with airlines**
  - Actual returns to date from aeronautical activities are within the ComCom guidelines
  - WIAL have decided to enter into consultation with airlines to address concerns over future forecast returns
- **Runway extension consultation**
  - Initiative is underway starting with consultation with interested parties and feasibility analysis. A runway extension of around 300 metres would allow the Airport to accommodate long-haul flights for modern jet aircraft.

# Australian Energy – Lumo & Perth Energy

## Lumo well positioned for growth

- **Good quality earnings despite mild winter - EBITDAF A$48.8m**
  - customer growth in NEM of 3,031 to 493,801
  - stable electricity margins despite higher energy costs
  - improved gas margins from balanced gas position
  - reducing churn levels
- Improved overall retail margin delivered a strong result despite the warmest Victorian winter on record
- New Gas Supply Agreement with ESSO/BHP for supply of gas from 2015 to 2017 ensures supply confidence for Lumo's gas retail business
- Investments in new telephony and customer relationship management technology, brand, and marketing strategy and customer service have increased costs but will position Lumo well for future growth
- Diversifying channel partners to enhance sales capacity - majority of Direct Connect connections will flow to Lumo over second half of 2014
- 2013/14 outlook has firmed slightly to A$65m – A$72m (including Perth Energy)

# NZ Public Transport – NZ Bus

## Investment to lift future PAX growth rates and service levels


- **EBITDAF stable at $21.5m**
- Pax growth relatively weak (Auckland growth down 1.6% and Wellington down 1.4%)
- A number of initiatives are underway to improve PT growth:
  - updating timetables and running times in Auckland to improve reliability. Similar changes are planned for Wellington
  - changes to real time GPS system to improve customer information
  - continued investment in fleet with a further 69 buses acquired during the period with a value of $26.6m
  - AIFS is being rolled out across NZ Bus Auckland fleet (October to December). Snapper will continue in Wellington
- Introduced vehicle management system (telematics) which monitors driver and vehicle performance, and enables enhanced proactive fleet maintenance
- New contracting model continues to evolve and under active discussion with transport authorities (expected to commence from mid 2014)

# Portfolio Activity
## Australian PPPs, UK Airports

### Australian PPPs

- Infratil has announced its intention to commit A$100m to pursue greenfield availability based public-private partnership opportunities in Australia via the Australia Social Infrastructure Partners (‘ASIP’) platform
- Australian PPP provides a good access point to pursue the significant pipeline of development opportunities that exists across the education, health and transport sectors in Australia
- Greenfield PPP investments offer risk-adjusted development returns that are comparable to the returns available in adjacent infrastructure sectors such as greenfield Australian wind projects
- The commitment establishes a new strategic alliance between Infratil and Leighton Contractors
- Infratil and other institutional investors have the opportunity to participate as equity investors in future Leighton Contractors’ PPP projects via the Leighton Contractors Infrastructure Partners vehicle
- Also potential for additional co-investment by Infratil in Leighton Contractors’ PPP projects and flexibility to pursue greenfield projects where Leighton Contractors is not involved
- Leighton Contractors is currently participating in bids for the Queensland Schools, North-West Rail (NSW) and East-West Link (Vic) availability-based PPP projects

### UK Airports

- Notification received from Scottish Government of its intention to acquire Glasgow Prestwick Airport
- Sale agreed for Manston Airport
- Sales of both airports expected to be completed before end of calendar year, for nominal consideration

# Portfolio Activity

## Metlifecare represents a new sector for Infratil

### Metlifecare Limited

- Infratil has entered into a conditional agreement to acquire 19.9% of Metlifecare for $147.9m ($3.53 per share), expected to settle on 28 November 2013
- Investment consistent with many of the demographic and other trends influencing the balance of infrastructure investment activity across the Infratil portfolio
- Infratil has a good understanding of the macro-economic drivers in the retirement village and aged care sector and is experienced at developing infrastructure and related services to meet future demand
- Infratil has extensive property knowledge and will look to work with Metlifecare to develop its pipeline of brownfield and greenfield sites
- Value of 19.9% interest has increased by approximately $40m since announcement

| METLIFECARE | As at November 8 |
|---|---|
| Ticker | MET.NZ, MEQ.AX |
| Market Price | $4.45 (NZD) |
| Equity Market Cap | ~$930.0m |

Metlifecare is the largest retirement village operator in New Zealand, with net assets of NZ$718 million at its last reported balance date of 30 June 2013. Metlifecare's portfolio of assets consists of 3,836 independent units and apartments and 359 rest home/hospital beds. 60% of its units are in Auckland, 15% in Tauranga and 12% in Kapiti. The remainder of units are in the North Island. Metlifecare has a development pipeline of around 1,000 independent living units and hospital beds mainly in the upper North Island

# Capital Expenditure

## Near term investments dominated by Snowtown II wind farm

| Capex ($Millions) | HY September 2013 | FY 2014 Outlook |
|---|---|---|
| Trustpower | 193.3 | 360-380 |
| Australian Energy | 8.9 | 30-40 |
| Wellington Airport | 12.0 | 40-50 |
| Public Transport | 39.4 | 55-65 |
| Metlifecare | - | 148 |
| Australian PPP | - | 10-15 |
| Other | 3.8 | 5-10 |
| **Total** | **257.4** | **650-710** |

- **Trustpower** – construction of Snowtown II and acquisition of Energy Direct
- **Australian Energy –** customer acquisitions, and technology developments and enhancements
- **Wellington Airport –** car park extension
- **Public Transport –** NZ Bus fleet upgrade – acquisition of 69 new buses (half year), telematics and radio system
- **Metlifecare** - 19.9% interest expected to complete on 28 November 2013
- **Australian PPP** – investment contribution to seed assets (New Royal Adelaide Hospital and South East Queensland Schools)
- **Other** – includes completion of New Lynn precinct property development

# 2013/14 Outlook

## On track with previous guidance

| $Millions | HY 2014 Actual | FY 2014 Outlook |
|---|---|---|
| EBITDAF – continuing operations adjusted for Z RC[1] | 290.8 | 500-540 |
| Net interest | 91.2 | 195-205 |
| Operating cashflow | 274.6 | 360-400[(2)] |
| Depreciation and amortisation | 73.4 | 150-170 |

1) Continuing operations based on Z Energy replacement cost earnings (refer Appendix III)
2) Reflects updated guidance, based on strong first half cashflows

- 2013/14 EBITDAF range **$500m - $540m**:
  - Assumes no major changes in IFT portfolio
  - TPW expected to be flat vs PY due to trading gains benefit in 2012/13, Snowtown commissioning date (South April 2014 and North Sept 2014)
  - IEA EBITDAF expected to fall due to normal year of electricity wholesale costs
  - Consistent gains across other businesses reflecting expected returns on recent CAPEX investment and ongoing improvement in operating margins delivered in 2012/13

# Infratil Group - Summary

## Portfolio recycling and business development will drive value

- Recent period of substantial value creation through continued operating performance, capital management and asset recycling
- Cash flow growth, well positioned investments with positive outlooks, and capital structure support continued dividend growth
- Near term portfolio plan includes:
  - Buy well positioned assets at reasonable value
  - Sell positions at strong valuations
  - Active management of investment operating performance to drive further value
  - Expose equity to investments with higher growth rates
- Outlook shows a growing pipeline of internal and external investment options to re-position the portfolio to achieve higher absolute returns
  - Renewable energy options
  - Adjacent investment opportunities in water and irrigation
  - New sectors and markets where compelling investment cases are evident
- Allocation of some capital to early stage and higher growth investments will be the driver of future out-performance

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# Appendix I – Consolidated Profit and Loss

| Group Financial Performance ($Millions) | HY September 2014 | HY September 2013 |
|---|---|---|
| Operating revenue | 1,287.5 | 1,257.3 |
| Operating expenditure | (1,002.4) | (962.2) |
| EBITDAF (continuing activities) | **285.1** | **295.1** |
| Net interest | (91.2) | (97.2) |
| Depreciation & amortisation | (73.4) | (72.7) |
| Operating Earnings | **120.5** | **125.2** |
| Net gain (loss) on foreign exchange and financial derivatives | 36.3 | (22.5) |
| Net gain on Z Energy IPO | 182.5 | - |
| Net investment realisations/(impairments) | 3.1 | (3.3) |
| Tax | (36.3) | (29.4) |
| Discontinued operation(1) | (28.8) | (47.3) |
| Net Surplus after Tax | **277.3** | **22.7** |
| Minority interests | (47.3) | (39.2) |
| Net Parent Surplus | **230.0** | **(16.5)** |

(1) Discontinued operation in FY13 and FY12 refers to Infratil Airports Europe Limited which is held for sale at 30 September 2013

# Appendix II – Adjusted Earnings Reconciliation

| ($Millions) | HY September 2014 | HY September 2013 | Variance | % Change |
|---|---|---|---|---|
| Net Profit after Tax – reported | 277.3 | 22.7 | 254.6 | 1,121% |
| Net (gain)/loss on derivatives[i] | (36.3) | 22.5 | | |
| Net investment revals, realisations and impairments | (185.6) | 3.3 | | |
| Tax effect of changes including effect of previously unrecognised deferred tax[ii] | 10.2 | (6.3) | | |
| Add back result from discontinued operations | 28.8 | 47.3 | | |
| Z Energy Adjustments (after tax) | | | | |
| Z Energy equity earnings (HCA to RS adjust)[iii] | (0.8) | 15.3 | | |
| Z Energy gain on derivatives | (0.2) | (4.8) | | |
| Z Energy net investment revals, realisations and impairments | 0.1 | 0.6 | | |
| Net Profit after Tax - adjusted | **93.5** | **100.6** | **(7.1)** | **(7.1%)** |

i) Mark to market movements on derivatives reflect the market value of interest rate, foreign exchange and energy hedges at a reporting date and are subject to the market prices of the respective hedges.
ii) The tax effect reflects the tax change as a result of removing the other adjustments.
iii) Z Energy reports its earnings on a historic cost basis, which may be volatile depending on how much the price of oil fluctuates. Replacement cost earnings are calculated by revaluing the cost of fuel to its cost at the reporting date. Further details are provided on the next page.

# Appendix III

## Z Energy – HCA to RC Adjustment

- Historic cost earnings (as required by IFRS) are subject to fluctuations in the value and volume of stock due to changes in oil prices, exchange rates and deliveries
- Management and capital providers therefore focus on **replacement cost** earnings for Z Energy as these better reflect the underlying business operations and competitive context
- Replacement cost earnings measure the cost of sales in a particular month as if the product were purchased in the same month as it is sold
- This is calculated by revaluing opening and closing stock to the average replacement cost for the month
- The difference between historic and replacement cost earnings is reflected in the cost of sales adjustment ("COSA")
- Historic and replacement cost earnings are likely to differ in any one period, but should deliver similar results over time