Infratil
Corporate Profile

May 2016

Infratil invests in infrastructure businesses that provide essential services to individuals and communities. If they are efficient and provide good services they create opportunities for profitable growth. This requires continual refinement and improvement because the needs of individuals and communities evolve, business practices improve, and technology changes.

Infratil is an infrastructure holding company listed on the NZX and ASX.

Infratil invests in infrastructure businesses which have opportunities for profitable growth if they operate efficiently and deliver good services. For its funding Infratil uses a mixture of debt and equity that seeks to balance cost and risk.

As at 31 March 2016 Infratil had approximately 39,000 individual share and bond holders. 76% of the shares were owned by New Zealand residents, with almost 60% of these owned by individual investors.

When making choices about allocating capital to sectors and businesses, Infratil management is guided by the following criteria

Expertise. Infratil must have, or have access to, appropriate operational experience and skills.

Influence/Control/Partnership. Most of Infratil's investments have been in partnership with entities such as Wellington City Council, the New Zealand Superannuation Fund and Tauranga Energy Consumers Trust; long-term investors who often have a strategic relationship with the relevant business.

Whether through a partnership or on a standalone basis Infratil is not a passive investor, it seeks to exert influence or control so that Infratil's expertise can be applied to the business and to ensure that the long-term interests of shareholders are given suitable priority.

Growing demand and/or sectors undergoing change. Growth and change create opportunities for profitable investment. More people flying more often need expanded airport facilities. The shift to renewable power generation requires more wind, hydro and geothermal power stations. Freed-up energy markets are open to new approaches to retailing electricity, and to combining it with gas and telecommunications. The growing elderly population needs accommodation and care. Urban congestion and constraints on government funding should mean increasing use of privately provided public transport. There is increasing data storage and processing capacity required by government, business and individuals and increasingly they are outsourcing the provision of this capacity to data centres.

Customer and community needs. Over the last three decades, ownership and operation of infrastructure has been transitioning from public to private hands. While private ownership has unquestionably resulted in improved operational efficiency and value, a key differentiating factor is recognition of the importance of the customer. In part because State provided infrastructure was often a statutory monopoly and in part because people now feel empowered to demand choice. Technology is also creating options in areas where previously none existed.

Although the relationship with the customer has changed appreciably, the importance of the relationship with the community has not. For instance, an airport has huge relevance to its region and proactive recognition of the community interest by airport management is crucial if long-term commercial returns are to be optimised.

Risk and its management. Demand and supply of infrastructure is usually stable over the short term and this tends to mean that earnings volatility is also relatively low over the short term. However, risks do still exist and in fact some risk has to be accepted in the pursuit of higher returns.

Value and target returns. Infratil targets an after-tax return to its shareholders, over the long-term, of 20% per annum (the actual return over the five years to 31 March 2016 was 17.74% per annum). This return aspiration means that Infratil primarily seeks to invest in businesses which require active management around relatively complex infrastructure. Very simple or low risk infrastructure is unlikely to deliver the return outcomes targeted by Infratil.

Infratil uses funding that seeks to balance cost and risk

Debt costs less than equity (on average over the last two decades Infratil's return on equity was almost 18% per annum after tax while the cost of debt averaged 6-7% per annum before tax), but debt imposes strict servicing and repayment commitments.

To minimise its cost of capital while also seeking to minimise the risks associated with debt, Infratil uses long dated bonds which carry few rights of early repayment. This ensures that in any one year Infratil's bond repayment obligations are known well in advance and can be managed in an orderly way.

Applying the principles outlined above has seen Infratil deliver good returns for its shareholders and reliable income for its bond holders. Over the 22 years to 31 March 2016 Infratil's shares returned 17.95% per annum after tax (assuming reinvestment of all dividends and rights). Infratil has met all interest and repayment commitments on the 18 bonds it has issued since 1999.

There has also been evolution in the make-up of Infratil's assets. A decade ago Infratil had $1 billion of capital invested; 68% in electricity and 32% in transport. As at 31 March 2016 it had $2.5 billion of capital: 53% in electricity, 25% in transport and 22% in other fields, mainly retirement accommodation and services. Infratil has also announced the intended acquisition of an interest in an Australian data centre business which if completed will amount to about 15% of Infratil's assets.

Information about Infratil

One of the obligations of being listed is the requirement to continuously disclose information which could be relevant to investors. To meet this obligation and to help investors (and anyone else with an interest in Infratil, including employees, partners, policy makers and the communities in which Infratil's businesses operate) Infratil provides the following:

Regular financial reports. Annual and interim reports are released each May and November. They provide financial statements, a summary of key developments, activities and people, guidance as to short term earnings and investment expectations, and commentary.

Update newsletters. Usually on a semi annual basis these provide in-depth coverage of topics relevant to Infratil's businesses or the sectors in which they operate. Recent editions covered the economics of providing accommodation and other services to the elderly, Wellington Airport's plans to provide direct air links to the northern hemisphere, and the current commercial economics of the New Zealand electricity industry.

Occasional announcements. Infratil releases information covering matters such as changes in its people, transactions, financial results, payments to share and bond holders, and so on.

Infratil also hosts an annual investor day at which it outlines investment market conditions, specific investment plans and strategies. The presentations from the day are available on Infratil's website.

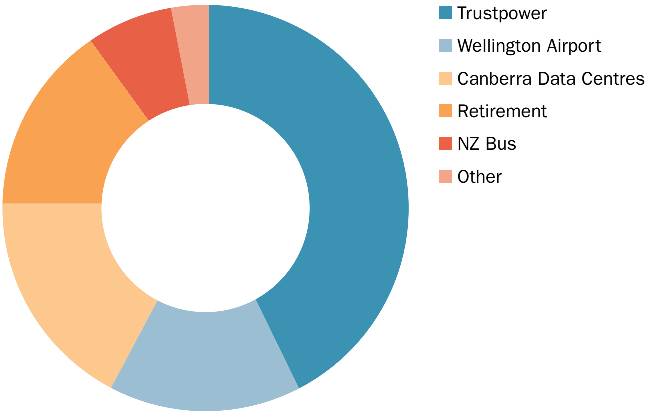
Capital raising, Notice of Meeting and other corporate documents. When Infratil undertakes bond, share and warrant issues it produces a range of documents. Similarly, with each annual and special meeting, reports are provided that set out matters germane to all resolutions. Some of Infratil's agreements, such as that with its Manager, are also public.

All of the above information and releases are available at www.Infratil.com or by contacting Infratil.

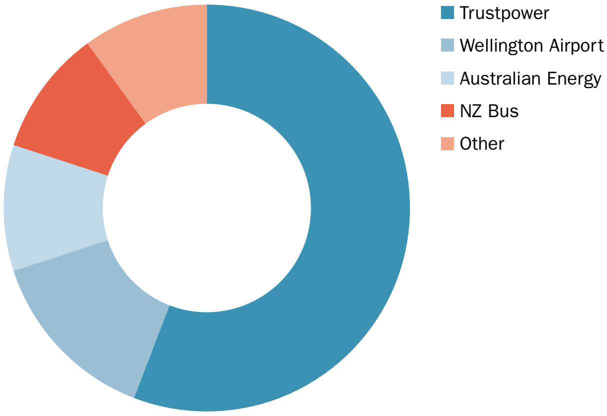
Businesses & Capital Allocation

The following graphs show Infratil's assets as at 31 March 2010 and as at 31 March 2016 except with the intended acquisition of the 48% interest in Canberra Data Centres added in. They highlight both the asset mix on those dates and how they have changed over the period. Although several of Infratil's businesses appear in both snapshots none have been static. For instance, over the five years Trustpower invested $889 million; mainly in Australian generation.

2016 Asset Mix



2010 Asset Mix



Investment & Divestment

While Infratil is largely defined by the businesses it is now invested in, to understand how Infratil may evolve over the next few years it is helpful to note the factors that contributed to recent investment and divestment transactions. Over the five years to 31 March 2016:

- Infratil subsidiaries invested $1,590 million in new electricity generation plant, airport facilities, buses, etc. This was over 80% of the total amount invested by the group and reflects a key feature of Infratil's businesses; Infratil owns them because they are able to invest to grow.
- The remaining 20% of the group's investment was the $369 million Infratil spent buying shares in Metlifecare and RetireAustralia. The acquisitions were undertaken because the investments were available at a good price and fitted Infratil's investment criteria.
- In addition to these completed investments Infratil has committed to acquire a 48% interest in Canberra Data Centres for total consideration A$392 million. Settlement is pending regulatory approval.
- Infratil realised $1,665 million through asset sales (mainly shares in Infratil Energy Australia, Z Energy and iSite). The divestments reflected the view that the businesses had reached a level of maturity in their growth or value, or were just worth more to another party.

The next five years will not be the same as the last five, it isn't possible to even forecast if they will be more or less active, but there will be the same desire to ensure that Infratil's capital is allocated to best meet the Company's investment and return goals.

Businesses


1


2


3

1. Snowtown Wind Farm
2. Metlifecare
3. Canberra Data Centres
4. NZ Bus
5. Highbank
6. Waipori Dam
7. Wellington Airport

4


5


6


7

8. NZ Bus
9. Snapper
10. Tararua Wind Farm
11. RetireAustralia
12. RetireAustralia
13. Wellington Airport

Businesses

Trustpower (Infratil 51% shareholding. Sharemarket value on 31 March 2016 of $1,224 million)

Trustpower owns wind and hydro generation in New Zealand and Australia which in a year of average rain and wind is expected to produce sufficient electricity for about 550,000 households. In New Zealand Trustpower provides approximately 280,000 customers with electricity and some of these, and some additional customers, with gas, telephone and internet services. In Australia Trustpower's generation output is sold through the wholesale market and long-term contracts. Trustpower also provides irrigation facilities in Canterbury.

Over the ten years to 31 March 2016 Trustpower increased annual generation 93% to 3,763 GWh and EBITDAF[1] 68% to $330 million. These increases occurred despite both New Zealand and Australia having excess generation capacity and highly competitive retail energy markets. The growth in generation, customers and earnings reflects:

- Trustpower's generation is mainly smaller scale and powered by wind and water. This is a relatively specialist niche where engineering and risk management skills can deliver higher than average returns. It also allows "bolt on" upgrades and cost efficient provision of additional services such as irrigation using water previously only stored for electricity generation.
- Much of Trustpower's generation investment over the last decade has been in Australia and was undertaken in response to a government goal of having 20% of the country's electricity provided from renewable sources by 2020 (in New Zealand approximately 80% is now renewable).
- Trustpower has been highly successful at developing a retail offering that has been smart and careful in its use of technology, is providing customers with a useful bundle of utilities, and has reliable and efficient back-office services.

The Australian and New Zealand energy markets are changing and face many uncertainties. If Trustpower is to continue to grow returns and value it will have to be smart with its generation developments and innovative with its retailing.

Wellington Airport (Infratil 66% shareholding. Book value on 31 March 2016 of $409 million, excluding deferred tax liabilities)

Over the decade to 31 March 2016 Wellington Airport passenger movements on international routes rose 56% to 897,000 and on domestic routes 21% to 4,899,000. The different rates of growth are largely explained by the greater level of competition amongst providers of international air services. The causal chain is apparent in Statistics NZ figures which show that over the decade to March 2016 the cost of international air travel had fallen while the cost of domestic travel had risen 20%. The Airport is very active in its efforts to attract additional services. It researches routes to identify potential opportunities, actively markets to airlines, and invests in its facilities to ensure that airlines are able to operate in Wellington with maximum efficiency.

The Commerce Commission monitors Wellington Airport and has indicated that the Airport's airline charges and aeronautical returns are acceptable through to 2019 when they are likely to next be reset.

Over the decade to 31 March 2016 EBITDAF[1] (excluding subvention) rose 74% to $86 million. The rise was due to increased traffic and higher earnings per airport user, which in turn was due to the Airport's operational efficiency (on a per-passenger basis it is the lowest cost international airport in Australasia) and the improving suite of amenities it offers users.

The challenge for the airport now is to build on the last decade's success; in particular by attracting more air services.

1. EBITDAF is a non-GAAP measure which shows the operating earnings contributions of investments and businesses before interest, tax, depreciation and amortisation and before making any adjustments for fair value movements, realisations and impairments. EBITDAF is a useful financial measure which presents management's view of the underlying business operating performance of Trustpower and Wellington Airport.

RetireAustralia & Metlifecare (Infratil has a 50% and 20% shareholding respectively with a combined book value on 31 March 2016 of $476 million)

Over the last three years Infratil has invested $369 million acquiring 20% of Metlifecare and 50% of RetireAustralia.

Metlifecare is NZX and ASX listed and operates over 4,450 retirement units and care beds, mainly in the Auckland region.

RetireAustralia is owned by Infratil and the New Zealand Superannuation Fund and operates over 3,800 retirement units and apartments in Queensland, NSW and South Australia.

The sector is attractive because the increasing elderly population in both countries will need more specialist services and accommodation than is now available. Over the next 20 years the Australia/New Zealand population of people older than 85 years old is forecast to rise by over 100%; that is approximately 110,000 more elderly people in New Zealand and almost approximately 500,000 more in Australia.

Providers of accommodation and care to the elderly tend to be valued on the basis of the earnings potential of their existing operations plus the earnings potential related to growth.

With both Metlifecare and RetireAustralia the investments were available to Infratil at prices that offered the prospect of good returns without having to pay a substantial premium for potential growth.

The objective now with both businesses is to continue to attract residents and be able to meet this demand by cost-efficiently building more accommodation.

Canberra Data Centres (Infratil 48% shareholding. A$392 million cost with a projected acquisition date in July 2016)

Infratil and the Commonwealth Superannuation Corporation have agreed to each acquire 48% of CDC subject to regulatory approval.

CDC is a major provider of data centre services to Australian government agencies and their clients. It currently has a construction pipeline which will almost double its capacity.

NZ Bus (Infratil 100% shareholding. Book value on 31 March 2016 of $202 million)

NZ Bus is the largest public transport operator in Auckland and Wellington. Historically commercial success has depended on maintaining constructive relationships with regional transport authorities, with staff, and with the public who use bus public transport. In addition to providing reliable services the operator also has to be cost efficient.

This extensive list of "factors of success" now includes being able to manage technological change as it is apparent that battery-electric power is about to replace diesel engines in public transport buses.

Other ($143 million of assets as at 31 March 2016)

Over the years Infratil has acquired or established a number of companies which are complementary with its main businesses. Snapper provides payment technology for small-value transactions such as paying a bus fare. Infratil Infrastructure Property was formed to provide expertise to the development of the group's land holdings.

In addition Infratil has started investing in Australian social infrastructure (schools, hospitals, etc) via the Australian Social Infrastructure Partnership, ASIP.

Perth Energy is a Western Australian electricity generator and energy retailer.

Acquisition & Disposal Examples

In addition to the above businesses, Infratil has owned shares in other companies over the last two decades. Each of those that has come and gone tells a story that illustrates Infratil's investment approach; of note:

New Zealand's deregulation and corporatisation of its electricity industry in the 1990s resulted in the development of considerable local commercial management capability. In 2002 Infratil chose to take advantage of this talent by setting up an energy company in Victoria Australia which was following a similar industry path to New Zealand's. Over the next dozen years Infratil Energy Australia grew to become the fourth largest energy retailer in the eastern states. It was sold in 2014 for a $338 million gain. The decision to sell took into account the price offered for the shareholding on the one hand and the challenges the business faced in Australia's increasingly complex energy market on the other hand.

A much less successful investment/divestment occurred with two UK Airports. Again the starting point was the commercial airport management expertise developed in Australia and New Zealand following their 1990s airport privatisations. But in Europe, Infratil's investment resulted in a significant loss because the 2008 financial crisis and economic down turn disproportionately impacted airline use of "edge of town" airports, while simultaneously removing the interest of investors in such assets. Infratil chose to exit because the prospect of future growth was too uncertain.

In 2009 as the world's financial markets were still mired in the aftermath of the Global Financial Crisis. Shell agreed to sell its New Zealand fuel distribution business to Infratil and the New Zealand Superannuation Fund. The transaction was executed in April 2010 and Infratil paid $210 million for its 50% stake. In August 2013 and September 2015 Infratil sold its shareholding in two tranches which, along with income received from Z Energy (as the business had been renamed), provided a total cash gain of $823 million. The original acquisition was opportunistic and the value reflected the poor earnings of the business. Localisation of management and the work of some exceptional people, both the earnings and the value of Z Energy improved quickly. Infratil chose to exit because of a belief that better long-term returns could be found elsewhere.

Funding & Capital Structure

As with Infratil's assets, funding also changes over time while remaining consistent with overriding objectives, which in this case are to find the right balance between cost and risk.

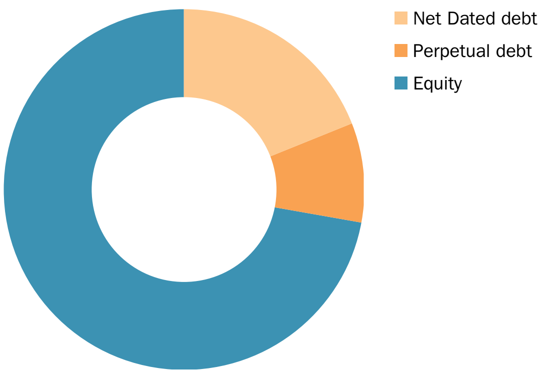
The optimal use of debt depends on both the nature of the assets being funded and the terms of the debt. The more reliable the income generated by an asset, the higher will be the level of debt funding it can support, and a borrower will usually be comfortable assuming more debt if it doesn't have to be repaid for several years.

The combination of Infratil's asset mix and funding terms has resulted in Infratil normally using debt to provide about half of its funding. This is the debt of Infratil and its 100% subsidiaries and excludes the debt of non wholly owned subsidiaries and investments.

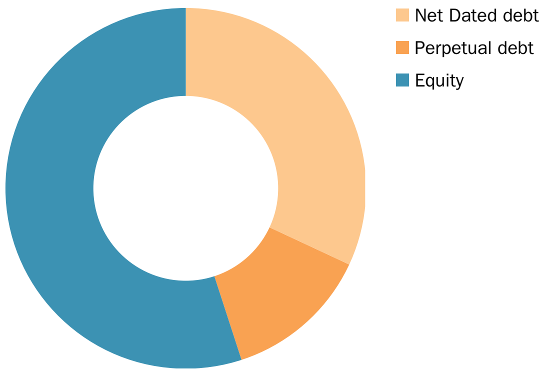
The percentage of debt funding is calculated using the value of debt owed by Infratil and its 100% subsidiaries (less cash on deposit) and the market value of Infratil's equity as determined in the sharemarket.

The pie graph (below left) of Infratil's funding mix (or capital structure) shows the 31 March 2016 levels plus $435 million of debt as this is the likely cost of the CDC stake which it is expected that Infratil will acquire in July 2016. It indicates a level of debt well below 50% of Infratil's total funding (it would be 28%, and if only debt with a repayment date is included in the calculation drops to 19%). In the future the level of debt funding is expected to rise as new investments are made, or equity is returned to shareholders.

2016 Funding Mix



2010 Funding Mix



Group Debt Funding Mix as at 31 March 2016, adjusted to include a $435 million debt funded acquisition

Tiers	Net Debt	
Non-100% subsidiaries	$1,640 million	
Infratil and 100% subsidiaries' Bank Debt/(Deposits)	($226 million)*	$731 million
Infratil Bond Debt	$957 million	

*net deposits

The net debt for which Infratil would be responsible (i.e. has a repayment obligation) amounts to $731 million. This is the net borrowings of Infratil and its 100% subsidiaries less cash on hand.

In addition, as at 31 March 2016 Infratil's less than 100%-owned subsidiaries (Trustpower, Wellington Airport and Perth Energy) had $1,640 million of net debt for which Infratil had no repayment obligations. Infratil does however use returns from those investments to meet its borrowings.

Lender Rights

Infratil's capital structure creates a distinct tiering of lender rights. A lender to, say, Trustpower will have direct recourse to the assets of Trustpower and no recourse to the assets of Infratil. A lender to Infratil will have recourse to Infratil's assets including its shareholding in Trustpower, but no direct recourse to the assets of Trustpower.

There is also a distinction between the rights of the banks that lend to the Infratil 100% group and the rights of Infratil's bondholders. The banks have recourse to Infratil's shareholdings (in companies such as Trustpower) and other assets of members of the Infratil 100% group that provide a guarantee to the banks. The upshot of this tiering and segregation of lender rights is that Infratil's bondholders have indirect recourse to assets of Infratil's subsidiaries only after the direct recourse of other lenders and creditors. But bondholders do have the benefit of having rights to all of Infratil's assets and are not limited to the assets of just one subsidiary.

Management & Governance

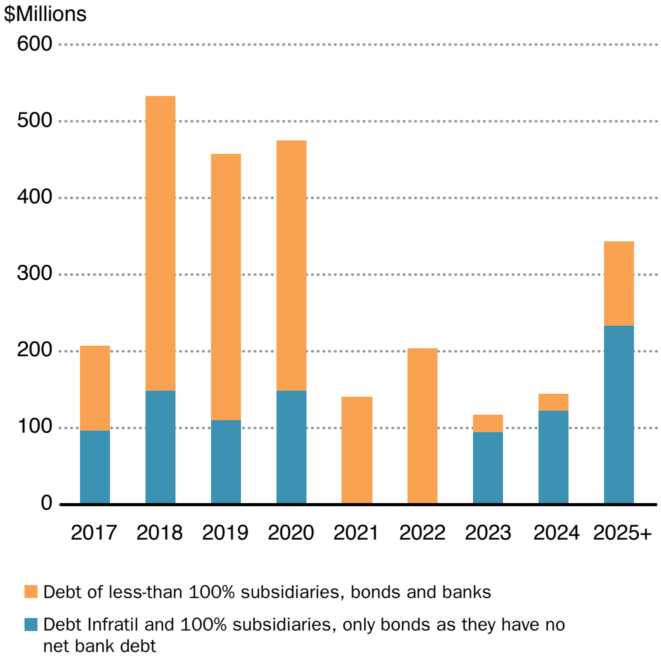
Debt Term & Terms

The term "financial risk" tends to relate to the possibility of a situation where a borrower is obliged to repay debt and to do so is forced to sell assets at an inopportune time.

To manage this risk Infratil issues long-dated bonds where lenders have few rights to demand early repayment. This ensures that Infratil's obligations to its lenders in any one year are both predictable and of a manageable level.

The following graph shows Infratil's bond debt obligations in the financial year they fall due. They are graphed in blue. The orange bars show the debt maturities of Infratil's less-than-100% subsidiaries, for which Infratil does not have an obligation. Only Infratil's bond debt is shown in the graph because as at 31 March 2016 (and even after paying $435 million to acquire 48% of CDC) Infratil and it's 100% subsidiaries will have no net bank debt.

Infratil Bond and Subsidiary Total Debt Maturity Profile (31 March Years)



Infratil's management is employed at two levels. Infratil itself is managed under contract by H.R.L. Morrison & Co, while the operating businesses have their own managers. Governance also has two layers being in respect of both Infratil and the operating businesses.

Infratil Board

Infratil's board composition reflects the operational and financial character of Infratil. The directors have an obligation to understand and advise on Infratil's individual investment initiatives, the broad range of risks faced by Infratil, and to assist with the relationships that are the basis of Infratil's partnership approach to investing.

Infratil & H.R.L. Morrison & Co

Infratil is managed under contract by H.R.L. Morrison & Co, a specialist investment manager with offices in Wellington, Auckland, Sydney and Hong Kong. In addition to managing Infratil, H.R.L. Morrison & Co also manages two social infrastructure funds and investments on behalf of the New Zealand Superannuation Fund, the Australian Future Fund and others.

The agreement between Infratil and H.R.L. Morrison & Co provides for an annual management fee based on the market value of Infratil's equity and debt. H.R.L. Morrison & Co can also receive incentive payments if Infratil's investments outside of New Zealand exceed benchmarks. The attraction for Infratil of the arrangement is the defined cost and the access to H.R.L. Morrison & Co's pool of experienced managers. The efficacy of the arrangement has been demonstrated by Infratil's returns, the transactions undertaken, and the quality of operational management delivered.

Infratil can terminate the management contract by giving a period of notice or in certain specified situations.

Business Management & Direction

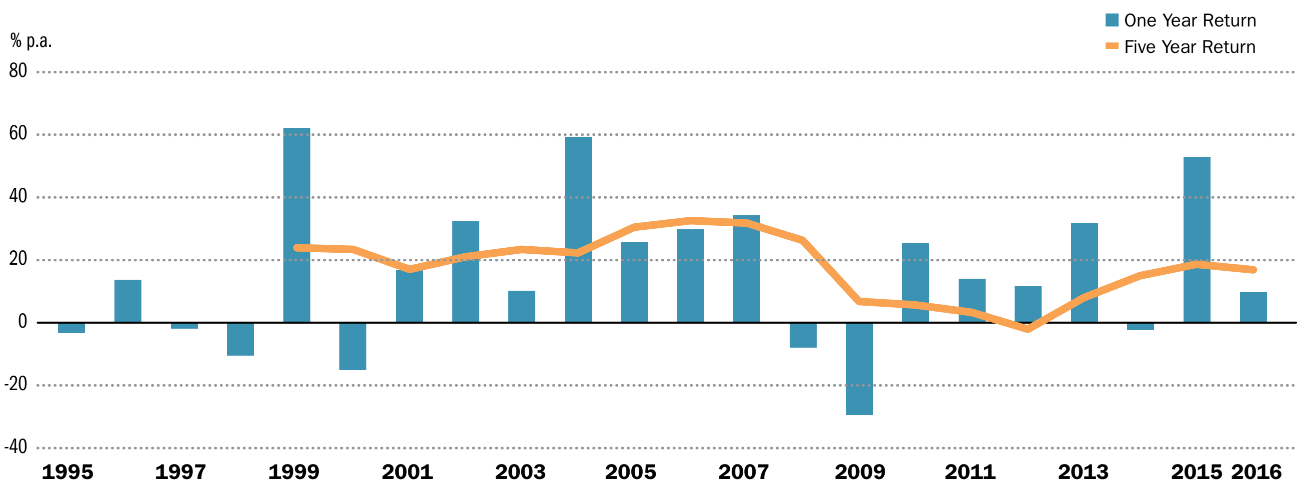
Each operating business has its own management and board and as with any good business managed on behalf of shareholders, the directors and managers are charged with creating value and closely monitoring and controlling risks along the way.

Infratil's Track Record for its Shareholders & Bondholders

Shares

The following graph shows the returns to Infratil shareholders (dividend plus change in share value) in each of the years since listing in March 1994. It also shows the rolling five year returns. A large percentage of Infratil's shareholders hold their shares for at least five years so the longer period is likely to be more illustrative of actual returns for most shareholders than the outcome of any one year. For a shareholder who acquired shares in Infratil's 31 March 1994 listing and subsequently reinvested all dividends and rights issues the return to 31 March 2016 would have been 17.95% per annum after tax. Someone who owned them for the five years leading up to 31 March 2016 would have gained 17.74% per annum (again assuming the reinvestment of all dividends).

Infratil Sharemarket Returns



Another way to show Infratil's performance for its shareholders is the cash value created. Simply, the difference between what Infratil raised from shareholders and what it has paid back to shareholders plus the current market value of Infratil's shares. As at 31 March 2016 this net value creation amounted to $2,492 million.

($353 million) The amount Infratil raised from its shareholders less the amount Infratil has paid to buy shares back.

$1,001 million The value of fully imputed dividends that Infratil has paid out.

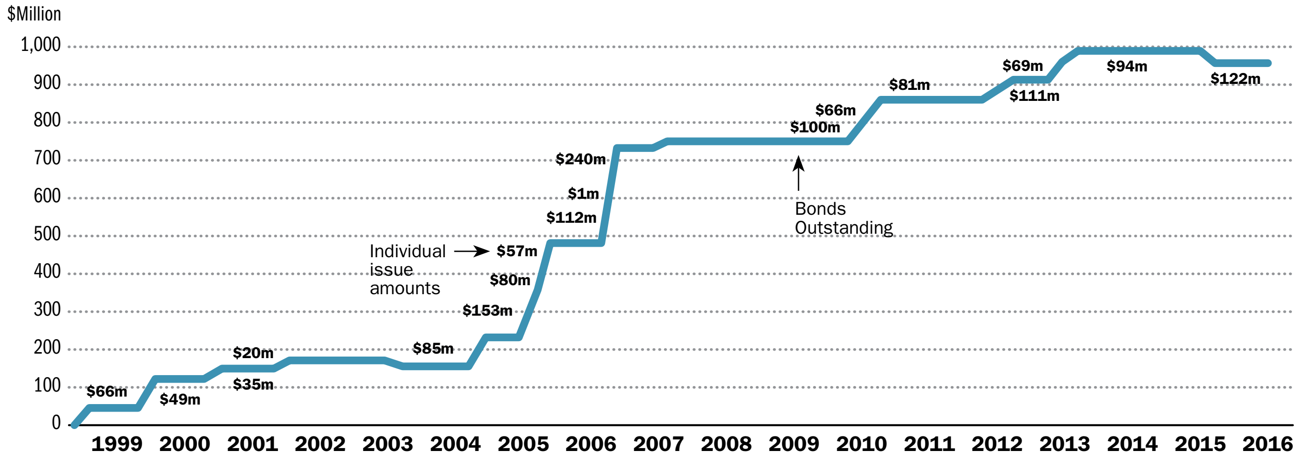
$1,844 million Infratil's market capitalisation at $3.28 per share.

Bonds

Infratil undertook its first issue of Infrastructure Bonds in March 1999 and has now made 18 issues amounting to $1,542 million. Nine issues have been repaid and nine issues, amounting to $957 million, remain outstanding.

Over the last 16 years Infratil has been one of the more active and substantial issuers of corporate bonds into the New Zealand market.

Infrastructure Bond Debt Total Outstanding & Individual Issues

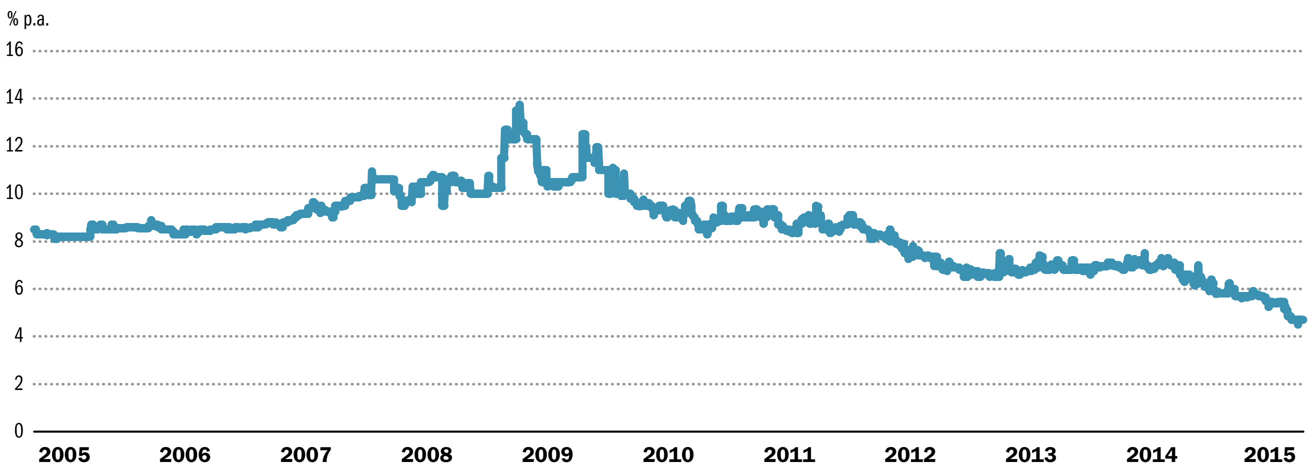


For a bond investor the key consideration is likely to be whether the borrower meets obligations as they fall due. Another factor which may be considered is the potential secondary market pricing, both as a potential way to sell-out of a bond and as an indication of the issuer's credit.

The following graph shows the secondary market trading of the ten year bonds Infratil issued in 2005. This period included the Global Financial Crisis which had a profound impact on the market pricing of many securities. However, except for periods when pricing of the Infratil bonds seem to have been adversely impacted by liquidity concerns, in the main the market pricing appears to have been rational. Rational in this instance means that the market's yield for Infratil bonds has roughly reflected the yield on government bonds of a similar term plus a margin for the additional credit and liquidity risk.

The bonds were issued at a yield of 8.5% per annum and initially traded slightly below that rate before rising to a yield of over 10% per annum (in which case someone selling would have received back less than the par value of the bonds) before trading to a yield of 5% per annum (in which case someone selling would have realised above par value). The secondary market pricing of bonds is, however, unpredictable and the track record of one infrastructure bond, even over ten years, does not provide an indication of how Infratil's bonds will trade in the future.

The Secondary Market Yield on the Infratil Infrastructure Bonds that matured in November 2015



Infratil