Infratil

Picking the Trends...

Interim Report 2008

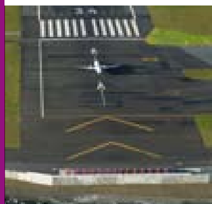
Infratil's goal of delivering good returns to its shareholders over the long-term is based on:

- **Positioning in infrastructure sectors which offer growth and investment outperformance over the long run.**

  As demand increases for renewable energy, airports and public transport, and the Australian energy market continues to restructure, investors will be incentivised to provide better and expanded facilities.

- **Management of risk.**

  Infratil's commitment to risk management and the steps taken over recent years mean the Company is comfortably positioned despite weak financial and economic conditions.



The half-year saw satisfactory developments as regards the trends underpinning the industries in which Infratil's businesses operate and with Infratil's risk positioning.

However, the negative 4 percent return to shareholders over the period was inadequate notwithstanding that the world's capital markets are undergoing their most stressful and difficult period for two generations and the economy now faces a potentially prolonged period of recession. The impact of events on Infratil's financial circumstances and the strategic positions of its businesses has been modest.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SNAPPER

The infrastructure sector remains prospective and attractive:

- Robust cashflows.
- Social demand for better facilities.
- Political desire to encourage investment.
- Strong sector and demand trends underlying air travel, renewable energy, and public transport.

Infratil's investment plans are under scrutiny to ensure they are appropriate given the availability and cost of capital.

Future discretionary investments and share buybacks are likely to reflect capital released from existing activities rather than new funding.

Highlights

Record half-year earnings at TrustPower, Wellington Airport and Infratil Energy Australia.

$261 million of capital investment across the group, being $235 million of "growth" capex and $26 million to maintain operations.

Initiation of a strategic review by Energy Developments.

$140 million of debt which fell due during the period was rolled to 2011.

Passing of the Climate Change Response (Emissions Trading) Act which will support investment in renewable energy.

Passing of the Public Transport Management Act was unfavourable to private providers of public transport.

Results for the six months to 30 September 2008

FINANCIAL

For the six months to 30 September 2008 Infratil's consolidated earnings before interest, tax, depreciation, amortisation and revaluations were $203 million, up from $166 million for the same period last year.

The operating surplus (earnings after interest, depreciation and amortisations) was $67.0 million, up from $59.1 million and the net surplus after tax was $7.3 million, down from $14.5 million for the same period a year ago following a $13.4 million reduction in derivative revaluation gains.

Net operating cashflows were $42.3 million up from $21.2 million in 2007. Discretionary growth capital outlays (excluding increasing working capital which is reflected in the measure of operating cashflow) amounted to $235 million with going concern capex of $26 million.

A fully imputed dividend of 2.5 cents per share is to be paid on 15 December 2008 to all shareholders on the register as at 5 December 2008.

ASSETS & LIABILITIES

ASSETS **$ millions ***	**30 September 2008**	**31 March 2008**
TrustPower	1,250	1,194
Infratil Energy Australia	250	180
Energy Developments	135	110
Wellington Airport	238	247
Infratil Airports Europe	308	288
NZ Bus	224	202
Infrastructure Property	63	63
Auckland Airport	92	90
Other	64	51
Total	**$2,624**	**$2,425**

Over the period Infratil's businesses invested $217 million in their activities and $44 million was invested in increasing ownership.

* Listed assets at market value, other investments at net book values (excluding deferred tax and, for wholly owned subsidiaries, cash balances). For 30 September 2008 the exchange rates used were NZ$/A$ 0.8441 (March 0.8593) and NZ$/UK£ 0.3759 (March 0.3959).

DEBT LIABILITIES **$ millions**	**30 September 2008**	**31 March 2008**
Net bank debt *	318	257
Non recourse debt	140	140
Bonds 2010 to 2011	133	133
Bonds 2012 to 2013	143	143
Bonds 2014 to 2020	233	233
Bonds perpetual	240	240
Total	**$1,207**	**$1,146**

Over the period $140 million of a subsidiary's non-recourse loan came up for roll-over and was extended to 2011.

* As at 30 September 2008 Infratil and wholly owned subsidiaries had $572 million of bank facilities drawn to $414 million with $96 million on deposit.

CONSOLIDATED RESULTS

$ millions	6 months to 30 September 2008	6 months to 30 September 2007	Year to 31 March 2008
Earnings (EBITDAF)	203.0	165.7	315.9
Net interest	(87.4)	(68.9)	(148.8)
Depreciation & amortisation	(48.6)	(37.7)	(79.3)
Operating surplus	**67.0**	**59.1**	**87.8**
Derivative value change	7.0	20.4	2.9
Realisations/impairments	(4.2)	(4.3)	(15.4)
Tax	(23.6)	(27.1)	(22.6)
Minorities	(38.9)	(33.6)	(54.4)
Net parent surplus	**7.3**	**14.5**	**(1.7)**

CONSOLIDATED CASHFLOWS

$ millions	6 months to 30 September 2008	6 months to 30 September 2007	Year to 31 March 2008
Earnings (EBITDAF)	203.0	165.7	315.9
Working capital & other	(60.7)	(69.2)	30.2
Net interest	(86.9)	(58.1)	(141.1)
Tax	(13.1)	(17.2)	(40.7)
Operating cashflow	**42.3**	**21.2**	**164.3**
Investments	(43.6)	(115.3)	(235.0)
Capital formation	(216.9)	(155.3)	(271.6)
Investment cashflow	**(260.5)**	**(270.6)**	**(506.6)**
Equity raised	76.8	17.7	95.0
Term debt	94.7	299.6	453.5
Dividends	(48.9)	(44.0)	(79.5)
Cash utilised	(95.6)	23.9	126.7
Opening cash held	255.2	128.5	128.5
Closing cash held	159.6	152.4	255.2

Increased working capital was due to the expansion and seasonality of the energy retailing activities.

Capital formation was mainly in respect of new generation and buses.

Equity raised of $77 million includes the second receipt on the partly paid shares, warrant conversion and share buy backs. The Infratil Board authorised certain of these buybacks under Listing Rule 7.6.2. The details being 4th July 250,000 shares at $455,000, 17th July 189,400 shares at $359,765, 24th July 250,000 shares at $527,500.

BUSINESS EARNINGS' CONTRIBUTION AND RESULTS

$ millions	6 months to 30 September 2008	6 months to 30 September 2007	Year to 31 March 2008
TrustPower	136.7	116.2	208.0
Infratil Energy Australia	28.1	7.8	12.0
Wellington Airport	32.2	27.7	60.0
Infratil Airports Europe	(6.0)	0.0	1.2
NZ Bus	17.8	20.8	41.9
Other, eliminations, etc	(5.8)	(6.8)	(7.2)
Infratil EBITDAF	203.0	165.7	315.9

Infratil's 23 percent increase in earnings (EBITDAF) reflected the financial and operating performances at Infratil's core businesses.

The outcome was in the context of mostly weaker economic environments and is testament to the strong underlying trends driving the value of Infratil's businesses.

TrustPower delivered record half-year earnings despite facing very difficult generation conditions and high electricity prices over the first quarter. TrustPower's diversity of generation catchments and risk management practices again showed their worth.

Infratil Energy Australia Group's strong earnings contribution reflected good risk management and positioning, responsiveness to changing market conditions and the increasing scale of retail operations.

Wellington Airport also produced record earnings and cash contribution to Infratil. The Airport's efforts to attract and develop services paid off during the period with continued growth despite the economic slow down.

Infratil Airports Europe recorded an earnings loss of $6 million due to the failure of two freight airlines which had used Glasgow and Kent and the collapse of a charter passenger airline which was using Glasgow.

New Zealand Bus's decline in earnings reflected increased maintenance expenditure to improve service reliability. Otherwise, increased patronage, fares and regional council contract payments balanced-out higher costs.

Capital & Risk Management

Infratil's commitment to risk management is one of its defining characteristics. Through proactive measures taken in past years Infratil remains comfortably positioned despite the weak economic conditions and financial markets instability.

CASHFLOW MANAGEMENT

Over the six month period Infratil's consolidated net operating cashflows (that is cash operating income after all expenses including interest and tax and increased working capital requirements) were $42 million.

Discretionary growth capital outlays amounted to $235 million with going concern capex of $26 million.

Funding was provided by $77 million of new equity, $95 million of additional borrowing and a $96 million reduction in cash holdings.

Looking forward, the new realities of the capital markets will impact the group's growth investment in two ways. The availability of funds will restrict investment while the market prices for Infratil's shares and those of other utility companies will create more onerous benchmarks for assessing investment in new facilities (whether terminals, turbines or buses) or businesses.

CAPITAL

Infratil received $90 million from the second instalment on the shares issued last year and the exercise of warrants, while $14 million was outlaid buying back shares. The buyback reflects the view that of all the investments Infratil has recently reviewed, none has been as attractive as its own shares.

DEBT

During the period $140 million of debt facilities were renewed to 2011.

In 2009 Infratil has one third, $174 million, of its bank facilities coming up for annual review and IEA and IAE together have $54 million of working capital facilities also due for regular annual renewal.

As at 30 September Infratil had undrawn bank lines and cash deposits amounting to $254 million.

FINANCIAL MARKET INSURANCE

During the period Infratil recorded a gain of $16 million from put options purchased against the US S&P500 index. This is as an unusual arrangement for an infrastructure company but it reflected the concern management and directors held for the health of the global capital markets. The insurance was taken against the US sharemarket because it acts as a bellwether, Infratil has no exposure to shares listed outside of New Zealand or Australia. This insurance arrangement was terminated after 30 September and further gains of $17 million will be recorded in the second half of the 2009 financial year. The total gain from this hedge amounted to $45 million.

Business Conditions & Prospects

Infratil is well placed to ride out the current economic conditions. Its businesses are in sectors with structural advantages relative to those facing greater pressure on prices or where consumption is more discretionary.

REGULATORY CONDITIONS

In its last days the Labour Government drove several pieces of legislation into law which are likely to be subject to improvement once more thoughtful, less urgent, consideration is brought to bear. A late change to the Public Transport Management Bill allows regional councils to ban privately provided public transport. Unless the law is corrected it will stifle development and new services. New Zealand airports also slipped into being regulated, notwithstanding officials' analysis indicating that the airports were the best performing parts of New Zealand's transport infrastructure.

The law-making flurry did bring into life the Emission Trading Scheme which means New Zealand's carbon emissions will gradually attract international prices. This has been anticipated by the electricity sector and will ensure the focus of new development continues to be on renewable generation. The National led Government has signalled it intends to amend this law, but core features are likely to be retained.

Regulatory developments in the Australian energy sector have created impediments to growth in Infratil Energy Australia's retail activities outside of Victoria while carbon pricing is still due for introduction to the electricity sector from 2010.

SECTOR TRENDS

The value of Infratil's businesses are driven by underlying trends in urban mobility, renewable energy, air travel and the restructuring Australian energy market. With the near collapse of the world's finance sector and now real economy weakness, it is necessary to ask questions such as "will air traffic grow?", "are societies willing to pay more for energy to reduce greenhouse gas emissions?" and "will better public transport be a preferred solution to urban mobility?".

There will be setbacks. "Edge of city" European airports will increase in value as existing facilities become congested. Lower aviation growth means congestion is postponed. Generally, however, the factors which led Infratil to its existing sectors continue to pertain. In addition Infratil's businesses exhibit the key attribute of having robust cashflows despite the wider economic circumstances.

Infratil's businesses are well placed to weather current events and to grow. Societies want good infrastructure and governments are encouraging investment in these sectors because of social pressure and, in the near term, to balance declining consumer spending. Infratil's expertise and credibility make it a natural partner in such developments. Investors remain interested in infrastructure and eventually stabilisation of the credit and capital markets will result in greater confidence in valuations.

PEOPLE & COMMUNITIES

While the immediate priority is to conserve financial resources, this does not mean neglecting either the users of Infratil's facilities and services or the people who make them work. Infratil's businesses succeed when the Company's well trained, resourced and empowered workforce exceed customers' expectations.

TrustPower

The June quarter was dry and still across New Zealand and resulted in TrustPower announcing a reduction to earnings of up to $20 million as its generation was curtailed and it was obliged to purchase expensive electricity on market to meet the needs of its customers. Notwithstanding, TrustPower was still able to deliver a $20.5 million earnings increase over the half year relative to the same period in 2007, testament to both the unpredictability of the weather and TrustPower's risk management skills.

TrustPower's 99MW South Australian wind farm was completed on budget. This facility is forecast to produce approximately 390 GWh a year, sufficient for almost 70,000 average households. It will avoid the emission of over 380,000 tonnes of CO_2 per annum.

TrustPower is progressing other wind developments in Australia and is on the final consenting stages for two wind and two hydro projects in New Zealand amounting to 558 MW.

From 1 January 2010 the electricity sector is to be exposed to the cost of greenhouse gas emissions which will increase the cost of gas and coal fired generation. TrustPower's generation is entirely renewable and produces no emissions.

	30 September 2008	30 September 2007	31 March 2008
Customers (electricity)	219,000	220,000	222,000
Sales (GWh)	2,254	2,361	4,540
Generation hydro (GWh)	907	833	1,472
Generation wind (GWh)	254	273	546
Average generation spot price	17.0 cents kWh	6.2 cents kWh	6.8 cents kWh
EBITDAF	**$136.7m**	**$116.2m**	**$208.0m**
Net profit after tax	$66.8m	$64.3m	$98.1m

Infratil Energy Australia Group

IEA delivered an exceptional financial result with EBITDAF earnings of almost A$23 million up from $7 million the previous year. There were one-off contributions to the outcome which reflected excellent risk management. The good result for the period was also because of the greater scale of IEA's retailing operations which increased by 86,000 accounts over the half and are almost 60 percent larger than for the same period in 2007.

With regards to the second half of the year, energy retailing in Australia is highly cyclical with earnings weighted towards winter (at that time of year consumers use more gas while market electricity prices are lower). The energy retailing activities also face challenges from poor State regulation which is discouraging competition and growth except in Victoria.

In addition to the good result from retailing, IEA also commissioned its third peaker power station and work is now almost completed so that construction of the West Australian open-cycle 120MW facility can commence in mid 2009.

Exceptional financial result and excellent customer growth. New generation progressed, but retailing faces difficulties with stifling regulation except in Victoria.

	30 September 2008	30 September 2007	31 March 2008
Generation capacity	**96MW**	**70MW**	**70MW**
Billed accounts	**372,556**	**235,540**	**286,139**
Revenue generation	A$3.5m	A$5.1m	A$12.1m
Revenue retail	A$226.0m	A$123.5m	A$230.0m
EBITDAF	**A$22.9m**	**A$7.0m**	**A$10.6m**
Costs capitalised	A$5.3m	A$2.3m	A$7.3m
Derivative change	(A$8.4m)	A$18.1m	(A$7.5m)
Interest, depreciation, tax, minorities	(A$10.1m)	(A$9.4m)	(A$4.6m)

Wellington Airport

Earnings growth continued with increased passengers on the domestic trunk attracted by the good service and fare offerings of Pacific Blue, Air New Zealand and Qantas. While fuel costs have halved recently, in the short term it is expected that weak economic circumstances will act to nullify the benefits of lower fares.

Recent developments have underlined the trend towards integration of the New Zealand and Australian domestic markets which can only be of benefit to travellers. Over the medium term low-cost airlines such as JetStar, Tiger and Lion are all likely to follow Qantas and Virgin/Pacific Blue to become Australasian. In the meantime the existing carriers operating in New Zealand are improving their services and aggressively pursuing passengers.

Long haul services to New Zealand were reduced over the period, but on the horizon are the huge Middle Eastern airline aircraft orders and the advent of smaller long haul aircraft which will suit the scale of the Wellington market.

Good passenger and earnings growth care of good airline service and fare offers.

Work is underway to accommodate the growth of new services over the medium term.

	30 September 2008	30 September 2007	31 March 2008
Passengers domestic	2,366,892	2,042,646	4,418,381
Passengers international	285,014	288,067	603,344
Aeronautical income	$27.9m	$22.8m	$48.9m
Passenger services income	$11.7	$10.4m	$21.8m
Property & other income	$4.1m	$3.6m	$7.5m
Operating costs	($11.5m)	($9.2m)	($18.2m)
EBITDAF	**$32.2m**	**$27.7m**	**$60.0m**
Interest, depreciation, impairment, minorities	($20.3m)	($17.1m)	($36.7m)

Infratil Airports Europe

The European Airports group incurred an EBITDA loss for the six months of $6 million, mainly due to the loss of freight customers at Glasgow Prestwick and Kent and the collapse of a charter airline which had used Glasgow Prestwick.

Over the period the European aviation market was suffering from high fuel costs and weak economic conditions, but not all carriers were in retreat. Ryanair (Infratil Airports Europe's main passenger airline) added 249 new routes, grew its passenger numbers 19 percent to 31.6 million and achieved net profit after tax of Euro215 million.

The future is difficult to forecast with lower fuel costs providing stimulus to low-cost passenger and freight airlines (where fuel can be over half of total costs) while the overall economic picture looks cloudy.

Poor financial outcome mainly due to the loss of freight airlines.

Because of the low-cost nature of the airports' passenger services these numbers have held up.

	30 September 2008	30 September 2007	31 March 2008
Passengers	1,672,249	1,715,427	3,003,874
Freight (tonnes)	20,376	25,101	64,359
Aeronautical income	£10.7m	£11.2m	£22.4m
Passenger services income	£4.7m	£4.1m	£8.4m
Property & other income	£2.2m	£2.7m	£6.3m
Operating costs	(£19.9m)	(£18.0m)	(£36.6m)
EBITDAF	**(£2.3m)**	**£0.0m**	**£0.5m**
Interest, tax, depreciation, impairment	(£3.6m)	(£2.3m)	(£4.2m)

New Zealand Bus

Earnings were below target because a change in maintenance practices to improve reliability increased costs.

Otherwise higher fare and contract income was in balance with increased costs. Notably NZ Bus incurred road user charges of $5.6 million for the period following a 14 percent increase in this government levy.

The passage of the Public Transport Management Act in the last days of the previous Government has resulted in a law which empowers regional councils to ban private, unsubsidised, providers of public transport. A philosophical outcome desired by some local government politicians and officials. Until this Act is repealed NZ Bus's ability to expand and improve services is constrained.

6% passenger growth overall. 22% growth on services subject to intensive upgrade indicate the potential for better services to result in marked increases in use.

	30 September 2008	30 September 2007	31 March 2008
Passengers Northern	19,956,312	18,638,872	36,648,393
Passengers Wellington	10,601,150	10,206,281	19,723,961
Fare income	$58.6m	$55.8m	$112.7m
Contract income	$43.0m	$38.6m	$83.4m
EBITDAF	**$17.8m**	**$20.8m**	**$41.9m**
Interest, taxation, depreciation, impairments	($14.9m)	($15.4m)	($22.9m)
Capital spend	$20.5m	$11.0m	$44.1m

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