Infratil Operational Report for February and March 2014

Infratil has celebrated the start of its third decade. The last two have been productive and eventful. The next will be just as active and the demand for infrastructure and Infratil's capability augers well for future returns.

Infratil's latest Update provides a brief reflection on what has driven Infratil to where it is today, the effect its operations have had, and where pathways may lead in future. The Update also includes a summary of a number of social, economic and environmental changes which have happened over the last twenty years. It is very revealing to see what has and has not changed since 1994.

In March Infratil held its annual Investor Day to allow management to present their views on the supply and demand for infrastructure, factors influencing returns, areas of perceived opportunity, and operational and investment challenges facing key businesses. The presentations are available www.infratil.com/for-investors/company-presentations/

In his presentation chief executive Marko Bogoievski noted that Infratil is as well placed as it has ever been to deliver above-average returns over at least the next five years. The Company has access to capital, an excellent range of investment options and a strong raison d'etre to provide investors access to a portfolio of attractive infrastructure assets in Australasia.

As always, Infratil's investment activities will be shaped by the market, and a characteristic of the market was illustrated by the recent Beijing Capital purchase of New Zealand's largest solid waste management company for $950 million. Beijing Capital is one of the many sovereign and pension fund investors willing to accept relatively low returns on (and hence willingness to pay hefty prices) for "core infrastructure". Infratil's challenge is to find areas which are less competed and fortunately, as last year's over-$600 million of capex shows, there are still a large array of investment opportunities available. Marko outlined Infratil's approach of positioning in long-term growth sectors and the Company's focus on early-stage or greenfield-type investments which tend to be beyond the reach of most sovereign/pension funds.

One sector which is requiring large increases in capital is social infrastructure, whether for new assets via Public Private Partnerships, or going concerns via long-term leases or outright sale. While there have been only a handful of recent transactions in New Zealand (one school, one road and one prison) it is expanding rapidly in Australia and in April Infratil made its first investment of $13 million (A$12 million of a A$100 million commitment) to fund schools in Queensland and a hospital in Adelaide. These sums are not inconsequential, but they are a modest fraction of the potential given the increasing use of this form of infrastructure funding.

An important aspect of these transactions (the high bid costs and expertise requirements) is illustrated by a short video posted by the Victorian State Government. It shows the receipt by officials of the three final bids for construction and financing of an 18 kilometre section of the Melbourne motorway. Apparently the bids comprise over 700,000 pages!

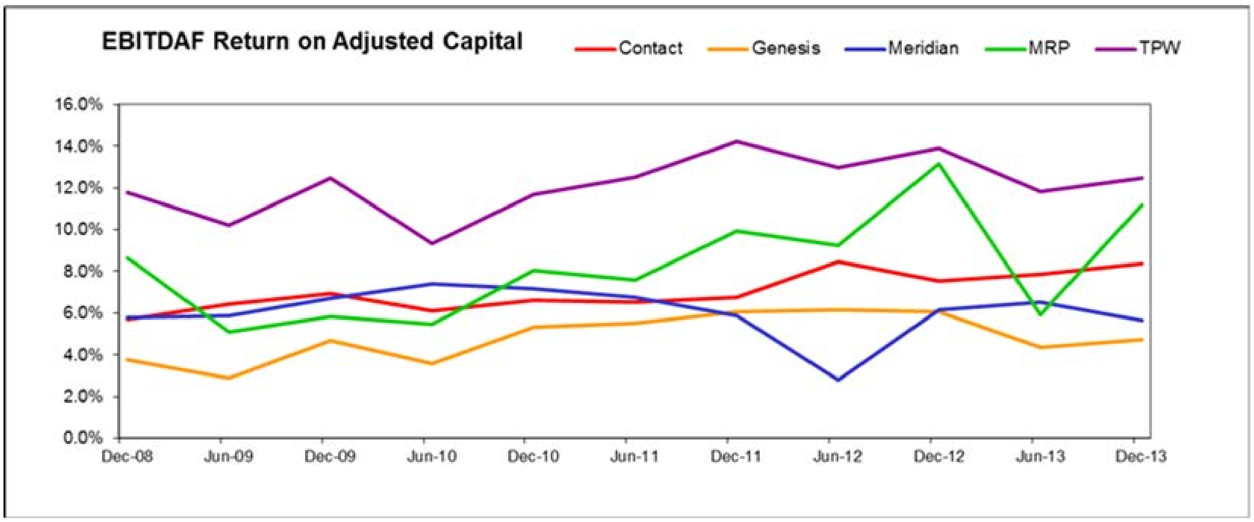
http://www.linkingmelbourne.vic.gov.au/news-and-resources/latest-news/east-west-link/procurement-milestone-for-east-west-link

In Australia private financing of infrastructure is expanding rapidly. The Queensland Government just completed the long-term lease of 73 kilometres of tollable roads for $7.6 billion (A$7.1 billion) to a consortium of the ASX listed company Transurban, the Australian Super Fund and the Abu Dhabi Investment Authority and a few days later the State Government of NSW agreed to a long term lease of the Port of Newcastle to Hastings Funds and China Merchants in exchange for $1.9 billion (A$1.8 billion).

Further illustrating the Australian push, the NSW and Federal Governments have agreed to progress the construction of a second airport in Sydney to open in about a decade. It is estimated to cost almost $10 billion (30% of this being the cost of the airport itself and 70% being the cost of land transport links with the airport).

Trustpower

At the Infratil Investor Day Trustpower Chief Executive Vince Hawksworth explained how Trustpower intends to maintain its long record of providing the highest return on assets of the five substantial New Zealand electricity companies.



Unlike the prevailing theme of the other electricity companies, Trustpower is investing for growth.

- The Company is taking advantage of its capability as a retailer to both grow its customer numbers and to increase the sale of gas, telephone and internet services. At present 20% of its customers source more than just electricity from Trustpower and the target is to increase this to 30% over the next five years.

- The larger impact growth-initiative is wind generation in Australia. By the end of the year Trustpower's investment in this field will amount to about A$615 million and by that time it is expected that a number of Trustpower's other sites will be consented which will allow additional development to occur. Over the next year Snowtown II will start making a substantial impact on Trustpower's earnings.

  Once fully operational the Snowtown wind farms will provide sufficient electricity for about 230,000 households and emit 950,000 tonnes less CO_2 than would come from a coal fired station generating the same amount of electricity. They will also provide almost 30% of Trustpower's free cashflows after tax and debt servicing.

	Snowtown 1	Snowtown 2 South	Snowtown 2 North
Capacity	101MW	126MW	144MW
Wind turbines	48	42	48
Expected output	370GWh	481GWh	504GWh
Capital Cost / GWh	A$480,000	A$380,000	A$509,000
EBITDAF *	A$20m	A$37m	A$41m
Earnings per share *	2.5cents	4.1cents	3.3cents
Free cashflow per TPW share *	3.9cents	7.6cents	8.0cents

* For Snowtown 1 the earnings and cashflow figures are for FY2013. For Snowtown 2 the figures are projections for FY16 as that will be the first full-year contribution.

After a period earlier in the year when New Zealand wholesale electricity prices were consistently over 10 cents/kwh, they have now fallen back to more familiar levels and annual hedge prices are now almost flat at 7.5 cents/kwh for the next three calendar years.

Lumo/Infratil Energy Australia

Lumo increased its customer accounts by 21,484 (annual rate of 9%) over the last six months following a small increase in the first half of the year. The acceleration of growth reflects Lumo's adjustment to the regulatory changes which became effective in 2013.

	Vic Electric	Vic Gas	SA Electric	QLD Electric	NSW Electric	NSW Gasc
February 2013	206,279	143,543	48,691	45,074	35,170	6,820
March 2013	207,927	145,073	48,485	45,129	36,760	7,396
September 2013	207,666	147,385	47,545	44,450	38,162	8,593
February 2014	210,160	149,642	46,346	49,226	41,813	10,895
March 2014	212,175	151,336	46,385	50,262	43,370	11,757

While more onerous regulation of door to door and telemarketing channels slowed growth for a time, at the other end of the spectrum all the National Electricity Market states (Victoria, South Australia, NSW, Queensland) have now announced that removal of price controls on retail energy pricing will be complete by the end of next year.

At the Investor Day acting chief executive Rhoda Phillippo explained how Lumo had reoriented its marketing and sales to accommodate the increased regulation of door to door and telemarketing. Last year 56% of Lumo's new customers had been approached by door knockers or telemarketers and this year that figure is forecast to fall to 14%. Direct Connect and internet marketing is expected to more than providing compensation. Direct Connect is Lumo's own business which operates via real estate agents and assists incoming home owners and tenants to sign up utility services.

Notwithstanding an expanded marketing effort and spend in FY2015, Lumo's earnings are expected to be similar to FY2014 in $A terms.

NZ Bus

After the disappointing slump in patronage which occurred in mid-2013, use of public transport has been rising over recent months. The pattern is evident in both Auckland and Wellington.

While the full year growth of Auckland was only 0.3% and Wellington 0.2%, over the last third of the year Auckland's average growth rate was 3.3% and Wellington's 2.1%.

Northern	Month	12 months
February 20013	2,957,828	37,739,817
March 2013	3,616,343	37,482,829
February 2014	3,089,257	37,416,379
March 2014	3,790,979	37,591, 015

Southern	Month	12 months
February 2013	1,615,743	20,602,456
March 2013	1,870,215	20,331,222
February 2014	1,637,403	20,297,262
March 2014	1,946,155	20,373,202

Auckland Transport is progressing a number of exciting initiatives to deliver its ambitious public transport goals. At a very tangible level they include a $66 million plan to upgrade Dominion Road, while the new long-term contracts for bus services are expected to be released shortly for implementation in 2015.

Great Wellington Regional Council is moving a little slower. The chair of the Regional Council transport committee wrote in a newspaper article that the Council's focus over recent years has been upgrading the trains, but once consultation over the Regional Public Transport Plan is finalised it will be the turn of the buses.

At least one aspect of the draft Plan is likely to be contentious as the Council is proposing to replace NZ Bus's fleet of electric trolley buses in 2017. If that occurs it will see expanded use of diesels as no other method of propulsion (battery or "hybrid") is currently viable. With increasing development of batteries a more sustainable proposal would seem to be to maintain the trolley fleet until non-wire electrics become economically viable. While trolley buses are more expensive to operate than diesels, Government policy is for regional council subsidies to meet no more than half of the cost of public transport services and Wellington's bus services are well under this cap.

Snapper

Snapper also has an interest in Greater Wellington Regional Council's draft public transport plan. It reiterates Council's commitment to the introduction of integrated fares and a single public transport ticket to be used on all vehicles. Snapper is ideally placed to meet this need as it already can be used to catch a GO Wellington bus, a Valley Flyer bus, any one of Wellington's

800 taxis (five taxi companies), the cable car, the harbour ferries, and to pay for roadside car parking in Wellington City and merchandise at anyone of 245 shops.

Integrated fares mean that a journey involving a ride on, say, the train and a bus can be priced as a single journey rather than as two independent rides. The perceived need for a single ubiquitous ticket relates to situations where a traveller is using modes of transport owned by two different companies, which may encompass one to two million rides a year. In the past Council has disclosed projected costs for an integrated single ticket of over $8 million a year (capital and operating).

Wellington Airport

The twelve months ended 31 March 2014 were Wellington Airport's busiest ever with 64,000 more passenger movements (+1.2%) than the prior year. The growth rate was however slightly disappointing after the previous year's 182,000 (3.5%) increase and reflected airline capacity changes, especially a marked reduction in Wellington-Queenstown services.

Domestic Passengers	Month	12 months
February 2013	381,971	4,613,974
March 2013	432,486	4,646,724
February 2014	373,351	4,701,522
March 2014	414,984	4,684,020

International Passengers	Month	12 months
February 2013	58,738	722,032
March 2013	66,918	726,898
February 2014	61,791	754,709
March 2014	65,564	753,355

The 1% average growth in passenger numbers masked a range of individual route performances. International passengers exceeded 750,000 for the first time with Sydney and Melbourne traffic up 6% and 7% respectively. Domestically Auckland and Christchurch traffic rose 4% and 3%, but passengers on regional services fell 3% mainly driven by Jetstar's withdrawal from Queenstown.

In all cases the common denominator was airline management of capacity as they aim for maximum utilisation. Recently international and domestic services have been 84-85% full against an average rate for the prior year of 74% and 80% respectively.

Airport management are progressing a number of initiatives which are expected to result in airline service and capacity increases in FY2015.

The resetting of the Airport's aeronautical charges for the five years to 31 March 2019 is progressing, with per-passenger charges for FY2015 forecast to average $10.93, about $1 per passenger less than FY2014's average. All the relevant information is now on the Airport's website. Two items of particular note are:

- Over the five years domestic passenger movements are projected to rise from last year's 4.68 million to 5.13 million and international passenger movements from 0.75 million to 0.97 million. This increase of 670,000 passenger movements is driving the Airport's plans to invest $250 million in capacity and additional services over the period.
- Over the five years Wellington Airport is forecasting that its aeronautical assets (mainly the airfield and parts of the terminal) will revalue upwards at an average rate of 2.5% p.a. or $8.8 million a year. The Airport forgoes immediate cash earnings in exchange for asset revaluations which will be reflected in higher future cash earnings. It means that Wellington Airport's reported earnings tend to understate actual income as revaluations are not taken through the account's revenue statements.

In response to civic demand for an extension to the runway to enable direct services with Asia, Wellington Airport is progressing its feasibility analysis in partnership with Wellington City Council. The economic impact report has shown that direct air links between Wellington and Asia would provide a material boost to regional and national economic growth. The next step is an engineering report on an extension's physical plausibility and cost.