



Infratil Operational Report for December 2013 and January 2014

Infratil closed its 2019 bond issue with 35% over-subscriptions of the \$50 million funding target. The funds are for general corporate use and the issue ensures that Infratil maintains the long duration of its debt funding. Infratil's next bond maturity is in November 2015.

Infratil's A\$100 million commitment to Australian social infrastructure via the ASIP fund will be drawn down by A\$12 million. This amount provides part of the funding for a number of schools in Queensland and a hospital in Adelaide. Infratil will contribute an additional A\$16 million over 2014/15 to complete the required funding of these projects. ASIP is expected to make further investments as federal and state governments increase their use of more innovative ways to finance growing demand for schools, hospitals, roads and other social infrastructure. Infratil is awaiting the final consent required to its commitment.

There are strong benefits when the private sector works with central and local government to provide social infrastructure - a current example is the burden both the Wellington Regional and City Councils have felt with the cost of earthquake strengthening their offices and halls. Had a commercial model been in place the cost of this strengthening work would have fallen on the private property owner rather than the public purse. In Wellington while almost all government office workers are located in commercially provided premises this is not the case with local government.

Our recent investments in social infrastructure and the retirement sector are part of Infratil's programme to manage the allocation of its capital with the aim of maintaining earnings and value growth. More recently a substantial proposal for a material new investment in the waste sector was developed, but someone else was willing to pay more for the opportunity (i.e. was willing to accept lower returns) so this will not now progress.

The purchase in January by institutional investors of 4% of Infratil has resulted in the following approximate ownership profile, and changes since 31 March 2013;

Million shares	February 2014	March 2013
Utilico & associates	49	79
Management & others	51	58
NZ individuals	247	249
NZ institutions	129	142
Australian	11	13
Other offshore	74	43
Total shares issued	561	584

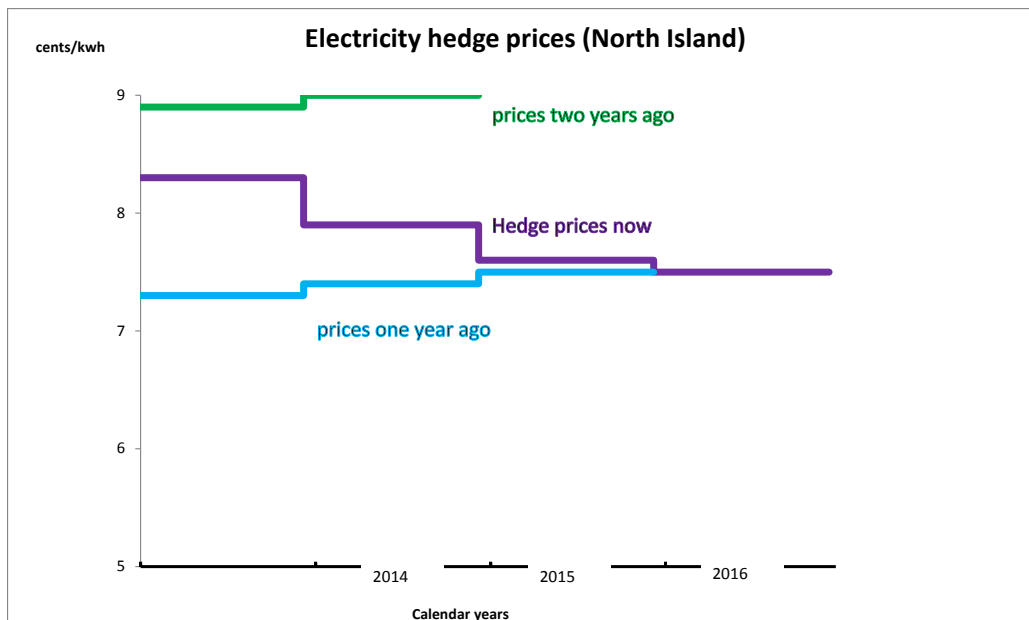
Trustpower

Construction of the Snowtown II wind farm continues on plan and budget with 41 of the 90 planned turbines now generating. The wind farm will be fully commissioned later this calendar year and from next financial year will be contributing a material uplift to the earnings of Trustpower and Infratil.

Once Snowtown II is commissioned approximately 40% of Trustpower's generation will be in Australia, which will contribute a slightly higher proportion of the company's total generation earnings.

The Australian Government has released the terms of reference for a study of the Renewable Energy Target scheme which now requires retailers to source a part of their electricity from renewable sources. It was to meet this retailer demand that Trustpower built the Snowtown wind farms. At present the scheme has a target of 41,000GWh of annual renewable generation by 2020 which is about half way to being met (by way of context, 41,000GWh is about the same as the entire annual New Zealand generation). Notably the terms of reference of the review expressly requires that the eventual report should provide advice on "the range of options available to reduce any impact while managing sovereign risk". For investors in sunk assets such as power stations it is crucial that changes in regulation do not unfairly expropriate value and it is comforting that this is recognised.

Locally, wholesale energy prices which fell 1 to 2 cents per kwh in 2012 are now rising. The graph shows the price of electricity hedges now available through the ASX for the period 2014 through to 2016 (the ASX hedges are for up to three years out, although the further out the hedge the less trading there tends to be). The graph also shows the hedges prices as at a one year ago and two years ago. The large drop in price between 2012 and 2013 is evident as is the recent rise.



Consumption remains subdued (notwithstanding the economic recovery) but the recent dry weather has lowered the hydro lakes and some old and expensive thermal plant held by competitors are being decommissioned which is reducing the supply overhang.

As at 31 December Trustpower had 222,000 electricity customers, up from 205,000 a year prior, while total accounts (including gas and telecoms) increased to 284,000 from 246,000.

Lumo/Infratil Energy Australia

Customer churn in the National Electricity Market has stabilized at about 18% although individual states range from 25% (Victoria) to less than half of that (Queensland). Different approaches towards deregulation (led by Victoria) appears to be the main influence on the level of competition in each state's energy market.

Lumo has maintained growth as it reinvigorates its marketing/sales programmes post the imposition of tougher regulation of activities such as door-to-door sales. Access to the Direct Connect channel is an important factor behind Lumo's continuing progress.

	Electricity	Gas	Total
January 2013	331,499	148,012	479,511
March 2013	338,301	152,469	490,770
September 2013	337,823	155,978	493,801
December 2013	341,069	157,251	498,320
January 2014	343,414	158,520	501,934

Whether reflecting changes to atmospheric carbon or just the vagaries of the weather South Australia and Victoria experienced extraordinary temperatures in January; Melbourne had four consecutive days above 41°C and Adelaide five over 42°C.

Such temperatures have the effect of driving up electricity demand for air conditioning while reducing the potential output from thermal power stations, and applying upward pressure on wholesale electricity spot prices. However, although demand in January was at levels last seen five years ago, on this occasion wholesale prices did not reach the 2009 levels because today there are higher levels of reserve generation capacity as well as subsidised rooftop photovoltaics.

In any event, Lumo was hedged against the higher prices through access to IEA's generation and market hedge contracts.

Results announcements by the three large generator/retailers in the latter part of February showed the material structural changes which have impacted the Australian electricity market over recent years. Excess supply and reduced household demand have created a difficult commercial environment. Infratil Energy Australia's strategic decision to not invest in baseload generation capacity has been largely vindicated.

NZ Bus

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

Northern	Month	12 months
December 2012	2,425,669	37,890,611
January 2013	2,405,414	37,997,321
December 2013	2,463,116	37,222,565
January 2014	2,467,799	37,284,950

Southern	Month	12 months
December 2012	1,380,758	20,550,917
January 2013	1,274,306	20,636,071
December 2013	1,420,507	20,271,208
January 2014	1,278,700	20,275,602

In Auckland the first of the new long-term contracts is expected to become available over the next couple of months. The new contracting regime is to be rolled out over a two to three year period and will involve a mixture of tenders and negotiated agreements. Renewal of the contracting regime after a lengthy process will allow transport authorities and operators to shift their focus to maximising patronage.

NZ Bus has now largely concluded its fleet renewal programme in preparation for the new contracting regime.

Snapper

In Wellington it is now possible to use a Snapper card to catch a GO Wellington bus, a Valley Flyer bus, any one of Wellington's 800 taxis, the cable car, the harbour ferries, and to pay for a roadside car park and merchandise at any one of 245 shops. Customers can reload their Snapper using their mobile phone and even use their phone as a Snapper card.

With the addition of the Cable Car Snapper is starting to provide the platform for integrated fares. Once a single ticketing system is in place across a number of different modes, in this case two bus companies, five taxi companies, the cable car and ferries it is practicable for the regional council (which controls fares), to start thinking about fares for multiple-leg and multiple-vehicle journeys.

Wellington Airport

It's official. Wellington Airport's Mojo coffee shop received the accolade of being rated as making the best coffee available at any airport in the Pacific or Asia. In the whole world the US survey of airport coffee rated Mojo coffee as second only to a coffee shop in the Copenhagen airport.

Wellington Airport's 2013 traffic of almost 5.5 million passenger movements was 3.5% ahead of 2012 or almost 190,000 additional passengers.

The reduction in Jetstar capacity on NZ domestic services last year has meant that current month on month comparisons are disappointing, but high aircraft loadings and announced service changes are expected to result in growth resuming shortly.

Wellington has benefited from the Qantas-Emirates alliance which is seeing more long-haul passengers travel to Wellington from east coast Australia rather than via another New Zealand airport. As a result Qantas' Tasman loadings have been the highest of any of Wellington's services and these were not affected by the service cuts announced last week by Qantas in Australia.

The additional traffic is causing marked terminal congestion. It had been planned that work would already be underway on an expansion to facilities, but this was delayed by extensive airline consultation. This is however now concluded and the final value-engineering of the project is occurring with construction expected to commence shortly.

Domestic Passengers	Month	12 months
December 2012	404,260	4,575,647
January 2013	359,580	4,608,231
December 2013	389,592	4,733,401
January 2014	336,321	4,710,142

Intel' Passengers	Month	12 months
December 2012	70,124	721,580
January 2013	72,839	721,575
December 2013	72,273	750,482
January 2014	74,013	751,656

Consultation has also been progressing with the airlines to reset the Airport's aeronautical charges from mid-2014. The Airport has now provided the airlines with the final "building block" factor which goes into determining charges. These are all on the Airport's web site. The initial pricing proposal will be provided after receipt of airline feedback.

The prices are set in the context of a highly complex regulatory environment. The Court of Appeal is to hear an appeal against the December High Court decision on the Commerce Commission. The Commerce Commission is to consult on whether it should undertake a full review of the same issues. The Ministry of Innovation, Business and Employment is to review the Commission's reports on the recent price setting decisions of Wellington, Auckland and Christchurch airports. And in due course the Minister will review the advice he gets from the Ministry.

None of which makes it any easier to sign off substantial investment in new facilities.