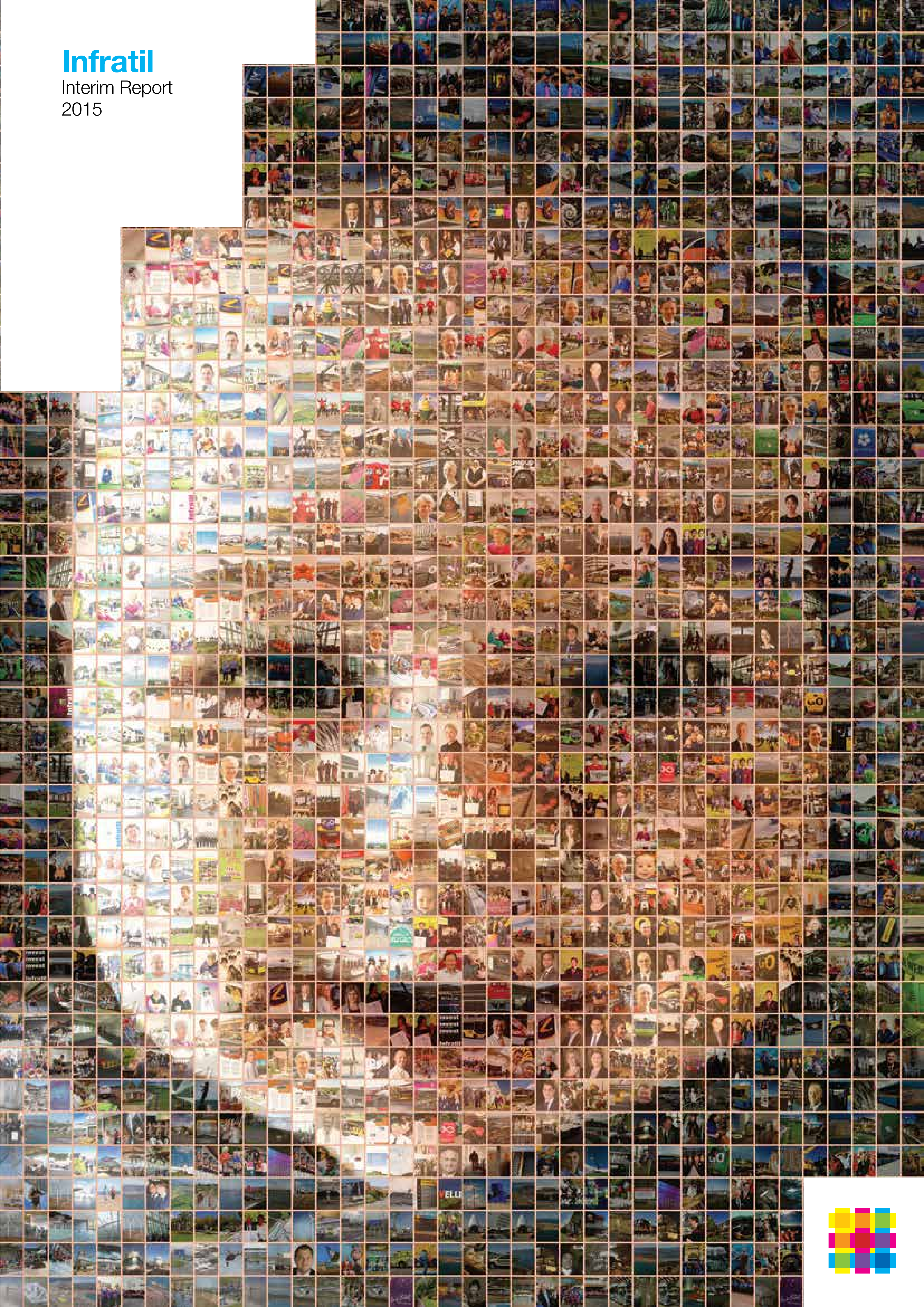
Infratil
Interim Report
2015



Infratil owns energy, transport and social infrastructure businesses that provide essential services to individuals and communities. If they are efficient and provide good services they create opportunities for profitable growth.

When Infratil opened its issue of 5.25% coupon Infrastructure Bonds maturing in 2023 (IFT210) it received a waiver from the NZX in respect of a rule that there must be at least 100 bond holders holding at least 25% of the securities issued on the day the securities were first listed ("spread requirement"). Had the Infrastructure Bonds not been widely held it could have reduced their secondary market liquidity. While the spread requirement has now been met, NZX made it a condition of the waiver that the waiver's existence be prominently displayed in the Infratil Interim Report (it is explained further in the Bond Terms Sheet)and that Infratil keep NZX informed in the event the spread requirement is not maintained.

Highlights

for the six months ended 30 September 2015

Net parent surplus for the period was $435 million compared with $399 million last year

- 78 cents per share up from 71 cents.

Consolidated EBITDAF from continuing operations[1] was $271 million ($238 million for the same period last year and $452 million for the last full year)

- $11 million increase in Trustpower EBITDAF.
- $24 million increased contribution from retirement accommodation in New Zealand and Australia.

Full year EBITDAF guidance for FY16 is confirmed at $500-$530 million (last year actual $452 million)

- Relative to the guidance given in May, the updated guidance has been reduced to reflect the sale of the remaining 20% interest in Z Energy, partially offset by a small increase in projected earnings from continuing operations.

$55 million of capital was invested over the period ($196 million in the prior period)

- 50% of the group's investment for the period was undertaken by Wellington Airport.
- An increase in internal capital spending is anticipated in the second half of the year.
- Significant acquisition initiatives are under active development.

The sale of Infratil's 20% interest in Z Energy realised $480 million and provided a gain on book value of $392 million

Net debt[2] of Infratil and wholly owned subsidiaries fell to $308 million from $761 million at the start of the period (15% of total capitalisation from 30%)

- A $100 million issue of 5.25% per annum bonds maturing September 2023 was opened after balance date and has been oversubscribed. $153 million of 8.5% per annum bonds mature in November 2015.

The interim dividend increased to 5.25 cents per share from 4.50 cents last year

- The dividend will be paid on 15 December 2015 to shareholders of record on 27 November 2015.
- Last year special dividends of 21.4 cents per share were declared (amounting to $120 million). While Infratil is now in an even stronger capital position, the pipeline of internal capital expenditure and external origination is strong. Funds may be required for investment projects now under development and until these initiatives are finalised (one way or the other) returns of capital are on hold.

1. EBITDAF is a non-GAAP measure which shows management's view of underlying business performance. It shows operating earnings before deducting interest, tax, depreciation and amortisation and before making any adjustments for fair value movements, realisations and impairments.
2. For 30 September 2015 net debt includes $480 million of receivables from the sale of Z Energy shares. This amount was received in October.

Chairman and Chief Executive Report

Infratil's goal is to provide good risk-adjusted returns to its shareholders. Primarily this will come from capital allocation decisions and the operational results that drive individual business values.

For our shareholders, the six month period under review may feel as if Infratil won the double, but needed the trifecta. Operating earnings were good, asset disposals delivered excellent value, but no new major capital allocation occurred. For reasons which are unclear, Infratil's strong capital position which provides the capacity to deploy over $1 billion seems to have resulted in weakness in Infratil's share price. Positively, the uncertainty will be resolved in due course as new investments are executed or capital returned.

One potential investment which has been noted in the media is Pacific Hydro. This company owns and develops renewable generation in Australia and South America. It is being sold by its funds manager owner as it seems that the operational expertise required of the owner is not a good fit with a passive management approach. Pacific Hydro's breadth of generation assets and extensive pipeline of development projects is well suited to Infratil's management capability. The sales process is expected to conclude in FY2016 although the outcome is uncertain and the company is for sale as a whole or by geography.

It is apparent that attractive opportunities for deployment of Infratil's capital are available and the best outcome will reflect patience and a long term perspective on value.

EBITDAF (Earnings before interest, tax, depreciation, amortisations and adjustments for fair value movements, realisations and impairments) on continuing operations was $271 million, up 14% or $33 million on the prior period. Improved contributions were received from all businesses except Perth Energy.

Trustpower is delivering strong growth from its multi-utility retail offer and building a pipeline of wind and solar generation development projects. Retail growth and slightly higher wind and hydro generation on both sides of the Tasman contributed to a 6% increase in EBITDAF. This would have been higher but for the expenses associated with expanding the retail customer base.

Wellington Airport saw three new international services and the announcement that Jetstar is to expand its domestic services into regional New Zealand. This latter event is likely to have been an important contributor to the 13% drop in domestic air travel costs registered by Statistics NZ for the June quarter. To accommodate traffic growth the Airport is in the initial stages of a series of construction projects which makes it the biggest (by value) building site in New Zealand outside of Auckland and Christchurch.

NZ Bus lodged bids for the South Auckland public transport services that are the first major expression of the regulatory/contracting regime which has been in gestation for the last decade! NZ Bus has comprehensively prepared for this bid, but the final decision is hard to anticipate as it will be based on a mixture of price and qualitative factors. The "up or out" nature of this process is hard on all the NZ Bus staff and their support and engagement though this long process is appreciated.

Metlifecare made solid progress on delivering its operational and strategic objectives. Surveys of staff and residents indicate a high and improving level of satisfaction. Over the last two years Metlifecare has sold occupancy rights to 948 units and delivered 197 new units, and over the next two years the company is forecasting delivery of 269 new units and 154 care beds. The latter initiative reflecting the Company's intention to expand its care offering.

RetireAustralia delivered to expectations over its first half year of Infratil ownership. Alison Quinn was appointed as chief executive and will commence work in the New Year. She will oversee the objectives of increasing the range of care options and the rate of new unit development. Occupancy rights to 241 units were sold over the period, including for 59 new units.

Investments & Opportunities

Over the period Infratil sold its residual shareholding in Z Energy and actively engaged in a number of projects to redeploy the available capital. Yet Infratil is decidedly not an asset trader. The transactions and opportunities reflect a combination of factors; normal market fluctuations, the current nature of investor priorities, the peculiarities of energy markets and, of course, Infratil's investment criteria.

To note the latter of those factors first. Infratil invests with the aim of delivering high risk-adjusted returns for its shareholders by owning businesses which have the potential to grow earnings and value, and where acquisition/investment values are consistent with satisfactory future yields. At times these criteria also justify asset sales. Lumo and Z Energy are excellent businesses that were sold because their market values meant that Infratil was able to withdraw capital with a good prospect that better opportunities would be found elsewhere.

Low interest rates on government bonds and bank deposits are causing investors that want cash returns to seek ways to combine yield with low risk. This is placing a premium value on some businesses. While Infratil also invests for cash earnings so that it can provide increasing dividends for its shareholders, its investment priority is growth.

The Pacific Hydro investment opportunity and other transactions in the renewables sector seem to have arisen out of the peculiarities of the energy market. A combination of unexpectedly low prices for hydrocarbon fuels (coal, gas, oil), financial stress, confused regulatory interventions, and disruptive technology. While the New Zealand electricity market is largely insulated from these factors, elsewhere they are clearly causing investor distress and opportunities.

They represent an opportunity for Infratil because its investment approach is based on being able to apply high quality industry expertise to complex businesses. This has proven to be a foundation for both good long term returns and the avoidance of low-probability but high-consequence risks, which are clearly causing grief in some quarters.

Capital & Shareholder Returns

Last year Infratil paid special dividends of 21.4 cents per share which amounted to $120 million; in part because of the Company's capital position and in part to reward shareholders for their support. Today Infratil's capital situation is appreciably stronger than it was last year but at least for now decisions about capital returns have been deferred. It is the board and management's opinion that while shareholders value increasing ordinary dividend income, the majority also favour Infratil continuing to use their capital to invest to grow the value of their shares. However, there is no desire to merely sit on capacity. If investments are not executed in a reasonable time capital will be returned.

Annual Meeting

Infratil's 2015 annual meeting was held in Wellington on 21 August. All resolutions were passed by at least 99% of the votes cast, including the resolutions to reappoint Humphry Rolleston and Paul Gough as directors. The meeting presentation is available on the website and minutes of the meeting are available on request.

Mark Tume
Chairman

Marko Bogoievski
Chief Executive

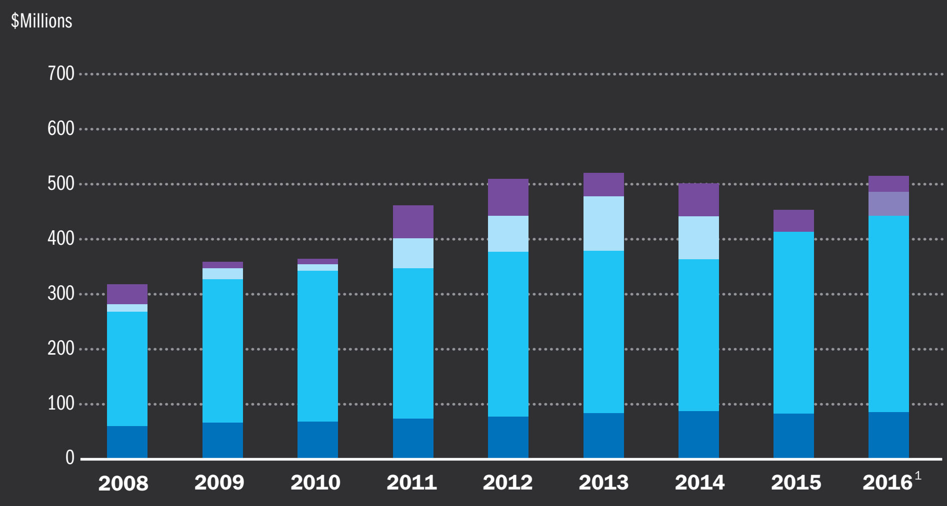
Infratil Financial Trends

The graphs the evolution of Infratil's portfolio of businesses, EBITDAF, cash flow, dividend, asset and capital structure.

EBITDAF (Earnings before interest, tax, depreciation, amortisations and adjustments for fair value movements, realisations and impairments)

Since 2013 businesses that contributed $115 million to consolidated EBITDAF have been sold for $1,574 million while retained businessess have grown their EBITDAF contribution by approximately $60 million and retirement businessess acquired for $362 million are now contributing $45 million per annum.

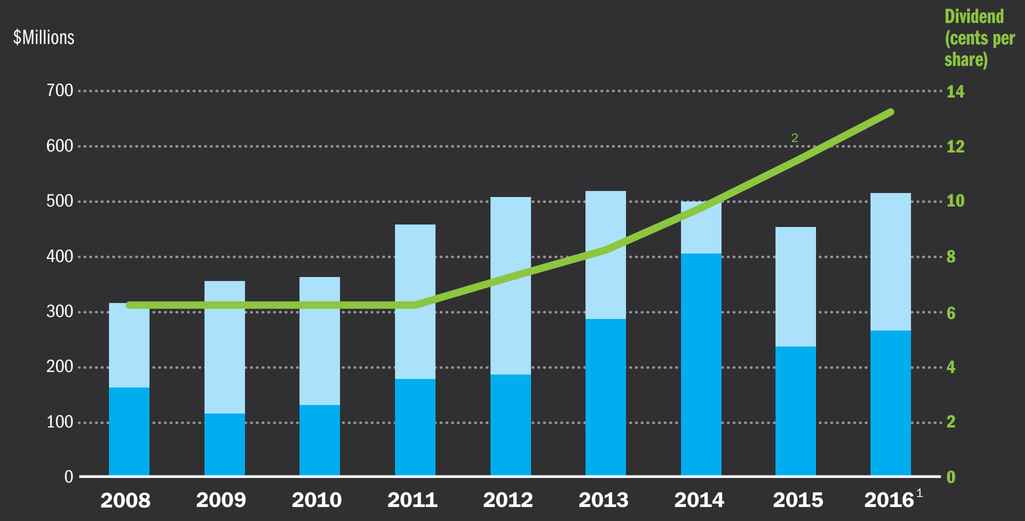
- NZ Bus, Z Energy and Other
- Retirement (Metlifecare and RetireAustralia)
- Infratil Energy Australia
- Trustpower
- Wellington Airport



Operating Cash Flows and Dividends

Operating cash flow comprises EBITDAF less payments of interest and tax and changes to working capital.

- Dividend (rhs)
- Interest, tax, working capital (lhs)
- Operating Cash Flow (lhs)

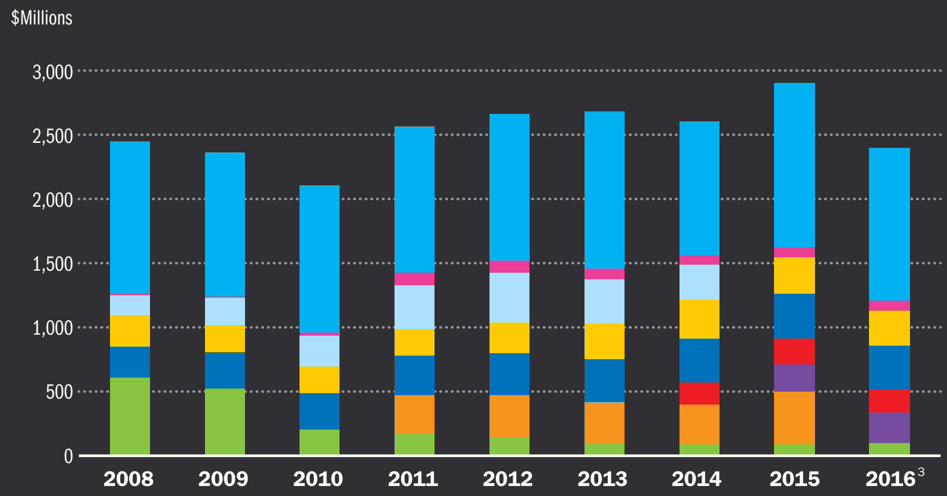


1. The 2016 columns in the graphs show the mid-point guidance for FY2016
2. For FY2015 and FY2016 only ordinary dividends are shown

Infratil's Assets

Over the graphed period Infratil has invested $3,364 million and raised $2,043 million from divestments. This, depreciation and changes to market values has resulted in the evolution of Infratil's assets.

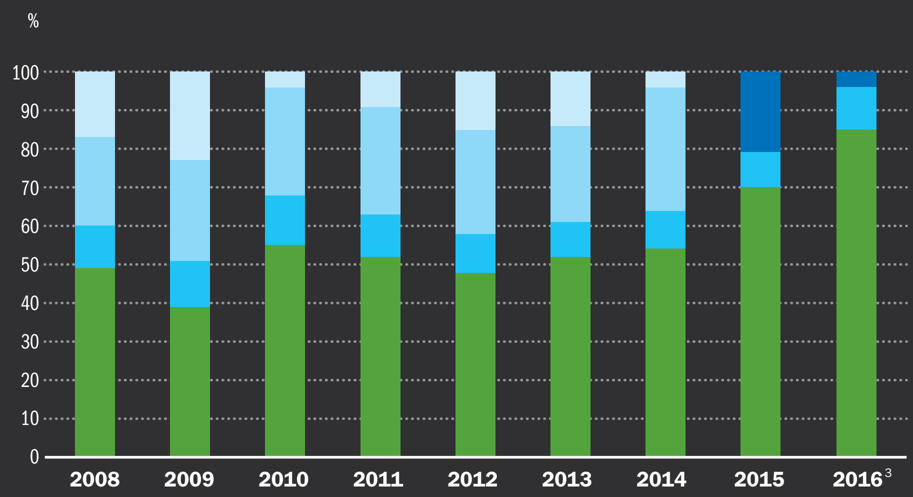
- Trustpower
- Perth Energy
- Infratil Energy Australia
- NZ Bus
- Wellington Airport
- Metlifecare
- RetireAustralia
- Z Energy
- Other



Infratil's Capital Structure

The proportion of Infratil's funding provided by equity (at market value) and perpetual and dated debt.

- Bank
- Dated Bond
- For 2015 and 2016 net bank debt, cash recievables, and dated bonds are combined
- Perpetual Bond
- Equity (market value)



3. The 2016 columns in the graphs show the position as at 30 September 2015

Infratil's Financial Performance & Position

Consolidated Results

$ Millions	6 months to 30 September 2015	6 months to 30 September 2014	12 months to 31 March 2015
EBITDAF (continuing)	**$271.4**	**$238.1**	**$452.0**
Depreciation & amortisation	($85.3)	($72.0)	($149.7)
Net interest	($91.6)	($92.3)	($178.2)
Tax expense	($21.6)	($21.6)	($19.6)
Revaluations	($7.8)	$24.8	($6.8)
Discontinued operations	$405.7	$371.4	$368.6
Net profit after tax	$470.8	$448.4	$466.3
Minorities	($35.4)	($49.6)	($82.8)
Net parent surplus	**$435.4**	**$398.8**	**$383.5**

EBITDAF (continuing) excludes contributions from businesses sold over the period (Z Energy this year and Lumo and PayGlobal last year). The $33.3 million increase over the prior period was approximately 50% from the new addition, RetireAustralia, and 50% from retained businesses.

Depreciation and amortisation increased due to higher electricity generation plant valuations and the accelerated depreciation of the NZBus trolley bus fleet which the Regional Council has chosen to terminate early.

Net interest remained flat because Trustpower lost a court case with the IRD which resulted in a $5 million charge. Trustpower is appealing the decision.

Tax includes $2.7 million in respect of the Trustpower-IRD dispute noted above.

Revaluations are mark to market and realised losses on hedges used to cover energy, interest rate and foreign exchange rate risks.

Discontinued operation gains comprised $13.4 million of income received from Z Energy prior to its sale and a $392.3 million gain on sale.

Minorities declined because the prior period included a gain booked by Trustpower on the value of the Green State Power assets that were acquired in June 2014.

For the current period an average NZ$/A$ exchange rate of 0.9176 was used. The rate was 0.9172 for the same period last year and 0.9259 for FY15.

EBITDAF

$ Millions	6 months to 30 September 2015	6 months to 30 September 2014	12 months to 31 March 2015
Trustpower	$184.2	$173.3	$330.7
Wellington Airport	$41.8	$40.4	$82.1
NZ Bus	$22.7	$20.0	$34.2
Perth Energy	$1.1	$4.9	$14.1
Metlifecare	$16.5	$8.3	$16.3
RetireAustralia	$15.7	-	($6.2)
Parent/Other	($10.6)	($8.8)	($19.2)
EBITDAF (continuing)	**$271.4**	**$238.1**	**$452.0**
Discontinued operations	$13.4	$46.4	$43.4
Total EBITDAF	$284.8	$284.5	$495.4

Trustpower's $11 million increase reflected increased generation and retail growth (partially offset by the costs associated with the retail expansion). The doubling of the contribution from Metlifecare reflected its increase in net surplus. Perth Energy did not have the one-off benefit of last year when there was a change to the Renewable Energy Certificate regime.

EBITDAF from continuing operations for the full year is expected to be between $500-$530 million (assuming no further asset sales or acquisitions).

Consolidated Operating Cash Flow

$ Millions	6 months to 30 September 2015	6 months to 30 September 2014	12 months to 31 March 2015
EBITDAF (continuing)	$271.4	$238.1	$452.0
Net interest	($87.4)	($87.3)	($167.4)
Tax paid	($28.7)	($40.2)	($57.0)
Working capital/other	($33.8)	$11.6	$8.0
Operating cash flow	**$121.6**	**$122.2**	**$235.6**

'Other' includes the difference between the equity accounted earnings and cash dividend receipts received from some investments. For the most recent period the former was $32.2 million and the latter $14.9 million. For the prior period the respective figures were $8.3 million and $12.0 million.

Full year operating cash flow is expected to be between $250 million and $280 million.

Breakdown of Consolidated Results before Revaluations: Six Months Ended 30 September 2015

$ Millions	EBITDAF	D&A	Interest	Tax	Total	Ownership
Trustpower	$184.2	($57.2)	($44.0)	($20.2)	$62.8	51%
Wellington Airport	$41.8	($8.1)	($8.5)	($6.5)	$18.7	66%
NZ Bus	$22.7	($15.4)	-	-	$7.3	100%
Perth Energy	$1.1	($3.3)	($2.2)	$1.2	($3.2)	80%
Metlifecare	$16.5	-	-	-	$16.5	20%
RetireAustralia	$15.7	-	-	-	$15.7	50%
Parent/Other	($10.6)	($1.3)	($36.9)	$3.9	($44.9)	-
Total	**$271.4**	**($85.3)**	**($91.6)**	**($21.6)**	**$72.9**	
Z Energy	$11.2	-	-	-	$11.2	20%
	$282.6	($85.3)	($91.6)	($21.6)	$84.1	

Breakdown of Consolidated Results before Revaluations: Six Months Ended 30 September 2014

$ Millions	EBITDAF	D&A	Interest	Tax	Total	Ownership
Trustpower	$173.3	($46.1)	($37.8)	($20.8)	$68.6	51%
Wellington Airport	$40.4	($8.1)	($9.1)	($6.5)	$16.7	66%
NZ Bus	$20.0	($13.2)	-	-	$6.8	100%
Perth Energy	$4.9	($3.0)	($2.4)	$0.2	($0.3)	80%
Metlifecare	$8.3	-	-	-	$8.3	20%
Parent/Other	($8.8)	($1.6)	($43.0)	$5.5	($47.4)	-
Total	**$238.1**	**($72.0)**	**($92.3)**	**($21.6)**	**$52.2**	
Z Energy	$7.8	-	-	-	7.8	20%
IEA	$40.8	($9.4)	($0.3)	($10.1)	$21.0	100%
Pay Global	$1.2	($0.1)	$0.1	-	$1.2	54%
	$287.9	($81.5)	($92.6)	($31.7)	$82.2	

Infratil's Assets

$ Millions	30 September 2015	31 March 2015
Trustpower	$1,185.3	$1,270.0
Wellington Airport	$325.2	$349.9
NZ Bus	$275.6	$285.8
Perth Energy	$79.3	$76.7
Z Energy	-	$410.4
Metlifecare	$179.4	$199.6
RetireAustralia	$241.6	$208.6
Other	$91.8	$86.5
Total	**$2,378.2**	**$2,887.5**

Values exclude 100% subsidiaries' cash balances and deferred tax where CGT does not apply. Otherwise what is shown are Infratil's book values or with listed companies the NZX valuation on the relevant date.

Over the period, the 20% shareholding in Z Energy was sold for a net $480 million.

Changes to the values of Trustpower and Metlifecare are due to changes in listed share prices and, in the case of Metlifecare, the reinvestment of $0.6 million of dividends. Changes in the value of Wellington Airport, NZ Bus and RetireAustralia reflect the difference between the companies' net surplus over the period and payments to shareholders, and in the case of RetireAustralia changes to the NZ$/A$ exchange rate.

"Other" includes iSite, Snapper, Infratil Infrastructure Property and ASIP.

For 30 September a NZ$/A$ exchange rate of 0.9094 was used (31 March 0.9785).

Infratil's Liabilities and Risk Management

$ Millions	30 September 2015	31 March 2015
Net bank debt, (cash), (receivables) of 100% subsidiaries	($681.6)	($228.4)
Dated bonds	$754.3	$754.3
Perpetual bonds	$234.9	$234.9
Market value equity	$1,719.3	$1,786.8
Total capital	**$2,026.9**	**$2,547.6**
Dated debt/capital	3.6%	20.6%
Debt/capital	15.2%	29.9%

Over the period, a net $480 million was raised from the sale of Infratil's holding in Z Energy. Net debt of the Infratil wholly owned group was reduced by $453.2 million.

As at 30 September 2015 Infratil and 100% subsidiaries had $350 million of committed bank funding of which $276 million was undrawn.

Investments & Plans

Internal capital expenditure accompanied by periodic acquisitions is a feature of the Infratil approach to provide increasing returns and value for its shareholders.

The full year outlook does not include potential new Infratil acquisitions.

$ Millions	6 months to 30 September 2015	Full year outlook to 31 March 2016	12 months to 31 March 2015
Trustpower	$15.4	$40 - 50[1]	$199.8
Wellington Airport	$28.0	$75 - 85	$21.9
NZ Bus	$4.8	$12 - 16	$15.3
Perth Energy	$0.4	$1 - 2	$0.1
Metlifecare	$0.6	$1 - 2	$1.6
RetireAustralia	$1.3	$1 - 2	$219.2
ASIP	$0.3	$8 - 12	$32.0
Other	$4.3	$9 - 11	$17.7
Total	**$55.1**	**$145-180[1]**	**$507.6**

1. This does not include Trustpower's acquisition of King Country Energy. Depending on the acceptance of Trustpower's offer by the KCE shareholders the investment amount in respect of this transaction will be between $65 million and $125 million.

Infratil's investment is either through subsidiaries, such as Wellington Airport expanding its domestic terminal, or by direct acquisition, such as last year's purchase of the RetireAustralia shareholding.

Over the five years ended 30 September 2015, a total of $2,040 million was invested, of which 85% was internal to the group and 15% was external Infratil acquisitions (largely comprising the shareholding in Metlifecare and RetireAustralia).

Z Energy Investment/Divestment

The following table breaks down the cash outgoings and receipts associated with the now concluded Z Energy investment and divestment.

Time Line		$ Millions	Per Infratil Share
March 2010	Invested sum	($209.8)	
	Cash income	$118.6	
August 2013	Sale proceeds 30%	$397.4	
	Cash income	$37.4	
September 2015	Sale proceeds 20%	$479.8	
	Total cash gain	**$823.4**	**$1.47**

Alexander Turnbull Library
(Ref: APG-1421-1/4-G)

2015

Mangahao was the first Power Station built by the NZ Government and was commissioned in 1924. It was connected to Wellington by the first 110KV high voltage lines in the Southern Hemisphere. Trustpower also owns the only NZ hydro power stations which are older; Waipori and Coleridge. Mangahao is owned by King Country Energy.

Trustpower

Trustpower is progressing three distinct avenues of earnings and value growth:

- Expanding its retailing operations by providing customers with a combination of electricity, gas, landline telephone and internet.
- The development of wind and solar generation in Australia to take advantage of Australian government renewable generation targets.
- Undertaking smaller scale "bolt-on" acquisitions that suit Trustpower's expertise in retailing and renewable generation.

Trustpower's continued investment in retail growth is being vindicated by results:

Accounts	30 September 2015	31 March 2015	Annual growth
Electricity	252,000	242,000	+8%
Gas	28,000	24,000	+33%
Telephone/Internet	51,000	38,000	+46%
With 2 or more services	66,000	52,000	+27%

Sales of electricity to retail customers amounted to 1,659GWh up from 1,510GWh in the same period the prior year.

In Australia Trustpower is progressing the development of renewable generation at sites in four states. Consent hearings for a 330MW wind farm at Dundonnell in Victoria has concluded and a decision by the authorities is anticipated this year. A consented site for a 105MW wind farm and 20MW of solar generation has been purchased in Western Australia. Earlier-stage development and consenting work is being undertaken at other sites in South Australia and NSW.

With the Australian government having confirmed its "20% renewable by 2020" goal, approximately 4,200MW of renewable capacity (generating 15,000GWh) will have to be built over the next five years. Trustpower is confident that it will be the developer of some part of this requirement.

After 30 September Trustpower announced it had agreed to acquire 54% of King Country Energy and has bid for the remaining 46%. The cost will depend on the level of shareholder acceptance and will be between $65 million and $125 million. KCE owns four small hydro power stations in the King Country, the medium scale Mangahao station in the Horowhenua, and undertakes energy retailing largely to King Country residents. The operations suit Trustpower's capabilities with smaller hydro power stations and the needs of provincial customers.

Year ended 31 March Six months ended 30 September	30 September 2015	30 September 2014	31 March 2015
NZ output sold	2,147GWh	2,051GWh	3,934GWh
NZ generation	1,307GWh	1,225GWh	2,216GWh
Australian generation	664GWh	536GWh	1,465GWh
Electricity accounts	252,000	234,000	242,109
Telco & gas accounts	79,000	56,000	62,118
Av. NZ generation spot price	5.4c/kwh	6.3c/kwh	7.7c/kwh
EBITDAF	**$184.2m**	**$173.3m**	**$330.7m**
Investment spend	$15.4m	$143.9m	$199.8m
Infratil cash income	$33.5m	$31.9m	$63.9m
Infratil's holding value [1]	$1,185m	$1,168m	$1,270m

1. NZX market value at period end

Wellington Airport

Wellington Airport has embarked on its most exciting period of development in a decade.

Strong traffic growth and the likelihood this will continue is driving a substantial investment in new facilities. In fact so substantial that the Airport is the largest, by value, construction site in New Zealand outside of Christchurch and Auckland.

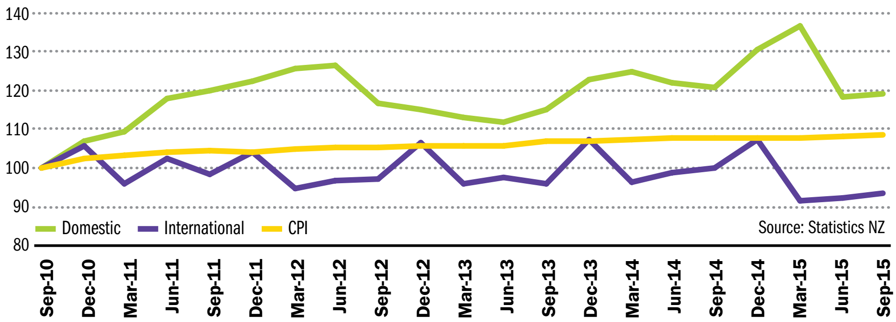
To ensure growth continues the Airport and its partner Wellington City Council are undertaking the planning and consenting work required to allow the extension of the runway to accommodate long-haul services that will directly link central New Zealand with Asia and North America. The business case for the runway extension is being developed and construction consents applications will shortly be lodged with the Environment Court.

During the half year the Airport saw stark evidence of how new services stimulate traffic. The period included new services on three of the Airport's four international routes. On those routes traffic grew by 55,069 passengers or 28%. Notably, while 94% of those additional passengers were carried by new entrant airlines, existing services also grew!

		Latest ½ year	Prior Period	Change
Melbourne	Existing services	92,785	92,183	+1%
	New services	24,311	-	-
	Total	117,096	92,183	+27%
Sydney	Existing services	169,994	163,020	+4%
Queensland	Existing services	99,141	96,278	+3%
	New services	21,678	-	-
	Total	120,819	96,278	+25%
Fiji	Existing services	5,454	5,615	-3%
	New services	5,776	-	-
	Total	11,230	5,615	+100%

Almost as exciting as the international growth was Jetstar's announcement that it is to expand its trunk services to link Wellington and Dunedin and will introduce an entirely new network of services to regional cities. Showing the effect of this, Statistics NZ figures for domestic air travel costs showed a 13% fall in the June quarter relative to the previous three month period.

Air Travel Costs: Domestic & International



Year ended 31 March Six months ended 30 September	30 September 2015	30 September 2014	31 March 2015
Passengers Domestic	2,388,201	2,311,527	4,682,086
Passengers International	419,139	357,200	775,193
Aeronautical income	$32.2m	$31.0m	$64.5m
Passenger services income	$17.7m	$16.9m	$34.1m
Property/other	$5.7m	$5.7m	$9.7m
Operating costs	($13.8m)	($13.2m)	($26.2m)
EBITDAF	**$41.8m**	**$40.4m**	**$82.1m**
Investment spending	$28.0m	$7.3m	$21.9m
Infratil cash income	$39.5m	$38.2m	$38.2m
Infratil's holding value [1]	$325m	$330m	$350m

1. Infratil's share of net assets excluding deferred tax


2011

2015

Wellington Airport's terminal opened in 2000 is now undergoing a major expansion

NZ Bus

After almost a decade of evolution, the new public transport contracting regime has taken the first steps towards implementation with Auckland Transport holding tenders for a large part of the South Auckland network.

NZ Bus's Waka Pacific division is the main incumbent operator in this area and understands the market better than any other party. However the outcome of the tenders is impossible to forecast. Auckland Transport's criteria include cost and qualitative factors as well an intention to limit the market share of any one operator. The decision is expected to be announced this year with implementation to occur in late 2016.

As a part of the transition to the new regime incumbent operators have the right to negotiate new contracts rather than having to tender and this covers approximately half of NZ Bus's operations.

The next phase of implementation will see contracts tendered in West Auckland and the Waikato. Wellington is expected to follow in mid-2016.

The new contracting regime changes the risk profile for operators and transport agencies. Today NZ contracts provide a top-up to fare income, in the future all fare income will be collected on behalf of agencies such as Auckland Transport. Almost all of an operator's income will be in the form of contract receipts (which will be set by the tenders and subsequent indexation). Henceforth an operator's commercial risks will relate to costs exceeding those recovered under the contract and any factors that result in service standards not meeting specifications.

While there are some rewards for growth in the contracts, to make a winning bid which then provides a satisfactory return on invested capital, NZ Bus is going to have to be very efficient. And as with any business with many moving parts, all those parts are going to have to function efficiently and in unison for NZ Bus to be successful. This is particularly the case for the Company's bus drivers and maintenance regime. Not only do these areas amount to approximately 75% of operating costs, they are both the face of the business and make sure that buses run on time, and indeed run at all.

The most recent six-month period has seen very encouraging operating performance in terms of service punctuality, reliability and the move to preventative (as opposed to reactive) maintenance. These results reflect the significant benefits of investment and process improvement made over the last couple of years.

All the NZ Bus people have played a part in making these improvements. Their contribution is recognised and appreciated.

Year ended 31 March **Six months ended 30 September**	**30 September 2015**	**30 September 2014**	**31 March 2015**
Patronage north	20,535,380	20,299,964	39,888,455
Patronage south	10,778,264	10,715,152	20,536,828
Bus distance (million kilometres)	23.7	23.7	47.8
Bus numbers	1,075	1,097	1,075
Passenger income	$70.3m	$67.4m	$131.8m
Contract income	$46.0m	$46.7m	$91.8m
EBITDAF	**$22.7m**	**$20.0m**	**$34.2m**
Capital spending	$4.8m	$10.3m	$15.3m
Infratil's holding value[1]	$276m	$301m	$286m

1. Infratil's share of net assets excluding cash and deferred tax at period end

On the bus, boys travelling home from school entertain New Zealand Fringe Festival performers

Retirement Facilities & Services

Metlifecare

Metlifecare reported positive support from its residents and staff and progress on its longer term objectives of enhancing and expanding its retirement living and care offering.

Metlifecare villages are mainly in or near Auckland and have benefitted from the nearby residential property market which has resulted in good unit sales and value gains. The average embedded value per unit rose to $155,000 (this is the net sum that is expected to be received in future as units change hands).

The Company is progressing its development plans. 133 new units were completed last year and as at 30 June 2015 a further 289 units and care beds were under construction.

The total development pipeline comprises approximately 2,000 units and care beds.

Year ended 30 June	2015	2014	2013	2012
Units	4,033	3,900	3,836	2,512
Care beds	359	359	359	359
Unit resales	403	397	424	294
Resale cash gain	$142,000	$124,000	$124,000	$110,000
New unit sales	87	61	113	36
New unit av. value	$561,000	$563,000	$433,000	$567,000
Embedded val/unit	$155,000	$130,000	$118,000	$113,0000
Underlying profit	$52.4m	$46.0m	$33.5m	$18.2m
Dividend cps	4.5	3.75	3.0	2.0

RetireAustralia

Alison Quinn was appointed as chief executive and will commence work in the New Year. She will oversee the Company's strategic goals of increasing its range of care options and the rate of new unit development.

Occupancy rights to 241 units were sold over the period, including 59 new units. The average new unit sale value was $530,000, which was slightly ahead of Infratil's acquisition case.

The resale rate experienced over the six months was consistent with forecast, while the average net cash collect of $106,000 was slightly ahead. This sum is the gap between the refund to outgoing residents and the right to occupy payment received from new residents. In effect it is a mixture of deferred management fees and value uplift.

The diversity of locations and styles of RetireAustralia's villages means that value movements will tend to be uneven, however units near Sydney and on the NSW Central Coast are clearly benefitting from proximity to the strong Sydney residential property market. 45% of the RetireAustralia portfolio by value is located in this area.

Acquisition case projections included the development of 500 new units within the existing villages and 59 units were commissioned over the half year and a similar build rate is expected for the rest of this financial year.

RetireAustralia is also progressing three co-developments that could become brand new villages. Work on the first of these is planned to commence in calendar 2016 with the completion of the first units expected to follow about a year later.

Metlifecare Bayswater

Other Investments

Perth Energy

Perth Energy is one of the few private participants in the uniquely structured and regulated Western Australian energy retailing and generation market. The WA Government is now undertaking a review of the market structure which may result in more opportunity for private operators to compete for customers and also improve the basis on which generators are rewarded for providing capacity. While these changes could benefit Perth Energy their implementation is still uncertain and some way off.

Over the half year, both generation and retail activities were stable, but Perth Energy's EBITDAF was lower than the same period last year because that period had benefited from a reduction in the State specified obligation to buy renewable energy certificates.

Snapper

Snapper continued to develop and enhance its payment technology, as demonstrated by it winning the Ticketing Technology of the Year award in London.

Its technology is increasingly allowing integration of smart-card and phone payment tools, with the next step being to allow payment from accounts in the manner of a bank card. While progress is being made in these areas Snapper has decided to wind-back the use of its cards to buy a coffee and other such low-value items. The infrastructure costs did not warrant continuation of the service.

Another demonstration of Snapper's technology was its integration of the Victoria University campus pass so it can be used by students and academic staff to pay for the Cable Car as well as the buses that operate between Victoria University's different campuses. Snapper's ability to operate on two different transport modes provided by two different operators is possible because of its open flexible system which underpins the mobile reload solutions that are being marketed to offshore transport authorities.

iSite

iSite is New Zealand's premier out of home advertising company, mainly known for its billboards and bus advertising. The next stage of the evolution of the medium is now underway with greater awareness of the advantages of digital images on the one hand and increasing potential for the medium to communicate with passing traffic on the other.

Infrail Infrastructure Property

IIP completed the development and lease to NZ Bus of its new Thordon depot.

Work is underway on the reconfiguration of Wellington's Kilbirnie and Auckland's Halsey Street bus depots. In both cases this includes looking at alternatives to what have become expensive lease options for the bus company.

Directory

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