

# PROUD



**INFRATIL**  
ANNUAL REPORT  
2012

# LLOYD MORRISON

Lloyd Morrison, the founder of Infratil, died in February 2012. Some of his final thoughts and reflections are copied overleaf.



*I like getting the most out of my life and part of that has been work related. I have got some skills and I've always felt that doing and growing things and pushing yourself was a good thing to do personally. That if I could set up other ways of doing it and I could contribute and allow other people to contribute in a way that was extraordinary then that was a privilege for me and I think I have helped that a little bit. My work colleagues, I know I have been a pain at times but that is something I am proud of as it is too easy to pass through life and exist and hope that at some stage in the future you will get that chance to do better but it doesn't work like that. I am only here today because it happened unexpectedly, not because I have done anything wrong and it is too late to change things so I am really proud of you guys at work, all of you. I am only proud if you are driving yourself, I am not proud of you for just turning up. My work life has been always set up to do something sustainable and extraordinary for everybody involved and that is what I ask of all of you going forward that you push yourselves, that you focus on getting the most out of your lives by giving to other people, that you are intolerant of doing things half baked, you are intolerant of inefficiency and laziness and self congratulations and complacency as that is unfair on other people, to waste in that way. Our lives are only better off when everyone is better off. The real success to happiness is being a giver and if you can let other people live less successful lives without having some conscience about what you can do about it then that is not good enough. So there is a need in all of us to push ourselves harder and make things right and when you feel that you have done some of that you can feel good and I am unashamed about that. I think I have made some people's lives better and it makes me happy. I am proud of having done that.*



# HIGHLIGHTS

The Annual Report for the year ended 31 March 2012 outlines Infratil's strategies, activities, and risks and is intended to help investors and analysts assess the Company's performance and prospects.

**Over the year key plans were delivered; earnings and investment targets were achieved; and the energy and transport sectors continued to be prospective for new investment**

- **EBITDAF<sup>1</sup> and dividends increased by 10% and 18% respectively over the prior year**
- **\$246 million was invested to support future earnings growth**
- **Sector, project and financial risks were well managed**
- **Infratil's strong pipeline of investment opportunities within its core businesses will support future earnings and capital growth**
- **Over the last year Infratil issued five and six year bonds to refinance maturities and retained substantial unutilised bank facilities**

Year ended 31 March	2012	2011	
EBITDAF <sup>1</sup>	\$520m	\$471m	TrustPower, Infratil Energy Australia, Wellington Airport and NZ Bus all grew operating earnings.
Net operating cash flow	\$196m	\$179m	Higher earnings and improved working capital management.
Net parent surplus	\$52m	\$65m	Better earnings were balanced by depreciation and interest. Revaluations were lower this year.
Capital expenditure <sup>2</sup>	\$246m	\$504m	Internal capital spending was maintained. Last year included the \$210 million acquisition of 50% of Z Energy.
Dividend declared per share	8.0 cents	6.75 cents	The dividend has been increased following improvement in operating profits and group cash flows.

1. EBITDAF is consolidated group earnings before interest, tax, depreciation, amortisation and movements in the value of financial derivatives. The figures exclude discontinued operations; that is the two UK airports currently subject to a sale process. Were those businesses included, the EBITDAF figures in the above table would have been \$12 million lower in 2012 and \$11 million lower in 2011. The EBITDAF figures in the table reflect Infratil's share of Z Energy's net profit after tax rather than earnings because Z Energy is accounted for as an Associate and is therefore not consolidated.

2. Includes \$74 million of Z Energy capital expenditure in 2012 and \$29 million in FY2011.

# REPORT OF THE CHAIRMAN AND CHIEF EXECUTIVE

It is with some pride that we present the financial results for the year to 31 March 2012. Each of Infratil's core businesses performed well and continue to develop a strong pipeline of opportunities for the future. We are fortunate to have excellent management teams across the business with strong operating disciplines. As a result there is a great deal of confidence over the long-term prospects for the Infratil Group.

The corollary of returns is risk, and these were also well managed and in general the sectors in which Infratil's businesses operate remained stable and orderly. Capital providers, in particular banks and bond markets, agree with our assessment and remain supportive with funding.

Infratil's board and management recognise that there is a gap between the market capitalisation of Infratil and our view of the value of the underlying business. In times such as these, we continue to focus on our long-term plans and believe the consistent delivery of improving cash flows and operating profitability will be rewarded. Despite the market volatility, Infratil's goals and the means to delivery have not changed.

Infratil invests in;

- Sectors where it has strong operating credentials, particularly energy and transport.
- Sectors which offer growth potential so that if the companies are well managed they will be able to invest additional capital to grow earnings and valuations.
- Businesses with some level of risk, because with risk comes opportunity. To mitigate risk Infratil invests where it has operating capability and sufficient control to exercise influence.

If last year had any challenges they were Infratil's UK airports on the one hand and the difficulty in acquiring new businesses, on the other. The UK airports were acquired when structural changes to the European aviation market promised more than has been delivered. By way of illustration, Kent Airport was purchased for £18 million when air traffic growth in South East England indicated the next London runway was estimated to be only five years away, and Kent was in the running. It hasn't happened, and while Kent Airport may still become a major London Airport, it is time for Infratil to focus its resources and expertise elsewhere.

While Infratil has maintained its internal capital expenditure programme, completing new external investments has proven to be difficult. Management actively investigated opportunities in a number of sectors and geographies. There is an increasing flow of origination opportunities of the right scale and risk/reward character, but as yet no completed transactions. Nevertheless, the ongoing disruption to markets and the global imbalances in government finances are favourable for long-term infrastructure investors.

Fortunately Infratil's businesses continue to find profitable ways to invest in their own activities. The Group's capital spend was \$246 million in 2012 and next year is expected to be about the same, before taking into account the potential for TrustPower's substantial Snowtown II wind project. Over the medium term infrastructure businesses increase earnings and value from making growth investment therefore the pipeline of such activity is crucial.

In addition to the \$246 million of capital spending on facilities and services, the Group also invested \$39 million repurchasing shares (Infratil \$34 million and TrustPower \$5 million).

Naturally Infratil's businesses would do better in a more vibrant economy with higher consumption of electricity, fuel, airport services and public transport. However, the strength of our core assets and disciplined management provide some insulation against weak demand. Ensuring that customers are looked after and the basics are done well means that profitable growth opportunities will ensue as demand returns.

One feature of the commercial environment we follow closely is economic regulation. When you provide crucial public services regulation is natural. But there can be large differences between regulation aimed at ensuring efficient markets and regulation driven by other objectives. Soundly based regulation encourages investment in the provision of greater capacity and better services. By and large this is what we have seen in our key sectors, although we have previously highlighted our reservations about the New Zealand Commerce Commission's activity in the airport sector.

Positive earnings momentum and a solid capital position have allowed for an increase in the dividend, and this is expected to continue in the near future. The balance between reinvestment of earnings and payout as dividends is under constant review and is dependent on a number of factors. While Infratil's primary target is capital appreciation over the long-term, we expect to see dividends rise given current priorities and earnings projections.

Infratil had a good year and many people deserve thanks, but we would like to single out our Auckland bus drivers. 2011 was the year of Rugby World Cup and the year "Super Auckland" took a step forward. Our drivers literally went the extra mile providing services between Queen Street and Eden Park and contributing to their passengers many reasons to be in a good mood before and after the game. A special thank you is warranted here.

What has happened over the last year in Christchurch is less celebratory. Infratil has committed \$1 million to the renewal of the Wilding Tennis Centre and our businesses, especially TrustPower and Z Energy are playing their part in the rebuild. We hope to be able to do more in future.



**DAVID NEWMAN**  
Chairman



**MARKO BOGOIEVSKI**  
Chief Executive

## **HUMPHRY ROLLESTON**

has been an independent director of Infratil since 2006. He is chairman of the Murray & Co group and a director of Property for Industry, Mercer Group, and SKY Network Television. He owns a number of private companies involved in tourism, security and manufacturing. He is a Fellow of the New Zealand Institute of Directors and the Institute of Management.

## **MARK TUME**

joined the Infratil board as an independent director in 2007 and is the chair of the Audit and Risk Committee. He is also a director of Infratil Energy Australia/Lumo, the New Zealand Refining Company, New Zealand Railways Corporation, NZ Oil and Gas and is a member of the board of the Guardians of The New Zealand Superannuation Fund. His professional experience has been in New Zealand banking.

## **DAVID NEWMAN**

has been an independent director of Infratil since 1994 and Chairman since 2004. He is Chairman of Wellington Airport and Loyalty NZ and a director of Infratil Airports Europe. He is a chartered accountant and was previously Deputy Chairman of the board of the Guardians of the New Zealand Superannuation Fund, Managing Director of BP New Zealand, and Chief Executive of the Institute of Directors, of which he is a Fellow.





## DUNCAN SAVILLE

became a director of Infratil in 1994 and is also a director of Morrison & Co Group, Infratil's manager. He is a chartered accountant and an experienced non-executive director in the utility sector having been on the boards of a number of water, airport and utility investment companies. He is a Fellow of the Institute of Chartered Accountants in Australia and of the Australian Institute of Directors.

## ANTHONY MUH

was appointed to the board in 2007 and was an independent director before joining Morrison & Co in 2010 to establish a Hong Kong office for Infratil's manager. He is now an alternate director. He was previously Asia Pacific CEO of Alliance Trust and regional head for Citigroup Global Asset Management. Before leaving NZ he worked for BNZ Investment Management. He is a member of the New Zealand Institute of Chartered Accountants, a Fellow and Chairman of the HK Securities Institute and a Fellow of the NZ Institute of Financial Professionals.

## MARKO BOGOIEVSKI

is Chief Executive of Infratil and its manager, Morrison & Co. He joined the Infratil board in 2009 and is also Chairman of Aotea Energy Holdings (parent of the Z Energy group) and a director of TrustPower. He was previously Chief Financial Officer of Telecom New Zealand responsible for corporate finance, M&A and group strategy. He is a member of the New Zealand Institute of Chartered Accountants.



# SENIOR MANAGEMENT TEAM

**MARKO**  
**BOGOIEVSKI**

CHIEF EXECUTIVE



**LIB**  
**PETAGNA**

INVESTMENT



**KEVIN**  
**BAKER**

FINANCE



**MIKE**  
**BENNETTS**

Z ENERGY



**JASON**  
**BOYES**

LEGAL



**TIM**  
**BROWN**

CAPITAL MARKETS



**VAUGHAN**  
**BUSBY**

ENERGY



**FIONA**  
**CAMERON**

FINANCE



**DEAN**  
**CARROLL**

LUMO



**PETER**  
**COMAN**

PROPERTY



**ROGER**  
**CRAWFORD**

ENERGY



**STEVEN**  
**FITZGERALD**

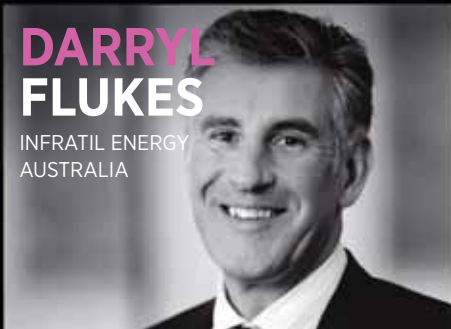
AIRPORTS



**MARK**  
**FLESHER**

CAPITAL MARKETS





**DARRYL  
FLUKES**

INFRATIL ENERGY  
AUSTRALIA



**ZANE  
FULLJAMES**

NZ BUS



**PHILLIPPA  
HARFORD**

FINANCE



**BRUCE  
HARKER**

ENERGY



**VINCE  
HAWKSWORTH**

TRUSTPOWER



**ANTHONY  
MUH**

INVESTMENT



**PAUL  
NEWFIELD**

INVESTMENT



**RHODA  
PHILLIPPO**

INVESTMENT



**STEVEN  
SANDERSON**

WELLINGTON  
AIRPORT



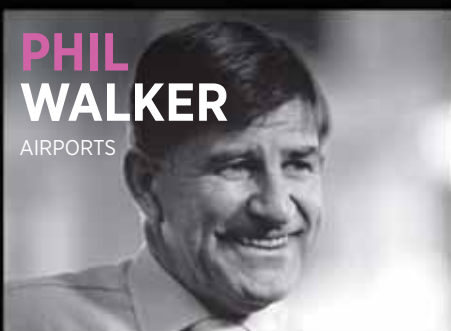
**MIKI  
SZIKSZAI**

SNAPPER



**LIAM  
TOHILL**

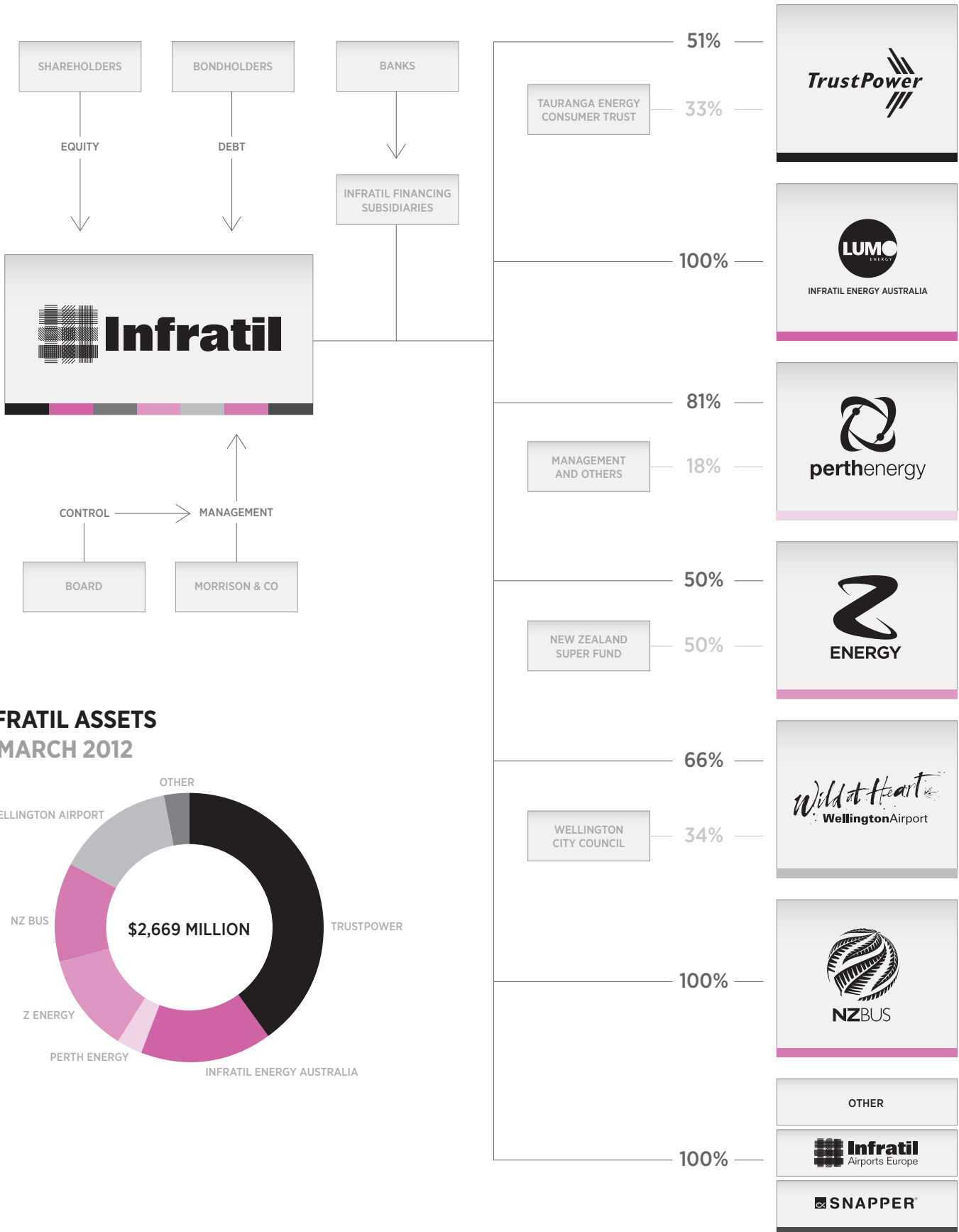
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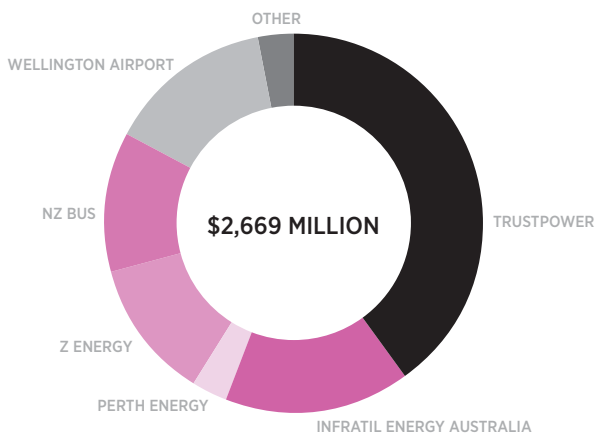
**PHIL  
WALKER**

AIRPORTS

# CORPORATE STRUCTURE



## INFRATIL ASSETS 31 MARCH 2012



# EARNINGS

Year ended 31 March \$Millions	2012	2011	
EBITDAF <sup>1</sup>	520	471	
Depreciation & amortisation	(134)	(111)	
Net interest	(187)	(168)	
Fair value changes	-	61	Some changes to asset and contract valuations are taken through the profit and loss.
Derivative value changes	19	(4)	
Impairments/realisations	4	(1)	
<b>Net surplus before tax</b>	<b>223</b>	<b>249</b>	
Tax adjustments	2	(26)	Government changes to corporate tax.
Income tax	(61)	(55)	Tax paid was \$47m in FY12 and \$44m in FY11.
<b>Net surplus after tax</b>	<b>164</b>	<b>167</b>	
Discontinued operations	(37)	(48)	Net losses from UK airports including write-downs.
Minority interests	(75)	(55)	
<b>Net parent surplus<sup>2</sup></b>	<b>52</b>	<b>65</b>	
<b>Parent comprehensive income<sup>2</sup></b>	<b>149</b>	<b>118</b>	Reflecting all value changes and net income after tax and minorities.

1. EBITDAF is consolidated group earnings before interest, tax, depreciation, amortisation and movements in the value of financial derivatives. The figures exclude discontinued operations; that is the two UK airports currently subject to a sale process. Were those businesses included, the EBITDAF figures in the above table would have been \$12m lower in 2012 and \$11m lower in 2011. The EBITDAF reflects Infratil's share of Z Energy's net profit after tax rather than earnings because Z Energy is accounted for as an Associate and is therefore not consolidated.

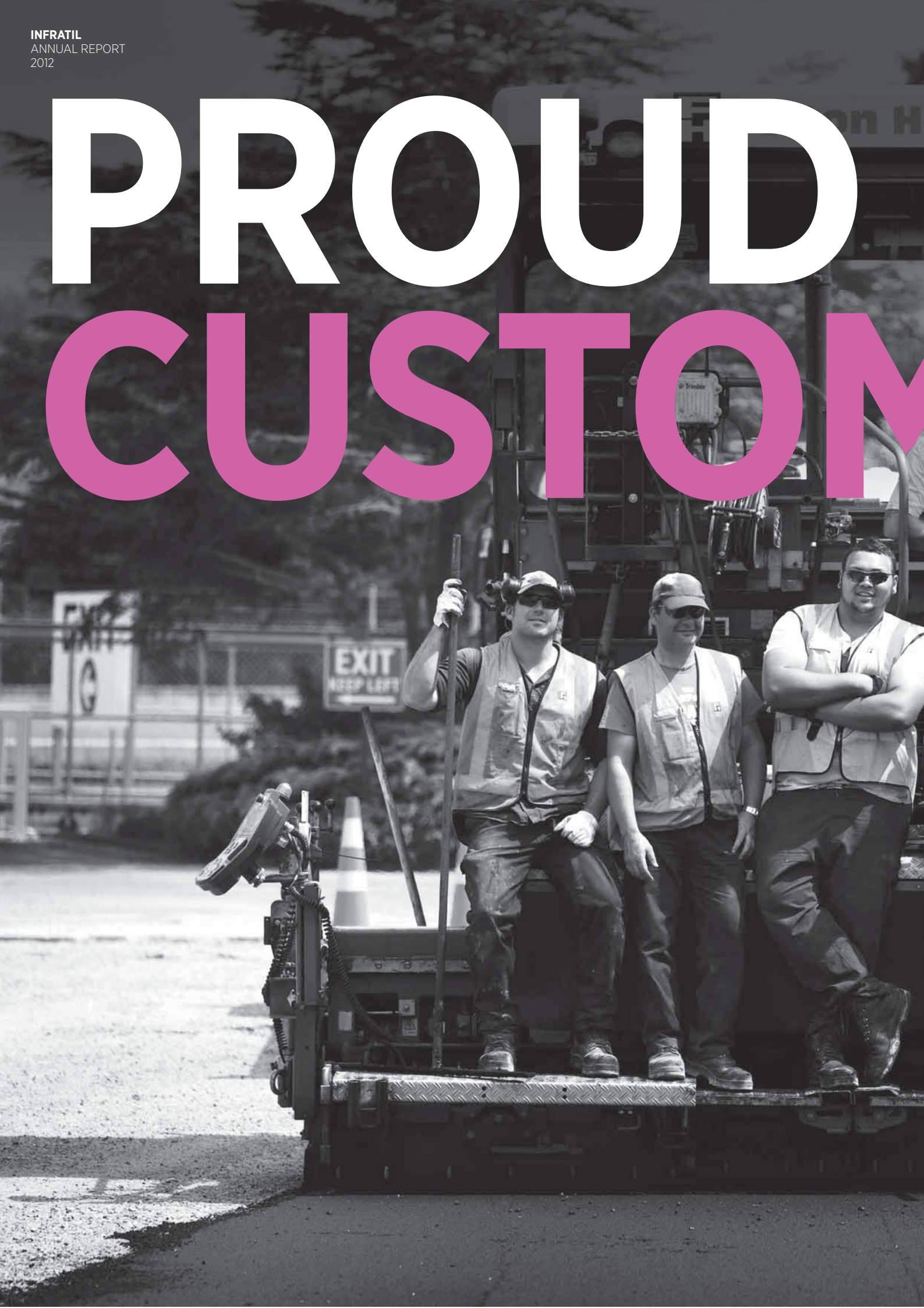
2. Parent refers to the surplus/income attributable to the owners of Infratil.

## BREAKDOWN OF 2012 EBITDAF, DEPRECIATION & AMORTISATION, INTEREST AND INCOME TAX

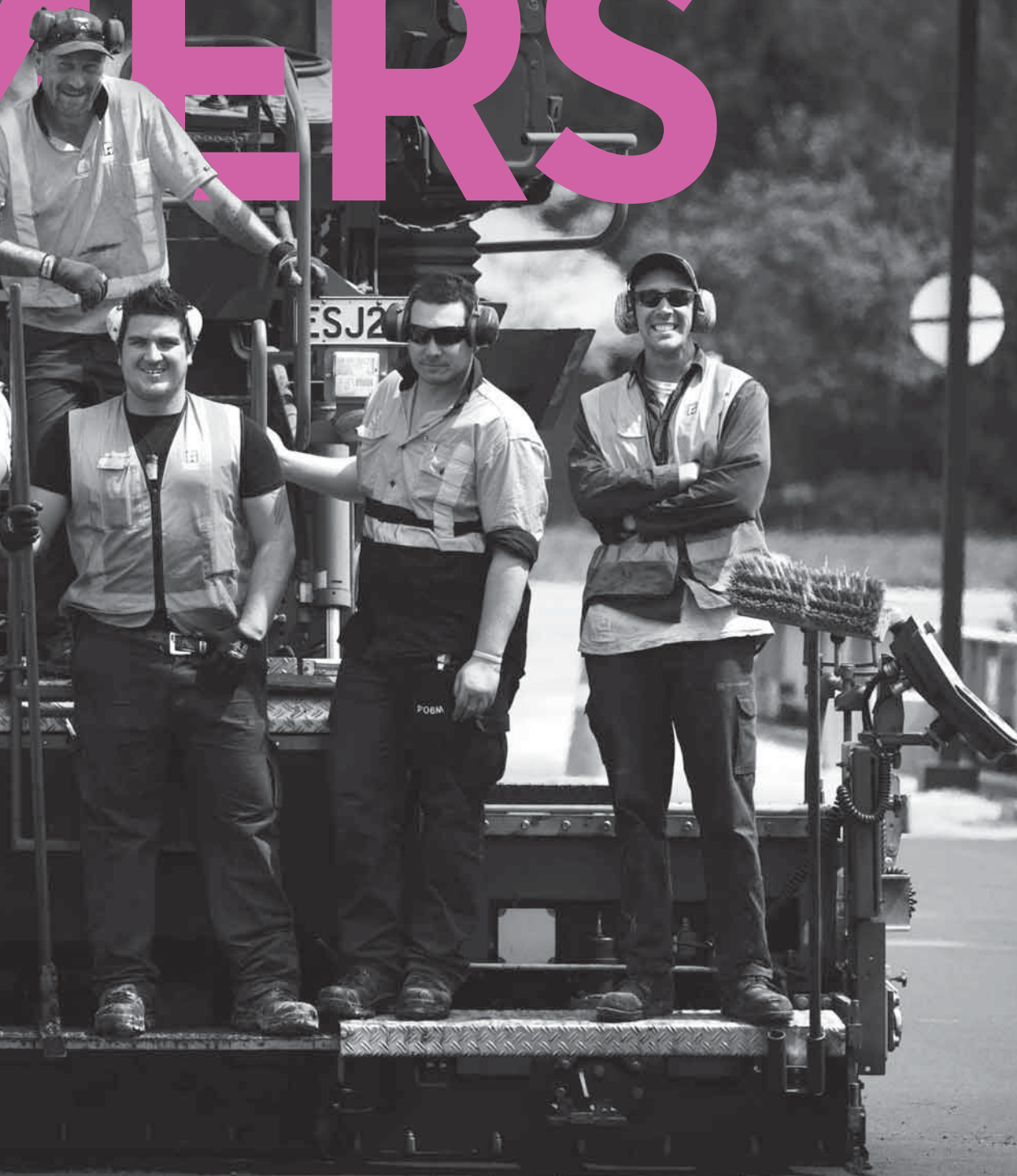
Year ended 31 March \$Millions	EBITDAF*	D & A	Interest	Income Tax	
Parent & Other	(19.1)	(4.9)	(93.6)	1.4	The 100% owned group
NZ Bus	46.0	(21.0)	-	(3.2)	
IEA	48.4	(23.0)	(3.1)	(14.8)	
TrustPower	300.1	(58.2)	(63.0)	(39.3)	Subsidiaries of which Infratil owns less than 100%
Perth Energy	16.0	(7.8)	(8.1)	-	
Wellington Airport	76.3	(19.1)	(19.2)	(5.1)	
Z Energy	52.3*	-	-	-	50% owned Associate
<b>Total</b>	<b>520</b>	<b>(134)</b>	<b>(187)</b>	<b>(61)</b>	
Assets held for sale	(11.9)	(4.4)	(0.2)	5.1	UK Airports

\* The table shows Infratil's 50% share of Z Energy's net shareholder surplus. Z Energy is an Associate and is not consolidated.

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# ASSETS & INVESTMENT

The table shows book values of Infratil's net investment in the businesses except for TrustPower which is shown as Infratil's share of its public listed valuation.

Year ended 31 March \$Millions		2012	2011	Main source of change
TrustPower	51%	\$1,154	\$1,146	TrustPower's share price rose to \$7.25 from \$7.20
Infratil Energy Australia /Lumo	100%	\$392	\$345	Additional parent investment, retained earnings and movements in the NZ\$/A\$ exchange rate
Perth Energy	81%	\$85	\$97	Depreciation and movements in the NZ\$/A\$ exchange rate
Z Energy	50%	\$331	\$312	Increased retained earnings
Wellington Airport	66%	\$326	\$297	Higher valuation of assets
NZ Bus	100%	\$246	\$208	Investment in new fleet
UK Airports	100%	\$70	\$101	Write-down prior to intended sale
Other	-	\$65	\$57	
<b>Total</b>		<b>\$2,669</b>	<b>\$2,563</b>	

With 100% subsidiaries debt/cash is excluded as it is included in the net debt amounts disclosed for Infratil and 100% subsidiaries on page 13 of this report. Deferred tax liabilities are not reflected in the values of Wellington Airport and NZ Bus. The Z Energy values reflect Infratil's acquisition cost and share of subsequent net retained earnings and revaluations.

## CAPITAL SPEND

Over the last 5 years the Infratil group has invested \$1,592 million. Last year was slightly below the average and was entirely "in-house". Capital investment is expected to rise slightly in the 2013 financial year, before taking into account new acquisitions and the potential for TrustPower to initiate a major new generation or irrigation project.

Year ended 31 March \$Millions		2012	2011	Main application of funds FY12
TrustPower		\$49	\$109	Small scale generation. Customer systems
Infratil Energy Australia		\$22	\$96	Organic customer growth and systems
Perth Energy		-	\$20	
Z Energy		\$74	\$210	Acquisition of 50% shareholding
			\$29	Rebranding, service station upgrade and storage
Wellington Airport		\$22	\$16	Car park, hangar and apron improvement
NZ Bus		\$64	\$17	New bus fleet
Other		\$15	\$7	
<b>Total</b>		<b>\$246</b>	<b>\$504</b>	



# RISK MANAGEMENT AND LIABILITIES

Infratil has a systematic approach to identification and management of risk. Each subsidiary company has a formal risk identification, management and monitoring process, although each will be customised for sector and company specific risks. For instance Wellington Airport's board has responsibility for its risk register, which will obviously be quite different to the risk register of, say, NZ Bus. Risks are then reported up to Infratil's board Audit & Risk Committee chaired by director Mark Tume.

Management of risk has three parts:

- **Offset.** Some risks are unavoidable, for instance a major down-turn in air travel resulting from atmospheric volcanic ash or contagion. Against such eventualities Wellington Airport makes sure it has sufficient financial headroom to meet all obligations for an extended period even if its income is severely impacted.
- **Reduction.** Some risks can be reduced by changing behaviour, for instance anyone who borrows money has the risk of having to repay the money at an inconvenient time. Infratil issues long dated bonds and ensures it has ample unutilised bank facilities to optimise financial flexibility.
- **Insurance.** The possibility and cost of some adverse events cannot be eliminated or reduced, so off-sets are put in place beforehand. This includes normal business and property insurance and taking steps such as owning back up power generators which can generate during periods when electricity prices are extremely high.

Management of Infratil's risk associated with debt requires discipline about leverage, ensuring that earnings comfortably cover interest, and by securing reliable sources of credit and a long maturity profile.

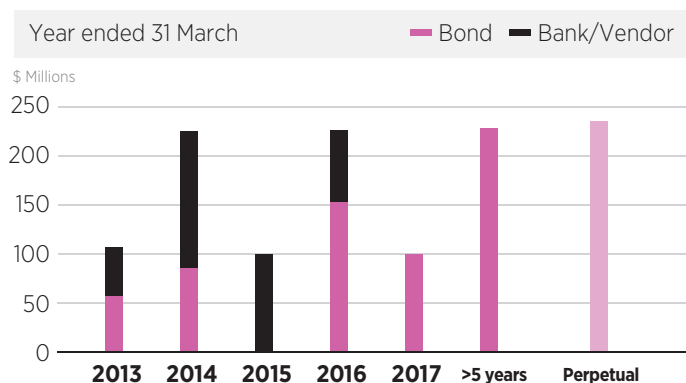
It is appropriate for Infratil to use debt because of the nature of its businesses, with their stable secure cash flows and diversity.

The table and graph give the capital profile of Infratil and its 100% subsidiaries and the maturity profile of the debt.

Year ended 31 March \$Millions	2012	2011
Net bank/vendor debt	\$363	\$270
Fixed maturity bonds	\$623	\$623
Perpetual bonds	\$236	\$238
Market value of equity	\$1,109	\$1,151
<b>Total capital</b>	<b>\$2,331</b>	<b>\$2,282</b>
Net bank debt/Total capital	14%	10%
Dated debt <sup>1</sup> /Total capital	42%	39%

1. Bank, vendor and fixed maturity bonds

## THE DEBT MATURITY PROFILE OF INFRATIL AND WHOLLY OWNED SUBSIDIARIES

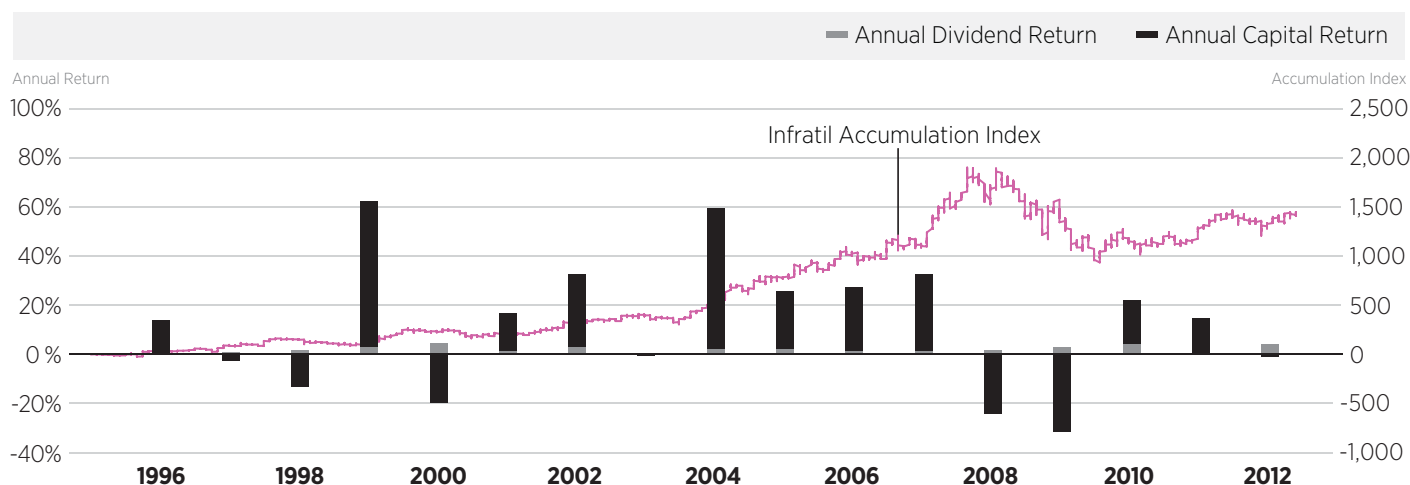


# SHAREHOLDER RETURNS & OWNERSHIP

Over the year to 31 March 2012 the Infratil share price fell from \$1.91 to \$1.89 and fully imputed dividends of 7.25 cents per share were paid out. The total return of 3% per annum was disappointing and in line with the New Zealand market.

Over the last three years, since the Global Financial Crisis period, Infratil's total returns of 48% are ahead of the NZX50 which had cumulative gains of 36%. (Infratil's returns assume all dividends are reinvested and are after tax. The NZX50 returns include imputation credits.)

## SHAREHOLDER RETURNS



As at 31 March 2012 Infratil had 31,100 share and bond holders, 10% more than one year ago. Slightly over 76% of Infratil's shares are New Zealand owned with New Zealand investment in Infratil amounting to approximately \$1,700 million (bonds at issue value and shares at market value).

The main ownership changes which occurred over the year were the sale by foundation shareholder Utilico of 30 million shares predominately to international institutions and management. Over 2008-2010 Utilico acquired additional shares in Infratil as a result of a rights issue and from exercising warrants. This sale represented a return to the previous level of holding.

Approximately 540 million of Infratil's shares, over 90% of the total, did not change hands over the year.

Between 1 April 2011 and 31 March 2012 Infratil repurchased 18.7 million shares and reissued 2.9 million under the dividend reinvestment plan.

Year ended 31 March	2012		2011	
	Million Shares	%	Million Shares	%
Utilico	83	14%	113	19%
Management	74	13%	65	11%
NZ Retail	244	42%	245	41%
NZ Institutions	126	21%	146	24%
Australian Institutions	15	3%	9	1%
Other	45	7%	29	4%
<b>Total shares</b>	<b>587</b>		<b>603</b>	

# FINANCIAL OUTLOOK

When Infratil's annual results were announced in May, the Company also provided guidance for the following financial year's consolidated EBITDAF, interest, cash flows and capital spending.

Guidance statements reflect base case assumptions for the group and are subject to change. Outcomes will naturally differ if a major divestment or investment occurs or market conditions change materially.

The following table gives the guidance for 2013 and, by way of comparison, last year's guidance and actual outcome.

<b>Year ended 31 March</b> \$Millions	<b>Guidance 2013</b>	<b>Actual 2012</b>	<b>Guidance 2012</b>	Actual 2011
EBITDAF	<b>530-560</b>	520	470-500 <sup>1</sup>	471
Depreciation & amortisation	<b>(145-155)</b>	(134)	-	(111)
Net interest	<b>(190-200)</b>	(187)	(180-190)	(168)
Free cash flow	<b>260-290</b>	196	150-170	179
Capital spending	<b>240-280</b>	246	250-300	504

1. The actual guidance EBITDAF range given last year was \$460-490 million. The figures given above are restated to exclude Infratil's UK airports which are now held for sale.

For the last financial year, the actual outcome was generally slightly positive against guidance.

Earning and cash flow guidance is intended to indicate what management is anticipating and to provide a measure against which actual performance can be assessed. The guidance is updated with the interim results or when material events or changes occur.

Factors such as energy and fuel prices and exchange rates may vary materially and impact reported earnings in any given fiscal period.

## GUIDANCE FOR THE YEAR TO 31 MARCH 2013

Guidance for higher EBITDAF includes anticipated returns on past investment and modest increases in demand at each of Lumo, Wellington Airport, NZ Bus and Z Energy.

Interest, depreciation and amortisation costs are also expected to be higher due to past investment and the impact of asset revaluations.

Free cash flow is projected to improve, in particular from Lumo reducing its gas inventory and working capital.

Capital spending is expected to be maintained at levels consistent with 2012 across the Infratil businesses. The only business where a material increase is expected is IEA/Lumo where \$22 million was invested last year and approximately twice that level is targeted for 2013.

# MIXED OWNERSHIP: A COMMENT

The New Zealand Government intends selling shares in three energy companies (Mighty River Power, Genesis and Meridian) having, some years ago, sold its interest in Contact Energy.

New Zealand's other major energy company TrustPower was originally the Tauranga Electric Power Board and started life outside of Crown ownership. Since Infratil became its major shareholder, TrustPower has been transformed into a national generator/retailer which also provides irrigation in Canterbury and wind-powered generation in Australia. Local ownership of TrustPower has been retained through the Tauranga Energy Consumers Trust as well as a loyal Bay of Plenty shareholder base.

TrustPower is an illustration of the "Mixed Ownership Model", where commercial and community interests partner in owning a business. Infratil can point to its experiences as evidence that this can create real value for communities and investors. The key is having the partners understand they need to both benefit over the long-run.

Wellington Airport is an even better illustration of the model because of its many levels of relevance to Wellington. It is a commercial investment, an important regional gateway and has significant potential issues such as traffic and noise that need to be carefully managed.

A lot has to work well to satisfy all interest groups, yet over the 14 years since Infratil became the City's partner the Airport and the relationship has thrived. Two Mayors and one Deputy Mayor have represented the City on the board.

Wellington City Council has the more difficult role of the two shareholders. The Council has to husband its capital as well as take responsibility for the wider community of interests and this can give rise to conflicts. For instance the City's District Plan stipulates a curfew on behalf of the neighbours but an Airport which operated around the clock would be of greater value to its owners.

Opponents of mixed ownership may balk at this, but Council's relationship with Infratil has required it to be very transparent and disciplined in its dealings with everything which has touched the Airport. This has been important in ensuring the many interest groups have each received fair and balanced consideration in Council's Airport related decisions.

Since 1998 when Infratil became the City's partner, management and direction of Wellington Airport has not been without challenges and milestones:

- Gone are AnsettNZ, QantasNZ, Freedom, Origin Pacific and Pacific Blue from domestic.
- The September 2001 attacks resulted in commercial insurance cover being withdrawn.
- Sars, Bird and Swine Flu.
- The five yearly price consultations with the airlines, and two Commerce Commission inquiries.
- \$295 million invested in domestic and international terminals, car parks, runway extension and overlay, and off-airport developments.
- Environment Court requirements to insulate and purchase neighbouring properties.
- Introduction of the best Airport-City public transport links of any New Zealand airport, along with the first secure bicycle storage at any New Zealand airport.
- LOTR, RWC, WoW, International Arts Festivals.

The upshot is that Wellington has a special and welcoming entry point and a business which very actively markets the region to new airlines, especially those intending to use the next era of aircraft which will be able to offer direct Wellington-Asia air links.

**The investment returns for the City have also been excellent:**

- **The Crown received \$96 million for 66% when it sold its shares in 1998. By implication, Council's shares were then worth \$50 million.**
- **Since then the investment has provided the City with cash returns of \$95 million, an average of almost \$7 million a year.**
- **The book value of Council's shareholding is now \$168 million.**

**Council's overall return has been about 16% per annum.** One response could be "why did Government sell out?" which begs the question of whether Government would have operated the business as commercially and would have been as sensitive a partner with the City. If history is a guide, local government would not have done as well with its big brother in the driving seat.

Infratil is not anticipating purchasing shares in any of the energy SOEs.



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# TRUSTPOWER

TrustPower delivered earnings growth for the tenth year in a row, which is remarkable given that the Company's generation depends on naturally variable rain and wind. It is testament to disciplined risk and capital management and the underlying quality of the assets and people involved.

Last year good wind and rain in TrustPower's catchments resulted in generation being up 158GWh on long run averages. Even in a normal period the locations of TrustPower's New Zealand power stations means they benefit from a diverse range of weather patterns and a dry spell for the main national hydro storage lakes will often benefit TrustPower's storage.

Customer numbers declined over the year as TrustPower lost ground to other generator retailers offering electricity to residential customers priced on the basis of cross-subsidies. Over the medium term TrustPower's retail customers will have better service and more stable prices and in the short term it was more remunerative to sell electricity to business customers or back into the wholesale market.

While electricity demand in New Zealand has not grown over the last five years, TrustPower continues to develop projects so that it will be able to invest in additional generation when market opportunities warrant. In New Zealand this means greenfield hydro and wind generation and upgrades to existing plant, as well as irrigation schemes.

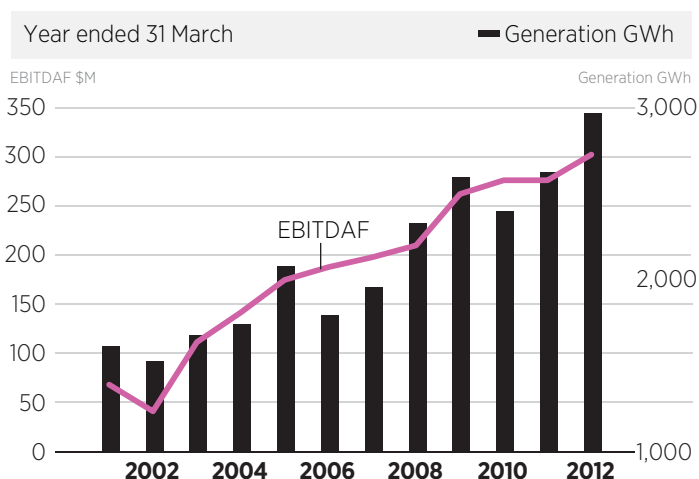
In Australia TrustPower has been applying its wind farm development expertise and now has over 1,000MW of potential projects. The most immediate is the substantial 270MW Snowtown II initiative near Adelaide.

TrustPower's 99MW Snowtown I wind farm was commissioned in 2008 at a cost of A\$200 million and it now generates sufficient electricity for about 70,000 households. Australian government policy is for 20% of generation to come from renewable sources by 2020, about twice current levels.


## OPERATIONS AND RESULTS

Year ended 31 March	2012	2011
NZ sales	3,960GWh	4,033GWh
NZ generation	2,582GWh	2,287GWh
Australian generation	376GWh	328GWh
Electricity customers	209,000	221,000
Av. NZ generation spot price	7.2c/kwh	5.1c/kwh
<b>EBITDAF</b>	<b>\$300m</b>	<b>\$274m</b>
Capital spending	\$49m	\$109m
Infratil cash income	\$64m	\$61m

## EARNINGS AND GENERATION







Australian government policy is targeting 20% of national electricity from renewables by 2020. That will require a doubling of capacity. TrustPower is almost ready to commit to the 270MW Snowtown II wind farm. The 99MW Snowtown I was commissioned in 2008 at a cost of A\$200 million.

**SNOWTOWN**  
ADELAIDE  
AUSTRALIA

# INFRATIL ENERGY AUSTRALIA GROUP

IEA's EBITDAF was above expectations due to a good year at Lumo. Wholesale energy prices were relatively low over a cool summer and key back office functions such as receivables and customer service performed creditably. Lumo also resumed growth with a net 27,000 customers added over the six months to 31 March 2012. Growth in earnings and the customer base is anticipated to continue in 2013.

The flip-side of Lumo benefitting from lower wholesale prices was lower income for IEA's generation, although this was offset with the commissioning of the Port Stanvac power station in South Australia. Weak demand and capacity growth is likely to mean wholesale prices continue to be soft over the next year, before taking into account the impact of carbon pricing. Although these market circumstances are unfavourable for generators, IEA continues to plan for the long-term development of the fully consented Bamarang (NSW) site which was purchased in the prior year.

As previously signalled, IEA experienced a substantial net cost from having excess gas and Greenhouse Abatement Certificates (NGAC). These expenses are not expected to reoccur.

Perth Energy delivered to expectations, albeit also doing slightly better than forecast from retailing and not quite as well from generation. In its first year of operation, one of the engines at the new Kwinana power station had to be taken off-site for repairs and a replacement leased. Discussions are underway with the manufacturer about cost recoveries.

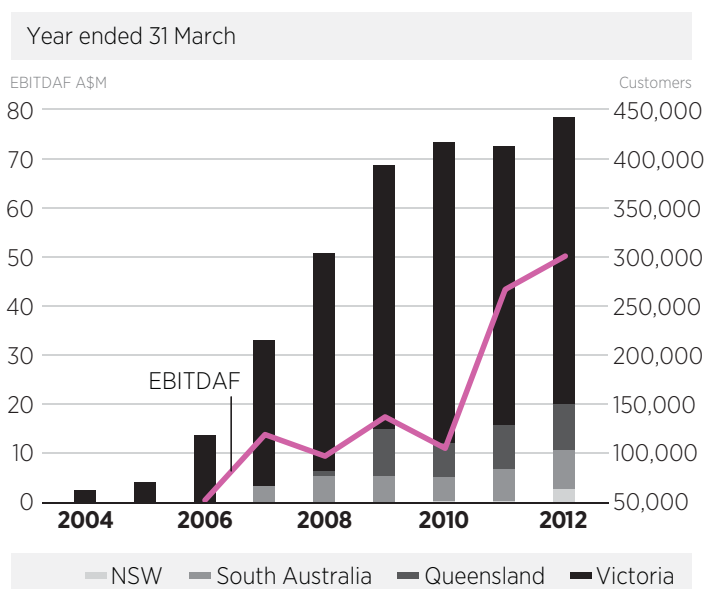
Infratil is reviewing its ownership of Perth Energy. The Western Australia and eastern state electricity markets have entirely different rules which makes governance complex and Infratil is yet to determine if it will continue to provide growth capital to both IEA/Lumo and Perth Energy.

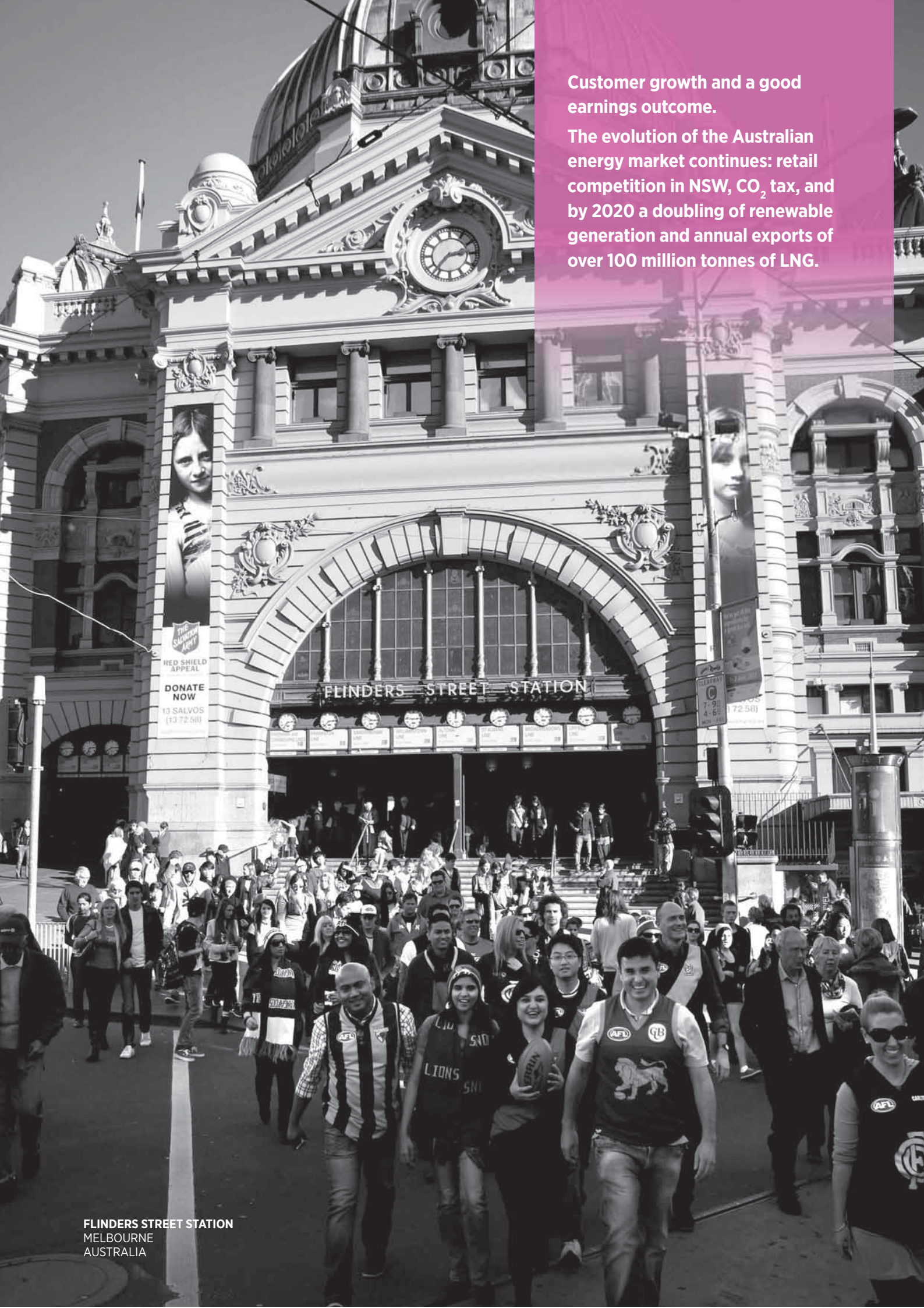
## OPERATIONS AND RESULTS

Year ended 31 March (A\$ millions)	2012	2011
Lumo customers	441,788	408,834
Generation capacity	285 MW	275 MW
<b>Earnings contribution</b>		
Lumo	\$44	\$44
IEA generation	\$11	\$8
Perth Energy	\$12	\$4.5
Excess gas/ hedges/NGAC	(\$15)	(\$12)
Development/overhead	(\$3)	(\$3)
<b>EBITDAF</b>	<b>\$50</b>	<b>\$43</b>
Hedge revaluations	\$31	\$35
Depreciation/amortisation	(\$24)	(\$15)
External interest	(\$9)	(\$3)
Net current assets	\$148	\$122
Fixed assets	\$292	\$299
IEA/Lumo external debt	(\$51)	(\$56)
Perth Energy external debt	(\$76)	(\$76)
<b>Infratil value of IEA/Lumo <sup>1</sup></b>	<b>NZ\$391</b>	<b>NZ\$345</b>
<b>Infratil value Perth Energy <sup>1</sup></b>	<b>NZ\$85</b>	<b>NZ\$97</b>

<sup>1</sup> The IEA/Lumo value Infratil reports is net of debt and cash. The net debt of wholly owned subsidiaries is included in the Group's debt. Infratil owns 81.2% of PE. The exchange rate used for balance sheet conversion was 0.7874 and for earnings 0.7720.

## EARNINGS AND CUSTOMERS





Customer growth and a good earnings outcome.

The evolution of the Australian energy market continues: retail competition in NSW, CO<sub>2</sub> tax, and by 2020 a doubling of renewable generation and annual exports of over 100 million tonnes of LNG.

FLINDERS STREET STATION  
MELBOURNE  
AUSTRALIA

# WELLINGTON AIRPORT

Wellington's traffic experienced an uneven mix of factors impacting different services and markets. Melbourne was Wellington's best performing route, and people wanting to travel over the Tasman generally benefitted from robust airline competition. Traffic within New Zealand was flat. Fewer people travelled to and from Christchurch while most other routes experienced modest growth.

Wellington Airport is increasing its spending to attract new airline services, especially on international routes. Although these are long-term projects and airline decisions are often based on the receipt of new aircraft, the dynamics and growth of the Asian/Australasian aviation market are encouraging. The Wellington Employers' Chamber of Commerce has identified direct, regular, air links with Asia as the major potential source of economic stimulation for the region.

The main commercial event over the year was the redetermination of airline charges for the five year period from 1 April 2012. This is the fourth time the Airport has gone through this consultation, although the first occasion since the implementation of new disclosure regulations. Key variables and outcomes include:

- By 2017 Wellington's domestic passengers are forecast to have increased to 5,111,092 and international passengers to 837,192. A 15% uplift on current levels.
- Capital spending on aeronautical facilities is forecast to be \$77 million over the five year period.
- Aeronautical charges have been increased and restructured. On average real charges will rise 41 cents per passenger per year but the incidence changes. The cost per passenger on international services falls while peak-time domestic charges relatively increase. Wellington also implemented an incentive scheme to encourage airlines to grow services.
- The Airport's disclosure report shows approximately \$500 million of aeronautical assets, 90% of which were included in the price consultation. The new prices reflect a targeted cash return over the five years on the consultation aeronautical assets of 5.8% per annum or 8.1% per annum when forecast asset revaluations are included.

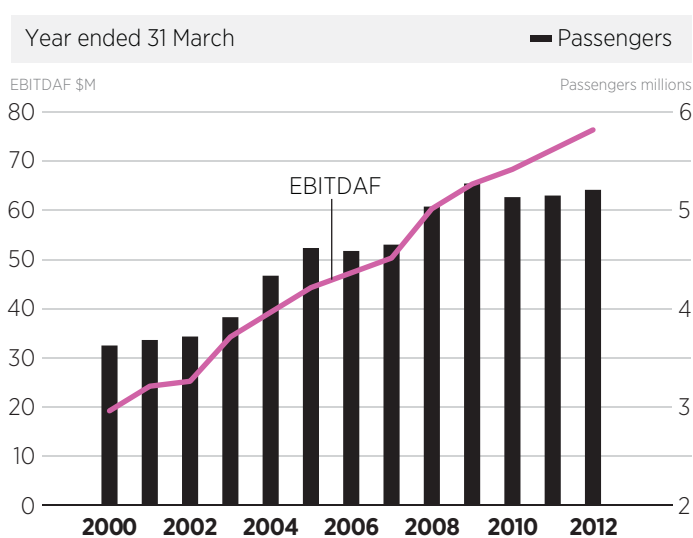
Consultation also resulted in a formal process to remediate the problem near-by neighbours experience with aircraft noise. This is the culmination of fifteen years of work by the Airport, neighbours, Council and airlines.

## OPERATIONS AND RESULTS

Year ended 31 March	2012	2011
Passengers domestic	4,473,544	4,479,651
Passengers international	718,185	654,576
Aeronautical income	\$61m	\$57m
Passenger services income	\$32m	\$29m
Property/other *	\$7m	\$8m
Operating costs	(\$24m)	(\$22m)
<b>EBITDAF</b>	<b>\$76m</b>	<b>\$72m</b>
Capital spending	\$22m	\$16m
Infratil cash income	\$57m	\$27m

\* During the year Wellington Airport sold its outdoor advertising subsidiary for a net \$10.1 million. The above figures include contributions from this business of \$0.8 million and \$1.9 million for FY12 and FY11 respectively.

## EARNINGS AND PASSENGERS





Over the next five years passenger numbers are forecast to approach six million per annum requiring capital spending on aeronautical facilities of \$77 million.

**ALL BLACKS**  
ARRIVING AT  
WELLINGTON AIRPORT

# Z ENERGY

In a difficult market, Z maintained sales volume and net margin, testament to the benefits of being New Zealand's largest fuel distributor and operating smarter under local ownership and control.

Consistently high oil prices, low refining margins, and distributors competing to maintain throughput in a shrinking market created headwinds. Z also had the challenge of rolling out its new brand and a significant reformatting and improvement of its retail stores and forecourt services.

In addition, Z is adding resilience to its logistics chain with more storage and back-up. One manifestation of this was Z's support of the investment of \$365 million in an upgrade of the Marsden Point refinery. Two of the four local fuel company shareholders backed this investment and two opposed; a signal of how the industry is evolving.

Z's internal investment programme is projected to increase annual earnings by approximately \$35 million through an improved retail offer, more efficient supply logistics and a shift towards explicit capital cost recovery on infrastructure assets.

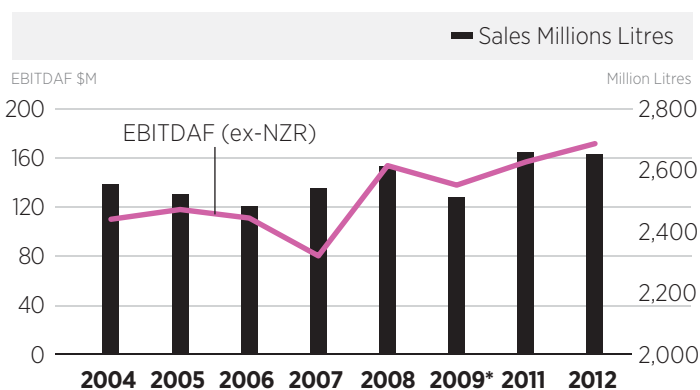
Ministry of Economic Development data shows higher observed retail fuel margins over the last year, but Z's figures indicate that they do not tell the whole story. Behind the retail prices are discounts and "bundling" schemes and higher financing costs from funding more expensive inventory. Also, the Ministry's calculations are based on imported fuel while the majority of Z's fuel is refined in New Zealand.

## OPERATIONS AND RESULTS

Year ended 31 March	2012	2011
Average crude price	NZ\$137/bbl	NZ\$115/bbl
Sales (litres)	2,647m	2,654m
Sourced from refinery (NZR)	71%	68%
Distributed to retail	47%	47%
Inventory (litres)	605m	524m
Inventory value	\$671m	\$549m
Revenue (ex tax)	\$3,179m	\$2,795m
Gross margin	\$422m	\$401m
Operating costs	(\$250m)	(\$244m)
<b>Current cost EBITDAF</b>	<b>\$172m</b>	<b>\$157m</b>
Stock value adjustment	\$30m	\$62m
Associates contribution	\$4m	\$10m
<b>Historic cost EBITDAF</b>	<b>\$206m</b>	<b>\$229m</b>
External interest	(\$38m)	(\$30m)
D&A/revaluations	(\$32m)	\$85m
Tax	(\$31m)	(\$52m)
Shareholder surplus	\$105m	\$232m
Capital spending	\$74m	\$29m
Margin*	2.5c/litre	1.8c/litre
Financial debt	\$432m	\$356m
Shareholders' capital	\$662m	\$624m

\* Current Cost Earnings. Excluding Associate contributions. After interest, tax, depreciation & amortisation

## EARNINGS AND FUEL VOLUMES



\*Until 2009 the years end 31 December. Subsequently the years end 31 March.



Z Energy maintained volumes and grew earnings while undertaking the 'Z' rebranding, service station renewal and increased storage. It also supported the Marsden Point refinery upgrade.

# NZ BUS

Increasing patronage in Auckland by over two million customer trips was exceptional and a testament to the hard work of the whole NZ Bus team and those in Auckland Transport who manage that region's public transport network.

Auckland Transport and NZ Bus working together was showcased by the Rugby World Cup. Tens of thousands of people were moved between Auckland's CBD and Eden Park with minimum fuss and expense. Bus numbers and routes could be adjusted to suit demand and traffic and the cost did not blow any budgets.

While Wellington region patronage was stable, it is hoped that the new government backed contracting regime and a revamp of the Capital's public transport network will result in a resumption of growth.

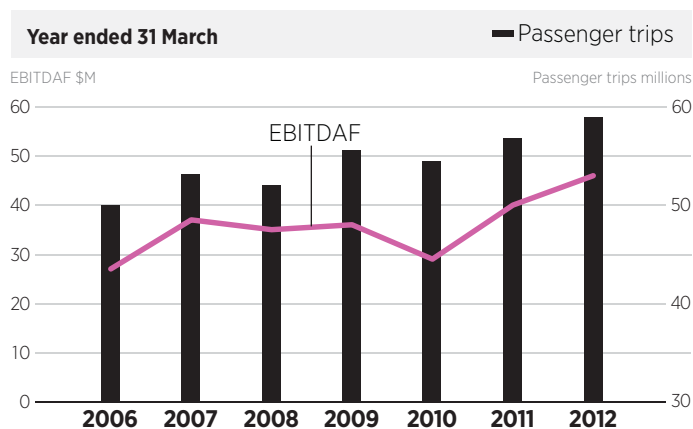
The positive approach in both Auckland and Wellington fits well with implementation of the new model of public transport contracts from later in 2012. Infratil's support of the direction of developments is indicated by NZ Bus ordering 236 new buses of which 114 were in service by 31 March 2012.

Capital was also spent on the ticketing system, a new depot in Onehunga and the Pathway to Safer Driving programme. As well as signalling confidence in the public transport sector, these initiatives show NZ Bus' respect for its people and its willingness to invest in their health and security. Indicating the efficiency of its operations, NZ Bus' average contract income of \$1.43 per passenger trip over the last year was 11% less in real terms than the subsidy level of five years ago.

## OPERATIONS AND RESULTS

Year ended 31 March	2012	2011
Patronage north	38,713,136	36,475,026
Patronage south	20,341,102	20,359,263
Bus distance (kilometres)	46.4m	47.4m
Bus numbers	1,102	1,068
Passenger income	\$127m	\$117m
Contract income	\$84m	\$80m
<b>EBITDAF</b>	<b>\$46m</b>	<b>\$40m</b>
Capital spending	\$64m	\$17m

## EARNINGS AND PATRONAGE







NZ Bus carried two million more passengers in Auckland and partnered brilliantly with Auckland Transport over RWC. Infratil is backing the new regime with an order of 236 new buses, electronic ticketing, improved depot facilities and driver safety programmes.

# OTHER INVESTMENTS

## SNAPPER

By 31 March 2012 Snapper's payment and information system was operating on 1,014 buses, 3,000 taxis and in 526 retail outlets. The 369,000 Snapper and Hop cards on issue were being used on average 1.1 million times a week.

Snapper's notable delivery over the last year was the introduction of its cards and ticketing/information system on public transport services in Auckland as a part of Auckland Transport's integrated ticketing project.

During 2012 Snapper's tickets and systems will be developed to inter-operate with the Thales system which is to service trains and ferries in Auckland. The central government transport agency, NZTA, is responsible for standards for integrated ticketing across New Zealand, while Auckland Transport is responsible for delivery of the Auckland project.

The recent launch in New Zealand of a Touch-2-Pay 2degrees/Snapper mobile smartphone heralds the next phase of innovation and convergence in the small-payments market where banks, credit card companies, telcos and ticketers are all testing and trialling different approaches.

## INFRATIL INFRASTRUCTURE PROPERTY

IIP was established to own and develop property peripheral to Infratil's core activities, which to date has mainly involved bus depots.

Over the last year IIP arranged the transfer of the NZ Bus Mt Roskill depot to a new facility in Onehunga and sold the old site for \$11 million, a \$3 million profit against book value.

IIP's other major project is a joint-venture with Auckland Council to develop two new buildings in New Lynn including a medical centre and car park. Commissioning of these facilities is expected in early 2013.

## iSITE OUTDOOR MEDIA

Infratil acquired outdoor media company iSite from Wellington Airport in July 2011 for \$10 million, plus debt, and increased the investment slightly later in the year when iSite made an acquisition. iSite has approximately 30% of the out of home media market and in the year to 31 March 2012 provided EBITDA of \$4 million.

## UK AIRPORTS' SALE PROCESS

Infratil has appointed PricewaterhouseCoopers to advise on the sale of Glasgow Prestwick and Kent Manston airports. PwC is marketing the airports to potential buyers. It is anticipated that the sales will be concluded in 2013.

This has resulted in the airport's financial results being treated as "discontinued operations" for reporting purposes.

Snapper's "open platform" payment system works with other cards, other readers and other applications entirely such as cell phones, and who knows what next?

AT THE DELL... YOUR BO

LG OPTIMUS NET  
THE FIRST PHONE  
WITH SNAPPER.



link network

