Infratil Monthly Operational Report

25 February 2013

Infratil's Monthly Operational Report for January 2013 is available here.

Ten months into the financial year Infratil's operations are, in aggregate, tracking to plan.

TrustPower

New Zealand wholesale electricity prices remain subdued due to a lack of demand growth and reasonable hydro-lake storage levels. The hedge market price of electricity for the next two years is about 7c/kwh which is 2c/kwh below the levels of a year ago when lake storage levels were lower. As always, it depends on the weather. If the English cricket team enjoys an Indian summer it is likely to also mean reducing lake levels and higher hedge prices.

GWh	Dec '10	Mar '11	Jun '11	Sep '11	Dec '11	Mar '12	Jun '12	Sept '12	Dec '12
NZ Generation	534	524	705	709	614	554	604	688	602
Aust Generation	81	96	84	93	94	105	89	97	103
Retail Sales	438	386	455	529	399	378	432	478	358
ToU Sales	533	534	571	582	535	511	541	535	507
Av. spot price of NZ purchases	$61	$66	$45	$85	$82	$102	$127	$66	$50
Av. spot prices of NZ generation	$67	$48	$42	$80	$74	$98	$135	$64	$46
EBITDAF*		$126m		$162m		$138m		$166m	

* Semi-annual

In the 2nd quarter of the year the Ministry of Business, Innovation and Employment releases its annual Energy Outlook which contains the Ministry's views about electricity demand, supply and price over the next decade. With companies cancelling plans to build generation and demand remaining flat it will be interesting to see how their views have changed since January 2012.

TrustPower is to commission a 3.8MW hydro project at Esk Valley in the Hawkes Bay in June 2013, but its other investment initiatives are focussed on irrigation in Canterbury and wind farms in Australia, where construction of the 270MW Snowtown Stage 2 Wind Farm is progressing to schedule. Australia has a target of 20% of generation coming from renewable sources by 2020 and TrustPower is reviewing further wind development opportunities in Victoria and New South Wales.

TrustPower has made a submission on the New Zealand Electricity Authority's review of transmission pricing. As with a number of other industry parties TrustPower has indicated its disappointment with the complex and significant changes proposed in the Commission's draft review.

Infratil Energy Australia/Lumo

Lumo has increased customer numbers by 50,000 or almost 12% over the last twelve months, despite customer churn rates remaining high.

The strongest region of growth is NSW which contributed 30,000 of the additional accounts. Approximately 60% of Lumo's electricity customers are in Victoria with QLD, SA and NSW contributing roughly equal parts of the remaining 40%. About 95% of Lumo's gas customers are in Victoria with the remainder being from NSW.

Customers	Electricity	Gas	Total
January 2012	300,352	128,802	429,154
March 2012	313,984	127,804	441,788
January 2013	331,499	148,011	479,510
Annual Change	11.4%	14.9%	11.7%

Notwithstanding the extreme weather experienced in Eastern Australia over the summer, wholesale electricity and gas prices were orderly. Contract prices for wholesale electricity for the next two years have recently fallen slightly and coincidentally are now very close to New Zealand's (NZ 7 cents = Aust 5.5 cents per kwh).

In Australia a great deal of attention, and debate, has recently focussed on where gas prices may go once the east coast gas export facilities now under construction come into action. By the end of the decade Australia's LNG exports are projected to rise to 60 million tonnes per annum from about 20 million tonnes now, with 25 million tonnes of this expansion to come from export plants due for commissioning in Queensland over 2014 and 2015.

Although no export facilities are planned for NSW, Vic or SA, they are part of the Eastern Australian gas market and higher gas prices are expected, both from rising well and transmission costs and from gas owners having the choice of selling locally or exporting. The impact of exports on the eastern states' market is highlighted by how its share of that market is expected to change, from 0% now to perhaps 70% in five years' time.

This has ignited claims from some large gas users that contracting long term supply of gas is becoming difficult and future prices are rising markedly.

At best the huge expansion of exports and uncertainty about the growth in supply makes predicting prices difficult. There is likely to be a period of higher prices (perhaps 2015 to 2017) and even supply shortfalls, but prices are then likely to fall back as supply expands from local wells and US exports of LNG increase and lower international prices. Although, as the 2011 events in Japan showed, energy sector projections are difficult and accidents happen.

Lumo's gas portfolio is positioned to transition through these changes, whichever way they unfold. Lumo has diverse sources of supply in place until 2016 and storage and capacity arrangements in place until later in the decade.

Z Energy

International refined petrol prices have increased 10% during 2013, reflecting economic growth and rising consumption and the geopolitical jitters which resulted from North Korea's nuclear bomb test. The high NZ$ has mitigated the impact for the local market. Ministry numbers show that so far this year pump prices for petrol are up 4% while diesel prices are down slightly.

Each year Z imports approximately 1,900 million litres of crude oil and 650 million litres of refined product, with the former sourced through Shell and the latter from Korean refineries. The Shell contract has just been renewed on terms which are expected to result in a $3 million annual savings. The Korean contract which dated from 2011 is producing approximately $5 million in annual savings relative to the previous arrangements. Both transactions illustrate the benefit Z is able to derive from its standalone operation and ability to select the optimal supply counterparty. With NZ fuel consumption being roughly unchanged over the last 5 years, measures to lower cost without reducing reliability are critical.

Reliability of supply means having a widespread network of service stations and fuel stops and good port storage and logistics, including coastal tankers. Over 2012 Z opened 4 new petrol stations and work is currently underway on 2 more. 30 million litres of storage was commissioned in 2011 and Z is now deciding whether to build additional storage at the ports in Tauranga and Lyttelton. The contemplated tanks would cost of about $40 million and provide 40 million litres of capacity, about 6 days of Z's average supply. Importantly they would also enable Z to receive larger cargoes of refined fuels which would lower costs.

Z is also working on two significant bio-fuel developments which would convert animal fats (which are now exported to make soap) into diesel and low-value wood waste into a form of crude oil. The former project could contribute 40 million litres of fuel per annum (about 15% of Z's sales) while the latter is more ambitious, albeit less certain.

The rebranding and refurbishment of service stations continues to be well received, as is Z's "Good in the Hood" community programme which has seen over $1 million provided to groups and projects local to the service stations. The programme has just been renewed for a second year. One signal of the good reception of the new food and beverage offering at Z stations is the coffee sales. One million cups of ZEspress!

In March Z is to sell 44 of its smaller petrol station sites and lease them back on commercial terms, meaning that it will have sold 48 sites this year for $90 million, approximately $27 million above book value. Z continues to own about 25% of its sites.

NZ Bus

Passenger numbers continue to be slightly above the level of last year with both Auckland and Wellington up 1% to 2%. In both regions this is better than the overall market growth, which is pleasing given that NZ Bus tends to have a larger share of inner city services and these routes were above average beneficiaries of last year's RWC and hence are more adversely impacted by this year's lack of such an extravaganza.

Northern passenger trips	January	10 months to 31 January	12 months to 31 January
2013	2,436,656	31,585,692	38,836,319
2012	2,324,554	31,462,509	38,313,699
Change	4.8%	0.4%	1.4%

Southern passenger trips	January	10 months to 31 January	12 months to 31 January
2013	1,274,306	16,845,264	20,636,071
2012	1,189,152	16,642,545	20,318,489
Change	7.2%	1.2%	1.6%

Analysis of patronage data indicates that NZ Bus is benefitting from its heavy investment in fleet, systems and its people. NZ Bus has now taken delivery of 200 of the mid-sized ADL Euro-5 low emission buses and they are proving to be highly popular with staff and customers. They are reliable, comfortable, and clean. More than 50% of the fleet upgrade is still to be completed. The most recently received buses are now operating in Wellington where they are proving to be an excellent fit with the City's relatively narrow roads.

The investment is also proving to be of financial benefit and operating costs per passenger and rate/tax payer contract subsidy per passenger are now lower than the levels of 5 years ago.

In part the investment is being made in anticipation of the imminent implementation of a raft of long-term improvements to the public transport contracting model and the networks and schedules in both Auckland and Wellington, in both cases after very long gestation periods.

NZ Bus' new 42 bus depot in Mt Roskill opened on 10 February, coinciding with a significant reschedule of central isthmus services. This depot ensures NZ Bus' fleet is well located to service these routes, which are largely commercial, ie. requiring low levels of subsidy. The new depot also means it has been possible to bring a number of drivers back from Onehunga where they have been based over the last 2 years. Their feedback is that they are comfortable with the new, albeit relatively small scale, facilities.

Wellington Airport

4,433,509 passengers boarded or disembarked at Wellington Airport over the first 10 months of this financial year, an increase of 138,036 or 3.2% on the prior period.

Good growth was experienced on the more aggressively competed domestic trunk services while traffic with the regions, where there tends to be a single carrier, continues to be weak.

On the Tasman the AirNZ/Virgin alliance is driving growth, but on all routes total passenger numbers are only stable.

Airline loadings across domestic and international services are similar to last year at about 80%.

Domestic Passengers	January	10 months to 31 January	12 months to 31 January
2013	359,580	3,832,267	4,529,717
2012	326,996	3,697,539	4,381,792
Change	10.0%	3.6%	3.4%

International Passengers	January	10 months to 31 January	12 months to 31 January
2013	72,839	601,242	724,559
2012	72,844	597,934	705,498
Change	0%	0.6%	2.7%

Against this backdrop (and also in light of the following points about changes in the regional airline industry) Wellington Airport received a disappointing report card from the Commerce Commission. The Commission has calculated that Wellington could earn excessive profits over the period 2014 to 2017 and has effectively asked the Ministers of Commerce and Transport if they wish to do something about it. Recognising the Airport's crucial regional role, its very high standards and a strong desire to avoid onerous regulation of investment and prices; the Airport's management and board are working to fully understand the Commission's calculations so that an appropriate response can be formulated. There are some fundamental differences of view, but there are also inconsistencies in the Commission's modeling which are taking some time to understand. The Airport is forecasting a cash returns over the current five year pricing period of slightly over 6% per annum. while the Commission has calculated more than twice that rate.

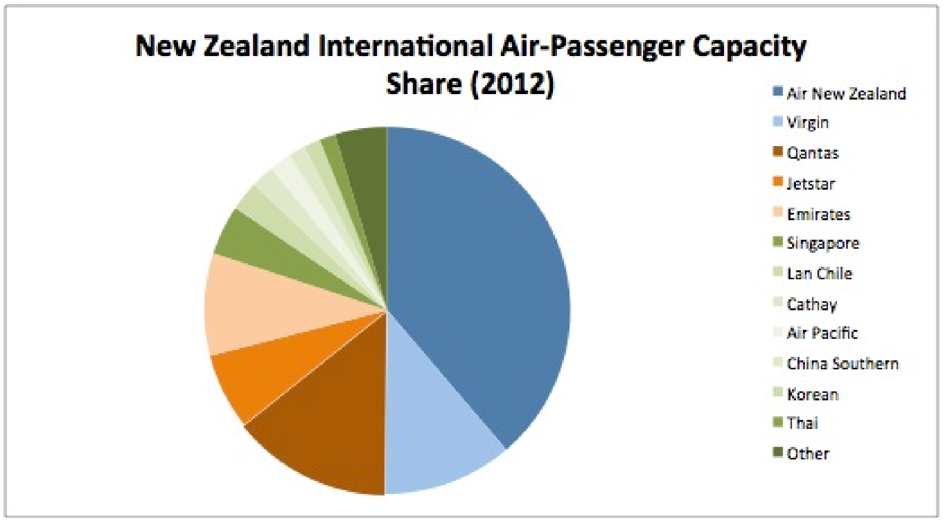
Wellington Airport is currently assessing the merits of a number of investment projects; the domestic terminal expansion, additional carparking, and a hotel and these decisions will also be impacted by any changes to income projections which will affect the Airport's ability to raise funding. The outcome of the regulatory uncertainty has consequences which go beyond dividends and incremental passenger charges.

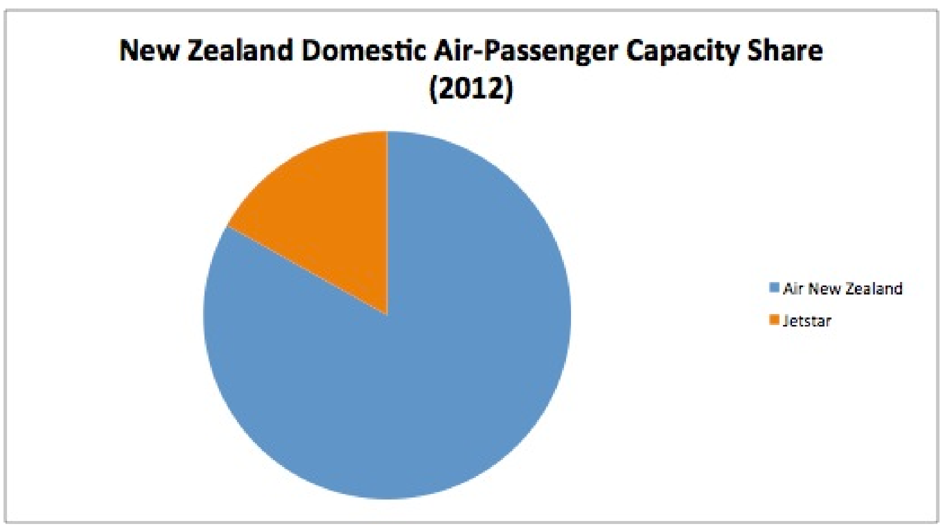
Outside of regulation, the most interesting sector development continues to be the reconfiguration of the regional airline industry through changes of ownership and alliances. While final outcomes are yet to be authorised by regulators it seems the regional industry is likely to form into two blocks, being:

- Qantas, Jetstar, Emirates
- AirNZ, Virgin, Tiger, Etihad, Singapore

Converting these airline groups into market shares shows that they will carry 99% of all passengers using Wellington and Christchurch airports and regionally they will dominate.

Two Airline Group Market Share	Domestic	International
Australia	92%	47%
New Zealand	99%	80%





Quite what this means for the service and price offered air travellers remains to be seen, but recent Ministry figures show the importance of international tourism to New Zealand. Last year it is calculated that Australians spent a total of $1,637 million in New Zealand with the second largest spend of $1,080 coming from North Asian visitors, which was almost exactly the same as the combined spend of visitors from USA, UK and Germany.