

Question and Answer

Robert William Mercer

Forsyth Barr Group Ltd., Research Division

Marko, just focusing on Australia, where they've got clearly 2 strategies. One through TrustPower. And TrustPower has got a long track record of taking a very slow approach to building and creating shareholder value, and I think that's reflected in the ongoing annual growth in their EBITDAF. Then you've got what you're doing in Australia with Lumo, in taking capacity plants. What's -- why would you look at Snowtown II as not being a good investment opportunity for Infratil to sort of bait in rather than with one arm?

Marko Bogoevski

CEO & Director

So I think, Rob, I guess you're referring to the fact we've effectively structured the thinking around Snowtown II into 2 separate parcels. I mean part of that, I think we've -- our price to risk, which I just talked about. And we're thinking, I mean I think Vince is playing a long game here. I mean he's thinking about 970 megawatts of further wind options in Australia. And firm equity partnerships to develop those options at the right time, are actually very, very valuable. And I think that's what counterparties see. So there's a good reason why Origin signed up their part of the PPA because they see TrustPower's as a credible builder and operator of these sorts of wind farms. And I think that's actually -- there will only be a handful I'd just say, that [indiscernible] I mean there aren't that many people around that category. Do you want to add anything to it?

Vince James Hawksworth

Chief Executive Officer of Trustpower

I guess the only other thing I'd add is Snowtown II is really big. It's 270. We've already got 100 megawatts in the same place. It doesn't hurt for us to not have the whole 370. And I think it creates more optionality about how we go forward, as well so...

Unknown Analyst

Investor perspective. Infratil's investing in their own path in Energy Australia and TrustPower is doing a separate path. So as they both run -- I mean, is this a play on both model is going to work or...

Marko Bogoevski

CEO & Director

Well, TrustPower has no retail activity essentially in Australia. So we've got our new market activities, commercial and retail, focused on Lumo and Infratil Energy Australia. As you know, western Australia is a separate market. It's focused only on commercial and TrustPower is a developer of wind farms that will look to faithfully extract NPV and take development gains when they're available. I mean, that's -- I think that's an entirely consistent strategy. And it's a choice. I mean, you could have integrated a lot of these activities further. But I think we're actually getting quite good gains out of the approach they are taking at the moment.

Further questions on the floor here in Wellington? No? Sheryl, if perhaps we can take some questions if there are any on the phone, please?

Operator

We had a question from Grant Swanepoel of Craigs.

Grant Swanepoel

Craigs Investment Partners Limited, Research Division

First question for Vince. Vince, just on TrustPower's Australian opportunities on the wind farms upside, can you give us some sort of idea what the wind sectors are on the new ones relative to Snowtown II. And

then just revisit Rob's question on why you wouldn't, if those specialty sectors are below Snowtown II, wouldn't consider or reconsider taking on the whole investment yourselves? And then just for Marko, you guys mentioned a while ago, a little while ago, that you were going to review the Perth Energy investment. Can you just cover a few reasons why you're reviewing that and if you've made any progress on that side?

Vince James Hawksworth

Chief Executive Officer of Trustpower

Well, firstly, Snowtown II, I think what we've said is circa 43% capacity factor. The new options that we've taken, it's a little bit difficult at this point in time to be unequivocal about what the capacity factors will be because it rather depends on which technologies we put in place on those wind farms. But perhaps to give you some comfort, we've chosen projects that we believe will, in a rational investor world, be executed as part of reaching the 2020 20% renewable energy target. So we don't see them as outside shots in that sort of sense of things. And I guess, if we think about those projects and the co-investor model, one of the beauties of the co-investor model is we make a decision on each project. We aren't locked together for life. So back to that sort of question is, that is the way we're going to go ahead with Snowtown II. If it works really well and we've got a really good co-investor, it will be a great thing to do in the future. And if it doesn't, we haven't got the encumbrance of a JV to unravel. So that's probably what I'd say on that.

Marko Bogoievski

CEO & Director

I think -- Bruce do you want to have a crack at the -- a brief Perth Energy update? And Bruce talked about Perth on the Investor Day briefly.

Bruce James Harker

Director

Yes. Grant, yes, we are in Perth Energy looking at what the possibilities are there. And the underlying reason for that is just the uncertainty of being in a smaller market framework and the way the regulatory development may evolve in Perth Energy. And I think we've probably all read possibilities of synergy and Perth being put back together. So it is a market that can walk its own path. We're simply prioritizing where we wish to have our energy investments in terms of that regulatory uncertainty.

Marko Bogoievski

CEO & Director

Any more questions, Sheryl, on the phone, please?

Operator

The next question comes from Wade Gardiner of UBS.

Wade Gardiner

UBS Investment Bank, Research Division

I see you've written down the euro airports for the third year in a row. Can you give some color on how you came up with the \$70 million value and also progress on the sale?

Marko Bogoievski

CEO & Director

Kevin, do you want to have a crack at the valuation? I can talk about progress if you would.

Kevin M. Baker

Chair of NZ Bus and Director of Canberra Data Centres & Infratil Infrastructure Property

Thanks, Marko. Look, we last had a formal valuation by values in the U.K. in 2011. Those valuations were based on cash flow modeling at that time. And of course, the most important element of that is passenger growth and freight forecasts. Clearly, over the last year, we've seen passenger numbers come back from what we reported in 2011. There's a flattening out of demand in that market right at the moment as that

economy moves into, again, a double-dip recession. So we've had a hard look at our forecast, particularly for GPA, around passenger growth. We've had our various internal experts on airport valuations do assessments and we've taken out, I guess, a harder firmer line on those valuations. And so for GPA, I think we bought the airport valuation back from in total, which was just under 40 million last year, GBP 40 million to about GBP 28 million, so effectively about a 25% write down. Kent is a slightly different element. There's 2 parts principally to its valuation. There's a big area of what we call northern lands, which is a potential land development opportunity. Then of course, there's the airport. The airport has been running negative cash flows effectively since we bought it. We have intended towards a DCF valuation for that airport. We've looked at it more as a land development opportunity. And accordingly, with that valuation, we bought those prior-year independent valuations, which we're setting it about GBP 18 million back to GBP 15 million. So again, about a 25%, 20% reduction in value. Valuations are implicitly a judgment call. Clearly, the sort of economic circumstances in the U.K. have resulted in those valuations coming back, stepping back over a number of years. I think we're reasonably confident that we're getting towards sort of a flow of valuation on those airports in terms of where we sit right now.

Marko Bogoevski*CEO & Director*

Thank you, Kevin. I mean, one thing just weighed on the -- we've also got 227 million of gains running through reserves on revaluing largely our Trustpower assets that we're happy to talk about at length, as well as just the accountants make you run impairments through the P&L. So we do run a portfolio approach to our business and I think we're happy, as I said, to start with our year-on-year growth. This will be the one disappointment in what is, as I see it, a standout year. In terms of the process, I mean, I think our view on those assets is reasonably well understood. We did have conditional interest in Glasgow Prestwick that did not culminate in the sale. And now, I guess we're in a more of a regular marketing process around both of those assets. And I'll reiterate Kevin's points that Kent and Glasgow are quite different assets in. In theory, should attract different types of potential future owners. So we'll see where they get to. Obviously we can't force people to buy assets. Any more questions on the phone?

Wade Gardiner*UBS Investment Bank, Research Division*

I guess, I'm just wondering whether the values that you'd written them down to were sort of an indication of the progress and the whole process and whether that was a good indication of what you thought you might get for them?

Marko Bogoevski*CEO & Director*

They have to necessarily reflect a market, but let's face it, there are not many assets out there left to trade or relatively liquid. And as Kevin pointed out, at least to the case of Manston, it pretty much reflects a real estate valuation, I think, for that asset.

Operator

The next question comes from Jamie Gray [ph] of IPNZ.

Unknown Analyst

Just have 2 questions. Just wondering if you could perhaps give us an update on the situation with Snapper and [indiscernible] out here in Auckland. And secondly, what's your attitude towards the mixed ownership model proposed by the government? Would you expect to be a playing a big part of that as we move forward?

Marko Bogoevski*CEO & Director*

Might, I mean obviously, Snapper and NZ Bus are being topical. Zane is in the room. Zane, do you want to -- please, can we get a mic to Zane and maybe he'll have a chance to talk about it.

Zane Fulljames
Chief Executive Officer

Yes, Auckland has been very topical, particularly over the last couple of weeks. A couple of important things to make comment about, particularly in regards to the media statements, which are largely hypothetical. Reinforce the relationship between Auckland Transport and NZ Bus is a very strong working relationship. We're committed to delivery of an integrating ticketing system into Auckland towards the back end of this year. In fact, it's pretty fundamental for the unlocking of the potential of PT, particularly in Auckland, that integrated ticketing is delivered. So we're committed to that and working very closely with Auckland Transport and Snapper. And Snapper is a supplier of a ticketing system to NZ Bus. And the 3 parties between Snapper, AT and NZ Bus are working very closely to deliver the outcomes that we are looking for to ensure that there's integration between rail, bus and ferry in particular. I want to just pass it over to Rhoda [ph], maybe who would wish to make a comment.

Unknown Executive

Yes. So during the course of the last year and we have Snapper on over 1,000 of New Zealand's buses in Wellington and Auckland. And they're saying quite likely, says the huge focus has been that move into the Auckland market. Just on the confusion that there's been, so this is one of the biggest system integration projects that's been undertaken in New Zealand ever. It's multi-party, a huge technology development and huge business process development. Bringing all that together is Auckland Transport's role. And Talis [ph] is their provider for rail and ferry. Snapper and New Zealand Bus are focusing on ensuring that New Zealand buses fleet can interoperate with whatever standards are set between Auckland Transport and the New Zealand Transport Authority. We've been working really hard on that. It's complex. And we have every confidence that we'll deliver to the project plan by the end of this year.

Marko Bogoevski
CEO & Director

All right. So Zane, just to clarify. Zane is the Chief Executive of NZ Bus and Rhoda's the Chair of Snapper. On your question around the mixed ownership model, I mean, I think our view again is clear, we've been supportive way before anyone was really talking about mixed ownership models or partial privatization. I mean, I wouldn't overanalyze that we think deeper capital markets, more knowledgeable investors can only be a good thing for organizations. So we'd still strongly advocate this sort of program with the usual caveats.

I think we have time maybe for one more question, Sheryl, otherwise, we'll have to bring things to a close shortly.

Operator

The next question comes from Rob Bode of first New Zealand Capital.

Robert Bode
First NZ Capital Limited, Research Division

Lucky last. Just a question on Lumo. Lumo earns \$44 million EBITDAF in a year, which was quite a bit ahead of what was anticipated a year ago. Perhaps you can just comment on the factors that have kind of seen it lift its performance, and the sustainability and outlook for the next year.

Marko Bogoevski
CEO & Director

Robert, I might ask Kevin to tackle that. He sits on that Board and he's doing a good job.

Kevin M. Baker
Chair of NZ Bus and Director of Canberra Data Centres & Infratil Infrastructure Property

Another good job for me. Yes, it's probably been a tale of 2 halves actually in respect of Lumo. The first part of the year, we were seeing quite high customer churn losses. We weren't growing our overall

customer numbers. And during that period, I guess there was a renewed focus on both our customer service brand proposition, how we were dealing with churn, our approach to retention. So there was a big effort on marketing in the first half of the year, which sort of culminated in returning to growth in the second part of the year. And as you've seen, through our numbers, both churn has reduced from a Lumo perspective back down towards market in the second half of the year. And we've shown -- as a consequence, we've shown quite good growth through that period. I guess on the margin side, and it's partly been a margin story, as well as a volume story, we've had softer electricity volumes through the year than we predicted. We've -- we obviously have price rises during the year. I think we were able to put up our standard towers, particularly in electricity, mid-last year, which has pushed us a little bit ahead of expectations in terms of our electricity margin. And also we had foreseen -- probably most importantly, we had foreseen the wholesale prices in Australia coming down. So our risk management, which is mainly run through options and kept products has been able to benefit from the quite significant reduction in wholesale prices. So the lower wholesale prices obviously flows through to our net electricity margin. And so you have seen in the second half of the year both because of our lower summer load with less hot days, our margins in the second half of the year have been a lot stronger than both we foresaw halfway through the year. And that's obviously delivered a strong outcome for Lumo. I guess on the other side, when you got soft wholesale prices, our generation is slightly down at but the pickup on the retail side has more than offset what we've lost on the generation side.

Marko Bogoievski*CEO & Director*

So Robert, does that clarify that area for you?

Robert Bode*First NZ Capital Limited, Research Division*

Yes, just without wanting to be too specific on the prediction, do you think you can better that result on the next year?

Marko Bogoievski*CEO & Director*

We've got an outlook statement in there, Rob. AUD 60 million to AUD 70 million.

Kevin M. Baker*Chair of NZ Bus and Director of Canberra Data Centres & Infratil Infrastructure Property*

Yes, I think next year, we have returned to growth in customers. So we're expecting that growth to continue through to 2012, '13. So I think our sort of customer growth expectations are sort of mid-teens for 2013 and we expect our EBITDAF flowing through to pretty much reflect that as well.

Marko Bogoievski*CEO & Director*

Thank you, Kevin. Thank you, people in Wellington and people on the call. So I appreciate the patience. We went slightly longer than I thought. But there is quite a lot of interesting things to talk about. Hopefully, you can see that we are upbeat and confident about our business, but not taking anything for granted at the same time. So thank you for your ongoing support.