

Question and Answer

Jason Lindsay

Jarden Limited, Research Division

Jason Lindsay from First NZ. I just had a couple of electricity related questions. Just given Aussie Power & Gas's, I guess, recent difficulties in their recent share price at flat. Are you taking a look at that as a potential acquisition target to bolt on to the Lumo IEA business? And secondly, just a question relating to TrustPower. Is Infratil, as a majority shareholder, comfortable with the forecast level of gearing peaking around 45% in light of the fairly weak outlook for FY '14?

Marko Bogoievski

CEO & Director

Want to take that question?

Kevin Maxwell Baker

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

I was going to say, even if we were, we wouldn't tell you.

Marko Bogoievski

CEO & Director

And I think those APG concerns have actually reverberated around the industry, haven't they? But I think they are asset-specific, and we've got our head down focused on growing that organic primarily in Australia. I think our business is really well positioned. And you remember, Jason, in the past, we've talked about our biggest challenge is probably getting our own systems in order. And we'd never think that we're growing at faster rate should tell you something about our confidence in the platform. But we aren't getting overconfident. We've got a lot to work on. In terms of that forecasted gearing that you talked about, I mean by definition, we're comfortable, Bruce and I, certainly the board. And there was a lot of careful thought about what our sort of maximum level of leverage you could sustain in that business. I think the fact is that any stress tested projection of that business in the longer term shows quite a quick deleveraging. And that's just as important as a peak leverage, and we really do think that's available. And I think the bigger challenge probably is not so much how to deal with that. It's more how do you finance a 1,000-megawatt-plus type development pipeline in the future, and that will force us to be a bit creative. I can say Infratil is supportive as a shareholder. But I can also say there's other investors, more passive investors, that are quite interested in being -- having access to an exclusive wind development platform. And as a developer, TrustPower is actually particularly well positioned. If -- I think Bruce might want his -- Bruce Harker is in the room. If you want to give that mic to him, he'll probably add to the answer.

Bruce James Harker

Director

No, no. The only thing to add is we should also recognize the quality of the revenue streams on the Snowtown investment. It's fully indexed long-term sales contracts for all of Snowtown. So I think you have to interpret the gearing in the light of the confidence we have. I think the pulls on EBITDAF for the next 12 months is just that. If you look at the EBITDAF from Snowtown, we're very relaxed with gearing. We'd like another couple of Snowtowns.

Marko Bogoievski

CEO & Director

Any other questions in the room?

Andrew Rupert Pelham Harvey-Green

Forsyth Barr Group Ltd., Research Division

Andrew Harvey-Green here from Forsyth Barr. A couple of questions, if I may. First of all, in the management commentary, you talked a little bit about what you might do with proceeds from the Z float, and I'm just wondering if you wanted to talk a little bit more about that. Secondly, a couple more specific questions just around Lumo customer numbers for FY '14, what we can think about for that? And thirdly, I just noticed you spent around about \$30 million in the property space, but that property NAV hadn't really changed much. I just wanted to understand what was going on there.

Marko Bogoievski*CEO & Director*

I'll take the first piece and I'll let you could do the rest. Just on, I mean, projected Z proceeds, they could be material. And I think what you're referring to, Andrew, just for the folks who haven't read it, is there's a comment in there about additional capital flexibility that will be credited if the Z float is successful. But at the moment, we don't know the actual size of that float, so we've indicated 40% to 60% sell down for both ourselves and NZ Super. And we would apply the normal formula. I mean, we worry about this stuff every day, capital allocation. So there would undoubtedly be some debt that we repaid. I think you can see a slight improvement in our credit metrics. You should anticipate that, and you should anticipate ongoing support for some of the investment programs that we've already indicated in our larger businesses, in TrustPower and energy in Australia in particular. And I guess I'm very confident about our business development effort to highlight projects that actually have above-average returns. If for whatever reason some of those things don't occur, I guess we're looking at buyback activity or rather capital return initiatives. So it's no real secret. It's the full menu. Our expectation is actually more in that order that I've just talked about.

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

Yes, Andrew, just on -- I think on the Lumo growth, so that's just been 11% growth. We're going to get slightly more connections from the DT business. I think we're going to see more pressure on other sales channels over the course of the next year. So I think directionally, we've shared that our target for the next 18 to 24 months is in the 600,000s. My expectation is that sort of mid-double-digit growth for 2013, '14 as we may end up. But it's quite a fluid environment over there. So -- but that's what, in terms of operationalizing capability, I think mid-double-digit is would be a good year for us. In terms of the IIP, there's 2 properties which are in that picture. One is the residential commercial property, which is in the foreground, which we are in all of. The second property at the back, we are in a 50-50 JV with Auckland Council. So I think you will see some growth in our IIP assets in that analysis. In terms of those other categories of assets, obviously we've written down the airports in the U.K., have also emptied [ph] the Snapper assets for the fact that we have to remove that equipment from the Auckland buses and have written down any software costs associated with going into the Auckland market. So that's why you were seeing the other category relatively steady.

Marko Bogoievski*CEO & Director*

Okay. Any more questions in the room?

David Fear*Jarden Partners Limited*

David Fear, First NZ Capital. The briefing at this time last year and also the investor briefing earlier this year, I think you talked quite supportive of the mixed ownership model process and would -- going to monitor that for opportunities for Infratil forward. Does that stand still very much there?

Marko Bogoievski*CEO & Director*

I mean, we were definitely supportive of mixed ownership model. I think Bruce Harker would have been talking about it -- how many years ago, Bruce? I mean, did -- Sharon, do you mind giving the mic to Bruce?

Bruce James Harker

Director

No, we remain very supportive of the mixed ownership model. We think it's an important final stage to have this market actually work to its full dynamism, if you like, in terms of number of projects that are available, the quality of those projects that New Zealand has on the list, as well as improving the dynamism in the retail competitive markets. So it's a very important final stage to that process.

Marko Bogoievski

CEO & Director

Is that it then? Any more questions in the room?

Unknown Analyst

Michael Warrington [ph]. The public transport operating model, is it going to result in barring growth of public transport users less capital? Are they intending that you wind up having to provide several full-sized bus on a smaller circuit with less transport or less passengers and so on? Is it going to give you more flexibility?

Kevin Maxwell Baker

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

I don't think the legislation will change how services may be provided. So as always under new -- so obviously, key routes will be recontacted out under the normal model. What you always have with both Auckland Transport and Greater Wellington Regional Council is changes in the transport plan from time to time. So there will be a discussion between operators and the councils around what's the most optimum set of services to deliver a set of PT transport initiatives. So you'll see that Wellington Regional Council has announced recently some review of the Wellington framework. More recently, there's been a review going on and Auckland Transport have recently released their regional transport plan as well, which has been approved. And so those -- both of those plans will then play into the new contracted -- contracting regime going forward. Usually, that may mean some changes in current frequencies and loadings and the type of buses that are utilized to deliver certain services, but that's always been the case to some degree.

Marko Bogoievski

CEO & Director

All right. Thank you. We'll move on if there's any questions on the phone, please.

Operator

Question comes from the line of Grant Swanepoel with Craigs Investment Partners.

Grant Swanepoel

Craigs Investment Partners Limited, Research Division

Just -- can you hear me?

Marko Bogoievski

CEO & Director

We can.

Grant Swanepoel

Craigs Investment Partners Limited, Research Division

Okay. Around Lumo, could you please give me some color on the 24% revenue growth, first of all, when you talked about 11% customer growth. So what I'm looking for is usage per customer, what's -- if that's changed by it? Some indication of what the carbon contribution and the lines increases have been per customer or per volume growth? And what I'm really looking for is your net pricing increase within that 24%? And then when we get down to EBITDA level, the \$55 million you reported, what did you consider non-normalized wholesale advantage within that? And then the final part of that question is next year, you

mentioned that the Direct Connect will be expensed. How many million or what million -- or what do you expect that to be in million terms?

Kevin Maxwell Baker

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

Yes, that's some pretty detailed questions there, so let me just answer them in relatively general terms rather than very specific. 24% revenue growth, so obviously, there's roughly about 11% of that is customer growth. In terms of electricity usage per customer, we have seen slight reductions in usage on a per customer basis, and that's reflecting the sort of combination of efficiency and lower overall demand in the market. Just turning to the impact of carbon. I think on electricity prices, that's about a 5% or 6% contribution. I think in gas, it's about 1.5%. And retail network -- sorry, network pass-through, again, I think it's about 4% to 5% increase in network pricing over the year. So I'll leave you to do the math. So -- and whether that all adds up to 24%. But I think 11%, a couple of 5%, you get to 21%, will pretty much get you there. Sorry, your second question was about Lumo's \$55 million contribution this year and what proportion of that related to -- I think your question was did any of it relate to sort of unusual items. We'd probably say about \$3 million of that wholesale cost related to changes in our hedge position, and we do have the opportunity from time to time to modify our hedge book depending on trading conditions. So we identified about \$3 million relating to changes in the nature of our hedging position. And I think your final question was about full year '14, in respect to DC connections. So we think we'll take about 40,000 to 50,000 more connections through DC than we have historically. Our average customer acquisition cost is around about \$200. So I think if you do the math, you get about \$8 million. How is that?

Operator

The next question comes from Rob Bode with First NZ Capital.

Robert Bode

Jarden Limited, Research Division

My questions are around and particularly on Australia also. Seriously, just on performance for next year, you kind of squared off on Lumo. Can you just give us an idea of the expectations and drivers behind Perth Energy and also the generation relative to the current year? Second question relates to the gas contract that you have put in place beyond 2015. It's for 3 years. Can you just give us a bit of color on that? Is it flat? Is there some flexibility in just the quantum of that in terms of PJs? And lastly, just looking at the opportunity in South Australia for Lumo, it doesn't seem at this stage you have a Joule Fuel offering. Are the plans -- what are the plans there? Can you guess and can you introduce the Joule Fuel offering?

Kevin Maxwell Baker

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

I'll have a crack at most of those since Marko's not stepping forward. I think on the generation side, we expect to see those softer cap prices into next year. So I think IEA generation could well be 1 million or 2 million down on what we reported this year. But we do get to pick up from that on the whole -- on the retail side, so I don't think we need to worry about that too much. Again, on Perth Energy, you'll recall that Perth Energy, in the year that we just completed, had some engine problems on its generation station. Those have largely been dealt to. So we do expect to see higher total generation revenue and EBITDAF for the year ahead. And whereas in the current year, I think the sort of retail contribution from its retails business in Western Australia has been in the order of 1 million to 2 million. We may see that go up to 2 million to 3 million. So we're not talking a massive factor contribution. I think overall, that will mean that Perth Energy moves from something like AUD 13 million this year to something like AUD 15 million, AUD 16 million, '13/'14. I think your second question was around gas. So yes, we have executed a gas contract for the business in the NIM. That contract runs for 3 years, '15, '16 and '17. It pretty much takes over from the gas contracts that we had previously had in place that ran to 2015. And the new contract will pretty much meet our current gas market demand for '16 -- for '15, '16 and '17. So we do expect that we will need to add some further gas contracts as we move through that period, but that will depend on

future growth. Your last question was around Joule Fueling in South Australia, and I don't think we'll have a Joule Fuel offer in Australia imminently.

Marko Bogoievski

CEO & Director

Did that cover it all up?

Robert Bode

Jarden Limited, Research Division

Yes, that's fine.

Operator

There are no further questions at this time.

Marko Bogoievski

CEO & Director

All right. That's good. Thank you. And look, appreciate the interest in the group's performance. I mean, the next time we get a chance to talk to you at our half year, I suspect we'll have some pretty interesting developments between now and then. But have a good morning. Thank you.