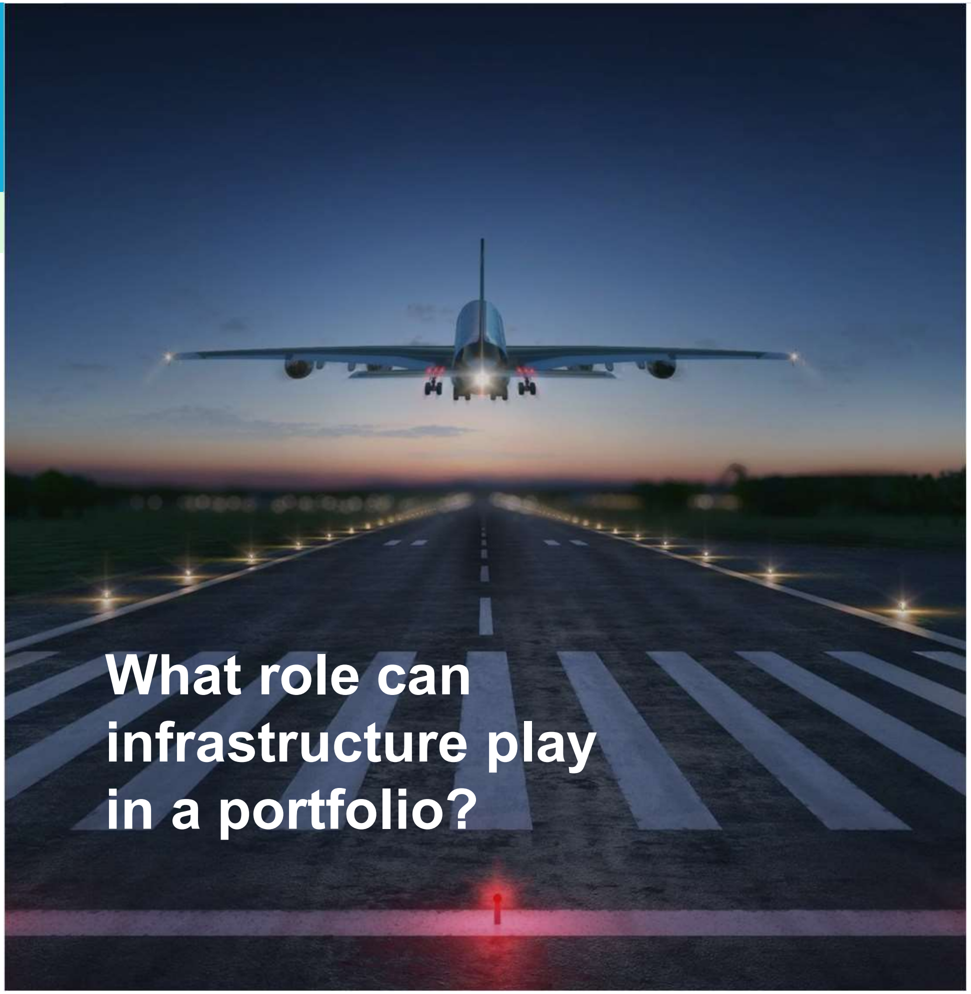
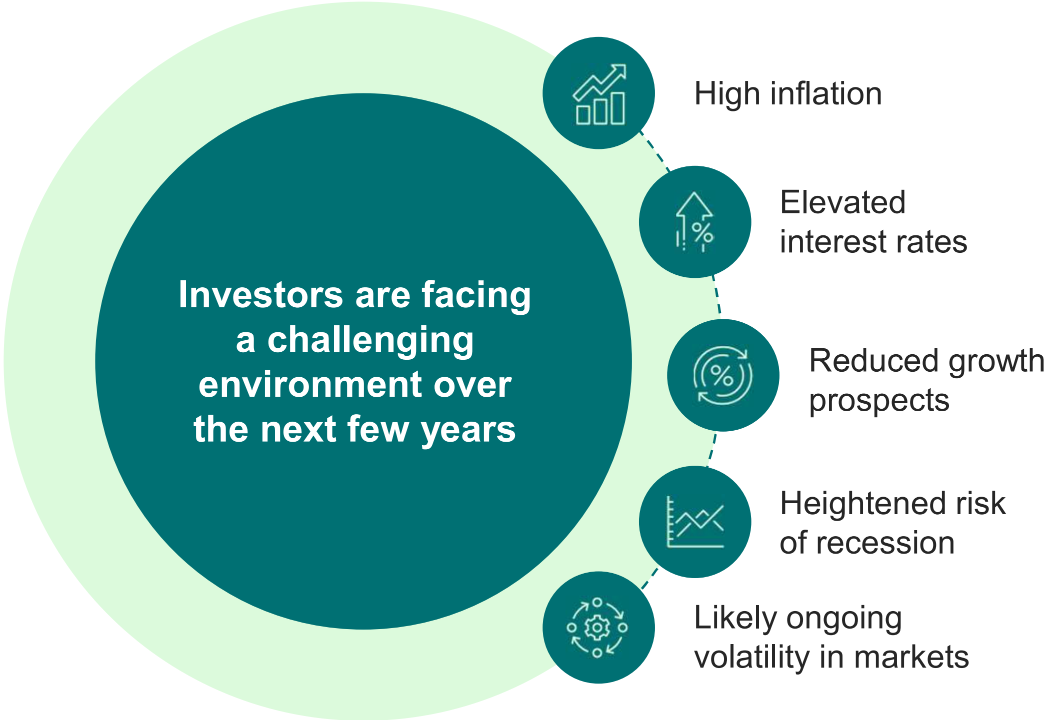
Infrastructure and inflation



Challenging investment environment



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Infrastructure can help navigate challenging environments

Infrastructure offers benefits

Consistent returns through market cycles with lower volatility

- Essential services assets
- Monopolistic characteristics

Diversification

- Low correlations with other asset classes can reduce overall portfolio risk

Stable long-term yields

- Secure and predictable revenues
- Inflation linkage

Macro drivers will benefit infrastructure

Population growth

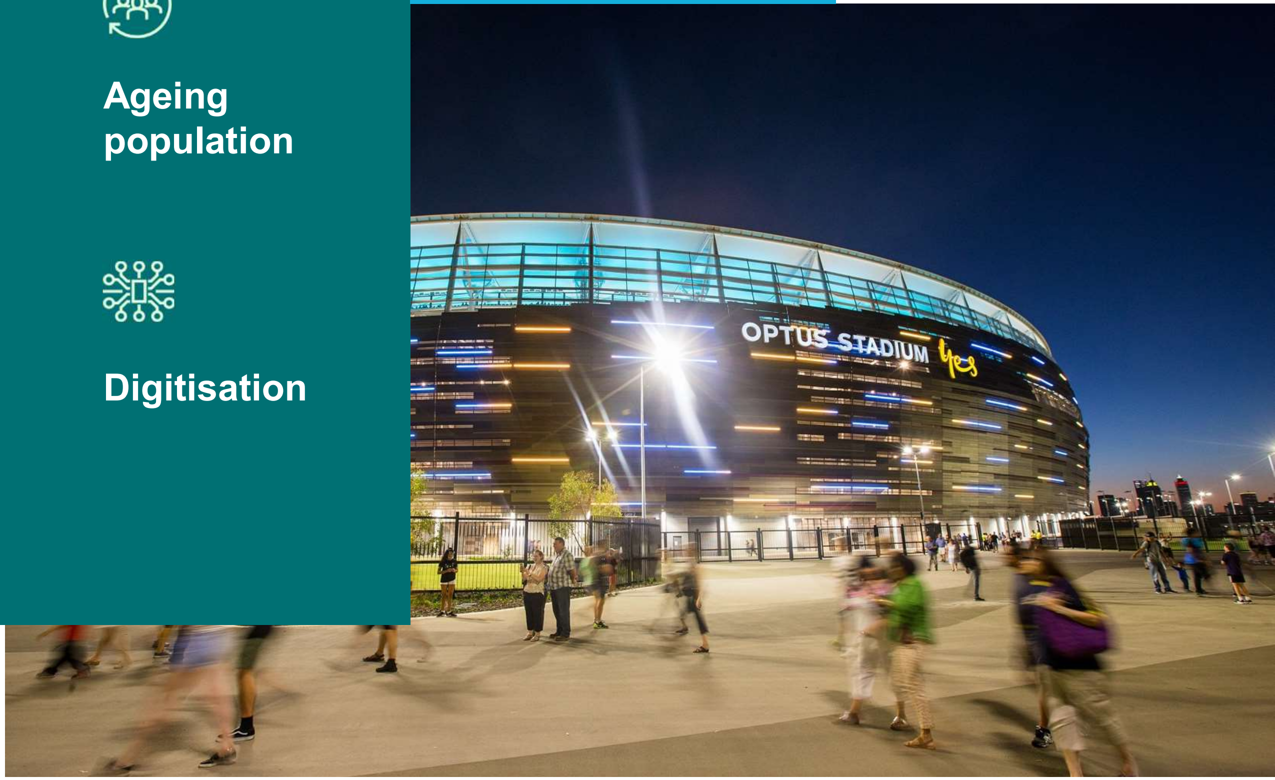
Energy transition

Ageing population

Urbanisation in developing markets

Replacement of ageing infrastructure in developed markets

Digitisation



Impact of inflation on infrastructure cashflows

Varying impacts for different asset types

Growth linked

Asset Example

- Airports
- Ports
- Toll roads

Regulated

Asset Example

- Electricity transmission and distribution
- Water

Public Private Partnerships (PPP)

Asset Example

- Schools
- Hospitals

Case study

Melbourne Airport

Inflation impacts

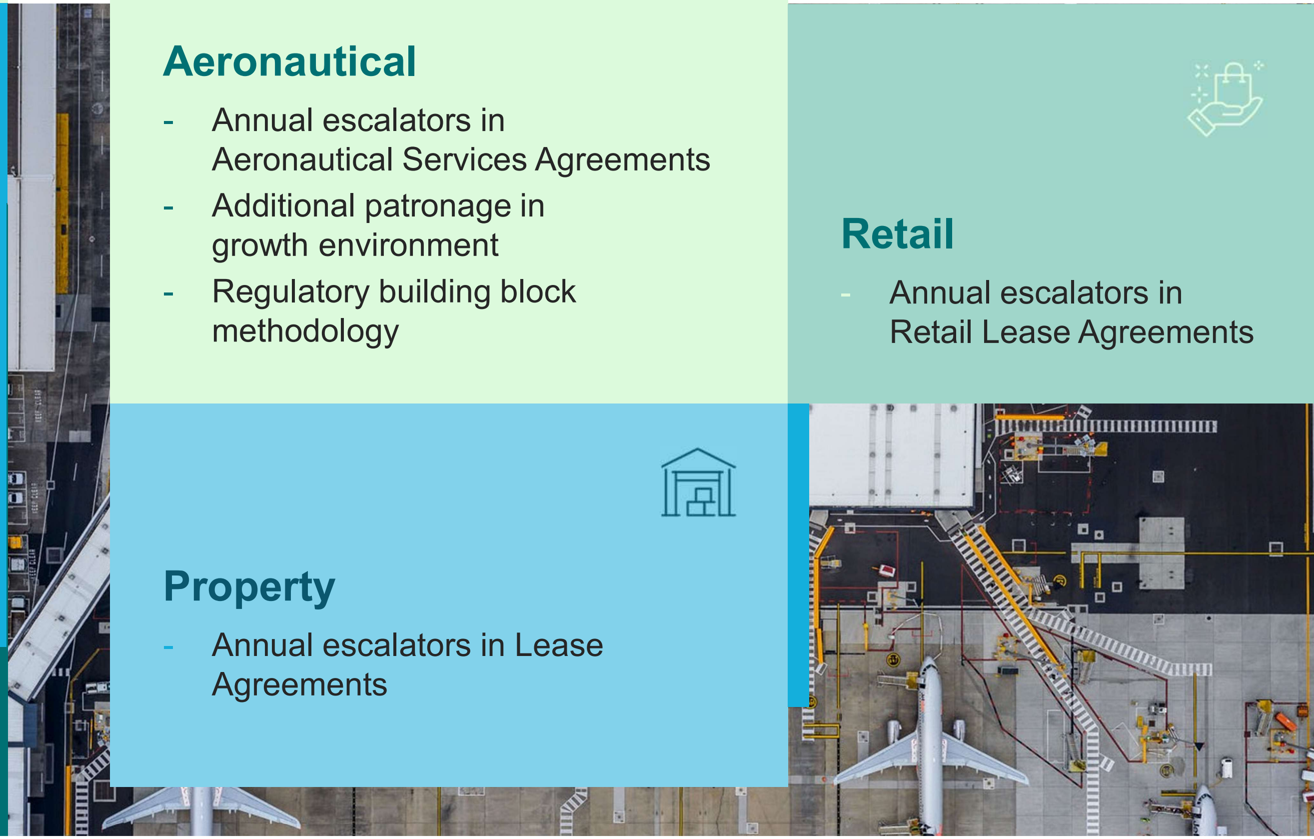
39 million*

Passengers per annum

No curfew

*Source: BITRE 2019

Impacts



Aeronautical

- Annual escalators in Aeronautical Services Agreements
- Additional patronage in growth environment
- Regulatory building block methodology

Retail

- Annual escalators in Retail Lease Agreements

Property

- Annual escalators in Lease Agreements

Aviation

Building Block Methodology Overview

Passenger charges are generally agreed for a 5 year period providing three key levers to drive profitability (and returns):

Passenger nos.

Opex

Capex

Total required revenue (present value)

Opex
+
Return of asset
+
Return on asset

Revenue over agreement period

Aviation revenue (present value)

PAX Charge @ Yr 1 x PAX for the year + PAX Charge @ Yr 2 x PAX for the year … PAX Charge @ Yr 3,4,5 x PAX for the year

Sculpted price path escalating at x%

Charge per passenger = Smoothed Required Revenue/ Forecasted passenger

=

Building Blocks Methodology

Airport negotiates with airlines an agreed capital plan, Opex budget and service levels, and rate of return

Required Revenue
Return on Assets + Return of Assets + Opex as per forecast

Return on Assets
Opening Asset Base * Required Rate of Return[1]

Return of Assets
Depreciation

Passenger Methodology

PAX charging setting methodology

Step 1
Calculate the required revenue

Step 2
Given the required revenue, the charge per pax is determined based on the annual pax forecast (smoothing price mechanism based on assumed annual price increase – usually a percentage)

[1] The Required Rate of Return will typically be built up in the form of a pre or post tax nominal Weighted Average Cost of Capital

Case study

Powerco New Zealand

Stable regulatory environment

with an established regime governing the operational framework and revenue determination

Regulatory Asset Base (RAB) growth

underpinned by macro themes of increasing energy demand growth, network resilience spend and decarbonisation / electrification

Regulatory building blocks methodology

- **Commerce Commission** determines annual expected revenues based on a building block methodology
- **5 year regulatory resets[1]** provide transparency and revenue/regulatory certainty

Price setting process takes account of inflation and interest rates

- **Inflation protection** as Regulated Asset Base and thus revenues are linked to CPI
- **Volume protection[2]** adjustments for differences in forecast and actual volumes (up to the revenue cap)
- **Interest rate protection** updates to cost of debt in the regulatory WACC to reflect changes in interest rates

[1] 5 year regulatory resets for electricity transmission and distribution. 4 year regulatory resets for gas transmission and distribution
[2] volume protection applicable for electricity distribution business, however gas business is subject to volume risk albeit gas only represents 12% of Powerco's annual revenue

Regulatory building block methodology

The Commerce Commission determines Powerco's revenue allowance based on a building block methodology that is typically set every 5 years for the subsequent regulatory period

Approach

- Forecast annual revenues
- Set allowable revenue
- Set prices to recover expected revenue in each regulatory year

RAB	=	Opening value of assets	-	Depreciation over period	+	Capex	-	Asset disposals	+	CPI escalation	
Building Block Allowable Revenue (BBAR)	=	Return on capital: RAB x WACC[1]	+	Opex	+	Regulatory depreciation	+	Tax allowance	-	Revaluations	
Average tariffs	=	Maximum Allowable Revenue (MAR)[2]	/	Forecast volume							
Actual revenue	=	Average tariffs	X	Actual volume	+ / -	Revenue adjustment[3]					

1. The Input Methodologies to determine the regulated WACC is reset every 7 years
2. The BBAR is 'smoothed' to obtain the annual MAR
3. Revenue adjustment includes Incremental Rolling Incentive Scheme and under / over recovery of revenue

Infrastructure: the essential ingredient

Infrastructure is a broad investment class that provides benefits underpinned by fundamental and structural societal trends

Exposure
to a series of structural growth themes that will play out over decades to come

Consistent returns
due to essential services nature of assets which will underpin demand

Generally predictable revenues, linked to inflation and in many cases, adjusting to changes in interest rates
which will be attractive in the current environment

Diversification
due to its low correlation to other asset classes

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