



## **Management Discussion and Analysis of Financial and Operational Performance for the six months ended 31 December 2010**

**25 February 2011**

All figures in this report relate to businesses of the Infigen Energy Group ("Infigen"), being Infigen Energy Limited ("IEL"), Infigen Energy Trust ("IET") and Infigen Energy (Bermuda) Limited ("IEBL") and the subsidiary entities of IEL and IET, for the half year ended 31 December 2010 compared with the half year ended 31 December 2009 ("prior corresponding period") except where otherwise stated.

As required by the International Financial Reporting Standard's accounting standards Infigen consolidates 100% of all controlled entities within its result. The results discussed within this document refer to Infigen's economic interest unless specifically marked otherwise and therefore minority interests within individual components have been eliminated consistently. All reference to \$ is a reference to Australian dollars unless specifically marked otherwise. Individual items and totals are rounded to the nearest appropriate number or decimal. Some totals may not add down the page due to rounding of individual components.

## Management Discussion and Analysis of Financial and Operational Performance

<b>1. Statutory Loss and Distribution Declaration</b> .....	<b>3</b>
1.1 Voluntary change to accounting policy .....	3
1.2 Statutory Loss - \$34.4 million .....	3
1.3 Statutory Loss per Security – 4.5 cps .....	3
1.4 Net Tangible Asset backing per Security - \$0.44 .....	3
1.5 Distributions - 1.0 cps .....	3
<b>2. Review of Financial Performance</b> .....	<b>4</b>
2.1 Reconciliation of Statutory Accounts to Economic Interest .....	5
2.2 Revenue - \$137.8 million .....	6
2.3 Operating EBITDA - \$84.0 million .....	6
2.4 REC revaluation expense - \$2.1 million .....	6
2.5 Development Costs - \$0.5 million .....	6
2.6 Corporate Costs - \$8.5 million .....	7
2.7 EBITDA - \$72.9 million .....	7
2.8 Depreciation and Amortisation - \$70.8 million .....	7
2.9 EBIT - \$2.1 million .....	7
2.10 Income from Institutional Equity Partnership - \$3.7 million .....	8
2.11 Net Borrowing Costs - \$40.0 million .....	8
2.12 Loss before Significant Items and Tax - \$34.2 million .....	9
2.13 Significant Items .....	9
2.14 Net Loss before Income Tax expense - \$34.2 million .....	9
2.15 Income Tax expense - \$0.2 million .....	9
2.16 Net Loss - \$34.4 million .....	9
<b>3. Cash Flow</b> .....	<b>10</b>
<b>4. Capital Expenditure and Divestments</b> .....	<b>10</b>
<b>5. Capital Management</b> .....	<b>11</b>
<b>6. Risk Management</b> .....	<b>12</b>
<b>7. Operational Performance Review</b> .....	<b>14</b>
7.1 Overview .....	14
7.2 Australia .....	16
7.3 US .....	20
7.4 Germany .....	24
<b>8. Outlook</b> .....	<b>27</b>
<b>9. Appendix A – Balance Sheet by Currency</b> .....	<b>29</b>
<b>10. Appendix B – Global Facility Key Terms</b> .....	<b>30</b>
<b>11. Appendix C - Institutional Equity Partnerships</b> .....	<b>31</b>

## **1. Statutory Loss and Distribution Declaration**

### **1.1 Voluntary change to accounting policy**

Historically Infigen recognised RECs using the cost option but grossed up the balance sheet to recognise inventories at fair value with an equal and opposite provision that deferred revenue until the time of sale. However, as a result of increasing REC generation, this policy would result in material period on period variations and guidance variations which are due to movements in inventory levels rather than actual production and price movements.

The change to the accounting policy enables RECs to be recognised at fair value with immediate recognition in the income statement resulting in more relevant information of the economic outcome in relation to the generation of RECs in the period. RECs retained during the period will subsequently be valued at the lower of cost and net realisable value, hence where the market value of RECs falls, inventory is reduced and an expense is recorded through the statement of comprehensive income. Upon sale, the difference between sale price and book value is recorded through the statement of comprehensive income.

### **1.2 Statutory Loss - \$34.4 million**

Infigen Energy reported a Statutory Loss for the half year of \$34.4 million, an adverse movement of \$18.6 million compared with a Statutory Loss of \$15.8 million.

The drivers for this result were higher borrowing costs as a result of a swap termination, a lower net contribution from US Institutional Equity Partnerships (IEPs), weak Australian merchant electricity prices, a significant appreciation of the Australian Dollar (AUD) against the United States (US) Dollar (USD) and increased operating costs as Infigen's global portfolio becomes subject to higher off-warranty turbine operating and maintenance costs.

### **1.3 Statutory Loss per Security – 4.5 cps**

Statutory Loss per Security was 4.5 cents per security (cps), a 2.2 cps adverse movement.

### **1.4 Net Tangible Asset backing per Security - \$0.44**

Net Tangible Asset backing per Security at 31 December 2010 was \$0.44 compared to \$0.43 at 30 June 2010.

### **1.5 Distributions - 1.0 cps**

The Directors of Infigen Energy have confirmed an interim distribution of 1.0 cps payable to security holders on the register as at the record date of 31 December 2010.

The amount of the distribution expected to be settled in cash or through the Distribution Reinvestment Plan (DRP) on 17 March 2011 is \$7.6 million. No distribution was paid in relation to the prior corresponding period.

## 2. Review of Financial Performance

The following tables provide a summary of the statutory key financial outcomes and metrics compared with the relevant prior period.

Half year ended (\$m unless otherwise indicated)	31 Dec 2010	31 Dec 2009	Change %
Revenue	145.8	144.4	1
EBITDA	79.0	81.5	(3)
Depreciation and Amortisation	(74.9)	(73.3)	3
EBIT	4.1	8.2	(50)
Net Financing Costs	(40.0)	(35.4)	(13)
Net Income from IEPs	1.7	13.1	(87)
Loss before Tax	(34.2)	(14.1)	143
Income Tax	(0.2)	5.4	(104)
Significant Items	-	(8.6)	(100)
Discontinued Operations	-	1.5	(100)
Net Loss after Tax	(34.4)	(15.8)	118
Operating Cash Flow	-	20.9	(100)
Capital Expenditure <sup>1</sup>	38.8	111.9	(65)
Operating Cash Flow per security (cps)	-	2.7	(100)
Earnings per security (cps)	(4.5)	(2.3)	96
Distribution per security (cps)	1.0	-	N/A

Further segmentation of the profit and loss line items in the table above is available in the financial statements and throughout this document.

Position at (\$m unless otherwise indicated)	31 Dec 2010	30 Jun 2010	Change %
Debt	1,311	1,423	(8)
Cash	163	230	(29)
Class A Liability	709	879	(19)
Net Debt	1,147	1,193	(4)
Shareholders' Equity	684	722	(5)
Book Gearing (%)	62.7	62.3	-
EBITDA/Capital Base (%)	9.3	9.0	-

<sup>1</sup> Represents the cash outflow in relation to capital expenditure

## 2.1 Reconciliation of Statutory Accounts to Economic Interest

Infigen has a controlling interest in two wind farms in the US in which it owns more than 50% and less than 100% of Class B interests. Under international financial reporting standards Infigen fully consolidates the financial performance of these entities within its statutory results and eliminates the non-controlling interest, which is recorded through “Net Income/(cost) of IEPs”. Infigen believes it is more useful to review the performance of the business from an economic interest perspective and has therefore provided reconciliation from the statutory presentation for the key profit and loss line items below. Following this section all figures will reference “Economic Interest” unless specifically stated otherwise.

Half year ended 31 Dec 2010	Statutory (\$m)	Minority Interest (\$m)	Economic Interest (\$m)
Revenue	145.8	(8.0)	137.8
EBITDA	79.0	(6.1)	72.9
Depreciation and Amortisation	(74.9)	4.1	(70.8)
EBIT	4.1	(2.0)	2.1
Net Financing Costs	(40.0)	-	(40.0)
Net Income from IEPs	1.7	2.0	3.7
Loss before Tax	(34.2)	-	(34.2)
Income Tax	(0.2)	-	(0.2)
Net Loss after Tax	(34.4)	-	(34.4)

Half year ended 31 Dec 2009	Statutory (\$m)	Minority Interest (\$m)	Economic Interest (\$m)
Revenue	144.4	(9.1)	135.3
EBITDA	81.5	(6.8)	74.7
Depreciation and Amortisation	(73.3)	4.3	(69.0)
EBIT	8.2	(2.5)	5.7
Net Financing Costs	(35.4)	-	(35.4)
Net Income from IEPs	13.1	2.5	15.6
Loss before Significant Items & Tax	(14.1)	-	(14.1)
Significant Items	(8.6)	-	(8.6)
Income Tax	5.4	-	5.4
Net Loss before Discontinued Operations	(17.3)	-	(17.3)
Net Profit from Discontinued Operations	1.5	-	1.5
Net Loss after Tax	(15.8)	-	(15.8)

## **2.2 Revenue - \$137.8 million**

Revenue was \$137.8 million, up 2% or \$2.5 million.

This was due to a 32% increase in revenue in Australia primarily from an additional four months contribution from the 140.7 MW Capital Wind Farm in New South Wales and a full period contribution from the 39 MW Lake Bonney 3 Wind Farm in South Australia. The prior corresponding period is restated to reflect the revised accounting treatment of RECs as described in Section 1.1 to provide a direct comparison.

These increases were partially offset by an 8% decrease in revenue from the US caused largely by the appreciation of the AUD against the USD. In Europe, lower wind resource and an appreciation of the AUD against the EUR resulted in a \$6.6 million decrease in revenue in AUD terms.

Further details on revenue by country are provided in Section 7.

## **2.3 Operating EBITDA - \$84.0 million**

Operating Earnings before Interest, Tax, Depreciation and Amortisation (EBITDA)<sup>2</sup> was \$84.0 million, down 3% or \$3.0 million.

This was primarily due to:

- Australia: additional contributions from Capital Wind Farm and the Lake Bonney 3 Wind Farm, offset by lower revenues from merchant plants due to low electricity prices, and contractual step up in O&M costs together with marginally higher operating costs as the majority of the fleet was under warranty for the period;
- US: lower revenues due to a stronger AUD, lower merchant electricity prices and higher operating costs as the fleet moves from being 85% under warranty<sup>3</sup> in FY10 to 37% under warranty in FY11; and
- Germany: lower revenues due to lower wind resource and a stronger AUD.

Further details on operating EBITDA by country are available in Section 7.

## **2.4 REC revaluation expense - \$2.1 million**

RECs retained on balance sheet are valued at the lower of cost and net realisable value at the end of each reporting period. At 31 December 2010 the REC price was lower than the average monthly price for this half year period resulting in an expense of \$2.1 million.

As per the accounting policy upward movements in value are only recognised upon sale where the price exceeds carrying value.

## **2.5 Development Costs - \$0.5 million**

Development costs expensed increased by \$0.3 million to \$0.5 million.

During the half year period, \$5.5 million of costs relating to current development projects were capitalised. Further details are provided in Section 4.

---

<sup>2</sup> Excludes the effect of REC revaluations

<sup>3</sup> Plant under warranty is on a weighted average MW basis over the relevant financial year

## **2.6 Corporate Costs - \$8.5 million**

Corporate costs were \$8.5 million, down 18% or \$1.9 million. This was primarily due to lower personnel costs, including contractors. Corporate costs cover functions required to operate a publicly listed company and IT systems associated with these functions. Corporate costs will continue to be subject to stringent control.

## **2.7 EBITDA - \$72.9 million**

EBITDA was \$72.9 million, down 2% or \$1.8 million. This was due to lower operating EBITDA offset by lower corporate costs.

## **2.8 Depreciation and Amortisation - \$70.8 million**

Depreciation and Amortisation expense was \$70.8 million, up 3% or \$1.8 million.

This was primarily due to higher depreciable operating capacity in Australia after the commissioning of the Capital and Lake Bonney 3 wind farms, partially offset by lower depreciation of the US and German wind farms due to the appreciation of the AUD against the USD and Euro.

## **2.9 EBIT - \$2.1 million**

Earnings Before Interest and Tax (EBIT) for the half year was \$2.1 million, down 63% or \$3.6 million. This was due to lower EBITDA and higher depreciation and amortisation expenses.

## 2.10 Income from Institutional Equity Partnership - \$3.7 million

Income from US Institutional Equity Partnerships (IEPs) was \$3.7 million, down 76% or \$11.9 million.

An explanation of the structure of IEPs (including the accounting treatment) is provided in Appendix C. The following table summarises the components of net income from IEPs.

Half year ended	31 Dec 2010 (\$ million)	31 Dec 2009 (\$ million)	Change %
Value of production tax credits (Class A)	39.5	39.9	(1)
Value of tax losses (Class A)	10.5	38.1	(72)
Benefits deferred during the period	(21.4)	(43.4)	(51)
<b>Income from IEPs</b>	<b>28.6</b>	<b>34.6</b>	<b>(17)</b>
Allocation of return (Class A)	(24.8)	(30.7)	(19)
Movement in residual interest (Class A)	(0.5)	10.8	(105)
Non-controlling interest (Class B)	(1.6)	(1.6)	-
<b>Financing costs related to IEPs</b>	<b>(26.9)</b>	<b>(21.5)</b>	<b>25</b>
<b>Net income from IEPs (Statutory)</b>	<b>1.7</b>	<b>13.1</b>	<b>(87)</b>
Non-controlling interests (Class B & Class A)	2.0	2.5	(20)
<b>Net income from IEPs (Economic Interest)</b>	<b>3.7</b>	<b>15.6</b>	<b>(76)</b>

Value of Production Tax Credits (PTCs) (Class A) was \$39.5 million compared to \$39.9 million. The increase in production and increased unit value of the PTCs was more than offset by the appreciation of the AUD against the USD. The unit value of a PTC for calendar year 2010 was \$22 compared to \$21 for the 2009 calendar year.

Value of tax losses (Class A) was \$10.5 million, \$27.6 million lower due to the reduction in tax depreciation.

During the half year \$21.4 million of benefits were deferred compared with \$43.4 million. This also relates to lower tax depreciation during the period.

Allocation of return (Class A) is the agreed target return on Class A capital balances. This was \$24.8 million, 19% or \$5.9 million lower reflecting a lower Class A capital balance and the appreciation of the AUD against the USD.

Movement in residual interest (Class A) reflects period on period changes in expectations of future tax allocations and cash flows.

## 2.11 Net Borrowing Costs - \$40.0 million

Net Borrowing Costs were \$40.0 million, up 13% or \$4.6 million. Net Borrowing Costs comprise interest expense and income, interest rate swap terminations, loan fee amortisation, bank fees and FX gains and losses.

Total borrowing costs were \$55.9 million, 4% or \$2.4 million higher compared to the prior half year. This was primarily due to swap termination costs as an interest rate swap was called by a counterparty and terminated resulting in an expense of \$8.6 million and interest related to the Capital Wind Farm (\$5.2 million) which had been



capitalised in the previous corresponding period. This was offset by lower debt due to debt repayment after the sale of the wind farms in France. No further swaps are eligible for termination at the option of counterparties during the remainder of the financial year. Swaps valued at \$6.0 million at 31 December 2010 are eligible for termination at the option of counterparties in 2013.

Interest income and foreign exchange gains were \$15.9 million, 12% or \$2.2 million lower. This was primarily due to the appreciation of the AUD against the USD.

## **2.12 Loss before Significant Items and Tax - \$34.2 million**

Loss before Significant Items and Tax was \$34.2 million an adverse movement of \$20.1 million.

The drivers for this result were higher borrowing costs as a result of a swap termination, a lower net contribution from US IEPs, weak Australian merchant electricity prices, a significant appreciation of the AUD against the USD and increased operating costs as Infigen's global portfolio becomes subject to higher off-warranty turbine operating and maintenance costs.

## **2.13 Significant Items**

There were no Significant Items recorded this period. The prior corresponding period included \$8.6 million of Significant Items primarily relating to the post-acquisition transition program for Infigen's US asset management business (\$5.5 million) and expenses related to the potential sale of overseas assets (\$3.1 million).

## **2.14 Net Loss before Income Tax expense - \$34.2 million**

Net Loss before Income Tax was \$34.2 million - an adverse movement of \$13.0 million.

## **2.15 Income Tax expense - \$0.2 million**

Income Tax expense was \$0.2 million - an adverse movement of \$5.6 million.

## **2.16 Net Loss - \$34.4 million**

Net Loss was \$34.4 million - an adverse movement of \$18.6 million.

### 3. Cash Flow

Cash at the half year ended 31 December 2010 was \$163 million, down 29% or \$67 million from 30 June 2010. Cash flow movement for the 6 month period comprises \$38.8 million in relation to capital expenditure, \$14.6 million payment of distributions, \$5.8 million due to the appreciation of the AUD, \$5.7 million in relation to the deferred final settlement of various outstanding items with the Babcock & Brown International group and \$1.7 million for debt repayment related to the Eifel Wind Farm finance lease in Germany. Capital expenditure is discussed in more detail in section 4.

#### Net operating cash flow after tax and financing costs

Half year ended	31 Dec 2010	31 Dec 2009	Change %
EBITDA from Operations	84.0	87.0	(4)
Corporate and Development Costs	(9.0)	(10.4)	(13)
Movement in working capital & non cash items	(23.5)	(6.5)	262
Financing costs and taxes paid	(42.9)	(45.7)	(6)
Termination of Interest rate swap	(8.6)	-	100
Transition Expense	-	(5.5)	(100)
Settlement of foreign exchange contracts	-	2.0	(100)
<b>Net Operating Cash Flow</b>	<b>-</b>	<b>20.9</b>	<b>(100)</b>

Net operating cash flow after tax and financing costs was nil for the period. This was due to a number of items. A one-off item being the cash outflow associated with a counterparty terminating an interest rate swap resulted in a \$8.6 million outflow. This combined with working capital outflows of \$23.5 million were the primary drivers of the outcome. Working capital outflow reflected the change in REC accounting policy where inventory increased by \$7.9 million, an adverse FX effect of \$2.2 million and trade receivables due to an increase in capacity (Lake Bonney 3) and other receivables \$9.7 million.

### 4. Capital Expenditure and Divestments

Payment for capital expenditure was \$38.8 million, down 65% or \$73.1 million. This was expenditure required to continue the construction of projects that commenced in the prior financial year.

The following table provides a summary of the key areas of expenditure.

Half year ended	31 Dec 2010	31 Dec 2009	Change %
Australia - Construction	28.7	85.0	(66)
Australia - Development	5.5	17.3	(68)
US	0.3	8.2	(96)
Germany	4.3	1.4	(207)
<b>Total Capital Expenditure</b>	<b>38.8</b>	<b>111.9</b>	<b>(65)</b>

Construction expenditure in Australia is mainly related to the Woodlawn Wind Farm which is expected to be complete by the end of 2011. Development expenditure in Australia relates to maintaining and advancing the existing pipeline of development projects to a 'construction-ready' status. Further expenditure on the development

pipeline will be limited to ensuring Infigen's best development options are ready to execute once market conditions become more favourable. The remainder of the pipeline will incur expenditure necessary to keep the options viable for medium to longer term development.

In Germany capital expenditure relates to the installation of technology at a number of wind farms in order to secure legislated bonus technology tariffs. It is expected that the total cost for all upgrades will be approximately \$7.5 million. Further details are provided in Section 7.

## 5. Capital Management

### 5.1 Net Debt

The net debt for the consolidated entity decreased to \$1,147 million at 31 December 2010 from \$1,193 million at 30 June 2010, a net movement of \$46 million. The movement is primarily attributable to: growth capital expenditure (-\$38.8 million); payment of distributions (-\$14.6 million); debt repayment related to the Eifel Wind Farm finance lease in Germany (-\$1.7 million); a final settlement of various outstanding items with the Babcock & Brown International group (-\$5.7 million) and reduction in foreign currency debt expressed in AUD (+\$112 million).

### 5.2 Equity

Total equity decreased 5% from \$722 million at 30 June 2010 to \$684 million at 31 December 2010. The decrease of \$38 million is attributable to the net loss for the period (-\$34.4 million), a change in the fair value of cash flow hedges (+\$36.2 million), exchange difference on the translation of foreign operations and movement in fair value of net investment hedges (-\$26.1 million), equity contributions (from Distribution Reinvestment Plan) and amortisation of share based payments (+\$1.6 million) and distributions paid (-\$15.3 million).

### 5.3 Gearing

The following table provides a comparison of Infigen's book gearing at 30 June 2010 and 31 December 2010. The change reflects the movements in net debt and equity described above.

As at	31 Dec 2010	30 Jun 2010	Change %
Net Debt	1,147	1,193	(4)
Total Equity	684	722	(5)
<b>Book Gearing</b>	<b>62.7%</b>	<b>62.3%</b>	<b>-</b>

A balance sheet by currency is provided in Appendix A.

### 5.4 Share Capital

On 16 September 2010 Infigen issued 848,141 securities under the Distribution Reinvestment Plan ("DRP") at a price of \$0.74 cents per security in relation to the payment of the final distribution for the year ended 30 June 2010.

## **6. Risk Management**

### **6.1 General**

Infigen's Australian business is exposed to certain risks which it manages through adherence to the Company's risk policy including Board approved exposure limits. The Board receives regular updates on the various exposures and on levels of compliance.

### **6.2 Energy Markets**

The Energy Markets function was established to manage electricity market risks associated with the Australian merchant portfolio and optimise revenue. This function incorporates the following roles:

- Operational - ensuring that wind farms are scheduled and dispatched to generate maximum production,
- Commercial - ensuring that contracting strategies are appropriate for the portfolio, and
- Development - to expand channels to market, including Industrial and Commercial end-user markets.

Infigen maintains a consistent and disciplined approach to contracting RECs driven by sustainable long term price levels rather than short term cyclical spot market trends.

### **6.3 Electricity**

In the electricity market Infigen assesses its risk in terms of earnings and volumetric limits consistent with the underlying physical attributes of the assets. Infigen undertakes various contracting arrangements within policy limits to minimise extreme event risks. This includes prudent hedging but excludes any principal trading.

### **6.4 Environmental Products**

Infigen's primary Australian exposure is to the Federal Government's renewable energy target legislation. Of Infigen's five operational wind farms 58% of annual P50 production is currently contracted under medium to long term contracts. At 31 December 2010 Infigen retained a REC inventory value of \$11.1 million.

During the half year, merchant REC prices remained at depressed levels due oversupply of small scale scheme RECs and limited activity in the market during the NSW electricity privatisation program. A decision to retain the RECs generated during the period was made upon assessment that RECs were fundamentally undervalued, with a view that the imbalance between the supply and demand will correct in medium term.

This view is supported by a modest recovery in REC prices (~25%) to \$36 during the current quarter from the lows seen at December 2010.

## 6.5 Interest

Infigen's corporate debt is provided through a syndicated Global Debt Facility provided by 17 banks. It is a multi-currency facility which provides a partial natural hedge to each of the USD and Euro foreign exchange rate movements.

The current margin on the facility is 98 basis points (bps) with only a 10 bps step up in 2013. Infigen has hedged 85% of its total debt with interest rate swaps that are matched to its debt amortisation profile.

The average effective interest rate pre margin on all corporate debt was 5.4% compared to 5.7%.

## 6.6 Foreign Exchange

Infigen is exposed to movements of the AUD against the USD and the Euro. Revenue and costs associated with Infigen's US and German assets are translated into AUD for statutory reporting purposes. While movements in exchange rates can have a significant effect on reported profit, Infigen's multi-currency global debt facility provides natural hedges for such risk. The table below provides the balance sheet translation rates used in the statement of financial position and a simple average of the monthly translation rates used in the statement of comprehensive income.

Statement of financial Position			
As at	31 Dec 2010	30 Jun 2010	Change %
USD	1.0253	0.8523	17
Euro	0.7643	0.6976	10
Statement of comprehensive income			
Half year ended	31 Dec 2010	31 Dec 2009	Change %
USD	0.9437	0.8594	10
Euro	0.7129	0.5948	20

## 7. Operational Performance Review

Half year ended	31 Dec 2010	31 Dec 2009	△	Change %
<b>Safety (LTIFR)</b>	14.8	10.1	4.7	47
<b>Operating Capacity (MW)</b>	1,726	1,687	39.0	2
<b>Capacity Factor (%)</b>	29.9	27.6	2.3	-
<b>Turbine Availability (%)</b>	95.9	95.1	0.8	-
<b>Site Availability (%)</b>	95.7	95.0	0.7	-
<b>Production (GWh)</b>	2,282	1,943	339	17
<b>Revenue (\$m)</b>	137.8	135.3	2.5	2
<b>Operating Costs (\$m)</b>	53.8	48.3	5.5	11
<b>Operating EBITDA (\$m)</b>	84.0	87.0	(3.0)	(3)
<b>Operating EBITDA margin (%)</b>	61.0	64.3	(3.3)	(3)

### 7.1 Overview

Infigen's safety performance (as measured in rolling 12 month LTIFR terms) has trended up in the last six months, due to an increase in contractors' safety incidents in the US.

Infigen has an operating capacity of 1,726 MW (equity interest) across Australia, the US and Germany comprising 35 wind farms. The 2% increase in capacity reflects the completion of the 39 MW Lake Bonney 3 Wind Farm in South Australia in the period.

Average site availability improved across the business as a result of a focus on reducing downtime by improving response times, skilled technicians being able to diagnose a problem quicker and improved supply chain response times.

Production for the half year increased 17% or 340 GWh to 2,282 GWh reflecting contributions from the Capital (commenced operation in October 2009) and Lake Bonney 3 wind farms in Australia (+161 GWh), improved availability in Australia and improved wind resource in the US (+199 GWh), partially offset by lower wind resource in Germany (-20 GWh).

Revenue increased by 2% to \$137.8 million reflecting increased production mostly offset by substantially lower merchant electricity prices in Australia and the US and the appreciation of the AUD against the USD and the Euro.

Operating costs increased by 11% primarily as a result of new assets in Australia, contracted step-ups in O&M rates at Lake Bonney 2 and increased turbine scheduled and unscheduled maintenance.

OEM (Original Equipment Manufacturer) warranty period turbine O&M costs are typically fixed (although a few have contracted step-ups over the term of the agreement). During the turbine OEM warranty period, turbine scheduled and unscheduled maintenance is undertaken by the turbine manufacturer. Hence, the risk of unscheduled maintenance, including component part failures is carried by the OEM. Once the warranty period expires, cost increases in the order of \$5-10/MWh for turbine maintenance are to be expected.

Given the rapid growth of the industry and the continued evolution of turbine technology and size, a period of operating experience has been necessary to establish component failure rates. These have tended to exceed manufacturers' original indications. Expectations are now based on experience of post warranty performance, advice from technical advisers, and independent studies of the industry.

The actual experience of failure rates also created two knock on effects; a shortage of replacement parts and a tight labour market for skilled turbine O&M technicians, both of which are reflected in higher post warranty pricing from service providers.

The table below provides the profile of Infigen equipment under warranty on a weighed average rated capacity basis by Australian financial year.

<b>% under warranty</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>
Australia	92	74	69	70	37	19
US	86	47	33	14	8	7
Germany	98	93	83	83	83	83

Infigen believes the cost ranges provided are estimates with potential for further containment, utilising preventative maintenance and benefits derived from a more competitive market as third party component and service providers enter the market.

Operating EBITDA for the half year was \$84.0 million, down 3% or \$3.0 million compared to the prior half year.

This was primarily due to additional contributions from 140.7 MW Capital Wind Farm and 39 MW Lake Bonney 3 Wind Farm in Australia, offset by lower revenues from merchant plants due to low electricity prices and contractual step up in O&M costs together with marginally higher O&M costs as the majority of the fleet was under warranty during the period. In the US lower revenues due to a stronger AUD, lower merchant electricity prices and higher operating costs as the fleet moves from being 85% under warranty in FY10 to 37% under warranty in FY11 led to a reduction to operating EBITDA. While in Germany lower revenues due to lower wind resource and a stronger AUD resulted in a decrease in operating EBITDA.

## 7.2 Australia

Half year ended (A\$M) unless stated otherwise	31 Dec 2010	31 Dec 2009	Δ	Change %
<b>Operating Capacity (MW)</b>	508	469	39.0	8
<b>Capacity Factor (%)</b>	32.0	30.4	1.6	-
<b>Turbine Availability (%)</b>	97.4	92.3	5.1	-
<b>Site Availability (%)</b>	97.1	91.9	5.2	-
<b>Production (GWh)</b>	720	528	192.0	36
<b>Revenue</b>	59.9	45.4	14.5	32
<b>Operating EBITDA</b>	44.7	36.1	8.6	24
<b>Operating EBITDA margin (%)</b>	74.7	79.5	(4.8)	(5)
<b>Average Price (A\$/MWh)</b>	83.24	85.96	(2.7)	(3)
<b>Operating Cost (A\$/MWh)</b>	21.06	17.53	3.5	20

Infigen has an operating capacity of 508 MW (equity) in Australia comprising 5 wind farms namely the 89.1 MW Alinta Wind Farm in Western Australia (WA), the 3 Lake Bonney Wind Farms in South Australia (SA) with capacities of 80.5 MW, 159 MW and 39 MW respectively and the 140.7 MW Capital Wind farm in New South Wales (NSW). Infigen holds 100% equity interest in each of its Australian wind farms.

Infigen sells the output from these wind farms through Power Purchase Agreements (PPAs) and on a merchant basis (wholesale electricity market). Output from the Lake Bonney 1 and Alinta wind farms is sold under PPA for a contracted price. The majority of the capacity of the Capital Wind Farm is contracted to meet the demand from the Sydney Desalination Plant under long term sales agreements, while a small component of the output is sold on a merchant basis, with capacity contracted via a series of shorter term contracts, which are subject to cyclical fluctuations in market prices. Output from the Lake Bonney 2 & 3 wind farms is sold on a merchant basis. Of Infigen's five operational wind farms 58 - 64% of annual P50 production, is currently contracted under medium to long term contracts.

Operating Capacity in Australia was 8% higher at the end of the half year due to the commissioning of the Lake Bonney 3 Wind Farm in South Australia in July 2010. Production and revenue increased 36% and 32% respectively reflecting increased contributions from the Capital Wind Farm which was commissioning during the prior corresponding period, the new Lake Bonney 3 Wind Farm and improved site availability across the portfolio. Revenue was negatively affected by low merchant electricity prices.

Operating EBITDA increased by 24% or \$8.6 million to \$44.7 million reflecting increased production, lower merchant electricity prices and increased operating costs.

Construction continued at the Woodlawn Wind Farm which is scheduled to be completed by the end of 2011 calendar year. Progress continued on our development pipeline with selected high return projects moving towards construction ready status in order to be ready for improved market conditions. Two planning approvals were received for sites within our Solar Flagships tender proposal.



### 7.2.1 Production

Production increased by 36% or 192 GWh to 720 GWh reflecting an increased contribution from the Capital Wind Farm (+116 GWh) which was commissioning during the prior corresponding period, a full period contribution from the Lake Bonney 3 Wind Farm (+45 GWh) and improved availability across the portfolio (+31 GWh).

Total production for the half year was 12% lower than the P50 production of 814 GWh. This was primarily due to lower than average wind speeds

Average site availability improved to 97.1% compared with 91.9% in the prior corresponding period, which was severely impacted by the Lake Bonney 2 gearbox replacement program undertaken during the first half of FY10.

Network constraints and economic curtailment due to negative prices in South Australia also affected performance.

### 7.2.2 Prices

In SA and NSW average monthly spot electricity prices were \$23.78/MWh and \$25.64/MWh compared with \$54.23/MWh and \$52.35/MWh respectively. The ten year average price to 31 December 2010 in SA and NSW is \$39.77/MWh and \$45.82/MWh respectively.

Average end of month REC prices for the half year were \$33.70/REC.

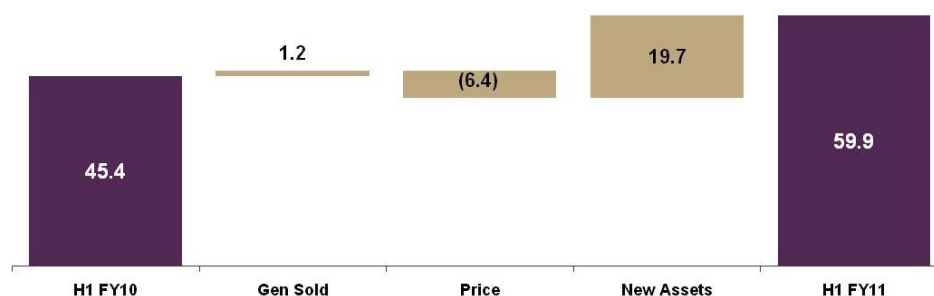
Despite these declines Infigen's average portfolio price was only 3% lower at \$83.24/MWh (or \$80.30/MWh net of REC revaluation compared with \$82.80/MWh in the prior corresponding period) reflecting the full period contribution from the 140.7 MW Capital Wind Farm which has most of its production contracted at a higher price than the portfolio average contracted price. As Capital Wind Farm accounts for almost 30% of the portfolio it has a significant effect on the weighted average price.

### 7.2.3 Revenue

As outlined in Section 1, there was a voluntary change to the manner in which Infigen recognises revenue in relation to retained RECs. The prior corresponding period has been restated to reflect this policy change.

Revenue increased by 32% or \$14.5 million to \$59.9 million reflecting increased production from new assets, improved site availability and higher average prices from contracted production. This was partially offset by lower revenue from merchant generation due to extremely low electricity prices in South Australia (SA) and New South Wales (NSW).

The following graph highlights the relative contributions to the period on period change in revenue.

**Australian Revenue Movement H1 FY10 to H1 FY11 (A\$M)**

**7.2.4 Operating Costs**

Total operating costs increased 63% or \$5.9 million reflecting higher wind farm operating costs and energy markets costs (\$1.5 million).

Wind farm operating costs increased 48% or \$4.4 million to \$13.7 million. This primarily reflects an increase in operating capacity (\$2.6 million), together with an increase in turbine maintenance costs (\$1.8 million).

**Operating and Maintenance Costs**

Half year ended (A\$M)	31 Dec 2010	31 Dec 2009	Δ	Change %
<b>Asset Management</b>	3.4	2.7	0.7	26
<b>Turbine O&amp;M</b>				
Scheduled	6.3	3.6	2.7	75
Unscheduled	0.3	0.4	(0.1)	(25)
<b>Balance of Plant</b>	0.2	0.1	0.1	100
<b>Other Direct Costs</b>				
Insurance	1.2	0.9	0.3	33
Land lease payments	1.3	0.5	0.8	160
Taxes	-	-	-	-
Connection/Network	1.0	1.1	(0.1)	(9)
<b>Total Wind Farm Costs</b>	<b>13.7</b>	<b>9.3</b>	<b>4.4</b>	<b>47</b>
Energy Markets	1.5	-	1.5	100
<b>Total Operating Costs</b>	<b>15.2</b>	<b>9.3</b>	<b>5.9</b>	<b>63</b>

Unit wind farm operating costs increased by 9% or \$1.52/MWh to \$19.05/MWh (excludes Energy Markets costs of \$1.5 million). This primarily reflects a contractual step up in warranty period O&M costs at the Lake Bonney 2 Wind Farm (still under warranty).

The following table provides a range of expected unit operating costs reflecting the percentage of assets transitioning off warranty.

\$/MWh	FY10A	FY11E	FY12E
Total wind farm operating costs	17.70	23.30 - 24.80	21.00 – 26.00

### 7.2.5 Operating EBITDA

Operating EBITDA increased by 28% or \$8.6 million to \$44.7 million reflecting increased production, offset by lower merchant electricity prices and increased operating costs. EBITDA margin for the period was 74.7% compared with 79.5% reflecting lower prices and higher operating costs.

### 7.2.6 Depreciation and Amortisation

Depreciation and amortisation increased by 41% or \$6.6 million to \$23.0 million reflecting an increased depreciable asset base. Infigen depreciates its Australian wind farms and associated plant using the straight line method over 25 years reflecting their useful lives.

### 7.2.7 Construction

Construction commenced on the Woodlawn Wind Farm near Bungendore in NSW during the period. The wind farm which had an initial capacity of 42.0 MW was expanded to 48.3 MW in November 2010 and will now comprise 23 Suzlon S88 2.1 MW turbines. It is being constructed under an EPC contract by Suzlon with an expected total project cost of approximately \$115 million.

In December 2010, Infigen announced that it had secured \$50-55m of project finance for Woodlawn as a merchant plant subject to satisfaction of usual conditions precedent.

### 7.2.8 Development

During the period the development team advanced selected high return projects in the wind development pipeline towards a construction ready status and carried out work necessary to sustain the option value of the pipeline.

During the period the Infigen/Suntech consortium submitted its tender proposal under the Commonwealth Government's Solar Flagships Program. The consortium's proposal is to develop 150MW of Solar Photovoltaic (PV) across a number of sites in NSW subject to being the successful applicant, securing committed Commonwealth and State funding, securing a long term PPA and appropriate project financing. The project will only be committed subject to these prerequisites and Board approval.

During the period two Infigen/Suntech solar farm sites received development approval from the NSW Department of Planning.

### 7.3 US

Half year ended US\$M unless stated otherwise	31 Dec 2010	31 Dec 2009	Δ	Change %
<b>Operating Capacity (MW)</b>	1,089	1,089	-	-
<b>Capacity Factor (%)</b>	30.0	27.3	2.7	-
<b>Turbine Availability (%)</b>	95.6	95.3	0.3	-
<b>Site Availability (%)</b>	95.3	95.3	-	-
<b>Production (GWh)</b>	1,469	1,296	173.0	13
<b>Wind Farm Revenue</b>	62.2	59.2	3.0	
<b>Bluarc Revenue</b>	1.2	3.5	(2.3)	
<b>Total Revenue</b>	63.4	62.6	0.8	1
<b>Production Tax Credits</b>	34.3	32.4	1.9	6
<b>Operating EBITDA</b>	30.8	32.5	(1.7)	(5)
<b>EBITDA margin (%)</b>	48.6%	51.8%		(7)
<b>EBITDA margin inc PTCs (%)</b>	64.3%	66.9%		(4)
<b>Revenue (A\$m)</b>	66.5	72.3	(5.8)	(8)
<b>Operating EBITDA (A\$m)</b>	32.2	37.5	(5.3)	(14)

Infigen has an operating capacity of 1,089 MW (Class B interest) in the US comprising 18 wind farms. Fourteen of these wind farms have PPAs and account for 911 MW of the total operating capacity. Three wind farms with 174 MW of operating capacity operate on a merchant basis, while one (4 MW of capacity) generates revenue both through a PPA and from merchant trade.

All of Infigen's wind farms generate Production Tax Credits (PTCs) for 10 years from the date of commissioning. Credits were worth US\$22 per megawatt-hour for the 2010 calendar year and each wind farm is entitled to one credit per megawatt hour of production. The Group accounts for PTCs as income in the period that the credit is derived on the basis that it reduces the Class A liability. This is accounted for in the "Other income" line item in Infigen's statutory accounts. A detailed description of the Tax Equity financing structure of Infigen's US assets is provided in Appendix C.

There was no change to Infigen's operating capacity in the US during the period with operating capacity remaining at 1,089 MW (Class B interest). Production increased by 13% reflecting improved wind resource.

Revenue increased by 5% primarily reflecting increased production partially offset by a lower contribution from Bluarc asset management business and lower merchant electricity prices.

Operating EBITDA decreased by 5% or \$1.7 million to \$30.8 million reflecting higher operating costs.

The Bluarc asset management business continues to provide competitive tension in the O&M service market.

### 7.3.1 Production

Production increased by 13% or 173 GWh to 1,469 GWh reflecting a general improvement in wind resource. All wind farms produced at above or around the prior corresponding period except the 38 MW Buena Vista Wind Farm in California due to poor wind and maintenance undertaken during the period.

Production was 4% lower than P50 estimates predominantly due to lower wind resource at Cedar Creek and in Texas. Average wind speeds across our US portfolio increased from 6.6 metres per second (mps) to 7.1 mps. Average availability across the sites was 95.3% which was in line with the prior corresponding period. Turbine availability was 95.6% exceeding the FY11 target.

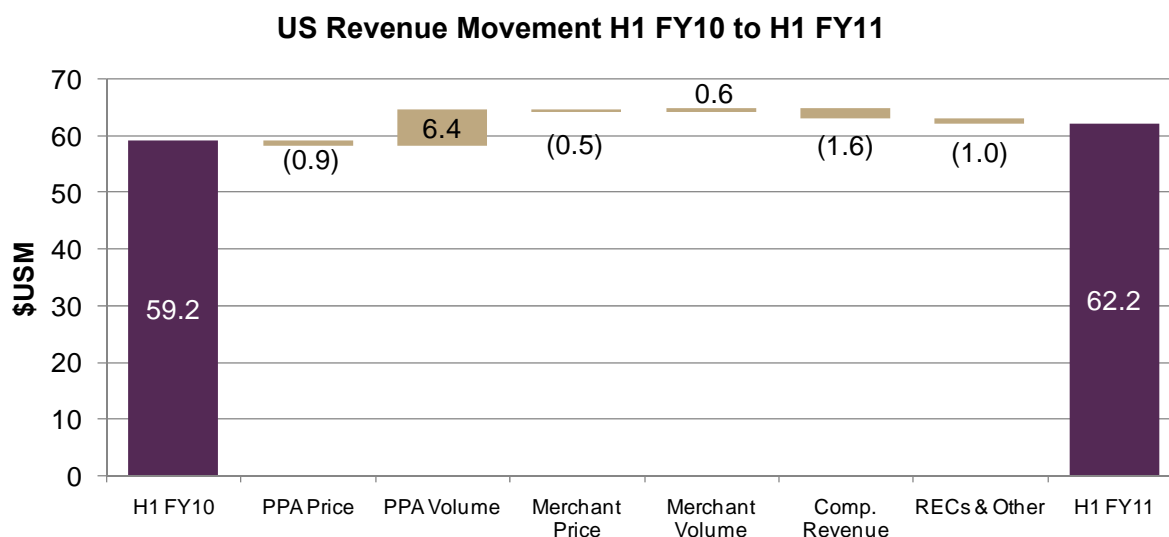
### 7.3.2 Price

The average electricity price realised was \$41.23/MWh compared to \$42.30/MWh resulting from lower merchant electricity prices and lower average PPA prices due to the mix of production.

### 7.3.3 Revenue

Revenue increased by 1% to \$63.4 million reflecting increased production partially offset by a lower contribution from Bluarc asset management business and lower compensated and REC revenue. The Bluarc business contributed \$1.2 million to revenue compared with \$3.5 million in the prior corresponding period.

The graph below highlights the relative contributions to the movement in wind farm revenue.



### 7.3.4 Operating Costs

Total operating costs increased by 8% or \$2.5 million to \$32.6 million resulting from the replacement of certain balance of plant equipment (\$2.0 million), higher component and unscheduled O&M costs (\$3.7 million), and higher asset management costs (\$0.9 million) partially offset by lower scheduled O&M costs (\$1.1 million) and lower Bluarc costs (\$3.0 million).

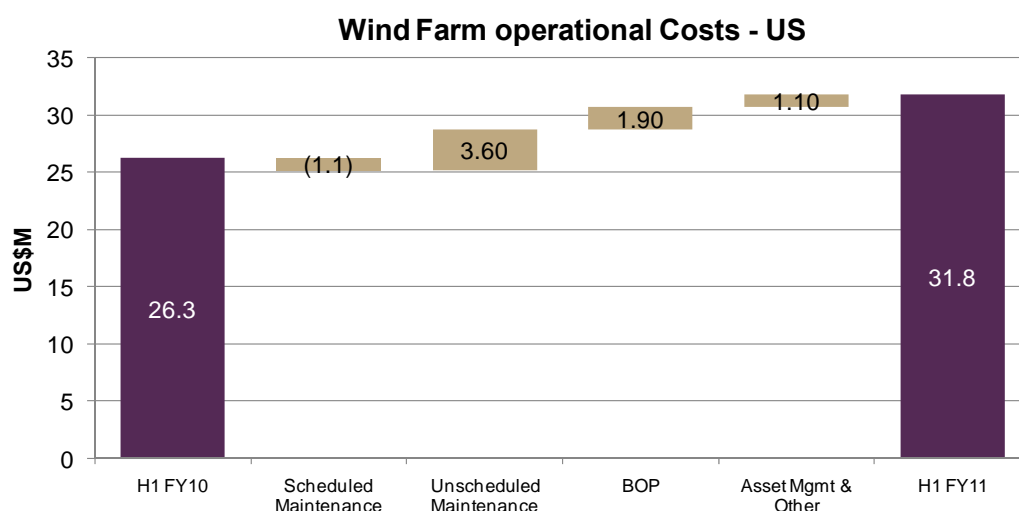
Operating costs associated with the Bluarc business were \$0.8 million compared with \$3.8 million in the prior corresponding period.

Wind farm operating costs increased by 21% or \$5.5 million to \$31.8 million primarily reflecting an increase in turbine scheduled and unscheduled maintenance costs as wind farms come off warranty.

### Operating and Maintenance Costs

Half year ended (US\$M)	31 Dec 2010	31 Dec 2009	Δ	Change %
<b>Asset Management</b>	5.1	4.6	0.5	11
<b>Turbine O&amp;M</b>				
Scheduled	9.6	10.7	(1.0)	(10)
Unscheduled	4.6	1.0	3.6	360
<b>Balance of Plant</b>	3.4	1.5	1.9	127
<b>Other Direct Costs</b>				
Insurance	1.6	1.5	0.1	7
Land lease payments	2.5	2.2	0.3	14
Taxes	3.7	3.6	0.1	3
Connection	1.3	1.2	0.1	8
<b>Total Wind Farm Costs</b>	<b>31.8</b>	<b>26.3</b>	<b>5.5</b>	<b>21</b>
Bluarc costs	0.8	3.8	(3.0)	(79)
<b>Total Operating Costs</b>	<b>32.6</b>	<b>30.1</b>	<b>2.5</b>	<b>8</b>

The graph below highlights the movements in wind farm operating costs.



Unit O&M increased by 6% or \$1.29/MWh to \$21.66/MWh reflecting an increase in assets off warranty. The following table provides a range of expected unit operating costs reflecting the percentage of assets transitioning off warranty.

US\$/MWh	FY10A	FY11E	FY12E
Total wind farm operating costs	18.0	22.5-23.5	21.0-26.0

### 7.3.5 Operating EBITDA

Operating EBITDA decreased by 5% or \$1.7 million to \$30.8 million resulting from increased operating costs. This includes an operating EBITDA from Bluarc of \$0.4 million.

### 7.3.6 Depreciation and Amortisation

Depreciation and amortisation increased marginally to \$42.6 million. Infigen depreciates its US wind farms and associated plant using the straight line method over 25 years reflecting their useful lives.

## 7.4 Germany

Half year ended €M unless stated otherwise	31 Dec 2010	31 Dec 2009	Δ	Change %
<b>Operating Capacity (MW)</b>	129	129	-	-
<b>Capacity Factor (%)</b>	16.6	21.0	(4.4)	-
<b>Turbine Availability (%)</b>	96.5	96.8	(0.3)	-
<b>Site Availability (%)</b>	96.5	96.8	(0.3)	-
<b>Production (GWh)</b>	94	119	(25.0)	(21)
<b>Revenue</b>	8.1	10.3	(2.2)	(21)
<b>Operating EBITDA</b>	5.0	7.7	(2.7)	(35)
<b>EBITDA margin (%)</b>	61.7	74.7	(13.0)	(13)
			-	
<b>Revenue (A\$m)</b>	11.4	17.6	(6.2)	(35)
<b>Operating EBITDA (A\$m)</b>	7.1	13.3	(6.2)	(47)

Infigen has an operating capacity of 128.65 MW in Germany comprising 12 wind farms. Infigen holds 100% equity interest in all of its German wind farms. All of these wind farms have a fixed tariff with no escalation. Infigen has 13.5 year term finance leases over the turbines at the 36.5 MW Eifel Wind Farm with options to buy.

Operating capacity in Germany remained at 128.65 MW. Production decreased by 21% reflecting lower wind resource and low availability due to blade icing during the extremely cold winter period and minor planned outages as new technology was installed to secure legislated technology bonus tariffs.

Revenue decreased by 21% or €2.2 million primarily reflecting lower production.

Operating EBITDA decreased by 35% or €2.7 million to €5.0 million reflecting lower revenue and higher operating costs. The latter factor resulted from additional component failures at the Neiderrhein and Eifel wind farms, a contracted step-up in warranty period O&M costs for our Gamesa wind farms (19.7 MW) and an increased number of wind farms off warranty.

Infigen completed the works necessary to take advantage of legislated bonus technology tariffs effective from 1 January 2011. New technology which will improve the power quality has been installed or will be installed in the second half of this financial year at 93% of Infigen's wind farms. Infigen will receive bonus tariffs of €5/MWh for a period of 20 year across 38 MW of its operating capacity and bonus tariffs of €7/MWh for a period of 5 years across 81.45 MW of its operating capacity. The total investment in technology bonuses will be €5.3 million. €2.5 million of this was paid to 31 December 2010.

### 7.4.1 Production

Production decreased by 21% or 25 GWh to 94 GWh reflecting lower wind resource and low availability due to blade icing during the extremely cold winter period and minor planned outages as new technology was installed to benefit from legislated technology bonus tariffs. Lower wind resource affected the entire German portfolio.

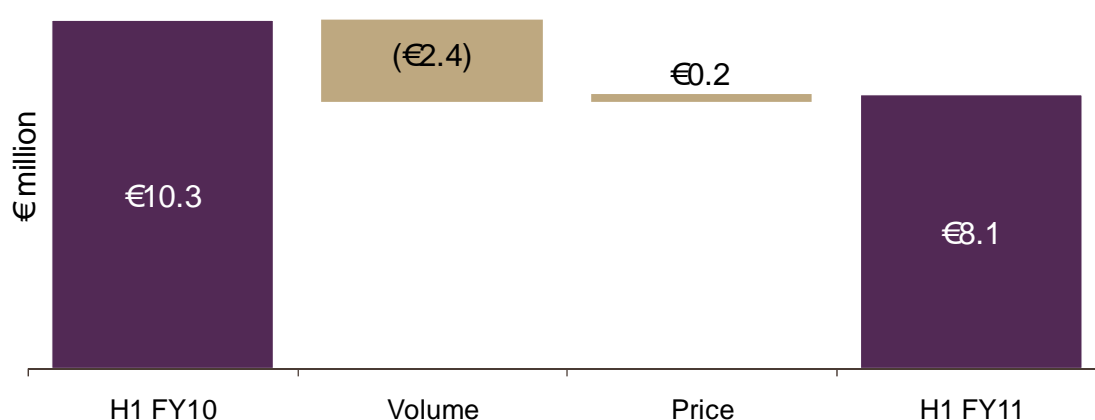


Average site availability of 96.5% was marginally lower than 96.8% due to outages due to blade icing during cold weather and outages due to installation of new equipment to generate additional revenue.

### 7.4.2 Revenue

Revenue decreased by 21% or €2.2 million primarily reflecting lower production. As the German wind farms are on fixed tariffs which vary by region price variance is related to the change in mix of production from the regions in the portfolio. During the period there was more production from assets on lower priced tariffs. The graph below highlights the relative contributions to the movement in revenue.

**German Revenue Movement H1 FY10 to H1 FY11**



### 7.4.3 Operating Costs

Total operating costs increased by 19% or €0.5 million to €3.1 million primarily reflecting component failures at the Neiderrhein and Eifel wind farms. Contracted step-up in the warranty period O&M costs for the Gamesa wind farms were more than offset by reductions in other direct costs.

#### Operating and Maintenance Costs

Half year ended (€M)	31 Dec 2010	31 Dec 2009	Δ	Change %
<b>Asset Management</b>	1.0	1.3	(0.3)	(23)
<b>Turbine O&amp;M</b>				
Scheduled	0.6	0.6	-	-
Unscheduled	0.6	-	0.6	100
<b>Balance of Plant</b>	0.2	0.1	0.1	100
<b>Other Direct Costs</b>				
Insurance	0.2	0.2	-	-
Land lease payments	0.5	0.5	-	-
<b>Total Wind Farm Costs</b>	<b>3.1</b>	<b>2.6</b>	<b>0.5</b>	<b>19</b>
<b>Total Operating Costs</b>	<b>3.1</b>	<b>2.6</b>	<b>0.5</b>	<b>19</b>

Unit operating costs were 49% or €10.73/MWh higher at €32.68/MWh. This reflects low production and higher O&M costs primarily related to component failures at Neiderrhein and Eifel wind farms.

The following table provides a range of expected unit operating costs reflecting the percentage of assets transitioning off warranty.

Cost €/MWh	FY10A	FY11E	FY12E
Total wind farm operating costs	24.00	28.00 – 29.50	24.00 – 30.00

### 7.4.4 Operating EBITDA

Operating EBITDA decreased by 34% or €2.7 million to €5.0 million reflecting lower revenue and higher operating costs.

### 7.4.5 Depreciation and Amortisation

Depreciation and amortisation decreased by 5% or €0.2 million to €3.4 million. Infigen depreciates its Germany wind farms and associated plant using the straight line method over 25 years reflecting their useful lives.

## 8. Outlook

In Australia, despite early signs of recovery in the REC market, spot prices remain at depressed levels. Similarly, the New South Wales and South Australian electricity spot markets, while experiencing some high price events during January and February, remain significantly below ten year averages.

The continued strength of the AUD against the USD and Euro, while benefiting the balance sheet, will have a negative effect on US and German revenue and earnings.

As foreshadowed, turbine operating and maintenance costs will increase as wind farms transition off warranty. Initially this will be most evident in the US and then Australia reflecting the relative maturity of the assets and average duration of the warranty periods. The German assets have longer warranty terms and are therefore not expected to incur material increases in the medium term. The business will continue to look for improvements to control these costs.

From a production perspective wind resource has improved this year across the US. We expect this to continue for the remainder of the year. We also expect the German portfolio to have a stronger second half. In Australia, network capacity limitations may affect the full potential output from the Lake Bonney 3 Wind Farm but turbine availability across the portfolio is exceeding our target of 95%. We will remain focused on maintaining and improving these availability levels. Together these factors lead to our expectation that full year production will be within the original guidance range of 4,582 GWh to 4,878 GWh.

From a revenue perspective some recovery in merchant power prices and REC prices is expected, but this improvement is likely to continue to be slow. This prospect, and the forthcoming stabilisation of the NSW retail electricity market structure following the Government's recent privatisations, are expected to prompt the market for offtake contracts to gradually pick up momentum. Initial revenue guidance for FY11 was based on the assumption of a weaker AUD. As a result of the strong performance of the Australian economy compared with the US and Europe, it is expected that the AUD will remain at or around the current level for the remainder of the financial year. Adjusting original revenue guidance for current FX assumptions we now expect revenue for the full year to be between \$277.8 million and \$295.3 million.

Looking further ahead there is a number of developments and opportunities that have the potential to add to future earnings and generate securityholder value. These include:

- Scheduled to complete the Woodlawn Wind Farm by the end of 2011;
- An opportunity to develop 150MW of Solar PV under the Solar Flagships Program subject to Commonwealth government selection of the successful applicant and Board approval;
- Improved channels to market including though direct contracting with commercial and industrial customers;
- The introduction of a carbon price regime and improved wholesale electricity prices in Australia;
- The reinvigoration of the REC market and increases in REC prices as excess RECs work their way through the system;
- Further initiatives to control O&M costs as wind farms transition off warranty; and
- Further initiatives to reduce corporate costs.

Given Infigen's recent performance, including the resultant revised outlook for debt amortisation announced at the November 2010 AGM, Infigen expects to continue to operate under tight financial constraints. Infigen's cash flows from its heritage portfolio of wind farms (excluding Eifel in Germany) remain subject to the cash sweep obligations associated with its long-term, low interest margin global debt facility. Infigen expects to continue to meet all of its obligations under that facility, including covenant tests at 30 June.

We will continue to consider bona fide opportunities to divest our interests in non-core assets and simplify the structure of the business. Infigen will also continue to limit its corporate and development costs and to prudently conserve the cash that it currently holds outside of the Global Facility group of entities.

### FY11 Production and Revenue Guidance

	H1 FY11 (Actual)	H2 FY11 (Estimate)	FY11 (Estimate)
<b>Generation (GWh)</b>			
<b>Australia</b>	<b>720</b>	<b>610 – 678</b>	<b>1,330 – 1,398</b>
<b>Germany</b>	<b>94</b>	<b>114 – 127</b>	<b>208 – 221</b>
<b>US</b>	<b>1,469</b>	<b>1,575 – 1,790</b>	<b>3,044 – 3,259</b>
<b>Total</b>	<b>2,282</b>	<b>2,299 – 2,595</b>	<b>4,582 – 4,878</b>

	H1 FY11 (Actual)	H2 FY11 (Estimate)	FY11 (Estimate)
<b>Revenue (A\$M)</b>			
<b>Australia</b>	<b>59.9</b>	<b>53.6 – 59.6</b>	<b>113.5 – 119.5</b>
<b>Germany</b>	<b>11.4</b>	<b>13.2 – 14.6</b>	<b>24.6 – 26.0</b>
<b>US</b>	<b>66.5</b>	<b>73.3 – 83.3</b>	<b>139.8 – 149.8</b>
<b>Total</b>	<b>137.8</b>	<b>140.0 – 157.5</b>	<b>277.8 – 295.3</b>

## 9. Appendix A – Balance Sheet by Currency

AUD'million	31-Dec-10	Less US Minority Interest	IFN Economic Interest	AUD	EUR	USD
Cash	163.3	1.4	161.9	135.5	4.5	22.0
Receivables	52.0	1.6	50.4	26.7	2.0	21.7
Inventory REC's	11.1		11.1	11.1	-	-
Prepayments	24.8	0.5	24.3	15.0	0.6	8.7
PPE	2,730.1	162.4	2,567.7	960.8	189.8	1,417.1
Goodwill & Intangibles	350.4	16.5	333.9	137.0	21.6	175.3
Deferred Tax Assets	99.1		99.1	78.2	19.9	1.00
Other Assets	3.8		3.8	3.8	-	0.0
<b>Total Assets</b>	<b>3,434.6</b>	<b>182.3</b>	<b>3,252.2</b>	<b>1,368.1</b>	<b>238.3</b>	<b>1,645.8</b>
Payables	50.5	1.6	49.0	18.1	6.2	24.8
Provisions	2.0		2.0	2.0	-	-
Borrowings	1,310.7		1,310.7	645.4	218.1	447.2
Tax Equity (US)	708.6	75.9	632.7	-	-	632.7
Class B Minority (US)	63.5	63.5	0.0	-	-	-
Deferred Revenue (US)	442.9	41.3	401.7	-	-	401.7
Deferred Tax Liabilities	75.1		75.1	68.1	6.8	0.1
Interest Rate Derivative	97.3		97.3	33.2	18.5	45.6
<b>Total Liabilities</b>	<b>2,750.8</b>	<b>182.3</b>	<b>2,568.5</b>	<b>766.7</b>	<b>249.6</b>	<b>1,552.2</b>
<b>Net Assets</b>	<b>683.8</b>	<b>-</b>	<b>683.8</b>	<b>601.4</b>	<b>(11.3)</b>	<b>93.6</b>

## 10. Appendix B – Global Facility Key Terms

### Global Facility – Key Terms



#### Repayment Terms

- Fully amortising facility; multi-currency; maturity 2022
- From FY11, cash sweep of cash flow of Global Facility borrower group

#### Financial Covenant

- From FY11 Net debt / EBITDA<sup>1</sup>:
- Through June 2016: < 8.5 times
  - Covenant at 31 Dec 2010 met
- June 2016 to June 2019: < 6.0 times
- June 2019 to June 2022: < 3.0 times

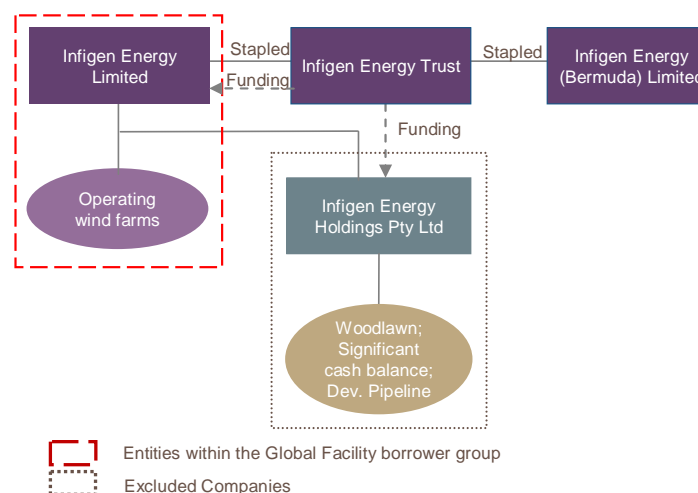
#### Review Events

- Would occur if IEL shares were removed from ASX or were unstapled from IET units/IEBL shares

#### Excluded Companies

- Infigen Energy Holdings Pty Limited (IEH) and its subsidiaries classified as excluded companies
- Cash balances of \$119.1m held by IEH
- Not subject to financial covenants or events of default applicable to the borrower group
- Lenders have no security over excluded companies

1. EBITDA includes US cash distributions



## 11. Appendix C - Institutional Equity Partnerships

Infigen holds interests in 12 limited liability companies (Institutional Equity Partnerships or IEPs), which, in turn, hold interests in 18 wind farm projects in the US.

The capital structure of each IEP comprises Class A membership interests and Class B membership interests.

### 11.1 Funding

Each IEP is funded on a stand-alone, non-recourse basis.

The long term equity funding is contributed by Class A members and Class B members in proportions which vary from project to project - depending on the project, Class A Members have contributed between 50% and 80% of initial capital and the Class B members have contributed the remainder.

Generally, holders of Class A membership interests are institutional investors.

Infigen holds Class B membership interests. Infigen's interest is in the range from 50% to 100% of total Class B membership interests.

### 11.2 Economic Interests

The membership interests in the IEPs have rights to two types of economic interests:

- Tax allocations (including taxable income/ loss and production tax credits (PTCs)); and
- Cash distributions.

The Class A and B members have varying entitlements to the economic interests depending on the stage of the wind farms as follows:

Membership Interest	<u>Stage 1:</u> Until the earlier of (i) Class B Capital repaid or (ii) a fixed date*	<u>Stage 2:</u> After Class B Capital repaid and until "Reallocation Date"	<u>Stage 3:</u> Post "Reallocation Date"
<b>Class A</b>	All taxable income/ loss and PTCs	All taxable income/ loss, PTCs and cash distributions	Depending on the IEP, between 5%-25% of taxable income/ loss, PTCs and cash distributions
<b>Class B</b>	All cash distributions	Nil	Depending on the IEP, between 75%-95% of taxable income/ loss, PTCs and cash distributions

\* the fixed date is one that is, at the time that capital is initially contributed, expected to be later than the date by which the Class B initial capital is expected to be repaid

“**Reallocation Date**” is the point in time that Class A capital has been returned and a target return on the Class A capital has been achieved. The target returns range between 5.9% and 8.3% depending on the IEP and accumulates based on the outstanding Class A capital balance.

### 11.3 Accounting for IEPs

Under Australian equivalents to International Financial Reporting Standards (AIFRS), Infigen either controls, or jointly controls, the strategic and operating decisions of the IEPs. Infigen commenced this treatment in FY08 when, based on accounting standards, control was determined to have been attained.

Consequently, Infigen either consolidates, or proportionally consolidates, respective IEPs under AIFRS.

Infigen recognises assets and liabilities of the IEPs in its AIFRS financial statements based on the following proportions:

IEP	Relevant Wind Farms	IFN Class B Interest	Proportion Consolidated (AIFRS)
<b>2003/2004</b>			
Blue Canyon Windpower LLC	Blue Canyon	50%	50%
Caprock Wind LLC	Caprock	100%	100%
Crescent Ridge Holdings LLC	Crescent Ridge	75%	100% with 25% non-controlling interest
Eurus Combine Hills LLC	Combine Hills	50%	50%
Sweetwater Wind 1 LLC	Sweetwater 1	50%	50%
Sweetwater Wind 2 LLC	Sweetwater 2	50%	50%
<b>2005</b>			
JB Wind Holdings LLC	Bear Creek, Jersey Atlantic	59.3%	59.3%
Kumeyaay Holdings LLC	Kumeyaay	100%	100%
Sweetwater Wind 3 LLC	Sweetwater 3	50%	50%
<b>2006</b>			
Babcock & Brown Wind Portfolio Holdings 1 LLC	Allegheny, Aragonne, Buena Vista, GSG, Mendota	100%	100%
<b>2007</b>			
CCWE Holdings LLC	Cedar Creek	66.67%	100% with 33.33% non-controlling interest
Sweetwater 4-5 Holdings LLC	Sweetwater 4, Sweetwater 5	53%	53%



### 11.3.1 IEP Liabilities:

#### Class A Liability (AIFRS):

- Classified as a liability under AIFRS as (i) the IEPs have limited lives and (ii) the allocation of income earned is governed by contractual agreements over the life of the investment;
- The Class A liability is determined by discounting future tax allocations and cash distributions using the effective interest method:
  - The effective interest rate that is used to determine the liability was determined at the date that control was deemed to have been attained and is not subsequently adjusted;
  - Future tax allocations and cash distributions that are incorporated into the calculation of the Class A liability include those that accrue in each of the aforementioned three stages ie/ including those post the repayment of the Class A capital balance;
- The Class A liability is increased or decreased for the following:

Component	Increase/ Decrease to Class A Liability	Income/Expense
1. Value of PTCs	Decrease	Income
2. Tax (i)losses/(ii)gains (including tax depreciation)	(i) Decrease/(ii) Increase	(i) Income/ (ii) Expense
3. Cash distributions	Decrease	N/A
4. Allocation of return (Class A)	Increase	Expense
5. Movement in residual interest (Class A)	(i)Increase/ (ii)decrease	(i) Expense/ (ii) Income

Value of PTCs relates to the income stream that Class A members receive in the form of tax credits. All of Infigen's US wind farms receive one PTC for each megawatt hour of electricity produced for a period of ten years from the date of first commercial operation of the wind farm.

Tax losses/gains represents an estimate of taxable losses or gains accruing to Class A members during the period. Under US tax law a wind farm owner may depreciate the book value of its wind farms over an accelerated time frame. In the early years of operations this gives rise to significant tax losses as the accelerated tax depreciation is greater than the operating profit of the wind farm.

Cash distributions represent cash distributed to Class A members in Stages 2 and Stage 3.

Allocation of return (Class A) is the agreed target return on the capital balance of the Class A member.

The change in residual interest (Class A) reflects period on period changes in expectations of future tax allocations and cash flows.

*Class A Capital Balance:*

The Class A capital balance is different to the Class A liability as the former is the balance of initial capital contributed by Class A members, plus the targeted return (which is itself different to the effective interest rate), that is yet to be repaid to Class A members through tax allocations and/ or cash distributions at a given point in time.

The following provides a summary of Class A capital balances at 31 December 2010:

Asset Vintage	Capital Balance US\$ million
2003/2004	87
2005	102
2006	174
2007	260
<b>Total</b>	<b>623</b>

The Class A capital balance is reduced or increased for items 1 to 4 above, but there is no adjustment in relation to the residual interest (item 5 above);

**11.4 Class B Liability (AIFRS):**

- Relates to Cedar Creek and Crescent Ridge only;
- The Class B Liability is the equivalent of a non-controlling interest that is ordinarily recognised within equity. However, this item is classified as a liability under AIFRS because (i) the IEPs have limited lives and (ii) the allocation of income earned is governed by contractual agreements over the life of the investment.;
- Non-controlling interests are reduced for cash distributions and increased/ decreased for the minority's interest in the IEP's profit/ loss

**11.5 Deferred Revenue:**

- Represents the tax-effected difference between tax and accounting depreciation. This is similar to the accounting treatment of a deferred tax liability;
- Accumulates in the early years of the IEP and then reverses slowly over the remaining life of the investment;
- Does not form part of the Class A liability and is an accounting consequence of straight-lining tax depreciation over the life of the wind farm.

Whilst classified as liabilities in the financial statements it is important to note:

- Should future operational revenues from the US wind farm investments be insufficient, there is no contractual obligation on the Group to repay the liabilities.
- Institutional balances outstanding (Class A and Class B non-controlling interests) do not impact Infigen's lending covenants or interest cover ratios.
- There is no exit mechanism for institutional investors consequently there is no re-financing risk.