



## **Management Discussion and Analysis of Financial and Operational Performance for the year ended 30 June 2011**

**30 August 2011**

All figures in this report relate to businesses of the Infigen Energy Group (“Infigen” or “the Group”), 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 year ended 30 June 2011 compared with the year ended 30 June 2010 (“prior year” or “prior corresponding period”) except where otherwise stated.

As required by the International Financial Reporting Standards’ (IFRS) accounting standards, Infigen consolidates 100% of all controlled entities within its result. The results discussed in 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. Period on period changes on a percentage basis are presented as favourable (positive) or unfavourable (negative). Period on period changes to items measured on a percentage basis are presented as percentage point changes (“ppts”).

<b>1</b>	<b>Statutory Loss and Distribution Declaration .....</b>	<b>3</b>
1.1	Statutory Loss - \$61.0 million .....	3
1.2	Statutory Loss per Security – 8.0 cps.....	3
1.3	Net Tangible Asset backing per Security - \$0.43 .....	3
1.4	Distributions - 1.0 cps .....	3
<b>2</b>	<b>Review of Financial Performance .....</b>	<b>4</b>
2.1	Reconciliation of Statutory Accounts to Economic Interest .....	5
2.2	Revenue - \$267.6 million .....	6
2.3	Operating EBITDA - \$167.1 million .....	6
2.4	Management Fee Income - \$0.8 million .....	6
2.5	REC revaluation expense .....	6
2.6	Development Costs - \$3.7 million .....	7
2.7	Corporate Costs - \$18.7 million .....	7
2.8	EBITDA - \$145.6 million .....	7
2.9	Depreciation and Amortisation - \$128.5 million .....	7
2.10	EBIT - \$17.1 million .....	7
2.11	Income from Institutional Equity Partnership - \$22.3 million .....	8
2.12	Net Borrowing Costs - \$74.4 million .....	9
2.13	Loss before Significant Items and Tax - \$35.0 million .....	9
2.14	Significant Items and discontinued operations - \$35.0 million .....	10
2.15	Income Tax benefit - \$9 million .....	10
2.16	Net Loss - \$61.0 million .....	10
<b>3</b>	<b>Cash Flow .....</b>	<b>11</b>
<b>4</b>	<b>Capital Expenditure and Divestments .....</b>	<b>14</b>
<b>5</b>	<b>Capital Management.....</b>	<b>16</b>
<b>6</b>	<b>Risk Management .....</b>	<b>19</b>
<b>7</b>	<b>Operational Performance Review .....</b>	<b>23</b>
7.1	Overview.....	23
7.2	US.....	26
7.3	Australia.....	31
<b>8</b>	<b>Outlook .....</b>	<b>38</b>
<b>9</b>	<b>Appendix A – Balance Sheet by Currency .....</b>	<b>41</b>
<b>10</b>	<b>Appendix B - Institutional Equity Partnerships .....</b>	<b>42</b>
<b>11</b>	<b>Appendix C – Notes to the results presentation.....</b>	<b>47</b>

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

### **1.1 Statutory Loss - \$61.0 million**

Infigen Energy reported a Statutory Loss for the year of \$61.0 million, a favourable movement of \$13.4 million compared with a Statutory Loss of \$74.4 million in the prior year.

The result reflects a strong operational performance of the business in challenging market conditions together with a favourable tax benefit. These were offset by increased post warranty turbine operating and maintenance (O&M) costs, higher borrowing costs as a result of the costs of an interest rate swap termination, and the loss from the sale of the German wind farms.

### **1.2 Statutory Loss per Security – 8.0 cps**

Statutory Loss per Security was 8.0 cents per security (cps), a 1.4 cps favourable movement compared to the prior year.

### **1.3 Net Tangible Asset backing per Security - \$0.43**

Net Tangible Asset backing per Security at 30 June 2011 was \$0.43 compared to \$0.41 at 30 June 2010.

### **1.4 Distributions - 1.0 cps**

The total distribution for the financial year ended 30 June 2011 is 1.0 cent per stapled security being the amount declared for the interim distribution and paid on 17 March 2011.

The Directors of Infigen Energy confirm that no distribution is declared for the six months ended 30 June 2011, and that distributions will be suspended for the years ending 30 June 2012 and 30 June 2013.

Suspending distributions is considered prudent to maintain the Group's existing capital and preserve funds available to the Group for future opportunities. The Infigen Boards will continue to ensure a stringent approach to maintaining and deploying available capital with an ongoing focus on investor returns.

## 2 Review of Financial Performance

The group disposed of its wind farm assets in Germany in June 2011. In the prior year, the group disposed of its assets in France in April 2010. As a consequence of these disposals, for the year ended 30 June 2011, Germany is classified as a discontinued operation. For the year ended 30 June 2010, France and Germany are classified as discontinued operations

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

Year ended (\$m unless otherwise indicated)	30 June 2011	30 June 2010	Change %
Revenue	285.3	282.6	1
EBITDA	159.3	163.2	(2)
Depreciation and Amortisation	(136.3)	(136.2)	-
EBIT	23.0	27.0	(15)
Net Borrowing Costs	(74.4)	(69.6)	(7)
Net Income from IEPs	16.4	9.2	78
Loss before Significant item & Tax	(35.0)	(33.4)	(5)
Income Tax	9.0	(12.5)	n/a
Discontinued Operations	(35.0)	(7.7)	(350)
Significant items	-	(20.8)	n/a
Net Loss after Tax	(61.0)	(74.4)	18
Operating Cash Flow	65.1	111.6	(42)
Capital Expenditure <sup>1</sup>	91.3	148.0	n/a
Operating Cash Flow per security <sup>2</sup> (cps)	8.5	14.7	(42)
Earnings per security (cps) <sup>3</sup>	(8.0)	(9.4)	(15)
Distribution per security (cps)	1.0	2.0	(50)

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)	30 June 2011	30 June 2010	Change %
Debt	1,252	1,423	12
Cash	305	220	39
Net Debt	947	1,203	21
Class A Liability	646	879	27
Securityholders' Equity	641	722	(11)
Book Gearing	59.6%	62.5%	2.9 ppts <sup>4</sup>
EBITDA/(Net debt + Equity)	10.0%	8.5%	1.5 ppts
Net Assets per Security (\$)	0.84	0.95	(12)

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

<sup>2</sup> Calculated using securities issued at end of year

<sup>3</sup> Calculated using weighted average issued securities

<sup>4</sup> ppts = Percentage points

## 2.1 Reconciliation of Statutory Accounts to Economic Interest

Infigen has a controlling interest in two wind farm entities in the US in which it owns more than 50% but less than 100% of Class B interests. Under IFRS Infigen fully consolidates the financial performance of these wind farm entities within its statutory results and eliminates the non-controlling interest, which is recorded through “Net Income) of IEPs”.

Infigen believes it is more useful to review the performance of the business from an economic interest perspective and has therefore provided a 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.**

Year ended 30 June 2011	Statutory (\$m)	Minority Interest (\$m)	Economic Interest (\$m)
Revenue	285.3	(17.7)	267.6
Operating EBITDA	180.8	(13.7)	167.1
Other costs and income	(21.5)	-	(21.5)
EBITDA	159.3	(13.7)	145.6
Depreciation and Amortisation	(136.3)	7.8	(128.5)
EBIT	23.0	(5.9)	17.1
Net Borrowing Costs	(74.4)	-	(74.4)
Net Income from IEPs	16.4	5.9	22.3
Loss before Significant item & Tax	(35.0)	-	(35.0)
Income Tax	9.0	-	9.0
Net Loss after Tax from continuing ops	(26.0)	-	(26.0)
Discontinued business	(35.0)	-	(35.0)
Net Loss	(61.0)	-	(61.0)

Year ended 30 June 2010	Statutory (\$m)	Minority Interest (\$m)	Economic Interest (\$m)
Revenue	282.6	(18.8)	263.8
Operating EBITDA	185.9	-	171.8
Other costs and income	(22.7)	-	(22.7)
EBITDA	163.2	(14.1)	149.1
Depreciation and Amortisation	(136.2)	8.8	(127.4)
EBIT	27.0	(5.3)	21.7
Net Borrowing Costs	(69.6)	-	(69.6)
Net Income from IEPs	9.2	5.3	14.5
Loss before Significant Items & Tax	(33.4)	-	(33.4)
Income Tax	(12.5)	-	(12.5)
Net Loss after Tax from continuing ops	(45.9)	-	(45.9)
Discontinued Operations	(7.7)	-	(7.7)
Significant items	(20.8)	-	(20.8)
Net Loss	(74.4)	-	(74.4)

## 2.2 Revenue - \$267.6 million

Revenue was \$267.6 million, up 1% or \$3.8 million.

This was towards the upper end of the guidance range and due to a 12% increase in revenue in Australia, primarily from an additional four months contribution from the 140.7 MW Capital Wind Farm in New South Wales (NSW) and a full year contribution from the 39 MW Lake Bonney 3 Wind Farm in South Australia (SA). To enable direct comparison the prior year is restated to reflect the revised accounting treatment of RECs as described in Section 11.1.

These increases were partially offset by a 5% decrease in revenue from the US caused largely by the significant appreciation of the Australian Dollar (AUD) against the United States (US) Dollar (USD) and by lower wholesale electricity and Renewable Energy Certificate (REC) prices in Australia. In local currency terms revenue in the US increased 7% reflecting increased production due to a return to long term mean (P50) wind conditions.

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

## 2.3 Operating EBITDA - \$167.1 million

Operating Earnings before Interest, Tax, Depreciation and Amortisation (EBITDA) was \$167.1 million, down 3% or \$4.7 million.

This was primarily due to:

- Australia: additional contributions from new assets (Capital and the Lake Bonney 3 wind farms) offset by lower revenues from merchant plants due to low wholesale electricity prices and lower average spot REC prices together with higher O&M costs due to new assets, contractual and post warranty cost step ups; and
- US: lower revenues due to a stronger AUD, lower merchant electricity prices and higher operating costs as the fleet moved from being 86% under warranty<sup>5</sup> in FY10 to 54% under warranty in FY11.

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

## 2.4 Management Fee Income - \$0.8 million

Management Fee Income of \$0.8 million relates to fees received by corporate entities from the sold German wind farms. These fees were previously eliminated on consolidation.

## 2.5 REC revaluation expense

RECs retained on balance sheet are valued at the lower of cost and net realisable value at the end of each reporting period.

At 30 June 2011 the REC price was higher than the average monthly price at which approximately 244,000 retained RECs were brought to account. In the prior year the

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<sup>5</sup> Plant under warranty is calculated on a weighted average MW basis over the relevant financial year

REC price at the end of the financial year was also higher than the average monthly price at which approximately 82,000 retained RECs were brought to account. Pursuant to the accounting policy, upward movements in value are only recognised upon sale where the price exceeds carrying value. All RECs retained in the first half were sold in the second half at prices above their 31 December 2010 book value.

## **2.6 Development Costs - \$3.7 million**

Development costs expensed were \$3.7 million, up \$2.7 million. The increase is primarily attributable to the write-off of costs relating projects unlikely to meet our investment criteria and non-capitalised costs relating to the Solar Flagships Program proposal. While the Solar Flagships proposal was unsuccessful in the first round, Infigen is looking for other opportunities to progress the development of its solar farm sites.

During the year \$13.4 million of costs relating to current development projects were capitalised with \$1.8 million of these disposed of through the transaction with National Power Partners. Further details are provided in Section 4.

## **2.7 Corporate Costs - \$18.7 million**

Corporate costs were \$18.7 million, down 14% or \$3.1 million. This was primarily due to lower personnel costs, including contractors.

Corporate costs cover typical functions required to operate a publicly listed company with international operations and financing, corporate functions required to plan, manage and report the group's operations, and information technology systems associated with these functions.

Corporate costs were \$1.8 million below guidance and will continue to be subject to stringent control, however given the significant reduction to date further reductions are expected to be more modest.

## **2.8 EBITDA - \$145.6 million**

EBITDA was \$145.6 million, down 2% or \$3.5 million. This was due to lower operating EBITDA and higher development costs expensed as outlined above.

## **2.9 Depreciation and Amortisation - \$128.5 million**

Depreciation and Amortisation expense was \$128.5 million, up 1% or \$1.1 million.

This was primarily due to higher depreciable operating capacity in Australia at the Capital and Lake Bonney 3 wind farms (+\$9.0 million), partially offset by lower depreciation of the US wind farms due to the appreciation of the AUD against the USD (-\$7.9 million).

## **2.10 EBIT - \$17.1 million**

Earnings Before Interest and Tax (EBIT) for the year was \$17.1 million, down 21% or \$4.6 million. This was due to lower EBITDA and higher depreciation and amortisation expenses as outlined above.

## 2.11 Income from Institutional Equity Partnership - \$22.3 million

Net income from US Institutional Equity Partnerships (IEPs) was \$22.3 million, up 54% or \$7.8 million.

An explanation of the structure of IEPs (including the accounting treatment) is provided in Appendix B. The following table summarises the components of net income from IEPs (this table has been reproduced in local currency in Appendix B).

Year ended (\$ million)	30 June 2011	30 June 2010	Change %
Value of production tax credits (Class A)	81.9	85.4	(4)
Value of tax losses (Class A)	14.9	49.4	(70)
Benefits deferred during the period	(35.2)	(71.2)	51
<b>Income from IEPs</b>	<b>61.6</b>	<b>63.6</b>	<b>(3)</b>
Allocation of return (Class A)	(47.0)	(57.4)	18
Movement in residual interest (Class A)	6.4	7.4	(14)
Non-controlling interest (Class B)	(4.6)	(4.4)	(5)
<b>Financing costs related to IEPs</b>	<b>(45.2)</b>	<b>(54.3)</b>	<b>(17)</b>
<b>Net income from IEPs (Statutory)</b>	<b>16.4</b>	<b>9.2</b>	<b>78</b>
Non-controlling interests (Class B & Class A)	5.9	5.3	11
<b>Net income from IEPs (Economic Interest)</b>	<b>22.3</b>	<b>14.5</b>	<b>54</b>

Value of Production Tax Credits (PTCs) (Class A) was \$81.9 million, down 4% or \$3.5 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 is US\$22 for both the 2010 and 2011 calendar years compared to US\$21 for the 2009 calendar year.

Value of tax losses (Class A) was \$14.9 million, down 70% or \$34.5 million due to the reduction in tax depreciation as more large value assets which benefit from accelerated depreciation become fully depreciated.

During the year \$35.2 million of benefits were deferred, down 51% or \$36 million. Benefits deferred are the difference between tax depreciation and accounting depreciation for the year. This reduction reflects lower tax depreciation during the period as described above.

Allocation of return (Class A) is the agreed target return on Class A capital balances. This was a \$47 million expense for the year, down 18% or \$10.4 million reflecting both lower Class A capital balances (\$3.1 million) and the appreciation of the AUD against the USD (\$7.3 million).

The movement in residual interest (Class A) was \$6.4 million, down 14% or \$1.0 million. This reflects period on period changes in expectations of future tax allocations and cash flows.

The non-controlling interest (Class B) represents the share of net profit attributable to the non-controlling interest holders in the Cedar Creek and Crescent Ridge wind farms.



The non-controlling interest (Class B & Class A) represents the elimination of non-controlling interest contributions of each income and financing cost IEP line item (attributable to both the Class A and Class B non-controlling interests in the Cedar Creek and Crescent Ridge wind farms) .

## 2.12 Net Borrowing Costs - \$74.4 million

Net Borrowing Costs from continuing business were \$74.4 million, up 7% or \$4.8 million. Net Borrowing Costs comprise interest expense (including net interest rate swap payments) and income, interest rate swap termination costs, loan fee amortisation, bank fees and FX gains and losses associated with these items and principal repayment.

Year ended (\$ million)	30 June 2011	30 June 2010	Change %
Interest Expense	(87.9)	(91.0)	3
Termination of swaps	(8.6)	-	n/a
Loan and Bank Fees	(1.8)	(6.9)	74
<b>Total Borrowing costs</b>	<b>(98.3)</b>	<b>(97.9)</b>	<b>-</b>
Interest Income	13.8	15.3	(10)
FX Gain and other	10.1	13.0	(22)
<b>Total Other Income</b>	<b>23.9</b>	<b>28.3</b>	<b>(16)</b>
Net Borrowing Costs – Continuing Business	(74.4)	(69.6)	(7)

Total borrowing costs were \$98.3 million, \$0.4 million higher compared with the prior year. This was primarily due to lower interest expense resulting from debt repayment after the sale of the wind farms in France (\$3.1 million) and amortisation of loan fees (\$5.1 million) offset by interest rate swap termination costs (\$8.6 million - an interest rate swap was called by a counterparty and terminated).

Interest rate swaps which can be terminated at the option of counterparties represent a small portion of Infigen's interest rate swaps. None of these are eligible for termination until the first half of FY14, and at 30 June 2011 they had a negative value of \$5.9 million.

Interest income and net foreign exchange gains provided a benefit of \$23.9 million, 16% or \$4.4 million lower than the prior year. This was primarily due to a lower average cash balance during the year and the appreciation of the AUD against the USD.

The net borrowing costs associated with discontinued businesses was \$9.7 million compared to \$11.2 million in the prior year.

## 2.13 Loss before Significant Items and Tax - \$35.0 million

Loss before Significant Items and Tax was \$35.0 million, \$1.6 million higher than the prior year.

The drivers for this result were lower EBIT and higher borrowing costs partially offset by a higher net contribution from US IEPs.

## 2.14 Significant Items and discontinued operations - \$35.0 million

Significant items resulted in losses of \$35.0 million this year - an adverse movement of \$6.4 million compared with the prior year.

Year ended (\$ million)	30 June 2011	30 June 2010	Change %
Loss on sale of disposal entities	(31.1)	(12.9)	(141)
(NLAT <sup>6</sup> ) / NPAT from discontinued operations	(3.9)	5.2	n/a
US transition costs	-	(9.7)	n/a
Asset sales process costs	-	(11.1)	n/a
<b>Total Significant Items</b>	<b>(35.0)</b>	<b>(28.5)</b>	<b>(23)</b>

Two items were recorded this year – the loss on the sale of Germany (\$31.1 million) and a net loss from the discontinued German business up to the time of disposal (\$3.9 million). The prior year included expenses related to the post-acquisition transition program for Infigen's US Asset Management business (\$9.7 million), expenses related to the potential sale of overseas assets (\$11.1 million) and aggregate net loss from the discontinued French business (sold during that period) and German business (\$7.7 million).

## 2.15 Income Tax benefit - \$9 million

Income Tax benefit was \$9.0 million - a favourable movement of \$21.5 million.

The tax benefit this year was primarily attributable to:

- lower unrecognised losses from overseas operations this year compared with last year due to a lower underlying tax loss of the US operations
- a benefit from unrealised foreign exchange movement due to the appreciation of the AUD against the USD and Euro; and
- the benefit was reduced by tax expense associated with the utilisation of tax losses following an asset sold into the tax group in the prior year for a capital gain.

## 2.16 Net Loss - \$61.0 million

Infigen Energy reported a Net Loss for the year of \$61.0 million, 18% or \$13.4 million lower than the prior year.

The result reflects a strong operational performance of the business in challenging market conditions together with a favourable tax benefit. These were offset by higher post warranty turbine O&M costs, higher borrowing costs as a result of interest rate swap termination costs, and the loss from the sale of the German wind farms.

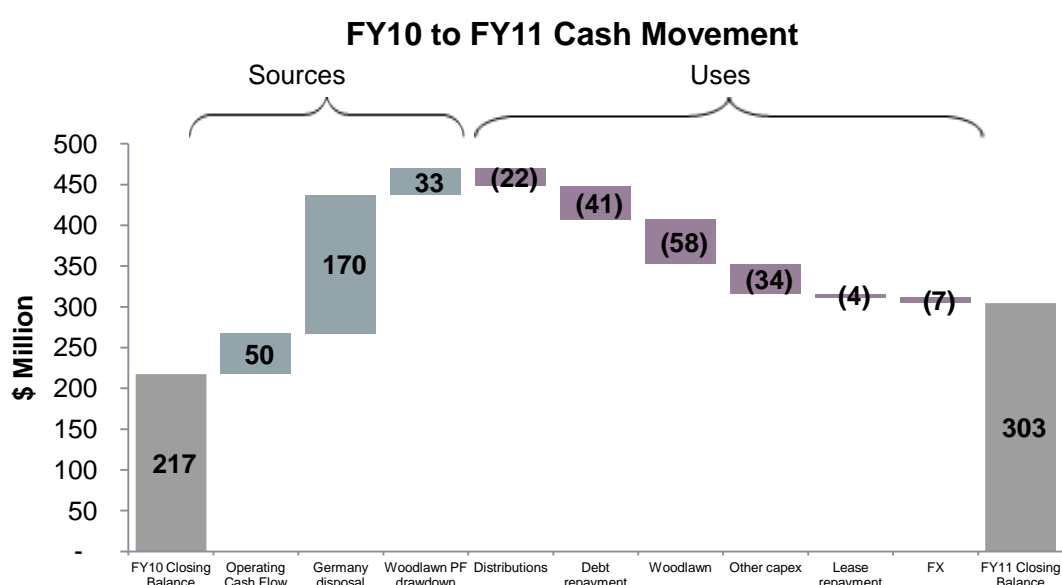
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<sup>6</sup> Net Loss After Tax

### 3 Cash Flow

#### 3.1 Cash movement

Cash at 30 June 2011 was \$303 million, 40% or \$86 million higher than 30 June 2010. The cash balance at 30 June 2011 comprises \$198 million held by entities within the Global Facility Borrower Group (Infigen’s borrowings comprise a multi-currency Global Facility secured by Infigen’s interests in all of the currently commissioned wind farms - ‘the Borrower Group’) with \$105 million held by entities outside of that group (‘Excluded companies’). The 30 June 2011 balance included \$154 million (€115 million) that was applied to repayment of Global Facility principal in early July 2011.



Cash inflow for the year comprises \$49.6 million of net operating cash flow, \$169.7 million proceeds from the sale of the German portfolio and \$32.7 million drawdown from the Woodlawn Wind Farm facility.

Cash outflows comprise \$85.6 million of capital expenditure (refer to Section 4), \$41.1 million for debt repayment (refer to Section 5), \$21.9 million payment of distributions (2 cps for FY10 final distribution and 1 cps for FY11 interim distribution), \$6.9 million due to the appreciation of the AUD, \$5.7 million in relation to the deferred final settlement of various outstanding items with the previous external manager and \$3.7 million of finance lease repayment.

The movement in cash held by the excluded companies is due to the net outflow for Woodlawn, distributions paid to securityholders, capitalised and expensed development costs, the deferred final settlement of various outstanding items with the previous external manager, and FX movements.

## 3.2 Operating Cash Flow

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

Year ended	30 June 2011	30 June 2010	Change %
EBITDA from operations <sup>7</sup>	182.9	194.2	(6)
Corporate & development costs & other	(21.6)	(22.8)	5
Movement in working capital & non cash items	(15.1)	21.8	n/a
Net financing costs and taxes paid	(88.0)	(89.8)	2
Termination of Interest rate swap	(8.6)	-	-
Transition Expense	-	(20.8)	100
Settlement of foreign exchange contracts	-	15.9	(100)
<b>Net Operating Cash Flow</b>	<b>49.6</b>	<b>98.5</b>	<b>(50)</b>
<b>Non-controlling interests</b>			
Distributions <sup>8</sup> paid (Class A & Class B)	17.6	14.7	20
Distributions paid (Class A)	(1.2)	(1.6)	25
Movement in working capital	(0.9)	-	100
<b>Operating Cash Flow (Statutory)</b>	<b>65.1</b>	<b>111.6</b>	<b>(42)</b>

Net operating cash flow after tax and financing costs was \$49.6 million for the year and was in line with expectations. Surplus operating cash flow was used to amortise debt under the Global Facility (refer to section 5 for more detail). The result was a significant turnaround from the first half of the year, where due to a number of one-off items and timing differences there was no principal repayment. This outcome was achieved despite challenging market conditions encountered during the year. There was a ten year low point in wholesale electricity prices in NSW and SA, weak electricity prices in the US, and depressed REC prices in Australia. A significant appreciation of the AUD against the USD materially affected the contribution from the US business measured in AUD terms.

Key operating cash flow movements for the year were net financing costs and taxes paid (\$88.0 million) and working capital outflows of \$15.1 million. The working capital movement reflects increased inventory (\$5.9 million), a decrease in payables (\$11 million) and net assets disposed in the German business (\$5.0 million). This was partially offset by a decrease in prepayments and other assets (\$6.5 million) and a net positive FX and other miscellaneous items effect (\$0.4 million).

In addition, during the first half of the year there was one-off cash outflow of \$8.6 million associated with the termination of an interest rate swap.

## 3.3 US Cash Distributions

Cash flows from the US business are split between the Class A and Class B members in accordance with their entitlements during the various stages of the wind farms' lives (see Appendix B for more detail). Cash flow allocated to Class A members during the period was \$1.2 million compared with \$1.6 million in the prior period. This relates to the Blue Canyon and Combine Hills wind farms where the Class A members will receive all net operating cash flow from the wind farms until

<sup>7</sup> Includes EBITDA from discontinued operations

<sup>8</sup> Distributions paid to institutional equity partners are classified as investing cash flows reflecting their treatment as debt-like instruments

their capital balances including agreed return, are fully amortised (refer to section 10.3 for Class A capital balances).

Infigen's Class B capital balances by portfolio are as follows:

<b>Economic Interest Class B Capital Balance (US\$ million)</b>			
<b>Asset Vintage</b>	<b>30 June 2011</b>	<b>30 June 2010</b>	<b>Change \$</b>
2003/2004	2.6	10.6	8.0
2005	17.7	36.2	18.5
2006	137.0	157.0	20.0
2007	113.5	153.6	40.1
<b>Total</b>	<b>270.8</b>	<b>357.4</b>	<b>86.6</b>

Class B capital balances are held at the limited liability company (LLC) level (refer to Section 10.3 for the relationship between wind farms, LLCs and asset vintage). Once Class B capital balances are fully repaid (cash flip point) or reach a fixed date, all operating cash flow from the related wind farm assets is allocated to Class A members until their capital balances are fully amortised.

Once the Class A members achieve their target return the cash flows are reallocated between the Class A and Class B members (as outlined in section 10.2).

The combined effect of the factors described above on Infigen's portfolio of 18 US wind farms is that the aggregate distributions to Infigen diminish as more projects reach the cash flip point and more operating cash flow is directed to reducing Class A capital balances. Infigen's aggregate distributions will 'dip' for a period until projects in the portfolio begin to reach their reallocation dates. For Infigen's portfolio, the cash flow dip is currently expected to be most pronounced from the second half of FY16 through to the first half of FY18. The timing and duration of the cash flow dip will be influenced by the performance of the US wind farms during the intervening period.

## 4 Capital Expenditure and Divestments

### 4.1 Capital Expenditure

Cash payment for capital expenditure was \$85.6 million, down 27% or \$31.2 million. This expenditure was required to complete the construction of projects that commenced in the prior financial year, to commence construction of the Woodlawn Wind Farm in Australia to preserve the value of the Australian development pipeline, and to secure bonus tariffs in Germany.

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

Year ended	30 June 2011	30 June 2010	Change %
Australia – Construction, Development & PP&E	80.6	106.2	(24)
US – PP&E	1.2	6.4	(82)
Germany – PP&E	3.8	4.2	(8)
<b>Total Capital Expenditure</b>	<b>85.6</b>	<b>116.8</b>	<b>(27)</b>
Acquisitions	5.7	31.2	(82)
<b>Total expenditure inc. acquisition</b>	<b>91.3</b>	<b>148.0</b>	<b>(38)</b>

Construction expenditure relates to the Woodlawn Wind Farm (\$58.2 million; \$36 million in FY10) and cash payments for the completion of the Capital and Lake Bonney 3 wind farms (\$10.8 million) which were accrued in FY10.

Net development expenditure in Australia (\$11.6 million) 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 and capital is available. The remainder of the pipeline will only incur expenditure necessary to keep the options viable for medium to longer term development.

In Australia and the US, PP&E relates to miscellaneous capital expenditure across the businesses on Information Technology, turbine components and balance of plant.

In Germany, capital expenditure relates to the installation of technology at a number of wind farms in order to secure legislated bonus tariffs.

Expenditure classified as acquisitions relates to the final settlement of various outstanding items with the previous external manager (\$5.7 million).

### 4.2 Divestments

On 29 June 2011 Infigen completed the sale of its portfolio of German wind energy assets to European Sustainable Power Fund 2, a renewable energy focussed fund for institutional investors managed by KGAL GmbH & Co. KG, a German asset manager.

The transaction was completed for an enterprise value of €154.6 million, which was subject to certain post-completion adjustments based on the cash and working capital in the German portfolio companies as at the completion date.

The sale price was materially above the final bid prices received in March 2010 when the portfolio was previously offered and exceeded market expectations during FY11. In addition to achieving value, the transaction results in considerable deleveraging and, in completing the disposal of the Group's wind farms in Europe, is a significant step in simplifying Infigen's business and enhancing focus on the substantial US and Australian businesses.

The majority of the sale proceeds were applied to debt repayment in early July 2011 resulting in Infigen amortising \$154 million of debt under Infigen's Global Facility. In addition to the Global Facility debt repayment, finance lease liabilities of €26 million (\$38.9 million) associated with the 36.5 MW Eifel Wind Farm remain in a company acquired by the purchaser and therefore cease to be liabilities of Infigen, thereby reducing Infigen's balance sheet indebtedness by a corresponding amount.

From an accounting perspective, Infigen recorded a net loss of \$31.1 million on sale of discontinued operations for the year ended 30 June 2011 in its statutory results.

This comprised:

- an underlying loss on disposal of \$16 million;
- foreign currency translation losses of \$3.4 million associated with the ownership of the German wind farms since their acquisition, reclassified from the foreign currency translation reserve to the statutory profit and loss account at 30 June 2011; and
- transaction costs and expected interest rate swap termination costs and taxes arising from the transaction of \$11.7 million.

The Euro sale proceeds were held on Infigen's balance sheet at 30 June 2011, with the vast majority held by the Infigen Borrower Group. Approximately €6.8 million was held by the excluded group of companies as a result of the sale of the Eifel wind farm entities which were outside the Borrower Group. In early July 2011, \$154 million held by the Borrower Group was applied to repayment of Infigen's debt facilities. The proceeds were applied in accordance with the Global Facility requirements resulting in repayment of A\$77.9 million, US\$57.4 million and €16.7 million.

At the time of sale, certification of three wind farms as qualifying for the bonus tariff under the German Renewable Energy Act (as a result of technology upgrades underway at those sites) had not yet been received. Infigen agreed to place a cash sum of €5.1 million in an escrow account as collateral for a potential reimbursement obligation relating to these certifications. All or part of these funds will be returned to Infigen where the conditions relating to the certification are satisfied by the statutory qualification deadline (currently 30 September 2011). It is expected that certification for all three wind farms will be obtained prior to the deadline.

## 5 Capital Management

### 5.1 Debt

Infigen's borrowings comprise a multi-currency Global Facility secured by Infigen's interests in all of the currently commissioned wind farms ('the Borrower Group') and a project finance facility which has recourse only to the Woodlawn Wind Farm which is currently being commissioned and not within the Borrower Group.

Total debt at 30 June 2011 was \$1,252 million with an average margin of 109 basis points.

#### 5.1.1 Global Facility

At 30 June 2011 the amounts outstanding under the Global Facility were \$1,220 million. The cash held by the Borrower Group was \$198 million resulting in the net debt of the Borrower Group being \$1,022 million. The Borrower Group applied \$154 million to repayment of the Global Facility in early July 2011.

The Global Facility is fully amortising, has no refinancing requirement and continues until December 2022. Subsequent to 30 June 2010 through to final repayment, all surplus cash flows of the Borrower Group, after taking account of permitted working capital requirements, are used to make repayments under the Global Facility on a semi-annual basis (Cash Sweep). The net disposal proceeds of asset sales from any Borrower Group entities must also be applied to make repayments under the Global Facility.

Infigen pays interest semi-annually based on Euribor, BBSY and LIBOR for its Euro, AUD and USD Global Facility borrowings respectively. The average margin on the Global Facility was 90 basis points for the year ended 30 June 2010. There is no material change in margin through the duration of the facility.

During the period of the Cash Sweep the only financial covenant that applies under the Global Facility is a leverage ratio covenant. The covenant is based on a look back of the results of each twelve month period ending 30 June and 31 December, and is as follows:

- Through June 2016: not more than 8.5 times;
- July 2016 to June 2019: not more than 6 times; and
- July 2019 to December 2022: not more than 3 times.

The leverage ratio is determined by taking the quotient of Net Debt to EBITDA of the Borrower Group. EBITDA represents the consolidated earnings of the Borrower Group entities before finance charges, unrealised gains or losses on financial instruments and material items of an unusual or non-recurring nature. In the US, this is represented by the cash distributions to Infigen from the wind farm entities during the period. Distributions to Infigen can vary materially from the US reported EBITDA depending on the life stage of each wind farm as discussed in Section 3.

Even prior to the sale of the German portfolio Infigen was tracking comfortably within its leverage ratio covenant under the Global Facility. Completing the sale of Germany resulted in the EBITDA of the German entities that were within the Borrower Group being excluded from the leverage ratio covenant calculation for 30 June 2011. The majority of the sale proceeds held on Infigen's balance sheet at 30 June 2011 were included in the calculation of net debt of the Borrower Group for the leverage ratio



covenant calculation. The overall effect of the sale of Germany was to add further headroom to the leverage ratio measure with the covenant being comfortably met for the year ended 30 June 2011. Infigen is confident that under reasonable operating and market assumptions it will continue to meet its leverage ratio covenant for the duration of the facility term.

### 5.1.2 Project finance

On 10 June 2011 the first drawdown under the Woodlawn Wind Farm project finance agreement took place. The facility is provided by Westpac Banking Corporation and the facility limit at financial close was \$55 million. This is understood to be the first project finance facility for a merchant wind farm in Australia. The size of the facility may be increased subject to securing a suitable off-take agreement. At 30 June 2011 \$32.7 million was drawn under the facility with the balance of the facility sufficient to meet outstanding capital expenditure at Woodlawn Wind Farm.

## 5.2 Net Debt

The net debt for the consolidated entity (economic interest) decreased from \$1,205 million at 30 June 2010 to \$949 million at 30 June 2011. The net movement of \$256 million was primarily due to the value achieved from the sale of the German portfolio, the benefit of strong appreciation of the AUD against the USD and Euro, and strong cash flow from operations in the second half of 2011. The factors contributing to movement are as follows:

- sale of the German portfolio (+\$204.9 million),
- net operating cash flow (+\$49.6 million),
- unrealised FX benefit (+\$116.1 million),
- capital expenditure (-\$85.6 million),
- payment of distributions (-\$21.9 million),
- final settlement of various outstanding items with the Babcock & Brown International group (-\$5.7 million), and
- Distributions to Class A tax equity members (-\$1.2 million).

## 5.3 Equity

Total equity decreased 11% from \$722 million at 30 June 2010 to \$641 million at 30 June 2011. The decrease of \$81 million is attributable to:

- the net loss for the period, including loss on sale of Germany (-\$61 million),
- a change in the fair value of cash flow hedges (+\$46.6 million),
- exchange difference on the translation of foreign operations and movement in fair value of net investment hedges (-\$45.5 million),
- equity contributions (from Distribution Reinvestment Plan) and net amortisation of share based payments (+\$1.6 million); and
- distributions (-\$22.9 million).

## 5.4 Gearing

The following table provides a comparison of Infigen's book gearing (economic interest) at 30 June 2010 and 30 June 2011. The change reflects the movements in net debt and equity described above.

As at	30 June 2011	30 June 2010	Change %
Net Debt	949	1,205	21
Total Equity	641	722	(11)
<b>Book Gearing</b>	<b>59.7%</b>	<b>62.5%</b>	<b>(2.8)ppts</b>
US IEP Tax Equity <sup>9</sup>	575	784	27
<b>Total Gearing</b>	<b>70.4%</b>	<b>73.4%</b>	<b>(3.0)ppts</b>

A balance sheet by currency is provided in Appendix A.

## 5.5 Share Capital

On 16 September 2010 Infigen issued 848,141 stapled 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. On 17 March 2011 Infigen issued 1,043,403 stapled securities under the Distribution Reinvestment Plan ("DRP") at a price of \$0.34 cents per security in relation to the payment of the interim distribution for the year ended 30 June 2011.

At 30 June 2011 Infigen had 762,265,972 issued stapled securities compared with 760,374,428 issued stapled securities at 30 June 2010.

As at	30 June 2011	30 June 2010	Change
<b>Securities on issue</b>	<b>762,265,972</b>	<b>760,374,428</b>	<b>1,891,544</b>
Weighted average – year ended	30 June 2011	30 June 2010	Change
<b>Securities on issue</b>	<b>761,341,479</b>	<b>799,846,719</b>	<b>(38,505,240)</b>

<sup>9</sup> Refer to Appendix B

## **6 Risk Management**

### **6.1 General**

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

### **6.2 Asset Management Risks**

The following risks are inherent in the management of renewable energy assets during their lifecycle:

- Sovereign Risk – A state or nation changes the existing regulatory or policy frameworks to the detriment of current and future assets;
- Public Attitudes – Acceptance of the visual, acoustic and environmental impact of renewable energy assets may change, thus affecting the location, number and operation of future renewable energy assets in any given area;
- Development Risk – Poor inherent design or the adoption of characteristics (fuel source, technology, supply chain, connection arrangements) may lead to systemic underperformance of assets over time;
- Construction Risk – Risk that quality, cost and/or timeliness of creating and commissioning new assets do not meet the investment case expectations or create commercial or reputational issues;
- Fuel Risk – The risk that fuel sources vary from the expected long term energy production forecasts, leading to variability in actual energy yield;
- Technology Risk – The risk that plant underperforms availability and/or output expectations, and/or components fail at higher rates than expected leading to lower reliability and higher maintenance costs;
- Operating and Maintenance Risks – The risks inherent in operating physical assets within a diverse range of (sometimes remote) geographies that are exposed to a variety of extreme environmental conditions; and
- Transmission and Connection Risks – The risks of being dependent on a shared network infrastructure (operated by external parties) which may not be available or may constrain an assets ability to deliver electricity.

Additional risks inherent in operating Infigen's business include:

- Price Risk
- Interest Rate Risk
- Foreign Exchange Risk

The key risks identified above are discussed in more detail below.

### **6.3 Fuel Risk**

In relation to wind farms, independent expert advisers have made electricity production forecasts on the basis of long term average levels (P50) of wind resource.

Fluctuations in the level of wind occur on a short term basis (hourly, daily, monthly and seasonal variations) and a long term basis (variations associated with El Nino

and La Nina weather patterns and long duration severe weather events such as droughts). The fluctuations in the wind (positively or negatively) around the long term mean (P50) affects the amount of electricity and environmental products produced.

Infigen Energy closely monitors wind availability at all of its sites and provides annual production guidance acknowledging the inherent variability of its fuel source.

#### **6.4 Operating and Maintenance Risk**

The availability and performance of wind turbines and other equipment to specification is essential for projected revenues and returns to be achieved. Wind turbines and associated equipment require routine maintenance in order to continue to function properly and preserve long term plant reliability.

Assets are exposed to numerous external risks including the impact of *force majeure* events, plant breakdowns, electricity network and other utility service failures, and other unanticipated events. Furthermore, there is a range of internal risks including equipment failure, non-performance to specification, accidents, and turbine damage by third parties.

The cost of repairing or replacing damaged assets may be considerable, while repeated or prolonged interruption may result in termination of contracts, substantial litigation and damages or penalties for regulatory or contractual non-compliance, reduced cash flows and increased funding costs. This latter scenario is considered to be a lower risk.

Whilst Infigen retains appropriate insurance coverage for a variety of events, if the maintenance expenditure is different from the forecast level, cash flows and operating returns may affect the long run returns on investment.

#### **6.5 Price Risk**

Infigen's Energy Markets function was established to manage electricity market risks associated with the merchant wind farms and to optimise revenue. This function incorporates the following roles:

- Operational - ensuring that wind farms are scheduled and dispatched to generate maximum revenue;
- 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 disciplined approach to contracting electricity and RECs driven by sustainable long term price levels rather than short term cyclical spot market trends. Infigen's Energy Markets function plays a key role in determining and implementing strategy in relation to electricity and REC sales, and REC inventory management, having regard to the financial objectives of the Group.

##### **6.5.1 Electricity**

In the electricity market Infigen assesses its risk by reference to potential earnings and balance sheet exposures arising from the characteristics of variable generation output. Infigen undertakes various contracting arrangements within policy limits to minimise extreme price and volume event risks. This includes prudent hedging but excludes any principal trading.

## 6.5.2 Environmental Products

In the risk context, Infigen's primary Australian exposure is to the Federal Government's Renewable Energy Target (RET) legislation. Of Infigen's five operational wind farms, 58-64% of annual P50 production is currently contracted under medium to long term contracts. At 30 June 2011 Infigen retained a REC inventory of approximately 244,000 RECs with a book value of \$8.8 million. A small balance of Infigen's environmental certificate inventory relates to NSW greenhouse gas abatement certificates.

In the first half of the year, merchant REC prices remained at depressed levels due to an oversupply of small scale scheme RECs and limited activity in the market during the NSW electricity privatisation program. A decision to retain 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 should correct in the medium term. In the second half of the financial year Infigen sold all RECs held at 31 December 2010 at materially higher prices than could have been achieved had they been sold as they were produced in the first half of the financial year. This resulted in \$2.1 million of additional revenue.

In the US Infigen also generates RECs at all of its wind farms. Under the majority of its Power Purchase Agreements (PPAs) these are sold to the off-taker as part of a bundled contract price. At its merchant plants Infigen sells its RECs as they are created at market prices typically ranging from US\$0.90 to US\$1.50 per REC.

## 6.6 Interest Rate Risk

Infigen's borrowings comprise a multi-currency Global Facility secured by Infigen's interests in all of the currently commissioned wind farms and a project finance facility which has recourse to the Woodlawn Wind Farm currently being commissioned.

At 30 June 2011 the margin across all facilities was 109 basis points and Infigen had hedged 83% of its total debt with interest rate swaps whose maturities are broadly matched to its projected debt amortisation profile.

The average effective interest rate pre-margin on all Infigen's borrowings was 5.61% compared to 5.70% in the prior year.

## 6.7 Foreign Exchange Risk

Infigen has wind farm operations in Australia and the US and generates AUD and USD revenue from these operations. Infigen is exposed to fluctuation of the AUD against the USD as it would affect the value of AUD equivalent revenue from its US wind farm operations.

Infigen has a multi-currency debt facility and aims to ensure that the majority of its debt and expenses are denominated in the same currency as the associated revenues and investments.

Under the Global Facility Infigen has a residual EUR debt position from its previous investments in Spain, France and Germany. Following the sale of the German assets in June 2011 there is €116 million (€133 million at 30 June 2011) debt which is no longer offset with any operational EUR denominated assets. Infigen is therefore exposed to a fluctuation in value of AUD versus the EUR which would affect the AUD

equivalent value of its EUR debt and the AUD equivalent cost of EUR interest expense.

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.

<b>Statement of financial position</b>			
<b>As at</b>	<b>30 June 2011</b>	<b>30 June 2010</b>	<b>Change %</b>
<b>USD</b>	1.0609	0.8523	24
<b>Euro</b>	0.7367	0.6976	6
<b>Statement of comprehensive income</b>			
<b>Year ended</b>	<b>30 June 2011</b>	<b>30 June 2010</b>	<b>Change %</b>
<b>USD</b>	0.9864	0.8747	13
<b>Euro</b>	0.7237	0.6292	15

Refer to Appendix A for Infigen's balance sheet by currency.

## 7 Operational Performance Review

Year ended (A\$M) unless stated otherwise	30 June 2011	30 June 2010	Change	Change %
Safety (LTIFR)	3.4	12.0	(8.6)	(72)
Operating Capacity (MW)	1,597	1,558	39	3
Capacity Factor	33.5%	30.0%	3.5 ppts	
Turbine Availability	96.1%	94.6%	1.5 ppts	
Site Availability	95.5%	94.2%	1.3 ppts	
Production (GWh)	4,667	4,087	580	14
Revenue (\$m)	267.6	263.8	3.8	1
Operating Costs (\$m)	100.5	92.0	8.5	9
Operating EBITDA (\$m)	167.1	171.8	(4.7)	(3)
Operating EBITDA margin	62.4%	65.1%	(2.7) ppts	

### Safety

Infigen's first priority is the safety of our people and the communities in which we operate. Our goal is zero lost time incidents and injuries. Infigen's safety performance as measured on a rolling 12 month lost time injury frequency rate (LTIFR) has substantially improved in the last year. While this reduction is pleasing we will still strive to meet our goal of zero harm.

### 7.1 Overview

Infigen has an operating capacity of 1,597 MW (equity interest) across Australia and the US comprising 23 wind farms. In Australia Infigen is completing the commissioning of its 48.3 MW Woodlawn Wind Farm which is expected to be fully operational by the end of calendar year 2011.

Average site availability improved to 95.5% across the business as a result of a focus on reducing downtime by improving incident response times and diagnosis capability, and improved supply chain response times. Improvements are being made in arranging scheduled maintenance around low wind or low price periods.

#### 7.1.1 Production

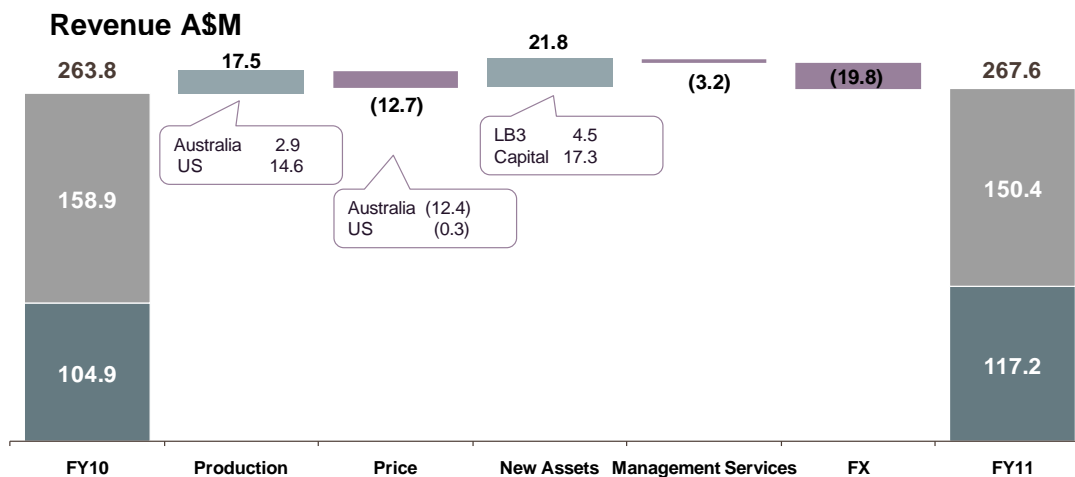
Production for the year increased 14% or 580 GWh to 4,667 GWh reflecting increased contributions from Capital Wind Farm (commenced operation in October 2009) and Lake Bonney 3 Wind Farm (commenced operation in early July 2010) in Australia (+213 GWh), improved availability in Australia, and improved wind conditions in both the US and Australia (+367 GWh).

#### 7.1.2 Revenue

Revenue increased 1% to \$267.6 million. In Australia, revenue benefited from full year contributions from assets that were completed during the 2010 financial year, improved wind conditions and wind farm availability and a high price event in February 2011. This was partially offset by lower average merchant electricity prices

and an increase in negative price events compared with the prior year, particularly in SA. In the US, revenue benefited from higher production due to improved wind conditions and wind farm availability which was more than offset by the appreciation of the AUD against the USD.

### FY10 to FY11 Revenue Movement



#### 7.1.3 Operating costs

Total operating costs increased 9% to \$100.5 million. In Australia, operating cost increases were primarily as a result of full year costs from new assets, contracted step-ups in O&M rates at Lake Bonney 2 and smaller increases in scheduled and unscheduled turbine maintenance. The Energy Markets function, which maximises Infigen's revenue in Australia, also added to costs this year. In the US, operating cost increases were largely driven by component failures and associated unscheduled turbine maintenance as the portfolio moves increasingly into a post warranty environment.

Original Equipment Manufacturer (OEM) warranty period turbine O&M costs are typically fixed (although a few wind farms have contracted step-ups in cost over the term of the agreement). During the site and turbine OEM warranty period, turbine scheduled and unscheduled maintenance as well as maintenance of the Balance of Plant (BOP) is undertaken by the turbine manufacturer. Hence, the risk of unscheduled maintenance, including component failures is carried by the OEM. Once the warranty period expires, cost increases for turbine maintenance are expected. Turbine components wear with increased operating time.

Given the rapid growth of the industry and the continued evolution of turbine technology and size, a period of operating experience is necessary to establish component failure rates. These rates 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. Predictive and preventative maintenance practices have been increasingly implemented to increase mean time between failures.

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



Post warranty turbine contract negotiations and early indications of component replacement costs resulted in an estimate that post warranty wind turbine O&M cost increases could be in the order of \$5-10/MWh. Throughout the year, particularly in the US, there has been increasing competition from third party component and service providers. In addition, Infigen’s US asset management business has been able to provide competitive tension for the provision of turbine maintenance services. These factors together with our improvements in preventative maintenance have resulted in current expectations trending towards the lower end of the estimate range over the medium term of the remaining asset lives.

Like most other comparable industries, it should be noted that there are varying degrees of competition depending on country, location, technology and installed capacity base. Consideration of these factors informs Infigen’s view that the positive effect of competitive tension in post warranty maintenance services is expected to be felt earlier in the US than in Australia.

The table below provides the profile of Infigen turbines under warranty on a weighted average rated capacity basis by financial year. Two wind farms in the US have post warranty operations and maintenance service contracts wherein the service provider retains all unscheduled service risk and associated cost. As these contracts create an effective extended warranty period they were included in the “under warranty” figures provided at the half year. However, these contracts were signed at competitive market prices and therefore already reflect a post warranty cost increase. In addition, during FY11 Infigen negotiated a warranty extension at another wind farm in the US at no additional cost. We have therefore restated the “percentage under warranty” figures to adjust for both of these factors.

FY	2010	2011	2012	2013	2014	2015
<b>% under warranty</b>						
<b>Australia</b>	92	74	69	70	40	21
<b>US</b>	86	54	27	6	1	-

#### 7.1.4 Operating EBITDA

Operating EBITDA for the year was \$167.1 million, down 3% or \$4.7 million compared to the prior year. This was due to the net revenue and cost movements described above.

Additional contributions from the 140.7 MW Capital Wind Farm and the 39 MW Lake Bonney 3 Wind Farm in Australia were offset by lower revenues from merchant plants due to low electricity and REC prices and contracted step up in warranty O&M costs together with higher post warranty O&M costs. In the US, increased production and revenues were partially offset by higher operating costs as the fleet moved from being 86% under warranty in FY10 to 54% under warranty in FY11 on a weighted average capacity basis. The significant appreciation of the AUD against the USD led to a year on year reduction in US operating EBITDA when translated into AUD.

## 7.2 US

Year ended	30 June 2011	30 June 2010	Change	Change %
Operating Capacity (MW)	1,089	1,089	-	-
Production (GWh)	3,332	2,950	382	13

Total Revenue (US\$M)	150.0	140.6	9.4	7
Operating EBITDA (US\$M)	81.4	76.6	4.8	6
Production Tax Credits (US\$M)	81.4	74.7	6.7	9

### US Wind Farms

Wind Farm Revenue (US\$M)	145.3	132.7	12.6	10
Wind Farm EBITDA (US\$M)	80.7	78.9	1.8	2
EBITDA Margin	55.5%	59.5%	(4.0) pts	n/a
Energy Price (\$/MWh)	43.61	44.98	(1.37)	(3)
Wind Farm Cost (\$/MWh)	19.39	18.24	(1.15)	(6)
<i>EBITDA margin inc PTCs</i>	<i>71.5%</i>	<i>74.7%</i>	<i>(3.2)pts</i>	<i>n/a</i>

### Management Services

Revenue (US\$M)	4.7	7.9	(3.2)	(41)
EBITDA (US\$M)	0.7	(2.3)	3.0	n/a

### Translation to AUD

Revenue (A\$M)	150.4	158.9	(8.5)	(5)
Operating EBITDA (A\$M)	81.1	87.0	(5.9)	(7)

The US business has continued transition into a post warranty environment with focus on enhancing value through the safe, efficient and compliant operations of the existing asset base. In addition to continued improvement in safety performance, the US business is executing programs for further improvement in predictive and preventive maintenance practices, supply chain management, maintenance management systems, inventory optimisation, and the development and capabilities of our workforce to maintain and improve operating cost competitiveness. The business has also invested in increased technical and commercial capabilities to improve plant availability, maximise revenues, develop alternative parts suppliers, manage regulatory risks, improve technician response times, and extend power purchase agreements.

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 first commercial operation. PTCs are worth US\$22 per MWh for the 2010 and 2011 calendar years and were US\$21 per MWh for the 2009 calendar year. Each wind farm is entitled to one PTC 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 B.

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 13% reflecting improved wind conditions and marginally improved turbine availability.

Revenue increased 7% to US\$150 million primarily reflecting increased production partially offset by a lower contribution from the Infigen Asset Management business (formerly known as Bluarc) and lower merchant electricity prices.

Total operating costs increased 7% or US\$4.6 million to US\$68.6 million resulting from higher component and unscheduled O&M costs partially offset by lower Infigen Asset Management costs.

Operating EBITDA for the entire US business increased 6% or US\$4.8 million to US\$81.4 million reflecting higher revenue from higher production and a return to profitability of the Infigen Asset Management business, partially offset by higher operating costs.

### 7.2.1 Production

Year ended	30 June 2011	30 June 2010	Change
Operating Capacity (MW)	1,089	1,089	-
Capacity Factor	35.1%	30.3%	4.8 ppts
Turbine Availability	96.4%	94.7%	1.7 ppts
Site Availability	94.5%	94.3%	0.2 ppts
Production (GWh)	3,332	2,950	382

Production increased 13% or 382 GWh to 3,332 GWh reflecting a general improvement in wind conditions. Production from all wind farms was above or similar to the prior year.

Production was in line with P50 estimates across most of the portfolio. Lower than P50 production most notably at the Mendota and GSG wind farms was more than offset by a stronger than P50 performance at the Kumeyaay, Caprock and Blue Canyon wind farms.

Average site availability of 94.5% was marginally above the prior year. Turbine availability of 96.4% exceeded both the prior year and the FY11 forecast.

Production (GWh)				
Asset Vintage	30 June 2011	30 June 2010	Change (GWh)	Change %
2003/2004	882	752	130	17
2005	452	373	79	21
2006	859	804	55	7
2007	1,139	1,021	118	12
<b>Total</b>	<b>3,332</b>	<b>2,950</b>	<b>382</b>	<b>13</b>

### 7.2.2 Price

The average electricity price realised was US\$43.62/MWh compared to US\$44.98/MWh in the prior year. This was due to lower realised electricity prices from merchant wind farms in the North East (PJM) and Texas (ERCOT) markets with average realised prices from those assets down approximately 13% and 30% respectively.

The average PJM and ERCOT market prices for the year are outlined below.

Period (US\$/MWh)	FY11	FY10	Change %
PJM	29.95	27.68	8
ERCOT	25.60	29.54	(13)

### 7.2.3 Wind Farm Revenue

Revenue increased 10% or US\$12.6 million to US\$145.3 million. This primarily reflected increased production (+US\$13.3 million) partially offset by lower merchant electricity prices (-US\$0.7 million).

Revenue (US\$ million)				
Asset Vintage	30 June 2011	30 June 2010	Change (GWh)	Change %
2003/2004	29.3	25.2	4.1	16
2005	18.9	15.0	3.9	26
2006	45.9	45.4	0.5	1
2007	51.3	47.1	4.2	9
<b>Total</b>	<b>145.3</b>	<b>132.7</b>	<b>12.7</b>	<b>10</b>

### 7.2.4 Wind Farm Operating Costs

Wind farm operating costs increased 20% or US\$10.8 million to US\$64.6 million. This primarily reflects

- an increase in costs from turbine unscheduled O&M and component failure as wind farms come off warranty (including higher costs from the Infigen Asset Management business as below market contracts rolled off);
- higher asset management costs as the business improves its commercial, technical and engineering capability (including costs associated with ensuring mandatory certification of operations control staff as a result of new regulatory requirements); and
- an increase in other direct costs primarily due to higher land rent and royalty costs reflecting increased production and inflation.

## Operating and Maintenance Costs

Year ended (US\$M)	30 June 2011	30 June 2010	Change	Change %
<b>Asset Management</b>	9.7	7.6	2.1	28
<b>Turbine O&amp;M</b>	29.7	23.8	5.9	25
<b>Balance of Plant</b>	6.8	6.1	0.7	11
<b>Other Direct Costs</b>	18.4	16.3	2.1	13
<b>Total Wind Farm Costs</b>	<b>64.6</b>	<b>53.8</b>	<b>10.8</b>	<b>20</b>
<i>Wind farm operating costs US\$/MWh</i>	19.39	18.25	1.14	6

Wind farm O&M costs on a per megawatt-hour basis increased 6% or US\$1.14/MWh to US\$19.39/MWh reflecting higher costs associated with a higher proportion of wind farms off warranty (refer to section 7.1.3) and higher asset management costs.

### 7.2.5 Infigen Asset Management Revenue and Costs

Year ended (US\$M)	30 June 2011	30 June 2010	Change	Change %
Revenue	4.7	7.9	(3.2)	(41)
Costs	4.0	10.2	(6.2)	(61)
<b>EBITDA</b>	<b>0.7</b>	<b>(2.3)</b>	<b>3.0</b>	<b>n/a</b>

The Infigen Asset Management business was rebranded and refocused with the repositioning completed in March 2011. Certain legacy loss leading contracts rolled off during the period and these were recontracted at market prices. The Infigen Asset Management business costs were reduced to an optimal level to support existing contracts while the business continued to provide competitive tension in the post warranty O&M service market.

Revenue from Infigen Asset Management operations was US\$4.7 million compared with US\$7.9 million in the prior year. The US\$3.2 million reduction reflects the rationalisation of operations because four third party wind farms were not recontracted by Infigen Asset Management for FY11.

Operating costs associated with the Infigen Asset Management business decreased 61% from US\$10.2 million to US\$4.0 million. The prior year included US\$3.1 million of non-recoverable costs associated with providing asset management services to certain third parties and Infigen's US wind farms under legacy contracts together with a number of non-recurring items related to integrating the business (US\$0.5 million). Cost savings were achieved this year through transitioning higher cost contractors to full time employment positions (US\$1.5 million) and incremental savings in business as usual controllable costs (US\$1.1 million).

### 7.2.6 Operating EBITDA

Operating EBITDA for the entire US business increased 6% or US\$4.8 million to US\$81.4 million reflecting higher revenue from higher production, the return to profitability of the Infigen Asset Management business partially offset by higher operating costs.

Operating EBITDA from the US wind farms of US\$80.7 million was 2% or US\$1.8 million higher than the prior year reflecting higher revenues from a return to P50 wind conditions partially offset by higher operating costs.

The Infigen Asset Management business contributed EBITDA of US\$0.7 million compared with a loss of US\$2.3 million in the prior year. Action taken to address the higher cost base and sub-economic contracts in the prior year contributed to this favourable result. It is expected that future EBITDA contributions by the Infigen Asset Management business will be modest.

EBITDA Margins Year ended	30 June 2011	30 June 2010	Change ppts
Wind Farm	55.5%	59.5%	(4)
Wind Farm & PTC	71.5%	74.7%	(3.2)

EBITDA margin from the wind farms was 55.5% compared with 59.5% in the prior year. This primarily reflected higher unit operating costs associated with component failures and related unscheduled maintenance costs in a post warranty environment, and to a lesser extent lower merchant electricity prices.

EBITDA margins including PTCs also reduced to 71.5% for the reasons described above.

#### 7.2.7 Depreciation and Amortisation

Depreciation and amortisation increased 3% or US\$2.1 million to US\$80.5 million. Infigen depreciates its US wind farms and associated plant using the straight line method over 25 years reflecting their useful lives.

### 7.3 Australia

Year ended (\$M) unless stated otherwise	30 June 2011	30 June 2010	Change	Change %
Operating Capacity (MW)	508	469	39	8
Production (GWh)	1,335	1,137	198	17
Revenue	117.2	104.9	12.3	12
Operating EBITDA	86.0	84.8	1.2	1
Operating EBITDA margin (%)	73.4	80.8	(7.4) pts	n/a
Average Price (A\$/MWh)	87.80	92.26	(4.46)	(5)
Operating Cost (A\$/MWh)	23.37	17.68	5.69	32

The transition of the Australian business into a post warranty operating environment is now well underway. This transition coupled with increased merchant exposure has required operations, dispatch, maintenance management and energy markets functions to be internalised and/or developed in-house over the past two years. The Australian business now directly manages the reliability of plant through predictive and preventative maintenance strategies, optimal scheduling of maintenance activities, and efficient supply chain management – functions previously carried out by OEMs. The business has invested in people and system capabilities to manage these functions through a 24 x 7 Operations Control Centre (OCC), energy markets risk management systems, and asset management and maintenance systems.

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

Infigen sells the output from these wind farms through 'run of plant' Power Purchase Agreements (PPAs) and REC sales agreements, and on a merchant basis (wholesale electricity and REC markets). Output from the Lake Bonney 1 and Alinta wind farms is sold under contract. The majority of the capacity of the Capital Wind Farm is contracted to meet demand from the Sydney Desalination Plant under long term sales agreements, while a small component of the output is sold on a merchant basis. 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 agreements.

Operating capacity in Australia increased 8% reflecting the addition of the Lake Bonney 3 Wind Farm in SA that was commissioned in July 2010. On a time weighted average basis, operating capacity increased 20% as the prior year included an eight month contribution from the Capital Wind Farm. Production and revenue increased 17% and 12% respectively reflecting an additional four months contribution from the Capital Wind Farm which was commissioning during the prior year, the new Lake Bonney 3 Wind Farm and improved site availability across the portfolio. Revenue was negatively affected by continuing low merchant electricity and REC prices. SA electricity prices were particularly affected by an increase in negative price events associated with increased wind penetration and network constraints in that state. Infigen controls the output of its merchant wind farms in SA to avoid negative price events, but there is an associated reduction in production.

Operating EBITDA increased 1% or \$1.2 million to \$86 million reflecting higher revenue from increased capacity and improved wind conditions partially offset by lower merchant electricity prices, lower average spot REC prices and increased operating costs.

Construction continued at the Woodlawn Wind Farm with the first turbine successfully exporting electricity to the grid in mid June 2011 as part of the early commissioning testing procedures. In accordance with the accounting policy revenue from turbines is recorded as an offset against the capital account until they have formally passed reliability testing. The wind farm 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 readiness for improved market and investment conditions. Planning approval was received for the Capital, Nyngan and Manildra solar farms proposed by a joint venture between Infigen and Suntech Power (NYSE: STP) for the purpose of a short-listed bid under Round 1 of the Commonwealth Government's Solar Flagships Program. While that bid was not selected for funding under Round 1, those projects are well advanced and continue to be readied in anticipation of future funding opportunities. These opportunities will continue to enhance our solar PV project development capability.

### 7.3.1 Production

Year ended	30 June 2011	30 June 2010	Change
Operating Capacity (MW)	508	469	39
Capacity Factor	30.1%	29.3%	0.8 ppts
Turbine Availability	97.4%	94.5%	2.9 ppts
Site Availability	97.3%	94.2%	3.1 ppts
Production (GWh)	1,335	1,137	198

Production increased 17% or 198 GWh to 1,335 GWh reflecting an increased contribution from the Capital Wind Farm (+84 GWh), a full period contribution from the Lake Bonney 3 Wind Farm (+75 GWh) and improved availability across the portfolio (+56 GWh) partially offset by network constraints (-17 GWh) in SA at Lake Bonney.

Network constraints are driven from the limitations of the distribution network, from which Infigen has to follow instructions and receives no compensation. Economic curtailments are when Infigen exercises discretions not to run the wind farms in seeking to avoid negative prices for the merchant plants.

The year has seen wind conditions remain below P50 across all sites except Lake Bonney 3. It is anticipated that wind conditions will improve further in FY12 and return to P50 in FY13.

Average site availability improved to 97.3% compared with 94.2% in the prior year, which was impacted by a Lake Bonney 2 gearbox replacement program undertaken while under warranty during the first half of FY10.



### 7.3.2 Prices

In SA and NSW average monthly spot electricity prices were 16% and 42% lower than the prior year respectively. The ten year average prices to 30 June 2011 in SA and NSW were \$39.68/MWh and \$43.44/MWh respectively. The table below outlines the average monthly spot electricity prices for SA and NSW.

Period (\$/MWh)	FY11	FY10	10 Year Average
SA	37.43	44.33	39.68
NSW	32.49	56.11	43.44

Average spot prices in Australia can be significantly influenced by short term extreme price events. Wholesale electricity spot prices can vary between the market price floor of -\$1,000/MWh and the market price cap of \$12,500/MWh.

In SA, there were several extreme price events during the year. Where possible during periods of negative price events, Infigen will not dispatch its wind farms (economic curtailment) and thus pre-emptively avoids having to pay the market to generate. In SA there was a weak correlation between high price events and wind conditions in FY11 and thus Infigen did not have the opportunity to benefit from these events.

On average there are 12 price events a year where the national electricity market experiences prices over \$700 per MWh. As NSW is a net importer of electricity, high price events in other states can also have a significant bearing on the electricity price in NSW during those events. In NSW there was a positive correlation between high price events and wind conditions in FY11. In particular, Infigen benefited from high price events resulting in a net revenue gain of approximately \$1.4 million over one week in February 2011.

The average monthly REC price for the year was \$35.30/REC compared with \$38.00/REC in the prior year. The REC price at 30 June 2011 was \$39.60 compared to \$39.10 at 30 June 2010.

Despite disappointing market conditions, Infigen's weighted average portfolio bundled (electricity and RECs) price was only 5% lower at \$87.80/MWh compared with \$92.26/MWh in the prior year, reflecting the hedging effect from contracted assets, and the full period contribution from the 140.7 MW Capital Wind Farm which accounts for almost 30% of portfolio generation and has most of its production contracted at a higher price than the portfolio average.

### 7.3.3 Revenue

During the first half of the financial year, there was a voluntary change to the manner in which Infigen recognises revenue in relation to RECs that are not sold pursuant to PPAs. The prior year has been restated to reflect this policy change in the comparative information.

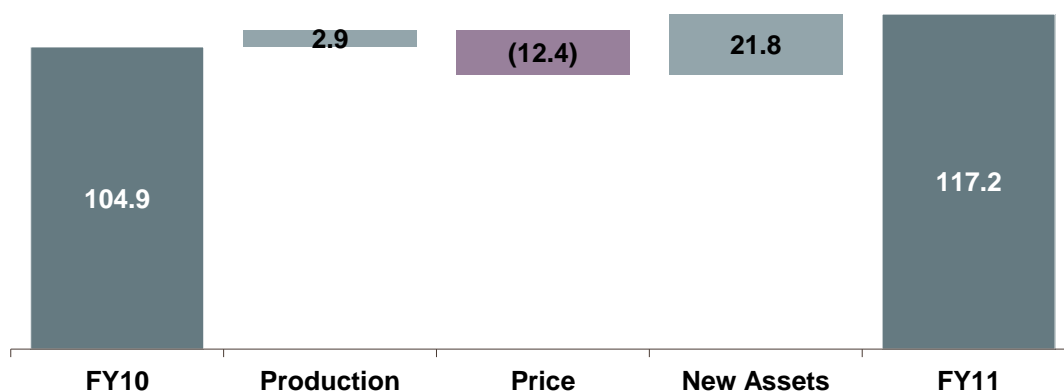
Revenue increased 12% or \$12.3 million to \$117.2 million reflecting increased production from new assets, improved site availability and higher weighted average prices from contracted production. This was partially offset by lower revenue from merchant generation and lower average REC prices.

At 30 June 2011 Infigen held approximately 244,000 RECs with a book value of \$8.8 million. The average book value was \$36.05 per REC compared with a closing market price of \$39.60 per REC at 30 June 2011. These RECs were recognised in revenue at the prevailing market price in the month in which they were created and contributed \$8.8 million to revenue for the year.

Infigen capitalises the revenue earned by each turbine at the Woodlawn Wind Farm during its commissioning phase. On a turbine by turbine basis, as reliability tests are passed, earnings commence being treated as revenue in the income statement. Of the \$0.5 million earned during the year only \$27,000 (attributable to three turbines which had passed reliability tests), was accounted for in revenue, with the remainder offset against the capital account. All turbines are expected to pass reliability tests by September 2011 with Practical Completion expected later in the year.

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

**Australian Revenue Movement FY10 to FY11 (\$ Million)**



#### 7.3.4 Operating Costs

Total operating costs increased 55% or \$11.1 million reflecting costs associated with a substantial increase in capacity (Lake Bonney 3 and Capital, \$3.8m), contracted step ups in long term O&M contracts (Lake Bonney 2, \$1.4m), higher post warranty operating costs for Lake Bonney 1 and Alinta wind farms (\$1.6 million) and new asset management capabilities (\$1.8m). Energy markets costs increased (\$2.5 million) reflecting the full year cost and increased activity more than offset by the related revenue benefit.

Wind farm operating costs increased 43% or \$8.6 million to \$28.5 million reflecting:

- full year of costs from the addition of the Lake Bonney 3 Wind Farm in FY11;
- full year of costs for the Capital Wind Farm compared to a partial year in FY10;
- contracted step up in warranty period O&M costs at the Lake Bonney 2 Wind Farm;
- investment in capability for the future; and
- increased maintenance costs for the Lake Bonney 1 Wind Farm (from 1 April 2010) and Alinta Wind Farm (from 1 January 2011) following the expiration of the original warranty periods.

## Operating and Maintenance Costs

Year ended (A\$M)	30 June 2011	30 June 2010	Change	Change %
<b>Asset Management</b>	6.8	5.4	1.4	26
<b>Turbine O&amp;M</b>	14.3	9.1	5.2	57
<b>Balance of Plant</b>	0.4	0.4	-	-
<b>Other Direct Costs</b>	6.9	5.0	1.9	38
<b>Total Wind Farm Costs</b>	<b>28.5</b>	<b>19.9</b>	<b>8.6</b>	<b>43</b>
<i>Wind farm operating costs \$/MWh</i>	21.34	17.54	3.80	22
Energy Markets	2.7	0.2	2.5	1,250
<b>Total Operating Costs</b>	<b>31.2</b>	<b>20.1</b>	<b>11.1</b>	<b>55</b>
<i>Total operating costs \$/MWh</i>	23.35	17.68	5.67	32

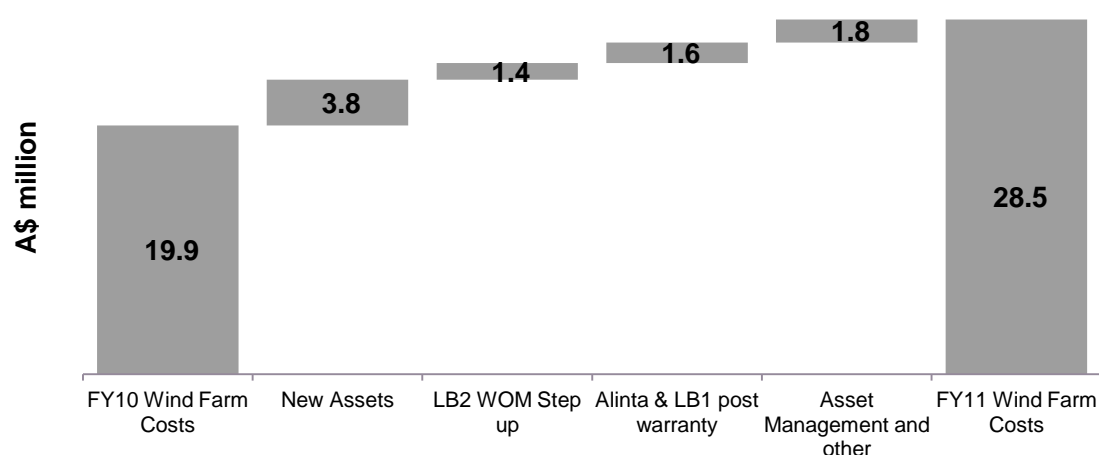
Wind farm operating costs on a per megawatt-hour basis increased 22% or \$3.80/MWh to \$21.34/MWh (excludes Energy Markets costs).

This primarily reflects:

- higher asset management costs from taking operational control of Alinta and Lake Bonney 1 wind farms, including the implementation of an Operations and Control Centre (OCC) monitoring and dispatching plant 24 x 7,
- an increase in O&M costs (including component replacement costs) related to assets that have come out of warranty during the year, a contracted step up in warranty period O&M costs (\$1.6 million) at the Lake Bonney 2 Wind Farm (still under warranty), and
- higher rent and royalty expenses at Lake Bonney 1 and 2 (the prior year included adjustments in relation to earlier years).

The wind farm operating cost outcome was below the expected range of \$23.30 to \$24.80/MWh due to response strategies driving reliability of the plant and lower component part failure rates than forecast.

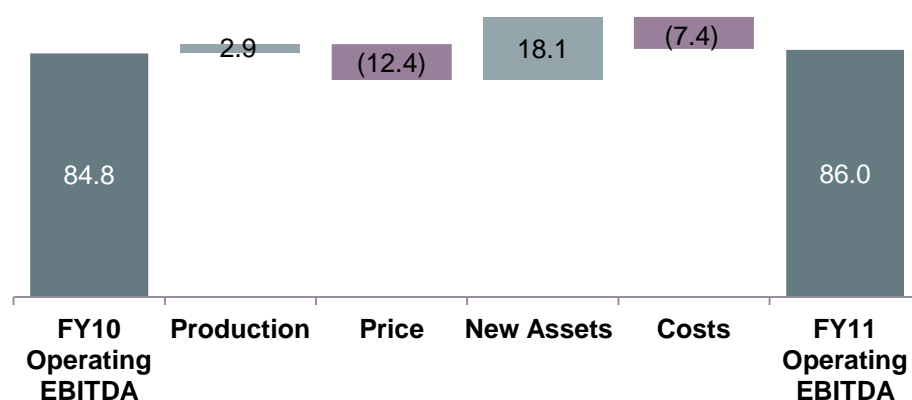
### Australian Operating Cost Movement FY10 to FY11 (A\$ Million)



### 7.3.5 Operating EBITDA

Operating EBITDA increased 1% or \$1.2 million to \$86 million reflecting increased production, offset by lower merchant electricity and REC prices and increased operating costs.

EBITDA margin for the period was 73.4% compared with 80.8%. The lower margin primarily reflects lower revenues driven by historically low wholesale electricity prices and continuing lower average REC prices and to a lesser extent higher operating costs due to factors described above.



### 7.3.6 Depreciation and Amortisation

Depreciation and amortisation increased 24% or \$9.0 million to \$46.5 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.

### 7.3.7 Construction

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

In December 2010, Infigen announced that it had secured from Westpac a project finance facility for Woodlawn as a merchant plant, subject to satisfaction of usual conditions precedent. Those conditions were satisfied and initial drawdown under the facility took place in June 2011. The facility limit at financial close was \$55 million and \$32.7 million was drawn at 30 June 2011.

Infigen exported electricity generated from the first of the wind turbines in June 2011. On completion Woodlawn Wind Farm will provide enough renewable energy annually to power approximately 23,000 homes and assist in meeting New South Wales' growing electricity demand. The commissioning phase for the wind farm is continuing into the second half of the year with practical completion expected in the fourth quarter.

The project has created more than 150 direct jobs during construction and many more indirect jobs in Australia including the fabrication of towers, buildings, switch rooms and electrical equipment. Infigen has provided on-site apprentices with valuable work experience and the development has also benefited the local community through increased economic activity. The wind farm together with Infigen's existing wind farms will aid Australia's transition to a low carbon economy and contribute to Australia's commitment to reduce greenhouse gas emissions and achieve the goal of generating 20% of its electricity from renewable sources by 2020.

### 7.3.8 Development

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

A consortium of Infigen and Suntech Power submitted its proposal under the Commonwealth Government's Solar Flagships Program. The consortium's proposal was to develop 150 MW of solar photovoltaic (PV) farms across three sites in NSW subject to being the successful applicant. During the year all three solar farm sites received development approvals from the NSW Department of Planning. While the proposal was unsuccessful in the first round of the Solar Flagships Program, these and other available sites remain prospective, and Infigen will look at alternative opportunities to progress their development.

As the cost of solar PV continues to decrease and companies such as Infigen leverage their capabilities toward utility scale solar PV development, the opportunity for solar PV to play an important role in achieving Australia's goal of generating 20% of its electricity from renewable sources by 2020 will increase.

## 8 Outlook

Infigen begins the 2012 financial year (FY12) with the clear objective of building on the solid performance outcome in the challenging market conditions of the 2011 financial year (FY11) with continued focus on improving operational performance.

### Production

In FY12 production is expected to be maintained in the US and increase in Australia. In the US wind conditions returned to P50 in FY11 and we expect a continuation of P50 wind conditions and steady availability performance through FY12. In Australia an increase in capacity, as the Woodlawn wind farm reaches practical completion towards the end of the calendar year, a gradual return towards P50 production, and sustained availability improvements are expected to contribute to increased production through FY12.

### Price

The majority of Infigen's production in the US (86%) and Australia (58%) is contracted through FY12 and beyond at average prices above current market prices. The balance of the production is subject to wholesale electricity and REC prices which are expected to remain subdued in the US and Australia. The combined effect should result in the average portfolio price in each country being similar to that realised in FY11.

In the US ongoing growth in the shale gas industry and lower economic activity have lowered wholesale electricity prices over the last few years and these factors are expected to keep downward pressure on wholesale prices in the short term. Reduced new capacity investment and retirement of coal fired power stations are expected to tighten capacity reserves and lift prices in the medium term.

In Australia wholesale electricity market prices have improved gradually from the lows of the first half of FY11. A number of fundamental factors are still expected to result in subdued wholesale pricing for FY12 and the medium term.

In Queensland, gas fired generation output has increased significantly over the last 12 to 18 months due to an excess supply of fuel as coal seam gas producers ramp up production in preparation for an LNG export market from 2014.

Across the NEM water inflow into dams after the recent floods, together with weather patterns returning to mild La Nina conditions have also resulted in increased availability of hydro generation.

Fuel switching from electricity to gas (for cooking and heating) and a significant uptake of residential solar PV, solar hot water and heat pumps as a result of government incentives have all had the effect of reducing wholesale electricity demand. Furthermore, price elasticity is being observed as customer behaviour changes and consumption reduces in response to rising retail electricity prices (predominantly attributable to increasing network costs). The mild La Nina weather pattern is also contributing to lower demand during peak periods thereby limiting high price events in the market.

The REC market in Australia recovered somewhat through the second half of FY11 as legislative changes to the RET quarantined 90% of the target for utility scale generation and targets for future years were adjusted to absorb the surplus sooner. Despite many of the large liable companies taking advantage of the opportunity to

acquire and reserve significant portions of the REC surplus for future obligations, the current supply-demand imbalance may still lead to some short term price volatility. We expect REC prices to improve steadily in the medium term but remain around current levels through FY12.

Continued stability in RET policy is required to underpin investment and contracting decision making for the medium and long term.

### **Operating costs**

Post warranty cost increases are expected to continue to be managed within or below the forecast ranges in FY12 and for the medium term utilising response strategies including predictive and preventative maintenance and efficient supply chain management.

The US portfolio will have on average only 27% of capacity remaining under warranty in FY12. In Australia, the addition of the Woodlawn Wind Farm will slow the rate of decline of capacity under warranty, with an average of 69% under warranty in FY12.

As most wind farm operating costs are incurred irrespective of production levels the cost per megawatt-hour will be influenced by the final production outcome in any given year.

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:

- A full year contribution of the Woodlawn Wind Farm in the 2013 financial year;
- Opportunities arising from the development of solar PV sites;
- Increased diversification of channels to market including direct contracting with commercial and industrial customers;
- Commencement of a carbon price regime and improved wholesale electricity prices in Australia;
- Resolution of the supply-demand imbalance in the Australian REC market as excess RECs are absorbed; and
- Continuing initiatives to control post warranty O&M costs.

Infigen's solid performance in FY11 reflects the robustness of the business and its ability to withstand challenging market conditions. Infigen's view of intrinsic value of the business is materially higher than the current security price reflects.

Cash flows from Infigen's wind farms (excluding Woodlawn) remain subject to the cash sweep associated with Infigen's long-term, low interest margin Global Facility. Infigen remains on track to repay \$250 million of Global Facility borrowings across FY11 and FY12 and expects to continue to meet the leverage ratio covenant test in FY12. Infigen regularly tests its forecast compliance with the leverage ratio covenant through the life of the facility, including giving consideration to the potential for year on year variances and a range of sensitivities to affect covenant compliance. The Board is confident that under reasonable operating and market assumptions Infigen will continue to meet its leverage ratio covenant for the duration of the facility term.

We will continue to consider bona fide opportunities to further simplify our 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 borrower entities.

In consideration of the production and price factors described earlier, Infigen expects FY12 production and revenue to be within the ranges outlined below.

**FY12 Production and Revenue Guidance**

Production (GWh)	FY11 (Actual)	FY12 (Estimate)
Australia	1,335	1,435 – 1,600
US	3,332	3,040 – 3,310
<b>Total</b>	<b>4,667</b>	<b>4,475 – 4,910</b>

Revenue (\$M)	FY11 (Actual)	FY12 (Estimate)
Australia (AUD)	117.2	121.0 – 142.0
US (USD)	150.0	138.0 – 153.0



## 9 Appendix A – Balance Sheet by Currency

AUD'million	30-Jun-11 IFN Statutory Interest	Less US Minority Interest	30-Jun-11 IFN Economic Interest	AUD	USD	EUR
Cash	304.9	1.6	303.3	136.5	25.7	141.0
Receivables	38.0	1.2	36.7	20.3	16.0	0.5
Inventory REC's	9.1	-	9.1	9.1	-	-
Prepayments	22.2	0.4	21.8	13.7	8.1	-
PPE	2,460.1	151.6	2,308.5	985.6	1,322.9	-
Goodwill & Intangibles	316.5	15.5	301.0	137.6	163.4	-
Deferred Tax Assets	95.7	-	95.7	86.2	-	9.5
Other Assets	2.4	-	2.4	2.4	-	-
<b>Total Assets</b>	<b>3,248.7</b>	<b>170.3</b>	<b>3,078.4</b>	<b>1,391.3</b>	<b>1,536.1</b>	<b>151.0</b>
Payables	47.7	3.2	44.5	12.7	24.4	7.4
Provisions	3.7	-	3.7	3.7	-	-
Borrowings	1,252.4	-	1,252.4	644.0	424.5	183.9
Tax Equity (US)	646.0	71.2	574.8	-	574.8	-
Class B Minority (US)	54.5	54.5	-	-	-	-
Deferred Revenue (US)	436.6	41.4	395.1	-	395.1	-
Deferred Tax Liabilities	65.5	-	65.5	65.5	-	-
Interest Rate Derivative	101.7	-	101.7	31.9	53.1	16.6
<b>Total Liabilities</b>	<b>2,607.9</b>	<b>170.3</b>	<b>2,437.7</b>	<b>757.7</b>	<b>1,472.0</b>	<b>207.9</b>
<b>Net Assets</b>	<b>640.8</b>	<b>-</b>	<b>640.8</b>	<b>633.6</b>	<b>64.1</b>	<b>(56.9)</b>

## 10 Appendix B - 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.

### 10.1 Funding

Each IEP is funded on a stand-alone, non-recourse basis for Class A and Class B members (Infigen is a Class B member).

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.

### 10.2 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 life 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 accumulate based on the outstanding Class A capital balance.

### 10.3 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:

Institutional Equity Partnership	Relevant Wind Farms	IFN Class B Interest	Proportion Consolidated (AIFRS)
<b>2003/2004 Portfolio</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 Portfolio</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 Portfolio</b>			
Babcock & Brown Wind Portfolio Holdings 1 LLC	Allegheny, Aragonne, Buena Vista, GSG, Mendota	100%	100%
<b>2007 Portfolio</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%

### 10.3.1 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 calculated by discounting future tax allocations and cash distributions using the effective interest method:
  - The effective interest rate that is used to calculate 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 i.e. 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 represent 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 Stage 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 distributions.

*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.

Economic Interest Class A Capital Balance US\$ million			
Asset Vintage	30 June 2011	30 June 2010	Change \$
2003/2004	81.1	91.5	(10.4)
2005	102.9	107.6	(4.7)
2006	170.1	177.8	(7.7)
2007	251.8	270.0	(18.2)
<b>Total</b>	<b>605.9</b>	<b>646.9</b>	<b>(41.0)</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);

**10.4 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

**10.5 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 leverage covenant.
- There is no exit mechanism for institutional investors and consequently there is no re-financing risk.

**10.6 Income and Financing Cost related to IEP (USD):**

<b>Year ended (US\$ million)</b>	<b>30 June 2011</b>	<b>30 June 2010</b>	<b>Change %</b>
Value of production tax credits (Class A)	74.5	74.7	(-)
Value of tax losses (Class A)	16.5	43.2	(62)
Benefits deferred during the period	34.9	(62.3)	(44)
<b>Income from IEPs</b>	<b>56.1</b>	<b>55.6</b>	<b>-</b>
Allocation of return (Class A)	(46.7)	(50.2)	(7)
Movement in residual interest (Class A)	12.0	6.5	85
Non-controlling interest (Class B)	(4.6)	(3.8)	21
<b>Financing costs related to IEPs</b>	<b>(39.3)</b>	<b>(47.5)</b>	<b>(17)</b>
<b>Net income from IEPs (Statutory)</b>	<b>16.8</b>	<b>8.1</b>	<b>107</b>
Non-controlling interests (Class B & Class A)	5.8	4.6	26
<b>Net income from IEPs (Economic Interest)</b>	<b>22.6</b>	<b>12.7</b>	<b>78</b>

## **11 Appendix C – Notes to the results presentation**

### **11.1 Discontinued Operations**

The group disposed of its wind farm assets in Germany in June 2011. In the prior year, the group disposed of its assets in France in April 2010. As a consequence of these disposals, for the year ended 30 June 2011, Germany is classified as a discontinued operation. For the year ended 30 June 2010, France and Germany are classified as discontinued operations. Furthermore, under Australian Accounting Standards Board (AASB) 5, Non-current Assets Held for Sale and Discontinued Operations, the comparative information has been restated to reflect the results of the operations relating to Germany as discontinued.

### **11.2 Voluntary change to accounting policy**

Historically Infigen recognised RECs generated from operations by using the cost option and grossing up the balance sheet to recognise inventories at fair value. An equal and opposite provision was recognised to defer the recognition of revenue until the time of sale. However, as a result of increasing uncontracted REC generation, this policy would result in material period on period variations and guidance variations which would be due to movements in inventory levels rather than actual production and price movements.

The change to the accounting policy (initially adopted for the half year ended 31 December 2010) enables RECs to be recognised at fair value with immediate recognition in the income statement. This results in more relevant information on the economic outcome in relation to the generation of RECs during the period. RECs not sold during the period and retained at the period end will be valued at the lower of cost and net realisable value. Where the market value of RECs falls, inventory value 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. This treatment does not apply to RECs sold through a PPA) or a REC supply agreement.

For the year ended 30 June 2011 Infigen recognised approximately 244,000 unsold RECs through the income statement at an average price of \$36.05 with associated revenue and inventory of \$8.8 million. The market price for RECs at 30 June 2011 was \$39.60, which is above the price these unsold RECs were brought to account. Therefore at the balance date no adjustment to carrying value of these RECs was required. All unsold RECs from the first half of the year were sold throughout the second half at prices above the original prices at which they were initially recognised in revenue. The appropriate adjustments have been recorded in the statement of comprehensive income.