

## EPIC Shareholder Update

30 June 2011

Dear Shareholder,

I am writing to update you on the process towards an asset realisation as the situation has changed following new indications of interest.

The Board is entering formal discussions over a sale of EPIC's 1.24 percent stake in Thames Water. As indicated previously, the Board will only recommend such a sale if we consider the offer will deliver fair value. Furthermore, any final decision will be subject to the offer receiving 75 percent support in a shareholder approval vote. We have received information with regard to the likely realisable value of the asset, giving the EPIC board the necessary confidence to proceed into more formal discussions.

If an offer meets the key fair value threshold, and the Board is of the view that proceeding with this transaction is in the best interests of shareholders, we are likely to recommend a sale for a number of reasons:

- Debt reduction was a key objective following the strategic review.
- A full sale of Thames Water will enable EPIC to repay its bank debt in its entirety.
- Following a sale the company expects to provide liquidity to EPIC shareholders.

We will provide further details on the progress towards a sale in due course. It is important to reiterate that the continued strength of the NZ dollar versus UK sterling has had a significant impact on EPIC's financial position. When we purchased Thames Water in 2007, the exchange rate was at around NZ\$1=UK£0.36. The exchange rate today is NZ\$1=UK£0.51 which is an adverse movement of approximately 30 per cent. Despite this, the Board believes an asset realisation which delivers fair value is the best option towards achieving the necessary improvement in our balance sheet.

As we stated last month, a sale of EPIC's stake in Thames Water would be subject to a pre-emption process where EPIC's shares are offered to existing Macquarie consortium shareholders prior to being offered to other shareholders. A full pre-emption process across both shareholder groups can take 4-5 months. EPIC's preference is to agree a negotiated price to present to shareholders within a shorter timeframe. There is increasing merger and acquisition activity involving UK water stocks currently, which is encouraging from a seller's perspective.

Last month, we reported an approach regarding a possible transaction to release value from EPIC's Moto stake. Following further discussions with that party, the Board has discontinued those talks. While a Moto realisation was the preferred approach of many shareholders, as it was proposed, that transaction was not achievable in a way which would have delivered sufficient, let alone best, value to EPIC's shareholders. If we proceed down that path of a Thames Water sale (with shareholder support) it is because that realisation will deliver fair value. A sale of Thames Water would also be consistent with EPIC's 2007 prospectus which noted that we would seek to exit our Thames Water investment within five years should the restrictions on its listing remain in place, as is the case.

We will continue to look at all options with respect to Moto. While it has ceased to be a yield investment (at considerable frustration to many EPIC shareholders), it remains a high quality investment.

#### Other assets

We are actively seeking buying interest for our stakes in Arqiva (Macquarie UK Broadcast Holdings Limited) and Wales and the West (MGN Gas Networks (UK) Limited). Operationally, both companies are performing in line with their investment case.

#### Bank debt

EPIC is required to repay \$14 million of its \$48 million debt facility with National Australia Bank (NAB) by the end of June. Pyne Gould Corporation (PGC), which is the owner of EPIC's manager, has agreed to support EPIC by acquiring a share in the NAB facility to the extent of the amount that NAB was seeking to have repaid. This participation is to be made in two tranches. The first tranche of \$7.5 million is to be made once the terms of the participation have been agreed between NAB and PGC and the participation agreement formally documented. The second tranche of \$6.5 million, to be made by 15 July 2011, is subject to PGC obtaining a waiver from the NZX. If the proposed participation arrangements are not concluded, or the NZX waiver not obtained to allow the second tranche of the participation to be made, or another acceptable arrangement concluded, this may result in EPIC being in breach of the NAB facility. The EPIC board acknowledges this key support from PGC. It enables EPIC to deleverage through an asset realisation rather than via an equity raising, which would have been dilutive to existing EPIC shareholders.

To enable EPIC's participation in the recapitalisation in Moto to avoid dilution during the refinancing earlier this year, Torchlight Fund No. 1 LP provided a bridge facility via the issuance by EPIC of a subordinated convertible note. That funding is not appropriate long-term financing and will be

repaid at the earliest opportunity. In addition, Torchlight has requested and EPIC has agreed, to extend the option to acquire up to 19.99% of the company at 90 cents a share to December 31 2011 in accordance with the options terms.

#### PIE Status

As you are aware, EPIC currently holds PIE status. EPIC's PIE status expires in October 2011. In the absence of EPIC paying dividends to shareholders, the Board will review the benefits of retaining that status.

#### Conclusion

I would like to thank shareholders for the patience you are showing through this period of change for EPIC. The cancellation of dividends from Moto last September, coupled with the continued weakness of the UK pound, means that debt reduction to improve the EPIC balance sheet remains the highest priority. Solid progress is being made. I will report again once further progress towards a sale is achieved and can be put to shareholders for your consideration.

Yours sincerely,



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