Infratil

Notice of Annual Meeting Disclosure Document and Appraisal Report

5 August 2002

Infratil

The Shareholders
Infratil Limited

Shareholders have now received the 2002 Annual Report in which I, and Lloyd Morrison on behalf of the managers, Morrison & Co, comment on the activities of Infratil over the past year and comment on the future prospects.

A number of matters are to come before shareholders for voting at the Annual Meeting. These include:

- The election or re-election of myself, John Peterson and Lloyd Morrison as directors of Infratil.
- Proposed variations to the Company's Management Agreement with Morrison & Co to accommodate the establishment of an International Portfolio, a Venture Capital Portfolio and investment in the IO Fund.
- The proposed continuation of the Company's infrastructure bond programme.

The Notice of Meeting that follows also includes a Disclosure Document describing the share buyback programme that the Company announced at the time of its recent release of its financial result.

I wish to concentrate on the proposed variations to the Management Agreement. The other matters are self explanatory and, where necessary, are explained in the Explanatory Notes that follow.

Infratil Limited has been in existence for more than eight years. Until the investment in Glasgow Prestwick International Airport in January 2001, it had only invested in the New Zealand utilities and infrastructure sectors.

The initial investment philosophy was to take cornerstone but not controlling investments in regional utility companies. This was first done as these industries began to deregulate, extend their regional focus and bring in private sector shareholders. TrustPower, Port of Tauranga, Powerco and CentralPower are all examples of this strategy.

These, and Infratil's overall investment portfolio, have performed well both in absolute terms and relative to the New Zealand sharemarket. Part of the reason for that performance was that Infratil identified and invested in investments that were yet to be fully valued by the market as a whole.

As Infratil's core assets have matured, the Board has looked at other investment opportunities that appeared to have the potential to maintain these returns to shareholders.

International Portfolio

As shareholders are aware, your Directors have concluded that it would be in the best interests of shareholders that the investment focus of Infratil be extended to include international infrastructure and utility assets.

The Board believes that investment in international utility and infrastructure assets, with a particular focus at this time on developed world airport assets, offers a sound opportunity to seek to add value for shareholders. In many developed countries major infrastructure assets are owned by local or other government authorities. This is similar to New Zealand seven to ten years ago. Infratil expects that to change over time and for this to lead to further investment opportunities.

The Board is also mindful that any international initiatives should be undertaken with caution. Accordingly, the Board's current policy is that no more than approximately one third of Infratil's assets be invested in international utility and infrastructure assets. This proportion will be reviewed from time to time as investment performance is monitored.

Morrison & Co has on its own account developed significant expertise in the international airports and electricity and gas generation and transmission sectors. Morrison & Co has had staff based in Berlin (previously London) and Brisbane working on international airport and electricity investment opportunities and electricity and gas consulting projects for a number of years. It was through Morrison & Co's Berlin office that Infratil was introduced to the Glasgow Prestwick investment opportunity. After very careful consideration by the Board, a controlling stake in Glasgow Prestwick was acquired. Since then further international opportunities have been assessed. On 26 July, the Company announced the purchase of a 9.9% shareholding in Australian based Energy Developments Limited. No other opportunities are under immediate consideration.

Your Directors are recommending that a revised fee structure apply to Morrison & Co's management of the International Portfolio. The rationale for this structure is explained below.Full details are provided in the Explanatory Notes that follow and are reviewed in the Ernst & Young report that also follows. In brief summary:

- Morrison & Co will receive the same base management fee on Australian assets as it does now for New Zealand assets.
- Morrison & Co will receive a base management fee of 1.5% per annum on the cost price of non-Australasian assets.
- Morrison & Co will receive incentive fees on Australian and other international assets (but not New Zealand assets) if overall shareholder returns on such assets exceed 12% per annum (post tax).

Venture Capital Portfolio & IO Fund Portfolio

The Board has also concluded that it would be in the best interests of shareholders that the investment focus of Infratil be extended to include New Zealand based or originated venture capital investments that meet the criteria more fully explained in the Explanatory Notes that follow. In the past, Infratil has acquired developed assets of a reasonably substantial size from public sector and other owners and helped enhance those assets in order to provide shareholders with satisfactory investment returns. Looking forward, your Directors foresee that there will be less of this type of asset available in New Zealand and that it is an appropriate strategy to invest in other assets with similar performance potential at an earlier stage. It intends to do this through investing a small proportion of its total assets through the IO Fund (which is introduced below) and a limited number of other venture capital businesses. The objective is to acquire venture capital businesses that can grow into substantial assets like the infrastructure and utility assets that are currently held.

As shareholders will know from reading the recent Annual Report, Infratil has already made three venture capital investments. These are in PayGlobal (a payroll management software manufacturer and service provider), Plato Health Systems (a health software manufacturer and service provider) and Victoria Electricity (a low cost start up electricity retailer in Victoria, Australia). Total funds invested in, or committed to, these three companies are less than $7 million.

Contemporaneous with your Directors considering this initiative, the New Zealand Government established the New Zealand Venture Industry Fund (VIF). VIF's objective is to promote the growth of innovative businesses focussing on technology and other high value-added products and services. To do this it will contribute $100 million to 5 or 6 private sector venture capital funds focussing in these areas. VIF requires these venture capital funds to contribute two dollars for each dollar of VIF money and these private sector funds to be responsible for all investment selections and management.

Your Directors considered that the objectives proposed by VIF meshed well with Infratil's own objectives and that the terms were economically attractive. An application was made by Infratil and Orion Limited (the Christchurch based electricity network company) for an allocation of VIF funding to an Infratil/Orion joint venture fund, called the IO Fund. This proposal provided for Infratil and Orion to contribute $20 million each and VIF $15 million (perhaps raising to $20 million) to investments selected by the IO Fund and for the IO Fund to be managed by IO Management Limited, a joint venture company owned by Morrison & Co and Orion.

Your Directors considered that a joint venture was the best means of participating in the VIF scheme. A joint venture has the advantage of pooling expertise and, in this case, reducing the initial required investment. Orion was chosen as Infratil's partner because of its past experience and success in investing in the venture capital area. Infratil had been considering a joint venture with Orion before the establishment of VIF.

In May of this year VIF announced that the IO Fund had been shortlisted as one of the six proposed venture capital funds and that a provisional allocation of $15 million had been made to the IO Fund. As at the date of this Notice, the details of the IO Fund and the terms upon which the VIF money will be advanced are still being settled. Your Directors expect that these details will be agreed in the relatively near term and that sufficient details have been proposed or agreed for shareholders to understand the implications.

The important features of the proposed IO Fund, including the management fee structure, are noted in Explanatory Notes that follow: two are particularly relevant. First, Infratil will have a 5 year option to acquire 50% of VIF's investments in the IO Fund investees at cost price plus an annual escalation equal to the 5 year Government stock rate (approximately 6.3% per annum). There is significant value in this option. Secondly, I provide below a brief summary of the proposed management fee structure for that portion of the capital contributed to the IO Fund by Infratil. Although these fees will be payable to IO Management Limited, Infratil has been advised that they will be indirectly received by Morrison & Co. Morrison & Co, as a 50% owner of IO Management Limited, will contribute 50% of the resources required by IO Management and bear 50% of its costs.

Shareholders should note that Orion and VIF might pay IO Management Limited under slightly different fee structures. None of the fees paid by Orion on its investment will be received by Morrison & Co and half of those paid by VIF on its investment will be received by Morrison & Co. Infratil has no direct interest in those different fee structures, except as a cross check that it is not paying a disproportionate amount. Your Directors are satisfied on this issue. Shareholders should also note that there may be some variation to the IO Fund structure as it is currently intended to apply to Infratil and Morrison & Co. No variation will be agreed if your Directors consider that it might be disadvantageous to Infratil or increase the level of fees that it pays. Shareholders should consider that the fee structure described below is the maximum that will apply.

It is important to note that VIF has provided all shortlisted parties with very similar term sheets. VIF has taken extensive professional advice on appropriate structures for the six VIF funds. In most aspects the term sheet provided for the IO Fund reflects the commercial terms that VIF has proposed. Your Directors have given careful consideration to the objectives that VIF may have had in mind when proposing the term sheet. They have concluded that the objectives of Infratil and VIF substantially overlap. The only reservation is that VIF, in order to execute Government policy, may have a greater desire than a private sector investor to ensure that the funds are invested (as opposed to retained if insufficient investments are found). Your Directors consider that this risk is substantially mitigated by VIF having an entirely passive role in investment selection. Investment selection will be made by an investment committee made up of Infratil and Orion representatives, based on recommendations of IO Management Limited. Infratil will not have direct control over investments made by the IO Fund.

Once established, the IO Fund would most often be the sole vehicle through which Infratil would make new initial venture capital investments. Otherwise, outside the IO Fund, Infratil may invest more in particular IO Fund companies if such companies have developed beyond the criteria for IO Fund investment. These additional investments, the three investments already made in the venture capital area and any further investments in those three will form the separate Venture Capital Portfolio.

Infratil will wish that the IO Fund look for investments that have proprietary intellectual property and thus can not be replicated easily, and also have scalability, meaning that the technology can be re-used to sell to many customers. Infratil considers that Plato, PayGlobal and Victoria Electricity meet these criteria.

Venture capital investing is known to have a higher risk, so the Board's current policy is to limit venture capital investments, including the IO Fund, to not more than $35 million, spread over a number of investments. This limit will also be reviewed from time to time as investment performance is monitored.

Morrison & Co has been researching and investing in the New Zealand venture capital markets for a number of years. It has considered a wide range of investments and made a number on its own account. This experience will be available to both the Venture Capital Portfolio and the IO Fund. With respect to the management of the IO Fund and its investee companies, the management team at Orion has had considerable experience in venture capital investing in New Zealand and the United States.

The Board believes that there are sufficient opportunities in this sector to justify the initiatives being taken, but that investment opportunities must be very carefully considered and sifted before investments are made.

Your Directors are recommending that shareholders approve the proposed fee structure payable on Infratil's contribution to the IO Fund and the revised fee structure for Morrison & Co's management of the Venture Capital Portfolio. In brief summary, the two relevant fee structures are:

IO Fund Portfolio

- Base management fee: 2.5% per annum on Infratil's Capital Commitment to the IO Fund (initially this is $20 million but may decline after three years as assets are sold) with the rate declining by 0.5% per annum each year after six years (so as to be zero after 10 years).
- Incentive Fee: Net gains on the capital invested in IO Fund investees will be shared 80% to Infratil and 20% to IO Management Limited, subject to Infratil having a preferred return of 8% per annum (compounded annually and after taxes - if any) on its capital invested. IO Management Limited will have a preference after the first 8% to bring the allocation to 80%/20% and, thereafter, returns will be split 80%/20% between Infratil and IO Management Limited.

Infratil may agree with IO Manager that incentive fees payable on Infratil's proportion of the IO Fund investments can be paid before all Infratil's invested capital is returned provided that overall cumulative realised investment returns are in excess of 8% per annum (compounded annually and after taxes - if any). If so, the excess returns shall be allocated in accordance with the 80/20 sharing percentages described above. Infratil may also agree that the base fee be 2.0% per annum on Infratil's Capital Commitment for the life of the IO Fund. These issues are currently under discussion with VIF and Orion.

Venture Capital Portfolio

- Base management fee: 2.0% per annum on the first $7.5 million cost price, and 1.2% per annum on any excess cost, for each investment in the Venture Capital Portfolio.
- Incentive fee: Morrison & Co will receive incentive fees on Venture Capital Portfolio assets if, on realisation, overall cumulative shareholder returns on realised Venture Capital Portfolio assets exceed 17.5% per annum (pre-tax).

Changes to the Management Agreement

Having resolved to extend Infratil's existing investment scope, your Directors are recommending changes to the Management Agreement with Morrison & Co. These changes extend the duties and responsibilities of Morrison & Co to cover investing in, and subsequently managing, securities for the International, Venture Capital and IO Fund Portfolios.

Infratil recognises that there will be a greater cost to Morrison & Co in executing its extended responsibilities compared to its existing responsibilities. The extra costs and expenses incurred carrying on business off-shore are well known. In New Zealand dollar terms the costs of operating in Australia are higher and they are higher again in the northern hemisphere developed countries. Venture capital investments are smaller and more demanding of management than larger more mature investments. Infratil also expects that Morrison & Co will have to consider a wider range of venture capital investments before making investment recommendations directly or through the IO Fund than it would expect to have to do for more mature utility and infrastructure investments. Your Directors believe that these factors justify paying a higher level of fees to Morrison & Co directly for the Venture Capital Portfolio and indirectly for the IO Fund Portfolio.

The Directors of Infratil independent of Morrison & Co are recommending that shareholders approve a revised fee structure with Morrison & Co for the International and Venture Capital Portfolios and a new fee structure for IO Management Limited (which will indirectly benefit Morrison & Co) for the IO Fund Portfolio. Your Directors consider these fees fair to Infratil and its shareholders that are not associated with Morrison & Co. In coming to this view, the independent Directors have also obtained independent financial and legal advice. In accordance with New Zealand Stock Exchange Listing Rules, Ernst & Young, acting as independent appraiser, has reviewed the proposed changes to the existing fee structure and the IO Fund fee structure and concluded that the changes and fees are fair to the shareholders of Infratil not associated with Morrison & Co. A copy of the report of Ernst & Young follows.

The full details of the revised fee structures and the IO Fund fee structure are set out in the Explanatory Notes that follow, which I encourage you to read.

I wish to make a particular comment about the incentives fees. Your Directors preferred that part of the Morrison & Co's expected remuneration from managing the International and Venture Capital Portfolios and jointly managing the IO Fund Portfolio come from the incentive fees. To achieve this the incentive fees become payable at levels that generate satisfactory, but not target, returns for Infratil. Target returns will be set on an investment by investment basis to reflect the appropriate risk factors. But as a general rule, Infratil expects that the target returns for the International Portfolio will exceed 12% per annum (post tax), for the Venture Capital Portfolio exceed 17.5% per annum (pre-tax) and for the IO Fund Portfolio exceed 8% per annum (post tax).

The issues that the independent directors focussed on in their negotiations with Morrison & Co on the revised fee structures were:

- That the revised fee structures fairly recompense Morrison & Co for the additional costs that will be incurred in selecting and managing (or jointly selecting and managing) the international and venture capital investments.
- That the revised fee structures align the payment of additional fees with value creation for shareholders. The incentive fees are particularly designed to achieve this.
- That the fees are comparable in structure to, and certainly not greater than, those paid by similar companies or funds.

Conclusion

Shareholders are being asked to consider three separate resolutions. Resolution 6 relates to approving the establishment of the International Portfolio. Resolutions 7 and 8 relate to approving the establishment of the Venture Capital Portfolio and investing through the IO Fund. Shareholders need not vote the same way on all three resolutions. However, shareholders who wish to vote in favour of approving the establishment of the Venture Capital Portfolio and investing through the IO Fund should vote in favour of both Resolutions 7 and 8.

Your Directors encourage your careful consideration of the issues discussed above and in the sections that follow and recommend that you vote in favour of Resolutions 6, 7 and 8 under the heading of Special Business.

Yours sincerely,

Kevin O'Connor

Chairman

Notice of Annual Meeting

Infratil

Notice is hereby given that the Eighth Annual Meeting of Shareholders of Infratil Limited will be held at the Centra Christchurch, cnr Cashel and High Streets, Christchurch on Friday, 23 August 2002, commencing at 2.30pm.

Ordinary Business

1. Presentation of the annual report for the year ended 31 March 2002 and the report of the auditor.
2. To consider and, if thought fit, to re-elect Mr K J O'Connor as a director in accordance with the Company's constitution. Mr O'Connor retires by rotation and being eligible offers himself for re-election.
3. To consider and, if thought fit, to re-elect Mr J K Peterson who was appointed a director on 3 April 2002. Mr Peterson retires in accordance with the constitution of the Company and being eligible offers himself for re-election.
4. To consider and, if thought fit, to elect Mr H R L Morrison as a director in accordance with the Company's constitution.
5. To record that KPMG is automatically reappointed as auditor of the Company pursuant to section 200 of the Companies Act 1993 and to authorise the Directors to fix the auditor's remuneration.

Special Business

To consider and, if thought fit, to pass the following ordinary resolutions with or without modification:

6. "That the entry by the Company into an agreement with Morrison & Co Infrastructure Management Limited (the "Manager") and Morrison International Management Limited to amend the existing management agreement between the Company and the Manager dated 11 February 1994 (as amended) ("Management Agreement") to extend the Manager's duties to invest in entities which provide utility or infrastructure services outside New Zealand and to vary the fees payable to the Manager (or its nominee) as described in Part I of the Explanatory Notes accompanying the Notice of Meeting be and hereby is approved."
7. "That the entry by the Company into an agreement with Morrison & Co Infrastructure Management Limited (the "Manager") and Morrison Ventures Management Limited ("Infratil Ventures Management Agreement") to amend the Management Agreement to extend the Manager's duties to invest in venture capital businesses (including through the IO Fund), to vary the fees payable directly or indirectly to the Manager (or its nominee) and the payment of fees by the Company to IO Management Limited, a company 50% owned by an associate company of the Manager as described in Part II of the Explanatory Notes accompanying the Notice of Meeting be and hereby are approved."
8. "That subject to the passage of Resolution 7, and for the purposes of clause 32.2 of the Company's constitution, the Company be authorised to enter into the business of venture capital investment in entities involved in venture capital businesses as contemplated by the Infratil Ventures Management Agreement and by investment in the IO Fund."

9. "That the Company continue to raise finance through the continuation of its Infrastructure Bond Programme by the issue of bonds ("Infrastructure Bonds"), including bonds convertible into ordinary shares in the Company. The maximum face amount of Infrastructure Bonds convertible into ordinary shares in the Company ("Convertible Infrastructure Bonds") which may be issued pursuant to the Infrastructure Bond Programme in the period commencing 23 August 2002 and ending 30 days after the annual meeting of the Company in 2003 shall not exceed $100,000,000. The key terms and conditions of the Convertible Infrastructure Bonds shall be as set out in Part III of the Explanatory Note accompanying the Notice of Meeting."

By order of the Board

T K McAlister
Wellington
5 August 2002

Any member of the Company entitled to attend and vote at the meeting may appoint another person or persons as proxy to attend and vote on his or her behalf. A proxy need not be a member of the Company. Proxy forms must be lodged at the office of the Company's Share Registrar, BK Registries, 138 Tancred Street, Ashburton (P O Box 384, Ashburton) not less than 48 hours before the time of the meeting.

Shareholders are invited to join the Directors and Management for refreshments following the meeting.

Notes to the Special Business

In Resolution 6 shareholders are asked to approve the entry into an agreement with Morrison & Co Infrastructure Management Limited and Morrison International Management Limited to amend the management agreement to extend the investment policy to invest in entities which provide utility or infrastructure services outside of New Zealand and to vary the fees payable to Morrison & Co Infrastructure Management Limited (or its nominee).

In Resolution 7 shareholders are asked to approve the entry into an agreement with Morrison & Co Infrastructure Management Limited and Morrison Ventures Management Limited to amend the management agreement to permit investment in venture capital businesses (including through the IO Fund) and to vary the fees payable to Morrison & Co Infrastructure Management Limited (or its nominee) and to permit payment of fees to IO Management Limited, a company 50% owned by an associate company of Morrison & Co Infrastructure Management Limited.

Shareholder approval is required for these amendments to the management agreement and for payment of fees to IO Management Limited. Listing Rule 9.2 of the New Zealand Stock Exchange Listing Rules requires listed companies to seek shareholder approval to enter into a material transaction with a related party. These arrangements are material transactions under this rule because the Company will obtain services from Morrison & Co Infrastructure Management Limited (or related parties) and the gross cost to the Company for these services in any financial year may exceed 0.5% of the lesser of Shareholders' Funds or the Average Market Capitalisation of the Company (as each are defined in the Listing Rules of the New Zealand Stock Exchange). Morrison & Co Infrastructure Management Limited (and its related parties) is a related party of the Company.

Listing Rule 9.3.1 (Voting Restrictions) restricts any shareholder (and any associated person of that shareholder) from voting in favour of a related party transaction if that shareholder is a direct or indirect party to, or beneficiary of, the relevant related party transaction. The shareholders (direct and indirect) and some staff of Morrison & Co Infrastructure Management Limited are associated persons of Morrison & Co Infrastructure Management Limited. Morrison & Co Infrastructure Management Limited is an associated person of the Company, Mr Duncan Saville (a director of the Company) and Hettinger Nominees Limited (a substantial security holder in the Company). Accordingly, none of those direct or indirect shareholders of Morrison & Co Infrastructure Management Limited or staff will vote their shares in respect of Resolutions 6 & 7. No Morrison & Co Infrastructure Management Limited (or related company) staff or officers are directors of the Company. Mr Morrison is, however, standing for election as director at this Annual Meeting.

A director of the Company, Mr. Duncan Saville, has an indirect minority ownership interest in Morrison & Co Infrastructure Management Limited. This interest has been disclosed to the Company. The Ernst & Young Appraisal Report that follows has been addressed to all directors other than him.

Because both Resolutions 6 and 7 are seeking approval for material transactions with related parties, Listing Rule 9.2.5(b) requires that this Notice of Meeting be accompanied by an Appraisal Report. The Appraisal Report prepared by Ernst & Young is included with this Notice of Meeting.

In Resolution 8 shareholders are asked to approve the entry by the Company into the business of venture capital investment in entities involved in venture capital businesses as contemplated by the Ventures Management Agreement and by investment in the IO Fund. This approval is required by clause 32.2 of the constitution of the Company. Clause 32 defines the "Essential Nature of the Business of the Company and its subsidiaries" and confines that business to investment in the electricity, gas, telecommunication, port, airport, water and transport industries. Investment in venture capital entities of the contemplated scale may be outside this definition. The authority given by the resolution is limited to the businesses contemplated by the Ventures Management Agreement and investments through the IO Fund and will not allow a change to the "Essential Nature of the Business of the Company and its subsidiaries taken as a whole" as defined in the constitution of the Company.

Accompanying the Notice of Meeting is a letter from the Chairman and Explanatory Notes explaining the provisions of the agreements amending the management agreement. Also enclosed is a copy of an appraisal report prepared by Ernst & Young.

In Resolution 9, shareholders are asked to approve the continuation of the Infrastructure Bond Programme. The key terms and conditions of the Convertible Infrastructure Bonds are set out in the Explanatory Notes accompanying the Notice of Meeting.

Explanatory Notes to Special Business

Part I Establishment of the International Portfolio (Resolution 6)

The proposed changes to the Management Agreement to establish the International Portfolio are as follows:

1. Due to Infratil's wish to extend its investment focus, the Manager's obligations would need to be modified to reflect the additional investment objective of identification and investment of a portion of Infratil's assets in securities ("Non-New Zealand Portfolio Securities") issued by non-New Zealand entities that provide utility and infrastructure services outside of New Zealand ("Non-New Zealand Portfolio Entities"). The portion of Infratil assets that may be invested in Non-New Zealand Portfolio Securities is limited to approximately one third, but investments beyond this limit may be approved by the Board. The Glasgow Prestwick group of companies are specifically excluded from the definition of Non-New Zealand Portfolio Entities as this investment was made prior to the contemplation of the proposed changes to the Management Agreement. The Energy Developments Limited investment would be included.
2. A new management fee ("Non-New Zealand Portfolio Management Fee") would be payable in New Zealand dollars at the rate of 1.5% per annum on the aggregate of the Cost Value of the Non-New Zealand Portfolio Securities (including capitalised acquisition costs) and the book value of the debt issued by the wholly-owned Non-New Zealand Portfolio Entities, after taking into account any gains or losses on foreign exchange contracts taken out to hedge the Company's foreign exchange risk on those assets. Australian Portfolio Securities will be treated as New Zealand Portfolio Securities. This means that there is no change from the present in respect of management fees paid on Australian assets.
3. The existing management fees ("New Zealand Portfolio Management Fee") would continue to be paid at the existing rate on Infratil's Company Value. But a deduction would be made from the Company Value on which the New Zealand Portfolio Management Fee is calculated (to reduce the fee) equal to the same amount as the Non-New Zealand Portfolio Management Fee is being calculated on. The Company Value is the sum of the market value of all Infratil's New Zealand Stock Exchange quoted securities (that is, its shares and bonds) and its net debt (essentially its bank debt less funds on deposit).
4. The Non-New Zealand Portfolio Management Fee would be calculated and paid monthly, as is the New Zealand Portfolio Management Fee.
5. The net effect of the changes to the management fee would be that the Manager will receive an additional 0.7% per annum on the Cost Value of Non-New Zealand Portfolio Securities (other than Australian Portfolio Securities) and wholly-owned Non-New Zealand Portfolio Entities' debt (other than Australian Portfolio Entities' debt), adjusted for foreign exchange gains or losses that relate to those assets, plus the incentive fees. Your Directors believe that the amount of the Non-New Zealand Portfolio Management Fee, when considered with the incentive fee described below, is justified both in recognition of the additional costs that the Manager will incur to operate internationally and by reference to what fees comparable international fund managers charge. Because the cost of operating in Australia is less than the cost of operating in other countries, Australian investments are excluded from the calculation of the Non-New Zealand Portfolio Management Fee.
6. New incentive fees ("International Portfolio Incentive Fees") would be payable on realised or sustained increases in the value of the portfolio of Non-New Zealand Portfolio Securities (including Australian Portfolio Securities). Your Directors have wished to recommend to shareholders a fee structure that aligns the interest of Infratil and its shareholders with those of the Manager. One means of doing this is to require the Manager to place some part of its expected remuneration at risk. This is thought to be especially appropriate given the extra risk associated with off-shore investments. Your Directors believe that the higher level of the Non-New Zealand Portfolio Management Fee is not, in itself, likely to cover the full additional costs and reasonable return expectations that the Manager would incur and have in operating internationally. Your Directors, however, prefer that payment of any additional remuneration be made subject to defined performance standards and only be paid where it is clear that shareholders have had the benefit of real and sustained increases in shareholder value. With these factors in mind, a proposed incentive fee structure as described

below was negotiated and agreed (subject to shareholder approval) with the Manager. This fee structure is reasonably complex. Ernst & Young's attached Appraisal Report provides a detailed analysis at paragraph 4.2.1:

(a) **International Portfolio Initial Incentive Fee:** After securities issued by a Non-New Zealand Portfolio Entity have been held continuously for at least 2 years then at the next 31 March they would be revalued to their Fair Market Value by an independent valuer, or have the value agreed between Infratil and the Manager. The valuation process is intended to establish the then fair market value and it has been agreed that this process will be consultative, take an approach consistent with New Zealand practice, be consistent over successive valuations and be neither optimistic nor pessimistic. If there has been a value increase of greater than 12% per annum after tax (compounded annually) on the Cost Value since purchase then the Manager would be paid an incentive fee of 20% of that value increase. If securities in more than one Non-New Zealand Portfolio Entity have been held for between 2 and 3 years as at any 31 March then the incentive fee would be payable on the combined performance of those Non-New Zealand Portfolio Securities.

(b) Your Directors believe that the first opportunity for payment of an incentive fee should be between 2 and 3 years after purchase of the relevant asset. This delay will give time for any short-term valuation fluctuations to pass and allow the independent valuer to review and more accurately assess the performance of, and changes in value in, the relevant asset over an extended period.

(c) **International Portfolio Annual Incentive Fee:** After securities issued by Non-New Zealand Portfolio Entity have been held continuously for at least 3 years then at the next 31 March they would again be revalued to their Fair Market Value by an independent valuer or have the valued agreed between Infratil and the Manager. If there has been a value increase of greater than 12% per annum after tax over the previous valuation then the Manager would be paid an incentive fee of 20% of that value increase above 12% per annum. If securities in more than one Non-New Zealand Portfolio Entity have been held for more than 3 years as at any 31 March then the incentive fee would be payable on the combined performance of those Non-New Zealand Portfolio Securities.

(d) In order, however, to ensure that incentive fees are only paid on sustained value gains, each International Portfolio Annual Incentive Fee shall be paid in 3 equal annual instalments. The first instalment shall be paid immediately. The second instalment shall be paid if, at the next 31 March, the value determined one year earlier has been sustained. The third instalment shall be paid if, at the next 31 March, the value determined two years earlier has been sustained.

(e) All outstanding instalments would be calculated and, if due, paid if the Management Agreement terminates (except where the Manager terminates the Agreement), or on completion of the sale of the final Non-New Zealand Portfolio Securities, if earlier. Also, if all of the securities to which the fee relates have been sold, then the unpaid instalments of that fee would be payable.

(f) Your Directors believe that by staging payment over 3 years, they have reduced the risk that incentive fees are paid when shareholders have not had the benefit of a corresponding sustained increase in value.

(g) The one appropriate exception to staging payment of the International Portfolio Annual Incentive Fee on unrealised value gains is when the International Portfolio terminates. In this circumstance, the Manager is either no longer responsible for seeking to maintain and increase the value of the Non-New Zealand Portfolio Securities or such Non-New Zealand Portfolio Securities are being managed under the existing New Zealand based fund, with the management fee now being at the marginal 0.8% per annum. In these circumstances, the Directors believe that it would be appropriate for the outstanding incentive fees to be paid in full as at the relevant termination date.

(h) **International Portfolio Realised Incentive Fee:** As at each 31 March, the returns achieved on all Non-New Zealand Portfolio Securities sold during the 12 months to that 31 March would be calculated. If the realised returns exceed 12% per annum after tax over the most recent previous valuation then the Manager would be paid an incentive fee of 20% of those realised excess returns. Because these returns have been realised there would be no reason to pay the incentive fee out over three years, so they would be paid in full at that time. If securities in more than one Non-New Zealand Portfolio Entity have been sold in the 12 months to any 31 March then the incentive fee would be payable on the combined returns on those Non-New Zealand Portfolio Securities.

(i) The 12% per annum after tax threshold described above is not indicative of the Company's target rate of return on equity invested. The target rate of return will be set on an investment by investment basis and it is expected that the target rate would usually be higher.

7. Consideration was given to the currency in which the new management and incentive fees should be paid. Your Directors considered linking the currency of payment of the fees to the currencies in which the Non-New Zealand Portfolio Securities are denominated. On balance, however, your Directors consider that because most shareholders measure Infratil's performance in New Zealand dollar terms, the fees should also be calculated and paid in New Zealand dollars. Accordingly, your Directors believe that it is fairest to shareholders that the fees should be calculated and paid as follows:

   (a) **Non-New Zealand Portfolio Management Fee:** The Cost Value of Non-New Zealand Portfolio Securities and the book value of the Non-New Zealand Portfolio Entities' Debt would be converted into New Zealand dollars at the mid-point exchange rate quoted by Bank of New Zealand or ANZ Banking Group (New Zealand) Limited at close of business on the last day of each calendar month.

   (b) **International Portfolio Incentive Fees:** The Fair Market Value of Non-New Zealand Portfolio Securities and the proceeds of sale or other realisations and distributions would be converted into New Zealand dollars at the mid-point exchange rate quoted by Bank of New Zealand or ANZ Banking Group (New Zealand) Limited at close of business on the date of receipt or the relevant valuation date.

8. All fees are exclusive of GST (if any).

9. The Company would have the right to pay the Non-New Zealand Portfolio Management Fees and the International Portfolio Incentive Fees by the issue of Infratil ordinary shares. The Manager would not have the right to demand payment through the issue of Infratil ordinary shares. If ordinary shares are issued, they will be issued at 98% of the weighted average share price over the preceding five business days. Infratil does not have any present intention of settling any future incentive fees in shares rather than cash. If any such shares were to be issued then they would be issued in compliance with Listing Rule 7.3 (Issue of New Equity Securities) and, if relevant at the time, Listing Rule 9.2.1 (Transactions with Related Parties). Depending on the number of shares to be issued, it may be that they are issued under the 10% limit permitted by Listing Rule 7.3.5.

10. The Manager intends to undertake its functions through Morrison International Management Limited. Morrison International Management Limited is an associate company of the Manager. This is without prejudice to Infratil's recourse to the Manager in respect of any breach by Morrison International Management Limited.

11. Your Directors were particularly concerned about the risks that might come from international investments having high debt to capital ratios (what is called high gearing). As a matter of policy the Company has decided that it will require the Manager to provide specific advice on the overall additional benefits of gearing exceeding 55% prior to such gearing limit being exceeded.

Part II Establishment of the Venture Capital Portfolio and Investment through the IO Fund (Resolutions 7 and 8)

The venture capital businesses which Infratil wishes to concentrate its investment in include businesses with a significant proportion of their value in intellectual property which has international application and scalability; businesses through to the post start-up phase of development, but still with a need for growth capital that cannot readily sourced through banks and/or public debt or equity markets; venture investment funds promoted or established by the New Zealand Government (including the IO Fund) and such other businesses agreed by the Company and the Manager to be venture capital businesses.

The proposed changes to the Management Agreement to establish the Venture Capital Portfolio and the proposal to invest through the IO Fund are as follows:

1. Due to Infratil's wish to extend its investment focus, the Manager's obligations would need to be modified to reflect the additional investment objective of identification and investment of a portion of Infratil's assets in securities ("VCF Portfolio Securities") issued by venture capital businesses ("VCF Portfolio Entities"). Infratil wishes its principal activities in the venture capital sector to be carried out through the IO Fund. The IO Fund is a proposed joint venture arrangement between Infratil, Orion Limited and the Government's Venture Industry Fund who will contribute $20 million, $20 million and $15 million (perhaps increasing to $20 million), respectively. The IO Fund would be managed exclusively by IO Management Limited, a company owned jointly by Morrison & Co and Orion. Each investment decision would be delegated to an investment committee comprising representatives of Morrison & Co and Orion, based on advice provided by IO Management Limited. An Infratil representative will sit on a governance committee along with Orion and VIF representatives. Infratil will not have direct control over investments made by the IO Fund.

2. Infratil's existing three venture capital investments, any additional investments in these and any additional investments in investments first made through the IO Fund but which subsequently the IO Fund has declined or was ineligible to make would be held through Infratil's separate Venture Capital Portfolio under sole management by Morrison & Co. Following from this, VCF Portfolio Securities shall be divided into those acquired through the operation and implementation of the IO Fund ("IO Fund Portfolio Securities") and those acquired otherwise than through the operation and implementation of the IO Fund ("Non-IO Fund VCF Portfolio Securities").

3. The portion of Infratil assets that may be invested in VCF Portfolio Securities would be limited initially to $35 million, but this may be reviewed by the Board.

4. The Company wishes to retain an active role, or ensure a monitoring role, in the selection of VCF Portfolio Securities. To provide for this, an Investment Committee comprising up to three members nominated by the Manager and two members nominated by the Company will be established to approve investments in Non-IO Fund VCF Portfolio Securities. The Manager would only be able to invest in Non-IO Fund VCF Portfolio Securities that have been approved by a majority of the investment committee (which has a majority of Company appointees). The situation is different with respect to IO Fund Portfolio Securities. The Company is satisfied that the checks on this process provided by IO Management Limited (having both Orion and Morrison & Co but not Company input), with governance oversight provided by an advisory committee made up of Company, Orion and VIF representatives is sufficient.

Management Fees:

5. A new management fee ("VCF Portfolio Management Fee") is proposed as follows:

Venture Capital Portfolio (Non-IO Fund Investments):

(a) In respect of each Non-IO Fund VCF Portfolio Entity, 2.0% per annum on the VCF Commitment applicable to that Non-IO Fund VCF Portfolio Entity, where the VCF Commitment applicable to that Non-IO VCF Portfolio Entity is less than $7.5 million. The VCF Commitment is the aggregate of the cost value of all current Non-IO Fund VCF Portfolio Securities, the commitments to advance further funds to current Non-IO Fund VCF Portfolio Entities, distributions received from all Non-IO Fund VCF Portfolio Entities currently held, the Non-IO Fund VCF Portfolio Entities' Debt of current wholly-owned Non-IO Fund VCF Portfolio Entities less any distributions and sale proceeds that have been allocated from the Non-IO Fund VCF Portfolio to the Company's main New Zealand based infrastructure and utilities portfolio ("Utility Portfolio").

(b) If the VCF Commitment in respect of a particular Non-IO Fund VCF Portfolio Entity is more than $7.5 million, 2% per annum in respect of the first $7.5 million and 1.2% per annum on the excess over $7.5 million.

(c) If Non-IO Fund VCF Portfolio Securities in an IO Fund Portfolio Entity are acquired, or a commitment is made to advance further funds for the purchase of such Non-IO VCF Portfolio Securities, 1.2% per annum on this additional investment or commitment.

(d) If the fair value of all the Non-IO Fund VCF Portfolio Securities became less than the cost value of those Non-IO Fund VCF Portfolio Securities (as determined by an independent valuer or as agreed by the Company and the Manager) the Manager would be required to refund a portion of the management fee paid reflecting the decline in fair value.

(e) The VCF Portfolio Management Fee on Non-IO Fund investments would be calculated and payable monthly, as is the New Zealand Portfolio Management Fee.

IO Fund Investments

(f) The management fee to be paid on investments made through the IO Fund will be 2.5% per annum on Infratil's Capital Commitment to the IO Fund (initially this is $20 million but may decline after three years as assets are sold) with the rate declining by 0.5% per annum each year after six years (so as to be zero after 10 years). Infratil is intending to seek VIF approval to reduce the management fee to 2.0% per annum for the life of the IO Fund. The exact calculation methodology will be settled during negotiations with VIF and Orion.

(g) The VCF Portfolio Management Fee on IO Fund investments would be calculated and payable quarterly in advance.

6. The existing management fee structure ("New Zealand Portfolio Management Fee") would continue to be paid at the existing rate on Infratil's Company Value. But, consistent with the International Portfolio, a deduction would be made from the Company Value (to reduce the management fee) by the amount on which the VCF Portfolio Management Fees are being calculated.

7. The net effect of the changes to the management fee would be that the Manager would receive between an additional 0.4% and 1.7% per annum on the VCF Commitment and IO Fund Capital Commitment and the incentive fees described below. The Directors believe that the amount of these fees, when considered with the incentive fees described below, is justified both in recognition of the additional costs that the Manager would incur to operate a venture capital fund and by reference to what fees comparable venture capital fund managers' charge.

Incentive Fees:

8. New incentive fees are proposed as follows. Incentive fees shall be payable on realised increases in the value of the portfolio of VCF and IO Fund Portfolio Securities. As with the International Portfolio, your Directors believe that one means of mitigating the extra risk associated with venture capital investments is to place some of the Manager's (whether it be received directly or indirectly) expected fee income at risk. As for the International Portfolio, your Directors have wished to recommend to shareholders a fee structure that aligns the interest of Infratil and its shareholders with those of the Manager. The preferred approach is again to require the Manager to place some part of its expected remuneration at risk. Again, this is thought to be especially appropriate given the extra risk associated with venture capital investments. Your Directors believe that the higher level of the VCF Portfolio Management Fee (both for the Venture Capital Portfolio and IO Fund investments) is not, in itself, likely to cover the full additional costs and reasonable return expectations that the Manager, directly or indirectly, would incur and have in operating in the venture capital markets. It is recognised that the time taken to make investments in this area is much greater, in relation to the scale of the investments, than for infrastructure and utilities. Your Directors, however, prefer that payment of any additional remuneration be made subject to defined performance standards and only be paid where it is clear that shareholders have had the benefit of real and sustained increases in shareholder value.

9. With these factors in mind, a proposed incentive fee structure as described below was negotiated and agreed (subject to shareholder approval) with the Manager in respect of the Venture Capital Portfolio. With regard to the incentive fees payable on Infratil's portion of the IO Fund investments, Infratil has given careful consideration to the incentive fee structure proposed by VIF. Your Directors consider the terms suggested acceptable, but are

intending to seek some changes to them. Your Directors consider that the incentive fee structure will work more effectively to encourage and incentivise IO Management Limited if the excess returns over the agreed hurdle rate are paid out on a cumulative realisation basis. This is the methodology that Infratil independently agreed with Morrison & Co for the Venture Capital Portfolio prior to receiving VIF's suggestion as to how and when excess returns are shared with the relevant manager.

Venture Capital Portfolio (Non-IO Fund Investments):

10. Your Directors, in considering the appropriate incentive fee threshold for the Venture Capital Fund, believe it is fair for the Manager to receive 20% of the gains made on realised investments in excess of 17.5% per annum (pre-tax). Shareholders will note that this threshold is higher than for comparable funds identified by Ernst & Young. The more detailed description of how incentive fees would be payable under the Venture Capital Portfolio ("VCF Incentive Fees") follows:

(a) After the first disposal of VCF Portfolio Securities, the Company would pay the Manager 20% of the relevant gains over cost in excess of 17.5% per annum pre-tax (compounded annually).

(b) If, after the most recent sale, the realised gains on the sale of all VCF Portfolio Securities made in the first three years or, the Venture Capital Portfolio has been extended for another two years (see paragraph 15 below), since the date of extension have dropped below 17.5% per annum pre-tax (compounded annually) then the Manager would refund VCF Incentive Fees (up to all of such VCF Incentive Fees) previously received in the same three (or, as the case may be, two) year period so as to reduce the VCF Incentive Fees to 20% of gains in excess of 17.5% per annum pre-tax over the relevant period.

(c) If, after the most recent sale, the realised gains on all sales of all VCF Portfolio Securities in the relevant three or two year period exceeds 17.5% per annum pre-tax (compounded annually), then the Company would pay the Manager 20% of such excess, less any fees previously paid in respect of the relevant period, so that the Manager receives 20% of the gains in excess of 17.5% per annum pre-tax over the relevant period.

IO Fund Investments

11. For investments made through the IO Fund, your Directors believe that is fair that different thresholds for the payment of incentive fees apply. In this respect, your Directors have had regard to the Ernst & Young report and that VIF has taken extensive independent advice on its proposed fee structure. Your Directors have also recognised that, while the incentive fee structure is higher than for the Venture Capital Fund, the IO Fund gives Infratil an option to acquire VIF's investment on favourable terms. The option value is assessed as being reasonably significant. The IO Fund incentive fee structure that shareholders are asked to consider and approve is as set out below. Because final negotiations are continuing, the details may change in some respects but it will not change so as to increase the expected fee payments beyond the description set out below:

(a) Net gains on the capital invested will be shared 80% to Infratil and 20% to IO Management Limited, subject to Infratil having a preferred return of 8% per annum (compounded annually and after taxes - if any) on its capital invested. IO Management Limited will have a preference after the first 8% to bring the allocation to 80%/20% and, thereafter, returns will be split 80%/20% between Infratil and IO Management Limited.

(b) The structure proposed by VIF intends that no incentive fee payments go to IO Management Limited until the three investors have received back their entire capital invested plus the 8% per annum return described above. Infratil believes that it would be fair if IO Management Limited received its incentive fee payments on a cumulative realisations basis as described in paragraph 10 above and intends to raise this with VIF. Shareholders should assume that this change is agreed to when considering the merits of this proposal.

General

12. Neither the 17.5% per annum pre-tax threshold nor the 8% per annum post tax (if any) threshold described above are indicative of the Company's target rates of return on equity invested. The target rate of return will be set on an investment by investment basis and it is expected that the target rate would usually be higher.

13. The Company believes that paying the VCF Incentive Fees and the IO Fund incentive fees on actual performance would lead to fees being paid when shareholders have had demonstrable value growth, and not otherwise.

14. All fees are exclusive of GST (if any).

15. The Company would wish to keep the operation of the Venture Capital Portfolio under review. The Company would commit to an initial three year period for Non-IO Fund VCF Portfolio Entity investments. At the end of that three years (and every two years after that) it could choose to extend the life of the Venture Capital Portfolio by two years. After three years (and every two years after that), the Company could also set the VCF Commitment for the following two years and specify whether distributions and sale proceeds received in that two year period are made available for re-investment in VCF Portfolio Securities (and thus are included in the VCF Commitment) or are returned to the Utility Portfolio (and thus are not included in the VCF Commitment).

16. If the Company decided to terminate the Venture Capital Portfolio at the end of three years or on one of the two yearly dates thereafter, the Manager would have a year to complete the orderly sale of the VCF Portfolio Securities. At the end of that year, the Company may require that any remaining VCF Portfolio Securities be transferred to the Utility Portfolio at fair value (as determined by an independent valuer or as agreed between the Company and the Manager). The separate fee structure that would have applied to the Venture Capital Portfolio would then come to an end.

17. The investment made in the IO Fund will be managed by IO Management Limited (having both Orion and Morrison & Co input) with governance oversight provided by Infratil, Orion and VIF.

18. If, from time to time, the Company and the Manager or IO Management Limited agreed that a VCF Portfolio Security would be more appropriately managed under the Utility Portfolio (rather than under the Venture Capital Portfolio or through the IO Fund) or the Company wished to retain a VCF Portfolio Security that the Manager or IO Management Limited wished to sell, then such VCF Portfolio Securities would be transferred to the Utility Portfolio at fair market value (as determined by an independent valuer or as agreed between the Company and the Manager). This may occur when an investment has passed through its high growth phase.

19. The Manager intends to undertake its functions in relation to Non-IO Fund investments through Morrison Ventures Management Limited. Morrison Ventures Management Limited is an associate company of the Manager. This would be without prejudice to Infratil's recourse to the Manager in respect of any breach by Morrison Ventures Management Limited.

Part III Continuation of Infrastructure Bond Programme (Resolution 9)

1. Infratil established the Infrastructure Bond Programme in the third quarter of 1999. The Programme has been very successful. As at 30 June 2002, Infratil had issued $35.28 million of 8.5% Infrastructure Bonds due 2003, $49.37 million of 9.0% Infrastructure Bonds due 2005 and $20.00 million of 8.5% Infrastructure Bonds due 2011 under the Programme. The opportunity to purchase Infrastructure Bonds has appealed to both existing shareholders of Infratil and a range of new investors.

2. The Directors have again considered the options available to raise funding and consider that it remains appropriate for the Infrastructure Bond Programme to be maintained. The Company has not identified any particular party or parties to whom it might issue Convertible Infrastructure Bonds. Any issue will likely be made for cash however, in certain circumstances, it may be advantageous to the Company to offer Convertible Infrastructure Bonds in exchange for assets or securities. Shareholder approval is sought in order for the Company to comply with NZSE Listing Rule 7.3.1.

3. The Company has been granted a waiver from NZSE Listing Rule 7.3.2(b). This rule restricts the issue of securities, such as the Convertible Infrastructure Bonds, to within 6 months of the date of passing of the authorising resolution. The waiver obtained permits issues to occur up until 30 days after its annual meeting held in 2003.

4. The key terms and conditions of the Convertible Infrastructure Bonds are as follows:

   (a) **Description:** redeemable Convertible Infrastructure Bonds, redeemable for cash or convertible into ordinary shares at the option of the Company.

   (b) **Term:** Between two and ten years, as determined by the Directors at time of issue of the Convertible Infrastructure Bonds, with ability for the Company to offer holders the right to invest in replacement Bonds at maturity.

   (c) **Tranches:** Convertible Infrastructure Bonds may be issued in one or more separate tranches.

   (d) **Issue Date:** any date or dates determined by the Directors at time of issue but not to be later than 30 days after the annual meeting of the Company held in 2003.

   (e) **Voting Entitlement:** none (except at meetings of Convertible Infrastructure Bondholders).

   (f) **Face Value:** $1.00.

   (g) **Interest Coupon & Yield:** to be determined by the Directors at time of issue, subject to either of the following conditions being satisfied:

      (i) Interest Coupon: Being not more than 4.0% greater than the yield on New Zealand Government Stock with a maturity date that most closely matches the maturity date of the proposed issue of the Convertible Infrastructure Bonds; or

      (ii) Overall Yield: Being not more than the sum determined as follows:

      - Current yield of the Company's 6.9% Infrastructure Bonds due March 2004 less the yield on New Zealand Government Stock due closest to March 2004; plus
      - The yield on New Zealand Government Stock due closest to the maturity date of the proposed issue of the Convertible Infrastructure Bonds; plus
      - 2.50%.

5. **Coupon Payment Dates:** quarterly or semi-annual, as determined by the Directors at time of issue of the Convertible Infrastructure Bonds.

6. **Interest Accrued:** interest to accrue on any Convertible Infrastructure Bonds from the Issue Date of those Bonds.

7. **Redemption/Conversion:** at end of term with the redemption amount being, at the Company's option, the Face Value payable in cash or the number of shares in the Company obtained by dividing the Face Value by a specified percentage of the market price of ordinary shares in the Company at the date of redemption. The specified percentage is to be determined by the Directors at the time of issue of any Convertible Infrastructure Bonds and shall be not less than 95% nor greater than 125%. The market price is the weighted average (by reference to volume) price of all trades of ordinary shares in the Company through the New Zealand Stock Exchange over the 10 business days up to the fifth business day before the date of redemption.

8. **Listing:** the Company may seek the listing of the Convertible Infrastructure Bonds on the New Zealand Stock Exchange.

9. **Ranking:** prior to conversion, the Convertible Infrastructure Bonds shall rank pari passu with unsecured creditors of the Company.

10. **Other:** Covenants and Events of Default to be determined by the Directors at the time of issue of the Convertible Infrastructure Bonds.

Share Buy Back Programme and Disclosure Document

The Company intends to re-establish its share buyback by seeking to acquire up to a further 18.3 million ordinary shares (approximately 10% of the outstanding ordinary shares). These shares may be bought on-market or off market, but the combined total of further on-market and off-market purchases will not exceed 18.3 million. Off-market purchases will not be made from employees or directors of the Company or associated persons of directors.

The maximum price at which shares will be bought off-market is $2.20 per share. The Company is required to state this maximum price per share for off-market purchases, but it is not committing to buy shares at this or any other price and a decision as to any purchases will be made from time to time having regard to market conditions. No maximum is specified for shares brought on-market, but the Company will always disclose the number of shares and the price which it bought them, whether on-market or off-market, before 9.30am on the business day following the purchase being made.

Whether the purchases are on-market or off-market, the Directors will regularly reassess the situation and seek to purchase shares at prices that in their view represents the best value for shareholders. Shares may be acquired on-market between 23 August 2002 and 5 August 2003 and off-market between 23 August 2002 and 5 August 2003.

The Directors believe that, under existing market conditions and with the Company's current share price, extending the buyback programme is a positive way of improving shareholder value and is fair to the Company and all shareholders.

Disclosure Document

Terms of the Offer

On-market Buyback - Section 63 of the Companies Act 1993

- The Company proposes to make one or more offers on the New Zealand Stock Exchange to all shareholders to acquire up to 18.3 million shares in Infratil, pursuant to section 63 of the Companies Act 1993.
- Offers may be made between 23 August 2002 and 5 August 2003.
- The Company will pay the prevailing market price for the shares at the time of purchase. The Company is not obliged to make offers, and reserves the right to cease doing so at any time.

Off-market Buyback - Section 60(1)(b)(ii) of the Companies Act 1993

- The Company proposes to make offers to one or more shareholders to acquire up to 18.3 million shares in Infratil, pursuant to section 60(1)(b)(ii) of the Companies Act 1993.
- Offers may be made between 23 August 2002 and 5 August 2003.
- The Company will pay the prevailing market price for the shares at the time of purchase. The price per share will not exceed $2.20. The Company is not obliged to make offers, and reserves the right to cease doing so at any time.
- Buybacks made in compliance with section 60(1)(b)(ii) of the Companies Act 1993 will not be made from any person that is a Director, Associated Person of a Director or an Employee (as those terms are defined in the Listing Rules) of the Company and will not exceed 10% of the shares on issue at 5 August 2002.

Other Information applicable to both On-market and Off-market Buybacks

- The Company will purchase on the market only in the limited periods of time which follow immediately the announcement of yearly and half-yearly results. This restriction, which limits buying activity to the four months following publication of the half year results and the five months following the full year results, is intended to minimise any risk of the Company buying while it possesses any information which is materially price sensitive but not publicly available. If the Company acquires price sensitive information, it will cease acquiring shares until the information is publicly disclosed.
- The Company intends to hold up to 5% of its shares as Treasury Stock, from those shares first acquired. Treasury Stock comprises shares acquired and held by the Company in itself and which would otherwise be cancelled on acquisition. Subject to certain restrictions, Treasury Stock can be transferred, re-issued or cancelled by the Company.
- The offer has been designed so that the proceeds of sales will not be taxable as dividends to many shareholders. Shareholders who have special tax status, as a result for example of trading securities professionally, should consult their tax advisers. Imputation credits will not be paid in such cases.

Resolutions

To initiate the proposed offer the Board unanimously resolved on 2 August 2002:

- To reserve the right to make one or more offers on the New Zealand Stock Exchange to all shareholders to acquire up to 18.3 million shares in the Company pursuant to sections 60(1)(b)(ii) and 63 of the Companies Act 1993.
- Offers may be made pursuant to section 63 between 23 August 2002 and 5 August 2003 and offers may be made pursuant to section 60(1)(b)(ii) between 23 August 2002 and 5 August 2003.
- To pay the prevailing market price for the shares at the time of purchase, but for purchases made pursuant to section 60(1)(b)(ii) not more than $2.20 per share.
- That the acquisition is in the best interests of the Company and its shareholders and, in respect of purchases made pursuant to section 60(1)(b)(ii), remaining shareholders.
- That the terms of the offer and the consideration offered for the shares are fair and reasonable to the Company and its shareholders and, in respect of purchases made pursuant to section 60(1)(b)(ii), remaining shareholders.
- That it is not aware of any information that will not be disclosed to the shareholders:

  Which is material to an assessment of the value of the shares; and

  as a result of which the terms of an offer and consideration offered for the shares are unfair to the shareholders accepting an offer.
- That the reasons for the Directors' conclusions in the Resolutions above are:

  to maximise shareholder value;

  shareholders have total discretion to choose whether to participate in this buyback. There is no pressure to sell to the Company; and

  the purchase price paid by the Company will not be assessable for income tax as dividends in the hands of many shareholders.
- That the Company have in place reviews and procedures to ensure that it does not acquire shares during the period when material price sensitive information known to the Company is not available to shareholders.
- That the Board is satisfied that the Company will, immediately after acquiring the shares, satisfy the solvency test applied under section 52 of the Companies Act 1993.
- That Mr H R L Morrison, of Morrison & Co Infrastructure Management Limited, is hereby authorised to sign such documents and do such other things as may be necessary or appropriate to complete the buyback.
- That until the Company holds shares in itself equating to 5% of the total number of shares on issue, such shares need not be cancelled but may be held as Treasury Stock by the Company itself.

Directors' interests

	Beneficially held	Non-beneficially held	Held by Associated Persons
K J O'Connor	406,000	240,000	820,000
D A R Newman	17,000	-	-
J K Peterson	-	-	17,271,200
D P Saville	-	-	22,917,142

This Disclosure Document is provided pursuant to sections 61(5) and 63(6) of the Companies Act 1993 and complies with sections 62 and 64 of the Companies Act 1993.

Infratil Limited

Appraisal Report

On the Proposed Changes to the Management Agreement

July 2002

Contents for Appraisal Report

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29 July 2002

Messrs Kevin O'Connor, David Newman & John Peterson
The Independent Directors
Infratil Limited
P O Box 320
WELLINGTON

Dear Sirs

Appraisal Report

1 Introduction

1.1 Background

Infratil Limited ("Infratil" or "the Company") has resolved to extend the range of its investment activities, by way of three proposals:

- First, the establishment of an International Portfolio. The envisaged focus of the International Portfolio will be airport investments in Europe and North America, although other utility and infrastructure investments will be considered. No target level of investment has been set for the International Portfolio, although the Board's initial policy is that no more than approximately one third of Infratil's assets be invested in international utility and infrastructure assets.
- Second, the establishment of a Venture Capital Portfolio. While the initial intention was to establish a fund of up to $30m, Infratil was shortlisted in May 2002 to co-invest in a new Government initiative (see below) and, consequently, the Directors have instead resolved to take advantage of that opportunity. However, prior to making that decision, Infratil had made three investments of a nature that fitted with the intentions of the Venture Capital Fund (being investments in start up technology businesses) and, accordingly, propose to put those investments in the Venture Capital Portfolio. Other investments may also be made by the Venture Capital Portfolio.[1]
- Third, it proposes to commit $20m to a separate new joint investment fund (to be known as the "IO Fund"). The IO Fund is a joint venture between Infratil and Orion New Zealand Limited ("Orion") (a South Island electricity network management company), and is being established under the Government's Venture Investment Fund ("VIF"). The IO Fund is one of six funds currently short listed to invest along side Government in New Zealand based seed, start up and early expansion businesses which are actively commercialising (or intending to commercialise) "innovation". Under the arrangement, Infratil and Orion will invest equal amounts of up to $20m, and the VIF up to $15m (perhaps increasing to $20m).

None of the above Portfolios/Funds will be separately listed but will operate as divisions of Infratil.

Infratil has no management executives of its own, but rather contracts Morrison & Co ("the Manager") to provide all management and investment services. This arrangement is subject to the terms and conditions contained within the Management Agreement dated 11 February 1994, as amended ("the Agreement").

Infratil (through its independent directors) has agreed that the International and Venture Capital Portfolios will be managed by the Manager. In addition, the Manager and Orion NZ Ventures Limited (a wholly owned subsidiary of Orion) will jointly manage the IO Fund through a jointly owned management company, IO Management Limited ("IOML").

[1] At this stage these are envisaged to be either an increased investment in the three inaugural investments, or by way of increasing the investment in IO Fund investees where the IO Fund no longer wishes to invest (or cannot due to a restriction preventing more than 15% of the fund being invested in any one company or related companies, or because an investee has grown out of IO Fund eligibility).

Agreement has been reached as to the terms on which the International and Venture Capital Portfolios will be managed and the fees that will be paid to the Manager for such additional management services. With respect to the IO Fund, the VIF Advisory Board has issued a "Term Sheet" detailing a remuneration proposal for IOML. Infratil has put forward two changes to that proposal (which have been detailed later in this report), and at the time of writing this report the outcome of that negotiation had not yet been settled.

Shareholders are being asked to vote on several resolutions in order to give effect to the associated changes to the Agreement.

As the Manager is a Related Party of Infratil and the management fee is a material transaction, an independent expert report opining on the fairness of proposed changes to the Agreement is required[2]. The Independent Directors of Infratil engaged Andersen Corporate Finance, a specialist financial advisory company affiliated to Andersen New Zealand, to prepare this report. The New Zealand Stock Exchange ("NZSE") Market Surveillance Panel ("the Panel") on 14 January 2002 approved the appointment of Andersen Corporate Finance as an independent appraiser.

With effect from 1 April 2002, Andersen New Zealand merged with Ernst & Young in New Zealand. The Panel confirmed on 10 April 2002 that the previous appointment remained in force, albeit that the report was to be issued by Ernst & Young.

1.2 Purpose of the Report

This report is required to provide an opinion as to whether the revised terms of the Agreement with the Manager are fair to the holders of Equity Securities in Infratil, other than those associated with any relevant Associated Persons[3]. Accordingly, Ernst & Young's role is limited to a review of the revised agreement and to opine on its fairness to non-associated shareholders. In particular, Ernst & Young is not required under the NZSE Listing Rules to opine on the merits or otherwise of the Infratil Board's decision to expand or alter the focus of the Company's investment activities.

Ernst & Young's role relates primarily to consideration of the commercial aspects of the agreement. These have been summarised in the Explanatory Notes circulated along with the Chairman's letter to Infratil shareholders. The commercial terms revising the Agreement are embodied in various detailed draft legal agreements (with respect to the International and Venture Capital Portfolios) and, at the date of this report, a Term Sheet in respect of the IO Fund. Infratil's independent directors have received legal advice to the effect that the formal legal agreements accurately and completely reflect the commercial agreement negotiated between Infratil and the Manager. During the course of our work, and in order to fully understand the commercial agreement, we have been provided with access to various iterations of draft legal agreements. Although the scope of our engagement does not extend to a formal legal review, nothing has come to our attention during our review that cause us to believe that the final draft legal agreements do not accurately embody the intention of the commercial agreement between Infratil and the Manager.

1.3 Definition of "Fair"

There is no statutory definition of "fair" in New Zealand law or in the NZSE Listing Rules.

Our appraisal of the fee arrangement evaluates "fairness" from an independent perspective, which considers whether the amendments to the Agreement are equitable to Infratil's non-associated shareholders and whether the proposed amended Agreement is consistent with that which might have been agreed on an arm's-length basis between non-associated parties.

1.4 Other Matters

This report should be read in conjunction with the statements and declarations made in Appendix 1, regarding our disclosure of interests, qualifications, restrictions upon the use of this report, and disclaimers and limitations of liability.

2 Executive Summary

The management fee payable on the International Portfolio will consist of a base fee of 1.5% per annum of the aggregate cost of the assets, and an incentive fee calculated as 20% of the excess returns of the portfolio over an after-tax hurdle rate of 12% (per annum compounded).

The incentive fee will take account of both realised and unrealised changes in the aggregate fair market value of the portfolio (the latter being determined by annual independent valuation), and will only be payable so long as the portfolio aggregate fair

[2] Under NZSE Listing Rule 9.2. See the Notes to the Resolutions in the Notice of Meeting for details.

[3] See NZSE Listing Rule 1.2.

market value exceeds aggregate cost. Incentive fees will not be calculated or paid on any assets until they have been held for at least two years[4]. The first calculation of incentive fees will be paid in full (if any are due) for the relevant period. Subsequently, revaluations will be annual but any incentive fee due will be payable in three equal annual instalments, subject to the value gain being sustained over that three year period.

In respect of the fee arrangement for the International Portfolio, we have concluded that the arrangement is reflective of an arms length negotiation having had regard to the following matters:

- The base fee falls at the upper end of (but not outside) the range observed from international comparable funds, and in view of the size of the International Portfolio we view this as not unreasonable.
- The percent of excess return shared with the Manager (being 20%) is supported by our comparable funds research. Most comparable funds utilise a market index rather than a fixed hurdle rate of return (which is the approach adopted by Infratil). We consider that a fixed 12% hurdle rate is reasonable and, on balance, likely to be a more stringent test than using a market index.
- The requirement to show a sustained return over three years, in order to be paid 100% of the calculated incentive fee, is to the advantage of Infratil and a positive attribute of the proposal.

The management fee payable on the Venture Capital Portfolio will comprise a base fee calculated as 2.0% per annum on the first $7.5m of cost per asset, reducing to 1.2% above $7.5m cost per asset, plus an incentive fee. However, if the aggregate fair market value of the portfolio is less than the aggregate cost, then the base fee shall be payable on the lower fair market value amount.

The incentive fee payable to the Manager will amount to 20% of the realised excess return over a pre-tax hurdle rate of 17.5% (per annum compounded). To the extent that subsequent asset sales reduce the aggregate realised return below the 17.5% threshold then the Manager (subject to certain limitations) may be required to refund incentive fees previously received.

In respect of the fee arrangement for the Venture Capital Portfolio, we have concluded that the arrangement is reflective of an arms length negotiation, and indeed is more stringent than arrangements evident from our research of management fee arrangements for comparable funds. In particular, we note the following:

- The base fee, which is set at a maximum of 2.0%, is considerably less than that payable on comparable funds having regard to the likely size of the portfolio.
- With respect to the incentive fee arrangement, we note that the hurdle rate of 17.5% pre-tax is higher than the vast majority of observed hurdle rates. Even putting aside the more stringent hurdle rate, the calculation mechanism proposed by Infratil differs to the "market" approach, and is more stringent.

The final fee arrangement in respect of the proposed IO Fund is not yet finalised at the date of this report. By necessity then, part of our analysis of the proposal has been to consider the possible range of permutations of the final arrangement, in order to form a view on the "worst case" arrangement from the perspective of Infratil's shareholders.

The management fee arrangement proposed by VIF involves the payment of a base fee of 2.5% per annum of the Capital Commitment for the first three years, 2.5% per annum on the Net Invested Capital (at cost) for the next three years with the 2.5% reducing by 0.5% per annum beginning after the sixth year (so as to reduce to zero after the tenth year), and an incentive fee such that the manager would receive 20% of the increase in the value of the IO Fund, subject to the fund first having returned all the Committed Capital plus an 8% per annum preferential return to the investors.

Infratil has proposed that the base fee payable on its Capital Commitment and Net Invested Capital (at cost) be reduced to 2.0% per annum (being the same percentage as applying to the Venture Capital Portfolio) for the life of the IO Fund. Further, as assets are realised and distributions are made to the investors, Infratil proposes to pay the manager an incentive fee on its realisations calculated by reference to the return on those individual assets rather than first having to receive all its Committed Capital (plus the 8% preferential return). Similar to the Venture Capital Portfolio, Infratil propose that a rebate mechanism (for non-sustained performance) would apply to the modified incentive fee mechanism.

[4] Infratil considers that a reasonable period should elapse from purchase until the first fee calculation in order to give sufficient time for any acquisition business plan to be implemented and to ensure that the valuer can observe actual performance against acquisition case projected performance.

Having analysed the various possible permutations of the final management fee arrangement, we have formed the view that the "worst case" structure would be a combination of the downward scaling 2.5% per annum base fee (i.e. the VIF proposal) and an incentive fee structured in the manner proposed by Infratil (i.e. progressive payment). In our opinion, having regard to the following matters, we consider that the "worst case" scenario would still fall within the bounds of that which might have been negotiated between unrelated, arms-length parties:

- The proposed 2.5% per annum base fee is well supported by comparable funds of similar sizes. In particular, we note that the percentage is the same as that applying to the recently established JB Were Private Equity Fund (the only New Zealand fund in our primary sample of 24 comparable funds). Any reduction in the base fee (such as the 2.0% per annum flat proposed by Infratil) is most likely to the benefit of Infratil's shareholders.
- Both the 8% hurdle rate and the mechanism by which the incentive fee is calculated (and any excess returns shared between the investors and the managers), are well supported by our research of comparable funds.
- Infratil's proposed modification to the way in which excess returns are shared between it and Morrison & Co has the effect of making earlier incentive fee payments to the Manager (in comparison to the VIF proposal). It is a matter of judgment as to whether the "cost" of this modification (being a function of the time value of money) is outweighed by the benefits of a better incentivised manager. The cost would be further offset for the first six years and most likely overall by a reduction in the base fee to 2.0% per annum if that modification were also accepted.
- The terms of the IO Fund have been proposed by (and are being negotiated with) an unrelated party, which is by itself, persuasive evidence of the arms-length nature of any final arrangement with VIF.

Finally, we note that in respect of the IO Fund, Infratil and Orion have the option to buy out the VIF within the first 5 years at a price which provides a Government bond rate return to the VIF. While we have not quantified this benefit (as it falls outside our examination of the related party management fee arrangements), we nonetheless believe that it is a positive feature of the VIF proposal from the perspective of Infratil's shareholders.

In conclusion, in the opinion of Ernst & Young the proposed amendments to the Agreement between Infratil and the Manager, as well as management arrangements with respect to the IO Fund which will be embodied in a separate agreement, are fair to the non-associated Equity Securityholders of Infratil.

3 The Management Agreement

3.1 Existing Management Agreement

Currently, the Agreement provides that Infratil must pay management fees to the Manager on a monthly basis. The monthly fee is a function of Infratil's total value at the payment date.

The Agreement states that management fees must be paid within 7 days of each Relevant Date, calculated as one twelfth of the sum of the following:

a) 1.125% of Company Value up to $50m

b) 1.0% of Company Value over $50m and up to $150m

c) 0.8% of Company Value over $150m

"Company Value" is defined by the Agreement to comprise:

- Market Capitalisation - "The weighted average market price of the Company's Securities on the Exchange over the five Trading Dates ending on (and including) the Relevant Date as calculated by the Manager"
- **plus** Total Debt - "The book value of the total debt of the Company"
- **less** Unallocated Funds - "Unallocated Funds plus the market value of any Securities in which Unallocated Funds have been invested..."

"Relevant Date" is defined by the Agreement to mean "the last day of each calendar month in each year...or the date on which the agreement terminates or if any of those dates fall on a day that is not a Trading Day means the respective immediately proceeding Trading Day".

3.2 Proposed Amendments to the Management Agreement

In support of the three resolutions being put to a vote of shareholders, Infratil has provided shareholders with a letter from the Chairman and attached Explanatory Notes. Rather than detail again the relevant proposed changes to the Agreement, we refer readers to the Chairman's Letter and Explanatory Notes and provide in sections 3.2.1 to 3.2.3 below a brief summary of the key changes.

3.2.1 International Portfolio Management Fee

The International Portfolio will consist of investments in utility and infrastructure assets outside of New Zealand. Initially, the aggregate value of these investments is restricted to less than one third of Infratil's total assets, although this limit may be revised at the discretion of the Board.

The management fee will consist of two parts:

a) A **base fee** of 1.5% per annum on the "cost" of International Portfolio investments (excluding Australian investments), calculated and payable monthly in arrears. The "cost" is defined to include the cost (including capitalised transaction costs) at the time of acquisition, the amount of debt at the date of calculation (where the assets are wholly owned), and net realised and unrealised foreign exchange gains/losses incurred from any hedging of foreign exchange risk related to the international assets. The Company Value (as defined above in section 3.1) on which the existing management fee is based will be reduced by the "cost" base of the International Portfolio, so that base fees for New Zealand and Australian assets remain subject to the existing lower fee structure.

b) An **incentive fee** of 20% of the excess returns over an after-tax hurdle rate of 12% (per annum compound). The return on the International Portfolio includes the returns to all international investments (including Australian assets) and is calculated to take account of realised and unrealised changes in aggregate fair market value, as determined as at each 31 March, and net income (including dividends and other distributions, tax benefits, and net realised and unrealised foreign exchange gains or losses). The test for excess return is at an aggregate level rather than asset-by-asset. Furthermore, incentive fees will only be payable if the aggregate fair market value is maintained above the aggregate cost price of the subject assets.

   In order to calculate unrealised gains or losses in the fair market value of the International Portfolio assets from one year to the next, an independent valuer will be engaged. Infratil and the Manager can also reach agreement as to the fair market value of any particular asset at any particular 31 March without engaging an independent valuer.

   Assets will be initially included for the purpose of an incentive fee calculation on the first 31 March after they have been held for at least two years, and any such incentive fee will be paid in full. When a series of investments (even if in different types of securities) have been made in the same entity, the aggregate investment in that entity will be used to calculate the incentive fee, so long as the first investment was made at least two years previously.

   When assets have been held for at least three years, incentive fees calculated based on that third (and successive) year's value gain are payable in three equal annual instalments subject to the value gain being sustained[5]. Incentive fee instalments outstanding are paid out in full, however, on termination of the Fund (except if terminated by the Manager). Similarly, when the asset is sold the realised return is calculated (by reference to the deemed fair market value at the previous 31 March, or if no such value the cost) and any incentive fee paid in full.

All fees are payable in New Zealand dollars, and will attract GST (if applicable) in addition to the amount calculated in accordance with the above. Fees may be paid in Infratil shares (rather than cash) at the election of Infratil.

We note that Infratil has already made two overseas investments (in the Glasgow Prestwick group of companies and in Energy Developments Limited). The investment in Glasgow Prestwick (and further investments in the business, if any) is specifically excluded from the International Portfolio for the purposes of fee calculations (and accordingly, will be treated the same as a New Zealand asset for management fee purposes).

[5] In order to receive the second (third) instalment the fair market value of the relevant assets at the instalment date plus any subsequent net income receipts between the first instalment and second (third) instalment date must be at least equal to the base on which the incentive fee was calculated one (two) year(s) earlier. If some or all of the assets to which the outstanding instalments relate are sold, then the net sale proceeds are substituted for fair market value amount in the calculation.

3.2.2 Venture Capital Portfolio Management Fee

The parties have agreed that three recent investments by Infratil (being Plato Health Systems, PayGlobal and Victoria Electricity)[6] will be included within the Venture Capital Portfolio, as well as any additional investment in these three companies. Other "Venture Capital"[7] will be restricted to investments in IO Fund investees where the IO Fund does not wish to, or cannot (for reasons of restrictions on the amounts invested in individual companies, or because an investee has grown out of IO Fund eligibility) increase its investment. No investment above $7.5m in a single entity can be made without first seeking Infratil Board approval. The Venture Capital Portfolio will have an initial life of three years (deemed to end on 1 July 2005), which may subsequently be extended by successive two year periods at the election of the Company.

The management fee will consist of two parts:

a) A **base fee** of 2% per annum on the first $7.5m "cost" of the aggregate investment in an individual entity, and 1.2% per annum on the investment cost per entity above $7.5m.[8] The "cost" is deemed to comprise acquisition cost plus capitalised transaction costs, the value of legally contracted commitments to advance further funds, the debt of wholly owned entities, and distributions received in respect of investments still held.

   However, if the aggregate fair market value[9] of the Venture Capital Portfolio is less than the aggregate "cost", then base fees for up to the previous 12 months will be recalculated on the lower aggregate fair market value rather than the aggregate cost amount. In these circumstances, the Manager will return the overpaid base fee to Infratil.

   The fee is calculated and payable monthly in arrears. To avoid double counting (as the funds are progressively invested), the Company Value on which the existing management fee is based is reduced by the aggregate cost base applicable to the Venture Capital Portfolio.

b) An **incentive fee** of 20% of realised excess returns over a pre-tax hurdle rate of 17.5% (per annum compound). For the purpose of measuring the realised returns of the Venture Capital Portfolio, the calculation will initially take account of all assets realised up to 1 April 2005, and, if extended, over successive two yearly periods thereafter.

   Each time an asset is sold[10] the aggregate return on all realised investments during the relevant period (i.e. the initial period up to 1 April 2005, or each two year period thereafter if the Venture Capital Portfolio is extended) is calculated. The returns are calculated pre-tax and take into account net sale proceeds, as well as base management fees previously paid in relation to the disposed assets and incentive fees previously paid on the Venture Capital Portfolio.

   Previously paid incentive fees will be rebated to the extent that the overall realised return of the fund over the relevant period is less than 17.5% pre-tax per annum, although the Manager's liability is limited to the total of incentive fees previously paid. Incentive fees payable to the Manager, or refundable to Infratil, are due within 7 business days of each divestment.

As part of the two yearly review of the Venture Capital Portfolio (the first review to be completed on 1 July 2005), Infratil will also consider the treatment of unrealised value gains for incentive fee purposes. The Company may elect to deem that all remaining investments are divested at their fair market value (and an incentive fee calculated accordingly) at the review date. If this treatment is determined, then the opening cost base for the next two year period shall be the aggregate fair market value of those investments, and the deemed purchase date shall be the review date.

All fees are payable in New Zealand dollars, and will attract GST (if applicable) in addition to the amount calculated in accordance with the above. Fees may be paid in Infratil shares (rather than cash) at the election of Infratil.

[6] Total funds invested in, or committed to, these three companies are less than $7m.

[7] See the Explanatory Notes for a definition of this type of business.

[8] The Venture Capital Fund may also invest in securities already held by the IO Fund. The additional investment or commitment to invest in such securities (over and above that committed through the IO Fund) will attract a base fee of 1.2% per annum.

[9] The Venture Capital Portfolio will be initially valued on 31 March 2005 and annually thereafter by independent valuation or agreement between the Manager and Infratil.

[10] In certain circumstances, an asset held within the Venture Capital Portfolio or through the IO Fund may be transferred to Infratil's Utility Portfolio (being the depository of investments not falling under the International or Venture Capital Portfolios). Such a circumstance is where the Manager wishes to sell a Venture Capital Portfolio or IO Fund investment and the Company wishes to retain it for the Utility portfolio. In these circumstances, the asset is deemed to be disposed for the purpose of incentive fee calculations at fair market value (either as determined by an independent valuer or agreed between Infratil and the Manager).

3.2.3 IO Fund Management Fee

The IO Fund will make investments in New Zealand based seed, start-up and early expansion businesses, which are actively commercialising (or intending to commercialise) "innovation".

At this stage, the VIF has committed a total of $15m and Infratil and Orion have each committed $20m to the IO Fund (creating an aggregate fund of $55m). These funds will be committed upon establishment of the IO Fund. We understand that the VIF commitment may be raised to $20m. This would increase the aggregate commitments to $60m.

The maximum investment in any company or associated companies is 15% of the total committed capital. While the life of the fund is yet to be agreed, the VIF requires a cash exit mechanism from the 10 year point. The IO Fund also provides an option to buy out the VIF at any time up to the end of year five, such that the VIF receives its Net Committed Capital plus a semi annual compounded return equal to the five year Government bond rate prevailing on the date that the IO Fund is established. As at 11 July 2002, the November 2006 Government bond rate is 6.37% per annum.

Morrison & Co and Orion will jointly manage the IO Fund through IOML. On 29 May 2002 the VIF sent a Term Sheet setting out a proposed management fee. In view of the agreement reached with the Manager in respect of the Venture Capital Fund, Infratil has sought approval for two modifications to the VIF term sheet proposal, which would apply to the Infratil portion of the IO Fund only (and would also impact only the fee paid by Infratil indirectly to Morrison & Co through IOML). At the date of this report, no outcome has been reached though, if agreed as requested, the resulting position would be that:

- Morrison & Co would be remunerated by Infratil (in respect of Infratil's commitment to the IO Fund) on the modified VIF arrangement currently being negotiated by Infratil and VIF;
- Orion NZ Ventures Limited would be remunerated by Orion (in respect of Orion's commitment to the IO Fund) on whatever basis might be agreed between them and/or VIF; and
- Both Morrison & Co and Orion NZ Ventures Limited would be jointly remunerated on the unamended VIF basis in respect of VIF's commitment to the IO Fund.

We summarise below both the VIF Term Sheet and the modifications requested by Infratil.

a) The VIF propose a base fee of 2.5% per annum of the Capital Commitment for the first three years, 2.5% per annum on the Net Invested Capital (at cost) for the next three years with the 2.5% reducing by 0.5% per annum beginning after the sixth year (so as to reduce to zero after the tenth year), paid quarterly in advance.

   Infratil has proposed a reduction in the base fee payable on its Capital Commitment and Net Invested Capital (at cost) to 2.0% per annum for the life of the IO Fund.

b) The VIF proposes an incentive fee payable to IOML. The proposal is such that IOML would receive 20% of the increase in the value of the IO Fund, but only after the Fund has returned (in cash) all the Committed Capital plus an after tax 8% per annum preferential return to the investors (we refer to this as the "preferential" approach).

   Infratil has proposed a modification to the above arrangement such that Morrison & Co is entitled to its share of the incentive fee on distributions to Infratil as investments are realised, rather than having to wait until all Net Invested Capital is first returned to Investors (we refer to this as the "cumulative" approach). Infratil would still retain a preferential right to the first 8% per annum compounded return on any realisation. Similar to the Venture Capital Portfolio incentive fee, there would be a rebate provision applicable to the extent that second and subsequent realisations reduce the realised cumulative after tax return below 8% per annum.

Having regard to the various permutations of the final management fee that may be agreed, we consider that the "worst case" structure (i.e. the one with the greatest cost to Infratil's shareholders from a purely quantitative perspective) would be a combination of a scaling down 2.5% per annum base fee and a cumulative incentive fee structure. We consider that because the extra 0.5% per annum for the first six years is likely to be a greater cost than the benefits of the subsequent lower base fees on a declining portfolio in subsequent years the Infratil proposal of a base fee of 2.0% per annum flat is most likely to have a lower overall cost than the VIF proposal.

4 Evaluation of Proposed Amendments

In this section we evaluate the fairness to non-associated Infratil shareholders of the proposed amendments to the Agreement, as well as management arrangements with respect to the IO Fund which will be embodied in a separate agreement, according to two criteria.

First, in section 4.1, we survey comparable management fee contracts in place in relevant industries and geographies, and compare and contrast the features of those arrangements with those proposed for Infratil.

Second, in section 4.2, we consider more generally the qualitative aspects of the proposed fee structures, including the likely incentive effects of the proposed arrangements under various conceivable scenarios.

We report in section 5 our overall opinion regarding the fairness of the proposed changes to the various management agreements involving Related Parties.

4.1 Comparable Market Data

We have gathered data on the structure and level of management fees payable for a number of comparable funds within the global marketplace. While our research has provided a range of fee structures for funds with broadly similar characteristics to the proposed new Infratil Portfolios, we note that no other fund is a perfect comparison and accordingly this data should be viewed as purely indicative of reasonable ranges of fee levels, and of common fee structures that have evolved in the marketplace.

Empirical research suggests that optimal fee structures will differ between funds, even those of the same type and with the same investment objectives, to reflect factors that include[11]:

- Differences in manager marginal product, or the incremental value that can be added to the fund by the manager. Higher manager marginal product should be rewarded with higher marginal management fees.
- Differences in the difficulty of monitoring performance. The more difficult it is for shareholders and directors to monitor and measure management performance; the more reliance that must be placed on manager incentives to ensure that the manager exerts optimal effort (see section 4.2).
- Differences in fund costs. For example, due to economies of scale, the larger the fund (or the larger the family of funds to which the fund belongs), the lower the average cost per dollar of investment. In a competitive environment, economies of scale savings are likely to be passed on to investors.

Consistent with factors such as those listed above, funds that invest in foreign assets have been demonstrated in large-scale empirical studies to incur significantly higher marginal manager compensation than domestic funds[12].

Further, fees levied by private equity (which broadly can be defined to include venture capital, buyout, and unlisted infrastructure funds) managers are generally higher than for other asset classes (such as bonds and equities of listed companies) as the sourcing, purchasing, monitoring and realisation of investments in private companies is more labour intensive per dollar invested[13].

4.1.1 International Portfolio

A summary of the terms of the management agreements for a sample of comparable infrastructure funds is attached in Appendix 2. These five funds, all of which are managed by Australian based firms and are listed (or aim to eventually become listed), exhibit similar fee structures. The comparative management agreements comprise two components:

1) **Base Fee.** All base management fees in the sample fall in the range of 1.0% to 1.5% of some notion of book or market asset value. Two of the funds have a tiered base fee structure, where the marginal percentage fee decreases as the size of the fund grows above a certain threshold.
2) **Performance (or Incentive) Fee.** For all listed infrastructure funds in our sample, performance fees are calculated as 10% to 20% of the excess return over, typically, a benchmark return. Benchmarks observed include the Australian All Industrials Accumulation Index and the MSCI World Transportation Infrastructure Index. For two out of the five funds, performance fees earned in any one year are payable in three annual instalments, subject to sustained excess performance. For the others, the full performance fee is payable immediately at the end of the year in which it is earned, with no rebate provisions.

[11] Deli, D. (2001), *Mutual Fund Advisory Contracts: An Empirical Investigation*, University of Delaware.

[12] Deli, D. (2001).

[13] "*How to invest in private equity*", British Venture Capital Association, 2001.

4.1.1.1 Analysis of Base Fee Component

Infratil proposes a management fee of 1.5% per annum of the cost base (as defined above in section 3.2.1) for assets domiciled outside of Australia and New Zealand. This falls at the upper end of (but not outside) the observed range as recorded above. We view this as being not unreasonable, given that, at a maximum size of one third of Infratil's current portfolio of approximately $800m (based on total assets as at 31 March 2002), the International Portfolio will be considerably smaller than most of the comparable funds, and therefore less economy of scale efficiencies are likely to benefit the Manager.

4.1.1.2 Analysis of Incentive Fee Component

Infratil proposes a fee of 20% of excess performance above 12% per annum, payable in three annual instalments subject to sustained performance. There are three aspects to the incentive fee, which we comment on below, being the percent of excess return paid to the Manager; the hurdle rate used to calculate the excess return; and the instalment mechanism.

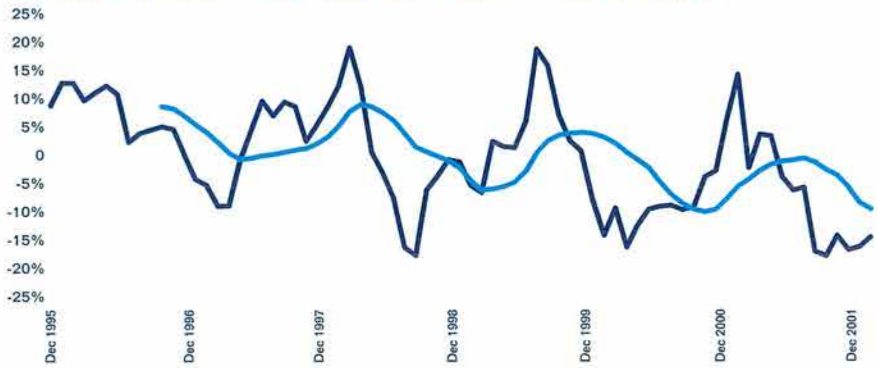
First, we observe that the percent of the excess return that may be paid to the Manager falls at the upper end of our comparable range (but not outside of it).

Second, Infratil has agreed a fixed hurdle rate (of 12% per annum) rather than a market index benchmark return, which is the prevalent base observed for the comparable funds. Indeed, only one of the comparable funds sets a fixed hurdle rate (of 12% per annum) while it remains unlisted and, at listing, it reverts to the use of a market index for incentive fee calculation purposes.

We understand that Infratil and the Manager considered the option of measuring performance against a variable market return. However, it was concluded that an absolute benchmark return imposes a higher performance yardstick, as using a market index benchmark may result in low returns being rewarded due to poor overall market conditions. For example, in a year where overall market returns are negative, a performance fee could be earned on a negative return (so long as the return was not as poor as the market index).

To illustrate, recent market returns of one of the market index benchmarks utilised by comparable funds are presented in Figure 1 below. Note that the one year moving average has often been below 0% in the last six years.

Figure 1: Market Benchmark Returns – MSCI World Transport Index: % Change Previous 12 Months and 1 Year Moving Average



Based on our analysis of the recent historic returns on the various comparable funds, we consider that a fixed 12% hurdle rate is reasonable and, on balance, is likely to be a more stringent test than the use of a market index.

Finally, all other things being equal, the requirement to show sustained returns over three years in order to earn the entire incentive fee is to the advantage of Infratil, and a positive attribute of the proposed management arrangements. We note that the management contracts of three of the comparable funds do not require any portion of the incentive fee to be placed at risk. However, as these funds are listed they are able to use market prices to calculate fund returns. In theory, prices derived from an efficient security market will be more reliable than valuations, as they are less subject to biased error[14] and manipulation. We understand that the risk of valuation error or bias was a prime motivator of Infratil when negotiating an instalment approach with the Manager.

A further positive attribute of the Infratil proposal is that incentive fees are not payable until the investment, or series of investments, in a particular entity has been held continuously for at least two years. This means that the valuer has at least two years of track record to consider when valuing the investment, and should therefore, reduce the risk of getting the valuation materially wrong.

4.1.1.3 Conclusion

Overall, it is our view that, quantitatively, the fees proposed for the International Portfolio are consistent with, and not greater than, those observed for comparable funds. From a qualitative perspective, the requirement for sustained performance represents a more stringent test for the Manager than for average comparable funds.

4.1.2 Venture Capital Portfolio and IO Fund

According to market commentary, internationally, venture capital funds exhibit a fairly standardised fee structure.[15] The "market standard" fee structure for unlisted private equity funds comprises two components:

1) **Base fee** is usually in the range of 1.5-2.5% per annum on committed capital. This fee tends to vary inversely with the fund size. In some cases, the fee reduces in later years following the conclusion of the commitment or investment period.

2) **Carried Interest** (or the percentage of profits that goes to the manager) has traditionally been 20% of returns, and the vast majority of funds maintain this level of carried interest. However, recent evidence from the US suggests that many top performing venture capital funds are raising their carried interest to up to 30%. Carried interest applies once the investors' original capital has been repaid. It is also sometimes subject to a "preferred return" or "hurdle rate", however this is far more common for buyout funds than venture capital funds. The market standard hurdle rate is 8%, while rates in the range of 6-12% are not uncommon (if such a rate applies at all). The following quotation illustrates a standard profit allocation methodology:

   "....profits are allocated 99/1 until the limited partners' capital has been returned plus an eight per cent compounded interest component, then 99/1 to the general partner until allocations of profits are in harmony (80/20) on a cumulative basis, and then 80/20 thereafter. For some reason, the hurdle rate is a one time event; that is, if the general partner hits a winner early in the partnership's lifetime, when the investors have contributed, say, only 15% of their committed capital and the investors recoup that 15% plus 8% interest the hurdle obligation is forever satisfied. The market standard is that the hurdle rate is not calculated on a year-by-year basis throughout the life of the fund."[16]

The salient features of the management agreements for a sample of unlisted venture capital funds (based in the US, Europe, Australia and New Zealand) are attached as Appendix 2. We note that in general, these examples support the above generalisations.

[14] Biased errors are more likely to be in one direction or another (e.g. always positive), as opposed to random errors which are just as likely to be positive as they are to be negative, and so will cancel each other out on average.

[15] References include: Bartlett, J. (2001) "Setting the Market Standards", http://www.privateequityonline.com; Lerner, J. (2001) The Future of Private Equity: Research and Hypotheses, Presentation; Gomers and Lerner (1991) "How are Venture Capitalists Compensated?" in *The Venture Capital Cycle*, Harvard Business School; "Private Equity Primer", *Asset Alternatives*, http://www.assetnews.com/ped/primer.htm.

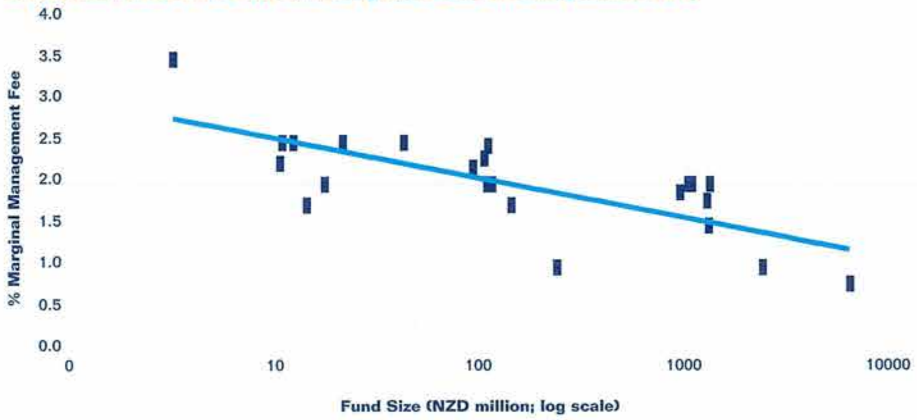
[16] Note that the traditional structure of such funds in the US is that the general partner (or manager) contributes 1 percent of the capital and the limited partners (or investors) contribute 99% of capital. This was originally on account of taxation reasons. Source: Barlett, J. (2002), "To market, to market: An overview of best market practice for negotiating the terms and conditions of venture capital and buyout funds." *Private Equity International, (2)*: 40-43

4.1.2.1 Analysis of Base Fee Component

Nearly all base fee arrangements in our sample fall in the range of 1.5-2.5% per annum of committed capital. Additional features observed for several of the funds include a tiered fee structure where marginal base fees reduce as fund size increases, and overall base fees that decrease following the initial investment period. Included in our sample of 24 comparable funds is one New Zealand fund (recently established by JB Were), which has a 2.5% per annum base fee payable on Committed Capital of $40m.

Figure 2 below illustrates the relationship between fund size and marginal base management fee (which represents the fee payable on an additional dollar of committed capital given the current/target size of the fund) for the unlisted private equity funds in our sample.

Figure 2: Unlisted Private Equity Funds – Inverse Relationship between Fund Size and % Marginal Base Management Fee



As expected, a strong inverse relationship between fund size and marginal management fee is evident.

- Although there is no current restriction on the size of the fund, if we assume that the committed capital of the Venture Capital Fund was $10m then, based on the trend line for the sample, the marginal management fee would be 2.64% per annum. Assuming $5m committed capital then the trend line suggest a base fee of 2.78% per annum. In contrast, we note that Infratil and the Manager has agreed a maximum base fee of 2% per annum.
- In respect of the IO Fund, if we assume that the maximum committed capital of the fund was $55m (i.e. $20m from Infratil and Orion, and $15m from VIF) then based on the trend line for the sample, the marginal management fee would be approximately 2.28% per annum. Based on a committed capital of $60m (i.e. $20m from each party) then the trend line suggests 2.26% per annum. In contrast, the VIF are proposing a scaling down 2.5% per annum base fee (as noted above the base fee for the JB Were Fund, which has a committed capital of $40m, is fixed at 2.5% per annum), although Infratil has suggested a reduction to a 2.0% per annum base fee on its portion of Committed Capital.
- The relative difference in cost over the life of the fund between the downward scaling 2.5% per annum proposed by VIF and the 2.0% per annum proposed by Infratil is dependent on the timing of asset sales, and the amounts realised. While the life of the fund is indefinite, any of the investors may terminate the fund (after giving suitable notice) with effect from the end of the tenth year on. Further, we understand that the parties expect asset sales to have reduced, and continue to reduce, the Net Invested Capital (at cost) so as to lower the base on which the base fee is calculated. Taking these factors into account, we consider that the 2.0% per annum base fee proposed by Infratil is likely to cost less overall than retaining VIF's downward scaling 2.5% per annum base fee.

4.1.2.2 Analysis of Incentive Fee Component

The large majority of the funds in our sample also carry a performance fee (or carried interest) structured in the manner described above in 4.1.2 (2), such that the manager receives 20% of realised returns once investor capital (and the preferred return if applicable) has been repaid. Of our sample funds, 25% have no specified hurdle rate (so that the incentive fee is paid once investors' funds are returned), and 60% have post-tax hurdle rates between 8% and 10%[17].

With one exception, the comparable funds are structured such that the investor's capital plus a preferential return is paid out before the manager is entitled to their share of the excess return. The same "preferential" approach has been proposed by the VIF for the IO Fund.

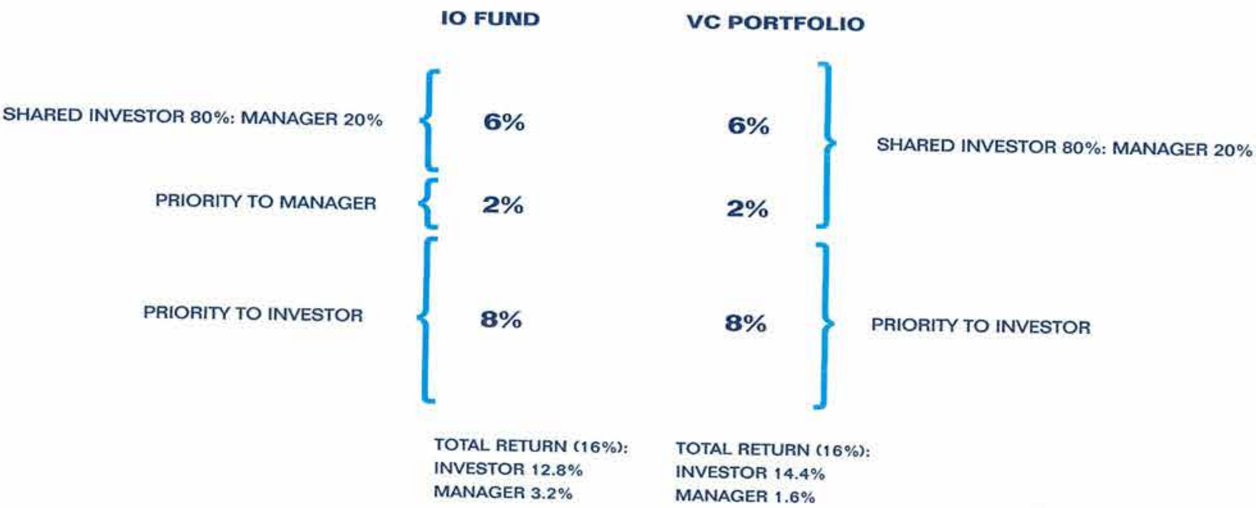
This "preferential" approach has two subtle, but important, differences to the structure proposed for the Venture Capital Portfolio.

- First, while the investor has priority for the first, say, 8% compounded return, the manager has next priority to the return up to the point that an agreed sharing basis (such as 80/20 to the investor) is restored. Thereafter, any additional return is shared on a consistent basis (e.g. 80/20 to the investor). In contrast, under the Venture Capital Portfolio, the Manager only shares 20% of any excess return over 17.5% pre tax with no second priority to some portion of the marginal return above 17.5%.

  In Figure 3 we illustrate this difference, where we have assumed the same hurdle rate (8%) applies to both the IO Fund and the Venture Capital Portfolio and that the parties have agreed to share "excess" returns 80/20 to the investor.

  Accordingly, even putting aside the impact of different hurdle rates, the Venture Capital Portfolio mechanism is more stringent.

Figure 3: Illustrative Example of Different Methodologies for Sharing Returns



- Second, under the "preferential" mechanism, the manager is not entitled to any incentive fee payment until all capital has been returned to the investor (regardless whether all individual investments have been realised). In contrast, under the Venture Capital Portfolio, the Manager is entitled to an interim incentive fee so long as the return on the particular realised investment exceeds the hurdle rate of return (subject to rebates should subsequent realisations dilute the cumulative return over time).

[17] The remaining 15% represents three funds: one uses the benchmark index return as the hurdle rate, the second fund uses a 12% pre-tax hurdle rate, and the remaining fund has a 20% hurdle rate although the manager shares 33% of the excess return (rather than the 20% norm).

We observe that the hurdle rate of 17.5% pre-tax applying to the Venture Capital Portfolio (adjusted to a post-tax rate of say 11.7%), is higher than the vast majority of comparable post-tax hurdles rates. All other things being equal, a higher hurdle rate than a "market" benchmark is to the benefit of Infratil's shareholders rather than the Manager (although if the hurdle rate was too high such that it was seen by the Manager to be unachievable then it may not create the intended incentive). In addition, as noted above, the hurdle rate mechanism agreed between Infratil and the Manager is more stringent than the mechanism used in all but one of the comparable funds.

In regard to the IO Fund we note that the 8% hurdle rate is well supported by the comparable funds and, for example, is the same as that applicable to the JB Were Fund. In addition, the preference to both the return of the capital outlay and an 8% return is consistent with the observed standard structure for similar funds.

Infratil are proposing to modify the VIF proposal so that the Manager is entitled to incentive fees as investments are realised, rather than having to wait until all capital has been first returned to Infratil. The incentive fee payments would be subject to the rebate mechanism agreed for the Venture Capital Portfolio, and Infratil would remain entitled to a preferred return of 8% before the Manager was entitled to any incentive fee.

Based on our analysis, the key difference between the modification proposed by Infratil and the VIF proposal relates to the timing of incentive fee payments to the Manager. Conceivably, under the VIF proposal the Manager would not be entitled to any incentive fee until the last investment is realised. If the Infratil modification were accepted then the Manager might be entitled to incentive fees as each investment is realised, such that, taking into account the time value of money, the value of those fees would be greater than under the VIF proposal. The cost of earlier payment of fees has to be weighed against the benefits of a better incentivised manager. In addition, if both Infratil modifications were accepted then the cost of earlier incentive fee payments would be further off set by the reduction in the base fee to 2% per annum.

4.1.2.3 Other Comparable Indicators

We have also analysed a sample of Listed Investment Trusts in the United Kingdom, considering only those which focus on investment in unlisted companies. Key features of the management fees payable on a sample of seven such companies are set out in Appendix 2. Although these companies differ in structure from unlisted private equity funds, we observed a similar fee structure to that previously discussed. We note the following points:

- **Base fees** range from 1.5% to 2.25% per annum, and are based on some notion of investment or asset value. We note however, that the trust with the highest base fee (2.25% per annum) pays no performance fee to its manager. In several cases the percentage fee reduces as fund size increases. An inverse relationship between marginal base management fees and fund size was again observed.
- **Performance fees**, or carried interest, are in the range of 10%-20%, with 10% being the most common percentage performance fee in this group of funds. The most common hurdle rate is again 8%, however one trust in our sample carried a hurdle rate of 15% and another had none at all. For two of these funds, the performance fee is based on the excess return above the hurdle rate rather than total returns.

4.1.2.4 Conclusion

Overall, it is our assessment that the fees proposed for the Venture Capital Portfolio are more stringent than those observed for comparable funds.

With regard to the IO Fund, the final fee structure has not been determined at the date of this report. Having regard to the various permutations of the final management fee, we consider that the "worst case" structure (i.e. that with the greatest cost to Infratil's shareholders from a purely quantitative perspective) would be the combination of a scaling down 2.5% per annum base fee and a cumulative incentive fee structure. We consider that such a "worst case" (if it were to eventuate) would still fall within the bounds of that which might be negotiated between unrelated, arms-length parties. In coming to that view we note that:

- The 2.5% per annum base fee would be higher than that applicable to the Venture Capital Portfolio (2.0% per annum) but still remains within the comparable range and, indeed, is well supported by comparable funds of similar sizes. We have not given significant weight to the base fee reducing by 0.5% per annum after the sixth year as it is expected that asset sales will have reduced, and will continue to reduce, the Net Invested Capital (at cost) so as to lower the base on which the base fee is calculated.
- Although the application of the required rate of return is fundamentally different between the IO Fund and the Venture Capital Portfolio (which is more stringent), the approach adopted for the IO Fund is entirely consistent with comparable funds.
- Further, while the hurdle rate for the incentive fee is only 8% compared to an equivalent post-tax hurdle rate of 11.7% in respect of the Venture Capital Portfolio, it is well supported by comparable funds.
- If the Infratil proposal were to be accepted then Infratil would pay a cumulative incentive fee to the Manager on distributions to it, rather than on a preferential basis as proposed by the VIF. It is a matter of judgment as to whether the "cost" of this modification (being a function of the time value of money) is outweighed by the benefits of a better incentivised manager. The cost would be further offset by a reduction in the base fee to 2% if that modification were also accepted.
- Under the VIF proposal, Infratil and Orion have the option to buy out the VIF within the first 5 years at a price which provides a Government bond rate return to the VIF. While we have not quantified this benefit (as it falls outside our examination of the related party management fee arrangements), we nonetheless believe that, from Infratil's perspective, it is a positive feature of the VIF proposal.
- The terms of the IO Fund have been proposed by (and are being further negotiated with) an unrelated party, VIF. This fact is, in itself, persuasive evidence of the arms-length nature of any final arrangement settled with VIF.

4.2 Other Qualitative Aspects of Proposal and Scenario Testing

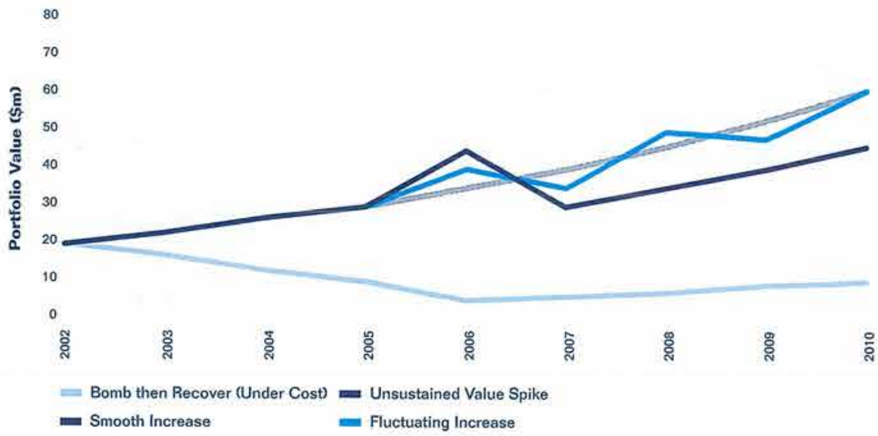
In the sections below, we discuss the key features of the management fees having regard to examples of the pattern and level of fees that may result under various assumptions about possible investment performance. Further, we comment on the appropriateness of the fee structures with respect to the incentives on the Manager they are likely to produce.

Economic theory dictates that an optimal management remuneration contract should be designed to align the interests of managers as closely as possible with those of shareholders. Performance-based contracts, which tie management compensation to some verifiable measure of their performance, are a common mechanism to achieve this alignment. Typically, the performance of a portfolio manager is measured by the return of the portfolio relative to some benchmark. The aim is to create incentives for management to bear the costs of obtaining valuable information on potential investment opportunities, and to put an optimal level of time, effort and resources into processing and acting on that information in order to enhance shareholder value. For this mechanism to function properly, it is important that measures of manager performance (and thus performance fees) are strongly correlated with enduring changes to shareholder value.

4.2.1 International Portfolio

Figure 4 illustrates a selection of conceivable scenarios with respect to the profile of the International Portfolio aggregate fair market value over time. For this set of examples, we assume that the portfolio of assets is acquired at 1 April 2002, and that no assets are disposed of during the period up to 31 March 2010. We assume that all international assets are domiciled outside of Australia so that the higher base fee of 1.5% applies.

Figure 4: International Portfolio Scenarios



Scenario 1 depicts the case where the initial fair market value for incentive fee calculation purposes (i.e. as at 31 March 2005) is significantly lower than the cost of the portfolio. The fair market value later increases at a rate exceeding the hurdle rate of 12% but, even so, does not rise above the cost value during the time period shown. The resultant management fees payable are shown in Figure 5 below.

Figure 5: Scenario 1: Bomb then Recover (Under Cost)

Bomb then Recover (Under Cost)	2002	2003	2004	2005	2006	2007	2008	2009	2010
Portfolio Cost $m	20.0								
Porfolio Value $m				10.0	5.0	6.0	7.2	8.6	10.4
Annual % Compound Return				*(20.6%)*	*(50.0%)*	*20.0%*	*20.0%*	*20.0%*	*20.0%*
Base Fee $m		0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30
Initial Incentive Fee				0.00					
Annual Incentive Fee: Instalment 1					0.00	0.00	0.00	0.00	0.00
Annual Incentive Fee: Instalment 2						0.00	0.00	0.00	0.00
Annual Incentive Fee: Instalment 3							0.00	0.00	0.00
Total Incentive Fee $m		**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**
Total Fee for the year to March $m		**0.30**	**0.30**	**0.30**	**0.30**	**0.30**	**0.30**	**0.30**	**0.30**

While fair market value remains below cost, incentive fees will never be paid regardless of the annual percentage increase in value. The remaining manager remuneration, being the base fees of 1.5% per annum of investment cost, have been set at a level which is not expected to fully cover the incremental costs of maintaining international investment assets. Further, the poor performance of the International Portfolio assets would be expected to adversely affect Infratil's share price, and thus reduce the Manager's base fee on the residual Utility Portfolio. For these reasons, unless the International Portfolio investment value was expected to exceed cost in the near future, under this scenario the Manager would face a strong incentive to dispose of the International Portfolio assets, and invest the funds in (hopefully) better performing assets.

Scenario 2 illustrates depicts a large, non-recurring value spike which exists for a single year. A value profile of this nature could be explained by a significant change in exogenous market conditions, which are not sustained in the longer term.

In the year of the value spike, the full incentive fee of 20% of excess performance corresponds to $2.3m. However, only the first instalment of one third of this amount ($0.76m) is paid immediately. The remaining two thirds are withheld subject to the initial valuation being maintained over the two subsequent years. As the superior return is not maintained (and in fact is completely reversed), the remainder of the fee is never paid. This mechanism mitigates the risk of one-off events (which have no lasting effect on shareholder value) resulting in excessive incentive fees.

Figure 6: Scenario 2: Unsustained Value Spike

Unsustained Value Spike	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**
Portfolio Cost $m	20.0								
Porfolio Value $m				30.0	45.0	30.0	34.5	39.7	45.6
Annual % Compound Return				*(14.5%)*	*50.0%*	*33.3%*	*15.0%*	*15.0%*	*15.0%*
Base Fee $m		0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30
Initial Incentive Fee				0.38					
Annual Incentive Fee: Instalment 1					0.76	0.00	0.06	0.07	0.08
Annual Incentive Fee: Instalment 2						0.00	0.00	0.06	0.07
Annual Incentive Fee: Instalment 3							0.00	0.00	0.06
Total Incentive Fee $m		**0.00**	**0.00**	**0.38**	**0.76**	**0.00**	**0.06**	**0.13**	**0.21**
Total Fee for the year to March $m		**0.30**	**0.30**	**0.68**	**1.06**	**0.30**	**0.36**	**0.43**	**0.51**

Scenarios 3 and 4 show two value profiles with identical start and end points. In the first case, Scenario 3, the portfolio value increases at a constant rate of 15% per annum. Under the assumptions of Scenario 4, however, the valuations fluctuate around the upward trend in a volatile pattern. As illustrated in Figures 7 and 8, very different fee profiles result.

Figure 7: Scenario 3: Smooth Increase

Smooth Increase	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**
Portfolio Cost $m	20.0								
Porfolio Value $m				30.4	35.0	40.2	46.3	53.2	61.2
Annual % Compound Return				*15.0%*	*15.0%*	*15.0%*	*15.0%*	*15.0%*	*15.0%*
Base Fee $m		0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30
Initial Incentive Fee				0.46					
Annual Incentive Fee: Instalment 1					0.06	0.07	0.08	0.09	0.11
Annual Incentive Fee: Instalment 2						0.06	0.07	0.08	0.09
Annual Incentive Fee: Instalment 3							0.06	0.07	0.08
Total Incentive Fee $m		**0.00**	**0.00**	**0.46**	**0.06**	**0.13**	**0.21**	**0.24**	**0.28**
Total Fee for the year to March $m		**0.30**	**0.30**	**0.76**	**0.36**	**0.43**	**0.51**	**0.54**	**0.58**

Figure 8: Scenario 4: Fluctuating Increase

Smooth Increase	2002	2003	2004	2005	2006	2007	2008	2009	2010
Portfolio Cost $m	20.0								
Porfolio Value $m				30.4	40.0	35.0	50.0	48.0	61.0
Annual % Compound Return				*15.0%*	*31.5%*	*(12.5%)*	*42.9%*	*(4.0%)*	*27.1%*
Base Fee $m		0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30
Initial Incentive Fee				0.46					
Annual Incentive Fee: Instalment 1					0.40	0.00	0.72	0.00	0.48
Annual Incentive Fee: Instalment 2						0.00	0.00	0.00	0.00
Annual Incentive Fee: Instalment 3							0.40	0.00	0.72
Total Incentive Fee $m		**0.00**	**0.00**	**0.46**	**0.40**	**0.00**	**1.12**	**0.00**	**1.20**
Total Fee for the year to March $m		**0.30**	**0.30**	**0.76**	**0.70**	**0.30**	**1.42**	**0.30**	**1.50**

The total fee (base and incentive) paid to the manager from 2002 to 2010 is $3.79m under Scenario 3 and $5.58m under Scenario 4. Scenario 4 also illustrates the instalment mechanism, such that the second instalment corresponding to the 2008 incentive fee is never paid as the aggregate value of the portfolio falls between 2008 and 2009. In addition, an incentive fee is never payable on the 2009 performance, as the required rate of return is not achieved.

The risk of highly volatile valuation results over time is mitigated by the Valuation Guidelines, which will be supplied to the International Portfolio's independent valuer. These mandate a consistent and transparent valuation methodology to be applied in successive years. From an incentive point of view, it is imperative that valuations, as the basis for performance measurement and incentive fee calculation, reflect changes in intrinsic shareholder value so that the Manager is rewarded only for true value gains and penalised for value erosion.

It is commonly accepted that valuation is not an exact science, and ultimately the outcome is an opinion of the valuer, and opinions may differ between independent valuers with access to the same information. Nonetheless, the nature of the International Portfolio is such that many of the investments will be in unlisted entities, and therefore the Manager's remuneration is dependent on the expertise of the independent valuer. For that reason, the instalment mechanism is a safeguard for Infratil's shareholders in the sense that, with the evolution of time, the valuer should be able to derive more "accurate" valuations.

Figure 9 illustrates a further underlying safeguard of the incentive fee instalment mechanism. Our example assumes a portfolio initially consisting of two assets, one of which is much larger than the other. We assume that the assessed fair market value of both assets grow at 15% per annum (i.e. an incentive fee would be payable), although the larger asset is ultimately sold in 2008 at a net price below its previous valuation. Accordingly, under the Infratil instalment mechanism, the third outstanding instalment relating to 2006, and the second and third outstanding instalments relating to 2007 are never paid, notwithstanding that the retained asset performs well. Conversely, if the smaller asset was disposed of at significantly less than previous valuation (and the larger asset retained and continued to grow in excess of 12%) the impact might have been different as the "test" is concerned with the maintenance of the value of the portfolio over three years, and not individual assets.

Figure 9: Scenario 5: Fees on Realisation

	2002	2003	2004	2005	2006	2007	2008	2009	2010
Asset 1									
Bought on 1 April 2002	90.0								
Annual Valuations				136.9	157.4	181.0			
Sold on 31 March 2008							150.0		
Asset 2									
Bought on 1 April 2003		10.0							
Annual Valuations					15.2	17.5	20.1	23.1	
Sold on 31 March 2010									27.0
Base Fee $m		1.35	1.50	1.50	1.50	1.50	1.50	0.15	0.15
Initial Incentive Fee				2.09	0.23				
Annual Incentive Fee: Instalment 1					0.27	0.35	0.03	0.04	0.00
Annual Incentive Fee: Instalment 2						0.27	0.00	0.03	0.04
Annual Incentive Fee: Instalment 3							0.00	0.00	0.03
Realised Incentive Fee							0.00	0.00	0.22
Total Incentive Fee $m				**2.09**	**0.51**	**0.62**	**0.03**	**0.08**	**0.29**
Total Fee for the year to March $m		**1.35**	**1.50**	**3.59**	**2.01**	**2.12**	**1.53**	**0.23**	**0.44**

4.2.2 Venture Capital Portfolio

The base fee will generally be based on invested or committed capital only (i.e. the aggregate investment cost plus undrawn commitments). However, under the proposed Infratil fee structure, if aggregate fair market value (as determined by annual valuation from year three onwards) falls below aggregate cost plus undrawn commitments, the base fee will be calculated based on the lower fair market value plus undrawn commitments. The reliance on fair market value only when it is lower than cost is consistent with the recognised valuation uncertainties surrounding this class of investment, and is in keeping with the desire to maintain a conservative level of base fees.

Although the Venture Capital Portfolio base fee will only be affected by fair market value in the special case described above, indications of apparent value losses or gains in the Venture Capital Portfolio are also likely to ultimately be reflected in Infratil's share price and thus have a corresponding effect on the management fee payable on the residual Utility Portfolio. Together, these two factors will ultimately incentivise the Manager to dispose of poorly performing investments.

In contrast to the International Portfolio, incentive fees for the Venture Capital Portfolio are based on realised returns following the sale of assets rather than being dependent on annual fair market valuations[18]. This arrangement is preferable as, although there are generally accepted valuation methodologies for this type of investment, valuation parameters remain highly judgmental (and on balance are likely to require more judgement than required to value International Portfolio assets). By basing incentive fees on actual cashflows, the Manager will only be rewarded for demonstrable and certain gains in shareholder value. For this reason there is also no requirement to have the instalment approach in respect of incentive fees (in contrast to the International Portfolio).

As with the International Portfolio, management have a strong incentive to retain assets only if they are expected to generate excess returns which will provide a performance fee, as base fees alone are not expected to cover incremental operating costs.

A feature of the agreement which benefits shareholders is the requirement that the Manager repay incentive fees previously received should the total realised return over the initial three year investment period (or a subsequent two year period should the portfolio be extended) fall below the required rate of return, following each subsequent disposal of an asset. Figure 10 below illustrates the case in which part of the incentive fees paid on a profitable sale in 2004 are rebated in the next year when an unsuccessful sale would otherwise reduce the total return below 17.5%.

[18] As previously outlined, Infratil has the option at each review date to notionally sell all the assets at their fair market values, calculate any incentive fees payable to or from the Manager, and reset the cost base for the next period to the aggregate fair market value.

Figure 10: Scenario 6: Venture Capital Incentive Fee Rebates

$m	2002	2003	2004	2005
Asset 1				
Bought on 1 April 2002:	5.00			
Sold on 31 March 2004:			10.00	
Asset 2				
Bought on 1 April 2003:		3.00		
Sold on 31 March 2005:				4.00
Fees for the year to 31 March				
Base Fee		0.10	0.16	0.06
Total Incentive Fee Paid (Rebated)		**0.00**	**0.58**	**(0.17)**
Total Fee		**0.10**	**0.74**	**(0.11)**

However, this protection is constrained by the provision that the Manager's liability is limited to the amount of incentive fees actually received and, further, that the period over which cumulative returns are calculated is reset after the first three and, then, every two years. This is illustrated in Figure 11. Although a large incentive fee is paid to the Manager in 2005, this is not eligible to be rebated as the cumulative incentive fee paid is effectively "reset" on 1 April 2005.

Figure 11: Scenario 7: Venture Capital Incentive Fee Rebates

$m	2002	2003	2004	2005	2006	2007
Asset 1						
Bought on 1 April 2002:	5.00					
Sold on 31 March 2005:				10.00		
Asset 2						
Bought on 1 April 2003:		3.00				
Sold on 31 March 2007:						4.00
Fees for the year to 31 March						
Base Fee		0.10	0.16	0.16	0.06	0.06
Total Incentive Fee Paid (Rebated)		**0.00**	**0.00**	**0.32**	**0.00**	**0.00**
Total Fee		**0.10**	**0.16**	**0.48**	**0.06**	**0.06**

4.2.3 IO Fund

In order to illustrate the inherent differences between the VIF proposal and the modifications requested by Infratil we report the following three scenarios. Figure 12 represents the unamended VIF proposal whereby the base fee is 2.5% per annum and total capital is repaid in preference to any incentive fee to the manager.

Figure 12: Scenario 8: IO Fund (VIF Proposal)

$m	2003	2004	2005	2006	2007	Total
Asset 1						
Bought on 1 April 2003:	10.00					
Sold on 31 March 2005:			15.00			
Asset 2						
Bought on 1 April 2003:	10.00					
Sold on 31 March 2007:					20.00	
Fees for the year to 31 March						
Base Fee (2.5%)		0.50	0.50	0.13	0.13	1.25
Total Incentive Fee Paid (Rebated)		**0.00**	**0.00**	**0.00**	**3.00**	**3.00**
Total Fee		**0.50**	**0.50**	**0.13**	**3.13**	**4.25**
PV (assuming 10% discount rate)		3.10				

Figure 13 retains a 2.5% per annum base fee but incorporates Infratil's proposal that an incentive fee be payable (subject to achieving the required return) on a cumulative basis as assets are realised. We have regarded this scenario as our "worst case" in the discussion above

Figure 13: Scenario 9: IO Fund (Infratil Proposal with 2.5% per annum base fee)

$m	2003	2004	2005	2006	2007	Total
Asset 1						
Bought on 1 April 2003:	10.00					
Sold on 31 March 2005:			15.00			
Asset 2						
Bought on 1 April 2003:	10.00					
Sold on 31 March 2007:					20.00	
Fees for the year to 31 March						
Base Fee (2.5%)		0.50	0.50	0.25	0.25	1.50
Total Incentive Fee Paid (Rebated)		**0.00**	**1.00**	**0.00**	**2.00**	**3.00**
Total Fee		**0.50**	**1.50**	**0.25**	**2.25**	**4.50**
PV (assuming 10% discount rate)		3.42				

Finally, in Figure 14 we illustrate the scenario where both Infratil modifications are accepted such that the base fee is now reduced to 2.0% per annum.

Figure 14: Scenario 10: IO Fund (Infratil Proposal with 2.0% per annum base fee)

$m	2003	2004	2005	2006	2007	Total
Asset 1						
Bought on 1 April 2003:	10.00					
Sold on 31 March 2005:			15.00			
Asset 2						
Bought on 1 April 2003:	10.00					
Sold on 31 March 2007:					20.00	
Fees for the year to 31 March						
Base Fee (2.0%)		0.40	0.40	0.20	0.20	1.20
Total Incentive Fee Paid (Rebated)		**0.00**	**1.00**	**0.00**	**2.00**	**3.00**
Total Fee		**0.40**	**1.40**	**0.20**	**2.20**	**4.20**
PV (assuming 10% discount rate)		3.17				

Note that after taking into account the time value of money (represented by the present value or "PV" calculation included in the tables above) the unamended VIF proposal and the structure where both of Infratil's modifications are accepted, are nearly the same cost. This conclusion may not necessarily hold in practice due to the actual differences in the timing of incentive fee payments versus the reduced base fee. Holding the base fee constant at the level of 2.5% per annum proposed by VIF, the first two scenarios illustrate the "cost" (in PV terms) of Infratil's proposal to pay the Manager on a cumulative basis.

5 Opinion

It is our opinion that the proposed amendments to the Agreement between Infratil Limited and the Manager, as well as management arrangements with respect to the IO Fund which will be embodied in a separate agreement are fair to the non-associated Equity Securityholders of Infratil.

Our opinion is based on our assessment that:

- the management fee structure proposed for the International and Venture Capital Portfolios and IO Fund are consistent with, and not greater than, those observed for comparable funds; and
- the proposed fee structures appropriately align the incentives of the Manager with those of shareholders and the goal of sustained shareholder value creation.

In accordance with NZSE Listing Rule 1.2, we are of the opinion that the information to be provided by Infratil, including the information set out in this report, is sufficient to enable the non-associated Equity Securityholders of Infratil to understand all relevant factors and make an informed decision regarding the proposed changes to the management agreements with the Manager.

We have obtained all information which we believe is desirable for the purpose of preparing our Report, including all relevant information which is or should be known to any Director and made available to the Directors.

Yours faithfully

ERNST & YOUNG

Duncan Wylie

Partner

Appendix 1 – Terms of Engagement

This appendix forms part of and should be read in conjunction with Ernst & Young's letter dated 29 July 2002 prepared in respect of proposed amendments to the Management Agreement between Infratil Limited ("Infratil") and HRL Morrison & Co Limited ("the Manager").

Disclosure of Interest

At the date of our report, Ernst & Young does not have any interest in the outcome of the matters that are the subject of this report. Neither Ernst & Young nor any of its Partners, employees or affiliates hold any securities in Infratil or the Manager that could reasonably be regarded as capable of affecting its ability to provide an unbiased opinion in relation to the proposed transaction. The fee to be received for the preparation of the report is based on the time spent at normal professional rates plus out of pocket expenses.

There are no relationships with Infratil or the Manager that would affect our ability to provide an independent opinion.

The Independent Directors of Infratil engaged Andersen Corporate Finance to prepare this report, and the Panel approved that appointment on 14 January 2002. With effect from 1 April 2002, Andersen New Zealand merged with Ernst & Young in New Zealand. The Panel confirmed on 10 April 2002 that the previous appointment remained in force, albeit that the report was to be issued by Ernst & Young. At the date that Ernst & Young were effectively appointed to complete the report, the independent review of the proposed changes to the Agreement was substantially completed. The personnel involved in completing the assignment post 1 April 2002 are the ex-Andersen New Zealand employees, who have sought no guidance nor referred to other Ernst & Young professional staff in order to complete the assignment. Furthermore, this report was substantially concluded before the project team shared premises with the incumbent Ernst & Young practice.

Advanced drafts of this report were provided to Infratil's Chairman and to the Manager for factual checking. There was no material alteration to the methodology or conclusions as a result of issuing these drafts.

Qualifications

Ernst & Young provides a full range of professional services, including financial advice and has advised specifically on numerous corporate transactions and independent expert reports.

The persons primarily responsible for the preparation of this letter are Duncan Wylie (Bachelor of Laws, Victoria University), Grant Shuker (Bachelor of Commerce, Auckland University) and Haleigh Boyd (Bachelor of Commerce, Victoria University and Bachelor of Science, Otago University). Duncan is a Partner in Ernst & Young, and responsible for the Corporate Finance Practice of the New Zealand Firm. They have been responsible for the preparation of appraisal reports, independent expert opinions and valuations of various companies in different industries.

Declaration

The opinions recorded in our letter are expressed as at the date of the letter, and reflect our assessment of the material factors based on the prevailing business and economic conditions existing at the date of this letter. Such conditions may change, with potentially material effects on the opinions expressed herein. We reserve the right, but not the obligation, to review all calculations included or referred to in our letter and, if we consider it necessary, to review our opinion in the light of any information existing at the appraisal date which becomes known to us after the date of this letter.

Disclaimer

This letter has been prepared by Ernst & Young with due care and diligence. However, except for those responsibilities, which by law cannot be excluded, or where it is finally determined that our opinion was expressed recklessly or in bad faith, no responsibility arising in any way whatsoever for errors or omissions (including responsibility to any person for negligence) is assumed by Ernst & Young, its Partners, employees, consultants or affiliates in the preparation of this letter.

Limitation of Liability

Pursuant to the terms agreed with Ernst & Young, Infratil shall indemnify and hold harmless Ernst & Young, its Partners, consultants, employees and affiliates, from and against any loss, damage, expense or liability (including any professional time spent by our personnel costed at normal per diem rates) that may result from any third party claims arising out of, or relating to, Ernst & Young services or any use by Infratil of any work product. Infratil undertake to reimburse Ernst & Young in connection with any such actionable claim, except where, and to the extent that, any such claim is finally determined to have resulted from gross negligence or wilful misconduct of Ernst & Young, in which case Ernst & Young shall reimburse Infratil. To the extent allowed by law the absolute limit of Ernst & Young's liability, regardless of the form of action, shall be an amount equal to four times the fees and expenses actually received in relation to the engagement.

Use of This Report

Our report has been prepared solely for the purpose of compliance with the New Zealand Stock Exchange Listing Rule 9.2.2, involving the provision of an opinion as to fairness for the benefit of non-associated holders of Equity Securities in Infratil.

This report and our appraisal should not be used for any purpose other than that set out in our report, and neither the whole nor any part of this report, nor any reference thereto, may be included in any other document, without Ernst & Young's prior written consent in each specific instance.

Appendix 2 – Comparable Fund Data

The tables below outline salient features of comparable fund management contracts, as collected from publicly available information extracted from fund prospectuses, industry journals, annual reports and company websites.

1) Australian Infrastructure Funds

Fund Name	Size	Investment Objective	Base Fee	Performance Fee
AMP Henderson Airports Fund (IPO withdrawn September 2001)	Initial market cap A$375m-A$412.5m	To invest in a diversified portfolio of airport and related infrastructure investments in OECD countries (initially Australia & Europe).	1% on Gross Asset Value to A$1,500m; 0.8% above	15% of excess return over S&P/ASX200 Industrials Accumulation Index (based on fund market value). Payable in three yearly instalments subject to sustained excess returns.
Australia Infrastructure Fund	Total assets A$397m Market Cap A$224m (NBR 5/7/02)	To invest in primarily infrastructure and privatisation assets, in the form of unlisted equity and interest bearing quasi equity and debt investments (initially in Australia only).	1% Net Asset Value	10% of excess return over Benchmark (10 year bond + 4%)
Macquarie Infrastructure Group (formerly Infrastructure Trust of Australia)	Market Cap A$5,630m (NBR 5/7/02)	To invest in assets within the infrastructure sector worldwide.	1.25% Net Investment Value	15% of excess return over Australian All Industrials Accumulation Index. Payable in three yearly instalments subject to sustained excess returns. Negative returns are carried forward.
Macquarie Airports Group (MAG)	Up to A$1bn	To make investments in unlisted airports and related infrastructure in OECD countries.	*While unlisted:* Calculated as 0.50% p.a. of total commitments plus 1.00% p.a. of drawn commitments less cash and cash equivalents. *Once listed:* Calculated as 1.50% p.a. of the Market Value of the Fund.	*While unlisted:* Calculated as 20% of all distributions made once 100% of committed capital drawn down is returned, in addition to a 12% p.a. return on a cash in, cash out basis on capital invested. *Once listed:* 20% of the outperformance by the fund above the MSCI World Transportation Infrastructure Index.
Macquarie Airports	A$1 bn	40% stake of MAG, and direct investments in Australian and New Zealand airports.	*Based on Net Investment Value (including uninvested funds):* First $500m 1.5% p.a. Next $500m 1.25% p.a. Over $1,000, 1% p.a. (No Base Fees payable on amount invested in MAG)	20% of out performance on MSCI World Transportation Infrastructure Index (Performance Fees paid in MAG are rebated)

2) Unlisted Private Equity Funds

Fund Name	Size	Investment Focus	Base Fee	Performance Fee
Add Venture Capital Limited	A$ 4m	Pooled development fund, focusing on seed and early-stage technology investments.	3.5% of funds invested	20% of any realised capital gain greater than growth in the All Ordinaries Index over the period.
AIG Developed Markets Private Equity Fund	US$187m	Targets US domiciled companies that are pursuing international expansion.	1% of commitments until termination of commitment period; 1% of invested capital thereafter	20% net investment profits; 8% preferred return
Allen & Buckeridge Venture Capital Funds	A$113m	Australian IT companies	2% of committed capital per annum (payable quarterly in advance) for the first five years, and thereafter 2% p.a. of subscribed capital that remains committed to unrealised investments.	20% of distributions after capital returned, provided that the return to investors on cash invested has exceeded 10% per annum over the period prior to the commencement of such distributions.
American Industrial Partners Capital Fund II, L.P.	US$574m	US Manufacturing companies	*On committed but uninvested capital:* 2% for the first two years of the partnership, subsequently reducing by 5 basis points per quarter until the fee reaches 1.5% *On invested capital:* 2% for the first three years of investment, subsequently reducing by 5 basis points per quarter until the fee reaches 1%	20% + (80% x Manager commitment/Partnership's aggregate commitment) If after the final distribution the Partnership has not achieved an IRR of at least 9%, then Manager will contribute an amount equal to the excess of its percentage share of fees and expenses.
Australian Biotechnology and Healthcare Fund No 3	A$10m	Pooled development fund, focusing on emerging biotechnology companies.	2.25% for the first five years and then 1.75%	7.5% of returns after distributions equivalent to the return of total paid up capital plus 9% p.a. compound
Bain Capital Fund VI, L.P.	US$900m	US, wide range of industries.	2.0% committed capital p.a. (adjusted for changes in CPI, but in no event greater than 2.5% per annum)	30% of realized capital gains and net income

Fund Name	Size	Investment Objective	Base Fee	Performance Fee
Baring Communications Equity Limited	EUR 68m	European media and communications/early stage or expansion	2.46% (index linked) p.a.	20% carried interest after return of committed capital (no hurdle)
Clayton, Dubilier & Rice Fund VI, L.P.	US$3497m	Targets broad range of industries and both public and private companies	1.5% up to USD 3bn committed capital, 0.75% thereafter	20% of realised capital gains and net income
Colonial First State Diversified Private Equity Fund	A$103m	Unlisted companies diversified by industry and stage	2.31% on committed capital and adjusted for returns or distributions	After the return of capital and an 8% compound preferred return, a once only performance fee of 25% of the investors' preferred return, and thereafter 20% of all amounts available for distribution.
Crescent Capital Partners Growth Fund	A$26.5m	Focuses on Technology based companies from early expansion stage on	2% p.a.	20% after return of all capital and a 10% p.a. compound hurdle. There is also a manager's catch-up fee after the performance hurdle and before the performance fee kicks in.
Eco Fund	A$15m	Focus on small, mainly unlisted companies whose activities contribute to environmental sustainability and enhance our society	2.5% net assets, payable monthly	Options to buy shares in the fund equal to 15% of total issued capital on the date of the close of the offer, at an exercise price of the issue price and maturity 10 years from issue.
Excel Capital Partners III, L.P.	ESP 12,880m	Spanish and Portuguese development/expansion capital especially for geographic expansion	2.5% on first ESP 9.9bn, 2% thereafter	20% carried interest; 8% preferred return (10% escrow fund)
Fenway Capital Partners Fund II, L.P.	US$850m	Under performing US middle market businesses	1.75% annual rate on committed capital	20% of realised capital gains and net income.
First Salisbury Development Fund	A$2m-7.5m	Pooled development fund; provides capital to small to medium Australian businesses	Directors paid AUD 20,000 per annum and the chairman AUD 30,000 (say 4 directors; 1.5%- 5.5% capital)	33% after the return of capital and a hurdle of 20% per annum after tax compounded

Fund Name	Size	Investment Objective	Base Fee	Performance Fee
GS Private Equity Fund 2	A$190m -200m	N/A	1.75% per annum	Not disclosed (but does exist)
JB Were Private Equity Fund No. 1	NZ$40m	NZ private companies	2.5% per annum on committed capital for up to first 5 years, 2.5% p.a. on invested capital only thereafter.	20% of net return after capital has been returned with an 8% p.a. compound preferred return.
Loftus Pooled Development Ltd	A$20m (approx) total assets	PDF	1.75% total assets	"Incentive options"
Macquarie Technology Funds	A$40-70 m	Australian technology companies in various industries and at different stages of business development	2.5% per annum, payable quarterly	20% of returns in excess of invested capital, calculated on a portfolio basis and is payable once all invested capital has been returned to investors and investors have achieved an IRR of 10% on capital invested.
Morgan Stanley Capital Partners III, L.P.	US$1,875m	To invest in securities that are expected to generate superior long term capital gains, using unique transaction structures or investing in non-traditional industries or sectors	For limited partners with capital commitments in the range of (in USD): 0-50m 2.0% 50-75m 1.875% 75-100m 1.75% 100-150m 1.5% 150-200m 1.25% Over 200m 1.0%	20% carried interest of realised capital gains and net income 10% annual compounded preferred return
Rothschild Australia e-Fund	A$80m	Convergent business opportunities in telecommunications, multimedia, IT/electronics and the internet	2.2% of committed capital (adjusted for CPI) reducing as returns are made to investors	22% of total gains realised on the sale of investments. Only payable if the realised net proceeds exceed the cost of those investments by a simple pre-tax return of 12% pa and will be deducted from distributions once all capital commitments have been returned and the pre-tax return achieved
Schroder Venture International Trust plc	GBP 285m	Diverse sector/stage/ geographic focus	Administration Fee of 1.0-2.8% per year plus initial cost of 1.88%	N/A

Fund Name	Size	Investment Objective	Base Fee	Performance Fee
Thayer Equity Investors IV, L.P	US$880m	US Travel and leisure services, IT, and out-sourced manufacturing and services	2.0% aggregate commitments to USD 500m; 1.5% thereafter	20% of realised capital gains and net income; preferred return of 8% simple rate per annum
The Crescent Capital Trust 1B	A$10.7m	High growth industries and innovative companies, from early stage through to mezzanine stage	2.5% committed capital during investment phase, 2.5% committed capital less capital returned thereafter	20% of realised returns, payable only "if investors have received cumulative distributions equal to total capital paid up plus a preferred return of 10 % p.a. on capital paid up and not previously returned.
WPG Corporate Development Associates	US$500m	Focuses on middle market companies in the US, without industry or geographic focus.	2.0% in the first six years, reduced by 10% thereafter	20% of realised capital gains and net income.

3) UK Listed Investment Trusts (Unlisted Investments)

Fund Name	Size	Investment Objective	Base Fee	Performance Fee
Guinness Flight Venture Capital Trust	GBP 24m Total Assets (30 November 2001)	To invest in a broad spread of qualifying UK unquoted companies.	2.0% p.a. of the total assets less adjusted current liabilities of the Company, plus annual secretarial fee of £50,000.	Options equal to 15% of the outperformance over 8% compounded p.a., limited to 20% of the share capital and share premium accounts of the Company.
Pantheon International Participations	GBP 206m total assets (30 June 2001)	To invest in funds specialising in unquoted investments, acquiring unquoted portfolios and participating directly in private placements.	1.5% of value of investments (excluding cash and near cash) to GBP 150 m, 1% thereafter; + 0.5% per annum on the value of the Company's outstanding commitments to make investments up to a maximum value equal to the value of the investment assets.	10% of all growth in the fully diluted net asset value per share above 15% per annum. High water mark provisions apply (only growth from a previous high point will apply).

Fund Name	Size	Investment Objective	Base Fee	Performance Fee
Kleinwort Capital Trust plc (ex-Kleinwort Development Fund plc until 30 October 2001)	GBP 70m total assets (31 July 2000)	To invest in unquoted companies, mainly in the UK, but investment may also be made in European markets where the manager has specific expertise	Prior to 3 October 2001: 1.25% pa net asset value, + 2% arrangement fee for new investments (excluding listed, UCM, or over the counter market companies). Post 3 October 2001: 1.25% pa on gross asset value.	Prior to 3 October 2001: N/A Post 3 October 2001: Direct investments subject to 10% carried interest payment to the Manager once the outstanding investment is repaid (no hurdle rate applies). The carried interest is calculated on a pooled annual basis, rather than a per investment basis.
Graphite Enterprise Trust (ex F & C Enterprise Trust)	GBP 318m total assets (31 December 2000)	Invests in unquoted and smaller quoted companies	1.5% p.a. of Assets less liabilities excluding borrowings	The executives of the Manager and a subsidiary of FCV were given the right to co-invest with the Company. The Co-investors are required to subscribe 0.5% of the cost of each new investment. If an investment achieves at least an 8% pa compound return, the Co-investors are entitled to 10% of the gross income and capital gains from that investment. If this compound return is not achieved, the Co-investors will lose the amount committed by them in respect of that investment.
Graphite Private Equity Trust plc (ex F&C Private Equity Trust plc)	GBP 26m total assets (31 March 2001)	Small and medium unquoted companies	1.5% pa of the Company's total assets less current liabilities ("Net Assets") plus a fixed administration charge of £75,000 pa. These charges together will not exceed 2.0% per annum) of Net Assets until the value of Net Assets has fallen below £10 m	Co-investment arrangements require the Holding Company to pay 99% of the cost of each unquoted investment and the Co-investors 1%. The Co-investors are the executives of Graphite Capital, together with FANDC (C.I.) Limited. For their 1% contribution to an individual investment, the Co-investors are conditionally entitled to an amount equivalent to 10% of the capital gains and the income attributable to that investment. This amount is payable on any individual investment only if that investment achieves a compound return of at least 8% pa.

Fund Name	Size	Investment Objective	Base Fee	Performance Fee
Mercury Grosvenor Trust plc	GBP 108m total assets (at 31 December 2001)	Invests in unquoted companies through management buy-outs, management buy-ins and expansion capital investments.	2.25% p.a. on the value of unquoted investments and 0.75% p.a. on the value of gross assets after deducting the value of unquoted investments and short-term liabilities. Annual administration and custodian fee of 0.1% of gross assets.	N/A
3i Bioscience Investment Trust plc	GBP 185m total assets (at 30 Sept 2001)	Invests in life science and healthcare companies	*Quoted Investments:* 1% NAV of quoted investment plus cash; *Unquoted Investments:* 2% NAV unquoted investments"	*Quoted Investments:* 15% of excess return over benchmark (unspecified) over each three year periods. *Unquoted Investments:* 20% of realised investment return, payable in three equal annual instalments provided that the IRR on the relevant portfolio is not less than 8% per annum. If the IRR is less than 8%, the payment is deferred until the IRR is 8% or greater.
Fleming Technology Trust (The) Plc	GBP 84m (31 May 2001)	Capital growth from investment in the global technology sector.	0.5% per annum of the Company's total assets less current liabilities.	10% of excess return over MSCI World Index plus 2% (applied to total assets less current liabilities). Paid if there has been a positive return and capped at an annual maximum of 1% of total assets less current liabilities.