



Infratil Approach to Independent Valuations

December 2024

1. Overview

Infratil obtains independent valuations for most of its investments for any of the following reasons:

- For international investments (portfolio entities that have at least 50% of their assets domiciled outside New Zealand), to calculate the incentive fees under the Infratil Management Agreement;
- As a requirement of shareholders' agreements with co-investment partners (such as Australian superannuation investors) who have valuation requirements for unlisted investments under their scheme rules; and/or
- For calculating management incentive schemes.

2. Roles and responsibilities

The various roles and responsibilities for independent valuations are set out below:

- **Portfolio companies** provide their own valuation and forecast model to the independent valuer.
- **Independent valuers** perform the independent valuation.
- **Morrison** liaises with **portfolio companies** and the independent valuers on Infratil's behalf and, once Morrison has confirmed that the valuation process has been followed, will recommend independent valuations to Infratil for approval.
- The **Infratil Board**, on the recommendation of Morrison, ultimately approves the appointment of independent valuers and the release of the valuations for disclosure and incentive fee calculation purposes.

3. Key principles for valuations

Valuations are to be carried out by an experienced and independent valuer. Valuations must be market-based and objective, and documentation must be maintained such that valuations are auditable.

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4. Selection of Valuer

In selecting a valuer to perform valuations for an asset, factors include but are not limited to:

- the valuation firm’s credentials in valuing assets similar to that asset;
- the credentials of the specific personnel put forward to perform the valuation;
- whether the valuer performs audit services for the investee entity or co-investor, or performs (or has recently performed) valuation services for the same asset for other investors and, if so, how potential conflicts will be managed;
- the valuer’s capacity to provide the valuation in a timely manner; and
- the proposed terms of appointment, including the ability to disclose the valuation and valuation methodology and the willingness of the valuer to perform valuation services on terms commercially acceptable to Infratil.

5. Valuer Rotation

Valuers are generally appointed to perform valuations for an asset for a three-year term, provided that:

- the term may be extended for specific circumstances (such as familiarity with the asset when the valuation is coinciding with a major event), and if approved by the Infratil board; and
- the term may be reduced or terminated if a key person at the valuation firm ceases to be available, or in other circumstances approved by the Infratil board.

A valuer may be appointed to undertake valuations for more than one asset concurrently.

6. Valuation methodology

Valuations are to be undertaken on the basis of fair value as defined by IFRS 13 which defines “fair value” as:

the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The fair value of an investment should be estimated using consistent valuation methodologies between valuation dates unless there is a change in market conditions or investment-specific factors that necessitate a change in the valuation approach or methodology.

Valuations are generally to be conducted using discounted cash flows to equity as the primary methodology, cross-checked against available market benchmarks, such as listed trading multiples and transaction multiples. However, the approach to determining the market value of the assets should be consistent with best practice in the relevant jurisdiction (but having proper regard to valuation conventions in the country where the assets are situated and in relation to the relevant sector and asset type).

Relevant input assumptions are expected to be based on market data, where possible.

7. Valuation models and assumptions

Valuations involve the use of models and assumptions generated through robust processes at the portfolio company.

To the extent practicable, a consistent set of macroeconomic assumptions should be applied in the models provided to valuers.

Financial models are expected to:

- be prepared using generally accepted good modelling practice;
- include input assumptions that are neither pessimistic nor optimistic, and reflect a balanced outlook for the future performance of the asset;
- ensure that verifiable market data is adopted for input assumptions, where available and reasonable to do so;
- ensure assumptions are applied consistently across time periods and where this is not appropriate, a clear explanation is provided for any changes in assumptions between valuations;
- be externally audited periodically to test for factors including structural integrity and logical consistency; and
- include appropriate procedures are in place for version control and maintaining change logs to provide an audit trail.

8. Valuation Frequency

Independent valuations are usually conducted at least annually, and in many cases quarterly.

9. Valuation reports

Valuation reports are expected to contain:

- a summary of recent performance and commentary on the investment's outlook;
- a summary of, and explanation for, key valuation assumptions (inflation rate, refinancing terms, terminal value, control premium, cost of equity, foreign exchange, etc.) and forecasts;
- a detailed explanation for any deviations from the assumptions set out in the financial model provided;
- an analysis of the risk profile of the investment;
- a detailed explanation of the discount rate applied that outlines the components of the discount rate;
- confirmation of the process followed and an assessment of the reasonableness of the key assumptions;
- details of any changes in the valuation methodology and assumptions from the previous valuation including a bridge showing the impact of those changes;
- a valuation range and point estimate of value; and
- a summary and comparison against relevant valuation cross checks.